

China Express Delivery

Margins eroded in 1H19; Price war to culminate

Amidst intensified price war, the major players suffered from subdued profitability in 1H19, as we expected. There is no upturn signal observed as YTO/STO recorded double-digit ASP decrease to maintain robust volume growth in Aug. We expect the competition to continue and culminate in 2020E, and suggest to watch for consolidation beneficiaries, such as ZTO (ZTO US, BUY, TP: US\$21.76), backed by solid share gains and prominent cost control capability.

- **Dampened profitability amid accelerated consolidation.** We saw further bifurcation between volume and revenue growth from major players' 1H19 results. "Tongda"s recorded volume/revenue growth of 43%/35% YoY on average in 1H19. We maintain our conservative outlook toward margins afterwards, as all players are sprinting to carve up e-commerce parcel shares with aggressive pricing tactics and the growth divergence continues to widen. In Aug, we witnessed SF/YTO/STO ASP decline expand to 8%/17%/14% YoY in return for 33%/49%/56% volume YoY growth. We believe ASP accelerated downward trend bodes the upcoming culmination of price war in 2020E, based on our prudent ASP forecasts (-10% in 2020E for "Tongda"s).
- **SF's impact to low-end market landscape is limited.** We view that SF's recent volume recovery is largely due to penetration into e-commerce parcels with preferential products rollout. However, we believe it will barely menace "Tongda"s' leadership in low-end market. In view of the trade-off between volume contribution and ASP dilution of e-commerce parcels, we believe SF's e-commerce parcels will increase modestly from 1.7mn shipments per day to 2.5mn, implying upside of 24mn shipments per month which is equiv. to less than 1% market volume. Therefore, we expect low-end market landscape to be barely affected by SF, given its limited exposure.
- **New business to be spotlighted in foreseeable future.** State Council promulgated *Planning on global competitiveness enhancement in transport* (《交通强国建设纲要》) last week to encourage development of comprehensive logistic services (e.g. cold chain, heavy cargo and cross-border delivery). We expect new business to fuel LT growth against the backdrop of e-commerce inevitable slowdown, despite their little revenue contribution and loss-making condition at current stage.
- **Prefer consolidation beneficiaries with high e-commerce exposure.** We reiterate ZTO as our top pick, and believe it, as leader in mid/low-end market, will benefit from accelerated sector consolidation, backed by 1) continued share gains, 2) solid cost control capability and 3) high e-commerce parcel exposure.

Valuation Table

Company	Ticker	Rating	Mkt cap (USD mn)	Price (LC)	TP (LC)	Upside (%)	P/E 19E 20E	P/B 19E	ROE 19E
ZTO	ZTO US	BUY	17,019	21.76	22.17	1.9	25.3 21.9	3.2	12.4
SF	002352 CH	BUY	24,317	39.23	46.53	18.6	33.1 27.9	4.3	13.2
YTO	600233 CH	NR	4,727	11.87	NA	NA	16.2 14.0	2.6	16.2
STO	002468 CH	NR	4,942	22.99	NA	NA	18.2 15.6	3.5	20.1
Yunda	002120 CH	NR	10,818	34.60	NA	NA	27.3 22.3	5.7	20.6

Source: Bloomberg, CMBIS estimates

MARKET PERFORM (Maintain)

China Express Delivery Sector

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Figure 1: 1H19 results at a glance

