

Singapore

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	US\$8.46
Target price:	US\$13.60
Previous target:	US\$15.80
Up/downside:	60.8%
CGS-CIMB / Consensus:	-20.0%
Reuters:	CYD.N
Bloomberg:	CYD US
Market cap:	US\$345.7m
	US\$345.7m
Average daily turnover:	US\$0.16m
	US\$0.16m
Current shares o/s:	40.81m
Free float:	42.7%

*Source: Bloomberg

Key changes in this note

- FY22-24F EPS lowered by 27-54%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-0.8	-16.2	-40
Relative (%)	-5.3	-22.3	-33.2

Major shareholders

	% held
HL Technology System	23.2
Yulin City Government	17.2
Well Summit Investments	16.6

Analyst(s)



ONG Khang Chuen, CFA

T (65) 6210 8685

E khangchuen.ong@cgs-cimb.com

China Yuchai International

Now trading below cash

- China Yuchai's 1H22 NP of Rmb94m (+394% hoh, -63% yoy) was below our expectations as volume recovery was dragged by China's slowdown.
- We expect volume recovery in 2H22F to remain gradual on macro concerns, but margin improvement should continue, aiding 2H net profit to jump 6x yoy.
- Maintain Add given CYD's undemanding valuation, with the stock currently trading below its net cash position of US\$11.90/share.

1H22 results below expectations

China Yuchai (CYD) reported a 1H22 PATMI of Rmb94m (+394% hoh, -63% yoy), below expectations at 20% of our FY22F forecast. The key drag was weaker revenue (-32% yoy), off a high base in 1H21 which benefited from strong pre-buying on new engine standard implementation. While GPM expanded, CYD's OPM contracted 0.6% pts yoy to 3.4% as a result of weaker sales volume which led to operating deleverage.

Lowering volume recovery expectations on China's slowdown

Engine unit sales in 1H22 fell 37% yoy to 181k engines but improved 6% hoh as accumulated distributors' inventory were better digested. In view of China's economic slowdown and disruptions from ongoing Covid restrictions, we think the market conditions could remain challenging in 2H22F. As such, we lower our revenue growth forecast to 5% yoy for the period. CYD continues to invest heavily in R&D to develop Tier-4 compliant off-road engine units and new energy powertrains (hydrogen, fuel cell, electric and hybrid) as China transitions towards a more stringent emission standard.

Margins recovering off a low base

CYD's GPM continued to show sequential improvements to 15.9% in 1H22 (+0.5% pts hoh, +3.0% pts yoy) with 1) ramp-up of National VI (N6) engine sales enabling CYD to reach volume commitments needed to negotiate further cost reductions on required parts, and 2) increase in sales mix in the off-road segment. We expect sequential margin improvement trend to continue (2H22F: 16.4%), though given the weaker sales volume expectations, pace of recovery to longer-term (FY10-20) average GPM of 20% could take more time amid weaker operating leverage gains near-term. Off a low comparison base for 2H21, we forecast CYD to post a net profit of Rmb121m in 2H22F, a 6x jump yoy.

Maintain Add with a lower TP of US\$13.60

Maintain Add as we think CYD's earnings have bottomed out, and valuation is undemanding as it is currently trading below its end-1H22 net cash balance of US\$488m (US\$11.90/share), while having a strong profitability and operating cash flow generation track record. We lower our FY22-24F EPS by 27-54% on lower sales volume assumptions. This lowers our TP to US\$13.60, which is based on a 40% discount to FY22F net cash per share plus 6x FY23F P/E given our expectations of a slower recovery. Potential rerating catalysts include Chinese government's stimulus measures catalysing diesel engine sales. Key risks include supply chain disruptions further dampening business sentiment in China.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	20,581	21,266	17,484	18,371	19,023
Operating EBITDA (Rmbm)	1,616	1,198	1,006	1,252	1,404
Net Profit (Rmbm)	548.9	272.7	209.9	348.5	437.8
Normalised EPS (Rmb)	13.45	6.67	5.14	8.54	10.73
Normalised EPS Growth	(9.2%)	(50.4%)	(22.9%)	66.0%	25.6%
FD Normalised P/E (x)	4.31	8.67	11.26	6.78	5.40
DPS (Rmb)	11.73	2.72	2.72	2.72	2.72
Dividend Yield	20.3%	4.7%	4.7%	4.7%	4.7%
EV/EBITDA (x)	0.68	1.75	2.41	1.70	1.59
P/FCFE (x)	2.53	NA	NA	3.95	10.20
Net Gearing	(34.5%)	(26.0%)	(23.7%)	(26.9%)	(26.7%)
P/BV (x)	0.26	0.27	0.26	0.26	0.25
ROE	6.17%	3.05%	2.36%	3.84%	4.68%
% Change In Normalised EPS Estimates			(54.4%)	(36.6%)	(26.8%)
Normalised EPS/consensus EPS (x)			0.56	0.67	0.68

