

FY17 performance met expectation

Rating **Not Rated**
 Current price **HK\$3.04**

Strong FY17 results as expected

Meidong reported operating EBIT/net profit of RMB409mn and RMB276mn in FY17, up by 54% and 81% respectively, largely in-line with our previous estimates of RMB420mn and RMB261mn. Such growth was driven by i) 21%/33% yoy increase in new car sales and after sales services and ii) 1.2ppt GPM improvement in new car sales.

Remained upbeat for FY18E

Management stay positive towards 2018, and shared that inventory level remained relatively low YTD, particularly for Porsche. Management continue to expect Meidong to benefit from the new model cycle of BMW and Porsche, and the performance of Lexus and Toyota would be rather stable, while the worst is over for Hyundai.

Continue to focus in luxury brands and “Single City Single Store” strategy

Meidong opened 5 new stores in 2017 (3 BMW and 2 Lexus), and have obtained the authorizations to open 11 new stores (3 Porsche, 4 BMW, 3 Lexus and 1 Toyota), a large proportion of them are expected to open in 2018 (2 are already opened in early 2018). We share the same view with management that luxury auto brands are well-positioned to enjoy China’s consumption upgrade trend.

Regarding the Company’s “Single City Single Store” strategy, Meidong would also attempt to introduce other brands into those “Single City”. For instance, in two cities of which Meidong operated the only BMW store, Meidong has introduced Lexus into them in recent years, which achieved decent performance with short ramp up period. Management would consider adopting similar strategy for other brands.

Moderate earnings growth in FY18E with decent dividend yield

After a strong rally since 2H16, share price of auto dealers generally underperformed in recent months. Some investors are concerned that the upcycle will be peaked due to intensified competition between auto brands, which could lead to inventory build-up for dealers. We agree that room for further GPM expansion is limited, hence profit growth of dealers, in general, would be less dramatic in FY18E. However, with a more consolidated dealership market nowadays, we view that dealers have stronger bargaining power to ask for a healthy GPM. Besides, Meidong’s low gearing ratio (negligible net debt as of end FY17) and absence of self-operated auto finance division make the Company less vulnerable amid credit tightening. Undemanding valuation at 8.4X FY18E PER with 5.8% expected dividend yield also help to protect downside.

RMB mn (YE Dec)	FY14A	FY15A	FY16A	FY17A	FY18E
Revenue	3,855	4,808	6,263	7,683	8,880
Operating EBIT	209	221	265	409	496
Net profit	111	102	152	276	337
PE (x)	22.2	25.3	17.5	9.7	8.4
Dividend yield (%)	1.2	1.9	2.6	5.0	5.8

Sources: Bloomberg, CIRL

Results takeaways

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Trading data

52-Week Range (HK\$)	1.40/3.46
3 Mth Avg Daily Vol (m)	1.8
No of Shares (m)	1,151
Market Cap (HK\$m)	3,499
Major Shareholders (%)	Ye Family (69.1%) Fidelity (8.9%)
Auditors	KPMG
Result Due	1H18: Aug

Company description

Listed in Dec 2013, Meidong Auto is a 4S dealership group with a focus in second to fourth-tier cities in southern China and in areas neighboring Beijing. Meidong operated 39 4S stores as of end Dec 17, its brand portfolio included BMW, Toyota, Porsche, Lexus and Hyundai.

Price chart



Exhibit 1: Income statement

Year to Dec (RMB mn)	FY14A	FY15A	FY16A	FY17A	FY18E
Revenue					
- PV sales	3,433.6	4,289.1	5,585.6	6,778.2	7,794.9
- After-sales services	421.2	518.9	677.7	904.5	1,085.4
	3,854.8	4,808.0	6,263.3	7,682.7	8,880.3
Gross profit					
- PV sales	183.2	191.0	244.0	376.5	448.6
- After-sales services	209.5	261.0	333.4	443.2	531.9
	392.6	452.0	577.5	819.7	980.5
Commission income and other income	19.1	20.6	41.3	68.9	78.6
SG&A	(219.7)	(277.5)	(380.9)	(502.8)	(590.0)
Share of profits of JVs and associates	16.9	25.4	27.4	23.0	27.1
EBIT	209.0	220.5	265.2	408.9	496.1
Other gains and losses	10.2	(7.5)	4.5	30.1	30.1
Finance costs	(63.0)	(66.4)	(51.5)	(61.3)	(60.0)
Income tax expenses	(41.4)	(40.5)	(61.2)	(99.0)	(125.2)
Non controlling interests	(4.1)	(3.9)	(4.9)	(3.0)	(3.6)
Net profit	110.7	102.2	152.1	275.8	337.5

Source: The Company, CIRC

Exhibit 2: Balance sheet

Year to Dec (RMB mn)	FY13A	FY14A	FY15A	FY16A	FY17A
Cash & equiv	672.8	555.9	775.0	773.0	809.8
Inventories	457.9	641.5	466.3	483.9	673.1
Trade receivables	242.4	308.8	373.8	497.8	584.0
Fixed assets	288.4	437.0	551.0	621.5	681.1
Lease prepayments	105.3	102.5	103.4	100.5	97.5
Interest in associate and JV	27.6	44.5	61.1	72.3	56.6
Other non current assets	21.3	19.4	48.2	42.9	71.5
Total assets	1,815.6	2,109.7	2,378.7	2,591.9	2,973.6
Short-term borrowings	804.7	609.1	641.6	614.7	674.3
Trade payables	514.5	802.3	782.3	878.5	1,030.1
Other payables	16.3	8.9	16.9	20.8	30.2
Corporate bonds	0.0	0.0	77.8	94.3	91.9
Long-term borrowings	0.0	120.5	60.5	75.6	50.7
Other non current liabilities	2.9	3.6	5.9	5.6	2.8
Total liabilities	1,338.4	1,544.4	1,585.1	1,689.6	1,880.0
Shareholders' equity	460.3	544.3	764.8	864.5	1,055.6
Minorities	16.9	21.0	28.9	37.8	38.1
Total equity	477.2	565.3	793.7	902.3	1,093.6
Net cash (debt)	(131.9)	(173.7)	(4.9)	(11.6)	(7.1)

Source: The Company, CIRC

Exhibit 3: Peers comparison

	Ticker	Mkt cap (HKD mn)	Price (HKD)	P/E(x)		P/B(x)		Dividend yield (%)	
				FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
ZHONGSHENG GROUP	881 HK	50,896	22.45	12.8	10.3	2.7	2.1	1.5	2.3
CHINA YONGDA AUT	3669 HK	15,744	8.58	8.2	6.3	1.3	1.3	2.6	4.8
BAOXIN AUTO GROU	1293 HK	9,363	3.30	8.1	6.2	1.2	1.0	1.3	1.6
CHINA ZHENG TONG	1728 HK	17,964	7.21	11.1	8.1	1.3	1.2	2.6	3.7
CHINA GREENLAND	1365 HK	2,944	3.11	N/A	N/A	N/A	N/A	N/A	N/A
SUNFONDA GROUP	1771 HK	750	1.25	N/A	N/A	N/A	N/A	N/A	N/A
Average				10.0	7.7	1.6	1.4	2.0	3.1
MEIDONG	1268 HK	3,499	3.04	9.7	8.4	2.7	2.3	5.0	5.8

Source: Bloomberg, CIRC

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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Analyst Certification

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