

CIMC Vehicles (Group) (1839 HK)

Weakness in overseas sales inevitable; China demand improving

We revised down CIMC Vehicles 2019E-21E earnings forecast by 8-13% after lowering our sales volume assumptions in the overseas market. Accordingly, we trimmed our TP from HK\$6.9 to HK\$6.6 after rolling over the valuation base to 2020, based on unchanged 5x EV/EBITDA. On the positive side, we expect the improving construction activities in 2Q20E will drive the Company's sales of truck bodies. Besides, higher requirement on hygiene standard following COVID-19 will likely drive the demand for dry van trailers in China in future, which is positive to CIMC Vehicles.

- **Lower forecast on overseas sales.** CIMC Vehicles generated 24%/11%/5% revenue in North America/Europe/other overseas regions in 1H19. CIMC Vehicles chassis sales volume in US suffered from the trade war in 2019 and we expect the sales volume to drop 50% YoY, though partially offset by an increase in refrigerated trailers. This year, the pandemic of COVID-19 will likely exert further pressure on the logistic demand in both the US and Europe, thereby reducing the demand for trailers. We forecast revenue from the US to drop 19% / 3% in 2019E/20E. For Europe, we forecast a 3% revenue decline this year.
- **Higher visibility in China market.** China accounted for 60% of total revenue in 1H19. China market is much more resilient compared with the overseas at present, given that COVID-19 is better contained. We expect both trailers and truck bodies (such as dump beds and mixers for construction trucks) to see recovery in 2Q20E. For trailers, CIMC Vehicles is boosting the sales of dry van trailers, which is expected to benefit from higher requirement on hygiene standard. Besides, the Company is expanding into light duty trucks (LDT) in order to capture the demand for final mile delivery. We expect all these will help improve the product mix and drive sustainable growth.
- **Lower steel price to ease cost pressure.** Raw materials and consumables account for 90% of the Company's cost of sales, with steel the major component. China medium steel plate has been on a downtrend since 2Q19, with the latest price down 10% already. We believe this has helped alleviate the margin pressure.
- **Solid balance sheet to withstand market turmoil.** With a solid balance sheet (net cash of ~RMB630mn in Jun 2019) and capability of generating strong operating cash flow, CIMC Vehicles is able to withstand any unexpected economic downturn. We do not expect cash flow problems for the Company.
- **Major risk factors:** (1) Slowdown of global economic growth due to COVID-19; (2) trade disputes; (3) unexpected increase in component cost.

Earnings Table

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	19,367	24,168	24,259	24,892	25,810
YoY growth (%)	33.1	24.8	0.4	2.6	3.7
Net income (RMB mn)	964	1,143	1,295	1,330	1,428
EPS (RMB)	0.64	0.76	0.78	0.74	0.79
YoY growth (%)	32.1	18.5	2.9	-6.0	7.4
Consensus EPS (RMB)	-	-	-	-	-
EV/EBITDA (x)	5.3	4.4	4.1	4.0	3.8
P/E (x)	7.2	6.0	6.1	6.5	6.1
P/B (x)	1.0	0.9	0.9	0.8	0.7
Yield (%)	16.3	4.2	4.9	4.6	5.0
ROE (%)	14.4	16.2	15.2	13.2	12.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$6.60
(Previous TP)	HK\$6.90
Up/Downside	+24%
Current Price	HK\$5.34

China Capital Goods

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Stock Data

Mkt Cap (HK\$ mn)	9,425
Avg 3 mths t/o (HK\$ mn)	9
52w High/Low (HK\$)	6.6/4.0
Total Issued Shares (mn)	1,805

Source: Bloomberg

Shareholding Structure

CIMC Group	52.64%
Ping An Group	22.94%
Others	24.43%

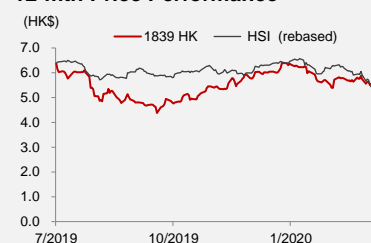
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.3%	+13.2%
3-mth	-11.2%	+11.0%
6-mth	+13.2%	+35.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

