

## Weichai Power (2338 HK/000338 CH)

### Strong engine margin expansion in 2024; 55% dividend payout ratio a record high

Weichai's net profit in 2024 grew 27% YoY to RMB11.4bn, which is in line with our expectation. Net profit in 4Q24 grew 19% YoY to RMB3bn, driven by 28%/13% YoY reduction of S&D / R&D expenses despite a flat (YoY) revenue. Weichai proposed a final dividend of RMB0.347/shr. This, together with the interim dividend, implies a payout ratio of 55% (up from 50% in 2023), which is a record high level. We revise up our 2025E/26E earnings forecast by 9%/11%, mainly due to higher margin assumptions for engine segment. We see several catalysts for Weichai: (1) HDT demand recovery driven by new subsidies; (2) strong growth of engines for data centres; (3) potential re-rating of KION Group (KGX GR, NR). Our SOTP-based TP for A/H is revised up to RMB18.7/HK\$18.0. Maintain **BUY**.

#### Key highlights in 2024 results:

- **Strong margin expansion for engine segment.** Weichai delivered a total engine sales of 734k units (flat YoY). Exports, which grew 5%, accounted for 9% of total engines sales. The segment revenue was down 2% YoY to RMB59.4bn, due to a slight decrease in blended ASP (as a result of a 8% sales volume decline in HDT engines which carried a higher ASP, in our view). That said, the segment profit surged 35% YoY to RMB10.3bn, driven by a 4.8ppt YoY expansion of segment margin (to 17.5%). We forecast the segment margin to expand to 17.7%/17.8% in 2025E/26E, driven by the recovery of HDT engine demand and strong growth of engines for data centres.
- **HDT exports accounted for half of total HDT sales.** Weichai delivered 118k units of HDTs (1.7% YoY). Exports grew 13% YoY to 59k units (50% of total HDT sales). The segment recorded RMB563mn in profit in 2024, with segment margin of 0.9%.
- **Forklifts & supply chain solution (KION Group) profit grew driven by margin.** The segment profit grew 21% YoY to RMB6bn in 2024. While KION's latest guidance for 2025E is conservative (adjusted EBIT is expected to be down 5%-21%), we are positive on the medium-term outlook thanks to Germany's latest approval of the infrastructure investment plan.
- **Solid margin expansion for agricultural machinery.** While the segment revenue growth slowed to 3% in 2H24 from 25% in 1H24, the segment margin continued to expand.
- **Risk factors:** 1) weakness in engine exports; 2) lower-than-expected replacement demand in China; (3) contraction of diesel/gas price ratio.

#### Earnings Summary - 2338 HK

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	213,958	215,691	228,168	238,946	243,611
YoY growth (%)	22.2	0.8	5.8	4.7	2.0
Adjusted net profit (RMB mn)	9,013.9	11,403.3	12,763.9	13,669.3	14,344.8
EPS (Reported) (RMB)	1.04	1.31	1.46	1.57	1.65
YoY growth (%)	85.6	25.4	11.9	7.1	4.9
Consensus EPS (RMB)	na	1.29	1.48	1.65	0.00
P/E (x)	14.0	11.1	10.0	9.3	8.9
P/B (x)	1.6	1.5	1.4	1.3	1.2
Yield (%)	3.6	4.9	5.5	5.9	6.2
Net gearing (%)	(62.0)	(38.8)	(52.1)	(68.1)	(78.1)

Source: Company data, Bloomberg, CMBIGM estimates

2338 HK	000338 CH
BUY	BUY
Maintain	Maintain

TP	HK\$18.00	RMB18.70
Prior TP	HK\$17.70	RMB17.90
Up/Downside	15.4%	18.7%
Current Price	HK\$15.6	RMB15.8

