

ZTO Express (ZTO US)

Solid 1Q21 volume with resilient ASP

ZTO delivered a solid set of 1Q21 results with parcel volume growing in line with competitors while ASP dropping less than peers. ZTO maintains the target to deliver volume growth of 35-40% YoY in 2021E. We believe ZTO is capable of withstanding challenge amid price competition, and will continue to expand market share on the back of profitable revenue growth. While we took our 2021E/22E earnings down by 12% after fine-tuning our ASP assumptions, we revised up our TP to US\$39.5 from US\$36.0, based on 45x 2021E P/E (vs. 36x prior), to reflect its potential to become a long-term winner in the mass market.

- **Earnings highlight in 1Q21.** ZTO's reported net profit in 1Q21 grew 42% YoY to RMB534mn, driven by 65% YoY in revenue (to RMB6.47bn). Gross margin narrowed 4ppt YoY to 16.9%. SG&A expense increased only 11% YoY, helped by cost control and operating leverage.
- **Solid volume growth and market share in 1Q21.** ZTO's parcel volume in 1Q21 surged 89% YoY to 4.47bn units (growth rate similar to **YTO [600233 CH, NR]** and **Yunda [002120 CH, NR]**, but outpaced the industry growth of 75%). In terms of parcel volume, ZTO's market share was 20.4% in 1Q21.
- **More resilient ASP compared with other "Tongda" players.** ZTO's parcel ASP dropped only 12% YoY (or RMB0.19/unit) to RMB1.34/unit in 1Q21 (breakdown: [1] RMB0.09 for incentives to support network partners, [2] RMB0.02 for the use of single sheet digital waybills, and [3] RMB0.07 due to lower parcel weight). The ASP reduction was the least among major players and much less than the industry average of 17%. On QoQ basis, ZTO's ASP dropped 5%.
- **Unit cost dropped 7% YoY in 1Q21.** ZTO's sorting hub dropped 17% YoY to RMB0.34/unit, driven by the use of more sets of automated sorting equipment (349 sets, vs 265 sets in 1Q20). Unit cost of transportation increased 4% YoY due to absence of toll road free waiver policy this year, which is largely expected. ZTO continued to increase the portion of volume transported by self-owned trucks (91%, vs 78% in 1Q20) and higher portion of the use of high-capacity trucks (81%, vs 74% in 1Q20) to improve the cost efficiency.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	22,110	25,214	32,382	40,686	47,668
YoY growth (%)	26	14	28	26	17
Core net profit (RMB mn)	4,979	4,312	4,727	6,249	7,778
Core EPS (RMB)	6.35	5.43	5.66	7.49	9.32
YoY growth (%)	25.0	-14.5	4.3	32.2	24.5
Consensus EPS (RMB)	N/A	N/A	6.11	7.68	NA
EV/EBITDA (x)	23.2	23.7	19.3	14.5	11.8
P/E (x)	34.9	40.9	36.9	27.9	22.4
P/B (x)	4.5	3.8	3.3	3.1	2.8
Yield (%)	1.0	0.8	0.8	1.1	1.4
ROE (%)	13.7	9.9	9.3	11.4	13.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$39.5
(Previous TP)	US\$36.0)
Up/Downside	+21%
Current Price	US\$32.78

China Express Delivery

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Stock Data

Mkt Cap (US\$ mn)	27,113
Avg 3 mths t/o (US\$ mn)	108
52w High/Low (US\$)	38.66/26.22
Total Issued Shares (mn)	855.3
Source: Bloomberg	

Shareholding Structure

Meisong Lai	25.6%
Alibaba	8.6%
Others	65.8%

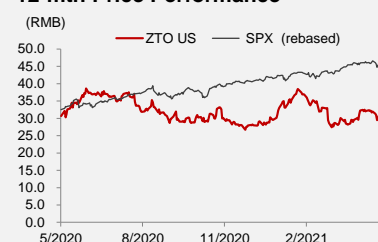
Note: Under the weighted voting rights structure, Meisong Lai has 76.8% of the total voting right
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.6%	8.0%
3-mth	-11.2%	-16.6%
6-mth	8.8%	-6.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related reports:

