

# CIMC Vehicles (Group) (1839 HK)

## More catalysts in 2021E

We see more catalysts for CIMC Vehicles in 2021E: (1) We expect the A-share IPO to be completed in 1Q21E, which should lift the overall valuation; (2) we expect earnings recovery in 2021E driven by strong domestic demand and policy support on the elimination of illegal truck modification. Meanwhile, the anti-dumping and countervailing duties in the US should have limited impact on the Company's earnings. We raised our TP from HK\$6.6 to HK\$9.2 after rolling over the valuation base to 2021E, based on 6x EV/EBITDA (up from 5x, in line with our target valuation for **Weichai Power [2338 HK / 000338 CH, BUY]** and **Sinotruk [3808 HK, BUY]**).

■ **Green light for A-share IPO.** CIMC Vehicles received approval from the listing committee for ChiNext Market of Shenzhen Stock Exchange last week. According to the A-share IPO plan, CIMC Vehicles plans to raise a maximum of RMB2bn. The proceeds will be spent mainly on R&D on digital transformation and light tower plants construction, which we believe is a key move to strengthen the competitive edge. We expect the potential new shares will account for ~10% of the enlarged o/s shares, implying an issue price of ~RMB10 per share (14x 2021E P/E on diluted basis). We believe a successful A share IPO will lift the overall valuation.

■ **Growth opportunities in China market.** The government policy to crackdown illegal truck modification by 2022 has entered the inspection stage. Given that semi-trailers, dump trucks and concrete mixers are the key target of inspection, we believe CIMC Vehicles is set to benefit from a new round of demand replacement cycle as the Company has high exposure to these types of vehicles and parts (67% of total revenue in 1H20). Besides, we see growth potential on the refrigerated tank trailers (1% of revenue in 1H20), which is expected to benefit from potential growth of vaccine transportation.

■ **Impact of US anti-dumping and countervailing duties manageable.** The Coalition of American Chassis Manufacturers in July filed a petition with the ITC about the initiation of anti-dumping and countervailing duties investigation on certain chassis imported from China. That said, CIMC Vehicles can mitigate the potential impact through relocating the production to regions outside of China. Besides, given that the Company's chassis trailer/total revenue in the North American reduced from 14% in 2018 to only 4% in 1H20, we expect the overall impact will not be significant.

■ **Major risk factors:** (1) Slowdown of domestic demand; (2) uncertainties on anti-dumping and countervailing duties in the US; (3) further increase in component cost.

### Earnings Table

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	24,168	23,220	23,153	24,699	25,499
YoY growth (%)	24.8	-3.9	-0.3	6.7	3.2
Net income (RMB mn)	1,143	1,211	1,132	1,358	1,473
EPS (RMB)	0.76	0.75	0.64	0.71	0.75
YoY growth (%)	18.5	-1.3	-14.7	10.8	5.8
Consensus EPS (RMB)	-	-	-	-	-
EV/EBITDA (x)	4.7	4.7	5.0	4.4	4.1
P/E (x)	8.0	8.4	9.9	8.7	8.2
P/B (x)	1.2	1.1	1.1	0.9	0.9
Yield (%)	3.2	7.1	5.0	5.8	6.1
ROE (%)	16.2	14.0	11.4	11.8	11.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$9.20
(Previous TP)	HK\$6.60
Up/Downside	+30%
Current Price	HK\$7.07

### China Capital Goods

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### Stock Data

Mkt Cap (HK\$ mn)	12,479
Avg 3 mths t/o (HK\$ mn)	4.3
52w High/Low (HK\$)	8.32/5.20
Total Issued Shares (mn)	1,765

Source: Bloomberg

### Shareholding Structure

CIMC Group	52.64%
Ping An Group	22.94%
Others	24.43%

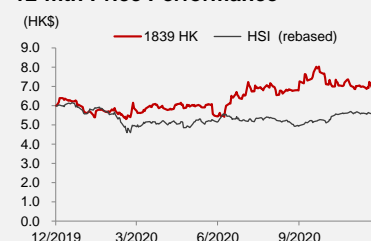
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	0.7%	2.9%
3-mth	4.0%	-7.3%
6-mth	29.2%	20.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

### Recent report:

1. CIMC Vehicles (1839 HK) – Weakness in overseas sales inevitable; China demand improving – 20 Mar 2020
2. CIMC Vehicles (1839 HK, BUY) – World's largest semi-trailer manufacturer – 14 Aug 2019

