Zhejiang Dingli - A (603338 CH)

Riding on the strong momentum; Raised earnings est. & TP

Sales of aerial working platform (AWP) by major players in China surged 121% YoY to 13.6k units in Apr, taking the 4M20 sales up 42% YoY to 26.7k units. We expect the growth momentum to continue over the upcoming months, driven by resilient construction activities in China as well as recovering demand with the gradual re-opening of economies in overseas. We revised up our 2020E-22E earnings forecast on Dingli by 4-8% (16-25% above consensus). We lifted our TP from RMB67.14 to RMB81, based on 42x 2020E P/E, on the back of 35%/42% earnings growth in 2020E/21E. Reiterate **BUY**.

- **Explosive growth of AMP sales.** According to CCMA data, sales of AWP by the nine major manufacturers located in China surged 121% YoY to 13.6k units in Apr. Domestic sales surged 196% YoY to 12.2k units, driven by strong construction activities. Apart from Dingli, we expect **Jiangsu Hengli (601100 CH, BUY, TP: RMB85)** is also a major beneficiary as Hengli supplies hydraulic cylinders and motors to major AWP makers.
- **Expect gradual recovery of export over the coming months.** Overseas revenue (mainly in the US and Europe) accounted for 37% of Dingli's total revenue in 2019. According to CCMA, AWP export volume declined 31% YoY to 1.4k units in Apr (for the industry as a whole), due to the COVID-related shutdown in the overseas. That said, we expect the gradual re-opening of the overseas economies will offer upside to the AWP sales in the near term.
- **Our 2020E-22E earnings forecast is now 16-25% above consensus.** In view of the strong demand for scissor lifts, we raised our sales volume forecast on Dingli's scissor lifts by 3-10% in 2020E-22E. Our earnings forecast is revised up by 4-8% in 2020E-22E.
- **Raised TP to RMB81.** Dingli announced stock split (1 to 1.4) after the release of 2019 result and it came into effect last Friday. Our previous TP was therefore automatically adjusted from RMB94 to RMB67.14. We raised our TP to RMB81, based on 42x 2020E PE (up from 36x). Our higher multiple is to reflect the 42% estimated earnings growth in 2021E. Besides, we believe our high target multiple is justified, given that rising labor cost will remain the structural driver for the application of AWP in China over the coming years.
- **Major risk factors:** (1) more new entrants in the AWP market; (2) prolonged impact of COVID-19 in overseas; (3) slowdown of construction activities in China.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,708	2,389	3,387	4,575	5,313
YoY growth (%)	49.9	39.9	41.7	35.1	16.1
Net income (RMB mn)	480	694	938	1,328	1,585
EPS (RMB)	0.99	1.43	1.93	2.73	3.26
YoY growth (%)	62.7	44.5	35.1	41.5	19.4
Consensus EPS (RMB)	n/a	n/a	1.66	2.18	2.79
EV/EBITDA (x)	65.4	46.4	32.0	22.2	18.5
P/E (x)	70.8	49.0	36.2	25.6	21.4
P/B (x)	13.1	10.6	8.4	6.6	5.2
Yield (%)	0.3	0.4	0.5	0.7	0.8
ROE (%)	20.0	23.9	25.9	28.8	27.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**RMB81.00**
(Previous TP	RMB67.14)
Up/Downside	**+16%**
Current Price	**RMB70.00**

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	33,984
Avg 3 mths t/o (RMB mn)	191
52w High/Low (RMB)	70.55/33.38
Total Issued Shares (mn)	485.5

Source: Bloomberg

Shareholding Structure

XU Shugen	47.5%
Deqing Zhongding Equity Investment Management	12.6%
CCASS (Hong Kong)	5.3%
XU Zhilong	3.1%
Free float	32.7%

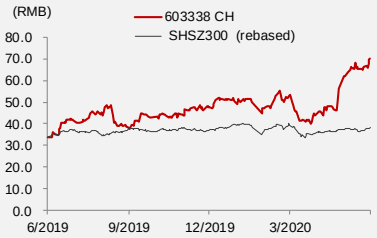
Source: Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	24.6%	21.8%
3-mth	32.8%	39.6%
6-mth	46.3%	41.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

