

# **China Yuchai International Limited (CYD) Q2 2024 Earnings Call Transcript**

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**Body**

China Yuchai International Limited (CYD)

Q2 2024 Earnings Conference Call

August 12, 2024 08:00 AM ET

Company Participants

Kevin Theiss - Head, Investor Relations

Weng Ming Hoh - President

Choon Sen Loo - Chief Financial Officer

Conference Call Participants

Gary Nash - Nash Consulting

Presentation

Operator

Good day, and thank you for standing by. Welcome to the China Yuchai International Limited First Half 2024 Financial Results Conference call. At this time, all participants are in a listen-only mode. After the speaker's presentation there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would like to now turn the conference over to Kevin Theiss. Please go ahead, sir.

Kevin Theiss

Thank you for joining us today and welcome to China Yuchai International Limited's conference call and webcast for the first six months of 2024 ended on June 30th, 2024.

Joining us today are Mr. Weng Ming Hoh; and Mr. Choon Sen Loo, President and Chief Financial Officer of CYI, respectively. In addition, we also have in attendance Mr. Kelvin Lai, General Manager of Operations of CYI.

Before we begin, I will remind all listeners that throughout this call, we may make statements that may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words believe, expect, anticipate, project, targets, optimistic, confident that, continue to, predict, intend, aim, will, or similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact are statements that may be deemed forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the company's operation and financial performance and condition, and are based on current expectations, beliefs, and assumptions, which are subject to change at any time. The company cautions that these statements by their nature involve risk and uncertainties, and actual results may differ materially depending on a variety of important factors, such as government and stock exchange regulations, competition, political and economic and social conditions around the world and in China, including those discussed in the company's Form 20Fs under the headings, Risk Factors, Results of Operations and Business Overview and other reports filed with the Securities and Exchange Commission from time to time. All forward-looking statements are applicable only as of the date they are made and the company specifically disclaims any obligation to maintain or update the forward-looking information, whether of the nature contained in this release made towards today's call or otherwise in the future.

Mr. Hoh will provide a brief overview and summary, then Mr. Loo will review the financial results for the first-half year ended June 30, 2024. Thereafter, we will conduct a question-and-answer session. For the purposes of today's call, the 2024 and 2023 first-half year financial numbers are unaudited and they will be presented in RMB and U.S. dollars. All the financial information presented is reported using the International Financial Reporting Standards as issued by the International Accounting Standards Board.

Mr Hoh, please begin your prepared remarks.

Weng Ming Hoh

Thank you, Kevin. We are pleased to report higher revenue, operating profits, and highed earnings to share in the first half of 2024 compared with the same period last year.

Sales grew by 12.4% on a 16.3% increase in unit sales on a year-over-year basis. We achieve engine unit sales growth in every market category except pickups, which is a small portion of our sales. Combined unit sales of our engines in the truck and bus market grows by 32.8% year-over-year compared with data from China Association of Automobile Manufacturers, CAAM, showing truck and bus vehicle sales growth of 4.4% year-over-year. Our unit sales in the important truck engine market grew by 35.6% year-over-year compared to an increase of 3.7% for truck vehicle sales according to CAAM data.

Our heavy-duty truck engine sales grew by 32.9% year-over-year compared with a 0.3% increase in the CAAM heavy truck vehicle sales in the first half of 2024. And our medium duty truck engine sales grew faster than CAAM medium-duty truck vehicle sales with a year-over-year increase of 33.1% compared to [17.4%] (ph). Likewise, our light duty truck engines sales also exceeded the CAAM vehicle sales growth growing by 45.6% compared to 5.4% year-over-year in the first half of 2024.

Similarly, our bus engine sales in the heavy, medium, light and light duty market segments witnessed a year-over-year growth of 40.3%, 32% and 28.2%, respectively in the first half of 2024. Our engine sales in the off-road markets exceeded 104,000 units for the first half of 2024, representing a 6.4% year-on-year growth. These sales were led by a 13.1% increase in engine sales in the industrial segment compared to the same period last year.

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Marine and generator engine unit sales increased by 5.3% with higher demand from data centers. New energy product unit sales grew by 19.9% year-over-year from a small base from this emerging product. These notable results were achieved despite slower economic growth in China. According to the National Bureau of Statistics, Chinses GDP increased by 5% year-over-year in the first six months of 2024. However, 2024 second quarter GDP growth declined to 4.7%, compared with an estimate 5.1% growth and down from the 5.3% growth in the first quarter of 2024.