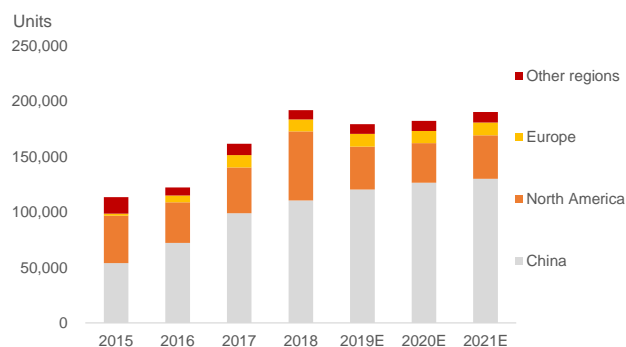
Recent report:

1. China Construction Machinery Sector – Focus on China infrastructure names amid volatile market – 16 Mar 2020
2. China Construction Machinery Sector - Scenario analysis on the resumption of factory production – 10 Feb 2020
3. CIMC Vehicles (1839 HK, BUY) – World's largest semi-trailer manufacturer – 14 Aug 2019

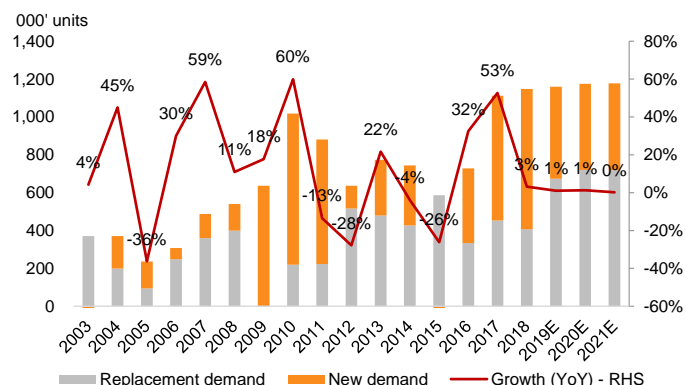
Figure 1: Change in key assumptions

	2019E	Old 2020E	2021E	2019E	New 2020E	2021E	2019E	Change 2020E	2021E
(RMB mn)									
Revenue breakdown by product									
China									
Sales of vehicles (1+2+3+4)	14,185	15,174	15,455	14,185	15,017	15,372	0.0%	-1.0%	-0.5%
(1) Semi-trailers	4,618	4,727	4,821	4,618	4,671	4,784	0.0%	-1.2%	-0.8%
Chassis and flatbed trailers	1,430	1,387	1,373	1,430	1,387	1,387	0.0%	0.0%	1.0%
Fence trailers	792	768	761	792	768	768	0.0%	0.0%	1.0%
Tank trailers	1,893	2,069	2,185	1,893	2,011	2,120	0.0%	-2.8%	-3.0%
- Liquid tank trailers	915	915	915	915	915	915	0.0%	0.0%	0.0%
- Dry bulk tank trailers	979	1,155	1,270	979	1,096	1,206	0.0%	-5.1%	-5.1%
Van trailers	141	141	141	141	144	147	0.0%	2.0%	4.0%
Others (low flatbed trailers & car carrier semi-trailers)	361	361	361	361	361	361	0.0%	0.0%	0.0%
(2) Center-axle car carriers	573	579	579	573	579	579	0.0%	0.0%	0.0%
(3) Truck bodies	5,616	6,253	6,368	5,616	6,153	6,322	0.0%	-1.6%	-0.7%
Dump beds for dump trucks	2,515	2,792	2,836	2,515	2,691	2,734	0.0%	-3.6%	-3.6%
Mixers for mixer trucks	2,534	2,838	2,896	2,534	2,838	2,953	0.0%	0.0%	1.9%
Others (truck bodies for sanitation trucks & refrigerated vans)	567	624	636	567	624	636	0.0%	0.0%	0.0%
(4) Tractor units and truck chassis	3,378	3,615	3,687	3,378	3,615	3,687	0.0%	0.0%	0.0%
Sales of parts and components	705	740	763	705	740	763	0.0%	0.0%	0.0%
Others	286	344	361	286	344	361	0.0%	0.0%	0.0%
Total (China)	15,177	16,258	16,579	15,177	16,102	16,496	0.0%	-1.0%	-0.5%
North America									
Sales of vehicles	6,121	6,544	6,707	4,818	4,557	4,880	-21.3%	-30.4%	-27.2%
Chassis trailers	2,932	2,961	3,066	1,552	1,397	1,515	-47.1%	-52.8%	-50.6%
Dry van trailers	2,170	2,431	2,410	2,114	2,008	2,088	-2.6%	-17.4%	-13.4%
Refrigerated trailers	1,020	1,152	1,230	1,153	1,153	1,276	13.0%	0.0%	3.7%
Sales of parts and components	542	569	586	527	537	559	-2.8%	-5.6%	-4.6%
Total (North America)	6,663	7,113	7,293	5,345	5,095	5,438	-19.8%	-28.4%	-25.4%
Europe									
Sales of vehicles	2,045	2,152	2,202	2,045	1,948	2,059	0.0%	-9.5%	-6.5%
Chassis and flatbed trailers	688	736	744	688	654	686	0.0%	-11.2%	-7.7%
Curtain-side trailers	571	583	588	571	543	570	0.0%	-6.9%	-3.2%
Tank trailers	355	381	395	355	342	364	0.0%	-10.2%	-7.7%
- Liquid tank trailers	179	179	181	179	170	175	0.0%	-5.0%	-3.1%
- Dry bulk trailers	176	202	214	176	172	190	0.0%	-14.8%	-11.6%
Others	431	453	475	431	410	438	0.0%	-9.5%	-7.8%
Sales of parts and components	331	348	365	331	348	365	0.0%	0.0%	0.0%
Others	138	139	141	138	139	141	0.0%	0.0%	0.0%
Total (Europe)	2,514	2,640	2,708	2,514	2,435	2,565	0.0%	-7.7%	-5.3%
Other regions									
Sales of vehicles	1,199	1,247	1,284	1,199	1,235	1,284	0.0%	-1.0%	0.0%
Sales of parts and components	14	15	15	14	15	15	0.0%	0.0%	0.0%
Others	10	11	11	10	11	11	0.0%	0.0%	0.0%
