

Zhejiang Dingli - A (603338 CH)

Satisfactory results in 2Q; Negatives priced in; U/G to BUY

While Dingli's net profit in 2Q21 grew only 17% YoY as gross margin contraction offset the strong revenue growth of 59%, we believe the release of the results provide investors with an indication of the margin level amid the high steel cost and freight rate. We see positives drivers going forward: (1) ambitious AWP fleet size expansion by **Far East Horizon (3360 HK, BUY)**, the major customer of Dingli, should help boost Dingli's AWP volume growth over the coming years; (2) significant upside of steel and freight cost seems to be less likely, which should help stabilize the gross margin; (3) valuation is now more appealing at 35x (2021E) following the 30% pullback since our downgrade in Apr. We therefore upgrade Dingli to **BUY** from Hold.

- 1H21 results highlights:** Revenue surged 72% YoY to RMB2.58bn while gross margin narrowed 8.9ppt YoY to 29.2%. Selling & distribution expense dropped 23% YoY while general expense increased 41% but largely due to higher R&D, which we think is satisfactory. Net profit grew 24% YoY to RMB507mn.
- 2Q results: Strong revenue; gross margin down but expected.** Revenue grew 59% YoY to RMB1.74bn despite the high base effect, which we think is impressive. Gross margin narrowed 8.6ppt YoY to 28.8% but only dropped 1.2ppt QoQ. SG&A expense ratio dropped YoY. Net profit grew 17% YoY to RMB337mn. Besides, net operating cash inflow improved to RMB255mn in 2Q21, versus outflow of RMB351mn in 1Q21.
- Higher earnings forecast.** We revise up our earnings forecast in 2021E-23E by 1-7%, mainly due to higher volume growth despite slightly lower gross margin assumptions. Our TP is lifted to RMB87 from RMB82, based on 44x 2021E target P/E (on the back of ~44% earnings growth in 2021E). We like Dingli as rising penetration of AWP in China remains a structural growth trend driven by the shortage of construction workers.
- Downside risks:** (1) Further price competition due to more new entrants in the AWP market; (2) unexpected slowdown of construction activities in China.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	2,389	2,957	4,721	5,908	6,868
YoY growth (%)	39.9	23.7	59.7	25.2	16.2
Net income (RMB mn)	694	664	958	1,270	1,497
EPS (RMB)	1.43	1.37	1.97	2.62	3.08
YoY growth (%)	44.5	-4.3	44.3	32.5	17.9
Consensus EPS (RMB)	n/a	n/a	1.98	2.58	3.19
EV/EBITDA (x)	45.3	40.2	30.7	22.4	19.2
P/E (x)	47.8	50.0	34.7	26.2	22.2
P/B (x)	10.4	8.9	7.3	5.9	4.8
Yield (%)	0.4	0.4	0.5	0.7	0.9
ROE (%)	23.9	19.1	23.0	24.8	23.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

Target Price	RMB87.00
(Previous TP)	RMB82.00)
Up/Downside	27%
Current Price	RMB64.08

China Capital Goods

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	31,110
Avg 3 mths t/o (RMB mn)	435
52w High/Low (RMB)	140.3/53.9
Total Issued Shares (mn)	485.5

Source: Bloomberg

Shareholding Structure

XU Shugen	47.5%
Deqing Zhongding Equity Investment Management	12.1%
CCASS (Hong Kong)	11.7%
National Social Security Fund	1.6%
Others	27.1%

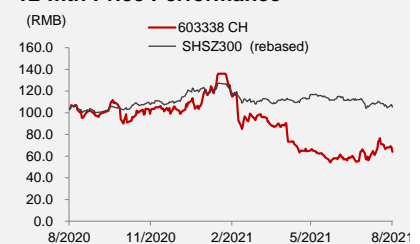
Source: Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	2.6%	6.6%
3-mth	4.5%	13.4%
6-mth	-41.6%	-34.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

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Zhejiang Dingli – A (603338 CH, BUY) – Net profit in 3Q20 +16% YoY; Growth trajectory remains solid – 30 Oct 2020

