

Weichai Power (2338 HK/000338 CH)

1H25 results dragged by higher expenses; Expect a better 2H25E

Weichai's net profit in 1H25 dropped 4% YoY to RMB5.6bn, implying 11% YoY decline in 2Q25 profit (to RMB2.9bn). The profit decline in 2Q was due to the higher-than-expected distribution expenses as well as the gradual booking of restructuring cost (KION Group, KGX GR, NR). Weichai proposed an interim dividend of RMB0.358/shr (payout ratio 55%, same as full-year ratio in 2024). We fine-tune our 2025E-27E earnings forecast by -1 to -4%. We continue to like Weichai's growth story, driven by (1) replacement-driven HDT demand growth (accelerated since Jun); (2) explosive growth of engines for data centres; (3) earnings recovery of KION Group as restructuring cost has been 75-82% recognized. Our SOTP-based TP for A/H is revised up to RMB19.9/HK\$19.5, largely due to higher valuation of KION. Maintain **BUY**.

■ **Total engine sales declined but large-bore engines were strong.** Weichai delivered total engine sales of 362k units in 1H25 (including 125k units of HDT engines), down 10% YoY. Exports of 37k units, which grew 14% YoY, accounted for 10% of total engines sales. Large-bore engines grew 41% YoY to 5k units, of which engines for data centres surged 4.9x YoY to 600 units.

■ **Engine EBIT grew 13% YoY in 1H25.** The segment revenue was stable YoY at RMB32.4bn, as higher ASP due to improving product mix offset the decline in sale volume. The segment EBIT grew 13% YoY to RMB5.5bn, driven by a 1.9ppt YoY expansion of segment margin (to 17.1%).

■ **HDT segment EBIT dropped due to lower margin.** Weichai delivered 73k units of HDTs in 1H25 (+14% YoY). Sales in China grew 39% YoY to 46k units, while exports dropped 10% YoY to 27k units. New energy HDTs surged 2.55x YoY to 10k units (13.7% of Weichai's total HDTs sold). The segment EBIT dropped 21% YoY to RMB252mn, with segment margin contracting 0.2ppt YoY to 0.7%.

■ **Forklifts & supply chain solution (KION Group) EBIT affected by one-off expenses.** The segment revenue / EBIT dropped 2%/67%% YoY in 1H25. The high expenses were attributable to KION's "efficiency program". KION has recognized €197mn of related expenses in 1H25, which already accounted for 75-82% of the program target (€240-260mn). We expect the expenses will gradually normalize going forward.

■ **Agricultural machinery revenue below our expectation.** The segment revenue dropped 2% in 1H25 to RMB10.4bn (including exports of RMB1.15bn). The segment EBIT increased 1% YoY to RMB538mn.

Earnings Summary - 2338 HK

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	213,958	215,691	225,600	235,195	240,406
YoY growth (%)	22.2	0.8	4.6	4.3	2.2
Adjusted net profit (RMB mn)	9,013.9	11,403.3	12,243.4	13,433.7	14,185.1
EPS (Reported) (RMB)	1.04	1.31	1.40	1.54	1.63
YoY growth (%)	85.6	25.4	7.4	9.7	5.6
Consensus EPS (RMB)	na	0.00	1.43	1.63	1.78
P/E (x)	14.3	11.4	10.6	9.7	9.2
P/B (x)	1.6	1.5	1.4	1.3	1.2
Yield (%)	3.5	4.8	5.2	5.7	6.0
Net gearing (%)	(62.0)	(38.8)	(56.6)	(61.2)	(82.7)

Source: Company data, Bloomberg, CMBIGM estimates

2338 HK	000338 CH
BUY	BUY
Maintain	Maintain

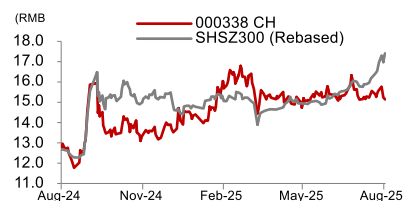
TP	HK\$19.50	RMB19.90
Prior TP	HK\$18.00	RMB18.70
Up/Downside	19.6%	31.4%
Current Price	HK\$16.3	RMB15.1

