

# Meidong Auto(1268 HK)

## High growth together with great efficiency

Meidong announced its FY19 results, significantly beating CMBI expectations. Revenue achieved RMB16.2bn (vs CMBI estimate of RMB15.1bn/ vs consensus estimate of RMB15.3bn), an increase of 46% YoY. NP was RMB551mn (vs CMBI estimate RMB476mn / vs consensus estimate of RMB519mn), an increase of 52%. EPS has increased by 51% to RMB0.48 while DPS has increased by 107% to RMB0.26.

- The Company continues to adhere to its "Mainstream luxury brand + SCSS" strategy while emphasizes the importance of operational efficiency.** The Company's inventory turnover days fall to 17 days in 2019 from 28 days in 2018, the best among its peers. We believe Meidong will continue to reduce its inventory turnover days by further improving its operational efficiency. As a result, the ROE reached 35.7% (CMBI calculation) in 2019, for the first time exceeds 30%.
- The GPM decline in the after-sales segment was temporary and will likely to rebound in the future.** It was mainly due to the new Porsche stores and the rapid growth of new car sales. Specifically, the Company opened 9 new stores in 2019 while putting effort to ramp up the 6 BMW stores in Anhui that have been acquired in 2018. A total of 15 stores account for 26% of the current stores. The after-sales vehicles has a relative young age dragging down the overall after-sales GPM. We believe the Company will evaluate the customer's return rate index to increase the after-sales gross profit margin.
- Supply-side shock from COVID-19 was limited whereas the Company will focus more on the balance of Supply-Demand.** The Company's current inventory is about 0.3 months. The management does not expect any disruption on vehicle supply for now as some supply was either in OEMs warehouse or on freight. For the demand side, even though foot traffic in 1Q20 declined by 31%YoY, the Company's order intake only declined by 12%YoY. More impressively, the after-sales value only declined by 1% in 1Q20 and reached a 4%YoY increase in Mar 2020. By taking active measures, the Company increased the Customer Conversion Rate from about 10% in 2019 to at most 25% in 1Q20. In terms of the after-sales segment, the Company's actively seeking business in the accident vehicle field. As a result, the proportion of accident vehicles has risen to 80-90% in Feb 2020 from about 50% in 2019. All the measures mentioned above showcase the excellent management capability of the Company.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	11,067	16,210	20,591	25,367	30,228
YoY growth (%)	44%	46%	27%	23%	19%
Net income (RMB mn)	363	551	729	860	1,022
EPS (RMB)	0.32	0.48	0.63	0.74	0.88
YoY growth (%)	25%	51%	32%	18%	19%
Consensus EPS(RMB)	0.28	0.45	0.59	0.74	1.01
P/E (x)	33.23	22.00	16.62	14.10	11.86
P/B (x)	8.75	7.08	5.19	4.01	3.13
Yield (%)	1%	2%	3%	3%	4%
ROE (%)	30%	36%	36%	32%	30%
Net gearing (%)	107%	117%	66%	58%	50%

Source: Company data, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$13.7**  
 (Previous TP **HK\$11.3**)  
 Up/Downside **+17.3%**  
 Current Price **HK\$11.7**

### China Auto Sector

**Jack Bai**  
 (852) 3900 0835  
 jackbai@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	13,528
Avg 3 mths t/o (HK\$ mn)	27.82
52w High/Low (HK\$)	12.58/3.61
Total Issued Shares (mn)	1,160

Source: Bloomberg

### Shareholding Structure

YE Fan/HU Huanran	65.55%
Pandanus Associates Inc.	7.97%

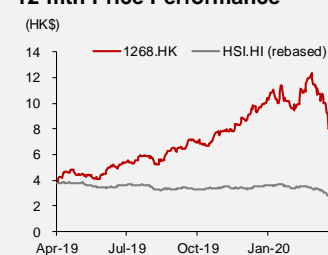
Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	1.7%	14.7%
3-mth	11.7%	36.5%
6-mth	68.0%	89.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: KPMG**

### Related Reports

"Meidong Auto (1268 HK) – The fastest growing dealer with the best ROE" – 11 Dec 2019

- **We raise the top-line forecast in 2020E by 3% to RMB20.6bn to reflect the increase of sales volume for a single store.** Furthermore, we also raise our bottom-line forecast by 5% to RMB729mn in 2020E to factor-in the excellent cost control performance. Given its growth potential, we raise our TP to HK\$13.7 (based on new 19.5x 2020E P/E) from initial TP HK\$11.3 (based on initial 17.0x 2020E P/E). Reiterate BUY with an upside of 17%.

