

Yongda Automobiles (3669HK)

New car GPM may be hurt more than expected

We project Yongda's 2H23E net profit to fall 53% HoH to RMB189mn amid a deteriorating new-car GPM. We cut our FY24E net profit by 45% to RMB670mn, due to slower-than-expected new car GPM recovery given fiercer competition from premium NEV models to traditional luxury brands. Yongda's shares are now trading at 5x FY24E P/E, which is undemanding given a dividend yield of 8%.

■ **We project 2H23E net profit to be RMB189mn.** We project Yongda's new-car sales volume to rise 11% HoH to about 95,000 units in 2H23E, with average selling price falling about 7% HoH amid the price war. Therefore, we expect Yongda's new-car sales revenue to rise 4% HoH to about RMB28bn in 2H23E. We estimate 2H23E new car GPM to fall 0.7ppt HoH to -0.2%, taking higher discounts and OEMs' rebates into account. We project after-sales service revenue to rise 13% HoH to RMB5.9bn in 2H23E, with a GPM of 43%. We project its other income to drop 7% HoH in 2H23E due to a high comparison base caused by gains from a subsidiary disposal and SG&A ratio to widen by 0.4ppt HoH to 8.7% due to higher incentive costs for sales personnel. Accordingly, we forecast Yongda's 2H23E net profit to fall 75% YoY and 53% HoH to about RMB189mn.

■ **Porsche and after-sales services key to FY24E.** We project Yongda's new-car sales volume to drop 3% YoY to about 176,000 units (excluding those under agency model) in FY24E, given potential market share loss for traditional luxury brands and mass-market foreign brands amid China's electrification. We are of the view that the sales growth for NEV brands cannot offset the sales decline from the traditional brands at Yongda in FY24E. We expect new-car GPM to be flat YoY at 0.1% in FY24E, as the improvement from Porsche's could offset the deterioration from other brands'. We project FY24E after-sales service revenue to rise 4% YoY, mainly driven by a larger customer base. Its SG&A ratio may continue to increase amid competition this year. Accordingly, we project Yongda's net profit to rise 13% YoY to RMB670mn in FY24E.

■ **Valuation/Key risks.** We maintain our BUY rating but cut target price from HK\$5.00 to HK\$2.80, still based on 7x our revised FY24E EPS. We believe Yongda's valuation is undemanding with a dividend yield of 8%. Key risks to our rating and TP include lower sales and/or margins, slower after-sales service growth 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 | 71,556 | 70,105 | 68,925 |
| YoY growth (%) | 14.2 | (7.6) | (0.7) | (2.0) | (1.7) |
| Net profit (RMB mn) | 2,480.1 | 1,425.4 | 595.6 | 670.4 | 829.5 |
| YoY growth (%) | 52.6 | (42.5) | (58.2) | 12.6 | 23.7 |
| EPS (Reported) (RMB) | 1.26 | 0.72 | 0.30 | 0.34 | 0.42 |
| P/E (x) | 8.4 | 8.1 | 5.9 | 5.2 | 4.2 |
| P/B (x) | 1.5 | 0.8 | 0.2 | 0.2 | 0.2 |
| Yield (%) | 4.6 | 5.0 | 8.5 | 7.6 | 9.4 |
| ROE (%) | 19.4 | 10.2 | 4.2 | 4.6 | 5.5 |
| Net gearing (%) | (7.1) | (7.8) | (3.7) | (10.5) | (17.3) |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

| | |
|---------------|----------|
| Target Price | HK\$2.80 |
| (Previous TP) | HK\$5.00 |
| Up/Downside | 43.6% |
| Current Price | HK\$1.95 |

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn) | 3,813.6 |
| Avg 3 mths t/o (HK\$ mn) | 9.6 |
| 52w High/Low (HK\$) | 6.91/1.95 |
| Total Issued Shares (mn) | 1955.7 |

Source: FactSet

Shareholding Structure

| | |
|-------------------|-------|
| Mr. Cheung Tak On | 30.1% |
| FIL Limited | 10.1% |

