

Auto Dealer	Last Close HK\$9.69	Target Price HK\$16.00	Upside +65.1%	21 March 2018
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Yongda Auto (3669 HK)

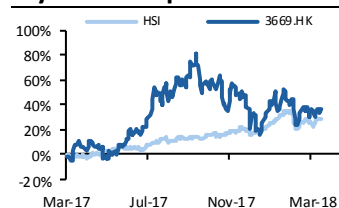
FY17 in line; margin improvement continues in FY18

- FY17 net profit surged 77.4% YoY.** Revenue rose 17.8% YoY to RMB50,699m, while net profit surged 77.4% YoY to RMB1,510m, which was better than its pre-alert of >70% earnings growth. New car sales volume increased 16.6% YoY to 171,640 units in FY17, with new car sales margin improving from 3.1% in FY16 to 3.7%. Revenue from after-sales service rose 22.7% YoY to RMB6,685m, while the segment's GPM remained largely flat at 46.1% vs 45.7% last year. Revenue of proprietary finance business surged 170.9% YoY to RMB331m. The margin improvement across segments helped to lift its FY17 blended GPM to 9.9% from 8.8% in FY16.
- Still room for margin improvement in FY18.** We expect Yongda's new car sales margin to continue to improve in FY18 driven by better brand mix. In FY17, the company opened 14 new dealer/service stores, and obtained 14 more through acquisition. Most of the new stores had high sales margin, including six Porsche (~7% sales margin) and three Lincoln (~5% sales margin) stores. We expect Yongda to add 25-30 dealer/service stores in FY18 with a focus on higher-margin brands. Meanwhile, SG&A expenses as a percentage of total revenue was largely flat at 7% in FY17. We expect the ratio could drop in FY18 mainly due to improving operating efficiency of new stores acquired in FY17.
- Valuation looks very undemanding; maintain Buy.** We reiterate our positive view on Yongda mainly due to its high exposure to BMW and other luxury brands. The company is actively expanding its dealer stores with brands of higher sales margin (e.g. Porsche and Lincoln). Its improving new car sales margin and fast growth of after-sales & other value-added services should help to secure earnings growth in FY18, in our view. We keep our FY18-19 earnings forecasts largely unchanged. We maintain our **Buy** rating and TP of HK\$16.00, which implies FY18 P/E of 11x.

Stock Rating

BUY

1-year stock performance



Source: Bloomberg

Stock data

52w high (HK\$)	12.40
52w low (HK\$)	6.38
Market cap (HK\$ m)	17,817.87
Avg daily vol (m)	4.98
YTD change (%)	8.01
200d MA (HK\$)	9.56

Source: Bloomberg

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Financial highlights

Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMB m)	43,033	50,699	57,734	64,880	70,730
YoY growth (%)	20.7	17.8	13.9	12.4	9.0
Net profit (RMB m)	851	1,510	2,014	2,548	3,031
YoY growth (%)	62.3	77.4	33.4	26.6	19.0
EPS (RMB)	0.58	0.91	1.22	1.54	1.83
Previous EPS (RMB)			1.19	1.53	-
Change (%)			0.03	0.01	-
BVPS (RMB)	3.35	5.01	5.66	6.84	8.22
P/E (x)	15.2	9.3	6.8	5.4	4.5
P/B (x)	2.6	1.7	1.5	1.2	1.0
Dividend yield (%)	2.0	3.2	4.3	5.5	6.5

Source: Company data, BOCOM Int'l estimates

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Financial Statements

Income statement (RMB m)					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Total revenue	43,033	50,699	57,734	64,880	70,730
Cost of sales	(39,227)	(45,675)	(51,537)	(57,740)	(62,635)
Gross profit	3,805	5,025	6,197	7,140	8,094
Other net income	760	927	1,285	1,542	1,851
Selling expenses	(1,915)	(2,269)	(2,656)	(2,855)	(3,254)
Administrative expenses	(1,052)	(1,222)	(1,443)	(1,622)	(1,768)
Operating profit	1,599	2,461	3,383	4,205	4,923
Net financial cost	(479)	(494)	(529)	(592)	(633)
Share of profits of asso/JV	33	41	22	22	23
Profit before tax	1,152	2,008	2,876	3,636	4,313
Taxation	(244)	(406)	(719)	(909)	(1,078)
Profit for the year	908	1,602	2,157	2,727	3,235
Minority interest	(57)	(92)	(144)	(178)	(203)
Net profit	851	1,510	2,014	2,548	3,031
EPS (RMB)	0.575	0.913	1.217	1.541	1.833
DPS (RMB)	0.171	0.270	0.360	0.456	0.542

