

China Heavy Duty Truck

Lower industry forecast on weak recovery; D/G Weichai-A; BUY Weichai-H & Sinotruk on valuation

The lack of recovery in both logistics and construction vehicles led us to revise down our HDT industry sales forecast in 2022E/23E by 21%/20% to 1.02mn/1.06mn units, implying -27%/+4% YoY change. We believe the high base effect will continue in 1H22E which will exert earnings pressure on the HDT and engines players. We reset our 2022E-23E earnings forecast for Weichai Power and Sinotruk based on our latest industry assumptions, making us 20-30% below consensus. We downgrade **Weichai-A (000338 CH)** to **HOLD** from Buy. For HK-listed names, however, downside risk is limited following the recent market sell-off. Therefore, we maintain our **BUY** rating on **Weichai-H (2338 HK)** as the A/H discount is 25% now, the widest since 2015. Besides, we maintain **BUY** on **Sinotruk (3808 HK)** as the stock is trading at only 0.9x net cash per share, overly bearish in our view.

- Normalization of HDT demand in 2022E-24E.** The replacement of NES III trucks that lasted for the past couple of years has largely completed, and we expect the replacement demand in 2022E-24E to decline from in 2019-21. Therefore, the upcoming HDT sales growth will be largely contributed by new demand, which we forecast, however, will not be enough to offset the reduction of replacement demand due to weakness in the downstream. We forecast the annual HDT in 2022E-24E to be 1.05mn units, down 25% from the 1.4mn units in 2019-21.
- Robust growth of New Energy HDT.** In contrast to the weakness of the HDT sector as a whole, the picture of the new energy HDT is completely different. The strong demand since mid-2021 has boosted the full year sales in 2021 to 10.5k units (+3x YoY), driven by local governments' support against the backdrop of carbon neutrality. The strong run continued in 2M22, with sales volume surging 10x YoY to 3.2k units. **SANY Group (unlisted), Yutong Commercial Vehicles (unlisted), XCMG (unlisted) and CAMC (600375 CH)** are leading in the race so far.
- Weichai Power (2338 HK, BUY, TP: HK\$17.2 / 000338 CH, HOLD, TP: RMB14.1) – Expect A/H valuation discount to narrow.** We revise down our earnings forecast in 2021E/22E/23E by 5%/26%/22% (2%/28%/29% below consensus) after cutting our sales volume and margin assumptions. We roll over our valuation base to 2022E. Our SOTP-based TP for Weichai H/A is revised to HK\$17.2/RMB14.1. We revise down our target EV/EBITDA for the engine and HDT business from 6.5x to 4.5x (1SD below the historical average), to reflect the slowdown of growth outlook.
- Sinotruk (3808 HK, BUY, TP: HK\$16) - Distressed valuation prevented us from downgrading the stock at this level.** We revised down our earnings forecast in 2021E/22E/23E by 14%/34%/29%. Even under our below-consensus forecast (23-26% in 2022E-23E), stock is trading at only 0.6x 2022E EV/EBITDA and 0.9x net cash per share (HK\$14.2 in Jun 2021). We lowered our TP from HK\$19.5 to HK\$16, based on 1.5x EV/EBITDA (1SD below the historical average of 2.3x since 2017 when the upcycle began). To cross check, our TP is equivalent to 8.4x 2022E P/E.

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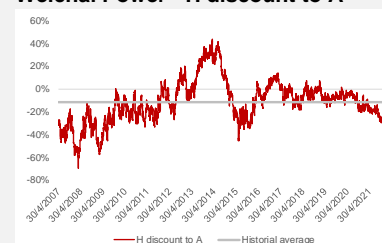
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Change in TP

Company	Weichai Power		Sinotruk
Ticker	2338 HK	000338 CH	3808 HK
Rating	BUY	HOLD	BUY
Current price	HK\$ 13	RMB 14.01	HK\$ 12.9
TP			
New	17.2	14.1	16.0
Old	22.6	18.8	19.5
Upside	32%	1%	24%

