

# China/Hong Kong Company Update

## China Yongda Automobiles

Bloomberg: 3669 HK Equity | Reuters: 3669.HK

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

20 Jan 2022

**BUY**

Last Traded Price (19 Jan 2022): HK\$9.87 (HSI : 24,128)  
Price Target 12-mth: HK\$14.00 (42% upside) (Prev HK\$18.40)

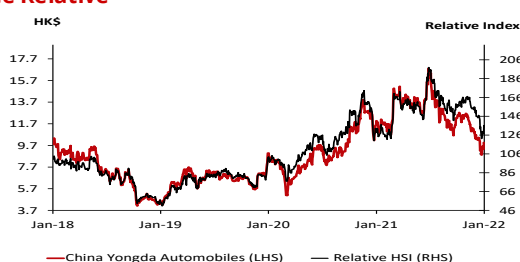
### Analyst

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### What's New

- Premium brands switching could affect sales momentum in 2022 given its huge exposure to BMW brand
- Staying ahead of peers on NEV strategy
- M&A and new store authorisations to further enhance sales network
- Maintain BUY; HK\$14 TP pegged to FY22F 8x PE

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	68,534	85,692	100,851	112,127
EBITDA	4,064	4,556	5,219	5,889
Pre-tax Profit	2,295	3,514	4,048	4,725
Net Profit	1,625	2,484	2,824	3,295
Net Pft (Pre Ex)(core profit)	1,625	2,484	2,824	3,295
Net Profit Gth (Pre-ex) (%)	10.3	52.8	13.7	16.7
EPS (RMB)	0.85	1.26	1.44	1.68
EPS (HK\$)	1.04	1.55	1.76	2.06
Core EPS (RMB)	0.85	1.26	1.44	1.68
Core EPS (HK\$)	1.04	1.55	1.76	2.06
EPS Gth (%)	6.2	48.5	13.6	16.6
Core EPS Gth (%)	6.2	48.5	13.6	16.6
Diluted EPS (HK\$)	1.04	1.55	1.76	2.06
DPS (HK\$)	0.66	0.47	0.53	0.62
BV Per Share (HK\$)	7.39	8.29	9.58	11.11
PE (X)	9.4	6.4	5.6	4.8
CorePE (X)	9.4	6.4	5.6	4.8
P/Cash Flow (X)	2.7	4.7	4.3	3.9
P/Free CF (X)	2.9	11.5	9.5	7.7
EV/EBITDA (X)	5.6	5.2	4.5	4.0
Net Div Yield (%)	6.7	4.7	5.4	6.3
P/Book Value (X)	1.3	1.2	1.0	0.9
Net Debt/Equity (X)	0.6	0.5	0.4	0.3
ROAE (%)	15.0	19.8	19.7	19.9
Earnings Rev (%)		6	4	New
Consensus EPS (RMB)		1.25	1.46	1.73
Other Broker Recs:		B:25	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Ahead of peers on NEV exposure

### Investment Thesis

Improving premium car outlook, but brands switching could affect sales momentum. The Chinese premium car market is projected to grow at low double digits in 2022-23 as demand remains resilient. However, given China Yongda's large exposure of 30-40% of sales from BMW brand and rising competition from rival brands (especially with their strong new model cycle), new vehicle sales could be less exciting this year compared to peers.

**Rapid penetration into more NEV brands.** China Yongda is proactively working with more NEV brands to expand the business via an asset-light strategy. The company is in progress to launch several NEV brand centres, including Xpeng, Huawei, Smart, and ORA, since it has secured a total of over 30 authorisations. This is a remarkable record given the short operating history.

**Acquisition remains one of the growth strategies.** M&A is part of its growth strategy. Previous track records show efficiency improvement gains and economies of scale have enhanced the acquired stores' performance. In 4Q21, the company concluded the acquisition of BMW and Lexus stores (2 each) to further widen its market coverage, bringing the total number of stores to over 210. The company also has over 30 new store authorisations from automakers to boost growth pace.

### Valuation:

Cut TP to HK\$14, pegged to an 8x FY22F PE (previous 11x) given its huge exposure to one single brand BMW.

