

# Weichai Power (000338 CH)

## 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 (10.7x 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)	25.5	13.9	11.0	10.7	10.1
P/B (x)	1.7	1.6	1.4	1.4	1.3
Yield (%)	1.8	3.6	4.6	4.7	4.9
Net gearing (%)	(35.8)	(62.0)	(70.2)	(76.9)	(86.1)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB17.90

(Previous TP) RMB18.00

**Up/Downside** 25.1%

**Current Price** RMB14.31

### China Capital Goods

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### Stock Data

Mkt Cap (RMB mn)	124,877.0
Avg 3 mths t/o (RMB mn)	1,039.9
52w High/Low (RMB)	18.49/11.72
Total Issued Shares (mn)	8726.6

Source: FactSet

### Shareholding Structure

Weichai Holdings Group	16.3%
Weifang Investment Group	3.4%

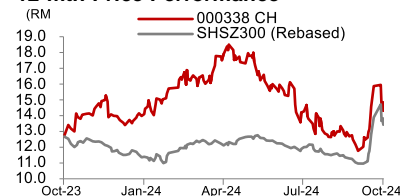
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	20.1%	-1.6%
3-mth	0.2%	-10.6%
6-mth	-20.1%	-27.9%

Source: FactSet

### 12-mth Price Performance



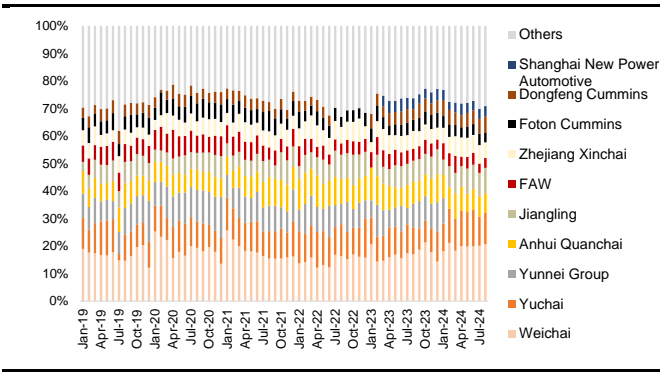
Source: FactSet

Figure 1: 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	851,074	<b>803,223</b>	-5.6%	906,731	<b>844,000</b>	-6.9%	934,239	<b>878,458</b>	-6.0%
HDT (Shaanxi Heavy-duty Motor)	122,960	<b>114,840</b>	-6.6%	130,338	<b>124,027</b>	-4.8%	134,248	<b>132,709</b>	-1.1%
Gear box (Shaanxi Fast Gear Company)	905,040	<b>888,280</b>	-1.9%	950,292	<b>932,694</b>	-1.9%	969,298	<b>968,136</b>	-0.1%
<b>(RMB mn)</b>									
<b>Revenue</b>									
Diesel engines	69,788	<b>66,427</b>	-4.8%	74,352	<b>70,052</b>	-5.8%	76,608	<b>73,088</b>	-4.6%
Automobiles and major components	70,110	<b>66,206</b>	-5.6%	73,699	<b>69,744</b>	-5.4%	75,262	<b>72,656</b>	-3.5%
Forklift trucks & supply chain solution	88,397	<b>88,834</b>	0.5%	91,933	<b>90,611</b>	-1.4%	95,610	<b>92,423</b>	-3.3%
Agricultural machinery	17,820	<b>18,306</b>	2.7%	18,711	<b>19,770</b>	5.7%	19,646	<b>20,956</b>	6.7%
Intersegment sales	-16,665	<b>-16,610</b>	-0.3%	-17,519	<b>-17,280</b>	-1.4%	-18,066	<b>-17,862</b>	-1.1%
