Jiangsu Hengli (601100 CH)

3Q24 earnings below expectations due to margin contraction

Hengli's EBIT in 3Q24 dropped 6% YoY to RMB445mn, due to gross margin contraction of 1.9ppt YoY despite an 11% YoY increase in revenue. The margin contraction, which was due to lower utilisation rate based on our understanding, is slightly below our expectation. Reported net profit grew 6% YoY to RMB504mn, helped by increases in net finance income and other gains. We are still positive on Hengli over the medium term, as (1) revenue contribution from non-excavator components continues to increase; (2) electric cylinders, ball screws and linear motion will likely serve as new growth driver in 2025E. That said, we think the potential Trump presidency could be a risk in the near term, given the potential increase in tariff that might affect the upcoming exports from the new production base in Mexico to the US market. We therefore believe better entry points may emerge after the election. We have left our earnings forecast unchanged. Our TP is also unchanged at RMB64, based on 31x 2024E P/E (historical average). Maintain BUY.

- **Key highlights in 3Q24 results:** Revenue in 3Q24 grew 11% YoY to RMB2.1bn. Gross margin contracted 1.9ppt YoY and 2.1ppt QoQ to 41%. Selling & distribution expense ratio was under good control (2.1%, -0.2ppt YoY), while administrative and R&D expense ratio increased 2.9ppt YoY to 17%. In 9M24, net profit slightly increased 2% YoY to RMB1.79bn, accounting for 65% of our full-year forecast (run rate in 9M23: 70%).
- **Production plan in Oct:** We understand that Hengli has scheduled a production volume of 42k units of hydraulic cylinders (for excavators) in Oct, down ~5% YoY. For non-standardized cylinders, the planned production in Oct is expected to drop ~10% YoY to 17k units, due to the high base effect. On the positive side, scheduled production volume of small-size pumps/valves has increased ~40%/~90% YoY in Oct.
- **Risk factors:** (1) further weakness in the demand for hydraulic components for excavators; (2) slower-than-expected new business development; (3) potentially higher tariffs upon Trump presidency.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	8,197	8,985	10,033	11,261	12,540
YoY growth (%)	(12.0)	9.6	11.7	12.2	11.4
Adjusted net profit (RMB mn)	2,342.7	2,498.7	2,756.5	3,076.2	3,495.7
EPS (Reported) (RMB)	1.79	1.86	2.06	2.29	2.61
YoY growth (%)	(13.0)	3.8	10.3	11.6	13.6
Consensus EPS (RMB)	na	na	2.03	2.38	2.83
P/E (x)	31.1	30.0	27.2	24.3	21.4
P/B (x)	5.9	5.2	4.6	4.1	3.6
Yield (%)	1.1	1.3	1.4	1.6	1.8
Net gearing (%)	(51.9)	(55.0)	(50.5)	(51.0)	(52.4)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB64.00**
Up/Downside	**14.7%**
Current Price	**RMB55.82**

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	74,844.6
Avg 3 mths t/o (RMB mn)	351.2
52w High/Low (RMB)	68.89/42.14
Total Issued Shares (mn)	1340.8

Source: FactSet

Shareholding Structure

WANG's family	66.7%
CCASS (Hong Kong)	12.1%

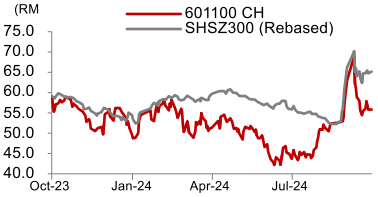
Source: SSE

Share Performance

	Absolute	Relative
1-mth	-2.5%	-8.8%
3-mth	24.2%	7.0%
6-mth	9.3%	-1.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

Capital Goods sector – Construction machinery sales in Sep: Decent export growth; weak demand in China – 16 Oct 2024 (link)

Jiangsu Hengli – Revenue acceleration with margin expansion in 2Q24; new products development on track – 28 Aug 2024 (link)

