

China Express Delivery Sector

Strong policy measures to reshape the competitive landscape; Upgrade to Outperform

The Chinese government's strong intervention in the express delivery industry through policies and regulations in 2021 successfully put the bloody price war to an end and brought the industry development back to the right track. From corporate perspective, major players have already shifted from pricing to capex optimization, quality service and profit oriented strategy. Looking ahead, we expect ASP increase and the potential public listing of J&T Express will serve as sector catalysts in 2022E. In addition, we expect market share gain through M&A, as well as expansion to integrated logistics model, will become a trend over the medium term. In light of better earnings visibility, we **upgrade** the sector to **Outperform** from Market perform. We believe mass market players including **ZTO (2057 HK / ZTO US, BUY)**, **YTO (600233 CH, NR)** and **Yunda (002120 CH, NR)** are all beneficiaries.

- **Entering the second stage of competition: Stabilizing market share + Better profitability.** Given that price reduction is no longer a feasible tool to gain market share, major players will shift the focus to enhance service quality as it is the best way to defend market share and boost ASP. In particular, following the acquisition of BEST Inc's express delivery business, J&T Express will be able to double the market share to ~15% in China express delivery market, making it the top 4 player. We expect J&T Express will focus on internal integration and efficiency improvement. On the other hand, ZTO also adjusted both the pricing strategy and capex plan aiming at achieving better profitability.
- **ASP hike to drive operating leverage.** For the industry as a whole, the parcel ASP in 10M21 dropped 10%. We forecast ASP to drop 9% YoY in 2021E but rebound 2% YoY in 2022E. We expect meaningful earnings recovery driven by a strong operating leverage. Based on our calculation, STO and YTO will benefit more from rising ASP in the near term due to their relatively lower base of unit gross profit (RMB0.05 and RMB0.11/parcel respectively in 1H21).
- **Expect 15% parcel volume CAGR in 2022E/23E.** Parcel volume grew 35% in 10M21 and we forecast the full year growth to be 30%. We expect parcel volume growth to maintain at 15% p.a. in 2022E and 23E, driven by continuous growth of ecommerce/ short video platforms and new segments such as fresh products and intra-city logistics market.

China express delivery parcel volume and price projection

	2019	2020	2021E	2022E	2023E
Express delivery parcel volume (mn)	63,520	83,358	108,339	124,648	143,412
YoY	25.3%	31.2%	30.0%	15.1%	15.1%
Revenue (RMB bn)	750	880	1,040	1,221	1,405
YoY	24.2%	17.3%	18.3%	17.4%	15.1%
ASP (RMB/unit)	11.8	10.6	9.6	9.8	9.8
YoY	-0.9%	-10.6%	-9.0%	2.0%	0.0%

Source: The State Post Bureau, CMBIS estimates

OUTPERFORM (UP)

China Logistics Sector

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Stage one competition came to an end

The strong demand growth of express delivery brought along with a cutthroat price reduction since early 2020 as express delivery companies were fighting harder than ever for market share. The aggressive pricing strategy adopted by J&T Express for market share, the expansion into mid-low end market by SF in order to protect its time definite business, as well as the general strong balance sheet for the Tongda players, triggered an unprecedented price war.

It was not until mid-2021 when the Chinese government started to intervene the industry, as the price war severely affected the interest of couriers and the delivery service quality. In Jul, seven authorities released an opinion to protect the interest of couriers. In Sep Zhejiang provincial people's congress approved the regulation regarding the express delivery industry development in late Sep. The regulation states that, effective from 1 Mar 2022, express delivery operators, without justified reasons, are not allowed to offer service below cost level.

In early Sep, the major express delivery operator focusing on mass market, namely ZTO, YTO, STO, BEST, Yunda and J&T Express, decided to revise up the dispatch fee by RMB0.1/parcel, in response to the authority's opinions regarding the protection of couriers' interest. Sequentially, with the support of Shanghai Municipal Postal Administration, major express delivery operators started price hike in early Oct in response to the rising operating cost.

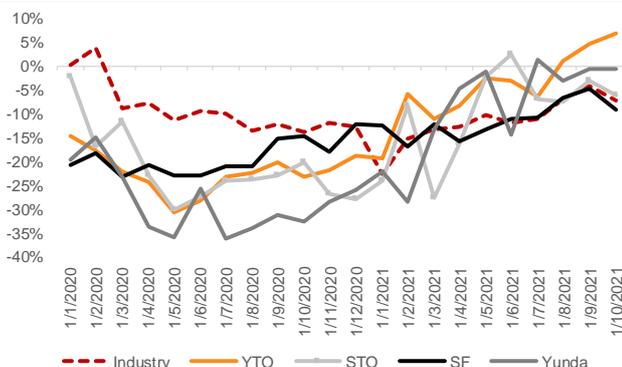
Tongda players' parcel ASP reached the lowest point in Jul and started to rebound since then.