Total (other regions)	1,224	1,273	1,311	1,224	1,261	1,311	0.0%	-0.9%	0.0%
Total revenue	25,577	27,283	27,891	24,259	24,892	25,810	-5.2%	-8.8%	-7.5%
Gross margin									
China									
Sales of vehicles (1+2+3+4)	11.2%	11.3%	11.2%	11.2%	11.3%	11.2%	0.0	(0.0)	(0.0)
(1) Semi-trailers	9.8%	9.9%	9.6%	9.8%	9.9%	9.6%	0.0	(0.0)	0.0
Chassis and flatbed trailers	9.4%	9.3%	9.0%	9.4%	9.3%	9.0%	0.0	0.0	0.0
Fence trailers	12.4%	12.3%	12.2%	12.4%	12.3%	12.2%	0.0	0.0	0.0
Tank trailers	9.5%	9.8%	9.6%	9.5%	9.8%	9.6%	0.0	(0.0)	(0.0)
- Liquid tank trailers	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	0.0	0.0	0.0
- Dry bulk tank trailers	10.0%	10.5%	10.0%	10.0%	10.5%	10.0%	0.0	0.0	0.0
Van trailers	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	0.0	0.0	0.0
Others (low flatbed trailers & car carrier semi-trailers)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	0.0	0.0	0.0
(2) Center-axle car carriers	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	0.0	0.0	0.0
(3) Truck bodies	18.6%	18.6%	18.3%	18.6%	18.6%	18.3%	0.0	0.0	0.0
Dump beds for dump trucks	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	0.0	0.0	0.0
Mixers for mixer trucks	19.0%	19.0%	18.5%	19.0%	19.0%	18.5%	0.0	0.0	0.0
Others (truck bodies for sanitation trucks & refrigerated vans)	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	0.0	0.0	0.0
(4) Tractor units and truck chassis	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.0	0.0	0.0
Sales of parts and components	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	0.0	0.0	0.0
Others	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	0.0	0.0	0.0
Average (China)	13.2%	13.4%	13.3%	13.2%	13.4%	13.3%	0.0	(0.0)	(0.0)
North America									
Sales of vehicles	14.6%	13.9%	14.1%	13.6%	13.0%	13.3%	(1.1)	(1.0)	(0.7)
Chassis trailers	18.5%	17.8%	17.8%	18.2%	17.3%	17.8%	(0.3)	(0.5)	0.0
Dry van trailers	8.0%	7.8%	7.8%	8.0%	7.8%	7.8%	0.0	0.0	0.0
Refrigerated trailers	17.5%	17.0%	17.0%	17.5%	16.8%	17.0%	0.0	(0.2)	0.0
Sales of parts and components	10.0%	10.0%	10.0%	10.0%	9.7%	10.0%	0.0	(0.3)	0.0
Average (North America)	14.2%	13.6%	13.7%	13.2%	12.6%	13.0%	(1.0)	(1.0)	(0.8)
Europe									
Sales of vehicles	10.7%	10.7%	10.6%	10.7%	10.4%	10.6%	0.0	(0.3)	(0.0)
Chassis and flatbed trailers	11.3%	11.3%	11.3%	11.3%	11.0%	11.3%	0.0	(0.3)	0.0
Curtain-side trailers	8.0%	8.0%	7.8%	8.0%	7.8%	7.8%	0.0	(0.2)	0.0
Tank trailers	9.9%	9.9%	9.8%	9.9%	9.7%	9.9%	0.0	(0.2)	0.1
- Liquid tank trailers	12.3%	12.3%	12.3%	12.3%	12.0%	12.3%	0.0	(0.3)	0.0
- Dry bulk trailers	7.5%	7.8%	7.7%	7.5%	7.5%	7.7%	0.0	(0.3)	0.0
Others	13.8%	13.8%	13.8%	13.8%	13.4%	13.8%	0.0	(0.4)	0.0
Sales of parts and components	23.8%	23.8%	23.5%	23.8%	22.0%	23.5%	0.0	(1.8)	0.0
Others	21.8%	21.8%	21.8%	21.8%	20.0%	21.8%	0.0	(1.8)	0.0
Average (Europe)	13.0%	13.0%	13.0%	13.0%	12.6%	13.1%	0.0	(0.4)	0.1
Other regions									
Sales of vehicles	14.5%	14.5%	14.3%	14.5%	14.5%	14.3%	0.0	0.0	0.0
Sales of parts and components	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	0.0	0.0	0.0
Others	30.0%	30.0%	28.0%	30.0%	30.0%	28.0%	0.0	0.0	0.0
Average (other regions)	14.7%	14.7%	14.5%	14.7%	14.7%	14.5%	0.0	0.0	0.0
Blended gross profit	13.5%	13.5%	13.4%	13.2%	13.2%	13.3%	(0.3)	(0.3)	(0.2)
Net profit	1,411	1,519	1,566	1,295	1,330	1,428	-8.2%	-12.5%	-8.8%

