

SF Holding (002352 CH)

Tight rein on cost to offset ASP pressure

SF delivered solid 3Q19 results backed by improved OPM, while adj net profit increased 62% YoY (55% higher than our forecast). We believe e-commerce parcels will continue to boost volume growth, but the accelerated ASP downward trend make us prudent about revenue outlook in FY19/20E. That said, we expect rigorous cost control to secure margins amid the heightened price war. Maintain BUY. We lifted FY19/20E adj EPS by 9%/2% respectively, and raised TP to RMB47.52 based on 36x/33x FY19/20E P/E.

- **Strong beat in 3Q19 due to Opex improvement.** Adj net profit grew 62% YoY, 55% higher than our forecast backed by tight cost control, while revenue increased 26% YoY, 11% below our forecast, mainly due to larger-than-expected ASP plump in Sep (i.e. -14% YoY). As SF will maintain aggressive pricing tactics in the coming "Double 11" amid intensified price war, we are cautious about ASP trend, but expect continued rigorous cost control will significantly benefit EPS growth despite GPM pressure. Hence, we lifted FY19/20E EPS by 9%/3%.
- **E-commerce parcels to weigh on growth outlook.** In sharp contrast to lackluster business parcels and start-up new business, we believe share gains in e-commerce parcel market will continue to act as SF's growth pillar in near term. We expect robust volume growth to continue in FY19/20E, but are concerned about ASP accelerated downward trend as ASP was down by 3%/7%/11% YoY in Jul/Aug/Sep respectively. Considering heated price war during the e-commerce carnival and afterwards, we anticipate 8% YoY ASP in 4Q19E, and thus lower FY19/20E revenue estimates by 2%/5%.
- **Tight cost control to secure margins.** In 3Q19, the Company's Opex margin ratcheted up by 1ppt QoQ/YoY thanks to strict cost management. Mgmt guided that SF would carry out RMB3bn cost saving plan in 2H19E, and we believe the continued cost cut will secure margins, given foreseeable GPM pressure brought by further exposure in e-commerce parcel market.
- **Maintain BUY with TP RMB47.52.** In view of 1) strong volume growth, 2) ASP downward trend, and 3) improved operating leverage, we revised up our FY19-21E adj. EPS by 2-9%. Therefore, we maintained BUY rating and raised TP to RMB47.52, based on same 33x FY20E P/E. Key risks include greater-than expected ASP decline and large restricted share circulation.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	71,273	90,943	110,901	132,127	154,803
YoY growth (%)		27.6	21.9	19.1	17.2
Adj. net income (RMB mn)	3,703	3,484	5,782	6,311	7,566
Adj. EPS (RMB)	0.87	0.79	1.31	1.44	1.73
YoY growth (%)		-9.2	65.2	10.6	19.9
P/E (x)	47.1	51.8	31.4	28.4	23.7
P/B (x)	5.3	4.9	4.4	3.9	3.4
Yield (%)	0.5	0.5	0.7	0.7	0.9
ROE (%)	18.4	13.2	14.9	14.4	15.4
Net gearing (%)	Net cash	1.9	0.1	10.2	15.4

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	RMB47.52
(Previous TP)	RMB46.53)
Up/Downside	+16.1%
Current Price	RMB40.94

China Express Delivery Sector

Gary Pang

(852) 3900 0882

garypang@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	180,733
Avg 3 mths t/o (US\$ mn)	397.97
52w High/Low (US\$)	43.57/28.46
Total Issued Shares (mn)	4,415

Source: Bloomberg

Shareholding Structure

SZ Ming De Holding	61.2%
Shun Da Feng Run	6.8%
SZ Zhao Guang	6.0%

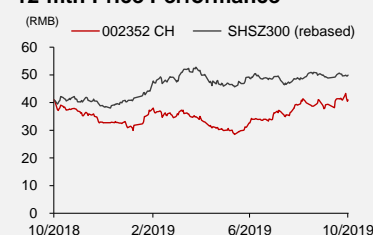
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	4.3%	5.2%
3-mth	13.6%	12.1%
6-mth	-0.4%	-17.9%

