Matthew Wong (SFC CE:BRP942) (852) 3519 1056 January 28, 2022 Friday

Market Wrap

HSI ▼1.99% HSCEI ▼2.60% Turnover HK$133.5 bn ▲12% (30-day average) SSE Composite ▼1.78% SZSE Component ▼2.77%

Sector tracking				Stock tracking			
1D	▲%	1Y	▲%	Shanghai Connect 1D	▲%	Shenzhen Connect 1D	▲%
Marine	0.1	Marine	92.2	SICHUAN EXPRESS(107)	3.0	SICHUAN EXPRESS(107)	3.0
Conglomerates	0.0	Coal	64.7	DONGJIANG ENV(895)	2.7	DONGJIANG ENV(895)	2.7
		Printing	56.5	WHARF HOLDING(4)	2.1	RADIANCE HLDGS(9993)	2.1
		Power	36.8	TONGCHENGTRAVEL(780)	1.6	WHARF HOLDING(4)	2.1
		Oil & Gas	35.2	U-PRESID CHINA(220)	1.5	ZHUGUANG HOLD (1176)	1.9

Market Highlight

Great Wall Motors (2333 HK): A Rising Star in China's Green Vehicle Market

Great Wall Motor delivered revenue of RMB136.3B (+31% yoy) and net profit of RMB6.78B (+26% yoy) in 2021, mainly owing to the increase in auto sales and higher profit margins. Total auto sales reached 1,280,993 units (+15.24% yoy) in 2021, while the **new energy vehicle (NEV) brand "ORA" achieved a solid surge (+140% yoy) in sales volume (135,028 units) in 2021**. Focusing on the category strategies, the company goes overseas with development of new energies and smart tech. By boosting product mix, the profitability was enhanced further.

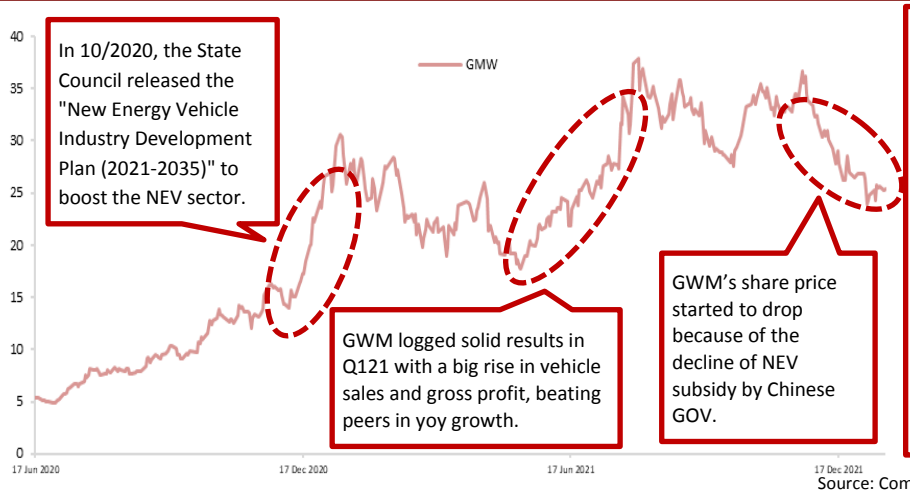
Company Profile

长城汽车

Great Wall Motor (GWM), a leading sport utility vehicle (SUV) and pickup manufacturer in China, was established in Baoding, Hebei in 1984. The company was listed in Hong Kong and Shanghai in 2003 and 2011, respectively. In 2020, by selling 1.11 million units, the company booked revenue of RMB103.3 billion and net profit of RMB5.4 billion with total assets of RMB154.011 billion. The company produces three categories of vehicles (SUV, sedan and pickup) under five brands (Haval, WEY, ORA, Tank and GWM Pickup) in four bases. GWM has the ability to proprietarily provide core components such as engines and transmissions.

