

# Sinotruk (Hong Kong) (3808 HK)

## Ji'nan Truck's fund-raising exercise a long-term positive

Over the weekend, **Ji'nan Truck Company (000951 CH, NR)**, the major subsidiary of Sinotruk, announced an A-share placement plan to raise a max. of RMB7bn for capacity upgrade. While the potential placement will reduce Sinotruk's interest in Ji'nan Truck to 51% (from 63.78%) and result in 4% earnings dilution based on our back-of-the-envelope calculation, we see the plan as a strategic move to improve production automation and achieve product upgrade that are crucial for long-term competitiveness. It also suggests that, after more than a year of internal restructuring, Sinotruk begins to take a proactive approach to pursue growth. We have left our earnings forecast unchanged as the placement plan is pending the approval of SASAC and CSRC. Maintain **BUY** with TP of HK\$28.3 (based on 6x 2020E EV/EBITDA).

- What's new?** Ji'nan Truck plans to issue a total of 168mn new A-shares (20% of the enlarged o/s shares) to a max. of 35 institutional investors. The target amount of RMB7bn implies a max. placement price of RMB41.64, 16.5% above the closing price last Friday, whereas the minimum placement price will be no less than 80% of the average trading price 20 days before the day of new share issuance. Subscribers are subject to a lock-up period of six months. Ji'nan Truck targets to complete the fund raising in Nov 2020.
- Purposes for the fund raising: (1) Intelligent heavy-duty truck project (68% of the total proceeds):** Ji'nan Truck's existing production lines have been running for >10 years and upgrade is needed. Ji'nan Truck plans to relocate the existing capacity (160k units of truck annually) and build a new production plant, which will take two years to complete. The daily operation will not be interrupted as the relocation will take place after the construction of the new plant is completed; **(2) High performance axle housing production capacity (4% of the total proceeds):** Ji'nan Truck plans to build a new production line in order to increase the self-sufficiency ratio. The construction will last for 18 months; **(3) Repayment of bank loans and working capital (28% of total proceeds).**
- Major risk factors:** (1) Slower-than-expected recovery of construction activities, (2) increase in component cost; (3) lower-than-expected return on new projects after fund raising.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	61,785	62,227	76,986	80,381	82,579
YoY growth (%)	11.4	0.7	23.7	4.4	2.7
Net profit (RMB mn)	4,345	3,334	5,641	6,019	6,195
EPS (RMB)	1.51	1.14	2.04	2.18	2.24
YoY growth (%)	50.0	(24.6)	80.0	6.7	2.9
Consensus EPS (RMB)	N/A	N/A	1.84	1.93	1.98
P/E (x)	11.1	15.4	8.6	8.0	7.8
EV/EBITDA (x)	5.0	5.4	3.7	3.5	3.4
P/B (x)	1.8	1.8	1.5	1.3	1.2
Yield (%)	3.4	2.2	4.1	4.4	4.5
ROE (%)	18.0	12.6	19.1	17.8	16.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$28.30
(Previous TP)	HK\$28.30)
Up/Downside	+46%
Current Price	HK\$19.42

### China Capital Goods

#### Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	53,618
Avg 3 mths t/o (HK\$ mn)	69
52w High/Low (HK\$)	25.55/10.96
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	-12.1%	-4.4%
3-mth	-4.6%	0.8%
6-mth	47.6%	49.1%

