

Yongda Automobiles (3669 HK)

FY23E NP to improve sequentially each quarter

Maintain BUY. We believe Yongda's FY22 analyst briefing has reaffirmed our prior argument that after-sales services could be key earnings driver. We are more conservative than management in terms of new-car sales in FY23E. We are of the view that a substantial YoY decline in 1Q23E NP could be largely priced in. We expect Yongda's earnings to improve sequentially each quarter in FY23E.

- **New-car GPM miss, commission income beat in FY22.** Yongda's FY22 net profit fell 43% YoY to RMB 1.4bn, in line with its prior earnings warning. New-car revenue fell 9% YoY and after-sales service revenue dropped 13% YoY in FY22, worse than its peers amid Shanghai's lockdown. New-car gross margin of 2.5% in FY22 was 0.1 ppt lower than our prior estimates, while commission income was 6% higher than we had expected, mainly due to higher commissions per vehicle from auto finance.
- **Analyst briefing reaffirmed our prior argument of after-sales as key earnings driver.** Management targets 20%+ YoY growth for after-sales service revenue in FY23E and 1Q23 is on track. We project Yongda's such revenue to rise 16% YoY in FY23E and to account for almost 17% of its total revenue amid pent-up demand and commute resumption. That could lift Yongda's overall GPM to 9.7% in FY23E from 8.9% in FY22 on our estimates. We forecast Yongda's SG&A ratio to narrow by 0.2 ppt YoY in FY23E from all-time high in FY22 amid management's cost reduction efforts.
- **New-car sales still face challenges in 1H23E.** We forecast Yongda's new-car sales volume to fall 6% YoY to about 177,000 units in FY23E, more conservative than management's guidance of 15-20% increase. We revise down our FY23E new-car GPM forecast from 2.5% to all-time low of 2.3%, as heavy discounts in 4Q22 could linger into 1H23E. We revise up our FY23E commission income forecast by 10% to RMB1.5bn, given higher contribution from auto finance and NEV sales via agency model. Accordingly, we keep our FY23E net profit forecast of RMB 2.0bn (+42% YoY) largely unchanged.
- **Valuation/Key risks.** We maintain our BUY rating and target price of HK\$ 8.50, still based on 7x our FY23E EPS estimates. We think the valuation gap between Yongda and its peers could narrow due to rising importance of after-sales services and Yongda's NEV exposure. Key risks to our rating and target price include lower sales and/or margins, slower after-sales service recovery than our expectation, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	68,201	77,917	72,024	71,328	71,834
YoY growth (%)	8.8	14.2	(7.6)	(1.0)	0.7
Net income (RMB mn)	1,625	2,480	1,425	2,018	2,325
EPS (RMB)	0.85	1.26	0.72	1.03	1.19
YoY growth (%)	10.3	52.6	(42.5)	41.6	15.2
P/E (x)	5.6	3.7	6.9	4.7	4.1
P/B (x)	0.8	0.7	0.7	0.6	0.6
Yield (%)	11.8	10.4	5.9	8.4	9.7
ROE (%)	15.0	19.4	10.2	13.5	14.1
Net gearing (%)	57	18	10.2	2.2	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 8.50
Up/Downside	+51.0%
Current Price	HK\$ 5.63

China Auto Sector

DOU Wenjing, CFA

(852) 6939 4751

douwenjing@cmbi.com.hk

SHI Ji, CFA

(852) 3761 8728

shiji@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	11,011
Avg 3 mths t/o (HK\$ mn)	20
52w High/Low (HK\$)	9.10/3.40
Total Issued Shares (mn)	1,956
Source: Bloomberg	

Shareholding Structure

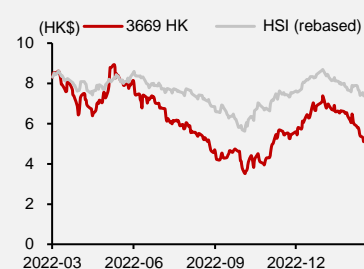
Mr. Cheung Tak On	29.8%
FIL Limited	8.1%
Others	62.2%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-11.8%	-11.3%
3-mth	2.9%	1.3%
6-mth	19.8%	8.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Figure 1: Interim results

