

MeiDong Auto (1268 HK)

Deserve a valuation premium

MeiDong released its FY20 results. Top-line was RMB20.2bn, up 25%YoY. Among that, revenue from new car sales was RMB18bn, up 25% YoY while revenue from after-sales service was RMB2.3bn, up 23% YoY. NP increased 36% YoY to RMB751mn (vs CMBI forecast RMB736mn). Thanks to the recovery of China's overall auto market after COVID-19, the Company's NP rose 43%YoY to RMB450mn in 2H20. The Company declared a full-year dividend of RMB0.39 per share (including interim dividend), representing a 64% payout ratio, higher than its historical level.

- Keep expanding while maintaining high efficiency.** The number of stores increased to 63 in 2020 from 58 in 2019. The Company continues to expand its presence in luxury brands, adding 1 Porsche/2 BMW/2 Lexus in 2020. The proportion of luxury brands in terms of revenue from new car sales/after-sale new increased to 84.0%/83.8% respectively in 2020. MeiDong's operating efficiency continues to improve together with store expansion. Inventory turnover days dropped to a historical low of 9 days in 2020 from 17 days in 2019. Operating cash flow increased significantly to RMB1.45bn while the Company continues to maintain a net cash position.
- MeiDong set up a new M&A team in 2020 to normalize small/medium-sized M&A business.** MeiDong will focus on its M&A on 1) familiar mainstream luxury brands; 2) familiar locations; 3) reasonable valuation - expected payback period to be less than six years. We expect the setup of the M&A dept will 1) significantly expand the M&A target pool; 2) improve the quality of the pipeline project; 3) and enhance the predictability for M&A. The Company has completed 100% equity acquisition of one Lexus in Nanjing and one BMW in Guangan (single store single city) in 2021.
- MeiDong launched the CRR pilot project in Aug 2020 and expanded to 60 stores by Mar 2021.** Preliminary data show that 1) the return rate of customers' second visit increased by 5%-15%; 2) customer active contact rate increased to 30% from 10%; and 3) service reservation rate increased to 60% from 45%. We expect that the CRR project will increase customer stickiness by improving customer satisfaction, therefore reducing the losing rate of after-sales service.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	11,067	16,210	20,207	25,941	32,153
YoY growth (%)	44%	46%	25%	28%	24%
Net income (RMB mn)	363	551	751	1,028	1,269
EPS (RMB)	0.32	0.48	0.62	0.85	1.05
YoY growth (%)	25%	51%	30%	37%	23%
Consensus EPS(RMB)	na	na	0.61	0.92	1.27
P/E (x)	98.7	65.3	50.1	36.6	29.7
P/B (x)	26.0	21.0	11.7	9.8	8.2
Yield (%)	0%	1%	1%	2%	2%
ROE (%)	30%	36%	30%	29%	30%
Net gearing (%)	net cash				

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$46.2
(Previous TP)	HK\$33.7)
Up/Downside	+22.9%
Current Price	HK\$37.6

China Auto Sector

Jack Bai

(852) 3900 0835
jackbai@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	46,732
Avg 3 mths t/o (HK\$ mn)	142.30
52w High/Low (HK\$)	38.65/11.82
Total Issued Shares (mn)	1,245

Source: Bloomberg

Shareholding Structure

YE Fan/HU Huanran	56.51%
Krige Dawid	5.40%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	24.8%	26.6%
3-mth	30.2%	25.0%
6-mth	22.7%	3.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

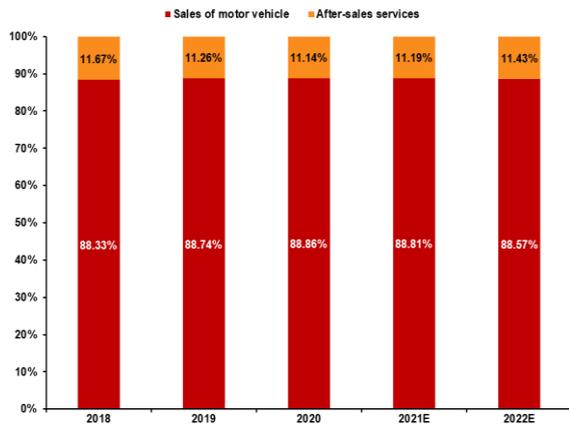
Related Reports

- "Meidong Auto (1268 HK) – High future growth underpins the valuation – 21 Aug 2020
- "Meidong Auto (1268 HK) – High growth together with great efficiency" – 31 Mar 2020
- "Meidong Auto (1268 HK) – The fastest growing dealer with the best ROE" – 11 Dec 2019

