

# Zoomlion Heavy Industry - H (1157 HK)

## Unjustified share price pullback offers buying opportunity

We believe the share price pullback yesterday (~5%) following the report of solid earnings in 2020 and strong profit growth in 1Q21 (up 114-153% YoY) is unjustified. In contrast to the negative market response, the upbeat management guidance prompted us to revise up our 2021E/22E earnings forecast by 6%/12% (10%/17% above consensus). We lift our TP from HK\$16.0 to HK\$16.8, based on unchanged 12x 2021E. Key catalysts: (1) strong machinery demand in 1H21E; (2) upward revision of consensus forecast.

### ■ Agricultural machinery & intelligent agriculture the new growth drivers.

Agricultural machinery revenue surged 67% to RMB2.6bn (4% of revenue) in 2020, the highest growth segment among all. Segment gross margin significantly expanded 12.5ppt YoY to 16.8% in 2020. Management expects significant room of import substitution in the agricultural machinery industry over the coming years. At present, large-size tractors (horsepower 230 or above) are dominated by foreign brands. Zoomlion is well prepared to launch the large-size tractors and combined harvesters in 2021E-22E. Besides, Zoomlion has accelerated the development of intelligent agriculture which is expected to drive further growth. Zoomlion targets to deliver 30-35% agricultural machinery revenue growth in 2021E.

### ■ Explosive growth of excavator and aerial working platform (AWP).

Zoomlion generated RMB3bn revenue from excavator in 2020 and targets to achieve 80% YoY growth in 2021E. In 2Q21E, Zoomlion targets to achieve 100-150% YoY growth of excavator revenue and >150% growth of AWP.

### ■ Solid growth of concrete machinery and crane.

Zoomlion targets to achieve 30-40% YoY growth of concrete machinery sales in 2Q21E. Truck crane / tower crane are expected to grow 25% / >40% YoY in 2Q21E. Zoomlion is confident of the growth of tower crane, driven by the replacement cycle of tower crane (2021E-23E) as well as the rising application of pre-cast construction.

### ■ Measures to ease cost pressure.

Zoomlion will continue to centralize the procurement. For pump truck, domestic low-cost chassis already accounted for 60% of the supply and the ratio will further increase in 2021E. Besides, Zoomlion has started to revise up ASP for mixing stations. For tower crane, Zoomlion believes that higher steel cost will likely speed up the industry consolidation given the lack of competitive power of small players.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	28,697	43,307	65,109	86,459	101,722
YoY growth (%)	39.3	50.9	50.3	32.8	17.7
Net income (RMB mn)	2,031	4,381	7,296	9,829	11,870
EPS (RMB)	0.27	0.58	0.97	1.17	1.38
YoY growth (%)	51.5	119.2	65.9	20.9	18.3
Consensus EPS (RMB)	n/a	n/a	n/a	1.07	1.19
EV/EBITDA (x)	17.6	11.4	8.3	6.6	5.6
P/E (x)	36.0	16.8	10.0	7.9	6.7
P/B (x)	2.0	2.0	1.6	1.4	1.2
Yield (%)	2.6	0.0	5.5	5.0	6.0
ROE (%)	5.4	11.4	17.1	18.7	19.0
Net gearing (%)	33.6	31.3	9.9	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$16.80
(Previous TP	HK\$16.00)
Up/Downside	+51%
Current Price	HK\$11.10

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#### Stock Data

Mkt Cap (HK\$ mn)	124,221
Avg 3 mths t/o (HK\$ mn)	178
52w High/Low (HK\$)	13.98/5.25
Total Issued Shares (mn)	1,582 (H)
	7,073 (A)

Source: Bloomberg

#### Shareholding Structure

SASAC of Hunan Province	15%
Management team	8%
A share free float	82%
H share free float	18%

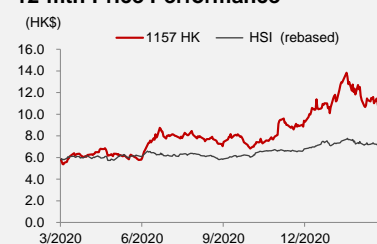
Source: HKEx, Shanghai Stock Exchange

#### Share Performance

	Absolute	Relative
1-mth	-6.1%	-4.1%
3-mth	19.4%	14.5%
6-mth	49.2%	23.3%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: KPMG

