

## Zoomlion Heavy Industry - H (1157 HK)

### 3Q19 net profit +106% YoY in line; lots of catalysts ahead

Zoomlion's net profit in 3Q19 came in at RMB904mn, surging 106% YoY, within the range of RMB850-950mn disclosed in the positive profit alert in mid-Oct. Going forward, rising infrastructure spending, resilient growth of property area under construction, replacement of national emission standard (NES) III trucks, and market share gain on tower crane will all serve as a share price catalyst. We maintain our TP of HK\$7.65 (based on 1.3x 2019E P/B, on the back of 11.6%-13.4% ROE in 2019E-21E), similar to the level in 2013 (11.8%). **Zoomlion – H remains our sector top pick.**

- Key highlights of 3Q19 results.** The net profit growth of 106% in 3Q19 was mainly driven by: (1) a 50% YoY increase in revenue to RMB9.5bn; (2) 1.2ppt YoY expansion in gross margin to 29.4%; and (3) reduction of selling expense ratio and administrative expense ratio of 1.2ppt and 0.6ppt, respectively, thanks to the operating leverage. In 9M19, net profit surged 167% YoY to RMB3.48bn, representing 76% of our full year estimates. Operating cash inflow increased 62% YoY to RMB4.96bn, much higher than the net profit, suggesting high earnings quality.
- Further growth driven by a couple of positive factors.** Demand for tower crane and concrete machinery are correlated with the growth of property area under construction (8% YoY growth in Aug, highest growth rate over the past four years). Besides, Zoomlion is set to benefit from the structural rising demand for large-size tower cranes, as a result of the increasing application of pre-cast concrete construction. Furthermore, the elimination of NES III trucks will continue to lend strong support to the demand for truck crane and concrete trucks over the coming two years.
- Risk factors:** (1) Unexpected weakness on property construction activities; (2) Slow recovery of infrastructure spending; (3) High earnings volatility.

#### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	20,608	28,697	44,342	50,749	54,824
YoY growth (%)	2.9	39.3	54.5	14.4	8.0
Net income (RMB mn)	1,342	2,031	4,573	5,346	5,706
EPS (RMB)	0.18	0.27	0.58	0.68	0.73
YoY growth (%)	n/a	51.5	119.6	16.6	6.7
EV/EBITDA (x)	n/a	11.9	6.6	5.9	5.6
P/E (x)	27.1	18.5	8.7	7.4	7.0
P/B (x)	1.0	1.0	1.0	0.9	0.9
Yield (%)	4.2	5.1	10.4	12.1	12.9
ROE (%)	3.6	5.4	11.6	12.9	13.4
Net gearing (%)	39.6	33.6	26.8	22.4	19.1

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$7.65
(Previous TP)	HK\$7.65)
Up/Downside	+33%
Current Price	HK\$5.72

#### China Capital Goods

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#### Stock Data

Mkt Cap (HK\$ mn)	44,871
Avg 3 mths t/o (HK\$ mn)	58
52w High/Low (HK\$)	5.96/2.48
Total Issued Shares (mn)	<b>1,388 (H)</b>
	6,456 (A)

Source: Bloomberg

#### Shareholding Structure

SASAC of Hunan Province	16.0%
Management team	4.9%
A share free float	61.4%
H share free float	17.7%

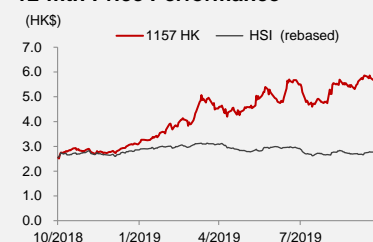
Source: HKEx, Shanghai Stock Exchange

#### Share Performance

	Absolute	Relative
1-mth	+7.0%	+3.7%
3-mth	+5.6%	+10.9%
6-mth	+28.0%	+42.9%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: KPMG

