

Sinotruk (3808 HK)

Positive Profit Alert Beating, With a New High Share

Hong Kong | Automobile | Update Report

7 February 2024

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

Expects NP to Grow by Max. 2.4x in 2023, Beating the Consensus

Recently, Sinotruk has released an announcement on positive profit alert, according to which, the Company expects its NP will grow by 200-240% from RMB1.67 billion in 2022 to approximately RMB5.01 billion - RMB5,678 million in 2023, exceeding the market expectation. This growth was mainly attributed by the management to demand recovery in the heavy duty truck industry along with considerable momentum of exports. Meanwhile, by seizing opportunities on the market, and continuously adjusting the product and business structures, the Company achieved a massive growth in product sales, with the proportion of high-end products continuously growing and the profitability significantly enhanced. Our analysis shows that the massive growth in sales drove an increase in the capacity utilization rate, and the growth in net profit was tremendously higher than the growth in sales.

The Sales and the Growth in Sales Were Industry-leading, with the Market Share Reaching a New High

The heavy duty truck market generally showed a slowly upward trend in 2023, as the sales began to rise slowly in the second quarter, and ten YoY positive increases were recorded in monthly sales from February on. According to CAAM's statistics, the total sales for China's heavy duty truck industry reported 910 thousand in 2023, representing an YoY increase of 36% or 239 thousand. Specifically, the cumulative sales of new energy heavy duty trucks grew by 31.5% to 33 thousand, the cumulative sales of exported heavy duty trucks grew by 60% to 275 thousand, and the cumulative sales of LNG heavy duty trucks grew by 310.8% to 152 thousand. Obviously, the market increase was mainly attributed to the export market and the booming sales of LNG heavy duty trucks. In this context, Sinotruk sold 234 thousand heavy duty trucks in 2023, a number that was better than the industry's average. Meanwhile, the YoY increase reached 47.5%, which was significantly higher than the industry's average (36%). Furthermore, Sinotruk's share in the domestic heavy duty truck market was 25.74%, up 2.2 ppts over the same period last year and remaining to rank first. Sinotruk also delivered an impressive performance in both the export market and the sub-market of LNG heavy duty trucks: On the one hand, relying on Sinotruk International's network layout, the Company's exported sales exceeded 130 thousand, accounting for more than half of the total sales; on the other hand, in the sub-market of LNG heavy duty trucks, the Company ranked second among industry peers in terms of sales and had a market share of 17.7%. As the ASP of LNG heavy duty trucks was RMB80 thousand - RMB100 thousand higher than that of normal heavy duty trucks, the Company's sale structure and profitability significantly improved. For 2024, we expect that continuous recovery will remain to be the main trend of the heavy duty truck market, and the total sales will reach one million - 1.1 million..

BUY (Maintain)

CMP HKD 17.46

(Closing price as at 5 February)

TARGET HKD 24.1 (+38%)

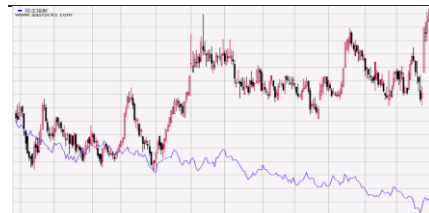
COMPANY DATA

O/S SHARES (MN) :	2761
MARKET CAP (HKD MN) :	48207
52 - WK HI/LO (HKD):	18.44 /10.74

SHARE HOLDING PATTERN, %

Sinotruk (BVI) Limited	51
MAN	25

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY22	FY23E	FY24E	FY25E
Net Sales	59291	87163	99156	115732
Net Profit	1796	5303	6124	7130
EPS, CNY	0.65	1.92	2.22	2.58
P/E, x	23.9	8.3	7.2	6.2
BVPS, CNY	13.01	14.42	16.02	17.83
P/BV, x	1.2	1.1	1.0	0.9
DPS (CNY)	0.29	0.58	0.68	0.80
Div. Yield (%)	1.8%	3.6%	4.1%	4.9%

Source: Company reports, Phillip Securities Est.

