

Sinotruk (Hong Kong) (3808 HK)

Incrementally positive on the back of more signs of recovery

While we took our 2019E earnings forecast down by 14% to reflect the weakness of truck sales and impairment, we believe the weakness in 2019E has largely been expected by the market. We expect Sinotruk's earnings to improve from a low base and expect an 18% YoY earnings growth in 2020E, driven by several drivers: (1) The restructuring and management reshuffle have been largely completed. We expect more synergies between Sinotruk and **Weichai Power (2338 HK / 000338 CH, BUY)**; (2) CNHTC, parent company of Sinotruk, reported resilient HDT sales in Feb amid the epidemic; (3) Infrastructure spending growth will boost the recovery of construction truck demand in 2Q. We fine-tuned our TP from HK\$19.4 to HK\$19.3, after rolling over our valuation to 2020E (based on 5x EV/EBITDA, multiple unchanged). Reiterate **BUY**.

- **Management reshuffle largely completed.** On 9 Mar, Sinotruk announced that Liu Zhengtao, the deputy general manager of CNHTC, was appointed as an executive director of Sinotruk. Besides, Ms Qu Hongkun, with ~15 years of experience in different subsidiaries under SHIG (parent company of Weichai Power and CNHTC), was appointed as an executive director and financial controller. The appointment, together with the previous changes, resulted in a change in the majority of the board members after SHIG took control of Sinotruk (figure 2). The average age of the board member reduced from 53 to 49. We believe the reshuffle is largely completed and Sinotruk will likely shift the focus from internal restructuring to business growth this year.
- **Outperformed industry average in Feb.** In 2019, affected by government measures on the crackdown of "understated loading for lower toll fee" (大吨小标), Sinotruk's truck sales volume underperformed the industry average most of the time before seeing improvement in Nov. This year, according to Cvworl data, CNHTC's HDT sales volume in Feb was down only 22% YoY, much better than the industry average of 50% amid the outbreak of COVID-19. Given that Sinotruk contributed ~90% of CNHTC's truck sales, we believe Sinotruk achieved similar results in Feb. Going forward, we expect infrastructure spending to accelerate with the support of fast-growing local government bond issuance, which should drive HDT demand in 2Q20E.
- **Major risk factors:** (1) Slower-than-expected recovery of construction activities, and (2) unexpected component shortage due to COVID-19.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	55,458	61,785	62,055	64,397	66,870
YoY growth (%)	68.3	11.4	0.4	3.8	3.8
Core net profit (RMB mn)	2,771	4,157	4,018	4,751	4,876
EPS (RMB)	1.00	1.51	1.46	1.72	1.77
YoY growth (%)	501.6	50.0	(3.3)	18.2	2.6
Consensus EPS (RMB)	N/A	N/A	1.54	1.68	1.67
P/E (x)	12.4	8.3	9.0	7.6	7.4
EV/EBITDA (x)	4.6	3.7	4.0	3.5	3.4
P/B (x)	1.5	1.4	1.3	1.2	1.0
Yield (%)	4.8	4.4	3.9	4.6	4.7
ROE (%)	14.2	18.0	15.0	16.0	14.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$19.30
(Previous TP	HK\$19.40)
Up/Downside	+33%
Current Price	HK\$14.50

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Stock Data

Mkt Cap (HK\$ mn)	40,034
Avg 3 mths t/o (HK\$ mn)	59
52w High/Low (HK\$)	20.40/10.90
Total Issued Shares (mn)	2,761

Source: Bloomberg

Shareholding Structure

CNHTC	51%
MAN SE	25%
Others	24%

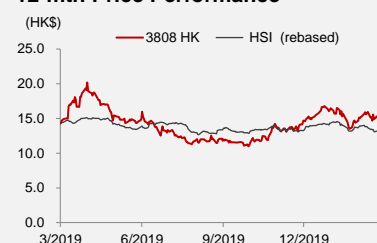
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.4%	+6.9%
3-mth	+16.2%	+5.1%
6-mth	+0.7%	+13.5%

