



Company Report: Great Wall Motor (02333 HK)

公司报告: 长城汽车 (02333 HK)

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Premiumization Drove Profitability; the Market Need Not Be Overly Pessimistic; "Buy"

高端化驱动盈利能力，市场不必过度悲观，“买入”

- **"Buy" with TP of HK\$15.93.** The Company's 3Q22 earnings exceeded expectations. Based on 1) GWM's scale and the profitability improvement brought by the optimization of product structure and new energy intelligent transformation, and 2) influence of factors, pricing strategy, operation strategy change and new energy intelligent transformation in 2023, we give the Company 22-23PE valuation of 12.2x/ 9.6x; corresponding TP is HK\$15.93.
- **Premiumization strategy achieved remarkable results; profitability greatly improved.** GWM's 3Q22 shareholders' net profit jumped by 81% yoy to RMB2.56 bn. Net profit per vehicle after deducting non-recurring profit/ loss jumped to more than RMB8,000, soaring 164% yoy and 150% qoq. In 1-3Q22, ASP of GWM's automobiles was RMB124,000, up 20.7% yoy. New energy and smart vehicles have become the new driving force for GWM's profit growth.
- **Intelligentization continues to deepen; brands with solid customer base have started to offer comprehensive product ranges.** In 1-3Q22, the Company invested RMB4.7 bn in R&D, a YoY rise of 65%. Resulting R&D expense ratio rose by 1.58 ppts yoy to 4.73%. R&D investment has been focused on new energy and intelligentization. In 3Q22, GWM launched the comprehensive hybrid Haval model which we expect to drive GWM's overall sales growth. Some ORA brand models are expected to become new hits.
- **Market sentiment has bottomed, so the market need not be overly pessimistic.** The market fully expects sales decline in Dec. under the impact from the Covid-19 pandemic. The market also expects a sharp sales decline after the vehicle purchase tax (VPT) policy expires in 1Q23. A clear statement on VPT and NEV policies are expected in Dec. The sector's previous extremely pessimistic outlook has been repaired due to policy expectations.
- **"买入"，目标价 15.93 港元。** 公司 2022 年第三季度业绩超预期。考虑到 1) 公司规模以及产品结构优化和新能源智能化转型带来的盈利能力提升，2) 2023 年定价策略、经营策略调整和新能源智能化转型等因素的影响，我们给予公司 2022-23 年 12.2 倍/9.6 倍 PE 估值，对应目标价 15.93 港元。
- **高端化战略成效显著，盈利能力大幅提升。** 长城汽车 2022 年第三季度股东应占净利同比增 81% 至人民币 25.6 亿元。单车扣非盈利跃升至人民币 8,000 元以上，同比增 164%，环比增 150%。公司 2022 年前三季度整车平均售价为人民币 12.4 万元，同比增 20.7%。新能源和智能汽车成为长城汽车盈利增长的新动力。
- **电动智能持续加码，基盘品牌开启全面电动化。** 2022 年前三季度公司投入研发支出人民币 47 亿元，同比增 65%，研发费用率同比上升 1.58 个百分点至 4.73%。研发投入集中在新能源和智能化。长城汽车 2022 年第三季度开启哈弗品牌全面混动化，预计将带动长城汽车整体销量提升。欧拉品牌车型有望再次出爆款。
- **市场情绪已触底，所以市场不必过度悲观。** 市场对于 12 月疫情冲击下终端数据下滑有了充分预期。市场还预期 2023 年第一季度车辆购置税政策到期后，销量将大幅下滑。预计 12 月将有明确的车辆购置税和新能源政策声明。板块极度悲观的预期在政策预期下得到修复。

