

Zoomlion Heavy Industry - H (1157 HK)

Raised earnings est. on surprisingly strong 3Q19 profit

Zoomlion's net profit in 3Q19 is expected to surge 94%-117% YoY to RMB850-950mn, according to the positive profit alert. The impressive growth is above expectation, which we believe was driven by strong sales and operating leverage. We raised our earnings forecast for 2019E-21E by 13-18% on higher volume and gross margin assumptions. Our TP is raised from HK\$6.95 (1.2x 2019E P/B) to HK\$7.65 (1.3x 2019E P/B). Our higher target multiple is supported by higher ROE (2019E-21E: 11.6%-13.4%), similar to the level in 2013 (11.8%). We believe strong infrastructure spending in 4Q19E will continue to fuel Zoomlion's growth, serving as a share price catalyst. Zoomlion – H remains our sector top pick.

■ **What's new?** Zoomlion's net profit growth of 94-117% YoY in 3Q19 was driven by a couple of factors: (1) strong property and infrastructure construction activities boosted the demand for both crane and concrete machinery; (2) the launch of new products and core products such as concrete pump trucks, tower cranes and construction cranes helped drive the growth; (3) the stringent cost control and operating leverage helped margin expansion. In 9M19, the net profit is expected to surge 163%-171% YoY to RMB3,426-3,526mn.

■ **Upcycle to continue in 2020E.** We continue to like crane and concrete machinery as the demand should continue to be driven by the growth of property area under construction and resilient infrastructure spending. Besides, Zoomlion is set to benefit from the rising demand for large-size tower cranes, driven by an increasing application of pre-cast concrete construction. In addition, the elimination of NES III trucks will continue to lend strong support to the demand for truck crane and concrete trucks over the coming two years.

■ **Risk factors:** (1) Unexpected weakness on property construction activities; (2) Slow recovery of infrastructure spending; (3) High earnings volatility.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	20,608	28,697	44,342	50,749	54,824
YoY growth (%)	2.9	39.3	54.5	14.4	8.0
Net income (RMB mn)	1,342	2,031	4,573	5,346	5,706
EPS (RMB)	0.18	0.27	0.58	0.68	0.73
YoY growth (%)	n/a	51.5	119.6	16.6	6.7
EV/EBITDA (x)	n/a	12.1	6.7	6.0	5.7
P/E (x)	27.6	18.9	8.8	7.6	7.1
P/B (x)	1.0	1.0	1.0	1.0	0.9
Yield (%)	4.1	5.0	10.2	11.9	12.7
ROE (%)	3.6	5.4	11.6	12.9	13.4
Net gearing (%)	39.6	33.6	26.8	22.4	19.1

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$7.65
(Previous TP)	HK\$6.95)
Up/Downside	+31%
Current Price	HK\$5.82

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Stock Data

Mkt Cap (HK\$ mn)	45,655
Avg 3 mths t/o (HK\$ mn)	63
52w High/Low (HK\$)	5.96/2.48
Total Issued Shares (mn)	1,388 (H)
	6,456 (A)

Source: Bloomberg

Shareholding Structure

SASAC of Hunan Province	16.0%
Management team	4.9%
A share free float	61.4%
H share free float	17.7%

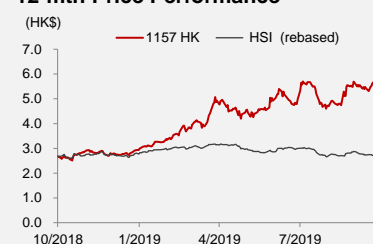
Source: HKEx, Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	+2.3%	+5.5%
3-mth	+17.1%	+25.7%
6-mth	+18.1%	+33.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

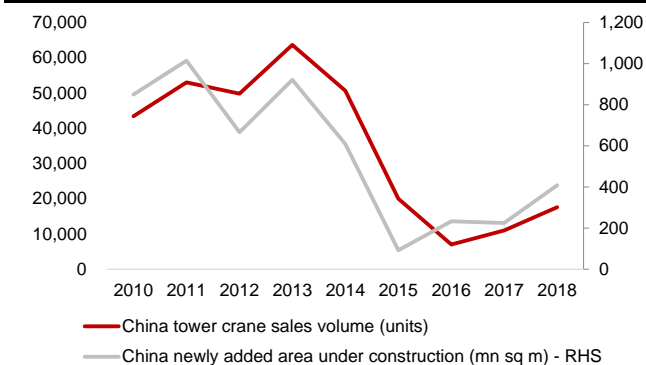
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1. Zoomlion (000157 CH, BUY) - Net profit +196% YoY in 1H19 within expectations – 2 Sep 2019
2. Zoomlion (1157 HK, BUY) – 2Q earnings above expectations; TP raised – 15 Jul 2019
3. Zoomlion (1157 HK, BUY) – Strong set of 1Q19 result; Impressive cash flow – 30 Apr 2019
4. "China Construction Machinery Sector – Further upside on potential earnings surprise" – 16 Apr 2019

