

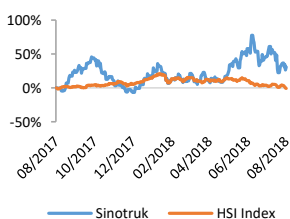
17 August, 2018

BUY
Unchanged

Market Data: August 16, 2018

Closing Price (HK\$)	10.38
Price Target (HK\$)	13.30
HSCEI	10,479
HSCCI	4,024
52-week High/Low (HK\$)	14.11/7.24
Market Cap (US\$m)	3,668
Market Cap (HK\$m)	28,659
Shares Outstanding (m)	2,761
Exchange Rate (Rmb-HK\$)	0.87

Price Performance Chart:



Source: Bloomberg

Analyst

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Related Reports

Sinotruk (3808:HK)-“Shifting up a gear”
March 26, 2018

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Policy support

SINOTRUK HONG KONG (3808 HK)

Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	32,959	55,458	66,796	72,036	74,671
YOY (%)	16.4	68.3	20.4	7.8	3.7
Net income (Rmbm)	532	3,023	3,684	4,063	4,462
YOY (%)	158.4	468.1	21.9	10.3	9.8
EPS (Rmb)	0.19	1.09	1.33	1.47	1.62
Diluted EPS (Rmb)	0.19	1.09	1.33	1.47	1.62
ROE (%)	2.4	11.9	13.5	13.7	13.9
Debt/asset (%)	54.9	58.4	61.1	61.3	60.6
Dividend Yield (%)	0.7	6.2	7.4	8.1	8.9
P/E (x)	46.9	8.2	6.8	6.1	5.6
P/B (x)	1.1	1.0	0.9	0.8	0.8
EV/EBITDA (x)	12.2	5.6	4.7	4.3	5.0

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

We expect Sinotruk Hong Kong to achieve 1H18E revenue of Rmb33bn (+25.0% YoY) and net profit of Rmb2.1bn (+50.0% YoY), mainly driven by solid heavy-duty truck (HDT) sales and effective cost control. We forecast weaker HDT sales in 3Q18E, but solid replacement demand in 19E, backed by strict environmental protection policies. We maintain our EPS forecasts of Rmb1.33 in 18E (+22.0% YoY), Rmb1.47 in 19E (+10.5% YoY), and Rmb1.62 in 20E (+10.2% YoY). Our target price is unchanged at HK\$13.30, representing 9x 18E PE. With 28.1% upside, we maintain our BUY rating.

Weak season in 3Q18. We expect the company to record HDT sales of 86k units in 1H18E (+15% YoY), with market share increasing from 14% in 17A to 16.4% in 1H18E. We believe HDT sales growth will be driven by solid replacement demand for construction HDTs and strong exports. We note demand for construction HDTs was robust in the beginning of the year, while HDT orders have declined since July, mainly due to the weak season for construction and infrastructure investment in 3Q18. According to cwworld.cn, HDT sales decreased 15% YoY in July, and we expect them to further decline in August. However, given a low-base effect, we expect HDT sales growth to pick up in 4Q18E. We maintain our total HDT sales forecast of 1.14m units in 18E (+2.7% YoY). We expect the company to book HDT sales volume of 168k units in 18E (+7.5% YoY), backed by replacement demand for low-emission vehicles and recovering overseas markets.

Strict environmental protection policies. Since the release of China's “National Emission Standards V” for diesel trucks in July 2017, a number of municipal governments have issued restrictions on entry and traffic for trucks with excessive emissions. On 3 July 2018, the State Council released a three-year action plan, as part of China's “Blue Sky Protection Campaign”, whereby the government aims to eliminate 1m HDTs in the Beijing-Tianjin-Hebei area, the Yangtze River Delta region, and the Fenhe and Weihe river plains, by 2020, in line with the less stringent “National Emission Standards III”. Given the government's efforts to improve air quality, we expect 600-700k HDTs to be replaced in 19E.

Healthy cash flows. We note the firm's rapidly expanding operating cash flow since 16A, on the back of significant revenue growth and improving receivables turnover. Given supply-side reforms in a cyclical sector, we expect the company to report limited Capex and stable cash flow from investing activities in 18E. We forecast free cash flow to increase from Rmb2.5bn in 17A to Rmb5.2bn in 18E. We expect the firm's dividend payout ratio and dividend yield to remain stable at c.50% and 7% in 18E, respectively.

