

Weichai Power (2338 HK)

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 HK\$19.4 (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 | 0.00 | 0.98 | 1.21 | 1.37 |
| P/E (x) | 14.2 | 17.1 | 11.7 | 9.9 | 9.2 |
| P/B (x) | 1.8 | 1.1 | 1.3 | 1.2 | 1.1 |
| Yield (%) | 2.4 | 2.6 | 3.0 | 3.5 | 3.8 |
| Net gearing (%) | (61.0) | (35.8) | (38.6) | (50.3) | (62.0) |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$19.40**

(Previous TP) **HK\$19.40**

Up/Downside **55.0%**

Current Price **HK\$12.52**

China Capital Goods

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$ mn) | 109,256.5 |
| Avg 3 mths t/o (HK\$ mn) | 130.5 |
| 52w High/Low (HK\$) | 14.58/9.49 |
| Total Issued Shares (mn) | 8726.6 |

Source: FactSet

Shareholding Structure

| | |
|--------------------------|-------|
| Weichai Holdings Group | 16.3% |
| Weifang Investment Group | 3.4% |

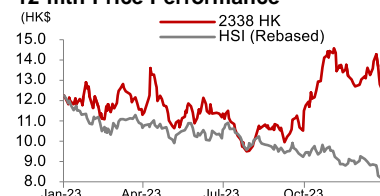
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -1.4% | 4.9% |
| 3-mth | 17.2% | 31.1% |
| 6-mth | 10.2% | 36.9% |

Source: FactSet

12-mth Price Performance



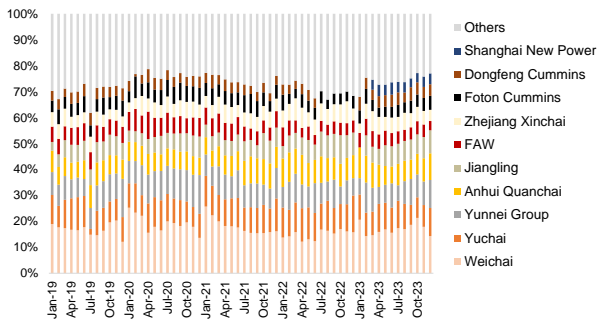
Source: FactSet

Related reports:

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

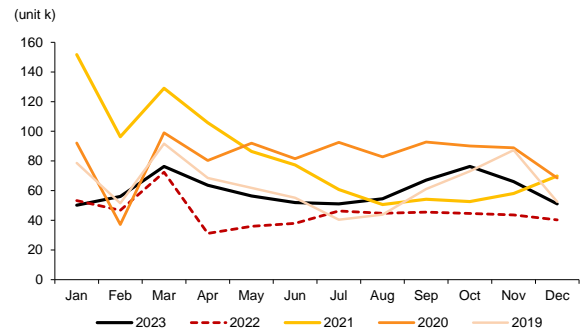
China Construction Machinery / HDT – 2024 Outlook: Slowdown of overseas demand along with lack of growth in China; be selective – 30 Nov 2023 ([link](#))