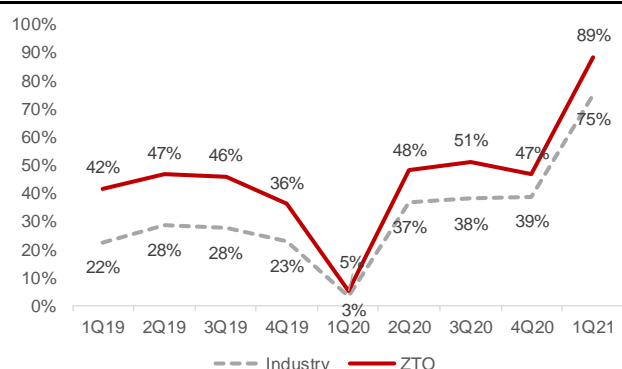
1. ZTO Express (2057 HK, BUY) – Market share > Profitability – 19 Mar 2021
2. ZTO Express (2057 HK, BUY) – Volume growth to remain the top priority – 20 Nov 2020
3. China Express Delivery Sector – Bloody battle to end soon; War for market share to continue; BUY winners in the respective playing fields – 14 Oct 2020

Figure 1: ZTO's 1Q21 results

(RMB mn)	1Q20	1Q21	Change YoY	2Q19	2Q20	Change YoY	3Q19	3Q20	Change YoY	4Q19	4Q20	Change YoY
Total revenue	3,916	6,473	65.3%	5,424	6,402	18.0%	5,266	6,639	26.1%	6,847	8,257	20.6%
Cost of sales	-3,097	-5,376	73.6%	-3,655	-4,633	26.8%	-3,669	-5,248	43.0%	-4,850	-6,399	31.9%
Gross profit	819	1,097	33.9%	1,769	1,769	0.0%	1,597	1,391	-12.9%	1,996	1,858	-6.9%
Other income	113	157	38.1%	30	190	542.9%	94	152	60.7%	206	126	-38.8%
SG&A expenses	-560	-620	10.7%	-305	-312	2.3%	-291	-374	28.5%	-392	-418	6.5%
EBIT	372	633	70.1%	1,493	1,647	10.3%	1,401	1,169	-16.5%	1,810	1,566	-13.4%
D&A	408	521	27.7%	298	426	42.9%	303	479	58.3%	381	527	38.3%
EBITDA	780	1,154	47.9%	1,791	2,073	15.7%	1,703	1,648	-3.2%	2,191	2,093	-4.4%
Net finance income/(expense)	126	60	-52.4%	144	105	-27.2%	146	83	-43.3%	148	93	-36.9%
Finance income	126	75	-40.2%	144	114	-20.9%	146	97	-34.0%	148	106	-28.7%
Finance expenses	-0	-16	n/a	0	-9	n/a	0	-14	n/a	0	-12	n/a
Gain/(loss) on disposal of subsidiaries	0	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%
Fair value changes of financial instruments	0	16	n/a	0	0	n/a	0	0	n/a	754	0	-100.0%
FX gain/(loss)	16	-0	n/a	22	3	-88.4%	29	-64	n/a	-12	-82	n/a
Share of profit of JV and associates	-14	-25	83.7%	-6	-2	n/a	-1	-5	n/a	6	3	-51.2%
Pretax profit	501	683	36.4%	1,654	1,752	5.9%	1,574	1,182	-24.9%	2,648	1,581	-40.3%
Income tax	-130	-150	15.3%	-289	-298	3.3%	-266	28	n/a	-331	-290	-12.6%
After tax profit	371	534	43.8%	1,365	1,454	6.5%	1,308	1,210	-7.4%	2,317	1,291	-44.3%
MI	4	0	-97.3%	-6	-5	-7.1%	-0	-9	n/a	10	-3	-136.2%
Net profit	375	534	42.4%	1,359	1,449	6.6%	1,308	1,201	-8.1%	2,326	1,288	-44.6%
Ratios:			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>
Gross margin	20.9%	16.9%	-4.0	32.6%	27.6%	-5.0	30.3%	21.0%	-9.4	29.2%	22.5%	-6.7
EBIT margin	9.5%	9.8%	0.3	27.5%	25.7%	-1.8	26.6%	17.6%	-9.0	26.4%	19.0%	-7.5
After tax profit margin	9.5%	8.2%	-1.2	25.2%	22.7%	-2.5	24.8%	18.2%	-6.6	33.8%	15.6%	-18.2
Effective tax rate	25.9%	21.9%	-4.0	17.5%	17.0%	-0.4	16.9%	-2.4%	-19.3	12.5%	18.3%	5.8