**Figure 1: Use of proceeds from A-share IPO**

Investment project	RMB mn	% of total
Digital transformation, research and development project	500	25%
"Light Tower Plants" upgrade and construction project	1,150	58%
New marketing construction project	100	5%
Repayment of bank loans and replenishment of working capital	250	13%
<b>Total</b>	<b>2,000</b>	<b>100%</b>

Source: Company data, CMBIS

**Expect earnings recovery in 2021E**

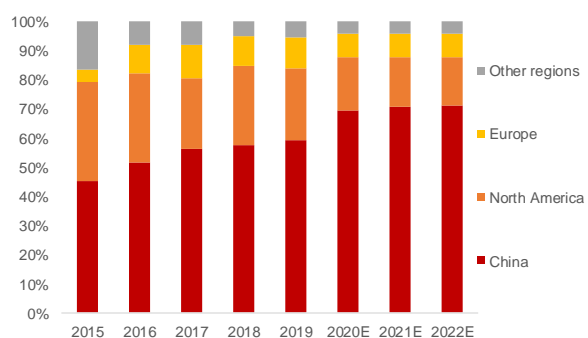
CIMC Vehicles revenue in 9M20 increased 7.3% YoY to RMB18.8bn, while net profit dropped 13% YoY to RMB976mn. The earnings decline was due to margin pressure and exchange loss. According to the Company's profit forecast stated in the A-share prospectus, the full year earnings in 2020E is expected to be in a range of RMB1.02-1.15bn (down 5-16% YoY).

We expect the Company's earnings to recover starting 2021E, driven mainly by China market. Our revised earnings forecast implies earnings growth of 20% YoY in 2021E. We have modeled the dilution impact in our 2021E EPS estimates (assuming 10% of new shares).

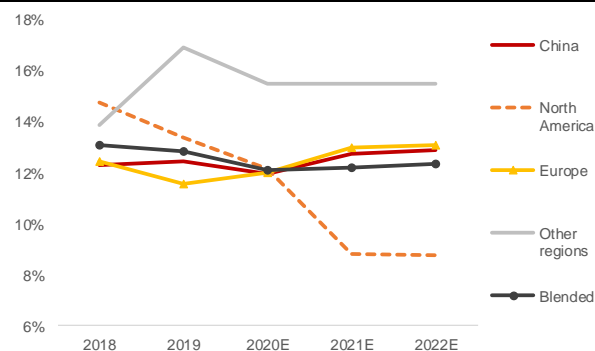
**Figure 2: Change in key assumptions**

	2020E	Old 2021E	2022E	2020E	New 2021E	2022E	2020E	Change 2021E	2022E
(RMB mn)									
<b>Revenue breakdown by product</b>									
<b>China</b>									
Sales of vehicles									
- Semi-trailers	5,295	5,420	-	6,894	7,239	7,311	30.2%	33.6%	-
- Truck bodies (mixers and dump beds)	5,529	5,686	-	3,543	4,251	4,676	-35.9%	-25.2%	-
- Truck chassis and tractor unit	3,615	3,687	-	4,341	4,558	4,603	20.1%	23.6%	-
- Other vehicles	579	579	-	509	560	616	-12.0%	-3.2%	-
Sales of parts and components	740	763	-	629	654	674	-15.1%	-14.2%	-
Other revenue	344	361	-	215	226	237	-37.5%	-37.5%	-
<b>Total (China)</b>	<b>16,102</b>	<b>16,496</b>	-	<b>16,130</b>	<b>17,487</b>	<b>18,117</b>	<b>0.2%</b>	<b>6.0%</b>	-
<b>North America</b>									
Sales of vehicles	4,557	4,880	-	3,607	3,607	3,679	-20.9%	-26.1%	-
Sales of parts and components	537	559	-	548	570	598	1.9%	1.9%	-
<b>Total (North America)</b>	<b>5,095</b>	<b>5,438</b>	-	<b>4,155</b>	<b>4,177</b>	<b>4,277</b>	<b>-18.4%</b>	<b>-23.2%</b>	-
<b>Europe</b>									
Sales of vehicles	1,948	2,059	-	1,526	1,613	1,629	-21.6%	-21.6%	-
Sales of parts and components	348	365	-	287	301	332	-17.5%	-17.5%	-
Others	139	141	-	116	117	119	-16.7%	-16.7%	-
<b>Total (Europe)</b>	<b>2,435</b>	<b>2,565</b>	-	<b>1,929</b>	<b>2,032</b>	<b>2,079</b>	<b>-20.8%</b>	<b>-20.8%</b>	-
<b>Other regions</b>									
Sales of vehicles	1,235	1,284	-	905	968	988	-26.7%	-24.6%	-
Sales of parts and components	15	15	-	9	9	10	-41.7%	-38.9%	-
Others	11	11	-	25	26	27	128.5%	133.0%	-
<b>Total (other regions)</b>	<b>1,261</b>	<b>1,311</b>	-	<b>938</b>	<b>1,004</b>	<b>1,026</b>	<b>-25.6%</b>	<b>-23.4%</b>	-
<b>Total revenue</b>	<b>24,892</b>	<b>25,810</b>	-	<b>23,153</b>	<b>24,699</b>	<b>25,499</b>	<b>-7.0%</b>	<b>-4.3%</b>	-
<b>Gross margin</b>									
								<i>ppt</i>	
China	13.4%	13.3%	-	11.9%	12.7%	12.9%	(1.5)	(0.6)	-
North America	12.6%	13.0%	-	12.2%	8.8%	8.8%	(0.5)	(4.2)	-
Europe	12.6%	13.1%	-	12.0%	13.0%	13.1%	(0.6)	(0.1)	-
Other regions	14.7%	14.5%	-	15.5%	15.5%	15.5%	0.8	1.0	-
<b>Blended gross profit</b>	<b>13.2%</b>	<b>13.3%</b>	-	<b>12.1%</b>	<b>12.2%</b>	<b>12.4%</b>	<b>(1.1)</b>	<b>(1.1)</b>	-
<b>Net profit</b>	<b>1,330</b>	<b>1,428</b>	-	<b>1,132</b>	<b>1,358</b>	<b>1,473</b>	<b>-14.9%</b>	<b>-4.9%</b>	-

