28 Aug 2024

CMB International Global Markets | Equity Research | Company Update

Zhejiang Dingli (603338 CH)

Boom lifts & US market remain the key drivers

Zhejiang Dingli's (Dingli) EBIT in 2Q24 grew 72% YoY to RMB612mn, driven by revenue growth of 34% YoY and gross margin expansion of 2.6ppt YoY. Reported net profit grew only 2% YoY to RMB522mn, but largely a result of the reduction of net finance income due to the lack of FX gains. During the post results call, management reiterated the positive outlook for the US market, with an unchanged full-year boom lifts sales target of 2k units. Besides, management expects the incremental impact of a potential increase in tariffs after the US presidential election should be manageable, as the reduction of anti-dumping duties could mitigate the impact. We have left our earnings forecast unchanged. Maintain **BUY** with unchanged TP of RMB75 (18x 2024E P/E, 1SD below the historical average of 31x).

- **Strong revenue growth and margin in 2Q24.** Revenue grew 34% YoY to RMB2**.**4bn. Gross margin expanded 2**.**6ppt YoY to 31.8%. Administrative expense ratio remained relatively stable at 2.5%. Net finance expense dropped 96% YoY to RMB10mn due to the lack of FX gains.
- **Boom lift remains the growth driver.** In 1H24, revenue from boom lifts surged 58% YoY to RMB1.8bn (representing 49% of revenue from main operations), while revenue from scissor lifts was flat YoY. Boom lifts reported growth in both overseas and China markets. For scissor lifts, capacity was allocated mainly to the overseas market due to fierce competition in China.
- **Overseas markets: US > Asia & others > Europe.** Overseas revenue grew 50% YoY in 1H24. North America was the region with the highest growth (+100%), followed by Asia & others (+40%) and Europe (+10%).
- **Key risks:** (1) Further intensified competition in China's AWP market; (2) a slowdown of overseas demand; and (3) higher-than-expected anti-dumping duties and countervailing duties in the US and EU.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	5,445	6,312	7,569	8,810	10,409
YoY growth (%)	10.2	15.9	19.9	16.4	18.2
Net profit (RMB mn)	1,257.2	1,867.2	2,104.9	2,424.7	2,870.1
EPS (Reported) (RMB)	2.48	3.69	4.16	4.79	5.67
YoY growth (%)	36.3	48.5	12.7	15.2	18.4
Consensus EPS (RMB)	na	na	4.24	5.00	5.83
P/E (x)	18.7	12.6	11.2	9.7	8.2
P/B (x)	3.3	2.6	2.2	1.9	1.6
Yield (%)	1.1	2.2	2.5	2.9	3.4
ROE (%)	19.3	23.3	21.6	21.1	21.3
Net gearing (%)	(28.4)	(34.3)	(30.7)	(36.0)	(35.7)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB75.00**
Up/Downside	**61.3%**
Current Price	**RMB46.50**

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	23,543.0
Avg 3 mths t/o (RMB mn)	209.4
52w High/Low (RMB)	72.98/43.58
Total Issued Shares (mn)	506.3

Source: FactSet

Shareholding Structure

XU Shugen	45.5%
Deqing Zhongding Equity Investment Manag	10.8%

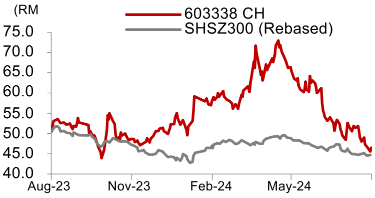
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.0%	-4.6%
3-mth	-30.0%	-23.4%
6-mth	-19.8%	-15.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

Dingli – 4Q23 & 1Q24 earnings in line; Staying positive on overseas growth – 25 Apr 2024 (link)

Capital Goods – More policies to support domestic machinery demand; expect sector rally to continue – 18 Apr 2024 (link)

Dingli – New APW capacity expansion plan to further enhance global competitiveness – 25 Mar 2024 (link)

China Construction Machinery – Assessing the impact of the European Commission's anti-dumping investigation against China-made AWP – 14 Nov 2023 (link)

