

# Zhejiang Dingli (603338 CH)

## 2Q23 earnings +35% YoY in line; Boom lift in overseas the upcoming driver

Dingli's net profit in 1H23 grew 45% YoY to RMB831mn, close to the low end of the estimated profit growth of 40-60% announced in mid-Jul. That said, we believe it could be due to the fluctuation of fair value of investment (-RMB64mn) which is non-operational. The results in 1H23 imply record high quarterly net profit of RMB512mn in 2Q23 (+35% YoY). Dingli has identified the overseas, in particular the US, as the key market for its electric, high performing and high margin boom lifts, which will serve as a profitable growth driver in the future. We believe the clear strategic position will help Dingli to differentiate itself from peers. We maintain our TP of RMB67, based on 23x 2023E P/E, on the back of 23% earnings growth in 2024E. Our target multiple remains well below the historical average of 31x. Reiterate **BUY**. Dingli remains one of the key picks in our universe.

- **An outstanding set of results in 1H23.** Revenue grew 5% YoY to RMB3.1bn in 1H23, driven by the 13% YoY increase in overseas revenue (63% of total revenue). Gross margin expanded 6.4ppt YoY to 34.4%, driven by decline in freight rate and raw materials cost, as well as depreciation of RMB rate. Net finance income surged 147% YoY to RMB216mn, helped by RMB155mn FX gain (+95% YoY). Net profit grew 45% YoY to RMB831mn.
- **Record high quarterly profit in 2Q23.** Revenue grew 6% YoY to RMB1.79bn. Gross margin expanded 5.1ppt YoY to 32.1% in 2Q23. While such margin level is lower than that achieved in 1Q23 (37.6%), it was largely due to the relatively low contribution from China market in 1Q23 (gross margin in China has been 10ppt lower than that in overseas). Net finance income surged 116% YoY to RMB223mn, helped by the depreciation of RMB. Net profit grew 35% YoY to RMB512mn. Operating cash inflow surged 2x YoY to RMB611mn.
- **Boom lift in overseas will be the key growth driver.** Boom lift contributed 38% of the total revenue in 1H23 (up from 28% in 1H22). In particular, boom lift's overseas revenue surged 89% YoY in 1H23. Gross margin of boom lift expanded 5.6ppt YoY to 25.25%. Going forward, Dingli expects its new boom lift model will be a key driver in the US. With a backlog of ~300 units (1st batch) at present, Dingli expects the delivery to the US will happen in 4Q23E. Dingli believes that the gross margin will be higher than that in China even taking into consideration the anti-dumping and countervailing duties. Dingli expects rising overseas contribution of boom lift (40% in 1H23) will fuel both the revenue and gross margin in future.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,939	5,445	6,251	7,488	8,620
YoY growth (%)	67.1	10.2	14.8	19.8	15.1
Net profit (RMB mn)	884.5	1,257.2	1,471.6	1,814.3	2,136.1
EPS (Reported) (RMB)	1.82	2.48	2.91	3.58	4.22
YoY growth (%)	33.2	36.3	17.0	23.3	17.7
Consensus EPS (RMB)	na	na	2.96	3.50	4.10
P/E (x)	31.8	23.3	19.9	16.2	13.7
P/B (x)	4.9	4.2	3.5	3.0	2.5
Yield (%)	0.6	0.9	1.0	1.2	1.5
ROE (%)	18.2	19.3	19.2	20.1	20.0
Net gearing (%)	(39.1)	(28.4)	(36.1)	(43.2)	(47.5)

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** RMB67.00

(Previous TP RMB67.00)

**Up/Downside** 15.7%

**Current Price** RMB57.91

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### Stock Data

Mkt Cap (RMB mn)	29,319.8
Avg 3 mths t/o (RMB mn)	186.0
52w High/Low (RMB)	61.65/34.65
Total Issued Shares (mn)	506.3