- **We barely adjust our 2021E forecast.** We believe MeiDong will have 1) higher GPM forecast assumption and 2) higher operating efficiency as new store gradually matured. We believe the rapid growth rate and high efficiency deserve a higher valuation premium for MeiDong. We take 45x 2021E P/E and raise our TP to HK\$46.2 with an upside of 22.1% from initial TP HK\$33.7 (based on initial 34x 2021E P/E). Reiterate BUY.

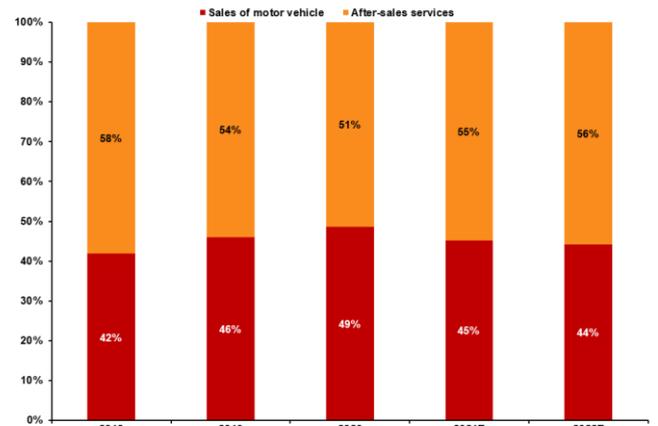
Focus Charts

Figure 1: Revenue composition



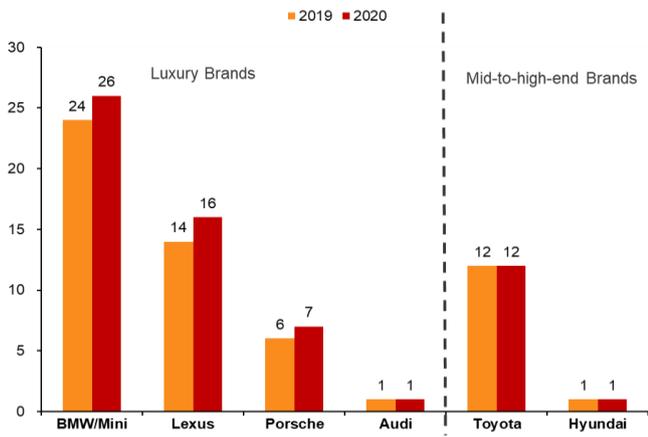
Source: Company data, CMBIS estimates

Figure 2: GP composition



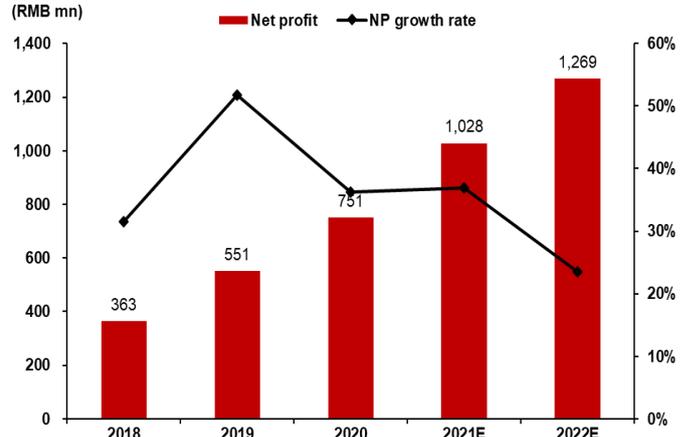
Source: Company data, CMBIS estimates

Figure 3: Brands mix of MeiDong



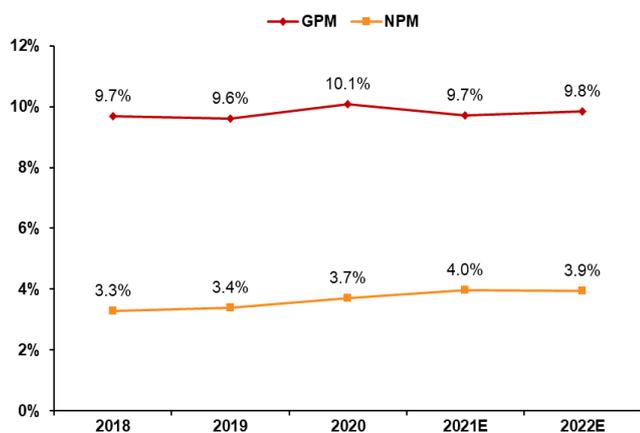
Source: Company data, CMBIS

Figure 4: Bottom-line forecast



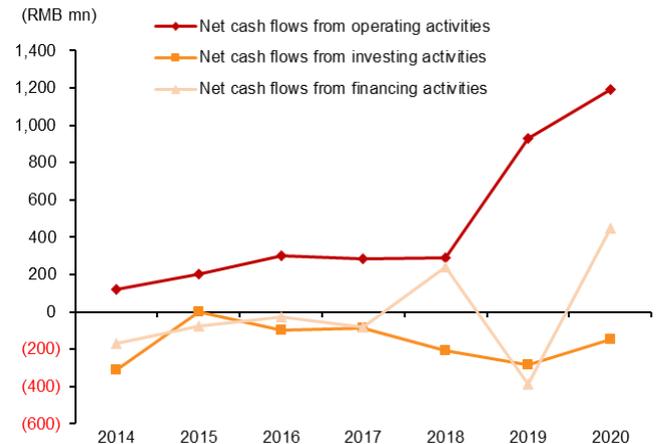
Source: Company data, CMBIS estimates

Figure 5: Profitability forecast



Source: Company data, CMBIS estimates

Figure 6: Strong cash flow



Source: Company data, CMBIS

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	25,941	32,153	28,522	36,659	-9%	-12%
Gross profit	2,518	3,163	2,866	3,715	-12%	-15%
Net profit	1,028	1,269	1,033	1,313	-1%	-3%
EPS (RMB)	0.85	1.05	0.88	1.12	-4%	-6%
Gross margin	9.71%	9.84%	10.05%	10.13%	-0.3 ppt	-0.3 ppt
Net Margin	3.96%	3.95%	3.62%	3.58%	0.3 ppt	0.4 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	25,941	32,153	26,740	34,542	-3%	-7%
Gross profit	2,518	3,163	2,732	3,691	-8%	-14%
Net profit	1,028	1,269	1,133	1,563	-9%	-19%
EPS (RMB)	0.85	1.05	0.92	1.27	-7%	-17%
Gross margin	9.71%	9.84%	10.22%	10.68%	-0.5 ppt	-0.8 ppt
Net Margin	3.96%	3.95%	4.24%	4.53%	-0.3 ppt	-0.6 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: Revenue breakdown

(RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales of motor vehicle	9,775	14,384	17,956	23,039	28,479