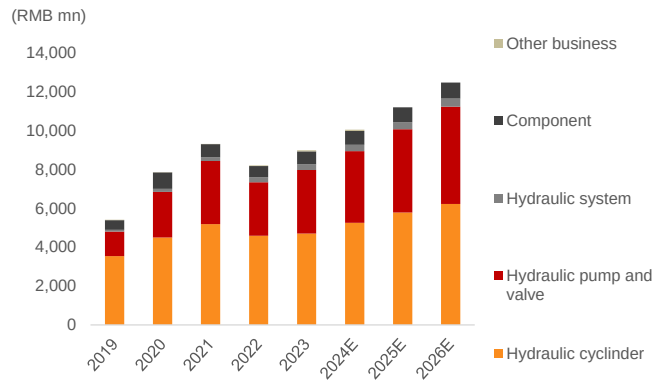
Jiangsu Hengli – 4Q23 & 1Q24 earnings not exciting; but more positive drivers to come – 24 Apr 2024 (link)

Figure 1: Key highlights in 3Q24 results

(RMB mn)	1Q23	1Q24	Change YoY	2Q23	2Q24	Change YoY	3Q23	3Q24	Change YoY	4Q22	4Q23	Change YoY
Total revenue	**2,427**	**2,362**	***-2.7%***	**2,025**	**2,471**	***22.0%***	**1,892**	**2,103**	***11.1%***	**2,277**	**2,640**	***16.0%***
Cost of sales	-1,435	-1,415	*-1.4%*	-1,279	-1,406	*9.9%*	-1,079	-1,240	*14.9%*	-1,339	-1,426	*6.5%*
Gross profit	**992**	**947**	***-4.5%***	**745**	**1,066**	***42.9%***	**813**	**863**	***6.1%***	**939**	**1,215**	***29.4%***
Other income	-25	-24	*-3.7%*	-19	-24	*24.9%*	-17	-21	*24.9%*	-20	-21	*4.3%*
S&D expenses	-37	-49	*32.6%*	-39	-52	*32.4%*	-43	-43	*-0.5%*	-49	-66	*34.2%*
Administrative expenses	-219	-222	*1.4%*	-285	-335	*17.6%*	-266	-356	*34.0%*	-242	-329	*36.3%*
Asset impairment	-12	-16	*40.0%*	4	-11	*n/a*	-16	3	*n/a*	-40	-45	*12.5%*
EBIT	**700**	**636**	***-9.1%***	**406**	**644**	***58.4%***	**471**	**445**	***-5.6%***	**587**	**753**	***28.2%***
Net finance income/(cost)	6	55	*883.6%*	292	47	*-83.8%*	21	64	*204.8%*	-0	50	*n/a*
Other gains/(loss)	30	25	*-18.2%*	13	50	*274.5%*	32	58	*78.7%*	71	55	*-21.6%*
Profit of JV & associates	0	0	*n/a*	0	0	*n/a*	0	0	*n/a*	0	0	*n/a*
Pretax profit	**735**	**716**	***-2.7%***	**711**	**741**	***4.2%***	**525**	**567**	***8.1%***	**657**	**858**	***30.6%***
Income tax	-109	-113	*3.7%*	-57	-54	*-5.1%*	-50	-63	*26.9%*	-61	-111	*81.7%*
After tax profit	**627**	**603**	*-3.8%*	**654**	**687**	*5.0%*	**475**	**504**	*6.1%*	**596**	**747**	*25.4%*
MI	-1	-1	*-17.6%*	-1	-1	*-2.8%*	-1	-1	*54.5%*	-3	-2	*-16.9%*
Net profit	**626**	**602**	***-3.8%***	**653**	**686**	***5.0%***	**475**	**504**	***6.1%***	**593**	**745**	***25.6%***
Key ratios			*ppt*			*ppt*			*ppt*			*ppt*
Gross margin	*40.9%*	*40.1%*	*-0.8*	*36.8%*	*43.1%*	*6.3*	*43.0%*	*41.0%*	*-1.9*	*41.2%*	*46.0%*	*4.8*
S&D expense ratio	*1.5%*	*2.1%*	*0.6*	*1.9%*	*2.1%*	*0.2*	*2.3%*	*2.1%*	*-0.2*	*2.2%*	*2.5%*	*0.3*
Adminstrative and R&D exp ratio	*9.0%*	*9.4%*	*0.4*	*14.1%*	*13.6%*	*-0.5*	*14.1%*	*17.0%*	*2.9*	*10.6%*	*12.5%*	*1.9*
Effective tax rate	*14.8%*	*15.8%*	*1.0*	*8.0%*	*7.3%*	*-0.7*	*9.5%*	*11.1%*	*1.6*	*9.3%*	*12.9%*	*3.6*

