

# Zhejiang Dingli - A (603338 CH)

## 4Q20 & 1Q21 results below expectation; margin pressure a concern

Dingli's net profit in 2020 unexpectedly dropped 4% YoY to RMB664mn, 31%/27% below our/consensus estimates, as Dingli generated only RMB44mn net profit in 4Q20 (-83% YoY). In 1Q21, while net profit grew 40% YoY to RMB170mn, gross margin sharply narrowed 10ppt YoY to 30%. We are concerned about the pricing power erosion due to the raw material cost hike and threat from the fast-growing aerial working platform (AWP) players in the domestic market. We slash our earnings forecast in 2021E/22E by 30%/27%. Our TP is lowered to RMB82 from RMB117, based on unchanged 42x 2021E target P/E (on the back of ~42% earnings growth in 2021E). Downgrade to **HOLD** from Buy.

- **2020 earnings miss:** Revenue grew 27% YoY to RMB2.96bn in 2020 while gross margin narrowed 5ppt YoY to 34.9%. This, together with a FX loss of RMB57mn, resulted a 4% YoY decline in net profit. In 4Q20, revenue dropped 49% YoY to RMB483mn, which we believe was due to a temporary slowdown of domestic customer's orders.
- **1Q21 beat on revenue but miss on gross margin and cash flow.** Revenue surged 105% YoY to RMB841mn in 1Q21. In spite of the strong revenue growth, gross margin narrowed 10ppt YoY to 30% which is weaker than expected. Besides, Dingli reported net operating cash outflow of RMB350mn in 1Q21, versus inflow of RMB79mn in 1Q20.
- **What will make us more constructive on the stock?** We continue to like Dingli as rising penetration of AWP in China remains a structural growth trend due to the shortage of construction workers. In the near term, however, we are waiting for (1) further ramp-up of Dingli's new production line of boom lift that will potentially improve gross margin; (2) the speed-up of AWP fleet expansion by **Far East Horizon (3360 HK, BUY)** which will provide Dingli with potential earnings growth recovery; (3) more attractive valuation after consensus earnings cut in the near future.
- **Upside risks:** (1) Significant decline in raw material price; (2) Stronger-than-expected order intakes; **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	4,364	5,332	6,189
YoY growth (%)	39.9	23.7	47.6	22.2	16.1
Net income (RMB mn)	694	664	948	1,193	1,400
EPS (RMB)	1.43	1.37	1.95	2.46	2.88
YoY growth (%)	44.5	-4.3	42.8	25.8	17.4
Consensus EPS (RMB)	n/a	n/a	2.64	3.41	n/a
EV/EBITDA (x)	60.4	53.6	41.3	31.8	27.3
P/E (x)	63.4	66.2	46.4	36.9	31.4
P/B (x)	13.7	11.7	9.6	7.9	6.5
Yield (%)	0.3	0.3	0.4	0.5	0.6
ROE (%)	23.9	19.1	22.8	23.5	22.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**HOLD (Down)**

Target Price	RMB82.00
(Previous TP	RMB117.00)
Up/Downside	-10%
Current Price	RMB90.60

### China Capital Goods

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### Stock Data

Mkt Cap (RMB mn)	43,985
Avg 3 mths t/o (RMB mn)	318
52w High/Low (RMB)	140.3/45.34
Total Issued Shares (mn)	485.5

Source: Bloomberg

### Shareholding Structure

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

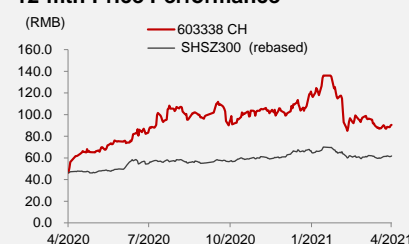
Source: Shanghai Stock Exchange

### Share Performance

	Absolute	Relative
1-mth	-7.2%	-8.2%
3-mth	-25.8%	-19.4%
6-mth	-3.6%	-11.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: BDO

### Recent report:

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

Zhejiang Dingli - A (603338 CH, BUY) - 2Q20 profit +78% YoY in line; Strong operating cash flow - 18 Aug 2020

