

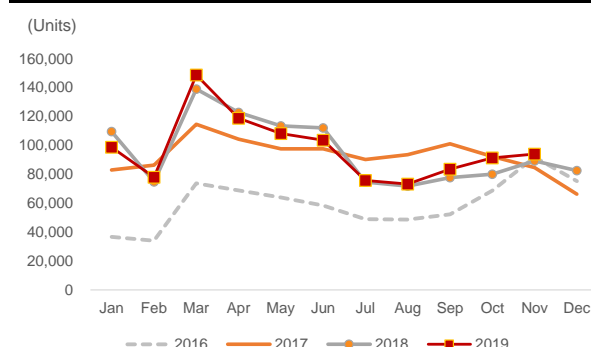
China Heavy Duty Truck

HDT sales +5% YoY in Nov in line with est.; Staying positive in 2020E

According to the preliminary figures released by CVworld yesterday, China HDT sales volume in Nov increased 5% YoY to 94k units, in line with our expectation. We are incrementally positive on HDT sector outlook in 2020E. Reiterate **BUY** on **Weichai-H (2338 HK, TP: HK\$17.9) / Weichai-A (000338 CH, TP: RMB15.9)** on rising contribution of natural gas engine and market share gain.

- **Reasons for the growth in Nov:** (1) Deadlines for the phase-out of NES III trucks are approaching across different regions, which drove higher demand; (2) Stringent anti-overloading policies following the bridge accident in Wuxi has continued to boost new demand; (3) Higher demand is seen due to the early CNY in 2020 (Jan).
- **Dongfeng continued to gain market share. Dongfeng (489 HK, HOLD, covered by Jack Bai)** reported 27% HDT sales growth in Nov, replaced FAW and ranked number one in terms of sales volume. On the other hand, CNHTC (parent company of Sinotruk) saw slight sales decline of 3%. Total HDT sales volume in 11M19 reached ~1.07mn units (+0.8% YoY), representing ~92% of our full year estimates of 1.16mn units.
- **We are positive on HDT sector in 2020E.** Last week, we revised up China HDT sales forecast by 4%/3% in 2019E/20E to 1.16mn/1.17mn units, as we expect the demand will be much stronger than expectation, on the back of continuous elimination of NES III trucks and anti-overloading policies. On the HDT engine side, industry consolidation will likely continue, as higher technological know-how is required to meet the upcoming NES VI (See our sector report: [China Construction Machinery Sector – Four Structural Drivers to Extend The Upcycle to 2020-21E](#)).
- **Investment ideas: Weichai-H** is our preferred name in HK market. We also like **Sinotruk (3808 HK, BUY, TP: HK\$19.4)** as we expect sales volume improvement in 2020E with the launch of more new models. Besides, we expect **CIMC Vehicles (1839 HK, BUY, TP: HK\$6.9)** will also benefit from higher demand for trailers under the anti-overloading policies.

Figure 1: China HDT sales volume +5% YoY in Nov



Source: CVworld, CMBIS

OUTPERFORM
(Maintain)

