

Zoomlion Heavy Industry - H (1157 HK)

More drivers; More sustainable; Higher earnings est. & TP

Reiterate BUY. We are more bullish on Zoomlion given: (1) High certainty on concrete machinery growth in 2021E; (2) Explosive growth of excavator sales; (3) Resilient margin outlook. We raise our 2020E-22E earnings forecast by 6-7% after modelling higher sales volume across different segments. We believe the consensus remains conservative and our new net profit forecast for 2021E/22E are 13%/15% above that. We raise our TP from HK\$10.5 to HK\$16.0, based on 12x 2021E (up from 10x). Key catalysts: (1) strong machinery sales in 1Q21E, (2) completion of share placement in 1Q21E.

- **2020E preliminary results.** Zoomlion released a positive profit alert last week, stating that net profit in 2020E is expected to grow 60-72% YoY to RMB7.0-7.5bn. This implies net profit of RMB1.3-1.8bn in 4Q20E, up 46%-102% YoY. We estimate Zoomlion achieved revenue of RMB20bn from concrete machinery (+44% YoY) and RMB35bn from crane machinery (+58% YoY) in 2020E. Besides, we believe gross margin in 4Q20 rebounded QoQ, helped by cost control.
- **High certainty on concrete machinery growth in 2021E.** Zoomlion expects the industry growth rate of concrete machinery to reach 15%, driven by 10-20% of growth of pump truck and 20% growth of mixer truck. Zoomlion sees high certainty on concrete machinery as many infrastructure projects will enter the construction stage this year after the completion of earthworks in 2020. Besides, the implementation of National Emission Standard (NES) VI starting in Jul 2021 will continue to boost replacement demand.
- **Explosive growth of excavator to continue.** We estimate Zoomlion delivered 7k units of excavator and generated RMB2.5bn revenue in 2020E. Zoomlion targets to achieve 12-14k units of excavator sales in 2021E, representing a substantial growth YoY. For medium size excavators, Zoomlion is able to leverage its existing sales network for concrete machinery to speed up the penetration. Besides, Zoomlion, for the first time, delivered large size excavators (45-48t) starting this year. Zoomlion maintains its strategic target to become the top 5 player in China in 3 years and top 3 player in 5 years.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	28,697	43,307	66,646	79,334	88,511
YoY growth (%)	39.3	50.9	53.9	19.0	11.6
Net income (RMB mn)	2,031	4,381	7,297	9,303	10,631
EPS (RMB)	0.27	0.58	0.93	1.11	1.25
YoY growth (%)	51.5	119.2	58.9	20.2	12.1
Consensus EPS (RMB)	n/a	n/a	0.90	0.94	1.02
EV/EBITDA (x)	20.2	13.2	9.4	7.7	6.9
P/E (x)	35.7	16.7	10.8	8.2	7.4
P/B (x)	1.9	2.0	1.7	1.3	1.2
Yield (%)	2.6	0.0	3.9	4.8	5.4
ROE (%)	5.4	11.4	17.2	17.8	17.2
Net gearing (%)	33.6	31.3	19.2	3.6	1.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$16.00
(Previous TP	HK\$10.50)
Up/Downside	+45%
Current Price	HK\$11.02

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Stock Data

Mkt Cap (HK\$ mn)	106,720
Avg 3 mths t/o (HK\$ mn)	119
52w High/Low (HK\$)	8.95/4.99
Total Issued Shares (mn)	1,388 (H)
	6,411 (A)

Source: Bloomberg

Shareholding Structure

SASAC of Hunan Province	15.9%
Management team	4.9%
A share free float	61.4%
H share free float	17.7%

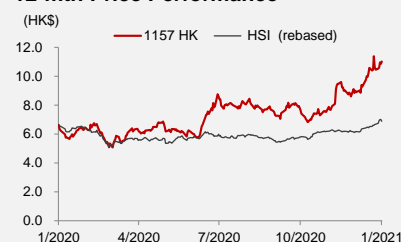
Source: HKEx, Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	19.2%	4.8%
3-mth	39.2%	15.2%
6-mth	26.0%	7.9%

