19 January 2024

DALIPAL HLDG（1921.HK）

High-end Manufacturing Enterprise for Energy Equipment

Dalipal Holdings Limited (1921.HK) is a high-end, intelligent and green manufacturer of energy equipment. The company’s product mix includes oil and gas pipes, new energy pipes and special seamless steel pipes etc. Its products are sold in China and 23 other countries overseas. Dalipal Holdings has high technological barriers for its products, strong customer loyalty, and an increasing penetration rate of high-end products and overseas sales. The company is currently undergoing capacity expansion, which is expected to start operations in H1 2025, doubling its production capacity. The company is expected to enter a period of rapid growth in 2025-2026. We forecast its net profits for 2023-2026 to be CNY 166 million, 180 million, 350 million, and 710 million, respectively, with a CAGR of 62.6%. The company maintains a dividend payout ratio of 40%. We maintain a "Buy" rating, with a target price of HKD 7.88, representing an upside potential of about 85%.

Investment Highlights

Dalipal is on track to experience a rapid growth in 2025-26. Dalipal’s production base in Cangzhou, Hebei Province, is currently undergoing expansion, with the new capacity set to commence operations in the first half of 2025. The expansion will effectively double the company’s annual production capacity, resulting in approximately 800,000 tonnes of OCTG, 1 million tonnes of seamless steel pipes and 1.2-1.4 million tonnes of pipe billets. The company's product sales will surge significantly, driven by the breakthrough of product capacity. Furthermore, Dalipal will witness an expansion in its product mix, along with an enhancement of its competitive advantages. Overall, Dalipal is poised for rapid growth in 2025-26.

Dalipal's profitability is improving as a result of the growing adoption of high-end products and the expansion of overseas sales. The company is committed to developing advanced oil and gas pipe technologies. It has successfully introduced several high-end products, including DLP-T4 and rare earth corrosion-resistant oil casings, which have made their debut in the domestic market. The penetration rate of these high-end products within the company's product deliveries has been consistently increasing. Dalipal's overseas sales network is expanding, with overseas sales revenue accounting for 30% in the first half of 2023. The company has witnessed a rapid rise in customer recognition in the Middle East and North Africa markets, indicating significant potential for future overseas sales. With the simultaneous growth in the penetration rate of high-end products and overseas sales, Dalipal anticipates an enhancement in gross profit margin and overall profitability.

Dalipal Holdings has focused on the oil and gas pipe industry for 25 years, establishing competitive advantages. The company has developed strong relationships with its core customers, some of which have been going for over two decades, resulting in strong customer loyalty. The company has continuously developed multiple high-end products, showcasing industry-leading R&D abilities. Its overseas sales network is expanding, gaining recognition from international clients and demonstrating strong potential in overseas markets. With intelligent manufacturing, digital management, and eco-friendly production at its production bases, the company operates with high efficiency, maintains excellent product quality control, and benefits from low labor costs.

In-depth Company Analysis

Company Research Report

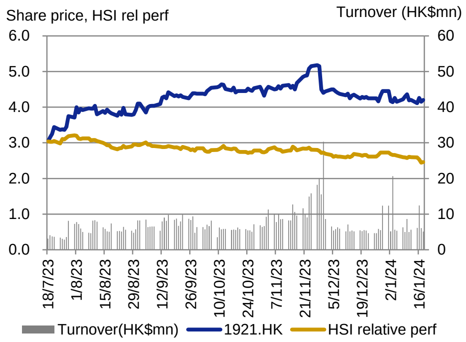
Energy Equipment

Rating:	**BUY**
Target Price:	**HK$7.88**
Current Price (2024-1-18):	HK$4.20

Market cap(HK$mn)	6,311.21
listed shares (HK$mn)	6,311.21
O/s shares (mn shs)	1,502.67
listed shares (mn shs)	1,502.67
52-week low/high(HK$)	2.16/5.3
Avg turnover(HK$mn)	8.49

Shareholding structure	
Rosy Astral	47.1%
Polaris Swift Limited	27.9%
Other	25.0%
Total	100.0%

Share Price Performance



%	1M	3M	12M
Rel.return	3.25	3.15	83.92
Abs.return	-2.56	-6.07	67.20

Source：Bloomberg, HKEx, Company

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The demand in the oil and gas pipe industry is growing. After Covid-19 pandemic, oil prices have rebounded significantly. As the global oil and gas industry enters a period of prosperity, there is a growing need for exploration and development, resulting in an increased demand for oil and gas pipes. The exploration and development investments by China's three major oil companies, as well as the upstream oil and gas investment worldwide, are expected to remain high in the coming years. This ensures a sustained and robust demand for oil and gas pipes in China.

Maintain Buy Rating: We forecast the company's net profit for 2023-2026 to be RMB 166million, 180million, 350million and 710 million, respectively, with a CAGR of 62.6%. Corresponding EPS figures are projected to be RMB 0.11/0.12/0.23/0.47. The current stock price corresponds to a forecasted PE ratio of 8.2x for 2026. The company's production capacity is rapidly expanding, with high product technological barriers, strong customer loyalty and an increased penetration rate for high-end products and overseas sales. The company maintains a dividend payout ratio of 40%. We maintain a 'Buy' rating, and using DCF valuation, we set a target price of HKD 7.88, implying an about 85% upside potential.

Risks: Significant decline in crude oil prices; significant fluctuations in steel prices; slower-than-expected progress in capacity expansion.

(YE 31/12; 000 RMB)	2021	2022	2023E	2024E	2025E	2026E
Revenue	3,762,629	4,227,802	4,366,788	4,531,872	5,842,150	8,473,880
Growth(%)	66.5%	12.4%	3.3%	3.8%	28.9%	45.0%
Net Profit	82,939	151,584	166,011	183,395	350,911	712,578
Growth (%)	NA	82.8%	9.5%	10.5%	91.3%	103.1%
Gross margin (%)	11.1%	14.5%	14.7%	14.9%	16.6%	19.1%
Net margin (%)	2.2%	3.6%	3.8%	4.0%	6.0%	8.4%
ROE（%）	6.4%	11.0%	11.4%	11.7%	20.4%	34.9%
EPS（RMB）	0.06	0.10	0.11	0.12	0.23	0.47
BPS（RMB）	0.90	0.94	1.00	1.08	1.22	1.50
PE（x）	69.1	37.7	34.5	31.3	16.4	8.1
PB（x）	4.3	4.1	3.8	3.5	3.1	2.5
Dividend yield（%）	0.6%	0.9%	1.2%	1.3%	2.4%	5.0

Source：Company Report; Essence International estimates

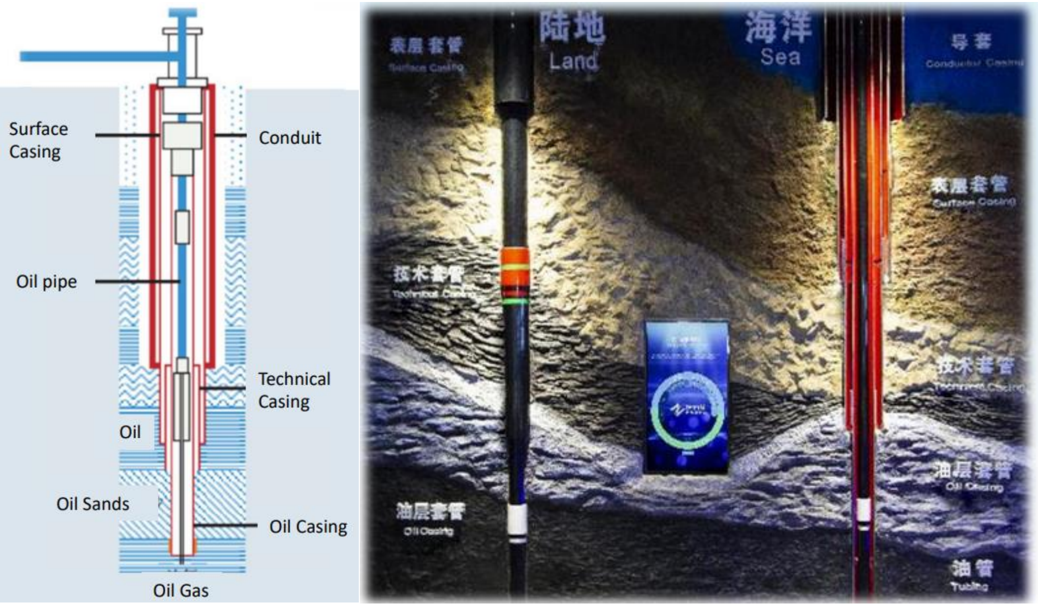
1. Dalipal Holdings: a high-end manufacturer of energy equipment

1.1. Introduction

Dalipal Holdings is an internationally-oriented, high-end manufacturer of energy equipment. Founded in 1998, in Cangzhou, Hebei Province, China, Dalipal Holdings went public on Hong Kong Stock Exchange in 2019 under the listing ticker 1921.HK. In 25 years, Dalipal Holdings has grown into an integrated international manufacturing enterprise, with a focus on material research and development, production and advanced processing. Its products are sold in China and 23 other countries worldwide. The company's product mix include oil and natural gas pipes, new energy pipes and special seamless steel pipes, with a complete industry chain layout.

The core product of Dalipal Holdings is oil and gas pipes, which are high-end energy equipment. OCTG mainly consists of oil pipes that are widely used in oilfield drilling and completion procedures, including casing, oil pipe and drill pipes, with an overall consumption ratio of about 75%, 15% and 10% respectively. The main product of Dalipal Holdings is ceasing, which is a consumable and non-reusable product. Casing is used to support the walls of oil and gas wells, to ensure smooth drilling process and the normal operation of the entire well after completion. Each well requires multiple layers of casing tailored to the drilling depth and geological conditions. The quality requirements for casing are high. Any damage to the casing, for whatever reason, can result in reduced production or even the abandonment of the entire well. Given the high-quality requirements and the need to adapt to various complex applications and geological conditions, OCTG is considered high-end energy equipment. OCTG Manufacturers are high-end and intelligent companies, with cutting edge R&D capabilities. According to Zhuoshi Consulting, Dalipal Holdings holds a market share of approximately 10%, making it a leading player among private Chinese enterprises specializing in OCTG.

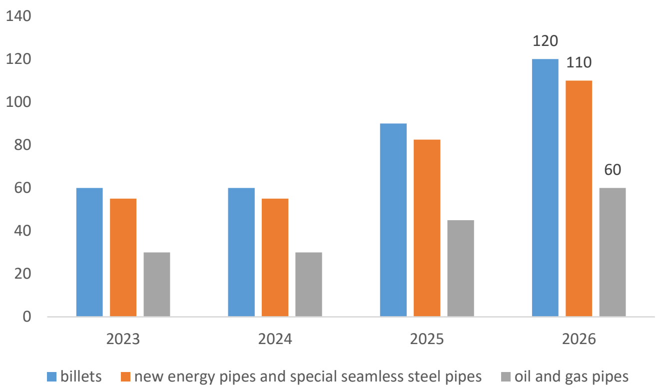
Figure 1: casing (red outline); Dalipal’s product in land and sea



Source：Dalipal Holdings Limited; Essence International estimates

Dalipal Holdings is currently expanding its product capacity, with new capacity set to commence operations in the first half of 2025. The company’s factory is located at Bohai New District, in Cangzhou, Hebei Province, China. The company has achieved a fully integrated industrial chain, with products covering pipe billets, new energy pipes and special seamless steel pipes, oil and gas pipes. As of 1H2023, the company’s annual production capacity is approximately 350,000 tons of OCTG; 500,000 tons of seamless steel pipes and 600,000 tons of pipe billets. Dalipal Holdings is currently expanding its product capacity, with new capacity set to commence operations in the first half of 2025. The expansion will effectively double the company’s annual production capacity, resulting in approximately 600,000 tonnes of OCTG, 1 million tonnes of seamless steel pipes and 1.2-1.4 million tonnes of pipe billets. The company's product facility is currently operating at full capacity, and the new capacity commencing operations in 2025 is expected to drive high-speed growth in the company's future revenue. The CAPEX for capacity expansion is expected to exceed 200 million RMB, and the investment will be financed through the company’s own cash reserves and bank loans, etc.