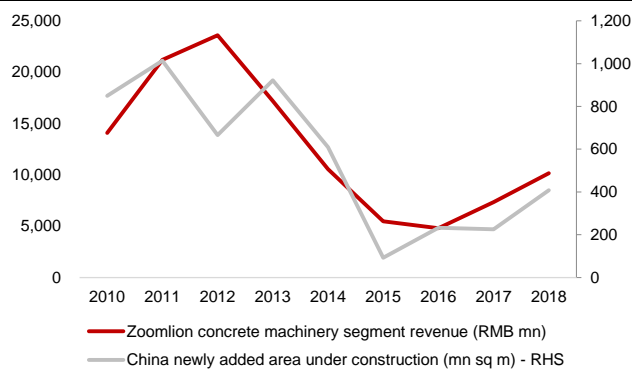
#### Related Reports

- Zoomlion (000157 CH, BUY) – Raising earnings estimates on surprising strong 3Q19 profit – 15 Oct 2019
- Zoomlion (000157 CH, BUY) - Net profit +196% YoY in 1H19 within expectations – 2 Sep 2019
- Zoomlion (1157 HK, BUY) – 2Q earnings above expectations; TP raised – 15 Jul 2019
- “China Construction Machinery Sector – Further upside on potential earnings surprise” – 16 Apr 2019

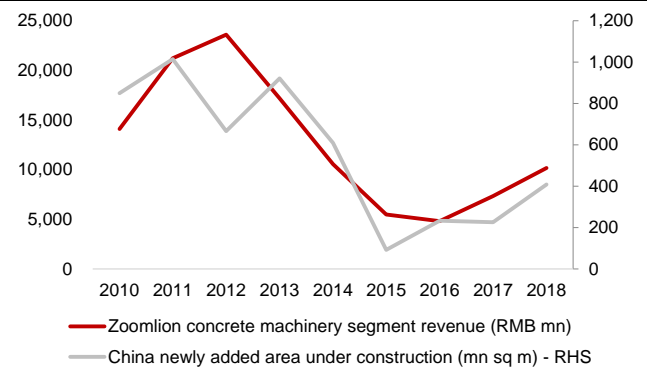
**Figure 1: Highlights of 3Q19 results**

(RMB mn)	1Q18	1Q19	Change YoY	2Q18	2Q19	Change YoY	3Q18	3Q19	Change YoY
<b>Total revenue</b>	<b>6,360</b>	<b>9,017</b>	<b>41.8%</b>	<b>8,346</b>	<b>13,245</b>	<b>58.7%</b>	<b>6,315</b>	<b>9,493</b>	<b>50.3%</b>
Cost of sales	-4,749	-6,311	32.9%	-6,204	-9,273	49.5%	-4,535	-6,702	47.8%
<b>Gross profit</b>	<b>1,611</b>	<b>2,706</b>	<b>68.0%</b>	<b>2,142</b>	<b>3,972</b>	<b>85.4%</b>	<b>1,780</b>	<b>2,791</b>	<b>56.8%</b>
Other income	51	29	-42.5%	346	593	71.3%	142	200	40.4%
S&D expenses	-504	-715	41.8%	-709	-1,166	64.5%	-668	-890	33.1%
Administrative expenses	-575	-740	28.6%	-564	-584	3.6%	-571	-806	41.0%
<b>EBIT</b>	<b>583</b>	<b>1,281</b>	<b>119.8%</b>	<b>1,018</b>	<b>2,353</b>	<b>131.1%</b>	<b>682</b>	<b>1,295</b>	<b>89.8%</b>
Net finance income/(cost)	-261	-405	55.1%	-346	-191	-44.7%	-274	-301	n/a
Other gains/(losses)	102	234	129.3%	-102	-234	129.3%	37	99	171.3%
Share of profit of JV and associat	25	34	32.7%	61	48	-20.2%	69	40	-41.6%
<b>Pretax profit</b>	<b>449</b>	<b>1,144</b>	<b>154.6%</b>	<b>631</b>	<b>1,976</b>	<b>213.3%</b>	<b>514</b>	<b>1,134</b>	<b>120.6%</b>
Income tax	-78	-162	107.8%	-139	-378	n/a	-81	-245	n/a
<b>After tax profit</b>	<b>371</b>	<b>981</b>	<b>164.5%</b>	<b>492</b>	<b>1,599</b>	<b>225.0%</b>	<b>434</b>	<b>889</b>	<b>105.1%</b>
MI	6	21	265.0%	5	-16	n/a	5	14	n/a
<b>Net profit</b>	<b>377</b>	<b>1,002</b>	<b>166.0%</b>	<b>497</b>	<b>1,583</b>	<b>218.3%</b>	<b>439</b>	<b>904</b>	<b>106.0%</b>
<b>Key ratios</b>			<b>Change (ppt)</b>			<b>Change (ppt)</b>			<b>Change (ppt)</b>
Gross margin	25.3%	30.0%	4.7	25.7%	30.0%	4.3	28.2%	29.4%	1.2
S&D expenses ratio	7.9%	7.9%	0.0	8.5%	8.8%	0.3	10.6%	9.4%	-1.2
Administrative expense ratio	9.0%	8.2%	-0.8	6.8%	4.4%	-2.3	9.0%	8.5%	-0.6
Effective tax rate	17.4%	14.2%	-3.2	22.0%	19.1%	-2.9	15.7%	21.6%	5.9

