

29 October 2018

Consumer Cyclical | Automobiles & Components

Great Wall Motor

Sell (Maintained)

Weak Performance May Continue

Target Price: HKD3.70
 Price: HKD4.45
 Market Cap: USD55,583.9m
 Bloomberg Ticker: 2333 HK

Maintain SELL and TP of HKD3.70, 17% downside. On 26 Oct, GWM announced its 3Q18 results. The company reported revenue of CNY17.98bn (-19% YoY) and net profit of CNY242m (-48% YoY), in line with our expectations but below market estimates. The lower YoY performance was due to an increase in COGS and selling expense. 9M18 revenue increased to CNY66.64bn, +5.1% YoY, and earnings increased to CNY3.93bn, +36.4% YoY, driven by a low base in 2017.

Weak 3Q18 results within our expectations but below market. On 26 Oct, GWM announced its 3Q18 financials and held a conference call. The weak performance was within our expectations and validated our previous concern over its product line cannibalisation, which has weakened the company's sales. We believe the weak performance may continue in 4Q18, considering its weak product line, a competitive SUV market, and pressure from negative new energy vehicle (NEV) credits.

The positive is that the company is cash rich. As at the end of September, its cash position was at about CNY18.5bn.

We believe GWM will be negatively affected by ASP discounts, as it is determined to reach its sales targets at the expense of topline or margins in 4Q18.

Highlights from conference call. Some of our concerns that were addressed during the conference call are as below:

- i. **ASP pressure after discounts given during September-October.** Management agreed that the ASP may not revert to previous levels after the discounts given during September-October. We are concerned that the GPM drop may be irreversible considering the weak pricing power. GWM also indicated that there is product weakness in the competitive SUV market;
- ii. **Inventory level increased.** Inventory in September increased by 35% MoM, but the company is targeting to maintain its inventory level at around 1.5 months, which is higher than 1-month healthy inventory level;
- iii. **Selling expense increase** was due to advertisement expense of around CNY200m – we believe this may be a one-off. In future, we believe its operating profit margin may improve slightly in the absence of any similar advertisement expenses;
- iv. **New product line seems still weak.** The company may launch new products under *Haval* and *WEY* with new *PHEV* and *HEV* versions, but we do not see much demand for these variants.

Maintain SELL and TP of HKD 3.70.

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)	10,551	5,027	6,228	6,983	7,603
Recurring net profit (CNYm)	10,551	5,027	6,228	6,983	7,603
Recurring net profit growth (%)	31.0	(52.4)	23.9	12.1	8.9
Recurring EPS (CNY)	1.16	0.55	0.68	0.77	0.83
DPS (CNY)	0.35	0.17	0.20	0.23	0.25
Recurring P/E (x)	3.38	7.09	5.72	5.10	4.69
P/B (x)	0.75	0.73	0.67	0.61	0.56
Dividend Yield (%)	9.37	4.55	5.48	6.14	6.69
Return on average equity (%)	22.3	10.2	11.6	11.9	11.9
Net debt to equity (%)	0.85	0.62	0.62	0.56	0.50

Source: Company data, RHB

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