

Yongda (3669 HK)

Operation improved with new strategy target

Yongda announced its FY19 results, generally in line with market expectations. Revenue achieved RMB62.7bn (vs CMBIS estimate of RMB61.4bn/ vs consensus estimate of RMB61.8bn), an increase of 13% YoY. NP was RMB1.5bn (vs CMBIS estimate RMB1.5bn / vs consensus estimate of RMB1.5bn), an increase of 18%. EPS has increased by 17% to RMB0.80. However, the Company surprises the market by not declaring any final dividend (vs normally 30%+ payout ratio in the past five years).

- The board of directors put forward a high-growth strategy for the management team starting from 2020.** Prior to COVID-19, the Company raise its target growth rate by 5ppt for 2020E as compared with that of 2019. Chairman Cheung Tak On has increased his stakes by 1.5mn shares through three times on 10/11 Dec 2019 and 10 Jan 2020, with a weighted average price of HK\$6.09 per share. This may suggest that the strategy shift claimed by the Company was credible.
- The operating efficiency was significantly improved in 2019.** The average inventory turnover days decreased to 37 days in 2019 from 44 days in 2018. At the same time, the Company proactively controlled its proprietary loan book while shifting more attention to asset quality. As a result, the Company's CFO increased by RMB2.4bn in 2019 whereas CFF outflowed by RMB2.1bn. This directly reduced the adjusted financial exp ratio to 1.08% in 2019 from 1.23% in 2018.
- The COVID-19 impact was real but limited.** Up to now, the Company's work resumption rate was close to 100%. Specifically, the new car sales business has resumed about 80% of the normal level while the after-sales service has been about 90%. The Company expects a complete recovery in April. It is estimated that the COVID-19 impact in 1Q20 accounts for about 10% of the full business. However, both government and OEMs introduced measures to restrict the impact. To help dealers, OEMs take measures such as 1) extend the interest-free period for inventory financing; 2) cancel 1Q assessment; 3) accelerate rebate redeem; 4) post more online marketing. The Company's current inventory for major brands is about one month, reflecting its good financial condition and resilience from the supply side impact.
- No declared dividend for 2019 surprised the market.** The Company claims that it did not pay out any dividend for FY2019 for two main reasons: 1) to stay flexible on concern over the COVID-19 relapse in China; 2) potential M&A surface in 2020. The Company reiterates that it will declare a dividend representing a payout ratio of not less than 30% if the COVID-19 settles as expected/no good M&A opportunities.

BUY (Up)

Target Price	HK\$7.4
(Previous TP)	HK\$6.6)
Up/Downside	+29.2%
Current Price	HK\$5.7

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	10,485
Avg 3 mths t/o (HK\$ mn)	69.80
52w High/Low (HK\$)	9.3/4.9
Total Issued Shares (mn)	1,843

Source: Bloomberg

Shareholding Structure

Cheung Tak On	32.65%
HSBC International Trustee Limited	21.01%

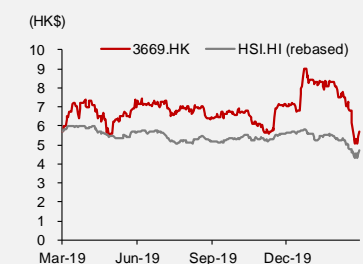
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-29.7%	-19.6%
3-mth	-20.2%	-5.5%
6-mth	-10.7%	-1.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

"Yongda (3369 HK) – Largest BMW and Porsche dealer in China" – 11 Dec 2019

- **We raise the top-line in 2020E by 3% to reflect its 1) high-growth strategy and 2) potential M&A opportunities.** However, GPM from new car sales fell to 2.35% in 2019 from 2.37% in 2018, lower than CMBIS estimates. To reflect the epidemic impact on short-term leasing business, the optimization of its loan book and our new GPM forecast, we adjust down our bottom-line forecast in 2020E by 2ppt to RMB1.9bn. Given its growth potential, we raise our TP to HK\$7.4 (based on new 6.5x 2020E P/E) with an upside of 29% from initial TP HK\$6.6 (based on initial 5.7x 2020E P/E). Therefore, we upgrade our rating to BUY from Hold.

