

# Meidong Auto (1268 HK)

## High inventory turnover strategy still working now

**Maintain BUY.** Meidong's 2H24 result was a mixed bag with many moving parts including impairment, deferred tax changes, and forex loss. After-sales revenue growth, SG&A expense control and free cash flow growth are the bright spots amid a largely in-line core profit. We revise up our FY25E net profit forecast by 21% to RMB494mn despite a new-car GPM miss in 2H24. We are of the view that high inventory turnover could still play an important role when car prices keep going down, which could be overlooked by some investors.

■ **2H24 after-sales revenue beat, new-car GPM miss, core profit largely in line.** Meidong's 2H24 revenue beat our prior forecast by 3%, as after-sales revenue was 11% higher than our estimates. 2H24 gross margin was 0.5ppts lower than our forecast, as new-car GPM (-7.2%) missed our projection by 2.2ppts. Impairment losses on intangible assets and goodwill were about RMB1.6bn higher than our forecast, although we had already expected a rising impairment loss. Profit before tax excl. impairment and forex loss in 2H24 was RMB119mn, or RMB14mn lower than our forecast.

■ **The importance of high inventory turnover could be overlooked.** We attribute Meidong's positive core net profit in FY24 partially to its high inventory turnover (13 days), which could be overlooked by many investors. Although subsidies from automakers play a crucial role in determining dealers' new-car GPM in the high discount environment now, dealers with higher inventory turnover can not only survive longer with better cash flow, but also generate higher GPMs than those which sell car at a slower pace, as car prices keep going down.

■ **FY25E outlook.** We revise up our FY25E net profit forecast by 21% to RMB494mn by taking the following factors into account: 1) we raise FY25E after-sales revenue by 8%, following a beat in FY24. 2) We cut FY25E new-car GPM from -4.2% to -5.6%. These two factors combined still result in a higher gross profit of 2% compared to before, as high-margin after-sales service accounts for a larger portion of revenue. 3) We lower our FY25E SG&A expenses forecast by 6% due to lower amortization from larger impairment loss on intangible assets in FY24 and better cost control than expected in FY24.

■ **Valuation/Key risks.** We maintain our BUY rating and raise target price from HK\$2.80 to HK\$3.20, based on 8x (prior 9x) our revised FY25E EPS to reflect lingering challenges from traditional luxury brands. Key risks to our rating and target price include lower sales and/or new-car margins than we expect and a sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue (RMB mn)	28,655	28,555	22,154	20,406	20,510
YoY growth (%)	21.5	(0.3)	(22.4)	(7.9)	0.5
Net profit (RMB mn)	521.0	140.2	(2,264.1)	494.2	615.5
YoY growth (%)	(55.3)	(73.1)	na	na	24.5
EPS (Reported) (RMB)	0.41	0.10	(1.68)	0.37	0.46
P/E (x)	5.9	23.0	ns	6.5	5.3
P/B (x)	0.7	0.6	1.1	1.0	0.9
Yield (%)	8.5	1.7	1.9	7.6	15.2
ROE (%)	12.7	3.0	(56.5)	16.2	18.2
Net gearing (%)	26.5	0.9	(103.0)	(69.0)	(80.4)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$3.20**  
(Previous TP) HK\$2.80  
**Up/Downside** **24.5%**  
**Current Price** **HK\$2.57**

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### Stock Data

Mkt Cap (HK\$ mn)	3,459.9
Avg 3 mths t/o (HK\$ mn)	12.1
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%

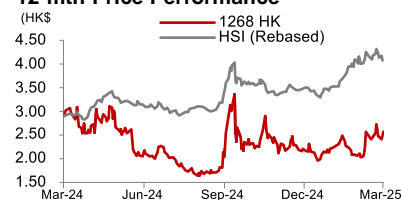
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	25.4%	27.0%
3-mth	16.3%	-0.5%
6-mth	15.8%	-1.8%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Report

["Meidong Auto \(1268 HK\) - 2H24 earnings preview: Stable operating profit with rising impairment risk" - 17 Feb 2025](#)

**Figure 1: Interim results**

RMB mn	1H22	2H22	1H23	2H23	1H24	2H24	YoY	HoH
New-car sales volume (units)	29,658	38,213	31,589	34,781	26,176	30,754	-11.6%	17.5%
Total revenue	12,658	15,996	14,089	14,466	10,656	11,498	-20.5%	7.9%
Gross profit	1,334	1,183	1,001	1,077	806	755	-29.9%	-6.4%
Selling exp.	(398)	(462)	(382)	(382)	(295)	(289)	-24.2%	-2.1%
Admin exp.	(377)	(433)	(401)	(446)	(324)	(338)	-24.3%	4.1%
Operating profit	668	446	305	351	141	(2,554)	N/A	N/A
Net profit	343	178	39	101	(27)	(2,237)	N/A	N/A
Gross margin	10.5%	7.4%	7.1%	7.4%	7.6%	6.6%	-0.9 ppts	-1.0 ppts
Operating margin	5.3%	2.8%	2.2%	2.4%	1.3%	-22.2%	-24.6 ppts	-23.5 ppts
Net margin	2.7%	1.1%	0.3%	0.7%	-0.3%	-19.5%	-20.2 ppts	-19.2 ppts