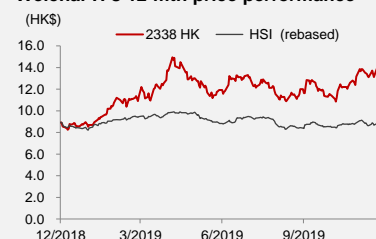
China Capital Goods

Wayne Fung, CFA

(852) 3900 0826

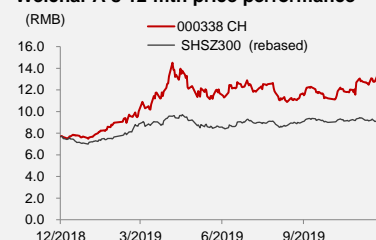
waynefung@cmbi.com.hk

Weichai-H's 12-mth price performance



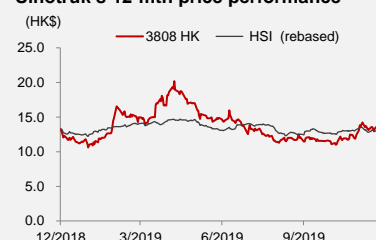
Source: Bloomberg

Weichai-A's 12-mth price performance



Source: Bloomberg

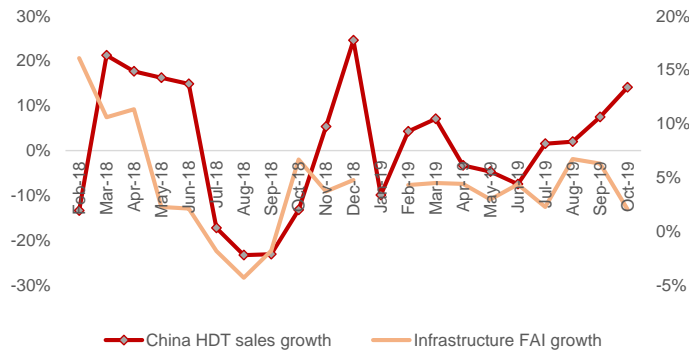
Sinotruk's 12-mth price performance



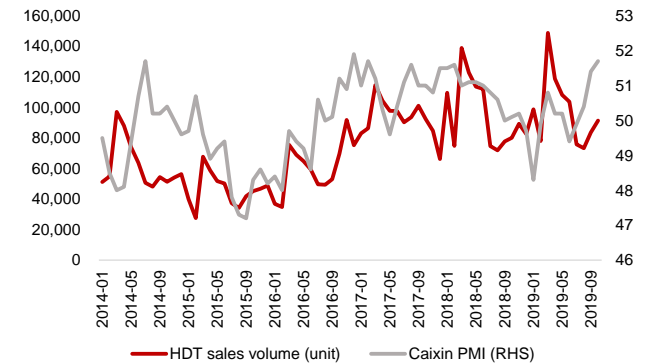
Source: Bloomberg

Related Reports

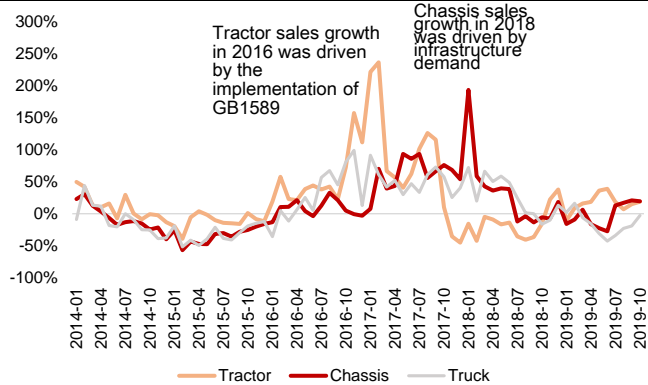
1. China Construction Machinery Sector – Four structural drivers to extend the upcycle to 2020-21E – 27 Nov 2019
2. HDT sales growth of +12% YoY in Oct reaffirms our bullish view – 4 Nov 2019
3. Weichai Power (2338 HK, BUY) – 3Q19 Profit +10% YoY in line; Expect further demand growth in 4Q19E – 31 Oct 2019
4. HDT sales +7% YoY in Sep; the highest growth since Mar – 9 Oct 2019

