Zhejiang Dingli - A (603338 CH)

2Q20 profit +78% YoY in line; Strong operating cash flow

Dingli's net profit in 1H20 grew 57% YoY RMB409mn, in line with the profit alert released in Jul. This implies a 78% YoY increase in 2Q20 net profit to RMB284mn. Most notable is that the operating cash inflow in 1H20 surged 12x YoY to RMB756mn, suggesting high earnings quality. We expect rising penetration of aerial working platform (AWP) in China remains a structural growth story. We slightly revised up our 2020E-22E earnings forecast by 1-3%. We lifted our TP from RMB81 to RMB117, after rolling over our valuation base to 2021E (42x P/E multiple unchanged). Reiterate **BUY**.

- **2Q20 results highlight:** Revenue grew 135% YoY to RMB1.09bn in 2Q20, driven by strong demand for AWP in China. Gross margin contracted 3.3ppt YoY to 37.4% which was due to more new competitors in the market. Selling expense and administrative expense ratio dropped 1.4ppt and 1.9ppt YoY, respectively, to 4.5% and 4.6%, helped by operating leverage. Operating cash inflow surged 6.4x YoY to RMB677mn, much higher than the net profit.
- **Strong demand in China to continue.** In 1H20, the total revenue growth of 77% YoY was driven mainly by China market, where revenue surged 172% YoY to RMB1.09bn, accounting for 76% of Dingli's total revenue. Such growth was stronger than the industry average of 54% YoY growth (in terms of volume, according to the figures from CCMA). Going forward, the construction of new production line for 3.2k units of boom lift with a focus on China market is about to complete. We expect a gradual capacity ramp-up in 4Q20E and the new production line will serve as a key growth driver for Dingli in 2021E.
- **Recovery in the overseas market will offer additional upside.** Dingli's overseas revenue (focus mainly on the US and Europe) dropped 9% YoY to RMB350mn (accounted for 24% of total revenue), largely due to the COVID-related shutdown. That said, such decline was less than the industry average decline of 19%. Indeed, improvement in overseas market has been seen as Dingli received orders early this month for 300 units of boom lifts from Collé, an equipment leasing company in Europe. Going forward, we expect the gradual re-opening of the overseas economies will offer upside to the AWP sales.
- **Major risk factors:** (1) Price competition due to more new entrants in the AWP market; (2) prolonged impact of COVID-19 in overseas; (3) Unexpected slowdown of construction activities in China.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,708	2,389	3,622	5,038	6,031
YoY growth (%)	49.9	39.9	51.6	39.1	19.7
Net income (RMB mn)	480	694	960	1,348	1,627
EPS (RMB)	0.99	1.43	1.98	2.78	3.35
YoY growth (%)	62.7	44.5	38.3	40.4	20.7
Consensus EPS (RMB)	n/a	n/a	1.90	2.47	3.09
EV/EBITDA (x)	89.7	63.6	43.4	30.7	25.4
P/E (x)	96.4	66.7	48.2	34.3	28.5
P/B (x)	17.8	14.4	11.4	8.9	7.0
Yield (%)	0.2	0.3	0.4	0.5	0.6
ROE (%)	20.0	23.9	26.5	29.1	27.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**RMB117.00**
(Previous TP	RMB81.00)
Up/Downside	**+23%**
Current Price	**RMB95.33**

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	46,281
Avg 3 mths t/o (RMB mn)	191
52w High/Low (RMB)	102.85/37.57
Total Issued Shares (mn)	485.5

Source: Bloomberg

Shareholding Structure

XU Shugen	47.5%
Deqing Zhongding Equity Investment Management	12.6%
CCASS (Hong Kong)	7.8%
XU Zhilong	2.1%
Free float	30.0%

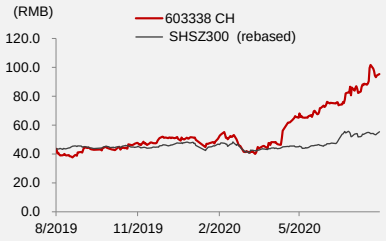
Source: Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	10.8%	4.6%
3-mth	45.1%	17.9%
6-mth	88.8%	59.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

Recent report:
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Figure 1: 1H20 results highlight

