

Buy

(Remained)

Mechanics

Jiangsu Hengli Hydraulic

(601100.SH)

Accelerating to substitute self-produced valves for imported products

27-May-19

Key Data

May. 22, 2019

Closing Price	29.72
Total Shares (Mn)	882.00
Shares Outstanding (Mn)	882.00
Market Cap(CNY/Mn)	26213.04
Market Float(CNY/Mn)	26213.04
Net Assets (CNY/Mn)	4868.78
Total Assets (CNY/Mn)	7840.68
BVPS	5.52

Key Financial Indicators

FY	2018A	2019E	2020E	2021E
Revenue (Mn/CNY)	4211	5298	6097	6721
YoY (%)	50.6%	25.8%	15.1%	10.2%
Net Profit (Mn/CNY)	837	1175	1459	1673
YoY (%)	119.1%	40.4%	24.1%	14.7%
Gross Margin (%)	36.6%	38.1%	39.0%	39.7%
Net Profit Margin (%)	19.9%	22.2%	23.9%	24.9%
ROE (%)	18.4%	20.5%	21.4%	20.7%
EPS (CNY)	0.95	1.33	1.65	1.90
OCFPS (CNY)	0.91	1.26	1.61	2.04

Analyst

Man Zaipeng

manzp@xyzq.com.cn
S0190517080002

Cheng Shangwen

chengshangwen@xyzq.com.cn
S0190515070001

Group Member

Company Profile

Jiangsu Hengli Hydraulic Co Ltd develops, manufactures and sells high pressure tank, hydraulic components and hydraulic systems. The Company's main products include fuel tanks and non-standard cylinders for heavy equipment. (Source: Bloomberg)

Investment Highlights

Jiangsu Hengli Hydraulic (the company) is mainly engaged in the manufacture and sales of hydraulic components and systems and has clear development strategies.

As a leading manufacturer providing excavator cylinders, the company takes up more-than-50% share market in domestic excavator cylinder market, and supplies products to Caterpillar. Hengli Hydraulic expanded its businesses from excavator cylinders to special-purpose cylinders which have a wider market, and the latter become a major growth point for the company.

Besides, Hengli Hydraulic has tapped the market of high-end valves (two times larger than the market of high-pressure cylinders), and set up a long-term growth point through new product R&D ranging from mobile valves to industrial valves.

The years of 2019~2020 will see the company accelerate its market share growth in the excavator valves industry.

The company took over a decade (from 1999 to 2009) to improve its market share of excavator cylinders to above 10%; after that, it spent only five years further increasing its market share to above 50%. In terms of excavator valves, the company took five years (2013~2018) to raise its market share to above 10%, implying that its products have been tested by the market and may accelerate to substitute for imported valves. We estimate the company's revenue collected from valves sales to be CNY 1.5/2.2 bn for year 19/20.

Earnings forecast and investment recommendation

Given strong downstream demand and the company's top position in the industry, we revised up the estimated net profit to CNY 1.18/1.46/1.67 bn and the estimated EPS to CNY 1.33/1.65/1.90 for year 19/20/21. We maintain "Buy" rating for the company.

Potential risks: falling prosperity of downstream industries; slower-than-expected progress of new product promotion