Figure 1: China multi-cylinder engine market share



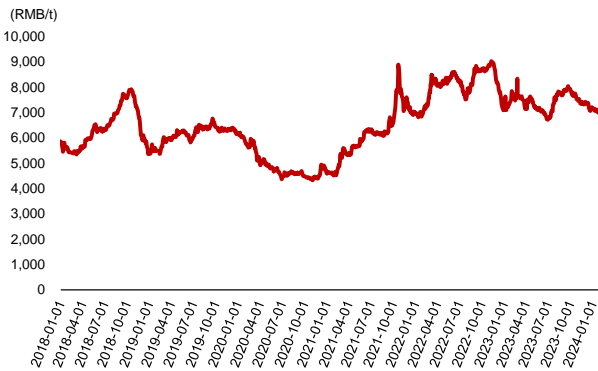
Source: CICEIA, CMBIGM

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



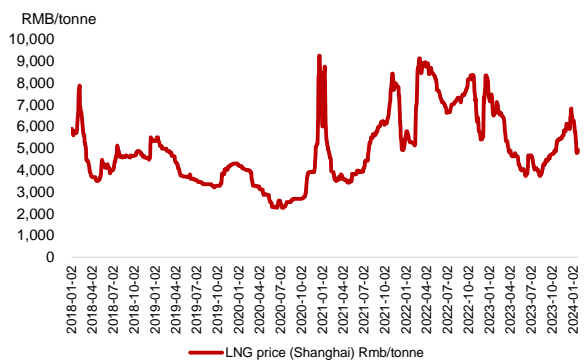
Source: CICEIA, CMBIGM

Figure 3: Shandong's diesel price



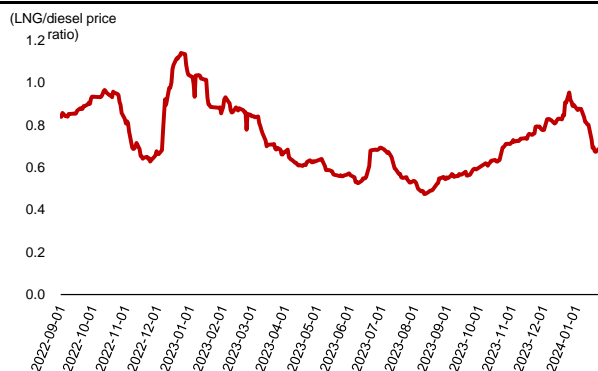
Source: Wind, CMBIGM

Figure 4: Shanghai's LNG price



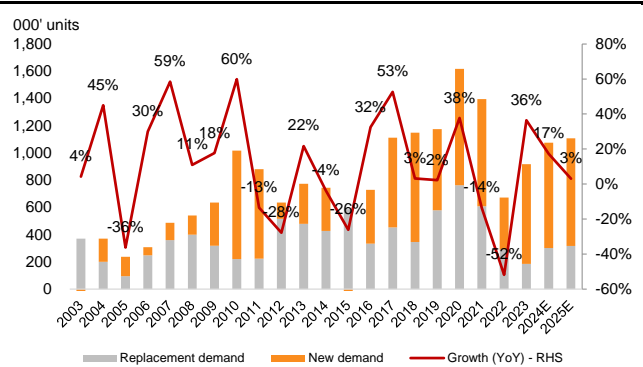
Source: Wind, CMBIGM

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 |
| GROWTH | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Revenue | 13.3% | 3.1% | (13.9%) | 18.1% | 10.4% | 6.1% |
| Gross profit | 0.3% | 3.8% | (21.3%) | 35.5% | 9.3% | 6.1% |
| Operating profit | (10.9%) | 5.5% | (59.6%) | 125.3% | 18.5% | 5.1% |
| EBITDA | (3.5%) | 11.3% | (31.2%) | 42.1% | 12.3% | 5.2% |
| Adj. net profit | 1.1% | 0.5% | (47.0%) | 75.2% | 18.4% | 7.2% |
| PROFITABILITY | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 19.3% | 19.5% | 17.8% | 20.4% | 20.2% | 20.2% |
| Operating margin | 6.5% | 6.7% | 3.1% | 6.0% | 6.4% | 6.3% |
| EBITDA margin | 11.0% | 11.9% | 9.5% | 11.4% | 11.6% | 11.5% |
| Adj. net profit margin | 4.7% | 4.5% | 2.8% | 4.2% | 4.5% | 4.5% |
| 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 | 1.5 | 1.6 | 1.7 |
| 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 | 11.7 | 9.9 | 9.2 |
| P/B | 2.1 | 1.8 | 1.1 | 1.3 | 1.2 | 1.1 |
| Div yield (%) | 3.0 | 2.4 | 2.6 | 3.0 | 3.5 | 3.8 |

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

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