

SF Holding (002352 CH)

Green shoots of recovery seen; Upgrade to BUY

SF posted revenue/ adj. net profit increase of 20%/ 25% YoY in 2Q19, driven by 1) accelerated volume growth backed by new preferential services and 2) rigorous cost control. We believe most of negatives have been reflected in current price, and expect 1) solid business presence in various new initiatives and 2) steady volume growth to boost further growth afterwards. We raised FY19/ 20E adj. EPS by 8%/ 7%, and upgraded it to BUY with TP of RMB46.53, representing 39x/ 33x FY19/ 20E P/E.

- Bottom-line beat in 2Q19.** Since new business progressed robustly and volume growth recovered moderately in Jun, revenue increased 19% YoY, in line with our est. Adj. net profit reached RMB1,494mn (+25% YoY), 16% higher than our est, due to 1) improved loading rate and 2) continued cost cuts. Looking into 2H19E, we expect volume growth recovery to continue backed by 1) share gain in mid/low-end market and 2) further penetration into fresh products and upmarket categories.
- Bullish on new initiatives.** As pioneer in new business initiatives, SF progressed significantly through consistent heavy investment and close cooperation with global logistics giants (e.g. DHL). Revenue contribution from new business (cold chain, heavy cargo, supply chain and etc.) shot up from 16% in 1H18 to 24% in 1H19. Going forward, we believe SF's first-mover advantages will be better recognized in view of 1) brand recognition among enterprise customers, 2) economies of scale and 3) increasing entry barriers, against the backdrop of other major peers rushing to expand presence in those fields under LT growth pressure.
- Ample cash reserve to fuel Capex.** We expect Capex to be RMB11bn/ RMB13bn in FY19/ 20E mainly for warehouses and civil airport. Recently CSRC approved SF to issue CB as much as RMB5.8bn, and we believe it would help mitigate the Company's financial pressure in NT. After financing, we forecast the cash on hand will be amounted to RMB19bn by End -FY19. If fully converted, the bond would dilute common shares by less than 3%, in our estimate.
- Upgraded to BUY with TP of RMB46.53.** We lifted our FY19-21E adj. EPS by 6-8% to reflect our upbeat outlook on volume recovery and new business. Therefore, we upgraded it to BUY and raised TP to RMB46.53, based on 33x FY20E P/E (roll-over from previous 33x FY19E P/E).

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	71,273	90,943	113,355	138,482	166,333
YoY growth (%)		27.6	24.6	22.2	20.1
Adj. net income (RMB mn)	3,703	3,484	5,310	6,178	7,474
Adj. EPS (RMB)	0.87	0.79	1.20	1.41	1.70
YoY growth (%)		-9.2	51.7	17.3	21.0
P/E (x)	45.5	50.1	33.0	28.2	23.3
P/B (x)	5.2	4.8	4.3	3.8	3.4
Yield (%)	0.6	0.5	0.6	0.7	0.9
ROE (%)	18.4	13.2	13.7	14.3	15.3
Net gearing (%)	Net cash	1.9	0.1	12.9	20.0

Source: Company data, CMBIS estimates

BUY (Up)

Target Price **RMB46.53**
 (Previous TP **RMB36.63**)
 Up/Downside **+17.5%**
 Current Price **RMB39.60**

China Express Delivery Sector

Gary Pang

(852) 3900 0882

garypang@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	174,818
Avg 3 mths t/o (US\$ mn)	253.78
52w High/Low (US\$)	43.78/28.46
Total Issued Shares (mn)	4,415

Source: Bloomberg

Shareholding Structure

SZ Ming De Holding	61.2%
Shun Da Feng Run	7.6%
SZ Zhao Guang	6.0%

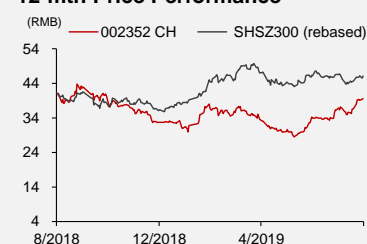
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	9.2%	10.3%
3-mth	8.9%	5.0%
6-mth	-5.1%	-15.3%

