

Zhongsheng (881 HK)

Robust Premium Car Demand, with Optimizing Network

Hong Kong | Automobile Retail | Update Report

28 January 2021

Investment Summary

Prosperity of Premium Cars Continues to Improve in H2, and New Car Sales Grow Strongly

The latest sales show that Zhongsheng's new-car-sales momentum continued to be strong in H2 of last year benefiting from the explosion of demand for premium cars after the COVID-19 pandemic. The Company achieved an approximately 20% growth rate in new car sales in 2020Q3. Amid the continuous prosperity of the auto market in 2020Q4, the Company's new car sales showed positive growth compared to Q3, with an estimated yoy growth rate of more than 30%. On the whole, new car sales are expected to achieve a yoy growth rate of 30% in 2020H2. Specifically, the sales of premium cars performed better than the overall. The yoy sales growth in Q3 and Q4 is expected to exceed 25% and 35%, respectively. The sales of premium cars will grow by more than 30% in 2020H2.

Low Inventory Level, and Price Discounts Are Further Narrowed to Boost Profitability

Due to the overseas pandemic affecting the supply of some imported models and its excellent inventory management, the Company's inventory is at a historically low level. Currently, it is only maintained at a level of approximately 0.6 months, better than the industry average. The Company aims to maintain the inventory at a level of less than one month.

With a short supply of premium cars, the gross margin of new car sales continued to improve in Q4. Even though the period of promotion season is approaching, the price of new cars remains high, and discounts for some hot-selling models are very limited.

In terms of new orders, the momentum of new car sales has not diminished since January 2021, with a yoy increase of nearly 40%. Terminal discounts have also been very stable. The overall operation has improved significantly over the same period of last year. We expect the Company's profitability will significantly benefit from the further narrowing of price discounts and the continuous optimization of the sales structure.

After a brief slowdown during the pandemic period, after-sales business has rebounded rapidly since H2 of last year. The after-sales entrance and after-sales revenue recorded a yoy growth rate of 25-30%. We believe that the main reasons are the expansion of base customers of premium cars and the increase in the penetration of extended warranty. The Management offers an optimistic outlook for the after-sales business this year, with an expected growth of more than 20%.

Network Optimization and Multi-business Arrangements Are Expected to Become New Engines

In H1 of last year, the Company tended to be cautious about the capital expenditures due to the pandemic. As at June 30, 2020, the number of car dealerships reached 365, of which 21 were opened and 16 were closed, with a net increase of 5. Specifically, the dealerships of premium car brands numbered 210, accounting for 58%. The dealerships of mid- and high-end car brands accounted for 42%. In the second half of the year, the company acquired eight 4S stores at a consideration of 7.2 trillion yuan. The newly purchased 4S stores were mainly luxury brands, further improving its brands mix. The Management's 2021CAPEX target is set at approximately RMB2 billion, including 20 new stores and external M&A opportunities.

BUY (Upgrade)

CMP HKD: 48.3

(Closing price as at 26 January)

TARGET HKD: 70 (+45%)

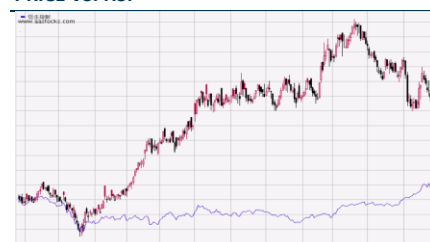
COMPANY DATA

O/S SHARES (MN) :	2278
MARKET CAP (HKD MN) :	110214
52 - WK HI/LO (HKD):	62.9/ 22.4

SHARE HOLDING PATTERN, %

Blue Natural Development Ltd	57.74
JSH Investment Holdings Limited	19.98

PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	124043	137593	160343	184279
Net Profit	4502	5205	6555	7924
EPS, CNY	1.98	2.28	2.88	3.48
P/E, x	21.9	17.8	13.9	11.7
BVPS, CNY	9.58	11.36	13.67	16.41
P/BV, x	4.5	3.6	2.9	2.5
DPS (HKD)	0.40	0.47	0.59	0.72
Div. Yield (%)	0.9%	1.2%	1.5%	1.8%

Source: Company reports, Phillip Securities Est.

Research Analyst

Zhang Jing (+ 86 021-51699400-103)

zhangjing@phillip.com.cn

In terms of new energy vehicles, the Company last year sold approximately 4,000 units of new energy vehicles, which currently account for a small proportion. The Management stated that in the future, the Company will seek partners to expand the sales network of new energy vehicles, in an effort to increase their proportion in premium cars.

In addition, second-hand cars have been an important development sector for the Company in recent years. The transaction volume of second-hand cars in 2020H1 reached 40,676 units, a yoy increase of 33.9%. Premium cars and Japanese cars enjoy a high value-preserving rate and are expected to benefit from the release of policy dividends in the future.

On the whole, we expect that network optimization and multi-business arrangements will become the new engines for the Company's future business growth.

Investment Thesis

We expect the company's EPS for 2020/2021/2022 to reach RMB2.28/2.88/3.48 yuan and the target price of HK\$70, corresponding to 2020/2021/2022 26/20/17x P/E (considering its leader position and better mix). We gave a BUY rating. (Closing price as at 26 January)

Forward P/E,P/B



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY17	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratios						
P/E (X), adj.	26.4	26.6	21.9	17.8	13.9	11.7
P/B (X)	5.6	5.3	4.5	3.6	2.9	2.5
Dividend Yield (%)	0.7%	0.8%	0.9%	1.2%	1.5%	1.8%
Per share data (RMB)						
EPS, (Basic)	1.52	1.60	1.98	2.28	2.88	3.48
EPS, (Diluted)	1.48	1.56	1.92	2.20	2.76	3.33
DPS	0.30	0.32	0.40	0.47	0.59	0.72
BVPS	7.21	8.03	9.58	11.36	13.67	16.41
Growth & Margins (%)						
Growth						
Revenue	20.5%	24.9%	15.1%	10.9%	16.5%	14.9%
EBIT	51.2%	9.1%	19.9%	12.5%	23.9%	18.5%
Net Income, adj.	80.2%	8.5%	23.8%	15.6%	25.9%	20.9%
Margins						
Gross margin	10.3%	9.2%	9.3%	9.7%	10.0%	10.1%
EBIT margin	6.6%	6.0%	6.2%	6.3%	6.7%	6.9%
Net Profit Margin	3.4%	3.4%	3.6%	3.8%	4.1%	4.3%
ROE	23.5%	21.0%	22.5%	21.2%	21.6%	121.6%
Income Statement (RMB mn)						
Revenue	86290	107736	124043	137593	160343	184279
Gross profit	8684	9923	11488	13360	16082	18612
EBIT	5896	6434	7717	8679	10756	12741
Profit before tax	4814	5200	6327	7332	9276	11215
Tax	-1338	-1505	-1807	-2097	-2671	-3230
Profit for the period	3476	3695	4520	5235	6604	7985
Minority interests	125	59	18	30	49	61
Total capital share	2209	2272	2272	2280	2276	2277
Net profit	3351	3636	4502	5205	6555	7924

Source: PSR

(Closing price as at 26 January)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2021 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES

Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE

King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia

Level 10, 330 Collins Street
Melbourne VIC 3000

Tel (+61) 3 8633 9803 Fax (+61) 3 8633 9899

www.phillipcapital.com.au

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA

PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM

King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm