

Dalipal Holdings (1921 HK)

An integrated OCTG supplier to expand global footprint

- **Long-term supplier of China Big Three NOCs.** Founded in 1998 and listed on HKEX in 2019, Dalipal Holdings is a leading fully-integrated oil country tubular goods (OCTG) private-owned manufacturer (Note: OCTG refers to oil pipes that are applied in oilfield drilling and completion procedures). Dalipal's main products include (1) oil and gas (O&G) pipes, (2) new energy pipes, and (3) special seamless steel pipes, which are widely applied in multiple categories of energy sources, including oil, natural gas, shale gas and new energy, as well as manufacturing of related equipment. China's Big Three national oil companies (NOCs, i.e. PetroChina, Sinopec and CNOOC) are the major customers of Dalipal, with more than 20 years of cooperative relationship.
- **Growth E&P capex to stay high in 2023E.** According to our calculation, China Big Three NOCs' E&P capex will reach RMB375bn in 2023E, -8% YoY but still a high level since 2016. Globally, the upstream E&P capex is expected to increase 12% YoY in 2023E, and maintain an uptrend over the coming three years, according to S&P Global Commodity Insights. We expect the upstream capex growth will continue to support the demand for O&G pipes.
- **Overseas expansion the next growth driver.** Dalipal targets to diversify its client mix and enhance its profitability through overseas market expansion. In 2022, the Company's overseas revenue surged 2.2x YoY in 2022 to RMB1.15bn, accounting for 27.2% of total revenue (2021: 9.6%). In 2022, Dalipal expanded its presence in the Middle East (became a qualified manufacturer of the Kuwait Oil Company) and North Africa market. Dalipal has also become a global qualified supplier of Japanese Sumitomo since May 2023, suggesting that the overseas expansion strategy is well on track. In the long run, Dalipal expects its overseas revenue proportion to reach 50%.
- **Production capacity to double.** Currently, Dalipal is equipped with automated production lines with annual capacity of O&G pipes/ new energy pipes & special seamless steel pipes/ other product are 300k/ 550k/ 600k tonnes, respectively. Phase Two (intelligent automated production plant) is currently under construction and is expected to be completed by end-2024. Upon completion, Dalipal's production capacity is expected to double (O&G pipes/ new energy pipes & special steel pipes/ other product: 600k/ 1.1mn/ 1.2mn tonnes).

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21A	FY22A
Revenue (RMB mn)	3,095	2,826	2,259	3,763	4,228
YoY growth (%)	35.9	-8.7	-20.0	66.5	12.4
Net income (RMB mn)	301	337	-118	83	152
EPS (RMB)	NA	0.27	-0.08	0.06	0.1
YoY growth (%)	NA	NA	NA	NA	66.7
P/E (x)	NA	9.6	NA	42.2	26.0
ROE (%)	36.7	29.4	-8.4	6.4	11.0
Net gearing (%)	165.7	91.3	119.3	142.4	105.7

Source: Company data, Bloomberg, CMBIGM

NOT RATED

Current Price

HK\$2.92

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Stock Data

Mkt Cap (HK\$ mn)	4,379
Avg 3 mths t/o (HK\$ mn)	3.11
52w High/Low (HK\$)	3.02/2.16
Total Issued Shares (mn)	1,498.5

Source: Bloomberg

Shareholding Structure

MENG Fanyoung	47%
Others	53%

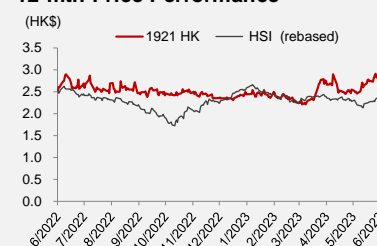
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	13.7%	12.8%
3-mth	29.5%	25.5%
6-mth	23.4%	20.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

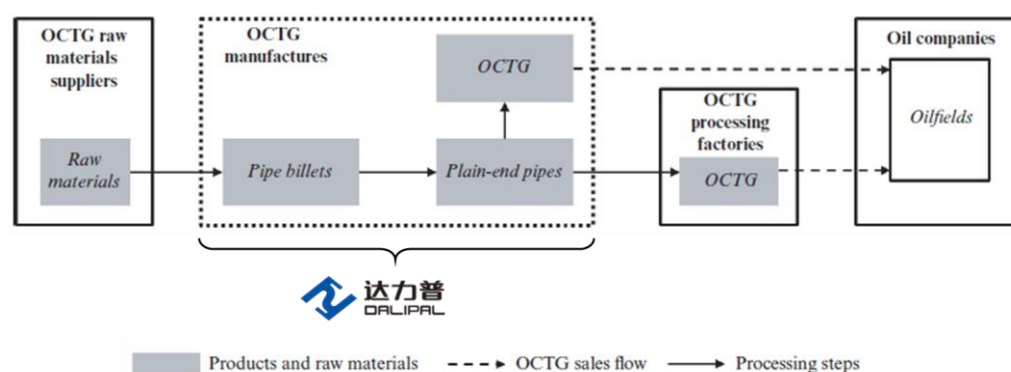
Product Overview

Dalipal adopts a vertically integrated supply chain business model, covering from principal materials (pipe billets), semi-finished products (plain-end pipes) to final products (OCTG).

OCTG comprises oil-pipes that are widely applied in oilfield drilling and well completion procedures, including (1) casing, (2) tubing and (3) drill pipes. In terms of overall consumption volume, casing, tubing and drill pipes account for ~75%, ~15% and <10%, respectively. OCTG products can be categorized into API products and non-API products. API products refer to the standardized products that follow the standards set by API Monogram Program, while non-API products refer to the customized products with higher price. Dalipal's non-API product has achieved mass supply and its proportion continues to increase.

Meanwhile, Dalipal also provides new energy pipes that are used in a variety of energy sources, including natural gas, shale gas and new energy, as well as manufacturing of related equipment.

Figure 1: Value chain of OCTG market

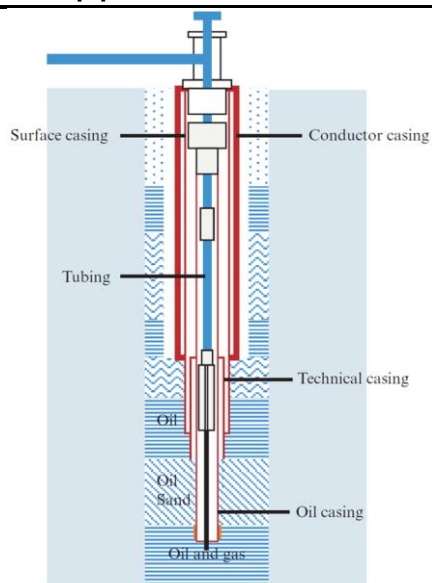


Source: CIC report, CMBIGM

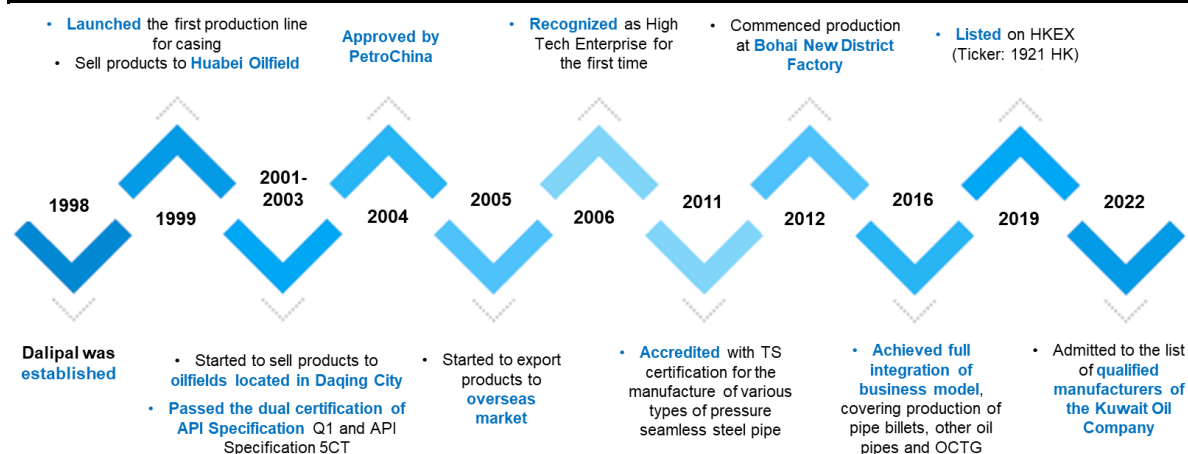
Figure 2: Major products of Dalipal

Product Name	Description
Oil and gas pipes	<ul style="list-style-type: none"> OCTG comprises (1) casing (75% of overall consumption volume), (2) tubing (15%), and (3) drill pipes (10%) (1) Casing: <ul style="list-style-type: none"> To support the well wall of O&G wells during the drilling process and after completion Each well uses layers of casing, depending on different depths and geological conditions Consumable and non-reusable material Casing include conductor casing, surface casing, technical casing and oil casing (2) Tubing: <ul style="list-style-type: none"> To transport oil or gas from bed to the surface Withstanding pressure during the extraction process
New energy pipes	<ul style="list-style-type: none"> New energy pipes mainly include (1) the pipes designed for the development and mining of new energy sources such as shale gas, natural gas, combustible ice, etc. and (2) pipes designed for the manufacturing of new energy vehicles and new energy equipment.
Special seamless steel pipes & other pipes	<ul style="list-style-type: none"> Special seamless steel pipes mainly include O&G plain-end pipes and O&G line pipes <ul style="list-style-type: none"> (1) Plain-end pipes are a semi-finished product of OCTG (2) Line pipes are used for the transportation of O&G within oilfields

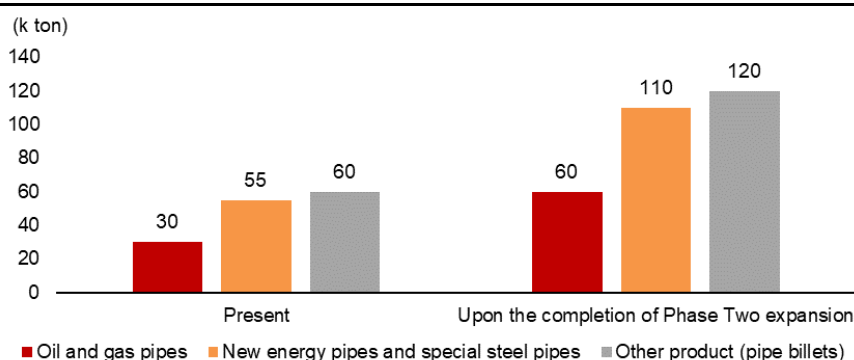
Source: Company data, CMBIGM

Figure 3: O&G pipes used in O&G wells


Source: CIC Report, Company data, CMBIGM
Note: The red lines refer to the usage of casing.

Figure 4: Business milestones of Dalipal


Source: Company data, CMBIGM

Figure 5: Dalipal's production capacity growth


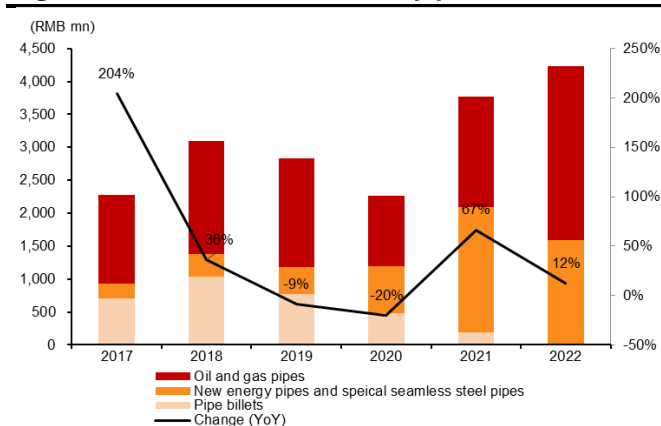
Source: Company data, CMBIGM

On-track recovery

Dalipal's revenue grew 12% YoY to RMB4,228mn in 2022. Blended gross margin expanded by 3.4ppt YoY to 14.5% in 2022 due to an increase in ASP. Net profit surged 83% YoY to RMB152mn in 2022.

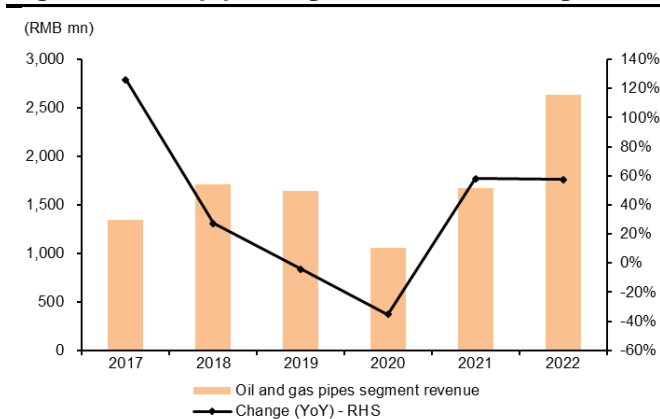
O&G pipes revenue, the major revenue contributor (62% of total revenue in 2022), grew 57% YoY to 2,635mn in 2022. The growth was mainly driven by (1) increase in sales volume as a result of more bidding acquired in the domestic oil and gas field market and the successful expansion of overseas market; and (2) increase in ASP as a result of improved product mix, higher market demand and favorable change in exchange rate. Segmental margin expanded 1.8ppt YoY to 16.8% in 2022, despite the increased raw materials and energy costs.

