

ZTO Express (ZTO US)

Good execution but rising concerns on price competition

ZTO's revenue/ net profit in 3Q23 came in at RMB9.08bn/ RMB2.35bn, up 1.5%/21% YoY, on the back of excellent cost control that offset the ASP decline. While the full-year parcel volume growth guidance of 20-24% YoY is maintained, the 1.5ppt market share gain target is removed as ZTO chose to avoid unprofitable volume amid the price competition. While we continue to like ZTO's strong execution and cost advantage, we are incrementally concerned about a potential transformation of price competition to price war. We therefore trim our 2023E/24E/25E earnings forecast by 4%/9%/9%, largely on lower unit gross margin. Our TP for ZTO US/2057 HK is revised down to US\$39.40/HK\$309. Maintain **BUY** on valuation.

Key highlights in 3Q23 results:

- **Reported net profit in 3Q23 grew 21% YoY to RMB2.35bn.** Excluding the equity disposal loss and unrealized investment gain, the adjusted net profit grew 21% YoY to RMB2.33bn. The growth was driven by (1) 2.2% YoY growth on core express delivery revenue, (2) 2.5ppt YoY gross margin expansion to 29.8%, and (3) RMB207mn tax credit. SG&A expenses ratio was 4.8% (-0.2ppt YoY).
- **Parcel volume grew 18% YoY to 7.52bn units in 3Q23, 1.5ppt above the industry (+17% YoY).** Market share expanded 0.3ppt YoY to 22.4% in 3Q23. ZTO maintains its full-year target range of parcel volume to 29.27-30.24bn units (run rate in 9M23: 71%-73% / 9M22: 69%-71%).
- **ASP -13.5% YoY in 3Q23.** Parcel delivery ASP decreased RMB0.19/unit YoY (-13.5% YoY) to RMB1.17/unit in 3Q23, due to the lower avg. parcel weight (-RMB0.04), less contribution from KA volume (-RMB0.08) and volume incentives (-RMB0.07).
- **Unit cost -16.3% YoY in 3Q23.** Unit cost of transportation decreased 11% YoY to RMB0.43/unit, thanks to lower diesel price (-RMB0.01), optimized line-haul route planning and improved load rate. Unit cost of sorting hub decreased 10% YoY to RMB0.27/unit, due to the continued standardization in sortation procedures and an increase in automation level. Unit gross dollar margin decreased 6.3% YoY to RMB0.36/unit (but gross margin expanded due to lower denominator).
- **Major risk factors:** (1) transition from price competition to price war; (2) slowdown in online retail sales; and (3) increase in diesel price.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	30,406	35,377	38,361	44,254	50,555
YoY growth (%)	20.6	16.3	8.4	15.4	14.2
Adjusted net profit (RMB mn)	4,754.8	6,809.1	8,532.9	9,737.9	11,311.8
EPS (Reported) (RMB)	5.70	8.16	10.41	11.66	13.55
YoY growth (%)	5.0	43.2	27.6	12.1	16.2
Consensus EPS (RMB)	na	0.00	10.94	13.02	15.51
P/E (x)	34.5	21.2	16.8	14.9	12.9
P/B (x)	3.4	2.7	2.4	2.1	1.9
Yield (%)	0.8	1.5	1.8	2.0	2.3
ROE (%)	9.6	13.0	14.9	15.0	15.6
Net gearing (%)	(21.3)	(37.5)	(35.7)	(36.3)	(39.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$39.40
 (Previous TP US\$42.70)
Up/Downside 63.9%
Current Price US\$24.04

China Logistics

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Katherine NG

(852) 3761 8725

katherineng@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	20,561.4
Avg 3 mths t/o (US\$ mn)	24.2
52w High/Low (US\$)	29.44/21.52
Total Issued Shares (mn)	855.3

Source: FactSet

Shareholding Structure

Meisong Lai	25.9%
Alibaba	8.9%

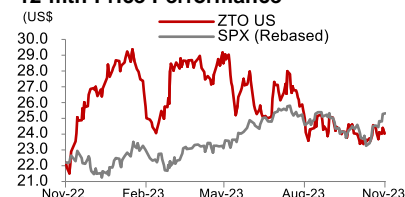
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.1%	-2.8%
3-mth	-3.7%	-6.5%
6-mth	-15.6%	-22.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

