

Weichai Power (2338 HK)

Still positive, but wait for a better entry point after 3Q24E results

We trim our HDT engine sales volume forecast by 7%/7%/2% in 2024E/25E/26E, after incorporating our new industry HDT sales forecast (*for details, please refer to our sector report "China Heavy-duty Truck – Headwinds in 4Q24 in both China & export; Eyes on policy-driven recovery in 2025"*). In the near term, we believe the narrowed LNG/diesel price spread will be unfavourable to Weichai's gas engine segment. While our earnings forecast in 2024E-26E is only revised down by 1-3% due to a relatively solid margin outlook, our new forecasts suggest profit growth to decelerate from 51% in 1H24 to 7%/2% in 2H24E/2025E. Our SOTP-based TP for A/H (rolled over to 2025E) is revised down to RMB17.9/HK\$17.7 (from RMB18.0/HK\$19.5). We still maintain **BUY** rating as valuation (9x 2025E P/E) is not excessive even under our new earnings forecast, but we see a better entry point after the upcoming announcement of 3Q24E results (30 Oct).

■ **Risk factors:** 1) weakness in engine exports; 2) lower-than-expected replacement demand in China; (3) further contraction of diesel/gas price ratio.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	175,158	213,958	223,162	232,896	241,260
YoY growth (%)	(13.9)	22.2	4.3	4.4	3.6
Adjusted net profit (RMB mn)	4,905.5	9,013.9	11,390.7	11,666.8	12,304.8
EPS (Reported) (RMB)	0.56	1.03	1.31	1.34	1.41
YoY growth (%)	(47.0)	83.8	26.4	2.4	5.5
Consensus EPS (RMB)	na	na	1.34	1.57	1.75
P/E (x)	21.1	11.5	9.1	8.9	8.4
P/B (x)	1.4	1.3	1.2	1.1	1.0
Yield (%)	2.1	4.4	5.5	5.6	6.0
Net gearing (%)	(35.8)	(62.0)	(70.2)	(76.9)	(86.1)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$17.70**
(Previous TP) HK\$19.50
Up/Downside **35.9%**
Current Price **HK\$13.02**

China Capital Goods

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Stock Data

Mkt Cap (HK\$ mn)	113,619.8
Avg 3 mths t/o (HK\$ mn)	199.6
52w High/Low (HK\$)	17.20/10.52
Total Issued Shares (mn)	8726.6

Source: FactSet

Shareholding Structure

Weichai Holdings Group	16.3%
Weifang Investment Group	3.4%

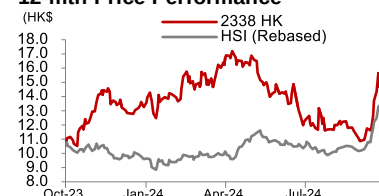
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	19.9%	-3.5%
3-mth	5.7%	-11.3%
6-mth	-23.0%	-38.0%

