

Zoomlion (1157 HK)

Spin-off of AWP business to unlock value

We believe the potential spin-off of Zoomlion Aerial Machinery, through asset injection into **Shenzhen RoadRover Technology (002813 CH, NR)**, can help Zoomlion unlock the value of the AWP business. Upon the completion of the transaction, RoadRover will become a major AWP play and should deserve a higher valuation, which will help reduce funding cost for any potential capacity expansion in future. We reiterate our **BUY** rating on Zoomlion-H with TP of HK\$5.24.

- **Event:** Zoomlion announced yesterday that it entered into an agreement with Shenzhen RoadRover Technology ('RoadRover'), regarding the injection of 100% interest in Hunan Zoomlion Intelligent Aerial Work Machinery "Zoomlion Aerial Machinery" (湖南中联重科智能高空作业机械) into RoadRover. According to the proposal, RoadRover will issue shares to the existing shareholders of Zoomlion Aerial Machinery as consideration. The deal is still at the preliminary stage and no formal agreement is signed yet.
- **Analysis:** Zoomlion aims to spin-off and list Zoomlion Aerial Machinery separately, through the reorganization with RoadRover. Zoomlion is currently the controlling shareholder of RoadRover with an interest of 53.82%. Meanwhile, Zoomlion owns 61.43% interest in Zoomlion Aerial Machinery. The transaction implies that Zoomlion will reduce its effective interest in Zoomlion Aerial Machinery.
- **Estimated valuation of Zoomlion Aerial Machinery.** We forecast Zoomlion's AWP consolidated revenue to reach RMB5bn in 2022E. At present, **Zhejiang Dingli (603338 CH, BUY)**, a pure play of AWP in A-share market, is trading at ~4x 2022E P/S based on our forecast. Assuming that Zoomlion is able to spin-off Zoomlion Aerial Machinery at 4x 2022E P/S, the total valuation of Zoomlion Aerial Machinery will reach RMB20bn.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	65,109	67,132	40,419	43,970	47,885
YoY growth (%)	50.3	3.1	(39.8)	8.8	8.9
Adjusted net profit (RMB mn)	7,295.5	6,302.6	2,823.8	3,597.6	4,118.0
EPS (Reported) (RMB)	0.97	0.76	0.33	0.41	0.47
YoY growth (%)	65.9	(21.7)	(57.1)	27.4	14.5
Consensus EPS (RMB)	na	na	0.34	0.42	0.51
P/E (x)	6.5	9.4	11.7	9.2	8.0
P/B (x)	1.1	1.1	0.6	0.6	0.5
Yield (%)	8.5	4.5	3.8	4.8	5.5
ROE (%)	17.2	12.4	5.1	6.5	7.1
Net gearing (%)	10.2	(1.6)	7.0	7.1	5.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$5.24
(Previous TP)	HK\$5.24)
Up/Downside	18.6%
Current Price	HK\$4.42

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Stock Data

Mkt Cap (HK\$ mn)	38,356.8
Avg 3 mths t/o (HK\$ mn)	3.4
52w High/Low (HK\$)	5.80/2.53
Total Issued Shares (mn)	8678.0
Source: FactSet	

Shareholding Structure

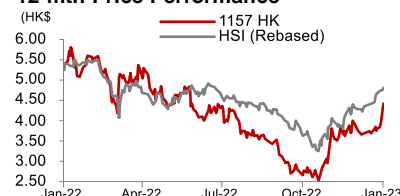
SASAC of Hunan Province	15.0%
Management team	8.0%
Source: HKEx, SSE	

Share Performance

	Absolute	Relative
1-mth	15.1%	3.8%
3-mth	66.2%	25.3%
6-mth	1.4%	-3.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related report:

China Construction Machinery Sector – Prefer AWP to excavator in the near term – 12 Jan 2023 ([link](#))

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	43,307	65,109	67,132	40,419	43,970	47,885
Cost of goods sold	(30,314)	(46,493)	(51,281)	(31,896)	(34,166)	(36,976)
Gross profit	12,993	18,617	15,851	8,523	9,804	10,910
Selling expense	(3,780)	(4,046)	(3,473)	(2,223)	(2,330)	(2,490)
Admin expense	(2,693)	(4,048)	(2,729)	(2,021)	(2,111)	(2,251)
R&D expense	(1,516)	(3,345)	(3,865)	(2,344)	(2,506)	(2,729)
Other income	1,017	1,462	1,413	953	1,141	1,141
Other gains/(losses)	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	188	182	154	215	226	237
EBITDA	6,888	9,467	8,096	3,876	5,035	5,650
Depreciation	867	827	899	989	1,036	1,069
EBIT	6,021	8,640	7,197	2,887	3,998	4,581
Interest income	539	596	970	1,204	1,063	1,075
Interest expense	(1,704)	(750)	(964)	(1,001)	(1,028)	(1,018)
Net Interest income/(expense)	(1,165)	(154)	6	203	36	58
Pre-tax profit	5,044	8,668	7,357	3,305	4,260	4,876
Income tax	(759)	(1,297)	(938)	(430)	(596)	(683)
Minority interest	96	(75)	(116)	(52)	(66)	(75)
Adjusted net profit	4,381	7,296	6,303	2,824	3,598	4,118
Gross dividends	0	4,202	2,777	1,242	1,583	1,812

