

Meidong Auto (1268 HK)

2H24 earnings preview: Stable operating profit with rising impairment risk

Maintain BUY. We project Meidong's 2H24E core earnings to be largely stable HoH, as profit improvement from BMW and Lexus may be offset by Porsche. We believe the impairment risks have been rising more significantly in 2H24E given Porsche's worsening profit. On the other hand, lower amortization burden could lift its earnings in the future, should the company book a large impairment loss on intangible assets in 2H24E. That, along with Meidong's convertible bond redemption in Jan 2025 and our slightly more positive views on Porsche in FY25E, has made us raise Meidong's FY25E net profit by 7%.

■ **Profits from BMW and Lexus stores are likely to improve HoH in 2H24E.** We project Meidong's BMW new-car gross margin to improve by 1 ppt HoH in 2H24E amid lower sales volume (-3% HoH on our estimates) and higher rebates from the OEM in 4Q24. We also estimate Meidong's Lexus new-car gross margin to improve by 2.1ppts HoH in 2H24E, which could make Lexus stores the largest profit contributor at Meidong in FY24E, based on our estimates.

■ **Porsche's worsening profit in 2H24E may increase impairment risks.** We project Meidong's Porsche sales volume to rise 9% HoH to about 4,500 units in 2H24E with new-car gross margin narrowing by 2ppts. We estimate that profit improvement from BMW and Lexus in 2H24E could be offset by Porsche at Meidong. Moreover, we are of the view that Porsche stores' deteriorating profits in the past four reporting periods could increase the impairment risks of goodwill and intangible assets from the StarChase acquisition, especially as small but increasing amounts of impairment losses were already booked in FY23 and 1H24. We project an impairment loss of RMB1.3bn in FY24E (or RMB1.15bn in 2H24E) for Meidong.

■ **We expect 2H24E net profit excluding impairment to be still in positive territory and FY24E free cash flow to be stable YoY.** We project Meidong's new-car revenue to rise 6% HoH in 2H24E, driven by sales volume growth of 12% HoH. We expect its 2H24E overall gross margin to narrow by 0.5ppts to 7.1%, which would result in a gross profit of RMB792mn (-2% HoH) in 2H24E. We project Meidong's 2H24E net loss of RMB1.1bn and a net profit excluding impairment of RMB70mn. On the other hand, we estimate Meidong's free cash flow to be RMB458mn in FY24E, a similar level as FY23, aided by its operational efficiency. Therefore, we project a net cash of about RMB586mn at Meidong as of the end of FY24E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	28,655	28,555	21,859	20,968	21,028
YoY growth (%)	21.5	(0.3)	(23.4)	(4.1)	0.3
Net profit (RMB mn)	521.0	140.2	(1,105.4)	407.7	588.9
YoY growth (%)	(55.3)	(73.1)	na	na	44.4
EPS (Reported) (RMB)	0.41	0.10	(0.82)	0.30	0.44
P/E (x)	5.0	19.5	ns	6.7	4.7
P/B (x)	0.6	0.5	0.7	0.6	0.5
Yield (%)	10.1	2.1	ns	7.4	17.2
ROE (%)	12.7	3.0	(24.1)	9.2	11.8
Net gearing (%)	26.5	0.9	(44.3)	(35.2)	(46.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$2.80
Up/Downside 28.4%
Current Price HK\$2.18

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Stock Data

Mkt Cap (HK\$ mn)	2,934.8
Avg 3 mths t/o (HK\$ mn)	8.3
52w High/Low (HK\$)	3.36/1.64
Total Issued Shares (mn)	1346.2

Source: FactSet

Shareholding Structure

Apex Sail Limited	52.3%
Others	47.7%

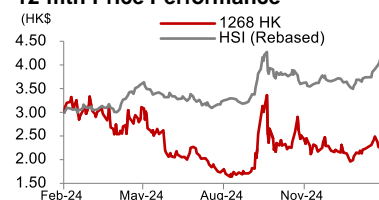
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.4%	-10.7%
3-mth	-13.1%	-25.4%
6-mth	23.9%	-4.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **FY25E outlook: Lower non-operating burden with Porsche likely bottoming out.** With recent management changes, we expect Porsche to adjust its volume and pricing strategies in 2025 to cope with its challenges in China. That could benefit its dealers' profitability, in our view, which could be more crucial for Meidong than other dealers. Meidong also redeemed its previous convertible bonds in Jan 2025, which could cut its interest expense by about RMB100mn YoY in FY25E, based on our estimates. These, along with the possible significant impairment of intangible assets to make future amortization lower, could lift Meidong's earnings in FY25E.

We revise up Meidong's FY25E net profit by 7% to RMB408mn, mainly due to our larger impairment projection in FY24E and slightly more positive views on Porsche dealers' profitability in China.