Source: Bloomberg

#### 12-mth Price Performance



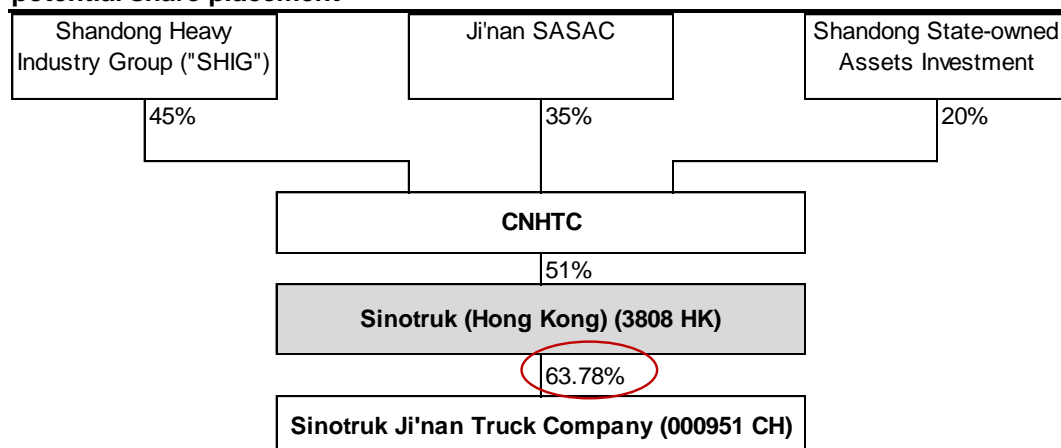
Source: Bloomberg

#### Auditor: PWC

#### Related Reports

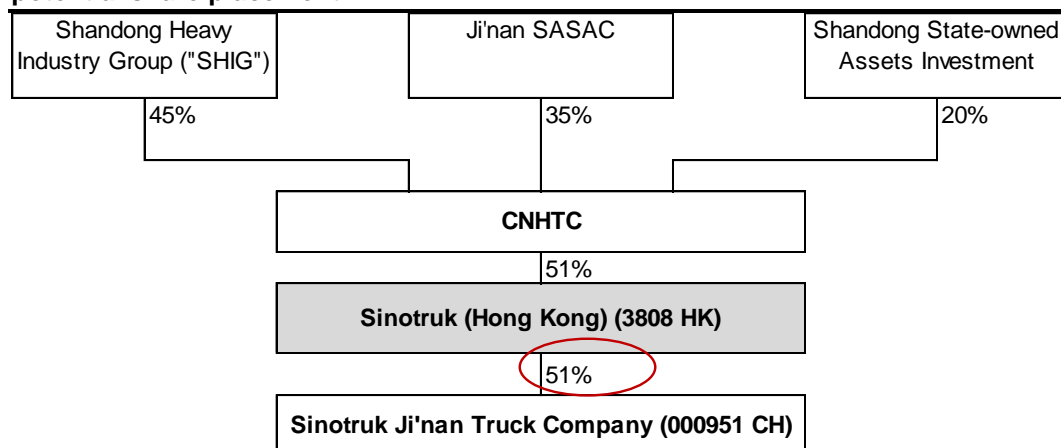
- Sinotruk (3808 HK, BUY) – Uncover the hidden profitability in 1H20 results – 31 Aug 2020
- China Construction Machinery & HDT Sector – Raise industry sales forecast in 2020E-21E; Solid upcycle – 30 Jun 2020
- Sinotruk (3808 HK, BUY) – Returning to growth territory in 2020E – 2 Apr 2020
- Sinotruk (3808 HK, BUY) – Incrementally positive on the back of more signs of recovery – 11 Mar 2020

**Figure 1: Shareholding structure of Sinotruk Ji'nan Truck Company before the potential share placement**



Source: Company data, CMBIS

**Figure 2: Shareholding structure of Sinotruk Ji'nan Truck Company after the potential share placement**



Source: Company data, CMBIS

**Figure 3: Use of proceeds from share placement (for Sinotruk Ji'nan Truck Company)**

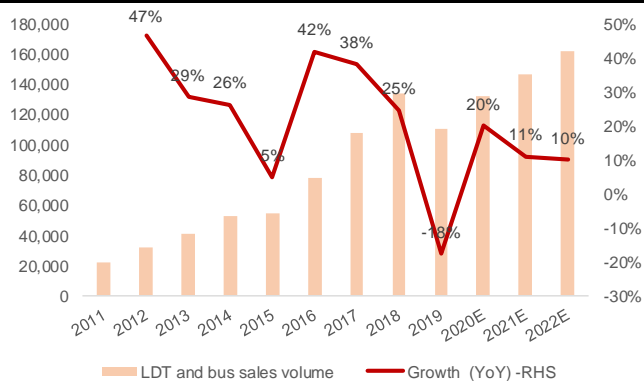
Investment project	Investment budget RMB (mn)	Funding source	
		Share placement RMB (mn)	Others RMB (mn)
Intelligent heavy-duty truck project	8,698	4,700	3,998
High performance axle production capacity	369	300	69
Repayment of bank loans & working capital	2,000	2,000	0
<b>Total</b>	<b>11,066</b>	<b>7,000</b>	<b>4,066</b>

