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China Construction Machinery & HDT Sector

HDT sales +43% YoY in Apr; Expect robust growth for other machinery

OUTPERFORM
(Maintain)

China Capital Goods

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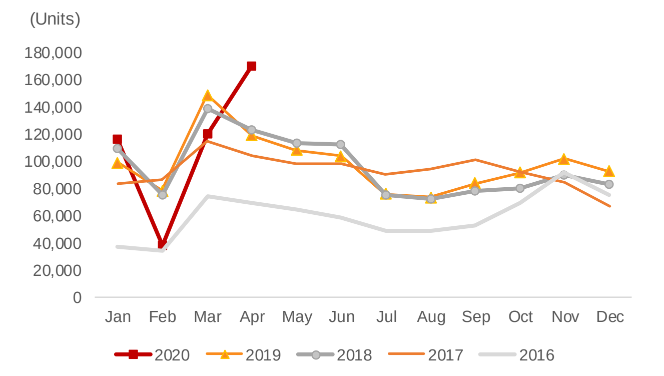
China HDT sales in Apr recorded an explosive growth, surging 43% YoY and 42% MoM, which is substantially above expectations. We have conviction **BUY** on **Sinotruk (3808 HK, TP: HK$20.5)** and **Weichai Power (2338 HK, TP: HK16.0 / 000338 CH, TP: RMB14.3)** as market has yet to price in such robust demand. Besides, post-1Q result remarks from major construction machinery makers also point to strong demand for the full year. All these reaffirmed our bullish stance on the infrastructure-driven story. Reiterate **BUY** on **SANY Heavy (600031 CH, TP: RMB23.5)**, **Jiangsu Hengli (601100 CH, TP: RMB85)** and **Zoomlion (1157 HK, TP: HK$6.90 / 000157 CH, TP: RMB6.85)**, as we expect strong data point of excavator sales will be near term catalyst. In addition, we revised up our earnings forecast and TP on **Zhejiang Dingli (603338 CH, BUY, TP: RMB94)**, following the release of strong 4Q19 and 1Q20 results.

- **China HDT sales +43% in Apr a surprise**. HDT sales in Apr reached 170k units, marking a record high, according to Cvworld. Based on our understanding, overall demand was strong in Apr for all major types of HDT, such as dump truck, logistic truck and tractors. Besides, preliminary data shows that FAW, the leading player, reported 89% YoY sales growth**.** We believe Weichai is a major beneficiary given that FAW is a major customer. In 4M20, HDT sales in China reached 444k units, stable YoY. We expect the sales momentum to continue in May, as we see strong demand for construction trucks driven by infrastructure spending.
- **Key highlights on 1Q20 results for construction machinery, HDT and component makers**. Dingli, Zoomlion and Hengli reported surprising earnings growth despite the impact of COVID-19 and lockdown. Weichai, SANY Heavy and Sinotruk Ji'nan Truck (000951 CH, NR, major subsidiary of Sinotruk) reported earnings decline but largely within our expectation. Most importantly, majority of these players maintained strong balance sheet and generated decent operating cash inflow in 1Q20. While Weichai and SANY Heavy reported negative operating cash flow, we expect improvement in 2Q given the potential strong demand (*please see the results reviews for selected individual companies in this report*).
- **Upbeat post-1Q result comments from major players**. **SANY Heavy**'s excavator sales reported growth 4M20, implying very strong sales in Mar-Apr. SANY Heavy expects its excavator sales growth will potentially reach 20-30% this year (above our estimate of 16%). Besides, SANY Heavy revealed that concrete machinery sales started to see recovery in late Mar, and reached a record high in Apr. Full year concrete machinery sales growth is expected to reach 15-20% for the industry as a whole. SANY Heavy expects gross margin expansion this year. On the other hand, **Zoomlion** revealed that current demand is already higher than last year. The Company expects the overall demand for construction machinery is 2Q to be doubled from 1Q. Demand for tower crane has returned to normal since late Mar. Both companies are confident of achieving market share gain going forward.