Figure 2: Dalipal Holdings capacity expansion plan（0000 tons）



Source：Dalipal Holdings Limited; Essence International estimates

The sales network of Dalipal Holdings covers domestic and overseas markets. In 1H2023, overseas sales revenue accounting for 30% of the company’s total revenue, while domestic revenue accounting for 70%. The company's domestic customers are mainly the three major state-owned oil companies in China, with CNPC being the largest and maintaining a business partnership with Dalipal for over 20 years. In the overseas market, Dalipal Holdings distributes its products in 23 countries worldwide. The Middle East and North Africa region is currently the company's largest overseas market. Dalipal's products have obtained certifications from international oil companies such as Kuwait, Thailand, Egypt, Oman, Bahrain Tatweer, Ecuador, and Western Petroleum Corporation in the United States. Furthermore, well-known international trading companies such as Medawar, Itochu Marubeni, and Sumitomo in Japan have also certified Dalipal's products. Due to high-quality requirements of OCTG, customers exhibit a strong loyalty to high-quality suppliers. Dalipal Holdings has maintained good cooperative relationships with its core customers, with some partnerships lasting for over 20 years. Many domestic and international oil and gas companies are core customers of Dalipal Holdings.

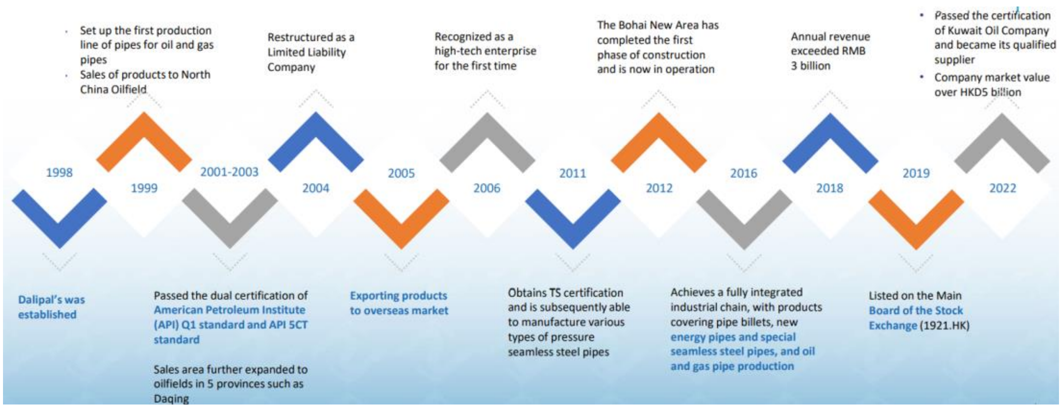
Figure 3: core customers of Dalipal Holdings

Source：Dalipal Holdings Limited; Essence International

1.2. Development Milestones

Dalipal Holdings has dedicated to oil and gas pipe industry for 25 years, achieved valuable experiences and strong customer loyalty. Dalipal Holdings was founded in 1998 and built its first casing production line in 1999. Its products were sold to Petro China's North China Oilfield. From 2001 to 2003, the company passed dual certification of API Q1 standard and API 5CT standard. Dalipal's sales area has expanded to Daqing, Liaoning, Shaanxi, Qinghai, Xinjiang, and Tianjin oilfields. In 2004, the company was restructured into a Limited Liability Company. In 2005, the company began to export products to overseas markets, including North America. In 2006, the company obtained high-tech enterprise certification. Since then, the company has continuously expanded production, obtained quality certifications, and expanded its customer base. At the end of 2019, the company listed on the Main Board of the Hong Kong Stock Exchange. Over the past 25 years, Dalipal Holdings has improved its R&D capabilities, product quality and cost control. The company enjoys a first-mover advantage, possesses extensive industry experience, and has established long-term cooperation with customers and a reputation for high-quality products. As a result, the company has grown into a leading private enterprise of the oil and gas pipe manufacturing industry. Its products are sold in China and 23 other countries worldwide.

Figure 4: Milestones

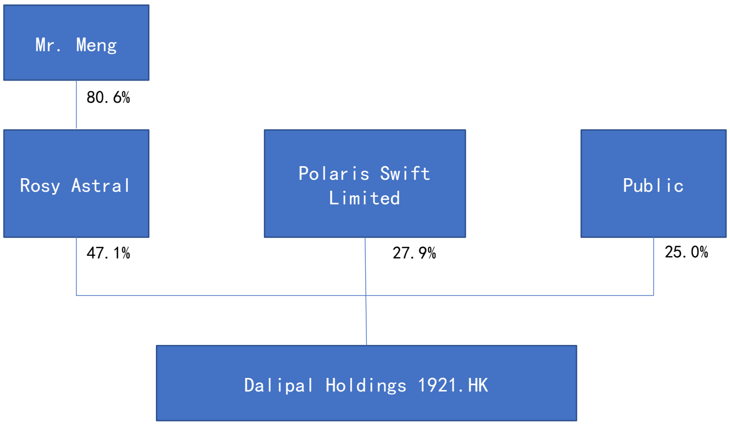


Source：Dalipal Holdings Limited; Essence International

1.3. Shareholding Structure

The company's founder holds controlling shares, entrepreneurial employees and main executives are also share-holders. Dalipal Holdings adopts stock option plans and stock incentive plans. Mr. Meng Fanyong, the founder, Chairman of the Board, and controlling shareholder of Dalipal Holdings through Shengxing Limited, holds 47.1% of shares. He is the single largest shareholder with significant decision-making power. 34 core entrepreneurial employees hold 27.9% of shares through Xingjie Limited. The core executives of the company hold 1.2% of shares, aligning their interests with those of the shareholders. The company has adopted a stock option plan before listing, which mainly covers the company's core management and enhances the incentives for the core management. Last year, the company also introduced a stock incentive plan to reward top executives and employees.

Figure 5: Shareholding Structure



Source: Dalipal Holdings Limited; Essence International

1.4. Directors and Senior Management

The company's founder and key management team have years of working experience in the oilfield industry. They possess a thorough understanding of the business models and customer demands of downstream clients and oilfield operators, allowing them to promptly address customer needs, gain customer recognition, and enhance customer loyalty.

Mr. Meng Fanyong, aged 61, is an Executive Director, Chairman of the Board and the founder and controlling shareholder of Dalipal Holdings. He is responsible for the overall strategic development and leading the business development of the Group. Mr. Meng has over 41 years of experience in oilfield equipment business. He also has over 23 years of experience in operation and management business of OCTG manufacturing. In 1998, Mr. Meng founded Dalipal Holdings Ltd. and has been the director and Chairman. From 1981 to 1999, he held various positions at North China Second Drilling, including technician, dispatcher of machine maintenance factory, workshop director, manager of machine maintenance factory and deputy factory director of operational and services department. During this time, he acquired knowledge and experiences in operation of oilfield and oil pipe manufacturing industry. Mr. Meng is the father of Mr. Meng Yuxiang, who serves as an Executive Director and Deputy Chief Executive Officer.

Mr. Zhang Hongyao, aged 53, is an Executive Director, Vice Chairman of the Board and Chief Executive Officer. Mr. Zhang joined the company as an executive director on January 1, 2020, and was appointed as Chief Executive Officer on April 4, 2022. Mr. Zhang is responsible for sales, marketing, and investment management of the Group. With nearly 30 years of experience in oil pipe manufacturing industry, Mr. Zhang he has been the deputy general manager of Baosteel America Inc since July 2015; the deputy general manager of the steel pipe department of Baoshan Iron & Steel Co., Ltd. from August 2007 to July 2015; the general manager and director of Yantai Lubao Steel Pipe Company Limited from August 2004 to June 2005 and from June 2005 to August 2007 respectively; and the deputy general manager of Baoshan Iron & Steel Co., Ltd. Steel Pipe Branchfrom August 2004 to June 2005. Mr. Zhang obtained a bachelor's degree in trade economics from Shanghai University of Finance and Economics in July 1992 and a master' s degree of arts from West Virginia University in December 2001.

Ms. Xu Wenhong, aged 54, is an Executive Director and chief legal officer, responsible for the overall legal and compliance of the Group. Ms. Xu has nearly 30 years of experience in commercial legal advisory and nearly 20 years of experience management of oil pipe manufacturing business. She joined the Group in 2003. She has been the chief legal consultant and secretary of the board of director of Dalipal Pipe since April 2003 and June 2014, respectively. From 2007 to 2010, She was also a director of Dalipal Pipe. Prior to joining the Group, Ms. Xu was a lawyer in Hebei Jinsheng Law Firm from 2001 to 2003; a legal officer of North China Petroleum Science and Industrial Company from 1997 to 2001;

and legal officer of North China Second Drilling from 1993 to 1998.Ms. Xu obtained the qualification of PRC lawyer in 1996 and became a Certified Senior Compliance Officer in 2022.

Mr. Meng Yuxiang, aged 36, is an Executive Director and deputy chief executive officer, responsible for the overall human resources and production operational management of the company. He has over 11 years of experience in management. Mr. YX Meng joined the company in 2017 and has been deputy general manager and a director of Dalipal Pipe since 2017.Prior to joining the Group, Mr. YX Meng worked in Beijing Dacheng Real Estate Development Company Limited as the deputy head of follow up working group from 2014 to 2015 and head of land resources management group from 2015 to 2017. He was also the head of planning and design department and office executive assistant of Beijing BBMG Property Co. Ltd. from 2011 to 2012 and from 2012 to 2014, respectively; and the engineering staff member of BBMG Property Management Co., Ltd. Jiahua Branch from 2008 to 2011. Mr. Meng Yuxiang is the son of Mr. Meng Fanyong, who is an executive director and chairman of the Board. Mr. Meng Yuxiang obtained a Bachelor's degree in civil engineering from Beijing Institute of Architectural Engineering in 2008 and a master's degree in business administration from Peking University in 2022.

Ms. Gan Shuyu, aged 55, is an Executive Director and chief operating officer, responsible for the overall operational and financial management of the Group. Ms. Gan has more than 37 years of experience in auditing and accounting in oil-related industry. She joined the company in 2010. She has been the director and financial director of Dalipal Pipe since October 2016 and December 2017, respectively. Ms. Gan has been the assistant to the general manager of Dalipal Pipe from 2010 to 2017; the manager of finance department and assistant of the general manager of Dalipal Equipment Manufacturing from 2009 to 2010 and from 2009 to 2010, respectively; and department head and manager of finance department of Dalipal Group from 2007 to 2008 and from 2008 to 2009, respectively.She obtained the qualification of PRC certified public valuer in September 2005 and the qualification of PRC certified public accountant in May 1995.

