

Zhejiang Dingli (603338 CH)

New AWP capacity expansion plan to further enhance global competitiveness

Zhejiang Dingli (Dingli) announced over the weekend that it plans to spend RMB1.7bn to build a new production base for 20k units of new energy aerial work platform (AWP). We understand that the entire capacity will be for scissors lifts, given the rising demand for electric and advanced models in the overseas. We estimate the new capacity will add 30% capacity in 2026-27E. With net cash of ~RMB3bn based on our estimate, Dingli has sufficient internal resources to finance the capex without the need to go for equity financing. While there will be no earnings contribution before 2026E, we believe the expansion plan will help further enhance Dingli's global competitiveness. Maintain **BUY** with unchanged target price of RMB70 (18x 2024E P/E, 1SD below the historical average of 31x). Meanwhile, we believe **Jiangsu Hengli (601100 CH, BUY)**, the major supplier of hydraulic components and motors, will also benefit from Dingli's capacity expansion over the medium term.

- New capacity and sales contribution:** Dingli's board of directors approved on 22 Mar a plan to construct a new production base for 20k units of new energy AWP. Dingli estimates it will take 36 months to complete the construction. We see chance that the capacity will commence earlier than planned, given the previous capacity expansion experience. Dingli estimates that, under normal circumstances, the annual sales contribution from the new capacity could reach ~RMB2.5bn.
- Location of the new capacity:** Dingli currently has five production bases in Deqing, Zhejiang. The site area has been fully utilized. Therefore, Dingli will need to acquire a piece of new land in Deqing for the planned new capacity.
- Capex:** The total budget is estimated at RMB1.7bn, which include the acquisition of land, construction work and equipment procurement.
- Key risks:** (1) Further intensified competition in China's AWP market; (2) slowdown of overseas demand; and (3) sharp rebound of RMB rate.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,939	5,445	6,267	7,508	8,646
YoY growth (%)	67.1	10.2	15.1	19.8	15.2
Net profit (RMB mn)	884.5	1,257.2	1,693.0	1,963.1	2,229.2
EPS (Reported) (RMB)	1.82	2.48	3.34	3.88	4.40
YoY growth (%)	33.2	36.3	34.7	16.0	13.6
Consensus EPS (RMB)	na	na	3.45	4.09	4.65
P/E (x)	43.8	19.6	16.8	14.5	12.7
P/B (x)	6.8	3.5	3.3	2.8	2.4
Yield (%)	0.4	1.0	1.2	1.4	1.6
ROE (%)	18.2	19.3	21.7	21.1	20.2
Net gearing (%)	(39.1)	(28.4)	(36.5)	(44.7)	(48.4)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB70.00

(Previous TP) RMB70.00)

Up/Downside 24.8%

Current Price RMB56.10

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Stock Data

Mkt Cap (RMB mn)	28,403.4
Avg 3 mths t/o (RMB mn)	195.1
52w High/Low (RMB)	61.65/43.58
Total Issued Shares (mn)	506.3

Source: FactSet

Shareholding Structure

XU Shugen	45.5%
Deqing Zhongding Equity Investment Manag	11.6%

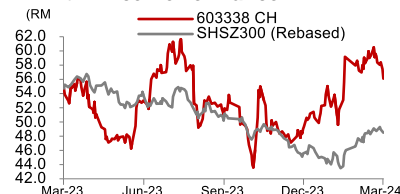
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.0%	-5.6%
3-mth	13.7%	7.4%
6-mth	8.1%	14.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

