

# Tuhu Car (9690 HK)

## Solid FY23 with better profitability

Tuhu Car (Tuhu) achieved decent profit for the first time in FY23, with revenue +18% YoY (in line) and adj. NP at RMB481mn (27% above consensus). Looking into FY24E, we are positive on its resilient growth (forecasting revenue + 16% YoY), backed by workshop expansion, richer offerings, monetization diversification and technology enhancement. Margin enhancement may continue, with deeper penetration of private label products, more favourable terms from suppliers and operating leverage. We keep our FY24-25E earnings barely unchanged, but adjusted our DCF-based TP to HK\$35.3 (35x/19x FY24/25E P/E), for lower long-term EBIT with competition landscape change. Stock price may see short-term volatility after lock-up of PE investors, but we keep positive on its organic growth and improving fundamentals.

- Upbeat margin with profitability for the first time.** Tuhu delivered solid FY23 results with inline revenue (+17.8% YoY) and upbeat adj. NPM (3.5%, exceeding our estimates of 1.5%). GPM improved to 24.7% (+5ppts YoY), thanks to revenue mix shift towards high margin business (including auto maintenance and exclusive/private label product), and more favourable terms from suppliers. Coupled with strengthened operational efficiency, Tuhu achieved profitability for the first time in FY23 with adj. NP at RMB 481mn (27% above consensus). Revenue from exclusive/private label products accounted for 42.4%/25.9% of automotive products and services revenue. In addition, mgmt. announced to repurchase HK\$1bn value of shares.
- Workshop expansion into low-tier cities to fuel robust growth.** Tuhu increased no. of workshops by 1,256 (with 64.6% of new workshops in tier-two and below cities) to 5,909 by FY23. Automotive products and services +17.9% YoY, spurred by 1) pent-up travel demand (requiring more tire changes) post pandemic; 2) rising orders with workshops expansion, partially offset by decreasing Qipeilong. Ads, franchise and other services +15.8% YoY, in which increasing franchise services and ads budget were offset by strategic shrinking NEV sales. Looking into 2024E, we are positive on its resilient growth (forecasting revenue + 16% YoY), backed by stores expansion, richer offerings, monetization diversification and technology enhancement.
- High visibility for continuous margin improvement.** Tuhu has proved its clear profitability path in FY23, and we expect margin enhancement to continue in FY24-26E. We forecast its adj. NM up to 8.8% in FY26E from 3.5% in FY23, backed by: 1) revenue mix change (from private label products, auto maintenance); 2) scale effect with higher bargaining power on pricing; and 3) operating efficiency improvement.
- Maintain BUY.** We keep our FY24-25E earnings barely unchanged, but adjusted our DCF-based TP to HK\$35.3 (35x/19x FY24/25E P/E), for lower long-term margin with competition landscape change.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	11,547	13,601	15,791	18,286	21,020
YoY growth (%)	(1.5)	17.8	16.1	15.8	15.0
Net profit (RMB mn)	(552)	481	756	1,396	1,859
EPS (Reported) (RMB)	NA	0.59	0.92	1.69	2.24
YoY growth (%)	NA	NA	57	85	33
Consensus EPS (RMB)	NA	NA	0.94	1.57	NA
P/S (x)	0.8	0.7	0.6	0.5	0.4
P/E (x)	NA	18.7	11.9	6.5	4.8
ROE (%)	NA	NA	15.6	26.5	25.6

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$35.3</b>
(Previous TP)	HK\$50.10)
<b>Up/Downside</b>	<b>195.2%</b>
<b>Current Price</b>	<b>HK\$11.96</b>

### China Entertainment

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#### Stock Data

Mkt Cap (HK\$ mn)	9,795.2
Avg 3 mths t/o (HK\$ mn)	36.2
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	819.0

Source: FactSet

#### Shareholding Structure

JOY Capital	8.6%
Ubiquity	5.2%

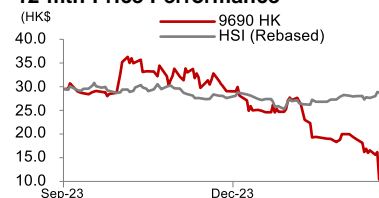
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-36.6%	-39.5%
3-mth	-63.5%	-63.4%
6-mth	NM	NM