Source: Company data, CMBIGM estimates

**Figure 2: Earnings revision**

RMB mn	FY24A	New FY25E	FY26E	FY24E	Old FY25E	FY26E	FY24E	Diff (%) FY25E	FY26E
Revenue	22,154	20,406	20,510	21,859	20,968	21,028	1.3%	-2.7%	-2.5%
Gross profit	1,561	1,779	1,918	1,599	1,745	2,023	-2.3%	1.9%	-5.2%
Operating profit	(2,413)	827	996	(766)	729	998	N/A	13.4%	-0.3%
Net profit	(2,264)	494	615	(1,105)	408	589	N/A	21.2%	4.5%
Gross margin	7.0%	8.7%	9.4%	7.3%	8.3%	9.6%	-0.3 ppts	0.4 ppts	-0.3 ppts
Operating margin	-10.9%	4.1%	4.9%	-3.5%	3.5%	4.7%	-7.4 ppts	0.6 ppts	0.1 ppts
Net margin	-10.2%	2.4%	3.0%	-5.1%	1.9%	2.8%	-5.2 ppts	0.5 ppts	0.2 ppts

Source: CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

RMB mn	FY24A	CMBIGM FY25E	FY26E	FY24E	Consensus FY25E	FY26E	FY24E	Diff (%) FY25E	FY26E
Revenue	22,154	20,406	20,510	22,381	21,212	21,279	-1.0%	-3.8%	-3.6%
Gross profit	1,561	1,779	1,918	1,768	1,834	2,048	-11.7%	-3.0%	-6.3%
Operating profit	(2,413)	827	996	553	880	1,063	-536.3%	-6.0%	-6.4%
Net profit	(2,264)	494	615	63	328	430	-3712.8%	50.6%	43.0%
Gross margin	7.0%	8.7%	9.4%	7.9%	8.6%	9.6%	-0.9 ppts	0.1 ppts	-0.3 ppts
Operating margin	-10.9%	4.1%	4.9%	2.5%	4.1%	5.0%	-13.4 ppts	-0.1 ppts	-0.1 ppts
Net margin	-10.2%	2.4%	3.0%	0.3%	1.5%	2.0%	-10.5 ppts	0.9 ppts	1.0 ppts

Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	23,577	28,655	28,555	22,154	20,406	20,510
Cost of goods sold	(20,806)	(26,137)	(26,477)	(20,593)	(18,627)	(18,591)
Gross profit	2,771	2,517	2,078	1,561	1,779	1,918
Operating expenses	(1,073)	(1,404)	(1,361)	(1,063)	(952)	(923)
Selling expense	(741)	(860)	(764)	(585)	(557)	(539)
Admin expense	(578)	(811)	(847)	(662)	(606)	(603)
Others	247	267	249	184	212	219
Operating profit	1,698	1,114	717	498	827	996
Share of (losses)/profits of associates/JV	48	25	20	17	16	16
EBITDA	2,033	1,629	1,253	(1,841)	1,309	1,477
Depreciation	161	225	251	229	237	238
Depreciation of ROU assets	108	134	144	146	139	138
Other amortisation	19	132	182	180	90	90
EBIT	1,746	1,139	676	(2,395)	843	1,011
Interest expense	(133)	(275)	(291)	(239)	(149)	(137)
Pre-tax profit	1,613	864	384	(2,635)	694	874
Income tax	(399)	(308)	(229)	376	(174)	(218)
After tax profit	1,213	556	156	(2,259)	519	655
Minority interest	(48)	(35)	(16)	(5)	(25)	(40)
Net profit	1,166	521	140	(2,264)	494	615
Gross dividends	1,053	261	56	60	247	492

