

Sinotruk (Hong Kong) (3808 HK)

SHIG to officially control Sinotruk after the equity transfer

We believe the transfer of equity interest in CNHTC (parent company of Sinotruk) from Ji'nan SASAC to SHIG (parent company of **Weichai Power [2338 HK, BUY]**) has been largely expected since the appointment of TAN Xuguang as the Chairman of CNHTC a year ago. We believe the equity transfer will further strengthen the cooperation between Weichai Power and Sinotruk going forward. The synergies include the launch of new products and further reduction on procurement cost. Maintain **BUY**.

- What's new?** Sinotruk announced yesterday that Ji'nan SASAC will transfer 45% of equity interest in CNHTC to SHIG for nil consideration. In addition, Shandong State-owned Assets Investment will delegate to SHIG the equity holders' rights (including voting rights but excluding the asset and income rights) for its 20% interest in CNHTC for nil consideration. The equity transfer is subject to the grant of the approval by the State Administration for Market Regulation of China.
- CNHTC will be officially under the control of SHIG.** Before the change in shareholding, Ji'nan SASAC owned 80% of equity interest in CNHTC (Figure 1). After the equity transfer of 45% in CNHTC, Ji'nan SASAC's interest will be reduced to 35% (Figure 2). This, together with the transfer of the 20% voting rights from Shandong State-owned Assets Investment, SHIG's voting rights in CNHTC will become 65%, effectively replacing Ji'nan SASAC as the controlling shareholder of CNHTC. SHIG is not required to make mandatory offer for Sinotruk, according to SFC's ruling.
- The equity transfer is largely expected.** The change in shareholding structure has been expected after TAN Xuguang was appointed as the Chairman of CNHTC a year ago (see "*China HDT sector – Integration of CNHTC into Shandong Heavy Industry Group is likely*" published on 3 Sep 2018). We believe this will allow SHIG to strengthen the control of CNHTC and we expect further cooperation between Weichai Power and Sinotruk. That said, we do not expect changes in Sinotruk's shareholding structure at this stage, given that it will involve the interest of MAN SE (second largest shareholder) and the public shareholding.
- Major risk factors:** (1) Weakness of HDT and LDT demand, (2) longer-than-expected impact of anti-loading policy, (3) technology risk.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	55,458	61,785	64,466	66,999	66,266
YoY growth (%)	68.3	11.4	4.3	3.9	(1.1)
Net income (RMB mn)	2,771	4,157	4,653	5,073	4,858
EPS (RMB)	1.00	1.51	1.69	1.84	1.76
YoY growth (%)	501.6	50.0	11.9	9.0	(4.2)
P/E (x)	9.9	6.6	6.2	5.7	5.9
EV/EBITDA (x)	3.3	2.7	2.5	2.3	2.4
P/B (x)	1.2	1.1	1.0	0.9	0.8
Yield (%)	6.1	5.5	5.7	6.2	5.9
ROE (%)	14.2	18.0	17.2	16.7	14.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$19.40
(Previous TP)	HK\$19.40)
Up/Downside	+68%
Current Price	HK\$11.56

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Stock Data

Mkt Cap (HK\$ mn)	31,917
Avg 3 mths t/o (HK\$ mn)	64
52w High/Low (HK\$)	20.40/10.04
Total Issued Shares (mn)	2,761

Source: Bloomberg

Shareholding Structure

CNHTC	51%
MAN SE	25%
Others	24%

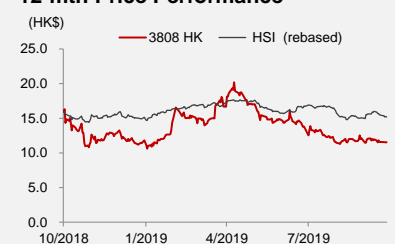
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.7%	-4.6%
3-mth	-14.5%	-6.0%
6-mth	-30.8%	-22.5%

Source: Bloomberg

12-mth Price Performance

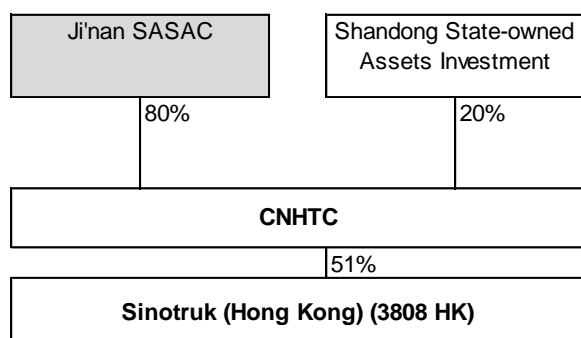


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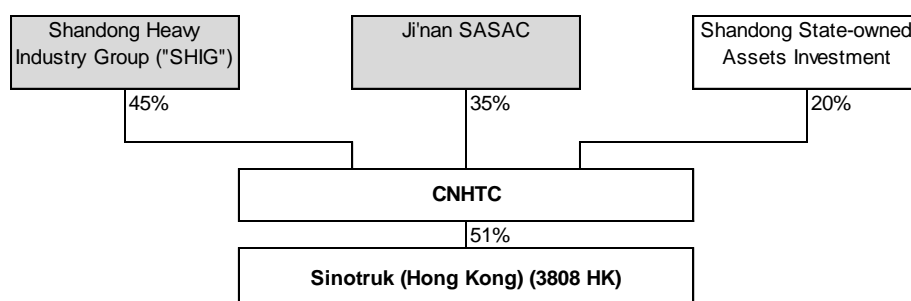
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Related Reports