Source: FactSet

#### 12-mth Price Performance



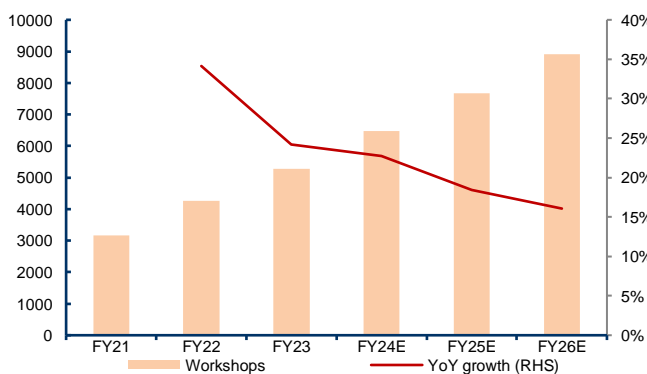
Source: FactSet

Figure 1: FY23 financial review

RMB mn, Dec-YE	1H22	2H22	1H23	2H23	YoY	HoH
<b>Revenue</b>	<b>5,448</b>	<b>6,098</b>	<b>6,500</b>	<b>7,101</b>	<b>16%</b>	<b>9%</b>
<b>Automotive products and services</b>	5,126	5,597	6,100	6,547	17%	7%
Tires and chassis parts	2,200	2,392	2,700	2,853	19%	6%
Auto maintenance	1,906	2,119	2,400	2,533	20%	6%
Others	277	362	348	432	19%	24%
Qipeilong	742	724	652	729	1%	12%
<b>Ads, franchise and other services</b>	375	449	463	492	9%	6%
Cost of revenue	(4,451)	(4,846)	(4,925)	(5,342)	10%	8%
<b>Gross profit</b>	<b>997</b>	<b>1,252</b>	<b>1,575</b>	<b>1,759</b>	<b>41%</b>	<b>12%</b>
Selling and distribution expenses	(742)	(800)	(842)	(873)	9%	4%
Administrative expenses	(199)	(200)	(186)	(235)	17%	27%
R&D expenses	(318)	(303)	(298)	(282)	-7%	-5%
O&S expenses	(321)	(306)	(272)	(328)	7%	21%
<b>Operating (loss)/profit</b>	<b>(504)</b>	<b>(260)</b>	<b>86</b>	<b>75</b>	NA	-13%
Other expenses*	(405)	(939)	5	6,559	NA	NA
<b>(Loss)/profit before income tax</b>	<b>(909)</b>	<b>(1,199)</b>	<b>91</b>	<b>6,634</b>	NA	NA
Income (expense)/credit	(16)	(15)	(11)	(14)	NA	NA
<b>(Loss)/profit for the year</b>	<b>(952)</b>	<b>(1,186)</b>	<b>60</b>	<b>6,641</b>	NA	NA
<b>Margin Analysis</b>						
Gross margin	18.3%	20.5%	24.2%	24.8%		
Operating margin	-9.2%	-4.3%	1.3%	1.1%		
Net margin	-17.5%	-19.5%	0.9%	93.5%		

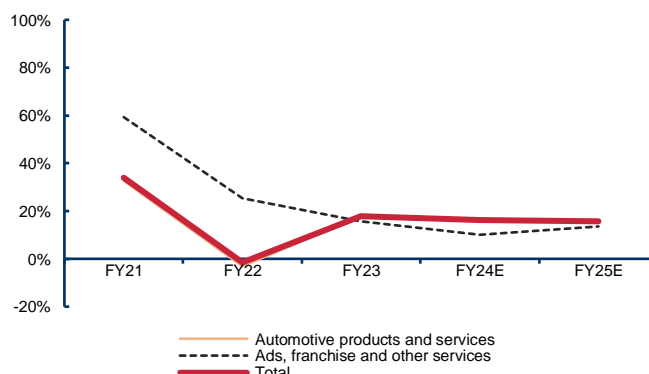
Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Tuhu workshops growth estimates