Source: FactSet

### Shareholding Structure

XU Shugen	45.5%
Deging Zhongding Equity	11.6%
Investment Manag	

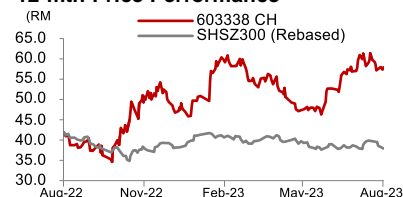
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	1.6%	2.9%
3-mth	21.7%	26.3%
6-mth	-2.1%	6.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related reports:

Zhejiang Dingli (603338 CH), BUY) – Record high quarterly profit in 2Q23E – 17 Jul 2023 ([link](#))

Zhejiang Dingli (603338 CH, BUY) – Margin expansion in 23E; Volume growth in 2024E – 5 Jul 2023 ([link](#))

China Construction Machinery - Near-term recovery more seasonal than structural; Pair trade opportunities – 27 Feb 2023 ([link](#))

China Construction Machinery – Upbeat guidance from US AWP manufacturers reaffirms our positive stance on the sector – 13 Feb 2023 ([link](#))

Prefer AWP to excavator in the near term – 12 Jan 2023 ([link](#))

**Figure 1: Dingli's quarterly results**

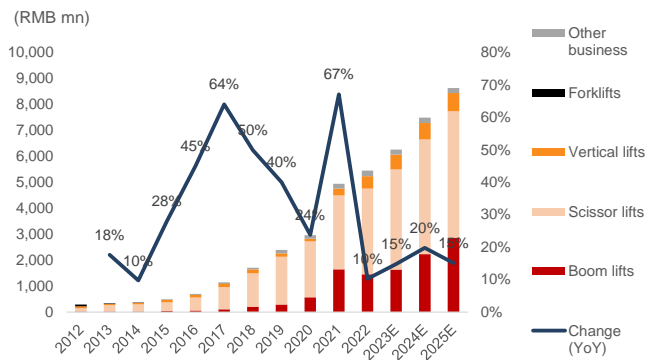
(RMB mn)	1Q22	1Q23	Chg YoY	2Q22	2Q23	Chg YoY	3Q21	3Q22	Chg YoY	4Q21	4Q22	Chg YoY
<b>Total revenue</b>	<b>1,253</b>	<b>1,302</b>	<b>3.9%</b>	<b>1,691</b>	<b>1,797</b>	<b>6.2%</b>	<b>1,418</b>	<b>1,224</b>	<b>-13.7%</b>	<b>944</b>	<b>1,277</b>	<b>35.3%</b>
Cost of sales	-887	-812	-8.4%	-1,234	-1,220	-1.1%	-1,042	-828	-20.6%	-623	-806	29.3%
<b>Gross profit</b>	<b>366</b>	<b>489</b>	<b>33.7%</b>	<b>457</b>	<b>577</b>	<b>26.1%</b>	<b>376</b>	<b>396</b>	<b>5.3%</b>	<b>320</b>	<b>471</b>	<b>47.0%</b>
Other income	-2	-8	305.1%	-6	-7	14.2%	-4	-1	-80.4%	-7	-3	-53.3%
S&D expenses	-36	-42	16.1%	-39	-55	40.9%	-36	-46	29.2%	-23	-36	55.4%
