Great Wall Motor Co Ltd

Fiat suitor Great Wall hits road bumps as bid prospects fade

China carmaker appears to row back on ambitions as its firepower is questioned

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YESTERDAY by: Peter Campbell, Motor Industry Correspondent

Great Wall Motor is running out of road. The Chinese group has grown to become the seventh largest carmaker in its home market, riding the wave of cheap sport utility vehicles and their high margins.

But fierce competition among domestic brands and rising costs have seen its profits slide, while the group is far behind competitors in developing electric vehicles that it will be required by the Chinese government to sell within a decade.

The company leapt on to the international stage this week with a public statement saying it wants to buy Fiat Chrysler Automobiles, the Italian-American carmaker behind the Jeep and Alfa Romeo brands.

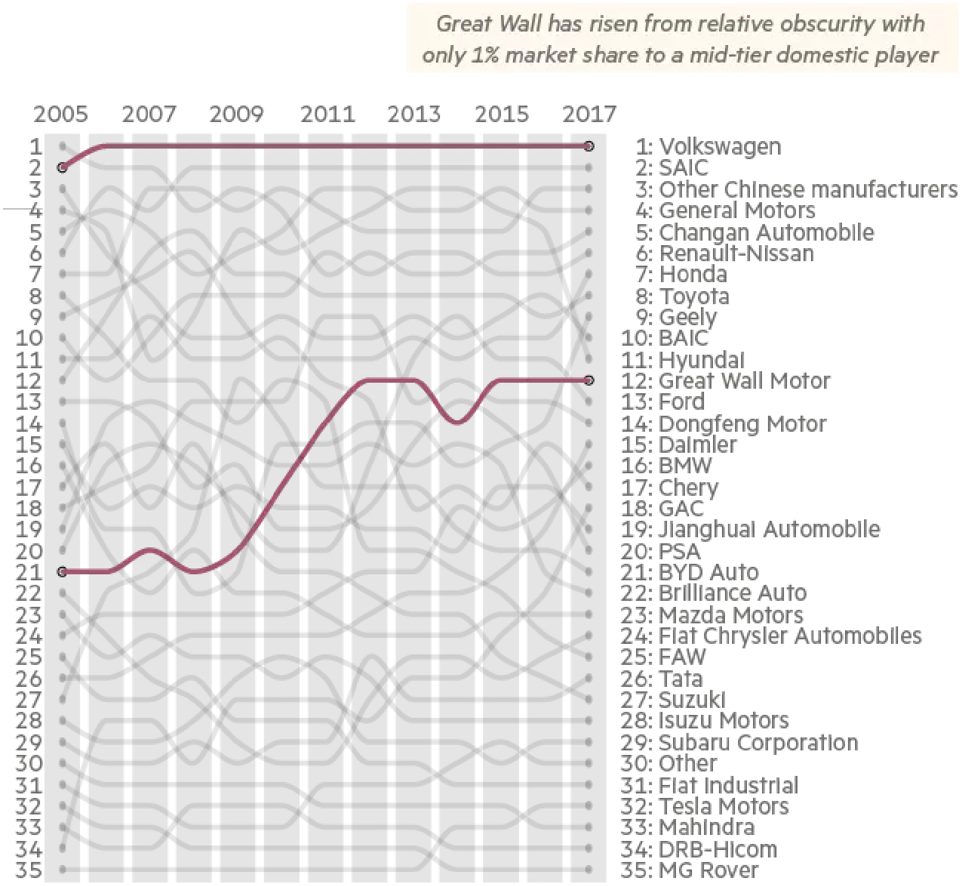
On Tuesday, Great Wall appeared to row back its ambitions, with a filing to the Hong Kong stock exchange saying there was “substantial uncertainty” over whether it would eventually bid.

“The company has not built any relationship with the directors of FCA nor has the company entered into any discussion or signed any agreements with any officer of FCA so far,” it said.

The substance of the bid had already been questioned by analysts, who suggested that Great Wall’s $16bn market value did not give it enough firepower to buy Fiat Chrysler, while FCA itself had said it had not had contact with the company.

Great Wall's share price dropped 1.6 per cent in Shanghai trade on Wednesday.

