

Yongda Automobiles (3669 HK)

2H23 miss on GPM; cost control key to FY24E

Yongda Automobiles (Yonda)'s 2H23 net profit fell 59% HoH to RMB166mn, lower than our prior forecast by 12% due to lower-than-expected revenue and GPM of after-sales services. As the net margin fell to below 1% with deteriorated new-car GPM, cost control becomes the key to Yongda's profitability. We believe cost control is attainable in FY24E given network optimization. The company increased its dividend payout ratio to 53% in FY23, implying a dividend yield of 8%. The dividend payout ratio will probably not decline in FY24E.

■ **2H23 earnings miss on after-sales services.** Yongda's 2H23 revenue was 3% higher than our prior forecast due to higher new-car sales volume. Yet, its 2H23 GPM of 6.3% was 1.1ppts lower than our prior forecast as the GPM of after-sales services fell to 40.1% from 43.1% in 1H23, the lowest level since FY12 (IPO). Yongda's 2H23 new-car GPM of 0.2% also hit a record low level, which was still a bit better than our prior expectation, due to higher-than-peers GPM for BMW brand. The commission income and SG&A ratio in 2H23 were better than our prior forecast, thanks to higher unit income from the NEV agency business and better cost control. Yongda's 2H23 net profit of RMB166mn was lower than our prior forecast by 12%.

■ **Cost control still the key to profitability.** We cut Yongda's new-car sales volume forecast to 181,000 units (-7% YoY) in FY24E, given more stores were closed than expected in FY23. We project new-car GPM to fall to 0.2% in FY24E from 0.3% in FY23, as the GPM deterioration from other brands could offset the improvement from Porsche's. We project FY24E after-sales service revenue to rise 4% YoY, while its GPM may be flat at 41% as the negative impact from the new car market still exists. As the net margin fell to below 1%, the company's profitability becomes more sensitive to cost control. We forecast Yongda's SG&A expenses to narrow by RMB146mn YoY in FY24E, as automakers begin to lower their requirements for dealers in marketing expenses amid market changes and Yongda has been optimizing sales network. Therefore, we project Yongda's FY24E net profit to rise 14% YoY to RMB654mn.

■ **Valuation/Key risks.** We maintain BUY rating and cut target price from HK\$2.80 to HK\$2.70, still based on 7x our revised FY24E EPS. Key risks to our rating and TP include lower sales volume and/or margins, slower after-sales service growth than expected, higher operating expenses, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue (RMB mn)	77,917	72,024	72,595	69,188	66,632
YoY growth (%)	14.2	(7.6)	0.8	(4.7)	(3.7)
Net profit (RMB mn)	2,480.1	1,425.4	572.6	653.9	798.9
YoY growth (%)	52.6	(42.5)	(59.8)	14.2	22.2
EPS (Reported) (RMB)	1.26	0.72	0.29	0.34	0.41
P/E (x)	8.4	8.1	6.9	6.1	5.0
P/B (x)	1.5	0.8	0.3	0.3	0.3
Yield (%)	4.6	5.0	7.7	9.1	11.1
ROE (%)	19.4	10.2	4.1	4.6	5.4
Net gearing (%)	(7.1)	(7.8)	(4.8)	(10.1)	(1.5)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.70
(Previous TP)	HK\$2.80
Up/Downside	22.2%
Current Price	HK\$2.21

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Stock Data

Mkt Cap (HK\$ mn)	4,259.9
Avg 3 mths t/o (HK\$ mn)	14.0
52w High/Low (HK\$)	5.58/1.88
Total Issued Shares (mn)	1927.6

Source: FactSet

Shareholding Structure

Mr. Cheung Tak On	30.2%
FIL Limited	10.1%

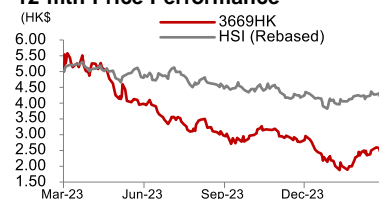
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.2%	-5.1%
3-mth	-20.2%	-21.6%
6-mth	-26.1%	-22.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Report

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Figure 1: Results review

(RMB mn)	1H21	2H21	1H22	2H22	1H23	2H23	YoY	HoH
New-car sales volume (units)	115,834	98,073	76,752	110,524	85,759	98,791	-10.6%	15.2%
Total revenue	40,494	37,423	31,392	40,632	34,862	37,734	-7.1%	8.2%
Gross profit	3,699	4,053	3,081	3,309	2,600	2,394	-27.6%	-7.9%
Selling exp.	(1,637)	(1,898)	(1,660)	(2,140)	(1,853)	(2,189)	2.3%	18.1%
Admin exp.	(909)	(905)	(968)	(867)	(1,021)	(829)	-4.4%	-18.8%
Operating profit	1,834	1,975	1,069	1,235	668	294	-76.2%	-56.0%
Net profit	1,172	1,309	673	752	407	166	-77.9%	-59.2%
Gross margin	9.1%	10.8%	9.8%	8.1%	7.5%	6.3%	-1.8 ppt	-1.1 ppt
Operating margin	4.5%	5.3%	3.4%	3.0%	1.9%	0.8%	-2.3 ppt	-1.1 ppt
Net margin	2.9%	3.5%	2.1%	1.9%	1.2%	0.4%	-1.4 ppt	-0.7 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

