

# Weichai Power (000338 CH)

## 4Q23 net profit +58% YoY; Payout increased to 50%; Higher earnings forecast on margin

Weichai's net profit in 2023 surged 84% YoY to RMB9bn, which is in line with the profit range of RMB8.58-9.32bn announced in Jan. In 4Q23, net profit grew 58% YoY to RMB2.5bn. It's worth noting that Weichai has declared a final dividend of RMB0.293/shr. This, together with the interim dividend, implies that the payout ratio has reached 50% (up from 45% in 2022). We revise up our 2024E/25E earnings forecast by 19%/20%, mainly due to higher margin assumptions across different segments. We maintain our positive stance on Weichai (sector top pick) as we see (1) the replacement cycle, (2) higher sales contribution of gas trucks, and (3) exports offering certainty on HDT industry sales growth in 2024E. We revise up our SOTP-based TP for Weichai H/A to HK\$22/RMB20.4 from HK19.4/RMB17.8. Maintain **BUY**.

- **Key highlights in 4Q23.** Net profit grew 58% YoY to RMB2.5bn, driven by 20% YoY revenue growth (to RMB53.6bn) and 3.3ppt YoY gross margin expansion (to 23.7%). The gross margin in 4Q23 is the highest one since 4Q18.
- **Strong engine growth in 2023.** The segment revenue grew 55% YoY to RMB60.8bn, driven by a 28% increase in engine sales and increase in blended ASP (due to more contribution of HDT engines based on our estimate). The segment profit surged 1.7x YoY to RMB7.7bn, driven by 5.5ppt YoY expansion of segment margin.
- **Automobiles & components turned to profit in 2H23.** The segment (mainly includes HDTs and parts) recorded RMB610mn of segment profit in 2H23 (vs RMB24mn in 2H22 and -RMB16mn in 1H23), driven by operating leverage.
- **Forklifts & supply chain solution (KION's operation) continued to see recovery.** The segment profit surged 10x YoY to RMB4.9bn in 2023 from a low base. According to KION's latest guidance, the adjusted EBIT is expected to grow 0-19% YoY in 2024E.
- **Agricultural machinery helped by better margin.** While the segment revenue dropped 9% YoY to RMB16.2bn in 2023, the segment margin expanded 1ppt YoY to 4.1%. This helped boost the segment profit by 23% YoY.
- **Risk factors:** 1) weakness in engine export; 2) lower-than-expected replacement demand; 3) an increase in component costs.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	175,158	213,958	236,291	250,085	260,023
YoY growth (%)	(13.9)	22.2	10.4	5.8	4.0
Adjusted net profit (RMB mn)	4,905.5	9,013.9	12,116.6	13,051.3	13,768.2
EPS (Reported) (RMB)	0.56	1.03	1.39	1.50	1.58
YoY growth (%)	(47.0)	83.8	34.4	7.7	5.5
Consensus EPS (RMB)	na	1.02	1.28	1.45	0.00
P/E (x)	21.8	12.1	11.7	10.9	10.3
P/B (x)	1.5	1.4	1.6	1.5	1.4
Yield (%)	2.1	4.1	4.3	4.6	0.0
Net gearing (%)	(35.8)	(62.0)	(66.1)	(79.1)	(91.5)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB20.40  
(Previous TP) RMB17.80  
**Up/Downside** 25.4%  
**Current Price** RMB16.27

### China Capital Goods

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### Stock Data

Mkt Cap (RMB mn)	141,981.1
Avg 3 mths t/o (RMB mn)	834.4
52w High/Low (RMB)	16.88/11.22
Total Issued Shares (mn)	8726.6

Source: FactSet

### Shareholding Structure

Weichai Holdings Group	16.3%
Weifang Investment Group	3.4%

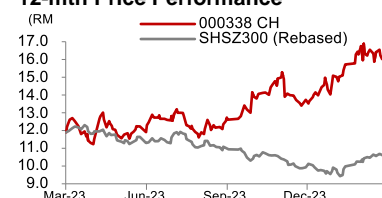
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-0.1%	-1.6%
3-mth	18.5%	11.9%
6-mth	29.7%	36.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related reports:

Capital Goods – Expansion of gas/diesel price spread likely to boost natural gas HDT sales in the near term – 5 Mar 2024 ([link](#))

Capital Goods – Equipment replacement proposed in Central government meeting; positive to HDT sector – 26 Feb 2024 ([link](#))

