

# Jiangsu Hengli (601100 CH)

## 2Q23 earnings +24%; Gross margin below expectations but likely rebounds

Hengli's net profit in 2Q23 grew 24% YoY to RMB653mn, with growth accelerated from 18% in 1Q23. That said, we do not see this as high quality growth as it was largely driven by FX gain that offset a surprisingly decline in gross margin (-4 ppt YoY). While the overall hydraulic components demand remained weak in Jul and Aug, we expect the gross margin to recover from 2Q as we understand that Hengli reduced the discount offered to customers. We trim our earnings forecast in 2023E/24E by 8%/9% on lower volume and gross margin. Our TP is revised down to RMB83, based on unchanged 42x 2023E P/E (1SD above the 4-year average of 30x to reflect the acceleration of earnings growth). We continue to like Hengli as we expect the commencement of hydraulic components production base in Mexico to help speed up the penetration in the US market. Besides, the expansion in ball screw (a key component of robots) will serve as a new growth driver.

■ **Earnings growth in 2Q23 driven by largely by fx gain.** Revenue in 2Q23 grew 20% YoY to RMB2bn, accelerated from 10% in 1Q23 due to low base effect. Gross margin, to our surprise, contracted 4ppt YoY and 4.1ppt HoH to 36.8%, due to more discounts offered to customers. This resulted in 2.5% YoY decline in EBIT. Helped by the depreciation of RMB, net finance income grew 60% YoY to RMB292mn. Net profit therefore grew 24% YoY to RMB653mn.

■ **Key highlights in 1H23 results.** Sales volume hydraulic cylinder (for excavator) increased 1% YoY to 322k units. Sales volume of non-excavator cylinder grew 18% YoY to 114k units, driven by marine, AWP and industrial applications. Total revenue/net profit in 1H23 grew 14%/21% YoY to RMB4.45bn/1.28bn. Operating cash inflow slightly dropped 5% YoY to RMB991mn.

■ **On-track development of ball screw product.** A ball screw is a mechanical linear actuator that translates rotational motion to linear motion with little friction. Ball screws can be used to drive changes in the vertical and horizontal orientation of robot arms. Hengli's ball screw product is currently at the trial stage. The first batch production equipment is expected to be arrived in Sep. Upon a full commencement of phase 1 capacity, the annual output value is expected to be RMB400-500mn.

■ **Risk factors:** (1) further weakness in the demand for hydraulic components for excavators; (2) lack of recovery of gross margin

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	9,309	8,197	9,424	10,611	11,627
YoY growth (%)	18.5	(12.0)	15.0	12.6	9.6
Adjusted net profit (RMB mn)	2,693.6	2,342.7	2,635.9	3,152.6	3,591.5
EPS (Reported) (RMB)	2.06	1.79	1.97	2.35	2.68
YoY growth (%)	19.5	(13.0)	9.5	19.6	13.9
Consensus EPS (RMB)	na	0.00	2.00	2.41	2.86
P/E (x)	30.6	32.2	32.1	26.8	23.6
P/B (x)	9.0	6.1	5.9	5.1	4.4
Yield (%)	1.2	1.1	1.1	1.3	1.5
Net gearing (%)	(32.6)	(51.9)	(53.2)	(54.3)	(60.1)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB83.00

(Previous TP) RMB90.00

**Up/Downside** 31.5%

**Current Price** RMB63.10

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### Stock Data

Mkt Cap (RMB mn)	84,605.7
Avg 3 mths t/o (RMB mn)	309.3
52w High/Low (RMB)	73.10/42.90
Total Issued Shares (mn)	1340.8

Source: FactSet

### Shareholding Structure

WANG's family	66.7%
CCASS (Hong Kong)	11.5%

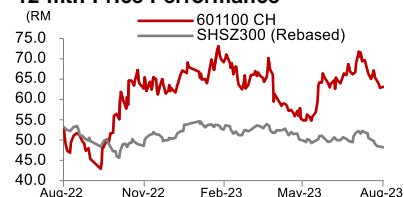
Source: SSE

### Share Performance

	Absolute	Relative
1-mth	-8.6%	-1.6%
3-mth	14.2%	18.0%
6-mth	-8.5%	0.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related reports:

- Jiangsu Hengli (601100 CH) – Positive takeaways from plant visit; U/G to BUY – 13 Mar 2023 ([link](#))
- China Construction Machinery – Upbeat guidance from US AWP manufacturers reaffirms our positive stance on the sector – 13 Feb 2023 ([link](#))
- China Construction Machinery & HDT Sector – 2023 outlook: Difficulties mastered are opportunities won – 7 Dec 2022 ([link](#))
- Jiangsu Hengli (601100 CH, HOLD) – Revenue rebounded in 3Q22; Wait for more data points to confirm recovery – 25 Oct 2022 ([link](#))

**Figure 1: Key highlight in 2Q23 results**

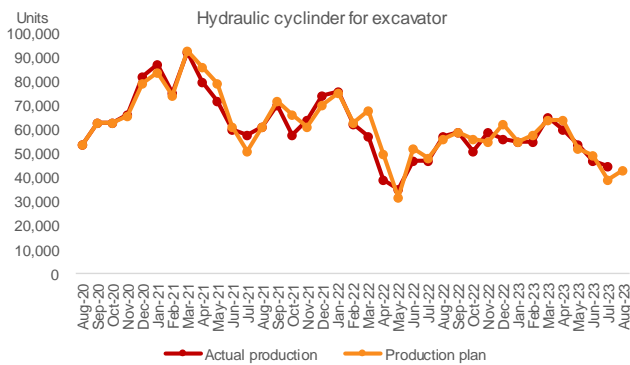
(RMB mn)	1Q22	1Q23	Change YoY	2Q22	2Q23	Change YoY
<b>Total revenue</b>	<b>2,200</b>	<b>2,427</b>	<b>10.3%</b>	<b>1,686</b>	<b>2,025</b>	<b>20.1%</b>
Cost of sales	-1,367	-1,435	5.0%	-998	-1,279	28.2%
<b>Gross profit</b>	<b>833</b>	<b>992</b>	<b>19.0%</b>	<b>688</b>	<b>745</b>	<b>8.4%</b>
Other income	-21	-25	15.3%	-14	-19	41.3%
S&D expenses	-23	-37	60.3%	-19	-39	101.0%
Administrative expenses	-170	-219	28.4%	-246	-285	15.8%
Asset impairment	-8	-12	51.8%	8	4	-52.3%
<b>EBIT</b>	<b>611</b>	<b>700</b>	<b>14.6%</b>	<b>417</b>	<b>406</b>	<b>-2.5%</b>
Net finance income/(cost)	-20	6	n/a	183	292	59.7%
Other gains/(loss)	28	30	6.0%	18	13	-26.7%
Profit of JV & associates	0	0	n/a	0	0	n/a
<b>Pretax profit</b>	<b>619</b>	<b>735</b>	<b>18.7%</b>	<b>618</b>	<b>711</b>	<b>15.1%</b>
Income tax	-90	-109	20.8%	-88	-57	-35.3%
<b>After tax profit</b>	<b>529</b>	<b>627</b>	<b>18.4%</b>	<b>530</b>	<b>654</b>	<b>23.5%</b>
MI	-1	-1	16.0%	-1	-1	0.8%
<b>Net profit</b>	<b>528</b>	<b>626</b>	<b>18.4%</b>	<b>529</b>	<b>653</b>	<b>23.6%</b>

Key ratios			ppt			ppt
Gross margin	37.9%	40.9%	3.0	40.8%	36.8%	-4.0
S&D expense ratio	1.0%	1.5%	0.5	1.2%	1.9%	0.8
Administrative and R&D exp ratio	7.7%	9.0%	1.3	14.6%	14.1%	-0.5
Effective tax rate	14.5%	14.8%	0.3	14.2%	8.0%	-6.2

