

China Meidong Auto (1268 HK)

The worst is over

Upgrade to BUY. Meidong's share price has fallen 65% since our downgrade on 1 Apr 2023. We are of the view that its new-car gross margin probably hit bottom in 1H23, although recovery may take a while. Porsche's new-car gross margin appears to recover the fastest among traditional luxury brands and Meidong could benefit the most among its peers. In our view, the company may buy back some of its convertible bonds to lower its debts, as it distributed earnings from its onshore subsidiaries to offshore. That could be a positive catalyst for the share price.

- **1H23 earnings miss on new-car GPM.** Meidong's 1H23 revenue and SG&A expenses were largely in line with our prior forecast, whereas the largest surprise came from its 0.2% new-car gross margin (vs. our 2.2%). We attribute such miss partially to the company's strategy to sacrifice profit in order to keep a healthy balance sheet. While it is difficult to find a balance between profit and survival risk during the downturn period, Meidong chooses to prioritize its survival and be prepared for potential M&A opportunities with handy resources when industry environment resumes normal.

Commission income in 1H23 was also below our expectation, partly due to its different accounting policies compared with its peers. Excluding non-operating items (amortization, impairment, withholding tax etc.), adjusted net profit in 1H23 was RMB 254mn, still about RMB 100mn lower than our adjusted estimates.

- **Industry headwinds could be priced in, as new-car gross margin likely hit bottom.** We project Porsche's new-car gross margin at Meidong to widen to 3% in 2H23E and 3.5% in FY24E, given Porsche's decision to cut sales target in China. Meidong's net profit could lift by about RMB 80mn with every 1 ppt increase of Porsche's new-car gross margin. Accordingly, we project net profit of RMB 300mn for 2H23E and RMB 749mn for FY24E.

We also project the company to turn to the net cash position at the end of FY23E, with more-than-enough cash to repay its convertible bonds in 2025.

- **Valuation/Key risks.** Our new target price of HK\$ 7.20 (cut from HK\$ 11.00) is based on 12x (previously 13x) our revised FY24E EPS, as the valuation premium from its management could narrow during tough times. Key risks to our rating and target price include lower sales and/or margins than our expectation, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	23,577	28,655	28,859	28,934	30,704
YoY growth (%)	36.1	(9.1)	(9.4)	18.9	12.0
Net income (RMB mn)	1,166	521	339	749	974
EPS (RMB)	0.92	0.41	0.25	0.55	0.71
YoY growth (%)	55.3	(55.3)	(34.9)	120.7	30.1
P/E (x)	5.1	12.8	21.9	10.0	7.7
P/B (x)	1.5	1.6	1.3	1.2	1.1
Yield (%)	2.6	1.0	1.9	5.0	6.5
ROE (%)	32.5	12.7	6.8	12.5	14.8
Net gearing (%)	Net cash	20.8	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Up)

Target Price	HK\$ 7.20
(Previous TP)	HK\$ 11.00)
Up/Downside	+21.8%
Current Price	HK\$ 5.91

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Stock Data

Mkt Cap (HK\$ mn)	7,949
Avg 3 mths t/o (HK\$ mn)	416
52w High/Low (HK\$)	5.57/21.50
Total Issued Shares (mn)	1,345

Source: Bloomberg

Shareholding Structure

Apex Sail Limited	52.2%
Others	47.8%

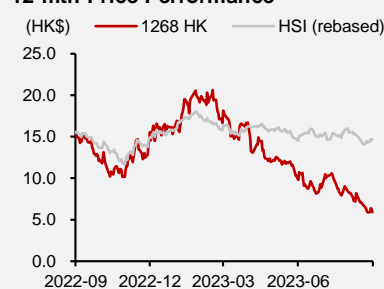
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-30.6%	-22.2%
3-mth	-40.5%	-41.3%
6-mth	-67.4%	-56.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

["China Meidong Auto - 1H23E NP to fall 23% YoY: Mixed picture ahead" – 18 Jul 2023](#)

