

# China Heavy-duty Truck

## Headwinds in 4Q24 in both China & export; Eyes on policy-driven recovery in 2025

We revise down our 2024E/25E heavy-duty truck (HDT) sales forecast by 10%/5% to 856k/ 954k units, following our cut in forecast in Aug ([link](#)), due to further deterioration of HDT demand over the last two months. We now expect 5% YoY decline in HDT sales (China sales + exports) in 2024E, followed by 10%/9% recovery in 2025E/26E. We are cautious on export market as Russia, the major market for Chinese trucks, will likely see further decline due to high base and impact of high tax recycling tax (starting in Oct). In China, the strength of recovery largely depends on the effectiveness of the recently announced stimulus package, which remains to be seen. We still maintain our **BUY** rating on **Weichai Power (2338 HK/000338 CH)** but expect a better entry point after the release of 3Q24 results. Maintain **HOLD** on **Sinotruk (3808 HK)**, given that the export sales risk has yet to price-in.

- **Chinese brands growth story in Russia likely comes to an end.** Russia is the largest export destination of Chinese HDT. Based on our calculation, Chinese brands accounted for ~67% of the HDT market in Russia in Aug 2024, marking a record high. In order to protect the local manufacturers, the Russian authority has further increased the recycling tax on import trucks and heavy machinery since Oct. We believe Chinese brands market share in Russia has already peaked. Besides, according to ASM data, total HDT sales volume in Russia has declined since Apr, with the rate of decline reaching 15%/32% YoY in Jul/Aug. We expect further decline of Russia HDT demand over the coming 12 months due to the high base effect.
- **China market: highly depends on policy implementation.** The equipment replacement policies have yet to boost the HDT sales. We believe it was due to (1) weak confidence of truck owners, and (2) limited size of fleet of NES III HDTs (~200k units, ~2% of the total fleet size based on our estimates). Looking into 2025E, we think the potential extension of the equipment replacement policy to NES IV trucks (~30% of total fleet size of HDTs) will be the key to boost demand.
- **Weichai Power.** We trim our HDT engine sales volume forecast by 7%/7%2% in 2024E/25E/26E. In the near term, we believe the narrowed LNG/diesel price spread will be unfavourable to Weichai's gas engine segment. While our earnings forecast in 2024E-26E is only revised down by 1-3% due to a relatively solid margin outlook, our new forecast suggest profit growth to decelerate from 51% in 1H24 to 7%/2% in 2H24E/2025E. Our SOTP-based TP for A/H (rolled over to 2025E) is revised down to RMB17.9/HK\$17.7 (from RMB18.0/HK\$19.5). We still maintain **BUY** as the valuation (9x 2025E P/E) is not excessive even under our new earnings forecast, but we see a better entry point after the announcement of 3Q24E results (30 Oct).
- **Sinotruk.** We revise down our 2024E/25E earnings forecast by 5/2%. We forecast ~20% YoY earnings decline in 2H24E, before recovering in 2025E. We rolled over our target valuation to 2025E, with a new TP of HK\$21.4 (previously HK\$19.5) which is based on 4.5x EV/EBITDA (equivalent to historical average). We believe the earnings downside risk has yet to be reflected in the current share price, in particular after recent rally.

**OUTPERFORM  
(Maintain)**

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## CMBI new forecast on HDT sales

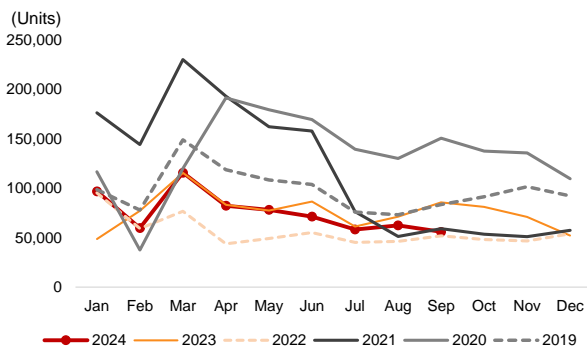
**Figure 1: Change in HDT sales forecast**

HDT sales volume	Old	New	Change
(Units 000')			
2024E	957	865	-9.6%
2025E	1,008	954	-5.4%
2026E	-	1,041	-