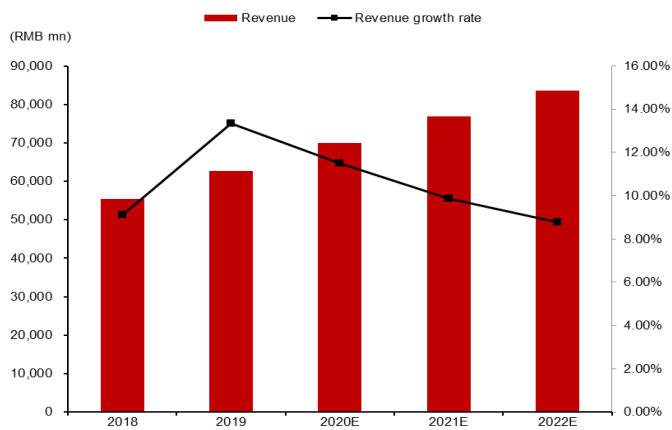
Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	55,318	62,707	69,920	76,809	83,554
YoY growth (%)	9.11%	13.36%	11.50%	9.85%	8.78%
Net income (RMB mn)	1,253	1,473	1,866	2,169	2,534
EPS (RMB)	0.68	0.80	1.01	1.18	1.38
YoY growth (%)	-25%	17%	27%	16%	17%
Consensus EPS (RMB)	0.68	0.82	0.98	1.18	1.35
P/E (x)	7.48	6.37	5.03	4.33	3.70
P/B (x)	1.04	0.95	0.80	0.69	0.58
Yield (%)	4.41%	0.00%	6.46%	7.09%	7.95%
ROE (%)	14.51%	15.61%	17.16%	17.11%	37.00%
Net gearing (%)	183%	190%	165%	156%	135%

