

# Meidong Auto (1268 HK)

## Resilient profit, cash flow; Porsche to bottom out?

**Maintain BUY.** We are of the view that Meidong's high inventory turnover and superb cost control capabilities which have resulted in healthy cash flow, could help it survive longer, as dealers' profit recovery in China may take some time. We believe Porsche dealers in China have probably bottomed out.

- **In-line operating loss of RMB1mn.** Meidong's new-car sales volume rose 8% YoY in 1H25, higher than our prior forecast, especially for Porsche and BMW. New-car gross margin of -10.8% was below our expectation, which could be due to Porsche on our estimates. Meidong maintained its superb cost control capabilities, with SG&A expense ratio being 5.1% in 1H25, the lowest since 1H21. Net profit excluding impairment losses on intangible assets and goodwill was about RMB53mn in 1H25, thanks to the profit contribution from Lexus, in our view.
- **High earnings growth potential if Porsche rebounds.** Meidong's overall profitability was still more resilient than our prior expectation, even as Porsche faced more challenges in China than most investors had expected. Meidong accounted for almost 19% of total Porsche sales volume in China in 1H25 (vs. 16% in FY24). We attribute such market share increase to its high inventory turnover strategy, which still works now, as noted in our [previous report](#). We still expect Porsche to recover gradually in China from 2H25E, especially with the new management in China. We have also seen narrowing discounts in some regions.
- **Healthy cash flow to help it survive longer, benefit from peers' store closure.** We attribute Meidong's sales volume and number of after-sales services beat partially to peers' store closure. Meidong's number of stores was only reduced by 4 from its peak number. Such survival capabilities could benefit its revenue and profit at least in the short term. Meidong remained net cash position as of 30 Jun 2025 and we expect its cash flow to further improve in 2H25E.
- **Earnings/Valuation.** We project gross margin to widen from 4.7% in 1H25 to 6% in 2H25E, as we expect new-car gross margin to improve for BMW and Porsche. We estimate 2H25E net profit to be RMB110mn, as impairment and loss on CB redemption are unlikely to repeat. We expect FY26-27E revenue to halt declines and new-car gross margin to improve gradually. We estimate Meidong's FY26-27E net profits to be RMB201mn and RMB466mn, respectively. We maintain a BUY rating and cut target price from HK\$3.20 to HK\$2.80, based on 8x our FY27E EPS (prior 8x FY25E). Key risks to our rating and target price include lower sales and/or margins than we expect and a sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	28,555	22,154	20,651	20,705	21,085
YoY growth (%)	(0.3)	(22.4)	(6.8)	0.3	1.8
Net profit (RMB mn)	140.2	(2,264.1)	(704.8)	201.1	466.4
YoY growth (%)	(73.1)	na	na	na	131.9
EPS (Reported) (RMB cents)	10.44	(168.18)	(52.35)	14.94	34.65
P/E (x)	18.5	ns	ns	12.9	5.6
P/B (x)	0.5	0.9	1.2	1.2	1.0
Yield (%)	2.2	2.3	2.5	3.9	9.0
ROE (%)	3.0	(56.7)	(28.7)	9.4	19.8
Net gearing (%)	0.9	(83.0)	(49.9)	(50.2)	(65.1)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$2.80</b>
(Previous TP)	HK\$3.20)
<b>Up/Downside</b>	<b>33.3%</b>
<b>Current Price</b>	<b>HK\$2.10</b>

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### Stock Data

Mkt Cap (HK\$ mn)	2,827.1
Avg 3 mths t/o (HK\$ mn)	2.8
52w High/Low (HK\$)	3.36/1.64
Total Issued Shares (mn)	1346.2
Source:	FactSet

### Shareholding Structure

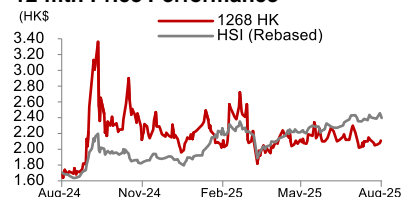
Apex Sail Limited	52.3%
Others	47.7%
Source:	HKEx

### Share Performance

	Absolute	Relative
1-mth	-8.7%	-8.0%
3-mth	-1.4%	-8.5%
6-mth	-0.5%	-6.3%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Report

["Meidong Auto \(1268 HK\) - High inventory turnover strategy still working now" - 27 Mar 2025](#)