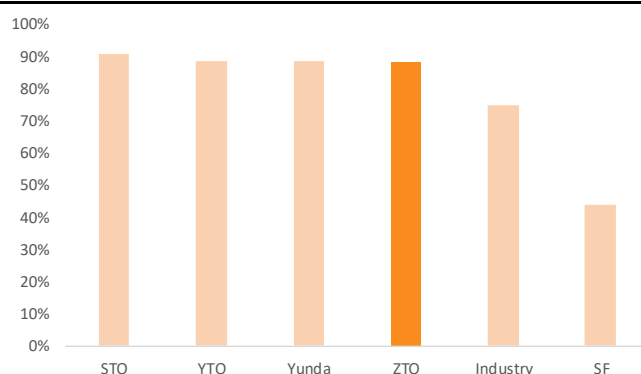
Source: Company data, CMBIS

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 1Q21



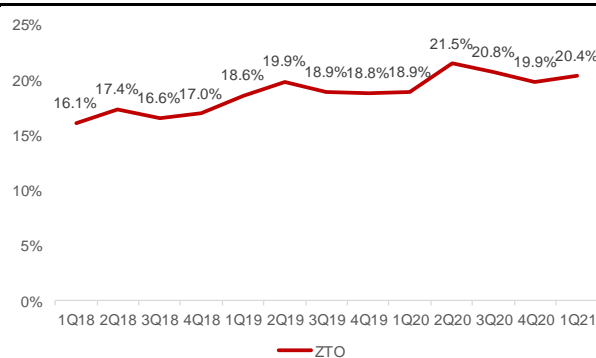
Source: Company data, The State Post Bureau, CMBIS

Figure 4: ZTO achieved the least ASP reduction (YoY) in 1Q21

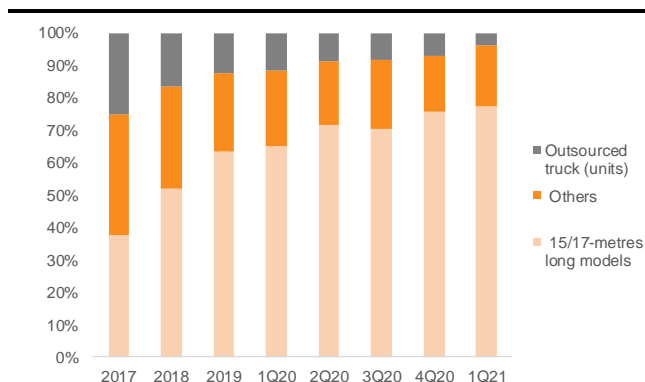


Source: Company data, The State Post Bureau, CMBIS

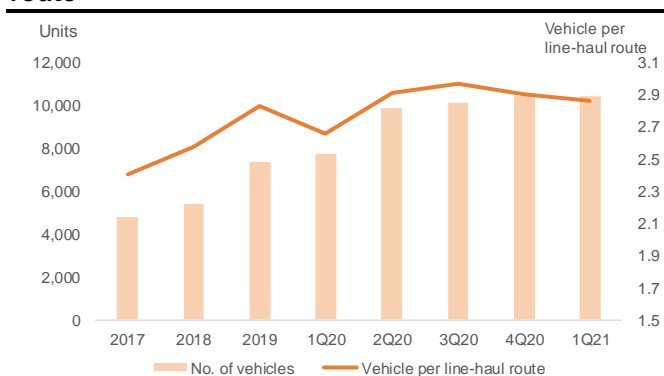
Figure 5: ZTO's market share in China in terms of parcel volume