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12-mth Price Performance



Source: FactSet

Stock Performance

	2338 HK		000338 CH	
	Abs.	Rel.	Abs.	Rel.
1-mth	-4.3%	-2.6%	-1.2%	-11.7%
3-mth	4.0%	-2.3%	-0.4%	-10.8%
6-mth	6.7%	-2.4%	-3.5%	-7.7%

Source: FactSet

Stock Data

(LC)	2338 HK	000338 CH
Mkt Cap (mn)	31524.2	102558.4
Avg 3 mths t/o (mn)	142.3	796.86
52w High	17.84	16.79
52w Low	10.68	11.72
Issued Shares (mn)	1934	6774

Source: FactSet

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Capital Goods – Upgrade of rural highways could become a trillion yuan market – 23 Jul 2025 ([link](#))

Weichai – Strong engine margin expansion in 2024; 55% dividend payout ratio a record high – 28 Mar 2025 ([link](#))

Capital Goods - New subsidies on truck replacement cover NES IV and natural gas trucks; +ve to Weichai – 20 Mar 2025 ([link](#))

Capital Goods – Who are the potential beneficiaries of Germany's mega infrastructure investment plan? 18 Mar 2025 ([link](#))

Figure 1: Weichai's quarterly results

(RMB mn)	1Q24	1Q25	Chg (YoY)	2Q24	2Q25	Chg (YoY)	3Q23	3Q24	Chg (YoY)	4Q23	4Q24	Chg (YoY)
Revenue	56,380	57,464	2%	56,110	55,688	-1%	54,248	49,464	-9%	53,575	53,737	0%
Cost of sales	-43,914	-44,691	2%	-44,109	-43,364	-2%	-43,291	-38,523	-11%	-40,047	-40,758	2%
Gross profit	12,466	12,773	2%	12,000	12,324	3%	10,956	10,941	0%	13,528	12,979	-4%
Other income	323	362	12%	540	739	37%	588	617	5%	846	888	5%
Other gains and losses	211	-38	n/a	188	-83	n/a	281	139	-50%	-458	53	n/a
S&D expenses	-3,272	-3,237	-1%	-2,856	-3,390	19%	-2,532	-3,005	19%	-4,673	-3,353	-28%
Administrative expenses	-2,612	-4,091	57%	-2,483	-2,690	8%	-2,363	-2,444	3%	-2,469	-2,720	10%
R&D expenses	-2,091	-2,040	-2%	-2,211	-2,096	-5%	-1,929	-1,904	-1%	-2,395	-2,094	-13%
Taxes and surcharges	-229	-190	-17%	-144	-211	47%	-192	-119	-38%	-224	-215	-4%
Impairment loss of assets	-454	-570	26%	-293	-535	82%	-395	-121	-69%	-536	-708	32%
EBIT	4,343	2,971	-32%	4,742	4,058	-14%	4,414	4,104	-7%	3,619	4,829	33%
Other expenses	-42	-32	-24%	-141	-33	-76%	-32	-72	124%	-64	-166	158%
Net finance cost	-106	208	n/a	75	261	248%	-505	-357	-29%	-34	157	n/a
Share of profit of JV and associates	-18	-17	-4%	63	-25	n/a	15	-32	n/a	-7	-58	687%
Pretax profit	4,177	3,129	-25%	4,739	4,261	-10%	3,891	3,643	-6%	3,513	4,762	36%
Income tax	-832	-308	-63%	-710	-519	-27%	-679	-675	-1%	-299	-827	177%
After tax profit	3,345	2,822	-16%	4,029	3,742	-7%	3,212	2,968	-8%	3,215	3,936	22%
MI	-745	-111	-85%	-725	-809	12%	-610	-470	-23%	-701	-934	33%
Net profit	2,600	2,711	4%	3,304	2,933	-11%	2,602	2,498	-4%	2,513	3,002	19%
Key ratios	Chg (ppt)			Chg (ppt)			Chg (ppt)			Chg (ppt)		
Gross margin	22.1%	22.2%	0.1	21.4%	22.1%	0.7	20.2%	22.1%	1.9	25.3%	24.2%	-1.1
S&D expense ratio	5.8%	5.6%	-0.2	5.1%	6.1%	1.0	4.7%	6.1%	1.4	8.7%	6.2%	-2.5
Administrative expense ratio	4.6%	7.1%	2.5	4.4%	4.8%	0.4	4.4%	4.9%	0.6	4.6%	5.1%	0.5
R&D expense ratio	3.7%	3.5%	-0.2	3.9%	3.8%	-0.2	3.6%	3.8%	0.3	4.5%	3.9%	-0.6
Effective tax rate	19.9%	9.8%	-10.1	15.0%	12.2%	-2.8	17.5%	18.5%	1.1	8.5%	17.4%	8.9