Source: Company data, CMBIGM estimates

Figure 3: Number of transacting users



Source: Company data, CMBIGM estimates

**Figure 4: Income statement**

RMB mn, Dec-YE	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net revenue</b>	<b>11,724</b>	<b>11,547</b>	<b>13,601</b>	<b>15,791</b>	<b>18,286</b>	<b>21,020</b>
Cost of revenue	(9,854)	(9,277)	(10,242)	(11,712)	(13,394)	(15,148)
<b>Gross profit</b>	<b>1,870</b>	<b>2,270</b>	<b>3,359</b>	<b>4,079</b>	<b>4,892</b>	<b>5,872</b>
Selling and distribution expenses	(1,681)	(1,542)	(1,715)	(1,994)	(2,139)	(2,392)
Administrative expenses	(351)	(399)	(420)	(363)	(366)	(378)
R&D expenses	(620)	(621)	(580)	(584)	(585)	(652)
O&S expenses	(654)	(627)	(600)	(529)	(530)	(568)
<b>Operating (loss)/profit</b>	<b>(1,314)</b>	<b>(764)</b>	<b>162</b>	<b>729</b>	<b>1,393</b>	<b>2,006</b>
Other expenses*	(2)	29	110	6	32	36
<b>(Loss)/profit before income tax</b>	<b>(5,810)</b>	<b>(2,108)</b>	<b>6,725</b>	<b>735</b>	<b>1,425</b>	<b>2,041</b>
Income (expense)/credit	(35)	(31)	(25)	(74)	(142)	(306)
<b>(Loss)/profit for the year</b>	<b>(5,845)</b>	<b>(2,138)</b>	<b>6,701</b>	<b>662</b>	<b>1,282</b>	<b>1,735</b>
<b>Adj. net (loss)/profit*</b>	<b>(1,264)</b>	<b>(552)</b>	<b>481</b>	<b>756</b>	<b>1,396</b>	<b>1,859</b>
<b>Margin Analysis</b>						
Gross margin	16.0%	19.7%	24.7%	25.8%	26.8%	27.9%
Operating margin	-11.2%	-6.6%	1.2%	4.6%	7.6%	9.5%
Adj. net (loss)/profit margin*	-10.8%	-4.8%	3.5%	4.8%	7.6%	8.8%
<b>Growth Analysis</b>						
Revenue	34%	-2%	18%	16%	16%	15%
Gross profit	73%	21%	48%	21%	20%	20%
Operating profit	NA	NA	NA	NA	91%	44%
Adj. net (loss)/profit*	NA	NA	NA	57%	85%	33%

Source: Company data, CMBIGM estimates

**Figure 5: CMBIGM estimates vs consensus**

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	15,791	18,286	21,020	16,029	18,941	NA	-1.5%	-3.5%	NA
Gross Profit	4,106	4,953	5,941	4,152	5,212	NA	-1.1%	-5.0%	NA
Operating Profit	728	1,393	2,005	805	1,432	NA	-9.6%	-2.7%	NA
Adj. net profit	756	1,396	1,859	795	1,359	NA	-4.9%	2.7%	NA
EPS (US\$)	0.9	1.7	2.2	0.94	1.57	NA	-1.8%	7.3%	NA
Gross Margin	26.0%	27.1%	28.3%	25.9%	27.5%	NA	+0.1ppts	-0.4ppts	NA
Operating Margin	4.6%	7.6%	9.5%	5.0%	7.6%	NA	-0.4ppts	+0.1ppts	NA
Net Margin	4.8%	7.6%	8.8%	5.0%	7.2%	NA	-0.2ppts	+0.5ppts	NA

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 6: Earnings revision**

US\$ mn, Dec-YE	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	15,791	18,286	21,020	16,305	19,402	NA	-3.2%	-5.8%	NA
Gross Profit	4,106	4,953	5,941	4,165	5,179	NA	-1.4%	-4.4%	NA
Operating Profit	728	1,393	2,005	707	1,383	NA	3.0%	0.8%	NA
Adj. net profit	756	1,396	1,859	753	1,396	NA	0.3%	0.0%	NA
EPS (US\$)	0.9	1.7	2.2	0.92	1.69	NA	0.3%	0.0%	NA
Gross Margin	26.0%	27.1%	28.3%	25.5%	26.7%	NA	+0.5ppts	+0.4ppts	NA
Operating Margin	4.6%	7.6%	9.5%	4.3%	7.1%	NA	+0.3ppts	+0.5ppts	NA
Net Margin	4.8%	7.6%	8.8%	4.6%	7.2%	NA	+0.2ppts	+0.4ppts	NA