- Sinotruk (3808 HK, BUY) – Weak sales but cost control on track in 1H19 – 2 Sep 2019
- China HDT Sector - 3Q19 HDT sales +2% YoY; better than expectations – 5 Aug 2019
- China HDT Sector – Three catalysts in 3Q19; Opportunity emerges – 8 Jul 2019

Figure 1: Before the change in shareholding structure

Source: Company data, CMBIS

Figure 2: After the change in shareholding structure

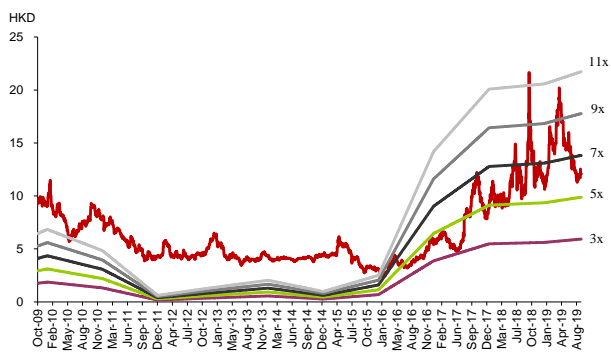
Source: Company data, CMBIS

Figure 3: Key operating assumptions

	2017	2018	2019E	2020E	2021E
Sales volume (unit)					
Truck	263,903	302,094	307,907	329,106	342,207
HDT	156,243	168,048	171,180	174,604	167,620
China	125,627	131,748	133,065	135,727	130,298
Export	30,616	36,300	38,115	38,877	37,322
LDT	107,660	134,046	136,727	154,501	174,587
Engine	184,540	175,889	171,022	172,732	164,096
Internal use	170,700	159,531	157,936	159,515	151,540
External sales	13,841	16,358	13,086	13,217	12,556
% of total					
Internal use	93%	91%	92%	92%	92%
External sales	8%	9%	8%	8%	8%
Growth (YoY)					
Truck	56%	14%	2%	7%	4%
HDT	71%	8%	2%	2%	-4%
China	89%	5%	1%	2%	-4%
Export	22%	19%	5%	2%	-4%
LDT	38%	25%	2%	13%	13%
Total	53%	14%	2%	7%	4%
Engine	74%	-5%	-3%	1%	-5%
Internal use	75%	-7%	-1%	1%	-5%
External sales	61%	18%	-20%	1%	-5%
ASP (RMB/unit)					
Truck	206,482	199,405	208,739	203,883	195,373
HDT	291,630	290,361	301,390	302,000	302,000
LDT	82,910	85,378	92,741	93,000	93,000
Engines	79,689	80,230	77,592	78,000	78,000

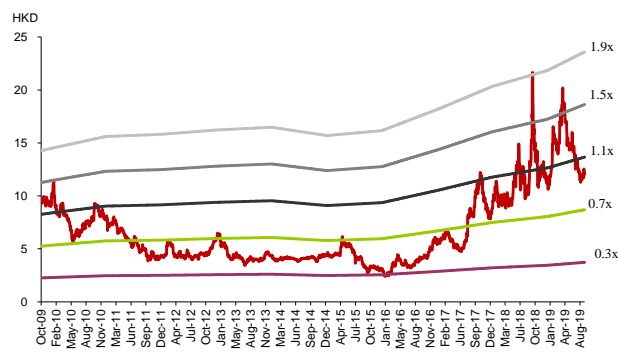
Source: Company data, CMBIS estimates

Figure 4: Sinotruk P/E band



Source: Company data, CMBIS estimates

Figure 5: Sinotruk P/B band



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	55,458	61,785	64,466	66,999	66,266
Cost of sales	(45,430)	(50,610)	(52,411)	(54,738)	(54,140)
Gross profit	10,028	11,175	12,055	12,261	12,127
Operating expenses	(5,756)	(5,532)	(6,085)	(5,804)	(5,947)
EBIT	4,272	5,642	5,970	6,457	6,180
Net finance cost	(262)	(0)	55	104	144
Finance income	81	89	117	141	169
Finance expenses	(343)	(89)	(61)	(37)	(26)
Profit of JV and associates	45	77	105	123	77
Pretax profit	4,055	5,719	6,130	6,684	6,401
Income tax	(720)	(993)	(1,073)	(1,170)	(1,120)
After tax profit	3,336	4,726	5,058	5,515	5,280
MI	(313)	(381)	(405)	(441)	(422)
Net profit	3,023	4,345	4,653	5,073	4,858
Core net profit	2,771	4,157	4,653	5,073	4,858
D&A	1,248	1,180	1,391	1,437	1,476
EBITDA	5,520	6,823	7,361	7,894	7,656

