

# Capital Goods

## Turning cautious on export market; D/G Sinotruk to HOLD; Maintain BUY on Weichai

We revise down our 2024E/25E heavy-duty truck (HDT) industry sales forecast by 11%/9% to 0.96mn / 1mn units, representing 4%/5% YoY growth. For exports, the growth outlook is less certain given the weakness of truck sales in Russia, a major market for Chinese trucks. We are concerned that the growth in other countries will not be able to offset the decline in Russia. In China, given the equipment replacement policy on NES III trucks has entered the execution stage, we expect HDT sales to gradually stabilize in Sep-Dec 2024, following the decline in Jun (-17% YoY) and Jul (-4% YoY). Despite lower earnings forecast, we maintain our **BUY** rating on **Weichai Power (2338 HK/000338 CH)** after the recent pullback. We downgrade **Sinotruk (3808 HK)** to **HOLD** as we think the export sales risk has yet to be priced in.

- **Weakness of truck sales in Russia.** Russia is the largest export destination of Chinese trucks, accounting for 21% of China's truck exports in 2023 (including all sizes of trucks), according to Chinatruck. Based on our calculation, Chinese trucks accounted for ~60% of the truck market in Russia in 2023, as Chinese truck manufacturers captured a large piece of market share after western OEMs leaved Russia due to the war with Ukraine. According to the Association of Russian Automakers (OAR), heavy truck sales volume in Russia dropped 5%/15%/16% YoY in Apr/May/Jun, following a strong growth trajectory in 2023 and 1Q24. Looking forward, given the expanded scope of import recycling tax starting from 1st Jul as well as the high base of truck sales (in 2H23), we expect China's truck sales in Russia to see a YoY decline throughout the rest of 2024.
- **China market to be supported by equipment replacement policy.** Based on our check, the fleet size of NES III HDTs is currently ~500k units. Assuming 50% of these are to be replaced by end-2024, the potential volume per month (assuming four months) will be ~63k. For 2025E, we see potential for the equipment replacement policy to further extend to NES IV trucks ([link](#)). If that's the case, the demand boost will be much higher given our estimated fleet size of 3mn units (~30% of total fleet size of HDTs).
- **Weichai Power.** We revise down our HDT engine sales volume by 8% for each year in 2024E-26E, after incorporating our new industry HDT sales forecast. While our earnings forecast in 2024E-26E is revised down by 5-8%, we see the current price as a good entry point following the recent pullback. We expect catalysts will come from: (1) the recovery of domestic HDT sales following the implementation of equipment replacement policy; (2) the removal of overhang after the change in senior management. Our SOTP-based TP for A/H-shares is revised down to RMB18.0/HK\$19.5 (from RMB20.4/HK\$22).
- **Sinotruk.** We think Sinotruk's high proportion of overseas HDT sales (57% in 2023, in terms of HDT sales) will become a downside risk given the slowdown of overseas demand. We revise down our 2024E/25E earnings forecast by 5-6%. Our new TP of HK\$19.5 (previously HK\$22.5) is based on 4.6x EV/EBITDA (equivalent to historical average; multiple unchanged).

**OUTPERFORM**  
(Maintain)

### China Capital Goods Sector

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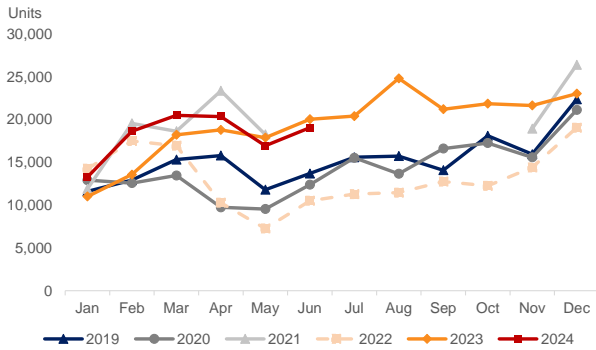
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### Related reports:

China Capital Goods – RMB300bn capital to finance equipment replacement – 26 Jul 2024 ([link](#))

## Overseas truck sales

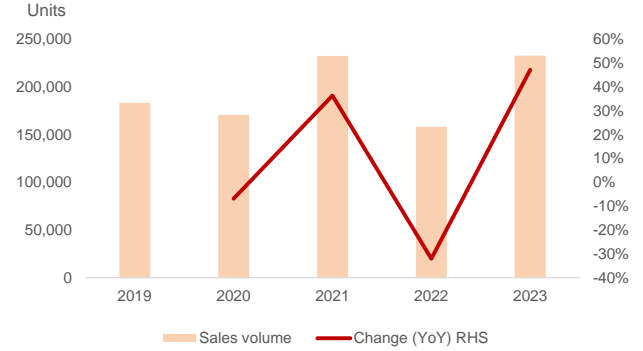
**Figure 1: Russia trucks monthly sales**