Figure 1: Dingli's quarterly results

(RMB mn)	1Q23	1Q24	Chg YoY	2Q23	2Q24	Chg YoY	3Q22	3Q23	Chg YoY	4Q22	4Q23	Chg YoY
Total revenue	**1,302**	**1,452**	***11.5%***	**1,797**	**2,408**	***34.0%***	**1,224**	**1,644**	***34.3%***	**1,277**	**1,570**	***22.9%***
Cost of sales	(812)	(855)	*5.2%*	(1,272)	(1,642)	*29.1%*	(828)	(871)	*5.3%*	(806)	(927)	*15.0%*
Gross profit	**489**	**597**	***22.0%***	**525**	**766**	***45.9%***	**396**	**772**	***95.0%***	**471**	**643**	***36.5%***
Other income	(8)	(10)	*36.0%*	(7)	(12)	*60.3%*	(1)	(6)	*673.5%*	(3)	(12)	*258.1%*
S&D expenses	(42)	(55)	*31.5%*	(3)	(24)	*591.2%*	(46)	(148)	*218.1%*	(36)	(39)	*10.0%*
Administrative expenses	(33)	(29)	*-12.4%*	(43)	(59)	*36.2%*	(38)	(24)	*-35.9%*	(21)	(41)	*94.5%*
R&D expense	(40)	(51)	*25.4%*	(70)	(68)	*-3.6%*	(61)	(38)	*-37.5%*	(53)	(71)	*34.2%*
Asset impairment	(3)	(22)	*529.9%*	(44)	9	*n/a*	5	6	*20.2%*	(25)	(20)	*-17.6%*
EBIT	**363**	**430**	***18.5%***	**356**	**612**	***72.1%***	**255**	**562**	***120.5%***	**334**	**460**	***37.8%***
Net finance income/(cost)	(7)	18	*n/a*	223	10	*-95.5%*	74	(62)	*n/a*	71	90	*27.2%*
Other gains/(losses)	21	(88)	*n/a*	7	(3)	*n/a*	19	42	*114.3%*	13	43	*226.6%*
Share of profit of JV and associates	9	10	*15.1%*	23	(13)	*n/a*	14	6	*-56.2%*	2	38	*1944.3%*
Pretax profit	**386**	**369**	***-4.2%***	**609**	**606**	***-0.5%***	**362**	**548**	***51.1%***	**420**	**632**	***50.5%***
Income tax	(66)	(67)	*1.6%*	(97)	(83)	*-14.3%*	(60)	(86)	*43.0%*	(39)	(58)	*48.8%*
After tax profit	**319**	**302**	***-5.4%***	**512**	**523**	***2.1%***	**302**	**462**	***52.7%***	**381**	**574**	***50.7%***
MI	0	0	*n/a*	0	(0)	*n/a*	0	0	*n/a*	0	0	*n/a*
Net profit	**319**	**302**	***-5.4%***	**512**	**522**	***2.0%***	**302**	**462**	***52.7%***	**381**	**574**	***50.7%***
			ppt			ppt			ppt			ppt
Gross margin	*37.6%*	*41.1%*	*3.5*	*29.2%*	*31.8%*	*2.6*	*32.4%*	*47.0%*	*14.6*	*36.9%*	*41.0%*	*4.1*
S&D expense ratio	*3.2%*	*3.8%*	*0.6*	*0.2%*	*1.0%*	*0.8*	*3.8%*	*9.0%*	*5.2*	*2.8%*	*2.5%*	*-0.3*
Administrative expense ratio	*2.5%*	*2.0%*	*-0.5*	*2.4%*	*2.5%*	*0.0*	*3.1%*	*1.5%*	*-1.6*	*1.6%*	*2.6%*	*1.0*
R&D expense ratio	*3.1%*	*3.5%*	*0.4*	*3.9%*	*2.8%*	*-1.1*	*5.0%*	*2.3%*	*-2.7*	*4.1%*	*4.5%*	*0.4*
Effective tax rate	*17.2%*	*18.2%*	*1.0*	*15.9%*	*13.7%*	*-2.2*	*16.5%*	*15.7%*	*-0.9*	*9.3%*	*9.2%*	*-0.1*