Source: Bloomberg

12-mth Price Performance

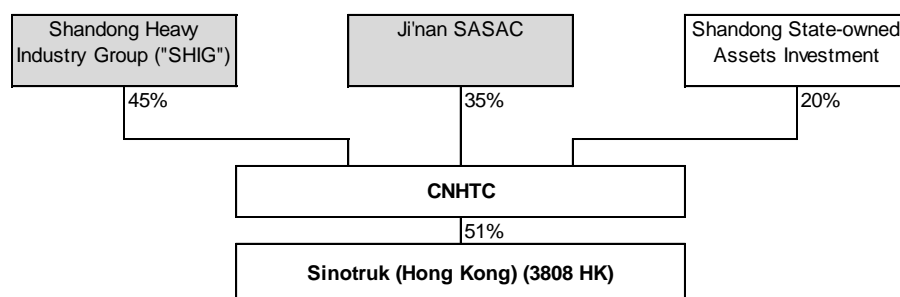


Source: Bloomberg

Auditor: PWC

Related Reports

1. China Construction Machinery Sector - Scenario analysis on the resumption of factory production – 10 Feb 2020
2. China Heavy Duty Truck Sector – Potential change in market share due to Wuhan Pneumonia – 29 Jan 2020
3. China Heavy Duty Truck Sector - HDT sales growth of 12% YoY in Oct reaffirms our bullish view – 4 Nov 2019
4. Sinotruk (3808 HK, BUY) – SHIG to officially control Sinotruk after the equity transfer – 30 Sep 2019

Figure 1: Sinotruk's shareholding structure

Source: Company data, CMBIS

Figure 2: Change in Board of Directors after SHIG took control of Sinotruk

Board of Directors	Before	Age*		After	Age**
Chairman	Wang Bozhi	52	Chairman & President	Cai Dong	56
President	Cai Dong	54			
Executive Director	Tong Jingen	55	Executive Director	Dai Lixin	51
	Wang Shanpo	53		Liu Zhengtao	49
	Kong Xiangquan	51		Qu Hongkun	39
	Liu Wei	48		Liu Wei	50
	Liu Peimin	49		Liu Peimin	51
	Franz Neundlinger	62		Richard von Braunschweig	47
Average age		53			49

Note:

*Age in 2018

**Age in 2020

Source: Company data, CMBIS

Earnings revision

We lowered our LDT sales volume assumptions in 2019E-21E by 19-25% as we are more conservative after the crackdown of “understated loading for lower toll fee”. Our HDT sales assumptions in 2019E-20E are largely unchanged and our 2021E sales forecast is lifted by 8%. We expect more new models equipped with Weichai's engines to launch, which will boost HDT sales in particular in the overseas market.

Our earnings forecast in 2019E/20E is revised down by 14%/6% accordingly. Aside from lower sales volume, our lower earnings forecast in 2019E also included impairment on receivables and inventories (which was reflected in our lower segment margin assumptions). However, we do not expect such impairment going forward.

Figure 3: Change in key operating assumptions

Sales volume (units)	2019			2020			2021		
	Old	New	Diff	Old	New	Diff	Old	New	Diff
Truck	307,907	280,462	-8.9%	329,106	293,708	-10.8%	342,207	311,088	-9.1%
HDT	171,180	169,204	-1.2%	174,604	174,662	0.0%	167,620	180,137	7.5%
China	133,065	131,089	-1.5%	135,727	135,022	-0.5%	130,298	137,722	5.7%
Export	38,115	38,115	0.0%	38,877	39,640	2.0%	37,322	42,414	13.6%
LDT	136,727	111,258	-18.6%	154,501	119,046	-22.9%	174,587	130,951	-25.0%
Engine	171,022	171,022	0.0%	172,732	174,312	0.9%	164,096	177,666	8.3%
Internal use	157,936	157,936	0.0%	159,515	161,095	1.0%	151,540	164,317	8.4%
External sales	13,086	13,086	0.0%	13,217	13,217	0.0%	12,556	13,349	6.3%
(RMB mn)									
Segment revenue									
Truck	64,272	61,315	-4.6%	67,099	63,783	-4.9%	66,858	66,540	-0.5%
HDT	51,592	50,997	-1.2%	52,730	52,748	0.0%	50,621	54,401	7.5%
LDT	12,680	10,318	-18.6%	14,369	11,036	-23.2%	16,237	12,139	-25.2%
Engines	13,270	13,270	0.0%	13,473	13,596	0.9%	12,799	13,858	8.3%
Finance	1,557	1,557	0.0%	1,635	1,635	0.0%	1,651	1,651	0.0%
Intersegment sales	(14,633)	(14,086)	-3.7%	(15,208)	(14,618)	-3.9%	(15,042)	(15,179)	0.9%
Total	64,466	62,055	-3.7%	66,999	64,397	-3.9%	66,266	66,870	0.9%
Segment operating margin									
Truck	4.9%	3.8%	(1.1)	5.4%	4.9%	(0.4)	5.2%	4.9%	(0.2)
HDT	6.0%	5.3%	(0.7)	6.0%	5.6%	(0.4)	5.7%	5.6%	(0.1)
LDT	0.5%	-3.5%	(4.0)	3.0%	1.7%	(1.3)	3.5%	1.9%	(1.6)
Engines	15.0%	15.0%	0.0	14.9%	15.2%	0.3	14.8%	15.2%	0.4
Finance	57.5%	57.5%	0.0	57.0%	57.0%	0.0	55.0%	55.0%	0.0
Average	9.3%	8.4%	(1.0)	9.7%	9.5%	(0.2)	9.4%	9.4%	(0.0)

