

China Meidong Auto (1268 HK)

We expect 2H22E net profit to fall 23% YoY

We project Meidong's 2H22E net profit to fall 23% YoY amid new-car margin weakness in 4Q22. On the other hand, we expect StarChase and after-sales services to aid its profitability with FY23E net profit to surge 76% YoY on our estimates. We believe Meidong is still best positioned among Chinese dealers with its strongest management execution and better brand mix than its peers.

- **We project 2H22E net profit to fall on 4Q22 weakness.** We expect Meidong's 2H22E revenue to rise 47% YoY driven by new-car sales. We project Porsche's new-car sales volume in FY22E at Meidong to be in line with our prior forecast of 13,000 units, or 164% YoY growth for 2H22E. We forecast BMW and Lexus new-car sales volume to rise 13% and 3% YoY in 2H22E, both outpacing the nationwide growth. On the other hand, we project new-car gross margins for both Porsche and Lexus in 2H22E at Meidong to drop to 5.9%, a multi-year low level amid weak 4Q22. We also expect new-car gross margin for BMW to be 0.9% in 2H22E. Accordingly, we project Meidong's 2H22E net profit to decline 23% YoY to RMB 485mn by taking amortization and interest expense for zero-coupon convertible bonds into consideration.
- **StarChase, after-sales services to drive FY23E earnings.** We expect the margin weakness in 4Q22E to be short-lived as China reopens and project Meidong's overall new-car gross margin to be 5.6% in FY23E, a similar level as FY20 despite a much higher sales portion from Porsche, in order to account for heightened competition from NEVs. We project StarChase stores to contribute additional RMB 300mn in net profit level in FY23E than FY22E. We also expect after-sales services to drive earnings after reopening, especially with Meidong's continuous efforts on the "customer return ratio" program. Therefore, we forecast Meidong's net profit to rise 76% YoY to RMB 1.46bn in FY23E.
- **Valuation/Key risks.** We maintain our BUY rating and raise our target price slightly from HK\$ 23.00 to HK\$ 25.00, which is based on 20x (prior 15x) of our revised FY23E EPS estimates. We are of the view that investors have been turning more positive on dealers' valuation, especially as Meidong's management has turned more optimistic when facing competition from NEV luxury brands. Key risks to our rating and target price include lower sales and/or margins, slower store acquisitions than our expectation, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	20,207	23,577	29,963	35,422	42,145
YoY growth (%)	30.7	36.1	5.0	38.3	25.8
Net income (RMB mn)	751	1,166	828	1,460	2,062
EPS (RMB)	0.61	0.92	0.65	1.07	1.49
YoY growth (%)	36.3	55.3	(28.9)	76.3	41.2
P/E (x)	0.0	0.0	26.2	16.0	11.5
P/B (x)	0.0	0.0	4.9	3.5	2.7
Yield (%)	2.1	2.7	1.6	3.4	4.8
ROE (%)	30.4	32.5	19.7	26.1	26.7
Net gearing (%)	Net cash	Net cash	55.7	8.6	2.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$25.00
(Previous TP)	HK\$23.00)
Up/Downside	+26.4%
Current Price	HK\$19.78

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	26,604
Avg 3 mths t/o (HK\$ mn)	101
52w High/Low (HK\$)	39.90/9.88
Total Issued Shares (mn)	1,345

Source: Bloomberg

Shareholding Structure

Apex Sail Limited	52.2%
Others	47.8%

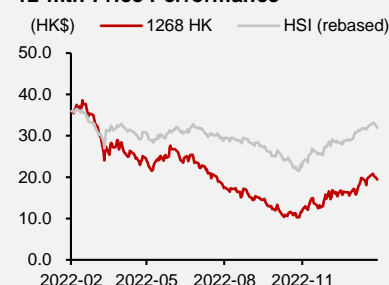
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	21.1%	10.7%
3-mth	88.0%	39.3%
6-mth	5.5%	-2.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