Entering the second stage of competition: Stabilizing market share + Better profitability

Given that price reduction is no longer a feasible tool to gain market share, major players will shift the focus to enhance service quality as it is the best way to protect market share and boost ASP in the near term. Besides, we believe the competitive landscape will become more stable in the foreseeable future, in particular following the acquisition of BEST's express delivery by J&T Express. In 3Q21, BEST's market share was ~8% in terms of parcel volume. After this acquisition, J&T Express will be able to double the market share to 15% in China express delivery market immediately, making it the top 4 player.

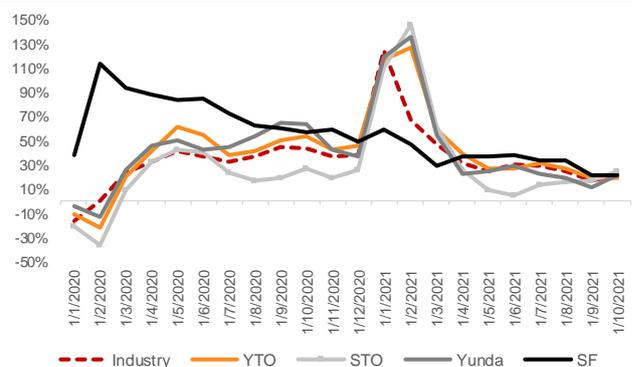
We expect more M&As going forward, as it becomes the only way for the major players to gain meaningful market share. Also, we expect major players will speed up the non-express delivery business expansion.

Figure 1: Express delivery parcel ASP change (YoY)



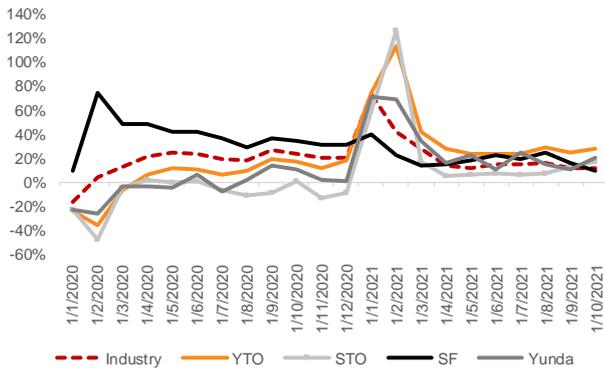
Source: State Post Bureau, Company data, CMBIS

Figure 2: Parcel shipment volume growth (YoY)



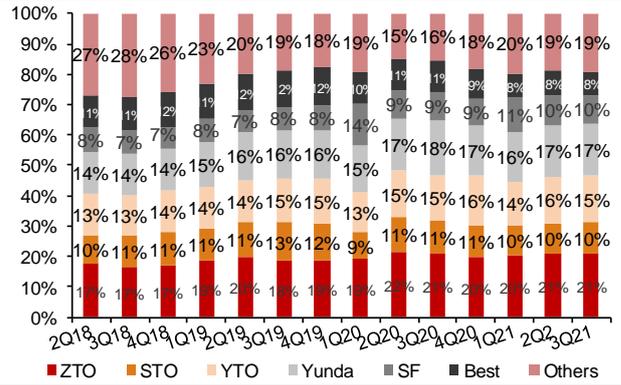
Source: State Post Bureau, Company data, CMBIS

Figure 3: Express delivery revenue growth (YoY)



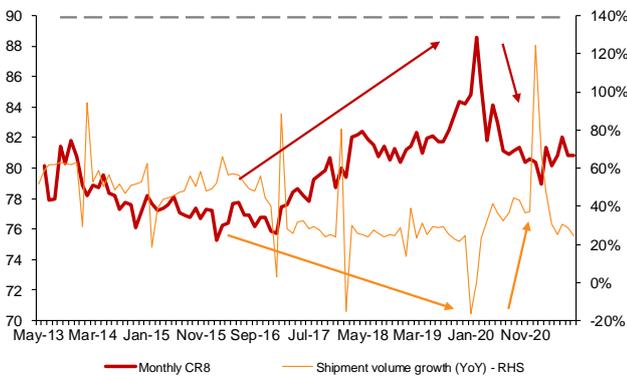
Source: State Post Bureau, Company data, Wind, CMBIS

