

# China Construction Machinery / HDT

## Favourable policy shift; Defensive growth amid volatile market; Upgrade SANY Heavy & Sinotruk

While the market is surrounded by uncertainties arising from regulatory risk, we believe the Construction Machinery & Heavy-duty truck (HDT) sector offers excellent defensive growth opportunity. From the national interest perspective, construction machinery is an industry well-supported by the Chinese government, as it serves the strategic goal of gaining market share across the globe. On the other hand, the politburo meeting held in late Jul delivered a clear message regarding the speed-up of the issuance of local government bonds and the construction of infrastructure projects. We believe this implies a key turning point to the machinery and HDT demand. We upgrade the Construction Machinery & HDT sector to **OUTPERFORM** from Market Perform.

- **Local government bond issuance to speed up in 2H21E.** Early this year, the Chinese government set a target to issue RMB3.65tn of local government special bond in 2021 (similar to the RMB3.75tn in 2020). In 1H21, the issued special bond (gross) amounted to only RMB1.73tn (-27% YoY). Assuming the gross issuance amount by end-2021E will reach the level of that in 2020 (RMB4.14tn), the gross issuance in 2H21E will need to increase 36% YoY. This will offer strong support to the construction machinery and HDT demand.
- **Excavator: Sales volume forecast revised up.** We revise up our excavator sales forecast in 2021E/22E both by 4% to 380k/342k units, to reflect the favourable macro policy change and better-than-expected export. Our new volume growth forecast in 2021E implies +16% YoY.
- **HDT: sluggish sales well anticipated.** The implementation of NES VI starting from Jul has triggered the front-loaded demand in 1H21. We believe the sales volume in Jul (-50% YoY) provides an important indication about the impact of NES upgrade. While the sales volume will likely remain sluggish in Aug (as it takes time to digest the NES V trucks inventory in the channel), we believe market will put the focus on the seasonal recovery in 4Q21E.
- **Upgrade SANY Heavy (600031 CH) & Sinotruk (3808 HK) to BUY from Hold.** For SANY Heavy, trading at 13x 2021E P/E versus net profit growth of 23%/11% in 2021E/22E, we see good risk/reward profile. Sinotruk is a deep value play with 1.1x 2021E EV/EBITDA. Meanwhile, we reiterate **BUY** on **Weichai Power (2338 HK / 000338 CH)**, **Zoomlion (1157 HK / 000157 CH)** and **SANY International (631 HK)**.

### Change in recommendation and TP

Company Ticker	SANY Heavy 600031 CH	Hengli 601100 CH	Sinotruk 3808 HK
Rating			
New	BUY	HOLD	BUY
Old	HOLD	HOLD	HOLD
Currency	RMB	RMB	HK\$
Current price	29.95	111.98	16.4
TP			
New	38.0	103.0	19.5
Old	31.0	83.0	19.5
Upside	27%	-8%	19%

Source: CMBIS estimates

**OUTPERFORM**  
(Up)

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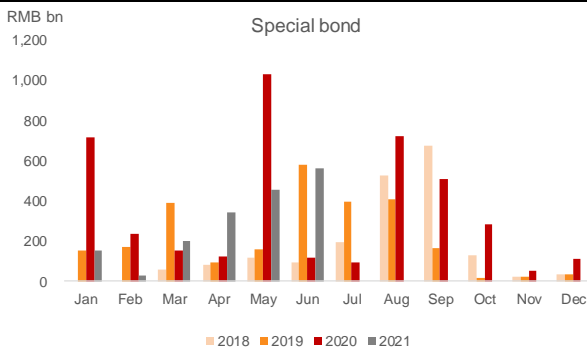
## Policy shifting to support to local government bond issuance and infrastructure project

We believe the Politburo meeting held on 30 Jul delivered a clear message to boost infrastructure in 2H21E and early 2022E:

- (1) To “speed-up” the construction of major projects during the 14th FYP (加快推进“十四五”规划重大工程项目建设);
- (2) To maintain a reasonable progress of local government bond issuance according to the budget, in order to achieve tangible results by the year end and early next year (合理把握预算内投资和地方政府债券发行进度, 推动今年底明年初形成实物工作量);
- (3) To ensure adequate supply of commodity to stabilize pricing (“大宗商品保供稳价”)

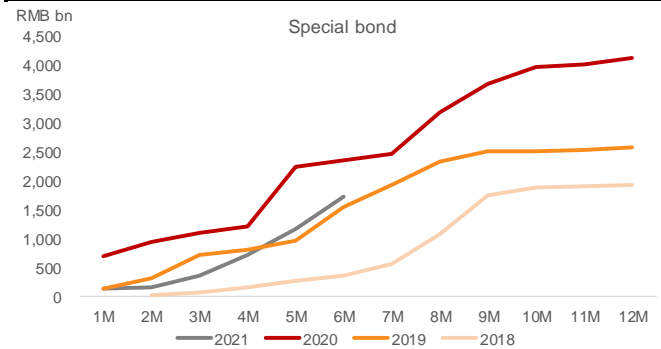
Early this year, the Chinese government set a target to issue RMB3.65tn of local government special bond in 2021 (versus RMB3.75tn / RMB2.15tn in 2020/2019). In 1H21, the issued special bond (gross) amounted to only RMB1.73tn (-27% YoY). **Assuming the gross issuance amount by end-2021E will reach the level of that in 2020 (RMB4.14tn), the gross issuance in 2H21E will need to increase 36% YoY.** This will offer strong support to the construction machinery and HDT demand.

**Figure 1: Local gov't special bond issue amount (monthly)**



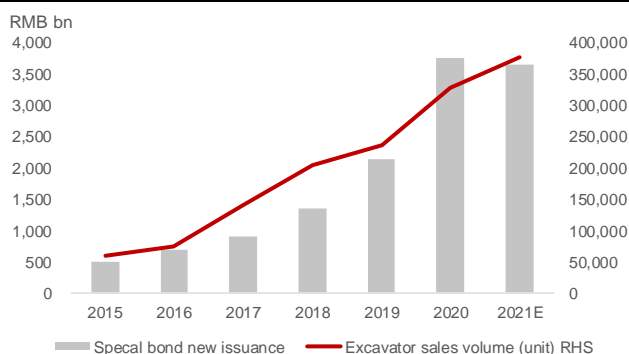
Source: Ministry of Finance, CMBIS

**Figure 2: Local gov't special bond issue amount (YTD)**



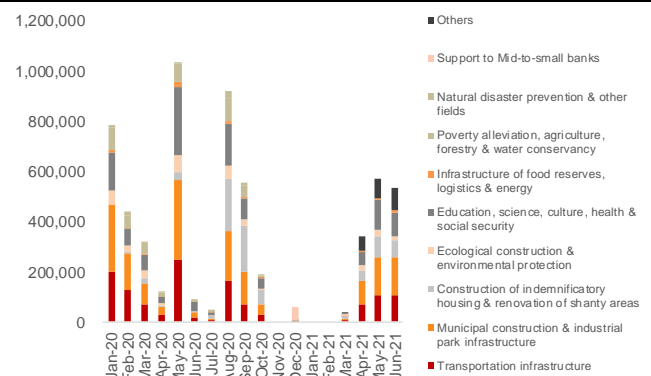
Source: Ministry of Finance, CMBIS

**Figure 3: Local gov't special bond new issuance vs excavator sales volume**



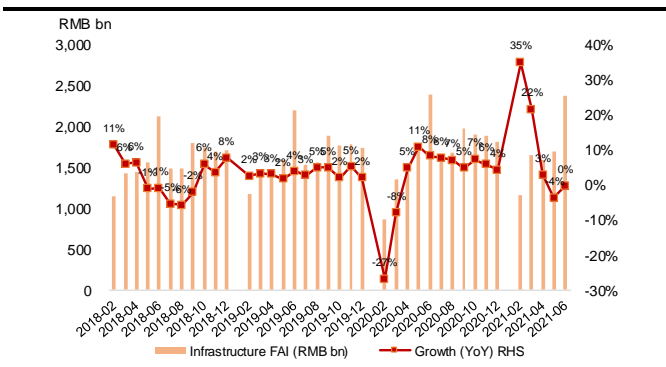
Source: Ministry of Finance, CCMA, CMBIS

**Figure 4: Investment targets of the newly issued local gov't bonds**



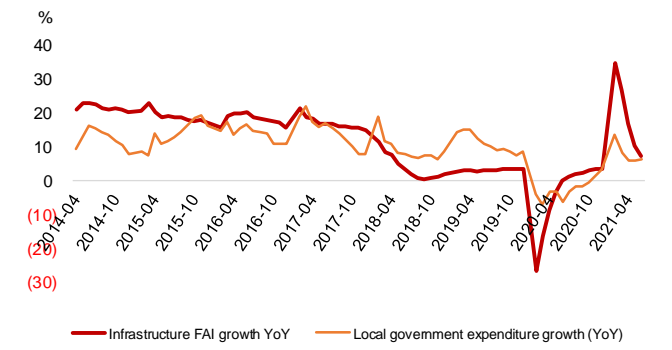
Note: There were no newly issued bonds in Nov 20 and Jan-Feb 21.  
Source: Ministry of Finance, CMBIS

**Figure 5: China infrastructure FAI**



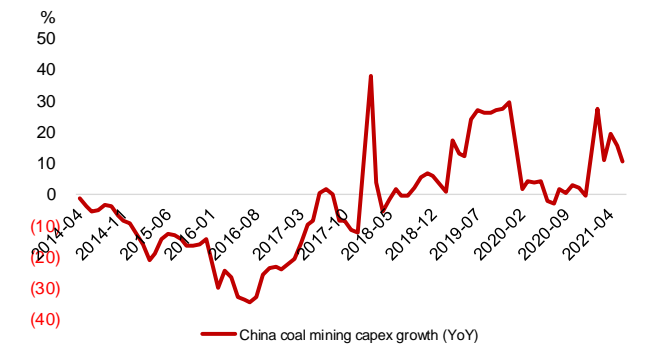
Source: Wind, NBS, CMBIS

**Figure 6: Infrastructure FAI growth vs local government expenditure growth (YTD)**



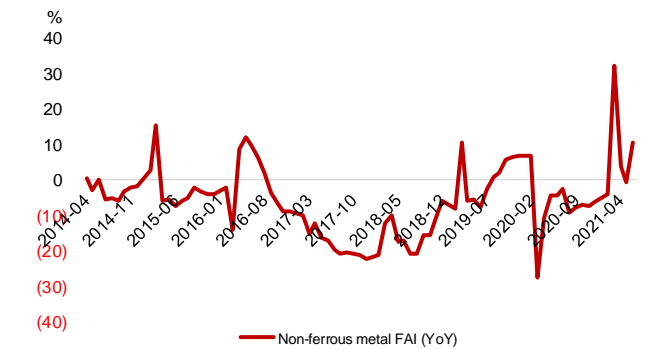
Source: Wind, NBS, Ministry of Finance, CMBIS

