

ZTO Express (ZTO US)

Best of both worlds

ZTO delivered impressive reported/core net profit growth of 84%/67% in 1Q23, which is better than expectations. Most importantly, ZTO revises up the full year parcel volume growth target to 20-24% YoY (up from 18-22% in Mar), implying 1.5ppt (YoY) potential market share gain. Besides, ZTO targets to achieve RMB0.05-0.07 (~5-7%) of unit cost reduction this year. We revise up our 2023E-25E earnings forecast by 9-10%, to reflect higher volume and lower unit cost assumptions. We continue to like ZTO's market share gain story on the back of cost advantage, as well as strong free cash flow in 2023E-25E. Our TP for ZTO US/2057 HK is revised up to US\$43.8/HK\$344, based on unchanged target P/E of 29x (2023E). **Reiterate BUY.**

Key highlights in 1Q23 results:

- **Reported net profit in 1Q23 grew 84% YoY to RMB1.67bn.** Excluding the unrealized investment gain, adjusted net profit grew 67% YoY to RMB1.5bn. The growth was driven by (1) 14% YoY revenue growth, and (2) 7.6ppt YoY gross margin expansion to 28.1%. SG&A expenses grew 27% YoY, largely due to the increased performance bonus.
- **Parcel volume grew 21% YoY to 6.3bn units in 1Q23, outpacing the industry average (11% YoY).** Market share expanded 1.8ppt to 23.4% in 1Q23. ZTO revises up the full year target range of parcel volume to 29.27-30.24bn units. Run rate in 1Q23 was 20.8%-21.5% (1Q22: 20.2%-20.9%).
- **ASP -3.7% YoY in 1Q23.** Parcel delivery ASP decreased RMB0.05/unit YoY (-3.7% YoY) to RMB1.4/unit in 1Q23, largely due to the lower avg. parcel weight (-RMB0.03), less contribution from KA volume (-RMB0.03) and incentives (-RMB0.02). That said, all these were partially offset by the refined pricing policy (+RMB0.03).
- **Unit cost -12.8% YoY in 1Q23.** Unit cost of transportation decreased 10.6% YoY to RMB0.51/unit, thanks to the enhanced economies of scale, digitalization of route planning, higher proportion of high-capacity trucks and improved load rate. Unit cost of sorting hub decreased 11.1% YoY to RMB0.32/unit, driven by the continued standardization in sortation procedures with improved labor productivity and an increase in automation level. Unit gross margin grew 31% YoY to RMB0.4/unit.
- **Major risk factors:** (1) unexpected price competition; (2) slowdown of online retail sales; and (3) further increase in diesel price.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	30,406	35,377	42,488	49,734	56,787
YoY growth (%)	21	16	20	17	14
Core net profit (RMB mn)	4,755	6,809	8,833	10,714	12,353
Core EPS (RMB)	5.70	8.16	10.58	12.83	14.80
YoY growth (%)	5.0	43.2	29.7	21.3	15.3
Consensus EPS (RMB)	N/A	N/A	10.07	12.33	14.58
EV/EBITDA (x)	17.7	13.2	10.0	8.3	7.2
P/E (x)	32.7	23.9	18.9	15.6	13.5
P/B (x)	3.2	3.0	2.7	2.4	2.1
Yield (%)	0.9	1.3	1.6	1.9	2.2
ROE (%)	9.7	13.3	15.4	16.5	16.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$43.8
(Previous TP	US\$41.0)
Up/Downside	+53.8%
Current Price	US\$28.5

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Stock Data

Mkt Cap (US\$ mn)	23,272
Avg 3 mths t/o (US\$ mn)	79.92
52w High/Low (US\$)	29.46/ 16.06
Total Issued Shares (mn)	809.2

Source: Bloomberg

Shareholding Structure

Meisong Lai	25.6%
Alibaba	8.6%
Others	65.8%

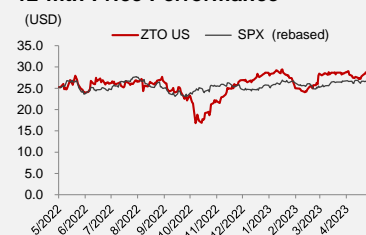
Note: Under the weighted voting rights structure, Meisong Lai has 76.8% of the total voting right
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.0%	-1.2%
3-mth	13.9%	11.7%
6-mth	28.3%	21.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related reports:

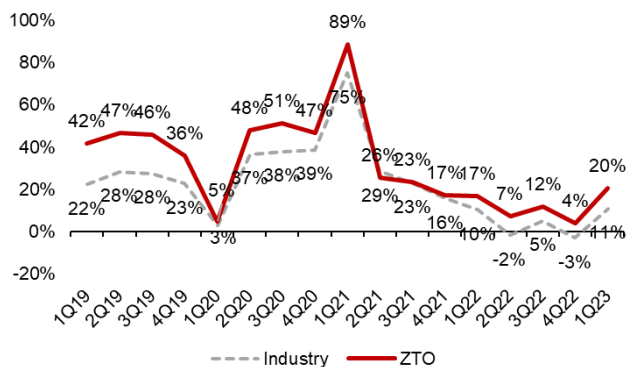
1. Clear guidance on volume and market share target; further room of cost reduction – 17 Mar 2023
2. Record-high market share; Good cost control; Earnings raised on better margin – 18 Aug 2022
3. Lower parcel volume guidance but largely expected; ASP story well intact – 27 Mar 2022

Figure 1: ZTO's 1Q23 results

(RMB mn)	1Q22	1Q23	Change YoY	2Q21	2Q22	Change YoY	3Q21	3Q22	Change YoY	4Q21	4Q22	Change YoY
Total revenue	7,904	8,983	13.7%	7,325	8,657	18.2%	7,391	8,945	21.0%	9,218	9,871	7.1%
Cost of sales	-6,285	-6,460	2.8%	-5,651	-6,454	14.2%	-5,822	-6,501	11.6%	-6,967	-7,099	1.9%
Gross profit	1,619	2,523	55.8%	1,674	2,203	31.6%	1,568	2,444	55.9%	2,251	2,773	23.2%
Other income	115	214	85.8%	176	240	36.1%	182	172	-5.4%	275	248	-9.9%
SG&A expenses	-618	-787	27.2%	-394	-457	16.0%	-389	-441	13.4%	-472	-561	18.8%
EBIT	1,116	1,950	74.7%	1,456	1,986	36.4%	1,360	2,175	59.9%	2,054	2,460	19.8%
D&A	633	686	8.5%	565	672	19.0%	538	665	23.7%	598	701	17.2%
EBITDA	1,749	2,637	50.8%	2,020	2,658	31.5%	1,898	2,840	49.6%	2,652	3,160	19.2%
Net finance income/(expense)	51	20	-60.7%	69	95	39.0%	40	131	230.7%	69	36	-48.6%
Finance income	111	92	-17.3%	102	118	15.7%	92	162	76.9%	94	112	18.6%
Finance expenses	-60	-72	20.2%	-34	-23	-31.6%	-52	-32	-39.5%	-25	-76	n/a
Gain/(loss) on disposal of subsidiaries	0	0	n/a	0	0	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	32	-14	n/a	0	0	n/a	-48	14	n/a
FX gain/(loss)	-13	-10	-20.6%	-26	120	n/a	-8	31	n/a	-22	9	n/a
Share of profit of JV and associates	-23	4	n/a	-4	10	n/a	-20	-13	-31.9%	16	33	103.8%
Pretax profit	1,131	2,120	87.5%	1,527	2,197	43.9%	1,377	2,301	67.0%	2,119	2,664	25.7%
Income tax	-255	-455	78.3%	-255	-438	71.9%	-230	-439	91.4%	-371	-501	34.8%
After tax profit	876	1,665	90.2%	1,272	1,759	38.2%	1,148	1,861	62.1%	1,748	2,163	23.8%
MI	31	6	-82.1%	20	46	133.0%	19	40	110.2%	15	33	127.6%
Net profit	906	1,670	84.3%	1,292	1,805	39.7%	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	22.8%	25.4%	2.6	21.2%	27.3%	6.1	24.4%	28.1%	3.7
EBIT margin	14.1%	21.7%	7.6	19.9%	22.9%	3.1	18.4%	24.3%	5.9	22.3%	24.9%	2.6
After tax profit margin	11.1%	18.5%	7.5	17.4%	20.3%	2.9	15.5%	20.8%	5.3	19.0%	21.9%	3.0
Effective tax rate	22.6%	21.5%	-1.1	16.7%	19.9%	3.3	16.7%	19.1%	2.4	17.5%	18.8%	1.3