Source: Company data, CMBIGM

Figure 2: KION's guidance for 2025E

(EUR mn)	2022	2023	2024	2025E guidance	
				Low-end	High-end
Order intake	11,708	10,876	10,321	-	-
Growth (YoY)	-6%	-7%	-5%	-	-
Revenue	11,136	11,434	11,503	10,900	11,700
Growth (YoY)	8%	3%	1%	-5%	2%
Adjusted EBIT	292	791	917	720	870
Growth (YoY)	-65%	171%	16%	-21%	-5%
Adjusted EBIT margin	2.6%	6.9%	8.0%	6.6%	7.4%
Net income	106	314	370	-	-
Growth (YoY)	-81%	197%	18%	-	-

Source: Company data, CMBIGM

Figure 3: KION's quarterly financials

(EUR mn)	2Q24	3Q24	4Q24	1Q25	2Q25
Order intake	2,640	2,427	2,815	2,706	3,500
Growth (YoY)	-8%	-7%	-4%	11%	33%
Revenue	2,877	2,699	3,068	2,788	2,708
Growth (YoY)	1%	-1%	-1%	-2%	-6%
Adjusted EBIT	220	220	250	196	189
Growth (YoY)	15%	-2%	14%	-14%	-14%
Adjusted EBIT margin	7.6%	8.2%	8.1%	7.0%	7.0%
Net income	71	74	114	-47	95
Growth (YoY)	-2%	-10%	33%	-142%	34%

Source: Company data, CMBIGM

Figure 4: Change in key assumptions for Weichai

	2025E			2026E			2027E		
	Old	New	Change	Old	New	Change	Old	New	Change
Sales volume (unit)									
Engine total	809,907	745,627	-7.9%	842,407	773,644	-8.2%	852,064	782,948	-8.1%
HDT (Shaanxi Heavy-duty Motor)	128,620	133,340	3.7%	137,623	142,674	3.7%	141,752	146,954	3.7%
Gear box (Shaanxi Fast Gear Company)	895,650	861,530	-3.8%	929,685	883,068	-5.0%	929,685	891,899	-4.1%
(RMB mn)									
Revenue									
Diesel engines	66,412	67,106	1.0%	70,088	70,402	0.4%	70,892	71,248	0.5%
Automobiles and major components	66,578	64,667	-2.9%	70,442	67,699	-3.9%	70,715	68,564	-3.0%
Forklift trucks & supply chain solution	89,221	87,889	-1.5%	91,898	90,526	-1.5%	94,655	93,242	-1.5%
Agricultural machinery	20,401	20,216	-0.9%	21,625	21,429	-0.9%	22,706	22,500	-0.9%
Intersegment sales	-14,444	-14,278	-1.1%	-15,108	-14,861	-1.6%	-15,357	-15,149	-1.4%
Total revenue	228,168	225,600	-1.1%	238,946	235,195	-1.6%	243,611	240,406	-1.3%
Segment profit									
Diesel engines	11,755	11,878	1.0%	12,476	12,531	0.4%	12,761	12,825	0.5%
Automobiles and major components	599	485	-19.1%	634	542	-14.6%	636	549	-13.8%
Forklift trucks & supply chain solution	5,353	4,834	-9.7%	5,514	5,432	-1.5%	5,679	5,595	-1.5%
Agricultural machinery	877	869	-0.9%	973	964	-0.9%	1,022	1,013	-0.9%
Intersegment sales	-693	-685	-1.1%	-725	-713	-1.6%	-737	-727	-1.4%
Total segment profit	17,891	17,381	-2.9%	18,872	18,756	-0.6%	19,361	19,253	-0.6%
Segment margin			Chg (ppt)			Chg (ppt)			Chg (ppt)
Diesel engines	17.7%	17.7%	0.0	17.8%	17.8%	0.0	18.0%	18.0%	0.0
Automobiles and major components	0.9%	0.8%	-0.2	0.9%	0.8%	-0.1	0.9%	0.8%	-0.1
Forklift trucks & supply chain solution	6.0%	5.5%	-0.5	6.0%	6.0%	0.0	6.0%	6.0%	0.0
Agricultural machinery	4.3%	4.3%	0.0	4.5%	4.5%	0.0	4.5%	4.5%	0.0
Average	7.8%	7.7%	-0.1	7.9%	8.0%	0.1	7.9%	8.0%	0.1
Net profit	12,764	12,243	-4.1%	13,669	13,434	-1.7%	14,345	14,185	-1.1%