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The Share Incentive Scheme with High Criteria Demonstrated Our Confidence in Growth

At the same time, the Company released its share incentive scheme, according to which, the Company intends to grant approximately 1% of the total share capital in the form of restricted shares to no more than 194 employees at the price of RMB6.896 per share. As for the granting criteria, 30%/30%/40% of the restricted shares will be granted for 2024/2025/2026, respectively, if the income is no less than RMB94.8 billion/RMB109.1 billion/RMB125.5 billion and the return on sales ratio is no less than 7.5%/8%/8.5% (namely, the profit from sales is no less than RMB7.11 billion/RMB8.73 billion/RMB106.7 billion), respectively. Sufficient incentives have further improved the Company's mechanism for income distribution, and conduce to the enthusiasm of key employees and the continuous growths in the Company's future business performance. Additionally, an average annual profit growth rate of approximately 20% also reflects the management's strong confidence in the future business development of the Company..

The Industry Is Likely to Bottom out

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

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.

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 revised the Company's EPS in 2023/2024/2025 to be 1.92/2.22/2.58 yuan, respectively, and adjust the target price to HKD 24.1, corresponding to 10/8.6x P/E and 1.4/1.2x P/B in 2024/2025, a 'BUY' rating. (Closing price as at 5 February)

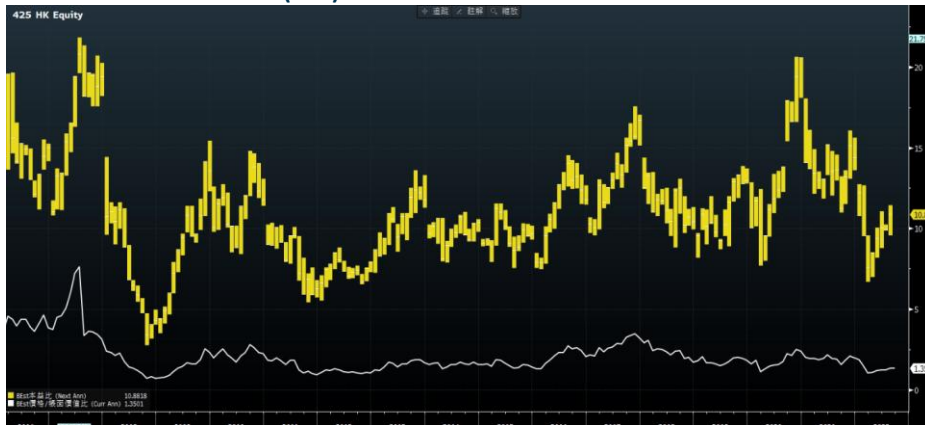
Risk

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	FY21	FY22	FY23F	FY24F	FY25F
Valuation Ratios					
P/E (X), adj.	9.1	23.9	8.3	7.2	6.2
P/B (X)	1.1	1.2	1.1	1.0	0.9
Dividend Yield (%)	3.9%	1.9%	3.7%	4.2%	5.0%
Per share data (RMB)					
EPS, (Basic)	1.57	0.65	1.92	2.22	2.58
EPS, (Diluted)	1.57	0.65	1.92	2.22	2.58
DPS	0.55	0.29	0.58	0.68	0.80
BVPS	12.92	13.01	14.42	16.02	17.83
Growth & Margins (%)					
Growth					
Revenue	-4.9%	-36.5%	47.0%	13.8%	16.7%
EBIT	-39.2%	-49.6%	131.1%	15.8%	16.3%
Net Income, adj.	-36.9%	-58.4%	195.2%	15.5%	16.4%
Margins					
Gross margin	16.8%	16.9%	18.6%	18.5%	18.5%
EBIT margin	6.2%	4.9%	7.7%	7.8%	7.8%
Net Profit Margin	4.6%	3.0%	6.1%	6.2%	6.2%
Key Ratios					
ROE	12.8%	4.9%	14.0%	14.6%	15.3%
Income Statement (RMB mn)					
Revenue	93357	59291	87163	99156	115732
Gross profit	15664	10013	16177	18334	21353
EBIT	5760	2903	6708	7765	9028
Profit before tax	5863	3008	6906	7950	9198
Tax	-1153	-958	-1312	-1510	-1748
Profit for the period	4710	2051	5594	6439	7450
Minority interests	-387	-254	-290	-315	-320
Total capital share	2761	2761	2761	2761	2761
Net profit	4323	1796	5303	6124	7130

Source: PSR

(Closing price as at 5 February)

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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