

# Weichai (2338.HK)

## Stable Advantage in Heavy Truck Industry Chain. Non-engine Business Gradually Takes off

Hong Kong | Automobile Components | Update Report

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### Investment Summary

#### Net Profit in the First Three Quarters Hits a New High, Growth Rate Slows Down under a High Base

The Q3 revenue of Weichai Power in 2018 was down about 8.5% yoy to RMB35.92 billion, net profit attributable to the parent company down by 17.6% yoy to RMB1.91 billion, and the EPS stood at RMB0.2. The yoy decrease in Q3 was mainly due to the high base caused by the high prosperity of the heavy truck industry in the same period of the previous years, while the growth rate of the heavy truck industry slowed down significantly during the period.

In the first three quarters, the Company reported a revenue of RMB118.18 billion, up by 5.94% yoy, and a net profit attributable to the parent company of RMB6,001 million, up by 30.4% yoy, and the EPS stood at RMB0.75. Net profit of the Company in the first three quarters hit a record high since its listing.

#### Gross Margin Basically Stays Flat and Expenses Are Well Controlled

The Company's integrated gross margin in the first three quarters was 21.65%, basically staying flat and down by 0.04 ppts slightly, and the rise in the price of raw materials and the shift in product mix basically offset each other. The expenses of the Company were well controlled, the three rates were 12.92%, down approximately by 0.8 ppts over the same period last year, among which the sales expense rate was 6.7%, down by 0.32 ppts yoy, the administration expenses + R&D expenses rate were 6.17% (-0.05ppts yoy), and the financial expenses rate was 0.08% (-0.46ppts yoy).

#### The Company Has Stable Advantage in Heavy Truck Industry Chain. Non-engine Business Gradually Takes off

During the period, the Company's heavy-duty engine has been in a stronger position in heavy truck market, five-ton loader market and the market of passenger vehicles above 11 meters. In the first three quarters in 2018, the market share of the Company's heavy truck engine reached 30.2%, maintaining its leading position. We expect that the future heavy truck engine business of the Company will continue to benefit from the upward trend in the sales structure resulting from upgrading consumption in heavy truck industry.

Based on golden industry chains of heavy truck (engine + gearbox + axle + complete heavy truck), Weichai Power has steadily expanded its business scope since 2012, and laid out an industry chain featuring intelligent logistics solution through the acquisition of Baudouin, Linde Hydraulics, Kion and Dematic. In H1 of 2018, the sales revenue of Linde Hydraulics (China) doubled yoy, and the revenue of Kion in the Q3 stood at EUR1.9 billion (+3.5% yoy), the amount of order was EUR2.06 billion (+11.5%yoy) and net profit was EUR100 million (+21.8%yoy).

In addition, the proportion of the Company's non-road heavy truck engine has also been increased to about 30%, which is complementary and synergistic with the original business. The Company's "power + hydraulic" strategic framework is clear, which helps smooth the original business affected by periodic fluctuations of heavy truck industry, and the business structure is more balanced.

### Accumulate (Maintain)

CMP HKD 8.96

(Closing price as at 10 January 2019)

TARGET HKD 10.65 (+19%)

#### COMPANY DATA

O/S SHARES (MN):	7934
MARKET CAP (HKD MN):	17410
52 - WK HI/LO (HKD):	12.2 / 7.51

#### SHARE HOLDING PATTERN, %

Weichai Group Holdings Limited	17.28
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#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	93184	151569	158318	161730
Net Profit	2441	6808	7592	7668
EPS, CNY	0.61	0.85	0.95	0.97
P/E, x	13.1	8.7	8.3	8.2
BVPS, CNY	7.94	4.41	5.05	5.89
P/BV, x	1.0	1.7	1.6	1.4
DPS (CNY)	0.35	0.40	0.45	0.45
Div. Yield (%)	4.4%	5.4%	5.7%	5.6%

Source: Company reports, Phillip Securities Est.