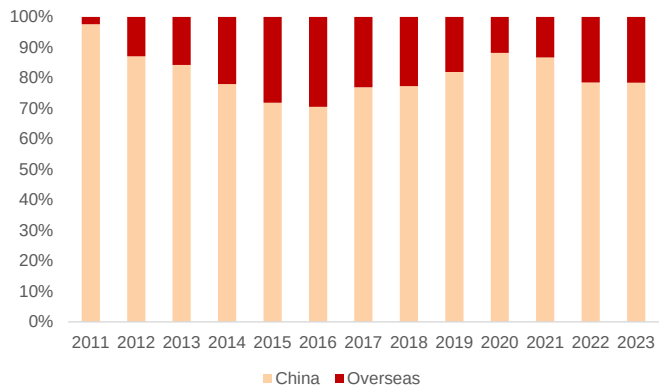
Source: Company data, CMBIGM

Figure 2: Hengli's revenue breakdown



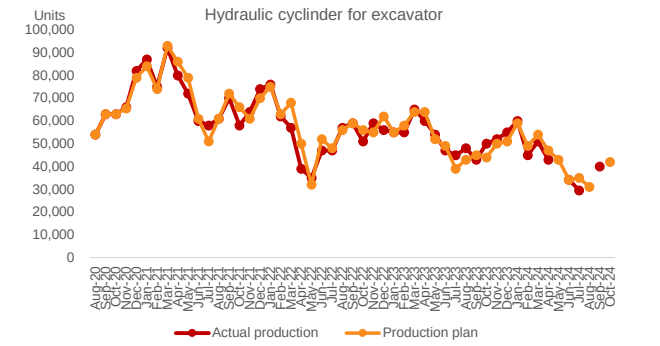
Source: Company data, CMBIGM estimates

Figure 3: Revenue breakdown by region



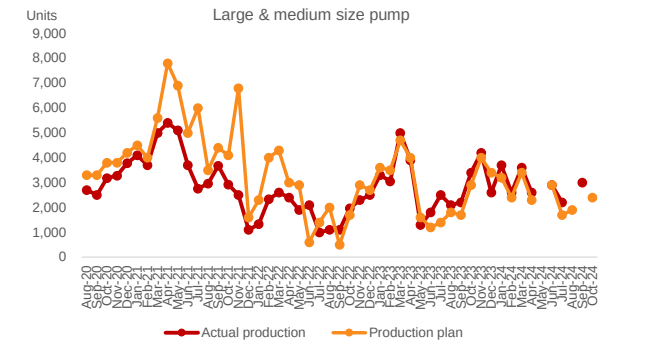
Source: Company data, CMBIGM
Note: Some of the domestic sales will be exported in the form of finished products

