

ZTO Express (ZTO US)

Volume growth to remain the top priority

We believe ZTO's market share growth strategy will continue in 2021E as management reiterated in the post-results briefing that scale remains the key factor to win the war of industry consolidation. While we lower our net profit forecast in 2020E/21E/22E by 9%/3%/3% due to more conservative parcel ASP assumptions, we believe the growing scale and on-track cost reduction trend will help solidify ZTO's position as a cost leader in the long-run. We revised our TP to US\$37.7 from US\$38.3, based on unchanged 33x 2021E P/E. Maintain **BUY**.

- 3Q20 earnings highlight.** ZTO's reported net profit dropped only 8% YoY to RMB1.2bn, which was helped by a one-off tax refund of RMB200mn as Shanghai Zongtongji Network (a subsidiary of ZTO) was recognized as a key software enterprise that qualified for a preferential tax rate of 10%. Excluding this one-off tax refund, the result would be lower than our expectation. On the other hand, ZTO reported RMB64mn of FX loss, mainly due to the translation loss as a result of the depreciation of US\$ against RMB.
- Strong volume growth in 3Q20.** ZTO's revenue increased by 26% YoY to RMB6.6bn. Parcel volume surged 51% YoY to 4.6bn units in 3Q20, outpacing the industry growth of 38%. In terms of parcel shipment volume, ZTO's market share reached 20.8%, up 1.9ppt YoY but slightly down 0.7ppt QoQ. ZTO maintains its target of achieving 25% market share in two years.
- ASP dropped less than major players.** ZTO's parcel ASP dropped 18% YoY (or RMB0.30/unit) to RMB1.33/unit in 3Q20 (breakdown: [1] RMB0.22 for incentives to support network partners, [2] RMB0.03 for the use of lower-priced waybills, and [3] RMB0.05 due to lower parcel weight). Such pricing reduction was similar to **SF Holding (002352 CH, BUY)** but less than the major "Tongda" players. On QoQ basis, the ASP increased 3%.
- Unit cost down 6.7% YoY in 3Q20.** ZTO's unit cost of transportation and sorting hub dropped 9.2% YoY and 8.5% YoY, respectively, to RMB0.53 and RMB0.29. The transportation cost reduction was driven by higher portion of volume transported by self-owned trucks (93%, vs 74% in 3Q19) and higher portion of the use of high-capacity trucks (80%, vs 69% in 3Q19). For sorting hub cost, the reduction was mainly by the use of more sets of automated sorting equipment (300 sets, vs 208 sets in 3Q19). Management targets to achieve 10% YoY reduction on the two cost items in 4Q20E.
- Major risk factors:** (1) prolonged price war; (2) slowdown of online retail sales; (3) lack of effective control over network partners.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	17,604	22,110	24,626	29,963	35,960
YoY growth (%)	35	26	11	22	20
Net profit (RMB mn)	3,820	4,979	4,427	6,261	7,850
EPS (RMB)	5.08	6.35	5.57	7.50	9.40
YoY growth (%)	14.3	25.0	-12.3	34.6	25.4
Consensus EPS (RMB)	N/A	N/A	5.93	7.20	9.57
EV/EBITDA (x)	29.5	22.7	23.2	16.0	12.5
P/E (x)	41.7	34.3	40.1	28.8	22.9
P/B (x)	4.9	4.4	3.7	3.2	2.9
Yield (%)	0.8	1.0	0.7	1.0	1.3
ROE (%)	13.7	13.7	9.9	11.7	13.3
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$37.7
(Previous TP	US\$38.3)
Up/Downside	+28%
Current Price	US\$29.99

China Express Delivery

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Stock Data

Mkt Cap (US\$ mn)	25,448
Avg 3 mths t/o (US\$ mn)	86
52w High/Low (US\$)	38.99/20.04
Total Issued Shares (mn)	855.3

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	4.1%	-0.4%
3-mth	-7.5%	-12.8%
6-mth	-13.4%	-29.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

