

# Weichai Power (000338 CH)

## 4Q23 net profit +58% YoY; Payout increased to 50%; Higher earnings forecast on margin

Weichai's net profit in 2023 surged 84% YoY to RMB9bn, which is in line with the profit range of RMB8.58-9.32bn announced in Jan. In 4Q23, net profit grew 58% YoY to RMB2.5bn. It's worth noting that Weichai has declared a final dividend of RMB0.293/shr. This, together with the interim dividend, implies that the payout ratio has reached 50% (up from 45% in 2022). We revise up our 2024E/25E earnings forecast by 19%/20%, mainly due to higher margin assumptions across different segments. We maintain our positive stance on Weichai (sector top pick) as we see (1) the replacement cycle, (2) higher sales contribution of gas trucks, and (3) exports offering certainty on HDT industry sales growth in 2024E. We revise up our SOTP-based TP for Weichai H/A to HK\$22/RMB20.4 from HK19.4/RMB17.8. Maintain **BUY**.

- **Key highlights in 4Q23.** Net profit grew 58% YoY to RMB2.5bn, driven by 20% YoY revenue growth (to RMB53.6bn) and 3.3ppt YoY gross margin expansion (to 23.7%). The gross margin in 4Q23 is the highest one since 4Q18.
- **Strong engine growth in 2023.** The segment revenue grew 55% YoY to RMB60.8bn, driven by a 28% increase in engine sales and increase in blended ASP (due to more contribution of HDT engines based on our estimate). The segment profit surged 1.7x YoY to RMB7.7bn, driven by 5.5ppt YoY expansion of segment margin.
- **Automobiles & components turned to profit in 2H23.** The segment (mainly includes HDTs and parts) recorded RMB610mn of segment profit in 2H23 (vs RMB24mn in 2H22 and -RMB16mn in 1H23), driven by operating leverage.
- **Forklifts & supply chain solution (KION's operation) continued to see recovery.** The segment profit surged 10x YoY to RMB4.9bn in 2023 from a low base. According to KION's latest guidance, the adjusted EBIT is expected to grow 0-19% YoY in 2024E.
- **Agricultural machinery helped by better margin.** While the segment revenue dropped 9% YoY to RMB16.2bn in 2023, the segment margin expanded 1ppt YoY to 4.1%. This helped boost the segment profit by 23% YoY.
- **Risk factors:** 1) weakness in engine export; 2) lower-than-expected replacement demand; 3) an increase in component costs.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	175,158	213,958	236,291	250,085	260,023
YoY growth (%)	(13.9)	22.2	10.4	5.8	4.0
Adjusted net profit (RMB mn)	4,905.5	9,013.9	12,116.6	13,051.3	13,768.2
EPS (Reported) (RMB)	0.56	1.03	1.39	1.50	1.58
YoY growth (%)	(47.0)	83.8	34.4	7.7	5.5
Consensus EPS (RMB)	na	1.02	1.28	1.45	0.00
P/E (x)	21.8	12.1	11.7	10.9	10.3
P/B (x)	1.5	1.4	1.6	1.5	1.4
Yield (%)	2.1	4.1	4.3	4.6	0.0
Net gearing (%)	(35.8)	(62.0)	(66.1)	(79.1)	(91.5)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB20.40

(Previous TP) RMB17.80

**Up/Downside** 25.4%

**Current Price** RMB16.27

### China Capital Goods

**Wayne FUNG, CFA**

(852) 3900 0826

waynefung@cmbi.com.hk

### Stock Data

Mkt Cap (RMB mn)	141,981.1
Avg 3 mths t/o (RMB mn)	834.4
52w High/Low (RMB)	16.88/11.22
Total Issued Shares (mn)	8726.6

Source: FactSet

### Shareholding Structure

Weichai Holdings Group	16.3%
Weifang Investment Group	3.4%

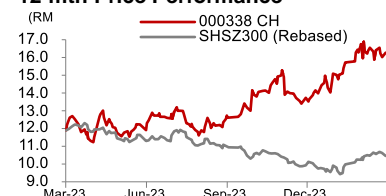
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-0.1%	-1.6%
3-mth	18.5%	11.9%
6-mth	29.7%	36.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related reports:

Capital Goods – Expansion of gas/diesel price spread likely to boost natural gas HDT sales in the near term – 5 Mar 2024 ([link](#))

Capital Goods – Equipment replacement proposed in Central government meeting; positive to HDT sector – 26 Feb 2024 ([link](#))

Weichai Power – 4Q23E earnings surged 31-71% YoY, above expectation (A: [link](#)) (H: [link](#))

China Heavy Duty Truck – Multi-cylinder diesel engine sales +29% YoY in Dec – 15 Jan 2024 ([link](#))

**Figure 1: Weichai's quarterly results**

(RMB mn)	1Q22	1Q23	Chg (YoY)	2Q22	2Q23	Chg (YoY)	3Q22	3Q23	Chg (YoY)	4Q22	4Q23	Chg (YoY)
<b>Revenue</b>	<b>41,104</b>	<b>53,434</b>	<b>30%</b>	<b>45,636</b>	<b>52,701</b>	<b>15%</b>	<b>43,783</b>	<b>54,248</b>	<b>24%</b>	<b>44,634</b>	<b>53,575</b>	<b>20%</b>
Cost of sales	(33,445)	(43,442)	30%	(37,924)	(42,062)	11%	(37,080)	(42,439)	14%	(35,561)	(40,900)	15%
<b>Gross profit</b>	<b>7,659</b>	<b>9,992</b>	<b>30%</b>	<b>7,712</b>	<b>10,639</b>	<b>38%</b>	<b>6,704</b>	<b>11,809</b>	<b>76%</b>	<b>9,073</b>	<b>12,675</b>	<b>40%</b>
Other income	168	126	-25%	202	215	7%	254	588	131%	498	846	70%
Other gains and losses	139	116	-16%	505	195	-61%	599	281	-53%	224	(458)	n/a
S&D expenses	(2,553)	(2,866)	12%	(2,459)	(3,339)	36%	(2,799)	(3,385)	21%	(2,850)	(3,820)	34%
Administrative expenses	(1,878)	(2,295)	22%	(2,000)	(2,329)	16%	(2,007)	(2,363)	18%	(2,207)	(2,469)	12%
R&D expenses	(1,828)	(1,833)	0%	(1,860)	(1,888)	2%	(1,827)	(1,929)	6%	(2,217)	(2,395)	8%
Taxes and surcharges	(82)	(126)	54%	(139)	(206)	48%	(100)	(192)	92%	(159)	(224)	41%
Impairment loss of assets	(220)	(337)	53%	(420)	(218)	-48%	(277)	(395)	43%	(370)	(536)	45%
<b>EBIT</b>	<b>1,405</b>	<b>2,777</b>	<b>98%</b>	<b>1,539</b>	<b>3,069</b>	<b>99%</b>	<b>549</b>	<b>4,414</b>	<b>704%</b>	<b>1,990</b>	<b>3,619</b>	<b>82%</b>
Other expenses	(39)	(41)	6%	(20)	(16)	-22%	(24)	(32)	34%	(79)	(64)	-18%
Net finance cost	156	(52)	n/a	371	31	-92%	67	(505)	n/a	316	(34)	n/a
Share of profit of JV and associates	58	(33)	n/a	(51)	13	n/a	(59)	15	n/a	(92)	(7)	-92%
<b>Pretax profit</b>	<b>1,579</b>	<b>2,651</b>	<b>68%</b>	<b>1,839</b>	<b>3,097</b>	<b>68%</b>	<b>533</b>	<b>3,891</b>	<b>631%</b>	<b>2,135</b>	<b>3,513</b>	<b>65%</b>
Income tax	(270)	(405)	50%	(196)	(557)	184%	252	(679)	n/a	(189)	(299)	58%
<b>After tax profit</b>	<b>1,309</b>	<b>2,245</b>	<b>72%</b>	<b>1,643</b>	<b>2,540</b>	<b>55%</b>	<b>784</b>	<b>3,212</b>	<b>309%</b>	<b>1,947</b>	<b>3,215</b>	<b>65%</b>
MI	(258)	(389)	51%	(307)	(497)	62%	141	(610)	n/a	(353)	(701)	99%
<b>Net profit</b>	<b>1,051</b>	<b>1,856</b>	<b>77%</b>	<b>1,335</b>	<b>2,043</b>	<b>53%</b>	<b>925</b>	<b>2,602</b>	<b>181%</b>	<b>1,594</b>	<b>2,513</b>	<b>58%</b>
<b>Key ratios</b>			<b>Chg (ppt)</b>			<b>Chg (ppt)</b>			<b>Chg (ppt)</b>			<b>Chg (ppt)</b>
Gross margin	18.6%	18.7%	0.1	16.9%	20.2%	3.3	15.3%	21.8%	6.5	20.3%	23.7%	3.3
S&D expense ratio	6.2%	5.4%	-0.8	5.4%	6.3%	0.9	6.4%	6.2%	-0.2	6.4%	7.1%	0.7
Administrative expense ratio	4.6%	4.3%	-0.3	4.4%	4.4%	0.0	4.6%	4.4%	-0.2	4.9%	4.6%	-0.3
R&D expense ratio	4.4%	3.4%	-1.0	4.1%	3.6%	-0.5	4.2%	3.6%	-0.6	5.0%	4.5%	-0.5
Effective tax rate	17.1%	15.3%	-1.8	10.7%	18.0%	7.3	-47.3%	17.5%	64.7	8.8%	8.5%	-0.3