Figure 4: Hengli's hydraulic cylinders monthly production



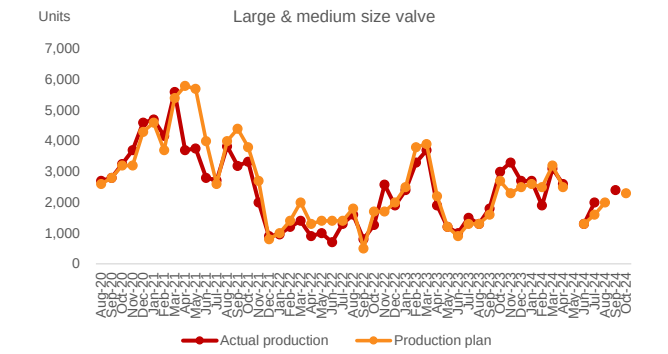
Source: Company data, CMBIGM estimates

Figure 5: Hengli's large & medium size pump monthly production



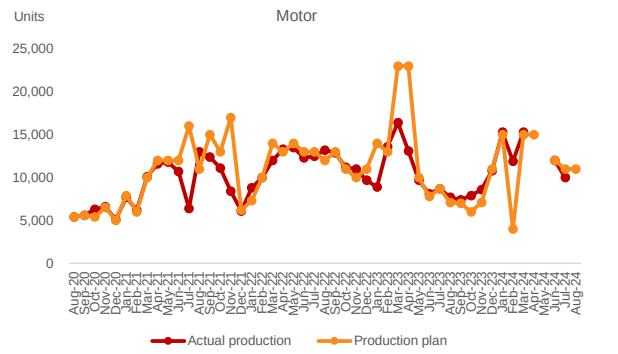
Source: Company data, CMBIGM estimates

Figure 6: Hengli's large & medium size valve monthly production



Source: Company data, CMBIGM estimates

Figure 7: Hengli's motor monthly production



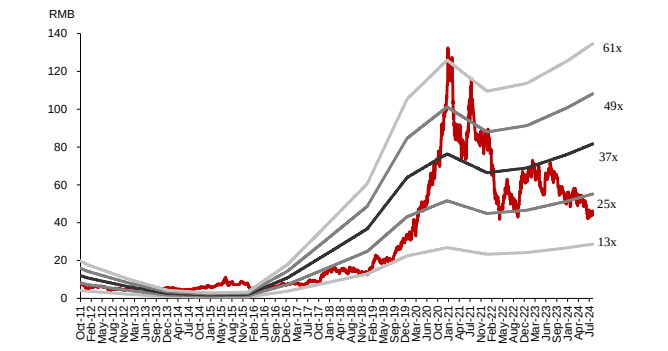
Source: Company data, CMBIGM estimates

Figure 8: Key assumptions

(RMB mn)	2020	2021	2022	2023	2024E	2025E	2026E
Revenue							
Hydraulic cyclinder	4,497	5,187	4,584	4,693	5,254	5,780	6,217
Hydraulic pump and valve	2,338	3,236	2,755	3,268	3,677	4,276	5,003
Hydraulic system	157	196	253	292	330	369	413
Component	845	677	574	672	706	762	823
Revenue (hydraulic business)	**7,838**	**9,295**	**8,167**	**8,926**	**9,967**	**11,187**	**12,457**
Other business	17	14	30	59	66	74	83
Total revenue	**7,855**	**9,309**	**8,197**	**8,985**	**10,033**	**11,261**	**12,540**
Revenue growth							
Hydraulic cyclinder	27.0%	15.3%	-11.6%	2.4%	12.0%	10.0%	7.6%
Hydraulic pump and valve	85.2%	38.4%	-14.9%	18.6%	12.5%	16.3%	17.0%
Hydraulic system	82.9%	25.1%	29.1%	15.1%	13.0%	12.0%	12.0%
Component	68.8%	-20.0%	-15.2%	17.1%	5.0%	8.0%	8.0%
Revenue (hydraulic business)	45.4%	18.6%	-12.1%	9.3%	11.7%	12.2%	11.4%
Other business	-23.1%	-19.6%	119.1%	96.0%	12.0%	12.0%	12.0%
Total revenue	45.1%	18.5%	-12.0%	9.6%	11.7%	12.2%	11.4%
Gross margin							
Hydraulic cyclinder	*46.8%*	*44.2%*	*40.1%*	*41.2%*	*42.0%*	*42.1%*	*42.9%*
Hydraulic pump and valve	*52.3%*	*52.0%*	*48.2%*	*47.6%*	*47.0%*	*47.0%*	*47.0%*
Hydraulic system	*45.7%*	*45.2%*	*44.9%*	*38.7%*	*40.0%*	*42.0%*	*42.0%*
Component	*6.2%*	*3.5%*	*2.9%*	*15.9%*	*15.0%*	*15.0%*	*15.0%*
Gross margin (hydraulic business)	*44.0%*	*44.0%*	*40.4%*	*41.6%*	*41.9%*	*42.1%*	*42.6%*
Other business	*74.3%*	*70.9%*	*92.7%*	*91.1%*	*91.0%*	*90.0%*	*90.0%*
Blended gross margin	*44.1%*	*44.0%*	*40.6%*	*41.9%*	*42.2%*	*42.5%*	*43.0%*