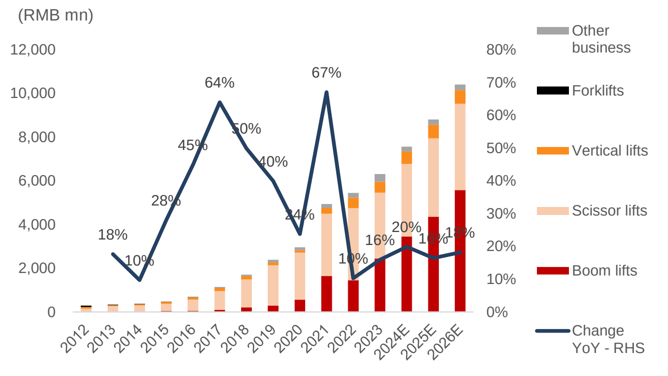
Source: Company data, CMBIGM

Figure 2: Key assumptions

	2021	2022	2023	2024E	2025E	2026E
Sales volume (units)						
Boom lifts	3,954	3,511	5,492	7,414	9,268	11,863
Scissor lifts	44,112	46,262	42,823	47,534	51,336	56,470
Vertical lifts	3,610	7,477	7,533	8,362	9,198	9,198
Total (lifts)	**51,676**	**57,250**	**55,848**	**63,309**	**69,802**	**77,530**
Growth rate						
Boom lifts	*182.6%*	*-11.2%*	*56.4%*	*35.0%*	*25.0%*	*28.0%*
Scissor lifts	*27.5%*	*4.9%*	*-7.4%*	*11.0%*	*8.0%*	*10.0%*
Vertical lifts	*74.4%*	*107.1%*	*0.7%*	*11.0%*	*10.0%*	*0.0%*
Total (lifts)	***35.8%***	***10.8%***	***-2.4%***	***13.4%***	***10.3%***	***11.1%***
ASP (RMB/unit)						
Boom lifts	416,207	414,084	445,361	465,000	470,000	470,000
Scissor lifts	64,529	71,221	70,292	70,000	70,000	70,000
Vertical lifts	72,931	64,112	66,924	68,000	68,000	68,000
Change (YoY)						
Boom lifts	*3.0%*	*-0.5%*	*7.6%*	*4.4%*	*1.1%*	*0.0%*
Scissor lifts	*3.7%*	*10.4%*	*-1.3%*	*-0.4%*	*0.0%*	*0.0%*
Vertical lifts	*45.6%*	*-12.1%*	*4.4%*	*1.6%*	*0.0%*	*0.0%*
(RMB mn)	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Revenue						
Boom lifts	1,646	1,454	2,446	3,448	4,356	5,575
Scissor lifts	2,847	3,295	3,010	3,327	3,594	3,953
Vertical lifts	263	479	504	569	625	625
Revenue (core business)	**4,755**	**5,228**	**5,960**	**7,344**	**8,575**	**10,154**
Other business	184	217	352	225	235	255
Total revenue	**4,939**	**5,445**	**6,312**	**7,569**	**8,810**	**10,409**
Gross margin						
Boom lifts	*18.2%*	*20.6%*	*30.5%*	*33.0%*	*33.5%*	*34.0%*
Scissor lifts	*32.5%*	*32.6%*	*40.3%*	*40.0%*	*40.0%*	*40.0%*
Vertical lifts	*38.4%*	*34.0%*	*43.5%*	*43.5%*	*43.5%*	*43.5%*
Gross margin (core business)	***27.8%***	***29.4%***	***36.5%***	***37.0%***	***37.0%***	***36.9%***
Other business	*67.8%*	*70.2%*	*71.5%*	*71.0%*	*71.0%*	*71.0%*
Average gross margin	***29.3%***	***31.0%***	***38.5%***	***38.0%***	***37.9%***	***37.8%***