Source: CMBIGM estimates

Weichai Power - H discount to A



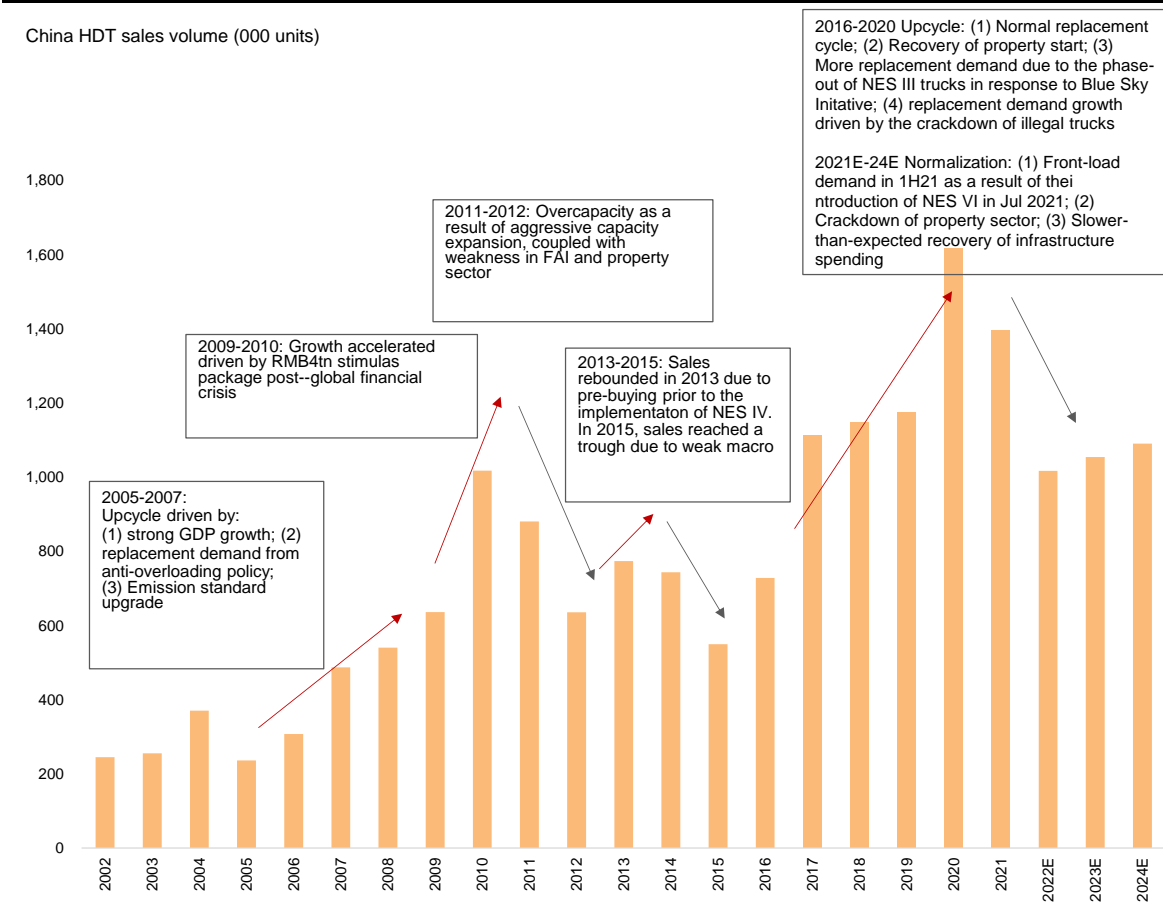
Source: Bloomberg, CMBIGM

Normalization of demand

The replacement of NES III trucks that lasted for a couple of years has largely completed, and we expect the replacement demand in 2022E-24E to decline from that in 2019-21. Therefore, the upcoming HDT sales growth will be largely contributed by new demand going forward. However, we believe the new demand growth will be not enough to offset the reduction of replacement demand due to weakness in the downstream.

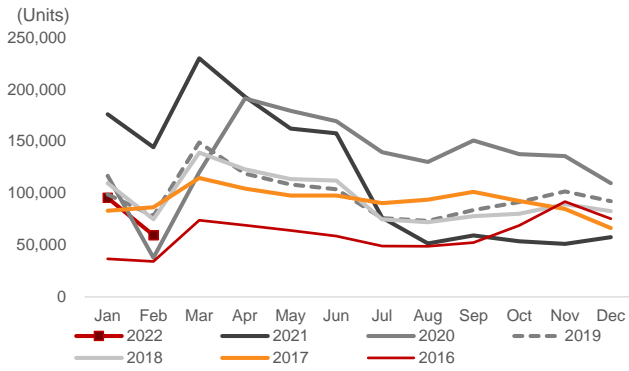
With the weaker-than-expected recovery in 2M22 (-50% YoY), we expect the high base effect will continue in 1H22E. In view of the weakness of both logistics and construction vehicles demand, we revise down our HDT industry sales forecast in 2022E/23E by 21%/20% to 1.02mn/1.06mn units, implying -27%/+4% YoY change. Given that the GDP value per unit of HDT has been stable at RMB12-13mn over the past 10 years, we forecast the HDT fleet size to moderately increase at 5% p.a. going forward, which is largely in line with the economic growth.

Figure 1: Cycles of China HDT sales



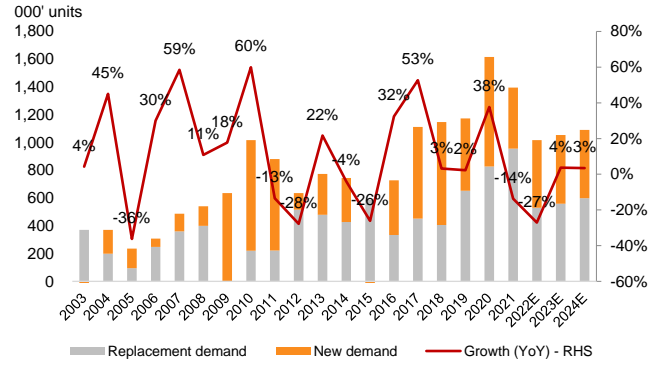
Source: Wind, CMBIGM estimates

Figure 2: China HDT monthly sales



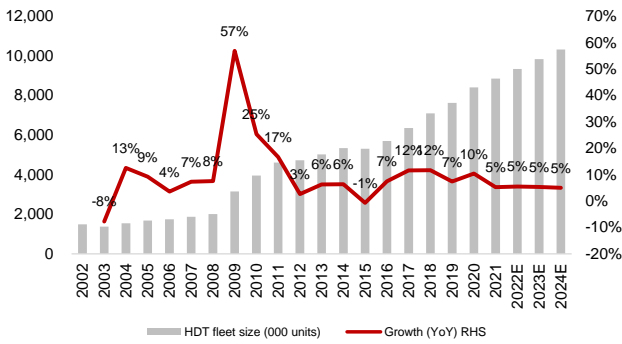
Source: Cvworl, CMBIGM

Figure 3: CMBIGM HDT sales projection



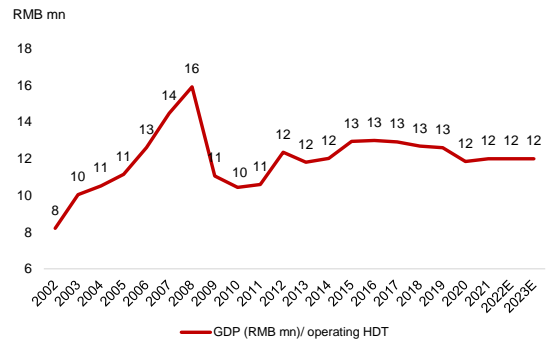
Source: Cvworl, Wind, CMBIGM estimates

Figure 4: China HDT fleet size



Source: Wind, CMBIGM estimates

Figure 5: GDP value per unit of operating HDT



Source: Wind, CMBIGM estimates

Figure 6: Change in HDT industry sales assumptions

HDT sales volume	Old	New	Change
(Units 000')			
2022E	1,284	1,017	-20.8%
2023E	1,312	1,055	-19.6%

Source: CMBIGM estimates

Figure 7: HDT sales (Company breakdown)

