

China Construction Machinery / HDT

Approaching the peak of upcycle; D/G Hengli, SANY Heavy & Sinotruk

We downgrade China Construction Machinery & Heavy-duty truck (HDT) sector to Market Perform from Outperform, as we believe the upcycle since 2016/17 is approaching the peak level, evidenced by the following factors: (1) We expect the local government special bond issuance will likely reach a peak this year; (2) Our industry model suggests that the replacement demand for both excavator and HDT is close to the peak; (3) The fleet size of excavator grew faster than the construction related FAI; (4) The implementation of NES VI in Jul will likely trigger a slowdown of demand (for HDT). We expect the sales of excavator and HDT to drop in 2H21E and 1H22E on YoY basis. Downgrade **Jiangsu Hengli (601100 CH)**, **SANY Heavy (600031 CH)** and **Sinotruk (3808 HK)** to **HOLD** from Buy.

- **Local government bond issuance reaching the peak this year.** The infrastructure spending driven by the rapid growth of local government special bond has been one of the key drivers of the demand for construction machinery since 2020. With the local government special bond new issuance reaching RMB3.75tn / RMB3.6tn in 2020/2021E, versus only RMB2.15tn in 2019, we see a relatively low possibility that the new issuance will further increase starting 2022E, given the lack of projects and the need to control the debt level following the stimulus.
- **Excavator: Replacement demand to reduce.** During the upcycle over the past five years, replacement demand has been the key driver of the excavator sales. Based on our industry model, assuming normal useful life of 8-10 years, the replacement demand will further reduce in 2021E-22E.
- **Fleet size of excavator expanding faster than construction related FAI.** The construction related FAI per unit of excavator increased from the trough of ~RMB16mn in 2011 to RMB28mn in 2019, implying a significant improvement in supply and demand balance. However, the figure started to drop in 2020 (to RMB26mn), the first decline since 2011, due to fast growing excavator sales and slowdown of construction FAI partially due to COVID-19. We expect such trend implies potential slowdown of new demand.
- **Implementation of NES VI in Jul.** The implementation of NES VI in Jul has triggered the front-loaded demand in 4M21 (+56% YoY), as HDT manufacturers boosted the sales of NES V models (which will be prohibited starting Jul). We expect the HDT demand to drop significantly in 2H21E.
- **Selective BUY.** We remain positive on **Zoomlion** (new products + upcycle of concrete & crane machinery), **Lonking** (upside surprise of wheel loader driven by mining capex), **Weichai** (non-HDT + new energy commercial vehicles) and **SANY International** (strong new product pipeline + robotic business).

Change in recommendation and TP

Company Ticker	SANY Heavy 600031 CH	Hengli 601100 CH	Sinotruk 3808 HK	Weichai Power 2338 HK	000338 CH
Rating					
New	HOLD	HOLD	HOLD	BUY	BUY
Old	BUY	BUY	BUY	BUY	BUY
Currency	RMB	RMB	HK\$	HK\$	RMB
Current price	29.8	80.47	18.06	17.48	17.46
TP					
New	31.0	83.0	19.5	24.5	20.5
Old	49.5	95.0	28.5	27.6	23.4
Upside	4%	3%	8%	40%	17%

Source: CMBIS estimates

MARKET PERFORM (Down)

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Related Reports

1. Zoomlion (1157 HK) – Key takeaways from analyst call; Cost pressure under control; Solid guidance – 3 May 2021
2. China Construction Machinery / HDT – 1Q21 earnings review for Zoomlion, SANY Heavy & Weichai – 30 Apr 2021
3. Zhejiang Dingli (603338 CH, HOLD) – 4Q20 & 1Q21 results below expectation; margin pressure a concern – 29 Apr 2021
4. Lonking (3339 HK) – Strong beat on 2020 results; Attractive yield of 12% -26 Mar 2021
5. China Construction Machinery / HDT – earnings highlights for Zoomlion, SANY Heavy & Weichai – 31 Mar 2021
6. SANY Int'l (631 HK) – Robotic business a surprise; More growth drivers ahead – 22 Mar 2021

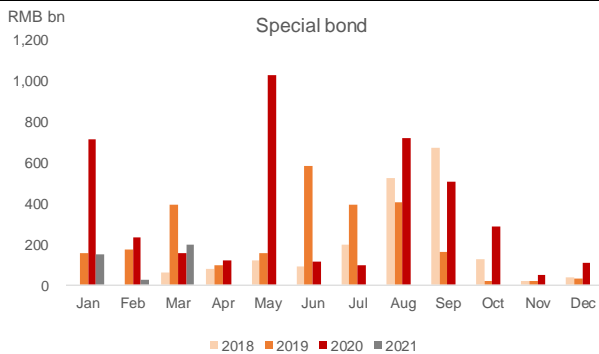
Local government bond issuance likely reaching the peak this year

The infrastructure spending driven by the rapid growth of local government special bond has been one of the key drivers of the demand for construction machinery since 2020. This year, the local government special bond new issuance is set at RMB3.6tn (versus RMB3.75tn / RMB2.15tn in 2020/2019). The substantial increase in bond issuance in 2020-21E is part of stimulus packages after the outbreak of COVID-19.

In 1Q21, due to high base effect, the local government bond issuance was down 44% YoY to RMB895bn, of which special bond issuance dropped 66% YoY to RMB374bn. New bond accounted for only 4% of total issuance which mainly targeted the support of mid-small banks (Figure 4). While we expect an acceleration of bond issuance in 2Q/3Q, we expect the stimulus on infrastructure is largely expected by the market.

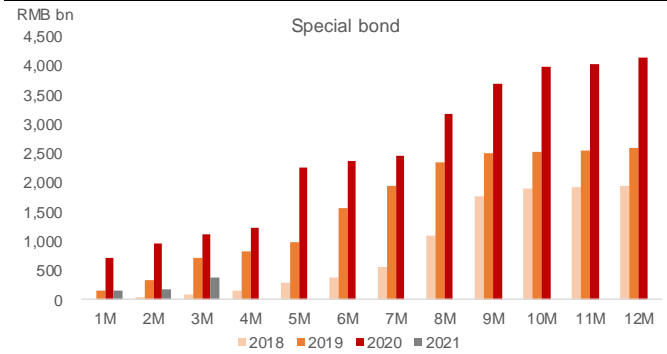
Going forward, we see a relatively low possibility that the new issuance will further increase starting 2022E, given the lack of projects and the need to control the debt level following the stimulus.

Figure 1: Local gov't special bond issue amount (monthly)



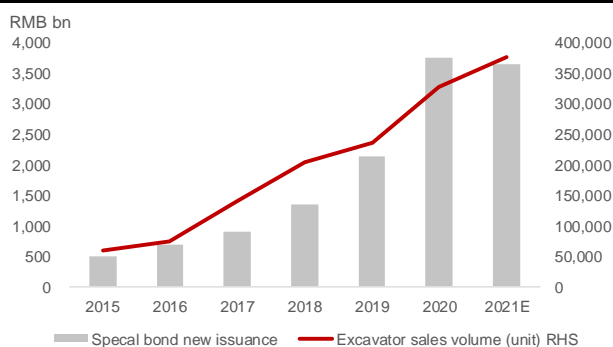
Source: Ministry of Finance, CMBIS

Figure 2: Local gov't special bond issue amount (YTD)



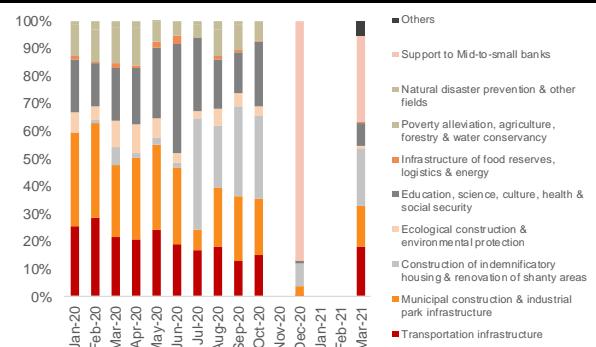
Source: Ministry of Finance, CMBIS

Figure 3: Local gov't special bond new issuance vs excavator sales volume



Source: Ministry of Finance, CMBIS

Figure 4: Investment targets of the newly issued local gov't bonds



Note: There were no newly issued bonds in Nov 20 and Jan-Feb 21.
Source: Ministry of Finance, CMBIS

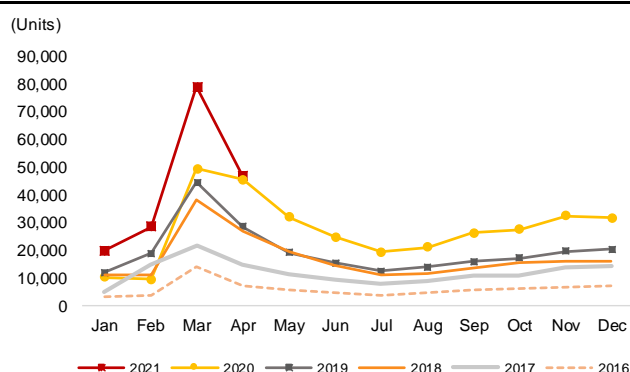
Excavator: Replacement demand to reduce; Fleet size expanding faster than construction related FAI

During the upcycle over the past five years, replacement demand has been the key growth driver of the sales of excavator. Assuming normal useful life of 8-10 years, the replacement demand will continue to reduce in 2021E-22E (Figure 6).

