

Zoomlion Heavy Industry - H (1157 HK)

Key takeaways from analyst call: Cost pressure under control; Solid guidance

In the post-results analyst call, Zoomlion maintained the full year revenue growth target of 30%, stable gross margin and expansion on net margin. Besides, Zoomlion believes the steel cost pressure is manageable and expects the gross margin to remain stable in 2Q21E versus 1Q21. We believe the guidance is solid and we maintain a positive view on Zoomlion. We have left our above-consensus earnings forecast unchanged. Maintain **BUY** with TP of HK\$16.8.

- Cost pressure to have limited impact on gross margin in 2Q21E.** Direct steel cost (excluding components) accounts for ~20% of production cost. Steel cost increased ~20% YoY in 1Q21 and the actual impact on gross margin was around 1ppt. To ease the cost pressure, Zoomlion revised up the ASP of concrete mixer and mixing plants in Mar and Apr. Zoomlion expects potential price hike in Jul upon the implementation of NES VI. Zoomlion expects gross margin 2Q21E to be largely similar to that in 1Q21, helped by product price hike, product mix enhancement and continuous cost control.
- Strong growth of excavator to continue.** Excavator sales surged 100% YoY in 1Q21 and gross margin reached 22%. ASP in 1Q21 increased by 15% YoY, driven by rising contribution of mid-to-large size models. Zoomlion will continue to enhance the product mix through developing mid-to-large size models. Zoomlion is confident of achieving higher-than-industry sales growth in 2Q21E. For the full year, Zoomlion targets to achieve RMB5bn revenue.
- Aerial working platform (AWP) development on good track.** Zoomlion recognized revenue of RMB900mn from AWP sales in 1Q21 (including sales of RMB300mn brought forward from 2020). In terms of product mix, boom / scissor lift ratio is ~50/50. Zoomlion targets to achieve RMB2.5-3.0bn in 2021E and gross margin will potentially reach 25-30% in future.
- Concrete machinery and crane remain solid.** Concrete mixer sales surged 1.4x YoY in 1Q21. Zoomlion has continued to deliver market share gain, given that the illegal models in the market are being phased out due to strict government policy. For crane, Zoomlion maintained solid market position in products such as large-size truck crane and crawler crane.
- Agricultural machinery recovery to continue.** Revenue increased 100% YoY in 1Q21 while gross margin expanded 4ppt YoY. Zoomlion maintains the full year growth guidance of 30-40% but expects potential upside.

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20A | FY21E | FY22E |
|---------------------|--------|--------|--------|----------|----------|
| Revenue (RMB mn) | 28,697 | 43,307 | 65,109 | 86,459 | 101,722 |
| YoY growth (%) | 39.3 | 50.9 | 50.3 | 32.8 | 17.7 |
| Net income (RMB mn) | 2,031 | 4,381 | 7,296 | 9,829 | 11,870 |
| EPS (RMB) | 0.27 | 0.58 | 0.97 | 1.17 | 1.38 |
| YoY growth (%) | 51.5 | 119.2 | 65.9 | 20.9 | 18.3 |
| Consensus EPS (RMB) | n/a | n/a | n/a | 1.07 | 1.19 |
| EV/EBITDA (x) | 17.1 | 11.1 | 8.1 | 6.4 | 5.5 |
| P/E (x) | 34.9 | 16.3 | 9.7 | 7.7 | 6.5 |
| P/B (x) | 1.9 | 1.9 | 1.6 | 1.3 | 1.2 |
| Yield (%) | 2.7 | 0.0 | 5.7 | 5.1 | 6.2 |
| ROE (%) | 5.4 | 11.4 | 17.1 | 18.7 | 19.0 |
| Net gearing (%) | 33.6 | 31.3 | 9.9 | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

| | |
|---------------|------------|
| Target Price | HK\$16.80 |
| (Previous TP) | HK\$16.80) |
| Up/Downside | +56% |
| Current Price | HK\$10.76 |

