

Weichai Power (000338 CH)

4Q23E earnings surged 31-71% YoY, above expectation

Weichai Power (Weichai) pre-announced last night (23 Jan) that net profit in 2023E is expected to surge 75-90% YoY to RMB8.58-9.32bn, which is better than expectations as both our and consensus estimates are only close to the low end of the profit range. The profit alert implies that Weichai delivered net profit of RMB2.08-2.82bn in 4Q23E (up 31-77% YoY), with a midpoint of RMB2.45bn (+54% YoY). As we highlighted in our note on 15 Jan ([link](#)), Weichai's multi-cylinder diesel engine sales volume surged 51% YoY in 4Q23 (surpassing the industry average of 26%), driven by strong HDT engine demand. We maintain our bullish view on Weichai (sector top pick) as a replacement cycle will offer certainty on HDT industry sales growth in 2024E. Maintain **BUY** with unchanged SOTP-based TP of HK19.4 (H) / RMB17.8 (A).

- **LNG/Diesel price spread expanded again.** The price ratio reached a recent peak of 0.9 in late Dec 2023, which made LNG truck less attractive to buyers. That said, with the latest LNG price declining 29% since late Dec, the price ratio dropped to 0.69 at present. We believe the current price difference will boost the sales of LNG trucks again given the lower operating costs to truck owners. We see this as a near-term driver for Weichai given its 60% market share in the HDT gas engine segment.
- **Key catalysts:** 1) Further expansion of LNG/Diesel price spread; 2) strong-than-expected HDT sales figures in 1Q24E.
- **Risk factors:** 1) weakness in engine export; 2) increase in component costs; and 3) weaker-than-expected new business growth.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	203,548	175,158	206,901	228,433	242,376
YoY growth (%)	3.1	(13.9)	18.1	10.4	6.1
Adjusted net profit (RMB mn)	9,254.6	4,905.5	8,594.8	10,172.4	10,908.2
EPS (Reported) (RMB)	1.06	0.56	0.98	1.17	1.25
YoY growth (%)	(8.6)	(47.0)	75.2	18.4	7.2
Consensus EPS (RMB)	na	na	0.98	1.21	1.37
P/E (x)	17.4	21.8	14.3	12.1	11.3
P/B (x)	2.3	1.5	1.5	1.4	1.3
Yield (%)	1.9	2.1	2.4	2.9	3.1
Net gearing (%)	(61.0)	(35.8)	(38.6)	(50.3)	(62.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB17.80
(Previous TP)	RMB17.80)
Up/Downside	26.3%
Current Price	RMB14.09

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Stock Data

Mkt Cap (RMB mn)	122,957.2
Avg 3 mths t/o (RMB mn)	714.8
52w High/Low (RMB)	15.27/11.21
Total Issued Shares (mn)	8726.6

Source: FactSet

Shareholding Structure

Weichai Holdings Group	16.3%
Weifang Investment Group	3.4%

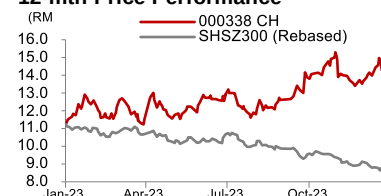
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.6%	8.8%
3-mth	8.4%	17.0%
6-mth	12.3%	33.3%

Source: FactSet

12-mth Price Performance



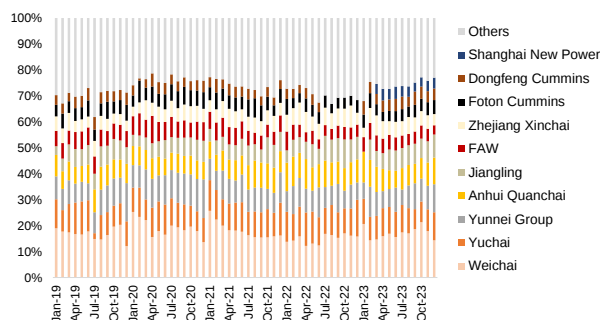
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China Heavy Duty Truck – Multi-cylinder diesel engine sales +29% YoY in Dec – 15 Jan 2024 ([link](#))

