

Zhejiang Dingli (603338 CH)

Challenging situation with pressure from both end demand and US tariff; D/G to HOLD

We believe the US's newly proposed tariff on China will place Dingli into a challenging situation, given that the US has long been the most important market for Dingli (close to 30% of total revenue in 2024E, based on our estimates). We see several downside risks: (1) the policy uncertainties will likely affect the capex plan of AWP operators in the US, thereby affecting the procurement for AWP; (2) the proposed 34% incremental tariff on China's exports exceeds the 19% reduction of anti-dumping (AD) duties approved by the US last year. While we understand that Dingli will potentially expand the manufacturing capacity in the US, we believe it will take time to see the actual impact. We revise down our 2024E/25E/26E earnings forecast by 3%/12%/18%, due to lower sales assumptions in the US and lower gross margin due to tariffs. We now expect only 5% earnings growth in 2025E. Downgrade to **HOLD** from Buy with new TP of RMB51 (previously RMB75), based on 12x 2025E P/E.

- **New tariff to more than offset the decline in AD duties in the US.** Dingli's AD duty in the US was finalized at 12.39% in 2024, down substantially from the 31.54% set in 2022. However, the newly proposed tariff on Chinese goods (34%) exceeds the 19ppt reduction on AD duties. This, together with the countervailing duties (CVDs) of 11.95% and the existing tariff on Chinese goods (20%), adds up to a total of >78% tariffs and duties.
- **Accelerated shipment to the US to avoid tariff impact.** We understand that Dingli has been accelerating the AWP shipment to the US since early this year to mitigate the impact of upcoming tariffs on China. Given the full consolidation of CMEC in 3Q24, we expect these AWP (already in Dingli's warehouse in the US) will gradually translate into actual sales and revenue in 2Q and 3Q25E.
- **New target multiple to reflect the uncertainties.** Our previous TP of RMB75 was based on 18x 2024E P/E (1SD below the historical average of 31x). Our new TP of RMB51 is based on 12x 2025E, based on 1SD below the three-year average P/E (13.5x), as we expect earnings growth to slow substantially from previous years.
- **Upside risks:** (1) Substantial reduction of proposed tariffs on China; (2) stronger-than-expected demand in other countries that offsets the weakness in the US.
- **Downside risks:** (1) Further increase in tariffs in the US; (2) further intensified competition in China's AWP market; (3) continuous weakness of overseas demand.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	5,445	6,312	7,508	8,160	8,901
YoY growth (%)	10.2	15.9	19.0	8.7	9.1
Net profit (RMB mn)	1,257.2	1,867.2	2,037.5	2,144.1	2,362.8
EPS (Reported) (RMB)	2.48	3.69	4.02	4.23	4.67
YoY growth (%)	36.3	48.5	9.1	5.2	10.2
Consensus EPS (RMB)	na	na	4.10	4.95	5.78
P/E (x)	19.9	13.4	12.3	11.7	10.6
P/B (x)	3.5	2.8	2.4	2.1	1.8
Yield (%)	1.0	2.0	2.3	2.4	2.6
ROE (%)	19.3	23.3	20.9	19.0	18.2
Net gearing (%)	(28.4)	(34.3)	(37.1)	(39.6)	(43.5)

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price RMB51.00
 (Previous TP RMB75.00)
Up/Downside 3.0%
Current Price RMB49.50

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	25,061.9
Avg 3 mths t/o (RMB mn)	341.6
52w High/Low (RMB)	72.98/45.52
Total Issued Shares (mn)	506.3

Source: FactSet

Shareholding Structure

XU Shugen	45.5%
Deqing Zhongding Equity Investment Manag	10.8%

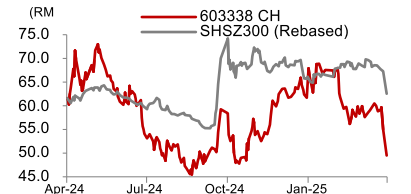
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.1%	-13.3%
3-mth	-23.7%	-25.0%
6-mth	-16.5%	-13.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

