

# Zhejiang Dingli - A (603338 CH)

## 3Q19 profit below est.; Revenue recovery a good sign

Dingli's net profit in 3Q19 dropped 3.9% to RMB183mn, largely due to the lack of profit contribution from associate companies (versus a high base in 3Q18). While the 3Q19 result is slightly below our expectation, we are encouraged to see a 10% YoY growth of revenue in 3Q19, an improvement from a decline of 2% in 2Q19, which we believe is an early sign of recovery. We maintain our positive stance on Dingli, as rising labor cost remains the key driver for the application of the aerial working platform (AWP) in China. We maintain our BUY rating and TP of RMB72 (30x 2020E EPS).

- **Key highlights on 3Q19 results.** Revenue grew 10.4% YoY to RMB597mn in 3Q19. While gross margin narrowed 4ppt YoY and 1.2ppt QoQ to 39.6%, we believe it's still a comfortable level. Selling expense decreased 29% YoY, suggesting a stringent cost control. Profit from associate companies (mainly for overseas business) was only RMB0.2mn in 3Q19, representing a 99% YoY decline. However, it's worth noting that profit from associates in 3Q18 was unusually high, which was one-off in nature. The net profit growth excluding the associate profit would be 18% (YoY) in 3Q19.
- **9M19 net profit accounted for 74% of our full year estimate.** Net profit in 9M19 grew 12% YoY RMB444mn. Operating cash inflow dropped 26% YoY to RMB329mn, largely due to an increase in inventory for upcoming sales. We have left our earnings forecast unchanged as we expect earnings improvement in 4Q19E.
- **Share disposal plan to have limit impact.** Meanwhile, Dingli announced that Deqing Zhongding Equity Investment Management has planned to offload 2.5mn shares within six months. That said, we believe the impact to the market will be limited as the potential share sales account for only 0.72% of the total o/s shares. Deqing Zhongding is an investment company which XU Shugen owns 39.69% stake at present. In 2018, Deqing Zhongding disposed 3.67mn shares in the market with a price range of RMB46.0-50.7 per share, much lower than the current share price.
- **Major risk factors:** (1) more new entrants in the AWP market; (2) uncertainty on China-US trade disputes; (3) weaker-than-expected construction activities in China.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	1,139	1,708	2,108	2,945	3,886
YoY growth (%)	64.0	49.9	23.5	39.7	31.9
Net income (RMB mn)	283	480	600	830	1,085
EPS (RMB)	0.85	1.38	1.73	2.39	3.13
YoY growth (%)	10.8	62.7	24.9	38.4	30.7
EV/EBITDA (x)	57.8	41.5	30.8	21.6	16.8
P/E (x)	74.0	45.5	36.4	26.3	20.1
P/B (x)	9.9	8.4	7.0	5.7	4.6
Yield (%)	0.3	0.4	0.5	0.7	0.9
ROE (%)	17.2	20.0	21.0	23.9	25.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

## BUY (Maintain)

**Target Price:** RMB72.00  
 (Previous TP: RMB72.00)  
**Up/Downside:** +14%  
**Current Price:** RMB63.00

### China Capital Goods

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### Stock Data

Mkt Cap (HK\$ mn)	21,847
Avg 3 mths t/o (HK\$ mn)	127
52w High/Low (HK\$)	68.91/34.14
Total Issued Shares (mn)	346.8
Source: Bloomberg	

### Shareholding Structure

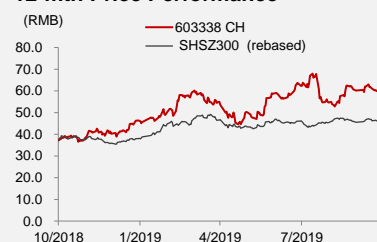
XU Shugen	47.5%
Deqing Zhongding Equity Investment Management	13.4%
CCASS (Hong Kong)	3.6%
XU Zhilong	3.1%
Free float	32.7%
Source: Shanghai Stock Exchange	

### Share Performance

	Absolute	Relative
1-mth	+3.8%	+2.3%
3-mth	+0.6%	-0.8%
6-mth	+14.5%	+14.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: BDO

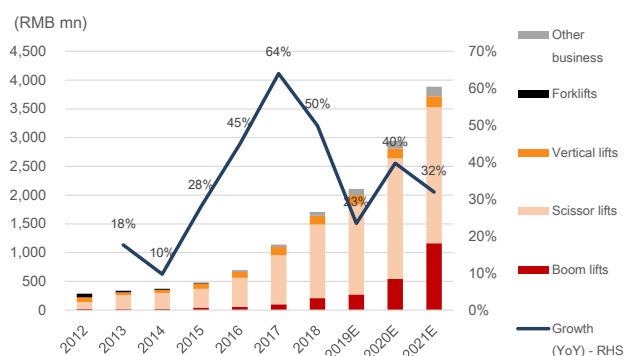
### Recent reports:

1. Zhejiang Dingli - A (603338 CH, BUY) – Lower earnings forecast but structural growth story still intact – 20 Aug 2019
2. Zhejiang Dingli - A (603338 CH, BUY) – A structural growth story in a cyclical sector – 27 Jun 2019

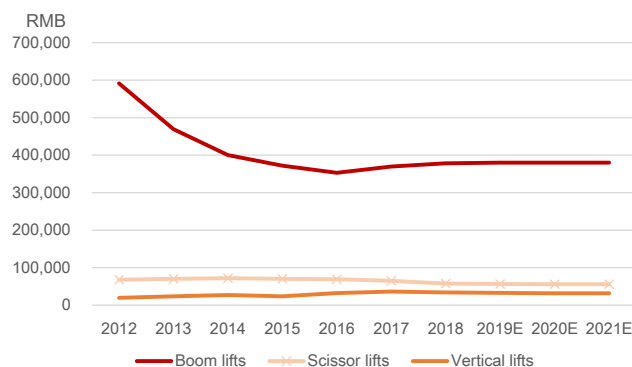
**Figure 1: Key highlights on 3Q19 results**

(RMB mn)	1Q18	1Q19	Change YoY	2Q18	2Q19	Change YoY	3Q18	3Q19	Change YoY
<b>Total revenue</b>	<b>311</b>	<b>384</b>	<b>23.4%</b>	<b>474</b>	<b>464</b>	<b>-2.1%</b>	<b>540</b>	<b>597</b>	<b>10.4%</b>
Cost of sales	-195	-220	12.8%	-287	-275	-4.3%	-305	-360	18.2%
<b>Gross profit</b>	<b>117</b>	<b>165</b>	<b>41.2%</b>	<b>187</b>	<b>189</b>	<b>1.4%</b>	<b>236</b>	<b>236</b>	<b>0.3%</b>
Other income	-3	-3	25.5%	-3	-2	-20.1%	-3	-3	-2.8%
S&D expenses	-14	-17	21.0%	-26	-27	3.8%	-29	-21	-28.5%
Administrative expenses	-14	-20	38.6%	-33	-31	-6.2%	-24	-24	-0.1%
Asset impairment	-3	-2	-13.8%	-2	-1	-33.8%	-3	0	n/a
<b>EBIT</b>	<b>83</b>	<b>122</b>	<b>47.4%</b>	<b>123</b>	<b>128</b>	<b>3.9%</b>	<b>176</b>	<b>189</b>	<b>7.2%</b>
Net finance income/(cost)	-3	-6	120.6%	12	24	100.1%	12	20	70.9%
Other gains/(losses)	3	1	-64.3%	18	29	61.5%	0	5	n/a
Share of profit of JV and associates	0	3	n/a	6	9	42.3%	37	0	-99.4%
<b>Pretax profit</b>	<b>83</b>	<b>120</b>	<b>44.3%</b>	<b>159</b>	<b>190</b>	<b>19.0%</b>	<b>225</b>	<b>215</b>	<b>-4.7%</b>
Income tax	-13	-19	45.1%	-24	-30	26.7%	-35	-31	-9.4%
<b>After tax profit</b>	<b>70</b>	<b>101</b>	<b>44.1%</b>	<b>135</b>	<b>159</b>	<b>17.7%</b>	<b>191</b>	<b>183</b>	<b>-3.9%</b>
MI	0	0	n/a	0	0	n/a	0	0	n/a
<b>Net profit</b>	<b>70</b>	<b>101</b>	<b>44.1%</b>	<b>135</b>	<b>159</b>	<b>17.7%</b>	<b>191</b>	<b>183</b>	<b>-3.9%</b>