Related Reports

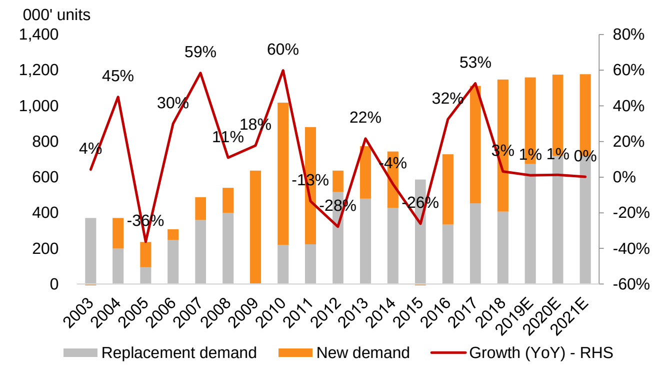
1. SANY Heavy Industry – A (600031 CH, BUY) – 2019 net profit +83% YoY in line; Expect a strong 2Q20 – 24 Apr 2020
2. China Construction Machinery Sector – Lift forecast on excavator on strong demand; BUY SANY & Hengli – 13 Apr 2020
3. Sinotruk (Hong Kong) (3808 HK, BUY) – Returning to growth territory in 2020E
4. Zoomlion (1157 HK, BUY) – Dividend cut a surprise; Positive on the recovery story – 31 Mar 2020
5. Weichai Power (2338 HK, BUY) – Correction offers buying opportunity; Diversification strategy on track – 30 Mar 2020
6. China Construction Machinery Sector – Focus on China infrastructure names amid volaitle market – 16 Mar 2020
7. China Construction Machinery Sector – Four structural drivers to extend the upcycle to 2020-21E – 27 Nov 2019