Source: OAR, CMBIGM

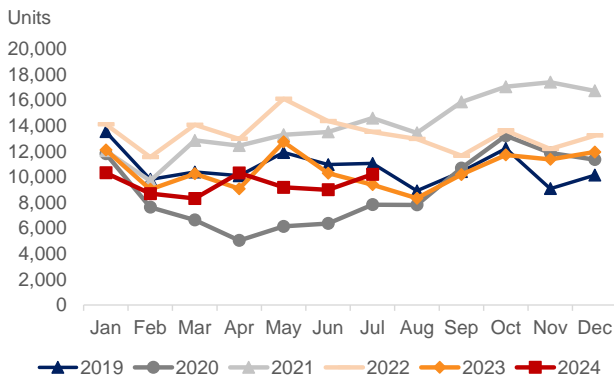
Note: Lack of data between Jun-Oct 21

**Figure 2: Russia truck sales**



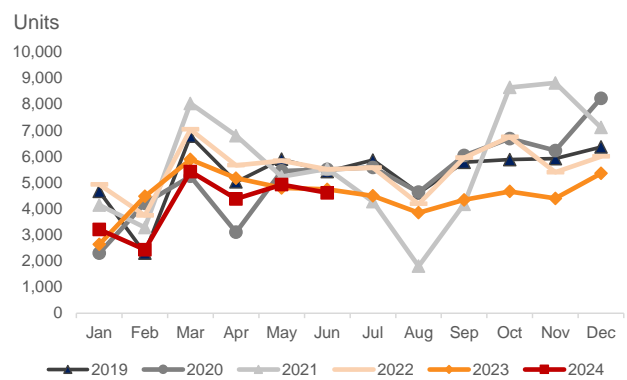
Source: OAR, CMBIGM

**Figure 3: Chile trucks monthly sales**



Source: Asociación Nacional Automotriz de Chile, CMBIGM

**Figure 4: Vietnam trucks monthly sales**



Source: Vietnam Automobile Manufacturers' Association, CMBIGM

## Revised forecast on HDT sales

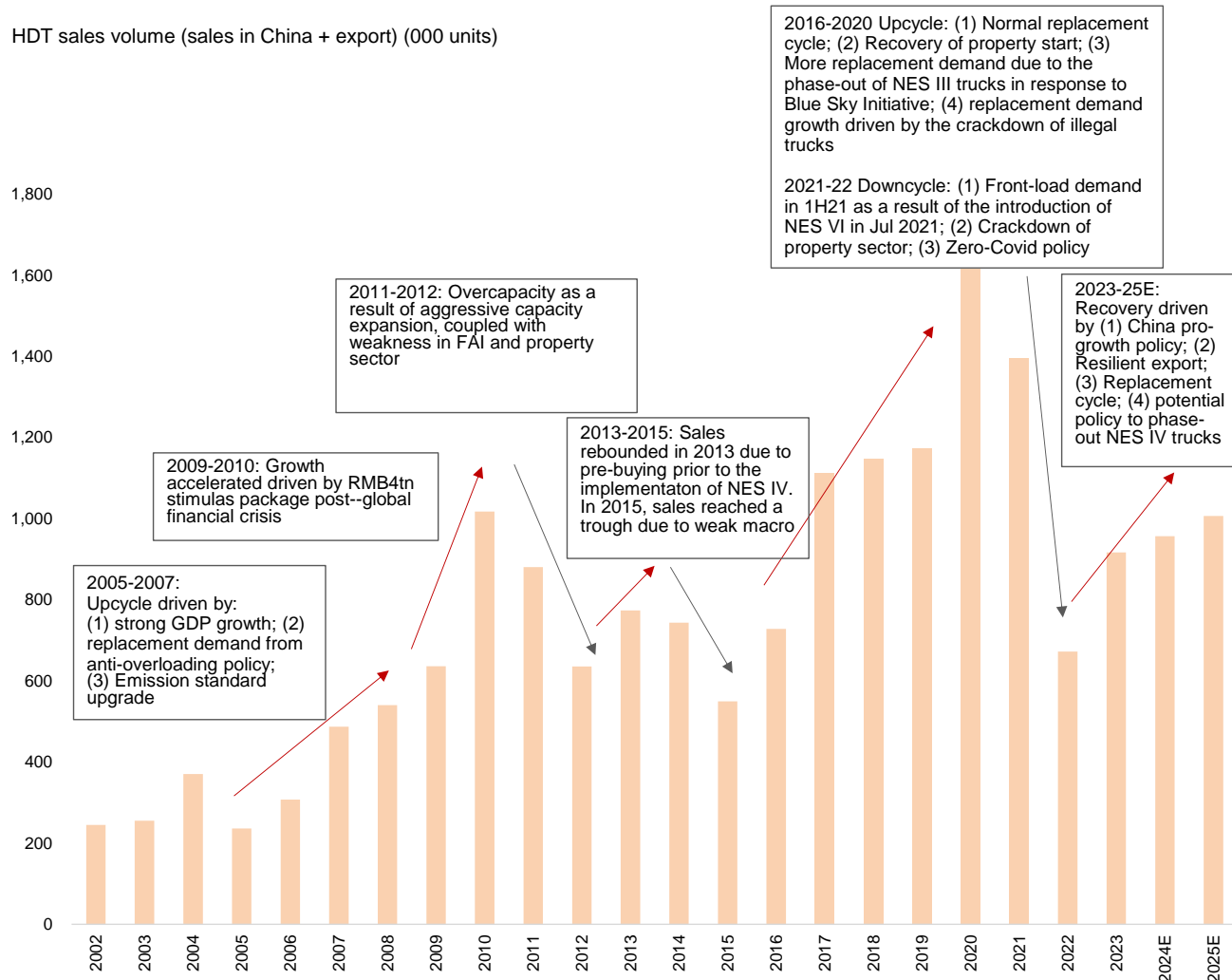
**Figure 5: Change in CMBI HDT sales forecast**

HDT sales volume	Old	New	Change
(Units '000')			
2024E	1,075	957	-11.0%
2025E	1,107	1,008	-9.0%

Source: CMBIGM estimates

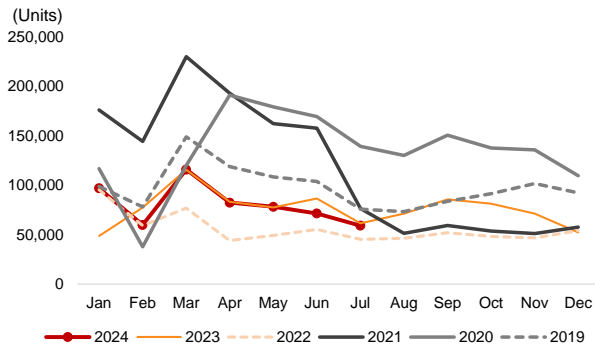
**Figure 6: China HDT sales cycles**

HDT sales volume (sales in China + export) (000 units)

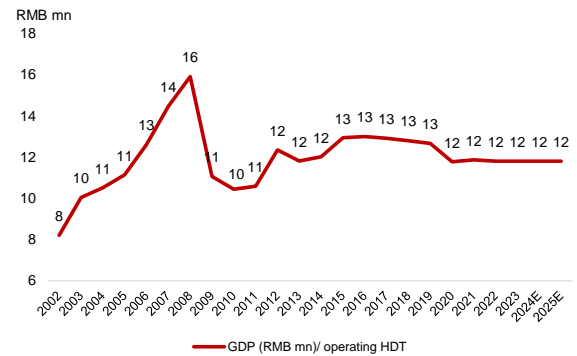


Source: Cvworl, Wind, CMBIGM estimates

Note: China's domestic sales + exports

**Figure 7: China HDT monthly sales volume**

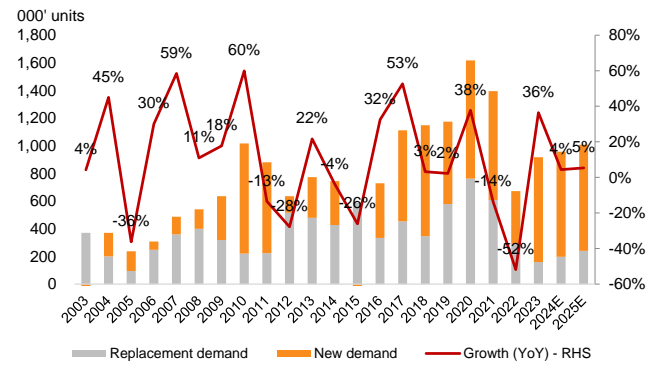
Source: Cvworl, Wind, CMBIGM  
 Note: Domestic sales + exports

**Figure 8: China GDP per unit of operating HDT**

Source: Cvworl, Wind, CMBIGM estimates

**Figure 9: Domestic sales and exports of HDTs**

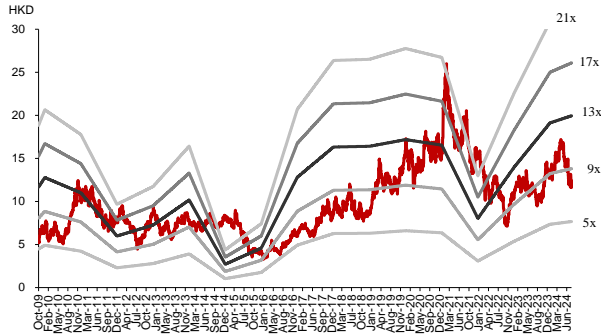
Source: Wind, CMBIGM estimates

**Figure 10: CMBIGM HDT sales projection**

Source: Cvworl, Wind, CMBIGM estimates  
 Note: China's domestic sales + exports

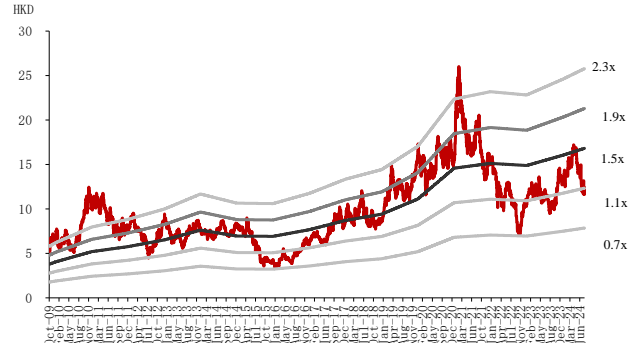
## Valuation – Weichai & Sinotruk

**Figure 11: Weichai Power-H P/E band**



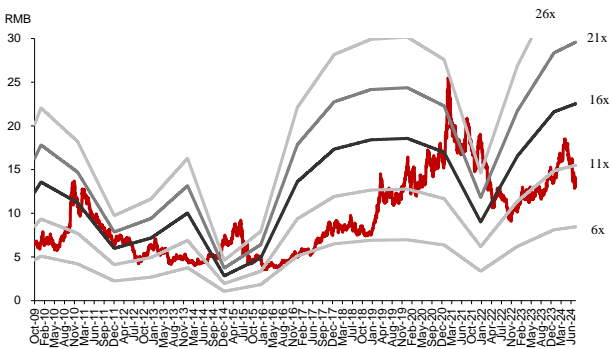
Source: Bloomberg, company data, CMBIGM estimates

