

# Weichai Power (2338 HK)

## 1Q24 net profit +40% YoY in line; solid growth outlook

While Weichai Power (Weichai)'s revenue growth of 6% YoY in 1Q24 is below our expectation, net profit of RMB2.6bn (+40% YoY) accounted for 21.4% of our full-year estimates (run rate in 1Q23: 20.5%), which is still in line with our expectation. The earnings growth was driven by margin expansion on both core business and **KION Group (KGX GR, NR)**. We maintain Weichai as our sector top pick, given (1) the large gas/diesel price gap will continue to drive natural gas engine demand, where Weichai has >60% market share in; (2) high-speed large-bore engines will serve as a structural growth driver on the back of construction of more data centres. Maintain **BUY** with SOTP-based TP of HK\$22/RMB20.4 for Weichai H/A.

- 1Q24 results highlights.** Weichai's revenue grew 6% YoY to RMB56.4bn. Gross margin expanded 3.4ppt YoY to 22.1% in 1Q24. With limited increase in SG&A and R&D expense ratio, the pre-tax profit surged 58% YoY to RMB4.2bn. Based on our calculation, the pretax profit of Weichai's core business / KION grew 45% / 93% YoY in 1Q24 (in RMB terms). Operating cash flow in 1Q24 substantially improved to RMB1.6bn, vs outflow of RMB471mn in 1Q23.
- Margin recovery of KION Group.** KION (46.5% owned by Weichai) reported adjusted EBIT of EUR227mn in 1Q24 (+46% YoY), driven by easing cost pressure. KION guided a full-year adjusted EBIT target of EUR790-940mn (up 0-19% YoY).
- Weichai's engine sales outpaced industry in 1Q24.** According to CICEIA, Weichai's multi-cylinder sales (HDT, construction machinery, other engines) grew 13% YoY to 206k units in 1Q24 (vs the industry average of a decline of ~1%), with market share of ~18% (+2.3ppt YoY).
- Risk factors:** 1) weakness in engine exports; 2) lower-than-expected replacement demand; 3) an increase in component costs.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	175,158	213,958	236,291	250,085	260,023
YoY growth (%)	(13.9)	22.2	10.4	5.8	4.0
Adjusted net profit (RMB mn)	4,905.5	9,013.9	12,116.6	13,051.3	13,768.2
EPS (Reported) (RMB)	0.56	1.03	1.39	1.50	1.58
YoY growth (%)	(47.0)	83.8	34.4	7.7	5.5
Consensus EPS (RMB)	n/a	n/a	1.28	1.45	n/a
P/E (x)	27.2	14.8	11.0	10.2	9.7
P/B (x)	1.8	1.7	1.5	1.4	1.3
Yield (%)	1.7	3.4	4.5	4.9	5.2
Net gearing (%)	(35.8)	(62.0)	(66.1)	(79.1)	(91.5)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$22.00**

(Previous TP) **HK\$22.00)**

**Up/Downside** **33.3%**

**Current Price** **HK\$16.50**

**China Capital Goods**

**Wayne FUNG, CFA**

(852) 3900 0826

waynefung@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	143,988.2
Avg 3 mths t/o (HK\$ mn)	163.3
52w High/Low (HK\$)	17.20/9.49
Total Issued Shares (mn)	8726.6

Source: FactSet

#### Shareholding Structure

Weichai Holdings Group	16.3%
Weifang Investment Group	3.4%

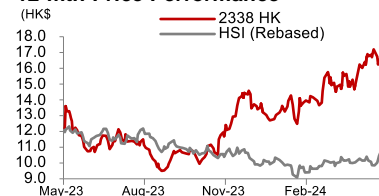
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	10.6%	3.1%
3-mth	19.4%	8.2%
6-mth	40.3%	37.6%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

#### Related reports:

Weichai Power – Key takeaways from post-results call – 27 Mar 2024 (A: [link](#)) (H: [link](#))