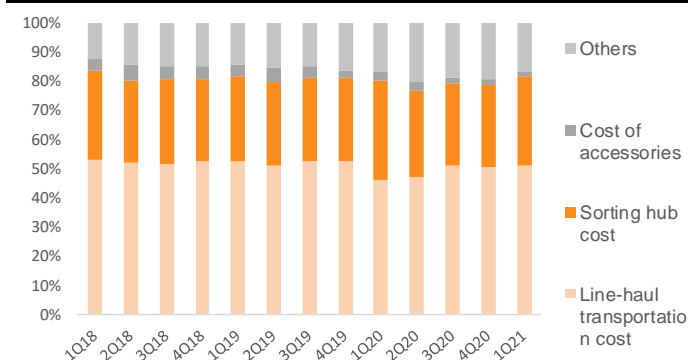
Source: Company data, CMBIS

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

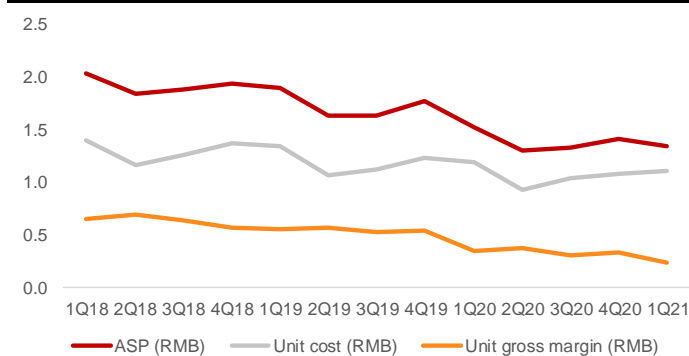
Source: Company data, CMBIS

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 operating assumptions

	Old		New		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
Shipment volume (mn units of parcel)						
Unit of parcel	23,803	30,944	23,803	30,944	0.0%	0.0%
ASP (RMB/unit)						
Per unit of parcel	1.30	1.27	1.27	1.24	-2.1%	-2.6%
Unit cost breakdown (RMB)						
Line-haul transportation cost	-0.51	-0.49	-0.51	-0.49	0.0%	0.0%
Sorting hub cost	-0.28	-0.26	-0.28	-0.26	0.0%	0.0%
Others	-0.19	-0.19	-0.19	-0.19	0.0%	0.0%
Total	-1.00	-0.96	-1.00	-0.96	0.0%	0.0%
Unit gross margin (RMB)	0.30	0.31	0.27	0.28	-9.2%	-10.7%
(RMB mn)						
Revenue						
Express delivery, accessories & others	30,894	39,359	30,240	38,330	-2.1%	-2.6%
Freight forwarding services	2,142	2,356	2,142	2,356	0.0%	0.0%
Total	33,036	41,715	32,382	40,686	-2.0%	-2.5%
Revenue growth					ppt	
Express delivery, accessories & others	32%	27%	30%	27%	(2.8)	(0.6)
Freight forwarding services	15%	10%	15%	10%	0.0	0.0
Revenue	31%	26%	28%	26%	(2.6)	(0.6)
Gross margin					ppt	
Express delivery, accessories & others	23%	24%	21%	22%	(1.7)	(2.0)
Freight forwarding services	8%	8%	11%	13%	3.0	5.0
Gross margin	22%	23%	21%	22%	(1.4)	(1.6)
Net profit	5,375	7,127	4,727	6,249	-12.1%	-12.3%

