

Weichai (2338 HK)

Positive Outlook on Industry Rebound Opportunities

Hong Kong | Automobile Parts | Update Report

27 January 2025

Company Profile

Weichai is one of the automobile and equipment manufacturing groups with the strongest comprehensive strength in China's heavy truck industry. Based on the powertrain system including engine, axle and gearbox, the Company extends upstream components and downstream heavy trucks, and takes the lead in forklifts and intelligent warehousing. After years of development, the Company has built a synergetic development pattern of four major industrial segments including powertrain (engine, transmission, axle/hydraulics), vehicle and machinery, intelligent logistics and other segments.

Investment Summary

Performance Review: Nearly 30% Increase in Profit in the First Three Quarters

In accordance with the reports of Weichai Power for the first three quarters: The Company's revenue grew by 1.0% year on year to RMB161.95 billion from January to September 2024. The net profit attributable to the parent company stood at RMB8.4 billion with a yoy growth of 29.2%. The basic earnings per share was RMB0.97, compared to RMB0.75 in the same period of the previous year. By quarter, the Company's revenue was RMB56.38 billion (up 5.5% yoy) in Q1, RMB56.11 billion (up 6.5% yoy) in Q2, and RMB49.46 billion (down 8.8% yoy) in Q3, and the net profit attributable to the parent company was RMB2.6 billion (up 40.1% yoy), RMB3.3 billion (up 61.7% yoy) and RMB2.5 billion (down 4.0% yoy), respectively. The strong performance in Q1 and Q2 was largely driven by high demand for heavy-duty CNG vehicles, which significantly boosted the Company's sale of natural gas engines. However, in Q3, performance declined, primarily due to the volatility in the heavy-duty CNG vehicle sector, which impacted the sale of high-margin natural gas engines. Additionally, consumers' hesitation ahead of the release of the specific trade-in policy also contributed to the decline.

Performance Outpaces the Industry with Rising Profitability

According to the statistics from the China Association of Automobile Manufacturers (CAAM), domestic sales of heavy-duty trucks totaled 683,000 units in the first three quarters of 2024, representing a yoy decrease of 3.3%. In Q3 alone, sales reached 178 thousand units, marking a yoy decrease of 18.2%. Accordingly, the Company's revenue growth rates in Q1 and Q2 were +1.0% and -8.8%, respectively, with a net profit growth rate of +29.2% and -4.0%, respectively, all outpacing the industry performance. This was largely driven by the Company's strategic focus on off-road engines, particularly large-cylinder models, which, alongside its involvement in the heavy-duty truck industry chain, helped cushion the cyclical fluctuations in the heavy-duty truck sector. In terms of sales volume, the Company sold 221 thousand heavy-duty truck engines in the first three quarters, including 89 thousand units for heavy-duty CNG trucks (a yoy increase of 8.8%), 42 thousand units for 6×4 tractors with 500 horsepower or more (a yoy increase of 29%), and nearly 6 thousand large-cylinder units.

BUY (Upgrade)

CMP HKD 13.16

(Closing price as at 23 January)

TARGET HKD 17.97 (+36.55%)

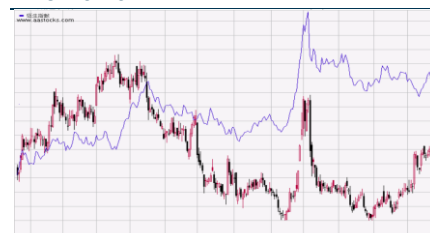
COMPANY DATA

O/S SHARES (MN) :	8727
MARKET CAP (HKD MN) :	25570
52 - WK HI/LO (HKD):	17.5/10.6

SHARE HOLDING PATTERN, %

Weichai Group Holdings Limited	16.3
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PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY bn	12/23	12/24F	12/25F	12/26F
Net Sales	214	226	239	249
Net Profit	13	167	199	222
EPS, CNY	1.04	1.29	1.54	1.73
P/E, x	11.5	9.6	8.0	7.1
BVPS, CNY	9.18	9.98	10.81	11.69
P/BV, x	1.3	1.2	1.1	1.1
DPS (CNY)	0.52	0.71	0.85	0.96
Div. Yield (%)	4.3%	5.7%	6.8%	7.7%

Source: Company reports, Phillip Securities Est.

