

# Zhejiang Dingli - A (603338 CH)

**Net profit in 3Q20 +16% YoY; Growth trajectory remains solid**

Dingli's net profit in 3Q20 grew 16% YoY RMB212mn. While the ramp-up of new capacity, higher spending on R&D and FX loss partially offset the strong revenue growth of 63%, we believe Dingli's growth trajectory remains solid. We expect production efficiency will be enhanced along with the rising output from the new production line. On the other hand, we understand that Dingli's overseas sales at present is not disrupted by the latest city lockdown measures introduced in Europe. We continue to like Dingli as rising penetration of aerial working platform (AWP) in China remains a structural growth story. We left our earnings forecast unchanged. Maintain **BUY** with TP of RMB117 (42x 2021E P/E multiple).

- 3Q20 results highlight:** Revenue surged 63% YoY to RMB212mn in 3Q20, suggesting strong demand for AWP. Gross margin contracted 4.1ppt YoY and 1.9ppt QoQ to 35.5%, due to the ramp-up of new capacity of boom lift. Selling and distribution expense ratio was maintained at 3.5%. While R&D expense surged 107% YoY to RMB28mn, we believe R&D spending is essential for the continuous launch of new products in future. Finance expense of RMB13mn was reported in 3Q20, versus finance income over the past few quarters, due to the depreciation of US\$ against RMB. In 9M20, net profit grew 40% YoY to RMB620mn, representing 64.6% of our full year estimates (run rate in 9M19: 63.9%).
- Potential improvement of gross margin.** Dingli's new production line for boom lift (monthly capacity: 250 units) is currently at the ramp-up stage. We expect the operating leverage will be achieved with the gradual ramp-up of production. We see potential improvement in gross margin over the coming quarters.
- Fast-growing AWP fleet size by Far East Horizon (3360 HK, NR).** Far East Horizon, the major customer of Dingli, owned a total of 50k units of AWP as at end-Sep 2020. The fleet size significantly increased from only 19k units in 2019. We expect Far East Horizon's AWP fleet size will continue to expand in the foreseeable future, which will provide Dingli with consistent growth opportunity.
- Major risk factors:** (1) Potential price competition due to more new entrants in the AWP market; (2) prolonged impact of COVID-19 in overseas; (3) unexpected slowdown of construction activities in China.

## Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,708	2,389	3,622	5,038	6,031
YoY growth (%)	49.9	39.9	51.6	39.1	19.7
Net income (RMB mn)	480	694	960	1,348	1,627
EPS (RMB)	0.99	1.43	1.98	2.78	3.35
YoY growth (%)	62.7	44.5	38.3	40.4	20.7
Consensus EPS (RMB)	n/a	n/a	2.01	2.75	3.49
EV/EBITDA (x)	92.9	65.9	44.9	31.8	26.3
P/E (x)	99.8	69.0	49.9	35.6	29.5
P/B (x)	18.4	14.9	11.8	9.2	7.2
Yield (%)	0.2	0.3	0.4	0.5	0.6
ROE (%)	20.0	23.9	26.5	29.1	27.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **RMB117.00**  
 (Previous TP **RMB117.00**)  
 Up/Downside **+19%**  
 Current Price **RMB98.69**

## China Capital Goods

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## Stock Data

Mkt Cap (RMB mn)	47,913
Avg 3 mths t/o (RMB mn)	279
52w High/Low (RMB)	113.55/38.93
Total Issued Shares (mn)	485.5

Source: Bloomberg

## Shareholding Structure

XU Shugen	47.5%
Deqing Zhongding Equity Investment Management	12.1%
CCASS (Hong Kong)	8.4%
National Social Security Fund	1.6%
Others	30.4%

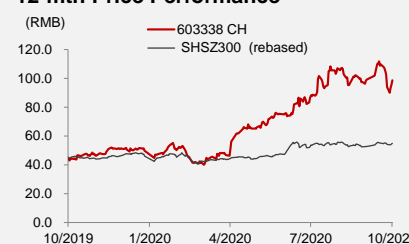
Source: Shanghai Stock Exchange

## Share Performance

	Absolute	Relative
1-mth	-0.8%	-4.1%
3-mth	10.6%	6.7%
6-mth	105.7%	67.1%

Source: Bloomberg

## 12-mth Price Performance



Source: Bloomberg

**Auditor: BDO**

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**Figure 1: 3Q20 results highlight**

