

ZTO Express (2057 HK)

Market share gain > profitability

ZTO targets to deliver parcel volume growth of 35-40% YoY in 2021E, and to achieve market share of 22%/25% in 2021E/22E (versus 20.4% in 2020). Given that no guidance on net profit is provided, we believe ZTO will continue to pursue scale instead of profitability in the foreseeable future. We took our 2021E/22E earnings forecast down by 14%/9%, after revising down our ASP assumptions. We revised our TP to HK\$278 from HK\$292, based on 36x 2021E P/E (50% premium to the historical average of 24x, on the back of market share gain). On the positive side, we believe ZTO's on-track cost reduction measures and continuous investment in network and capacity will make it a beneficiary of market consolidation. Besides, expansion in time-definite segment, less than load (LTL) and cold chain business will serve as potential growth drivers going forward.

- Earnings highlight.** ZTO's reported net profit in 4Q20 dropped 45% YoY to RMB1.29bn. Excluding the one-off gain of ~RMB700mn in 4Q19, net profit in 4Q20 would drop only 21% YoY. For the full year, net profit was RMB4.3bn, down 24%/13% on reported/recurring basis. ZTO recognized RMB127mn of FX loss in 2020, due to the depreciation of USD-denominated deposits against RMB.
- Volume growth remained strong in 4Q20.** ZTO's revenue increased by 21% YoY to RMB8.3bn in 4Q20, driven by parcel volume growth of 47% YoY (similar to YTO [600233 CH] and Yunda [002120 CH], but outpaced the industry growth of 30%). In terms of parcel volume, ZTO's market share reached 19.9% in 4Q20.
- ASP dropped less than "Tongda" players.** ZTO's parcel ASP dropped 20% YoY (or RMB0.36/unit) to RMB1.41/unit in 4Q20 (breakdown: [1] RMB0.25 for incentives to support network partners, [2] RMB0.02 for the use of lower-priced waybills, and [3] RMB0.09 due to lower parcel weight). On QoQ basis, the ASP increased 6%.
- Unit cost down 12% YoY in 4Q20.** ZTO's unit cost of transportation and sorting hub dropped 16% YoY and 12% YoY, respectively, to RMB0.55 and RMB0.31. The transportation cost reduction was driven by higher portion of volume transported by self-owned trucks (88%, vs 69% in 4Q19) and higher portion of the use of high-capacity trucks (81%, vs 72% in 4Q19). For sorting hub cost, the reduction was mainly by the use of more sets of automated sorting equipment (339 sets, vs 265 sets in 4Q19).

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	17,604	22,110	25,214	33,036	41,715
YoY growth (%)	35	26	14	31	26
Net profit (RMB mn)	3,820	4,979	4,312	5,375	7,127
EPS (RMB)	5.08	6.35	5.43	6.44	8.54
YoY growth (%)	14.3	25.0	-14.5	18.6	32.6
Consensus EPS (RMB)	N/A	N/A	N/A	6.42	8.19
EV/EBITDA (x)	28.2	21.7	22.1	16.9	12.5
P/E (x)	40.0	32.9	38.5	30.5	23.0
P/B (x)	4.7	4.3	3.6	3.1	2.8
Yield (%)	0.8	1.0	0.8	1.0	1.3
ROE (%)	13.7	13.7	9.9	10.5	12.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$278**
 (Previous TP **HK\$292**)
 Up/Downside **+18%**
 Current Price **HK\$236.0**

China Express Delivery

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Stock Data

Mkt Cap (HK\$ mn)	201,851
Avg 3 mths t/o (HK\$ mn)	51
52w High/Low (HK\$)	299.0 / 205.8
Total Issued Shares (mn)	855.3

Source: Bloomberg

Shareholding Structure

Meisong Lai	25.6%
Alibaba	8.6%
Others	65.8%

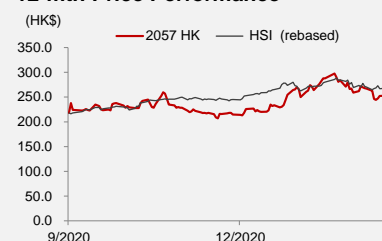
Note: Under the weighted voting rights structure, Meisong Lai has 76.8% of the total voting right
 Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-16.0%	-12.6%
3-mth	9.4%	-1.5%
6-mth	n/a	n/a

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related report:

