

Sinotruk (Hong Kong) (3808 HK)

Expect earnings downside following weak results in 2H21; D/G to HOLD

Despite the fact that weak sales HDT volume was well anticipated, net profit decline of 82% YoY to only RMB699mn in 2H21 is still a negative surprise. Both engine and HDT saw 99% YoY decline in segment profit in 2H21, due to operating deleveraging. Going forward, given little sign of improvement in HDT demand and more procurement of Weichai's engines, continuous margin pressure will be inevitable. We took our 2022E/23E earnings forecast down by 19%/15%, making us further away from the consensus by 39%/34% lower. Our TP is revised from HK\$16 to HK\$11.7 (based on unchanged 1.5x 2022E EV/EBITDA, 1SD below the historical average). Downgrade to **HOLD** from Buy.

- 2021 financials highlight.** Net profit decline of 37% YoY in 2021 to RMB4.3bn is 27%/26% below our/consensus estimates. Most notably is that net profit in 2H21 was largely contributed by the interest income generated from the auto financing business. Both the segment margin of engine and HDT are close to the breakeven point, while LDT segment loss widened in 2H21.
- Challenging to achieve margin recovery:** (1) Volatile raw materials cost and shortage of chip will continue in the near term. (2) HDT sales, for the industry as a whole, declined 67% YoY in Mar and took the sales in 1Q22 down 58% YoY. Therefore, operating deleveraging will likely continue. (3) The in-house supply of MAN-tech engine reduced by 23% YoY versus the 1.2% YoY increase in HDT sales in 2021 (Figure 3), largely due to increased procurement of Weichai's engines. We expect the procurement of engine from Weichai will likely increase, which will curb the recovery of Sinotruk's engine margin going forward.
- 2022E/23E earnings cut by 19%/15%.** We cut our engine output forecast by 22% in 2022E-23E. We also revise down our HDT/LDT sales forecast by 4%/27% for both years. We expect the operating margin to drop from 6.2% in 2021 to 5.7% in 2022E.
- Upside risk:** (1) Meaningful recovery of construction activities and logistics demand. **Downside risk:** (1) further increase in component cost; (2) prolonged city lockdown across the country.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	98,198	93,357	79,618	82,308	85,282
YoY growth (%)	56.8	(4.9)	(14.7)	3.4	3.6
Net profit (RMB mn)	6,851	4,322	3,451	3,933	4,353
EPS (RMB)	2.48	1.57	1.25	1.42	1.58
YoY growth (%)	97.2	(36.9)	(20.2)	14.0	10.7
Consensus EPS (RMB)	N/A	N/A	2.06	2.16	N/A
P/E (x)	3.9	5.6	6.9	6.1	5.5
EV/EBITDA (x)	0.6	0.9	1.1	0.9	0.9
P/B (x)	0.8	0.7	0.6	0.6	0.6
Yield (%)	9.5	6.3	5.0	5.7	6.4
ROE (%)	23.1	12.8	9.4	10.1	10.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price	HK\$11.7
(Previous TP)	HK\$16.00)
Up/Downside	+10%
Current Price	HK\$10.68

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Stock Data

Mkt Cap (HK\$ mn)	29,487
Avg 3 mths t/o (HK\$ mn)	45.41
52w High/Low (HK\$)	24.20/8.16
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	-8.9%	-7.6%
3-mth	-11.0%	-5.5%
6-mth	-7.9%	2.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PWC

Related Reports

- China HDT Sector - Lower industry forecast on weak recovery; D/G Weichai-A; BUY Weichai & Sinotruk on valuation – 25 Mar 2022 ([link](#))