**Figure 1: 2020 results highlight**

YE Dec 31(RMB mn)	2019	2020	Chg (YoY)	2020E	A vs E
<b>Total revenue</b>	<b>2,389</b>	<b>2,957</b>	23.7%	<b>3,622</b>	<b>-18.4%</b>
Cost of sales	(1,437)	(1,925)	33.9%	(2,252)	-14.5%
<b>Gross profit</b>	<b>952</b>	<b>1,032</b>	8.4%	<b>1,370</b>	<b>-24.7%</b>
Surcharge	(10)	(12)	17.8%	(18)	-32.6%
S&D expenses	(105)	(100)	-4.7%	(163)	-38.8%
Administrative expenses	(136)	(162)	18.8%	(181)	-10.5%
Asset impairment	(15)	6	n/a	(4)	n/a
<b>EBIT</b>	<b>686</b>	<b>764</b>	11.3%	<b>1,004</b>	<b>-23.9%</b>
Net finance income/(cost)	39	(46)	-219.4%	47	-199.0%
Finance income	42	12	-70.1%	52	-75.9%
Finance expenses	(3)	(59)	n/a	(5)	n/a
Other gains/(losses)	41	45	8.7%	36	23.7%
Share of profit of JV and associates	39	11	-71.5%	29	-61.7%
<b>Pretax profit</b>	<b>805</b>	<b>773</b>	-3.9%	<b>1,116</b>	<b>-30.7%</b>
Income tax	(111)	(109)	-1.4%	(156)	-30.1%
<b>After tax profit</b>	<b>694</b>	<b>664</b>	-4.3%	<b>960</b>	<b>-30.8%</b>
MI	0	0	n/a	0	n/a
<b>Net profit</b>	<b>694</b>	<b>664</b>	-4.3%	<b>960</b>	<b>-30.8%</b>
D&A	28	41	44.0%	44	-7.9%
<b>EBITDA</b>	<b>714</b>	<b>805</b>	12.6%	<b>1,049</b>	<b>-23.3%</b>

Source: Company data, CMBIS

**Figure 2: Sales volume, revenue and gross margin breakdown in 2020**

	2019	2020	Chg (YoY)
<b>Sales volume (units)</b>			
Boom lifts	807	1,399	73.4%
Scissor lifts	26,660	34,589	29.7%
Vertical lifts	3,744	2,070	-44.7%
<b>Total (lifts)</b>	<b>31,211</b>	<b>38,058</b>	21.9%
<b>ASP (RMB/unit)</b>			
Boom lifts	360,549	404,234	12.1%
Scissor lifts	68,965	62,245	-9.7%
Vertical lifts	34,006	50,082	47.3%
<b>(RMB mn)</b>			
<b>Revenue</b>			
Boom lifts	291	566	94.4%
Scissor lifts	1,839	2,153	17.1%
Vertical lifts	127	104	-18.6%
<b>Revenue (core business)</b>	<b>2,257</b>	<b>2,822</b>	25.0%
Other business	132	135	1.6%
<b>Total revenue</b>	<b>2,389</b>	<b>2,957</b>	23.7%
<b>Gross margin</b>			
Boom lifts	27.7%	19.0%	-8.7
Scissor lifts	39.8%	36.2%	-3.5
Vertical lifts	39.7%	47.1%	7.3
<b>Gross margin (core business)</b>	<b>38.2%</b>	<b>33.2%</b>	-5.0
Other business	68.0%	71.0%	3.0
<b>Average gross margin</b>	<b>39.9%</b>	<b>34.9%</b>	-4.9