Source: Company data, CMBIS estimates

**Figure 3: CIMC Vehicles revenue breakdown**

Source: Company data, CMBIS estimates

**Figure 4: CIMC Vehicles gross margin trend**

Source: Company data, CMBIS estimates

## Financial summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>24,168</b>	<b>23,220</b>	<b>24,974</b>	<b>25,892</b>	<b>26,278</b>
Cost of sales	(21,009)	(20,235)	(20,343)	(21,686)	(22,350)
<b>Gross profit</b>	<b>3,159</b>	<b>2,985</b>	<b>2,810</b>	<b>3,013</b>	<b>3,149</b>
Other income	158	368	463	494	510
Other gains and losses	82	129	187	150	150
S&D expenses	(574)	(597)	(695)	(692)	(714)
Administrative expenses	(1,221)	(1,300)	(1,250)	(1,284)	(1,300)
Net gain / (impairment)*	16	1	(69)	0	0
<b>EBIT</b>	<b>1,621</b>	<b>1,586</b>	<b>1,446</b>	<b>1,681</b>	<b>1,795</b>
Net finance income/(expense)	(74)	(28)	41	97	134
Finance income	86	105	113	140	165
Finance expenses	(160)	(133)	(71)	(43)	(32)
Profit of JV and associates	6	13	21	23	24
<b>Pretax profit</b>	<b>1,553</b>	<b>1,571</b>	<b>1,508</b>	<b>1,800</b>	<b>1,953</b>
Income tax	(321)	(244)	(271)	(324)	(351)
After tax profit	1,232	1,326	1,237	1,476	1,601
MI	(89)	(116)	(105)	(118)	(128)
<b>Net profit</b>	<b>1,143</b>	<b>1,211</b>	<b>1,132</b>	<b>1,358</b>	<b>1,473</b>
D&A	303	325	368	396	428
<b>EBITDA</b>	<b>1,924</b>	<b>1,911</b>	<b>1,813</b>	<b>2,077</b>	<b>2,223</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Pretax profit</b>	<b>1,553</b>	<b>1,571</b>	<b>1,508</b>	<b>1,800</b>	<b>1,953</b>
Finance cost	141	115	61	43	32
Profit or loss of associates	(6)	(13)	(21)	(23)	(24)
Impairment of receivables	(16)	(1)	0	0	0
Write down of inventories	39	22	0	0	0
Depreciation and amortization	303	325	368	396	428
Income tax paid	(292)	(230)	(271)	(324)	(351)
Change in working capital	(406)	130	369	27	(700)
Others	(282)	(72)	0	0	0
<b>Cash flow from operation</b>	<b>1,083</b>	<b>1,846</b>	<b>2,014</b>	<b>1,919</b>	<b>1,336</b>
Net capex on PP&E	(747)	(792)	(800)	(800)	(800)
Investment in JV/associates	(14)	(13)	0	0	0
Investment in subsidiaries	179	0	0	0	0
Loans to related parties (net)	140	175	0	0	0
Dividend received	2	18	2	2	2
Interest received fr related parties	10	18	10	0	0
Others	438	(295)	0	0	0
<b>Cash flow from investing</b>	<b>(10)</b>	<b>(894)</b>	<b>(788)</b>	<b>(798)</b>	<b>(798)</b>
Proceeds from equity financing	0	1,488	0	2,000	0
Net bank borrowings	(320)	(568)	(450)	(500)	0
Dividend paid	(612)	(400)	(794)	(566)	(679)
Interest paid	(189)	(128)	(71)	(43)	(32)
Others	(189)	(210)	0	0	0
<b>Cash flow from financing</b>	<b>(1,310)</b>	<b>181</b>	<b>(1,316)</b>	<b>891</b>	<b>(711)</b>
Change in cash	(237)	1,133	(90)	2,013	(172)
Cash at beginning of the year	2,811	2,617	3,791	3,701	5,714
Exchange gains/(losses) and	43	42	0	0	0
Cash at the end of the year	2,617	3,791	3,701	5,714	5,542

