

Meidong Auto (1268 HK)

Expect profit growth in FY26-27 following 2H25 new-car GPM recovery, new HIMA stores

Maintain BUY. Despite continued industry headwinds, Meidong has maintained healthy cash flow and balance sheet, which could help it survive longer. Its 2H25 new-car GPM recovered faster than its peers and our prior expectation. That gives us more confidence in its new-car GPM lift in FY26E, especially as foreign luxury carmakers are now more realistic about sales volume and pricing. Meidong has also started EV brand dealership to diversify its business. We believe its outstanding operational efficiency could help it catch up. We also believe that most car brands still need dealers in the long term.

■ **2H25 earnings slight beat on new-car GPM.** Meidong's 2H25 revenue fell 14% YoY, or 6% lower than our prior forecast, largely due to lower-than-expected selling prices and auto finance commissions. GPM in 2H25 rose by 2.1ppts HoH to 6.8%, or about 2.3ppts higher than our forecast, as new-car GPM improved by 9.8ppts HoH to -1.0%. SG&A and finance costs were largely in line with our estimates, which resulted in a net profit of RMB60mn in 2H25, or about RMB80mn higher than our prior forecast.

■ **FY26E outlook.** Despite lingering uncertainties, we expect dealers' new-car GPM to improve slightly YoY in FY26E following most foreign luxury marques' more realistic targets on sales volume and pricing. Such improvement could be more apparent for Meidong, as its new-car GPM (excl. auto finance and insurance commissions) gained the most HoH among peers with its operational efforts. We project its new-car GPM to widen by 2ppts YoY to -3.8% in FY26E, which could lead to a flat gross profit in FY26E, despite a 9% YoY decline in revenue, based on our estimates. Accordingly, we project a net profit of RMB146mn, aided by lower amortization and finance costs.

■ **FY27E outlook.** We expect new HIMA stores to halt revenue decline in FY27E. We also expect new-car GPM to improve slightly YoY to -2.1% amid HIMA's contribution and fewer stores nationwide for Porsche, BMW and Lexus. We project overall GPM to rise by 1.2ppts to 7.5% and net margin to widen by 1ppt to 1.8%, or a net profit of RMB328mn in FY27E.

■ **Valuation/Key risks.** We maintain a BUY rating but trim our target price from HK\$2.80 to HK\$2.20, still based on 8x our revised FY27E P/E. Key risks to our rating and target price include lower sales and/or margins than we expect, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25A	FY26E	FY27E
Revenue (RMB mn)	28,555	22,154	20,023	18,292	18,455
YoY growth (%)	(0.3)	(22.4)	(9.6)	(8.6)	0.9
Net profit (RMB mn)	140.2	(2,264.1)	(755.0)	146.2	328.0
YoY growth (%)	(73.1)	na	na	na	124.4
EPS (Reported) (RMB cents)	10.44	(168.18)	(56.08)	10.86	24.36
P/E (x)	11.8	ns	ns	11.4	5.1
P/B (x)	0.3	0.6	0.8	0.8	0.7
Yield (%)	3.4	3.6	2.7	8.8	11.9
ROE (%)	3.0	(56.7)	(31.1)	7.1	15.1
Net gearing (%)	0.9	(83.0)	(13.1)	(26.0)	(23.6)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$2.20**
 (Previous TP) **HK\$2.80**
Up/Downside **57.1%**
Current Price **HK\$1.40**

China Auto

Ji SHI, CFA
 (852) 3761 8728
 shiji@cmbi.com.hk

Wenjing DOU, CFA
 (852) 6939 4751
 douwenjing@cmbi.com.hk

Austin Liang
 (852) 3900 0856
 austinliang@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	1,884.7
Avg 3 mths t/o (HK\$ mn)	2.1
52w High/Low (HK\$)	2.34/1.16
Total Issued Shares (mn)	1346.2

Source: FactSet

Shareholding Structure

Apex Sail Limited	52.3%
Others	47.7%

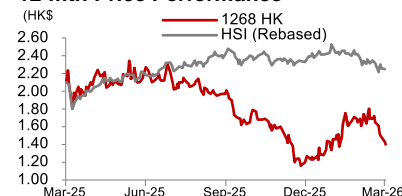
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.2%	-8.8%
3-mth	10.2%	14.0%
6-mth	-30.3%	-24.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Interim results