Source: Bloomberg

12-mth Price Performance

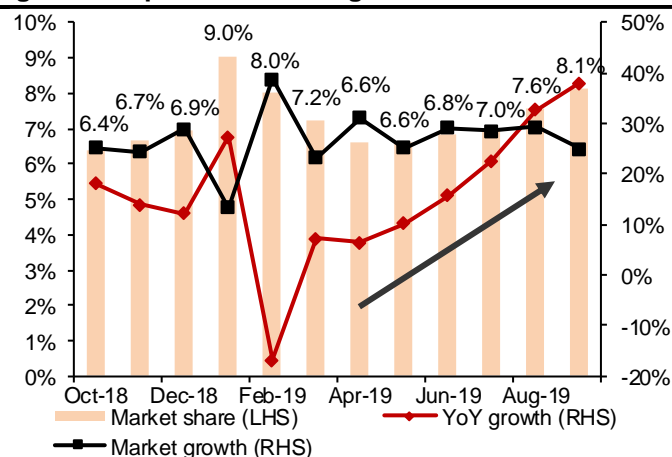


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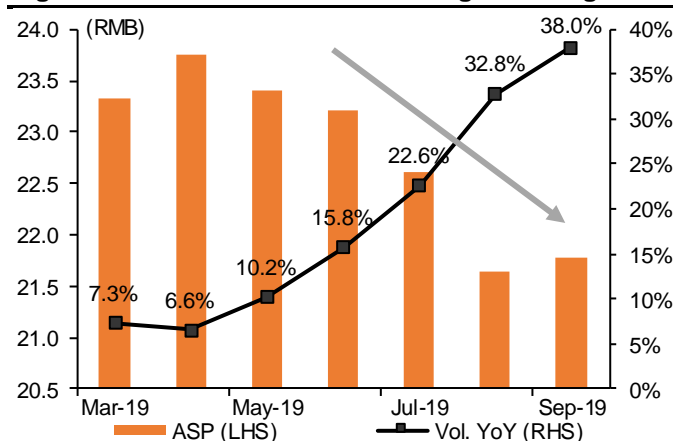
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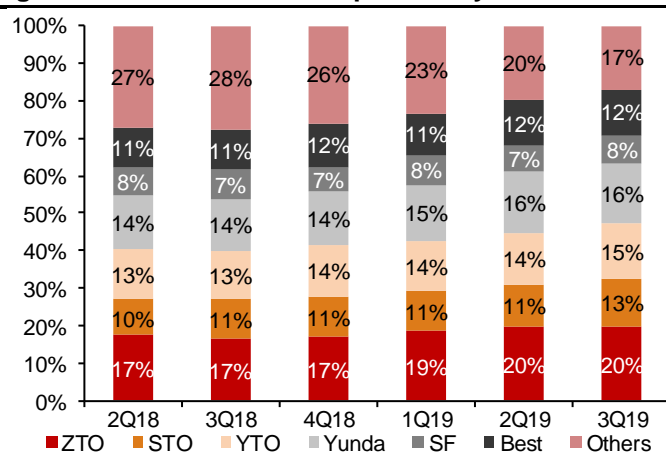
- Exp Delivery: Eyes on "Double 11" amid accelerated sector consolidation – 21 Oct 2019
- Exp Delivery: Margins eroded in 1H19; Price war to culminate – 24 Sep 2019
- SF Holding: NDR takeaways: Back on track with share gain – 4 Sep 2019