Weichai Power – 4Q23E earnings surged 31-71% YoY, above expectation (A: [link](#)) (H: [link](#))

China Heavy Duty Truck – Multi-cylinder diesel engine sales +29% YoY in Dec – 15 Jan 2024 ([link](#))

**Figure 1: Weichai's quarterly results**

(RMB mn)	1Q22	1Q23	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
<b>Revenue</b>	<b>41,104</b>	<b>53,434</b>	<b>30%</b>	<b>45,636</b>	<b>52,701</b>	<b>15%</b>	<b>43,783</b>	<b>54,248</b>	<b>24%</b>	<b>44,634</b>	<b>53,575</b>	<b>20%</b>
Cost of sales	(33,445)	(43,442)	30%	(37,924)	(42,062)	11%	(37,080)	(42,439)	14%	(35,561)	(40,900)	15%
<b>Gross profit</b>	<b>7,659</b>	<b>9,992</b>	<b>30%</b>	<b>7,712</b>	<b>10,639</b>	<b>38%</b>	<b>6,704</b>	<b>11,809</b>	<b>76%</b>	<b>9,073</b>	<b>12,675</b>	<b>40%</b>
Other income	168	126	-25%	202	215	7%	254	588	131%	498	846	70%
Other gains and losses	139	116	-16%	505	195	-61%	599	281	-53%	224	(458)	n/a
S&D expenses	(2,553)	(2,866)	12%	(2,459)	(3,339)	36%	(2,799)	(3,385)	21%	(2,850)	(3,820)	34%
Administrative expenses	(1,878)	(2,295)	22%	(2,000)	(2,329)	16%	(2,007)	(2,363)	18%	(2,207)	(2,469)	12%
R&D expenses	(1,828)	(1,833)	0%	(1,860)	(1,888)	2%	(1,827)	(1,929)	6%	(2,217)	(2,395)	8%
Taxes and surcharges	(82)	(126)	54%	(139)	(206)	48%	(100)	(192)	92%	(159)	(224)	41%
Impairment loss of assets	(220)	(337)	53%	(420)	(218)	-48%	(277)	(395)	43%	(370)	(536)	45%
<b>EBIT</b>	<b>1,405</b>	<b>2,777</b>	<b>98%</b>	<b>1,539</b>	<b>3,069</b>	<b>99%</b>	<b>549</b>	<b>4,414</b>	<b>704%</b>	<b>1,990</b>	<b>3,619</b>	<b>82%</b>
Other expenses	(39)	(41)	6%	(20)	(16)	-22%	(24)	(32)	34%	(79)	(64)	-18%
Net finance cost	156	(52)	n/a	371	31	-92%	67	(505)	n/a	316	(34)	n/a
Share of profit of JV and associates	58	(33)	n/a	(51)	13	n/a	(59)	15	n/a	(92)	(7)	-92%
<b>Pretax profit</b>	<b>1,579</b>	<b>2,651</b>	<b>68%</b>	<b>1,839</b>	<b>3,097</b>	<b>68%</b>	<b>533</b>	<b>3,891</b>	<b>631%</b>	<b>2,135</b>	<b>3,513</b>	<b>65%</b>
Income tax	(270)	(405)	50%	(196)	(557)	184%	252	(679)	n/a	(189)	(299)	58%
<b>After tax profit</b>	<b>1,309</b>	<b>2,245</b>	<b>72%</b>	<b>1,643</b>	<b>2,540</b>	<b>55%</b>	<b>784</b>	<b>3,212</b>	<b>309%</b>	<b>1,947</b>	<b>3,215</b>	<b>65%</b>
MI	(258)	(389)	51%	(307)	(497)	62%	141	(610)	n/a	(353)	(701)	99%
<b>Net profit</b>	<b>1,051</b>	<b>1,856</b>	<b>77%</b>	<b>1,335</b>	<b>2,043</b>	<b>53%</b>	<b>925</b>	<b>2,602</b>	<b>181%</b>	<b>1,594</b>	<b>2,513</b>	<b>58%</b>
<b>Key ratios</b>			<b>Chg (ppt)</b>			<b>Chg (ppt)</b>			<b>Chg (ppt)</b>			<b>Chg (ppt)</b>
Gross margin	18.6%	18.7%	0.1	16.9%	20.2%	3.3	15.3%	21.8%	6.5	20.3%	23.7%	3.3
S&D expense ratio	6.2%	5.4%	-0.8	5.4%	6.3%	0.9	6.4%	6.2%	-0.2	6.4%	7.1%	0.7
Administrative expense ratio	4.6%	4.3%	-0.3	4.4%	4.4%	0.0	4.6%	4.4%	-0.2	4.9%	4.6%	-0.3
R&D expense ratio	4.4%	3.4%	-1.0	4.1%	3.6%	-0.5	4.2%	3.6%	-0.6	5.0%	4.5%	-0.5
Effective tax rate	17.1%	15.3%	-1.8	10.7%	18.0%	7.3	-47.3%	17.5%	64.7	8.8%	8.5%	-0.3

