

# Jiangsu Hengli (601100 CH)

## 4Q23 & 1Q24 earnings not exciting; but more positive drivers to come

Hengli's net profit in 2023 was +7% YoY to RMB2.5bn, which is -5%/+3% versus our/consensus estimates. Net profit in 1Q24 dropped 4% YoY to RMB602mn, due to weak demand for excavators' hydraulic components and an increased expense ratio. We trim our earnings forecast in 2024E/25E by 13%/15%, mainly due to lower volume assumptions for excavator-related products. Our TP is revised down to RMB64, based on 31x 2024E P/E (historical average). We still like Hengli as (1) revenue contribution from non-excavator components continues to increase; (2) product expansion to ball screws (a key component of robots), which started trial production in 1Q24, will likely serve as a new growth driver; (3) the commencement of hydraulic components production base in Mexico starting from 2Q24 will help speed up its penetration in the US market.

- Key highlights in 2023 results:** Revenue in 2023 grew 10% YoY to RMB9bn (2%/19%/15%/17% growth of hydraulic cylinders / pump & valve / hydraulic systems / components). In particular, sales volume of all non-excavator products reported growth. Blended gross margin expanded 1.3ppt YoY to 41.9%, driven by hydraulic cylinders. EBIT, however, grew only 8% due to a higher SG&A expense ratio. Net profit in 2023 grew 7% to RMB2.5bn while operating cash inflow rose 30% YoY to RMB2.68bn. In 4Q23, net profit increased by 26% YoY to RMB745mn, driven by 16% revenue growth and gross margin expansion (to 46%).
- Key highlights in 1Q24 results:** Net profit dropped 4% YoY to RMB602mn, due to a 3% YoY decrease in revenue, 0.8ppt YoY gross margin contraction (to 40.1%) and an increase in expense ratio in general, which offset the increase in finance income (helped by weak RMB). Net profit in 1Q24 accounted for 22% of our full-year estimates (run rate in 1Q23: 25%).
- Maintain BUY.** Our new TP of RMB64 (previously: RMB83) is based on 31x 2024E P/E (rolled over from 2023), equivalent to the historical average. We no longer assign a valuation premium (previously 1SD above the historical average) as we expect relatively stable earnings growth between 2024E and 2026E.
- Risk factors:** (1) further weakness in the demand for hydraulic components for excavators; (2) slower-than-expected new business development

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	8,197	8,985	9,743	10,729	11,820
YoY growth (%)	(12.0)	9.6	8.4	10.1	10.2
Adjusted net profit (RMB mn)	2,342.7	2,498.7	2,755.4	3,069.6	3,478.0
EPS (Reported) (RMB)	1.79	1.86	2.06	2.29	2.59
YoY growth (%)	(13.0)	3.8	10.3	11.4	13.3
Consensus EPS (RMB)	n/a	n/a	2.09	2.57	n/a
P/E (x)	28.6	27.5	24.9	22.4	19.8
P/B (x)	5.4	4.8	4.2	3.8	3.3
Yield (%)	1.2	1.4	1.5	1.7	1.9
Net gearing (%)	(51.9)	(55.0)	(51.3)	(53.2)	(52.8)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB64.00

(Previous TP) RMB83.00

**Up/Downside** 24.9%

**Current Price** RMB51.24

### China Capital Goods

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### Stock Data

Mkt Cap (RMB mn)	68,703.6
Avg 3 mths t/o (RMB mn)	400.6
52w High/Low (RMB)	71.72/48.51
Total Issued Shares (mn)	1340.8

Source: FactSet

### Shareholding Structure

WANG's family	66.7%
CCASS (Hong Kong)	12.1%

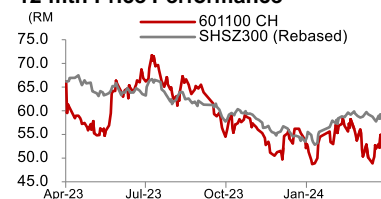
Source: SSE

### Share Performance

	Absolute	Relative
1-mth	-4.5%	-4.1%
3-mth	-1.7%	-10.1%
6-mth	-6.0%	-7.5%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related reports:

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

Capital Goods sector – 2M24: Solid growth of forklifts; weakness continued for tower cranes & excavators – 15 Mar 2024 ([link](#))

Capital Goods sector – Strong sales of AWP's & forklifts in Jan; Tower cranes the worst – 29 Feb 2024 ([link](#))

