

Jiangsu Hengli (601100 CH)

Positive takeaways from plant visit; U/G to BUY

We upgrade Hengli to BUY from Hold for the first time since May 2021. We are turning positive after visiting Hengli's production base last week. **In the near term (coming months)**, we believe the growth (YoY) of excavator hydraulic cylinder production in Mar, after going through a declining trend since late 2021, suggests an early sign of turnaround of downstream demand. Besides, production of AWP motor in Mar is expected to reach a record high, which reaffirms our positive stance on AWP. **From a long-term perspective (1-3 years)**, continuous market share gain in pump & valves, as well as penetration into global agricultural machinery component market will offer high visibility to Hengli's earnings. In addition, the commencement of production base in Mexico (estimated annual output value of RMB1.5-2.0bn) in 3Q23E will help speed up the penetration in the US market. We revise up our 2023E/24E earnings forecast by 1%/10%. Our TP is raised to RMB90, based on 42x 2023E P/E, 1SD above the 4-year average of 30x to reflect the acceleration of earnings growth.

- **Excavator hydraulic cylinder growth turns positive in Mar.** We understand that Hengli has scheduled production of 64k units of excavator hydraulic cylinder in Mar, which represents 12% growth YoY. We believe the growth is largely driven by Chinese OEM's orders.
- **Growth of excavator pump & valve to continue in 2023E.** While Hengli has high market share in pump & valve for small-size excavator (>50%), the share in medium-large size excavator is only ~15%. We see a high chance for Hengli to achieve further market share gain given the solid track record in cylinder, pump & valve (small-size).
- **Agricultural machinery component growth to accelerate.** Hengli offers motors, pumps & valves for agricultural machinery such as cotton pickers and combined harvesters. These components carry shorter useful life than that of excavator given the continuous operation of the pumping system. This implies a large aftersales market. Against the backdrop of supply chain disruption in Europe, Hengli captures the opportunity of penetrating into the agriculture machinery component market in Europe. We forecast Hengli to achieve RMB500mn revenue in overseas in 2023E (up 100%+ YoY). In China market, we expect the import substitution trend will offer large growth potential given the low base.
- **AWP motor: Surprise on the upside.** Hengli's production volume of motor (largely for AWP) is expected to reach 23k in Mar, representing 90%+ growth. We see potential for Hengli to continue to penetrate into the global AWP motor market as overseas AWP OEMs are facing supply chain bottleneck. As a cross check, Hengli's strong production figure in Mar also reaffirms our bullish view on **Zhejiang Dingli (603338 CH, BUY)**.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	7,855	9,309	8,751	9,613	11,006
YoY growth (%)	45.1	18.5	(6.0)	9.8	14.5
Adjusted net profit (RMB mn)	2,253.9	2,694.1	2,425.6	2,868.8	3,461.1
EPS (Reported) (RMB)	1.73	2.06	1.86	2.14	2.58
YoY growth (%)	73.9	19.5	(10.0)	15.1	20.6
Consensus EPS (RMB)	na	na	1.85	2.05	2.44
P/E (x)	34.5	44.5	35.7	31.0	25.7
P/B (x)	10.6	13.1	7.0	6.0	5.2
Yield (%)	1.0	0.8	1.0	1.1	1.4
Net gearing (%)	(25.3)	(32.6)	(49.1)	(52.4)	(54.3)

Source: Company data, Bloomberg, CMBIGM estimates

Our 2023E-24E EPS is adjusted for the share placement completed in late 2022.

BUY (Up)

Target Price	RMB90.00
(Previous TP)	RMB58.00)
Up/Downside	35.8%
Current Price	RMB66.27

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Stock Data

Mkt Cap (RMB mn)	88,856.1
Avg 3 mths t/o (RMB mn)	66.3
52w High/Low (RMB)	73.10/41.76
Total Issued Shares (mn)	1340.8
Source: FactSet	

Shareholding Structure

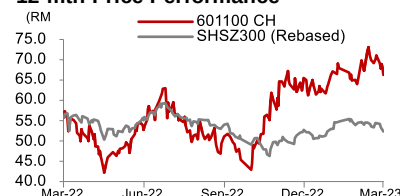
WANG's family	66.7%
CCASS (Hong Kong)	11.5%
Source: SSE	