Source: Bloomberg

12-mth Price Performance



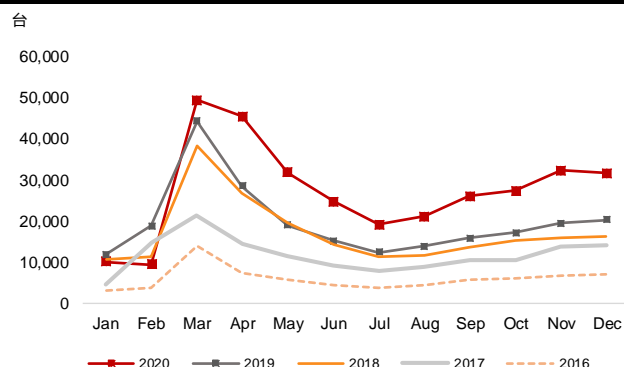
Source: Bloomberg

Auditor: KPMG

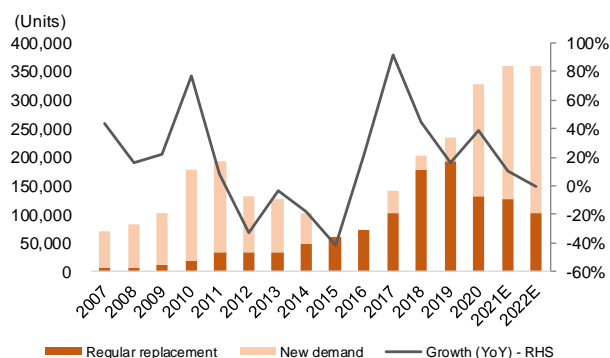
Related Reports

1. Zoomlion (1157 HK, BUY) – Margin risk priced in; Good buying opportunity – 3 Nov 2020
2. Zoomlion (1157 HK, BUY) – Profit surprise in 3Q20 reaffirms our positive view – 15 Oct 2020
3. Zoomlion (1157 HK, BUY) – Interim dvd. a positive; Gross margin stabilized; Sector top pick – 24 Aug 2020
4. China Construction Machinery & HDT Sector – Raise industry sales forecast in 2020E-21E; Solid upcycle – 30 Jun 2020

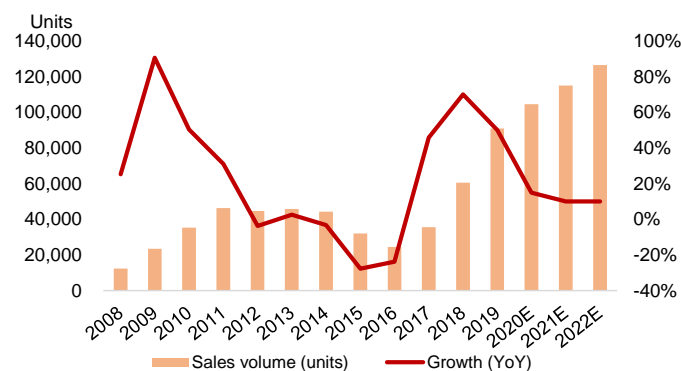
- **Huge potential on aerial working platform (AWP).** We estimate Zoomlion achieved 100% YoY growth on AWP sales in 2020E. Zoomlion believes that it has competitive edge on boom lifts and therefore capable to achieve higher ASP than competitors. Zoomlion sees strong growth potential for the industry as a whole and the Company will continue to enhance its product development and sales strategy.
- **Resilient margin outlook.** We believe Zoomlion achieved gross margin improvement in 4Q20. Going forward, we expect the gross margin for each business line to remain resilient. More importantly, the growing sales volume and digital transformation will drive operating leverage, resulting a higher operating margin going forward.

