

Jiangsu Hengli (601100 CH)

Higher expenses are transitory; eyes on new products

Hengli's reported net profit in 4Q24 /1Q25 was -4% YoY /+3% YoY and came in slightly lower than our expectation due to higher administrative expenses. That said, the higher expenses were due to the booking of depreciation of Mexico production plant and precision business (ball screws and linear motion) as a result of the transfer of construction-in-progress to fixed assets. We fine-tune our 2025E/26E earnings forecast by -2%. We are staying positive on Hengli and revise up our TP to RMB92 (previously: RMB64), based on 35x 2025E P/E (equivalent to historical average + 1SD) as: (1) we roll over our valuation to 2025E, and (2) we believe humanoid robots components such as ball screws will serve as the important growth driver in the medium term. Maintain **BUY**.

- **Key highlights in 2024 results:** Revenue in 2024 grew 5% YoY to RMB10bn (1%/10%/2%/2% growth of hydraulic cylinders / pump & valve / hydraulic systems / components). Blended gross margin expanded 1.4ppt YoY to 42.6%, driven by hydraulic cylinders. EBIT, however, was flat YoY largely due to a 1.8ppt YoY increase in administrative expense ratio (to 6.3%). Net profit was RMB2.5bn, stable YoY. In 4Q24, net profit dropped 4% YoY to RMB717mn, due to a 7% YoY decline in revenue and higher administrative expense ratio (+3.4ppt to 8.7%).
- **Key highlights in 1Q25 results:** EBIT dropped 9% YoY to RMB579mn, as the 3% YoY increase in revenue was offset by 0.7ppt YoY contraction of gross margin (to 39.4%) and an increase in expense ratio in general. Helped by a 2.6x YoY increase in net finance income, net profit in 1Q25 grew 3% YoY to RMB618mn, which accounted for 21% of our full-year estimates (run rate in 1Q24: 22%).
- **Potential reduction of segment loss in 2025E.** We understand that the loss attributable to Mexico production plant and precision business was ~RMB100mn, due to the depreciation of newly-added fixed assets. Hengli sees chances of loss reduction in 2025E when product delivery increases.
- **Outlook on ball screws.** The current annual capacity of ball screws is enough to support production value of RMB700-800mn. Hengli targets to increase the capacity to RMB2bn, equivalent to ~100k units of ball screws.
- **Risk factors:** (1) further weakness in the demand for hydraulic components; (2) slower-than-expected new business development

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMBmn)	8,985	9,390	10,961	12,540	14,204
YoY growth (%)	9.6	4.5	16.7	14.4	13.3
Adjusted net profit (RMBmn)	2,498.7	2,508.7	3,007.1	3,432.7	3,883.9
EPS (Reported) (RMB)	1.86	1.87	2.24	2.56	2.90
YoY growth (%)	3.8	0.4	19.9	14.2	13.1
Consensus EPS (RMB)	na	na	2.22	2.67	na
P/E (x)	38.2	38.0	31.7	27.8	24.6
P/B (x)	6.6	6.0	5.3	4.7	4.2
Yield (%)	1.0	1.0	1.2	1.4	1.5
Net gearing (%)	(55.0)	(49.8)	(46.9)	(50.6)	(50.8)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB92.00
 (Previous TP) RMB64.00
Up/Downside 29.3%
Current Price RMB71.17

China Capital Goods

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	95,426.2
Avg 3 mths t/o (RMB mn)	1,266.2
52w High/Low (RMB)	95.00/42.14
Total Issued Shares(mn)	1340.8

Source: FactSet

Shareholding Structure

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

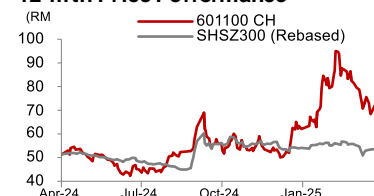
Source: SSE

Share Performance

	Absolute	Relative
1-mth	-12.5%	-9.5%
3-mth	14.6%	15.5%
6-mth	27.5%	33.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

