

Sinotruk (Hong Kong) (3808HK)

Weak sales but cost reduction on track in 1H19

Sinotruk's net profit slightly increased by 3% YoY to RMB2.49bn. Core net profit grew 6% YoY after adjusting for the one-off items, slightly below our expectation. While the revenue growth of 0.7% was dragged by the weak LDT sales due to the anti-loading policy, overall margin increased on higher ASP and good cost reduction. Besides, operating cash flow surged 6.8x YoY to RMB4bn in 1H19. We slightly lowered our earnings forecast for 2019E by 4% mainly on lower sales assumptions. Our 2020E-21E earnings forecasts are unchanged due to higher margin assumptions. Our new TP is revised down to HK\$19.4, based on 5x EV/EBITDA (down from 5.5x), equivalent to 10% discount to the historical average. We believe the potential recovery of both HDT and LDT sales will serve as catalyst in the near term. Maintain **BUY**.

- HDT sales volume largely in line with expectation.** HDT sales volume dropped 1% YoY to 92.7k units in 1H19 (China: -2.4%; Export: +5%), slightly better than the industry average of a 2% decline. ASP of HDT increased 4.8% YoY driven by more high-end models. HDT segment revenue therefore grew 3.9% YoY. Segment margin expanded significantly by 2.7ppt YoY to 6.8%, lifting the segment profit by 73% YoY. We believe the margin expansion was driven by both ASP and procurement cost reduction.
- Sales of LDT and bus below expectation.** Sinotruk restated the figures in 1H18 as the Company completed the acquisition of bus manufacturing business in 1H19. LDT and bus sales volume dropped 5.5% YoY due to the anti-overloading policy that targeted LDT. LDT segment revenue dropped 7% YoY, resulting in segment loss of RMB117mn, versus a segment profit of RMB320mn in 1H18.
- Engine sales dropped but is manageable.** Sales of engine dropped 6% YoY to 97.6k units, mainly due to a 31% YoY decline in external sales. Internal engine supply only dropped 3.3% YoY. Engine segment margin narrowed by 1.58ppt to 16.6% in 1H19.
- Effective cost control.** Gross margin expanded 1.4ppt to 19.5% in 1H19, despite 0.7% revenue growth. Distribution expense dropped 9% YoY. Administrative expense increased by 8% YoY but was only due to higher R&D expense. Excluding the R&D expense, the administrative expense actually reduced. We believe all these were the result of the strong management execution in cost control.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	55,458	61,785	64,466	66,999	66,266
YoY growth (%)	68.3	11.4	4.3	3.9	(1.1)
Net income (RMB mn)	2,771	4,157	4,653	5,073	4,858
EPS (RMB)	1.00	1.51	1.69	1.84	1.76
YoY growth (%)	501.6	50.0	11.9	9.0	(4.2)
P/E (x)	10.4	6.9	6.5	5.9	6.2
EV/EBITDA (x)	3.6	2.9	2.7	2.5	2.6
P/B (x)	1.3	1.1	1.1	0.9	0.9
Yield (%)	5.8	5.3	5.4	5.9	5.6
ROE (%)	14.2	18.0	17.2	16.7	14.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$19.4**
 (Previous TP **HK\$21.5**)
Up/Downside **+60%**
Current Price **HK\$12.1**

China Capital Goods

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	33,408
Avg 3 mths t/o (HK\$ mn)	59
52w High/Low (HK\$)	23.15/10.04
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	+4.1%	+12.4%
3-mth	-18.6%	-14.8%
6-mth	-15.3%	-5.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PWC

Related Reports

- China HDT Sector - 3Q19 HDT sales +2% YoY; better than expectations – 5 Aug 2019
- China HDT Sector – Three catalysts in 3Q19; Opportunity emerges – 8 Jul 2019
- China HDT Sector – HDT sales -4% YoY in May but largely within estimate – 5 Jun 2019

