

Analyst: Sam Ho

Main Board H-share Listing- Research

長城汽車股份有限公司

Great Wall Automobile Holding Company Limited [Stock Code: 2333]

Global Coordinator, Sponsor, Bookrunner and Lead Manager : BNP Paribas Peregrine

Sector : Automobile

Business : Production and sale of vehicles in China

| | |
|--|---|
| <p>Total share offer: <u>114,000,000</u> shares (25.05% of the enlarged share capital)</p> <p>Placement: 102,600,000 shares (90%)</p> <p>IPO: 11,400,000 shares (10%)</p> <p>Greenshoe: 17,100,000 shares</p> <p>Price: HK\$10.05-HK\$13.40 per share H-share market cap. : HK\$1,145.7 million-HK\$1,527.6 million</p> <p>Prospective FY2003 P/E: 9.47x-12.63x (fully diluted)</p> <p>Adjusted NAV per share: HK\$4.23-HK\$5.05</p> <p>Staffing: 5,046</p> | <p><u>Business of Great Wall Automobile</u></p> <p>The Company is principally engaged in the production and sale of pick-up trucks and SUVs (sport utility vehicles) in the PRC. As an integrated automobile manufacturer, the Company also engages in the R&D and manufacture of the principal automotive parts and components for use in the assembly of its vehicles.</p> <p>All the Company's automobiles are marketed under the renowned 長城 (Great Wall) brand name. According to the PRC Association of Automobile Industry, the Company has been ranked 1st in terms of sales and production volumes in PRC pick-up truck market for 4 consecutive years since 1999, while it ranked 3rd in terms of sales volume in the PRC SUV market in 2002, just 6 months after the commercial launch of its SUVs.</p> <p>The domestic sales of the Company's automobiles are mainly conducted through a comprehensive sales network, which spreads across about 250 cities in 22 provinces and 5 autonomous regions in the PRC. There are also over 340 after-sales service centres across the nation.</p> <p>The Company's production facilities are located in Baoding, Hebei Province, with an annual aggregate production capacity of 70,000 pick-up trucks and SUVs.</p> |
| <p>Book opens: 27th November 2003 Book closes: 8th December 2003</p> <p>IPO opens: 3rd December 2003 IPO closes: 8th December 2003</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Receiving bank: Standard Chartered Bank</p> <p>Listing date: 15th December 2003</p> | |

Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

| | |
|---|---------------|
| Mr Wei Jian Jun (chairman of the Company) and his family members | 41.97% |
| Nandayuan Management Centre (which is subordinated to the Nandayuan government) | 32.98% |
| | <u>74.95%</u> |

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,265.6 million *(Based on the mid-point of the price range of HK\$11.725 each and assuming the over-allotment option is not exercised)*

| | HK\$ million |
|---|--------------|
| To construct new production facilities | 405.0 |
| To upgrade and expand the existing production facilities for engine | 186.8 |
| To upgrade and expand the existing production facilities for parts and components | 83.5 |
| To improve R&D capability | 27.4 |
| To upgrade the information systems | 18.9 |
| To serve as general working capital | Balance |

Financial Highlights

| | 6 months ended 30 th June 2003 RMB '000 | 2002 RMB '000 | Year ended 31 st December 2001 RMB '000 | 2000 RMB '000 |
|--|--|------------------|--|------------------|
| Revenue | | | | |
| <i>Pick-up trucks</i> | 805,991 | 1,683,915 | 1,215,741 | 1,184,636 |
| <i>SUVs</i> | 928,783 | 737,276 | - | - |
| <i>Others (large-sized buses and special vehicles)</i> | 18,824 | 21,699 | - | - |
| <i>Automotive parts and components</i> | <u>135,031</u> | <u>158,934</u> | <u>77,376</u> | <u>31,853</u> |
| | <u>1,888,629</u> | <u>2,601,824</u> | <u>1,293,117</u> | <u>1,216,489</u> |
| Operating profit | <u>505,286</u> | <u>524,171</u> | <u>171,595</u> | <u>90,062</u> |
| Net profit | <u>286,742</u> | <u>294,367</u> | <u>96,341</u> | <u>55,303</u> |
| EPS | <u>RMB0.84</u> | <u>RMB0.86</u> | <u>RMB0.28</u> | <u>RMB0.16</u> |
| Dividend | - | 213,125 | 346 | - |