Source: Company data, CMBIGM

**Figure 2: KION's latest guidance for 2024E**

(EUR mn)	2021	2022	2023	2024E guidance	
				Low-end	High-end
<b>Order intake</b>	<b>12,482</b>	<b>11,708</b>	<b>10,876</b>	-	-
Growth (YoY)	32%	-6%	-7%	-	-
<b>Revenue</b>	<b>10,294</b>	<b>11,136</b>	<b>11,434</b>	<b>11,200</b>	<b>12,000</b>
Growth (YoY)	23%	8%	3%	-2%	5%
<b>Adjusted EBIT</b>	<b>842</b>	<b>292</b>	<b>791</b>	<b>790</b>	<b>940</b>
Growth (YoY)	54%	-65%	171%	0%	19%
Adjusted EBIT margin	8.2%	2.6%	6.9%	7.1%	7.8%
<b>Net income</b>	<b>568</b>	<b>106</b>	<b>314</b>	-	-
Growth (YoY)	169%	-81%	197%	-	-

Source: Company data, CMBIGM

**Figure 3: KION's quarterly financials**

(EUR mn)	4Q22	1Q23	2Q23	3Q23	4Q23
<b>Order intake</b>	<b>2,536</b>	<b>2,444</b>	<b>2,864</b>	<b>2,621</b>	<b>2,947</b>
Growth (YoY)	-27%	-16%	-24%	4%	16%
<b>Revenue</b>	<b>2,893</b>	<b>2,781</b>	<b>2,836</b>	<b>2,730</b>	<b>3,086</b>
Growth (YoY)	5%	2%	1%	1%	7%
<b>Adjusted EBIT</b>	<b>82</b>	<b>156</b>	<b>192</b>	<b>224</b>	<b>219</b>
Growth (YoY)	-46%	-8%	36%	n/a	167%
Adjusted EBIT margin	2.8%	5.6%	6.8%	8.2%	7.1%
<b>Net income</b>	<b>39</b>	<b>74</b>	<b>73</b>	<b>82</b>	<b>86</b>
Growth (YoY)	-72%	-8%	-9%	n/a	121%

