



Date initiated: 07.06.2021

Cango is a fast-growing car lending company, undervalued by P/annualized earnings and P/B multiples relative to the industry, and has a stake in the promising hybrid car manufacturer Li Auto.



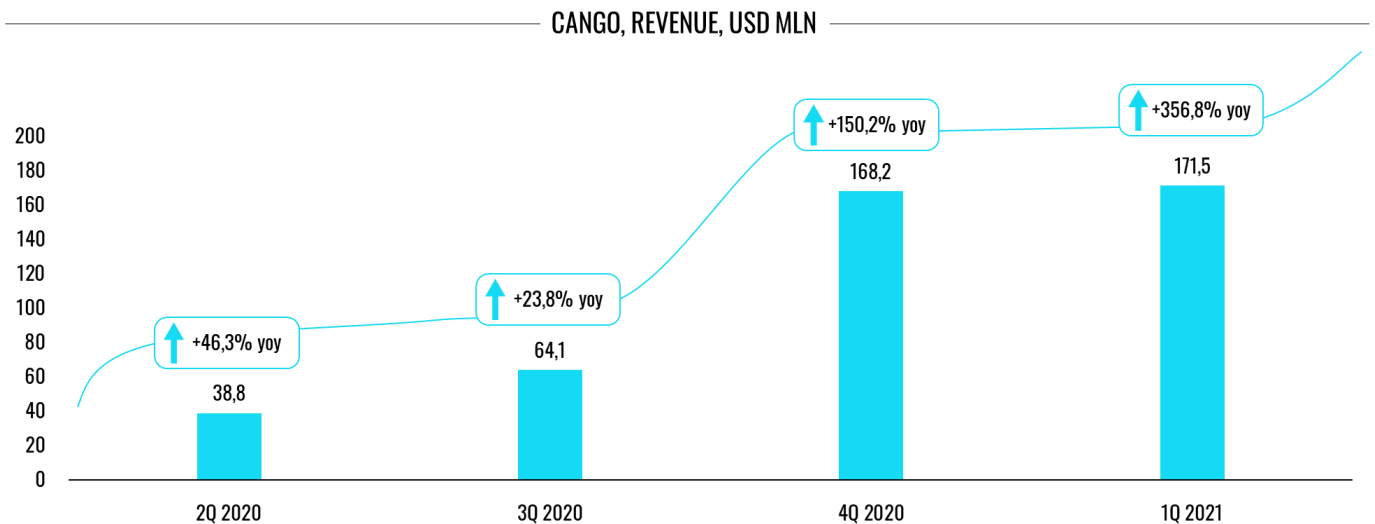
*Key business areas and opportunities of the company's digital platform. Source: Cango 4Q 2020 Investor Presentation*

Cango provides credit solutions for the purchase of autos and has a digital trading platform for dealers.

From the point of view of lending, Cango enters into contracts with dealers on the one hand, and with banks on the other, that is, it works mainly on the “asset-light” business model.

The company also owns a stake in Li Auto, the manufacturer of the Li Xiang One hybrid car (PHEV), with an eye on fully-electric models in the future.

1. In the last two quarters, the company has demonstrated record revenue growth:

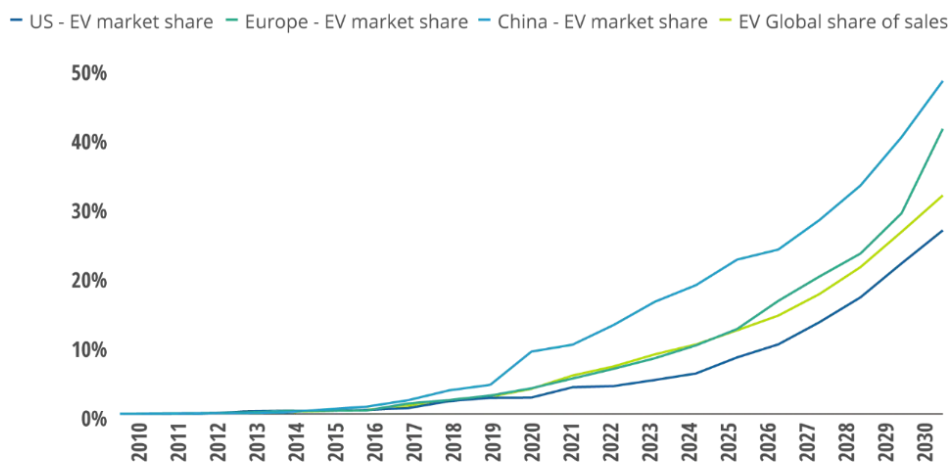


Thus, in the first quarter of 2021, the company showed excellent revenue growth of +356.8% (!) with an acceleration compared to the previous quarter and an average historical growth rate of +37%. This growth was mainly due to an increase in the volume of car sales financing transactions in the first quarter of 2021 – the main focus of the company's business.