**Figure 12: Weichai Power-H P/B band**



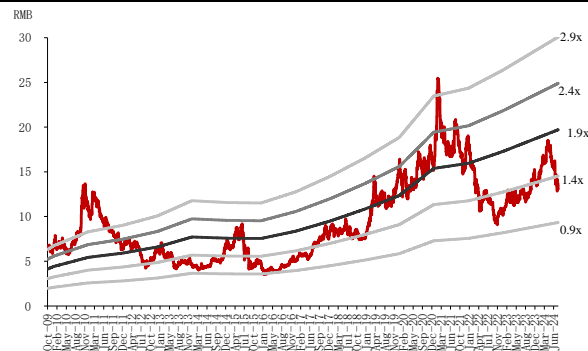
Source: Bloomberg, company data, CMBIGM estimates

**Figure 13: Weichai Power-A P/E band**



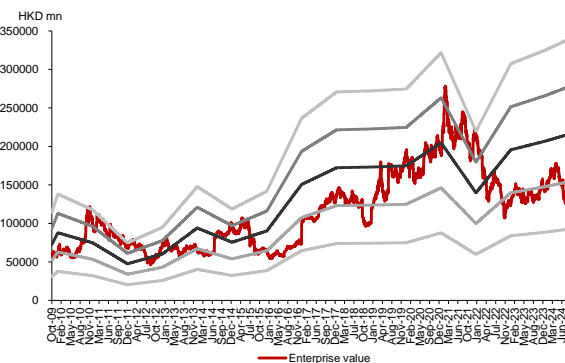
Source: Bloomberg, company data, CMBIGM estimates

**Figure 14: Weichai Power-A P/B band**



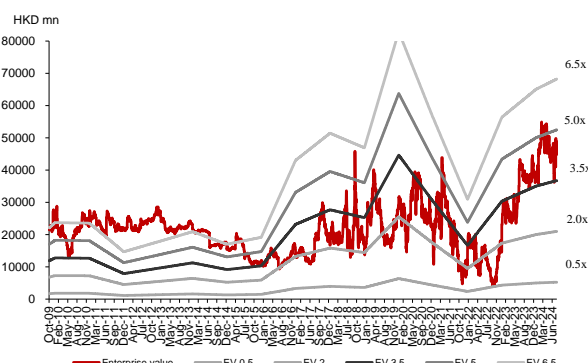
Source: Bloomberg, company data, CMBIGM estimates

**Figure 15: Weichai Power EV/EBITDA band**



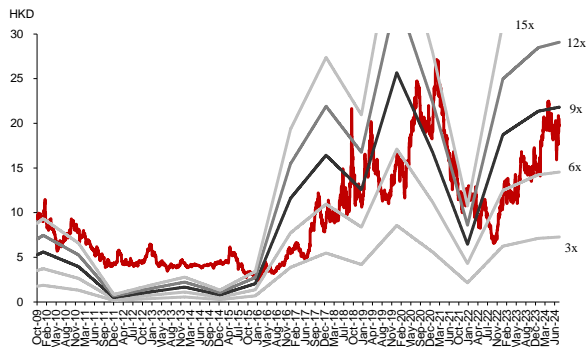
Source: Bloomberg, company data, CMBIGM estimates

**Figure 16: Sinotruk's EV/EBITDA band**



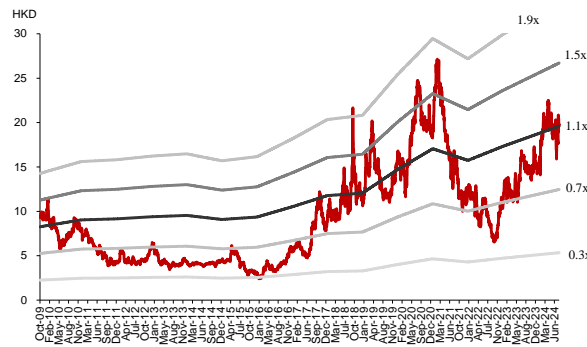
Source: Bloomberg, company data, CMBIGM estimates

Figure 17: Sinotruk P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 18: Sinotruk P/B band



Source: Bloomberg, Company data, CMBIGM estimates

# Weichai Power (2338 HK)

## A valuation call after pullback

We revise down our HDT engine sales volume by 8% for each year in 2024E-26E, after incorporating our new industry HDT sales forecast. While our earnings forecast in 2024E-26E is revised down by 5-8%, we see the current price as a good entry point following the recent pullback. We expect catalysts will come from: (1) the recovery of domestic HDT sales following the implementation of equipment replacement policy; (2) the removal of overhang after the change in senior management. Our SOTP-based TP for A/H is revised down to RMB18.0/HK\$19.5 (from RMB20.4/HK\$22). Maintain **BUY**.

■ **Risk factors:** 1) weakness in engine exports; 2) lower-than-expected replacement demand in China; (3) contraction of diesel/gas price ratio

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	175,158	213,958	229,448	241,175	249,059
YoY growth (%)	(13.9)	22.2	7.2	5.1	3.3
Adjusted net profit (RMB mn)	4,905.5	9,013.9	11,458.9	12,082.2	12,692.2
EPS (Reported) (RMB)	0.56	1.03	1.31	1.38	1.45
YoY growth (%)	(47.0)	83.8	27.1	5.4	5.0
Consensus EPS (RMB)	na	na	1.35	1.58	na
P/E (x)	19.5	10.6	8.4	7.9	7.5
P/B (x)	1.3	1.2	1.1	1.0	1.0
Yield (%)	2.3	4.7	6.0	6.3	6.6
Net gearing (%)	(35.8)	(62.0)	(68.3)	(76.5)	(92.9)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$19.50</b>
(Previous TP)	HK\$22.00)
<b>Up/Downside</b>	<b>63.0%</b>
<b>Current Price</b>	<b>HK\$11.96</b>

### China Capital Goods

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### Stock Data

Mkt Cap (HK\$ mn)	104,369.6
Avg 3 mths t/o (HK\$ mn)	194.7
52w High/Low (HK\$)	17.20/9.49
Total Issued Shares (mn)	8726.6

Source: FactSet

### Shareholding Structure

Weichai Holdings Group	16.3%
Weifang Investment Group	3.4%

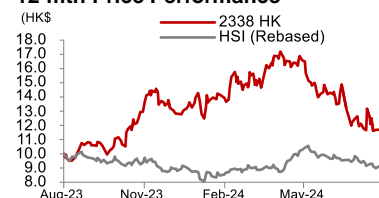
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-5.4%	-0.4%
3-mth	-28.1%	-19.9%
6-mth	-14.4%	-20.3%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 19: Change in key assumptions for Weichai