- **Valuation/Risks.** We maintain our BUY rating and target price of HK\$2.80, still based on 9x (unchanged) our revised FY25E EPS. As noted in our [2025 auto sector outlook](#) report, we believe that the challenges that Chinese dealers face now are unlikely to be significantly larger in the foreseeable future, although such headwinds may linger. Key risks to our rating and target price include lower sales and/or new-car margins than we expect and a sector de-rating.

Figure 1: Interim results

RMB mn	1H22	2H22	1H23	2H23	1H24	2H24E	YoY	HoH
New-car sales volume (units)	29,658	38,213	31,589	34,781	26,176	29,175	-16.1%	11.5%
Total revenue	12,658	15,996	14,089	14,466	10,656	11,203	-22.6%	5.1%
Gross profit	1,334	1,183	1,001	1,077	806	792	-26.4%	-1.8%
Selling exp.	(398)	(462)	(382)	(382)	(295)	(310)	-18.8%	4.9%
Admin exp.	(377)	(433)	(401)	(446)	(324)	(363)	-18.7%	11.8%
Operating profit	668	446	305	351	141	(908)	N/A	N/A
Net profit	343	178	39	101	(27)	(1,078)	N/A	N/A
Gross margin	10.5%	7.4%	7.1%	7.4%	7.6%	7.1%	-0.4 pts	-0.5 pts
Operating margin	5.3%	2.8%	2.2%	2.4%	1.3%	-8.1%	-10.5 pts	-9.4 pts
Net margin	2.7%	1.1%	0.3%	0.7%	-0.3%	-9.6%	-10.3 pts	-9.4 pts

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	FY24E	New FY25E	FY26E	FY24E	Old FY25E	FY26E	FY24E	Diff (%) FY25E	FY26E
Revenue	21,859	20,968	21,028	22,691	21,674	21,611	-3.7%	-3.3%	-2.7%
Gross profit	1,599	1,745	2,023	1,782	1,874	2,193	-10.3%	-6.9%	-7.7%
Operating profit	(766)	729	998	497	712	1,077	-254.2%	2.4%	-7.3%
Net profit	(1,105)	408	589	122	382	629	-1006.1%	6.7%	-6.4%
Gross margin	7.3%	8.3%	9.6%	7.9%	8.6%	10.1%	-0.5 pts	-0.3 pts	-0.5 pts
Operating margin	-3.5%	3.5%	4.7%	2.2%	3.3%	5.0%	-5.7 pts	0.2 pts	-0.2 pts
Net margin	-5.1%	1.9%	2.8%	0.5%	1.8%	2.9%	-5.6 pts	0.2 pts	-0.1 pts

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	FY24E	CMBIGM FY25E	FY26E	FY24E	Consensus FY25E	FY26E	FY24E	Diff (%) FY25E	FY26E
Revenue	21,859	20,968	21,028	22,485	21,311	21,223	-2.8%	-1.6%	-0.9%
Gross profit	1,599	1,745	2,023	1,636	1,861	2,072	-2.3%	-6.2%	-2.3%
Operating profit	(766)	729	998	511	807	1,043	-250.1%	-9.6%	-4.2%
Net profit	(1,105)	408	589	78	310	444	-1526.4%	31.7%	32.7%
Gross margin	7.3%	8.3%	9.6%	7.3%	8.7%	9.8%	0.0 pts	-0.4 pts	-0.1 pts
Operating margin	-3.5%	3.5%	4.7%	2.3%	3.8%	4.9%	-5.8 pts	-0.3 pts	-0.2 pts
Net margin	-5.1%	1.9%	2.8%	0.3%	1.5%	2.1%	-5.4 pts	0.5 pts	0.7 pts

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	21,859	20,968	21,028
Cost of goods sold	(20,806)	(26,137)	(26,477)	(20,261)	(19,223)	(19,005)
Gross profit	2,771	2,517	2,078	1,599	1,745	2,023
Operating expenses	(1,073)	(1,404)	(1,361)	(1,065)	(1,016)	(1,025)
Selling expense	(741)	(860)	(764)	(605)	(595)	(598)
Admin expense	(578)	(811)	(847)	(687)	(637)	(644)
Others	247	267	249	227	216	217
Operating profit	1,698	1,114	717	534	729	998
Share of (losses)/profits of associates/JV	48	25	20	20	18	18
EBITDA	2,033	1,629	1,253	(185)	1,254	1,523
Depreciation	161	225	251	240	237	238
Depreciation of ROU assets	108	134	144	141	139	138
Other amortisation	19	132	182	180	130	130
EBIT	1,746	1,139	676	(746)	748	1,017
Interest expense	(133)	(275)	(291)	(252)	(149)	(138)
Pre-tax profit	1,613	864	384	(998)	598	879
Income tax	(399)	(308)	(229)	(97)	(151)	(220)
After tax profit	1,213	556	156	(1,095)	448	659
Minority interest	(48)	(35)	(16)	(10)	(40)	(70)
Net profit	1,166	521	140	(1,105)	408	589
Gross dividends	1,053	261	56	(442)	204	471