Figure 1: Quarterly results highlight

(RMB mn)	1Q20	1Q21	Change YoY	2Q20	2Q21	Change YoY
Total revenue	411	841	104.7%	1,090	1,736	59.3%
Cost of sales	-247	-589	138.7%	-682	-1,236	81.2%
Gross profit	164	253	53.7%	408	500	22.6%
Other income	-4	-1	-84.4%	-4	-3	-38.3%
S&D expenses	-18	-25	38.0%	-49	-27	-45.5%
Administrative expenses	-23	-43	85.9%	-51	-61	20.8%
Asset impairment	1	-13	n/a	5	-17	n/a
EBIT	121	171	42.0%	309	392	27.0%
Net finance income/(cost)	6	10	54.6%	21	-12	n/a
Other gains/(losses)	6	15	151.7%	10	11	12.7%
Share of profit of JV and associates	10	4	-57.7%	1	6	357.4%
Pretax profit	143	200	40.1%	342	397	16.3%
Income tax	-21	-30	43.3%	-55	-61	10.6%
After tax profit	122	170	39.6%	287	337	17.4%
MI	0	0	n/a	0	0	n/a
Net profit	122	170	39.6%	287	337	17.4%
			ppt			ppt
<i>Gross margin</i>	40.0%	30.0%	-10.0	37.4%	28.8%	-8.6
<i>S&D expense ratio</i>	4.5%	3.0%	-1.5	4.5%	1.5%	-2.9
<i>Administrative expense ratio</i>	5.6%	5.1%	-0.5	4.6%	3.5%	-1.1
<i>Effective tax rate</i>	14.8%	15.1%	0.3	16.1%	15.3%	-0.8

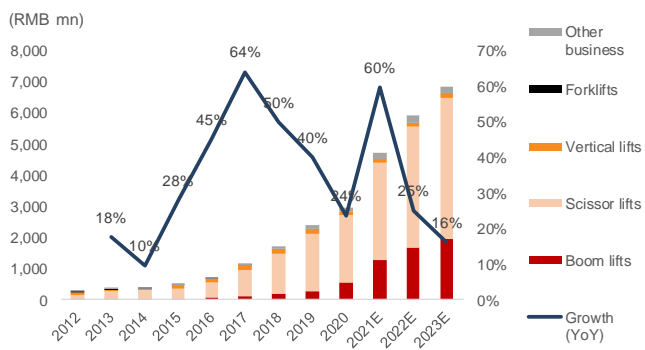
Source: Company data, CMBIS

Figure 2: Change in key assumptions for Dingli

	Old			New			Change		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Sales volume (units)									
Boom lifts	3,018	3,924	4,591	3,148	4,092	4,788	4.3%	4.3%	4.3%
Scissor lifts	46,695	56,034	65,560	51,192	63,990	74,868	9.6%	14.2%	14.2%
Vertical lifts	2,277	2,505	2,755	2,381	2,619	2,880	4.5%	4.5%	4.5%
Total (lifts)	51,990	62,463	72,906	56,720	70,700	82,536	9.1%	13.2%	13.2%
ASP (RMB/unit)									
Boom lifts	405,000	405,000	405,000	405,000	405,000	405,000	0.0%	0.0%	0.0%
Scissor lifts	61,000	61,000	61,000	61,000	61,000	61,000	0.0%	0.0%	0.0%
Vertical lifts	50,000	50,000	50,000	50,000	50,000	50,000	0.0%	0.0%	0.0%
(RMB mn)									
Revenue									
Boom lifts	1,222	1,589	1,859	1,275	1,657	1,939	4.3%	4.3%	4.3%
Scissor lifts	2,848	3,418	3,999	3,123	3,903	4,567	9.6%	14.2%	14.2%
Vertical lifts	114	125	138	119	131	144	4.5%	4.5%	4.5%
Revenue (core business)	4,185	5,132	5,996	4,517	5,692	6,650	7.9%	10.9%	10.9%
Other business	180	200	193	204	217	218	13.6%	8.3%	13.2%
Total revenue	4,364	5,332	6,189	4,721	5,908	6,868	8.2%	10.8%	11.0%
Gross margin							ppt		
Boom lifts	22.0%	24.0%	25.0%	21.0%	23.0%	24.0%	-1.0	-1.0	-1.0
Scissor lifts	32.0%	33.0%	33.0%	30.0%	32.0%	32.0%	-2.0	-1.0	-1.0
Vertical lifts	40.0%	40.0%	40.0%	39.0%	40.0%	40.0%	-1.0	0.0	0.0
Gross margin (core business)	29.3%	30.4%	30.7%	27.7%	29.6%	29.8%	-1.6	-0.8	-0.8
Other business	71.0%	71.0%	71.0%	71.0%	71.0%	71.0%	0.0	0.0	0.0
Blended gross margin	31.0%	31.9%	31.9%	29.6%	31.1%	31.1%	-1.4	-0.8	-0.8
Gross profit	1,354	1,701	1,976	1,396	1,836	2,139	3.1%	7.9%	8.2%
Net profit	948	1,193	1,400	958	1,270	1,497	1.0%	6.4%	6.9%