Historically, infrastructure, property and mining investment (namely construction related FAI) are the key demand drivers in terms of downstream application (Figure 7). The construction related FAI spending per unit of excavator increased from the trough of ~RMB16mn in 2011 to RMB28mn in 2019, implying a significant improvement in supply and demand balance (Figure 8). However, the figure started to drop in 2020 (to RMB26mn), the first decline since 2011, due to fast growing excavator sales and slowdown of construction FAI partially due to COVID-19. We expect such trend implies potential slowdown of new demand for excavator.

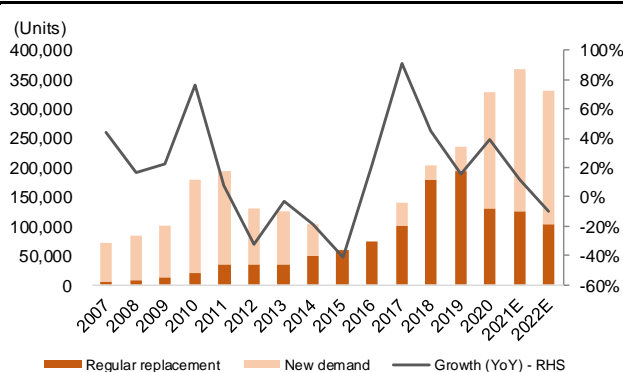
While we revised up our excavator sales forecast in 2021E by 2% to 367k units, we cut the forecast in 2022E by 8% to 330k units. Our new forecast in 2021E/22E implies +12%/-10% change YoY.

Figure 5: China monthly excavator sales



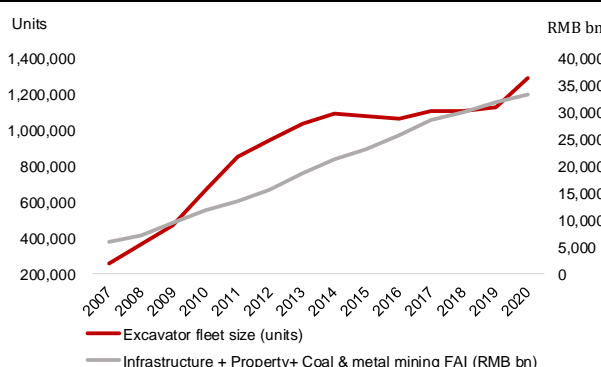
Source: CCMA, CMBIS

Figure 6: CMBIS excavator sales projection



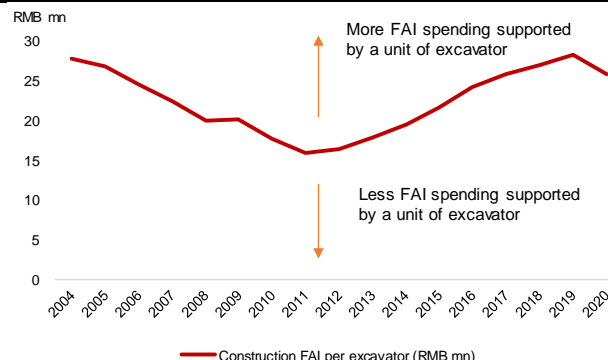
Source: CCMA, CMBIS estimates

Figure 7: Excavator fleet size versus construction related FAI



Source: CCMA, Wind, CMBIS

Figure 8: Construction related FAI per unit of excavator



Source: CCMA, CMBIS estimates

Figure 9: Change in construction machinery industry sales assumptions

	Old		New		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
Sales volume (unit)						
Earth moving machinery						
Excavator	360,366	360,366	366,918	330,226	2%	-8%
Wheel loader	131,176	124,617	144,294	137,079	10%	10%
Crane						
Truck crane	53,694	54,768	53,694	54,768	0%	0%
Tower crane	31,583	-	31,583	33,163	0%	-
Concrete machinery						
Concrete mixer truck	115,017	126,519	120,245	132,270	5%	5%
Concrete pump truck	14,381	16,107	14,381	16,538	0%	3%

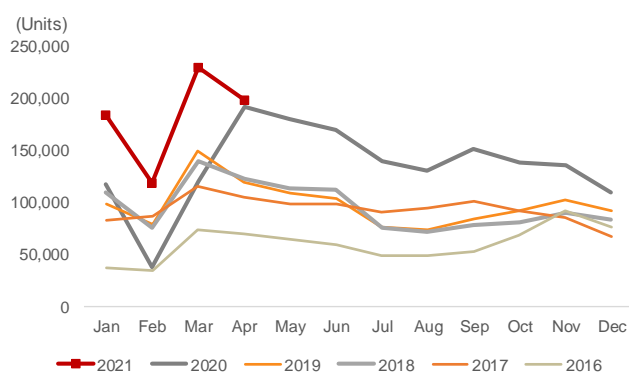
Source: CMBIS estimates

HDT: Implementation of NES VI a near-term negative

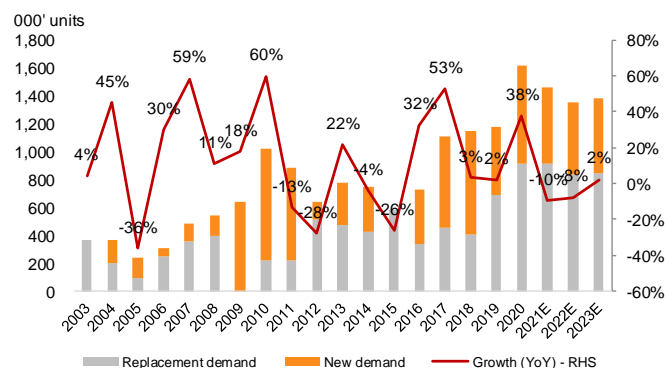
The upcoming implementation of NES VI in Jul has triggered the front-loaded demand in 4M21 (+56% YoY), as HDT manufacturers continued to boost the sales of NES V trucks (which will be prohibited starting Jul). While we revised up our HDT industry sales forecast in 2021E by 6% to 1.46mn units, our new forecast still implies 10% YoY decline as we forecast sales to drop ~36% YoY in May-Dec 2021. Besides, we cut our 2022E forecast by 3% to 1.35mn units, implying 8% YoY decline due to high base effect and less replacement demand.

However, our new forecast in 2021E-23E remains higher than the volume in 2017-2019. We expect the government will start taking measures to phase out NES IV HDT, which will trigger another round of replacement demand. On the other hand, based on our projection on fleet size, the GDP per unit of HDT will remain stable at RMB12mn (Figure 13), a level similar to the past decade, suggesting limited risk of oversupply.

Regarding the competitive landscape, we expect leading HDT engine players, such as Weichai, will be able to gain market share upon the implementation of NES VI due to the strong technology know-how.

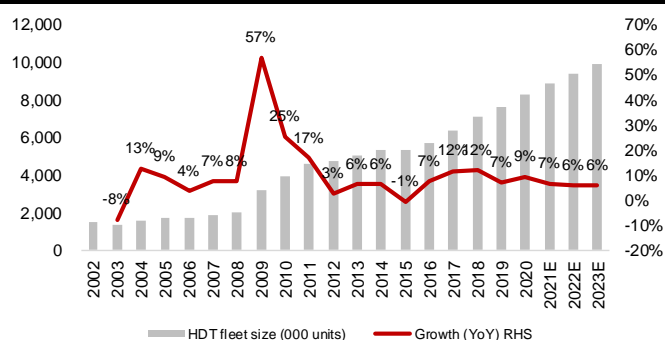
Figure 10: China HDT monthly sales

Source: Cvworl, CMBIS

Figure 11: CMBIS HDT sales projection

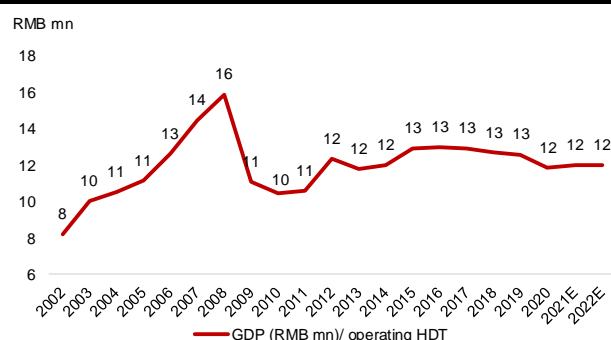
Source: Cvworl, Wind, CMBIS estimates

Figure 12: China HDT fleet size



Source: Wind, CMBIS estimates

Figure 13: GDP per unit of operating HDT



Source: Wind, CMBIS estimates

Figure 14: Change in HDT industry sales assumptions

HDT sales volume	Old	New	Change
(Units 000')			
2021E	1,380	1,463	6.0%
2022E	1,396	1,352	-3.2%
2023E	-	1,384	n/a

Source: CMBIS estimates

Figure 15: Timetable for the implementation of NES

		Year																							
Type of vehicles		00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Heavy duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Light duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Off road vehicle																									
National emission standard		<div>No regulation</div> <div>I</div> <div>II</div> <div>III</div> <div>IV</div> <div>V</div> <div>VI(a)</div> <div>VI(b)</div>																							