ZTO Express (2057 HK, BUY) – Volume growth to remain the top priority – 20 Nov 2020

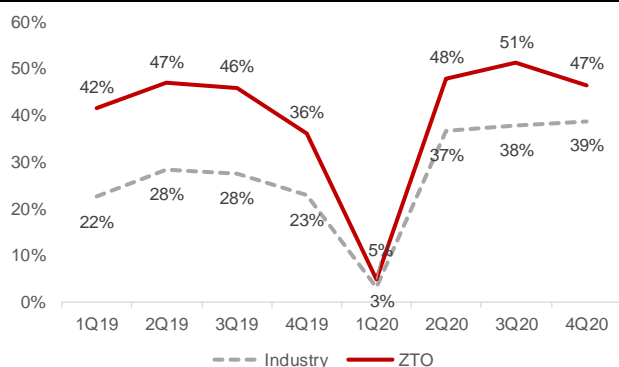
China Express Delivery Sector – Bloody battle to end soon; War for market share to continue; BUY winners in the respective playing fields – 14 Oct 2020

Figure 1: ZTO's 4Q20 results

(RMB mn)	1Q19	1Q20	Change YoY	2Q19	2Q20	Change YoY	3Q19	3Q20	Change YoY	4Q19	4Q20	Change YoY
Total revenue	4,574	3,916	-14.4%	5,424	6,402	18.0%	5,266	6,639	26.1%	6,847	8,257	20.6%
Cost of sales	-3,314	-3,097	-6.6%	-3,655	-4,633	26.8%	-3,669	-5,248	43.0%	-4,850	-6,399	31.9%
Gross profit	1,260	819	-35.0%	1,769	1,769	0.0%	1,597	1,391	-12.9%	1,996	1,858	-6.9%
Other income	58	113	95.2%	30	190	542.9%	94	152	60.7%	206	126	-38.8%
SG&A expenses	-558	-560	0.4%	-305	-312	2.3%	-291	-374	28.5%	-392	-418	6.5%
EBIT	760	372	-51.0%	1,493	1,647	10.3%	1,401	1,169	-16.5%	1,810	1,566	-13.4%
D&A	283	408	44.4%	298	426	42.9%	303	479	58.3%	381	527	38.3%
EBITDA	1,043	780	-25.2%	1,791	2,073	15.7%	1,703	1,648	-3.2%	2,191	2,093	-4.4%
Net finance income/(expense)	146	126	-14.0%	144	105	-27.2%	146	83	-43.3%	148	93	-36.9%
Finance income	146	126	-13.8%	144	114	-20.9%	146	97	-34.0%	148	106	-28.7%
Finance expenses	0	-0	n/a	0	-9	n/a	0	-14	n/a	0	-12	n/a
Gain/(loss) on disposal of subsidiaries	-1	0	n/a	0	0	n/a	0	0	n/a	-2	1	n/a
Impairment of investment in equity investees	0	0	n/a	0	0	n/a	0	0	n/a	-56	-1	-98.4%
Unrealized gain from investment in equity investee	0	0	n/a	0	0	n/a	0	0	n/a	754	0	-100.0%
FX gain/(loss)	-26	16	n/a	22	3	-88.4%	29	-64	n/a	-12	-82	n/a
Share of profit of JV and associates	-6	-14	n/a	-6	-2	n/a	-1	-5	n/a	6	3	-51.2%
Pretax profit	874	501	-42.7%	1,654	1,752	5.9%	1,574	1,182	-24.9%	2,648	1,581	-40.3%
Income tax	-192	-130	-32.4%	-289	-298	3.3%	-266	28	n/a	-331	-290	-12.6%
After tax profit	682	371	-45.6%	1,365	1,454	6.5%	1,308	1,210	-7.4%	2,317	1,291	-44.3%
MI	-1	4	n/a	-6	-5	-7.1%	-0	-9	n/a	10	-3	-136.2%
Net profit	681	375	-45.0%	1,359	1,449	6.6%	1,308	1,201	-8.1%	2,326	1,288	-44.6%
Ratios:			ppt			ppt			ppt			ppt
Gross margin	27.5%	20.9%	-6.6	32.6%	27.6%	-5.0	30.3%	21.0%	-9.4	29.2%	22.5%	-6.7
EBIT margin	16.6%	9.5%	-7.1	27.5%	25.7%	-1.8	26.6%	17.6%	-9.0	26.4%	19.0%	-7.5
After tax profit margin	14.9%	9.5%	-5.4	25.2%	22.7%	-2.5	24.8%	18.2%	-6.6	33.8%	15.6%	-18.2
Effective tax rate	22.0%	25.9%	4.0	17.5%	17.0%	-0.4	16.9%	-2.4%	-19.3	12.5%	18.3%	5.8