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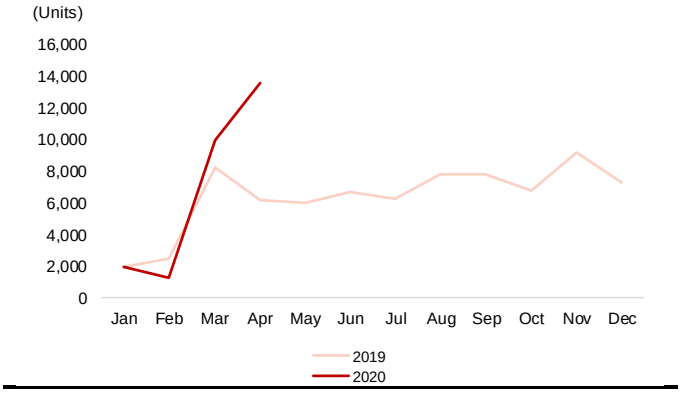
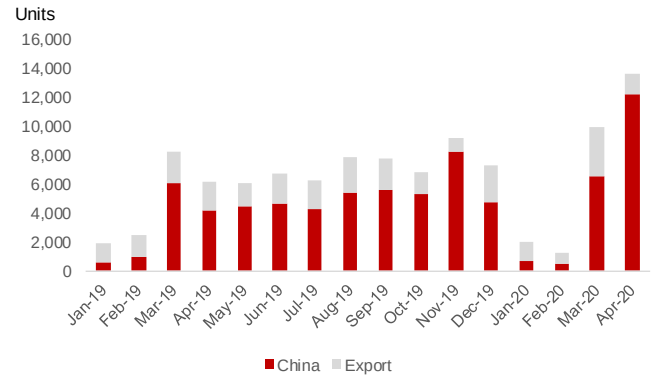
Figure 1: Sales of AWP by major players in Apr +121% YoY



Source: CCMA, CMBIS

Figure 2: AWP sales breakdown by region



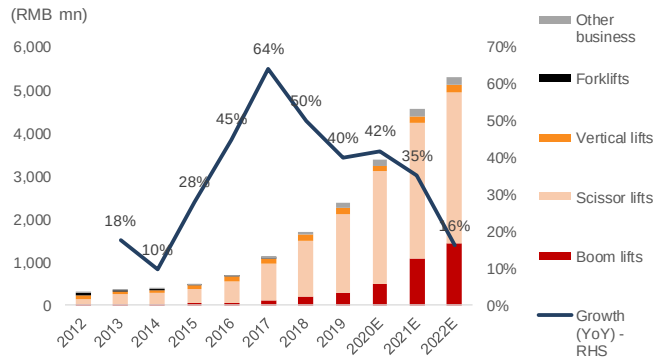
Source: CCMA, CMBIS

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	35,991	40,670	45,550	37,324	44,789	50,163	*3.7%*	*10.1%*	*10.1%*
Vertical lifts	4,118	4,530	4,983	4,118	4,530	4,983	*0.0%*	*0.0%*	*0.0%*
Total (lifts)	41,481	48,218	54,457	42,814	52,337	59,070	*3.2%*	*8.5%*	*8.5%*
ASP (RMB/unit)									
Boom lifts	361,000	362,000	365,000	361,000	362,000	365,000	*0.0%*	*0.0%*	*0.0%*
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	1,432	*0.0%*	*0.0%*	*0.0%*
Scissor lifts	2,519	2,847	3,189	2,613	3,135	3,511	*3.7%*	*10.1%*	*10.1%*
Vertical lifts	140	154	169	140	154	169	*0.0%*	*0.0%*	*0.0%*
Revenue (core business)	3,155	4,093	4,790	3,248	4,382	5,113	*3.0%*	*7.0%*	*6.7%*
Other business	131	179	189	139	193	200	*5.8%*	*8.0%*	*5.4%*
Total revenue	**3,286**	**4,272**	**4,980**	**3,387**	**4,575**	**5,313**	***3.1%***	***7.1%***	***6.7%***
Gross margin								*ppt*	
Boom lifts	30.0%	38.0%	40.0%	30.0%	38.0%	40.0%	*0.0*	*0.0*	*0.0*
Scissor lifts	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%	*0.0*	*0.0*	*0.0*
Vertical lifts	41.0%	41.0%	40.5%	41.0%	41.0%	40.5%	*0.0*	*0.0*	*0.0*
Gross margin (core business)	**39.3%**	**40.2%**	**40.7%**	**39.3%**	**40.3%**	**40.7%**	*0.0*	*0.1*	*0.0*
Other business	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%	*0.0*	*0.0*	*0.0*
Blended gross margin	**40.4%**	**41.4%**	**41.7%**	**40.5%**	**41.4%**	**41.7%**	*0.1*	*0.1*	*0.0*
Gross profit	1,328	1,767	2,078	1,372	1,895	2,217	*3.3%*	*7.2%*	*6.7%*
Net profit	**905**	**1,226**	**1,466**	**938**	**1,328**	**1,585**	***3.6%***	***8.3%***	***8.1%***