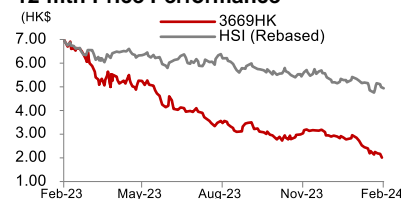
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -31.6% | -26.1% |
| 3-mth | -35.9% | -28.8% |
| 6-mth | -43.8% | -29.4% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Results preview

| (RMB mn) | 1H21 | 2H21 | 1H22 | 2H22 | 1H23 | 2H23E | YoY | HoH |
|------------------------------|---------|---------|---------|---------|---------|---------|----------|----------|
| New-car sales volume (units) | 115,834 | 98,073 | 76,752 | 110,524 | 85,759 | 95,156 | -13.9% | 11.0% |
| Total revenue | 40,494 | 37,423 | 31,392 | 40,632 | 34,862 | 36,694 | -9.7% | 5.3% |
| Gross profit | 3,699 | 4,053 | 3,081 | 3,309 | 2,600 | 2,721 | -17.8% | 4.6% |
| Selling exp. | (1,637) | (1,898) | (1,660) | (2,140) | (1,853) | (2,109) | -1.5% | 13.8% |
| Admin exp. | (909) | (905) | (968) | (867) | (1,021) | (1,072) | 23.6% | 5.0% |
| Operating profit | 1,834 | 1,975 | 1,069 | 1,235 | 668 | 418 | -66.1% | -37.4% |
| Net profit | 1,172 | 1,309 | 673 | 752 | 407 | 189 | -74.9% | -53.5% |
| Gross margin | 9.1% | 10.8% | 9.8% | 8.1% | 7.5% | 7.4% | -0.7 ppt | 0.0 ppt |
| Operating margin | 4.5% | 5.3% | 3.4% | 3.0% | 1.9% | 1.1% | -1.9 ppt | -0.8 ppt |
| Net margin | 2.9% | 3.5% | 2.1% | 1.9% | 1.2% | 0.5% | -1.3 ppt | -0.7 ppt |

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

| (RMB mn) | New | | | Old | | | Diff (%) | | |
|------------------|--------|--------|--------|--------|--------|--------|----------|----------|-----------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 71,556 | 70,105 | 68,925 | 74,966 | 75,224 | 76,403 | -4.5% | -6.8% | -9.8% |
| Gross profit | 5,321 | 5,532 | 5,900 | 5,690 | 6,365 | 6,896 | -6.5% | -13.1% | -14.4% |
| Operating profit | 1,086 | 1,206 | 1,469 | 1,472 | 1,985 | 2,574 | -26.2% | -39.2% | -42.9% |
| Net profit | 596 | 670 | 829 | 877 | 1,225 | 1,627 | -32.1% | -45.3% | -49.0% |
| Gross margin | 7.4% | 7.9% | 8.6% | 7.6% | 8.5% | 9.0% | -0.2 ppt | -0.6 ppt | -0.5 ppt |
| Operating margin | 1.5% | 1.7% | 2.1% | 2.0% | 2.6% | 37.3% | -0.4 ppt | -0.9 ppt | -35.2 ppt |
| Net margin | 0.8% | 1.0% | 1.2% | 1.2% | 1.6% | 63.2% | -0.3 ppt | -0.7 ppt | -62.0 ppt |

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

| (RMB mn) | CMBIGM | | | Consensus | | | Diff (%) | | |
|------------------|--------|--------|--------|-----------|--------|--------|----------|----------|----------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 71,556 | 70,105 | 68,925 | 76,363 | 80,422 | 85,214 | -6.3% | -12.8% | -19.1% |
| Gross profit | 5,321 | 5,532 | 5,900 | 5,741 | 6,605 | 7,270 | -7.3% | -16.2% | -18.8% |
| Operating profit | 1,086 | 1,206 | 1,469 | 1,433 | 1,923 | 2,335 | -24.2% | -37.3% | -37.1% |
| Net profit | 596 | 670 | 829 | 905 | 1,264 | 1,633 | -34.2% | -47.0% | -49.2% |
| Gross margin | 7.4% | 7.9% | 8.6% | 7.5% | 8.2% | 8.5% | -0.1 ppt | -0.3 ppt | 0.0 ppt |
| Operating margin | 1.5% | 1.7% | 2.1% | 1.9% | 2.4% | 2.7% | -0.4 ppt | -0.7 ppt | -0.6 ppt |
| Net margin | 0.8% | 1.0% | 1.2% | 1.2% | 1.6% | 1.9% | -0.4 ppt | -0.6 ppt | -0.7 ppt |

