

ZTO Express (ZTO US)

**2Q23 net profit +41% YoY on excellent cost control;
Full-year market share target achievable**

ZTO's revenue / net profit in 2Q23 came in at RMB9.7bn / RMB2.54bn, up 13%/41% in 2Q23. The excellent cost control (unit cost -18% YoY) enabled ZTO to boost the unit gross margin by 22% YoY to RMB0.43/parcel. ZTO maintains the full year parcel volume growth target to 20-24% YoY. We believe ZTO will be able to achieve the full year market share gain target of 1.5ppt (YoY) given the lack of capacity from key competitors. We fine-tuned our 2023E-25E earnings forecast by ~1%. We continue to like ZTO's cost advantage, strong balance sheet, and capability to generate positive free cash flow in 2023E-25E. Our TP for ZTO US/2057 HK is slightly revised down to US\$42.7/HK\$335, due largely to change in Fx assumptions. Reiterate **BUY**.

Key highlights in 2Q23 results:

- **Reported net profit in 2Q23 grew 41% YoY to RMB2.54bn.** Excluding the equity disposal loss and unrealized investment gain, the adjusted net profit grew 37% YoY to RMB2.49bn. The growth was driven by (1) 13% YoY revenue growth, and (2) 8.5ppt YoY gross margin expansion to 33.9%. SG&A expenses ratio was 5.2% (slightly dropped 0.1ppt YoY).
- **Parcel volume grew 24% YoY to 7.68bn units in 2Q23, ~3ppt above the industry (21% YoY).** Market share expanded 0.5ppt to 23.5% in 2Q23. ZTO reiterates the full year target range of parcel volume to 29.27-30.24bn units. Run rate in 1H23 was 46%-48% (1H22: 44%-46%).
- **ASP -7.8% YoY in 2Q23.** Parcel delivery ASP decreased RMB0.1/unit YoY (-7.8% YoY) to RMB1.24/unit in 2Q23, due to the lower avg. parcel weight (-RMB0.03), less contribution from KA volume (-RMB0.06), incentives (-RMB0.03), while partially offset by the refined pricing policy (+RMB0.02).
- **Unit cost -18.3% YoY in 2Q23.** Unit cost of transportation decreased 15% YoY to RMB0.42/unit, thanks to lower diesel price, optimized line-haul route planning, improved load rate and declined diesel price. Unit cost of sorting hub decreased 17% YoY to RMB0.25/unit, thanks to the continued standardization in sortation procedures and an increase in automation level. Unit gross margin grew 22% YoY to RMB0.43/unit.
- **Major risk factors:** (1) Transition from price competition to price war; (2) slowdown of online retail sales; and (3) rebound of diesel price.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	30,406	35,377	39,612	46,386	52,995
YoY growth (%)	20.6	16.3	12.0	17.1	14.2
Adjusted net profit (RMB mn)	4,754.8	6,809.1	8,927.3	10,721.3	12,453.0
EPS (Reported) (RMB)	5.70	8.16	10.88	12.84	14.92
YoY growth (%)	5.0	43.2	33.4	18.0	16.2
Consensus EPS (RMB)	na	0.00	10.73	12.92	15.55
P/E (x)	34.5	21.2	16.8	14.2	12.2
P/B (x)	3.4	2.7	2.5	2.2	1.9
Yield (%)	0.8	1.5	1.8	2.1	2.5
ROE (%)	9.6	13.0	15.5	16.3	16.8
Net gearing (%)	(21.3)	(37.5)	(35.9)	(37.3)	(40.6)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$42.70
(Previous TP US\$43.80)
Up/Downside 70.8%
Current Price US\$25.00

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Stock Data

Mkt Cap (US\$ mn)	21,382.5
Avg 3 mths t/o (US\$ mn)	44.6
52w High/Low (US\$)	29.44/16.80
Total Issued Shares (mn)	855.3

Source: FactSet

Shareholding Structure

Meisong Lai	25.9%
Alibaba	8.9%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.7%	-9.0%
3-mth	-0.8%	-7.3%
6-mth	3.9%	-8.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