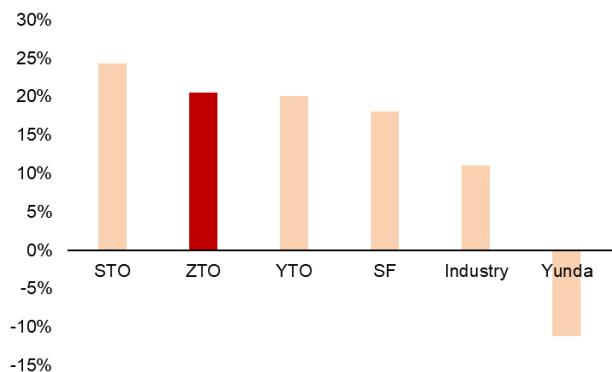
Source: Company data, CMBIGM

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



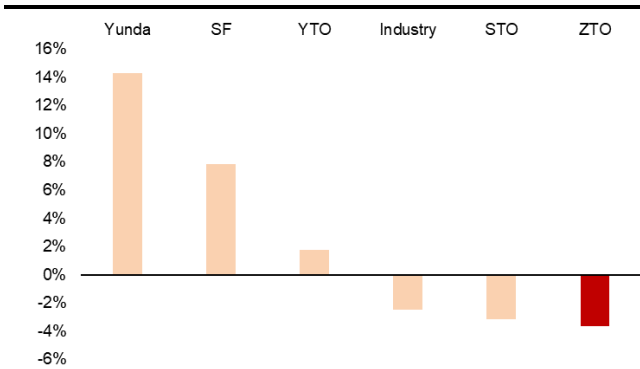
Source: Company data, The State Post Bureau, CMBIGM

Figure 3: ZTO's parcel volume growth in 1Q23



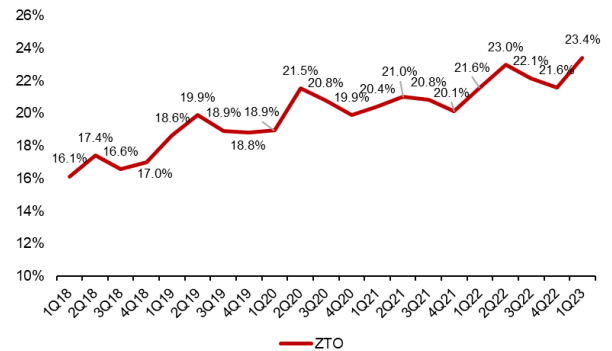
Source: Company data, The State Post Bureau, CMBIGM

Figure 4: ZTO's ASP change (YoY) in 1Q23



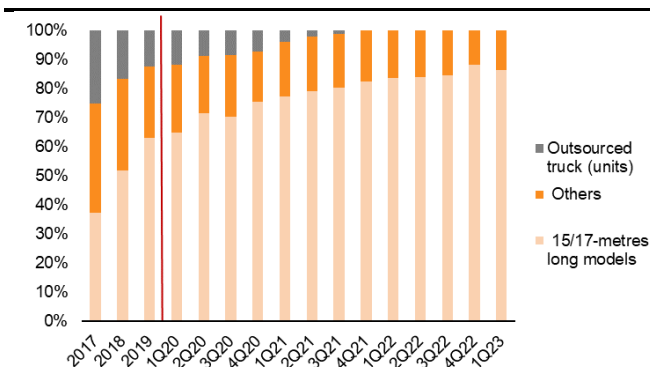
Source: Company data, The State Post Bureau, CMBIGM