Source: Company data, CMBIGM

Figure 4: Change in key assumptions for Weichai

	2024E			2025E			2026E		
	Old	New	Change	Old	New	Change	Old	New	Change
<b>Sales volume (unit)</b>									
Engine total	987,647	<b>885,924</b>	-10.3%	1,051,911	<b>944,050</b>	-10.3%	-	<b>972,494</b>	-
HDT (Shaanxi Heavy-duty Motor)	134,560	<b>135,720</b>	0.9%	142,634	<b>143,863</b>	0.9%	-	<b>148,179</b>	-
Gear box (Shaanxi Fast Gear Company)	781,750	<b>921,800</b>	17.9%	813,020	<b>967,890</b>	19.0%	-	<b>987,248</b>	-
(RMB mn)									
<b>Revenue</b>									
Diesel engines	67,654	<b>72,646</b>	7.4%	72,056	<b>77,412</b>	7.4%	-	<b>79,744</b>	-
Automobiles and major components	64,142	<b>72,123</b>	12.4%	66,896	<b>75,822</b>	13.3%	-	<b>77,436</b>	-
Forklift trucks & supply chain solution	87,101	<b>90,147</b>	3.5%	92,327	<b>95,556</b>	3.5%	-	<b>101,289</b>	-
Agricultural machinery	20,481	<b>17,820</b>	-13.0%	21,505	<b>18,711</b>	-13.0%	-	<b>19,646</b>	-
Intersegment sales	(10,945)	<b>(16,444)</b>	50.2%	(10,408)	<b>(17,415)</b>	67.3%	-	<b>(18,093)</b>	-
<b>Total revenue</b>	228,433	<b>236,291</b>	3.4%	242,376	<b>250,085</b>	3.2%	-	<b>260,023</b>	-
<b>Segment profit</b>									
Diesel engines	7,780	<b>9,299</b>	19.5%	8,142	<b>9,909</b>	21.7%	-	<b>10,207</b>	-
Automobiles and major components	834	<b>938</b>	12.4%	937	<b>1,062</b>	13.3%	-	<b>1,084</b>	-
Forklift trucks & supply chain solution	3,658	<b>5,409</b>	47.9%	3,878	<b>5,733</b>	47.9%	-	<b>6,077</b>	-
Agricultural machinery	942	<b>820</b>	-13.0%	968	<b>842</b>	-13.0%	-	<b>884</b>	-
Intersegment sales	(109)	<b>(872)</b>	696.3%	(104)	<b>(923)</b>	786.9%	-	<b>(959)</b>	-
<b>Total segment profit</b>	13,105	<b>15,593</b>	19.0%	13,820	<b>16,623</b>	20.3%	-	<b>17,294</b>	-
<b>Segment margin</b>			Chg (ppt)			Chg (ppt)			Chg (ppt)
Diesel engines	11.5%	<b>12.8%</b>	1.3	11.3%	<b>12.8%</b>	1.5	-	<b>12.8%</b>	-
Automobiles and major components	1.3%	<b>1.3%</b>	0.0	1.4%	<b>1.4%</b>	0.0	-	<b>1.4%</b>	-
Forklift trucks & supply chain solution	4.2%	<b>6.0%</b>	1.8	4.2%	<b>6.0%</b>	1.8	-	<b>6.0%</b>	-
Agricultural machinery	4.6%	<b>4.6%</b>	0.0	4.5%	<b>4.5%</b>	0.0	-	<b>4.5%</b>	-
<b>Average</b>	5.7%	<b>6.6%</b>	0.9	5.7%	<b>6.6%</b>	0.9	-	<b>6.7%</b>	-
<b>Net profit</b>	10,172	<b>12,117</b>	19.1%	10,908	<b>13,051</b>	19.6%	-	<b>13,768</b>	-

Source: Company data, CMBIGM estimates

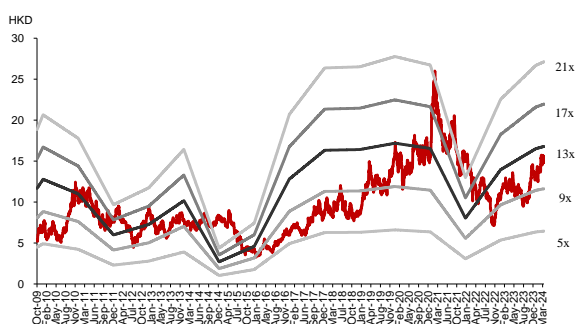
Figure 5: SOTP valuation

SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA 2024E (RMB mn)	Estimated EV (RMB mn)	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
Weichai core business	EV/EBITDA	6.5	14,481	94,126	58,484	152,611	85.8%
KION Group	Proportionate market value	-	-	-	-	23,166	13.0%
Ballard Power Systems	Proportionate market value	-	-	-	-	1,202	0.7%
Ceres Power	Proportionate market value	-	-	-	-	462	0.3%
Share of JV/associates	P/B	1.4	-	-	-	7,244	4.1%
Minority interest in core business						(6,757)	-3.8%
<b>Total NAV</b>						<b>177,928</b>	100.0%
<b>NAV per share (RMB)</b>						<b>20.4</b>	
<b>NAV per share (HK\$)</b>						<b>22.0</b>	

