

China Construction Machinery / HDT

3Q21E earnings preview: Expect 24-44% YoY earnings decline

Construction machinery & HDT players will report 3Q21 earnings this week. We expect major players to report 24-44% YoY decline in net profit in 3Q21E, due to the decrease in sales volume driven by the weakness of infrastructure and property, as well as margin contraction as a result of high steel price. That said, these negatives, to certain extent, are priced in following the recent share price weakness. We revise down our earnings forecast and expect the results announcement, followed by post-results earnings cut by the market, will help remove the uncertainties and offer buying opportunities. We expect the speed-up of local government special bonds issuance will help stabilize the construction machinery & HDT demand in 1Q22E.

SANY Heavy (600031 CH, TP: RMB30, BUY)

- **3Q21E earnings preview: We expect net profit to decline 43% YoY to RMB2.2bn**, due to 29% YoY decline in revenue and >4ppt YoY decline in gross margin to ~26%.
- **Earnings revision and new TP:** We take our earnings forecast in 2021E-23E down by 16-20% after modeling both lower sales volume and margin assumptions. We trim our TP to RMB30 (from RMB38), based on 14x 2022E P/E (previously: 17x 2021E). Our target multiple is based on 20% premium to the average P/E of 11.6x since the sector upcycle starting 2017. The premium is to reflect the Company's strong overseas expansion that will help reduce the cyclical risk.

Zoomlion (1157 HK, TP: HK\$8.8 / 000157 CH, TP: RMB9.3, BUY)

- **3Q21E earnings preview: We expect net profit to decline 44% YoY to RMB929mn**, driven largely by a 20% decline in revenue and 4ppt YoY gross margin contraction.
- **Earnings revision and new TP:** We revise down our earnings forecast in 2021E-23E by 31-34% after modeling both lower volume and margin assumptions. We trim our TP for Zoomlion H/A to HK\$8.8/RMB9.3 (down from HK\$16.8/RMB18.7), based on 7.5x/9.5x 2022E P/E. Our target P/E is based on the average since the earnings upcycle starting 2019.

Weichai Power (2338 HK, TP: HK\$22.6 / 000338 CH, TP: RMB18.8, BUY)

- **3Q21E earnings preview: We expect net profit to drop 24% YoY to RMB1.84bn**. According to CICEIA, Weichai's multi-cylinder engine sales volume dropped 38% YoY in 3Q21. We forecast Weichai's total revenue to drop 25% YoY, due to >40% YoY decline in engine and HDT revenue, but partially offset by the 24% YoY increase in KION's revenue (KION's 3Q results were just announced).
- **Earnings revision and new TP:** We revise down our earnings forecast in 2021E-23E by 7-12%, due to more conservative assumptions on HDT engine sales and margin. Our new SOTP-based TP for Weichai H/A is HK\$22.6/RMB18.8 (down from HK\$24.8/RMB20.7).

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3Q21E earnings preview

	SANY Heavy	Zoomlion	Weichai
RMB mn			
Revenue			
3Q21E	17,073	13,133	40,006
3Q20	23,883	16,417	52,889
Change YoY	-28.5%	-20.0%	-24.4%
Gross margin			
3Q21E	26.2%	23.0%	18.0%
3Q20	30.4%	27.0%	19.3%
Change YoY (ppt)	-4.2	-4.0	-1.3
Net profit			
3Q21E	2,200	929	1,843
3Q20	3,854	1,668	2,426
Change YoY	-42.9%	-44.3%	-24.0%
Reporting date	28-Oct	28-Oct	29-Oct

Source: Company data, CMBIS estimates

Change in TP

Company Ticker	SANY Heavy 600031 CH	Zoomlion 1157 HK 000157 CH	Weichai Power 2338 HK 000338 CH
Rating	BUY	BUY	BUY
Currency	RMB	HK\$	RMB
Current price	24.66	6.71	7.91
TP			
New	30.0	8.8	9.3
Old	38.0	16.8	18.7
Upside	22%	31%	18%
			48%
			11%

Source: CMBIS estimates

Related reports:

China Construction Machinery / HDT – China Local Government Bond Tracker – 25 Oct 2021 ([link](#))

Jiangsu Hengli Hydraulic (601100 CH) – Short-term impact of power outage; Wait for more positive signals – 11 Oct 2021 ([link](#))

China Construction Machinery / HDT – Favourable policy shift; Defensive growth amid volatile market; Upgrade SANY Heavy & Sinotruk – 8 Aug 2021 ([link](#))

SANY Heavy (600031 CH, BUY)

Figure 1: Financial summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	76,233	100,054	113,466	122,550	129,159
YoY growth (%)	037	31	13	8	5
Net income (RMB mn)	11,325	15,431	15,315	17,878	18,628
EPS (RMB)	1.37	1.82	1.81	2.11	2.20
YoY growth (%)	73.2	33.2	-0.8	16.7	4.2
Consensus EPS (RMB)	n/a	n/a	2.12	2.39	2.63
EV/EBITDA (x)	13.6	10.5	10.8	9.3	9.0
P/E (x)	18.0	13.5	13.6	11.7	11.2
P/B (x)	4.4	3.7	3.1	2.6	2.3
Yield (%)	1.7	2.4	2.3	2.7	2.9
ROE (%)	28.8	29.8	24.8	24.4	21.6
Net debt / equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