Figure 2: Monthly HDT sales vs Infrastructure FAI

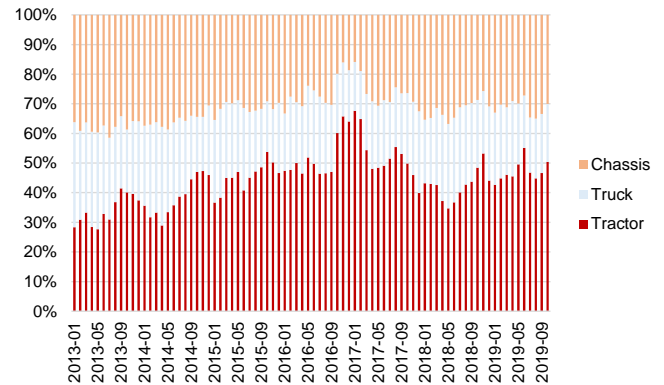
Source: Wind, NBS, CMBIS

Figure 3: China HDT sales vs Caixin PMI

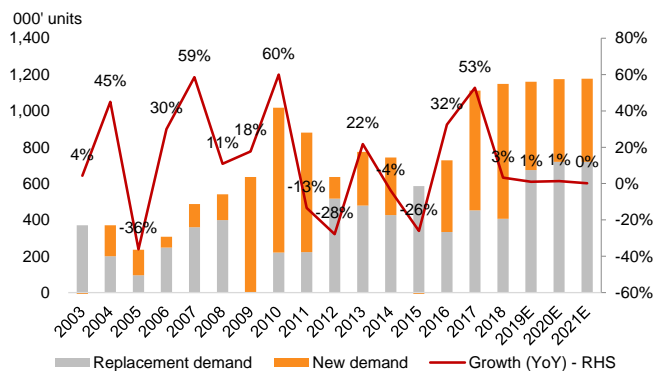
Source: NBS, Wind, CMBIS

Figure 4: China HDT sales growth by type (YoY)

