

# China Meidong Auto (1268 HK)

## 1H23E NP to fall 23% YoY; Mixed picture ahead

**Maintain HOLD.** We project Meidong's 1H23E net profit to fall 23% YoY to RMB 266mn, consistent with our prior estimates of RMB 250-300mn made in Apr 2023. We see gradual improvement in new-car margins in 2H23 but could be weaker than we had hoped earlier. Therefore, we cut FY23E net profit by 29% to RMB 723mn. We still see valuation cap as industry headwinds persist.

- **We project net profit to be RMB 266mn in 1H23E, as BMW may beat expectation.** We project Meidong's sales volume to rise 8% YoY in 1H23, driven by Porsche and BMW. Although discounts widened for all the brands in 1H23, model mix improved for brands including Porsche, BMW and Toyota. We expect a mild HoH decline for the average selling prices of most brands in 1H23. We expect new-car GPM to widen by 0.2 ppt HoH to 2.2% in 1H23E, with GPMs for both Porsche and Lexus hitting all-time low. We expect new-car GPM for BMW to be 1.8% in 1H23E, as the additional rebates announced on 1 Jun 2023 could lift its GPM by almost 3 ppts, based on our estimates. We project after-sales service revenue to rise 26% YoY to RMB 1.9bn, with a GPM of around 49%, which implies an absorption ratio (excluding finance costs) of about 117%, on our estimates. Accordingly, we project Meidong's 1H23E net profit to fall 23% YoY to RMB 266mn.
- **We cut FY23E net profit by 29% to RMB 723mn.** It appears to us that the new-car GPM for Porsche in 1H23 could be a trough for dealers, as the German marque aims to cut its 2023 China sales volume target by about 10%. Its discounts at dealers have started to narrow, based on our channel checks. We are of the view that Lexus could face more challenges in new-car sales than BMW and Porsche, but its new-car GPM could be stabilized, as the Japanese OEM had already subsidized its dealers in 1H23. We also expect BMW to provide similar incentives to dealers in 2H23 as it did on 1 Jun 2023. Accordingly, we expect Meidong's sales volume to fall 2% YoY in 2H23E and new-car GPM to widen to 2.6% in 2H23E. We also project its after-sales services and cost reduction efforts to contribute more to its profits. We estimate its net profit to rise 157% YoY to RMB 458mn in 2H23E. Meidong's current FY23E P/E is 17x on our estimates.
- **Valuation/Key risks.** We also cut our FY24E net profit by 31% to RMB 1.07bn, although the visibility is still low. Therefore, we maintain our HOLD rating and cut target price from HK\$ 17.00 to HK\$ 11.00, which is based on 13x our revised FY24E EPS (previous 20x FY23E), as uncertainties for FY24E are still high. Key risks to our rating and target price include higher/lower sales and/or margins, as well as a sector re-rating or de-rating.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	23,577	28,655	30,332	32,986	35,337
YoY growth (%)	36.1	(9.1)	6.8	21.1	12.4
Net income (RMB mn)	1,166	521	723	1,067	1,287
EPS (RMB)	0.92	0.41	0.53	0.78	0.94
YoY growth (%)	55.3	(55.3)	38.8	47.5	20.6
P/E (x)	8.7	21.6	17.3	11.8	9.8
P/B (x)	2.6	2.6	2.2	2.0	1.7
Yield (%)	2.6	1.0	2.6	4.2	5.1
ROE (%)	32.5	12.7	14.4	17.5	18.6
Net gearing (%)	Net cash	20.8	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### HOLD (Maintain)

Target Price	HK\$ 11.00
(Previous TP	HK\$ 17.00)
Up/Downside	+10.3%
Current Price	HK\$ 9.97

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### Stock Data

Mkt Cap (HK\$ mn)	13,410
Avg 3 mths t/o (HK\$ mn)	389
52w High/Low (HK\$)	21.50/7.94
Total Issued Shares (mn)	1,345

Source: Bloomberg

### Shareholding Structure

Apex Sail Limited	52.2%
Others	47.8%

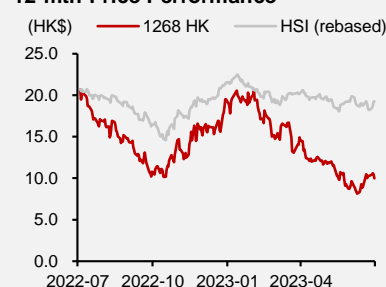
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	11.9%	11.9%
3-mth	-31.4%	-26.4%
6-mth	-48.9%	-38.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: KPMG

### Related Report

["China Meidong Auto - Lingering industry headwinds amid high valuation" - 1 Apr 2023](#)

