

# Sinotruk (Hong Kong) (3808 HK)

## Market share gain on more proactive strategy

We believe Sinotruk will continue to deliver above-industry growth driven by better product mix of both HDT and LDT, on the back of continuous R&D spending as well as rising installation of **Weichai's (2338 HK, 000338 CH, BUY)** engines. That said, while Sinotruk's expansion in pickup truck segment will help diversify the revenue stream in the long run, higher cost and spending will be incurred in the near term, in our view. We raise our 2021E/22E earnings forecast by 15%/13% (11%/6% above consensus), after revising up our sales volume assumptions. We only slightly revise up our TP to HK\$28.5, based on 3.5x 2021E EV/EBITDA, 30% discount to historical average (previous TP: HK\$28.3; 6x 2020E EV/EBITDA). Our lower target multiple is to reflect the potential slowdown of HDT demand after the implementation of NES VI in Jul 2021. Maintain **BUY**.

- **2020 earnings highlights.** Net profit surged 97% YoY to RMB6.85bn, better than the >88% growth stated in the profit alert. Excluding the fair value change in financial assets, core net profit surged 99% YoY to RMB6.5bn. In 2H20, reported net profit was +3.2x YoY to RMB3.9bn, driven by 98% YoY increase in revenue.
- **Good performance across the key segments in 2020.** For HDT, sales volume grew 64% YoY to 278k units (market share 17%), above the industry growth of 38%, with segment margin expanded 1.86ppt to 5.8%. For LDT, sales volume grew 64% YoY to 181k units, driving the segment profit to RMB464mn (a significant turnaround compared with the RMB1.1bn segment loss in 2019 due to policy impact). For engine, segment margin expanded 1.86ppt to 15%. For auto-financing, however, segment margin was down 16ppt to 42.7%. As at end-2020, loan book surged 114% YoY to RMB20bn, a key driver for the strong sales of truck.
- **Streamlining labor force and focusing on R&D.** R&D spending increased 47% YoY to RMB2.6bn in 2020. Besides, it's worth noting that Sinotruk maintained a good control of the number staff (stable at 25.5k in 2020), but improved the structure of the team (R&D staff +91% YoY).
- **Major risk factors:** (1) Slower-than-expected sales of HDT in 2H21E, (2) further increase in component cost; (3) lower-than-expected return on new projects after the recent fund-raising.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	61,785	62,613	98,198	108,014	109,414
YoY growth (%)	11.4	1.3	56.8	10.0	1.3
Core net profit (RMB mn)	4,157	3,270	6,501	6,922	6,980
Core EPS (RMB)	1.51	1.18	2.35	2.51	2.53
YoY growth (%)	50.0	(21.3)	98.8	6.5	0.8
Consensus EPS (RMB)	N/A	N/A	N/A	2.26	2.38
P/E (x)	13.5	17.9	8.7	7.9	7.9
EV/EBITDA (x)	4.3	4.5	2.7	2.5	2.4
P/B (x)	2.2	2.1	1.8	1.4	1.3
Yield (%)	2.8	1.8	4.3	4.4	4.4
ROE (%)	18.0	13.2	23.1	19.4	16.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$28.50
(Previous TP)	HK\$28.30
Up/Downside	+21%
Current Price	HK\$23.50

### China Capital Goods

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#### Stock Data

Mkt Cap (HK\$ mn)	64,883
Avg 3 mths t/o (HK\$ mn)	102
52w High/Low (HK\$)	28.40/12.42
Total Issued Shares (mn)	2,761

Source: Bloomberg

#### Shareholding Structure

CNHTC	51%
MAN SE	25%
Others	24%

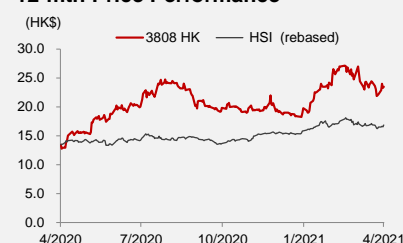
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-5.9%	-3.9%
3-mth	17.7%	12.9%
6-mth	17.3%	-3.0%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PWC