Rating: **Buy**

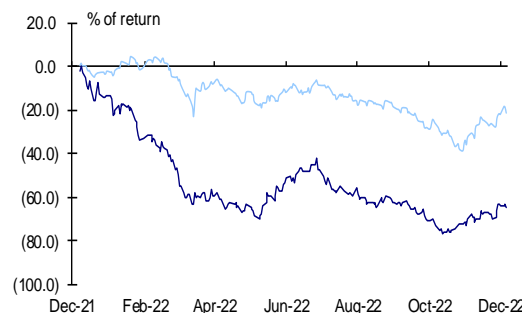
评级: **买入**

6-18m TP 目标价: **HK\$15.93**

Share price 股价: **HK\$10.700**

Stock performance

股价表现



— HSI Index — Great Wall Motors

Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	0.00	0.00	0.00
Rel. % to HS Index 相对恒指变动 %			
Avg. share price (HK\$) 平均股价 (港元)			

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2020A	103,308	5,362	0.584	18.6	15.3	6.249	1.4	0.280	3.1	9.6
2021A	136,405	6,726	0.728	24.6	12.0	6.727	1.3	0.370	4.2	11.3
2022F	153,818	10,908	1.191	63.5	8.2	7.367	1.3	0.595	6.1	16.8
2023F	224,380	13,855	1.513	27.0	6.5	8.123	1.2	0.756	7.8	19.5
2024F	304,366	18,988	2.073	37.0	4.7	9.159	1.1	1.037	10.6	24.0
Shares in issue (m) 总股数 (m)				9,159.0		Major shareholder 大股东			Wei Jian Jun	55.2%
Market cap. (HK\$ m) 市值 (HK\$ m)				98,001.6		Free float (%) 自由流通比率 (%)				44.8
3 month average vol. 3 个月平均成交股数 ('000)				54,687.3		FY22 Net gearing (%) FY22 净负债/股东资金 (%)				Net Cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				31.550 / 6.900		FY22 Est. NAV (HK\$) FY22 每股估值 (港元)				18.7

Source: the Company, Guotai Junan International.

See the last page for disclaimer

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"Buy" with TP of HK\$15.93, corresponding to 12.2x/ 9.6x 2022-2023PE. Great Wall Motor's (GWM, or the "Company") 3Q2022 earnings performance exceeded our expectations and market expectations. Based on 1) GWM's scale and profitability improvement brought by the optimization of product structure and new energy intelligent transformation and 2) influence of factors such as the adjustment of pricing strategy and business strategy in 2023, we give GWM a PE valuation of 12.2x and 9.6x in 2022 and 2023, respectively, and the corresponding target price is HK\$15.93.

3Q2022 profit growth upbeat, far exceeded expectations. In 3Q22, the Company's revenue increased by 29% yoy to RMB37.346 bn. Shareholders' net profit jumped by 81% yoy to RMB2.56 bn. Shareholder's net profit excluding non-recurring profit/ loss soared by 181% yoy to RMB2.281 bn. Earnings growth exceeded both our and market expectations. In 1-3Q22, the Company realised revenue of RMB99.48 bn, up 9.56% YoY. Shareholders' net profit excluding non-recurring profit/ loss was RMB8.16 bn, yoy advance of 65%.

Premiumization achieved remarkable results, and profitability greatly improved. The Company's 3Q2022 gross profit margin increased by 5.17 ppts yoy to 22.47%, and net profit margin increased by 1.94 ppts yoy to 6.85%, showing significant increase in profitability. In 1-3Q22, the ASP of GWM's automobiles was RMB124,000, a yoy increase of 20.7%. In 3Q22, net profit per vehicle after deducting non-recurring profit/ loss jumped to more than RMB8,000, an increase of 164% yoy and 150% qoq. 3Q22 results showed that the Company's premiumization strategy had successfully pushed up the Company's profitability. In October, Tank sales continued to increase steadily, up by 28.17% yoy. Overseas sales reached a record high, reaching 21,052 units in October, up 49.6% yoy and 11.8% mom. WEY (Coffee 01) PHEV, ORA Hao Mao and other new energy models were unveiled at the Paris Motor Show 2022 and were officially launched in Europe. New energy and smart vehicles are becoming the new driving force for earnings growth. We are optimistic about the prospects of the Company's main brand to fully transform to new energy in the near future.

