

Yongda Automobiles (3669 HK)

New-car GPM may bottom out in 2H23E

Maintain BUY. Yongda's 1H23 net profit fell 40% YoY to RMB 407mn, slightly lower than our prior forecast but higher than some investors' pessimistic expectation. Yongda's 1H23 earnings YoY decline was between Zhongsheng (881 HK, NR) and Meidong (1268 HK, HOLD). We expect Yongda's new-car GPM to improve slightly HoH. We see meaningful earnings upside potential, should Yongda be more aggressive on cost reduction. In addition, the company announced interim dividends for the first time with a payout ratio of 50% (vs. 40% for prior final dividends), resulting in a yield of 7.3% now.

■ **New-car GPM all-time low in 1H23.** Yongda's 1H23 revenue was 4% higher than our prior forecast, due to higher average selling prices. However, its GPM of 7.5% was 0.6 ppt lower than our expectation, mainly due to lower new-car GPM of only 0.5% in 1H23. Its SG&A expenses were higher than our forecast by RMB 225mn, which was offset by higher other income in 1H23. Excluding extraordinary items related to the disposal of a 60% stake at a BMW 4S store, its other income in 1H23 was RMB 136mn higher than our prior forecast due to higher-than-expected auto finance commission income. Yongda's 1H23 net profit of RMB 407mn was lower than our estimates by RMB 39mn.

■ **Porsche to improve, BMW likely stable and cost control still the key to profitability.** We project Porsche's new-car GPM at Yongda to lift 1.6 ppts HoH in 2H23, as Porsche has decided to cut full-year target by about 10%. We see an improving product mix for BMW, but it still heavily relies on subsidies in 2H23. Therefore, we expect 2H23 new-car GPM to improve slightly HoH to 0.6%. As the net margin fell to below 2% with deteriorated new-car GP, the company's profitability becomes more sensitive to cost control. We project SG&A ratio to be lowered by 0.2 ppt HoH and therefore forecast 2H23E net profit to rise 16% HoH to RMB 470mn.

■ **Valuation/Key risks.** We project Yongda's net profit to rise 40% YoY to RMB 1.2bn in FY24E, amid higher revenue contribution from after-sales services, more diversified income and probably more rational sales targets from OEMs. We maintain our BUY rating but cut target price from HK\$ 6.50 to HK\$ 5.00, still based on 7x our revised FY24E P/E. Key risks to our rating and TP 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)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	77,917	72,024	74,966	75,224	76,403
YoY growth (%)	14.2	(7.6)	4.1	0.3	1.6
Net income (RMB mn)	2,480	1,425	877	1,225	1,627
EPS (RMB)	1.26	0.72	0.45	0.62	0.83
YoY growth (%)	52.6	(42.5)	(38.5)	39.7	32.7
P/E (x)	2.2	4.1	6.8	4.9	3.7
P/B (x)	0.4	0.4	0.4	0.4	0.4
Yield (%)	17.7	9.9	7.3	8.2	10.9
ROE (%)	19.4	10.2	6.1	8.2	10.2
Net gearing (%)	18	11	13.0	8.5	2.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 5.00
(Previous TP	HK\$ 6.50)
Up/Downside	+50.6%
Current Price	HK\$ 3.32

China Auto Sector

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Stock Data

Mkt Cap (HK\$ mn)	6,457
Avg 3 mths t/o (HK\$ mn)	14
52w High/Low (HK\$)	7.38/3.05
Total Issued Shares (mn)	1,945
Source: Bloomberg	

Shareholding Structure

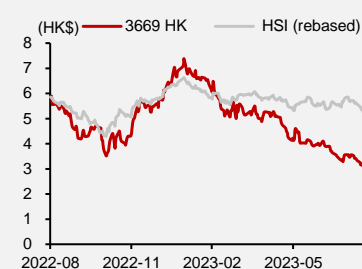
Mr. Cheung Tak On	29.9%
FIL Limited	8.1%
Others	62.0%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-6.7%	3.1%
3-mth	-13.6%	-10.4%
6-mth	-41.0%	-31.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Figure 1: Interim results

