

Zoomlion Heavy Industry - A (000157 CH)

Dividend cut a surprise; Positive on the recovery story

Zoomlion's net profit in 2019 came in at RMB4.38bn, up 116% YoY, within the profit growth range of 113-123% YoY released in the profit alert earlier. That said, the Company unexpectedly proposed not to pay dividend (compared with 98% payout in 2018), in spite of its strong operating cash flow. We believe such move aims at protecting balance sheet and offers flexibility to buyback outstanding bonds. We fine-tuned our 2020E/21E earnings forecast -5%/-2% on lower revenue assumptions. Our TP is revised down to RMB6.85, based on 1.2x 2020E P/B (down from 1.4x), on the back of 11.7%-12% ROE in 2020E-22E. Recovery of construction machinery demand in 2Q will serve as key catalyst.

- Key highlights on 2019 results.** The revenue growth in 2H19 was 50% YoY and gross margin expanded 1.3ppt YoY to 30% (stable HoH). However, S&D expense ratio increased to 9% in 2H19, compared with 8.3% in 2H18 and 8.4% in 1H19. Besides, R&D expense ratio increased to 5% in 2H19, up significantly from 2.7% in 2H18 and 2.1% in 1H19. We believe the higher expense ratio was due to the launch of new products. Thanks to lower finance expense and effective tax rate, net profit in 2H19 grew 55% YoY to ~RMB1.8bn.
- Dividend cut reflects the conservative approach taken by the Company.** We are surprised about the dividend cut as the Company generated strong operating cash flow of RMB6bn in 2019, though it spent RMB2.1bn on share buyback for employee share incentive scheme. The latest dividend policy suggested that the Company is potentially planning for debt repayment or redemption. Several tranches of bonds will be matured over the coming few years, with the first one in Dec 2022 (principal amount of US\$600m with coupon rate of 6.13%). The recent volatile bond market due to the lack of liquidity may offer the Company with the opportunity to buyback at discount.
- Risk factors:** (1) Unexpected weakness on property construction activities; (2) Slow recovery of infrastructure spending; (3) High earnings volatility.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	28,697	43,307	48,890	53,585	57,723
YoY growth (%)	39.3	50.9	12.9	9.6	7.7
Net income (RMB mn)	2,031	4,381	5,060	5,610	6,039
EPS (RMB)	0.27	0.58	0.64	0.71	0.77
YoY growth (%)	51.5	119.2	10.2	10.9	7.7
Consensus EPS (RMB)	n/a	n/a	0.66	0.74	0.69
EV/EBITDA (x)	13.3	8.6	7.3	6.7	6.4
P/E (x)	21.2	10.0	9.3	8.4	7.6
P/B (x)	1.2	1.2	1.0	1.0	0.8
Yield (%)	4.4	0.0	2.7	3.0	3.3
ROE (%)	5.4	11.4	12.1	11.9	11.7
Net gearing (%)	33.6	31.3	19.1	16.2	11.1

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	RMB6.85
(Previous TP)	RMB7.55)
Up/Downside	+15%
Current Price	RMB5.96

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Stock Data

Mkt Cap (RMB mn)	45,967
Avg 3 mths t/o (RMB mn)	307
52w High/Low (RMB)	6.95/4.35
Total Issued Shares (mn)	6,456 (A) 1,388 (H)

Source: Bloomberg

Shareholding Structure

SASAC of Hunan Province	16.0%
Management team	4.9%
A share free float	61.4%
H share free float	17.7%

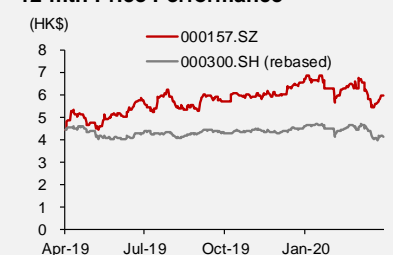
Source: HKEx, Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	-5.1%	1.8%
3-mth	-9.4%	0.6%
6-mth	4.6%	8.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

- China Construction Machinery Sector - Scenario analysis on the resumption of factory production – 10 Feb 2020
- China Construction Machinery Sector – Four structural drivers to extend the upcycle to 2020-21E – 27 Nov 2019
- Zoomlion (000157 CH, BUY) - Stock ownership plan to offer strong incentive to management – 18 Nov 2019

Figure 1: 2019 results highlights (figures font size too small)