Capital Goods – Strong domestics sales of earth-moving machinery in Mar – 8 Apr 2025 ([link](#))

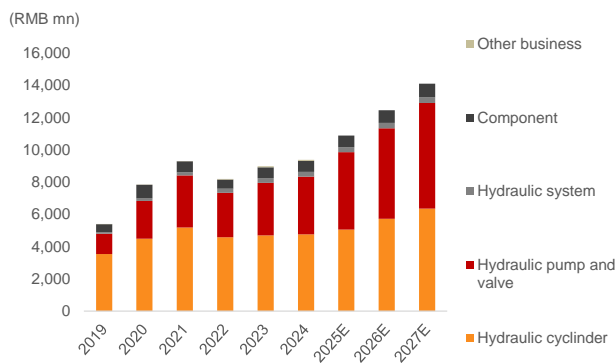
Capital Goods 2025 Outlook: Emerging markets the key growth driver; China market to be stabilized – 9 Dec 2024 ([link](#))

Jiangsu Hengli – 3Q24 earnings below expectations due to margin contraction – 29 Oct 2024 ([link](#))

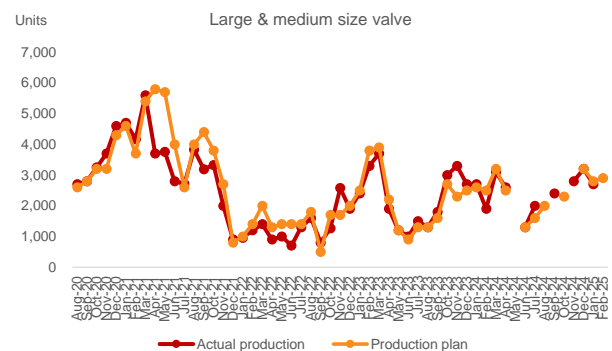
Figure 1: Quarterly results highlights

(RMB mn)	1Q24	1Q25	Change YoY	2Q23	2Q24	Change YoY	3Q23	3Q24	Change YoY	4Q23	4Q24	Change YoY
Total revenue	2,362	2,422	2.6%	2,025	2,471	22.0%	1,892	2,103	11.1%	2,640	2,454	-7.1%
Cost of sales	-1,415	-1,468	3.8%	-1,279	-1,406	9.9%	-1,079	-1,240	14.9%	-1,426	-1,308	-8.3%
Gross profit	947	954	0.8%	745	1,066	42.9%	813	863	6.1%	1,215	1,146	-5.6%
Other income	-24	-27	13.4%	-19	-24	24.9%	-17	-21	24.9%	-21	-22	1.7%
S&D expenses	-49	-58	19.0%	-39	-52	32.4%	-43	-43	-0.5%	-66	-73	10.4%
Administrative expenses	-116	-137	18.2%	-90	-107	19.0%	-97	-156	60.5%	-140	-213	52.3%
R&D expense	-106	-149	39.9%	-195	-228	17.0%	-169	-201	18.8%	-189	-193	1.9%
Asset impairment	-16	-4	-72.6%	4	-11	n/a	-16	3	n/a	-45	-42	-7.6%
EBIT	636	579	-8.9%	406	644	58.4%	471	445	-5.6%	753	604	-19.8%
Net finance income/(cost)	55	199	261.9%	292	47	-83.8%	21	64	204.8%	50	-35	n/a
Other gains/(loss)	25	-59	n/a	13	50	274.5%	32	58	78.7%	55	208	275.6%
Profit of JV & associates	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
Pretax profit	716	719	0.5%	711	741	4.2%	525	567	8.1%	858	776	-9.6%
Income tax	-113	-100	-10.9%	-57	-54	-5.1%	-50	-63	26.9%	-111	-58	-47.4%
After tax profit	603	619	2.7%	654	687	5.0%	475	504	6.1%	747	718	-3.9%
MI	-1	-1	38.5%	-1	-1	-2.8%	-1	-1	54.5%	-2	-1	-64.1%
Net profit	602	618	2.6%	653	686	5.0%	475	504	6.1%	745	717	-3.8%
Key ratios			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>
Gross margin	40.1%	39.4%	-0.7	36.8%	43.1%	6.3	43.0%	41.0%	-1.9	46.0%	46.7%	0.7
S&D expense ratio	2.1%	2.4%	0.3	1.9%	2.1%	0.2	2.3%	2.1%	-0.2	2.5%	3.0%	0.5
Administrative exp ratio	4.9%	5.6%	0.7	4.4%	4.3%	-0.1	5.1%	7.4%	2.3	5.3%	8.7%	3.4
R&D exp ratio	4.5%	6.1%	1.6	9.6%	9.2%	-0.4	8.9%	9.5%	0.6	7.2%	7.8%	0.7
Effective tax rate	15.8%	14.0%	-1.8	8.0%	7.3%	-0.7	9.5%	11.1%	1.6	12.9%	7.5%	-5.4