(RMB mn)	ZTO	STO	YTO	Yunda	Best	SF
Volume (mn)						
1H19	5,371	3,012	3,803	4,334	3,248	2,017
1H18	3,715	2,046	2,814	2,995	2,230	1,858
YoY change	44.6%	47.3%	35.2%	44.7%	45.6%	8.5%
Revenue						
1H19	9,998	9,871	13,953	15,554	15,663	50,075
1H18	7,742	6,642	12,066	5,902	11,736	42,551
YoY change	29.1%	48.6%	15.6%	164%	33.5%	17.7%
Gross margin						
1H19	30.3%	13.8%	12.3%	15.1%	5.2%	19.8%
1H18	32.2%	18.9%	12.9%	29.0%	4.5%	19.0%
YoY change ppt	-1.9	-5.2	-0.5	-13.9	0.7	0.9
Net profit						
1H19	2,040	832	863	1,296	-256	3,101
1H18	2,048	867	802	1,000	-433	2,210
YoY change	-0.4%	-4.0%	7.6%	29.6%	NA	40.4%
Adj. net profit						
1H19	2,342	782	829	1,187	-202	2,330
1H18	1,853	830	769	931	-371	2,090
YoY change	26.4%	-5.7%	7.8%	27.5%	NA	11.5%

Source: Company data, CMBIS

Note: Excluding changes on revenue recognition rules, Yunda's revenue YoY change was 46.3% in 1H19, with GPM slide of 1.8ppt.

Figure 2: Recent favorable policies

Date	Institution	Document	Summary
Sep-19	State Council	Planning on global competitiveness enhancement in transport (《交通强国建设纲要》)	<ul style="list-style-type: none"> Boosted construction of speedy logistics system to facilitate domestic/international delivery within one/three day(s) Encouraged to develop cold chain, heavy cargo and rural logistics
Dec-18	NDRC, MOT	Planning on construction and layout of nationwide logistics hubs (《国家物流枢纽布局和建设规划》)	<ul style="list-style-type: none"> Planned to construct 212 national logistics hubs which benefit decrease of social logistic costs
Oct-18	State Council	Work Plan for Optimizing Checkpoint Business Operation Environment to Facilitate Convenience in Cross-border Trade (《优化口岸营商环境促进跨境贸易便利化工作方案》)	<ul style="list-style-type: none"> Aimed at improving the efficiency of logistics services through the checkpoints and facilitating business operation environment at the checkpoints
Oct-18	State Council	Three-year Action Plan (2018-2020) for Promoting the Structural Adjustment of Transportation (《推进运输结构调整三年行动计划(2018—2020年)》)	<ul style="list-style-type: none"> Promoted railway and waterway freight Railway/ Waterway freight volume expected to increase by 30%/ 7.5%
May-18	State Council	Confirmation of the measures for further reducing logistics cost of the real economy	<ul style="list-style-type: none"> Tax reduction, simplifying review process for goods vehicles and procedures for establishing branches of logistics enterprises Expected to reduce logistics cost by over RMB12bn
Apr-18	State Post Bureau	Work Plan for the Establishment of a Credit System for the Express Delivery Industry(《快递业信用体系建设工作方案》)	<ul style="list-style-type: none"> Nationwide construction of credit systems for the industry Facilitated cooperation with government and key clients and decreased companies' financing costs
Mar-18	State Council	Interim Regulation on Express Delivery(《快递暂行条例》)	<ul style="list-style-type: none"> Set the industry standard in terms of operation, supervision and business management Emphasized security of customer privacy and environmental friendly operation
Feb-18	State Council	Opinions of the Central State Council of China on Implementing the Rural Revitalization Strategy(《中共中央国务院关于实施乡村振兴战略的意见》)	<ul style="list-style-type: none"> Advocated building a cold chain warehousing and logistics system for modern agricultural products and extending service outlets to rural areas Encouraged to develop a comprehensive infrastructure to promote rural e-commerce development, and expedite penetration of e-commerce into rural area