**Figure 7: China coal mining FAI (YTD)**



Source: Wind, NBS, CMBIS

**Figure 8: China non-ferrous metal FAI**



Source: Wind, NBS, CMBIS

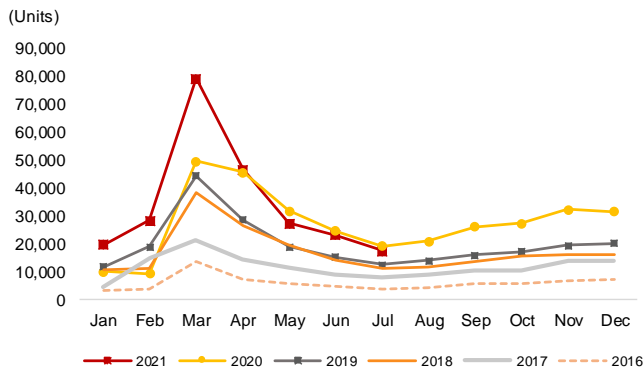
**Excavator: Sales forecast revised up**

According to CCMA, the sales volume excavator by 26 major producers in Jul dropped 9% YoY to 17.3k units (7M21: +31% YoY). This is the third consecutive month that excavator sales reporting YoY decline. While we expect the weak sales will continue in the coming 1-2 months, we expect the speed-up of local government bonds will boost the excavator demand in 4Q21E.

On the other hand, the export of excavator has continued to exceed our expectations. In 7M21, export volume surged 102% YoY, which partially offset the weak domestic sales.

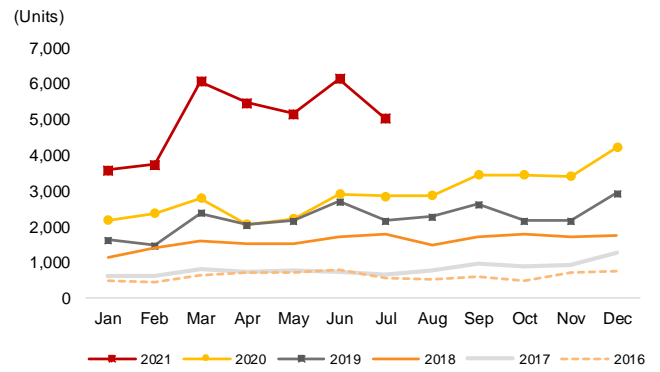
We revise up our excavator sales forecast in 2021E/22E both by 4% to 380k/342k units, to reflect the favourable macro policy change and better-than-expected export. Our new volume growth forecast in 2021E/22E implies +16%/-10% YoY.

**Figure 9: Monthly excavator sales (by major OEM)**



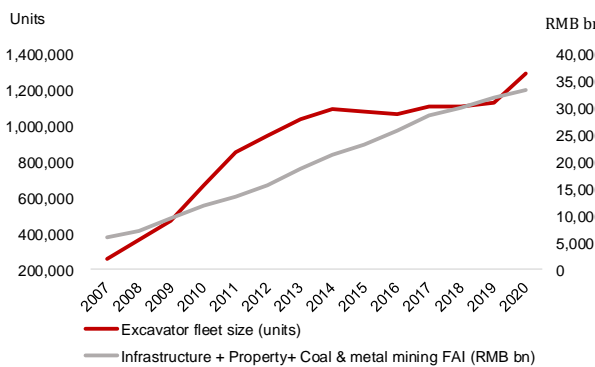
Note: Including sales in China and export  
Source: CCMA, CMBIS

**Figure 10: Excavator export surged 102% in 7M21**



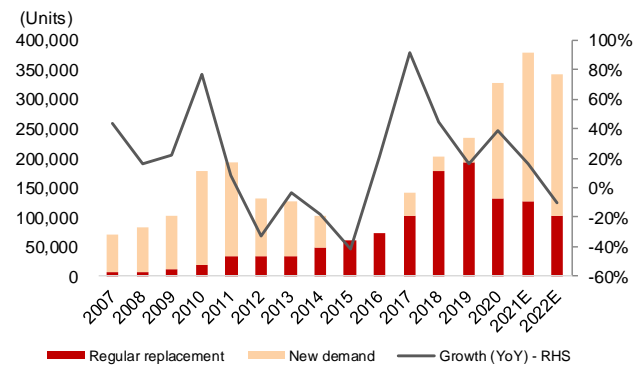
Source: CCMA, CMBIS

**Figure 11: Excavator fleet size versus construction related FAI**



Source: CCMA, Wind, CMBIS

**Figure 12: CMBIS excavator sales projection**



Source: CCMA, CMBIS estimates

**Figure 13: Change in construction machinery industry sales assumptions**

	Old		New		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
<b>Sales volume (unit)</b>						
<b>Earth moving machinery</b>						
Excavator	366,918	330,226	380,022	342,020	4%	4%
Wheel loader	144,294	137,079	146,917	139,571	2%	2%
<b>Crane</b>						
Truck crane	59,594	60,785	60,677	61,891	2%	2%
Tower crane	57,500	60,375	57,500	60,375	0%	0%
<b>Concrete machinery</b>						
Concrete mixer truck	121,029	133,132	121,029	133,132	0%	0%
Concrete pump truck	14,300	16,445	14,300	16,445	0%	0%
	Old		New		(ppt)	
	2021E	2022E	2021E	2022E	2021E	2022E
<b>Sales volume growth (YoY)</b>						
<b>Earth moving machinery</b>						
Excavator	12%	-10%	16%	-10%	4.0	0.0
Wheel loader	10%	-5%	12%	-5%	2.0	0.0
<b>Crane</b>						
Truck crane	10%	2%	12%	2%	2.0	0.0
Tower crane	15%	5%	15%	5%	0.0	0.0
<b>Concrete machinery</b>						
Concrete mixer truck	15%	10%	15%	10%	0.0	0.0
Concrete pump truck	20%	15%	20%	15%	0.0	0.0

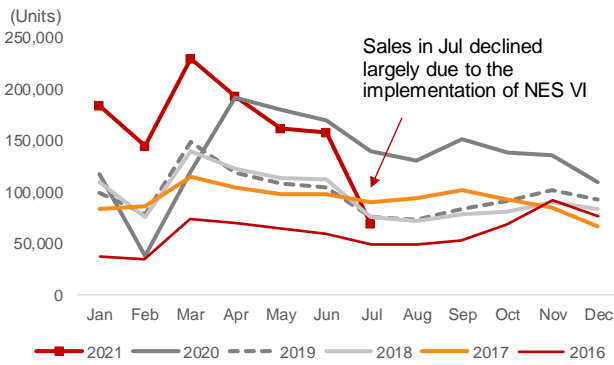
Source: CMBIS estimates

## HDT: Negative largely priced in

The implementation of NES VI in Jul has triggered the front-loaded demand as HDT manufacturers continued to boost the sales of NES V trucks which will be prohibited starting Jul. This results in a 50% YoY decline of HDT sales volume in Jul.

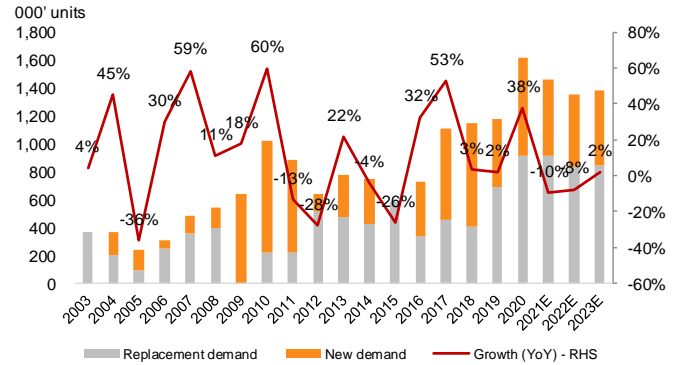
We believe the Jul data is critical as it provides an important indication about the impact of NES upgrade. While the sales volume will likely remain sluggish in Aug (as it takes time to digest the NES V trucks inventory in the distribution channel), we believe market will put the focus on the seasonal recovery in 4Q21E. We maintain our full year HDT forecast of 1.46mn units (-10% YoY).

Figure 14: China HDT monthly sales



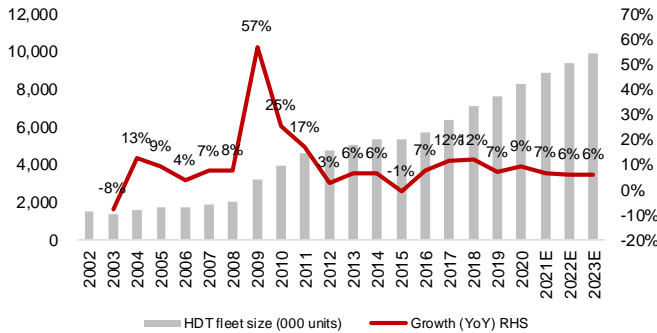
Source: Cvworl, CMBIS

Figure 15: CMBIS HDT sales projection



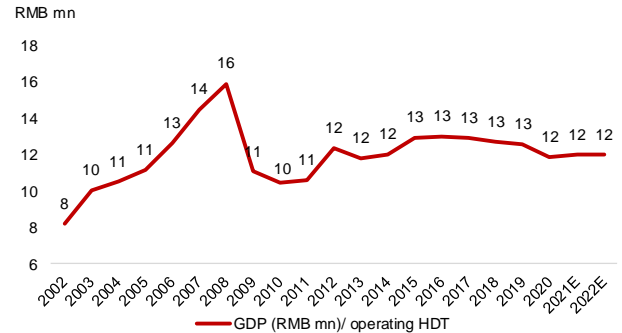
Source: Cvworl, Wind, CMBIS estimates

Figure 16: China HDT fleet size



Source: Wind, CMBIS estimates

Figure 17: GDP per unit of operating HDT



Source: Wind, CMBIS estimates

Figure 18: Timetable for the implementation of NES

		Year																							
		00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Heavy duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Light duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Off road vehicle	Diesel																								