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	54,052	66,956	72,714	52,002	71,998	57,786
Cash & equivalents	5,073	10,086	13,190	9,936	9,182	10,281
Account receivables	20,839	23,972	32,108	15,509	32,678	18,750
Inventories	11,772	14,652	13,501	8,346	15,056	9,257
ST bank deposits	1,415	2,223	1,775	1,775	1,775	1,775
Financial assets at FVTPL	4,311	4,284	6,408	6,408	6,408	6,408
Other current assets	10,642	11,739	5,732	10,028	6,900	11,315
Non-current assets	37,979	49,287	49,268	44,013	55,306	47,017
PP&E	6,735	7,342	9,740	11,500	12,215	12,400
Deferred income tax	1,271	1,453	1,148	1,148	1,148	1,148
Investment in JVs & assos	3,909	3,388	4,190	4,405	4,631	4,868
Intangibles	2,043	1,965	1,850	1,701	1,550	1,396
Goodwill	2,017	2,054	1,908	1,908	1,908	1,908
Financial assets at FVTPL	2,644	2,703	2,418	2,418	2,418	2,418
Other non-current assets	19,360	30,382	28,014	20,933	31,436	22,879
Total assets	92,031	116,243	121,982	96,015	127,305	104,803
Current liabilities	34,569	46,928	49,675	23,164	52,033	26,921
Short-term borrowings	7,312	2,964	11,011	10,511	10,011	10,111
Account payables	25,012	40,387	36,600	10,589	39,958	14,746
Tax payable	186	710	97	97	97	97
Other current liabilities	2,059	2,867	1,967	1,967	1,967	1,967
Non-current liabilities	17,965	21,465	14,047	16,047	16,047	16,047
Long-term borrowings	14,515	16,337	7,894	9,894	9,894	9,894
Other non-current liabilities	3,450	5,128	6,153	6,153	6,153	6,153
Total liabilities	52,534	68,393	63,722	39,211	68,080	42,968
Total shareholders equity	38,827	46,706	56,831	55,323	57,678	60,213
Minority interest	670	1,144	1,429	1,481	1,547	1,622
Total equity and liabilities	92,031	116,243	121,982	96,015	127,305	104,803

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,044	8,668	7,357	3,305	4,260	4,876
Depreciation & amortization	867	827	899	989	1,036	1,069
Tax paid	(773)	(900)	(1,361)	(430)	(596)	(683)
Change in working capital	442	(1,259)	(4,602)	(1,521)	(1,935)	(1,394)
Others	4,508	10,000	12,421	4,268	5,755	5,883
Net cash from operations	5,968	7,232	2,189	1,925	2,503	3,574
Investing						
Capital expenditure	(1,082)	(317)	(1,401)	(2,500)	(1,500)	(1,000)
Acquisition of subsidiaries/ investments	(478)	(448)	0	0	0	0
Others	11,544	1,741	4	1,154	1,013	1,025
Net cash from investing	9,984	976	(1,397)	(1,346)	(487)	25
Financing						
Dividend paid	(1,801)	(1,712)	(3,041)	(2,777)	(1,242)	(1,583)
Net borrowings	(14,008)	(2,309)	76	1,500	(500)	100
Proceeds from share issues	(2,145)	0	6,088	(1,555)	0	0
Others	(1,694)	777	(703)	(1,001)	(1,028)	(1,018)
Net cash from financing	(19,648)	(3,244)	2,420	(3,833)	(2,770)	(2,500)
Net change in cash						
Cash at the beginning of the year	8,754	5,073	10,086	13,190	9,936	9,182
Exchange difference	15	49	(108)	0	0	0
Cash at the end of the year	5,073	10,086	13,190	9,936	9,182	10,281
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	50.9%	50.3%	3.1%	(39.8%)	8.8%	8.9%
Gross profit	67.1%	43.3%	(14.9%)	(46.2%)	15.0%	11.3%
EBITDA	54.1%	37.4%	(14.5%)	(52.1%)	29.9%	12.2%
EBIT	65.7%	43.5%	(16.7%)	(59.9%)	38.5%	14.6%
Net profit	117.7%	72.0%	(12.9%)	(55.2%)	27.4%	14.5%
Adj. net profit	115.7%	66.5%	(13.6%)	(55.2%)	27.4%	14.5%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	30.0%	28.6%	23.6%	21.1%	22.3%	22.8%
EBITDA margin	15.9%	14.5%	12.1%	9.6%	11.5%	11.8%
Adj. net profit margin	10.1%	11.2%	9.4%	7.0%	8.2%	8.6%
Return on equity (ROE)	11.1%	17.2%	12.4%	5.1%	6.5%	7.1%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	0.3	0.1	(0.0)	0.1	0.1	0.1
Current ratio (x)	1.6	1.4	1.5	2.2	1.4	2.1
Receivable turnover days	240.0	190.6	235.3	340.0	325.0	316.0
Inventory turnover days	128.4	103.7	100.2	125.0	125.0	120.0
Payable turnover days	245.6	256.7	274.0	270.0	270.0	270.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	7.3	6.5	9.4	11.7	9.2	8.0
P/B	0.9	1.1	1.1	0.6	0.6	0.5
Div yield (%)	0.0	8.5	4.5	3.8	4.8	5.5

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

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