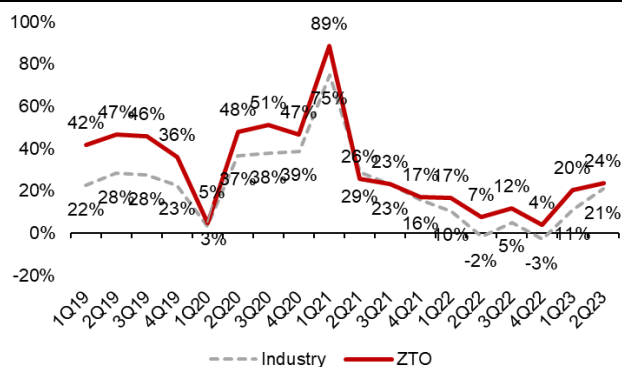
1. Best of both worlds – 18 May 2023
2. Clear guidance on volume and market share target; further room of cost reduction – 17 Mar 2023
3. Record-high market share; Good cost control; Earnings raised on better margin – 18 Aug 2022

Figure 1: ZTO's 2Q23 results

(RMB mn)	1Q22	1Q23	Change YoY	2Q22	2Q23	Change YoY	3Q21	3Q22	Change YoY	4Q21	4Q22	Change YoY
Total revenue	7,904	8,983	13.7%	8,657	9,740	12.5%	7,391	8,945	21.0%	9,218	9,871	7.1%
Cost of sales	-6,285	-6,460	2.8%	-6,454	-6,436	-0.3%	-5,822	-6,501	11.6%	-6,967	-7,099	1.9%
Gross profit	1,619	2,523	55.8%	2,203	3,304	50.0%	1,568	2,444	55.9%	2,251	2,773	23.2%
Other income	115	214	85.8%	240	79	-67.1%	182	172	-5.4%	275	248	-9.9%
SG&A expenses	-618	-787	27.2%	-457	-505	10.4%	-389	-441	13.4%	-472	-561	18.8%
EBIT	1,116	1,950	74.7%	1,986	2,879	45.0%	1,360	2,175	59.9%	2,054	2,460	19.8%
D&A	633	686	8.5%	672	705	4.9%	538	665	23.7%	598	701	17.2%
EBITDA	1,749	2,637	50.8%	2,658	3,584	34.9%	1,898	2,840	49.6%	2,652	3,160	19.2%
Net finance income/(expense)	51	20	-60.7%	95	95	-0.5%	40	131	230.7%	69	36	-48.6%
Finance income	111	92	-17.3%	118	167	41.0%	92	162	76.9%	94	112	18.6%
Finance expenses	-60	-72	20.2%	-23	-72	212.6%	-52	-32	-39.5%	-25	-76	n/a
Gain/(loss) on disposal of subsidiaries	0	0	n/a	0	-1	n/a	5	-23	n/a	-3	92	n/a
Impairment of investment in equity investees	0	0	n/a	0	0	n/a	0	0	n/a	53	20	-62.4%
Fair value changes of financial instruments	-1	156	n/a	-14	52	n/a	0	0	n/a	-48	14	n/a
FX gain/(loss)	-13	-10	-20.6%	120	81	-32.3%	-8	31	n/a	-22	9	n/a
Share of profit of JV and associates	-23	4	n/a	10	0	-98.7%	-20	-13	-31.9%	16	33	103.8%
Pretax profit	1,131	2,120	87.5%	2,197	3,106	41.4%	1,377	2,301	67.0%	2,119	2,664	25.7%
Income tax	-255	-455	78.3%	-438	-576	31.4%	-230	-439	91.4%	-371	-501	34.8%
After tax profit	876	1,665	90.2%	1,759	2,530	43.9%	1,148	1,861	62.1%	1,748	2,163	23.8%
MI	31	6	-82.1%	46	11	-76.4%	19	40	110.2%	15	33	127.6%
Net profit	906	1,670	84.3%	1,805	2,541	40.8%	1,167	1,901	62.9%	1,762	2,197	24.7%
Ratios:			ppt			ppt			ppt			ppt
Gross margin	20.5%	28.1%	7.6	25.4%	33.9%	8.5	21.2%	27.3%	6.1	24.4%	28.1%	3.7
EBIT margin	14.1%	21.7%	7.6	22.9%	29.6%	6.6	18.4%	24.3%	5.9	22.3%	24.9%	2.6
After tax profit margin	11.1%	18.5%	7.5	20.3%	26.0%	5.7	15.5%	20.8%	5.3	19.0%	21.9%	3.0
Effective tax rate	22.6%	21.5%	-1.1	19.9%	18.5%	-1.4	16.7%	19.1%	2.4	17.5%	18.8%	1.3