Weichai Power – 4Q23 net profit +58% YoY; Payout increased to 50%; Higher earnings forecast on margin – 26 Mar 2024 (A: [link](#)) (H: [link](#))

Capital Goods – Expansion of gas/diesel price spread likely to boost natural gas HDT sales in the near term – 5 Mar 2024 ([link](#))

Capital Goods – Equipment replacement proposed in Central government meeting; positive to HDT sector – 26 Feb 2024 ([link](#))

Figure 1: Weichai's quarterly results

(RMB mn)	1Q23	1Q24	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
<b>Revenue</b>	<b>53,434</b>	<b>56,380</b>	<b>6%</b>	<b>45,636</b>	<b>52,701</b>	<b>15%</b>	<b>43,783</b>	<b>54,248</b>	<b>24%</b>	<b>44,634</b>	<b>53,575</b>	<b>20%</b>
Cost of sales	-43,442	-43,914	1%	-37,924	-42,062	11%	-37,080	-42,439	14%	-35,561	-40,900	15%
<b>Gross profit</b>	<b>9,992</b>	<b>12,466</b>	<b>25%</b>	<b>7,712</b>	<b>10,639</b>	<b>38%</b>	<b>6,704</b>	<b>11,809</b>	<b>76%</b>	<b>9,073</b>	<b>12,675</b>	<b>40%</b>
Other income	126	323	158%	202	215	7%	254	588	131%	498	846	70%
Other gains and losses	116	211	81%	505	195	-61%	599	281	-53%	224	-458	n/a
S&D expenses	-2,866	-3,272	14%	-2,459	-3,339	36%	-2,799	-3,385	21%	-2,850	-3,820	34%
Administrative expenses	-2,295	-2,612	14%	-2,000	-2,329	16%	-2,007	-2,363	18%	-2,207	-2,469	12%
R&D expenses	-1,833	-2,091	14%	-1,860	-1,888	2%	-1,827	-1,929	6%	-2,217	-2,395	8%
Taxes and surcharges	-126	-229	81%	-139	-206	48%	-100	-192	92%	-159	-224	41%
Impairment loss of assets	-337	-454	35%	-420	-218	-48%	-277	-395	43%	-370	-536	45%
<b>EBIT</b>	<b>2,777</b>	<b>4,343</b>	<b>56%</b>	<b>1,539</b>	<b>3,069</b>	<b>99%</b>	<b>549</b>	<b>4,414</b>	<b>704%</b>	<b>1,990</b>	<b>3,619</b>	<b>82%</b>
Other expenses	-41	-42	1%	-20	-16	-22%	-24	-32	34%	-79	-64	-18%
Net finance cost	-52	-106	104%	371	31	-92%	67	-505	n/a	316	-34	n/a
Share of profit of JV and associates	-33	-18	-46%	-51	13	n/a	-59	15	n/a	-92	-7	-92%
<b>Pretax profit</b>	<b>2,651</b>	<b>4,177</b>	<b>58%</b>	<b>1,839</b>	<b>3,097</b>	<b>68%</b>	<b>533</b>	<b>3,891</b>	<b>631%</b>	<b>2,135</b>	<b>3,513</b>	<b>65%</b>
Income tax	-405	-832	105%	-196	-557	184%	252	-679	n/a	-189	-299	58%
<b>After tax profit</b>	<b>2,245</b>	<b>3,345</b>	<b>49%</b>	<b>1,643</b>	<b>2,540</b>	<b>55%</b>	<b>784</b>	<b>3,212</b>	<b>309%</b>	<b>1,947</b>	<b>3,215</b>	<b>65%</b>
MI	-389	-745	91%	-307	-497	62%	141	-610	n/a	-353	-701	99%
<b>Net profit</b>	<b>1,856</b>	<b>2,600</b>	<b>40%</b>	<b>1,335</b>	<b>2,043</b>	<b>53%</b>	<b>925</b>	<b>2,602</b>	<b>181%</b>	<b>1,594</b>	<b>2,513</b>	<b>58%</b>