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



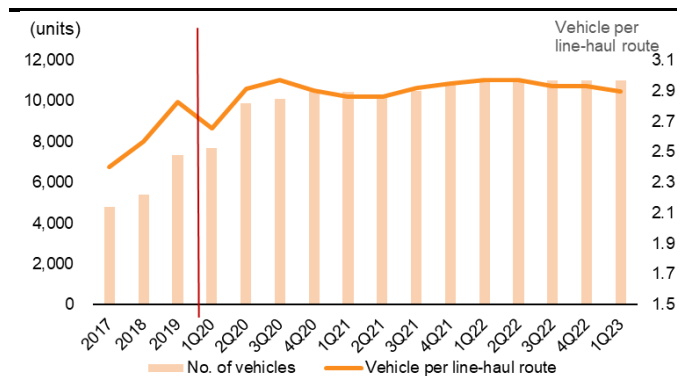
Source: Company data, CMBIGM

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



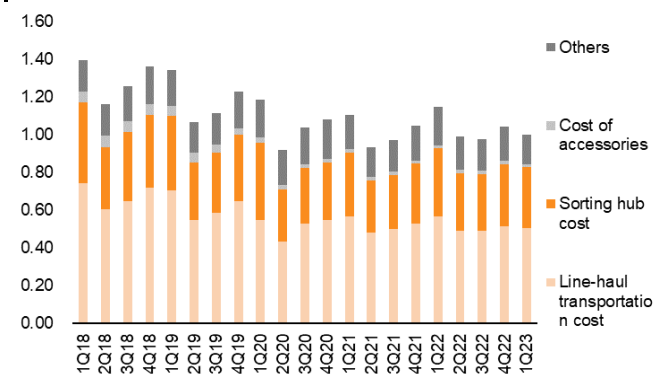
Source: Company data, CMBIGM

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



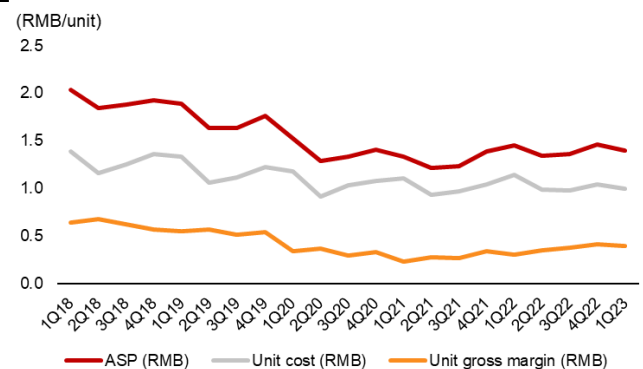
Source: Company data, CMBIGM

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

	Old			New			Change		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Shipment volume (mn units of parcel)									
Unit of parcel	29,268	34,244	39,380	29,756	35,112	40,379	1.7%	2.5%	2.5%
ASP (RMB/unit)									
Per unit of parcel	1.39	1.38	1.37	1.39	1.38	1.37	0.0%	0.0%	0.0%
Unit cost (RMB)									
Line-haul transportation cost	-0.50	-0.49	-0.48	-0.48	-0.47	-0.47	-3.1%	-3.1%	-3.1%
Sorting hub cost	-0.31	-0.30	-0.30	-0.30	-0.29	-0.29	-3.1%	-3.1%	-3.1%
Others	-0.18	-0.18	-0.18	-0.18	-0.18	-0.18	0.0%	0.0%	0.0%
Total	-1.01	-0.99	-0.98	-0.98	-0.96	-0.96	-2.5%	-2.5%	-2.5%
Unit gross margin (RMB)	0.38	0.39	0.39	0.41	0.42	0.42	6.6%	6.2%	6.2%
(RMB mn)									
Revenue									
Express delivery, accessories & others	40,587	47,250	54,065	41,264	48,448	55,436	1.7%	2.5%	2.5%
Freight forwarding services	1,273	1,337	1,404	1,225	1,286	1,350	-3.8%	-3.8%	-3.8%
Total	41,861	48,587	55,469	42,488	49,734	56,787	1.5%	2.4%	2.4%
Revenue growth							ppt		
Express delivery, accessories & others	19%	16%	14%	21%	17%	14%	2.0	1.0	0.0
Freight forwarding services	5%	5%	5%	1%	5%	5%	(4.0)	0.0	0.0
Revenue	18%	16%	14%	20%	17%	14%	1.8	1.0	0.0
Gross margin							ppt		
Express delivery, accessories & others	27%	28%	28%	29%	30%	30%	1.8	1.8	1.8
Freight forwarding services	8%	8%	8%	8%	8%	8%	0.0	0.0	0.0
Gross margin	27%	28%	28%	29%	30%	30%	1.8	1.8	1.8
SG&A expense ratio	-5.8%	-5.8%	-5.7%	-5.8%	-5.8%	-5.7%	0.0	0.0	0.0
Net profit	8,119	9,762	11,252	8,989	10,714	12,353	10.7%	9.8%	9.8%
Core net profit	8,119	9,762	11,252	8,833	10,714	12,353	8.8%	9.8%	9.8%

