

SF Holding (002352 CH)

Surging parcel volume weighs on profit margins

SF Holding announced financial results for FY19. Revenue and adjusted net income were in line with expectations. We believe that the Company's strategy to leverage on e-commerce parcels to achieve economies of scale has leveled off. As price war escalates, the Company's self-operation model will weigh on its profit margins. We adjust TP up to RMB 47.79. The Company is currently trading at 33.6x 2020E P/E, higher than peers. Downgrade to HOLD.

- FY19 revenue and adjusted net income in line.** In 4Q19, parcel volume increased 49.0% YoY, 26.2ppt above industry average. Annual parcel volume increased 25.1% YoY to 4.8bn, capturing a market share of 7.6%, flat YoY. For FY19, revenue increased 23.4% YoY to RMB 122.2bn, in line with expectations. Adjusted net income increased 27.2% YoY to RMB 5.8bn, in line with expectations. Adjusted EPS increased 66.3% YoY to RMB 1.31. Net cash generated by operating activities increased 68.1% YoY to RMB 9.1bn.
- The surge in parcel volume caused decline in profit margin.** The Company's gross profit in FY19 was RMB 19.5bn, with a gross profit margin of 17.42%, a decrease of 0.50ppt YoY. As percent of revenue, labor cost increased 0.41ppt YoY, transportation cost increased 0.20ppt YoY, and other operating costs decreased 0.10ppt YoY. We believe that the Company's strategy to leverage on e-commerce parcels to achieve economies of scale has leveled off. As price war escalates, the Company's self-operation model will weigh on its profit margins.
- Catalysts.** (1) Increasing revenue contribution of freight and supply chain businesses. In FY19, the Company's freight business recorded revenue of RMB 12.7bn, an increase of 57.2% YoY, and issued convertible bonds of US\$ 300mn. With independent financing capability, the Company's freight business will develop rapidly. Revenue of the Company's supply chain business increased 11 times YoY due to consolidation of SF DHL since Mar. (2) Release of consumption demand as domestic epidemic eases. (3) Decline in oil prices.
- Valuation.** For FY20E, we expect the Company's parcel volume will increase 25% YoY, 5ppt above industry average. ASP will decrease 7% YoY and GPM will decrease 0.3ppt YoY. We forecast 2020E adj. EPS to increase 3.9% YoY to RMB 1.37. We adjust TP up to RMB 47.79. Our TP corresponds to 35x 2020E P/E. The Company is currently trading at 33.6x 2020E P/E, higher than peers. Downgrade to HOLD.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	90,943	112,193	129,493	150,196	179,421
YoY growth (%)	27.6	23.4	15.4	16.0	19.5
Adj. net income (RMB mn)	4,556	5,797	5,973	6,628	7,096
Adj. EPS (RMB)	0.79	1.31	1.37	1.52	1.62
YoY growth (%)	-9.2	66.3	3.9	11.0	7.0
Consensus EPS (RMB)	1.05	1.29	1.46	1.72	1.86
P/E (x)	58.1	34.9	33.6	30.3	28.3
P/B (x)	5.5	4.8	4.3	3.9	3.5
Yield (%)	0.5	0.6	0.6	0.7	0.7
ROE (%)	13.2	14.7	13.4	13.5	13.0
Net gearing (%)	1.9	0.1	13.8	19.6	26.4

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price	RMB47.79
(Previous TP)	RMB47.52)
Up/Downside	+4.1%
Current Price	RMB45.90

China Express Delivery Sector

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Stock Data

Mkt Cap (US\$ mn)	202,617
Avg 3 mths t/o (US\$ mn)	909.83
52w High/Low (US\$)	51.01/28.46
Total Issued Shares (mn)	4,415

Source: Bloomberg

Shareholding Structure

SZ Ming De Holding	61.2%
Shun Da Feng Run	6.8%
SZ Zhao Guang	6.0%

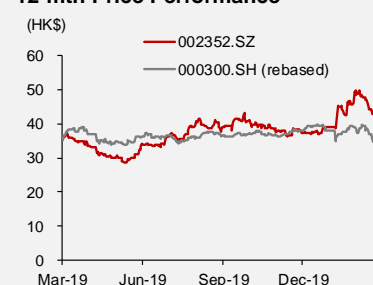
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-5.5%	4.1%
3-mth	21.6%	32.4%
6-mth	20.8%	25.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Tight rein on cost to offset ASP pressure - 28 Oct 2019
- Exp Delivery: Eyes on "Double 11" amid accelerated sector consolidation - 21 Oct 2019

Figure 1: FY19 results review

RMB mn	2019	2018	YoY
Revenue	112,193	90,943	23.4%
Cost of revenue	(92,650)	(74,642)	24.1%
Gross profit	19,544	16,301	19.9%
Taxes and surcharges	(280)	(222)	25.8%
Selling and distribution expenses	(1,997)	(1,826)	9.4%
General and administrative expenses	(9,699)	(8,414)	15.3%
Research and development expenses	(1,193)	(984)	21.2%
Financial (costs)/income	(683)	(287)	138.2%
Others	1,717	1,251	37.3%
Operating profit	7,409	5,818	27.3%
non-operating expenses, net	18	49	-64.2%
Profit before taxation	7,426	5,867	26.6%
Income tax	(1,802)	(1,403)	28.4%
Profit for the year	5,625	4,464	26.0%
Non-controlling interest	(172)	(92)	87.1%
Net profit attributable to equity holders	5,797	4,556	27.2%
Exceptional items	0	(0)	-100.0%
Adj. net income	5,797	4,556	27.2%

