

ZTO Express (ZTO US)

Record-high market share; Good cost control; Earnings raised on better margin

ZTO's 2Q22 net profit grew 40% YoY to RMB1.8bn. Even if we strip out the FX gain of RMB120mn in 2Q, the profit is still in line with expectations. ZTO has achieved a record-high market share of 23%, through swinging slightly to parcel volume growth amid a reasonable balance between volume (+7.5%) and ASP (+10.5%). Besides, ZTO achieved a good unit cost control (+6%) despite high fuel cost. Looking ahead, ZTO maintains the full year parcel volume growth guidance of 12-16% (We model 12% in view of the weak macro environment). Still, we revise up our 2022E earnings by 11% and 23-24E earnings by 4%, as we are incrementally positive on the unit gross margin expansion. We raise our TP to US\$39.1 from US\$37.3, based on unchanged target multiple of 35x (2022E). Maintain **BUY**.

Key highlights in 2Q22 results:

- **Reported net profit in 2Q22 grew 40% YoY to RMB1.8bn.** Stripping out the net FX change (+RMB120mn in 2Q22; -RMB26mn in 2Q21), the adjusted net profit grew 28% YoY to RMB1.69bn. The growth was driven by (1) 18% YoY revenue growth, (2) 2.6ppt YoY gross margin expansion to 25.4%, and (3) improvement SG&A expense ratio.
- **Parcel volume +7.5% YoY to 6.2bn units along with large market share gain.** The volume growth was higher than other "Tongda" players (except STO), which boosted ZTO's market share by 1.4ppt QoQ to 23%.
- **ASP +10.5% YoY.** Parcel delivery ASP increased by 10.5% YoY (or RMB0.13/unit) to RMB1.34/unit in 1Q22. The increment was less than other "Tongda" players, with an aim to boost market share.
- **Unit cost +6% YoY.** Unit cost of transportation increased only 2% YoY to RMB0.49/unit despite the fact that diesel price (industry average) increased by 36% YoY, suggesting continuous truck efficiency improvement that offset the fuel cost pressure. For sorting hub, unit cost increased 9% YoY to RMB0.3/unit, due to higher salary and depreciation. Unit gross margin grew 25% YoY to RMB0.35/unit.
- **Major risk factors:** (1) continuous lockdowns; (2) slowdown of online retail sales; and (3) further increase in diesel price.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	25,214	30,406	36,144	41,428	47,037
YoY growth (%)	14	21	19	15	14
Core net profit (RMB mn)	4,312	4,755	6,362	7,653	8,930
Core EPS (RMB)	5.43	5.70	7.62	9.17	10.70
YoY growth (%)	-14.5	5.0	33.8	20.3	16.7
Consensus EPS (RMB)	N/A	N/A	7.28	9.39	11.65
EV/EBITDA (x)	19.2	16.4	11.8	9.8	8.4
P/E (x)	34.0	30.5	23.8	19.8	16.9
P/B (x)	3.1	3.0	2.8	2.5	2.3
Yield (%)	0.9	0.9	1.3	1.5	1.8
ROE (%)	9.9	9.7	12.4	13.5	14.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$39.1
(Previous TP	US\$37.3)
Up/Downside	+47%
Current Price	US\$26.53

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Stock Data

Mkt Cap (US\$ mn)	21,482
Avg 3 mths t/o (US\$ mn)	58.01
52w High/Low (US\$)	34.48/19.53
Total Issued Shares (mn)	808.4
Source: Bloomberg	

Shareholding Structure

Meisong Lai	25.6%
Alibaba	8.6%
Others	65.8%

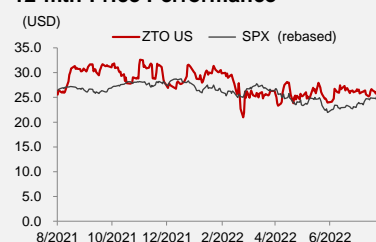
Note: Under the weighted voting rights structure, Meisong Lai has 76.8% of the total voting right
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.8%	-7.9%
3-mth	3.1%	-1.3%
6-mth	-13.1%	-11.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related reports:

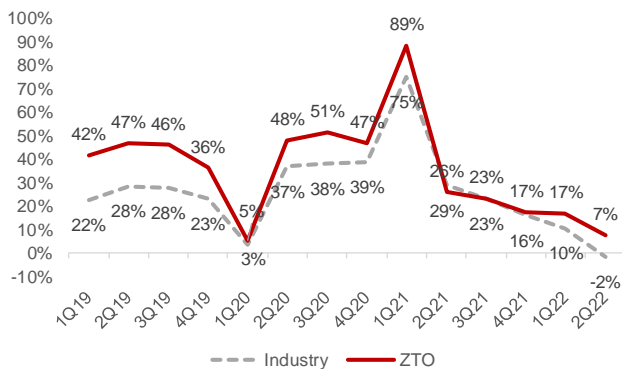
1. Lower parcel volume guidance but largely expected; ASP story well intact – 27 Mar 2022
2. Solid 4Q21 results; Expect strong earnings recovery in 2022E – 17 Mar 2022

Figure 1: ZTO's 2Q22 results

(RMB mn)	1Q21	1Q22	Change YoY	2Q21	2Q22	Change YoY
Total revenue	6,473	7,904	22.1%	7,325	8,657	18.2%
Cost of sales	-5,376	-6,285	16.9%	-5,651	-6,454	14.2%
Gross profit	1,097	1,619	47.7%	1,674	2,203	31.6%
Other income	157	115	-26.6%	176	240	36.1%
SG&A expenses	-620	-618	-0.3%	-394	-457	16.0%
EBIT	633	1,116	76.4%	1,456	1,986	36.4%
D&A	521	633	21.4%	565	672	19.0%
EBITDA	1,154	1,749	51.5%	2,020	2,658	31.5%
Net finance income/(expense)	60	51	-14.1%	69	95	39.0%
Finance income	75	111	47.2%	102	118	15.7%
Finance expenses	-16	-60	282.7%	-34	-23	-31.6%
Fair value changes of financial instruments	16	-1	n/a	32	-14	n/a
FX gain/(loss)	-0	-13	3763.4%	-26	120	n/a
Share of profit of JV and associates	-25	-23	-7.4%	-4	10	n/a
Pretax profit	683	1,131	65.5%	1,527	2,197	43.9%
Income tax	-150	-255	70.6%	-255	-438	71.9%
After tax profit	534	876	64.1%	1,272	1,759	38.2%
MI	0	31	30956.6%	20	46	133.0%
Net profit	534	906	69.8%	1,292	1,805	39.7%
Ratios:			<i>ppt</i>			<i>ppt</i>
Gross margin	16.9%	20.5%	3.5	22.8%	25.4%	2.6
EBIT margin	9.8%	14.1%	4.3	19.9%	22.9%	3.1
After tax profit margin	8.2%	11.1%	2.8	17.4%	20.3%	2.9
Effective tax rate	21.9%	22.6%	0.7	16.7%	19.9%	3.3