Research Analyst

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In terms of profitability, the Company's gross margin and net profit margin in the first three quarters of 2024 were 21.9% and 6.4%, respectively, representing a yoy increase of 1.6ppts and 1.4ppts. In particular, the Company recorded a gross margin of 22.11%, 21.39% and 22.12%, reflecting a yoy increase of 3.4ppts, 1.2ppts and 0.35ppts, respectively, in 2024Q1, Q2 and Q3, and a net profit margin of 5.93%, 7.18% and 6.00%, reflecting a yoy increase of 1.73ppts, 2.36ppts and 0.07ppts, respectively, showing a steady upward trend with improvements. This was primarily driven by the enhanced profitability of the Company's subsidiaries, Shaanxi Heavy Duty Automobile and KION, as well as the successful implementation of supply chain optimization and cost reduction and efficiency improvement across various processes. In the first three quarters, the sales expense ratio was 5.64%, down 0.34ppts yoy, the administration expense ratio was 4.66%, up 0.30ppts yoy, and the R&D expense ratio was 3.83%, up 0.31ppts yoy.

Optimistic about Policy-driven Sales Rebound and the Growth Potential of its Large-cylinder Engines

At the policy level, the new trade-in policy introduced at the beginning of 2025 further expands its coverage and scale compared to its 2024 version. It extends the scope of the scrapping and renewal subsidy to include commercial trucks that meet or fall below the China IV vehicle emission standard. For a new energy heavy-duty truck, the sum of the scrapping subsidy and the new purchase subsidy may be up to RMB140,000, and for a heavy-duty truck meeting the China VI vehicle emission standard, it may reach up to RMB110,000. We expect that, with the support of the said policy, the potential demand for vehicle replacements will drive a rebound in heavy-duty truck sales, and the Company will benefit directly as a leader in heavy-duty truck engines. In the mid-run, the positive fiscal and monetary policy stimulus, alongside the upcoming upgrade of emission standards in the industry, is expected to boost heavy-duty truck sales.

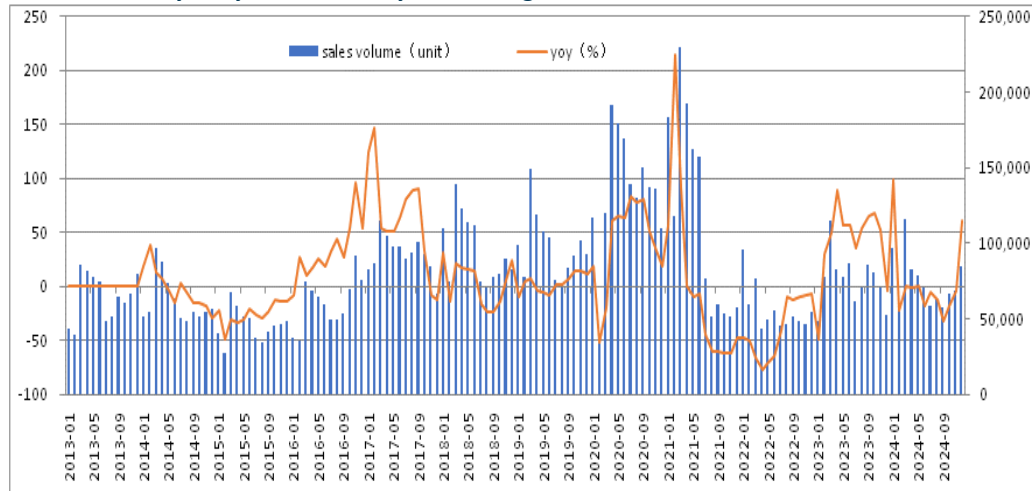
Meanwhile, fueled by the soaring demand for backup power engines in large data centers, large-cylinder engines are experiencing a period of rapid growth. The Company's large-cylinder engine business has begun to take shape. In an on-site acceptance test by a renowned Internet company in October 2024, the Weichai 2,000kW high-voltage generator set successfully ran for 242 hours with zero faults. It is expected to become the Company's another key growth driver in the future.