YE Dec 31 (RMB mn)	2018	2019	Change (YoY)	2019E	A vs E	1H18	1H19	Change (YoY)	2H18	2H19	Change (YoY)
Total revenue	28,697	43,307	50.9%	44,342	-2.3%	14,706	22,262	51.4%	13,991	21,045	50.4%
Cost of sales	(20,923)	(30,314)	44.9%	(30,741)	-1.4%	(10,953)	(15,584)	42.3%	(9,970)	(14,730)	47.7%
Gross profit	7,774	12,993	67.1%	13,602	-4.5%	3,753	6,678	77.9%	4,021	6,315	57.1%
Other income	882	1,017	15.3%	682	49.1%	397	622	56.7%	485	395	-18.6%
S&D expenses	(2,379)	(3,780)	58.9%	(3,326)	13.7%	(1,213)	(1,881)	55.1%	(1,166)	(1,899)	62.9%
Administrative expenses	(2,063)	(2,693)	30.5%	(2,882)	-6.6%	(1,139)	(1,324)	16.2%	(924)	(1,369)	48.2%
R&D expenses	(581)	(1,516)	160.9%	(887)	70.9%	(197)	(461)	134.0%	(384)	(1,055)	174.7%
EBIT	3,633	6,021	65.7%	7,189	-16.2%	1,601	3,634	127.0%	2,032	2,387	17.5%
Net finance income/(cost)	(1,205)	(1,165)	-3.3%	(1,359)	-14.3%	(607)	(596)	-1.8%	(598)	(569)	-4.8%
Finance income	347	539	55.3%	385	39.9%	192	277	44.3%	155	262	69.0%
Finance expenses	(1,552)	(1,704)	9.8%	(1,745)	-2.3%	(799)	(873)	9.3%	(753)	(831)	10.4%
Other gains/(losses)	0	0	n/a	0	n/a	0	0	n/a	0	0	n/a
Share of profit of JV and associates	222	188	-15.3%	235	-20.0%	86	82	-4.7%	136	106	-22.1%
Pretax profit	2,650	5,044	90.3%	6,065	-16.8%	1,080	3,120	188.9%	1,570	1,924	22.5%
Income tax	(682)	(759)	11.3%	(1,559)	-51.3%	(217)	(540)	148.8%	(465)	(219)	-52.9%
After tax profit	1,968	4,285	117.7%	4,506	-4.9%	863	2,580	199.0%	1,105	1,705	54.3%
MI & discontinued operation	63	96	52.4%	45	113.0%	11	5	-54.5%	52	91	75.0%
Net profit	2,031	4,381	115.7%	4,551	-3.7%	874	2,585	195.8%	1,157	1,796	55.2%
D&A	837	867	3.6%	852	1.8%	412	394	-4.4%	425	473	11.3%
EBITDA	4,470	6,888	54.1%	8,041	-14.3%	2,013	4,028	100.1%	2,457	2,860	16.4%

