

Yongda Automobiles (3669 HK)

1H23E preview: new-car GPM could be a bottom

Maintain BUY. We project Yongda's 1H23E net profit to fall 34% YoY to RMB 445mn amid price war and we cut our FY23E net profit to RMB 1.2bn. Given that major luxury automakers in China provided significant additional rebates to dealers in 1H23, we are of the view that new-car GPM of about 1% could be a bottom for Yongda.

- **We project 1H23E net profit to be RMB 445mn.** We project Yongda's new-car sales volume to rise 16% YoY to about 89,000 units in 1H23E due to low base, with average selling price falling about 11% YoY amid price war. Therefore, we expect Yongda's new-car sales revenue to rise 4% YoY to RMB 26bn in 1H23E. We estimate 1H23E new-car GPM to fall 0.5 ppt HoH to 1.1%, taking higher discounts and BMW's rebates into account. We project after-sales service revenue to rise 13% YoY to RMB 5.0bn in 1H23E, with a GPM of 44%. We project SG&A ratio to narrow by 0.5 ppt YoY to 7.9% in 1H23E amid cost control. Accordingly, we project Yongda's 1H23E net profit to drop 34% YoY to RMB 445mn.
- **Current new-car GPM could be a bottom.** We lower our FY23E net profit forecast by 41% to RMB 1.2bn, implying 2H23E NP of RMB 754mn, as we expect tighter cost control amid expansion slowdown. We estimate FY23E new-car GPM to be 1.2%, the lowest in history. Given that major luxury automakers provided significant additional rebates to dealers in 1H23, we are of the view that new-car GPM in 1H23 could be a bottom for dealers. Therefore, we expect new-car GPM to slightly improve in FY24-25E (1.7-1.8%). We project mild new-car sales volume growth for FY24-25E, while high-margin after-sales revenue may grow faster amid industry consolidation. That could drive Yongda's overall GPM to improve YoY in FY24-25E. In addition, we expect Yongda's SG&A ratio to fall in FY23-25E amid cost control. Accordingly, we project Yongda's net profit to rise 41% YoY and 22% YoY to RMB 1.7bn and RMB 2.1bn, respectively, in FY24-25E.
- **Valuation/Key risks.** We maintain our BUY rating but cut target price from HK\$ 8.50 to HK\$ 6.50, based on 7x (prior 7x FY23E) our FY24E EPS estimates. We think the valuation gap between Yongda and its peers could narrow due to rising importance of after-sales services. Key risks to our rating and target price include lower sales and/or margins, slower after-sales service recovery than our expectation, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	77,917	72,024	73,416	76,113	78,749
YoY growth (%)	14.2	(7.6)	1.9	3.7	3.5
Net income (RMB mn)	2,480	1,425	1,199	1,687	2,050
EPS (RMB)	1.26	0.72	0.61	0.86	1.04
YoY growth (%)	52.6	(42.5)	(15.9)	40.7	21.5
P/E (x)	2.5	4.7	5.9	4.2	3.4
P/B (x)	0.5	0.5	0.5	0.4	0.4
Yield (%)	15.2	8.5	6.8	9.6	11.6
ROE (%)	19.4	10.2	8.3	10.9	12.2
Net gearing (%)	18	11	8.4	3.5	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 6.50
(Previous TP	HK\$ 8.50)
Up/Downside	+66.7%
Current Price	HK\$ 3.90

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	7,586
Avg 3 mths t/o (HK\$ mn)	14
52w High/Low (HK\$)	7.50/3.40
Total Issued Shares (mn)	1,945
Source: Bloomberg	

Shareholding Structure

Mr. Cheung Tak On	29.9%
FIL Limited	8.1%
Others	62.0%

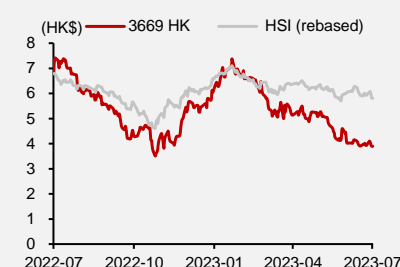
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.2%	-0.4%
3-mth	-18.2%	-9.4%
6-mth	-31.7%	-19.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Figure 1: Interim results