Figure 1: China HDT sales +43% YoY in Apr



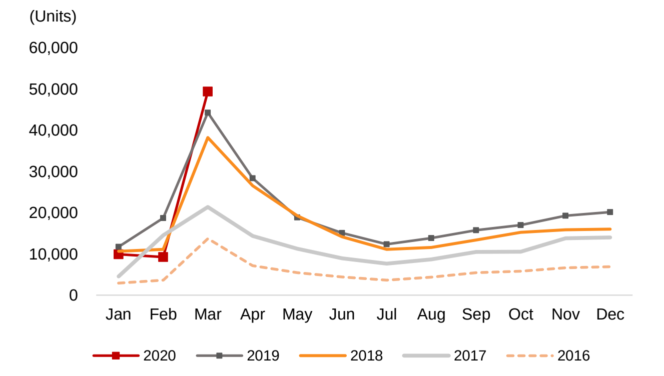
Source: Cvworld, CMBIS

Figure 2: CMBIS HDT sales projection



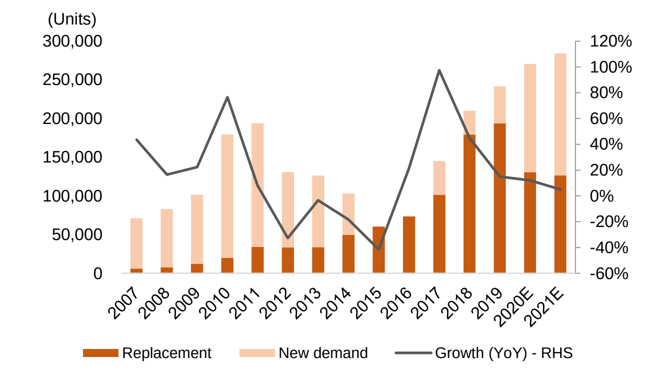
Source: Cvworld, Wind, CMBIS estimates

Figure 3: China monthly excavator sales



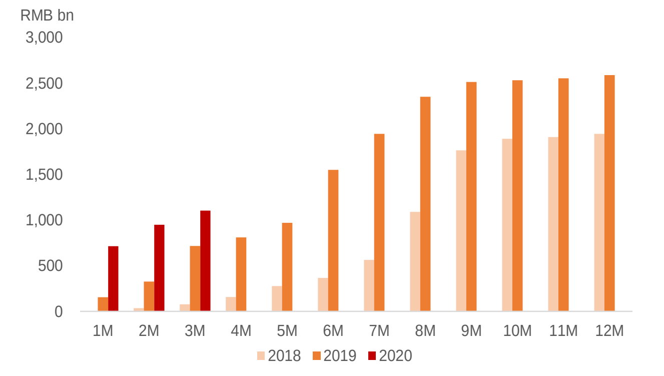
Source: CCMA, CMBIS

Figure 4: CMBI excavator sales projection



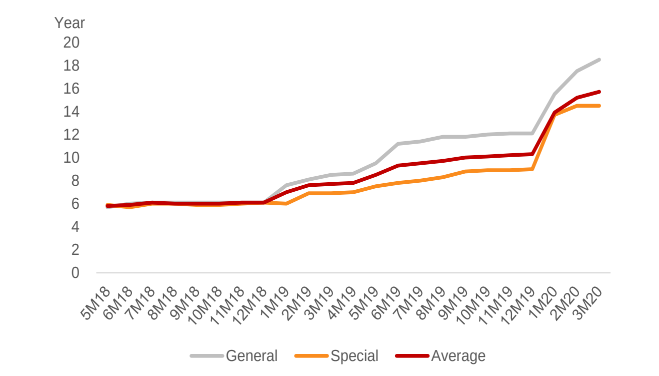
Source: CCMA, CMBIS estimates

Figure 5: Local gov't special bond issue amount



Source: Ministry of Finance, CMBIS

Figure 6: Local gov't bond average duration (YTD)



Source: Ministry of Finance, CMBIS

Summary of 1Q20 results

SANY Heavy (600031 CH, BUY, TP: RMB23.5)

- SANY Heavy's net profit in 1Q came in at RMB2.2bn, down 32% YoY, due to the outbreak of COVID-19 and lockdown of cities in China. The result is within our expectation.
- Revenue dropped 19% YoY to RMB17.3bn and gross margin contracted 2.5ppt to 28.2%, due to lower sales volume.
- Cost control was good: The decline in S&D expense ratio (35% YoY) was faster than the revenue decline. Besides, administrative expense increased 8% YoY but largely due to higher R&D expenditure.
- Net finance expense increased 154% YoY to RMB311mn in 1Q, largely due to fx effect. As at end-Mar, SANY maintained a net cash position.
- Operating cash outflow was RMB894mn in 1Q20 (versus inflow of RMB3.8bn in 1Q19), as more working capital was allocated for upcoming sales.

Figure 7: SANY Heavy's 1Q20 results

	1Q19	1Q20	*Change YoY*	2Q18	2Q19	*Change YoY*	3Q18	3Q19	*Change YoY*	4Q18	4Q19	*Change YoY*
Total revenue	**21,295**	**17,266**	***-18.9%***	**15,965**	**22,092**	***38.4%***	**12,954**	**15,305**	***18.1%***	**14,744**	**16,975**	***15.1%***
Cost of sales	-14,754	-12,402	*-15.9%*	-10,946	-14,594	*33.3%*	-9,052	-10,247	*13.2%*	-10,451	-11,337	*8.5%*
Gross profit	**6,541**	**4,864**	***-25.6%***	**5,018**	**7,498**	***49.4%***	**3,902**	**5,057**	***29.6%***	**4,293**	**5,638**	***31.3%***