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

RMB mn	New		Old		Diff	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	129,493	150,196	132,127	154,803	-2.0%	-3.0%
Gross profit	22,109	24,958	24,774	28,820	-10.8%	-13.4%
Profit before tax	7,820	8,678	8,262	9,906	-5.4%	-12.4%
Net profit	5,973	6,628	6,311	7,566	-5.4%	-12.4%
Adj. net profit	5,973	6,628	6,311	7,566	-5.4%	-12.4%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	90,943	112,193	129,493	150,196	179,421
Express & logistics	89,993	106,212	123,204	143,395	172,073
Sales of goods	-	3,749	4,652	5,132	5,646
Others	950	1,604	1,636	1,669	1,702
Cost of revenue	(74,642)	(92,650)	(107,384)	(125,238)	(150,510)
Gross profit	16,301	19,544	22,109	24,958	28,912
Selling and distribution expenses	(1,826)	(1,997)	(2,590)	(2,553)	(3,050)
G&A expenses	(8,414)	(9,699)	(11,007)	(12,767)	(15,251)
R&D expenses	(984)	(1,193)	(1,554)	(1,802)	(2,153)
Financial (costs)/income	(287)	(683)	(690)	(785)	(897)
Other operating expenses	1,028	1,437	1,552	1,628	1,729
Operating profit	5,818	7,409	7,820	8,678	9,290
Non-operating income, net	49	18	-	-	-
Profit before taxation	5,867	7,426	7,820	8,678	9,290
Income tax	(1,403)	(1,802)	(1,877)	(2,083)	(2,230)
Profit for the year	4,464	5,625	5,943	6,595	7,060
Non-controlling interest	(92)	(172)	30	33	35
Net profit	4,556	5,797	5,973	6,628	7,096
Adj. net profit	4,556	5,797	5,973	6,628	7,096

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit for the year	4,464	5,625	5,943	6,595	7,060
D&A	3,509	4,503	5,218	6,027	7,262
Change in working capital	(2,164)	(972)	(813)	18	30
Others	(385)	(34)	690	785	897
Operating cash flow	5,425	9,121	11,038	13,425	15,250
Capex	(11,638)	(6,421)	(12,302)	(15,020)	(17,942)
Investment return	365	259	427	333	220
Others	1,944	(7,886)	-	-	-
Investing cash flow	(9,329)	(14,049)	(11,874)	(14,687)	(17,722)
Equity raised	141	204	-	-	-
Change of Debts	6,418	9,625	5,000	-	-
Dividend & interest paid	(1,525)	(1,791)	(2,330)	(2,463)	(2,558)
Others	275	30	30	30	31
Financing cash flow	2,973	7,372	2,670	(2,463)	(2,558)
Net change in cash	(850)	2,444	1,833	(3,725)	(5,030)
Cash at the beginning	16,150	15,299	17,764	19,598	15,872
Exchange effect	81	21	-	-	-
Cash at the end	15,299	17,764	19,598	15,872	10,843

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	39,693	49,638	56,862	65,855	76,535
Fixed assets	13,967	18,904	25,123	31,657	39,330
Construction in progress	6,508	3,116	7,996	9,763	11,662
Investment properties	2,454	4,934	2,392	2,370	2,353
Intangible assets	6,662	10,008	6,312	6,246	6,257
Other non-current assets	10,102	12,676	15,039	15,820	16,932
Current assets	31,922	42,897	42,114	40,995	39,646
Cash and cash equivalent	15,299	17,764	19,598	15,872	10,843
Restricted cash	832	757	757	757	757
Notes and accounts receivables	7,374	12,088	11,007	12,767	15,251
Other current assets	8,417	12,288	10,753	11,599	12,796
Current liabilities	26,369	30,982	33,242	35,827	39,483
Borrowings	8,585	6,053	8,585	8,585	8,585
Notes and accounts payables	7,887	12,018	11,812	13,776	16,556
Other payables	4,540	4,707	4,707	4,707	4,707
Other current liabilities	5,357	8,203	8,137	8,758	9,635
Non-current liabilities	8,331	19,060	19,280	19,318	19,373
Borrowings	998	6,540	5,998	5,998	5,998
Debentures payable	6,405	10,598	11,405	11,405	11,405
Long-term payables	84	78	107	125	151
Others	844	1,844	1,769	1,790	1,819
Minority Interest	353	74	44	11	-24
Ordinary shareholders' equity	36,561	42,420	46,411	51,694	57,349
Total equity	36,914	42,494	46,455	51,705	57,325

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Express & logistics	99.0	94.7	95.1	95.5	95.9
Sales of goods	0.0	3.3	3.6	3.4	3.1
Others	1.0	1.4	1.3	1.1	0.9
Total	100.0	99.4	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	17.9	17.4	17.1	16.6	16.1
EBITDA margin	11.0	11.4	10.9	10.5	5.8
Operating margin	6.4	6.6	6.0	5.8	5.2
Adj. net margin	5.0	5.2	4.6	4.4	4.0
Effective tax rate	23.9	24.3	24.0	24.0	24.0
Balance sheet ratios					
Current ratio (x)	1.2	1.4	1.3	1.1	1.0
Quick ratio (x)	1.1	1.2	1.1	1.0	0.8
AR turnover days	26	28	29	29	28
AP turnover days	72	71	75	75	74
Net gearing ratio (%)	1.9	0.1	13.8	19.6	26.4
Returns (%)					
ROE	13.2	14.7	13.4	13.5	13.0
ROA	6.7	6.9	6.2	6.4	6.3
Per share					
Adj. EPS (RMB)	0.79	1.31	1.37	1.52	1.62
DPS (RMB)	0.21	0.27	0.28	0.31	0.33
BVPS (RMB)	8.29	9.62	10.61	11.82	13.11

Source: Company data, CMBIS estimates

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