Source: Bloomberg

12-mth Price Performance



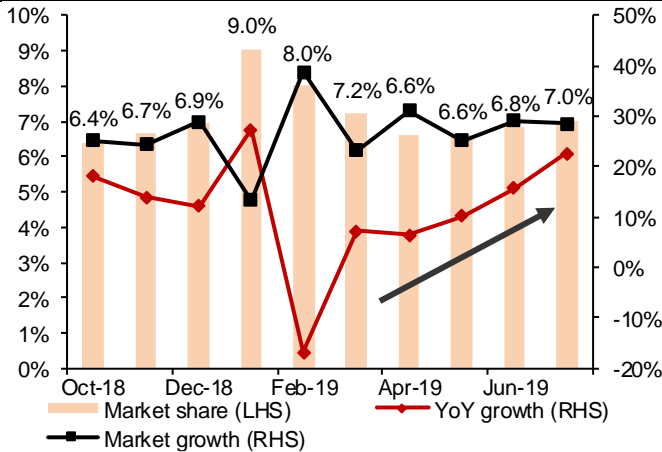
Source: Bloomberg

Auditor: PwC

Related Reports

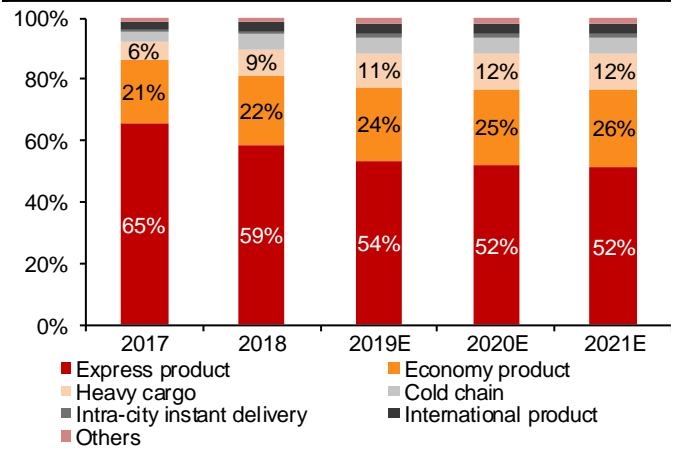
- China Exp Delivery: YTO likely to fall behind "Tongda" peers – 19 July 2019
- SF Holding: Embattled giant hardly out of the woods in NT – 5 July 2019