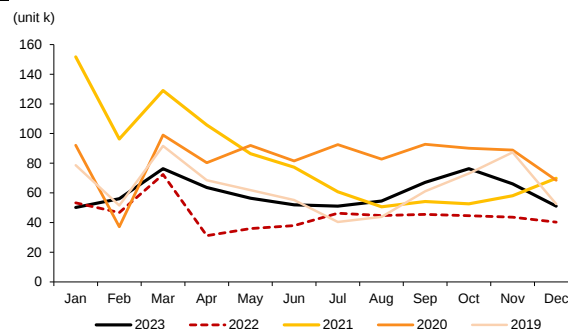
China Construction Machinery / HDT – 2024 Outlook: Slowdown of overseas demand along with lack of growth in China; be selective – 30 Nov 2023 ([link](#))

Figure 1: China multi-cylinder engine market share



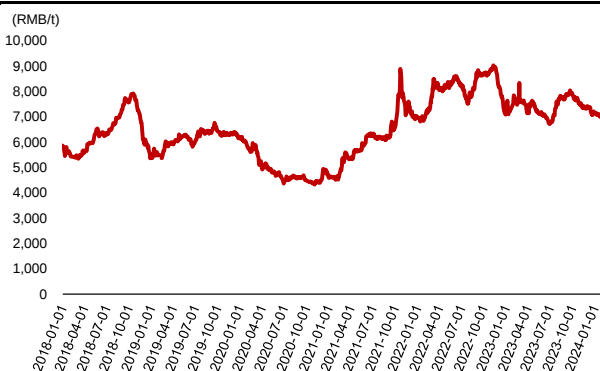
Source: CICEIA, CMBIGM

Figure 2: Weichai's multi-cylinder engine monthly sales volume



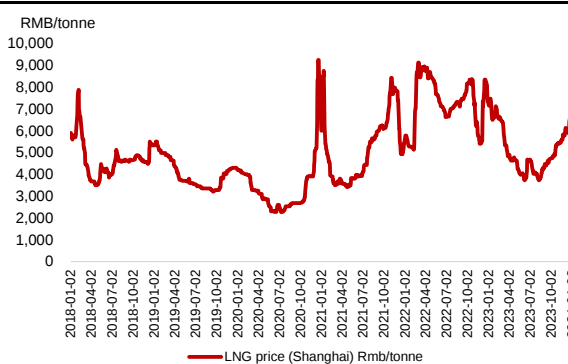
Source: CICEIA, CMBIGM

Figure 3: Shandong's diesel price



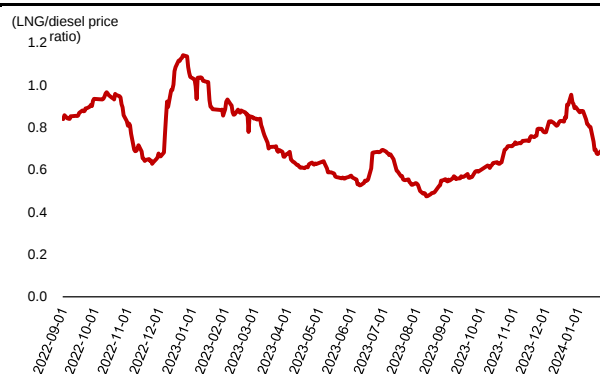
Source: Wind, CMBIGM

Figure 4: Shanghai's LNG price



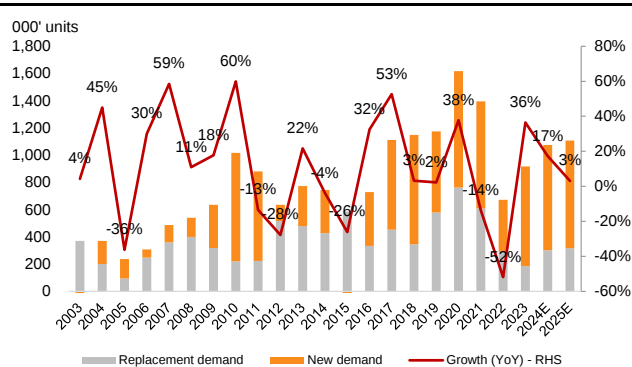
Source: Wind, CMBIGM

Figure 5: LNG/diesel price ratio



Source: Wind, CMBIGM

Figure 6: CMBI's HDT industry sales projection



Source: Wind, Cvworl, CMBIGM

Figure 7: Key assumptions for Weichai

	2019	2020	2021	2022	2023E	2024E	2025E
(RMB mn)							
Revenue							
Diesel engines	49,976	62,720	64,460	39,151	58,384	67,654	72,056
Automobiles and major components	71,475	85,907	74,258	46,812	59,745	64,142	66,896
Forklift trucks & supply chain solution	67,177	65,110	78,625	79,010	82,171	87,101	92,327
Agricultural machinery	-	-	-	17,733	18,619	20,481	21,505
Intersegment sales	-14,267	-16,246	-13,795	-7,548	-12,018	-10,945	-10,408
Total revenue	174,361	197,491	203,548	175,158	206,901	228,433	242,376
Growth (YoY)							
Diesel engines	11.4%	25.5%	2.8%	-39.3%	49.1%	15.9%	6.5%
Automobiles and major components	6.9%	20.2%	-13.6%	-37.0%	27.6%	7.4%	4.3%
Forklift trucks & supply chain solution	11.0%	-3.1%	20.8%	0.5%	4.0%	6.0%	6.0%
Agricultural machinery	-	-	-	-	5.0%	10.0%	5.0%
Intersegment sales	9.8%	13.9%	-15.1%	-45.3%	59.2%	-8.9%	-4.9%