Figure 1: China excavator sales +39% YoY in 2020

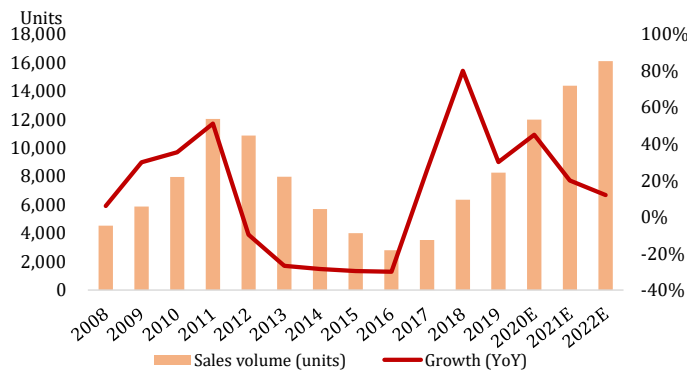
Source: CCMA, CMBIS

Figure 2: CMBIS excavator sales projection

Source: CCMA, CMBIS estimates

Figure 3: CMBIS concrete mixer sales projection

Source: CCMA, CMBIS estimates

Figure 4: CMBIS Concrete pump truck sales projection

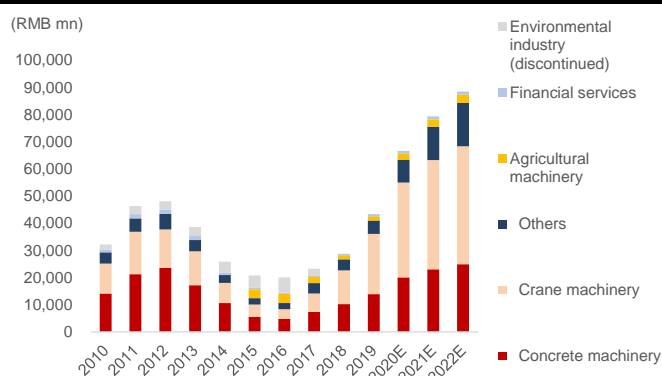
Source: CCMA, CMBIS estimates

Figure 5: Change in key assumptions on Zoomlion

	Old			New			Change		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
(RMB mn)									
Revenue									
Construction machinery	60,946	72,608	81,097	63,413	75,529	84,270	4%	4%	4%
Concrete machinery	19,324	22,222	24,000	20,019	23,022	24,863	4%	4%	4%
Crane machinery	33,221	38,204	41,260	34,992	40,241	43,460	5%	5%	5%
Others	8,401	12,182	15,837	8,401	12,266	15,946	0%	1%	1%
Agricultural machinery	2,058	2,367	2,651	2,295	2,754	3,085	12%	16%	16%
Financial services	938	1,051	1,156	938	1,051	1,156	0%	0%	0%
Total revenue	63,942	76,025	84,903	66,646	79,334	88,511	4%	4%	4%
Revenue growth							Change in ppt		
Construction machinery	48.7%	19.1%	11.7%	54.7%	19.1%	11.6%	6.0	(0.0)	(0.1)
Concrete machinery	39.0%	15.0%	8.0%	44.0%	15.0%	8.0%	5.0	0.0	0.0
Crane machinery	50.0%	15.0%	8.0%	58.0%	15.0%	8.0%	8.0	0.0	0.0
Others	70.0%	45.0%	30.0%	70.0%	46.0%	30.0%	0.0	1.0	0.0
Agricultural machinery	30.0%	15.0%	12.0%	45.0%	20.0%	12.0%	15.0	5.0	0.0
Financial services	28.0%	12.0%	10.0%	28.0%	12.0%	10.0%	0.0	0.0	0.0
Total revenue growth	47.6%	18.9%	11.7%	53.9%	19.0%	11.6%	6.2	0.1	(0.1)
Gross margin							Change in ppt		
Construction machinery	28.3%	28.7%	28.7%	28.3%	28.7%	28.7%	0.05	(0.01)	(0.01)
Concrete machinery	27.4%	27.5%	27.5%	27.4%	27.5%	27.5%	0.00	0.00	0.00
Crane machinery	30.2%	31.0%	31.0%	30.2%	30.9%	30.9%	0.00	(0.10)	(0.10)
Others	22.5%	23.5%	24.5%	22.5%	23.5%	24.5%	0.00	0.00	0.00
Agricultural machinery	9.0%	12.0%	13.0%	14.0%	18.0%	18.0%	5.00	6.00	5.00
Financial services	99.5%	100.0%	100.0%	99.5%	100.0%	100.0%	0.00	0.00	0.00
Average gross margin	28.7%	29.1%	29.2%	28.8%	29.2%	29.2%	0.13	0.10	0.07
Net profit	6,887	8,727	9,928	7,297	9,303	10,631	6%	7%	7%

