

Jiangsu Hengli (601100 CH)

3Q24 earnings below expectations due to margin contraction

Hengli's EBIT in 3Q24 dropped 6% YoY to RMB445mn, due to gross margin contraction of 1.9ppt YoY despite an 11% YoY increase in revenue. The margin contraction, which was due to lower utilisation rate based on our understanding, is slightly below our expectation. Reported net profit grew 6% YoY to RMB504mn, helped by increases in net finance income and other gains. We are still positive on Hengli over the medium term, as (1) revenue contribution from non-excavator components continues to increase; (2) electric cylinders, ball screws and linear motion will likely serve as new growth driver in 2025E. That said, we think the potential Trump presidency could be a risk in the near term, given the potential increase in tariff that might affect the upcoming exports from the new production base in Mexico to the US market. We therefore believe better entry points may emerge after the election. We have left our earnings forecast unchanged. Our TP is also unchanged at RMB64, based on 31x 2024E P/E (historical average). Maintain BUY.

- **Key highlights in 3Q24 results:** Revenue in 3Q24 grew 11% YoY to RMB2.1bn. Gross margin contracted 1.9ppt YoY and 2.1ppt QoQ to 41%. Selling & distribution expense ratio was under good control (2.1%, -0.2ppt YoY), while administrative and R&D expense ratio increased 2.9ppt YoY to 17%. In 9M24, net profit slightly increased 2% YoY to RMB1.79bn, accounting for 65% of our full-year forecast (run rate in 9M23: 70%).
- **Production plan in Oct:** We understand that Hengli has scheduled a production volume of 42k units of hydraulic cylinders (for excavators) in Oct, down ~5% YoY. For non-standardized cylinders, the planned production in Oct is expected to drop ~10% YoY to 17k units, due to the high base effect. On the positive side, scheduled production volume of small-size pumps/valves has increased ~40%/~90% YoY in Oct.
- **Risk factors:** (1) further weakness in the demand for hydraulic components for excavators; (2) slower-than-expected new business development; (3) potentially higher tariffs upon Trump presidency.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	8,197	8,985	10,033	11,261	12,540
YoY growth (%)	(12.0)	9.6	11.7	12.2	11.4
Adjusted net profit (RMB mn)	2,342.7	2,498.7	2,756.5	3,076.2	3,495.7
EPS (Reported) (RMB)	1.79	1.86	2.06	2.29	2.61
YoY growth (%)	(13.0)	3.8	10.3	11.6	13.6
Consensus EPS (RMB)	na	na	2.03	2.38	2.83
P/E (x)	31.1	30.0	27.2	24.3	21.4
P/B (x)	5.9	5.2	4.6	4.1	3.6
Yield (%)	1.1	1.3	1.4	1.6	1.8
Net gearing (%)	(51.9)	(55.0)	(50.5)	(51.0)	(52.4)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB64.00
Up/Downside 14.7%
Current Price RMB55.82

China Capital Goods

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	74,844.6
Avg 3 mths t/o (RMB mn)	351.2
52w High/Low (RMB)	68.89/42.14
Total Issued Shares (mn)	1340.8

Source: FactSet

Shareholding Structure

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

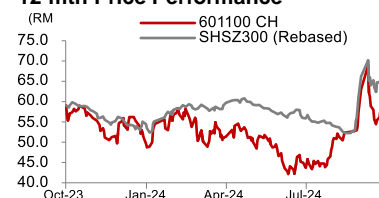
Source: SSE

Share Performance

	Absolute	Relative
1-mth	-2.5%	-8.8%
3-mth	24.2%	7.0%
6-mth	9.3%	-1.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

Capital Goods sector – Construction machinery sales in Sep: Decent export growth; weak demand in China – 16 Oct 2024 ([link](#))

Jiangsu Hengli – Revenue acceleration with margin expansion in 2Q24; new products development on track – 28 Aug 2024 ([link](#))