YE Dec 31(RMB mn)	1H19	1H20	Change (YoY)
Total revenue	**849**	**1,501**	***76.9%***
Cost of sales	(495)	(929)	*87.8%*
Gross profit	**354**	**572**	***61.6%***
Surcharge	(5)	(8)	*48.2%*
S&D expenses	(45)	(67)	*50.3%*
Administrative expenses	(50)	(74)	*45.8%*
Asset impairment	(4)	6	*n/a*
EBIT	**250**	**430**	***72.0%***
Net finance income/(cost)	17	28	*58.1%*
Finance income	18	29	*59.2%*
Finance expenses	(1)	(1)	*92.3%*
Other gains/(losses)	30	16	*-47.1%*
Share of profit of JV and associates	12	11	*-7.2%*
Pretax profit	**310**	**485**	***56.5%***
Income tax	(49)	(76)	*53.8%*
After tax profit	**260**	**409**	*57.0%*
MI	0	0	*n/a*
Net profit	**260**	**409**	***57.0%***
D&A	14	16	*13.3%*
EBITDA	**264**	**445**	***68.9%***

Source: Company data, CMBIS

Figure 2: Quarterly results highlight

(RMB mn)	1Q19	1Q20	Change YoY	2Q19	2Q20	Change YoY
Total revenue	**384**	**411**	***6.9%***	**464**	**1,090**	***134.8%***
Cost of sales	(220)	(247)	*12.3%*	(275)	(682)	*148.0%*
Gross profit	**165**	**164**	***-0.3%***	**189**	**408**	***115.6%***
Other income	(3)	(4)	*6.4%*	(2)	(4)	*119.7%*
S&D expenses	(17)	(18)	*5.2%*	(27)	(49)	*79.1%*
Administrative expenses	(20)	(23)	*15.5%*	(31)	(51)	*65.5%*
Asset impairment	(2)	1	*n/a*	(1)	5	*n/a*
EBIT	**122**	**121**	***-0.8%***	**128**	**309**	***141.3%***
Net finance income/(cost)	(6)	6	*n/a*	24	21	*n/a*
Other gains/(losses)	1	9	*641.1%*	29	7	*-75.4%*
Share of profit of JV and associates	3	10	*212.5%*	9	1	*-86.3%*
Pretax profit	**120**	**146**	***21.6%***	**190**	**339**	***78.5%***
Income tax	(19)	(21)	*11.4%*	(30)	(55)	*80.3%*
After tax profit	**101**	**125**	*23.6%*	**159**	**284**	*78.1%*
MI	0	0	*n/a*	0	0	*n/a*
Net profit	**101**	**125**	***23.6%***	**159**	**284**	***78.1%***
			ppt			ppt
Gross margin	*42.9%*	*40.0%*	*-2.9*	*40.8%*	*37.4%*	*-3.3*
S&D expense ratio	*4.5%*	*4.5%*	*-0.1*	*5.9%*	*4.5%*	*-1.4*
Administrative expense ratio	*5.2%*	*5.6%*	*0.4*	*6.6%*	*4.6%*	*-1.9*
Effective tax rate	*15.8%*	*14.5%*	*-1.3*	*16.1%*	*16.2%*	*0.2*