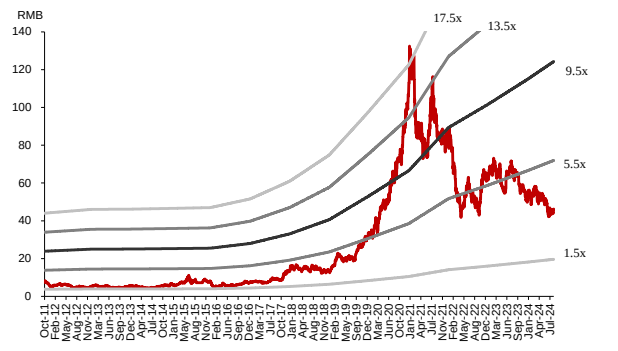
Source: Company data, CMBIGM estimates

Figure 9: Hengli's P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 10: Hengli's P/B band



Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**9,309**	**8,197**	**8,985**	**10,033**	**11,261**	**12,540**
Cost of goods sold	(5,212)	(4,873)	(5,220)	(5,800)	(6,480)	(7,152)
Gross profit	**4,097**	**3,324**	**3,765**	**4,233**	**4,781**	**5,388**
Selling expense	(112)	(124)	(186)	(221)	(248)	(276)
Admin expense	(863)	(925)	(1,099)	(1,204)	(1,351)	(1,505)
Others	(125)	(116)	(150)	(140)	(151)	(163)
Operating profit	**2,997**	**2,159**	**2,330**	**2,668**	**3,031**	**3,444**
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	**3,402**	**2,553**	**2,744**	**3,149**	**3,583**	**4,057**
Depreciation	404	394	413	480	552	612
Interest income	39	352	382	330	313	358
Interest expense	(129)	(20)	(13)	(10)	(10)	(10)
Net Interest income/(expense)	**(89)**	**332**	**369**	**320**	**303**	**348**
Other income/expense	160	137	131	150	169	188
Pre-tax profit	**3,068**	**2,629**	**2,830**	**3,139**	**3,503**	**3,980**
Income tax	(369)	(280)	(326)	(377)	(420)	(478)
Minority interest	(5)	(6)	(5)	(6)	(6)	(7)
Adjusted net profit	**2,694**	**2,343**	**2,499**	**2,757**	**3,076**	**3,496**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**9,146**	**12,327**	**12,994**	**14,365**	**15,821**	**18,030**
Cash & equivalents	3,643	6,886	8,124	8,384	9,502	10,972
Account receivables	2,560	2,982	2,767	3,830	3,637	4,609
Inventories	1,607	1,766	1,692	1,740	2,272	2,039
Prepayment	160	141	156	156	156	156
Other current assets	1,177	552	255	255	255	255
Non-current assets	**3,186**	**3,874**	**4,901**	**5,621**	**6,268**	**6,656**
PP&E	2,580	2,836	2,851	3,588	4,254	4,659
Deferred income tax	50	54	58	58	58	58
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	267	436	467	449	431	413
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	289	548	1,526	1,526	1,526	1,526
Total assets	**12,332**	**16,201**	**17,896**	**19,986**	**22,089**	**24,686**
Current liabilities	**2,691**	**3,144**	**3,099**	**3,366**	**3,434**	**3,698**
Short-term borrowings	597	329	203	203	203	203
Account payables	1,188	1,323	1,297	1,564	1,632	1,895
Tax payable	84	73	154	154	154	154
Other current liabilities	822	1,419	1,445	1,445	1,445	1,445
Non-current liabilities	**402**	**379**	**353**	**353**	**353**	**353**
Long-term borrowings	44	0	0	0	0	0
Deferred income	204	198	175	175	175	175
Other non-current liabilities	153	181	179	179	179	179