Source: FactSet

12-mth Price Performance



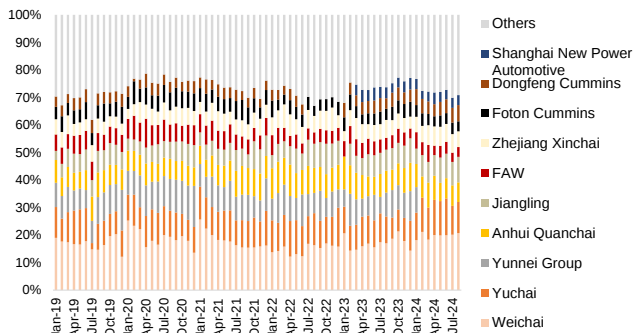
Source: FactSet

Figure 1: Change in key assumptions for Weichai

Sales volume (unit)	2024E			2025E			2026E		
	Old	New	Change	Old	New	Change	Old	New	Change
Engine total	851,074	803,223	-5.6%	906,731	844,000	-6.9%	934,239	878,458	-6.0%
HDT (Shaanxi Heavy-duty Motor)	122,960	114,840	-6.6%	130,338	124,027	-4.8%	134,248	132,709	-1.1%
Gear box (Shaanxi Fast Gear Company)	905,040	888,280	-1.9%	950,292	932,694	-1.9%	969,298	968,136	-0.1%
(RMB mn)									
Revenue									
Diesel engines	69,788	66,427	-4.8%	74,352	70,052	-5.8%	76,608	73,088	-4.6%
Automobiles and major components	70,110	66,206	-5.6%	73,699	69,744	-5.4%	75,262	72,656	-3.5%
Forklift trucks & supply chain solution	88,397	88,834	0.5%	91,933	90,611	-1.4%	95,610	92,423	-3.3%
Agricultural machinery	17,820	18,306	2.7%	18,711	19,770	5.7%	19,646	20,956	6.7%
Intersegment sales	-16,665	-16,610	-0.3%	-17,519	-17,280	-1.4%	-18,066	-17,862	-1.1%
Total revenue	229,448	223,162	-2.7%	241,175	232,896	-3.4%	249,059	241,260	-3.1%
Segment profit									
Diesel engines	8,863	8,968	1.2%	9,294	9,317	0.2%	9,576	9,794	2.3%
Automobiles and major components	491	497	1.2%	442	488	10.4%	452	545	20.7%
Forklift trucks & supply chain solution	5,304	5,508	3.8%	5,516	5,437	-1.4%	5,737	5,545	-3.3%
Agricultural machinery	784	769	-1.9%	842	850	1.0%	884	943	6.7%
Intersegment sales	-883	-498	-43.6%	-928	-864	-6.9%	-957	-893	-6.7%
Total segment profit	14,558	15,242	4.7%	15,166	15,228	0.4%	15,691	15,934	1.6%
Segment margin			Chg (ppt)			Chg (ppt)			Chg (ppt)
Diesel engines	12.7%	13.5%	0.8	12.5%	13.3%	0.8	12.5%	13.4%	0.9
Automobiles and major components	0.7%	0.8%	0.1	0.6%	0.7%	0.1	0.6%	0.8%	0.2
Forklift trucks & supply chain solution	6.0%	6.2%	0.2	6.0%	6.0%	0.0	6.0%	6.0%	0.0
Agricultural machinery	4.4%	4.2%	-0.2	4.5%	4.3%	-0.2	4.5%	4.5%	0.0
Average	6.3%	6.8%	0.5	6.3%	6.5%	0.3	6.3%	6.6%	0.3
Net profit	11,459	11,391	-0.6%	12,082	11,667	-3.4%	12,692	12,305	-3.1%

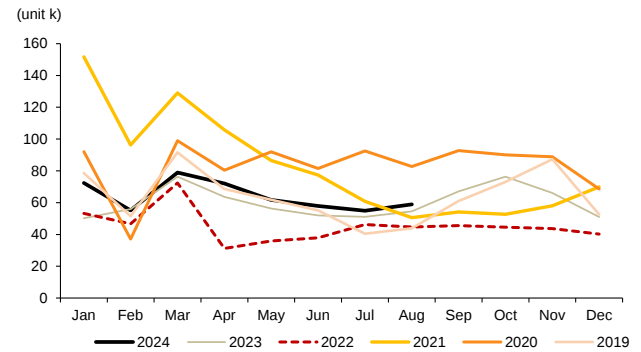
Source: Company data, CMBIGM estimates

Figure 2: China multi-cylinder engine market share



Source: CICEIA, CMBIGM

Figure 3: Weichai's multi-cylinder engine monthly sales volume



Source: CICEIA, CMBIGM

Figure 4: KION's guidance for 2024E

(EUR mn)	2022	2023	2024E guidance	
			Low-end	High-end
Order intake	11,708	10,876	-	-
Growth (YoY)	-6%	-7%	-	-
Revenue	11,136	11,434	11,300	11,700
Growth (YoY)	8%	3%	-1%	2%
Adjusted EBIT	292	791	830	920
Growth (YoY)	-65%	171%	5%	16%
Adjusted EBIT margin	2.6%	6.9%	7.3%	7.9%
Net income	106	314	-	-
Growth (YoY)	-81%	197%	-	-

