

Weichai Power (2338 HK)

2Q23E earnings to grow 30-65%; recovery story intact

Weichai pre-announced over the weekend that 1H23 net profit is expected to grow 50-70% YoY to RMB3.59-4.07bn, representing 50-57% of our full year profit forecast. This implies net profit of RMB1.73-2.21bn (up 30-65% YoY) in 2Q23E, with the high-end slightly better than our expectation. We continue to like Weichai's recovery story as: (1) the significant decline in LNG price will continue to boost the sales of LNG trucks/engines, where Weichai has strong presence on; (2) easing supply chain pressure will help KION achieve margin recovery; (3) the continuous growth of engines for agricultural machinery and HDT through rising penetration in LOVOL and **Sinotruk (3808 HK, BUY)** is on good track. We maintain our SOTP-based TP for Weichai A/H of RMB13.8/HK\$15.8. Maintain **BUY**.

- **Weichai's engine sales continued to outpace industry in 5M23.** According to CICEIA, Weichai's multi-cylinder sales (HDT and other engines) grew 26% YoY to 303k units in 5M23 (vs the industry average of 8%), with a market share of ~16%.
- **HDT Industry: Sales volume +31% YoY in Jun.** According to the preliminary data from Cvworl, China HDT industry sales volume in Jun (including export) grew 31% YoY to 72k units, driven by strong demand for gas-fuelled trucks (helped by the decline in LNG price) and export. In 1H23, China HDT sales volume grew 25% YoY to 474k units, representing 57% of our full year forecast of 829k units (+23% YoY).
- **Decline in LNG price positive to Weichai.** LNG price in late Jun has declined 40%+ from the peak in Dec 2022. We believe it will continue to boost the sales of LNG trucks given the lower operating cost to truck owners. We expect Weichai to be a key beneficiary as we estimate Weichai has >40% market share in HDT gas engine. Besides, Shaanxi Heavy-duty Motor, subsidiary of Weichai, is a key player in gas-fuelled HDT segment.
- **Risk factors:** (1) weakness in engine demand; (2) increase in component cost; and (3) new business growth below expectations.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	203,548	175,158	209,751	226,204	238,954
YoY growth (%)	3.1	(13.9)	19.7	7.8	5.6
Adjusted net profit (RMB mn)	9,254.6	4,905.5	7,193.8	8,265.2	9,100.7
EPS (Reported) (RMB)	1.06	0.56	0.82	0.95	1.04
YoY growth (%)	(8.6)	(47.0)	46.6	14.9	10.1
Consensus EPS (RMB)	na	na	0.78	0.98	1.08
P/E (x)	14.2	17.1	12.4	10.8	9.8
P/B (x)	1.8	1.1	1.1	1.1	1.0
Yield (%)	2.4	2.6	2.8	3.2	3.6
Net gearing (%)	(61.0)	(35.8)	(36.3)	(46.6)	(57.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$15.80**

(Previous TP) **HK\$15.80**

Up/Downside **37.6%**

Current Price **HK\$11.48**

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Stock Data

Mkt Cap (HK\$ mn)	113,624.0
Avg 3 mths t/o (HK\$ mn)	80.1
52w High/Low (HK\$)	13.70/7.00
Total Issued Shares (mn)	8726.6

Source: FactSet

Shareholding Structure

Weichai Holdings Group	16.3%
Weifang Investment Group	3.4%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.1%	5.3%
3-mth	-8.9%	-1.7%
6-mth	9.5%	14.6%