Source: Company data, CMBIS estimates

**Figure 2: China tower crane sales vs China newly added property area under construction**

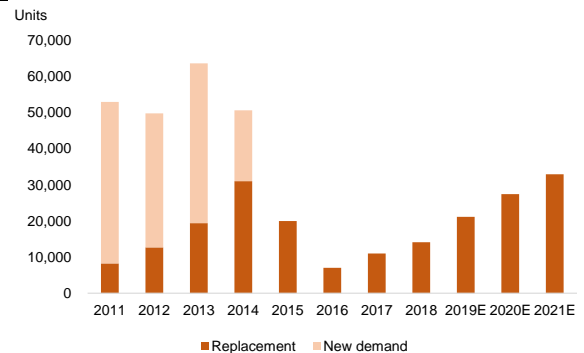
Source: NBS, CCMA, Wind, CMBIS

**Figure 3: Zoomlion concrete machinery sales vs China newly added area under construction**

Source: NBS, Wind, Company data, CMBIS

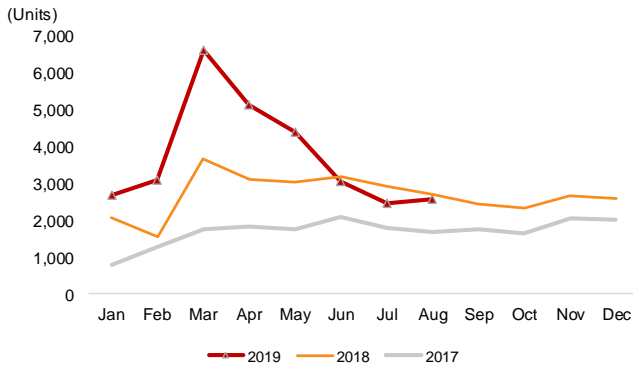
**Figure 4: China monthly property area under construction growth (YoY)**

