

Weichai Power (2338 HK)

Key takeaways from post-results call

During the post-results call yesterday, Weichai expected the industry HDT demand in 2024E will be ~900k units (-2% YoY). Of this, China demand is expected to fall by 10% YoY to 600k units while exports are expected to grow 20% YoY to 300k units. Weichai expects the LNG price to stay low due to oversupply, which may help boost the demand for gas HDTs. Meanwhile, high-speed large-bore engine will serve as an important growth driver for Weichai. We maintain Weichai as our sector top pick. Reiterate **BUY** with SOTP-based TP of HK\$22/RMB20.4 for Weichai H/A.

Key takeaways:

- Industry HDT demand.** Weichai expects China demand in 2024E will drop ~10% YoY to 600k units, while exports will remain strong (+20% YoY to 300k units). In the long-run, the industry HDT demand (China + exports) is expected to be 800-900k units per year. Weichai believes it will be less likely for the demand to reach the peak level in previous years as construction truck demand will continue to be affected by weak property investment.
- Natural gas HDT.** Weichai believes LNG price will stay low as overall gas demand is weak while supply growth is underway. Therefore, Weichai expects gas HDTs will continue to see increasing penetration going forward (CMBI note: Weichai had 65% market share in HDT gas engine segment in 2023, +6ppt YoY).
- Fleet size of medium- to heavy-duty trucks.** At present, the combined fleet size of HDTs and MDTs reached ~9.6mn units. Of this, NES III or below accounts for 900k units. Weichai expects the phase-out of NES III trucks through government subsidies will boost replacement demand.
- HDT industry consolidation.** Weichai believes there will be only four major HDT manufacturers in China after consolidation in the long-run. Sales volume of HDTs could be ~150-200k units for each of them.
- High-speed large-bore engine.** Weichai has already achieved breakthrough in this market and is competing with Caterpillar (CAT US, NR) Cummins (CMI US, NR), MTU and Liebherr across the globe. The global industry size of large-bore engines (500kW or above) in 2023 was ~80k units (10% growth per year in the past). Weichai delivered 8k units in 2023 (+38% YoY), with a market share of ~10%. Driven by the strong demand from data centre construction, the size of large-bore engines has been increased to 2MW, and will further move up to 3-4MW, according to Weichai. Weichai also expects strong demand from the after-sales market. The total industry size of large-bore engines is expected to reach US\$20bn globally.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	175,158	213,958	236,291	250,085	260,023
YoY growth (%)	(13.9)	22.2	10.4	5.8	4.0
Adjusted net profit (RMB mn)	4,905.5	9,013.9	12,116.6	13,051.3	13,768.2
EPS (Reported) (RMB)	0.56	1.03	1.39	1.50	1.58
YoY growth (%)	(47.0)	83.8	34.4	7.7	5.5
Consensus EPS (RMB)	0.00	1.02	1.28	1.45	0.00
P/E (x)	23.5	13.6	10.1	9.4	8.9
P/B (x)	1.6	1.6	1.4	1.3	1.2
Yield (%)	1.9	3.7	4.9	5.3	0.0
Net gearing (%)	(35.8)	(62.0)	(66.1)	(79.1)	(91.5)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$22.00
(Previous TP)	HK\$22.00)
Up/Downside	44.5%
Current Price	HK\$15.22

China Capital Goods

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Stock Data

Mkt Cap (HK\$ mn)	132,818.2
Avg 3 mths t/o (HK\$ mn)	144.6
52w High/Low (HK\$)	15.76/9.49
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	-3.4%	-3.3%
3-mth	19.8%	17.8%
6-mth	40.1%	47.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

Weichai Power – 4Q23 net profit +58% YoY; Payout increased to 50%; Higher earnings forecast on margin – 26 Mar 2024 (A: [link](#)) (H: [link](#))

Capital Goods – Expansion of gas/diesel price spread likely to boost natural gas HDT sales in the near term – 5 Mar 2024 ([link](#))