Administrative expenses	-35	-33	-7.7%	-29	-43	48.2%	-27	-38	38.1%	-18	-21	14.4%
R&D expense	-39	-40	3.4%	-49	-70	43.1%	-22	-61	183.9%	-72	-53	-27.0%
Asset impairment	-13	-3	-74.5%	-18	-44	142.9%	-13	5	n/a	11	-25	n/a
<b>EBIT</b>	<b>240</b>	<b>363</b>	<b>51.3%</b>	<b>315</b>	<b>356</b>	<b>13.0%</b>	<b>274</b>	<b>255</b>	<b>-7.1%</b>	<b>210</b>	<b>334</b>	<b>58.7%</b>
Net finance income/(cost)	-16	-7	-54.6%	103	223	116.4%	-8	74	n/a	-59	71	n/a
Other gains/(losses)	5	21	314.8%	26	7	-74.1%	6	19	210.9%	8	13	68.5%
Share of profit of JV and associates	2	9	314.6%	2	23	1042.9%	-7	14	n/a	-1	2	n/a
<b>Pretax profit</b>	<b>231</b>	<b>386</b>	<b>66.6%</b>	<b>446</b>	<b>609</b>	<b>36.5%</b>	<b>265</b>	<b>362</b>	<b>36.7%</b>	<b>158</b>	<b>420</b>	<b>165.4%</b>
Income tax	-36	-66	85.2%	-68	-97	42.8%	-42	-60	42.9%	-4	-39	967.2%
<b>After tax profit</b>	<b>196</b>	<b>319</b>	<b>63.2%</b>	<b>378</b>	<b>512</b>	<b>35.4%</b>	<b>223</b>	<b>302</b>	<b>35.5%</b>	<b>155</b>	<b>381</b>	<b>146.4%</b>
MI	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
<b>Net profit</b>	<b>196</b>	<b>319</b>	<b>63.2%</b>	<b>378</b>	<b>512</b>	<b>35.4%</b>	<b>223</b>	<b>302</b>	<b>35.5%</b>	<b>155</b>	<b>381</b>	<b>146.4%</b>
			ppt			ppt			ppt			ppt
Gross margin	29.2%	37.6%	8.4	27.0%	32.1%	5.1	26.5%	32.4%	5.8	34.0%	36.9%	2.9
S&D expense ratio	2.9%	3.2%	0.3	2.3%	3.1%	0.8	2.5%	3.8%	1.3	2.4%	2.8%	0.4
Administrative expense ratio	2.8%	2.5%	-0.3	1.7%	2.4%	0.7	1.9%	3.1%	1.2	2.0%	1.6%	-0.3
R&D expense ratio	3.1%	3.1%	0.0	2.9%	3.9%	1.0	1.5%	5.0%	3.5	7.7%	4.1%	-3.5
Effective tax rate	15.4%	17.2%	1.7	15.2%	15.9%	0.7	15.8%	16.5%	0.7	2.3%	9.3%	7.0

