

Zhejiang Dingli - A (603338 CH)

Secular growth story intact; Raised earnings estimates & TP

The impressive earnings growth in 4Q19 and 1Q20 enhanced our confidence on Dingli's outstanding management capability, which prompted us to revise up our 2020E/21E earnings forecast by 9%/13% to RMB905mn/RMB1.2bn, making us 14%/15% above consensus. We lifted our TP from RMB72 to RMB94, based on 36x 2020E P/E, on the back of 30%/36% earnings growth in 2020E/21E. Near term, we expect the demand for aerial working platforms (AWP) will be strongly driven by infrastructure spending in China. In the medium term, rising labor cost will remain the underlying driver for the application of AWP. Reiterate **BUY**.

- 2019 earnings far above expectations.** Net profit in 2019 grew 45% YoY to RMB694mn, 16%/21% above CMBIS/market expectation, due to a surprising 198% YoY increase in net profit in 4Q. Revenue grew 40% YoY to RMB2.4bn in 2019, driven by 40%/43% increase in boom lifts / scissor lifts revenue. We note that ASP of scissor lift increased by 19% YoY, due to more delivery of large/medium size models in China. Gross margin contracted by 1.7ppt YoY to 39.9%, due to lower margin of boom lift (27.7%) as Dingli delivered more standardized products than specialized models. Selling expense ratio reduced 1ppt YoY to 4.4%, while administrative expense ratio reduced 1.2ppt YoY to 5.7%, suggesting a stringent cost control. Operating cash inflow grew 67% YoY to RMB696mn, largely in line with the net profit.
- Resilient earnings in 1Q20 despite impact of COVID-19.** Net profit increased by 24% YoY to RMB125mn, driven by revenue growth of 7%, increase in finance income, other gains and associate income, which offset a 2.9ppt gross margin contraction. Operating cash flow significantly improved to RMB80mn in 1Q20, versus an outflow of RMB34mn in 1Q19.
- Change in key assumptions.** Dingli expects the new capacity for 3,200 units of boom lifts will start operation in Aug 2020, a slight delay from Jun due to COVID-19 impact. We fine-tuned our sales volume forecast by -6% in 2020E/21E after incorporating the new commencement date and the potential weak sales in overseas. Meanwhile, we raised our ASP assumptions on scissor lifts by 20% due to more large-size product sales in China.
- Major risk factors:** (1) more new entrants in the AWP market; (2) impact of COVID-19 in overseas; (3) weaker-than-expected construction activities in China.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,708	2,389	3,286	4,272	4,980
YoY growth (%)	49.9	39.9	37.5	30.0	16.6
Net income (RMB mn)	480	694	905	1,226	1,466
EPS (RMB)	1.38	2.00	2.61	3.54	4.23
YoY growth (%)	62.7	44.5	30.4	35.5	19.6
Consensus EPS (RMB)	n/a	n/a	2.28	3.05	n/a
EV/EBITDA (x)	52.2	37.0	26.5	19.2	16.0
P/E (x)	56.8	39.3	30.1	22.2	18.6
P/B (x)	10.5	8.5	6.8	5.4	4.3
Yield (%)	0.3	0.4	0.6	0.8	0.9
ROE (%)	20.0	23.9	25.1	27.1	25.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB94.00
(Previous TP)	RMB72.00)
Up/Downside	+20%
Current Price	RMB78.66

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Stock Data

Mkt Cap (RMB mn)	27,277
Avg 3 mths t/o (RMB mn)	155
52w High/Low (RMB)	78.66/43.63
Total Issued Shares (mn)	346.8

Source: Bloomberg

Shareholding Structure

XU Shugen	47.5%
Deqing Zhongding Equity Investment Management	12.6%
CCASS (Hong Kong)	5.3%
XU Zhilong	3.1%
Free float	32.7%