Share Performance

	Absolute	Relative
1-mth	1.3%	4.9%
3-mth	1.2%	2.0%
6-mth	29.7%	33.9%

Source: FactSet

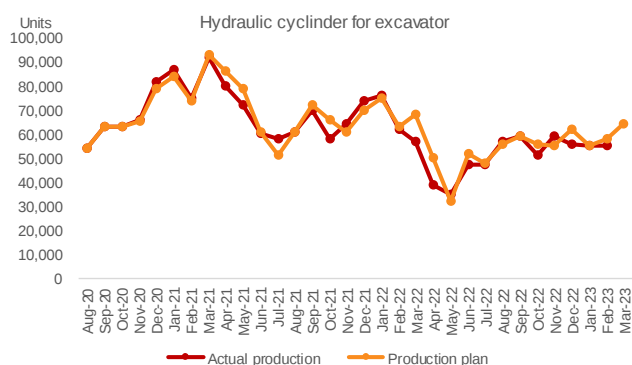
12-mth Price Performance



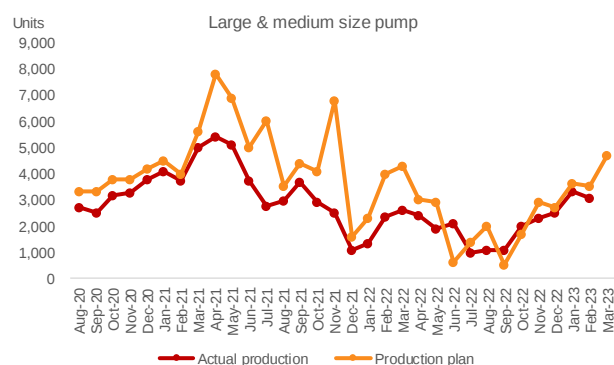
Source: FactSet

Related reports:

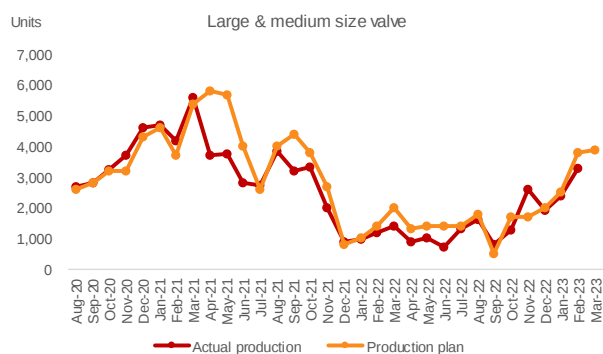
- China Construction Machinery – Upbeat guidance from US AWP manufacturers reaffirms our positive stance on the sector – 13 Feb 2023 ([link](#))
- China Construction Machinery & HDT Sector – 2023 outlook: Difficulties mastered are opportunities won – 7 Dec 2022 ([link](#))
- Jiangsu Hengli (601100 CH,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