Intelligentization continues to deepen; brands with solid customer base have started to offer comprehensive product ranges. In 1-3Q22, the Company invested RMB4.7 bn in R&D, a yoy increase of 65%, and the Company's R&D expense ratio increased by 1.58 ppts yoy to 4.73%. The Company's R&D investment has been focused on areas of new energy and automobile intelligentization. In 3Q22, The Company launched a comprehensive hybrid version of the Haval, which is expected to drive the Company's overall sales growth, and the ORA series such as Lightning Cat and Hao Mao are expected to become new hit models next year.

We think that market sentiment has reached a low point and the market need not be overly pessimistic. The market fully expects sales decline in Dec. 2022 under the impact from the Covid-19 pandemic. The market also expects a sharp sales decline after the VPT policy expires in 1Q23. Meanwhile, the deterioration of the competitive landscape such as Tesla's price cuts has also been fully priced in. Market sentiment will gradually improve in 4Q22-1Q23. The low point in market sentiment will be formed before the bottom of industry fundamentals. Although there are still uncertainties about policies towards the auto industry, we believe that the government is poised to announce a clear statement on the vehicle purchase tax policy and new energy vehicle policies in Dec. Previous extremely pessimistic market sentiment for the sector has been alleviated due to policy expectations. From a policy perspective, we believe that GWM will directly benefit.

Catalysts: Market sentiment is expected to bottom out; new vehicle policies expected; increasing overseas demand.

Risk warning: Supply chain recovery progress may be slower than expected; the release and sales of new models may be lower than expected.

Financial Statements and Ratios

Income Statement					
Year End 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F
Total revenue	103,308	136,405	153,818	224,380	304,366
Operating costs	(85,531)	(114,367)	(123,050)	(180,362)	(244,851)
Gross profit	17,777	22,037	30,769	44,018	59,515
Business tax and surcharges	(3,192)	(4,234)	(4,230)	(6,170)	(8,370)
Selling expenses	(4,103)	(5,192)	(6,583)	(9,471)	(12,869)
Administrative expenses	(5,620)	(8,533)	(10,588)	(15,447)	(19,734)
Financial expenses/incomes	(397)	448	178	(190)	(814)
Impairment loss on assets	(676)	(471)	(551)	(790)	(1,019)
Gains/(losses) from changes in FV	165	306	386	196	141
Investment income	1,799	2,006	2,498	3,205	4,044
Operating profit	5,752	6,369	11,878	15,350	20,894
Non-operating income	494	1,161	399	249	1,065
Non-operating expenses	(18)	(47)	(23)	(34)	(137)
Profit before tax	6,227	7,482	12,254	15,565	21,822
Income tax	(865)	(757)	(1,348)	(1,712)	(2,837)
Profit after tax	5,362	6,725	10,906	13,853	18,985
Non-controlling interest	0	1	2	2	3
Shareholders' profit / loss	5,362	6,726	10,908	13,855	18,988
Basic EPS (RMB / share)	0.584	0.728	1.191	1.513	2.073