Source: Ministry of Ecology and Environmental, CMBIS

Figure 16: Peers comp table

Ticker	Company	Rating	Price	TP	Upside/	Market cap	PE (x)		PB (x)		EV/EBITDA (x)		Yield (%)
			(local currency)	(local currency)	(downside)	(US\$ mn)	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E
HK listed													
631 HK Equity	SANY INTERNATIONAL	BUY	9.28	11.90	28%	3,765	18.9	15.3	2.8	2.5	12.4	10.2	2.4
3339 HK Equity	LONKING	BUY	3.22	4.29	33%	1,778	7.8	7.5	1.2	1.1	3.8	3.8	7.7
1157 HK Equity	ZOOMLION HEAVY-H	BUY	9.16	16.80	83%	13,701	8.3	7.0	1.3	1.1	5.5	4.7	5.2
2338 HK Equity	WEICHAI POWER-H	BUY	17.48	24.50	40%	20,735	10.3	9.8	1.9	1.7	5.1	4.8	3.9
3808 HK Equity	SINOTRUK HK LTD	HOLD	18.06	19.50	8%	6,433	6.1	6.6	1.1	1.0	1.4	1.5	5.7
564 HK Equity	ZHENGZHOU COAL-H	NR	8.45	-	-	2,843	6.8	4.6	1.0	0.7	6.1	4.8	2.0
HK listed average							9.3	8.3	1.5	1.3	5.7	5.0	4.5
A share													
000338 CH Equity	WEICHAI POWER-A	BUY	17.46	20.50	17%	20,287	12.2	11.6	2.3	2.0	6.1	5.7	3.3
601100 CH Equity	JIANGSU HENGLI-A	HOLD	80.47	87.00	8%	16,067	36.7	32.1	11.2	9.0	30.5	27.9	1.0
603338 CH Equity	ZHEJIANG DINGLI -A	HOLD	65.11	82.00	26%	4,835	33.4	26.5	6.9	5.7	33.5	27.7	0.6
600031 CH Equity	SANY HEAVY-A	HOLD	29.80	31.00	4%	38,672	13.5	12.6	3.6	3.0	10.8	10.1	2.4
000157 CH Equity	ZOOMLION HEAVY-A	BUY	10.70	18.70	75%	13,405	11.5	9.6	1.8	1.6	7.7	6.5	3.7
000425 CH Equity	XCMG-A	NR	6.75	-	-	8,088	9.3	8.2	1.3	1.2	8.5	7.6	1.6
000528 CH Equity	GUANGXI LIUGONG-A	NR	8.81	-	-	1,988	8.3	7.5	1.0	0.9	8.7	7.9	3.1
603638 CH Equity	YANTAI EDDIE P	NR	60.00	-	-	5,517	46.7	35.8	11.6	9.1	36.3	27.7	0.4
600761 CH Equity	ANHUI HELI CO-A	NR	11.46	-	-	1,297	9.6	8.3	1.4	1.2	5.3	4.6	3.6
603298 CH Equity	HANGCHA GROUP-A	NR	19.90	-	-	2,637	16.7	14.4	2.8	2.4	13.6	11.7	2.5
000951 CH Equity	CNHTC JINAN T-A	NR	31.89	-	-	4,093	11.7	10.6	1.8	1.6	7.7	6.7	2.2
601717 CH Equity	ZHENGZHOU COAL-A	NR	11.07	-	-	2,781	10.5	7.2	1.6	1.1	9.6	7.5	1.3
600582 CH Equity	TIAN DI -A	NR	3.57	-	-	2,260	8.9	7.8	n/a	n/a	n/a	n/a	5.3
A-share average							14.7	12.2	3.0	2.5	12.0	10.0	2.6
Overseas													
CAT US Equity	CATERPILLAR INC	NR	239.1	-	-	130,949	24.6	20.1	8.9	8.7	14.2	12.1	1.8
DE US Equity	DEERE & CO	NR	359.4	-	-	112,637	20.5	17.9	8.5	6.8	15.8	14.6	1.2
6305 JP Equity	HITACHI CONST	NR	3,600.0	-	-	7,438	19.4	15.7	1.5	1.4	9.9	8.8	1.5
6301 JP Equity	KOMATSU LTD	NR	3,232.0	-	-	30,202	18.2	14.4	1.5	1.5	10.0	8.6	2.3
042670 KS Equity	DOOSAN INFRACORE	NR	11,100.0	-	-	2,309	9.1	9.0	0.9	0.8	5.8	5.5	0.0
VOLVB SS Equity	VOLVO AB-B	NR	214.8	-	-	52,288	14.2	12.5	3.0	2.9	9.1	8.1	5.9
Average							17.7	14.9	4.1	3.7	10.8	9.6	2.1
Hydraulic components													
PH US Equity	PARKER HANNIFIN	NR	305.9	-	-	39,474	20.9	18.2	5.3	4.5	14.9	13.4	1.2
ETN US Equity	EATON CORP PLC	NR	143.6	-	-	57,241	23.1	21.1	3.7	3.6	18.9	16.9	2.1
7012 JP Equity	KAWASAKI HVY IND	NR	2,537.0	-	-	4,071	30.8	16.2	0.9	0.9	9.7	8.2	0.9
7242 JP Equity	KYB CORP	NR	3,700.0	-	-	915	n/a	n/a	0.8	0.7	3.6	3.3	2.4
6474 JP Equity	NACHI-FUJIKOSHI	NR	4,260.0	-	-	1,020	19.4	13.9	0.8	0.8	6.4	5.8	1.9
6268 JP Equity	NABTESCO CORP	NR	4,865.0	-	-	5,847	6.2	23.6	2.2	2.1	11.8	10.4	1.6
Average							20.1	18.6	2.3	2.1	10.9	9.7	1.7
Aerial working platform													
TEX US Equity	TEREX CORP	NR	51.1	-	-	3,567	19.9	13.4	3.3	2.8	11.9	9.2	0.8
OSK US Equity	OSHKOSH CORP	NR	131.6	-	-	9,033	19.3	15.5	2.8	2.5	11.8	9.8	1.0
LNR CN Equity	LINAMAR CORP	NR	74.7	-	-	3,821	9.6	9.1	n/a	n/a	4.4	4.2	0.9
PIG FP Equity	HAULOTTE GROUP	NR	6.1	-	-	233	18.4	10.0	0.8	0.7	9.1	6.9	1.3
6345 JP Equity	AICHI CORP	NR	853.0	-	-	641	12.8	12.5	0.9	0.8	6.3	6.2	3.6
Overseas average							18.0	15.4	2.9	2.6	10.3	9.0	1.8

Source: Bloomberg, Company data, CMBIS estimates

SANY Heavy (600031 CH, HOLD; TP: RMB31)

We cut our earnings forecast in 2021E/22E by 3%/8%, due to lower assumptions on excavator sales and gross margin despite higher projection on other machinery such as concrete and crane. While we believe SANY will continue to generate strong revenue in the overseas given the continuous investment in distribution network, we expect such change in regional mix cannot offset the weakness in China market in the near-term (overseas revenue accounted for 15% of total revenue in 2020).

Downgrade to HOLD from Buy. We cut our TP from RMB49.5 to RMB31, based on 14x 2021E P/E (the mid-point between the trough valuation of 6x and peak level of 22x since the upcycle in 2017). Our lower target multiple is to reflect the potential earnings slowdown. Stock has advanced 102% since our initiation in Nov 2019.

Figure 17: Financial summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	76,233	100,054	122,710	132,785	140,020
YoY growth (%)	37	31	23	8	5
Net income (RMB mn)	11,325	15,431	18,662	20,092	21,052
EPS (RMB)	1.37	1.82	2.21	2.37	2.49
YoY growth (%)	73.2	33.2	20.9	7.7	4.8
Consensus EPS (RMB)	NA	NA	2.26	2.57	2.83
EV/EBITDA (x)	16.7	12.8	10.8	10.1	9.8
P/E (x)	21.8	16.3	13.5	12.6	12.0
P/B (x)	5.3	4.5	3.6	3.0	2.5
Yield (%)	1.4	2.0	2.4	2.5	2.7
ROE (%)	28.8	29.8	29.5	26.0	23.0
Net debt / equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

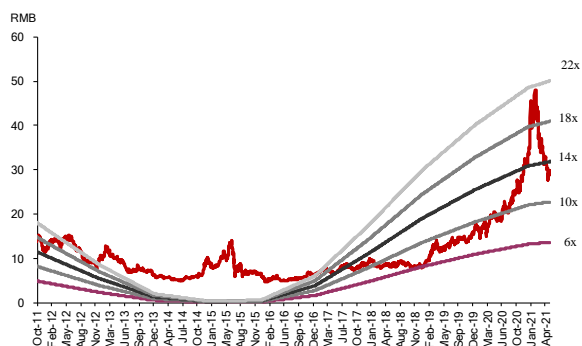
Last closing price: RMB29.80

Source: Company data, CMBIS estimates

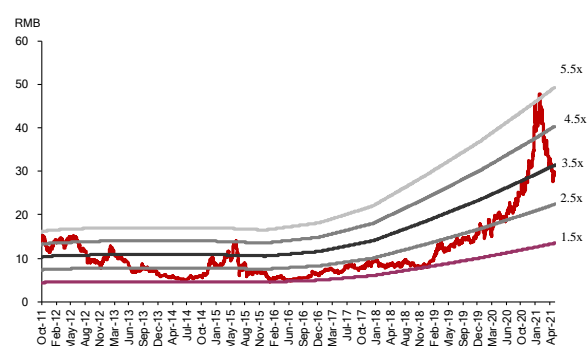
Figure 18: Change in key assumptions for SANY Heavy

