

Zhejiang Dingli (603338 CH)

2Q23 earnings +35% YoY in line; Boom lift in overseas the upcoming driver

Dingli's net profit in 1H23 grew 45% YoY to RMB831mn, close to the low end of the estimated profit growth of 40-60% announced in mid-Jul. That said, we believe it could be due to the fluctuation of fair value of investment (-RMB64mn) which is non-operational. The results in 1H23 imply record high quarterly net profit of RMB512mn in 2Q23 (+35% YoY). Dingli has identified the overseas, in particular the US, as the key market for its electric, high performing and high margin boom lifts, which will serve as a profitable growth driver in the future. We believe the clear strategic position will help Dingli to differentiate itself from peers. 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. Reiterate **BUY**. Dingli remains one of the key picks in our universe.

- **An outstanding set of results in 1H23.** Revenue grew 5% YoY to RMB3.1bn in 1H23, driven by the 13% YoY increase in overseas revenue (63% of total revenue). Gross margin expanded 6.4ppt YoY to 34.4%, driven by decline in freight rate and raw materials cost, as well as depreciation of RMB rate. Net finance income surged 147% YoY to RMB216mn, helped by RMB155mn FX gain (+95% YoY). Net profit grew 45% YoY to RMB831mn.
- **Record high quarterly profit in 2Q23.** Revenue grew 6% YoY to RMB1.79bn. Gross margin expanded 5.1ppt YoY to 32.1% in 2Q23. While such margin level is lower than that achieved in 1Q23 (37.6%), it was largely due to the relatively low contribution from China market in 1Q23 (gross margin in China has been 10ppt lower than that in overseas). Net finance income surged 116% YoY to RMB223mn, helped by the depreciation of RMB. Net profit grew 35% YoY to RMB512mn. Operating cash inflow surged 2x YoY to RMB611mn.
- **Boom lift in overseas will be the key growth driver.** Boom lift contributed 38% of the total revenue in 1H23 (up from 28% in 1H22). In particular, boom lift's overseas revenue surged 89% YoY in 1H23. Gross margin of boom lift expanded 5.6ppt YoY to 25.25%. Going forward, Dingli expects its new boom lift model will be a key driver in the US. With a backlog of ~300 units (1st batch) at present, Dingli expects the delivery to the US will happen in 4Q23E. Dingli believes that the gross margin will be higher than that in China even taking into consideration the anti-dumping and countervailing duties. Dingli expects rising overseas contribution of boom lift (40% in 1H23) will fuel both the revenue and gross margin in future.

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)	31.8	23.3	19.9	16.2	13.7
P/B (x)	4.9	4.2	3.5	3.0	2.5
Yield (%)	0.6	0.9	1.0	1.2	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) RMB67.00)

Up/Downside 15.7%

Current Price RMB57.91

China Capital Goods

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Katherine NG

(852) 3761 8725

katherineng@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	29,319.8
Avg 3 mths t/o (RMB mn)	186.0
52w High/Low (RMB)	61.65/34.65
Total Issued Shares (mn)	506.3

Source: FactSet

Shareholding Structure

XU Shugen	45.5%
Deqing Zhongding Equity	11.6%
Investment Manag	

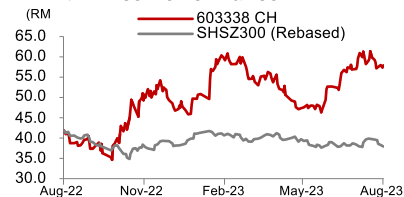
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.6%	2.9%
3-mth	21.7%	26.3%
6-mth	-2.1%	6.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

Zhejiang Dingli (603338 CH), BUY) – Record high quarterly profit in 2Q23E – 17 Jul 2023 ([link](#))

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](#))