RMB mn	1H21	2H21	1H22	2H22	1H23	YoY	HoH
New-car sales volume (units)	115,834	98,073	76,752	110,524	85,759	11.7%	-22.4%
Total revenue	40,494	37,423	31,392	40,632	34,862	11.1%	-14.2%
Gross profit	3,699	4,053	3,081	3,309	2,600	-15.6%	-21.4%
Selling exp.	(1,637)	(1,898)	(1,660)	(2,140)	(1,853)	11.6%	-13.4%
Admin exp.	(909)	(905)	(968)	(867)	(1,021)	5.4%	17.7%
Operating profit	1,834	1,975	1,069	1,235	668	-37.6%	-45.9%
Net profit	1,172	1,309	673	752	407	-39.6%	-46.0%
Gross margin	9.1%	10.8%	9.8%	8.1%	7.5%	-2.4 ppt	-0.7 ppt
Operating margin	4.5%	5.3%	3.4%	3.0%	1.9%	-1.5 ppt	-1.1 ppt
Net margin	2.9%	3.5%	2.1%	1.9%	1.2%	-1.0 ppt	-0.7 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	FY23E	New FY24E	FY25E	FY23E	Old FY24E	FY25E	FY23E	Diff (%) FY24E	FY25E
Revenue	74,966	75,224	76,403	73,416	76,113	78,749	2.1%	-1.2%	-3.0%
Gross Profit	5,690	6,365	6,896	5,989	6,761	7,217	-5.0%	-5.9%	-4.4%
Operating Profit	1,472	1,985	2,574	1,986	2,654	3,181	-25.9%	-25.2%	-19.1%
Net profit	877	1,225	1,627	1,199	1,687	2,050	-26.9%	-27.4%	-20.7%
Gross Margin	7.6%	8.5%	9.0%	8.2%	8.9%	9.2%	-0.6 ppt	-0.4 ppt	-0.1 ppt
Operating Margin	2.0%	2.6%	3.4%	2.7%	3.5%	4.1%	-0.7 ppt	-0.8 ppt	-40.7 ppt
Net Margin	1.2%	1.6%	2.1%	1.6%	2.2%	2.6%	-0.5 ppt	-0.6 ppt	-62.3 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	FY23E	CMBIGM FY24E	FY25E	FY23E	Consensus FY24E	FY25E	FY23E	Diff (%) FY24E	FY25E
Revenue	74,966	75,224	76,403	78,446	85,245	89,516	-4.4%	-11.8%	-14.6%
Gross Profit	5,690	6,365	6,896	6,847	7,816	8,318	-16.9%	-18.6%	-17.1%
Operating Profit	1,472	1,985	2,574	2,393	3,156	3,535	-38.5%	-37.1%	-27.2%
Net profit	877	1,225	1,627	1,485	1,956	2,212	-41.0%	-37.4%	-26.5%
Gross Margin	7.6%	8.5%	9.0%	8.7%	9.2%	9.3%	-1.1 ppt	-0.7 ppt	-0.3 ppt
Operating Margin	2.0%	2.6%	3.4%	3.1%	3.7%	3.9%	-1.1 ppt	-1.1 ppt	-0.6 ppt
Net Margin	1.2%	1.6%	2.1%	1.9%	2.3%	2.5%	-0.7 ppt	-0.7 ppt	-0.3 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	77,917	72,024	74,966	75,224	76,403
Cost of sales	(70,164)	(65,635)	(69,275)	(68,860)	(69,507)
Gross profit	7,753	6,389	5,690	6,365	6,896
Other income	1,405	1,550	1,876	1,845	1,841
Distribution expenses	(3,534)	(3,800)	(3,971)	(4,066)	(4,052)
Administrative expenses	(1,814)	(1,835)	(2,123)	(2,158)	(2,111)
Operating profit	3,809	2,304	1,472	1,985	2,574
Finance costs	(506)	(321)	(328)	(355)	(383)
Share of profits of associate	71	90	100	105	110
Share of profits of JVs	1	(1)	2	2	2
Profit before tax	3,375	2,073	1,246	1,738	2,303
Taxation	(837)	(587)	(324)	(452)	(599)
Minority interests	(138)	(60)	(45)	(61)	(77)
Net profit	2,480	1,425	877	1,225	1,627

