

China Meidong Auto (1268 HK)

Resilient amid tough macro after in-line FY21

China Meidong Auto's both top- and bottom-line earnings in FY21 were in line with our prior expectation. We hosted a non-deal roadshow (NDR) after the earnings call. The CEO elaborated the company's operational efficiency during the call and how such culture has been built in the letter to shareholders, which is consistent with our [initiation report](#) published on 8 Mar 2022. We are of the view that Meidong should be the top-pick dealer during tough time given its operational efficiency and cautious approach.

- In-line FY21 results.** Meidong's FY21 revenue and net profit both were 1.5% below our estimates. Inventory days of 5.8 and dividend payout ratio of 90% are impressive. After-sales gross margin of 52% in 2H21 was the highest since FY14. New-car gross margin of 7.1% in 2H21 was the highest in history.
- Meidong's efficiency and conservative approach could make it resilient in tough environment.** CEO puts the macro uncertainty as his top concern this year and is still conservative about potential profit lift from the customer return ratio (CRR) program, which could make investors turn a bit pessimistic about its outlook. We hold a different view: First-mover advantage from product or technological innovation is crucial to automakers, but is of little use for dealers. It is apparent that Meidong has been thinking about or even trying new initiatives in a bid to cope with industry development, e.g. new EV brands with different sales approach and used car business. 'Think twice before you act' should be a right approach now given the current extremely complex situation, in our view.
- Prioritize tasks with lower uncertainty.** The company prioritizes efficiency improvement for stores from the StarChase acquisition and optimizes CRR this year, which sounds unexciting but should be the right thing to do during such environment, in our view. As we noted earlier, our channel checks show that potential M&A opportunities have been rising faster than some investors had thought. Meidong's mentality to make its balance sheet as healthy as possible would help it ride on the wave of M&As.
- Valuation/Key risks.** We cut our FY22E net profit estimates by 2% mainly to reflect one-month delay of the StarChase consolidation. We maintain our BUY rating and target price of HK\$ 48.00, still based on our 20x FY23E P/E. 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)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue (RMB mn)	16,210	20,207	23,577	34,975	45,001
YoY growth (%)	45.2	30.7	36.1	55.7	26.5
Net income (RMB mn)	551	751	1,166	1,912	2,501
EPS (RMB)	0.47	0.61	0.92	1.50	1.93
YoY growth (%)	51.8	36.3	55.3	64.0	30.8
P/E (x)	56.3	40.6	26.1	16.1	12.5
P/B (x)	18.1	9.7	7.7	5.9	4.4
Yield (%)	5.3	2.1	2.7	3.4	4.4
ROE (%)	35.6	30.4	32.5	41.3	40.3
Net gearing (%)	Net cash	Net cash	Net cash	42.2	15.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 48.00
(Previous TP)	HK\$ 48.00)
Up/Downside	+60.0%
Current Price	HK\$ 30.00

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Stock Data

Mkt Cap (HK\$ mn)	38,111
Avg 3 mths t/o (HK\$ mn)	125
52w High/Low (HK\$)	48.40/24.70
Total Issued Shares (mn)	1,270
Source: Bloomberg	

Shareholding Structure

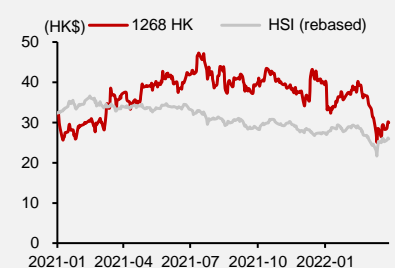
Apex Sail Limited	55.3%
Others	44.7%
Source: HKEX	

Share Performance

	Absolute	Relative
1-mth	-18.1%	-14.8%
3-mth	-25.4%	-19.4%
6-mth	-23.3%	-12.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

"China Meidong Auto – Best positioned amid industry consolidation" – 8 Mar 2022

Figure 1: Interim results

RMB mn	1H19	2H19	1H20	2H20	1H21	2H21	YoY	HoH
New-car sales volume (units)	21,966	27,393	23,691	33,509	32,221	29,374	-12.3%	-8.8%
Total revenue	6,843	9,367	8,448	11,760	11,808	11,769	0.1%	-0.3%
Gross profit	693	865	819	1,216	1,274	1,497	23.1%	17.5%
Selling exp.	(214)	(279)	(238)	(308)	(348)	(393)	27.7%	13.2%
Admin exp.	(185)	(197)	(216)	(223)	(278)	(301)	35.0%	8.2%
Operating profit	358	479	453	693	771	927	33.7%	20.3%
Net profit	236	315	301	450	537	629	39.9%	17.3%
Gross margin	10.1%	9.2%	9.7%	10.3%	10.8%	12.7%	2.4 ppt	1.9 ppt
Operating margin	5.2%	5.1%	5.4%	5.9%	6.5%	7.9%	2.0 ppt	1.4 ppt
Net margin	3.4%	3.4%	3.6%	3.8%	4.5%	5.3%	1.5 ppt	0.8 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	34,975	45,001	35,367	44,984	-1.1%	0.0%
Gross profit	4,315	5,457	4,347	5,459	-0.8%	0.0%
Operating profit	2,906	3,761	2,962	3,794	-1.9%	-0.9%
Net profit	1,912	2,501	1,949	2,525	-1.9%	-1.0%
Gross margin	12.3%	12.1%	12.3%	12.1%	0.0 ppt	0.0 ppt
Operating margin	8.3%	8.4%	8.4%	8.4%	-0.1 ppt	-0.1 ppt
Net margin	5.5%	5.6%	5.5%	5.6%	0.0 ppt	-0.1 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM		Consensus		Diff (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	34,975	45,001	36,419	45,237	-4.0%	-0.5%
Gross profit	4,315	5,457	3,930	4,952	9.8%	10.2%
Operating profit	2,906	3,761	2,539	3,275	14.4%	14.8%
Net profit	1,912	2,501	1,734	2,301	10.2%	8.7%
Gross margin	12.3%	12.1%	10.8%	10.9%	1.5 ppt	1.2 ppt
Operating margin	8.3%	8.4%	7.0%	7.2%	1.3 ppt	1.1 ppt
Net margin	5.5%	5.6%	4.8%	5.1%	0.7 ppt	0.5 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	16,210	20,207	23,577	34,975	45,001
Cost of sales	(14,652)	(18,172)	(20,806)	(30,661)	(39,543)
Gross profit	1,558	2,035	2,771	4,315	5,457
Other income	154	96	247	324	442
Distribution expenses	(493)	(546)	(741)	(939)	(1,155)
Administrative expenses	(382)	(439)	(578)	(794)	(983)
Operating profit	837	1,146	1,698	2,906	3,761
Finance costs	(123)	(137)	(133)	(269)	(298)
Share of profits of assos	-	-	-	-	-
Share of profits of JVs	44	43	48	59	62
Profit before tax	757	1,052	1,613	2,696	3,525
Taxation	(200)	(282)	(399)	(714)	(934)
Minority interests	(7)	(20)	(48)	(70)	(90)
Net profit	551	751	1,166	1,912	2,501

