

# 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

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#### 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	New			Old			Diff (%)		
	FY22A	FY23E	FY24E	FY22E	FY23E	FY24E	FY22A	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	CMBIGM			Consensus			Diff (%)		
	FY22A	FY23E	FY24E	FY22E	FY23E	FY24E	FY22A	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
<b>Revenue</b>	68,201	77,917	72,024	71,328	71,834
Cost of sales	(62,070)	(70,164)	(65,635)	(64,395)	(64,335)
<b>Gross profit</b>	<b>6,131</b>	<b>7,753</b>	<b>6,389</b>	<b>6,934</b>	<b>7,499</b>
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)
<b>Operating profit</b>	<b>2,769</b>	<b>3,809</b>	<b>2,304</b>	<b>3,055</b>	<b>3,527</b>
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
<b>Profit before tax</b>	<b>2,140</b>	<b>3,375</b>	<b>2,073</b>	<b>2,786</b>	<b>3,233</b>
Taxation	(524)	(837)	(587)	(683)	(808)
Minority interests	(108)	(138)	(60)	(85)	(100)
<b>Net profit</b>	<b>1,625</b>	<b>2,480</b>	<b>1,425</b>	<b>2,018</b>	<b>2,325</b>

### Cash flow summary

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

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>20,205</b>	<b>16,617</b>	<b>14,712</b>	<b>17,249</b>	<b>20,210</b>
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
<b>Non-current assets</b>	<b>14,533</b>	<b>14,949</b>	<b>15,473</b>	<b>14,880</b>	<b>14,492</b>
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
<b>Total assets</b>	<b>34,738</b>	<b>31,566</b>	<b>30,185</b>	<b>32,129</b>	<b>34,702</b>
<b>Current liabilities</b>	<b>16,044</b>	<b>13,328</b>	<b>11,304</b>	<b>11,238</b>	<b>11,703</b>
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
<b>Non-current liabilities</b>	<b>6,338</b>	<b>3,950</b>	<b>4,102</b>	<b>4,615</b>	<b>5,120</b>
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
<b>Total liabilities</b>	<b>22,382</b>	<b>17,278</b>	<b>15,407</b>	<b>15,853</b>	<b>16,823</b>
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
<b>Shareholders' equity</b>	<b>11,832</b>	<b>13,717</b>	<b>14,195</b>	<b>15,676</b>	<b>17,259</b>
<b>Total equity and liabilities</b>	<b>34,737</b>	<b>31,576</b>	<b>30,194</b>	<b>32,138</b>	<b>34,711</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
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
<b>Growth (%)</b>					
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
<b>Profit &amp; loss ratio (%)</b>					
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
<b>Balance sheet ratio</b>					
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
<b>Profitability (%)</b>					
ROE	15.0	19.4	10.2	13.5	14.1
ROA	4.6	7.5	4.6	6.5	7.0
<b>Per share data (RMB)</b>					
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

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