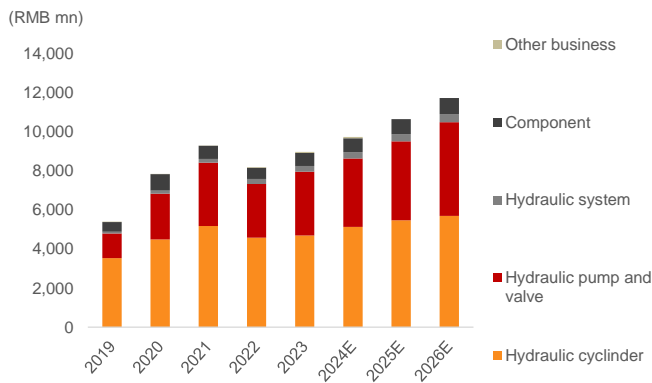
Capital Goods sector – Equipment replacement proposed in Central government meeting; positive to HDT sector – 26 Feb 2024 ([link](#))

**Figure 1: Key highlights in 4Q23 & 1Q24 results**

(RMB mn)	1Q23	1Q24	Change YoY	2Q22	2Q23	Change YoY	3Q22	3Q23	Change YoY	4Q22	4Q23	Change YoY
<b>Total revenue</b>	<b>2,427</b>	<b>2,362</b>	<b>-2.7%</b>	<b>1,686</b>	<b>2,025</b>	<b>20.1%</b>	<b>2,033</b>	<b>1,892</b>	<b>-6.9%</b>	<b>2,277</b>	<b>2,640</b>	<b>16.0%</b>
Cost of sales	-1,435	-1,415	-1.4%	-998	-1,279	28.2%	-1,168	-1,079	-7.6%	-1,339	-1,426	6.5%
<b>Gross profit</b>	<b>992</b>	<b>947</b>	<b>-4.5%</b>	<b>688</b>	<b>745</b>	<b>8.4%</b>	<b>865</b>	<b>813</b>	<b>-6.0%</b>	<b>939</b>	<b>1,215</b>	<b>29.4%</b>
Other income	-25	-24	-3.7%	-14	-19	41.3%	-16	-17	5.7%	-20	-21	4.3%
S&D expenses	-37	-49	32.6%	-19	-39	101.0%	-32	-43	37.0%	-49	-66	34.2%
Administrative expenses	-219	-222	1.4%	-246	-285	15.8%	-267	-266	-0.5%	-242	-329	36.3%
Asset impairment	-12	-16	40.0%	8	4	-52.3%	-6	-16	174.1%	-40	-45	12.5%
<b>EBIT</b>	<b>700</b>	<b>636</b>	<b>-9.1%</b>	<b>417</b>	<b>406</b>	<b>-2.5%</b>	<b>545</b>	<b>471</b>	<b>-13.4%</b>	<b>587</b>	<b>753</b>	<b>28.2%</b>
Net finance income/(cost)	6	55	883.6%	183	292	59.7%	170	21	-87.6%	-0	50	n/a
Other gains/(loss)	30	25	-18.2%	18	13	-26.7%	20	32	62.7%	71	55	-21.6%
Profit of JV & associates	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
<b>Pretax profit</b>	<b>735</b>	<b>716</b>	<b>-2.7%</b>	<b>618</b>	<b>711</b>	<b>15.1%</b>	<b>734</b>	<b>525</b>	<b>-28.5%</b>	<b>657</b>	<b>858</b>	<b>30.6%</b>
Income tax	-109	-113	3.7%	-88	-57	-35.3%	-41	-50	21.8%	-61	-111	81.7%
<b>After tax profit</b>	<b>627</b>	<b>603</b>	<b>-3.8%</b>	<b>530</b>	<b>654</b>	<b>23.5%</b>	<b>694</b>	<b>475</b>	<b>-31.5%</b>	<b>596</b>	<b>747</b>	<b>25.4%</b>
MI	-1	-1	-17.6%	-1	-1	0.8%	-1	-1	-56.7%	-3	-2	-16.9%
<b>Net profit</b>	<b>626</b>	<b>602</b>	<b>-3.8%</b>	<b>529</b>	<b>653</b>	<b>23.6%</b>	<b>692</b>	<b>475</b>	<b>-31.4%</b>	<b>593</b>	<b>745</b>	<b>25.6%</b>
<b>Key ratios</b>			ppt			ppt			ppt			ppt
Gross margin	40.9%	40.1%	-0.8	40.8%	36.8%	-4.0	42.5%	43.0%	0.4	41.2%	46.0%	4.8
S&D expense ratio	1.5%	2.1%	0.6	1.2%	1.9%	0.8	1.6%	2.3%	0.7	2.2%	2.5%	0.3
Administrative and R&D exp ratio	9.0%	9.4%	0.4	14.6%	14.1%	-0.5	13.1%	14.1%	0.9	10.6%	12.5%	1.9
Effective tax rate	14.8%	15.8%	1.0	14.2%	8.0%	-6.2	5.5%	9.5%	3.9	9.3%	12.9%	3.6