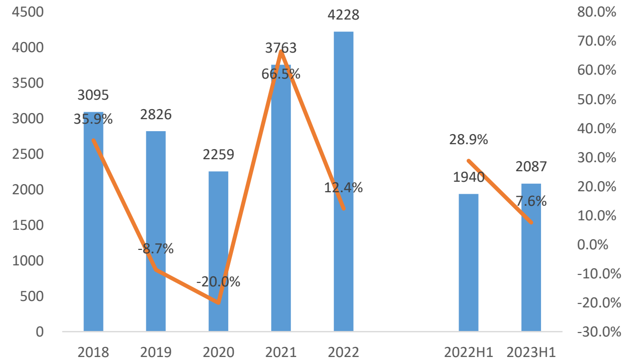
Mr. Yin Zhixiang, aged 65, is a non-executive director. Mr. Yin is responsible for overall research and development and technical management of the Group. He has more than 41 years of experience in the operation of oilfield. He joined the Grouop in 2008. Mr. Yin has been the chief technical expert and deputy general manager of Dalipal Pipe since 2017 and 2016, respectively; the project manager of Dalipal Pipe since 2018; and the deputy general manager for general affairs from 2011 to 2016 and the director of technical centre from 2012 to 2015 of Dalipal Pipe. He was also the general manager of Dalipal Bohai Branch from 2011 to 2016. He was also the deputy manager for general affairs of Dalipal Equipment Manufacturing from 2009 to 2011 and the deputy general manager of Dalipal Group from 2008 to 2009. Mr. Yin obtained a diploma in economics management from Communist Party of China Central Party College in 1995 and a diploma in statistics from Hebei University in December 1989.

Mr. Lau Ying Kit, aged 49, is the director of finance and investor relations and the company secretary of the Group. He joined the Group in 2021. Prior to joining to the Grouop, Mr. Lau Mr. Lau worked as the chief financial officer, company secretary and independent non-executive directors for certain listed companies in Hong Kong and Canada. Mr. Lau has over 20 years experience in financing and accounting in China, Hong Kong and Canada. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and holds a master degree in finance from City University of Hong Kong. He is currently also an independent nonexecutive director of four companies listed on the Main Board of the Stock Exchange, namely Kingdom Holdings Limited (Stock Code: 528), United Strength Power Holdings Limited (Stock Code:2337), Sinco Pharmaceuticals Holdings Limited (Stock Code: 6833) and Kangli International Holdings Limited (Stock Code: 6890).

1.5. Operation Performance

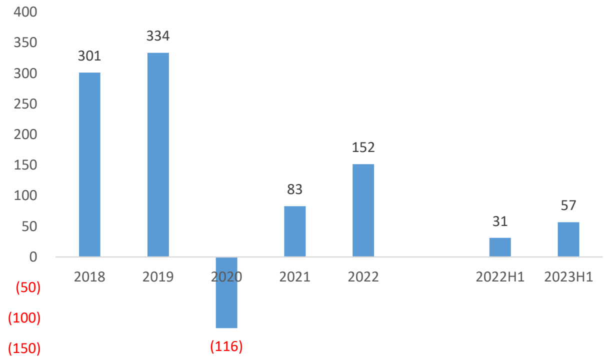
Since the COVID-19 epidemic was brought under control in 2021, Dalipal Holdings' revenue and profits have both rebounded. The company's sales revenue reached a historical high in 2018, exceeding 3 billion RMB. In 2019, due to the relocation of some of the company's production lines and the decline in export volume, product sales declined. At the same time, affected by demand, the average selling price of products fell. As a result, the company's sales revenue declined by 9% year-on-year to 2.83 billion yuan in 2019.In 2020, the COVID-19 pandemic first erupted in China. The company's production base suspended production to fight the epidemic. The company's major customers delayed the resumption of work and slowed down investment. This resulted in a sharp decline in the company's product sales volume. Additionally, sluggish demand also led to a sharp drop in sales prices. In 2020, the company's sales revenue plummeted by 20% to 2.26 billion RMB.After 2020, as the COVID-19 epidemic gradually came under control, both the domestic and overseas markets began to recover gradually. Driven by rapid growth in sales volume, the company's sales revenue quickly rebounded. **From 2020 to 2022, Dalip Holdings' sales revenue CAGR reached 36.8%.** In 2021, the company's sales revenue soared by 66.5% year-on-year to 3.76 billion yuan, surpassing the 2018 level. In 2022, the company's revenue further increased by 12.4% to a historical high of 4.23 billion yuan. In the first half of 2023, the revenue grew by 7.6% year-on-year to 2.09 billion yuan, with overseas sales contributing to the rapid growth in sales revenue. Dalipal incurred a loss of 120 million RMB in 2020 due to the impact of the pandemic. In 2021, with the rapid growth in revenue, the company's net profit reached 83 million RMB. In 2022, the net profit increased by 83% year-on-year to 1.52 billion RMB. 2023H1, the net profit continued to experience significant growth, increasing by 84% to 57 million RMB.

Figure 6:Revenue(M RMB) and growth rate%



Source：Company Data; Essence International

Figure 7:Net Profit (M RMB)

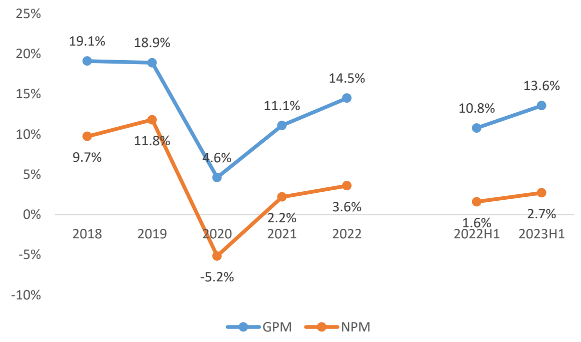


Source：Company Data; Essence International

Both gross profit margin and net profit margin have rebounded and profitability continued to recover. In 2018-2019, before the pandemic, the market was growing steadily, and the company's gross profit margin was close to 20%, with a net profit margin of around 10%. However, in 2020, the COVID-19 pandemic had a significant impact on the company. The company has suspended operations, and customers have also suspended operations or slowed down investment, resulting in a sharp decline in capacity utilization. The decline in demand resulted in a significant drop in both product sales volume and selling prices. At the same time, the prices of main raw materials, including scrap metal, increased. As a result, the company's gross profit margin plummeted to 4.6%, and the net profit margin turned negative.In 2021-22, the company's profitability gradually recovered. The gross profit margin has rebounded to 10-15%, and the net profit margin has also shown a gradual recovery. Looking ahead, it is expected that the company's profitability will continue to improve, driven by further optimization of the product structure and an increase in the proportion of overseas markets.

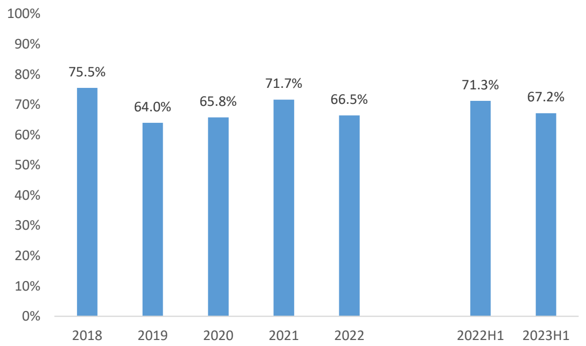
The company has maintained a manageable level of asset-liability ratio. The company's balance sheet is stable, with the asset-liability ratio below 70%. Financial costs have been kept under control.

Figure 8: GPM % and NPM %



Source：Company Data; Essence International

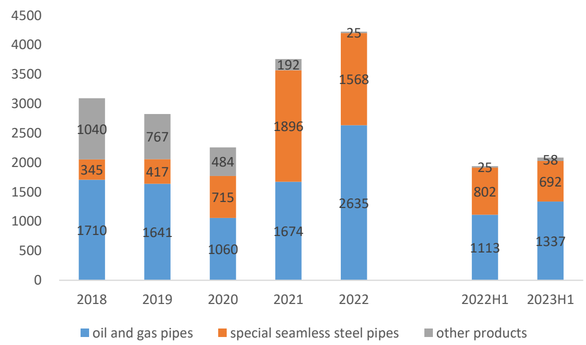
Figure 9:asset-liability ratio %



Source：Company Data; Essence International

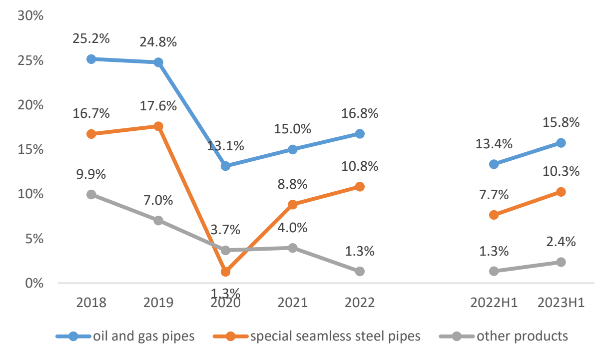
The company's largest revenue contribution comes from oil and gas pipes. The company sells three categories of products: oil and gas pipes, new energy pipes and special seamless steel pipes, other products. The core products are oil and gas pipes, with the highest technical content and accounting for the largest proportion in sales revenue. From 2018 to 2022, the CAGR of revenue from oil and gas pipes was 11.4%. Revenue from oil and gas pipes contributed 54.8% of the company's total revenue. In 2021, due to adjustments in the settlement cycle of customers for oil and gas pipes and an increase in the price of special seamless steel pipes (which can be further processed into pipes for oil and natural gas), the company increased sales of special seamless steel pipes, resulting in a decrease in the proportion of revenue from oil and gas pipes to 45%. The revenue from special seamless steel pipes increased rapidly, with a CAGR of 46% from 2018 to 2022, and it contributed 37.1% to the company's revenue in 2022, making it another important product category for the company. Other products mainly include pipe billets, which can be further processed into seamless steel pipes and pipes for oil and natural gas. They play an important role in the company's production process, reducing costs and improving product quantity and quality control. It is expected that the proportion of revenue from other products will be relatively small in the future.

Figure 10：revenue by poduct types（M RMB）



Source：Company Data; Essence International

Figure 11：GPM by product types%



Source：Company Data; Essence International

The gross profit margin of oil and gas pipes and special seamless steel pipes continues to recover. Among the three product categories, oil and gas pipes have the highest gross profit margin. From 2018 to 2022, the average gross profit margin for oil and gas pipes was 18.6%. In 2020, the gross profit margin for oil and gas pipes dropped to 13%, but it has steadily increased since then. In 2022, the gross profit margin for oil and gas pipes rebounded to

17%. However, compared to the pre-epidemic level of 20-25%, there is still room for improvement. The gross profit margin for special seamless steel pipes is lower than that of oil and gas pipes, with an average gross profit margin of 10.5% from 2018 to 2022. In 2020, the gross profit margin for special seamless steel pipes decreased to 3.7%, but it rebounded to 10.8% in 2022. The gross profit margin for other products is relatively lower, but it exhibits less volatility. In the future, the company will adjust its product structure and increase the sales of high-end products. It is expected that the gross profit margin will further improve.

2. Demand for oil and gas pipes increases

OCTG mainly comprises oil and gas pipes that are widely used in oil and gas field drilling and completion procedures. The oil and gas pipe industry is an important component of the oilfield services and equipment sector, thus its performance closely follows the overall performance of the oilfield services industry. Crude oil price is the key factor influencing the industry's prosperity. As international crude oil and natural gas prices rise to a high level, oil and gas producers increase capital expenditures on upstream exploration and development. Exploration and production are active, and the supply of crude oil and natural gas increases. Therefore when oil prices are at high levels, the demand for oil and gas pipes increases. The oil and gas pipe industry has high entry barriers, including technological barriers, customer recognition barriers and financial barriers. The industry competition pattern is relatively concentrated, and the market share of the top ten in the industry is close to 90%.