RMB mn	1H21	2H21	1H22	2H22	1H23E	YoY	HoH
New-car sales volume (units)	115,834	98,073	76,752	110,524	89,000	16.0%	-19.5%
Total revenue	40,494	37,423	31,392	40,632	33,529	6.8%	-17.5%
Gross profit	3,699	4,053	3,081	3,309	2,700	-12.3%	-18.4%
Selling exp.	(1,637)	(1,898)	(1,660)	(2,140)	(1,777)	7.1%	-17.0%
Admin exp.	(909)	(905)	(968)	(867)	(872)	-10.0%	0.5%
Operating profit	1,834	1,975	1,069	1,235	761	-28.9%	-38.4%
Net profit	1,172	1,309	673	752	445	-33.8%	-40.8%
Gross margin	9.1%	10.8%	9.8%	8.1%	8.1%	-1.8 ppt	-0.1 ppt
Operating margin	4.5%	5.3%	3.4%	3.0%	2.3%	-1.1 ppt	-0.8 ppt
Net margin	2.9%	3.5%	2.1%	1.9%	1.3%	-0.8 ppt	-0.5 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	FY23E	New FY24E	FY25E	FY23E	Old FY24E	FY25E	FY23E	Diff (%) FY24E	FY25E
Revenue	73,416	76,113	78,749	71,328	71,834	N/A	2.9%	6.0%	N/A
Gross Profit	5,989	6,761	7,217	6,934	7,499	N/A	-13.6%	-9.8%	N/A
Operating Profit	1,986	2,654	3,181	3,055	3,527	N/A	-35.0%	-24.7%	N/A
Net profit	1,199	1,687	2,050	2,018	2,325	N/A	-40.6%	-27.4%	N/A
Gross Margin	8.2%	8.9%	9.2%	9.7%	10.4%	N/A	-1.6 ppt	-1.6 ppt	N/A
Operating Margin	2.7%	3.5%	4.0%	4.3%	4.9%	N/A	-1.6 ppt	-1.4 ppt	N/A
Net Margin	1.6%	2.2%	2.6%	2.8%	3.2%	N/A	-1.2 ppt	-1.0 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	FY23E	CMBIGM FY24E	FY25E	FY23E	Consensus FY24E	FY25E	FY23E	Diff (%) FY24E	FY25E
Revenue	73,416	76,113	78,749	80,160	87,315	94,647	-8.4%	-12.8%	-16.8%
Gross Profit	5,989	6,761	7,217	7,254	8,220	8,919	-17.4%	-17.7%	-19.1%
Operating Profit	1,986	2,654	3,181	2,876	3,575	4,008	-30.9%	-25.8%	-20.6%
Net profit	1,199	1,687	2,050	1,812	2,231	2,505	-33.8%	-24.4%	-18.2%
Gross Margin	8.2%	8.9%	9.2%	9.1%	9.4%	9.4%	-0.9 ppt	-0.5 ppt	-0.3 ppt
Operating Margin	2.7%	3.5%	4.0%	3.6%	4.1%	4.2%	-0.9 ppt	-0.6 ppt	-0.2 ppt
Net Margin	1.6%	2.2%	2.6%	2.3%	2.6%	2.6%	-0.6 ppt	-0.3 ppt	0.0 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	77,917	72,024	73,416	76,113	78,749
Cost of sales	(70,164)	(65,635)	(67,428)	(69,352)	(71,533)
Gross profit	7,753	6,389	5,989	6,761	7,217
Other income	1,405	1,550	1,582	1,579	1,670
Distribution expenses	(3,534)	(3,800)	(3,770)	(3,828)	(3,885)
Administrative expenses	(1,814)	(1,835)	(1,815)	(1,858)	(1,821)
Operating profit	3,809	2,304	1,986	2,654	3,181
Finance costs	(506)	(321)	(339)	(354)	(383)
Share of profits of associate	71	90	50	53	55
Share of profits of JVs	1	(1)	2	2	2
Profit before tax	3,375	2,073	1,699	2,354	2,856
Taxation	(837)	(587)	(442)	(589)	(714)
Minority interests	(138)	(60)	(58)	(79)	(92)
Net profit	2,480	1,425	1,199	1,687	2,050

