

Weichai Power (2338 HK)

3Q23 earnings surged 120-200% YoY; Strong gas trucks sales continue to be key driver

Over the weekend, Weichai pre-announced that net profit in 3Q23 is expected to surge 120-200% YoY to RMB2.03-2.77bn, which is better than our expectation. The impressive 3Q23 earnings boosted the net profit in 9M23 up by 80-100% YoY. We believe the strong growth in 3Q was driven by natural gas trucks and export. We maintain our positive stance on Weichai as the decline in LNG price will continue to boost sales of LNG trucks/engines, where Weichai has strong presence. We revise up our 2023E/24E/25E earnings forecasts by 17%/9%/8%, largely due to higher engines sales volume assumptions. We revise up our SOTP-based TPs for Weichai A/H to RMB14.7/HK\$16.1. Reiterate **BUY**.

- **Weichai's engine sales outpaced industry in 8M23.** Weichai's multi-cylinder sales (including HDTs and other large-size engines) grew 25% YoY to ~460k units in 8M23, much better than the industry average of 6%, according to CICEIA. The market share reached ~17% in 8M23, up 2.6ppt YoY.
- **HDT industry sales volume +55% YoY in Sep.** According to the preliminary data from Cvworld, China HDT industry sales volume in Sep (including export) grew 55% YoY to 80k units, driven by strong demand for natural gas trucks and export. In 9M23, China HDT sales volume (including export) grew 32% YoY to ~690k units.
- **Natural gas HDTs accounted for 31% of total HDT sales in Sep.** The latest LNG price declined 40%+ from the peak in late 2022, while the diesel price dropped <20% during the period. Sales of natural gas HDT therefore has had a strong run since early this year, with the percentage of total HDT sales rising from 7% in Dec 2022 to 31% in Sep 2023. We believe the current price difference will continue to boost the sales of LNG trucks given the lower operating cost to truck owners. Weichai will continue to be a key beneficiary as we estimate Weichai has >50% market share in the HDT gas engine sector.
- **Risk factors:** 1) weakness in engine export; 2) increase in component cost; 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	210,553	227,062	239,855
YoY growth (%)	3.1	(13.9)	20.2	7.8	5.6
Adjusted net profit (RMB mn)	9,254.6	4,905.5	8,416.3	9,038.8	9,797.9
EPS (Reported) (RMB)	1.06	0.56	0.96	1.04	1.12
YoY growth (%)	(8.6)	(47.0)	71.6	7.4	8.4
Consensus EPS (RMB)	na	0.00	0.87	1.01	1.10
P/E (x)	14.2	17.1	10.8	10.0	9.2
P/B (x)	1.8	1.1	1.1	1.1	1.0
Yield (%)	2.4	2.6	3.3	3.5	3.8
Net gearing (%)	(61.0)	(35.8)	(37.4)	(47.9)	(58.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$16.10

(Previous TP) HK\$15.80

Up/Downside 44.8%

Current Price HK\$11.12

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Stock Data

Mkt Cap (HK\$ mn)	97,039.3
Avg 3 mths t/o (HK\$ mn)	64.9
52w High/Low (HK\$)	13.60/7.13
Total Issued Shares (mn)	8726.6

Source: FactSet

Shareholding Structure

Weichai Holdings Group	16.3%
Weifang Investment Group	3.4%

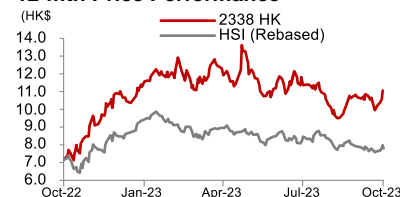
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.1%	5.3%
3-mth	-2.1%	6.3%
6-mth	-6.7%	6.5%