			Chg (ppt)			Chg (ppt)			Chg (ppt)			Chg (ppt)
<b>Key ratios</b>												
Gross margin	18.7%	22.1%	3.4	16.9%	20.2%	3.3	15.3%	21.8%	6.5	20.3%	23.7%	3.3
S&D expense ratio	5.4%	5.8%	0.4	5.4%	6.3%	0.9	6.4%	6.2%	-0.2	6.4%	7.1%	0.7
Administrative expense ratio	4.3%	4.6%	0.3	4.4%	4.4%	0.0	4.6%	4.4%	-0.2	4.9%	4.6%	-0.3
R&D expense ratio	3.4%	3.7%	0.3	4.1%	3.6%	-0.5	4.2%	3.6%	-0.6	5.0%	4.5%	-0.5
Effective tax rate	15.3%	19.9%	4.6	10.7%	18.0%	7.3	-47.3%	17.5%	64.7	8.8%	8.5%	-0.3

Source: Company data, CMBIGM

Figure 2: KION's latest guidance for 2024E

(EUR mn)	2021	2022	2023	2024E guidance	
				Low-end	High-end
<b>Order intake</b>	<b>12,482</b>	<b>11,708</b>	<b>10,876</b>	-	-
Growth (YoY)	32%	-6%	-7%	-	-
<b>Revenue</b>	<b>10,294</b>	<b>11,136</b>	<b>11,434</b>	<b>11,200</b>	<b>12,000</b>
Growth (YoY)	23%	8%	3%	-2%	5%
<b>Adjusted EBIT</b>	<b>842</b>	<b>292</b>	<b>791</b>	<b>790</b>	<b>940</b>
Growth (YoY)	54%	-65%	171%	0%	19%
Adjusted EBIT margin	8.2%	2.6%	6.9%	7.1%	7.8%
<b>Net income</b>	<b>568</b>	<b>106</b>	<b>314</b>	-	-
Growth (YoY)	169%	-81%	197%	-	-

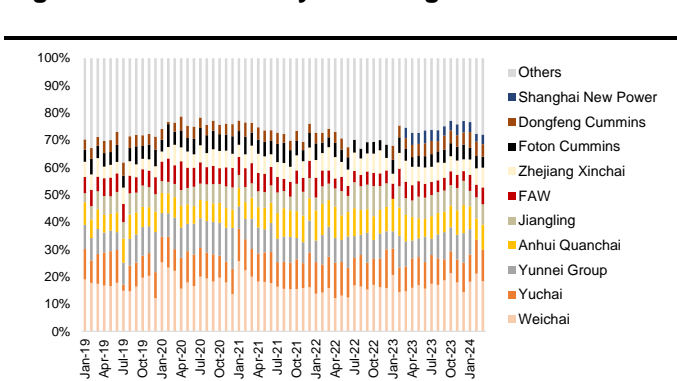
Source: Company data, CMBIGM

Figure 3: KION's quarterly financials

(EUR mn)	1Q23	2Q23	3Q23	4Q23	1Q24
<b>Order intake</b>	<b>2,401</b>	<b>2,864</b>	<b>2,621</b>	<b>2,936</b>	<b>2,439</b>
Growth (YoY)	-17%	-24%	4%	16%	2%
<b>Revenue</b>	<b>2,781</b>	<b>2,836</b>	<b>2,730</b>	<b>3,086</b>	<b>2,859</b>
Growth (YoY)	2%	1%	1%	7%	3%
<b>Adjusted EBIT</b>	<b>156</b>	<b>192</b>	<b>224</b>	<b>219</b>	<b>227</b>
Growth (YoY)	-8%	36%	n/a	167%	46%
Adjusted EBIT margin	5.6%	6.8%	8.2%	7.1%	7.9%
<b>Net income</b>	<b>74</b>	<b>73</b>	<b>82</b>	<b>86</b>	<b>111</b>
Growth (YoY)	-8%	-9%	n/a	121%	51%