Source: Company data, CMBIS

**Figure 3: Quarterly results highlight**

(RMB mn)	1Q20	1Q21	Change YoY	2Q19	2Q20	Change YoY	3Q19	3Q20	Change YoY	4Q19	4Q20	Change YoY
<b>Total revenue</b>	<b>411</b>	<b>841</b>	<b>104.7%</b>	<b>464</b>	<b>1,090</b>	<b>134.8%</b>	<b>597</b>	<b>973</b>	<b>63.0%</b>	<b>944</b>	<b>483</b>	<b>-48.9%</b>
Cost of sales	(247)	(589)	138.7%	(275)	(682)	148.0%	(360)	(627)	74.1%	(582)	(368)	-36.7%
<b>Gross profit</b>	<b>164</b>	<b>253</b>	<b>53.7%</b>	<b>189</b>	<b>408</b>	<b>115.6%</b>	<b>236</b>	<b>346</b>	<b>46.2%</b>	<b>362</b>	<b>114</b>	<b>-68.4%</b>
Other income	(4)	(1)	-84.4%	(2)	(4)	119.7%	(3)	(1)	-69.5%	(2)	(3)	49.5%
S&D expenses	(18)	(25)	38.0%	(27)	(49)	79.1%	(21)	(34)	64.9%	(39)	2	n/a
Administrative expenses	(23)	(43)	85.9%	(31)	(51)	65.5%	(24)	(44)	85.1%	(62)	(44)	-28.8%
Asset impairment	1	(13)	n/a	(1)	5	n/a	0	(5)	n/a	(11)	5	n/a
<b>EBIT</b>	<b>121</b>	<b>171</b>	<b>42.0%</b>	<b>128</b>	<b>309</b>	<b>141.3%</b>	<b>189</b>	<b>261</b>	<b>38.0%</b>	<b>247</b>	<b>73</b>	<b>-70.4%</b>
Net finance income/(cost)	6	10	54.6%	24	21	n/a	20	(13)	n/a	1	(61)	n/a
Other gains/(losses)	6	15	151.7%	29	10	-65.1%	5	3	-34.3%	6	25	338.0%
Share of profit of JV and associates	10	4	-57.7%	9	1	-86.3%	0	(3)	n/a	27	3	-89.4%
<b>Pretax profit</b>	<b>143</b>	<b>200</b>	<b>40.1%</b>	<b>190</b>	<b>342</b>	<b>80.1%</b>	<b>215</b>	<b>249</b>	<b>15.8%</b>	<b>280</b>	<b>40</b>	<b>-85.7%</b>
Income tax	(21)	(30)	43.3%	(30)	(55)	80.3%	(31)	(37)	17.8%	(30)	4	n/a
<b>After tax profit</b>	<b>122</b>	<b>170</b>	<b>39.6%</b>	<b>159</b>	<b>287</b>	<b>80.0%</b>	<b>183</b>	<b>212</b>	<b>15.5%</b>	<b>250</b>	<b>44</b>	<b>-82.5%</b>
MI	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
<b>Net profit</b>	<b>122</b>	<b>170</b>	<b>39.6%</b>	<b>159</b>	<b>287</b>	<b>80.0%</b>	<b>183</b>	<b>212</b>	<b>15.5%</b>	<b>250</b>	<b>44</b>	<b>-82.5%</b>
Gross margin	40.0%	30.0%	-10.0	40.8%	37.4%	-3.3	39.6%	35.5%	-4.1	38.3%	23.7%	-14.6
S&D expense ratio	4.5%	3.0%	-1.5	5.9%	4.5%	-1.4	3.5%	3.5%	0.0	4.2%	-0.3%	-4.5
Administrative expense ratio	5.6%	5.1%	-0.5	6.6%	4.6%	-1.9	4.0%	4.6%	0.5	6.6%	9.2%	2.6
Effective tax rate	14.8%	15.1%	0.3	16.1%	16.1%	0.0	14.6%	14.9%	0.2	10.7%	-9.3%	-20.0

Source: Company data, CMBIS

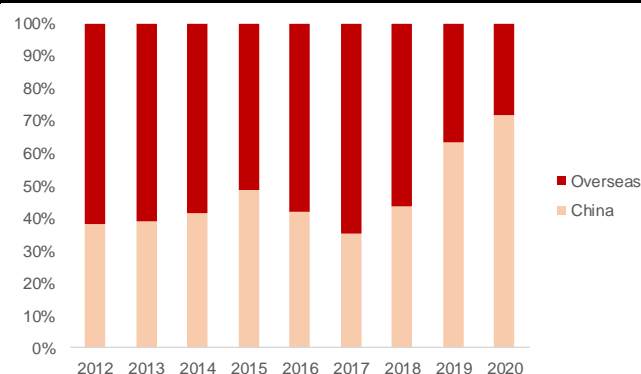
**Figure 4: Key assumptions for Dingli**

