

Sinotruk (Hong Kong) (3808 HK)

Big surprise on 2023E earnings; TP raised

Sinotruk pre-announced impressive net profit growth of 2x-2.4x YoY for 2023 (to RMB5.0-5.68bn), which is >20% above consensus. We believe the surprise came from the strong operating leverage. We revise up our 2023E-25E earnings forecast substantially by 43%-52%, due to higher sales volume and, more importantly, higher operating margin. We revise up our TP to HK\$22.5, based on 4.6x EV/EBITDA (historical average), after rolling over the valuation base to 2024E. Sinotruk is a strong leverage play for the HDT upcycle. Reiterate **BUY**.

- **Industry: HDT sales volume +36% YoY in 2023.** According to Cvworld, China HDT industry sales volume in 2023 (including exports) grew 36% YoY to ~910k units, driven by strong demand for natural gas trucks and exports.
- **Continuous market share gain.** CNHTC (parent company of Sinotruk) delivered 48% YoY growth of HDT sales volume in 2023, which outpaced the industry growth of 36% and represented 2.2ppt YoY expansion of market share to 25.8%. We expect Sinotruk to deliver a similar sales volume trend in 2023.
- **Higher volume and margin assumptions.** We revise up our truck sales volume forecast in 2023E/24E/25E by 9%/20%/21%. Our in-house engine sales volume assumptions for 23E/24E/25E are revised up by 10%/21%/26%. Our blended segment margins for 23E-25E are revised up by 1.4-1.6ppt, as we expect strong operating leverage to continue.
- **Earnings to drive share price rally in 2024E.** Our new TP of HK\$22.5 is based on 4.6x 2024E EV/EBITDA. We remove the premium of 0.5SD (previous multiple: 6x) as we expect the upcoming share price will be driven more by earnings, after the strong growth in 2023.
- **Key risks:** (1) weakness in export sales; (2) a strong rebound of the RMB.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	93,357	59,291	86,068	103,077	108,111
YoY growth (%)	(4.9)	(36.5)	45.2	19.8	4.9
Net profit (RMB mn)	4,322.1	1,796.6	5,055.6	6,271.6	6,635.7
EPS (Reported) (RMB)	1.57	0.65	1.83	2.27	2.40
YoY growth (%)	(36.9)	(58.4)	181.4	24.1	5.8
Consensus EPS (RMB)	na	na	1.48	1.86	2.31
P/E (x)	9.1	12.9	7.2	5.8	5.5
P/B (x)	1.1	0.6	0.9	0.8	0.7
Yield (%)	3.9	3.4	4.8	6.0	6.3
ROE (%)	12.8	5.0	13.3	14.8	14.2
Net gearing (%)	(69.5)	(44.3)	(54.0)	(61.8)	(67.7)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$22.50
(Previous TP)	HK\$19.30
Up/Downside	56.0%
Current Price	HK\$14.42

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Stock Data

Mkt Cap (HK\$ mn)	39,813.6
Avg 3 mths t/o (HK\$ mn)	44.8
52w High/Low (HK\$)	17.28/11.02
Total Issued Shares (mn)	2761.0

Source: FactSet

Shareholding Structure

CNHTC	51.0%
MAN SE	25.0%

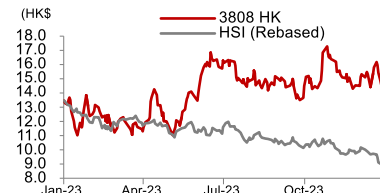
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.8%	5.5%
3-mth	6.8%	19.5%
6-mth	-9.6%	12.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

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

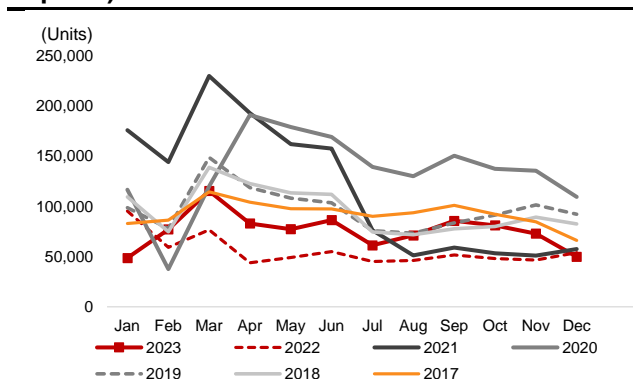
Sinotruk (3808 HK, BUY) – Expect strong growth to continue after the impressive 1H23; U/G to BUY – 3 Jul 2023 ([link](#))

