

CMBI Credit Commentary

ZHOSHK: Credit profile remains solid under a challenging operating environment

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	101.2	202	5.4%

Source: Bloomberg.

Zhongsheng (rated Baa2/BBB/BBB by Moody's/S&P/Fitch)'s 1H25 operating performance continued to be dragged by the negative gross margin of new car sales. That said, we take comfort with its solid credit and liquidity profiles, supported by its consistent positive FCF generation, reducing debts and low near-term refinancing pressure through the active liability management since Jul'24. ZHOSHK 5.98 01/30/28 has been outperforming since Jul'25, cash price has been 2pts higher and credit spread tightened 50bps since then. Nonetheless, we still consider ZHOSHK 5.98 01/30/28 one of the few good shorter-dated in Chinese IG space and maintain buy on ZHOSHKs.

New car sales remain to be a drag

Zhongsheng's weaker 1H25 results reflected the weak new car sales with lower volume and ASP, as well as enlarged negative gross margin. The commission income from automobile insurance was also adversely affected as a result. In addition, the active trade-in policies for used car from various local governments have notably affected the age profile and ASP of used car transactions. We take comfort that Zhongsheng focuses on luxury and mid-high end brands of which the sales are more resilience against intensifying competition and weak economic backdrop. Zhongsheng has been optimizing its store network, focusing on the expansion of collision centers to create more "recurring" revenue and cross-selling opportunities, as well as exiting stores on brands with lagging sales such as Nissan. These support the continued growth in income from parts, packages and after-sales services and further improvement of absorption ratio.

Going forward, gross margin of new car sales will be affected by timing of OEM subsidy. The silver linings are the growing sales of VITO which raised the overall gross margin of new car sales by 0.6pct pts in 1H25, and the in-market consolidation in car dealership sector, as such competition is moderating. We also believe that the smaller trade-in subsidies and "anti-involution" policies will provide some support to Zhongsheng's new and use car sales.

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Table 2: Zhongsheng's operating profile

	1H24	1H25	yoy % change
New car sales (unit)	232543	228649	-1.7%
New car sales ASP (RMB)	261,508.6	253,362.1	-3.1%
Used car sales (unit)	101,525.0	111,244.0	9.6%
Used car sales ASP (RMB)	81,165.2	54,066.7	-33.4%
RMB mn			
New cars	(1,990.1)	(2,387.8)	20.0%
Parts, packages and after-sales services	6,298.3	6,340.1	0.7%
Used cars	618.0	257.0	-58.4%
Gross profit	4,926.2	4,209.3	-14.6%
Commission income (under other income and gain)	1,941.6	1,845.1	-5.0%
Aggregate profit	6,867.8	6,054.4	-11.8%
New car sales % aggregate profit	-29.0%	-39.4%	
Aggregate profit excl new car sales	8,857.9	8,442.2	-4.7%
Absorption ratio	118%	122%	

Source: Company filings.

Make-whole of USD bond after CB repayment demonstrated solid credit and liquidity profiles

Table 3: Zhongsheng's financials

	2023	2024	1H23	1H24	1H25
FCF (RMB mn)	3,527	3,439	2,952	2,476	4,476
Inventory days	31.2	35.1	33.6	36.2	38.3
Cash conversion cycle (days)	20.1	23.7	20.7	20.8	12.8
Cash	15,612.0	18,687.5	16,352.6	17,146.4	12,859.3
Other ST deposits	3,989.5	4,316.6	2,396.7	4,056.3	7,177.9
ST debts	16,483.0	17,654.4	18,291.6	17,164.6	15,421.4
LT debts	20,273.5	19,804.8	15,804.6	16,882.2	18,427.6
Total debts	36,756.5	37,459.1	34,096.2	34,046.8	33,849.0
Net debts	17,155.0	14,455.0	15,347.0	12,844.1	13,811.8
Debt/EBITDA	3.5x	4.4x	2.9x	3.8x	4.9x
Net debt/EBITDA	1.6x	1.7x	1.3x	1.4x	2.0x
EBITDA/int	6.6x	-5.2x	7.7x	5.3x	4.9x
Net debt/equity	37.3%	30.8%	34.9%	28.1%	29.0%

Source: Company filings.

Over the past few years, Zhongsheng has been disciplined in expansion and has instead been focusing on optimizing its store network. Hence, the company has been consistently generating positive FCF for net debt reduction. We are impressed with Zhongsheng's effort to actively manage its liabilities in advance and its good access to various funding channels. Since May'25, 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 solid liquidity profile. Subsequently, its near-term refinancing risk is low. Recalled that in Jul'24, Zhongsheng completed the tender offer for ZHOSHK 3 01/13/26 and had a concurrent issue of ZHOSHK 5.98 01/30/28 of USD600mn. On 31 Jul'24, it signed new offshore syndicated loans of USD350mn for the refinancing of existing loans due Apr'25. We understand the new 3-yr bullet loans will bear a lower credit spread than that of the existing loans although higher SOFR will lead to a higher all-in funding cost. Additionally, Zhongsheng issued Panda bonds of RMB1bn at a coupon rate of 3.5% on 1 Aug'24.

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