Figure 1: Sinotruk 2021 results review

	2020	2021	Chg (YoY)	1H20	1H21	Chg (YoY)	2H20	2H21	Chg (YoY)
Sales volume (unit)									
Truck	459,656	410,893	-10.6%	199,955	289,845	45.0%	259,701	121,048	-53.4%
HDT	278,415	281,825	1.2%	118,073	207,458	75.7%	160,342	74,367	-53.6%
China	247,454	227,775	-8.0%	104,181	179,442	72.2%	143,273	48,333	-66.3%
Export	30,961	54,050	74.6%	13,892	28,016	101.7%	17,069	26,034	52.5%
LDT	181,241	129,068	-28.8%	81,882	82,387	0.6%	99,359	46,681	-53.0%
Total	459,656	410,893	-10.6%	199,955	289,845	45.0%	259,701	121,048	-53.4%
Engine	283,947	217,876	-23.3%	128,680	149,411	16.1%	155,267	68,465	-55.9%
Internal use	268,330	204,803	-23.7%	122,246	140,596	15.0%	146,084	64,208	-56.0%
External sales	15,617	13,073	-16.3%	6,434	8,815	37.0%	9,183	4,257	-53.6%
% of total									
Internal use	94.5%	94.0%		95.0%	94.1%		94.1%	93.8%	
External sales	5.5%	6.0%		5.0%	5.9%		5.9%	6.2%	
ASP (RMB/unit)									
Truck	213,109	225,613	5.9%	212,543	224,097	5.4%	213,545	229,246	7.4%
HDT	298,620	282,493	-5.4%	301,631	281,771	-6.6%	296,403	284,507	-4.0%
LDT	81,751	101,415	24.1%	84,078	78,868	-6.2%	79,832	141,209	76.9%
Engines	94,968	89,436	-5.8%	87,807	84,920	-3.3%	100,902	99,292	-1.6%
(RMB mn)									
Segment revenue									
Truck	97,957	92,703	-5.4%	42,499	64,953	52.8%	55,458	27,750	-50.0%
HDT	83,140	79,614	-4.2%	35,614	58,456	64.1%	47,526	21,158	-55.5%
LDT	14,817	13,089	-11.7%	6,885	6,498	-5.6%	7,932	6,592	-16.9%
Engine	26,966	19,486	-27.7%	11,299	12,688	12.3%	15,667	6,798	-56.6%
Finance	1,786	2,365	32.4%	820	1,164	41.9%	966	1,201	24.3%
Intersegment sales	(28,511)	(21,197)	-25.7%	(11,820)	(13,636)	15.4%	(16,691)	(7,561)	-54.7%
Total	98,198	93,357	-4.9%	42,798	65,169	52.3%	55,400	28,188	-49.1%
Segment operating profit									
Truck	5,676	3,702	-34.8%	2,625	4,086	55.7%	3,050	(385)	n/a
HDT	5,212	4,269	-18.1%	2,277	4,228	85.7%	2,935	41	-98.6%
LDT	464	(568)	n/a	348	(142)	n/a	116	(426)	n/a
Engine	4,037	1,725	-57.3%	1,749	1,710	-2.2%	2,288	16	-99.3%
Finance	763	866	13.5%	426	369	-13.4%	337	497	47.4%
Intersegment sales	(998)	(526)	n/a	(786)	(919)	16.8%	(212)	392	n/a
Total	9,477	5,766	-39.2%	4,014	5,246	30.7%	5,463	520	-90.5%
Segment operating margin			Chg (ppt)			Chg (ppt)			Chg (ppt)
Truck	5.8%	4.0%	(1.80)	6.2%	6.3%	0.11	5.5%	-1.4%	(6.89)
HDT	6.3%	5.4%	(0.91)	6.4%	7.2%	0.84	6.2%	0.2%	(5.98)
LDT	3.1%	-4.3%	(7.47)	5.1%	-2.2%	(7.24)	1.5%	-6.5%	(7.92)
Engine and gearbox	15.0%	8.9%	(6.12)	15.5%	13.5%	(2.00)	14.6%	0.2%	(14.37)
Finance	42.7%	36.6%	(6.11)	51.9%	31.7%	(20.25)	34.9%	41.4%	6.49
Average	9.7%	6.2%	(3.47)	9.4%	8.0%	(1.33)	9.9%	1.8%	(8.02)
(RMB mn)									
Revenue	98,198	93,357	-4.9%	42,798	65,169	52.3%	55,400	28,188	-49.1%
Cost of sales	-78,613	-77,693	-1.2%	-34,223	-54,354	58.8%	-44,390	-23,339	-47.4%
Gross profit	19,585	15,664	-20.0%	8,575	10,815	26.1%	11,010	4,849	-56.0%
Other gains and losses (net)	667	1,076	61.4%	395	560	41.7%	271	516	90.1%
S&D expenses	-4,983	-4,540	-8.9%	-1,865	-3,222	72.7%	-3,118	-1,318	-57.7%
Administrative expenses	-5,671	-6,285	10.8%	-2,762	-2,540	-8.1%	-2,908	-3,745	28.8%
Net impairment losses of financial assets	-127	-156	22.4%	-334	-275	-17.6%	207	119	-42.3%
EBIT	9,471	5,760	-39.2%	4,009	5,238	30.7%	5,462	522	-90.4%
D&A	1,613	1,443	-10.5%	886	750	-15.4%	727	694	-4.5%
EBITDA	11,083	7,203	-35.0%	4,895	5,988	22.3%	6,189	1,215	-80.4%
Net finance cost	26	109	n/a	41	65	57.9%	(15)	44	n/a
Finance income	58	120	107.2%	63	71	13.4%	(5)	49	n/a
Finance expenses	(32)	(11)	-64.8%	(22)	(6)	-70.6%	(11)	(5)	-53.0%
Share of profit of JV and associates	55	(6)	n/a	29	5	-81.6%	26	(11)	-143.1%
Pretax profit	9,551	5,863	-38.6%	4,079	5,308	30.2%	5,472	554	-89.9%
Income tax	(2,127)	(1,153)	-45.8%	(960)	(1,271)	32.4%	(1,167)	118	-110.1%
After tax profit	7,424	4,709	-36.6%	3,119	4,037	29.4%	4,305	673	-84.4%
MI	(573)	(387)	-32.4%	(177)	(414)	133.3%	(396)	26	n/a
Net profit	6,851	4,322	-36.9%	2,941	3,623	23.2%	3,909	699	-82.1%