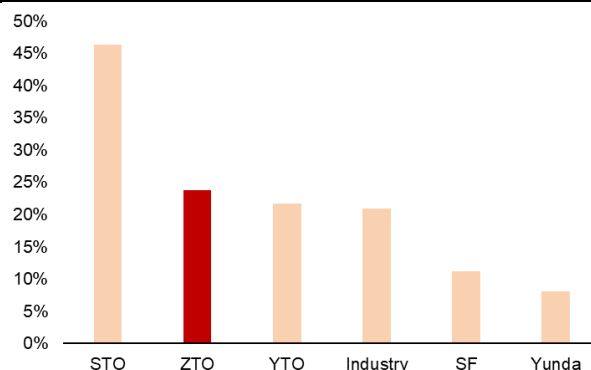
Source: Company data, CMBIGM

Figure 2: ZTO's parcel volume growth has continued to outpace the industry average since 4Q21



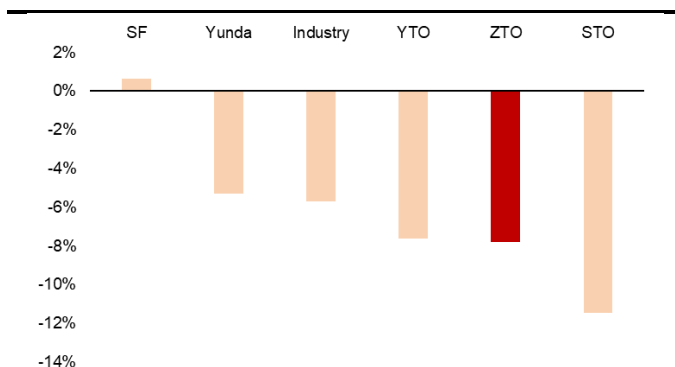
Source: Company data, The State Post Bureau, CMBIGM

Figure 3: ZTO's parcel volume growth in 2Q23



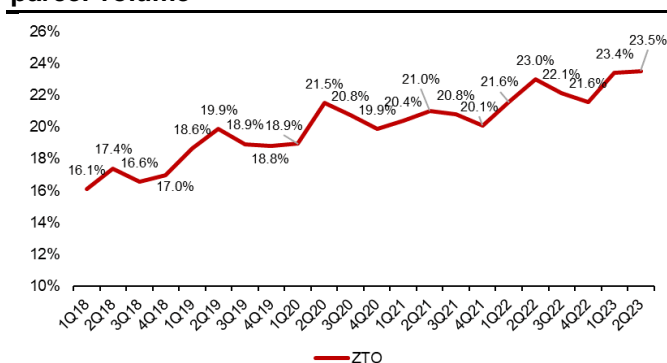
Source: Company data, The State Post Bureau, CMBIGM

Figure 4: ZTO's ASP change (YoY) in 2Q23



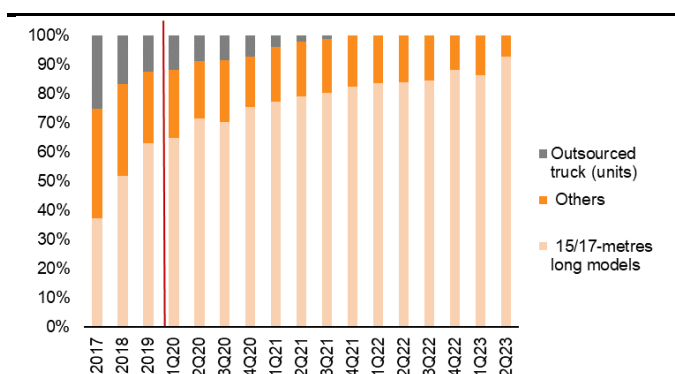
Source: Company data, The State Post Bureau, CMBIGM

