

# China Meidong Auto (1268 HK)

## 3Q22 operational data may beat expectation

We are of the view that Meidong's 3Q22 operational data, especially the top-line growth, may beat expectation, as we project its Porsche's new-car sales volume to be more than doubled in 3Q22. Although our prior projection of possible price war in the next six months could dent dealers' new-car gross margin next year, we believe Meidong's share price could be oversold now given its strongest management execution and better brand mix than its peers.

■ **We estimate Porsche's new-car sales volume to be more than doubled in 3Q22.** Meidong now operates 20 Porsche 4S stores and showrooms in 15 cities after StarChase's acquisition. There are 32 Porsche stores in total in these 15 cities. Meidong is the sole Porsche store operator in seven cities including Qingdao and Jinan. Retail sales volume for Porsche in these 15 cities almost doubled in 3Q22, based on our calculations, assuming 0 for cities where StarChase stores are located in 3Q21. That means new-car sales volume for Porsche at Meidong could be more than doubled in 3Q22, given it is usually more competitive than its peers in the same city and its Guangzhou store was not opened yet in 3Q21. We raise Meidong's Porsche new-car sales volume by 8% to 13,000 units in FY22E.

■ **BMW to increase incentives to dealers in 4Q22.** Based on our channel checks, Meidong's new orders for BMW during the Golden Week outperformed the market. Along with BMW's rising incentives to dealers in 4Q22 (a new subsidy of RMB 8,000 per vehicle for locally-produced models and RMB 11,000 per vehicle for imported models), BMW's new-car gross profit could also beat market expectation, in our view.

■ **Earnings/valuation.** We revise up FY22E revenue by 2% with Porsche's sales volume likely beat in 2H22E. We keep our FY22E GPM unchanged as price war could be offset by rising BMW incentives. We also cut FY22E SG&A slightly and raise our FY22E net profit by 9% to RMB 1.19bn. We revise down our FY23E net profit by 2% to account for our cautious outlook for China autos in 2023. We also add possible new EV stores in FY23-24E in our model, although the financial impact would be very limited.

We maintain BUY rating but lower our target price slightly from HK\$ 25.00 to HK\$ 23.00, still based on 15x of our revised FY23E EPS estimates. Key risks to our rating and target price include lower sales and/or margins, slower store expansion than our expectation, as well as a sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	20,207	23,577	29,816	37,485	42,313
YoY growth (%)	30.7	36.1	20.2	31.1	19.2
Net income (RMB mn)	751	1,166	1,190	1,760	2,326
EPS (RMB)	0.61	0.92	0.93	1.36	1.77
YoY growth (%)	36.3	55.3	2.1	47.9	32.1
P/E (x)	0.0	0.0	10.2	7.0	5.4
P/B (x)	0.0	0.0	2.6	2.0	1.5
Yield (%)	2.1	2.7	2.5	7.8	10.1
ROE (%)	30.4	32.5	27.4	31.8	31.5
Net gearing (%)	Net cash	Net cash	47.4	11.4	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$23.00
(Previous TP	HK\$25.00)
Up/Downside	+117.0%
Current Price	HK\$ 10.60

### China Auto Sector

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### Stock Data

Mkt Cap (HK\$ mn)	13,529
Avg 3 mths t/o (HK\$ mn)	49
52w High/Low (HK\$)	43.16/10.22
Total Issued Shares (mn)	1,275

Source: Bloomberg

### Shareholding Structure

Apex Sail Limited	55.3%
Others	44.7%

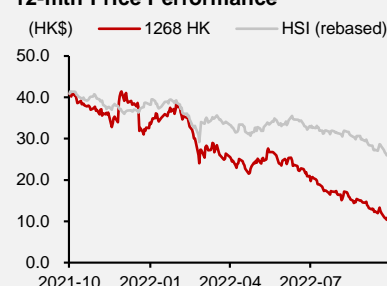
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-27.2%	-15.2%
3-mth	-50.0%	-29.9%
6-mth	-58.5%	-35.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Figure 1: 2H22 earnings forecast