(RMB mn)	1Q19	1Q20	Change YoY	2Q19	2Q20	Change YoY	3Q19	3Q20	Change YoY
<b>Total revenue</b>	<b>384</b>	<b>411</b>	<b>6.9%</b>	<b>464</b>	<b>1,090</b>	<b>134.8%</b>	<b>597</b>	<b>973</b>	<b>63.0%</b>
Cost of sales	-220	-247	12.3%	-275	-682	148.0%	-360	-627	74.1%
<b>Gross profit</b>	<b>165</b>	<b>164</b>	<b>-0.3%</b>	<b>189</b>	<b>408</b>	<b>115.6%</b>	<b>236</b>	<b>346</b>	<b>46.2%</b>
Other income	-3	-4	6.4%	-2	-4	119.7%	-3	-1	-69.5%
S&D expenses	-17	-18	5.2%	-27	-49	79.1%	-21	-34	64.9%
Administrative expenses	-20	-23	15.5%	-31	-51	65.5%	-24	-44	85.1%
Asset impairment	-2	1	n/a	-1	5	n/a	0	-5	n/a
<b>EBIT</b>	<b>122</b>	<b>121</b>	<b>-0.8%</b>	<b>128</b>	<b>309</b>	<b>141.3%</b>	<b>189</b>	<b>261</b>	<b>38.0%</b>
Net finance income/(cost)	-6	6	n/a	24	21	n/a	20	-13	n/a
Other gains/(losses)	1	9	641.1%	29	7	-75.4%	5	3	-34.3%
Share of profit of JV and associates	3	10	212.5%	9	1	-86.3%	0	-3	n/a
<b>Pretax profit</b>	<b>120</b>	<b>146</b>	<b>21.6%</b>	<b>190</b>	<b>339</b>	<b>78.5%</b>	<b>215</b>	<b>249</b>	<b>15.8%</b>
Income tax	-19	-21	11.4%	-30	-55	80.3%	-31	-37	17.8%
<b>After tax profit</b>	<b>101</b>	<b>125</b>	<b>23.6%</b>	<b>159</b>	<b>284</b>	<b>78.1%</b>	<b>183</b>	<b>212</b>	<b>15.5%</b>
MI	0	0	n/a	0	0	n/a	0	0	n/a
<b>Net profit</b>	<b>101</b>	<b>125</b>	<b>23.6%</b>	<b>159</b>	<b>284</b>	<b>78.1%</b>	<b>183</b>	<b>212</b>	<b>15.5%</b>
			ppt			ppt			ppt
<i>Gross margin</i>	42.9%	40.0%	-2.9	40.8%	37.4%	-3.3	39.6%	35.5%	-4.1
<i>S&amp;D expense ratio</i>	4.5%	4.5%	-0.1	5.9%	4.5%	-1.4	3.5%	3.5%	0.0
<i>Administrative expense ratio</i>	5.2%	5.6%	0.4	6.6%	4.6%	-1.9	4.0%	4.6%	0.5
<i>Effective tax rate</i>	15.8%	14.5%	-1.3	16.1%	16.2%	0.2	14.6%	14.9%	0.2

