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Auto & Auto Parts | Auto

Great Wall Motor (2333 HK)

SELL (Maintained)

Earnings Miss; 2019 Targets Too Lofty

Target Price (Return)	HKD3.70 (-32%)
Price:	HKD5.44
Market Cap:	HKD49.7m

- **Maintain SELL, TP of HKD3.70 implies 32% downside** but with a 4% FY19F yield. Great Wall Motor (GWM) announced its preliminary 2018 results on 25 Jan. The company's weaker-than-expected operating income led to net profit missing our FY18 forecast by 13%. The miss was also attributed to higher SG&A expenses and GPM being narrower than anticipated. The possible reasons behind the miss are: its revenue mix changed, which led to GPM narrowing, as it reflected the launches of the new *F5* and *F7* models – which fetch lower prices – in 4Q18; and higher-than-expected selling expenses related to the new model launches.
- **Sales target too aggressive** GWM had a sales target of 1.2m units (+14 YoY) for 2019. This is an impressive figure, but a too-aggressive projection, in our view. Sales of the *F5* and *F7* have been fairly robust, and their total units sold – at 40,572 – is actually impressive. That said, we doubt if the F-series may drive 2019 sales. These are downgraded versions of models in the *WEY* series, ie same design, but cheaper by CNY20,000. In 2017, we said that the *WEY* may not be a successful series, as the models featured similar designs with the H-series – but at far steeper prices. This proved to be true, as the sales of the four *WEY* units were only at 11,726 units and 33,989 units in Dec 2018 and 4Q18. We believe the F-series has been successful, but the timing of the launches were less than ideal – in view of the currently challenging environment for the auto sector. The F-series is cheaper, which implies lower margins. GWM's strategy to sustain market share by sacrificing profitability may be a sound one, but the success of the F-series may come at the cost of declining popularity for the *WEY*- and *Haval*-branded models. We expect group sales to increase by 7-8% YoY this year.
- **Our TP of HKD3.70** implies 4.7x P/E, -1.5SD from its 3-year average of 9.4x. We deem this as justified, given GWM's slow recovery in earnings. Although we see benefits from its proposed JV with BMW, the economic benefits may only come in 2020. So far, it is still under pressure from the cannibalisation of *H6* and *WEY* sales.

Great Wall Motor's results – preliminary financial results vs estimated

(CNY'000)	FY18F		Change (%)
	Estimated	Actual	
Revenue	102,815,885	99,469,000	-3%
Operating profit	7,342,683	6,426,000	-12%
Profit before tax	7,721,497	6,581,000	-15%
Reported net profit	6,227,896	5,395,000	-13%
Recurring net profit	6,227,896	5,395,000	-13%

Source: Company data, RHB

Forecasts and Valuations	Dec-16	Dec-17	Dec 18F	Dec 19F	Dec 20F
Total turnover (CNYm)	98,616	101,169	102,816	111,077	115,677
Reported net profit (CNYm)	10,554	5,043	6,228	6,983	7,603
Recurring net profit (CNYm)	10,551	5,027	6,228	6,983	7,603
Recurring net profit growth (%)	31%	-52%	24%	12%	9%
Recurring EPS (CNY)	1.16	0.55	0.68	0.77	0.83
DPS (CNY)	0.4	0.2	0.2	0.2	0.2
Recurring P/E (x)	5.6	11.7	9.5	8.4	7.7
P/B (x)	1.1	1.0	1.0	0.9	0.8
Dividend Yield (%)	7.1	3.4	3.6	4.3	4.6
Return on average equity (%)	22.3	10.2	11.6	11.9	11.9
Net debt to equity (%)	-3.9	17.5	14.4	17.3	19.7

Source: RHB, Company data

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