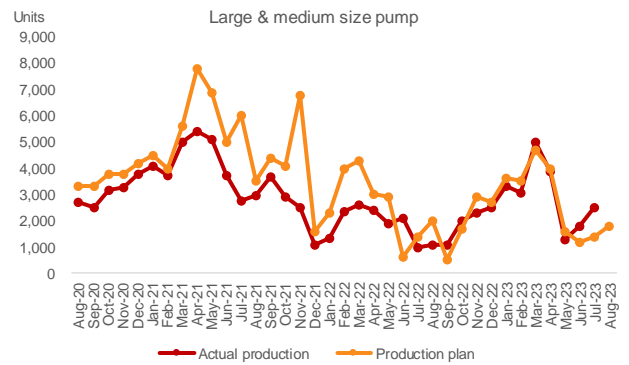
Source: Company data, CMBIGM estimates

**Figure 2: Hengli's hydraulic cylinders monthly production**



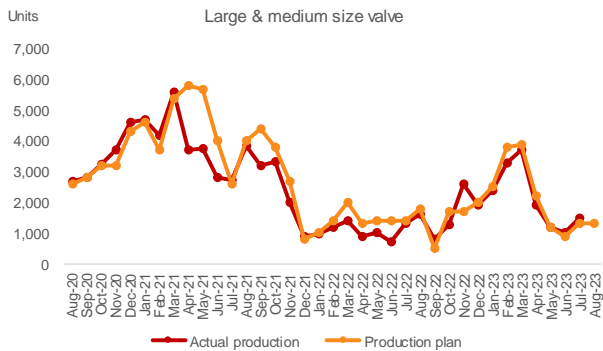
Source: Company data, CMBIGM estimates

**Figure 3: Hengli's large & medium size pump monthly production**



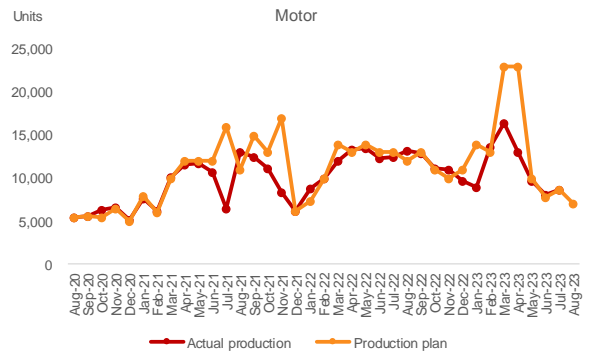
Source: Company data, CMBIGM estimates

**Figure 4: Hengli's large & medium size valve monthly production**

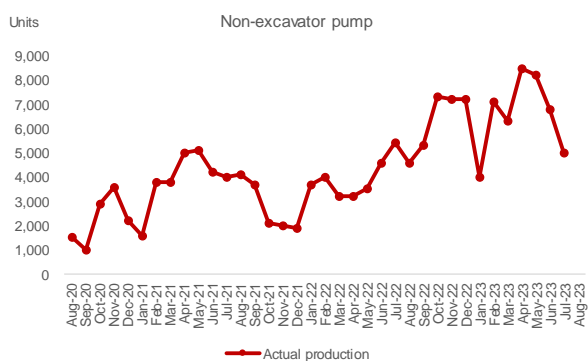


Source: Company data, CMBIGM estimates

**Figure 5: Hengli's motor monthly production**



Source: Company data, CMBIGM estimates

**Figure 6: Hengli's non-excavator pumps**

Source: Company, CMBIGM

**Figure 7: Change in key assumptions and earnings**

(RMB mn)	Old			New			Change		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
<b>Revenue (hydraulic business)</b>	<b>9,581</b>	<b>10,971</b>	-	<b>9,391</b>	<b>10,575</b>	<b>11,588</b>	<b>-2.0%</b>	<b>-3.6%</b>	-
Other business	32	35	-	33	36	38	4.3%	4.3%	-
<b>Total revenue</b>	<b>9,613</b>	<b>11,006</b>	-	<b>9,424</b>	<b>10,611</b>	<b>11,627</b>	<b>-2.0%</b>	<b>-3.6%</b>	-
<b>Gross margin (hydraulic business)</b>	<b>42.1%</b>	<b>42.7%</b>	-	<b>39.9%</b>	<b>40.7%</b>	<b>40.9%</b>	-2.3	-2.0	-
Other business	88.0%	88.0%	-	80.0%	80.0%	80.0%	-8.0	-8.0	-
<b>Blended gross margin</b>	<b>42.3%</b>	<b>42.9%</b>	-	<b>40.0%</b>	<b>40.8%</b>	<b>41.1%</b>	-2.3	-2.0	-
							Change (ppt)		
S&D expense ratio	-1.6%	-1.5%	-	-1.6%	-1.5%	-1.5%	0.0	0.0	-
Admin expense and R&D ratio	-10.8%	-10.0%	-	-10.8%	-10.0%	-9.5%	0.0	0.0	-
<b>Net profit</b>	<b>2,869</b>	<b>3,461</b>	-	<b>2,636</b>	<b>3,153</b>	<b>3,591</b>	<b>-8.1%</b>	<b>-8.9%</b>	-