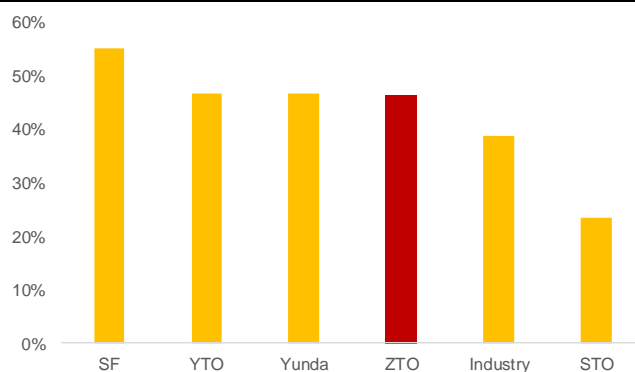
Source: Company data, CMBIS

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



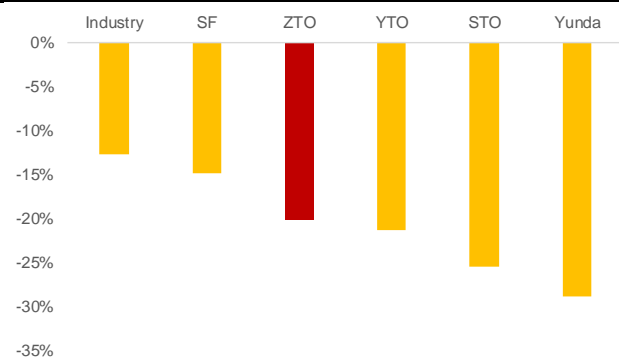
Source: Company data, The State Post Bureau, CMBIS

Figure 3: ZTO delivered similar parcel volume growth with major players in 4Q20



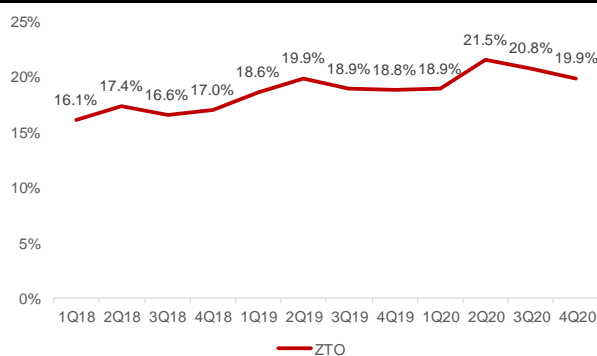
Source: Company data, The State Post Bureau, CMBIS

Figure 4: ZTO achieved relatively less ASP reduction (YoY) in 4Q20



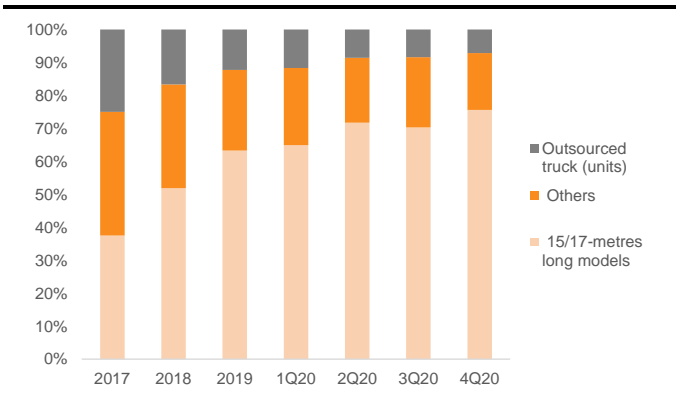
Source: Company data, The State Post Bureau, CMBIS

