

Yongda (3669 HK)

New business supports future growth

Yongda (3669 HK) released FY20 full-year results. Revenue was RMB68.5bn, up 9% YoY, among which revenue from new car sales up by 10% YoY to RMB58.2bn while revenue from after-sales services up by 8% YoY to RMB9.6bn. FY20 NP increased by 10% YoY to RMB1.6bn (vs CMBI estimate RMB1.5bn). Benefiting from the recovery of China's overall auto market after COVID-19, 2H20 NP increased by 48.2% to RMB1.1bn. The Company declared a dividend of RMB0.288 per share, representing a 35% payout ratio, higher than its historical level over the past five years.

■ **The Company maintains excellent operating conditions, focusing on (ultra-) luxury brands.** The number of stores increased to 213 in 2020 from 206 at the end of 2019. In 2020, the Company took the initiative to close/transfer 13 branches with weak profits, so as to improve the brand structure and network layout and increase the efficiency of the assets. The new car sales volume of Yongda in 2020 increased by 3.7% YoY to 204.6K units, among which Porsche +12.7% YoY / BMW +6.8% YoY. Luxury brands accounted for 84.0% of new car sales revenue in 2020, up from 82.7% in 2019.

■ **The financial situation continued to improve.** The Company's gross profit margin on new vehicles increased by 0.32ppt to 2.67% (BMW 2.65%, Porsche 7.36%) thanks to increased sales of its two major brands, while its gross profit margin on after-sale services remained stable at 46.01%. In 2H20, the S&D+ Admin expense ratio decreased by 0.49ppt, mainly due to 1) the scale effect brought by the growth of revenue; 2) while controlling fixed expenses, part of salaries was changed from fixed to floating. The Company's financial expense ratio in 2020 decreased by 0.25ppt, mainly due to 1) decrease of inventory turnover days from 36.8 days in 2019 to 30.8 days in 2020; 2) operating cash flow improved significantly, up 39.4% YoY to RMB5.7bn; 3) expansionary monetary policy under the background of post-COVID 19 recovery. By the end of 2020, the Company's net debt ratio dropped by a significant 44.6ppt to 54.1%, laying the foundation for earnings growth and future expansion.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	55,318	62,707	68,534	80,615	89,654
YoY growth (%)	9.11%	13.36%	9.29%	17.63%	11.21%
Net income (RMB mn)	1,253	1,473	1,625	2,117	2,377
EPS (RMB)	0.68	0.80	0.85	1.11	1.24
YoY growth (%)	-25%	17%	6%	30%	12%
Consensus EPS(RMB)	0.68	0.80	0.84	1.04	1.20
P/E (x)	18.70	15.93	14.99	11.51	10.25
P/B (x)	2.61	2.37	2.06	2.11	1.84
Yield (%)	1.76%	2.07%	2.26%	3.04%	3.42%
ROE (%)	14.51%	15.61%	14.97%	18.11%	19.19%
Net gearing (%)	98%	74%	39%	53%	63%

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$18.6**
 (Previous TP **HK\$11.1**)
Up/Downside **+30.4%**
Current Price **HK\$14.3**

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	28,241
Avg 3 mths t/o (HK\$ mn)	105.56
52w High/Low (HK\$)	14.84/4.76
Total Issued Shares (mn)	1,975

Source: Wind

Shareholding Structure

Cheung Tak On	30.78%
Regency Valley Company Limited	20.96%
Asset Link Investment Limited	9.99%

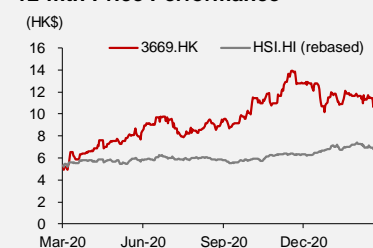
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	22.0%	30.6%
3-mth	11.5%	2.5%
6-mth	53.4%	28.6%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Deloitte Touche Tohmatsu