Average	9.5%	13.3%	3.1%	-13.9%	18.1%	10.4%	6.1%
Segment profit							
Diesel engines	7,573	8,524	7,407	2,823	6,597	7,780	8,142
Automobiles and major components	2,176	1,668	446	-599	119	834	937
Forklift trucks & supply chain solution	3,992	1,789	5,338	428	3,369	3,658	3,878
Agricultural machinery	-	-	-	547	875	942	968
Intersegment sales	-131	-127	-591	473	-120	-109	-104
Total segment profit	13,610	11,854	12,601	3,672	10,841	13,105	13,820
Growth (YoY)							
Diesel engines	3.6%	12.6%	-13.1%	-61.9%	133.7%	17.9%	4.7%
Automobiles and major components	10.8%	-23.3%	-73.3%	-234.3%	-119.9%	597.8%	12.3%
Forklift trucks & supply chain solution	9.8%	-55.2%	198.3%	-92.0%	687.8%	8.6%	6.0%
Agricultural machinery	-	-	-	-	60.0%	7.7%	2.7%
Intersegment sales	n/a	-2.7%	364.5%	-180.1%	-125.4%	-8.9%	-4.9%
Average	4.4%	-12.9%	6.3%	-70.9%	195.2%	20.9%	5.5%
Segment margin							
Diesel engines	15.2%	13.6%	11.5%	7.2%	11.3%	11.5%	11.3%
Automobiles and major components	3.0%	1.9%	0.6%	-1.3%	0.2%	1.3%	1.4%
Forklift trucks & supply chain solution	5.9%	2.7%	6.8%	0.5%	4.1%	4.2%	4.2%
Agricultural machinery	-	-	-	3.1%	4.7%	4.6%	4.5%
Average	7.8%	6.0%	6.2%	2.1%	5.2%	5.7%	5.7%

Source: Company data, CMBIGM estimates

Figure 8: 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	7.0	13,076	91,533	43,838	135,371	87.3%
KION Group	Proportionate market value	-	-	-	-	15,524	10.0%
Ballard Power Systems	Proportionate market value	-	-	-	-	1,377	0.9%
Ceres Power	Proportionate market value	-	-	-	-	694	0.4%
Share of JV/associates	P/B	1.4	-	-	-	7,590	4.9%
Minority interest in core business						-5,486	-3.5%
Total NAV						155,070	100.0%
NAV per share (RMB)						17.8	
NAV per share (HK\$)						19.4	