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



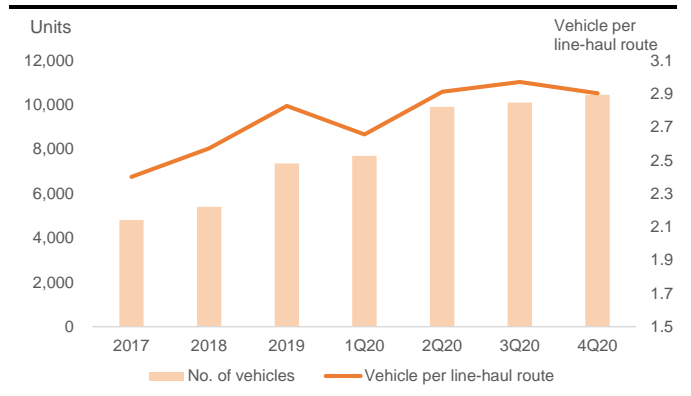
Source: Company data, CMBIS

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



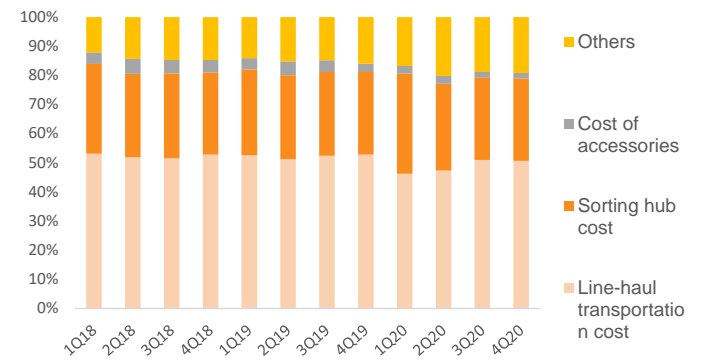
Source: Company data, CMBIS

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



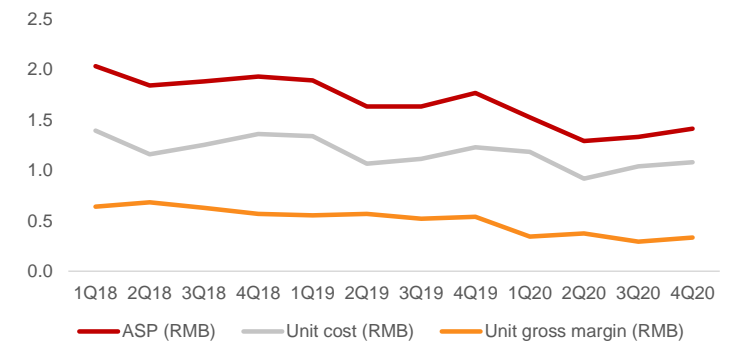
Source: Company data, CMBIS

Figure 8: ZTO unit cost breakdown



Source: Company data, CMBIS

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



Source: Company data, CMBIS

Figure 10: Change in key assumptions

	Old		New		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
Shipment volume (mn units of parcel)						
Unit of parcel	20,606	25,139	23,803	30,944	15.5%	23.1%
ASP (RMB/unit)						
Per unit of parcel	1.37	1.35	1.30	1.27	-5.1%	-6.0%
Unit cost breakdown (RMB)						
Line-haul transportation cost	-0.51	-0.50	-0.51	-0.49	-0.8%	-0.8%
Sorting hub cost	-0.30	-0.29	-0.28	-0.26	-7.4%	-11.2%
Others	-0.19	-0.19	-0.19	-0.19	-1.5%	-1.5%
Total	-1.03	-1.01	-1.00	-0.96	-3.3%	-4.4%
Unit gross margin (RMB)	0.33	0.35	0.30	0.31	-10.4%	-10.6%
(RMB mn)						
Revenue						
Express delivery, accessories & others	28,169	34,022	30,894	39,359	9.7%	15.7%
Freight forwarding services	1,795	1,938	2,142	2,356	19.4%	21.6%
Total	29,963	35,960	33,036	41,715	10.3%	16.0%
Revenue growth					ppt	
Express delivery, accessories & others	23%	21%	32%	27%	9.8	6.6
Freight forwarding services	10%	8%	15%	10%	5.0	2.0
Revenue	22%	20%	31%	26%	9.4	6.3
Gross margin					ppt	
Express delivery, accessories & others	24%	26%	23%	24%	(1.4)	(1.2)
Freight forwarding services	5%	5%	8%	8%	3.0	3.0
Gross margin	28%	29%	22%	23%	(5.6)	(5.5)
Net profit	6,261	7,850	5,375	7,127	-14.1%	-9.2%

