

Meidong Auto (1268 HK)

We expect 1H24 to be still profitable

Maintain BUY. Despite strong headwinds that dealers faced, we still project Meidong's 1H24 net profit to be positive with subsidies from Porsche and Lexus. We expect industrywide headwinds to continue in 2H24 but we believe investors could turn a bit more positive on Meidong's FY25 outlook given removal of the convertible bond (CB) burden and a new NEV model cycle for BMW.

■ **We project 1H24E net profit to be RMB43mn assuming no significant impairment.** We project Meidong's new car sales volume in 1H24 to fall 8% YoY to 29,200 units (Porsche: 4,500 units, BMW: 11,500 units). We expect Meidong's market share for Porsche's sales in China to widen to 17% in 1H24 from 16% in 2H23, despite Porsche's 39% YoY plunge in its China's sales volume in 1H24. We project Meidong's new car average selling price to decline 13% YoY in 1H24 amid rising discounts. We forecast Meidong's after-sales service revenue to rise 12% YoY despite lower number of services occurred. We expect Porsche to contribute a higher portion in after-sales service revenue. More importantly, auto finance commissions per car (included in the after-sales revenue at Meidong) increased YoY based on our channel checks.

We project Meidong's new car gross margin to fall to -3.7% in 1H24 (Porsche: -4%, BMW: -7%, Lexus: -2%), the lowest in history. Accordingly, we project Meidong's revenue to fall 15% YoY and gross profit to drop 11% YoY in 1H24. We assume a YoY drop for interest expenses with partial CB buyback and a withholding tax of RMB35mn in 1H24. Therefore, we estimate 1H24 net profit to rise 9% YoY to RMB43mn.

■ **2H24 and FY25 outlook.** Although low visibility and close-to-zero net margin make our forecast much more difficult, we expect 2H24 and FY25 to be slightly better than 1H24. We expect gloomy Porsche sales volume to continue in 2H24 but gross margin to recover slightly amid lowered sales target. We assume new car gross margin at Meidong to improve by 1.2ppts YoY in FY25, as foreign automakers are likely to cut sales targets. We also estimate CB interest expense and withholding tax to reduce by RMB130mn YoY in FY25, leading to a net profit of RMB360mn on our estimates.

■ **Valuation/Key risks.** We maintain our BUY rating but cut target price from HK\$4.00 to HK\$3.00, based on 10x our revised FY25E EPS (previously 9x FY24-25E average EPS). We are of the view that investors could turn a bit more positive on Meidong's FY25 outlook as noted above. Key risks to our rating and target price include lower sales and/or margins than expected, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	28,655	28,555	24,141	24,791	24,917
YoY growth (%)	21.5	(0.3)	(15.5)	2.7	0.5
Net profit (RMB mn)	521.0	140.2	168.1	360.0	608.9
YoY growth (%)	(55.3)	(73.1)	19.9	114.1	69.2
EPS (Reported) (RMB)	0.41	0.10	0.12	0.27	0.45
P/E (x)	4.9	19.0	15.9	7.4	4.4
P/B (x)	0.6	0.5	0.5	0.5	0.5
Yield (%)	10.3	2.1	3.1	8.1	13.6
ROE (%)	12.7	3.0	3.2	6.7	10.7
Net gearing (%)	26.5	0.9	(35.6)	(19.5)	(32.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$3.00**
 (Previous TP) HK\$4.00)
Up/Downside **40.2%**
Current Price **HK\$2.14**

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Stock Data

Mkt Cap (HK\$ mn)	2,881.0
Avg 3 mths t/o (HK\$ mn)	17.0
52w High/Low (HK\$)	9.04/2.00
Total Issued Shares (mn)	1346.2

Source: FactSet

Shareholding Structure

Apex Sail Limited	52.3%
Others	47.7%

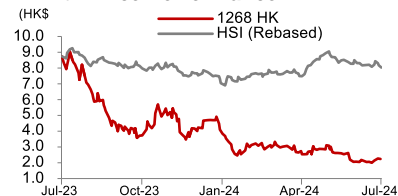
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.0%	5.8%
3-mth	-15.7%	-21.5%
6-mth	-44.3%	-51.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

["China Meidong Auto \(1268 HK\) – After-sales services, cost reduction as key" – 2 Apr 2024](#)