Balance sheet (RMB m)					
As of 31 Dec	2016	2017	2018E	2019E	2020E
Fixed assets	3,942	4,729	4,757	5,210	5,593
Intangible assets	1,306	2,430	2,552	2,679	2,813
Finance lease prepayments	302	1,338	1,472	1,619	1,781
Others	1,834	2,368	2,567	2,786	3,027
Non-current assets	7,383	10,866	11,348	12,294	13,214
Inventories	4,317	6,112	6,213	6,960	7,722
Trade and other receivables	5,151	6,465	7,078	7,954	8,864
Other receivables	31	34	38	42	46
Deposits	1,119	1,597	1,677	1,761	1,849
Cash at bank and in hand	1,772	1,718	2,698	3,843	5,204
Others	601	1,135	1,249	1,377	1,523
Current assets	12,992	17,061	18,952	21,937	25,208
Total Assets	20,375	27,927	30,299	34,231	38,422
Bank loans and overdrafts	6,119	9,195	9,985	10,847	11,788
Trade and bill payables	5,201	6,710	6,987	7,828	8,492
Other payables	128	357	375	394	414
Others	983	7	7	8	9
Current liabilities	12,430	16,269	17,355	19,077	20,703
Bank loans	158	417	458	504	554
Others	2,385	2,459	2,489	2,521	2,555
Non-current liabilities	2,542	2,876	2,947	3,025	3,109
Total Liabilities	14,972	19,145	20,302	22,102	23,812
Minority interest	441	493	637	815	1,019
Shareholders' equity	5,403	8,781	9,998	12,129	14,610
Total Liabilities and Equity	20,375	27,927	30,299	34,231	38,422
BPS (RMB)	3.352	5.011	5.659	6.839	8.216

Source: Company data, BOCOM Int'l estimates

Cash flow statement (RMB m)					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Profit before tax	1,152	2,008	2,876	3,636	4,313
Depreciation & amortisation	426	407	477	547	617
Net finance cost	(25)	0	0	0	0
Other items	555	435	529	592	633
Working capital change	(996)	(3,620)	(749)	(1,127)	(1,388)
Interest & Tax paid	(541)	(338)	(719)	(910)	(1,080)
Cash flow from operation	571	(1,108)	2,414	2,738	3,095
CAPEX	(1,093)	(2,149)	(1,287)	(1,310)	(1,335)
Others	(218)	142	(3)	(4)	(4)
Cash flow from investing	(1,311)	(2,007)	(1,290)	(1,314)	(1,339)
Increase in bank loans	898	3,336	831	908	992
Others	82	(275)	(975)	(1,187)	(1,387)
Cash flow from financing	980	3,061	(144)	(279)	(395)
Cash balance change	240	(54)	980	1,145	1,361
Cash balances at year begin	1,532	1,772	1,718	2,698	3,843
Effect of FX changes	0	0	0	0	0
Cash balances at year end	1,772	1,718	2,698	3,843	5,204

Financial ratios					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Growth (%)					
Revenue	20.7	17.8	13.9	12.4	9.0
Gross profit	25.7	32.0	23.3	15.2	13.4
Operating profit	32.3	53.9	37.5	24.3	17.1
Net profit	62.3	77.4	33.4	26.6	19.0
Profitability (%)					
Gross margin	8.8	9.9	10.7	11.0	11.4
Operating margin	3.7	4.9	5.9	6.5	7.0
Net margin	2.0	3.0	3.5	3.9	4.3
ROA	4.2	5.4	6.6	7.4	7.9
ROE	18.5	22.8	22.8	24.7	24.3
Liquidity & Solvency					
Current Ratio (x)	1.0	1.0	1.1	1.1	1.2
Quick Ratio (x)	0.1	0.1	0.1	0.1	0.1
Net gearing (%)	95.1	92.0	78.5	62.0	48.4
Dividend payout ratio (%)	29.7	29.6	29.6	29.6	29.6

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Rating System

Analyst Stock Ratings:

Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is **the Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

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