

Zoomlion (1157 HK)

Surprise on dividend; Recovery in sight

Zoomlion's net profit in 2022 came in at RMB2.35bn (-63% YoY), in the middle of the range of RMB2.25-4.45bn pre-announced in Jan. What surprised us is the final dividend of RMB0.32, which represents a 115% payout ratio and ~9% yield based on the current share price. The generous dividend, together with the possibility to start buying back H-share, suggest that management is confident of the cash generating capability which will likely translate into positive share price performance. We also expect a potential recovery of construction machinery demand in Apr to serve as catalyst. We revise up our earnings forecast in 2023E/24E by 3%/7%, due to higher assumptions on both volume and gross margin. Our TP is revised up to HK\$6.35. Maintain **BUY**.

■ **Weak 2022 results well anticipated.** Revenue dropped 38% YoY to RMB41.6bn, mainly dragged by the crane machinery (-48% YoY to RMB19bn) and concrete machinery (-48% YoY to RMB8.5bn) segments. AWP segment revenue grew 37.2% YoY to RMB4.6bn while excavator segment revenue increased 8.5% YoY to RMB3.5bn. It is worth noting that overseas revenue surged 73% YoY to ~RMB10bn, accounting for 24% of the total revenue (2021: 8.6%). Blended gross margin was 21.8%, down 1.8ppt YoY. Administrative expense ratio increased 2.7ppt YoY to 6.8%, largely due to inventory impairment losses of RMB590mn. Effective tax rate was only 3.4% in 2022 (12.7% in 2021), due to tax reduction for R&D and capex on certain equipment. Net profit declined 63% YoY to RMB2.35bn. Operating cash inflow decreased 11% YoY to RMB1.95bn. As at end-2022, net debt to equity ratio was 7%, which is a healthy level in our view.

■ **Margin recovery in 4Q22 a good sign.** Revenue dropped 14% YoY to ~RMB11bn. Net profit in 4Q22 dropped 68% YoY to RMB178mn, due to the one-off impairment losses from inventories (RMB590mn) while it was partly offset by the tax deduction. On the positive side, gross margin improved 3.8ppt YoY (2.8ppt QoQ) to 24.2%.

■ **Higher multiple to reflect earnings recovery.** Our TP is revised up to HK\$6.35, based on 13x 2023E P/E (1SD above the average of 9.5x since the upcycle starting 2019; up from 0.5SD previously). We believe our target valuation is not excessive given (1) the potential earnings recovery; (2) the peak valuation of 18x.

■ **Major risk factors.** (1) Unexpected slowdown on infrastructure spending; (2) Weaker-than-expected property construction; (3) Risks of new business expansion; (4) Rebound of steel price.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	67,131	41,631	46,363	51,798	56,953
YoY growth (%)	3.1	(38.0)	11.4	11.7	10.0
Adjusted net profit (RMB mn)	6,303.0	2,347.0	3,719.1	4,404.0	4,747.8
EPS (Reported) (RMB)	0.76	0.28	0.43	0.51	0.55
YoY growth (%)	(21.6)	(63.3)	54.2	18.4	7.8
Consensus EPS (RMB)	na	na	0.40	0.49	na
P/E (x)	9.4	12.8	8.2	6.9	6.4
P/B (x)	1.1	0.6	0.5	0.5	0.5
Yield (%)	4.5	8.7	6.1	7.2	7.8
ROE (%)	12.4	4.4	6.9	8.0	8.2
Net gearing (%)	(1.6)	7.3	11.2	12.2	11.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$6.35
(Previous TP)	HK\$5.24
Up/Downside	58.8%
Current Price	HK\$4.00

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Stock Data

Mkt Cap (HK\$ mn)	34,712.0
Avg 3 mths t/o (HK\$ mn)	39.6
52w High/Low (HK\$)	5.36/2.53
Total Issued Shares (mn)	8678.0