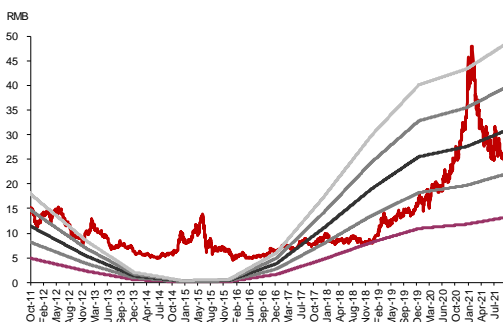
Last closing price: RMB24.66

Source: Company data, CMBIS estimates

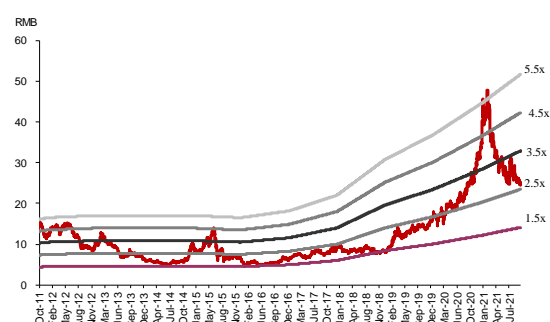
Figure 2: Change in key assumptions and earnings forecast

(RMB mn)	Old			New			Change		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue									
Concrete machinery	37,926	43,615	47,977	30,244	33,781	37,159	-20.3%	-22.5%	-22.5%
Excavator	49,865	51,361	51,361	45,559	48,293	49,259	-8.6%	-6.0%	-4.1%
Crane machinery	25,339	28,127	30,939	20,550	22,423	24,216	-18.9%	-20.3%	-21.7%
Piling machinery	7,973	8,372	8,372	7,376	7,745	7,745	-7.5%	-7.5%	-7.5%
Earth moving machinery	2,596	2,673	2,673	2,640	2,719	2,719	1.7%	1.7%	1.7%
Other machinery	3,687	3,871	4,065	4,328	4,545	4,772	17.4%	17.4%	17.4%
Revenue (construction machinery)	127,386	138,019	145,387	110,697	119,504	125,869	-13.1%	-13.4%	-13.4%
Interest income from financing	841	941	1,017	841	941	1,017	0.0%	0.0%	0.0%
Other business	2,769	3,046	3,290	2,769	3,046	3,290	0.0%	0.0%	0.0%
Total revenue	130,155	141,065	148,676	113,466	122,550	129,159	-12.8%	-13.1%	-13.1%
Gross margin							ppt		
Concrete machinery	26.0%	25.9%	25.9%	25.0%	25.9%	25.9%	(1.0)	0.0	0.0
Excavator	32.0%	32.5%	32.5%	28.5%	30.0%	30.0%	(3.5)	(2.5)	(2.5)
Crane machinery	22.0%	23.0%	23.0%	21.0%	22.0%	22.0%	(1.0)	(1.0)	(1.0)
Piling machinery	45.0%	44.0%	43.0%	44.0%	44.0%	43.0%	(1.0)	0.0	0.0
Earth moving machinery	30.0%	29.0%	29.0%	29.7%	29.0%	29.0%	(0.3)	0.0	0.0
Other machinery	22.0%	22.0%	22.0%	19.0%	22.0%	22.0%	(3.0)	0.0	0.0
Gross margin (construction machinery)	28.7%	28.8%	28.5%	26.8%	27.9%	27.7%	(1.9)	(0.9)	(0.8)
Interest income from financing	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%	-	-	-
Other business	12.0%	12.0%	12.0%	15.0%	14.0%	14.0%	3.0	2.0	2.0
Blended gross margin	28.7%	28.8%	28.6%	27.0%	28.0%	27.8%	(1.7)	(0.8)	(0.7)
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%	1.5%	1.3%	1.2%	(5.0)	(5.0)	(5.0)
Net profit	19,059	21,149	22,167	15,315	17,878	18,628	-19.6%	-15.5%	-16.0%

Source: Company data, CMBIS estimates

Figure 3: SANY's P/E band


Source: Company data, Bloomberg, CMBIS estimates

Figure 4: SANY's P/B band


Source: Company data, Bloomberg, CMBIS estimates

Financial Summary – SANY Heavy

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	76,233	100,054	113,466	122,550	129,159
Cost of sales	-51,204	-70,034	-82,868	-88,231	-93,231
Gross profit	25,029	30,021	30,599	34,320	35,928
Surcharge	-373	-408	-340	-368	-646
S&D expenses	-5,488	-5,332	-6,241	-6,495	-6,845
Administrative expenses	-2,067	-2,201	-1,702	-1,593	-1,550
R&D expenses	-3,650	-4,992	-5,673	-6,128	-6,458
Fair value change	290	436	400	400	400
Asset impairment	-1,363	-681	-794	-980	-1,033
EBIT	12,378	16,844	16,248	19,156	19,795
Net finance income/(cost)	46	-282	140	302	548
Finance income	489	515	617	793	1,050
Finance expenses	-442	-797	-477	-491	-502
Other gains/(losses)	1,058	1,941	1,960	1,978	1,987
Profit of JV and associates	140	29	176	187	200
Pretax profit	13,621	18,531	18,524	21,623	22,530
Income tax	-2,001	-2,671	-2,686	-3,135	-3,267
After tax profit	11,620	15,861	15,838	18,488	19,263
MI	-295	-429	-523	-610	-636
Net profit	11,325	15,431	15,315	17,878	18,628
D&A	2,020	1,894	1,965	2,055	2,124
EBITDA	14,398	18,738	18,214	21,211	21,920

