

Meidong Auto (1268 HK)

After-sales services, cost reduction as key

Maintain BUY. After-sales services and cost reduction efforts were the bright spots of Meidong's 2H23 earnings. Both will continue to be management's top priorities and key to Meidong's earnings in FY24E, in our view, as headwinds for new-car sales and margins are not over yet. FY25E earnings are poised to improve more significantly amid a lower debt burden.

- 2H23 after-sales services beat on ASP and GPM.** Meidong's 2H23 net profit excluding impairment was largely in line with our prior forecast. Its average selling price (ASP) and GPM for its after-sales services in 2H23 were 8% and 7ppts higher than our estimates, respectively. That led to a 20% beat in the after-sales services gross profit, which was partially due to its continuous management efforts. New-car GPM in 2H23 of -1.3% was 0.9ppt lower than expected.
- After-sales services and cost reduction efforts are still key to FY24E earnings.** We project Meidong's FY24E new-car revenue to fall 12% YoY with all the brands' sales volumes and ASPs declining. We also revise down FY24E new-car GPM from 0.1% to -0.9% (vs. -0.6% in FY23). As noted in [our previous report](#), BMW faces more challenges in 1H24 than FY23. It appears to us that Porsche's margin recovery could take more time than we had expected. On the other hand, we project after-sales services to account for 17.4% of its total revenue in FY24E and revise up its gross margin by 2 ppts to 52%. Management indicated more room for cost reduction during our NDR. We assume SG&A (excluding impairment) to amount to 5.8% of revenue in FY24E despite the sales decline. We project FY24E net profit to be RMB357mn assuming a goodwill impairment of RMB45mn.
- Better FY25E earnings amid lower debt burden.** We project finance cost at Meidong in FY25E to be RMB144mn, or half of that in FY23, as it redeems its convertible bonds. Although new-car sales could continue to drop, we expect new-car GPM to improve slightly, as more dealers are likely to exit the sales network of these brands. We project FY25E net profit to double YoY to RMB711mn, with conservative after-sales revenue (+5% YoY) and GPM (50%) assumptions.
- Valuation/Risks.** We maintain our BUY rating and target price of HK\$4.00, which is based on 9x our FY24-25 average EPS estimates (previously 13x FY24E EPS). We lower our target multiples as we project a further period with higher uncertainties. Key risks to our rating and target price include lower sales and/or margins than expected, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue (RMB mn)	23,577	28,655	28,555	26,187	25,517
YoY growth (%)	16.7	21.5	(0.3)	(8.3)	(2.6)
Net profit (RMB mn)	1,165.6	521.0	140.2	357.1	710.9
YoY growth (%)	55.3	(55.3)	(73.1)	154.7	99.1
EPS (Reported) (RMB)	0.94	0.41	0.10	0.27	0.53
P/E (x)	3.0	6.8	26.7	10.5	5.3
P/B (x)	0.9	0.8	0.7	0.7	0.6
Yield (%)	30.3	7.3	1.5	4.8	11.3
ROE (%)	32.5	12.7	3.0	6.7	12.5
Net gearing (%)	(58.8)	26.5	0.9	(3.0)	(30.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$4.00
(Previous TP)	HK\$4.00)
Up/Downside	32.5%
Current Price	HK\$3.02

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Stock Data

Mkt Cap (HK\$ mn)	4,065.7
Avg 3 mths t/o (HK\$ mn)	19.1
52w High/Low (HK\$)	16.94/2.46
Total Issued Shares (mn)	1346.2

Source: FactSet

Shareholding Structure

Apex Sail Limited	52.3%
Others	47.7%

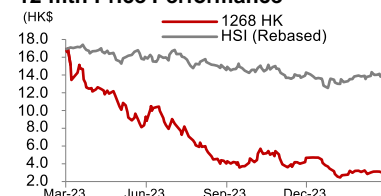
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.9%	-2.1%
3-mth	-36.4%	-34.5%
6-mth	-29.6%	-24.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

["China Meidong Auto \(1268 HK\) – The terrible 2023 is behind us" – 31 Jan 2024](#)