Source: Company data, CMBIGM

**Figure 2: KION's latest guidance for 2024E**

(EUR mn)	2021	2022	2023	2024E guidance	
				Low-end	High-end
<b>Order intake</b>	<b>12,482</b>	<b>11,708</b>	<b>10,876</b>	-	-
Growth (YoY)	32%	-6%	-7%	-	-
<b>Revenue</b>	<b>10,294</b>	<b>11,136</b>	<b>11,434</b>	<b>11,200</b>	<b>12,000</b>
Growth (YoY)	23%	8%	3%	-2%	5%
<b>Adjusted EBIT</b>	<b>842</b>	<b>292</b>	<b>791</b>	<b>790</b>	<b>940</b>
Growth (YoY)	54%	-65%	171%	0%	19%
Adjusted EBIT margin	8.2%	2.6%	6.9%	7.1%	7.8%
<b>Net income</b>	<b>568</b>	<b>106</b>	<b>314</b>	-	-
Growth (YoY)	169%	-81%	197%	-	-

Source: Company data, CMBIGM

**Figure 3: KION's quarterly financials**

(EUR mn)	4Q22	1Q23	2Q23	3Q23	4Q23
<b>Order intake</b>	<b>2,536</b>	<b>2,444</b>	<b>2,864</b>	<b>2,621</b>	<b>2,947</b>
Growth (YoY)	-27%	-16%	-24%	4%	16%
<b>Revenue</b>	<b>2,893</b>	<b>2,781</b>	<b>2,836</b>	<b>2,730</b>	<b>3,086</b>
Growth (YoY)	5%	2%	1%	1%	7%
<b>Adjusted EBIT</b>	<b>82</b>	<b>156</b>	<b>192</b>	<b>224</b>	<b>219</b>
Growth (YoY)	-46%	-8%	36%	n/a	167%
Adjusted EBIT margin	2.8%	5.6%	6.8%	8.2%	7.1%
<b>Net income</b>	<b>39</b>	<b>74</b>	<b>73</b>	<b>82</b>	<b>86</b>
Growth (YoY)	-72%	-8%	-9%	n/a	121%

