

Sinotruk (Hong Kong) (3808 HK)

Expect strong growth to continue after the impressive 1H23; U/G to BUY

We upgrade Sinotruk to **BUY** from Hold. We were concerned about margin pressure given the increase in procurement of engines from **Weichai Power (2338 HK, 000338 CH, BUY)** that would hurt the in-house supply of engines. That said, with strong HDT sales volume growth, continuous market share gain and the pre-announced net profit growth of 80-100% YoY in 1H23 (to RMB2.3-2.56bn), margin pressure is no longer a concern. We reset our 2023E/24E earnings forecast by +37%/+46%, mainly due to higher export sales and operating margin. We revise up our TP to 19.3, based on 6x 2023E EV/EBIDTA (0.5SD above the historical average to reflect the strong earnings recovery). We see Sinotruk a strong leverage play for the HDT recovery story. Sinotruk will also benefit from the weakness of RMB rate given the high portion of export.

- **Strong volume growth with market share gain.** CNHTC (parent company of Sinotruk) delivered 36.8% YoY growth of HDT sales volume (108.8k units) in 5M23, substantially outpaced the industry growth of 23.7% and represented 2.6ppt YoY expansion of market share to 27.1%. Export, which surged 69% YoY to 53.2k units, represented 49% of CNHTC's sales volume in 5M23. CNHTC remained the largest HDT export player in China in 5M23 (47% market share). We expect Sinotruk to deliver similar sales volume trend in 5M23.
- **Industry: HDT sales volume +31% YoY in Jun.** According to the preliminary data from Cvworl, China HDT industry sales volume in Jun (including export) grew 31% YoY to 72k units, driven by strong demand for gas-fuelled trucks (helped by the decline in LNG price) and export. In 1H23, China HDT sales volume grew 25% YoY to 474k units, representing 57% of our full year forecast of 829k units (+23% YoY).
- **Revising up both volume and margin assumptions for Sinotruk.** We revise up our HDT sales forecast in 2023E/24E by 23%/4%, largely due to higher assumptions on export. Our in-house engine assumptions for 23E/24E are revised up by 18%/21%. Our blended segment margins for 23E/24E are revised up by 0.2ppt/0.4ppt, driven by operating leverage.
- **Valuation: Taking growth into account.** Our new TP of HK\$19.3 is based on 6x 2023E EV/EBIDTA. We now assign 0.5SD above the historical average of 4.7x (previously 1SD below average) to reflect the strong earnings recovery starting this year (96% YoY).
- **Key risks:** (1) weakness in export sales; (2) lack of recovery in China; (3) unexpected margin pressure

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	93,357	59,291	78,229	84,810	87,580
YoY growth (%)	(4.9)	(36.5)	31.9	8.4	3.3
Net profit (RMB mn)	4,322.1	1,796.6	3,527.5	4,138.0	4,462.3
EPS (Reported) (RMB)	1.57	0.65	1.28	1.50	1.62
YoY growth (%)	(36.9)	(58.4)	96.3	17.3	7.8
Consensus EPS (RMB)	na	na	1.24	1.67	2.13
P/E (x)	8.0	20.9	11.0	9.4	8.7
P/B (x)	1.0	1.0	1.0	0.9	0.9
Yield (%)	4.4	2.1	3.2	3.7	4.0
ROE (%)	12.8	5.0	9.5	10.3	10.4
Net gearing (%)	(69.5)	(44.3)	(50.1)	(54.8)	(66.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Up)

Target Price HK\$19.30
 (Previous TP) HK\$10.00
Up/Downside 26.8%
Current Price HK\$15.22

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Stock Data

Mkt Cap (HK\$ mn)	42,020
Avg 3 mths t/o (HK\$ mn)	59.9
52w High/Low (HK\$)	15.26/6.54
Total Issued Shares (mn)	2761.0