- 1984 •GWM factory was established
- 2001 •Great Wall Motor Co., Ltd. was restructured
- 2003 •Became China's first privately-owned auto maker listed on HKEX
- 2011 •A-share listing
- 2013 •Haval officially became a standalone brand
- 2018 •The "ORA" brand was launched to target NEV market
- 2020 •Three tech brands, "L.E.M.O.N.", "Tank" and "Coffee Intelligence" were born

GWM's Share Price



- In 2H20, the auto market gradually recovered as China's epidemic eased. Meanwhile, with several favorable policies issued for NEVs and pickup policy loosened, GWM's sales growth boosted share prices.
- Since 2021, under the easy monetary policies in the US and Europe, the prices of bulk commodities including steel rose sharply and global shortage of chips hobbled businesses, resulting in higher costs of automobile manufacturing.
- In 1H21, sales of the two key brands Haval and Great Wall Pickup surged robustly, while NEV brand ORA sales soared more than 450% yoy, showing a rosy overall performance.

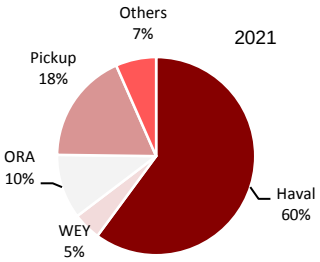
Source: Company, Bloomberg, Orient Securities (Hong Kong)

GWM's auto series

	SUV			Pickup	Sedan
Brands	Haval	WEY	Tank	GWM Pickup	ORA
Brief introduction	A specialized SUV brand that became independent in 2013 with products covering various SUV market segments, maintained the largest sales and export volume of proprietary brands in China for 8 years.	A luxury SUV brand, founded in 2016, was named after the surname of the owner Wei Jianjun, focusing on affordable luxury and fashion design. It is currently an essential strategic brand of GWM.	The brand positioned as a hardcore off-road SUV became a standalone brand in 2021, targeting young users amid the consumption upgrading trend.	GWM's pickup brand became a standalone brand in 2018, featuring commercial (Wingle series) and passenger (Great Wall Pao) pickup trucks.	It is the first standalone NEV brand among China's major proprietary auto makers. Established in 2018, it is also a brand specially created for female users with focus on compact sedans.
Price (RMB'0000)	6.6-18	17-31	19-23	7.5-21	8-16
Latest half-year sales (units)	391,541	26,639	33,073	118,066	52,547
Energy used	Gasoline, NEV is coming in 2022	Gasoline, a small number of NEVs	Gasoline	Gasoline	Electricity
Ace products	Haval H6	WEY VV7	Tank 300	Wingle 5	ORA Black Cat
					
Our views	As mature brand may not easily maintain solid growth, sales of the first NEV model would draw attention.	The models are similar, and no new model was launched for two years, implying a sliding performance.	With cutting-edge smart parts, two other new models will be launched soon to drive up sales further.	It has a bunch of models with clear purposes. GWM can hold a stable position in China market, benefiting from the policy of pickup ban lift.	GMW gained ground in the market by leveraging the unique positioning, novel design, and moderate price.

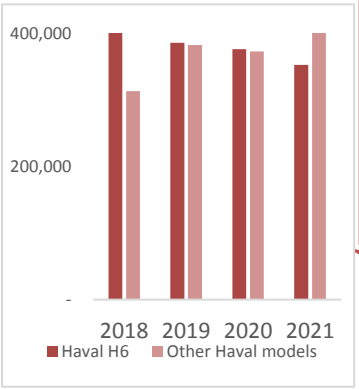
Source: Company, Orient Securities (Hong Kong)

GWM's most popular model - Haval H6



Haval is the best-selling brand under GWM, accounting for 68% of gross sales





1st generation of Haval H6
- Launched in 2011
- Among few proprietary SUV brands in China
- Cost-effective

2nd generation of Haval H6
- Launched in 2017
- Exterior and interior improvement
- Better performance

