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Company
**Zhongsheng Group
Alert**

Reuters 0881.HK Bloomberg 881 HK Exchange HSI Ticker 0881
ADR Ticker ZSHGY ISIN US98952D1037

Date
30 March 2015

Results

Price at 30 Mar 2015 (HKD)	5.12
Price target - 12mth (HKD)	9.40
52-week range (HKD)	10.68 - 5.12
HANG SENG INDEX	24,486

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FY14 net profit largely missed

FY14 largely missed on new car sales margin and after-sales ASPs

Zhongsheng's FY14 net profit declined 26% YoY to RMB750.9m, 42% below our expectation and 37% below Bloomberg consensus, mainly due to 1) decline in new car sales ASPs/margins; 2) decline in ASP of after-sales business amid service/spare part price cut; and 3) higher-than-expected SG&A ratio. Revenue from new car sales grew 3% YoY to RMB48.0bn on 5% YoY volume growth, 3% below our expectation, with new car margin dropping 0.9ppt due to price discounts amid inventory pressure in 2H14, according to the company. Regarding after-sales business, revenue was up merely 13% YoY to RMB6.8bn, 6% below our expectation, though gross margin of 46.9% was 0.3ppt higher than FY13's level. In addition, commission income rose significantly 33% YoY to RMB795.1m.

After-sales business expansion continues despite at a slower pace

During the analyst briefing, management attributed the slower-than-expected after-sales revenue expansion to 1) OEMs' auto parts price cuts after government's anti-monopoly investigation and 2) decline in customers' per visit spending given increasing vehicle population of smaller cars. On a positive note, after-sales contributed to 67% of total gross profit in FY14, as compared to 59% in FY13, and Zhongsheng seems confident of maintaining stable gross margins for after-sales business with continual revenue growth.

Our FY15-16E earnings estimates seem optimistic

After attending the company's analyst briefing, our FY15-16E earnings forecast seems optimistic. We will review our model after further channel checks.

Figure 1: Zhongsheng – FY14 results summary

RMBm	FY14	FY13	YoY	2H14	1H14	HoH
Total revenue	54,786.7	52,527.4	4.3%	28,001.0	26,785.7	4.5%
New car sales revenue	47,961.6	46,493.0	3.2%	24,696.3	23,265.3	6.2%
After-sales revenue	6,825.1	6,034.4	13.1%	3,304.7	3,520.4	-6.1%
Gross profit	4,774.8	4,760.7	0.3%	2,206.0	2,568.8	-14.1%
Gross profit margin	8.7%	9.1%		7.9%	9.6%	
Other income	890.0	702.3	26.7%	530.3	359.7	47.4%
SG&A	(3,354.9)	(2,450.3)	36.9%	(1,750.7)	(1,604.2)	9.1%
Operating profit	1,611.7	2,403.4	-32.9%	287.5	1,324.2	-78.3%
Operating profit margin	2.9%	4.6%		1.0%	4.9%	
Net finance cost	(1,218.0)	(1,018.2)	19.6%	(725.3)	(492.7)	47.2%
Net profit	750.9	1,010.1	-25.7%	170.5	580.4	-70.6%
Net profit margin	1.4%	1.9%		0.6%	2.2%	

Source: Company data

Stock data

Market cap (HKDm)	10,993
Market cap (USDm)	1,418
Shares outstanding (m)	2,147.0
Major shareholders	Mountain Bright (25.5%)
Free float (%)	30
Avg daily value traded (USDm)	1.0

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	52,527	56,847	62,073
Net Profit (CNYm)	1,010.1	1,287.5	1,671.0
DB EPS (CNY)	0.53	0.57	0.73
PER (x)	16.1	7.2	5.6
Yield (net) (%)	1.3	3.0	3.8

Source: Deutsche Bank

Zhongsheng - gross profit breakdown

Segment	FY12	FY13	FY14
New car	46.8%	40.9%	33.0%
After-sales	53.2%	59.1%	67.0%

Source: Company data

Zhongsheng - gross margin trend

Segment	FY12	FY13	FY14
New car	4.4%	4.2%	3.3%
After-sales	47.2%	46.6%	46.9%

Source: Company data

Deutsche Bank AG/Hong Kong

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