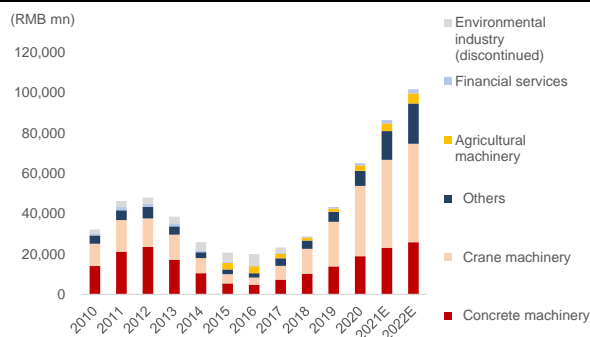
#### Related Reports

1. Zoomlion (1157 HK, BUY) – More drivers; More sustainable; Higher earnings est. & TP – 25 Jan 2021
2. Zoomlion (1157 HK, BUY) – Margin risk priced in; Good buying opportunity – 3 Nov 2020
3. Zoomlion (1157 HK, BUY) – Profit surprise in 3Q20 reaffirms our positive view – 15 Oct 2020

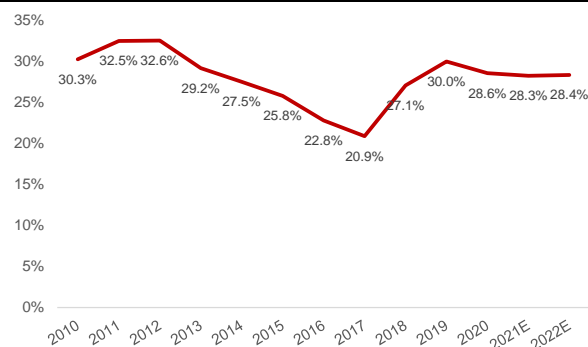
**Figure 1: Change in key assumptions on Zoomlion**

	Old		New		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
(RMB mn)						
<b>Revenue</b>						
Construction machinery	75,529	84,270	81,035	94,750	7%	12%
Concrete machinery	23,022	24,863	23,162	25,941	1%	4%
Crane machinery	40,241	43,460	43,621	48,856	8%	12%
Others	12,266	15,946	14,252	19,953	16%	25%
Agricultural machinery	2,754	3,085	3,834	4,984	39%	62%
Financial services	1,051	1,156	1,591	1,988	51%	72%
<b>Total revenue</b>	<b>79,334</b>	<b>88,511</b>	<b>86,459</b>	<b>101,722</b>	<b>9%</b>	<b>15%</b>
<b>Gross margin</b>						
					<b>Change in ppt</b>	
Construction machinery	28.7%	28.7%	27.3%	27.3%	(1.35)	(1.37)
Concrete machinery	27.5%	27.5%	26.3%	26.2%	(1.20)	(1.30)
Crane machinery	30.9%	30.9%	30.9%	30.9%	0.00	0.00
Others	23.5%	24.5%	18.0%	20.0%	(5.50)	(4.50)
Agricultural machinery	18.0%	18.0%	19.0%	20.0%	1.00	2.00
Financial services	100.0%	100.0%	99.5%	99.5%	(0.50)	(0.50)
<b>Average gross margin</b>	<b>29.2%</b>	<b>29.2%</b>	<b>28.3%</b>	<b>28.4%</b>	<b>(0.96)</b>	<b>(0.87)</b>
S&D expense ratio	7.0%	6.9%	6.0%	5.8%	(1.0)	(1.1)
Administrative expense ratio	5.5%	5.4%	6.0%	5.9%	0.5	0.5
R&D expense ratio	4.5%	4.5%	5.3%	5.4%	0.8	0.9
<b>Net profit</b>	<b>9,303</b>	<b>10,631</b>	<b>9,829</b>	<b>11,870</b>	<b>6%</b>	<b>12%</b>