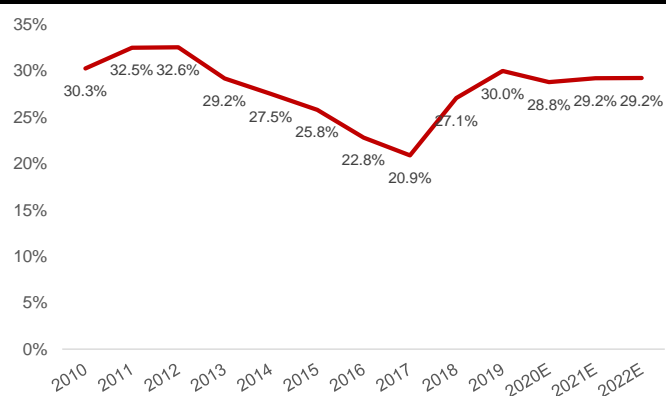
Source: Company data, CMBIS estimates

Figure 6: Zoomlion's revenue trend



Source: Company data, CMBIS estimates

Figure 7: Zoomlion's gross margin trend

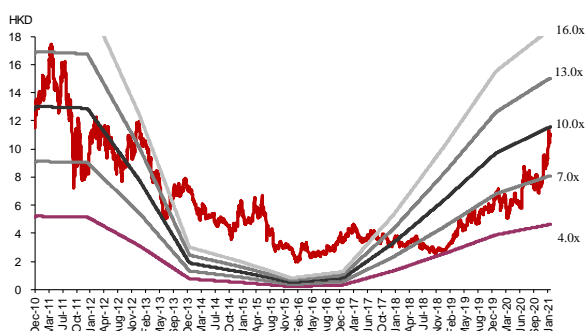


Source: Company data, CMBIS estimates

Valuation

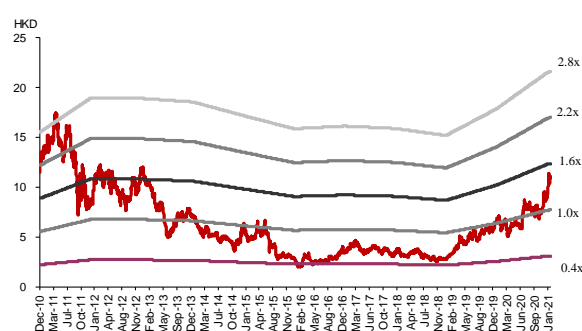
We forecast Zoomlion to deliver 28%/14% net profit growth in 2021E/22E. Given that we modeled an estimated dilution impact from the upcoming share placement plan (i.e. 444mn new A-shares based on latest price of RMB11.69 and 194mn new H-shares based on HK\$5.863), we forecast 20%/12% EPS growth in 2021E/22E. Our new target price of HK\$16 is based on 12x 2021E P/E. We benchmark our target multiple close to the peak level in the previous upcycle (12-13x in 2011). We believe our target valuation is justified given that: (1) the upcycle at present is sustainable on the back of more structural factors; (2) there are a lot more growth drivers for Zoomlion compared with that in the previous cycle.