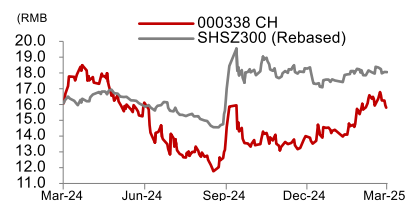
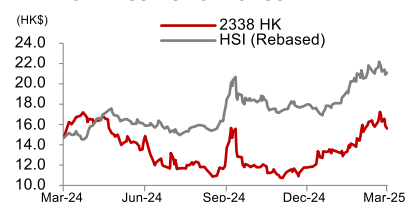
#### China Capital Goods

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#### 12-mth Price Performance



Source: FactSet

#### Stock Performance

	2338 HK		000338 CH	
	Abs.	Rel.	Abs.	Rel.
1-mth	-2.1%	-1.6%	-1.7%	-0.9%
3-mth	32.7%	13.0%	13.5%	34.7%
6-mth	13.9%	-0.4%	8.2%	7.6%

Source: FactSet

#### Stock Data

(LC)	2338 HK	000338 CH
Mkt Cap (mn)	30170.4	106758.2
Avg 3 mths t/o (mn)	236.26	1453.74
52w High	17.22	18.49
52w Low	10.68	11.72
Issued Shares (mn)	1934	6774

Source: FactSet

#### Related reports:

Capital Goods - New subsidies on truck replacement cover NES IV and natural gas trucks; +ve to Weichai – 20 Mar 2025 ([link](#))

Capital Goods – Who are the potential beneficiaries of Germany's mega infrastructure investment plan? 18 Mar 2025 ([link](#))

Weichai Power – Expect strong volume growth of engines for data centres – 25 Feb 2025 ([link](#))