	Old		New		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
<b>Sales volume (units)</b>						
Boom lifts	3,018	3,924	3,018	3,924	0.0%	0.0%
Scissor lifts	51,803	60,610	46,695	56,034	-9.9%	-7.5%
Vertical lifts	4,530	4,983	2,277	2,505	-49.7%	-49.7%
Total (lifts)	59,351	69,516	51,990	62,463	-12.4%	-10.1%
<b>ASP (RMB/unit)</b>						
Boom lifts	362,000	362,000	405,000	405,000	11.9%	11.9%
Scissor lifts	70,000	70,000	61,000	61,000	-12.9%	-12.9%
Vertical lifts	34,000	34,000	50,000	50,000	47.1%	47.1%
(RMB mn)						
<b>Revenue</b>						
Boom lifts	1,093	1,420	1,222	1,589	11.9%	11.9%
Scissor lifts	3,626	4,243	2,848	3,418	-21.4%	-19.4%
Vertical lifts	154	169	114	125	-26.1%	-26.1%
Revenue (core business)	4,873	5,832	4,185	5,132	-14.1%	-12.0%
Other business	165	199	180	200	9.0%	0.7%
<b>Total revenue</b>	<b>5,038</b>	<b>6,031</b>	<b>4,364</b>	<b>5,332</b>	<b>-13.4%</b>	<b>-11.6%</b>
<b>Gross margin</b>					ppt	
Boom lifts	34.0%	34.0%	22.0%	24.0%	-12.0	-10.0
Scissor lifts	37.5%	37.3%	32.0%	33.0%	-5.5	-4.3
Vertical lifts	37.5%	37.3%	40.0%	40.0%	2.5	2.7
<b>Gross margin (core business)</b>	<b>36.7%</b>	<b>36.5%</b>	<b>29.3%</b>	<b>30.4%</b>	<b>-7.4</b>	<b>-6.1</b>
Other business	67.0%	67.0%	71.0%	71.0%	4.0	4.0
<b>Blended gross margin</b>	<b>37.7%</b>	<b>37.5%</b>	<b>31.0%</b>	<b>31.9%</b>	<b>-6.7</b>	<b>-5.6</b>
Gross profit	1,900	2,262	1,354	1,701	-28.7%	-24.8%
<b>Net profit</b>	<b>1,348</b>	<b>1,627</b>	<b>948</b>	<b>1,193</b>	<b>-29.6%</b>	<b>-26.7%</b>