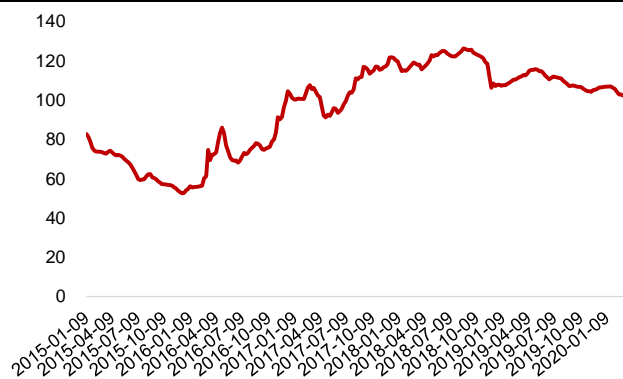
Source: Company data, CMBIS

Figure 2: CIMC Vehicles sales volume breakdown

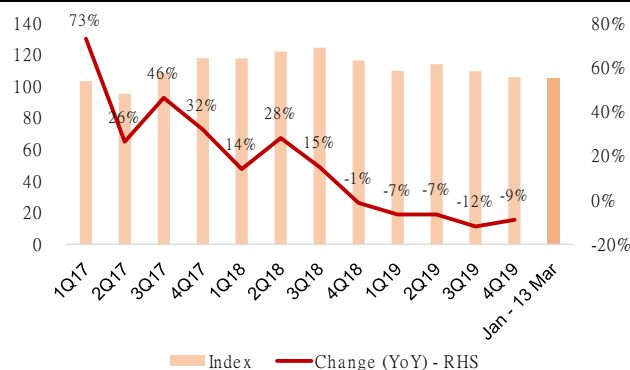
Source: Company data, CMBIS estimates

Figure 3: CMBI HDT demand projection

Source: Wind, CMBIS estimates

Figure 4: China medium-thick steel plate weekly price index

Source: Wind, CMBIS

Figure 5: China medium-thick steel plate quarterly price index

Source: Wind, CMBIS

Figure 6: Revenue breakdown for key products

	2016	2017	2018	2019E	2020E	2021E
(RMB mn)						
Revenue breakdown by product						
China						
Sales of vehicles (1+2+3+4)	6,910	10,076	12,996	14,185	15,017	15,372
(1) Semi-trailers	4,341	5,470	4,654	4,618	4,671	4,784
Chassis and flatbed trailers	1,463	1,809	1,556	1,430	1,387	1,387
Fence trailers	870	1,297	853	792	768	768
Tank trailers	1,623	1,765	1,742	1,893	2,011	2,120
- Liquid tank trailers	1,310	1,150	963	915	915	915
- Dry bulk tank trailers	313	615	779	979	1,096	1,206
Van trailers	108	134	141	141	144	147
Others (low flatbed trailers & car carrier semi-trailers)	277	466	362	361	361	361
(2) Center-axle car carriers	0	9	1,198	573	579	579
(3) Truck bodies	1,259	2,669	4,073	5,616	6,153	6,322
Dump beds for dump trucks	537	1,235	1,777	2,515	2,691	2,734
Mixers for mixer trucks	394	948	1,805	2,534	2,838	2,953
Others (truck bodies for sanitation trucks & refrigerated vans)	328	485	491	567	624	636
(4) Tractor units and truck chassis	1,311	1,927	3,071	3,378	3,615	3,687
Sales of parts and components	383	636	672	705	740	763
Others	193	196	239	286	344	361
Total (China)	7,486	10,907	13,906	15,177	16,102	16,496
North America						
Sales of vehicles	4,049	4,234	6,134	4,818	4,557	4,880
Chassis trailers	1,601	1,953	3,389	1,552	1,397	1,515
Dry van trailers	1,709	1,551	1,866	2,114	2,008	2,088
Refrigerated trailers	739	731	879	1,153	1,153	1,276
Sales of parts and components	435	459	502	527	537	559
Total (North America)	4,484	4,693	6,636	5,345	5,095	5,438
Europe						
Sales of vehicles	1,173	1,807	1,998	2,045	1,948	2,059
Chassis and flatbed trailers	318	580	665	688	654	686
Curtain-side trailers	298	604	569	571	543	570
Tank trailers	315	291	321	355	342	364
- Liquid tank trailers	247	214	183	179	170	175
- Dry bulk trailers	68	77	138	176	172	190
Others	242	332	443	431	410	438
Sales of parts and components	137	270	301	331	348	365
Others	100	149	136	138	139	141
Total (Europe)	1,410	2,225	2,435	2,514	2,435	2,565
Other regions						
Sales of vehicles	1,141	1,512	1,168	1,199	1,235	1,284
Sales of parts and components	16	17	14	14	15	15
Others	19	12	10	10	11	11
Total (other regions)	1,176	1,541	1,191	1,224	1,261	1,311
Total revenue	14,555	19,367	24,168	24,259	24,892	25,810