Figure 1: Interim results

RMB mn	1H22	2H22	1H23	2H23	1H24E	YoY	HoH
New-car sales volume (units)	29,658	38,213	31,589	34,781	29,200	-7.6%	-16.0%
Total revenue	12,658	15,996	14,089	14,466	11,985	-14.9%	-17.1%
Gross profit	1,334	1,183	1,001	1,077	887	-11.4%	-17.7%
Selling exp.	(398)	(462)	(382)	(382)	(348)	-9.0%	-8.9%
Admin exp.	(377)	(433)	(438)	(470)	(431)	-1.5%	-8.3%
Operating profit	668	446	305	351	244	-19.8%	-30.3%
Net profit	343	178	39	101	43	9.2%	-57.9%
Gross margin	10.5%	7.4%	7.1%	7.4%	7.4%	0.3 ppt	0.0 ppt
Operating margin	5.3%	2.8%	2.2%	2.4%	2.0%	-0.1 ppt	-0.4 ppt
Net margin	2.7%	1.1%	0.3%	0.7%	0.4%	0.1 ppt	-0.3 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	24,141	24,791	24,917	26,187	25,517	N/A	-7.8%	-2.8%	N/A
Gross profit	1,877	2,055	2,418	2,185	2,496	N/A	-14.1%	-17.7%	N/A
Operating profit	565	676	1,044	846	1,210	N/A	-33.3%	-44.2%	N/A
Net profit	168	360	609	357	711	N/A	-52.9%	-49.4%	N/A
Gross margin	7.8%	8.3%	9.7%	8.3%	9.8%	N/A	-0.6 ppts	-1.5 ppts	N/A
Operating margin	2.3%	2.7%	4.2%	3.2%	4.7%	N/A	-0.9 ppts	-2.0 ppts	N/A
Net margin	0.7%	1.5%	2.4%	1.4%	2.8%	N/A	-0.7 ppts	-1.3 ppts	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	24,141	24,791	24,917	27,393	27,180	27,759	-11.9%	-8.8%	-10.2%
Gross profit	1,877	2,055	2,418	2,244	2,516	2,634	-16.3%	-18.3%	-8.2%
Operating profit	565	676	1,044	876	1,107	1,437	-35.6%	-38.9%	-27.4%
Net profit	168	360	609	284	562	491	-40.7%	-35.9%	24.0%
Gross margin	7.8%	8.3%	9.7%	8.2%	9.3%	9.5%	-0.4 ppts	-1.0 ppts	0.2 ppts
Operating margin	2.3%	2.7%	4.2%	3.2%	4.1%	5.2%	-0.9 ppts	-1.3 ppts	-1.0 ppts
Net margin	0.7%	1.5%	2.4%	1.0%	2.1%	1.8%	-0.3 ppts	-0.6 ppts	0.7 ppts

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	23,577	28,655	28,555	24,141	24,791	24,917
Cost of goods sold	(20,806)	(26,137)	(26,477)	(22,264)	(22,736)	(22,499)
Gross profit	2,771	2,517	2,078	1,877	2,055	2,418
Operating expenses	(1,073)	(1,404)	(1,423)	(1,313)	(1,379)	(1,374)
Selling expense	(741)	(860)	(764)	(726)	(745)	(767)
Admin expense	(578)	(811)	(908)	(861)	(881)	(858)
Others	247	267	249	274	247	250
Operating profit	1,698	1,114	655	565	676	1,044
Share of (losses)/profits of associates/JV	48	25	20	19	17	17
EBITDA	2,033	1,629	1,253	1,160	1,272	1,640
Depreciation	161	225	251	252	254	257
Depreciation of ROU assets	108	134	144	144	144	141
Other amortisation	19	132	182	181	181	181
EBIT	1,746	1,139	676	583	693	1,061
Interest expense	(133)	(275)	(291)	(247)	(148)	(135)
Pre-tax profit	1,613	864	384	336	545	925
Income tax	(399)	(308)	(229)	(151)	(145)	(247)
After tax profit	1,213	556	156	185	400	679
Minority interest	(48)	(35)	(16)	(17)	(40)	(70)
Net profit	1,166	521	140	168	360	609
Gross dividends	1,053	261	56	84	216	365