National emission standard: No regulation, I, II, III, IV, V, VI(a), VI(b)

Source: Ministry of Ecology and Environmental, CMBIS

Figure 19: Peers comp table

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US\$ mn)	PE (x)		PB (x)	
							FY21E	FY22E	FY21E	FY22E
<b>HK listed</b>										
631 HK Equity	SANY INTERNATIONAL	BUY	9.28	11.90	28%	3,757	18.7	15.1	2.8	2.5
3339 HK Equity	LONKING	BUY	2.64	4.29	63%	1,454	6.3	6.1	1.0	0.9
1157 HK Equity	ZOOMLION HEAVY-H	BUY	7.49	16.80	124%	10,890	6.7	5.6	1.1	0.9
2338 HK Equity	WEICHAI POWER-H	BUY	19.20	24.50	28%	25,410	11.2	10.6	2.1	1.8
3808 HK Equity	SINOTRUK HK LTD	BUY	16.40	19.50	19%	5,828	5.5	5.9	1.0	0.9
1839 HK Equity	CIMC VEHICLES-H	BUY	6.50	9.20	42%	3,018	7.0	7.3	1.0	0.9
564 HK Equity	ZHENGZHOU COAL-H	NR	8.60	-	-	2,855	7.0	5.0	1.0	0.7
	<b>HK listed average</b>						<b>8.9</b>	<b>8.0</b>	<b>1.4</b>	<b>1.2</b>
<b>A share</b>										
000338 CH Equity	WEICHAI POWER-A	BUY	19.67	20.50	4%	25,384	13.8	13.0	2.5	2.3
601100 CH Equity	JIANGSU HENGLI-A	HOLD	111.98	103.00	-8%	22,553	49.8	44.3	15.4	12.4
603338 CH Equity	ZHEJIANG DINGLI-A	HOLD	61.18	82.00	34%	4,583	31.4	24.9	6.5	5.3
600031 CH Equity	SANY HEAVY-A	BUY	29.95	38.00	27%	39,236	13.3	12.0	3.6	3.0
000157 CH Equity	ZOOMLION HEAVY-A	BUY	8.55	18.70	119%	10,879	9.2	7.7	1.5	1.2
000425 CH Equity	XCMG-A	NR	6.50	-	-	7,856	9.3	8.2	1.3	1.2
000528 CH Equity	GUANGXI LIUGONG-A	NR	7.98	-	-	1,816	7.7	7.2	0.9	0.9
603638 CH Equity	YANTAI EDDIE P	NR	41.75	-	-	5,421	43.7	33.5	11.3	8.8
600761 CH Equity	ANHUI HELI CO-A	NR	10.74	-	-	1,227	9.1	7.8	1.3	1.2
603298 CH Equity	HANGCHA GROUP-A	NR	17.43	-	-	2,330	14.8	12.7	2.5	2.1
000951 CH Equity	CNHTC JINAN T-A	NR	27.85	-	-	3,606	10.5	9.5	1.5	1.4
601717 CH Equity	ZHENGZHOU COAL-A	NR	10.93	-	-	2,852	10.6	7.6	1.5	1.1
600582 CH Equity	TIAN DI-A	NR	4.59	-	-	2,931	11.1	9.7	n/a	n/a
	<b>A-share average</b>						<b>13.9</b>	<b>11.6</b>	<b>2.8</b>	<b>2.3</b>
<b>Overseas</b>										
CAT US Equity	CATERPILLAR INC	NR	208.4	-	-	114,066	20.6	16.9	7.6	7.3
DE US Equity	DEERE & CO	NR	366.9	-	-	114,445	20.4	17.5	8.8	6.9
6305 JP Equity	HITACHI CONST	NR	3,050.0	-	-	5,935	17.1	13.4	1.2	1.1
6301 JP Equity	KOMATSU LTD	NR	2,747.5	-	-	24,179	15.3	12.4	1.3	1.2
042670 KS Equity	DOOSAN INFRACORE	NR	16,700.0	-	-	1,136	3.8	4.0	0.5	0.4
VOLVB SS Equity	VOLVO AB-B	NR	202.4	-	-	47,623	13.2	11.8	3.1	2.9
	<b>Average</b>						<b>15.1</b>	<b>12.7</b>	<b>3.7</b>	<b>3.3</b>
<b>Hydraulic components</b>										
PH US Equity	PARKER HANNIFIN	NR	298.5	-	-	38,527	17.6	15.9	4.3	3.9
ETN US Equity	EATON CORP PLC	NR	162.9	-	-	64,928	24.6	22.6	4.1	3.9
7012 JP Equity	KAWASAKI HVY IND	NR	2,443.0	-	-	3,692	26.3	15.1	0.8	0.8
7242 JP Equity	KYB CORP	NR	3,345.0	-	-	779	n/a	n/a	0.7	0.6
6474 JP Equity	NACHI-FUJIKOSHI	NR	4,475.0	-	-	1,009	15.3	12.4	0.9	0.8
6268 JP Equity	NABTESCO CORP	NR	4,235.0	-	-	4,638	5.0	20.5	2.0	1.8
	<b>Average</b>						<b>17.7</b>	<b>17.3</b>	<b>2.1</b>	<b>2.0</b>
<b>Aerial working platform</b>										
TEX US Equity	TEREX CORP	NR	51.0	-	-	3,556	17.1	12.2	3.2	2.6
OSK US Equity	OSHKOSH CORP	NR	115.0	-	-	7,890	17.5	13.6	2.4	2.2
LNR CN Equity	LINAMAR CORP	NR	72.4	-	-	3,769	9.6	8.8	n/a	n/a
PIG FP Equity	HAULOTTE GROUP	NR	5.9	-	-	218	17.5	9.7	0.7	0.7
6345 JP Equity	AICHI CORP	NR	790.0	-	-	559	11.5	11.3	0.8	0.8
	<b>Overseas average</b>						<b>15.8</b>	<b>13.8</b>	<b>2.7</b>	<b>2.4</b>

Source: Bloomberg, Company data, CMBIS estimates

## SANY Heavy (600031 CH, U/G to BUY; TP: RMB38)

**Upgrade to BUY from Hold.** We revise up our earnings forecast in 2021E-23E by 2-5%, after incorporating our new industry sales forecast. We believe the weakness of near-term sales volume and gross margin pressure have been well-anticipated by the market. We believe recovery of machinery demand in 4Q21E will boost share price performance. We raise our TP from RMB31 to RMB38, based on 17x 2021E P/E (the mid-point between the average of 11x and peak level of 22x since the upcycle in 2017).

**Figure 20: Financial summary**

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	76,233	100,054	130,155	141,065	148,676
YoY growth (%)	37	31	30	8	5
Net income (RMB mn)	11,325	15,431	19,059	21,149	22,167
EPS (RMB)	1.37	1.82	2.25	2.50	2.62
YoY growth (%)	73.2	33.2	23.5	11.0	4.8
Consensus EPS (RMB)	NA	NA	2.30	2.60	2.82
EV/EBITDA (x)	16.8	12.9	10.6	9.6	9.3
P/E (x)	21.9	16.4	13.3	12.0	11.4
P/B (x)	5.4	4.5	3.6	3.0	2.5
Yield (%)	1.4	2.0	2.4	2.7	2.8
ROE (%)	28.8	29.8	30.0	27.1	23.8
Net debt / equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: RMB29.95

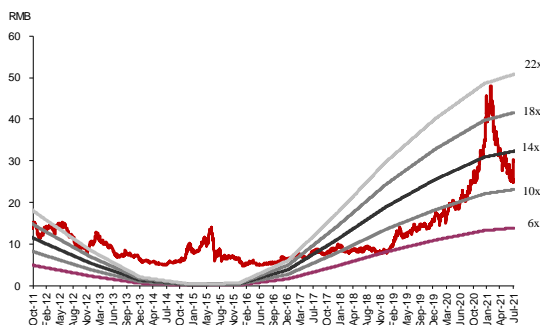
Source: Company data, CMBIS estimates

**Figure 21: Change in key assumptions and earnings forecast**

(RMB mn)	Old			New			Change		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
<b>Revenue</b>									
Concrete machinery	35,063	40,323	44,355	37,926	43,615	47,977	8.2%	8.2%	8.2%
Excavator	44,920	46,267	46,267	49,865	51,361	51,361	11.0%	11.0%	11.0%
Crane machinery	25,136	27,650	30,415	25,339	28,127	30,939	0.8%	1.7%	1.7%
Piling machinery	7,973	8,372	8,372	7,973	8,372	8,372	0.0%	0.0%	0.0%
Earth moving machinery	3,161	3,256	3,256	2,596	2,673	2,673	-17.9%	-17.9%	-17.9%
Other machinery	3,687	3,871	4,065	3,687	3,871	4,065	0.0%	0.0%	0.0%
<b>Revenue (construction machinery)</b>	<b>119,941</b>	<b>129,739</b>	<b>136,730</b>	<b>127,386</b>	<b>138,019</b>	<b>145,387</b>	6.2%	6.4%	6.3%
Interest income from financing	841	941	1,017	841	941	1,017	-	-	-
Other business	2,769	3,046	3,290	2,769	3,046	3,290	0.0%	0.0%	0.0%
<b>Total revenue</b>	<b>122,710</b>	<b>132,785</b>	<b>140,020</b>	<b>130,155</b>	<b>141,065</b>	<b>148,676</b>	6.1%	6.2%	6.2%
<b>Gross margin</b>							ppt		
Concrete machinery	26.0%	25.9%	25.9%	26.0%	25.9%	25.9%	0.0	0.0	0.0
Excavator	33.0%	32.5%	32.5%	32.0%	32.5%	32.5%	(1.0)	0.0	0.0
Crane machinery	23.0%	23.0%	23.0%	22.0%	23.0%	23.0%	(1.0)	0.0	0.0
Piling machinery	45.0%	44.0%	43.0%	45.0%	44.0%	43.0%	0.0	0.0	0.0
Earth moving machinery	30.0%	29.0%	29.0%	30.0%	29.0%	29.0%	0.0	0.0	0.0
Other machinery	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	0.0	0.0	0.0
<b>Gross margin (construction machinery)</b>	<b>29.2%</b>	<b>28.8%</b>	<b>28.5%</b>	<b>28.7%</b>	<b>28.8%</b>	<b>28.5%</b>	(0.5)	0.0	0.1
Interest income from financing	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%	-	-	-
Other business	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	0.0	0.0	0.0
<b>Blended gross margin</b>	<b>29.2%</b>	<b>28.8%</b>	<b>28.5%</b>	<b>28.7%</b>	<b>28.8%</b>	<b>28.6%</b>	(0.5)	0.0	0.1
S&D expense ratio	5.5%	5.3%	5.3%	5.5%	5.3%	5.3%	0.0	0.0	0.0
Administrative, R&D expense ratio	6.5%	6.3%	6.2%	6.5%	6.3%	6.2%	0.0	0.0	0.0
<b>Net profit</b>	<b>18,662</b>	<b>20,092</b>	<b>21,052</b>	<b>19,059</b>	<b>21,149</b>	<b>22,167</b>	2.1%	5.3%	5.3%