Source: Company data, CMBIS estimates

Figure 7: Revenue growth for key products

Revenue growth (YoY)	2016	2017	2018	2019E	2020E	2021E
China						
Sales of vehicles (1+2+3+4)	-	46%	29%	9%	6%	2%
(1) Semi-trailers	-	26%	-15%	-1%	1%	2%
Chassis and flatbed trailers	-	24%	-14%	-8%	-3%	0%
Fence trailers	-	49%	-34%	-7%	-3%	0%
Tank trailers	-	9%	-1%	9%	6%	5%
- Liquid tank trailers	-	-12%	-16%	-5%	0%	0%
- Dry bulk tank trailers	-	97%	27%	26%	12%	10%
Van trailers	-	25%	5%	0%	2%	2%
Others (low flatbed trailers & car carrier semi-trailers)	-	68%	-22%	0%	0%	0%
(2) Center-axle car carriers	-	n/a	12918%	-52%	1%	0%
(3) Truck bodies	-	112%	53%	38%	10%	3%
Dump beds for dump trucks	-	130%	44%	42%	7%	2%
Mixers for mixer trucks	-	140%	90%	40%	12%	4%
Others (truck bodies for sanitation trucks & refrigerated vans)	-	48%	1%	15%	10%	2%
(4) Tractor units and truck chassis	-	47%	59%	10%	7%	2%
Sales of parts and components	-	66%	6%	5%	5%	3%
Others	-	2%	22%	20%	20%	5%
Average (China)	-	46%	27%	9%	6%	2%
North America						
Sales of vehicles	-	5%	45%	-21%	-5%	7%
Chassis trailers	-	22%	74%	-54%	-10%	8%
Dry van trailers	-	-9%	20%	13%	-5%	4%
Refrigerated trailers	-	-1%	20%	31%	0%	11%
Sales of parts and components	-	6%	9%	5%	2%	4%
Average (North America)	-	5%	41%	-19%	-5%	7%
Europe						
Sales of vehicles	-	54%	11%	2%	-5%	6%
Chassis and flatbed trailers	-	83%	15%	3%	-5%	5%
Curtain-side trailers	-	103%	-6%	0%	-5%	5%
Tank trailers	-	-8%	10%	11%	-4%	7%
- Liquid tank trailers	-	-13%	-15%	-2%	-5%	3%
- Dry bulk trailers	-	13%	80%	27%	-2%	10%
Others (road transportation-related products)	-	37%	33%	-3%	-5%	7%
Sales of parts and components	-	97%	12%	10%	5%	5%
Others	-	48%	-9%	1%	1%	1%
Average (Europe)	-	58%	9%	3%	-3%	5%
Other regions						
Sales of vehicles	-	33%	-23%	3%	3%	4%
Sales of parts and components	-	8%	-20%	5%	5%	3%
Others	-	-40%	-15%	5%	5%	3%
Average (other regions)	-	31%	-23%	3%	3%	4%
Total revenue growth	-	33%	25%	0%	3%	4%

Source: Company data, CMBIS estimates

Figure 8: Gross margin for key products

Gross margin	2016	2017	2018	2019E	2020E	2021E
China						
Sales of vehicles (1+2+3+4)	11.6%	12.0%	10.3%	11.2%	11.3%	11.2%
(1) Semi-trailers	13.7%	12.8%	9.8%	9.8%	9.9%	9.6%
