

MeiDong Auto (1268 HK)

Deserve a valuation premium

MeiDong released its FY20 results. Top-line was RMB20.2bn, up 25%YoY. Among that, revenue from new car sales was RMB18bn, up 25% YoY while revenue from after-sales service was RMB2.3bn, up 23% YoY. NP increased 36% YoY to RMB751mn (vs CMBI forecast RMB736mn). Thanks to the recovery of China's overall auto market after COVID-19, the Company's NP rose 43%YoY to RMB450mn in 2H20. The Company declared a full-year dividend of RMB0.39 per share (including interim dividend), representing a 64% payout ratio, higher than its historical level.

- **Keep expanding while maintaining high efficiency.** The number of stores increased to 63 in 2020 from 58 in 2019. The Company continues to expand its presence in luxury brands, adding 1 Porsche/2 BMW/2 Lexus in 2020. The proportion of luxury brands in terms of revenue from new car sales/after-sale new increased to 84.0%/83.8% respectively in 2020. MeiDong's operating efficiency continues to improve together with store expansion. Inventory turnover days dropped to a historical low of 9 days in 2020 from 17 days in 2019. Operating cash flow increased significantly to RMB1.45bn while the Company continues to maintain a net cash position.
- **MeiDong set up a new M&A team in 2020 to normalize small/medium-sized M&A business.** MeiDong will focus on its M&A on 1) familiar mainstream luxury brands; 2) familiar locations; 3) reasonable valuation - expected payback period to be less than six years. We expect the setup of the M&A dept will 1) significantly expand the M&A target pool; 2) improve the quality of the pipeline project; 3) and enhance the predictability for M&A. The Company has completed 100% equity acquisition of one Lexus in Nanjing and one BMW in Guangan (single store single city) in 2021.
- **MeiDong launched the CRR pilot project in Aug 2020 and expanded to 60 stores by Mar 2021.** Preliminary data show that 1) the return rate of customers' second visit increased by 5%-15%; 2) customer active contact rate increased to 30% from 10%; and 3) service reservation rate increased to 60% from 45%. We expect that the CRR project will increase customer stickiness by improving customer satisfaction, therefore reducing the losing rate of after-sales service.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	11,067	16,210	20,207	25,941	32,153
YoY growth (%)	44%	46%	25%	28%	24%
Net income (RMB mn)	363	551	751	1,028	1,269
EPS (RMB)	0.32	0.48	0.62	0.85	1.05
YoY growth (%)	25%	51%	30%	37%	23%
Consensus EPS(RMB)	na	na	0.61	0.92	1.27
P/E (x)	98.7	65.3	50.1	36.6	29.7
P/B (x)	26.0	21.0	11.7	9.8	8.2
Yield (%)	0%	1%	1%	2%	2%
ROE (%)	30%	36%	30%	29%	30%
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$46.2
(Previous TP	HK\$33.7)
Up/Downside	+22.9%
Current Price	HK\$37.6

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	46,732
Avg 3 mths t/o (HK\$ mn)	142.30
52w High/Low (HK\$)	38.65/11.82
Total Issued Shares (mn)	1,245

Source: Bloomberg

Shareholding Structure

YE Fan/HU Huanran	56.51%
Krige Dawid	5.40%

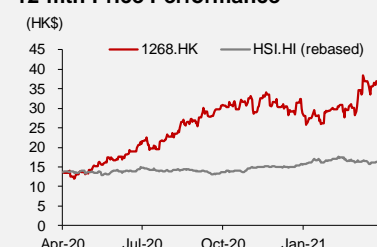
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	24.8%	26.6%
3-mth	30.2%	25.0%
6-mth	22.7%	3.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

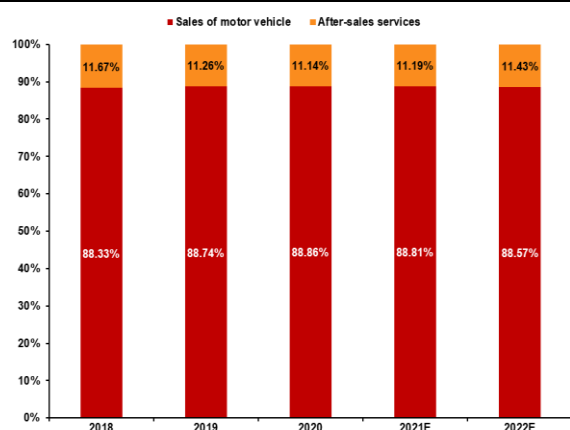
Related Reports

1. "Meidong Auto (1268 HK) – High future growth underpins the valuation – 21 Aug 2020
2. "Meidong Auto (1268 HK) – High growth together with great efficiency" – 31 Mar 2020
3. "Meidong Auto (1268 HK) – The fastest growing dealer with the best ROE" – 11 Dec 2019