Figure 1: Volume growth pickup in 2Q19



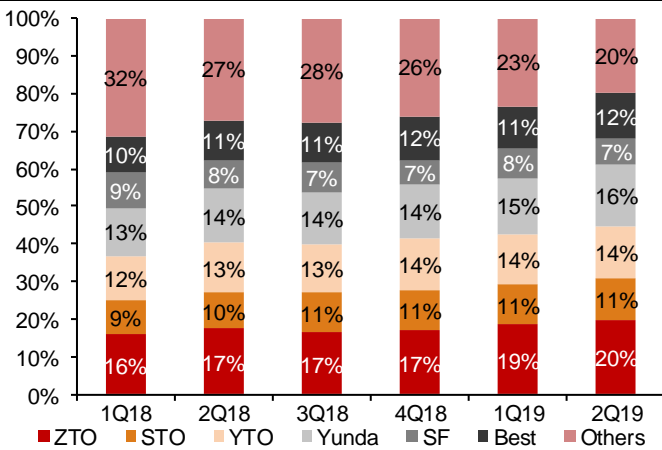
Source: Company data, CMBIS

Figure 2: SF revenue mix estimates



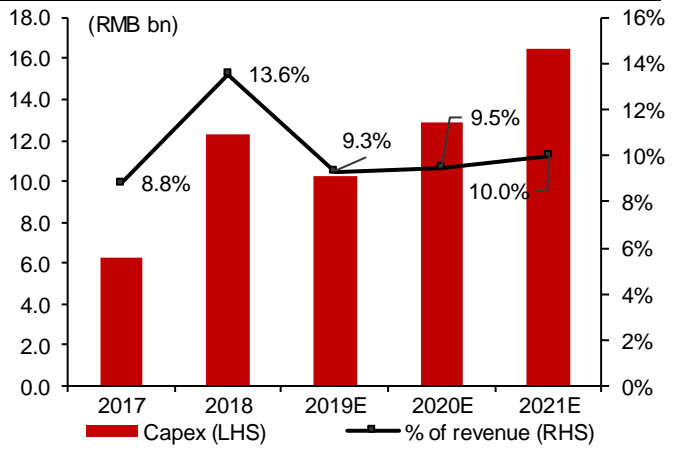
Source: Company data, CMBIS estimates

Figure 3: Market shares comparison by volume



Source: State Post Bureau, Company data, CMBIS

Figure 4: Capex estimates in FY19-21E



Source: Company data, CMBIS

Figure 5: 2Q19 results overview

(RMB mn)	2Q18	3Q18	4Q18	1Q19	2Q19	QoQ	YoY	CMBI	Diff%
Revenue	21,934	22,864	25,575	24,028	26,047	8.4%	18.8%	25,999	0%
Operating Profit	1,650	1,042	1,783	1,556	2,341	50.5%	41.9%	1,698	38%
Net profit	1,239	794	1,528	1,263	1,838	45.5%	48.4%	1,284	43%
Adj. Net profit	1,194	731	663	836	1,494	78.8%	25.2%	1,284	16%
Adj. EPS (RMB)	0.27	0.17	0.15	0.19	0.34	77.2%	26.1%	0.29	15%
Margin (%)									
Gross Margin	20.1%	17.5%	16.7%	18.0%	21.5%			19.4%	2.1 ppt
Operating Margin	7.5%	4.6%	7.0%	6.5%	9.0%			6.5%	2.5 ppt
Adj. Net Margin	5.4%	3.2%	2.6%	3.5%	5.7%			4.9%	0.8 ppt
Growth (%)									
Revenue (YoY)	31.4%	29.4%	19.2%	16.8%	18.8%				
Revenue (QoQ)	6.6%	4.2%	11.9%	-6.0%	8.4%				
Operating Profit	106.3%	45.7%	109.3%	115.9%	141.9%				
Adj. Net Profit	14.1%	-14.6%	-37.1%	-6.8%	25.2%				

Source: Company data, CMBIS estimates

Our FY19-21E EPS are 2-5% above consensus

Considering better-than-expected volume recovery and margin expansion, we revised up FY19-21E adj. EPS by 6-8%. Our FY19-21E adj EPS are slightly above consensus, due to our more positive outlook on profitability and new business.

Figure 6: CMBI Earnings forecast

(RMB mn)	1Q19	2Q19	3Q19E	4Q19E	FY19E	FY20E	FY21E
Revenue	24,028	26,047	29,119	34,161	113,355	138,482	166,333
Gross profit	4,324	5,599	5,241	6,320	21,484	25,959	30,518
Operating profit	1,556	2,341	1,261	1,631	6,789	8,088	9,786
Adj. net profit	836	1,494	963	1,245	5,310	6,178	7,474
Adj. EPS (RMB)	0.19	0.34	0.22	0.28	1.20	1.41	1.70
Gross margin	18.0%	21.5%	18.0%	18.5%	19.0%	18.7%	18.3%
Operating margin	6.5%	9.0%	4.3%	4.8%	6.0%	5.8%	5.9%
Net margin	3.5%	5.7%	3.3%	3.6%	4.4%	4.3%	4.3%