Source: Company data, CMBIGM

Figure 5: KION's quarterly financials

(EUR mn)	2Q23	3Q23	4Q23	1Q24	2Q24
Order intake	2,864	2,621	2,936	2,439	2,640
Growth (YoY)	-24%	4%	16%	2%	-8%
Revenue	2,836	2,730	3,086	2,859	2,877
Growth (YoY)	1%	1%	7%	3%	1%
Adjusted EBIT	192	224	219	227	220
Growth (YoY)	36%	n/a	167%	46%	15%
Adjusted EBIT margin	6.8%	8.2%	7.1%	7.9%	7.6%
Net income	73	82	86	111	71
Growth (YoY)	-9%	n/a	121%	51%	-2%

Source: Company data, CMBIGM

Figure 6: SOTP valuation

SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA 2025E (RMB mn)	Estimated EV (RMB mn)	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
Weichai core business	EV/EBITDA	6.0	14,155	84,931	58,533	143,464	91.7%
KION Group	Proportionate market value	-	-	-	-	16,772	10.7%
Ballard Power Systems	Proportionate market value	-	-	-	-	696	0.4%
Ceres Power	Proportionate market value	-	-	-	-	992	0.6%
Share of JV/associates	P/B	1.2	-	-	-	6,258	4.0%
Minority interest in core business						-11,679	-7.5%
Total NAV						156,503	100.0%
NAV per share (RMB)						17.9	
A/H discount						10%	
NAV per share (HK\$)						17.7	

Source: Company data, CMBIGM estimates

Note 1: Weichai owns 46.5% interest in KION, 20% interest in Ballard Power and 20% interest in Ceres Power.

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

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	203,548	175,158	213,958	223,162	232,896	241,260
Cost of goods sold	(163,947)	(144,011)	(168,842)	(174,513)	(182,823)	(189,631)
Gross profit	39,601	31,147	45,116	48,649	50,073	51,630
Operating expenses	(26,038)	(25,664)	(31,238)	(32,601)	(33,950)	(34,801)
Operating profit	13,563	5,482	13,878	16,049	16,123	16,828
Share of (losses)/profits of associates/JV	187	(144)	(13)	94	105	106
EBITDA	24,160	16,630	25,867	27,245	28,585	30,477
Depreciation	10,597	11,148	11,989	11,196	12,462	13,649
Interest income	1,724	2,359	2,818	3,154	3,505	3,900
Interest expense	(1,274)	(1,450)	(3,378)	(1,665)	(1,668)	(1,672)
Net interest income/(expense)	450	909	(560)	1,489	1,836	2,228
Other income/expense	(145)	(162)	(154)	(268)	(279)	(290)
Pre-tax profit	14,055	6,086	13,151	17,364	17,785	18,872
Income tax	(2,493)	(403)	(1,940)	(3,125)	(3,201)	(3,491)
Minority interest	(2,307)	(778)	(2,198)	(2,848)	(2,917)	(3,076)
Adjusted net profit	9,255	4,906	9,014	11,391	11,667	12,305

