

Tuhu Car (9690 HK)

Defensive play amid consumption downgrade

Transfer coverage with a BUY rating. Tuhu Car's 1H24 earnings slightly beat our prior forecast amid a better-than-expected GPM. We expect its margins to be resilient despite average selling price (ASP) declines, given a higher GPM from the exclusive and private-label products. We believe there is still substantial room for growth for Tuhu's number of stores in China amid rising vehicle ages and Chinese consumers' more rational spending on after-sales services, which could support its fast earnings growth in the next few years. We believe Tuhu is a beneficiary and a defensive player from the consumption downgrade.

- **1H24 earnings slightly beat.** Tuhu's 1H24 revenue grew 9% YoY to about RMB7.1bn with number of stores rising 23% YoY to about 6,300, in line with our prior forecast. Its 1H24 GPM improved 1.7ppts YoY to 25.9%, higher than our forecast by 0.4ppts, mainly due to the better GPM from car wash and detailing businesses and lower costs from self-operated stores. Tuhu's 1H24 adjusted net profit (excluding share-based payments) surged 67% YoY to RMB359mn, higher than our prior forecast by RMB17mn.
- **Margins to benefit from consumption downgrade.** We believe the total demand for independent automotive after-sales service suppliers could rise over the next few years, given growing vehicle ages and more rational spending on after-sales services in China. The number of applications for franchise stores rose 22% YoY in 1H24, according to the company, which could support its network expansion in 2H24 and 2025, in our view. We expect Tuhu's rising store number to more than offset declines in average revenue per store amid the company's penetration into lower-tier cities in the next few years. We also project its OPM to improve driven by greater economies of scale and higher contribution from exclusive and private-label products which provide much higher GPMs than branded products. Both factors combined should lead to high earnings visibility, in our view.
- **Earnings/Valuation.** We expect Tuhu's FY24E revenue to rise 9% YoY with total number of stores of 6,900 at the end of FY24E. We project FY24E adjusted net profit to rise 59% YoY to RMB766mn, with NPM widening to 5.2%. That implies 2H24E adjusted net profit of RMB409mn (+52% YoY and +14% HoH). We forecast FY25E revenue to rise 14% YoY and adjusted net profit to rise 43% YoY to about RMB1.1bn with NPM of 6.5%. We maintain BUY rating with a new target price of HK\$23.00, based on 15x adj. FY25E P/E, which could be justified given its high growth potential, in our view. Key risks to our rating and target price include slower network expansion, lower revenue and/or margins than we expect, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	11,547	13,601	14,822	16,843	18,328
YoY growth (%)	(1.5)	17.8	9.0	13.6	8.8
Net profit (RMB mn)	(2,136.2)	6,702.9	610.0	973.6	1,211.4
YoY growth (%)	na	na	(90.9)	59.6	24.4
Adjusted net profit (RMB mn)	(551.9)	481.3	766.1	1,096.8	1,323.1
EPS (Reported) (RMB)	(14.82)	20.80	0.75	1.19	1.46
P/E (x)	ns	0.8	21.3	13.4	10.9
P/E (Adjusted) (x)	ns	10.6	17.0	11.9	10.0
P/B (x)	ns	1.1	2.6	2.1	1.8
ROE (%)	na	na	12.9	17.6	17.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$23.00
(Previous TP)	HK\$35.30)
Up/Downside	32.5%
Current Price	HK\$17.36

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Stock Data

Mkt Cap (HK\$ mn)	14,094.6
Avg 3 mths t/o (HK\$ mn)	42.7
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	811.9

Source: FactSet

Shareholding Structure

Tencent Holdings	19.6%
Mr. Chen Min	10.1%

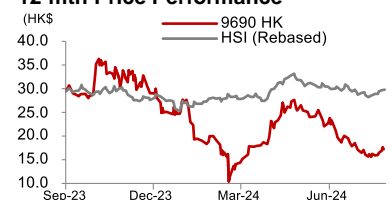
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.7%	-4.4%
3-mth	-31.7%	-26.8%
6-mth	-14.9%	-19.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Interim results