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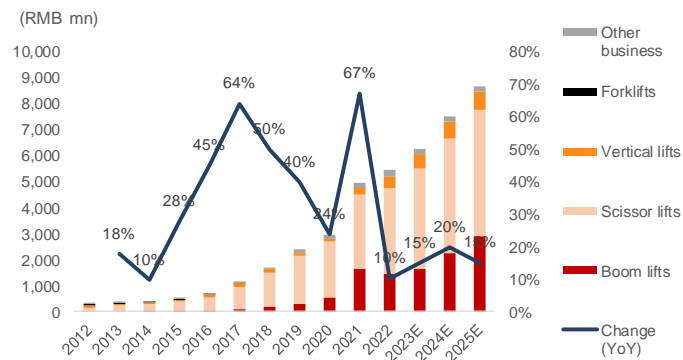
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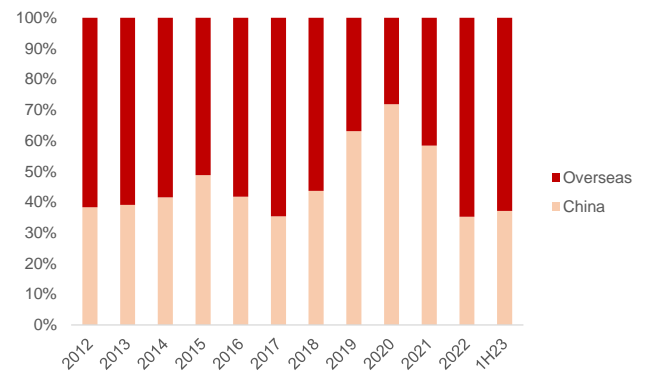
Figure 1: Key assumptions for Dingli

	2021	2022	2023E	2024E	2025E
Sales volume (units)					
Boom lifts	3,954	3,511	3,967	5,356	6,802
Scissor lifts	44,112	46,262	53,201	60,117	66,129
Vertical lifts	3,610	7,477	8,449	9,294	10,223
Total (lifts)	51,676	57,250	65,618	74,767	83,155
Growth rate					
Boom lifts	182.6%	-11.2%	13.0%	35.0%	27.0%
Scissor lifts	27.5%	4.9%	15.0%	13.0%	10.0%
Vertical lifts	74.4%	107.1%	13.0%	10.0%	10.0%
Total (lifts)	35.8%	10.8%	14.6%	13.9%	11.2%
ASP (RMB/unit)					
Boom lifts	416,207	414,084	416,000	420,000	423,000
Scissor lifts	64,529	71,221	72,500	73,500	73,800
Vertical lifts	72,931	64,112	67,000	68,000	68,000
(RMB mn)					
Revenue					
Boom lifts	1,646	1,454	1,650	2,250	2,877
Scissor lifts	2,847	3,295	3,857	4,419	4,880
Vertical lifts	263	479	566	632	695
Revenue (core business)	4,755	5,228	6,074	7,300	8,453
Other business	184	217	193	208	194
Total revenue	4,939	5,445	6,267	7,508	8,646
Gross margin					
Boom lifts	18.2%	20.6%	29.5%	31.0%	32.0%
Scissor lifts	32.5%	32.6%	39.5%	39.5%	38.5%
Vertical lifts	38.4%	34.0%	37.0%	37.0%	37.0%
Gross margin (core business)	27.8%	29.4%	36.5%	36.7%	36.2%
Other business	67.8%	70.2%	70.0%	70.0%	70.0%
Average gross margin	29.3%	31.0%	37.6%	37.6%	36.9%

Source: Company data, CMBIGM estimates

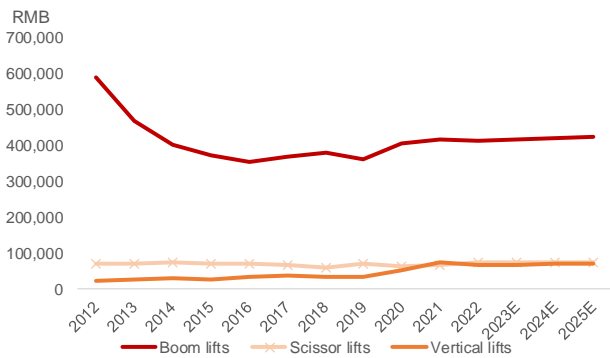
Figure 2: Dingli's revenue breakdown by product