Source: FactSet

Shareholding Structure

SASAC of Hunan Province	15.0%
Management team	8.0%

Source: HKEx, SSE

Share Performance

	Absolute	Relative
1-mth	-11.7%	-14.0%
3-mth	8.4%	5.6%
6-mth	46.5%	24.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

- China Construction Machinery & HDT Sector – Near-term recovery more seasonal than structural; Pair trade opportunities – 27 Feb 2023 ([link](#))
- China Construction Machinery & HDT Sector – Upbeat guidance from US AWP manufacturers reaffirms our positive stance on the sector – 13 Feb 2023 ([link](#))
- Zoomlion (1157 HK, BUY) – Spin-off of AWP busines to unlock value – 17 Jan 2023 ([link](#))
- China Construction Machinery & HDT Sector – Prefer AWP to excavator in the near term – 12 Jan 2023 ([link](#))

Figure 1: Zoomlion's quarterly results

(RMB mn)	1Q21	1Q22	Change YoY	2Q21	2Q22	Change YoY	3Q21	3Q22	Change YoY	4Q21	4Q22	Change YoY
Total revenue	19,050	10,012	-47.4%	23,398	11,288	-51.8%	11,979	9,349	-22.0%	12,704	10,982	-13.6%
Cost of sales	-13,874	-8,002	-42.3%	-17,961	-8,871	-50.6%	-9,336	-7,348	-21.3%	-10,109	-8,322	-17.7%
Gross profit	5,176	2,009	-61.2%	5,438	2,417	-55.6%	2,643	2,001	-24.3%	2,594	2,660	2.5%
Other income	59	-7	n/a	585	699	19.6%	180	-98	n/a	589	388	-34.1%
S&D expenses	-1,053	-498	-52.7%	-1,006	-658	-34.6%	-752	-728	-3.3%	-662	-751	13.5%
Administrative expenses	-706	-488	-30.9%	-1,968	-1,238	-37.1%	-564	-578	2.6%	-684	-1,230	79.7%
R&D expenses	-812	-434	-46.5%	-1,193	-688	-42.3%	-933	-668	-28.4%	-927	-717	-22.7%
EBIT	2,663	582	-78.2%	3,049	1,221	-60.0%	574	-72	n/a	910	351	-61.4%
Net finance income/(cost)	-61	6	n/a	107	219	104.0%	2	322	17306.0%	-42	-247	491.0%
Other gains/(losses)	226	406	79.4%	-226	-406	79.4%	310	244	-21.1%	-310	-244	-21.1%
Share of profit of JV and associates	42	48	14.5%	55	20	-64.0%	9	15	64.9%	48	47	-1.5%
Pretax profit	2,870	1,042	-63.7%	2,985	1,054	-64.7%	895	510	-43.1%	607	-93	n/a
Income tax	-446	-105	-76.3%	-465	-211	-54.8%	-25	-73	187.4%	-2	303	n/a
After tax profit	2,425	936	-61.4%	2,520	843	-66.5%	869	436	-49.8%	605	210	-65.3%
MI	-9	-30	223.2%	-60	-13	-77.7%	6	-4	n/a	-53	-32	-40.1%
Net profit	2,416	906	-62.5%	2,460	830	-66.3%	875	432	-50.6%	552	178	-67.7%
Key ratios			Change (ppt)			Change (ppt)			Change (ppt)			Change (ppt)
Gross margin	27.2%	20.1%	-7.1	23.2%	21.4%	-1.8	22.1%	21.4%	-0.7	20.4%	24.2%	3.8
S&D expenses ratio	5.5%	5.0%	-0.5	4.3%	5.8%	1.5	6.3%	7.8%	1.5	5.2%	6.8%	1.6
Administrative expense ratio	3.7%	4.9%	1.2	8.4%	11.0%	2.6	4.7%	6.2%	1.5	5.4%	11.2%	5.8
R&D expense ratio	4.3%	4.3%	0.1	5.1%	6.1%	1.0	7.8%	7.1%	-0.6	7.3%	6.5%	-0.8
Net margin	12.7%	9.3%	-3.4	10.8%	7.5%	-3.3	7.3%	4.7%	-2.6	4.8%	1.9%	-2.9
Effective tax rate	15.5%	10.1%	-5.4	15.6%	20.0%	4.4	2.8%	14.4%	11.5	0.3%	325.6%	325.4