Figure 1: Highlight on 1H19 results

	1H18	1H18	1H19	Change (YoY)	Change (YoY)
Sales volume (unit)		(Restated)			<i>(based on restated figures)</i>
Truck	162,375	162,375	158,576	-2.3%	-2.3%
HDT	93,527	93,527	92,668	-0.9%	-0.9%
China	74,522	74,522	72,706	-2.4%	-2.4%
Export	19,005	19,005	19,962	5.0%	5.0%
LDT	68,848	69,767	65,908	-4.3%	-5.5%
Total	162,375	163,294	158,576	-2.3%	-2.9%
Engine	103,911	103,911	97,632	-6.0%	-6.0%
Internal use	93,832	93,832	90,700	-3.3%	-3.3%
External sales	10,079	10,079	6,932	-31.2%	-31.2%
% of total					
Internal use	90.3%	92.9%	92.9%		
External sales	9.7%	7.1%	7.1%		
ASP (RMB/unit)					
Truck	201,705	206,213	214,671	6.4%	4.1%
HDT	287,546	287,546	301,390	4.8%	4.8%
LDT	85,094	94,465	92,741	9.0%	-1.8%
Engines	78,452	78,452	77,592	-1.1%	-1.1%
(RMB mn)					
Segment revenue					
Truck	32,752	33,484	34,042	3.9%	1.7%
HDT	26,893	26,893	27,929	3.9%	3.9%
LDT	5,859	6,591	6,112	4.3%	-7.3%
Engines	8,152	8,152	7,575	-7.1%	-7.1%
Finance	694	694	781	12.5%	12.5%
Intersegment sales	(7,974)	(8,064)	(7,907)	-0.8%	-1.9%
Total	33,624	34,266	34,492	2.6%	0.7%
Segment operating profit (before unallocated expenses)					
Truck	1,317	1,415	1,778	35.0%	25.6%
HDT	1,095	1,095	1,895	73.0%	73.0%
LDT	222	320	(117)	n/a	n/a
Engines	1,479	1,479	1,255	-15.2%	-15.2%
Finance	435	435	458	5.3%	5.3%
Intersegment sales	(99)	(101)	20	n/a	n/a
Total	3,132	3,228	3,510	12.1%	8.7%
Segment operating margin				Change (ppt)	Change (ppt)
Truck	4.0%	4.2%	5.2%	1.20	1.00
HDT	4.1%	4.1%	6.8%	2.71	2.71
LDT	3.8%	4.8%	-1.9%	(5.71)	(6.77)
Engines	18.1%	18.1%	16.6%	(1.58)	(1.58)
Finance	62.6%	62.6%	58.6%	(4.04)	(4.04)
Average	9.3%	9.4%	10.2%	0.86	0.76
(RMB mn)					
Revenue	33,624	34,266	34,492	2.6%	0.7%
Cost of sales	(27,553)	(28,073)	(27,758.1)	0.7%	-1.1%
Gross profit	6,071	6,193	6,734	10.9%	8.7%
Other gains and losses	283.8	288.5	169.9	-40.2%	-41.1%
S&D expenses	(1,715.2)	(1,738.8)	(1,589.9)	-7.3%	-8.6%
Administrative expenses	(1,340.2)	(1,347.7)	(1,454.4)	8.5%	7.9%
Net impairment losses of financial assets	(183.3)	(183.3)	(353.9)	93.1%	93.1%
EBIT	3,116	3,212	3,506	12.5%	9.2%
D&A	610	612	767	25.8%	25.3%
EBITDA	3,726	3,824	4,273	14.7%	11.7%
Net finance cost	2	(32)	(59)	n/a	85.7%
Finance income	44	50	32	-26.6%	-35.8%
Finance expenses	(43)	(82)	(92)	116.0%	11.4%
Share of profit of JV and associates	61	61	25	-58.4%	-58.4%
Pretax profit	3,179	3,241	3,472	9.2%	7.1%
Income tax	(619)	(627)	(758)	22.4%	20.8%
After tax profit	2,560	2,614	2,714	6.1%	3.9%
MI	(195)	(195)	(221)	13.6%	13.6%
Net profit	2,365	2,419	2,493	5.4%	3.1%
Core net profit	2,302	2,357	2,493	8.3%	5.8%