Figure 1: Changes in key assumptions

Sales volume (units)	Old	2023E	Diff	Old	2024E	Diff	Old	2025E	Diff
Truck	305,009	332,675	9.1%	329,554	394,776	19.8%	342,834	414,514	20.9%
HDT	208,942	232,605	11.3%	228,684	284,699	24.5%	236,920	298,933	26.2%
China	76,154	86,539	13.6%	79,962	102,116	27.7%	80,761	107,222	32.8%
Export	132,788	146,066	10.0%	148,722	182,583	22.8%	156,158	191,712	22.8%
LDT	96,067	100,070	4.2%	100,871	110,077	9.1%	105,914	115,581	9.1%
Engine	165,386	182,586	10.4%	173,656	209,974	20.9%	175,392	220,473	25.7%
Internal use	154,471	170,536	10.4%	162,194	196,116	20.9%	163,816	205,922	25.7%
External sales	10,915	12,051	10.4%	11,461	13,858	20.9%	11,576	14,551	25.7%
Segment revenue									
(RMB mn)									
Truck	76,932	84,908	10.4%	84,073	102,992	22.5%	87,253	108,141	23.9%
HDT	66,652	74,201	11.3%	73,179	91,104	24.5%	75,814	95,659	26.2%
LDT	10,279	10,707	4.2%	10,894	11,888	9.1%	11,439	12,483	9.1%
Engine	15,804	17,318	9.6%	16,532	19,728	19.3%	16,685	20,652	23.8%
Finance	1,972	1,972	0.0%	2,071	2,071	0.0%	2,091	2,091	0.0%
Intersegment sales	-16,479	-18,130	10.0%	-17,865	-21,714	21.5%	-18,449	-22,774	23.4%
Total	78,229	86,068	10.0%	84,810	103,077	21.5%	87,580	108,111	23.4%
Segment operating margin									
Truck	4.4%	5.9%	1.5	4.8%	6.3%	1.5	4.9%	6.4%	1.5
HDT	5.4%	6.9%	1.5	5.4%	7.0%	1.6	5.4%	7.0%	1.6
LDT	-2.0%	-1.0%	1.0	1.0%	1.0%	0.0	1.8%	1.8%	0.0
Engine	7.8%	8.8%	1.0	8.5%	9.2%	0.7	9.5%	9.5%	0.0
Finance	40.0%	42.0%	2.0	40.0%	42.0%	2.0	40.0%	42.0%	2.0
Average	6.7%	8.3%	1.6	7.2%	8.7%	1.5	7.5%	8.8%	1.4
Net profit	3,528	5,056	43.3%	4,138	6,272	51.6%	4,462	6,636	48.7%

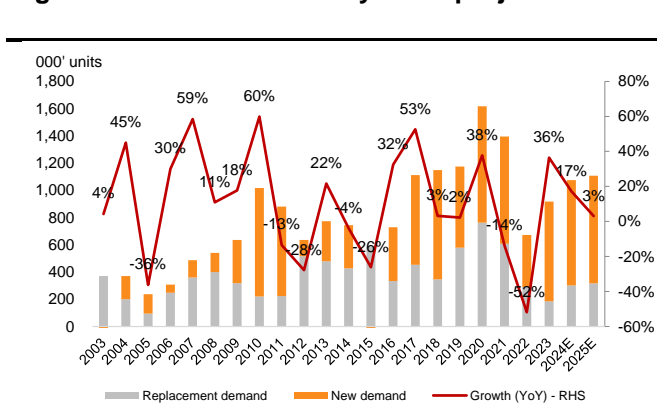
Source: Company data, CMBIGM estimates

Figure 2: China HDT industry sales (including exports)