Figure 1: Dingli's quarterly results

(RMB mn)	1Q22	1Q23	Chg YoY	2Q22	2Q23	Chg YoY	3Q21	3Q22	Chg YoY	4Q21	4Q22	Chg YoY
Total revenue	1,253	1,302	3.9%	1,691	1,797	6.2%	1,418	1,224	-13.7%	944	1,277	35.3%
Cost of sales	-887	-812	-8.4%	-1,234	-1,220	-1.1%	-1,042	-828	-20.6%	-623	-806	29.3%
Gross profit	366	489	33.7%	457	577	26.1%	376	396	5.3%	320	471	47.0%
Other income	-2	-8	305.1%	-6	-7	14.2%	-4	-1	-80.4%	-7	-3	-53.3%
S&D expenses	-36	-42	16.1%	-39	-55	40.9%	-36	-46	29.2%	-23	-36	55.4%
Administrative expenses	-35	-33	-7.7%	-29	-43	48.2%	-27	-38	38.1%	-18	-21	14.4%
R&D expense	-39	-40	3.4%	-49	-70	43.1%	-22	-61	183.9%	-72	-53	-27.0%
Asset impairment	-13	-3	-74.5%	-18	-44	142.9%	-13	5	n/a	11	-25	n/a
EBIT	240	363	51.3%	315	356	13.0%	274	255	-7.1%	210	334	58.7%
Net finance income/(cost)	-16	-7	-54.6%	103	223	116.4%	-8	74	n/a	-59	71	n/a
Other gains/(losses)	5	21	314.8%	26	7	-74.1%	6	19	210.9%	8	13	68.5%
Share of profit of JV and associates	2	9	314.6%	2	23	1042.9%	-7	14	n/a	-1	2	n/a
Pretax profit	231	386	66.6%	446	609	36.5%	265	362	36.7%	158	420	165.4%
Income tax	-36	-66	85.2%	-68	-97	42.8%	-42	-60	42.9%	-4	-39	967.2%
After tax profit	196	319	63.2%	378	512	35.4%	223	302	35.5%	155	381	146.4%
MI	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
Net profit	196	319	63.2%	378	512	35.4%	223	302	35.5%	155	381	146.4%
			ppt			ppt			ppt			ppt
<i>Gross margin</i>	29.2%	37.6%	8.4	27.0%	32.1%	5.1	26.5%	32.4%	5.8	34.0%	36.9%	2.9
<i>S&D expense ratio</i>	2.9%	3.2%	0.3	2.3%	3.1%	0.8	2.5%	3.8%	1.3	2.4%	2.8%	0.4
<i>Administrative expense ratio</i>	2.8%	2.5%	-0.3	1.7%	2.4%	0.7	1.9%	3.1%	1.2	2.0%	1.6%	-0.3
<i>R&D expense ratio</i>	3.1%	3.1%	0.0	2.9%	3.9%	1.0	1.5%	5.0%	3.5	7.7%	4.1%	-3.5
<i>Effective tax rate</i>	15.4%	17.2%	1.7	15.2%	15.9%	0.7	15.8%	16.5%	0.7	2.3%	9.3%	7.0

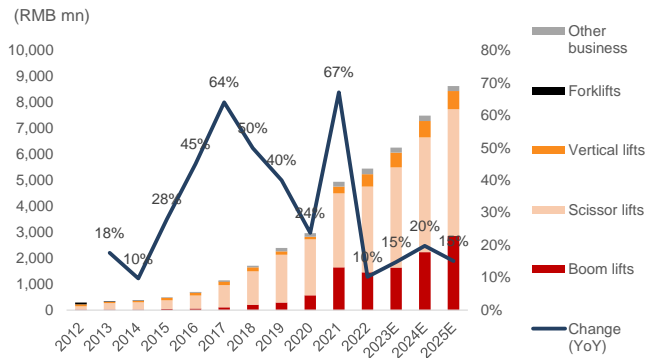
Source: Company data, CMBIGM estimates

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)	2021	2022	2023E	2024E	2025E
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%

