

# Weichai Power Co. Ltd

(2338.HK / 2338 HK)

Rating	<b>UNDERPERFORM*</b>
Price (13 May 15, HK\$)	29.25
Target price (HK\$)	25.00 <sup>1</sup>
Upside/downside (%)	-14.5
Mkt cap (HK\$ mn)	72,920 (US\$ 9,406 mn)
Enterprise value (Rmb mn)	44,367
Number of shares (mn)	1,999.31
Free float (%)	100.0
52-week price range	36.0 - 26.6
ADTO - 6M (US\$ mn)	11.5

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

## Research Analysts

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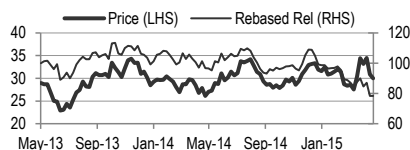
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## INITIATION

### Heavy truck proxy—demand down but cost up

- **Initiate with UNDERPERFORM; TP of HK\$25 implies 15% potential downside.** Weichai is China's largest heavy duty truck (HDT) engine and transmission supplier, with dominant market shares of 36% and 84%, respectively. Its 51%-owned truck subsidiary Shaanqi is China's fourth-largest HDT maker, with a 14% market share. As a proxy for China's HDT sector, we expect Weichai to suffer from a sales drop (amid the HDT sector downturn) and margin squeeze, due to the cost hike (HDT emission standard upgrade) in 2015. China's HDT demand is likely to enjoy a cyclical recovery from 2016. However, this seems to have been factored in the stock's rich valuation, at 12x 2016E P/E. We rate Weichai UNDERPERFORM.
- **Sharp volume decline across the board, amid HDT downturn in 2015.** We forecast 2015 China HDT sales to be down 26% YoY at 550K units, as demand has been hurt by the declining truck freight price, decelerating real estate FAI, and negative effect of regulatory change – HDT price rose by 10%, post emission standard upgrade. As China's HDT sector proxy, Weichai's engine/transmission/truck sales volume is estimated to go down by 27%/28%/24% YoY, respectively, in 2015.
- **Margins to narrow on cost hike and capacity utilisation rate drop.** We are concerned about the firm's margins outlook, owing to: (1) Incremental component cost from the engine exhaust gas treatment system – Selective Catalytic Reduction (SCR) due to emission standard upgrade from China 3 to China 4 on 1 January 2015, (2) declining capacity utilisation rate, due to a drop in sales from decelerating downstream heavy truck and machinery demand.
- **Valuation:** Our TP of HK\$25 is based on 10x 2016E P/E, in line with the company's historical 12-month forward P/E. Downside risk is engine clients' in-house engine plant debut and upside risk is property demand/FAI rebound.

## Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 8198.52 on 13/05/15. On 13/05/15 the spot exchange rate was HK\$7.75/US\$1

Performance over	1M	3M	12M
Absolute (%)	-18.6	-5.3	10.2
Relative (%)	-14.5	-23.5	-27.1

## Financial and valuation metrics

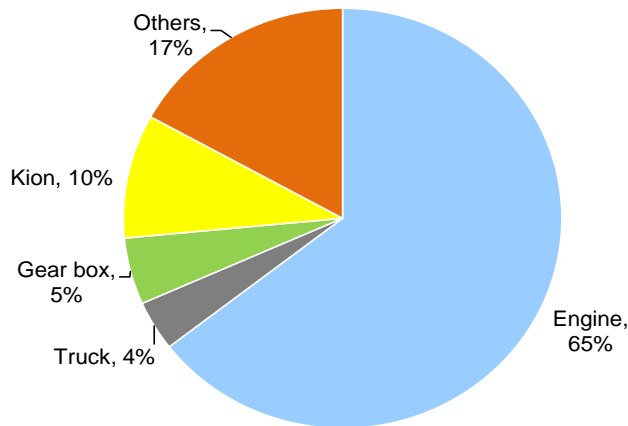
Year	12/14A	12/15E	12/16E	12/17E
Revenue (Rmb mn)	79,371.1	78,450.3	87,443.7	86,057.8
EBITDA (Rmb mn)	9,463.7	10,479.3	12,062.4	12,450.5
EBIT (Rmb mn)	5,705.6	5,593.8	7,042.9	7,297.1
Net profit (Rmb mn)	5,024.5	2,906.5	3,946.8	4,108.8
EPS (CS adj.) (Rmb)	2.51	1.45	1.97	2.06
Change from previous EPS (%)	n.a.			
Consensus EPS (Rmb)	n.a.	2.14	2.40	2.41
EPS growth (%)	40.7	-42.2	35.8	4.1
P/E (x)	9.3	16.1	11.9	11.4
Dividend yield (%)	1.1	0.9	1.2	1.2
EV/EBITDA (x)	5.3	4.2	3.0	2.2
P/B (x)	1.4	1.3	1.2	1.1
ROE (%)	16.7	8.6	10.8	10.2
Net debt/equity (%)		net cash	net cash	net cash

Source: Company data, Thomson Reuters, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

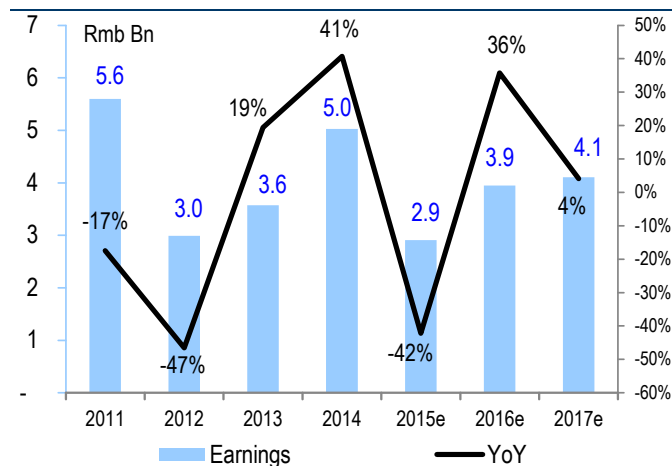
# Focus table and charts

**Figure 1: Weichai—earnings breakdown by operation (2014)**



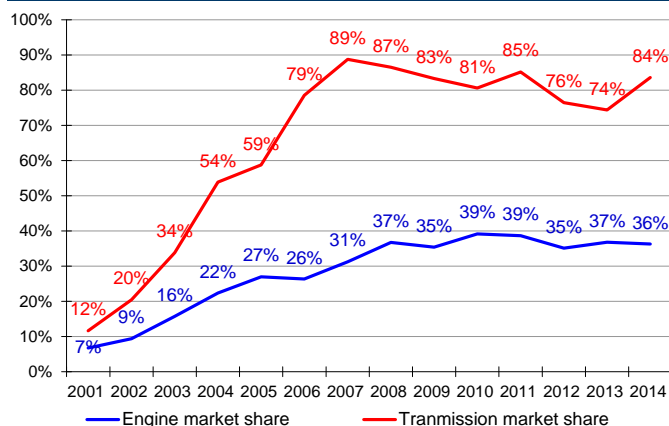
Source: Company data

**Figure 2: Weichai—earnings growth outlook**



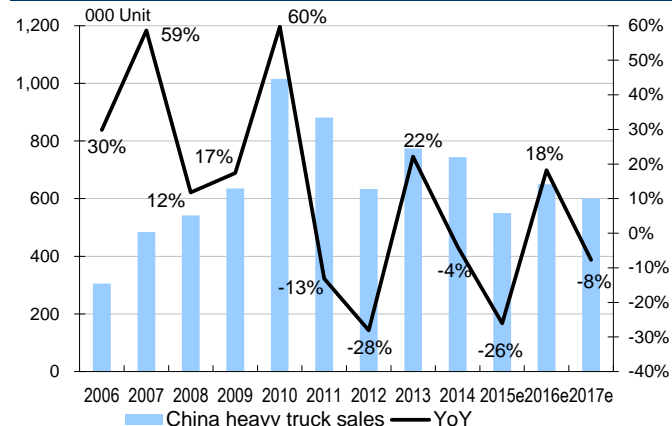
Source: China Auto Market, Wards Auto, Credit Suisse estimates

**Figure 3: Weichai—market share in China HDT market**



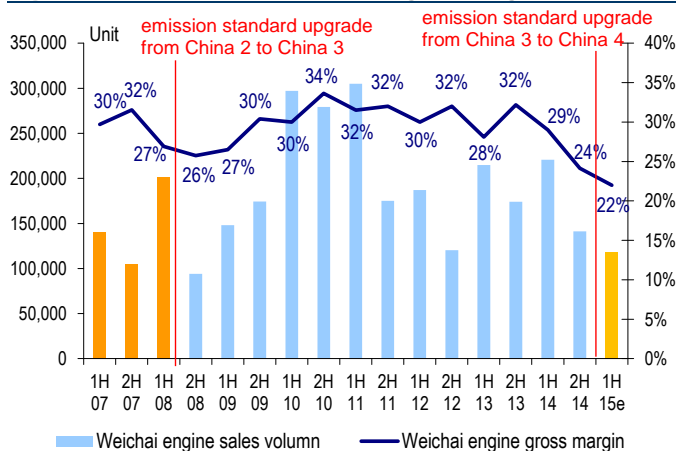
Source: Company data, China Auto Market

**Figure 4: China heavy duty truck (HDT) demand outlook**



Source: China Auto Market, Credit Suisse estimates

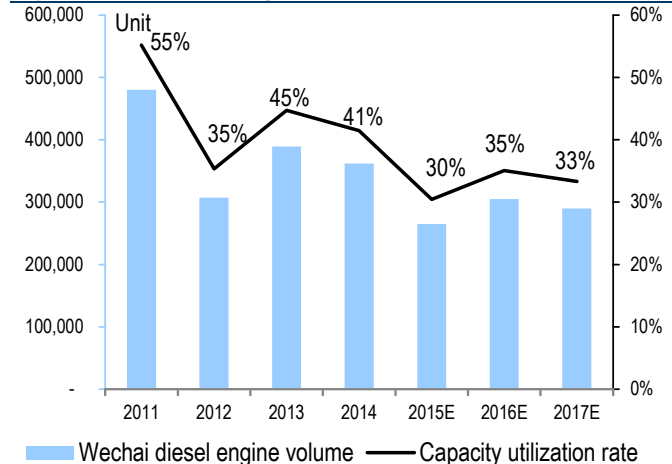
**Figure 5: Weichai—semi-annual engine margin trend**



Source: Company data, Credit Suisse estimates

Note: 1H15 margin was estimated base on 1Q15 margin

**Figure 6: Weichai—engine volume and utilization rate**



Source: China Auto Market

# Heavy truck proxy—demand down but cost up

## Initiate with UNDERPERFORM; TP of HK\$25 implies 15% potential downside

Weichai is China's largest heavy duty truck (HDT) engine and transmission supplier, with dominant market shares of 36% and 84%, respectively. Its 51%-owned truck subsidiary Shaanxi Heavy-duty Motor (Shaanqi) is China's fourth-largest HDT maker, with a 14% market share. The company also owns controlling stake (38.3%) in Kion group, the second-largest forklift maker in the world. As the proxy for China's HDT sector, we expect Weichai to suffer from a sales drop (HDT sector downturn) and margin squeeze, due to cost hike (HDT emission standard upgrade) in 2015. China's HDT demand is likely to enjoy a cyclical recovery from 2016. However, this seems to have been factored in the stock's rich valuation, at 12x 2016E P/E. We rate Weichai UNDERPERFORM.