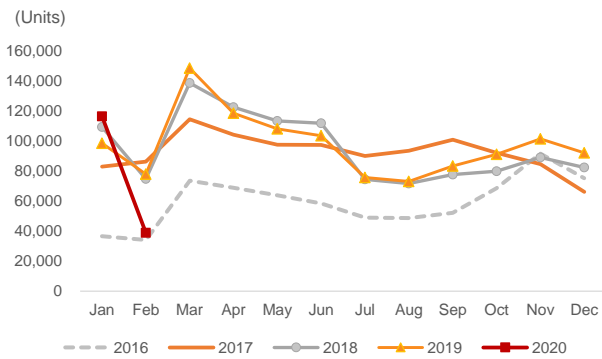
Source: Company data, CMBIS estimates

Figure 4: HDT sales in China by company

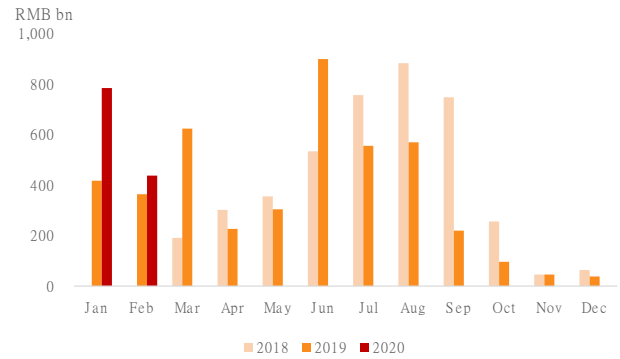
Sales volume (units)		2019 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2020 Jan	Feb
Company															
FAW	中国一汽	33,423	20,604	36,427	30,165	29,685	22,761	18,421	15,900	21,147	23,054	17,734	5,918	52,540	11,700
Dongfeng	东风	13,502	13,241	31,357	24,798	22,372	21,388	16,281	16,432	18,703	20,112	22,368	20,064	17,285	3,800
CNHTC	中国重汽	15,117	13,478	24,248	17,766	15,600	16,964	12,156	11,116	11,967	12,940	18,668	20,895	13,244	10,500
SXQC	陕汽集团	12,654	12,581	24,253	17,247	15,749	16,998	10,434	10,471	11,378	12,292	15,738	17,526	10,088	3,500
Foton	北汽福田	5,553	5,779	11,639	8,797	7,001	7,257	5,394	5,804	6,713	7,394	7,889	6,758	8,938	3,300
JAC	安徽江淮	4,386	2,690	4,425	3,461	3,452	3,417	2,246	2,034	2,382	2,676	3,408	3,547	3,951	1,400
SAIC-IVECO Hongyan	上汽依维柯红岩	6,517	3,020	5,530	6,150	5,020	5,100	4,100	4,011	3,803	4,001	5,502	5,406	4,007	1,858
Da Yun	成都大运	2,489	1,880	3,123	2,270	2,389	3,775	2,212	2,218	2,727	2,850	3,122	3,286	2,053	739
CAMC	安徽华菱	2,134	1,779	2,210	2,078	2,068	1,080	920	1,263	1,100	1,655	1,876	2,021	1,500	922
Others	其他	2,927	2,965	5,543	6,025	4,928	4,953	3,619	4,011	3,651	4,373	5,297	6,818	3,042	1,281
Total		98,702	78,017	148,755	118,757	108,264	103,693	75,783	73,260	83,571	91,347	101,602	92,239	116,648	39,000
Change (YoY)															
Company															
FAW	中国一汽	-2%	2%	9%	13%	26%	-15%	37%	0%	17%	23%	-11%	-40%	57%	-43%
Dongfeng	东风	-19%	19%	14%	9%	3%	4%	18%	19%	21%	25%	33%	-3%	28%	-71%
