

Zoomlion Heavy Industry - H (1157 HK)

Profit surprise in 3Q20 reaffirms our positive view

Zoomlion released a positive profit alert last night, stating that the net profit in 3Q20E would surge 64-97% YoY to RMB1.48-1.78bn. The high-end of the range is above our expectation. We expect Zoomlion's growth will continue to be driven by both the upcycle of existing products (concrete, crane and agricultural machinery) and the Company's expansion in new products. Besides, we believe the subscription of new shares by management team in the upcoming fund-raising exercise will further enhance market confidence. Maintain **BUY** with TP of HK\$11.2 (12x 2020E P/E).

- 9M20E net profit up 58%-67% YoY.** Zoomlion estimated the net profit in 9M20E to be in the range of RMB5.5-5.8bn. This would represent 76%-80% of our above-consensus full year estimate, and we see potential upside to the consensus forecast. The growth in 9M20E was driven by the infrastructure, new energy and agricultural machinery. Besides, new business such as aerial working platform (AWP) and excavator continued to achieve breakthrough in the market.
- Upcoming catalysts:** The stock is trading at only 7x 2021E P/E, which we believe has yet to reflect the Company's structural growth potential. We expect strong machinery sales datapoint in 4Q20E and the completion of share placement in early 2021E will serve as share price catalysts. Besides, the potential upside on China's wind power installation target in the 14th FYP will lift the demand for truck crane.
- Risk factors:** (1) Unexpected weakness on infrastructure spending; (2) Slow recovery of property construction; (3) Risks of new business expansion.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	28,697	43,307	58,902	69,872	79,005
YoY growth (%)	39.3	50.9	36.0	18.6	13.1
Net income (RMB mn)	2,031	4,381	7,206	8,933	10,175
EPS (RMB)	0.27	0.58	0.92	1.05	1.12
YoY growth (%)	51.5	119.2	56.9	14.9	6.1
Consensus EPS (RMB)	n/a	n/a	0.82	0.92	0.99
EV/EBITDA (x)	15.7	10.2	7.4	6.1	5.4
P/E (x)	26.2	12.3	8.0	7.0	6.4
P/B (x)	1.4	1.5	1.1	1.1	1.0
Yield (%)	3.6	0.0	5.3	5.3	6.2
ROE (%)	5.4	11.4	15.6	15.8	16.2
Net gearing (%)	33.6	31.3	3.7	1.3	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$11.20
(Previous TP)	HK\$11.20)
Up/Downside	+38%
Current Price	HK\$8.10

China Capital Goods

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	76,914
Avg 3 mths t/o (HK\$ mn)	74
52w High/Low (HK\$)	8.95/4.99
Total Issued Shares (mn)	1,388 (H) 6,411 (A)

Source: Bloomberg

Shareholding Structure

SASAC of Hunan Province	15.9%
Management team	4.9%
A share free float	61.4%
H share free float	17.7%

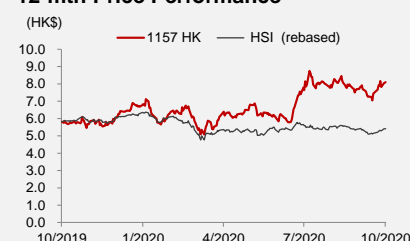
Source: HKEx, Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	4.4%	3.8%
3-mth	3.3%	8.0%
6-mth	32.0%	30.1%