Source: Company data, Bloomberg, CMBIS estimates

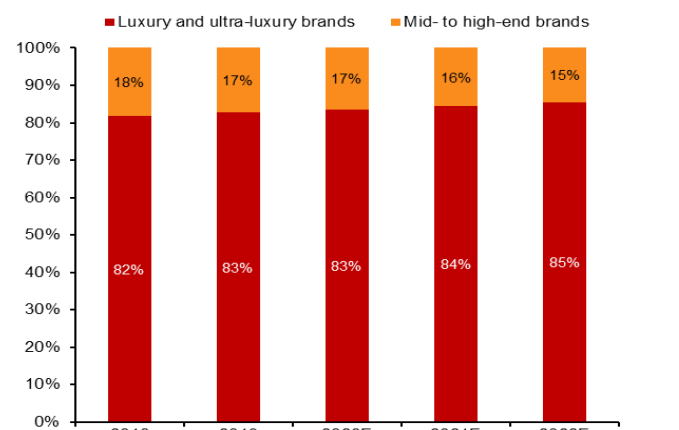
Focus Charts

Figure 1: Revenue trend



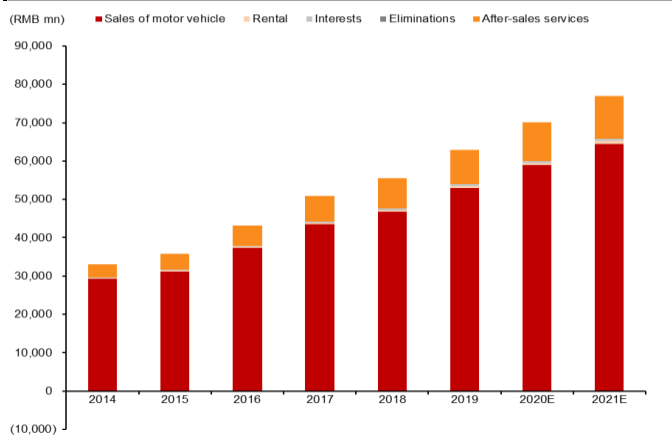
Source: Company data, CMBIS estimates

Figure 2: Proportion of new car sales revenue



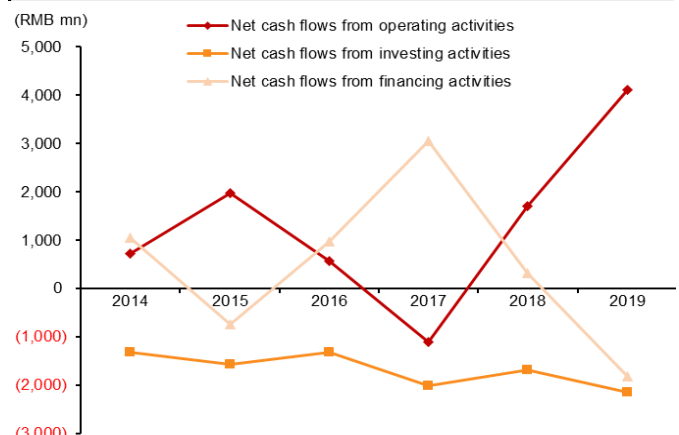
Source: Company data, CMBIS estimates

Figure 3: Sales breakdown



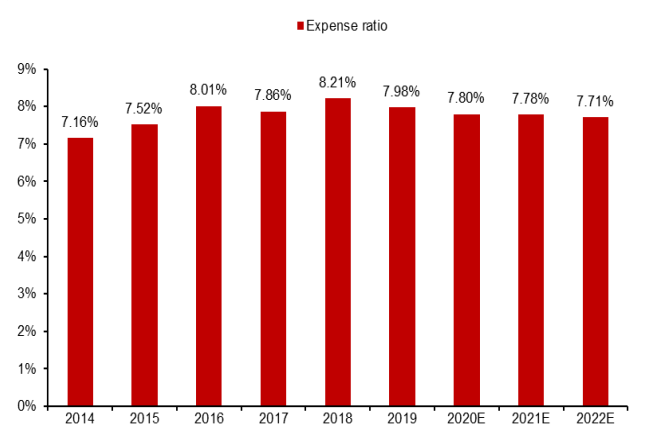
Source: Company data, CMBIS estimates

Figure 4: Operation efficiency improved in 2019



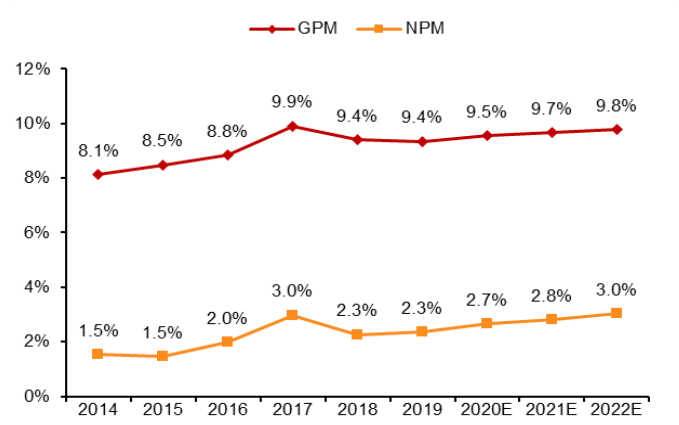
Source: Company data, CMBIS estimates

Figure 5: Expense ratio is expected to decline



Source: Company data, CMBIS estimates

Figure 6: Profitability is expected to improve further



Source: Company data, CMBIS estimates

Earnings Revision

Figure 7: FY19 results review

RMB mn	FY18A	FY19A	YoY	CMBI		Consensus	
				FY19E	Diff (%)	FY19E	Diff (%)
Revenue	55,318	62,707	13%	61,386	2%	61,840	1%
Gross profit	5,207	5,864	13%	5,937	-1%	5,908	-1%
EBIT	2,434	2,854	17%	2,814	1%	2,754	4%
Net profit	1,253	1,473	18%	1,488	-1%	1,510	-2%
EPS (RMB)	0.68	0.80	17%	0.81	-1%	0.82	-2%
Gross margin	9.41%	9.35%	-0.1 ppt	9.67%	-0.3 ppt	9.55%	-0.2 ppt
EBIT margin	4.40%	4.55%	0.2 ppt	4.58%	0.0 ppt	4.45%	0.1 ppt
Net margin	2.27%	2.35%	0.1 ppt	2.42%	0.1 ppt	2.44%	-0.1 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 8: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	69,920	76,809	68,041	75,214	3%	2%
Gross profit	6,674	7,418	6,804	7,521	-2%	-1%
EBIT	3,365	3,846	3,413	3,810	-1%	1%
Net profit	1,866	2,169	1,905	2,180	-2%	-1%
EPS (RMB)	1.01	1.18	1.04	1.19	-2%	-1%
Gross margin	9.55%	9.66%	10.00%	10.00%	-0.4 ppt	-0.2 ppt
EBIT margin	4.81%	5.01%	5.02%	5.07%	-0.1 ppt	0.1 ppt
Net Margin	2.67%	2.82%	2.80%	2.90%	-0.1 ppt	0.0 ppt