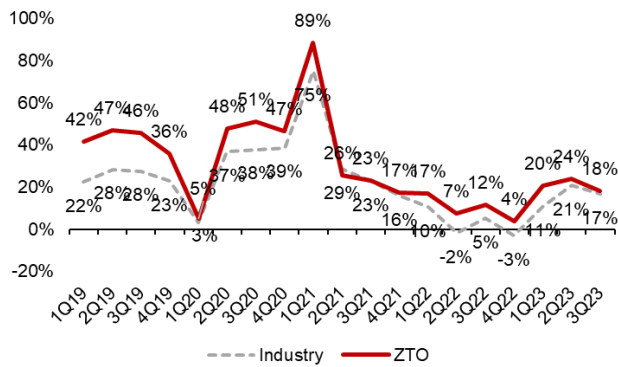
- 2Q23 net profit +41% YoY on excellent cost control; Full-year market share target achievable – 30 Aug 2023
- Best of both worlds – 18 May 2023
- Clear guidance on volume and market share target; further room of cost reduction – 17 Mar 2023

Figure 1: ZTO's 3Q23 results

(RMB mn)	1Q22	1Q23	Change YoY	2Q22	2Q23	Change YoY	3Q22	3Q23	Change YoY	4Q21	4Q22	Change YoY
Total revenue	7,904	8,983	13.7%	8,657	9,740	12.5%	8,945	9,076	1.5%	9,218	9,871	7.1%
Cost of sales	-6,285	-6,460	2.8%	-6,454	-6,436	-0.3%	-6,501	-6,369	-2.0%	-6,967	-7,099	1.9%
Gross profit	1,619	2,523	55.8%	2,203	3,304	50.0%	2,444	2,706	10.7%	2,251	2,773	23.2%
Other income	115	214	85.8%	240	79	-67.1%	172	151	-12.2%	275	248	-9.9%
SG&A expenses	-618	-787	27.2%	-457	-505	10.4%	-441	-434	-1.8%	-472	-561	18.8%
EBIT	1,116	1,950	74.7%	1,986	2,879	45.0%	2,175	2,424	11.4%	2,054	2,460	19.8%
D&A	633	686	8.5%	672	705	4.9%	665	745	11.9%	598	701	17.2%
EBITDA	1,749	2,637	50.8%	2,658	3,584	34.9%	2,840	3,168	11.6%	2,652	3,160	19.2%
Net finance income/(expense)	51	20	-60.7%	95	95	-0.5%	131	163	24.3%	69	36	-48.6%
Finance income	111	92	-17.3%	118	167	41.0%	162	246	51.7%	94	112	18.6%
Finance expenses	-60	-72	20.2%	-23	-72	212.6%	-32	-84	164.9%	-25	-76	n/a
Gain/(loss) on disposal of subsidiaries	0	0	n/a	0	-1	n/a	61	11	-82.1%	-3	9	n/a
Impairment of investment in equity investees	0	0	n/a	0	0	n/a	-26	0	n/a	53	46	-12.6%
Fair value changes of financial instruments	-1	156	n/a	-14	52	n/a	-23	9	n/a	-48	37	n/a
FX gain/(loss)	-13	-10	-20.6%	120	81	-32.3%	31	5	-85.1%	-22	9	n/a
Share of profit of JV and associates	-23	4	n/a	10	0	-98.7%	-13	11	n/a	16	33	103.8%
Pretax profit	1,131	2,120	87.5%	2,197	3,106	41.4%	2,335	2,621	12.3%	2,119	2,630	24.1%
Income tax	-255	-455	78.3%	-438	-576	31.4%	-439	-271	-38.2%	-371	-501	34.8%
After tax profit	876	1,665	90.2%	1,759	2,530	43.9%	1,895	2,350	24.0%	1,748	2,129	21.8%
MI	31	6	-82.1%	46	11	-76.4%	40	-4	n/a	15	33	127.6%
Net profit	906	1,670	84.3%	1,805	2,541	40.8%	1,935	2,345	21.2%	1,762	2,163	22.7%
Ratios:			ppt			ppt			ppt			ppt
Gross margin	20.5%	28.1%	7.6	25.4%	33.9%	8.5	27.3%	29.8%	2.5	24.4%	28.1%	3.7
EBIT margin	14.1%	21.7%	7.6	22.9%	29.6%	6.6	24.3%	26.7%	2.4	22.3%	24.9%	2.6
After tax profit margin	11.1%	18.5%	7.5	20.3%	26.0%	5.7	21.2%	25.9%	4.7	19.0%	21.6%	2.6
Effective tax rate	22.6%	21.5%	-1.1	19.9%	18.5%	-1.4	18.8%	10.4%	-8.5	17.5%	19.0%	1.5