Source: Company data, CMBIGM

Figure 4: Change in key assumptions for Weichai

	2024E			2025E			2026E		
	Old	New	Change	Old	New	Change	Old	New	Change
<b>Sales volume (unit)</b>									
Engine total	987,647	<b>885,924</b>	-10.3%	1,051,911	<b>944,050</b>	-10.3%	-	<b>972,494</b>	-
HDT (Shaanxi Heavy-duty Motor)	134,560	<b>135,720</b>	0.9%	142,634	<b>143,863</b>	0.9%	-	<b>148,179</b>	-
Gear box (Shaanxi Fast Gear Company)	781,750	<b>921,800</b>	17.9%	813,020	<b>967,890</b>	19.0%	-	<b>987,248</b>	-
(RMB mn)									
<b>Revenue</b>									
Diesel engines	67,654	<b>72,646</b>	7.4%	72,056	<b>77,412</b>	7.4%	-	<b>79,744</b>	-
Automobiles and major components	64,142	<b>72,123</b>	12.4%	66,896	<b>75,822</b>	13.3%	-	<b>77,436</b>	-
Forklift trucks & supply chain solution	87,101	<b>90,147</b>	3.5%	92,327	<b>95,556</b>	3.5%	-	<b>101,289</b>	-
Agricultural machinery	20,481	<b>17,820</b>	-13.0%	21,505	<b>18,711</b>	-13.0%	-	<b>19,646</b>	-
Intersegment sales	(10,945)	<b>(16,444)</b>	50.2%	(10,408)	<b>(17,415)</b>	67.3%	-	<b>(18,093)</b>	-
<b>Total revenue</b>	228,433	<b>236,291</b>	3.4%	242,376	<b>250,085</b>	3.2%	-	<b>260,023</b>	-
<b>Segment profit</b>									
Diesel engines	7,780	<b>9,299</b>	19.5%	8,142	<b>9,909</b>	21.7%	-	<b>10,207</b>	-
Automobiles and major components	834	<b>938</b>	12.4%	937	<b>1,062</b>	13.3%	-	<b>1,084</b>	-
Forklift trucks & supply chain solution	3,658	<b>5,409</b>	47.9%	3,878	<b>5,733</b>	47.9%	-	<b>6,077</b>	-
Agricultural machinery	942	<b>820</b>	-13.0%	968	<b>842</b>	-13.0%	-	<b>884</b>	-
Intersegment sales	(109)	<b>(872)</b>	696.3%	(104)	<b>(923)</b>	786.9%	-	<b>(959)</b>	-
<b>Total segment profit</b>	13,105	<b>15,593</b>	19.0%	13,820	<b>16,623</b>	20.3%	-	<b>17,294</b>	-
<b>Segment margin</b>			<i>Chg (ppt)</i>			<i>Chg (ppt)</i>			<i>Chg (ppt)</i>
Diesel engines	11.5%	<b>12.8%</b>	1.3	11.3%	<b>12.8%</b>	1.5	-	<b>12.8%</b>	-
Automobiles and major components	1.3%	<b>1.3%</b>	0.0	1.4%	<b>1.4%</b>	0.0	-	<b>1.4%</b>	-
Forklift trucks & supply chain solution	4.2%	<b>6.0%</b>	1.8	4.2%	<b>6.0%</b>	1.8	-	<b>6.0%</b>	-
Agricultural machinery	4.6%	<b>4.6%</b>	0.0	4.5%	<b>4.5%</b>	0.0	-	<b>4.5%</b>	-
<b>Average</b>	5.7%	<b>6.6%</b>	0.9	5.7%	<b>6.6%</b>	0.9	-	<b>6.7%</b>	-
<b>Net profit</b>	10,172	<b>12,117</b>	19.1%	10,908	<b>13,051</b>	19.6%	-	<b>13,768</b>	-

Source: Company data, CMBIGM estimates

Figure 5: SOTP valuation

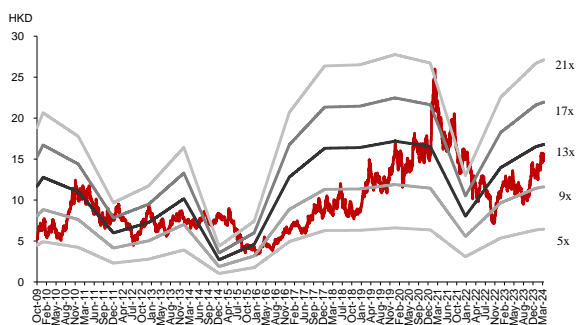
SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA	Estimated EV	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
			2024E (RMB mn)	(RMB mn)			
Weichai core business	EV/EBITDA	6.5	14,481	94,126	58,484	152,611	85.8%
KION Group	Proportionate market value	-	-	-	-	23,166	13.0%
Ballard Power Systems	Proportionate market value	-	-	-	-	1,202	0.7%
Ceres Power	Proportionate market value	-	-	-	-	462	0.3%
Share of JV/associates	P/B	1.4	-	-	-	7,244	4.1%
Minority interest in core business						(6,757)	-3.8%
<b>Total NAV</b>						<b>177,928</b>	<b>100.0%</b>
<b>NAV per share (RMB)</b>						<b>20.4</b>	
<b>NAV per share (HK\$)</b>						<b>22.0</b>	

Source: Company data, CMBIGM estimates

Note 1: Weichai owns 46.5% interest in KION, 20% interest in Ballard Power and 20% interest in Ceres Power.