Figure 5: ZTO's market share in China in terms of parcel volume



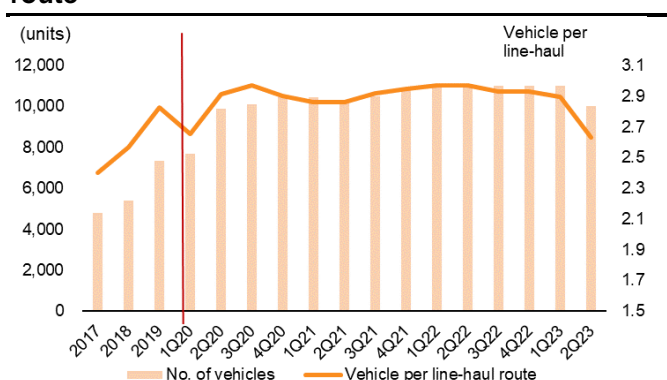
Source: Company data, CMBIGM

Figure 6: ZTO's self-owned high-capacity truck ratio



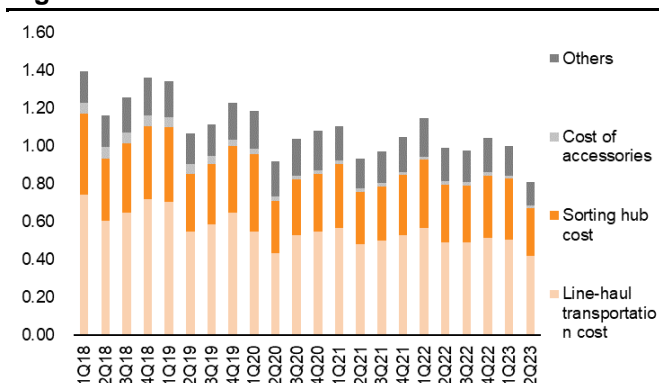
Source: Company data, CMBIGM

Figure 7: ZTO's number of vehicles per line-haul route



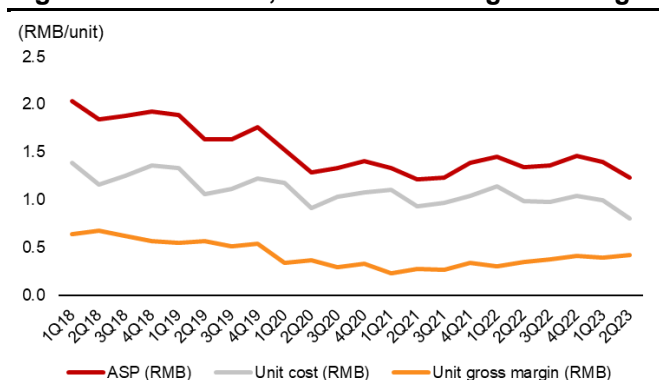
Source: Company data, CMBIGM

Figure 8: ZTO's unit cost breakdown



Source: Company data, CMBIGM

Figure 9: ZTO's ASP, unit cost & unit gross margin



Source: Company data, CMBIGM

Figure 10: Change in key operating assumptions

	2023E	Old 2024E	2025E	2023E	New 2024E	2025E	2023E	Change 2024E	2025E
Shipment volume (mn units of parcel)									
Unit of parcel	29,756	35,112	40,379	29,756	35,112	40,379	0.0%	0.0%	0.0%
ASP (RMB/unit)									
Per unit of parcel	1.39	1.38	1.37	1.30	1.30	1.29	-6.1%	-6.1%	-6.1%
Unit cost (RMB)									
Line-haul transportation cost	-0.48	-0.47	-0.47	-0.46	-0.44	-0.44	-5.3%	-6.3%	-6.3%
Sorting hub cost	-0.30	-0.29	-0.29	-0.28	-0.27	-0.27	-8.5%	-8.5%	-9.4%
Others	-0.18	-0.18	-0.18	-0.15	-0.15	-0.15	-14.1%	-15.0%	-15.0%
Total	-0.98	-0.96	-0.96	-0.90	-0.88	-0.87	-7.8%	-8.5%	-8.8%
Unit gross margin (RMB)	0.41	0.42	0.42	0.40	0.42	0.42	-1.8%	-0.5%	0.2%
(RMB mn)									
Revenue									
Express delivery, accessories & others	41,264	48,448	55,436	38,763	45,511	52,076	-6.1%	-6.1%	-6.1%
Freight forwarding services	1,225	1,286	1,350	849	874	918	-30.7%	-32.0%	-32.0%
Total	42,488	49,734	56,787	39,612	46,386	52,995	-6.8%	-6.7%	-6.7%
Revenue growth								ppt	
Express delivery, accessories & others	21%	17%	14%	13%	17%	14%	(7.3)	0.0	0.0
Freight forwarding services	1%	5%	5%	-30%	3%	5%	(31.0)	(2.0)	0.0
Revenue	20%	17%	14%	12%	17%	14%	(8.1)	0.0	0.1
SG&A expense ratio	-5.8%	-5.8%	-5.7%	-5.8%	-5.8%	-5.7%	0.0	0.0	0.0
Net profit	8,989	10,714	12,353	9,083	10,721	12,453	1.0%	0.1%	0.8%
Core net profit	8,833	10,714	12,353	8,927	10,721	12,453	1.1%	0.1%	0.8%