RMB mn	1H23	2H23	1H24	2H24	1H25	2H25	YoY	HoH
New-car sales volume (units)	31,589	34,781	26,176	30,754	28,214	29,340	-4.6%	4.0%
Total revenue	14,089	14,466	10,656	11,498	10,135	9,888	-14.0%	-2.4%
Gross profit	1,001	1,077	806	755	476	673	-10.8%	41.5%
Selling exp.	(382)	(382)	(295)	(289)	(260)	(265)	-8.3%	2.1%
Admin exp.	(401)	(446)	(324)	(338)	(258)	(256)	-24.3%	-1.0%
Operating profit	305	351	141	(2,554)	(869)	154	N/A	N/A
Net profit	39	101	(27)	(2,237)	(815)	60	N/A	N/A
Gross margin	7.1%	7.4%	7.6%	6.6%	4.7%	6.8%	0.2 ppts	2.1 ppts
Operating margin	2.2%	2.4%	1.3%	-22.2%	-8.6%	1.6%	23.8 ppts	10.1 ppts
Net margin	0.3%	0.7%	-0.3%	-19.5%	-8.0%	0.6%	20.1 ppts	8.6 ppts

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25A	FY26E	FY27E	FY25E	FY26E	FY27E	FY25A	FY26E	FY27E
Revenue	20,023	18,292	18,455	20,651	20,705	21,085	-3.0%	-11.7%	-12.5%
Gross profit	1,149	1,152	1,390	1,107	1,268	1,616	3.8%	-9.2%	-14.0%
Operating profit	(716)	316	574	(674)	395	764	N/A	-20.1%	-24.8%
Net profit	(755)	146	328	(705)	201	466	N/A	-27.3%	-29.7%
Gross margin	5.7%	6.3%	7.5%	5.4%	6.1%	7.7%	0.4 ppts	0.2 ppts	-0.1 ppts
Operating margin	-3.6%	1.7%	3.1%	-3.3%	1.9%	3.6%	-0.3 ppts	-0.2 ppts	-0.5 ppts
Net margin	-3.8%	0.8%	1.8%	-3.4%	1.0%	2.2%	-0.4 ppts	-0.2 ppts	-0.4 ppts

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25A	FY26E	FY27E	FY25E	FY26E	FY27E	FY25A	FY26E	FY27E
Revenue	20,023	18,292	18,455	20,272	19,063	20,045	-1.2%	-4.0%	-7.9%
Gross profit	1,149	1,152	1,390	1,086	1,167	1,536	5.7%	-1.3%	-9.5%
Operating profit	(716)	316	574	(760)	394	655	N/A	-19.8%	-12.4%
Net profit	(755)	146	328	(850)	191	564	N/A	-23.5%	-41.8%
Gross margin	5.7%	6.3%	7.5%	5.4%	6.1%	7.7%	0.4 ppts	0.2 ppts	-0.1 ppts
Operating margin	-3.6%	1.7%	3.1%	-3.7%	2.1%	3.3%	0.2 ppts	-0.3 ppts	-0.2 ppts
Net margin	-3.8%	0.8%	1.8%	-4.2%	1.0%	2.8%	0.4 ppts	-0.2 ppts	-1.0 ppts

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025A	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	28,655	28,555	22,154	20,023	18,292	18,455
Cost of goods sold	(26,137)	(26,477)	(20,593)	(18,874)	(17,140)	(17,065)
Gross profit	2,517	2,078	1,561	1,149	1,152	1,390
Operating expenses	(1,404)	(1,361)	(1,063)	(996)	(836)	(816)
Selling expense	(860)	(764)	(585)	(525)	(504)	(499)
Admin expense	(811)	(847)	(662)	(514)	(451)	(446)
Others	267	249	184	42	119	129
Operating profit	1,114	717	498	152	316	574
Share of (losses)/profits of associates/JV	25	20	17	17	16	17
EBITDA	1,629	1,253	(1,841)	(319)	672	927
Depreciation	225	251	229	205	199	200
Depreciation of ROU assets	134	144	146	134	125	121
Other amortisation	132	182	180	42	16	16
EBIT	1,139	676	(2,395)	(698)	332	591
Interest expense	(275)	(291)	(239)	(211)	(124)	(114)
Pre-tax profit	864	384	(2,635)	(909)	208	477
Income tax	(308)	(229)	376	155	(52)	(119)
After tax profit	556	156	(2,259)	(754)	156	358
Minority interest	(35)	(16)	(5)	(1)	(10)	(30)
Net profit	521	140	(2,264)	(755)	146	328
Gross dividends	261	56	60	45	146	197
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	5,888	6,373	7,113	4,366	3,892	4,039
Cash & equivalents	1,636	2,362	2,645	733	1,011	1,002
Account receivables	1,560	1,518	1,588	1,435	1,052	1,011
Inventories	1,069	960	761	915	657	655
ST bank deposits	1,623	1,533	2,120	1,113	1,000	1,200
Non-current assets	8,351	7,848	4,368	3,148	2,880	2,647
PP&E	1,843	1,708	1,431	1,245	1,115	1,005
Right-of-use assets	1,785	1,661	1,546	1,393	1,269	1,160
Deferred income tax	127	133	136	147	147	147
Investment in JVs & assos	39	36	33	30	32	34
Intangibles	3,477	3,277	1,130	238	222	206
Goodwill	1,005	961	18	0	0	0
Other non-current assets	75	71	75	70	70	70
Total assets	14,239	14,220	11,481	7,514	6,772	6,687
Current liabilities	4,874	4,447	6,788	3,725	3,042	2,839
Short-term borrowings	1,414	1,245	710	513	464	281
Account payables	3,193	2,907	4,056	3,023	2,348	2,338
Tax payable	102	125	93	95	95	95
Other current liabilities	0	0	1,759	0	0	0
Lease liabilities	165	170	170	95	135	126
Non-current liabilities	4,932	4,487	1,736	1,653	1,529	1,462
Long-term borrowings	493	200	292	469	469	469
Bond payables	2,275	2,207	0	0	0	0
Other non-current liabilities	2,164	2,081	1,444	1,184	1,060	994
Total liabilities	9,806	8,934	8,525	5,378	4,571	4,302
Share capital	102	108	108	108	108	108
Other reserves	4,173	5,044	2,726	1,913	1,975	2,150
Total shareholders equity	4,275	5,152	2,834	2,021	2,083	2,258
Minority interest	159	134	122	115	118	127
Total equity and liabilities	14,239	14,220	11,481	7,514	6,772	6,687