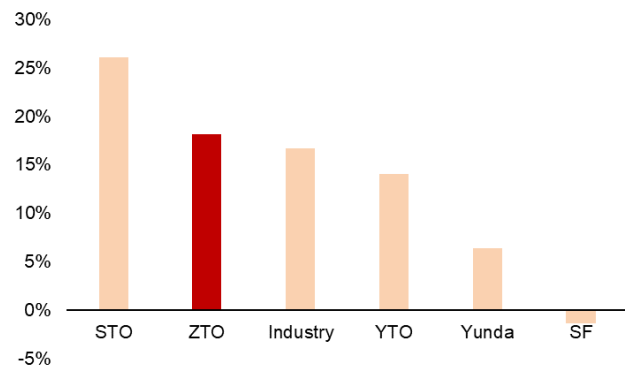
Source: Company data, CMBIGM

Figure 2: ZTO's parcel volume growth has continued to outpace the industry average since 4Q21

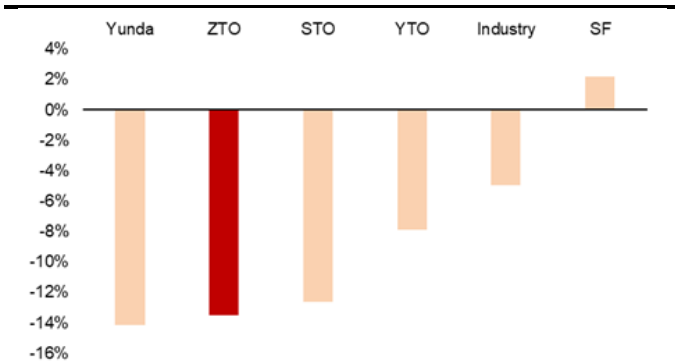


Source: Company data, The State Post Bureau, CMBIGM

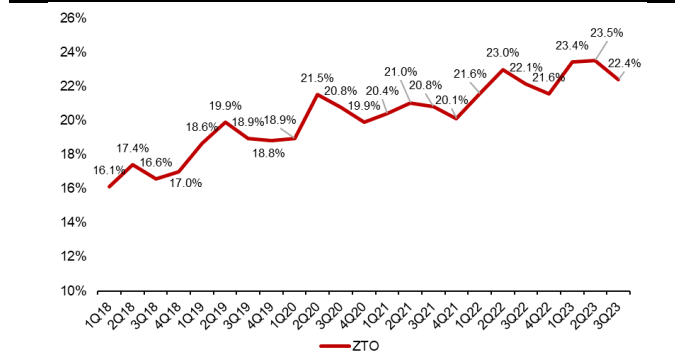
Figure 3: ZTO's parcel volume growth in 3Q23



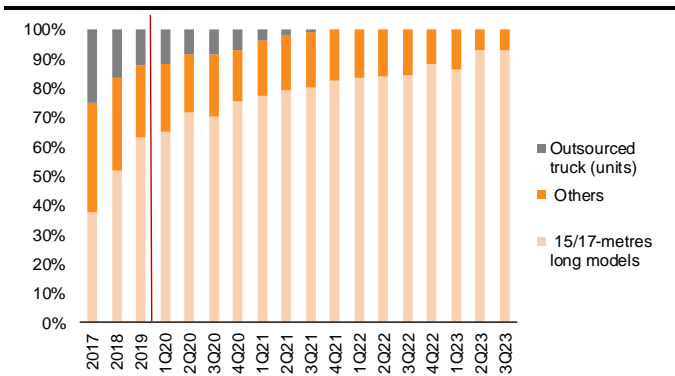
Source: Company data, The State Post Bureau, CMBIGM