Figure 1: Expedited volume growth in 2Q19

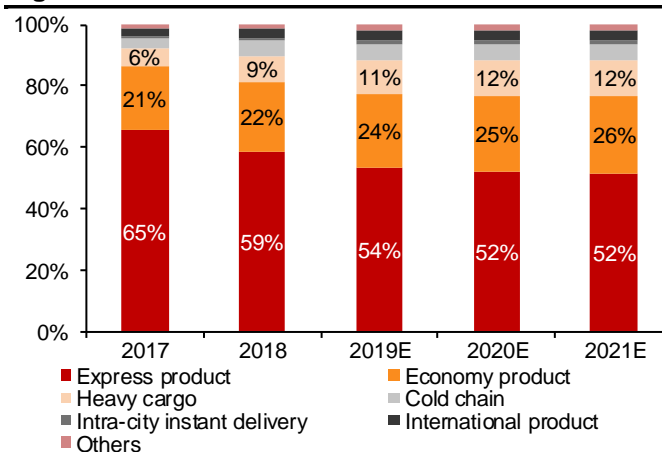
Source: Company data, CMBIS

Figure 2: ASP downward trend alongside Vol growth

Source: Company data, CMBIS

Figure 3: Market shares comparison by volume

Source: State Post Bureau, Company data, CMBIS estimates

Figure 4: SF revenue mix estimates

Source: Company data, CMBIS estimates

Figure 5: 3Q19 results overview

(RMB mn)	3Q18	4Q18	1Q19	2Q19	3Q19	QoQ	YoY	CMBI	Diff%
Revenue	22,864	25,575	24,028	26,047	28,695	10.2%	26%	29,119	-11%
Operating Profit	1,042	1,783	1,556	2,341	1,738	-26%	67%	1,261	86%
Net profit	794	1,528	1,263	1,838	1,210	-34%	52%	963	91%
Adj. Net profit	731	663	836	1,494	1,181	-21%	62%	963	55%
Adj. EPS (RMB)	0.17	0.15	0.19	0.34	0.27	-21%	63%	0.22	55%
Margin (%)									
Gross Margin	17.5%	16.7%	18.0%	21.5%	18.4%			19.4%	2.1 ppt
Operating Margin	4.6%	7.0%	6.5%	9.0%	6.1%			6.5%	2.5 ppt
Adj. Net Margin	3.2%	2.6%	3.5%	5.7%	4.1%			4.9%	0.8 ppt
Growth (%)									
Revenue (YoY)	29.4%	19.2%	16.8%	18.8%	25.5%				
Revenue (QoQ)	4.2%	11.9%	-6.0%	8.4%	10.2%				
Operating Profit	45.7%	109.3%	115.9%	141.9%	166.8%				
Adj. Net Profit	-14.6%	-37.1%	-6.8%	25.2%	61.6%				

Source: Company data, CMBIS estimates

Our FY19-21E EPS are 1-9% above consensus

Considering margin expansion driven by tight cost control, we revised up FY19-21E adj EPS by 2-9%. Our FY19-21E adj EPS are slightly above consensus, due to our more positive outlook on OPM improvement.

Figure 6: CMBI Earnings forecast

(RMB mn)	1Q19	2Q19	3Q19	4Q19E	FY19E	FY20E	FY21E
Revenue	24,028	26,047	28,695	32,131	110,901	132,127	154,803
Gross profit	4,324	5,599	5,288	5,944	21,155	24,774	28,820
Operating profit	1,556	2,341	1,738	1,963	7,599	8,262	9,906
Adj. net profit	836	1,494	1,181	1,500	5,782	6,311	7,566
Adj. EPS (RMB)	0.19	0.34	0.27	0.34	1.31	1.44	1.73
Gross margin	18.0%	21.5%	18.4%	18.5%	19.1%	18.8%	18.6%
Operating margin	6.5%	9.0%	6.1%	6.1%	6.9%	6.3%	6.4%
Net margin	3.5%	5.7%	4.1%	4.7%	5.2%	4.8%	4.9%