Source: FactSet

12-Mth Price Performance



Source: FactSet

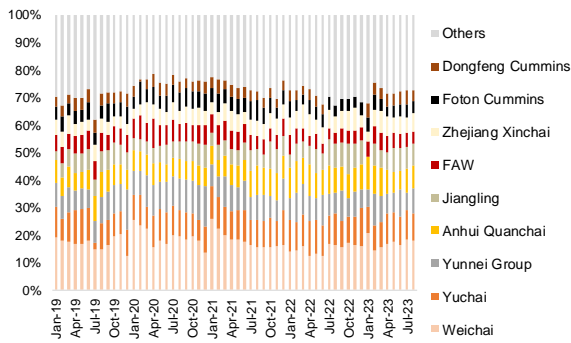
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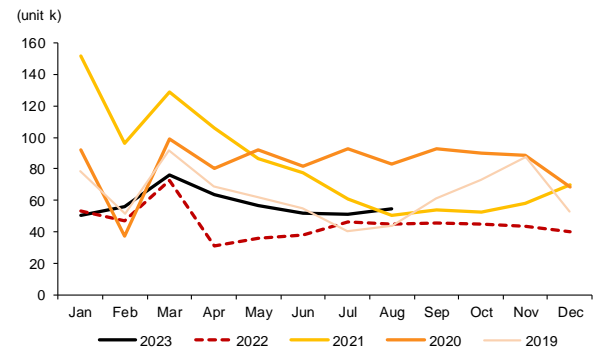
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Figure 1: China multi-cylinder engine market share