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	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	197,491	203,548	175,158	206,901	228,433	242,376
Cost of goods sold	(159,353)	(163,947)	(144,011)	(164,693)	(182,289)	(193,416)
Gross profit	38,138	39,601	31,147	42,208	46,143	48,960
Operating expenses	(25,289)	(26,038)	(25,664)	(29,855)	(31,510)	(33,587)
Operating profit	12,850	13,563	5,482	12,352	14,634	15,373
Share of (losses)/profits of associates/JV	253	187	(144)	188	191	177
EBITDA	21,708	24,160	16,630	23,632	26,535	27,906
Depreciation	8,858	10,597	11,148	11,279	11,902	12,533
Interest income	1,278	1,724	2,359	2,058	2,315	2,704
Interest expense	(1,557)	(1,274)	(1,450)	(1,721)	(1,737)	(1,741)
Net interest income/(expense)	(279)	450	909	337	578	963
Other income/expense	(142)	(145)	(162)	(248)	(274)	(291)
Pre-tax profit	12,682	14,055	6,086	12,630	15,129	16,223
Income tax	(1,407)	(2,493)	(403)	(2,084)	(2,723)	(2,920)
Minority interest	(2,068)	(2,307)	(778)	(1,951)	(2,233)	(2,394)
Adjusted net profit	9,207	9,255	4,906	8,595	10,172	10,908

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	152,515	160,638	168,484	186,683	204,087	222,853
Cash & equivalents	62,216	75,043	70,842	76,193	89,155	103,989
Account receivables	15,422	18,191	21,419	26,197	28,877	29,559
Inventories	31,226	31,585	33,374	41,528	43,374	46,710
Prepayment	1,095	1,570	1,473	1,388	1,303	1,218
Other current assets	42,556	34,249	41,378	41,378	41,378	41,378
Non-current assets	118,235	116,406	125,182	122,468	117,634	112,162
PP&E	31,720	33,188	37,892	36,173	32,349	27,865
Investment in JVs & assos	4,944	6,713	5,341	5,422	5,504	5,580
Intangibles	23,826	20,908	22,760	21,684	20,592	19,527
Goodwill	24,666	22,847	24,019	24,019	24,019	24,019
Other non-current assets	33,079	32,750	35,171	35,171	35,171	35,171
Total assets	270,750	277,044	293,666	309,151	321,721	335,015
Current liabilities	123,713	115,382	119,743	126,885	130,057	133,609
Short-term borrowings	17,006	12,982	15,824	16,624	16,724	16,824
Account payables	45,450	39,596	45,560	51,902	54,974	58,426
Other current liabilities	61,257	62,803	58,358	58,358	58,358	58,358
Non-current liabilities	66,604	58,700	69,813	69,813	69,813	69,813
Long-term borrowings	20,729	18,839	28,839	28,839	28,839	28,839
Other non-current liabilities	45,876	39,861	40,973	40,973	40,973	40,973
Total liabilities	190,317	174,083	189,555	196,698	199,870	203,421
Total shareholders equity	51,202	70,907	73,184	79,576	86,741	94,089
Minority interest	29,231	32,055	30,926	32,877	35,110	37,505
Total equity and liabilities	270,750	277,044	293,666	309,151	321,721	335,015

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	12,682	14,055	6,086	12,630	15,129	16,223
Depreciation & amortization	8,787	10,537	11,065	11,194	11,817	12,448
Tax paid	(1,407)	(2,493)	(403)	(2,084)	(2,723)	(2,920)
Change in working capital	1,114	(8,767)	(20,324)	(6,590)	(1,455)	(566)
Others	1,753	1,325	1,227	1,618	1,631	1,648
Net cash from operations	22,928	14,658	(2,350)	16,768	24,398	26,834
Investing						
Capital expenditure	(5,992)	(3,610)	(5,242)	(8,400)	(6,900)	(6,900)
Acquisition of subsidiaries/ investments	(1,475)	(3,578)	(309)	0	0	0
Others	(1,950)	1,779	(2,995)	107	109	101
Net cash from investing	(9,417)	(5,409)	(8,545)	(8,293)	(6,791)	(6,799)
Financing						
Dividend paid	(3,459)	(4,715)	(3,930)	(2,203)	(3,008)	(3,560)
Net borrowings	1,052	(5,913)	12,842	800	100	100
Proceeds from share issues	0	14,050	1,676	0	0	0
Others	(579)	(298)	(5,736)	(1,721)	(1,737)	(1,741)
Net cash from financing	(2,986)	3,123	4,852	(3,124)	(4,645)	(5,201)
Net change in cash						
Cash at the beginning of the year	48,818	62,216	75,043	70,842	76,193	89,155
Exchange difference	2,873	455	1,841	0	0	0
Cash at the end of the year	62,216	75,043	70,842	76,193	89,155	103,989

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

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