	2021												2022		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
Sales volume (units)															
Company															
FAW	一汽解放	41,773	36,367	58,699	47,009	38,587	33,082	14,166	7,192	9,353	8,008	8,592	13,705	25,839	16,819
Dongfeng	东风	37,776	26,653	47,091	38,616	33,215	34,045	12,841	8,394	11,453	8,920	8,692	10,846	17,602	9,424
CNHTC	中国重汽	32,661	33,132	37,301	40,100	33,015	29,112	20,800	14,029	16,060	15,826	14,877	13,105	27,725	11,929
SXQC	陕汽集团	24,186	19,781	37,139	25,326	22,212	26,045	12,841	7,269	8,892	8,749	7,244	7,463	6,922	8,454
Foton	北汽福田	13,997	11,137	20,615	16,525	11,603	12,961	5,272	3,581	3,629	3,072	3,044	2,677	6,704	5,888
JAC	安徽江淮	6,274	3,410	6,039	3,983	3,284	2,995	2,336	2,388	1,327	701	928	625	2,060	1,605
SAIC-IVECO Hongyan	上汽依维柯红岩	9,024	3,954	9,000	9,380	8,002	7,406	2,917	2,802	3,307	3,007	2,121	1,748	2,507	1,501
Da Yun	成都大运	3,026	2,507	3,609	2,361	3,034	3,992	2,388	2,494	1,887	1,879	2,054	2,407	2,549	1,248
CAMC	汉马科技	1,325	1,393	2,605	1,731	1,672	1,759	367	284	355	665	595	774	668	450
Others	其他	1,006	5,852	7,888	7,951	7,525	6,275	2,389	2,916	2,887	2,636	2,936	4,186	2,820	1,970
Total		176,051	144,186	229,986	192,982	162,149	157,672	76,317	51,349	59,150	53,463	51,083	57,536	95,396	59,288
Change (YoY)															
Company															
FAW	一汽解放	-20%	212%	129%	-18%	-11%	-15%	-60%	-74%	-73%	-68%	-60%	292%	-38%	-54%
Dongfeng	东风	119%	573%	105%	7%	-9%	-1%	-54%	-69%	-59%	-67%	-67%	-55%	-53%	-65%
CNHTC	中国重汽	147%	279%	82%	56%	31%	17%	4%	-34%	-49%	-53%	-59%	-64%	-15%	-64%
SXQC	陕汽集团	140%	416%	86%	3%	-14%	-2%	-33%	-65%	-57%	-55%	-63%	-57%	-71%	-57%
Foton	北汽福田	57%	250%	78%	-11%	-37%	-25%	-65%	-71%	-73%	-75%	-70%	-70%	-52%	-47%
JAC	安徽江淮	59%	141%	7%	-26%	-50%	-28%	-48%	-52%	-75%	-83%	-77%	-84%	-67%	-53%
SAIC-IVECO Hongyan	上汽依维柯红岩	125%	113%	80%	4%	-21%	-18%	-55%	-54%	-53%	-52%	-70%	-78%	-72%	-62%
Da Yun	成都大运	47%	239%	38%	-38%	0%	2%	-19%	-25%	-42%	-42%	-36%	-34%	-16%	-50%
CAMC	汉马科技	-12%	51%	18%	-42%	-29%	-22%	-80%	-84%	-77%	-54%	-46%	-36%	-50%	-68%
Others	其他	-67%	363%	101%	3%	-6%	-23%	-56%	-46%	-50%	-54%	-52%	107%	180%	-66%
Average		51%	284%	92%	1%	-10%	-7%	-45%	-61%	-61%	-61%	-62%	-47%	-46%	-59%
Market share															
Company															
FAW	一汽解放	24%	25%	26%	24%	24%	21%	19%	14%	16%	15%	17%	24%	27%	28%
Dongfeng	东风	21%	18%	20%	20%	20%	22%	17%	16%	19%	17%	17%	19%	18%	16%
CNHTC	中国重汽	19%	23%	16%	21%	20%	18%	27%	27%	27%	30%	29%	23%	29%	20%
SXQC	陕汽集团	14%	14%	16%	13%	14%	17%	17%	14%	15%	16%	14%	13%	7%	14%
Foton	北汽福田	8%	8%	9%	9%	7%	8%	7%	7%	6%	6%	6%	5%	7%	10%
JAC	安徽江淮	4%	2%	3%	2%	2%	2%	3%	5%	2%	1%	2%	1%	2%	3%
SAIC-IVECO Hongyan	上汽依维柯红岩	5%	3%	4%	5%	5%	5%	4%	5%	6%	6%	4%	3%	3%	3%
Da Yun	成都大运	2%	2%	1%	1%	2%	3%	3%	3%	3%	4%	4%	4%	3%	2%
CAMC	汉马科技	1%	1%	1%	1%	1%	1%	0%	1%	1%	1%	1%	1%	1%	1%
Others	其他	1%	4%	3%	4%	5%	4%	3%	6%	5%	5%	6%	7%	3%	3%
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: CNHTC is the parent co of Sinotruk. Shaanxi Automobile Group is the second largest shareholder of Shaanxi Heavy-duty Motor with 49% stake. Weichai is the largest shareholder of Shaanxi Heavy-duty Motor with 51% stake.

Source: Cvworl, Chinatruck, CMBIGM

Figure 8: Timetable for the implementation of NES

Type of vehicles	Year	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																								

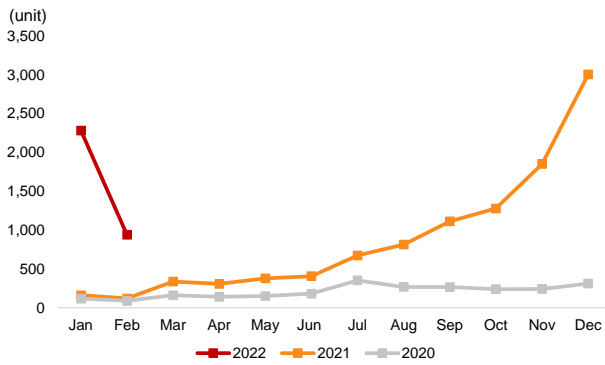
National emission standard: No regulation (Grey), I (Yellow), II (Light Green), III (Green), IV (Light Blue), V (Orange), VI(a) (Dark Blue), VI(b) (Red)

Source: Ministry of Ecology and Environmental, CMBIGM

Robust growth of New Energy HDT

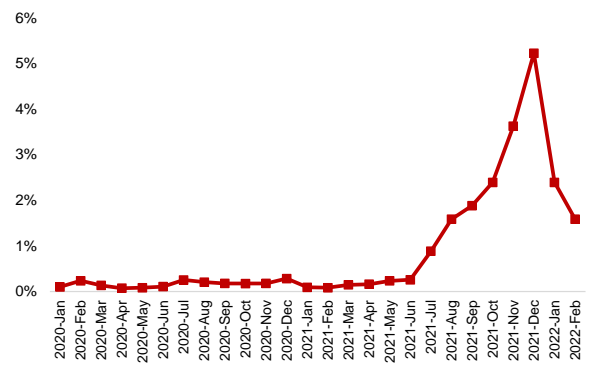
In contrast to the weakness of the HDT sector as a whole, the picture of the new energy HDT is completely different. The strong demand since mid-2021 has boosted the full year sales in 2021 to 10.5k units (+3x YoY), driven by local governments' support against the backdrop of carbon neutrality. The strong run continued in 2M22 with sales volume surged 10x YoY to 3.2k units. **SANY Group (unlisted)**, **Yutong Commercial Vehicles (unlisted)**, **XCMG (000425 CH)** and **CAMC (600375 CH)** are leading in the race so far. Key players have already set aggressive targets on new energy HDT sales volume (Figure 13).