## Sharp volume decline across the board, amid HDT downturn in 2015

We are bearish on the prospects of China's HDT sales growth this year, and forecast sales to go down by 26% YoY from 743,991 units in 2014 to 550,000 units in 2015, as demand is being affected by the declining truck freight price, decelerating real estate FAI, and negative regulatory change – truck price rose by 10%, post emission standard upgrade on 1 January 2015. As China's heavy truck sector proxy, Weichai's engine/transmission/truck sales volume is estimated to decline by 27%/28%/24% YoY, respectively, in 2015. Looking into 2016, we estimate heavy truck's sector-wide demand to recover by 18% YoY to 650,000 units (still below 2014's 744K units), thanks to normalised replacement demand and possible front-loading demand due to potential new emission standard upgrade – from China 4 to China 5 from 1 January 2017

## Margins to narrow on cost hike and capacity utilisation rate drop

We are concerned about the firm's margins outlook, owing to: (1) Incremental component cost from diesel engine exhaust gas treatment system – Selective Catalytic Reduction (SCR) due to emission standard upgrade from China 3 to China 4 from 1 January 2015, (2) declining capacity utilisation rate, from 41% in 2014 to 30%/35% in 2015/16E, respectively, due to a drop in sales from decelerating downstream heavy truck and machinery demand.

## Valuation

Our TP of HK\$25 is based on 10x 2016E P/E, in line with the company's historical 12-month forward P/E. Amid the current HDT sector downturn, near-term earnings multiple should be theoretically higher than the historical average. Thus, we decided to value Weichai at its historical average 12-month forward multiple, along with its 2016 estimate EPS.

## Risk

Downside risks: (1) Downstream engine clients' vertical integration moves—building in-house engine plant or establishing joint-ventures with competitors such as Foton-Cummins, Liugong-Cummins, (2) customer base dilution due to competitors' aggressive price cut, similar to Yuchai and Wanliyang in the heavy truck engine/gear-box markets.

Upside risks: (1) Rebound in property FAI, due to price recovery and new loosening policy rollout, (2) faster-than-expected turnaround of Linde Hydraulics operation, due to customers such as Shantui, Xugong, Zoomlion, especially after the China plant debut in May 2015.

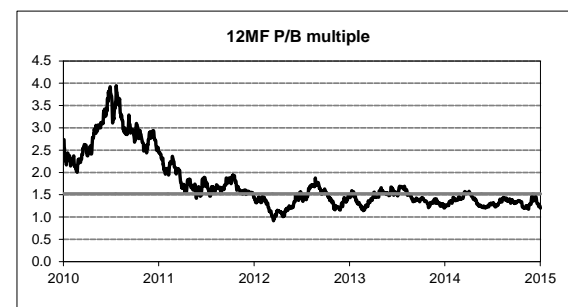
# Weichai Power Co. Ltd 2338.HK / 2338 HK

Price (13 May 15): **HK\$29.25**, Rating:: **UNDERPERFORM**, Target Price: **HK\$25.00**

Target price scenario				
Scenario	TP	%Up/Dwn	Assumptions	
Upside				
Central Case	25.00	(14.53)		
Downside				
Income statement (Rmb mn)				
	12/14A	12/15E	12/16E	12/17E
Sales revenue	79,371	78,450	87,444	86,058
Cost of goods sold	62,548	61,120	67,584	65,819
SG&A	11,493	12,160	13,554	13,339
Other operating exp./(inc.)	(4,134)	(5,309)	(5,757)	(5,551)
<b>EBITDA</b>	<b>9,464</b>	<b>10,479</b>	<b>12,062</b>	<b>12,450</b>
Depreciation & amortisation	3,758	4,885	5,019	5,153
<b>EBIT</b>	<b>5,706</b>	<b>5,594</b>	<b>7,043</b>	<b>7,297</b>
Net interest expense/(inc.)	162.2	440.5	315.5	131.3
Non-operating inc./(exp.)	139.1	—	—	—
Associates/JV	1,283	—	—	—
<b>Recurring PBT</b>	<b>6,966</b>	<b>5,153</b>	<b>6,727</b>	<b>7,166</b>
Exceptionals/extraordinaries	—	—	—	—
Taxes	1,181	1,031	1,345	1,433
<b>Profit after tax</b>	<b>5,784</b>	<b>4,123</b>	<b>5,382</b>	<b>5,733</b>
Other after tax income	—	—	—	—
Minority interests	760	1,216	1,435	1,624
Preferred dividends	—	—	—	—
<b>Reported net profit</b>	<b>5,025</b>	<b>2,907</b>	<b>3,947</b>	<b>4,109</b>
Analyst adjustments	—	—	—	—
<b>Net profit (Credit Suisse)</b>	<b>5,025</b>	<b>2,907</b>	<b>3,947</b>	<b>4,109</b>
Cash flow (Rmb mn)				
	12/14A	12/15E	12/16E	12/17E
<b>EBIT</b>	<b>5,706</b>	<b>5,594</b>	<b>7,043</b>	<b>7,297</b>
Net interest	(162.2)	(440.5)	(315.5)	(131.3)
Tax paid	(1,181)	(1,031)	(1,345)	(1,433)
Working capital	(995)	(1,681)	(561)	(159)
Other cash & non-cash items	7,784	5,326	5,335	5,285
<b>Operating cash flow</b>	<b>11,152</b>	<b>7,768</b>	<b>10,156</b>	<b>10,859</b>
Capex	(3,310)	(1,200)	(1,200)	(1,200)
<b>Free cash flow to the firm</b>	<b>7,842</b>	<b>6,568</b>	<b>8,956</b>	<b>9,659</b>
Disposals of fixed assets	841.7	—	—	—
Acquisitions	—	—	—	—
Divestments	—	—	—	—
Associate investments	(1,117)	—	—	—
Other investment/(outflows)	1,455	(300)	(300)	(300)
<b>Investing cash flow</b>	<b>(2,130)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Equity raised	—	—	—	—
Dividends paid	(1,587)	(407)	(553)	(575)
Net borrowings	4,304	300	300	300
Other financing cash flow	(7,784)	(440)	(315)	(131)
<b>Financing cash flow</b>	<b>(5,067)</b>	<b>(547)</b>	<b>(568)</b>	<b>(406)</b>
<b>Total cash flow</b>	<b>3,955</b>	<b>5,721</b>	<b>8,088</b>	<b>8,952</b>
Adjustments	(77.4)	—	—	—
<b>Net change in cash</b>	<b>3,878</b>	<b>5,721</b>	<b>8,088</b>	<b>8,952</b>
Balance sheet (Rmb mn)				
	12/14A	12/15E	12/16E	12/17E
Cash & cash equivalents	24,434	30,155	38,243	47,195
Current receivables	24,938	22,866	25,487	25,083
Inventories	12,615	11,889	13,147	12,803
Other current assets	2,385	2,385	2,385	2,385
<b>Current assets</b>	<b>64,372</b>	<b>67,295</b>	<b>79,262</b>	<b>87,466</b>
Property, plant & equip.	25,643	23,209	20,657	17,988
Investments	1,478	1,478	1,478	1,478
Intangibles	21,596	20,671	19,730	18,773
Other non-current assets	7,323	7,297	7,270	7,243
<b>Total assets</b>	<b>120,412</b>	<b>119,949</b>	<b>128,397</b>	<b>132,948</b>
Accounts payable	26,790	23,443	25,923	25,246
Short-term debt	2,766	2,818	2,870	2,923
Current provisions	—	—	—	—
Other current liabilities	18,504	17,373	18,211	17,982
<b>Current liabilities</b>	<b>48,060</b>	<b>43,634</b>	<b>47,004</b>	<b>46,151</b>
Long-term debt	13,106	13,354	13,602	13,850
Non-current provisions	—	—	—	—
Other non-current liab.	18,391	18,391	18,391	18,391
<b>Total liabilities</b>	<b>79,557</b>	<b>75,379</b>	<b>78,997</b>	<b>78,391</b>
<b>Shareholders' equity</b>	<b>32,468</b>	<b>34,967</b>	<b>38,362</b>	<b>41,895</b>
Minority interests	8,387	9,603	11,038	12,662
<b>Total liabilities &amp; equity</b>	<b>120,412</b>	<b>119,949</b>	<b>128,397</b>	<b>132,948</b>

Key earnings drivers				
	12/14A	12/15E	12/16E	12/17E
	—	—	—	—
	—	—	—	—
	—	—	—	—
	—	—	—	—
Per share data				
	12/14A	12/15E	12/16E	12/17E
Shares (wtd avq.) (mn)	1,999	1,999	1,999	1,999
<b>EPS (Credit Suisse)</b>	<b>2.51</b>	<b>1.45</b>	<b>1.97</b>	<b>2.06</b>
DPS (Rmb)	0.25	0.20	0.28	0.29
BV/PS (Rmb)	16.2	17.5	19.2	21.0
Operating CFPS (Rmb)	5.58	3.89	5.08	5.43
Key ratios and valuation				
	12/14A	12/15E	12/16E	12/17E
Growth(%)				
Sales revenue	36.8	(1.2)	11.5	(1.6)
EBIT	16.6	(2.0)	25.9	3.6
Net profit	40.7	(42.2)	35.8	4.1
EPS	40.7	(42.2)	35.8	4.1
Margins (%)				
EBITDA	11.9	13.4	13.8	14.5
EBIT	7.19	7.13	8.05	8.48
Pre-tax profit	8.78	6.57	7.69	8.33
Net profit	6.33	3.70	4.51	4.77
Valuation metrics (x)				
P/E	9.3	16.1	11.9	11.4
P/B	1.44	1.34	1.22	1.12
Dividend yield (%)	1.07	0.87	1.18	1.23
P/CF	4.20	6.02	4.61	4.31
EV/sales	0.63	0.57	0.42	0.32
EV/EBITDA	5.26	4.23	3.03	2.24
EV/EBIT	8.73	7.93	5.19	3.83
ROE analysis (%)				
ROE	16.7	8.6	10.8	10.2
ROIC	15.6	14.2	19.4	22.6
Asset turnover (x)	0.66	0.65	0.68	0.65
Interest burden (x)	1.22	0.92	0.96	0.98
Tax burden (x)	0.83	0.80	0.80	0.80
Financial leverage (x)	2.95	2.69	2.60	2.44
Credit ratios				
Net debt/equity (%)	(21.0)	(31.4)	(44.1)	(55.8)
Net debt/EBITDA (x)	(0.90)	(1.33)	(1.80)	(2.44)
Interest cover (x)	35.2	12.7	22.3	55.6

Source: Company data, Thomson Reuters, Credit Suisse estimates.