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit before taxation	757	1,052	1,613	2,696	3,525
Depreciation/amortization	182	229	287	540	789
Change in working capital	77	35	336	(335)	399
Others	(86)	(125)	(424)	(554)	(766)
Net cash from operating	931	1,191	1,812	2,347	3,947
Capex	(429)	(336)	(363)	(635)	(641)
Others	145	190	(1,019)	(4,409)	(948)
Net cash from investing	(283)	(145)	(1,382)	(5,044)	(1,589)
Share issuance	9	1,166	11	669	36
Dividend paid	(175)	(420)	(475)	(1,281)	(1,222)
Others	(224)	(298)	146	2,678	(839)
Net cash from financing	(390)	449	(317)	2,067	(2,025)
Net change in cash	257	1,494	112	(630)	333
Cash at beginning of the year	867	1,124	2,538	2,622	1,992
Exchange difference	-	(80)	(29)	-	-
Cash at the end of the year	1,124	2,538	2,622	1,992	2,324

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Current assets	3,785	5,110	5,563	6,089	7,173
Cash and equivalents	1,124	2,538	2,622	1,992	2,324
Accounts receivables	1,159	1,518	1,817	2,491	3,082
Inventories	541	495	355	756	867
Other current assets	962	559	769	850	900
Non-current assets	2,140	2,661	4,240	9,513	10,834
PP&E	1,035	1,120	1,381	4,206	4,900
Intangibles	65	61	546	1,962	2,359
Interests in JVs and assos	55	56	62	68	74
Other non-current assets	984	1,423	2,250	3,277	3,502
Total assets	5,925	7,770	9,803	15,602	18,008
Current liabilities	3,180	3,061	4,089	5,777	6,508
Short-term debt	871	729	989	1,800	1,348
Accounts payable	2,132	2,082	2,788	3,612	4,767
Other current liabilities	177	250	312	365	393
Non-current liabilities	975	1,365	1,597	4,314	4,180
Long-term debt	240	222	299	2,515	2,125
Other non-current liabilities	735	1,143	1,297	1,799	2,055
Total liabilities	4,156	4,426	5,686	10,091	10,688
Share capital	91	99	100	103	104
Reserves	1,620	3,127	3,847	5,211	6,991
Minority interests	58	118	170	198	225
Shareholders' equity	1,712	3,227	3,947	5,313	7,095
Total equity and liabilities	5,925	7,770	9,803	15,602	18,008

Key ratios

YE 31 Dec	FY19A	FY20A	FY21A	FY22E	FY23E
Sales mix (%)					
Sales of new vehicles	88.7	88.9	88.3	87.0	86.7
After-sales services	11.3	11.1	11.7	13.0	13.3
Growth (%)					
Revenue	46.5	24.7	16.7	48.3	28.7
Gross profit	45.2	30.7	36.1	55.7	26.5
Operating profit	59.8	36.9	48.2	71.1	29.4
Net profit	51.8	36.3	55.3	64.0	30.8
Profit & loss ratio (%)					
Gross margin	9.6	10.1	11.8	12.3	12.1
Operating margin	5.2	5.7	7.2	8.3	8.4
Net profit margin	3.4	3.7	4.9	5.5	5.6
Balance sheet ratio					
Net cash/total equity (x)	0.0	0.5	0.3	(0.4)	(0.2)
Current ratio (x)	1.2	1.7	1.4	1.1	1.1
Receivable turnover days	26.1	27.4	28.1	26.0	25.0
Inventory turnover days	13.5	9.9	6.2	9.0	8.0
Payable turnover days	53.1	41.8	48.9	43.0	44.0
Profitability (%)					
ROE	35.6	30.4	32.5	41.3	40.3
ROA	10.9	11.0	13.3	15.0	14.9
Per share data (RMB)					
EPS	0.47	0.61	0.92	1.50	1.93
DPS	0.26	0.39	0.84	0.82	1.06

Source: Company data, CMBIGM estimates

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