

# Weichai Power (000338 CH)

**Still positive, but wait for a better entry point after 3Q24E results**

We trim our HDT engine sales volume forecast by 7%/7%/2% in 2024E/25E/26E, after incorporating our new industry HDT sales forecast (*for details, please refer to our sector report "China Heavy-duty Truck – Headwinds in 4Q24 in both China & export; Eyes on policy-driven recovery in 2025"*). 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 forecasts 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** rating as valuation (10.7x 2025E P/E) is not excessive even under our new earnings forecast, but we see a better entry point after the upcoming announcement of 3Q24E results (30 Oct).

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

## Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	175,158	213,958	223,162	232,896	241,260
YoY growth (%)	(13.9)	22.2	4.3	4.4	3.6
Adjusted net profit (RMB mn)	4,905.5	9,013.9	11,390.7	11,666.8	12,304.8
EPS (Reported) (RMB)	0.56	1.03	1.31	1.34	1.41
YoY growth (%)	(47.0)	83.8	26.4	2.4	5.5
Consensus EPS (RMB)	na	na	1.34	1.57	1.75
P/E (x)	25.5	13.9	11.0	10.7	10.1
P/B (x)	1.7	1.6	1.4	1.4	1.3
Yield (%)	1.8	3.6	4.6	4.7	4.9
Net gearing (%)	(35.8)	(62.0)	(70.2)	(76.9)	(86.1)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB17.90

(Previous TP) RMB18.00)

**Up/Downside** 25.1%

**Current Price** RMB14.31

## China Capital Goods

**Wayne FUNG, CFA**

(852) 3900 0826

waynefung@cmbi.com.hk

## Stock Data

Mkt Cap (RMB mn)	124,877.0
Avg 3 mths t/o (RMB mn)	1,039.9
52w High/Low (RMB)	18.49/11.72
Total Issued Shares (mn)	8726.6