Source: IBES

# Initiate with UNDERPERFORM, TP HK\$25 with 15% potential downside

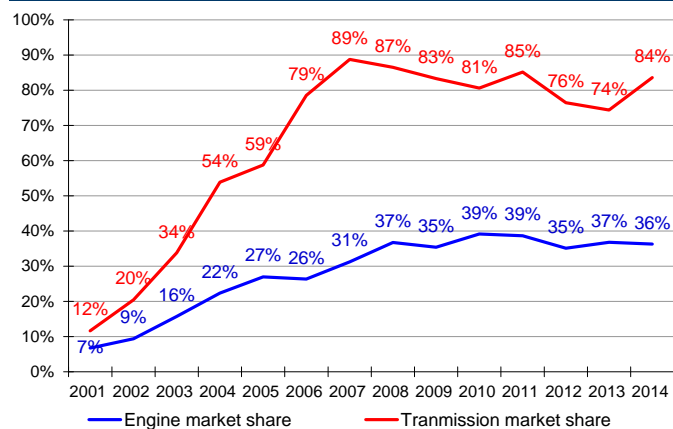
Weichai is China's largest heavy duty truck (HDT) engine and transmission supplier, with dominant market shares of 36% and 84% respectively. Its 51%-owned truck subsidiary, Shaanxi Heavy-duty Motor (Shaanqi), is China's fourth-largest HDT maker, with a 14% market share. The company also owns a controlling stake (38.3%) in Kion group, the second-largest forklift maker in the world. As a proxy for China's HDT sector, we expect Weichai to suffer from a sales drop (HDT sector downturn) and margin squeeze, due to cost hike (HDT emission standard upgrade) in 2015. China HDT demand is likely to enjoy a cyclical recovery from 2016. However, this seems to have been factored in by the stock's rich valuation, at 12x 2016E P/E. We rate Weichai at UNDERPERFORM.

**Figure 7: Top-5 heavy truck makers' business coverage comparison**

		Dongfeng	Sinotruk	FAW	Weichai	Foton
Diesel Engine	2L	•		•	•	•
	3L	•		•	•	•
	4L	•		•	•	•
	5L	•	•	•	•	
	6L	•		•	•	
	7L	•	•	•	•	
	8L	•		•		
	9L	•		•		
	10L		•		•	
	11L	•	•	•	•	•
	12L		•		•	•
	13L	•		•	•	
	16L				•	
Truck Component	Gearbox	•	•	•	•	
	Axle	•	•	•	•	•
Truck Assembly	Heavy Duty Truck	•	•	•	•	•
Truck re-fitting		•	•	•	•	•

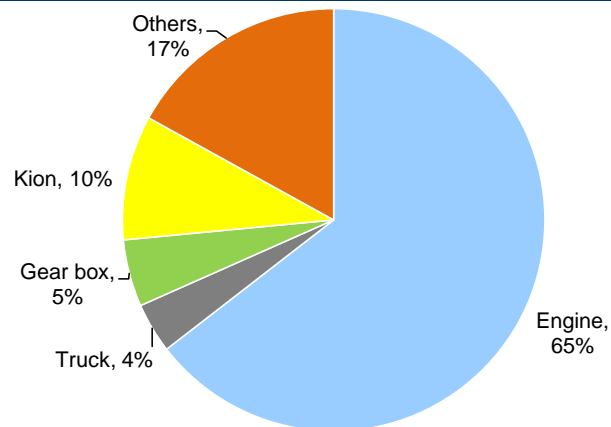
Source: Company data, Credit Suisse estimates

Figure 8: Weichai—market share in China HDT market



Source: Company data, China Auto Market

Figure 9: Weichai—earnings breakdown by operation(2014)

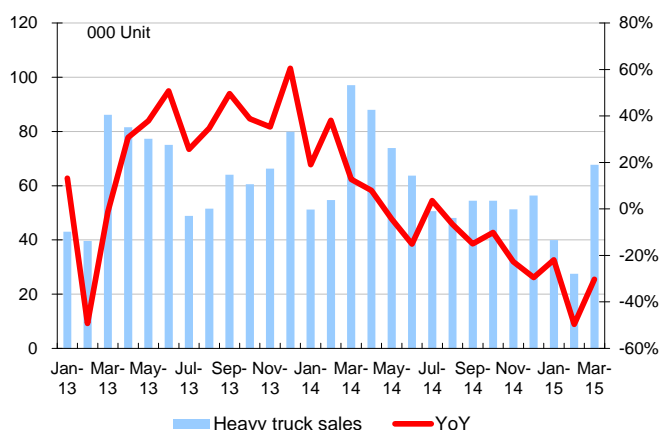


Source: Company data

# Sharp volume decline across the board, amid HDT downturn in 2015

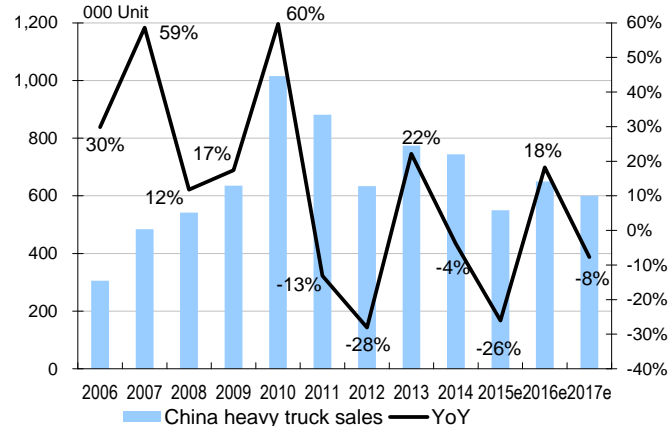
We are bearish on the prospects of China's HDT sales growth this year, and forecast sales to go down by 26% YoY, from 743,991 units in 2014 to 550K units in 2015, as demand has been affected due to declining truck freight price, decelerating real estate FAI, and negative regulatory change—truck price rose by 10%, post emission standard upgrade on 1 January 2015. As China's heavy truck sector proxy, Weichai's engine/transmission/truck sales volume has been estimated to decline by 27%/28%/24% YoY, respectively, in 2015. Looking into 2016, we estimate heavy truck's sector-wide demand to recover by up 18% YoY to 650,000 units (still below 2014's 744K units), thanks to normalised replacement demand and possible front-loading demand, due to potential new emission standard upgrade – from China 4 to China 5 from 1 January 2017.

**Figure 10: Historical China heavy truck monthly sales**



Source: China Auto Market

**Figure 11: China heavy duty truck (HDT) demand outlook**



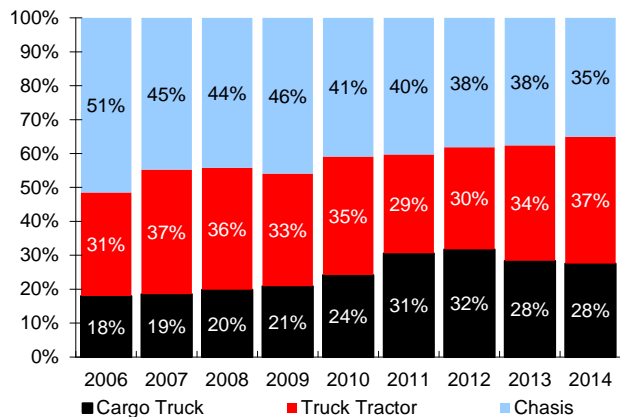
Source: CEIC, Credit Suisse estimates

## HDT demand driven by three downstream sectors

Our estimates for HDT demand are derived from three downstream sectors—highway freight, property fixed asset investment (FAI), and production of coal/iron ore (mining activity). Currently around 45% of HDTs are used for logistics (mainly truck tractors), while around 40% of HDTs are used for construction (mainly chassis). Cargo trucks, which accounted for 28% of the total HDT sales in 2014, are partially used for logistics (i.e., in the form of refrigerator truck, tank truck, garbage truck, and fence truck) and partially for construction (i.e., dumping trucks).

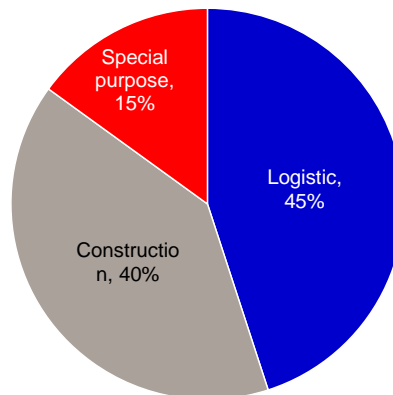


**Figure 12: Historical China heavy truck monthly sales**



Source: China Auto Market

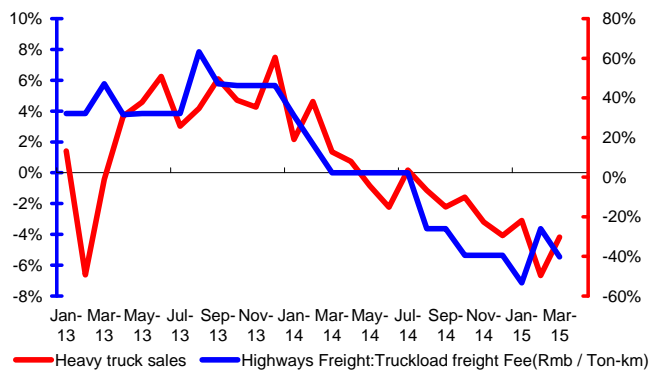
**Figure 13: China heavy duty truck demand breakdown**



Source: CEIC

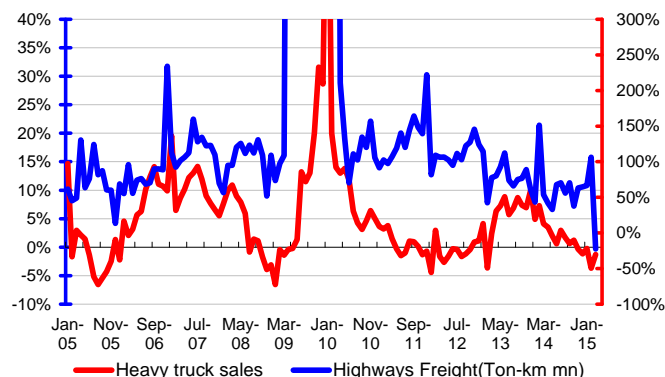
China's highway freight growth had been decelerating continuously over the past four years, from 18.4% YoY in 2011 to 9.7% in 2014, owing to slowing macro-economic growth. This trend further deteriorated in 2015 – freight volume was down 0.3% YoY and truckload freight price was down 5% YoY in March, both of which acted as demand dampeners for logistic trucks.