Source: Bloomberg

12-mth Price Performance



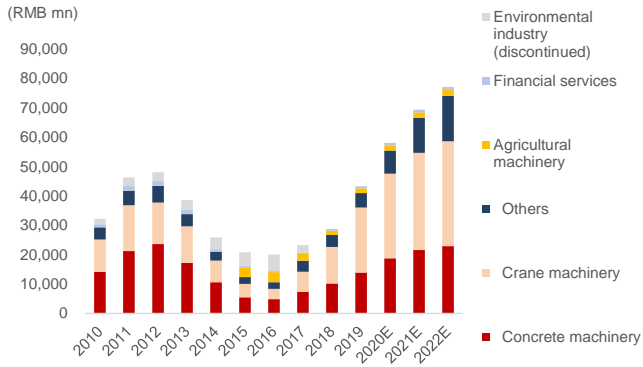
Source: Bloomberg

Auditor: KPMG

Related Reports

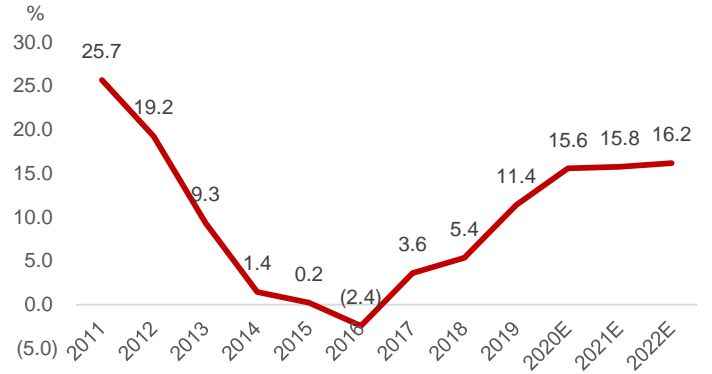
- Zoomlion (1157 HK, BUY) – Interim dvd. a positive; Gross margin stabilized; Sector top pick – 24 Aug 2020
- Zoomlion (1157 HK, BUY) – 2Q20 profit a strong beat; Lift earnings est. & TP – 15 Jul 2020
- China Construction Machinery & HDT Sector – Raise industry sales forecast in 2020E-21E; Solid upcycle – 30 Jun 2020

Figure 1: Zoomlion's revenue trend



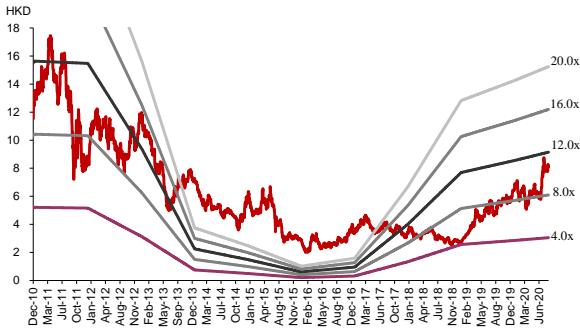
Source: Company data, CMBIS estimates

Figure 2: Zoomlion's ROE trend



Source: Company data, CMBIS estimates

Figure 3: Zoomlion - H 12M forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

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



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	28,697	43,307	58,902	69,872	79,005
Cost of sales	(20,923)	(30,314)	(41,192)	(48,558)	(54,915)
Gross profit	7,774	12,993	17,710	21,314	24,090
Other income	882	1,017	1,048	978	978
S&D expenses	(2,379)	(3,780)	(4,653)	(5,380)	(6,083)
Administrative expenses	(2,063)	(2,693)	(3,416)	(4,053)	(4,424)
R&D expenses	(581)	(1,516)	(2,120)	(2,306)	(2,607)
EBIT	3,633	6,021	8,568	10,554	11,953
Net finance income/(cost)	(1,205)	(1,165)	(329)	(39)	44
Finance income	347	539	766	1,032	1,008
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	8,493	10,786	12,285
Income tax	(682)	(759)	(1,359)	(1,941)	(2,211)
After tax profit	1,968	4,285	7,134	8,844	10,074
MI/discontinued operation	63	96	71	88	101
Net profit	2,031	4,381	7,206	8,933	10,175
D&A	837	817	923	1,005	1,080
EBITDA	4,470	6,838	9,490	11,559	13,033