Source: Company data, CMBIGM estimates

**Figure 8: Key assumptions**

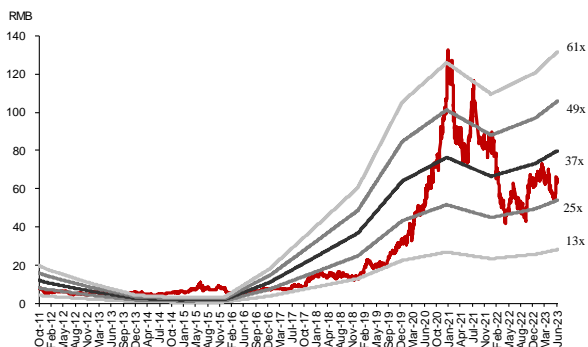
(RMB mn)	2020	2021	2022	2023E	2024E	2025E
<b>Revenue</b>						
Hydraulic cylinder	4,497	5,187	4,584	5,113	5,405	5,792
Hydraulic pump and valve	2,338	3,236	2,755	3,402	4,250	4,830
Hydraulic system	157	196	253	274	287	302
Component	845	677	574	603	633	664
<b>Revenue (hydraulic business)</b>	<b>7,838</b>	<b>9,295</b>	<b>8,167</b>	<b>9,391</b>	<b>10,575</b>	<b>11,588</b>
Other business	17	14	30	33	36	38
Total revenue	<b>7,855</b>	<b>9,309</b>	<b>8,197</b>	<b>9,424</b>	<b>10,611</b>	<b>11,627</b>
<b>Revenue growth</b>						
Hydraulic cylinder	27.0%	15.3%	-11.6%	11.5%	5.7%	7.2%
Hydraulic pump and valve	85.2%	38.4%	-14.9%	23.5%	24.9%	13.6%
Hydraulic system	82.9%	25.1%	29.1%	8.0%	5.0%	5.0%
Component	68.8%	-20.0%	-15.2%	5.0%	5.0%	5.0%
<b>Revenue (hydraulic business)</b>	<b>45.4%</b>	<b>18.6%</b>	<b>-12.1%</b>	<b>15.0%</b>	<b>12.6%</b>	<b>9.6%</b>
Other business	-23.1%	-19.6%	119.1%	10.0%	10.0%	5.0%
Total revenue	45.1%	18.5%	-12.0%	15.0%	12.6%	9.6%
<b>Gross margin</b>						
Hydraulic cylinder	46.8%	44.2%	40.1%	40.0%	40.7%	40.9%
Hydraulic pump and valve	52.3%	52.0%	48.2%	45.8%	46.0%	46.0%
Hydraulic system	45.7%	45.2%	44.9%	44.5%	44.7%	44.7%
Component	6.2%	3.5%	2.9%	3.0%	3.0%	3.0%
<b>Gross margin (hydraulic business)</b>	<b>44.0%</b>	<b>44.0%</b>	<b>40.4%</b>	<b>39.9%</b>	<b>40.7%</b>	<b>40.9%</b>
Other business	74.3%	70.9%	92.7%	80.0%	80.0%	80.0%
Blended gross margin	44.1%	44.0%	40.6%	40.0%	40.8%	41.1%