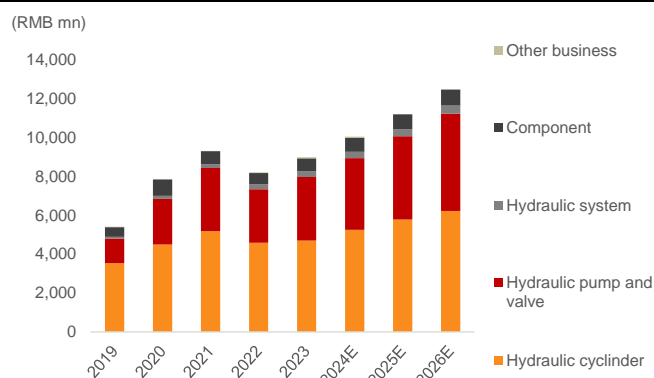
Jiangsu Hengli – 4Q23 & 1Q24 earnings not exciting; but more positive drivers to come – 24 Apr 2024 ([link](#))

Figure 1: Key highlights in 3Q24 results

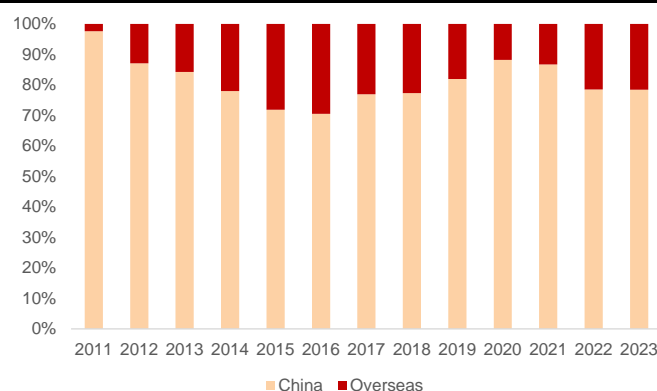
(RMB mn)	1Q23	1Q24	Change YoY	2Q23	2Q24	Change YoY	3Q23	3Q24	Change YoY	4Q22	4Q23	Change YoY
Total revenue	2,427	2,362	-2.7%	2,025	2,471	22.0%	1,892	2,103	11.1%	2,277	2,640	16.0%
Cost of sales	-1,435	-1,415	-1.4%	-1,279	-1,406	9.9%	-1,079	-1,240	14.9%	-1,339	-1,426	6.5%
Gross profit	992	947	-4.5%	745	1,066	42.9%	813	863	6.1%	939	1,215	29.4%
Other income	-25	-24	-3.7%	-19	-24	24.9%	-17	-21	24.9%	-20	-21	4.3%
S&D expenses	-37	-49	32.6%	-39	-52	32.4%	-43	-43	-0.5%	-49	-66	34.2%
Administrative expenses	-219	-222	1.4%	-285	-335	17.6%	-266	-356	34.0%	-242	-329	36.3%
Asset impairment	-12	-16	40.0%	4	-11	n/a	-16	3	n/a	-40	-45	12.5%
EBIT	700	636	-9.1%	406	644	58.4%	471	445	-5.6%	587	753	28.2%
Net finance income/(cost)	6	55	883.6%	292	47	-83.8%	21	64	204.8%	-0	50	n/a
Other gains/(loss)	30	25	-18.2%	13	50	274.5%	32	58	78.7%	71	55	-21.6%
Profit of JV & associates	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
Pretax profit	735	716	-2.7%	711	741	4.2%	525	567	8.1%	657	858	30.6%
Income tax	-109	-113	3.7%	-57	-54	-5.1%	-50	-63	26.9%	-61	-111	81.7%
After tax profit	627	603	-3.8%	654	687	5.0%	475	504	6.1%	596	747	25.4%
MI	-1	-1	-17.6%	-1	-1	-2.8%	-1	-1	54.5%	-3	-2	-16.9%
Net profit	626	602	-3.8%	653	686	5.0%	475	504	6.1%	593	745	25.6%