Source: Company data, CMBIGM estimates

Figure 11: Earnings sensitivity to ASP and unit line-haul transportation cost

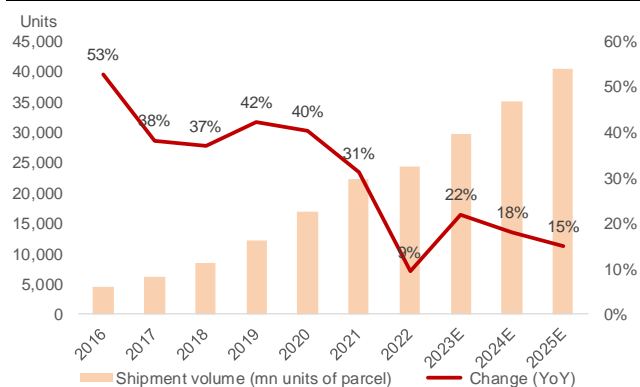
2023E Net profit (RMB mn)	ASP (RMB/unit)				
	1.24	1.28	1.30	1.33	1.37
-0.478	6,784	7,727	8,356	8,985	9,928
-0.465	7,127	8,070	8,699	9,328	10,271
Unit line-haul transportation cost (RMB)	-0.455	7,355	8,298	8,927	9,556
-0.446	7,584	8,527	9,156	9,785	10,728
-0.433	7,927	8,870	9,499	10,128	11,071

Source: Company data, CMBIGM estimates

Figure 12: Earnings sensitivity to ASP and unit sorting hub cost

2023E Net profit (RMB mn)	ASP (RMB/unit)				
	1.24	1.28	1.30	1.33	1.37
-0.290	7,008	7,951	8,580	9,209	10,152
-0.282	7,216	8,160	8,788	9,417	10,361
Unit sorting hub cost (RMB)	-0.277	7,355	8,298	8,927	9,556
-0.271	7,494	8,437	9,066	9,695	10,638
-0.263	7,702	8,646	9,274	9,903	10,847