Source: Company data, CMBIGM estimates

## Valuation

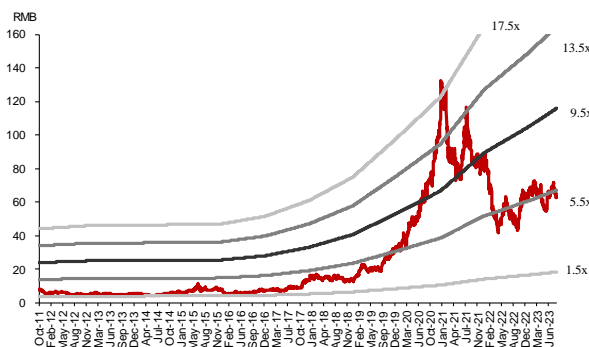
We maintain our **BUY** rating on Hengli with new TP of RMB83 (previously: RMB90), based on unchanged 42x 2023E P/E, equivalent to 1SD above the 4-year average of 30x. Our above-average P/E is to reflect the acceleration of earnings growth driven by the overseas expansion and new opportunities in robotic component (ball screw) segment.

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	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>7,855</b>	<b>9,309</b>	<b>8,197</b>	<b>9,424</b>	<b>10,611</b>	<b>11,627</b>
Cost of goods sold	(4,391)	(5,212)	(4,873)	(5,653)	(6,278)	(6,852)
<b>Gross profit</b>	<b>3,464</b>	<b>4,097</b>	<b>3,324</b>	<b>3,771</b>	<b>4,334</b>	<b>4,775</b>
Selling expense	(107)	(112)	(124)	(151)	(159)	(174)
Admin expense	(509)	(863)	(925)	(1,018)	(1,061)	(1,105)
Others	(162)	(125)	(116)	(125)	(135)	(143)
<b>Operating profit</b>	<b>2,687</b>	<b>2,997</b>	<b>2,159</b>	<b>2,477</b>	<b>2,978</b>	<b>3,353</b>
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
<b>EBITDA</b>	<b>2,997</b>	<b>3,402</b>	<b>2,553</b>	<b>2,931</b>	<b>3,481</b>	<b>3,880</b>
Depreciation	311	404	394	454	503	527
Interest income	50	39	352	447	522	637
Interest expense	(202)	(129)	(20)	(16)	(16)	(16)
<b>Net Interest income/(expense)</b>	<b>(151)</b>	<b>(89)</b>	<b>332</b>	<b>430</b>	<b>505</b>	<b>620</b>
Other income/expense	74	160	137	94	106	116
<b>Pre-tax profit</b>	<b>2,609</b>	<b>3,068</b>	<b>2,629</b>	<b>3,001</b>	<b>3,590</b>	<b>4,089</b>
Income tax	(348)	(369)	(280)	(360)	(431)	(491)
Minority interest	(7)	(5)	(6)	(5)	(6)	(7)
<b>Adjusted net profit</b>	<b>2,254</b>	<b>2,694</b>	<b>2,343</b>	<b>2,636</b>	<b>3,153</b>	<b>3,591</b>
<b>BALANCE SHEET</b>						
	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>7,595</b>	<b>9,146</b>	<b>12,327</b>	<b>13,716</b>	<b>15,820</b>	<b>18,560</b>
Cash & equivalents	2,777	3,643	6,886	8,011	9,378	11,841
Account receivables	2,705	2,560	2,982	3,215	3,763	3,882
Inventories	1,217	1,607	1,766	1,797	1,987	2,143
Prepayment	164	160	141	141	141	141
Other current assets	733	1,177	552	552	552	552
<b>Non-current assets</b>	<b>3,025</b>	<b>3,186</b>	<b>3,874</b>	<b>4,440</b>	<b>4,738</b>	<b>4,611</b>
PP&E	2,432	2,580	2,836	3,402	3,720	3,613
Deferred income tax	52	50	54	54	54	54
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	280	267	436	436	416	396
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	261	289	548	548	548	548
<b>Total assets</b>	<b>10,620</b>	<b>12,332</b>	<b>16,201</b>	<b>18,156</b>	<b>20,558</b>	<b>23,171</b>
<b>Current liabilities</b>	<b>2,590</b>	<b>2,691</b>	<b>3,144</b>	<b>3,286</b>	<b>3,452</b>	<b>3,570</b>
Short-term borrowings	554	597	329	329	329	329
Account payables	1,131	1,188	1,323	1,465	1,631	1,748
Tax payable	119	84	73	73	73	73
Other current liabilities	785	822	1,419	1,419	1,419	1,419