Maintain BUY. We maintain our EPS forecasts of Rmb1.33 in 18E (+22.0% YoY), Rmb1.47 in 19E (+10.5% YoY), and Rmb1.62 in 20E (+10.2% YoY). Our target price is unchanged at HK\$13.30, representing 9x 18E PE. With 28.1% upside, we maintain our BUY recommendation.

投资要点：

我们预期 1H18 中国重汽实现收入 330 亿元，同比增长 25%，净利润 21 亿元，同比增长 50%，主要原因在于重卡销量稳健增长，费用管控有效。虽然 3Q18 开工淡季导致工程车短期销量下滑，我们仍然看好国三重卡淘汰带来的替换需求，同时重汽高端重卡受益于重卡升级的长期趋势。我们维持 18 年 EPS 人民币 1.33 元（同比增长 22.0%），19 年 EPS 人民币 1.47 元（同比增长 10.5%），20 年 EPS 人民币 1.62 元（同比增长 10.2%）。我们维持目标价至港币 13.30 元，鉴于 28% 上升空间，维持买入评级。

3Q18 重卡淡季来临。我们预期 1H17 公司实现重卡销量 8.6 万台，同比增长 15%，市占率由 2017 年 14% 升至 1H18 16.4%，主要原因在于工程类重卡更新需求释放，海外市场向好出口持续改善。年初以来，工程类重卡订单增长强劲，但 7 月开始基建开工进入淡季，工程车订单明显下滑，导致 7 月全国重卡销量同比下滑 15%。我们预期 3Q18 重卡销量持续承压，4Q18 由于低基数效应，重卡销量有望小幅恢复。我们认为，18 年全国重卡销量有望实现 114 万台，同比增长 2.7%，维持中国重汽 18 年销量预期 16.8 万台（同比增长 7.5%）。

环保政策趋严。2017 年 7 月，重型柴油车第五阶段排放标准（“国五标准”）在全国范围内正式实施，部分地方政府为加强空气治理，通过限制国三重卡进城，缩短通行时间等方式加速淘汰高污染高排放重卡。2018 年 7 月，国务院发布《打赢蓝天保卫战三年行动计划》，提出 2020 年底前，淘汰京津冀及周边地区、汾渭平原的国三及以下排放标准营运中型和重型柴油货车 100 万辆以上。随着环保政策持续趋严，国三重卡淘汰进程加快，我们预期 19 年约有 60-70 万台重卡替换需求。

现金流健康。由于重卡销售向好，应收账款周转率提高，公司经营现金流自 16 年起明显改善。同时，随着供给侧改革加快，我们认为公司不会大幅提高 18 年资本化开支水平。我们预期公司自由现金流将由 17 年 25 亿升至 18 年 52 亿人民币。我们预期公司将保持 50% 派息比例，目前股价对应 7% 息率。

维持买入评级。我们维持 18 年 EPS 人民币 1.33 元（同比增长 22.0%），19 年 EPS 人民币 1.47 元（同比增长 10.5%），20 年 EPS 人民币 1.62 元（同比增长 10.2%）。我们维持目标价至港币 13.30 元，鉴于 28% 上升空间，维持买入评级。

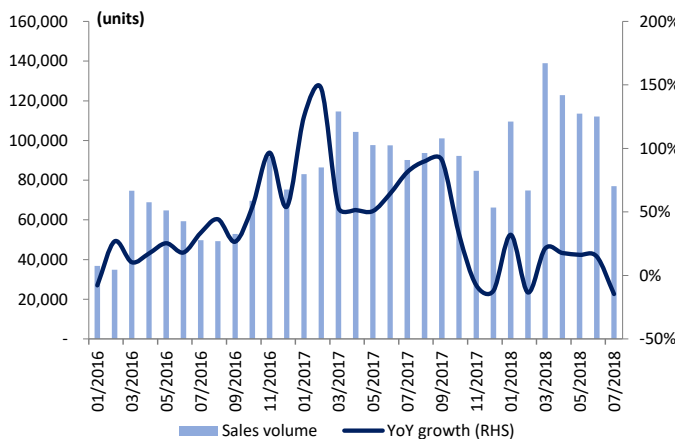
Policy support

We expect Sinotruk Hong Kong to achieve 1H18E revenue of Rmb33bn (+25.0% YoY) and net profit of Rmb2.1bn (+50.0% YoY), mainly driven by solid heavy-duty truck (HDT) sales and effective cost control. We forecast weaker HDT sales in 3Q18E, but solid replacement demand in 19E, backed by strict environmental protection policies.