RMB mn	1H23	2H23	1H24	YoY	HoH
Revenue	6,522	7,079	7,126	9.3%	0.7%
Gross profit	1,578	1,781	1,846	17.0%	3.6%
Selling expenses	(272)	(328)	(283)	4.1%	-13.8%
Admin expenses	(298)	(282)	(302)	1.4%	7.2%
R&D expenses	(1,027)	(1,108)	(1,094)	6.5%	-1.2%
Operating profit	67	95	212	217.5%	123.5%
Net profit	60	6,643	286	373.8%	-95.7%
Adj. net profit	215	269	359	67.3%	33.7%
Gross margin	24.2%	25.2%	25.9%	1.7 ppt	0.7 ppt
Operating margin	1.0%	1.3%	3.0%	2.0 ppt	1.6 ppt
Net margin	0.9%	93.8%	4.0%	3.1 ppt	-89.8 ppt
Adj. net margin	3.3%	3.8%	5.0%	1.7 ppt	1.2 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	14,822	16,843	18,328	15,791	18,286	21,020	-6.1%	-7.9%	-12.8%
Gross profit	3,855	4,517	5,004	4,106	4,953	5,941	-6.1%	-8.8%	-15.8%
Operating profit	482	864	1,125	728	1,393	2,005	-33.8%	-38.0%	-43.9%
Net profit	610	974	1,211	661	1,282	1,735	-7.7%	-24.1%	-30.2%
Adj. net profit	766	1,097	1,323	756	1,396	1,859	1.3%	-21.4%	-28.8%
Gross margin	26.0%	26.8%	27.3%	26.0%	27.1%	28.3%	0.0 ppt	-0.3 ppt	-1.0 ppt
Operating margin	3.3%	5.1%	6.1%	4.6%	7.6%	9.5%	-1.4 ppt	-2.5 ppt	-3.4 ppt
Net margin	4.1%	5.8%	6.6%	4.2%	7.0%	8.3%	-0.1 ppt	-1.2 ppt	-1.6 ppt
Adj. net margin	5.2%	6.5%	7.2%	4.8%	7.6%	8.8%	0.4 ppt	-1.1 ppt	-1.6 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	14,822	16,843	18,328	15,307	17,256	19,487	-3.2%	-2.4%	-5.9%
Gross Profit	3,855	4,517	5,004	3,998	4,750	5,632	-3.6%	-4.9%	-11.2%
Operating Profit	482	864	1,125	697	1,201	1,517	-30.8%	-28.1%	-25.8%
Net profit	610	974	1,211	710	1,174	1,641	-14.1%	-17.1%	-26.2%
Gross Margin	26.0%	26.8%	27.3%	26.1%	27.5%	28.9%	-0.1 ppt	-0.7 ppt	-1.6 ppt
Operating Margin	3.3%	5.1%	6.1%	4.6%	7.0%	7.8%	-1.3 ppt	-1.8 ppt	-1.6 ppt
Net Margin	4.1%	5.8%	6.6%	4.6%	6.8%	8.4%	-0.5 ppt	-1.0 ppt	-1.8 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	11,724	11,547	13,601	14,822	16,843	18,328
Cost of goods sold	(9,854)	(9,277)	(10,242)	(10,967)	(12,326)	(13,324)
Gross profit	1,870	2,270	3,359	3,855	4,517	5,004
Operating expenses	(3,184)	(3,034)	(3,198)	(3,373)	(3,653)	(3,879)
Selling expense	(1,681)	(1,542)	(1,715)	(1,849)	(2,050)	(2,209)
Admin expense	(351)	(399)	(420)	(425)	(442)	(465)
R&D expense	(620)	(621)	(580)	(591)	(614)	(627)
Other rental related expenses	(654)	(627)	(600)	(621)	(658)	(689)
Others	122	156	117	113	110	112
Operating profit	(1,314)	(764)	162	482	864	1,125
Other gains/(losses)	(4,441)	(1,339)	6,465	0	0	0
Share of (losses)/profits of associates/JV	(53)	(34)	(11)	(10)	(7)	(6)
EBITDA	(5,440)	(1,716)	7,106	1,065	1,549	1,948
Depreciation	121	157	160	215	272	323
Depreciation of ROU assets	182	203	196	210	230	254
Other amortisation	2	4	5	5	6	6
EBIT	(5,744)	(2,080)	6,744	634	1,041	1,365
Interest income	64	57	129	162	184	246
Interest expense	(66)	(28)	(19)	(18)	(19)	(21)
Pre-tax profit	(5,810)	(2,108)	6,725	617	1,023	1,344
Income tax	(35)	(31)	(25)	(9)	(51)	(134)
After tax profit	(5,845)	(2,138)	6,701	607	972	1,209
Minority interest	4	2	2	3	2	2
Net profit	(5,841)	(2,136)	6,703	610	974	1,211
Adjusted net profit	(1,264)	(552)	481	766	1,097	1,323