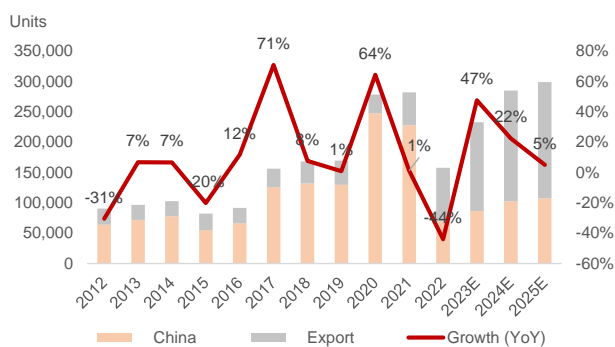


Source: Cvworl, CMBIGM

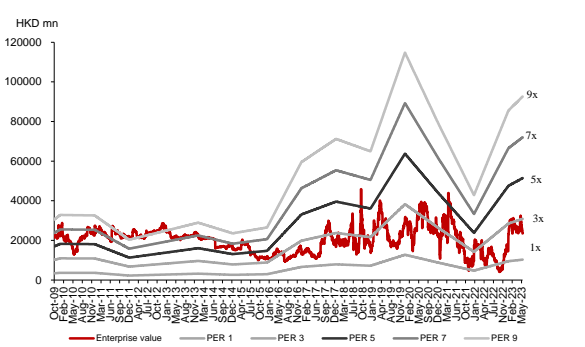
Figure 3: CMBI HDT industry sales projection



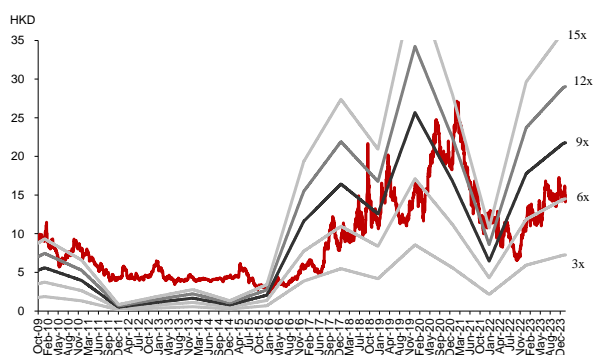
Source: Bloomberg, company data, CMBIGM estimates

Figure 4: Sinotruk's HDT sales volume projection

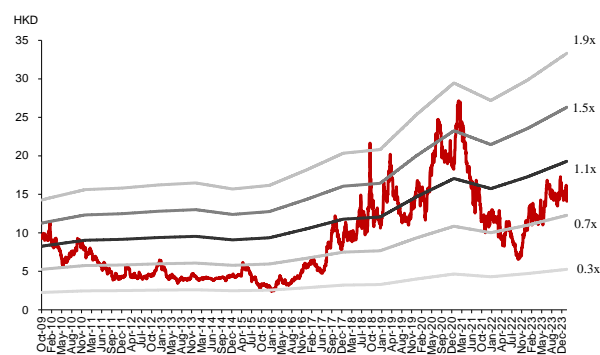
Source: Company data, CMBIGM estimates

Figure 5: Sinotruk's EV/EBITDA band

Source: Bloomberg, company data, CMBIGM

Figure 6: Sinotruk P/E band

Source: Bloomberg, company data, CMBIGM

Figure 7: Sinotruk P/B band

Source: Bloomberg, company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	98,198	93,357	59,291	86,068	103,077	108,111
Cost of goods sold	(78,613)	(77,693)	(49,277)	(71,436)	(85,554)	(89,732)
Gross profit	19,585	15,664	10,013	14,632	17,523	18,379
Operating expenses	(10,115)	(9,904)	(7,110)	(7,456)	(8,580)	(8,867)
Operating profit	9,471	5,760	2,903	7,175	8,943	9,512
Share of (losses)/profits of associates/JV	55	(6)	(23)	20	60	104
EBITDA	11,083	7,203	4,327	8,722	10,611	11,299
Depreciation	1,613	1,443	1,424	1,547	1,668	1,788
Interest income	58	120	138	91	114	138
Interest expense	(32)	(11)	(9)	(95)	(97)	(99)
Net Interest income/(expense)	26	109	128	(5)	18	39
Pre-tax profit	9,551	5,863	3,008	7,190	9,021	9,655
Income tax	(2,127)	(1,153)	(958)	(1,510)	(1,894)	(2,027)
After tax profit	7,424	4,709	2,051	5,680	7,127	7,627
Minority interest	(573)	(387)	(254)	(625)	(855)	(992)
Net profit	6,851	4,322	1,797	5,056	6,272	6,636