Weak season in 3Q18. We expect the company to record HDT sales of 86k units in 1H18E (+15% YoY), with market share increasing from 14% in 17A to 16.4% in 1H18E. We believe HDT sales growth will be driven by solid replacement demand for construction HDTs and strong exports. We note demand for construction HDTs was robust in the beginning of the year, while HDT orders have declined since July, mainly due to the weak season for construction and infrastructure investment in 3Q18. According to *cvworld.cn*, HDT sales decreased 15% YoY in July, and we expect them to further decline in August. However, given a low-base effect, we expect HDT sales growth to pick up in 4Q18E. We maintain our total HDT sales forecast of 1.14m units in 18E (+2.7% YoY). We expect the company to book HDT sales volume of 168k units in 18E (+7.5% YoY), backed by replacement demand for low-emission vehicles and recovering overseas markets.

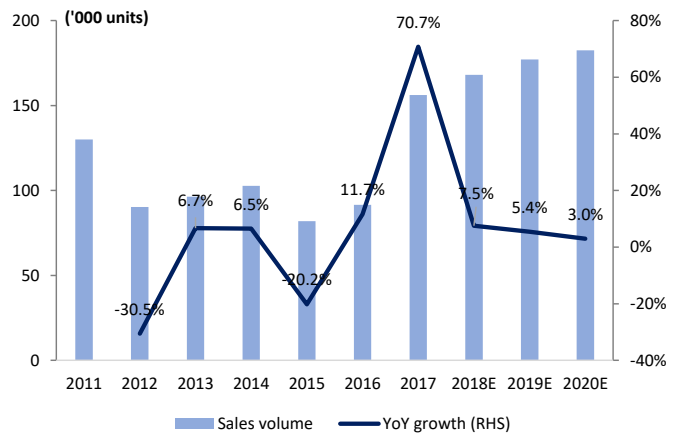
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Fig 1: China's HDT sales



Source: CAAM, SWS Research

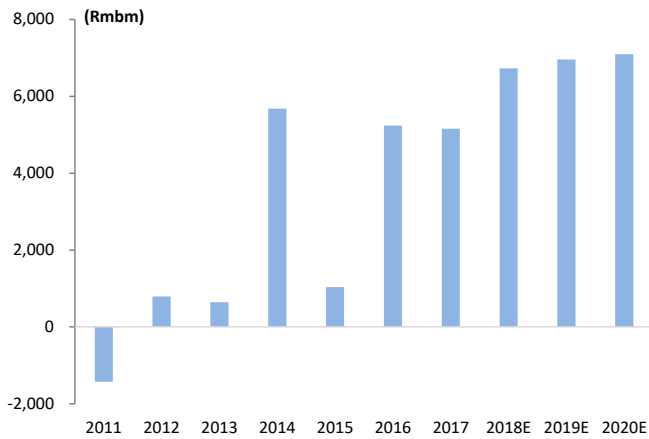
Fig 2: Sinotruk's HDT sales forecast



Source: Company data, SWS Research

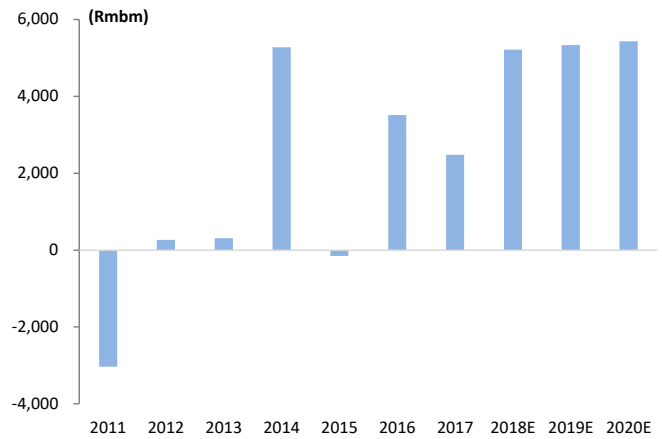
Healthy cash flows. We note the firm's rapidly expanding operating cash flow since 16A, on the back of significant revenue growth and improving receivables turnover. Given supply-side reforms in a cyclical sector, we expect the company to report limited Capex and stable cash flow from investing activities in 18E. We forecast free cash flow to increase from Rmb2.5bn in 17A to Rmb5.2bn in 18E. We expect the firm's dividend payout ratio and dividend yield to remain stable at c.50% and 7% in 18E, respectively.