2. Growth prospects: expansion of the electric vehicle and car loan markets, an increase in the market share of Li Auto and the release of new models, company's direct benefit from the zero-emissions program of the Chinese government.

a) The trend to replace "dirty" vehicles with EV-the expansion of the electric car market in China and the world. Let's repeat the Deloitte forecast from our previous review of the X Peng:

### Outlook for EV market share by major region

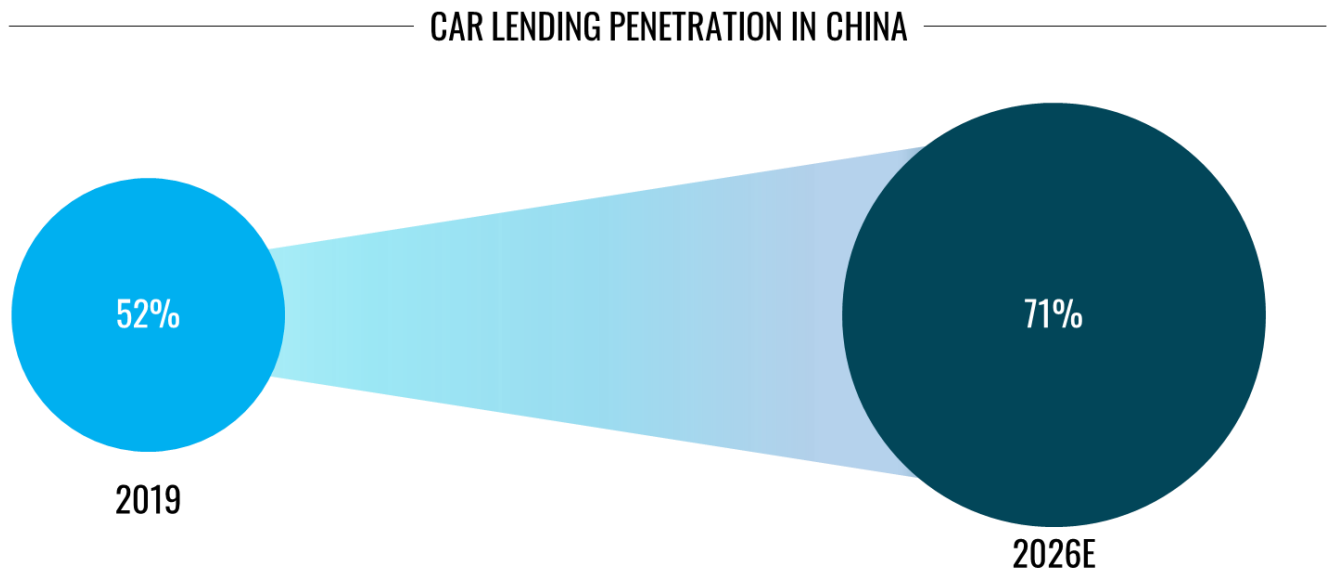


Source: Deloitte analysis, IHS Markit, EV-Volumes.com<sup>17</sup>

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Thus, by 2025, electric cars are expected to occupy 20% of the entire market in China, and increase penetration to 50% by 2030.

b) Car lending market growth in China:

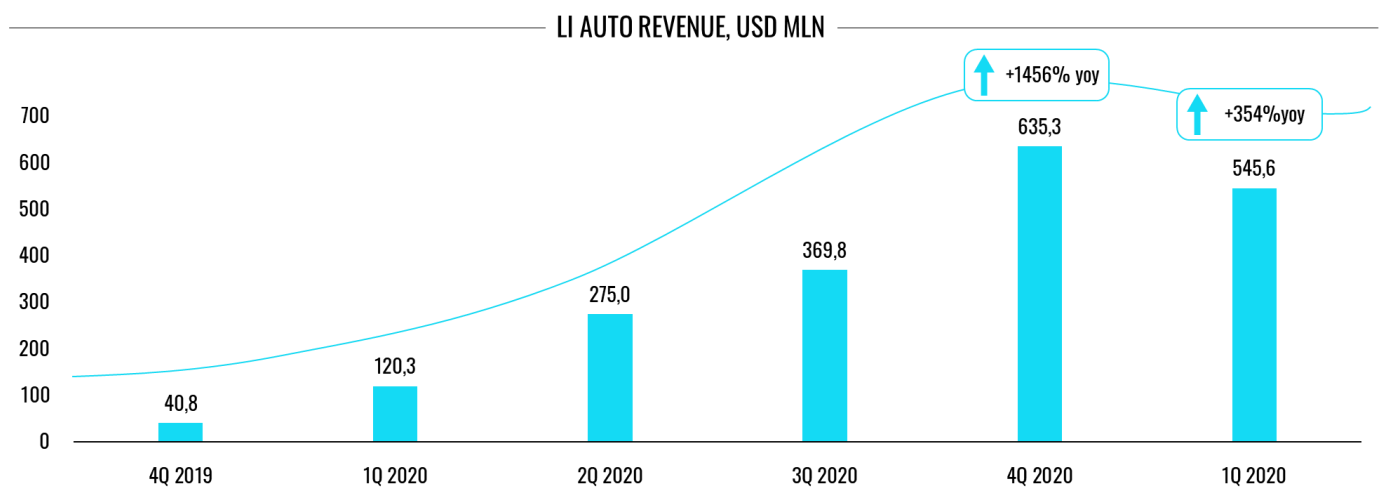


SOURCE: CHINA AUTOMOTIVE FINANCE INDUSTRY REPORT, 2020-2026

According to the company's Q4 2020 presentation, the penetration of credit products in car purchases is expected to increase to 60% by the end of 2021. [According to another source](#), auto lending penetration was 48% in China in 2018 and 52% in 2019, which proves the company's estimations.

At the same time, this is still less than 70% - the global average. By 2026, growth is expected to reach 71%, thanks to political incentives and changes in Chinese consumer habits.

c) Li Auto's value revelation. The company shows very strong revenue growth in recent quarters:



Li Auto's revenue is growing thanks to an increase in the number of Li One cars sold. For instance, in May 2021, the company reported an increase in deliveries of 101% YoY. For reference, supply growth in April 2021: +111.3% YoY, in March 2021: +238.6% YoY.

Cango holds \$256 million worth of Li Auto shares on its balance sheet, representing 1.3% of its capitalization. Like many other electric car manufacturers, Li Auto's capitalization has declined significantly in recent months:

