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

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### Listing particulars:

Listing Statistics	3836
Issuer	China Harmony Auto Holding Limited
Industry/Sector	Luxury car dealer
Listing exchange	Mainboard
Major shareholders	Feng Changge - 63.87% (post IPO)
Total shares outstanding (m)	1075.1
Issue price (HK\$)	6.08-8.88
Total share offer size (m shares)	275.1
Total share offer size (HK\$ m)	1672.77 - 2443.12
Shares offered for placement (m shares)	247.6
Shares offered for IPO (m shares)	27.5
Market cap. (HK\$ m)	6537 - 9547
Unaudited pro forma adjusted NTA (HKD)	2.1 - 2.77
Earnings: FY13 (Rmb m)	-
Prospective FY13 PE (x)	-
Board lot (share)	500
IPO open	31-May-13
IPO close	5-Jun-13
Expected price determination date	6-Jun-13
Results announcement	11-Jun-13
Cheques refunded	11-Jun-13
Dealing commence	13-Jun-13
Sole Global Coordinator, sponsor	Goldman Sachs
Bookrunner & Lead manager	Goldman Sachs, CICC
Cornerstone investors	Anhui Investment Group (USD50m)

Source: IPO prospectus; Media reports

**Company background.** China Harmony Auto Holding Limited (CHA) was founded by Feng Changge who is also the controlling shareholder of Hexie Industrial Group, a privately owned group headquartered in Zhengzhou, Henan, with business interests focusing on branded and luxury lifestyle goods and services, including property development and golf courses.

**Main business.** CHA is a dealership group that deals exclusively in luxury and ultra-luxury passenger vehicles in China in terms of number of outlets and brand coverage. The company operates 25 outlets nationwide and holds minority equity interests in two other outlets, the second most among dealerships that specialise exclusively in luxury and ultra-luxury brands in China.

CHA's outlet in operation covered 10 luxury and ultra-luxury brands, namely BMW, Lexus, Rolls-Royce, MINI, Land Rover, Jaguar, Aston Martin, Audi, Ferrari and Maserati, the most among dealerships that specialise in luxury and ultra-luxury brands in China.

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The company commands authorizations, preliminary approvals or letters of intent to establish 20 outlets, among which 14 have entered into construction phase.

### Outlet Operations by Brands

	As of December 31,			As of the Latest Practicable Date
	2010	2011	2012	
BMW . . . . .	4	7	13	14
Rolls-Royce . . . . .	nil	nil	2	2
Lexus . . . . .	1	1	2	3
MINI . . . . .	1	1	1	2
Aston Martin . . . . .	nil	nil	2	2
Land Rover & Jaguar . . . . .	nil	nil	1	1
Maserati & Ferrari . . . . .	nil	nil	1	1
<b>Total . . . . .</b>	<b>6</b>	<b>9</b>	<b>22</b>	<b>25</b>

Source: Prospectus

**Market share.** CHA's market share in the luxury and ultra-luxury market in Central China Region was 9.7% in 2012, the largest in the region. In 2012, the company was the second largest in terms of revenue among dealerships that specialize in luxury and ultra-luxury brands in China.

**CHA's services.** CHA sell new luxury and ultra-luxury passenger vehicles to its customers in its outlets. In addition, it provides customers services related to purchases of new passenger vehicles, such as financing and insurance consulting services and sales of pre-owned passenger vehicles traded in for new passenger vehicles.

CHA also provides after-sales services to its customers in its 4S/5S stores and service centers. The after-sales services we provided include (i) repair and maintenance services, which include repair of parts, drive-train mechanism and post-collision body restoration; and (ii) sales of spare parts in connection with the repair services and other brand merchandises and accessories.