Total liabilities	**3,093**	**3,523**	**3,453**	**3,720**	**3,788**	**4,051**
Total shareholders equity	**9,196**	**12,630**	**14,391**	**16,209**	**18,238**	**20,565**
Minority interest	44	48	52	57	63	70
Total equity and liabilities	**12,332**	**16,201**	**17,896**	**19,986**	**22,089**	**24,686**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**3,068**	**2,629**	**2,830**	**3,139**	**3,503**	**3,980**
Depreciation & amortization	404	394	413	480	552	612
Tax paid	(369)	(280)	(326)	(377)	(420)	(478)
Change in working capital	(472)	(476)	(225)	(844)	(270)	(476)
Others	164	(203)	(15)	10	10	10
Net cash from operations	**2,796**	**2,064**	**2,677**	**2,409**	**3,375**	**3,649**
Investing						
Capital expenditure	(558)	(642)	(1,309)	(1,200)	(1,200)	(1,000)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(374)	563	(1,742)	0	0	0
Net cash from investing	**(932)**	**(80)**	**(3,051)**	**(1,200)**	**(1,200)**	**(1,000)**
Financing						
Dividend paid	(783)	(953)	(831)	(939)	(1,047)	(1,169)
Net borrowings	(287)	(313)	(126)	0	0	0
Proceeds from share issues	0	2,000	0	0	0	0
Others	356	216	77	(10)	(10)	(10)
Net cash from financing	**(714)**	**949**	**(880)**	**(949)**	**(1,058)**	**(1,179)**
Net change in cash						
Cash at the beginning of the year	2,777	3,643	6,886	8,124	8,384	9,502
Exchange difference	(284)	310	2,492	0	0	0
Cash at the end of the year	**3,643**	**6,886**	**8,124**	**8,384**	**9,502**	**10,972**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	18.5%	(12.0%)	9.6%	11.7%	12.2%	11.4%
Gross profit	18.3%	(18.9%)	13.3%	12.4%	12.9%	12.7%
Operating profit	11.6%	(28.0%)	7.9%	14.5%	13.6%	13.6%
EBITDA	13.5%	(24.9%)	7.5%	14.8%	13.8%	13.2%
Adj. net profit	19.5%	(13.0%)	6.7%	10.3%	11.6%	13.6%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	44.0%	40.6%	41.9%	42.2%	42.5%	43.0%
Operating margin	32.2%	26.3%	25.9%	26.6%	26.9%	27.5%
EBITDA margin	36.5%	31.1%	30.5%	31.4%	31.8%	32.3%
Adj. net profit margin	28.9%	28.6%	27.8%	27.5%	27.3%	27.9%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.5)	(0.6)	(0.5)	(0.5)	(0.5)
Current ratio (x)	3.4	3.9	4.2	4.3	4.6	4.9
Receivable turnover days	103.2	123.4	116.8	120.0	121.0	120.0
Inventory turnover days	98.9	126.3	120.9	108.0	113.0	110.0
Payable turnover days	81.2	94.0	91.6	90.0	90.0	90.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	27.1	31.1	30.0	27.2	24.3	21.4
P/B	7.9	5.9	5.2	4.6	4.1	3.6
Div yield (%)	1.3	1.1	1.3	1.4	1.6	1.8

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

Disclosures & Disclaimers

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