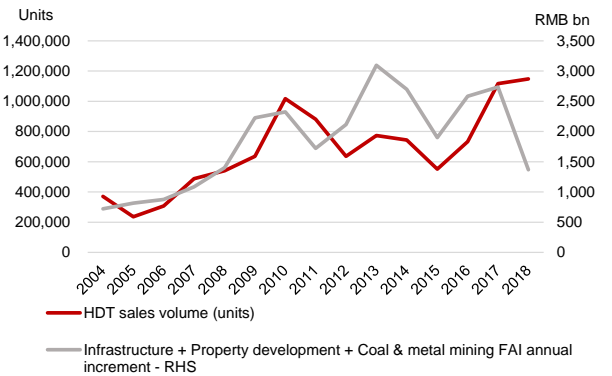
Source: Wind, CMBIS

Figure 5: China HDT sales breakdown by type

Source: Wind, CMBIS

Figure 6: CMBI HDT sales projection

Source: Wind, NBS, CMBIS estimates

Figure 7: HDT sales vs construction related FAI

Source: NBS, Wind, CMBIS estimates

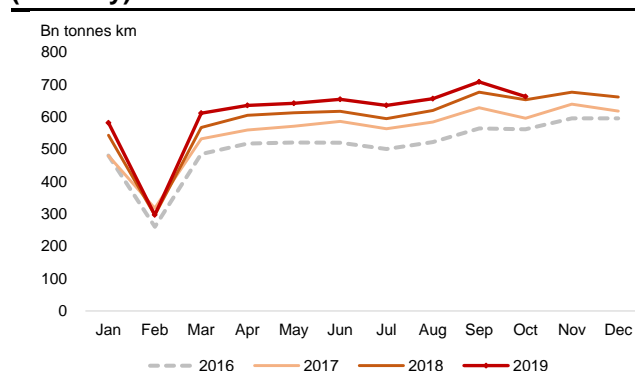
Figure 8: HDT sales in China by company

		2019										
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Sales volume (units)												
Company												
FAW	中国一汽	32,500	20,000	36,427	30,165	29,685	22,761	18,421	15,900	21,147	23,000	17,500
Dongfeng	东风	13,000	13,000	31,357	24,798	22,372	21,388	16,281	16,432	18,703	20,000	21,500
CNHTC	中国重汽	14,000	13,000	24,248	17,766	15,600	16,964	12,156	11,116	11,967	12,500	14,500
SXQC	陕汽集团	11,000	11,500	24,253	17,247	15,749	16,998	10,434	10,471	11,378	11,700	14,900
Foton	北汽福田	6,500	5,500	11,639	8,797	7,001	7,257	5,394	5,804	6,713	7,700	7,900
JAC	安徽江淮	4,200	2,800	4,425	3,461	3,452	3,417	2,246	2,034	2,382	2,500	3,000
SAIC-IVECO Hongyan	上汽依维柯红岩	6,000	2,900	5,530	6,150	5,020	5,100	4,100	4,011	3,803	4,000	5,500
Da Yun	成都大运	2,488	1,880	3,123	2,270	2,389	3,775	2,212	2,218	2,727	2,850	3,114
CAMC	安徽华菱	2,134	1,779	2,210	2,078	2,068	1,080	920	1,263	1,100	1,655	1,876
Others	其他	6,880	5,658	5,543	6,025	4,928	4,953	3,619	4,011	3,651	5,442	4,210
Total		98,702	78,017	148,755	118,757	108,264	103,693	75,783	73,260	83,571	91,347	94,000
Change (YoY)												
Company												
FAW	中国一汽	-5%	-1%	9%	13%	26%	-15%	37%	0%	17%	22%	-12%
Dongfeng	东风	-22%	17%	14%	9%	3%	4%	18%	19%	21%	24%	27%
CNHTC	中国重汽	-25%	-8%	17%	-11%	-16%	-7%	-9%	-7%	-2%	0%	-3%
SXQC	陕汽集团	-24%	4%	18%	-4%	-7%	-6%	-4%	2%	-4%	2%	0%
Foton	北汽福田	-9%	0%	-15%	-35%	-41%	-34%	-38%	-21%	-9%	1%	-3%
JAC	安徽江淮	-22%	-18%	-22%	-35%	-15%	48%	-30%	-10%	-11%	0%	30%
SAIC-IVECO Hongyan	上汽依维柯红岩	13%	-4%	-17%	-11%	-28%	-18%	-18%	11%	16%	8%	57%
Da Yun	成都大运	-1%	1%	1%	2%	1%	6%	0%	-21%	1%	1%	1%
CAMC	安徽华菱	51%	33%	-16%	-19%	2%	-18%	-16%	-7%	-27%	-19%	-18%
Others	其他	79%	80%	14%	27%	-11%	17%	24%	60%	42%	122%	30%
Average		-10%	4%	7%	-3%	-5%	-7%	2%	2%	8%	14%	5%
Market share												
Company												
FAW	中国一汽	33%	26%	24%	25%	27%	22%	24%	22%	25%	25%	19%
Dongfeng	东风	13%	17%	21%	21%	21%	21%	21%	22%	22%	22%	23%
CNHTC	中国重汽	14%	17%	16%	15%	14%	16%	16%	15%	14%	14%	15%
SXQC	陕汽集团	11%	15%	16%	15%	15%	16%	14%	14%	14%	13%	16%
Foton	北汽福田	7%	7%	8%	7%	6%	7%	7%	8%	8%	8%	8%
JAC	安徽江淮	4%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%
SAIC-IVECO Hongyan	上汽依维柯红岩	6%	4%	4%	5%	5%	5%	5%	5%	5%	4%	6%
Da Yun	成都大运	3%	2%	2%	2%	2%	4%	3%	3%	3%	3%	3%
CAMC	安徽华菱	2%	2%	1%	2%	2%	1%	1%	2%	1%	2%	2%
Others	其他	7%	7%	4%	5%	5%	5%	5%	5%	4%	6%	4%
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: CNHTC is the parent co of Sinotruk. Shaanxi Automobile Group is the second largest shareholder of Shaanxi Heavy-duty Motor with 49% stake. Weichai is the largest shareholder of Shaanxi Heavy-duty Motor with 51% stake.

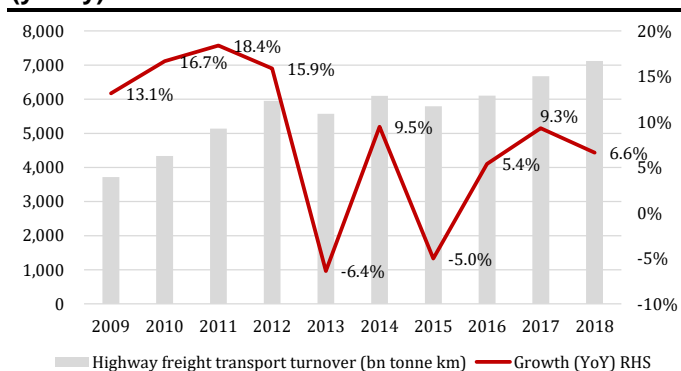
Source: Wind, CVworld, CMBIS

Figure 9: China highway freight transport turnover (monthly)



Source: NBS, Wind, CMBIS

Figure 10: China highway freight transport turnover (yearly)



Source: NBS, Wind, CMBIS

Figure 11: Timetable for the implementation of National Emission Standard

Type of vehicles		Year																							
		00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Heavy duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Light duty vehicle	Diesel																								
	Gasoline																								
	Gas fueled																								
Off road vehicle	Diesel																								