Key ratios			ppt			ppt			ppt			ppt
Gross margin	40.9%	40.1%	-0.8	36.8%	43.1%	6.3	43.0%	41.0%	-1.9	41.2%	46.0%	4.8
S&D expense ratio	1.5%	2.1%	0.6	1.9%	2.1%	0.2	2.3%	2.1%	-0.2	2.2%	2.5%	0.3
Administrative and R&D exp ratio	9.0%	9.4%	0.4	14.1%	13.6%	-0.5	14.1%	17.0%	2.9	10.6%	12.5%	1.9
Effective tax rate	14.8%	15.8%	1.0	8.0%	7.3%	-0.7	9.5%	11.1%	1.6	9.3%	12.9%	3.6

Source: Company data, CMBIGM

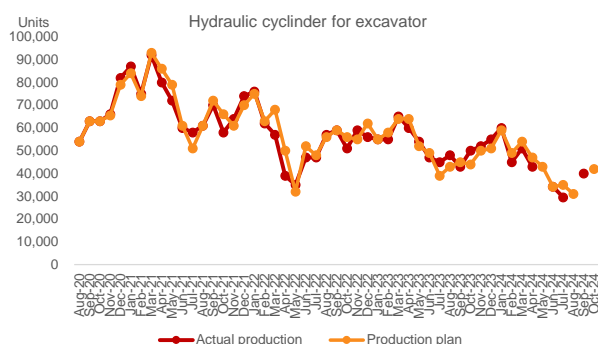
Figure 2: Hengli's revenue breakdown

Source: Company data, CMBIGM estimates

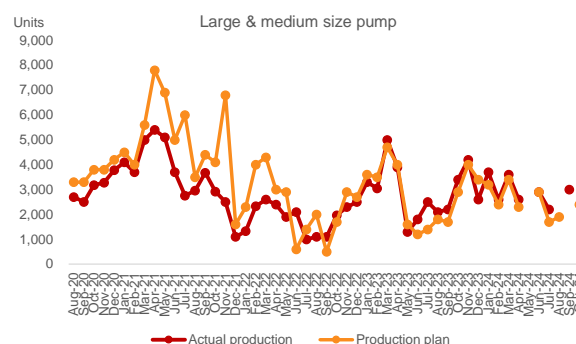
Figure 3: Revenue breakdown by region

Source: Company data, CMBIGM

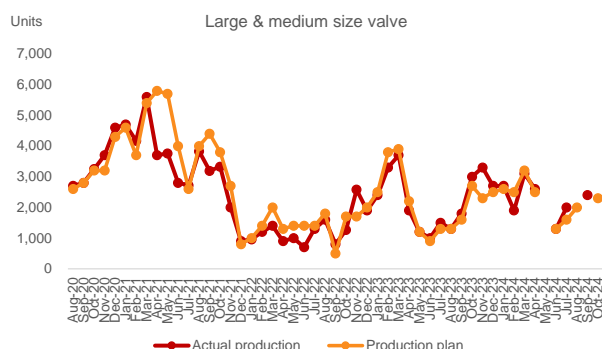
Note: Some of the domestic sales will be exported in the form of finished products

Figure 4: Hengli's hydraulic cylinders monthly production

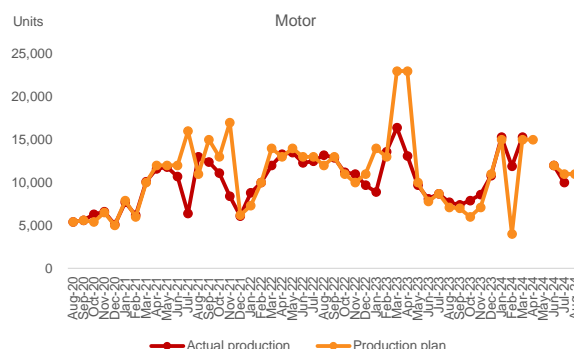
Source: Company data, CMBIGM estimates

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

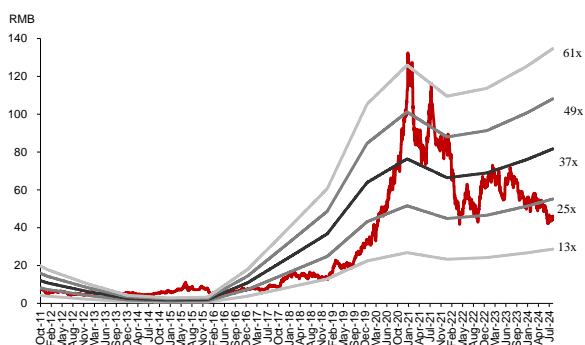
Figure 7: Hengli's motor monthly production