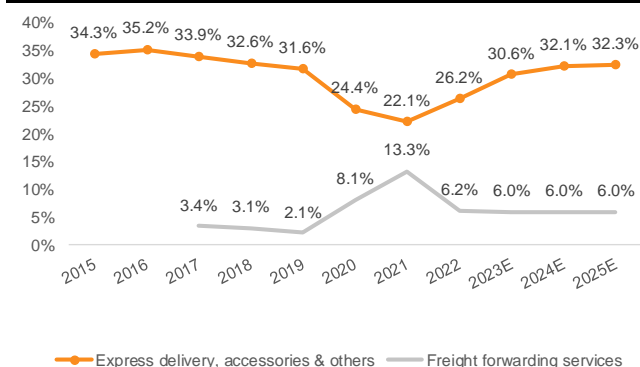
Source: Company data, CMBIGM estimates

Figure 13: ZTO's parcel shipment volume forecast

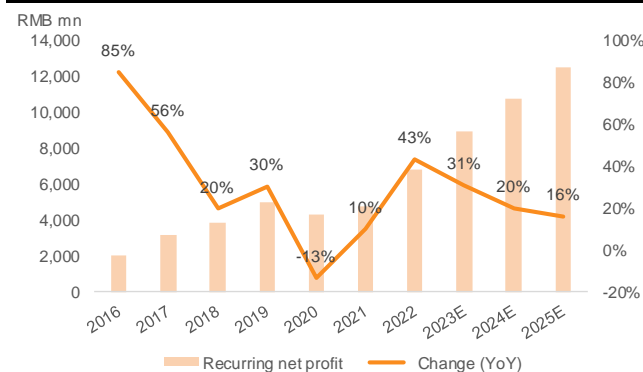
Source: Company data, CMBIGM estimate

Figure 14: China diesel price

Source: Wind, CMBIGM

Figure 15: ZTO's gross margin trend

Source: Company data, CMBIGM estimate

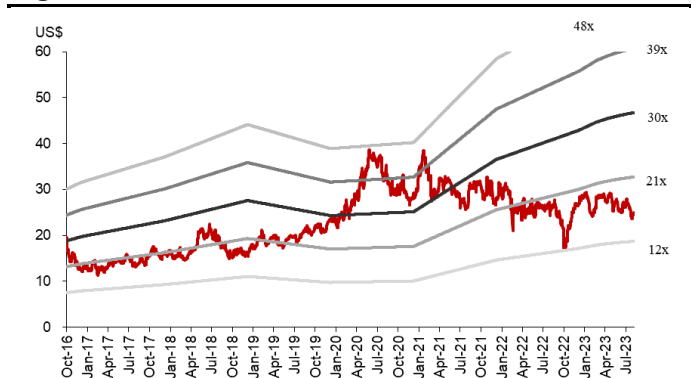
Figure 16: ZTO's net profit forecast

Source: Company data, CMBIGM estimate

Valuation

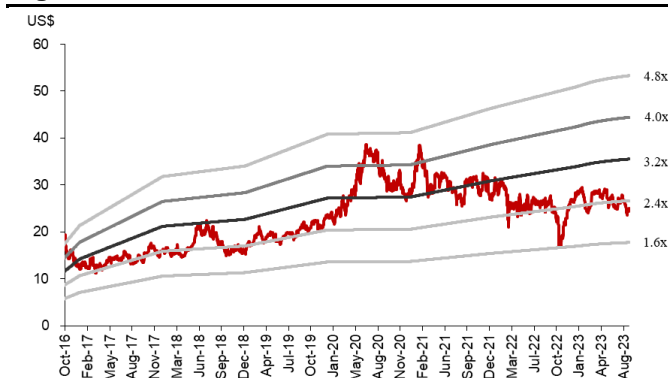
Our TP for ZTO US/2057 HK is revised down to US\$42.7/HK\$335 from US\$43.8/HK\$344. Our target multiple is unchanged at 29x (2023E), which is equivalent to 0.5 SD above the historical average.

Figure 17: ZTO US's P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 18: ZTO US's P/B band



Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	25,214	30,406	35,377	39,612	46,386	52,995
Cost of goods sold	(19,377)	(23,816)	(26,338)	(27,704)	(31,739)	(36,131)
Gross profit	5,837	6,589	9,039	11,908	14,647	16,864
SG&A expense	(1,664)	(1,876)	(2,077)	(2,297)	(2,690)	(3,021)
Others	581	790	775	792	928	1,060
Operating profit	4,754	5,503	7,736	10,403	12,884	14,903
Investment gain/loss	0	55	90	156	0	0
Share of (losses)/profits of associates/JV	(19)	(32)	6	8	21	22
Interest income	443	364	504	473	535	658
Interest expense	(35)	(127)	(191)	(180)	(171)	(171)
Net interest income/(expense)	407	237	313	293	363	487
Foreign exchange gain/loss	(127)	(56)	147	0	0	0
Pre-tax profit	5,016	5,707	8,292	10,860	13,269	15,412
Income tax	(690)	(1,005)	(1,633)	(1,955)	(2,654)	(3,082)
Minority interest	(14)	54	150	178	106	123
Net profit	4,326	4,701	6,659	8,905	10,615	12,330
Adjusted net profit	4,312	4,755	6,809	8,927	10,721	12,453
Gross dividends	1,313	1,353	2,125	2,725	3,216	3,736
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	22,325	18,666	24,475	26,066	30,236	36,745
Cash & equivalents	14,213	9,721	11,693	12,847	16,636	22,716
Account receivables	746	933	819	917	1,243	1,341
Inventories	53	83	41	111	63	135
Prepayment	589	668	862	862	862	862
Other current assets	6,724	7,261	11,061	11,329	11,432	11,691
Non-current assets	36,880	44,106	54,049	58,886	63,121	65,932
PP&E	18,565	24,930	28,813	32,807	35,781	37,775
Deferred income tax	721	935	750	750	750	750
Investment in JVs & assos	3,224	3,730	3,951	4,159	4,380	4,602
Intangibles	42	36	29	23	17	11
Goodwill	4,242	4,242	4,242	4,242	4,242	4,242
Other non-current assets	10,087	10,234	16,264	16,905	17,951	18,552
Total assets	59,205	62,772	78,524	84,952	93,357	102,677
Current liabilities	9,348	12,996	16,405	16,054	16,569	16,776
Short-term borrowings	1,433	3,459	5,394	4,894	4,894	4,894
Account payables	1,636	1,958	2,203	2,351	2,866	3,073
Tax payable	49	87	228	228	228	228
Other current liabilities	6,230	7,493	8,580	8,580	8,580	8,580
Non-current liabilities	757	848	7,646	7,646	7,646	7,646
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	502	556	510	510	510	510
Other non-current liabilities	255	292	7,135	7,135	7,135	7,135
Total liabilities	10,105	13,845	24,051	23,700	24,214	24,422
Total shareholders equity	48,979	48,637	54,029	60,986	68,983	78,219
Minority interest	121	290	444	266	160	36
Total equity and liabilities	59,205	62,772	78,524	84,952	93,357	102,677