Chassis and flatbed trailers	16.5%	13.9%	9.5%	9.4%	9.3%	9.0%
Fence trailers	12.8%	13.4%	12.5%	12.4%	12.3%	12.2%
Tank trailers	12.0%	11.6%	9.3%	9.5%	9.8%	9.6%
- Liquid tank trailers	12.0%	11.3%	9.0%	9.0%	9.0%	9.0%
- Dry bulk tank trailers	11.9%	12.2%	9.8%	10.0%	10.5%	10.0%
Van trailers	15.1%	18.8%	13.3%	13.5%	13.5%	13.5%
Others (low flatbed trailers & car carrier semi-trailers)	11.6%	10.0%	5.9%	5.5%	5.5%	5.5%
(2) Center-axle car carriers	n/a	13.0%	16.6%	15.0%	15.0%	15.0%
(3) Truck bodies	15.9%	18.2%	16.7%	18.6%	18.6%	18.3%
Dump beds for dump trucks	7.6%	14.4%	15.3%	18.0%	18.0%	18.0%
Mixers for mixer trucks	25.9%	22.6%	17.6%	19.0%	19.0%	18.5%
Others (truck bodies for sanitation trucks & refrigerated vans)	17.4%	19.0%	18.1%	19.0%	19.0%	19.0%
(4) Tractor units and truck chassis	0.2%	1.2%	0.2%	0.2%	0.2%	0.2%
Sales of parts and components	29.6%	27.8%	29.8%	30.0%	30.0%	30.0%
Others	68.1%	49.6%	70.2%	70.0%	70.0%	70.0%
Average (China)	13.9%	13.6%	12.3%	13.2%	13.4%	13.3%
North America						
Sales of vehicles	19.3%	20.2%	15.3%	13.6%	13.0%	13.3%
Chassis trailers	24.2%	28.2%	19.6%	18.2%	17.3%	17.8%
Dry van trailers	16.0%	11.0%	7.2%	8.0%	7.8%	7.8%
Refrigerated trailers	16.2%	18.0%	15.6%	17.5%	16.8%	17.0%
Sales of parts and components	9.3%	8.3%	8.8%	10.0%	9.7%	10.0%
Average (North America)	18.3%	19.0%	14.8%	13.2%	12.6%	13.0%
Europe						
Sales of vehicles	11.7%	8.8%	10.1%	10.7%	10.4%	10.6%
Chassis and flatbed trailers	10.2%	8.7%	10.8%	11.3%	11.0%	11.3%
Curtain-side trailers	10.5%	7.8%	6.4%	8.0%	7.8%	7.8%
Tank trailers	13.0%	9.8%	10.2%	9.9%	9.7%	9.9%
- Liquid tank trailers	12.8%	10.1%	12.3%	12.3%	12.0%	12.3%
- Dry bulk trailers	13.8%	8.8%	7.4%	7.5%	7.5%	7.7%
Others	13.2%	10.1%	13.8%	13.8%	13.4%	13.8%
Sales of parts and components	30.9%	34.1%	23.8%	23.8%	22.0%	23.5%
Others	25.6%	24.3%	21.8%	21.8%	20.0%	21.8%
Average (Europe)	14.5%	12.9%	12.4%	13.0%	12.6%	13.1%
Other regions						
Sales of vehicles	11.7%	11.8%	13.4%	14.5%	14.5%	14.3%
Sales of parts and components	19.0%	17.1%	20.0%	21.0%	21.0%	21.0%
Others	-1.6%	26.7%	58.0%	30.0%	30.0%	28.0%
Average (other regions)	11.6%	12.0%	13.9%	14.7%	14.7%	14.5%
Blended gross profit	15.2%	14.7%	13.1%	13.2%	13.2%	13.3%