The core product of Dalipal Holdings is casing, which is the most consumed type of oil and gas pipes. Oil and gas pipes are widely used in natural gas extraction and production, oilfield drilling and well completion processes. Oil and gas pipes include casing, oil pipe and drill pipe (with an overall consumption ratio of about 75%, 15% and 10% respectively). Casing and oil pipes are used in the well completion process, while drill pipes are used during the drilling process. Oil pipes and drill pipes can be reused in different oil wells, whereas casing is a consumable item and cannot be reused. Casing is used to support the wall of oil and gas wells after the drilling and well completion processes. Therefore, each oil or gas well requires at least one complete set of casing, resulting in a significantly higher consumption of casing compared to tubing and drill pipes.

2.1. Crude Oil prices fluctuate in high range

Crude oil is a commodity, and the price of crude oil is related not only to supply and demand conditions, but also to complex factors such as the financial environment and geopolitics. From a supply and demand perspective, before the epidemic in 2018-2019, due to the rapid growth of U.S. shale oil production, global crude oil supply and demand were balanced, and crude oil prices fluctuated in a weak range. Especially after October 2018, as the United States curbed inflation, increased shale oil production, relaxed sanctions on Iran, and Saudi Arabia increased production, supply increased. In 2019, Brent crude oil prices fell back compared to 2018.In 2020, the pandemic erupted. Global crude oil demand sharply declined, while major oil-producing countries such as OPEC and Russia failed to reach a production cut agreement. As a result, the Brent crude oil price briefly dropped below $20 per barrel. Subsequently, major crude oil-producing countries within OPEC voluntarily reduced production, resulting in a decrease in supply. The oversold prices also stimulated a recovery in demand for crude oil. In addition, the United States adopted active monetary policies and crude oil prices continued to rise.

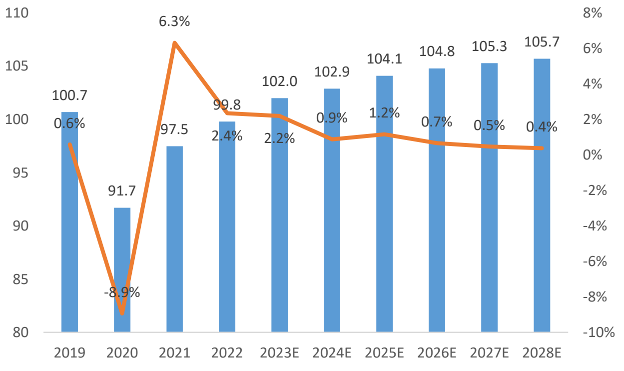
In 2021, global crude oil demand rebounds, crude oil prices fluctuate upward, and the center of the range has exceeded the pre-epidemic level in 2019. In early 2022, the conflict between Russia and Ukraine broke out, Russian crude oil exports were restricted, and awareness of the energy crisis in Europe increased. Oil prices rose rapidly, once exceeding US$140 per barrel. Subsequently, the conflict between Russia and Ukraine eased, OPEC increased production, and the United States raised interest rates, etc. The crude oil prices gradually fell. By the end of 2022, Brent crude oil prices fell back to about US$80/barrel. Since 2023, China's economy has continued to recover after the epidemic, Saudi Arabia and Russia have voluntarily reduced production and crude oil prices have remained at a high level and fluctuated. Since the third quarter of 2023, due to the impact of the Palestinian-Israeli conflict, the market has been concerned about the stability of crude oil supply, and oil prices have rebounded rapidly. Brent crude oil prices are currently back down to about $80/barrel.

Figure 12: Brent Crude Oil Price (USD/BBL)

Source：Wind; Essence International

Global crude oil demand continues to grow. According to data from IEA, due to the impact of the COVID-19 epidemic, global crude oil demand fell sharply to 91.7 million barrels per day in 2020. From 2021 to 2022, as the economies of developed countries recover after the COVID-19 epidemic, global crude oil demand gradually rebounded. In 2023, China's economy recovered after the COVID-19 epidemic, further promoting the growth of global crude oil demand. The IEA predicts that global crude oil demand will reach 102 million barrels per day in 2023, exceeding the pre-epidemic level in 2019. According to the IEA's outlook, in the future, the growth rate of global crude oil demand will slow down as the world continues to promote energy transformation, energy conservation and emission reduction, energy efficiency improvements, and the penetration of electric vehicles. The growth in global crude oil demand mainly comes from the growth in petrochemical demand (especially in emerging economies) and aviation fuel demand. According to IEA forecasts, global crude oil demand will continue to grow from 2023 to 2028. In 2024, global crude oil demand is expected to reach 102.9 million barrels per day.

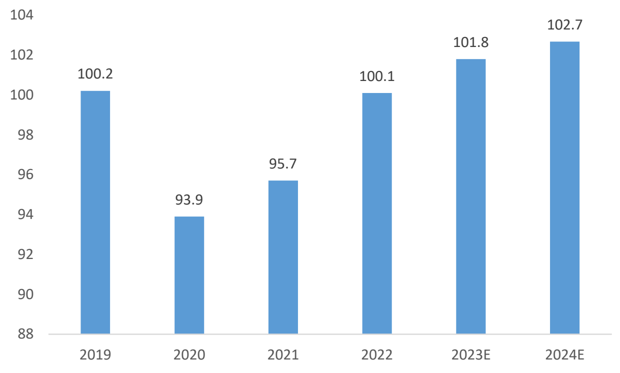
Figure 13: Global oil demand (million barrels/day) and growth rate%



Source：IEA; Essence International

Global crude oil supply and demand are basically balanced. According to the outlook of IEA, future growth in global crude oil supply will mainly come from the United States, Brazil and Guyana, accounting for 80% of global crude oil supply growth. OPEC's overall production growth accounted for 12%. Production in Middle Eastern countries such as Saudi Arabia, the United Arab Emirates, and Iraq is still growing. However, overall production in Russia and Africa has declined, which is why OPEC's overall production growth is smaller. OPEC is expected to still have a voluntary production reduction policy in 2024. According to IEA forecasts, global crude oil supply will reach 101.8 million barrels per day and 102.7 million barrels per day in 2023 and 2024 respectively. Global crude oil supply and demand are generally balanced.

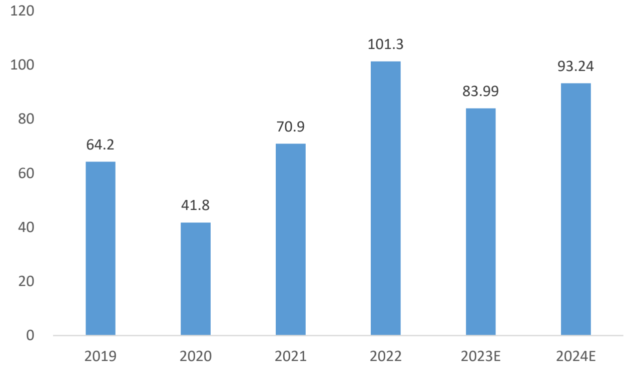
Figure 14: Global oil supply (million barrels/day)



Source：IEA; Essence International

Crude oil prices are expected to fluctuate in a high range. According to the IEA's outlook, crude oil supply and demand will be overall balanced in 2023 and 2024. The anticipated trend for oil prices is to experience fluctuations within a given range, with an expected further increase in the price level compared to 2023, leading to crude oil prices oscillating within a higher range. In its November report, the U.S. Energy Information Administration (EIA) predicted that the average price of Brent crude oil in 2023 would be US$83.99/barrel and that in 2024 the average price of Brent crude oil would be US$93.24/barrel.

Figure 15: Annual average Brent crude oil price (USD/BBL)



Source：PetroChina annual report; EIA; Essence International

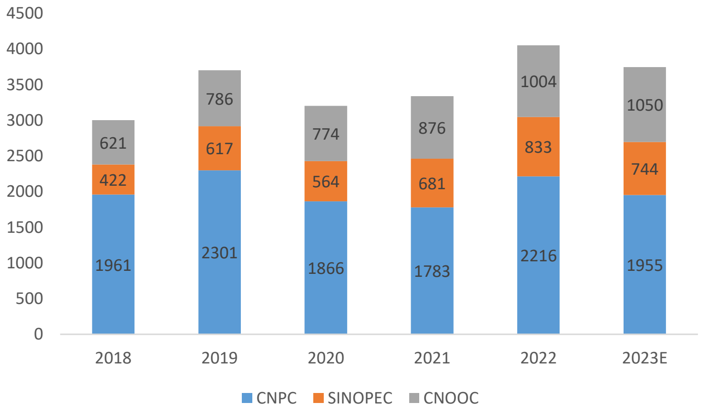
2.2. Demand for oil and gas pipes increases

Oil prices fluctuated in a higher range. After the COVID-19 epidemic had a significant impact on crude oil prices in 2020, crude oil prices continued to rebound, especially in 2022 when they returned to historical highs due to the impact of the Russia-Ukraine conflict. At present, crude oil prices are in a range-bound manner, with the price center at a high level, exceeding the pre-COVID-19 level. According to EIA forecasts, crude oil prices will remain at a relatively high level next year.

With oil prices at a high level, demand for oil and gas pipes has increased. When crude oil prices are high, companies in the oil and gas industry chain will increase capital expenditures. Oil and gas producers will allocate more capital towards exploration and extraction to enhance the supply of oil and gas. These capital expenditures will be converted into revenue for oilfield services and equipment companies. The oilfield services and equipment companies are required to evaluate, construct, and maintain oil and gas wells. They provide technical and testing services and supply equipment necessary for oil and gas extraction and production, serving as both service providers and equipment suppliers. Oil and gas pipes are an essential component of the oil and gas infrastructure. When oil prices are at a high level, demand for oil and gas pipes increases.

The increased capital expenditures in the domestic oil and gas industry have driven robust demand for oil and gas pipes in China. The three major state-owned oil companies, namely CNPC, Sinopec and CNOOC, account for over 90% of China's oil and gas production. The capital expenditures of these three companies essentially represent the capital expenditures in the Chinese oil and gas industry. On one hand, the surge in crude oil prices in 2022 has prompted oil companies to increase their capital expenditures for exploration and development. On the other hand, there is policy support for increasing oil production. Chinese President Xi Jinping proposed the "Four Revolutions and One Cooperation" new energy security strategy, which calls for every effort to increase reserves and production and ensure energy security. In 2022, China's domestic crude oil production exceeded 200 million tons again after a gap of six years. The capital expenditures for exploration and development by the three major oil companies reached 405.3 billion RMB in 2022, surpassing the pre-pandemic level. According to the budget of these companies, the capital expenditures for exploration and development in 2023 are expected to be around 374.9 billion Chinese Yuan, maintaining a high level. CNPC's production accounts for about half of domestic crude oil production, and its exploration and development capital expenditure is about 200 billion RMB. CNOOC, currently in the peak period of offshore oil field exploration and production, is expected to maintain capital expenditures of around 100 billion RMB for exploration and development. In the future, domestic crude oil production will maintain an energy safety line of 200 million tons and crude oil prices will remain at a high level and fluctuate. We expect that the domestic oil and gas industry's exploration and development capital expenditures will remain at a high level, driving the demand for oil and gas pipes.