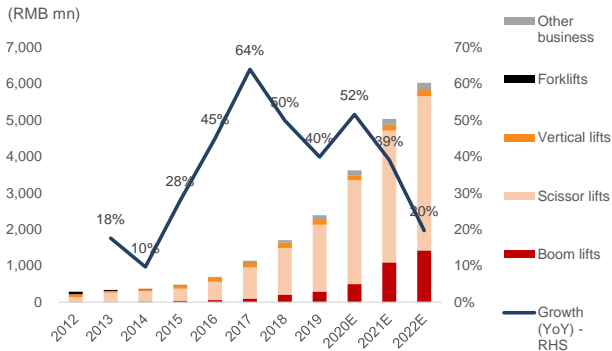
Source: Company data, CMBIS

**Figure 2: Key assumptions for Dingli**

(RMB mn)	2018	2019	2020E	2021E	2022E
<b>Revenue</b>					
Boom lifts	207	291	495	1,093	1,420
Scissor lifts	1,283	1,839	2,855	3,626	4,243
Vertical lifts	151	127	140	154	169
<b>Revenue (core business)</b>	<b>1,641</b>	<b>2,257</b>	<b>3,491</b>	<b>4,873</b>	<b>5,832</b>
Other business	67	132	132	165	199
<b>Total revenue</b>	<b>1,708</b>	<b>2,389</b>	<b>3,622</b>	<b>5,038</b>	<b>6,031</b>
<b>Revenue growth</b>					
Boom lifts	103.2%	40.4%	70.2%	120.6%	30.0%
Scissor lifts	50.3%	43.3%	55.3%	27.0%	17.0%
Vertical lifts	5.0%	-15.6%	10.0%	10.0%	10.0%
<b>Revenue (core business)</b>	<b>49.3%</b>	<b>37.5%</b>	<b>54.7%</b>	<b>39.6%</b>	<b>19.7%</b>
Other business	66.3%	98.8%	-0.5%	25.1%	20.5%
<b>Total revenue</b>	<b>49.9%</b>	<b>39.9%</b>	<b>51.6%</b>	<b>39.1%</b>	<b>19.7%</b>
<b>Gross margin</b>					
Boom lifts	34.6%	27.7%	29.0%	34.0%	34.0%
Scissor lifts	40.9%	39.8%	38.0%	37.5%	37.3%
Vertical lifts	41.7%	39.7%	38.0%	37.5%	37.3%
<b>Gross margin (core business)</b>	<b>40.2%</b>	<b>38.2%</b>	<b>36.7%</b>	<b>36.7%</b>	<b>36.5%</b>
Other business	74.2%	68.0%	67.0%	67.0%	67.0%
<b>Average gross margin</b>	<b>41.5%</b>	<b>39.9%</b>	<b>37.8%</b>	<b>37.7%</b>	<b>37.5%</b>