(RMB mn)	New			Old			Diff (%)		
	FY23A	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	72,595	69,188	66,632	71,556	70,105	68,925	1.5%	-1.3%	-3.3%
Gross profit	4,994	5,075	5,388	5,321	5,532	5,900	-6.1%	-8.3%	-8.7%
Operating profit	961	1,102	1,290	1,086	1,206	1,469	-11.5%	-8.6%	-12.2%
Net profit	573	654	799	596	670	829	-3.9%	-2.4%	-3.6%
Gross margin	6.9%	7.3%	8.1%	7.4%	7.9%	8.6%	-0.6 ppt	-0.6 ppt	-0.5 ppt
Operating margin	1.3%	1.6%	1.9%	1.5%	1.7%	2.4%	-0.2 ppt	-0.1 ppt	-23.0 ppt
Net margin	0.8%	0.9%	1.2%	0.8%	1.0%	56.4%	0.0 ppt	0.0 ppt	-55.2 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

(RMB mn)	CMBIGM			Consensus			Diff (%)		
	FY23A	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	72,595	69,188	66,632	75,629	79,335	83,566	-4.0%	-12.8%	-20.3%
Gross profit	4,994	5,075	5,388	5,606	6,315	6,903	-10.9%	-19.6%	-22.0%
Operating profit	961	1,102	1,290	1,374	1,750	2,081	-30.0%	-37.0%	-38.0%
Net profit	573	654	799	870	1,148	1,450	-34.2%	-43.1%	-44.9%
Gross margin	6.9%	7.3%	8.1%	7.4%	8.0%	8.3%	-0.5 ppt	-0.6 ppt	-0.2 ppt
Operating margin	1.3%	1.6%	1.9%	1.8%	2.2%	2.5%	-0.5 ppt	-0.6 ppt	-0.6 ppt
Net margin	0.8%	0.9%	1.2%	1.2%	1.4%	1.7%	-0.4 ppt	-0.5 ppt	-0.5 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	68,201	77,917	72,024	72,595	69,188	66,632
Cost of goods sold	(62,070)	(70,164)	(65,635)	(67,601)	(64,114)	(61,244)
Gross profit	6,131	7,753	6,389	4,994	5,075	5,388
Operating expenses	(3,362)	(3,944)	(4,085)	(4,033)	(3,973)	(4,098)
Selling expense	(2,990)	(3,534)	(3,800)	(4,042)	(3,941)	(3,996)
Admin expense	(1,543)	(1,814)	(1,835)	(1,850)	(1,804)	(1,806)
Others	1,171	1,405	1,550	1,858	1,773	1,704
Operating profit	2,769	3,809	2,304	961	1,102	1,290
Share of (losses)/profits of associates/JV	46	72	89	106	104	111
EBITDA	3,909	5,036	3,670	2,392	2,566	2,827
Depreciation	749	792	804	829	875	929
Depreciation of ROU assets	284	284	372	395	380	391
Other amortisation	61	79	101	100	104	105
EBIT	2,815	3,881	2,393	1,068	1,206	1,401
Interest expense	(676)	(506)	(321)	(327)	(306)	(289)
Pre-tax profit	2,140	3,375	2,073	740	900	1,112
Income tax	(524)	(837)	(587)	(155)	(216)	(278)
Others	117	80	na	na	na	na
After tax profit	1,733	2,618	1,486	586	684	834
Minority interest	(108)	(138)	(60)	(13)	(30)	(35)
Net profit	1,625	2,480	1,425	573	654	799
Gross dividends	1,056	949	570	303	360	439
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	20,205	16,617	17,169	17,491	16,746	15,172
Cash & equivalents	3,080	2,250	2,186	2,201	3,435	2,622
Restricted cash	1,720	963	2,008	3,589	1,202	918
Account receivables	7,511	9,127	8,018	7,203	7,582	7,302
Inventories	4,856	4,038	4,555	4,363	4,391	4,195
Prepayment	0	0	0	0	0	0
ST bank deposits	363	8	5	8	8	8
Financial assets at FVTPL	303	2	255	0	0	0
Other current assets	2,373	229	143	128	128	128
Non-current assets	14,533	14,949	15,232	15,202	15,630	15,363
PP&E	6,012	5,838	6,059	5,845	5,909	5,720
Right-of-use assets	2,993	3,129	2,996	2,901	3,237	3,125
Deferred income tax	209	187	256	395	395	395
Investment in JVs & assos	595	714	802	926	1,018	1,117
Intangibles	2,333	2,860	2,817	2,954	2,890	2,825
Goodwill	1,397	1,672	1,672	1,631	1,631	1,631
Financial assets at FVTPL	355	350	312	334	334	334
Other non-current assets	639	198	318	216	216	216
Total assets	34,737	31,567	32,401	32,693	32,376	30,535
Current liabilities	16,044	13,328	14,339	14,559	12,736	9,906
Short-term borrowings	6,434	3,596	2,288	2,434	1,000	(500)
Account payables	5,807	5,569	8,391	9,125	8,783	7,551
Tax payable	1,057	1,277	1,206	963	963	963
Other current liabilities	2,548	2,650	2,181	1,795	1,774	1,672
Lease liabilities	198	236	274	243	216	221
Contract liabilities	2,369	2,480	1,724	1,724	1,704	1,602
Non-current liabilities	6,338	3,950	3,397	3,735	4,683	5,163
Long-term borrowings	3,221	911	1,080	1,527	1,960	2,400
Bond payables	368	369	0	0	0	0
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	2,750	2,670	2,317	2,209	2,723	2,763
Total liabilities	22,382	17,278	17,736	18,295	17,419	15,069
Share capital	16	16	16	16	16	16
Other reserves	11,815	13,692	14,145	13,924	14,537	15,038
Total shareholders equity	11,832	13,708	14,161	13,940	14,553	15,054
Minority interest	524	580	504	458	464	471
Total equity and liabilities	34,737	31,567	32,401	32,693	32,435	30,595

