



Rating  
**Buy**

Asia  
China

Automobiles &  
Components

Company  
**Sinotruk (Hong Kong) Alert**

Reuters 3808.HK    Bloomberg 3808 HK    Exchange HSI    Ticker 3808  
ADR Ticker SHKLY    ISIN US82936E1064

Date  
27 March 2015

**Results**

Price at 26 Mar 2015 (HKD)	4.46
Price target - 12mth (HKD)	5.00
52-week range (HKD)	4.67 - 3.77
HANG SENG INDEX	24,528

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**FY14 results missed on smaller-than-expected operating leverage**

**FY14 net profit 19% below DBe and 17% below Bloomberg consensus**

Sinotruk reported 50.4% YoY FY14 net profit growth to RMB408.0m. The company's FY14 revenue rose by 7.9% YoY to RMB32.8bn on the back of 6.5% YoY growth in heavy-duty truck (HDT) sales volume to 102,675 units, 26.4% YoY growth in light-duty truck (LDT) and 6.0% in engine sales volume. Due to the reduction in procurement costs, gross profit margin expanded 20bps YoY to 16.9% in FY14. Operating profit margin also improved by 30bps YoY due to FX gain in FY14 vs. FX loss in FY13. Together with a lower net finance cost (down 11.4% YoY), Sinotruk's FY14 net profit margin expanded by 30bps to 1.2%. However, mainly as a result of 2.2x increase in provision for impairment of trade receivables and 19.3% decrease in government subsidy, net profit was 19% below our estimate and 17% below Bloomberg consensus.

**Demand outlook remains favorable in FY15E despite slow start**

In January-February, Sinotruk and its parent recorded a 28% YoY decline in HDT sales, probably due to lukewarm macro economy. That being said, we still expect HDT demand to grow in 2015E with a mild pick-up in infrastructure FAI and smoother transition to China-IV. While we expect HDT growth is likely to remain muted in 1Q15, we believe PBoC's interest rate cuts will ease funding pressures for infrastructure projects for the remainder of the year. In addition, Sinotruk should benefit from the ramp-up of MAN-technology-based SITRAK products. In FY14, the company sold more than 1,000 units of SITRAK trucks.

**Earnings forecast under review; analyst briefing on 30 March**

Given the weaker-than-expected FY14 results, there may possibly be short-term pressure on Sinotruk's share price, in our view. However, we still expect an earnings recovery in FY15-16, given 1) its higher operating leverage than peers and 2) the company regaining some lost market share with MAN's technology. We will review our forecasts after the company's analyst briefing on 30 March. Key downside risks: weaker-than-expected demand; slow margin rebound pace.

Figure 1: Sinotruk – FY14 results summary

(RMBm)	FY14	FY13	YoY	2H14	1H14	HoH
Revenue	32,809.4	30,409.8	7.9%	16,063.05	16,746.4	-4.1%
Gross profit	5,536.2	5,090.8	8.7%	2,761.60	2,774.6	-0.5%
<i>Gross profit margin</i>	<i>16.9%</i>	<i>16.7%</i>		<i>17.2%</i>	<i>16.6%</i>	
Operating profit	1,154.5	987.5	16.9%	458.12	696.4	-34.2%
<i>Operating profit margin</i>	<i>3.5%</i>	<i>3.2%</i>		<i>2.9%</i>	<i>4.2%</i>	
Net profit	408.0	271.4	50.4%	86.28	321.8	-73.2%
<i>Net profit margin</i>	<i>1.2%</i>	<i>0.9%</i>		<i>0.5%</i>	<i>1.9%</i>	

Source: Company data, Deutsche Bank

Stock data

Market cap (HKDm)	12,314
Market cap (USDm)	1,588
Shares outstanding (m)	2,761.0
Major shareholders	Sinotruk (BVI) (51%)
Free float (%)	49
Avg daily value traded (USDm)	0.8

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	30,410	32,822	37,715
Net Profit (CNYm)	271.4	502.5	715.0
DB EPS (CNY)	0.10	0.18	0.26
PER (x)	35.7	19.6	13.8
Yield (net) (%)	0.9	1.5	2.2

Source: Deutsche Bank

Sinotruk - FY14 external sales breakdown

Segment	FY14	FY13	YoY
HDT	27,911	26,137	6.8%
LDT & bus	3,517	2,842	23.8%
Engines	1,079	1,214	-11.1%
Finance	301	217	38.7%

Source: Company data

Sinotruk - FY14 segmental EBIT margins\*

Segment	FY14	FY13	YoY
HDT	2.2%	2.7%	-0.5ppt
LDT & bus	-7.0%	-9.5%	2.5ppt
Engines	5.6%	3.5%	2.1ppt
Finance	52.4%	71.3%	-18.9ppt

\* = EBIT/total sales. Source: Company data

Deutsche Bank AG/Hong Kong

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