Figure 6: Revenue breakdown by product



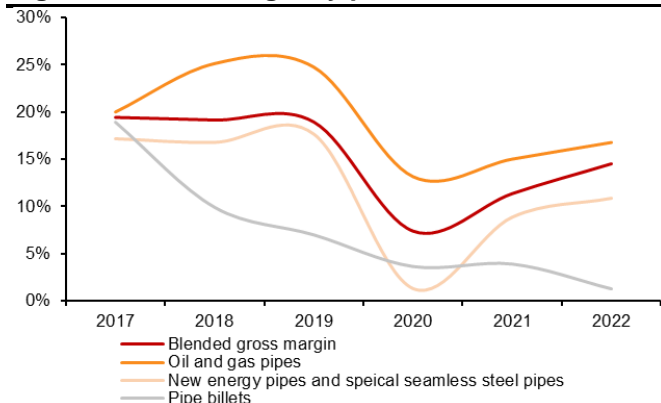
Source: Company data, CMBIGM

Figure 7: O&G pipes segment revenue and growth



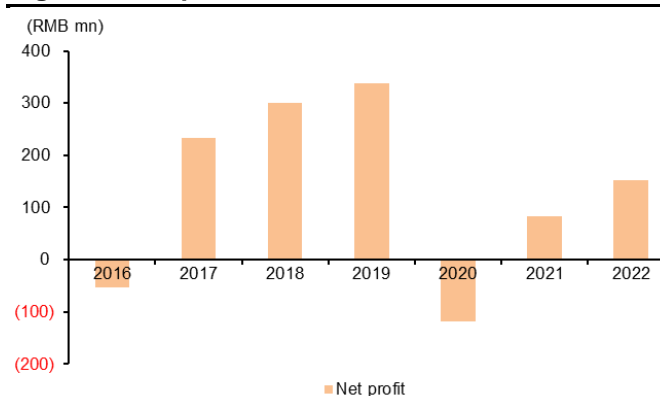
Source: Company data, CMBIGM

Figure 8: Gross margin by products



Source: Company data, CMBIGM

Figure 9: Net profit trend



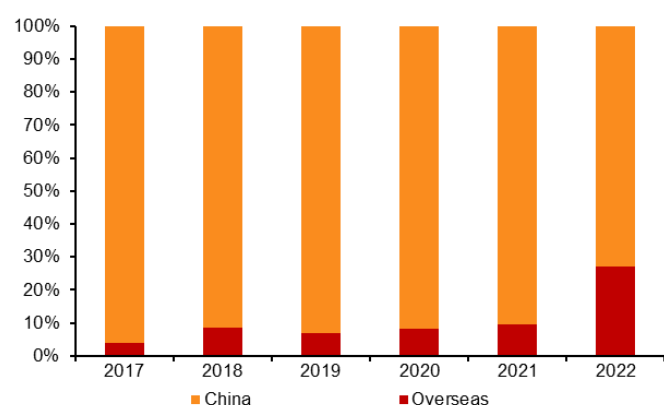
Source: Company data, CMBIGM

Overseas expansion the next growth driver

Dalipal has continued to gain global presence. Dalipal's overseas revenue surged 2.2x YoY in 2022 to RMB1,150mn, mainly driven by the successful market expansion strategy, increase in selling price, as well as the favorable change in exchange rate. The proportion of overseas revenue surged from 9.6% in 2021 to 27.2% in 2022. In 2022, Dalipal expanded its presence in the Middle East (became a qualified manufacturer of the Kuwait Oil Company) and North Africa market. Revenue from the Middle East/ Africa region amounted to RMB664mn/ RMB278mn, accounting for 58%/ 24% of overseas revenue (2021: 12%/ 9%) and 16%/ 7% of total revenue (2021: 1%/ 0.7%). Since May 2023, Dalipal has also become a global qualified supplier of Japanese Sumitomo (8053 JP), suggesting that Dalipal's overseas expansion strategy is well on track.

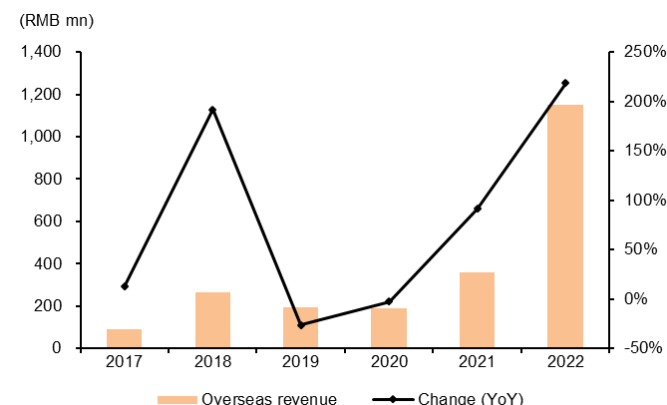
Going forward, Dalipal plans to further expand in the Middle East and North Africa markets, which will serve as the Company's key growth drivers. Dalipal targets its overseas revenue proportion to increase to half of the total revenue. With the enhancing relationship between China and the Middle East, we expect Dalipal is set to benefit from the global upstream capex expansion.

Figure 10: Revenue breakdown by region



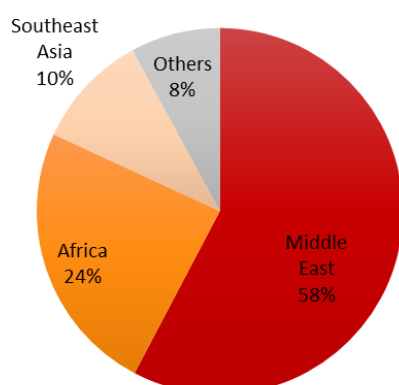
Source: Company data, CMBIGM

Figure 11: Overseas revenue and growth



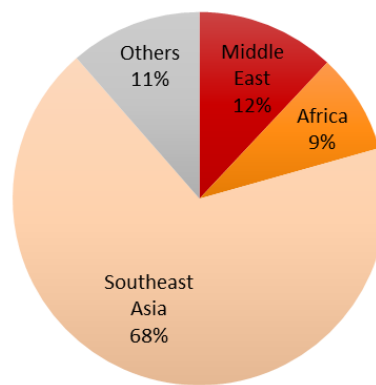
Source: Company data, CMBIGM

Figure 12: Overseas market breakdown (2022)



Source: Company data, CMBIGM

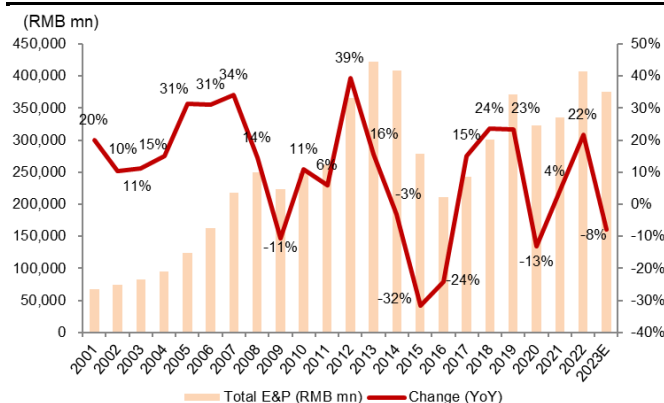
Figure 13: Overseas market breakdown (2021)



