

Zhejiang Dingli - A (603338 CH)

Higher-than-expected anti-dumping duties but overhang largely removed

The anti-dumping duties (AD) decided by the US department of Commerce of 31.54% is higher than the 17.78% set in the initial decision, which will likely affect Dingli's AWP sales in the US. On the positive side, we believe the decision has helped remove the overhang and enable Dingli to formulate its medium-term strategy: (1) Dingli will continue to offer differentiated products in the US; (2) Dingli is managed to sell vertical lifts (free from any duties) in the US; (3) Dingli will likely shift more capacity to fulfil the demand in the Europe and other regions. We revise down our earnings forecast in 2022/23E by 5%/3%. We rolled over our valuation base to 2022E and reset our TP at RMB77, based on 33x P/E which is equivalent to the historical average.

- Higher-than-expected AD.** The US Department of Commerce has decided that AD for Dingli will be 31.54%. The decision on AD will be subject to the final confirmation by the US International Trade Commission (ITC). This AD rate (assuming that the final rate remains unchanged), together with the finalized countervailing duties (CVD) of 11.95%, suggests that the total duty rates reach 43.49%. Dingli will continue to communicate with the US authorities in order to achieve lower duty rates in the future.
- Impact:** Overseas market accounts for ~40% of total revenue. Europe and the US market account for 30-40% of Dingli's export. We estimate roughly 8-10% of revenue is generated from the US market (Dingli doesn't disclose the breakdown). Going forward, Dingli will further strengthen its differentiation strategy in the US by offering niche products (i.e. less price sensitive for the customers), given the robust demand for AWP at present. Besides, vertical lift is not subject to AD/CVD and Dingli will strive to market the product in the US.
- Capacity growth to focus on high-end products.** Dingli completed the share placement at end-2021. The net proceeds of RMB1.5bn will be spent on new capacity for 4k units of large-size intelligent AWP (including 1.5k units of 36-50m electric boom lift and 1k units of 33-36m electric scissor lifts). Based on our understanding, there are only limited number of players capable to offer these products. We believe the capacity addition will help Dingli further strengthen its competitive edge in the long run.
- Risks:** (1) Price competition in China AWP market; (2) unexpected slowdown of construction activities in China; (3) further increase in freight rate.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	2,389	2,957	4,664	5,761	6,971
YoY growth (%)	39.9	23.7	57.7	23.5	21.0
Net income (RMB mn)	694	664	933	1,183	1,446
EPS (RMB)	1.43	1.37	1.92	2.34	2.86
YoY growth (%)	44.5	-4.3	40.5	21.5	22.3
Consensus EPS (RMB)	n/a	n/a	1.86	2.44	3.12
EV/EBITDA (x)	39.9	35.5	28.3	21.2	16.9
P/E (x)	42.7	44.6	31.8	26.1	21.4
P/B (x)	9.2	7.9	5.1	4.4	3.7
Yield (%)	0.4	0.4	0.6	0.7	0.9
ROE (%)	23.9	19.1	19.1	18.0	18.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB77.00
(Previous TP)	RMB87.00)
Up/Downside	26%
Current Price	RMB61.05

China Capital Goods

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	30,913
Avg 3 mths t/o (RMB mn)	490
52w High/Low (RMB)	140.3/53.9
Total Issued Shares (mn)	506.3

Source: Bloomberg

Shareholding Structure

XU Shugen	45.5%
CCASS (Hong Kong)	11.7%
Deqing Zhongding Equity Investment Management	11.6%
Others	31.2%

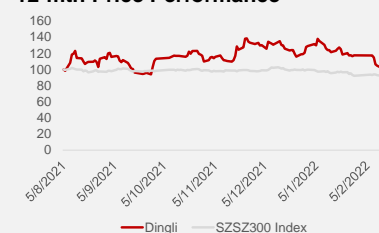
Source: Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	-20%	-17%
3-mth	-16%	-11%
6-mth	-11%	-6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

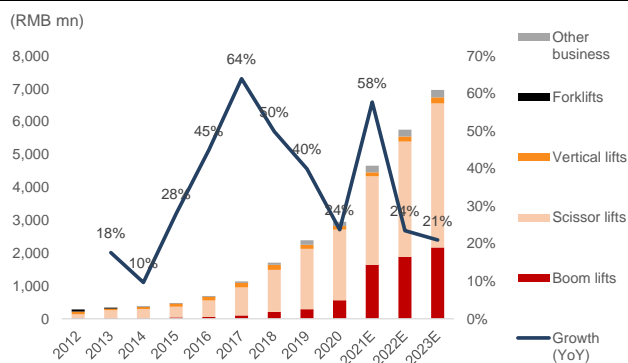
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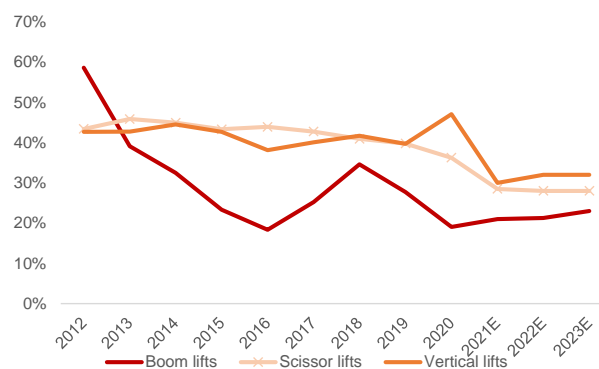
Figure 1: Change in key assumptions for Dingli