## Earnings Revision

Figure 1: FY19 results review

RMB mn	FY18A	FY19A	YoY	CMBI		Consensus	
				FY19E	Diff (%)	FY19E	Diff (%)
Revenue	11,067	16,210	46%	15,139	7%	15,383	5%
Gross profit	1,073	1,558	45%	1,537	1%	1,540	1%
EBIT	554	880	59%	741	19%	664	33%
Net profit	363	551	52%	476	16%	519	6%
EPS (RMB)	0.32	0.48	51%	0.41	15%	0.45	6%
Gross margin	9.70%	9.61%	-0.1 ppt	10.15%	-0.5 ppt	10.01%	0.4 ppt
EBIT margin	5.01%	5.43%	0.4 ppt	4.89%	0.5 ppt	4.31%	1.1 ppt
Net margin	3.28%	3.40%	0.1 ppt	3.15%	0.3 ppt	3.37%	0.0 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	20,591	25,367	19,924	25,005	3%	1%
Gross profit	2,070	2,532	2,073	2,618	0%	-3%
EBIT	1,147	1,362	1,064	1,345	8%	1%
Net profit	729	860	692	873	5%	-1%
EPS (RMB)	0.63	0.74	0.60	0.75	6%	-1%
Gross margin	10.05%	9.98%	10.40%	10.47%	-0.3 ppt	-0.5 ppt
EBIT margin	5.57%	5.37%	5.34%	5.38%	0.2 ppt	0.0 ppt
Net Margin	3.54%	3.39%	3.45%	3.46%	0.1 ppt	-0.1 ppt

Source: CMBIS estimates

Figure 3: CMBIS estimates vs consensus

(RMB mn)	New		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	20,591	25,367	19,065	22,387	8%	13%
Gross profit	2,070	2,532	1,943	2,343	7%	8%
EBIT	1,147	1,362	895	1,124	28%	21%
Net profit	729	860	688	862	6%	0%
EPS (RMB)	0.63	0.74	0.59	0.74	7%	0%
Gross margin	10.05%	9.98%	10.19%	10.47%	-0.1 ppt	-0.5 ppt
EBIT margin	5.57%	5.37%	4.69%	5.02%	0.9 ppt	0.3 ppt
Net Margin	3.54%	3.39%	3.61%	3.85%	-0.1 ppt	-0.5 ppt

Source: Bloomberg, CMBIS estimates

Figure 4: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales of motor vehicle</b>	9,775	14,384	18,142	22,330	26,609
...YoY	44%	47%	26%	23%	19%
Luxury and ultra-luxury brands	7,437	11,693	15,115	18,961	22,895
...YoY	55%	57%	29%	25%	21%
Mid- to high-end brands	2,338	2,691	3,027	3,369	3,714
...YoY	17%	15%	12%	11%	10%
<b>After-sales services</b>	1,292	1,826	2,449	3,037	3,619
...YoY	43%	41%	34%	24%	19%
<b>Total</b>	11,067	16,210	20,591	25,367	30,228
...YoY	44%	46%	27%	23%	19%

Source: Company data, CMBIS estimates

Figure 5: P&amp;L forecast

RMB mn	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenue</b>	11,067	16,210	20,591	25,367	30,228
...YoY	44.05%	46.47%	27.03%	23.19%	19.16%
Cost of sales	-9,994	-14,652	-18,521	-22,835	-27,190
<b>Gross profit</b>	1,073	1,558	2,070	2,532	3,038
GPM (%)	9.70%	9.61%	10.05%	9.98%	10.05%
...YoY	31.02%	45.82%	32.62%	22.31%	19.97%
Selling Exp	-391	-493	-643	-807	-969
...% of rev	-3.53%	-3.04%	-3.12%	-3.18%	-3.21%
Admin Exp	-313	-382	-506	-639	-768
...% of rev	-2.83%	-2.36%	-2.46%	-2.52%	-2.54%
<b>EBIT</b>	554	880	1,147	1,362	1,617
EBIT Margin (%)	5.01%	5.43%	5.57%	5.37%	5.35%
...YoY	5.01%	5.43%	5.57%	5.37%	5.35%
<b>Net profit</b>	363	551	729	860	1,022
NPM (%)	3.28%	3.40%	3.54%	3.39%	3.38%
...YoY	31.52%	51.79%	32.37%	17.88%	18.85%