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	84,075	79,984	79,758	120,424	107,711	134,796
Cash & equivalents	26,049	24,692	15,262	21,051	27,047	32,796
Restricted cash	4,558	3,614	4,542	4,542	4,542	4,542
Account receivables	20,222	24,063	16,145	38,089	26,298	39,457
Inventories	20,811	16,667	13,496	26,430	19,512	27,690
Financial assets at FVTPL	5,440	2,977	4,500	4,500	4,500	4,500
Other current assets	4,384	4,058	7,359	7,359	7,359	7,359
Non-current assets	26,934	27,036	25,721	27,221	28,604	29,905
PP&E	12,438	14,215	15,487	17,017	18,426	19,715
Right-of-use assets	2,453	2,554	2,320	2,320	2,320	2,320
Investment in JVs & assos	1,028	1,338	1,971	1,988	2,039	2,127
Intangibles	315	270	232	186	109	32
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	10,699	8,659	5,711	5,711	5,711	5,711
Total assets	111,008	107,020	105,479	147,645	136,315	164,701
Current liabilities	73,868	62,889	61,314	98,601	81,914	104,868
Short-term borrowings	1,474	3,511	3,890	3,890	3,990	4,090
Account payables	54,695	37,479	33,221	70,508	53,721	76,575
Other current liabilities	17,699	21,900	24,203	24,203	24,203	24,203
Non-current liabilities	1,461	1,363	1,196	1,196	1,196	1,196
Long-term borrowings	238	0	0	0	0	0
Deferred income	505	657	560	560	560	560
Other non-current liabilities	718	706	635	635	635	635
Total liabilities	75,329	64,252	62,510	99,796	83,109	106,063
Total shareholders equity	32,115	35,671	35,909	40,164	44,666	49,107
Minority interest	3,564	7,097	7,060	7,684	8,540	9,531
Total equity and liabilities	111,008	107,020	105,479	147,645	136,315	164,701

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,551	5,863	3,008	7,190	9,021	9,655
Depreciation & amortization	1,613	1,443	1,424	1,547	1,668	1,788
Tax paid	(1,765)	(2,504)	(521)	(1,510)	(1,894)	(2,027)
Change in working capital	8,899	(16,848)	6,162	2,409	1,922	1,517
Others	1,227	8,845	822	(15)	(78)	(143)
Net cash from operations	19,524	(3,200)	10,895	9,621	10,638	10,789
Investing						
Capital expenditure	(1,007)	(2,491)	(1,429)	(3,000)	(3,000)	(3,000)
Others	(4,896)	2,454	(17,177)	64	123	153
Net cash from investing	(5,903)	(37)	(18,606)	(2,936)	(2,877)	(2,847)
Financing						
Dividend paid	(1,077)	(2,430)	(1,519)	(801)	(1,769)	(2,195)
Net borrowings	712	(412)	0	0	100	100
Proceeds from share issues	0	5,528	0	0	0	0
Others	(2,975)	(740)	(329)	(95)	(97)	(99)
Net cash from financing	(3,340)	1,947	(1,847)	(896)	(1,766)	(2,194)
Net change in cash						
Cash at the beginning of the year	17,931	26,049	24,692	15,262	21,051	27,047
Exchange difference	(2,163)	(67)	128	0	0	0
Cash at the end of the year	26,049	24,692	15,262	21,051	27,047	32,796
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	56.8%	(4.9%)	(36.5%)	45.2%	19.8%	4.9%
Gross profit	60.1%	(20.0%)	(36.1%)	46.1%	19.8%	4.9%
Operating profit	89.7%	(39.2%)	(49.6%)	147.2%	24.6%	6.4%
EBITDA	68.9%	(35.0%)	(39.9%)	101.6%	21.7%	6.5%
Net profit	97.2%	(36.9%)	(58.4%)	181.4%	24.1%	5.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	19.9%	16.8%	16.9%	17.0%	17.0%	17.0%
Operating margin	9.6%	6.2%	4.9%	8.3%	8.7%	8.8%
EBITDA margin	11.3%	7.7%	7.3%	10.1%	10.3%	10.5%
Return on equity (ROE)	23.1%	12.8%	5.0%	13.3%	14.8%	14.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.9)	(0.7)	(0.4)	(0.5)	(0.6)	(0.7)
Current ratio (x)	1.1	1.3	1.3	1.2	1.3	1.3
Receivable turnover days	67.4	86.6	123.8	115.0	114.0	111.0
Inventory turnover days	70.9	88.0	111.7	102.0	98.0	96.0
Payable turnover days	200.0	216.5	261.8	265.0	265.0	265.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	6.6	9.1	12.9	7.2	5.8	5.5
P/B	1.4	1.1	0.6	0.9	0.8	0.7
Div yield (%)	5.4	3.9	3.4	4.8	6.0	6.3

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

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