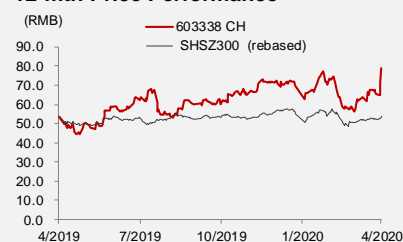
Source: Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	21.7%	16.8%
3-mth	2.5%	6.1%
6-mth	13.5%	14.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

Recent reports:

- Zhejiang Dingli -A (603338 CH, BUY) - 3Q19 profit slightly below est; Revenue recovery a good sign - 30 Oct 2019
- Zhejiang Dingli - A (603338 CH, BUY) - Lower earnings forecast but structural growth story still intact - 20 Aug 2019
- Zhejiang Dingli - A (603338 CH, BUY) - A structural growth story in a cyclical sector - 27 Jun 2019

Figure 1: Key highlights on 2019 results

YE Dec 31(RMB mn)	2018	2019	Chg (YoY)	2019E	A vs E
Total revenue	1,708	2,389	39.9%	2,108	13.3%
Cost of sales	-999	-1,437	43.9%	-1,212	18.6%
Gross profit	709	952	34.4%	896	6.2%
Surcharge	-10	-10	7.4%	-13	-18.1%
S&D expenses	-92	-105	14.0%	-114	-8.0%
Administrative expenses	-118	-136	15.5%	-133	2.8%
Asset impairment	-7	-15	97.2%	-6	131.3%
EBIT	482	686	42.4%	631	8.8%
Net finance income/(cost)	36	39	8.7%	39	-0.4%
Finance income	37	42	12.1%	49	-13.9%
Finance expenses	-2	-3	87.1%	-10	-68.6%
Other gains/(losses)	60	41	-31.6%	25	62.9%
Share of profit of JV and associates	-13	39	-405.9%	11	267.6%
Pretax profit	565	805	42.5%	706	14.1%
Income tax	-85	-111	30.9%	-106	4.7%
After tax profit	480	694	44.5%	600	15.7%
MI	0	0	n/a	0	n/a
Net profit	480	694	44.5%	600	15.7%

Source: Company data, CMBIS estimates

Figure 2: Sales volume and ASP

	2018	2019	Chg (YoY)
Sales volume (units)			
Boom lifts	548	807	47.3%
Scissor lifts	22,173	26,660	20.2%
Vertical lifts	4,458	3,744	-16.0%
Total (lifts)	27,179	31,211	14.8%
ASP (RMB/unit)			
Boom lifts	378,086	360,549	-4.6%
Scissor lifts	57,855	68,965	19.2%
Vertical lifts	33,848	34,006	0.5%

Source: Company data, CMBIS

Figure 3: Revenue and gross margin breakdown

(RMB mn)	2018	2019	Chg (YoY)
Revenue			
Boom lifts	207	291	40.4%
Scissor lifts	1,283	1,839	43.3%
Vertical lifts	151	127	-15.6%
Revenue (core business)	1,641	2,257	37.5%
Other business	67	132	98.8%
Total revenue	1,708	2,389	39.9%
Gross margin			
Boom lifts	34.6%	27.7%	-6.9
Scissor lifts	40.9%	39.8%	-1.2
Vertical lifts	41.7%	39.7%	-2.0
Gross margin (core business)	40.2%	38.2%	-2.0
Other business	74.2%	68.0%	-6.2
Average gross margin	41.5%	39.9%	-1.7