Source: Company data, CMBIS

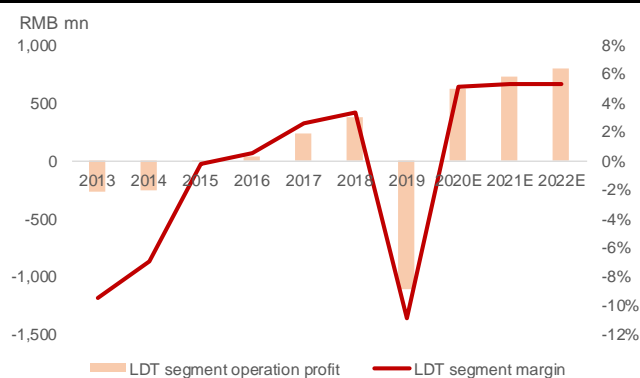
**Figure 4: An illustration on earnings dilution for Sinotruk**

Net profit in 2019 based on HKFRS (RMB mn)	
Sinotruk	3,334
Ji'nan Truck Company	1,081
<b>Before share placement</b>	
Net profit attributable to Sinotruk (RMB mn)	
Sinotruk's interest in Ji'nan Truck Company	689
Profit contributed by Ji'nan Truck Company	20.68%
<b>After share placement</b>	
Net profit attributable to Sinotruk (RMB mn)	
Sinotruk's interest in Ji'nan Truck Company	551
Profit contributed by Ji'nan Truck Company	16.54%
<b>Earnings dilution after share placement</b>	<b>4%</b>

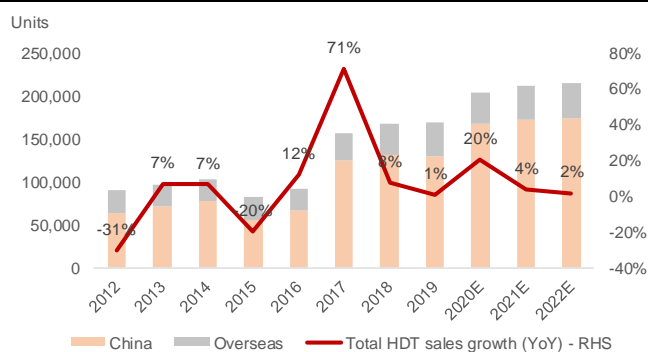
Source: Company data, CMBIS estimates

**Figure 5: Sinotruk's LDT sales volume projection**

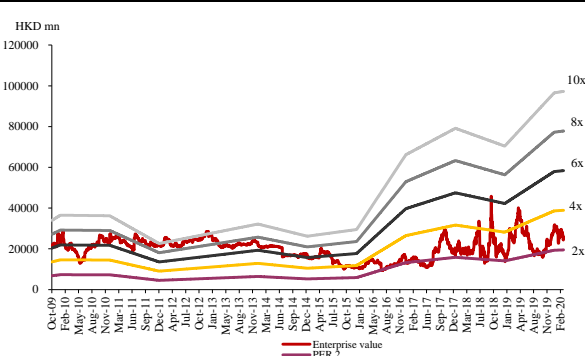
Source: Company data, CMBIS estimates

**Figure 6: Sinotruk's LDT segment profit projection**

Source: Company data, CMBIS estimates

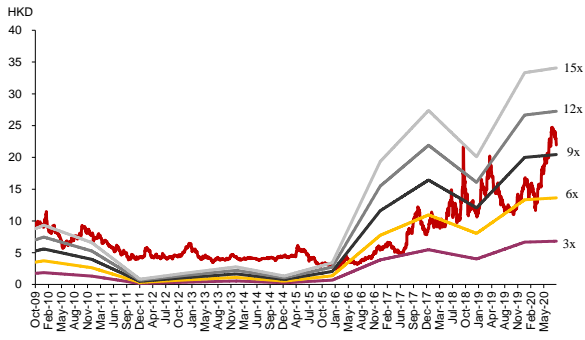
**Figure 7: Sinotruk's HDT sales volume projection**