	Old		New		Change	
(RMB mn)	2021E	2022E	2021E	2022E	2021E	2022E
Revenue						
Concrete machinery	31,935	36,726	35,063	40,323	9.8%	9.8%
Excavator	47,158	49,044	44,920	46,267	-4.7%	-5.7%
Crane machinery	18,549	20,033	25,136	27,650	35.5%	38.0%
Piling machinery	6,596	6,794	7,973	8,372	20.9%	23.2%
Earth moving machinery	2,775	2,859	3,161	3,256	13.9%	13.9%
Other machinery	3,005	3,155	3,687	3,871	22.7%	22.7%
Revenue (construction machinery)	110,019	118,611	119,941	129,739	9.0%	9.4%
Interest income from financing	-	-	841	941	-	-
Other business	1,918	2,014	2,769	3,046	44.4%	51.2%
Total revenue	111,937	120,625	122,710	132,785	9.6%	10.1%
Gross margin					ppt	
Concrete machinery	31.2%	31.2%	26.0%	25.9%	(5.2)	(5.3)
Excavator	38.0%	38.0%	33.0%	32.5%	(5.0)	(5.5)
Crane machinery	23.0%	23.0%	23.0%	23.0%	0.0	0.0
Piling machinery	45.0%	45.0%	45.0%	44.0%	0.0	(1.0)
Earth moving machinery	36.5%	36.5%	30.0%	29.0%	(6.5)	(7.5)
Other machinery	30.0%	30.0%	22.0%	22.0%	(8.0)	(8.0)
Gross margin (construction machinery)	33.7%	33.5%	29.2%	28.8%	(4.4)	(4.7)
Interest income from financing	-	-	56.0%	56.0%	-	-
Other business	12.0%	12.0%	12.0%	12.0%	0.0	0.0
Blended gross margin	33.3%	33.2%	29.2%	28.8%	(4.1)	(4.4)
S&D expense ratio	6.0%	5.8%	5.5%	5.3%	(0.5)	(0.5)
Administrative, R&D expense ratio	7.0%	6.7%	6.5%	6.3%	(0.5)	(0.4)
Net profit	19,053	20,963	18,662	20,092	-2.1%	-4.2%

Source: Company data, CMBIS estimates

Figure 19: SANY's P/E band

Source: Company data, Bloomberg, CMBIS estimates

Figure 20: SANY's P/B band

Source: Company data, Bloomberg, CMBIS estimates

Financial Summary – SANY Heavy

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	76,233	100,054	122,710	132,785	140,020
Cost of sales	-51,204	-70,034	-86,838	-94,573	-100,097
Gross profit	25,029	30,021	35,872	38,212	39,923
Surcharge	-373	-408	-368	-398	-700
S&D expenses	-5,488	-5,332	-6,749	-7,038	-7,421
Administrative expenses	-5,717	-7,193	-7,976	-8,365	-8,681
Fair value change	290	436	400	400	400
Asset impairment	-1,363	-681	-859	-1,062	-1,120
EBIT	12,378	16,844	20,319	21,748	22,400
Net finance income/(cost)	46	-282	116	387	875
Finance income	489	515	593	878	1,377
Finance expenses	-442	-797	-477	-491	-502
Other gains/(losses)	1,058	1,941	1,960	1,978	1,987
Profit of JV and associates	140	29	176	187	200
Pretax profit	13,621	18,531	22,572	24,301	25,462
Income tax	-2,001	-2,671	-3,273	-3,524	-3,692
After tax profit	11,620	15,861	19,299	20,777	21,770
MI	-295	-429	-637	-686	-718
Net profit	11,325	15,431	18,662	20,092	21,052
D&A	2,020	1,894	1,965	2,055	2,124
EBITDA	14,398	18,738	22,285	23,803	24,524

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	13,621	18,531	22,572	24,301	25,462
Finance cost	120	797	477	491	502
Interest income	-489	-515	-593	-878	-1,377
Profit or loss of associates	-140	-29	-176	-187	-200
Fair value change	-673	-1,341	0	0	0
Provision for assets	241	495	0	0	0
Depreciation and amortization	2,020	1,894	1,965	2,055	2,124
Income tax paid	-2,001	-2,671	-3,273	-3,524	-3,692
Change in working capital	-1,066	-3,531	-9,281	-2,184	-1,129
Others	1,631	-267	-0	-0	-0
Cash flow from operation	13,265	13,363	11,691	20,074	21,691
Net capex on PP&E	-2,157	-4,133	-4,000	-4,000	-3,000
Investment in JV/associates	-11	-47	-50	-50	-50
Investment in subsidiaries	153	4	0	0	0
Dividend received	14	11	18	0	0
Interest received	489	515	593	878	1,377
Others	-9,031	-7,599	-180	-180	-180
Cash flow from investing	-10,544	-11,250	-3,620	-3,352	-1,853
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	1,756	3,020	500	300	300
Dividend paid	-2,165	-3,516	-5,057	-5,972	-6,429
Interest paid	-442	0	-477	-491	-502
Others	-1,187	-1,956	0	0	0
Cash flow from financing	-2,039	-2,452	-5,034	-6,163	-6,631
Change in cash	683	-339	3,037	10,559	13,207
Cash at beginning of the year	11,985	12,157	12,596	15,633	26,192
Exchange and others	-511	778	-0	-0	-0
Cash at the end of the year	12,157	12,596	15,633	26,192	39,399

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	26,555	34,827	36,208	43,451	41,184
PP&E	10,615	10,841	13,183	15,445	16,647
JV/associates	2,985	3,420	3,628	3,866	4,115
Goodwill	49	50	50	50	50
LT trade receivables	1,286	5,555	2,850	8,064	3,445
Intangible assets					
AFS investments	3,339	3,228	3,100	2,963	2,817
Others	0	0	0	0	0
Deferred tax assets	2,580	5,240	5,240	5,240	5,240
Current assets	1,147	1,441	1,441	1,441	1,441
Inventories	72,686	91,428	106,988	118,065	136,966
Trade and bills receivables	14,252	19,198	22,675	22,928	25,338
Other receivables	21,775	21,512	28,917	29,291	32,088
Others	2,787	1,869	3,511	3,402	3,887
Cash	9,061	13,446	13,446	13,446	13,446
Current liabilities	47,953	62,049	63,750	66,765	67,557
Trade and bills payables	20,295	32,207	34,408	37,623	38,615
Bank borrowings	10,771	8,466	7,966	7,766	7,566
Tax payable	1,515	2,030	2,030	2,030	2,030
Others	9,928	11,413	11,413	11,413	11,413
Non-current liabilities	2,866	6,018	7,018	7,518	8,018
Bank borrowings	1,303	4,532	5,532	6,032	6,532
Deferred tax liabilities	714	600	600	600	600
Others	728	849	849	849	849
Equity	48,423	58,188	72,429	87,234	102,575
Shareholders' equity	47,151	56,562	70,167	84,287	98,909
MI	1,272	1,625	2,262	2,948	3,666

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Concrete machinery	30%	27%	29%	30%	32%
Excavator	36%	38%	37%	35%	33%
Crane machinery	18%	19%	20%	21%	22%
Piling machinery	6%	7%	6%	6%	6%
Earth moving machinery	3%	3%	3%	2%	2%
Other machinery	3%	3%	3%	3%	3%
Interest income	1%	1%	1%	1%	1%
Other business	2%	3%	2%	2%	2%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	32.8	30.0	29.2	28.8	28.5
EBIT margin	16.2	16.8	16.6	16.4	16.0
Net profit margin	15.2	15.9	15.7	15.6	15.5
Growth (%)					
Revenue	36.6	31.2	22.6	8.2	5.4
Gross profit	46.4	19.9	19.5	6.5	4.5
EBIT	75.2	36.1	20.6	7.0	3.0
Net profit	85.2	36.3	20.9	7.7	4.8
Balance sheet ratio					
Current ratio (x)	1.5	1.5	1.7	1.8	2.0
Receivable turnover days	106	91	88	95	95
Inventory turnover days	92	87	88	88	88
Payable turnover days	134	137	140	139	139
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	13.1	13.7	13.9	13.2	12.4
ROE	28.8	29.8	29.5	26.0	23.0
Per share data					
EPS (RMB)	1.37	1.82	2.21	2.37	2.49
BVPS (RMB)	5.60	6.68	8.29	9.96	11.69
DPS (RMB)	0.43	0.60	0.71	0.76	0.80

Source: Company data, CMBIS estimates

Jiangsu Hengli (601100 CH, HOLD, TP: RMB83)

On the volume side, we believe Hengli will be able to mitigate the potential slowdown of excavator demand through continuous market share gain in pump and valves. That said, we expect Hengli will suffer from margin pressure (steel accounts for 40% of production cost) as we do not expect the Company will raise the ASP aggressively given the softening downstream demand.

Downgrade to HOLD from Buy. We revise down our earnings forecast in 2021E-23E by 2-1% largely due to lower gross margin assumptions. Our TP is revised from RMB95 to RMB83, based on 38x 2021E P/E (10% discount to the historical average of 42x to reflect the earnings slowdown). Stock has advanced 99% since our initiation in Nov 2019.