Source: CMBIGM estimates

Note: China domestic sales + exports

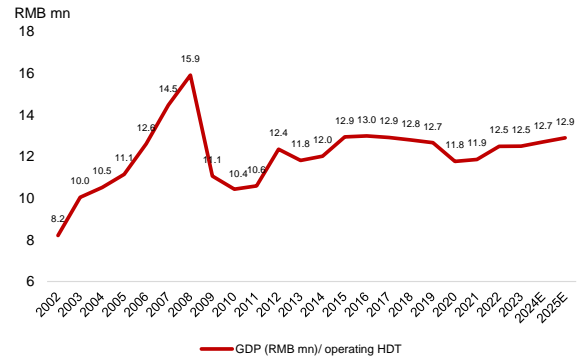
**Figure 2: China HDT monthly sales volume**



Source: Cvwworld, Wind, CMBIGM

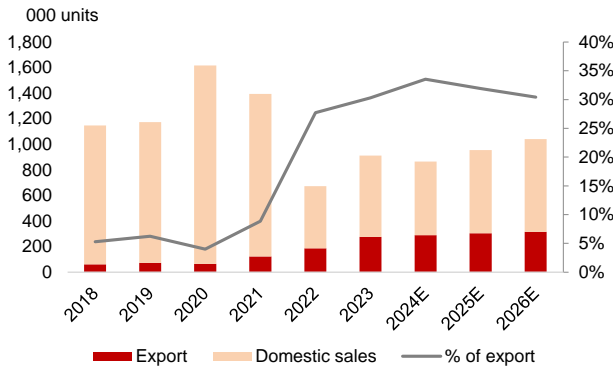
Note: Domestic sales + exports

**Figure 3: China GDP per unit of operating HDT**



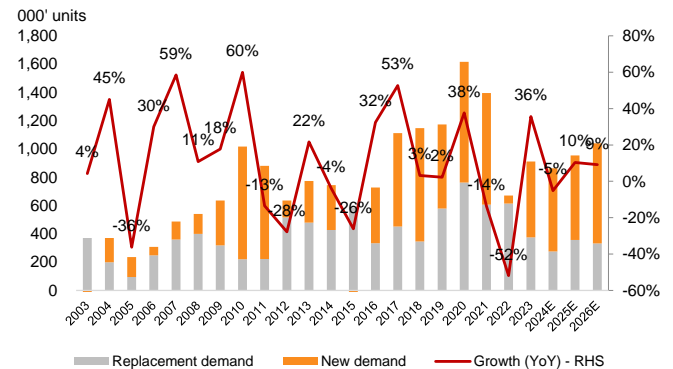
Source: Cvwworld, Wind, CMBIGM estimates