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Stock Data

| | |
|--------------------------|-------------------------------|
| Mkt Cap (HK\$ mn) | 117,230 |
| Avg 3 mths t/o (HK\$ mn) | 157 |
| 52w High/Low (HK\$) | 13.98/5.65 |
| Total Issued Shares (mn) | 1,582 (H) 7,073 (A) |

Source: Bloomberg

Shareholding Structure

| | |
|-------------------------|-----|
| SASAC of Hunan Province | 15% |
| Management team | 8% |
| A share free float | 82% |
| H share free float | 18% |

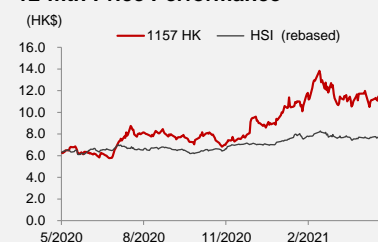
Source: HKEx, Shanghai Stock Exchange

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -7.7% | -8.2% |
| 3-mth | 1.3% | -0.2% |
| 6-mth | 57.5% | 32.2% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

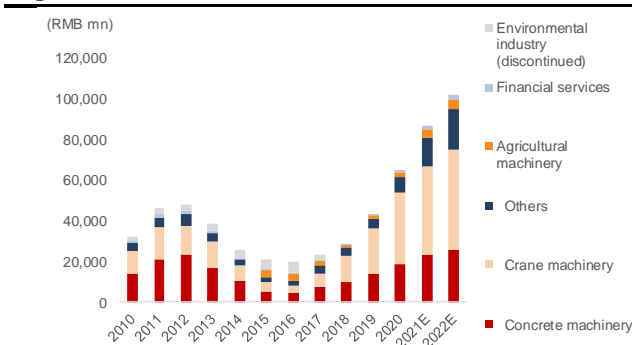
Related Reports

- Zoomlion (1157 HK, BUY) – Unjustified share price pullback offers buying opportunity – 1 Apr 2021
- Zoomlion (1157 HK, BUY) – More drivers; More sustainable; Higher earnings est. & TP – 25 Jan 2021
- Zoomlion (1157 HK, BUY) – Margin risk priced in; Good buying opportunity – 3 Nov 2020
- Zoomlion (1157 HK, BUY) – Profit surprise in 3Q20 reaffirms our positive view – 15 Oct 2020