**Figure 1: Interim results**

RMB mn	1H23	2H23	1H24	2H24	1H25	YoY	HoH
New-car sales volume (units)	31,589	34,781	26,176	30,754	28,214	7.8%	-8.3%
Total revenue	14,089	14,466	10,656	11,498	10,135	-4.9%	-11.9%
Gross profit	1,001	1,077	806	755	476	-41.0%	-37.0%
Selling exp.	(382)	(382)	(295)	(289)	(260)	-12.1%	-10.2%
Admin exp.	(401)	(446)	(324)	(338)	(258)	-20.4%	-23.5%
Operating profit	305	351	141	(2,554)	(869)	N/A	N/A
Net profit	39	101	(27)	(2,237)	(815)	N/A	N/A
Gross margin	7.1%	7.4%	7.6%	6.6%	4.7%	-2.9 pts	-1.9 pts
Operating margin	2.2%	2.4%	1.3%	-22.2%	-8.6%	-9.9 pts	13.6 pts
Net margin	0.3%	0.7%	-0.3%	-19.5%	-8.0%	-7.8 pts	11.4 pts

Source: Company data, CMBIGM

**Figure 2: Earnings revision**

RMB mn	FY25E	New FY26E	FY27E	FY25E	Old FY26E	FY27E	FY25E	Diff (%) FY26E	FY27E
Revenue	20,651	20,705	21,085	20,406	20,510	N/A	1.2%	1.0%	N/A
Gross profit	1,107	1,268	1,616	1,779	1,918	N/A	-37.8%	-33.9%	N/A
Operating profit	(674)	395	764	827	996	N/A	-181.5%	-60.4%	N/A
Net profit	(705)	201	466	494	615	N/A	-242.7%	-67.3%	N/A
Gross margin	5.4%	6.1%	7.7%	8.7%	9.4%	N/A	-3.4 pts	-3.2 pts	N/A
Operating margin	-3.3%	1.9%	3.6%	4.1%	4.9%	N/A	-7.3 pts	-2.9 pts	N/A
Net margin	-3.4%	1.0%	2.2%	2.4%	3.0%	N/A	-5.8 pts	-2.0 pts	N/A

Source: CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

RMB mn	FY25E	CMBIGM FY26E	FY27E	FY25E	Consensus FY26E	FY27E	FY25E	Diff (%) FY26E	FY27E
Revenue	20,651	20,705	21,085	19,858	18,935	19,095	4.0%	9.3%	10.4%
Gross profit	1,107	1,268	1,616	1,796	1,942	2,469	-38.4%	-34.7%	-34.5%
Operating profit	(674)	395	764	737	875	1,228	-191.5%	-54.9%	-37.8%
Net profit	(705)	201	466	402	510	624	-275.5%	-60.6%	-25.3%
Gross margin	5.4%	6.1%	7.7%	9.0%	10.3%	12.9%	-3.7 pts	-4.1 pts	-5.3 pts
Operating margin	-3.3%	1.9%	3.6%	3.7%	4.6%	6.4%	-7.0 pts	-2.7 pts	-2.8 pts
Net margin	-3.4%	1.0%	2.2%	2.0%	2.7%	3.3%	-5.4 pts	-1.7 pts	-1.1 pts

Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	28,655	28,555	22,154	20,651	20,705	21,085
Cost of goods sold	(26,137)	(26,477)	(20,593)	(19,545)	(19,437)	(19,469)
Gross profit	2,517	2,078	1,561	1,107	1,268	1,616
Operating expenses	(1,404)	(1,361)	(1,063)	(913)	(873)	(852)
Selling expense	(860)	(764)	(585)	(523)	(517)	(513)
Admin expense	(811)	(847)	(662)	(508)	(489)	(485)
Others	267	249	184	118	133	146
Operating profit	1,114	717	498	194	395	764
Share of (losses)/profits of associates/JV	25	20	17	11	13	13
EBITDA	1,629	1,253	(1,841)	(251)	789	1,157
Depreciation	225	251	229	238	238	242
Depreciation of ROU assets	134	144	146	131	128	122
Other amortisation	132	182	180	43	15	15
EBIT	1,139	676	(2,395)	(663)	408	777
Interest expense	(275)	(291)	(239)	(220)	(120)	(115)
Pre-tax profit	864	384	(2,635)	(883)	288	662
Income tax	(308)	(229)	376	176	(72)	(165)
After tax profit	556	156	(2,259)	(707)	216	496
Minority interest	(35)	(16)	(5)	2	(15)	(30)
Net profit	521	140	(2,264)	(705)	201	466
Gross dividends	261	56	60	65	101	233