Source: Company data, CMBIGM estimates

Figure 3: Dingli's revenue breakdown by region

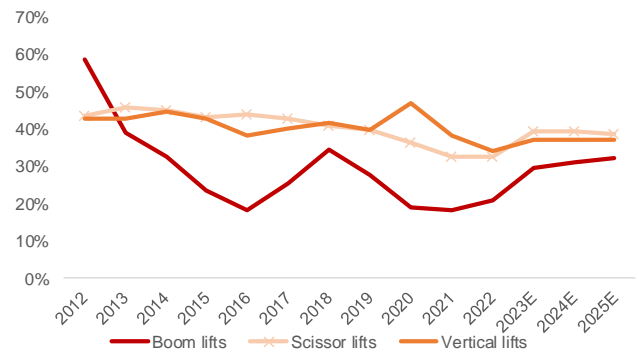
Source: Company data, CMBIGM

Figure 4: Dingli's ASP trend



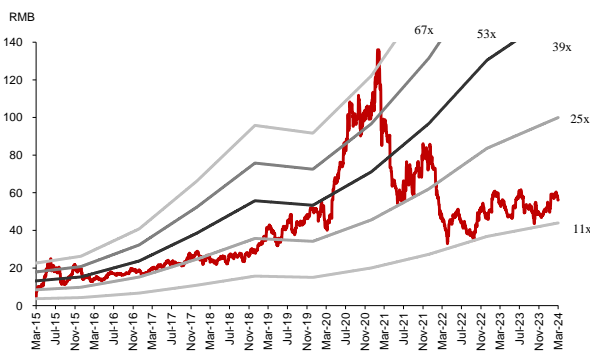
Source: Company data, CMBIGM estimates

Figure 5: Gross margin trend



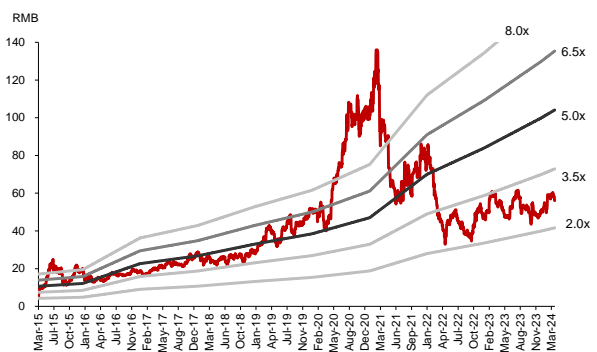
Source: Company data, CMBIGM

Figure 6: Dingli's 12M forward P/E band



Source: Bloomberg, Company data, CMBIGM estimates

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



Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	2,957	4,939	5,445	6,267	7,508	8,646
Cost of goods sold	(1,925)	(3,490)	(3,755)	(3,912)	(4,686)	(5,454)
Gross profit	1,032	1,449	1,690	2,355	2,822	3,192
Operating expenses	(268)	(401)	(547)	(602)	(702)	(804)
Selling expense	(100)	(111)	(158)	(182)	(218)	(251)
Admin expense	(57)	(88)	(123)	(138)	(161)	(182)
R&D expense	(105)	(155)	(202)	(219)	(263)	(303)
Others	(6)	(47)	(64)	(63)	(60)	(69)
Operating profit	764	1,048	1,143	1,753	2,120	2,388
Other gains/(losses)	45	40	64	69	75	86
Share of (losses)/profits of associates/JV	11	1	20	43	27	29
Depreciation	41	77	101	138	165	192
Interest income	12	16	250	150	105	130
Interest expense	(59)	(85)	(17)	(46)	(44)	(41)
Net Interest income/(expense)	(46)	(69)	233	104	61	89
Pre-tax profit	773	1,021	1,460	1,969	2,283	2,592
Income tax	(109)	(137)	(203)	(276)	(320)	(363)
After tax profit	664	884	1,257	1,693	1,963	2,229
Minority interest	0	0	0	0	0	0
Net profit	664	884	1,257	1,693	1,963	2,229
BALANCE SHEET						
	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	4,147	7,394	8,821	9,312	11,818	12,951
Cash & equivalents	1,191	3,514	3,522	4,576	5,896	7,064
Account receivables	1,249	2,293	3,094	2,949	3,551	3,792
Inventories	942	1,387	1,795	1,377	1,961	1,685
Prepayment	32	42	9	9	9	9
Other current assets	733	157	401	401	401	401
Non-current assets	1,722	2,181	2,980	3,555	3,777	4,048
PP&E	722	828	947	1,317	1,460	1,576
Deferred income tax	2	12	30	30	30	30
Investment in JVs & assos	119	108	121	164	190	219
Intangibles	158	234	396	388	379	371
Other non-current assets	722	999	1,486	1,656	1,717	1,852
Total assets	5,869	9,574	11,802	12,867	15,594	16,999
Current liabilities	1,891	3,144	3,753	3,378	4,531	4,149
Short-term borrowings	303	873	777	727	677	627
Account payables	1,223	1,868	2,381	2,056	3,259	2,927
Tax payable	102	165	225	225	225	225
Other current liabilities	194	220	341	341	341	341
Contract liabilities	69	18	29	29	29	29
Non-current liabilities	233	452	984	984	934	884
Long-term borrowings	121	302	740	740	690	640
Deferred income	95	108	183	183	183	183
Other non-current liabilities	18	42	61	61	61	61
Total liabilities	2,125	3,596	4,737	4,362	5,465	5,033
Total shareholders equity	3,744	5,978	7,065	8,505	10,129	11,966
Minority interest	0	0	0	0	0	0
Total equity and liabilities	5,869	9,574	11,802	12,867	15,594	16,999