**Figure 1: Weichai's quarterly results**

(RMB mn)	1Q23	1Q24	Chg (YoY)	2Q23	2Q24	Chg (YoY)	3Q23	3Q24	Chg (YoY)	4Q23	4Q24	Chg (YoY)
<b>Revenue</b>	<b>53,434</b>	<b>56,380</b>	<b>6%</b>	<b>52,701</b>	<b>56,110</b>	<b>6%</b>	<b>54,248</b>	<b>49,464</b>	<b>-9%</b>	<b>53,575</b>	<b>53,737</b>	<b>0%</b>
Cost of sales	(43,442)	(43,914)	1%	(42,062)	(44,109)	5%	(43,291)	(38,523)	-11%	(40,047)	(40,758)	2%
<b>Gross profit</b>	<b>9,992</b>	<b>12,466</b>	<b>25%</b>	<b>10,639</b>	<b>12,000</b>	<b>13%</b>	<b>10,956</b>	<b>10,941</b>	<b>0%</b>	<b>13,528</b>	<b>12,979</b>	<b>-4%</b>
Other income	126	323	158%	215	540	151%	588	617	5%	846	888	5%
Other gains and losses	116	211	81%	195	188	-3%	281	139	-50%	(458)	53	n/a
S&D expenses	(2,866)	(3,272)	14%	(3,339)	(2,856)	-14%	(2,532)	(3,005)	19%	(4,673)	(3,353)	-28%
Administrative expenses	(2,295)	(2,612)	14%	(2,329)	(2,483)	7%	(2,363)	(2,444)	3%	(2,469)	(2,720)	10%
R&D expenses	(1,833)	(2,091)	14%	(1,888)	(2,211)	17%	(1,929)	(1,904)	-1%	(2,395)	(2,094)	-13%
Taxes and surcharges	(126)	(229)	81%	(206)	(144)	-30%	(192)	(119)	-38%	(224)	(215)	-4%
Impairment loss of assets	(337)	(454)	35%	(218)	(293)	35%	(395)	(121)	-69%	(536)	(708)	32%
<b>EBIT</b>	<b>2,777</b>	<b>4,343</b>	<b>56%</b>	<b>3,069</b>	<b>4,742</b>	<b>55%</b>	<b>4,414</b>	<b>4,104</b>	<b>-7%</b>	<b>3,619</b>	<b>4,829</b>	<b>33%</b>
Other expenses	(41)	(42)	1%	(16)	(141)	786%	(32)	(72)	124%	(64)	(166)	158%
Net finance cost	(52)	(106)	104%	31	75	143%	(505)	(357)	-29%	(34)	157	n/a
Share of profit of JV and associates	(33)	(18)	-46%	13	63	390%	15	(32)	n/a	(7)	(58)	687%
<b>Pretax profit</b>	<b>2,651</b>	<b>4,177</b>	<b>58%</b>	<b>3,097</b>	<b>4,739</b>	<b>53%</b>	<b>3,891</b>	<b>3,643</b>	<b>-6%</b>	<b>3,513</b>	<b>4,762</b>	<b>36%</b>
Income tax	(405)	(832)	105%	(557)	(710)	28%	(679)	(675)	-1%	(299)	(827)	177%
<b>After tax profit</b>	<b>2,245</b>	<b>3,345</b>	<b>49%</b>	<b>2,540</b>	<b>4,029</b>	<b>59%</b>	<b>3,212</b>	<b>2,968</b>	<b>-8%</b>	<b>3,215</b>	<b>3,936</b>	<b>22%</b>
MI	(389)	(745)	91%	(497)	(725)	46%	(610)	(470)	-23%	(701)	(934)	33%
<b>Net profit</b>	<b>1,856</b>	<b>2,600</b>	<b>40%</b>	<b>2,043</b>	<b>3,304</b>	<b>62%</b>	<b>2,602</b>	<b>2,498</b>	<b>-4%</b>	<b>2,513</b>	<b>3,002</b>	<b>19%</b>
<b>Key ratios</b>	<b>Chg (ppt)</b>			<b>Chg (ppt)</b>			<b>Chg (ppt)</b>			<b>Chg (ppt)</b>		
Gross margin	18.7%	22.1%	3.4	20.2%	21.4%	1.2	20.2%	22.1%	1.9	25.3%	24.2%	-1.1
S&D expense ratio	5.4%	5.8%	0.4	6.3%	5.1%	-1.2	4.7%	6.1%	1.4	8.7%	6.2%	-2.5
Administrative expense ratio	4.3%	4.6%	0.3	4.4%	4.4%	0.0	4.4%	4.9%	0.6	4.6%	5.1%	0.5
R&D expense ratio	3.4%	3.7%	0.3	3.6%	3.9%	0.4	3.6%	3.8%	0.3	4.5%	3.9%	-0.6
Effective tax rate	15.3%	19.9%	4.6	18.0%	15.0%	-3.0	17.5%	18.5%	1.1	8.5%	17.4%	8.9

Source: Company data, CMBIGM

**Figure 2: KION's guidance for 2025E**

(EUR mn)	2022	2023	2024	2025E guidance	
				Low-end	High-end
<b>Order intake</b>	<b>11,708</b>	<b>10,876</b>	<b>10,321</b>	-	-
Growth (YoY)	-6%	-7%	-5%	-	-
<b>Revenue</b>	<b>11,136</b>	<b>11,434</b>	<b>11,503</b>	<b>10,900</b>	<b>11,700</b>
Growth (YoY)	8%	3%	1%	-5%	2%
<b>Adjusted EBIT</b>	<b>292</b>	<b>791</b>	<b>917</b>	<b>720</b>	<b>870</b>
Growth (YoY)	-65%	171%	16%	-21%	-5%
Adjusted EBIT margin	2.6%	6.9%	8.0%	6.6%	7.4%
<b>Net income</b>	<b>106</b>	<b>314</b>	<b>370</b>	-	-
Growth (YoY)	-81%	197%	18%	-	-

