

Yongda (3669 HK)

Pre-owned Cars and NEV Businesses Came into Fast Lane

Hong Kong | Automobile Retail | Update Report

6 June 2022

Investment Summary

Last Year's Profit Jumps More than 50%

In 2021, the Company's comprehensive revenue and comprehensive gross profit taking into account the revenue from agency service amounted to RMB79,205 million and RMB9,041 million, respectively, representing a year-on-year increase of 14.3% and 25.0%, respectively. Net profit attributable to the owners of the Company was RMB2,480 million, increased by 52.6% compared with the same period of 2020. Earnings per share was RMB1.26, and the dividend payout ratio increased from 35% to 38%.

Among the total revenue, the sales revenue from new vehicles increased by 9.5% year-on-year to RMB63.8 billion. The revenue from after-sales service increased by 21% year-on-year to RMB11.5 billion. The sales revenue from pre-owned vehicles was RMB2,243 million. The overall gross profit margin was 9.95%, an increase of 0.45 pts. The turnover efficiency continued to improve. The inventory turnover days dropped significantly to 23.1 days from 30.8 days in the same period of 2020.

The Profitability of New Vehicle Sales Increases Significantly, and the After-sales Service Maintains Steady Growth

Dragged down by the chip supply shortage, the Company's sales volume of new vehicles in 2021 only increased by 4.6% to 213,907 units compared with 2020, which was affected by the pandemic. However, the demand for new vehicle sales continued to be strong, which was reflected in the steadily increasing average selling price. The annual average selling price grew by 4.8% year-on-year. While the chip shortage led to delivery delays, it also contributed to the increase in the selling price of new vehicles, which was even more prominent among luxury vehicle brands. The average selling price of luxury vehicles increased by 8.2% year-on-year and by 8.4% quarter-on-quarter in the fourth quarter of last year, a year-on-year increase of 6% throughout the year. Boosted by this, the overall gross profit margin of the new vehicle sales business expanded by 0.82 pts to 3.49%.

The gross profit margin of the after-sales service remained at a high level of 45%. The shop absorption rate reached 88.92%, an increase of 4.33 pts over the same period last year.

Affected by the Pandemic, Q1 2022 Results Drop by over 10%

Affected by the supply chain shortages in January and February and the pandemic in March, the Company recorded 27% year-on-year decrease in the new car sales volume in the first quarter of 2022, although the average selling price of single vehicles continued to increase by 14.6%. The gross revenue was dragged down to RMB17.68 billion, down 11% yoy. The net profit attributable to shareholders was RMB459 million, down 13% yoy. Specifically, the new car sales revenue was RMB13,827 million, down 16.4% yoy and down 6.94% qoq, and the after-sales business revenue was RMB2,685 million, up 0.4% yoy and down 14.16% qoq. The gross margin was 11.9%, up 1.5 pts yoy and down 0.9 pts qoq.

BUY (Upgrade)

CMP HKD: 8.79
(Closing price as at 1 June)
TARGET HKD: 11 (+25%)

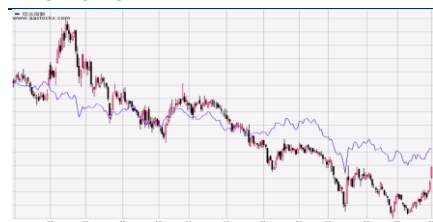
COMPANY DATA

O/S SHARES (MN) :	1975
MARKET CAP (HKD MN) :	17292
52 - WK HI/LO (HKD):	17.14/ 6.14

SHARE HOLDING PATTERN, %

Palace Wonder Company Limited	20.32
Asset Link Investment Limited	9.21

PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY21	FY22E	FY23E	FY24E
Net Sales	77917	91753	105785	117134
Net Profit	2400	2973	3388	3943
EPS, CNY	1.22	1.28	1.70	2.00
P/E, x	5.9	5.7	4.3	3.7
BVPS, CNY	6.94	7.74	8.92	10.25
P/BV, x	1.0	0.9	0.8	0.7
DPS (HKD)	0.48	0.45	0.66	0.79
Div. Yield (%)	6.7%	6.2%	9.0%	10.8%

Source: Company reports, Phillip Securities Est.

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Shanghai contributes approximately 30%-40% of gross revenue to the Company. Dragged by the strict lockdown measures enforced in Shanghai in March due to the pandemic, the Company's results are expected to pull back sharply in the second quarter. The Shanghai government successively began cautious resumption of work and production in May. It is expected that it will take some time to comprehensively return to normalcy. The Company's stores in Shanghai are expected to restart operations in mid-May and return to normalcy at the end of May. The management expects revenue to decline by at least approximately 30% in the second quarter. In addition, the supply chain was affected by international political conflicts. In March, multiple Porsche factories have successively been shut down and stopped production. There may be a delay in the subsequent vehicle delivery. However, during the results conference call, the management said that the annual sales target still maintains unchanged. Recently, the management has continuously increased its shareholding in the Company, and decided to implement a share incentive plan to attract and retain talent, which showed the recognition of the Company's value and confidence in the Company's sustainable and stable development in the future, and helped boost investor confidence.

It should be noted that despite a decline in the Company's overall new car sales volume, the used car business still showed strong resilience in the first quarter of 2022, with 9.2% year-on-year increase in the transaction volume.