**Figure 14: Heavy truck sales growth vs freight price**



Source: CEIC

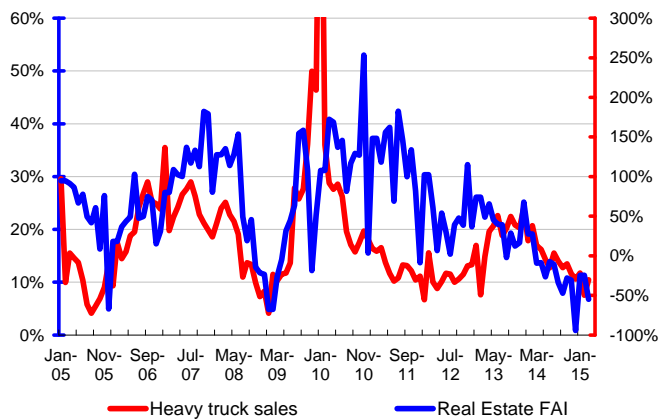
**Figure 15: Heavy truck sales growth vs highway freight**



Source: CEIC

China's real estate FAI had decelerated continuously over the past 5 years, from 31.4% YoY in 2010 to 11.1% YoY in 2014, owing to limited further upside (FAI was already 81% of overall GDP in 2014). Besides, China's economic growth is transforming from investment-driven to consumption-driven. This trend further deteriorated in 2015 – real estate FAI was up only by 6.8% YoY in March, which will hurt construction truck demand.

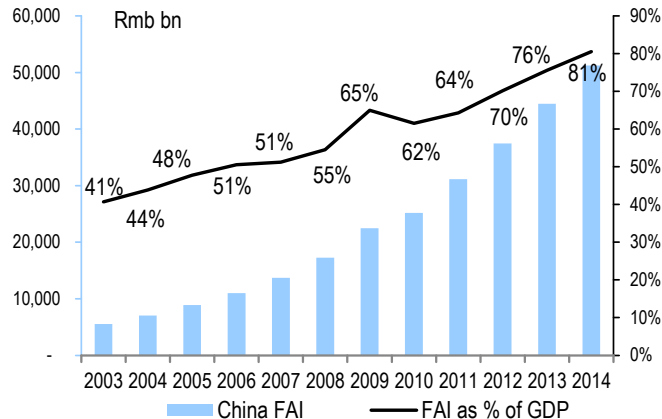
**Figure 16: Heavy truck sales growth vs real estate FAI**



Source: CEIC

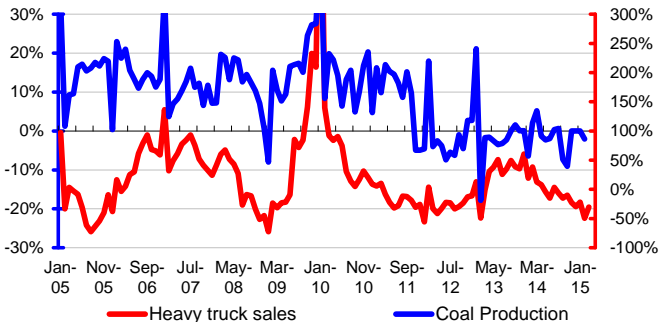
After registering 8% CAGR over the past 10 years, coal production growth declined by 2% YoY in 2014, due to weak coal price. The decline trend continued in 2015, so did iron ore production.

**Figure 17: FAI accounted for 81% GDP in 2014**



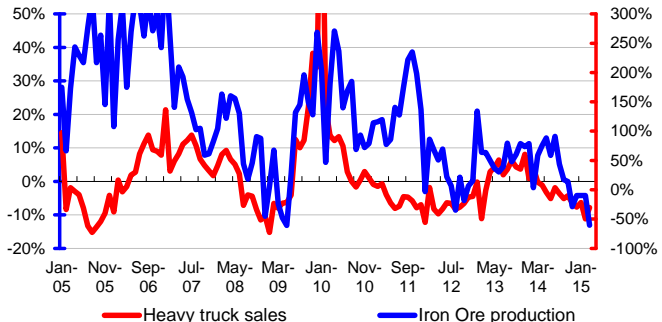
Source: CEIC

**Figure 18: Heavy truck sales growth vs coal production**



Source: CEIC

**Figure 19: Heavy truck sales growth vs iron ore production**



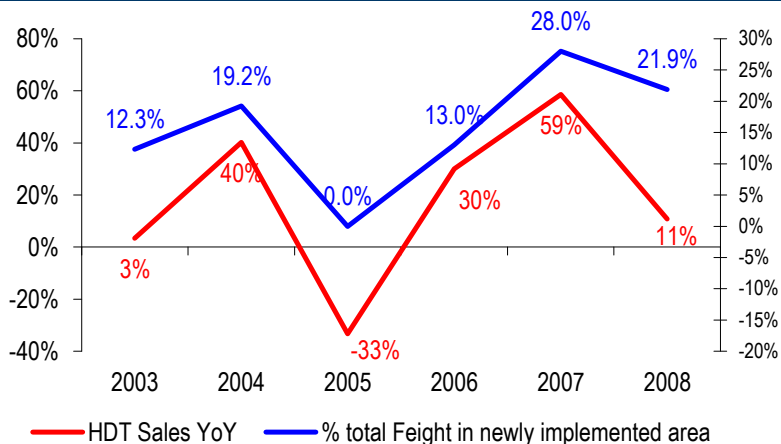
Source: CEIC

## HDT demand also fluctuates on regulatory changes

Historically, China's heavy truck demand has been impacted by recurrent policy changes such as, for example, the "weight-based toll fee system" during 2003–08, "emission standard upgrade from China 2 to China 3 on 1 July 2008, "replaced fixed road maintenance fee with fuel tax" during 2009-10, "heavy-polluted yellow-label vehicle scrappage" in 2013, and "emission standard upgrade to China 4" in 2015, among others.

**Weight-based toll system (2003–08):** This weight-based toll system boosted heavy truck demand by requiring more trucks for the same amount of cargo by punishing over-loading on the one hand and on the other helping heavy trucks gain share from medium trucks, given their higher transportation efficiency. China started to implement the weight-based toll system from 2003 on a province by province basis, and covered 94% of total express length in 26 provinces by end-2008. The change in the newly implemented area between 2003–08 had resulted in the heavy truck sales growth YoY fluctuation.

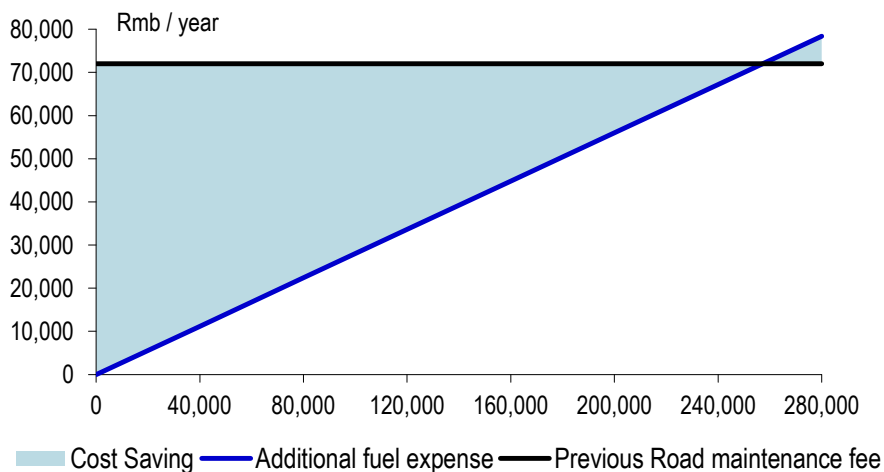
**Figure 20: China heavy truck sales vs weight-based toll system implementation process**



Source: CEIC

**Fuel tax replaces road maintenance fee (2009–10):** The replacement of fixed road maintenance fee with fuel tax (starting 1 January 2009, adding Rmb0.7 per litre fuel tax) had considerably lowered truck operators’ initial fixed cost and cargo-waiting cost, triggering a wave of heavy truck purchasing in 2009–10. Normally, heavy truck average travel distance is 100,000 km at a fuel consumption of 40 litres/100 km. Compared with the previous Rmb72,000 fixed road maintenance fee, the new fuel tax is just Rmb28,000.

**Figure 21: Substantial cost savings from the introduction of fuel tax**



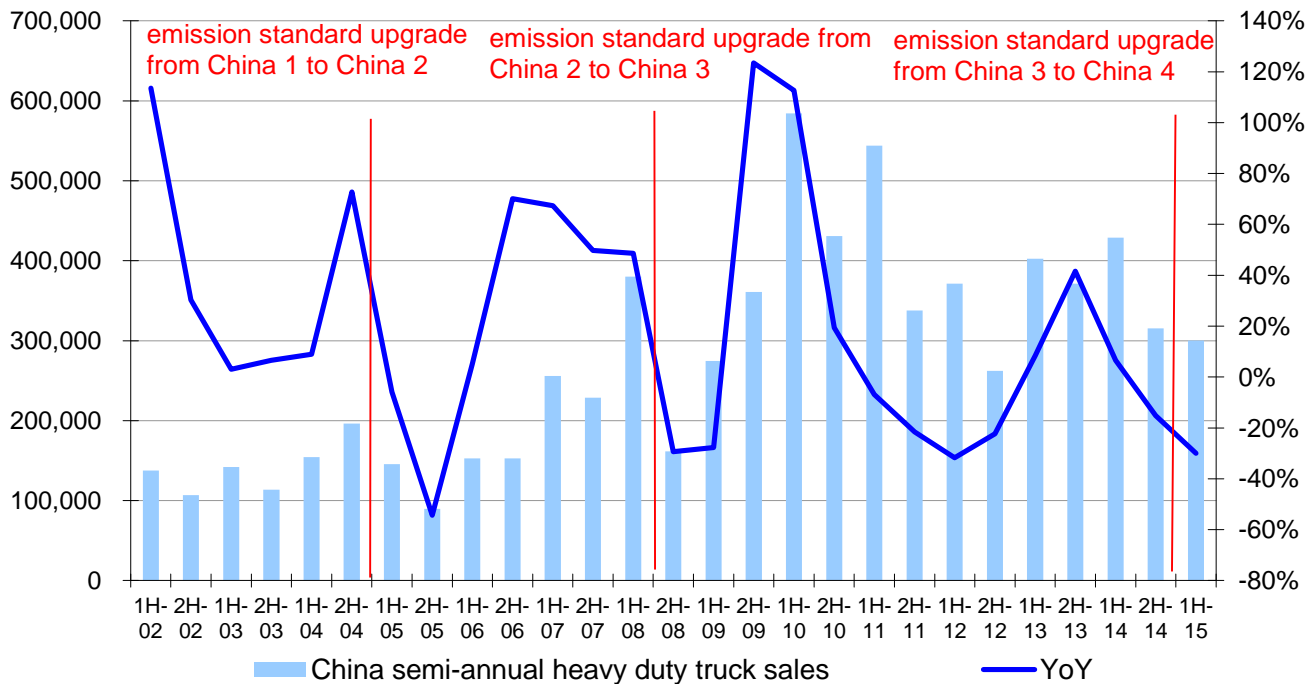
Source: Company data, Credit Suisse estimates

**Emission standard upgrade to China 3 (1 July 2008):** Heavy duty truck emission standard upgrade is generally accompanied by a cost hike, requiring incremental components such as High-Pressure Common Rail (HPCR) fuel injection system or Exhaust Gas Recirculation (EGR) gas treatment system for diesel engine emission upgrade from China 2 to China 3. Due to the Rmb10,000–20,000 incremental cost (or 5%–10% truck’s price), there was significant front-loading demand in 1H08 before the emission standard upgrade (1 July), and a sharp sales decline afterwards in 2H08.