Source: Company data, CMBIGM estimates

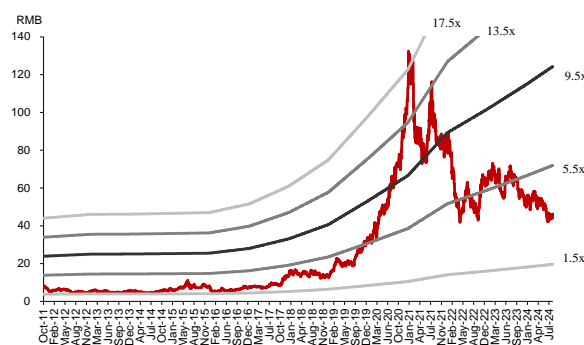
Figure 8: Key assumptions

(RMB mn)	2020	2021	2022	2023	2024E	2025E	2026E
Revenue							
Hydraulic cylinder	4,497	5,187	4,584	4,693	5,254	5,780	6,217
Hydraulic pump and valve	2,338	3,236	2,755	3,268	3,677	4,276	5,003
Hydraulic system	157	196	253	292	330	369	413
Component	845	677	574	672	706	762	823
Revenue (hydraulic business)	7,838	9,295	8,167	8,926	9,967	11,187	12,457
Other business	17	14	30	59	66	74	83
Total revenue	7,855	9,309	8,197	8,985	10,033	11,261	12,540
Revenue growth							
Hydraulic cylinder	27.0%	15.3%	-11.6%	2.4%	12.0%	10.0%	7.6%
Hydraulic pump and valve	85.2%	38.4%	-14.9%	18.6%	12.5%	16.3%	17.0%
Hydraulic system	82.9%	25.1%	29.1%	15.1%	13.0%	12.0%	12.0%
Component	68.8%	-20.0%	-15.2%	17.1%	5.0%	8.0%	8.0%
Revenue (hydraulic business)	45.4%	18.6%	-12.1%	9.3%	11.7%	12.2%	11.4%
Other business	-23.1%	-19.6%	119.1%	96.0%	12.0%	12.0%	12.0%
Total revenue	45.1%	18.5%	-12.0%	9.6%	11.7%	12.2%	11.4%
Gross margin							
Hydraulic cylinder	46.8%	44.2%	40.1%	41.2%	42.0%	42.1%	42.9%
Hydraulic pump and valve	52.3%	52.0%	48.2%	47.6%	47.0%	47.0%	47.0%
Hydraulic system	45.7%	45.2%	44.9%	38.7%	40.0%	42.0%	42.0%
Component	6.2%	3.5%	2.9%	15.9%	15.0%	15.0%	15.0%
Gross margin (hydraulic business)	44.0%	44.0%	40.4%	41.6%	41.9%	42.1%	42.6%
Other business	74.3%	70.9%	92.7%	91.1%	91.0%	90.0%	90.0%
Blended gross margin	44.1%	44.0%	40.6%	41.9%	42.2%	42.5%	43.0%

Source: Company data, CMBIGM estimates

Figure 9: Hengli's P/E band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 10: 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)						
Revenue	9,309	8,197	8,985	10,033	11,261	12,540
Cost of goods sold	(5,212)	(4,873)	(5,220)	(5,800)	(6,480)	(7,152)
Gross profit	4,097	3,324	3,765	4,233	4,781	5,388
Selling expense	(112)	(124)	(186)	(221)	(248)	(276)
Admin expense	(863)	(925)	(1,099)	(1,204)	(1,351)	(1,505)
Others	(125)	(116)	(150)	(140)	(151)	(163)
Operating profit	2,997	2,159	2,330	2,668	3,031	3,444
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	3,402	2,553	2,744	3,149	3,583	4,057
Depreciation	404	394	413	480	552	612
Interest income	39	352	382	330	313	358
Interest expense	(129)	(20)	(13)	(10)	(10)	(10)
Net Interest income/(expense)	(89)	332	369	320	303	348
Other income/expense	160	137	131	150	169	188
Pre-tax profit	3,068	2,629	2,830	3,139	3,503	3,980
Income tax	(369)	(280)	(326)	(377)	(420)	(478)
Minority interest	(5)	(6)	(5)	(6)	(6)	(7)
Adjusted net profit	2,694	2,343	2,499	2,757	3,076	3,496