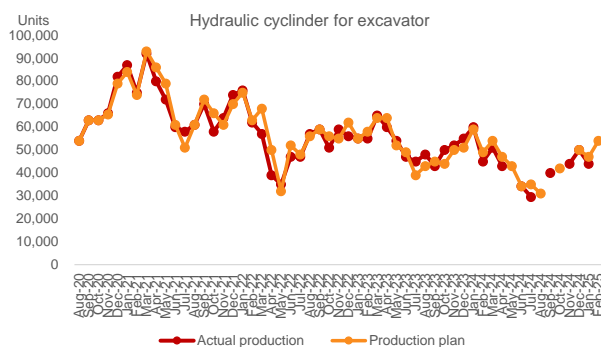
Source: Company data, CMBIGM

Figure 2: Hengli's revenue breakdown

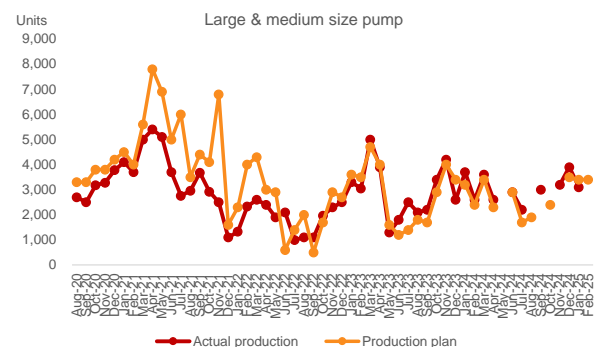
Source: Company data, CMBIGM estimates

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

Source: Company data, CMBIGM

Figure 4: Hengli's hydraulic cylinders monthly production

Source: Company data, CMBIGM estimates

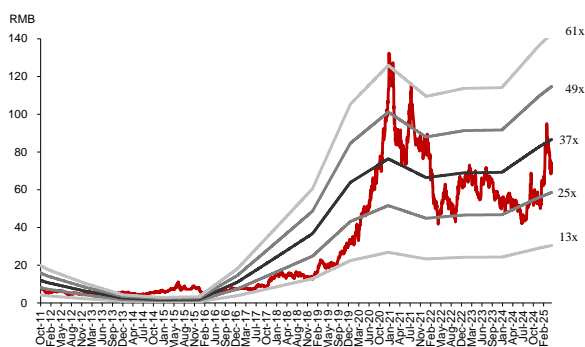
Figure 5: Hengli's large & medium size pump monthly production

