

Asian Daily

# China Harmony New Energy Auto Holding Limited (3836.HK)

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

## 1H21 result beat expectation on higher-than-expected volume growth

Target price (HK\$): 5.20

Previous target price (HK\$): 5.00

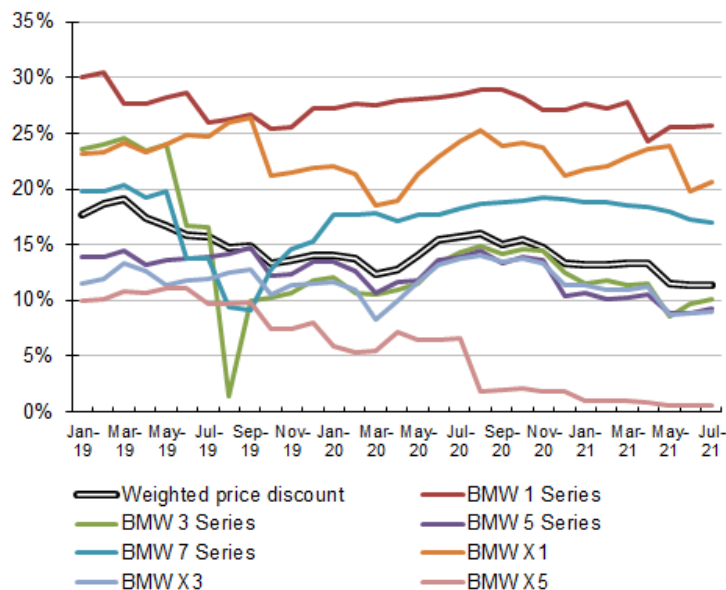
- Higher than company guidance of >60% YoY net profit growth, Harmony Auto's 1H 2021 net profit increased 66.5% YoY to Rmb391 mn, which accounted for 66% of consensus full-year 2021 net profit estimate. Key surprise was the higher-than-expected top-line growth up 63% YoY, which was mainly driven by 54% YoY/64% YoY new car volume/new car revenue growth in 1H.
- Profit growth was also driven by the improved new car margin, up 0.5 pp YoY/0.8pp HoH to 4.2% in 1H21. In particular, BMW brand's new car margin increased 0.5 pp YoY/0.5% HoH to 3.2%. Harmony's BMW brand operation contributed 76% of the group total volume in 1H21, followed by Lexus (11%) and Volvo (5%).
- We attribute the new car margin improvement to reduced retail price discount amid chip shortage. For example, BMW brand's overall China market average retail price discount was 12.6% in 1H21, below 13.7%/15.1% in 1H20/2H20.
- Considering the stronger-than-expected revenue growth, we revise up our 2021-23 net profit estimates by 3.1-5.6%, resulting in a higher target price of HK\$5.20 (from HK\$5.00)

<b>Price (16-Aug-21, HK\$)</b>	<b>4.09</b>	Est. pot. % chg. to TP	27.1	
Mkt cap (HK\$/US\$ mn)	6,420 / 825	Blue sky scenario (HK\$)	7.0	
Number of shares (mn)	1,570	Grey sky scenario (HK\$)	2.0	
Free float (%)	46.6	<b>Performance</b>	<b>1M 3M 12M</b>	
52-wk range (HK\$)	4.28 - 2.98	Absolute (%)	3.8 14.2 16.2	
ADTO-6M (US\$ mn)	2.0	Relative (%)	14.6 27.0 19.1	
<b>Year</b>	<b>12/20A</b>	<b>12/21E</b>	<b>12/22E</b>	<b>12/23E</b>
Revenue (Rmb mn)	14,746.9	18,897.0	20,111.2	21,200.9
EBITDA (Rmb mn)	872.8	1,171.3	1,327.1	1,472.4
EBIT (Rmb mn)	684.2	965.2	1,104.3	1,232.9
Net profit (Rmb mn)	383.1	623.0	714.6	803.5
EPS (CS adj.) (Rmb)	0.25	0.4	0.46	0.51
Chg. from prev. EPS (%)	n.a.	3.1	4.8	5.6
Consensus EPS (Rmb)	n.a.	0.38	0.44	0.49
EPS growth (%)	(14.6)	59.9	14.7	12.5
P/E (x)	13.7	8.6	7.5	6.6
Dividend yield (%)	2.0	3.0	3.4	3.9
EV/EBITDA (x)	7.0	5.4	4.6	3.9
P/B (x)	0.7	0.67	0.62	0.58
ROE (%)	5.2	8.0	8.6	9.1
Net debt/equity (%)	10.7	12.1	8.4	3.9

Source: Company data, Refinitiv, Credit Suisse estimates

Looking into 2H21, BMW brand's China market average retail price discount further declined in July to 11.6%, which was below 12.0%/13.2% in 2Q21/1Q21, and provided good support to 2H21 margin.