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	11,067	16,210	20,591	25,367	30,228
Sales of motor vehicle	9,775	14,384	18,142	22,330	26,609
After-sales services	1,292	1,826	2,449	3,037	3,619
Cost of sales	(9,994)	(14,652)	(18,521)	(22,835)	(27,190)
<b>Gross profit</b>	1,073	1,558	2,070	2,532	3,038
Selling and distribution expenses	(391)	(493)	(643)	(807)	(969)
Administrative expenses	(313)	(382)	(506)	(639)	(768)
Net impairment losses on	0	0	0	0	0
Other income	154	154	190	234	271
Other expenses	0	0	0	0	0
Finance expenses	(63)	(123)	(143)	(179)	(212)
Share of profits and losses of:	31	44	37	42	46
Associates	0	0	0	0	0
<b>Profit before income tax</b>	491	757	1,005	1,183	1,405
Income tax expense	(128)	(200)	(265)	(311)	(370)
<b>Profit for the year</b>	363	558	740	872	1,035
Less: MI	1	7	10	12	14
<b>Net Profit</b>	363	551	729	860	1,022

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net income</b>	363	551	729	860	1,022
D&A	67	-	111	141	177
Change in working capital	(1,043)	(1,118)	(537)	(1,134)	(1,207)
Others	901	1,498	1,204	1,521	1,714
<b>Net cash from operating</b>	288	931	1,508	1,388	1,706
Capex & investments	(385)	-	(560)	(686)	(860)
Associated companies	19	-	-	-	-
Others	158	(283)	-	-	1
<b>Net cash from investing</b>	(208)	(283)	(560)	(686)	(859)
Equity raised	4	-	-	-	-
Change of Debts	356	431	700	611	566
Dividend paid	(149)	(145)	(211)	(328)	(389)
Others	31	(676)	-	-	1
<b>Net cash from financing</b>	242	(390)	490	283	177
<b>Net change in cash</b>	322	258	1,438	985	1,024
Cash at the beginning	811	1,284	2,086	3,524	4,509
Exchange difference	151	544	-	-	-
<b>Cash at the end</b>	1,284	2,086	3,524	4,509	5,533
Less: pledged cash	417	962	417	417	417

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	1,163	2,139	1,831	2,278	2,841
Fixed asset	858	1,035	1,310	1,604	1,976
Intangible assets	69	65	220	313	429
Interest in JV/associate	44	55	55	61	68
Other non-current assets	192	984	246	299	367
<b>Current assets</b>	3,012	3,786	5,659	7,128	8,644
Cash	1,284	2,086	3,524	4,509	5,533
Account receivable	889	1,159	1,473	1,803	2,140
Inventory	839	541	661	816	971
Other current assets	-	-	-	-	-
<b>Current liabilities</b>	2,616	3,180	4,807	5,958	7,100
Borrowings	1,029	871	2,042	2,602	3,105
Account payables	1,550	2,132	2,684	3,262	3,884
Other payables	0	85	(0)	0	(0)
Tax payables	37	92	80	94	112
<b>Non-current liabilities</b>	159	975	294	351	421
Borrowings	144	240	262	314	377
Provisions	-	-	-	-	-
Deferred income tax	15	9	32	37	44
Others	-	726	-	-	-
<b>Total net assets</b>	1,400	1,770	2,389	3,096	3,963
<b>Minority Interest</b>	21	58	52	70	89
<b>Shareholders' equity</b>	1,379	1,711	2,337	3,026	3,874

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit mix (%)</b>					
Sales of motor vehicle	88%	89%	88%	88%	88%
After-sales services	12%	11%	12%	12%	12%
<b>Total</b>	100%	100%	100%	100%	100%
<b>P&amp;L ratios (%)</b>					
Gross profit margin	10%	10%	10%	10%	10%
Pre-tax margin	4%	5%	5%	5%	5%
Net margin	3%	3%	4%	3%	3%
Effective tax rate	26%	26%	26%	26%	26%
<b>Balance sheet ratios</b>					
Current ratio (x)	1.15	1.19	1.18	1.20	1.22
Quick ratio (x)	0.83	1.02	1.04	1.06	1.08
Cash ratio (x)	0.49	0.66	0.73	0.76	0.78
Inventory days	31	13	13	13	13
Account payable days	57	53	53	52	52
Account receivable days	29	26	29	29	29
Total debt / total equity	198%	235%	214%	204%	190%
Net debt / equity ratio	107%	117%	66%	58%	50%
<b>Returns (%)</b>					
ROE	30%	36%	36%	32%	30%
ROA	15%	17%	17%	16%	15%
<b>Per share</b>					
EPS (Rmb)	0.32	0.48	0.63	0.74	0.88
DPS (Rmb)	0.13	0.26	0.28	0.34	0.40
BVPS (Rmb)	1.20	1.48	2.02	2.62	3.35

Source: Company data, CMBIS Estimate

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## CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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