Source: Company data, CMBIGM

**Figure 3: KION's quarterly financials**

(EUR mn)	1Q24	2Q24	3Q24	4Q24
<b>Order intake</b>	<b>2,439</b>	<b>2,640</b>	<b>2,427</b>	<b>2,815</b>
Growth (YoY)	2%	-8%	-7%	-4%
<b>Revenue</b>	<b>2,859</b>	<b>2,877</b>	<b>2,699</b>	<b>3,068</b>
Growth (YoY)	3%	1%	-1%	-1%
<b>Adjusted EBIT</b>	<b>227</b>	<b>220</b>	<b>220</b>	<b>250</b>
Growth (YoY)	46%	15%	-2%	14%
Adjusted EBIT margin	7.9%	7.6%	8.2%	8.1%
<b>Net income</b>	<b>111</b>	<b>71</b>	<b>74</b>	<b>114</b>
Growth (YoY)	51%	-2%	-10%	33%

Source: Company data, CMBIGM

Figure 4: Change in key assumptions for Weichai

	2025E			2026E					
	Old	New	Change	Old	New	Change	Old	New	Change
<b>Sales volume (unit)</b>									
Engine total	844,000	<b>809,907</b>	-4.0%	878,458	<b>842,407</b>	-4.1%	-	<b>852,064</b>	-
HDT (Shaanxi Heavy-duty Motor)	124,027	<b>128,620</b>	3.7%	132,709	<b>137,623</b>	3.7%	-	<b>141,752</b>	-
Gear box (Shaanxi Fast Gear Company)	932,694	<b>895,650</b>	-4.0%	968,136	<b>929,685</b>	-4.0%	-	<b>929,685</b>	-
(RMB mn)									
<b>Revenue</b>									
Diesel engines	70,052	<b>66,412</b>	-5.2%	73,088	<b>70,088</b>	-4.1%	-	<b>70,892</b>	-
Automobiles and major components	69,744	<b>66,578</b>	-4.5%	72,656	<b>70,442</b>	-3.0%	-	<b>70,715</b>	-
Forklift trucks & supply chain solution	90,611	<b>89,221</b>	-1.5%	92,423	<b>91,898</b>	-0.6%	-	<b>94,655</b>	-
Agricultural machinery	19,770	<b>20,401</b>	3.2%	20,956	<b>21,625</b>	3.2%	-	<b>22,706</b>	-
Intersegment sales	(17,280)	<b>(14,444)</b>	-16.4%	(17,862)	<b>(15,108)</b>	-15.4%	-	<b>(15,357)</b>	-
<b>Total revenue</b>	232,896	<b>228,168</b>	-2.0%	241,260	<b>238,946</b>	-1.0%	-	<b>243,611</b>	-
<b>Segment profit</b>									
Diesel engines	9,317	<b>11,755</b>	26.2%	9,794	<b>12,476</b>	27.4%	-	<b>12,761</b>	-
Automobiles and major components	488	<b>599</b>	22.7%	545	<b>634</b>	16.3%	-	<b>636</b>	-
Forklift trucks & supply chain solution	5,437	<b>5,353</b>	-1.5%	5,545	<b>5,514</b>	-0.6%	-	<b>5,679</b>	-
Agricultural machinery	850	<b>877</b>	3.2%	943	<b>973</b>	3.2%	-	<b>1,022</b>	-
Intersegment sales	(864)	<b>(693)</b>	-19.8%	(893)	<b>(725)</b>	-18.8%	-	<b>(737)</b>	-
<b>Total segment profit</b>	15,228	<b>17,891</b>	17.5%	15,934	<b>18,872</b>	18.4%	-	<b>19,361</b>	-
<b>Segment margin</b>			Chg (ppt)			Chg (ppt)			
Diesel engines	13.3%	<b>17.7%</b>	4.4	13.4%	<b>17.8%</b>	4.4	-	<b>18.0%</b>	-
Automobiles and major components	0.7%	<b>0.9%</b>	0.2	0.8%	<b>0.9%</b>	0.2	-	<b>0.9%</b>	-
Forklift trucks & supply chain solution	6.0%	<b>6.0%</b>	0.0	6.0%	<b>6.0%</b>	0.0	-	<b>6.0%</b>	-
Agricultural machinery	4.3%	<b>4.3%</b>	0.0	4.5%	<b>4.5%</b>	0.0	-	<b>4.5%</b>	-
<b>Average</b>	6.5%	<b>7.8%</b>	1.3	6.6%	<b>7.9%</b>	1.3	-	<b>7.9%</b>	-
<b>Net profit</b>	11,667	<b>12,764</b>	9.4%	12,305	<b>13,669</b>	11.1%	-	<b>14,345</b>	-