**Emission standard upgrade to China 4 (1 January 2015):** The latest round heavy duty truck emission standard upgrade from China 3 to China 4 requires incremental diesel engine exhaust gas treatment system—Selective Catalytic Reduction (SCR), which costs around Rmb8,000 per set or 3-4% of heavy truck’s selling price. Meanwhile, the daily operation of a heavy truck requires incremental diesel exhaust fluid (Urea) input, which costs around Rmb4.5/litre or Rmb8,500, assuming an annual travel distance of 100,000

km. Thus there was also significant front-loading demand in 2014, before the emission standard upgrade (1 January 2015), followed by a sharp sales decline in 1H15.

**Figure 22: China heavy truck sales vs. emission standard upgrade**



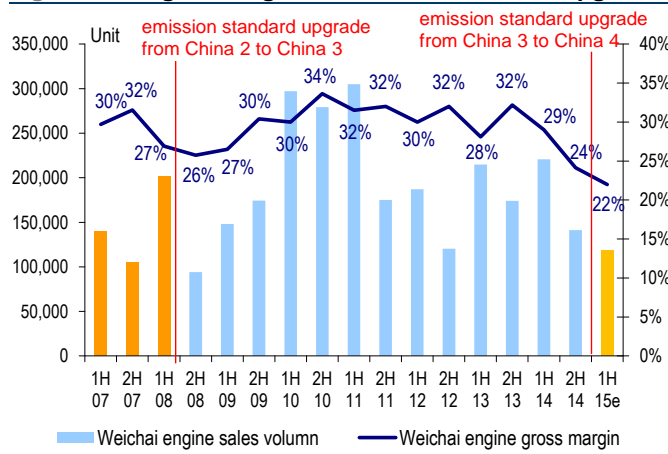
Source: China Auto Market, 1H2015 sales was estimated by Credit Suisse based on 1Q2015 sales trend

**Heavy-polluted yellow-label vehicle scrappage (2013–17):** In an effort to alleviate air pollution problem, the Chinese government targets to phase out old, heavy polluting "Yellow Label Vehicles" which are diesel engine vehicles that do not meet China 3 emission standard or gasoline engine vehicles that do not meet China 1 emission standard. This plan was first released as part of the "Clean Air Action Plan (2013–17)", which targets to completely scrap all yellow label vehicles by 2017. Given the limited incentives for the removal of old heavy commercial vehicles (much higher return in selling the truck as steel scrap than scraping the truck), both central and local provincial/municipal governments began to roll out special initiatives such as providing Rmb18,000–30,000 in cash subsidy for heavy duty truck in Guangzhou. Statistics from the Ministry of Environmental Protection show that there were 13 mn units of "Yellow Label Vehicles" as of end-2013 or 10% of the total China vehicle population, which contributed around 50% of the total automobile pollutants. The number reduced by half by end-2014, after more than 6.0 mn "Yellow Label Vehicles" were phased out by 2014, which had turned out to be a key driver of heavy truck replacement demand.

# Margins to narrow on cost hike and capacity utilisation rate drop

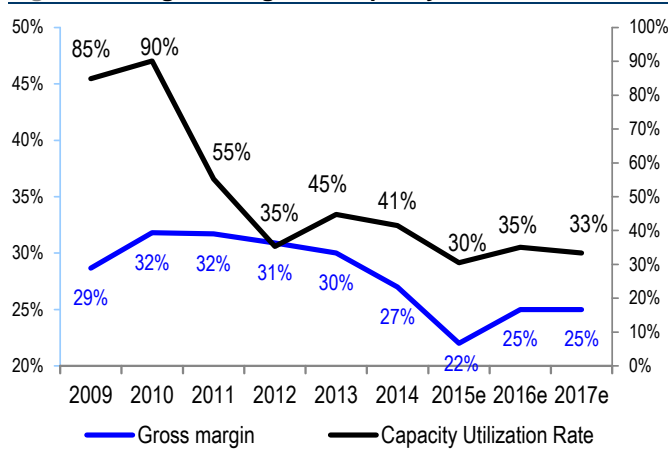
We are concerned about the firm's margins outlook, owing to: (1) Incremental component cost from diesel engine exhaust gas treatment system—Selective Catalytic Reduction (SCR) due to emission standard upgrade from China 3 to China 4 on 1 January 2015, (2) declining capacity utilisation rate – from 41% in 2014 to 30%/35% in 2015/16E, respectively, as there was a drop in sales, due to decelerating downstream heavy truck and machinery demand.

**Figure 23: Engine margin vs. emission standard upgrade**



Source: CEIC, 1H2015 sales was estimated by Credit Suisse based on 1Q2015 sales trend.

**Figure 24: Engine margin vs. capacity utilization rate**



Source: CEIC

## Cost hike from emission standard upgrade

Historically, heavy duty truck emission standard upgrade has been generally accompanied with cost hike for engine manufacturers for incremental components.

- **Rmb10,000–20,000 from China 2 to China 3:** High-Pressure Common Rail (HPCR) fuel injection system or Exhaust Gas Recirculation (EGR) gas treatment system
- **Rmb8,000 from China 3 to China 4:** Selective Catalytic Reduction (SCR) exhaust gas treatment system

Historically, diesel engine makers, such as Weichai, have had to share the around 10% incremental cost hike with their downstream truck assemblers (cannot completely pass it on), resulting in a margin decline, right after the emission standard upgrades. In 1Q15, Weichai engine segment's gross margin was 21%, down 9.5 percentage YoY and 3.2 percentage QoQ, mainly due to Rmb8,000 in incremental component expense from Selective Catalytic Reduction (SCR).

## Falling capacity utilisation rate to hurt margin

We think Weichai engine segment's gross margin should narrow in 2015, owing to lower capacity utilisation rate due to drop in engine sales. We expect the engine segment's capacity utilisation rate to decrease from 41% in 2014 to 30% in 2015. Given the strong positive correlation between Weichai engine's gross margin and its capacity utilisation rate, historically, we forecast its engine segment gross margin to decline from 27% in 2014 to 22% in 2015. Meanwhile, there is potentially a price competition among truck/engines makers, amid the sector downturn, which should also bring in more pressure on margin outlook.

# Valuation

Our valuation methodology is based on an average consensus forward P/E multiple. Our HK\$25 TP is based on 10x 2016E P/E, in line with the company's historical 12-month forward P/E. Amid the current HDT sector downturn, near-term earnings multiple should be theoretically higher than the historical average. Thus we have decided to value Weichai, based on its historical average 12-month forward multiple, along with its 2016 estimated EPS.

**Figure 25: Weichai—historical 12-month forward P/E**



Source: the BLOOMBERG PROFESSIONAL™ service consensus

**Figure 26: Weichai—historical P/B**

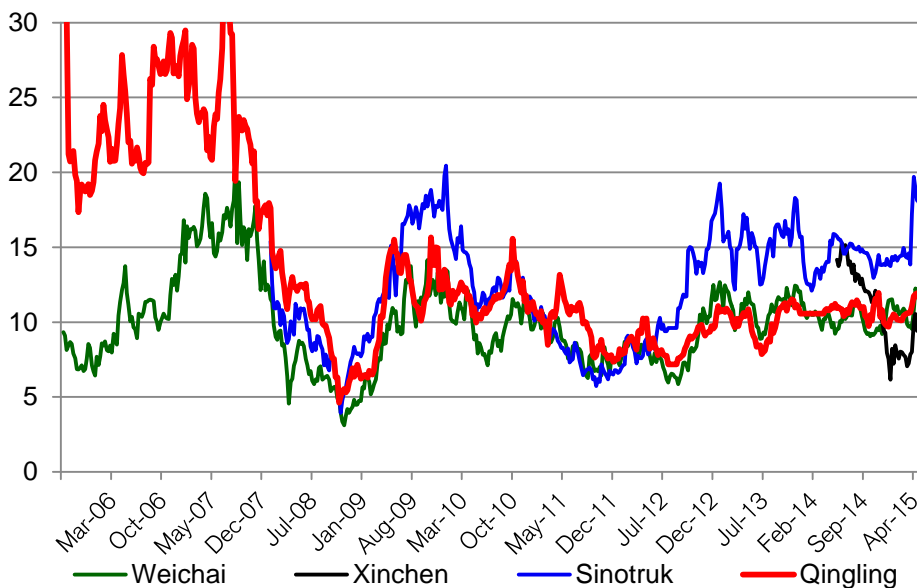


Source: the BLOOMBERG PROFESSIONAL™ service consensus

## Discount to peers due to weak downstream control

For valuation comparison, we have selected Hong Kong-listed Chinese truck/engine makers, China truck makers, and global truck makers as the three benchmark peer groups. Since Weichai's HK listing in 2004, its historical average valuation (10.0x forward P/E) is at a discount to all the three peers groups in terms of the 12-month forward P/E, mainly due to: (1) Weak downstream control—for example, its 51% stake in both Shaan'xi heavy truck and Fast gear box, and (2) potential customer loss, given the truck makers' vertical integration moves.