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,016	5,707	8,292	10,860	13,269	15,412
Depreciation & amortization	1,840	2,222	2,671	3,144	3,679	4,173
Tax paid	(690)	(1,005)	(1,633)	(1,955)	(2,654)	(3,082)
Change in working capital	(1,422)	158	1,498	(361)	(358)	(285)
Others	(237)	(225)	148	(301)	(385)	(509)
Net cash from operations	4,508	6,856	10,976	11,386	13,551	15,709
Investing						
Capital expenditure	(7,237)	(8,461)	(6,837)	(7,000)	(6,500)	(6,000)
Acquisition of subsidiaries/ investments	(238)	(670)	136	(200)	(200)	(200)
Others	3,484	11	(9,845)	(227)	(165)	(42)
Net cash from investing	(3,992)	(9,120)	(16,546)	(7,427)	(6,865)	(6,242)
Financing						
Dividend paid	(1,649)	(1,313)	(1,353)	(2,125)	(2,725)	(3,216)
Net borrowings	1,433	2,026	1,936	(500)	0	0
Proceeds from share issues	8,543	0	0	0	0	0
Others	10	(3,617)	6,475	(180)	(171)	(171)
Net cash from financing	8,337	(2,904)	7,058	(2,805)	(2,896)	(3,388)
Net change in cash						
Cash at the beginning of the year	5,270	14,213	9,721	11,693	12,847	16,636
Exchange difference	89	677	483	0	0	0
Cash at the end of the year	14,213	9,721	11,693	12,847	16,636	22,716
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	14.0%	20.6%	16.3%	12.0%	17.1%	14.2%
Gross profit	(11.8%)	12.9%	37.2%	31.7%	23.0%	15.1%
Operating profit	(13.0%)	15.7%	40.6%	34.5%	23.9%	15.7%
Net profit	(23.7%)	8.7%	41.6%	33.7%	19.2%	16.2%
Adj. net profit	(13.4%)	10.3%	43.2%	31.1%	20.1%	16.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	23.1%	21.7%	25.6%	30.1%	31.6%	31.8%
Operating margin	18.9%	18.1%	21.9%	26.3%	27.8%	28.1%
Adj. net profit margin	17.1%	15.6%	19.2%	22.5%	23.1%	23.5%
Return on equity (ROE)	9.9%	9.6%	13.0%	15.5%	16.3%	16.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio (x)	2.4	1.4	1.5	1.6	1.8	2.2
Receivable turnover days	28.5	30.4	23.0	20.0	20.5	20.9
Inventory turnover days	0.9	1.0	0.9	1.0	1.0	1.0
Payable turnover days	29.3	27.5	28.8	30.0	30.0	30.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	38.0	34.5	21.2	16.8	14.2	12.2
P/B	3.5	3.4	2.7	2.5	2.2	1.9
Div yield (%)	0.8	0.8	1.5	1.8	2.1	2.5

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

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