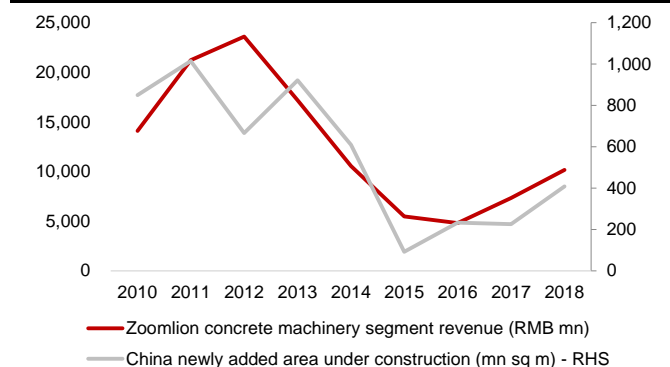
Figure 1: Change in key assumptions

	Old			New			Change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
(RMB mn)									
Revenue									
Construction machinery	39,880	44,047	47,377	42,348	48,700	52,716	6%	11%	11%
Concrete machinery	15,248	16,467	17,455	16,264	18,704	19,826	7%	14%	14%
Crane machinery	18,708	20,766	22,427	19,955	22,948	24,784	7%	11%	11%
Others	5,925	6,813	7,495	6,129	7,048	8,106	3%	3%	8%
Agricultural machinery	1,403	1,403	1,431	1,447	1,447	1,476	3%	3%	3%
Financial services	547	601	631	547	601	631	0%	0%	0%
Total revenue	41,830	46,051	49,440	44,342	50,749	54,824	6%	10%	11%
Revenue growth							Change in ppt		
Construction machinery	49.2%	10.4%	7.6%	58.5%	15.0%	8.2%	9.2	4.6	0.7
Concrete machinery	50.0%	8.0%	6.0%	60.0%	15.0%	6.0%	10.0	7.0	0.0
Crane machinery	50.0%	11.0%	8.0%	60.0%	15.0%	8.0%	10.0	4.0	0.0
Others	45.0%	15.0%	10.0%	50.0%	15.0%	15.0%	5.0	0.0	5.0
Agricultural machinery	-5.0%	0.0%	2.0%	-2.0%	0.0%	2.0%	3.0	0.0	0.0
Financial services	10.0%	10.0%	5.0%	10.0%	10.0%	5.0%	0.0	0.0	0.0
Total revenue growth	45.8%	10.1%	7.4%	54.5%	14.4%	8.0%	8.8	4.4	0.7
Gross margin							Change in ppt		
Construction machinery	29.7%	29.7%	29.1%	30.6%	30.4%	30.0%	0.87	0.70	0.91
Concrete machinery	28.0%	28.0%	27.5%	29.0%	29.0%	28.5%	1.00	1.00	1.00
Crane machinery	32.0%	32.0%	31.0%	33.0%	32.5%	32.0%	1.00	0.50	1.00
Others	27.0%	27.0%	27.0%	27.0%	27.5%	27.5%	0.00	0.50	0.50
Agricultural machinery	6.8%	6.8%	6.9%	6.8%	6.8%	6.9%	0.00	0.00	0.00
Financial services	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0.00	0.00	0.00
Average gross margin	29.9%	30.0%	29.3%	30.7%	30.6%	30.2%	0.80	0.63	0.83

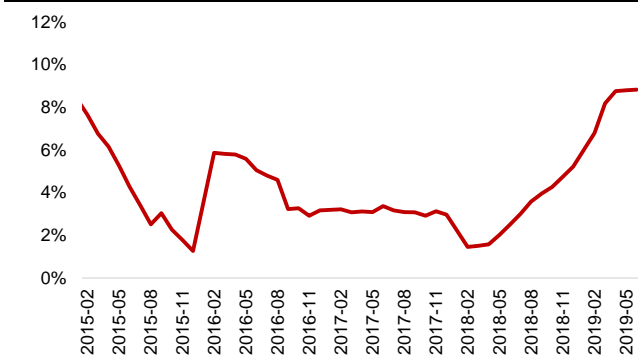
Source: Company data, CMBIS estimates

Figure 2: China tower crane sales vs China newly added property area under construction