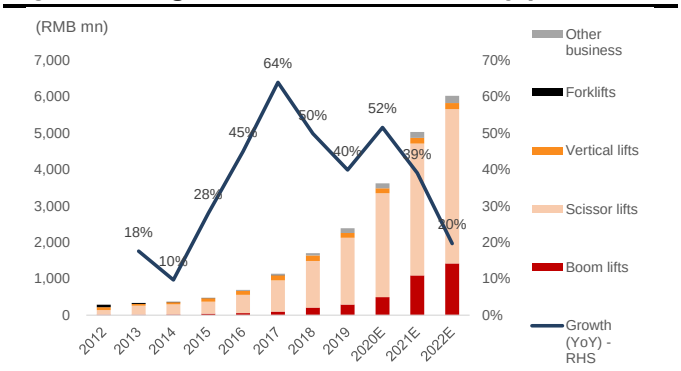
Source: Company data, CMBIS

Figure 3: Change in key assumptions on Dingli

	Old			New			Change		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Sales volume (units)									
Boom lifts	1,372	3,018	3,924	1,372	3,018	3,924	0.0%	0.0%	0.0%
Scissor lifts	37,324	44,789	50,163	40,790	51,803	60,610	9.3%	15.7%	20.8%
Vertical lifts	4,118	4,530	4,983	4,118	4,530	4,983	0.0%	0.0%	0.0%
Total (lifts)	42,814	52,337	59,070	46,280	59,351	69,516	8.1%	13.4%	17.7%
ASP (RMB/unit)									
Boom lifts	361,000	362,000	365,000	361,000	362,000	362,000	0.0%	0.0%	-0.8%
Scissor lifts	70,000	70,000	70,000	70,000	70,000	70,000	0.0%	0.0%	0.0%
Vertical lifts	34,000	34,000	34,000	34,000	34,000	34,000	0.0%	0.0%	0.0%
(RMB mn)									
Revenue									
Boom lifts	495	1,093	1,432	495	1,093	1,420	0.0%	0.0%	-0.8%
Scissor lifts	2,613	3,135	3,511	2,855	3,626	4,243	9.3%	15.7%	20.8%
Vertical lifts	140	154	169	140	154	169	0.0%	0.0%	0.0%
Revenue (core business)	3,248	4,382	5,113	3,491	4,873	5,832	7.5%	11.2%	14.1%
Other business	139	193	200	132	165	199	-5.1%	-14.7%	-0.6%
Total revenue	**3,387**	**4,575**	**5,313**	**3,622**	**5,038**	**6,031**	***7.0%***	***10.1%***	***13.5%***
Gross margin								*ppt*	
Boom lifts	30.0%	38.0%	40.0%	29.0%	34.0%	34.0%	-1.0	-4.0	-6.0
Scissor lifts	41.0%	41.0%	41.0%	38.0%	37.5%	37.3%	-3.0	-3.5	-3.7
Vertical lifts	41.0%	41.0%	40.5%	38.0%	37.5%	37.3%	-3.0	-3.5	-3.2
Gross margin (core business)	**39.3%**	**40.3%**	**40.7%**	**36.7%**	**36.7%**	**36.5%**	-2.6	-3.5	-4.2
Other business	68.0%	68.0%	68.0%	67.0%	67.0%	67.0%	-1.0	-1.0	-1.0
Blended gross margin	**40.5%**	**41.4%**	**41.7%**	**37.8%**	**37.7%**	**37.5%**	-2.7	-3.7	-4.2
Gross profit	1,372	1,895	2,217	1,370	1,900	2,262	-0.1%	0.2%	2.0%
Net profit	**938**	**1,328**	**1,585**	**960**	**1,348**	**1,627**	***2.3%***	***1.5%***	***2.6%***