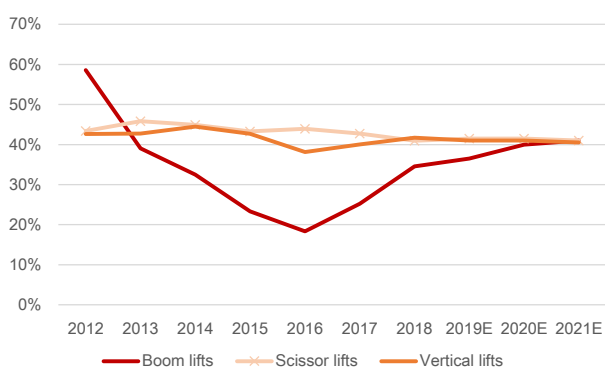
Source: Company data, CMBIS

**Figure 2: Revenue breakdown by products**

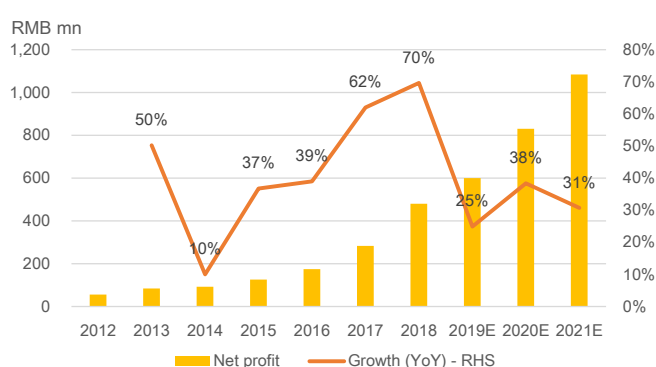
Source: Company data, CMBIS estimates

**Figure 3: ASP by products**

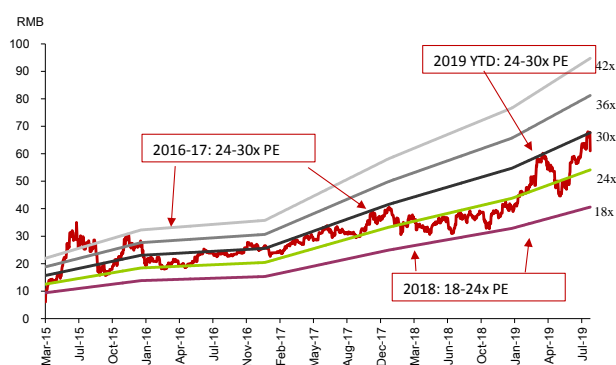
Source: Company data, CMBIS estimates

**Figure 4: Gross margin by products**

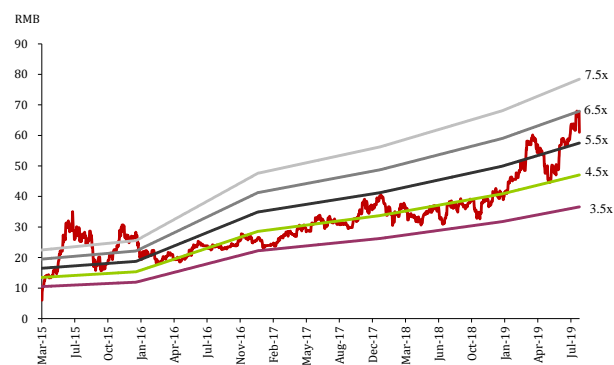
Source: Company data, CMBIS estimates

**Figure 5: Net profit and growth**

Source: Company data, CMBIS estimates

**Figure 6: Dingli 12M forward P/E band**

Source: Bloomberg, Company data, CMBIS estimates

**Figure 7: 12M forward P/B band**

Source: Bloomberg, Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Total revenue</b>	<b>1,139</b>	<b>1,708</b>	<b>2,108</b>	<b>2,945</b>	<b>3,886</b>
Cost of sales	(661)	(999)	(1,212)	(1,688)	(2,240)
<b>Gross profit</b>	<b>478</b>	<b>709</b>	<b>896</b>	<b>1,258</b>	<b>1,646</b>
Surcharge	(11)	(10)	(13)	(18)	(23)
S&D expenses	(51)	(92)	(114)	(159)	(210)
Administrative expenses	(72)	(118)	(133)	(180)	(233)
Asset impairment	(4)	(7)	(6)	(9)	(12)
<b>EBIT</b>	<b>340</b>	<b>482</b>	<b>631</b>	<b>892</b>	<b>1,168</b>
Net finance income/(cost)	(23)	36	39	43	58
Finance income	2	37	49	54	70
Finance expenses	(25)	(2)	(10)	(11)	(12)
Other gains/(losses)	16	60	25	29	39
Profit of JV & associates	0	(13)	11	11	12
<b>Pretax profit</b>	<b>333</b>	<b>565</b>	<b>706</b>	<b>976</b>	<b>1,276</b>
Income tax	(50)	(85)	(106)	(146)	(191)
<b>After tax profit</b>	<b>283</b>	<b>480</b>	<b>600</b>	<b>830</b>	<b>1,085</b>
MI	0	0	0	0	0
<b>Net profit</b>	<b>283</b>	<b>480</b>	<b>600</b>	<b>830</b>	<b>1,085</b>
D&A	24	25	51	79	84
<b>EBITDA</b>	<b>364</b>	<b>507</b>	<b>682</b>	<b>972</b>	<b>1,252</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	333	565	706	976	1,276
Finance cost	25	0	10	11	12
Interest income	0	(22)	(49)	(54)	(70)
Profit / loss of associates	0	13	(11)	(11)	(12)
Depreciation and	24	25	51	79	84
Income tax paid	(50)	(85)	(106)	(146)	(191)
Change in working capital	27	(82)	(33)	(443)	(300)
Others	(10)	2	0	0	0
<b>Cash flow from operation</b>	<b>349</b>	<b>416</b>	<b>568</b>	<b>411</b>	<b>799</b>
Net capex on PP&E	(154)	(199)	(330)	(330)	(50)
Interest received	6	27	49	54	70
Others	(886)	329	0	0	0
<b>Cash flow from investing</b>	<b>(1,035)</b>	<b>157</b>	<b>(281)</b>	<b>(276)</b>	<b>20</b>
Proceeds from equity	868	0	0	0	0
Net bank borrowings	62	163	30	30	30
Dividend paid	(29)	(71)	(87)	(108)	(149)
Interest paid	(3)	(9)	(10)	(11)	(12)
Others	(4)	0	0	0	0
<b>Cash flow from financing</b>	<b>894</b>	<b>83</b>	<b>(66)</b>	<b>(89)</b>	<b>(131)</b>
Change in cash	208	656	221	47	688
Cash at beginning of the year	247	751	1,045	1,266	1,313
FX gains/(losses) & others	296	(362)	0	(0)	0
Cash at the end of the year	751	1,045	1,266	1,313	2,001