Source: Company data, CMBIGM estimates

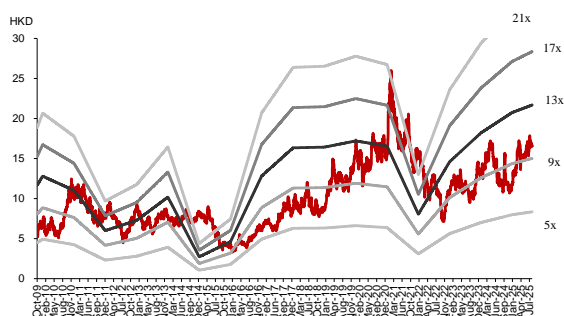
Figure 5: SOTP valuation

SOTP valuation	Valuation methodology	Target multiple (x)	EBITDA 2025E (RMB mn)	Estimated EV (RMB mn)	Net cash / (Net debt)	Equity value (RMB mn)	Equity value breakdown
Weichai core business	EV/EBITDA	6.0	17,212	103,273	41,239	144,512	83.4%
KION Group	Proportionate market value	-	-	-	-	28,174	16.3%
Ballard Power Systems	Proportionate market value	-	-	-	-	864	0.5%
Ceres Power	Proportionate market value	-	-	-	-	430	0.2%
Share of JV/associates	P/B	1.2	-	-	-	5,898	3.4%
Minority interest in core business						-6,650	-3.8%
Total NAV						173,228	100.0%
NAV per share (RMB)						19.9	
A/H discount						10%	
NAV per share (HK\$)						19.5	

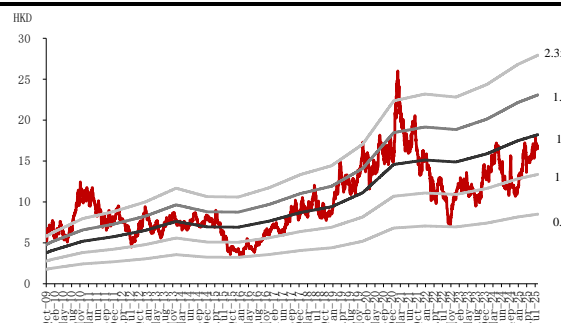
Source: Company data, CMBIGM estimates

Note 1: Weichai owns 46.5% interest in KION, 20% interest in Ballard Power and 20% interest in Ceres Power.

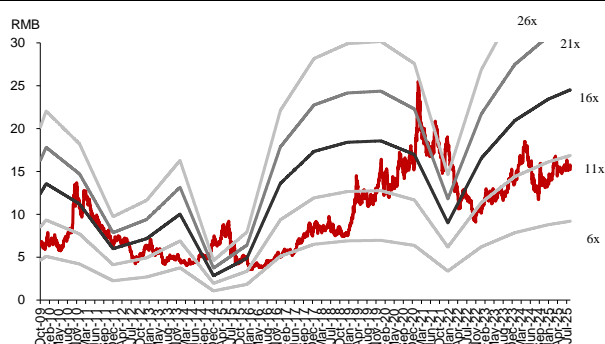
Note 2: Share of JV/associates excludes Ballard Power and Ceres Power

Figure 6: Weichai Power-H P/E band

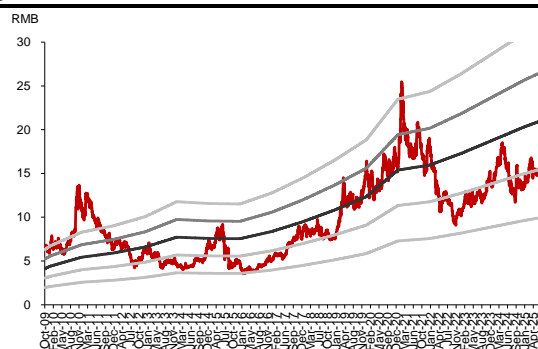
Source: Bloomberg, company data, CMBIGM estimates