Source: FactSet

12-mth Price Performance



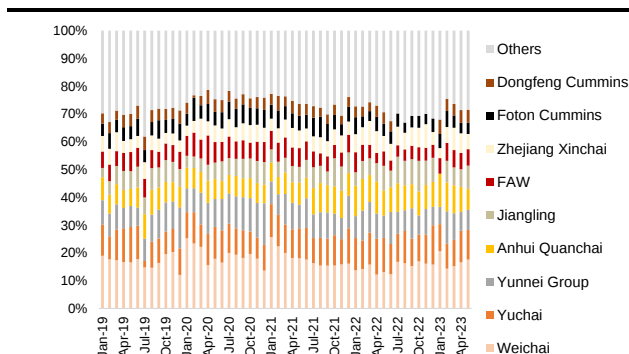
Source: FactSet

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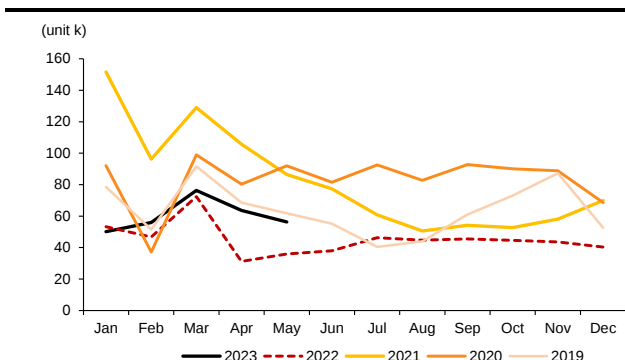
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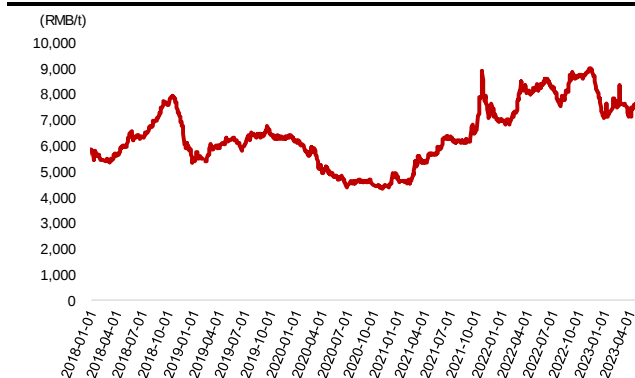
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Figure 1: China multi-cylinder engine market share