#### Related Reports

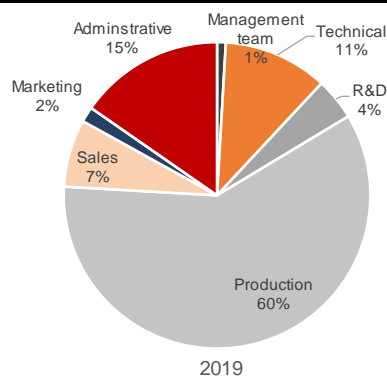
1. Sinotruk (3808 HK, BUY) – Ji'nan Truck's fund raising exercise a long-term positive – 28 Sep 2020
2. Sinotruk (3808 HK, BUY) – Uncover the hidden profitability in 1H20 results – 31 Aug 2020

Figure 1: 2020 results highlights

	2019	2020	Change (YoY)	1H19	1H20	Change (YoY)	2H19	2H20	Change (YoY)
<b>Sales volume (unit)</b>	(Restated)			(Restated)			(Restated)		
<b>Truck</b>	<b>279,900</b>	<b>459,656</b>	<b>64.2%</b>	<b>158,576</b>	<b>199,955</b>	<b>26.1%</b>	<b>121,324</b>	<b>259,701</b>	<b>114.1%</b>
HDT	169,433	278,415	64.3%	92,668	118,073	27.4%	76,765	160,342	108.9%
China	129,424	247,454	91.2%	72,706	104,181	43.3%	56,718	143,273	152.6%
Export	40,009	30,961	-22.6%	19,962	13,892	-30.4%	20,047	17,069	-14.9%
LDT	110,467	181,241	64.1%	65,908	81,882	24.2%	44,559	99,359	123.0%
<b>Total</b>	<b>279,900</b>	<b>459,656</b>	<b>64.2%</b>	<b>158,576</b>	<b>199,955</b>	<b>26.1%</b>	<b>121,324</b>	<b>259,701</b>	<b>114.1%</b>
<b>Engine</b>	<b>179,959</b>	<b>283,947</b>	<b>57.8%</b>	<b>97,632</b>	<b>128,680</b>	<b>31.8%</b>	<b>82,327</b>	<b>155,267</b>	<b>88.6%</b>
Internal use	165,202	268,330	62.4%	90,700	122,246	34.8%	74,502	146,084	96.1%
External sales	14,757	15,617	5.8%	6,932	6,434	-7.2%	7,825	9,183	17.4%
% of total									
Internal use	91.8%	94.5%		92.9%	95.0%		90.5%	94.1%	
External sales	8.2%	5.5%		7.1%	5.0%		9.5%	5.9%	
<b>ASP (RMB/unit)</b>									
Truck	221,494	213,109	-3.8%	216,024	212,543	-1.6%	228,645	213,545	-6.6%
HDT	305,637	298,620	-2.3%	303,706	301,631	-0.7%	307,968	296,403	-3.8%
LDT	92,438	81,751	-11.6%	92,741	84,078	-9.3%	91,990	79,832	-13.2%
Engines	81,476	94,968	16.6%	77,592	87,807	13.2%	86,083	100,902	17.2%
(RMB mn)									
<b>Segment revenue</b>									
Truck	61,996	97,957	58.0%	34,256	42,499	24.1%	27,740	55,458	99.9%
HDT	51,785	83,140	60.5%	28,144	35,614	26.5%	23,641	47,526	101.0%
LDT	10,211	14,817	45.1%	6,112	6,885	12.6%	4,099	7,932	93.5%
Engine	14,662	26,966	83.9%	7,575	11,299	49.2%	7,087	15,667	121.1%
Finance	1,587	1,786	12.6%	781	820	5.0%	805	966	19.9%
Intersegment sales	-15,632	-28,511	82.4%	-7,990	-11,820	47.9%	-7,642	-16,691	118.4%
<b>Total</b>	<b>62,613</b>	<b>98,198</b>	<b>56.8%</b>	<b>34,623</b>	<b>42,798</b>	<b>23.6%</b>	<b>27,990</b>	<b>55,400</b>	<b>97.9%</b>
<b>Segment operating profit (before unallocated exp)</b>									
Truck	2,436	5,676	133.0%	1,829	2,625	43.6%	608	3,050	402.0%
HDT	3,549	5,212	46.9%	1,946	2,277	17.0%	1,602	2,935	83.2%
LDT	-1,112	464	n/a	-117	348	n/a	-995	116	n/a