Source: Company data, CMBIGM

Figure 2: Zoomlion's 2022 results

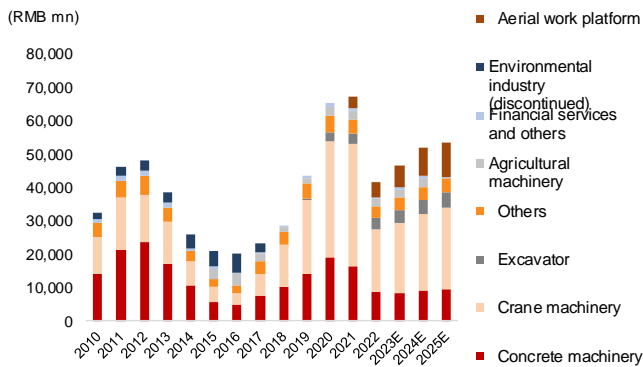
YE Dec 31 (RMB mn)	2021	2022	Change (YoY)	1H21	1H22	Change (YoY)	2H21	2H22	Change (YoY)
Total revenue	67,131	41,631	-38.0%	42,448	21,299	-49.8%	24,683	20,332	-17.6%
Cost of sales	-51,280	-32,543	-36.5%	-31,835	-16,873	-47.0%	-19,445	-15,670	-19.4%
Gross profit	15,851	9,088	-42.7%	10,613	4,426	-58.3%	5,238	4,662	-11.0%
Other income	1,413	982	-30.5%	644	692	7.5%	769	290	-62.3%
S&D expenses	-3,473	-2,635	-24.1%	-2,059	-1,156	-43.9%	-1,414	-1,479	4.6%
Administrative expenses	-2,729	-2,846	4.3%	-1,481	-1,038	-29.9%	-1,248	-1,808	44.9%
R&D expenses	-3,865	-2,507	-35.1%	-2,005	-1,122	-44.0%	-1,860	-1,385	-25.5%
EBIT	7,197	2,082	-71.1%	5,712	1,802	-68.4%	1,485	280	-81.2%
Net finance income/(cost)	6	300	4900.0%	46	225	389.1%	-40	75	n/a
Finance income	970	989	2.0%	480	501	4.4%	490	488	-0.4%
Finance expenses	-964	-689	-28.5%	-434	-276	-36.4%	-530	-413	-22.1%
Other gains/(losses)	0	0	n/a	0	0	n/a	0	0	n/a
Share of profit of JV and associates	154	130	-15.6%	97	68	-29.9%	57	62	8.8%
Pretax profit	7,357	2,512	-65.9%	5,855	2,095	-64.2%	1,502	417	-72.3%
Income tax	-938	-86	-90.8%	-911	-316	-65.3%	-27	230	n/a
After tax profit	6,419	2,426	-62.2%	4,944	1,779	-64.0%	1,475	647	-56.2%
MI & discontinued operation	-116	-79	-31.9%	-69	-43	-37.7%	-47	-36	-23.4%
Net profit	6,303	2,347	-62.8%	4,875	1,736	-64.4%	1,428	611	-57.2%
D&A	899	1,034	15.0%	476	519	9.0%	423	515	21.7%
EBITDA	8,096	3,116	-61.5%	6,188	2,321	-62.5%	1,908	795	-58.4%

Source: Company data, CMBIGM

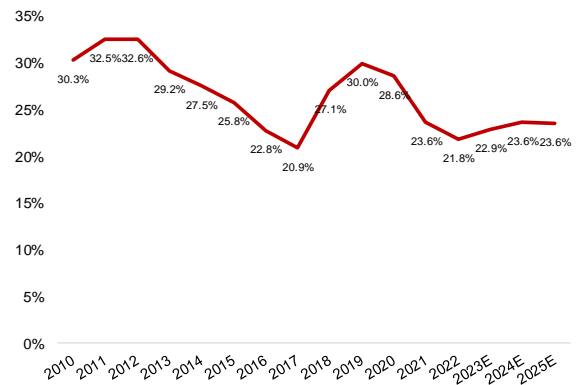
Figure 3: Change in key assumptions and earnings forecast