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	113,355	138,482	166,333	110,451	135,155	165,133	2.6%	2.5%	0.7%
Gross profit	21,484	25,959	30,518	20,026	24,300	29,525	7.3%	6.8%	3.4%
Operating profit	6,789	8,088	9,786	6,427	7,645	9,263	5.6%	5.8%	5.6%
Adj. net profit	5,310	6,178	7,474	4,901	5,830	7,063	8.3%	6.0%	5.8%
Adj. EPS (RMB)	1.20	1.41	1.70	1.11	1.32	1.60	7.9%	6.4%	6.2%
Gross margin	19.0%	18.7%	18.3%	18.1%	18.0%	17.9%	0.8 ppt	0.8 ppt	0.5 ppt
Operating margin	6.0%	5.8%	5.9%	5.8%	5.7%	5.6%	0.2 ppt	0.2 ppt	0.3 ppt
Net margin	4.7%	4.5%	4.5%	4.4%	4.3%	4.3%	0.2 ppt	0.1 ppt	0.2 ppt

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	113,355	138,482	166,333	112,771	135,999	159,489	0.5%	1.8%	4.3%
Gross profit	21,484	25,959	30,518	20,230	24,396	28,773	6.2%	6.4%	6.1%
Op. profit	6,789	8,088	9,786	6,399	7,993	9,781	6.1%	1.2%	0.0%
Adj. net profit	5,310	6,178	7,474	5,044	6,110	7,349	5.3%	1.1%	1.7%
Adj. EPS	1.20	1.41	1.70	1.14	1.37	1.67	4.9%	2.3%	1.9%
Gross margin	19.0%	18.7%	18.3%	17.9%	17.9%	18.0%	1.0 ppt	0.8 ppt	0.3 ppt
Op. margin	6.0%	5.8%	5.9%	5.7%	5.9%	6.1%	0.3 ppt	0.0 ppt	-0.2 ppt
Net margin	4.7%	4.5%	4.5%	4.5%	4.5%	4.6%	0.2 ppt	0.0 ppt	-0.1 ppt

Source: Company data, Bloomberg, CMBIS estimates

Valuation

Upgraded to BUY with TP of RMB46.53 (17.5% upside)

Our new 12-month TP of RMB46.53 is based on rolled-over 33x FY20E P/E. We estimate 33% EPS FY18-20E CAGR, due to 1) 22% revenue CAGR and 2) upbeat margins as a result of better loading rate and solid cost control. We upgrade the Company to BUY due to our upward revise on FY19-21E adj. EPS and multiple roll-over.

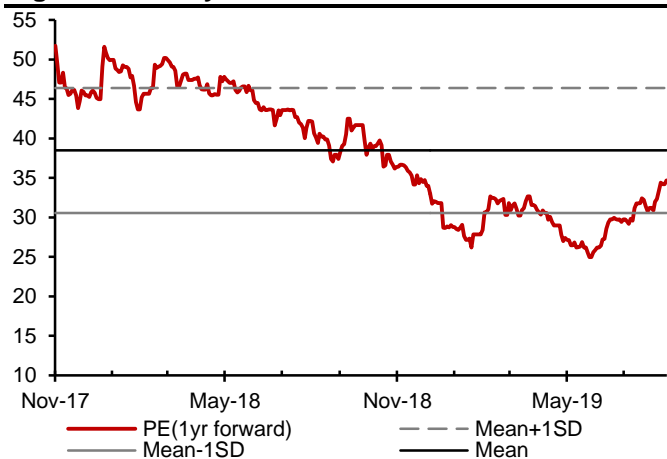
Key risks include 1) slower-than-expected e-commerce growth, and 2) greater-than-expected ASP decline.