Engine	1,922	4,037	110.1%	1,255	1,749	39.4%	667	2,288	243.1%
Finance	935	763	-18.3%	458	426	-7.0%	477	337	-29.3%
Intersegment sales	-289	-998	245.8%	20	-786	n/a	-308	-212	n/a
<b>Total</b>	<b>5,004</b>	<b>9,477</b>	<b>89.4%</b>	<b>3,561</b>	<b>4,014</b>	<b>12.7%</b>	<b>1,443</b>	<b>5,463</b>	<b>278.6%</b>
<b>Segment operating margin</b>			<b>Change (ppt)</b>			<b>Change (ppt)</b>			<b>Change (ppt)</b>
Truck	3.9%	5.8%	1.86	5.3%	6.2%	0.84	2.2%	5.5%	3.31
HDT	6.9%	6.3%	-0.58	6.9%	6.4%	-0.52	6.8%	6.2%	-0.60
LDT	-10.9%	3.1%	14.02	-1.9%	5.1%	6.98	-24.3%	1.5%	25.72
Engine and gearbox	13.1%	15.0%	1.86	16.6%	15.5%	-1.09	9.4%	14.6%	5.19
Finance	58.9%	42.7%	-16.18	58.6%	51.9%	-6.66	59.2%	34.9%	-24.29
<b>Average</b>	<b>8.0%</b>	<b>9.7%</b>	<b>1.66</b>	<b>10.3%</b>	<b>9.4%</b>	<b>-0.91</b>	<b>5.2%</b>	<b>9.9%</b>	<b>4.71</b>
(RMB mn)									
<b>Revenue</b>	<b>62,613</b>	<b>98,198</b>	<b>56.8%</b>	<b>34,623</b>	<b>42,798</b>	<b>23.6%</b>	<b>27,990</b>	<b>55,400</b>	<b>97.9%</b>
Cost of sales	-50,380	-78,613	56.0%	-27,738	-34,223	23.4%	-22,642	-44,390	96.0%
Gross profit	12,233	19,585	60.1%	6,886	8,575	24.5%	5,348	11,010	105.9%
Other gains and losses (net)	672	667	-0.7%	194	395	104.1%	478	271	-43.2%
S&D expenses	-3,488	-4,983	42.9%	-1,638	-1,865	13.9%	-1,851	-3,118	68.5%
Administrative expenses	-3,582	-5,671	58.3%	-1,531	-2,762	80.5%	-2,052	-2,908	41.8%
Net impairment losses of financial assets	-827	-127	-84.6%	-354	-334	-5.5%	-473	207	-143.7%
<b>EBIT</b>	<b>4,993</b>	<b>9,471</b>	<b>89.7%</b>	<b>3,557</b>	<b>4,009</b>	<b>12.7%</b>	<b>1,436</b>	<b>5,462</b>	<b>280.3%</b>
D&A	1,567	1,613	2.9%	818	886	8.3%	749	727	-3.0%
<b>EBITDA</b>	<b>6,561</b>	<b>11,083</b>	<b>68.9%</b>	<b>4,376</b>	<b>4,895</b>	<b>11.9%</b>	<b>2,185</b>	<b>6,189</b>	<b>183.2%</b>
Net finance cost	-94	26	n/a	-58	41	n/a	-36	-15	-56.9%
Finance income	47	58	23.1%	33	63	87.8%	14	-5	n/a
Finance expenses	-141	-32	-77.1%	-92	-22	-76.3%	-49	-11	-78.6%
Share of profit of JV and associates	61	55	-11.2%	25	29	14.6%	36	26	-29.3%
<b>Pretax profit</b>	<b>4,961</b>	<b>9,551</b>	<b>92.5%</b>	<b>3,524</b>	<b>4,079</b>	<b>15.7%</b>	<b>1,436</b>	<b>5,472</b>	<b>281.0%</b>
Income tax	-1,045	-2,127	103.6%	-767	-960	25.2%	-278	-1,167	320.0%
<b>After tax profit</b>	<b>3,916</b>	<b>7,424</b>	<b>89.6%</b>	<b>2,757</b>	<b>3,119</b>	<b>13.1%</b>	<b>1,159</b>	<b>4,305</b>	<b>271.6%</b>
MI	-442	-573	29.7%	-221	-177	-19.9%	-221	-396	79.4%
<b>Net profit</b>	<b>3,474</b>	<b>6,851</b>	<b>97.2%</b>	<b>2,536</b>	<b>2,941</b>	<b>16.0%</b>	<b>938</b>	<b>3,909</b>	<b>316.8%</b>