Figure 4: Quarterly market share trend



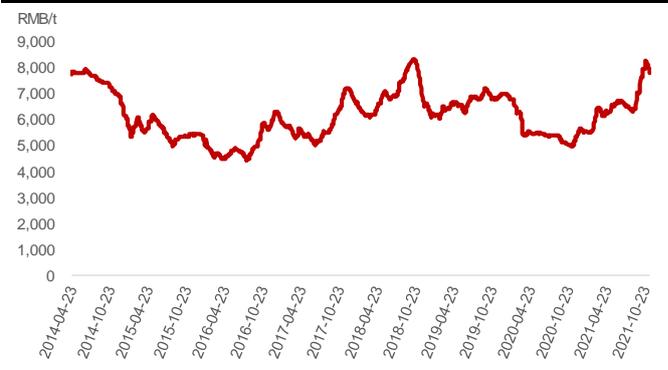
Source: State Post Bureau, Company data, CMBIS

Figure 5: Negative correlation (-43% in last 9 years) between CR8 and parcel shipment growth in China



Source: State Post Bureau, Wind, CMBIS

Figure 6: China diesel price



Source: Wind, CMBIS

Figure 7: Comparison of major ecommerce express delivery operators

	ZTO		YTO		STO		Yunda		BEST Express	
	2020	1H21	2020	1H21	2020	1H21	2020	1H21	2020	1H21
Shipment Volume (mn parcels)	17,002	10,247	12,648	7,411	8,817	4,832	14,144	8,261	8,535	4,058
ASP (RMB/parcel)	1.37	1.3	2.26	2.21	2.35	2.25	2.25	2.10	2.28	1.97
Unit gross profit (RMB/parcel)	0.33	0.26	0.10	0.11	0.00	0.05	0.19	0.18	(0.01)	(0.12)

Note: ZTO's ASP does not include dispatch fee.

Source: Company data, CMBIS estimates

Figure 8: Major express delivery operators' net capex

Net capex (RMB mn)	2019	2020	YoY	9M20	9M21	YoY
SF	6,372	12,203	91%	7,354	13,860	88%
ZTO	5,226	9,208	76%	6,188	7,075	14%
Yunda	4,373	6,001	37%	3,951	5,491	39%
YTO	3,313	5,128	55%	3,039	4,173	37%
STO	1,986	2,394	21%	1,984	1,708	-14%
BEST Express	1,483	1,559	5%	-	-	-

Source: Company data, CMBIS estimates

Figure 9: Key supporting policies for express delivery industry in China

Date	Authority	Document	Summary
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
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 customer privacy security and environmental friendly operation
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' ongoing financing costs
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 more than RMB12bn
Jun-18	Ministry of Finance, State Taxation Administration	Policy under which urban land use tax is reduced by 50% for logistics companies that lease land for commodities warehousing. <将物流企业承租的仓储设施用地减按50%计征城镇土地使用税>	<ul style="list-style-type: none"> In Mar 2020, the implementation period of the policy has been extended to Dec 2020.
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%
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
Dec-18	NDRC, MOT	Planning on construction and layout of national 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
Jun-19	The State Post Bureau	Opinions on Supporting the Development of Private Express Delivery Enterprises <国家邮政局关于支持民营快递企业发展的指导意见>	<ul style="list-style-type: none"> Promotes reduction of institutional transaction costs, and guides private express delivery enterprises to fully enjoy tax reduction and benefits offered by the government
Sep-20	NDRC	Opinions on the development of air cargo transportation facilities <关于促进航空货运设施发展的意见>	<ul style="list-style-type: none"> Aimed at raising the capacity of air cargo transportation to meet the rising demand. By 2025: To complete the construction of Ezhou Airport; to enhance the cargo airport hub status in Shanghai, Guangzhou and Shenzhen. By 2035: To complete the construction of 1-2 professional hubs; To nurture several large-scale air logistic companies with global competitiveness.
Jul-21	The State Post Bureau, MOT, NDRC, MOHRSS, MOC, State Administration for Market Regulation, All-China Federation of Trade Unions	Opinions on Protecting the Legal Rights and Interests of the Courier Group 《关于做好快递员群体合法权益保障工作的意见》	<ul style="list-style-type: none"> Clarifies companies' responsibilities to protect workers' rights and aims at providing guidelines on better protection on couriers' rights. Guidelines include: 1) delivering reasonable salaries, 2) purchasing social insurance, 3) hiring couriers directly is encouraged, 3) improving their working environment, etc.
Sep-21	The Standing Committee of Zhejiang Provincial People's Congress	Regulations of Zhejiang Province on Promotion of Express Delivery Industry 《浙江省快递业促进条例》	<ul style="list-style-type: none"> Express delivery companies shall not provide express delivery services at a lower-than-cost price without any justified reason. Regulations are passed on 29 Sep, 2021 and will be implemented on 1 Mar, 2022.
Nov-21	MOT	The 14th Five-Year Development Plan for Integrated Transportation Service 《综合运输服务“十四五”发展规划》	<ul style="list-style-type: none"> 2021E - 2025E: The CAGR of the total parcel volume of China's express delivery industry is expected to be 15.4%.