	2024E			2025E			2026E		
	Old	New	Change	Old	New	Change	Old	New	Change
<b>Sales volume (unit)</b>									
Engine total	885,924	<b>851,074</b>	-3.9%	944,050	<b>906,731</b>	-4.0%	972,494	<b>934,239</b>	-3.9%
HDT (Shaanxi Heavy-duty Motor)	135,720	<b>122,960</b>	-9.4%	143,863	<b>130,338</b>	-9.4%	148,179	<b>134,248</b>	-9.4%
Gear box (Shaanxi Fast Gear Company)	921,800	<b>905,040</b>	-1.8%	967,890	<b>950,292</b>	-1.8%	987,248	<b>969,298</b>	-1.8%
(RMB mn)									
<b>Revenue</b>									
Diesel engines	72,646	<b>69,788</b>	-3.9%	77,412	<b>74,352</b>	-4.0%	79,744	<b>76,608</b>	-3.9%
Automobiles and major components	72,123	<b>70,110</b>	-2.8%	75,822	<b>73,699</b>	-2.8%	77,436	<b>75,262</b>	-2.8%
Forklift trucks & supply chain solution	90,147	<b>88,397</b>	-1.9%	95,556	<b>91,933</b>	-3.8%	101,289	<b>95,610</b>	-5.6%
Agricultural machinery	17,820	<b>17,820</b>	0.0%	18,711	<b>18,711</b>	0.0%	19,646	<b>19,646</b>	0.0%
Intersegment sales	-16,444	<b>-16,665</b>	1.3%	-17,415	<b>-17,519</b>	0.6%	-18,093	<b>-18,066</b>	-0.1%
<b>Total revenue</b>	236,291	<b>229,448</b>	-2.9%	250,085	<b>241,175</b>	-3.6%	260,023	<b>249,059</b>	-4.2%
<b>Segment profit</b>									
Diesel engines	9,299	<b>8,863</b>	-4.7%	9,909	<b>9,294</b>	-6.2%	10,207	<b>9,576</b>	-6.2%
Automobiles and major components	938	<b>491</b>	-47.7%	1,062	<b>442</b>	-58.3%	1,084	<b>452</b>	-58.3%
Forklift trucks & supply chain solution	5,409	<b>5,304</b>	-1.9%	5,733	<b>5,516</b>	-3.8%	6,077	<b>5,737</b>	-5.6%
Agricultural machinery	820	<b>784</b>	-4.3%	842	<b>842</b>	0.0%	884	<b>884</b>	0.0%
Intersegment sales	-872	<b>-883</b>	1.3%	-923	<b>-928</b>	0.6%	-959	<b>-957</b>	-0.1%
<b>Total segment profit</b>	15,593	<b>14,558</b>	-6.6%	16,623	<b>15,166</b>	-8.8%	17,294	<b>15,691</b>	-9.3%
<b>Segment margin</b>			Chg (ppt)			Chg (ppt)			Chg (ppt)
Diesel engines	12.8%	<b>12.7%</b>	-0.1	12.8%	<b>12.5%</b>	-0.3	12.8%	<b>12.5%</b>	-0.3
Automobiles and major components	1.3%	<b>0.7%</b>	-0.6	1.4%	<b>0.6%</b>	-0.8	1.4%	<b>0.6%</b>	-0.8
Forklift trucks & supply chain solution	6.0%	<b>6.0%</b>	0.0	6.0%	<b>6.0%</b>	0.0	6.0%	<b>6.0%</b>	0.0
Agricultural machinery	4.6%	<b>4.4%</b>	-0.2	4.5%	<b>4.5%</b>	0.0	4.5%	<b>4.5%</b>	0.0
<b>Average</b>	6.6%	<b>6.3%</b>	-0.3	6.6%	<b>6.3%</b>	-0.4	6.7%	<b>6.3%</b>	-0.4
<b>Net profit</b>	12,117	<b>11,459</b>	-5.4%	13,051	<b>12,082</b>	-7.4%	13,768	<b>12,692</b>	-7.8%

Source: Company data, CMBIGM estimates

Figure 20: KION's latest guidance for 2024E

(EUR mn)	2022	2023	2024E new guidance		2024E old guidance	
			Low-end	High-end	Low-end	High-end
<b>Order intake</b>	<b>11,708</b>	<b>10,876</b>	-	-	-	-
Growth (YoY)	-6%	-7%	-	-	-	-
<b>Revenue</b>	<b>11,136</b>	<b>11,434</b>	<b>11,300</b>	<b>11,700</b>	<b>11,200</b>	<b>12,000</b>
Growth (YoY)	8%	3%	-1%	2%	-2%	5%
<b>Adjusted EBIT</b>	<b>292</b>	<b>791</b>	<b>830</b>	<b>920</b>	<b>790</b>	<b>940</b>
Growth (YoY)	-65%	171%	5%	16%	0%	19%
<b>Adjusted EBIT margin</b>	<b>2.6%</b>	<b>6.9%</b>	<b>7.3%</b>	<b>7.9%</b>	<b>7.1%</b>	<b>7.8%</b>
<b>Net income</b>	<b>106</b>	<b>314</b>	-	-	-	-
Growth (YoY)	-81%	197%	-	-	-	-

Source: Company data, CMBIGM

Figure 21: KION's quarterly financials

(EUR mn)	2Q23	3Q23	4Q23	1Q24	2Q24
<b>Order intake</b>	<b>2,864</b>	<b>2,621</b>	<b>2,936</b>	<b>2,439</b>	<b>2,640</b>
Growth (YoY)	-24%	4%	16%	2%	-8%
<b>Revenue</b>	<b>2,836</b>	<b>2,730</b>	<b>3,086</b>	<b>2,859</b>	<b>2,877</b>
Growth (YoY)	1%	1%	7%	3%	1%
<b>Adjusted EBIT</b>	<b>192</b>	<b>224</b>	<b>219</b>	<b>227</b>	<b>220</b>
Growth (YoY)	36%	n/a	167%	46%	15%
<b>Adjusted EBIT margin</b>	<b>6.8%</b>	<b>8.2%</b>	<b>7.1%</b>	<b>7.9%</b>	<b>7.6%</b>
<b>Net income</b>	<b>73</b>	<b>82</b>	<b>86</b>	<b>111</b>	<b>71</b>
Growth (YoY)	-9%	n/a	121%	51%	-2%

Source: Company data, CMBIGM

Figure 22: SOTP valuation

SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA 2024E (RMB mn)	Estimated EV (RMB mn)	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
Weichai core business	EV/EBITDA	6.0	13,563	81,378	58,484	139,862	88.9%
KION Group	Proportionate market value	-	-	-	-	16,041	10.2%
Ballard Power Systems	Proportionate market value	-	-	-	-	839	0.5%
Ceres Power	Proportionate market value	-	-	-	-	673	0.4%
Share of JV/associates	P/B	1.2	-	-	-	6,209	3.9%
Minority interest in core business						-6,237	-4.0%
<b>Total NAV</b>						<b>157,387</b>	<b>100.0%</b>
<b>NAV per share (RMB)</b>						<b>18.0</b>	
<b>NAV per share (HK\$)</b>						<b>19.5</b>	

Source: Company data, CMBIGM estimates

Note 1: Weichai owns 46.5% interest in KION, 20% interest in Ballard Power and 20% interest in Ceres Power.