Figure 9: China new energy HDT sales volume



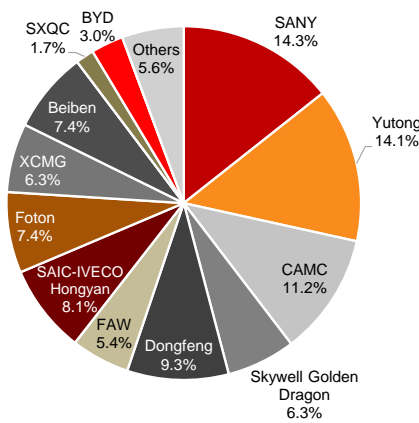
Note: Breakdown in 2021: Electric: 92.36%, Fuel cell battery: 7.46%, Hybrid (Electric + Diesel): 0.18%
Source: Cvworl, CMBIGM

Figure 10: China new energy HDT penetration rate



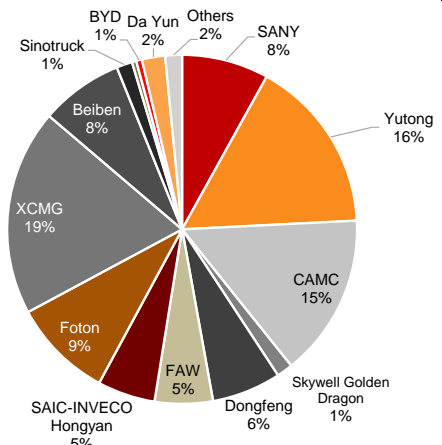
Source: Cvworl, CMBIGM

Figure 11: China new energy HDT sales breakdown by company (2021)



Source: Cvworl, CMBIGM

Figure 12: China new energy HDT sales breakdown by company (2M22)



Source: Cvworl, CMBIGM

Figure 13: Targets set by major new energy HDT manufacturers

Company Names	2021 Sales Volume	Target
CAMC	1,168 units	- In 2022, sales of new energy HDT targets to reach 7,500 units, with market share of 20% .
XCMG	659 units	- In 2022, sales target of new energy HDT is 5,000 units, with sales revenue of RMB3bn and market share of 15% . - Overseas revenue targets to exceed RMB100mn in 2022.
Yutong Commercial Vehicles	1,477 units	- Aims to develop a range of new products and quickly seize market share in 2022.
FAW Jiefang	559 units	- By 2025/2030/2035, new energy vehicle sales targets to reach 120k/320k/500k, accounting for 20%/50%/70% of total sales. - Focus on all the three major technical routes: electric, hybrid and fuel cell.
Dongfeng	967 units	- Aims to develop a full range of new energy commercial vehicles based on different application scenarios. - Focus on all the three major technical routes: electric, hybrid and hydrogen fuel cell.
Sinotruk	/	- Focus on all the three major technical routes: electric, hybrid and hydrogen fuel cell. - A full range of new energy commercial vehicles (including tractor, truck, construction vehicles and special vehicles) will be developed.

Source: Industry source, CMBIGM

Weichai Power (2338 HK, BUY, TP: HK\$17.2 / 000338 CH, HOLD, TP: RMB14.1)

We revise down our earnings forecast in 2021E/22E/23E by 5%/26%/22% (2%/28%/29% below consensus) after cutting our sales volume and margin assumptions:

- We expect total engine sales volume to increase 2% YoY to 1mn units, but decline 6% YoY in 2022E. According to CICEIA, Weichai's multi-cylinder engine sales volume dropped 60% YoY in 2M22, versus the industry decline of 30%.
- We expect Weichai to deliver 360k units of HDT engine (-20% YoY) due to lower HDT demand, a key reason for the decline in total engine sales. Our estimate is based on the assumption that Weichai's HDT engine market share to increase from 32% in 2021 to 35% in 2022E, driven by the advantage in NES VI engine technology as well as the aggressive sales strategy employed by Sinotruk (3808 HK).
- We expect Weichai's fuel cell battery sales volume to be >1,000 units in 2022E, significantly increased from <200 units in 2021.

We roll over our valuation base to 2022E. Our SOTP-based TP for Weichai H/A is revised to HK\$17.2/RMB14.1 from HK\$22.6/RMB18.8 previously. We revise down our target EV/EBITDA for the engine and HDT business from 6.5x to 4.5x (1SD below the historical average of 6.5x), to reflect the slowdown of growth outlook.

- Weichai -A** - We downgrade Weichai-A to **HOLD** from Buy as the stock offers little upside to our SOTP-based TP.
- Weichai - H** - We maintain our **BUY** rating on Weichai-H due to attractive relative valuation. At present, Weichai-H is trading at 25% discount to A-share, the widest since 2015 and much wider compared with the historical average of 11.6%. We see opportunity for the valuation discount to reverse to the mean.

Figure 14: Financial summary – Weichai-H

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	174,361	197,491	207,388	194,124	204,523
YoY growth (%)	9.5	13.3	5.0	(6.4)	5.4
Core net profit (RMB mn)	9,105	9,207	9,574	8,329	9,301
Core EPS (RMB)	1.15	1.16	1.10	0.95	1.07
YoY growth (%)	6.0	1.1	(5.5)	(13.0)	11.7
Consensus EPS (RMB)	n/a	n/a	1.11	1.32	1.50
P/E (x)	10.1	9.5	9.7	11.1	9.9
EV/EBITDA (x)	4.3	4.5	4.1	4.2	3.9
P/B (x)	2.0	1.7	1.3	1.2	1.1
Yield (%)	2.5	1.4	4.1	3.6	4.0
ROE (%)	21.5	19.1	15.5	11.1	11.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: HK\$15.26

Source: Company data, CMBIGM estimates

Figure 15: Financial summary – Weichai-A

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	174,361	197,491	207,388	194,124	204,523
YoY growth (%)	9.5	13.3	5.0	(6.4)	5.4
Core net profit (RMB mn)	9,105	9,207	9,574	8,329	9,301
Core EPS (RMB)	1.15	1.16	1.10	0.95	1.07
YoY growth (%)	6.0	1.1	(5.5)	(13.0)	11.7
Consensus EPS (RMB)	n/a	n/a	1.11	1.32	1.50
P/E (x)	13.4	12.6	12.9	14.7	13.1
EV/EBITDA (x)	5.5	5.7	5.3	5.4	4.9
P/B (x)	2.7	2.3	1.7	1.6	1.5
Yield (%)	1.9	1.0	3.1	2.7	3.0
ROE (%)	21.5	19.1	15.5	11.1	11.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: RMB16.92