**Figure 4: Domestic sales and exports of HDTs**



Source: Wind, CMBIGM estimates

**Figure 5: CMBIGM HDT sales projection**

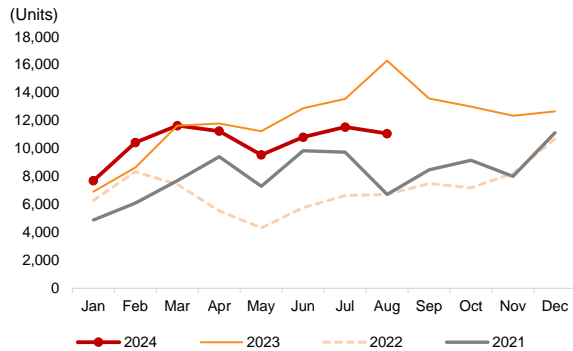


Source: Cvwworld, Wind, CMBIGM estimates

Note: China's domestic sales + exports

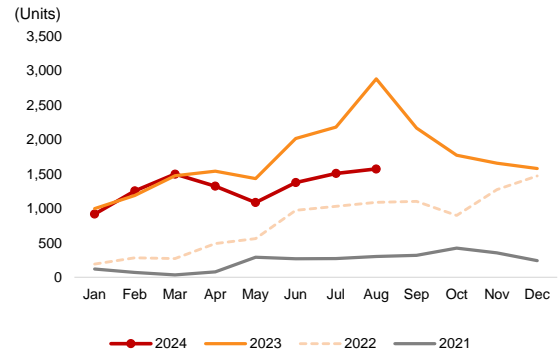
## Truck sales in Russia

**Figure 6: Russia trucks monthly sales**



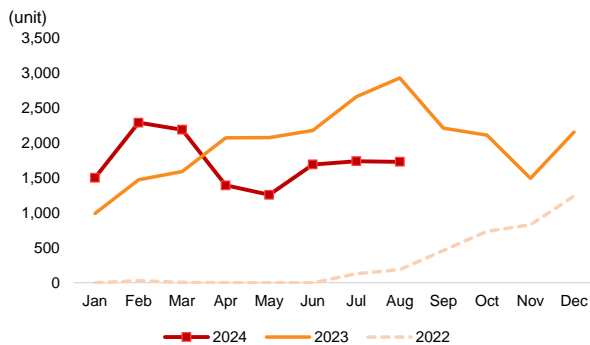
Source: ASM Holding, CMBIGM

**Figure 7: Shaanxi Heavy brand sales in Russia**



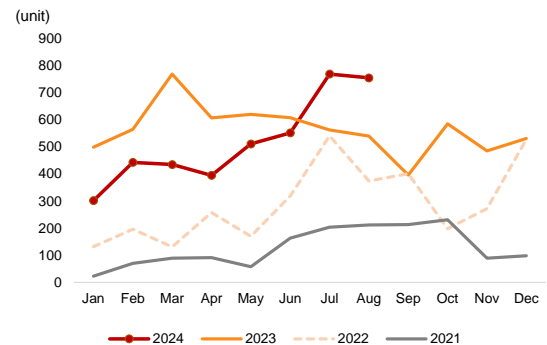
Source: ASM Holding, CMBIGM

**Figure 8: Sinotruk's SITRAK brand sales in Russia**



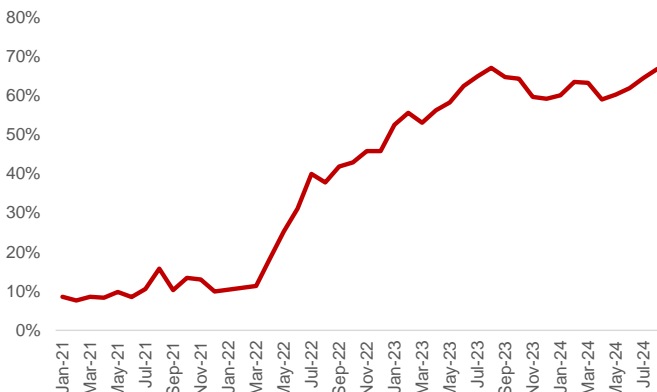
Source: ASM Holding, CMBIGM

**Figure 9: Sinotruk's HOWO brand sales in Russia**



Source: ASM Holding, CMBIGM

**Figure 10: Chinese brands market share in Russia HDT market**



Source: ASM Holding, CMBIGM

## Investment return: Diesel vs LNG trucks

**Payback period for natural gas HDTs is ~2.9 years, vs ~3.1 years for diesel HDTs.** Our payback period analysis suggests that the attractiveness of gas HDT compared with diesel HDTs is not as obvious as before, following the contraction of LNG/diesel price spread. For truck buyers, based on the current price of LNG (~RMB5.1/kg) and diesel (~RMB6.7/litre), the annual net profit of ~RMB161k generated from a LNG truck is only slightly higher than that from a diesel truck (~RMB121k), based on our estimates.

