



Rating
Hold

Asia
China

Automobiles & Components

Company
Sinotruk (Hong Kong)

Reuters	Bloomberg	Exchange	Ticker
3808.HK	3808 HK	HSI	3808

Date
18 September 2018

Breaking News

Price at 18 Sep 2018 (HKD)	15.24
Price target - 12mth (HKD)	11.25
52-week range (HKD)	15.30 - 7.83
HANG SENG INDEX	26,933

Deeper cooperation with its strategic shareholder

Setting up a new MAN JV besides other technology cooperation

On 18 September, Traton Group, the commercial vehicle arm of Volkswagen Group (VOWG.DE, EUR142.2, Buy) announced that its MAN brand, which owns 25% plus one share of Sinotruk, will have further cooperation with Sinotruk. The core of the increased cooperation is a new JV between MAN and Sinotruk to localize the former's heavy-duty truck (HDT) product in China. Apart from that, the two parties will evaluate addition cooperation in technologies, e.g. powertrain, electrification, autonomous driving and buses. In the announcement, there is no further details about the additional tie-up, such as the JV structure, investment amount, and timing.

Deutsche Bank view - likely to be a positive move

At the moment, Sinotruk has been selling the Sitrak series trucks incorporating MAN technologies. These products have been successful and helped Sinotruk to improve its HDT sales mix. Besides, Sinotruk also sells engines with MAN technologies to third-party OEMs. While the details on further cooperation have not been disclosed and we cannot quantify the financial implications, the extra tie-up should be considered positive, in our view, given additional advanced products and technologies. This is not to mention the possible extra synergies with Weichai Power (2338.HK, HKD9.05, Hold), whose Chairman Mr. Tan now also leads Sinotruk's parent. One long-term risk, however, is the cannibalization of Sinotruk's own sales by the new JV, of which Sinotruk will not have full ownership.

We have a Hold rating on Sinotruk. Although we think that the enlarged light-duty truck business could help the company to mitigate the downside from an HDT downcycle, and that the potential Weichai tie-up would help to support market sentiment, we think the company's share price is fairly valued. Key upside risks for Sinotruk are stronger-than-expected HDT sales and business consolidation; key downside risks include: 1) weaker-than-expected demand for trucks; 2) a slower-than-expected contribution from HDTs using MAN's technology; and 3) an inability to recover margins.

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	47.4	14.9	46.3
HANG SENG INDEX	-1.0	-11.1	-4.4

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	14.1
Net debt/equity (%)	-25.9
Book value/share (CNY)	8.89
Price/book (x)	1.5
Net interest cover (x)	33.3
Operating profit margin (%)	8.1

Source: Deutsche Bank



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Sinotruk (Hong Kong)	3808.HK	15.24 (HKD) 18 Sep 2018	NA

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Historical recommendations and target price. Sinotruk (Hong Kong) (3808.HK)

(as of 09/18/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

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1.	11/27/2015	Hold, Target Price Change HKD 3.30	Vincent Ha, CFA	6.	07/19/2017	Hold, Target Price Change HKD 7.20	Fei Sun, CFA**
2.	06/01/2016	Hold, Target Price Change HKD 3.70	Fei Sun, CFA**	7.	12/01/2017	Hold, Target Price Change HKD 8.40	Fei Sun, CFA**
3.	08/08/2016	Hold, Target Price Change HKD 3.80	Vincent Ha, CFA	8.	03/15/2018	Hold, Target Price Change HKD 10.00	Vincent Ha, CFA
4.	11/24/2016	Hold, Target Price Change HKD 4.60	Vincent Ha, CFA	9.	03/26/2018	Hold, Target Price Change HKD 10.25	Vincent Ha, CFA
5.	03/30/2017	Hold, Target Price Change HKD 5.20	Fei Sun, CFA**	10.	07/05/2018	Hold, Target Price Change HKD 11.25	Vincent Ha, CFA

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Equity Rating Key

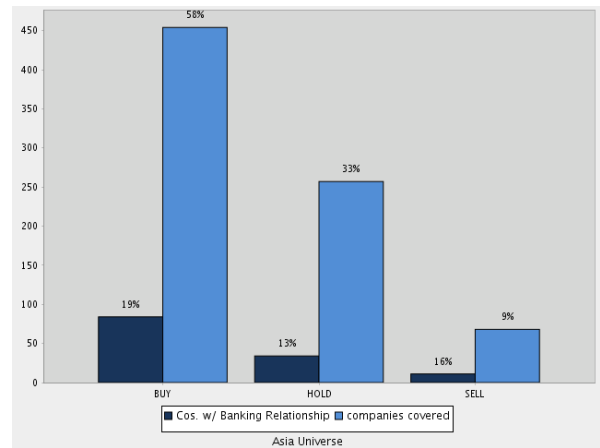
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Equity rating dispersion and banking relationships



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