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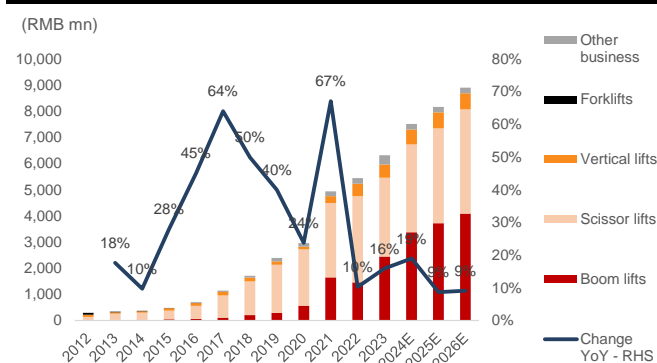
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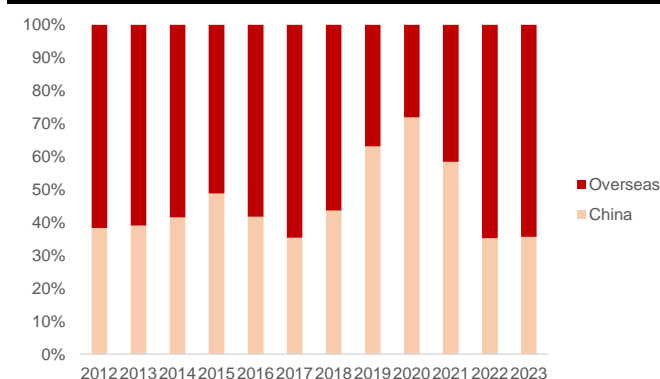
Figure 1: Change in key assumptions

	2024E	Old 2025E	2026E	2024E	New 2025E	2026E	2024E	Change 2025E	2026E
(RMB mn)									
Revenue									
Boom lifts	3,448	4,356	5,575	3,371	3,714	4,085	-2.2%	-14.7%	-26.7%
Scissor lifts	3,327	3,594	3,953	3,357	3,626	3,988	0.9%	0.9%	0.9%
Vertical lifts	569	625	625	569	614	614	0.0%	-1.8%	-1.8%
Revenue (core business)	7,344	8,575	10,154	7,297	7,954	8,688	-0.6%	-7.2%	-14.4%
Other business	225	235	255	211	207	213	-6.2%	-12.1%	-16.7%
Total revenue	7,569	8,810	10,409	7,508	8,160	8,901	-0.8%	-7.4%	-14.5%
Gross margin									ppt
Boom lifts	33.0%	33.5%	34.0%	33.0%	31.0%	31.0%	0.0	-2.5	-3.0
Scissor lifts	40.0%	40.0%	40.0%	40.0%	39.0%	39.0%	0.0	-1.0	-1.0
Vertical lifts	43.5%	43.5%	43.5%	43.5%	43.0%	43.0%	0.0	-0.5	-0.5
Gross margin (core business)	37.0%	37.0%	36.9%	37.0%	35.6%	35.5%	0.1	-1.4	-1.4
Other business	71.0%	71.0%	71.0%	71.0%	71.0%	71.0%	0.0	0.0	0.0
Blended gross margin	38.0%	37.9%	37.8%	38.0%	36.5%	36.4%	0.0	-1.4	-1.4
S&D expense ratio	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	0.0	0.0	0.0
Admin expense ratio	-2.1%	-2.0%	-1.9%	-2.1%	-2.0%	-1.9%	0.0	0.0	0.0
R&D expense ratio	-3.4%	-3.4%	-3.4%	-3.4%	-3.4%	-3.4%	0.0	0.0	0.0
Net finance income	161	166	204	176	185	227	9.1%	11.7%	11.0%
Net profit	2,105	2,425	2,870	2,037	2,144	2,363	-3.2%	-11.6%	-17.7%

