

China Meidong Auto (1268 HK)

1H22 earnings full of noises; StarChase 2H22 key

We are of the view that new-car gross margin dent from lockdowns, along with non-operational items from the StarChase acquisition, such as the amortization of intangible assets and non-cash interest expenses from convertible bonds (CB), could create huge uncertainties for China Meidong Auto's 1H22E earnings. Nevertheless, we project Meidong's 1H22E revenue to rise 3% YoY to RMB 12.2bn and **net profit to decline 10% YoY to RMB 482mn**.

- Porsche to drive profit.** We estimate Meidong's Porsche new-car sales volume to increase 58% YoY to about 4,000 units in 1H22, aided by the new Guangzhou store and the acquisition of StarChase (about two months of financial consolidation in 1H22). In fact, we project its Porsche sales volume to reach 11,400 units in FY22E. We also expect Porsche to contribute about half of Meidong's gross profit from new-car sales in 1H22.
- BMW new-car gross margin could create earnings uncertainty.** While BMW tightened the dealer rebate by 1 ppt at the beginning of 2022, the dent for BMW new-car gross margin could be more than that, especially as the lockdowns scared dealers to get rid of inventories as quickly as possible. We also project Meidong's BMW sales volume to fall 25% YoY in 1H22.
- Non-operational items weigh on 1H22 earnings.** According to the circulars of the StarChase acquisition released on 4 Apr 2022, the pro forma increase of the intangible assets resulted from such acquisition was about RMB 3,063mn, which could lead to an annual amortization of about RMB 153mn if using 20-year straight-line method. In addition, the zero-coupon CB issued to finance the acquisition could also put a non-cash interest burden on Meidong's income statement of RMB 90mn per year, on our estimates. The new-car sales volume decline has made such costs a higher percentage of revenue, which in turn dragged down margins more than it would otherwise do.
- Likely a better 2H22 ahead.** We cut our FY22E NP by 31% to RMB 1.3bn, which implies 32% YoY NP increase to RMB 832mn in 2H22E. Despite noises to potentially drag down Meidong's 1H22 earnings, we believe the StarChase turnaround is still key to its medium-term earnings growth. We also lower FY23E NP by 14%. We maintain BUY rating but lower our target price from HK\$ 48.00 to HK\$ 40.00, still based on 20x of our revised FY23E NP forecast. Key risks to our rating and target price include lower sales and/or margins, slower store expansion than our expectation, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	20,207	23,577	30,368	40,307	46,504
YoY growth (%)	30.7	36.1	28.6	41.1	15.4
Net income (RMB mn)	751	1,166	1,314	2,152	2,622
EPS (RMB)	0.61	0.92	1.03	1.66	1.99
YoY growth (%)	36.3	55.3	12.7	63.8	21.8
P/E (x)	0.0	0.0	19.4	12.1	10.1
P/B (x)	0.0	0.0	5.3	4.0	3.0
Yield (%)	2.1	2.7	1.7	4.5	5.4
ROE (%)	30.4	32.5	29.9	37.6	34.0
Net gearing (%)	Net cash	Net cash	51	9.6	Net cash

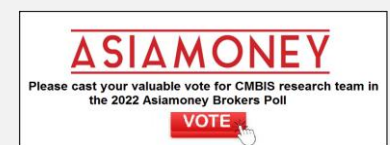
Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$40.00
(Previous TP)	HK\$48.00)
Up/Downside	+69.5%
Current Price	HK\$ 23.60

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	30,169
Avg 3 mths t/o (HK\$ mn)	68
52w High/Low (HK\$)	48.24/21.85
Total Issued Shares (mn)	1,275

Source: Bloomberg

Shareholding Structure

Apex Sail Limited	55.3%
Others	44.7%

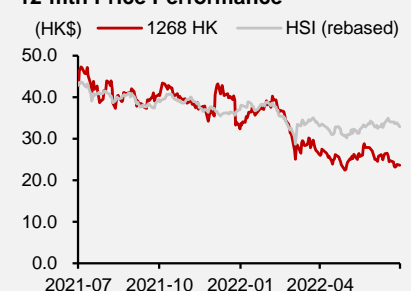
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.9%	-9.8%
3-mth	-9.8%	-9.4%
6-mth	-27.0%	-16.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Figure 1: 1H22 earnings forecast