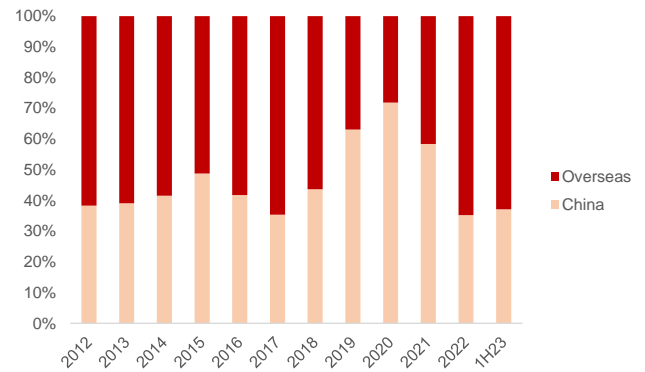
Source: Company data, CMBIGM estimates

Figure 3: Dingli's revenue breakdown by product



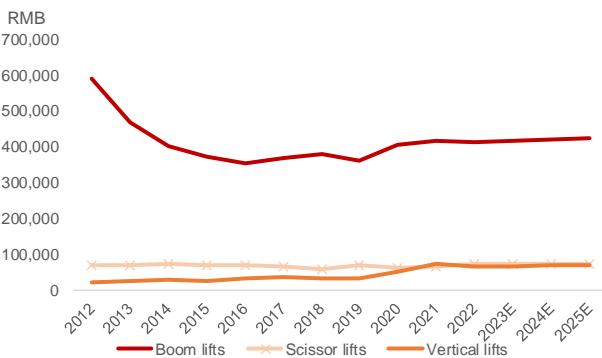
Source: Company data, CMBIGM estimates

Figure 4: Dingli's revenue breakdown by region



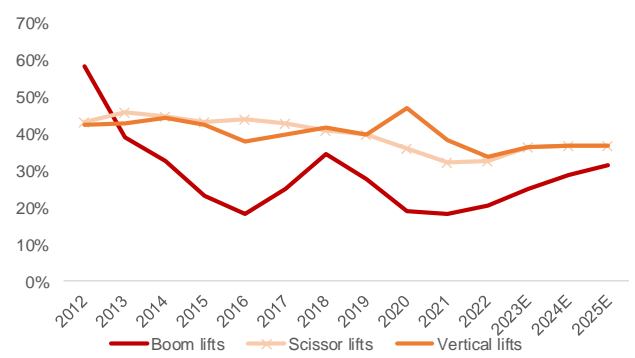
Source: Company data, CMBIGM

Figure 5: Dingli's ASP trend



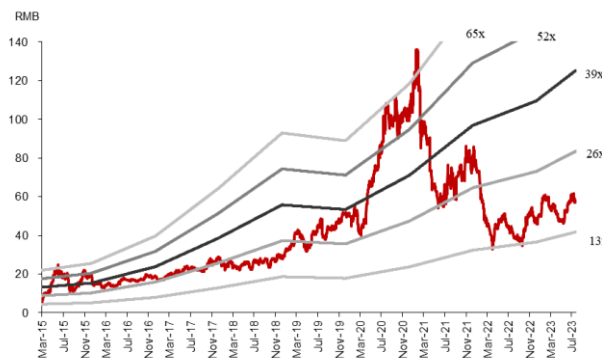
Source: Company data, CMBIGM estimates

Figure 6: Gross margin trend



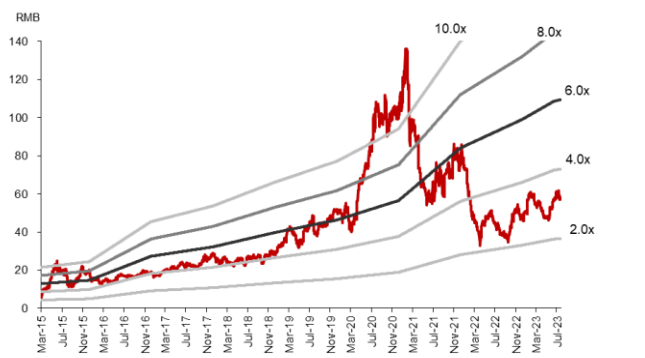
Source: Company data, CMBIGM

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



Source: Bloomberg, Company data, CMBIGM estimates

Figure 8: Dingli's 12M forward P/B band



Source: Bloomberg, Company data, CMBIGM estimates

Key risks: (1) Further intensified competition in China AWP market; (2) Unexpected slowdown of overseas demand; (3) sharp rebound of RMB rate.

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
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%
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%
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	42.3	31.8	23.3	19.9	16.2	13.7
P/B	7.5	4.9	4.2	3.5	3.0	2.5
Div yield (%)	0.4	0.6	0.9	1.0	1.2	1.5

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 CMBIS 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.