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### The Company Increases Input in New Energy Sector

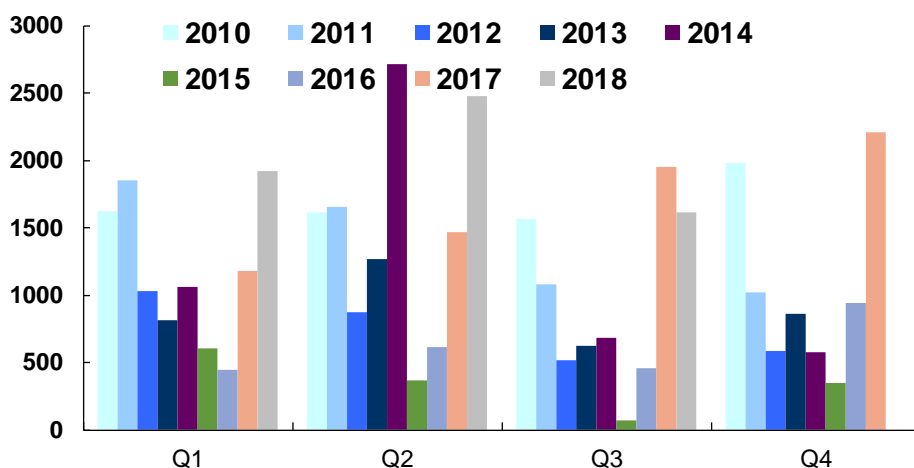
After 2017, the Company has been keeping exploration in the field of new energy strategy and invested Ballard Power Systems in Canada, Foresight, Ceres Power in Britain, PSI in the US, and the Company also increased input in R&D to enter the new energy field of fuel cells. At present, the Company has taken control of high-quality resources, such as hydrogen fuel cells and solid oxide fuel cells in new energy business. In future, the Company will strengthen R&D in core technology and accelerate the implementation of new energy business.

### Investment Thesis

We believe that although the high prosperity of heavy truck industry is unlikely to continue, factors such as stricter environmental protection policies, upgrading of emission standard, overload control and rapid development of e-commerce logistics will support the stable sales of heavy truck in China. The chairman of the Company also serves as the chairman of Sinotruk, and it is expected that Sinotruk will increase engine purchasing volume of the company in the future.

We reaffirm the "Accumulate" rating with the target price to HKD 10.65, equivalent to 9.9/9.8x P/E ratio in 2018/2019. (Closing price as at 10 January 2019)

Weichai's net profit by quarters (RMB mil)