RMB mn	1H20	2H20	1H21	2H21	1H22	2H22	YoY	HoH
New-car sales volume (units)	81,974	122,622	115,834	98,073	76,752	110,524	12.7%	44.0%
Total revenue	27,761	40,440	40,494	37,423	31,392	40,632	8.6%	29.4%
Gross profit	2,528	3,603	3,699	4,053	3,081	3,309	-18.4%	7.4%
Selling exp.	(1,322)	(1,668)	(1,637)	(1,898)	(1,660)	(2,140)	12.8%	28.9%
Admin exp.	(711)	(832)	(909)	(905)	(968)	(867)	-4.2%	-10.5%
Operating profit	1,019	1,750	1,834	1,975	1,069	1,235	-37.5%	15.5%
Net profit	530	1,095	1,172	1,309	673	752	-42.5%	11.7%
Gross margin	9.1%	8.9%	9.1%	10.8%	9.8%	8.1%	-2.7 ppt	-1.7 ppt
Operating margin	3.7%	4.3%	4.5%	5.3%	3.4%	3.0%	-2.2 ppt	-0.4 ppt
Net margin	1.9%	2.7%	2.9%	3.5%	2.1%	1.9%	-1.6 ppt	-0.3 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	FY22A	New FY23E	FY24E	FY22E	Old FY23E	FY24E	FY22A	Diff (%) FY23E	FY24E
Revenue	72,024	71,328	71,834	72,950	70,598	69,260	-1.3%	1.0%	3.7%
Gross Profit	6,389	6,934	7,499	6,474	7,029	7,416	-1.3%	-1.4%	1.1%
Operating Profit	2,304	3,055	3,527	2,369	3,052	3,532	-2.8%	0.1%	-0.1%
Net profit	1,425	2,018	2,325	1,443	2,005	2,327	-1.2%	0.7%	-0.1%
Gross Margin	8.9%	9.7%	10.4%	8.9%	10.0%	10.7%	0.0 ppt	-0.2 ppt	-0.3 ppt
Operating Margin	3.2%	4.3%	4.9%	3.2%	4.3%	5.1%	0.0 ppt	0.0 ppt	-0.2 ppt
Net Margin	2.0%	2.8%	3.2%	2.0%	2.8%	3.4%	0.0 ppt	0.0 ppt	-0.1 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	FY22A	CMBIGM FY23E	FY24E	FY22E	Consensus FY23E	FY24E	FY22A	Diff (%) FY23E	FY24E
Revenue	72,024	71,328	71,834	72,934	82,317	88,984	-1.2%	-13.3%	-19.3%
Gross Profit	6,389	6,934	7,499	6,964	7,988	8,737	-8.3%	-13.2%	-14.2%
Operating Profit	2,304	3,055	3,527	2,730	3,264	3,671	-15.6%	-6.4%	-3.9%
Net profit	1,425	2,018	2,325	1,674	2,108	2,417	-14.8%	-4.3%	-3.8%
Gross Margin	8.9%	9.7%	10.4%	9.5%	9.7%	9.8%	-0.7 ppt	0.0 ppt	0.6 ppt
Operating Margin	3.2%	4.3%	4.9%	3.7%	4.0%	4.1%	-0.5 ppt	0.3 ppt	0.8 ppt
Net Margin	2.0%	2.8%	3.2%	2.3%	2.6%	2.7%	-0.3 ppt	0.3 ppt	0.5 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	68,201	77,917	72,024	71,328	71,834
Cost of sales	(62,070)	(70,164)	(65,635)	(64,395)	(64,335)
Gross profit	6,131	7,753	6,389	6,934	7,499
Other income	1,171	1,405	1,550	1,555	1,452
Distribution expenses	(2,990)	(3,534)	(3,800)	(3,738)	(3,723)
Administrative expenses	(1,543)	(1,814)	(1,835)	(1,696)	(1,701)
Operating profit	2,769	3,809	2,304	3,055	3,527
Finance costs	(676)	(506)	(321)	(370)	(401)
Share of profits of associate	48	71	90	99	104
Share of profits of JVs	(2)	1	(1)	2	2
Profit before tax	2,140	3,375	2,073	2,786	3,233
Taxation	(524)	(837)	(587)	(683)	(808)
Minority interests	(108)	(138)	(60)	(85)	(100)
Net profit	1,625	2,480	1,425	2,018	2,325