Figure 7: Weichai Power-H P/B band

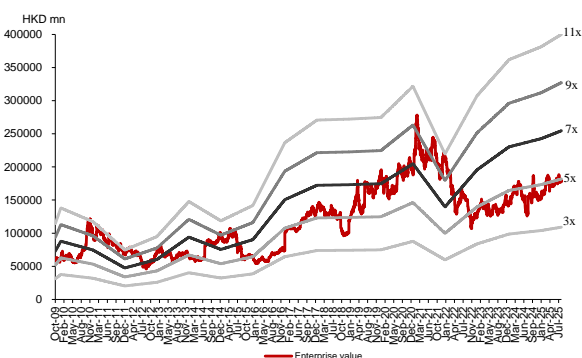
Source: Bloomberg, company data, CMBIGM estimates

Figure 8: Weichai Power-A P/E band

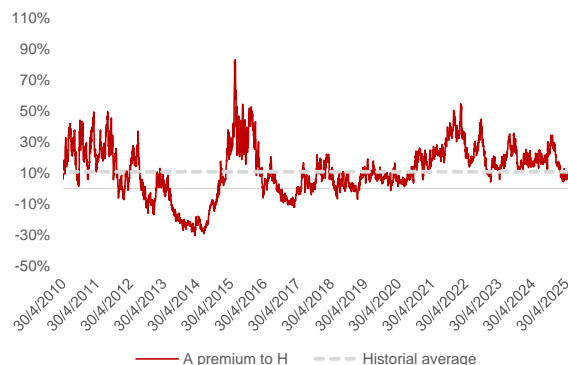
Source: Bloomberg, company data, CMBIGM estimates

Figure 9: Weichai Power-A P/B band

Source: Bloomberg, company data, CMBIGM estimates

Figure 10: Weichai Power EV/EBITDA band

Source: Bloomberg, company data, CMBIGM estimates

Figure 11: Weichai Power-A premium to H

Source: Bloomberg, company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	175,158	213,958	215,691	225,600	235,195	240,406
Cost of goods sold	(144,011)	(168,842)	(167,305)	(173,712)	(179,924)	(183,910)
Gross profit	31,147	45,116	48,386	51,888	55,271	56,495
Operating expenses	(25,664)	(31,238)	(30,368)	(34,056)	(35,915)	(36,543)
Operating profit	5,482	13,878	18,018	17,832	19,356	19,953
Share of (losses)/profits of associates/JV	(144)	(13)	(45)	99	100	100
EBITDA	16,630	25,867	30,744	31,426	34,797	36,781
Depreciation	11,148	11,989	12,726	13,594	15,441	16,828
Interest income	2,359	2,818	3,781	2,608	3,046	3,615
Interest expense	(1,450)	(3,378)	(4,011)	(1,424)	(1,428)	(1,431)
Net interest income/(expense)	909	(560)	(231)	1,184	1,619	2,184
Other income/expense	(162)	(154)	(421)	(451)	(470)	(481)
Pre-tax profit	6,086	13,151	17,322	18,664	20,604	21,756
Income tax	(403)	(1,940)	(3,044)	(3,359)	(3,812)	(4,025)
Minority interest	(778)	(2,198)	(2,874)	(3,061)	(3,358)	(3,546)
Adjusted net profit	4,906	9,014	11,403	12,243	13,434	14,185