...YoY	44%	47%	25%	28%	24%
Luxury and ultra-luxury brands	7,437	11,693	15,081	19,807	24,846
...YoY	55%	57%	29%	31%	25%
Mid- to high-end brands	2,338	2,691	2,875	3,232	3,633
...YoY	17%	15%	7%	12%	12%
After-sales services	1,292	1,826	2,251	2,903	3,674
...YoY	43%	41%	23%	29%	27%
Total	11,067	16,210	20,207	25,941	32,153
...YoY	44%	46%	25%	28%	24%

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

(RMB mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	11,067	16,210	20,207	25,941	32,153
...YoY	44.05%	46.47%	24.66%	28.38%	23.94%
Cost of sales	(9,994)	(14,652)	(18,172)	(23,423)	(28,989)
Gross profit	1,073	1,558	2,035	2,518	3,163
GPM (%)	9.70%	9.61%	10.07%	9.71%	9.84%
...YoY	31.02%	45.82%	30.03%	24.07%	25.62%
Selling Exp	(391)	(493)	(546)	(713)	(900)
...% of rev	-3.53%	-3.04%	-2.70%	-2.75%	-2.80%
Admin Exp	(313)	(382)	(439)	(558)	(707)
...% of rev	-2.83%	-2.36%	-2.17%	-2.15%	-2.20%
Net profit	363	551	751	1,028	1,269
NPM (%)	3.28%	3.40%	3.71%	3.96%	3.95%
...YoY	31.52%	51.79%	36.22%	36.92%	23.45%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	11,067	16,210	20,207	25,941	32,153
Sales of motor vehicle	9,775	14,384	17,956	23,039	28,479
After-sales services	1,292	1,826	2,251	2,903	3,674
Cost of sales	(9,994)	(14,652)	(18,172)	(23,423)	(28,989)
Gross profit	1,073	1,558	2,035	2,518	3,163
S&D expenses	(391)	(493)	(546)	(713)	(900)
Admin expenses	(313)	(382)	(439)	(558)	(707)
Credit/asset impairment	0	0	0	0	0
Other income	154	154	96	261	312
Other expenses	0	0	0	0	0
Finance expenses	(63)	(123)	(137)	(127)	(155)
PL from JVs	31	44	43	57	62
PL from Associates	0	0	0	0	0
Profit before income tax	491	757	1,052	1,438	1,775
Income tax expense	(128)	(200)	(282)	(384)	(474)
Profit for the year	363	558	771	1,054	1,301
Less: MI	1	7	20	26	33
Net Profit	363	551	751	1,028	1,269