Figure 8: Zoomlion - H 12M forward P/E band



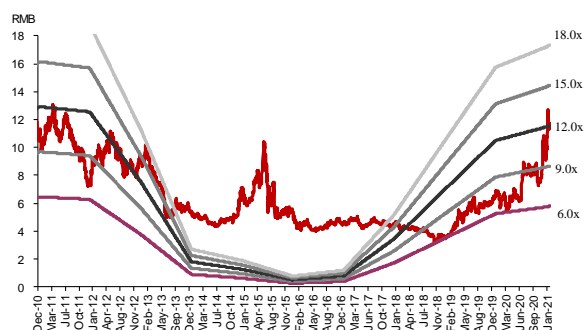
Source: Bloomberg, Company data, CMBIS estimates

Figure 9: Zoomlion - H 12M forward P/B band



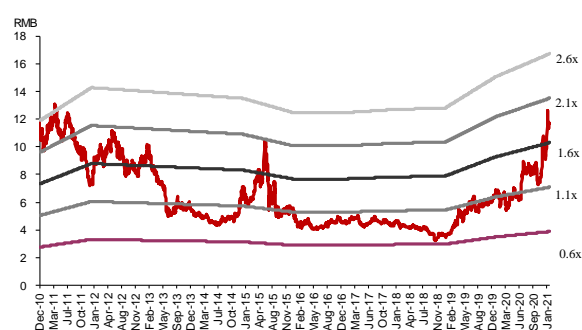
Source: Bloomberg, Company data, CMBIS estimates

Figure 10: Zoomlion - A 12M forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 11: Zoomlion - A 12M forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

- **Risk factors:** (1) Unexpected weakness on infrastructure spending; (2) Slow recovery of property construction; (3) Risks of new business expansion.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	28,697	43,307	66,646	79,334	88,511
Cost of sales	(20,923)	(30,314)	(47,448)	(56,139)	(62,626)
Gross profit	7,774	12,993	19,198	23,195	25,885
Other income	882	1,017	1,048	978	978
S&D expenses	(2,379)	(3,780)	(4,799)	(5,553)	(6,107)
Administrative expenses	(2,063)	(2,693)	(3,799)	(4,363)	(4,780)
R&D expenses	(581)	(1,516)	(2,999)	(3,570)	(3,983)
EBIT	3,633	6,021	8,649	10,686	11,993
Net finance income/(cost)	(1,205)	(1,165)	(503)	(246)	(42)
Finance income	347	539	591	824	922
Finance expenses	(1,552)	(1,704)	(1,094)	(1,071)	(964)
Other gains/(losses)	0	0	0	0	0
Profit of JV and associates	222	188	254	271	288
Pretax profit	2,650	5,044	8,401	10,711	12,239
Income tax	(682)	(759)	(1,176)	(1,499)	(1,714)
After tax profit	1,968	4,285	7,224	9,211	10,526
MI/discontinued operation	63	96	72	92	105
Net profit	2,031	4,381	7,297	9,303	10,631
D&A	837	817	923	1,008	1,090
EBITDA	4,470	6,838	9,572	11,694	13,083

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	2,650	5,044	8,401	10,711	12,239
Finance cost	1,451	1,704	1,094	1,071	964
Interest income	(347)	(539)	(591)	(824)	(922)
Profit or loss of associates	(222)	(188)	(254)	(271)	(288)
Disposal of PP&E/business	(152)	0	0	0	0
Depreciation and amortization	837	817	923	1,008	1,090
Income tax paid	(431)	(773)	(1,176)	(1,499)	(1,714)
Change in working capital	1,152	442	(2,159)	(3,391)	(3,944)
Others	(221)	(539)	0	0	0
Cash flow from operation	4,717	5,968	6,237	6,804	7,425
Net capex on PP&E	(272)	(1,082)	(2,246)	(2,646)	(2,500)
Investment in JV/associates	(4)	(301)	0	0	0
Investment in subsidiaries	0	(177)	0	0	0
Investment in intangible assets	(103)	(128)	(100)	(100)	(100)
Dividend received	4	45	0	0	0
Interest received	347	253	591	824	922
Others	(7,214)	11,374	0	0	0
Cash flow from investing	(7,242)	9,984	(1,755)	(1,922)	(1,678)
Equity financing/(repurchase)	37	(2,145)	0	6,146	0
Net bank borrowings	6,817	(14,008)	(1,000)	100	(4,100)
Dividend paid	(1,308)	(1,801)	0	(3,116)	(3,721)
Interest paid	(1,428)	(1,707)	(1,094)	(1,071)	(964)
Others	(16)	13	0	0	0
Cash flow from financing	4,102	(19,648)	(2,094)	2,059	(8,785)
Change in cash	1,577	(3,696)	2,388	6,942	(3,038)
Cash at beginning of the year	7,148	8,754	5,073	7,461	14,402
Exchange and others	29	15	0	0	0
Cash at the end of the year	8,754	5,073	7,461	14,402	11,364