Source: Company data, CMBIGM estimates

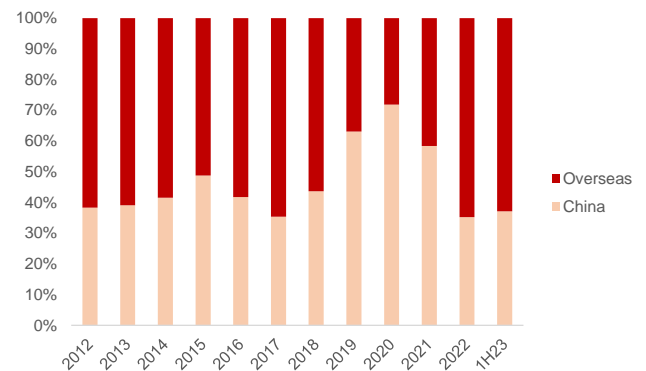
**Figure 2: Key operating assumptions for Dingli**

	2021	2022	2023E	2024E	2025E
<b>Sales volume (units)</b>					
Boom lifts	3,954	3,511	3,932	5,309	6,742
Scissor lifts	44,112	46,262	53,201	60,117	66,129
Vertical lifts	3,610	7,477	8,449	9,294	10,223
<b>Total (lifts)</b>	<b>51,676</b>	<b>57,250</b>	<b>65,583</b>	<b>74,720</b>	<b>83,094</b>
<b>Growth rate</b>					
Boom lifts	182.6%	-11.2%	12.0%	35.0%	27.0%
Scissor lifts	27.5%	4.9%	15.0%	13.0%	10.0%
Vertical lifts	74.4%	107.1%	13.0%	10.0%	10.0%
<b>Total (lifts)</b>	<b>35.8%</b>	<b>10.8%</b>	<b>14.6%</b>	<b>13.9%</b>	<b>11.2%</b>
<b>ASP (RMB/unit)</b>					
Boom lifts	416,207	414,084	416,000	420,000	423,000
Scissor lifts	64,529	71,221	72,500	73,500	73,800
Vertical lifts	72,931	64,112	67,000	68,000	68,000
<b>(RMB mn)</b>					
<b>Revenue</b>					
Boom lifts	1,646	1,454	1,636	2,230	2,852
Scissor lifts	2,847	3,295	3,857	4,419	4,880
Vertical lifts	263	479	566	632	695
<b>Revenue (core business)</b>	<b>4,755</b>	<b>5,228</b>	<b>6,059</b>	<b>7,280</b>	<b>8,427</b>
Other business	184	217	192	208	193
<b>Total revenue</b>	<b>4,939</b>	<b>5,445</b>	<b>6,251</b>	<b>7,488</b>	<b>8,620</b>
<b>Gross margin</b>					
Boom lifts	18.2%	20.6%	25.0%	29.0%	31.5%
Scissor lifts	32.5%	32.6%	36.5%	37.0%	37.0%
Vertical lifts	38.4%	34.0%	36.5%	37.0%	37.0%
<b>Gross margin (core business)</b>	<b>27.8%</b>	<b>29.4%</b>	<b>33.4%</b>	<b>34.5%</b>	<b>35.1%</b>
Other business	67.8%	70.2%	70.0%	70.0%	70.0%
<b>Average gross margin</b>	<b>29.3%</b>	<b>31.0%</b>	<b>34.5%</b>	<b>35.5%</b>	<b>35.9%</b>