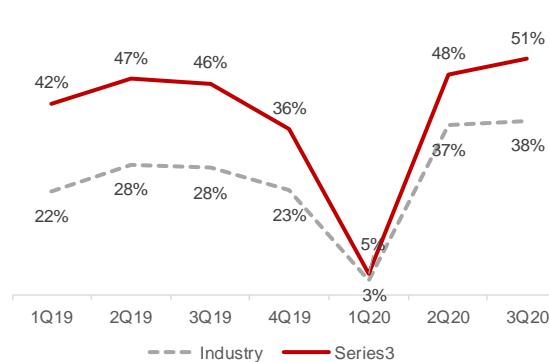
Related report:

China Express Delivery Sector – Bloody battle to end soon; War for market share to continue; BUY winners in the respective playing fields – 14 Oct 2020

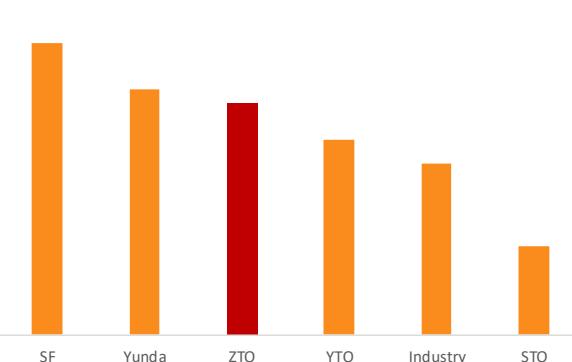
Figure 1: ZTO's 3Q20 results

(RMB mn)	1Q19	1Q20	Change YoY	2Q19	2Q20	Change YoY	3Q19	3Q20	Change YoY
Total revenue	4,574	3,916	-14.4%	5,424	6,402	18.0%	5,266	6,639	26.1%
Cost of sales	-3,314	-3,097	-6.6%	-3,655	-4,633	26.8%	-3,669	-5,248	43.0%
Gross profit	1,260	819	-35.0%	1,769	1,769	0.0%	1,597	1,391	-12.9%
Other income	58	113	95.2%	30	190	542.9%	94	152	60.7%
SG&A expenses	-558	-560	0.4%	-305	-312	2.3%	-291	-374	28.5%
EBIT	760	372	-51.0%	1,493	1,647	10.3%	1,401	1,169	-16.5%
D&A	283	408	44.4%	298	426	42.9%	303	479	58.3%
EBITDA	1,043	780	-25.2%	1,791	2,073	15.7%	1,703	1,648	-3.2%
Net finance income/(expense)	146	126	-14.0%	144	105	-27.2%	146	83	-43.3%
Finance income	146	126	-13.8%	144	114	-20.9%	146	97	-34.0%
Finance expenses	0	0	n/a	0	-9	n/a	0	-14	n/a
Gain/(loss) on disposal of equity investees & subsidiary	-1	0	n/a	0	0	n/a	0	0	n/a
FX gain/(loss)	-26	16	n/a	22	3	-88.4%	29	-64	n/a
Share of profit of JV and associates	-6	-14	n/a	-6	-2	n/a	-1	-5	n/a
Pretax profit	874	501	-42.7%	1,654	1,752	5.9%	1,574	1,182	-24.9%
Income tax	-192	-130	-32.4%	-289	-298	3.3%	-266	28	n/a
After tax profit	682	371	-45.6%	1,365	1,454	6.5%	1,308	1,210	-7.4%
MI	-1	4	n/a	-6	-5	-7.1%	-0	-9	n/a
Net profit	681	375	-45.0%	1,359	1,449	6.6%	1,308	1,201	-8.1%
Ratios:									
<i>Gross margin</i>	27.5%	20.9%	<i>ppt</i>	32.6%	27.6%	<i>ppt</i>	30.3%	21.0%	<i>ppt</i>
<i>EBIT margin</i>	16.6%	9.5%	<i>-7.1</i>	27.5%	25.7%	<i>-1.8</i>	26.6%	17.6%	<i>-9.0</i>
<i>After tax profit margin</i>	14.9%	9.5%	<i>-5.4</i>	25.2%	22.7%	<i>-2.5</i>	24.8%	18.2%	<i>-6.6</i>
<i>Effective tax rate</i>	22.0%	25.9%	4.0	17.5%	17.0%	<i>-0.4</i>	16.9%	-2.4%	<i>-19.3</i>