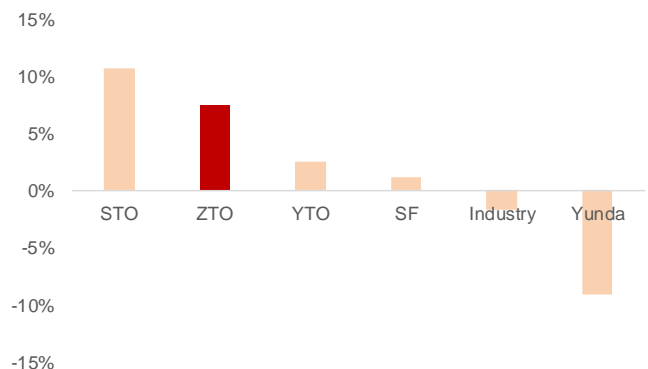
Source: Company data, CMBIGM

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



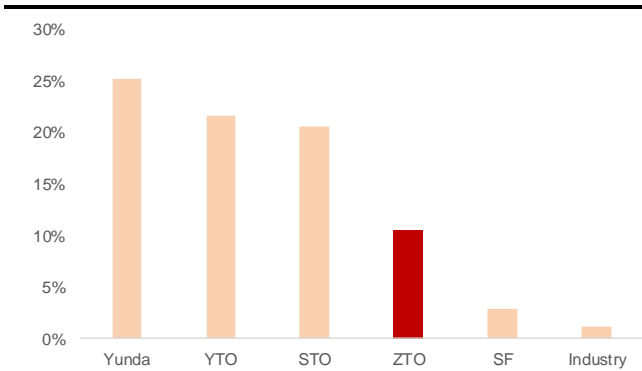
Source: Company data, The State Post Bureau, CMBIGM

Figure 3: ZTO's parcel volume growth in 2Q22



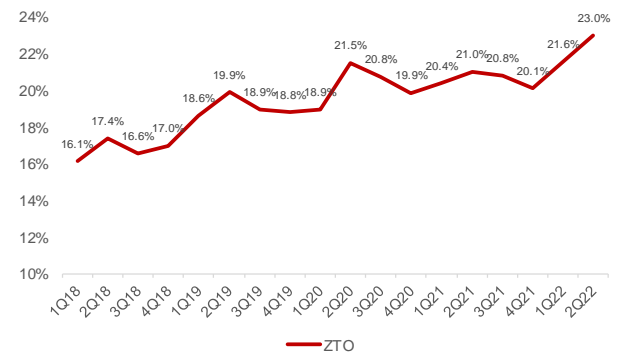
Source: Company data, The State Post Bureau, CMBIGM

Figure 4: ZTO's ASP change (YoY) in 2Q22



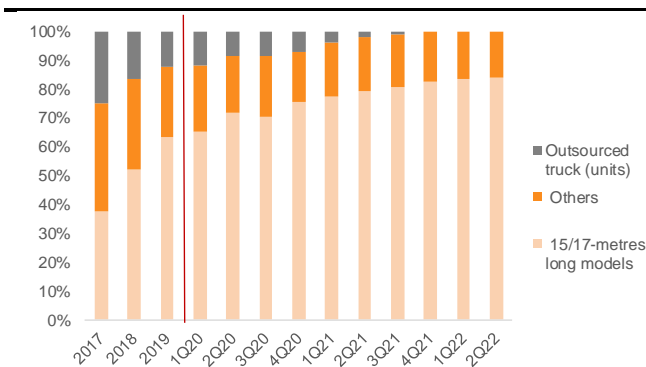
Source: Company data, The State Post Bureau, CMBIGM