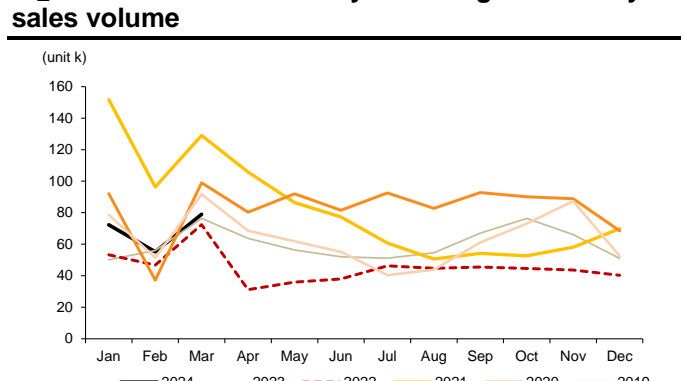
Source: Company data, CMBIGM

Figure 4: China multi-cylinder engine market share



Source: CICEIA, CMBIGM

Figure 5: Weichai's multi-cylinder engine monthly sales volume



Source: CICEIA, CMBIGM

Figure 6: Key assumptions for Weichai

	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Sales volume (unit)</b>								
Engine	742,000	990,291	1,020,000	573,000	736,000	885,924	944,050	972,494
HDT	161,000	181,000	150,000	80,000	116,000	135,720	143,863	148,179
Gear box	1,002,000	1,186,000	1,153,000	590,000	838,000	921,800	967,890	987,248
<b>Growth (YoY)</b>								
Engine	10.9%	33.5%	3.0%	-43.8%	28.4%	20.4%	6.6%	3.0%
HDT	5.2%	12.4%	-17.1%	-46.7%	45.0%	17.0%	6.0%	3.0%
Gear box	10.2%	18.4%	-2.8%	-48.8%	42.0%	10.0%	5.0%	2.0%
<b>(RMB mn)</b>								
<b>Revenue</b>								
Diesel engines	49,976	62,720	64,460	39,151	60,775	72,646	77,412	79,744
Automobiles and major components	71,475	85,907	74,258	46,812	65,098	72,123	75,822	77,436
Forklift trucks & supply chain solution	67,177	65,110	78,625	79,010	87,521	90,147	95,556	101,289
Agricultural machinery	-	-	-	17,733	16,200	17,820	18,711	19,646
Intersegment sales	-14,267	-16,246	-13,795	-7,548	-15,635	-16,444	-17,415	-18,093
<b>Total revenue</b>	<b>174,361</b>	<b>197,491</b>	<b>203,548</b>	<b>175,158</b>	<b>213,958</b>	<b>236,291</b>	<b>250,085</b>	<b>260,023</b>
<b>Growth (YoY)</b>								
Diesel engines	11.4%	25.5%	2.8%	-39.3%	55.2%	19.5%	6.6%	3.0%
Automobiles and major components	6.9%	20.2%	-13.6%	-37.0%	39.1%	10.8%	5.1%	2.1%
Forklift trucks & supply chain solution	11.0%	-3.1%	20.8%	0.5%	10.8%	3.0%	6.0%	6.0%
Agricultural machinery	-	-	-	-	-8.6%	10.0%	5.0%	5.0%
Intersegment sales	9.8%	13.9%	-15.1%	-45.3%	107.1%	5.2%	5.9%	3.9%
<b>Average</b>	<b>9.5%</b>	<b>13.3%</b>	<b>3.1%</b>	<b>-13.9%</b>	<b>22.2%</b>	<b>10.4%</b>	<b>5.8%</b>	<b>4.0%</b>
<b>Segment profit</b>								
Diesel engines	7,573	8,524	7,407	2,823	7,719	9,299	9,909	10,207
Automobiles and major components	2,176	1,668	446	-599	594	938	1,062	1,084
Forklift trucks & supply chain solution	3,992	1,789	5,338	428	4,920	5,409	5,733	6,077
Agricultural machinery	-	-	-	547	671	820	842	884
Intersegment sales	-131	-127	-591	473	-822	-872	-923	-959
<b>Total segment profit</b>	<b>13,610</b>	<b>11,854</b>	<b>12,601</b>	<b>3,672</b>	<b>13,082</b>	<b>15,593</b>	<b>16,623</b>	<b>17,294</b>
<b>Growth (YoY)</b>								
Diesel engines	3.6%	12.6%	-13.1%	-61.9%	173.4%	20.5%	6.6%	3.0%
Automobiles and major components	10.8%	-23.3%	-73.3%	-234.3%	-199.1%	57.8%	13.2%	2.1%
Forklift trucks & supply chain solution	9.8%	-55.2%	198.3%	-92.0%	1050.5%	9.9%	6.0%	6.0%
Agricultural machinery	-	-	-	-	22.6%	22.2%	2.7%	5.0%
Intersegment sales	n/a	-2.7%	364.5%	-180.1%	-273.6%	6.0%	5.9%	3.9%
<b>Average</b>	<b>4.4%</b>	<b>-12.9%</b>	<b>6.3%</b>	<b>-70.9%</b>	<b>256.3%</b>	<b>19.2%</b>	<b>6.6%</b>	<b>4.0%</b>
<b>Segment margin</b>								
Diesel engines	15.2%	13.6%	11.5%	7.2%	12.7%	12.8%	12.8%	12.8%
Automobiles and major components	3.0%	1.9%	0.6%	-1.3%	0.9%	1.3%	1.4%	1.4%
Forklift trucks & supply chain solution	5.9%	2.7%	6.8%	0.5%	5.6%	6.0%	6.0%	6.0%
Agricultural machinery	-	-	-	3.1%	4.1%	4.6%	4.5%	4.5%
<b>Average</b>	<b>7.8%</b>	<b>6.0%</b>	<b>6.2%</b>	<b>2.1%</b>	<b>6.1%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.7%</b>