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Now trading below cash

Figure 1: Results comparison


FYE Dec (Rmb m)	1HFY22	1HFY21	yoy % chg	2HFY21	hoh % chg	FY22F	FY21	yoy % chg	Prev FY22F	Comments
Revenue	8,569	12,629	(32)	8,637	(1)	17,484	21,266	(18)	19,183	Slightly below expectations; 1H22 made up 45% of our FY22F
Cost of goods sold	(7,208)	(11,005)	(35)	(7,309)	(1)	(14,703)	(18,314)	(20)	(16,089)	
Gross profit	1,361	1,624	(16)	1,328	2	2,781	2,952	(6)	3,094	
Gross margin (%)	15.9%	12.9%	24	15.4%	3	15.9%	13.9%	15	16.1%	
OpEx	(1,073)	(1,124)	(5)	(1,165)	(8)	(2,180)	(2,289)	(5)	(2,179)	
Operating profit	288	500	(42)	164	76	601	664	(9)	916	
Operating margin (%)	3.4%	4.0%	(15)	1.9%	77	3.4%	3.1%	10	4.8%	Weaker than expected volume recovery dampened operating leverage gains hoh
Pretax profit	202	444	(55)	8	2,465	431	452	(5)	806	
Tax	(56)	(86)	(35)	42	na	(108)	(44)	146	(149)	
Tax rate (%)	28.0%	19.4%	44	-539.3%	na	25.0%	9.7%	158	18.5%	
Minority interests	(52)	(104)	(50)	(31)	65	(135)	(135)	-	(135)	
Net profit	94	254	(63)	19	394	210	273	(23)	460	
Core net profit	94	254	(63)	19	394	210	273	(23)	460	Below, 1H22 made up 20.4% of our FY22F
EPS (S cts)	2.3	6.2	(63)	0.5	394	5.14	6.7	(23)	11.3	
Core EPS (S cts)	2.3	6.2	(63)	0.5	394	5.14	6.7	(23)	11.3	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