Capital Goods – Equipment replacement proposed in Central government meeting; positive to HDT sector – 26 Feb 2024 ([link](#))

Weichai Power – 4Q23E earnings surged 31-71% YoY, above expectation – 24 Jan 2024 (A: [link](#)) (H: [link](#))

China Heavy Duty Truck – Multi-cylinder diesel engine sales +29% YoY in Dec – 15 Jan 2024 ([link](#))

Figure 1: Weichai's quarterly results

(RMB mn)	1Q22	1Q23	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
Revenue	41,104	53,434	30%	45,636	52,701	15%	43,783	54,248	24%	44,634	53,575	20%
Cost of sales	(33,445)	(43,442)	30%	(37,924)	(42,062)	11%	(37,080)	(42,439)	14%	(35,561)	(40,900)	15%
Gross profit	7,659	9,992	30%	7,712	10,639	38%	6,704	11,809	76%	9,073	12,675	40%
Other income	168	126	-25%	202	215	7%	254	588	131%	498	846	70%
Other gains and losses	139	116	-16%	505	195	-61%	599	281	-53%	224	(458)	n/a
S&D expenses	(2,553)	(2,866)	12%	(2,459)	(3,339)	36%	(2,799)	(3,385)	21%	(2,850)	(3,820)	34%
Administrative expenses	(1,878)	(2,295)	22%	(2,000)	(2,329)	16%	(2,007)	(2,363)	18%	(2,207)	(2,469)	12%
R&D expenses	(1,828)	(1,833)	0%	(1,860)	(1,888)	2%	(1,827)	(1,929)	6%	(2,217)	(2,395)	8%
Taxes and surcharges	(82)	(126)	54%	(139)	(206)	48%	(100)	(192)	92%	(159)	(224)	41%
Impairment loss of assets	(220)	(337)	53%	(420)	(218)	-48%	(277)	(395)	43%	(370)	(536)	45%
EBIT	1,405	2,777	98%	1,539	3,069	99%	549	4,414	704%	1,990	3,619	82%
Other expenses	(39)	(41)	6%	(20)	(16)	-22%	(24)	(32)	34%	(79)	(64)	-18%
Net finance cost	156	(52)	n/a	371	31	-92%	67	(505)	n/a	316	(34)	n/a
Share of profit of JV and associates	58	(33)	n/a	(51)	13	n/a	(59)	15	n/a	(92)	(7)	-92%
Pretax profit	1,579	2,651	68%	1,839	3,097	68%	533	3,891	631%	2,135	3,513	65%
Income tax	(270)	(405)	50%	(196)	(557)	184%	252	(679)	n/a	(189)	(299)	58%
After tax profit	1,309	2,245	72%	1,643	2,540	55%	784	3,212	309%	1,947	3,215	65%
MI	(258)	(389)	51%	(307)	(497)	62%	141	(610)	n/a	(353)	(701)	99%
Net profit	1,051	1,856	77%	1,335	2,043	53%	925	2,602	181%	1,594	2,513	58%
Key ratios			Chg (ppt)			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross margin	18.6%	18.7%	0.1	16.9%	20.2%	3.3	15.3%	21.8%	6.5	20.3%	23.7%	3.3
S&D expense ratio	6.2%	5.4%	-0.8	5.4%	6.3%	0.9	6.4%	6.2%	-0.2	6.4%	7.1%	0.7
Administrative expense ratio	4.6%	4.3%	-0.3	4.4%	4.4%	0.0	4.6%	4.4%	-0.2	4.9%	4.6%	-0.3
R&D expense ratio	4.4%	3.4%	-1.0	4.1%	3.6%	-0.5	4.2%	3.6%	-0.6	5.0%	4.5%	-0.5
Effective tax rate	17.1%	15.3%	-1.8	10.7%	18.0%	7.3	-47.3%	17.5%	64.7	8.8%	8.5%	-0.3