Source: Company data, Bloomberg, CMBIGM estimates

## Figure 7: DCF valuation

DCF valuation (RMB mn)									
	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	728	1,393	2,005	2,687	3,418	4,162	4,887	5,567	6,187
Tax	(73)	(142)	(306)	(430)	(547)	(666)	(782)	(891)	(990)
D&A	409	478	532	558	586	615	646	678	712
Working capital changes	(713)	1,257	(474)	(498)	(522)	(549)	(576)	(605)	(635)
CAPEX	(782)	(663)	(828)	(869)	(913)	(959)	(1,006)	(1,057)	(1,110)
<b>FCF</b>	<b>(431)</b>	<b>2,323</b>	<b>929</b>	<b>1,449</b>	<b>2,022</b>	<b>2,604</b>	<b>3,168</b>	<b>3,693</b>	<b>4,165</b>
FCF Growth	NA	NA	-60%	56%	40%	29%	22%	17%	13%
Terminal Value									36,136
<b>PV (FCF+ Terminal Value)</b>	<b>(375)</b>	<b>1,761</b>	<b>613</b>	<b>956</b>	<b>1,161</b>	<b>1,302</b>	<b>1,379</b>	<b>1,399</b>	<b>13,292</b>

### Assumptions

<b>WACC</b>	<b>14.9%</b>
Tax rate	15.0%
Risk free rate	3.6%
Beta	1.2
Market risk return	13.0%
Debt/Assets	0.0%
<b>Terminal growth rate</b>	<b>3.0%</b>
<b>Debt value</b>	<b>0</b>

### Equity Value

<b>PV</b>	<b>21,488</b>
minus: Net cash	(5,133)
minus: Minority Interest	0
Equity Value	26,621
FX	0.92
<b>TP (HK\$) based on DCF</b>	<b>35.3</b>

		WACC				
		13%	14%	15%	16%	17%
Growth	1.5%	39.0	35.7	33.4	30.7	28.7
	2.0%	39.9	36.5	34.0	31.2	29.1
	2.5%	40.9	37.3	34.6	31.7	29.5
	3.0%	42.0	38.2	<b>35.3</b>	32.3	30.0
	3.5%	43.3	39.1	36.1	32.9	30.5
	4.0%	44.6	40.2	37.0	33.5	31.0
4.5%	46.2	41.3	37.9	34.2	31.6	

Source: Bloomberg, CMBIGM estimates

## Risks

- 1) Macro uncertainty on travel demand; 2) intense competition to weigh on margin; 3) unable to retain franchise or partner store operators; and 4) change in customers' needs with advanced technology.