While the Chinese economy grew in the first half of 2024, growth was uneven in different market segments. Equipment manufacturing increased by 7.8% and high-tech manufacturing increased by 8.7% for a select segment of industrial enterprises. The total value of export rose by 6.9% year-on-year for the first half of 2024. However, property investment fell 10.1% and home sales by floor area fell 19% in the first half of 2024 from the year-earlier similar period.

In the first half of 2024, our total R&D expenditure, including capitalized cost were RMB463.2 million, or US$65 million, compared to RMB455.2 million in the first half of 2023. We continue to improve the quality and performance of our National VI and Tier 4 engines, even as we have initiated the development of the next-generation emission- standard engines for on-road and off-road engine market. In addition, the continuing development of new energy products, including products using alternative fuels, remains as a high priority. We have established a track record of introducing new energy power trains, including two hydrogen-fired engines with using renewable hydrogen, an off-gas power generation system, and a production plant which utilizes off-gas discharges to generate power and eliminate greenhouse gas emissions and the new model YCA07N hybrid engine, which was chosen to power 10-meter gas-electric hybrid buses in Nanjing.

In the first half of 2024, new energy applications include the first 50 Suzhou King-Long 12 meter buses using our hydrogen fuel cell commence of commercial operations and the launch of QT700-10 turbine fan-made shaft to improve wind power performance to reduce carbon emissions. As a result of this innovative achievement while [indiscernible] on Yuchai, our main operating subsidiary in China, was appointed as a committee member of the Neo-Hydrogen Combustion Engine Innovation Consortium Division of the China Internal Combustion Engine Society. The consortium will lead the development of hydrogen combustion engines for applications in the automobile, power generation, marine, and industrial and agricultural industries among other applications.

To encourage improved performance, equity incentive plans have been implemented by our subsidiaries. Selected senior leaders and key employees of Yuchai and its subsidiaries acquire indirectly their respective portions of the enlarge with interest of Guangxi Yuchai Marine and Genset Power Company Limited, or MPG, to better align their interest with the success of this organization. These incentives for selected participants are important to motivate them for their continued contributions, dedication, and loyalty for long-term growth.

In early June, the company adopted a share buyback plan whereby the company may repurchase its ordinary shares up to US$20 million amount or 4 million in the number whichever occurs first. China Yuchai may repurchase shares on the open market at prevailing market prices in privately negotiated transactions or by other legally permissible means. Share repurchases will be financed through operating cash flow and existing cash balances. In addition, the company has declared a cash dividend of US$0.38 for ordinary shares for shareholders off-record as of the closed offices on August 19, 2024 to be paid on August 28, 2024. This share re-purchaser and dividend distribution reward demonstrates our commitment to shareholder value.

With that, I would now like to turn the call over to Choon Sen Loo, our Chief Financial Officer, who will provide more details on the financial results. Choon Sen, you may begin your remarks.

Choon Sen Loo

Thank you, Weng Ming. Now let me review our un-audited six month results entered June 30, 2024. Revenue were RMB10.3 billion or US$1.4 billion compared with RMB9.2 billion in first half 2023. The total number of engines sold by Yuchai in first half 2024 increased by 16.3% to 192,743 units compared with 165,793 units in the first half of 2023. The increase was mainly driven by a 35.6% increase in truck engine sales, with heavy duty truck engine sales up by 32.9%. Additionally, bus engine sales rose by 21.7%, and engine sales for industrial applications increased by 13.1%. Sales increased in all product territories except pickups.

According to data reported by the China Association of Automobile Manufacturers, CAAM, in first half 2024, commercial vehicle unit sales, excluding gasoline-powered and electric-powered vehicles, increased by 4.4% compared to first half 2023 as truck and bus sales increased by 3.7% and 9%, respectively.

Gross profit was up by 16.8% to RMB1.7 billion or US$242.9 million from RMB1.5 billion in first half 2023. Gross margin grew to 16.8% as compared with 16.2% in first half 2023. The increases in gross profit and gross margin were mainly attributable to higher engine sales, especially sales of heavy-duty vehicle engines and industrial engines, and contributions from ongoing cost reduction efforts.

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Other operating income increased by 27.8% to RMB174.1 million or US$24.4 million, compared with RMB136.2 million in first half 2023. The increase was mainly due to government grants as the government's rebate on value-added tax.