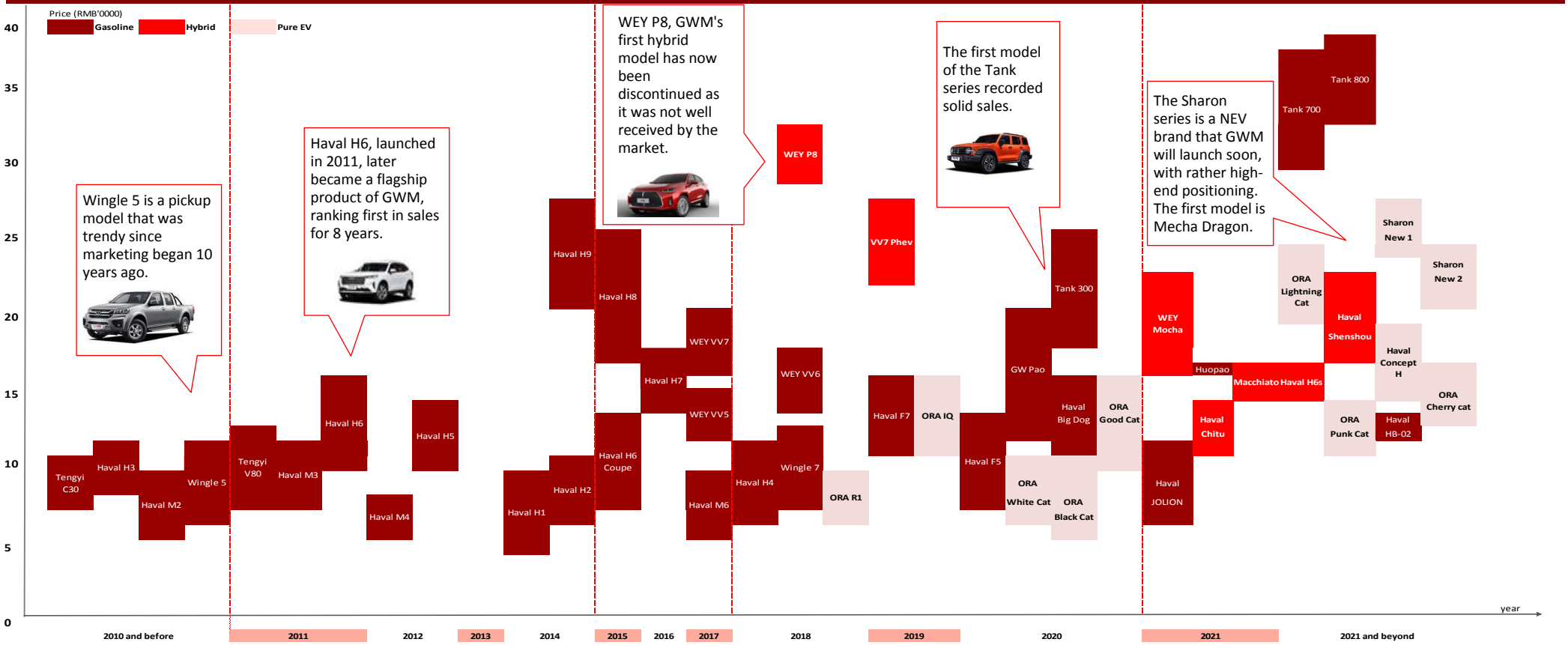
3rd generation of Haval H6
- Launched in 2020
- Modular platform for stronger cost performance
- Intelligent technology



Haval H6 is the best seller under Haval brand, with sales exceeding other Haval models combined from 2018 to 2020. In 2021, it acoounted for 45% of sales volume in Haval series.

Source: Company, pcauto.com, Orient Securities (Hong Kong)

GWM's Development History

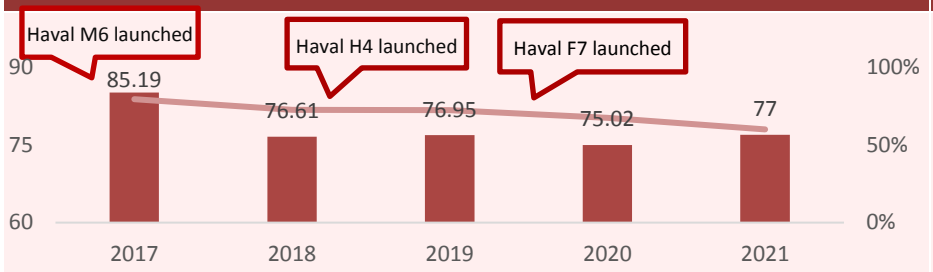


Initial stage	SUV models were a big hit	Setting foot in high-end market	Entering the NEV field	Striving to develop NEVs
■ Mainly offering pickups and SUVs ■ Average price was below RMB100,000	■ Focusing on SUVs ■ Launched multiple series to cater to the mass market ■ Prices generally ranged from RMB70,000-150,000 ■ SUV sales volume topped peers in China	■ Introduced a luxury SUV model ■ Market was lukewarm	■ Launched several NEV models under the brand ORA, pricing above RMB70,000 ■ Started to market hybrid SUV with average price of above RMB200,000	■ NEV has already become the group's major products ■ The price is about RMB50,000 higher than the previous stage ■ An increasing number of pure EVs will be produced