Source: Company data, CMBIS

Figure 4: Key highlights on 4Q19 and 1Q20 results

(RMB mn)	1Q19	1Q20	Change YoY	2Q18	2Q19	Change YoY	3Q18	3Q19	Change YoY	4Q18	4Q19	Change YoY
Total revenue	384	411	6.9%	474	464	-2.1%	540	597	10.4%	382	944	147.3%
Cost of sales	-220	-247	12.3%	-287	-275	-4.3%	-305	-360	18.2%	-212	-582	174.7%
Gross profit	165	164	-0.3%	187	189	1.4%	236	236	0.3%	170	362	113.2%
Other income	-3	-4	6.4%	-3	-2	-20.1%	-3	-3	-2.8%	-2	-2	37.7%
S&D expenses	-17	-18	5.2%	-26	-27	3.8%	-29	-21	-28.5%	-22	-39	76.8%
Administrative expenses	-20	-23	15.5%	-33	-31	-6.2%	-24	-24	-0.1%	-47	-62	31.4%
Asset impairment	-2	1	n/a	-2	-1	-33.8%	-3	0	n/a	1	-11	n/a
EBIT	122	121	-0.8%	123	128	3.9%	176	189	7.2%	99	247	148.7%
Net finance income/(cost)	-6	6	n/a	12	24	100.1%	12	20	70.9%	15	1	-93.5%
Other gains/(losses)	1	9	641.1%	18	29	61.5%	0	5	n/a	39	6	-85.0%
Share of profit of JV and associates	3	10	212.5%	6	9	42.3%	37	0	-99.4%	-56	27	n/a
Pretax profit	120	146	21.6%	159	190	19.0%	225	215	-4.7%	97	280	189.3%
Income tax	-19	-21	11.4%	-24	-30	26.7%	-35	-31	-9.4%	-13	-30	133.1%
After tax profit	101	125	23.6%	135	159	17.7%	191	183	-3.9%	84	250	197.9%
MI	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
Net profit	101	125	23.6%	135	159	17.7%	191	183	-3.9%	84	250	197.9%
<i>Gross margin</i>	<i>42.9%</i>	<i>40.0%</i>	<i>-2.9 ppt</i>	<i>39.4%</i>	<i>40.8%</i>	<i>1.4 ppt</i>	<i>43.6%</i>	<i>39.6%</i>	<i>-4.0 ppt</i>	<i>44.5%</i>	<i>38.3%</i>	<i>-6.1 ppt</i>
<i>S&D expense ratio</i>	<i>-4.5%</i>	<i>-4.5%</i>	<i>0.1</i>	<i>-5.5%</i>	<i>-5.9%</i>	<i>-0.3</i>	<i>-5.4%</i>	<i>-3.5%</i>	<i>1.9</i>	<i>-5.8%</i>	<i>-4.2%</i>	<i>1.7</i>
<i>Administrative expense ratio</i>	<i>-5.2%</i>	<i>-5.6%</i>	<i>-0.4</i>	<i>-6.9%</i>	<i>-6.6%</i>	<i>0.3</i>	<i>-4.4%</i>	<i>-4.0%</i>	<i>0.4</i>	<i>-12.4%</i>	<i>-6.6%</i>	<i>5.8</i>
<i>Effective tax rate</i>	<i>15.8%</i>	<i>14.5%</i>	<i>-1.3</i>	<i>15.1%</i>	<i>16.1%</i>	<i>1.0</i>	<i>15.4%</i>	<i>14.6%</i>	<i>-0.8</i>	<i>13.3%</i>	<i>10.7%</i>	<i>-2.6</i>