Source: Company data, CMBIS estimates

Figure 9: Calculation of core profit

(RMB mn)	2016	2017	2018	2019E	2020E	2021E
Reported net profit (A)	730	964	1,143	1,295	1,330	1,428
Exceptional items (B):						
Fair value gain on investment properties	79	0	44	0	0	0
Net FX gains/(losses)	21	(68)	7	0	0	0
Net gains on disposal of subsidiary	1	0	50	0	0	0
Gains/(losses) on disposal of PP&E	(7)	(14)	(3)	0	0	0
Write-off of payables	9	12	6	0	0	0
Gains/(losses) on disposal of financial assets/liabilities at fair value through P&L and derivative financial instruments	(11)	7	(16)	0	0	0
Others*	9	3	(6)	150	150	150
Core net profit (A-B)	630	1,024	1,060	1,145	1,180	1,278

Note*: "Others" in the table is the difference between the Company's "other gains/(losses)" and the remaining items shown in the table.

Source: Company data, CMBIS estimates

Financial summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Total revenue	19,367	24,168	24,259	24,892	25,810
Cost of sales	(16,519)	(21,009)	(21,048)	(21,597)	(22,384)
Gross profit	2,848	3,159	3,211	3,295	3,427
Other income	133	158	170	174	181
Other gains and losses	(59)	82	150	150	150
S&D expenses	(597)	(574)	(582)	(597)	(619)
Administrative expenses	(1,022)	(1,221)	(1,237)	(1,294)	(1,316)
Net gain / (impairment)*	12	16	0	0	0
EBIT	1,315	1,621	1,712	1,728	1,822
Net finance income/(expense)	(41)	(74)	(25)	0	36
Finance income	74	86	78	81	87
Finance expenses	(114)	(160)	(103)	(80)	(51)
Profit of JV and associates	(3)	6	6	6	5
Pretax profit	1,272	1,553	1,693	1,735	1,863
Income tax	(260)	(321)	(339)	(347)	(373)
After tax profit	1,012	1,232	1,355	1,388	1,490
MI	(47)	(89)	(60)	(58)	(63)
Net profit	964	1,143	1,295	1,330	1,428
Core net profit	1,024	1,060	1,145	1,180	1,278
D&A	273	303	368	385	403
EBITDA	1,588	1,924	2,079	2,113	2,224