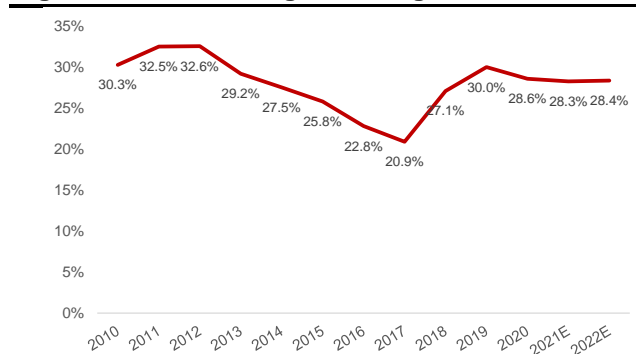
Figure 1: Key assumptions on Zoomlion

| (RMB mn) | 2018 | 2019 | 2020 | 2021E | 2022E |
|-----------------------------|---------------|---------------|---------------|---------------|----------------|
| Revenue | | | | | |
| Construction machinery | 26,723 | 40,991 | 61,383 | 81,035 | 94,750 |
| Concrete machinery | 10,165 | 13,902 | 18,985 | 23,162 | 25,941 |
| Crane machinery | 12,472 | 22,147 | 34,897 | 43,621 | 48,856 |
| Others | 4,086 | 4,942 | 7,501 | 14,252 | 19,953 |
| Agricultural machinery | 1,477 | 1,583 | 2,644 | 3,834 | 4,984 |
| Financial services | 497 | 733 | 1,082 | 1,591 | 1,988 |
| Total revenue | 28,697 | 43,307 | 65,109 | 86,459 | 101,722 |
| Revenue growth | | | | | |
| Construction machinery | 49.1% | 53.4% | 49.7% | 32.0% | 16.9% |
| Concrete machinery | 38.6% | 36.8% | 36.6% | 22.0% | 2.0% |
| Crane machinery | 83.3% | 77.6% | 57.6% | 25.0% | 2.0% |
| Others | 8.1% | 20.9% | 51.8% | 90.0% | 40.0% |
| Agricultural machinery | -35.6% | 7.2% | 67.0% | 45.0% | 30.0% |
| Financial services | 26.8% | 47.5% | 47.6% | 47.0% | 25.0% |
| Total revenue growth | 23.3% | 50.9% | 50.3% | 32.8% | 17.7% |
| Gross margin | | | | | |
| Construction machinery | 26.9% | 29.7% | 27.9% | 27.3% | 27.3% |
| Concrete machinery | 24.0% | 27.4% | 26.3% | 26.3% | 26.2% |
| Crane machinery | 29.1% | 32.8% | 31.0% | 30.9% | 30.9% |
| Others | 27.3% | 22.8% | 16.9% | 18.0% | 20.0% |
| Agricultural machinery | 6.9% | 4.3% | 16.8% | 19.0% | 20.0% |
| Financial services | 99.8% | 99.9% | 99.5% | 99.5% | 99.5% |
| Average gross margin | 27.1% | 30.0% | 28.6% | 28.3% | 28.4% |

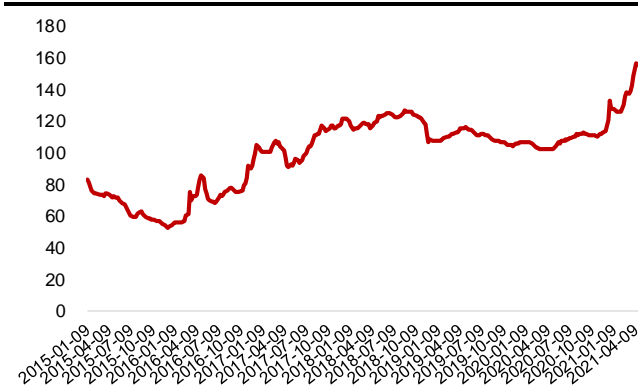
Source: Company data, CMBIS estimates

Figure 2: Zoomlion's revenue trend

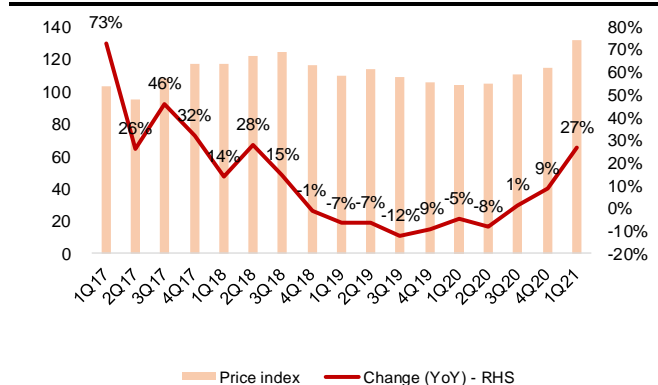
Source: Company data, CMBIS estimates

Figure 3: Zoomlion's gross margin trend

Source: Company data, CMBIS estimates

Figure 4: China medium-thick steel plate price index (weekly)

Source: Wind, China Iron and Steel Association, CMBIS

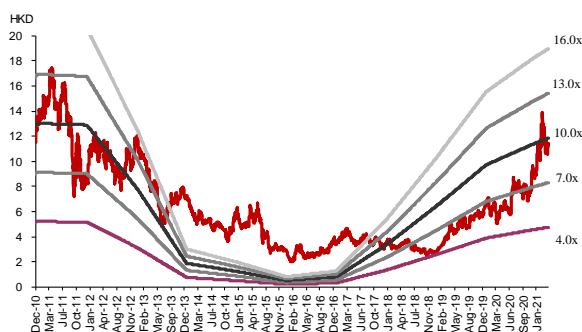
Figure 5: China medium-thick steel plate price index (quarterly)