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



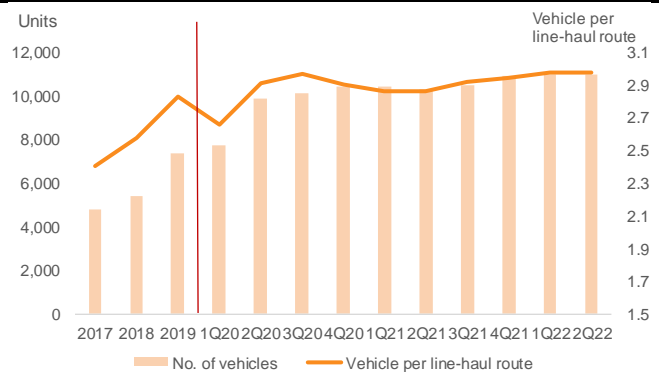
Source: Company data, CMBIGM

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



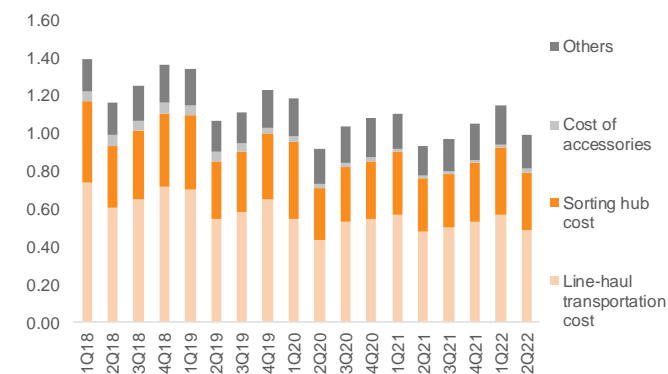
Source: Company data, CMBIGM

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



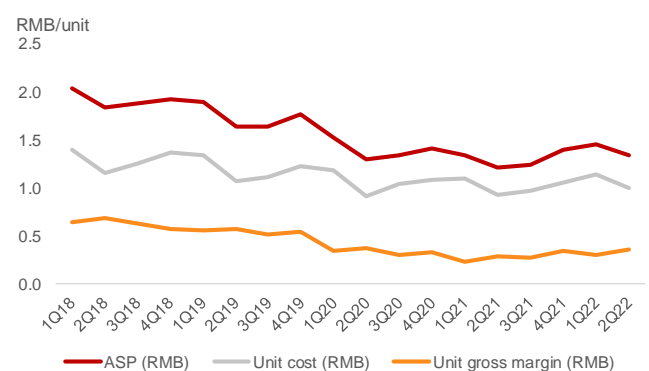
Source: Company data, CMBIGM

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

	Old			New			Change		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Shipment volume (mn units of parcel)									
Unit of parcel	24,965	29,209	33,590	24,965	28,710	33,016	0.0%	-1.7%	-1.7%
ASP (RMB/unit)									
Per unit of parcel	1.39	1.39	1.37	1.39	1.39	1.38	0.5%	0.5%	0.5%
Unit cost (RMB)									
Line-haul transportation cost	-0.53	-0.51	-0.50	-0.52	-0.50	-0.49	-2.1%	-2.1%	-2.1%
Sorting hub cost	-0.32	-0.31	-0.30	-0.31	-0.31	-0.30	-1.9%	-1.9%	-1.9%
Others	-0.18	-0.17	-0.17	-0.18	-0.18	-0.18	4.0%	4.0%	4.0%
Total	-1.04	-1.01	-1.00	-1.03	-1.00	-0.99	-1.0%	-1.0%	-1.0%
Unit gross margin (RMB)	0.34	0.37	0.38	0.36	0.39	0.39	4.9%	4.4%	4.2%
(RMB mn)									
Revenue									
Express delivery, accessories & others	34,605	40,488	46,096	34,767	39,982	45,520	0.5%	-1.3%	-1.3%
Freight forwarding services	1,453	1,598	1,678	1,377	1,445	1,518	-5.3%	-9.6%	-9.6%
Total	36,058	42,087	47,774	36,144	41,428	47,037	0.2%	-1.6%	-1.5%
Revenue growth								ppt	
Express delivery, accessories & others	20%	17%	14%	20%	15%	14%	0.6	(2.0)	0.0
Freight forwarding services	-5%	10%	5%	-10%	5%	5%	(5.0)	(5.0)	0.0
Revenue	19%	17%	14%	19%	15%	14%	0.3	(2.1)	0.0
Gross margin								ppt	
Express delivery, accessories & others	25%	27%	27%	26%	28%	29%	1.1	1.1	1.0
Freight forwarding services	7%	9%	9%	7%	9%	9%	0.0	0.0	0.0
Gross margin	24%	26%	27%	25%	27%	28%	1.1	1.1	1.1
SG&A expense ratio	-6.0%	-5.8%	-5.8%	-6.0%	-5.8%	-5.8%	0.0	0.0	0.0
Net profit	5,718	7,373	8,618	6,362	7,653	8,930	11.3%	3.8%	3.6%

Source: Company data, CMBIGM estimates

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

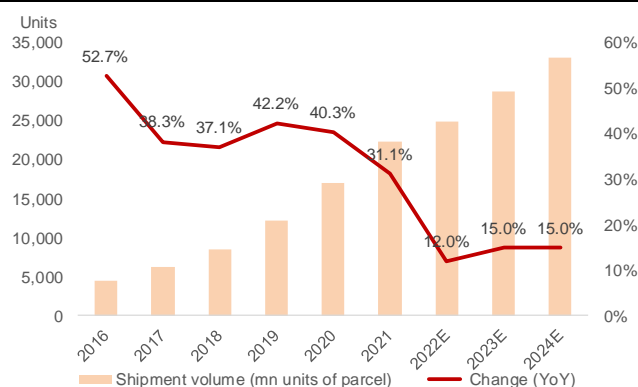
2022E Net profit (RMB mn)		ASP (RMB/unit)				
		1.32	1.36	1.39	1.42	1.46
	-0.545	4,460	5,282	5,830	6,378	7,199
	-0.530	4,780	5,602	6,149	6,697	7,519
Unit line-haul	-0.520	4,993	5,815	6,362	6,910	7,732
transportation cost (RMB)	-0.509	5,206	6,028	6,576	7,123	7,945
	-0.494	5,525	6,347	6,895	7,443	8,265

Source: Company data, CMBIGM estimates

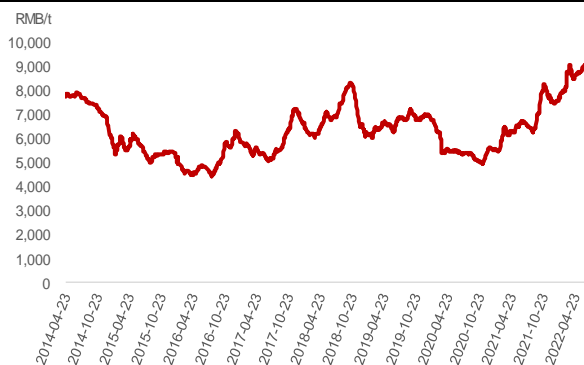
Figure 12: Earnings sensitivity to ASP and unit sorting hub cost

2022E Net profit (RMB mn)		ASP (RMB/unit)				
		1.32	1.36	1.39	1.42	1.46
	-0.330	4,670	5,492	6,040	6,588	7,410
	-0.321	4,864	5,686	6,233	6,781	7,603
Unit sorting hub cost	-0.315	4,993	5,815	6,362	6,910	7,732
(RMB)	-0.308	5,122	5,944	6,491	7,039	7,861
	-0.299	5,315	6,137	6,685	7,233	8,055