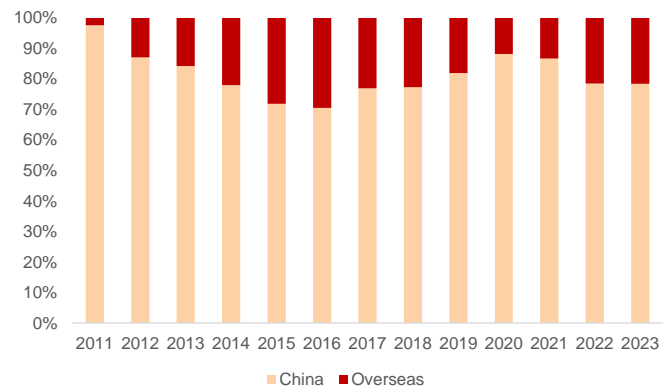
Source: Company data, CMBIGM estimates

**Figure 2: Hengli's revenue breakdown**



Source: Company data, CMBIGM estimates

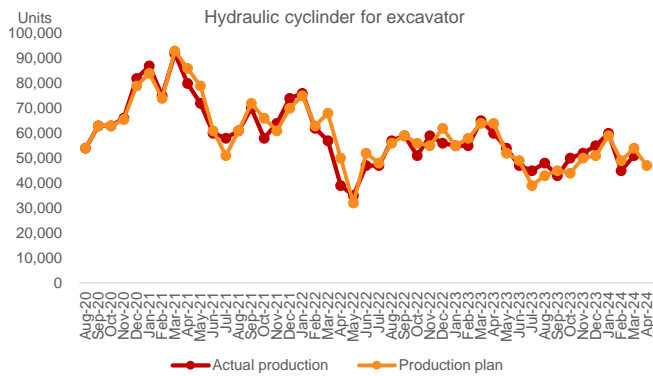
**Figure 3: Revenue breakdown by region**



Source: Company data, CMBIGM

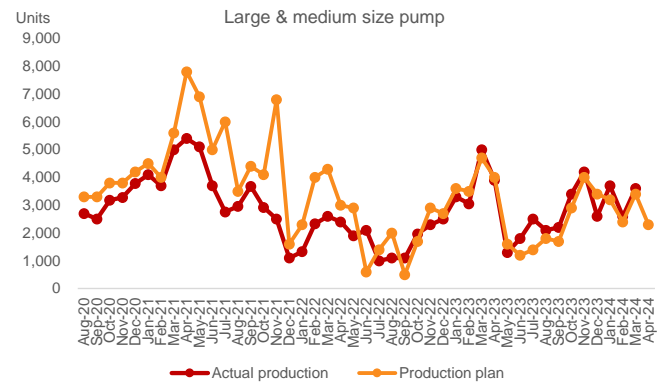
Note: Some of the domestic sales will be exported in the form of finished products