Figure 9: Peers 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	15,049	USD	20.38	12.4	13.8	23.7	20.5	3.0	2.7	12.6	10.1	12%
SF	002352 CH	23,143	CNY	39.60	13.7	14.3	33.0	28.2	4.3	3.8	16.4	12.7	33%
YTO	600233 CH	4,484	CNY	11.48	16.8	16.7	16.7	14.6	2.5	2.1	8.9	7.8	15%
STO	002468 CH	4,831	CNY	23.94	21.5	21.5	21.5	17.6	3.6	3.0	10.3	8.4	10%
Yunda	002120 CH	11,056	CNY	37.61	20.6	20.7	20.7	28.8	6.2	5.2	16.5	12.9	13%
Deppon	603056 CH	1,668	CNY	12.54	17.2	18.3	18.3	15.0	2.6	2.2	6.0	4.9	20%
Average					17.0	17.5	22.3	20.8	3.7	3.2	11.8	9.5	17%
Overseas express delivery													
FedEx	FDX US	39,866	USD	149.53	19.7	19.7	19.7	9.8	1.9	1.9	6.4	6.4	3%
UPS	UPS US	97,806	USD	114.1	121	85.9	85.9	15.2	14.8	9.9	11.3	10.5	6%
Yamato	9064 JP	7,089	JPY	1,812	6.4	6.3	6.3	19.8	1.2	1.2	6.0	5.7	54%
DHL	DPW GR	39,060	EUR	29.11	18.7	19.3	19.3	13.8	2.4	2.2	6.7	6.1	16%
Average					41.4	32.8	32.8	14.7	5.1	3.8	7.6	7.2	20%
Total Average					37.4	37.7	26.5	13.3	3.8	7.3	9.9	5.4	18%

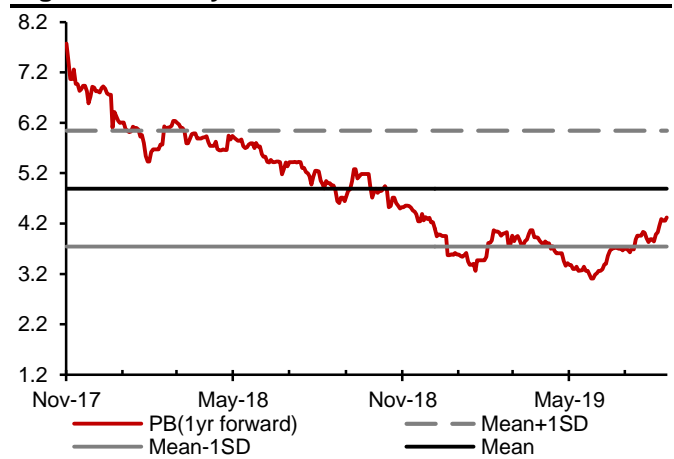
Source: Company data, Bloomberg, CMBIS estimates