Source: Company data, CMBIS estimates

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

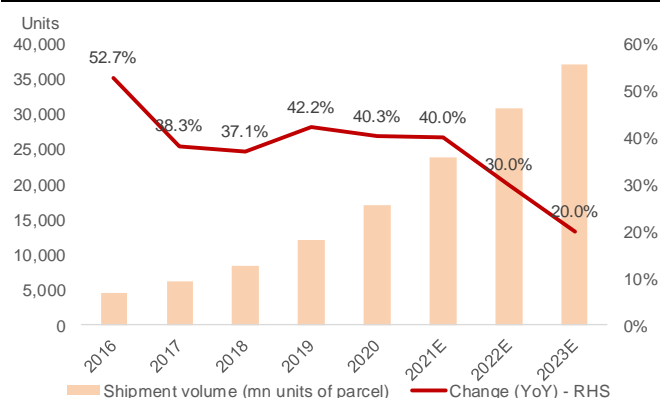
2021E Net profit (RMB mn)	ASP (RMB/unit)				
	1.21	1.25	1.27	1.30	1.33
-0.534	2,957	3,706	4,205	4,704	5,453
-0.519	3,271	4,019	4,518	5,018	5,766
Unit line-haul transportation cost (RMB)	-0.509	3,479	4,228	4,727	5,226
-0.499	3,688	4,437	4,936	5,435	6,184
-0.484	4,002	4,750	5,249	5,749	6,497

Source: Company data, CMBIS estimates

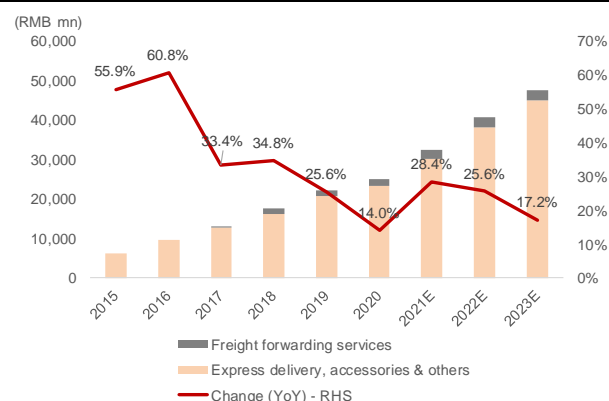
Figure 12: Earnings sensitivity to ASP and unit sorting hub cost

2021E Net profit (RMB mn)	ASP (RMB/unit)				
	1.21	1.25	1.27	1.30	1.33
-0.293	3,194	3,942	4,441	4,940	5,689
-0.284	3,365	4,114	4,613	5,112	5,861
Unit sorting hub cost (RMB)	-0.279	3,479	4,228	4,727	5,226
-0.273	3,594	4,343	4,842	5,341	6,089
-0.265	3,765	4,514	5,013	5,512	6,261

