

Zhejiang Dingli (603338 CH)

Margin expansion in 23E; Volume growth in 24E

We believe the listing of **Horizon Construction (9930 HK, BUY)**, the major customer of Dingli in China market, will enhance the visibility of Dingli's AWP orders over the coming 1-2 years. Besides, we expect Dingli to deliver accelerating sales volume growth in 2024E upon the commencement of smart factory with annual capacity of 4,000 units of AWP. On the margin side, we expect Dingli to deliver meaningful gross margin expansion given the decline in freight rate and steel cost, as well as the appreciation of foreign currency against RMB. We revise up our earnings forecast by 2%/5% in 2023E/24E and raise our TP to RMB67, based on 23x 2023E P/E. Maintain **BUY**.

- Horizon Construction to boost its AWP fleet after the recent IPO.** Horizon Construction raised HK\$1.5bn (or ~RMB1.4bn) in May. We expect Horizon to boost its AWP fleet size by 15%/20% in 2023E/24E, through direct procurement or cooperation with external lease companies (for details, please see our report "*Horizon Construction – No.1 equipment operation service provider ready to capture the opportunities in AWP*" ([link](#))). We believe Dingli will be a key beneficiary, as Horizon has long been a key customer (Based on our calculation, revenue from Horizon accounted for 11%/34% of Dingli's total /China revenue in 2022).
- New capacity to drive growth in 2024E.** The main construction work of Dingli's new smart factory has just been completed and the manufacturing equipment is now at the testing stage. The factory is mainly for the production of boom lifts (36-50 metres) and scissor lifts (33-36 metres). We expect the factory will commence operation starting from 2024E. We believe sales volume growth will accelerate.
- Raise earnings forecast by 2%/5% in 2023E/24E.** We revise down our revenue forecast by ~17% in 2023E-24E as we previously modelled some contribution from new capacity starting from 2023E. That said, we revise up our gross margin assumption by 4-5ppt in 2023E/24E given the decline in freight rate and steel price. Besides, the appreciation of USD and EUR against RMB since early this year will enhance Dingli's margin. All in all, our earnings forecast is revised up.
- Higher multiple to reflect growth acceleration.** We revise up our TP to RMB67, based on 23x 2023E P/E (previously 25x 2022E), on the back of 23% earnings growth in 2024E. Our target multiple remains well below the historical average of 31x.
- Key risks:** (1) Further intensified competition in China AWP market; (2) sharp rebound of RMB rate.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,939	5,445	6,251	7,488	8,620
YoY growth (%)	67.1	10.2	14.8	19.8	15.1
Net profit (RMB mn)	884.5	1,257.2	1,471.6	1,814.3	2,136.1
EPS (Reported) (RMB)	1.82	2.48	2.91	3.58	4.22
YoY growth (%)	33.2	36.3	17.0	23.3	17.7
Consensus EPS (RMB)	na	na	2.96	3.50	4.10
P/E (x)	31.1	22.8	19.5	15.8	13.4
P/B (x)	4.8	4.1	3.5	2.9	2.5
Yield (%)	0.6	0.9	1.0	1.3	1.5
ROE (%)	18.2	19.3	19.2	20.1	20.0
Net gearing (%)	(39.1)	(28.4)	(36.1)	(43.2)	(47.5)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB67.00
(Previous TP)	RMB59.50
Up/Downside	18.2%
Current Price	RMB56.66

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Stock Data

Mkt Cap (RMB mn)	28,641.4
Avg 3 mths t/o (RMB mn)	173.3
52w High/Low (RMB)	60.87/34.65
Total Issued Shares (mn)	506.3

Source: FactSet

Shareholding Structure

XU Shugen	45.5%
Deqing Zhongding Equity	11.6%
Investment Manag	

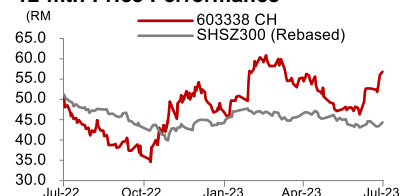
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	17.3%	16.4%
3-mth	3.9%	9.5%
6-mth	20.8%	20.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