Source: Company data, CMBIGM

Figure 2: KION's latest guidance for 2024E

(EUR mn)	2021	2022	2023	2024E guidance	
				Low-end	High-end
Order intake	12,482	11,708	10,876	-	-
Growth (YoY)	32%	-6%	-7%	-	-
Revenue	10,294	11,136	11,434	11,200	12,000
Growth (YoY)	23%	8%	3%	-2%	5%
Adjusted EBIT	842	292	791	790	940
Growth (YoY)	54%	-65%	171%	0%	19%
Adjusted EBIT margin	8.2%	2.6%	6.9%	7.1%	7.8%
Net income	568	106	314	-	-
Growth (YoY)	169%	-81%	197%	-	-

Source: Company data, CMBIGM

Figure 3: KION's quarterly financials

(EUR mn)	4Q22	1Q23	2Q23	3Q23	4Q23
Order intake	2,536	2,444	2,864	2,621	2,947
Growth (YoY)	-27%	-16%	-24%	4%	16%
Revenue	2,893	2,781	2,836	2,730	3,086
Growth (YoY)	5%	2%	1%	1%	7%
Adjusted EBIT	82	156	192	224	219
Growth (YoY)	-46%	-8%	36%	n/a	167%
Adjusted EBIT margin	2.8%	5.6%	6.8%	8.2%	7.1%
Net income	39	74	73	82	86
Growth (YoY)	-72%	-8%	-9%	n/a	121%

Source: Company data, CMBIGM

Figure 4: Key assumptions for Weichai

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Sales volume (unit)								
Engine	742,000	990,291	1,020,000	573,000	736,000	885,924	944,050	972,494
HDT	161,000	181,000	150,000	80,000	116,000	135,720	143,863	148,179
Gear box	1,002,000	1,186,000	1,153,000	590,000	838,000	921,800	967,890	987,248
Growth (YoY)								
Engine	10.9%	33.5%	3.0%	-43.8%	28.4%	20.4%	6.6%	3.0%
HDT	5.2%	12.4%	-17.1%	-46.7%	45.0%	17.0%	6.0%	3.0%
Gear box	10.2%	18.4%	-2.8%	-48.8%	42.0%	10.0%	5.0%	2.0%
(RMB mn)								
Revenue								
Diesel engines	49,976	62,720	64,460	39,151	60,775	72,646	77,412	79,744
Automobiles and major components	71,475	85,907	74,258	46,812	65,098	72,123	75,822	77,436
Forklift trucks & supply chain solution	67,177	65,110	78,625	79,010	87,521	90,147	95,556	101,289
Agricultural machinery	-	-	-	17,733	16,200	17,820	18,711	19,646
Intersegment sales	-14,267	-16,246	-13,795	-7,548	-15,635	-16,444	-17,415	-18,093
Total revenue	174,361	197,491	203,548	175,158	213,958	236,291	250,085	260,023
Growth (YoY)								
Diesel engines	11.4%	25.5%	2.8%	-39.3%	55.2%	19.5%	6.6%	3.0%
Automobiles and major components	6.9%	20.2%	-13.6%	-37.0%	39.1%	10.8%	5.1%	2.1%
Forklift trucks & supply chain solution	11.0%	-3.1%	20.8%	0.5%	10.8%	3.0%	6.0%	6.0%
Agricultural machinery	-	-	-	-	-8.6%	10.0%	5.0%	5.0%
Intersegment sales	9.8%	13.9%	-15.1%	-45.3%	107.1%	5.2%	5.9%	3.9%
Average	9.5%	13.3%	3.1%	-13.9%	22.2%	10.4%	5.8%	4.0%
Segment profit								
Diesel engines	7,573	8,524	7,407	2,823	7,719	9,299	9,909	10,207
Automobiles and major components	2,176	1,668	446	-599	594	938	1,062	1,084
Forklift trucks & supply chain solution	3,992	1,789	5,338	428	4,920	5,409	5,733	6,077
Agricultural machinery	-	-	-	547	671	820	842	884
Intersegment sales	-131	-127	-591	473	-822	-872	-923	-959
Total segment profit	13,610	11,854	12,601	3,672	13,082	15,593	16,623	17,294
Growth (YoY)								
Diesel engines	3.6%	12.6%	-13.1%	-61.9%	173.4%	20.5%	6.6%	3.0%
Automobiles and major components	10.8%	-23.3%	-73.3%	-234.3%	-199.1%	57.8%	13.2%	2.1%
Forklift trucks & supply chain solution	9.8%	-55.2%	198.3%	-92.0%	1050.5%	9.9%	6.0%	6.0%
Agricultural machinery	-	-	-	-	22.6%	22.2%	2.7%	5.0%
Intersegment sales	n/a	-2.7%	364.5%	-180.1%	-273.6%	6.0%	5.9%	3.9%
Average	4.4%	-12.9%	6.3%	-70.9%	256.3%	19.2%	6.6%	4.0%
Segment margin								
Diesel engines	15.2%	13.6%	11.5%	7.2%	12.7%	12.8%	12.8%	12.8%
Automobiles and major components	3.0%	1.9%	0.6%	-1.3%	0.9%	1.3%	1.4%	1.4%
Forklift trucks & supply chain solution	5.9%	2.7%	6.8%	0.5%	5.6%	6.0%	6.0%	6.0%
Agricultural machinery	-	-	-	3.1%	4.1%	4.6%	4.5%	4.5%
Average	7.8%	6.0%	6.2%	2.1%	6.1%	6.6%	6.6%	6.7%