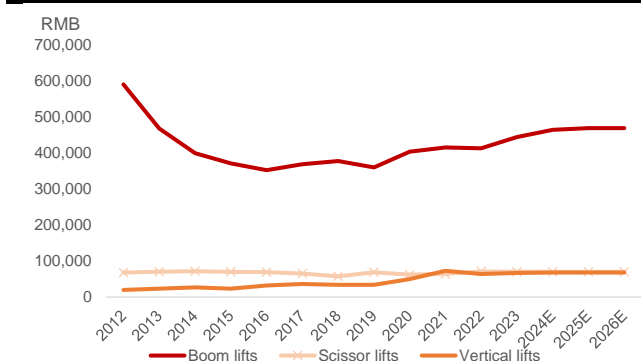
Source: Company data, CMBIGM estimates

Figure 2: Dingli's revenue breakdown by product

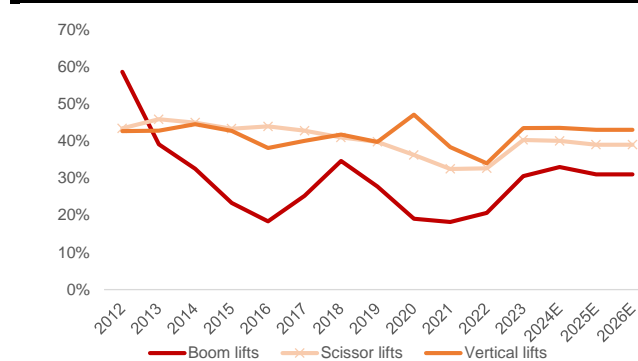
Source: Company data, CMBIGM estimates

Figure 3: Dingli's revenue breakdown by region

Source: Company data, CMBIGM

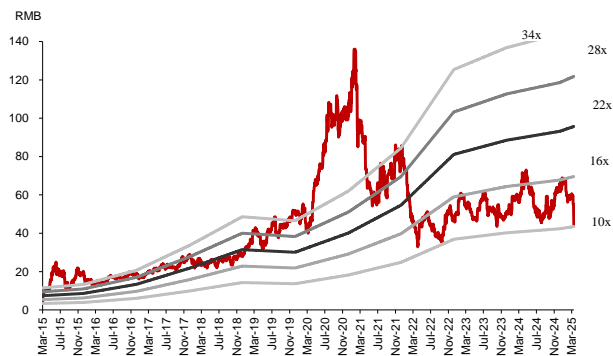
Figure 4: Dingli's ASP trend

Source: Company data, CMBIGM estimates

Figure 5: Gross margin trend

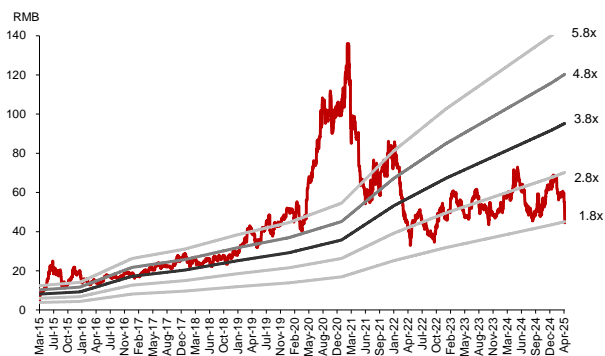
Source: Company data, CMBIGM estimates

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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	4,939	5,445	6,312	7,508	8,160	8,901
Cost of goods sold	(3,490)	(3,755)	(3,882)	(4,655)	(5,184)	(5,664)
Gross profit	1,449	1,690	2,430	2,853	2,976	3,237
Operating expenses	(401)	(547)	(689)	(751)	(808)	(872)
Selling expense	(111)	(158)	(232)	(278)	(302)	(329)
Admin expense	(88)	(123)	(141)	(158)	(163)	(169)
R&D expense	(155)	(202)	(220)	(255)	(277)	(303)
Others	(47)	(64)	(96)	(60)	(65)	(71)
Operating profit	1,048	1,143	1,740	2,102	2,168	2,365
Other gains/(losses)	40	64	113	38	82	89
Share of (losses)/profits of associates/JV	1	20	76	54	58	67
Depreciation	77	101	129	156	176	191
Interest income	16	250	264	214	220	259
Interest expense	(85)	(17)	(20)	(38)	(35)	(32)
Net Interest income/(expense)	(69)	233	245	176	185	227
Pre-tax profit	1,021	1,460	2,174	2,369	2,493	2,747
Income tax	(137)	(203)	(307)	(332)	(349)	(385)
After tax profit	884	1,257	1,867	2,037	2,144	2,363
Minority interest	0	0	0	0	0	0
Net profit	884	1,257	1,867	2,037	2,144	2,363