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Figure 1: 2H22 earnings forecast

RMB mn	1H20	2H20	1H21	2H21	1H22	2H22E	YoY	HoH
New-car sales volume (units)	23,691	33,509	32,221	29,374	29,658	36,177	23.2%	22.0%
Total revenue	8,448	11,760	11,808	11,769	12,658	17,304	47.0%	36.7%
Gross profit	819	1,216	1,274	1,497	1,334	1,576	5.3%	18.1%
Selling exp.	(238)	(308)	(348)	(393)	(398)	(516)	31.1%	29.6%
Admin exp.	(216)	(223)	(278)	(301)	(377)	(444)	47.7%	17.7%
Operating profit	453	693	771	927	668	772	-16.7%	15.6%
Net profit	301	450	537	629	343	485	-22.9%	41.4%
Gross margin	9.7%	10.3%	10.8%	12.7%	10.5%	9.1%	-3.6 ppt	-1.4 ppt
Operating margin	5.4%	5.9%	6.5%	7.9%	5.3%	4.5%	-3.4 ppt	-0.8 ppt
Net margin	3.6%	3.8%	4.5%	5.3%	2.7%	2.8%	-2.5 ppt	0.1 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	29,963	35,422	42,145	29,816	37,485	42,313	0.5%	-5.5%	-0.4%
Gross Profit	2,910	4,026	5,063	3,329	4,364	5,202	-12.6%	-7.7%	-2.7%
Operating Profit	1,440	2,359	3,169	1,922	2,756	3,506	-25.1%	-14.4%	-9.6%
Net profit	828	1,460	2,062	1,190	1,759	2,323	-30.4%	-17.0%	-11.2%
Gross Margin	9.7%	11.4%	12.0%	11.2%	11.6%	12.3%	-1.5 ppt	-0.3 ppt	-0.3 ppt
Operating Margin	4.8%	6.7%	7.5%	6.4%	7.4%	8.3%	-1.6 ppt	-0.7 ppt	-0.8 ppt
Net Margin	2.8%	4.1%	4.9%	4.0%	4.7%	5.5%	-1.2 ppt	-0.6 ppt	-0.6 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	29,963	35,422	42,145	29,042	36,384	42,546	3.2%	-2.6%	-0.9%
Gross Profit	2,910	4,026	5,063	3,032	3,940	4,638	-4.0%	2.2%	9.2%
Operating Profit	1,440	2,359	3,169	1,563	2,280	2,837	-7.9%	3.5%	11.7%
Net profit	828	1,460	2,062	983	1,494	1,850	-15.7%	-2.3%	11.5%
Gross Margin	9.7%	11.4%	12.0%	10.4%	10.8%	10.9%	-0.7 ppt	0.5 ppt	1.1 ppt
Operating Margin	4.8%	6.7%	7.5%	5.4%	6.3%	6.7%	-0.6 ppt	0.4 ppt	0.9 ppt
Net Margin	2.8%	4.1%	4.9%	3.4%	4.1%	4.3%	-0.6 ppt	0.0 ppt	0.5 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	20,207	23,577	29,963	35,422	42,145
Cost of sales	(18,172)	(20,806)	(27,053)	(31,396)	(37,082)
Gross profit	2,035	2,771	2,910	4,026	5,063
Other income	96	247	265	326	369
Distribution expenses	(546)	(741)	(914)	(1,048)	(1,142)
Administrative expenses	(439)	(578)	(821)	(945)	(1,122)
Operating profit	1,146	1,698	1,440	2,359	3,169
Finance costs	(137)	(133)	(278)	(296)	(264)
Share of profits of assos	-	-	-	-	-
Share of profits of JVs	43	48	47	46	44
Profit before tax	1,052	1,613	1,209	2,109	2,948
Taxation	(282)	(399)	(311)	(548)	(767)
Minority interests	(20)	(48)	(70)	(100)	(120)
Net profit	751	1,166	828	1,460	2,062