CNHTC	中国重汽	-18%	-4%	17%	-11%	-16%	-7%	-9%	-7%	-2%	3%	24%	43%	-12%	-22%
SXQC	陕汽集团	-13%	14%	18%	-4%	-7%	-6%	-4%	2%	-4%	7%	5%	30%	-20%	-72%
Foton	北汽福田	-22%	5%	-15%	-35%	-41%	-34%	-38%	-21%	-9%	-3%	-3%	-17%	61%	-43%
JAC	安徽江淮	-18%	-21%	-22%	-35%	-15%	48%	-30%	-10%	-11%	7%	47%	133%	-10%	-48%
SAIC-IVECO Hongyan	上汽依维柯红岩	23%	0%	-17%	-11%	-28%	-18%	-18%	11%	16%	8%	57%	42%	-39%	-38%
Da Yun	成都大运	-1%	1%	1%	2%	1%	6%	0%	-21%	1%	1%	1%	9%	-18%	-61%
CAMC	安徽华菱	51%	33%	-16%	-19%	2%	-18%	-16%	-7%	-27%	-19%	-18%	-6%	-30%	-48%
Others	其他	-24%	-6%	14%	27%	-11%	17%	24%	60%	42%	79%	64%	30%	4%	-57%
Average		-10%	4%	7%	-3%	-5%	-7%	2%	2%	8%	14%	14%	12%	18%	-50%
Market share															
Company															
FAW	中国一汽	34%	26%	24%	25%	27%	22%	24%	22%	25%	25%	17%	6%	45%	30%
Dongfeng	东风	14%	17%	21%	21%	21%	21%	21%	22%	22%	22%	22%	22%	15%	10%
CNHTC	中国重汽	15%	17%	16%	15%	14%	16%	16%	15%	14%	14%	18%	23%	11%	27%
SXQC	陕汽集团	13%	16%	16%	15%	15%	16%	14%	14%	14%	13%	15%	19%	9%	9%
Foton	北汽福田	6%	7%	8%	7%	6%	7%	7%	8%	8%	8%	8%	7%	8%	8%
JAC	安徽江淮	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	4%	3%	4%
SAIC-IVECO Hongyan	上汽依维柯红岩	7%	4%	4%	5%	5%	5%	5%	5%	5%	4%	5%	6%	3%	5%
Da Yun	成都大运	3%	2%	2%	2%	2%	4%	3%	3%	3%	3%	3%	4%	2%	2%
CAMC	安徽华菱	2%	2%	1%	2%	2%	1%	1%	2%	1%	2%	2%	2%	1%	2%
Others	其他	3%	4%	4%	5%	5%	5%	5%	5%	4%	5%	5%	7%	3%	3%
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: CNHTC is the parent co of Sinotruk. Shaanxi Automobile Group is the second largest shareholder of Shaanxi Heavy-duty Motor with 49% stake. Weichai is the largest shareholder of Shaanxi Heavy-duty Motor with 51% stake.