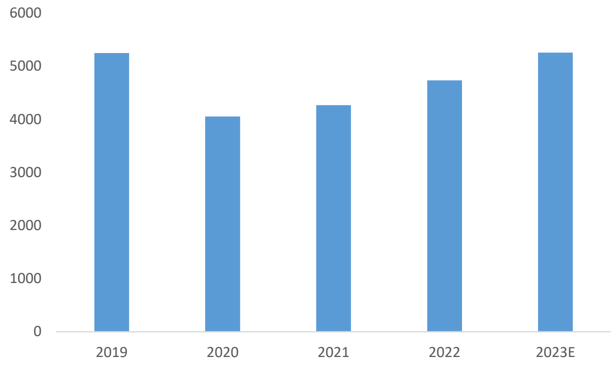
Figure 16: CAPEX of three major oil companies (100million RMB)



Source：annual reports of listed companies; Essence International

Global oil and gas upstream capital expenditures continue to rebound, driving increased demand for oil and gas pips. Oil prices have steadily recovered since their low point in 2020, leading to increased profitability for oil and gas companies and ample motivation for exploration and development activities. Global oil and gas upstream capital expenditures have been on the rise for the past three years. According to IEA forecast, global oil and gas upstream capital expenditures are projected to increase by 11% to approximately $525.7 billion in 2023, approaching the pre-pandemic level of 2019. According to Rystad Energy, a leading global energy industry consulting firm, global oil and gas upstream capital expenditures are expected to remain at high levels between 2023 and 2027. With sustained high levels of global upstream capital expenditures and robust exploration and development activities by oil and gas companies worldwide, the demand for oil and gas pipes is expected to remain strong in the coming years.

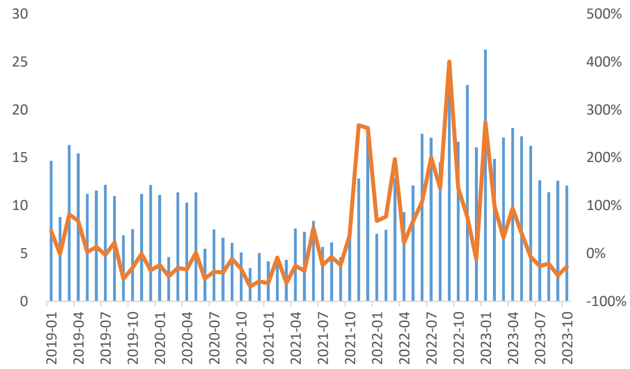
Figure 17: Global oil and gas upstream capital spending (100million USD)



Source：IEA; Essence International

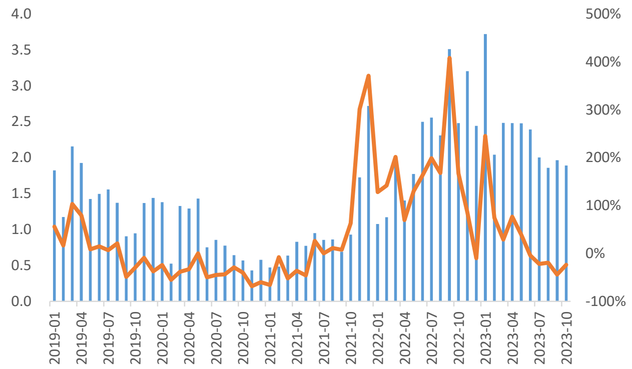
Exports of oil and gas pipes by China remain at a high level. The global oil and gas industry is in a prosperous cycle, leading to a strong demand for oil and gas pipes. China is a major exporter of seamless steel pipes. From 2021, the export volume and value of seamless pipes for oil and gas by China has entered a period of rapid growth. The export is expected to remain high in 2023. We anticipate that global oil and gas upstream capital expenditures will remain at a high level and exports of seamless steel pipes for oil and gas by China will maintain a high level, too.

Figure 18：Export volume of OCTG by China (10 thousand tonnes) and growth rate%



Source：GACC; Essence International

Figure 19:Export value of OCTG by China (100million USD) and growth rate%



Source：GACC; Essence International

After pandemic in 2020, crude oil prices have experienced a sustained upward trend and returned to high levels. Looking ahead, crude oil prices are expected to remain within a range of volatility, with the price center relatively high. With the recovery of oil prices, the global oil and gas industry has entered a prosperous cycle. With increased profitability for oil and gas companies, there is a rise in demand for exploration and development activities to boost future oil and gas production. The exploration and development investments of China's three major oil companies, along with global upstream capital expenditures, are expected to remain at high levels in the coming years, surpassing the pre-pandemic levels of 2019. The increased demand for oil and gas exploration and development has led to a prosperous cycle in the demand for oil and gas pipelines. China is a major manufacturing country for oil and gas pipelines, and both domestic usage and export demand have entered a prosperous cycle.

2.3. OCTG industry has high entry barriers

The OCTG market has high entry barriers. Due to the demanding application environment and high quality requirements from customers, the industry naturally possesses high barriers, including technological barriers, customer access barriers and financial barriers.

- **Oil and gas pipe industry has significant technological barriers.** Oil and gas pipes are widely used in the exploration and production processes of oil and natural gas. Given the complex and ever-changing geological environments, as well as high-temperature, corrosive, or high-pressure conditions during the use of oil and gas pipes, there is a strong demand for high-quality products. Oil and gas pipes manufacturing companies must obtain certification from the American Petroleum Institute (API), which involves a rigorous and complex auditing process. In addition to API standards, oilfield and other clients have even higher requirements for oil and gas pipe products used in different operational environments, such as corrosion resistance, heat resistance, high strength, and toughness. Therefore, oil and gas pipe suppliers need to possess strong technical research and development capabilities to introduce high-end products tailored to different application scenarios.
- **Customers are extremely loyal to high-quality oil and gas pipe suppliers and the customer access barriers are high.** Customers have extremely high quality requirements for oil and gas pipes. Taking oil casing as an example, during the oil well mining and production process, the casing supports the well wall to ensure the normal operation of the oil well after drilling and completion. If there is any problem with the casing, the customer will lose the entire well investment. Therefore, customers have extremely high requirements for the quality of oil and gas pipes. Customers have strong loyalty with oil and gas pipe suppliers that have continuous cooperation and good product quality. New entrants face very high customer entry barriers. Oil and gas pipe suppliers must enter the customer's qualified supplier list before selling to new customers. Customers conduct extremely strict inspections of qualified suppliers, including conducting on-site production base surveys.
- **The oil and gas pipe industry requires high initial investments, leading to strong financial barriers.** The establishment of production bases for oil and gas pipes involves substantial capital expenditure in the early stages. Taking Dalipal Holdings as an example, production base with a capacity of 600,000 tons per year required an initial investment of approximately 2 billion RMB. The high initial investment demands strong financial capabilities from companies seeking to enter the industry.

2.4. Competitive analysis of OCTG market in PRC

The OCTG industry in PRC has a relatively concentrated market share. Due to the high entry barriers, the Chinese oil and gas pipe sector exhibits a higher level of concentration. The top ten suppliers in the Chinese oil and gas pipe industry hold approximately 90% of the market share. These top suppliers include both state-owned enterprises and private enterprises. State-owned enterprises comprise 1) leading steel companies that produce various steel products including OCTG; 2) companies specializing in OCTG. Private enterprises are usually specialized companies focused on OCTG. Due to their specialization, they possess strong market competitiveness in this sector.

According to CIC (a consulting company) , based on the sales of oil and gas pipes in 2018, the market share of the top five oil and gas pipe manufacturers reached 63.7%, while the market share of the top ten manufacturers reached nearly 90%. Specifically, the top two oil and gas pipe manufacturers have a market share of more than 20% and both are state-owned enterprises. Dalipal Holdings ranks third with a market share of 9.6% and ranks first among China private oil pipe manufacturers.

Figure 20: Ranking of OCTG manufacturers in terms of sales value of OCTG

Overall ranking	Private-owned manufacturers ranking	Company	Background	Company description	Sales value (RMB million)	Market share
1	—	Company A	State-owned	A leading manufacturer and distributor of seamless steel pipes and OCTG products in the PRC.	3,672.4	22.9%
2	—	Company B	State-owned	A leading listed steel manufacturing and processing company, its products cover automotive, energy, construction, manufacturing and other industries.	3,505.8	21.8%
3	1	Our company	Private-owned	A leading oilfield equipment enterprise that specialises in manufacturing and selling OCTG.	1,546.9	9.6%
4	2	Company F	Private-owned	A listed professional manufacturer of various seamless steel pipes. Its products are mainly high-end such as small caliber OCTG.	1,510.8	9.4%
5	—	Company E	State-owned	A leading steel manufacturing companies in the PRC, its products cover a wide range of industries.	1,490.4	9.3%
6	3	Company D	Private-owned	A listed company specialising in petroleum machinery processing, manufacturing, sales and services.	1,477.4	9.2%
7	—	Company C	State-owned	A leading steel manufacturing enterprise in the PRC and the majority of its OCTG products are plain-end pipes.	458.6	2.9%
8	4	Company G	Private-owned	Specialises in the manufacture of seamless steel pipes for petroleum. It was acquired in by a foreign company in 2016.	437.3	2.7%
9	5	Company H	Private-owned	Specialises in the production of plain-end pipes. Its main products are large-diameter plain-end pipes mainly used for export.	288.5	1.8%
10	6	Company I	Private-owned	A company specialising in the production and sales of seamless steel pipes.	50.4	0.3%
		Subtotal			**14,438.5**	**89.9%**
		Total			**16,065.3**	**100.0%**

Source：CIC; Company data

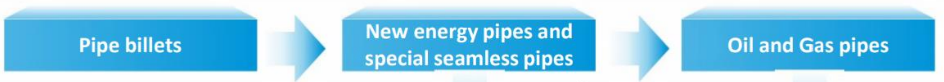
3. Competitive Strengths：

Dalipal Holdings has focused on the oil and gas pipe industry for 25 years and has established a multi-faceted competitive advantage. With its first-mover advantage and rich experiences, the company has maintained excellent cooperation with core customers for over 20 years, resulting in strong customer loyalty. Dalipal has focused on product research and development. Some high-end products, such as DLP-T4 and rare earth corrosion-resistant oil casings, made their debut in the domestic market. Dalipal has a strong technological barrier. The company's overseas sales is rapidly increasing. After the pandemic, with accelerated acquisition of certifications from overseas customers, Dalipal has improved overseas sales network. Overseas sales will be one of the key drivers for the company’s future growth. Dalipal Holdings' production base is located in Cangzhou, Hebei Province, and has achieved intelligent manufacturing, digital management and green production. It operates with high efficiency, strict product quality control, and low labor costs. Seizing the opportunity of increased demand, the company is expanding its production capacity. The new capacity set to commence operations in the first half of 2025.After reaching full capacity, the production capacity will double, driving the company's future performance growth.

3.1. Dalipal Holdings enters a period of rapid development

Dalipal Holdings has achieved a fully integrated production chain, with products covering pipe billets, new energy pipes and special seamless steel pipes, oil and gas pipes. Therefore Dalipal responses rapidly to customer demands and has strong control over product quality. The company's production base is located at Bohai New District, in Cangzhou, Hebei Province, China. The company has a fully integrated production chain layout, utilizing scrap metal as its primary raw material. Its production capacity covers pipe billets, special seamless steel pipes, oil and gas pipes. As a result, the company achieves high production efficiency and strong control over product quality. Furthermore, oil and gas pipes are used in various complex geological environments, and customers often have customized requirements. The fully integrated production chain model enables the company to quickly respond to customer demands and enhance customer satisfaction. In 2023, the annual production capacities for pipe billets, special seamless steel pipes, oil and gas pipes, are 600,000 tons, 500,000 tons, and 350,000 tons respectively.