Source: Company data, CMBIS estimates

**Figure 8: Sinotruk's EV/EBITDA band**

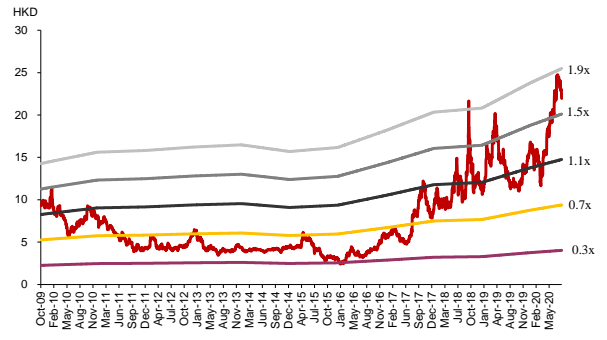
Source: Bloomberg, Company data, CMBIS estimates

**Figure 9: Sinotruk P/E band**



Source: Bloomberg, Company data, CMBIS estimates

**Figure 10: Sinotruk P/B band**



Source: Bloomberg, Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>61,785</b>	<b>62,227</b>	<b>76,986</b>	<b>80,381</b>	<b>82,579</b>
Cost of sales	-50,610	-50,380	-61,974	-64,707	-66,476
<b>Gross profit</b>	<b>11,175</b>	<b>11,847</b>	<b>15,012</b>	<b>15,674</b>	<b>16,103</b>
Operating expenses	-5,532	-7,007	-7,349	-7,587	-7,801
<b>EBIT</b>	<b>5,642</b>	<b>4,839</b>	<b>7,663</b>	<b>8,087</b>	<b>8,302</b>
Net finance cost	-0	-96	51	82	103
Finance income	89	45	69	92	110
Finance expenses	-89	-141	-18	-10	-7
Profit of JV and associates	77	61	80	60	65
<b>Pretax profit</b>	<b>5,719</b>	<b>4,805</b>	<b>7,793</b>	<b>8,229</b>	<b>8,470</b>
Income tax	-993	-1,029	-1,792	-1,893	-1,948
<b>After tax profit</b>	<b>4,726</b>	<b>3,776</b>	<b>6,001</b>	<b>6,336</b>	<b>6,522</b>
MI	-381	-442	-360	-317	-326
<b>Net profit</b>	<b>4,345</b>	<b>3,334</b>	<b>5,641</b>	<b>6,019</b>	<b>6,195</b>
D&A	1,180	1,562	1,697	1,822	1,884
<b>EBITDA</b>	<b>6,823</b>	<b>6,401</b>	<b>9,360</b>	<b>9,909</b>	<b>10,186</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	5,719	4,805	7,793	8,229	8,470
Finance cost	89	141	18	10	7
Interest income	-89	-45	-69	-92	-110
Share of profit or loss of associates	-77	-61	-80	-60	-65
Depreciation	1,078	1,495	1,622	1,747	1,809
Amortization of intangible assets	102	67	75	75	75
Income tax paid	-1,043	-1,029	-1,792	-1,893	-1,948
Change in working capital	-1,639	1,853	6,935	1,404	958
Others	232	1,551	0	0	0
<b>Cash flow from operation</b>	<b>4,374</b>	<b>8,775</b>	<b>14,503</b>	<b>9,420</b>	<b>9,196</b>
Net capex on PP&E	-1,343	-1,034	-2,000	-1,600	-800
Dividend received	0	6	8	6	7
Interest received	89	45	69	92	110
Others	2,223	1,190	0	0	0
<b>Cash flow from investing</b>	<b>979</b>	<b>-29</b>	<b>-3,316</b>	<b>-1,502</b>	<b>-683</b>
Proceeds from equity financing	0	0	0	0	0
Net bank borrowings	-990	-2,000	-500	-200	0
Dividend paid	-1,615	-1,555	-1,077	-1,974	-2,107
Interest paid	-143	-141	-18	-10	-7
Others	117	-2,153	0	0	0
<b>Cash flow from financing</b>	<b>-2,630</b>	<b>-5,849</b>	<b>-1,595</b>	<b>-2,184</b>	<b>-2,114</b>
Change in cash	2,723	2,897	9,592	5,734	6,398
Cash at beginning of the year	9,840	12,616	17,931	27,523	33,256
Exchange gains/(losses) and others	53	2,418	0	0	0
Cash at end of the year	12,616	17,931	27,523	33,256	39,655