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>656</b>	<b>1,027</b>	<b>1,430</b>	<b>1,844</b>	<b>1,948</b>
PP&E	211	232	514	768	737
JV/associates	0	206	217	228	239
LT trade receivables	151	278	392	544	670
Intangible assets	146	143	140	137	134
AFS investments	105	0	0	0	0
Others	34	167	167	167	167
Deferred tax assets	8	0	0	0	0
<b>Current assets</b>	<b>2,123</b>	<b>2,607</b>	<b>2,713</b>	<b>3,555</b>	<b>4,397</b>
Inventories	243	359	391	561	703
Trade and bill receivables	440	899	753	1,377	1,391
Prepayment	8	5	5	5	5
Others	680	298	298	298	298
Cash	751	1,045	1,266	1,313	2,001
<b>Current liabilities</b>	<b>478</b>	<b>882</b>	<b>869</b>	<b>1,392</b>	<b>1,393</b>
Trade and bill payables	308	521	488	992	972
Bank borrowings	28	150	170	190	210
Tax payable	57	70	70	70	70
Advance from customers	11	11	11	11	11
Others	74	129	129	129	129
<b>Non-current liabilities</b>	<b>98</b>	<b>151</b>	<b>161</b>	<b>171</b>	<b>181</b>
Bank borrowings	34	75	85	95	105
Deferred tax liabilities	0	2	2	2	2
Deferred income	62	64	64	64	64
Others	1	10	10	10	10
<b>Equity</b>	<b>2,203</b>	<b>2,601</b>	<b>3,114</b>	<b>3,836</b>	<b>4,772</b>
Shareholders' equity	2,203	2,601	3,114	3,836	4,772
MI	0	0	0	0	0

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue mix (%)</b>					
Boom lifts	9	12	13	18	30
Scissor lifts	75	75	74	71	61
Vertical lifts	13	9	8	6	5
Others	4	4	5	5	4
Total	100	100	100	100	100
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	42.0	41.5	42.5	42.7	42.4
EBITDA margin	32.0	29.7	32.3	33.0	32.2
EBIT margin	29.9	28.2	29.9	30.3	30.1
Net profit margin	24.9	28.1	28.4	28.2	27.9
<b>Growth (%)</b>					
Revenue	64.0	49.9	23.5	39.7	31.9
Gross profit	62.8	48.2	26.5	40.3	30.9
EBITDA	87.0	39.2	34.6	42.5	28.8
EBIT	96.0	41.6	30.9	41.5	30.9
Net profit	62.0	69.6	24.9	38.4	30.7
<b>Balance sheet ratio</b>					
Current ratio (x)	4.4	3.0	3.1	2.6	3.2
Receivable turnover days	116	143	143	132	130
Inventory turnover days	117	110	113	103	103
Payable turnover days	135	152	152	160	160
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Profitability (%)</b>					
ROA	13.6	15.0	15.4	17.4	18.5
ROE	17.2	20.0	21.0	23.9	25.2
<b>Per share data</b>					
EPS (RMB)	0.85	1.38	1.73	2.39	3.13
BVPS (RMB)	6.35	7.50	8.98	11.06	13.76
DPS (RMB)	0.20	0.25	0.31	0.43	0.56

Source: Company data, CMBIS estimates

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