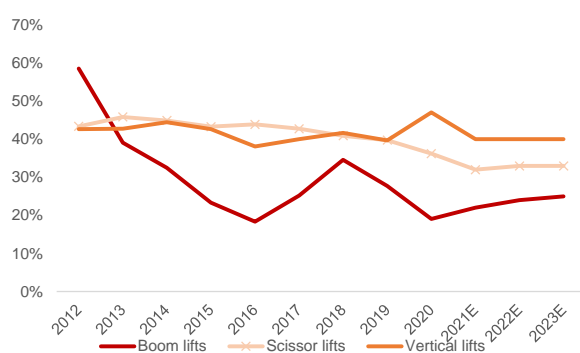
Source: Company data, CMBIS estimates

**Figure 5: Dingli's revenue breakdown by product**

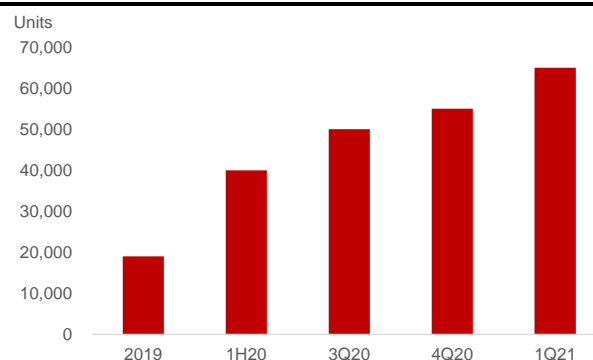
Source: Company data, CMBIS estimates

**Figure 6: Dingli's revenue breakdown by region**

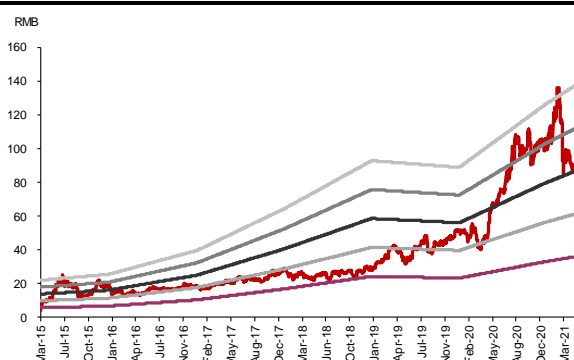
Source: Company data, CMBIS

**Figure 7: Gross margin by product**

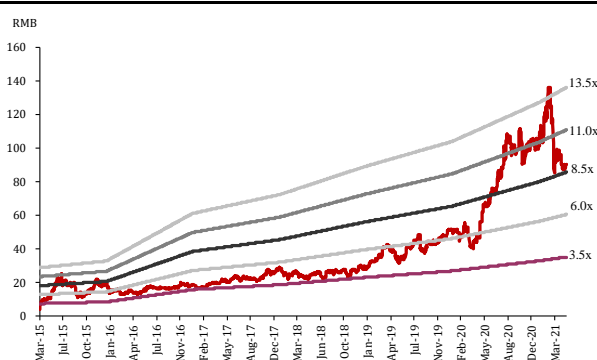
Source: Company data, CMBIS estimates

**Figure 8: Far East Horizon's AWP fleet size**

Source: Company data, CMBIS estimates

**Figure 9: Dingli 12M forward P/E band**

Source: Bloomberg, Company data, CMBIS estimates

**Figure 10: 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
<b>Total revenue</b>	<b>2,389</b>	<b>2,957</b>	<b>4,364</b>	<b>5,332</b>	<b>6,189</b>
Cost of sales	(1,437)	(1,925)	(3,011)	(3,631)	(4,212)
<b>Gross profit</b>	<b>952</b>	<b>1,032</b>	<b>1,354</b>	<b>1,701</b>	<b>1,976</b>
Surcharge	(10)	(12)	(17)	(21)	(25)
S&D expenses	(105)	(100)	(135)	(160)	(186)
Administrative expenses	(136)	(162)	(223)	(267)	(297)
Asset impairment	(15)	6	(9)	(11)	(19)
<b>EBIT</b>	<b>686</b>	<b>764</b>	<b>970</b>	<b>1,243</b>	<b>1,450</b>
Net finance income/(cost)	39	(46)	52	47	66
Finance income	42	12	57	52	72
Finance expenses	(3)	(59)	(4)	(5)	(5)
Other gains/(losses)	41	45	65	80	93
Profit of JV & associates	39	11	15	17	19
<b>Pretax profit</b>	<b>805</b>	<b>773</b>	<b>1,103</b>	<b>1,387</b>	<b>1,628</b>
Income tax	(111)	(109)	(154)	(194)	(228)
<b>After tax profit</b>	<b>694</b>	<b>664</b>	<b>948</b>	<b>1,193</b>	<b>1,400</b>
MI	0	0	0	0	0
<b>Net profit</b>	<b>694</b>	<b>664</b>	<b>948</b>	<b>1,193</b>	<b>1,400</b>
D&A	28	41	76	115	133
<b>EBITDA</b>	<b>714</b>	<b>805</b>	<b>1,046</b>	<b>1,358</b>	<b>1,584</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	805	773	1,103	1,387	1,628
Finance cost	3	59	4	5	5
Interest income	(14)	42	(57)	(52)	(72)
Profit / loss of associates	(39)	(11)	(15)	(17)	(19)
Depreciation and amortization	28	41	76	115	133
Income tax paid	(101)	(144)	(154)	(194)	(228)
Change in working capital	(6)	163	(291)	(450)	(249)
Others	20	(32)	0	0	0
<b>Cash flow from operation</b>	<b>696</b>	<b>892</b>	<b>666</b>	<b>794</b>	<b>1,199</b>
Net capex on PP&E	(285)	(234)	(300)	(300)	(200)
Interest received	6	(42)	57	52	72
Others	(392)	(378)	0	0	0
<b>Cash flow from investing</b>	<b>(666)</b>	<b>(707)</b>	<b>(243)</b>	<b>(248)</b>	<b>(128)</b>
Proceeds from equity	0	0	0	0	0
Net bank borrowings	252	(55)	30	60	61
Dividend paid	(87)	(121)	(126)	(180)	(227)
Interest paid	(17)	(16)	(4)	(5)	(5)
Others	(0)	(0)	0	0	0
<b>Cash flow from financing</b>	<b>147</b>	<b>(192)</b>	<b>(101)</b>	<b>(125)</b>	<b>(171)</b>
Change in cash	177	(8)	322	421	900
Cash at beginning of the year	1,045	874	1,191	1,513	1,934
FX gains/(losses) & others	(349)	325	0	0	0
Cash at the end of the year	874	1,191	1,513	1,934	2,833