**Figure 11: Comparison of investment return between diesel and LNG trucks**

<b>Diesel</b>		<b>LNG</b>	
<b>Operating assumptions</b>			
Transport service income (RMB / tonne km)	0.27	Transport service income (RMB / tonne km)	0.27
Capacity (tonne)	30	Capacity (tonne)	30
Operating days / month	20	Operating days / month	20
Daily transportation distance (km)	500	Daily transportation distance (km)	500
Diesel consumption (litre / 100 km)	30	Gas consumption (kg / 100 km)	30
<b>Diesel price (RMB /litre)</b>	<b>6.7</b>	<b>Gas price (RMB/kg)</b>	<b>5.1</b>
Urea expense (RMB / 100 km)	11.25	Urea expense (RMB / 100 km)	0
Maintenance expense (RMB / 100 km)	60	Maintenance expense (RMB / 100 km)	60
Toll fee per vehicle (RMB/km)	2.2	Toll fee per vehicle (RMB/km)	2.2
Monthly wage of a driver (RMB)	9,000	Monthly wage of a driver (RMB)	9,000
Tax rate (%)	25%	Tax rate (%)	25%
<b>Capex</b>			
Truck purchase price (RMB)	320,000	Truck purchase price (RMB)	400,000
Years of depreciation	5	Years of depreciation	5
VAT rate	17%	VAT rate	17%
VAT (RMB)	54,400	VAT (RMB)	68,000
<b>Total purchase price (RMB)</b>	<b>374,400</b>	<b>Total purchase price (RMB)</b>	<b>468,000</b>
<b>Profitability</b>			
Revenue (annual)	931,500	Revenue (annual)	931,500
Expense:		Expense:	
Diesel	-239,400	Natural gas	-183,600
Urea	-13,500	Urea	0
Depreciation	-64,000	Depreciation	-80,000
Maintenance	-72,000	Maintenance	-72,000
Toll fee	-253,000	Toll fee	-253,000
Driver wage	-108,000	Driver wage	-108,000
Insurance and others	-20,000	Insurance and others	-20,000
<b>Pre-tax profit</b>	<b>161,600</b>	<b>Pre-tax profit</b>	<b>214,900</b>
Tax	-40,400	Tax	-53,725
<b>Net profit</b>	<b>121,200</b>	<b>Net profit</b>	<b>161,175</b>
<b>Payback period (year)</b>	<b>3.1</b>	<b>Payback period (year)</b>	<b>2.9</b>

Source: CMBIGM estimates

**Figure 12: Sensitivity of payback period to diesel price**

		Transport service income (RMB / tonne km)				
		0.243	0.2565	0.27	0.2835	0.297
<b>Diesel price</b> (RMB/litre)	5.4	4.3	3.1	2.4	2.0	1.7
	6.0	5.5	3.6	2.7	2.2	1.8
	6.7	7.5	4.4	3.1	2.4	2.0
	7.4	11.7	5.6	3.7	2.7	2.2
	8.0	27.1	7.7	4.5	3.2	2.4

Source: CMBIGM estimates  
 Note: For diesel truck

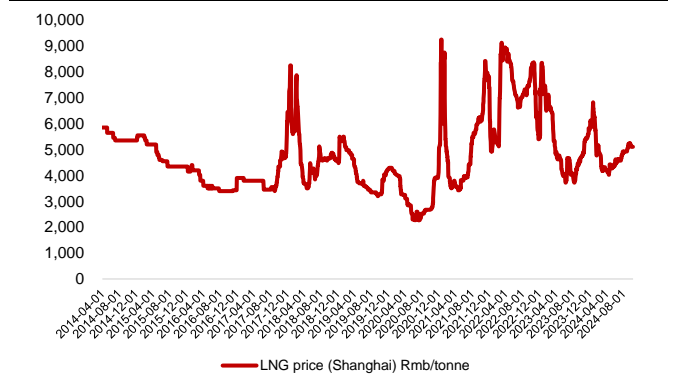
**Figure 13: Sensitivity of payback period to LNG price**

		Transport service income (RMB / tonne km)				
		0.243	0.2565	0.27	0.2835	0.297
<b>LNG price</b> (RMB/kg)	4.1	3.9	3.0	2.5	2.1	1.8
	4.6	4.5	3.3	2.7	2.2	1.9
	5.1	5.1	3.7	2.9	2.4	2.0
	5.6	6.0	4.2	3.2	2.6	2.2
	6.1	7.3	4.7	3.5	2.8	2.3