Other income	-87	-70	*-20.3%*	-95	-129	*35.7%*	-77	-70	*-10.0%*	-92	-85	*-7.6%*
S&D expenses	-1,437	-942	*-34.5%*	-1,474	-1,574	*6.8%*	-874	-1,057	*20.9%*	-1,014	-1,420	*40.1%*
Administrative expenses	-992	-1,065	*7.5%*	-640	-1,105	*72.6%*	-822	-1,330	*61.8%*	-1,710	-2,269	*32.7%*
Fair value change	211	197	*-6.7%*	-399	45	*n/a*	-199	-203	*1.9%*	13	237	*1695.0%*
Asset impairment	-160	-119	*-25.8%*	-213	-315	*48.3%*	-185	-93	*-49.5%*	-506	-691	*36.6%*
EBIT	**4,076**	**2,865**	***-29.7%***	**2,197**	**4,419**	***101.1%***	**1,744**	**2,305**	***32.1%***	**985**	**1,410**	***43.1%***
Net finance income/(expense)	-122	-312	*154.8%*	195	111	*-43.0%*	133	152	*14.3%*	-39	-95	*144.1%*
Other gains/(losses)	-8	131	*n/a*	-24	-242	*906.6%*	-32	413	*n/a*	455	895	*96.7%*
Share of profit of JV and associates	31	-44	*n/a*	35	27	*-23.5%*	54	23	*-57.6%*	12	59	*384.7%*
Pretax profit	**3,976**	**2,640**	***-33.6%***	**2,403**	**4,315**	***79.6%***	**1,900**	**2,893**	***52.3%***	**1,413**	**2,270**	***60.6%***
Income tax	-652	-426	*-34.6%*	-441	-704	*59.6%*	-350	-423	*21.0%*	-175	-181	*3.6%*
After tax profit	**3,325**	**2,214**	*-33.4%*	**1,962**	**3,611**	*84.1%*	**1,551**	**2,470**	*59.3%*	**1,238**	**2,088**	*68.6%*
MI	-104	-20	*-80.4%*	-74	-84	*14.6%*	-56	-59	*5.6%*	-6	-41	*640.8%*
Net profit	**3,221**	**2,194**	***-31.9%***	**1,888**	**3,527**	***86.8%***	**1,495**	**2,411**	***61.3%***	**1,233**	**2,047**	***66.1%***
Ratios:			*ppt*			*ppt*			*ppt*			*ppt*
Gross margin	*30.7%*	*28.2%*	*-2.5*	*31.4%*	*33.9%*	*2.5*	*30.1%*	*33.0%*	*2.9*	*29.1%*	*33.2%*	*4.1*
EBIT margin	*19.1%*	*16.6%*	*-2.5*	*13.8%*	*20.0%*	*6.2*	*13.5%*	*15.1%*	*1.6*	*6.7%*	*8.3%*	*1.6*
After tax profit margin	*15.6%*	*12.8%*	*-2.8*	*12.3%*	*16.3%*	*4.1*	*12.0%*	*16.1%*	*4.2*	*8.4%*	*12.3%*	*3.9*
Effective tax rate	*16.4%*	*16.1%*	*-0.2*	*18.4%*	*16.3%*	*-2.0*	*18.4%*	*14.6%*	*-3.8*	*12.4%*	*8.0%*	*-4.4*