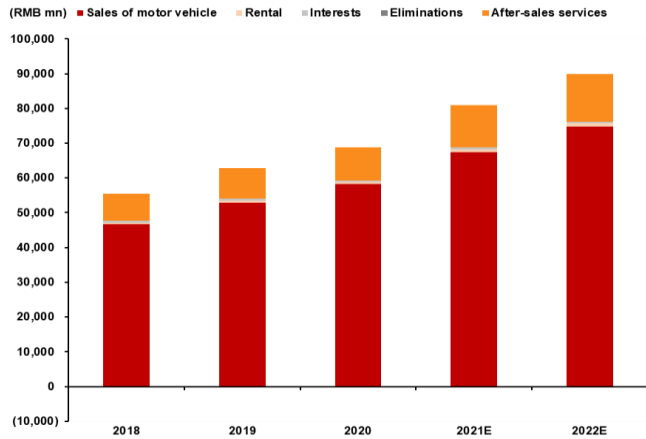
Related Reports

1. "Yongda (3669 HK) – Optimizing asset structure for a better future" – 26 Aug 2020
2. "Yongda (3669 HK) – Operation improved with new strategy target" – 26 Mar 2020
3. "Yongda (3669 HK) – Largest BMW and Porsche dealer in China" – 11 Dec 2019

- **2021E to increase the used-car business.** The Company sold 52,280 used cars in 2020, up 26.6%YoY. The gross profit of used-cars was RMB175mn, up 27.3%YoY. In 2H20, the replacement ratio increased from 21% in 1H20 to 25%-26%. Benefited from the VAT reform (the new policy was implemented on 1 May 2020), the Company has decided to actively expand the used-car car dealership business from the traditional brokerage business, which will be launched in 2021E. The Company will take advantage of the brand advantages of 1) official certification and Yongda certified used-cars; 2) transition opportunity for used-cars wholesale to retail under the background of increasing market replacement rate; and 3) digital platform which empowers O2O used-car business, in order to seize the development opportunities of the used-car market.
- **Yongda will continue to expand the business of NEVs.** The Company's sales volume of NEV (including plug-in and hybrid models) in 2020 increased by 13.8% YoY to 10,271 units. The Company will set up a new organizational structure and an independent team to expand the business of NEV, and focus on the asset-light operation model. Yongda currently cooperates with new players such as Tesla (2), XPEV (3), and WM Motor (6), and maintains communication with other players. The Company's NEV business will mainly focus on 1) acting as a showroom partner and delivery agent; 2) battery-charging business, etc. We believe that the new energy vehicle business is expected to lift the Company's overall market space.
- **We expect re-rating given recent events.** Previously, the valuation multiple of Yongda lagged behind its peers, mainly due to 1) the existence of proprietary finance and leasing business, and 2) ambiguous future of several business lines. We have noted that the Company has taken measures such as stripping non-core assets to continuously improve its operating conditions, and has clarified the business layout of "(ultra-) luxury + NEV+ used-car". It is expected that its valuation will converge to that of top peers. We remain optimistic about the overall luxury car market in 2021E with a high growth rate. The Company's new acquisition of six BMW stores (completed by Nov 2020) will begin to contribute to the Company's earnings in 2021E and support its high earnings growth.
- **We raise our bottom-line forecast by 5% in 2020E at RMB2.1bn to reflect 1) strong luxury vehicle growth and 2) used-car business expansion.** We expect the Company will deliver a 30% YoY growth in 2021E. As we stated previously, we take 15.0x 2021E P/E and raise our TP to HK\$18.6 with an upside of 30.4% from the initial TP HK\$11.1(based on initial 9.0x 2020E P/E). **Reiterate BUY.**