**Figure 27: HK-listed truck /engine makers' 12 -month forward P/E in the past 10 years**



Source: Company data, Credit Suisse estimates

**Figure 28: Truck companies valuation comparison**

	Bloomberg Ticker	Close 13-May	Market Cap (US\$ m)	2015-16 EPS CAGR	P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		Dividend yield	
					2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
<b>China truck maker</b>														
Weichai Power Co Ltd	2338 HK	29.25	9,404	-2.0%	10.9x	9.7x	1.3x	1.1x	7.7x	6.8x	12.5%	12.8%	1.3%	1.6%
Xinchen China Power Holdings Ltd	1148 HK	3.44	571	29.2%	9.5x	7.8x	1.3x	1.1x	7.4x	6.2x	13.8%	13.5%	NA	NA
Sinotruk Hong Kong Ltd	3808 HK	5.38	1,916	35.6%	18.7x	15.6x	0.6x	0.6x	4.6x	4.0x	3.3%	3.8%	1.7%	2.2%
Qingling Motors Co Ltd	1122 HK	3.09	989	14.3%	12.2x	10.5x	0.8x	0.8x	3.8x	3.5x	6.6%	7.3%	7.1%	7.9%
China Yuchai International Ltd	CYD US	19.71	735	-10.9%	8.5x	7.9x	NA	NA	4.0x	3.7x	10.0%	9.3%	NA	NA
CNHTC Jinan Truck Co Ltd	000951 CH	21.84	1,476	30.2%	17.3x	12.5x	1.9x	1.7x	11.2x	9.9x	11.0%	12.5%	1.6%	2.0%
Beiqi Foton Motor Co Ltd	600166 CH	8.16	4,386	79.9%	23.3x	14.8x	NA	NA	NA	NA	NA	NA	NA	NA
Jiangling Motors Corp Ltd	000550 CH	38.05	4,964	38.1%	12.2x	8.2x	2.5x	2.0x	6.5x	4.3x	22.3%	27.3%	3.0%	4.6%
<b>China truck makers' simple Avg.</b>					<b>14.1x</b>	<b>10.9x</b>	<b>1.4x</b>	<b>1.2x</b>	<b>6.5x</b>	<b>5.5x</b>	<b>11.4%</b>	<b>12.4%</b>	<b>3.0%</b>	<b>3.6%</b>
<b>China truck makers' market cap weighted Avg.</b>					<b>14.2x</b>	<b>10.9x</b>	<b>1.2x</b>	<b>1.0x</b>	<b>6.0x</b>	<b>5.0x</b>	<b>11.1%</b>	<b>12.3%</b>	<b>1.7%</b>	<b>2.2%</b>
<b>Global Passenger Vehicle maker</b>														
Cummins Inc	CMI US	141.2	25,607	10.4%	14.1x	12.8x	3.0x	2.7x	8.3x	7.6x	22.0%	22.1%	2.4%	2.6%
Deutz AG	DEZ GR	5.2	560	52.6%	20.7x	12.4x	1.2x	1.2x	4.7x	4.1x	6.1%	9.0%	1.5%	1.8%
Daimler AG	DAI GR	86.2	82,214	13.6%	11.5x	10.3x	1.9x	1.7x	3.9x	3.6x	16.9%	17.2%	3.4%	3.8%
Volvo AB	Volvb SS	108.8	27,914	183.1%	16.3x	13.2x	2.6x	2.3x	10.3x	9.1x	17.1%	18.0%	2.9%	3.2%
PACCAR Inc	PCAR US	66.1	23,452	10.7%	14.6x	14.1x	3.1x	2.8x	11.2x	10.3x	23.3%	23.6%	2.6%	2.9%
Navistar International Corp	NAV US	29.5	2,403		42.7x	10.2x	-0.5x	-0.5x	6.1x	4.3x	-2.3%	-7.8%	NA	NA
Hino Motors Ltd	7205 JP	1620	7,770	12.8%	11.0x	9.8x	2.1x	1.8x	6.4x	5.8x	18.7%	18.5%	2.7%	3.0%
Isuzu Motors Ltd	7202 JP	1615	11,438	8.8%	10.8x	9.8x	1.6x	1.4x	5.8x	5.2x	15.8%	15.7%	2.1%	2.4%
<b>Global truck makers' simple Avg.</b>					<b>24.6x</b>	<b>14.6x</b>	<b>2.0x</b>	<b>1.8x</b>	<b>8.4x</b>	<b>7.2x</b>	<b>13.3%</b>	<b>13.6%</b>	<b>2.6%</b>	<b>2.9%</b>
<b>Global truck makers' market cap weighted Avg.</b>					<b>17.6x</b>	<b>13.3x</b>	<b>2.3x</b>	<b>2.1x</b>	<b>7.5x</b>	<b>6.6x</b>	<b>17.2%</b>	<b>17.7%</b>	<b>2.9%</b>	<b>3.2%</b>

Source: the BLOOMBERG PROFESSIONAL™ service consensus

# Risks

## Downside risks

Downside risks to our investment thesis are: (1) Downstream engine clients' vertical integration moves—building in-house engine plant or establishing joint-ventures with competitors, such as Foton-Cummins, Liugong-Cummins, (B) customers base dilution due to competitors aggressive price cut, like Yuchai and Wanliyang in heavy truck engine / gear box market

## Upside risk

Upside risks are (1) rebound in property FAI due to price recovery and new loosen policy rollout, (2) faster than expected turnaround in its Linde Hydraulics operation, due to new customers such as Shantui, Xugong, and Zoomlion, especially after the China plant debut in May 2015.

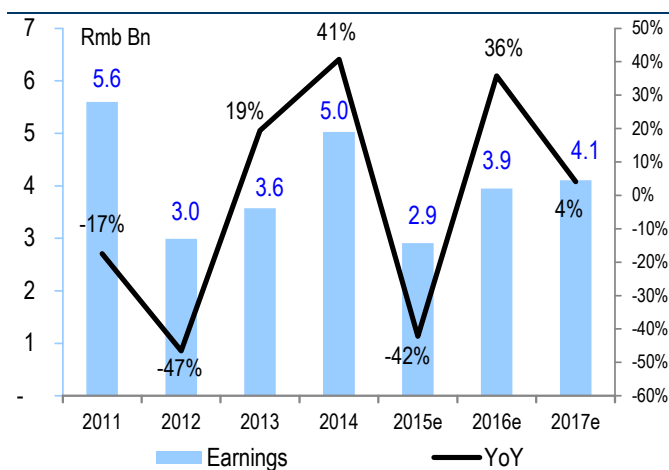


# Financial forecasts

We expect Weichai's 2015 profit to go down by 42% YoY to Rmb2.9 bn (1Q15 earnings were down 43% YoY), amid heavy truck sector downturn. Net profit then rises to Rmb3.9 bn in 2016 (up 36% YoY), on the back of a sector-wide HDT demand recovery – up by 18% YoY to 650,000 units in 2016 (still below 2014's 744K units).

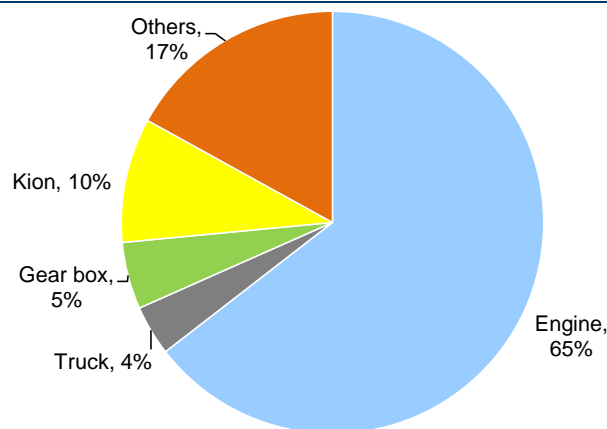
- 1) Engine segment (100% stake): Earnings contribution from engine segment accounted for around 65% total Weichai earnings in 2014. We estimate this segment's earnings to go down by 51% YoY in 2015 and go up by 58% YoY in 2016, due to HDT demand fluctuation.
- 2) Transmission (51% stake): Earnings contribution from transmission accounted for around 5% of Weichai's total earnings in 2014. We estimate this segment's earnings to go down by 28% YoY in 2015 and go up by 18% YoY in 2016.
- 3) Truck segment (51% stake): Earnings contribution from the truck segment accounted for around 4% of Weichai's total earnings in 2014. We estimate this segment's earnings to go down by 19% YoY in 2015 and go up by 14% YoY in 2016.
- 4) Forklift – Kion group (38.3% stake): Earnings contribution from the forklift segment (Kion group) accounted for around 10% of total Weichai earnings. Earnings contribution is estimated to increase to 21.4%/18% in 2015/2016, respectively, after the full-year consolidation.

Figure 29: Weichai—earnings growth outlook



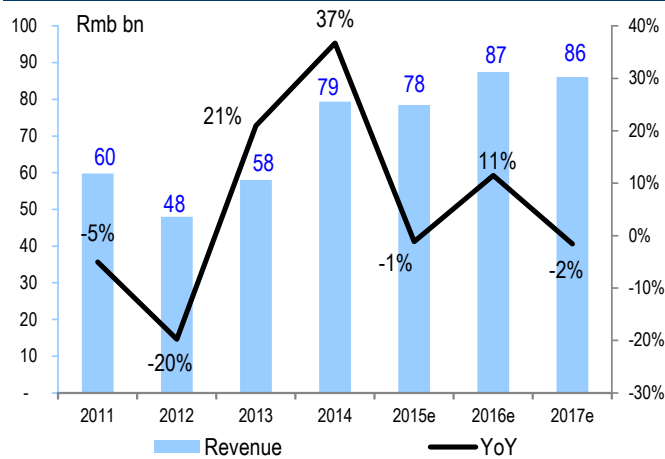
Source: Company data, Credit Suisse estimates

Figure 30: Weichai—earning breakdown by operation (2014)



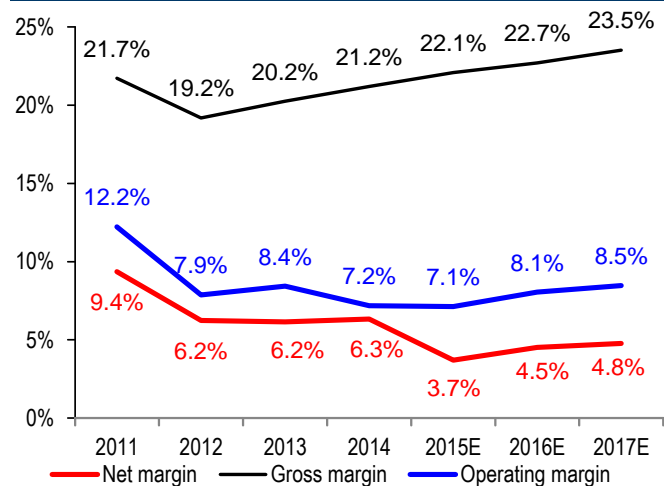
Source: Company data, Credit Suisse estimates