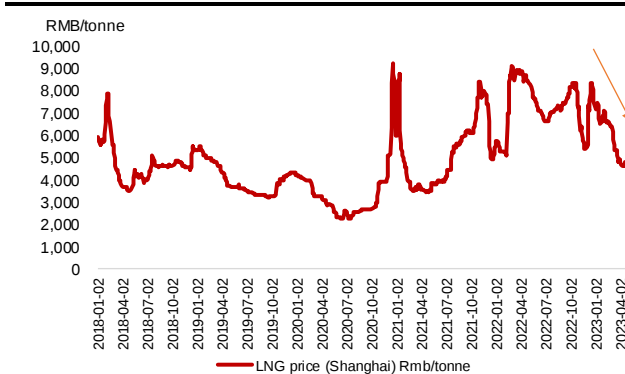
Source: CICEIA, CMBIGM

Figure 2: Weichai's multi-cylinder engine monthly sales volume

Source: CICEIA, CMBIGM

Figure 3: Shandong diesel price

Source: Wind, CMBIGM

Figure 4: Shanghai LNG price

Source: Wind, CMBIGM

Figure 5: Key assumptions for Weichai

	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Sales volume (unit)									
Engine	616,590	669,000	742,000	990,291	1,020,000	573,000	844,481	941,134	1,005,504
HDT	149,000	153,000	161,000	181,000	150,000	80,000	104,000	111,280	116,844
Gear box	835,000	909,000	1,002,000	1,186,000	1,153,000	590,000	737,500	781,750	813,020
Growth (YoY)									
Engine	61.2%	8.5%	10.9%	33.5%	3.0%	-43.8%	47.4%	11.4%	6.8%
HDT	81.7%	2.7%	5.2%	12.4%	-17.1%	-46.7%	30.0%	7.0%	5.0%
Gear box	66.7%	8.9%	10.2%	18.4%	-2.8%	-48.8%	25.0%	6.0%	4.0%
(RMB mn)									
Revenue									
Diesel engines	43,802	44,858	49,976	62,720	64,460	39,151	57,763	64,374	68,776
Automobiles and major components	63,087	66,848	71,475	85,907	74,258	46,812	58,905	62,512	65,090
Forklift trucks & supply chain solution	58,493	60,540	67,177	65,110	78,625	79,010	82,171	87,101	92,327
Agricultural machinery	-	-	-	-	-	17,733	19,860	21,846	22,939
Intersegment sales	(13,813)	(12,990)	(14,267)	(16,246)	(13,795)	(7,548)	(8,948)	(9,629)	(10,179)
Total revenue	151,569	159,256	174,361	197,491	203,548	175,158	209,751	226,204	238,954
Growth (YoY)									
Diesel engines	76.5%	2.4%	11.4%	25.5%	2.8%	-39.3%	47.5%	11.4%	6.8%
Automobiles and major components	81.5%	6.0%	6.9%	20.2%	-13.6%	-37.0%	25.8%	6.1%	4.1%
Forklift trucks & supply chain solution	42.4%	3.5%	11.0%	-3.1%	20.8%	0.5%	4.0%	6.0%	6.0%
Agricultural machinery	-	-	-	-	-	-	12.0%	10.0%	5.0%
Intersegment sales	85.0%	-6.0%	9.8%	13.9%	-15.1%	-45.3%	18.5%	7.6%	5.7%
Average	62.7%	5.1%	9.5%	13.3%	3.1%	-13.9%	19.7%	7.8%	5.6%
Segment profit									
Diesel engines	6,731	7,310	7,573	8,524	7,407	2,823	4,794	5,472	5,846
Automobiles and major components	1,581	1,963	2,176	1,668	446	(599)	648	813	911
Forklift trucks & supply chain solution	2,866	3,636	3,992	1,789	5,338	428	1,643	2,352	2,677
Agricultural machinery	-	-	-	-	-	547	874	983	1,032
Intersegment sales	(456)	128	(131)	(127)	(591)	473	(89)	(96)	(102)
Total segment profit	10,721	13,037	13,610	11,854	12,601	3,672	7,870	9,523	10,365
Growth (YoY)									
Diesel engines	126.6%	8.6%	3.6%	12.6%	-13.1%	-61.9%	69.8%	14.1%	6.8%
Automobiles and major components	n/a	24.2%	10.8%	-23.3%	-73.3%	-234.3%	-208.1%	25.4%	12.1%
Forklift trucks & supply chain solution	42.2%	26.9%	9.8%	-55.2%	198.3%	-92.0%	284.3%	43.1%	13.9%
Agricultural machinery	-	-	-	-	-	-	59.8%	12.5%	5.0%
Intersegment sales	55.1%	n/a	n/a	-2.7%	364.5%	-180.1%	-118.9%	7.6%	5.7%
Average	155.5%	21.6%	4.4%	-12.9%	6.3%	-70.9%	114.3%	21.0%	8.8%
Segment margin									
Diesel engines	15.4%	16.3%	15.2%	13.6%	11.5%	7.2%	8.3%	8.5%	8.5%
Automobiles and major components	2.5%	2.9%	3.0%	1.9%	0.6%	-1.3%	1.1%	1.3%	1.4%
Forklift trucks & supply chain solution	4.9%	6.0%	5.9%	2.7%	6.8%	0.5%	2.0%	2.7%	2.9%
Agricultural machinery	-	-	-	-	-	3.1%	4.4%	4.5%	4.5%
Average	7.1%	8.2%	7.8%	6.0%	6.2%	2.1%	3.8%	4.2%	4.3%