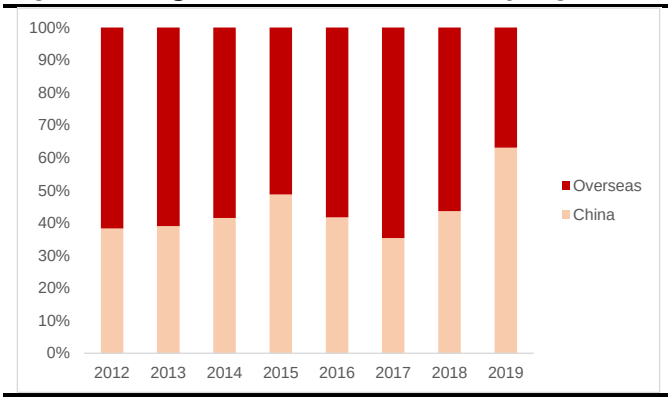
Source: Company data, CMBIS

Figure 4: Dingli's revenue breakdown by product



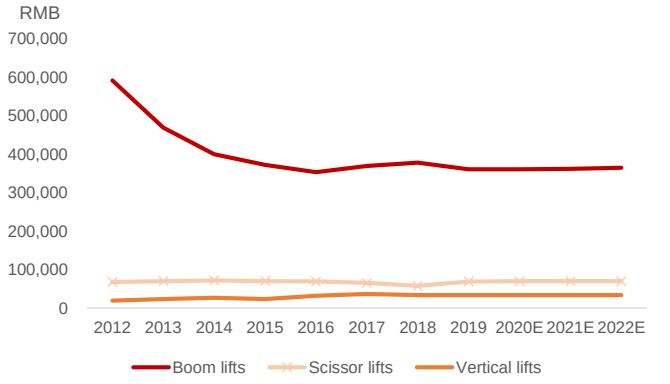
Source: Company data, CMBIS estimates

Figure 5: Dingli's revenue breakdown by region



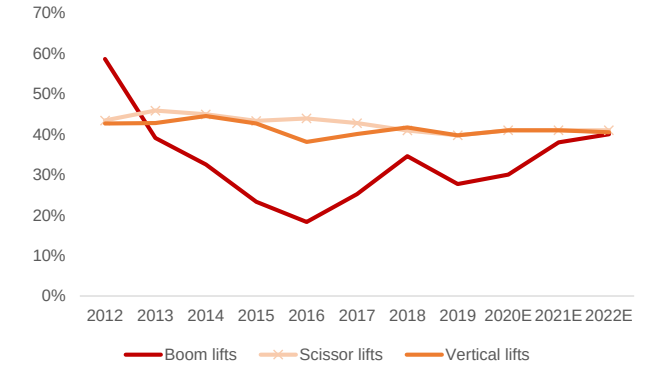
Source: Company data, CMBIS

Figure 6: ASP by product



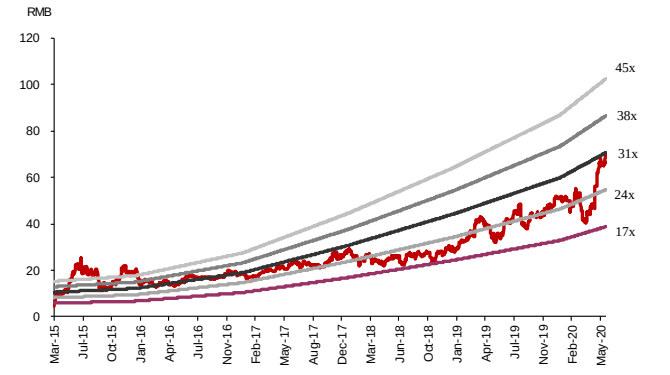
Source: Company data, CMBIS estimates

Figure 7: Gross margin by product



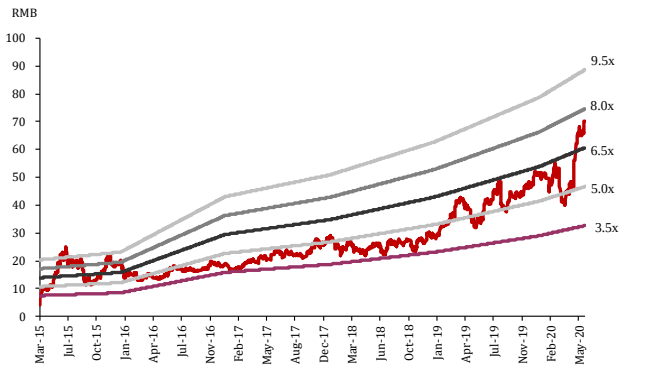
Source: Company data, CMBIS estimates

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**	**3,387**	**4,575**	**5,313**
Cost of sales	-999	-1,437	-2,015	-2,680	-3,096
Gross profit	**709**	**952**	**1,372**	**1,895**	**2,217**
Surcharge	-10	-10	-20	-27	-32
S&D expenses	-92	-105	-152	-201	-234
Administrative expenses	-118	-136	-186	-229	-255
Asset impairment	-7	-15	-20	-23	-27
EBIT	**482**	**686**	**992**	**1,415**	**1,670**
Net finance income/(cost)	36	39	36	45	69
Finance income	37	42	41	50	75
Finance expenses	-2	-3	-5	-5	-6
Other gains/(losses)	60	41	34	46	53
Profit of JV & associates	-13	39	29	38	51
Pretax profit	**565**	**805**	**1,091**	**1,544**	**1,843**
Income tax	-85	-111	-153	-216	-258
After tax profit	**480**	**694**	**938**	**1,328**	**1,585**
MI	0	0	0	0	0
Net profit	**480**	**694**	**938**	**1,328**	**1,585**
D&A	25	28	44	80	119
EBITDA	**507**	**714**	**1,037**	**1,495**	**1,789**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	565	805	1,091	1,544	1,843
Finance cost	0	3	5	5	6
Interest income	-22	-14	-41	-50	-75
Profit / loss of associates	13	-39	-29	-38	-51
Depreciation and amortization	25	28	44	80	119
Income tax paid	-72	-101	-153	-216	-258
Change in working capital	-82	-6	-359	-658	-269
Others	-12	20	0	0	-0
Cash flow from operation	**416**	**696**	**559**	**667**	**1,315**
Net capex on PP&E	-199	-285	-330	-300	-300
Interest received	27	6	41	50	75
Others	329	-392	0	0	0
Cash flow from investing	**157**	**-666**	**-289**	**-250**	**-225**
Proceeds from equity	0	0	0	0	0
Net bank borrowings	163	252	40	30	50
Dividend paid	-71	-87	-121	-164	-232
