

China Yuchai International Limited
 NYSE: CYD

Maintaining Rating & Target
BUY, \$15.00
August 17, 2023
MARKET DATA

Share Price:	\$	11.00
Market Cap:	\$	449.35 M
52wk Range:	\$	6.73 - 12.50
Ave. Volume:		46,000
Basic S/O:		40.85 M
Fully Diluted S/O:		41.42 M
Float:		11.96 M
Institutional %:		26%
Insider %:		62%

FINANCIAL DATA (mrq)

Cash:	RMB	5,616.23 M
ST Debt:	RMB	N/A
Total Debt:	RMB	3,032.58 M
Book Value:	RMB	9,230.04 M
EBITDA (ttm-estimated):	RMB	1,078.56 M
FFFO (ttm):	RMB	N/A

Auditor: Ernst & Young

	2021A	2022A	2023e	2023e
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Revenue (in Millions of RMB)

Jun	12,629.13	8,568.51	9,171.00A	9,895.85
Dec	8,636.80	7,462.13	8,946.81	10,082.31
REV	21,265.93	16,030.64	18,117.81	19,978.16
<i>P/S</i>	<i>0.15</i>	<i>0.20</i>	<i>0.18</i>	<i>0.16</i>

Diluted EPS (in RMB)

Jun	6.21	2.29	4.37A	5.43
Dec	0.46	3.06	2.90	4.15
EPS	6.67	5.35	7.27	9.58
<i>P/E</i>	<i>12.02</i>	<i>14.99</i>	<i>11.03</i>	<i>8.37</i>

Dividend (in USD)

DIV	0.40	0.28	0.30	0.40
<i>Yield</i>	<i>3.6%</i>	<i>2.5%</i>	<i>2.7%</i>	<i>3.6%</i>

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Outlook Remains Uncertain After Strong First Half Results
H1:23 Outperforms On Product Mix Skewing Towards Heavy Duty.

CYD reported first half results with Revenue of RMB 9.2 billion, an improvement from the year ago period despite unit sales falling from 180,911 to 165,793. The increase in Revenue was tied to heavy duty trucks making up a greater portion of the product mix, which also positively impacted Gross Margins, which improved to 16.9%. The Company saw significant increases in demand from buses and new energy vehicles, the latter of which accounted for 1,319 units in the period. SG&A increased RMB 144.9 million, to RMB 894.5 million, while R&D expenses were flat at RMB 406.0 million. Operating Income for the period was RMB 387.7 million, just above our estimate. The biggest surprise from the release was the Share of Associates and Joint Ventures line item, which posted a multi-year high of RMB 29.6 million, on a return to profitability at MTU Yuchai and Y&C Engine Co. due to the higher heavy duty sales and sales in the power generation markets. Net Profit for the first half was RMB 178.3 million, or 4.37 per share, in line with our estimate.

AGM Vote. On August 7, all items put to vote at its AGM were passed, with nothing on the slate that was out of the ordinary.

Model Update. As noted in our last update, we remain cautious on commercial vehicle sales and the economy in general in China for the second half of the year and into 2024. As such, we are making no changes to our unit sales assumptions. We did make minor tweaks to line items below Gross Profit, but the net result was a small change to our earnings estimates.

Maintaining Rating & Target. With no significant changes to our model and uncertainty regarding the Chinese economy, we are maintaining our Buy rating and \$15.00 target price on China Yuchai. Our target price is based on the average of a P/E multiple of roughly 10 times our forward twelve month diluted EPS estimate of RMB 8.48 and an EV/EBITDA multiple of roughly 5 times our forward twelve month EBITDA estimate of RMB 1,258.9 million.

RISKS

Government Incentives & Policies

Sales in the commercial vehicle sector in China are dependent in part on the policies put in place by the Chinese government, which range from overall economic growth policies to national emissions standards to anti-overloading policies, among others.

New Energy Vehicles

The rise of new energy vehicles, and the incentives tied to them in China, have caused diesel engine sales to the bus market to fall in recent years, a trend we expect will continue. Additionally, movement from other vehicles traditionally powered by diesel engines, like construction vehicles, to electric will have a negative impact on CYD unless the Company is successful in bringing its new energy products to market.

Potential Delisting of Chinese Companies From US Exchanges

Recent legislation has surrounded the potential to bar Chinese companies from listing or raising money in the United States without a PCAOB audit, which China does not currently allow. It is unclear how this could impact CYD as it is Bermuda-based and controlled and managed by HLA in Singapore.

Staying Ahead of Emissions Standards

As a market leader, GYMCL must continue to invest in R&D and technological equipment to keep its engines ahead of the National emissions standards, which could come at increased costs to the Company. National VIa for diesel engines went into effect on July 1, 2021, with National VIb going into effect July 1, 2023.

Dependence on Dongfeng Group

Dongfeng Group is a long standing key customer and engine manufacturer that has accounts for more than 20% of annual revenue in the past. CYD no longer breaks out the exact figures for Dongfeng, but the loss of this customer would have a substantial adverse impact on future results.

No Formal Dividend Policy

CYD does not have a formal dividend policy and there are no assurances the Board will approve a dividend as predicted in our model.