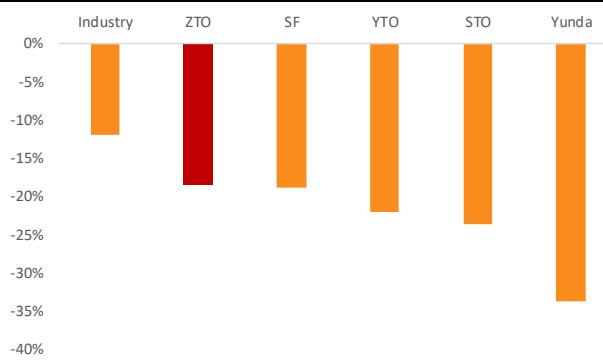
Source: Company data, CMBIS

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

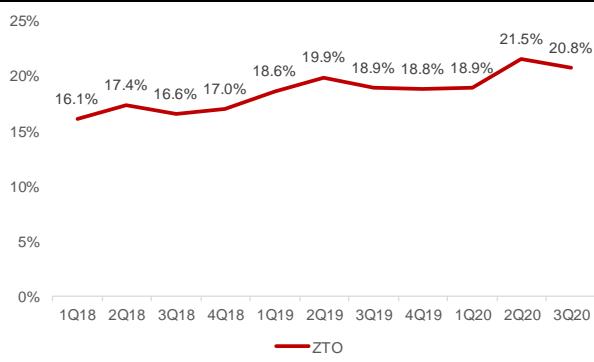
Source: Company data, The State Post Bureau, CMBIS

Figure 3: Major players' parcel volume growth in 3Q20

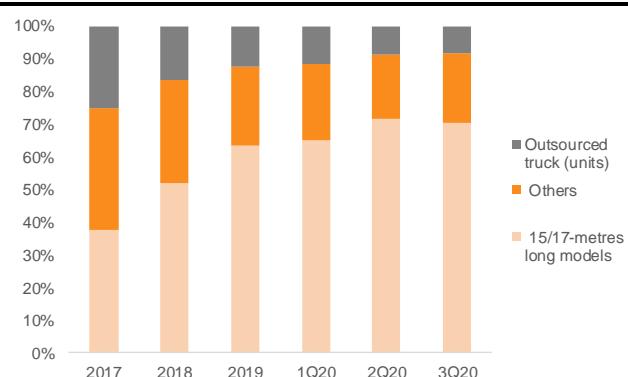
Source: Company data, The State Post Bureau, CMBIS

Figure 4: ZTO achieved less ASP reduction (YoY) in 3Q20

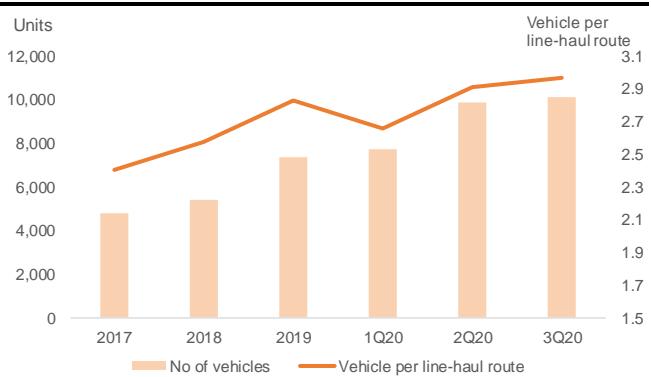
Source: Company data, The State Post Bureau, CMBIS