Source: FactSet

Shareholding Structure

CNHTC	51.0%
MAN SE	25.0%

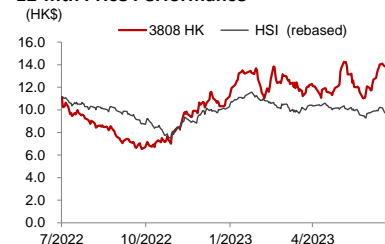
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	26.0%	26.2%
3-mth	24.8%	34.5%
6-mth	39.9%	46.3%

Source: FactSet

12-mth Price Performance



Source: Bloomberg

Related reports:

Weichai Power (000338 CH, BUY) – Impressive 1Q23 earnings; U/G to BUY; More catalysts ahead – 2 May 2023 ([link](#))

Weichai Power (2338 HK, BUY) – Impressive 1Q23 earnings; Higher earnings forecast & TP; More catalysts ahead – 2 May 2023 ([link](#))

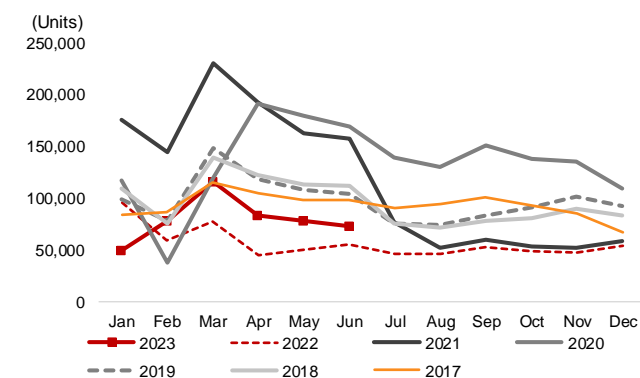
China Construction Machinery/HDT – 2023 outlook: Difficulties mastered are opportunities won – 7 Dec 2022 ([link](#))

Figure 1: Change in key assumptions

Sales volume (units)	2023E			2024E			2025E		
	Old	New	Diff	Old	New	Diff	Old	New	Diff
Truck	248,576	305,009	22.7%	261,005	329,554	26.3%	-	342,834	-
HDT	163,391	208,942	27.9%	171,560	228,684	33.3%	-	236,920	-
China	70,155	76,154	8.6%	73,662	79,962	8.6%	-	80,761	-
Export	93,236	132,788	42.4%	97,898	148,722	51.9%	-	156,158	-
LDT	85,185	96,067	12.8%	89,444	100,871	12.8%	-	105,914	-
Engine	139,245	165,386	18.8%	143,422	173,656	21.1%	-	175,392	-
Internal use	131,074	154,471	17.8%	135,006	162,194	20.1%	-	163,816	-
External sales	8,170	10,915	33.6%	8,415	11,461	36.2%	-	11,576	-
Segment revenue									
(RMB mn)									
Truck	58,026	76,932	32.6%	60,927	84,073	38.0%	-	87,253	-
HDT	49,507	66,652	34.6%	51,983	73,179	40.8%	-	75,814	-
LDT	8,518	10,279	20.7%	8,944	10,894	21.8%	-	11,439	-
Engine	13,504	15,804	17.0%	13,871	16,532	19.2%	-	16,685	-
Finance	2,291	1,972	-13.9%	2,406	2,071	-13.9%	-	2,091	-
Intersegment sales	-14,764	-16,479	11.6%	-15,441	-17,865	15.7%	-	-18,449	-
Total	59,057	78,229	32.5%	61,763	84,810	37.3%	-	87,580	-
Segment operating margin									
Truck	3.7%	4.4%	0.7	3.8%	4.8%	1.0	-	4.9%	-
HDT	4.3%	5.4%	1.1	4.3%	5.4%	1.1	-	5.4%	-
LDT	0.2%	-2.0%	(2.2)	1.0%	1.0%	0.0	-	1.8%	-
Engine	8.0%	7.8%	(0.2)	9.0%	8.5%	(0.5)	-	9.5%	-
Finance	40.0%	40.0%	0.0	40.0%	40.0%	0.0	-	40.0%	-
Average	6.5%	6.7%	0.2	6.8%	7.2%	0.4	-	7.5%	-
Net profit	2,583	3,528	36.6%	2,836	4,138	45.9%	-	4,462	-