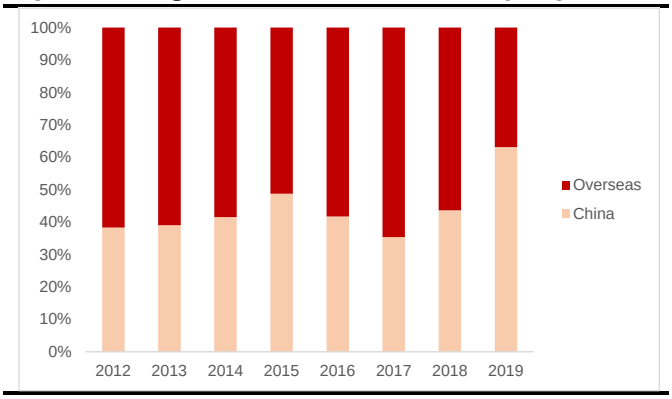
Source: Company data, CMBIS estimates

Figure 4: Dingli's revenue breakdown by product



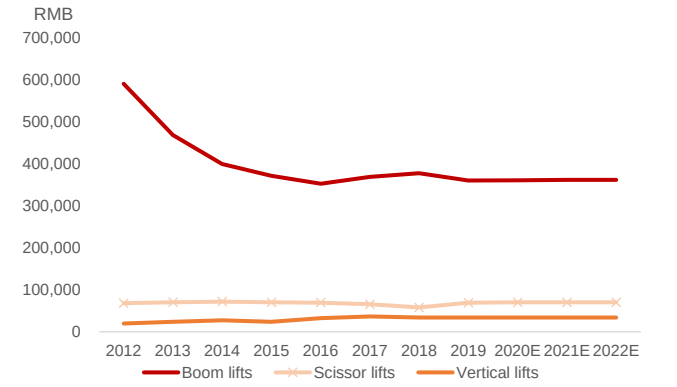
Source: Company data, CMBIS estimates

Figure 5: Dingli's revenue breakdown by region



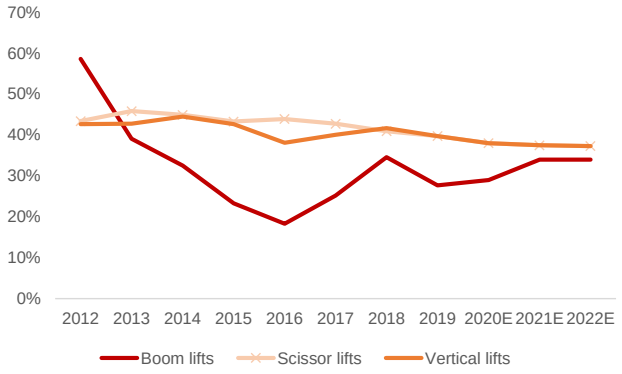
Source: Company data, CMBIS

Figure 6: ASP by product



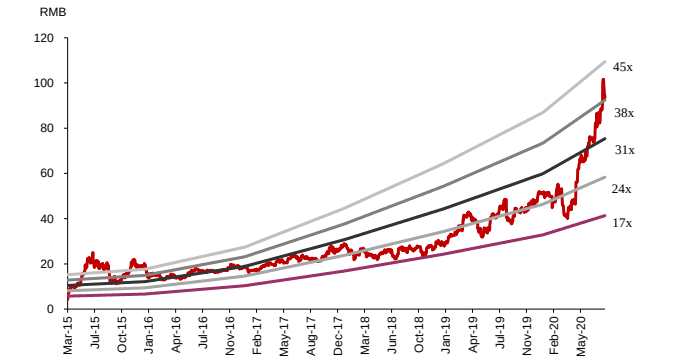
Source: Company data, CMBIS estimates

Figure 7: Gross margin by product



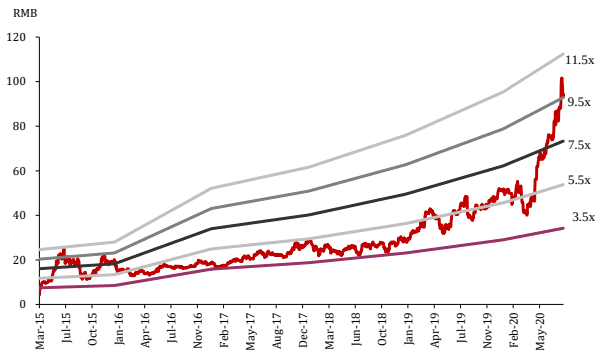
Source: Company data, CMBIS estimates

Figure 8: Dingli 12M forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 9: 12M forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**1,708**	**2,389**	**3,622**	**5,038**	**6,031**
Cost of sales	(999)	(1,437)	(2,252)	(3,138)	(3,769)
Gross profit	**709**	**952**	**1,370**	**1,900**	**2,262**
Surcharge	(10)	(10)	(18)	(25)	(30)
S&D expenses	(92)	(105)	(163)	(222)	(265)
Administrative expenses	(118)	(136)	(181)	(242)	(283)
Asset impairment	(7)	(15)	(4)	(10)	(12)
EBIT	**482**	**686**	**1,004**	**1,401**	**1,671**
Net finance income/(cost)	36	39	47	77	110
Finance income	37	42	52	83	115
Finance expenses	(2)	(3)	(5)	(5)	(6)
Other gains/(losses)	60	41	36	50	60
Profit of JV & associates	(13)	39	29	38	51
Pretax profit	**565**	**805**	**1,116**	**1,567**	**1,891**
Income tax	(85)	(111)	(156)	(219)	(265)
After tax profit	**480**	**694**	**960**	**1,348**	**1,627**
MI	0	0	0	0	0
Net profit	**480**	**694**	**960**	**1,348**	**1,627**
D&A	25	28	44	80	119
EBITDA	**507**	**714**	**1,049**	**1,481**	**1,790**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	565	805	1,116	1,567	1,891
Finance cost	0	3	5	5	6
Interest income	(22)	(14)	(52)	(83)	(115)
Profit / loss of associates	13	(39)	(29)	(38)	(51)
Depreciation and amortization	25	28	44	80	119
Income tax paid	(72)	(101)	(156)	(219)	(265)
Change in working capital	(82)	(6)	152	(188)	(428)
Others	(12)	20	0	0	0
Cash flow from operation	**416**	**696**	**1,080**	**1,124**	**1,158**
Net capex on PP&E	(199)	(285)	(330)	(300)	(300)
Interest received	27	6	52	83	115
Others	329	(392)	0	0	0
Cash flow from investing	**157**	**(666)**	**(278)**	**(217)**	**(185)**
Proceeds from equity	0	0	0	0	0
Net bank borrowings	163	252	40	30	50
Dividend paid	(71)	(87)	(121)	(168)	(236)
Interest paid	(9)	(17)	(5)	(5)	(6)
Others	(0)	(0)	0	0	0
Cash flow from financing	**83**	**147**	**(86)**	**(143)**	**(192)**
Change in cash	656	177	716	763	781
Cash at beginning of the year	751	1,045	874	1,590	2,353
FX gains/(losses) & others	(362)	(349)	0	0	0
Cash at the end of the year	1,045	874	1,590	2,353	3,134