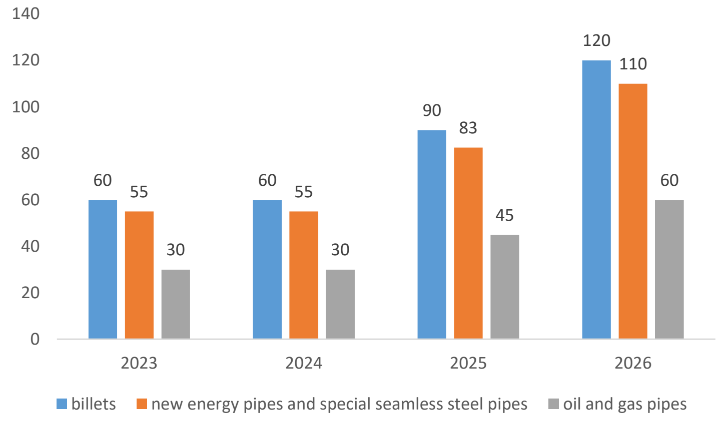
Figure 21：Dalipal Holdings’ fully integrated production chain



Source：Company Data; Essence International

Dalipal Holdings grasps the industry boom cycle and rapidly expands production. The company's production capacity is currently expanding at Bohai New District, with completion expected in the first quarter of 2025. After that, the annual production capacity of Dalipal Holdings for pipe billets, special seamless steel pipes, oil and gas pipes will double. The company's current production capacity is at full capacity. The significant increase in capacity in 2025 is expected to drive rapid growth in the company's future performance. The capital expenditure for capacity expansion is expected to exceed 2 billion RMB. The company will finance the investment through its own cash reserves and bank loans.

Figure 22：Dalipal Holdings' Production Capacity（10000tons/year）



Source：Company Data; Essence International

3.2. Intelligent, digital and green manufacturing

The production base of Dalipal Holdings is fully equipped with intelligent production and digital management. The company has built an intelligent production line composed of robots, CNC machines, logistics warehousing, inspection equipment and automated production lines. The intelligent and digital production line improves production efficiency and significantly reduces labor costs; it also realizes product identification, information collection and statistical analysis functions in the production process. It enhances the product traceability, effectively controls product quality and provides better assurance for customers. Furthermore, Dalipal Holdings has pioneered the use of unmanned intelligent turnover warehouse in China, enabling automatic turnover and information tracking between all production processes, enhancing operational efficiency and shortening delivery cycles.

Figure 23：Command Center

Source：Company Data; Essence International

Figure 24: Intelligent Turnaround Library

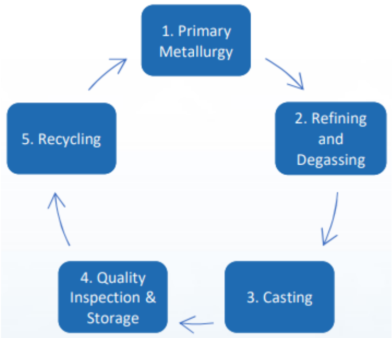
Figure 25: Intelligent Manufacturing Unit

Figure 26: Oil Casing Intelligent Processing Production Line

Source: Company Data; Essence International

Dalipal's production processes are environmentally friendly, focusing on energy conservation and emission reduction. The company's production base has been recognized as a national-level green factory, showcasing its comprehensive strength in energy efficiency, resource utilization and product energy consumption. Dalipal Holdings has developed a electric arc furnace waste metal recycling and reusable cyclic system, which utilizes scrap steel as raw materials, providing greater energy efficiency and emission reduction compared to traditional smelting processes that use iron ore. The electric arc furnace smelting process reduces the smelting cycle by 10% and carbon emissions by over 10%.Dalipal has introduced advanced low-nitrogen combustion, adsorption, and catalytic combustion technologies to monitor, purify and collect emissions, effectively reducing atmospheric pollution. The company's wastewater treatment station strengthens the recycling of industrial water, while the transformation of the circular furnace incorporates waste heat recovery technology to conserve resources and reduce waste emissions. Dalipal achieves green production, reducing pollution emissions, enhancing material recycling and decreasing the use of natural gas and electricity, further reducing production costs.

Figure 27: Electric arc furnace waste metal recycling and reusable cyclic system

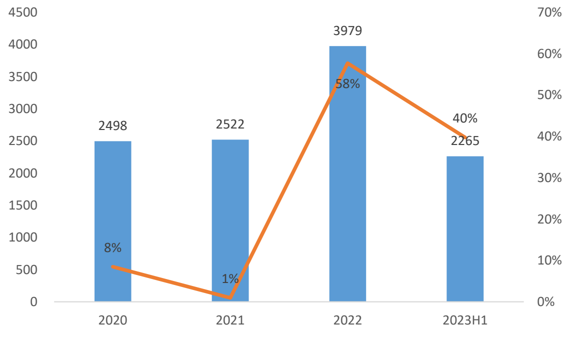


Source: Company Data; Essence International

3.3. Develop high-end products, leading technology

Dalipal actively invests in product research and development to maintain technological leadership in the industry. Dalipal Holdings has established an R&D center in Cangzhou City, Hebei Province, with advanced R&D facilities and a strong team. It also cooperates with domestic universities and research institutes in R&D. Dalipal Holdings attaches great importance to the R&D of high-end products and has maintained stable investment in research and development expenses over the past years. From 2022, R&D expenses increases rapidly, which further reflects the company's commitment to developing high-end products and maintaining its technological leadership in the industry.

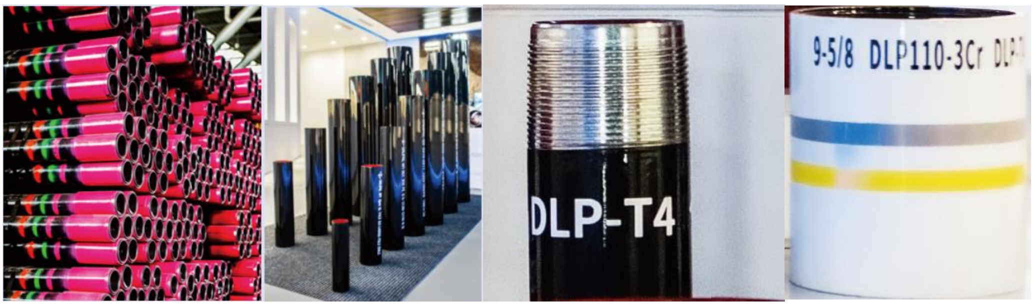
Figure 28: R&D costs (10000 RMB) and growth rate %



Source：Company Data; Essence International

Dalipal Holdings has a variety of high-end products with leading technologies and popular in the market. In addition to conventional API series casing and oil pipes, Dalipal Holdings continues to develop high-collapse-resistant series casing, heat-resistant series casing, high-strength and high-toughness series casing, anti-sulfide stress corrosion series casing and economical Carbon dioxide corrosion-resistant series casings and other innovative corrosion-resistant high-strength and high-toughness casings with independent intellectual property rights are leading in technology and popular in the market. They are used in Southwest Oil and Gas Field, Xinjiang Oil Field, Shengli Oil Field, and North China Oil Field etc. The company independently designed the DLP-T series special buckle products. DLP-T4 has passed the level 4 evaluation test of API 5C5 2017 in the United States. It has been used in large quantities for shale gas mining in wells with extraordinary depth of more than 6,000 meters of the Southwest Oil and Gas Fields. The first rare earth corrosion-resistant oil casing was launched domestically at the end of 2022. After three-years of joint research and development with well-known domestic universities, the collaboration had achieved the launch of the first domestic launch of rare earth corrosion-resistant oil casing in November 2022.Compared with conventional oil casing products, rare earth corrosion-resistant oil casing has a corrosion resistance performance increase of more than 50% without increasing costs, which can significantly improve the lifespan of oil and gas wells, reduce extraction costs, and enhance the safety of petroleum engineering. Dalipal Holdings continues to launch a variety of high-end products, with industry-leading technical strength.

Figure 29: Dalipal Holdings' high-end products



Source：Company Data; Essence International

Dalipal Holdings has leading R&D capabilities places a strong emphasis on R&D investments. It has successively launched a seires of high-end products with independent intellectual property rights. These high-end products, characterized by their outstanding performance, meet market demands and command premium prices, resulting in better unit profitability. The company has been accelerating the launch of high-end products in recent years, such as DLP-T4, which has significant market potential; the company continues to invest in R&D and is expected to launch more high-end products in the future. We expect that the penetration rate of high-end products of Dalipal Holdings will further increase in the future, which will further enhance the company's overall profitability.

3.4. Focus on OCTG markets, strong customer loyalty

The company has developed strong relationships with its core customers, some of which have been going for over two decades. The main customers in oil and gas pipe market are oil companies. Dalipal Holdings is a supplier to China's three major state-owned oil companies, CNPC, Sinopec and CNOOC. Among them, CNPC is the company's largest customer and the business partnership has spanned over 2 decades. Dalipal Holdings was funded in 1998 and began to sell products to its first oilfield customers in 1999. Since oil and gas pipes are important equipment in oil field exploration and production, the quality requirements are extremely high. Once there is a problem with the casing, the customer's initial exploration and completion costs may be wasted. Customers have a very strong stickiness to excellent suppliers. In many years of cooperation, the quality of Dalipal products has been recognized by customers and the cooperative relationship has been good.

The company fully grasps customer needs, provides excellent service to deliver more value to clients. The top management and entrepreneurial team are all from the oil field system. They have a deep understanding of the oil field system business. They can promptly grasp customer requirements, conduct in-depth analysis, and respond quickly. The company's products are traceable, allowing for swift analysis and improvement of any issues. The company's production capacity covers the entire industry chain and it has the ability to respond quickly to product customization. With its excellent service, the company provides customers with additional value.

High-end and customized products are continuously launched to improve customer satisfaction. In recent years, Dalipal has supplied a large quantity of non-API customized and high-end products in the bidding of CNPC and Sinopec, gaining recognition from core customers. The company announced in August that in annual casing bidding project of CNOOC, it won nearly 180,000 tons of bids, accounting for 30% of the existing annual designed production capacity; among them, non-API gas-sealed casings and 3Cr high-value-added high-end products were won the bid for the first time. Non-API customized and high-end products are recognized by customers and improve customer satisfaction.

Dalipu Holdings maintains a strong relationship with its core customers through years of cooperation, providing excellent services and further enhancing customer satisfaction through high-end and customized products. Due to characteristics of oil and gas pipes, customers have a strong preference for outstanding suppliers. Dalipu Holdings enjoys a significant first-mover advantage in terms of its customer base, which provides it with a clear competitive edge compared to new entrants.

3.5. Overseas Market Revenue Grows

Dalipal Holdings has continuously expanded its overseas sales network. Since 2005, the company has has been laying out overseas markets and has gained market access to oil and gas fields in many countries. The company's products are sold to 23 countries around the world. The company utilizes both direct sales and distribution channels for its sales operations. Dalipal Holdings has obtained certifications from major international oil companies such as Kuwait Petroleum Corporation, Turkish Petroleum Corporation, Occidental Petroleum Corporation, Thailand, Egypt, Oman, and Ecuador, and has been recognized by renowned international trading companies such as Metal One, Marubeni- Itochu and Sumitomo from Japan, securing a spot on the supplier list of these large international corporations. After the end of the COVID-19 pandemic in 2023, many international companies visited Dalipal's factory in Hebei for on-site factory inspections. This accelerated the expansion of international clientele. The company's marketing team recently participated in the 2023 ADIPEC to promote its products to potential oil companies in the Middle East.