Source: Company data, CMBIS estimates

**Figure 2: Zoomlion's revenue trend**

Source: Company data, CMBIS estimates

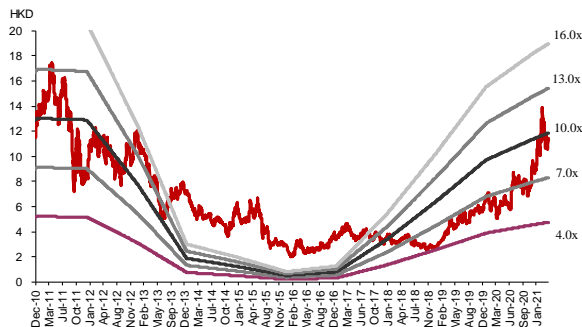
**Figure 3: Zoomlion's gross margin trend**

Source: Company data, CMBIS estimates

## Valuation

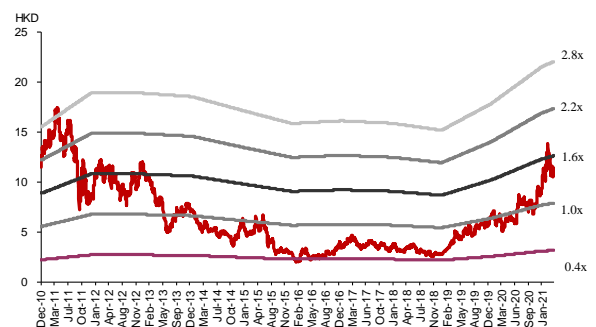
We forecast Zoomlion to deliver 35%/21% net profit growth in 2021E/22E. After taking into consideration of dilution impact from the share placement plan, we forecast 21%/18% EPS growth in 2021E/22E. Our new target price of HK\$16.8 is based on unchanged 12x 2021E P/E. We benchmark our target multiple close to the peak level in the previous upcycle (12-13x in 2011). We believe our target valuation is justified given that: (1) the upcycle at present is sustainable on the back of more structural factors; (2) there are a lot more growth drivers for Zoomlion compared with that in the previous cycle.

**Figure 4: Zoomlion - H 12M forward P/E band**



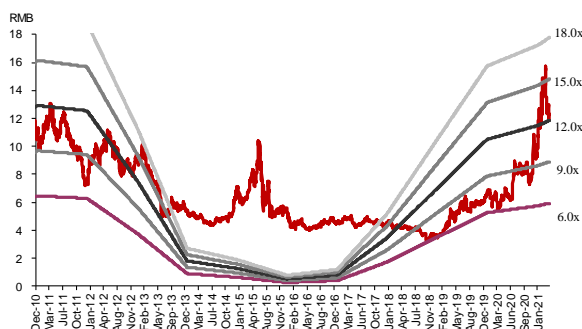
Source: Bloomberg, Company data, CMBIS estimates

**Figure 5: Zoomlion - H 12M forward P/B band**



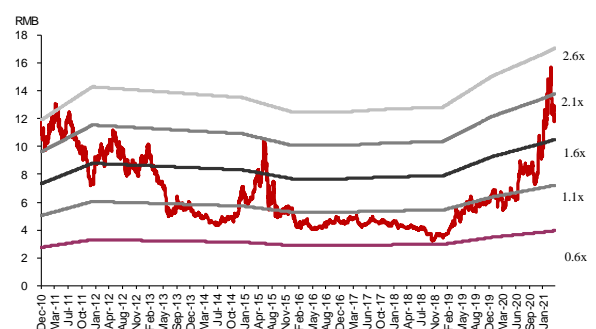
Source: Bloomberg, Company data, CMBIS estimates

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



Source: Bloomberg, Company data, CMBIS estimates

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



Source: Bloomberg, Company data, CMBIS estimates

- **Risk factors:** (1) Unexpected weakness on infrastructure spending; (2) Slow recovery of property construction; (3) Risks of new business expansion.