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	160,638	168,484	197,925	201,625	229,569	234,456
Cash & equivalents	75,043	70,842	92,857	104,267	114,771	128,963
Account receivables	18,191	21,419	23,754	20,267	28,226	24,653
Inventories	31,585	33,374	37,930	33,788	43,349	37,699
Prepayment	1,570	1,473	1,691	1,610	1,529	1,448
Other current assets	34,249	41,378	41,693	41,693	41,693	41,693
Non-current assets	116,406	125,182	136,322	132,147	126,711	120,089
PP&E	33,188	37,892	44,073	40,846	36,519	31,092
Investment in JVs & assos	6,713	5,341	5,175	5,215	5,260	5,305
Intangibles	20,908	22,760	23,071	22,084	20,930	19,689
Goodwill	22,847	24,019	24,858	24,858	24,858	24,858
Other non-current assets	32,750	35,171	39,145	39,145	39,145	39,145
Total assets	277,044	293,666	334,247	333,773	356,280	354,545
Current liabilities	115,382	119,743	146,215	136,029	149,649	138,366
Short-term borrowings	12,982	15,824	16,949	17,049	17,149	17,249
Account payables	39,596	45,560	60,127	49,840	63,360	51,977
Other current liabilities	62,803	58,358	69,139	69,139	69,139	69,139
Non-current liabilities	58,700	69,813	75,346	75,346	75,346	75,346
Long-term borrowings	18,839	28,839	26,745	26,745	26,745	26,745
Other non-current liabilities	39,861	40,973	48,601	48,601	48,601	48,601
Total liabilities	174,083	189,555	221,561	211,375	224,995	213,712
Total shareholders equity	70,907	73,184	79,335	86,199	92,171	98,642
Minority interest	32,055	30,926	33,351	36,198	39,115	42,191
Total equity and liabilities	277,044	293,666	334,247	333,773	356,280	354,545

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	14,055	6,086	13,151	17,364	17,785	18,872
Depreciation & amortization	10,537	11,065	11,909	11,115	12,381	13,568
Tax paid	(2,493)	(403)	(1,940)	(3,125)	(3,201)	(3,491)
Change in working capital	(8,767)	(20,324)	6,089	(2,657)	(4,001)	(2,159)
Others	1,325	1,227	(1,738)	1,652	1,645	1,647
Net cash from operations	14,658	(2,350)	27,471	24,348	24,608	28,437
Investing						
Capital expenditure	(3,610)	(5,242)	(4,633)	(6,900)	(6,900)	(6,900)
Acquisition of subsidiaries/ investments	(3,578)	(309)	(156)	0	0	0
Others	1,779	(2,995)	(947)	53	60	60
Net cash from investing	(5,409)	(8,545)	(5,737)	(6,847)	(6,840)	(6,840)
Financing						
Dividend paid	(4,715)	(3,930)	(4,175)	(4,526)	(5,695)	(5,833)
Net borrowings	(5,913)	12,842	(969)	100	100	100
Proceeds from share issues	14,050	1,676	92	0	0	0
Others	(298)	(5,736)	(7,977)	(1,665)	(1,668)	(1,672)
Net cash from financing	3,123	4,852	(13,029)	(6,091)	(7,264)	(7,405)
Net change in cash						
Cash at the beginning of the year	62,216	75,043	70,842	92,857	104,267	114,771
Exchange difference	455	1,841	13,310	0	0	0
Cash at the end of the year	75,043	70,842	92,857	104,267	114,771	128,963
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	3.1%	(13.9%)	22.2%	4.3%	4.4%	3.6%
Gross profit	3.8%	(21.3%)	44.8%	7.8%	2.9%	3.1%
Operating profit	5.5%	(59.6%)	153.1%	15.6%	0.5%	4.4%
EBITDA	11.3%	(31.2%)	55.5%	5.3%	4.9%	6.6%
Adj. net profit	0.5%	(47.0%)	83.8%	26.4%	2.4%	5.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	19.5%	17.8%	21.1%	21.8%	21.5%	21.4%
Operating margin	6.7%	3.1%	6.5%	7.2%	6.9%	7.0%
EBITDA margin	11.9%	9.5%	12.1%	12.2%	12.3%	12.6%
Adj. net profit margin	4.5%	2.8%	4.2%	5.1%	5.0%	5.1%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.4)	(0.6)	(0.7)	(0.8)	(0.9)
Current ratio (x)	1.4	1.4	1.4	1.5	1.5	1.7
Receivable turnover days	30.1	41.3	38.5	36.0	38.0	40.0
Inventory turnover days	69.9	82.3	77.1	75.0	77.0	78.0
Payable turnover days	94.7	107.9	114.2	115.0	113.0	111.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	11.2	21.1	11.5	9.1	8.9	8.4
P/B	1.5	1.4	1.3	1.2	1.1	1.0
Div yield (%)	3.0	2.1	4.4	5.5	5.6	6.0

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

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