Source: Company data, CMBIS estimates

Figure 7: Earnings forecast change

(RMB mn)	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	110,901	132,127	154,803	113,355	138,482	166,333	-2.2%	-4.6%	-6.9%
Gross profit	21,155	24,774	28,820	21,484	25,959	30,518	-1.5%	-4.6%	-5.6%
Operating profit	7,599	8,262	9,906	6,789	8,088	9,786	11.9%	2.2%	1.2%
Adj. net profit	5,782	6,311	7,566	5,310	6,178	7,474	8.9%	2.1%	1.2%
Adj. EPS (RMB)	1.31	1.44	1.73	1.20	1.41	1.70	8.8%	2.3%	1.8%
Gross margin	19.1%	18.8%	18.6%	19.0%	18.7%	18.3%	0.1ppt	0.1ppt	0.3ppt
Operating margin	6.9%	6.3%	6.4%	6.0%	5.8%	5.9%	0.9ppt	0.5ppt	0.5ppt
Net margin	5.2%	4.8%	4.9%	4.7%	4.5%	4.5%	0.5ppt	0.3ppt	0.4ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 8: CMBI Est. VS Consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	110,901	132,127	154,803	111,985	134,495	154,832	-1.0%	-1.8%	0.0%
Gross profit	21,155	24,774	28,820	20,826	25,157	29,285	1.6%	-1.5%	-1.6%
Op. profit	7,599	8,262	9,906	6,821	8,447	9,956	11.4%	-2.2%	-0.5%
Adj. net profit	5,782	6,311	7,566	5,340	6,327	7,494	8.3%	-0.3%	1.0%
Adj. EPS	1.31	1.44	1.73	1.19	1.42	1.70	9.4%	1.3%	1.9%
Gross margin	19.1%	18.8%	18.6%	18.6%	18.7%	18.9%	0.5ppt	0.0ppt	-0.3ppt
Op. margin	6.9%	6.3%	6.4%	6.1%	6.3%	6.4%	0.8ppt	0.0ppt	0.0ppt
Net margin	5.2%	4.8%	4.9%	4.8%	4.7%	4.8%	0.4ppt	0.1ppt	0.0ppt

Source: Company data, Bloomberg, CMBIS estimates

Valuation

Maintain BUY with TP of RMB47.52 (16.1% upside)

Our new 12-month TP of RMB47.52 is based on 33x FY20E P/E unchanged. We estimate 35% EPS FY18-20E CAGR, due to 1) 21% revenue FY18-20E CAGR and 2) improving margins as a result of solid cost control.

Key risks include 1) greater-than-expected ASP decline, and 2) large restricted share circulation.

Figure 9: Peers comparison

Figure 6.1 Core comparison

Company	Ticker	Mkt cap (USD mn)	Curr.	Price	ROE		PE		PB		EV/EBITDA		FY18-20E EPS CAGR
					19E	20E	19E	20E	19E	20E	19E	20E	
China express delivery													
ZTO	ZTO US	17,308	USD	22.13	12.4	13.8	24.6	21.4	3.1	2.8	15.5	12.3	12%
SF	002352 CH	25,559	CNY	40.94	14.9	14.4	31.4	28.4	4.4	3.9	17.9	14.2	35%
YTO	600233 CH	5,291	CNY	13.16	18.3	16.0	17.4	15.1	2.9	2.5	10.3	8.9	10%
STO	002468 CH	4,908	CNY	22.67	18.0	15.5	18.3	15.8	3.4	2.9	10.5	8.7	5%
Yunda	002120 CH	11,024	CNY	35.01	27.2	22.1	28.1	22.8	5.7	4.7	15.4	12.0	13%
Deppon	603056 CH	1,780	CNY	13.11	17.6	14.1	17.2	13.8	2.7	2.4	6.9	5.7	12%
Average					18.1	16.0	22.8	19.5	3.7	3.2	12.8	10.3	14%
Overseas express delivery													
FedEx	FDX US	40,193	USD	154.1	19.7	17.2	10.1	12.6	2.0	2.1	8.4	9.1	-5%
UPS	UPS US	97,821	USD	114.0	121	86.6	15.2	14.1	15.1	10.1	11.0	10.2	6%
Yamato	9064 JP	7,010	JPY	1,851	6.4	6.0	20.2	21.2	1.3	1.2	6.2	6.1	50%
DHL	DPW GR	43,931	EUR	31.95	18.6	19.3	15.0	13.0	2.7	2.4	7.2	6.5	16%
Average					41.5	32.3	15.1	15.2	5.3	4.0	8.2	8.0	17%
Total Average					37.4	37.4	19.7	13.0	3.9	7.3	10.7	5.9	15%