Source: Company data, CMBIGM estimates

Figure 7: SOTP valuation

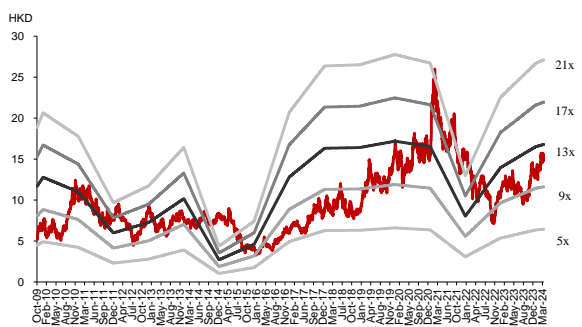
SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA	Estimated EV	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
			2024E (RMB mn)	(RMB mn)			
Weichai core business	EV/EBITDA	6.5	14,481	94,126	58,484	152,611	85.8%
KION Group	Proportionate market value	-	-	-	-	23,166	13.0%
Ballard Power Systems	Proportionate market value	-	-	-	-	1,202	0.7%
Ceres Power	Proportionate market value	-	-	-	-	462	0.3%
Share of JV/associates	P/B	1.4	-	-	-	7,244	4.1%
Minority interest in core business						(6,757)	-3.8%
<b>Total NAV</b>						<b>177,928</b>	<b>100.0%</b>
<b>NAV per share (RMB)</b>						<b>20.4</b>	
<b>NAV per share (HK\$)</b>						<b>22.0</b>	

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.

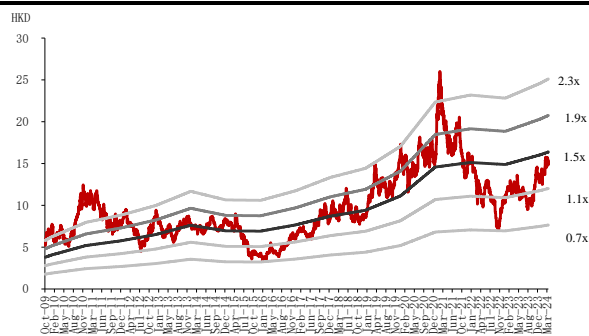
Note 2: Share of JV/associates excludes Ballard Power and Ceres Power