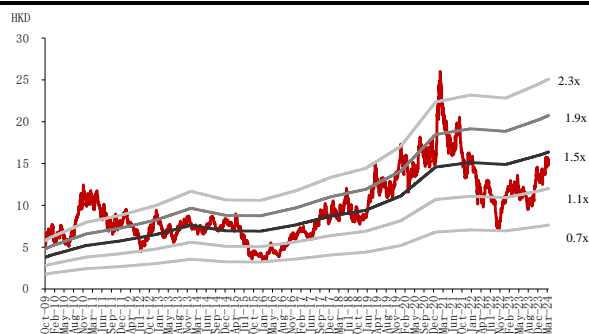
Note 2: Share of JV/associates excludes Ballard Power and Ceres Power

**Figure 6: Weichai Power-H P/E band**



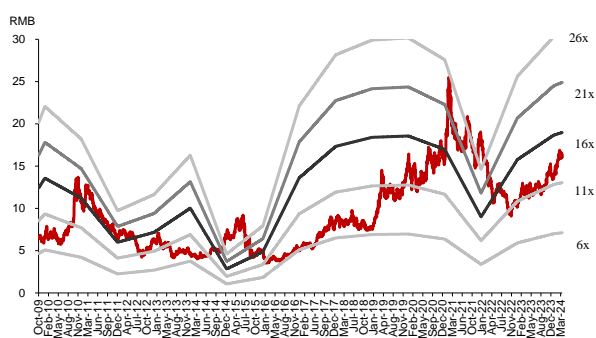
Source: Bloomberg, company data, CMBIGM estimates

**Figure 7: Weichai Power-H P/B band**



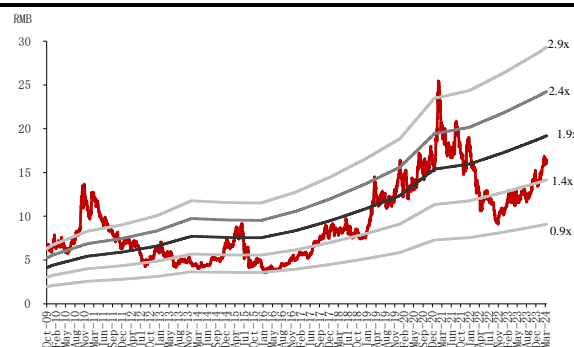
Source: Bloomberg, company data, CMBIGM estimates

**Figure 8: Weichai Power-A P/E band**



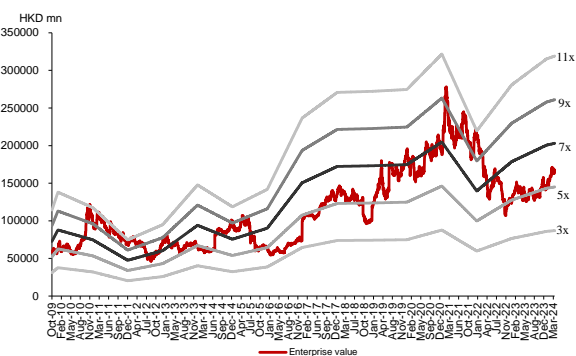
Source: Bloomberg, company data, CMBIGM estimates

**Figure 9: Weichai Power-A P/B band**



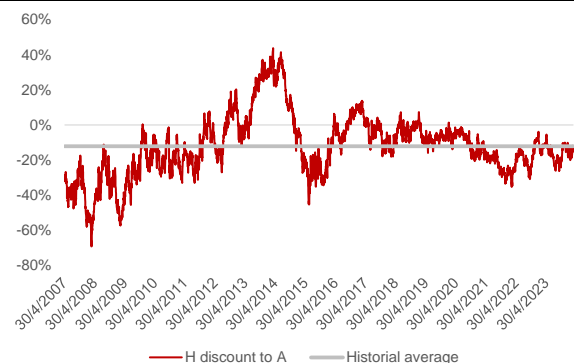
Source: Bloomberg, company data, CMBIGM estimates