Influence of HLA

HLA owns 44.0% of the shares of CYD and the Special Share, which gives it control over GYMCL. There are no assurances HLA will always act in the best interest of CYD shareholders. Similarly, should HLA sell off shares to lose the Special Share it is uncertain who would have control of GYMCL.

Financial Reporting & Auditing

Due to an accounting error the Company had to restate its 2005 financials. Since then CYD has not had any accounting irregularities, and has not had any material weaknesses in internal control since 2011.

Heavy Management Turnover

While there has been stability in recent years, in the decade prior, the Company had undergone numerous changes to the positions of President, CFO and Board of Directors.

Past Disagreements with Yulin City Government

In 2003, CYD and HLA had severe disagreements over the status of GYMCL that led to a number of legal and operational issues, as well as a plan by HLA to diversify CYD away from diesel engines. While all parties have been on friendly terms since then, another such dispute could potentially arise at some point in the future.

ESTIMATED INCOME STATEMENT

	2021A	H1:22A	H2:22A	2022A	H1:23A	H2:23e	2023e	H1:24e	H2:24e	2024e
Revenue	21,265,930	8,568,505	7,462,131	16,030,636	9,171,003	8,946,809	18,117,812	9,895,850	10,082,311	19,978,161
Cost of Sales	(18,313,817)	(7,207,874)	(6,192,112)	(13,399,986)	(7,618,986)	(7,582,667)	(15,201,653)	(8,349,765)	(8,527,047)	(16,876,812)
Gross Profit	2,952,113	1,360,631	1,270,019	2,630,650	1,552,017	1,364,143	2,916,160	1,546,085	1,555,264	3,101,349
Other Operating Income	316,189	85,492	251,264	336,756	136,201	122,382	258,583	122,296	125,561	247,857
Research & Development	(848,812)	(408,481)	(427,957)	(836,438)	(406,047)	(380,239)	(786,286)	(395,834)	(403,292)	(799,126)
SG&A	(1,755,957)	(749,604)	(862,073)	(1,611,677)	(894,485)	(841,000)	(1,735,485)	(841,147)	(947,737)	(1,788,884)
Operating Income	663,533	288,038	231,253	519,291	387,686	265,285	652,971	431,400	329,795	761,195
Finance Costs	(115,928)	(55,231)	(40,241)	(95,472)	(53,642)	(85,872)	(139,514)	(81,727)	(77,816)	(159,542)
Share of Associates & JVs	(95,895)	(30,942)	1,849	(29,093)	29,626	16,025	45,651	16,025	27,378	43,403
Profit Before Tax	451,710	201,865	192,861	394,726	363,670	195,437	559,107	365,698	279,357	645,055
Income Tax Expense	(43,816)	(56,487)	(2,578)	(59,065)	(110,627)	(35,179)	(145,806)	(65,826)	(50,284)	(116,110)
Net Profit	407,894	145,378	190,283	335,661	253,043	160,259	413,302	299,872	229,073	528,945
Non-Controlling Interests	(135,221)	(51,654)	(65,426)	(117,080)	(74,666)	(41,667)	(116,333)	(77,967)	(59,559)	(137,526)
Net Profit to Shareholders	272,673	93,724	124,857	218,581	178,377	118,591	296,968	221,905	169,514	391,419
Basic EPS	6.67	2.29	3.06	5.35	4.37	2.90	7.27	5.43	4.15	9.58
Basic S/O	40,858	40,858	40,858	40,858	40,858	40,858	40,858	40,858	40,858	40,858
Diluted EPS	6.67	2.29	3.06	5.35	4.37	2.90	7.27	5.43	4.15	9.58
Diluted S/O	40,858	40,858	40,858	40,858	40,858	40,858	40,858	40,858	40,858	40,858
Dividend (in USD)	\$ 0.40			\$ 0.28			\$ 0.30			\$ 0.40
	2021A	H1:22A	H2:22A	2022A	H1:23A	H2:23e	2023e	H1:24e	H2:24e	2024e
Gross Profit	13.9%	15.9%	17.0%	16.4%	16.9%	15.2%	16.1%	15.6%	15.4%	15.5%
Operating Income	3.1%	3.4%	3.1%	3.2%	4.2%	3.0%	3.6%	4.4%	3.3%	3.8%
Net Margin	1.3%	1.1%	1.7%	1.4%	1.9%	1.3%	1.6%	2.2%	1.7%	2.0%

Source: CYD documents filed with the SEC and Greenridge Global estimates

DISCLOSURES

Distribution of Ratings

Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	7	88%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	0	0%
NO RATING	1	12%	0	0%

Explanation of Ratings

- BUY:** Describes undervalued stocks we expect to provide a total return (capital appreciation + yield) of 15% or more in the next twelve month period.
- HOLD:** Describes fully valued stocks we expect to provide a total return (capital appreciation + yield) of plus or minus 15% in the next twelve month period.
- SELL:** Describes overvalued stocks we expect to provide a total negative return (capital depreciation + yield) of 15% or more in the next twelve month period.
- NO RATING:** Describes stocks that have their investment rating and/or target price temporarily removed for fundamental or compliance-based reasons.

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China Yuchai International Limited	-

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