Source: Company, 16888.com, Orient Securities (Hong Kong)

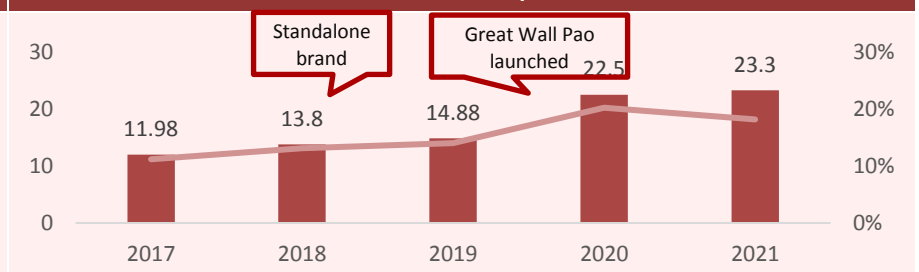
GWM's sales Volume

Haval



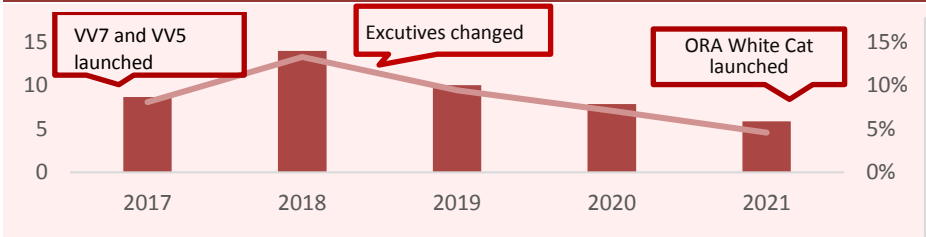
As the ace brand of GWM, Haval saw stable sales (750,000+ vehicles) each year in the past five years. Haval H6 has been the best-selling model since 2011.

GWM Pickup



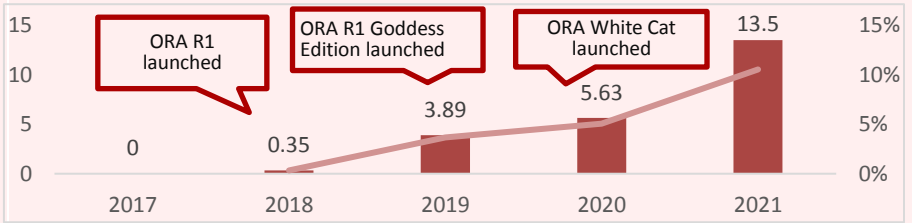
As a leader in pickups, GWM delivered strong gains in sales and proportion in the past five years, benefiting from the ban lift.

WEY



The high-end WEY brand sold well in the first two years since launch, but the sales were sluggish and lower than expected after two executive changes in 2017 and 2018.

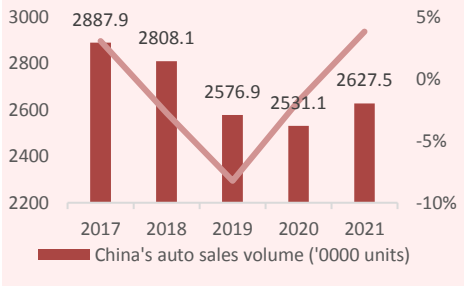
ORA



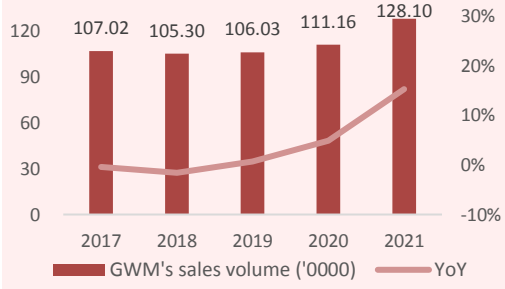
With clear brand positioning and the "cyber influencer" marketing strategy, the ORA brand witnessed robust sales after kickoff, ascending to the first tier of the NEV industry.