Source: Company data, Bloomberg, CMBIS estimates

Figure 10: One-year forward P/E

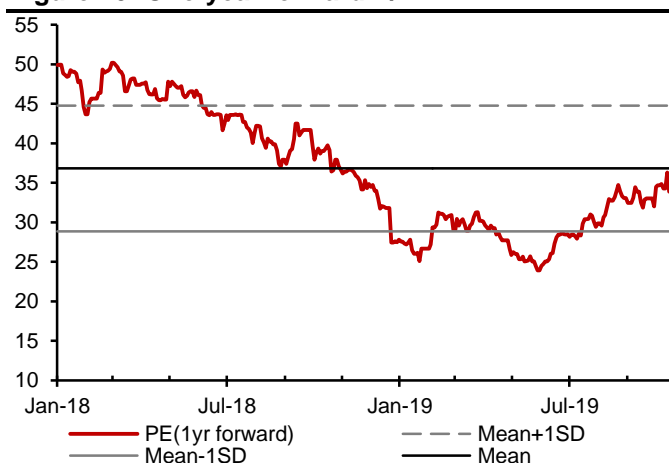
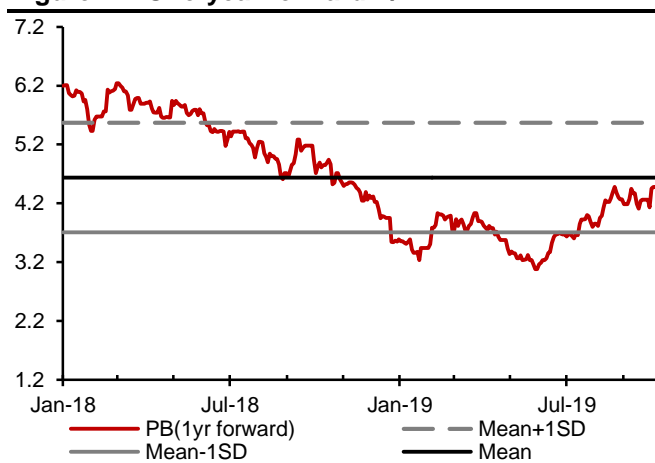


Figure 11: One-year forward P/B



Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	71,273	90,943	110,901	132,127	154,803
Express & logistics	70,623	89,683	105,863	125,838	148,001
Sales of goods	-	-	3,749	4,652	5,132
Others	649	1,259	1,604	1,636	1,669
Cost of revenue	(56,905)	(74,642)	(89,746)	(107,353)	(125,982)
Gross profit	14,368	16,301	21,155	24,774	28,820
Selling and distribution	(1,387)	(1,826)	(2,071)	(2,643)	(2,632)
General and administrative	(6,751)	(8,414)	(10,077)	(11,413)	(13,468)
R&D expenses	(649)	(984)	(1,327)	(1,586)	(1,858)
Financial (costs)/income	(259)	(287)	(675)	(654)	(743)
Other operating expenses	1,140	1,029	593	(217)	(214)
Operating profit	6,461	5,818	7,599	8,262	9,906
Non-operating income, net	52	49	(18)	-	-
Profit before taxation	6,513	5,868	7,581	8,262	9,906
Income tax	(1,758)	(1,403)	(1,900)	(1,983)	(2,377)
Profit for the year	4,755	4,464	5,682	6,279	7,529
Non-controlling interest	19	92	129	31	38
Net profit	4,774	4,556	5,811	6,311	7,566
Adj. net profit	3,703	3,484	5,782	6,311	7,566