The Company Fully Promotes the Pre-owned Vehicle Business and the New Energy Vehicle Business to Bring Rapid Business Development

Driven by the vigorous regulation and promotion of the development of the pre-owned vehicle industry by China, the Company is advancing the pre-owned vehicle business at full speed. During the year, the sales volume was 71,605 units, a year-on-year increase of 37.0%. Specifically, 11,080 units were sold by agency sales, contributing a revenue of RMB2.24 billion, and 60,525 units were sold by dealership, contributing a revenue of RMB4,175 million. The gross profit of pre-owned vehicles was RMB378 million, a year-on-year increase of 116.0%, of which agency sales and gross profit accounted for 54.7% and 45.3%, respectively. The proportion of pre-owned vehicle business in the overall gross profit grew from 2.4% to 4.2%. The Company is expected to continue to comprehensively promote the upgrade from the wholesale model to the retail model, from the agency sales model to the dealership model, and the digital and omni-channel operation model to increase the scale and result contribution of the pre-owned vehicle business.

In terms of new energy vehicles, in 2021, the Company's sales volume of new energy vehicles reached 15,920 units, a year-on-year increase of 55.0%, accounting for 7.4% of the total sales volume, representing a year-on-year increase of 2.3 pts. Specifically, the sales volume of independent new energy brands reached 2,986 units, a year-on-year increase of 135.5%. At present, the Company has opened 18 outlets of new energy vehicles, and granted authorisation to 21 outlets to be opened. In the future, the Company will accelerate the outlet layout of new energy vehicles. In addition to selling new energy vehicles of traditional luxury brands, it will also accelerate the cooperation with the brands of new car-making forces through multiple innovative business models such as the light-asset model.

Investment Thesis

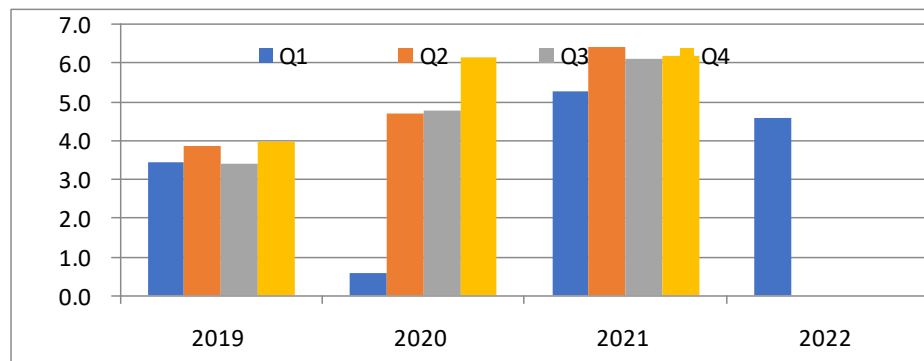
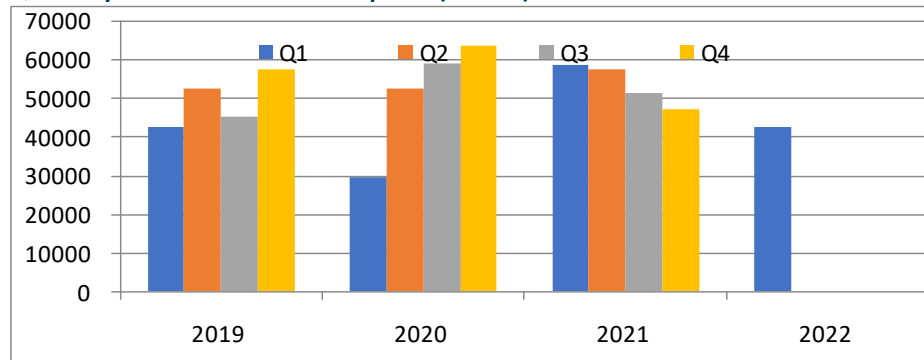
The main business of the Company will continue benefiting from the upgrade trend of domestic vehicle consumption, and will be further improved for operational efficiency. We are optimistic about the future development potential of the Company. We expect the company's EPS for 2022/2023/2024EPS to reach 1.275/1.70/2.00 yuan and the target price of HK\$11, corresponding to 7.2/5.4/4.6x P/E. We give Buy rating. (Closing price as at 1 June)

BEst P/E P/B trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Quarterly Sales Volume and Net profit (million)



Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY20	FY21	FY22F	FY23F	FY24F
Valuation Ratios					
P/E (X), adj.	8.7	5.9	5.7	4.3	3.7
P/B (X)	1.2	1.0	0.9	0.8	0.7
Dividend Yield (%)	3.9%	6.7%	6.2%	9.0%	10.8%
Per share data (RMB)					
EPS, (Basic)	0.85	1.22	1.28	1.70	2.00
EPS, (Diluted)	0.82	1.21	1.26	1.69	1.98
DPS	0.29	0.48	0.45	0.66	0.79
BVPS	6.14	6.94	7.74	8.92	10.25
Growth & Margins (%)					
Growth					
Revenue	9.3%	13.7%	17.8%	15.3%	10.7%
EBIT	4.1%	30.7%	17.8%	14.3%	16.2%
Net Income, adj.	10.3%	47.7%	23.9%	14.0%	16.4%
Margins					
Gross margin	9.3%	9.9%	10.0%	10.0%	10.0%
EBIT margin	4.3%	5.0%	5.0%	4.9%	5.2%
Net Profit Margin	2.4%	3.1%	3.2%	3.2%	3.4%
Key Ratios					
ROAE	15.0%	18.9%	20.2%	20.1%	20.4%
ROAA	4.6%	7.2%	9.1%	9.6%	10.3%
Income Statement (RMB mn)					
Revenue	68534	77917	91753	105785	117134
Gross profit	6365	7753	9162	10557	11691
EBIT	2970	3881	4572	5227	6074
Profit before tax	2295	3375	4130	4706	5470
Tax	-562	-837	-1008	-1148	-1335
Profit for the period	1733	2538	3123	3558	4136
Minority interests	108	138	150	170	193
Total capital share	1909.8	1974.8	1976	1976	1976
Net profit	1625	2400	2973	3388	3943

Source: PSR

(Closing price as at 1 June)

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

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