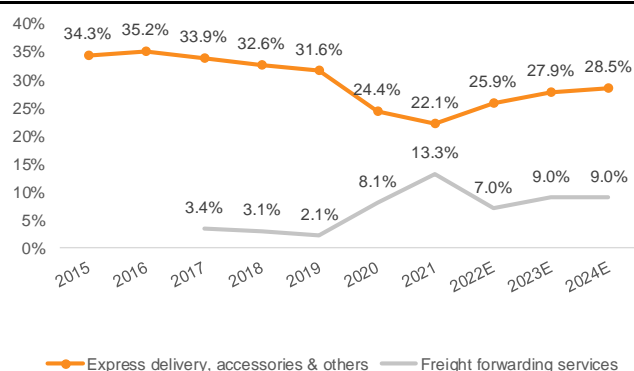
Source: Company data, CMBIGM estimates

Figure 13: ZTO's parcel shipment volume forecast

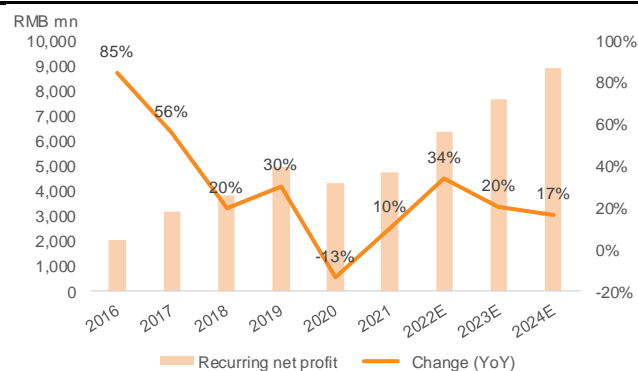
Source: Company data, CMBIGM estimate

Figure 14: China diesel price

Source: Wind, CMBIGM

Figure 15: ZTO's gross margin trend

Source: Company data, CMBIGM estimate

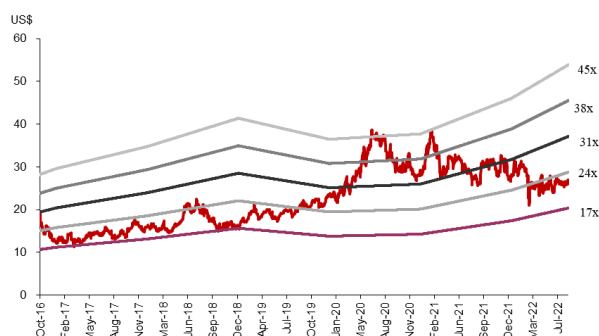
Figure 16: ZTO's net profit forecast

Source: Company data, CMBIGM estimate

Valuation

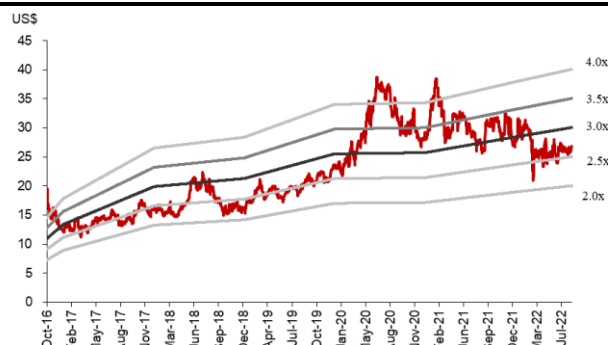
We raise our TP from US\$37.3 to US\$39.1, based on an unchanged target multiple of 35x, the mid-point between the peak (45x) and the historical average (26x). Our above average target multiple is to reflect the company's gradual market share gain and the recovery of profitability.

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

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	25,214	30,406	36,144	41,428	47,037
Cost of sales	-19,377	-23,816	-27,043	-30,158	-33,916
Gross profit	5,837	6,589	9,101	11,269	13,122
Other operating income	581	790	723	414	470
SG&A expense	-1,664	-1,876	-2,169	-2,403	-2,728
EBIT	4,754	5,503	7,655	9,281	10,864
Net finance income/(cost)	407	237	138	171	223
Finance income	443	364	242	240	274
Finance expenses	-35	-127	-104	-69	-51
Gain/(loss) on disposal	1	2	0	0	0
Impairment of equity investees	-1	53	0	0	0
FX gain/(loss)	-127	-56	0	0	0
Profit of JV & associates	-19	-32	4	19	21
Pretax profit	5,016	5,707	7,797	9,471	11,107
Income tax	-690	-1,005	-1,559	-1,894	-2,221
After tax profit	4,326	4,701	6,238	7,577	8,886
MI	-14	54	125	76	44
Net profit	4,312	4,755	6,362	7,653	8,930
Recurring net profit	4,312	4,755	6,362	7,653	8,930
D&A	1,840	2,222	3,083	3,617	4,151
EBITDA	6,595	7,725	10,738	12,898	15,015

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	5,016	5,707	7,797	9,471	11,107
Finance cost	35	127	104	69	51
Interest income	-443	-364	-242	-240	-274
Profit or loss of associates	19	32	-4	-19	-21
Depreciation & amortization	1,840	2,215	3,083	3,617	4,151
Income tax paid	-690	-1,005	-1,559	-1,894	-2,221
Change in working capital	-1,422	-18	-710	-89	-687
Others	152	162	0	0	0
Cash flow from operation	4,508	6,856	8,468	10,914	12,106
Net capex on PP&E	-7,237	-8,467	-6,500	-6,500	-6,500
Purchase of land use rights	-1,971	-1,082	-700	-700	-700
Investment in JV/associates	-238	0	-50	-200	-200
Investment in subsidiaries	0	0	0	0	0
Interest received	443	364	242	240	274
Others	5,012	64	-0	-0	-0
Cash flow from investing	-3,992	-9,120	-7,008	-7,160	-7,126
Equity financing/(repurchase)	8,543	0	0	0	0
Net bank borrowings	1,433	2,026	-1,000	-1,000	0
Dividend paid	-1,649	-1,315	-1,355	-1,909	-2,296
Others	10	-3,615	0	0	0
Cash flow from financing	8,337	-2,904	-2,458	-2,977	-2,347
Change in cash	8,853	-5,168	-998	776	2,633
Cash at beginning of the year	5,270	14,213	9,721	8,723	9,500
Exchange gains/(losses) and others	89	677	0	0	0
Cash at the end of the year	14,213	9,721	8,723	9,500	12,133