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	5,563	5,888	6,373	5,616	5,037	5,696
Cash & equivalents	2,622	1,636	2,362	2,030	1,898	2,563
Account receivables	1,817	1,560	1,518	1,198	1,149	1,152
Inventories	355	1,069	960	888	790	781
ST bank deposits	769	1,623	1,533	1,500	1,200	1,200
Non-current assets	4,240	8,351	7,848	5,910	5,437	4,984
PP&E	1,381	1,843	1,708	1,418	1,201	1,053
Right-of-use assets	1,569	1,785	1,661	1,470	1,338	1,161
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	2,097	1,966	1,836
Goodwill	179	1,005	961	661	661	661
Other non-current assets	422	75	71	94	99	99
Total assets	9,803	14,239	14,220	11,526	10,474	10,680
Current liabilities	4,089	4,874	4,447	5,136	3,376	3,339
Short-term borrowings	989	1,414	1,245	1,000	1,000	1,000
Account payables	2,788	3,193	2,907	2,165	2,107	2,083
Tax payable	180	102	125	125	125	125
Other current liabilities	0	0	0	1,695	0	0
Lease liabilities	132	165	170	152	144	131
Non-current liabilities	1,597	4,932	4,487	2,230	2,125	2,031
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	1,981	1,925	1,831
Total liabilities	5,686	9,806	8,934	7,367	5,501	5,370
Share capital	100	102	108	108	108	108
Other reserves	3,847	4,173	5,044	3,914	4,716	5,032
Total shareholders equity	3,947	4,275	5,152	4,022	4,824	5,140
Minority interest	170	159	134	137	149	170
Total equity and liabilities	9,803	14,239	14,220	11,526	10,474	10,680

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,613	864	384	(998)	598	879
Depreciation & amortization	287	490	577	561	507	506
Tax paid	(378)	(472)	(218)	(97)	(151)	(220)
Change in working capital	276	67	(139)	(328)	378	(28)
Others	13	205	212	1,430	63	49
Net cash from operations	1,812	1,154	817	568	1,397	1,186
Investing						
Capital expenditure	(363)	(283)	(348)	(120)	(160)	(200)
Acquisition of subsidiaries/ investments	(1,232)	(2,732)	0	13	0	0
Others	213	(468)	505	287	249	227
Net cash from investing	(1,382)	(3,483)	157	180	89	27
Financing						
Dividend paid	(475)	(1,027)	(212)	(51)	346	(342)
Net borrowings	317	(239)	(657)	(795)	(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)	(233)	(216)	(206)
Net cash from financing	(317)	1,328	(250)	(1,079)	(1,619)	(548)
Net change in cash						
Cash at the beginning of the year	2,538	2,622	1,636	2,362	2,030	1,898
Exchange difference	(29)	16	3	0	0	0
Cash at the end of the year	2,622	1,636	2,362	2,030	1,898	2,563
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	16.7%	21.5%	(0.3%)	(23.4%)	(4.1%)	0.3%
Gross profit	36.1%	(9.1%)	(17.5%)	(23.1%)	9.2%	15.9%
Operating profit	48.2%	(34.4%)	(35.6%)	(25.6%)	36.7%	36.9%
EBITDA	43.4%	(19.9%)	(23.1%)	na	na	21.4%
EBIT	46.8%	(34.8%)	(40.7%)	na	na	36.0%
Net profit	55.3%	(55.3%)	(73.1%)	na	na	44.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	11.8%	8.8%	7.3%	7.3%	8.3%	9.6%
Operating margin	7.2%	3.9%	2.5%	2.4%	3.5%	4.7%
EBITDA margin	8.6%	5.7%	4.4%	(0.8%)	6.0%	7.2%
Return on equity (ROE)	32.5%	12.7%	3.0%	(24.1%)	9.2%	11.8%
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)	(0.4)	(0.5)
Current ratio (x)	1.4	1.2	1.4	1.1	1.5	1.7
Receivable turnover days	28.1	19.9	19.4	20.0	20.0	20.0
Inventory turnover days	6.2	14.9	13.2	16.0	15.0	15.0
Payable turnover days	48.9	44.6	40.1	39.0	40.0	40.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	2.2	5.0	19.5	ns	6.7	4.7
P/E (diluted)	2.2	5.0	19.5	ns	6.7	4.7
P/B	0.6	0.6	0.5	0.7	0.6	0.5
P/CFPS	1.4	2.2	3.3	4.8	2.0	2.3
Div yield (%)	41.5	10.1	2.1	ns	7.4	17.2

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

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