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



## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	203,548	175,158	213,958	229,448	241,175	249,059
Cost of goods sold	(163,947)	(144,011)	(168,842)	(180,576)	(189,564)	(195,761)
Gross profit	39,601	31,147	45,116	48,873	51,611	53,299
Operating expenses	(26,038)	(25,664)	(31,238)	(32,698)	(34,884)	(36,049)
Operating profit	13,563	5,482	13,878	16,175	16,727	17,250
Share of (losses)/profits of associates/JV	187	(144)	(13)	104	168	171
EBITDA	24,160	16,630	25,867	26,930	28,310	29,579
Depreciation	10,597	11,148	11,989	10,756	11,582	12,329
Interest income	1,724	2,359	2,818	3,130	3,480	4,016
Interest expense	(1,274)	(1,450)	(3,378)	(1,665)	(1,668)	(1,672)
Net interest income/(expense)	450	909	(560)	1,465	1,812	2,345
Other income/expense	(145)	(162)	(154)	(275)	(289)	(299)
Pre-tax profit	14,055	6,086	13,151	17,468	18,418	19,467
Income tax	(2,493)	(403)	(1,940)	(3,144)	(3,315)	(3,601)
Minority interest	(2,307)	(778)	(2,198)	(2,865)	(3,021)	(3,173)
Adjusted net profit	9,255	4,906	9,014	11,459	12,082	12,692

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	160,638	168,484	197,925	205,087	229,141	240,270
Cash & equivalents	75,043	70,842	92,857	102,740	114,764	136,266
Account receivables	18,191	21,419	23,754	22,764	27,453	23,041
Inventories	31,585	33,374	37,930	36,279	43,701	37,821
Prepayment	1,570	1,473	1,691	1,610	1,529	1,448
Other current assets	34,249	41,378	41,693	41,693	41,693	41,693
Non-current assets	116,406	125,182	136,322	132,592	128,063	122,789
PP&E	33,188	37,892	44,073	41,286	37,839	33,732
Investment in JVs & assos	6,713	5,341	5,175	5,219	5,292	5,365
Intangibles	20,908	22,760	23,071	22,084	20,930	19,689
Goodwill	22,847	24,019	24,858	24,858	24,858	24,858
Other non-current assets	32,750	35,171	39,145	39,145	39,145	39,145
Total assets	277,044	293,666	334,247	337,678	357,204	363,058
Current liabilities	115,382	119,743	146,215	139,849	150,001	146,032
Short-term borrowings	12,982	15,824	16,949	17,049	17,149	17,249
Account payables	39,596	45,560	60,127	53,661	63,713	59,643
Other current liabilities	62,803	58,358	69,139	69,139	69,139	69,139
Non-current liabilities	58,700	69,813	75,346	75,346	75,346	75,346
Long-term borrowings	18,839	28,839	26,745	26,745	26,745	26,745
Other non-current liabilities	39,861	40,973	48,601	48,601	48,601	48,601
Total liabilities	174,083	189,555	221,561	215,195	225,348	221,378
Total shareholders equity	70,907	73,184	79,335	86,268	92,620	99,272
Minority interest	32,055	30,926	33,351	36,215	39,236	42,409
Total equity and liabilities	277,044	293,666	334,247	337,678	357,204	363,058

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	14,055	6,086	13,151	17,468	18,418	19,467
Depreciation & amortization	10,537	11,065	11,909	10,675	11,501	12,248
Tax paid	(2,493)	(403)	(1,940)	(3,144)	(3,315)	(3,601)
Change in working capital	(8,767)	(20,324)	6,089	(3,826)	(2,058)	6,222
Others	1,325	1,227	(1,738)	1,642	1,581	1,582
<b>Net cash from operations</b>	<b>14,658</b>	<b>(2,350)</b>	<b>27,471</b>	<b>22,815</b>	<b>26,127</b>	<b>35,917</b>
<b>Investing</b>						
Capital expenditure	(3,610)	(5,242)	(4,633)	(6,900)	(6,900)	(6,900)
Acquisition of subsidiaries/ investments	(3,578)	(309)	(156)	0	0	0
Others	1,779	(2,995)	(947)	59	96	97
<b>Net cash from investing</b>	<b>(5,409)</b>	<b>(8,545)</b>	<b>(5,737)</b>	<b>(6,841)</b>	<b>(6,804)</b>	<b>(6,803)</b>
<b>Financing</b>						
Dividend paid	(4,715)	(3,930)	(4,175)	(4,526)	(5,729)	(6,041)
Net borrowings	(5,913)	12,842	(969)	100	100	100
Proceeds from share issues	14,050	1,676	92	0	0	0
Others	(298)	(5,736)	(7,977)	(1,665)	(1,668)	(1,672)
<b>Net cash from financing</b>	<b>3,123</b>	<b>4,852</b>	<b>(13,029)</b>	<b>(6,091)</b>	<b>(7,298)</b>	<b>(7,613)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	62,216	75,043	70,842	92,857	102,740	114,764
Exchange difference	455	1,841	13,310	0	0	0
<b>Cash at the end of the year</b>	<b>75,043</b>	<b>70,842</b>	<b>92,857</b>	<b>102,740</b>	<b>114,764</b>	<b>136,266</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	3.1%	(13.9%)	22.2%	7.2%	5.1%	3.3%
Gross profit	3.8%	(21.3%)	44.8%	8.3%	5.6%	3.3%
Operating profit	5.5%	(59.6%)	153.1%	16.5%	3.4%	3.1%
EBITDA	11.3%	(31.2%)	55.5%	4.1%	5.1%	4.5%
Adj. net profit	0.5%	(47.0%)	83.8%	27.1%	5.4%	5.0%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	19.5%	17.8%	21.1%	21.3%	21.4%	21.4%
Operating margin	6.7%	3.1%	6.5%	7.0%	6.9%	6.9%
EBITDA margin	11.9%	9.5%	12.1%	11.7%	11.7%	11.9%
Adj. net profit margin	4.5%	2.8%	4.2%	5.0%	5.0%	5.1%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	(0.4)	(0.6)	(0.7)	(0.8)	(0.9)
Current ratio (x)	1.4	1.4	1.4	1.5	1.5	1.6
Receivable turnover days	30.1	41.3	38.5	37.0	38.0	37.0
Inventory turnover days	69.9	82.3	77.1	75.0	77.0	76.0
Payable turnover days	94.7	107.9	114.2	115.0	113.0	115.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	10.3	19.5	10.6	8.4	7.9	7.5
P/B	1.4	1.3	1.2	1.1	1.0	1.0
Div yield (%)	3.2	2.3	4.7	6.0	6.3	6.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Weichai Power (000338 CH)

## A valuation call after pullback

We revise down our HDT engine sales volume by 8% for each year in 2024E-26E, after incorporating our new industry HDT sales forecast. While our earnings forecast in 2024E-26E is revised down by 5-8%, we see the current price as a good entry point following the recent pullback. We expect catalysts will come from: (1) the recovery of domestic HDT sales following the implementation of equipment replacement policy; (2) the removal of overhang after the change in senior management. Our SOTP-based TP for A/H is revised down to RMB18.0/HK\$19.5 (from RMB20.4/HK\$22). Maintain **BUY**.