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	5,563	5,888	6,373	6,676	5,515	6,135
Cash & equivalents	2,622	1,636	2,362	3,200	2,432	3,047
Account receivables	1,817	1,560	1,518	1,214	1,118	1,124
Inventories	355	1,069	960	762	766	764
ST bank deposits	769	1,623	1,533	1,500	1,200	1,200
Non-current assets	4,240	8,351	7,848	4,303	3,862	3,468
PP&E	1,381	1,843	1,708	1,429	1,212	1,064
Right-of-use assets	1,569	1,785	1,661	1,465	1,324	1,166
Deferred income tax	80	127	133	133	133	133
Investment in JVs & assos	62	39	36	36	38	39
Intangibles	546	3,477	3,277	1,130	1,040	951
Goodwill	179	1,005	961	18	18	18
Other non-current assets	422	75	71	93	98	98
Total assets	9,803	14,239	14,220	10,979	9,378	9,604
Current liabilities	4,089	4,874	4,447	5,751	3,885	3,871
Short-term borrowings	989	1,414	1,245	1,000	1,000	1,000
Account payables	2,788	3,193	2,907	2,200	2,041	2,037
Tax payable	180	102	125	701	701	701
Other current liabilities	0	0	0	1,698	0	0
Lease liabilities	132	165	170	152	143	132
Non-current liabilities	1,597	4,932	4,487	2,229	2,114	2,036
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	1,979	1,914	1,836
Total liabilities	5,686	9,806	8,934	7,980	5,999	5,906
Share capital	100	102	108	108	108	108
Other reserves	3,847	4,173	5,044	2,756	3,128	3,434
Total shareholders equity	3,947	4,275	5,152	2,864	3,236	3,542
Minority interest	170	159	134	135	143	155
Total equity and liabilities	9,803	14,239	14,220	10,979	9,378	9,604

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,613	864	384	(2,635)	694	874
Depreciation & amortization	287	490	577	555	466	466
Tax paid	(378)	(472)	(218)	376	(174)	(218)
Change in working capital	276	67	(139)	363	223	(18)
Others	13	205	212	3,079	52	36
<b>Net cash from operations</b>	<b>1,812</b>	<b>1,154</b>	<b>817</b>	<b>1,737</b>	<b>1,260</b>	<b>1,139</b>
<b>Investing</b>						
Capital expenditure	(363)	(283)	(348)	(120)	(160)	(200)
Acquisition of subsidiaries/ investments	(1,232)	(2,732)	0	11	0	0
Others	213	(468)	505	271	261	239
<b>Net cash from investing</b>	<b>(1,382)</b>	<b>(3,483)</b>	<b>157</b>	<b>162</b>	<b>101</b>	<b>39</b>
<b>Financing</b>						
Dividend paid	(475)	(1,027)	(212)	(48)	(160)	(357)
Net borrowings	317	(239)	(657)	(795)	(1,752)	0
Proceeds from share issues	0	629	871	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(160)	1,966	(253)	(218)	(217)	(206)
<b>Net cash from financing</b>	<b>(317)</b>	<b>1,328</b>	<b>(250)</b>	<b>(1,061)</b>	<b>(2,129)</b>	<b>(563)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,538	2,622	1,636	2,362	3,200	2,432
Exchange difference	(29)	16	3	0	0	0
<b>Cash at the end of the year</b>	<b>2,622</b>	<b>1,636</b>	<b>2,362</b>	<b>3,200</b>	<b>2,432</b>	<b>3,047</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	16.7%	21.5%	(0.3%)	(22.4%)	(7.9%)	0.5%
Gross profit	36.1%	(9.1%)	(17.5%)	(24.9%)	13.9%	7.8%
Operating profit	48.2%	(34.4%)	(35.6%)	(30.5%)	66.0%	20.4%
EBITDA	43.4%	(19.9%)	(23.1%)	na	na	12.9%
EBIT	46.8%	(34.8%)	(40.7%)	na	na	20.0%
Net profit	55.3%	(55.3%)	(73.1%)	na	na	24.5%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	11.8%	8.8%	7.3%	7.0%	8.7%	9.4%
Operating margin	7.2%	3.9%	2.5%	2.2%	4.1%	4.9%
EBITDA margin	8.6%	5.7%	4.4%	(8.3%)	6.4%	7.2%
Return on equity (ROE)	32.5%	12.7%	3.0%	(56.5%)	16.2%	18.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	0.3	0.0	(1.0)	(0.7)	(0.8)
Current ratio (x)	1.4	1.2	1.4	1.2	1.4	1.6
Receivable turnover days	28.1	19.9	19.4	20.0	20.0	20.0
Inventory turnover days	6.2	14.9	13.2	13.5	15.0	15.0
Payable turnover days	48.9	44.6	40.1	39.0	40.0	40.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	2.6	5.9	23.0	ns	6.5	5.3
P/E (diluted)	2.6	5.9	23.1	ns	6.6	5.3
P/B	0.8	0.7	0.6	1.1	1.0	0.9
P/CFPS	1.6	2.6	3.9	1.9	2.6	2.8
Div yield (%)	35.2	8.5	1.7	1.9	7.6	15.2

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

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