Figure 1: BMW brand China retail price discount trend



Source: Thinkercar

Figure 2: Harmony result summary

	1H20	2H20	1H21	YoY	HoH
<b>Volume (unit)</b>	14,613	21,960	22,447	54%	2%
<b>Total ASP (Rmb)</b>	343,626	358,454	367,589	7%	3%
<b>Revenue (Rmb mn)</b>					
Sales of new auto	5,021	7,872	8,251	64%	5%
After-sales services	718	1,100	1,097	53%	0%
Auto finance	15	20	26	69%	27%
<b>Total</b>	<b>5,755</b>	<b>8,992</b>	<b>9,374</b>	<b>63%</b>	<b>4%</b>
<b>Gross profit (Rmb mn)</b>					
Sales of new auto	186	263	345	86%	31%
After-sales services	319	496	489	53%	-1%
Auto finance	15	20	26	68%	27%
<b>Total</b>	<b>520</b>	<b>779</b>	<b>859</b>	<b>65%</b>	<b>10%</b>
<b>Commission income</b>	<b>137</b>	<b>206</b>	<b>226</b>	<b>66%</b>	<b>10%</b>
<b>Gross margin</b>					
Sales of new auto	3.7%	3.3%	4.2%	0.5%	0.8%
After-sales services	44.4%	45.1%	44.6%	0.2%	-0.5%
<b>Total</b>	<b>9.0%</b>	<b>8.7%</b>	<b>9.2%</b>	<b>0.1%</b>	<b>0.5%</b>
<b>reported net profit</b>	<b>235</b>	<b>176</b>	<b>391</b>	<b>66%</b>	<b>122%</b>
<b>net margin</b>	<b>4.1%</b>	<b>2.0%</b>	<b>4.2%</b>	<b>0.1%</b>	<b>2.2%</b>

Source: Company data

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## Valuation Methodology and Risks

### Target Price and Rating

Valuation Methodology and Risks: (12 months) for China Harmony New Energy Auto Holding Limited (3836.HK)

**Method:** We derive our HK\$5.2 target price for China Harmony New Energy Auto Holding Limited from a DCF (discounted cash flow)-based methodology, as simple multiples do not fully exhibit a dealer business's long-term earnings power (mainly from services) and Harmony's strong net cash position. We make the following assumption in arriving at our DCF-based TP: Cost of equity 11.9%, risk free rate 3.5%, beta 1.2, borrowing cost 3.7%, tax rate 25%, WACC 9.9%, equity to equity-plus-debt ratio 74%. Our target price implies 10x 2022E P/E (price-to-earnings). We give Harmony OUTPERFORM rating as we are bullish about auto dealers' strengthening bargaining power against OEMs, resulting in improving new car sales margin.

**Risk:** Risks that could impede achievement of our target price of HK\$5.2 for China Harmony New Energy Auto Holding Limited is luxury car demand slowdown may ignite price wars and hurt dealers' margins. Risks to our OUTPERFORM rating is stricter-than-expected government anticorruption campaign, hurting high-end customer demand for luxury brand cars.

### Companies Mentioned (Price as of 16-Aug-2021)

**BMW** (BMWG.DE, €81.47)

**China Harmony New Energy Auto Holding Limited** (3836.HK, HK\$4.09, OUTPERFORM, TP HK\$5.2)

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### 3-Year Price and Rating History for China Harmony New Energy Auto Holding Limited (3836.HK)

3836.HK	Closing Price	Target Price	Rating
Date	(HK\$)	(HK\$)	
01-Oct-18	3.26	7.20	O
01-Apr-19	2.85	4.10	
11-Dec-19	3.43	4.20	
09-Dec-20	3.91	4.60	
01-Apr-21	4.19	5.00	



\* Asterisk signifies initiation or assumption of coverage.

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Underperform/Sell*	10%	(20% banking clients)
Restricted	2%	

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