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	5,888	6,373	7,113	4,414	4,475	5,041
Cash & equivalents	1,636	2,362	2,645	1,279	1,341	1,886
Account receivables	1,560	1,518	1,588	1,132	1,135	1,155
Inventories	1,069	960	761	803	799	800
ST bank deposits	1,623	1,533	2,120	1,200	1,200	1,200
Non-current assets	8,351	7,848	4,368	3,115	2,815	2,507
PP&E	1,843	1,708	1,431	1,214	1,066	914
Right-of-use assets	1,785	1,661	1,546	1,415	1,277	1,135
Deferred income tax	127	133	136	136	136	136
Investment in JVs & assos	39	36	33	34	35	37
Intangibles	3,477	3,277	1,130	237	221	206
Goodwill	1,005	961	18	0	0	0
Other non-current assets	75	71	75	80	80	80
Total assets	14,239	14,220	11,481	7,529	7,290	7,548
Current liabilities	4,874	4,447	6,788	3,689	3,397	3,391
Short-term borrowings	1,414	1,245	710	500	500	500
Account payables	3,193	2,907	4,056	2,945	2,663	2,667
Tax payable	102	125	93	93	93	93
Other current liabilities	0	0	1,759	0	0	0
Lease liabilities	165	170	170	150	142	131
Non-current liabilities	4,932	4,487	1,736	1,639	1,574	1,498
Long-term borrowings	493	200	292	242	242	242
Bond payables	2,275	2,207	0	0	0	0
Other non-current liabilities	2,164	2,081	1,444	1,397	1,332	1,256
Total liabilities	9,806	8,934	8,525	5,327	4,971	4,889
Share capital	102	108	108	108	108	108
Other reserves	4,173	5,044	2,726	1,972	2,084	2,416
Total shareholders equity	4,275	5,152	2,834	2,080	2,192	2,524
Minority interest	159	134	122	122	126	135
Total equity and liabilities	14,239	14,220	11,481	7,529	7,290	7,548

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	864	384	(2,635)	(883)	288	662
Depreciation & amortization	490	577	555	412	381	380
Tax paid	(472)	(218)	(232)	176	(72)	(165)
Change in working capital	67	(139)	106	190	(305)	(42)
Others	205	212	3,071	1,087	95	85
<b>Net cash from operations</b>	<b>1,154</b>	<b>817</b>	<b>865</b>	<b>982</b>	<b>388</b>	<b>919</b>
<b>Investing</b>						
Capital expenditure	(283)	(348)	(111)	(160)	(200)	(200)
Acquisition of subsidiaries/ investments	(2,732)	0	0	0	0	0
Others	(468)	505	841	177	167	173
<b>Net cash from investing</b>	<b>(3,483)</b>	<b>157</b>	<b>730</b>	<b>17</b>	<b>(33)</b>	<b>(27)</b>
<b>Financing</b>						
Dividend paid	(1,027)	(212)	(61)	(59)	(109)	(166)
Net borrowings	(239)	(657)	(1,028)	(2,107)	0	0
Proceeds from share issues	629	871	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	1,966	(253)	(223)	(199)	(183)	(182)
<b>Net cash from financing</b>	<b>1,328</b>	<b>(250)</b>	<b>(1,312)</b>	<b>(2,364)</b>	<b>(293)</b>	<b>(348)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,622	1,636	2,362	2,645	1,279	1,341
Exchange difference	16	3	(0)	0	0	0
<b>Cash at the end of the year</b>	<b>1,636</b>	<b>2,362</b>	<b>2,645</b>	<b>1,279</b>	<b>1,341</b>	<b>1,886</b>
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Revenue	21.5%	(0.3%)	(22.4%)	(6.8%)	0.3%	1.8%
Gross profit	(9.1%)	(17.5%)	(24.9%)	(29.1%)	14.6%	27.4%
Operating profit	(34.4%)	(35.6%)	(30.5%)	(61.1%)	103.5%	93.5%
EBITDA	(19.9%)	(23.1%)	na	na	na	46.6%
EBIT	(34.8%)	(40.7%)	na	na	na	90.6%
Net profit	(55.3%)	(73.1%)	na	na	na	131.9%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Gross profit margin	8.8%	7.3%	7.0%	5.4%	6.1%	7.7%
Operating margin	3.9%	2.5%	2.2%	0.9%	1.9%	3.6%
EBITDA margin	5.7%	4.4%	(8.3%)	(1.2%)	3.8%	5.5%
Return on equity (ROE)	12.7%	3.0%	(56.7%)	(28.7%)	9.4%	19.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.3	0.0	(0.8)	(0.5)	(0.5)	(0.7)
Current ratio (x)	1.2	1.4	1.0	1.2	1.3	1.5
Receivable turnover days	19.9	19.4	26.2	20.0	20.0	20.0
Inventory turnover days	14.9	13.2	13.5	15.0	15.0	15.0
Payable turnover days	44.6	40.1	71.9	55.0	50.0	50.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
P/E	4.7	18.5	ns	ns	12.9	5.6
P/E (diluted)	4.8	18.5	ns	ns	13.0	5.6
P/B	0.6	0.5	0.9	1.2	1.2	1.0
P/CFPS	2.1	3.2	3.0	2.6	6.7	2.8
Div yield (%)	10.6	2.2	2.3	2.5	3.9	9.0

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

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