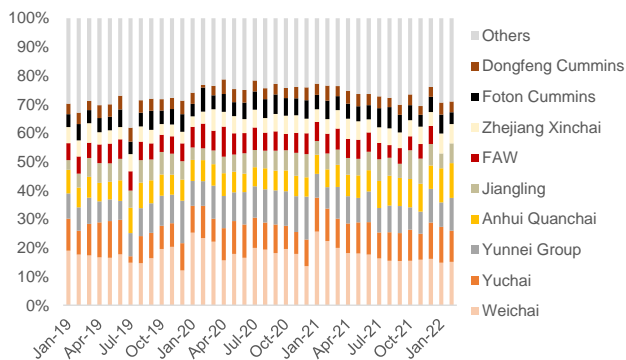
Source: Company data, CMBIGM estimates

Figure 16: 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	1,033,118	1,000,120	-3.2%	1,081,415	937,809	-13.3%	1,138,862	1,002,397	-12.0%
HDT (Shaanxi Heavy-duty Motor)	177,380	159,280	-10.2%	173,832	119,460	-31.3%	173,832	125,433	-27.8%
Gear box (Shaanxi Fast Gear Company)	1,269,020	1,245,300	-1.9%	1,294,400	1,158,129	-10.5%	1,294,400	1,181,292	-8.7%
(RMB mn)									
Revenue									
Diesel engines	67,153	63,508	-5.4%	70,292	56,269	-20.0%	74,026	61,146	-17.4%
Automobiles and major components	91,123	84,275	-7.5%	93,233	76,655	-17.8%	93,233	78,403	-15.9%
Forklift trucks & supply chain solution	72,923	76,178	4.5%	77,298	76,940	-0.5%	81,936	81,557	-0.5%
Intersegment sales	(17,340)	(16,573)	-4.4%	(18,062)	(15,740)	-12.9%	(18,690)	(16,583)	-11.3%
Total revenue	213,859	207,388	-3.0%	222,761	194,124	-12.9%	230,505	204,523	-11.3%
Segment profit									
Diesel engines	8,327	8,002	-3.9%	9,489	6,640	-30.0%	9,994	7,338	-26.6%
Automobiles and major components	1,640	1,348	-17.8%	1,678	690	-58.9%	1,678	941	-43.9%
Forklift trucks & supply chain solution	4,302	4,799	11.5%	4,561	5,232	14.7%	4,834	5,546	14.7%
Intersegment sales	(139)	(166)	19.5%	(144)	(157)	8.9%	(150)	(166)	10.9%
Total segment profit	14,131	13,984	-1.0%	15,584	12,404	-20.4%	16,356	13,658	-16.5%
Segment margin		Change (ppt)			Change (ppt)			Change (ppt)	
Diesel engines	12.4%	12.6%	0.2	13.5%	11.8%	-1.7	13.5%	12.0%	-1.5
Automobiles and major components	1.8%	1.6%	-0.2	1.8%	0.9%	-0.9	1.8%	1.2%	-0.6
Forklift trucks & supply chain solution	5.9%	6.3%	0.4	5.9%	6.8%	0.9	5.9%	6.8%	0.9
Average	6.6%	6.7%	0.1	7.0%	6.4%	-0.6	7.1%	6.7%	-0.4
Net profit	10,118	9,574	-5.4%	11,305	8,329	-26.3%	11,882	9,301	-21.7%

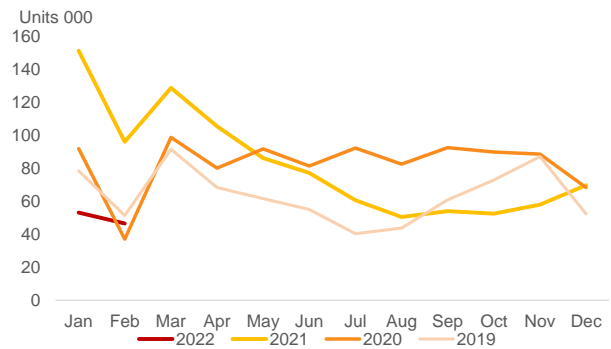
Source: Company data, CMBIGM estimates

Figure 17: China multi-cylinder engine market share



Source: CICEIA, CMBIGM

Figure 18: Weichai's multi-cylinder engine monthly sales volume



Source: CICEIA, CMBIGM

Figure 19: KION's latest guidance for 2022E

(EUR mn)	2020	2021	2022E guidance	
			Low-end	High-end
Order intake	9,443	12,482	11,600	12,800
Growth (YoY)	4%	32%	-7%	3%
Revenue	8,342	10,294	11,000	12,000
Growth (YoY)	-5%	23%	7%	17%
Adjusted EBIT	547	842	1,010	1,150
Growth (YoY)	-36%	54%	20%	37%
Adjusted EBIT margin	6.6%	8.2%	9.2%	9.6%
Net income	211	568	-	-
Growth (YoY)	-53%	169%	-	-

Source: Company data, CMBIGM

Figure 20: KION's quarterly financials

(EUR mn)	1Q21	2Q21	3Q21	4Q21
Order intake	2,626	3,255	3,107	3,493
Growth (YoY)	26%	40%	34%	28%
Revenue	2,375	2,593	2,566	2,761
Growth (YoY)	17%	36%	24%	18%
Adjusted EBIT	215	247	229	151
Growth (YoY)	49%	305%	44%	-17%
Adjusted EBIT margin	9.1%	9.5%	8.9%	5.5%
Net income	137	154	140	137
Growth (YoY)	101%	n/a	71%	76%

Source: Company data, CMBIGM

Figure 21: SOTP valuation

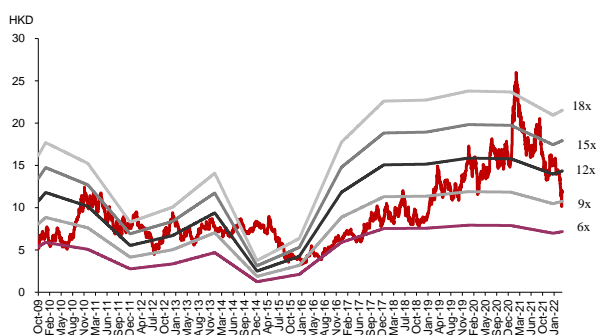
SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA	Estimated EV	Net cash / (Net debt)	Equity value
			2022E (RMB mn)	(RMB mn)		(RMB mn)
Weichai core business	EV/EBITDA	4.5	10,030	45,133	32,906	78,039
KION Group	Proportionate market value	-	-	-	-	29,615
Ballard Power Systems	Proportionate market value	-	-	-	-	4,571
Ceres Power	Proportionate market value	-	-	-	-	2,372
Share of JV/associates	P/B	1	-	-	-	3,518
Minority interest in core business						(6,060)
Total NAV						112,055
NAV per share (RMB)						14.1
NAV per share (HK\$)						17.2