China Construction Machinery - Near-term recovery more seasonal than structural; Pair trade opportunities – 27 Feb 2023 ([link](#))

China Construction Machinery – Upbeat guidance from US AWP manufacturers reaffirms our positive stance on the sector – 13 Feb 2023 ([link](#))

Prefer AWP to excavator in the near term – 12 Jan 2023 ([link](#))

China Construction Machinery & HDT Sector – 2023 outlook: Difficulties mastered are opportunities won – 7 Dec 2022 ([link](#))

Zhejiang Dingli (603338 CH, BUY) – 3Q22 earnings +36% YoY better than expectation; Raise earnings and TP on margin recovery – 31 Oct 2022 ([link](#))

Figure 1: Change in key assumptions for Dingli

	Old			New			Change		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
(RMB mn)									
Revenue									
Boom lifts	2,310	2,956	-	1,636	2,230	2,852	-29.2%	-24.6%	-
Scissor lifts	4,697	5,401	-	3,857	4,419	4,880	-17.9%	-18.2%	-
Vertical lifts	323	356	-	566	632	695	75.1%	77.7%	-
Revenue (core business)	7,330	8,713	-	6,059	7,280	8,427	-17.3%	-16.4%	-
Other business	223	269	-	192	208	193	-14.0%	-22.6%	-
Total revenue	7,553	8,982	-	6,251	7,488	8,620	-17.2%	-16.6%	-
Gross margin							<i>ppt</i>		
Boom lifts	22.0%	23.0%	-	25.0%	29.0%	31.5%	3.0	6.0	-
Scissor lifts	32.5%	32.5%	-	36.5%	37.0%	37.0%	4.0	4.5	-
Vertical lifts	37.5%	37.5%	-	36.5%	37.0%	37.0%	-1.0	-0.5	-
Gross margin (core business)	29.4%	29.5%	-	33.4%	34.5%	35.1%	4.0	5.1	-
Other business	67.0%	67.0%	-	70.0%	70.0%	70.0%	3.0	3.0	-
Blended gross margin	30.5%	30.6%	-	34.5%	35.5%	35.9%	4.0	4.9	-
S&D expense ratio	-2.8%	-2.8%	-	-2.9%	-2.9%	-2.9%	-0.1	-0.1	-
Admin expense ratio	-1.7%	-1.7%	-	-2.2%	-2.2%	-2.1%	-0.5	-0.5	-
R&D expense ratio	-4.2%	-4.1%	-	-3.5%	-3.5%	-3.5%	0.7	0.6	-
Net finance income	48	53	-	71	54	81	47.8%	3.8%	-
Net profit	1,442	1,725	-	1,472	1,814	2,136	2.0%	5.2%	-