Source: Company data, CMBIS

Figure 2: Change in key assumptions

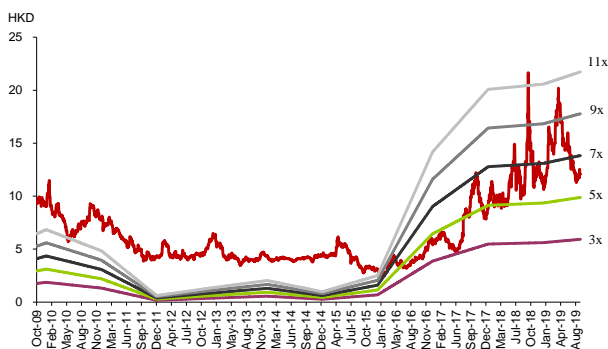
Sales volume (units)	2019			2020			2021		
	Old	New	Diff	Old	New	Diff	Old	New	Diff
Truck	349,393	307,907	-11.9%	387,747	329,106	-15.1%	405,695	342,207	-15.6%
HDT	175,133	171,180	-2.3%	178,636	174,604	-2.3%	171,490	167,620	-2.3%
China	137,018	133,065	-2.9%	139,758	135,727	-2.9%	134,168	130,298	-2.9%
Export	38,115	38,115	0.0%	38,877	38,877	0.0%	37,322	37,322	0.0%
LDT	174,260	136,727	-21.5%	209,112	154,501	-26.1%	234,205	174,587	-25.5%
Engine	176,380	171,022	-3.0%	178,312	172,732	-3.1%	169,396	164,096	-3.1%
Internal use	159,531	157,936	-1.0%	161,127	159,515	-1.0%	153,070	151,540	-1.0%
External sales	16,848	13,086	-22.3%	17,185	13,217	-23.1%	16,326	12,556	-23.1%

Source: Company data, CMBIS estimates

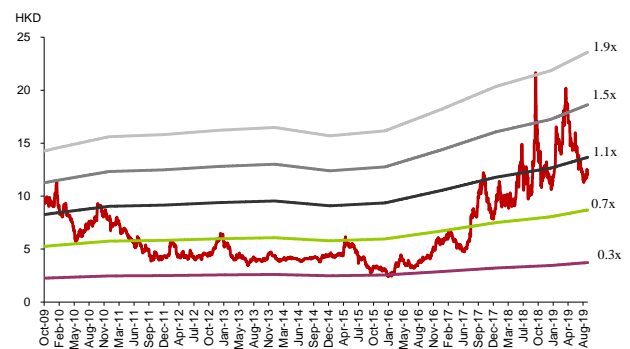
Figure 3: Key operating assumptions

Sales volume (unit)	2017	2018	2019E	2020E	2021E
Truck	263,903	302,094	307,907	329,106	342,207
HDT	156,243	168,048	171,180	174,604	167,620
China	125,627	131,748	133,065	135,727	130,298
Export	30,616	36,300	38,115	38,877	37,322
LDT	107,660	134,046	136,727	154,501	174,587
Engine	184,540	175,889	171,022	172,732	164,096
Internal use	170,700	159,531	157,936	159,515	151,540
External sales	13,841	16,358	13,086	13,217	12,556
% of total					
Internal use	93%	91%	92%	92%	92%
External sales	8%	9%	8%	8%	8%
Growth (YoY)					
Truck	56%	14%	2%	7%	4%
HDT	71%	8%	2%	2%	-4%
China	89%	5%	1%	2%	-4%
Export	22%	19%	5%	2%	-4%
LDT	38%	25%	2%	13%	13%
Total	53%	14%	2%	7%	4%
Engine	74%	-5%	-3%	1%	-5%
Internal use	75%	-7%	-1%	1%	-5%
External sales	61%	18%	-20%	1%	-5%
ASP (RMB/unit)					
Truck	206,482	199,405	208,739	203,883	195,373
HDT	291,630	290,361	301,390	302,000	302,000
LDT	82,910	85,378	92,741	93,000	93,000
Engines	79,689	80,230	77,592	78,000	78,000

Source: Company data, CMBIS estimates

Figure 4: Sinotruk P/E band

Source: Company data, CMBIS estimates

Figure 5: Sinotruk P/B band

Source: Company data, CMBIS estimates

- **Major risk factors:** (1) Further weakness of HDT and LDT demand, (2) longer-than-expected impact of anti-loading policy, (3) technology risk.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	55,458	61,785	64,466	66,999	66,266
Cost of sales	(45,430)	(50,610)	(52,411)	(54,738)	(54,140)
Gross profit	10,028	11,175	12,055	12,261	12,127
Operating expenses	(5,756)	(5,532)	(6,085)	(5,804)	(5,947)
EBIT	4,272	5,642	5,970	6,457	6,180
Net finance cost	(262)	(0)	55	104	144
Finance income	81	89	117	141	169
Finance expenses	(343)	(89)	(61)	(37)	(26)
Profit of JV and associates	45	77	105	123	77
Pretax profit	4,055	5,719	6,130	6,684	6,401
Income tax	(720)	(993)	(1,073)	(1,170)	(1,120)
After tax profit	3,336	4,726	5,058	5,515	5,280
MI	(313)	(381)	(405)	(441)	(422)
Net profit	3,023	4,345	4,653	5,073	4,858
Core net profit	2,771	4,157	4,653	5,073	4,858
D&A	1,248	1,180	1,391	1,437	1,476
EBITDA	5,520	6,823	7,361	7,894	7,656