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Total revenue</b>	<b>28,697</b>	<b>43,307</b>	<b>65,109</b>	<b>86,459</b>	<b>101,722</b>
Cost of sales	(20,923)	(30,314)	(46,492)	(62,012)	(72,863)
<b>Gross profit</b>	<b>7,774</b>	<b>12,993</b>	<b>18,617</b>	<b>24,447</b>	<b>28,859</b>
Other income	882	1,017	1,462	1,479	1,499
S&D expenses	(2,379)	(3,780)	(4,046)	(5,188)	(5,900)
Administrative expenses	(2,063)	(2,693)	(4,048)	(5,188)	(6,002)
R&D expenses	(581)	(1,516)	(3,345)	(4,582)	(5,493)
<b>EBIT</b>	<b>3,633</b>	<b>6,021</b>	<b>8,640</b>	<b>10,969</b>	<b>12,964</b>
Net finance income/(cost)	(1,205)	(1,165)	(154)	259	628
Finance income	347	539	596	1,255	1,488
Finance expenses	(1,552)	(1,704)	(750)	(996)	(861)
Other gains/(losses)	0	0	0	0	0
Profit of JV and associates	222	188	182	220	235
<b>Pretax profit</b>	<b>2,650</b>	<b>5,044</b>	<b>8,668</b>	<b>11,449</b>	<b>13,826</b>
Income tax	(682)	(759)	(1,297)	(1,717)	(2,074)
<b>After tax profit</b>	<b>1,968</b>	<b>4,285</b>	<b>7,371</b>	<b>9,731</b>	<b>11,752</b>
MI/discontinued operation	63	96	(75)	97	118
<b>Net profit</b>	<b>2,031</b>	<b>4,381</b>	<b>7,296</b>	<b>9,829</b>	<b>11,870</b>
D&A	837	867	823	963	1,043
<b>EBITDA</b>	<b>4,470</b>	<b>6,888</b>	<b>9,463</b>	<b>11,932</b>	<b>14,007</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Pretax profit	2,650	5,044	8,668	11,449	13,826
Finance cost	1,451	1,704	750	996	861
Interest income	(347)	(539)	(596)	(1,255)	(1,488)
Profit or loss of associates	(222)	(188)	(182)	(220)	(235)
Disposal of PP&E/business	(152)	0	0	0	0
Depreciation and amortization	837	867	823	963	1,043
Income tax paid	(431)	(773)	(1,297)	(1,717)	(2,074)
Change in working capital	1,152	442	(1,227)	(1,745)	(1,189)
Others	(221)	(589)	483	0	0
<b>Cash flow from operation</b>	<b>4,717</b>	<b>5,968</b>	<b>7,422</b>	<b>8,470</b>	<b>10,744</b>
Net capex on PP&E	(272)	(1,082)	(1,192)	(2,646)	(2,500)
Investment in JV/associates	(4)	(301)	0	0	0
Investment in subsidiaries	0	(177)	0	0	0
Investment in intangible assets	(103)	(128)	(110)	(100)	(100)
Dividend received	4	45	0	0	0
Interest received	347	253	596	1,255	1,488
Others	(7,214)	11,374	1,491	0	0
<b>Cash flow from investing</b>	<b>(7,242)</b>	<b>9,984</b>	<b>785</b>	<b>(1,491)</b>	<b>(1,112)</b>
Equity financing/(repurchase)	37	(2,145)	0	6,095	0
Net bank borrowings	6,817	(14,008)	(2,282)	(500)	(4,700)
Dividend paid	(1,308)	(1,801)	0	(4,202)	(3,931)
Interest paid	(1,428)	(1,707)	0	(996)	(861)
Others	(16)	13	(962)	0	0
<b>Cash flow from financing</b>	<b>4,102</b>	<b>(19,648)</b>	<b>(3,244)</b>	<b>396</b>	<b>(9,492)</b>
Change in cash	1,577	(3,696)	4,963	7,375	140
Cash at beginning of the year	7,148	8,754	5,073	10,086	17,461
Exchange and others	29	15	50	0	0
Cash at the end of the year	8,754	5,073	10,086	17,461	17,602