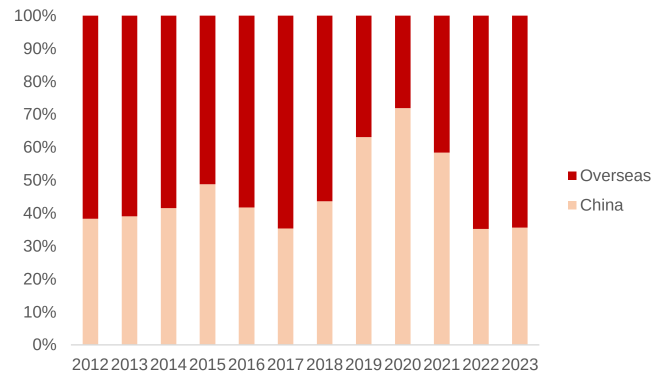
Source: Company data, CMBIGM estimates

Figure 3: Dingli's revenue breakdown by product



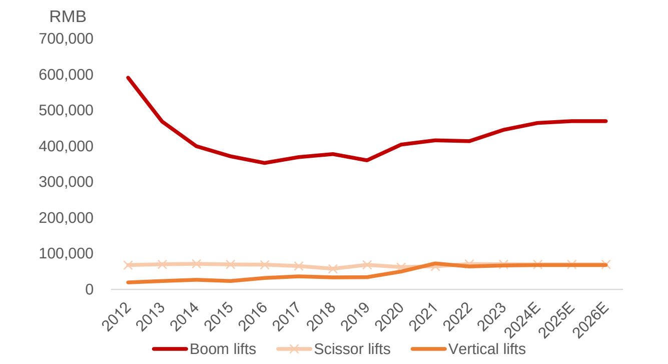
Source: Company data, CMBIGM estimates

Figure 4: Dingli's revenue breakdown by region



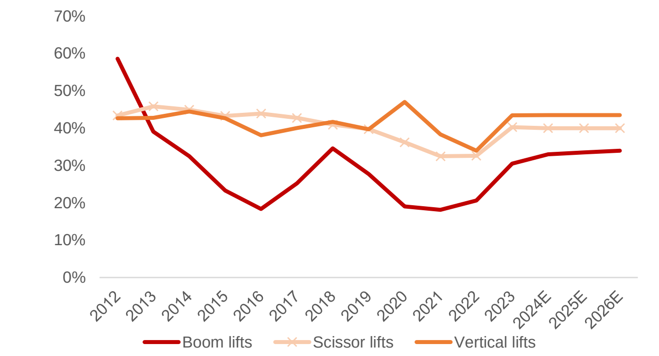
Source: Company data, CMBIGM

Figure 5: Dingli's ASP trend



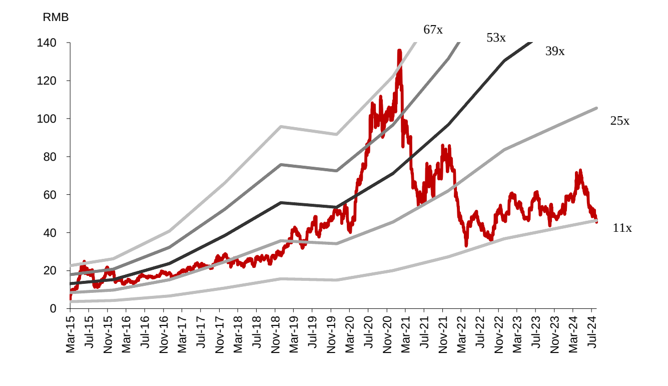
Source: Company data, CMBIGM estimates

Figure 6: Gross margin trend



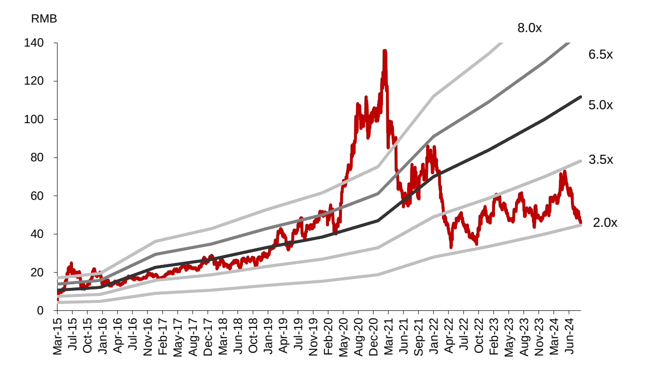
Source: Company data, CMBIGM estimates

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

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**4,939**	**5,445**	**6,312**	**7,569**	**8,810**	**10,409**
Cost of goods sold	(3,490)	(3,755)	(3,882)	(4,693)	(5,474)	(6,479)
Gross profit	**1,449**	**1,690**	**2,430**	**2,876**	**3,336**	**3,930**
Operating expenses	**(401)**	**(547)**	**(689)**	**(757)**	**(872)**	**(1,020)**
Selling expense	(111)	(158)	(232)	(280)	(326)	(385)
Admin expense	(88)	(123)	(141)	(159)	(176)	(198)
R&D expense	(155)	(202)	(220)	(257)	(300)	(354)
Others	(47)	(64)	(96)	(61)	(70)	(83)
Operating profit	**1,048**	**1,143**	**1,740**	**2,119**	**2,463**	**2,910**
Other gains/(losses)	40	64	113	114	132	156
Share of (losses)/profits of associates/JV	1	20	76	54	58	67
Depreciation	77	101	129	156	176	191
Interest income	16	250	264	199	201	236
Interest expense	(85)	(17)	(20)	(38)	(35)	(32)
Net Interest income/(expense)	**(69)**	**233**	**245**	**161**	**166**	**204**
Pre-tax profit	**1,021**	**1,460**	**2,174**	**2,448**	**2,819**	**3,337**
Income tax	(137)	(203)	(307)	(343)	(395)	(467)
After tax profit	**884**	**1,257**	**1,867**	**2,105**	**2,425**	**2,870**
Minority interest	0	0	0	0	0	0
Net profit	**884**	**1,257**	**1,867**	**2,105**	**2,425**	**2,870**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**7,394**	**8,821**	**10,140**	**11,738**	**13,393**	**16,134**
Cash & equivalents	3,514	3,522	4,397	4,461	5,583	6,228
Account receivables	2,293	3,094	3,489	4,391	4,781	6,056
Inventories	1,387	1,795	1,921	2,553	2,696	3,516
Prepayment	42	9	7	7	7	7
Other current assets	157	401	327	327	327	327
Non-current assets	**2,181**	**2,980**	**4,067**	**4,583**	**5,140**	**5,418**
PP&E	828	947	1,613	2,072	2,311	2,436
Deferred income tax	12	30	3	3	3	3
Investment in JVs & assos	108	121	332	386	444	511
Intangibles	234	396	389	373	358	343
Other non-current assets	999	1,486	1,731	1,749	2,023	2,125
Total assets	**9,574**	**11,802**	**14,207**	**16,321**	**18,533**	**21,551**
Current liabilities	**3,144**	**3,753**	**4,435**	**5,001**	**5,427**	**6,304**
Short-term borrowings	873	777	826	776	726	676
Account payables	1,868	2,381	2,971	3,586	4,063	4,990
Tax payable	165	225	290	290	290	290