Figure 4: ZTO's ASP change (YoY) in 3Q23

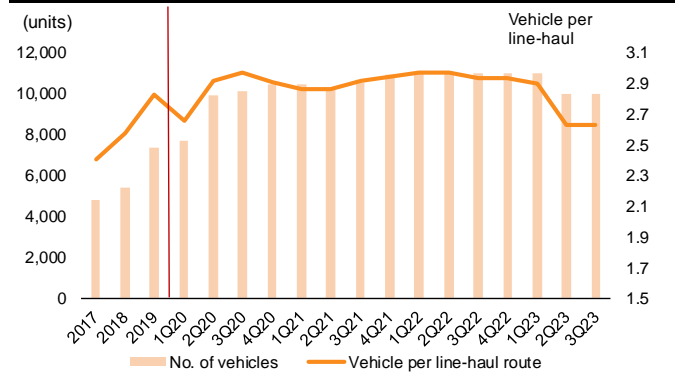
Source: Company data, The State Post Bureau, CMBIGM

Figure 5: ZTO's market share in China in terms of parcel volume

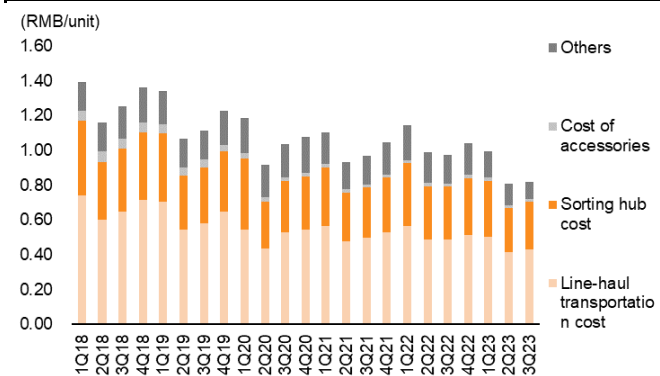
Source: Company data, CMBIGM

Figure 6: ZTO's self-owned high-capacity truck ratio

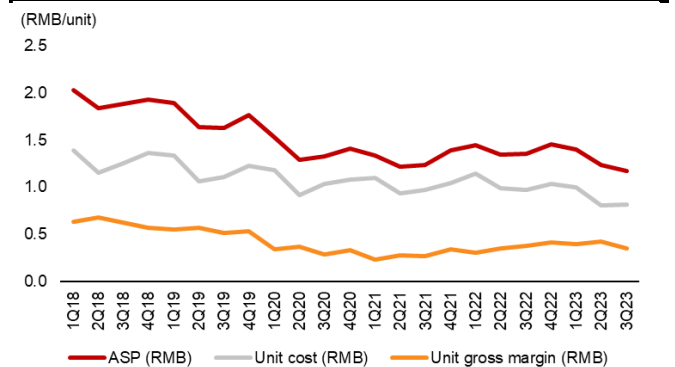
Source: Company data, CMBIGM

Figure 7: ZTO's number of vehicles per line-haul route

Source: Company data, CMBIGM

Figure 8: ZTO's unit cost breakdown

Source: Company data, CMBIGM

Figure 9: ZTO's ASP, unit cost & unit gross margin

Source: Company data, CMBIGM

Figure 10: Change in key operating assumptions

	2023E	Old 2024E	2025E	2023E	New 2024E	2025E	2023E	Change 2024E	2025E
Shipment volume (mn units of parcel)									
Unit of parcel	29,756	35,112	40,379	29,756	35,112	40,379	0.0%	0.0%	0.0%
ASP (RMB/unit)									
Per unit of parcel	1.30	1.30	1.29	1.26	1.24	1.23	-3.2%	-4.7%	-4.7%
Unit cost (RMB)									
Line-haul transportation cost	-0.46	-0.44	-0.44	-0.45	-0.43	-0.43	-2.2%	-2.2%	-2.2%
Sorting hub cost	-0.28	-0.27	-0.27	-0.28	-0.27	-0.27	0.0%	0.0%	0.0%
Others	-0.15	-0.15	-0.15	-0.14	-0.14	-0.14	-9.4%	-9.4%	-9.4%
Total	-0.90	-0.88	-0.87	-0.88	-0.86	-0.85	-2.7%	-2.8%	-2.8%
Unit gross margin (RMB)	0.40	0.42	0.42	0.38	0.38	0.38	-4.3%	-8.8%	-8.7%
(RMB mn)									
Revenue									
Express delivery, accessories & others	38,763	45,511	52,076	37,512	43,379	49,637	-3.2%	-4.7%	-4.7%
Freight forwarding services	849	874	918	849	874	918	0.0%	0.0%	0.0%
Total	39,612	46,386	52,995	38,361	44,254	50,555	-3.2%	-4.6%	-4.6%
Revenue growth								ppt	
Express delivery, accessories & others	13%	17%	14%	10%	16%	14%	(3.7)	(1.8)	(0.0)
Freight forwarding services	-30%	3%	5%	-30%	3%	5%	0.0	0.0	0.0
Revenue	12%	17%	14%	8%	15%	14%	(3.5)	(1.7)	(0.0)
SG&A expense ratio	-5.8%	-5.8%	-5.7%	-5.8%	-5.8%	-5.7%	0.0	0.0	0.0
Net profit	9,083	10,721	12,453	8,688	9,738	11,312	-4.3%	-9.2%	-9.2%
Core net profit	8,927	10,721	12,453	8,533	9,738	11,312	-4.4%	-9.2%	-9.2%