Source: Wind, China Iron and Steel Association, CMBIS

Valuation

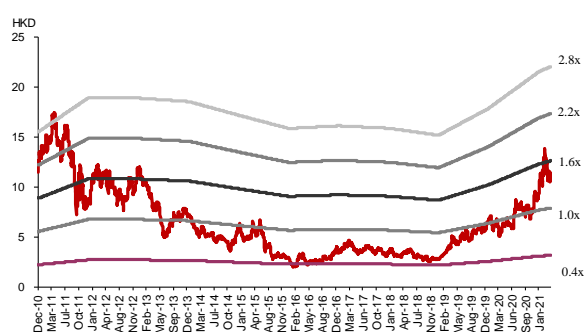
We forecast Zoomlion to deliver 35%/21% net profit growth in 2021E/22E. After taking into consideration of dilution from the share placement plan, we forecast 21%/18% EPS growth in 2021E/22E. Our target price of HK\$16.8 is based on 12x 2021E P/E. We benchmark our target multiple to the peak level in 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 6: Zoomlion - H 12M forward P/E band



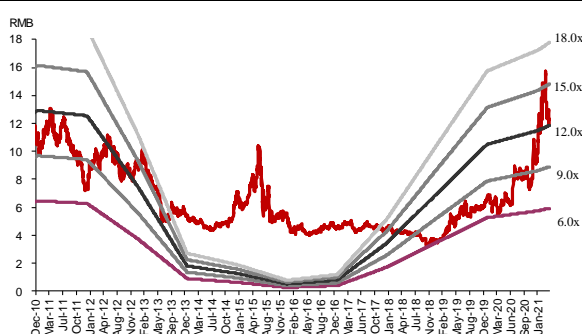
Source: Bloomberg, Company data, CMBIS estimates

Figure 7: Zoomlion - H 12M forward P/B band



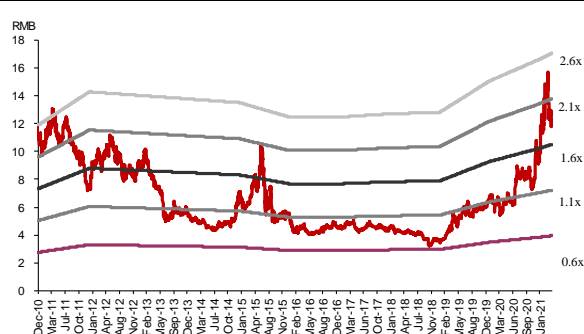
Source: Bloomberg, Company data, CMBIS estimates

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



Source: Bloomberg, Company data, CMBIS estimates

Figure 9: 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; (4) Further increase in steel price.