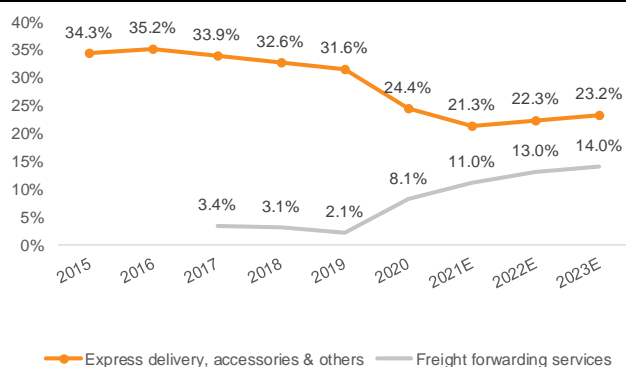
Source: Company data, CMBIS estimates

Figure 13: ZTO's parcel shipment volume forecast

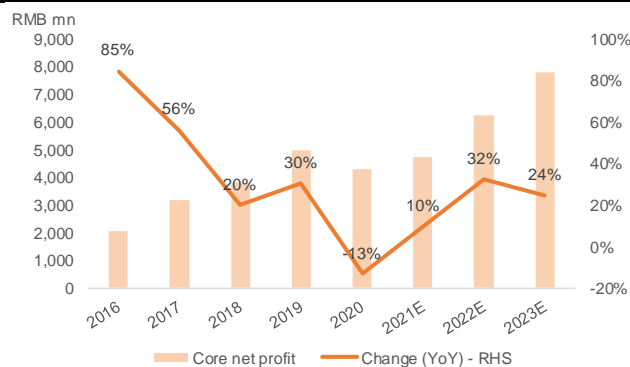
Source: Company data, CMBIS estimate

Figure 14: ZTO's revenue forecast

Source: Company data, CMBIS estimate

Figure 15: ZTO's gross margin trend

Source: Company data, CMBIS estimate

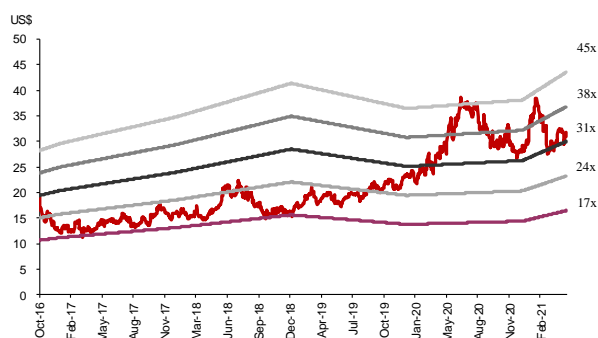
Figure 16: ZTO's core net profit forecast

Source: Company data, CMBIS estimate

Valuation

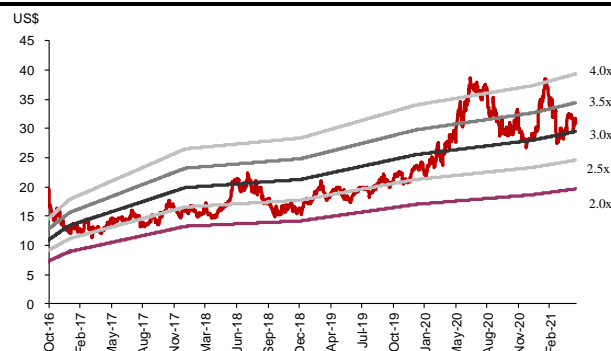
ZTO has been trading at a forward P/E range between 30x-45x since early 2020. In particular, the stock saw support at 30x P/E several times and we see this level as a key support. We raised our TP from US\$36.0 to US\$39.5, as we revised up the target multiple from 36x to 45x 2021E P/E (historical peak level), to reflect the Company's continuous market share gain and the potential to become a long-term winner in the express delivery market.

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)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	22,110	25,214	32,382	40,686	47,668
Cost of sales	-15,489	-19,377	-25,700	-31,827	-36,829
Gross profit	6,621	5,837	6,682	8,859	10,839
Other operating income	388	581	648	814	953
SG&A expense	-1,546	-1,664	-2,008	-2,441	-2,765
EBIT	5,463	4,754	5,322	7,231	9,027
Net finance income/(cost)	585	407	198	140	134
Finance income	585	443	234	176	169
Finance expenses	0	-35	-36	-36	-36
Gain/(loss) on disposal	-3	1	0	0	0
Impairment of equity investees	-56	-1	0	0	0
Unrealized gain fr. equity investee	754	0	0	0	0
FX gain/(loss)	13	-127	0	0	0
Profit of JV & associates	-8	-19	-6	3	17
Pretax profit	6,750	5,016	5,513	7,374	9,178
Income tax	-1,078	-690	-772	-1,106	-1,377
After tax profit	5,671	4,326	4,742	6,268	7,801
MI	3	-14	-14	-19	-23
Net profit	5,674	4,312	4,727	6,249	7,778
Recurring net profit	4,979	4,312	4,727	6,249	7,778
D&A	1,265	1,840	2,744	3,558	4,212
EBITDA	6,727	6,595	8,066	10,789	13,239

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	6,750	5,016	5,513	7,374	9,178
Finance cost	0	35	36	36	36
Interest income	-585	-443	-234	-176	-169
Profit or loss of associates	8	19	6	-3	-17
Depreciation & amortization	1,265	1,840	2,744	3,558	4,212
Income tax paid	-1,119	-690	-772	-1,106	-1,377
Change in working capital	-260	-1,381	-318	-378	771
Others	-338	111	0	0	0
Cash flow from operation	5,719	4,508	6,976	9,304	12,633
Net capex on PP&E	-4,636	-7,853	-10,000	-10,000	-8,000
Purchase of land use rights	-591	-1,927	-700	-700	-700
Investment in JV/associates	-218	0	-50	-50	-200
Investment in subsidiaries	-20	0	0	0	0
Interest received	585	443	234	176	169
Others	629	5,346	-0	-0	-0
Cash flow from investing	-4,250	-3,992	-10,516	-10,574	-8,731
Equity financing/(repurchase)	-763	9,842	0	0	0
Net bank borrowings	0	1,433	0	0	0
Dividend paid	-1,271	-1,667	-1,355	-1,465	-1,937
Others	51	-1,271	0	0	0
Cash flow from financing	-1,982	8,337	-1,390	-1,501	-1,973
Change in cash	-513	8,853	-4,931	-2,771	1,930
Cash at beginning of the year	4,623	5,270	14,213	9,282	6,511
Exchange gains/(losses) and others	1,161	89	0	0	0
Cash at the end of the year	5,270	14,213	9,282	6,511	8,440