### Where we differ:

Our FY22/23 net earnings are lower than consensus as we believe the company's earnings might be affected by the less exciting BMW model cycle.

### Key Risks to Our View:

Logistic bottlenecks and severe chip shortage could affect the availability of new car supplies, hence impacting sales.

### At A Glance

Issued Capital (m shrs)	1,975
Mkt Cap (HK\$/US\$m)	19,493 / 2,502
Major Shareholders (%)	
Regency Valley Company Ltd.	20.5
Cheung (Tak On)	9.0
Free Float (%)	70.6
3m Avg. Daily Val. (US\$m)	84.14
GICS Industry: Consumer Discretionary / Retailing	



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## China Yongda Automobiles

### WHAT'S NEW

#### Premium brand switching could dampen sentiment

**Premium brand switching.** Overall, the premium car market is projected to grow at low double digits in 2022 as demand remains resilient. The long waiting list of certain imported brands such as Porsche is expected to prevail given the robust demand. Recent monthly sales indicate demand is healthy and auto OEMs are increasing supply to satisfy the domestic market.

However, automakers' less exciting new model cycle plans could affect China Yongda vehicle volume sales in 2022. We believe Porsche sales in China to remain strong this year, while its BMW segment might see some fluctuations given the rising competition from rival brands such as Mercedes Benz. Since the BMW brand accounts for 30-40% of its business, this challenge could dampen its near-term vehicle sales performance.

**Vehicle margin pressure remains low.** We anticipate the overall new vehicle GP margins to further strengthen in 1H22 given the current tight supply. Factoring in the

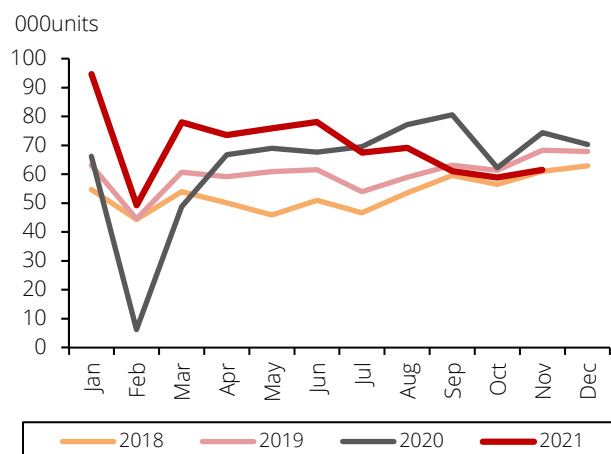
contributions from after-sales services and pre-owned car operations, we estimate blended GP margins to gradually improve from 9.3% in FY20 to c.9.7% in FY23.

**Cut TP due to brand switching.** We reduced target PE to 8x FY22F from 11x to arrive at new TP of HK\$14 given its large single brand exposure to BMW.

#### Company Background

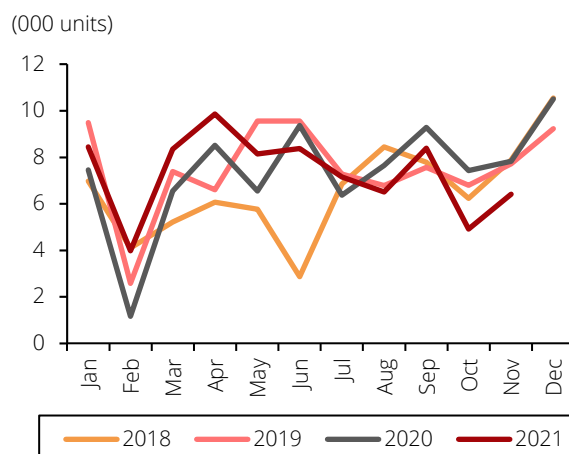
China Yongda Automobile (China Yongda) was established in 1992 and listed in July 2012. It is a leading premium car 4S dealership operator in China, selling vehicles and offering after-sales, auto finance and auto rental services. The auto brands include BMW, Audi, JLR, Porsche, Cadillac, Lexus, Volkswagen, Ford, and Toyota. Its principal business is based in the eastern coastal regions (the Shanghai, Zhejiang, and Jiangsu provinces).