Breakdown of Business Segments by Percentage of Total Turnover

| | 6 months ended 30 th June 2003 | 2002 | Year ended 31 st December 2001 | 2000 |
|--|--|---------------|--|---------------|
| <i>Pick-up trucks</i> | 42.7% | 64.7% | 94.0% | 97.4% |
| <i>SUVs</i> | 49.2% | 28.3% | - | - |
| <i>Others (large-sized buses and special vehicles)</i> | 1.0% | 0.8% | - | - |
| <i>Automotive parts and components</i> | <u>7.1%</u> | <u>6.2%</u> | <u>6.0%</u> | <u>2.6%</u> |
| | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

Summary of Operational Data

| | 6 months ended 30 th June 2003 (Units) | 2002 (Units) | Year ended 31 st December 2001 (Units) | 2000 (Units) |
|--|---|-----------------|---|-----------------|
| <i>Pick-up trucks</i> | 13,929 | 28,947 | 23,372 | 21,674 |
| <i>SUVs</i> | 13,433 | 10,827 | - | - |
| <i>Others (large-sized buses and special vehicles)</i> | 100 | 209 | - | - |



Strengths

- ✓ The Company has been awarded numerous internationally-recognized certifications, including SASO certification in 1999, ISO 9001:2000 certification, UKAS certification in 2001 as well as GCC certification in both 2001 and 2003.
- ✓ Gross margins of the Company's pick-up trucks and SUVs are increasing during the track-record period on stringent cost control and economies of scale. For the 6 months ended 30th June 2003, the gross margin of pick-up trucks was 33%, while SUVs had a gross margin of 36%.
- ✓ The Company is expanding its production capacity by upgrading its existing production lines and building new lines. It is expected that the Company's annual production capacity would rise to 80,000 units by the end of 2003 and reach 150,000 units by 2005 from the current 70,000 units. Thus, the Company would further enjoy benefits of economies of scale.
- ✓ The new auto-financing regulations issued by the central government should benefit the entire auto sector in PRC, especially the segments of pick-up trucks and economy SUVs, which are priced under RMB100,000 each. Since the target customers of the Company's auto products are retailers and small businesses, which are usually not financially sound, the relaxed auto-financings available should help stimulate their purchases.
- ✓ Priced between HK\$10.05 and HK\$13.40, Great Wall Automobile is valued at a FY2003E P/E range of 9.47x-12.63x, which is undemanding when compared with mainland auto counters - Denway Motors' (stock code: 0203) FY2003E P/E of 17.9x, Brilliance China (stock code: 1114)'s FY2003E P/E of 13.9x and Qingling Motors' (stock code: 1122) FY2003E P/E of 19.1x.

Weaknesses

- × In some provinces and municipalities (such as Beijing and Shanghai), certain restrictions on road use were imposed on trucks over certain weight limits. Pick-up trucks of Great Wall Automobile are subject to these restrictions. It is still unknown whether these restrictions will also be imposed in other cities in the future, which will affect the sales of pick-up trucks. However, pick-up truck manufacturers have found ways to avoid the restrictions by either upgrading their pick-up trucks into SUVs or just adding a box in the pick-up trucks' rear.
- × The entry barriers to the budget SUV market are low as other light truck makers have quickly moved in to grab a piece of this lucrative market. An upsurge in supply has been pressuring the SUV prices. However, since the Company is very cost-competitive, it did not suffer much from margin erosion.
- × Competition in the PRC auto sector should increase after 2006, as tariffs on auto imports would be reduced to 25% from the current 70%-100% with import quotas to be abolished at that time, following the WTO requirements. However, this should have more impact on the high-end, luxury car segment whilst the low-end, economy cars are not the key products for foreign large carmakers.

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