Appendix

Balance Sheet					Income Statement				
	Mn/CNY					Mn/CNY			
FY	2018A	2019E	2020E	2021E	FY	2018A	2019E	2020E	2021E
Current Assets	4443	6142	7503	9032	Operating Income	4211	5298	6097	6721
Cash and Cash Equivalent	1571	2437	3272	4485	Operating Expense	2671	3280	3719	4056
Trading Financial Assets	0	0	0	0	Business Tax and Surcharges	43	69	82	91
Account Receivables	544	1032	1304	1503	Selling Expense	115	125	138	147
Other Receivables	19	21	24	27	Administration Expense	385	418	460	491
Inventory	1050	1217	1308	1315	Financial Expense	-30	3	35	26
Non-current Asset	2828	2804	2682	2452	Asset Impairment	119	110	45	48
Available-for-sale Financial Assets	10	11	11	11	Change in Fair Value	0	0	0	0
Long-term Equity Investment	0	0	0	0	Investment Income	18	15	20	25
Investment Real Estate	0	0	0	0	Operating Profit	961	1337	1667	1915
Fixed Assets	2233	2117	2028	1905	Non-business Income	3	30	30	30
Construction in Progress	128	197	174	67	Non-business Expense	0	0	0	0
Oil and Gas Assets	0	0	0	0	Total Profit	963	1366	1696	1945
Intangible Assets	279	279	279	279	Income Tax	126	191	237	272
Total Assets	7271	8947	10185	11484	Net Profit	837	1175	1459	1673
Current Liabilities	1981	2576	2691	2752	Minority Interest Income	0	0	0	0
Short-term Loans	851	820	750	650	Net Profit Attributable to Parent Company	837	1175	1459	1673
Notes Payable	0	426	446	487	EPS(CNY)	0.95	1.33	1.65	1.90
Account Payable	691	836	963	1044					
Others	440	494	532	571	Key Financial Ratios				
Non-current Liabilities	715	621	638	641	FY	2018A	2019E	2020E	2021E
Long-term Loans	353	354	354	354	Growth				
Others	361	266	283	286	Increase Rate of Business Revenue	50.7%	25.8%	15.1%	10.2%
Total Liabilities	2696	3196	3329	3393	Increase Rate of Business Profit	119.0%	39.1%	24.7%	14.9%
Share Capital	882	882	882	882	Net Profit Growth Rate	119.1%	40.4%	24.1%	14.7%
Capital Reserve	1834	1834	1834	1834	Profitability				
Undistributed Profit	1576	2640	3606	4679	Gross Margin Rate	36.6%	38.1%	39.0%	39.7%
Minority Interest	28	28	28	28	Net Profit Margin	19.9%	22.2%	23.9%	24.9%
Total Shareholders' Equity	4575	5750	6856	8091	ROE	18.4%	20.5%	21.4%	20.7%
Total Liabilities and Equity	7271	8947	10185	11484					
					Solvency				
Cash Flow Statement	Mn/CNY				Asset-liability Ratio	37.1%	35.7%	32.7%	29.5%
FY	2018A	2019E	2020E	2021E	Current Ratio	2.24	2.38	2.79	3.28
Net Profit	837	1175	1459	1673	Quick Ratio	1.67	1.88	2.26	2.77
Depreciation and Amortization	232	249	264	281	Operation Capacity				
Property Depreciation Preparation	119	50	30	12	Asset Turnover Ratio	62.7%	65.3%	63.7%	62.0%
Amortization of Intangible Assets	13	2	2	2	AR Turnover Ratio	803.2%	625.1%	484.9%	445.8%
Loss from Fair Value Change	0	0	0	0	Stock Info(CNY)				
Financial Expense	-32	3	35	26	EPS	0.95	1.33	1.65	1.90
Investment Loss	-18	-15	-20	-25	OCFPS	0.91	1.26	1.61	2.04
Minority Interest Income	0	0	0	0	NAVPS	5.16	6.49	7.74	9.14
Change in Working Capitals	-345	-309	-358	-157	Valuation Ratio				
Cash Flows from Operating Activities	799	1108	1421	1803	PE	31.3	22.3	18.0	15.7
Cash Flows from Investment Activities	-281	-183	-133	-28	PB	5.8	4.6	3.8	3.3
Cash Flows from Financing Activities	-152	-59	-453	-561					
Net Change in Cash	424	866	834	1214					
Beginning Balance of Cash	1025	1571	2437	3272					
Ending Balance of Cash	1449	2437	3272	4485					

Introduction of Share Investment Rating

Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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