	Old			New			Change		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Sales volume (units)									
Boom lifts	3,148	4,092	4,788	4,057	4,666	5,366	28.9%	14.0%	12.1%
Scissor lifts	51,192	63,990	74,868	44,274	57,556	71,945	-13.5%	-10.1%	-3.9%
Vertical lifts	2,381	2,619	2,880	2,401	3,002	3,602	0.9%	14.6%	25.0%
Total (lifts)	56,720	70,700	82,536	50,732	65,223	80,912	-10.6%	-7.7%	-2.0%
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	1,275	1,657	1,939	1,643	1,890	2,173	28.9%	14.0%	12.1%
Scissor lifts	3,123	3,903	4,567	2,701	3,511	4,389	-13.5%	-10.1%	-3.9%
Vertical lifts	119	131	144	120	150	180	0.9%	14.6%	25.0%
Revenue (core business)	4,517	5,692	6,650	4,464	5,551	6,742	-1.2%	-2.5%	1.4%
Other business	204	217	218	200	210	229	-1.9%	-3.1%	5.1%
Total revenue	4,721	5,908	6,868	4,664	5,761	6,971	-1.2%	-2.5%	1.5%
Gross margin									<i>ppt</i>
Boom lifts	20.5%	22.0%	24.0%	21.0%	21.3%	23.0%	0.5	-0.7	-1.0
Scissor lifts	28.0%	29.0%	29.0%	28.5%	28.0%	28.0%	0.5	-1.0	-1.0
Vertical lifts	30.0%	32.0%	32.0%	30.0%	32.0%	32.0%	0.0	0.0	0.0
Gross margin (core business)	25.9%	27.0%	27.6%	25.8%	25.8%	26.5%	-0.2	-1.2	-1.1
Other business	71.0%	71.0%	71.0%	71.0%	71.0%	71.0%	0.0	0.0	0.0
Blended gross margin	27.9%	28.6%	29.0%	27.7%	27.5%	28.0%	-0.2	-1.2	-1.0
Gross profit	1,316	1,692	1,991	1,293	1,583	1,949	-1.8%	-6.5%	-2.1%
S&D expense ratio	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	0.0	0.0	0.0
Admin expense & R&D exp ratio	-4.4%	-4.1%	-4.0%	-4.5%	-4.1%	-4.0%	-0.1	0.0	0.0
Net profit	963	1,243	1,487	933	1,183	1,446	-3.1%	-4.8%	-2.7%

Source: Company data, CMBIS estimates

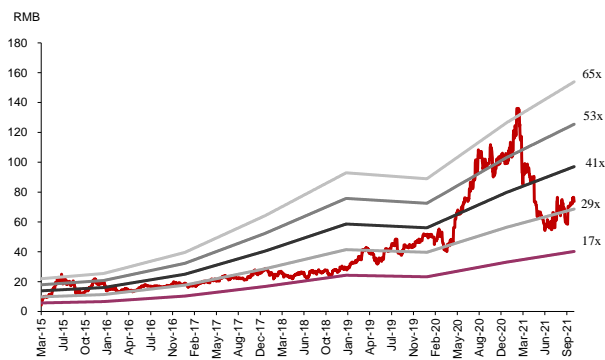
Figure 2: Dingli's revenue breakdown by product