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Net income	363	551	751	1,028	1,269
D&A	67	63	85	123	160
Change in working	(1,043)	(1,380)	(722)	(1,618)	2,888
Others	901	1,697	778	2,632	(2,233)
Net cash from	288	931	892	2,165	2,083
Capex & investments	(385)	(390)	(569)	(794)	(1,008)
Associated companies	19	-	-	-	-
Others	158	107	-	-	-
Net cash from	(208)	(283)	(569)	(794)	(1,008)
Equity raised	96	9	1,150	-	-
Change of Debts	356	(62)	(160)	(115)	200
Dividend paid	(149)	(145)	(303)	(480)	(637)
Others	(61)	(191)	-	-	-
Net cash from	242	(390)	687	(596)	(437)
Net change in cash	322	258	1,011	775	638
Cash at the beginning	811	1,284	2,086	3,097	3,872
Exchange difference	151	544	-	-	-
Cash at the end	1,284	2,086	3,097	3,872	4,510
Less: pledged cash	417	962	559	962	962

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	1,163	2,139	2,661	3,325	4,176
Fixed asset	858	1,035	1,120	1,599	2,031
Intangible assets	69	65	61	266	407
Interest in JV/associate	44	55	56	76	83
Other non-current assets	192	984	1,423	1,385	1,654
Current assets	3,012	3,786	5,110	6,214	7,409
Cash	1,284	2,086	3,097	3,872	4,510
Account receivable	889	1,159	1,518	1,673	2,071
Inventory	839	541	495	669	828
Other current assets	-	-	-	-	-
Current liabilities	2,616	3,180	3,061	4,156	5,138
Borrowings	1,029	871	729	529	656
Account payables	1,550	2,132	2,082	3,346	4,141
Other payables	0	85	122	122	147
Tax payables	37	92	128	159	195
Non-current liabilities	159	975	1,365	1,413	1,713
Borrowings	144	240	222	307	381
Provisions	-	-	-	-	-
Deferred income tax	15	9	7	46	57
Others	-	726	1,136	1,059	1,275
Shareholders' equity	1,379	1,711	3,227	3,836	4,580
Minority Interest	21	58	118	134	154
Total net assets	1,400	1,770	3,345	3,970	4,734

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Sales of motor vehicle	88%	89%	89%	89%	89%
After-sales services	12%	11%	11%	11%	11%
Total	100%	100%	100%	100%	100%
P&L ratios (%)					
Gross profit margin	10%	10%	10%	10%	10%
Pre-tax margin	4%	5%	5%	6%	6%
Net margin	3%	3%	4%	4%	4%
Effective tax rate	26%	26%	27%	27%	27%
Balance sheet ratios					
Current ratio (x)	1.15	1.19	1.67	1.50	1.44
Quick ratio (x)	0.83	1.02	1.51	1.33	1.28
Cash ratio (x)	0.49	0.66	1.01	0.93	0.88
Inventory days	31	13	10	10	10
AP days	57	53	42	52	52
AR days	29	26	27	26	26
Total debt / total equity	84%	104%	62%	48%	49%
Net debt / equity ratio	net cash				
Returns (%)					
ROE	30%	36%	30%	29%	30%
ROA	15%	17%	17%	18%	18%
Per share					
EPS (RMB)	0.32	0.48	0.62	0.85	1.05
DPS (RMB)	0.13	0.26	0.39	0.53	0.65
BVPS (RMB)	1.20	1.48	2.67	3.18	3.79

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.