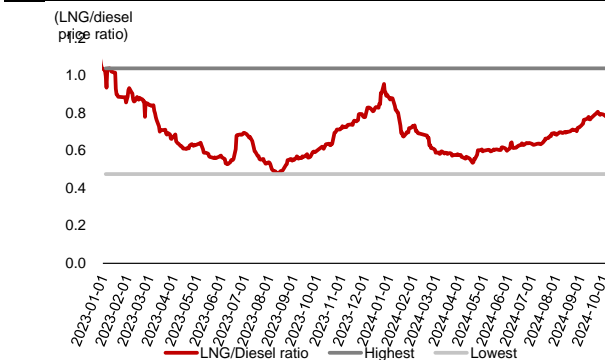
Source: CMBIGM estimates  
 Note: For LNG truck

**Figure 14: Diesel price in Shandong**

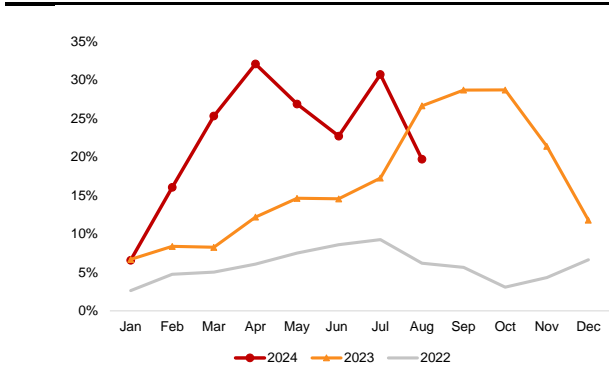
Source: Wind, CMBIGM

**Figure 15: LNG price in Shanghai**

Source: Wind, CMBIGM

**Figure 16: LNG/diesel price ratio**

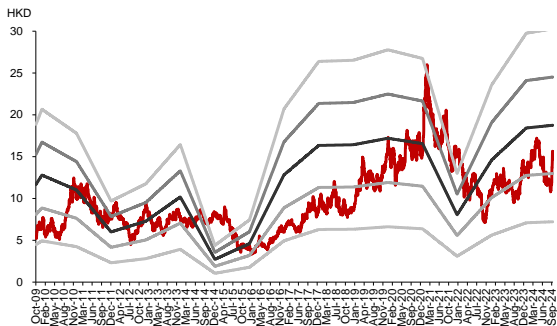
Source: Wind, Bloomberg, CMBIGM estimates

**Figure 17: Natural gas HDTs as % of total HDTs sold**

Source: Wind, Cvworl, CMBIGM

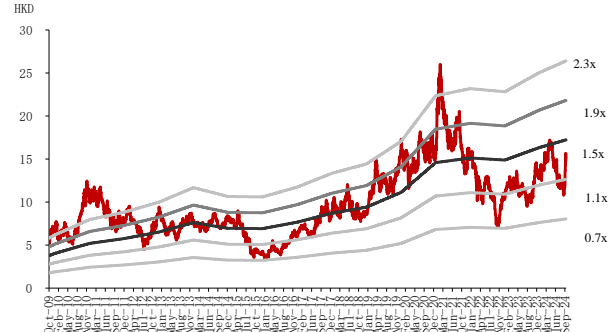
## Valuation – Weichai & Sinotruk

**Figure 18: Weichai Power-H P/E band**



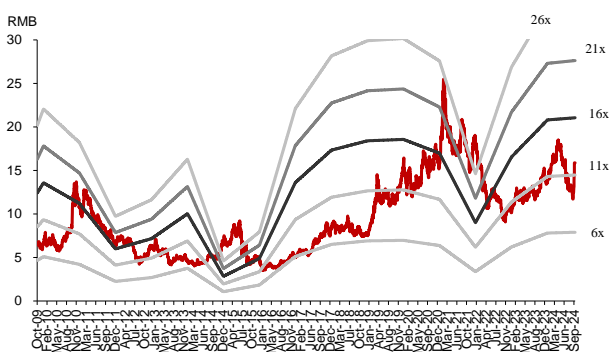
Source: Bloomberg, company data, CMBIGM estimates