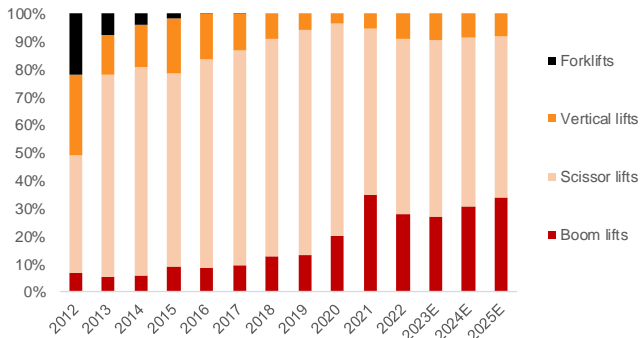
Source: Company data, CMBIGM estimates

Figure 2: Key operating assumptions for Dingli

	2021	2022	2023E	2024E	2025E
Sales volume (units)					
Boom lifts	3,954	3,511	3,932	5,309	6,742
Scissor lifts	44,112	46,262	53,201	60,117	66,129
Vertical lifts	3,610	7,477	8,449	9,294	10,223
Total (lifts)	51,676	57,250	65,583	74,720	83,094
Growth rate					
Boom lifts	182.6%	-11.2%	12.0%	35.0%	27.0%
Scissor lifts	27.5%	4.9%	15.0%	13.0%	10.0%
Vertical lifts	74.4%	107.1%	13.0%	10.0%	10.0%
Total (lifts)	35.8%	10.8%	14.6%	13.9%	11.2%
ASP (RMB/unit)					
Boom lifts	416,207	414,084	416,000	420,000	423,000
Scissor lifts	64,529	71,221	72,500	73,500	73,800
Vertical lifts	72,931	64,112	67,000	68,000	68,000
(RMB mn)					
Revenue					
Boom lifts	1,646	1,454	1,636	2,230	2,852
Scissor lifts	2,847	3,295	3,857	4,419	4,880
Vertical lifts	263	479	566	632	695
Revenue (core business)	4,755	5,228	6,059	7,280	8,427
Other business	184	217	192	208	193
Total revenue	4,939	5,445	6,251	7,488	8,620
Gross margin					
Boom lifts	18.2%	20.6%	25.0%	29.0%	31.5%
Scissor lifts	32.5%	32.6%	36.5%	37.0%	37.0%
Vertical lifts	38.4%	34.0%	36.5%	37.0%	37.0%
Gross margin (core business)	27.8%	29.4%	33.4%	34.5%	35.1%
Other business	67.8%	70.2%	70.0%	70.0%	70.0%
Average gross margin	29.3%	31.0%	34.5%	35.5%	35.9%