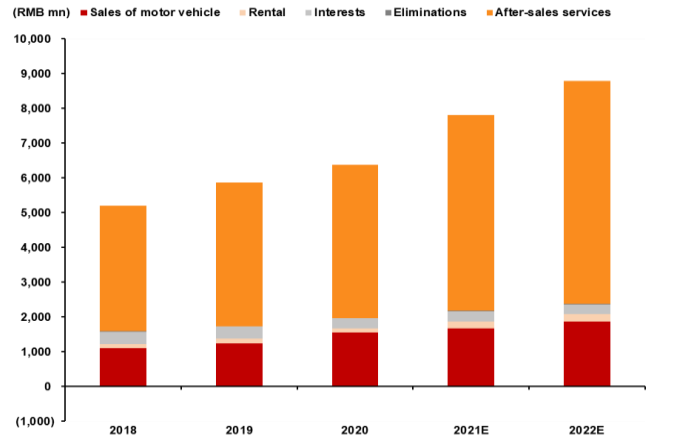
Focus Charts

Figure 1: Revenue composition



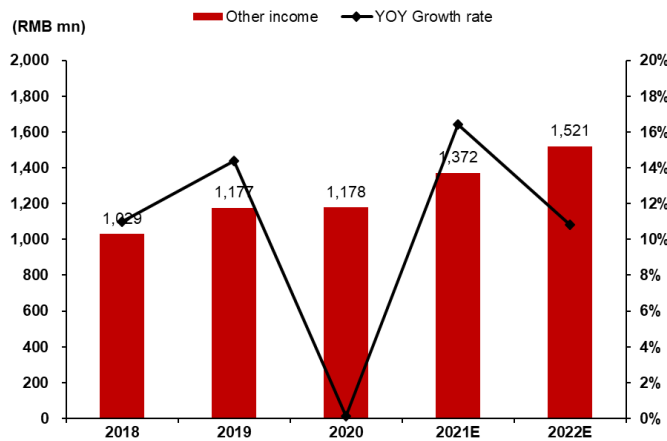
Source: Company data, CMBIS estimates

Figure 2: GP composition



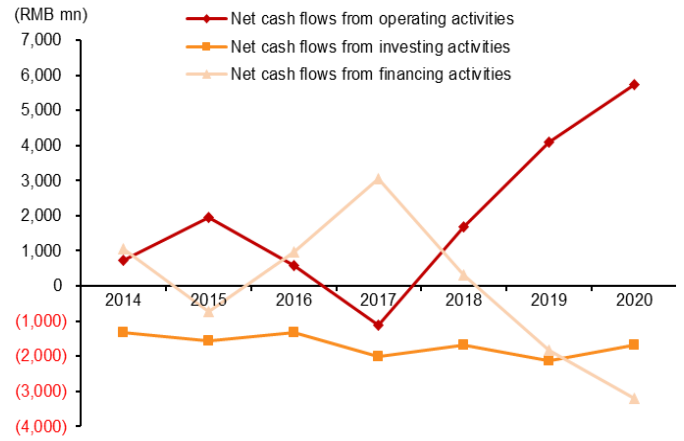
Source: Company data, CMBIS estimates

Figure 3: Other income growth



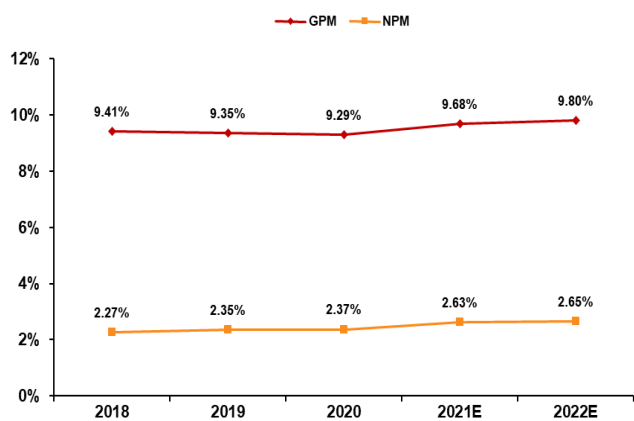
Source: Company data, CMBIS estimates

Figure 4: Strong operating cash flow



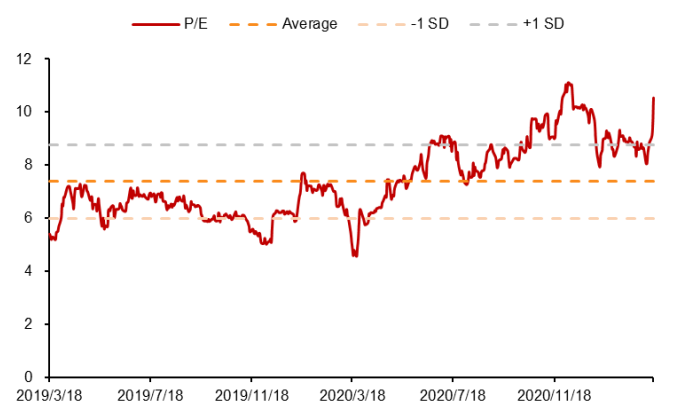
Source: Company data, CMBIS

Figure 5: Profitability is expected to improve further



Source: Company data, CMBIS estimates

Figure 6: PE Chart



Source: Bloomberg, CMBIS

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	80,615	89,654	76,687	87,933	5%	2%
Gross profit	7,803	8,783	7,381	8,559	6%	3%
Net profit	2,117	2,377	2,025	2,364	5%	1%
EPS (RMB)	1.11	1.24	1.10	1.28	1%	-3%
Gross margin	9.68%	9.80%	9.63%	9.73%	0.0 ppt	0.1 ppt
Net Margin	2.63%	2.65%	2.64%	2.69%	0.0 ppt	0.0 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	80,615	89,654	77,925	87,114	3%	3%
Gross profit	7,803	8,783	7,547	8,542	3%	3%
Net profit	2,117	2,377	2,099	2,512	1%	-5%
EPS (RMB)	1.11	1.24	1.09	1.31	2%	-5%
Gross margin	9.68%	9.80%	9.68%	9.81%	0.0 ppt	0.0 ppt