**Figure 19: Weichai Power-H P/B band**



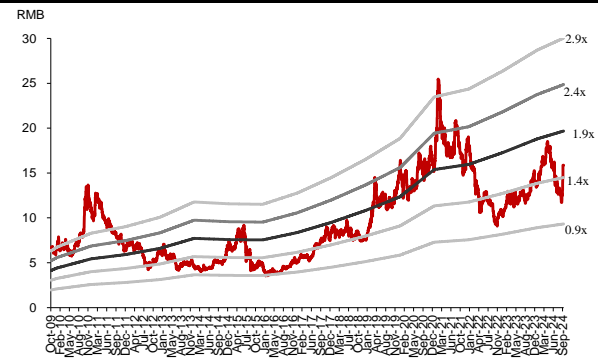
Source: Bloomberg, company data, CMBIGM estimates

**Figure 20: Weichai Power-A P/E band**



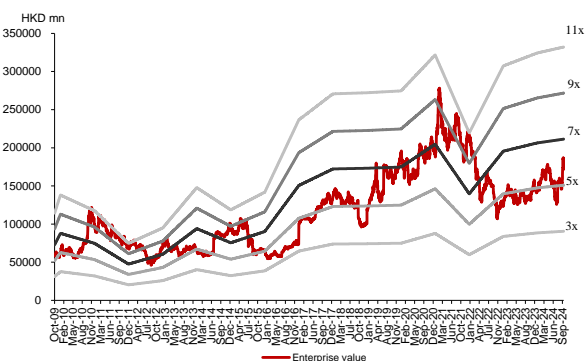
Source: Bloomberg, company data, CMBIGM estimates

**Figure 21: Weichai Power-A P/B band**



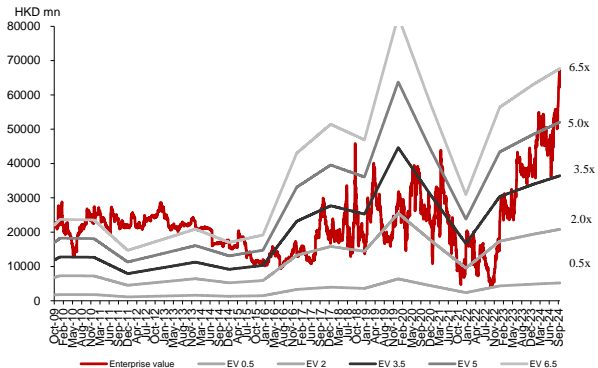
Source: Bloomberg, company data, CMBIGM estimates

**Figure 22: Weichai Power EV/EBITDA band**



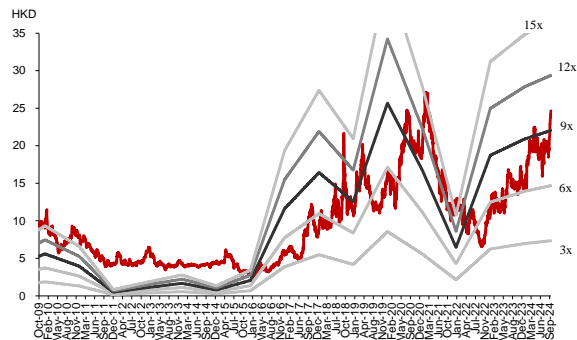
Source: Bloomberg, company data, CMBIGM estimates

**Figure 23: Sinotruk's EV/EBITDA band**



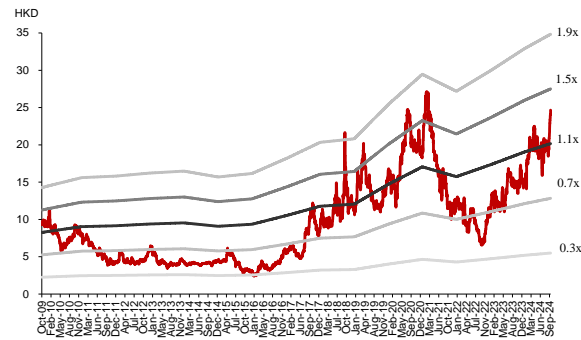
Source: Bloomberg, company data, CMBIGM estimates

Figure 24: Sinotruk P/E band



Source: Bloomberg, company data, CMBIGM estimates

Figure 25: Sinotruk P/B band



Source: Bloomberg, company data, CMBIGM estimates



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