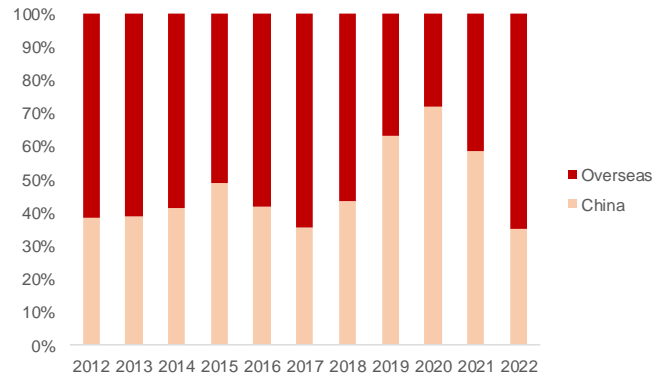
Source: Company data, CMBIGM estimates

Figure 3: Dingli's revenue breakdown by product



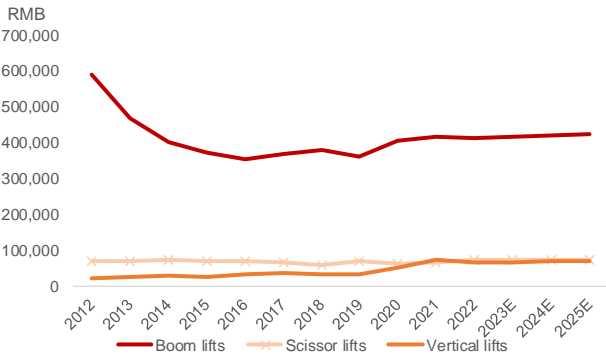
Source: Company data, CMBIGM estimates

Figure 4: Dingli's revenue breakdown by region



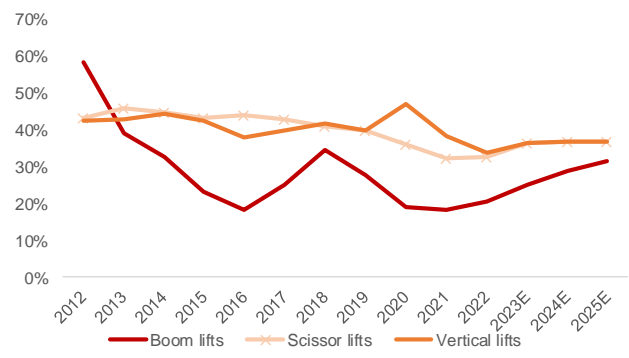
Source: Company data, CMBIGM

Figure 5: Dingli's ASP trend



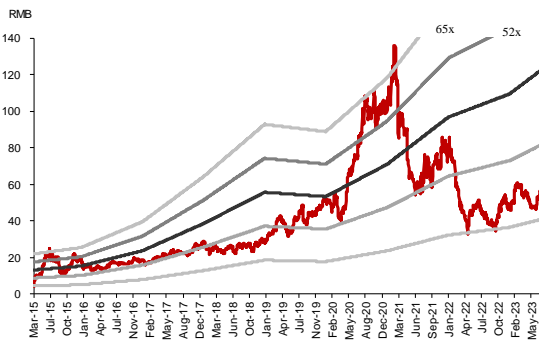
Source: Company data, CMBIGM estimates

Figure 6: Gross margin trend



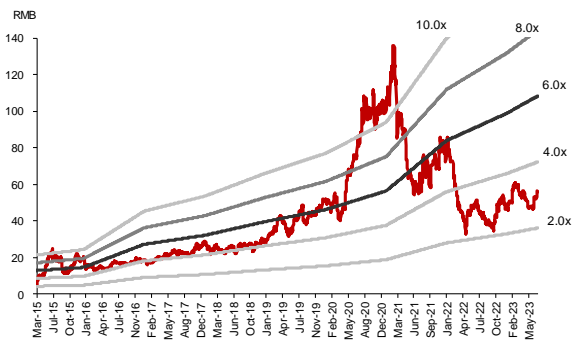
Source: Company data, CMBIGM

Figure 7: Dingli 12M forward P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 8: 12M forward P/B band



Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	2,957	4,939	5,445	6,251	7,488	8,620
Cost of goods sold	(1,925)	(3,490)	(3,755)	(4,093)	(4,827)	(5,524)
Gross profit	1,032	1,449	1,690	2,158	2,661	3,096
Operating expenses	(268)	(401)	(547)	(600)	(700)	(802)
Selling expense	(100)	(111)	(158)	(181)	(217)	(250)
Admin expense	(57)	(88)	(123)	(138)	(161)	(181)
R&D expense	(105)	(155)	(202)	(219)	(262)	(302)
Others	(6)	(47)	(64)	(63)	(60)	(69)
Operating profit	764	1,048	1,143	1,558	1,961	2,294
Other gains/(losses)	45	40	64	63	75	86
Share of (losses)/profits of associates/JV	11	1	20	20	20	22
EBITDA	41	77	101	138	165	192
Depreciation	41	77	101	138	165	192
Interest income	12	16	250	120	101	124
Interest expense	(59)	(85)	(17)	(48)	(46)	(43)
Net Interest income/(expense)	(46)	(69)	233	71	54	81
Pre-tax profit	773	1,021	1,460	1,711	2,110	2,484
Income tax	(109)	(137)	(203)	(240)	(295)	(348)
After tax profit	664	884	1,257	1,472	1,814	2,136
Minority interest	0	0	0	0	0	0
Net profit	664	884	1,257	1,472	1,814	2,136
BALANCE SHEET						
	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	4,147	7,394	8,821	9,323	11,477	12,727
Cash & equivalents	1,191	3,514	3,522	4,455	5,604	6,767
Account receivables	1,249	2,293	3,094	2,934	3,549	3,772
Inventories	942	1,387	1,795	1,524	1,914	1,778
Prepayment	32	42	9	9	9	9
Other current assets	733	157	401	401	401	401
Non-current assets	1,722	2,181	2,980	3,529	3,746	4,007
PP&E	722	828	947	1,317	1,460	1,576
Deferred income tax	2	12	30	30	30	30
Investment in JVs & assos	119	108	121	141	160	182
Intangibles	158	234	396	388	379	371
Other non-current assets	722	999	1,486	1,653	1,716	1,848
Total assets	5,869	9,574	11,802	12,851	15,223	16,735
Current liabilities	1,891	3,144	3,753	3,584	4,485	4,274
Short-term borrowings	303	873	777	727	677	627
Account payables	1,223	1,868	2,381	2,262	3,213	3,052
Tax payable	102	165	225	225	225	225
Other current liabilities	194	220	341	341	341	341
Contract liabilities	69	18	29	29	29	29
Non-current liabilities	233	452	984	984	934	884
Long-term borrowings	121	302	740	740	690	640
Deferred income	95	108	183	183	183	183
Other non-current liabilities	18	42	61	61	61	61
Total liabilities	2,125	3,596	4,737	4,568	5,419	5,158
Total shareholders equity	3,744	5,978	7,065	8,284	9,804	11,577
Minority interest	0	0	0	0	0	0
Total equity and liabilities	5,869	9,574	11,802	12,851	15,223	16,735