**Figure 8: Weichai Power-H P/E band**



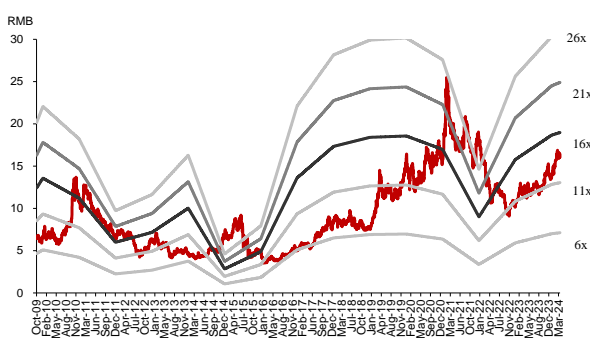
Source: Bloomberg, company data, CMBIGM estimates

**Figure 9: Weichai Power-H P/B band**



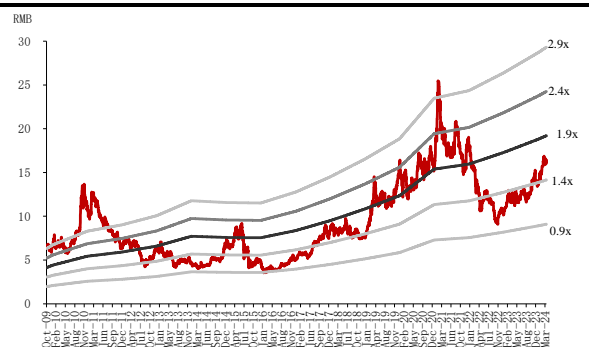
Source: Bloomberg, company data, CMBIGM estimates

**Figure 10: Weichai Power-A P/E band**



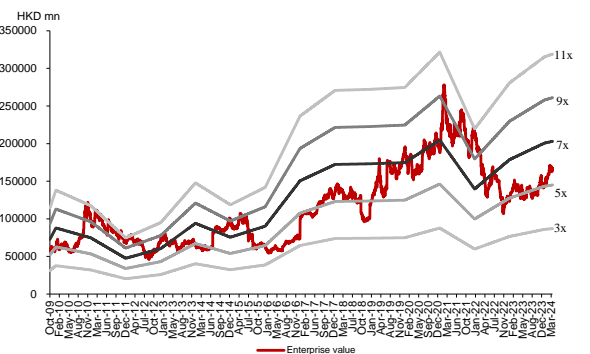
Source: Bloomberg, company data, CMBIGM estimates

**Figure 11: Weichai Power-A P/B band**



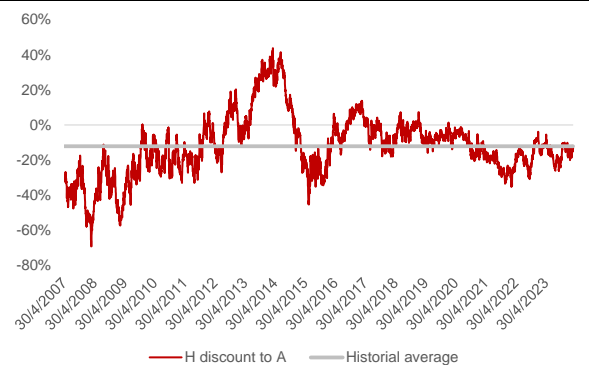
Source: Bloomberg, company data, CMBIGM estimates

