

China Heavy Duty Truck

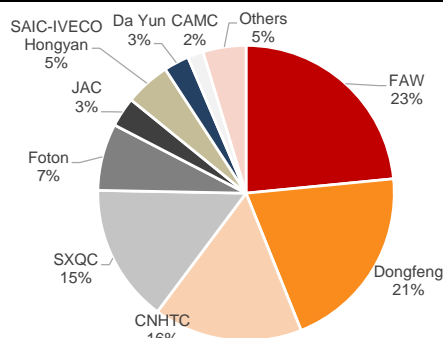
Potential change in market share due to Wuhan Pneumonia

We expect the lockdown of major cities in Hubei Province following the outbreak of Pneumonia will potentially affect the delivery of **Dongfeng (489 HK)**'s HDT in the foreseeable future as the Company's production lines are mainly located in Wuhan and Shiyan City. The supply risk of Dongfeng's HDT will offer room for other major players to gain market share. **Weichai Power (2338 HK, BUY, TP: HK\$17.9 / 000338 CH, BUY, TP: RMB15.9)** will likely benefit as FAW (一汽), Weichai's major customer, will possibly gain market share. Besides, Shaanxi Heavy Duty Motor, JV between Weichai and SXQC (陕汽), and **Sinotruk (3808 HK, BUY, TP: HK\$19.4)** will likely gain market share as well. At this stage, we have not revised our 2020E HDT demand projection. Taking 2003 as reference, the HDT sales still increased 4% YoY despite the outbreak of SARS. We will closely monitor the situation.

■ **Dongfeng's commercial vehicle and engine capacity is mainly located in Hubei.** Dongfeng's commercial vehicle (CV) business is mainly operated by four subsidiaries, namely (1) Dongfeng Commercial Vehicle (a JV between Dongfeng and Volvo Cars) with annual CV production capacity of 240k units and engine capacity of 90k units with a focus on HDT, (2) Dongfeng Motor (a JV between Dongfeng and Nissan Motor) with annual CV capacity of 250k units and engine capacity of 280k units with a focus on LDT, (3) Dongfeng Liuzhou Motor (CV: 60k units), and (4) Dongfeng Special Commercial Vehicle (CV: 75k units). Dongfeng Motor, located in Wuhan, is the major production base of commercial vehicle and engine, while Dongfeng Commercial Vehicle is located in Shiyan City, Hubei.

■ **Scenario analysis:** Dongfeng's HDT sales volume in 2019 was ~240k units with a market share of ~20%, ranked second in China. Historically, HDT sales in 1Q is the highest throughout a year. In 2019, HDT sales in 1Q reached 325k units, representing 28% of the total sales for the full year. Dongfeng's potential supply disruption will leave room for other players to gain market share. Given that the actual impact is uncertain at this stage, we conduct a scenario analysis to quantify the impact. Dongfeng's HDT sales in 1Q19 was 58k units. Assuming a 50% YoY reduction of Dongfeng's HDT sales in 1Q20E and no change in total HDT demand, the shortfall will be ~29k units or 9% of the total HDT demand in 1Q20E.

Figure 1: China HDT market share in 2019



Source: CVworld, CMBIS

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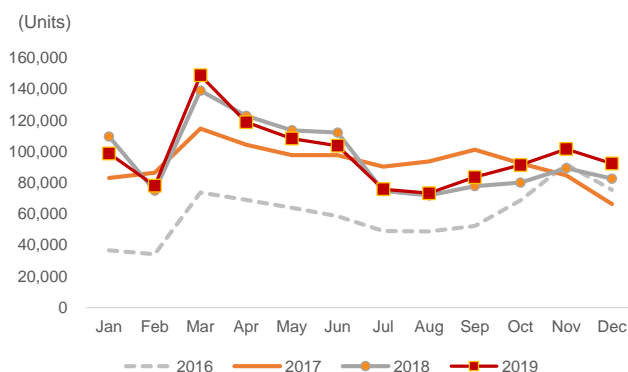
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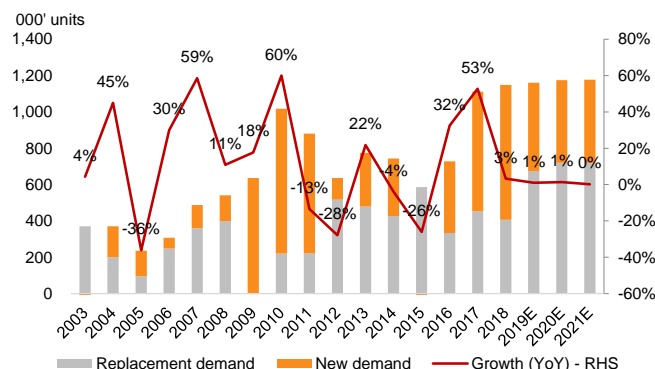
Figure 2: Dongfeng's commercial vehicles capacity breakdown