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>11,724</b>	<b>11,547</b>	<b>13,601</b>	<b>15,791</b>	<b>18,286</b>	<b>21,020</b>
Cost of goods sold	(9,854)	(9,277)	(10,242)	(11,685)	(13,333)	(15,079)
<b>Gross profit</b>	<b>1,870</b>	<b>2,270</b>	<b>3,359</b>	<b>4,106</b>	<b>4,953</b>	<b>5,941</b>
<b>Operating expenses</b>	<b>(3,306)</b>	<b>(3,190)</b>	<b>(3,315)</b>	<b>(3,499)</b>	<b>(3,682)</b>	<b>(4,059)</b>
Selling expense	(1,681)	(1,542)	(1,715)	(1,943)	(2,118)	(2,392)
Admin expense	(351)	(399)	(420)	(363)	(366)	(378)
R&D expense	(620)	(621)	(580)	(584)	(585)	(652)
Other rental related expenses	(654)	(627)	(600)	(608)	(613)	(637)
<b>Operating profit</b>	<b>(1,314)</b>	<b>(764)</b>	<b>162</b>	<b>728</b>	<b>1,393</b>	<b>2,005</b>
Other expense	(2)	29	110	6	31	35
<b>Pre-tax profit</b>	<b>(5,810)</b>	<b>(2,108)</b>	<b>6,725</b>	<b>734</b>	<b>1,425</b>	<b>2,041</b>
Income tax	(35)	(31)	(25)	(73)	(142)	(306)
<b>Net profit</b>	<b>(5,845)</b>	<b>(2,138)</b>	<b>6,701</b>	<b>661</b>	<b>1,282</b>	<b>1,735</b>
<b>Adjusted net profit</b>	<b>(1,264)</b>	<b>(552)</b>	<b>481</b>	<b>756</b>	<b>1,396</b>	<b>1,859</b>
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>7,746</b>	<b>6,906</b>	<b>8,271</b>	<b>9,031</b>	<b>11,779</b>	<b>14,146</b>
Cash & equivalents	4,970	4,707	5,757	5,558	8,201	9,644
Account receivables	203	174	218	474	328	594
Prepayment	539	456	496	701	800	905
Financial assets at FVTPL	320	26	0	0	0	0
Other current assets	1,714	1,543	1,800	2,298	2,451	3,003
<b>Non-current assets</b>	<b>2,086</b>	<b>2,108</b>	<b>3,493</b>	<b>2,543</b>	<b>2,788</b>	<b>3,123</b>
PP&E	539	671	899	1,373	1,621	1,958
Right-of-use assets	518	468	467	467	467	467
Intangibles	79	86	78	75	73	70
Other non-current assets	950	884	2,049	628	628	628
<b>Total assets</b>	<b>9,832</b>	<b>9,014</b>	<b>11,765</b>	<b>11,574</b>	<b>14,567</b>	<b>17,269</b>
<b>Current liabilities</b>	<b>5,743</b>	<b>5,572</b>	<b>6,602</b>	<b>6,849</b>	<b>8,211</b>	<b>8,660</b>
Account payables	4,704	4,685	5,606	5,853	7,215	7,664
Other current liabilities	332	97	121	121	121	121
Lease liabilities	148	137	132	132	132	132
Contract liabilities	559	653	743	743	743	743
<b>Non-current liabilities</b>	<b>19,454</b>	<b>22,398</b>	<b>704</b>	<b>697</b>	<b>697</b>	<b>697</b>
Convertible bonds	18,609	21,726	0	0	0	0
Other non-current liabilities	844	672	704	697	697	697
<b>Total liabilities</b>	<b>25,197</b>	<b>27,971</b>	<b>7,306</b>	<b>7,545</b>	<b>8,908</b>	<b>9,357</b>
Retained earnings	(15,754)	(18,957)	4,460	5,121	6,403	8,138
Other reserves	0	0	(2)	(1,092)	(744)	(227)
<b>Total shareholders equity</b>	<b>(15,367)</b>	<b>(18,957)</b>	<b>4,460</b>	<b>4,029</b>	<b>5,659</b>	<b>7,911</b>
<b>Total equity and liabilities</b>	<b>9,830</b>	<b>9,014</b>	<b>11,766</b>	<b>11,574</b>	<b>14,567</b>	<b>17,268</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(99)	(312)	1,298	583	3,306	2,272
Depreciation & amortization	305	364	404	409	478	532
Change in working capital	771	(197)	485	(713)	1,257	(474)
<b>Net cash from operations</b>	<b>(99)</b>	<b>(312)</b>	<b>1,298</b>	<b>583</b>	<b>3,306</b>	<b>2,272</b>
<b>Investing</b>						
Capital expenditure	(410)	(297)	(744)	(782)	(663)	(828)
Others	(508)	779	0	0	0	0
<b>Net cash from investing</b>	<b>(918)</b>	<b>481</b>	<b>(744)</b>	<b>(782)</b>	<b>(663)</b>	<b>(828)</b>
<b>Financing</b>						
Net borrowings	(1,749)	(264)	0	0	0	0
Proceeds from share issues	0	0	1,010	0	0	0
Others	3,157	1,200	0	0	0	0
<b>Net cash from financing</b>	<b>1,408</b>	<b>936</b>	<b>1,010</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,165	1,472	2,686	2,715	2,516	5,159
Exchange difference	(84)	109	0	0	0	0
<b>Cash at the end of the year</b>	<b>1,472</b>	<b>2,687</b>	<b>4,251</b>	<b>2,516</b>	<b>5,159</b>	<b>6,602</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	33.9%	(1.5%)	17.8%	16.1%	15.8%	15.0%
Gross profit	73.2%	21.4%	48.0%	22.2%	20.6%	19.9%
Operating profit	na	na	na	351.0%	91.3%	43.9%
Net profit	na	na	na	(90.1%)	94.0%	35.3%
Adj. net profit	na	na	na	57.0%	84.7%	33.2%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	16.0%	19.7%	24.7%	26.0%	27.1%	28.3%
Operating margin	(11.2%)	(6.6%)	1.2%	4.6%	7.6%	9.5%
Adj. net profit margin	(10.8%)	(4.8%)	3.5%	4.8%	7.6%	8.8%
Return on equity (ROE)	na	na	na	15.6%	26.5%	25.6%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	na	na	1.1	1.2	1.3	1.1
Current ratio (x)	1.3	1.2	1.3	1.3	1.4	1.6
Receivable turnover days	7.5	6.0	5.3	8.0	8.0	8.0
Inventory turnover days	59.2	64.1	59.6	64.0	65.0	66.0
Payable turnover days	103.0	103.0	103.0	125.0	128.0	129.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	NA	NA	18.7	11.9	6.5	4.8

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

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