Largest carmakers in China
Rank by market share (position)



Source: LMC Automotive

The group is controlled by its charismatic chairman Wei Jianjun, who took over the company in 1990 when it was riddled with debt, aged just 26. Today he owns 56 per cent of its shares through a holding company. Great Wall has shares listed in both Shanghai and in Hong Kong.

Mr Wei was not available for comment.

Great Wall, one of China's few privately owned carmakers, opened its first factory in 1984, according to the company's website.

In 2003 it became the first domestic private Chinese carmaker to have shares listed on the Hong Kong stock exchange, the same year it became the largest seller of SUVs on the mainland.

For years the group dominated the local SUV market, selling products far cheaper than international competitors. In 2013, the company reported a profit margin of close to 19 per cent, which is comparable to the profitability of Porsche or Ferrari.

But the low end of the SUV market has become fiercely crowded, with other Chinese manufacturers piling into the space and margins becoming increasingly squeezed by falling prices.

"Their growth has been phenomenal until last year," said Robin Zhu, a Hong Kong-based analyst at Bernstein. "We've long been full of admiration for Chairman Wei, but we remain dubious on the outlook of the company's margins and profits."

In the second quarter of 2017, revenues dropped 13.7 per cent and it witnessed a 78.8 per cent slide in net profit. Its margin was just 2.8 per cent.

In the first six months of the year, Great Wall sold just 37 per cent of its 1.25m target for car sales. In addition, the group's flagship Haval H6 model, which accounts for half of its total sales, saw its shipments drop 5.5 per cent to 263,872 vehicles in the first seven months of this year.

The company has sought to move upmarket, with the launch of the WEY brand to sit above its current marques of Haval and Great Wall.

In an effort to improve the quality of its vehicles, Great Wall has been poaching engineers from international carmakers over several years.

The company's catchphrase — "improving little by little every day" — is drilled into new employees, both Chinese and international. But several of the engineers Great Wall poached from international groups have left after less than two years in their post, disillusioned with the company's culture and hierarchical management style, according to several people.

"Employee turnover was very high," a German engineer who left Great Wall earlier this year told the Financial Times.

Several international workers have left on holiday and never returned to the group, known as the "midnight run", the person added.

Great Wall did not respond to a request for comment on the turnover of its international staff.

The company now faces a larger problem over its long-term future: the development of electric vehicles.

The Chinese government wants all local carmakers to produce 20 per cent of their cars as fully electric by 2025, rising to 40 per cent by 2030. Yet Great Wall has neither electric cars on the market, and has so far failed to embrace battery technology.

"China is pushing hard on electrification, and you don't see Great Wall being a promising player in that part," said one Chinese automotive investor. "They are not known for being great at R&D."

Additional reporting by Charles Clover and Sherry Fei Ju in Beijing.

Great Wall's ambition to replicate Geely

With its overture to buy all or part of global carmaker FCA this week, Great Wall is seeking to replicate the success of its compatriot Geely with a splashy purchase of a foreign brand. But times have changed, *writes Charles Clover*.

In 2010 when Hangzhou-based Geely bought Volvo for $1.8bn from Ford Motor — "a song" as one analyst put it — the political and economic winds were blowing in its favour.

Today, however, there is no global financial crisis, the stock market is booming and experts say the price Great Wall would have to pay is far steeper: €15bn-€20bn for Jeep, or more than €30bn for FCA Group — the group's enterprise value — according to Bernstein. That is hefty for Great Wall with a market value of $16bn.

"I think they are trying to learn from Geely," said Yale Zhang, head of Automotive Foresight, a Shanghai-based consultancy. "But the Volvo deal was done in the midst of a financial crisis and there is no crisis now."

Mr Zhang said the initial statement of interest on Monday revealed that Great Wall has put a great deal of thought into a bid, and that this may be the beginning of a learning curve to emulate Geely.

While initially viewed as very risky, Geely's purchase of lossmaking Volvo has been vindicated: Geely is now the darling of the Chinese automotive industry, the most profitable Chinese carmaker and has seen its share price rise nearly fivefold since the Volvo deal was consummated.

Robin Zhu at Bernstein in Hong Kong said Chinese carmakers are still keen to buy foreign brands if the opportunity presents itself.

He said: "They've seen Geely and see that buying an asset that has a brand and has technology can be a shortcut to success."