### Revenue Mix

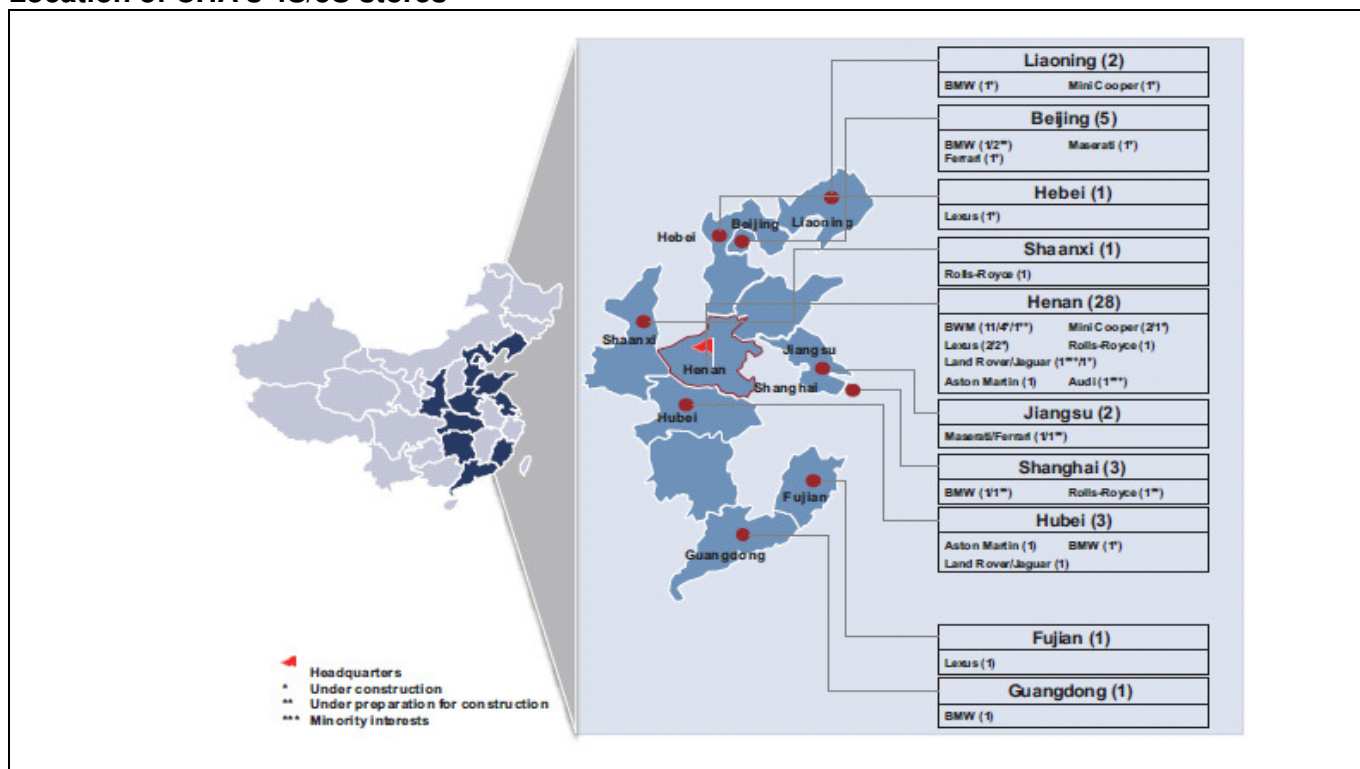
	Year ended December 31,								
	2010			2011			2012		
	(RMB'000)	(%)	Gross profit margin (%)	(RMB'000)	(%)	Gross profit margin (%)	(RMB'000)	(%)	Gross profit margin (%)
Sales of new passenger vehicles . . .	1,616,681	89.7	9.8	2,752,772	90.8	11.4	5,244,449	92.7	9.2
After-sales services . . . . .	184,677	10.3	39.6	279,084	9.2	37.6	412,295	7.3	44.0
<b>Total revenues . . . . .</b>	<b>1,801,358</b>	<b>100</b>	<b>12.8</b>	<b>3,031,856</b>	<b>100</b>	<b>13.8</b>	<b>5,656,744</b>	<b>100</b>	<b>11.7</b>

Source: Prospectus

**Sales network.** CHA commenced business in 2005. Between 2005 and 2010, the number of outlets it operated grew to 6, covering three brands. It has expanded rapidly since the beginning of 2012, and the number of outlets it operated grew to 25 currently.

CHA headquartered in Henan Province, China and all of its outlets are located in Henan Province until Nov11, when it opened a BMW 4S store in Beijing. Currently, 17 of the 25 outlets it operates are located in Henan.

## Location of CHA's 4S/5S stores



Source: Prospectus

## Financials

(Rmb m)	Dec-10	Dec-11	Dec-12
Revenue	1801.4	3031.9	5656.7
Cost of sales and services provided	-1570.0	-2614.4	-4993.3
GP	231.4	417.5	663.4
Other income and gains, net	10.2	25.4	88.9
Interest income from the controlling shareholder	13.4	53.5	147.7
Selling and distribution costs	-64.5	-106.7	-237.0
Administrative expenses	-18.7	-30.3	-71.6
Profit from operations	171.8	359.3	591.5
Finance costs	-20.0	-61.9	-116.4
Share of loss/profit of an associate	0.0	0.0	0.2
PBT	151.9	297.4	475.3
Tax	-39.2	-77.0	-124.6
Profit for the year	112.7	220.4	350.7
GPM	12.8%	13.8%	11.7%
OPM	9.5%	11.9%	10.5%
NPM	6.3%	7.3%	6.2%

Source: Prospectus, VC Research

## Use of proceeds

- ~60% for opening new outlets.
- ~20% for financing network expansion through acquisitions if suitable opportunities arise
- ~10% for financing the upgrades or expansion of existing outlets
- ~10% for funding general working capital.

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**STRONG BUY** (>20% total return over the next three months)

**BUY** (>15% total return over the next 12 months)

**HOLD** (0-15% total return over the next 12 months)

**SELL** (negative total return over the next 12 months)

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