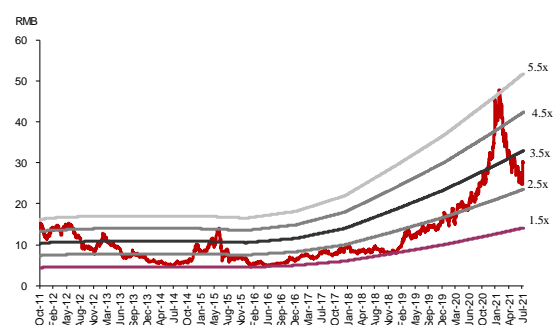
Source: Company data, CMBIS estimates

**Figure 22: SANY's P/E band**



Source: Company data, Bloomberg, CMBIS estimates

**Figure 23: SANY's P/B band**



Source: Company data, Bloomberg, CMBIS estimates

## Financial Summary – SANY Heavy

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>76,233</b>	<b>100,054</b>	<b>130,155</b>	<b>141,065</b>	<b>148,676</b>	Pretax profit	13,621	18,531	23,052	25,580	26,811
Cost of sales	-51,204	-70,034	-92,782	-100,404	-106,209	Finance cost	120	797	477	491	502
<b>Gross profit</b>	<b>25,029</b>	<b>30,021</b>	<b>37,373</b>	<b>40,661</b>	<b>42,468</b>	Interest income	-489	-515	-540	-760	-1,289
Surcharge	-373	-408	-390	-423	-743	Profit or loss of associates	-140	-29	-176	-187	-200
S&D expenses	-5,488	-5,332	-7,159	-7,476	-7,880	Fair value change	-673	-1,341	0	0	0
Administrative expenses	-5,717	-7,193	-8,460	-8,887	-9,218	Provision for assets	241	495	0	0	0
Fair value change	290	436	400	400	400	Depreciation and amortization	2,020	1,894	1,965	2,055	2,124
Asset impairment	-1,363	-681	-911	-1,129	-1,189	Income tax paid	-2,001	-2,671	-3,343	-3,709	-3,888
<b>EBIT</b>	<b>12,378</b>	<b>16,844</b>	<b>20,853</b>	<b>23,146</b>	<b>23,837</b>	Change in working capital	-1,066	-3,531	-12,197	-3,758	83
Net finance income/(cost)	46	-282	63	269	787	Others	1,631	-267	0	0	0
Finance income	489	515	540	760	1,289	<b>Cash flow from operation</b>	<b>13,265</b>	<b>13,363</b>	<b>9,238</b>	<b>19,712</b>	<b>24,144</b>
Finance expenses	-442	-797	-477	-491	-502	Net capex on PP&E	-2,157	-4,133	-4,000	-4,000	-3,000
Other gains/(losses)	1,058	1,941	1,960	1,978	1,987	Investment in JV/associates	-11	-47	-50	-50	-50
Profit of JV and associates	140	29	176	187	200	Investment in subsidiaries	153	4	0	0	0
<b>Pretax profit</b>	<b>13,621</b>	<b>18,531</b>	<b>23,052</b>	<b>25,580</b>	<b>26,811</b>	Dividend received	14	11	18	0	0
Income tax	-2,001	-2,671	-3,343	-3,709	-3,888	Interest received	489	515	540	760	1,289
<b>After tax profit</b>	<b>11,620</b>	<b>15,861</b>	<b>19,710</b>	<b>21,871</b>	<b>22,923</b>	Others	-9,031	-7,599	-180	-180	-180
MI	-295	-429	-650	-722	-756	<b>Cash flow from investing</b>	<b>-10,544</b>	<b>-11,250</b>	<b>-3,672</b>	<b>-3,470</b>	<b>-1,941</b>
<b>Net profit</b>	<b>11,325</b>	<b>15,431</b>	<b>19,059</b>	<b>21,149</b>	<b>22,167</b>	Equity financing/(repurchase)	0	0	0	0	0
						Net bank borrowings	1,756	3,020	500	300	300
D&A	2,020	1,894	1,965	2,055	2,124	Dividend paid	-2,165	-3,516	-5,057	-6,099	-6,768
<b>EBITDA</b>	<b>14,398</b>	<b>18,738</b>	<b>22,818</b>	<b>25,200</b>	<b>25,961</b>	Interest paid	-442	0	-477	-491	-502
						Others	-1,187	-1,956	0	0	0
						<b>Cash flow from financing</b>	<b>-2,039</b>	<b>-2,452</b>	<b>-5,034</b>	<b>-6,290</b>	<b>-6,970</b>
						Change in cash	683	-339	532	9,952	15,233
						Cash at beginning of the year	11,985	12,157	12,596	13,128	23,079
						Exchange and others	-511	778	0	0	0
						Cash at the end of the year	12,157	12,596	13,128	23,079	38,313

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>26,555</b>	<b>34,827</b>	<b>37,432</b>	<b>46,816</b>	<b>42,643</b>	<b>Sales mix (%)</b>					
PP&E	10,615	10,841	13,183	15,445	16,647	Concrete machinery	30%	27%	29%	31%	32%
JV/associates	2,985	3,420	3,628	3,866	4,115	Excavator	36%	38%	38%	36%	35%
Goodwill	49	50	50	50	50	Crane machinery	18%	19%	19%	20%	21%
LT trade receivables	1,286	5,555	3,360	9,007	4,027	Piling machinery	6%	7%	6%	6%	6%
Intangible assets						Earth moving machinery	3%	3%	2%	2%	2%
AFS investments	3,339	3,228	3,100	2,963	2,817	Other machinery	3%	3%	3%	3%	3%
Others	0	0	0	0	0	Interest income	1%	1%	1%	1%	1%
Deferred tax assets	2,580	5,240	5,240	5,240	5,240	Other business	2%	3%	2%	2%	2%
<b>Current assets</b>	<b>1,147</b>	<b>1,441</b>	<b>1,441</b>	<b>1,441</b>	<b>1,441</b>	Total	100%	100%	100%	100%	100%
Inventories	<b>72,686</b>	<b>91,428</b>	<b>110,735</b>	<b>115,959</b>	<b>142,472</b>	<b>Profit &amp; loss ratio (%)</b>					
Trade and bills receivables	14,252	19,198	25,541	22,873	28,340	Gross margin	32.8	30.0	28.7	28.8	28.6
Other receivables	21,775	21,512	31,976	29,860	35,313	EBIT margin	16.2	16.8	16.0	16.4	16.0
Others	2,787	1,869	3,837	3,893	4,254	Net profit margin	15.2	15.9	15.1	15.5	15.4
Cash	9,061	13,446	13,446	13,446	13,446	<b>Growth (%)</b>					
						Revenue	36.6	31.2	30.1	8.4	5.4
<b>Current liabilities</b>	<b>47,953</b>	<b>62,049</b>	<b>68,310</b>	<b>66,646</b>	<b>72,331</b>	Gross profit	46.4	19.9	24.5	8.8	4.4
Trade and bills payables	20,295	32,207	38,968	37,504	43,389	EBIT	75.2	36.1	23.8	11.0	3.0
Bank borrowings	10,771	8,466	7,966	7,766	7,566	Net profit	85.2	36.3	23.5	11.0	4.8
Tax payable	1,515	2,030	2,030	2,030	2,030	<b>Balance sheet ratio</b>					
Others	9,928	11,413	11,413	11,413	11,413	Current ratio (x)	1.5	1.5	1.6	1.7	2.0
<b>Non-current liabilities</b>	<b>2,866</b>	<b>6,018</b>	<b>7,018</b>	<b>7,518</b>	<b>8,018</b>	Receivable turnover days	106	91	88	96	96
Bank borrowings	1,303	4,532	5,532	6,032	6,532	Inventory turnover days	92	87	88	88	88
Deferred tax liabilities	714	600	600	600	600	Payable turnover days	134	137	140	139	139
Others	728	849	849	849	849	Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Equity</b>	<b>48,423</b>	<b>58,188</b>	<b>72,840</b>	<b>88,612</b>	<b>104,767</b>	<b>Profitability (%)</b>					
Shareholders' equity	47,151	56,562	70,564	85,614	101,013	ROA	13.1	13.7	13.9	13.6	12.7
MI	1,272	1,625	2,276	2,997	3,754	ROE	28.8	29.8	30.0	27.1	23.8
						<b>Per share data</b>					
						EPS (RMB)	1.37	1.82	2.25	2.50	2.62
						BVPS (RMB)	5.60	6.68	8.34	10.12	11.94
						DPS (RMB)	0.43	0.60	0.72	0.80	0.84

Source: Company data, CMBIS estimates



## Jiangsu Hengli (601100 CH, HOLD, TP: RMB103)

**Maintain HOLD.** We slightly revise up our earnings forecast in 2021E-23E by 2-3%, largely due to higher volume assumptions. Our TP is revised from RMB83 to RMB103, based on 46x 2021E P/E (10% premium to the historical average of 42x to reflect short-term recovery in 2H21E). We maintain our **HOLD** rating due to the current rich valuation (50x 2021E P/E).