Source: Company data, CMBIS

Figure 2: 2019 segment breakdown

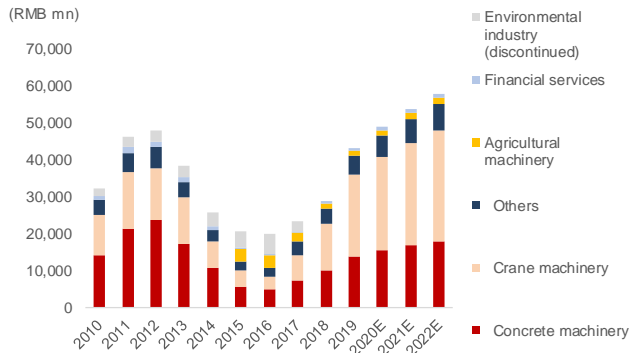
(RMB mn)	2018	2019	Change (YoY)	2019E	A vs E	1H18	1H19	Change (YoY)	2H18	2H19	Change (YoY)
Revenue											
Construction machinery	26,723	40,991	53.4%	42,348	-3.2%	13,578	21,017	54.8%	13,145	19,974	52.0%
Concrete machinery	10,165	13,902	36.8%	16,264	-14.5%	5,711	7,490	31.2%	4,454	6,412	44.0%
Crane machinery	12,472	22,147	77.6%	19,955	11.0%	5,651	11,005	94.7%	6,821	11,142	63.3%
Others	4,086	4,942	20.9%	6,129	-19.4%	2,216	2,522	13.8%	1,870	2,420	29.4%
Agricultural machinery	1,477	1,583	7.2%	1,447	9.4%	935	911	-2.6%	542	672	24.0%
Financial services	497	733	47.5%	547	34.1%	193	334	73.1%	304	399	31.3%
Revenue (continuous operations)	28,697	43,307	50.9%	44,342	-2.3%	14,706	22,262	51.4%	13,991	21,045	50.4%
Environmental industry (discontinued)	0	0	n/a	0	n/a	0	0	n/a	0	0	n/a
Total revenue	28,697	43,307	50.9%	44,342	-2.3%	14,706	22,262	51.4%	13,991	21,045	50.4%
Gross profit											
Construction machinery	7,176	12,193	69.9%	12,957	-5.9%	3,465	6,253	80.5%	3,711	5,940	60.1%
Concrete machinery	2,436	3,810	56.4%	4,717	-19.2%	1,265	2,050	62.1%	1,171	1,760	50.3%
Crane machinery	3,625	7,256	100.2%	6,585	10.2%	1,602	3,541	121.0%	2,023	3,715	83.6%
Others	1,115	1,127	1.1%	1,655	-31.9%	598	662	10.7%	517	465	-10.1%
Agricultural machinery	102	68	-33.3%	98	-30.9%	95	91	-4.2%	7	(23)	-428.6%
Financial services	496	732	47.6%	547	33.9%	193	334	73.1%	303	398	31.4%
Gross profit (continuous operations)	7,774	12,993	67.1%	13,602	-4.5%	3,753	6,678	77.9%	4,021	6,315	57.1%
Environmental industry (discontinued)	0	0	n/a	0	n/a	0	0	n/a	0	0	n/a
Total gross profit	7,774	12,993	67.1%	13,602	-4.5%	3,753	6,678	77.9%	4,021	6,315	57.1%
Gross margin			Change (ppt)		Diff (ppt)			Change (ppt)			Change (ppt)
Construction machinery	26.9%	29.7%	2.9	30.6%	-0.8	25.5%	29.8%	4.2	28.2%	29.7%	1.5
Concrete machinery	24.0%	27.4%	3.4	29.0%	-1.6	22.2%	27.4%	5.2	26.3%	27.4%	1.2
Crane machinery	29.1%	32.8%	3.7	33.0%	-0.2	28.3%	32.2%	3.8	29.7%	33.3%	3.7
Others	27.3%	22.8%	-4.5	27.0%	-4.2	27.0%	26.2%	(0.7)	27.6%	19.2%	(8.4)
Agricultural machinery	6.9%	4.3%	-2.6	6.8%	-2.5	10.2%	10.0%	(0.2)	1.3%	-3.4%	(4.7)
Financial services	99.8%	99.9%	0.1	100.0%	-0.1	100.0%	100.0%	0.0	99.7%	99.7%	0.1
Gross margin (continuous operations)	27.1%	30.0%	2.9	30.7%	-0.7	25.5%	30.0%	4.5	28.7%	30.0%	1.3
Environmental industry (discontinued)	-	-	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average gross margin	27.1%	30.0%	2.9	30.7%	-0.7	25.5%	30.0%	4.5	28.7%	30.0%	1.3