**Figure 12: Weichai Power EV/EBITDA band**



Source: Bloomberg, company data, CMBIGM estimates

**Figure 13: Weichai Power H discount to A**



Source: Bloomberg, CMBIGM

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	203,548	175,158	213,958	236,291	250,085	260,023
Cost of goods sold	(163,947)	(144,011)	(168,842)	(185,725)	(196,317)	(204,118)
<b>Gross profit</b>	<b>39,601</b>	<b>31,147</b>	<b>45,116</b>	<b>50,566</b>	<b>53,768</b>	<b>55,905</b>
Operating expenses	(26,038)	(25,664)	(31,238)	(33,436)	(35,585)	(37,053)
<b>Operating profit</b>	<b>13,563</b>	<b>5,482</b>	<b>13,878</b>	<b>17,131</b>	<b>18,183</b>	<b>18,852</b>
Share of (losses)/profits of associates/JV	187	(144)	(13)	182	169	172
<b>EBITDA</b>	<b>24,160</b>	<b>16,630</b>	<b>25,867</b>	<b>27,886</b>	<b>29,765</b>	<b>31,181</b>
Depreciation	10,597	11,148	11,989	10,756	11,582	12,329
Interest income	1,724	2,359	2,818	3,105	3,511	4,077
Interest expense	(1,274)	(1,450)	(3,378)	(1,665)	(1,668)	(1,672)
<b>Net interest income/(expense)</b>	<b>450</b>	<b>909</b>	<b>(560)</b>	<b>1,441</b>	<b>1,843</b>	<b>2,405</b>
Other income/expense	(145)	(162)	(154)	(284)	(300)	(312)
<b>Pre-tax profit</b>	<b>14,055</b>	<b>6,086</b>	<b>13,151</b>	<b>18,470</b>	<b>19,895</b>	<b>21,117</b>
Income tax	(2,493)	(403)	(1,940)	(3,325)	(3,581)	(3,907)
Minority interest	(2,307)	(778)	(2,198)	(3,029)	(3,263)	(3,442)
<b>Adjusted net profit</b>	<b>9,255</b>	<b>4,906</b>	<b>9,014</b>	<b>12,117</b>	<b>13,051</b>	<b>13,768</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>160,638</b>	<b>168,484</b>	<b>197,925</b>	<b>208,102</b>	<b>232,765</b>	<b>246,112</b>
Cash & equivalents	75,043	70,842	92,857	101,234	118,206	136,588
Account receivables	18,191	21,419	23,754	24,152	27,921	24,796
Inventories	31,585	33,374	37,930	39,413	43,417	41,586
Prepayment	1,570	1,473	1,691	1,610	1,529	1,448
Other current assets	34,249	41,378	41,693	41,693	41,693	41,693
<b>Non-current assets</b>	<b>116,406</b>	<b>125,182</b>	<b>136,322</b>	<b>132,626</b>	<b>128,097</b>	<b>122,823</b>
PP&E	33,188	37,892	44,073	41,286	37,839	33,732
Investment in JVs & assos	6,713	5,341	5,175	5,253	5,326	5,400
Intangibles	20,908	22,760	23,071	22,084	20,930	19,689
Goodwill	22,847	24,019	24,858	24,858	24,858	24,858
Other non-current assets	32,750	35,171	39,145	39,145	39,145	39,145
<b>Total assets</b>	<b>277,044</b>	<b>293,666</b>	<b>334,247</b>	<b>340,727</b>	<b>360,863</b>	<b>368,935</b>
<b>Current liabilities</b>	<b>115,382</b>	<b>119,743</b>	<b>146,215</b>	<b>142,076</b>	<b>151,956</b>	<b>149,344</b>
Short-term borrowings	12,982	15,824	16,949	17,049	17,149	17,249
Account payables	39,596	45,560	60,127	55,888	65,667	62,955
Other current liabilities	62,803	58,358	69,139	69,139	69,139	69,139
<b>Non-current liabilities</b>	<b>58,700</b>	<b>69,813</b>	<b>75,346</b>	<b>75,346</b>	<b>75,346</b>	<b>75,346</b>
Long-term borrowings	18,839	28,839	26,745	26,745	26,745	26,745
Other non-current liabilities	39,861	40,973	48,601	48,601	48,601	48,601