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	5,563	5,888	6,373	5,679	4,580	5,342
Cash & equivalents	2,622	1,636	2,362	2,124	1,274	2,099
Account receivables	1,817	1,560	1,518	1,323	1,358	1,365
Inventories	355	1,069	960	732	747	678
ST bank deposits	769	1,623	1,533	1,500	1,200	1,200
Non-current assets	4,240	8,351	7,848	7,359	6,789	6,263
PP&E	1,381	1,843	1,708	1,546	1,372	1,195
Right-of-use assets	1,569	1,785	1,661	1,545	1,364	1,194
Deferred income tax	80	127	133	133	133	133
Investment in JVs & assos	62	39	36	36	38	40
Intangibles	546	3,477	3,277	3,096	2,915	2,733
Goodwill	179	1,005	961	921	881	881
Other non-current assets	422	75	71	81	86	86
Total assets	9,803	14,239	14,220	13,038	11,369	11,605
Current liabilities	4,089	4,874	4,447	5,341	3,562	3,521
Short-term borrowings	989	1,414	1,245	800	800	800
Account payables	2,788	3,193	2,907	2,562	2,492	2,466
Tax payable	180	102	125	125	125	125
Other current liabilities	0	0	0	1,695	0	0
Lease liabilities	132	165	170	160	145	130
Non-current liabilities	1,597	4,932	4,487	2,290	2,133	2,022
Long-term borrowings	299	493	200	250	200	200
Bond payables	0	2,275	2,207	0	0	0
Other non-current liabilities	1,297	2,164	2,081	2,040	1,933	1,822
Total liabilities	5,686	9,806	8,934	7,631	5,695	5,543
Share capital	100	102	108	108	108	108
Other reserves	3,847	4,173	5,044	5,160	5,415	5,782
Total shareholders equity	3,947	4,275	5,152	5,268	5,523	5,890
Minority interest	170	159	134	139	151	172
Total equity and liabilities	9,803	14,239	14,220	13,038	11,369	11,605

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,613	864	384	336	545	925
Depreciation & amortization	287	490	577	577	579	580
Tax paid	(378)	(472)	(218)	(151)	(145)	(247)
Change in working capital	276	67	(139)	101	169	28
Others	13	205	212	150	92	41
Net cash from operations	1,812	1,154	817	1,013	1,240	1,327
Investing						
Capital expenditure	(363)	(283)	(348)	(320)	(310)	(280)
Acquisition of subsidiaries/ investments	(1,232)	(2,732)	0	0	0	0
Others	213	(468)	505	387	349	321
Net cash from investing	(1,382)	(3,483)	157	67	39	41
Financing						
Dividend paid	(475)	(1,027)	(212)	(84)	(156)	(315)
Net borrowings	317	(239)	(657)	(995)	(1,749)	0
Proceeds from share issues	0	629	871	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(160)	1,966	(253)	(238)	(224)	(230)
Net cash from financing	(317)	1,328	(250)	(1,318)	(2,128)	(544)
Net change in cash						
Cash at the beginning of the year	2,538	2,622	1,636	2,362	2,124	1,274
Exchange difference	(29)	16	3	0	0	0
Cash at the end of the year	2,622	1,636	2,362	2,124	1,274	2,099
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	16.7%	21.5%	(0.3%)	(15.5%)	2.7%	0.5%
Gross profit	36.1%	(9.1%)	(17.5%)	(9.7%)	9.5%	17.7%
Operating profit	48.2%	(34.4%)	(41.2%)	(13.8%)	19.7%	54.4%
EBITDA	43.4%	(19.9%)	(23.1%)	(7.4%)	9.6%	28.9%
EBIT	46.8%	(34.8%)	(40.7%)	(13.7%)	18.8%	53.1%
Net profit	55.3%	(55.3%)	(73.1%)	19.9%	114.1%	69.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	11.8%	8.8%	7.3%	7.8%	8.3%	9.7%
Operating margin	7.2%	3.9%	2.3%	2.3%	2.7%	4.2%
EBITDA margin	8.6%	5.7%	4.4%	4.8%	5.1%	6.6%
Return on equity (ROE)	32.5%	12.7%	3.0%	3.2%	6.7%	10.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	0.3	0.0	(0.4)	(0.2)	(0.3)
Current ratio (x)	1.4	1.2	1.4	1.1	1.3	1.5
Receivable turnover days	28.1	19.9	19.4	20.0	20.0	20.0
Inventory turnover days	6.2	14.9	13.2	12.0	12.0	11.0
Payable turnover days	48.9	44.6	40.1	42.0	40.0	40.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	2.1	4.9	19.0	15.9	7.4	4.4
P/E (diluted)	2.2	4.9	19.1	16.0	7.5	4.4
P/B	0.6	0.6	0.5	0.5	0.5	0.5
P/CFPS	1.4	2.2	3.3	2.6	2.2	2.0
Div yield (%)	42.5	10.3	2.1	3.1	8.1	13.6

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

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