Source: Company data, CMBIS

Zoomlion (000157 CH, BUY, TP : RMB6.85 / 1157 HK, BUY, TP : HK$6.90)

- Zoomlion delivered a strong set of 1Q results with net profit +2% YoY to RMB1bn.
- The solid earnings in 1Q was driven by stable revenue (RMB9.1bn) and gross margin expansion of 0.5ppt YoY to 30.6%, which suggested strong management execution in the difficult time. The resilient revenue was helped by new product launch such as excavator, aerial working platform (AWP) and agricultural machinery.
- Zoomlion sold 1,000 units of excavators with revenue of RMB400mn.
- Revenue from AWP reached RMB130mn with gross margin of 30%. High growth was achieved on scissor lifts. Boom lift production is on-track to ramp up. Zoomlion targets to achieve RMB2bn sales this year (VAT included).
- Agriculture machinery reported 40% YoY increase in revenue and achieved breakeven.
- Stringent cost control in 1Q20 also contributed to the earnings growth. Besides, net finance expense reduced 31% YoY.
- Operating cash inflow dropped 83% YoY to RMB319mn.

Figure 8: Zoomlion's 1Q20 results

(RMB mn)	1Q19	1Q20	Change YoY	2Q18	2Q19	Change YoY	3Q18	3Q19	Change YoY	4Q18	4Q19	Change YoY
Total revenue	**9,017**	**9,067**	***0.6%***	**8,346**	**13,245**	***58.7%***	**6,315**	**9,493**	***50.3%***	**7,676**	**11,552**	***50.5%***
Cost of sales	-6,311	-6,296	*-0.2%*	-6,204	-9,273	*49.5%*	-4,535	-6,702	*47.8%*	-5,435	-8,028	*47.7%*
Gross profit	**2,706**	**2,770**	***2.4%***	**2,142**	**3,972**	***85.4%***	**1,780**	**2,791**	***56.8%***	**2,241**	**3,524**	***57.2%***
Other income	29	114	*289.3%*	346	593	*71.3%*	142	200	*40.4%*	343	195	*-43.0%*
S&D expenses	-715	-704	*-1.5%*	-709	-1,166	*64.5%*	-668	-890	*33.1%*	-498	-1,009	*102.8%*
Administrative expenses	-624	-488	*-21.7%*	-761	-1,045	*37.4%*	-395	-535	*35.7%*	-529	-834	*57.4%*
R&D expenses	-116	-242	*108.9%*	-130	-345	*166.0%*	-177	-270	*52.9%*	-207	-785	*278.6%*
EBIT	**1,281**	**1,450**	***13.3%***	**1,018**	**2,353**	***131.1%***	**682**	**1,295**	***89.8%***	**1,350**	**1,092**	***-19.1%***
Net finance income/(cost)	-405	-280	*-30.8%*	-346	-191	*-44.7%*	-274	-301	*9.8%*	-324	-268	*-17.2%*
Other gains/(losses)	234	69	*-70.7%*	-102	-234	*129.3%*	37	99	*171.3%*	-37	-99	*171.3%*
Share of profit of JV and associates	34	47	*40.7%*	61	48	*-20.2%*	69	40	*-41.6%*	67	66	*-1.9%*
Pretax profit	**1,144**	**1,286**	***12.5%***	**631**	**1,976**	***213.3%***	**514**	**1,134**	***120.6%***	**1,056**	**790**	***-25.2%***
Income tax	-162	-236	*45.3%*	-139	-378	*n/a*	-81	-245	*n/a*	-384	26	*n/a*
After tax profit	**981**	**1,050**	*7.0%*	**492**	**1,599**	*225.0%*	**434**	**889**	*105.1%*	**671**	**816**	*21.5%*
MI	21	-24	*n/a*	5	-16	*n/a*	5	14	*n/a*	47	77	*n/a*
Net profit	**1,002**	**1,026**	***2.4%***	**497**	**1,583**	***218.3%***	**439**	**904**	***106.0%***	**718**	**892**	***24.2%***
Key ratios			***Change (ppt)***			***Change (ppt)***			***Change (ppt)***			***Change (ppt)***
Gross margin	*30.0%*	*30.6%*	*0.5*	*25.7%*	*30.0%*	*4.3*	*28.2%*	*29.4%*	*1.2*	*29.2%*	*30.5%*	*1.3*
S&D expenses ratio	*7.9%*	*7.8%*	*-0.2*	*8.5%*	*8.8%*	*0.3*	*10.6%*	*9.4%*	*-1.2*	*6.5%*	*8.7%*	*2.3*
Administrative expense ratio	*6.9%*	*5.4%*	*-1.5*	*9.1%*	*7.9%*	*-1.2*	*6.2%*	*5.6%*	*-0.6*	*6.9%*	*7.2%*	*0.3*
R&D expense ratio	*1.3%*	*2.7%*	*1.4*	*1.6%*	*2.6%*	*1.1*	*2.8%*	*2.8%*	*0.0*	*2.7%*	*6.8%*	*4.1*
Effective tax rate	*14.2%*	*18.3%*	*4.1*	*22.0%*	*19.1%*	*-2.9*	*15.7%*	*21.6%*	*5.9*	*36.4%*	*-3.3%*	*-39.7*

Source: Company data, CMBIS

Jiangsu Hengli (601100 CH, BUY, TP: RMB85)

- **2019 results:** Hengli's net profit in 2019 surged 55% YoY to RMB1.3bn, slightly above our estimate by 2%, driven by 29% YoY increase in revenue and gross margin expansion. Operating cash inflow surged 108% YoY to RMB1.66bn.
- In 4Q19, revenue surged 50% YoY to RMB1.58bn. Gross margin in 4Q19 expanded 2ppt YoY to a respectable level of 40.7%. All these, together with good cost control, boosted net profit growth of 2.2x YoY to RMB379mn.
- **1Q20 results:** Net profit increased 6% YoY in 1Q. The growth was helped by improvement in net finance income due to appreciation of US$. Revenue dropped 13% YoY to RMB1.37bn but gross margin expanded 3.1ppt to 37.9%. Operating cash inflow grew 7.6% YoY to RMB167mn.
- We maintain our bullish stance on Hengli as see multiple growth drivers: (1) excavator demand will likely exceed expectation in 2Q; (2) Hengli is on-track to gain market share in hydraulic cylinders, pumps & valves; (3) new products such as motors and industrial valves will offer additional earnings growth.