Comparison with market

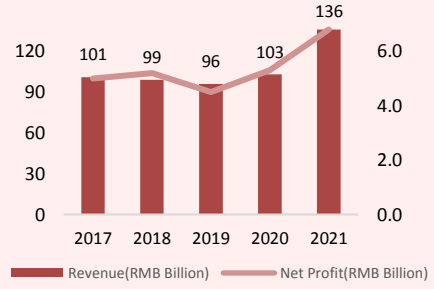
China's auto sales volume



GWM's sales volume



GWM's revenue and net profit



With macroeconomic decline, Sino-US trade tussle, preferential policies overdraft, higher market base, and intense competition from 2017, auto industry had a slower growth. In 2021, as the pandemic was under control and favorable policies were issued, the market was reversed to growth.

Source: Company, Orient Securities (Hong Kong)

Strategic plan for the next five years

GWM held the "Great Wall Motor 2025 Strategy Conference and the Opening Ceremony of the 8th Science and Technology Festival" in June 2021. Wei Jianjun, Chairman of GWM, introduced the future direction of the group to be a "global technology-driven mobility company", and unveiled the 2025 strategic plan, including the following goals and priorities:

2025 sales goal

- Global sales will reach 4 million vehicles per year, of which 80% are NEVs, with revenue exceeding RMB600 billion.

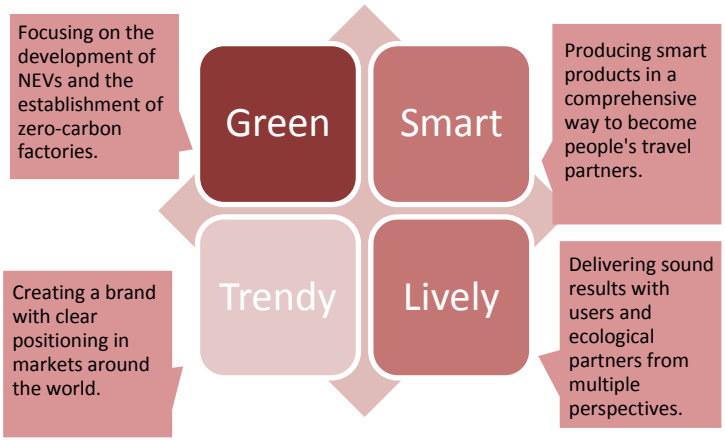
5-year R&D plan

- More R&D talents will be recruited globally. By 2023, global R&D personnel will reach 30,000, including 10,000 software development talents. In the next five years, R&D investment will reach RMB100 billion in total.

New product sales plan

- Development cycle of new products will be shortened to 11 months at the fastest, while over 60 new products will be launched by 2023.

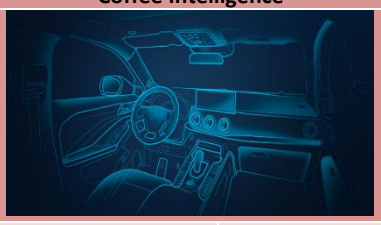
Four paths of the 2025 strategic plan



Source: Company, Orient Securities (Hong Kong)

Cornerstones help GWM to embrace the future

GWM has been working on integrating quality resources in recent years to achieve the goals of the 2025 strategic plan. As over RMB20 billion were allocated to R&D in past five years, three new brands, L.E.M.O.N., Tank and Coffee Intelligence, were born to provide high-end technology platforms with cutting-edge technologies such as autonomous driving, smart cockpit, high-efficiency fuel, and new energy to improve product performance in the future.

L.E.M.O.N.		TANK		Coffee Intelligence	
					
Lightweight ■ Lightweight materials are used in vehicle body and chassis. 👍 This technology is already at the top level in the industry.	**Comprehensive safety concept** ■ Comprehensive safety systems are designed to protect drivers, passengers, pedestrians, and vehicles. ☞ This tech is one of basic requirements of a smart platform in parallel to peers.	**Superb off-road capability** ■ SUVs can deal with various tough roads by a basket of off-road tech. 👍 It is the first platform specially designed for off-road vehicles with extremely high precision.	**Superior off-road parts** ■ The most advanced motor parts and accelerators are used to exert off-road performance. 👍 Engine power and accelerators are ahead of peers.	**Smart driving** ■ L3+ level ■ Extending to L4 level (subject to technical timing and laws and regulations) ☞ Smart driving is a basic configuration nowadays, in line with the level of peers.	**Electric and electronic** ■ Supporting advanced telecom equipment and online upgrading 👍 The online upgrade system leads peers.
Four power options ■ It can use efficient fuel and various new energy power. 👍 It is one of the few tech platforms in the industry that can provide four kinds of efficient power.	**Modular design and ultra-high scalability** ■ Over 550 modules ■ Supporting A0 to D-class sedan/SUV/MPV ☞ They are suitable for a diverse group of models, but without high specialty.	**Three power options** ■ Mainly fuel and hybrid Lack of pure new energy power, implying room for growth in this area	**Modular design and high scalability** ■ Over 530 modules ■ Supporting B to D+ class SUV/pickup ☞ Not too many models are supported, but it is acceptable considering the specialization of the platform.	**Smart cockpit** ■ Providing a variety of smart monitoring and data analysis, as well as comprehensive smart cockpit ☞ Smart cockpit technology reached peer level.	**6 redundancy systems** ■ All-round redundancy systems make driving safer. 👍 The unique redundancy system was developed in house.

