CMB International Securities | Equity Research | Company Update

Sinotruk (Hong Kong) (3808 HK)

SHIG to officially control Sinotruk after the equity transfer

We believe the transfer of equity interest in CNHTC (parent company of Sinotruk) from Ji'nan SASAC to SHIG (parent company of Weichai Power [2338 HK, BUY]) has been largely expected since the appointment of TAN Xuguang as the Chairman of CNHTC a year ago. We believe the equity transfer will further strengthen the cooperation between Weichai Power and Sinotruk going forward. The synergies include the launch of new products and further reduction on procurement cost. Maintain BUY.

- What's new? Sinotruk announced yesterday that Ji'nan SASAC will transfer 45% of equity interest in CNHTC to SHIG for nil consideration. In addition, Shandong State-owned Assets Investment will delegate to SHIG the equity holders' rights (including voting rights but excluding the asset and income rights) for its 20% interest in CNHTC for nil consideration. The equity transfer is subject to the grant of the approval by the State Administration for Market Regulation of China.
- CNHTC will be officially under the control of SHIG. Before the change in shareholding, Ji'nan SASAC owned 80% of equity interest in CNHTC (Figure 1). After the equity transfer of 45% in CNHTC, Ji'nan SASAC's interest will be reduced to 35% (Figure 2). This, together with the transfer of the 20% voting rights from Shandong State-owned Assets Investment, SHIG's voting rights in CNHTC will become 65%, effectively replacing Ji'nan SASAC as the controlling shareholder of CNHTC. SHIG is not required to make mandatory offer for Sinotruk, according to SFC's ruling.
- The equity transfer is largely expected. The change in shareholding structure has been expected after TAN Xuguang was appointed as the Chairman of CNHTC a year ago (see "China HDT sector - Integration of CNHTC into Shandong Heavy Industry Group is likely" published on 3 Sep 2018). We believe this will allow SHIG to strengthen the control of CNHTC and we expect further cooperation between Weichai Power and Sinotruk. That said, we do not expect changes in Sinotruk's shareholding structure at this stage, given that it will involve the interest of MAN SE (second largest shareholder) and the public shareholding.
- Major risk factors: (1) Weakness of HDT and LDT demand, (2) longer-thanexpected impact of anti-loading policy, (3) technology risk. **Earnings Summary**

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	55,458	61,785	64,466	66,999	66,266
YoY growth (%)	68.3	11.4	4.3	3.9	(1.1)
Net income (RMB mn)	2,771	4,157	4,653	5,073	4,858
EPS (RMB)	1.00	1.51	1.69	1.84	1.76
YoY growth (%)	501.6	50.0	11.9	9.0	(4.2)
P/E (x)	9.9	6.6	6.2	5.7	5.9
EV/EBITDA (x)	3.3	2.7	2.5	2.3	2.4
Р/В (х)	1.2	1.1	1.0	0.9	0.8
Yield (%)	6.1	5.5	5.7	6.2	5.9
ROE (%)	14.2	18.0	17.2	16.7	14.5
Net gearing (%)	Net cash				

Source: Company data, CMBIS estimates



BUY (Maintain)

Target Price	HK\$19.40
(Previous TP	HK\$19.40)
Up/Downside	+68%
Current Price	HK\$11.56

China Capital Goods

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Stock Data

Mkt Cap (HK\$ mn)	31,917
Avg 3 mths t/o (HK\$ mn)	64
52w High/Low (HK\$)	20.40/10.04
Total Issued Shares (mn)	2,761
Source: Bloomberg	

Shareholding Structure	
CNHTC	51%
MAN SE	25%
Others	24%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-3.7%	-4.6%
3-mth	-14.5%	-6.0%
6-mth	-30.8%	-22.5%
Source: Bloom	bera	

12-mth Price Performance



Source: Bloomberg

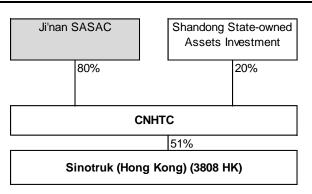
Auditor: PWC

Related Reports

- Sinotruk (3808 HK, BUY) Weak 1. sales but cost control on track in 1H19 - 2 Sep 2019
- China HDT Sector 3Q19 HDT 2. sales +2% YoY; better than expectations - 5 Aug 2019
- 3 China HDT Sector Three catalysts in 3Q19; Opportunity emerges - 8 Jul 2019