**Figure 24: Financial summary**

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,414	7,855	10,063	10,936	11,567
YoY growth (%)	28.6	45.1	28.1	8.7	5.8
Net income (RMB mn)	1,296	2,254	2,932	3,307	3,713
EPS (RMB)	0.99	1.73	2.25	2.53	2.84
YoY growth (%)	54.9	73.9	30.1	12.8	12.3
Consensus EPS (RMB)	NA	NA	2.28	2.75	3.19
EV/EBITDA (x)	87.0	48.2	41.5	38.0	35.0
P/E (x)	112.8	64.9	49.9	44.2	39.4
P/B (x)	26.2	20.0	15.4	12.4	10.2
Yield (%)	0.4	0.5	0.7	0.8	0.9
ROE (%)	25.6	35.0	35.0	31.2	28.5
Net debt / equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

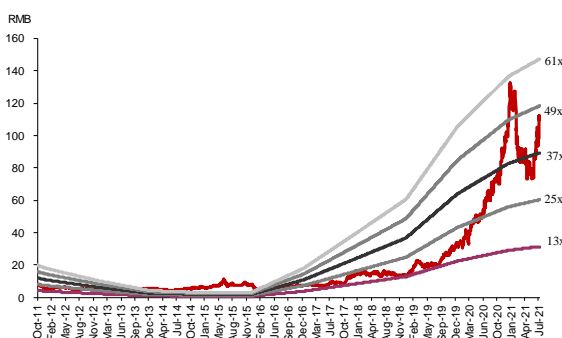
Last closing price: RMB111.98 Source: Company data, CMBIS estimates

**Figure 25: Change in key assumptions and earnings forecast**

(RMB mn)	Old			New			Change		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
<b>Revenue</b>									
Hydraulic cylinder for excavator	3,488	3,488	3,488	3,645	3,645	3,645	4.5%	4.5%	4.5%
Specialised hydraulic cylinder for heavy equipment	1,563	1,720	1,771	1,563	1,720	1,771	0.0%	0.0%	0.0%
Hydraulic pump and valve	3,508	4,034	4,437	3,624	4,168	4,585	3.3%	3.3%	3.3%
Hydraulic system	196	216	237	196	216	237	0.0%	0.0%	0.0%
Component	1,015	1,167	1,307	1,015	1,167	1,307	0.0%	0.0%	0.0%
<b>Revenue (hydraulic business)</b>	<b>9,770</b>	<b>10,624</b>	<b>11,241</b>	<b>10,044</b>	<b>10,916</b>	<b>11,546</b>	<b>2.8%</b>	<b>2.7%</b>	<b>2.7%</b>
Other business	19	21	22	19	21	22	0.0%	0.0%	0.0%
<b>Total revenue</b>	<b>9,789</b>	<b>10,645</b>	<b>11,262</b>	<b>10,063</b>	<b>10,936</b>	<b>11,567</b>	<b>2.8%</b>	<b>2.7%</b>	<b>2.7%</b>
<b>Gross margin</b>									
Hydraulic cylinder for excavator	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%	0.0	0.0	0.0
Specialised hydraulic cylinder for heavy equipment	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	0.0	0.0	0.0
Hydraulic pump and valve	44.0%	43.0%	43.0%	44.0%	43.0%	43.0%	0.0	0.0	0.0
Hydraulic system	35.0%	35.0%	34.0%	35.0%	35.0%	34.0%	0.0	0.0	0.0
Component	20.0%	25.0%	33.0%	20.0%	25.0%	33.0%	0.0	0.0	0.0
<b>Gross margin (hydraulic business)</b>	<b>39.5%</b>	<b>39.6%</b>	<b>40.4%</b>	<b>39.5%</b>	<b>39.6%</b>	<b>40.4%</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
Other business	66.0%	66.0%	66.0%	66.0%	66.0%	66.0%	0.0	0.0	0.0
<b>Average gross margin</b>	<b>39.5%</b>	<b>39.6%</b>	<b>40.4%</b>	<b>39.6%</b>	<b>39.7%</b>	<b>40.5%</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
							Change (ppt)		
S&D expense ratio	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	0.0	0.0	0.0
Admin expense and R&D ratio	-6.2%	-6.1%	-6.0%	-6.2%	-6.1%	-6.0%	0.0	0.0	0.0
<b>Net profit</b>	<b>2,853</b>	<b>3,225</b>	<b>3,615</b>	<b>2,932</b>	<b>3,307</b>	<b>3,713</b>	<b>2.7%</b>	<b>2.5%</b>	<b>2.7%</b>

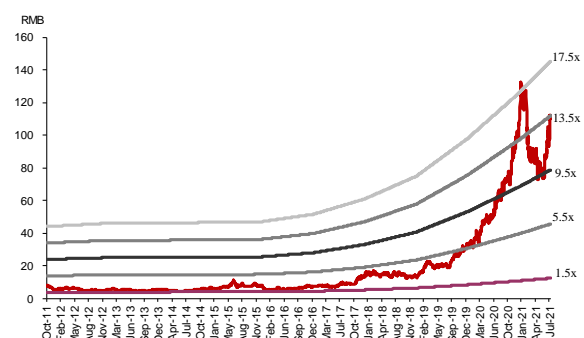
Source: Company data, CMBIS estimates

**Figure 26: Hengli's P/E band**



Source: Bloomberg, Company data, CMBIS estimates

**Figure 27: Hengli's P/B band**



Source: Bloomberg, Company data, CMBIS estimates

## Financial Summary – Jiangsu Hengli

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>5,414</b>	<b>7,855</b>	<b>10,063</b>	<b>10,936</b>	<b>11,567</b>	Pretax profit	1,493	2,609	3,456	3,899	4,377
Cost of sales	-3,369	-4,391	-6,080	-6,598	-6,884	Finance cost	-33	146	43	39	39
<b>Gross profit</b>	<b>2,045</b>	<b>3,464</b>	<b>3,983</b>	<b>4,338</b>	<b>4,683</b>	Profit or loss of associates	0	0	0	0	0
Surcharge	-52	-72	-101	-109	-116	Loss/(gain) on disposal	1	1	0	0	0
S&D expenses	-111	-107	-121	-131	-139	Depreciation & amortization	264	311	338	369	394
Administrative expenses	-435	-509	-624	-667	-694	Income tax paid	-375	-714	-518	-585	-657
Asset impairment	-52	-90	0	0	0	Change in working capital	66	-849	-442	148	-343
<b>EBIT</b>	<b>1,395</b>	<b>2,687</b>	<b>3,138</b>	<b>3,431</b>	<b>3,735</b>	Others	253	488	0	0	0
Net finance income/(cost)	31	-151	218	359	527	<b>Cash flow from operation</b>	<b>1,660</b>	<b>1,981</b>	<b>2,877</b>	<b>3,869</b>	<b>3,810</b>
Finance income	187	223	260	398	565	Net capex on PP&E	-434	-380	-500	-500	-400
Finance expenses	-156	-375	-43	-39	-39	Investment in JV/associates	0	0	0	0	0
Other gains/(losses)	67	74	101	109	116	Investment in subsidiaries	0	0	0	0	0
Profit of JV and associates	0	0	0	0	0	Investment in intangibles	-4	-19	-20	-20	-20
<b>Pretax profit</b>	<b>1,493</b>	<b>2,609</b>	<b>3,456</b>	<b>3,899</b>	<b>4,377</b>	Dividend received	0	0	0	0	0
Income tax	-195	-348	-518	-585	-657	Others	-14	-264	0	0	0
<b>After tax profit</b>	<b>1,298</b>	<b>2,261</b>	<b>2,938</b>	<b>3,314</b>	<b>3,720</b>	<b>Cash flow from investing</b>	<b>-452</b>	<b>-663</b>	<b>-520</b>	<b>-520</b>	<b>-420</b>
MI	-2	-7	-6	-7	-7	Equity financing/(repurchase)	0	0	0	0	0
<b>Net profit</b>	<b>1,296</b>	<b>2,254</b>	<b>2,932</b>	<b>3,307</b>	<b>3,713</b>	Net bank borrowings	-100	-361	-150	0	0
						Dividend paid	-265	-529	-783	-1,026	-1,158
D&A	264	311	338	369	394	Interest paid	-107	-40	-43	-39	-39
<b>EBITDA</b>	<b>1,659</b>	<b>2,997</b>	<b>3,476</b>	<b>3,800</b>	<b>4,128</b>	Others	18	112	0	0	0
						<b>Cash flow from financing</b>	<b>-454</b>	<b>-818</b>	<b>-976</b>	<b>-1,065</b>	<b>-1,196</b>
						Change in cash	754	499	1,381	2,285	2,194
						Cash at beginning of the year	1,571	2,343	2,777	4,158	6,443
						Exchange and others	18	-66	-0	-0	-0
						Cash at the end of the year	2,343	2,777	4,158	6,443	8,636

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>2,935</b>	<b>3,025</b>	<b>3,207</b>	<b>3,358</b>	<b>3,384</b>	<b>Sales mix (%)</b>					
PP&E	2,364	2,432	2,608	2,753	2,774	Cylinder for excavator	40%	40%	36%	33%	32%
JV/associates	0	0	0	0	0	Cylinder for heavy equipment	25%	17%	16%	16%	15%
Goodwill	0	0	0	0	0	Hydraulic pump and valve	21%	30%	36%	38%	40%
Intangible assets	273	280	286	292	297	Hydraulic system	3%	2%	2%	2%	2%
AFS investments	0	0	0	0	0	Component	9%	11%	10%	11%	11%
Others	257	261	261	261	261	Other business	0%	0%	0%	0%	0%
Deferred tax assets	41	52	52	52	52	Total revenue	100%	100%	100%	100%	100%
<b>Current assets</b>	<b>5,492</b>	<b>7,595</b>	<b>9,821</b>	<b>11,854</b>	<b>14,624</b>	<b>Profit &amp; loss ratio (%)</b>					
Inventories	997	1,217	1,848	1,442	1,953	Gross margin	37.8	44.1	39.6	39.7	40.5
Trade and bill receivables	1,639	2,705	2,919	3,073	3,138	EBIT margin	25.8	34.2	31.2	31.4	32.3
Prepayment	98	164	164	164	164	Net profit margin	24.0	28.8	29.2	30.3	32.2
Others	414	733	733	733	733	<b>Growth (%)</b>					
Pledged deposits	0	0	0	0	0	Revenue	28.6	45.1	28.1	8.7	5.8
Cash	2,343	2,777	4,158	6,443	8,636	Gross profit	32.7	69.4	15.0	8.9	7.9
<b>Current liabilities</b>	<b>2,170</b>	<b>2,590</b>	<b>2,894</b>	<b>2,789</b>	<b>3,022</b>	EBIT	58.7	92.7	16.8	9.3	8.9
Trade and bill payables	791	1,131	1,534	1,430	1,663	Net profit	54.9	73.9	30.1	12.8	12.3
Bank borrowings	937	554	454	454	454	<b>Balance sheet ratio</b>					
Tax payable	62	119	119	119	119	Current ratio (x)	2.5	2.9	3.4	4.2	4.8
Advance from customers	192	108	108	108	108	Receivable turnover days	100	101	102	100	98
Others	188	677	677	677	677	Inventory turnover days	111	92	92	91	90
<b>Non-current liabilities</b>	<b>643</b>	<b>679</b>	<b>629</b>	<b>629</b>	<b>629</b>	Payable turnover days	80	80	80	82	82
Bank borrowings	200	370	320	320	320	Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax liabilities	70	108	108	108	108	<b>Profitability (%)</b>					
Deferred income	223	200	200	200	200	ROA	16.5	23.7	24.8	23.4	22.4
Others	150	0	0	0	0	ROE	25.6	35.0	35.0	31.2	28.5
<b>Equity</b>	<b>5,614</b>	<b>7,352</b>	<b>9,506</b>	<b>11,794</b>	<b>14,357</b>	<b>Per share data</b>					
Shareholders' equity	5,584	7,314	9,462	11,743	14,299	EPS (RMB)	0.99	1.73	2.25	2.53	2.84
MI	30	38	44	50	58	BVPS (RMB)	4.28	5.60	7.25	9.00	10.95
						DPS (RMB)	0.41	0.60	0.79	0.89	1.00

