

# Zhejiang Dingli (603338 CH)

## Record high quarterly profit in 2Q23E

Over the weekend, Dingli announced that the net profit in 1H23E is expected to increase 40-60% YoY to RMB803-918mn. This implies a record high quarterly net profit of RMB484-599mn in 2Q23E (up 28-58%), which we think is slightly better than expectations. As highlighted in our report “*Margin expansion in 23E; Volume growth in 24E*” on 5 Jul, Dingli is a beneficiary of the decline in freight rate and steel cost, as well as the appreciation of foreign currency against RMB. Looking forward, we expect Dingli to deliver accelerating sales volume growth in 2024E upon the commencement of the smart factory. We maintain our TP of RMB67, based on 23x 2023E P/E, on the back of 23% earnings growth in 2024E. Our target multiple remains well below the historical average of 31x. Maintain **BUY**.

- Reasons for the profit surprise in 1H23E.** Dingli’s estimated net profit of RMB803-918mn in 1H23E accounts for 58-62% of our full year forecast. We believe Dingli, with an estimated 50%+ of overseas revenue, recorded a relatively large fx gains given the weakness of RMB in 2Q23. Besides, we expect a continuous expansion of gross margin due to the decline in freight rate and steel price. On the product side, the transformation of electric and intelligent AWP models helped expand the overseas market.
- New capacity to drive growth in 2024E.** The main construction work of Dingli’s new smart factory has recently 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 2024E.
- Earnings forecast unchanged.** We expect the earnings in 2H23E will be driven by a resilient export and potential recovery of China’s demand, in particular after the listing of **Horizon Construction (9930 HK, BUY)**, Dingli’s major customer in China. That said, we do not expect a further sharp depreciation of RMB to drive fx gains in 2H23E (versus a large fx gain in 2H22). We maintain our forecast at the moment and will update our assumptions after the release of the full set of 1H23 results in Aug.
- Key risks:** (1) Further intensified competition in China AWP market; (2) Unexpected slowdown of overseas demand; (3) 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)

<b>Target Price</b>	<b>RMB67.00</b>
(Previous TP)	RMB67.00)
<b>Up/Downside</b>	<b>17.6%</b>
<b>Current Price</b>	<b>RMB56.94</b>

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### Stock Data

Mkt Cap (RMB mn)	28,831
Avg 3 mths t/o (RMB mn)	173
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	

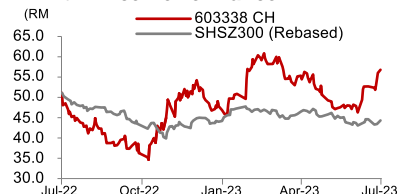
Source: HKEx

### 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:

Zhejiang Dingli (603338 CH, BUY) – Margin expansion in 23E; Volume growth in 2024E – 5 Jul 2023 ([link](#))

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](#))

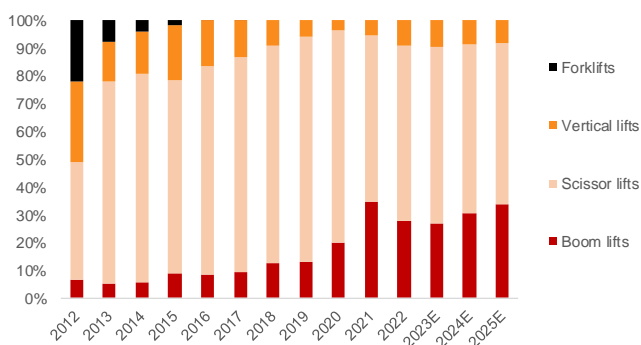
Prefer AWP to excavator in the near term – 12 Jan 2023 ([link](#))

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

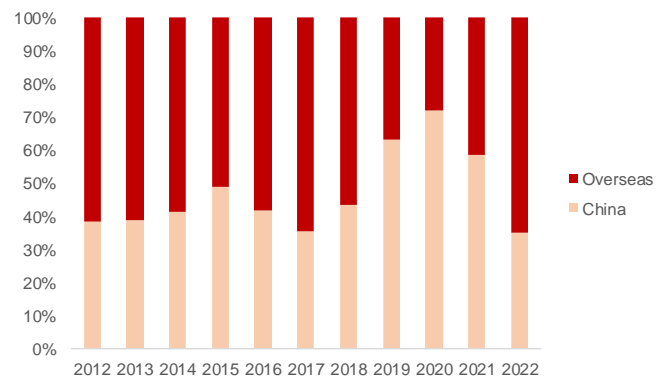
**Figure 1: Key operating assumptions for Dingli**