Source: Company data, CMBIGM estimates

Figure 11: Earnings sensitivity to ASP and unit line-haul transportation cost

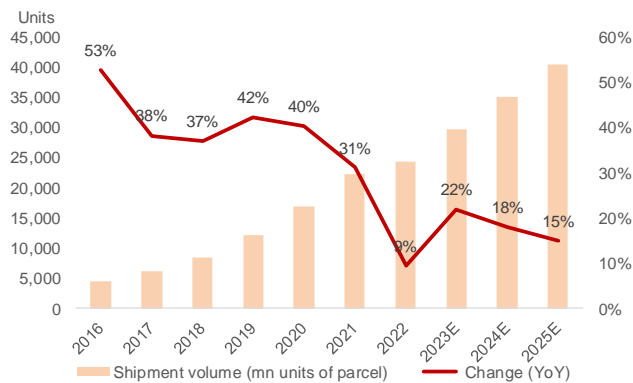
2024E Net profit (RMB mn)	ASP (RMB/unit)				
	1.17	1.21	1.24	1.26	1.30
-0.453	7,421	8,441	9,120	9,800	10,820
-0.440	7,792	8,811	9,491	10,171	11,190
Unit line-haul transportation cost (RMB)	-0.432	8,039	9,058	9,738	10,418
-0.423	8,286	9,305	9,985	10,665	11,684
-0.410	8,656	9,676	10,355	11,035	12,055

Source: Company data, CMBIGM estimates

Figure 12: Earnings sensitivity to ASP and unit sorting hub cost

2024E Net profit (RMB mn)	ASP (RMB/unit)				
	1.17	1.21	1.24	1.26	1.30
-0.282	7,655	8,674	9,354	10,034	11,053
-0.274	7,885	8,905	9,584	10,264	11,284
Unit sorting hub cost (RMB)	-0.268	8,039	9,058	9,738	10,418
-0.263	8,192	9,212	9,891	10,571	11,591
-0.255	8,422	9,442	10,122	10,801	11,821