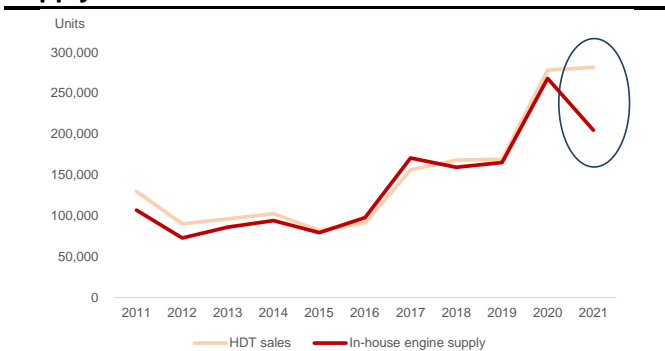
Source: Company data, CMBIGM

Figure 2: Change in key assumptions

Sales volume (units)	2022			2023		
	Old	New	Diff	Old	New	Diff
Truck	423,026	366,992	-13.2%	434,686	377,423	-13.2%
HDT	254,291	244,378	-3.9%	260,889	251,130	-3.7%
China	203,902	182,220	-10.6%	207,980	185,864	-10.6%
Export	50,389	62,158	23.4%	52,908	65,265	23.4%
LDT	168,735	122,615	-27.3%	173,797	126,293	-27.3%
Engine	222,739	174,301	-21.7%	227,194	177,787	-21.7%
Internal use	210,371	163,843	-22.1%	214,578	167,120	-22.1%
External sales	12,369	10,458	-15.4%	12,616	10,667	-15.4%
Segment revenue						
(RMB mn)						
Truck	84,869	80,687	-4.9%	87,909	83,699	-4.8%
HDT	71,202	68,426	-3.9%	73,831	71,070	-3.7%
LDT	13,668	12,261	-10.3%	14,078	12,629	-10.3%
Engine	20,183	16,588	-17.8%	20,562	16,895	-17.8%
Finance	1,968	2,246	14.2%	2,066	2,291	10.9%
Intersegment sales	(21,404)	(19,904)	-7.0%	(22,107)	(20,577)	-6.9%
Total	85,616	79,618	-7.0%	88,429	82,308	-6.9%
Segment operating margin						
Truck	4.3%	3.5%	(0.8)	4.6%	4.0%	(0.6)
HDT	5.0%	4.0%	(1.0)	5.2%	4.5%	(0.7)
LDT	0.5%	0.5%	0.0	1.5%	1.5%	0.0
Engine and gearbox	13.0%	8.7%	(4.3)	13.0%	9.2%	(3.8)
Finance	30.0%	36.0%	6.0	30.0%	36.0%	6.0
Average	7.0%	5.7%	(1.3)	7.3%	6.4%	(0.9)
Net profit	4,265	3,451	-19.1%	4,602	3,933	-14.5%