**Figure 4: Hengli's hydraulic cylinders monthly production**

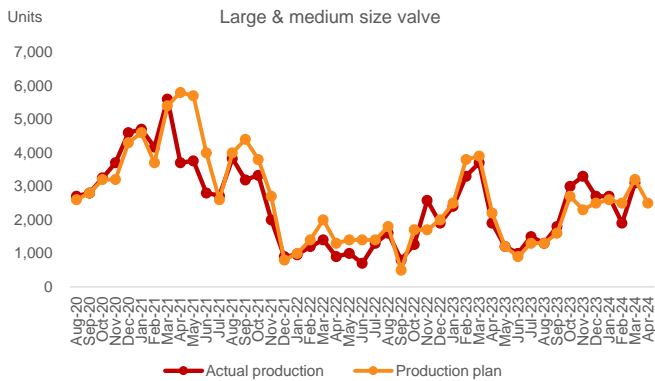


Source: Company data, CMBIGM estimates

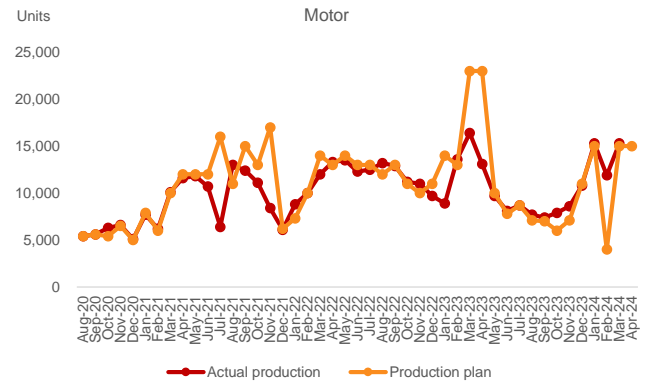
**Figure 5: Hengli's large & medium size pump monthly production**



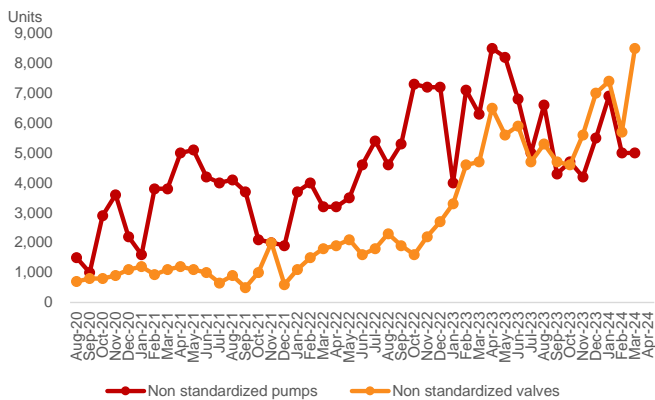
Source: Company data, CMBIGM estimates

**Figure 6: Hengli's large & medium size valve monthly production**


Source: Company data, CMBIGM estimates

**Figure 7: Hengli's motor monthly production**


Source: Company data, CMBIGM estimates

**Figure 8: Hengli's non-excavator pumps and valves monthly production**


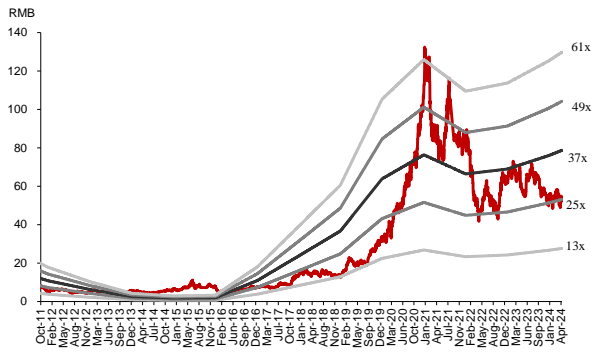
Source: Company, CMBIGM

**Figure 9: Change in key assumptions and earnings**

(RMB mn)	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
<b>Revenue</b>									
Hydraulic cylinder	5,405	5,792	-	5,134	5,473	5,698	-5.0%	-5.5%	-
Hydraulic pump and valve	4,250	4,830	-	3,508	4,050	4,802	-17.5%	-16.1%	-
Hydraulic system	287	302	-	330	369	413	14.7%	22.3%	-
Component	633	664	-	706	762	823	11.6%	14.7%	-
<b>Revenue (hydraulic business)</b>	<b>10,575</b>	<b>11,588</b>	-	<b>9,677</b>	<b>10,655</b>	<b>11,737</b>	<b>-8.5%</b>	<b>-8.1%</b>	-
Other business	36	38	-	66	74	83	81.4%	93.5%	-
<b>Total revenue</b>	<b>10,611</b>	<b>11,627</b>	-	<b>9,743</b>	<b>10,729</b>	<b>11,820</b>	<b>-8.2%</b>	<b>-7.7%</b>	-
<b>Gross margin (hydraulic business)</b>	<b>40.7%</b>	<b>40.9%</b>	-	<b>40.7%</b>	<b>40.9%</b>	<b>41.7%</b>	-0.1	0.0	-
Other business	80.0%	80.0%	-	91.0%	90.0%	90.0%	11.0	10.0	-
<b>Blended gross margin</b>	<b>40.8%</b>	<b>41.1%</b>	-	<b>41.0%</b>	<b>41.3%</b>	<b>42.0%</b>	0.2	0.2	-
							Change (ppt)		
S&D expense ratio	-1.5%	-1.5%	-	-2.0%	-2.0%	-2.0%	-0.5	-0.5	-
Admin expense and R&D ratio	-10.0%	-9.5%	-	-12.0%	-12.0%	-12.0%	-2.0	-2.5	-
<b>Net profit</b>	<b>3,153</b>	<b>3,591</b>	-	<b>2,755</b>	<b>3,070</b>	<b>3,478</b>	<b>-12.6%</b>	<b>-14.5%</b>	-