Source: NBS, Wind, CMBIS

**Figure 5: CMBI forecast on China tower crane sales volume**

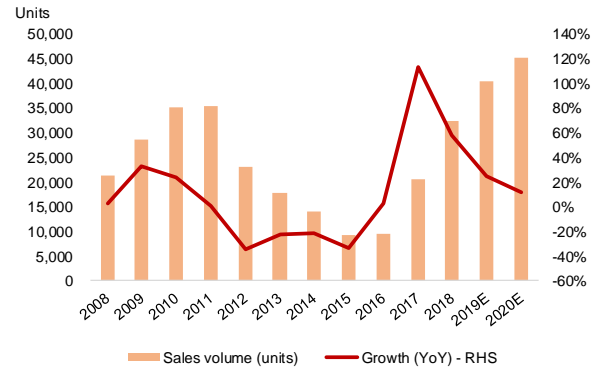
Source: CCMA, CMBIS estimates

**Figure 6: China truck crane monthly sales volume**



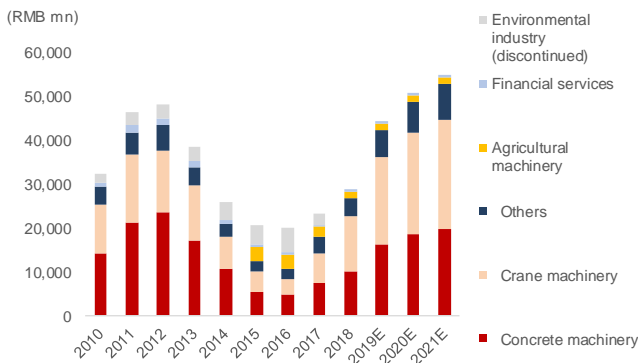
Source: CCMA, CMBIS

**Figure 7: CMBI forecast on China truck crane sales**



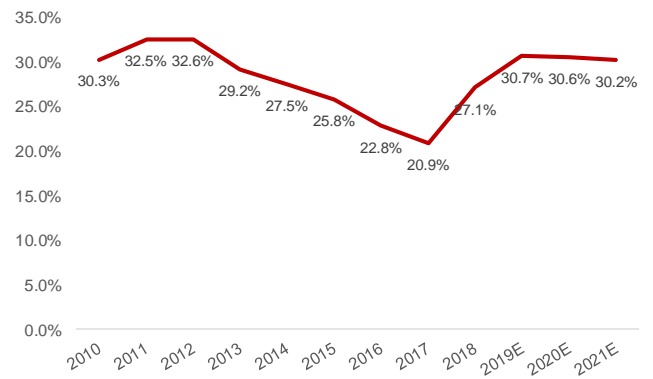
Source: CCMA, CMBIS estimates

**Figure 8: Zoomlion's revenue trend**



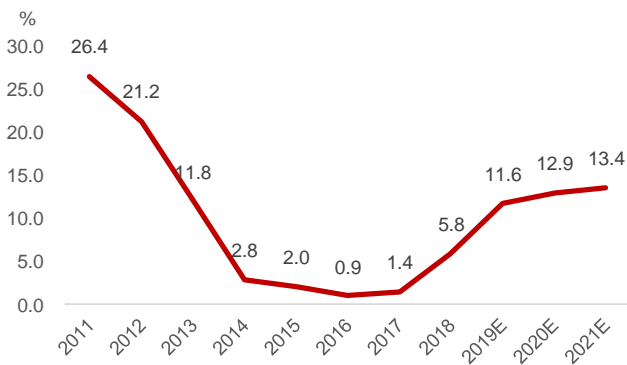
Source: Company data, CMBIS estimates

**Figure 9: Zoomlion's gross margin trend**



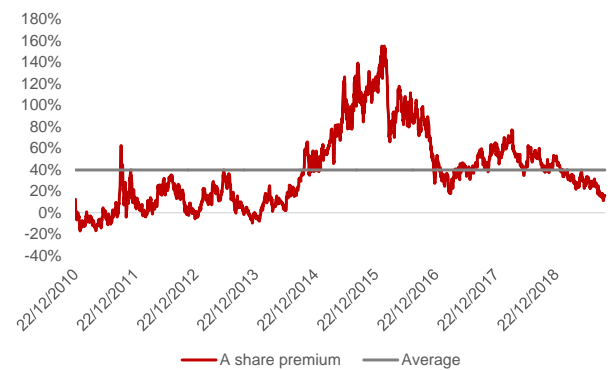
Source: Company data, CMBIS estimates

**Figure 10: Zoomlion's ROE trend**



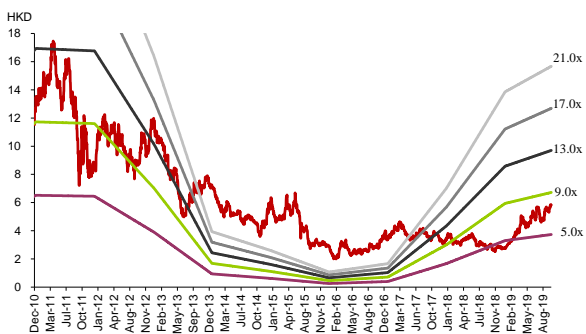
Source: Company data, CMBIS estimates

**Figure 11: Zoomlion A share premium to H share**



Source: Bloomberg, CMBIS

**Figure 12: Zoomlion - H 12M forward P/E band**



Source: Bloomberg, Company data, CMBIS estimates

**Figure 13: Zoomlion – H 12M forward P/B band**



Source: Bloomberg, Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Total revenue</b>	<b>20,608</b>	<b>28,697</b>	<b>44,342</b>	<b>50,749</b>	<b>54,824</b>
Cost of sales	-16,303	-20,923	-30,741	-35,229	-38,280
<b>Gross profit</b>	<b>4,305</b>	<b>7,774</b>	<b>13,602</b>	<b>15,520</b>	<b>16,544</b>
Other income	259	882	682	732	772
S&D expenses	-2,180	-2,379	-3,326	-3,806	-4,112
Administrative expenses	-10,487	-2,063	-2,882	-3,299	-3,564
R&D expenses	-277	-581	-887	-1,015	-1,096
<b>EBIT</b>	<b>-8,380</b>	<b>3,633</b>	<b>7,189</b>	<b>8,132</b>	<b>8,544</b>
Net finance income/(cost)	-1,443	-1,205	-1,330	-1,251	-1,199
Finance income	366	347	414	431	459
Finance expenses	-1,809	-1,552	-1,745	-1,682	-1,658
Other gains/(losses)	0	0	0	0	0
Profit of JV and associates	110	222	235	243	259
<b>Pretax profit</b>	<b>-9,713</b>	<b>2,650</b>	<b>6,094</b>	<b>7,124</b>	<b>7,604</b>