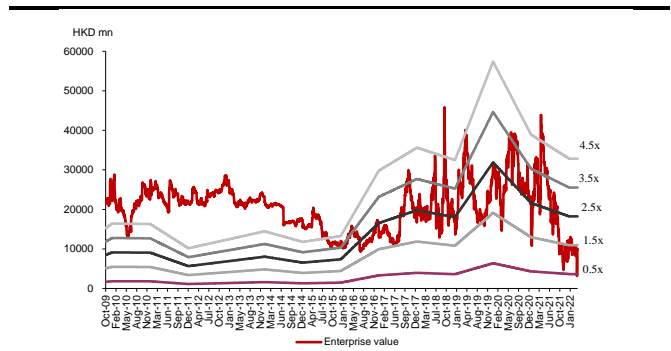
Source: Company data, CMBIGM estimates

Figure 3: Sinotruk's HDT sales vs in-house engine supply



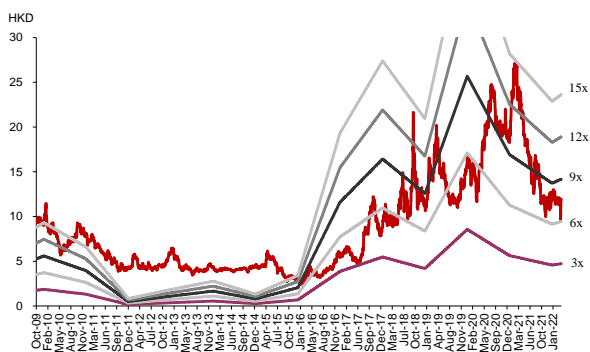
Source: Company data, CMBIGM estimates

Figure 4: Sinotruk's EV/EBITDA band



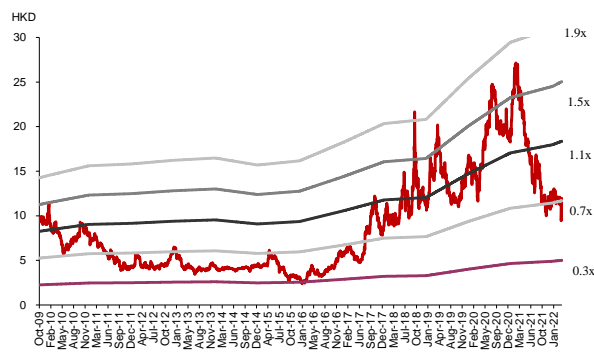
Source: Bloomberg, Company data, CMBIGM estimates

Figure 5: Sinotruk P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 6: Sinotruk P/B band



Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	98,198	93,357	79,618	82,308	85,282
Cost of sales	(78,613)	(77,693)	(66,640)	(68,810)	(71,210)
Gross profit	19,585	15,664	12,978	13,499	14,072
Operating expenses	(10,115)	(9,904)	(8,433)	(8,254)	(8,275)
EBIT	9,471	5,760	4,545	5,244	5,796
Net finance cost	26	109	4	15	26
Finance income	58	120	90	101	114
Finance expenses	(32)	(11)	(86)	(86)	(87)
Profit of JV and associates	55	(6)	140	152	166
Pretax profit	9,551	5,863	4,688	5,412	5,989
Income tax	(2,127)	(1,153)	(938)	(1,136)	(1,258)
After tax profit	7,424	4,709	3,751	4,275	4,731
MI	(573)	(387)	(300)	(342)	(378)
Net profit	6,851	4,322	3,451	3,933	4,353
D&A	1,613	1,443	1,482	1,632	1,782
EBITDA	11,083	7,203	6,027	6,876	7,578