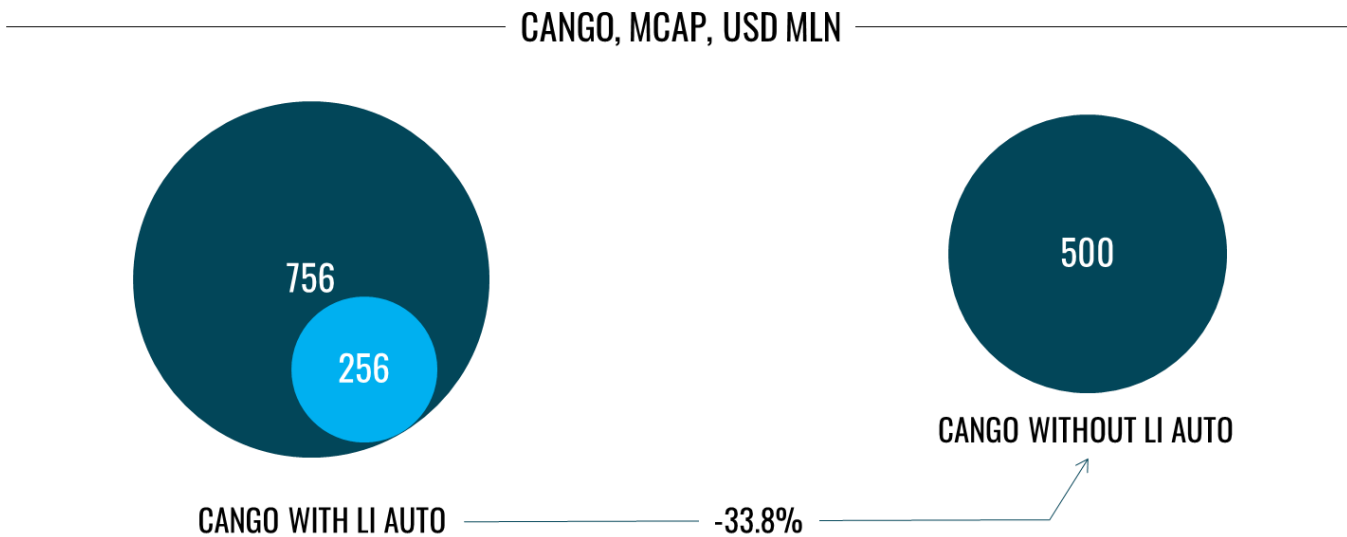


However recently, there has been a recovery – if this trend continues, it is expected to have a positive effect on Cango's revenue in the subsequent quarters in 2021.

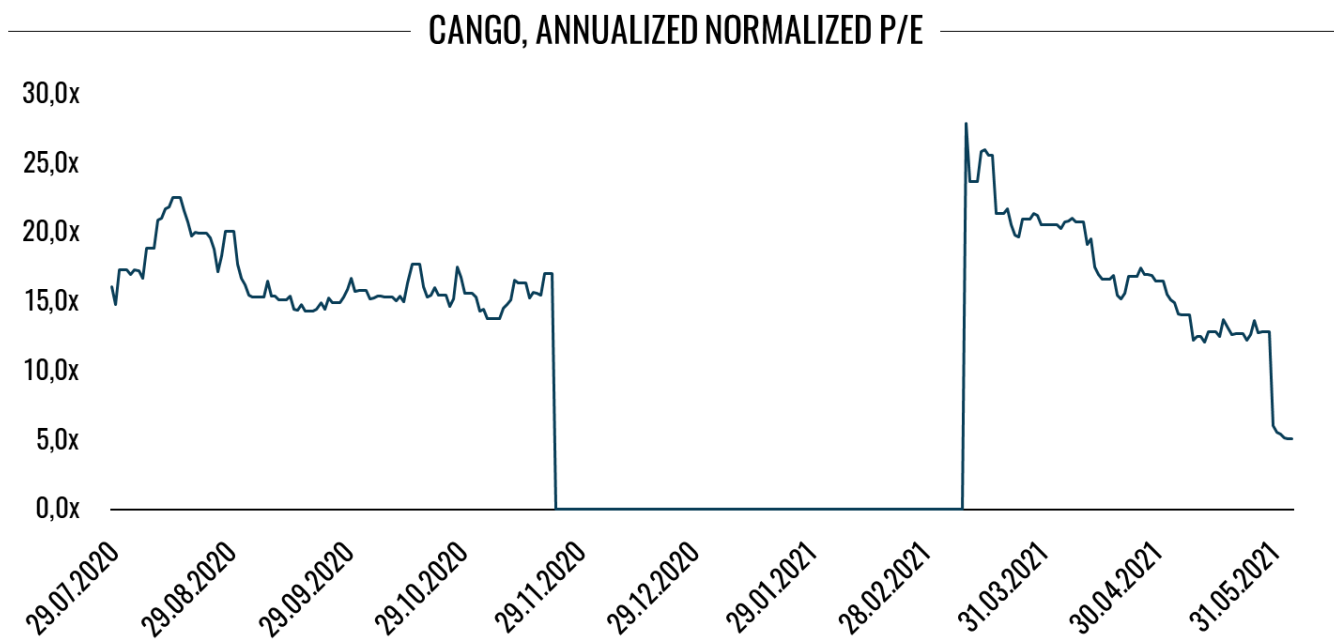
d) The trend for political decisions in favor of electric cars-again a repetition of the thesis from the note on X Peng. In China, this is expressed in the form of financial assistance for the purchase of electric vehicles and government support for EV manufacturers ([source](#)).

This quite nicely couples with another important fact: China has [introduced the mandate](#) for auto manufacturers, requiring electric vehicles to account for 40% of all sales by 2030.