RMB mn	2H19	1H20	2H20	1H21	2H21	1H22E	YoY	HoH
New-car sales volume (units)	27,393	23,691	33,509	32,221	29,374	29,350	-8.9%	-0.1%
Total revenue	9,367	8,448	11,760	11,808	11,769	12,196	3.3%	3.6%
Gross profit	865	819	1,216	1,274	1,497	1,389	9.1%	-7.2%
Selling exp.	(279)	(238)	(308)	(348)	(393)	(390)	12.3%	-0.8%
Admin exp.	(197)	(216)	(223)	(278)	(301)	(366)	31.7%	21.7%
Operating profit	479	453	693	771	927	776	0.7%	-16.3%
Net profit	315	301	450	537	629	482	-10.2%	-23.4%
Gross margin	9.2%	9.7%	10.3%	10.8%	12.7%	11.4%	0.6 ppt	-1.3 ppt
Operating margin	5.1%	5.4%	5.9%	6.5%	7.9%	6.4%	-0.2 ppt	-1.5 ppt
Net margin	3.4%	3.6%	3.8%	4.5%	5.3%	4.0%	-0.6 ppt	-1.4 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	30,368	40,307	46,504	34,975	45,001	N/A	-13.2%	-10.4%	N/A
Gross Profit	3,563	5,026	5,802	4,315	5,457	N/A	-17.4%	-7.9%	N/A
Operating Profit	2,094	3,289	3,908	2,906	3,761	N/A	-27.9%	-12.5%	N/A
Net profit	1,314	2,152	2,622	1,912	2,501	N/A	-31.3%	-13.9%	N/A
Gross Margin	11.7%	12.5%	12.5%	12.3%	12.1%	N/A	-0.6 ppt	0.3 ppt	N/A
Operating Margin	6.9%	8.2%	8.4%	8.3%	8.4%	N/A	-1.4 ppt	-0.2 ppt	N/A
Net Margin	4.3%	5.3%	5.6%	5.5%	5.6%	N/A	-1.1 ppt	-0.2 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	30,368	40,307	46,504	33,261	42,851	51,678	-8.7%	-5.9%	-10.0%
Gross Profit	3,563	5,026	5,802	3,602	4,645	5,442	-1.1%	8.2%	6.6%
Operating Profit	2,094	3,289	3,908	2,339	3,045	3,651	-10.5%	8.0%	7.1%
Net profit	1,314	2,152	2,622	1,618	2,099	2,546	-18.8%	2.5%	3.0%
Gross Margin	11.7%	12.5%	12.5%	10.8%	10.8%	10.5%	0.9 ppt	1.6 ppt	1.9 ppt
Operating Margin	6.9%	8.2%	8.4%	7.0%	7.1%	7.1%	-0.1 ppt	1.1 ppt	1.3 ppt
Net Margin	4.3%	5.3%	5.6%	4.9%	4.9%	4.9%	-0.5 ppt	0.4 ppt	0.7 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	20,207	23,577	30,368	40,307	46,504
Cost of sales	(18,172)	(20,806)	(26,805)	(35,281)	(40,702)
Gross profit	2,035	2,771	3,563	5,026	5,802
Other income	96	247	297	396	457
Distribution expenses	(546)	(741)	(941)	(1,109)	(1,239)
Administrative expenses	(439)	(578)	(825)	(1,024)	(1,111)
Operating profit	1,146	1,698	2,094	3,289	3,908
Finance costs	(137)	(133)	(296)	(306)	(268)
Share of profits of assos	-	-	-	-	-
Share of profits of JVs	43	48	47	48	51
Profit before tax	1,052	1,613	1,845	3,030	3,692
Taxation	(282)	(399)	(461)	(788)	(960)
Minority interests	(20)	(48)	(70)	(90)	(110)
Net profit	751	1,166	1,314	2,152	2,622