RMB mn	1H20	2H20	1H21	2H21	1H22	2H22E	YoY	HoH
New-car sales volume (units)	23,691	33,509	32,221	29,374	29,658	35,247	20.0%	18.8%
Total revenue	8,448	11,760	11,808	11,769	12,658	17,158	45.8%	35.5%
Gross profit	819	1,216	1,274	1,497	1,334	1,995	33.3%	49.5%
Selling exp.	(238)	(308)	(348)	(393)	(398)	(475)	20.7%	19.3%
Admin exp.	(216)	(223)	(278)	(301)	(377)	(419)	39.4%	11.1%
Operating profit	453	693	771	927	668	1,254	35.3%	87.7%
Net profit	301	450	537	629	343	847	34.6%	146.6%
Gross margin	9.7%	10.3%	10.8%	12.7%	10.5%	11.6%	-1.1 ppt	1.1 ppt
Operating margin	5.4%	5.9%	6.5%	7.9%	5.3%	7.3%	-0.6 ppt	2.0 ppt
Net margin	3.6%	3.8%	4.5%	5.3%	2.7%	4.9%	-0.4 ppt	2.2 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	29,816	37,485	42,313	29,276	38,519	43,639	1.8%	-2.7%	-3.0%
Gross Profit	3,329	4,364	5,202	3,289	4,569	5,348	1.2%	-4.5%	-2.7%
Operating Profit	1,922	2,756	3,506	1,793	2,816	3,461	7.2%	-2.1%	1.3%
Net profit	1,190	1,759	2,323	1,093	1,802	2,286	8.9%	-2.4%	1.6%
Gross Margin	11.2%	11.6%	12.3%	11.2%	11.9%	12.3%	-0.0 ppt	-0.3 ppt	0.0 ppt
Operating Margin	6.4%	7.4%	8.3%	6.1%	7.3%	7.9%	0.3 ppt	0.0 ppt	0.4 ppt
Net Margin	4.0%	4.7%	5.5%	3.7%	4.7%	5.2%	0.3 ppt	0.0 ppt	0.3 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	29,816	37,485	42,313	29,445	37,500	43,988	1.3%	0.0%	-3.8%
Gross Profit	3,329	4,364	5,202	3,204	4,146	4,940	3.9%	5.3%	5.3%
Operating Profit	1,922	2,756	3,506	1,682	2,450	3,078	14.3%	12.5%	13.9%
Net profit	1,190	1,759	2,323	1,112	1,739	2,173	7.0%	1.1%	6.9%
Gross Margin	11.2%	11.6%	12.3%	10.9%	11.1%	11.2%	0.3 ppt	0.6 ppt	1.1 ppt
Operating Margin	6.4%	7.4%	8.3%	5.7%	6.5%	7.0%	0.7 ppt	0.8 ppt	1.3 ppt
Net Margin	4.0%	4.7%	5.5%	3.8%	4.6%	4.9%	0.2 ppt	0.1 ppt	0.6 ppt

Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	20,207	23,577	29,412	37,479	42,306
Cost of sales	(18,172)	(20,806)	(26,136)	(33,118)	(37,107)
<b>Gross profit</b>	<b>2,035</b>	<b>2,771</b>	<b>3,276</b>	<b>4,361</b>	<b>5,199</b>
Other income	96	247	262	338	399
Distribution expenses	(546)	(741)	(873)	(1,013)	(1,097)
Administrative expenses	(439)	(578)	(796)	(934)	(999)
<b>Operating profit</b>	<b>1,146</b>	<b>1,698</b>	<b>1,869</b>	<b>2,753</b>	<b>3,502</b>
Finance costs	(137)	(133)	(269)	(292)	(255)
Share of profits of assos	-	-	-	-	-
Share of profits of JVs	43	48	47	48	51
<b>Profit before tax</b>	<b>1,052</b>	<b>1,613</b>	<b>1,646</b>	<b>2,508</b>	<b>3,298</b>
Taxation	(282)	(399)	(427)	(652)	(858)
Minority interests	(20)	(48)	(70)	(100)	(120)
<b>Net profit</b>	<b>751</b>	<b>1,166</b>	<b>1,150</b>	<b>1,756</b>	<b>2,321</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before taxation</b>	<b>1,052</b>	<b>1,613</b>	<b>1,646</b>	<b>2,508</b>	<b>3,298</b>
Depreciation/amortization	229	287	447	574	628
Change in working capital	35	276	(225)	57	43
Others	(125)	(364)	(250)	(469)	(733)
<b>Net cash from operating</b>	<b>1,191</b>	<b>1,812</b>	<b>1,618</b>	<b>2,671</b>	<b>3,237</b>
Capex	(336)	(363)	(235)	(290)	(290)
Others	190	(1,019)	(4,376)	(62)	(551)
<b>Net cash from investing</b>	<b>(145)</b>	<b>(1,382)</b>	<b>(4,611)</b>	<b>(352)</b>	<b>(841)</b>
Share issuance	1,166	11	699	48	35
Dividend paid	(420)	(475)	(1,141)	(813)	(1,153)
Others	(298)	146	2,675	(1,139)	(314)
<b>Net cash from financing</b>	<b>449</b>	<b>(317)</b>	<b>2,233</b>	<b>(1,904)</b>	<b>(1,433)</b>
<b>Net change in cash</b>	<b>1,494</b>	<b>112</b>	<b>(760)</b>	<b>414</b>	<b>963</b>
Cash at beginning of the year	1,124	2,538	2,622	1,861	2,276
Exchange difference	(80)	(29)	-	-	-
<b>Cash at the end of the year</b>	<b>2,538</b>	<b>2,622</b>	<b>1,861</b>	<b>2,276</b>	<b>3,239</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>5,110</b>	<b>5,563</b>	<b>5,460</b>	<b>6,674</b>	<b>8,082</b>
Cash and equivalents	2,538	2,622	1,861	2,276	3,239
Accounts receivables	1,518	1,817	2,176	2,772	3,130
Inventories	495	355	573	726	813
Other current assets	559	769	850	900	900
<b>Non-current assets</b>	<b>2,661</b>	<b>4,240</b>	<b>9,216</b>	<b>9,404</b>	<b>10,207</b>
PP&E	1,120	1,381	1,919	2,115	2,278
Intangibles	61	546	3,540	3,386	3,731
Interests in JVs and assos	56	62	67	71	77
Other non-current assets	1,423	2,250	3,691	3,833	4,120
<b>Total assets</b>	<b>7,770</b>	<b>9,803</b>	<b>14,67</b>	<b>16,078</b>	<b>18,288</b>
<b>Current liabilities</b>	<b>3,061</b>	<b>4,089</b>	<b>5,390</b>	<b>5,485</b>	<b>6,015</b>
Short-term debt	729	989	1,788	1,000	1,000
Accounts payable	2,082	2,788	3,222	4,083	4,575
Other current liabilities	250	312	380	402	441
<b>Non-current liabilities</b>	<b>1,365</b>	<b>1,597</b>	<b>4,368</b>	<b>4,152</b>	<b>3,683</b>
Long-term debt	222	299	2,515	2,102	1,286
Other non-current liabilities	1,143	1,297	1,852	2,049	2,397
<b>Total liabilities</b>	<b>4,426</b>	<b>5,686</b>	<b>9,758</b>	<b>9,637</b>	<b>9,698</b>
Share capital	99	100	102	104	107
Reserves	3,127	3,847	4,618	6,109	8,219
Minority interests	118	170	198	228	264
<b>Shareholders' equity</b>	<b>3,227</b>	<b>3,947</b>	<b>4,720</b>	<b>6,214</b>	<b>8,326</b>
<b>Total equity and liabilities</b>	<b>7,770</b>	<b>9,803</b>	<b>14,676</b>	<b>16,078</b>	<b>18,288</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Sales of new vehicles	88.9	88.3	87.7	87.3	86.0
After-sales services	11.1	11.7	12.3	12.7	14.0
<b>Growth (%)</b>					
Revenue	24.7	16.7	24.8	27.4	12.9
Gross profit	30.7	36.1	18.2	33.1	19.2
Operating profit	36.9	48.2	10.0	47.3	27.2
Net profit	36.3	55.3	(1.4)	52.7	32.2
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	10.1	11.8	11.1	11.6	12.3
Operating margin	5.7	7.2	6.4	7.3	8.3
Net profit margin	3.7	4.9	3.9	4.7	5.5
<b>Balance sheet ratio</b>					
Net cash/total equity (x)	0.5	0.3	(0.5)	(0.1)	0.1
Current ratio (x)	1.7	1.4	1.0	1.2	1.3
Receivable turnover days	27.4	28.1	27.0	27.0	27.0
Inventory turnover days	9.9	6.2	8.0	8.0	8.0
Payable turnover days	41.8	48.9	45.0	45.0	45.0
<b>Profitability (%)</b>					
ROE	30.4	32.5	26.5	32.1	31.9
ROA	11.0	13.3	9.4	11.4	13.5
<b>Per share data (RMB)</b>					
EPS	0.61	0.92	0.90	1.36	1.76
DPS	0.39	0.84	0.50	0.75	0.97

Source: Company data, CMBIGM estimates

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