Source: FactSet

## Shareholding Structure

Weichai Holdings Group	16.3%
Weifang Investment Group	3.4%

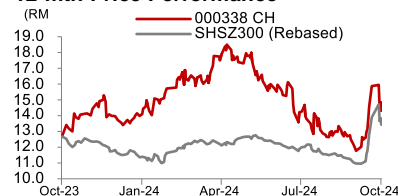
Source: HKEx

## Share Performance

	Absolute	Relative
1-mth	20.1%	-1.6%
3-mth	0.2%	-10.6%
6-mth	-20.1%	-27.9%

Source: FactSet

## 12-mth Price Performance



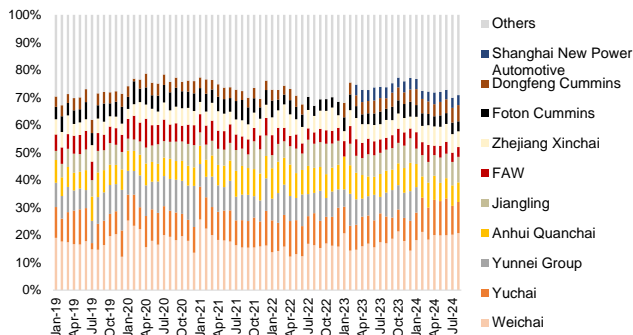
Source: FactSet

Figure 1: Change in key assumptions for Weichai

Sales volume (unit)	2024E			2025E			2026E		
	Old	New	Change	Old	New	Change	Old	New	Change
Engine total	851,074	<b>803,223</b>	-5.6%	906,731	<b>844,000</b>	-6.9%	934,239	<b>878,458</b>	-6.0%
HDT (Shaanxi Heavy-duty Motor)	122,960	<b>114,840</b>	-6.6%	130,338	<b>124,027</b>	-4.8%	134,248	<b>132,709</b>	-1.1%
Gear box (Shaanxi Fast Gear Company)	905,040	<b>888,280</b>	-1.9%	950,292	<b>932,694</b>	-1.9%	969,298	<b>968,136</b>	-0.1%
(RMB mn)									
<b>Revenue</b>									
Diesel engines	69,788	<b>66,427</b>	-4.8%	74,352	<b>70,052</b>	-5.8%	76,608	<b>73,088</b>	-4.6%
Automobiles and major components	70,110	<b>66,206</b>	-5.6%	73,699	<b>69,744</b>	-5.4%	75,262	<b>72,656</b>	-3.5%
Forklift trucks & supply chain solution	88,397	<b>88,834</b>	0.5%	91,933	<b>90,611</b>	-1.4%	95,610	<b>92,423</b>	-3.3%
Agricultural machinery	17,820	<b>18,306</b>	2.7%	18,711	<b>19,770</b>	5.7%	19,646	<b>20,956</b>	6.7%
Intersegment sales	-16,665	<b>-16,610</b>	-0.3%	-17,519	<b>-17,280</b>	-1.4%	-18,066	<b>-17,862</b>	-1.1%
<b>Total revenue</b>	229,448	<b>223,162</b>	-2.7%	241,175	<b>232,896</b>	-3.4%	249,059	<b>241,260</b>	-3.1%
<b>Segment profit</b>									
Diesel engines	8,863	<b>8,968</b>	1.2%	9,294	<b>9,317</b>	0.2%	9,576	<b>9,794</b>	2.3%
Automobiles and major components	491	<b>497</b>	1.2%	442	<b>488</b>	10.4%	452	<b>545</b>	20.7%
Forklift trucks & supply chain solution	5,304	<b>5,508</b>	3.8%	5,516	<b>5,437</b>	-1.4%	5,737	<b>5,545</b>	-3.3%
Agricultural machinery	784	<b>769</b>	-1.9%	842	<b>850</b>	1.0%	884	<b>943</b>	6.7%
Intersegment sales	-883	<b>-498</b>	-43.6%	-928	<b>-864</b>	-6.9%	-957	<b>-893</b>	-6.7%
<b>Total segment profit</b>	14,558	<b>15,242</b>	4.7%	15,166	<b>15,228</b>	0.4%	15,691	<b>15,934</b>	1.6%
<b>Segment margin</b>									
Diesel engines	12.7%	<b>13.5%</b>	Chg (ppt) 0.8	12.5%	<b>13.3%</b>	Chg (ppt) 0.8	12.5%	<b>13.4%</b>	Chg (ppt) 0.9
Automobiles and major components	0.7%	<b>0.8%</b>	0.1	0.6%	<b>0.7%</b>	0.1	0.6%	<b>0.8%</b>	0.2
Forklift trucks & supply chain solution	6.0%	<b>6.2%</b>	0.2	6.0%	<b>6.0%</b>	0.0	6.0%	<b>6.0%</b>	0.0
Agricultural machinery	4.4%	<b>4.2%</b>	-0.2	4.5%	<b>4.3%</b>	-0.2	4.5%	<b>4.5%</b>	0.0
<b>Average</b>	6.3%	<b>6.8%</b>	0.5	6.3%	<b>6.5%</b>	0.3	6.3%	<b>6.6%</b>	0.3
<b>Net profit</b>	11,459	<b>11,391</b>	-0.6%	12,082	<b>11,667</b>	-3.4%	12,692	<b>12,305</b>	-3.1%

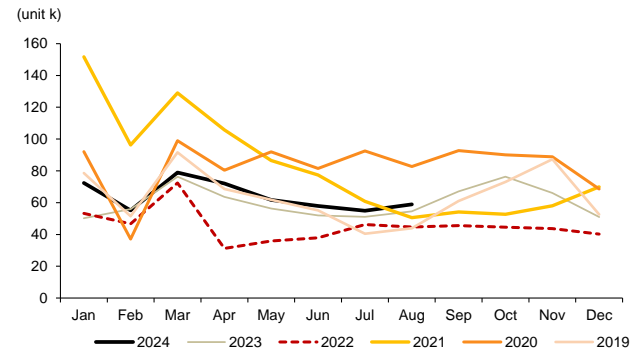
Source: Company data, CMBIGM estimates

Figure 2: China multi-cylinder engine market share



Source: CICEIA, CMBIGM

Figure 3: Weichai's multi-cylinder engine monthly sales volume



Source: CICEIA, CMBIGM

Figure 4: KION's guidance for 2024E

(EUR mn)	2022	2023	2024E guidance	
			Low-end	High-end
Order intake	11,708	10,876	-	-
Growth (YoY)	-6%	-7%	-	-
Revenue	11,136	11,434	11,300	11,700
Growth (YoY)	8%	3%	-1%	2%
Adjusted EBIT	292	791	830	920
Growth (YoY)	-65%	171%	5%	16%
Adjusted EBIT margin	2.6%	6.9%	7.3%	7.9%
Net income	106	314	-	-
Growth (YoY)	-81%	197%	-	-