Investment Thesis

Overall, the Company's strategic framework of "Power + Hydraulics + New Energy" has been well-defined, its leading advantage continues to strengthen, and its dividend rate is expected to remain high.

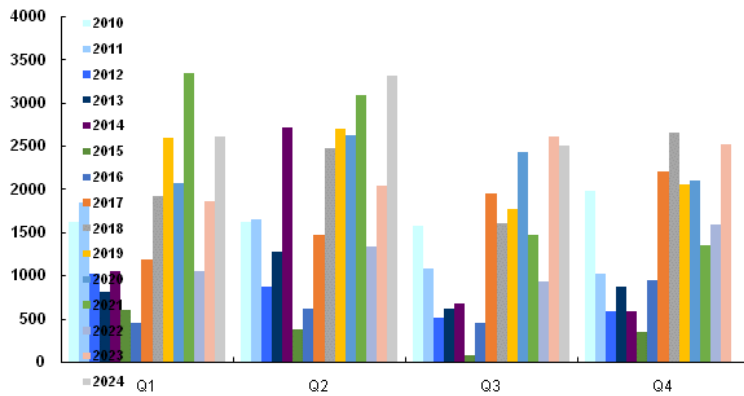
We forecast the EPS of the Company to be RMB 1.29/1.54/1.73yuan in 2024/2025/2026. We will also revise target price to 17.97 HKD (13.1/11.0/9.8x P/E and 1.7/1.6/1.4x P/B for 2024/2025/2026) and BUY rating. (Closing price as at 23 January)

Domestic Heavy-duty truck monthly sales and growth



Source: Wind, Company, Phillip Securities Hong Kong Research

Weichai Quarterly Net Profit



Source: Wind, Company, Phillip Securities Hong Kong Research

P/E Band



Source: Wind, Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY22	FY23	FY24F	FY25F	FY26F
Valuation Ratios					
P/E (X), adj.	20.9	11.5	9.6	8.0	7.1
P/B (X)	1.4	1.3	1.2	1.1	1.1
Dividend Payout Ratio (%)	45.2%	49.7%	55.1%	55.1%	55.5%
Dividend Yield (%)	2.2%	4.3%	5.7%	6.9%	7.8%
Per share data (RMB)					
EPS, (Basic)	0.56	1.04	1.29	1.54	1.73
EPS, (Diluted)	0.56	1.04	1.29	1.54	1.73
DPS	0.25	0.52	0.71	0.85	0.96
BVPS	8.39	9.18	9.98	10.81	11.69
Growth & Margins (%)					
Growth					
Revenue	-20.5%	19.7%	5.5%	6.0%	4.2%
EBIT	-63.0%	162.7%	24.3%	19.3%	12.3%
Net Income, adj.	-56.6%	96.3%	24.5%	19.1%	11.6%
Margins					
Gross margin	17.5%	20.7%	22.2%	23.0%	23.7%
EBIT margin	3.0%	6.4%	7.6%	8.5%	9.2%
Net Profit Margin	3.7%	6.3%	7.4%	8.3%	8.9%
Key Ratios					
ROE	6.8%	11.8%	13.5%	14.8%	15.4%
Income Statement (RMB mn)					
Revenue	175158	213958	225635	239152	249239
Gross profit	30666	44367	50159	55029	59070
EBIT	5177	13712	17050	20339	22842
Profit before tax	6085	13151	16538	19847	22334
Tax	-403	-1940	-2563	-3176	-3685
Profit for the period	5683	11212	13974	16672	18649
Minority interests	-778	-2198	-2725	-3218	-3543
Total capital share	8727	8727	8727	8727	8727
Net profit	6461	13409	16699	19890	22193

Source: PSR

(Closing price as at 23 January)

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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