Dongfeng's commercial vehicles subsidiaries	Location	Products	Production capacity of commercial vehicles (2018)	
			Whole vehicle (000 Units)	Engine (000 Units)
Dongfeng Motor Co	Wuhan, Hubei	Light-duty truck	250	280
Dongfeng Commercial Vehicle	Shiyan, Hubei	Heavy/Medium-duty truck	240	90
Dongfeng Liuzhou Motor	Liuzhou, Guangxi	Heavy/Medium-duty truck	60	-
Dongfeng Special Commercial Vehicle	Shiyan, Hubei	Special commercial vehicle	75	-

Source: Company data, CMBIS

Figure 3: China HDT monthly sales volume

Source: Cvworl, CMBIS

Figure 4: CMBIS HDT sales projection

Source: NBS, Wind, CMBIS estimates

Figure 5: HDT sales in China by company (2019)

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales volume (units)													
Company													
FAW	中国一汽	33,423	20,604	36,427	30,165	29,685	22,761	18,421	15,900	21,147	23,054	17,734	5,918
Dongfeng	东风	13,502	13,241	31,357	24,798	22,372	21,388	16,281	16,432	18,703	20,112	22,368	20,064
CNHTC	中国重汽	15,117	13,478	24,248	17,766	15,600	16,964	12,156	11,116	11,967	12,940	18,668	20,895
SXQC	陕汽集团	12,654	12,581	24,253	17,247	15,749	16,998	10,434	10,471	11,378	12,292	15,738	17,526
Foton	北汽福田	5,553	5,779	11,639	8,797	7,001	7,257	5,394	5,804	6,713	7,394	7,889	6,758
JAC	安徽江淮	4,386	2,690	4,425	3,461	3,452	3,417	2,246	2,034	2,382	2,676	3,408	3,547
SAIC-IVECO Hongyan	上汽依维柯红岩	6,517	3,020	5,530	6,150	5,020	5,100	4,100	4,011	3,803	4,001	5,502	5,406
Da Yun	成都大运	2,489	1,880	3,123	2,270	2,389	3,775	2,212	2,218	2,727	2,850	3,122	3,286
CAMC	安徽华菱	2,134	1,779	2,210	2,078	2,068	1,080	920	1,263	1,100	1,655	1,876	2,021
Others	其他	2,927	2,965	5,543	6,025	4,928	4,953	3,619	4,011	3,651	4,373	5,297	6,818
Total		98,702	78,017	148,755	118,757	108,264	103,693	75,783	73,260	83,571	91,347	101,602	92,239
Change (YoY)													
Company													
FAW	中国一汽	-2%	2%	9%	13%	26%	-15%	37%	0%	17%	23%	-11%	-40%
Dongfeng	东风	-19%	19%	14%	9%	3%	4%	18%	19%	21%	25%	33%	-3%
CNHTC	中国重汽	-18%	-4%	17%	-11%	-16%	-7%	-9%	-7%	-2%	3%	24%	43%
SXQC	陕汽集团	-13%	14%	18%	-4%	-7%	-6%	-4%	2%	-4%	7%	5%	30%
Foton	北汽福田	-22%	5%	-15%	-35%	-41%	-34%	-38%	-21%	-9%	-3%	-3%	-17%
JAC	安徽江淮	-18%	-21%	-22%	-35%	-15%	48%	-30%	-10%	-11%	7%	47%	133%
SAIC-IVECO Hongyan	上汽依维柯红岩	23%	0%	-17%	-11%	-28%	-18%	-18%	11%	16%	8%	57%	42%
Da Yun	成都大运	-1%	1%	1%	2%	1%	6%	0%	-21%	1%	1%	1%	9%
CAMC	安徽华菱	51%	33%	-16%	-19%	2%	-18%	-16%	-7%	-27%	-19%	-18%	-6%
Others	其他	-24%	-6%	14%	27%	-11%	17%	24%	60%	42%	79%	64%	30%
Average		-10%	4%	7%	-3%	-5%	-7%	2%	2%	8%	14%	14%	12%
Market share													
Company													
FAW	中国一汽	34%	26%	24%	25%	27%	22%	24%	22%	25%	25%	17%	6%
Dongfeng	东风	14%	17%	21%	21%	21%	21%	21%	22%	22%	22%	22%	22%
CNHTC	中国重汽	15%	17%	16%	15%	14%	16%	16%	15%	14%	14%	18%	23%
SXQC	陕汽集团	13%	16%	16%	15%	15%	16%	14%	14%	14%	13%	15%	19%
Foton	北汽福田	6%	7%	8%	7%	6%	7%	7%	8%	8%	8%	8%	7%
JAC	安徽江淮	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	4%
SAIC-IVECO Hongyan	上汽依维柯红岩	7%	4%	4%	5%	5%	5%	5%	5%	5%	4%	5%	6%
Da Yun	成都大运	3%	2%	2%	2%	2%	4%	3%	3%	3%	3%	3%	4%
CAMC	安徽华菱	2%	2%	1%	2%	2%	1%	1%	2%	1%	2%	2%	2%
Others	其他	3%	4%	4%	5%	5%	5%	5%	5%	4%	5%	5%	7%
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: CNHTC is the parent co of Sinotruk. Shaanxi Automobile Group is the second largest shareholder of Shaanxi Heavy-duty Motor with 49% stake. Weichai is the largest shareholder of Shaanxi Heavy-duty Motor with 51% stake.

Source: Wind, CVworld, CMBIS

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