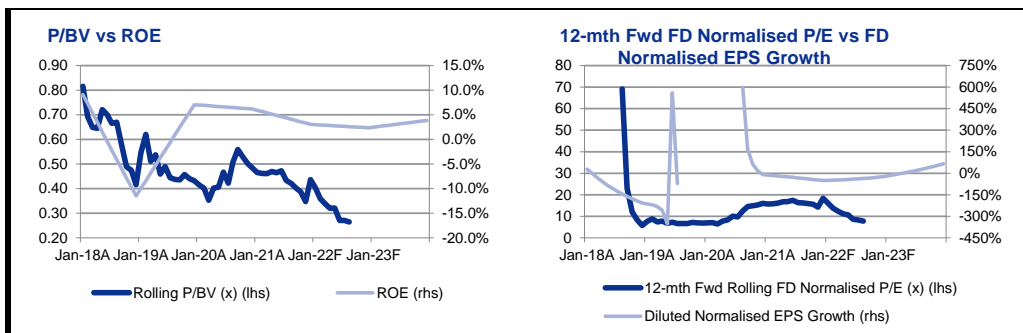
Figure 2: Earnings revision

FYE Dec (Rmb m)	FY22F			FY23F			FY24F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	19,183.0	17,484.0	-8.9%	20,172.6	18,370.8	-8.9%	20,897.4	19,023.0	-9.0%
Operating EBITDA	1,377.5	1,005.5	-27.0%	1,538.5	1,251.7	-18.6%	1,627.1	1,404.5	-13.7%
Net profit	460.0	209.9	-54.4%	549.4	348.5	-36.6%	598.1	437.8	-26.8%
EPS (Rmb)	11.3	5.1	-54.4%	13.5	8.5	-36.6%	14.7	10.7	-26.8%
EPS (US\$)	1.7	0.8	-54.4%	2.0	1.3	-36.6%	2.2	1.6	-26.8%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Refinitiv ESG Scores							
	<table border="1"> <tr> <td style="background-color: #d62728; color: white; text-align: center;">D- ESG Score</td> <td style="background-color: #2ca02c; color: white; text-align: center;">A+ ESG Controversies Score</td> <td style="background-color: #d62728; color: white; text-align: center;">D- ESG Combined Score</td> <td style="background-color: #d62728; color: white; text-align: center;">D- ESG Environment Pillar Score</td> <td style="background-color: #ffc107; color: white; text-align: center;">D ESG Social Pillar Score</td> <td style="background-color: #ffc107; color: white; text-align: center;">D ESG Government Pillar Score</td> </tr> </table>	D- ESG Score	A+ ESG Controversies Score	D- ESG Combined Score	D- ESG Environment Pillar Score	D ESG Social Pillar Score	D ESG Government Pillar Score
D- ESG Score	A+ ESG Controversies Score	D- ESG Combined Score	D- ESG Environment Pillar Score	D ESG Social Pillar Score	D ESG Government Pillar Score		
<p>ESG in a nutshell</p> <p>We are pleased that Yuchai is actively taking steps to contribute to better environmental protection standards. It has been investing in R&D to develop the next National VI engine products in China to reduce emissions and achieve higher energy efficiency. It also continues to devote resources to develop new energy engine products and green technology.</p>							
<p>Keep your eye on</p> <p>In line with China’s full implementation of National VI(a) engines by Jul 2021, Yuchai has already launched a complete range of products to fulfil the latest standards.</p> <p>By the end of 2020, Yuchai had a portfolio of engines that was National VI(b) emission standard compliant, even though such emission standards are not scheduled for implementation until Jul 2023.</p>	<p>Implications</p> <p>Given China’s growing emphasis on environmental protection management, its emission standards for diesel engines have surpassed that of European standards. We think Yuchai’s diesel engine unit’s continued success is dependent on its ability to fulfil the latest emission standards in China.</p>						
<p>ESG highlights</p> <p>Yuchai’s R&D efforts were recognised in respect of the continuous improvements in engine production quality control systems. The company was awarded “Top 5 in China” by National Enterprise Technology Center, as well as “2020 Technology Invention Award, First Class”, by China Machinery Industrial Science and Technology.</p> <p>In 2020, Yuchai’s YCK13 diesel engine model also won the first prize in the “2020 China International Truck Fuel Saving Competition”.</p>	<p>Implications</p> <p>We like Yuchai’s continued R&D in keeping up with the latest standards, as well as new energy engine products and green technology, which we think is crucial to its business continuity.</p>						
<p>Trends</p> <p>China Yuchai does not disclose the specifics of its ESG-related activities, other than some highlights reported by its parent company, Hong Leong Asia.</p>	<p>Implications</p> <p>We view this negatively as we have no visibility on the company’s efforts relating to ESG-related matters, other than the understanding of the company’s R&D efforts. We are unable to gauge if the company has made any improvements in this area over the past year.</p> <p style="text-align: right; font-size: small;">SOURCES: CGS-CIMB RESEARCH, REFINITIV</p>						

BY THE NUMBERS



Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	20,581	21,266	17,484	18,371	19,023
Gross Profit	3,190	2,952	2,781	3,082	3,256
Operating EBITDA	1,616	1,198	1,006	1,252	1,404
Depreciation And Amortisation	(494)	(535)	(525)	(534)	(542)
Operating EBIT	1,122	664	481	718	862
Financial Income/(Expense)	(91)	(116)	10	10	10
Pretax Income/(Loss) from Assoc.	(59)	(96)	(60)	(40)	(30)
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	972	452	431	687	842
Exceptional Items	0	0	0	0	0
Pre-tax Profit	972	452	431	687	842
Taxation	(193)	(44)	(108)	(151)	(168)
Exceptional Income - post-tax					
Profit After Tax	779	408	323	536	674
Minority Interests	(230)	(135)	(113)	(188)	(236)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	549	273	210	348	438
Normalised Net Profit	779	408	323	536	674
Fully Diluted Normalised Profit	549	273	210	348	438

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	1,616	1,198	1,006	1,252	1,404
Cash Flow from Inv. & Assoc.					
Change In Working Capital	315	(251)	(407)	88	(414)
(Incr)/Decr in Total Provisions	(14)	(8)	0	0	0
Other Non-Cash (Income)/Expense	50	21	0	0	0
Other Operating Cashflow	(0)	(0)	0	0	0
Net Interest (Paid)/Received	23	9	10	10	10
Tax Paid	(235)	(171)	(108)	(151)	(168)
Cashflow From Operations	1,755	799	500	1,198	832
Capex	(585)	(572)	(600)	(600)	(600)
Disposals Of FAs/subsidiaries	133	93	0	0	0
Acq. Of Subsidiaries/investments	(500)	(305)	0	0	0
Other Investing Cashflow	(5)	(80)	0	0	0
Cash Flow From Investing	(957)	(864)	(600)	(600)	(600)
Debt Raised/(repaid)	138	(50)	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(451)	(673)	(111)	(111)	(111)
Preferred Dividends					
Other Financing Cashflow	0	0	0	0	0
Cash Flow From Financing	(313)	(723)	(111)	(111)	(111)
Total Cash Generated	485	(788)	(211)	487	121
Free Cashflow To Equity	936	(115)	(100)	598	232
Free Cashflow To Firm	946	51	10	708	342