- **We barely adjust our 2021E forecast.** We believe MeiDong will have 1) higher GPM forecast assumption and 2) higher operating efficiency as new store gradually matured. We believe the rapid growth rate and high efficiency deserve a higher valuation premium for MeiDong. We take 45x 2021E P/E and raise our TP to HK\$46.2 with an upside of 22.1% from initial TP HK\$33.7 (based on initial 34x 2021E P/E). Reiterate BUY.

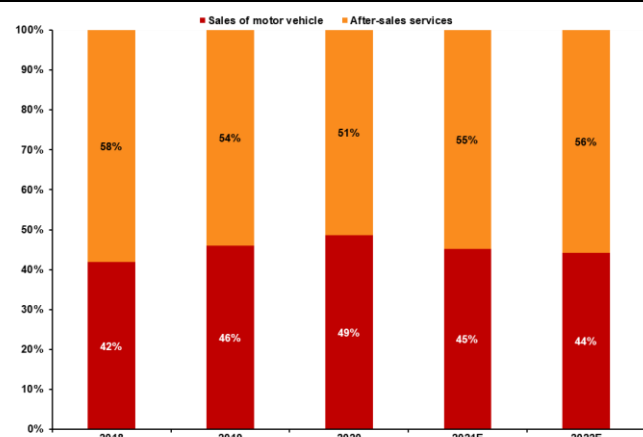
Focus Charts

Figure 1: Revenue composition



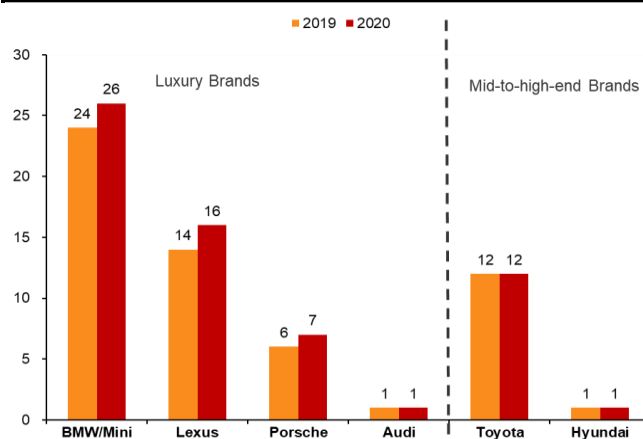
Source: Company data, CMBIS estimates

Figure 2: GP composition



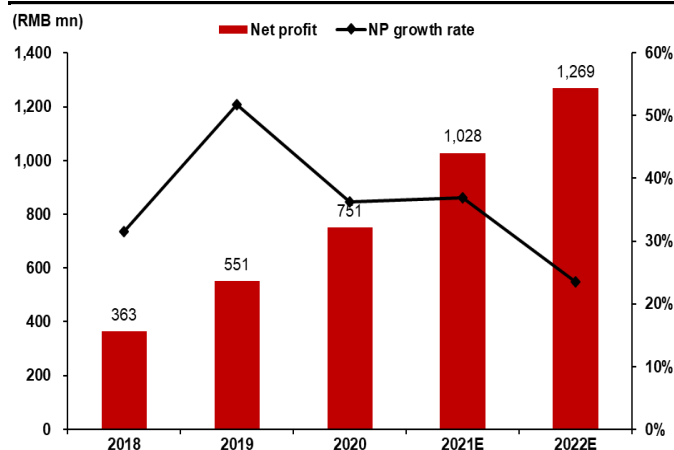
Source: Company data, CMBIS estimates

Figure 3: Brands mix of MeiDong



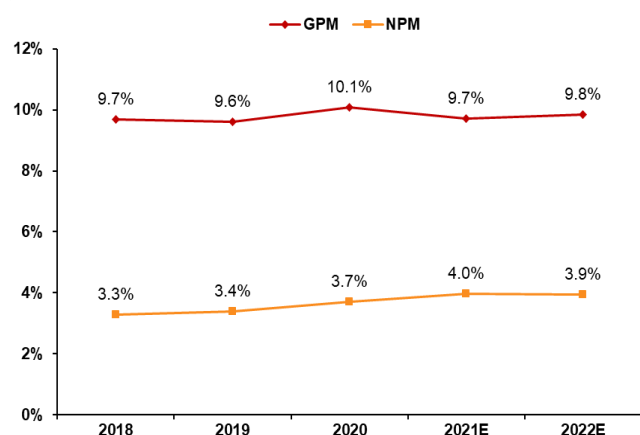
Source: Company data, CMBIS

Figure 4: Bottom-line forecast



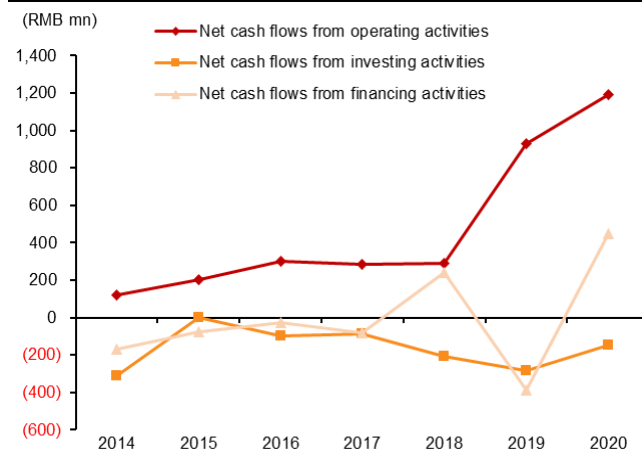
Source: Company data, CMBIS estimates

Figure 5: Profitability forecast



Source: Company data, CMBIS estimates

Figure 6: Strong cash flow



Source: Company data, CMBIS