National emission standard: No regulation, I, II, III, IV, V, VI(a), VI(b)

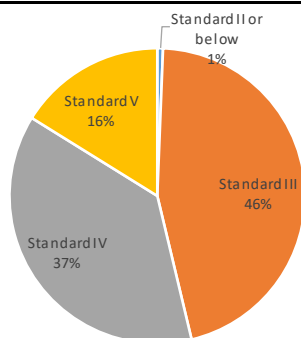
Source: Ministry of Ecology and Environmental, CMBIS

Figure 12: Local government policies on the implementation of NES VI and the elimination of NES III trucks

Province/city	NES VI implementation date	NES III elimination date	Subsidising policy for NES III elimination
Beijing	Jul 2019: Public transportation/sanitary truck/Heavy-duty diesel truck (VI-b) Jan 2020: Gas fueled LDT and other HDT (VI-b)	To eliminate 100k units by Sep 2019	Max: RMB100k per unit
Guangdong (excluding Guangzhou & Shenzhen)	Jul 2019: LDT (VI-b)	To accelerate the elimination	-
Guangzhou	Jul 2019: Trial for LDT Sep 2019: Official implementation (VI-b)	-	RMB30k per unit
Shenzhen	Jul 2019	To eliminate 80k units by in 2019	-
Hainan	Jul 2019	Banned the sales of gasoline vehicles since Mar 2019	RMB7k-25k per unit
Tianjin	Jul 2019: LDT (VI-b)	End-2020	-
Shandong	Jul 2019: LDT (VI-b)	Jul 2019: To eliminate 34k units	RMB40k per unit
Henan	Jul 2019: LDT (VI-b)	End-2020	-
Hebei	Jul 2019: LDT (VI-b)	End-2020	-
Hangzhou	Jul 2019: LDT (VI-b)	End-2019	Max: RMB40k per unit
Nanjing	Jul 2019: LDT (VI-b)	End-2020	Max: RMB40k per unit
Shaanxi	July 2019: For Guanzhong region (VI-b)	End-2020	Max: RMB33k per unit
Dalian	-	Mar 2019- Feb 2020: To ban the operation of high polluting diesel trucks in certain districts	30% of the cost of upgrade (Max: RMB10k per unit)
Shanxi	Jul 2019: LDT in key districts (VI-b)	End-2020	-
Chengdu	Jul 2019: LDT (VI-b)	-	-
Anhui	Jul 2019: LDT (VI-b)	-	-
Jiangsu	Jul 2019: LDT (VI-b)	-	-
Zhejiang	Jul 2019: LDT (VI-b)	-	-
Chongqing	Jul 2019: LDT (VI-b)	-	-
Shanghai	Jul 2019: LDT (VI-b)	-	-
Yunnan	Jul 2020: LDT (VI-b)	End-2020: To eliminate 30k units	-

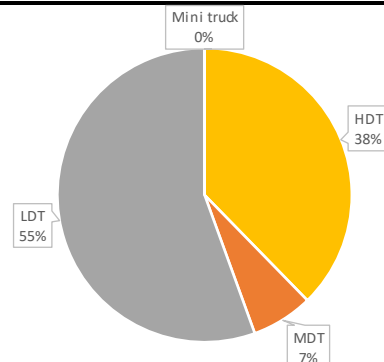
Source: Local governments announcement, CVworld, CMBIS

Figure 13: China truck fleet size breakdown by NES (2018)