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,295	3,491	2,073	740	900	1,112
Depreciation & amortization	1,094	1,154	1,277	1,324	1,360	1,426
Tax paid	(283)	(674)	(695)	(155)	(216)	(278)
Change in working capital	2,013	652	1,348	161	1,616	(573)
Others	610	391	230	233	209	185
Net cash from operations	5,729	5,015	4,232	2,304	3,868	1,872
Investing						
Capital expenditure	(996)	(1,120)	(1,775)	(2,145)	(1,540)	(1,340)
Acquisition of subsidiaries/ investments	(848)	(668)	(41)	41	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	176	1,506	361	721	617	620
Net cash from investing	(1,668)	(282)	(1,455)	(1,382)	(923)	(720)
Financing						
Dividend paid	(486)	(569)	(949)	(570)	(100)	(360)
Net borrowings	(3,011)	(3,920)	(1,255)	652	(1,060)	(1,060)
Proceeds from share issues	904	0	0	0	0	0
Share repurchases	0	(74)	(69)	(26)	0	0
Others	(598)	(999)	(569)	(963)	(551)	(545)
Net cash from financing	(3,191)	(5,562)	(2,842)	(906)	(1,711)	(1,964)
Net change in cash						
Cash at the beginning of the year	2,210	3,080	2,250	2,186	2,201	3,435
Cash at the end of the year	3,080	2,250	2,186	2,201	3,435	2,622
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	8.8%	14.2%	(7.6%)	0.8%	(4.7%)	(3.7%)
Gross profit	4.6%	26.4%	(17.6%)	(21.8%)	1.6%	6.2%
Operating profit	(1.8%)	37.5%	(39.5%)	(58.3%)	14.6%	17.1%
EBITDA	2.0%	28.8%	(27.1%)	(34.8%)	7.3%	10.2%
EBIT	(1.4%)	37.9%	(38.3%)	(55.4%)	12.9%	16.2%
Net profit	10.3%	52.6%	(42.5%)	(59.8%)	14.2%	22.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	9.0%	9.9%	8.9%	6.9%	7.3%	8.1%
Operating margin	4.1%	4.9%	3.2%	1.3%	1.6%	1.9%
EBITDA margin	5.7%	6.5%	5.1%	3.3%	3.7%	4.2%
Return on equity (ROE)	15.0%	19.4%	10.2%	4.1%	4.6%	5.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.0	(0.1)	(0.1)	(0.0)	(0.1)	(0.0)
Current ratio (x)	1.3	1.2	1.2	1.2	1.3	1.5
Receivable turnover days	40.3	42.9	40.7	36.3	40.0	40.0
Inventory turnover days	28.6	21.1	25.4	23.6	25.0	25.0
Payable turnover days	34.2	29.0	46.8	49.4	50.0	45.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	9.3	8.4	8.1	6.9	6.1	5.0
P/E (diluted)	9.4	8.4	8.1	6.9	6.1	5.0
P/B	1.3	1.5	0.8	0.3	0.3	0.3
P/CFPS	2.6	4.2	2.7	1.7	1.0	2.1
Div yield (%)	7.0	4.6	5.0	7.7	9.1	11.1

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

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