Source: Company data, CMBIS estimates

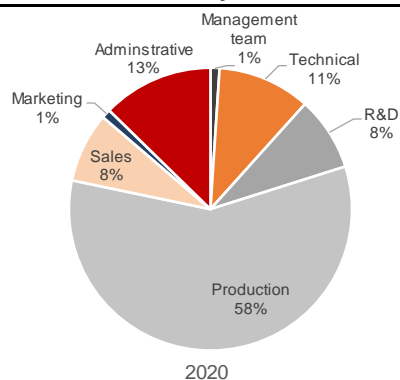
Figure 2: Staff breakdown by function in 2019



2019

Note: Total number of staff: 25,462  
Source: Company data, CMBIS

Figure 3: Staff breakdown by function in 2020



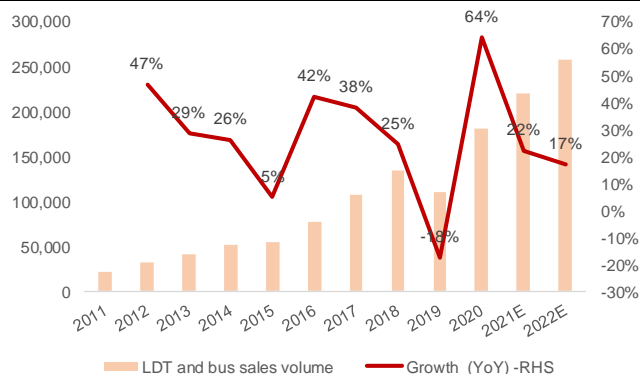
2020

Note: Total number of staff: 25,469  
Source: Company data, CMBIS estimates

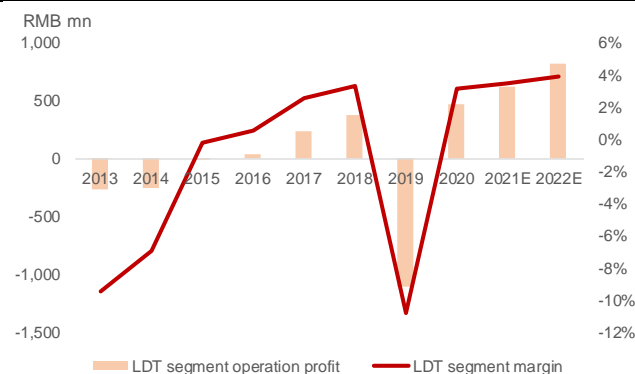
Figure 4: Change in key assumptions

Sales volume (units)	2021			2022		
	Old	New	Diff	Old	New	Diff
<b>Truck</b>	<b>358,191</b>	<b>512,526</b>	<b>43.1%</b>	<b>376,593</b>	<b>554,490</b>	<b>47.2%</b>
HDT	211,049	291,412	38.1%	214,737	295,787	37.7%
China	171,616	254,878	48.5%	173,332	257,426	48.5%
Export	39,433	36,534	-7.4%	41,405	38,361	-7.4%
LDT	147,142	221,114	50.3%	161,856	258,703	59.8%
<b>Engine</b>	<b>232,382</b>	<b>286,786</b>	<b>23.4%</b>	<b>234,706</b>	<b>289,654</b>	<b>23.4%</b>
Internal use	217,478	271,013	24.6%	219,653	273,723	24.6%
External sales	14,904	15,773	5.8%	15,053	15,931	5.8%
<b>Segment revenue</b>						
(RMB mn)						
Truck	77,377	104,751	35.4%	79,855	106,142	32.9%
HDT	63,737	86,841	36.2%	64,851	85,187	31.4%
LDT	13,640	17,910	31.3%	15,004	20,955	39.7%
Engine	21,417	28,445	32.8%	21,669	28,767	32.8%
Finance	1,683	1,822	8.3%	1,700	1,858	9.3%
Intersegment sales	-20,095	-27,003	34.4%	-20,645	-27,353	32.5%
<b>Total</b>	<b>80,381</b>	<b>108,014</b>	<b>34.4%</b>	<b>82,579</b>	<b>109,414</b>	<b>32.5%</b>
<b>Segment operating margin</b>						
Truck	6.2%	5.7%	(0.5)	6.2%	5.7%	(0.5)
HDT	6.4%	6.2%	(0.2)	6.4%	6.1%	(0.3)
LDT	5.3%	3.5%	(1.8)	5.3%	3.9%	(1.4)
Engine and gearbox	14.3%	14.5%	0.2	14.5%	14.5%	0.0
Finance	50.0%	35.0%	(15.0)	50.0%	35.0%	(15.0)
<b>Average</b>	<b>10.1%</b>	<b>9.1%</b>	<b>(1.0)</b>	<b>10.1%</b>	<b>9.0%</b>	<b>(1.0)</b>
<b>Net profit</b>	<b>6,019</b>	<b>6,922</b>	<b>15.0%</b>	<b>6,195</b>	<b>6,980</b>	<b>12.7%</b>