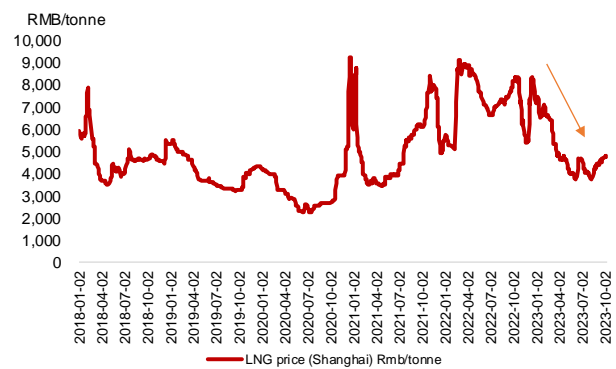
Source: CICEIA, CMBIGM

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

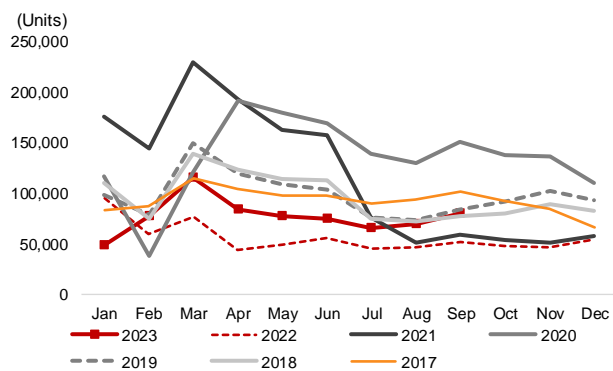
Source: CICEIA, CMBIGM

Figure 3: Shandong diesel price

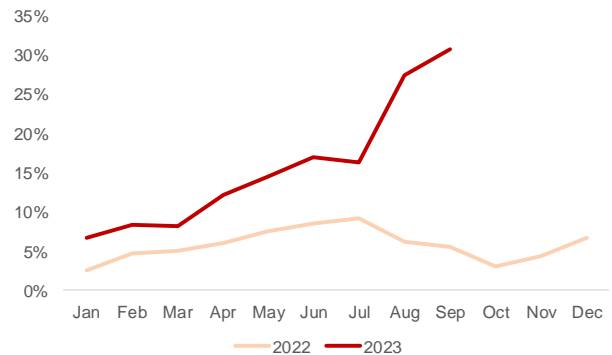
Source: Wind, CMBIGM

Figure 4: Shanghai LNG price

Source: Wind, CMBIGM

Figure 5: China HDT monthly sales volume

Source: Wind, Cvworl, CMBIGM

Figure 6: Natural gas HDTs as % of total HDTs sold

Source: Wind, Cvworl, CMBIGM

Figure 7: Change in key assumptions for Weichai

	2023E			2024E			2025E		
	Old	New	Change	Old	New	Change	Old	New	Change
Sales volume (unit)									
Engine total	844,481	844,481	0.0%	941,134	941,134	0.0%	1,005,504	1,005,504	0.0%
HDT (Shaanxi Heavy-duty Motor)	104,000	116,000	11.5%	111,280	124,120	11.5%	116,844	130,326	11.5%
Gear box (Shaanxi Fast Gear Company)	737,500	737,500	0.0%	781,750	781,750	0.0%	813,020	813,020	0.0%
(RMB mn)									
Revenue									
Diesel engines	57,763	57,763	0.0%	64,374	64,374	0.0%	68,776	68,776	0.0%
Automobiles and major components	58,905	59,745	1.4%	62,512	63,411	1.4%	65,090	66,034	1.4%
Forklift trucks & supply chain solution	82,171	82,171	0.0%	87,101	87,101	0.0%	92,327	92,327	0.0%
Agricultural machinery	19,860	19,860	0.0%	21,846	21,846	0.0%	22,939	22,939	0.0%
Intersegment sales	-8,948	-8,986	0.4%	-9,629	-9,670	0.4%	-10,179	-10,221	0.4%
Total revenue	209,751	210,553	0.4%	226,204	227,062	0.4%	238,954	239,855	0.4%
Segment profit									
Diesel engines	4,794	5,776	20.5%	5,472	5,794	5.9%	5,846	6,190	5.9%
Automobiles and major components	648	119	-81.6%	813	824	1.4%	911	924	1.4%
Forklift trucks & supply chain solution	1,643	2,876	75.0%	2,352	3,049	29.6%	2,677	3,231	20.7%
Agricultural machinery	874	874	0.0%	983	983	0.0%	1,032	1,032	0.0%
Intersegment sales	-89	-90	0.4%	-96	-97	0.4%	-102	-102	0.4%
Total segment profit	7,870	9,556	21.4%	9,523	10,553	10.8%	10,365	11,276	8.8%
Segment margin			Chg (ppt)			Chg (ppt)			Chg (ppt)
Diesel engines	8.3%	10.0%	1.7	8.5%	9.0%	0.5	8.5%	9.0%	0.5
Automobiles and major components	1.1%	0.2%	-0.9	1.3%	1.3%	0.0	1.4%	1.4%	0.0
Forklift trucks & supply chain solution	2.0%	3.5%	1.5	2.7%	3.5%	0.8	2.9%	3.5%	0.6
Agricultural machinery	4.4%	4.4%	0.0	4.5%	4.5%	0.0	4.5%	4.5%	0.0
Average	3.8%	4.5%	0.8	4.2%	4.6%	0.4	4.3%	4.7%	0.4
Net profit	7,194	8,416	17.0%	8,265	9,039	9.4%	9,101	9,798	7.7%

Source: Company data, CMBIGM estimates

Figure 8: SOTP valuation (new)

SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA	Estimated EV	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
			2023E (RMB mn)	(RMB mn)			
Weichai core business	EV/EBITDA	7.0	9,056	63,390	43,838	107,228	83.4%
KION Group	Proportionate market value	-	-	-	-	15,820	12.3%
Ballard Power Systems	Proportionate market value	-	-	-	-	1,486	1.2%
Ceres Power	Proportionate market value	-	-	-	-	829	0.6%
Share of JV/associates	P/B	1.2	-	-	-	6,409	5.0%
Minority interest in core business						-3,168	-2.5%
Total NAV						128,604	100.0%
NAV per share (RMB)						14.7	
NAV per share (HK\$)						16.1	

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

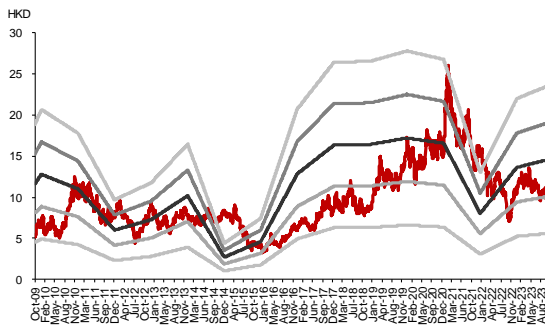
Figure 9: SOTP valuation (previous)

SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA	Estimated EV	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
			2023E (RMB mn)	(RMB mn)			
Weichai core business	EV/EBITDA	7.0	8,822	61,756	38,674	100,429	83.7%
KION Group	Proportionate market value	-	-	-	-	17,136	14.3%
Ballard Power Systems	Proportionate market value	-	-	-	-	1,799	1.5%
Ceres Power	Proportionate market value	-	-	-	-	1,142	1.0%
Share of JV/associates	P/B	1.2	-	-	-	6,409	5.3%
Minority interest in core business						-6,899	-5.7%
Total NAV						120,017	100.0%
NAV per share (RMB)						13.8	
NAV per share (HK\$)						15.8	