<b>Total liabilities</b>	<b>174,083</b>	<b>189,555</b>	<b>221,561</b>	<b>217,422</b>	<b>227,302</b>	<b>224,690</b>
<b>Total shareholders equity</b>	<b>70,907</b>	<b>73,184</b>	<b>79,335</b>	<b>86,925</b>	<b>93,918</b>	<b>101,161</b>
Minority interest	32,055	30,926	33,351	36,380	39,642	43,085
<b>Total equity and liabilities</b>	<b>277,044</b>	<b>293,666</b>	<b>334,247</b>	<b>340,727</b>	<b>360,863</b>	<b>368,935</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	14,055	6,086	13,151	18,470	19,895	21,117
Depreciation & amortization	10,537	11,065	11,909	10,675	11,501	12,248
Tax paid	(2,493)	(403)	(1,940)	(3,325)	(3,581)	(3,907)
Change in working capital	(8,767)	(20,324)	6,089	(6,120)	2,007	2,243
Others	1,325	1,227	(1,738)	1,563	1,580	1,581
<b>Net cash from operations</b>	<b>14,658</b>	<b>(2,350)</b>	<b>27,471</b>	<b>21,264</b>	<b>31,402</b>	<b>33,282</b>
<b>Investing</b>						
Capital expenditure	(3,610)	(5,242)	(4,633)	(6,900)	(6,900)	(6,900)
Acquisition of subsidiaries/ investments	(3,578)	(309)	(156)	0	0	0
Others	1,779	(2,995)	(947)	104	96	98
<b>Net cash from investing</b>	<b>(5,409)</b>	<b>(8,545)</b>	<b>(5,737)</b>	<b>(6,796)</b>	<b>(6,804)</b>	<b>(6,802)</b>
<b>Financing</b>						
Dividend paid	(4,715)	(3,930)	(4,175)	(4,526)	(6,058)	(6,526)
Net borrowings	(5,913)	12,842	(969)	100	100	100
Proceeds from share issues	14,050	1,676	92	0	0	0
Others	(298)	(5,736)	(7,977)	(1,665)	(1,668)	(1,672)
<b>Net cash from financing</b>	<b>3,123</b>	<b>4,852</b>	<b>(13,029)</b>	<b>(6,091)</b>	<b>(7,627)</b>	<b>(8,097)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	62,216	75,043	70,842	92,857	101,234	118,206
Exchange difference	455	1,841	13,310	0	0	0
<b>Cash at the end of the year</b>	<b>75,043</b>	<b>70,842</b>	<b>92,857</b>	<b>101,234</b>	<b>118,206</b>	<b>136,588</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	3.1%	(13.9%)	22.2%	10.4%	5.8%	4.0%
Gross profit	3.8%	(21.3%)	44.8%	12.1%	6.3%	4.0%
Operating profit	5.5%	(59.6%)	153.1%	23.4%	6.1%	3.7%
EBITDA	11.3%	(31.2%)	55.5%	7.8%	6.7%	4.8%
Adj. net profit	0.5%	(47.0%)	83.8%	34.4%	7.7%	5.5%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	19.5%	17.8%	21.1%	21.4%	21.5%	21.5%
Operating margin	6.7%	3.1%	6.5%	7.2%	7.3%	7.3%
EBITDA margin	11.9%	9.5%	12.1%	11.8%	11.9%	12.0%
Adj. net profit margin	4.5%	2.8%	4.2%	5.1%	5.2%	5.3%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	(0.4)	(0.6)	(0.7)	(0.8)	(0.9)
Current ratio (x)	1.4	1.4	1.4	1.5	1.5	1.6
Receivable turnover days	30.1	41.3	38.5	37.0	38.0	37.0
Inventory turnover days	69.9	82.3	77.1	76.0	77.0	76.0
Payable turnover days	94.7	107.9	114.2	114.0	113.0	115.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	14.4	27.2	14.8	11.0	10.2	9.7
P/B	1.9	1.8	1.7	1.5	1.4	1.3
Div yield (%)	2.3	1.7	3.4	4.5	4.9	5.2

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



# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## 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

## CMB International Global Markets Limited

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

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.