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,746	6,906	8,271	9,160	11,183	12,814
Cash & equivalents	1,472	2,686	2,715	2,239	3,611	5,064
Restricted cash	2,480	1,507	1,455	1,320	1,455	1,425
Account receivables	203	174	218	244	277	301
Inventories	1,714	1,543	1,800	1,803	2,026	2,190
Financial assets at FVTPL	1,338	540	1,587	3,068	3,306	3,332
Other current assets	539	456	496	487	508	502
Non-current assets	2,086	2,108	3,493	3,521	3,679	4,020
PP&E	539	671	899	1,023	1,090	1,106
Right-of-use assets	518	468	467	413	390	394
Investment in JVs & assos	194	279	363	353	346	340
Intangibles	63	70	58	56	54	53
Goodwill	16	16	20	20	20	20
Financial assets at FVTPL	201	227	191	176	168	160
Other non-current assets	555	378	1,495	1,480	1,610	1,948
Total assets	9,832	9,014	11,765	12,682	14,861	16,835
Current liabilities	5,743	5,572	6,602	6,863	7,796	8,268
Short-term borrowings	264	0	1	8	0	0
Account payables	3,240	3,119	3,887	4,056	4,728	4,928
Tax payable	68	97	120	121	161	282
Other current liabilities	1,464	1,566	1,720	1,803	1,959	2,044
Lease liabilities	148	137	132	114	123	150
Contract liabilities	559	653	743	761	825	863
Non-current liabilities	19,454	22,398	704	835	965	1,113
Long-term borrowings	0	0	8	50	100	150
Other non-current liabilities	19,454	22,398	697	785	865	963
Total liabilities	25,197	27,971	7,306	7,698	8,761	9,381
Share capital	0	0	0	0	0	0
Other reserves	(15,367)	(18,957)	4,460	4,988	6,106	7,461
Total shareholders equity	(15,367)	(18,957)	4,460	4,988	6,107	7,462
Minority interest	2	0	(2)	(4)	(6)	(8)
Total equity and liabilities	(15,364)	(18,957)	4,458	4,984	6,100	7,453

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(5,810)	(2,108)	6,725	617	1,023	1,344
Depreciation & amortization	305	364	362	431	508	583
Tax paid	(2)	(1)	(5)	(8)	(10)	(12)
Change in working capital	771	(197)	269	366	411	84
Others	4,638	1,630	(6,330)	58	(0)	(70)
Net cash from operations	(99)	(313)	1,021	1,464	1,932	1,929
Investing						
Capital expenditure	(347)	(401)	(362)	(343)	(344)	(345)
Acquisition of subsidiaries/ investments	(32)	(136)	(69)	0	0	0
Net proceeds from disposal of short-term investments	(518)	1,346	(2,108)	(1,415)	(238)	(226)
Others	(21)	(328)	167	167	184	246
Net cash from investing	(918)	481	(2,372)	(1,591)	(398)	(325)
Financing						
Net borrowings	(1,749)	(264)	(1)	49	43	50
Proceeds from share issues	0	0	1,168	0	0	0
Share repurchases	0	0	0	(191)	0	0
Others	3,157	1,200	182	(207)	(205)	(201)
Net cash from financing	1,408	936	1,350	(349)	(162)	(151)
Net change in cash						
Cash at the beginning of the year	1,165	1,472	2,686	2,715	2,239	3,611
Exchange difference	(84)	109	30	0	0	0
Cash at the end of the year	1,472	2,686	2,715	2,239	3,611	5,064
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	33.9%	(1.5%)	17.8%	9.0%	13.6%	8.8%
Gross profit	73.2%	21.4%	48.0%	14.8%	17.2%	10.8%
Operating profit	na	na	na	198.5%	79.2%	30.2%
EBITDA	na	na	na	(85.0%)	45.5%	25.7%
EBIT	na	na	na	(90.6%)	64.1%	31.1%
Net profit	na	na	na	(90.9%)	59.6%	24.4%
Adj. net profit	na	na	na	59.2%	43.2%	20.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	16.0%	19.7%	24.7%	26.0%	26.8%	27.3%
Operating margin	(11.2%)	(6.6%)	1.2%	3.3%	5.1%	6.1%
EBITDA margin	(46.4%)	(14.9%)	52.2%	7.2%	9.2%	10.6%
Adj. net profit margin	(10.8%)	(4.8%)	3.5%	5.2%	6.5%	7.2%
Return on equity (ROE)	na	na	na	12.9%	17.6%	17.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	na	na	(0.9)	(0.7)	(0.8)	(0.9)
Current ratio (x)	1.3	1.2	1.3	1.3	1.4	1.5
Receivable turnover days	6.3	5.5	5.9	6.0	6.0	6.0
Inventory turnover days	63.5	60.7	64.1	60.0	60.0	60.0
Payable turnover days	120.0	122.7	138.5	135.0	140.0	135.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	0.8	21.3	13.4	10.9
P/E (diluted)	ns	ns	26.6	17.6	12.2	10.2
P/B	ns	ns	1.1	2.6	2.1	1.8
P/CFPS	ns	ns	5.0	8.9	6.8	6.8
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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