Source: State Council, State Post Bureau, NDRC, MOT, CMBIS

Figure 3: Monthly operational metrics overview

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Volume									
YoY growth									
SF	12.2%	27.4%	-16.9%	7.3%	6.6%	10.2%	15.8%	22.6%	32.8%
YTO	42.9%	36.1%	62.8%	34.8%	32.3%	28.2%	35.9%	41.6%	48.9%
STO	48.0%	43.0%	81.3%	34.5%	43.7%	47.5%	54.4%	52.2%	55.6%
Yunda	52.3%	35.6%	75.0%	35.1%	43.5%	43.0%	54.8%	56.1%	45.1%
Market	29.0%	13.5%	38.8%	23.3%	31.1%	25.2%	29.1%	28.6%	29.3%
Market share									
SF	6.9%	9.0%	8.0%	7.2%	6.6%	6.6%	6.8%	7.0%	7.6%
YTO	14.3%	14.5%	10.8%	14.5%	13.6%	13.7%	13.9%	14.7%	14.5%
STO	11.2%	11.3%	9.1%	10.6%	10.5%	11.4%	11.4%	12.1%	12.7%
Yunda	14.0%	14.6%	12.4%	16.1%	16.1%	16.6%	16.3%	16.7%	15.7%
Revenue									
YoY growth									
SF	19.6%	38.5%	-16.6%	14.3%	11.3%	12.5%	14.3%	19.1%	21.6%
YTO	27.5%	23.9%	39.7%	19.5%	16.9%	12.9%	21.1%	24.6%	23.7%
STO	47.9%	39.7%	77.7%	36.5%	50.2%	44.2%	41.8%	33.2%	34.9%
Yunda	30.8%	140.9%	202.7%	153.2%	178.9%	186.8%	201.9%	218.9%	193.7%
Market	17.3%	20.0%	21.0%	23.0%	26.8%	24.2%	26.5%	26.3%	26.2%
ASP change									
SF	6.6%	8.7%	0.3%	6.5%	4.5%	2.1%	-1.3%	-2.8%	-7.3%
YTO	-10.8%	-9.0%	-14.2%	-11.3%	-11.6%	-11.9%	-10.9%	-12.0%	-16.9%
STO	0.0%	-2.3%	-2.2%	1.4%	4.8%	-2.3%	-8.4%	-12.5%	-13.5%
Yunda	-14.3%	77.1%	72.8%	87.5%	94.0%	101.3%	95.1%	104.5%	102.5%
Market	-9.1%	5.7%	-12.8%	-0.3%	-3.3%	-0.9%	-2.1%	-1.8%	-2.4%

Source: Company data, CMBIS

Figure 4: 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	17,019	USD	21.76	12.4	13.8	25.3	21.9	3.2	2.9	15.3	12.2		10%
SF	002352 CH	24,317	CNY	39.23	13.2	14.1	33.1	27.9	4.3	3.7	17.3	13.9		33%
YTO	600233 CH	4,727	CNY	11.87	16.2	16.2	16.2	14.0	2.6	2.2	9.0	7.9		12%
STO	002468 CH	4,942	CNY	22.99	20.1	20.1	18.2	15.6	3.5	2.9	10.3	8.4		5%
Yunda	002120 CH	10,818	CNY	34.60	20.6	20.7	27.3	22.3	5.7	4.7	14.9	11.7		12%
Deppon	603056 CH	1,860	CNY	13.80	15.5	16.6	18.5	14.8	2.9	2.5	7.2	5.7		12%
Average					16.3	16.9	23.1	19.4	3.7	3.2	12.3	10.0		14%
Overseas express delivery														
FedEx	FDX US	38,818	USD	148.8	19.7	17.8	9.7	11.6	1.9	2.0	8.2	8.9		-3%
UPS	UPS US	103,646	USD	120.7	119	85.9	16.1	14.8	15.7	10.5	11.9	11.0		6%
Yamato	9064 JP	6,654	JPY	1,740	6.4	6.2	19.0	19.3	1.2	1.2	5.8	5.6		51%
DHL	DPW GR	40,701	EUR	30.00	18.7	19.3	14.3	12.2	2.5	2.3	6.9	6.3		16%
Average					40.8	32.3	14.8	14.5	5.3	4.0	8.2	7.9		18%
Total Average					37.2	37.5	19.8	12.7	3.9	7.3	10.4	5.8		16%

Source: Bloomberg, CMBIS estimates

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