Source: Company data, CMBIS estimates

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

2021E Net profit (RMB mn)	ASP (RMB/unit)					
	1.23	1.27	1.30	1.32	1.36	
-0.534	3,571	4,339	4,851	5,363	6,131	
-0.519	3,886	4,654	5,166	5,677	6,445	
Unit line-haul transportation cost (RMB)	-0.509	4,096	4,864	5,375	5,887	6,655
-0.499	4,306	5,073	5,585	6,097	6,865	
-0.484	4,620	5,388	5,900	6,412	7,179	

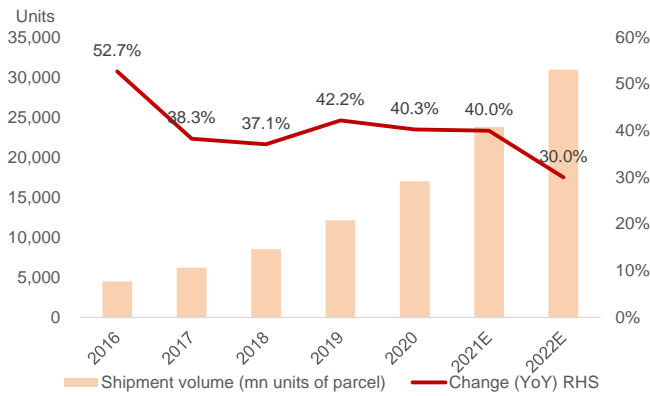
Source: Company data, CMBIS estimates

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

2021E Net profit (RMB mn)	ASP (RMB/unit)					
	1.23	1.27	1.30	1.32	1.36	
-0.293	3,809	4,576	5,088	5,600	6,368	
-0.284	3,981	4,749	5,260	5,772	6,540	
Unit sorting hub cost (RMB)	-0.279	4,096	4,864	5,375	5,887	6,655
-0.273	4,211	4,978	5,490	6,002	6,770	
-0.265	4,383	5,151	5,663	6,174	6,942	