#### BMW retail sales in China



Source: Bloomberg Finance L.P.

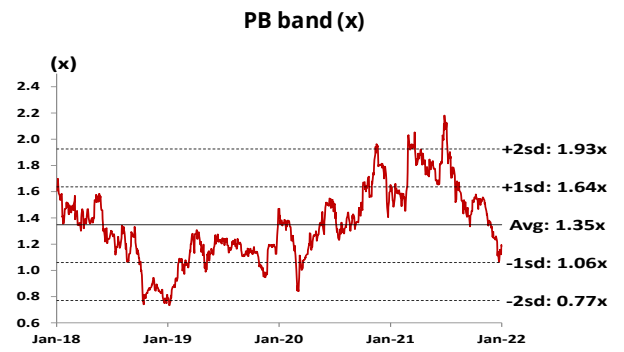
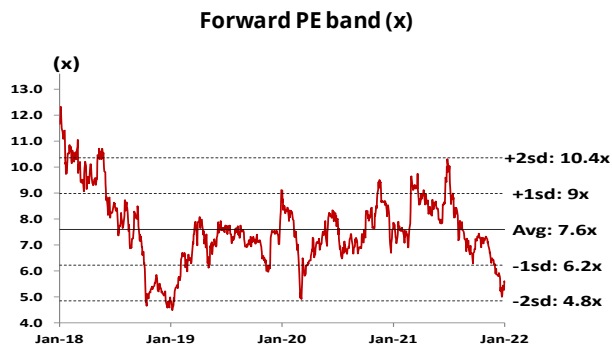
#### Porsche retail sales in China



Source: Bloomberg Finance L.P.

## China Yongda Automobiles

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## China Yongda Automobiles

### Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Volume Sales (units)	197,382	204,596	239,355	269,711	296,214
Luxury & ultra luxury brands (units)	128,628	135,679	160,101	184,116	208,051
Mid-high end brands (units)	68,754	68,917	79,254	85,594	88,162

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Luxury & ultra luxury car sales	43,692	48,874	62,285	74,493	83,335
Mid-high end car sales	9,119	9,140	10,406	11,126	11,345
After-sales services	8,889	9,571	11,485	13,552	15,585
Automobile rental services	518	552	596	668	748
Pre-owned car biz	489	397	920	1,012	1,113
<b>Total</b>	<b>62,707</b>	<b>68,534</b>	<b>85,692</b>	<b>100,851</b>	<b>112,127</b>
<b>Gross Profit (RMB m)</b>					
Luxury & ultra luxury car sales	1,197	1,530	2,398	2,928	3,292
Mid-high end car sales	49	19	10	33	45
After-sales services	4,125	4,403	5,340	6,302	7,216
Automobile rental services	134	126	149	167	187
Pre-owned car biz	N/A	N/A	87	99	109
Others	359	287	N/A	N/A	N/A
<b>Total</b>	<b>5,864</b>	<b>6,365</b>	<b>7,985</b>	<b>9,529</b>	<b>10,849</b>
<b>Gross Profit Margins (%)</b>					
Luxury & ultra luxury car sales	2.7	3.1	3.9	3.9	4.0
Mid-high end car sales	0.5	0.2	0.1	0.3	0.4
After-sales services	46.4	46.0	46.5	46.5	46.3
Automobile rental services	25.9	22.8	25.0	25.0	25.0
Pre-owned car biz	0.0	0.0	9.5	9.8	9.8
<b>Total</b>	<b>9.4</b>	<b>9.3</b>	<b>9.3</b>	<b>9.4</b>	<b>9.7</b>