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	168,484	197,925	184,750	204,132	202,170	240,959
Cash & equivalents	70,842	92,857	72,067	90,956	99,429	126,517
Account receivables	21,419	23,754	30,877	24,750	24,222	24,518
Inventories	33,374	37,930	35,675	42,376	32,551	44,036
Prepayment	1,473	1,691	1,368	1,287	1,206	1,125
Other current assets	41,378	41,693	44,762	44,762	44,762	44,762
Non-current assets	125,182	136,322	159,130	156,559	150,641	141,837
PP&E	37,892	44,073	47,301	45,787	41,014	33,440
Investment in JVs & assos	5,341	5,175	4,915	4,957	5,000	5,043
Intangibles	22,760	23,071	22,205	21,105	19,919	18,645
Goodwill	24,019	24,858	24,561	24,561	24,561	24,561
Other non-current assets	35,171	39,145	60,148	60,148	60,148	60,148
Total assets	293,666	334,247	343,879	360,691	352,811	382,796
Current liabilities	119,743	146,215	154,839	162,614	144,676	164,318
Short-term borrowings	15,824	16,949	22,772	22,872	22,972	23,072
Account payables	45,560	60,127	58,033	65,707	47,670	67,211
Other current liabilities	58,358	69,139	74,034	74,034	74,034	74,034
Non-current liabilities	69,813	75,346	67,081	67,081	67,081	67,081
Long-term borrowings	28,839	26,745	15,633	15,633	15,633	15,633
Other non-current liabilities	40,973	48,601	51,448	51,448	51,448	51,448
Total liabilities	189,555	221,561	221,921	229,695	211,757	231,399
Total shareholders equity	73,184	79,335	86,696	92,672	99,372	106,169
Minority interest	30,926	33,351	35,262	38,323	41,682	45,228
Total equity and liabilities	293,666	334,247	343,879	360,691	352,811	382,796

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,086	13,151	17,322	18,664	20,604	21,756
Depreciation & amortization	11,065	11,909	12,668	13,513	15,360	16,747
Tax paid	(403)	(1,940)	(3,044)	(3,359)	(3,812)	(4,025)
Change in working capital	(20,324)	6,089	(6,811)	7,100	(7,684)	7,760
Others	1,227	(1,738)	5,959	1,406	1,409	1,412
Net cash from operations	(2,350)	27,471	26,094	37,324	25,877	43,651
Investing						
Capital expenditure	(5,242)	(4,633)	(2,824)	(10,900)	(9,400)	(7,900)
Acquisition of subsidiaries/ investments	(309)	(156)	(584)	0	0	0
Others	(2,995)	(947)	(25,503)	56	57	57
Net cash from investing	(8,545)	(5,737)	(28,911)	(10,844)	(9,343)	(7,843)
Financing						
Dividend paid	(3,930)	(4,175)	(7,769)	(6,267)	(6,734)	(7,389)
Net borrowings	12,842	(969)	(5,289)	100	100	100
Proceeds from share issues	1,676	92	0	0	0	0
Others	(5,736)	(7,977)	(780)	(1,424)	(1,428)	(1,431)
Net cash from financing	4,852	(13,029)	(13,838)	(7,591)	(8,061)	(8,720)
Net change in cash						
Cash at the beginning of the year	75,043	70,842	92,857	72,067	90,956	99,429
Exchange difference	1,841	13,310	(4,135)	0	0	0
Cash at the end of the year	70,842	92,857	72,067	90,956	99,429	126,517
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(13.9%)	22.2%	0.8%	4.6%	4.3%	2.2%
Gross profit	(21.3%)	44.8%	7.2%	7.2%	6.5%	2.2%
Operating profit	(59.6%)	153.1%	29.8%	(1.0%)	8.5%	3.1%
EBITDA	(31.2%)	55.5%	18.9%	2.2%	10.7%	5.7%
Adj. net profit	(47.0%)	83.8%	26.5%	7.4%	9.7%	5.6%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	17.8%	21.1%	22.4%	23.0%	23.5%	23.5%
Operating margin	3.1%	6.5%	8.4%	7.9%	8.2%	8.3%
EBITDA margin	9.5%	12.1%	14.3%	13.9%	14.8%	15.3%
Adj. net profit margin	2.8%	4.2%	5.3%	5.4%	5.7%	5.9%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.6)	(0.4)	(0.6)	(0.6)	(0.8)
Current ratio (x)	1.4	1.4	1.2	1.3	1.4	1.5
Receivable turnover days	41.3	38.5	46.2	45.0	38.0	37.0
Inventory turnover days	82.3	77.1	80.3	82.0	76.0	76.0
Payable turnover days	107.9	114.2	128.9	130.0	115.0	114.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	26.5	14.3	11.4	10.6	9.7	9.2
P/B	1.8	1.6	1.5	1.4	1.3	1.2
Div yield (%)	1.7	3.5	4.8	5.2	5.7	6.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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