Figure 1: Hengli's hydraulic cylinders monthly production

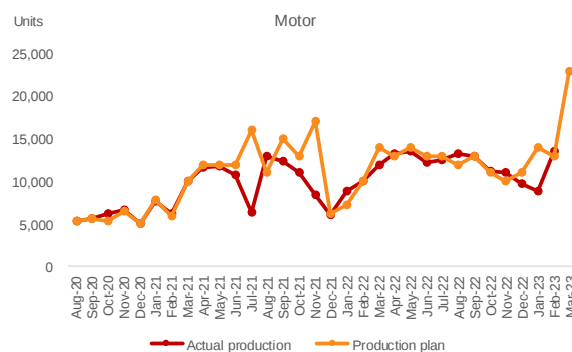
Source: Company data, CMBIGM estimates

Figure 2: Hengli's large & medium size pump monthly production

Source: Company data, CMBIGM estimates

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

Source: Company data, CMBIGM estimates

Figure 4: Hengli's motor monthly production

Source: Company data, CMBIGM estimates

Figure 5: Hengli's pumps and motors

Source: Company, CMBIGM

Figure 6: Hengli's control valves

Source: Company, CMBIGM

Figure 7: Change in key assumptions and earnings

(RMB mn)	Old			New			Change		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue									
Hydraulic cylinder	4,930	5,278	5,592	5,098	5,282	5,591	3.4%	0.1%	0.0%
Hydraulic pump and valve	2,940	3,165	3,504	3,144	3,797	4,834	7.0%	20.0%	38.0%
Hydraulic system	108	116	122	108	111	116	0.0%	-3.7%	-5.6%
Component	372	417	459	372	391	430	0.0%	-6.3%	-6.3%
Revenue (hydraulic business)	8,349	8,975	9,677	8,723	9,581	10,971	4.5%	6.8%	13.4%
Other business	29	33	37	29	32	35	0.0%	-4.3%	-4.3%
Total revenue	8,378	9,008	9,714	8,751	9,613	11,006	4.5%	6.7%	13.3%
Gross margin									
Hydraulic cylinder	41.5%	43.1%	42.8%	41.3%	41.8%	42.0%	-0.2	-1.2	-0.8
Hydraulic pump and valve	45.0%	47.0%	47.0%	45.0%	46.0%	46.5%	0.0	-1.0	-0.5
Hydraulic system	45.0%	45.5%	45.5%	45.0%	45.0%	45.0%	0.0	-0.5	-0.5
Component	6.0%	10.0%	11.0%	6.0%	8.0%	9.0%	0.0	-2.0	-2.0
Gross margin (hydraulic business)	41.2%	42.9%	42.8%	41.2%	42.1%	42.7%	0.0	-0.8	-0.1
Other business	90.0%	90.0%	74.0%	92.0%	88.0%	88.0%	2.0	-2.0	14.0
Blended gross margin	41.4%	43.1%	42.9%	41.4%	42.3%	42.9%	0.0	-0.8	-0.1
							Change (ppt)		
S&D expense ratio	-1.5%	-1.5%	-1.5%	-1.7%	-1.6%	-1.5%	-0.2	-0.1	0.0
Admin expense and R&D ratio	-10.3%	-9.5%	-9.5%	-11.3%	-10.8%	-10.0%	-1.0	-1.3	-0.5
Net profit	2,536	2,844	3,137	2,426	2,869	3,461	-4.3%	0.9%	10.3%

Source: Company data, CMBIGM estimates

Figure 8: Key assumptions

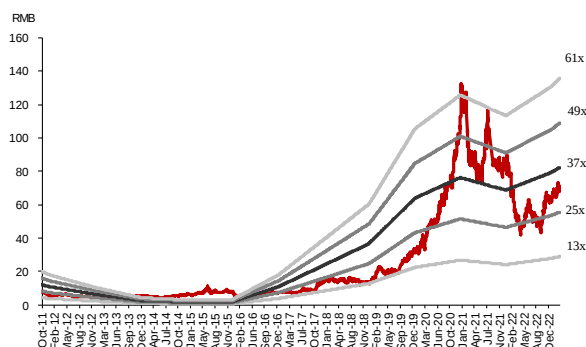
(RMB mn)	2020	2021	2022E	2023E	2024E
Revenue					
Hydraulic cylinder	4,497	5,187	5,098	5,282	5,591
Hydraulic pump and valve	2,338	3,236	3,144	3,797	4,834
Hydraulic system	157	196	108	111	116
Component	845	677	372	391	430
Revenue (hydraulic business)	7,838	9,295	8,723	9,581	10,971
Other business	17	14	29	32	35
Total revenue	7,855	9,309	8,751	9,613	11,006
Revenue growth					
Hydraulic cylinder	27.0%	15.3%	-1.7%	3.6%	5.9%
Hydraulic pump and valve	85.2%	38.4%	-2.8%	20.8%	27.3%
Hydraulic system	82.9%	25.1%	-45.0%	3.0%	4.0%
Component	68.8%	-20.0%	-45.0%	5.0%	10.0%
Revenue (hydraulic business)	45.4%	18.6%	-6.2%	9.8%	14.5%
Other business	-23.1%	-19.6%	110.0%	10.0%	10.0%
Total revenue	45.1%	18.5%	-6.0%	9.8%	14.5%
Gross margin					
Hydraulic cylinder	46.8%	44.2%	41.3%	41.8%	42.0%
Hydraulic pump and valve	52.3%	52.0%	45.0%	46.0%	46.5%
Hydraulic system	45.7%	45.2%	45.0%	45.0%	45.0%
Component	6.2%	3.5%	6.0%	8.0%	9.0%
Gross margin (hydraulic business)	44.0%	44.0%	41.2%	42.1%	42.7%
Other business	74.3%	70.9%	92.0%	88.0%	88.0%
Blended gross margin	44.1%	44.0%	41.4%	42.3%	42.9%