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	3,491	2,073	1,699	2,354	2,856
Depreciation/amortization	1,154	1,277	1,330	1,346	1,395
Change in working capital	652	1,348	(1,189)	(1,391)	(880)
Others	(283)	(465)	(147)	(287)	(407)
Net cash from operating	5,015	4,232	1,694	2,023	2,963
Capex	(1,120)	(1,775)	(640)	(740)	(1,140)
Others	838	320	441	566	478
Net cash from investing	(282)	(1,455)	(199)	(174)	(662)
Share issuance	9	6	7	7	7
Dividend paid	(672)	(1,077)	(616)	(543)	(748)
Others	(4,899)	(1,771)	(333)	327	284
Net cash from financing	(5,562)	(2,842)	(942)	(209)	(457)
Net change in cash	(830)	(65)	553	1,640	1,844
Cash at beginning of the year	3,080	2,250	2,186	2,739	4,379
Cash at the end of the year	2,250	2,186	2,739	4,379	6,223

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	16,617	17,169	16,209	19,405	22,333
Cash and equivalents	2,250	2,186	2,739	4,379	6,223
Accounts receivables	9,127	8,018	8,046	8,341	8,630
Inventories	4,038	4,555	4,064	4,750	4,899
Other current assets	1,203	2,411	1,361	1,935	2,580
Non-current assets	14,949	15,232	14,363	13,324	12,728
PP&E	5,838	6,059	5,451	4,829	4,697
Intangibles	2,860	2,817	2,760	2,702	2,643
Interests in JVs and assos	714	802	842	885	930
Other non-current assets	5,537	5,554	5,309	4,908	4,459
Total assets	31,567	32,401	30,572	32,729	35,061
Current liabilities	13,328	14,339	11,376	12,018	12,695
Short-term borrowings	3,596	2,288	2,500	3,000	3,500
Accounts payable	5,569	8,391	5,542	5,700	5,879
Other current liabilities	4,163	3,661	3,334	3,318	3,315
Non-current liabilities	3,950	3,397	3,864	4,097	4,297
Long-term borrowings	911	1,080	1,520	1,960	2,400
Other non-current liabilities	3,039	2,317	2,344	2,137	1,897
Total liabilities	17,278	17,736	15,240	16,116	16,992
Share capital	16	16	16	16	16
Reserves	13,692	14,182	14,838	16,104	17,541
Minority interests	580	504	516	531	550
Shareholders' equity	13,708	14,198	14,854	16,120	17,557
Total equity and liabilities	31,567	32,439	30,610	32,767	35,099

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Sales of passenger vehicles	84.5	85.3	84.4	84.0	83.5
After-sales services	14.8	14.0	15.0	15.4	15.9
Growth (%)					
Revenue	14.2	(7.6)	1.9	3.7	3.5
Gross profit	26.4	(17.6)	(6.3)	12.9	6.7
Operating profit	37.5	(39.5)	(13.8)	33.6	19.9
Net profit	52.6	(42.5)	(15.9)	40.7	21.5
Profit & loss ratio (%)					
Gross margin	9.9	8.9	8.2	8.9	9.2
Operating margin	4.9	3.2	2.7	3.5	4.0
Net profit margin	3.2	2.0	1.6	2.2	2.6
Balance sheet ratio					
Net cash/total equity (x)	(0.2)	(0.1)	(0.1)	(0.0)	0.0
Current ratio (x)	1.2	1.2	1.4	1.6	1.8
Receivable turnover days	42.9	40.7	40.0	40.0	40.0
Inventory turnover days	21.1	25.4	22.0	25.0	25.0
Payable turnover days	29.0	46.8	30.0	30.0	30.0
Profitability (%)					
ROE	19.4	10.2	8.3	10.9	12.2
ROA	7.5	4.5	3.8	5.3	6.0
Per share data (RMB)					
EPS	1.26	0.72	0.61	0.86	1.04
DPS	0.48	0.29	0.24	0.34	0.42

Source: Company data, CMBIGM estimates

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