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	4,055	5,719	6,130	6,684	6,401
Finance cost	343	89	61	37	26
Interest income	(81)	(89)	(117)	(141)	(169)
Share of profit or loss of associates	(45)	(77)	(105)	(123)	(77)
Depreciation	1,152	1,078	1,317	1,364	1,403
Amortization of intangible assets	96	102	74	74	74
Income tax paid	(724)	(993)	(1,073)	(1,170)	(1,120)
Change in working capital	495	712	169	(23)	(70)
Others	125	(2,222)	0	0	0
Cash flow from operation	5,416	4,320	6,457	6,702	6,466
Net capex on PP&E	(851)	(550)	(600)	(600)	(500)
Dividend received	34	0	10	12	8
Interest received	82	89	117	141	169
Others	(1,879)	2,407	0	0	0
Cash flow from investing	(2,677)	979	(473)	(447)	(323)
Proceeds from equity financing	0	0	0	0	0
Net bank borrowings	548	(990)	(1,000)	(1,000)	100
Dividend paid	(193)	(1,611)	(1,523)	(1,629)	(1,776)
Interest paid	(261)	(89)	(61)	(37)	(26)
Others	(69)	114	0	0	0
Cash flow from financing	25	(2,576)	(2,585)	(2,665)	(1,701)
Change in cash	2,764	2,723	3,399	3,590	4,441
Cash at beginning of the year	7,171	9,840	12,629	16,029	19,618
Exchange gains/(losses) and others	(96)	66	0	0	0
Cash at end of the year	9,840	12,629	16,029	19,618	24,059

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	16,772	17,373	16,676	15,950	15,043
PP&E	9,938	10,366	9,650	8,886	7,983
Land use right	1,650	1,612	1,612	1,612	1,612
Investment in JV/associates	478	534	628	739	809
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	176	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	51,236	53,829	58,672
Inventories	13,246	11,594	13,103	12,691	12,821
Trade and bills receivables	15,151	12,589	14,610	14,025	14,297
AFS / financial assets	2,340	4,601	4,601	4,601	4,601
Others	1,256	554	554	554	554
Restricted cash	2,577	2,339	2,339	2,339	2,339
Cash	9,840	12,629	16,029	19,618	24,059
Current liabilities	35,325	32,986	35,684	33,664	34,095
Trade and bills payables	28,546	28,305	32,003	30,983	31,315
Bank borrowings	3,990	3,000	2,000	1,000	1,100
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	31,862	35,748	39,253
Shareholders' equity	22,757	25,476	28,605	32,050	35,132
MI	2,673	2,852	3,257	3,698	4,121

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue mix (%)					
HDT	82.2	79.0	80.0	78.7	76.4
LDT	16.1	18.5	19.7	21.4	24.5
Engines	26.5	22.8	20.6	20.1	19.3
Finance	2.0	2.3	2.4	2.4	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	18.3	18.3
EBIT margin	7.7	9.1	9.3	9.6	9.3
Net profit margin	6.0	7.6	7.8	8.2	8.0
Growth (%)					
Revenue	68.3	11.4	4.3	3.9	-1.1
Gross profit	72.4	11.4	7.9	1.7	-1.1
EBIT	283.8	32.1	5.8	8.2	-4.3
Net profit	468.1	43.7	7.1	9.0	-4.2
Core net profit	501.6	50.0	11.9	9.0	-4.2
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	7.8	8.0	7.4
ROE	14.2	18.0	17.2	16.7	14.5
Per share data					
EPS (RMB)	1.09	1.57	1.69	1.84	1.76
Core EPS (RMB)	1.00	1.51	1.69	1.84	1.76
BVPS (RMB)	8.24	9.23	10.36	11.61	12.72
DPS (RMB)	0.58	0.55	0.59	0.64	0.62

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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