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	9,146	12,327	12,994	14,365	15,821	18,030
Cash & equivalents	3,643	6,886	8,124	8,384	9,502	10,972
Account receivables	2,560	2,982	2,767	3,830	3,637	4,609
Inventories	1,607	1,766	1,692	1,740	2,272	2,039
Prepayment	160	141	156	156	156	156
Other current assets	1,177	552	255	255	255	255
Non-current assets	3,186	3,874	4,901	5,621	6,268	6,656
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
Total assets	12,332	16,201	17,896	19,986	22,089	24,686
Current liabilities	2,691	3,144	3,099	3,366	3,434	3,698
Short-term borrowings	597	329	203	203	203	203
Account payables	1,188	1,323	1,297	1,564	1,632	1,895
Tax payable	84	73	154	154	154	154
Other current liabilities	822	1,419	1,445	1,445	1,445	1,445
Non-current liabilities	402	379	353	353	353	353
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
Total liabilities	3,093	3,523	3,453	3,720	3,788	4,051
Total shareholders equity	9,196	12,630	14,391	16,209	18,238	20,565
Minority interest	44	48	52	57	63	70
Total equity and liabilities	12,332	16,201	17,896	19,986	22,089	24,686

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,068	2,629	2,830	3,139	3,503	3,980
Depreciation & amortization	404	394	413	480	552	612
Tax paid	(369)	(280)	(326)	(377)	(420)	(478)
Change in working capital	(472)	(476)	(225)	(844)	(270)	(476)
Others	164	(203)	(15)	10	10	10
Net cash from operations	2,796	2,064	2,677	2,409	3,375	3,649
Investing						
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
Net cash from investing	(932)	(80)	(3,051)	(1,200)	(1,200)	(1,000)
Financing						
Dividend paid	(783)	(953)	(831)	(939)	(1,047)	(1,169)
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)
Net cash from financing	(714)	949	(880)	(949)	(1,058)	(1,179)
Net change in cash						
Cash at the beginning of the year	2,777	3,643	6,886	8,124	8,384	9,502
Exchange difference	(284)	310	2,492	0	0	0
Cash at the end of the year	3,643	6,886	8,124	8,384	9,502	10,972
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	18.5%	(12.0%)	9.6%	11.7%	12.2%	11.4%
Gross profit	18.3%	(18.9%)	13.3%	12.4%	12.9%	12.7%
Operating profit	11.6%	(28.0%)	7.9%	14.5%	13.6%	13.6%
EBITDA	13.5%	(24.9%)	7.5%	14.8%	13.8%	13.2%
Adj. net profit	19.5%	(13.0%)	6.7%	10.3%	11.6%	13.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	44.0%	40.6%	41.9%	42.2%	42.5%	43.0%
Operating margin	32.2%	26.3%	25.9%	26.6%	26.9%	27.5%
EBITDA margin	36.5%	31.1%	30.5%	31.4%	31.8%	32.3%
Adj. net profit margin	28.9%	28.6%	27.8%	27.5%	27.3%	27.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
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	4.6	4.9
Receivable turnover days	103.2	123.4	116.8	120.0	121.0	120.0
Inventory turnover days	98.9	126.3	120.9	108.0	113.0	110.0
Payable turnover days	81.2	94.0	91.6	90.0	90.0	90.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	27.1	31.1	30.0	27.2	24.3	21.4
P/B	7.9	5.9	5.2	4.6	4.1	3.6
Div yield (%)	1.3	1.1	1.3	1.4	1.6	1.8

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. 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

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

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.