Source: Bloomberg, CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|----------|----------|----------|----------|----------|----------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 68,201 | 77,917 | 72,024 | 71,556 | 70,105 | 68,925 |
| Cost of goods sold | (62,070) | (70,164) | (65,635) | (66,235) | (64,573) | (63,025) |
| Gross profit | 6,131 | 7,753 | 6,389 | 5,321 | 5,532 | 5,900 |
| Operating expenses | (3,362) | (3,944) | (4,085) | (4,235) | (4,326) | (4,431) |
| Selling expense | (2,990) | (3,534) | (3,800) | (3,961) | (3,980) | (4,040) |
| Admin expense | (1,543) | (1,814) | (1,835) | (2,093) | (2,155) | (2,156) |
| Others | 1,171 | 1,405 | 1,550 | 1,819 | 1,810 | 1,765 |
| Operating profit | 2,769 | 3,809 | 2,304 | 1,086 | 1,206 | 1,469 |
| Share of (losses)/profits of associates/JV | 46 | 72 | 89 | 102 | 107 | 112 |
| EBITDA | 3,909 | 5,036 | 3,670 | 2,531 | 2,671 | 2,959 |
| Depreciation | 749 | 792 | 804 | 829 | 830 | 829 |
| Depreciation of ROU assets | 284 | 284 | 372 | 418 | 430 | 450 |
| Other amortisation | 61 | 79 | 101 | 97 | 98 | 99 |
| EBIT | 2,815 | 3,881 | 2,393 | 1,188 | 1,313 | 1,581 |
| Interest expense | (676) | (506) | (321) | (328) | (355) | (383) |
| Pre-tax profit | 2,140 | 3,375 | 2,073 | 860 | 958 | 1,199 |
| Income tax | (524) | (837) | (587) | (219) | (240) | (312) |
| Others | 117 | 80 | na | na | na | na |
| After tax profit | 1,733 | 2,618 | 1,486 | 641 | 719 | 887 |
| Minority interest | (108) | (138) | (60) | (45) | (48) | (57) |
| Net profit | 1,625 | 2,480 | 1,425 | 596 | 670 | 829 |
| Gross dividends | 1,056 | 949 | 570 | 298 | 268 | 332 |

| BALANCE SHEET | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 20,205 | 16,617 | 17,169 | 15,006 | 17,225 | 19,068 |
| Cash & equivalents | 3,080 | 2,250 | 2,186 | 2,052 | 3,494 | 5,034 |
| Restricted cash | 1,720 | 963 | 2,008 | 718 | 1,223 | 1,762 |
| Account receivables | 7,511 | 9,127 | 8,018 | 7,842 | 7,683 | 7,553 |
| Inventories | 4,856 | 4,038 | 4,555 | 3,992 | 4,423 | 4,317 |
| Prepayment | 0 | 0 | 0 | 0 | 0 | 0 |
| ST bank deposits | 363 | 8 | 5 | 5 | 5 | 5 |
| Financial assets at FVTPL | 303 | 2 | 255 | 255 | 255 | 255 |
| Other current assets | 2,373 | 229 | 143 | 143 | 143 | 143 |
| Non-current assets | 14,533 | 14,949 | 15,232 | 14,803 | 13,543 | 12,807 |
| PP&E | 6,012 | 5,838 | 6,059 | 5,838 | 4,948 | 4,639 |
| Right-of-use assets | 2,993 | 3,129 | 2,996 | 2,755 | 2,347 | 1,880 |
| Deferred income tax | 209 | 187 | 256 | 256 | 256 | 256 |
| Investment in JVs & assos | 595 | 714 | 802 | 892 | 987 | 1,087 |
| Intangibles | 2,333 | 2,860 | 2,817 | 2,760 | 2,702 | 2,643 |
| Goodwill | 1,397 | 1,672 | 1,672 | 1,672 | 1,672 | 1,672 |
| Financial assets at FVTPL | 355 | 350 | 312 | 312 | 312 | 312 |
| Other non-current assets | 639 | 198 | 318 | 318 | 318 | 318 |
| Total assets | 34,737 | 31,567 | 32,401 | 29,809 | 30,768 | 31,876 |
| Current liabilities | 16,044 | 13,328 | 14,339 | 11,217 | 11,506 | 11,798 |
| Short-term borrowings | 6,434 | 3,596 | 2,288 | 2,500 | 3,000 | 3,500 |
| Account payables | 5,807 | 5,569 | 8,391 | 5,444 | 5,307 | 5,180 |
| Tax payable | 1,057 | 1,277 | 1,206 | 1,206 | 1,206 | 1,206 |
| Other current liabilities | 2,548 | 2,650 | 2,181 | 1,897 | 1,846 | 1,794 |
| Lease liabilities | 198 | 236 | 274 | 171 | 147 | 119 |
| Contract liabilities | 2,369 | 2,480 | 1,724 | 1,809 | 1,758 | 1,706 |
| Non-current liabilities | 6,338 | 3,950 | 3,397 | 3,867 | 4,095 | 4,276 |
| Long-term borrowings | 3,221 | 911 | 1,080 | 1,520 | 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 | 2,347 | 2,135 | 1,876 |
| Total liabilities | 22,382 | 17,278 | 17,736 | 15,084 | 15,601 | 16,074 |
| Share capital | 16 | 16 | 16 | 16 | 16 | 16 |
| Other reserves | 11,815 | 13,692 | 14,145 | 14,196 | 14,627 | 15,251 |
| Total shareholders equity | 11,832 | 13,708 | 14,161 | 14,213 | 14,644 | 15,267 |
| Minority interest | 524 | 580 | 504 | 513 | 523 | 534 |
| Total equity and liabilities | 34,737 | 31,567 | 32,401 | 29,809 | 30,768 | 31,876 |