Source: Company data, CMBIGM estimates

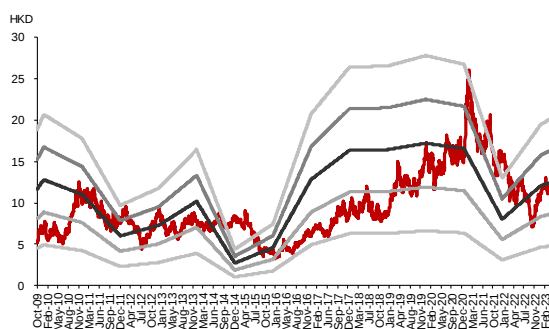
Figure 6: SOTP valuation

SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA 2023E (RMB mn)	Estimated EV (RMB mn)	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
Weichai core business	EV/EBITDA	7.0	8,822	61,756	38,674	100,429	83.7%
KION Group	Proportionate market value	-	-	-	-	17,136	14.3%
Ballard Power Systems	Proportionate market value	-	-	-	-	1,799	1.5%
Ceres Power	Proportionate market value	-	-	-	-	1,142	1.0%
Share of JV/associates	P/B	1.2	-	-	-	6,409	5.3%
Minority interest in core business						-6,899	-5.7%
Total NAV						120,017	100.0%
NAV per share (RMB)						13.8	
NAV per share (HK\$)						15.8	

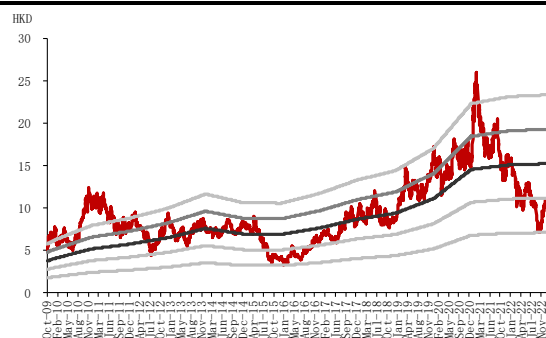
Source: Company data, CMBIGM estimates

Note 1: Weichai owns 45.2% interest in KION, 20% interest in Ballard Power and 20% interest in Ceres Power.

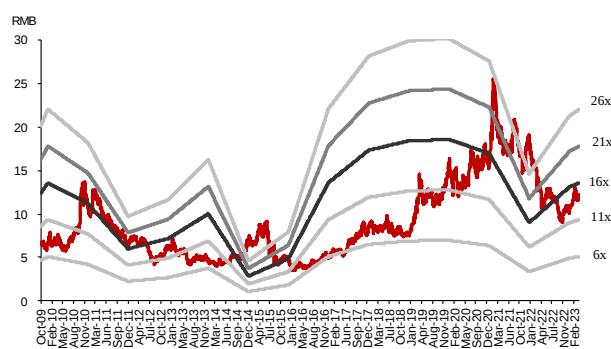
Note 2: Share of JV / associates exclude Ballard Power and Ceres Power

Figure 7: Weichai Power-H P/E band

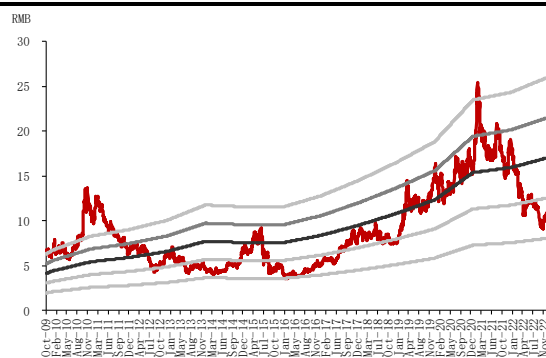
Source: Bloomberg, Company data, CMBIGM estimates