Figure 1: Meidong – results review

((RMB mn))	1H21	2H21	1H22	2H22	1H23	2H23	YoY	HoH
New-car sales volume (units)	32,221	29,374	29,658	38,213	31,589	34,781	-9.0%	10.1%
Total revenue	11,808	11,769	12,658	15,996	14,089	14,466	-9.6%	2.7%
Gross profit	1,274	1,497	1,334	1,183	1,001	1,077	-9.0%	7.6%
Selling exp.	(348)	(393)	(398)	(462)	(382)	(382)	-17.4%	-0.1%
Admin exp.	(278)	(301)	(377)	(433)	(438)	(470)	8.5%	7.4%
Operating profit	771	927	668	446	305	351	-21.3%	15.1%
Net profit	537	629	343	178	39	101	-43.1%	159.6%
Gross margin	10.8%	12.7%	10.5%	7.4%	7.1%	7.4%	0.0 ppt	0.3 ppt
Operating margin	6.5%	7.9%	5.3%	2.8%	2.2%	2.4%	-0.4 ppt	0.3 ppt
Net margin	4.5%	5.3%	2.7%	1.1%	0.3%	0.7%	-0.4 ppt	0.4 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

((RMB mn))	New			Old			Diff (%)		
	FY23A	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	28,555	26,187	25,517	27,343	25,494	26,657	4.4%	2.7%	-4.3%
Gross profit	2,078	2,185	2,496	1,994	2,196	2,546	4.2%	-0.5%	-2.0%
Operating profit	655	846	1,210	543	902	1,218	20.7%	-6.2%	-0.6%
Net profit	140	357	711	80	371	697	75.3%	-3.7%	2.0%
Gross margin	7.3%	8.3%	9.8%	7.3%	8.6%	9.6%	0.0 ppt	-0.3 ppt	0.2 ppt
Operating margin	2.3%	3.2%	4.7%	2.0%	3.5%	4.6%	0.3 ppt	-0.3 ppt	0.2 ppt
Net margin	0.5%	1.4%	2.8%	0.3%	1.5%	2.6%	0.2 ppt	-0.1 ppt	0.2 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

((RMB mn))	CMBIGM			Consensus			Diff (%)		
	FY23A	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	28,555	26,187	25,517	28,781	29,681	31,509	-0.8%	-11.8%	-19.0%
Gross profit	2,078	2,185	2,496	2,099	2,529	2,965	-1.0%	-13.6%	-15.8%
Operating profit	655	846	1,210	643	1,068	1,422	2.0%	-20.8%	-14.9%
Net profit	140	357	711	147	545	735	-4.9%	-34.4%	-3.2%
Gross margin	7.3%	8.3%	9.8%	7.3%	8.5%	9.4%	0.0 ppt	-0.2 ppt	0.4 ppt
Operating margin	2.3%	3.2%	4.7%	2.2%	3.6%	4.5%	0.1 ppt	-0.4 ppt	0.2 ppt
Net margin	0.5%	1.4%	2.8%	0.5%	1.8%	2.3%	0.0 ppt	-0.5 ppt	0.5 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	20,207	23,577	28,655	28,555	26,187	25,517
Cost of goods sold	(18,172)	(20,806)	(26,137)	(26,477)	(24,002)	(23,021)
Gross profit	2,035	2,771	2,517	2,078	2,185	2,496
Operating expenses	(889)	(1,073)	(1,404)	(1,423)	(1,339)	(1,286)
Selling expense	(546)	(741)	(860)	(764)	(713)	(704)
Admin expense	(439)	(578)	(811)	(908)	(860)	(798)
Others	96	247	267	249	235	217
Operating profit	1,146	1,698	1,114	655	846	1,210
Share of (losses)/profits of associates/JV	43	48	25	20	13	12
EBITDA	1,418	2,033	1,629	1,253	1,437	1,805
Depreciation	135	161	225	251	252	254
Depreciation of ROU assets	90	108	134	144	144	146
Other amortisation	4	19	132	182	182	182
EBIT	1,189	1,746	1,139	676	859	1,222
Interest expense	(137)	(133)	(275)	(291)	(237)	(144)
Pre-tax profit	1,052	1,613	864	384	622	1,078
Income tax	(282)	(399)	(308)	(229)	(225)	(287)
After tax profit	771	1,213	556	156	397	791
Minority interest	(20)	(48)	(35)	(16)	(40)	(80)
Net profit	751	1,166	521	140	357	711
Gross dividends	480	1,053	260	56	179	427
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	5,110	5,563	5,888	6,373	6,258	5,237
Cash & equivalents	2,538	2,622	1,636	2,362	2,119	1,935
Account receivables	1,518	1,817	1,560	1,518	1,650	1,608
Inventories	495	355	1,069	960	789	694
ST bank deposits	559	769	1,623	1,533	1,700	1,000
Non-current assets	2,661	4,240	8,351	7,848	7,363	6,912
PP&E	1,120	1,381	1,843	1,708	1,546	1,372
Right-of-use assets	1,286	1,569	1,785	1,661	1,545	1,429
Deferred income tax	61	80	127	133	133	133
Investment in JVs & assos	56	62	39	36	36	38
Intangibles	61	546	3,477	3,277	3,095	2,912
Goodwill	0	179	1,005	961	916	916
Other non-current assets	75	422	75	71	91	111
Total assets	7,770	9,803	14,239	14,220	13,621	12,148
Current liabilities	3,061	4,089	4,874	4,447	4,044	3,918
Short-term borrowings	729	989	1,414	1,245	800	800
Account payables	2,082	2,788	3,193	2,907	2,959	2,838
Tax payable	128	180	102	125	125	125
Other current liabilities	0	0	0	0	0	0
Lease liabilities	122	132	165	170	160	154
Non-current liabilities	1,365	1,597	4,932	4,487	3,997	2,148
Long-term borrowings	222	299	493	200	250	150
Bond payables	0	0	2,275	2,207	1,707	0
Other non-current liabilities	1,143	1,297	2,164	2,081	2,040	1,999
Total liabilities	4,426	5,686	9,806	8,934	8,041	6,066
Share capital	99	100	102	108	108	108
Other reserves	3,127	3,847	4,173	5,044	5,326	5,804
Total shareholders equity	3,227	3,947	4,275	5,152	5,434	5,913
Minority interest	118	170	159	134	146	170
Total equity and liabilities	7,770	9,803	14,239	14,220	13,621	12,148