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	13,621	18,531	18,524	21,623	22,530
Finance cost	120	797	477	491	502
Interest income	-489	-515	-617	-793	-1,050
Profit or loss of associates	-140	-29	-176	-187	-200
Fair value change	-673	-1,341	0	0	0
Provision for assets	241	495	0	0	0
Depreciation and amortization	2,020	1,894	1,965	2,055	2,124
Income tax paid	-2,001	-2,671	-2,686	-3,135	-3,267
Change in working capital	-1,066	-3,531	-4,689	-7,277	-4,542
Others	1,631	-267	0	0	-0
Cash flow from operation	13,265	13,363	12,798	12,776	16,097
Net capex on PP&E	-2,157	-4,133	-4,000	-4,000	-3,000
Investment in JV/associates	-11	-47	-50	-50	-50
Investment in subsidiaries	153	4	0	0	0
Dividend received	14	11	18	0	0
Interest received	489	515	617	793	1,050
Others	-9,031	-7,599	-180	-180	-180
Cash flow from investing	-10,544	-11,250	-3,596	-3,437	-2,180
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,756	3,020	500	300	300
Dividend paid	-2,165	-3,516	-5,057	-4,901	-5,721
Interest paid	-442	0	-477	-491	-502
Others	-1,187	-1,956	0	0	0
Cash flow from financing	-2,039	-2,452	-5,034	-5,092	-5,923
Change in cash	683	-339	4,168	4,247	7,995
Cash at beginning of the year	11,985	12,157	12,596	16,764	21,011
Exchange and others	-511	778	0	0	-0
Cash at the end of the year	12,157	12,596	16,764	21,011	29,006

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	26,555	34,827	34,689	45,135	41,076
PP&E	10,615	10,841	13,183	15,445	16,647
JV/associates	2,985	3,420	3,628	3,866	4,115
Goodwill	49	50	50	50	50
LT trade receivables	1,286	5,555	2,217	7,856	4,176
Intangible assets					
AFS investments	3,339	3,228	3,100	2,963	2,817
Others	0	0	0	0	0
Deferred tax assets	2,580	5,240	5,240	5,240	5,240
Current assets	1,147	1,441	1,441	1,441	1,441
Inventories	72,686	91,428	102,001	109,918	125,109
Trade and bills receivables	14,252	19,198	20,760	21,784	24,193
Other receivables	21,775	21,512	25,118	27,260	30,773
Others	2,787	1,869	3,105	3,610	4,883
Cash	9,061	13,446	13,446	13,446	13,446
Current liabilities	47,953	62,049	60,704	64,980	62,069
Trade and bills payables	20,295	32,207	31,362	35,838	33,128
Bank borrowings	10,771	8,466	7,966	7,766	7,566
Tax payable	1,515	2,030	2,030	2,030	2,030
Others	9,928	11,413	11,413	11,413	11,413
Non-current liabilities	2,866	6,018	7,018	7,518	8,018
Bank borrowings	1,303	4,532	5,532	6,032	6,532
Deferred tax liabilities	714	600	600	600	600
Others	728	849	849	849	849
Equity	48,423	58,188	68,968	82,555	96,098
Shareholders' equity	47,151	56,562	66,820	79,797	92,704
MI	1,272	1,625	2,148	2,758	3,394

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Concrete machinery	30%	27%	27%	28%	29%
Excavator	36%	38%	40%	39%	38%
Crane machinery	18%	19%	18%	18%	19%
Piling machinery	6%	7%	7%	6%	6%
Earth moving machinery	3%	3%	2%	2%	2%
Other machinery	3%	3%	4%	4%	4%
Interest income	1%	1%	1%	1%	1%
Other business	2%	3%	2%	2%	3%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	32.8	30.0	27.0	28.0	27.8
EBIT margin	16.2	16.8	14.3	15.6	15.3
Net profit margin	15.2	15.9	14.0	15.1	14.9
Growth (%)					
Revenue	36.6	31.2	13.4	8.0	5.4
Gross profit	46.4	19.9	1.9	12.2	4.7
EBIT	75.2	36.1	(3.5)	17.9	3.3
Net profit	85.2	36.3	(0.8)	16.7	4.2
Balance sheet ratio					
Current ratio (x)	1.5	1.5	1.7	1.7	2.0
Receivable turnover days	106	91	88	93	99
Inventory turnover days	92	87	88	88	90
Payable turnover days	134	137	140	139	135
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	13.1	13.7	11.6	12.3	11.6
ROE	28.8	29.8	24.8	24.4	21.6
Per share data					
EPS (RMB)	1.37	1.82	1.81	2.11	2.20
BVPS (RMB)	5.60	6.68	7.90	9.43	10.96
DPS (RMB)	0.43	0.60	0.58	0.68	0.70

Source: Company data, CMBIS estimates

Zoomlion (1157 HK / 000157 CH, BUY)

Figure 5: Financial summary – Zoomlion-H

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	43,307	65,109	74,969	85,779	94,512
YoY growth (%)	50.9	50.3	15.1	14.4	10.2
Core net profit (RMB mn)	4,381	7,296	6,493	8,405	9,196
Core EPS (RMB)	0.58	0.97	0.77	0.98	1.07
YoY growth (%)	119.2	65.9	-20.1	26.8	9.4
Consensus EPS (RMB)	n/a	n/a	1.01	1.11	1.18
EV/EBITDA (x)	7.2	5.3	6.1	4.9	4.6
P/E (x)	10.2	6.0	7.2	5.7	5.2
P/B (x)	1.2	1.0	0.9	0.8	0.7
Yield (%)	0.0	9.1	5.4	7.0	7.7
ROE (%)	11.4	17.1	12.8	14.5	14.4
Net gearing (%)	31.3	9.9	Net cash	Net cash	Net cash