<b>Non-current liabilities</b>	<b>679</b>	<b>402</b>	<b>379</b>	<b>379</b>	<b>379</b>	<b>379</b>
Long-term borrowings	370	44	0	0	0	0
Deferred income	200	204	198	198	198	198
Other non-current liabilities	108	153	181	181	181	181
<b>Total liabilities</b>	<b>3,269</b>	<b>3,093</b>	<b>3,523</b>	<b>3,666</b>	<b>3,831</b>	<b>3,949</b>
<b>Total shareholders equity</b>	<b>7,314</b>	<b>9,196</b>	<b>12,630</b>	<b>14,437</b>	<b>16,667</b>	<b>19,155</b>
Minority interest	38	44	48	53	60	67
<b>Total equity and liabilities</b>	<b>10,620</b>	<b>12,332</b>	<b>16,201</b>	<b>18,156</b>	<b>20,558</b>	<b>23,171</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	2,609	3,068	2,629	3,001	3,590	4,089
Depreciation & amortization	311	404	394	454	503	527
Tax paid	(714)	(369)	(280)	(360)	(431)	(491)
Change in working capital	(849)	(472)	(476)	(122)	(572)	(158)
Others	624	164	(203)	16	16	16
<b>Net cash from operations</b>	<b>1,981</b>	<b>2,796</b>	<b>2,064</b>	<b>2,990</b>	<b>3,106</b>	<b>3,983</b>
<b>Investing</b>						
Capital expenditure	(380)	(558)	(642)	(1,000)	(800)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(283)	(374)	563	(20)	0	0
<b>Net cash from investing</b>	<b>(663)</b>	<b>(932)</b>	<b>(80)</b>	<b>(1,020)</b>	<b>(800)</b>	<b>(400)</b>
<b>Financing</b>						
Dividend paid	(529)	(783)	(953)	(829)	(923)	(1,103)
Net borrowings	(361)	(287)	(313)	0	0	0
Proceeds from share issues	0	0	2,000	0	0	0
Others	72	356	216	(16)	(16)	(16)
<b>Net cash from financing</b>	<b>(818)</b>	<b>(714)</b>	<b>949</b>	<b>(845)</b>	<b>(939)</b>	<b>(1,120)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,343	2,777	3,643	6,886	8,011	9,378
Exchange difference	(66)	(284)	310	0	0	0
<b>Cash at the end of the year</b>	<b>2,777</b>	<b>3,643</b>	<b>6,886</b>	<b>8,011</b>	<b>9,378</b>	<b>11,841</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	45.1%	18.5%	(12.0%)	15.0%	12.6%	9.6%
Gross profit	69.4%	18.3%	(18.9%)	13.4%	14.9%	10.2%
Operating profit	92.7%	11.6%	(28.0%)	14.7%	20.3%	12.6%
EBITDA	80.7%	13.5%	(24.9%)	14.8%	18.8%	11.5%
Adj. net profit	73.9%	19.5%	(13.0%)	12.5%	19.6%	13.9%
<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	44.1%	44.0%	40.6%	40.0%	40.8%	41.1%
Operating margin	34.2%	32.2%	26.3%	26.3%	28.1%	28.8%
EBITDA margin	38.2%	36.5%	31.1%	31.1%	32.8%	33.4%
Adj. net profit margin	28.7%	28.9%	28.6%	28.0%	29.7%	30.9%
<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)	(0.3)	(0.3)	(0.5)	(0.5)	(0.5)	(0.6)
Current ratio (x)	2.9	3.4	3.9	4.2	4.6	5.2
Receivable turnover days	100.9	103.2	123.4	120.0	120.0	120.0
Inventory turnover days	92.0	98.9	126.3	115.0	110.0	110.0
Payable turnover days	79.9	81.2	94.0	90.0	90.0	90.0
<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	36.5	30.6	35.2	32.1	26.8	23.6
P/B	11.3	9.0	6.7	5.9	5.1	4.4
Div yield (%)	1.0	1.2	1.1	1.1	1.3	1.5

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



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