Net Margin	2.63%	2.65%	2.69%	2.88%	-0.1 ppt	-0.2 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales of motor vehicle	46,740	52,934	58,229	67,496	74,813
...YoY	7%	13%	10%	16%	11%
Luxury and ultra-luxury brands	38,234	43,769	48,933	57,155	63,897
...YoY	11%	14%	12%	17%	12%
Mid- to high-end brands	8,506	9,165	9,296	10,341	10,916
...YoY	-7%	8%	1%	11%	6%
After-sales services	7,835	8,896	9,576	12,149	13,840
...YoY	17%	14%	8%	27%	14%
Rental	408	528	564	796	887
...YoY	7%	29%	7%	41%	11%
Interests	543	511	406	439	411
...YoY	64%	-6%	-21%	8%	-6%
Eliminations	(208)	(162)	(241)	(265)	(297)
...YoY	10%	-22%	49%	10%	12%
Total	55,318	62,707	68,534	80,615	89,654
...YoY	9%	13%	9%	18%	11%

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

(RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	55,318	62,707	68,534	80,615	89,654
...YoY	9.11%	13.36%	9.29%	17.63%	11.21%
Cost of sales	(50,112)	(56,843)	(62,169)	(72,812)	(80,871)
Gross profit	5,207	5,864	6,365	7,803	8,783
GPM (%)	9.41%	9.35%	9.29%	9.68%	9.80%
...YoY	3.62%	12.62%	8.55%	22.59%	12.56%
Selling Exp	(2,480)	(2,733)	(3,003)	(3,507)	(3,873)
...% of rev	-4.48%	-4.36%	-4.38%	-4.35%	-4.32%
Admin Exp	(1,383)	(1,490)	(1,616)	(1,894)	(2,107)
...% of rev	-2.50%	-2.38%	-2.36%	-2.35%	-2.35%
Net profit	1,253	1,473	1,625	2,117	2,377
NPM (%)	2.27%	2.35%	2.37%	2.63%	2.65%
...YoY	-17.02%	17.56%	10.32%	30.28%	12.30%