Source: Company data, CMBIGM estimates

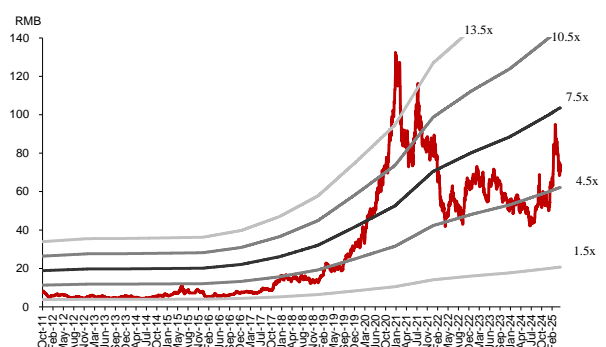
Figure 6: Change in key assumptions

(RMB mn)	Old			New			Change		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue									
Hydraulic cylinder	5,780	6,217	-	5,054	5,734	6,361	-12.6%	-7.8%	-
Hydraulic pump and valve	4,276	5,003	-	4,805	5,612	6,551	12.4%	12.2%	-
Hydraulic system	369	413	-	311	336	363	-15.7%	-18.7%	-
Component	762	823	-	718	776	838	-5.8%	-5.8%	-
Revenue (hydraulic business)	11,187	12,457	-	10,888	12,458	14,113	-2.7%	0.0%	-
Other business	74	83	-	73	82	91	-1.6%	-1.6%	-
Total revenue	11,261	12,540	-	10,961	12,540	14,204	-2.7%	0.0%	-
Gross margin (hydraulic business)	42.1%	42.6%	-	43.4%	43.6%	43.7%	1.2	0.9	-
Other business	90.0%	90.0%	-	90.0%	90.0%	90.0%	0.0	0.0	-
Blended gross margin	42.5%	43.0%	-	43.7%	43.9%	44.0%	1.2	0.9	-
Change (ppt)									
S&D expense ratio	-2.2%	-2.2%	-	-2.3%	-2.3%	-2.3%	-0.1	-0.1	-
Admin expense and R&D ratio	-12.0%	-12.0%	-	-13.9%	-13.9%	-13.9%	-1.9	-1.9	-
Net finance income/(expense) RMB mn	303	348	-	284	324	380	-6.3%	-6.8%	-
Net profit	3,076	3,496	-	3,007	3,433	3,884	-2.2%	-1.8%	-

Source: Company data, CMBIGM estimates

Figure 7: Hengli's P/E band

Source: Bloomberg, company data, CMBIGM estimates

Figure 8: Hengli's P/B band

Source: Bloomberg, company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	8,197	8,985	9,390	10,961	12,540	14,204
Cost of goods sold	(4,873)	(5,220)	(5,368)	(6,175)	(7,040)	(7,951)
Gross profit	3,324	3,765	4,021	4,786	5,500	6,253
Selling expense	(124)	(186)	(217)	(252)	(288)	(327)
Admin expense	(275)	(404)	(592)	(680)	(777)	(881)
R&D expense	(650)	(694)	(728)	(844)	(966)	(1,094)
Others	(116)	(150)	(156)	(169)	(183)	(198)
Operating profit	2,159	2,330	2,328	2,841	3,286	3,754
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	2,553	2,744	2,758	3,334	3,832	4,349
Depreciation	394	413	430	492	547	595
Interest income	352	382	146	285	325	381
Interest expense	(20)	(13)	(14)	(1)	(1)	(1)
Net Interest income/(expense)	332	369	131	284	324	380
Other income/expense	137	131	341	219	251	284
Pre-tax profit	2,629	2,830	2,800	3,345	3,861	4,418
Income tax	(280)	(326)	(288)	(334)	(425)	(530)
Minority interest	(6)	(5)	(4)	(3)	(3)	(4)
Adjusted net profit	2,343	2,499	2,509	3,007	3,433	3,884