Fig 3: Sinotruk's operating cash flow



Source: Company, SWS Research

Fig 4: Sinotruk's free cash flow

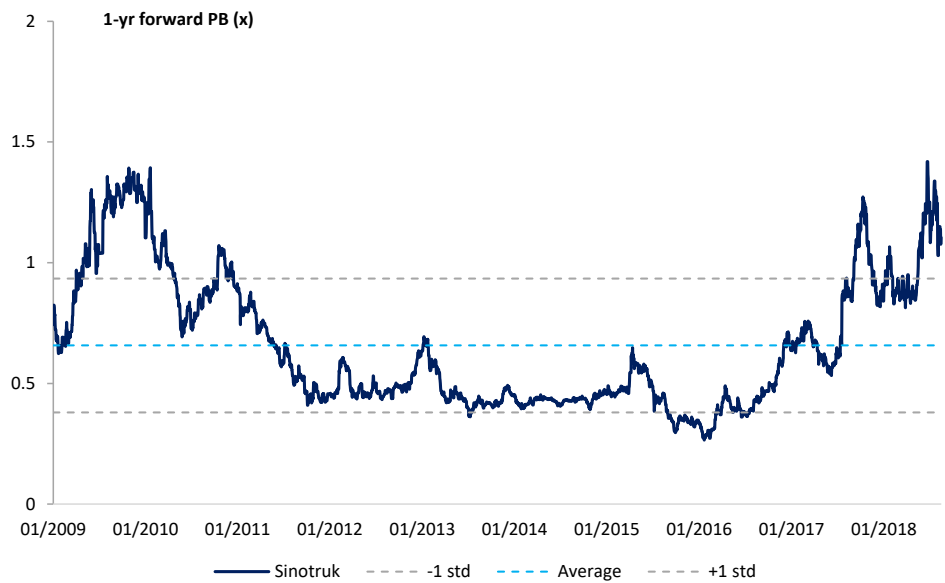


Source: Company data, SWS Research

Valuation

We forecast weaker HDT sales in 3Q18E, but solid replacement demand in 19E, backed by strict environmental protection policies. We maintain our EPS forecasts of Rmb1.33 in 18E (+22.0% YoY), Rmb1.47 in 19E (+10.5% YoY), and Rmb1.62 in 20E (+10.2% YoY). Our target price is unchanged at HK\$13.30, representing 9x 18E PE. With 28.1% upside, we maintain our BUY recommendation.

Fig 5: Forward PE ratio



Source: Bloomberg, SWS Research

Appendix

Consolidated Income Statement

Rmbm	2016	2017	2018E	2019E	2020E
Revenue	32,959	55,458	66,796	72,036	74,671
Cost of Sales	(27,141)	(45,430)	(54,580)	(58,796)	(60,740)
Gross Profit	5,818	10,028	12,216	13,240	13,931
Other Income	335	424	424	424	424
Distribution expenses	(2,395)	(3,229)	(3,758)	(4,023)	(4,107)
Administrative expenses	(2,586)	(2,952)	(3,567)	(3,847)	(3,947)
EBITDA	2,558	5,593	6,680	7,203	6,301
EBIT	1,172	4,272	5,315	5,795	6,301
Finance Costs	(251)	(262)	(198)	(152)	(104)
Profit before tax	922	4,055	5,117	5,643	6,197
Income tax expense	(259)	(720)	(1,023)	(1,129)	(1,239)
Minority interests	131	313	409	451	496
Equity holders of the parent	532	3,023	3,684	4,063	4,462