Last closing price: HK\$6.71

Source: Company data, CMBIS estimates

Figure 6: Financial summary – Zoomlion-A

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	43,307	65,109	74,969	85,779	94,512
YoY growth (%)	50.9	50.3	15.1	14.4	10.2
Core net profit (RMB mn)	4,381	7,296	6,493	8,405	9,196
Core EPS (RMB)	0.58	0.97	0.77	0.98	1.07
YoY growth (%)	119.2	65.9	-20.1	26.8	9.4
Consensus EPS (RMB)	n/a	n/a	1.01	1.11	1.18
EV/EBITDA (x)	10.0	7.3	8.5	6.8	6.3
P/E (x)	14.5	8.6	10.3	8.1	7.4
P/B (x)	1.7	1.4	1.2	1.1	1.0
Yield (%)	0.0	6.4	3.8	4.9	5.4
ROE (%)	11.4	17.1	12.8	14.5	14.4
Net gearing (%)	31.3	9.9	Net cash	Net cash	Net cash

Last closing price: RMB7.91

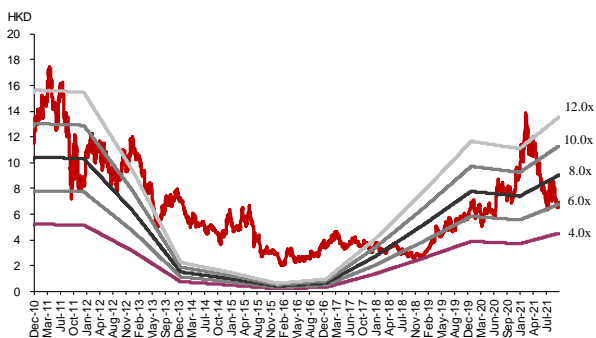
Source: Company data, CMBIS estimates

Figure 7: Change in key assumptions and earnings forecast

	Old			New			Change		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
(RMB mn)									
Revenue									
Construction machinery	81,035	94,750	104,245	69,902	79,254	86,431	-14%	-16%	-17%
Concrete machinery	23,162	25,941	28,535	20,884	22,972	25,269	-10%	-11%	-11%
Crane machinery	43,621	48,856	52,764	36,642	39,573	41,948	-16%	-19%	-21%
Others	14,252	19,953	22,946	12,377	16,708	19,215	-13%	-16%	-16%
Agricultural machinery	3,834	4,984	6,230	3,834	4,984	6,230	0%	0%	0%
Financial services and others	1,591	1,988	2,386	1,233	1,542	1,850	-22%	-22%	-22%
Total revenue	86,459	101,722	112,861	74,969	85,779	94,512	-13%	-16%	-16%
Gross margin							Change in ppt		
Construction machinery	27.3%	27.3%	27.4%	23.3%	24.7%	25.1%	-3.97	-2.58	-2.29
Concrete machinery	26.3%	26.2%	26.0%	24.5%	26.0%	26.0%	-1.80	-0.20	0.00
Crane machinery	30.9%	30.9%	30.5%	24.5%	26.0%	26.0%	-6.40	-4.90	-4.50
Others	18.0%	20.0%	22.0%	18.0%	20.0%	22.0%	0.00	0.00	0.00
Agricultural machinery	19.0%	20.0%	20.0%	19.0%	20.0%	20.0%	0.00	0.00	0.00
Financial services	99.5%	99.5%	99.5%	81.0%	81.0%	81.0%	-18.50	-18.50	-18.50
Average gross margin	28.3%	28.4%	28.5%	24.1%	25.5%	25.9%	-4.20	-2.90	-2.65
S&D expense ratio	6.0%	5.8%	5.6%	5.5%	5.6%	5.6%	(0.5)	(0.2)	0.0
Administrative expense ratio	6.0%	5.9%	5.7%	5.7%	5.6%	5.7%	(0.3)	(0.3)	0.0
R&D expense ratio	5.3%	5.4%	5.5%	5.3%	5.4%	5.5%	0.0	0.0	0.0
Net profit	9,829	11,870	13,252	6,493	8,405	9,196	-34%	-29%	-31%

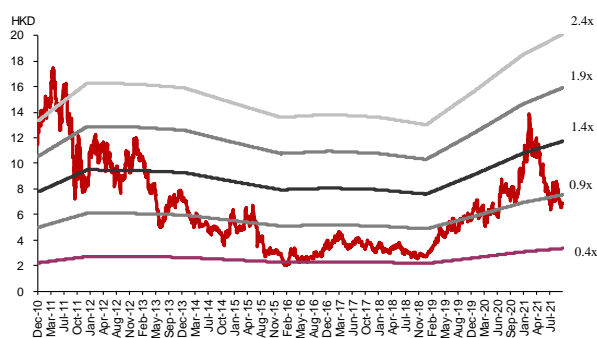
Source: Company data, CMBIS estimates

Figure 8: Zoomlion - H 12M forward P/E band



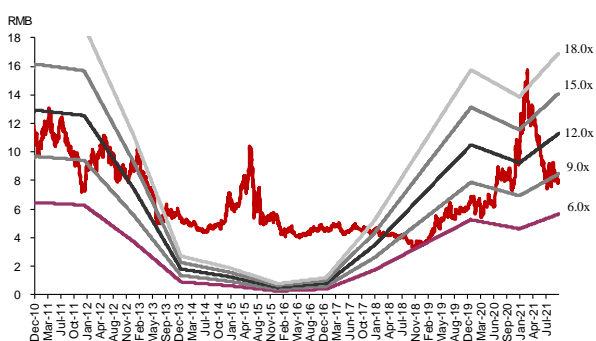
Source: Bloomberg, Company data, CMBIS estimates

Figure 9: Zoomlion - H 12M forward P/B band



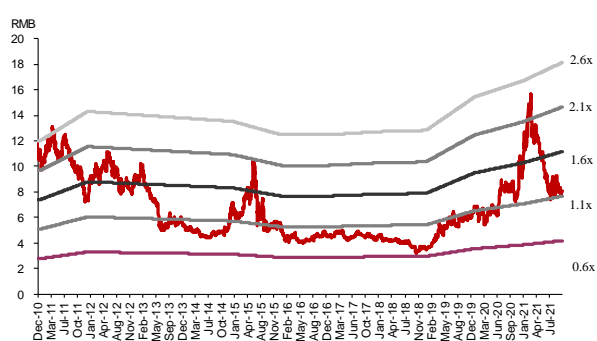
Source: Bloomberg, Company data, CMBIS estimates