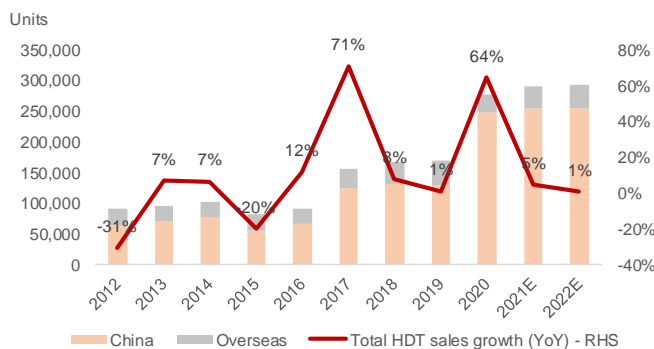
Source: Company data, CMBIS estimates

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

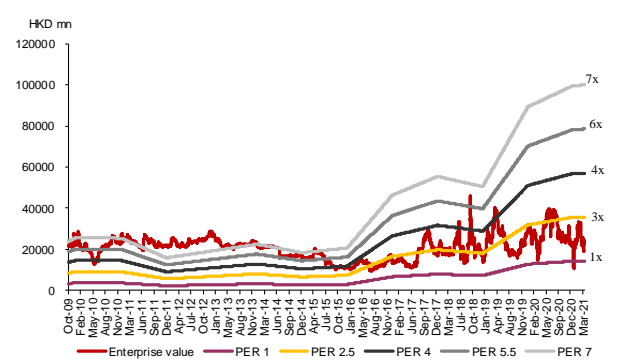
Source: Company data, CMBIS estimates

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

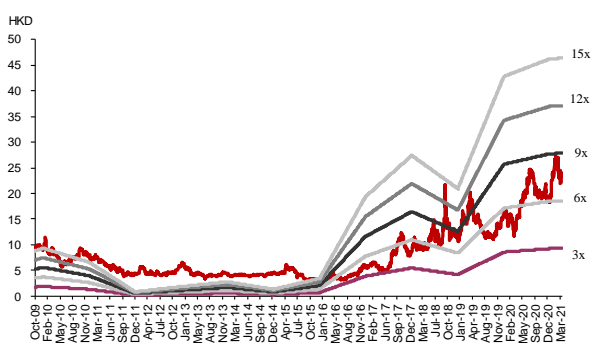
Source: Company data, CMBIS estimates

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

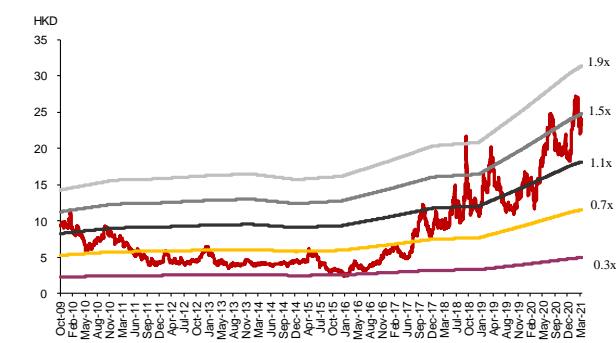
Source: Company data, CMBIS estimates

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

Source: Bloomberg, Company data, CMBIS estimates

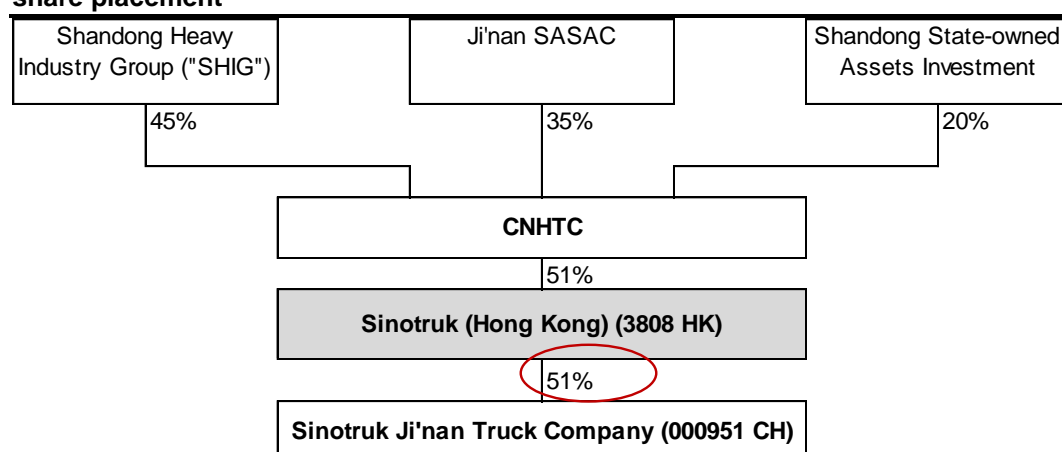
**Figure 9: Sinotruk P/E band**

Source: Bloomberg, Company data, CMBIS estimates

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

Source: Bloomberg, Company data, CMBIS estimates

**Figure 11: Latest shareholding structure following the completion of Ji'nan Truck's share placement**



Source: Company data, CMBIS

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	61,785	62,613	98,198	108,014	109,414
Cost of sales	-50,610	-50,380	-78,613	-86,519	-87,859
Gross profit	11,175	12,233	19,585	21,495	21,554
Operating expenses	-5,532	-7,240	-10,115	-11,678	-11,688
EBIT	5,642	4,993	9,471	9,817	9,867
Net finance cost	-0	-94	26	63	87
Finance income	89	47	58	104	125
Finance expenses	-89	-141	-32	-41	-38
Profit of JV and associates	77	61	55	108	118
Pretax profit	5,719	4,961	9,551	9,988	10,071
Income tax	-993	-1,045	-2,127	-2,297	-2,316
After tax profit	4,726	3,916	7,424	7,691	7,755
MI	-381	-442	-573	-769	-776
Net profit	4,345	3,474	6,851	6,922	6,980
Core net profit	4,157	3,270	6,501	6,922	6,980
D&A	1,180	1,567	1,613	2,169	2,403
EBITDA	6,823	6,561	11,083	11,986	12,270