| CASH FLOW | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|----------------|----------------|----------------|--------------|--------------|--------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 2,295 | 3,491 | 2,073 | 860 | 958 | 1,199 |
| Depreciation & amortization | 1,094 | 1,154 | 1,277 | 1,344 | 1,358 | 1,378 |
| Tax paid | (283) | (674) | (695) | (219) | (240) | (312) |
| Change in working capital | 2,013 | 652 | 1,348 | (832) | (964) | (483) |
| Others | 610 | 391 | 230 | 239 | 260 | 266 |
| Net cash from operations | 5,729 | 5,015 | 4,232 | 1,391 | 1,373 | 2,048 |
| Investing | | | | | | |
| Capital expenditure | (996) | (1,120) | (1,775) | (1,320) | (540) | (1,120) |
| Acquisition of subsidiaries/ investments | (848) | (668) | (41) | 0 | 0 | 0 |
| Net proceeds from disposal of short-term investments | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | 176 | 1,506 | 361 | 716 | 611 | 632 |
| Net cash from investing | (1,668) | (282) | (1,455) | (604) | 71 | (488) |
| Financing | | | | | | |
| Dividend paid | (486) | (569) | (949) | (570) | (298) | (268) |
| Net borrowings | (3,011) | (3,920) | (1,255) | 652 | 940 | 940 |
| Proceeds from share issues | 904 | 0 | 0 | 0 | 0 | 0 |
| Share repurchases | 0 | (74) | (69) | (26) | 0 | 0 |
| Others | (598) | (999) | (569) | (977) | (644) | (692) |
| Net cash from financing | (3,191) | (5,562) | (2,842) | (921) | (2) | (20) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 2,210 | 3,080 | 2,250 | 2,186 | 2,052 | 3,494 |
| Cash at the end of the year | 3,080 | 2,250 | 2,186 | 2,052 | 3,494 | 5,034 |
| GROWTH | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Revenue | 8.8% | 14.2% | (7.6%) | (0.7%) | (2.0%) | (1.7%) |
| Gross profit | 4.6% | 26.4% | (17.6%) | (16.7%) | 4.0% | 6.7% |
| Operating profit | (1.8%) | 37.5% | (39.5%) | (52.9%) | 11.1% | 21.8% |
| EBITDA | 2.0% | 28.8% | (27.1%) | (31.0%) | 5.5% | 10.8% |
| EBIT | (1.4%) | 37.9% | (38.3%) | (50.4%) | 10.5% | 20.4% |
| Net profit | 10.3% | 52.6% | (42.5%) | (58.2%) | 12.6% | 23.7% |
| PROFITABILITY | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 9.0% | 9.9% | 8.9% | 7.4% | 7.9% | 8.6% |
| Operating margin | 4.1% | 4.9% | 3.2% | 1.5% | 1.7% | 2.1% |
| EBITDA margin | 5.7% | 6.5% | 5.1% | 3.5% | 3.8% | 4.3% |
| Return on equity (ROE) | 15.0% | 19.4% | 10.2% | 4.2% | 4.6% | 5.5% |
| 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) | (0.2) |
| Current ratio (x) | 1.3 | 1.2 | 1.2 | 1.3 | 1.5 | 1.6 |
| Receivable turnover days | 40.3 | 42.9 | 40.7 | 40.0 | 40.0 | 40.0 |
| Inventory turnover days | 28.6 | 21.1 | 25.4 | 22.0 | 25.0 | 25.0 |
| Payable turnover days | 34.2 | 29.0 | 46.8 | 30.0 | 30.0 | 30.0 |
| VALUATION | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| P/E | 9.3 | 8.4 | 8.1 | 5.9 | 5.2 | 4.2 |
| P/E (diluted) | 9.4 | 8.4 | 8.1 | 5.9 | 5.3 | 4.2 |
| P/B | 1.3 | 1.5 | 0.8 | 0.2 | 0.2 | 0.2 |
| P/CFPS | 2.6 | 4.2 | 2.7 | 2.5 | 2.6 | 1.7 |
| Div yield (%) | 7.0 | 4.6 | 5.0 | 8.5 | 7.6 | 9.4 |

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

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| | |
|-----------------------|---|
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