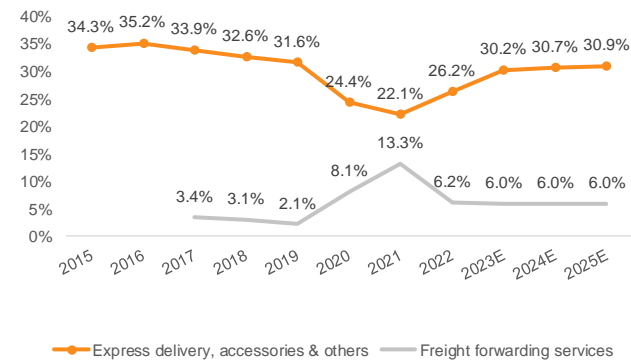
Source: Company data, CMBIGM estimates

Figure 13: ZTO's parcel shipment volume forecast

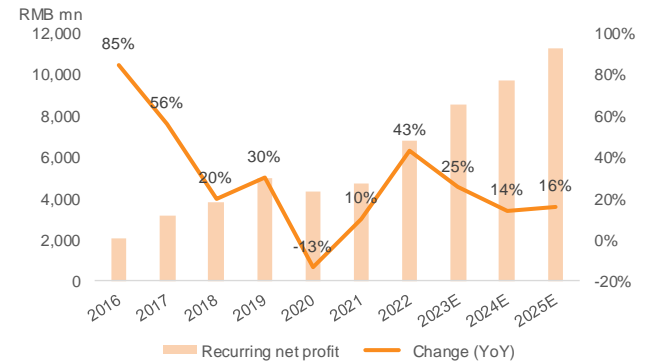
Source: Company data, CMBIGM estimate

Figure 14: China diesel price

Source: Wind, CMBIGM

Figure 15: ZTO's gross margin trend

Source: Company data, CMBIGM estimate

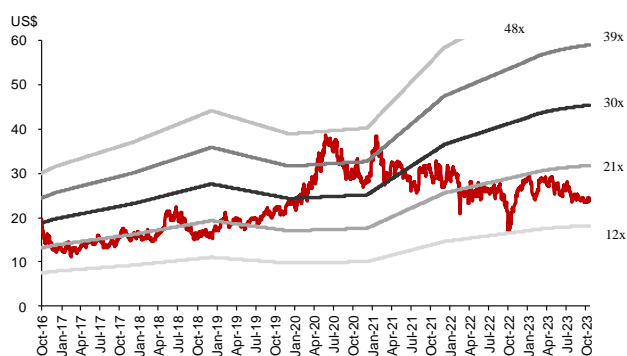
Figure 16: ZTO's net profit forecast

Source: Company data, CMBIGM estimate

Valuation

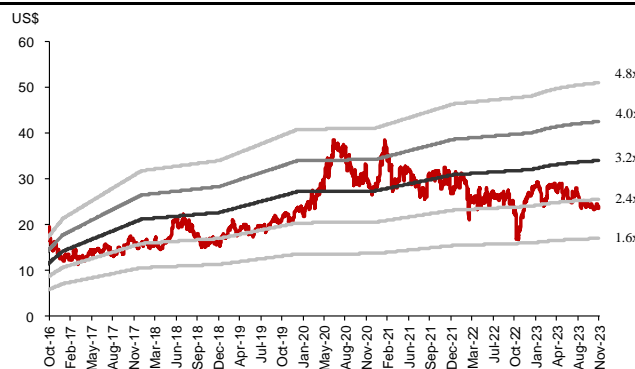
Our TP for ZTO US/2057 HK is revised down to US\$39.4/HK\$309 from US\$42.7/HK\$335, after revising down our earnings forecast. Our target multiple is 28x for 2023E earnings (previously 29x), which is equivalent to 0.5 SD above the historical average.

Figure 17: ZTO US's P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 18: ZTO US's P/B band



Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	25,214	30,406	35,377	38,361	44,254	50,555
Cost of goods sold	(19,377)	(23,816)	(26,338)	(26,968)	(30,887)	(35,156)
Gross profit	5,837	6,589	9,039	11,393	13,366	15,399
SG&A expense	(1,664)	(1,876)	(2,077)	(2,225)	(2,567)	(2,882)
Others	581	790	775	767	885	1,011
Operating profit	4,754	5,503	7,736	9,935	11,685	13,529
Investment gain/loss	0	55	90	156	0	0
Share of (losses)/profits of associates/JV	(19)	(32)	6	8	21	22
Interest income	443	364	504	469	517	620
Interest expense	(35)	(127)	(191)	(180)	(171)	(171)
Net interest income/(expense)	407	237	313	289	346	449
Foreign exchange gain/loss	(127)	(56)	147	0	0	0
Pre-tax profit	5,016	5,707	8,292	10,388	12,052	14,000
Income tax	(690)	(1,005)	(1,633)	(1,870)	(2,410)	(2,800)
Minority interest	(14)	54	150	170	96	112
Net profit	4,326	4,701	6,659	8,518	9,641	11,200
Adjusted net profit	4,312	4,755	6,809	8,533	9,738	11,312
Gross dividends	1,313	1,353	2,125	2,607	2,921	3,394