Other current liabilities	220	341	323	323	323	323
Contract liabilities	18	29	25	25	25	25
Non-current liabilities	**452**	**984**	**807**	**757**	**707**	**657**
Long-term borrowings	302	740	493	443	393	343
Deferred income	108	183	191	191	191	191
Other non-current liabilities	42	61	122	122	122	122
Total liabilities	**3,596**	**4,737**	**5,242**	**5,757**	**6,134**	**6,961**
Total shareholders equity	**5,978**	**7,065**	**8,965**	**10,564**	**12,399**	**14,590**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**9,574**	**11,802**	**14,207**	**16,321**	**18,533**	**21,551**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**1,021**	**1,460**	**2,174**	**2,448**	**2,819**	**3,337**
Depreciation & amortization	77	101	129	156	176	191
Tax paid	(164)	(260)	(347)	(343)	(395)	(467)
Change in working capital	(687)	(211)	216	(937)	(331)	(1,270)
Others	126	(154)	56	(215)	(224)	(271)
Net cash from operations	**374**	**937**	**2,227**	**1,109**	**2,046**	**1,520**
Investing						
Capital expenditure	(340)	(819)	(371)	(600)	(400)	(300)
Others	271	(402)	(491)	199	201	236
Net cash from investing	**(69)**	**(1,222)**	**(863)**	**(401)**	**(199)**	**(64)**
Financing						
Dividend paid	(126)	(172)	(253)	(506)	(589)	(679)
Net borrowings	746	266	(198)	(100)	(100)	(100)
Proceeds from share issues	1,482	0	0	0	0	0
Others	(33)	(49)	0	(38)	(35)	(32)
Net cash from financing	**2,069**	**45**	**(451)**	**(644)**	**(724)**	**(811)**
Net change in cash						
Cash at the beginning of the year	1,191	3,514	3,522	4,397	4,461	5,583
Exchange difference	(50)	248	(39)	0	0	0
Cash at the end of the year	**3,514**	**3,522**	**4,397**	**4,461**	**5,583**	**6,228**
GROWTH	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Revenue	67.1%	10.2%	15.9%	19.9%	16.4%	18.2%
Gross profit	40.4%	16.7%	43.7%	18.4%	16.0%	17.8%
Operating profit	37.2%	9.1%	52.2%	21.8%	16.3%	18.1%
Net profit	33.2%	42.1%	48.5%	12.7%	15.2%	18.4%
PROFITABILITY	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Gross profit margin	29.3%	31.0%	38.5%	38.0%	37.9%	37.8%
Operating margin	21.2%	21.0%	27.6%	28.0%	28.0%	28.0%
Return on equity (ROE)	18.2%	19.3%	23.3%	21.6%	21.1%	21.3%
GEARING/LIQUIDITY/ACTIVITIES	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Current ratio (x)	2.4	2.4	2.3	2.3	2.5	2.6
Receivable turnover days	130.9	180.6	190.3	190.0	190.0	190.0
Inventory turnover days	121.8	154.7	174.7	174.0	175.0	175.0
Payable turnover days	161.6	206.5	251.6	255.0	255.0	255.0
VALUATION	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
P/E	25.5	18.7	12.6	11.2	9.7	8.2
P/B	3.9	3.3	2.6	2.2	1.9	1.6
Div yield (%)	0.7	1.1	2.2	2.5	2.9	3.4

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

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

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