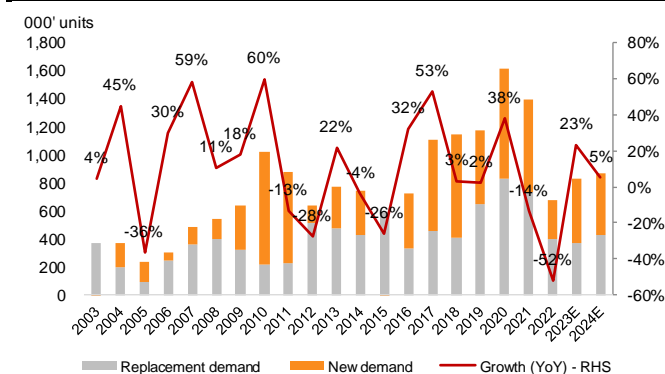
Source: Company data, CMBIGM estimates

Figure 2: China HDT industry sales (including export)

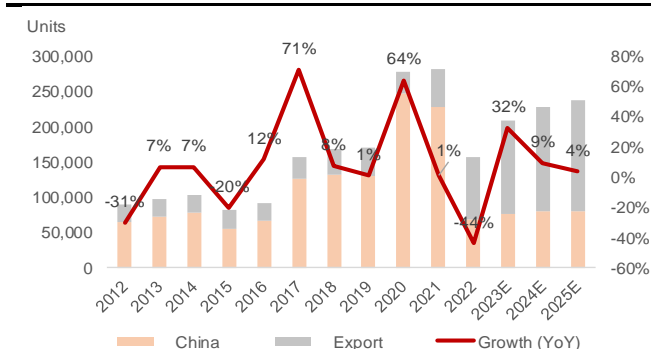


Source: Cvworlnd, CMBIGM

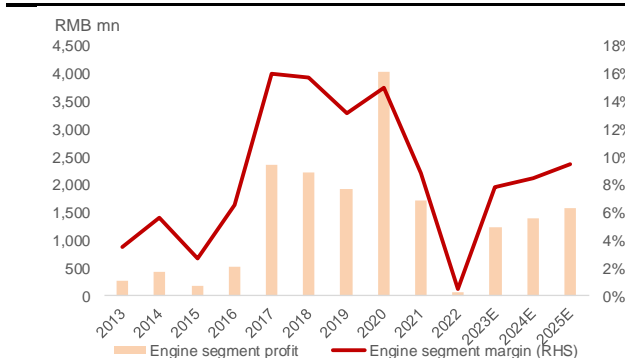
Figure 3: CMBI HDT industry sales projection



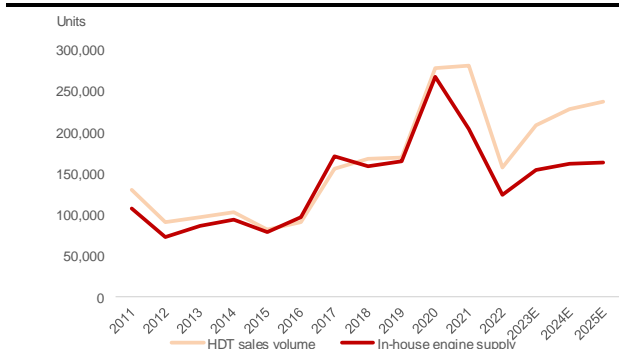
Source: Bloomberg, Company data, CMBIGM estimates