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Pretax profit	5,719	4,961	9,551	9,988	10,071
Finance cost	89	141	32	41	38
Interest income	-89	-47	-58	-104	-125
Share of profit or loss of associates	-77	-61	-55	-108	-118
Depreciation	1,078	1,495	1,551	2,089	2,323
Amortization of intangible assets	102	72	62	80	80
Income tax paid	-1,043	-1,045	-2,127	-2,297	-2,316
Change in working capital	-1,639	1,853	8,899	1,048	1,163
Others	232	1,406	1,668	0	0
Cash flow from operation	4,374	8,775	19,524	10,737	11,117
Net capex on PP&E	-1,343	-1,144	-3,544	-5,000	-3,000
Dividend received	0	6	5	11	12
Interest received	89	47	58	104	125
Others	2,223	1,304	-932	0	0
Cash flow from investing	979	-29	-5,903	-4,885	-2,863
Proceeds from equity financing	0	0	0	5,001	0
Net bank borrowings	-990	-2,000	712	-200	0
Dividend paid	-1,615	-1,555	-1,077	-2,430	-2,423
Interest paid	-143	-141	-32	-41	-38
Others	117	-2,153	-2,943	0	0
Cash flow from financing	-2,630	-5,849	-3,340	2,331	-2,461
Change in cash	2,723	2,897	10,281	8,183	5,793
Cash at beginning of the year	9,840	12,616	17,931	30,607	38,789
Exchange gains/(losses) and others	53	2,418	2,395	0	0
Cash at end of the year	12,616	17,931	30,607	38,789	44,583

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	17,373	17,741	26,934	29,861	30,564
PP&E	10,366	9,906	12,438	15,349	16,026
Land use right	1,612	1,629	2,453	2,453	2,453
Investment in JV/associates	534	497	1,028	1,125	1,231
Investment properties	713	797	724	724	724
Long term receivables	2,195	2,907	7,196	7,196	7,196
Intangible assets	324	279	315	235	155
AFS / financial assets	212	0	0	0	0
Others	1,417	1,727	2,779	2,779	2,779
Current assets	44,308	48,210	84,075	76,635	97,308
Inventories	11,594	9,721	20,811	9,530	20,799
Trade and bills receivables	12,589	16,051	20,222	15,881	19,491
AFS / financial assets	4,601	1,715	5,440	5,440	5,440
Others	554	1,259	4,384	4,384	4,384
Restricted cash	2,352	260	0	0	0
Cash	12,616	17,931	30,607	38,789	44,583
Current liabilities	32,986	35,175	73,868	59,093	75,136
Trade and bills payables	28,305	31,455	54,695	40,121	56,163
Bank borrowings	3,000	1,000	1,474	1,274	1,274
Provisions	929	1,219	2,140	2,140	2,140
Others	752	1,501	1,334	1,334	1,334
Non-current liabilities	367	347	1,461	1,461	1,461
Bank borrowings	0	0	238	238	238
Deferred income	316	286	505	505	505
Others	50	62	718	718	718
Equity	28,328	30,428	35,679	45,942	51,274
Shareholders' equity	25,476	27,261	32,115	39,158	43,715
MI	2,852	3,167	3,564	6,784	7,560

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue mix (%)					
HDT	79.0	82.7	84.7	80.4	77.9
LDT & bus	18.5	16.3	15.1	16.6	19.2
Engine & gearbox	22.8	23.4	27.5	26.3	26.3
Finance	2.3	2.5	1.8	1.7	1.7
Intersegment sales	(22.6)	(25.0)	(29.0)	(25.0)	(25.0)
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
Gross margin	18.1	19.5	19.9	19.9	19.7
EBIT margin	9.1	8.0	9.6	9.1	9.0
Net profit margin	7.6	6.3	7.6	7.1	7.1
Growth (%)					
Revenue	11.4	1.3	56.8	10.0	1.3
Gross profit	11.4	9.5	60.1	9.8	0.3
EBIT	32.1	-11.5	89.7	3.7	0.5
Net profit	43.7	-20.0	97.2	1.0	0.8
Core net profit	50.0	-21.3	98.8	6.5	0.8
Balance sheet ratio					
Current ratio (x)	1.3	1.4	1.1	1.3	1.3
Receivable turnover days	82	83	67	61	59
Inventory turnover days	90	77	71	64	63
Payable turnover days	205	216	200	200	200
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	7.7	6.1	8.4	7.1	6.6
ROE	18.0	13.2	23.1	19.4	16.8
Per share data					
EPS (RMB)	1.57	1.26	2.48	2.51	2.53
Core EPS (RMB)	1.51	1.18	2.35	2.51	2.53
BVPS (RMB)	9.23	9.87	11.63	14.18	15.83
DPS (RMB)	0.56	0.39	0.88	0.88	0.88

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

Source: Company data, CMBIS estimates



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