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**1,027**	**1,471**	**1,848**	**2,238**	**2,605**
PP&E	232	245	534	757	941
JV/associates	206	89	118	156	207
LT trade receivables	278	465	527	660	794
Intangible assets	143	140	137	134	131
AFS investments	0	0	0	0	0
Others	167	529	529	529	529
Deferred tax assets	0	2	2	2	2
Current assets	**2,607**	**3,389**	**4,398**	**5,525**	**6,852**
Inventories	359	461	625	750	1,046
Trade and bill receivables	899	1,325	1,454	1,693	1,942
Prepayment	5	11	11	11	11
Others	298	718	718	718	718
Cash	1,045	874	1,590	2,353	3,134
Current liabilities	**882**	**1,450**	**1,977**	**2,305**	**2,607**
Trade and bill payables	521	783	1,290	1,599	1,851
Bank borrowings	150	369	389	409	459
Tax payable	70	107	107	107	107
Advance from customers	11	7	7	7	7
Others	129	183	183	183	183
Non-current liabilities	**151**	**202**	**222**	**232**	**232**
Bank borrowings	75	109	129	139	139
Deferred tax liabilities	2	1	1	1	1
Deferred income	64	73	73	73	73
Others	10	19	19	19	19
Equity	**2,601**	**3,207**	**4,046**	**5,226**	**6,617**
Shareholders' equity	2,601	3,207	4,046	5,226	6,617
MI	0	0	0	0	0

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix (%)					
Boom lifts	12	12	14	22	24
Scissor lifts	75	77	79	72	70
Vertical lifts	9	5	4	3	3
Others	4	6	4	3	3
Total	100	100	100	100	100
Profit & loss ratio (%)					
Gross margin	41.5	39.9	37.8	37.7	37.5
EBITDA margin	29.7	29.9	28.9	29.4	29.7
EBIT margin	28.2	28.7	27.7	27.8	27.7
Net profit margin	28.1	29.0	26.5	26.8	27.0
Growth (%)					
Revenue	49.9	39.9	51.6	39.1	19.7
Gross profit	48.2	34.4	43.9	38.6	19.1
EBITDA	39.2	41.0	46.8	41.2	20.9
EBIT	41.6	42.4	46.4	39.5	19.3
Net profit	69.6	44.5	38.3	40.4	20.7
Balance sheet ratio					
Current ratio (x)	3.0	2.3	2.2	2.4	2.6
Receivable turnover days	143	170	140	114	110
Inventory turnover days	110	104	88	80	87
Payable turnover days	152	166	168	168	167
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	15.0	16.3	17.3	19.2	18.9
ROE	20.0	23.9	26.5	29.1	27.5
Per share data					
EPS (RMB)	0.99	1.43	1.98	2.78	3.35
BVPS (RMB)	5.36	6.61	8.33	10.76	13.63
DPS (RMB)	0.18	0.25	0.35	0.49	0.59

Source: Company data, CMBIS estimates

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