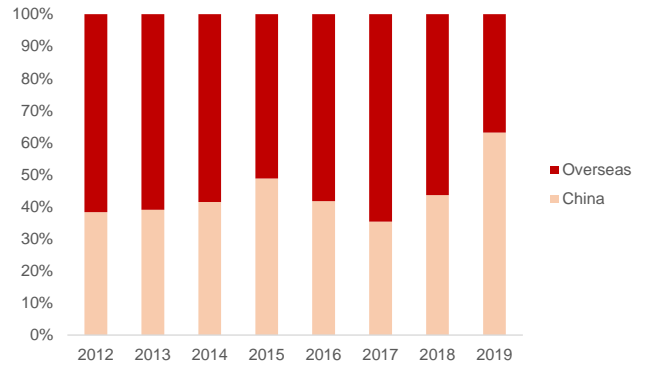
Source: Company data, CMBIS estimates

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



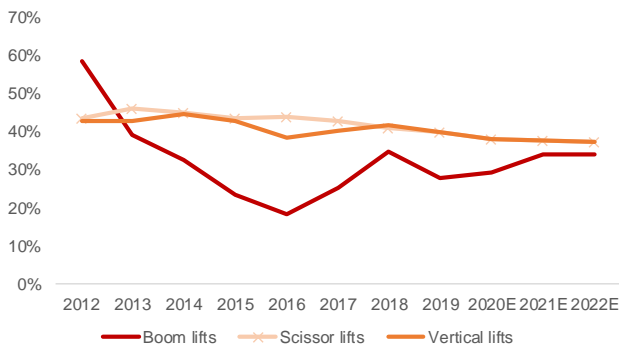
Source: Company data, CMBIS estimates

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



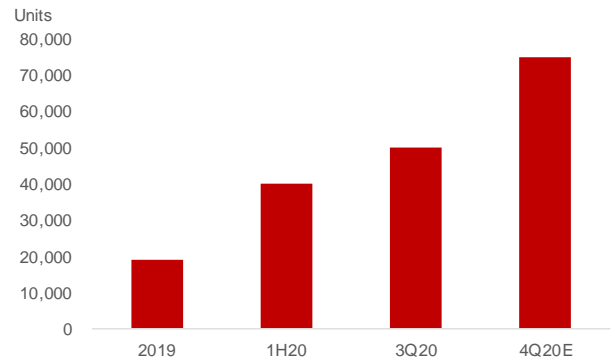
Source: Company data, CMBIS

**Figure 5: Gross margin by product**



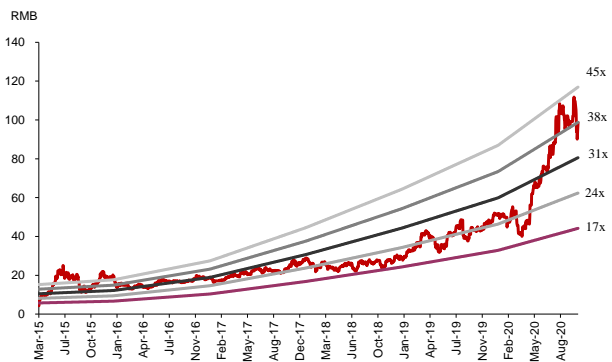
Source: Company data, CMBIS estimates

**Figure 6: Far East Horizon's AWP fleet size**



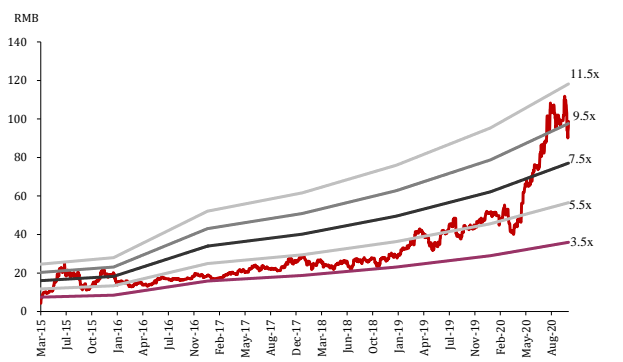
Source: Company data, CMBIS estimates

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



Source: Bloomberg, Company data, CMBIS estimates

**Figure 8: 12M forward P/B band**



Source: Bloomberg, Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>1,708</b>	<b>2,389</b>	<b>3,622</b>	<b>5,038</b>	<b>6,031</b>
Cost of sales	(999)	(1,437)	(2,252)	(3,138)	(3,769)
<b>Gross profit</b>	<b>709</b>	<b>952</b>	<b>1,370</b>	<b>1,900</b>	<b>2,262</b>
Surcharge	(10)	(10)	(18)	(25)	(30)
S&D expenses	(92)	(105)	(163)	(222)	(265)
Administrative expenses	(118)	(136)	(181)	(242)	(283)
Asset impairment	(7)	(15)	(4)	(10)	(12)
<b>EBIT</b>	<b>482</b>	<b>686</b>	<b>1,004</b>	<b>1,401</b>	<b>1,671</b>
Net finance income/(cost)	36	39	47	77	110
Finance income	37	42	52	83	115
Finance expenses	(2)	(3)	(5)	(5)	(6)
Other gains/(losses)	60	41	36	50	60
Profit of JV & associates	(13)	39	29	38	51
<b>Pretax profit</b>	<b>565</b>	<b>805</b>	<b>1,116</b>	<b>1,567</b>	<b>1,891</b>
Income tax	(85)	(111)	(156)	(219)	(265)
<b>After tax profit</b>	<b>480</b>	<b>694</b>	<b>960</b>	<b>1,348</b>	<b>1,627</b>
MI	0	0	0	0	0
<b>Net profit</b>	<b>480</b>	<b>694</b>	<b>960</b>	<b>1,348</b>	<b>1,627</b>
D&A	25	28	44	80	119
<b>EBITDA</b>	<b>507</b>	<b>714</b>	<b>1,049</b>	<b>1,481</b>	<b>1,790</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	565	805	1,116	1,567	1,891
Finance cost	0	3	5	5	6
Interest income	(22)	(14)	(52)	(83)	(115)
Profit / loss of associates	13	(39)	(29)	(38)	(51)
Depreciation and amortization	25	28	44	80	119
Income tax paid	(72)	(101)	(156)	(219)	(265)
Change in working capital	(82)	(6)	152	(188)	(428)
Others	(12)	20	0	0	0
<b>Cash flow from operation</b>	<b>416</b>	<b>696</b>	<b>1,080</b>	<b>1,124</b>	<b>1,158</b>
Net capex on PP&E	(199)	(285)	(330)	(300)	(300)
Interest received	27	6	52	83	115
Others	329	(392)	0	0	0
<b>Cash flow from investing</b>	<b>157</b>	<b>(666)</b>	<b>(278)</b>	<b>(217)</b>	<b>(185)</b>
Proceeds from equity	0	0	0	0	0
Net bank borrowings	163	252	40	30	50
Dividend paid	(71)	(87)	(121)	(168)	(236)
Interest paid	(9)	(17)	(5)	(5)	(6)
Others	(0)	(0)	0	0	0
<b>Cash flow from financing</b>	<b>83</b>	<b>147</b>	<b>(86)</b>	<b>(143)</b>	<b>(192)</b>
Change in cash	656	177	716	763	781
Cash at beginning of the year	751	1,045	874	1,590	2,353
FX gains/(losses) & others	(362)	(349)	0	0	0
Cash at the end of the year	1,045	874	1,590	2,353	3,134