<b>Total revenue</b>	<b>229,448</b>	<b>223,162</b>	-2.7%	<b>241,175</b>	<b>232,896</b>	-3.4%	<b>249,059</b>	<b>241,260</b>	-3.1%
<b>Segment profit</b>									
Diesel engines	8,863	<b>8,968</b>	1.2%	9,294	<b>9,317</b>	0.2%	9,576	<b>9,794</b>	2.3%
Automobiles and major components	491	<b>497</b>	1.2%	442	<b>488</b>	10.4%	452	<b>545</b>	20.7%
Forklift trucks & supply chain solution	5,304	<b>5,508</b>	3.8%	5,516	<b>5,437</b>	-1.4%	5,737	<b>5,545</b>	-3.3%
Agricultural machinery	784	<b>769</b>	-1.9%	842	<b>850</b>	1.0%	884	<b>943</b>	6.7%
Intersegment sales	-883	<b>-498</b>	-43.6%	-928	<b>-864</b>	-6.9%	-957	<b>-893</b>	-6.7%
<b>Total segment profit</b>	<b>14,558</b>	<b>15,242</b>	4.7%	<b>15,166</b>	<b>15,228</b>	0.4%	<b>15,691</b>	<b>15,934</b>	1.6%
<b>Segment margin</b>			<i>Chg (ppt)</i>			<i>Chg (ppt)</i>			<i>Chg (ppt)</i>
Diesel engines	12.7%	<b>13.5%</b>	0.8	12.5%	<b>13.3%</b>	0.8	12.5%	<b>13.4%</b>	0.9
Automobiles and major components	0.7%	<b>0.8%</b>	0.1	0.6%	<b>0.7%</b>	0.1	0.6%	<b>0.8%</b>	0.2
Forklift trucks & supply chain solution	6.0%	<b>6.2%</b>	0.2	6.0%	<b>6.0%</b>	0.0	6.0%	<b>6.0%</b>	0.0
Agricultural machinery	4.4%	<b>4.2%</b>	-0.2	4.5%	<b>4.3%</b>	-0.2	4.5%	<b>4.5%</b>	0.0
<b>Average</b>	<b>6.3%</b>	<b>6.8%</b>	0.5	<b>6.3%</b>	<b>6.5%</b>	0.3	<b>6.3%</b>	<b>6.6%</b>	0.3
<b>Net profit</b>	<b>11,459</b>	<b>11,391</b>	-0.6%	<b>12,082</b>	<b>11,667</b>	-3.4%	<b>12,692</b>	<b>12,305</b>	-3.1%

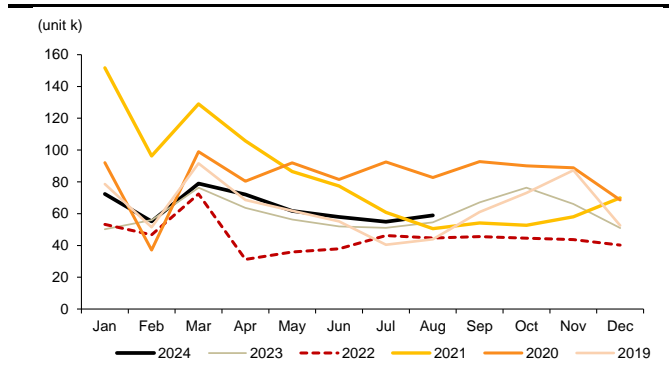
Source: Company data, CMBIGM estimates

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
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		Estimated EV (RMB mn)	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
			2025E (RMB mn)	(RMB mn)				
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%	
<b>Total NAV</b>						<b>156,503</b>	<b>100.0%</b>	
<b>NAV per share (RMB)</b>						<b>17.9</b>		
A/H discount						10%		
<b>NAV per share (HK\$)</b>						<b>17.7</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