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>17,373</b>	<b>17,741</b>	<b>19,508</b>	<b>19,340</b>	<b>18,315</b>
PP&E	10,366	9,906	10,824	10,677	9,668
Land use right	1,612	1,629	1,629	1,629	1,629
Investment in JV/associates	534	497	568	622	681
Investment properties	713	797	797	797	797
Long term receivables	2,195	2,907	2,907	2,907	2,907
Intangible assets	324	279	204	129	54
AFS / financial assets	212	0	0	0	0
Others	1,417	1,727	2,579	2,579	2,579
<b>Current assets</b>	<b>44,308</b>	<b>48,210</b>	<b>66,061</b>	<b>65,732</b>	<b>78,254</b>
Inventories	11,594	9,721	15,069	10,814	15,048
Trade and bills receivables	12,589	16,051	18,962	17,154	19,045
AFS / financial assets	4,601	1,715	1,715	1,715	1,715
Others	554	2,532	2,532	2,532	2,532
Restricted cash	2,352	260	260	260	260
Cash	12,616	17,931	27,523	33,256	39,655
<b>Current liabilities</b>	<b>32,986</b>	<b>35,175</b>	<b>49,870</b>	<b>45,011</b>	<b>52,093</b>
Trade and bills payables	28,305	31,455	46,649	41,991	49,072
Bank borrowings	3,000	1,000	500	300	300
Provisions	929	1,219	1,219	1,219	1,219
Others	752	1,501	1,501	1,501	1,501
<b>Non-current liabilities</b>	<b>367</b>	<b>347</b>	<b>347</b>	<b>347</b>	<b>347</b>
Bank borrowings	0	0	0	0	0
Deferred income	316	286	286	286	286
Others	50	62	62	62	62
<b>Equity</b>	<b>28,328</b>	<b>30,428</b>	<b>35,352</b>	<b>39,714</b>	<b>44,129</b>
Shareholders' equity	25,476	27,261	31,825	35,870	39,959
MI	2,852	3,167	3,527	3,844	4,170

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue mix (%)</b>					
HDT	79.0	82.1	79.8	79.3	78.5
LDT & bus	18.5	16.4	16.0	17.0	18.2
Engine & gearbox	22.8	23.6	27.1	26.6	26.2
Finance	2.3	2.5	2.2	2.1	2.1
Intersegment sales	(22.6)	(24.6)	(25.0)	(25.0)	(25.0)
Total	100.0	100.0	100.0	100.0	100.0
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	18.1	19.0	19.5	19.5	19.5
EBIT margin	9.1	7.8	10.0	10.1	10.1
Net profit margin	7.6	6.1	7.8	7.9	7.9
<b>Growth (%)</b>					
Revenue	11.4	0.7	23.7	4.4	2.7
Gross profit	11.4	6.0	26.7	4.4	2.7
EBIT	32.1	-14.2	58.4	5.5	2.7
Net profit	43.7	-23.3	69.2	6.7	2.9
Core net profit	50.0	-24.6	80.0	6.7	2.9
<b>Balance sheet ratio</b>					
Current ratio (x)	1.3	1.4	1.3	1.5	1.5
Receivable turnover days	82	84	83	82	80
Inventory turnover days	90	77	73	73	71
Payable turnover days	205	216	230	250	250
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Profitability (%)</b>					
ROA	7.7	5.9	7.9	7.4	7.2
ROE	18.0	12.6	19.1	17.8	16.3
<b>Per share data</b>					
EPS (RMB)	1.57	1.21	2.04	2.18	2.24
Core EPS (RMB)	1.51	1.14	2.04	2.18	2.24
BVPS (RMB)	9.23	9.87	11.53	12.99	14.47
DPS (RMB)	0.56	0.39	0.72	0.76	0.79

Source: Company data, CMBIS estimates

# 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.

## CMBIS 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 CMBIS

**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 Securities Limited

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

**CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS 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 CMBIS.

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 CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS 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.