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	55,318	62,707	68,534	80,615	89,654	Net income	1,253	1,473	1,625	2,117	2,377
Sales of motor vehicle	46,740	52,934	58,229	67,496	74,813	D&A	309	434	474	518	588
After-sales services	7,835	8,896	9,576	12,149	13,840	Change in working	(749)	1,894	100	2,685	(2,117)
Rental	408	528	564	796	887	Others	886	308	1,327	(2,351)	1,925
Interests	543	511	406	439	411	Net cash fr operating activities	1,699	4,109	3,525	2,968	2,773
Eliminations	(208)	(162)	(241)	(265)	(297)	Capex & investments	(1,797)	(2,344)	(1,128)	(2,422)	(3,065)
Cost of sales	(50,112)	(56,843)	(62,169)	(72,812)	(80,871)	Associated companies	(50)	(21)	(40)	(25)	(35)
Gross profit	5,207	5,864	6,365	7,803	8,783	Others	164	233	-	-	-
S&D expenses	(2,480)	(2,733)	(3,003)	(3,507)	(3,873)	Net cash fr investing activities	(1,683)	(2,132)	(1,168)	(2,447)	(3,100)
Admin expenses	(1,383)	(1,490)	(1,616)	(1,894)	(2,107)	Equity raised	-	-	983	-	-
Credit/asset impairment	0	0	0	0	0	Change of Debts	1,785	(537)	(2,730)	1,421	1,574
Other income	1,029	1,177	1,178	1,372	1,521	Dividend paid	(520)	(414)	(486)	(569)	(741)
Other expenses	0	0	0	0	0	Others	(942)	(872)	-	-	-
Finance expenses	(681)	(778)	(676)	(860)	(1,049)	Net cash fr financing activities	323	(1,823)	(2,233)	853	833
PL from JVs	10	9	(2)	8	7	Net change in cash	339	154	124	1,374	505
PL from Associates	51	26	48	42	45	Cash at the beginning	3,524	4,068	5,134	5,258	6,632
Profit before income tax	1,753	2,076	2,295	2,963	3,328	Exchange difference	205	912	-	-	-
Income tax expense	(428)	(507)	(562)	(711)	(799)	Cash at the end	4,068	5,134	5,258	6,632	7,138
Profit for the year	1,325	1,569	1,733	2,252	2,529	Less: pledged cash	2,010	2,924	2,178	2,924	2,924
Less: MI	72	96	108	135	152						
NP	1,253	1,473	1,625	2,117	2,377						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	12,467	15,200	14,533	17,039	18,628	Sales mix (%)					
Fixed asset	5,402	6,105	6,012	7,485	8,605	Sales of motor vehicle	84%	84%	85%	84%	83%
Intangible assets	1,577	2,065	2,333	2,139	2,233	After-sales services	14%	14%	14%	15%	15%
Interest in JV/associate	538	559	595	622	656	Other	1%	1%	1%	1%	1%
Other non-current assets	4,950	6,471	5,592	6,793	7,134	Total	100%	100%	100%	100%	100%
Current assets	18,550	20,275	20,205	24,124	26,862	P&L ratios (%)					
Cash	4,068	5,134	5,258	6,632	7,138	Gross profit margin	9%	9%	9%	10%	10%
Account receivable	6,186	6,847	7,511	7,975	8,887	Pre-tax margin	3%	3%	3%	4%	4%
Inventory	5,829	5,627	4,856	5,825	6,739	Net margin	2%	2%	2%	3%	3%
Other current assets	2,467	2,667	2,581	3,692	4,098	Effective tax rate	24%	24%	24%	24%	24%
Current liabilities	20,116	19,846	16,044	22,904	24,684	Balance sheet ratios					
Borrowings	12,553	10,129	6,534	9,650	12,043	Current ratio (x)	0.92	1.02	1.26	1.05	1.09
Account payables	5,504	7,071	5,807	9,708	8,986	Quick ratio (x)	0.62	0.73	0.95	0.79	0.81
Other payables	1,582	1,916	2,646	2,632	2,629	Cash ratio (x)	0.20	0.26	0.35	0.29	0.29
Tax payables	477	730	1,057	914	1,027	Inventory days	42	36	29	29	30
Non-current liabilities	1,381	5,177	6,338	6,164	6,935	AP days	40	45	34	49	41
Borrowings	836	2,723	3,589	3,386	3,848	AR days	41	40	40	40	40
Derivative liabilities	-	104	284	284	284	Total debt / total equity ratio (%)	141%	123%	82%	95%	95%
Deferred income tax	478	659	706	849	957	Net debt / equity ratio (%)	98%	74%	39%	53%	63%
Others	67	1,691	1,760	1,645	1,847	Returns (%)					
Shareholders' equity	8,988	9,881	11,832	11,551	13,230	ROE	15%	16%	15%	18%	19%
Minority Interest	532	571	524	545	642	ROA	8%	9%	8%	10%	21%
Total net assets	9,520	10,452	12,356	12,096	13,871	Per share					
						EPS (RMB)	0.68	0.80	0.85	1.11	1.24
						DPS (RMB)	0.22	0.26	0.29	0.39	0.44
						BVPS (RMB)	4.89	5.37	6.20	6.05	6.93

Source: Company data, CMBIS estimates

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