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	22,325	18,666	24,475	25,641	29,033	34,629
Cash & equivalents	14,213	9,721	11,693	12,549	15,526	20,764
Account receivables	746	933	819	863	1,199	1,267
Inventories	53	83	41	107	62	131
Prepayment	589	668	862	862	862	862
Other current assets	6,724	7,261	11,061	11,260	11,384	11,606
Non-current assets	36,880	44,106	54,049	58,804	63,063	65,830
PP&E	18,565	24,930	28,813	32,807	35,781	37,775
Deferred income tax	721	935	750	750	750	750
Investment in JVs & assos	3,224	3,730	3,951	4,159	4,380	4,602
Intangibles	42	36	29	23	17	11
Goodwill	4,242	4,242	4,242	4,242	4,242	4,242
Other non-current assets	10,087	10,234	16,264	16,823	17,893	18,450
Total assets	59,205	62,772	78,524	84,444	92,096	100,459
Current liabilities	9,348	12,996	16,405	15,933	16,550	16,635
Short-term borrowings	1,433	3,459	5,394	4,894	4,894	4,894
Account payables	1,636	1,958	2,203	2,230	2,847	2,932
Tax payable	49	87	228	228	228	228
Other current liabilities	6,230	7,493	8,580	8,580	8,580	8,580
Non-current liabilities	757	848	7,646	7,646	7,646	7,646
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	502	556	510	510	510	510
Other non-current liabilities	255	292	7,135	7,135	7,135	7,135
Total liabilities	10,105	13,845	24,051	23,579	24,195	24,281
Total shareholders equity	48,979	48,637	54,029	60,592	67,723	76,113
Minority interest	121	290	444	274	177	65
Total equity and liabilities	59,205	62,772	78,524	84,444	92,096	100,459

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,016	5,707	8,292	10,388	12,052	14,000
Depreciation & amortization	1,840	2,222	2,671	3,144	3,679	4,173
Tax paid	(690)	(1,005)	(1,633)	(1,870)	(2,410)	(2,800)
Change in working capital	(1,422)	158	1,498	(273)	(314)	(291)
Others	(237)	(225)	148	(297)	(367)	(471)
Net cash from operations	4,508	6,856	10,976	11,092	12,638	14,611
Investing						
Capital expenditure	(7,237)	(8,461)	(6,837)	(7,000)	(6,500)	(6,000)
Acquisition of subsidiaries/ investments	(238)	(670)	136	(200)	(200)	(200)
Others	3,484	11	(9,845)	(231)	(183)	(80)
Net cash from investing	(3,992)	(9,120)	(16,546)	(7,431)	(6,883)	(6,280)
Financing						
Dividend paid	(1,649)	(1,313)	(1,353)	(2,125)	(2,607)	(2,921)
Net borrowings	1,433	2,026	1,936	(500)	0	0
Proceeds from share issues	8,543	0	0	0	0	0
Others	10	(3,617)	6,475	(180)	(171)	(171)
Net cash from financing	8,337	(2,904)	7,058	(2,805)	(2,778)	(3,093)
Net change in cash						
Cash at the beginning of the year	5,270	14,213	9,721	11,693	12,549	15,526
Exchange difference	89	677	483	0	0	0
Cash at the end of the year	14,213	9,721	11,693	12,549	15,526	20,764
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	14.0%	20.6%	16.3%	8.4%	15.4%	14.2%
Gross profit	(11.8%)	12.9%	37.2%	26.0%	17.3%	15.2%
Operating profit	(13.0%)	15.7%	40.6%	28.4%	17.6%	15.8%
Net profit	(23.7%)	8.7%	41.6%	27.9%	13.2%	16.2%
Adj. net profit	(13.4%)	10.3%	43.2%	25.3%	14.1%	16.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	23.1%	21.7%	25.6%	29.7%	30.2%	30.5%
Operating margin	18.9%	18.1%	21.9%	25.9%	26.4%	26.8%
Adj. net profit margin	17.1%	15.6%	19.2%	22.2%	22.0%	22.4%
Return on equity (ROE)	9.9%	9.6%	13.0%	14.9%	15.0%	15.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio (x)	2.4	1.4	1.5	1.6	1.8	2.1
Receivable turnover days	28.5	30.4	23.0	20.0	20.5	20.9
Inventory turnover days	0.9	1.0	0.9	1.0	1.0	1.0
Payable turnover days	29.3	27.5	28.8	30.0	30.0	30.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	38.0	34.5	21.2	16.8	14.9	12.9
P/B	3.5	3.4	2.7	2.4	2.1	1.9
Div yield (%)	0.8	0.8	1.5	1.8	2.0	2.3

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

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CMB International Global Markets Limited

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

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