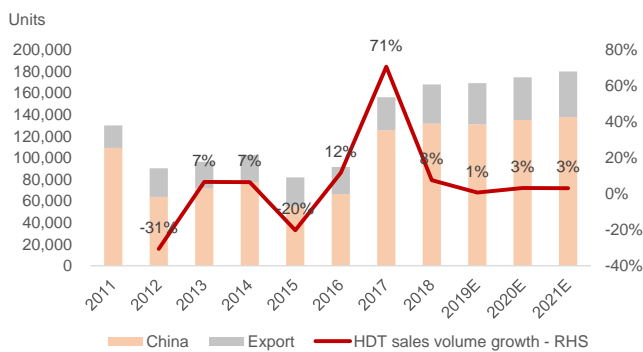
Source: Wind, CVworld, CMBIS

Figure 5: China HDT monthly sales volume

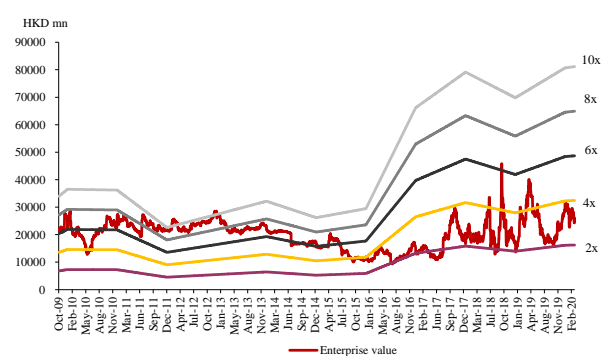
Source: Cvworl, CMBIS

Figure 6: Local government bond issuance

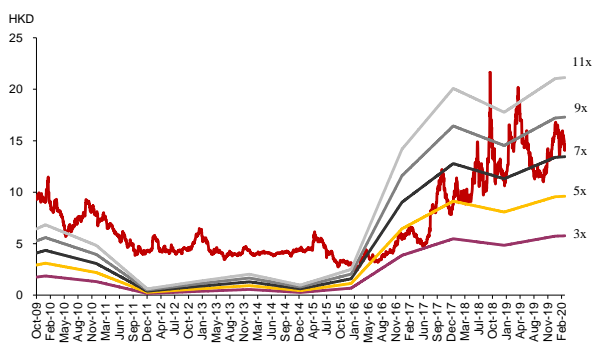
Source: MoF, CMBIS

Figure 7: Sinotruk's sales volume projection

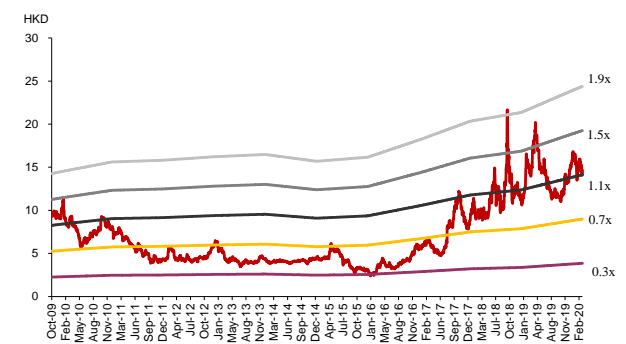
Source: Company data, CMBIS estimates

Figure 8: Sinotruk's sales volume projection

Source: Bloomberg, Company data, CMBIS estimates

Figure 9: Sinotruk P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 10: Sinotruk P/B band

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	55,458	61,785	62,055	64,397	66,870
Cost of sales	(45,430)	(50,610)	(50,451)	(52,419)	(54,432)
Gross profit	10,028	11,175	11,604	11,978	12,438
Operating expenses	(5,756)	(5,532)	(6,449)	(5,912)	(6,223)
EBIT	4,272	5,642	5,156	6,066	6,215
Net finance cost	(262)	(0)	52	95	137
Finance income	81	89	113	132	155
Finance expenses	(343)	(89)	(61)	(37)	(18)
Profit of JV and associates	45	77	86	98	73
Pretax profit	4,055	5,719	5,293	6,259	6,425
Income tax	(720)	(993)	(926)	(1,095)	(1,124)
After tax profit	3,336	4,726	4,367	5,164	5,300
MI	(313)	(381)	(349)	(413)	(424)
Net profit	3,023	4,345	4,018	4,751	4,876
Core net profit	2,771	4,157	4,018	4,751	4,876
D&A	1,248	1,180	1,191	1,269	1,347
EBITDA	5,520	6,823	6,347	7,335	7,562