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	9,551	5,863	4,688	5,412	5,989
Finance cost	32	11	86	86	87
Interest income	(58)	(120)	(90)	(101)	(114)
Share of profit or loss of associates	(55)	6	(140)	(152)	(166)
Depreciation	1,551	1,371	1,401	1,551	1,701
Amortization of intangible assets	62	72	81	81	81
Income tax paid	(1,765)	(1,153)	(938)	(1,136)	(1,258)
Change in working capital	8,899	(16,848)	2,822	2,499	2,109
Others	1,307	7,587	0	(0)	(0)
Cash flow from operation	19,524	(3,211)	7,911	8,239	8,429
Net capex on PP&E	(1,007)	(3,148)	(3,000)	(3,000)	(3,000)
Dividend received	10	(1)	21	23	17
Interest received	62	120	90	101	114
Others	(3,711)	3,019	0	0	0
Cash flow from investing	(5,903)	(37)	(2,889)	(2,876)	(2,870)
Proceeds from equity financing	0	5,001	0	0	0
Net bank borrowings	712	1,799	0	0	100
Dividend paid	(1,077)	(2,430)	(1,519)	(1,208)	(1,377)
Interest paid	(32)	0	(86)	(86)	(87)
Others	(2,943)	(2,412)	0	0	0
Cash flow from financing	(3,340)	1,958	(1,605)	(1,294)	(1,364)
Change in cash	10,281	(1,290)	3,417	4,069	4,196
Cash at beginning of the year	17,931	26,049	24,692	28,110	32,179
Exchange gains/(losses) and others	(2,163)	(67)	0	(0)	(0)
Cash at end of the year	26,049	24,692	28,110	32,179	36,375

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	26,934	27,036	28,673	30,170	31,537
PP&E	12,438	14,215	15,814	17,264	18,563
Land use right	2,453	2,554	2,554	2,554	2,554
Investment in JV/associates	1,028	1,338	1,457	1,587	1,736
Investment properties	724	754	754	754	754
Long term receivables	7,196	5,007	5,007	5,007	5,007
Intangible assets	315	270	188	107	25
AFS / financial assets	0	0	0	0	0
Others	2,779	2,899	2,899	2,899	2,899
Current assets	84,075	79,984	80,478	84,587	87,222
Inventories	20,811	16,667	19,118	15,947	18,000
Trade and bills receivables	20,222	24,063	18,690	21,900	18,287
AFS / financial assets	5,440	2,977	2,977	2,977	2,977
Others	4,384	4,058	4,058	4,058	4,058
Restricted cash	4,558	3,614	3,614	3,614	3,614
Cash	26,049	24,692	28,110	32,179	36,375
Current liabilities	73,868	62,889	62,787	65,326	65,974
Trade and bills payables	54,695	37,479	37,377	39,916	40,464
Bank borrowings	1,474	3,511	3,511	3,511	3,611
Provisions	2,140	2,207	2,207	2,207	2,207
Others	1,334	315	315	315	315
Non-current liabilities	1,461	1,363	1,406	1,406	1,406
Bank borrowings	238	0	0	0	0
Deferred income	505	657	657	657	657
Others	718	706	749	749	749
Equity	35,679	42,768	45,000	48,068	51,422
Shareholders' equity	32,115	35,671	37,603	40,329	43,305
MI	3,564	7,097	7,397	7,739	8,118

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix (%)					
HDT	84.7	85.3	85.9	86.3	86.3
LDT & bus	15.1	14.0	15.4	15.3	15.5
Engine & gearbox	27.5	20.9	20.8	20.5	20.4
Finance	1.8	2.5	2.8	2.8	2.8
Intersegment sales	(29.0)	(22.7)	(25.0)	(25.0)	(25.0)
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
Gross margin	19.9	16.8	16.3	16.4	16.5
EBIT margin	9.6	6.2	5.7	6.4	6.8
Net profit margin	7.6	5.0	4.7	5.2	5.5
Growth (%)					
Revenue	56.8	-4.9	-14.7	3.4	3.6
Gross profit	60.1	-20.0	-17.2	4.0	4.2
EBIT	89.7	-39.2	-21.1	15.4	10.5
Net profit	97.2	-36.9	-20.2	14.0	10.7
Core net profit	98.8	-33.5	-20.2	14.0	10.7
Balance sheet ratio					
Current ratio (x)	1.1	1.3	1.3	1.3	1.3
Receivable turnover days	67	87	98	90	86
Inventory turnover days	71	88	98	93	87
Payable turnover days	200	217	205	205	206
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	8.4	4.3	3.5	3.8	4.1
ROE	23.1	12.8	9.4	10.1	10.4
Per share data					
EPS (RMB)	2.48	1.57	1.25	1.42	1.58
Core EPS (RMB)	2.35	1.57	1.25	1.42	1.58
BVPS (RMB)	11.63	12.92	13.62	14.61	15.68
DPS (RMB)	0.88	0.55	0.44	0.50	0.55

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

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CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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