Source: State Council, State Post Bureau, NDRC, Ministry of Transport, CMBIS

Figure 10: Peers comparison

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US\$ m)	PE (x)		PB (x)		EV/EBITDA (x)	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
China express delivery												
ZTO US Equity	ZTO EXPRESS -ADR	BUY	30.98	44.00	42%	25,624	35.2	25.0	3.2	2.9	18.5	13.4
2057 HK Equity	ZTO EXPRESS	BUY	242.00	342.00	41%	25,624	35.2	25.0	3.2	2.9	18.5	13.4
002352 CH Equity	S F HOLDING CO-A	Restricted	61.23	Restricted	-	46,965	93.6	38.8	3.8	3.5	27.8	14.7
600233 CH Equity	YTO EXPRESS -A	-	16.12	-	-	7,963	34.1	24.5	2.7	2.4	15.9	11.7
002468 CH Equity	STO EXPRESS CO-A	-	8.29	-	-	1,984	n/a	120.1	1.5	1.5	18.1	11.6
002120 CH Equity	YUNDA HOLDING -A	-	19.88	-	-	9,022	43.0	29.0	3.7	3.4	16.9	13.0
	Average (excluding STO)						48.2	28.5	3.3	3.0	19.5	13.2
China logistics (others)												
603056 CH Equity	DEPPON LOGISTIC-A	-	9.75	-	-	1,565	32.5	17.5	1.8	1.7	8.2	6.1
600787 CH Equity	CMST DEVELOPM-A	-	6.22	-	-	2,139	n/a	n/a	n/a	n/a	n/a	n/a
603128 CH Equity	CTS INTERNATIO-A	-	13.07	-	-	2,676	19.6	15.1	3.3	2.8	14.1	11.0
603565 CH Equity	SHANGHAI ZHONG-A	-	29.99	-	-	4,495	13.3	15.1	3.6	3.1	6.5	7.2
002930 CH Equity	GUANGDONG GREAT RIV	-	24.02	-	-	1,677	36.1	26.4	4.8	4.4	17.8	13.4
600057 CH Equity	XIAMEN XIANGYU-A	-	7.61	-	-	2,567	7.7	6.5	1.1	0.9	10.0	8.4
	Average						21.8	16.1	2.9	2.6	11.3	9.2
Overseas (Integrated logistics)												
FDX US Equity	FEDEX CORP	-	240.57	-	-	63,907	12.0	10.9	2.4	2.0	8.7	7.8
UPS US Equity	UNITED PARCEL-B	-	204.64	-	-	177,861	17.7	16.9	14.7	10.1	12.4	12.0
DPW GR Equity	DEUTSCHE POST-RG	-	52.85	-	-	74,901	13.1	13.0	3.8	3.5	6.7	6.6
9064 JP Equity	YAMATO HOLDINGS	-	2,504.0	-	-	8,516	16.5	14.9	1.5	1.4	5.6	5.1
9143 JP Equity	SG HOLDINGS	-	2,510.0	-	-	14,069	19.0	18.8	3.5	3.1	11.2	10.9
6178 JP Equity	JAPAN POST	-	856.0	-	-	28,230	8.0	8.4	0.2	0.2	n/a	n/a
	Average						14.4	13.8	4.4	3.4	8.9	8.5
Overseas (Pure LTL)												
ODFL US Equity	OLD DOMINION FRT	-	357.22	-	-	41,084	41.0	35.1	11.3	9.7	24.9	21.8
SAIA US Equity	SAIA INC	-	335.09	-	-	8,825	36.6	29.8	7.4	5.9	19.0	15.8
XPO US Equity	XPO LOGISTICS IN	-	76.24	-	-	8,768	17.8	16.2	3.9	3.1	10.6	9.6
	Average						31.8	27.0	7.5	6.2	18.2	15.7

Source: Bloomberg, Company data, CMBIS estimates

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