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

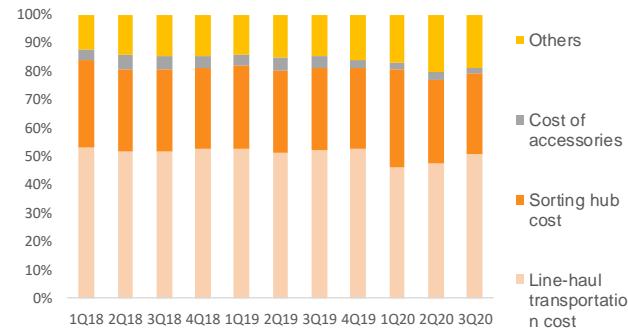
Source: Company data, CMBIS

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

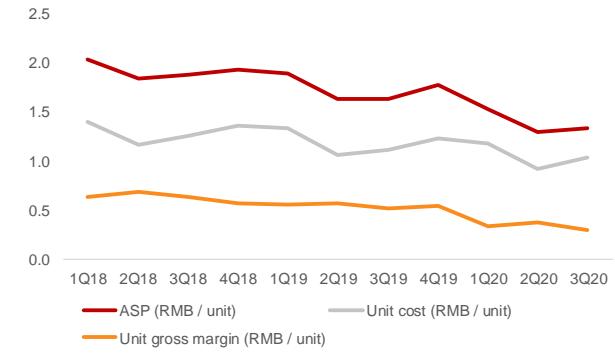
Source: Company data, CMBIS

Figure 7: ZTO enhanced its efficiency with more vehicles per line-haul route

Source: Company data, CMBIS

Figure 8: ZTO unit cost breakdown

Source: Company data, CMBIS

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

Source: Company data, CMBIS

Figure 10: Change in key assumptions

	Old			New			Change		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Shipment volume (mn units of parcel)									
Unit of parcel	16,485	20,606	25,139	16,485	20,606	25,139	0.0%	0.0%	0.0%
Change (YoY)	36.0%	25.0%	22.0%	36.0%	25.0%	22.0%	0.0%	0.0%	0.0%
ASP (RMB/unit)									
Per unit of parcel	1.45	1.39	1.37	1.39	1.37	1.35	-3.6%	-1.6%	-1.6%
Unit cost breakdown(RMB)									
Line-haul transportation cost	-0.54	-0.54	-0.52	-0.52	-0.51	-0.50	-3.4%	-4.4%	-4.4%
Sorting hub cost	-0.31	-0.30	-0.30	-0.31	-0.30	-0.29	-1.2%	-1.2%	-1.2%
Others	-0.18	-0.18	-0.17	-0.20	-0.19	-0.19	10.0%	10.0%	10.0%
Total	-1.07	-1.05	-1.02	-1.06	-1.03	-1.01	-0.8%	-1.3%	-1.3%
Unit gross margin (RMB)									
	0.38	0.34	0.35	0.34	0.33	0.35	-11.2%	-2.3%	-2.4%
(RMB mn)									
Revenue									
Express delivery, accessories & others	23,846	28,616	34,562	22,995	28,169	34,022	-3.6%	-1.6%	-1.6%
Freight forwarding services	1,458	1,575	1,701	1,631	1,795	1,938	11.9%	13.9%	13.9%
Total	25,305	30,191	36,263	24,626	29,963	35,960	-2.7%	-0.8%	-0.8%
Revenue growth									
Express delivery, accessories & others	14%	20%	21%	10%	23%	21%	(4.1)	2.5	0.0
Freight forwarding services	18%	8%	8%	32%	10%	8%	14.0	2.0	0.0
Revenue	14%	19%	20%	11%	22%	20%	(3.1)	2.4	(0.1)
Gross margin									
Express delivery, accessories & others	26%	25%	26%	24%	24%	26%	(2.1)	(0.2)	(0.2)
Freight forwarding services	8%	5%	5%	8%	5%	5%	0.0	0.0	0.0
Gross margin	25%	28%	29%	23%	28%	29%	(2.1)	(0.4)	(0.4)
Net profit	4,845	6,476	8,109	4,427	6,261	7,850	-8.6%	-3.3%	-3.2%