**Figure 31: Weichai—revenue growth outlook**



Source: Company data, Credit Suisse estimates

**Figure 32: Weichai—margin trend outlook**



Source: Company data, Credit Suisse estimates

**Figure 33: Forecast breakdown by Operation**

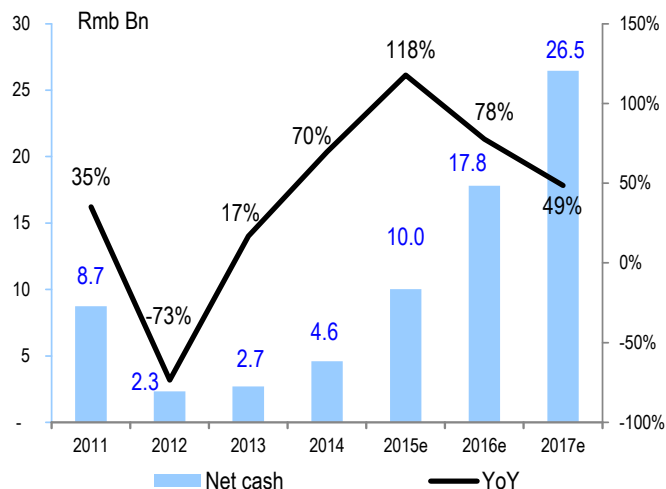
Rmb mn	2012	2013	2014	2015e	2016e	2017e	2015e YoY	2016e YoY	2017e YoY
<b><u>Sales volume (Unit)</u></b>									
Engine	307,400	389,100	361,917	265,000	305,000	290,000	-26.8%	15.1%	-4.9%
Truck	80,484	85,810	91,846	70,000	80,000	75,000	-23.8%	14.3%	-6.3%
Transmission	452,016	565,744	625,066	450,000	530,000	500,000	-28.0%	17.8%	-5.7%
<b><u>ASP (Rmb)</u></b>									
Engine	68,981	70,234	77,012	74,887	74,672	74,983	-2.8%	-0.3%	0.4%
Truck	284,050	286,235	281,811	300,000	300,000	300,000	6.5%	0.0%	0.0%
Transmission	14,557	14,640	14,494	14,494	14,494	14,494	0.0%	0.0%	0.0%
<b><u>Total Revenue</u></b>									
Engine	21,205	27,328	27,872	19,845	22,775	21,745	-28.8%	14.8%	-4.5%
Truck	22,862	24,562	25,883	21,000	24,000	22,500	-18.9%	14.3%	-6.3%
Transmission	6,580	8,282	9,059	6,522	7,682	7,247	-28.0%	17.8%	-5.7%
Kion			19,975	34,502	36,406	37,985	72.7%	5.5%	4.3%
<b>Total</b>	<b>47,978</b>	<b>58,039</b>	<b>79,371</b>	<b>78,450</b>	<b>87,444</b>	<b>86,058</b>	<b>-1.2%</b>	<b>11.5%</b>	<b>-1.6%</b>
<b><u>Gross profit</u></b>									
Engine	6,552	8,198	7,525	4,366	5,694	5,436	-42.0%	30.4%	-4.5%
Truck	1,829	2,456	2,329	1,890	2,160	2,025	-18.9%	14.3%	-6.3%
Transmission	1,086	1,449	1,540	1,109	1,306	1,232	-28.0%	17.8%	-5.7%
Kion			5,468	10,006	10,740	11,585	83.0%	7.3%	7.9%
<b>Total</b>	<b>9,203</b>	<b>11,751</b>	<b>16,823</b>	<b>17,330</b>	<b>19,859</b>	<b>20,239</b>	<b>3.0%</b>	<b>14.6%</b>	<b>1.9%</b>
<b><u>Operating profit</u></b>									
Engine	2,928	4,067	3,900	1,985	2,961	2,827	-49.1%	49.2%	-4.5%
Truck	457	491	328	266	304	285	-18.9%	14.3%	-6.3%
Transmission	526	745	578	416	490	462	-28.0%	17.8%	-5.7%
Kion			1,024	3,327	3,688	4,123	224.8%	10.8%	11.8%
<b>Total</b>	<b>3,778</b>	<b>4,894</b>	<b>5,706</b>	<b>5,594</b>	<b>7,043</b>	<b>7,297</b>	<b>-2.0%</b>	<b>25.9%</b>	<b>3.6%</b>
<b><u>Net profit</u></b>									
Engine	2,669	3,404	3,242	1,588	2,505	2,392	-51.0%	57.8%	-4.5%
Truck	122	134	193	157	179	168	-18.9%	14.3%	-6.2%
Transmission	156	255	258	186	219	206	-28.0%	17.8%	-5.7%
Kion		185	479	623	727	858	30.0%	16.7%	18.0%
<b>Total</b>	<b>2,991</b>	<b>3,570</b>	<b>5,025</b>	<b>2,907</b>	<b>3,947</b>	<b>4,109</b>	<b>-42.2%</b>	<b>35.8%</b>	<b>4.1%</b>
<b><u>Gross margin</u></b>									
Engine	30.9%	30.0%	27.0%	22.0%	25.0%	25.0%	-5.0%	3.0%	0.0%
Truck	8.0%	10.0%	9.0%	9.0%	9.0%	9.0%	0.0%	0.0%	0.0%
Transmission	16.5%	17.5%	17.0%	17.0%	17.0%	17.0%	0.0%	0.0%	0.0%
Kion			27.4%	29.0%	29.5%	30.5%	1.6%	0.5%	1.0%
<b>Total</b>	<b>19.2%</b>	<b>20.2%</b>	<b>21.2%</b>	<b>22.1%</b>	<b>22.7%</b>	<b>23.5%</b>	<b>0.9%</b>	<b>0.6%</b>	<b>0.8%</b>
<b><u>Operating margin</u></b>									
Engine	13.8%	14.9%	14.0%	10.0%	13.0%	13.0%	-4.0%	3.0%	0.0%
Truck	2.0%	2.0%	1.3%	1.3%	1.3%	1.3%	0.0%	0.0%	0.0%
Transmission	8.0%	9.0%	6.4%	6.4%	6.4%	6.4%	0.0%	0.0%	0.0%
Kion			5.1%	9.6%	10.1%	10.9%	4.5%	0.5%	0.7%
<b>Total</b>	<b>7.9%</b>	<b>8.4%</b>	<b>7.2%</b>	<b>7.1%</b>	<b>8.1%</b>	<b>8.5%</b>	<b>-0.1%</b>	<b>0.9%</b>	<b>0.4%</b>
<b><u>Net Margin</u></b>									
Engine	12.6%	12.5%	11.6%	8.0%	11.0%	11.0%	-3.6%	3.0%	0.0%
Truck	1.0%	1.1%	1.5%	1.5%	1.5%	1.5%	0.0%	0.0%	0.0%
Transmission	4.7%	6.0%	5.6%	5.6%	5.6%	5.6%	0.0%	0.0%	0.0%
Kion			4.1%	4.7%	5.2%	5.9%	0.7%	0.5%	0.7%
<b>Total</b>	<b>6.2%</b>	<b>6.2%</b>	<b>6.3%</b>	<b>3.7%</b>	<b>4.5%</b>	<b>4.8%</b>	<b>-2.6%</b>	<b>0.8%</b>	<b>0.3%</b>

Source: Company data, Credit Suisse estimates

## Balance sheet: Strong net cash in 2015–17E

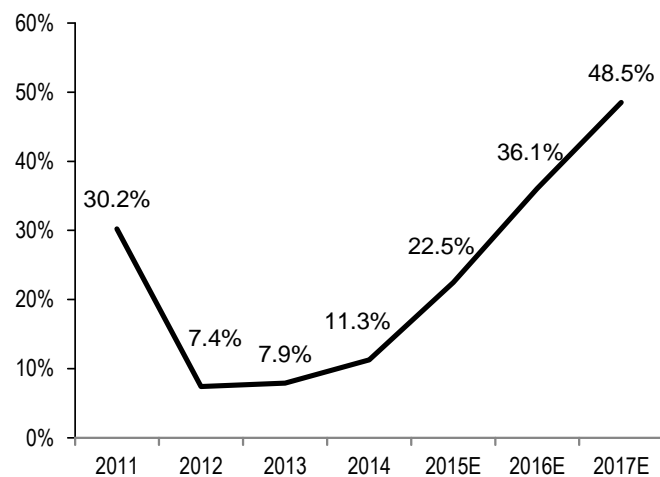
Weichai is a conservative company, in terms of credit financing. It had Rmb4.6 bn in net cash by end-2014, even after big-ticket spending in a wave of overseas acquisitions. Further, with strong free cash flow ahead (limited capex for new capacity, given the current low utilisation rate), we expect Weichai to further increase its net cash, from Rmb10 bn in 2015 to Rmb26.5 bn in 2017E and net cash/equity ratio to go up from 22.5% in 2015 to 48.5% in 2017E.

Figure 34: Weichai—net cash outlook



Source: Company data, Credit Suisse estimates

Figure 35: Weichai—net cash to total equity ratio

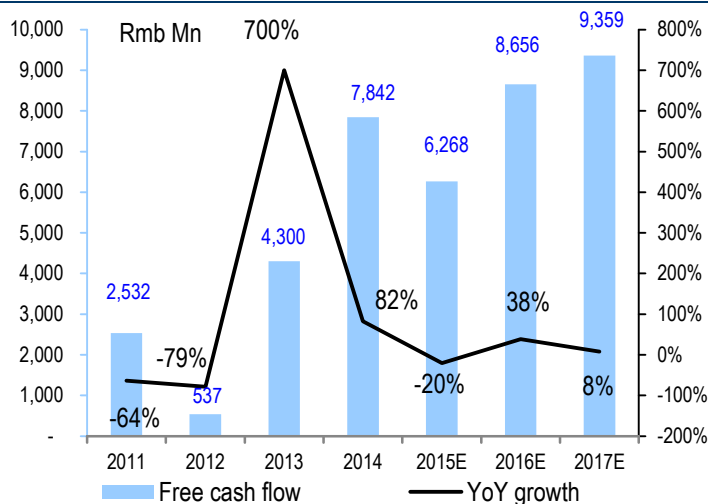


Source: Company data, Credit Suisse estimates

## Cash flow: Decent free cash flow ahead

Thanks to the company's strong bargaining power, due to its dominant market position and limited capex for new capacity, given the current low utilisation, we expect Weichai to enjoy positive free cash flow in 2015–17E. We assume its capex to be Rmb1.5 bn per year. Weichai shall have free cash flow at Rmb6.3 bn/Rmb8.7 bn/Rmb9.4 bn in 2015/16/17E, respectively.