Source: Company, DBS HK

## China Yongda Automobiles

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	62,707	68,534	85,692	100,851	112,127
Cost of Goods Sold	(56,843)	(62,169)	(77,707)	(91,322)	(101,278)
<b>Gross Profit</b>	<b>5,864</b>	<b>6,365</b>	<b>7,985</b>	<b>9,529</b>	<b>10,849</b>
Other Opng (Exp)/Inc	(3,045)	(3,441)	(3,921)	(4,881)	(5,614)
<b>Operating Profit</b>	<b>2,819</b>	<b>2,925</b>	<b>4,065</b>	<b>4,648</b>	<b>5,235</b>
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	35	46	61	67	74
Net Interest (Exp)/Inc	(778)	(676)	(612)	(667)	(584)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,076</b>	<b>2,295</b>	<b>3,514</b>	<b>4,048</b>	<b>4,725</b>
Tax	(507)	(562)	(843)	(1,012)	(1,181)
Minority Interest	(96)	(108)	(187)	(213)	(248)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,473</b>	<b>1,625</b>	<b>2,484</b>	<b>2,824</b>	<b>3,295</b>
Net Profit before Except.	1,473	1,625	2,484	2,824	3,295
EBITDA	3,831	4,064	4,556	5,219	5,889
<b>Growth</b>					
Revenue Gth (%)	13.4	9.3	25.0	17.7	11.2
EBITDA Gth (%)	27.7	6.1	12.1	14.5	12.8
Opg Profit Gth (%)	18.8	3.8	39.0	14.4	12.6
Net Profit Gth (%)	17.5	10.3	52.8	13.7	16.7
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	9.4	9.3	9.3	9.4	9.7
Opg Profit Margin (%)	4.5	4.3	4.7	4.6	4.7
Net Profit Margin (%)	2.3	2.4	2.9	2.8	2.9
ROAE (%)	15.6	15.0	19.8	19.7	19.9
ROA (%)	4.4	4.6	6.8	7.1	7.7
ROCE (%)	8.7	8.7	11.6	11.8	12.3
Div Payout Ratio (%)	0.0	64.9	30.0	30.0	30.0
Net Interest Cover (x)	3.6	4.3	6.6	7.0	9.0

Source: Company, DBS HK

### Interim Income Statement (RMB m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	29,106	33,602	27,761	40,773	40,506
Cost of Goods Sold	(26,334)	(30,510)	(25,233)	(36,935)	(36,795)
<b>Gross Profit</b>	<b>2,772</b>	<b>3,092</b>	<b>2,528</b>	<b>3,837</b>	<b>3,711</b>
Other Oper. (Exp)/Inc	(1,367)	(1,679)	(1,509)	(1,932)	(1,877)
<b>Operating Profit</b>	<b>1,406</b>	<b>1,413</b>	<b>1,019</b>	<b>1,905</b>	<b>1,834</b>
Other Non Opng (Exp)/Inc	0	0	66	0	46
Associates & JV Inc	27	8	25	21	39
Net Interest (Exp)/Inc	(377)	(402)	(376)	(300)	(279)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,056</b>	<b>1,019</b>	<b>734</b>	<b>1,626</b>	<b>1,640</b>
Tax	(274)	(233)	(163)	(399)	(393)
Minority Interest	(48)	(48)	(42)	(66)	(75)
<b>Net Profit</b>	<b>734</b>	<b>739</b>	<b>530</b>	<b>1,161</b>	<b>1,172</b>
Net profit bef Except.	734	739	530	1,161	1,172
<b>Growth</b>					
Revenue Gth (%)	16.8	10.5	(4.6)	21.3	45.9
Opg Profit Gth (%)	8.1	31.7	(27.5)	34.8	79.9
Net Profit Gth (%)	1.5	39.5	(27.8)	57.1	121.1
<b>Margins</b>					
Gross Margins (%)	9.5	9.2	9.1	9.4	9.2
Opg Profit Margins (%)	4.8	4.2	3.7	4.7	4.5
Net Profit Margins (%)	2.5	2.2	1.9	2.8	2.9