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	773	1,021	1,460	1,711	2,110	2,484
Depreciation & amortization	41	77	101	138	165	192
Tax paid	(144)	(164)	(260)	(240)	(295)	(348)
Change in working capital	163	(687)	(211)	145	(116)	(380)
Others	58	126	(154)	(91)	(74)	(103)
Net cash from operations	892	374	937	1,664	1,789	1,845
Investing						
Capital expenditure	(234)	(340)	(819)	(500)	(300)	(300)
Others	(474)	271	(402)	120	101	124
Net cash from investing	(707)	(69)	(1,222)	(380)	(199)	(176)
Financing						
Dividend paid	(121)	(126)	(172)	(253)	(294)	(363)
Net borrowings	(55)	746	266	(50)	(100)	(100)
Proceeds from share issues	0	1,482	0	0	0	0
Others	(16)	(33)	(49)	(48)	(46)	(43)
Net cash from financing	(192)	2,069	45	(352)	(440)	(506)
Net change in cash						
Cash at the beginning of the year	874	1,191	3,514	3,522	4,455	5,604
Exchange difference	325	(50)	248	0	0	0
Cash at the end of the year	1,191	3,514	3,522	4,455	5,604	6,767
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	23.7%	67.1%	10.2%	14.8%	19.8%	15.1%
Gross profit	8.4%	40.4%	16.7%	27.7%	23.3%	16.4%
Operating profit	11.3%	37.2%	9.1%	36.2%	25.9%	17.0%
EBITDA	44.0%	89.1%	31.2%	36.8%	19.5%	16.3%
Net profit	(4.3%)	33.2%	42.1%	17.0%	23.3%	17.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	34.9%	29.3%	31.0%	34.5%	35.5%	35.9%
Operating margin	25.8%	21.2%	21.0%	24.9%	26.2%	26.6%
EBITDA margin	1.4%	1.6%	1.9%	2.2%	2.2%	2.2%
Return on equity (ROE)	19.1%	18.2%	19.3%	19.2%	20.1%	20.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)
Current ratio (x)	2.2	2.4	2.4	2.6	2.6	3.0
Receivable turnover days	158.9	130.9	180.6	176.0	158.0	155.0
Inventory turnover days	133.0	121.8	154.7	148.0	130.0	122.0
Payable turnover days	190.2	161.6	206.5	207.0	207.0	207.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	31.1	22.8	19.6	19.5	15.8	13.4
P/B	4.8	4.1	3.5	3.5	2.9	2.5
Div yield (%)	0.6	0.9	1.0	1.0	1.3	1.5

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

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