Figure 9: Jiangsu Hengli's 1Q20 results

(RMB mn)	1Q19	1Q20	*Change YoY*	2Q18	2Q19	*Change YoY*	3Q18	3Q19	*Change YoY*	4Q18	4Q19	*Change YoY*
Total revenue	**1,569**	**1,369**	***-12.7%***	**1,194**	**1,224**	***2.6%***	**996**	**1,041**	***4.5%***	**1,051**	**1,580**	***50.4%***
Cost of sales	(1,023)	(850)	*-16.9%*	(775)	(736)	*-5.0%*	(611)	(674)	*10.3%*	(644)	(937)	*45.4%*
Gross profit	**546**	**518**	***-5.0%***	**419**	**488**	***16.6%***	**385**	**367**	***-4.6%***	**407**	**644**	***58.2%***
Other income	(15)	(13)	*-8.5%*	(13)	(11)	*-20.2%*	(10)	(12)	*27.5%*	(10)	(14)	*40.5%*
S&D expenses	(19)	(26)	*35.6%*	(25)	(29)	*15.5%*	(38)	(31)	*-18.7%*	(29)	(32)	*11.9%*
Administrative expenses	(95)	(97)	*2.5%*	(86)	(113)	*32.1%*	(98)	(104)	*6.8%*	(128)	(123)	*-3.7%*
Asset impairment	(21)	(18)	*-12.7%*	(3)	8	*n/a*	(2)	(1)	*-45.2%*	(106)	(37)	*-64.6%*
EBIT	**395**	**363**	***-8.3%***	**292**	**344**	***17.8%***	**237**	**218**	***-8.1%***	**135**	**437**	***224.1%***
Net finance income/(cost)	(35)	37	*n/a*	45	50	*11.3%*	47	43	*-8.5%*	(13)	(27)	*104.5%*
Other gains/(loss)	13	18	*36.3%*	21	12	*-45.2%*	22	32	*47.0%*	(4)	10	*-342.9%*
Profit of JV & associates	0	0	*n/a*	0	0	*n/a*	0	0	*n/a*	0	0	*n/a*
Pretax profit	**373**	**418**	***12.1%***	**358**	**405**	***13.3%***	**307**	**294**	***-4.2%***	**118**	**421**	***257.4%***
Income tax	(47)	(70)	*51.1%*	(50)	(60)	*19.5%*	(50)	(47)	*-6.6%*	(1)	(41)	*2649.3%*
After tax profit	**327**	**348**	*6.5%*	**308**	**345**	*12.2%*	**256**	**247**	*-3.7%*	**116**	**380**	*226.6%*
MI	(0)	(1)	*32.8%*	(1)	(1)	*-33.2%*	(0)	(0)	*21.8%*	1	(1)	*-149.7%*
Net profit	**326**	**347**	***6.5%***	**307**	**345**	***12.4%***	**256**	**246**	***-3.8%***	**117**	**379**	***223.3%***
Key ratios			*ppt*			*ppt*			*ppt*			*ppt*
Gross margin	*34.8%*	*37.9%*	*3.1*	*35.1%*	*39.9%*	*4.8*	*38.6%*	*35.3%*	*-3.4*	*38.7%*	*40.7%*	*2.0*
S&D expense ratio	*1.2%*	*1.9%*	*0.7*	*2.1%*	*2.4%*	*0.3*	*3.8%*	*3.0%*	*-0.8*	*2.7%*	*2.0%*	*-0.7*
Adminstrative and R&D exp ratio	*6.1%*	*7.1%*	*1.1*	*7.2%*	*9.2%*	*2.1*	*9.8%*	*10.0%*	*0.2*	*12.1%*	*7.8%*	*-4.4*
Effective tax rate	*12.5%*	*16.8%*	*4.3*	*14.0%*	*14.8%*	*0.8*	*16.4%*	*16.0%*	*-0.4*	*1.3%*	*9.8%*	*8.5*

Source: Company data, CMBIS

Weichai Power (000338 CH, BUY, TP: RMB14.3 / 2338 HK, BUY, TP: HK$16.0)

- Weichai's net profit in 1Q20 declined 20% YoY to RMB2bn, due to a 14% decline in revenue as a result of COVID-19. The result is within our expectation.
- **KION (KGX GR, NR)**'s revenue slightly dropped 2% YoY in 1Q20. Adjusted for the FX rate, we estimate that Weichai's revenue (excluding KION) was down 20% YoY.
- Operating cash outflow reached RMB9.5bn in 1Q20, versus RMB1.27bn in 1Q19. That said, we expect the cash flow will be significantly improved given the robust HDT and engine sales in Apr.
- The 43% increase in HDT sales in Apr will serve as strong share price catalyst in the near term. We expect the strong sales momentum to continue in 2Q.