**Figure 10: Weichai Power EV/EBITDA band**



Source: Bloomberg, company data, CMBIGM estimates

**Figure 11: Weichai Power H discount to A**



Source: Bloomberg, CMBIGM

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	203,548	175,158	213,958	236,291	250,085	260,023
Cost of goods sold	(163,947)	(144,011)	(168,842)	(185,725)	(196,317)	(204,118)
<b>Gross profit</b>	<b>39,601</b>	<b>31,147</b>	<b>45,116</b>	<b>50,566</b>	<b>53,768</b>	<b>55,905</b>
Operating expenses	(26,038)	(25,664)	(31,238)	(33,436)	(35,585)	(37,053)
<b>Operating profit</b>	<b>13,563</b>	<b>5,482</b>	<b>13,878</b>	<b>17,131</b>	<b>18,183</b>	<b>18,852</b>
Share of (losses)/profits of associates/JV	187	(144)	(13)	182	169	172
<b>EBITDA</b>	<b>24,160</b>	<b>16,630</b>	<b>25,867</b>	<b>27,886</b>	<b>29,765</b>	<b>31,181</b>
Depreciation	10,597	11,148	11,989	10,756	11,582	12,329
Interest income	1,724	2,359	2,818	3,105	3,511	4,077
Interest expense	(1,274)	(1,450)	(3,378)	(1,665)	(1,668)	(1,672)
<b>Net Interest income/(expense)</b>	<b>450</b>	<b>909</b>	<b>(560)</b>	<b>1,441</b>	<b>1,843</b>	<b>2,405</b>
Other income/expense	(145)	(162)	(154)	(284)	(300)	(312)
<b>Pre-tax profit</b>	<b>14,055</b>	<b>6,086</b>	<b>13,151</b>	<b>18,470</b>	<b>19,895</b>	<b>21,117</b>
Income tax	(2,493)	(403)	(1,940)	(3,325)	(3,581)	(3,907)
Minority interest	(2,307)	(778)	(2,198)	(3,029)	(3,263)	(3,442)
<b>Adjusted net profit</b>	<b>9,255</b>	<b>4,906</b>	<b>9,014</b>	<b>12,117</b>	<b>13,051</b>	<b>13,768</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>160,638</b>	<b>168,484</b>	<b>197,925</b>	<b>208,102</b>	<b>232,765</b>	<b>246,112</b>
Cash & equivalents	75,043	70,842	92,857	101,234	118,206	136,588
Account receivables	18,191	21,419	23,754	24,152	27,921	24,796
Inventories	31,585	33,374	37,930	39,413	43,417	41,586
Prepayment	1,570	1,473	1,691	1,610	1,529	1,448
Other current assets	34,249	41,378	41,693	41,693	41,693	41,693
<b>Non-current assets</b>	<b>116,406</b>	<b>125,182</b>	<b>136,322</b>	<b>132,626</b>	<b>128,097</b>	<b>122,823</b>
PP&E	33,188	37,892	44,073	41,286	37,839	33,732
Investment in JVs & assos	6,713	5,341	5,175	5,253	5,326	5,400
Intangibles	20,908	22,760	23,071	22,084	20,930	19,689
Goodwill	22,847	24,019	24,858	24,858	24,858	24,858
Other non-current assets	32,750	35,171	39,145	39,145	39,145	39,145
<b>Total assets</b>	<b>277,044</b>	<b>293,666</b>	<b>334,247</b>	<b>340,727</b>	<b>360,863</b>	<b>368,935</b>
<b>Current liabilities</b>	<b>115,382</b>	<b>119,743</b>	<b>146,215</b>	<b>142,076</b>	<b>151,956</b>	<b>149,344</b>
Short-term borrowings	12,982	15,824	16,949	17,049	17,149	17,249
Account payables	39,596	45,560	60,127	55,888	65,667	62,955
Other current liabilities	62,803	58,358	69,139	69,139	69,139	69,139
<b>Non-current liabilities</b>	<b>58,700</b>	<b>69,813</b>	<b>75,346</b>	<b>75,346</b>	<b>75,346</b>	<b>75,346</b>
Long-term borrowings	18,839	28,839	26,745	26,745	26,745	26,745