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	864	384	(2,635)	(909)	208	477
Depreciation & amortization	490	577	555	380	340	337
Tax paid	(472)	(218)	(232)	(81)	(52)	(119)
Change in working capital	67	(139)	106	(68)	58	(186)
Others	205	212	3,071	1,160	104	89
Net cash from operations	1,154	817	865	482	658	598
Investing						
Capital expenditure	(283)	(348)	(111)	(141)	(200)	(200)
Acquisition of subsidiaries/ investments	(2,732)	0	0	0	0	0
Others	(468)	505	841	(97)	178	162
Net cash from investing	(3,483)	157	730	(239)	(22)	(38)
Financing						
Dividend paid	(1,027)	(212)	(61)	(68)	(101)	(184)
Net borrowings	(239)	(657)	(1,028)	(1,868)	(49)	(184)
Proceeds from share issues	629	871	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	1,966	(253)	(223)	(218)	(208)	(201)
Net cash from financing	1,328	(250)	(1,312)	(2,155)	(358)	(569)
Net change in cash						
Cash at the beginning of the year	2,622	1,636	2,362	2,645	733	1,011
Exchange difference	16	3	(0)	(1)	0	0
Cash at the end of the year	1,636	2,362	2,645	733	1,011	1,002
GROWTH	2022A	2023A	2024A	2025A	2026E	2027E
YE 31 Dec						
Revenue	21.5%	(0.3%)	(22.4%)	(9.6%)	(8.6%)	0.9%
Gross profit	(9.1%)	(17.5%)	(24.9%)	(26.4%)	0.3%	20.7%
Operating profit	(34.4%)	(35.6%)	(30.5%)	(69.4%)	107.2%	82.0%
EBITDA	(19.9%)	(23.1%)	na	na	na	38.0%
EBIT	(34.8%)	(40.7%)	na	na	na	78.1%
Net profit	(55.3%)	(73.1%)	na	na	na	124.4%
PROFITABILITY	2022A	2023A	2024A	2025A	2026E	2027E
YE 31 Dec						
Gross profit margin	8.8%	7.3%	7.0%	5.7%	6.3%	7.5%
Operating margin	3.9%	2.5%	2.2%	0.8%	1.7%	3.1%
EBITDA margin	5.7%	4.4%	(8.3%)	(1.6%)	3.7%	5.0%
Return on equity (ROE)	12.7%	3.0%	(56.7%)	(31.1%)	7.1%	15.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025A	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.3	0.0	(0.8)	(0.1)	(0.3)	(0.2)
Current ratio (x)	1.2	1.4	1.0	1.2	1.3	1.4
Receivable turnover days	19.9	19.4	26.2	26.2	21.0	20.0
Inventory turnover days	14.9	13.2	13.5	17.7	14.0	14.0
Payable turnover days	44.6	40.1	71.9	58.5	50.0	50.0
VALUATION	2022A	2023A	2024A	2025A	2026E	2027E
YE 31 Dec						
P/E	3.0	11.8	ns	ns	11.4	5.1
P/E (diluted)	3.0	11.8	ns	ns	11.4	5.1
P/B	0.4	0.3	0.6	0.8	0.8	0.7
P/CFPS	1.4	2.0	1.9	3.4	2.5	2.8
Div yield (%)	16.6	3.4	3.6	2.7	8.8	11.9

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.