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	28,657	37,979	44,680	47,296	52,646
PP&E	6,077	6,735	8,324	10,234	11,922
Lease prepayment	1,943	2,433	2,383	2,333	2,283
JV/associates	3,500	3,909	4,163	4,434	4,723
Finance lease receivables	3,656	7,771	9,758	10,239	11,101
Goodwill	2,046	2,017	2,017	2,017	2,017
Trade receivables	5,498	9,072	12,109	12,235	14,924
Intangible assets	2,153	2,043	1,927	1,805	1,677
Financial assets	2,379	2,644	2,644	2,644	2,644
Others	0	0	0	0	0
Deferred tax assets	1,276	1,271	1,271	1,271	1,271
Deposits	129	84	84	84	84
Current assets	64,762	54,052	72,835	75,304	89,689
Inventories	9,551	11,772	15,267	14,572	18,714
Trade & other receivables	21,554	20,839	25,905	27,130	32,524
Finance lease receivables	8,835	9,229	17,064	12,061	19,948
Financial assets at FVPL	13,787	4,311	4,311	4,311	4,311
Others	1,097	1,413	1,413	1,413	1,413
Pledged deposits	1,184	1,415	1,415	1,415	1,415
Cash	8,754	5,073	7,461	14,402	11,364
Current liabilities	39,623	34,569	53,629	46,472	63,604
Trade and other payables	15,786	25,012	43,885	36,094	53,126
Bank borrowings	22,044	7,312	7,112	7,212	7,312
Tax payable	151	186	186	186	186
Contract liabilities	1,602	1,934	2,321	2,855	2,855
Others	40	125	125	125	125
Non-current liabilities	15,065	17,965	17,165	17,165	12,965
Bank borrowings	13,645	14,515	13,715	13,715	9,515
Deferred tax liabilities	429	455	455	455	455
Others	991	2,995	2,995	2,995	2,995
Equity	38,731	39,497	46,721	58,962	65,767
Shareholders' equity	38,164	38,827	46,124	58,457	65,367
MI	567	670	598	506	400

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Concrete machinery	35%	32%	30%	29%	28%
Crane machinery	43%	51%	53%	51%	49%
Others machinery	14%	11%	13%	15%	18%
Agricultural machinery	5%	4%	3%	3%	3%
Financial services	2%	2%	1%	1%	1%
Environmental (discontinued)	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	27.1	30.0	28.8	29.2	29.2
EBIT margin	12.7	13.9	13.0	13.5	13.5
Net profit margin	6.9	9.9	10.8	11.6	11.9
Growth (%)					
Revenue	39.3	50.9	53.9	19.0	11.6
Gross profit	80.6	67.1	47.8	20.8	11.6
EBIT	n/a	65.7	43.7	23.5	12.2
Net profit	51.3	115.7	66.6	27.5	14.3
Balance sheet ratio					
Current ratio (x)	1.6	1.6	1.4	1.6	1.4
Trade receivable turnover days	342	240	186	178	179
Finance lease receivable turnover days	161	124	120	113	110
Inventory turnover days	161	128	104	97	97
Payable turnover days	268	246	265	260	260
Net debt / total equity (%)	33.6	31.3	19.2	3.6	1.6
Profitability (%)					
ROA	2.3	4.7	7.0	7.7	8.0
ROE	5.4	11.4	17.2	17.8	17.2
Per share data					
EPS (RMB)	0.27	0.58	0.93	1.11	1.25
BVPS (RMB)	4.89	4.93	5.86	6.87	7.68
DPS (RMB)	0.25	0.00	0.40	0.44	0.50

Note: We have modelled the dilution effect from upcoming fund-raising exercise in 2021E

Source: Company data, CMBIS estimates

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HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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