■ **Risk factors:** 1) weakness in engine exports; 2) lower-than-expected replacement demand in China; (3) contraction of diesel/gas price ratio.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	175,158	213,958	229,448	241,175	249,059
YoY growth (%)	(13.9)	22.2	7.2	5.1	3.3
Adjusted net profit (RMB mn)	4,905.5	9,013.9	11,458.9	12,082.2	12,692.2
EPS (Reported) (RMB)	0.56	1.03	1.31	1.38	1.45
YoY growth (%)	(47.0)	83.8	27.1	5.4	5.0
Consensus EPS (RMB)	na	na	1.35	1.58	na
P/E (x)	22.8	12.4	9.8	9.3	8.8
P/B (x)	1.5	1.4	1.3	1.2	1.1
Yield (%)	2.0	4.0	5.1	5.4	5.7
Net gearing (%)	(35.8)	(62.0)	(68.3)	(76.5)	(92.9)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

**Target Price** **RMB18.00**  
 (Previous TP RMB20.40)  
**Up/Downside** **40.4%**  
**Current Price** **RMB12.82**

### China Capital Goods

#### Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

### Stock Data

Mkt Cap (RMB mn) 111,874.4  
 Avg 3 mths t/o (RMB mn) 1,026.7  
 52w High/Low (RMB) 18.49/11.61  
 Total Issued Shares (mn) 8726.6  
 Source: FactSet

### Shareholding Structure

Weichai Holdings Group 16.3%  
 Weifang Investment Group 3.4%

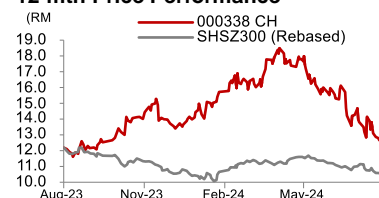
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-12.6%	-8.2%
3-mth	-28.7%	-21.9%
6-mth	-18.4%	-17.1%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	203,548	175,158	213,958	229,448	241,175	249,059
Cost of goods sold	(163,947)	(144,011)	(168,842)	(180,576)	(189,564)	(195,761)
Gross profit	39,601	31,147	45,116	48,873	51,611	53,299
Operating expenses	(26,038)	(25,664)	(31,238)	(32,698)	(34,884)	(36,049)
Operating profit	13,563	5,482	13,878	16,175	16,727	17,250
Share of (losses)/profits of associates/JV	187	(144)	(13)	104	168	171
EBITDA	24,160	16,630	25,867	26,930	28,310	29,579
Depreciation	10,597	11,148	11,989	10,756	11,582	12,329
Interest income	1,724	2,359	2,818	3,130	3,480	4,016
Interest expense	(1,274)	(1,450)	(3,378)	(1,665)	(1,668)	(1,672)
Net interest income/(expense)	450	909	(560)	1,465	1,812	2,345
Other income/expense	(145)	(162)	(154)	(275)	(289)	(299)
Pre-tax profit	14,055	6,086	13,151	17,468	18,418	19,467
Income tax	(2,493)	(403)	(1,940)	(3,144)	(3,315)	(3,601)
Minority interest	(2,307)	(778)	(2,198)	(2,865)	(3,021)	(3,173)
Adjusted net profit	9,255	4,906	9,014	11,459	12,082	12,692

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	160,638	168,484	197,925	205,087	229,141	240,270
Cash & equivalents	75,043	70,842	92,857	102,740	114,764	136,266
Account receivables	18,191	21,419	23,754	22,764	27,453	23,041
Inventories	31,585	33,374	37,930	36,279	43,701	37,821
Prepayment	1,570	1,473	1,691	1,610	1,529	1,448
Other current assets	34,249	41,378	41,693	41,693	41,693	41,693
Non-current assets	116,406	125,182	136,322	132,592	128,063	122,789
PP&E	33,188	37,892	44,073	41,286	37,839	33,732
Investment in JVs & assos	6,713	5,341	5,175	5,219	5,292	5,365
Intangibles	20,908	22,760	23,071	22,084	20,930	19,689
Goodwill	22,847	24,019	24,858	24,858	24,858	24,858
Other non-current assets	32,750	35,171	39,145	39,145	39,145	39,145
Total assets	277,044	293,666	334,247	337,678	357,204	363,058
Current liabilities	115,382	119,743	146,215	139,849	150,001	146,032
Short-term borrowings	12,982	15,824	16,949	17,049	17,149	17,249
Account payables	39,596	45,560	60,127	53,661	63,713	59,643
Other current liabilities	62,803	58,358	69,139	69,139	69,139	69,139
Non-current liabilities	58,700	69,813	75,346	75,346	75,346	75,346
Long-term borrowings	18,839	28,839	26,745	26,745	26,745	26,745
Other non-current liabilities	39,861	40,973	48,601	48,601	48,601	48,601
Total liabilities	174,083	189,555	221,561	215,195	225,348	221,378
Total shareholders equity	70,907	73,184	79,335	86,268	92,620	99,272
Minority interest	32,055	30,926	33,351	36,215	39,236	42,409
Total equity and liabilities	277,044	293,666	334,247	337,678	357,204	363,058

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	14,055	6,086	13,151	17,468	18,418	19,467
Depreciation & amortization	10,537	11,065	11,909	10,675	11,501	12,248
Tax paid	(2,493)	(403)	(1,940)	(3,144)	(3,315)	(3,601)
Change in working capital	(8,767)	(20,324)	6,089	(3,826)	(2,058)	6,222
Others	1,325	1,227	(1,738)	1,642	1,581	1,582
<b>Net cash from operations</b>	<b>14,658</b>	<b>(2,350)</b>	<b>27,471</b>	<b>22,815</b>	<b>26,127</b>	<b>35,917</b>
<b>Investing</b>						
Capital expenditure	(3,610)	(5,242)	(4,633)	(6,900)	(6,900)	(6,900)
Acquisition of subsidiaries/ investments	(3,578)	(309)	(156)	0	0	0
Others	1,779	(2,995)	(947)	59	96	97
<b>Net cash from investing</b>	<b>(5,409)</b>	<b>(8,545)</b>	<b>(5,737)</b>	<b>(6,841)</b>	<b>(6,804)</b>	<b>(6,803)</b>
<b>Financing</b>						
Dividend paid	(4,715)	(3,930)	(4,175)	(4,526)	(5,729)	(6,041)
Net borrowings	(5,913)	12,842	(969)	100	100	100
Proceeds from share issues	14,050	1,676	92	0	0	0
Others	(298)	(5,736)	(7,977)	(1,665)	(1,668)	(1,672)
<b>Net cash from financing</b>	<b>3,123</b>	<b>4,852</b>	<b>(13,029)</b>	<b>(6,091)</b>	<b>(7,298)</b>	<b>(7,613)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	62,216	75,043	70,842	92,857	102,740	114,764
Exchange difference	455	1,841	13,310	0	0	0
<b>Cash at the end of the year</b>	<b>75,043</b>	<b>70,842</b>	<b>92,857</b>	<b>102,740</b>	<b>114,764</b>	<b>136,266</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	3.1%	(13.9%)	22.2%	7.2%	5.1%	3.3%
Gross profit	3.8%	(21.3%)	44.8%	8.3%	5.6%	3.3%
Operating profit	5.5%	(59.6%)	153.1%	16.5%	3.4%	3.1%
EBITDA	11.3%	(31.2%)	55.5%	4.1%	5.1%	4.5%
Adj. net profit	0.5%	(47.0%)	83.8%	27.1%	5.4%	5.0%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	19.5%	17.8%	21.1%	21.3%	21.4%	21.4%
Operating margin	6.7%	3.1%	6.5%	7.0%	6.9%	6.9%
EBITDA margin	11.9%	9.5%	12.1%	11.7%	11.7%	11.9%
Adj. net profit margin	4.5%	2.8%	4.2%	5.0%	5.0%	5.1%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	(0.4)	(0.6)	(0.7)	(0.8)	(0.9)
Current ratio (x)	1.4	1.4	1.4	1.5	1.5	1.6
Receivable turnover days	30.1	41.3	38.5	37.0	38.0	37.0
Inventory turnover days	69.9	82.3	77.1	75.0	77.0	76.0
Payable turnover days	94.7	107.9	114.2	115.0	113.0	115.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	12.1	22.8	12.4	9.8	9.3	8.8
P/B	1.6	1.5	1.4	1.3	1.2	1.1
Div yield (%)	2.8	2.0	4.0	5.1	5.4	5.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Sinotruk (Hong Kong) (3808 HK)