Figure 36: Weichai—free cash flow outlook



Source: Company data, Credit Suisse estimates

## Company overview

### Company background

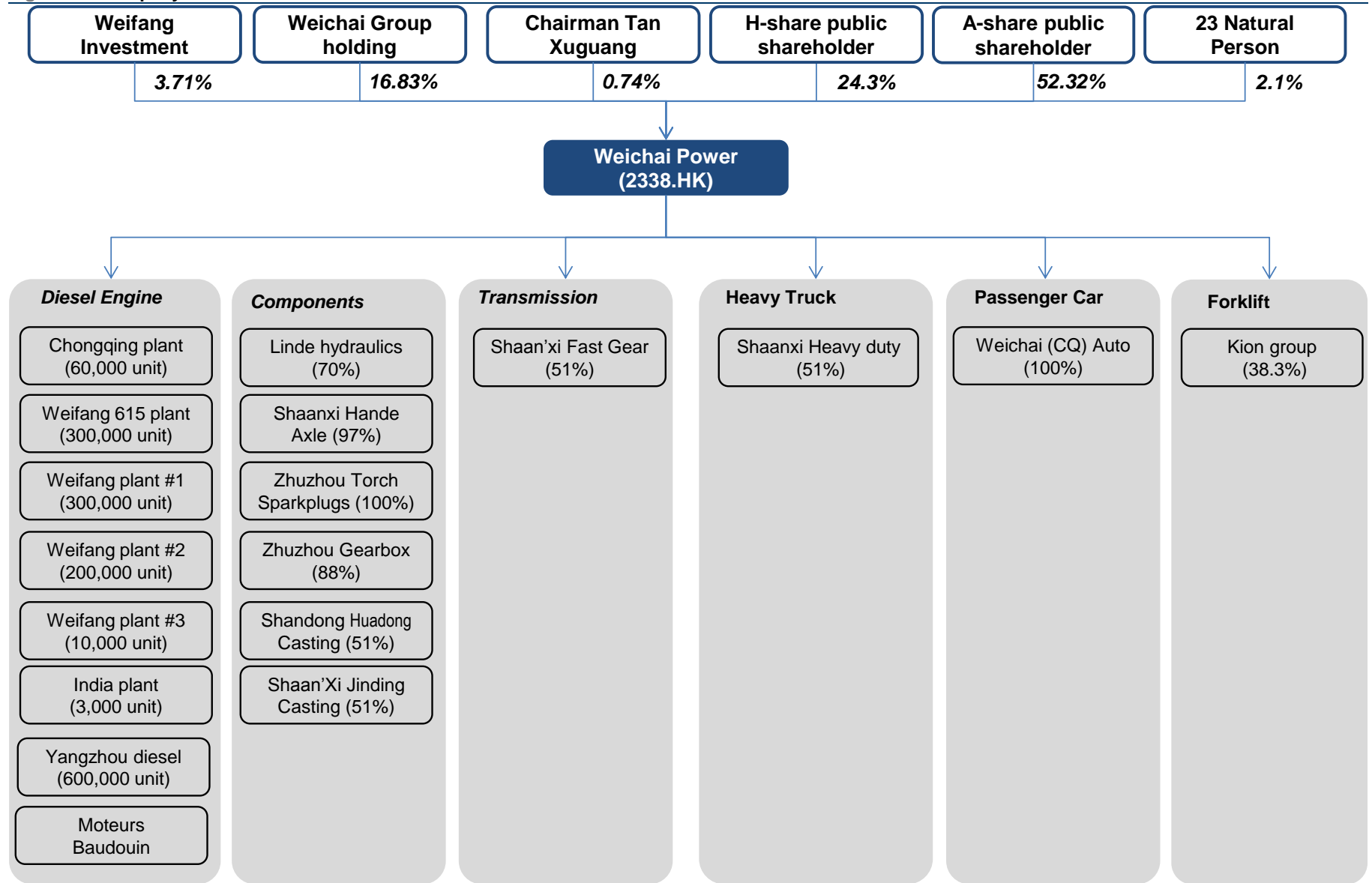
Weichai is China's largest heavy duty truck (HDT) engine and transmission supplier, with dominant market shares of 36% and 84%, respectively. Its 51%-owned truck subsidiary, Shaanxi Heavy duty Motor (Shaanqi), is China's fourth-largest HDT maker, with a 14% market share. The company also owns a controlling stake (38.3%) in Kion group, the second-largest forklift maker in the world. The company also has a controlling share in Linde hydraulics.

#### Figure 37: Weichai—key milestones

1953	The predecessor - Weichai Factory was established in 1953.
1984	Weichai Factory was assigned to manufacture Steyr WD615 diesel engines (10L).
1989	Weichai Factory commenced production of WD615 Engines for use in heavy-duty vehicles.
1995	Entered into contract for WD618 (12L) technology with Steyr.
1999	Acquired Chongqing Weichai plant.
2003	Weichai Factory's WD618 Engines successfully complies with Euro II emission standard.
2004	Weichai listed on the Hong Kong Stock Exchange Main Board.
2005	Launched EURO III emission standard compliant "Landking" large size diesel engines—WP10 (10L) and WD12 (12L).
2005	Acquired 28.12% stake in Torch Automobile Group Co., Ltd (TAGC, listed on the Shenzhen Stock Exchange), and in China's leading manufacturers of heavy-duty trucks parts, including Shaanxi Heavy Duty Motor Co., Ltd. (China's top-5 heavy duty truck manufacturers), Shaanxi Fast Gear Co., Ltd. (China's largest manufacturer of gearboxes of heavy duty trucks).
2007	Back-door list on the Shenzhen Stock Exchange by acquiring the rest of the stake of Torch Automobile Group .
2009	Acquired French marine diesel engine maker Moteurs Baudouin.
2009	Acquired Yangzhou Diesel Engine Co., Ltd, a light commercial vehicle engine maker.
2012	Acquired 25% stake in Kion Group and 70% stake in KION's hydraulics subsidiary.
2013	Launched "Enranger" a small-size SUV in China to enter the passenger vehicle market.
2014	Increased shareholding in Kion Group to 33.3% and became the largest shareholder of KION; consolidated Kion's financial results into the company.
2015	Further increased shareholding in Kion Group to 38.3%.

Source: Company data, Credit Suisse

Figure 38: Company structure



Source: Company data

**Figure 39: Management background**

Name	Position	Experience
Tan Xuguang	Chairman and Chief Executive Officer	Mr. Tan is a senior economist and holds a doctorate in engineering. Mr. Tan joined Weifang Diesel Engine Factory in 1977. He has extensive experience in machinery production management, international trade, marketing, capital operations management and corporate development and strategic management. Currently, he is the Chairman of Weichai Group Holdings. He is also the Chairman of Weichai Heavy-duty Machinery Co., Ltd., Shaanxi Heavy-duty Motor Co., Ltd. and Shaanxi Fast Gear Co., Ltd. and the supervisor of KION Group AG.
Zhang Quan	Executive President and Executive director	Mr. Zhang is a senior economist and holds a bachelor's degree in engineering and an MBA degree. Mr. Zhang joined Weifang Diesel Engine Factory in 1986. He had held the positions of directors of the quality control department and the marketing department. He has extensive experience in corporate marketing management. Currently, he is a director of Weichai Group Holdings Ltd., Weichai Heavy-duty Machinery Co., Ltd. and Beiqi Foton Motor Co., Ltd.
Xu Xinyu	Executive President and Executive director	Mr. Xu is a senior economist and holds a bachelor's degree in science and an MBA degree. Mr. Xu joined Weifang Diesel Engine Factory in 1986. He has been responsible for corporate restructuring, mergers and acquisitions, and human resources management of the company. He has extensive experience in corporate operations. Currently, he is a director of Weichai Group Holdings Limited.
Li Dakai	Executive President and Executive director	Mr. Li holds a bachelor's degree and is a senior engineer with researcher-grade treatment. Mr. Li had held various positions including director of product design department, chief economist and also held directorships in various subsidiaries of the company. Currently he is the chairman and party committee secretary of Shaanxi Fast Gear Automotive Transmission Co., Ltd. and vice chairman of Shaanxi Fast Gear Co., Ltd.
Fang Hongwei	Executive President and Executive director	Mr. Fang is a senior economist and holds a master's degree in engineering and the senior career manager certification of machinery industrial corporation. Mr. Fang had held the positions of deputy general manager, general manager of sales company and general manager of various subsidiaries. Currently, He is the chairman of Shaanxi Automotive Group Co., Ltd. and the vice chairman of Shaanxi Heavy-duty Motor Company Limited.
Sun Shaojun	Executive President and Executive director	Mr. Sun is a senior engineer and holds a doctorate in engineering. Mr. Sun joined Weifang Diesel Engine Factory in 1988. He has been responsible for diesel engine R&D at the company, and has extensive experience in corporate technology management. Currently, He is a director of Weichai Group Holdings Limited and Weichai Heavy-duty Machinery Co., Ltd.

Source: Company data, Credit Suisse

**Companies Mentioned** (Price as of 13-May-2015)

**China Yuchai** (CYD.N, \$19.71)  
**Cnhct Truck** (000951.SZ, Rmb21.84)  
**Cummins Inc.** (CMI.N, \$141.23)  
**Daimler** (DAIGn.DE, €85.68)  
**Deutz** (DEZG.DE, €5.067)  
**Dongfeng Motor Group Company Limited** (0489.HK, HK\$12.62)  
**Foton** (600166.SS, Rmb8.16)  
**Hino Motors** (7205.T, ¥1,620)  
**Isuzu Motors** (7202.T, ¥1,615)  
**Jiangling Motors Corp., Ltd.** (000550.SZ, Rmb38.05)  
**Kion** (KGX.DE, €41.51)  
**Paccar Inc** (PCAR.OQ, \$66.1)  
**Power Xinchon** (1148.HK, HK\$3.44)  
**Qingling Motors** (1122.HK, HK\$3.09)  
**Shantui** (000680.SZ, Rmb9.24)  
**Sinotruk (Hong Kong) Limited** (3808.HK, HK\$5.38)  
**Volvo** (VOLVb.ST, Skr108.2)  
**WLY** (002434.SZ, Rmb26.98)  
**Weichai Power Co. Ltd** (2338.HK, HK\$29.25, UNDERPERFORM, TP HK\$25.0)  
**Zoomlion Company Limited** (1157.HK, HK\$5.34)

Disclosure Appendix

**Important Global Disclosures**

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**3-Year Price and Rating History for Weichai Power Co. Ltd (2338.HK)**

2338.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
19-Jun-12	27.37		NR

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

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Underperform/Sell*	16%	(44% banking clients)
Restricted	3%	

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#### Price Target: (12 months) for Weichai Power Co. Ltd (2338.HK)

**Method:** Our HK\$25 target price for Weichai Power Co. Ltd is based on 10x 2016E P/E (price-to-earnings), in line with the company's historical 12-month forward P/E.

**Risk:** Risks to our HK\$25 target price for Weichai Power Co. Ltd include: (1) rebound in property FAI due to price recovery and new loosened policy rollout, (2) faster-than-expected turnaround in its Linde Hydraulics operation, due to new customers such as Shantui, Xugong, and Zoomlion, especially after the China plant debut in May 2015.

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