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20A | FY21E | FY22E |
|-----------------------------|---------------|---------------|---------------|---------------|----------------|
| Total revenue | 28,697 | 43,307 | 65,109 | 86,459 | 101,722 |
| Cost of sales | (20,923) | (30,314) | (46,492) | (62,012) | (72,863) |
| Gross profit | 7,774 | 12,993 | 18,617 | 24,447 | 28,859 |
| Other income | 882 | 1,017 | 1,462 | 1,479 | 1,499 |
| S&D expenses | (2,379) | (3,780) | (4,046) | (5,188) | (5,900) |
| Administrative expenses | (2,063) | (2,693) | (4,048) | (5,188) | (6,002) |
| R&D expenses | (581) | (1,516) | (3,345) | (4,582) | (5,493) |
| EBIT | 3,633 | 6,021 | 8,640 | 10,969 | 12,964 |
| Net finance income/(cost) | (1,205) | (1,165) | (154) | 259 | 628 |
| Finance income | 347 | 539 | 596 | 1,255 | 1,488 |
| Finance expenses | (1,552) | (1,704) | (750) | (996) | (861) |
| Other gains/(losses) | 0 | 0 | 0 | 0 | 0 |
| Profit of JV and associates | 222 | 188 | 182 | 220 | 235 |
| Pretax profit | 2,650 | 5,044 | 8,668 | 11,449 | 13,826 |
| Income tax | (682) | (759) | (1,297) | (1,717) | (2,074) |
| After tax profit | 1,968 | 4,285 | 7,371 | 9,731 | 11,752 |
| MI/discontinued operation | 63 | 96 | (75) | 97 | 118 |
| Net profit | 2,031 | 4,381 | 7,296 | 9,829 | 11,870 |
| D&A | 837 | 867 | 823 | 963 | 1,043 |
| EBITDA | 4,470 | 6,888 | 9,463 | 11,932 | 14,007 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20A | FY21E | FY22E |
|---------------------------------|----------------|-----------------|----------------|----------------|----------------|
| Pretax profit | 2,650 | 5,044 | 8,668 | 11,449 | 13,826 |
| Finance cost | 1,451 | 1,704 | 750 | 996 | 861 |
| Interest income | (347) | (539) | (596) | (1,255) | (1,488) |
| Profit or loss of associates | (222) | (188) | (182) | (220) | (235) |
| Disposal of PP&E/business | (152) | 0 | 0 | 0 | 0 |
| Depreciation and amortization | 837 | 867 | 823 | 963 | 1,043 |
| Income tax paid | (431) | (773) | (1,297) | (1,717) | (2,074) |
| Change in working capital | 1,152 | 442 | (1,227) | (1,745) | (1,189) |
| Others | (221) | (589) | 483 | 0 | 0 |
| Cash flow from operation | 4,717 | 5,968 | 7,422 | 8,470 | 10,744 |
| Net capex on PP&E | (272) | (1,082) | (1,192) | (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) | (110) | (100) | (100) |
| Dividend received | 4 | 45 | 0 | 0 | 0 |
| Interest received | 347 | 253 | 596 | 1,255 | 1,488 |
| Others | (7,214) | 11,374 | 1,491 | 0 | 0 |
| Cash flow from investing | (7,242) | 9,984 | 785 | (1,491) | (1,112) |
| Equity financing/(repurchase) | 37 | (2,145) | 0 | 6,095 | 0 |
| Net bank borrowings | 6,817 | (14,008) | (2,282) | (500) | (4,700) |
| Dividend paid | (1,308) | (1,801) | 0 | (4,202) | (3,931) |
| Interest paid | (1,428) | (1,707) | 0 | (996) | (861) |
| Others | (16) | 13 | (962) | 0 | 0 |
| Cash flow from financing | 4,102 | (19,648) | (3,244) | 396 | (9,492) |
| Change in cash | 1,577 | (3,696) | 4,963 | 7,375 | 140 |
| Cash at beginning of the year | 7,148 | 8,754 | 5,073 | 10,086 | 17,461 |
| Exchange and others | 29 | 15 | 50 | 0 | 0 |
| Cash at the end of the year | 8,754 | 5,073 | 10,086 | 17,461 | 17,602 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20A | FY21E | FY22E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-current assets | 28,657 | 37,979 | 49,287 | 54,810 | 63,285 |
| PP&E | 6,077 | 6,735 | 7,342 | 9,273 | 10,983 |
| Lease prepayment | 1,943 | 2,433 | 3,068 | 3,018 | 2,968 |
| JV/associates | 3,500 | 3,909 | 3,388 | 3,608 | 3,843 |
| Financial assets | 3,656 | 7,771 | 13,008 | 14,469 | 17,859 |
| Goodwill | 2,046 | 2,017 | 2,054 | 2,054 | 2,054 |
| Trade receivables | 5,498 | 9,072 | 14,131 | 16,189 | 19,483 |
| Intangible assets | 2,153 | 2,043 | 1,965 | 1,867 | 1,764 |
| Financial assets | 2,379 | 2,644 | 2,703 | 2,703 | 2,703 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets | 1,276 | 1,271 | 1,453 | 1,453 | 1,453 |
| Deposits | 129 | 84 | 175 | 175 | 175 |
| Current assets | 64,762 | 54,052 | 66,956 | 82,467 | 84,396 |
| Inventories | 9,551 | 11,772 | 14,652 | 16,609 | 19,723 |
| Trade & other receivables | 21,554 | 20,839 | 23,972 | 29,562 | 26,176 |
| Finance lease receivables | 8,835 | 9,229 | 10,365 | 10,954 | 13,014 |
| Financial assets at FVPL | 13,787 | 4,311 | 4,284 | 4,284 | 4,284 |
| Others | 1,097 | 1,413 | 1,374 | 1,374 | 1,374 |
| Pledged deposits | 1,184 | 1,415 | 2,223 | 2,223 | 2,223 |
| Cash | 8,754 | 5,073 | 10,086 | 17,461 | 17,602 |
| Current liabilities | 39,623 | 34,569 | 46,928 | 56,338 | 63,121 |
| Trade and other payables | 15,786 | 25,012 | 40,387 | 49,658 | 56,941 |
| Bank borrowings | 22,044 | 7,312 | 2,964 | 2,464 | 1,964 |
| Tax payable | 151 | 186 | 710 | 710 | 710 |
| Contract liabilities | 1,602 | 1,934 | 2,777 | 3,416 | 3,416 |
| Others | 40 | 125 | 90 | 90 | 90 |
| Non-current liabilities | 15,065 | 17,965 | 21,465 | 21,465 | 17,265 |
| Bank borrowings | 13,645 | 14,515 | 16,337 | 16,337 | 12,137 |
| Deferred tax liabilities | 429 | 455 | 490 | 490 | 490 |
| Others | 991 | 2,995 | 4,638 | 4,638 | 4,638 |
| Equity | 38,731 | 39,497 | 47,850 | 59,474 | 67,294 |
| Shareholders' equity | 38,164 | 38,827 | 46,706 | 58,427 | 66,365 |
| MI | 567 | 670 | 1,144 | 1,047 | 929 |