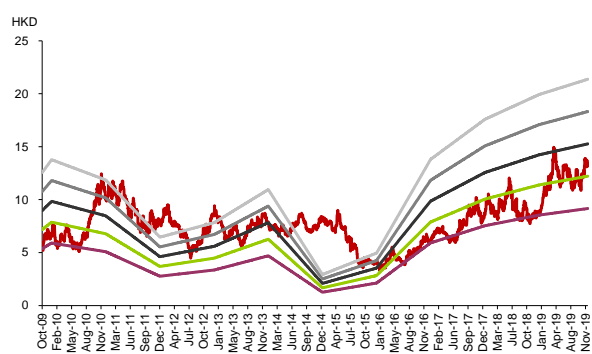


Source: Ministry of Ecology and Environmental, CMBIS estimates

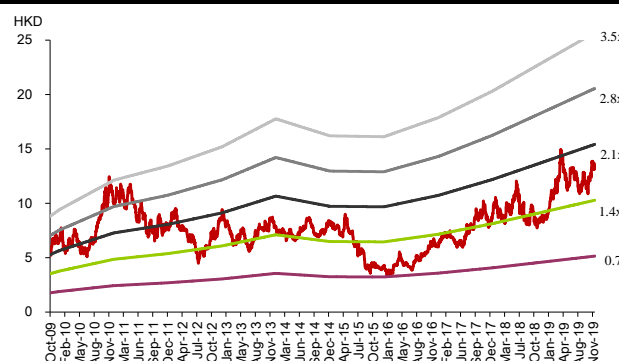
Figure 14: China truck fleet size breakdown by size (2018)



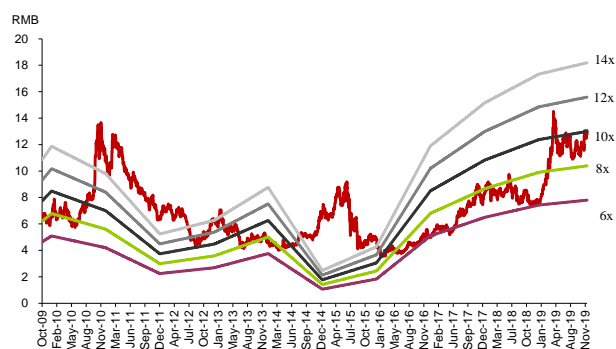
Source: Wind, CMBIS estimates

Figure 15: Weichai-H's P/E band

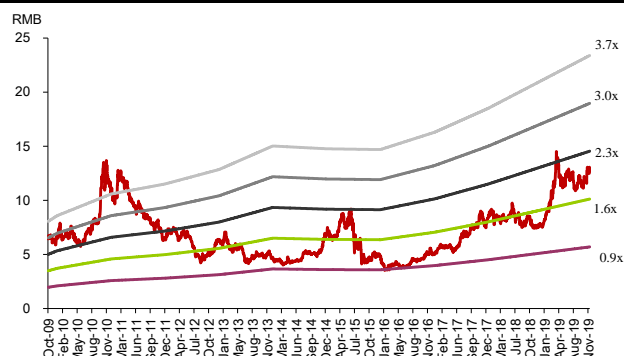
Source: Bloomberg, CMBIS estimates

Figure 16: Weichai-H's P/B band

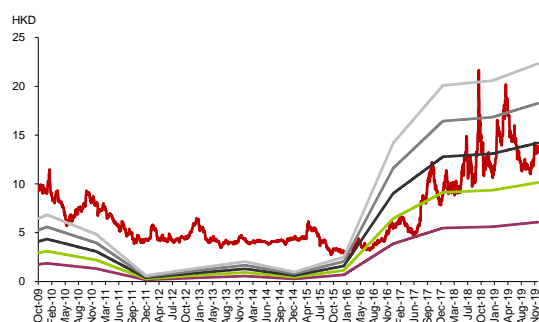
Source: Bloomberg, CMBIS estimates

Figure 17: Weichai-A's P/E band

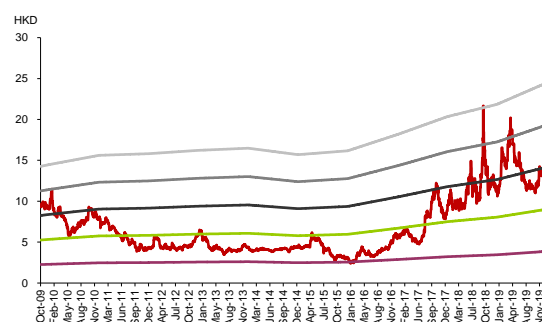
Source: Bloomberg, CMBIS estimates

Figure 18: Weichai-A's P/B band

Source: Bloomberg, CMBIS estimates

Figure 19: Sinotruk's P/E band

Source: Bloomberg, CMBIS estimates

Figure 20: Sinotruk's P/B band

Source: Bloomberg, 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

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

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.