Source: Company data, CMBIS

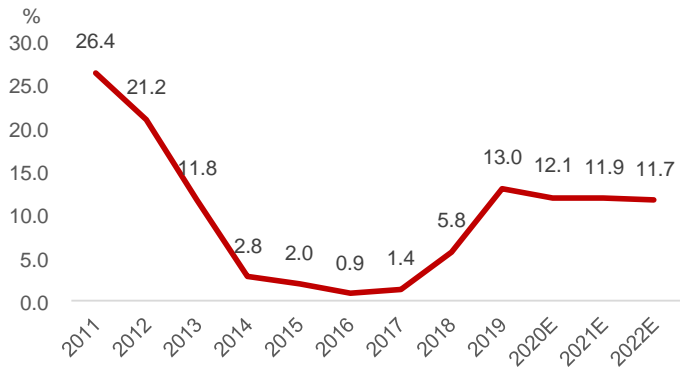
Figure 3: Change in key assumptions

	Old		New		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
(RMB mn)						
Revenue						
Construction machinery	48,700	52,716	46,501	51,124	-5%	-3%
Concrete machinery	18,704	19,826	15,570	16,816	-17%	-15%
Crane machinery	22,948	24,784	25,248	27,772	10%	12%
Others	7,048	8,106	5,683	6,536	-19%	-19%
Agricultural machinery	1,447	1,476	1,583	1,615	9%	9%
Financial services	601	631	806	847	34%	34%
Total revenue	50,749	54,824	48,890	53,585	-4%	-2%
Revenue growth						
					Change in ppt	
Construction machinery	15.0%	8.2%	13.4%	9.9%	(1.6)	1.7
Concrete machinery	15.0%	6.0%	12.0%	8.0%	(3.0)	2.0
Crane machinery	15.0%	8.0%	14.0%	10.0%	(1.0)	2.0
Others	15.0%	15.0%	15.0%	15.0%	0.0	0.0
Agricultural machinery	0.0%	2.0%	0.0%	2.0%	0.0	0.0
Financial services	10.0%	5.0%	10.0%	5.0%	0.0	0.0
Total revenue growth	14.4%	8.0%	12.9%	9.6%	(1.6)	1.6
Gross margin						
					Change in ppt	
Construction machinery	30.4%	30.0%	29.6%	29.5%	-0.82	-0.49
Concrete machinery	29.0%	28.5%	27.3%	27.2%	-1.70	-1.30
Crane machinery	32.5%	32.0%	32.6%	32.5%	0.10	0.50
Others	27.5%	27.5%	22.7%	22.7%	-4.80	-4.80
Agricultural machinery	6.8%	6.9%	4.3%	4.3%	-2.50	-2.60
Financial services	100.0%	100.0%	100.0%	100.0%	0.00	0.00
Average gross margin	30.6%	30.2%	30.0%	29.9%	-0.63	-0.32

Source: Company data, CMBIS estimates

Figure 4: Zoomlion's revenue trend

Source: Company data, CMBIS estimates

Figure 5: Zoomlion's ROE trend

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	28,697	43,307	48,890	53,585	57,723
Cost of sales	-20,923	-30,314	-34,245	-37,586	-40,503
Gross profit	7,774	12,993	14,646	16,000	17,220
Other income	882	1,017	400	440	350
S&D expenses	-2,379	-3,780	-3,667	-4,019	-4,329
Administrative expenses	-2,063	-2,693	-3,178	-3,483	-3,752
R&D expenses	-581	-1,516	-978	-1,072	-1,154
EBIT	3,633	6,021	7,224	7,866	8,335
Net finance income/(cost)	-1,205	-1,165	-736	-662	-575
Finance income	347	539	358	409	389
Finance expenses	-1,552	-1,704	-1,094	-1,071	-964
Other gains/(losses)	0	0	0	0	0
Profit of JV and associates	222	188	254	271	288
Pretax profit	2,650	5,044	6,742	7,475	8,048
Income tax	-682	-759	-1,733	-1,921	-2,068
After tax profit	1,968	4,285	5,009	5,554	5,979
MI/discontinued operation	63	96	50	56	60
Net profit	2,031	4,381	5,060	5,610	6,039
Recurring net profit	2,199	5,023	5,060	5,610	6,039
D&A	837	867	884	916	934
EBITDA	4,470	6,888	8,108	8,782	9,269

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	2,650	5,044	6,742	7,475	8,048
Finance cost	1,451	1,704	1,094	1,071	964
Interest income	-347	-539	-358	-409	-389
Profit or loss of associates	-222	-188	-254	-271	-288
Disposal of PP&E/business	-152	0	0	0	0
Depreciation and amortization	837	867	884	916	934
Income tax paid	-431	-759	-1,733	-1,921	-2,068
Change in working capital	1,152	442	-1,933	-3,355	-2,591
Others	-221	-603	0	0	0
Cash flow from operation	4,717	5,984	4,443	3,506	4,609
Net capex on PP&E	-272	1,082	-1,046	-946	-600
Investment in JV/associates	-4	-301	0	0	0
Investment in subsidiaries	0	0	0	0	0
Investment in intangible assets	-103	-95	-100	0	0
Dividend received	4	0	0	0	0
Interest received	347	539	358	409	389
Others	-7,214	8,759	0	0	0
Cash flow from investing	-7,242	9,984	-788	-537	-211
Equity financing/(repurchase)	37	-2,145	1,074	0	0
Net bank borrowings	6,817	-14,008	-1,000	100	-4,100
Dividend paid	-1,308	-1,801	0	-1,265	-1,402
Interest paid	-1,428	-1,707	-1,094	-1,071	-964
Others	-16	13	0	0	0
Cash flow from financing	4,102	-19,648	-1,021	-2,236	-6,467
Change in cash	1,577	-3,696	2,634	733	-2,068
Cash at beginning of the year	7,148	8,754	5,073	7,707	8,441
Exchange and others	29	15	0	0	0
Cash at the end of the year	8,754	5,073	7,707	8,441	6,372