Research and development, R&D, expenses decreased by 3.1% to RMB393.6 million or US$55.2 million, compared with RMB406 million in first half 2023. The company continues to invest in research and development for on-road engines in the commercial vehicle markets and off-road engines as well as new energy products. Total R&D expenditures, including capitalized costs, were RMB463.2 million or US$65.0 million, representing 4.5% of revenue in first half 2024, as compared to RMB465.2 million, or 5.1% of revenue, in first half 2023.

Selling, general and administrative, SG&A, expenses increased by 30.3% to RMB1.1 billion or US$150.8 million from RMB824.7 million in first half 2023. The increase was mainly due to higher warranty expenses, and higher warranty provision for personnel costs compared with the same period last year. SG&A expenses represented 10.4% of revenue for first half 2024 compared with 9% in first half 2023.

Operating profit increased by 12.7% to RMB436.9 million or US$61.3 million, from RMB387.7 million in first half 2023. The operating margin remained steady at 4.2% in both periods. Finance costs declined by 23.7% to RMB40.9 million or US$5.7 million, from RMB53.6 million in first half 2023, mainly due to lower bills discounting.

The share of financial results of the associates and joint ventures achieved a 45.4% increase in profit to RMB43.1 million or US$6.0 million, compared with a profit of RMB29.6 million in first half 2023. The improvement was primarily contributed by higher profits at MTU Yuchai Power Company Limited.

Income tax expense decreased by 7.4% to RMB102.4 million or US$14.4 million, as compared with RMB110.6 million in first half 2023. Net profit attributable to equity holders of the company increased by 34.7% to RMB240.3 million or US$33.7 million, compared with RMB178.4 million in first half 2023. Basic and diluted earnings per share were RMB5.88 or US$0.83, compared with RMB4.37 in first half 2023. Basic and diluted earnings per share for 1H 2024 and 1H 2023 were based on a weighted average of 40,858,290 shares.

Now we will go through our balance sheet highlights as of June 30, 2024. Cash and bank balances were RMB6.3 billion or US$890 million, compared with RMB6.0 billion at the end of FY 2023. Trade and bills receivables were RMB10.2 billion or US$1.4 billion, compared with RMB7.8 billion at the end of financial year 2023. Inventories were RMB4.6 billion or US$640.2 million compared with RMB4.6 billion at the end of financial year 2023. Trade and bills payables were RMB8.6 billion or US$1.2 billion, compared with RMB7.6 billion at the end of financial year 2023. Short-term and long-term loans and borrowings were RMB2.8 billion or US$390.6 million, compared with RMB2.5 billion at the end of financial year 2023.

I will now turn the call over to Kevin for a comment for Q&A session.

Kevin Theiss

Please note, some Officers of China Yuchai are remotely calling into the conference call. This may result in a slight delay in providing answers to some questions. We apologize for any inconvenience, and thank you for your patience.

With that, operator, we are ready to begin the Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And the first question comes from the line of Gary Nash from Nash Consulting. Please go ahead. Your line is now open.

Gary Nash

Thank you. First, good evening, good morning, where appropriate to everyone. I guess my question is, how much is your 2024 capital expenditures? And in which products or areas are you investing?

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Weng Ming Hoh

Okay. In 2024, we are investing in few areas. Firstly, I think it is the power generation. There is quite a good demand, especially for standby power generation [indiscernible] for the data centers application. And the demand is actually quite strong, so that's why we're increasing our capacity in that area. We're also investing in the wind turbine main shaft which is a new area that we are getting into. And the other area of investment is in the new energy cell.

Gary Nash

Thank you.

Operator

Thank you. We will now take our next question. Please stand by. And the next question comes from the line of [Jessica Lynn] (ph). Please go ahead, your line is now open.

Unidentified Analyst

Hello, good morning.

Weng Ming Hoh

Hi.

Unidentified Analyst

Hello. My question is, how many of the shares has the company purchased under the buyback plan that was announced in June?

Weng Ming Hoh

We have purchased more than more than half of our target, so close to about 2.7 million. And the last part of it is from the aftermath.

Unidentified Analyst

Perfect. Thank you.

Operator

Thank you. As there are no further questions on the phone line, I would now like to hand back to the room for any questions on the webcast. We have now reached the end of our Q&A session. I would now like to turn the call back over to Mr. Hoh.

Weng Ming Hoh

Thank you all for participating in our conference call. We wish each of you a good health and look forward to speaking with you again. So goodbye for now.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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