Source: Company data, CMBIGM estimates

Figure 5: 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	17,111	102,669	40,810	143,479	87.8%
KION Group	Proportionate market value	-	-	-	-	19,843	12.1%
Ballard Power Systems	Proportionate market value	-	-	-	-	539	0.3%
Ceres Power	Proportionate market value	-	-	-	-	216	0.1%
Share of JV/associates	P/B	1.2	-	-	-	5,898	3.6%
Minority interest in core business						(6,650)	-4.1%
<b>Total NAV</b>						<b>163,325</b>	<b>100.0%</b>
<b>NAV per share (RMB)</b>						<b>18.7</b>	
A/H discount						10%	
<b>NAV per share (HK\$)</b>						<b>18.0</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	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	175,158	213,958	215,691	228,168	238,946	243,611
Cost of goods sold	(144,011)	(168,842)	(167,305)	(175,005)	(182,793)	(186,362)
Gross profit	31,147	45,116	48,386	53,163	56,152	57,248
Operating expenses	(25,664)	(31,238)	(30,368)	(34,471)	(36,480)	(37,088)
Operating profit	5,482	13,878	18,018	18,693	19,672	20,160
Share of (losses)/profits of associates/JV	(144)	(13)	(45)	99	100	100
EBITDA	16,630	25,867	30,744	31,797	34,263	36,139
Depreciation	11,148	11,989	12,726	13,104	14,591	15,978
Interest income	2,359	2,818	3,781	2,546	3,099	3,659
Interest expense	(1,450)	(3,378)	(4,011)	(1,424)	(1,428)	(1,431)
Net interest income/(expense)	909	(560)	(231)	1,122	1,672	2,228
Other income/expense	(162)	(154)	(421)	(456)	(478)	(487)
Pre-tax profit	6,086	13,151	17,322	19,457	20,965	22,001
Income tax	(403)	(1,940)	(3,044)	(3,502)	(3,879)	(4,070)
Minority interest	(778)	(2,198)	(2,874)	(3,191)	(3,417)	(3,586)
Adjusted net profit	4,906	9,014	11,403	12,764	13,669	14,345

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	168,484	197,925	184,750	190,412	221,178	226,340
Cash & equivalents	70,842	92,857	72,067	87,068	106,629	122,035
Account receivables	21,419	23,754	30,877	19,132	30,621	18,769
Inventories	33,374	37,930	35,675	38,163	37,960	39,649
Prepayment	1,473	1,691	1,368	1,287	1,206	1,125
Other current assets	41,378	41,693	44,762	44,762	44,762	44,762
Non-current assets	125,182	136,322	159,130	155,549	149,481	141,527
PP&E	37,892	44,073	47,301	44,777	39,854	33,130
Investment in JVs & assos	5,341	5,175	4,915	4,957	5,000	5,043
Intangibles	22,760	23,071	22,205	21,105	19,919	18,645
Goodwill	24,019	24,858	24,561	24,561	24,561	24,561
Other non-current assets	35,171	39,145	60,148	60,148	60,148	60,148
Total assets	293,666	334,247	343,879	345,960	370,659	367,867
Current liabilities	119,743	146,215	154,839	147,233	161,865	148,661
Short-term borrowings	15,824	16,949	22,772	22,872	22,972	23,072
Account payables	45,560	60,127	58,033	50,326	64,858	51,554
Other current liabilities	58,358	69,139	74,034	74,034	74,034	74,034
Non-current liabilities	69,813	75,346	67,081	67,081	67,081	67,081
Long-term borrowings	28,839	26,745	15,633	15,633	15,633	15,633
Other non-current liabilities	40,973	48,601	51,448	51,448	51,448	51,448
Total liabilities	189,555	221,561	221,921	214,314	228,946	215,742
Total shareholders equity	73,184	79,335	86,696	93,193	99,842	106,669
Minority interest	30,926	33,351	35,262	38,453	41,871	45,457
Total equity and liabilities	293,666	334,247	343,879	345,960	370,659	367,867