**Figure 1: FY22 results review**

RMB mn	1H21	2H21	1H22	2H22	1H23E	YoY	HoH
New-car sales volume (units)	32,221	29,374	29,658	38,213	31,870	7.5%	-16.6%
Total revenue	11,808	11,769	12,658	15,996	13,996	10.6%	-12.5%
Gross profit	1,274	1,497	1,334	1,183	1,194	-10.5%	0.9%
Selling exp.	(348)	(393)	(398)	(462)	(392)	-1.5%	-15.2%
Admin exp.	(278)	(301)	(377)	(433)	(406)	7.6%	-6.4%
Operating profit	771	927	668	446	529	-20.8%	18.8%
Net profit	537	629	343	178	266	-22.6%	49.4%
Gross margin	10.8%	12.7%	10.5%	7.4%	8.5%	-2.0 ppt	1.1 ppt
Operating margin	6.5%	7.9%	5.3%	2.8%	3.8%	-1.5 ppt	1.0 ppt
Net margin	4.5%	5.3%	2.7%	1.1%	1.9%	-0.8 ppt	0.8 ppt

Source: Company data, CMBIGM estimates

**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	30,332	32,986	35,337	32,846	36,557	N/A	-7.7%	-9.8%	N/A
Gross Profit	2,688	3,255	3,660	3,257	4,076	N/A	-17.5%	-20.1%	N/A
Operating Profit	1,318	1,822	2,145	1,725	2,480	N/A	-23.6%	-26.6%	N/A
Net profit	723	1,067	1,287	1,014	1,536	N/A	-28.7%	-30.6%	N/A
Gross Margin	8.9%	9.9%	10.4%	9.9%	11.1%	N/A	-1.1 ppt	-1.3 ppt	N/A
Operating Margin	4.3%	5.5%	6.1%	5.3%	6.8%	N/A	-0.9 ppt	-1.3 ppt	N/A
Net Margin	2.4%	3.2%	3.6%	3.1%	4.2%	N/A	-0.7 ppt	-1.0 ppt	N/A

Source: CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	30,332	32,986	35,337	33,478	38,150	43,232	-9.4%	-13.5%	-18.3%
Gross Profit	2,688	3,255	3,660	3,168	3,893	4,475	-15.1%	-16.4%	-18.2%
Operating Profit	1,318	1,822	2,145	1,600	2,259	2,791	-17.6%	-19.4%	-23.1%
Net profit	723	1,067	1,287	993	1,374	1,652	-27.1%	-22.4%	-22.1%
Gross Margin	8.9%	9.9%	10.4%	9.5%	10.2%	10.4%	-0.6 ppt	-0.3 ppt	0.0 ppt
Operating Margin	4.3%	5.5%	6.1%	4.8%	5.9%	6.5%	-0.4 ppt	-0.4 ppt	-0.4 ppt
Net Margin	2.4%	3.2%	3.6%	3.0%	3.6%	3.8%	-0.6 ppt	-0.4 ppt	-0.2 ppt

Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	23,577	28,655	30,332	32,986	35,337
Cost of sales	(20,806)	(26,137)	(27,644)	(29,731)	(31,677)
<b>Gross profit</b>	<b>2,771</b>	<b>2,517</b>	<b>2,688</b>	<b>3,255</b>	<b>3,660</b>
Other income	247	267	327	366	389
Distribution expenses	(741)	(860)	(830)	(879)	(931)
Administrative expenses	(578)	(811)	(868)	(921)	(972)
<b>Operating profit</b>	<b>1,698</b>	<b>1,114</b>	<b>1,318</b>	<b>1,822</b>	<b>2,145</b>
Finance costs	(133)	(275)	(285)	(290)	(298)
Share of profits of assos	-	-	-	-	-
Share of profits of JVs	48	25	12	11	13
<b>Profit before tax</b>	<b>1,613</b>	<b>864</b>	<b>1,045</b>	<b>1,543</b>	<b>1,860</b>
Taxation	(399)	(308)	(272)	(401)	(484)
Minority interests	(48)	(35)	(50)	(75)	(90)
<b>Net profit</b>	<b>1,166</b>	<b>521</b>	<b>723</b>	<b>1,067</b>	<b>1,287</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profit before taxation</b>	<b>1,613</b>	<b>864</b>	<b>1,045</b>	<b>1,543</b>	<b>1,860</b>
Depreciation/amortization	287	490	598	671	728
Change in working capital	276	67	445	78	22
Others	(364)	(267)	(43)	(216)	(305)
<b>Net cash from operating</b>	<b>1,812</b>	<b>1,154</b>	<b>2,046</b>	<b>2,076</b>	<b>2,305</b>
Capex	(363)	(283)	(390)	(240)	(240)
Others	(1,019)	(3,200)	(229)	(748)	(422)
<b>Net cash from investing</b>	<b>(1,382)</b>	<b>(3,483)</b>	<b>(619)</b>	<b>(988)</b>	<b>(662)</b>
Share issuance	11	647	988	15	15
Dividend paid	(475)	(1,027)	(313)	(471)	(633)
Others	146	1,708	(795)	(120)	(306)
<b>Net cash from financing</b>	<b>(317)</b>	<b>1,328</b>	<b>(120)</b>	<b>(577)</b>	<b>(924)</b>
<b>Net change in cash</b>	<b>112</b>	<b>(1,002)</b>	<b>1,307</b>	<b>511</b>	<b>720</b>
Cash at beginning of the year	2,538	2,622	1,636	2,943	3,454
Exchange difference	(29)	16	-	-	-
<b>Cash at the end of the year</b>	<b>2,622</b>	<b>1,636</b>	<b>2,943</b>	<b>3,454</b>	<b>4,174</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Current assets</b>	<b>5,563</b>	<b>5,888</b>	<b>6,956</b>	<b>7,719</b>	<b>8,652</b>
Cash and equivalents	2,622	1,636	2,943	3,454	4,174
Accounts receivables	1,817	1,560	1,828	2,169	2,324
Inventories	355	1,069	985	896	955
Other current assets	769	1,623	1,200	1,200	1,200
<b>Non-current assets</b>	<b>4,240</b>	<b>8,351</b>	<b>8,644</b>	<b>9,345</b>	<b>9,681</b>
PP&E	1,381	1,843	1,976	1,975	1,948
Intangibles	546	3,477	3,490	3,784	3,859
Interests in JVs and assos	62	39	40	41	43
Other non-current assets	2,250	2,992	3,138	3,544	3,831
<b>Total assets</b>	<b>9,803</b>	<b>14,239</b>	<b>15,599</b>	<b>17,064</b>	<b>18,333</b>
<b>Current liabilities</b>	<b>4,089</b>	<b>4,874</b>	<b>4,579</b>	<b>5,137</b>	<b>5,601</b>
Short-term debt	989	1,414	900	1,100	1,300
Accounts payable	2,788	3,193	3,408	3,747	3,992
Other current liabilities	312	267	271	290	309
<b>Non-current liabilities</b>	<b>1,597</b>	<b>4,932</b>	<b>5,091</b>	<b>5,294</b>	<b>5,144</b>
Long-term debt	299	2,768	2,848	2,898	2,593
Other non-current liabilities	1,297	2,164	2,244	2,396	2,551
<b>Total liabilities</b>	<b>5,686</b>	<b>9,806</b>	<b>9,671</b>	<b>10,431</b>	<b>10,745</b>
Share capital	100	102	110	110	111
Reserves	3,847	4,173	5,645	6,328	7,254
Minority interests	170	159	174	196	223
<b>Shareholders' equity</b>	<b>3,947</b>	<b>4,275</b>	<b>5,755</b>	<b>6,438</b>	<b>7,364</b>
<b>Total equity and liabilities</b>	<b>9,803</b>	<b>14,239</b>	<b>15,599</b>	<b>17,064</b>	<b>18,333</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Sales of new vehicles	88.3	88.3	86.3	85.3	84.4
After-sales services	11.7	11.7	13.7	14.7	15.6
<b>Growth (%)</b>					
Revenue	16.7	21.5	5.9	8.7	7.1
Gross profit	36.1	(9.1)	6.8	21.1	12.4
Operating profit	48.2	(34.4)	18.3	38.2	17.8
Net profit	55.3	(55.3)	38.8	47.5	20.6
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	11.8	8.8	8.9	9.9	10.4
Operating margin	7.2	3.9	4.3	5.5	6.1
Net profit margin	4.9	1.8	2.4	3.2	3.6
<b>Balance sheet ratio</b>					
Net cash/total equity (x)	0.5	(0.2)	0.1	0.1	0.2
Current ratio (x)	1.4	1.2	1.5	1.5	1.5
Receivable turnover days	28.1	19.9	22.0	24.0	24.0
Inventory turnover days	6.2	14.9	13.0	11.0	11.0
Payable turnover days	48.9	44.6	45.0	46.0	46.0
<b>Profitability (%)</b>					
ROE	32.5	12.7	14.4	17.5	18.6
ROA	13.3	4.3	4.8	6.5	7.3
<b>Per share data (RMB)</b>					
EPS	0.92	0.41	0.53	0.78	0.94
DPS	0.83	0.20	0.27	0.39	0.47

Source: Company data, CMBIGM estimates

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