

CMBI Credit Commentary

ZHOSHK: Silver linings of the weak FY25 results

Overreaction on the profit warning, maintain buy on ZHOSHK 5.98 01/30/28

Table 1: Summary of Zhongsheng's o/s bond

Ticker	Size (USD mn)	O/S (USD mn)	Coupon	Maturity	Offer px	Z- spread	YTM (%)
ZHOSHK 5.98 01/30/28	600.0	600.0	5.98%	1/30/2028	97.0	378	7.8%

Source: Bloomberg.

ZHOSHK 5.98 01/30/28 (rated BBB by S&P with a negative rating outlook) lowered up to 6.5pts to 93.1 with credit spread widened up to 362bps to 606bps since the announcement of profit warning on 13 Mar'26. While Zhongsheng's FY25 results were weak, we believe that the market had over-reacted in view of the company's continued positive free cash flow (FCF) generation and net debt reduction, as well as comfortable liquidity, supported by its cash/ST debts ratio of 1.2x as of Dec'25. Additionally, we see silver linings of the weaker FY25 results taking cues from the narrowing gross losses from new car sales in 2H25, lower manufacturer's suggested retail price (MSRF) and continued growth of after-sale services. ZHOSHK 5.98 01/30/28 has recovered 3.9pts off the recent low but still at 97.0 at the time of writing, the bond is still trading at a YTM of 7.8%. The market appears to price in a multi-notch downgrade for Zhongsheng. We maintain buy on ZHOSHK 5.98 01/30/28 and consider the bond offers good risk-return profile given our expectation of improving operating performance and Zhongsheng's consistent positive FCF and comfortable liquidity profile. These should help support its IG credit profile.

Weak FY25 results in line with the profit warning....

The weak FY25 results of Zhongsheng should be not a surprise after the profit warning on 13 Mar'26. While Zhongsheng continued to report growth in volume of new car sales in FY25 (2.5% to 497,316 units) and even in 2H25 (to 268,667 units, up 17% hoh and 6.3% yoy), the company faced consistent pricing pressure for new car sales. The gross loss margin of new car sales widened to 2.9% in FY25 from 2.6% in FY24. The pricing pressure on new car sales had also adversely affected the sales and ASP of used car. Furthermore, the commission income dropped 38.7% to RMB2.6bn due to the termination of "high interest, high rebate" automobile financing since 2H25. The company's FY25 results were also affected by the impairment losses totaling RMB2.3bn from realignment of store network and disposals and impairment of intangible assets. As per Zhongsheng, further impairment losses in these regards will be unlikely in FY26.

Glenn Ko, CFA 高志和
 (852) 3657 6235
 glennko@cmbi.com.hk

Cyrena Ng, CPA 吳蒨瑩
 (852) 3900 0801
 cyrenang@cmbi.com.hk

Yujing Zhang 张钰婧
 (852) 3900 0830
 zhangyujing@cmbi.com.hk

.... but we see the silver linings in the likes of MSRP reduction

Zhongsheng targets to have gross profit breakeven for new car sales in FY26 (vs gross losses of RMB3.7bn in FY25), supported by lower MSRP, expanding EV businesses and further in-market consolidation. As per Zhongsheng, OEMs such as BMW, Mercedes Benz and Audi had lowered MSRP 10-25%. This helps reduce its COGS and improve its gross margin directly. Additionally, the termination of "high interest, high rebate" automobile financing since 2H25 will, to some extent, dis-incentivize car dealerships to cut ASP of new cars. These, coupled with the new product cycle of major brands, should stimulate new car sales and help improve gross margin of new car sales.

.... and increasing EV sales

Zhongsheng has been scaling up EV businesses over the past 18 months. Its EV stores increased from 20 as of Dec'24 to 40 in Dec'25, accounted for c9% of its store network. In addition to AITO, it will expand into EV brands such as Geely. In FY25, sales of EVs, i.e. AITO accounted for 8.2% of its sale volume and helped lift the company's gross margin 0.9 pct pt. We estimate the gross margin of its EV sales to be 7-8%. Indeed, with the expansion of EV sales, Zhongsheng's gross margin of new car sales in 2H25 improved to -1.9% from -4.1% in 1H25. Zhongsheng targets to double the number of EV stores in FY26. It also plans to exit and transfer 50-150 underperforming stores. The realignment of store network with increasing EV portion will be another key driver to improve its operating performance.

Table 2: Zhongsheng's operating profile

RMB bn	2019	2020	2021	2022	2023	2024	2025
New cars	2,888.0	3,710.0	6,197.0	3,940.0	1,058.0	(3,208.4)	(3,708.9)
Parts, packages and after-sales services	8,600.0	9,575.0	11,783.0	11,586.0	11,766.4	12,650.5	12,011.5
Used cars	-	197.0	489.0	506.0	940.0	1,229.8	535.1
Gross profit (RMB mn)	11,488.0	13,482.0	18,469.0	16,032.0	13,764.4	10,671.9	8,837.7
Commission income (under other income and gain)	2,885.2	3,149.6	3,528.0	3,764.3	4,132.1	4,199.8	2,573.7
Aggregate profit	14,373.2	16,631.6	21,997.0	19,796.3	17,896.5	14,871.7	11,411.4
New car sales % aggregate profit	20.1%	22.3%	28.2%	19.9%	5.9%	-21.6%	-32.5%

Net debt reduction and sufficient liquidity profile

Zhongsheng has been disciplined in expansion and focusing on optimizing its store network. It has been consistently generating positive FCF for net debt reduction. In FY25, Zhongsheng repaid the remaining o/s amount of its CB due May'25 and early-redeemed the remaining ZHOSHK 3 01/13/26, totaling cUSD630mn. These reflect the company's sufficient liquidity profile even under a challenging operating environment. The next major refinancing requirement will be the Panda bonds of RMB1bn due 1 Aug'27. We are comfortable with its liquidity profile, taking cues of its cash/ST debts of 1.2x. We also expect its key coverage ratios to improve notably from current levels. Assuming gross margin of new car sales will be breakeven by 2028 and an annual capex of RMB3bn, we expect its net debt/EBITA and EBITDA/int to improve to below 2.5x and above 5x over the coming 2-3 years from the current levels of 3.1x and 2.9x in FY25, respectively.

Table 3: Zhongsheng's financials

	2023	2024	2025
FCF (RMB mn)	3,527	2,307	5,884
Inventory days	31.2	35.1	36.7
Cash conversion cycle (days)	20.1	23.7	9.9
Cash	15,612.0	18,687.5	15,421.2
Other ST deposits	3,989.5	4,316.6	5,016.7
ST debts	16,483.0	21,010.6	16,666.9
LT debts	20,273.5	19,804.8	17,991.5
Total debts	36,756.5	40,815.4	34,658.4
Net debts	17,155.0	17,811.2	14,220.5
Debt/EBITDA	3.5x	4.7x	7.6x
Net debt/EBITDA	1.6x	2.1x	3.1x
EBITDA/int	6.6x	5.3x	2.8x
Net debt/equity	37.3%	38.0%	32.7%

Source: Company filing, CMBI FICC Research.

CMB International Global Markets Limited

Fixed Income Department

Tel: 852 3657 6235/ 852 3900 0801

fis@cmbi.com.hk

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