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	2,650	5,044	8,493	10,786	12,285
Finance cost	1,451	1,704	1,094	1,071	964
Interest income	(347)	(539)	(766)	(1,032)	(1,008)
Profit or loss of associates	(222)	(188)	(254)	(271)	(288)
Disposal of PP&E/business	(152)	0	0	0	0
Depreciation and amortization	837	817	923	1,005	1,080
Income tax paid	(431)	(773)	(1,359)	(1,941)	(2,211)
Change in working capital	1,152	442	(2,762)	(2,674)	(2,932)
Others	(221)	(539)	0	0	0
Cash flow from operation	4,717	5,968	5,369	6,943	7,890
Net capex on PP&E	(272)	(1,082)	(2,246)	(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)	(100)	0	0
Dividend received	4	45	0	0	0
Interest received	347	253	766	1,032	1,008
Others	(7,214)	11,374	0	0	0
Cash flow from investing	(7,242)	9,984	(1,580)	(1,614)	(1,492)
Equity financing/(repurchase)	37	(2,145)	7,674	0	0
Net bank borrowings	6,817	(14,008)	(1,000)	100	(4,100)
Dividend paid	(1,308)	(1,801)	0	(3,077)	(3,573)
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)	5,579	(4,047)	(8,637)
Change in cash	1,577	(3,696)	9,368	1,282	(2,239)
Cash at beginning of the year	7,148	8,754	5,073	14,441	15,723
Exchange and others	29	15	0	(0)	(0)
Cash at the end of the year	8,754	5,073	14,441	15,723	13,483

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	28,657	37,979	41,150	46,206	49,542
PP&E	6,077	6,735	8,324	10,234	11,922
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 receivables	3,656	7,771	7,721	9,890	9,590
Goodwill	2,046	2,017	2,017	2,017	2,017
Trade receivables	5,498	9,072	10,616	11,590	13,518
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	74,865	75,786	84,332
Inventories	9,551	11,772	11,702	14,107	15,081
Trade & other receivables	21,554	20,839	26,605	26,995	31,447
Finance lease receivables	8,835	9,229	14,977	11,823	17,182
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	14,441	15,723	13,483
Current liabilities	39,623	34,569	44,545	44,755	54,336
Trade and other payables	15,786	25,012	34,801	34,377	43,858
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	54,305	60,072	66,573
Shareholders' equity	38,164	38,827	53,706	59,562	66,164
MI	567	670	599	510	409

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Concrete machinery	35%	32%	30%	29%	28%
Crane machinery	43%	51%	53%	51%	50%
Others machinery	14%	11%	13%	16%	18%
Agricultural machinery	5%	4%	3%	3%	3%
Financial services	2%	2%	1%	1%	1%
Environmental (discontinued)	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	27.1	30.0	30.1	30.5	30.5
EBIT margin	12.7	13.9	14.5	15.1	15.1
Net profit margin	6.9	9.9	12.1	12.7	12.8
Growth (%)					
Revenue	39.3	50.9	36.0	18.6	13.1
Gross profit	80.6	67.1	36.3	20.4	13.0
EBIT	n/a	65.7	42.3	23.2	13.3
Net profit	51.3	115.7	64.5	24.0	13.9
Balance sheet ratio					
Current ratio (x)	1.6	1.6	1.7	1.7	1.6
Trade receivable turnover days	342	240	208	198	193
Finance lease receivable turnover days	161	124	123	116	112
Inventory turnover days	161	128	104	97	97
Payable turnover days	268	246	265	260	260
Net debt / total equity (%)	33.6	31.3	3.7	1.3	Net cash
Profitability (%)					
ROA	2.3	4.7	6.9	7.5	8.0
ROE	5.4	11.4	15.6	15.8	16.2
Per share data					
EPS (RMB)	0.27	0.58	0.85	0.98	1.12
BVPS (RMB)	4.89	4.93	5.89	6.53	7.25
DPS (RMB)	0.25	0.00	0.34	0.39	0.45

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

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

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.