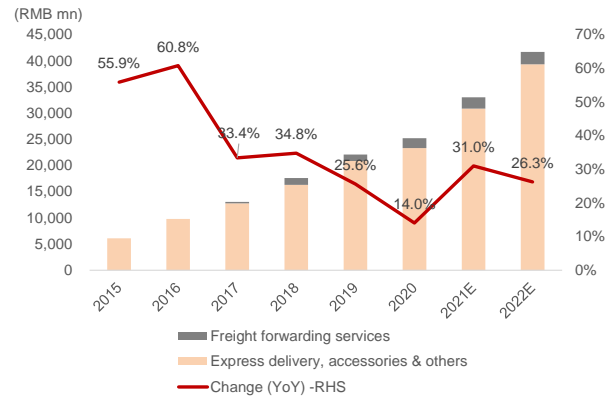
Source: Company data, CMBIS estimates

Figure 13: ZTO's parcel shipment volume forecast



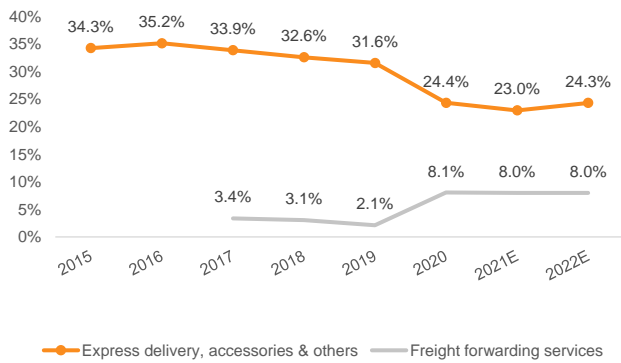
Source: Company data, CMBIS estimate

Figure 14: ZTO's revenue forecast



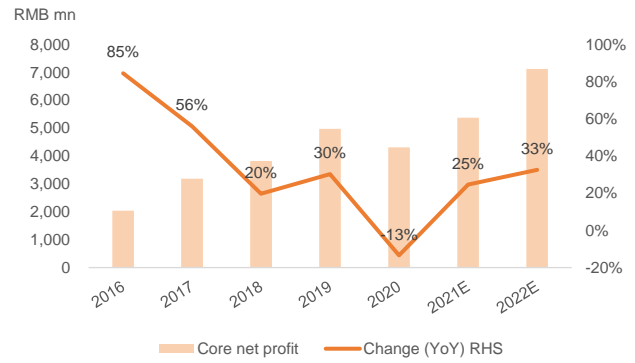
Source: Company data, CMBIS estimate

Figure 15: ZTO's gross margin trend



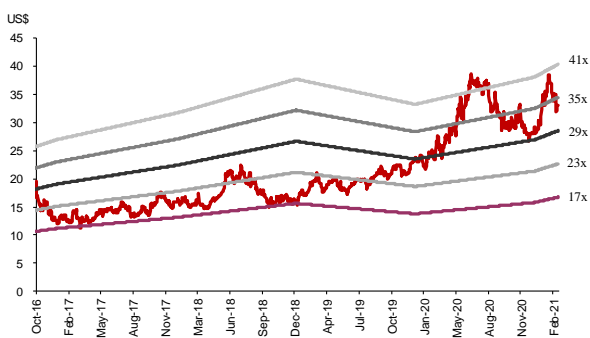
Source: Company data, CMBIS estimate

Figure 16: ZTO's core net profit forecast



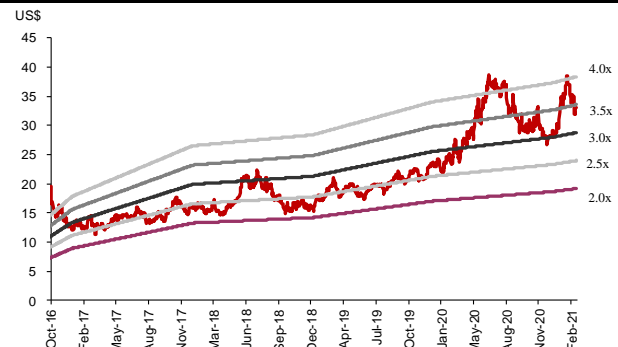
Source: Company data, CMBIS estimate

Figure 17: ZTO US's P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 18: ZTO US's P/B band



Source: Bloomberg, Company data, CMBIS estimates

- **Major risk factors:** (1) prolonged price war; (2) slowdown of online retail sales; (3) lack of effective control over network partners.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	17,604	22,110	25,214	33,036	41,715
Cost of sales	(12,240)	(15,489)	(19,377)	(25,764)	(31,945)
Gross profit	5,365	6,621	5,837	7,272	9,770
Other operating income	178	388	581	661	834
SG&A expense	(1,211)	(1,546)	(1,664)	(2,048)	(2,503)
EBIT	4,332	5,463	4,754	5,884	8,102
Net finance income/(cost)	400	585	407	391	304
Finance income	401	585	443	427	340
Finance expenses	(1)	0	(35)	(36)	(36)
Gain/(loss) on disposal	563	(3)	1	0	0
Impairment of equity investees	0	(56)	(1)	0	0
Unrealized gain fr. equity investee	0	754	0	0	0
FX gain/(loss)	41	13	(127)	0	0
Profit of JV & associates	(19)	(8)	(19)	(6)	3
Pretax profit	5,317	6,750	5,016	6,269	8,410
Income tax	(929)	(1,078)	(690)	(878)	(1,261)
After tax profit	4,388	5,671	4,326	5,392	7,148
MI	(5)	3	(14)	(16)	(21)
Net profit	4,383	5,674	4,312	5,375	7,127
Recurring net profit	3,820	4,979	4,312	5,375	7,127
D&A	854	1,265	1,840	2,744	3,558
EBITDA	5,186	6,727	6,595	8,628	11,659