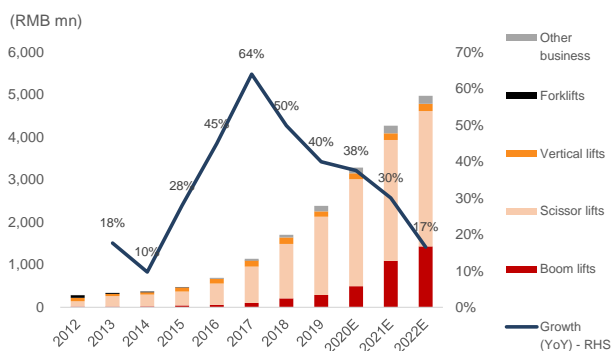
Source: Company data, CMBIS

Figure 5: Change in key assumptions

	Old		New		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Sales volume (units)						
Boom lifts	1,425	3,063	1,372	3,018	-3.7%	-1.5%
Scissor lifts	37,417	42,281	35,991	40,670	-3.8%	-3.8%
Vertical lifts	5,394	5,934	4,118	4,530	-23.7%	-23.7%
Total (lifts)	44,236	51,278	41,481	48,218	-6.2%	-6.0%
ASP (RMB/unit)						
Boom lifts	380,000	380,000	361,000	362,000	-5.0%	-4.7%
Scissor lifts	56,000	56,000	70,000	70,000	25.0%	25.0%
Vertical lifts	32,000	31,500	34,000	34,000	6.3%	7.9%
(RMB mn)						
Revenue						
Boom lifts	541	1,164	495	1,093	-8.5%	-6.1%
Scissor lifts	2,095	2,368	2,519	2,847	20.2%	20.2%
Vertical lifts	173	187	140	154	-18.9%	-17.6%
Revenue (core business)	2,809	3,719	3,155	4,093	12.3%	10.1%
Other business	136	167	131	179	-3.5%	6.9%
Total revenue	2,945	3,886	3,286	4,272	11.6%	9.9%
Gross margin					<i>ppt</i>	
Boom lifts	40.0%	41.0%	30.0%	38.0%	-10.0	-3.0
Scissor lifts	41.5%	41.0%	41.0%	41.0%	-0.5	0.0
Vertical lifts	41.0%	40.5%	41.0%	41.0%	0.0	0.5
Gross margin (core business)	41.2%	41.0%	39.3%	40.2%	-1.9	-0.8
Other business	74.0%	73.0%	68.0%	68.0%	-6.0	-5.0
Blended gross margin	42.7%	42.4%	40.4%	41.4%	-2.3	-1.0
Gross profit	1,258	1,646	1,328	1,767	5.6%	7.4%
Net profit	830	1,085	905	1,226	9.1%	13.1%