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, CMBIGM estimates

Figure 22: Weichai Power-H P/E band



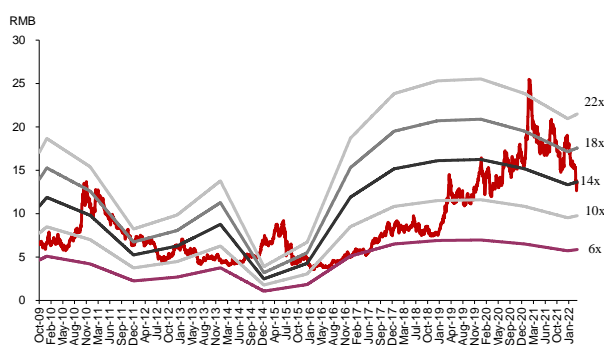
Source: Bloomberg, Company data, CMBIGM estimates

Figure 23: Weichai Power-H P/B band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 24: Weichai Power-A P/E band



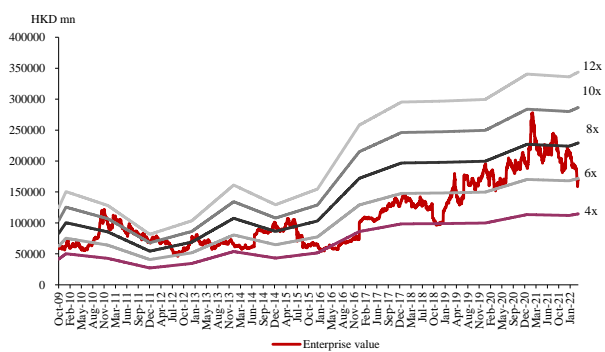
Source: Bloomberg, Company data, CMBIGM estimates

Figure 25: Weichai Power-A P/B band



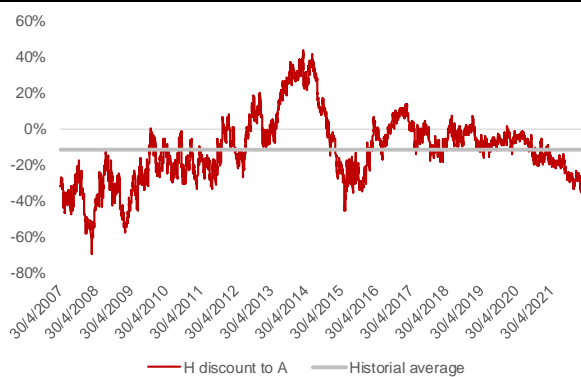
Source: Bloomberg, Company data, CMBIGM estimates

Figure 26: Wechai Power EV/EBITDA band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 27: Weichai Power H discount to A



Source: Bloomberg, CMBIGM

Financial Summary – Weichai Power

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	174,361	197,491	207,388	194,124	204,523
Cost of sales	(136,353)	(159,353)	(167,362)	(156,464)	(164,846)
Gross profit	38,008	38,138	40,026	37,660	39,678
Operating expenses	(23,586)	(25,289)	(24,992)	(24,211)	(24,980)
EBIT	14,422	12,850	15,034	13,449	14,698
Other expenses	(94)	(142)	(249)	(233)	(245)
Net finance cost	(220)	(279)	365	722	920
Finance income and others	1,067	1,278	1,706	2,068	2,280
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	15,400	14,193	15,633
Income tax	(2,445)	(1,407)	(2,803)	(2,626)	(2,892)
After tax profit	11,907	11,275	12,597	11,568	12,741
MI	(2,802)	(2,068)	(3,023)	(3,239)	(3,440)
Net profit	9,105	9,207	9,574	8,329	9,301
D&A	8,071	8,858	8,420	9,509	10,466
EBITDA	22,493	21,708	23,454	22,958	25,163

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Pretax profit	14,352	12,682	15,400	14,193	15,633
Finance cost	1,288	1,557	1,341	1,345	1,359
Interest income	(1,067)	(1,278)	(1,706)	(2,068)	(2,280)
Share of profit or loss of associates	(244)	(253)	(250)	(255)	(261)
Depreciation	6,188	6,699	6,115	7,105	7,945
Amortization of intangible assets	1,820	2,087	2,230	2,327	2,441
Income tax paid	(2,445)	(1,407)	(2,803)	(2,626)	(2,892)
Change in working capital	2,603	1,114	362	593	(651)
Others	1,341	1,727	1,781	2,145	2,360
Cash flow from operation	23,835	22,928	22,470	22,760	23,654
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)	(3,829)	(3,331)
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	(4,875)	(3,891)
Change in cash	7,877	10,525	23,910	7,531	10,912
Cash at beginning of the year	38,210	48,818	62,216	86,126	93,657
Exchange gains/(losses) and others	2,731	2,873	0	0	0
Cash at the end of the year	48,818	62,216	86,126	93,657	104,569

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Non-current assets	110,647	118,235	119,498	120,676	119,402
PP&E	26,316	31,720	33,605	35,500	34,556
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	171,291	178,092	193,998
Prepayments	997	1,095	1,020	943	863
Inventories	24,718	31,226	27,465	27,404	30,404
Trade receivables	14,285	15,422	14,124	13,532	15,605
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	86,126	93,657	104,569
Current liabilities	105,877	123,713	119,816	120,557	125,779
Trade and bills payables	36,749	45,450	40,753	40,694	45,116
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	104,869	112,607	122,017
Shareholders' equity	45,224	51,202	72,615	77,114	83,084
MI	24,551	29,231	32,254	35,493	38,933

Key ratios

YE 31 Dec	FY19A	FY20A	FY21A	FY22E	FY23E
Sales mix (%)					
Diesel engines	28.7	31.8	30.6	29.0	29.9
Automobiles and major components	41.0	43.5	40.6	39.5	38.3
Forklift trucks & supply chain solution	38.5	33.0	36.7	39.6	39.9
Intersegment sales	(8.2)	(8.2)	(8.0)	(8.1)	(8.1)
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
Gross margin	21.8	19.3	19.3	19.4	19.4
EBIT margin	8.3	6.5	7.2	6.9	7.2
After tax profit margin	6.8	5.7	6.1	6.0	6.2
Growth (%)					
Revenue	9.5	13.3	5.0	(6.4)	5.4
Gross profit	6.9	0.3	4.9	(5.9)	5.4
EBIT	4.4	(10.9)	17.0	(10.5)	9.3
Net profit	5.2	1.1	4.0	(13.0)	11.7
Balance sheet ratio					
Current ratio (x)	1.2	1.2	1.4	1.5	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
Profitability (%)					
ROA	5.4	4.4	4.5	3.9	4.2
ROE	21.5	19.1	15.5	11.1	11.6
Per share data					
EPS (RMB)	1.15	1.16	1.10	0.95	1.07
BVPS (RMB)	5.70	6.45	8.32	8.84	9.52
DPS (RMB)	0.29	0.15	0.44	0.38	0.43

Source: Company data, CMBIGM estimates

Sinotruk (3808 HK, BUY, TP: HK\$16)

Sensitive to sector downturn. Since the shareholding change (parent company level) and the management reshuffle, Sinotruk has deepened the cooperation with Weichai and employed aggressive sales strategy in order to boost market share. This is evidenced by the increase of trucks sold under consumer credit from 12% in 2019 to 20% in 1H21, as well as more product launch equipped with Weichai's engines. Given the decline in industry demand this year, we see earnings downside due to the high reliance on HDT.