	Old			New			Change		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
(RMB mn)									
Revenue									
Construction machinery	40,924	44,504	-	43,236	48,249	53,017	6%	8%	-
Concrete machinery	8,256	8,668	-	8,375	9,045	9,498	1%	4%	-
Crane machinery	21,477	23,195	-	20,877	22,756	24,576	-3%	-2%	-
Aerial work platform	5,030	6,105	-	6,436	8,367	10,458	28%	37%	-
Excavator	2,936	3,230	-	3,897	4,248	4,460	33%	32%	-
Others	3,226	3,306	-	3,651	3,833	4,025	13%	16%	-
Agricultural machinery	2,605	2,917	-	2,605	2,995	3,355	0%	3%	-
Financial services and others	442	464	-	522	553	581	18%	19%	-
Total revenue	43,970	47,885	-	46,363	51,798	56,953	5%	8%	-
Gross margin									
							Change in ppt		
Construction machinery	22.2%	22.7%	-	22.7%	23.4%	23.4%	0.54	0.79	-
Concrete machinery	22.5%	23.0%	-	22.5%	23.0%	23.0%	0.00	0.00	-
Crane machinery	21.5%	22.0%	-	23.5%	23.8%	23.8%	2.00	1.80	-
Aerial work platform	21.5%	22.5%	-	22.0%	23.5%	23.5%	0.50	1.00	-
Excavator	21.0%	21.0%	-	24.0%	24.5%	24.5%	3.00	3.50	-
Others	18.8%	20.5%	-	19.0%	21.0%	21.0%	0.20	0.50	-
Agricultural machinery	11.0%	13.0%	-	11.0%	13.0%	13.0%	0.00	0.00	-
Financial services	97.0%	97.0%	-	97.0%	97.0%	97.0%	0.00	0.00	-
Average gross margin	22.3%	22.8%	-	22.9%	23.6%	23.6%	0.63	0.84	-
S&D expense ratio	5.3%	5.2%	-	5.9%	5.6%	5.5%	0.6	0.4	-
Administrative expense ratio	4.8%	4.7%	-	4.8%	4.7%	4.7%	0.0	0.0	-
R&D expense ratio	5.7%	5.7%	-	5.7%	5.7%	5.7%	0.0	0.0	-
Net profit	3,598	4,118	-	3,719	4,404	4,748	3%	7%	-