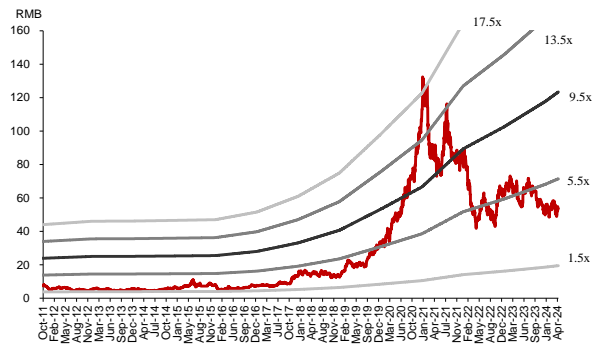
Source: Company data, CMBIGM estimates

Figure 10: Hengli's P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 11: Hengli's P/B band



Source: Bloomberg, Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>9,309</b>	<b>8,197</b>	<b>8,985</b>	<b>9,743</b>	<b>10,729</b>	<b>11,820</b>
Cost of goods sold	(5,212)	(4,873)	(5,220)	(5,749)	(6,299)	(6,856)
<b>Gross profit</b>	<b>4,097</b>	<b>3,324</b>	<b>3,765</b>	<b>3,994</b>	<b>4,430</b>	<b>4,964</b>
Selling expense	(112)	(124)	(186)	(195)	(215)	(236)
Admin expense	(863)	(925)	(1,099)	(1,169)	(1,287)	(1,418)
Others	(125)	(116)	(150)	(128)	(136)	(145)
<b>Operating profit</b>	<b>2,997</b>	<b>2,159</b>	<b>2,330</b>	<b>2,502</b>	<b>2,792</b>	<b>3,165</b>
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
<b>EBITDA</b>	<b>3,402</b>	<b>2,553</b>	<b>2,744</b>	<b>2,983</b>	<b>3,344</b>	<b>3,777</b>
Depreciation	404	394	413	480	552	612
Interest income	39	352	382	499	552	628
Interest expense	(129)	(20)	(13)	(10)	(10)	(10)
<b>Net Interest income/(expense)</b>	<b>(89)</b>	<b>332</b>	<b>369</b>	<b>489</b>	<b>542</b>	<b>618</b>
Other income/expense	160	137	131	146	161	177
<b>Pre-tax profit</b>	<b>3,068</b>	<b>2,629</b>	<b>2,830</b>	<b>3,137</b>	<b>3,495</b>	<b>3,960</b>
Income tax	(369)	(280)	(326)	(376)	(419)	(475)
Minority interest	(5)	(6)	(5)	(6)	(6)	(7)
<b>Adjusted net profit</b>	<b>2,694</b>	<b>2,343</b>	<b>2,499</b>	<b>2,755</b>	<b>3,070</b>	<b>3,478</b>
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>9,146</b>	<b>12,327</b>	<b>12,994</b>	<b>14,339</b>	<b>15,750</b>	<b>17,926</b>
Cash & equivalents	3,643	6,886	8,124	8,516	9,900	11,050
Account receivables	2,560	2,982	2,767	3,639	3,415	4,357
Inventories	1,607	1,766	1,692	1,773	2,024	2,109
Prepayment	160	141	156	156	156	156
Other current assets	1,177	552	255	255	255	255
<b>Non-current assets</b>	<b>3,186</b>	<b>3,874</b>	<b>4,901</b>	<b>5,621</b>	<b>6,268</b>	<b>6,656</b>
PP&E	2,580	2,836	2,851	3,588	4,254	4,659
Deferred income tax	50	54	58	58	58	58
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	267	436	467	449	431	413
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	289	548	1,526	1,526	1,526	1,526
<b>Total assets</b>	<b>12,332</b>	<b>16,201</b>	<b>17,896</b>	<b>19,960</b>	<b>22,018</b>	<b>24,582</b>
<b>Current liabilities</b>	<b>2,691</b>	<b>3,144</b>	<b>3,099</b>	<b>3,341</b>	<b>3,370</b>	<b>3,616</b>
Short-term borrowings	597	329	203	203	203	203
Account payables	1,188	1,323	1,297	1,539	1,568	1,813
Tax payable	84	73	154	154	154	154
Other current liabilities	822	1,419	1,445	1,445	1,445	1,445
<b>Non-current liabilities</b>	<b>402</b>	<b>379</b>	<b>353</b>	<b>353</b>	<b>353</b>	<b>353</b>
Long-term borrowings	44	0	0	0	0	0
Deferred income	204	198	175	175	175	175