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	1,272	1,553	1,693	1,735	1,863
Finance cost	80	141	93	70	51
Profit or loss of associates	3	(6)	(6)	(6)	(5)
Impairment of receivables	(12)	(16)	0	0	0
Write down of inventories	65	39	0	0	0
Depreciation and amortisation	273	303	368	385	403
Income tax paid	(318)	(292)	(339)	(347)	(373)
Change in working capital	389	(605)	(232)	(135)	(226)
Others	13	(84)	0	0	0
Cash flow from operation	1,782	1,083	1,577	1,701	1,713
Net capex on PP&E	(363)	(747)	(1,700)	(500)	(500)
Investment in JV/associates	(11)	(14)	0	0	0
Investment in subsidiaries	(151)	179	0	0	0
Loans to related parties (net)	467	140	0	0	0
Dividend received	4	2	1	1	1
Interest received fr related parties	25	10	10	10	0
Others	(408)	420	0	0	0
Cash flow from investing	(438)	(10)	(1,689)	(489)	(499)
Proceeds from equity financing	0	0	1,496	0	0
Net bank borrowings	299	(320)	(450)	(450)	(500)
Dividend paid	(449)	(612)	(289)	(389)	(399)
Interest paid	(117)	(189)	(103)	(80)	(51)
Others	(11)	(189)	(400)	0	0
Cash flow from financing	(279)	(1,310)	254	(919)	(950)
Change in cash	1,065	(237)	142	293	263
Cash at beginning of the year	1,780	2,811	2,617	2,759	3,052
Exchange gains/(losses) and	(35)	43	0	0	0
Cash at the end of the year	2,811	2,617	2,759	3,052	3,315

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	5,255	5,422	6,760	6,881	6,983
PP&E	2,995	3,446	4,828	4,993	5,141
Land use rights	565	598	585	572	559
Investment in JV/associates	186	231	237	242	247
Investment properties	695	392	392	392	392
Intangible assets	610	547	510	473	436
Others	28	43	43	43	43
Deferred tax assets	176	165	165	165	165
Current assets	10,996	11,139	11,141	12,198	12,381
Inventories	3,560	3,582	3,799	3,893	4,079
Tax recoverable	99	125	125	125	125
Trade and bills receivables	2,817	3,567	3,212	3,881	3,615
Prepayment, deposits & others	632	707	707	707	707
Loans to related parties	253	175	175	175	175
Financial assets at fair value	408	0	0	0	0
Others	244	214	214	214	214
Restricted cash	172	140	140	140	140
Cash	2,811	2,617	2,759	3,052	3,315
Current liabilities	8,569	8,146	7,275	7,403	6,596
Trade and bills payables	2,608	3,067	2,469	2,974	2,668
Other payables and accruals	2,671	1,876	1,876	1,876	1,876
Contract liabilities	801	587	813	936	936
Bank borrowings	2,266	1,981	1,481	981	481
Income tax liabilities	92	103	103	103	103
Others	131	532	532	532	532
Non-current liabilities	673	467	517	567	567
Bank borrowings	184	311	361	411	411
Deferred tax liabilities	149	134	134	134	134
Deferred income	339	23	23	23	23
Others	1	0	0	0	0
Equity	7,009	7,948	10,109	11,109	12,200
Shareholders' equity	6,606	7,488	9,590	10,531	11,560
MI	404	460	520	578	641

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
China	56.3	57.5	62.6	64.7	63.9
North America	24.2	27.5	22.0	20.5	21.1
Europe	11.5	10.1	10.4	9.8	9.9
Other regions	8.0	4.9	5.0	5.1	5.1
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratio (%)					
Gross margin	14.7	13.1	13.2	13.2	13.3
EBIT margin	6.8	6.7	7.1	6.9	7.1
Net profit margin	5.2	5.1	5.6	5.6	5.8
Growth (%)					
Revenue	33	25	0	3	4
Gross profit	29	11	2	3	4
EBIT	26	23	6	1	5
Net profit	32	19	13	3	7
Core net profit	62	4	8	3	8
Balance sheet ratio					
Current ratio (x)	1.9	2.0	2.5	2.6	2.9
Receivable turnover days	53	48	51	52	53
Inventory turnover days	76	62	64	65	65
Payable turnover days	57	49	48	46	46
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Return (%)					
ROAA	6.2	7.0	7.5	7.2	7.4
ROAE	14.4	16.2	15.2	13.2	12.9
Core ROE	15.3	15.0	13.4	11.7	11.6
Per share data					
EPS (RMB)	0.64	0.76	0.78	0.74	0.79
BVPS (RMB)	4.40	4.99	5.31	5.83	6.41
DPS (RMB)	0.75	0.19	0.24	0.22	0.24

* Net gain / (impairment) on financial assets & financial guarantee contracts

Source: Company data, CMBIS estimates

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