Figure 8: Weichai Power-H P/B band

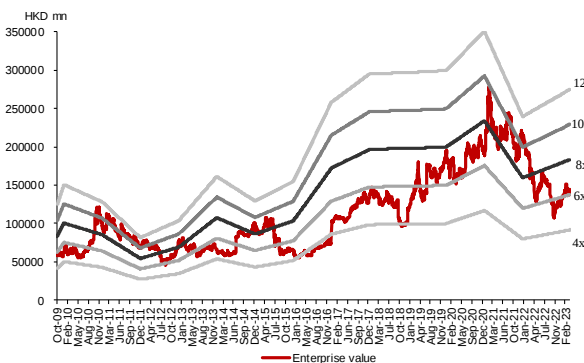
Source: Bloomberg, Company data, CMBIGM estimates

Figure 9: Weichai Power-A P/E band

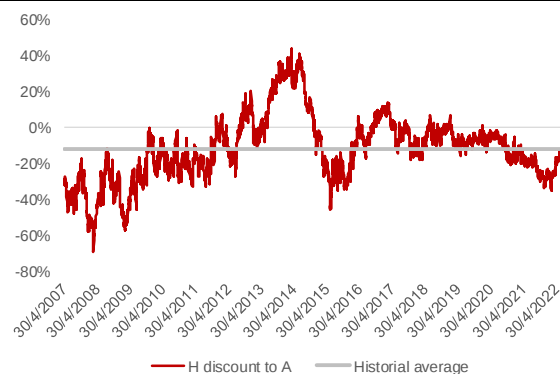
Source: Bloomberg, Company data, CMBIGM estimates

Figure 10: Weichai Power-A P/B band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 11: Weichai Power EV/EBITDA band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 12: Weichai Power H discount to A

Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	197,491	203,548	175,158	209,751	226,204	238,954
Cost of goods sold	(159,353)	(163,947)	(144,011)	(170,318)	(183,225)	(193,553)
Gross profit	38,138	39,601	31,147	39,433	42,979	45,401
Operating expenses	(25,289)	(26,038)	(25,664)	(30,051)	(31,927)	(33,483)
Operating profit	12,850	13,563	5,482	9,382	11,052	11,918
Share of (losses)/profits of associates/JV	253	187	(144)	188	191	177
EBITDA	21,708	24,160	16,630	20,661	22,953	24,451
Depreciation	8,858	10,597	11,148	11,279	11,902	12,533
Interest income	1,278	1,724	2,359	2,026	2,220	2,544
Interest expense	(1,557)	(1,274)	(1,450)	(1,721)	(1,737)	(1,741)
Net Interest income/(expense)	(279)	450	909	304	483	803
Other income/expense	(142)	(145)	(162)	(252)	(271)	(287)
Pre-tax profit	12,682	14,055	6,086	9,623	11,454	12,612
Income tax	(1,407)	(2,493)	(403)	(1,540)	(2,062)	(2,270)
Minority interest	(2,068)	(2,307)	(778)	(889)	(1,127)	(1,241)
Adjusted net profit	9,207	9,255	4,906	7,194	8,265	9,101

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	152,515	160,638	168,484	187,549	196,321	218,434
Cash & equivalents	62,216	75,043	70,842	73,845	84,705	97,016
Account receivables	15,422	18,191	21,419	26,853	27,684	29,927
Inventories	31,226	31,585	33,374	44,086	41,252	48,896
Prepayment	1,095	1,570	1,473	1,388	1,303	1,218
Other current assets	42,556	34,249	41,378	41,378	41,378	41,378
Non-current assets	118,235	116,406	125,182	122,468	117,634	112,162
PP&E	31,720	33,188	37,892	36,173	32,349	27,865
Investment in JVs & assos	4,944	6,713	5,341	5,422	5,504	5,580
Intangibles	23,826	20,908	22,760	21,684	20,592	19,527
Goodwill	24,666	22,847	24,019	24,019	24,019	24,019
Other non-current assets	33,079	32,750	35,171	35,171	35,171	35,171
Total assets	270,750	277,044	293,666	310,017	313,955	330,596
Current liabilities	123,713	115,382	119,743	130,213	127,277	136,469
Short-term borrowings	17,006	12,982	15,824	16,624	16,724	16,824
Account payables	45,450	39,596	45,560	55,231	52,194	61,286
Other current liabilities	61,257	62,803	58,358	58,358	58,358	58,358
Non-current liabilities	66,604	58,700	69,813	69,813	69,813	69,813
Long-term borrowings	20,729	18,839	28,839	28,839	28,839	28,839
Other non-current liabilities	45,876	39,861	40,973	40,973	40,973	40,973
Total liabilities	190,317	174,083	189,555	200,026	197,090	206,281
Total shareholders equity	51,202	70,907	73,184	78,175	83,923	90,131
Minority interest	29,231	32,055	30,926	31,816	32,943	34,184
Total equity and liabilities	270,750	277,044	293,666	310,017	313,955	330,596