Source: Company data, SWS Research

Consolidated Cash Flow Statement

Rmbm	2016	2017	2018E	2019E	2020E
Profit before taxation	922	4,055	5,117	5,643	6,197
Plus: Depr. and amortisation	1,385	1,248	1,321	1,364	1,408
Finance cost	345	247	303	273	246
Losses from investments	0	0	0	0	0
Change in working capital	3,065	495	1,312	1,092	763
Others	(537)	(985)	(1,327)	(1,401)	(1,485)
CF from operating activities	5,238	5,155	6,729	6,956	7,095
Capex	(362)	(871)	(1,536)	(1,657)	(1,717)
Other CF from investing activities	(1,366)	(1,806)	23	34	51
CF from investing activities	(1,728)	(2,677)	(1,514)	(1,623)	(1,666)
Equity financing	0	0	0	0	0
Net change in liabilities	(1,167)	548	(399)	(359)	(323)
Dividend and interest paid	(109)	(255)	(1,842)	(2,031)	(2,231)
Other CF from financing activities	(40)	(7)	0	0	0
CF from financing activities	(1,316)	286	(2,241)	(2,390)	(2,554)
Net cash flow	2,194	2,764	2,974	2,943	2,874

Source: Company data, SWS Research

Consolidated Balance Sheet

Rmbm	2016	2017	2018E	2019E	2020E
Current Assets	33,808	44,411	51,807	57,695	62,111
Bank balances and cash	7,171	12,417	12,814	15,758	18,632
Trade and other receivables	14,030	15,151	21,395	23,602	24,940
Inventories	8,372	13,246	14,001	14,739	14,942
Other current assets	2,558	1,135	1,135	1,135	1,135
Long-term investment	1,652	1,650	1,733	1,819	1,910
PP&E	10,165	9,938	10,805	11,098	11,407
Intangible and other assets	3,861	5,185	5,843	6,047	6,262
Total Assets	49,485	61,183	70,187	76,659	81,690
Current Liabilities	26,771	35,325	42,455	46,539	49,082
Borrowings	4,512	3,990	3,591	3,232	2,909
Trade and other payables	20,811	28,546	36,004	40,249	43,033
Other current liabilities	1,449	2,790	2,860	3,058	3,140
Long-term liabilities	375	427	427	427	427
Total Liabilities	27,146	35,752	42,882	46,965	49,508
Minority Interests	2,427	2,673	2,706	3,063	3,319
Shareholder Equity	22,339	25,431	27,306	29,694	32,181
Share Capital	16,717	16,717	16,717	16,717	16,717
Reserves	3,195	6,040	7,883	9,914	12,145
Total Equity	19,912	22,757	24,600	26,631	28,862
Total Liabilities and equity	49,485	61,183	70,187	76,659	81,690

Source: Company data, SWS Research

Key Financial Ratios

	2016	2017	2018E	2019E	2020E
Ratios per share (HK\$)					
Earnings per share	0.19	1.09	1.33	1.47	1.62
Diluted EPS	0.19	1.09	1.33	1.47	1.62
Operating CF per share	1.90	1.87	2.44	2.52	2.57
Dividend per share	0.06	0.56	0.67	0.74	0.81
Net assets per share	8.09	9.21	9.89	10.75	11.66
Key Operating Ratios (%)					
ROIC	3.45	13.14	15.08	15.52	15.87
ROE	2.38	11.89	13.49	13.68	13.87
Gross profit margin	17.65	18.08	18.29	18.38	18.66
Ebitda Margin	7.76	10.08	10.00	10.00	8.44
Ebit Margin	3.56	7.70	7.96	8.04	8.44
Growth rate of Revenue(YoY)	16.44	68.26	20.45	7.84	3.66
Growth rate of Profit(YoY)	104.93	403.28	22.72	10.27	9.83
Debt-to-asset ratio	54.86	58.44	61.10	61.27	60.61
Turnover rate of net assets	1.48	2.18	2.45	2.43	2.32
Turnover rate of total assets	0.67	0.91	0.95	0.94	0.91
Effective tax rate (%)	28.08	17.74	20.00	20.00	20.00
Dividend yield (%)	0.71	6.20	7.39	8.15	8.95
Valuation Ratios (x)					
P/E	46.9	8.2	6.8	6.1	5.6
P/B	1.1	1.0	0.9	0.8	0.8
EV/Sale	0.9	0.6	0.5	0.4	0.4
EV/EBITDA	12.2	5.6	4.7	4.3	5.0

Source: Company data, SWS Research

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Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight: Industry performs better than that of the whole market;

Equal weight: Industry performs about the same as that of the whole market;

Underweight: Industry performs worse than that of the whole market.

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HSCEI is the benchmark employed in this report.

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