<b>CASH FLOW</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	6,086	13,151	17,322	19,457	20,965	22,001
Depreciation & amortization	11,065	11,909	12,668	13,023	14,510	15,897
Tax paid	(403)	(1,940)	(3,044)	(3,502)	(3,879)	(4,070)
Change in working capital	(20,324)	6,089	(6,811)	1,551	3,247	(3,142)
Others	1,227	(1,738)	5,959	1,406	1,409	1,412
<b>Net cash from operations</b>	<b>(2,350)</b>	<b>27,471</b>	<b>26,094</b>	<b>31,936</b>	<b>36,252</b>	<b>32,098</b>
<b>Investing</b>						
Capital expenditure	(5,242)	(4,633)	(2,824)	(9,400)	(8,400)	(7,900)
Acquisition of subsidiaries/ investments	(309)	(156)	(584)	0	0	0
Others	(2,995)	(947)	(25,503)	56	57	57
<b>Net cash from investing</b>	<b>(8,545)</b>	<b>(5,737)</b>	<b>(28,911)</b>	<b>(9,344)</b>	<b>(8,343)</b>	<b>(7,843)</b>
<b>Financing</b>						
Dividend paid	(3,930)	(4,175)	(7,769)	(6,267)	(7,020)	(7,518)
Net borrowings	12,842	(969)	(5,289)	100	100	100
Proceeds from share issues	1,676	92	0	0	0	0
Others	(5,736)	(7,977)	(780)	(1,424)	(1,428)	(1,431)
<b>Net cash from financing</b>	<b>4,852</b>	<b>(13,029)</b>	<b>(13,838)</b>	<b>(7,591)</b>	<b>(8,348)</b>	<b>(8,849)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	75,043	70,842	92,857	72,067	87,068	106,629
Exchange difference	1,841	13,310	(4,135)	0	0	0
<b>Cash at the end of the year</b>	<b>70,842</b>	<b>92,857</b>	<b>72,067</b>	<b>87,068</b>	<b>106,629</b>	<b>122,035</b>
<b>GROWTH</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Revenue	(13.9%)	22.2%	0.8%	5.8%	4.7%	2.0%
Gross profit	(21.3%)	44.8%	7.2%	9.9%	5.6%	2.0%
Operating profit	(59.6%)	153.1%	29.8%	3.7%	5.2%	2.5%
EBITDA	(31.2%)	55.5%	18.9%	3.4%	7.8%	5.5%
Adj. net profit	(47.0%)	83.8%	26.5%	11.9%	7.1%	4.9%
<b>PROFITABILITY</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Gross profit margin	17.8%	21.1%	22.4%	23.3%	23.5%	23.5%
Operating margin	3.1%	6.5%	8.4%	8.2%	8.2%	8.3%
EBITDA margin	9.5%	12.1%	14.3%	13.9%	14.3%	14.8%
Adj. net profit margin	2.8%	4.2%	5.3%	5.6%	5.7%	5.9%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.4)	(0.6)	(0.4)	(0.5)	(0.7)	(0.8)
Current ratio (x)	1.4	1.4	1.2	1.3	1.4	1.5
Receivable turnover days	41.3	38.5	46.2	40.0	38.0	37.0
Inventory turnover days	82.3	77.1	80.3	77.0	76.0	76.0
Payable turnover days	107.9	114.2	128.9	113.0	115.0	114.0
<b>VALUATION</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
P/E	25.9	14.0	11.1	10.0	9.3	8.9
P/B	1.7	1.6	1.5	1.4	1.3	1.2
Div yield (%)	1.7	3.6	4.9	5.5	5.9	6.2

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

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