Source: Company data, CMBIGM estimates

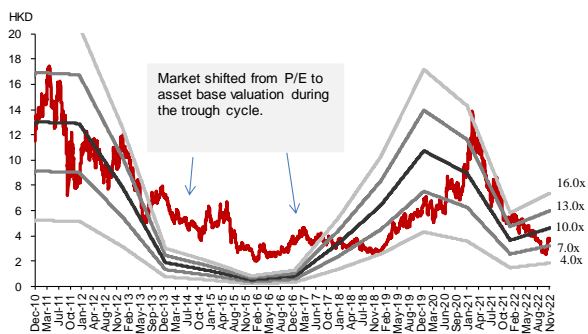
Figure 4: Zoomlion revenue breakdown

Source: Company data, CMBIGM estimates

Figure 5: Zoomlion blended gross margin trend

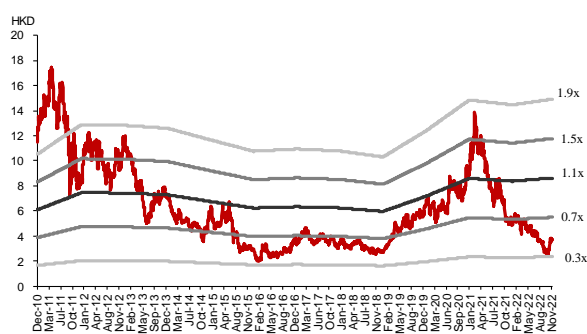
Source: Company data, CMBIGM estimates

Figure 6: Zoomlion - H 12M forward P/E band



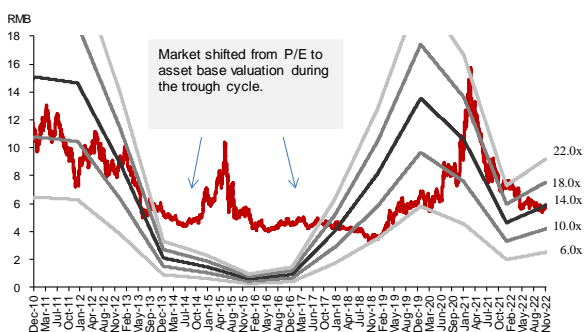
Source: Bloomberg, Company data, CMBIGM estimates

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



Source: Bloomberg, Company data, CMBIGM estimates

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



Source: Bloomberg, Company data, CMBIGM estimates

Figure 9: Zoomlion - H is trading at 40% discount to A share



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	65,109	67,131	41,631	46,363	51,798	56,953
Cost of goods sold	(46,493)	(51,280)	(32,543)	(35,734)	(39,563)	(43,524)
Gross profit	18,617	15,851	9,088	10,628	12,234	13,429
Selling expense	(4,046)	(3,473)	(2,635)	(2,735)	(2,901)	(3,132)
Admin expense	(4,048)	(2,729)	(2,846)	(2,225)	(2,434)	(2,677)
R&D expense	(3,345)	(3,865)	(2,507)	(2,643)	(2,952)	(3,246)
Other income	1,462	1,413	982	1,014	1,014	1,014
Other gains/(losses)	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	182	154	130	230	241	254
EBITDA	9,467	8,096	3,116	5,141	6,098	6,560
Depreciation	827	899	1,034	1,102	1,138	1,173
EBIT	8,640	7,197	2,082	4,039	4,960	5,387
Interest income	596	970	989	1,244	1,122	1,100
Interest expense	(750)	(964)	(689)	(1,054)	(1,045)	(1,049)
Net Interest income/(expense)	(154)	6	300	190	78	51
Pre-tax profit	8,668	7,357	2,512	4,458	5,279	5,691
Income tax	(1,297)	(938)	(86)	(624)	(739)	(797)
Minority interest	(75)	(116)	(79)	(115)	(136)	(147)
Net profit	7,371	6,419	2,426	3,834	4,540	4,895
Adjusted net profit	7,296	6,303	2,347	3,719	4,404	4,748
Gross dividends	4,202	2,777	2,694	1,860	2,202	2,374
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	66,956	72,714	73,602	71,293	77,280	78,355
Cash & equivalents	10,086	13,190	13,791	11,081	10,305	10,444
Account receivables	23,972	32,108	33,962	34,629	39,165	38,854
Inventories	14,652	13,501	14,203	13,210	14,972	15,554
ST bank deposits	2,223	1,775	1,708	1,708	1,708	1,708
Financial assets at FVTPL	4,284	6,408	4,011	4,011	4,011	4,011
Other current assets	11,739	5,732	5,927	6,655	7,118	7,785
Non-current assets	49,287	49,268	49,915	56,752	53,295	60,692
PP&E	7,342	9,740	13,903	14,564	14,695	14,796
Deferred income tax	1,453	1,148	1,907	1,907	1,907	1,907
Investment in JVs & assos	3,388	4,190	4,476	4,706	4,947	5,201
Intangibles	1,965	1,850	1,926	1,813	1,694	1,570
Goodwill	2,054	1,908	2,562	2,562	2,562	2,562
Financial assets at FVTPL	2,703	2,418	2,263	2,263	2,263	2,263
Other non-current assets	30,382	28,014	22,878	28,937	25,227	32,393
Total assets	116,243	121,982	123,517	128,045	130,575	139,047
Current liabilities	46,928	49,675	48,393	51,781	51,630	57,409
Short-term borrowings	2,964	11,011	11,018	10,518	10,618	10,718
Account payables	40,387	36,600	35,259	39,147	38,896	44,575
Tax payable	710	97	101	101	101	101
Other current liabilities	2,867	1,967	2,015	2,015	2,015	2,015
Non-current liabilities	21,465	14,047	18,185	18,185	18,185	18,185
Long-term borrowings	16,337	7,894	10,962	10,962	10,962	10,962
Other non-current liabilities	5,128	6,153	7,223	7,223	7,223	7,223
Total liabilities	68,393	63,722	66,578	69,966	69,815	75,594
Total shareholders equity	46,706	56,831	54,705	55,730	58,275	60,820
Minority interest	1,144	1,429	2,234	2,349	2,485	2,632
Total equity and liabilities	116,243	121,982	123,517	128,045	130,575	139,047