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit for the year	4,755	4,464	5,682	6,279	7,529
D&A	3,056	3,509	3,883	5,180	6,005
Change in working capital	(868)	(2,164)	118	133	127
Others	(609)	(385)	606	654	743
Operating cash flow	6,334	5,425	10,290	12,246	14,404
Capex	(5,659)	(11,638)	(10,314)	(12,552)	(15,480)
Investment return	300	365	288	464	374
Others	1,728	1,944	-	-	-
Investing cash flow	(3,630)	(9,329)	(10,026)	(12,088)	(15,106)
Equity raised	7,920	141	-	-	-
Change of Debts	(790)	6,418	5,000	5,000	-
Dividend & interest paid	(847)	(1,525)	(2,074)	(2,399)	(2,653)
Others	(17)	275	30	30	30
Financing cash flow	6,813	2,973	2,926	2,601	(2,653)
Net change in cash	9,503	(850)	3,190	2,759	(3,356)
Cash at the beginning	6,646	16,150	15,299	18,489	21,248
Exchange effect	(14)	81	-	-	-
Cash at the end	16,150	15,299	18,489	21,248	17,893

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	26,335	39,693	46,124	53,495	62,970
Fixed assets	11,896	13,967	21,101	25,074	31,885
Construction in progress	2,307	6,508	5,609	8,159	10,062
Investment properties	1,992	2,454	2,421	2,392	2,371
Intangible assets	5,267	6,662	6,454	6,316	6,261
Other non-current assets	4,874	10,102	10,539	11,554	12,392
Current assets	34,912	31,922	37,738	43,148	42,619
Cash and cash equivalent	16,150	15,299	18,489	21,248	17,893
Restricted cash	1,236	832	832	832	832
Notes and accounts	5,816	7,374	9,427	11,231	13,158
Other current assets	11,710	8,417	8,990	9,837	10,736
Current liabilities	24,557	26,369	29,106	31,844	34,749
Borrowings	4,619	8,585	8,585	8,585	8,585
Notes and accounts	6,907	7,887	9,872	11,809	13,858
Other payables	5,827	4,540	4,540	4,540	4,540
Other current liabilities	7,205	5,357	6,109	6,910	7,766
Non-current liabilities	3,759	8,331	13,340	18,385	18,434
Borrowings	2,721	998	998	5,998	5,998
Debentures payable	529	6,405	11,405	11,405	11,405
Long-term payables	21	84	90	107	126
Others	488	844	847	875	904
Minority Interest	52	353	224	192	155
Ordinary shareholders'	32,878	36,561	41,192	46,222	52,252
Total equity	32,930	36,914	41,416	46,414	52,407

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Express & logistics	99.1	98.6	95.5	95.2	95.6
Sales of goods	0.0	0.0	3.4	3.5	3.3
Others	0.9	1.4	1.4	1.2	1.1
Total	100.0	100.0	100.3	100.0	100.0
P&L ratios (%)					
Gross margin	20.2	17.9	19.1	18.8	18.6
EBITDA margin	14.1	11.0	11.2	11.0	11.0
Operating margin	9.1	6.4	6.9	6.3	6.4
Adj. net margin	5.2	3.8	5.2	4.8	4.9
Effective tax rate	27.0	23.9	25.1	24.0	24.0
Balance sheet ratios					
Current ratio (x)	1.4	1.2	1.3	1.4	1.2
Quick ratio (x)	1.3	1.1	1.2	1.2	1.1
AR turnover days	27	26	28	29	29
AP turnover days	78	72	72	74	74
Net gearing ratio(%)	Net cash	1.9	0.1	10.2	15.4
Returns (%)					
ROE	18.4	13.2	14.9	14.4	15.4
ROA	8.9	6.7	7.3	7.0	7.4
Per share					
Adj. EPS (RMB)	0.87	0.79	1.31	1.44	1.73
DPS (RMB)	0.22	0.21	0.27	0.29	0.35
BVPS (RMB)	7.68	8.29	9.30	10.57	11.95

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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