	2021	2022	2023E	2024E	2025E
<b>Sales volume (units)</b>					
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
<b>Total (lifts)</b>	<b>51,676</b>	<b>57,250</b>	<b>65,583</b>	<b>74,720</b>	<b>83,094</b>
<b>Growth rate</b>					
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%
<b>Total (lifts)</b>	<b>35.8%</b>	<b>10.8%</b>	<b>14.6%</b>	<b>13.9%</b>	<b>11.2%</b>
<b>ASP (RMB/unit)</b>					
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
<b>(RMB mn)</b>					
<b>Revenue</b>					
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
<b>Revenue (core business)</b>	<b>4,755</b>	<b>5,228</b>	<b>6,059</b>	<b>7,280</b>	<b>8,427</b>
Other business	184	217	192	208	193
<b>Total revenue</b>	<b>4,939</b>	<b>5,445</b>	<b>6,251</b>	<b>7,488</b>	<b>8,620</b>
<b>Gross margin</b>					
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%
<b>Gross margin (core business)</b>	<b>27.8%</b>	<b>29.4%</b>	<b>33.4%</b>	<b>34.5%</b>	<b>35.1%</b>
Other business	67.8%	70.2%	70.0%	70.0%	70.0%
<b>Average gross margin</b>	<b>29.3%</b>	<b>31.0%</b>	<b>34.5%</b>	<b>35.5%</b>	<b>35.9%</b>

Source: Company data, CMBIGM estimates

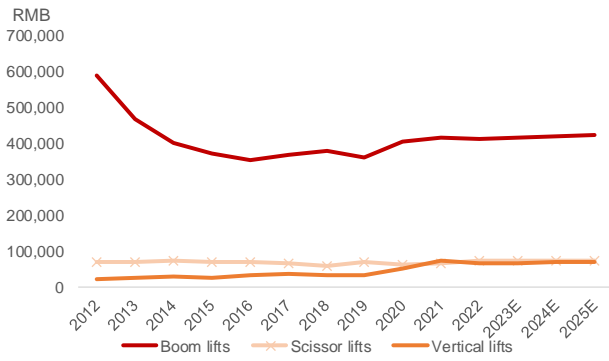
**Figure 2: Dingli's revenue breakdown by product**