Figure 10: Zoomlion - A 12M forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 11: Zoomlion - A 12M forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary – Zoomlion

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	43,307	65,109	74,969	85,779	94,512
Cost of sales	-30,314	-46,492	-56,920	-63,930	-70,063
Gross profit	12,993	18,617	18,049	21,849	24,448
Other income	1,017	1,462	1,479	1,499	1,279
S&D expenses	-3,780	-4,046	-4,123	-4,804	-5,293
Administrative expenses	-2,693	-4,048	-4,273	-4,804	-5,387
R&D expenses	-1,516	-3,345	-3,973	-4,632	-5,198
EBIT	6,021	8,640	7,159	9,109	9,850
Net finance income/(cost)	-1,165	-154	195	496	667
Finance income	539	596	1,191	1,357	1,393
Finance expenses	-1,704	-750	-996	-861	-726
Other gains/(losses)	0	0	0	0	0
Profit of JV and associates	188	182	210	184	194
Pretax profit	5,044	8,668	7,563	9,790	10,711
Income tax	-759	-1,297	-1,134	-1,468	-1,607
After tax profit	4,285	7,371	6,429	8,321	9,105
MI/discontinued operation	96	-75	64	83	91
Net profit	4,381	7,296	6,493	8,405	9,196
D&A	867	823	963	1,043	1,091
EBITDA	6,888	9,463	8,121	10,152	10,941

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	5,044	8,668	7,563	9,790	10,711
Finance cost	1,704	750	996	861	726
Interest income	-539	-596	-1,191	-1,357	-1,393
Profit or loss of associates	-188	-182	-210	-184	-194
Disposal of PP&E/business	0	0	0	0	0
Depreciation and amortization	867	823	963	1,043	1,091
Income tax paid	-773	-1,297	-1,134	-1,468	-1,607
Change in working capital	442	-1,227	756	-339	-2,387
Others	-589	483	0	0	0
Cash flow from operation	5,968	7,422	7,743	8,345	6,947
Net capex on PP&E	-1,082	-1,192	-2,646	-2,500	-1,500
Investment in JV/associates	-301	0	0	0	0
Investment in subsidiaries	-177	0	0	0	0
Investment in intangible assets	-128	-110	-100	-100	0
Dividend received	45	0	0	0	0
Interest received	253	596	1,191	1,357	1,393
Others	11,374	1,491	0	0	0
Cash flow from investing	9,984	785	-1,555	-1,243	-107
Equity financing/(repurchase)	-2,145	0	6,095	0	0
Net bank borrowings	-14,008	-2,282	-500	-4,700	-500
Dividend paid	-1,801	0	-4,202	-2,597	-3,362
Interest paid	-1,707	0	-996	-861	-726
Others	13	-962	0	0	0
Cash flow from financing	-19,648	-3,244	396	-8,158	-4,587
Change in cash	-3,696	4,963	6,585	-1,056	2,253
Cash at beginning of the year	8,754	5,073	10,086	16,671	15,615
Exchange and others	15	50	0	0	0
Cash at the end of the year	5,073	10,086	16,671	15,615	17,868

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	37,979	49,287	47,529	58,897	54,579
PP&E	6,735	7,342	9,273	10,983	11,647
Lease prepayment	2,433	3,068	3,018	2,968	2,918
JV/associates	3,909	3,388	3,598	3,782	3,976
Finance lease receivables	7,771	13,008	10,818	16,444	13,593
Goodwill	2,017	2,054	2,054	2,054	2,054
Trade receivables	9,072	14,131	12,570	16,571	14,501
Intangible assets	2,043	1,965	1,867	1,764	1,559
Financial assets	2,644	2,703	2,703	2,703	2,703
Others	0	0	0	0	0
Deferred tax assets	1,271	1,453	1,453	1,453	1,453
Deposits	84	175	175	175	175
Current assets	54,052	66,956	79,051	77,710	87,241
Inventories	11,772	14,652	16,537	17,442	19,029
Trade & other receivables	20,839	23,972	26,966	27,087	30,397
Finance lease receivables	9,229	10,365	10,996	9,685	12,066
Financial assets at FVPL	4,311	4,284	4,284	4,284	4,284
Others	1,413	1,374	1,374	1,374	1,374
Pledged deposits	1,415	2,223	2,223	2,223	2,223
Cash	5,073	10,086	16,671	15,615	17,868
Current liabilities	34,569	46,928	48,944	57,446	56,917
Trade and other payables	25,012	40,387	42,264	51,266	51,237
Bank borrowings	7,312	2,964	2,464	1,964	1,464
Tax payable	186	710	710	710	710
Contract liabilities	1,934	2,777	3,416	3,416	3,416
Others	125	90	90	90	90
Non-current liabilities	17,965	21,465	21,465	17,265	17,265
Bank borrowings	14,515	16,337	16,337	12,137	12,137
Deferred tax liabilities	455	490	490	490	490
Others	2,995	4,638	4,638	4,638	4,638
Equity	39,497	47,850	56,171	61,896	67,638
Shareholders' equity	38,827	46,706	55,092	60,899	66,733
MI	670	1,144	1,080	996	905