Source: Company data, CMBIGM estimates

Valuation

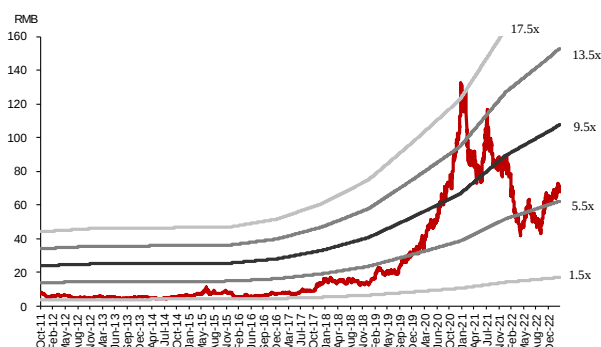
We upgrade Hengli to **BUY** from Hold, with a new TP of RMB90 (up from RMB58). We roll over our valuation base to 2023E and set our TP based on 42x 2023E P/E, equivalent to 1SD above the 4-year average of 30x (our previous TP was based 30x 2022E). Our above-average P/E is to reflect the acceleration of earnings growth.

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

Figure 11: Peers comp table

Ticker	Company	Rating	Price	TP	Upside/	Market cap	PE (x)		PB (x)	
			(local currency)	(local currency)	(downside)	(US\$ mn)	FY22E	FY23E	FY22E	FY23E
HK listed										
631 HK Equity	SANY INTERNATIONAL	BUY	7.38	13.20	79%	2,991	12.1	10.1	2.0	1.8
1157 HK Equity	ZOOMLION HEAVY-H	BUY	4.38	5.24	20%	7,498	11.5	9.2	0.6	0.6
2338 HK Equity	WEICHAI POWER-H	BUY	11.12	12.60	13%	14,164	20.0	15.3	1.2	1.1
3808 HK Equity	SINOTRUK HK LTD	HOLD	12.28	10.00	-19%	4,331	16.3	11.3	0.8	0.8
1839 HK Equity	CIMC VEHICLES -H	NR	6.94	-	-	2,733	12.0	9.4	1.2	0.9
564 HK Equity	ZHENGZHOU COAL-H	NR	7.70	-	-	3,317	4.9	4.0	0.8	0.6
	HK listed average						12.8	9.9	1.1	1.0
A share										
000338 CH Equity	WEICHAI POWER-A	HOLD	11.60	11.40	-2%	14,434	24.2	18.4	1.4	1.3
601100 CH Equity	JIANGSU HENGLI-A	BUY	66.27	90.00	36%	13,122	35.6	31.0	7.1	6.0
603338 CH Equity	ZHEJIANG DINGLI -A	BUY	59.82	71.00	19%	4,473	25.1	21.0	4.3	3.7
600031 CH Equity	SANY HEAVY-A	HOLD	17.78	14.70	-17%	22,284	34.2	25.8	2.3	2.2
000157 CH Equity	ZOOMLION HEAVY-A	HOLD	6.43	6.00	-7%	7,640	19.5	15.7	1.0	1.0
000425 CH Equity	XCMG-A	NR	7.04	-	-	12,285	13.8	12.1	1.4	1.3
000528 CH Equity	GUANGXI LIUGONG-A	NR	6.80	-	-	1,960	14.4	11.8	0.8	0.8
603638 CH Equity	YANTAI EDDIE P	NR	18.20	-	-	2,258	66.2	49.2	5.0	4.6
600761 CH Equity	ANHUI HELI CO-A	NR	18.63	-	-	2,036	15.4	12.5	2.1	1.9
603298 CH Equity	HANGCHA GROUP-A	NR	19.42	-	-	2,551	16.7	13.8	2.7	2.4
000951 CH Equity	CNHTC JINAN T-A	NR	16.34	-	-	2,835	59.2	18.2	1.4	1.3
601717 CH Equity	ZHENGZHOU COAL-A	NR	13.80	-	-	3,380	10.1	8.3	1.7	1.2
600582 CH Equity	TIAN DI -A	NR	5.52	-	-	3,374	9.9	8.7	1.1	1.0
	A-share average						26.5	19.0	2.5	2.2
Overseas										
CAT US Equity	CATERPILLAR INC	NR	227.0	-	-	117,216	14.3	13.3	7.2	6.3