Source: Company data, CMBIS estimates

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

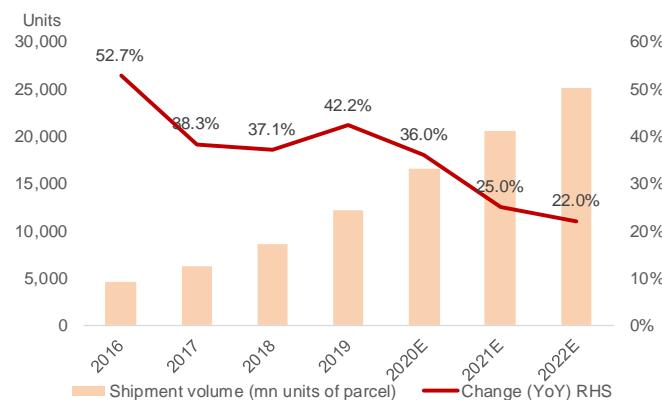
2021E Net profit (RMB mn)	ASP (RMB/unit)				
	1.30	1.34	1.37	1.39	1.44
-0.539	4,619	5,335	5,813	6,291	7,008
-0.523	4,887	5,604	6,082	6,560	7,277
Unit line-haul	-0.513	5,066	5,783	6,261	6,739
transportation cost (RMB)	-0.503	5,245	5,962	6,440	6,918
-0.487	5,514	6,231	6,709	7,186	7,903

Source: Company data, CMBIS estimates

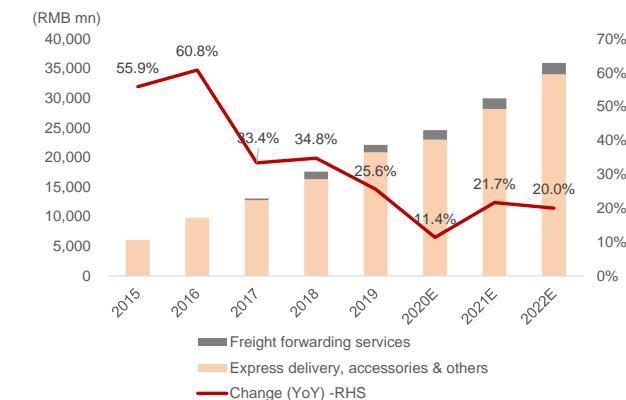
Figure 12: Earnings sensitivity to ASP and unit sorting hub cost

2021E Net profit (RMB mn)	ASP (RMB/unit)				
	1.30	1.34	1.37	1.39	1.44
-0.316	4,804	5,521	5,998	6,476	7,193
-0.307	4,961	5,678	6,156	6,634	7,351
Unit sorting hub cost	-0.301	5,066	5,783	6,261	6,739
(RMB)	-0.295	5,171	5,888	6,366	6,844
-0.286	5,329	6,046	6,523	7,001	7,718