Source: Company data, CMBIGM estimates

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

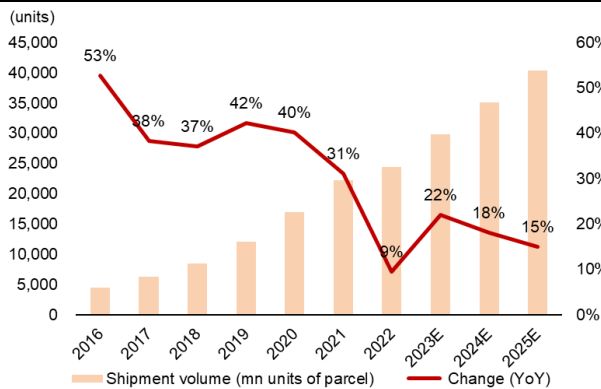
2023E Net profit (RMB mn)	ASP (RMB/unit)				
	1.32	1.36	1.39	1.41	1.46
-0.505	6,612	7,592	8,245	8,898	9,877
-0.491	6,965	7,945	8,598	9,251	10,230
Unit line-haul transportation cost (RMB)	-0.481	7,201	8,180	8,833	9,486
-0.471	7,436	8,416	9,069	9,722	10,701
-0.457	7,789	8,769	9,422	10,075	11,054

Source: Company data, CMBIGM estimates

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

2023E Net profit (RMB mn)	ASP (RMB/unit)				
	1.32	1.36	1.39	1.41	1.46
-0.317	6,831	7,810	8,463	9,116	10,096
-0.308	7,053	8,032	8,685	9,338	10,318
Unit sorting hub cost (RMB)	-0.302	7,201	8,180	8,833	9,486
-0.296	7,349	8,328	8,981	9,634	10,614
-0.287	7,571	8,550	9,203	9,856	10,836