Figure 21: Financial summary

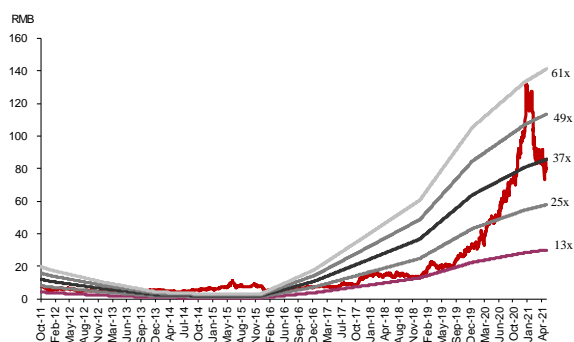
(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,414	7,855	9,789	10,645	11,262
YoY growth (%)	28.6	45.1	24.6	8.7	5.8
Net income (RMB mn)	1,296	2,254	2,853	3,225	3,615
EPS (RMB)	0.99	1.73	2.19	2.47	2.77
YoY growth (%)	54.9	73.9	26.6	13.0	12.1
Consensus EPS (RMB)	NA	NA	2.23	2.68	3.19
EV/EBITDA (x)	62.2	34.4	30.5	27.9	25.6
P/E (x)	81.0	46.6	36.8	32.6	29.1
P/B (x)	18.8	14.4	11.2	9.0	7.5
Yield (%)	0.5	0.7	1.0	1.1	1.2
ROE (%)	25.6	35.0	34.2	30.7	28.1
Net debt / equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: RMB80.47 Source: Company data, CMBIS estimates

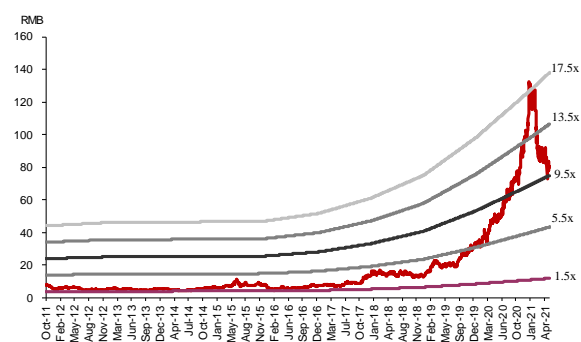
Figure 22: Change in key assumptions

(RMB mn)	Old			New			Change		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue									
Hydraulic cylinder for excavator	3,566	3,851	3,851	3,488	3,488	3,488	-2.2%	-9.4%	-9.4%
Specialised hydraulic cylinder for heavy equipment	1,563	1,720	1,771	1,563	1,720	1,771	0.0%	0.0%	0.0%
Hydraulic pump and valve	2,923	3,654	4,567	3,508	4,034	4,437	20.0%	10.4%	-2.8%
Hydraulic system	212	237	261	196	216	237	-7.4%	-9.1%	-9.1%
Component	1,015	1,167	1,307	1,015	1,167	1,307	0.0%	0.0%	0.0%
Revenue (hydraulic business)	9,279	10,629	11,758	9,770	10,624	11,241	5.3%	0.0%	-4.4%
Other business	19	21	22	19	21	22	0.0%	0.0%	0.0%
Total revenue	9,298	10,650	11,779	9,789	10,645	11,262	5.3%	0.0%	-4.4%
Gross margin									
Hydraulic cylinder for excavator	44.7%	44.5%	44.0%	41.0%	41.0%	41.0%	-3.7	-3.5	-3.0
Specialised hydraulic cylinder for heavy equipment	41.0%	41.0%	41.0%	39.0%	39.0%	39.0%	-2.0	-2.0	-2.0
Hydraulic pump and valve	46.0%	45.0%	45.0%	44.0%	43.0%	43.0%	-2.0	-2.0	-2.0
Hydraulic system	35.0%	35.0%	34.0%	35.0%	35.0%	34.0%	0.0	0.0	0.0
Component	20.0%	25.0%	33.0%	20.0%	25.0%	33.0%	0.0	0.0	0.0
Gross margin (hydraulic business)	41.6%	41.8%	42.5%	39.5%	39.6%	40.4%	-2.1	-2.2	-2.1
Other business	66.0%	66.0%	66.0%	66.0%	66.0%	66.0%	0.0	0.0	0.0
Average gross margin	41.6%	41.8%	42.5%	39.5%	39.6%	40.4%	-2.1	-2.2	-2.1
							Change (ppt)		
S&D expense ratio	-1.2%	-1.1%	-1.1%	-1.2%	-1.2%	-1.2%	0.0	-0.1	-0.1
Admin expense and R&D ratio	-6.2%	-6.0%	-5.9%	-6.2%	-6.1%	-6.0%	0.0	-0.1	-0.1
Net profit	2,897	3,452	4,006	2,853	3,225	3,615	-1.5%	-6.6%	-9.8%

Source: Company data, CMBIS estimates

Figure 23: Hengli's P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 24: Hengli's P/B band

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary – Jiangsu Hengli

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	5,414	7,855	9,789	10,645	11,262
Cost of sales	-3,369	-4,391	-5,921	-6,429	-6,707
Gross profit	2,045	3,464	3,867	4,216	4,555
Surcharge	-52	-72	-98	-106	-113
S&D expenses	-111	-107	-117	-128	-135
Administrative expenses	-435	-509	-607	-649	-676
Asset impairment	-52	-90	0	0	0
EBIT	1,395	2,687	3,045	3,333	3,632
Net finance income/(cost)	31	-151	221	363	517
Finance income	187	223	263	402	556
Finance expenses	-156	-375	-43	-39	-39
Other gains/(losses)	67	74	98	106	113
Profit of JV and associates	0	0	0	0	0
Pretax profit	1,493	2,609	3,364	3,802	4,261
Income tax	-195	-348	-505	-570	-639
After tax profit	1,298	2,261	2,859	3,232	3,622
MI	-2	-7	-6	-6	-7
Net profit	1,296	2,254	2,853	3,225	3,615
D&A	264	311	338	369	394
EBITDA	1,659	2,997	3,383	3,702	4,025

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	1,493	2,609	3,364	3,802	4,261
Finance cost	-33	146	43	39	39
Profit or loss of associates	0	0	0	0	0
Loss/(gain) on disposal	1	1	0	0	0
Depreciation & amortization	264	311	338	369	394
Income tax paid	-375	-714	-505	-570	-639
Change in working capital	66	-849	-278	140	-583
Others	253	488	0	0	0
Cash flow from operation	1,660	1,981	2,962	3,780	3,472
Net capex on PP&E	-434	-380	-500	-500	-400
Investment in JV/associates	0	0	0	0	0
Investment in subsidiaries	0	0	0	0	0
Investment in intangibles	-4	-19	-20	-20	-20
Dividend received	0	0	0	0	0
Others	-14	-264	0	0	0
Cash flow from investing	-452	-663	-520	-520	-420
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	-100	-361	-150	0	0
Dividend paid	-265	-529	-783	-999	-1,129
Interest paid	-107	-40	-43	-39	-39
Others	18	112	0	0	0
Cash flow from financing	-454	-818	-976	-1,037	-1,168
Change in cash	754	499	1,466	2,223	1,884
Cash at beginning of the year	1,571	2,343	2,777	4,243	6,466
Exchange and others	18	-66	0	-0	-0
Cash at the end of the year	2,343	2,777	4,243	6,466	8,350

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	2,935	3,025	3,207	3,358	3,384
PP&E	2,364	2,432	2,608	2,753	2,774
JV/associates	0	0	0	0	0
Goodwill	0	0	0	0	0
Intangible assets	273	280	286	292	297
AFS investments	0	0	0	0	0
Others	257	261	261	261	261
Deferred tax assets	41	52	52	52	52
Current assets	5,492	7,595	9,673	11,714	14,347
Inventories	997	1,217	1,768	1,402	1,942
Trade and bill receivables	1,639	2,705	2,766	2,950	3,160
Prepayment	98	164	164	164	164
Others	414	733	733	733	733
Pledged deposits	0	0	0	0	0
Cash	2,343	2,777	4,243	6,466	8,350
Current liabilities	2,170	2,590	2,824	2,783	2,949
Trade and bill payables	791	1,131	1,465	1,423	1,590
Bank borrowings	937	554	454	454	454
Tax payable	62	119	119	119	119
Advance from customers	192	108	108	108	108
Others	188	677	677	677	677
Non-current liabilities	643	679	629	629	629
Bank borrowings	200	370	320	320	320
Deferred tax liabilities	70	108	108	108	108
Deferred income	223	200	200	200	200
Others	150	0	0	0	0
Equity	5,614	7,352	9,427	11,660	14,154
Shareholders' equity	5,584	7,314	9,384	11,610	14,096
MI	30	38	44	50	57

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Cylinder for excavator	40%	40%	36%	33%	31%
Cylinder for heavy equipment	25%	17%	16%	16%	16%
Hydraulic pump and valve	21%	30%	36%	38%	39%
Hydraulic system	3%	2%	2%	2%	2%
Component	9%	11%	10%	11%	12%
Other business	0%	0%	0%	0%	0%
Total revenue	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	37.8	44.1	39.5	39.6	40.4
EBIT margin	25.8	34.2	31.1	31.3	32.2
Net profit margin	24.0	28.8	29.2	30.4	32.2
Growth (%)					
Revenue	28.6	45.1	24.6	8.7	5.8
Gross profit	32.7	69.4	11.6	9.0	8.0
EBIT	58.7	92.7	13.3	9.4	9.0
Net profit	54.9	73.9	26.6	13.0	12.1
Balance sheet ratio					
Current ratio (x)	2.5	2.9	3.4	4.2	4.9
Receivable turnover days	100	101	102	98	99
Inventory turnover days	111	92	92	90	91
Payable turnover days	80	80	80	82	82
Net debt / total equity (%)	Net	Net	Net	Net	Net
Profitability (%)					
ROA	16.5	23.7	24.3	23.1	22.0
ROE	25.6	35.0	34.2	30.7	28.1
Per share data					
EPS (RMB)	0.99	1.73	2.19	2.47	2.77
BVPS (RMB)	4.28	5.60	7.19	8.89	10.80
DPS (RMB)	0.41	0.60	0.77	0.86	0.97

Source: Company data, CMBIS estimates

Sinotruk (3808 HK, HOLD, TP: HK\$19.5)

Sinotruk's earnings is sensitive to the HDT sales. We revised down our earnings forecast in 2021E/22E by 1%/8% after cutting our sales volume and margin assumptions.

