

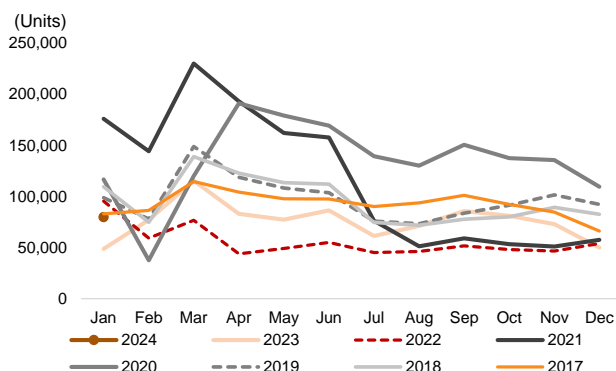
# Capital Goods

## HDT sales volume surged ~64% YoY in Jan on low base

According to preliminary data from Cvworl, China HDT sales volume (domestic sales + exports) surged 64% YoY to ~80k units in Jan 2024. The growth is stronger than our expectation as: (1) part of the sales in Dec 2023 were postponed to Jan 2024; (2) an early CNY in 2023 resulted in a low base effect. Smoothing out the CNY effect by comparing the average sales in 2M23 (63k units), the sales of 80k units in Jan 2024 represented 27% growth. We maintain our HDT industry sales volume growth forecast of 17% for the full year, driven by replacement demand and resilient exports. We continue to like **Weichai (2338 HK/000338 CH, BUY, sector top pick)** on market share gains driven by natural gas engines, and **Sinotruk (3808 HK)** on its export-driven growth potential.

■ **Payback period for gas HDTs is estimated at 2.9 years, versus 3.4 years for diesel HDTs.** The gas/diesel price ratio is currently at 0.73x, versus 0.96x in late Dec 2023, following a sharp decline of LNG price. Our payback period analysis suggests that gas HDTs have become more attractive than diesel HDTs again. Our key assumptions include: (1) purchase price (VAT-included) of RMB468k for a LNG HDT and RMB374k for a diesel HDT; and (2) average daily transportation distance of 500km. For truck buyers, based on the current price of LNG (RMB5.2/kg) and diesel (RMB7.1/litre), the annual net profit of RMB159k generated from a LNG truck is better than that of a diesel truck (RMB110k).

### China HDT monthly sales volume



Source: Cvworl, Wind, CMBIGM

Note: Domestic sales + exports

## OUTPERFORM

### China Capital Goods Sector

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

### Related reports:

Weichai Power (2338 HK) – 4Q23E earnings surged 31-71%, above expectation – 24 Jan 2024 ([link](#))

Sinotruk (3808 HK) – Big surprise on 2023E earnings; TP raised – 24 Jan 2024 ([link](#))

China Heavy-duty Truck – Multi-cylinder diesel engine sales +29% YoY in Dec – 15 Jan 2024 ([link](#))

China Construction Machinery / HDT – 2024 Outlook: Slowdown of overseas demand along with lack of growth in China; be selective – 30 Nov 2023 ([link](#))

**Figure 1: Comparison of investment return between diesel and LNG trucks**

Diesel		LNG	
Operating assumptions			
Transport service income (RMB / tonne km)	0.27	Transport service income (RMB / tonne km)	0.27
Capacity (tonne)	30	Capacity (tonne)	30
Operating days / month	20	Operating days / month	20
Daily transportation distance (km)	500	Daily transportation distance (km)	500
Diesel consumption (litre / 100 km)	30	Gas consumption (kg / 100 km)	30
Diesel price (RMB /litre)	7.1	Gas price (RMB/kg)	5.2
Urea expense (RMB / 100 km)	11.25	Urea expense (RMB / 100 km)	0
Maintenance expense (RMB / 100 km)	60	Maintenance expense (RMB / 100 km)	60
Toll fee per vehicle (RMB/km)	2.2	Toll fee per vehicle (RMB/km)	2.2
Monthly wage of a driver (RMB)	9,000	Monthly wage of a driver (RMB)	9,000
Tax rate (%)	25%	Tax rate (%)	25%
Capex			
Truck purchase price (RMB)	320,000	Truck purchase price (RMB)	400,000
Years of depreciation	5	Years of depreciation	5
VAT rate	17%	VAT rate	17%
VAT (RMB)	54,400	VAT (RMB)	68,000
Total purchase price (RMB)	374,400	Total purchase price (RMB)	468,000
Profitability			
	(RMB)		(RMB)
Revenue (annual)	931,500	Revenue (annual)	931,500
Expense:		Expense:	
Diesel	-254,160	Natural gas	-186,300
Urea	-13,500	Urea	0
Depreciation	-64,000	Depreciation	-80,000
Maintenance	-72,000	Maintenance	-72,000
Toll fee	-253,000	Toll fee	-253,000
Driver wage	-108,000	Driver wage	-108,000
Insurance and others	-20,000	Insurance and others	-20,000
Pre-tax profit	146,840	Pre-tax profit	212,200
Tax	-36,710	Tax	-53,050
Net profit	110,130	Net profit	159,150
Payback period (year)	3.4		2.9

Source: CMBIGM estimates

**Figure 2: Sensitivity of payback period to diesel price**

	Transport service income (RMB / tonne km)					
	0.243	0.2565	0.27	0.2835	0.297	
5.6	4.8	3.3	2.5	2.0	1.7	
6.4	6.3	4.0	2.9	2.3	1.9	
<b>Diesel price</b>	<b>7.1</b>	<b>9.3</b>	<b>5.0</b>	<b>3.4</b>	<b>2.6</b>	<b>2.1</b>
(RMB/litre)	7.8	17.7	6.7	4.1	3.0	2.3
8.5	174.7	10.1	5.2	3.5	2.6	