Key ratios

| YE 31 Dec | FY18A | FY19A | FY20A | FY21E | FY22E |
|--|-------|-------|-------|----------|----------|
| Sales mix (%) | | | | | |
| Concrete machinery | 35% | 32% | 29% | 27% | 26% |
| Crane machinery | 43% | 51% | 54% | 50% | 48% |
| Others machinery | 14% | 11% | 12% | 16% | 20% |
| Agricultural machinery | 5% | 4% | 4% | 4% | 5% |
| Financial services | 2% | 2% | 2% | 2% | 2% |
| Environmental (discontinued) | 0% | 0% | 0% | 0% | 0% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Profit & loss ratio (%) | | | | | |
| Gross margin | 27.1 | 30.0 | 28.6 | 28.3 | 28.4 |
| EBIT margin | 12.7 | 13.9 | 13.3 | 12.7 | 12.7 |
| Net profit margin | 6.9 | 9.9 | 11.3 | 11.3 | 11.6 |
| Growth (%) | | | | | |
| Revenue | 39.3 | 50.9 | 50.3 | 32.8 | 17.7 |
| Gross profit | 80.6 | 67.1 | 43.3 | 31.3 | 18.0 |
| EBIT | n/a | 65.7 | 43.5 | 27.0 | 18.2 |
| Net profit | 51.3 | 115.7 | 66.5 | 34.7 | 20.8 |
| Balance sheet ratio | | | | | |
| Current ratio (x) | 1.6 | 1.6 | 1.4 | 1.5 | 1.3 |
| Trade receivable turnover days | 342 | 240 | 191 | 177 | 164 |
| Finance lease receivable turnover days | 161 | 124 | 113 | 103 | 101 |
| Inventory turnover days | 161 | 128 | 104 | 92 | 91 |
| Payable turnover days | 268 | 246 | 257 | 265 | 267 |
| Net debt / total equity (%) | 33.6 | 31.3 | 9.9 | Net cash | Net cash |
| Profitability (%) | | | | | |
| ROA | 2.3 | 4.7 | 7.0 | 7.8 | 8.3 |
| ROE | 5.4 | 11.4 | 17.1 | 18.7 | 19.0 |
| Per share data | | | | | |
| EPS (RMB) | 0.27 | 0.58 | 0.97 | 1.17 | 1.38 |
| BVPS (RMB) | 4.89 | 4.93 | 5.93 | 6.81 | 7.73 |
| DPS (RMB) | 0.25 | 0.00 | 0.53 | 0.46 | 0.55 |

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

Source: Company data, CMBIS estimates

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