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	25,941	32,153	28,522	36,659	-9%	-12%
Gross profit	2,518	3,163	2,866	3,715	-12%	-15%
Net profit	1,028	1,269	1,033	1,313	-1%	-3%
EPS (RMB)	0.85	1.05	0.88	1.12	-4%	-6%
Gross margin	9.71%	9.84%	10.05%	10.13%	-0.3 ppt	-0.3 ppt
Net Margin	3.96%	3.95%	3.62%	3.58%	0.3 ppt	0.4 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	25,941	32,153	26,740	34,542	-3%	-7%
Gross profit	2,518	3,163	2,732	3,691	-8%	-14%
Net profit	1,028	1,269	1,133	1,563	-9%	-19%
EPS (RMB)	0.85	1.05	0.92	1.27	-7%	-17%
Gross margin	9.71%	9.84%	10.22%	10.68%	-0.5 ppt	-0.8 ppt
Net Margin	3.96%	3.95%	4.24%	4.53%	-0.3 ppt	-0.6 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales of motor vehicle	9,775	14,384	17,956	23,039	28,479
...YoY	44%	47%	25%	28%	24%
Luxury and ultra-luxury brands	7,437	11,693	15,081	19,807	24,846
...YoY	55%	57%	29%	31%	25%
Mid- to high-end brands	2,338	2,691	2,875	3,232	3,633
...YoY	17%	15%	7%	12%	12%
After-sales services	1,292	1,826	2,251	2,903	3,674
...YoY	43%	41%	23%	29%	27%
Total	11,067	16,210	20,207	25,941	32,153
...YoY	44%	46%	25%	28%	24%