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Concrete machinery	32%	29%	28%	27%	27%
Crane machinery	51%	54%	49%	46%	44%
Others machinery	11%	12%	17%	19%	20%
Agricultural machinery	4%	4%	5%	6%	7%
Financial services	2%	2%	2%	2%	2%
Environmental (discontinued)	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	30.0	28.6	24.1	25.5	25.9
EBIT margin	13.9	13.3	9.5	10.6	10.4
Net profit margin	9.9	11.3	8.6	9.7	9.6
Growth (%)					
Revenue	50.9	50.3	15.1	14.4	10.2
Gross profit	67.1	43.3	(3.1)	21.1	11.9
EBIT	65.7	43.5	(17.1)	27.2	8.1
Net profit	115.7	66.5	(11.0)	29.4	9.4
Balance sheet ratio					
Current ratio (x)	1.6	1.4	1.6	1.4	1.5
Trade receivable turnover days	240	191	189	177	171
Finance lease receivable turnover days	124	113	110	102	100
Inventory turnover days	128	104	100	97	95
Payable turnover days	246	257	265	267	267
Net debt / total equity (%)	31.3	9.9	Net cash	Net cash	Net cash
Profitability (%)					
ROA	4.7	7.0	5.3	6.4	6.6
ROE	11.4	17.1	12.8	14.5	14.4
Per share data					
EPS (RMB)	0.58	0.97	0.77	0.98	1.07
BVPS (RMB)	4.93	5.93	6.42	7.10	7.78
DPS (RMB)	0.00	0.53	0.30	0.39	0.43

Note: We have modelled the dilution effect from upcoming fund-raising exercise in 2021E

Source: Company data, CMBIS estimates

Weichai Power (2338 HK / 000338 CH, BUY)

Figure 12: Financial summary – Weichai-H

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	174,361	197,491	213,859	222,761	230,505
YoY growth (%)	9.5	13.3	8.3	4.2	3.5
Core net profit (RMB mn)	9,105	9,207	10,118	11,305	11,882
Core EPS (RMB)	1.15	1.16	1.16	1.30	1.36
YoY growth (%)	6.0	1.1	(0.1)	11.7	5.1
Consensus EPS (RMB)	n/a	n/a	1.24	1.39	1.52
P/E (x)	11.9	11.5	11.0	9.8	9.3
EV/EBITDA (x)	5.1	5.3	5.0	4.4	4.2
P/B (x)	2.4	2.1	1.5	1.4	1.3
Yield (%)	2.1	1.1	3.6	4.1	4.3
ROE (%)	21.5	19.1	16.3	14.7	14.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: HK\$15.26

Source: Company data, CMBIS estimates

Figure 13: Financial summary – Weichai-A

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	174,361	197,491	213,859	222,761	230,505
YoY growth (%)	9.5	13.3	8.3	4.2	3.5
Core net profit (RMB mn)	9,105	9,207	10,118	11,305	11,882
Core EPS (RMB)	1.15	1.16	1.16	1.30	1.36
YoY growth (%)	6.0	1.1	(0.1)	11.7	5.1
Consensus EPS (RMB)	n/a	n/a	1.24	1.39	1.52
P/E (x)	15.9	15.5	14.7	13.2	12.5
EV/EBITDA (x)	6.6	6.9	6.5	5.8	5.5
P/B (x)	3.2	2.8	2.0	1.9	1.7
Yield (%)	1.6	0.8	2.7	3.0	3.2
ROE (%)	21.5	19.1	16.3	14.7	14.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: RMB16.92

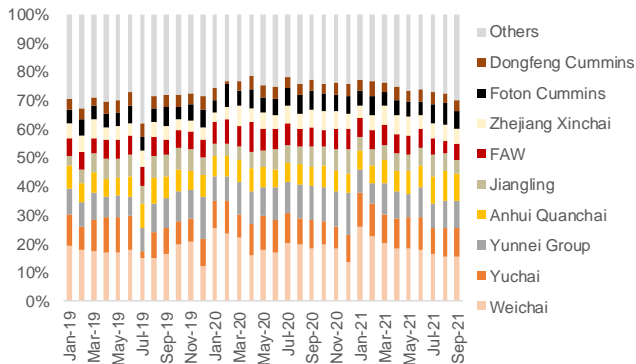
Source: Company data, CMBIS estimates

Figure 14: Change in key assumptions

Change in key assumptions	2021E			2022E			2023E		
	Old	New	Change	Old	New	Change	Old	New	Change
Sales volume (unit)									
Engine total	1,072,355	1,033,118	-3.7%	1,127,904	1,081,415	-4.1%	1,188,473	1,138,862	-4.2%
HDT (Shaanxi Heavy-duty Motor)	177,380	177,380	0.0%	173,832	173,832	0.0%	173,832	173,832	0.0%
Gear box (Shaanxi Fast Gear Company)	1,304,600	1,269,020	-2.7%	1,330,692	1,294,400	-2.7%	1,330,692	1,294,400	-2.7%
(RMB mn)									
Revenue									
Diesel engines	69,703	67,153	-3.7%	73,314	70,292	-4.1%	77,251	74,026	-4.2%
Automobiles and major components	93,365	91,123	-2.4%	95,537	93,233	-2.4%	95,537	93,233	-2.4%
Forklift trucks & supply chain solution	72,923	72,923	0.0%	77,298	77,298	0.0%	81,936	81,936	0.0%
Intersegment sales	(17,699)	(17,340)	-2.0%	(18,461)	(18,062)	-2.2%	(19,104)	(18,690)	-2.2%
Total revenue	218,291	213,859	-2.0%	227,688	222,761	-2.2%	235,620	230,505	-2.2%
Segment profit									
Diesel engines	10,177	8,327	-18.2%	10,630	9,489	-10.7%	11,201	9,994	-10.8%
Automobiles and major components	1,867	1,640	-12.2%	1,815	1,678	-7.5%	1,815	1,678	-7.5%
Forklift trucks & supply chain solution	4,302	4,302	0.0%	4,561	4,561	0.0%	4,834	4,834	0.0%
Intersegment sales	(142)	(139)	-2.0%	(148)	(144)	-2.2%	(153)	(150)	-2.2%
Total segment profit	16,205	14,131	-12.8%	16,859	15,584	-7.6%	17,698	16,356	-7.6%
Segment margin									
			Change (ppt)			Change (ppt)			Change (ppt)
Diesel engines	14.6%	12.4%	-2.2	14.5%	13.5%	-1.0	14.5%	13.5%	-1.0
Automobiles and major components	2.0%	1.8%	-0.2	1.9%	1.8%	-0.1	1.9%	1.8%	-0.1
Forklift trucks & supply chain solution	5.9%	5.9%	0.0	5.9%	5.9%	0.0	5.9%	5.9%	0.0
Average	7.4%	6.6%	-0.8	7.4%	7.0%	-0.4	7.5%	7.1%	-0.4
Net profit	11,478	10,118	-11.8%	12,162	11,305	-7.0%	12,786	11,882	-7.1%