Downgrade to HOLD from Buy. Our TP is revised to HK\$19.5 from HK\$28.5, as we cut our target multiple to 1.7x 2021E EV/EBITDA from 3.5x. Our new multiple, based on midpoint between the average (2.4x since the upcycle in 2016) and the trough level (1x), is to reflect the potential earnings decline in 2022E. Sinotruk has advanced 140% (including dividend) since our initiation in Nov 2017.

Figure 25: Financial summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	62,613	98,198	107,203	103,086	104,393
YoY growth (%)	1.3	56.8	9.2	(3.8)	1.3
Core net profit (RMB mn)	3,270	6,501	6,863	6,416	6,467
Core EPS (RMB)	1.18	2.35	2.49	2.32	2.34
YoY growth (%)	(21.3)	98.8	5.6	(6.5)	0.8
Consensus EPS (RMB)	N/A	N/A	2.30	2.38	2.41
P/E (x)	13.7	6.7	6.2	6.6	6.5
EV/EBITDA (x)	2.6	1.5	1.4	1.5	1.4
P/B (x)	1.6	1.4	1.1	1.0	0.9
Yield (%)	2.4	5.6	5.7	5.3	5.4
ROE (%)	13.2	23.1	19.3	15.6	14.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

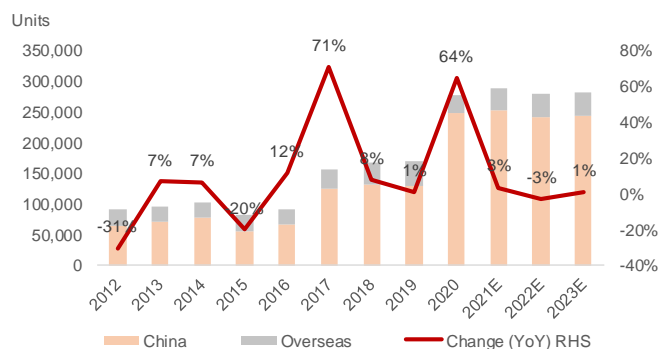
Last closing price: HK\$18.06

Source: Company data, CMBIS estimates

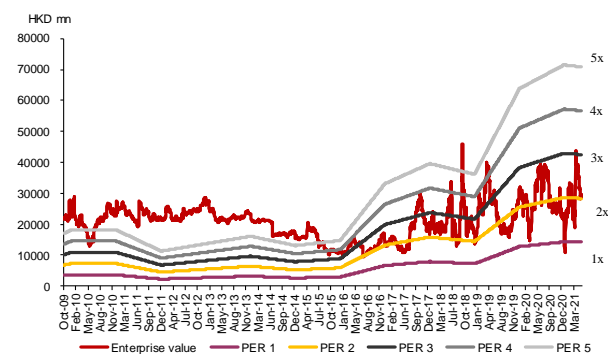
Figure 26: Change in key assumptions

	2021			2022		
Sales volume (units)	Old	New	Diff	Old	New	Diff
Truck	512,526	509,122	-0.7%	554,490	510,794	-7.9%
HDT	291,412	288,008	-1.2%	295,787	278,624	-5.8%
China	254,878	252,403	-1.0%	257,426	242,307	-5.9%
Export	36,534	35,605	-2.5%	38,361	36,317	-5.3%
LDT	221,114	221,114	0.0%	258,703	232,170	-10.3%
Engine	286,786	286,786	0.0%	289,654	281,051	-3.0%
Internal use	271,013	271,013	0.0%	273,723	265,593	-3.0%
External sales	15,773	15,773	0.0%	15,931	15,458	-3.0%
Segment revenue						
(RMB mn)						
Truck	104,751	103,737	-1.0%	106,142	99,050	-6.7%
HDT	86,841	85,826	-1.2%	85,187	80,244	-5.8%
LDT	17,910	17,910	0.0%	20,955	18,806	-10.3%
Engine	28,445	28,445	0.0%	28,767	27,950	-2.8%
Finance	1,822	1,822	0.0%	1,858	1,858	0.0%
Intersegment sales	-27,003	-26,801	-0.8%	-27,353	-25,772	-5.8%
Total	108,014	107,203	-0.8%	109,414	103,086	-5.8%
Segment operating margin						
Truck	5.7%	5.7%	(0.0)	5.7%	5.4%	(0.2)
HDT	6.2%	6.2%	0.0	6.1%	5.9%	(0.2)
LDT	3.5%	3.4%	(0.1)	3.9%	3.5%	(0.4)
Engine and gearbox	14.5%	14.5%	0.0	14.5%	14.2%	(0.3)
Finance	35.0%	35.0%	0.0	35.0%	33.0%	(2.0)
Average	9.1%	9.1%	0.0	9.0%	8.8%	(0.2)
Net profit	6,922	6,863	-0.9%	6,980	6,416	-8.1%

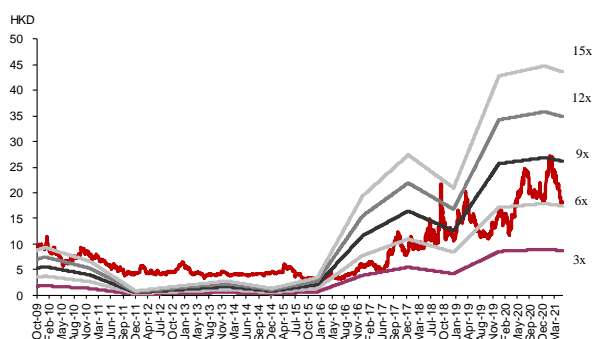
Source: Company data, CMBIS estimates

Figure 27: Sinotruk's HDT sales volume projection

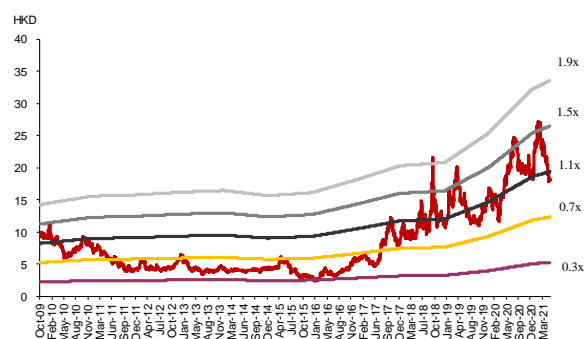
Source: Company data, CMBIS estimates

Figure 28: Sinotruk's EV/EBITDA band

Source: Bloomberg, Company data, CMBIS estimates

Figure 29: Sinotruk P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 30: Sinotruk P/B band

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary – Sinotruk

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	62,613	98,198	107,203	103,086	104,393
Cost of sales	-50,380	-78,613	-85,869	-82,778	-83,828
Gross profit	12,233	19,585	21,333	20,308	20,565
Operating expenses	-7,240	-10,115	-11,590	-11,246	-11,447
EBIT	4,993	9,471	9,744	9,062	9,119
Net finance cost	-94	26	63	80	87
Finance income	47	58	104	119	126
Finance expenses	-141	-32	-41	-38	-38
Profit of JV and associates	61	55	96	116	126
Pretax profit	4,961	9,551	9,903	9,259	9,332
Income tax	-1,045	-2,127	-2,278	-2,129	-2,146
After tax profit	3,916	7,424	7,625	7,129	7,186
MI	-442	-573	-763	-713	-719
Net profit	3,474	6,851	6,863	6,416	6,467
Core net profit	3,270	6,501	6,863	6,416	6,467
D&A	1,567	1,613	2,169	2,559	2,949
EBITDA	6,561	11,083	11,913	11,622	12,068