Change in earnings forecast. We revise down our earnings forecast in 2021E/22E/23E by 14%/34%/29%, after incorporating our new industry sales forecast and segment margin. We revise up the finance segment revenue as we expect Sinotruk is likely to further boost the auto-financing scale to boost volume, leveraging on its strong balance sheet (net cash: RMB32bn at end-Jun 21). Our earnings forecast in 2022E/23E is 26%/23% below consensus.

But distressed valuation prevented us from downgrading the stock. Even under our below-consensus forecast, stock is trading at only 0.6x 2022E EV/EBITDA and 0.9x net cash per share (HK\$14.2). The reason for such huge discount is that little value is given to the RMB32bn net cash (Jun 2021), which we think is unreasonable for a decent company. We lowered our TP from HK\$19.5 to HK\$16, based on 1.5x EV/EBITDA (1SD below the historical average of 2.3x since 2017 when the upcycle began). To cross check, our TP is equivalent to 8.4x 2022E P/E. Maintain **BUY**.

Figure 28: Financial summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	62,613	98,198	101,140	85,616	88,429
YoY growth (%)	1.3	56.8	3.0	(15.3)	3.3
Core net profit (RMB mn)	3,270	6,501	5,896	4,265	4,602
Core EPS (RMB)	1.18	2.35	2.14	1.54	1.67
YoY growth (%)	(21.3)	98.8	(9.3)	(27.7)	7.9
Consensus EPS (RMB)	N/A	N/A	2.11	2.07	2.17
P/E (x)	9.8	4.8	5.0	6.8	6.3
EV/EBITDA (x)	0.8	0.5	0.5	0.6	0.6
P/B (x)	1.2	1.0	0.8	0.7	0.7
Yield (%)	3.4	7.8	7.0	5.2	5.6
ROE (%)	13.2	23.1	16.8	10.9	11.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: HK\$16.40

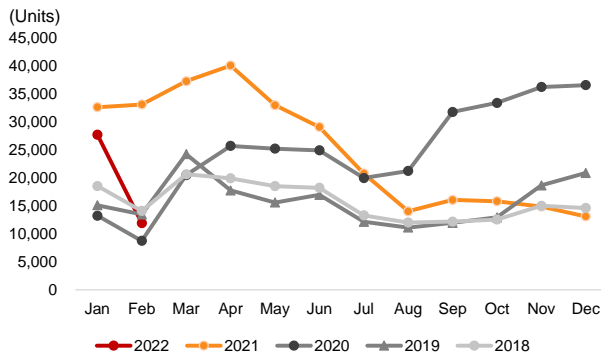
Source: Company data, CMBIGM estimates

Figure 29: Change in key assumptions

Sales volume (units)	2021			2022			2023		
	Old	New	Diff	Old	New	Diff	Old	New	Diff
Truck	509,122	480,483	-5.6%	510,794	423,026	-17.2%	520,545	434,686	-16.5%
HDT	288,008	302,867	5.2%	278,624	254,291	-8.7%	281,410	260,889	-7.3%
China	252,403	254,878	1.0%	242,307	203,902	-15.8%	244,730	207,980	-15.0%
Export	35,605	47,990	34.8%	36,317	50,389	38.7%	36,680	52,908	44.2%
LDT	221,114	177,616	-19.7%	232,170	168,735	-27.3%	239,135	173,797	-27.3%
Engine	286,786	278,424	-2.9%	281,051	222,739	-20.7%	283,861	227,194	-20.0%
Internal use	271,013	262,963	-3.0%	265,593	210,371	-20.8%	268,249	214,578	-20.0%
External sales	15,773	15,461	-2.0%	15,458	12,369	-20.0%	15,612	12,616	-19.2%
Segment revenue									
(RMB mn)									
Truck	103,737	99,351	-4.2%	99,050	84,869	-14.3%	100,416	87,909	-12.5%
HDT	85,826	85,409	-0.5%	80,244	71,202	-11.3%	81,046	73,831	-8.9%
LDT	17,910	13,943	-22.2%	18,806	13,668	-27.3%	19,370	14,078	-27.3%
Engine	28,445	25,144	-11.6%	27,950	20,183	-27.8%	28,217	20,562	-27.1%
Finance	1,822	1,929	5.9%	1,858	1,968	5.9%	1,858	2,066	11.2%
Intersegment sales	(26,801)	(25,285)	-5.7%	(25,772)	(21,404)	-16.9%	(26,098)	(22,107)	-15.3%
Total	107,203	101,140	-5.7%	103,086	85,616	-16.9%	104,393	88,429	-15.3%
Segment operating margin									
Truck	5.7%	5.4%	(0.3)	5.4%	4.3%	(1.2)	5.4%	4.6%	(0.8)
HDT	6.2%	6.5%	0.3	5.9%	5.0%	(0.9)	5.9%	5.2%	(0.7)
LDT	3.4%	-1.0%	(4.4)	3.5%	0.5%	(3.0)	3.5%	1.5%	(2.0)
Engine and gearbox	14.5%	13.4%	(1.1)	14.2%	13.0%	(1.2)	14.2%	13.0%	(1.2)
Finance	35.0%	31.0%	(4.0)	33.0%	30.0%	(3.0)	31.0%	30.0%	(1.0)
Average	9.1%	8.3%	(0.8)	8.8%	7.0%	(1.8)	8.7%	7.3%	(1.4)
Net profit	6,863	5,896	-14.1%	6,416	4,265	-33.5%	7,171	5,870	-18.1%