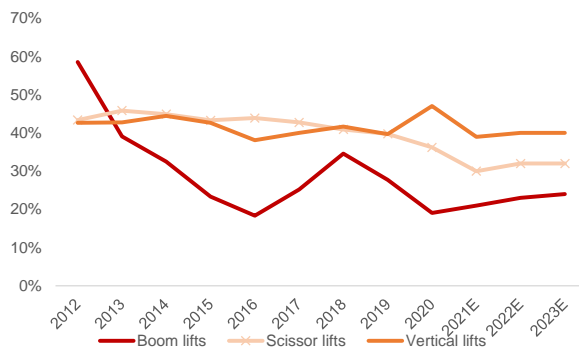
Source: Company data, CMBIS estimates

Figure 3: Dingli's revenue breakdown by product



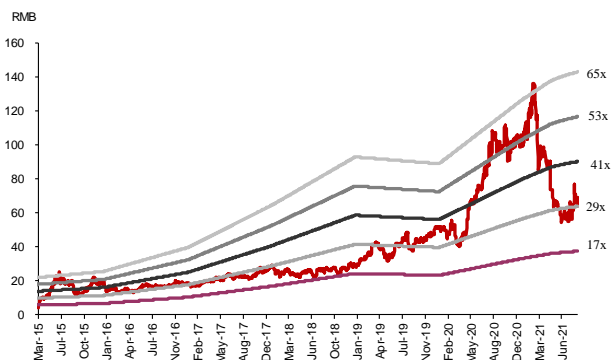
Source: Company data, CMBIS estimates

Figure 4: Gross margin by product



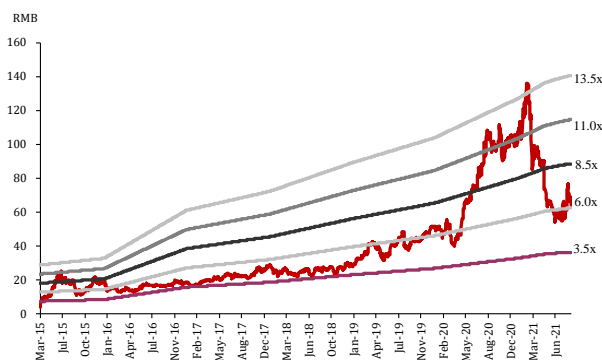
Source: Company data, CMBIS

Figure 5: Dingli 12M forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 6: 12M forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	2,389	2,957	4,721	5,908	6,868
Cost of sales	(1,437)	(1,925)	(3,325)	(4,072)	(4,729)
Gross profit	952	1,032	1,396	1,836	2,139
Surcharge	(10)	(12)	(19)	(24)	(27)
S&D expenses	(105)	(100)	(146)	(177)	(206)
Administrative expenses	(136)	(162)	(241)	(295)	(330)
Asset impairment	(15)	6	(9)	(12)	(21)
EBIT	686	764	980	1,328	1,555
Net finance income/(cost)	39	(46)	48	42	62
Finance income	42	12	52	47	68
Finance expenses	(3)	(59)	(4)	(5)	(5)
Other gains/(losses)	41	45	71	89	103
Profit of JV & associates	39	11	15	17	19
Pretax profit	805	773	1,114	1,476	1,740
Income tax	(111)	(109)	(156)	(207)	(244)
After tax profit	694	664	958	1,270	1,497
MI	0	0	0	0	0
Net profit	694	664	958	1,270	1,497
D&A	28	41	76	115	133
EBITDA	714	805	1,057	1,444	1,689