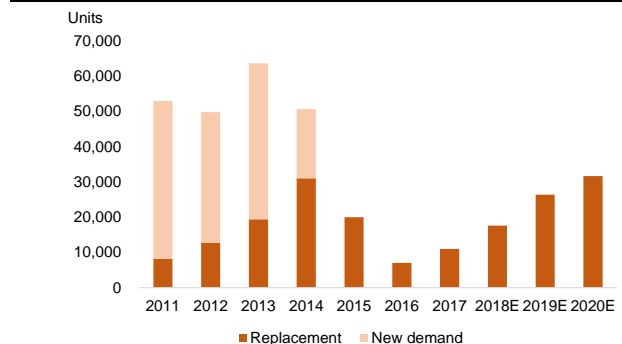
Source: NBS, CCMA, Wind, CMBIS

Figure 3: Zoomlion concrete machinery sales vs China newly added area under construction

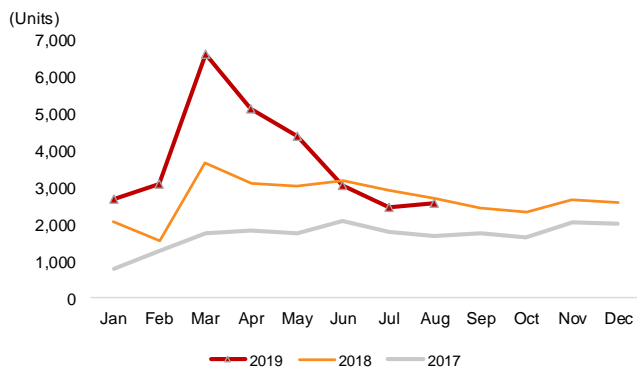
Source: NBS, Wind, Company data, CMBIS

Figure 4: China monthly property area under construction growth (YoY)