Source: Company, DBS HK

## China Yongda Automobiles

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	6,296	6,132	7,755	9,305	10,801
Invt in Associates & JVs	560	595	656	723	797
Other LT Assets	8,344	7,806	7,795	7,787	7,763
Cash & ST Invt	2,210	3,080	3,832	5,148	4,336
Inventory	5,627	4,856	5,099	5,354	5,621
Debtors	7,169	7,620	7,772	7,928	8,086
Other Current Assets	5,270	4,649	5,047	5,524	6,097
<b>Total Assets</b>	<b>35,475</b>	<b>34,737</b>	<b>37,955</b>	<b>41,768</b>	<b>43,500</b>
ST Debt	10,129	6,534	6,534	6,534	6,534
Creditors	7,071	5,807	6,039	6,281	6,532
Other Current Liab	2,645	3,703	4,038	4,265	4,494
LT Debt	2,723	3,588	4,588	5,588	4,088
Other LT Liabilities	2,454	2,750	2,785	2,838	2,894
Shareholder's Equity	9,882	11,832	13,260	15,339	17,787
Minority Interests	571	524	711	923	1,171
<b>Total Cap. &amp; Liab.</b>	<b>35,475</b>	<b>34,737</b>	<b>37,955</b>	<b>41,768</b>	<b>43,500</b>
Non-Cash Wkg. Capital	8,349	7,615	7,841	8,259	8,778
Net Cash/(Debt)	(10,642)	(7,042)	(7,290)	(6,974)	(6,286)
Debtors Turn (avg days)	40.1	39.4	32.8	28.4	26.1
Creditors Turn (avg days)	46.2	38.5	28.0	24.8	23.2
Inventory Turn (avg days)	37.4	31.3	23.5	21.0	19.9
Asset Turnover (x)	1.9	2.0	2.4	2.5	2.6
Current Ratio (x)	1.0	1.3	1.3	1.4	1.4
Quick Ratio (x)	0.5	0.7	0.7	0.8	0.7
Net Debt/Equity (X)	1.0	0.6	0.5	0.4	0.3
Net Debt/Equity ex MI (X)	1.1	0.6	0.5	0.5	0.4
Capex to Debt (%)	9.8	4.3	18.0	16.5	18.8
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	2,076	2,295	3,514	4,048	4,725
Dep. & Amort.	977	1,094	431	504	580
Tax Paid	(218)	(283)	(562)	(843)	(1,012)
Assoc. & JV Inc/(loss)	(35)	(46)	(61)	(67)	(74)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	579	2,013	(515)	(581)	(684)
Other Operating CF	730	656	566	609	507
<b>Net Operating CF</b>	<b>4,109</b>	<b>5,729</b>	<b>3,372</b>	<b>3,670</b>	<b>4,042</b>
Capital Exp.(net)	(1,261)	(439)	(2,000)	(2,000)	(2,000)
Other Invt.(net)	(669)	(848)	0	0	0
Invt in Assoc. & JV	(13)	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(189)	(382)	46	57	77
<b>Net Investing CF</b>	<b>(2,132)</b>	<b>(1,668)</b>	<b>(1,954)</b>	<b>(1,943)</b>	<b>(1,923)</b>
Div Paid	(471)	(553)	(1,055)	(745)	(847)
Chg in Gross Debt	(438)	(2,543)	1,000	1,000	(1,500)
Capital Issues	7	17	0	0	0
Other Financing CF	(921)	(112)	(612)	(667)	(584)
<b>Net Financing CF</b>	<b>(1,823)</b>	<b>(3,191)</b>	<b>(667)</b>	<b>(412)</b>	<b>(2,931)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	154	869	752	1,316	(812)
Opg CFPS (RMB)	1.92	1.95	1.98	2.16	2.40
Free CFPS (RMB)	1.55	2.77	0.70	0.85	1.04

Source: Company, DBS HK

## China Yongda Automobiles

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	26-Jan-21	HK\$11.38	HK\$15.30	Buy
2:	17-Mar-21	HK\$12.86	HK\$15.30	Buy
3:	28-Apr-21	HK\$14.28	HK\$17.60	Buy
4:	25-Aug-21	HK\$12.90	HK\$18.40	Buy

Source: DBS HK

Analyst: Rachel MIU

## China Yongda Automobiles

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 20 Jan 2022 16:05:26 (HKT)

Dissemination Date: 20 Jan 2022 16:21:45 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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## China Yongda Automobiles

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