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>1,027</b>	<b>1,471</b>	<b>1,848</b>	<b>2,238</b>	<b>2,605</b>
PP&E	232	245	534	757	941
JV/associates	206	89	118	156	207
LT trade receivables	278	465	527	660	794
Intangible assets	143	140	137	134	131
AFS investments	0	0	0	0	0
Others	167	529	529	529	529
Deferred tax assets	0	2	2	2	2
<b>Current assets</b>	<b>2,607</b>	<b>3,389</b>	<b>4,398</b>	<b>5,525</b>	<b>6,852</b>
Inventories	359	461	625	750	1,046
Trade and bill receivables	899	1,325	1,454	1,693	1,942
Prepayment	5	11	11	11	11
Others	298	718	718	718	718
Cash	1,045	874	1,590	2,353	3,134
<b>Current liabilities</b>	<b>882</b>	<b>1,450</b>	<b>1,977</b>	<b>2,305</b>	<b>2,607</b>
Trade and bill payables	521	783	1,290	1,599	1,851
Bank borrowings	150	369	389	409	459
Tax payable	70	107	107	107	107
Advance from customers	11	7	7	7	7
Others	129	183	183	183	183
<b>Non-current liabilities</b>	<b>151</b>	<b>202</b>	<b>222</b>	<b>232</b>	<b>232</b>
Bank borrowings	75	109	129	139	139
Deferred tax liabilities	2	1	1	1	1
Deferred income	64	73	73	73	73
Others	10	19	19	19	19
<b>Equity</b>	<b>2,601</b>	<b>3,207</b>	<b>4,046</b>	<b>5,226</b>	<b>6,617</b>
Shareholders' equity	2,601	3,207	4,046	5,226	6,617
MI	0	0	0	0	0

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue mix (%)</b>					
Boom lifts	12	12	14	22	24
Scissor lifts	75	77	79	72	70
Vertical lifts	9	5	4	3	3
Others	4	6	4	3	3
Total	100	100	100	100	100
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	41.5	39.9	37.8	37.7	37.5
EBITDA margin	29.7	29.9	28.9	29.4	29.7
EBIT margin	28.2	28.7	27.7	27.8	27.7
Net profit margin	28.1	29.0	26.5	26.8	27.0
<b>Growth (%)</b>					
Revenue	49.9	39.9	51.6	39.1	19.7
Gross profit	48.2	34.4	43.9	38.6	19.1
EBITDA	39.2	41.0	46.8	41.2	20.9
EBIT	41.6	42.4	46.4	39.5	19.3
Net profit	69.6	44.5	38.3	40.4	20.7
<b>Balance sheet ratio</b>					
Current ratio (x)	3.0	2.3	2.2	2.4	2.6
Receivable turnover days	143	170	140	114	110
Inventory turnover days	110	104	88	80	87
Payable turnover days	152	166	168	168	167
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Profitability (%)</b>					
ROA	15.0	16.3	17.3	19.2	18.9
ROE	20.0	23.9	26.5	29.1	27.5
<b>Per share data</b>					
EPS (RMB)	0.99	1.43	1.98	2.78	3.35
BVPS (RMB)	5.36	6.61	8.33	10.76	13.63
DPS (RMB)	0.18	0.25	0.35	0.49	0.59

Source: Company data, CMBIS estimates

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