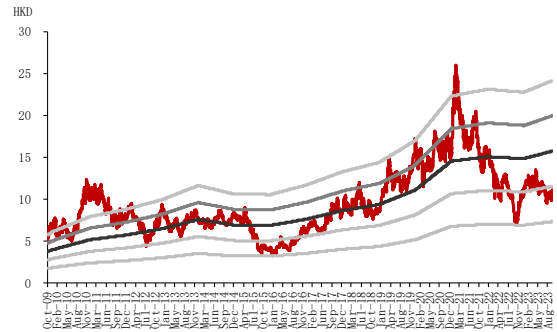
Source: Company data, CMBIGM estimates

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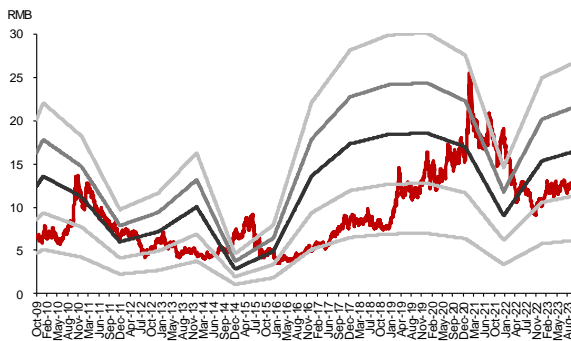
Note 2: Share of JV/associates excludes Ballard Power and Ceres Power

Figure 10: Weichai Power-H P/E band

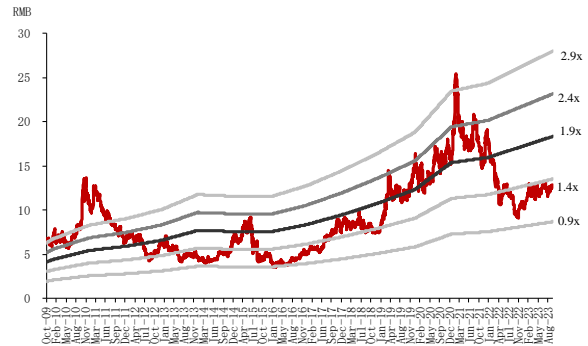
Source: Bloomberg, Company data, CMBIGM estimates

Figure 11: Weichai Power-H P/B band

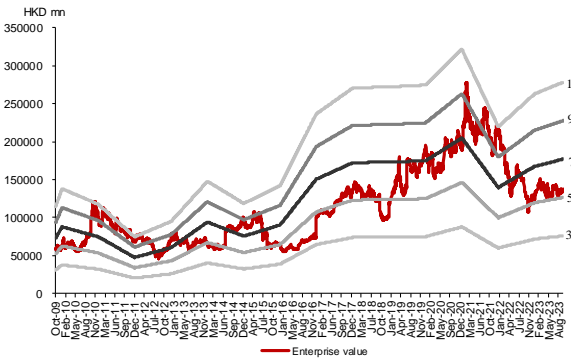
Source: Bloomberg, Company data, CMBIGM estimates

Figure 12: Weichai Power-A P/E band

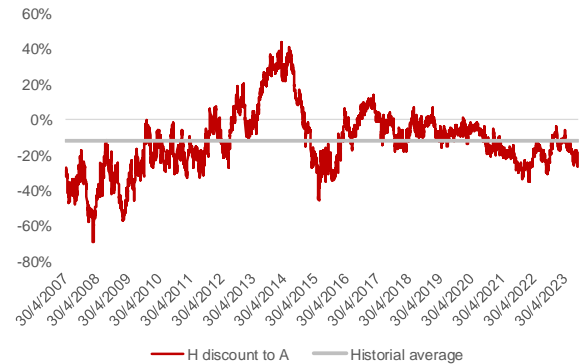
Source: Bloomberg, Company data, CMBIGM estimates

Figure 13: Weichai Power-A P/B band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 14: Weichai Power EV/EBITDA band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 15: Weichai Power H discount to A

Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	197,491	203,548	175,158	210,553	227,062	239,855
Cost of goods sold	(159,353)	(163,947)	(144,011)	(170,969)	(183,920)	(194,283)
Gross profit	38,138	39,601	31,147	39,584	43,142	45,573
Operating expenses	(25,289)	(26,038)	(25,664)	(28,517)	(31,060)	(32,744)
Operating profit	12,850	13,563	5,482	11,067	12,082	12,829
Share of (losses)/profits of associates/JV	253	187	(144)	188	191	177
EBITDA	21,708	24,160	16,630	22,347	23,983	25,362
Depreciation	8,858	10,597	11,148	11,279	11,902	12,533
Interest income	1,278	1,724	2,359	2,044	2,263	2,601
Interest expense	(1,557)	(1,274)	(1,450)	(1,721)	(1,737)	(1,741)
Net interest income/(expense)	(279)	450	909	322	526	860
Other income/expense	(142)	(145)	(162)	(253)	(272)	(288)
Pre-tax profit	12,682	14,055	6,086	11,325	12,526	13,578
Income tax	(1,407)	(2,493)	(403)	(1,869)	(2,255)	(2,444)
Minority interest	(2,068)	(2,307)	(778)	(1,040)	(1,233)	(1,336)
Adjusted net profit	9,207	9,255	4,906	8,416	9,039	9,798

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	152,515	160,638	168,484	189,308	198,168	221,186
Cash & equivalents	62,216	75,043	70,842	75,123	86,502	99,260
Account receivables	15,422	18,191	21,419	27,038	27,706	30,122
Inventories	31,226	31,585	33,374	44,382	41,280	49,208
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	311,776	315,802	333,348
Current liabilities	123,713	115,382	119,743	130,599	127,299	136,874
Short-term borrowings	17,006	12,982	15,824	16,624	16,724	16,824
Account payables	45,450	39,596	45,560	55,616	52,217	61,692
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	200,412	197,112	206,687
Total shareholders equity	51,202	70,907	73,184	79,398	85,491	92,125
Minority interest	29,231	32,055	30,926	31,967	33,199	34,535
Total equity and liabilities	270,750	277,044	293,666	311,776	315,802	333,348

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	12,682	14,055	6,086	11,325	12,526	13,578
Depreciation & amortization	8,787	10,537	11,065	11,194	11,817	12,448
Tax paid	(1,407)	(2,493)	(403)	(1,869)	(2,255)	(2,444)
Change in working capital	1,114	(8,767)	(20,324)	(6,571)	(966)	(869)
Others	1,753	1,325	1,227	1,618	1,631	1,648
Net cash from operations	22,928	14,658	(2,350)	15,698	22,753	24,361
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)	(2,946)	(3,164)
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)	(4,583)	(4,804)
Net change in cash						
Cash at the beginning of the year	48,818	62,216	75,043	70,842	75,123	86,502
Exchange difference	2,873	455	1,841	0	0	0
Cash at the end of the year	62,216	75,043	70,842	75,123	86,502	99,260
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	13.3%	3.1%	(13.9%)	20.2%	7.8%	5.6%
Gross profit	0.3%	3.8%	(21.3%)	27.1%	9.0%	5.6%
Operating profit	(10.9%)	5.5%	(59.6%)	101.9%	9.2%	6.2%
EBITDA	(3.5%)	11.3%	(31.2%)	34.4%	7.3%	5.7%
Adj. net profit	1.1%	0.5%	(47.0%)	71.6%	7.4%	8.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	19.3%	19.5%	17.8%	18.8%	19.0%	19.0%
Operating margin	6.5%	6.7%	3.1%	5.3%	5.3%	5.3%
EBITDA margin	11.0%	11.9%	9.5%	10.6%	10.6%	10.6%
Adj. net profit margin	4.7%	4.5%	2.8%	4.0%	4.0%	4.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.6)	(0.4)	(0.4)	(0.5)	(0.6)
Current ratio (x)	1.2	1.4	1.4	1.4	1.6	1.6
Receivable turnover days	27.5	30.1	41.3	42.0	44.0	44.0
Inventory turnover days	64.1	69.9	82.3	83.0	85.0	85.0
Payable turnover days	94.1	94.7	107.9	108.0	107.0	107.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	11.7	14.2	17.1	10.8	10.0	9.2
P/B	2.1	1.8	1.1	1.1	1.1	1.0
Div yield (%)	3.0	2.4	2.6	3.3	3.5	3.8

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

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