DE US Equity	DEERE & CO	NR	395.9	-	-	117,323	13.1	12.5	5.6	4.5
6305 JP Equity	HITACHI CONST	NR	3,320.0	-	-	5,458	10.3	9.5	1.1	1.0
6301 JP Equity	KOMATSU LTD	NR	3,421.0	-	-	25,452	10.6	10.7	1.3	1.2
042670 KS Equity	DOOSAN INFRACORE	NR	8,110.0	-	-	1,296	7.3	6.5	0.9	0.8
VOLVB SS Equity	VOLVO AB-B	NR	210.1	-	-	41,560	11.7	11.5	2.6	2.4
	Average						11.2	10.7	3.1	2.7
Hydraulic components										
PH US Equity	PARKER HANNIFIN	NR	338.5	-	-	43,414	17.3	15.8	4.4	3.9
7012 JP Equity	KAWASAKI HVY IND	NR	3,000.0	-	-	3,850	10.1	10.1	0.9	0.9
7242 JP Equity	KYB CORP	NR	4,025.0	-	-	792	4.9	4.4	0.6	0.6
6474 JP Equity	NACHI-FUJIKOSHI	NR	3,935.0	-	-	749	7.5	7.6	0.6	0.6
6268 JP Equity	NABTESCO CORP	NR	3,435.0	-	-	3,178	20.4	17.8	1.6	1.5
	Average						12.0	11.1	1.6	1.5
Aerial working platform										
TEX US Equity	TEREX CORP	NR	53.2	-	-	3,593	10.9	10.2	2.5	2.1
OSK US Equity	OSHKOSH CORP	NR	83.0	-	-	5,428	14.8	11.5	1.6	1.5
LNR CN Equity	LINAMAR CORP	NR	65.2	-	-	2,997	8.2	7.0	n/a	n/a
PIG FP Equity	HAULOTTE GROUP	NR	3.3	-	-	112	n/a	27.8	0.5	0.5
6345 JP Equity	AICHI CORP	NR	821.0	-	-	472	11.2	10.5	n/a	n/a
	Average (excluding Haulotte)						11.3	9.8	1.5	1.3

Source: Bloomberg, Company data, CMBIGM estimates

Note: Based on CMBI earnings estimates for stocks under coverage

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	5,414	7,855	9,309	8,751	9,613	11,006
Cost of goods sold	(3,369)	(4,391)	(5,211)	(5,132)	(5,549)	(6,289)
Gross profit	2,045	3,464	4,098	3,620	4,064	4,717
Selling expense	(111)	(107)	(112)	(149)	(154)	(165)
Admin expense	(435)	(509)	(863)	(989)	(1,038)	(1,101)
Others	(104)	(162)	(125)	(120)	(127)	(138)
Operating profit	1,395	2,687	2,998	2,362	2,745	3,313
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	1,659	2,997	3,402	2,804	3,248	3,864
Depreciation	264	311	404	442	503	551
Interest income	187	223	246	451	462	555
Interest expense	(156)	(375)	(335)	(138)	(37)	(37)
Net Interest income/(expense)	31	(151)	(89)	312	425	518
Other income/expense	67	74	160	88	96	110
Pre-tax profit	1,493	2,609	3,069	2,762	3,267	3,941
Income tax	(195)	(348)	(369)	(331)	(392)	(473)
Minority interest	(2)	(7)	(5)	(5)	(6)	(7)
Adjusted net profit	1,296	2,254	2,694	2,426	2,869	3,461