Interest paid	-9	-17	-5	-5	-6
Others	-0	-0	0	0	0
Cash flow from financing	**83**	**147**	**-86**	**-139**	**-188**
Change in cash	656	177	183	277	902
Cash at beginning of the year	751	1,045	874	1,057	1,334
FX gains/(losses) & others	-362	-349	0	0	0
Cash at the end of the year	1,045	874	1,057	1,334	2,237

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**1,027**	**1,471**	**1,876**	**2,351**	**2,609**
PP&E	232	245	534	757	941
JV/associates	206	89	118	156	207
LT trade receivables	278	465	556	773	799
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**	**4,129**	**5,170**	**6,358**
Inventories	359	461	643	796	901
Trade and bill receivables	899	1,325	1,700	2,311	2,492
Prepayment	5	11	11	11	11
Others	298	718	718	718	718
Cash	1,045	874	1,057	1,334	2,237
Current liabilities	**882**	**1,450**	**1,759**	**2,101**	**2,195**
Trade and bill payables	521	783	1,072	1,395	1,438
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**	**4,024**	**5,188**	**6,540**
Shareholders' equity	2,601	3,207	4,024	5,188	6,540
MI	0	0	0	0	0

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix (%)					
Boom lifts	12	12	15	24	27
Scissor lifts	75	77	77	69	66
Vertical lifts	9	5	4	3	3
Others	4	6	4	4	4
Total	100	100	100	100	100
Profit & loss ratio (%)					
Gross margin	41.5	39.9	40.5	41.4	41.7
EBITDA margin	29.7	29.9	30.6	32.7	33.7
EBIT margin	28.2	28.7	29.3	30.9	31.4
Net profit margin	28.1	29.0	27.7	29.0	29.8
Growth (%)					
Revenue	49.9	39.9	41.7	35.1	16.1
Gross profit	48.2	34.4	44.0	38.2	17.0
EBITDA	39.2	41.0	45.1	44.2	19.7
EBIT	41.6	42.4	44.6	42.6	18.0
Net profit	69.6	44.5	35.1	41.5	19.4
Balance sheet ratio					
Current ratio (x)	3.0	2.3	2.3	2.5	2.9
Receivable turnover days	143	170	163	160	165
Inventory turnover days	110	104	100	98	100
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	19.6	19.2
ROE	20.0	23.9	25.9	28.8	27.0
Per share data					
EPS (RMB)	0.99	1.43	1.93	2.73	3.26
BVPS (RMB)	5.36	6.61	8.29	10.69	13.47
DPS (RMB)	0.18	0.25	0.34	0.48	0.57

Source: Company data, CMBIS estimates

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