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Pretax profit	4,961	9,551	9,903	9,259	9,332
Finance cost	141	32	41	38	38
Interest income	-47	-58	-104	-119	-126
Share of profit or loss of associates	-61	-55	-96	-116	-126
Depreciation	1,495	1,551	2,089	2,479	2,869
Amortization of intangible assets	72	62	80	80	80
Income tax paid	-1,221	-1,765	-2,278	-2,129	-2,146
Change in working capital	1,853	8,899	835	-179	-28
Others	1,582	1,307	0	0	0
Cash flow from operation	8,775	19,524	10,470	9,313	9,894
Net capex on PP&E	-822	-1,007	-5,000	-5,000	-5,000
Dividend received	31	10	14	17	19
Interest received	51	62	104	119	126
Others	808	-3,711	0	0	0
Cash flow from investing	-29	-5,903	-4,882	-4,864	-4,855
Proceeds from equity financing	0	0	5,001	0	0
Net bank borrowings	-2,000	712	-200	0	0
Dividend paid	-1,555	-1,077	-2,430	-2,402	-2,246
Interest paid	-141	-32	-41	-38	-38
Others	-2,153	-2,943	0	0	0
Cash flow from financing	-5,849	-3,340	2,331	-2,440	-2,284
Change in cash	2,897	10,281	7,919	2,009	2,754
Cash at beginning of the year	12,616	17,931	26,049	33,968	35,977
Exchange gains/(losses) and others	2,418	-2,163	0	0	0
Cash at end of the year	17,931	26,049	33,968	35,977	38,731

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Non-current assets	17,741	26,934	29,846	32,386	34,544
PP&E	9,906	12,438	15,349	17,870	20,001
Land use right	1,629	2,453	2,453	2,453	2,453
Investment in JV/associates	497	1,028	1,110	1,209	1,316
Investment properties	797	724	724	724	724
Long term receivables	2,907	7,196	7,196	7,196	7,196
Intangible assets	279	315	235	155	75
AFS / financial assets	0	0	0	0	0
Others	1,727	2,779	2,779	2,779	2,779
Current assets	48,210	84,075	75,872	89,959	81,992
Inventories	9,721	20,811	9,302	19,273	9,664
Trade and bills receivables	16,051	20,222	15,610	17,717	16,604
AFS / financial assets	1,715	5,440	5,440	5,440	5,440
Others	1,259	4,384	4,384	4,384	4,384
Restricted cash	260	4,558	4,558	4,558	4,558
Cash	17,931	26,049	33,968	35,977	38,731
Current liabilities	35,175	73,868	58,381	70,280	59,531
Trade and bills payables	31,455	54,695	39,408	51,307	40,558
Bank borrowings	1,000	1,474	1,274	1,274	1,274
Provisions	1,219	2,140	2,140	2,140	2,140
Others	1,501	1,334	1,334	1,334	1,334
Non-current liabilities	347	1,461	1,461	1,461	1,461
Bank borrowings	0	238	238	238	238
Deferred income	286	505	505	505	505
Others	62	718	718	718	718
Equity	30,428	35,679	45,876	50,603	55,544
Shareholders' equity	27,261	32,115	39,099	43,113	47,334
MI	3,167	3,564	6,778	7,490	8,209

Key ratios

YE 31 Dec	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue mix (%)					
HDT	82.7	84.7	80.1	77.8	77.6
LDT & bus	16.3	15.1	16.7	18.2	18.6
Engine & gearbox	23.4	27.5	26.5	27.1	27.0
Finance	2.5	1.8	1.7	1.8	1.8
Intersegment sales	(25.0)	(29.0)	(25.0)	(25.0)	(25.0)
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
Gross margin	19.5	19.9	19.9	19.7	19.7
EBIT margin	8.0	9.6	9.1	8.8	8.7
Net profit margin	6.3	7.6	7.1	6.9	6.9
Growth (%)					
Revenue	1.3	56.8	9.2	-3.8	1.3
Gross profit	9.5	60.1	8.9	-4.8	1.3
EBIT	-11.5	89.7	2.9	-7.0	0.6
Net profit	-20.0	97.2	0.2	-6.5	0.8
Core net profit	-21.3	98.8	5.6	-6.5	0.8
Balance sheet ratio					
Current ratio (x)	1.4	1.1	1.3	1.3	1.4
Receivable turnover days	83	67	61	59	60
Inventory turnover days	77	71	64	63	63
Payable turnover days	216	200	200	200	200
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	6.1	8.4	7.0	6.3	6.0
ROE	13.2	23.1	19.3	15.6	14.3
Per share data					
EPS (RMB)	1.26	2.48	2.49	2.32	2.34
Core EPS (RMB)	1.18	2.35	2.49	2.32	2.34
BVPS (RMB)	9.87	11.63	14.16	15.61	17.14
DPS (RMB)	0.39	0.88	0.87	0.81	0.82

Note: Core profit excludes the financial gains / (losses)

Source: Company data, CMBIS estimates

Weichai Power (2338 HK, TP: HK\$24.5; 000338 CH, TP: RMB20.5; BUY)

We revise down our earnings forecast in 2021E/22E by 5%/8% after cutting our sales volume and margin assumptions. Our SOTP-based TP for Weichai H/A is revised to HK\$24.5/RMB20.5 from HK\$27.6/RMB23.4.

We maintain our **BUY** rating on Weichai as we believe Weichai will likely gain market share in the HDT engine segment after the implementation of NES VI. Besides, the Company's diversified revenue stream (e.g. large-bore high speed engine, agricultural engine, KION and hydrogen fuel cell commercial vehicles) will help reduce the potential impact of a slowdown of HDT and construction machinery demand.

Figure 31: Financial summary – Weichai-H

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	174,361	197,491	218,291	227,688	235,620
YoY growth (%)	9.5	13.3	10.5	4.3	3.5
Core net profit (RMB mn)	9,105	9,207	11,380	11,963	12,586
Core EPS (RMB)	1.15	1.16	1.43	1.51	1.59
YoY growth (%)	6.0	1.1	23.6	5.1	5.2
Consensus EPS (RMB)	N/A	N/A	1.40	1.57	1.74
P/E (x)	13.6	13.2	10.2	9.7	9.2
EV/EBITDA (x)	5.7	5.9	5.1	4.8	4.5
P/B (x)	2.7	2.4	1.9	1.7	1.5
Yield (%)	1.8	1.0	3.9	4.1	4.4
ROE (%)	21.5	19.1	20.2	18.4	17.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: HK\$17.48

Source: Company data, CMBIS estimates

Figure 32: Financial summary – Weichai-A

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	174,361	197,491	218,291	227,688	235,620
YoY growth (%)	9.5	13.3	10.5	4.3	3.5
Core net profit (RMB mn)	9,105	9,207	11,380	11,963	12,586
Core EPS (RMB)	1.15	1.16	1.43	1.51	1.59
YoY growth (%)	6.0	1.1	23.6	5.1	5.2
Consensus EPS (RMB)	N/A	N/A	1.40	1.57	1.74
P/E (x)	16.4	16.0	12.3	11.7	11.1
EV/EBITDA (x)	6.8	7.1	6.1	5.7	5.4
P/B (x)	3.3	2.9	2.3	2.0	1.8
Yield (%)	1.5	0.8	3.3	3.4	3.6
ROE (%)	21.5	19.1	20.2	18.4	17.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Last closing price: RMB17.46

Source: Company data, CMBIS estimates

Figure 33: Change in key assumptions

Change in key assumptions	2021E			2022E		
Sales volume (unit)	Old	New	Change	Old	New	Change
Engine total	1,072,355	1,072,355	0.0%	1,173,560	1,127,904	-3.9%
HDT (Shaanxi Heavy-duty Motor)	177,380	177,380	0.0%	180,928	173,832	-3.9%
Gear box (Shaanxi Fast Gear Company)	1,304,600	1,304,600	0.0%	1,330,692	1,330,692	0.0%
(RMB mn)						
Revenue						
Diesel engines	69,703	69,703	0.0%	76,281	73,314	-3.9%
Automobiles and major components	93,365	93,365	0.0%	95,988	95,537	-0.5%
Forklift trucks & supply chain solution	72,923	72,923	0.0%	77,298	77,298	0.0%
Intersegment sales	-17,699	-17,699	0.0%	-18,718	-18,461	-1.4%
Total revenue	218,291	218,291	0.0%	230,850	227,688	-1.4%
Segment profit						
Diesel engines	10,595	10,177	-3.9%	11,595	10,630	-8.3%
Automobiles and major components	2,334	1,867	-20.0%	2,400	1,815	-24.4%
Forklift trucks & supply chain solution	4,302	4,302	0.0%	4,561	4,561	0.0%
Intersegment sales	-142	-142	0.0%	-150	-148	-1.4%
Total segment profit	17,090	16,205	-5.2%	18,405	16,859	-8.4%
Segment margin		Change (ppt)			Change (ppt)	
Diesel engines	15.2%	14.6%	-0.6	15.2%	14.5%	-0.7
Automobiles and major components	2.5%	2.0%	-0.5	2.5%	1.9%	-0.6
Forklift trucks & supply chain solution	5.9%	5.9%	0.0	5.9%	5.9%	0.0
Average	7.8%	7.4%	-0.4	8.0%	7.4%	-0.6
Net profit	11,955	11,380	-4.8%	12,973	11,963	-7.8%