Figure 4: Sinotruk's HDT sales volume projection

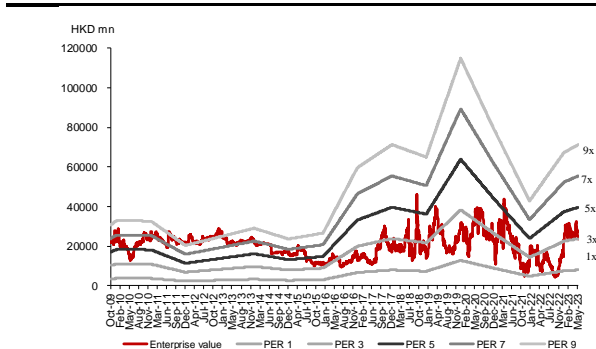
Source: Company data, CMBIGM estimates

Figure 5: Sinotruk's engine segment profit & margin

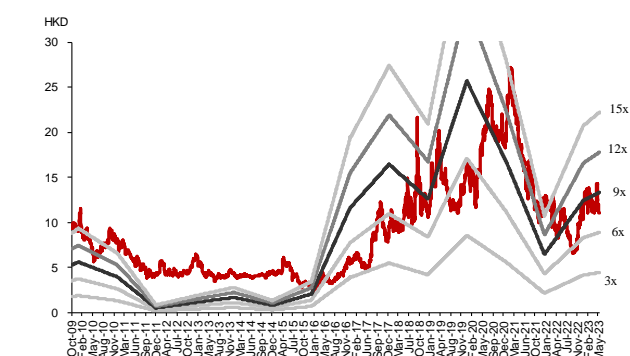
Source: Company data, CMBIGM estimates

Figure 6: Sinotruk's HDT sales vs in-house engine supply

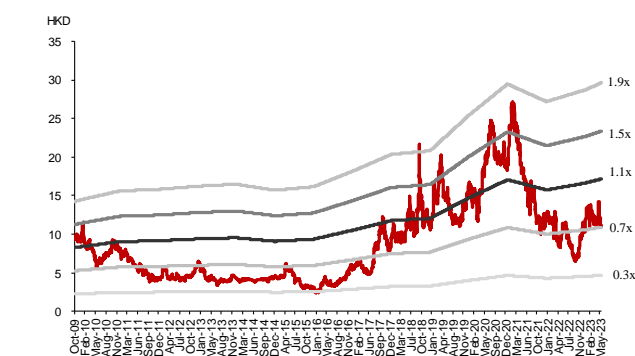
Source: Company data, CMBIGM estimates

Figure 7: Sinotruk's EV/EBITDA band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 8: Sinotruk P/E band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 9: Sinotruk P/B band

Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	98,198	93,357	59,291	78,229	84,810	87,580
Cost of goods sold	(78,613)	(77,693)	(49,277)	(65,008)	(70,477)	(72,779)
Gross profit	19,585	15,664	10,013	13,221	14,333	14,801
Operating expenses	(10,115)	(9,904)	(7,110)	(7,978)	(8,234)	(8,282)
Operating profit	9,471	5,760	2,903	5,243	6,098	6,519
Share of (losses)/profits of associates/JV	55	(6)	(23)	20	60	104
EBITDA	11,083	7,203	4,327	6,790	7,766	8,191
Depreciation	1,613	1,443	1,424	1,547	1,668	1,672
Interest income	58	120	138	86	100	121
Interest expense	(32)	(11)	(9)	(95)	(97)	(99)
Net Interest income/(expense)	26	109	128	(9)	3	22
Pre-tax profit	9,551	5,863	3,008	5,253	6,162	6,645
Income tax	(2,127)	(1,153)	(958)	(1,103)	(1,294)	(1,396)
After tax profit	7,424	4,709	2,051	4,150	4,868	5,250
Minority interest	(573)	(387)	(254)	(623)	(730)	(787)
Net profit	6,851	4,322	1,797	3,528	4,138	4,462