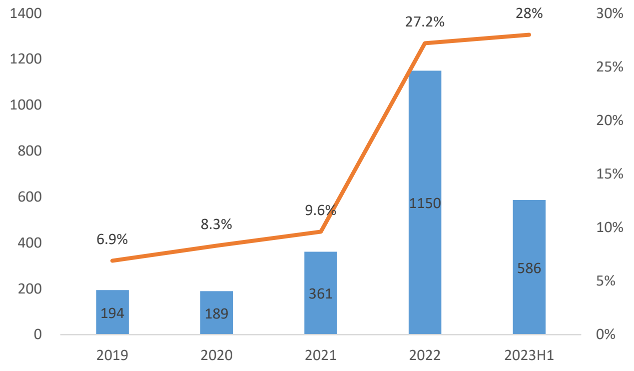
Figure 30: Sales Network Worldwide

Source：Company Data; Essence International

Dalipal Holdings' overseas sales revenue has entered a rapid growth phase. In early 2020, the COVID-19 pandemic spread globally and the global economy was affected. Brent crude oil prices briefly dropped below $20 per barrel, leading to reduced exploration willingness among international oil companies and a decline in overseas demand for oil and gas pipes. After pandemic, overseas market demand has rebounded, and the company has actively explored overseas markets. The Middle East and North Africa markets offer significant potential due to dense oilfield distribution and large oil production. The company has developed its sales network in these regions to enhance sales value. From 2019 to 2022, the company's overseas sales achieved a CAGR of 81%. In the first half of 2023, overseas sales revenue increased by 73% year-on-year. The revenue from overseas markets has entered a phase of rapid growth. The proportion of overseas sales in the company's total sales increased from 7% in 2019 to 28% in the first half of 2023. In the first half of 2023, the majority of the company's overseas sales revenue came from the Middle East and North Africa region, accounting for over 90%. Based on the company's proactive sales strategy, the Middle East and North Africa markets will continue to be the main overseas market of Dalipu Holdings in the future.

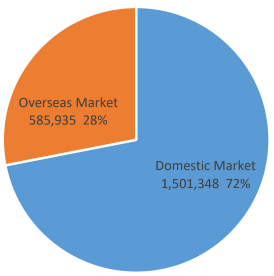
As crude oil prices continue to fluctuate in the higher range, demand for oil and gas pipes in overseas markets will continue to be strong. With Dalipal Holdings' proactive expansion in the international market, we anticipate a continuous growth in the company's overseas sales revenue, with an increased share in total sales. Furthermore, products sold in overseas markets with higher prices and better profitability, which enhances the overall profitability of the company.

Figure 31: Overseas Market Revenue (million RMB) and Growth Rate%



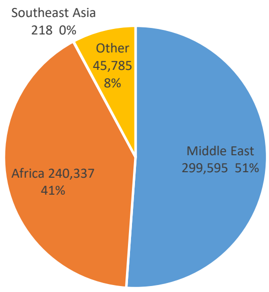
Source：Company Data; Essence International

Figure 32：2023H1 Revenue in Markets



Source：Company Data; Essence International

Figure 33：2023H1 Overseas Revenue Breakdown



Source：Company Data; Essence International

4. Forecast and Valuation

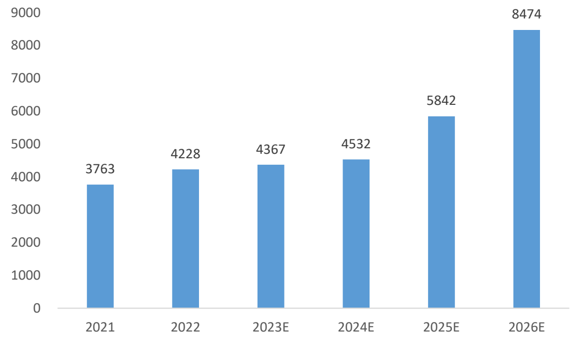
4.1. Forecast

Key assumptions:

- New product capacity set to commence operations in 2025H1
- After capacity expansion, the product capacity will be approximately 800,000 tonnes of OCTG, 1 million tonnes of seamless steel pipes and 1.2-1.4 million tonnes of pipe billets
- The demand for oil and gas pipes remains robust in the following 3 years
- An increasing penetration rate of high-end products and overseas sales

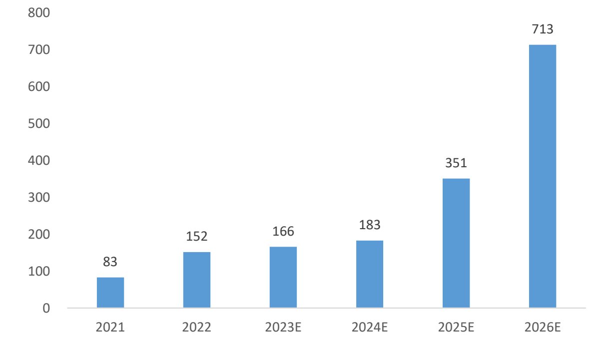
From 2022-2026E, we expect that CAGR of Dalipal Holdings' revenue will reach 19.0% and CAGR of the net profit will reach 47.3%. According to the core assumptions, the company's production capacity will enter a phase of rapid expansion in 2025-2026. The new product capacity will commence operations in 2025H1. The demand for domestic and overseas oil field exploration and production remains booming, and the demand for oil and gas pipes is robust. Dalipal Holdings continues to invest in research and development to accelerate the launch of high-end products and the penetration rate of high-end products and overseas sales continues to increase. In this process, the company's profitability will enhance, and both gross profit margin and net profit margin will continue to improve. We forecast the company's revenue for 2023, 2024, 2025, and 2026 to be RMB 4.37 billion, RMB 4.53 billion, RMB 5.84 billion and RMB 8.47 billion, respectively, with a CAGR of 19.0%. The company's overall profitability and gross profit margin will increase. We estimate the company's net profit for 2023, 2024, 2025, and 2026 to be RMB 170 million, RMB 180 million, RMB 350 million and RMB 710 million, respectively, with a net profit CAGR of 47.3%. We expect that, driven by the expansion of production capacity, the company's performance will enter a period of substantial growth in 2025-2026.

Figure 34：Revenue (million RMB)



Source：Company Data; Essence International

Figure 35：Net Profit (million RMB)



Source：Company Data; Essence International

4.2. Valuation

Maintain Buy Rating, using DCF valuation, target price HK$ 7.88: Dalipal Holdings is currently expanding product capacity, with the new capacity set to commence operations in the first half of 2025. The expansion will effectively double the company's annual production capacity, resulting in approximately 800,000 tonnes of OCTG, 1 million tonnes of seamless steel pipes and 1.2-1.4 million tonnes of pipe billets. The penetration rate of high-end products and overseas sales continues to increase. We estimate the net profit of Dalipal Holdings will surge in 2025-26. The company plans to maintain a dividend payout ratio of 40%, continuously sharing the company's growth benefits with shareholders. Based on a DCF valuation model, we have calculated a target price of HKD 7.88, representing about 85% upside potential compared to the current stock price.

Figure 36：DCF Valuation

(year end 31/12; RMB 000)	FY 2023 forecast	FY 2024 forecast	FY 2025 forecast	FY 2026 forecast	FY 2027 forecast	FY 2028 forecast	FY 2029 forecast	FY 2030 forecast	FY 2031 forecast	FY 2032 forecast	FY 2033 forecast
Revenue	4,366,786	4,531,872	5,842,150	8,473,880	9,321,268	10,253,395	10,971,132	11,519,689	12,095,673	12,337,587	12,584,338
growth rate%	3.3%	3.8%	28.9%	45.0%	10.0%	10.0%	7.0%	5.0%	5.0%	2.0%	2.0%
EBIT	305,500	331,376	533,310	1,014,066	1,258,371	1,384,208	1,371,392	1,439,961	1,511,959	1,542,198	1,573,042
growth rate%	8.2%	8.5%	60.9%	90.1%	24.1%	10.0%	-0.9%	5.0%	5.0%	2.0%	2.0%
EBIT margin %	7.0%	7.3%	9.1%	12.0%	13.5%	13.5%	12.5%	12.5%	12.5%	12.5%	12.5%
effective tax rate%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT x (1-effective tax rate)	259,675	281,669	453,313	861,956	1,069,615	1,176,577	1,165,683	1,223,967	1,285,165	1,310,869	1,337,086
+ depreciation	125,948	117,286	179,214	191,711	193,628	195,565	197,520	199,495	201,490	203,505	205,540
+ amortization	-	-	-	-	-	-	-	-	-	-	-
+ Change in working capital	-41,866	72,208	-33,949	-182,938	72,930	73,660	74,396	75,140	75,892	76,650	77,417
- CAPEX	-384,871	-1,466,667	-366,667	-	-	-	-	-	-	-	-
FCF	**-41,114**	**-995,503**	**231,912**	**870,729**	**1,336,174**	**1,445,801**	**1,437,599**	**1,498,603**	**1,562,547**	**1,591,024**	**1,620,043**
Discount year	0	1	2	3	4	5	6	7	8	9	10
Discount factor	1.0000	0.9074	0.8234	0.7472	0.6781	0.6153	0.5584	0.5067	0.4598	0.4172	0.3786
FCF present value	**-41,114**	**-903,360**	**190,967**	**650,636**	**906,018**	**889,612**	**802,691**	**759,303**	**718,423**	**663,808**	**613,353**

FY2023-33 FCF present value in total	5,291,452
terminal value	7,629,516
EV	**12,920,968**
- Net debt	-1,694,896
- MI	-
DCF valuation	11,226,073
assumption:	
WACC	10.2%
perpetual growth rate	2%

