

AUTOMOBILES

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Yongda call takeaways: China luxury car demand on the rebound

We hosted a call with China Yongda Automobile Services (Yongda), one of the leading luxury car dealers in China with over 200 outlets catering to marquee brands such as BMW, Porsche, Mercedes Benz, Audi and JLR. Key takeaways from the call are outlined below.

Navin Matta | Nishant Chowhan, CFA
research@bobcaps.in

Luxury car demand bouncing back faster than mass market cars: After a weak Jan-Feb'20 largely due to Covid-19, demand for luxury cars in China has recovered swiftly in March as the lockdown in the country was lifted. The mass market segment remains sluggish. Yongda's inventory at March-end stood at comfortable levels of ~30 days. Notwithstanding the negative impact of a potential second wave of Covid-19 infections or US-China trade war concerns, demand should steadily recover.

Luxury carmakers maintain CY20 volume targets: Per management, full-year volume growth targets for China set by all OEMs in Jan'20 remain unchanged despite a weak Q1CY20 (BMW target +12%, Mercedes +5%, Porsche +7-8% and JLR +20%). OEMs are supporting dealers by extending interest-free credit periods (from 30 days to 60-90 days), releasing pending payments and offering special bonuses/gratuities to sales staff.

JLR's performance on an uptrend in China: Gross profit (GP) margin netted by Yongda from the JLR brand improved from -1% in 2018 to +1.3% in 2019 and is likely to further improve in 2020. Given JLR's average ASP in the range of RMB 600-700k, its GP margins can rise to 4-5% in the medium term. However, Yongda's management flagged off the need to raise quality standards of vehicles manufactured at the CJLR facility. Recent launches of the 'New Evoque' and 'XEL' in China and the 'New Defender' planned for H2CY20 are expected to support JLR's 20% volume growth target for the year.

Strong long-term outlook for luxury vehicles in China: China's luxury vehicle penetration has risen from 10% in 2015 to ~15% in 2019. While overall market growth for passenger vehicles may come off after several years of strong sales, Yongda expects a steady increase in luxury vehicle penetration.

EV market yet to gain traction: The Chinese government is extending subsidies for EV vehicles but luxury car buyers are holding back purchases due to a lack of options from established luxury carmakers and the fact that supporting infrastructure still appears inadequate.



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