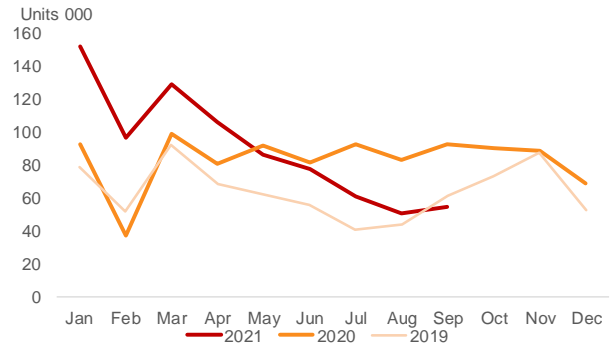
Source: Company data, CMBIS estimates

Figure 15: China multi-cylinder engine market share



Source: CICEIA, CMBIS

Figure 16: Weichai's multi-cylinder engine monthly sales volume



Source: CICEIA, CMBIS

Figure 17: KION's latest guidance for 2021E

(EUR mn)	2019	2020	2021E guidance (new)	
			Low-end	High-end
Order intake	9,112	9,443	10,650	11,450
Growth (YoY)	5%	4%	13%	21%
Revenue	8,807	8,342	9,700	10,300
Growth (YoY)	10%	-5%	16%	23%
Adjusted EBIT	851	547	810	890
Growth (YoY)	8%	-36%	48%	63%
Adjusted EBIT margin	9.7%	6.6%	8.4%	8.6%
Net income	445	211	-	-
Growth (YoY)	11%	-53%	-	-

Source: Company data, CMBIS

Figure 18: KION's quarterly financials

KION (EUR mn)	3Q20	4Q20	1Q21	2Q21	3Q21
Order intake	2,315	2,727	2,626	3,255	3,107
Growth (YoY)	-1%	6%	26%	40%	34%
Revenue	2,073	2,341	2,375	2,593	2,566
Growth (YoY)	-4%	3%	17%	36%	24%
Adjusted EBIT	159	183	215	247	229
Growth (YoY)	-27%	-19%	49%	305%	44%
Adjusted EBIT margin	7.7%	7.8%	9.1%	9.5%	8.9%
Net income	82	78	137	154	140
Growth (YoY)	-32%	-26%	101%	n/a	71%

Source: Company data, CMBIS

Figure 19: SOTP valuation

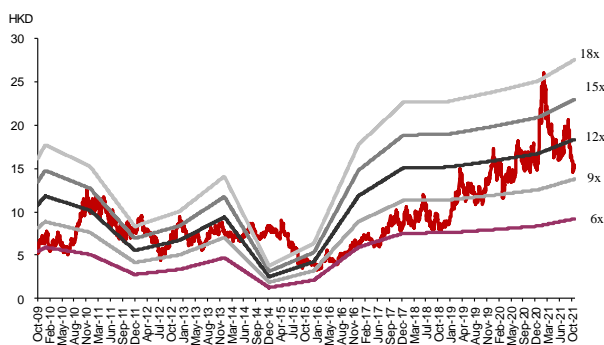
SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA 2021E (RMB mn)	Estimated EV (RMB mn)	Net cash / (Net debt)	Equity value (RMB mn)
Weichai core business	EV/EBITDA	6.5	12,667	82,336	17,442	99,778
KION Group	Proportionate market value	-	-	-	-	40,493
Ballard Power Systems	Proportionate market value	-	-	-	-	6,234
Ceres Power	Proportionate market value	-	-	-	-	3,978
Share of JV/associates	P/B	2.5	-	-	-	8,796
Minority interest (Weichai core business)						-9,756
Total NAV						149,523
NAV per share (RMB)						18.8
NAV per share (HK\$)						22.6

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

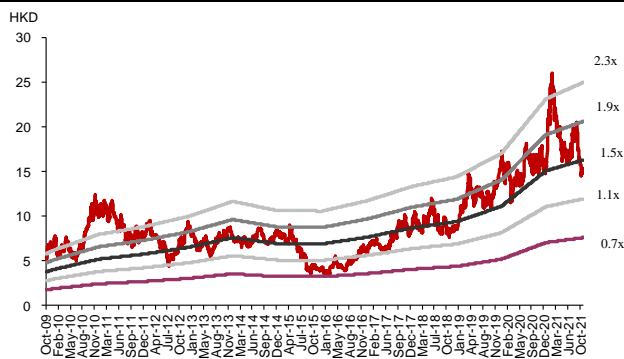
Source: Company data, CMBIS estimates

Figure 20: Weichai Power-H P/E band



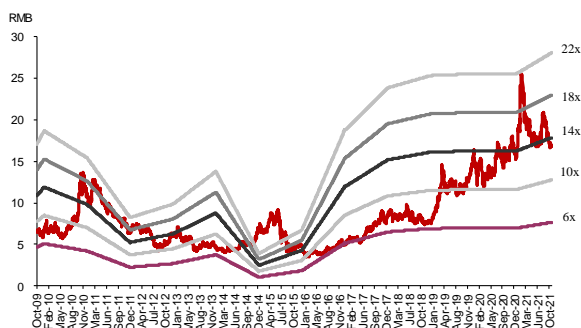
Source: Bloomberg, Company data, CMBIS estimates