Source: Company data, CMBIS estimates

## Sinotruk (3808 HK, U/G to BUY, TP: HK\$19.5)

**Upgrade to BUY from Hold.** We believe the weakness of HDT sales has been largely priced in following the recent share price pullback and the release of Jul industry data. With continuous market share gain since 2Q21, Sinotruk is set to deliver better-than-consensus earnings. Trading at only 1.1x 2021E EV/EBITDA, we believe the downside risk is limited. We maintain our earnings forecast and TP of HK\$19.5 (unchanged 1.7x 2021E EV/EBITDA).

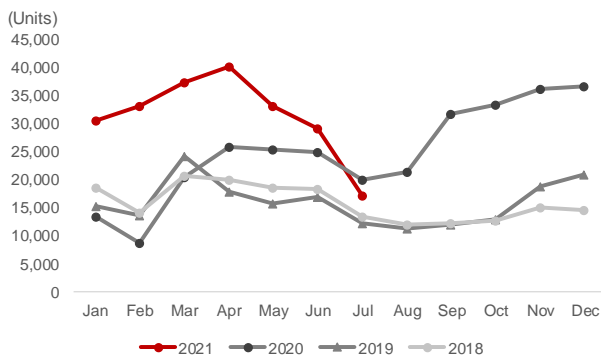
**Figure 28: Financial summary**

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	62,613	98,198	107,203	103,086	104,393
YoY growth (%)	1.3	56.8	9.2	(3.8)	1.3
Core net profit (RMB mn)	3,270	6,501	6,863	6,416	6,467
Core EPS (RMB)	1.18	2.35	2.49	2.32	2.34
YoY growth (%)	(21.3)	98.8	5.6	(6.5)	0.8
Consensus EPS (RMB)	N/A	N/A	2.36	2.36	2.44
P/E (x)	12.5	6.1	5.6	6.0	5.9
EV/EBITDA (x)	2.0	1.2	1.1	1.1	1.1
P/B (x)	1.5	1.2	1.0	0.9	0.8
Yield (%)	2.6	6.2	6.3	5.9	5.9
ROE (%)	13.2	23.1	19.3	15.6	14.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: HK\$16.40

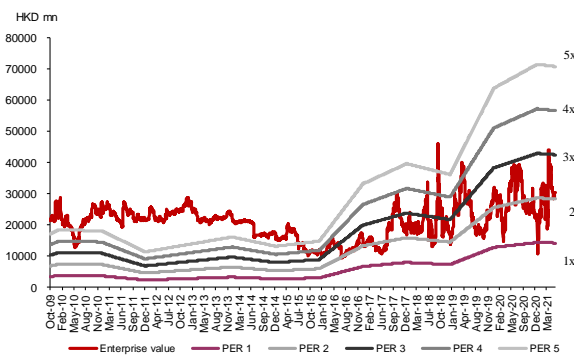
Source: Company data, CMBIS estimates

**Figure 29: CNHTC's HDT monthly sales volume**



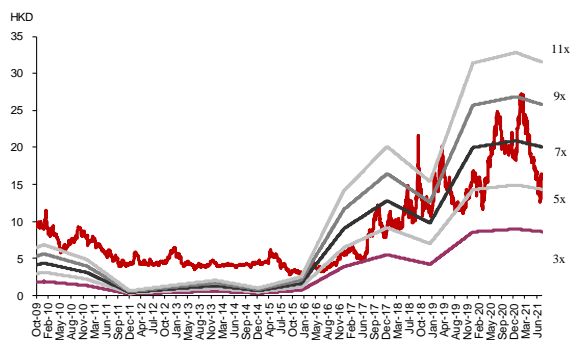
Note: CNHTC is the parent company of Sinotruk.  
Source: CVworld, CMBIS

**Figure 30: Sinotruk's EV/EBITDA band**



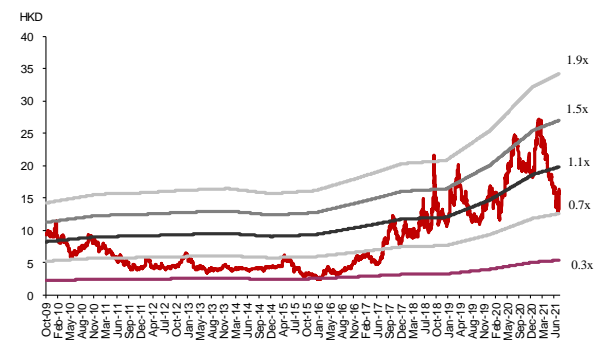
Source: Bloomberg, Company data, CMBIS estimates

**Figure 31: Sinotruk P/E band**



Source: Bloomberg, Company data, CMBIS estimates

**Figure 32: Sinotruk P/B band**



Source: Bloomberg, Company data, CMBIS estimates

## Financial Summary – Sinotruk

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>62,613</b>	<b>98,198</b>	<b>107,203</b>	<b>103,086</b>	<b>104,393</b>
Cost of sales	-50,380	-78,613	-85,869	-82,778	-83,828
<b>Gross profit</b>	<b>12,233</b>	<b>19,585</b>	<b>21,333</b>	<b>20,308</b>	<b>20,565</b>
Operating expenses	-7,240	-10,115	-11,590	-11,246	-11,447
<b>EBIT</b>	<b>4,993</b>	<b>9,471</b>	<b>9,744</b>	<b>9,062</b>	<b>9,119</b>
Net finance cost	-94	26	63	80	87
Finance income	47	58	104	119	126
Finance expenses	-141	-32	-41	-38	-38
Profit of JV and associates	61	55	96	116	126
<b>Pretax profit</b>	<b>4,961</b>	<b>9,551</b>	<b>9,903</b>	<b>9,259</b>	<b>9,332</b>
Income tax	-1,045	-2,127	-2,278	-2,129	-2,146
<b>After tax profit</b>	<b>3,916</b>	<b>7,424</b>	<b>7,625</b>	<b>7,129</b>	<b>7,186</b>
MI	-442	-573	-763	-713	-719
<b>Net profit</b>	<b>3,474</b>	<b>6,851</b>	<b>6,863</b>	<b>6,416</b>	<b>6,467</b>
<b>Core net profit</b>	<b>3,270</b>	<b>6,501</b>	<b>6,863</b>	<b>6,416</b>	<b>6,467</b>
D&A	1,567	1,613	2,169	2,559	2,949
<b>EBITDA</b>	<b>6,561</b>	<b>11,083</b>	<b>11,913</b>	<b>11,622</b>	<b>12,068</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Pretax profit	4,961	9,551	9,903	9,259	9,332
Finance cost	141	32	41	38	38
Interest income	-47	-58	-104	-119	-126
Share of profit or loss of associates	-61	-55	-96	-116	-126
Depreciation	1,495	1,551	2,089	2,479	2,869
Amortization of intangible assets	72	62	80	80	80
Income tax paid	-1,221	-1,765	-2,278	-2,129	-2,146
Change in working capital	1,853	8,899	835	-179	-28
Others	1,582	1,307	0	0	0
<b>Cash flow from operation</b>	<b>8,775</b>	<b>19,524</b>	<b>10,470</b>	<b>9,313</b>	<b>9,894</b>
Net capex on PP&E	-822	-1,007	-5,000	-5,000	-5,000
Dividend received	31	10	14	17	19
Interest received	51	62	104	119	126
Others	808	-3,711	0	0	0
<b>Cash flow from investing</b>	<b>-29</b>	<b>-5,903</b>	<b>-4,882</b>	<b>-4,864</b>	<b>-4,855</b>
Proceeds from equity financing	0	0	5,001	0	0
Net bank borrowings	-2,000	712	-200	0	0
Dividend paid	-1,555	-1,077	-2,430	-2,402	-2,246
Interest paid	-141	-32	-41	-38	-38
Others	-2,153	-2,943	0	0	0
<b>Cash flow from financing</b>	<b>-5,849</b>	<b>-3,340</b>	<b>2,331</b>	<b>-2,440</b>	<b>-2,284</b>
Change in cash	2,897	10,281	7,919	2,009	2,754
Cash at beginning of the year	12,616	17,931	26,049	33,968	35,977
Exchange gains/(losses) and others	2,418	-2,163	0	0	0
Cash at end of the year	17,931	26,049	33,968	35,977	38,731