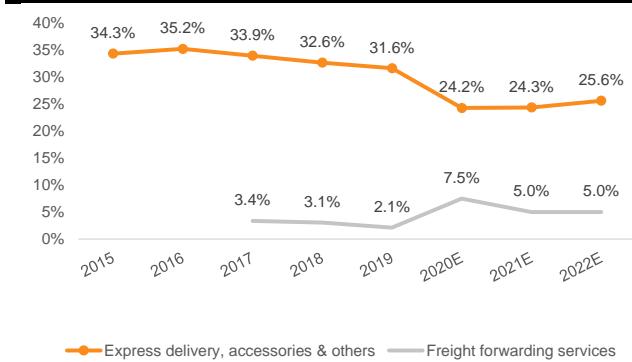
Source: Company data, CMBIS estimates

Figure 13: ZTO's parcel shipment volume forecast

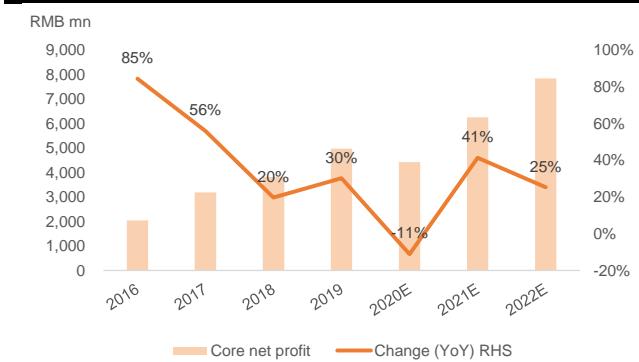
Source: Company data, CMBIS estimate

Figure 14: ZTO's revenue forecast

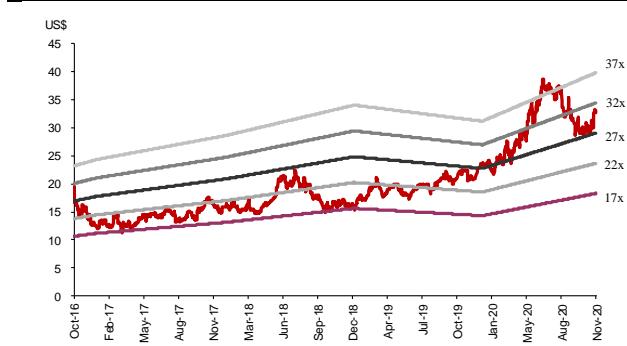
Source: Company data, CMBIS estimate

Figure 15: ZTO's gross margin trend

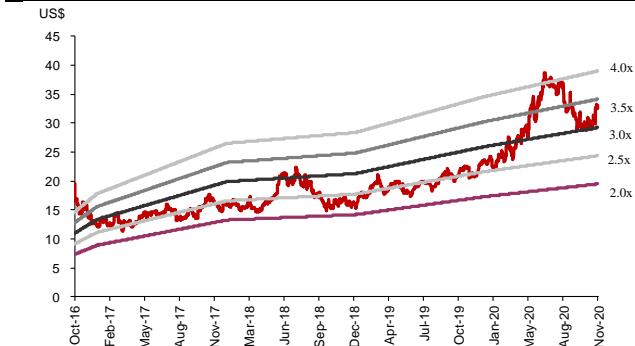
Source: Company data, CMBIS estimate

Figure 16: ZTO's core net profit forecast

Source: Company data, CMBIS estimate

Figure 17: ZTO US's P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 18: ZTO US's P/B band

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	17,604	22,110	24,626	29,963	35,960
Cost of sales	(12,240)	(15,489)	(18,928)	(21,696)	(25,552)
Gross profit	5,365	6,621	5,698	8,267	10,408
Other operating income	178	388	517	599	719
SG&A expense	(1,211)	(1,546)	(1,699)	(2,037)	(2,373)
EBIT	4,332	5,463	4,516	6,829	8,754
Net finance income/(cost)	400	585	588	631	603
Finance income	401	585	588	631	603
Finance expenses	(1)	0	0	0	0
Gain/(loss) on disposal	563	(3)	0	0	0
Impairment of equity investees	0	(56)	0	0	0
Unrealized gain fr. equity investee	0	754	0	0	0
FX gain/(loss)	41	13	0	0	0
Profit of JV & associates	(19)	(8)	0	16	17
Pretax profit	5,317	6,750	5,104	7,476	9,373
Income tax	(929)	(1,078)	(664)	(1,196)	(1,500)
After tax profit	4,388	5,671	4,440	6,280	7,873
MI	(5)	3	(13)	(19)	(24)
Net profit	4,383	5,674	4,427	6,261	7,850
Recurring net profit	3,820	4,979	4,427	6,261	7,850
D&A	854	1,265	2,077	2,731	3,465
EBITDA	5,186	6,727	6,593	9,560	12,218

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	5,317	6,750	5,104	7,476	9,373
Finance cost	1	0	0	0	0
Interest income	(401)	(585)	(588)	(631)	(603)
Profit or loss of associates	19	8	0	(16)	(17)
Depreciation & amortization	854	1,265	2,077	2,731	3,465
Income tax paid	(1,068)	(1,119)	(664)	(1,196)	(1,500)
Change in working capital	(443)	(260)	(470)	(350)	(2)
Others	(275)	(338)	0	0	0
Cash flow from operation	4,003	5,719	5,459	8,014	10,717
Net capex on PP&E	(3,324)	(4,636)	(10,000)	(8,000)	(9,000)
Purchase of land use rights	(657)	(591)	(700)	(700)	(700)
Investment in JV/associates	(1,865)	(218)	(100)	(50)	(50)
Investment in subsidiaries	(110)	(20)	0	0	0
Interest received	401	585	588	631	603
Others	(7,718)	629	0	(0)	(0)
Cash flow from investing	(13,274)	(4,250)	(10,212)	(8,119)	(9,147)
Equity financing/(repurchase)	8,122	(763)	9,842	0	0
Net bank borrowings	(250)	0	0	0	0
Dividend paid	(895)	(1,271)	(1,667)	(1,306)	(1,847)
Others	66	51	0	0	0
Cash flow from financing	7,042	(1,982)	8,175	(1,306)	(1,847)
Change in cash	(2,229)	(513)	3,423	(1,412)	(277)
Cash at beginning of the year	5,425	4,623	5,270	8,693	7,281
Exchange gains/(losses) and others	1,426	1,161	0	0	0
Cash at the end of the year	4,623	5,270	8,693	7,281	7,004