## Overseas sales risk yet to be priced in

We downgrade Sinotruk to **HOLD** from Buy as we think Sinotruk's high proportion of overseas HDT sales (57% in 2023, in terms of HDT sales) will become a downside risk given the slowdown of overseas demand. We revise down our 2024E/25E earnings forecast by 5-6%, after incorporating our new industry HDT sales forecast. Our new TP of HK\$19.5 (previously HK\$22.5) is based on 4.6x EV/EBITDA (equivalent to historical average; multiple unchanged).

- **CNHTC's HDT sales volume declined in Jun/Jul.** According to Find800, HDT sales volume by CNHTC (parent company of Sinotruk) dropped 9%/20% YoY in Jun/Jul, versus +10%/2% in Apr/May.
- **Upside risks:** (1) Stronger-than-expected replacement demand; (2) Further expansion of new overseas markets.
- **Downside risks:** (1) further weakness in export sales; (3) lower-than-expected replacement demand in China; (3) a strong rebound of the RMB

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	59,291	85,041	93,550	98,524	101,336
YoY growth (%)	(36.5)	43.4	10.0	5.3	2.9
Net profit (RMB mn)	1,796.6	5,318.1	5,956.6	6,265.3	6,453.6
EPS (Reported) (RMB)	0.65	1.93	2.16	2.27	2.34
YoY growth (%)	(58.4)	196.0	12.0	5.2	3.0
Consensus EPS (RMB)	na	0.00	2.20	2.55	2.92
P/E (x)	27.5	9.3	8.3	7.9	7.7
P/B (x)	1.4	1.2	1.1	1.1	1.0
Yield (%)	1.6	5.4	6.0	6.3	6.5
ROE (%)	5.0	14.0	14.2	13.9	13.3
Net gearing (%)	(44.3)	(37.6)	(41.5)	(44.9)	(48.1)

Source: Company data, Bloomberg, CMBIGM estimates

## HOLD (Down)

<b>Target Price</b>	<b>HK\$19.50</b>
(Previous TP)	HK\$22.50)
<b>Up/Downside</b>	<b>(0.1%)</b>
<b>Current Price</b>	<b>HK\$19.52</b>

### China Capital Goods

#### Wayne FUNG, CFA

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#### Stock Data

Mkt Cap (HK\$ mn)	53,894.7
Avg 3 mths t/o (HK\$ mn)	111.0
52w High/Low (HK\$)	22.50/13.50
Total Issued Shares (mn)	2761.0

Source: FactSet

#### Shareholding Structure

CNHTC	51.0%
MAN SE	25.0%

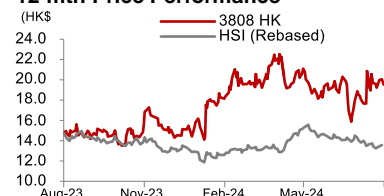
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	3.4%	8.8%
3-mth	-7.5%	3.1%
6-mth	6.4%	-0.8%

Source: FactSet

#### 12-mth Price Performance



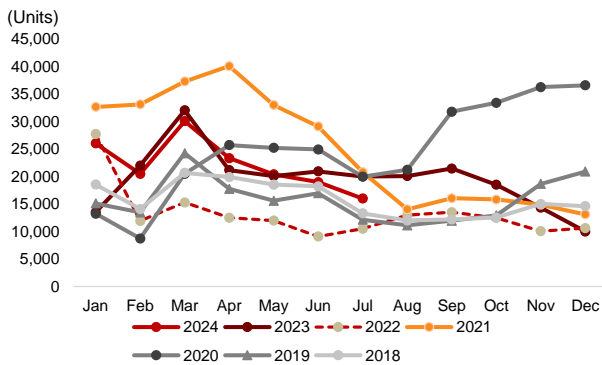
Source: FactSet

Figure 23: Changes in key assumptions

Sales volume (units)	2024E			2025E			2026E		
	Old	New	Diff	Old	New	Diff	Old	New	Diff
<b>Truck</b>	<b>394,776</b>	<b>351,076</b>	<b>-11.1%</b>	<b>414,514</b>	<b>370,060</b>	<b>-10.7%</b>	-	<b>383,393</b>	-
HDT	284,699	244,852	-14.0%	298,933	258,525	-13.5%	-	266,281	-
China	102,116	101,785	-0.3%	107,222	106,874	-0.3%	-	110,080	-
Export	182,583	143,067	-21.6%	191,712	151,651	-20.9%	-	156,201	-
LDT	110,077	106,224	-3.5%	115,581	111,535	-3.5%	-	117,112	-
<b>Engine</b>	<b>209,974</b>	<b>140,313</b>	<b>-33.2%</b>	<b>220,473</b>	<b>147,329</b>	<b>-33.2%</b>	-	<b>148,802</b>	-
Internal use	196,116	134,798	-31.3%	205,922	141,538	-31.3%	-	142,954	-
External sales	13,858	5,514	-60.2%	14,551	5,790	-60.2%	-	5,848	-
<b>Segment revenue</b>									
(RMB mn)									
Truck	102,992	92,273	-10.4%	108,141	97,359	-10.0%	-	100,521	-
HDT	91,104	80,801	-11.3%	95,659	85,313	-10.8%	-	87,873	-
LDT	11,888	11,472	-3.5%	12,483	12,046	-3.5%	-	12,648	-
Engine	19,728	17,667	-10.4%	20,652	18,487	-10.5%	-	18,660	-
Finance	2,071	1,429	-31.0%	2,091	1,443	-31.0%	-	1,458	-
Intersegment sales	-21,714	-17,819	-17.9%	-22,774	-18,766	-17.6%	-	-19,302	-
<b>Total</b>	<b>103,077</b>	<b>93,550</b>	<b>-9.2%</b>	<b>108,111</b>	<b>98,524</b>	<b>-8.9%</b>	-	<b>101,336</b>	-
<b>Segment operating margin</b>									
			ppt			ppt			ppt
Truck	6.3%	4.7%	(1.6)	6.4%	5.1%	(1.3)	-	5.1%	-
HDT	7.0%	5.9%	(1.2)	7.0%	5.7%	(1.3)	-	5.7%	-
LDT	1.0%	-3.0%	(4.0)	1.8%	0.5%	(1.3)	-	0.8%	-
Engine	9.2%	14.2%	5.0	9.5%	14.0%	4.5	-	14.0%	-
Finance	42.0%	56.0%	14.0	42.0%	56.0%	14.0	-	56.0%	-
<b>Average</b>	<b>8.7%</b>	<b>8.1%</b>	<b>(0.6)</b>	<b>8.8%</b>	<b>8.4%</b>	<b>(0.5)</b>	-	<b>8.3%</b>	-
<b>Net profit</b>	<b>6,272</b>	<b>5,957</b>	<b>-5.0%</b>	<b>6,636</b>	<b>6,265</b>	<b>-5.6%</b>	-	<b>6,454</b>	-