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Non-current assets</b>	<b>17,741</b>	<b>26,934</b>	<b>29,846</b>	<b>32,386</b>	<b>34,544</b>
PP&E	9,906	12,438	15,349	17,870	20,001
Land use right	1,629	2,453	2,453	2,453	2,453
Investment in JV/associates	497	1,028	1,110	1,209	1,316
Investment properties	797	724	724	724	724
Long term receivables	2,907	7,196	7,196	7,196	7,196
Intangible assets	279	315	235	155	75
AFS / financial assets	0	0	0	0	0
Others	1,727	2,779	2,779	2,779	2,779
<b>Current assets</b>	<b>48,210</b>	<b>84,075</b>	<b>75,872</b>	<b>89,959</b>	<b>81,992</b>
Inventories	9,721	20,811	9,302	19,273	9,664
Trade and bills receivables	16,051	20,222	15,610	17,717	16,604
AFS / financial assets	1,715	5,440	5,440	5,440	5,440
Others	1,259	4,384	4,384	4,384	4,384
Restricted cash	260	4,558	4,558	4,558	4,558
Cash	17,931	26,049	33,968	35,977	38,731
<b>Current liabilities</b>	<b>35,175</b>	<b>73,868</b>	<b>58,381</b>	<b>70,280</b>	<b>59,531</b>
Trade and bills payables	31,455	54,695	39,408	51,307	40,558
Bank borrowings	1,000	1,474	1,274	1,274	1,274
Provisions	1,219	2,140	2,140	2,140	2,140
Others	1,501	1,334	1,334	1,334	1,334
<b>Non-current liabilities</b>	<b>347</b>	<b>1,461</b>	<b>1,461</b>	<b>1,461</b>	<b>1,461</b>
Bank borrowings	0	238	238	238	238
Deferred income	286	505	505	505	505
Others	62	718	718	718	718
<b>Equity</b>	<b>30,428</b>	<b>35,679</b>	<b>45,876</b>	<b>50,603</b>	<b>55,544</b>
Shareholders' equity	27,261	32,115	39,099	43,113	47,334
MI	3,167	3,564	6,778	7,490	8,209

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue mix (%)</b>					
HDT	82.7	84.7	80.1	77.8	77.6
LDT & bus	16.3	15.1	16.7	18.2	18.6
Engine & gearbox	23.4	27.5	26.5	27.1	27.0
Finance	2.5	1.8	1.7	1.8	1.8
Intersegment sales	(25.0)	(29.0)	(25.0)	(25.0)	(25.0)
Total	100.0	100.0	100.0	100.0	100.0
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	19.5	19.9	19.9	19.7	19.7
EBIT margin	8.0	9.6	9.1	8.8	8.7
Net profit margin	6.3	7.6	7.1	6.9	6.9
<b>Growth (%)</b>					
Revenue	1.3	56.8	9.2	-3.8	1.3
Gross profit	9.5	60.1	8.9	-4.8	1.3
EBIT	-11.5	89.7	2.9	-7.0	0.6
Net profit	-20.0	97.2	0.2	-6.5	0.8
Core net profit	-21.3	98.8	5.6	-6.5	0.8
<b>Balance sheet ratio</b>					
Current ratio (x)	1.4	1.1	1.3	1.3	1.4
Receivable turnover days	83	67	61	59	60
Inventory turnover days	77	71	64	63	63
Payable turnover days	216	200	200	200	200
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Profitability (%)</b>					
ROA	6.1	8.4	7.0	6.3	6.0
ROE	13.2	23.1	19.3	15.6	14.3
<b>Per share data</b>					
EPS (RMB)	1.26	2.48	2.49	2.32	2.34
Core EPS (RMB)	1.18	2.35	2.49	2.32	2.34
BVPS (RMB)	9.87	11.63	14.16	15.61	17.14
DPS (RMB)	0.39	0.88	0.87	0.81	0.82

Note: Core profit excludes the financial gains / (losses)  
 Source: Company data, CMBIS estimates

## Weichai Power (2338 HK, TP: HK\$24.5 / 000338 CH, TP: RMB20.5, BUY)

We maintain our **BUY** rating on Weichai. We like the Company's diversified revenue stream (e.g. large-bore high speed engine, agricultural engine, KION's European business and hydrogen fuel cell commercial vehicles). KION recently delivered solid net profit of EUR154mn in 2Q21 and revised up the full year guidance. On the other hand, despite the sharp decline of HDT sales following the implementation of NES VI, we believe Weichai will take the opportunity to gain market share in the HDT engine segment given its strong technology know-how.

**Figure 33: Financial summary – Weichai-H**

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	174,361	197,491	218,291	227,688	235,620
YoY growth (%)	9.5	13.3	10.5	4.3	3.5
Core net profit (RMB mn)	9,105	9,207	11,380	11,963	12,586
Core EPS (RMB)	1.15	1.16	1.43	1.51	1.59
YoY growth (%)	6.0	1.1	23.6	5.1	5.2
Consensus EPS (RMB)	N/A	N/A	1.41	1.57	1.71
P/E (x)	14.9	14.5	11.2	10.6	10.1
EV/EBITDA (x)	6.2	6.5	5.6	5.2	4.9
P/B (x)	3.0	2.6	2.1	1.8	1.7
Yield (%)	1.7	0.9	3.6	3.8	4.0
ROE (%)	21.5	19.1	20.2	18.4	17.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: HK\$19.20

Source: Company data, CMBIS estimates

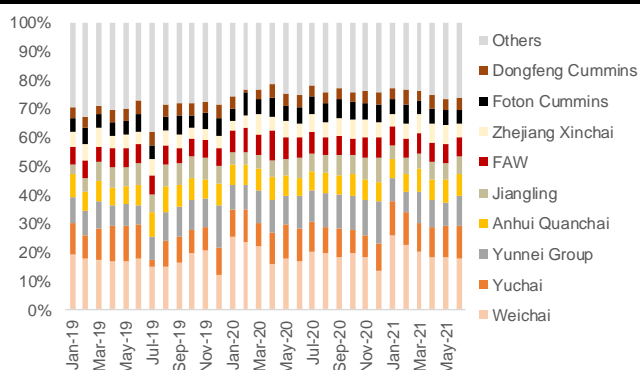
**Figure 34: Financial summary – Weichai-A**

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	174,361	197,491	218,291	227,688	235,620
YoY growth (%)	9.5	13.3	10.5	4.3	3.5
Core net profit (RMB mn)	9,105	9,207	11,380	11,963	12,586
Core EPS (RMB)	1.15	1.16	1.43	1.51	1.59
YoY growth (%)	6.0	1.1	23.6	5.1	5.2
Consensus EPS (RMB)	N/A	N/A	1.41	1.57	1.71
P/E (x)	18.4	17.8	13.7	13.0	12.4
EV/EBITDA (x)	7.5	7.8	6.8	6.3	5.9
P/B (x)	3.7	3.2	2.5	2.3	2.0
Yield (%)	1.4	0.7	2.9	3.1	3.2
ROE (%)	21.5	19.1	20.2	18.4	17.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: RMB19.67

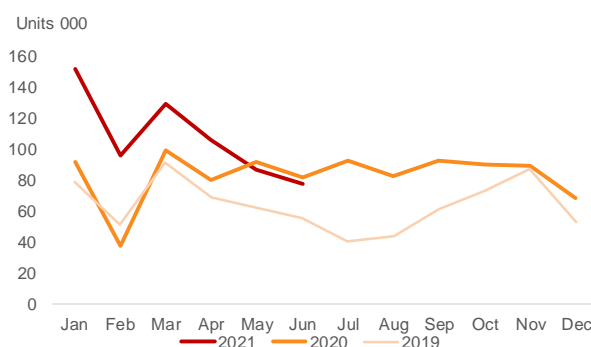
Source: Company data, CMBIS estimates

**Figure 35: China multi-cylinder engine market share**



Source: CICEIA, CMBIS

**Figure 36: Weichai's multi-cylinder engine monthly sales volume**



Source: CICEIA, CMBIS

Figure 37: KION's latest guidance for 2021E

(EUR mn)	2019	2020	2021E guidance (old)		2021E guidance (new)	
			Low-end	High-end	Low-end	High-end
<b>Order intake</b>	<b>9,112</b>	<b>9,443</b>	<b>9,700</b>	<b>10,400</b>	<b>10,650</b>	<b>11,450</b>
Growth (YoY)	5%	4%	3%	10%	13%	21%
<b>Revenue</b>	<b>8,807</b>	<b>8,342</b>	<b>9,150</b>	<b>9,750</b>	<b>9,700</b>	<b>10,300</b>
Growth (YoY)	10%	-5%	10%	17%	16%	23%
<b>Adjusted EBIT</b>	<b>851</b>	<b>547</b>	<b>720</b>	<b>800</b>	<b>810</b>	<b>890</b>
Growth (YoY)	8%	-36%	32%	46%	48%	63%
Adjusted EBIT margin	9.7%	6.6%	7.9%	8.2%	8.4%	8.6%
<b>Net income</b>	<b>445</b>	<b>211</b>	-	-	-	-
Growth (YoY)	11%	-53%	-	-	-	-

Source: Company data, CMBIS

Figure 38: KION's quarterly financials

KION (EUR mn)	2Q20	3Q20	4Q20	1Q21	2Q21
<b>Order intake</b>	<b>2,319</b>	<b>2,315</b>	<b>2,727</b>	<b>2,626</b>	<b>3,255</b>
Growth (YoY)	12%	-1%	6%	26%	40%
<b>Revenue</b>	<b>1,900</b>	<b>2,073</b>	<b>2,341</b>	<b>2,375</b>	<b>2,593</b>
Growth (YoY)	-17%	-4%	3%	17%	36%
<b>Adjusted EBIT</b>	<b>61</b>	<b>159</b>	<b>183</b>	<b>215</b>	<b>247</b>
Growth (YoY)	-73%	-27%	-19%	49%	305%
Adjusted EBIT margin	3.2%	7.7%	7.8%	9.1%	9.5%
<b>Net income</b>	<b>-17</b>	<b>82</b>	<b>78</b>	<b>137</b>	<b>154</b>
Growth (YoY)	-114%	-32%	-26%	101%	n/a

Source: Company data, CMBIS

Figure 39: SOTP valuation

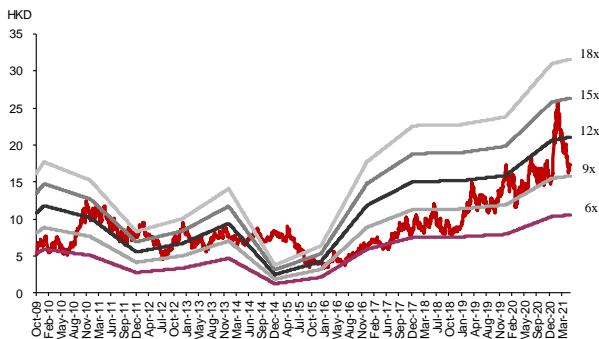
SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA 2021E (RMB mn)	Estimated EV (RMB mn)	Net cash / (Net debt)	Equity value (RMB mn)
Weichai core business	EV/EBITDA	6.5	14,744	95,836	17,442	113,278
KION Group	Proportionate market value	-	-	-	-	39,906
Ballard Power Systems	Proportionate market value	-	-	-	-	6,322
Ceres Power	Proportionate market value	-	-	-	-	3,749
Share of JV/associates	P/B	2.5	-	-	-	8,796
Minority interest (Weichai core business)						-9,756
<b>Total NAV</b>						<b>162,294</b>
<b>NAV per share (RMB)</b>						<b>20.5</b>
<b>NAV per share (HK\$)</b>						<b>24.5</b>

Note 1: Weichai owns 45.2% interest in KION, 20% interest in Ballard Power and 20% interest in Ceres Power.