Source: Company, Phillip Securities Hong Kong Research

Weichai's Forward P/E&P/B trend



Source: Bloomberg, Phillip Securities Hong Kong Research

## Peer Comparison

Ticker	Name	Market Cap (USD Mil)	PE			PB(MRQ)	ROE-% (2018Q3)
			TTM	18E	19E		
000338.SZ	潍柴动力	9102.5	7.6	8.1	7.5	1.7	16.53
沪深(10)							
中位值	中位值	3714.9	13.4	14.4	12.7	1.3	5.98
601766.SH	中国中车	38063	22.5	22.1	18.1	2.1	6.12
600031.SH	三一重工	9201.5	12.1	10.5	8.8	2.1	17.5
000157.SZ	中联重科	4147.1	20.9	17	12.1	0.8	3.5
000425.SZ	徐工机械	3746.7	14.6	13.2	10.2	0.9	5.84
600528.SH	中铁工业	3683	16.5	15.6	13.3	1.6	7.22
600320.SH	振华重工	2612.5	54.9	41	22.6	1.2	1.3
600685.SH	中船防务	2121.5	-47.9	-83.6	124.6	1.3	-5.4
000528.SZ	柳工	1322	11.9	9.9	7.5	0.9	7.66
香港(10)							
中位值	中位值	1331.8	14.3	9	9.2	1.1	4.8
1766.HK	中国中车	28668.9	17.2	16	13.2	1.6	6.12
2338.HK	潍柴动力	9069.4	7.6	8.2	8	1.7	16.53
3808.HK	中国重汽	3902.9	6.5	7.1	6.8	1.1	NA
1157.HK	中联重科	2909	14.7	13.1	10.4	0.5	3.5
3339.HK	中国龙工	1130.3	6	6.3	5.2	1	NA
0317.HK	中船防务	970.2	--	-38.2	57	0.6	-5.4
0631.HK	三一国际	962.2	14	9.8	7.2	1	NA
1786.HK	铁建装备	318	19	15.2	14.4	0.4	NA
美国(10)							
中位值	中位值	6597	18.7	13.2	13.3	2.7	17.34
CAT.N	卡特彼勒	77286	20.2	11.4	11	4.9	34.5
DE.N	迪尔(DEERE)	49429	20.8	22.5	13.4	4.4	15.9
CMI.N	康明斯	22190.9	17.1	13.2	13.3	3.1	21.6
PCAR.O	帕卡公司	20597.4	9.3	--	--	2.2	18.8
WAB.N	美国西屋制动	7022.8	22.6	--	--	2.4	9.1
TTC.N	托罗配件	6171.3	22.6	--	--	9.2	36.8
WBC.N	威伯科	5754.7	12.8	--	--	5	24.6

Source: Wind, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F	FY20F
<b>Valuation Ratios</b>							
P/E (X), adj.	2.8	21.6	13.1	8.7	8.3	8.2	8.0
P/B (X)	0.4	0.9	1.0	1.7	1.6	1.4	1.2
Dividend Payout Ratio (%)	NA	57.5%	57.3%	47.0%	47.4%	46.4%	45.1%
Dividend Yield (%)	NA	2.7%	4.4%	5.4%	5.7%	5.6%	5.6%
<b>Per share data (RMB)</b>							
EPS, (Basic)	2.51	0.35	0.61	0.85	0.95	0.97	1.00
EPS, (Diluted)	2.51	0.35	0.61	0.85	0.95	0.97	1.00
DPS	0.25	0.20	0.35	0.40	0.45	0.45	0.45
BVPS	16.24	7.94	7.94	4.41	5.05	5.89	6.54
<b>Growth &amp; Margins (%)</b>							
<b>Growth</b>							
Revenue	36.6%	-7.4%	26.4%	62.7%	4.5%	2.2%	3.1%
EBIT	44.9%	-48.9%	35.5%	129.8%	13.2%	5.0%	4.9%
Net Income, adj.	40.8%	-72.3%	75.6%	178.9%	11.5%	1.0%	2.8%
<b>Margins</b>							
Gross margin	21.1%	22.8%	22.1%	21.4%	21.3%	21.2%	21.0%
EBIT margin	8.8%	4.8%	5.2%	7.3%	7.9%	8.2%	8.3%
Net Profit Margin	6.3%	1.9%	2.6%	4.5%	4.8%	4.7%	4.7%
<b>Key Ratios</b>							
ROE	16.7%	4.3%	7.7%	20.3%	20.1%	17.6%	16.1%
<b>Income Statement (RMB mn)</b>							
Revenue	79637	73720	93184	151569	158318	161730	166794
Gross profit	16823	16775	20633	32363	33643	34254	35077
EBIT	6990	3569	4836	11113	12575	13209	13858
Profit before tax	6967	3083	4637	10522	12436	13059	13656
Tax	-1181	-921	-1041	-1344	-2176	-2259	-2390
Profit for the period	5786	2162	3596	9178	10260	10800	11266
Minority interests	-760	-772	-1155	-2370	-2668	-3132	-3380
Total capital share	1999	3999	3999	7997	7997	7900	7900
<b>Net profit</b>	<b>5026</b>	<b>1390</b>	<b>2441</b>	<b>6808</b>	<b>7592</b>	<b>7668</b>	<b>7886</b>

Source: PSR

(Financial figures as at 10 January 2019)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock’s risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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