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	4,055	5,719	5,293	6,259	6,425
Finance cost	343	89	61	37	18
Interest income	(81)	(89)	(113)	(132)	(155)
Share of profit or loss of associates	(45)	(77)	(86)	(98)	(73)
Depreciation	1,152	1,078	1,117	1,195	1,273
Amortization of intangible assets	96	102	74	74	74
Income tax paid	(724)	(1,043)	(926)	(1,095)	(1,124)
Change in working capital	495	(1,639)	(146)	142	168
Others	125	232	0	0	0
Cash flow from operation	5,416	4,374	5,275	6,382	6,606
Net capex on PP&E	(851)	(1,343)	(500)	(1,000)	(1,000)
Dividend received	34	0	9	10	7
Interest received	82	89	113	132	155
Others	(1,879)	2,223	0	0	0
Cash flow from investing	(2,677)	979	(379)	(858)	(838)
Proceeds from equity financing	0	0	0	0	0
Net bank borrowings	548	(990)	(1,000)	(1,000)	(500)
Dividend paid	(193)	(1,611)	(1,523)	(1,406)	(1,663)
Interest paid	(261)	(143)	(61)	(37)	(18)
Others	(69)	113	0	0	0
Cash flow from financing	25	(2,630)	(2,585)	(2,443)	(2,181)
Change in cash	2,764	2,723	2,312	3,081	3,587
Cash at beginning of the year	7,171	9,840	12,616	14,928	18,008
Exchange gains/(losses) and others	(96)	53	0	0	0
Cash at end of the year	9,840	12,616	14,928	18,008	21,595

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	16,772	17,373	16,759	16,578	16,297
PP&E	9,938	10,366	9,749	9,554	9,280
Land use right	1,650	1,612	1,612	1,612	1,612
Investment in JV/associates	478	534	611	700	766
Investment properties	710	713	713	713	713
Long term receivables	1,947	2,195	2,195	2,195	2,195
Intangible assets	357	324	250	177	103
AFS / financial assets	206	212	212	212	212
Others	1,488	1,417	1,417	1,417	1,417
Current assets	44,411	44,308	48,208	51,968	56,882
Inventories	13,246	11,594	12,180	12,522	13,129
Trade and bills receivables	15,151	12,589	13,593	13,930	14,650
AFS / financial assets	2,340	4,601	4,601	4,601	4,601
Others	1,256	554	554	554	554
Restricted cash	2,577	2,352	2,352	2,352	2,352
Cash	9,840	12,616	14,928	18,008	21,595
Current liabilities	35,325	32,986	33,429	33,250	34,246
Trade and bills payables	28,546	28,305	29,748	30,570	32,065
Bank borrowings	3,990	3,000	2,000	1,000	500
Provisions	978	929	929	929	929
Others	1,811	752	752	752	752
Non-current liabilities	427	367	367	367	367
Bank borrowings	0	0	0	0	0
Deferred income	361	316	316	316	316
Others	66	50	50	50	50
Equity	25,431	28,328	31,172	34,929	38,567
Shareholders' equity	22,757	25,476	27,970	31,314	34,528
MI	2,673	2,852	3,202	3,615	4,039

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue mix (%)					
HDT	82.2	79.0	82.2	81.9	81.4
LDT	16.1	18.5	16.6	17.1	18.2
Engines	26.5	22.8	21.4	21.1	20.7
Finance	2.0	2.3	2.5	2.5	2.5
Intersegment sales	(26.8)	(22.6)	(22.7)	(22.7)	(22.7)
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
Gross margin	18.1	18.1	18.7	18.6	18.6
EBIT margin	7.7	9.1	8.3	9.4	9.3
Net profit margin	6.0	7.6	7.0	8.0	7.9
Growth (%)					
Revenue	68.3	11.4	0.4	3.8	3.8
Gross profit	72.4	11.4	3.8	3.2	3.8
EBIT	283.8	32.1	-8.6	17.6	2.5
Net profit	468.1	43.7	-7.5	18.2	2.6
Core net profit	501.6	50.0	-3.3	18.2	2.6
Balance sheet ratio					
Current ratio (x)	1.3	1.3	1.4	1.6	1.7
Receivable turnover days	96	82	77	78	78
Inventory turnover days	87	90	86	86	86
Payable turnover days	198	205	210	210	210
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	6.0	7.7	6.9	7.7	7.5
ROE	14.2	18.0	15.0	16.0	14.8
Per share data					
EPS (RMB)	1.09	1.57	1.46	1.72	1.77
Core EPS (RMB)	1.00	1.51	1.46	1.72	1.77
BVPS (RMB)	8.24	9.23	10.13	11.34	12.51
DPS (RMB)	0.58	0.55	0.51	0.60	0.62

Source: Company data, CMBIS estimates

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