Source: Company data, CMBIGM estimates

Figure 5: SOTP valuation

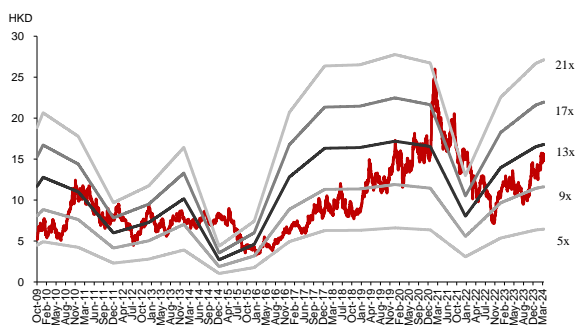
SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA	Estimated EV	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
			2024E (RMB mn)	(RMB mn)			
Weichai core business	EV/EBITDA	6.5	14,481	94,126	58,484	152,611	85.8%
KION Group	Proportionate market value	-	-	-	-	23,166	13.0%
Ballard Power Systems	Proportionate market value	-	-	-	-	1,202	0.7%
Ceres Power	Proportionate market value	-	-	-	-	462	0.3%
Share of JV/associates	P/B	1.4	-	-	-	7,244	4.1%
Minority interest in core business						(6,757)	-3.8%
Total NAV						177,928	100.0%
NAV per share (RMB)						20.4	
NAV per share (HK\$)						22.0	

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.

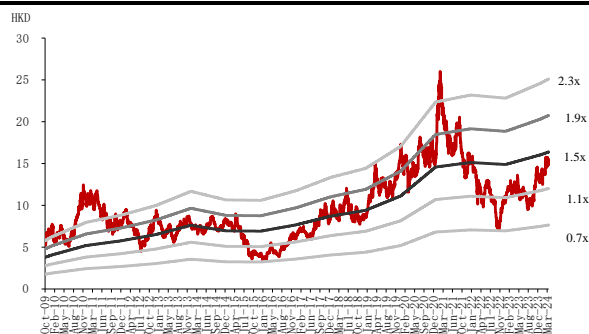
Note 2: Share of JV/associates excludes Ballard Power and Ceres Power