## 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)
<b>Gross profit</b>	<b>39,601</b>	<b>31,147</b>	<b>45,116</b>	<b>48,649</b>	<b>50,073</b>	<b>51,630</b>
Operating expenses	(26,038)	(25,664)	(31,238)	(32,601)	(33,950)	(34,801)
<b>Operating profit</b>	<b>13,563</b>	<b>5,482</b>	<b>13,878</b>	<b>16,049</b>	<b>16,123</b>	<b>16,828</b>
Share of (losses)/profits of associates/JV	187	(144)	(13)	94	105	106
<b>EBITDA</b>	<b>24,160</b>	<b>16,630</b>	<b>25,867</b>	<b>27,245</b>	<b>28,585</b>	<b>30,477</b>
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)
<b>Net interest income/(expense)</b>	<b>450</b>	<b>909</b>	<b>(560)</b>	<b>1,489</b>	<b>1,836</b>	<b>2,228</b>
Other income/expense	(145)	(162)	(154)	(268)	(279)	(290)
<b>Pre-tax profit</b>	<b>14,055</b>	<b>6,086</b>	<b>13,151</b>	<b>17,364</b>	<b>17,785</b>	<b>18,872</b>
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)
<b>Adjusted net profit</b>	<b>9,255</b>	<b>4,906</b>	<b>9,014</b>	<b>11,391</b>	<b>11,667</b>	<b>12,305</b>
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>160,638</b>	<b>168,484</b>	<b>197,925</b>	<b>201,625</b>	<b>229,569</b>	<b>234,456</b>
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
<b>Non-current assets</b>	<b>116,406</b>	<b>125,182</b>	<b>136,322</b>	<b>132,147</b>	<b>126,711</b>	<b>120,089</b>
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
<b>Total assets</b>	<b>277,044</b>	<b>293,666</b>	<b>334,247</b>	<b>333,773</b>	<b>356,280</b>	<b>354,545</b>
<b>Current liabilities</b>	<b>115,382</b>	<b>119,743</b>	<b>146,215</b>	<b>136,029</b>	<b>149,649</b>	<b>138,366</b>
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
<b>Non-current liabilities</b>	<b>58,700</b>	<b>69,813</b>	<b>75,346</b>	<b>75,346</b>	<b>75,346</b>	<b>75,346</b>
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
<b>Total liabilities</b>	<b>174,083</b>	<b>189,555</b>	<b>221,561</b>	<b>211,375</b>	<b>224,995</b>	<b>213,712</b>
<b>Total shareholders equity</b>	<b>70,907</b>	<b>73,184</b>	<b>79,335</b>	<b>86,199</b>	<b>92,171</b>	<b>98,642</b>
Minority interest	32,055	30,926	33,351	36,198	39,115	42,191
<b>Total equity and liabilities</b>	<b>277,044</b>	<b>293,666</b>	<b>334,247</b>	<b>333,773</b>	<b>356,280</b>	<b>354,545</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
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
<b>Net cash from operations</b>	<b>14,658</b>	<b>(2,350)</b>	<b>27,471</b>	<b>24,348</b>	<b>24,608</b>	<b>28,437</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)	53	60	60
<b>Net cash from investing</b>	<b>(5,409)</b>	<b>(8,545)</b>	<b>(5,737)</b>	<b>(6,847)</b>	<b>(6,840)</b>	<b>(6,840)</b>
<b>Financing</b>						
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)
<b>Net cash from financing</b>	<b>3,123</b>	<b>4,852</b>	<b>(13,029)</b>	<b>(6,091)</b>	<b>(7,264)</b>	<b>(7,405)</b>
<b>Net change in cash</b>						
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
<b>Cash at the end of the year</b>	<b>75,043</b>	<b>70,842</b>	<b>92,857</b>	<b>104,267</b>	<b>114,771</b>	<b>128,963</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
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%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
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%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<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	1.7
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
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	13.5	25.5	13.9	11.0	10.7	10.1
P/B	1.8	1.7	1.6	1.4	1.4	1.3
Div yield (%)	2.5	1.8	3.6	4.6	4.7	4.9

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

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**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 CMBIGM

**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

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