Source: Company data, CMBIS estimates

Figure 3: Gross margin by product

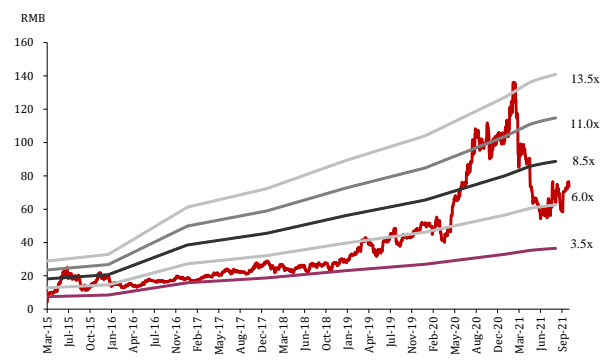
Source: Company data, CMBIS

Figure 4: Dingli 12M forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 5: 12M forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	2,389	2,957	4,664	5,761	6,971	Pretax profit	805	773	1,085	1,375	1,682
Cost of sales	-1,437	-1,925	-3,371	-4,178	-5,022	Finance cost	3	59	4	5	5
Gross profit	952	1,032	1,293	1,583	1,949	Interest income	-14	42	-84	-86	-88
Surcharge	-10	-12	-9	-12	-14	Profit / loss of associates	-39	-11	-15	-17	-19
S&D expenses	-105	-100	-93	-115	-139	Depreciation and amortization	28	41	76	140	196
Administrative expenses	-136	-162	-210	-236	-279	Income tax paid	-101	-144	-152	-193	-235
Asset impairment	-15	6	-47	-12	-21	Change in working capital	-6	163	-458	-347	-619
EBIT	686	764	934	1,208	1,496	Others	20	-32	0	0	0
Net finance income/(cost)	39	-46	80	81	83	Cash flow from operation	696	892	456	878	921
Finance income	42	12	84	86	88	Net capex on PP&E	-285	-234	-300	-800	-700
Finance expenses	-3	-59	-4	-5	-5	Interest received	6	-42	84	86	88
Other gains/(losses)	41	45	56	69	84	Others	-392	-378	0	0	0
Profit of JV & associates	39	11	15	17	19	Cash flow from investing	-666	-707	-216	-714	-612
Pretax profit	805	773	1,085	1,375	1,682	Proceeds from equity	0	0	1,500	0	0
Income tax	-111	-109	-152	-193	-235	Net bank borrowings	252	-55	30	60	61
After tax profit	694	664	933	1,183	1,446	Dividend paid	-87	-121	-126	-177	-225
MI	0	0	0	0	0	Interest paid	-17	-16	-4	-5	-5
Net profit	694	664	933	1,183	1,446	Others	-0	-0	0	0	0
D&A	28	41	76	140	196	Cash flow from financing	147	-192	1,399	-122	-169
EBITDA	714	805	1,010	1,348	1,692	Change in cash	177	-8	1,640	42	141
						Cash at beginning of the year	1,045	874	1,191	2,831	2,873
						FX gains/(losses) & others	-349	325	0	0	0
						Cash at the end of the year	874	1,191	2,831	2,873	3,013

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	1,471	1,722	2,286	3,002	3,831	Revenue mix (%)					
PP&E	245	722	949	1,613	2,120	Boom lifts	12	19	35	33	31
JV/associates	89	119	134	151	170	Scissor lifts	77	73	58	61	63
LT trade receivables	465	477	801	840	1,146	Vertical lifts	5	4	3	3	3
Intangible assets	140	158	154	151	147	Others	6	5	4	4	3
AFS investments	0	0	0	0	0	Total	100	100	100	100	100
Others	529	246	246	246	246	Profit & loss ratio (%)					
Deferred tax assets	2	2	2	2	2	Gross margin	39.9	34.9	27.7	27.5	28.0
Current assets	3,389	4,147	7,002	7,114	8,688	EBITDA margin	29.9	27.2	21.7	23.4	24.3
Inventories	461	942	1,460	1,539	2,148	EBIT margin	28.7	25.8	20.0	21.0	21.5
Trade and bill receivables	1,325	1,249	1,946	1,937	2,761	Net profit margin	29.0	22.5	20.0	20.5	20.7
Prepayment	11	32	32	32	32	Growth (%)					
Others	718	733	733	733	733	Revenue	39.9	23.7	57.7	23.5	21.0
Cash	874	1,191	2,831	2,873	3,013	Gross profit	34.4	8.4	25.3	22.4	23.1
						EBITDA	41.0	12.6	25.5	33.5	25.5
Current liabilities	1,450	1,891	2,993	2,806	3,977	EBIT	42.4	11.3	22.3	29.4	23.8
Trade and bill payables	783	1,223	2,305	2,068	3,188	Net profit	44.5	(4.3)	40.5	26.7	22.3
Bank borrowings	369	303	323	373	423	Balance sheet ratio					
Tax payable	107	102	102	102	102	Current ratio (x)	2.3	2.2	2.3	2.5	2.2
Advance from customers	7	69	69	69	69	Receivable turnover days	170	159	125	123	123
Others	183	194	194	194	194	Inventory turnover days	104	133	130	131	134
Non-current liabilities	202	233	243	253	264	Payable turnover days	166	190	191	191	191
Bank borrowings	109	121	131	141	152	Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax liabilities	1	0	0	0	0	Profitability (%)					
Deferred income	73	95	95	95	95	ROA	16.3	12.4	12.3	12.2	12.8
Others	19	18	18	18	18	ROE	23.9	19.1	19.1	18.0	18.9
Equity	3,207	3,744	6,051	7,056	8,278	Per share data					
Shareholders' equity	3,207	3,744	6,051	7,056	8,278	EPS (RMB)	1.43	1.37	1.92	2.34	2.86
MI	0	0	0	0	0	BVPS (RMB)	6.61	7.71	11.95	13.94	16.35
						DPS (RMB)	0.25	0.26	0.35	0.44	0.54

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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