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Pretax profit	5,317	6,750	5,016	6,269	8,410
Finance cost	1	0	35	36	36
Interest income	(401)	(585)	(443)	(427)	(340)
Profit or loss of associates	19	8	19	6	(3)
Depreciation & amortization	854	1,265	1,840	2,744	3,558
Income tax paid	(1,068)	(1,119)	(690)	(878)	(1,261)
Change in working capital	(443)	(260)	(1,381)	(459)	(308)
Others	(275)	(338)	111	(0)	(0)
Cash flow from operation	4,003	5,719	4,508	7,292	10,090
Net capex on PP&E	(3,324)	(4,636)	(7,853)	(10,000)	(10,000)
Purchase of land use rights	(657)	(591)	(1,927)	(700)	(700)
Investment in JV/associates	(1,865)	(218)	0	(50)	(50)
Investment in subsidiaries	(110)	(20)	0	0	0
Interest received	401	585	443	427	340
Others	(7,718)	629	5,346	0	0
Cash flow from investing	(13,274)	(4,250)	(3,992)	(10,323)	(10,410)
Equity financing/(repurchase)	8,122	(763)	9,842	0	0
Net bank borrowings	(250)	0	1,433	0	0
Dividend paid	(895)	(1,271)	(1,667)	(1,355)	(1,666)
Others	66	51	(1,271)	0	0
Cash flow from financing	7,042	(1,982)	8,337	(1,390)	(1,702)
Change in cash	(2,229)	(513)	8,853	(4,421)	(2,022)
Cash at beginning of the year	5,425	4,623	5,270	14,213	9,791
Exchange gains/(losses) and others	1,426	1,161	89	(0)	(0)
Cash at the end of the year	4,623	5,270	14,213	9,791	7,769

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	18,449	25,792	36,880	45,344	53,108
PP&E	9,036	12,471	18,565	25,927	32,489
Land use right	1,969	2,509	4,361	4,961	5,548
Investment in JV/associates	2,207	3,109	3,224	3,268	3,321
Operating lease right-of-use assets	0	902	876	936	996
Goodwill	4,242	4,242	4,242	4,242	4,242
Long term financing receivables	0	550	1,970	2,374	2,883
Intangible assets	54	48	42	36	29
Long-term investment	0	946	1,842	1,842	1,842
Others	623	612	1,037	1,037	1,037
Deferred tax assets	318	404	721	721	721
Current assets	21,234	20,098	22,325	18,720	16,685
Inventories	44	44	53	88	69
Account receivables	597	676	746	1,155	1,245
Financing receivables	518	511	492	865	780
Advances to suppliers	338	438	589	589	589
Short-term investment	13,600	11,113	3,690	3,690	3,690
Others	1,515	2,039	2,408	2,408	2,408
Restricted cash	0	7	133	133	133
Cash	4,623	5,270	14,213	9,791	7,769
Current liabilities	5,141	6,681	9,348	10,170	10,417
Account payables	1,312	1,475	1,636	2,458	2,706
Operating lease liabilities	0	299	246	246	246
Bank borrowings	0	0	1,433	1,433	1,433
Tax payable	406	80	49	49	49
Advanced from customers	437	1,211	1,120	1,120	1,120
Others	2,987	3,616	4,864	4,864	4,864
Non-current liabilities	272	806	757	757	757
Bank borrowings	0	0	0	0	0
Deferred tax liabilities	158	208	255	255	255
Non-current operating lease	0	504	502	502	502
Others	114	94	(0)	(0)	(0)
Shareholders' equity	34,217	38,303	48,979	53,000	58,460
MI	52	101	121	137	159

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Express delivery, accessories & others	93%	94%	93%	94%	94%
Freight forwarding services	7%	6%	7%	6%	6%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	30.5	29.9	23.1	22.0	23.4
EBITDA margin	29.5	30.4	26.2	26.1	27.9
EBIT margin	24.6	24.7	18.9	17.8	19.4
Net profit margin	24.9	25.7	17.2	16.3	17.1
Growth (%)					
Revenue	34.8	25.6	14.0	31.0	26.3
Gross profit	23.5	23.4	(11.8)	24.6	34.4
EBITDA	n/a	29.7	(2.0)	30.8	35.1
EBIT	15.6	26.1	(13.0)	23.8	37.7
Core net profit	19.8	30.3	(13.4)	24.7	32.6
Balance sheet ratio					
Current ratio (x)	4.1	3.0	2.4	1.8	1.6
Trade receivable turnover days	9	15	29	35	34
Inventory turnover days	1	1	1	1	1
Payable turnover days	33	33	29	29	30
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	13.4	13.3	8.2	8.7	10.6
ROE	13.7	13.7	9.9	10.5	12.8
Per share data					
EPS (RMB)	5.83	7.24	5.43	6.44	8.54
Core EPS (RMB)	5.08	6.35	5.43	6.44	8.54
BVPS (RMB)	43.56	48.98	58.67	63.48	70.02
DPS (RMB)	1.69	2.13	1.70	2.00	2.65

Source: Company data, CMBIS estimates

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