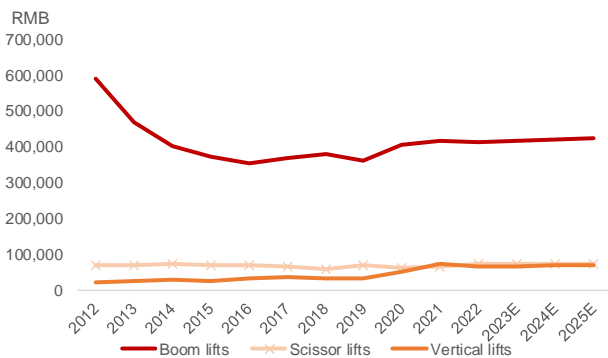
Source: Company data, CMBIGM estimates

**Figure 3: Dingli's revenue breakdown by product**

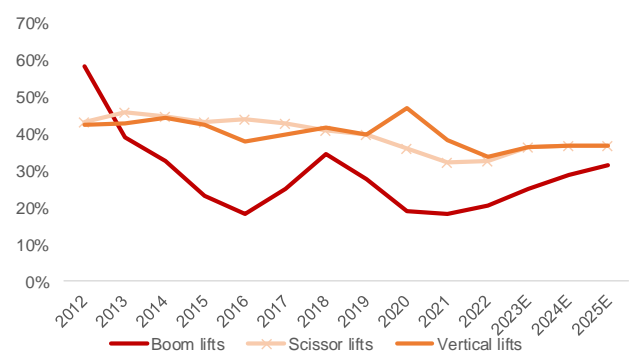
Source: Company data, CMBIGM estimates

**Figure 4: Dingli's revenue breakdown by region**

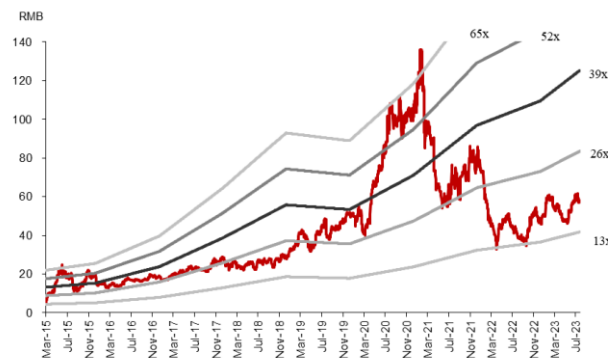
Source: Company data, CMBIGM

**Figure 5: Dingli's ASP trend**

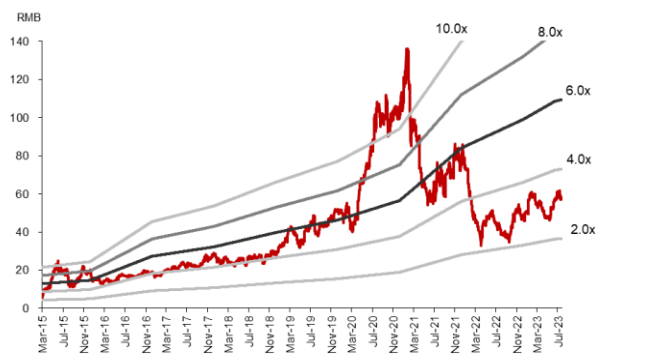
Source: Company data, CMBIGM estimates

**Figure 6: Gross margin trend**

Source: Company data, CMBIGM

**Figure 7: Dingli's 12M forward P/E band**

Source: Bloomberg, Company data, CMBIGM estimates

**Figure 8: Dingli's 12M forward P/B band**

Source: Bloomberg, Company data, CMBIGM estimates

**Key risks:** (1) Further intensified competition in China AWP market; (2) Unexpected slowdown of overseas demand; (3) sharp rebound of RMB rate.

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	2,957	4,939	5,445	6,251	7,488	8,620
Cost of goods sold	(1,925)	(3,490)	(3,755)	(4,093)	(4,827)	(5,524)
Gross profit	1,032	1,449	1,690	2,158	2,661	3,096
Operating expenses	(268)	(401)	(547)	(600)	(700)	(802)
Selling expense	(100)	(111)	(158)	(181)	(217)	(250)
Admin expense	(57)	(88)	(123)	(138)	(161)	(181)
R&D expense	(105)	(155)	(202)	(219)	(262)	(302)
Others	(6)	(47)	(64)	(63)	(60)	(69)
Operating profit	764	1,048	1,143	1,558	1,961	2,294
Other gains/(losses)	45	40	64	63	75	86
Share of (losses)/profits of associates/JV	11	1	20	20	20	22
Depreciation	41	77	101	138	165	192
Interest income	12	16	250	120	101	124
Interest expense	(59)	(85)	(17)	(48)	(46)	(43)
Net Interest income/(expense)	(46)	(69)	233	71	54	81
Pre-tax profit	773	1,021	1,460	1,711	2,110	2,484
Income tax	(109)	(137)	(203)	(240)	(295)	(348)
After tax profit	664	884	1,257	1,472	1,814	2,136
Minority interest	0	0	0	0	0	0
Net profit	664	884	1,257	1,472	1,814	2,136

