

Sinotruk (3808 HK)

Keep Moving up and Carry on

Hong Kong | Automobile | Update Report

12 June 2023

Company Profile

As one of the leading heavy truck manufacturers in China, Sinotruk specializes in the heavy trucks, light trucks, buses and related major powertrains and parts. With heavy trucks as the main products, the Company serves a wide range of customers in the infrastructure, construction, container service, logistics, mining, steel and chemical industries.

Investment Thesis

Despite a Trough in China's Heavy Truck Industry, the Company Outperforms the Industry Average in 2022

According to the data of cworld.cn, China's heavy truck industry sold a total of 672 thousand units in 2022, down 720 thousand units or 52% yoy, of which the cumulative sales volume of new energy heavy trucks was 25.1 thousand units, up 140% yoy. In 2022, affected by multiple adverse factors such as the Covid-19 pandemic, economic slowdown, low investment and consumption, sluggish freight, lack of confidence, and demand overdrift, China's heavy truck industry has seen a yoy decline in the sales volume for 12 consecutive months.

Sinotruk sold 158 thousand heavy trucks in 2022, down 44% yoy, a decrease significantly less than the industry average of 52%. The Company occupied a share of 23.5% in China's heavy truck market, up 3.0 ppts over the same period last year, surpassing FAW Jiefang and ranking first. We think that the reasons for Sinotruk's increased market share despite headwinds are mainly as follows: 1) In the domestic market, the Company has made certain breakthroughs in the development of key segments and key customers. Dump trucks and mixer trucks continued to maintain their competitive edge. The market share of high-horsepower tractors, trucks and special vehicles has grown significantly. 2) With the help of Sinotruk International's network layout and strategic breakthroughs, the Company's export sales volume of heavy trucks reached a new high during the reporting period, increasing by 65% yoy to 89 thousand units, accounting for 56% of the Company's total sales volume of heavy trucks, and maintaining the first place in China for 18 consecutive years.

Product Layout Is More Optimized and Exports Continue to Rise

In recent years, the Company has been committed to improving product technology, extending the industrial chain, and broadening market channels, which has achieved obvious results. The Company has adjusted the product structure purely centered on heavy trucks to cover a variety of choices for products including heavy trucks, medium and light trucks, buses and special vehicles. Through in-depth cooperation with MAN and Weichai Power, the Company has become a heavy truck manufacturer with the most complete power and drive types in China, and has built its core competitiveness in both domestic and foreign markets. In the first half of 2022, the average sales price of the Company's heavy trucks has reached RMB318 thousand, up RMB30 thousand over 2021. With the help of high-end products SITRAK and Huanghe, the average sales price of heavy trucks is expected to continue to rise. On 31 Dec 2022, the Company has developed approximately 240 distribution networks at all levels, approximately 250 service outlets and approximately 220 subassembly outlets in more than 90 countries and regions around the world, and established 28 overseas KD production plants, forming a marketing network system that basically covers developing countries and major emerging economies such as Africa, the Middle East, Central and South America and Southeast Asia, as well as some mature markets such as Australia and East Asia.

BUY (Upgrade)

CMP HKD 12.26

(Closing price as at 8 June)

TARGET HKD 16.1 (+31%)

COMPANY DATA

O/S SHARES (MN) :	2761
MARKET CAP (HKD MN) :	33850
52 - WK HI/LO (HKD):	14.68 / 6.44

SHARE HOLDING PATTERN, %

Sinotruk (BVI) Limited	51
MAN	25

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY21	FY22	FY23E	FY24E
Net Sales	93357	59291	70137	85956
Net Profit	4323	1796	3255	4627
EPS, CNY	1.57	0.65	1.18	1.68
P/E, x	6.4	16.8	9.3	6.6
BVPS, CNY	12.92	13.01	13.99	15.11
P/BV, x	0.8	0.8	0.8	0.7
DPS (CNY)	0.55	0.29	0.40	0.58
Div. Yield (%)	5.5%	2.7%	3.6%	5.3%

Source: Company reports, Phillip Securities Est.

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FY2022 result in line with warning guidelines, down 58% yoy

As its FY2022 result report, Sinotruk recorded the net profit attributable to the parent company decreased by 58.4% yoy to 1.8 billion yuan. The management attributed the decline in performance mainly to the fact that the domestic truck market demand declined sharply yoy due to the slowdown in macroeconomic growth, the repeated logistics problems caused by the COVID-19 in various parts of the country and other factors, leading to a significant decline in the company's product sales. We believe that the decline in sales volume led to a decline in capacity utilization, and it was difficult to dilute Fixed cost. Profitability was also affected. The decline in net profit was greater than the decline in sales volume.