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	773	1,021	1,460	1,969	2,283	2,592
Depreciation & amortization	41	77	101	138	165	192
Tax paid	(144)	(164)	(260)	(276)	(320)	(363)
Change in working capital	163	(687)	(211)	68	(44)	(432)
Others	58	126	(154)	(146)	(87)	(117)
Net cash from operations	892	374	937	1,753	1,998	1,872
Investing						
Capital expenditure	(234)	(340)	(819)	(500)	(300)	(300)
Others	(474)	271	(402)	150	105	130
Net cash from investing	(707)	(69)	(1,222)	(350)	(195)	(170)
Financing						
Dividend paid	(121)	(126)	(172)	(253)	(339)	(393)
Net borrowings	(55)	746	266	(50)	(100)	(100)
Proceeds from share issues	0	1,482	0	0	0	0
Others	(16)	(33)	(49)	(46)	(44)	(41)
Net cash from financing	(192)	2,069	45	(349)	(483)	(533)
Net change in cash						
Cash at the beginning of the year	874	1,191	3,514	3,522	4,576	5,896
Exchange difference	325	(50)	248	0	0	0
Cash at the end of the year	1,191	3,514	3,522	4,576	5,896	7,064
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	23.7%	67.1%	10.2%	15.1%	19.8%	15.2%
Gross profit	8.4%	40.4%	16.7%	39.3%	19.8%	13.1%
Operating profit	11.3%	37.2%	9.1%	53.4%	20.9%	12.6%
Net profit	(4.3%)	33.2%	42.1%	34.7%	16.0%	13.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	34.9%	29.3%	31.0%	37.6%	37.6%	36.9%
Operating margin	25.8%	21.2%	21.0%	28.0%	28.2%	27.6%
Return on equity (ROE)	19.1%	18.2%	19.3%	21.7%	21.1%	20.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)
Current ratio (x)	2.2	2.4	2.4	2.8	2.6	3.1
Receivable turnover days	158.9	130.9	180.6	176.0	158.0	155.0
Inventory turnover days	133.0	121.8	154.7	148.0	130.0	122.0
Payable turnover days	190.2	161.6	206.5	207.0	207.0	207.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	56.2	43.8	19.6	16.8	14.5	12.7
P/B	10.0	6.8	3.5	3.3	2.8	2.4
Div yield (%)	0.3	0.4	1.0	1.2	1.4	1.6

Source: Company data, CMBIGM estimates.

Note: Dingli pre-announced in Feb 2024 that the net profit in 2023 is expected to grow 48% YoY to RMB1.86bn. We will update our numbers after the annual results announcement.

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