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,668	7,357	2,512	4,458	5,279	5,691
Depreciation & amortization	827	899	1,034	1,102	1,138	1,173
Tax paid	(900)	(1,361)	(436)	(624)	(739)	(797)
Change in working capital	(1,259)	(4,602)	(1,411)	(2,623)	(3,352)	(2,474)
Others	10,000	12,421	3,325	6,603	8,233	7,789
Net cash from operations	7,232	2,189	1,951	1,893	2,007	3,290
Investing						
Capital expenditure	(317)	(1,401)	(4,957)	(1,500)	(1,000)	(1,000)
Acquisition of subsidiaries/ investments	(448)	0	0	0	0	0
Others	1,741	4	5,998	1,144	1,022	1,000
Net cash from investing	976	(1,397)	1,041	(356)	22	0
Financing						
Dividend paid	(1,712)	(3,041)	(2,777)	(2,694)	(1,860)	(2,202)
Net borrowings	(2,309)	76	3,075	(500)	100	100
Proceeds from share issues	0	6,088	(1,555)	0	0	0
Others	777	(703)	(1,237)	(1,054)	(1,045)	(1,049)
Net cash from financing	(3,244)	2,420	(2,494)	(4,248)	(2,804)	(3,152)
Net change in cash						
Cash at the beginning of the year	5,073	10,086	13,190	13,791	11,081	10,305
Exchange difference	49	(108)	103	0	0	0
Cash at the end of the year	10,086	13,190	13,791	11,081	10,305	10,444
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	50.3%	3.1%	(38.0%)	11.4%	11.7%	10.0%
Gross profit	43.3%	(14.9%)	(42.7%)	16.9%	15.1%	9.8%
EBITDA	37.4%	(14.5%)	(61.5%)	65.0%	18.6%	7.6%
EBIT	43.5%	(16.7%)	(71.1%)	94.0%	22.8%	8.6%
Net profit	72.0%	(12.9%)	(62.2%)	58.0%	18.4%	7.8%
Adj. net profit	66.5%	(13.6%)	(62.8%)	58.5%	18.4%	7.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	28.6%	23.6%	21.8%	22.9%	23.6%	23.6%
EBITDA margin	14.5%	12.1%	7.5%	11.1%	11.8%	11.5%
Adj. net profit margin	11.2%	9.4%	5.6%	8.0%	8.5%	8.3%
Return on equity (ROE)	17.2%	12.4%	4.4%	6.9%	8.0%	8.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.1	(0.0)	0.1	0.1	0.1	0.1
Current ratio (x)	1.4	1.5	1.5	1.4	1.5	1.4
Receivable turnover days	190.6	235.3	413.2	382.0	365.0	350.0
Inventory turnover days	103.7	100.2	155.4	140.0	130.0	128.0
Payable turnover days	256.7	274.0	403.0	380.0	360.0	350.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	6.5	9.4	12.8	8.2	6.9	6.4
P/B	1.1	1.1	0.6	0.5	0.5	0.5
Div yield (%)	8.5	4.5	8.7	6.1	7.2	7.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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