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	1,052	1,613	1,845	3,030	3,692
Depreciation/amortization	229	287	470	637	689
Change in working capital	35	276	(228)	70	87
Others	(125)	(364)	(262)	(591)	(825)
Net cash from operating	1,191	1,812	1,825	3,146	3,643
Capex	(336)	(363)	(235)	(291)	(291)
Others	190	(1,019)	(4,671)	(61)	(547)
Net cash from investing	(145)	(1,382)	(4,906)	(352)	(838)
Share issuance	1,166	11	702	36	35
Dividend paid	(420)	(475)	(1,171)	(939)	(1,347)
Others	(298)	146	2,841	(1,355)	(336)
Net cash from financing	449	(317)	2,372	(2,259)	(1,648)
Net change in cash	1,494	112	(709)	536	1,156
Cash at beginning of the year	1,124	2,538	2,622	1,913	2,449
Exchange difference	(80)	(29)	-	-	-
Cash at the end of the year	2,538	2,622	1,913	2,449	3,605

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	5,110	5,563	5,597	7,104	8,837
Cash and equivalents	2,538	2,622	1,913	2,449	3,605
Accounts receivables	1,518	1,817	2,246	2,982	3,440
Inventories	495	355	588	773	892
Other current assets	559	769	850	900	900
Non-current assets	2,661	4,240	9,641	9,823	10,454
PP&E	1,120	1,381	1,919	2,115	2,278
Intangibles	61	546	3,822	3,619	3,915
Interests in JVs and assos	56	62	67	71	77
Other non-current assets	1,423	2,250	3,834	4,019	4,184
Total assets	7,770	9,803	15,23	16,927	19,291
Current liabilities	3,061	4,089	5,686	5,771	6,466
Short-term debt	729	989	1,987	1,000	1,000
Accounts payable	2,082	2,788	3,305	4,350	5,018
Other current liabilities	250	312	394	422	448
Non-current liabilities	1,365	1,597	4,497	4,332	3,761
Long-term debt	222	299	2,515	2,106	1,297
Other non-current liabilities	1,143	1,297	1,981	2,226	2,465
Total liabilities	4,426	5,686	10,183	10,103	10,228
Share capital	99	100	103	104	107
Reserves	3,127	3,847	4,755	6,495	8,699
Minority interests	118	170	198	225	258
Shareholders' equity	3,227	3,947	4,858	6,599	8,805
Total equity and liabilities	7,770	9,803	15,238	16,927	19,291

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Sales of new vehicles	88.9	88.3	86.9	86.4	86.2
After-sales services	11.1	11.7	13.1	13.6	13.8
Growth (%)					
Revenue	24.7	16.7	28.8	32.7	15.4
Gross profit	30.7	36.1	28.6	41.1	15.4
Operating profit	36.9	48.2	23.3	57.1	18.8
Net profit	36.3	55.3	12.7	63.8	21.8
Profit & loss ratio (%)					
Gross margin	10.1	11.8	11.7	12.5	12.5
Operating margin	5.7	7.2	6.9	8.2	8.4
Net profit margin	3.7	4.9	4.3	5.3	5.6
Balance sheet ratio					
Net cash/total equity (x)	0.5	0.3	(0.5)	(0.1)	0.1
Current ratio (x)	1.7	1.4	1.0	1.2	1.4
Receivable turnover days	27.4	28.1	27.0	27.0	27.0
Inventory turnover days	9.9	6.2	8.0	8.0	8.0
Payable turnover days	41.8	48.9	45.0	45.0	45.0
Profitability (%)					
ROE	30.4	32.5	29.9	37.6	34.0
ROA	11.0	13.3	10.5	13.4	14.5
Per share data (RMB)					
EPS	0.61	0.92	1.03	1.66	1.99
DPS	0.39	0.84	0.57	0.91	1.09

Source: Company data, CMBIGM estimates

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