Figure 10: Weichai Power's 1Q20 results

(RMB mn)	1Q19	1Q20	Change (YoY)	2Q18	2Q19	Change (YoY)	3Q18	3Q19	Change (YoY)	4Q18	4Q19	Change (YoY)
Revenue	**45,212**	**38,999**	***-14%***	**43,052**	**45,651**	***6%***	**35,919**	**35,846**	***0%***	**41,073**	**47,653**	***16%***
Cost of sales	-35,420	-30,247	*-15%*	-34,177	-35,681	*4%*	-28,272	-27,653	*-2%*	-31,079	-37,599	*21%*
Gross profit	**9,792**	**8,752**	***-11%***	**8,875**	**9,969**	***12%***	**7,647**	**8,193**	***7%***	**9,995**	**10,053**	***1%***
Other income	128	97	*-24%*	26	211	*711%*	92	99	*7%*	287	330	*15%*
Other gains and losses	113	164	*44%*	240	60	*-75%*	102	225	*120%*	210	30	*-86%*
S&D expenses	-2,736	-2,718	*-1%*	-2,835	-2,634	*-7%*	-2,406	-2,575	*7%*	-2,739	-3,309	*21%*
Administrative and R&D expenses	-2,560	-2,840	*11%*	-2,667	-3,119	*17%*	-2,347	-2,800	*19%*	-3,286	-3,649	*11%*
Taxes and surcharges	-189	-165	*-13%*	-182	-186	*2%*	-107	-95	*-12%*	-217	-194	*-10%*
Impairment loss of assets	-226	-237	*5%*	230	-226	*n/a*	-144	-77	*-46%*	-415	-207	*-50%*
EBIT	**4,323**	**3,052**	***-29%***	**3,687**	**4,075**	***11%***	**2,837**	**2,970**	***5%***	**3,836**	**3,053**	***-20%***
Other expenses	-43	-40	*-8%*	-26	13	*n/a*	-50	-22	*-56%*	50	-42	*-184%*
Net finance cost	-108	14	*n/a*	144	-33	*n/a*	-43	0	*-101%*	24	-79	*-427%*
Share of profit of JV and associates	11	22	*88%*	118	112	*-5%*	23	19	*-17%*	15	102	*587%*
Pretax profit	**4,183**	**3,049**	***-27%***	**3,923**	**4,167**	***6%***	**2,767**	**2,967**	***7%***	**3,924**	**3,034**	***-23%***
Income tax	-811	-457	*-44%*	-601	-647	*8%*	-602	-531	*-12%*	-346	-456	*32%*
After tax profit	**3,373**	**2,592**	***-23%***	**3,322**	**3,520**	***6%***	**2,165**	**2,436**	***13%***	**3,578**	**2,578**	***-28%***
MI	-781	-527	*-32%*	-849	-824	*-3%*	-556	-666	*20%*	-922	-531	*-42%*
Net profit	**2,591**	**2,064**	***-20%***	**2,473**	**2,696**	***9%***	**1,609**	**1,771**	***10%***	**2,656**	**2,047**	***-23%***
Key ratios			***Change (ppt)***			***Change (ppt)***			***Change (ppt)***			***Change (ppt)***
Gross margin	*21.7%*	*22.4%*	*0.8*	*20.6%*	*21.8%*	*1.2*	*21.3%*	*22.9%*	*1.6*	*24.3%*	*21.1%*	*-3.2*
S&D expense ratio	*6.1%*	*7.0%*	*0.9*	*6.6%*	*5.8%*	*-0.8*	*6.7%*	*7.2%*	*0.5*	*6.7%*	*6.9%*	*0.3*
Administrative and R&D expense ratio	*5.7%*	*7.3%*	*1.6*	*6.2%*	*6.8%*	*0.6*	*6.5%*	*7.8%*	*1.3*	*8.0%*	*7.7%*	*-0.3*
Effective tax rate	*19.4%*	*15.0%*	*-4.4*	*15.3%*	*15.5%*	*0.2*	*21.8%*	*17.9%*	*-3.9*	*8.8%*	*15.0%*	*6.2*

Source: Company data, CMBIS

Zhejiang Dingli (603338 CH, BUY, TP: RMB94)