Source: Company, Orient Securities (Hong Kong)

Our views:

The above three tech brands have their own features, greatly improving the cost performance and competitiveness of GWM's future products. The models covered by the L.E.M.O.N. platform ranged widely and supported a variety of power systems, which is believed to bring big upgrades to the brands. In addition, the platform's emphasis on lightweight features and safety concepts will also help GWM to develop NEVs. The Tank platform focuses on improving the performance of medium and large SUVs and pickups, with the most advanced engines and transmissions to boost thermal efficiency and acceleration, achieving lighter weight, better dynamic performance, and higher efficiency. These SUV technologies are also ahead of peers. We believe sound performance of related products will last for a period. The Coffee Intelligence platform is committed to smart driving, offering leading-edge software and hardware systems, which is one of the important puzzles for GWM to achieve the 2025 strategic goals.

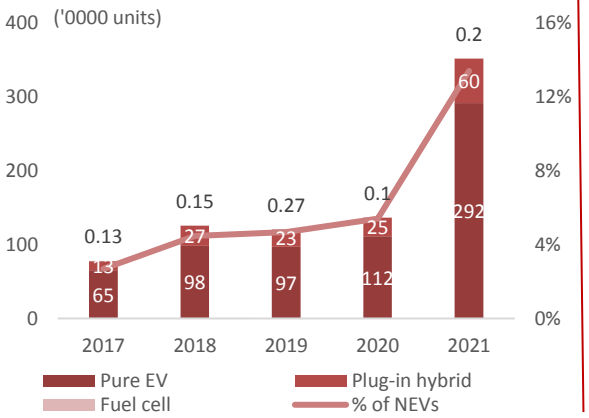
Although the above three technology brands can bring a positive impact to Great Wall, we should also pay attention to Great Wall's 2025 sales target, which mentioned "80% of new energy vehicles", because Great Wall's current new energy vehicles are only Its Euler series, and the sales volume is only estimated to be 5% of the group, it is not easy to reach 80% after 4 years. Since Great Wall will successively launch new energy vehicles of other brands in the second half of 2021, the sales data of Great Wall in the next 1-2 years will be the key to whether it can achieve its strategic goals.

New Energy Vehicles Markets in China

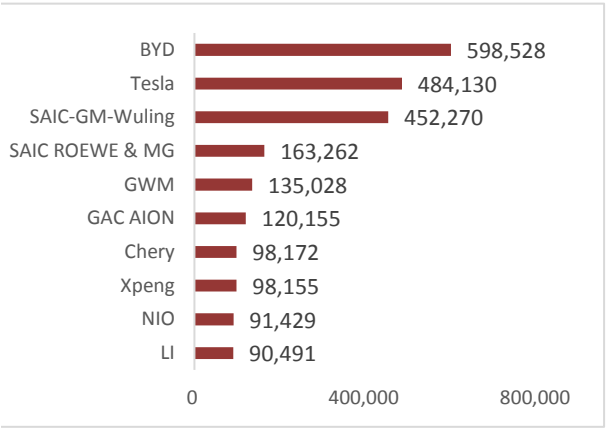
China's NEV Industry Polices

- 2007: The NDRC issued the "New Energy Vehicle Access Management Rules" for the first time
- 2012: The State Council issued the "Energy Saving and New Energy Vehicle Industry Development Plan (2012-2020)"
- 2015: The State Council issued "Made in China 2025", while the government increased subsidies for NEVs
- 2017: The MF, the SAT, the MIIT and the MST jointly issued the "Notice on Exemption of Vehicle Purchase Tax for New Energy Vehicles", which exempts NEVs from vehicle purchase tax in 2018-2020
- 2019: China's NEV subsidy was cut by half, while local subsidy was cancelled
- 2020: MF, the MIIT, the NDRC, the MST together issued the "Notice on Further Refining the Subsidy Policy for the Promotion of New Energy Vehicles", causing the 2021 subsidy standard for NEVs to be cut by 20% from 2020.
- The State Council issued the "New Energy Vehicle Industry Development Plan (2021-2035)"