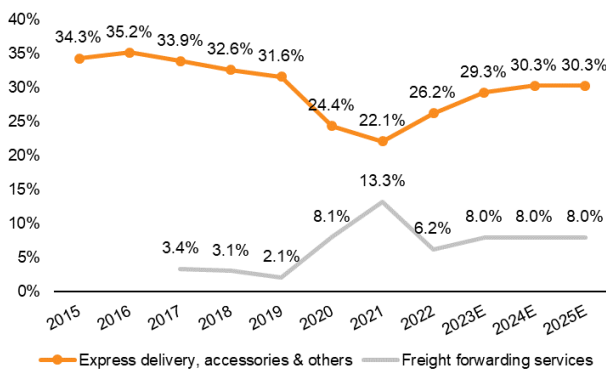
Source: Company data, CMBIGM estimates

Figure 13: ZTO's parcel shipment volume forecast

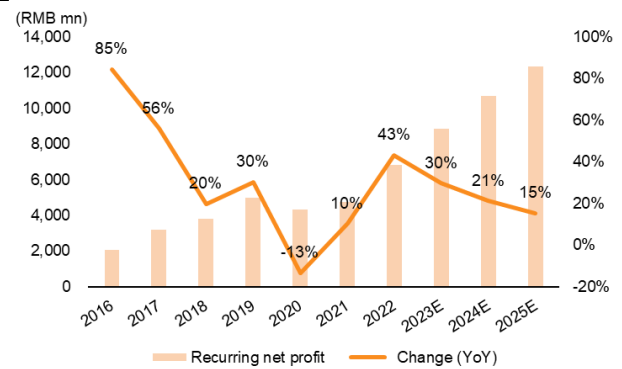
Source: Company data, CMBIGM estimate

Figure 14: China diesel price

Source: Wind, CMBIGM

Figure 15: ZTO's gross margin trend

Source: Company data, CMBIGM estimate

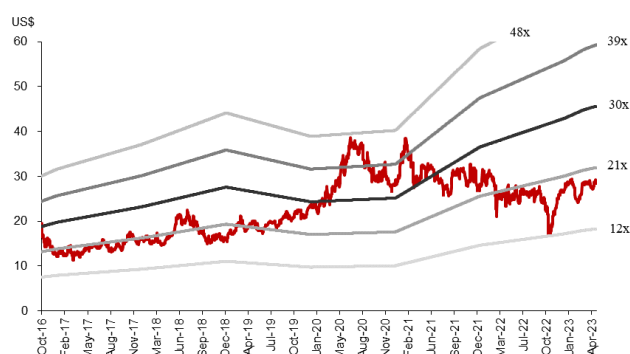
Figure 16: ZTO's net profit forecast

Source: Company data, CMBIGM estimate

Valuation

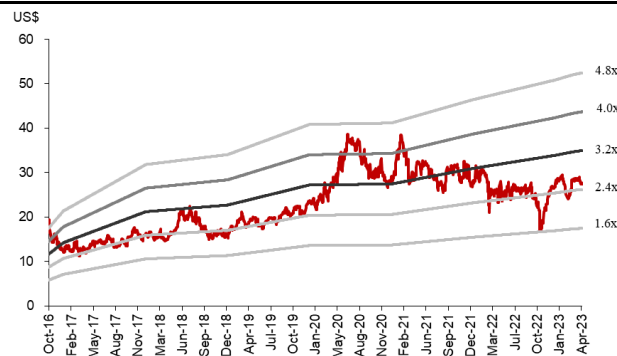
We raise our TP from US\$41 to US\$43.8. Our target multiple is unchanged at 29x (2023E), which is equivalent to 0.5 SD above the historical average.

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

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	30,406	35,377	42,488	49,734	56,787
Cost of sales	(23,816)	(26,338)	(30,313)	(34,966)	(39,903)
Gross profit	6,589	9,039	12,176	14,767	16,884
Other operating income	790	775	850	995	1,136
SG&A expense	(1,876)	(2,077)	(2,464)	(2,885)	(3,237)
EBIT	5,503	7,736	10,561	12,877	14,783
Net finance income/(cost)	237	313	291	361	483
Finance income	364	504	471	532	655
Finance expenses	(127)	(191)	(180)	(171)	(171)
Gain/(loss) on disposal	2	70	0	0	0
Impairment of equity investees	53	20	0	0	0
Unrealized gain from investment	0	0	156	0	0
FX gain/(loss)	(56)	147	0	0	0
Profit of JV & associates	(32)	6	8	21	22
Pretax profit	5,707	8,292	11,016	13,260	15,288
Income tax	(1,005)	(1,633)	(2,203)	(2,652)	(3,058)
After tax profit	4,701	6,659	8,813	10,608	12,231
MI	54	150	176	106	122
Net profit	4,755	6,809	8,989	10,714	12,353
Recurring net profit	4,755	6,809	8,833	10,714	12,353
D&A	2,222	2,671	3,144	3,679	4,173
EBITDA	7,725	10,407	13,705	16,556	18,956

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Pretax profit	5,707	8,292	11,016	13,260	15,288
Finance cost	127	191	180	171	171
Interest income	(364)	(504)	(471)	(532)	(655)
Profit or loss of associates	32	(6)	(8)	(21)	(22)
Depreciation & amortization	2,222	2,671	3,144	3,679	4,173
Income tax paid	(1,005)	(1,633)	(2,203)	(2,652)	(3,058)
Change in working capital	158	1,498	(420)	(288)	(351)
Others	(20)	467	0	0	0
Cash flow from operation	6,856	10,976	11,238	13,616	15,548
Net capex on PP&E	(8,461)	(6,837)	(7,000)	(6,500)	(6,000)
Purchase of land use rights	(967)	(345)	(700)	(700)	(700)
Investment in JV/associates	(570)	(94)	(200)	(200)	(200)
Investment in subsidiaries	(101)	231	0	0	0
Interest received	364	504	471	532	655
Others	615	(10,004)	(0)	(0)	(0)
Cash flow from investing	(9,120)	(16,546)	(7,429)	(6,868)	(6,245)
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	2,026	1,936	(500)	0	0
Dividend paid	(1,313)	(1,353)	(2,125)	(2,697)	(3,214)
Others	(3,617)	0	0	0	0
Cash flow from financing	(2,904)	7,058	(2,805)	(2,868)	(3,385)
Change in cash	(5,168)	1,488	1,003	3,880	5,917
Cash at beginning of the year	14,213	9,721	11,693	12,696	16,576
Exchange gains/(losses) and others	677	483	0	0	0
Cash at the end of the year	9,721	11,693	12,696	16,576	22,493