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	12,327	12,994	13,830	15,727	17,517	20,450
Cash & equivalents	6,886	8,124	7,883	8,391	10,199	11,561
Account receivables	2,982	2,767	2,756	3,850	3,708	4,854
Inventories	1,766	1,692	1,765	2,059	2,184	2,609
Prepayment	141	156	157	157	157	157
Other current assets	552	255	1,270	1,270	1,270	1,270
Non-current assets	3,874	4,901	5,808	6,521	6,879	7,089
PP&E	2,836	2,851	3,889	4,614	4,985	5,208
Deferred income tax	54	58	139	139	139	139
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	436	467	439	426	413	401
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	548	1,526	1,342	1,342	1,342	1,342
Total assets	16,201	17,896	19,639	22,248	24,397	27,539
Current liabilities	3,144	3,099	3,379	3,917	3,772	4,331
Short-term borrowings	329	203	19	19	19	19
Account payables	1,323	1,297	1,136	1,673	1,529	2,088
Tax payable	73	154	160	160	160	160
Other current liabilities	1,419	1,445	2,064	2,064	2,064	2,064
Non-current liabilities	379	353	431	431	431	431
Long-term borrowings	0	0	0	0	0	0
Deferred income	198	175	212	212	212	212
Other non-current liabilities	181	179	219	219	219	219
Total liabilities	3,523	3,453	3,810	4,348	4,203	4,762
Total shareholders equity	12,630	14,391	15,775	17,843	20,133	22,713
Minority interest	48	52	54	57	60	64
Total equity and liabilities	16,201	17,896	19,639	22,248	24,397	27,539

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,629	2,830	2,800	3,345	3,861	4,418
Depreciation & amortization	394	413	430	492	547	595
Tax paid	(280)	(326)	(288)	(334)	(425)	(530)
Change in working capital	(476)	(225)	(195)	(851)	(126)	(1,012)
Others	(203)	(15)	(269)	1	1	1
Net cash from operations	2,064	2,677	2,479	2,652	3,857	3,472
Investing						
Capital expenditure	(642)	(1,309)	(1,072)	(1,200)	(900)	(800)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	563	(1,742)	(2,028)	(5)	(5)	(5)
Net cash from investing	(80)	(3,051)	(3,100)	(1,205)	(905)	(805)
Financing						
Dividend paid	(953)	(831)	(939)	(939)	(1,143)	(1,304)
Net borrowings	(313)	(126)	(185)	0	0	0
Proceeds from share issues	2,000	0	0	0	0	0
Others	216	77	336	(1)	(1)	(1)
Net cash from financing	949	(880)	(788)	(940)	(1,144)	(1,305)
Net change in cash						
Cash at the beginning of the year	3,643	6,886	8,124	7,883	8,391	10,199
Exchange difference	310	2,492	1,167	0	0	0
Cash at the end of the year	6,886	8,124	7,883	8,391	10,199	11,561
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(12.0%)	9.6%	4.5%	16.7%	14.4%	13.3%
Gross profit	(18.9%)	13.3%	6.8%	19.0%	14.9%	13.7%
Operating profit	(28.0%)	7.9%	(0.1%)	22.0%	15.6%	14.3%
EBITDA	(24.9%)	7.5%	0.5%	20.9%	14.9%	13.5%
Adj. net profit	(13.0%)	6.7%	0.4%	19.9%	14.2%	13.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	40.6%	41.9%	42.8%	43.7%	43.9%	44.0%
Operating margin	26.3%	25.9%	24.8%	25.9%	26.2%	26.4%
EBITDA margin	31.1%	30.5%	29.4%	30.4%	30.6%	30.6%
Adj. net profit margin	28.6%	27.8%	26.7%	27.4%	27.4%	27.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
Current ratio (x)	3.9	4.2	4.1	4.0	4.6	4.7
Receivable turnover days	123.4	116.8	107.4	110.0	110.0	110.0
Inventory turnover days	126.3	120.9	117.5	113.0	110.0	110.0
Payable turnover days	94.0	91.6	82.7	83.0	83.0	83.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	39.7	38.2	38.0	31.7	27.8	24.6
P/B	7.6	6.6	6.0	5.3	4.7	4.2
Div yield (%)	0.9	1.0	1.0	1.2	1.4	1.5

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.