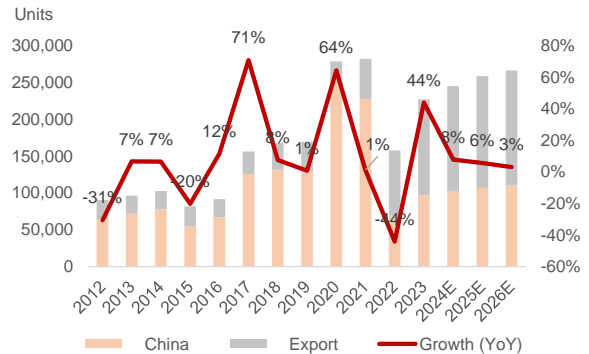
Source: Company data, CMBIGM estimates

Figure 24: CNHTC monthly sales



Source: Cvworld, Find800, CMBIGM

Figure 25: Sinotruk's HDT sales volume projection



Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	93,357	59,291	85,041	93,550	98,524	101,336
Cost of goods sold	(77,693)	(49,277)	(71,263)	(78,114)	(82,169)	(84,514)
Gross profit	15,664	10,013	13,778	15,436	16,355	16,822
Operating expenses	(9,904)	(7,110)	(7,291)	(7,843)	(8,140)	(8,391)
Operating profit	5,760	2,903	6,487	7,592	8,215	8,431
Share of (losses)/profits of associates/JV	(6)	(23)	111	124	109	113
EBITDA	7,203	4,327	7,961	9,188	9,932	10,251
Depreciation	1,443	1,424	1,474	1,595	1,717	1,820
Interest income	120	138	314	282	297	335
Interest expense	(11)	(9)	(29)	(51)	(52)	(53)
Net Interest income/(expense)	109	128	284	231	245	282
Pre-tax profit	5,863	3,008	6,883	7,948	8,569	8,826
Income tax	(1,153)	(958)	(1,056)	(1,431)	(1,714)	(1,765)
After tax profit	4,709	2,051	5,827	6,517	6,855	7,061
Minority interest	(387)	(254)	(509)	(560)	(590)	(607)
Net profit	4,322	1,797	5,318	5,957	6,265	6,454

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	79,984	79,758	87,067	88,255	96,825	96,310
Cash & equivalents	24,692	15,262	17,474	20,495	23,588	26,761
Restricted cash	3,614	4,542	2,711	2,711	2,711	2,711
Account receivables	24,063	16,145	17,078	16,241	19,389	17,258
Inventories	16,667	13,496	13,338	12,343	14,671	13,114
Financial assets at FVTPL	2,977	4,500	10,522	10,522	10,522	10,522
Other current assets	4,058	7,359	8,924	8,924	8,924	8,924
Non-current assets	27,036	25,721	34,719	36,260	37,667	38,974
PP&E	14,215	15,487	15,823	17,295	18,647	19,878
Right-of-use assets	2,554	2,320	2,260	2,260	2,260	2,260
Investment in JVs & assos	1,338	1,971	2,018	2,124	2,218	2,315
Intangibles	270	232	152	115	77	54
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	8,659	5,711	14,466	14,466	14,466	14,466
Total assets	107,020	105,479	121,785	124,515	134,492	135,284
Current liabilities	62,889	61,314	72,530	71,407	77,506	74,370
Short-term borrowings	3,511	3,890	4,907	5,007	5,107	5,207
Account payables	37,479	33,221	46,624	45,401	51,400	48,164
Other current liabilities	21,900	24,203	20,999	20,999	20,999	20,999
Non-current liabilities	1,363	1,196	1,295	1,295	1,295	1,295
Long-term borrowings	0	0	142	142	142	142
Deferred income	657	560	643	643	643	643
Other non-current liabilities	706	635	510	510	510	510
Total liabilities	64,252	62,510	73,825	72,702	78,801	75,665
Total shareholders equity	35,671	35,909	40,272	43,565	46,852	50,173
Minority interest	7,097	7,060	7,688	8,249	8,838	9,446
Total equity and liabilities	107,020	105,479	121,785	124,515	134,492	135,284



CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Operating</b>						
Profit before taxation	5,863	3,008	6,883	7,948	8,569	8,826
Depreciation & amortization	1,443	1,424	1,474	1,595	1,717	1,820
Tax paid	(2,504)	(521)	(1,186)	(1,431)	(1,714)	(1,765)
Change in working capital	(16,848)	3,458	9,019	609	523	452
Others	8,845	3,526	(4,821)	(355)	(354)	(395)
<b>Net cash from operations</b>	<b>(3,200)</b>	<b>10,895</b>	<b>11,368</b>	<b>8,366</b>	<b>8,741</b>	<b>8,939</b>
<b>Investing</b>						
Capital expenditure	(2,491)	(1,429)	(2,430)	(3,000)	(3,000)	(3,000)
Others	2,454	(17,177)	(8,629)	269	282	320
<b>Net cash from investing</b>	<b>(37)</b>	<b>(18,606)</b>	<b>(11,059)</b>	<b>(2,731)</b>	<b>(2,718)</b>	<b>(2,680)</b>
<b>Financing</b>						
Dividend paid	(2,430)	(1,519)	(801)	(2,664)	(2,978)	(3,133)
Net borrowings	(412)	0	1,159	100	100	100
Proceeds from share issues	5,528	0	0	0	0	0
Others	(740)	(329)	(829)	(51)	(52)	(53)
<b>Net cash from financing</b>	<b>1,947</b>	<b>(1,847)</b>	<b>(471)</b>	<b>(2,615)</b>	<b>(2,930)</b>	<b>(3,086)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	26,049	24,692	15,262	17,474	20,495	23,588
Exchange difference	(67)	128	2,374	0	0	0
<b>Cash at the end of the year</b>	<b>24,692</b>	<b>15,262</b>	<b>17,474</b>	<b>20,495</b>	<b>23,588</b>	<b>26,761</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	(4.9%)	(36.5%)	43.4%	10.0%	5.3%	2.9%
Gross profit	(20.0%)	(36.1%)	37.6%	12.0%	6.0%	2.9%
Operating profit	(39.2%)	(49.6%)	123.5%	17.0%	8.2%	2.6%
EBITDA	(35.0%)	(39.9%)	84.0%	15.4%	8.1%	3.2%
Net profit	(36.9%)	(58.4%)	196.0%	12.0%	5.2%	3.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	16.8%	16.9%	16.2%	16.5%	16.6%	16.6%
Operating margin	6.2%	4.9%	7.6%	8.1%	8.3%	8.3%
EBITDA margin	7.7%	7.3%	9.4%	9.8%	10.1%	10.1%
Return on equity (ROE)	12.8%	5.0%	14.0%	14.2%	13.9%	13.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
Current ratio (x)	1.3	1.3	1.2	1.2	1.2	1.3
Receivable turnover days	86.6	123.8	71.3	65.0	66.0	66.0
Inventory turnover days	88.0	111.7	68.7	60.0	60.0	60.0
Payable turnover days	216.5	261.8	204.5	215.0	215.0	215.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	11.4	27.5	9.3	8.3	7.9	7.7
P/B	1.4	1.4	1.2	1.1	1.1	1.0
Div yield (%)	3.1	1.6	5.4	6.0	6.3	6.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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