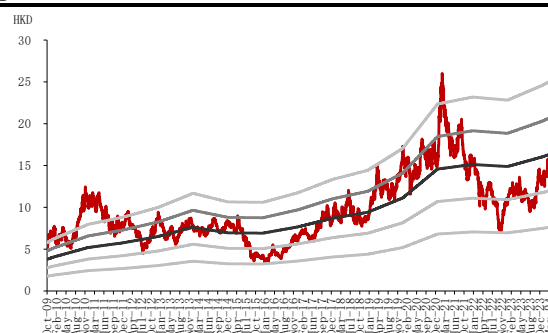
Source: Company data, CMBIGM estimates

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

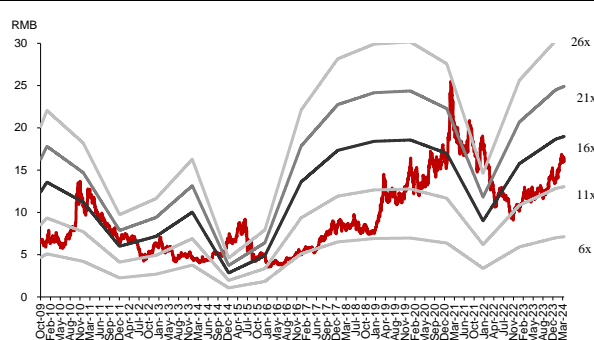
Note 2: Share of JV/associates excludes Ballard Power and Ceres Power

**Figure 6: Weichai Power-H P/E band**

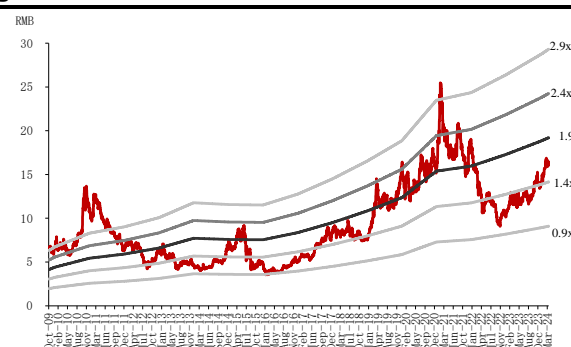
Source: Bloomberg, company data, CMBIGM estimates

**Figure 7: Weichai Power-H P/B band**

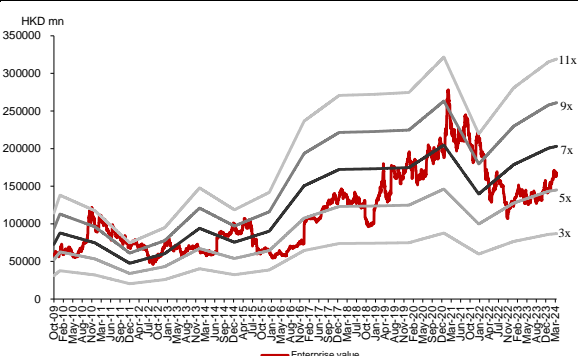
Source: Bloomberg, company data, CMBIGM estimates

**Figure 8: Weichai Power-A P/E band**

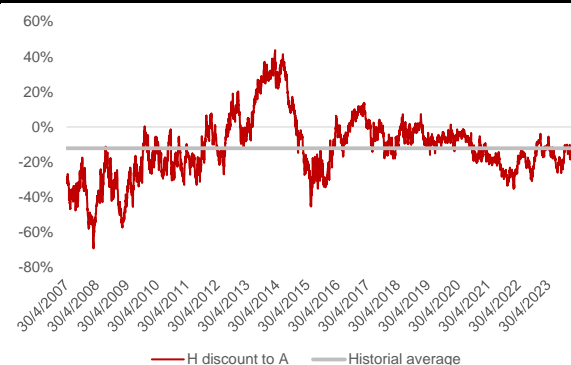
Source: Bloomberg, company data, CMBIGM estimates

**Figure 9: Weichai Power-A P/B band**

Source: Bloomberg, company data, CMBIGM estimates

**Figure 10: Weichai Power EV/EBITDA band**

Source: Bloomberg, company data, CMBIGM estimates

**Figure 11: Weichai Power H discount to A**

Source: Bloomberg, CMBIGM

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	203,548	175,158	213,958	236,291	250,085	260,023
Cost of goods sold	(163,947)	(144,011)	(168,842)	(185,725)	(196,317)	(204,118)
Gross profit	39,601	31,147	45,116	50,566	53,768	55,905
Operating expenses	(26,038)	(25,664)	(31,238)	(33,436)	(35,585)	(37,053)
Operating profit	13,563	5,482	13,878	17,131	18,183	18,852
Share of (losses)/profits of associates/JV	187	(144)	(13)	182	169	172
EBITDA	24,160	16,630	25,867	27,886	29,765	31,181
Depreciation	10,597	11,148	11,989	10,756	11,582	12,329
Interest income	1,724	2,359	2,818	3,105	3,511	4,077
Interest expense	(1,274)	(1,450)	(3,378)	(1,665)	(1,668)	(1,672)
Net interest income/(expense)	450	909	(560)	1,441	1,843	2,405
Other income/expense	(145)	(162)	(154)	(284)	(300)	(312)
Pre-tax profit	14,055	6,086	13,151	18,470	19,895	21,117
Income tax	(2,493)	(403)	(1,940)	(3,325)	(3,581)	(3,907)
Minority interest	(2,307)	(778)	(2,198)	(3,029)	(3,263)	(3,442)
Adjusted net profit	9,255	4,906	9,014	12,117	13,051	13,768