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>5,422</b>	<b>6,319</b>	<b>6,770</b>	<b>7,194</b>	<b>7,588</b>
PP&E	3,446	4,016	4,484	4,925	5,333
Land use rights	598	747	734	721	708
Investment in JV/associates	231	252	271	291	313
Investment properties	392	383	383	383	383
Intangible assets	547	555	532	509	486
Others	43	196	196	196	196
Deferred tax assets	165	170	170	170	170
<b>Current assets</b>	<b>11,139</b>	<b>12,363</b>	<b>12,214</b>	<b>15,010</b>	<b>14,968</b>
Inventories	3,582	3,829	3,304	3,944	3,894
Tax recoverable	125	118	118	118	118
Trade and bills receivables	3,567	2,304	2,770	2,914	3,094
Prepayment, deposits & others	707	650	650	650	650
Loans to related parties	175	0	0	0	0
Financial assets at fair value	0	215	215	215	215
Others	214	1,165	1,165	1,165	1,165
Restricted cash	140	279	279	279	279
Cash	2,617	3,791	3,701	5,714	5,542
<b>Current liabilities</b>	<b>8,146</b>	<b>8,121</b>	<b>7,931</b>	<b>8,242</b>	<b>7,671</b>
Trade and bills payables	3,067	3,618	3,516	4,326	3,756
Other payables and accruals	1,876	2,001	2,001	2,001	2,001
Contract liabilities	587	525	936	936	936
Bank borrowings	1,981	1,566	1,066	566	566
Income tax liabilities	103	117	117	117	117
Others	532	295	295	295	295
<b>Non-current liabilities</b>	<b>467</b>	<b>339</b>	<b>389</b>	<b>389</b>	<b>389</b>
Bank borrowings	311	89	139	139	139
Deferred tax liabilities	134	128	128	128	128
Deferred income	23	26	26	26	26
Others	0	97	97	97	97
<b>Equity</b>	<b>7,948</b>	<b>10,221</b>	<b>10,663</b>	<b>13,573</b>	<b>14,496</b>
Shareholders' equity	7,488	9,751	10,088	12,880	13,674
MI	460	470	575	693	821

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
China	57.5	59.1	64.6	63.8	63.0
North America	27.5	24.8	20.5	21.1	22.0
Europe	10.1	10.6	9.8	10.0	9.9
Other regions	4.9	5.5	5.0	5.1	5.1
Total	100.0	100.0	100.0	100.0	100.0
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	13.1	12.9	11.3	11.6	12.0
EBIT margin	6.7	6.8	5.8	6.5	6.8
Net profit margin	5.1	5.7	5.0	5.7	6.1
<b>Growth (%)</b>					
Revenue	25	-4	8	4	1
Gross profit	11	-6	-6	7	5
EBIT	23	-2	-9	16	7
Net profit	19	6	-7	20	8
<b>Balance sheet ratio</b>					
Current ratio (x)	2.0	2.3	2.4	2.7	2.9
Receivable turnover days	48	46	40	42	43
Inventory turnover days	62	67	64	61	64
Payable turnover days	49	60	64	66	66
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Return (%)</b>					
ROAA	7.0	6.9	6.0	6.6	6.6
ROAE	16.2	14.0	11.4	11.8	11.1
<b>Per share data</b>					
EPS (RMB)	0.76	0.75	0.64	0.71	0.75
BVPS (RMB)	4.99	5.52	5.72	6.57	6.97
DPS (RMB)	0.19	0.45	0.32	0.36	0.38

\* Net gain / (impairment) on financial assets & financial guarantee contracts

Source: Company data, CMBIS estimates

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