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>1,471</b>	<b>1,722</b>	<b>2,204</b>	<b>2,487</b>	<b>2,736</b>
PP&E	245	722	949	1,138	1,208
JV/associates	89	119	134	151	170
LT trade receivables	465	477	719	800	963
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
<b>Current assets</b>	<b>3,389</b>	<b>4,147</b>	<b>5,222</b>	<b>5,956</b>	<b>7,606</b>
Inventories	461	942	1,203	1,403	1,690
Trade and bill receivables	1,325	1,249	1,740	1,854	2,317
Prepayment	11	32	32	32	32
Others	718	733	733	733	733
Cash	874	1,191	1,513	1,934	2,833
<b>Current liabilities</b>	<b>1,450</b>	<b>1,891</b>	<b>2,616</b>	<b>2,610</b>	<b>3,324</b>
Trade and bill payables	783	1,223	1,928	1,872	2,536
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
<b>Non-current liabilities</b>	<b>202</b>	<b>233</b>	<b>243</b>	<b>253</b>	<b>264</b>
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
<b>Equity</b>	<b>3,207</b>	<b>3,744</b>	<b>4,566</b>	<b>5,579</b>	<b>6,752</b>
Shareholders' equity	3,207	3,744	4,566	5,579	6,752
MI	0	0	0	0	0

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue mix (%)</b>					
Boom lifts	12	19	28	30	30
Scissor lifts	77	73	65	64	65
Vertical lifts	5	4	3	2	2
Others	6	5	4	4	3
Total	100	100	100	100	100
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	39.9	34.9	31.0	31.9	31.9
EBITDA margin	29.9	27.2	24.0	25.5	25.6
EBIT margin	28.7	25.8	22.2	23.3	23.4
Net profit margin	29.0	22.5	21.7	22.4	22.6
<b>Growth (%)</b>					
Revenue	39.9	23.7	47.6	22.2	16.1
Gross profit	34.4	8.4	31.1	25.7	16.2
EBITDA	41.0	12.6	30.0	29.9	16.6
EBIT	42.4	11.3	26.9	28.2	16.7
Net profit	44.5	(4.3)	42.8	25.8	17.4
<b>Balance sheet ratio</b>					
Current ratio (x)	2.3	2.2	2.0	2.3	2.3
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
<b>Profitability (%)</b>					
ROA	16.3	12.4	14.3	15.0	14.9
ROE	23.9	19.1	22.8	23.5	22.7
<b>Per share data</b>					
EPS (RMB)	1.43	1.37	1.95	2.46	2.88
BVPS (RMB)	6.61	7.71	9.41	11.49	13.91
DPS (RMB)	0.25	0.26	0.37	0.47	0.55

Source: Company data, CMBIS estimates

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