The Industry Is Likely to Bottom out

In terms of the domestic economic situation, China needs to boost its economy after the pandemic. With the further implementation of the government's policies to stabilize the economy, infrastructure investment and logistics demand will maintain the momentum of rally, which will provide a foundation for the recovery of the heavy truck market. Secondly, since the implementation of the National VI emission standard in July 2021, the heavy truck industry has fallen into a downturn for one and a half year. While, the heavy trucks in the previous round of peak consumption have gradually entered the replacement period. In addition, the stricter emission regulations of the industry, the overload transportation governance, and the elimination of backward and old models will play a positive role in the recovery of the industry. In February 2023, China ended a 21-month consecutive decline in heavy truck sales, with the growth rate turning positive from negative to a yoy increase of 15%.The sales in March and April increased significantly yoy by 49.6% and 83%, respectively.

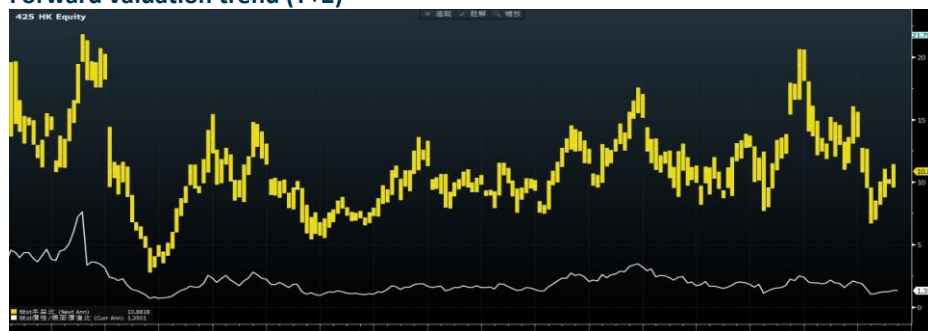
Valuation & Investment Suggestion

We expect the Company to continue to benefit from the recovery of the domestic heavy truck industry and the growth trend of the export market. In the medium to long term, there are opportunities for value enhancement in some segmentations of heavy trucks brought by innovation. We expect the Company's EPS in 2023/2024 to be 1.18/1.68 yuan, respectively, and adjust the target price to 16.1 yuan, corresponding to 12.0/8.4x P/E and 1.0/0.9x P/B in 2023/2024, a 'BUY' rating. (Closing price as at 8 June)

Risk

- The economic recovery was less than expected, resulting in lower than expected sales of heavy trucks
- Overseas market risk, adverse exchange direction risk
- Risk of significant increase in raw materials

Forward valuation trend (Y+2)



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY20	FY21	FY22	FY23F	FY24F
Valuation Ratios					
P/E (X), adj.	4.2	6.4	16.8	9.3	6.6
P/B (X)	0.9	0.8	0.8	0.8	0.7
Dividend Yield (%)	8.5%	5.5%	2.7%	3.6%	5.3%
Per share data (RMB)					
EPS, (Basic)	2.48	1.57	0.65	1.18	1.68
EPS, (Diluted)	2.48	1.57	0.65	1.18	1.68
DPS	0.88	0.55	0.29	0.40	0.58
BVPS	11.63	12.92	13.01	13.99	15.11
Growth & Margins (%)					
Growth					
Revenue	57.8%	-4.9%	-36.5%	18.3%	22.6%
EBIT	95.7%	-39.2%	-49.6%	52.2%	41.6%
Net Income, adj.	105.6%	-36.9%	-58.4%	81.2%	42.1%
Margins					
Gross margin	19.9%	16.8%	16.9%	17.1%	18.0%
EBIT margin	9.6%	6.2%	4.9%	6.3%	7.3%
Net Profit Margin	7.0%	4.6%	3.0%	4.6%	5.4%
Key Ratios					
ROE	23.1%	12.8%	4.9%	8.7%	11.5%
Income Statement (RMB mn)					
Revenue	98198	93357	59291	70137	85956
Gross profit	19585	15664	10013	11993	15498
EBIT	9471	5760	2903	4418	6258
Profit before tax	9552	5863	3008	4368	6202
Tax	-2127	-1153	-958	-830	-1178
Profit for the period	7425	4710	2051	3538	5024
Minority interests	-573	-387	-254	-283	-397
Total capital share	2761	2761	2761	2761	2761
Net profit	6852	4323	1796	3255	4627

Source: PSR

(Closing price as at 8 June)

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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