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	84,075	79,984	79,758	109,559	91,898	120,637
Cash & equivalents	26,049	24,692	15,262	18,719	22,209	29,067
Restricted cash	4,558	3,614	4,542	4,542	4,542	4,542
Account receivables	20,222	24,063	16,145	33,150	19,827	33,440
Inventories	20,811	16,667	13,496	22,837	15,008	23,275
Financial assets at FVTPL	5,440	2,977	4,500	4,500	4,500	4,500
Other current assets	4,384	4,058	7,359	7,359	7,359	7,359
Non-current assets	26,934	27,036	25,721	27,221	28,604	27,121
PP&E	12,438	14,215	15,487	17,017	18,426	16,931
Right-of-use assets	2,453	2,554	2,320	2,320	2,320	2,320
Investment in JVs & assos	1,028	1,338	1,971	1,988	2,039	2,127
Intangibles	315	270	232	186	109	32
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	10,699	8,659	5,711	5,711	5,711	5,711
Total assets	111,008	107,020	105,479	136,780	120,503	147,758
Current liabilities	73,868	62,889	61,314	89,267	69,356	92,809
Short-term borrowings	1,474	3,511	3,890	3,890	3,990	4,090
Account payables	54,695	37,479	33,221	61,174	41,163	64,516
Other current liabilities	17,699	21,900	24,203	24,203	24,203	24,203
Non-current liabilities	1,461	1,363	1,196	1,196	1,196	1,196
Long-term borrowings	238	0	0	0	0	0
Deferred income	505	657	560	560	560	560
Other non-current liabilities	718	706	635	635	635	635
Total liabilities	75,329	64,252	62,510	90,462	70,551	94,005
Total shareholders equity	32,115	35,671	35,909	38,636	41,539	44,553
Minority interest	3,564	7,097	7,060	7,682	8,412	9,200
Total equity and liabilities	111,008	107,020	105,479	136,780	120,503	147,758

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,551	5,863	3,008	5,253	6,162	6,645
Depreciation & amortization	1,613	1,443	1,424	1,547	1,668	1,672
Tax paid	(1,765)	(2,504)	(521)	(1,103)	(1,294)	(1,396)
Change in working capital	8,899	(16,848)	6,162	1,607	1,139	1,474
Others	1,227	8,845	822	(11)	(64)	(126)
Net cash from operations	19,524	(3,200)	10,895	7,294	7,612	8,270
Investing						
Capital expenditure	(1,007)	(2,491)	(1,429)	(3,000)	(3,000)	(100)
Others	(4,896)	2,454	(17,177)	59	109	136
Net cash from investing	(5,903)	(37)	(18,606)	(2,941)	(2,891)	36
Financing						
Dividend paid	(1,077)	(2,430)	(1,519)	(801)	(1,235)	(1,448)
Net borrowings	712	(412)	0	0	100	100
Proceeds from share issues	0	5,528	0	0	0	0
Others	(2,975)	(740)	(329)	(95)	(97)	(99)
Net cash from financing	(3,340)	1,947	(1,847)	(896)	(1,231)	(1,447)
Net change in cash						
Cash at the beginning of the year	17,931	26,049	24,692	15,262	18,719	22,209
Exchange difference	(2,163)	(67)	128	0	0	0
Cash at the end of the year	26,049	24,692	15,262	18,719	22,209	29,067
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	56.8%	(4.9%)	(36.5%)	31.9%	8.4%	3.3%
Gross profit	60.1%	(20.0%)	(36.1%)	32.0%	8.4%	3.3%
Operating profit	89.7%	(39.2%)	(49.6%)	80.6%	16.3%	6.9%
EBITDA	68.9%	(35.0%)	(39.9%)	56.9%	14.4%	5.5%
Net profit	97.2%	(36.9%)	(58.4%)	96.3%	17.3%	7.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	19.9%	16.8%	16.9%	16.9%	16.9%	16.9%
Operating margin	9.6%	6.2%	4.9%	6.7%	7.2%	7.4%
EBITDA margin	11.3%	7.7%	7.3%	8.7%	9.2%	9.4%
Return on equity (ROE)	23.1%	12.8%	5.0%	9.5%	10.3%	10.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.9)	(0.7)	(0.4)	(0.5)	(0.5)	(0.7)
Current ratio (x)	1.1	1.3	1.3	1.2	1.3	1.3
Receivable turnover days	67.4	86.6	123.8	115.0	114.0	111.0
Inventory turnover days	70.9	88.0	111.7	102.0	98.0	96.0
Payable turnover days	200.0	216.5	261.8	265.0	265.0	265.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	5.6	8.0	20.9	11.0	9.4	8.7
P/B	1.1	1.0	1.0	1.0	0.9	0.9
Div yield (%)	6.6	4.4	2.1	3.2	3.7	4.0

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

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