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	1,052	1,613	1,209	2,109	2,948
Depreciation/amortization	229	287	444	559	707
Change in working capital	35	276	(173)	(17)	75
Others	(125)	(364)	(125)	(361)	(623)
Net cash from operating	1,191	1,812	1,355	2,290	3,108
Capex	(336)	(363)	(235)	(290)	(290)
Others	190	(1,019)	(4,326)	(363)	(1,960)
Net cash from investing	(145)	(1,382)	(4,561)	(653)	(2,250)
Share issuance	1,166	11	705	938	35
Dividend paid	(420)	(475)	(1,082)	(642)	(998)
Others	(298)	146	2,815	(1,290)	161
Net cash from financing	449	(317)	2,437	(993)	(802)
Net change in cash	1,494	112	(768)	644	57
Cash at beginning of the year	1,124	2,538	2,622	1,854	2,498
Exchange difference	(80)	(29)	-	-	-
Cash at the end of the year	2,538	2,622	1,854	2,498	2,554

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	5,110	5,563	5,513	6,706	7,384
Cash and equivalents	2,538	2,622	1,854	2,498	2,554
Accounts receivables	1,518	1,817	2,216	2,620	3,118
Inventories	495	355	593	688	813
Other current assets	559	769	850	900	900
Non-current assets	2,661	4,240	9,168	9,644	11,766
PP&E	1,120	1,381	1,871	1,881	2,163
Intangibles	61	546	3,540	3,886	5,131
Interests in JVs and assos	56	62	67	71	76
Other non-current assets	1,423	2,250	3,691	3,806	4,396
Total assets	7,770	9,803	14,681	16,349	19,150
Current liabilities	3,061	4,089	5,652	5,270	6,498
Short-term debt	729	989	1,937	1,000	1,489
Accounts payable	2,082	2,788	3,335	3,871	4,572
Other current liabilities	250	312	380	399	437
Non-current liabilities	1,365	1,597	4,368	4,124	3,644
Long-term debt	222	299	2,515	2,099	1,276
Other non-current liabilities	1,143	1,297	1,852	2,026	2,369
Total liabilities	4,426	5,686	10,020	9,394	10,143
Share capital	99	100	102	111	113
Reserves	3,127	3,847	4,361	6,616	8,630
Minority interests	118	170	198	228	264
Shareholders' equity	3,227	3,947	4,464	6,727	8,743
Total equity and liabilities	7,770	9,803	14,681	16,349	19,150

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Sales of new vehicles	88.9	88.3	88.6	86.9	85.9
After-sales services	11.1	11.7	11.4	13.1	14.1
Growth (%)					
Revenue	24.7	16.7	27.1	18.2	19.0
Gross profit	30.7	36.1	5.0	38.3	25.8
Operating profit	36.9	48.2	(15.2)	63.8	34.3
Net profit	36.3	55.3	(28.9)	76.3	41.2
Profit & loss ratio (%)					
Gross margin	10.1	11.8	9.7	11.4	12.0
Operating margin	5.7	7.2	4.8	6.7	7.5
Net profit margin	3.7	4.9	2.8	4.1	4.9
Balance sheet ratio					
Net cash/total equity (x)	0.5	0.3	(0.6)	(0.1)	(0.0)
Current ratio (x)	1.7	1.4	1.0	1.3	1.1
Receivable turnover days	27.4	28.1	27.0	27.0	27.0
Inventory turnover days	9.9	6.2	8.0	8.0	8.0
Payable turnover days	41.8	48.9	45.0	45.0	45.0
Profitability (%)					
ROE	30.4	32.5	19.7	26.1	26.7
ROA	11.0	13.3	6.8	9.4	11.6
Per share data (RMB)					
EPS	0.61	0.92	0.65	1.07	1.49
DPS	0.39	0.84	0.36	0.59	0.82

Source: Company data, CMBIGM estimates

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