Income tax	1,425	-682	-1,566	-1,831	-1,954
<b>After tax profit</b>	<b>-8,288</b>	<b>1,968</b>	<b>4,528</b>	<b>5,293</b>	<b>5,649</b>
MI/discontinued operation	9,630	63	45	53	56
<b>Net profit</b>	<b>1,342</b>	<b>2,031</b>	<b>4,573</b>	<b>5,346</b>	<b>5,706</b>
<b>Recurring net profit</b>	<b>508</b>	<b>2,199</b>	<b>4,573</b>	<b>5,346</b>	<b>5,706</b>
D&A	924	837	852	872	893
<b>EBITDA</b>	<b>-7,456</b>	<b>4,470</b>	<b>8,041</b>	<b>9,005</b>	<b>9,437</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	1,252	2,650	6,094	7,124	7,604
Finance cost	1,488	1,451	1,745	1,682	1,658
Interest income	-398	-347	-414	-431	-459
Profit or loss of associates	-90	-222	-235	-243	-259
Disposal of PP&E/business	-10,763	-152	0	0	0
Depreciation and amortization	968	837	852	872	893
Income tax paid	-227	-431	-1,566	-1,831	-1,954
Change in working capital	10,037	1,152	-461	554	387
Others	186	-221	0	0	0
<b>Cash flow from operation</b>	<b>2,453</b>	<b>4,717</b>	<b>6,013</b>	<b>7,728</b>	<b>7,870</b>
Net capex on PP&E	-73	-272	-700	-700	-600
Investment in JV/associates	-8	-4	0	0	0
Investment in subsidiaries	10,428	0	0	0	0
Investment in intangible assets	-156	-103	-100	-100	0
Dividend received	5	4	0	0	0
Interest received	398	347	414	431	459
Others	-6,558	-7,214	0	0	0
<b>Cash flow from investing</b>	<b>4,036</b>	<b>-7,242</b>	<b>-386</b>	<b>-369</b>	<b>-141</b>
Equity financing/(repurchase)	216	37	0	0	0
Net bank borrowings	-3,442	6,817	-1,400	-1,000	100
Dividend paid	-1,141	-1,308	-1,952	-4,116	-4,811
Interest paid	-1,527	-1,428	-1,745	-1,682	-1,658
Others	-12	-16	0	0	0
<b>Cash flow from financing</b>	<b>-5,906</b>	<b>4,102</b>	<b>-5,097</b>	<b>-6,798</b>	<b>-6,370</b>
Change in cash	583	1,577	531	561	1,359
Cash at beginning of the year	6,575	7,148	8,754	9,285	9,846
Exchange and others	-10	29	-0	0	-0
Cash at the end of the year	7,148	8,754	9,285	9,846	11,205