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,394	8,821	10,140	11,725	12,803	14,853
Cash & equivalents	3,514	3,522	4,397	5,110	5,901	7,034
Account receivables	2,293	3,094	3,489	3,917	4,132	4,647
Inventories	1,387	1,795	1,921	2,364	2,437	2,839
Prepayment	42	9	7	7	7	7
Other current assets	157	401	327	327	327	327
Non-current assets	2,181	2,980	4,067	4,528	4,997	5,205
PP&E	828	947	1,613	2,072	2,311	2,436
Deferred income tax	12	30	3	3	3	3
Investment in JVs & assos	108	121	332	386	444	511
Intangibles	234	396	389	373	358	343
Other non-current assets	999	1,486	1,731	1,693	1,881	1,912
Total assets	9,574	11,802	14,207	16,252	17,800	20,058
Current liabilities	3,144	3,753	4,435	4,999	5,023	5,569
Short-term borrowings	873	777	826	776	726	676
Account payables	1,868	2,381	2,971	3,585	3,659	4,255
Tax payable	165	225	290	290	290	290
Other current liabilities	220	341	323	323	323	323
Contract liabilities	18	29	25	25	25	25
Non-current liabilities	452	984	807	757	707	657
Long-term borrowings	302	740	493	443	393	343
Deferred income	108	183	191	191	191	191
Other non-current liabilities	42	61	122	122	122	122
Total liabilities	3,596	4,737	5,242	5,756	5,730	6,226
Total shareholders equity	5,978	7,065	8,965	10,496	12,070	13,832
Minority interest	0	0	0	0	0	0
Total equity and liabilities	9,574	11,802	14,207	16,252	17,800	20,058

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,021	1,460	2,174	2,369	2,493	2,747
Depreciation & amortization	77	101	129	156	176	191
Tax paid	(164)	(260)	(347)	(332)	(349)	(385)
Change in working capital	(687)	(211)	216	(219)	(401)	(353)
Others	126	(154)	56	(230)	(243)	(294)
Net cash from operations	374	937	2,227	1,744	1,675	1,907
Investing						
Capital expenditure	(340)	(819)	(371)	(600)	(400)	(300)
Others	271	(402)	(491)	214	220	259
Net cash from investing	(69)	(1,222)	(863)	(386)	(180)	(41)
Financing						
Dividend paid	(126)	(172)	(253)	(506)	(570)	(600)
Net borrowings	746	266	(198)	(100)	(100)	(100)
Proceeds from share issues	1,482	0	0	0	0	0
Others	(33)	(49)	0	(38)	(35)	(32)
Net cash from financing	2,069	45	(451)	(644)	(706)	(732)
Net change in cash						
Cash at the beginning of the year	1,191	3,514	3,522	4,397	5,110	5,901
Exchange difference	(50)	248	(39)	0	0	0
Cash at the end of the year	3,514	3,522	4,397	5,110	5,901	7,034
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	67.1%	10.2%	15.9%	19.0%	8.7%	9.1%
Gross profit	40.4%	16.7%	43.7%	17.4%	4.3%	8.8%
Operating profit	37.2%	9.1%	52.2%	20.8%	3.2%	9.1%
Net profit	33.2%	42.1%	48.5%	9.1%	5.2%	10.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	29.3%	31.0%	38.5%	38.0%	36.5%	36.4%
Operating margin	21.2%	21.0%	27.6%	28.0%	26.6%	26.6%
Return on equity (ROE)	18.2%	19.3%	23.3%	20.9%	19.0%	18.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Current ratio (x)	2.4	2.4	2.3	2.3	2.5	2.7
Receivable turnover days	130.9	180.6	190.3	180.0	180.0	180.0
Inventory turnover days	121.8	154.7	174.7	168.0	169.0	170.0
Payable turnover days	161.6	206.5	251.6	257.0	255.0	255.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	27.2	19.9	13.4	12.3	11.7	10.6
P/B	4.2	3.5	2.8	2.4	2.1	1.8
Div yield (%)	0.7	1.0	2.0	2.3	2.4	2.6

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

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