Source: CMBIS estimates

Figure 9: CMBIS estimates vs consensus

(RMB mn)	New		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	69,920	76,809	67,511	74,111	4%	4%
Gross profit	6,674	7,418	6,584	7,424	1%	0%
EBIT	3,365	3,846	3,147	3,709	7%	4%
Net profit	1,866	2,169	1,818	2,179	3%	0%
EPS (HK\$)	1.01	1.18	0.98	1.18	4%	0%
Gross margin	9.55%	9.66%	9.75%	10.02%	-0.1 ppt	-0.2 ppt
EBIT margin	4.81%	5.01%	4.66%	5.00%	0.2 ppt	0.1 ppt
Net Margin	2.67%	2.82%	2.69%	2.94%	0.0 ppt	0.0 ppt

Source: Bloomberg, CMBIS estimates

Figure 10: Revenue breakdown

(RMB mn)	FY18	FY19	FY20E	FY21E	FY22E
Sales of motor vehicle	46,740	52,934	58,899	64,508	69,932
...YoY	7%	13%	11%	10%	8%
Luxury and ultra-luxury brands	38,234	43,769	49,176	54,443	59,716
...YoY	11%	14%	12%	11%	10%
Mid- to high-end brands	8,506	9,165	9,723	10,065	10,216
...YoY	-7%	8%	6%	4%	1%
After-sales services	7,835	8,896	10,131	11,289	12,588
...YoY	17%	14%	14%	11%	12%
Rental	408	528	587	758	825
...YoY	7%	29%	11%	29%	9%
Interests	543	511	501	484	455
...YoY	64%	-6%	-2%	-3%	-6%
Eliminations	-208	-162	-197	-229	-246
...YoY	10%	-22%	21%	17%	7%
Total	55,318	62,707	69,920	76,809	83,554
...YoY	9%	13%	12%	10%	9%

Source: Company data, CMBIS estimates

Figure 11: P&L forecast

HK\$ mn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	55,318	62,707	69,920	76,809	83,554
...YoY	9.11%	13.36%	11.50%	9.85%	8.78%
Cost of sales	-50,112	-56,843	-63,246	-69,391	-75,386
Gross profit	5,207	5,864	6,674	7,418	8,168
GPM (%)	9.41%	9.35%	9.55%	9.66%	9.78%
...YoY	3.62%	12.62%	13.81%	11.15%	10.11%
Selling Exp	-2,480	-2,733	-3,055	-3,356	-3,651
...% of rev	-4.48%	-4.36%	-4.37%	-4.37%	-4.37%
Admin Exp	-1,383	-1,490	-1,657	-1,820	-1,980
...% of rev	-2.50%	-2.38%	-2.37%	-2.37%	-2.37%
EBIT	2,434	2,854	3,365	3,846	4,366
EBIT Margin (%)	4.40%	4.55%	4.81%	5.01%	5.23%
...YoY	-2.72%	17.26%	17.92%	14.27%	13.53%
Net profit	1,253	1,473	1,866	2,169	2,534
NPM (%)	2.27%	2.35%	2.67%	2.82%	3.03%
...YoY	-17.02%	17.56%	26.69%	16.23%	16.82%

Source: Company data, CMBIS estimates

Valuation

Upgrade to BUY and raise TP to HK\$7.4

We raise the top-line in 2020E by 3% to reflect its 1) high-growth strategy and 2) potential M&A opportunities. However, GPM from new car sales fell to 2.35% in 2019 from 2.37% in 2018, lower than CMBIS estimates. To reflect the epidemic impact on short-term leasing business, the optimization of its loan book and our new GPM forecast, we adjust down our bottom-line forecast in 2020E by 2ppt to RMB1.9bn. Given its growth potential, we raise our TP to HK\$7.4 (based on new 6.5x 2020E P/E) with an upside of 29% from initial TP HK\$6.6 (based on initial 5.7x 2020E P/E). Therefore, we upgrade our rating to BUY from Hold.