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	44,106	54,049	59,075	63,152	66,151
PP&E	24,930	28,813	32,807	35,781	37,775
Land use right	5,336	5,443	6,011	6,565	7,104
Investment in JV/associates	3,730	3,951	4,159	4,380	4,602
Operating lease right-of-use assets	897	809	869	929	989
Goodwill	4,242	4,242	4,242	4,242	4,242
Long term financing receivables	1,413	1,296	1,498	1,772	1,962
Intangible assets	36	29	23	17	11
Long-term investment	1,215	7,323	7,323	7,323	7,323
Others	1,373	1,394	1,394	1,394	1,394
Deferred tax assets	935	750	750	750	750
Current assets	18,666	24,475	26,213	30,235	36,877
Inventories	83	41	126	66	153
Account receivables	933	819	1,044	1,273	1,496
Financing receivables	1,111	951	1,377	1,348	1,763
Advances to suppliers	668	862	862	862	862
Short-term investment	2,845	5,753	5,753	5,753	5,753
Others	3,276	3,461	3,461	3,461	3,461
Restricted cash	28	895	895	895	895
Cash	9,721	11,693	12,696	16,576	22,493
Current liabilities	12,996	16,405	16,483	16,670	17,294
Account payables	1,958	2,203	2,780	2,968	3,592
Operating lease liabilities	251	230	230	230	230
Bank borrowings	3,459	5,394	4,894	4,894	4,894
Tax payable	87	228	228	228	228
Advanced from customers	1,227	1,375	1,375	1,375	1,375
Others	6,016	6,975	6,975	6,975	6,975
Non-current liabilities	848	7,646	7,646	7,646	7,646
Bank borrowings	0	0	0	0	0
Deferred tax liabilities	292	346	346	346	346
Non-current operating lease	556	510	510	510	510
Others	0	6,789	6,789	6,789	6,789
Shareholders' equity	48,637	54,029	60,892	68,909	78,048
MI	290	444	268	162	39

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Express delivery, accessories & others	95%	97%	97%	97%	98%
Freight forwarding services	5%	3%	3%	3%	2%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	21.7	25.6	28.7	29.7	29.7
EBITDA margin	25.4	29.4	32.3	33.3	33.4
EBIT margin	18.1	21.9	24.9	25.9	26.0
Net profit margin	15.5	18.8	20.7	21.3	21.5
Growth (%)					
Revenue	20.6	16.3	20.1	17.1	14.2
Gross profit	12.9	37.2	34.7	21.3	14.3
EBITDA	17.1	34.7	31.7	20.8	14.5
EBIT	15.7	40.6	36.5	21.9	14.8
Core net profit	10.3	43.2	29.7	21.3	15.3
Balance sheet ratio					
Current ratio (x)	1.4	1.5	1.6	1.8	2.1
Trade receivable turnover days	30	23	20	21	21
Inventory turnover days	1	1	1	1	1
Payable turnover days	28	29	30	30	30
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	7.8	9.6	11.0	12.0	12.6
ROE	9.7	13.3	15.4	16.5	16.8
Per share data					
EPS (RMB)	5.70	8.16	10.77	12.83	14.80
Core EPS (RMB)	5.70	8.16	10.58	12.83	14.80
BVPS (RMB)	58.34	64.81	73.04	82.65	93.62
DPS (RMB)	1.62	2.55	3.23	3.85	4.44

Source: Company data, CMBIGM estimates

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