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	36,880	44,106	49,472	52,778	57,279
PP&E	18,565	24,930	28,474	31,498	34,002
Land use right	4,361	5,336	5,915	6,480	7,031
Investment in JV/associates	3,224	3,730	3,784	4,004	4,224
Operating lease right-of-use assets	876	897	957	1,017	1,077
Goodwill	4,242	4,242	4,242	4,242	4,242
Long term financing receivables	1,970	1,413	2,548	1,992	3,163
Intangible assets	42	36	29	23	17
Long-term investment	1,842	1,842	1,842	1,842	1,842
Others	1,037	746	746	746	746
Deferred tax assets	721	935	935	935	935
Current assets	22,325	18,666	17,344	19,015	21,361
Inventories	53	83	65	100	86
Account receivables	746	933	1,067	1,226	1,377
Financing receivables	492	1,111	671	1,372	948
Advances to suppliers	589	668	668	668	668
Short-term investment	3,690	2,845	2,845	2,845	2,845
Others	2,408	3,276	3,276	3,276	3,276
Restricted cash	133	28	28	28	28
Cash	14,213	9,721	8,723	9,500	12,133
Current liabilities	9,348	12,996	12,156	11,466	11,722
Account payables	1,636	1,958	2,117	2,427	2,684
Operating lease liabilities	246	251	251	251	251
Bank borrowings	1,433	3,459	2,459	1,459	1,459
Tax payable	49	87	87	87	87
Advanced from customers	1,120	1,227	1,227	1,227	1,227
Others	4,864	6,016	6,016	6,016	6,016
Non-current liabilities	757	848	848	848	848
Bank borrowings	0	0	0	0	0
Deferred tax liabilities	255	292	292	292	292
Non-current operating lease	502	556	556	556	556
Others	-0	0	0	0	0
Shareholders' equity	48,979	48,637	53,645	59,389	66,023
MI	121	290	166	90	45

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Express delivery, accessories & others	93%	95%	96%	97%	97%
Freight forwarding services	7%	5%	4%	3%	3%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	23.1	21.7	25.2	27.2	27.9
EBITDA margin	26.2	25.4	29.7	31.1	31.9
EBIT margin	18.9	18.1	21.2	22.4	23.1
Net profit margin	17.2	15.5	17.3	18.3	18.9
Growth (%)					
Revenue	14.0	20.6	18.9	14.6	13.5
Gross profit	(11.8)	12.9	38.1	23.8	16.4
EBITDA	(2.0)	17.1	39.0	20.1	16.4
EBIT	(13.0)	15.7	39.1	21.2	17.1
Core net profit	(13.4)	10.3	33.8	20.3	16.7
Balance sheet ratio					
Current ratio (x)	2.4	1.4	1.4	1.7	1.8
Trade receivable turnover days	29	30	30	30	30
Inventory turnover days	1	1	1	1	1
Payable turnover days	29	28	28	28	28
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	8.2	7.8	9.8	11.0	11.9
ROE	9.9	9.7	12.4	13.5	14.2
Per share data					
EPS (RMB)	5.43	5.70	7.62	9.17	10.70
Core EPS (RMB)	5.43	5.70	7.62	9.17	10.70
BVPS (RMB)	58.67	58.26	64.26	71.14	79.08
DPS (RMB)	1.65	1.62	2.29	2.75	3.21

Source: Company data, CMBIGM 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 CMBIGM

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

CMB International Global Markets Limited

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