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	18,449	25,792	35,095	41,186	47,782
PP&E	9,036	12,471	20,461	25,811	31,441
Land use right	1,969	2,509	3,148	3,774	4,385
Investment in JV/associates	2,207	3,109	3,209	3,276	3,342
Operating lease right-of-use assets	0	902	962	1,022	1,082
Goodwill	4,242	4,242	4,242	4,242	4,242
Long term financing receivables	0	550	1,069	1,065	1,300
Intangible assets	54	48	42	36	29
Long-term investment	0	946	946	946	946
Others	623	612	612	612	612
Deferred tax assets	318	404	404	404	404
Current assets	21,234	20,098	23,862	22,791	22,868
Inventories	44	44	60	59	81
Account receivables	597	676	741	983	1,086
Financing receivables	518	511	771	871	1,099
Advances to suppliers	338	438	438	438	438
Short-term investment	13,600	11,113	11,113	11,113	11,113
Others	1,515	2,039	2,039	2,039	2,039
Restricted cash	0	7	7	7	7
Cash	4,623	5,270	8,693	7,281	7,004
Current liabilities	5,141	6,681	7,132	7,178	7,826
Account payables	1,312	1,475	1,927	1,973	2,620
Operating lease liabilities	0	299	299	299	299
Bank borrowings	0	0	0	0	0
Tax payable	406	80	80	80	80
Advanced from customers	437	1,211	1,211	1,211	1,211
Others	2,987	3,616	3,616	3,616	3,616
Non-current liabilities	272	806	806	806	806
Bank borrowings	0	0	0	0	0
Deferred tax liabilities	158	208	208	208	208
Non-current operating lease	0	504	504	504	504
Others	114	94	94	94	94
Shareholders' equity	34,217	38,303	50,905	55,860	61,862
MI	52	101	114	133	157

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Express delivery, accessories & others	93%	94%	93%	94%	95%
Freight forwarding services	7%	6%	7%	6%	5%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	30.5	29.9	23.1	27.6	28.9
EBITDA margin	29.5	30.4	26.8	31.9	34.0
EBIT margin	24.6	24.7	18.3	22.8	24.3
Net profit margin	24.9	25.7	18.0	21.0	21.9
Growth (%)					
Revenue	34.8	25.6	11.4	21.7	20.0
Gross profit	23.5	23.4	(13.9)	45.1	25.9
EBITDA	n/a	29.7	(2.0)	45.0	27.8
EBIT	15.6	26.1	(17.3)	51.2	28.2
Core net profit	19.8	30.3	(11.1)	41.4	25.4
Balance sheet ratio					
Current ratio (x)	4.1	3.0	3.3	3.2	2.9
Trade receivable turnover days	9	15	23	24	23
Inventory turnover days	1	1	1	1	1
Payable turnover days	33	33	33	33	33
Net debt / total equity (%)	Net cash				
Profitability (%)					
ROA	13.4	13.3	8.4	10.2	11.7
ROE	13.7	13.7	9.9	11.7	13.3
Per share data					
EPS (RMB)	5.83	7.24	5.57	7.50	9.40
Core EPS (RMB)	5.08	6.35	5.57	7.50	9.40
BVPS (RMB)	43.56	48.98	60.97	66.91	74.10
DPS (RMB)	1.69	2.13	1.64	2.21	2.77

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

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