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

(RMB mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	11,067	16,210	20,207	25,941	32,153
...YoY	44.05%	46.47%	24.66%	28.38%	23.94%
Cost of sales	(9,994)	(14,652)	(18,172)	(23,423)	(28,989)
Gross profit	1,073	1,558	2,035	2,518	3,163
GPM (%)	9.70%	9.61%	10.07%	9.71%	9.84%
...YoY	31.02%	45.82%	30.03%	24.07%	25.62%
Selling Exp	(391)	(493)	(546)	(713)	(900)
...% of rev	-3.53%	-3.04%	-2.70%	-2.75%	-2.80%
Admin Exp	(313)	(382)	(439)	(558)	(707)
...% of rev	-2.83%	-2.36%	-2.17%	-2.15%	-2.20%
Net profit	363	551	751	1,028	1,269
NPM (%)	3.28%	3.40%	3.71%	3.96%	3.95%
...YoY	31.52%	51.79%	36.22%	36.92%	23.45%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	11,067	16,210	20,207	25,941	32,153
Sales of motor vehicle	9,775	14,384	17,956	23,039	28,479
After-sales services	1,292	1,826	2,251	2,903	3,674
Cost of sales	(9,994)	(14,652)	(18,172)	(23,423)	(28,989)
Gross profit	1,073	1,558	2,035	2,518	3,163
S&D expenses	(391)	(493)	(546)	(713)	(900)
Admin expenses	(313)	(382)	(439)	(558)	(707)
Credit/asset impairment	0	0	0	0	0
Other income	154	154	96	261	312
Other expenses	0	0	0	0	0
Finance expenses	(63)	(123)	(137)	(127)	(155)
PL from JVs	31	44	43	57	62
PL from Associates	0	0	0	0	0
Profit before income tax	491	757	1,052	1,438	1,775
Income tax expense	(128)	(200)	(282)	(384)	(474)
Profit for the year	363	558	771	1,054	1,301
Less: MI	1	7	20	26	33
Net Profit	363	551	751	1,028	1,269

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Net income	363	551	751	1,028	1,269
D&A	67	63	85	123	160
Change in working	(1,043)	(1,380)	(722)	(1,618)	2,888
Others	901	1,697	778	2,632	(2,233)
Net cash from	288	931	892	2,165	2,083
Capex & investments	(385)	(390)	(569)	(794)	(1,008)
Associated companies	19	-	-	-	-
Others	158	107	-	-	-
Net cash from	(208)	(283)	(569)	(794)	(1,008)
Equity raised	96	9	1,150	-	-
Change of Debts	356	(62)	(160)	(115)	200
Dividend paid	(149)	(145)	(303)	(480)	(637)
Others	(61)	(191)	-	-	-
Net cash from	242	(390)	687	(596)	(437)
Net change in cash	322	258	1,011	775	638
Cash at the beginning	811	1,284	2,086	3,097	3,872
Exchange difference	151	544	-	-	-
Cash at the end	1,284	2,086	3,097	3,872	4,510
Less: pledged cash	417	962	559	962	962

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	1,163	2,139	2,661	3,325	4,176
Fixed asset	858	1,035	1,120	1,599	2,031
Intangible assets	69	65	61	266	407
Interest in JV/associate	44	55	56	76	83
Other non-current assets	192	984	1,423	1,385	1,654
Current assets	3,012	3,786	5,110	6,214	7,409
Cash	1,284	2,086	3,097	3,872	4,510
Account receivable	889	1,159	1,518	1,673	2,071
Inventory	839	541	495	669	828
Other current assets	-	-	-	-	-
Current liabilities	2,616	3,180	3,061	4,156	5,138
Borrowings	1,029	871	729	529	656
Account payables	1,550	2,132	2,082	3,346	4,141
Other payables	0	85	122	147	195
Tax payables	37	92	128	159	195
Non-current liabilities	159	975	1,365	1,413	1,713
Borrowings	144	240	222	307	381
Provisions	-	-	-	-	-
Deferred income tax	15	9	7	46	57
Others	-	726	1,136	1,059	1,275
Shareholders' equity	1,379	1,711	3,227	3,836	4,580
Minority Interest	21	58	118	134	154
Total net assets	1,400	1,770	3,345	3,970	4,734

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Sales of motor vehicle	88%	89%	89%	89%	89%
After-sales services	12%	11%	11%	11%	11%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross profit margin	10%	10%	10%	10%	10%
Pre-tax margin	4%	5%	5%	6%	6%
Net margin	3%	3%	4%	4%	4%
Effective tax rate	26%	26%	27%	27%	27%
Balance sheet ratios					
Current ratio (x)	1.15	1.19	1.67	1.50	1.44
Quick ratio (x)	0.83	1.02	1.51	1.33	1.28
Cash ratio (x)	0.49	0.66	1.01	0.93	0.88
Inventory days	31	13	10	10	10
AP days	57	53	42	52	52
AR days	29	26	27	26	26
Total debt / total equity	84%	104%	62%	48%	49%
Net debt / equity ratio	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	30%	36%	30%	29%	30%
ROA	15%	17%	17%	18%	18%
Per share					
EPS (RMB)	0.32	0.48	0.62	0.85	1.05
DPS (RMB)	0.13	0.26	0.39	0.53	0.65
BVPS (RMB)	1.20	1.48	2.67	3.18	3.79

Source: Company data, CMBIS estimates

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