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	3,491	2,073	1,246	1,738	2,303
Depreciation/amortization	1,154	1,277	1,344	1,363	1,389
Change in working capital	652	1,348	(1,102)	(1,179)	(771)
Others	(283)	(465)	(85)	(192)	(336)
Net cash from operating	5,015	4,232	1,402	1,730	2,584
Capex	(1,120)	(1,775)	(1,320)	(640)	(1,120)
Others	838	320	716	612	635
Net cash from investing	(282)	(1,455)	(604)	(28)	(485)
Share issuance	9	6	7	7	7
Dividend paid	(672)	(1,077)	(606)	(487)	(552)
Others	(4,899)	(1,771)	(322)	327	286
Net cash from financing	(5,562)	(2,842)	(921)	(153)	(259)
Net change in cash	(830)	(65)	(122)	1,549	1,840
Cash at beginning of the year	3,080	2,250	2,186	2,063	3,612
Cash at the end of the year	2,250	2,186	2,063	3,612	5,453

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	16,617	17,169	15,579	18,239	20,897
Cash and equivalents	2,250	2,186	2,063	3,612	5,453
Accounts receivables	9,127	8,018	8,215	8,244	8,373
Inventories	4,038	4,555	4,175	4,716	4,761
Other current assets	1,203	2,411	1,125	1,667	2,311
Non-current assets	14,949	15,232	14,803	13,642	12,901
PP&E	5,838	6,059	5,838	5,044	4,726
Intangibles	2,860	2,817	2,760	2,702	2,643
Interests in JVs and assos	714	802	892	987	1,087
Other non-current assets	5,537	5,554	5,312	4,908	4,445
Total assets	31,566	32,401	30,382	31,881	33,798
Current liabilities	13,328	14,339	11,509	11,918	12,436
Short-term borrowings	3,596	2,288	2,500	3,000	3,500
Accounts payable	5,569	8,391	5,694	5,660	5,713
Other current liabilities	4,163	3,661	3,315	3,258	3,223
Non-current liabilities	3,950	3,397	3,867	4,098	4,284
Long-term borrowings	911	1,080	1,520	1,960	2,400
Other non-current liabilities	3,039	2,317	2,347	2,138	1,884
Total liabilities	17,278	17,736	15,375	16,016	16,720
Share capital	16	16	16	16	16
Reserves	13,692	14,182	14,515	15,361	16,559
Minority interests	580	504	513	525	541
Shareholders' equity	13,708	14,198	14,532	15,377	16,575
Total equity and liabilities	31,567	32,439	30,420	31,918	33,836

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Sales of passenger vehicles	84.5	85.3	84.2	83.1	82.6
After-sales services	14.8	14.0	15.1	16.2	16.7
Growth (%)					
Revenue	14.2	(7.6)	4.1	0.3	1.6
Gross profit	26.4	(17.6)	(10.9)	11.8	8.3
Operating profit	37.5	(39.5)	(36.1)	34.9	29.6
Net profit	52.6	(42.5)	(38.5)	39.7	32.7
Profit & loss ratio (%)					
Gross margin	9.9	8.9	7.6	8.5	9.0
Operating margin	4.9	3.2	2.0	2.6	3.4
Net profit margin	3.2	2.0	1.2	1.6	2.1
Balance sheet ratio					
Net cash/total equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)
Current ratio (x)	1.2	1.2	1.4	1.5	1.7
Receivable turnover days	42.9	40.7	40.0	40.0	40.0
Inventory turnover days	21.1	25.4	22.0	25.0	25.0
Payable turnover days	29.0	46.8	30.0	30.0	30.0
Profitability (%)					
ROE	19.4	10.2	6.1	8.2	10.2
ROA	7.5	4.5	2.8	3.9	5.0
Per share data (RMB)					
EPS	1.26	0.72	0.45	0.62	0.83
DPS	0.48	0.29	0.22	0.25	0.33

Source: Company data, CMBIGM estimates

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