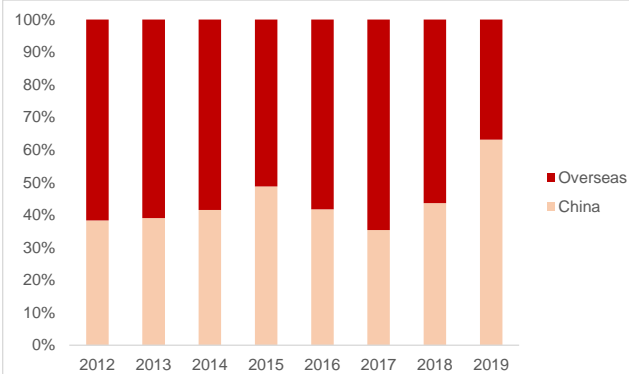
Source: Company data, CMBIS

Figure 6: Revenue breakdown by products



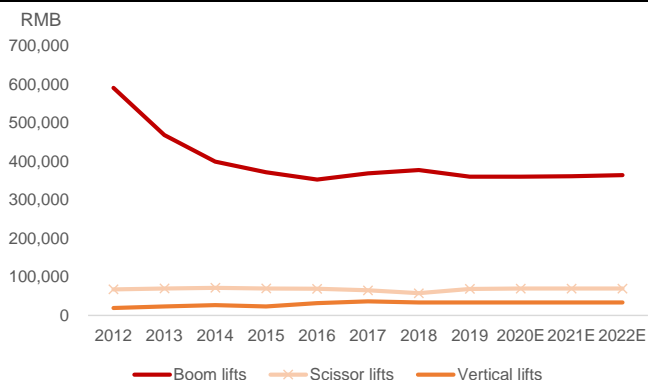
Source: Company data, CMBIS estimates

Figure 7: Revenue breakdown by regions



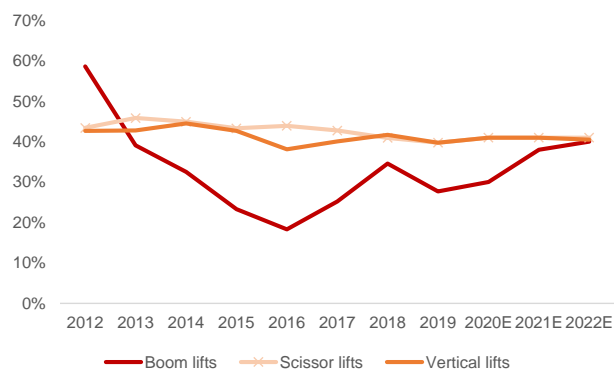
Source: Company data, CMBIS

Figure 8: ASP by products



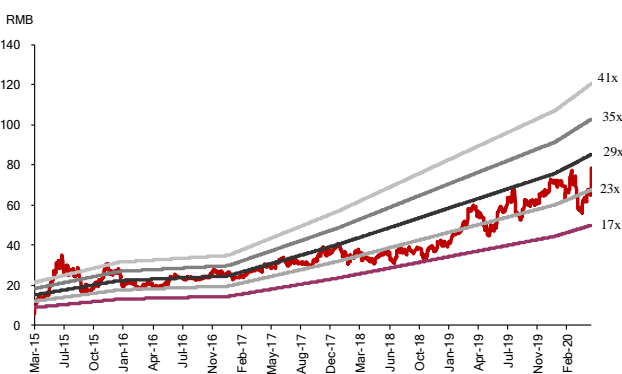
Source: Company data, CMBIS estimates

Figure 9: Gross margin by products



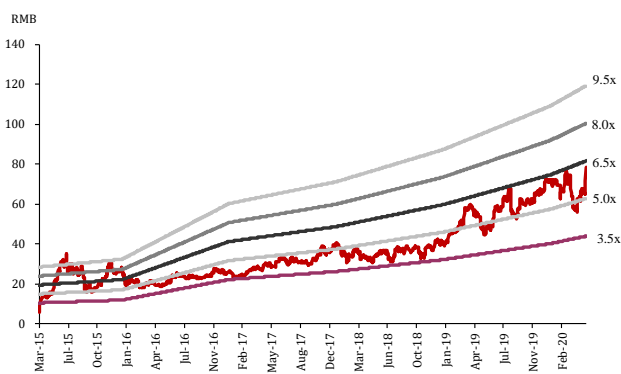
Source: Company data, CMBIS estimates

Figure 10: Dingli 12M forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 11: 12M forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	1,708	2,389	3,286	4,272	4,980
Cost of sales	(999)	(1,437)	(1,958)	(2,505)	(2,902)
Gross profit	709	952	1,328	1,767	2,078
Surcharge	(10)	(10)	(20)	(26)	(30)
S&D expenses	(92)	(105)	(148)	(188)	(219)
Administrative expenses	(118)	(136)	(187)	(235)	(269)
Asset impairment	(7)	(15)	(20)	(21)	(25)
EBIT	482	686	954	1,297	1,535
Net finance income/(cost)	36	39	37	48	69
Finance income	37	42	42	53	75
Finance expenses	(2)	(3)	(5)	(5)	(6)
Other gains/(losses)	60	41	33	43	50
Profit of JV & associates	(13)	39	29	38	51
Pretax profit	565	805	1,052	1,426	1,705
Income tax	(85)	(111)	(147)	(200)	(239)
After tax profit	480	694	905	1,226	1,466
MI	0	0	0	0	0
Net profit	480	694	905	1,226	1,466
D&A	25	28	44	80	119
EBITDA	507	714	998	1,377	1,654