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	5,492	7,595	9,146	12,347	14,139	16,434
Cash & equivalents	2,343	2,777	3,643	6,961	8,439	10,053
Account receivables	1,639	2,705	2,560	2,619	2,754	3,277
Inventories	997	1,217	1,607	1,430	1,610	1,767
Prepayment	98	164	160	160	160	160
Other current assets	414	733	1,177	1,177	1,177	1,177
Non-current assets	2,935	3,025	3,186	3,464	3,981	4,230
PP&E	2,364	2,432	2,580	2,851	3,362	3,625
Deferred income tax	41	52	50	50	50	50
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	273	280	267	273	279	265
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	257	261	289	289	289	289
Total assets	8,427	10,620	12,332	15,811	18,120	20,664
Current liabilities	2,170	2,590	2,691	2,692	2,976	3,056
Short-term borrowings	937	554	597	697	697	697
Account payables	791	1,131	1,188	1,090	1,373	1,453
Tax payable	62	119	84	84	84	84
Other current liabilities	380	785	822	822	822	822
Non-current liabilities	643	679	402	402	402	402
Long-term borrowings	200	370	44	44	44	44
Deferred income	223	200	204	204	204	204
Other non-current liabilities	220	108	153	153	153	153
Total liabilities	2,813	3,269	3,093	3,094	3,378	3,458
Total shareholders equity	5,584	7,314	9,196	12,668	14,688	17,145
Minority interest	30	38	44	48	54	61
Total equity and liabilities	8,427	10,620	12,332	15,811	18,120	20,664

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,493	2,609	3,069	2,762	3,267	3,941
Depreciation & amortization	264	311	404	442	503	551
Tax paid	(375)	(714)	(369)	(331)	(392)	(473)
Change in working capital	66	(849)	(472)	19	(31)	(601)
Others	212	624	164	138	37	37
Net cash from operations	1,660	1,981	2,796	3,030	3,384	3,456
Investing						
Capital expenditure	(434)	(380)	(558)	(700)	(1,000)	(800)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(18)	(283)	(374)	(20)	(20)	0
Net cash from investing	(452)	(663)	(932)	(720)	(1,020)	(800)
Financing						
Dividend paid	(265)	(529)	(783)	(953)	(849)	(1,004)
Net borrowings	(100)	(361)	(287)	100	0	0
Proceeds from share issues	0	0	0	2,000	0	0
Others	(89)	72	356	(138)	(37)	(37)
Net cash from financing	(454)	(818)	(714)	1,009	(886)	(1,041)
Net change in cash						
Cash at the beginning of the year	1,571	2,343	2,777	3,643	6,961	8,439
Exchange difference	18	(66)	(284)	0	0	0
Cash at the end of the year	2,343	2,777	3,643	6,961	8,439	10,053
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	28.6%	45.1%	18.5%	(6.0%)	9.8%	14.5%
Gross profit	32.7%	69.4%	18.3%	(11.7%)	12.3%	16.1%
Operating profit	58.7%	92.7%	11.6%	(21.2%)	16.2%	20.7%
EBITDA	49.4%	80.7%	13.5%	(17.6%)	15.8%	19.0%
Adj. net profit	54.9%	73.9%	19.5%	(10.0%)	18.3%	20.6%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	37.8%	44.1%	44.0%	41.4%	42.3%	42.9%
Operating margin	25.8%	34.2%	32.2%	27.0%	28.6%	30.1%
EBITDA margin	30.6%	38.2%	36.5%	32.0%	33.8%	35.1%
Adj. net profit margin	23.9%	28.7%	28.9%	27.7%	29.8%	31.4%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.3)	(0.3)	(0.5)	(0.5)	(0.5)
Current ratio (x)	2.5	2.9	3.4	4.6	4.8	5.4
Receivable turnover days	100.0	100.9	103.2	108.0	102.0	100.0
Inventory turnover days	110.9	92.0	98.9	108.0	100.0	98.0
Payable turnover days	80.3	79.9	81.2	81.0	81.0	82.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	22.4	34.5	44.5	35.7	31.0	25.7
P/B	5.2	10.6	13.1	7.0	6.0	5.2
Div yield (%)	1.8	1.0	0.8	1.0	1.1	1.4

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

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