China's NEV sales volume in the past five years



Top 10 auto makers by wholesales volume of NEVs as 2021



Our views: China's NEV industry is closely subject to policies. With dual drivers of national and local policies in recent years, NEVs showed a sign of rapid development. China's NEV sales surged in the past five years (except for a slight decline in 2019), whist NEV sales to total vehicle sales climbed year by year. However, NEV industry is highly concentrated with top 10 NEV makers accounting for 60% market share by sales volume. The top three, BYD, SAIC-GM-Wuling and Tesla gained 43%. In 2021, the gross sales volume far surpassed that for the same period last year, while the top 3 market rankings remain unchanged.

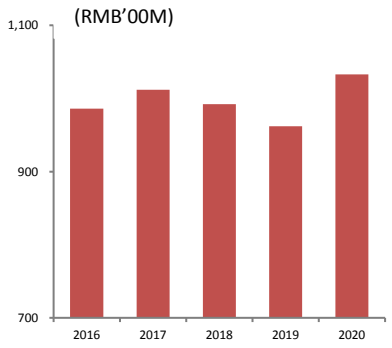
China's listed NEV makers

Company	SAIC	GAC	BYD	GWM	GEELY	JAC
NEV segment	Complete NEVs and parts	NEVs and parts	NEVs, pure electric buses, pure electric taxis, lithium iron phosphate batteries and ternary batteries	Small NEVs	Design, development and production of complete vehicles, powertrains and key components	IEV pure electric passenger vehicle
Core tech	GWM mastered the core technologies of battery, electric drive, and electronic control system, and the self-developed fuel cell system run in parallel to global peers.	GWM has the global leading GEP that is exclusively applicable to pure electric vehicle, and it was a forerunner to use the "three-in-one" electric drive system ADiGO that is a smart driving interconnection ecosystem integrating automatic driving system, IoT system, cloud platform and big data.	GWM is a world leader in battery, motor, electronic control and complete vehicle, as well as global pioneer of dual-mode technology and bidirectional inverter technology, by developing lithium iron phosphate batteries with high safety and ternary batteries with high energy density.	GWM is one of the few auto makers that masters three core technologies of NEV in the world, including battery, electric drive, and electric control.	GWM obtained certain core technologies in chassis, powertrain, NEVs and smart driving, and it is in the forefront of the world in the R&D and application of methanol fuel vehicles.	GWM is the first to break through the thermal runaway problem of ternary lithium batteries with high specific energy in China by the original cellular battery technology, while core technologies such as high-efficiency silent electric drive, vehicle domain control, and heat pump air conditioning were mass-produced and applied.

Our views: Although GWM was late in NEV sector with sales volume lagging behind the top players, its NEV sales reached 84,731 units as of September 2021, which is expected to exceed 100,000 units by 2021. Moreover, it launched several blockbuster models at the Guangzhou Auto Show on November 19, 2021, including Sharon's first electric car, the Mecha Dragon. It is expected to further boost NEV sales by the end of the year. However, the competition in the NEV market has intensified in recent years. In addition to traditional auto makers, many Internet companies also joined the NEV track, such as NIO and Li Auto. Besides, NEV sales also depend on multiple market factors, such as domestic policies, chip supply, and raw material costs.

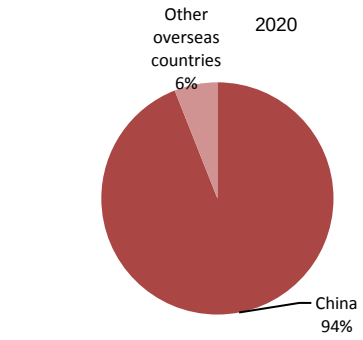
Source: Company, CAAM,CPCA, Orient Securities (Hong Kong)

5-year revenue



GWM's revenue has been growing against the market in recent year amid chip shortages, returning to the level of RMB100 billion. GWM is expected to record a solid rise in revenue if the chip shortages gradually ease in coming months.