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	4,055	5,719	6,130	6,684	6,401
Finance cost	343	89	61	37	26
Interest income	(81)	(89)	(117)	(141)	(169)
Share of profit or loss of associates	(45)	(77)	(105)	(123)	(77)
Depreciation	1,152	1,078	1,317	1,364	1,403
Amortization of intangible assets	96	102	74	74	74
Income tax paid	(724)	(993)	(1,073)	(1,170)	(1,120)
Change in working capital	495	712	169	(23)	(70)
Others	125	(2,222)	0	0	0
Cash flow from operation	5,416	4,320	6,457	6,702	6,466
Net capex on PP&E	(851)	(550)	(600)	(600)	(500)
Dividend received	34	0	10	12	8
Interest received	82	89	117	141	169
Others	(1,879)	2,407	0	0	0
Cash flow from investing	(2,677)	979	(473)	(447)	(323)
Proceeds from equity financing	0	0	0	0	0
Net bank borrowings	548	(990)	(1,000)	(1,000)	100
Dividend paid	(193)	(1,611)	(1,523)	(1,629)	(1,776)
Interest paid	(261)	(89)	(61)	(37)	(26)
Others	(69)	114	0	0	0
Cash flow from financing	25	(2,576)	(2,585)	(2,665)	(1,701)
Change in cash	2,764	2,723	3,399	3,590	4,441
Cash at beginning of the year	7,171	9,840	12,629	16,029	19,618
Exchange gains/(losses) and others	(96)	66	0	0	0
Cash at end of the year	9,840	12,629	16,029	19,618	24,059

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	16,772	17,373	16,676	15,950	15,043
PP&E	9,938	10,366	9,650	8,886	7,983
Land use right	1,650	1,612	1,612	1,612	1,612
Investment in JV/associates	478	534	628	739	809
Investment properties	710	713	713	713	713
Long term receivables	1,947	2,195	2,195	2,195	2,195
Intangible assets	357	324	250	176	103
AFS / financial assets	206	212	212	212	212
Others	1,488	1,417	1,417	1,417	1,417
Current assets	44,411	44,308	51,236	53,829	58,672
Inventories	13,246	11,594	13,103	12,691	12,821
Trade and bills receivables	15,151	12,589	14,610	14,025	14,297
AFS / financial assets	2,340	4,601	4,601	4,601	4,601
Others	1,256	554	554	554	554
Restricted cash	2,577	2,339	2,339	2,339	2,339
Cash	9,840	12,629	16,029	19,618	24,059
Current liabilities	35,325	32,986	35,684	33,664	34,095
Trade and bills payables	28,546	28,305	32,003	30,983	31,315
Bank borrowings	3,990	3,000	2,000	1,000	1,100
Provisions	978	929	929	929	929
Others	1,811	752	752	752	752
Non-current liabilities	427	367	367	367	367
Bank borrowings	0	0	0	0	0
Deferred income	361	316	316	316	316
Others	66	50	50	50	50
Equity	25,431	28,328	31,862	35,748	39,253
Shareholders' equity	22,757	25,476	28,605	32,050	35,132
MI	2,673	2,852	3,257	3,698	4,121

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue mix (%)					
HDT	82.2	79.0	80.0	78.7	76.4
LDT	16.1	18.5	19.7	21.4	24.5
Engines	26.5	22.8	20.6	20.1	19.3
Finance	2.0	2.3	2.4	2.4	2.5
Intersegment sales	(26.8)	(22.6)	(22.7)	(22.7)	(22.7)
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
Gross margin	18.1	18.1	18.7	18.3	18.3
EBIT margin	7.7	9.1	9.3	9.6	9.3
Net profit margin	6.0	7.6	7.8	8.2	8.0
Growth (%)					
Revenue	68.3	11.4	4.3	3.9	-1.1
Gross profit	72.4	11.4	7.9	1.7	-1.1
EBIT	283.8	32.1	5.8	8.2	-4.3
Net profit	468.1	43.7	7.1	9.0	-4.2
Core net profit	501.6	50.0	11.9	9.0	-4.2
Balance sheet ratio					
Current ratio (x)	1.3	1.3	1.4	1.6	1.7
Receivable turnover days	96	82	77	78	78
Inventory turnover days	87	90	86	86	86
Payable turnover days	198	205	210	210	210
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	6.0	7.7	7.8	8.0	7.4
ROE	14.2	18.0	17.2	16.7	14.5
Per share data					
EPS (RMB)	1.09	1.57	1.69	1.84	1.76
Core EPS (RMB)	1.00	1.51	1.69	1.84	1.76
BVPS (RMB)	8.24	9.23	10.36	11.61	12.72
DPS (RMB)	0.58	0.55	0.59	0.64	0.62

Source: Company data, CMBIS estimates

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