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	4,147	7,394	8,821	9,323	11,477	12,727
Cash & equivalents	1,191	3,514	3,522	4,455	5,604	6,767
Account receivables	1,249	2,293	3,094	2,934	3,549	3,772
Inventories	942	1,387	1,795	1,524	1,914	1,778
Prepayment	32	42	9	9	9	9
Other current assets	733	157	401	401	401	401
Non-current assets	1,722	2,181	2,980	3,529	3,746	4,007
PP&E	722	828	947	1,317	1,460	1,576
Deferred income tax	2	12	30	30	30	30
Investment in JVs & assos	119	108	121	141	160	182
Intangibles	158	234	396	388	379	371
Other non-current assets	722	999	1,486	1,653	1,716	1,848
Total assets	5,869	9,574	11,802	12,851	15,223	16,735
Current liabilities	1,891	3,144	3,753	3,584	4,485	4,274
Short-term borrowings	303	873	777	727	677	627
Account payables	1,223	1,868	2,381	2,262	3,213	3,052
Tax payable	102	165	225	225	225	225
Other current liabilities	194	220	341	341	341	341
Contract liabilities	69	18	29	29	29	29
Non-current liabilities	233	452	984	984	934	884
Long-term borrowings	121	302	740	740	690	640
Deferred income	95	108	183	183	183	183
Other non-current liabilities	18	42	61	61	61	61
Total liabilities	2,125	3,596	4,737	4,568	5,419	5,158
Total shareholders equity	3,744	5,978	7,065	8,284	9,804	11,577
Minority interest	0	0	0	0	0	0
Total equity and liabilities	5,869	9,574	11,802	12,851	15,223	16,735

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	773	1,021	1,460	1,711	2,110	2,484
Depreciation & amortization	41	77	101	138	165	192
Tax paid	(144)	(164)	(260)	(240)	(295)	(348)
Change in working capital	163	(687)	(211)	145	(116)	(380)
Others	58	126	(154)	(91)	(74)	(103)
<b>Net cash from operations</b>	<b>892</b>	<b>374</b>	<b>937</b>	<b>1,664</b>	<b>1,789</b>	<b>1,845</b>
<b>Investing</b>						
Capital expenditure	(234)	(340)	(819)	(500)	(300)	(300)
Others	(474)	271	(402)	120	101	124
<b>Net cash from investing</b>	<b>(707)</b>	<b>(69)</b>	<b>(1,222)</b>	<b>(380)</b>	<b>(199)</b>	<b>(176)</b>
<b>Financing</b>						
Dividend paid	(121)	(126)	(172)	(253)	(294)	(363)
Net borrowings	(55)	746	266	(50)	(100)	(100)
Proceeds from share issues	0	1,482	0	0	0	0
Others	(16)	(33)	(49)	(48)	(46)	(43)
<b>Net cash from financing</b>	<b>(192)</b>	<b>2,069</b>	<b>45</b>	<b>(352)</b>	<b>(440)</b>	<b>(506)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	874	1,191	3,514	3,522	4,455	5,604
Exchange difference	325	(50)	248	0	0	0
<b>Cash at the end of the year</b>	<b>1,191</b>	<b>3,514</b>	<b>3,522</b>	<b>4,455</b>	<b>5,604</b>	<b>6,767</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	23.7%	67.1%	10.2%	14.8%	19.8%	15.1%
Gross profit	8.4%	40.4%	16.7%	27.7%	23.3%	16.4%
Operating profit	11.3%	37.2%	9.1%	36.2%	25.9%	17.0%
Net profit	(4.3%)	33.2%	42.1%	17.0%	23.3%	17.7%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	34.9%	29.3%	31.0%	34.5%	35.5%	35.9%
Operating margin	25.8%	21.2%	21.0%	24.9%	26.2%	26.6%
Return on equity (ROE)	19.1%	18.2%	19.3%	19.2%	20.1%	20.0%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.2)	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)
Current ratio (x)	2.2	2.4	2.4	2.6	2.6	3.0
Receivable turnover days	158.9	130.9	180.6	176.0	158.0	155.0
Inventory turnover days	133.0	121.8	154.7	148.0	130.0	122.0
Payable turnover days	190.2	161.6	206.5	207.0	207.0	207.0
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	42.3	31.8	23.3	19.9	16.2	13.7
P/B	7.5	4.9	4.2	3.5	3.0	2.5
Div yield (%)	0.4	0.6	0.9	1.0	1.2	1.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Disclosures & Disclaimers

## Analyst Certification

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Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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