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	805	773	1,114	1,476	1,740
Finance cost	3	59	4	5	5
Interest income	(14)	42	(52)	(47)	(68)
Profit / loss of associates	(39)	(11)	(15)	(17)	(19)
Depreciation and amortization	28	41	76	115	133
Income tax paid	(101)	(144)	(156)	(207)	(244)
Change in working capital	(6)	163	(528)	(384)	(398)
Others	20	(32)	0	0	0
Cash flow from operation	696	892	444	942	1,150
Net capex on PP&E	(285)	(234)	(300)	(300)	(200)
Interest received	6	(42)	52	47	68
Others	(392)	(378)	0	0	0
Cash flow from investing	(666)	(707)	(248)	(253)	(132)
Proceeds from equity	0	0	0	0	0
Net bank borrowings	252	(55)	30	60	61
Dividend paid	(87)	(121)	(126)	(182)	(241)
Interest paid	(17)	(16)	(4)	(5)	(5)
Others	(0)	(0)	0	0	0
Cash flow from financing	147	(192)	(101)	(127)	(186)
Change in cash	177	(8)	95	562	832
Cash at beginning of the year	1,045	874	1,191	1,286	1,848
FX gains/(losses) & others	(349)	325	0	0	0
Cash at the end of the year	874	1,191	1,286	1,848	2,680

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	1,471	1,722	2,302	2,553	2,863
PP&E	245	722	949	1,138	1,208
JV/associates	89	119	134	151	170
LT trade receivables	465	477	817	867	1,090
Intangible assets	140	158	154	151	147
AFS investments	0	0	0	0	0
Others	529	246	246	246	246
Deferred tax assets	2	2	2	2	2
Current assets	3,389	4,147	5,463	6,107	8,053
Inventories	461	942	1,427	1,496	1,976
Trade and bill receivables	1,325	1,249	1,984	1,998	2,631
Prepayment	11	32	32	32	32
Others	718	733	733	733	733
Cash	874	1,191	1,286	1,848	2,680
Current liabilities	1,450	1,891	2,945	2,743	3,732
Trade and bill payables	783	1,223	2,256	2,005	2,944
Bank borrowings	369	303	323	373	423
Tax payable	107	102	102	102	102
Advance from customers	7	69	69	69	69
Others	183	194	194	194	194
Non-current liabilities	202	233	243	253	264
Bank borrowings	109	121	131	141	152
Deferred tax liabilities	1	0	0	0	0
Deferred income	73	95	95	95	95
Others	19	18	18	18	18
Equity	3,207	3,744	4,576	5,664	6,919
Shareholders' equity	3,207	3,744	4,576	5,664	6,919
MI	0	0	0	0	0

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix (%)					
Boom lifts	12	19	27	28	28
Scissor lifts	77	73	66	66	66
Vertical lifts	5	4	3	2	2
Others	6	5	4	4	3
Total	100	100	100	100	100
Profit & loss ratio (%)					
Gross margin	39.9	34.9	29.6	31.1	31.1
EBITDA margin	29.9	27.2	22.4	24.4	24.6
EBIT margin	28.7	25.8	20.8	22.5	22.6
Net profit margin	29.0	22.5	20.3	21.5	21.8
Growth (%)					
Revenue	39.9	23.7	59.7	25.2	16.2
Gross profit	34.4	8.4	35.2	31.6	16.5
EBITDA	41.0	12.6	31.3	36.6	17.0
EBIT	42.4	11.3	28.4	35.5	17.1
Net profit	44.5	(4.3)	44.3	32.5	17.9
Balance sheet ratio					
Current ratio (x)	2.3	2.2	1.9	2.2	2.2
Receivable turnover days	170	159	125	123	123
Inventory turnover days	104	133	130	131	134
Payable turnover days	166	190	191	191	191
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	16.3	12.4	14.1	15.5	15.3
ROE	23.9	19.1	23.0	24.8	23.8
Per share data					
EPS (RMB)	1.43	1.37	1.97	2.62	3.08
BVPS (RMB)	6.61	7.71	9.43	11.67	14.25
DPS (RMB)	0.25	0.26	0.37	0.50	0.59

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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