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	25,792	36,880	45,258	53,065	56,853
PP&E	12,471	18,565	25,927	32,489	36,410
Land use right	2,509	4,361	4,961	5,548	6,121
Investment in JV/associates	3,109	3,224	3,268	3,321	3,538
Operating lease right-of-use assets	902	876	936	996	1,056
Goodwill	4,242	4,242	4,242	4,242	4,242
Long term financing receivables	550	1,970	2,288	2,839	1,862
Intangible assets	48	42	36	29	23
Long-term investment	946	1,842	1,842	1,842	1,842
Others	612	1,037	1,037	1,037	1,037
Deferred tax assets	404	721	721	721	721
Current assets	20,098	22,325	18,146	15,391	18,026
Inventories	44	53	88	69	133
Account receivables	676	746	1,117	1,224	1,519
Financing receivables	511	492	839	767	1,114
Advances to suppliers	438	589	589	589	589
Short-term investment	11,113	3,690	3,690	3,690	3,690
Others	2,039	2,408	2,408	2,408	2,408
Restricted cash	7	133	133	133	133
Cash	5,270	14,213	9,282	6,511	8,440
Current liabilities	6,681	9,348	10,160	10,408	10,968
Account payables	1,475	1,636	2,448	2,697	3,256
Operating lease liabilities	299	246	246	246	246
Bank borrowings	0	1,433	1,433	1,433	1,433
Tax payable	80	49	49	49	49
Advanced from customers	1,211	1,120	1,120	1,120	1,120
Others	3,616	4,864	4,864	4,864	4,864
Non-current liabilities	806	757	757	757	757
Bank borrowings	0	0	0	0	0
Deferred tax liabilities	208	255	255	255	255
Non-current operating lease	504	502	502	502	502
Others	94	-0	-0	-0	-0
Shareholders' equity	38,303	48,979	52,352	57,136	62,976
MI	101	121	135	154	177

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Express delivery, accessories & others	94%	93%	93%	94%	95%
Freight forwarding services	6%	7%	7%	6%	5%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	29.9	23.1	20.6	21.8	22.7
EBITDA margin	30.4	26.2	24.9	26.5	27.8
EBIT margin	24.7	18.9	16.4	17.8	18.9
Net profit margin	25.7	17.2	14.6	15.4	16.4
Growth (%)					
Revenue	25.6	14.0	28.4	25.6	17.2
Gross profit	23.4	(11.8)	14.5	32.6	22.4
EBITDA	29.7	(2.0)	22.3	33.8	22.7
EBIT	26.1	(13.0)	11.9	35.9	24.8
Core net profit	30.3	(13.4)	9.6	32.2	24.5
Balance sheet ratio					
Current ratio (x)	3.0	2.4	1.8	1.5	1.6
Trade receivable turnover days	15	29	35	34	29
Inventory turnover days	1	1	1	1	1
Payable turnover days	33	29	29	30	30
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	13.3	8.2	7.7	9.5	10.9
ROE	13.7	9.9	9.3	11.4	13.0
Per share data					
EPS (RMB)	7.24	5.43	5.66	7.49	9.32
Core EPS (RMB)	6.35	5.43	5.66	7.49	9.32
BVPS (RMB)	48.98	58.67	62.71	68.44	75.43
DPS (RMB)	2.13	1.70	1.76	2.32	2.89

Source: Company data, CMBIS estimates

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