- 1Q20 net profit increased by 24% YoY to RMB125mn, driven by revenue growth of 7%, increase in finance income, other gains and associate income, which offset a 2.9ppt gross margin contraction. Operating cash flow significantly improved to RMB80mn in 1Q20, versus an outflow of RMB34mn in 1Q19.
- The impressive earnings growth in 4Q19 and 1Q20 enhanced our confidence on Dingli's outstanding management capability, which prompted us to revise up our 2020E/21E earnings forecast by 9%/13% to RMB905mn/RMB1.2bn, making us 14%/15% above consensus.
- We lift our TP from RMB72 to RMB94, based on 36x 2020E P/E, on the back of 30%/36% earnings growth in 2020E/21E.
- Near term, we expect the demand for aerial working platforms (AWP) will be strongly driven by infrastructure spending in China. In the medium term, rising labor cost will remain the underlying driver for the application of AWP. Reiterate **BUY** *(For details please see our research note published today: '**Secular growth story intact; Raised earnings estimates & TP'**)*.

Figure 11: Zhejiang Dingli's 1Q20 results

(RMB mn)	1Q19	1Q20	*Change YoY*	2Q18	2Q19	*Change YoY*	3Q18	3Q19	*Change YoY*	4Q18	4Q19	*Change YoY*
Total revenue	**384**	**411**	***6.9%***	**474**	**464**	***-2.1%***	**540**	**597**	***10.4%***	**382**	**944**	***147.3%***
Cost of sales	-220	-247	*12.3%*	-287	-275	*-4.3%*	-305	-360	*18.2%*	-212	-582	*174.7%*
Gross profit	**165**	**164**	***-0.3%***	**187**	**189**	***1.4%***	**236**	**236**	***0.3%***	**170**	**362**	***113.2%***
Other income	-3	-4	*6.4%*	-3	-2	*-20.1%*	-3	-3	*-2.8%*	-2	-2	*37.7%*
S&D expenses	-17	-18	*5.2%*	-26	-27	*3.8%*	-29	-21	*-28.5%*	-22	-39	*76.8%*
Administrative expenses	-20	-23	*15.5%*	-33	-31	*-6.2%*	-24	-24	*-0.1%*	-47	-62	*31.4%*
Asset impairment	-2	1	*n/a*	-2	-1	*-33.8%*	-3	0	*n/a*	1	-11	*n/a*
EBIT	**122**	**121**	***-0.8%***	**123**	**128**	***3.9%***	**176**	**189**	***7.2%***	**99**	**247**	***148.7%***
Net finance income/(cost)	-6	6	*n/a*	12	24	*100.1%*	12	20	*70.9%*	15	1	*-93.5%*
Other gains/(losses)	1	9	*641.1%*	18	29	*61.5%*	0	5	*n/a*	39	6	*-85.0%*
Share of profit of JV and associates	3	10	*212.5%*	6	9	*42.3%*	37	0	*-99.4%*	-56	27	*n/a*
Pretax profit	**120**	**146**	***21.6%***	**159**	**190**	***19.0%***	**225**	**215**	***-4.7%***	**97**	**280**	***189.3%***
Income tax	-19	-21	*11.4%*	-24	-30	*26.7%*	-35	-31	*-9.4%*	-13	-30	*133.1%*
After tax profit	**101**	**125**	*23.6%*	**135**	**159**	*17.7%*	**191**	**183**	*-3.9%*	**84**	**250**	*197.9%*
MI	0	0	*n/a*	0	0	*n/a*	0	0	*n/a*	0	0	*n/a*
Net profit	**101**	**125**	***23.6%***	**135**	**159**	***17.7%***	**191**	**183**	***-3.9%***	**84**	**250**	***197.9%***
			ppt			ppt			ppt			ppt
Gross margin	*42.9%*	*40.0%*	*-2.9*	*39.4%*	*40.8%*	*1.4*	*43.6%*	*39.6%*	*-4.0*	*44.5%*	*38.3%*	*-6.1*
S&D expense ratio	*-4.5%*	*-4.5%*	*0.1*	*-5.5%*	*-5.9%*	*-0.3*	*-5.4%*	*-3.5%*	*1.9*	*-5.8%*	*-4.2%*	*1.7*
Administrative expense ratio	*-5.2%*	*-5.6%*	*-0.4*	*-6.9%*	*-6.6%*	*0.3*	*-4.4%*	*-4.0%*	*0.4*	*-12.4%*	*-6.6%*	*5.8*
Effective tax rate	*15.8%*	*14.5%*	*-1.3*	*15.1%*	*16.1%*	*1.0*	*15.4%*	*14.6%*	*-0.8*	*13.3%*	*10.7%*	*-2.6*

Source: Company data, CMBIS

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