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	28,657	37,979	34,277	40,745	37,275
PP&E	6,077	6,735	7,162	7,461	7,396
Lease prepayment	1,943	2,433	2,383	2,333	2,283
JV/associates	3,500	3,909	4,163	4,434	4,723
Financial assets	3,656	7,771	5,088	8,419	6,131
Goodwill	2,046	2,017	2,017	2,017	2,017
Trade receivables	5,498	9,072	7,537	10,373	9,237
Intangible assets	2,153	2,043	1,927	1,708	1,489
Financial assets	2,379	2,644	2,644	2,644	2,644
Others	0	0	0	0	0
Deferred tax assets	1,276	1,271	1,271	1,271	1,271
Deposits	129	84	84	84	84
Current assets	64,762	54,052	62,925	65,501	69,484
Inventories	9,551	11,772	10,370	13,932	12,256
Trade & other receivables	21,554	20,839	26,846	25,124	31,176
Finance lease receivables	8,835	9,229	10,863	10,865	12,541
Financial assets at FVPL	13,787	4,311	4,311	4,311	4,311
Others	1,097	1,413	1,413	1,413	1,413
Pledged deposits	1,184	1,415	1,415	1,415	1,415
Cash	8,754	5,073	7,707	8,441	6,372
Current liabilities	39,623	34,569	34,457	39,211	39,347
Trade and other payables	15,786	25,012	24,713	28,834	28,870
Bank borrowings	22,044	7,312	7,112	7,212	7,312
Tax payable	151	186	186	186	186
Contract liabilities	1,602	1,934	2,321	2,855	2,855
Others	40	125	125	125	125
Non-current liabilities	15,065	17,965	17,165	17,165	12,965
Bank borrowings	13,645	14,515	13,715	13,715	9,515
Deferred tax liabilities	429	455	455	455	455
Others	991	2,995	2,995	2,995	2,995
Equity	38,731	39,497	45,580	49,869	54,446
Shareholders' equity	38,164	38,827	44,960	49,305	53,942
MI	567	670	620	564	505

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Concrete machinery	35%	32%	32%	31%	31%
Crane machinery	43%	51%	52%	52%	52%
Others machinery	14%	11%	12%	12%	13%
Agricultural machinery	5%	4%	3%	3%	3%
Financial services	2%	2%	2%	2%	2%
Environmental (discontinued)	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	27.1	30.0	30.0	29.9	29.8
EBIT margin	12.7	13.9	14.8	14.7	14.4
Net profit margin	6.9	9.9	10.2	10.4	10.4
Growth (%)					
Revenue	39.3	50.9	12.9	9.6	7.7
Gross profit	80.6	67.1	12.7	9.2	7.6
EBIT	n/a	65.7	20.0	8.9	6.0
Core net profit	332.9	128.4	0.7	10.9	7.7
Balance sheet ratio					
Current ratio (x)	1.6	1.6	1.8	1.7	1.8
Trade receivable turnover days	342	240	240	238	240
Finance lease receivable turnover days	161	124	123	120	120
Inventory turnover days	161	128	118	118	118
Payable turnover days	268	246	265	260	260
Net debt / total equity (%)	33.6	31.3	19.1	16.2	11.1
Profitability (%)					
ROA	2.3	4.7	5.3	5.5	5.7
Core ROE	5.8	13.0	12.1	11.9	11.7
Per share data					
EPS (RMB)	0.27	0.58	0.64	0.71	0.77
Core EPS (RMB)	0.29	0.67	0.64	0.71	0.77
BVPS (RMB)	4.89	4.93	5.71	6.26	6.85
DPS (RMB)	0.25	0.00	0.16	0.18	0.19

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

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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

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