Financial Summary

Income statement						Cash flow					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	55,318	62,707	69,920	76,809	83,554	Net income	1,253	1,473	1,866	2,169	2,534
Sales of motor vehicle	46,740	52,934	58,899	64,508	69,932	D&A	309	-	461	511	564
After-sales services	7,835	8,896	10,131	11,289	12,588	Change in working capital	(1,867)	(2,411)	(4,773)	(3,514)	(2,849)
Rental	408	528	587	758	825	Others	2,004	5,047	6,001	2,623	2,712
Interests	543	511	501	484	455	Net cash from operating	1,699	4,109	3,555	1,789	2,961
Eliminations	(208)	(162)	(197)	(229)	(246)	Capex & investments	(1,797)	-	(2,303)	(2,438)	(2,716)
Cost of sales	(50,112)	(56,843)	(63,246)	(69,391)	(75,386)	Associated companies	(50)	(21)	(60)	(67)	(76)
Gross profit	5,207	5,864	6,674	7,418	8,168	Others	164	(2,111)	-	-	1
Selling and distribution expenses	(2,480)	(2,733)	(3,055)	(3,356)	(3,651)	Net cash from investing	(1,683)	(2,132)	(2,363)	(2,506)	(2,791)
Administrative expenses	(1,383)	(1,490)	(1,657)	(1,820)	(1,980)	Equity raised	-	-	-	-	-
Net impairment losses on financial assets	0	0	0	0	0	Change of Debts	1,785	1,507	(1,020)	1,574	1,471
Other income	1,029	1,177	1,342	1,535	1,752	Dividend paid	(520)	(414)	(484)	(606)	(666)
Other expenses	0	0	0	0	0	Others	(942)	(2,916)	-	-	1
Finance expenses	(681)	(778)	(739)	(800)	(812)	Net cash from financing	323	(1,823)	(1,504)	968	806
Share of profits and losses of JVs	10	9	9	9	9	Net change in cash	339	154	(313)	250	976
Associates	51	26	53	60	69	Cash at the beginning	3,524	4,068	5,731	5,419	5,669
Profit before income tax	1,753	2,076	2,626	3,046	3,554	Exchange difference	205	912	-	-	1
Income tax expense	(428)	(507)	(638)	(736)	(856)	Cash at the end	4,068	5,134	5,419	5,669	6,645
Profit for the year	1,325	1,569	1,988	2,310	2,698	Less: pledged cash	2,010	2,924	2,924	2,924	2,924
Less: MI	1,253	1,473	1,866	2,169	2,534						
Net Profit	55,318	62,707	69,920	76,809	83,554						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	12,467	18,233	15,729	17,963	19,410	Profit mix (%)					
Fixed asset	5,402	6,105	5,861	6,342	6,880	Sales of motor vehicle	84%	84%	84%	84%	84%
Intangible assets	1,577	2,065	1,735	1,804	1,883	After-sales services	14%	14%	14%	15%	15%
Interest in joint ventures/associate	538	559	646	710	783	Other	1%	1%	1%	1%	1%
Other non-current assets	4,950	9,504	7,488	9,106	9,863	Total	100%	100%	100%	100%	100%
Current assets	18,550	20,275	22,470	24,857	27,602	P&L ratios (%)					
Cash	4,068	5,134	5,419	5,669	6,645	Gross profit margin	9%	9%	10%	10%	10%
Account receivable	6,186	6,847	7,441	8,164	8,869	Pre-tax margin	3%	3%	4%	4%	4%
Inventory	5,829	5,627	6,528	7,308	8,070	Net margin	2%	2%	3%	3%	3%
Other current assets	2,467	2,667	3,083	3,716	4,017	Effective tax rate	24%	24%	24%	24%	24%
Current liabilities	20,116	19,846	22,442	24,372	25,418	Balance sheet ratios					
Borrowings	12,553	10,129	12,135	13,228	13,490	Current ratio (x)	0.92	1.02	1.00	1.02	1.09
Account payables	5,504	7,071	7,884	8,619	9,268	Quick ratio (x)	0.62	0.73	0.70	0.71	0.76
Other payables	1,582	1,916	1,742	1,742	1,743	Cash ratio (x)	0.20	0.26	0.24	0.23	0.26
Tax payables	477	730	682	782	917	Inventory days	42	36	38	38	39
Non-current liabilities	1,381	5,177	3,404	3,942	4,402	Account payable days	40	45	45	45	45
Borrowings	836	2,723	2,650	3,097	3,431	Account receivable days	41	40	43	43	43
Provisions	-	104	-	-	-	Total debt / total equity ratio (%)	226%	239%	209%	195%	173%
Deferred income tax	478	659	644	740	870	Net debt / equity ratio (%)	183%	190%	165%	156%	135%
Others	67	1,691	111	105	102	Returns (%)					
Total net assets	9,520	13,485	12,352	14,505	17,192	ROE	15%	16%	17%	17%	37%
Minority interest	532	571	688	808	957	ROA	8%	8%	9%	9%	20%
Shareholders' equity	8,988	9,881	11,664	13,697	16,235	Per share					
						EPS (RMB)	0.68	0.80	1.01	1.18	1.38
						DPS (RMB)	0.22	-	0.33	0.36	0.41
						BVPS (RMB)	4.89	5.37	6.34	7.45	8.83

Source: Company data, CMBIS estimates

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