Source: Company data, CMBIS estimates

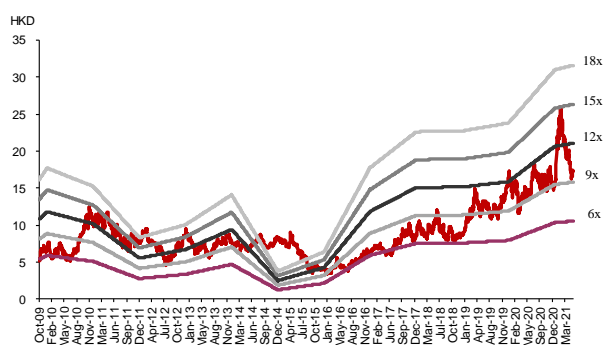
Figure 34: SOTP valuation

SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA 2021E (RMB mn)	Estimated EV (RMB mn)	Net cash / (Net debt)	Equity value (RMB mn)
Weichai core business	EV/EBITDA	6.5	14,744	95,836	17,442	113,278
KION Group	Proportionate market value	-	-	-	-	39,906
Ballard Power Systems	Proportionate market value	-	-	-	-	6,322
Ceres Power	Proportionate market value	-	-	-	-	3,749
Share of JV/associates	P/B	2.5	-	-	-	8,796
Minority interest (Weichai core business)						-9,756
Total NAV						162,294
NAV per share (RMB)						20.5
NAV per share (HK\$)						24.5

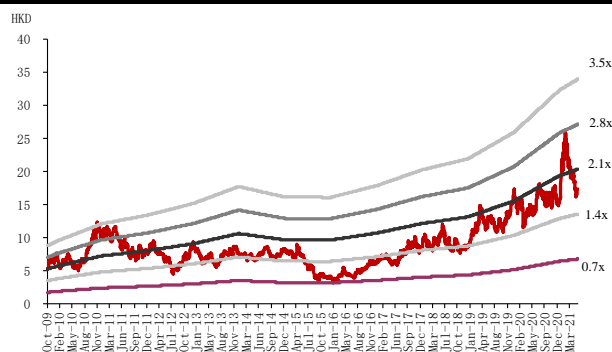
Note 1: Weichai owns 45.2% interest in KION, 20% interest in Ballard Power and 20% interest in Ceres Power.

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

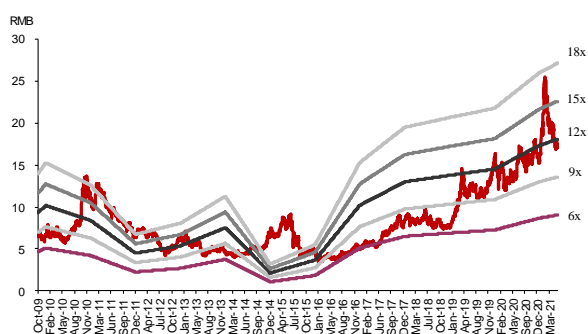
Source: Company data, CMBIS estimates

Figure 35: Weichai Power-H P/E band

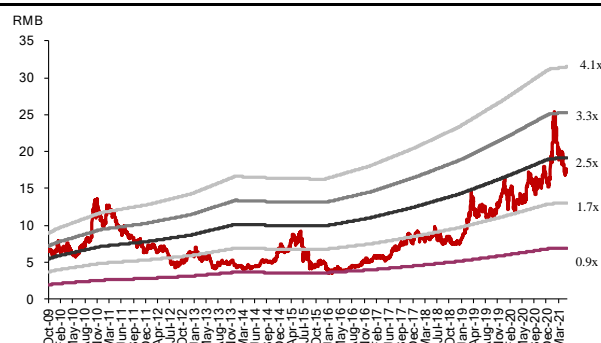
Source: Bloomberg, Company data, CMBIS estimates

Figure 36: Weichai Power-H P/B band

Source: Bloomberg, Company data, CMBIS estimates

Figure 37: Weichai Power-A P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 38: Weichai Power-A P/B band

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary – Weichai Power

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	174,361	197,491	218,291	227,688	235,620
Cost of sales	-136,353	-159,353	-175,725	-183,289	-189,674
Gross profit	38,008	38,138	42,567	44,399	45,946
Operating expenses	-23,586	-25,289	-25,312	-26,496	-27,209
EBIT	14,422	12,850	17,255	17,903	18,737
Other expenses	-94	-142	-262	-273	-283
Net finance cost	-220	-279	229	483	726
Finance income and others	1,067	1,278	1,571	1,828	2,085
Finance expenses	-1,288	-1,557	-1,341	-1,345	-1,359
profit of JV & associates	244	253	250	255	261
Pretax profit	14,352	12,682	17,472	18,368	19,441
Income tax	-2,445	-1,407	-2,883	-3,031	-3,305
After tax profit	11,907	11,275	14,589	15,337	16,136
MI	-2,802	-2,068	-3,210	-3,374	-3,550
Net profit	9,105	9,207	11,380	11,963	12,586
D&A	8,071	8,858	7,860	9,039	9,856
EBITDA	22,493	21,708	25,114	26,942	28,593

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Pretax profit	14,352	12,682	17,472	18,368	19,441
Finance cost	1,288	1,557	1,341	1,345	1,359
Interest income	-1,067	-1,278	-1,571	-1,828	-2,085
Share of profit or loss of associates	-244	-253	-250	-255	-261
Depreciation	6,188	6,699	5,555	6,635	7,335
Amortization of intangible assets	1,820	2,087	2,230	2,327	2,441
Income tax paid	-2,445	-1,407	-2,883	-3,031	-3,305
Change in working capital	2,603	1,114	183	726	-771
Others	1,341	1,727	1,646	1,905	2,165
Cash flow from operation	23,835	22,928	23,724	26,192	26,319
Net capex on PP&E	-6,335	-5,992	-9,500	-10,500	-9,000
Investment in JV/associates	-243	-537	0	0	0
Investment in subsidiaries	0	-938	0	0	0
Dividend received	135	145	142	146	149
Others	-1,947	-2,095	0	0	0
Cash flow from investing	-8,391	-9,417	-9,358	-10,354	-8,851
Proceeds from equity financing	0	0	0	0	0
Net bank borrowings	1,137	1,052	300	300	800
Dividend paid	-4,851	-3,459	-1,190	-4,552	-4,785
Interest paid	0	0	-1,341	-1,345	-1,359
Others	-3,853	-579	0	0	0
Cash flow from financing	-7,567	-2,986	-2,231	-5,597	-5,345
Change in cash	7,877	10,525	12,135	10,240	12,123
Cash at beginning of the year	38,210	48,818	62,216	74,351	84,591
Exchange gains/(losses) and others	2,731	2,873	0	0	0
Cash at the end of the year	48,818	62,216	74,351	84,591	96,714

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Non-current assets	110,647	118,235	120,058	121,706	121,042
PP&E	26,316	31,720	34,165	36,530	36,196
Investment in JV/associates	4,711	4,944	5,052	5,162	5,274
Goodwill	23,823	24,666	24,666	24,666	24,666
Long term receivables	8,448	9,623	9,623	9,623	9,623
Intangible assets	23,436	23,826	23,096	22,269	21,828
Others	23,914	23,457	23,457	23,457	23,457
Current assets	126,185	152,515	164,001	178,729	189,577
Prepayments	997	1,095	1,020	943	863
Inventories	24,718	31,226	30,398	33,879	32,637
Trade receivables	14,285	15,422	15,677	16,761	16,807
Notes receivables	26,458	28,780	28,780	28,780	28,780
Others	10,910	13,775	13,775	13,775	13,775
Cash	48,818	62,216	74,351	84,591	96,714
Current liabilities	105,877	123,713	124,123	130,213	129,047
Trade and bills payables	36,749	45,450	45,060	50,350	48,384
Notes payable	22,446	22,970	22,970	22,970	22,970
Bank borrowings	15,013	17,006	17,806	18,606	19,406
Others	31,669	38,287	38,287	38,287	38,287
Non-current liabilities	61,180	66,604	66,104	65,604	65,604
Bank borrowings	21,669	20,729	20,229	19,729	19,729
Long term payables	16,325	21,205	21,205	21,205	21,205
Others	23,186	24,670	24,670	24,670	24,670
Equity	69,775	80,433	93,832	104,618	115,969
Shareholders' equity	45,224	51,202	61,392	68,803	76,604
MI	24,551	29,231	32,441	35,815	39,365

Key ratios

YE 31 Dec	FY19A	FY20A	FY21A	FY22E	FY23E
Sales mix (%)					
Diesel engines	28.7	31.8	31.9	32.2	32.8
Automobiles and major components	41.0	43.5	42.8	42.0	40.5
Forklift trucks & supply chain solution	38.5	33.0	33.4	33.9	34.8
Intersegment sales	(8.2)	(8.2)	(8.1)	(8.1)	(8.1)
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
Gross margin	21.8	19.3	19.5	19.5	19.5
EBIT margin	8.3	6.5	7.9	7.9	8.0
After tax profit margin	6.8	5.7	6.7	6.7	6.8
Growth (%)					
Revenue	9.5	13.3	10.5	4.3	3.5
Gross profit	6.9	0.3	11.6	4.3	3.5
EBIT	4.4	(10.9)	34.3	3.8	4.7
Net profit	5.2	1.1	23.6	5.1	5.2
Balance sheet ratio					
Current ratio (x)	1.2	1.2	1.3	1.4	1.5
Receivable turnover days	29	27	26	26	26
Inventory turnover days	61	64	64	64	64
Payable turnover days	91	94	94	95	95
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	5.4	4.4	5.3	5.2	5.3
ROE	21.5	19.1	20.2	18.4	17.3
Per share data					
EPS (RMB)	1.15	1.16	1.43	1.51	1.59
BVPS (RMB)	5.70	6.45	7.74	8.67	9.66
DPS (RMB)	0.29	0.15	0.57	0.60	0.63

Source: Company data, CMBIS estimates

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