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	12,682	14,055	6,086	9,623	11,454	12,612
Depreciation & amortization	8,787	10,537	11,065	11,194	11,817	12,448
Tax paid	(1,407)	(2,493)	(403)	(1,540)	(2,062)	(2,270)
Change in working capital	1,114	(8,767)	(20,324)	(6,476)	(1,034)	(795)
Others	1,753	1,325	1,227	1,618	1,631	1,648
Net cash from operations	22,928	14,658	(2,350)	14,420	21,806	23,643
Investing						
Capital expenditure	(5,992)	(3,610)	(5,242)	(8,400)	(6,900)	(6,900)
Acquisition of subsidiaries/ investments	(1,475)	(3,578)	(309)	0	0	0
Others	(1,950)	1,779	(2,995)	107	109	101
Net cash from investing	(9,417)	(5,409)	(8,545)	(8,293)	(6,791)	(6,799)
Financing						
Dividend paid	(3,459)	(4,715)	(3,930)	(2,203)	(2,518)	(2,893)
Net borrowings	1,052	(5,913)	12,842	800	100	100
Proceeds from share issues	0	14,050	1,676	0	0	0
Others	(579)	(298)	(5,736)	(1,721)	(1,737)	(1,741)
Net cash from financing	(2,986)	3,123	4,852	(3,124)	(4,155)	(4,533)
Net change in cash						
Cash at the beginning of the year	48,818	62,216	75,043	70,842	73,845	84,705
Exchange difference	2,873	455	1,841	0	0	0
Cash at the end of the year	62,216	75,043	70,842	73,845	84,705	97,016
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	13.3%	3.1%	(13.9%)	19.7%	7.8%	5.6%
Gross profit	0.3%	3.8%	(21.3%)	26.6%	9.0%	5.6%
Operating profit	(10.9%)	5.5%	(59.6%)	71.1%	17.8%	7.8%
EBITDA	(3.5%)	11.3%	(31.2%)	24.2%	11.1%	6.5%
Adj. net profit	1.1%	0.5%	(47.0%)	46.6%	14.9%	10.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	19.3%	19.5%	17.8%	18.8%	19.0%	19.0%
Operating margin	6.5%	6.7%	3.1%	4.5%	4.9%	5.0%
EBITDA margin	11.0%	11.9%	9.5%	9.9%	10.1%	10.2%
Adj. net profit margin	4.7%	4.5%	2.8%	3.4%	3.7%	3.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.6)	(0.4)	(0.4)	(0.5)	(0.6)
Current ratio (x)	1.2	1.4	1.4	1.4	1.5	1.6
Receivable turnover days	27.5	30.1	41.3	42.0	44.0	44.0
Inventory turnover days	64.1	69.9	82.3	83.0	85.0	85.0
Payable turnover days	94.1	94.7	107.9	108.0	107.0	107.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	11.7	14.2	17.1	12.4	10.8	9.8
P/B	2.1	1.8	1.1	1.1	1.1	1.0
Div yield (%)	3.0	2.4	2.6	2.8	3.2	3.6

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

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