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,052	1,613	864	384	622	1,078
Depreciation & amortization	229	287	490	577	578	583
Tax paid	(255)	(378)	(472)	(218)	(225)	(287)
Change in working capital	35	276	67	(58)	(87)	708
Others	129	13	205	131	158	50
Net cash from operations	1,191	1,812	1,154	817	1,046	2,131
Investing						
Capital expenditure	(353)	(363)	(283)	(348)	(340)	(340)
Acquisition of subsidiaries/ investments	0	(1,232)	(2,732)	0	0	0
Others	207	213	(468)	505	385	362
Net cash from investing	(145)	(1,382)	(3,483)	157	45	22
Financing						
Dividend paid	(420)	(475)	(1,027)	(212)	(132)	(317)
Net borrowings	(157)	317	(239)	(657)	(895)	(1,807)
Proceeds from share issues	1,150	0	629	871	0	0
Share repurchases	0	0	0	0	0	0
Others	(125)	(160)	1,966	(253)	(307)	(213)
Net cash from financing	449	(317)	1,328	(250)	(1,334)	(2,337)
Net change in cash						
Cash at the beginning of the year	1,124	2,538	2,622	1,636	2,362	2,119
Exchange difference	(80)	(29)	16	3	0	0
Cash at the end of the year	2,538	2,622	1,636	2,362	2,119	1,935
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	24.7%	16.7%	21.5%	(0.3%)	(8.3%)	(2.6%)
Gross profit	30.7%	36.1%	(9.1%)	(17.5%)	5.1%	14.2%
Operating profit	36.9%	48.2%	(34.4%)	(41.2%)	29.1%	43.1%
EBITDA	33.5%	43.4%	(19.9%)	(23.1%)	14.7%	25.6%
EBIT	35.0%	46.8%	(34.8%)	(40.7%)	27.2%	42.3%
Net profit	36.3%	55.3%	(55.3%)	(73.1%)	154.7%	99.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	10.1%	11.8%	8.8%	7.3%	8.3%	9.8%
Operating margin	5.7%	7.2%	3.9%	2.3%	3.2%	4.7%
EBITDA margin	7.0%	8.6%	5.7%	4.4%	5.5%	7.1%
Return on equity (ROE)	30.4%	32.5%	12.7%	3.0%	6.7%	12.5%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.6)	0.3	0.0	(0.0)	(0.3)
Current ratio (x)	1.7	1.4	1.2	1.4	1.5	1.3
Receivable turnover days	27.4	28.1	19.9	19.4	23.0	23.0
Inventory turnover days	9.9	6.2	14.9	13.2	12.0	11.0
Payable turnover days	41.8	48.9	44.6	40.1	45.0	45.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	4.5	3.0	6.8	26.7	10.5	5.3
P/E (diluted)	4.5	3.0	6.9	26.8	10.6	5.3
P/B	1.0	0.9	0.8	0.7	0.7	0.6
P/CFPS	2.8	1.9	3.1	4.6	3.6	1.8
Div yield (%)	14.3	30.3	7.3	1.5	4.8	11.3

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

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