Figure 6: Weichai Power-H P/E band



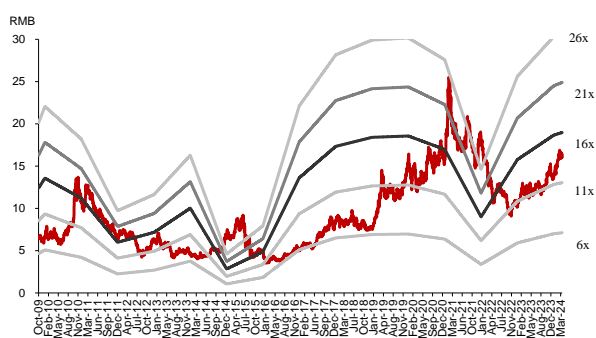
Source: Bloomberg, company data, CMBIGM estimates

Figure 7: Weichai Power-H P/B band



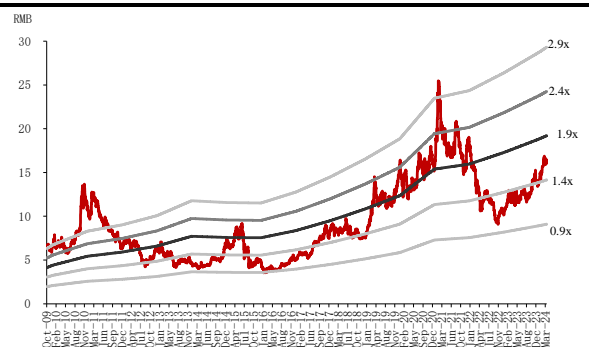
Source: Bloomberg, company data, CMBIGM estimates

Figure 8: Weichai Power-A P/E band



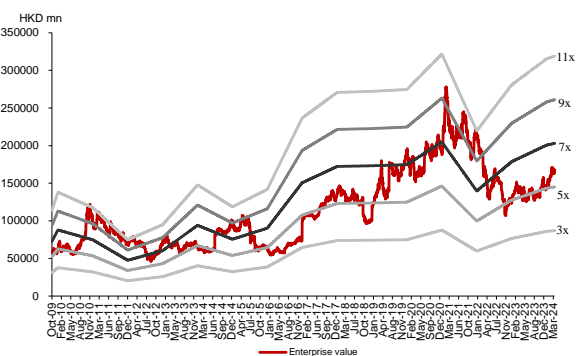
Source: Bloomberg, company data, CMBIGM estimates

Figure 9: Weichai Power-A P/B band



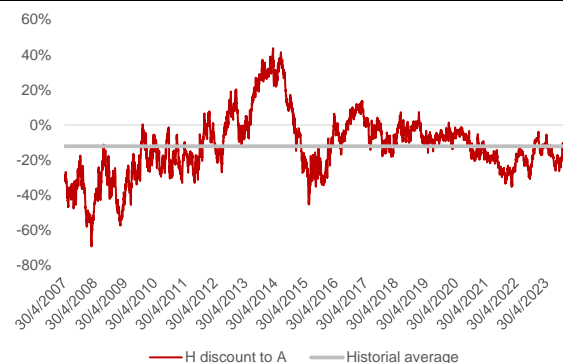
Source: Bloomberg, company data, CMBIGM estimates

Figure 10: Weichai Power EV/EBITDA band



Source: Bloomberg, company data, CMBIGM estimates

Figure 11: Weichai Power H discount to A



Source: Bloomberg, CMBIGM

Risk factors: 1) weakness in engine exports; 2) lower-than-expected replacement demand; 3) an increase in component costs.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	203,548	175,158	213,958	236,291	250,085	260,023
Cost of goods sold	(163,947)	(144,011)	(168,842)	(185,725)	(196,317)	(204,118)
Gross profit	39,601	31,147	45,116	50,566	53,768	55,905
Operating expenses	(26,038)	(25,664)	(31,238)	(33,436)	(35,585)	(37,053)
Operating profit	13,563	5,482	13,878	17,131	18,183	18,852
Share of (losses)/profits of associates/JV	187	(144)	(13)	182	169	172
EBITDA	24,160	16,630	25,867	27,886	29,765	31,181
Depreciation	10,597	11,148	11,989	10,756	11,582	12,329
Interest income	1,724	2,359	2,818	3,105	3,511	4,077
Interest expense	(1,274)	(1,450)	(3,378)	(1,665)	(1,668)	(1,672)
Net Interest income/(expense)	450	909	(560)	1,441	1,843	2,405
Other income/expense	(145)	(162)	(154)	(284)	(300)	(312)
Pre-tax profit	14,055	6,086	13,151	18,470	19,895	21,117
Income tax	(2,493)	(403)	(1,940)	(3,325)	(3,581)	(3,907)
Minority interest	(2,307)	(778)	(2,198)	(3,029)	(3,263)	(3,442)
Adjusted net profit	9,255	4,906	9,014	12,117	13,051	13,768