Source: CMBIGM estimates

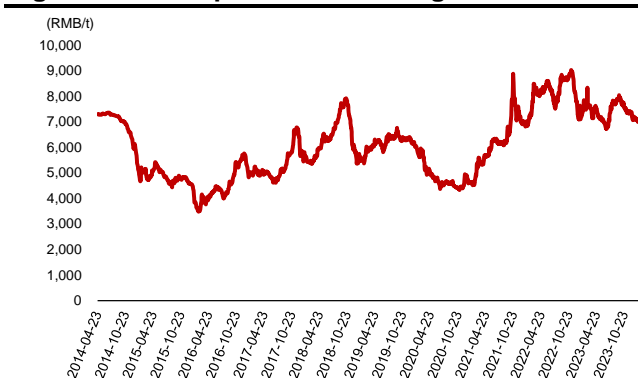
Note: For diesel truck

**Figure 3: Sensitivity of payback period to LNG price**

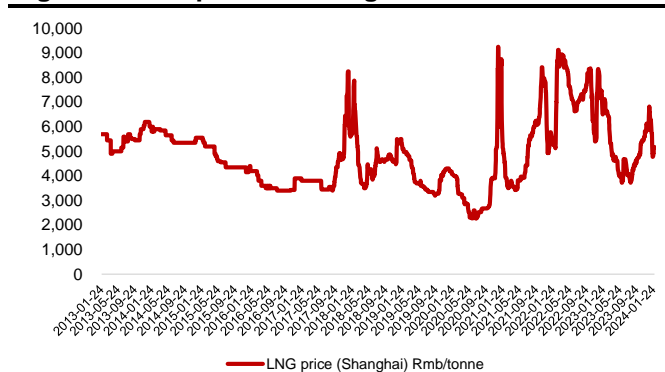
	Transport service income (RMB / tonne km)					
	0.243	0.2565	0.27	0.2835	0.297	
4.1	4.0	3.1	2.5	2.1	1.8	
4.7	4.5	3.4	2.7	2.2	1.9	
<b>LNG price</b>	<b>5.2</b>	<b>5.2</b>	<b>3.8</b>	<b>2.9</b>	<b>2.4</b>	<b>2.0</b>
(RMB/kg)	5.7	6.2	4.2	3.2	2.6	2.2
6.2	7.6	4.9	3.6	2.8	2.3	

Source: CMBIGM estimates

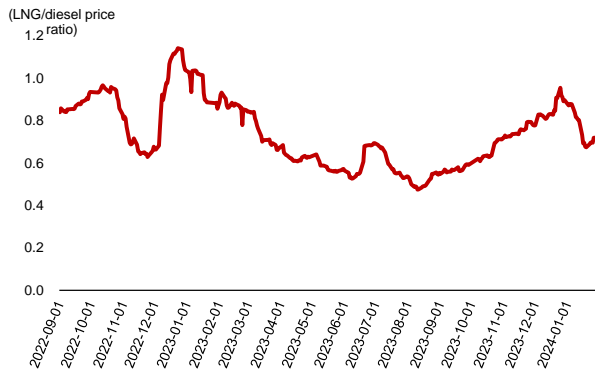
Note: For LNG truck

**Figure 4: Diesel price in Shandong**

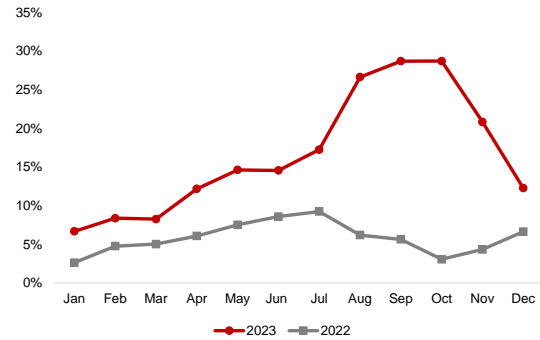
Source: Wind, CMBIGM

**Figure 5: LNG price in Shanghai**

Source: Wind, CMBIGM

**Figure 6: LNG/diesel price ratio**

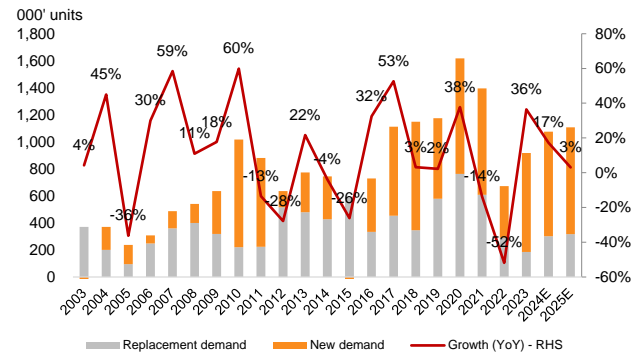
Source: Bloomberg, CMBIGM estimates

**Figure 7: Natural gas HDTs as % of total HDTs sold**

Source: Wind, Cvworl, CMBIGM

**Figure 8: Domestic sales and exports of HDTs**

Source: Wind, CMBIGM estimates

**Figure 9: CMBIGM HDT sales projection**
 Source: Cvworl, Wind, CMBIGM estimates  
 Note: China's domestic sales + exports

# 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

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: 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.