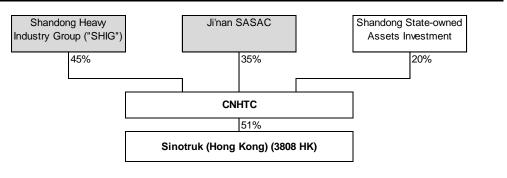






Source: Company data, CMBIS

Figure 2: After the change in shareholding structure



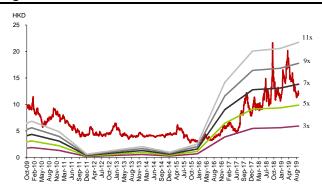
Source: Company data, CMBIS

Figure 3: Key operating assumptions

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	2017	2018	2019E	2020E	2021E
Sales volume (unit)					0.40.007
Truck	263,903	302,094	307,907	329,106	342,207
HDT	156,243	168,048	171,180	174,604	167,620
China	125,627	131,748	133,065	135,727	130,298
Export	30,616	36,300	38,115	38,877	37,322
LDT	107,660	134,046	136,727	154,501	174,587
Engine	184,540	175,889	171,022	172,732	164,096
Internal use	170,700	159,531	157,936	159,515	151,540
External sales	13,841	16,358	13,086	13,217	12,556
% of total					
Internal use	93%	91%	92%	92%	92%
External sales	8%	9%	8%	8%	8%
Growth (YoY)					
Truck	56%	14%	2%	7%	4%
HDT	71%	8%	2%	2%	-4%
China	89%	5%	1%	2%	-4%
Export	22%	19%	5%	2%	-4%
LDT	38%	25%	2%	13%	13%
Total	53%	14%	2%	7%	4%
Engine	74%	-5%	-3%	1%	-5%
Internal use	75%	-7%	-1%	1%	-5%
External sales	61%	18%	-20%	1%	-5%
ASP (RMB/unit)					
Truck	206,482	199,405	208,739	203,883	195,373
HDT	291,630	290,361	301,390	302,000	302,000
LDT	82,910	85,378	92,741	93,000	93,000
Engines	79,689	80,230	77,592	78,000	78,000

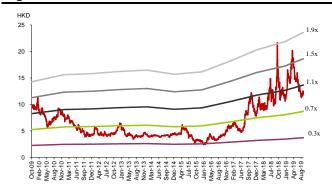
Source: Company data, CMBIS estimates

Figure 4: Sinotruk P/E band



Source: Company data, CMBIS estimates

Figure 5: Sinotruk P/B band



Source: Company data, CMBIS estimates



Financial Summary

Income statement

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

Cash flow summary

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

Balance sheet Key ratios YE 31 Dec (RMB mn) FY17A FY18A FY19E FY20E FY21E YE 31 Dec FY17A FY18A FY19E FY20E FY21E 15,043 Revenue mix (%) 17,373 16,676 15,950 Non-current assets 16.772 PP&E 9,938 10,366 9,650 8,886 7,983 HDT 82.2 79.0 80.0 78.7 76.4 Land use right 1,650 1,612 1,612 1,612 1,612 LDT 16.1 18.5 19.7 21.4 24.5 26.5 Investment in JV/associates 478 534 628 739 809 Engines 22.8 20.6 20.1 19.3 710 713 Investment properties 713 713 713 Finance 2.0 2.3 2.4 2.4 2.5 Long term receivables 1.947 2.195 2.195 2.195 2.195 Intersegment sales (26.8)(22.6)(22.7)(22.7)(22.7)Intangible assets 357 324 250 176 103 Total 100.0 100.0 100.0 100.0 100.0 AFS / financial assets 206 212 Profit & loss ratio (%) 212 212 212 Others 1,488 1,417 1,417 1,417 1,417 Gross margin 18.1 18.1 18.7 18.3 18.3 44,411 44,308 51,236 53,829 58,672 EBIT margin 9.1 9.3 9.6 9.3 Current assets 7.7 Inventories 13,246 11,594 13,103 12,691 12,821 Net profit margin 6.0 7.6 7.8 8.2 8.0 Growth (%) Trade and bills receivables 15,151 12,589 14,610 14,025 14,297 AFS / financial assets 2.340 4.601 4,601 4.601 4.601 Revenue 68.3 11.4 4.3 3.9 -1.1 Gross profit Others 1,256 554 554 554 554 72.4 11.4 7.9 1.7 -1.1 Restricted cash 283.8 32.1 2.577 2.339 2.339 2.339 2.339 EBIT 5.8 8.2 -4.3 Cash 9,840 12,629 16,029 19,618 24,059 Net profit 468.1 43.7 7.1 9.0 -4.2 Core net profit 501.6 50.0 11.9 9.0 -4.2 Current liabilities 35,325 32,986 35,684 33,664 34,095 Balance sheet ratio Trade and bills payables 28,546 28,305 32,003 30,983 31,315 1.3 1.3 1.4 1.6 1.7 Current ratio (x) Bank borrowings 3,990 3,000 2,000 1,000 1,100 Receivable turnover days 96 82 77 78 78 87 Provisions 978 929 929 929 929 Inventory turnover days 90 86 86 86 Others 1 811 752 752 752 198 205 210 210 210 752 Pavable turnover davs Non-current liabilities 427 367 367 367 367 Net debt / total equity (%) Net cash Net cash Net cash Net cash 0 Profitability (%) Bank borrowings 0 0 0 0 Deferred income 361 316 316 316 316 ROA 6.0 7.7 7.8 8.0 7.4 Others ROE 66 50 50 50 50 14.2 18.0 17.2 16.7 14.5 Equity 25.431 28.328 31.862 35.748 39.253 Per share data Shareholders' equity 22,757 25,476 28,605 32,050 35,132 EPS (RMB) 1.09 1.57 1.69 1.84 1.76 MI Core EPS (RMB) 2.673 2.852 3.257 3.698 4,121 1 00 1 51 1 69 1 84 176 **BVPS (RMB)** 8.24 10.36 11.61 12.72 9.23 DPS (RMB) 0.58 0.55 0.59 0.64 0.62

Source: Company data, CMBIS estimates



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