Figure 21: Weichai Power-H P/B band



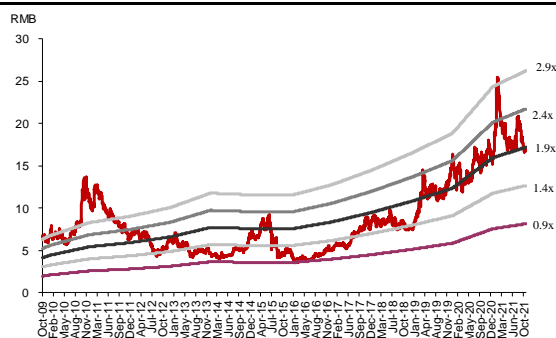
Source: Bloomberg, Company data, CMBIS estimates

Figure 22: Weichai Power-A P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 23: 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	FY21E	FY22E	FY23E
Revenue	174,361	197,491	213,859	222,761	230,505
Cost of sales	-136,353	-159,353	-172,156	-179,323	-185,557
Gross profit	38,008	38,138	41,702	43,438	44,949
Operating expenses	-23,586	-25,289	-26,522	-26,810	-27,553
EBIT	14,422	12,850	15,181	16,628	17,396
Other expenses	-94	-142	-257	-267	-277
Net finance cost	-220	-279	361	741	973
Finance income and others	1,067	1,278	1,702	2,087	2,333
Finance expenses	-1,288	-1,557	-1,341	-1,345	-1,359
profit of JV & associates	244	253	250	255	261
Pretax profit	14,352	12,682	15,535	17,358	18,353
Income tax	-2,445	-1,407	-2,563	-2,864	-3,120
After tax profit	11,907	11,275	12,972	14,494	15,233
MI	-2,802	-2,068	-2,854	-3,189	-3,351
Net profit	9,105	9,207	10,118	11,305	11,882
D&A	8,071	8,858	7,860	9,039	9,856
EBITDA	22,493	21,708	23,041	25,667	27,251

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	14,352	12,682	15,535	17,358	18,353
Finance cost	1,288	1,557	1,341	1,345	1,359
Interest income	-1,067	-1,278	-1,702	-2,087	-2,333
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	-2,563	-2,864	-3,120
Change in working capital	2,603	1,114	228	664	-708
Others	1,341	1,727	1,777	2,164	2,413
Cash flow from operation	23,835	22,928	22,151	25,287	25,479
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
Cash flow from investing	-8,391	-9,417	-9,358	-10,354	-8,851
Proceeds from equity financing	0	0	13,029	0	0
Net bank borrowings	1,137	1,052	300	300	800
Dividend paid	-4,851	-3,459	-1,190	-4,047	-4,522
Interest paid	0	0	-1,341	-1,345	-1,359
Others	-3,853	-579	0	0	0
Cash flow from financing	-7,567	-2,986	10,798	-5,093	-5,081
Change in cash	7,877	10,525	23,591	9,840	11,546
Cash at beginning of the year	38,210	48,818	62,216	85,807	95,647
Exchange gains/(losses) and others	2,731	2,873	0	0	0
Cash at the end of the year	48,818	62,216	85,807	95,647	107,194

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	110,647	118,235	120,058	121,706	121,042
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
Current assets	126,185	152,515	173,575	189,575	198,094
Prepayments	997	1,095	1,020	943	863
Inventories	24,718	31,226	29,146	33,739	31,333
Trade receivables	14,285	15,422	15,046	16,690	16,149
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	85,807	95,647	107,194
Current liabilities	105,877	123,713	122,285	129,986	127,130
Trade and bills payables	36,749	45,450	43,222	50,124	46,467
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
Non-current liabilities	61,180	66,604	66,104	65,604	65,604
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
Equity	69,775	80,433	105,244	115,691	126,402
Shareholders' equity	45,224	51,202	73,159	80,417	87,777
MI	24,551	29,231	32,085	35,273	38,625

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Diesel engines	28.7	31.8	31.4	31.6	32.1
Automobiles and major components	41.0	43.5	42.6	41.9	40.4
Forklift trucks & supply chain solution	38.5	33.0	34.1	34.7	35.5
Intersegment sales	(8.2)	(8.2)	(8.1)	(8.1)	(8.1)
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
Gross margin	21.8	19.3	19.5	19.5	19.5
EBIT margin	8.3	6.5	7.1	7.5	7.5
After tax profit margin	6.8	5.7	6.1	6.5	6.6
Growth (%)					
Revenue	9.5	13.3	8.3	4.2	3.5
Gross profit	6.9	0.3	9.3	4.2	3.5
EBIT	4.4	(10.9)	18.1	9.5	4.6
Net profit	5.2	1.1	9.9	11.7	5.1
Balance sheet ratio					
Current ratio (x)	1.2	1.2	1.4	1.5	1.6
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	Net cash
Profitability (%)					
ROA	5.4	4.4	4.6	4.8	4.8
ROE	21.5	19.1	16.3	14.7	14.1
Per share data					
EPS (RMB)	1.15	1.16	1.16	1.30	1.36
BVPS (RMB)	5.70	6.45	8.38	9.22	10.06
DPS (RMB)	0.29	0.15	0.46	0.52	0.54

Source: Company data, CMBIS estimates

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