Source: Essence International estimates

Figure 37：Valuation Comparison

Name	Code	Mkt cap	Price	Last rpt	P/E (x)				EPS gth (%)				Yield (%)			P/B (x)			*Net dbt	ROE	ROA
		(HK$mn)	(HK$)	Y/E, Y0	Y0	Y1f	Y2f	Y3f	Y0	Y1f	Y2f	Y3f	12mth	Y1f	Y2f	Y0	Y1f	Y2f	/eqy %	%	%
H share																					
CHINA OILFIELD SERVICES-H	2883 HK	59,802	7.29	31/12/2022	13.6	10.2	7.9	6.4	651.5	33.7	29.3	22.7	2.47	3.03	3.94	0.81	0.77	0.71	33.0	6.4	3.26
SINOPEC OILFIELD SERVICE -H	1033 HK	27,901	0.445	31/12/2022	17.1	n/a	n/a	n/a	166.7	n/a	n/a	n/a	n/a	n/a	n/a	1.05	n/a	n/a	358.1	8.6	0.96
DALIPAL HOLDINGS LTD	1921 HK	6,281	4.2	31/12/2022	38.6	n/a	n/a	n/a	66.7	n/a	n/a	n/a	0.96	n/a	n/a	4.12	n/a	n/a	105.7	13.0	3.99
SHANDONG MOLONG PETROLEUM-H	568 HK	2,923	2.06	31/12/2022	-ve E	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.53	n/a	n/a	187.4	-43.0	-10.38
ANTON OILFIELD SERVICES GP	3337 HK	1,413	0.47	31/12/2022	4.3	5.4	4.3	3.3	306.8	-21.0	25.0	30.0	n/a	n/a	n/a	0.42	n/a	n/a	60.6	10.0	3.45
JUTAL OFFSHORE OIL SERVICES	3303 HK	1,011	0.5	31/12/2022	-ve E	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.44	n/a	n/a	-9.9	0.1	0.04
HONGHUA GROUP	196 HK	868	0.096	31/12/2022	-ve E	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.16	n/a	n/a	147.8	-9.1	-2.17
CM ENERGY TECH CO LTD	206 HK	727	0.224	31/12/2022	3.5	n/a	n/a	n/a	182.8	n/a	n/a	n/a	4.44	n/a	n/a	0.55	n/a	n/a	-5.2	18.6	10.39
HILONG HOLDING LTD	1623 HK	387	0.228	31/12/2022	2.5	n/a	n/a	n/a	218.4	n/a	n/a	n/a	n/a	n/a	n/a	1.89	n/a	n/a	66.4	6.8	2.90
SPT ENERGY GROUP INC	1251 HK	408	0.215	31/12/2022	28.3	9.9	9.9	6.6	40.0	185.7	0.0	50.0	n/a	n/a	n/a	0.30	n/a	n/a	23.7	1.0	0.46
A share																					
CHINA OILFIELD SERVICES-A	601808 CH	55,013	14.63	31/12/2022	29.7	21.6	16.8	13.9	651.5	37.5	28.3	20.9	1.10	1.39	2.41	1.77	1.67	1.56	33.0	6.4	3.26
YANTAI JEREH OILFIELD-A	002353 CH	28,801	28.48	31/12/2022	12.5	11.8	9.7	8.0	36.7	6.3	21.9	21.2	1.18	1.19	1.45	1.69	1.50	1.32	-2.3	13.2	7.93
SINOPEC OILFIELD SERVICE C-A	600871 CH	25,667	1.75	31/12/2022	72.9	n/a	n/a	n/a	166.7	n/a	n/a	n/a	n/a	n/a	n/a	4.47	n/a	n/a	358.1	7.9	n/a
OFFSHORE OIL ENGINEERING-A	600583 CH	25,290	5.7	31/12/2022	17.3	12.3	9.5	7.5	312.5	40.9	29.7	26.2	1.75	2.98	3.47	1.06	1.00	0.94	-25.9	8.4	4.92
CHINA PETROLEUM ENGINEERIN-A	600339 CH	15,912	2.86	31/12/2022	22.2	14.7	11.7	10.0	56.9	51.0	25.6	16.3	1.37	n/a	n/a	0.63	n/a	n/a	-84.6	2.8	0.70
ZHONGMAN PETROLEUM AND NAT-A	603619 CH	7,288	18.24	31/12/2022	14.5	8.3	5.9	4.7	641.2	75.4	40.0	26.7	n/a	n/a	n/a	3.13	3.00	2.45	84.0	32.1	10.48
CHINA OIL HBP SCIENCE & TE-A	002554 CH	3,933	2.99	31/12/2022	24.9	11.1	7.3	6.0	71.4	125.0	51.9	22.0	0.41	n/a	n/a	1.62	0.53	0.50	29.0	6.4	3.09
BOMESC OFFSHORE ENGINEERI-A	603727 CH	3,316	11.85	31/12/2022	51.5	-ve E	24.7	10.7	-65.7	n/a	n/a	131.3	1.27	n/a	n/a	1.00	1.03	0.99	-34.5	-2.6	-1.78
NANJING DEVELOP ADVANCED M-A	688377 CH	4,287	22.43	31/12/2022	35.6	23.1	16.8	11.8	270.6	54.4	37.4	42.1	0.73	0.71	0.71	2.65	2.42	2.14	11.9	8.9	6.11
DEZHOU UNITED PETROLEUM TE-A	301158 CH	2,210	14.92	31/12/2022	28.7	22.6	17.8	15.1	-5.5	26.9	27.3	17.9	1.09	n/a	n/a	1.78	n/a	n/a	-36.9	6.6	5.43
SHANDONG MOLONG PETROLEUM-A	002490 CH	2,689	4.13	31/12/2022	-ve E	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.34	n/a	n/a	187.4	-43.0	-10.38
JIANGSU CHANGBAO STEELTUBE-A	002478 CH	4,669	5.23	31/12/2022	10.1	6.1	5.6	5.2	270.7	64.8	8.2	7.9	3.47	n/a	n/a	1.02	0.94	0.82	7.2	15.7	9.57
NEW JCM GROUP CO LTD-A	300157 CH	2,315	3.25	31/12/2022	-ve E	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9.85	n/a	n/a	-53.0	n/a	-3.84
Average					23.8	13.1	11.4	8.4													

Source: Bloomberg

5. Risks

1）Crude oil prices decline significantly；

2）Steel prices fluctuate significantly；

3）Product capacity expansion slower than expected

Appendix：forecasts

(year end 31/12；RMB 000)	FY 2021A	FY 2022A	FY 2023E	FY 2024E	FY 2025E	FY 2026E
Revenue	**3,762,629**	**4,227,802**	**4,366,786**	**4,531,872**	**5,842,150**	**8,473,880**
COGS	(3,345,114)	(3,616,874)	(3,726,339)	(3,855,348)	(4,872,465)	(6,855,270)
Gross Profit	**417,515**	**610,928**	**640,447**	**676,524**	**969,685**	**1,618,610**
Other income(excluding Interest income)	19,135	29,850	27,497	30,997	30,997	30,997
Selling expenses	(98,518)	(186,864)	(183,405)	(190,339)	(233,686)	(338,955)
Administrative expenses	(121,635)	(171,499)	(179,038)	(185,807)	(233,686)	(296,586)
Profit from operations	**216,497**	**282,415**	**305,500**	**331,376**	**533,310**	**1,014,066**
Interest income	2,097	3,359	2,212	2,212	2,212	2,212
Finance costs	(118,839)	(108,828)	(112,406)	(117,829)	(122,685)	(177,951)
Profit before taxation	**99,755**	**176,946**	**195,307**	**215,759**	**412,836**	**838,326**
Income tax	(16,816)	(25,362)	(29,296)	(32,364)	(61,925)	(125,749)
MI	0	0	0	0	0	0
Net Profit	**82,939**	**151,584**	**166,011**	**183,395**	**350,911**	**712,578**
EBITDA	340,619	411,282	431,448	448,662	712,524	1,205,777
EBIT	216,497	282,415	305,500	331,376	533,310	1,014,066
Growth rate (%)						
Revenue	66.5%	12.4%	3.3%	3.8%	28.9%	45.0%
Gross profit	299.9%	46.3%	4.8%	5.6%	43.3%	66.9%
Net profit	NA	82.8%	9.5%	10.5%	91.3%	103.1%
EBITDA	403.5%	20.7%	4.9%	4.0%	58.8%	69.2%
EBIT	NA	30.4%	8.2%	8.5%	60.9%	90.1%
Balance Sheet						
Non-current assets	**1,873,900**	**1,831,450**	**2,072,283**	**3,421,663**	**3,609,115**	**3,417,404**
Property, plant and equipment	1,873,900	1,831,450	2,072,169	3,421,549	3,609,001	3,417,290
Deferred tax assets	0	0	114	114	114	114
Current assets	**2,877,586**	**2,354,930**	**2,438,252**	**2,246,435**	**2,671,660**	**2,945,002**
Trade and bills receivables	1,518,690	1,095,685	1,131,704	1,132,968	1,298,256	1,540,705
Inventories	779,594	753,917	776,734	723,263	749,610	914,036
Cash and cash equivalents	551,612	464,892	488,605	348,996	582,586	449,053
Total assets	**4,751,486**	**4,186,380**	**4,510,534**	**5,668,099**	**6,280,775**	**6,362,406**
Current liabilities	**2,734,558**	**1,988,089**	**1,976,859**	**2,008,745**	**2,178,434**	**2,281,131**
Interest-bearing borrowings	1,816,926	1,176,756	1,188,524	1,200,409	1,212,413	1,091,172
Trade and bills payables	916,670	795,682	772,225	792,225	949,910	1,173,848
Others	962	15,651	16,111	16,111	16,111	16,111
Non-current liabilities	**670,389**	**793,991**	**1,025,239**	**2,040,880**	**2,273,321**	**1,824,709**
Interest-bearing borrowings	650,300	762,300	994,977	2,010,618	2,243,059	1,794,447
Others	20,089	31,691	30,262	30,262	30,262	30,262
Total liabilities	**3,404,947**	**2,782,080**	**3,002,098**	**4,049,625**	**4,451,755**	**4,105,840**
Share capital	134,362	134,140	134,545	134,545	134,545	134,545
Reserves	1,212,177	1,270,160	1,373,891	1,483,929	1,694,475	2,122,022
Shareholders' equity	**1,346,539**	**1,404,300**	**1,508,436**	**1,618,474**	**1,829,020**	**2,256,567**
MI	-	-	-	-	-	-
TOTAL EQUITY	**1,346,539**	**1,404,300**	**1,508,436**	**1,618,474**	**1,829,020**	**2,256,567**
Net debt/(cash)	1,915,614	1,474,164	1,694,896	2,862,031	2,872,886	2,436,566
Net debt/equity (%)	142.3%	105.0%	112.4%	176.8%	157.1%	108.0%

(next page…)

Forecasts:

(year end 31/12；RMB 000)	**FY 2021A**	**FY 2022A**	**FY 2023E**	**FY 2024E**	**FY 2025E**	**FY 2026E**
Cash Flow						
Profit before tax	99,755	176,946	195,307	215,759	412,836	838,326
Depreciation	124,122	128,867	125,948	117,286	179,214	191,711
Change in working capital	(676,571)	316,099	(41,866)	72,208	(33,949)	(182,938)
Other	166,388	142,227	140,282	76,300	(8,458)	(11,731)
Operating Cash Flow	**(286,306)**	**764,139**	**419,671**	**481,553**	**549,643**	**835,368**
Capex	(84,664)	(82,944)	(384,871)	(1,466,667)	(366,667)	(82,944)
Other	58,336	3,844	4,882	2,212	2,212	2,212
Investing Cash Flow	**(26,328)**	**(79,100)**	**(379,989)**	**(1,464,455)**	**(364,455)**	**(80,732)**
Change in debt	544,974	(528,170)	244,444	1,027,527	244,444	(569,853)
Other	(113,470)	(221,336)	(179,404)	(184,233)	(196,043)	(318,316)
Financing Cash Flow	**431,504**	**(739,506)**	**65,040**	**843,294**	**48,401**	**(888,169)**
Net increase / (decrease) in cash	118,870	(54,467)	104,722	(139,608)	233,589	(133,533)
Finance Ratio						
P/E (x)	69.1	37.7	34.5	31.3	16.4	8.1
P/B (x)	4.3	4.1	3.8	3.5	3.1	2.5
Dividend yield (%)	0.6	0.9	1.2	1.3	2.4	5.0
Gross margin (%)	11.1%	14.5%	14.7%	14.9%	16.6%	19.1%
EBITDA margin (%)	9.1%	9.7%	9.9%	9.9%	12.2%	14.2%
Pre-tax profit margin (%)	2.7%	4.2%	4.5%	4.8%	7.1%	9.9%
Net margin (%)	2.2%	3.6%	3.8%	4.0%	6.0%	8.4%
SG&A/sales (%)	5.9%	8.5%	8.3%	8.3%	8.0%	7.5%
Effective tax rate (%)	16.9%	14.3%	15.0%	15.0%	15.0%	15.0%
ROE (%)	6.4%	11.0%	11.4%	11.7%	20.4%	34.9%
ROA (%)	2.0%	3.4%	3.8%	3.6%	5.9%	11.3%
Current ratio (x)	1.05	1.18	1.23	1.12	1.23	1.29
A/R turnover days (s)	110.2	112.9	93.1	91.2	75.9	61.1
Interest coverage (x)	1.85	2.68	2.77	2.87	4.43	5.77
Net debt/ (cash) to equity (%)	142.3%	105.0%	112.4%	176.8%	157.1%	108.0%
Total asset to equity ratio (x)	3.53	2.98	2.99	3.50	3.43	2.82
Dividend payout ratio (%)	44.4%	35.3%	40.0%	40.0%	40.0%	40.0%

Source：Company Report; Essence International estimates

Customer Service Hotline

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Company Rating System

BUY	- Expecting return of over 15% in coming six months
ACCUMULATE	- Expecting return of 5% to 15% in coming six months
NEUTRAL	- Expecting return of -5% to 5% in coming six months
REDUCE	- Expecting return of -5% to 15% in coming six months
SELL	- Expecting return of less than -15% in coming six months

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