Revenue by geography



The group's 94% revenue is generated in China, while other regions together contribute 6% only. The business is too focused in China.

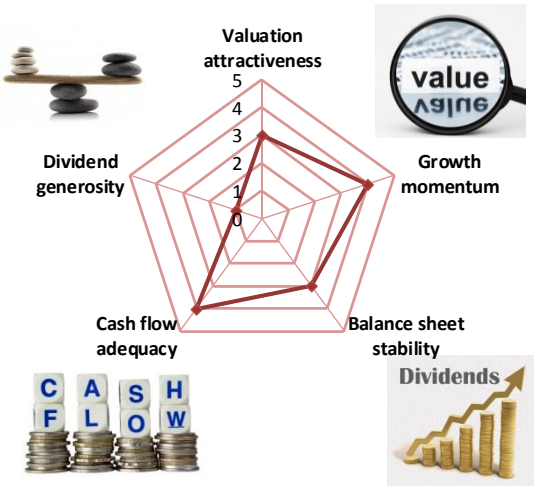
Financial Summary

(RMB M)	2018	2019	2020
Revenue	99,230	96,210	103,308
Net auto sales	91,597	86,251	92,385
% of auto sales	93.7%	90.7%	89.4%
R&D expenses	1,743	2,716	3,067
Profit to shareholders	5,207	4,497	5,362
Net margin	5.68%	5.21%	5.80%
EPS (RMB)	0.65	0.55	0.70
DPS (RMB)	0.33	0.28	0.33
Net gearing	24%	16%	44%

The group increased R&D expenditure in recent years to expedite the transformation into a NEV and tech company. In 2020, the group's revenue rose yoy, but it is worth note that the net liabilities also picked up.

Strength

- SUV and pickup models are mature with stable sales, securing a leading position in China.
- The self-developed platform with hi-tech elements greatly enhances the competitiveness of new models.



Weakness

- The new energy business is still in its infancy.
- GWM is too focused on a single region.
- Haval brand accounts for too much of its portfolio.

Opportunity

- As the government began to attach importance to the NEVs, the new energy business is expected to continue to grow with supporting policies.

Threat

- The continued shortage of auto chips dragged down vehicle production.

Key Risk

- **China's auto demand could fall.**
- **Chip shortage continues.**
- **New car sales are not as good as expected.**

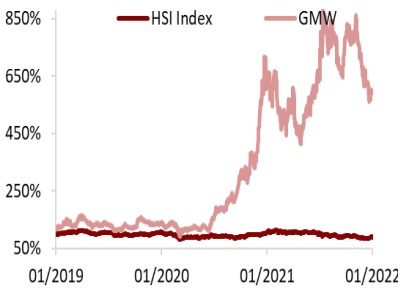
Valuation

P/E	31.9x
P/B	3.5x
Dividend yield	1.49%

Our Opinion

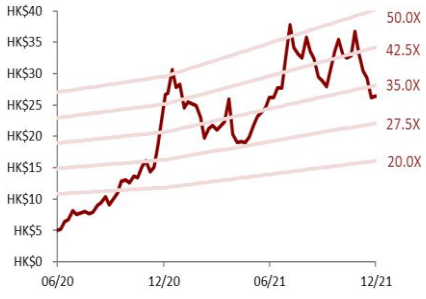
- The group's revenue and profits logged considerable growth amid the pandemic, implying the popularity of its products in the market;
- The group's future development will benefit from the government's supporting policies on NEVs and pickups;
- The establishment of tech brands is a catalyst to boost production and sales;
- The group's production was affected by auto chip supply, and chip shortage has persisted.

Relative Performance



GWM's shares outperformed the HSI due to better-than-expected results in recent years.

P/E Band



GWM is currently trading at around a 5-year average P/E of 35X.

P/B Band



GWM is currently trading at a 5-year average P/B of 4X.

Analyst Certification

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(3) I am not, directly or indirectly, supervised by or reporting to our Investment Banking Department;

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(5) I and my associates do not deal in or trade in the stock(s) covered in this report within 30 calendar days prior to the date of issue of the report;

(6) I and my associates do not serve as an officer(s) of the listed company(ies) covered in this report; and

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