Source: Company data, CMBIGM estimates

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

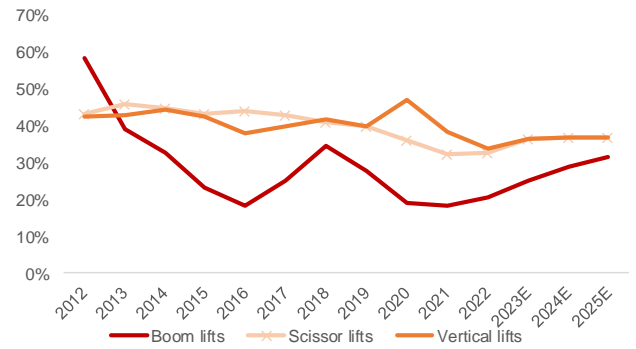
Source: Company data, CMBIGM

**Figure 4: Dingli's ASP trend**



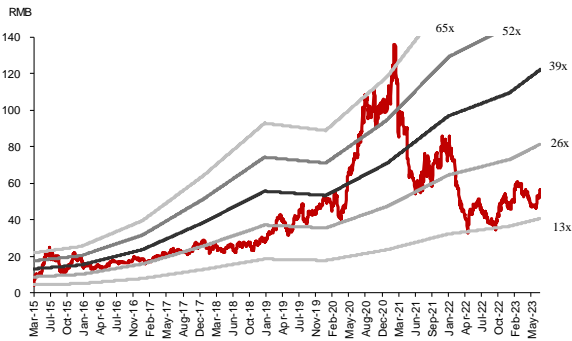
Source: Company data, CMBIGM estimates

**Figure 5: Gross margin trend**



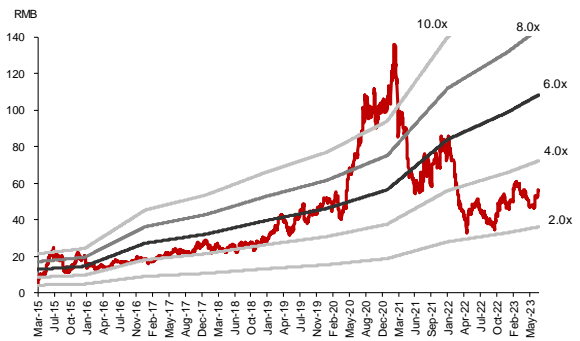
Source: Company data, CMBIGM

**Figure 6: Dingli's 12M forward P/E band**



Source: Bloomberg, Company data, CMBIGM estimates

**Figure 7: Dingli's 12M forward P/B band**



Source: Bloomberg, Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
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)
<b>Gross profit</b>	<b>1,032</b>	<b>1,449</b>	<b>1,690</b>	<b>2,158</b>	<b>2,661</b>	<b>3,096</b>
<b>Operating expenses</b>	<b>(268)</b>	<b>(401)</b>	<b>(547)</b>	<b>(600)</b>	<b>(700)</b>	<b>(802)</b>
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)
<b>Operating profit</b>	<b>764</b>	<b>1,048</b>	<b>1,143</b>	<b>1,558</b>	<b>1,961</b>	<b>2,294</b>
Other gains/(losses)	45	40	64	63	75	86
Share of (losses)/profits of associates/JV	11	1	20	20	20	22
<b>EBITDA</b>	<b>41</b>	<b>77</b>	<b>101</b>	<b>138</b>	<b>165</b>	<b>192</b>
Depreciation	41	77	101	138	165	192
Interest income	12	16	250	120	101	124
Interest expense	(59)	(85)	(17)	(48)	(46)	(43)
<b>Net Interest income/(expense)</b>	<b>(46)</b>	<b>(69)</b>	<b>233</b>	<b>71</b>	<b>54</b>	<b>81</b>
<b>Pre-tax profit</b>	<b>773</b>	<b>1,021</b>	<b>1,460</b>	<b>1,711</b>	<b>2,110</b>	<b>2,484</b>
Income tax	(109)	(137)	(203)	(240)	(295)	(348)
<b>After tax profit</b>	<b>664</b>	<b>884</b>	<b>1,257</b>	<b>1,472</b>	<b>1,814</b>	<b>2,136</b>
Minority interest	0	0	0	0	0	0
<b>Net profit</b>	<b>664</b>	<b>884</b>	<b>1,257</b>	<b>1,472</b>	<b>1,814</b>	<b>2,136</b>
<b>BALANCE SHEET</b>						
	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>4,147</b>	<b>7,394</b>	<b>8,821</b>	<b>9,323</b>	<b>11,477</b>	<b>12,727</b>
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
<b>Non-current assets</b>	<b>1,722</b>	<b>2,181</b>	<b>2,980</b>	<b>3,529</b>	<b>3,746</b>	<b>4,007</b>
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
<b>Total assets</b>	<b>5,869</b>	<b>9,574</b>	<b>11,802</b>	<b>12,851</b>	<b>15,223</b>	<b>16,735</b>
<b>Current liabilities</b>	<b>1,891</b>	<b>3,144</b>	<b>3,753</b>	<b>3,584</b>	<b>4,485</b>	<b>4,274</b>
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
<b>Non-current liabilities</b>	<b>233</b>	<b>452</b>	<b>984</b>	<b>984</b>	<b>934</b>	<b>884</b>
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
<b>Total liabilities</b>	<b>2,125</b>	<b>3,596</b>	<b>4,737</b>	<b>4,568</b>	<b>5,419</b>	<b>5,158</b>
<b>Total shareholders equity</b>	<b>3,744</b>	<b>5,978</b>	<b>7,065</b>	<b>8,284</b>	<b>9,804</b>	<b>11,577</b>
Minority interest	0	0	0	0	0	0
<b>Total equity and liabilities</b>	<b>5,869</b>	<b>9,574</b>	<b>11,802</b>	<b>12,851</b>	<b>15,223</b>	<b>16,735</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
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)
<b>Net cash from operations</b>	<b>892</b>	<b>374</b>	<b>937</b>	<b>1,664</b>	<b>1,789</b>	<b>1,845</b>
<b>Investing</b>						
Capital expenditure	(234)	(340)	(819)	(500)	(300)	(300)
Others	(474)	271	(402)	120	101	124
<b>Net cash from investing</b>	<b>(707)</b>	<b>(69)</b>	<b>(1,222)</b>	<b>(380)</b>	<b>(199)</b>	<b>(176)</b>
<b>Financing</b>						
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)
<b>Net cash from financing</b>	<b>(192)</b>	<b>2,069</b>	<b>45</b>	<b>(352)</b>	<b>(440)</b>	<b>(506)</b>
<b>Net change in cash</b>						
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
<b>Cash at the end of the year</b>	<b>1,191</b>	<b>3,514</b>	<b>3,522</b>	<b>4,455</b>	<b>5,604</b>	<b>6,767</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
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%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
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%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
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
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
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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<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
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