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	2,295	3,491	2,073	2,786	3,233
Depreciation/amortization	1,094	1,154	1,238	1,304	1,315
Change in working capital	2,013	652	1,083	(1,017)	(1,240)
Others	327	(283)	(351)	(415)	(530)
Net cash from operating	5,729	5,015	4,043	2,658	2,778
Capex	(996)	(1,120)	(1,333)	(610)	(760)
Others	(672)	838	(3)	346	306
Net cash from investing	(1,668)	(282)	(1,336)	(264)	(454)
Share issuance	964	9	12	14	14
Dividend paid	(553)	(672)	(990)	(638)	(887)
Others	(3,602)	(4,899)	(1,769)	(45)	312
Net cash from financing	(3,191)	(5,562)	(2,748)	(669)	(562)
Net change in cash	869	(830)	(41)	1,724	1,763
Cash at beginning of the year	2,210	3,080	2,250	2,209	3,934
Cash at the end of the year	3,080	2,250	2,209	3,934	5,697

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	20,205	16,617	14,712	17,249	20,210
Cash and equivalents	3,080	2,250	2,209	3,934	5,697
Accounts receivables	7,511	9,127	7,893	7,817	7,872
Inventories	4,856	4,038	3,596	3,881	4,407
Other current assets	4,759	1,203	1,013	1,617	2,234
Non-current assets	14,533	14,949	15,473	14,880	14,492
PP&E	6,012	5,838	6,354	5,472	4,624
Intangibles	2,333	2,860	2,818	3,070	3,512
Interests in JVs and assos	595	714	792	881	975
Other non-current assets	5,592	5,537	5,509	5,457	5,382
Total assets	34,738	31,566	30,185	32,129	34,702
Current liabilities	16,044	13,328	11,304	11,238	11,703
Short-term borrowings	6,434	3,596	2,000	2,500	3,000
Accounts payable	5,807	5,569	5,395	5,293	5,288
Other current liabilities	3,803	4,163	3,910	3,445	3,415
Non-current liabilities	6,338	3,950	4,102	4,615	5,120
Long-term borrowings	3,221	911	1,351	1,791	2,231
Other non-current liabilities	3,118	3,039	2,751	2,823	2,889
Total liabilities	22,382	17,278	15,407	15,853	16,823
Share capital	16	16	16	16	16
Reserves	11,815	13,701	14,178	15,660	17,243
Minority interests	524	580	592	609	629
Shareholders' equity	11,832	13,717	14,195	15,676	17,259
Total equity and liabilities	34,737	31,576	30,194	32,138	34,711

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Sales of passenger vehicles	84.7	84.5	85.3	82.9	82.2
After-sales services	14.0	14.8	14.0	16.5	17.1
Growth (%)					
Revenue	8.8	14.2	(7.6)	(1.0)	0.7
Gross profit	4.6	26.4	(17.6)	8.5	8.2
Operating profit	(1.8)	37.5	(39.5)	32.6	15.5
Net profit	10.3	52.6	(42.5)	41.6	15.2
Profit & loss ratio (%)					
Gross margin	9.0	9.9	8.9	9.7	10.4
Operating margin	4.1	4.9	3.2	4.3	4.9
Net profit margin	2.4	3.2	2.0	2.8	3.2
Balance sheet ratio					
Net cash/total equity (x)	(0.6)	(0.2)	(0.1)	(0.0)	0.0
Current ratio (x)	1.3	1.2	1.3	1.5	1.7
Receivable turnover days	40.3	42.9	40.0	40.0	40.0
Inventory turnover days	28.6	21.1	20.0	22.0	25.0
Payable turnover days	34.2	29.0	30.0	30.0	30.0
Profitability (%)					
ROE	15.0	19.4	10.2	13.5	14.1
ROA	4.6	7.5	4.6	6.5	7.0
Per share data (RMB)					
EPS	0.85	1.26	0.72	1.03	1.19
DPS	0.56	0.48	0.29	0.41	0.48

Source: Company data, CMBIGM estimates

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.