Cash Flow Statement					
Year End 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F
Operating activities					
Net profit	5,362	6,725	10,906	13,853	18,985
Depreciation & Amortization	4,430	5,083	2,925	3,083	3,398
Adjustments from other G/L	9	28	12	13	13
Investment losses/(gains)	(1,105)	(1,231)	(1,275)	(1,403)	(1,543)
Changes in working capital	(4,138)	24,154	(14,323)	6,793	7,987
Change in deferred tax assets and liabilities	(443)	(941)	(4,417)	2,128	2,412
Finance costs paid	406	149	(178)	190	814
Other adjustment	114	1,063	1,306	10,063	10,518
Cash from operating activities	5,181	35,316	(4,492)	35,508	43,603
Investing activities					
Acquisition of PPE	(8,062)	(13,091)	(8,000)	(8,000)	(8,000)
Proceeds from sale of PPE	282	618	352	417	462
Net change on available-for-sale financial assets	(4,509)	1,656	1,494	1,247	1,033
Net received/(Paid) from subsidiaries and other business entities	705	0	(1,371)	(222)	(531)
Others	(4)	(358)	2,615	(5,789)	(3,730)
Cash from investing activities	(11,588)	(11,175)	(4,910)	(12,347)	(10,766)
Financing activities					
Share Issuance	0	0	0	0	0
Net change in borrowings	13,690	(1,829)	6,205	(184)	993
Dividends paid	(2,538)	(5,878)	(5,454)	(6,928)	(9,494)
Others	215	(1,925)	178	(190)	(814)
Cash from financing activities	11,368	(9,632)	929	(7,302)	(9,315)
Net changes in cash	4,960	14,509	(8,473)	15,859	23,523
Cash at beginning of year	8,777	13,591	27,908	19,434	35,293
Restricted cash and bank balance	997	5,140	3,175	4,124	4,187
Exchange losses	(146)	(192)	0	0	0
Cash at end of year	14,588	33,048	22,610	39,417	63,003

Source: the Company, Guotai Junan Securities Research Institute, Guotai Junan International.

Note: financial statements and forecasts are derived from Guotai Junan Securities Research Institute.

Balance Sheet					
Year End 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F
PPE	28,609	27,441	27,139	30,229	33,023
Construction in progress	2,936	4,467	6,313	8,160	10,006
Intangible Assets	5,543	7,091	7,800	8,580	9,438
Deferred tax assets	1,183	2,777	7,719	7,719	7,719
Investments	8,773	10,722	9,228	7,981	6,948
Other	7,567	14,545	16,635	21,198	24,661
Total non-current assets	54,613	67,042	74,834	83,866	91,795
Trade and other receivables	56,921	36,922	50,570	67,621	87,557
Inventories	7,498	13,966	10,713	16,314	21,733
Prepayments	571	1,749	2,927	4,105	5,283
Others	19,821	22,681	24,345	26,174	28,187
Cash & cash equivalents	14,588	33,048	22,610	39,417	63,003
Total current assets	99,399	108,366	111,165	153,632	205,763
Total assets	154,011	175,408	185,999	237,497	297,557
Trade payables	53,958	68,759	66,061	96,798	131,431
Tax payables	2,786	2,818	3,386	5,546	7,044
Salaries payables	2,531	3,215	3,626	5,289	7,174
Short Term Borrowing	7,901	5,204	7,216	6,874	7,709
Other current liabilities	13,990	15,600	17,591	25,661	34,808
Total current liabilities	81,166	95,597	97,881	140,168	188,166
Deferred income	3,462	4,113	4,638	6,766	9,177
Total non-current liabilities	15,504	17,683	20,646	22,932	25,502
Total liabilities	96,670	113,280	118,526	163,099	213,668
Total shareholders' equity	57,342	62,124	67,470	74,398	83,892
Minority interest	0	4	2	0	(3)
Total equity	57,342	62,128	67,472	74,398	83,889

Financial Ratios					
	2020A	2021A	2022F	2023F	2024F
Profitability analysis					
Gross profit margin(%)	17.2	16.2	20.0	19.6	19.6
EBITDAR(%)	8.9	6.5	9.5	8.3	8.2
OP margin(%)	5.6	4.7	7.7	6.8	6.9
Net profit margin(%)	5.2	4.9	7.1	6.2	6.2
ROE(%)	9.6	11.3	16.8	19.5	24.0
ROA(%)	4.0	4.1	6.0	6.5	7.1
Liquidity and solvency					
Gearing ratio(%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Interest cover (x)	16.7	(15.7)	(67.8)	82.8	27.8
Cash ratio	0.2	0.3	0.2	0.3	0.3
Quick ratio	1.1	1.0	1.0	1.0	1.0
Efficiency analysis					
Inventory turnover days	29	34	32	33	32
Receivable turnover days	162	126	120	110	105
Payable turnover days	179	179	182	150	155

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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