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	6,308	5,222	5,011	5,498	5,619
Total Debtors	8,459	7,538	6,946	7,298	7,557
Inventories	4,471	5,209	3,726	3,874	3,996
Total Other Current Assets	23	17	17	17	17
Total Current Assets	19,261	17,985	15,699	16,687	17,188
Fixed Assets	4,259	4,198	4,273	4,339	4,397
Total Investments	747	651	591	551	521
Intangible Assets	1,484	1,759	1,759	1,759	1,759
Total Other Non-Current Assets	540	508	508	508	508
Total Non-current Assets	7,030	7,116	7,131	7,157	7,184
Short-term Debt	1,730	2,103	2,103	2,103	2,103
Current Portion of Long-Term Debt					
Total Creditors	10,134	9,666	7,184	7,772	7,739
Other Current Liabilities	1,188	868	868	868	868
Total Current Liabilities	13,052	12,637	10,154	10,743	10,709
Total Long-term Debt	500	100	100	100	100
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	794	683	683	683	683
Total Non-current Liabilities	1,294	783	783	783	783
Total Provisions	112	66	66	66	66
Total Liabilities	14,458	13,485	11,003	11,591	11,558
Shareholders' Equity	9,015	8,859	8,958	9,196	9,522
Minority Interests	2,818	2,756	2,869	3,057	3,293
Total Equity	11,833	11,615	11,827	12,252	12,815

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	14.2%	3.3%	(17.8%)	5.1%	3.6%
Operating EBITDA Growth	4.2%	(25.8%)	(16.1%)	24.5%	12.2%
Operating EBITDA Margin	7.85%	5.63%	5.75%	6.81%	7.38%
Net Cash Per Share (Rmb)	99.92	73.97	68.80	80.74	83.70
BVPS (Rmb)	220.9	217.1	219.5	225.3	233.3
Gross Interest Cover	7.42	5.72	4.37	6.51	7.83
Effective Tax Rate	19.8%	9.7%	25.0%	22.0%	20.0%
Net Dividend Payout Ratio	87.2%	40.7%	52.9%	31.9%	25.4%
Accounts Receivables Days	148.0	137.3	151.2	141.5	142.9
Inventory Days	76.8	96.5	110.9	90.7	91.3
Accounts Payables Days	195.5	196.8	208.5	177.9	179.4
ROIC (%)	12.0%	7.6%	4.1%	6.1%	7.5%
ROCE (%)	8.46%	4.73%	4.29%	5.85%	6.63%
Return On Average Assets	3.40%	1.99%	1.32%	2.26%	2.76%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Heavy-duty (HD) engines sold	102,000.0	103,020.0	78,810.3	82,750.8	85,233.3
Medium-duty (MD) engines sold	212,137.1	214,258.4	163,907.7	172,103.1	177,266.2
Light-duty (LD) engines sold	113,680.2	114,817.0	87,835.0	92,226.7	94,993.5

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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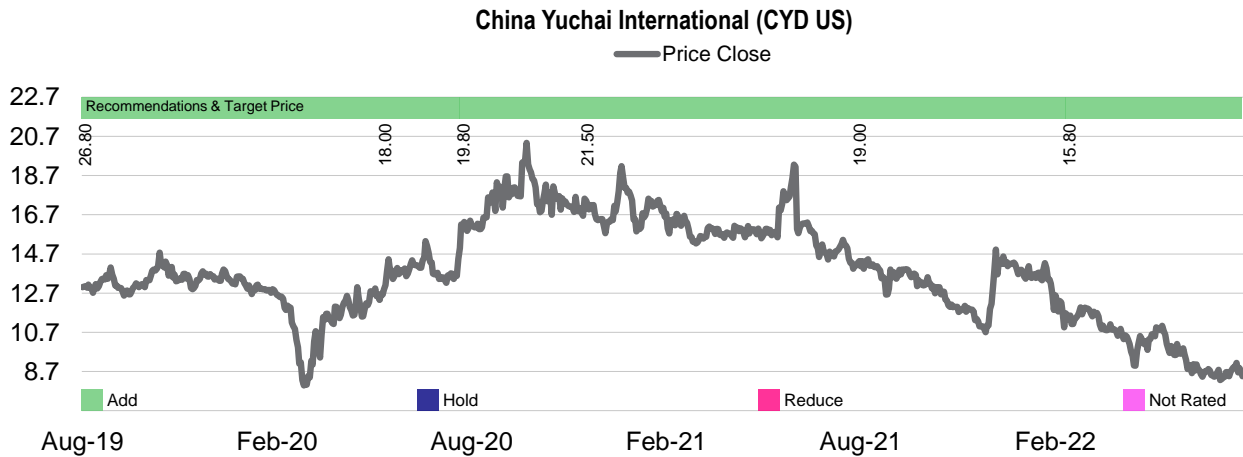
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Definition:

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