Note 2: Share of JV / associates exclude Ballard Power and Ceres Power

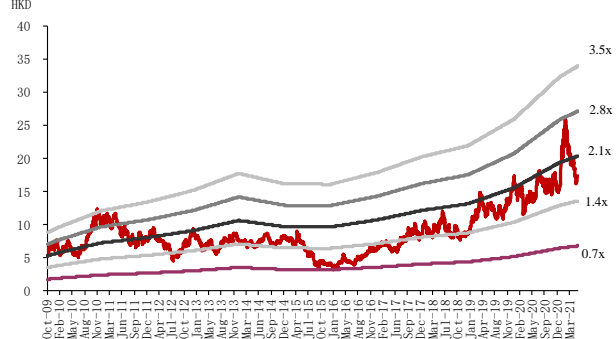
Source: Company data, CMBIS estimates

Figure 40: Weichai Power-H P/E band



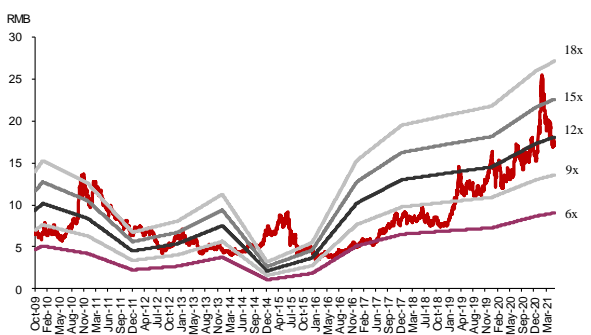
Source: Bloomberg, Company data, CMBIS estimates

Figure 41: Weichai Power-H P/B band



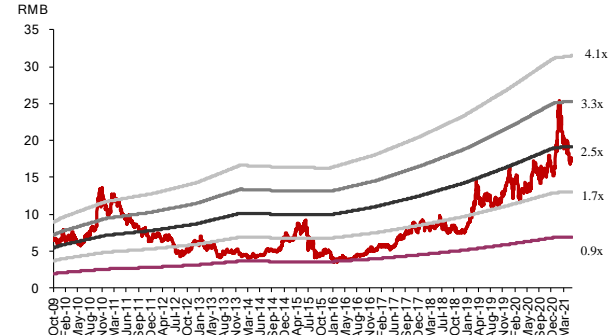
Source: Bloomberg, Company data, CMBIS estimates

Figure 42: Weichai Power-A P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 43: Weichai Power-A P/B band



Source: Bloomberg, Company data, CMBIS estimates

## Financial Summary – Weichai Power

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>174,361</b>	<b>197,491</b>	<b>218,291</b>	<b>227,688</b>	<b>235,620</b>
Cost of sales	-136,353	-159,353	-175,725	-183,289	-189,674
<b>Gross profit</b>	<b>38,008</b>	<b>38,138</b>	<b>42,567</b>	<b>44,399</b>	<b>45,946</b>
Operating expenses	-23,586	-25,289	-25,312	-26,496	-27,209
<b>EBIT</b>	<b>14,422</b>	<b>12,850</b>	<b>17,255</b>	<b>17,903</b>	<b>18,737</b>
Other expenses	-94	-142	-262	-273	-283
Net finance cost	-220	-279	229	483	726
Finance income and others	1,067	1,278	1,571	1,828	2,085
Finance expenses	-1,288	-1,557	-1,341	-1,345	-1,359
profit of JV & associates	244	253	250	255	261
<b>Pretax profit</b>	<b>14,352</b>	<b>12,682</b>	<b>17,472</b>	<b>18,368</b>	<b>19,441</b>
Income tax	-2,445	-1,407	-2,883	-3,031	-3,305
<b>After tax profit</b>	<b>11,907</b>	<b>11,275</b>	<b>14,589</b>	<b>15,337</b>	<b>16,136</b>
MI	-2,802	-2,068	-3,210	-3,374	-3,550
<b>Net profit</b>	<b>9,105</b>	<b>9,207</b>	<b>11,380</b>	<b>11,963</b>	<b>12,586</b>
D&A	8,071	8,858	7,860	9,039	9,856
<b>EBITDA</b>	<b>22,493</b>	<b>21,708</b>	<b>25,114</b>	<b>26,942</b>	<b>28,593</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Pretax profit	14,352	12,682	17,472	18,368	19,441
Finance cost	1,288	1,557	1,341	1,345	1,359
Interest income	-1,067	-1,278	-1,571	-1,828	-2,085
Share of profit or loss of associates	-244	-253	-250	-255	-261
Depreciation	6,188	6,699	5,555	6,635	7,335
Amortization of intangible assets	1,820	2,087	2,230	2,327	2,441
Income tax paid	-2,445	-1,407	-2,883	-3,031	-3,305
Change in working capital	2,603	1,114	183	726	-771
Others	1,341	1,727	1,646	1,905	2,165
<b>Cash flow from operation</b>	<b>23,835</b>	<b>22,928</b>	<b>23,724</b>	<b>26,192</b>	<b>26,319</b>
Net capex on PP&E	-6,335	-5,992	-9,500	-10,500	-9,000
Investment in JV/associates	-243	-537	0	0	0
Investment in subsidiaries	0	-938	0	0	0
Dividend received	135	145	142	146	149
Others	-1,947	-2,095	0	0	0
<b>Cash flow from investing</b>	<b>-8,391</b>	<b>-9,417</b>	<b>-9,358</b>	<b>-10,354</b>	<b>-8,851</b>
Proceeds from equity financing	0	0	0	0	0
Net bank borrowings	1,137	1,052	300	300	800
Dividend paid	-4,851	-3,459	-1,190	-4,552	-4,785
Interest paid	0	0	-1,341	-1,345	-1,359
Others	-3,853	-579	0	0	0
<b>Cash flow from financing</b>	<b>-7,567</b>	<b>-2,986</b>	<b>-2,231</b>	<b>-5,597</b>	<b>-5,345</b>
Change in cash	7,877	10,525	12,135	10,240	12,123
Cash at beginning of the year	38,210	48,818	62,216	74,351	84,591
Exchange gains/(losses) and others	2,731	2,873	0	0	0
Cash at the end of the year	48,818	62,216	74,351	84,591	96,714

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Non-current assets</b>	<b>110,647</b>	<b>118,235</b>	<b>120,058</b>	<b>121,706</b>	<b>121,042</b>
PP&E	26,316	31,720	34,165	36,530	36,196
Investment in JV/associates	4,711	4,944	5,052	5,162	5,274
Goodwill	23,823	24,666	24,666	24,666	24,666
Long term receivables	8,448	9,623	9,623	9,623	9,623
Intangible assets	23,436	23,826	23,096	22,269	21,828
Others	23,914	23,457	23,457	23,457	23,457
<b>Current assets</b>	<b>126,185</b>	<b>152,515</b>	<b>164,001</b>	<b>178,729</b>	<b>189,577</b>
Prepayments	997	1,095	1,020	943	863
Inventories	24,718	31,226	30,398	33,879	32,637
Trade receivables	14,285	15,422	15,677	16,761	16,807
Notes receivables	26,458	28,780	28,780	28,780	28,780
Others	10,910	13,775	13,775	13,775	13,775
Cash	48,818	62,216	74,351	84,591	96,714
<b>Current liabilities</b>	<b>105,877</b>	<b>123,713</b>	<b>124,123</b>	<b>130,213</b>	<b>129,047</b>
Trade and bills payables	36,749	45,450	45,060	50,350	48,384
Notes payable	22,446	22,970	22,970	22,970	22,970
Bank borrowings	15,013	17,006	17,806	18,606	19,406
Others	31,669	38,287	38,287	38,287	38,287
<b>Non-current liabilities</b>	<b>61,180</b>	<b>66,604</b>	<b>66,104</b>	<b>65,604</b>	<b>65,604</b>
Bank borrowings	21,669	20,729	20,229	19,729	19,729
Long term payables	16,325	21,205	21,205	21,205	21,205
Others	23,186	24,670	24,670	24,670	24,670
<b>Equity</b>	<b>69,775</b>	<b>80,433</b>	<b>93,832</b>	<b>104,618</b>	<b>115,969</b>
Shareholders' equity	45,224	51,202	61,392	68,803	76,604
MI	24,551	29,231	32,441	35,815	39,365

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Sales mix (%)</b>					
Diesel engines	28.7	31.8	31.9	32.2	32.8
Automobiles and major components	41.0	43.5	42.8	42.0	40.5
Forklift trucks & supply chain solution	38.5	33.0	33.4	33.9	34.8
Intersegment sales	(8.2)	(8.2)	(8.1)	(8.1)	(8.1)
Total	100.0	100.0	100.0	100.0	100.0
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	21.8	19.3	19.5	19.5	19.5
EBIT margin	8.3	6.5	7.9	7.9	8.0
After tax profit margin	6.8	5.7	6.7	6.7	6.8
<b>Growth (%)</b>					
Revenue	9.5	13.3	10.5	4.3	3.5
Gross profit	6.9	0.3	11.6	4.3	3.5
EBIT	4.4	(10.9)	34.3	3.8	4.7
Net profit	5.2	1.1	23.6	5.1	5.2
<b>Balance sheet ratio</b>					
Current ratio (x)	1.2	1.2	1.3	1.4	1.5
Receivable turnover days	29	27	26	26	26
Inventory turnover days	61	64	64	64	64
Payable turnover days	91	94	94	95	95
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Profitability (%)</b>					
ROA	5.4	4.4	5.3	5.2	5.3
ROE	21.5	19.1	20.2	18.4	17.3
<b>Per share data</b>					
EPS (RMB)	1.15	1.16	1.43	1.51	1.59
BVPS (RMB)	5.70	6.45	7.74	8.67	9.66
DPS (RMB)	0.29	0.15	0.57	0.60	0.63

Source: Company data, CMBIS estimates

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