Figure 10: One-year forward P/E



Source: Bloomberg, CMBIS

Figure 11: One-year forward P/B



Source: Bloomberg, CMBIS

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	71,273	90,943	113,35	138,48	166,33	Profit for the year	4,755	4,464	5,241	6,147	7,437
Express & logistics	70,623	89,683	110,97	135,46	162,81	D&A	3,056	3,509	3,883	5,212	6,100
Sales of goods	-	-	2,693	3,343	3,844	Change in working capital	(868)	(2,164)	141	142	189
Others	649	1,259	(318)	(324)	(330)	Others	(609)	(385)	577	679	789
Cost of revenue	(56,905)	(74,642)	(91,871)	(112,52)	(135,81)	Operating cash flow	6,334	5,425	9,842	12,180	14,515
Gross profit	14,368	16,301	21,484	25,959	30,518	Capex	(5,659)	(11,638)	(10,542)	(13,156)	(16,633)
Selling and distribution	(1,387)	(1,826)	(2,092)	(2,770)	(2,828)	Investment return	300	365	328	438	329
General and administrative	(6,751)	(8,414)	(11,172)	(12,543)	(14,906)	Others	1,728	1,944	-	-	-
R&D expenses	(649)	(984)	(1,268)	(1,662)	(1,996)	Investing cash flow	(3,630)	(9,329)	(10,214)	(12,718)	(16,304)
Financial (costs)/income	(259)	(287)	(616)	(679)	(789)	Equity raised	7,920	141	-	-	-
Other operating expenses	1,140	1,029	453	(217)	(214)	Change of Debts	(790)	6,418	5,000	5,000	-
Operating profit	6,461	5,818	6,789	8,088	9,786	Dividend & interest paid	(847)	(1,525)	(1,983)	(2,372)	(2,635)
Non-operating income, net	52	49	28	-	-	Others	(17)	275	30	30	30
Profit before taxation	6,513	5,868	6,817	8,088	9,786	Financing cash flow	6,813	2,973	3,017	2,628	(2,635)
Income tax	(1,758)	(1,403)	(1,577)	(1,941)	(2,349)	Net change in cash	9,503	(850)	2,645	2,091	(4,424)
Profit for the year	4,755	4,464	5,241	6,147	7,437	Cash at the beginning	6,646	16,150	15,299	17,944	20,036
Non-controlling interest	19	92	69	31	37	Exchange effect	(14)	81	-	-	-
Net profit	4,774	4,556	5,310	6,178	7,474	Cash at the end	16,150	15,299	17,944	20,036	15,612
Adj. net profit	3,703	3,484	5,310	6,178	7,474						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	26,335	39,693	46,352	54,295	64,828	Sales mix (%)					
Fixed assets	11,896	13,967	21,147	25,383	32,783	Express & logistics	99.1	98.6	97.9	97.8	97.9
Construction in progress	2,307	6,508	5,762	8,551	10,812	Sales of goods	0.0	0.0	2.4	2.4	2.3
Investment properties	1,992	2,454	2,421	2,394	2,375	Others	0.9	1.4	-0.3	-0.2	-0.2
Intangible assets	5,267	6,662	6,459	6,336	6,308	Total	100.0	100.0	100.0	100.0	100.0
Other non-current assets	4,874	10,102	10,563	11,631	12,551	P&L ratios (%)					
Current assets	34,912	31,922	37,502	42,726	41,786	Gross margin	20.2	17.9	19.0	18.7	18.3
Cash and cash equivalent	16,150	15,299	17,944	20,036	15,612	EBITDA margin	14.1	11.0	10.2	10.4	10.2
Restricted cash	1,236	832	832	832	832	Operating margin	9.1	6.4	6.0	5.8	5.9
Notes and accounts	5,816	7,374	9,635	11,771	14,138	Adj. net margin	5.2	3.8	4.7	4.5	4.5
Other current assets	11,710	8,417	9,091	10,087	11,204	Effective tax rate	27.0	23.9	23.1	24.0	24.0
Current liabilities	24,557	26,369	29,432	32,652	36,266	Balance sheet ratios					
Borrowings	4,619	8,585	8,585	8,585	8,585	Current ratio (x)	1.4	1.2	1.3	1.3	1.2
Notes and accounts	6,907	7,887	10,106	12,377	14,940	Quick ratio (x)	1.3	1.1	1.1	1.2	1.0
Other payables	5,827	4,540	4,540	4,540	4,540	AR turnover days	27	26	27	28	28
Other current liabilities	7,205	5,357	6,201	7,150	8,201	AP turnover days	78	72	71	73	73
Non-current liabilities	3,759	8,331	13,345	18,399	18,459	Net gearing ratio(%)	Net cash	1.9	0.1	12.9	20.0
Borrowings	2,721	998	998	5,998	5,998	Returns (%)					
Debentures payable	529	6,405	11,405	11,405	11,405	ROE	18.4	13.2	13.7	14.3	15.3
Long-term payables	21	84	92	113	136	ROA	8.9	6.7	6.7	6.8	7.3
Others	488	844	850	883	919	Per share					
Minority Interest	52	353	284	253	216	Adj. EPS (RMB)	0.87	0.79	1.20	1.41	1.70
Ordinary shareholders'	32,878	36,561	40,793	45,717	51,674	DPS (RMB)	0.22	0.21	0.24	0.29	0.35
Total equity	32,930	36,914	41,077	45,970	51,890	BVPS (RMB)	7.68	8.29	9.21	10.41	11.76

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
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
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

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

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.