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Non-current assets</b>	<b>28,657</b>	<b>37,979</b>	<b>49,287</b>	<b>54,810</b>	<b>63,285</b>
PP&E	6,077	6,735	7,342	9,273	10,983
Lease prepayment	1,943	2,433	3,068	3,018	2,968
JV/associates	3,500	3,909	3,388	3,608	3,843
Finance lease receivables	3,656	7,771	13,008	14,469	17,859
Goodwill	2,046	2,017	2,054	2,054	2,054
Trade receivables	5,498	9,072	14,131	16,189	19,483
Intangible assets	2,153	2,043	1,965	1,867	1,764
Financial assets	2,379	2,644	2,703	2,703	2,703
Others	0	0	0	0	0
Deferred tax assets	1,276	1,271	1,453	1,453	1,453
Deposits	129	84	175	175	175
<b>Current assets</b>	<b>64,762</b>	<b>54,052</b>	<b>66,956</b>	<b>82,467</b>	<b>84,396</b>
Inventories	9,551	11,772	14,652	16,609	19,723
Trade & other receivables	21,554	20,839	23,972	29,562	26,176
Finance lease receivables	8,835	9,229	10,365	10,954	13,014
Financial assets at FVPL	13,787	4,311	4,284	4,284	4,284
Others	1,097	1,413	1,374	1,374	1,374
Pledged deposits	1,184	1,415	2,223	2,223	2,223
Cash	8,754	5,073	10,086	17,461	17,602
<b>Current liabilities</b>	<b>39,623</b>	<b>34,569</b>	<b>46,928</b>	<b>56,338</b>	<b>63,121</b>
Trade and other payables	15,786	25,012	40,387	49,658	56,941
Bank borrowings	22,044	7,312	2,964	2,464	1,964
Tax payable	151	186	710	710	710
Contract liabilities	1,602	1,934	2,777	3,416	3,416
Others	40	125	90	90	90
<b>Non-current liabilities</b>	<b>15,065</b>	<b>17,965</b>	<b>21,465</b>	<b>21,465</b>	<b>17,265</b>
Bank borrowings	13,645	14,515	16,337	16,337	12,137
Deferred tax liabilities	429	455	490	490	490
Others	991	2,995	4,638	4,638	4,638
<b>Equity</b>	<b>38,731</b>	<b>39,497</b>	<b>47,850</b>	<b>59,474</b>	<b>67,294</b>
Shareholders' equity	38,164	38,827	46,706	58,427	66,365
MI	567	670	1,144	1,047	929

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Sales mix (%)</b>					
Concrete machinery	35%	32%	29%	27%	26%
Crane machinery	43%	51%	54%	50%	48%
Others machinery	14%	11%	12%	16%	20%
Agricultural machinery	5%	4%	4%	4%	5%
Financial services	2%	2%	2%	2%	2%
Environmental (discontinued)	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	27.1	30.0	28.6	28.3	28.4
EBIT margin	12.7	13.9	13.3	12.7	12.7
Net profit margin	6.9	9.9	11.3	11.3	11.6
<b>Growth (%)</b>					
Revenue	39.3	50.9	50.3	32.8	17.7
Gross profit	80.6	67.1	43.3	31.3	18.0
EBIT	n/a	65.7	43.5	27.0	18.2
Net profit	51.3	115.7	66.5	34.7	20.8
<b>Balance sheet ratio</b>					
Current ratio (x)	1.6	1.6	1.4	1.5	1.3
Trade receivable turnover days	342	240	191	177	164
Finance lease receivable turnover days	161	124	113	103	101
Inventory turnover days	161	128	104	92	91
Payable turnover days	268	246	257	265	267
Net debt / total equity (%)	33.6	31.3	9.9	Net cash	Net cash
<b>Profitability (%)</b>					
ROA	2.3	4.7	7.0	7.8	8.3
ROE	5.4	11.4	17.1	18.7	19.0
<b>Per share data</b>					
EPS (RMB)	0.27	0.58	0.97	1.17	1.38
BVPS (RMB)	4.89	4.93	5.93	6.81	7.73
DPS (RMB)	0.25	0.00	0.53	0.46	0.55

Note: We have modelled the dilution effect from upcoming fund-raising exercise in 2021E

Source: Company data, CMBIS estimates

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