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

Figure 1: FY22 results review

RMB mn	1H21	2H21	1H22	2H22	1H23	YoY	HoH
New-car sales volume (units)	32,221	29,374	29,658	38,213	31,589	6.5%	-17.3%
Total revenue	11,808	11,769	12,658	15,996	14,089	11.3%	-11.9%
Gross profit	1,274	1,497	1,334	1,183	1,001	-25.0%	-15.4%
Selling exp.	(348)	(393)	(398)	(462)	(382)	-4.0%	-17.3%
Admin exp.	(278)	(301)	(377)	(433)	(438)	16.0%	1.0%
Operating profit	771	927	668	446	305	-54.4%	-31.6%
Net profit	537	629	343	178	39	-88.6%	-78.1%
Gross margin	10.8%	12.7%	10.5%	7.4%	7.1%	-3.4 ppt	-0.3 ppt
Operating margin	6.5%	7.9%	5.3%	2.8%	2.2%	-3.1 ppt	-0.6 ppt
Net margin	4.5%	5.3%	2.7%	1.1%	0.3%	-2.4 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	28,859	28,934	30,704	30,332	32,986	35,337	-4.9%	-12.3%	-13.1%
Gross Profit	2,281	2,713	3,039	2,688	3,255	3,660	-15.1%	-16.6%	-17.0%
Operating Profit	888	1,460	1,697	1,318	1,822	2,145	-32.6%	-19.9%	-20.9%
Net profit	339	749	974	723	1,067	1,287	-53.1%	-29.8%	-24.3%
Gross Margin	7.9%	9.4%	9.9%	8.9%	9.9%	10.4%	-1.0 ppt	-0.5 ppt	-0.5 ppt
Operating Margin	3.1%	5.0%	5.5%	4.3%	5.5%	6.1%	-1.3 ppt	-0.5 ppt	-0.5 ppt
Net Margin	1.2%	2.6%	3.2%	2.4%	3.2%	3.6%	-1.2 ppt	-0.6 ppt	-0.5 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	28,859	28,934	30,704	32,145	36,052	40,448	-10.2%	-19.7%	-24.1%
Gross Profit	2,281	2,713	3,039	2,939	3,549	4,103	-22.4%	-23.6%	-25.9%
Operating Profit	888	1,460	1,697	1,318	1,819	2,297	-32.6%	-19.7%	-26.2%
Net profit	339	749	974	839	1,208	1,444	-59.5%	-38.0%	-32.5%
Gross Margin	7.9%	9.4%	9.9%	9.1%	9.8%	10.1%	-1.2 ppt	-0.5 ppt	-0.2 ppt
Operating Margin	3.1%	5.0%	5.5%	4.1%	5.0%	5.7%	-1.0 ppt	0.0 ppt	-0.2 ppt
Net Margin	1.2%	2.6%	3.2%	2.6%	3.4%	3.6%	-1.4 ppt	-0.8 ppt	-0.4 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	23,577	28,655	28,859	28,934	30,704
Cost of sales	(20,806)	(26,137)	(26,578)	(26,221)	(27,665)
Gross profit	2,771	2,517	2,281	2,713	3,039
Other income	247	267	288	395	385
Distribution expenses	(741)	(860)	(809)	(810)	(852)
Administrative expenses	(578)	(811)	(873)	(837)	(876)
Operating profit	1,698	1,114	888	1,460	1,697
Finance costs	(133)	(275)	(288)	(285)	(192)
Share of profits of assos	-	-	-	-	-
Share of profits of JVs	48	25	21	15	14
Profit before tax	1,613	864	621	1,190	1,518
Taxation	(399)	(308)	(231)	(366)	(454)
Minority interests	(48)	(35)	(50)	(75)	(90)
Net profit	1,166	521	339	749	974

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	1,613	864	621	1,190	1,518
Depreciation/amortization	287	490	581	598	635
Change in working capital	276	67	441	13	14
Others	(364)	(267)	(23)	(281)	(432)
Net cash from operating	1,812	1,154	1,621	1,521	1,735
Capex	(363)	(283)	(320)	(220)	(220)
Others	(1,019)	(3,200)	205	7	(303)
Net cash from investing	(1,382)	(3,483)	(115)	(213)	(523)
Share issuance	11	647	988	15	15
Dividend paid	(475)	(1,027)	(277)	(262)	(475)
Others	146	1,708	(395)	(106)	(2,450)
Net cash from financing	(317)	1,328	315	(353)	(2,910)
Net change in cash	112	(1,002)	1,821	955	(1,699)
Cash at beginning of the year	2,538	2,622	1,636	3,456	4,411
Exchange difference	(29)	16	-	-	-
Cash at the end of the year	2,622	1,636	3,456	4,411	2,713

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	5,563	5,888	7,342	8,304	6,765
Cash and equivalents	2,622	1,636	3,456	4,411	2,713
Accounts receivables	1,817	1,560	1,739	1,902	2,019
Inventories	355	1,069	947	790	834
Other current assets	769	1,623	1,200	1,200	1,200
Non-current assets	4,240	8,351	8,070	7,925	8,208
PP&E	1,381	1,843	1,863	1,867	2,029
Intangibles	546	3,477	3,291	3,207	3,215
Interests in JVs and assos	62	39	37	37	38
Other non-current assets	2,250	2,992	2,880	2,815	2,926
Total assets	9,803	14,239	15,413	16,229	14,974
Current liabilities	4,089	4,874	4,436	4,657	5,052
Short-term debt	989	1,414	900	1,100	1,300
Accounts payable	2,788	3,193	3,277	3,305	3,486
Other current liabilities	312	267	259	253	266
Non-current liabilities	1,597	4,932	5,081	5,080	2,805
Long-term debt	299	2,768	2,933	2,983	605
Other non-current liabilities	1,297	2,164	2,149	2,097	2,200
Total liabilities	5,686	9,806	9,517	9,737	7,857
Share capital	100	102	111	111	111
Reserves	3,847	4,173	5,611	6,185	6,782
Minority interests	170	159	174	196	223
Shareholders' equity	3,947	4,275	5,722	6,296	6,893
Total equity and liabilities	9,803	14,239	15,413	16,229	14,974

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Sales of new vehicles	88.3	88.3	85.8	84.4	84.3
After-sales services	11.7	11.7	14.2	15.6	15.7
Growth (%)					
Revenue	16.7	21.5	0.7	0.3	6.1
Gross profit	36.1	(9.1)	(9.4)	18.9	12.0
Operating profit	48.2	(34.4)	(20.3)	64.4	16.2
Net profit	55.3	(55.3)	(34.9)	120.	30.1
Profit & loss ratio (%)					
Gross margin	11.8	8.8	7.9	9.4	9.9
Operating margin	7.2	3.9	3.1	5.0	5.5
Net profit margin	4.9	1.8	1.2	2.6	3.2
Balance sheet ratio					
Net cash/total equity (x)	0.5	(0.2)	0.1	0.2	0.3
Current ratio (x)	1.4	1.2	1.7	1.8	1.3
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
Profitability (%)					
ROE	32.5	12.7	6.8	12.5	14.8
ROA	13.3	4.3	2.3	4.7	6.2
Per share data (RMB)					
EPS	0.92	0.41	0.25	0.55	0.71
DPS	0.83	0.20	0.12	0.27	0.36

Source: Company data, CMBIGM estimates

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