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	160,638	168,484	197,925	208,102	232,765	246,112
Cash & equivalents	75,043	70,842	92,857	101,234	118,206	136,588
Account receivables	18,191	21,419	23,754	24,152	27,921	24,796
Inventories	31,585	33,374	37,930	39,413	43,417	41,586
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	132,626	128,097	122,823
PP&E	33,188	37,892	44,073	41,286	37,839	33,732
Investment in JVs & assos	6,713	5,341	5,175	5,253	5,326	5,400
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	340,727	360,863	368,935
Current liabilities	115,382	119,743	146,215	142,076	151,956	149,344
Short-term borrowings	12,982	15,824	16,949	17,049	17,149	17,249
Account payables	39,596	45,560	60,127	55,888	65,667	62,955
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	217,422	227,302	224,690
Total shareholders equity	70,907	73,184	79,335	86,925	93,918	101,161
Minority interest	32,055	30,926	33,351	36,380	39,642	43,085
Total equity and liabilities	277,044	293,666	334,247	340,727	360,863	368,935

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	14,055	6,086	13,151	18,470	19,895	21,117
Depreciation & amortization	10,537	11,065	11,909	10,675	11,501	12,248
Tax paid	(2,493)	(403)	(1,940)	(3,325)	(3,581)	(3,907)
Change in working capital	(8,767)	(20,324)	6,089	(6,120)	2,007	2,243
Others	1,325	1,227	(1,738)	1,563	1,580	1,581
<b>Net cash from operations</b>	<b>14,658</b>	<b>(2,350)</b>	<b>27,471</b>	<b>21,264</b>	<b>31,402</b>	<b>33,282</b>
<b>Investing</b>						
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)	104	96	98
<b>Net cash from investing</b>	<b>(5,409)</b>	<b>(8,545)</b>	<b>(5,737)</b>	<b>(6,796)</b>	<b>(6,804)</b>	<b>(6,802)</b>
<b>Financing</b>						
Dividend paid	(4,715)	(3,930)	(4,175)	(4,526)	(6,058)	(6,526)
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)
<b>Net cash from financing</b>	<b>3,123</b>	<b>4,852</b>	<b>(13,029)</b>	<b>(6,091)</b>	<b>(7,627)</b>	<b>(8,097)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	62,216	75,043	70,842	92,857	101,234	118,206
Exchange difference	455	1,841	13,310	0	0	0
<b>Cash at the end of the year</b>	<b>75,043</b>	<b>70,842</b>	<b>92,857</b>	<b>101,234</b>	<b>118,206</b>	<b>136,588</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Revenue	3.1%	(13.9%)	22.2%	10.4%	5.8%	4.0%
Gross profit	3.8%	(21.3%)	44.8%	12.1%	6.3%	4.0%
Operating profit	5.5%	(59.6%)	153.1%	23.4%	6.1%	3.7%
EBITDA	11.3%	(31.2%)	55.5%	7.8%	6.7%	4.8%
Adj. net profit	0.5%	(47.0%)	83.8%	34.4%	7.7%	5.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Gross profit margin	19.5%	17.8%	21.1%	21.4%	21.5%	21.5%
Operating margin	6.7%	3.1%	6.5%	7.2%	7.3%	7.3%
EBITDA margin	11.9%	9.5%	12.1%	11.8%	11.9%	12.0%
Adj. net profit margin	4.5%	2.8%	4.2%	5.1%	5.2%	5.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
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	1.6
Receivable turnover days	30.1	41.3	38.5	37.0	38.0	37.0
Inventory turnover days	69.9	82.3	77.1	76.0	77.0	76.0
Payable turnover days	94.7	107.9	114.2	114.0	113.0	115.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
P/E	17.4	21.8	12.1	11.7	10.9	10.3
P/B	2.3	1.5	1.4	1.6	1.5	1.4
Div yield (%)	1.9	2.1	4.1	4.3	4.6	0.0

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



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