China Automotive Distribution Industry Research and Forecast Report, 2013

Jan. 2013

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STUDY GOAL AND OBJECTIVES

This report provides the industry executives with strategically significant competitor information, analysis, insight and projection on the competitive pattern and key companies in the industry, crucial to the development and implementation of effective business, marketing and R&D programs.

REPORT OBJECTIVES

- To establish a comprehensive, factual, annually updated and cost-effective information base on market size, competition patterns, market segments, goals and strategies of the leading players in the market, reviews and forecasts.
- To assist potential market entrants in evaluating prospective acquisition and joint venture candidates.
- To complement the organizations' internal competitor information gathering efforts with strategic analysis, data interpretation and insight.
- To suggest for concerned investors in line with the current development of this industry as well as the development tendency.
- To help company to succeed in a competitive market, and

METHODOLOGY

Both primary and secondary research methodologies were used in preparing this study. Initially, a comprehensive and exhaustive search of the literature on this industry was conducted. These sources included related books and journals, trade literature, marketing literature, other product/promotional literature, annual reports, security analyst reports, and other publications. Subsequently, telephone interviews or email correspondence was conducted with marketing executives etc. Other sources included related magazines, academics, and consulting companies.

INFORMATION SOURCES

The primary information sources include China Association of Automotive Manufactures, China Customs, and National Bureau of Statistics of China etc.

Abstract

In the wake of declined automotive sales, the construction speed of auto dealers' 4S stores also slowed down somewhat in China in 2012. In 2012, the number of additional 4S stores in China registered 2000-plus, and the total number approximated 20,000. Among the listed dealers, Pangda Automobile Trade boasts the most 4S stores, with the number hitting 771, far higher than that of other peers.

Due to slowdown of new vehicle sales market and the amounting pressure of inventory, the dealers successively rendered price reduction as the main promotion means, which caused the drop in profitability of many dealers in 2012. Meanwhile, the fall of gross margin also indicates that the new vehicle sales business has been gradually into the era of meager profit.

In contrast to the depressed new vehicle sales market, the automotive after-sale service and used car sales business presented greater development potential.

After-sale market

At present, the after-sale market has become the main profit origin of auto dealers, and its gross margin is much higher than that of new vehicle sales business. For instance, the gross margin of Pangda Automobile Trade's new vehicle sales business was 7.28% in H1 2012, while that of its after-sale market reached as high as 34.26% in the corresponding period; Yongda Auto's new vehicle sales business showed a gross margin of 5.24% in H1 2012, while that of its after-sale business was high up to 43.58%.

Gross Margin of Major Auto Dealers in China, 2011-2012

	2011	2012H1
Shenzhen Tellus	16.87%	16.56%
Grand Orient	14.02%	14.28%
Pangda Automobile Trade	11.47%	11.05%
Zhangzhou Development	11.26%	9.82%
Dah Chong Hong	11.20%	11.83%
Zhongsheng Holdings	10.30%	9.00%
Lentuo Group	10.30%	-
Zhengtong Auto	9.60%	8.70%
Yaxia Auto	8.39%	7.69%
Yongda Auto	7.88%	9.26%
Zhongda Yuantong	7.71%	8.57%
Sinomach Automobile	2.97%	2.34%

Source: ResearchInChina

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At present, the revenue from after-sale service of automobile dealers in China only accounts for 10% or so of new vehicle sales, and the gross margin is roughly 80% of that of new vehicle sales, while the above proportions respectively approximate 30% and 320% in the United States. Referring to overseas experience, the after-sale service will become the most important profit source of auto dealers in China in the future.

Used car market

The trading volume of used cars in China amounted to 2.658 million units in 2007, and climbed to 4.817 million units in 2012, with an AAGR of 12.63%. In 2011 and 2012, the growth rates of used car trade volume in China hit 12.41% and 11.24% separately, much higher than that of new vehicle sales market.

At present, many well-known auto dealers have launched the used car business, and in particular, Zhongda Yuantong has traded nearly 30,000 used cars in the first nine months of 2012, including 5,354 self-operated used cars, rising 9.9% year-on-year. Besides, other dealers like Pangda Automobile Trade, Sinomach Automobile, Dah Chong Hong, Zhongda Yuantong, Yongda Auto, Lentuo Group and Yaxia Auto all possess used car business.

In July 2012, the Ministry of Commerce of the People's Republic of China issued the Criterion for Appraisal and Evaluation of Used Car (Exposure Draft). It is predicted that the Criterion will be officially issued in H1 2013, and the most crucial evaluation of used car market is expected to be regulated, which will positively bolster the disciplined development of used car market.

The report highlights the followings:

- Automobile distribution models, development features of various models, etc. in China;
- Progression of auto dealers in China, like quantity, profitability and development features, etc.;
- Development of various automobile distribution businesses in China, including the distribution modes, characteristics and development prospects of diversified businesses such as new vehicle, used car, vehicle maintenance, automotive financing and insurance;
- Operation, profitability, business development, 4S distribution network and expansion, etc. of 12 listed automobile dealers in China.

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