Source: Company data, CMBIGM

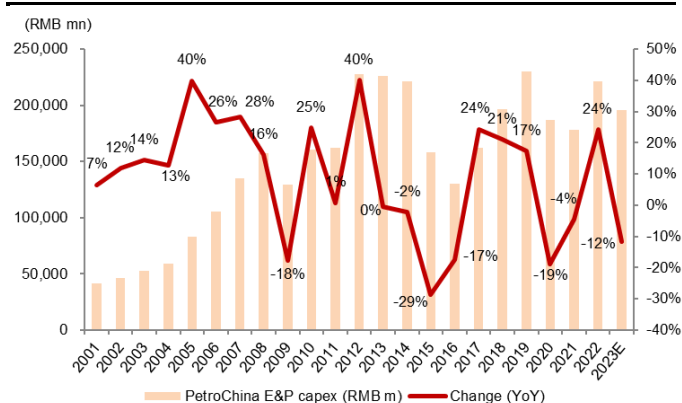
Oil and Gas Industry Charts

Figure 14: China's Big 3 oil companies' E&P capex



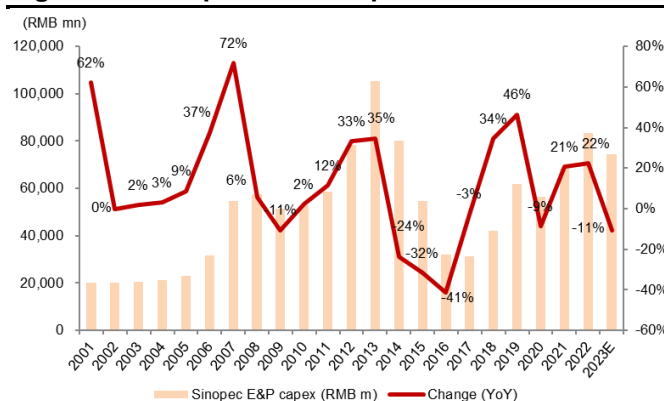
Source: Company data, CMBIGM estimates

Figure 15: PetroChina's E&P capex



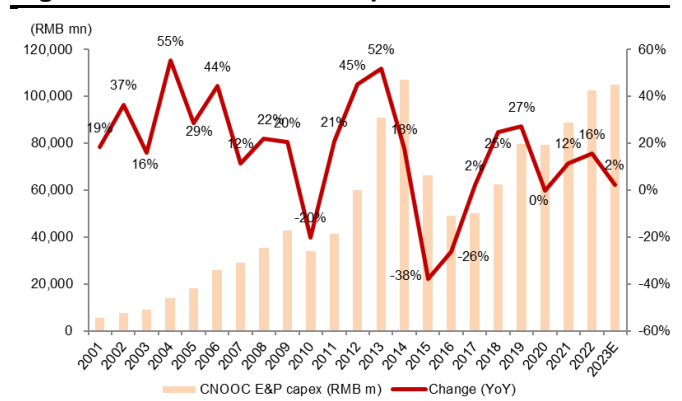
Source: Company data, CMBIGM estimates

Figure 16: Sinopec's E&P capex



Source: Company data, CMBIGM estimates

Figure 17: CNOOC's E&P capex

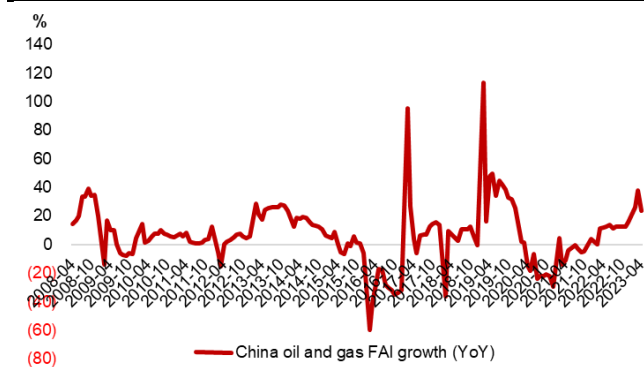


Source: Company data, CMBIGM estimates

Figure 18: Global upstream oil E&P capex



Source: S&P Global Commodity Insights, COSL, CMBIGM

Figure 19: China oil and gas FAI growth (YTD)

Source: Wind, NBS, CMBIGM

Figure 20: Brent crude oil price

Source: Bloomberg, CMBIGM

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