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	160,638	168,484	197,925	208,102	232,765	246,112
Cash & equivalents	75,043	70,842	92,857	101,234	118,206	136,588
Account receivables	18,191	21,419	23,754	24,152	27,921	24,796
Inventories	31,585	33,374	37,930	39,413	43,417	41,586
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	132,626	128,097	122,823
PP&E	33,188	37,892	44,073	41,286	37,839	33,732
Investment in JVs & assos	6,713	5,341	5,175	5,253	5,326	5,400
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	340,727	360,863	368,935
Current liabilities	115,382	119,743	146,215	142,076	151,956	149,344
Short-term borrowings	12,982	15,824	16,949	17,049	17,149	17,249
Account payables	39,596	45,560	60,127	55,888	65,667	62,955
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	217,422	227,302	224,690
Total shareholders equity	70,907	73,184	79,335	86,925	93,918	101,161
Minority interest	32,055	30,926	33,351	36,380	39,642	43,085
Total equity and liabilities	277,044	293,666	334,247	340,727	360,863	368,935

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	14,055	6,086	13,151	18,470	19,895	21,117
Depreciation & amortization	10,537	11,065	11,909	10,675	11,501	12,248
Tax paid	(2,493)	(403)	(1,940)	(3,325)	(3,581)	(3,907)
Change in working capital	(8,767)	(20,324)	6,089	(6,120)	2,007	2,243
Others	1,325	1,227	(1,738)	1,563	1,580	1,581
Net cash from operations	14,658	(2,350)	27,471	21,264	31,402	33,282
Investing						
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)	104	96	98
Net cash from investing	(5,409)	(8,545)	(5,737)	(6,796)	(6,804)	(6,802)
Financing						
Dividend paid	(4,715)	(3,930)	(4,175)	(4,526)	(6,058)	(6,526)
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)
Net cash from financing	3,123	4,852	(13,029)	(6,091)	(7,627)	(8,097)
Net change in cash						
Cash at the beginning of the year	62,216	75,043	70,842	92,857	101,234	118,206
Exchange difference	455	1,841	13,310	0	0	0
Cash at the end of the year	75,043	70,842	92,857	101,234	118,206	136,588
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	3.1%	(13.9%)	22.2%	10.4%	5.8%	4.0%
Gross profit	3.8%	(21.3%)	44.8%	12.1%	6.3%	4.0%
Operating profit	5.5%	(59.6%)	153.1%	23.4%	6.1%	3.7%
EBITDA	11.3%	(31.2%)	55.5%	7.8%	6.7%	4.8%
Adj. net profit	0.5%	(47.0%)	83.8%	34.4%	7.7%	5.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	19.5%	17.8%	21.1%	21.4%	21.5%	21.5%
Operating margin	6.7%	3.1%	6.5%	7.2%	7.3%	7.3%
EBITDA margin	11.9%	9.5%	12.1%	11.8%	11.9%	12.0%
Adj. net profit margin	4.5%	2.8%	4.2%	5.1%	5.2%	5.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
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	76.0	77.0	76.0
Payable turnover days	94.7	107.9	114.2	114.0	113.0	115.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	12.5	23.5	13.6	10.1	9.4	8.9
P/B	1.6	1.6	1.6	1.4	1.3	1.2
Div yield (%)	2.7	1.9	3.7	4.9	5.3	0.0

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

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