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>25,218</b>	<b>28,657</b>	<b>28,512</b>	<b>30,219</b>	<b>28,987</b>
PP&E	6,274	6,077	6,185	6,279	6,255
Lease prepayment	1,935	1,943	1,893	1,843	1,793
JV/associates	3,123	3,500	3,735	3,978	4,237
Financial assets receivables	1,870	3,656	2,175	3,108	1,398
Goodwill	2,088	2,046	2,046	2,046	2,046
Trade receivables	4,106	5,498	6,651	7,253	7,767
Intangible assets	2,250	2,153	2,043	1,927	1,708
Financial assets	2,154	2,379	2,379	2,379	2,379
Others	0	0	0	0	0
Deferred tax assets	1,358	1,276	1,276	1,276	1,276
Deposits	60	129	129	129	129
<b>Current assets</b>	<b>57,894</b>	<b>64,762</b>	<b>75,417</b>	<b>72,318</b>	<b>81,145</b>
Inventories	8,886	9,551	12,178	10,600	12,473
Trade & other receivables	22,661	21,554	26,068	26,766	28,508
Finance lease receivables	10,931	8,835	11,818	9,038	12,891
Financial assets at FVPL	6,323	13,787	13,787	13,787	13,787
Others	897	1,097	1,097	1,097	1,097
Pledged deposits	1,048	1,184	1,184	1,184	1,184
Cash	7,148	8,754	9,285	9,846	11,205
<b>Current liabilities</b>	<b>24,488</b>	<b>39,623</b>	<b>48,758</b>	<b>46,988</b>	<b>53,745</b>
Trade and other payables	14,992	15,786	24,640	22,654	28,736
Bank borrowings	9,348	22,044	21,844	21,644	21,744
Tax payable	148	151	151	151	151
Contract liabilities	0	1,602	2,083	2,499	3,074
Others	0	40	40	40	40
<b>Non-current liabilities</b>	<b>20,434</b>	<b>15,065</b>	<b>13,865</b>	<b>13,065</b>	<b>13,065</b>
Bank borrowings	19,296	13,645	12,445	11,645	11,645
Deferred tax liabilities	485	429	429	429	429
Others	653	991	991	991	991
<b>Equity</b>	<b>38,190</b>	<b>38,731</b>	<b>41,307</b>	<b>42,484</b>	<b>43,322</b>
Shareholders' equity	37,540	38,164	40,785	42,015	42,910
MI	650	567	522	469	412

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Concrete machinery	32%	35%	37%	37%	36%
Crane machinery	29%	43%	45%	45%	45%
Others machinery	16%	14%	14%	14%	15%
Agricultural machinery	10%	5%	3%	3%	3%
Financial services	2%	2%	1%	1%	1%
Environmental (discontinued)	11%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	20.9	27.1	30.7	30.6	30.2
EBIT margin	(40.7)	12.7	16.2	16.0	15.6
Net profit margin	(40.2)	6.9	10.2	10.4	10.3
<b>Growth (%)</b>					
Revenue	2.9	39.3	54.5	14.4	8.0
Gross profit	(9.9)	80.6	75.0	14.1	6.6
EBIT	n/a	n/a	97.9	13.1	5.1
Core net profit	54.4	332.9	108.0	16.9	6.7
<b>Balance sheet ratio</b>					
Current ratio (x)	2.4	1.6	1.5	1.5	1.5
Trade receivable turnover days	548	342	246	240	234
Finance lease receivable turnover days	238	161	109	94	88
Inventory turnover days	242	161	129	118	110
Payable turnover days	359	268	240	245	245
Net debt / total equity (%)	39.6	33.6	26.8	22.4	19.1
<b>Profitability (%)</b>					
ROA	1.6	2.3	4.6	5.2	5.4
Core ROE	1.4	5.8	11.6	12.9	13.4
<b>Per share data</b>					
EPS (RMB)	0.18	0.27	0.58	0.68	0.73
Core EPS (RMB)	0.07	0.29	0.58	0.68	0.73
BVPS (RMB)	4.82	4.89	5.20	5.36	5.47
DPS (RMB)	0.20	0.25	0.52	0.61	0.65

Source: Company data, CMBIS estimates

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