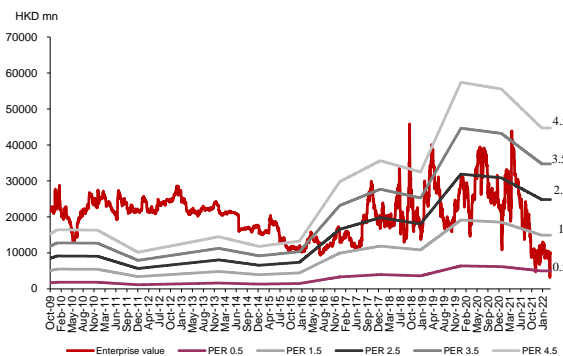
Source: Company data, CMBIGM estimates

Figure 30: CNHTC's HDT monthly sales volume



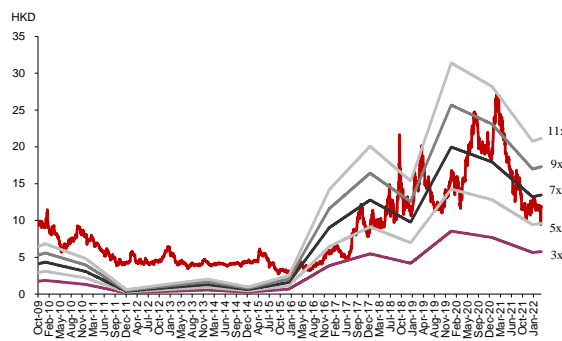
Note: CNHTC is the parent company of Sinotruk.
Source: CVworld, CMBIGM

Figure 31: Sinotruk's EV/EBITDA band



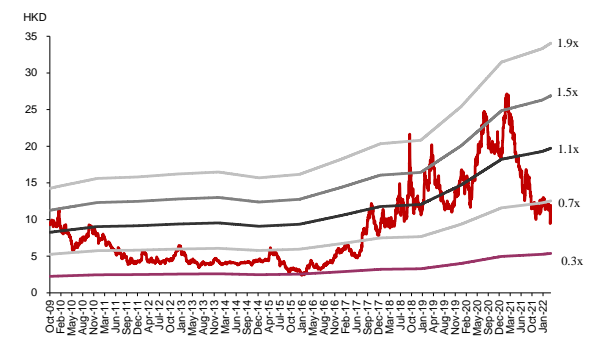
Source: Bloomberg, Company data, CMBIGM estimates

Figure 32: Sinotruk P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 33: Sinotruk P/B band



Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary – Sinotruk

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	62,613	98,198	101,140	85,616	88,429
Cost of sales	(50,380)	(78,613)	(84,250)	(71,489)	(73,838)
Gross profit	12,233	19,585	16,890	14,127	14,591
Operating expenses	(7,240)	(10,115)	(8,532)	(8,149)	(8,141)
EBIT	4,993	9,471	8,358	5,978	6,450
Net finance cost	(94)	26	54	61	65
Finance income	47	58	95	100	103
Finance expenses	(141)	(32)	(41)	(38)	(38)
Profit of JV and associates	61	55	96	116	126
Pretax profit	4,961	9,551	8,509	6,155	6,641
Income tax	(1,045)	(2,127)	(1,957)	(1,416)	(1,527)
After tax profit	3,916	7,424	6,552	4,739	5,114
MI	(442)	(573)	(655)	(474)	(511)
Net profit	3,474	6,851	5,896	4,265	4,602
Core net profit	3,270	6,501	5,896	4,265	4,602
D&A	1,567	1,613	1,931	2,231	2,531
EBITDA	6,561	11,083	10,289	8,209	8,981

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	4,961	9,551	8,509	6,155	6,641
Finance cost	141	32	41	38	38
Interest income	(47)	(58)	(95)	(100)	(103)
Share of profit or loss of associates	(61)	(55)	(96)	(116)	(126)
Depreciation	1,495	1,551	1,851	2,151	2,451
Amortization of intangible assets	72	62	80	80	80
Income tax paid	(1,221)	(1,765)	(1,957)	(1,416)	(1,527)
Change in working capital	1,853	8,899	(3,518)	848	655
Others	1,582	1,307	0	0	0
Cash flow from operation	8,775	19,524	4,815	7,642	8,109
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	95	100	103
Others	808	(3,711)	0	0	0
Cash flow from investing	(29)	(5,903)	(4,890)	(4,883)	(4,878)
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)	(2,064)	(1,493)
Interest paid	(141)	(32)	(41)	(38)	(38)
Others	(2,153)	(2,943)	0	0	0
Cash flow from financing	(5,849)	(3,340)	2,331	(2,102)	(1,531)
Change in cash	2,897	10,281	2,255	657	1,700
Cash at beginning of the year	12,616	17,931	26,049	28,304	28,961
Exchange gains/(losses) and others	2,418	(2,163)	0	0	0
Cash at end of the year	17,931	26,049	28,304	28,961	30,661

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	17,741	26,934	30,084	32,951	35,527
PP&E	9,906	12,438	15,587	18,436	20,985
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
Current assets	48,210	84,075	72,786	75,672	76,213
Inventories	9,721	20,811	10,581	15,665	10,634
Trade and bills receivables	16,051	20,222	16,909	14,054	17,926
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	28,304	28,961	30,661
Current liabilities	35,175	73,868	56,606	59,683	59,181
Trade and bills payables	31,455	54,695	37,633	40,711	40,208
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
Non-current liabilities	347	1,461	1,461	1,461	1,461
Bank borrowings	0	238	238	238	238
Deferred income	286	505	505	505	505
Others	62	718	718	718	718
Equity	30,428	35,679	44,803	47,478	51,099
Shareholders' equity	27,261	32,115	38,132	40,334	43,443
MI	3,167	3,564	6,670	7,144	7,656

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix (%)					
HDT	82.7	84.7	84.4	83.2	83.5
LDT & bus	16.3	15.1	13.8	16.0	15.9
Engine & gearbox	23.4	27.5	24.9	23.6	23.3
Finance	2.5	1.8	1.9	2.3	2.3
Intersegment sales	(25.0)	(29.0)	(25.0)	(25.0)	(25.0)
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
Gross margin	19.5	19.9	16.7	16.5	16.5
EBIT margin	8.0	9.6	8.3	7.0	7.3
Net profit margin	6.3	7.6	6.5	5.5	5.8
Growth (%)					
Revenue	1.3	56.8	3.0	-15.3	3.3
Gross profit	9.5	60.1	-13.8	-16.4	3.3
EBIT	-11.5	89.7	-11.7	-28.5	7.9
Net profit	-20.0	97.2	-13.9	-27.7	7.9
Core net profit	-21.3	98.8	-9.3	-27.7	7.9
Balance sheet ratio					
Current ratio (x)	1.4	1.1	1.3	1.3	1.3
Receivable turnover days	83	67	67	66	66
Inventory turnover days	77	71	68	67	65
Payable turnover days	216	200	200	200	200
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	6.1	8.4	6.1	4.5	4.6
ROE	13.2	23.1	16.8	10.9	11.0
Per share data					
EPS (RMB)	1.26	2.48	2.14	1.54	1.67
Core EPS (RMB)	1.18	2.35	2.14	1.54	1.67
BVPS (RMB)	9.87	11.63	13.81	14.61	15.73
DPS (RMB)	0.39	0.88	0.75	0.54	0.58

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

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