Other non-current liabilities	153	181	179	179	179	179
<b>Total liabilities</b>	<b>3,093</b>	<b>3,523</b>	<b>3,453</b>	<b>3,694</b>	<b>3,724</b>	<b>3,969</b>
<b>Total shareholders equity</b>	<b>9,196</b>	<b>12,630</b>	<b>14,391</b>	<b>16,208</b>	<b>18,231</b>	<b>20,542</b>
Minority interest	44	48	52	57	63	70
<b>Total equity and liabilities</b>	<b>12,332</b>	<b>16,201</b>	<b>17,896</b>	<b>19,960</b>	<b>22,018</b>	<b>24,582</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>3,068</b>	<b>2,629</b>	<b>2,830</b>	<b>3,137</b>	<b>3,495</b>	<b>3,960</b>
Depreciation & amortization	404	394	413	480	552	612
Tax paid	(369)	(280)	(326)	(376)	(419)	(475)
Change in working capital	(472)	(476)	(225)	(711)	3	(781)
Others	164	(203)	(15)	10	10	10
<b>Net cash from operations</b>	<b>2,796</b>	<b>2,064</b>	<b>2,677</b>	<b>2,540</b>	<b>3,641</b>	<b>3,326</b>
<b>Investing</b>						
Capital expenditure	(558)	(642)	(1,309)	(1,200)	(1,200)	(1,000)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(374)	563	(1,742)	0	0	0
<b>Net cash from investing</b>	<b>(932)</b>	<b>(80)</b>	<b>(3,051)</b>	<b>(1,200)</b>	<b>(1,200)</b>	<b>(1,000)</b>
<b>Financing</b>						
Dividend paid	(783)	(953)	(831)	(939)	(1,047)	(1,166)
Net borrowings	(287)	(313)	(126)	0	0	0
Proceeds from share issues	0	2,000	0	0	0	0
Others	356	216	77	(10)	(10)	(10)
<b>Net cash from financing</b>	<b>(714)</b>	<b>949</b>	<b>(880)</b>	<b>(949)</b>	<b>(1,057)</b>	<b>(1,177)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,777	3,643	6,886	8,124	8,516	9,900
Exchange difference	(284)	310	2,492	0	0	0
<b>Cash at the end of the year</b>	<b>3,643</b>	<b>6,886</b>	<b>8,124</b>	<b>8,516</b>	<b>9,900</b>	<b>11,050</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	18.5%	(12.0%)	9.6%	8.4%	10.1%	10.2%
Gross profit	18.3%	(18.9%)	13.3%	6.1%	10.9%	12.1%
Operating profit	11.6%	(28.0%)	7.9%	7.4%	11.6%	13.3%
EBITDA	13.5%	(24.9%)	7.5%	8.7%	12.1%	12.9%
Adj. net profit	19.5%	(13.0%)	6.7%	10.3%	11.4%	13.3%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	44.0%	40.6%	41.9%	41.0%	41.3%	42.0%
Operating margin	32.2%	26.3%	25.9%	25.7%	26.0%	26.8%
EBITDA margin	36.5%	31.1%	30.5%	30.6%	31.2%	32.0%
Adj. net profit margin	28.9%	28.6%	27.8%	28.3%	28.6%	29.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.3)	(0.5)	(0.6)	(0.5)	(0.5)	(0.5)
Current ratio (x)	3.4	3.9	4.2	4.3	4.7	5.0
Receivable turnover days	103.2	123.4	116.8	120.0	120.0	120.0
Inventory turnover days	98.9	126.3	120.9	110.0	110.0	110.0
Payable turnover days	81.2	94.0	91.6	90.0	90.0	90.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	24.8	28.6	27.5	24.9	22.4	19.8
P/B	7.3	5.4	4.8	4.2	3.8	3.3
Div yield (%)	1.4	1.2	1.4	1.5	1.7	1.9

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

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