Other non-current liabilities	39,861	40,973	48,601	48,601	48,601	48,601
<b>Total liabilities</b>	<b>174,083</b>	<b>189,555</b>	<b>221,561</b>	<b>217,422</b>	<b>227,302</b>	<b>224,690</b>
<b>Total shareholders equity</b>	<b>70,907</b>	<b>73,184</b>	<b>79,335</b>	<b>86,925</b>	<b>93,918</b>	<b>101,161</b>
Minority interest	32,055	30,926	33,351	36,380	39,642	43,085
<b>Total equity and liabilities</b>	<b>277,044</b>	<b>293,666</b>	<b>334,247</b>	<b>340,727</b>	<b>360,863</b>	<b>368,935</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	14,055	6,086	13,151	18,470	19,895	21,117
Depreciation & amortization	10,537	11,065	11,909	10,675	11,501	12,248
Tax paid	(2,493)	(403)	(1,940)	(3,325)	(3,581)	(3,907)
Change in working capital	(8,767)	(20,324)	6,089	(6,120)	2,007	2,243
Others	1,325	1,227	(1,738)	1,563	1,580	1,581
<b>Net cash from operations</b>	<b>14,658</b>	<b>(2,350)</b>	<b>27,471</b>	<b>21,264</b>	<b>31,402</b>	<b>33,282</b>
<b>Investing</b>						
Capital expenditure	(3,610)	(5,242)	(4,633)	(6,900)	(6,900)	(6,900)
Acquisition of subsidiaries/ investments	(3,578)	(309)	(156)	0	0	0
Others	1,779	(2,995)	(947)	104	96	98
<b>Net cash from investing</b>	<b>(5,409)</b>	<b>(8,545)</b>	<b>(5,737)</b>	<b>(6,796)</b>	<b>(6,804)</b>	<b>(6,802)</b>
<b>Financing</b>						
Dividend paid	(4,715)	(3,930)	(4,175)	(4,526)	(6,058)	(6,526)
Net borrowings	(5,913)	12,842	(969)	100	100	100
Proceeds from share issues	14,050	1,676	92	0	0	0
Others	(298)	(5,736)	(7,977)	(1,665)	(1,668)	(1,672)
<b>Net cash from financing</b>	<b>3,123</b>	<b>4,852</b>	<b>(13,029)</b>	<b>(6,091)</b>	<b>(7,627)</b>	<b>(8,097)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	62,216	75,043	70,842	92,857	101,234	118,206
Exchange difference	455	1,841	13,310	0	0	0
<b>Cash at the end of the year</b>	<b>75,043</b>	<b>70,842</b>	<b>92,857</b>	<b>101,234</b>	<b>118,206</b>	<b>136,588</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	3.1%	(13.9%)	22.2%	10.4%	5.8%	4.0%
Gross profit	3.8%	(21.3%)	44.8%	12.1%	6.3%	4.0%
Operating profit	5.5%	(59.6%)	153.1%	23.4%	6.1%	3.7%
EBITDA	11.3%	(31.2%)	55.5%	7.8%	6.7%	4.8%
Adj. net profit	0.5%	(47.0%)	83.8%	34.4%	7.7%	5.5%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	19.5%	17.8%	21.1%	21.4%	21.5%	21.5%
Operating margin	6.7%	3.1%	6.5%	7.2%	7.3%	7.3%
EBITDA margin	11.9%	9.5%	12.1%	11.8%	11.9%	12.0%
Adj. net profit margin	4.5%	2.8%	4.2%	5.1%	5.2%	5.3%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	(0.4)	(0.6)	(0.7)	(0.8)	(0.9)
Current ratio (x)	1.4	1.4	1.4	1.5	1.5	1.6
Receivable turnover days	30.1	41.3	38.5	37.0	38.0	37.0
Inventory turnover days	69.9	82.3	77.1	76.0	77.0	76.0
Payable turnover days	94.7	107.9	114.2	114.0	113.0	115.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	17.4	21.8	12.1	11.7	10.9	10.3
P/B	2.3	1.5	1.4	1.6	1.5	1.4
Div yield (%)	1.9	2.1	4.1	4.3	4.6	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.