Source: Company data, CMBIGM

Figure 5: KION's quarterly financials

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

Source: Company data, CMBIGM

Figure 6: SOTP valuation

SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA 2025E (RMB mn)	Estimated EV (RMB mn)	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
Weichai core business	EV/EBITDA	6.0	14,155	84,931	58,533	143,464	91.7%
KION Group	Proportionate market value	-	-	-	-	16,772	10.7%
Ballard Power Systems	Proportionate market value	-	-	-	-	696	0.4%
Ceres Power	Proportionate market value	-	-	-	-	992	0.6%
Share of JV/associates	P/B	1.2	-	-	-	6,258	4.0%
Minority interest in core business						-11,679	-7.5%
<b>Total NAV</b>						<b>156,503</b>	<b>100.0%</b>
<b>NAV per share (RMB)</b>						<b>17.9</b>	
A/H discount						10%	
<b>NAV per share (HK\$)</b>						<b>17.7</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	223,162	232,896	241,260
Cost of goods sold	(163,947)	(144,011)	(168,842)	(174,513)	(182,823)	(189,631)
Gross profit	39,601	31,147	45,116	48,649	50,073	51,630
Operating expenses	(26,038)	(25,664)	(31,238)	(32,601)	(33,950)	(34,801)
Operating profit	13,563	5,482	13,878	16,049	16,123	16,828
Share of (losses)/profits of associates/JV	187	(144)	(13)	94	105	106
EBITDA	24,160	16,630	25,867	27,245	28,585	30,477
Depreciation	10,597	11,148	11,989	11,196	12,462	13,649
Interest income	1,724	2,359	2,818	3,154	3,505	3,900
Interest expense	(1,274)	(1,450)	(3,378)	(1,665)	(1,668)	(1,672)
Net interest income/(expense)	450	909	(560)	1,489	1,836	2,228
Other income/expense	(145)	(162)	(154)	(268)	(279)	(290)
Pre-tax profit	14,055	6,086	13,151	17,364	17,785	18,872
Income tax	(2,493)	(403)	(1,940)	(3,125)	(3,201)	(3,491)
Minority interest	(2,307)	(778)	(2,198)	(2,848)	(2,917)	(3,076)
Adjusted net profit	9,255	4,906	9,014	11,391	11,667	12,305

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	160,638	168,484	197,925	201,625	229,569	234,456
Cash & equivalents	75,043	70,842	92,857	104,267	114,771	128,963
Account receivables	18,191	21,419	23,754	20,267	28,226	24,653
Inventories	31,585	33,374	37,930	33,788	43,349	37,699
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	132,147	126,711	120,089
PP&E	33,188	37,892	44,073	40,846	36,519	31,092
Investment in JVs & assos	6,713	5,341	5,175	5,215	5,260	5,305
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	333,773	356,280	354,545
Current liabilities	115,382	119,743	146,215	136,029	149,649	138,366
Short-term borrowings	12,982	15,824	16,949	17,049	17,149	17,249
Account payables	39,596	45,560	60,127	49,840	63,360	51,977
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	211,375	224,995	213,712
Total shareholders equity	70,907	73,184	79,335	86,199	92,171	98,642
Minority interest	32,055	30,926	33,351	36,198	39,115	42,191
Total equity and liabilities	277,044	293,666	334,247	333,773	356,280	354,545

<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	17,364	17,785	18,872
Depreciation & amortization	10,537	11,065	11,909	11,115	12,381	13,568
Tax paid	(2,493)	(403)	(1,940)	(3,125)	(3,201)	(3,491)
Change in working capital	(8,767)	(20,324)	6,089	(2,657)	(4,001)	(2,159)
Others	1,325	1,227	(1,738)	1,652	1,645	1,647
<b>Net cash from operations</b>	<b>14,658</b>	<b>(2,350)</b>	<b>27,471</b>	<b>24,348</b>	<b>24,608</b>	<b>28,437</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)	53	60	60
<b>Net cash from investing</b>	<b>(5,409)</b>	<b>(8,545)</b>	<b>(5,737)</b>	<b>(6,847)</b>	<b>(6,840)</b>	<b>(6,840)</b>
<b>Financing</b>						
Dividend paid	(4,715)	(3,930)	(4,175)	(4,526)	(5,695)	(5,833)
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>(7,264)</b>	<b>(7,405)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	62,216	75,043	70,842	92,857	104,267	114,771
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>104,267</b>	<b>114,771</b>	<b>128,963</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%	4.3%	4.4%	3.6%
Gross profit	3.8%	(21.3%)	44.8%	7.8%	2.9%	3.1%
Operating profit	5.5%	(59.6%)	153.1%	15.6%	0.5%	4.4%
EBITDA	11.3%	(31.2%)	55.5%	5.3%	4.9%	6.6%
Adj. net profit	0.5%	(47.0%)	83.8%	26.4%	2.4%	5.5%
<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%	21.8%	21.5%	21.4%
Operating margin	6.7%	3.1%	6.5%	7.2%	6.9%	7.0%
EBITDA margin	11.9%	9.5%	12.1%	12.2%	12.3%	12.6%
Adj. net profit margin	4.5%	2.8%	4.2%	5.1%	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	1.7
Receivable turnover days	30.1	41.3	38.5	36.0	38.0	40.0
Inventory turnover days	69.9	82.3	77.1	75.0	77.0	78.0
Payable turnover days	94.7	107.9	114.2	115.0	113.0	111.0
<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	13.5	25.5	13.9	11.0	10.7	10.1
P/B	1.8	1.7	1.6	1.4	1.4	1.3
Div yield (%)	2.5	1.8	3.6	4.6	4.7	4.9

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

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.