3. Undervaluation. the company has a capitalization of \$756 million, including the Li Auto package, worth \$256 million:

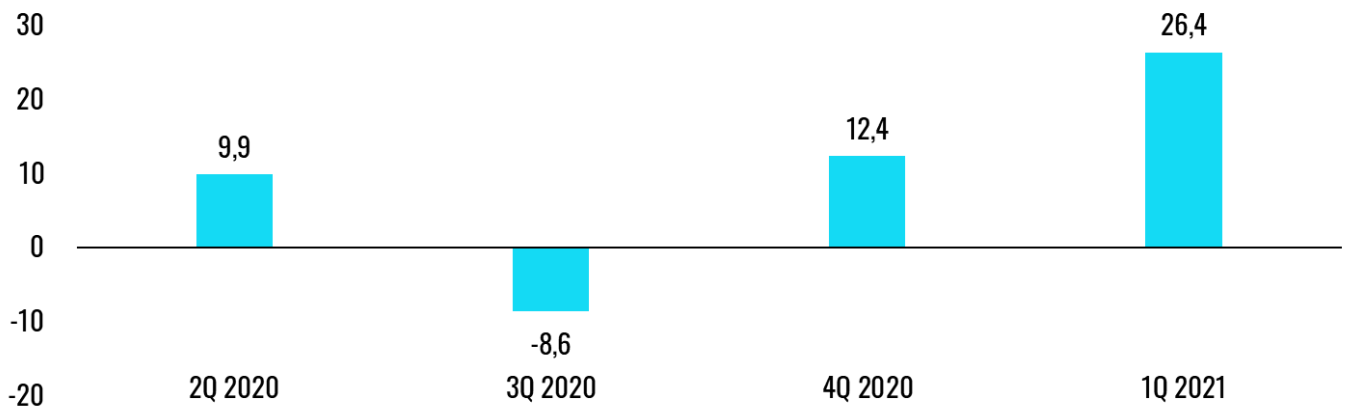


After deducting it, the company is only worth 5.2x by the P/Annualized Normalized Earnings multiple:



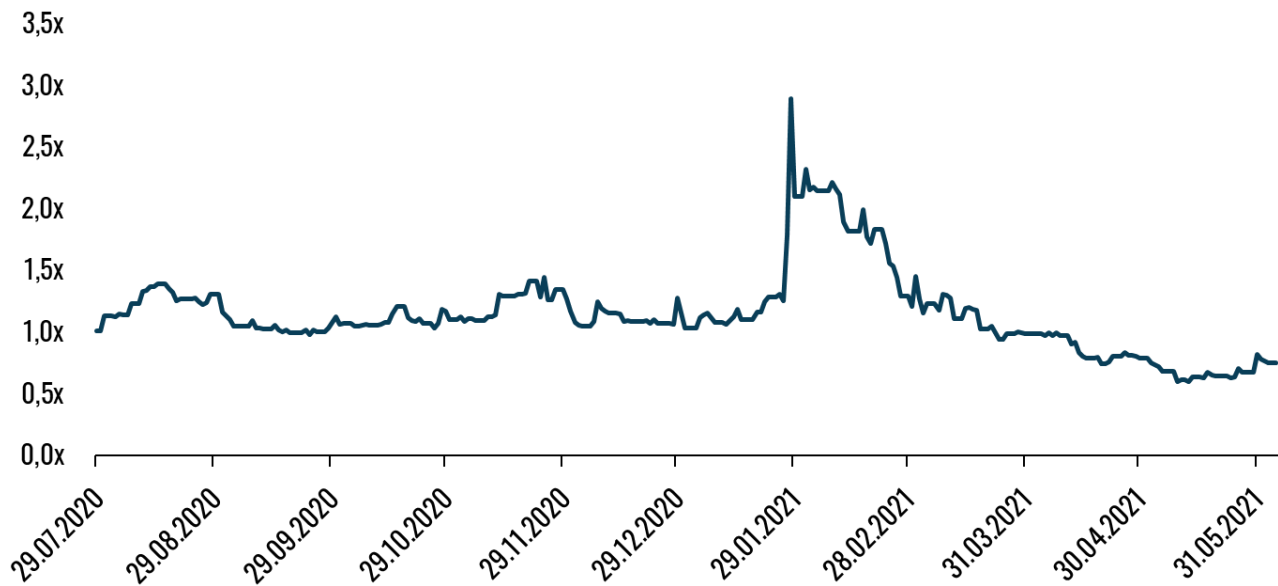
At the same time, the profit, cleared from the paper revaluation of the share in Li Auto, is growing well:

CANGO, NORMALIZED NET INCOME, USD MLN



Additionally, the company is only worth 0.8x by the P/Book multiple:

CANGO, P/B



These estimates look much more interesting than those of other companies in the industry:

### CANGO VS COMPS

Ticker	Company	Mcap, usd mln	Most recent quarter revenue growth, %	P/E Ann.	P/B
CANG	Cango	811	+356.8%	5.2x	0.8x
QFIN	360 DigiTech	6 174	+13.1%	2.6x	3.2x
LX	LexinFintech	1 210	+9.8%	5.9x	2.3x
QD	Qudian	400	-58.9%	1.1x	0.3x
C	Citi	132450	-8%	10.3x	0.9x
WFC	Wells Fargo	134410	-29.3%	19.5x	1.2x
BAC	Bank of America	287290	-13.3%	16.2x	1.5x
Average	n / a	n / a	+38.6%	8.7x	1.5x

4. Local correction of shares, which gives a safe opportunity to buy: today the company's shares are at local lows, including due to weak reporting for the 1st quarter in which the company recorded a large paper one-off loss from the revaluation of Li Auto, which (together with a decrease in the value of Li Auto) may have resulted in a drop in the share price of Cango:

### CANGO SHARE PRICE

Cango Inc - ADR

5.34 USD

+0.090 (1.71%) ↑

Jun 7, 15:47 EDT · Disclaimer

NYSE: CANG

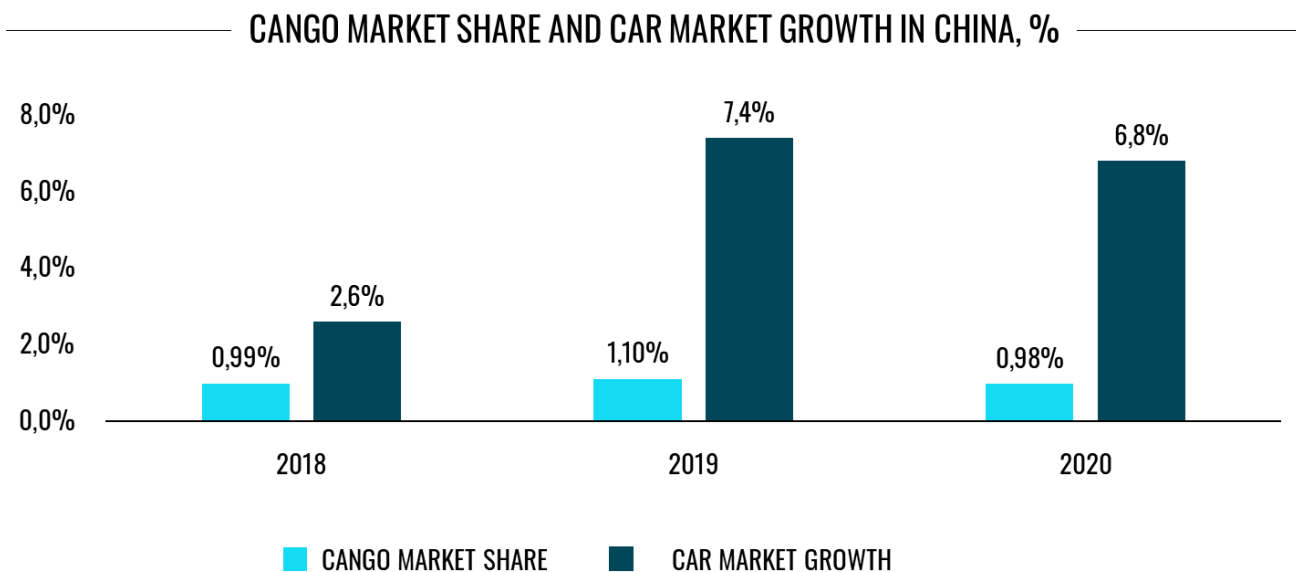
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1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



5. Further rate increases as the main risk: although this is not predetermined and different persons in the FED and macroeconomists declare different options for future US monetary policy, in the event of a scenario when the key rate increases, the share price of both Li Auto and Cango may decrease.

Also, the company's share showed a decrease in market share in 2020 by almost 11%:



This is partially offset by the overall increase in car sales, but if this trend continues, the company's revenue may not show further rapid growth.

Despite this, we consider Cango an attractive investment with long-term growth potential and have added it to the Trending Ideas portfolio.

Best regards,

Enhanced Investments Team