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	565	805	1,052	1,426	1,705
Finance cost	0	3	5	5	6
Interest income	(22)	(14)	(42)	(53)	(75)
Profit / loss of associates	13	(39)	(29)	(38)	(51)
Depreciation and	25	28	44	80	119
Income tax paid	(72)	(101)	(147)	(200)	(239)
Change in working capital	(82)	(6)	(260)	(570)	(283)
Others	(12)	20	0	0	0
Cash flow from operation	416	696	624	651	1,182
Net capex on PP&E	(199)	(285)	(330)	(300)	(300)
Interest received	27	6	42	53	75
Others	329	(392)	0	0	0
Cash flow from investing	157	(666)	(288)	(247)	(225)
Proceeds from equity	0	0	0	0	0
Net bank borrowings	163	252	40	30	50
Dividend paid	(71)	(87)	(121)	(158)	(215)
Interest paid	(9)	(17)	(5)	(5)	(6)
Others	(0)	(0)	0	0	0
Cash flow from financing	83	147	(86)	(134)	(170)
Change in cash	656	177	249	270	787
Cash at beginning of the year	751	1,045	874	1,123	1,393
FX gains/(losses) & others	(362)	(349)	0	0	0
Cash at the end of the year	1,045	874	1,123	1,393	2,180

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	1,027	1,471	1,846	2,294	2,568
PP&E	232	245	534	757	941
JV/associates	206	89	118	156	207
LT trade receivables	278	465	525	716	758
Intangible assets	143	140	137	134	131
AFS investments	0	0	0	0	0
Others	167	529	529	529	529
Deferred tax assets	0	2	2	2	2
Current assets	2,607	3,389	4,074	4,991	6,100
Inventories	359	461	612	733	825
Trade and bill receivables	899	1,325	1,610	2,136	2,366
Prepayment	5	11	11	11	11
Others	298	718	718	718	718
Cash	1,045	874	1,123	1,393	2,180
Current liabilities	882	1,450	1,706	1,994	2,125
Trade and bill payables	521	783	1,019	1,287	1,369
Bank borrowings	150	369	389	409	459
Tax payable	70	107	107	107	107
Advance from customers	11	7	7	7	7
Others	129	183	183	183	183
Non-current liabilities	151	202	222	232	232
Bank borrowings	75	109	129	139	139
Deferred tax liabilities	2	1	1	1	1
Deferred income	64	73	73	73	73
Others	10	19	19	19	19
Equity	2,601	3,207	3,991	5,059	6,311
Shareholders' equity	2,601	3,207	3,991	5,059	6,311
MI	0	0	0	0	0

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix (%)					
Boom lifts	12	12	15	26	29
Scissor lifts	75	77	77	67	64
Vertical lifts	9	5	4	4	3
Others	4	6	4	4	4
Total	100	100	100	100	100
Profit & loss ratio (%)					
Gross margin	41.5	39.9	40.4	41.4	41.7
EBITDA margin	29.7	29.9	30.4	32.2	33.2
EBIT margin	28.2	28.7	29.0	30.4	30.8
Net profit margin	28.1	29.0	27.5	28.7	29.4
Growth (%)					
Revenue	49.9	39.9	37.5	30.0	16.6
Gross profit	48.2	34.4	39.5	33.0	17.6
EBITDA	39.2	41.0	39.7	38.0	20.1
EBIT	41.6	42.4	39.0	36.0	18.3
Net profit	69.6	44.5	30.4	35.5	19.6
Balance sheet ratio					
Current ratio (x)	3.0	2.3	2.4	2.5	2.9
Receivable turnover days	143	170	163	160	165
Inventory turnover days	110	104	100	98	98
Payable turnover days	152	166	168	168	167
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	15.0	16.3	16.8	18.6	18.4
ROE	20.0	23.9	25.1	27.1	25.8
Per share data					
EPS (RMB)	1.38	2.00	2.61	3.54	4.23
BVPS (RMB)	7.50	9.25	11.51	14.59	18.20
DPS (RMB)	0.25	0.35	0.46	0.62	0.74

Source: Company data, CMBIS estimates

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NOT RATED	: Stock is not rated by CMBIS
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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