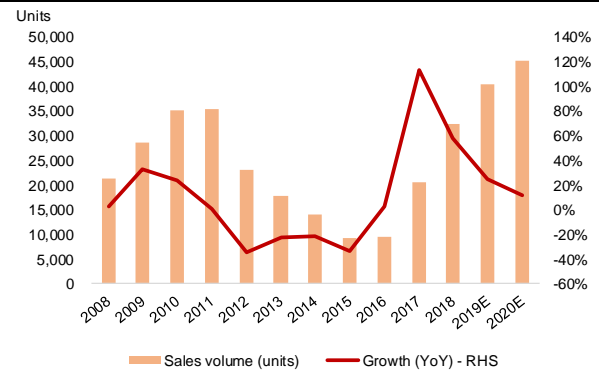
Source: NBS, Wind, CMBIS

Figure 5: CMBI forecast on China tower crane sales volume

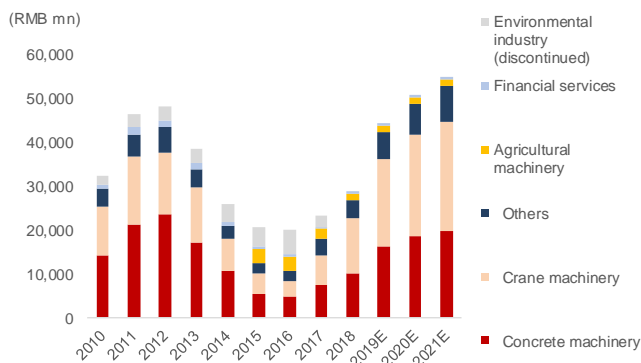
Source: CCMA, CMBIS estimates

Figure 6: China truck crane monthly sales volume

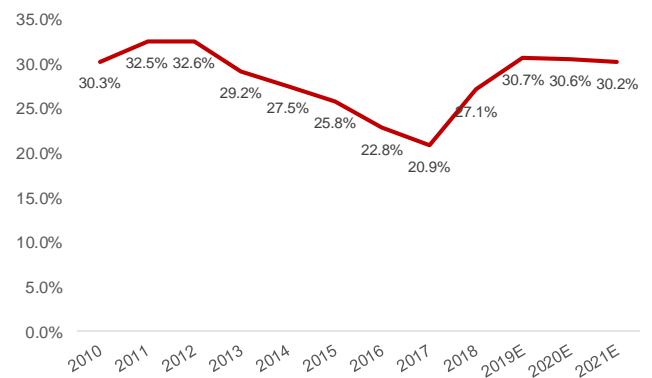
Source: CCMA, CMBIS

Figure 7: CMBI forecast on China truck crane sales

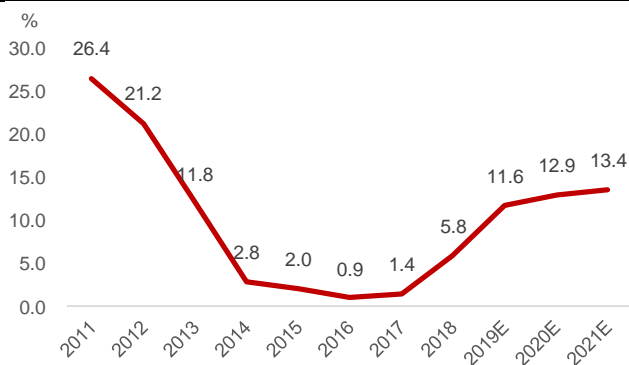
Source: CCMA, CMBIS estimates

Figure 8: Zoomlion's revenue trend

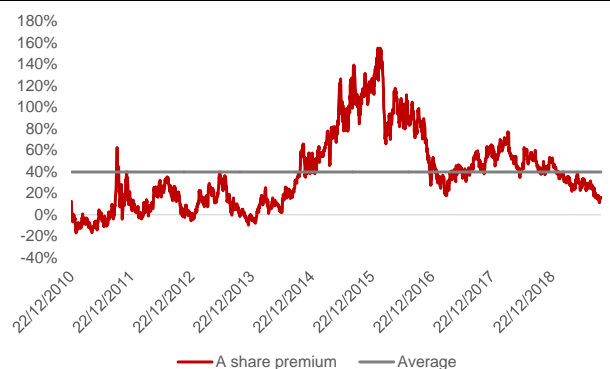
Source: Company data, CMBIS estimates

Figure 9: Zoomlion's gross margin trend

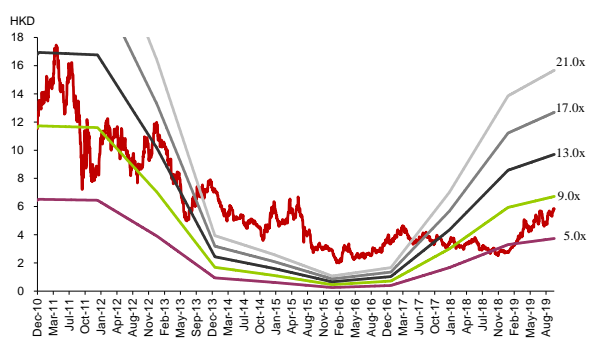
Source: Company data, CMBIS estimates

Figure 10: Zoomlion's ROE trend

Source: Company data, CMBIS estimates

Figure 11: Zoomlion A share premium to H share

Source: Bloomberg, CMBIS

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

Source: Bloomberg, Company data, CMBIS estimates

Figure 13: Zoomlion – H 12M forward P/B band

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Total revenue	20,608	28,697	44,342	50,749	54,824
Cost of sales	-16,303	-20,923	-30,741	-35,229	-38,280
Gross profit	4,305	7,774	13,602	15,520	16,544
Other income	259	882	682	732	772
S&D expenses	-2,180	-2,379	-3,326	-3,806	-4,112
Administrative expenses	-10,487	-2,063	-2,882	-3,299	-3,564
R&D expenses	-277	-581	-887	-1,015	-1,096
EBIT	-8,380	3,633	7,189	8,132	8,544
Net finance income/(cost)	-1,443	-1,205	-1,330	-1,251	-1,199
Finance income	366	347	414	431	459
Finance expenses	-1,809	-1,552	-1,745	-1,682	-1,658
Other gains/(losses)	0	0	0	0	0
Profit of JV and associates	110	222	235	243	259
Pretax profit	-9,713	2,650	6,094	7,124	7,604
Income tax	1,425	-682	-1,566	-1,831	-1,954
After tax profit	-8,288	1,968	4,528	5,293	5,649
MI/discontinued operation	9,630	63	45	53	56
Net profit	1,342	2,031	4,573	5,346	5,706
Recurring net profit	508	2,199	4,573	5,346	5,706
D&A	924	837	852	872	893
EBITDA	-7,456	4,470	8,041	9,005	9,437

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	1,252	2,650	6,094	7,124	7,604
Finance cost	1,488	1,451	1,745	1,682	1,658
Interest income	-398	-347	-414	-431	-459
Profit or loss of associates	-90	-222	-235	-243	-259
Disposal of PP&E/business	-10,763	-152	0	0	0
Depreciation and amortization	968	837	852	872	893
Income tax paid	-227	-431	-1,566	-1,831	-1,954
Change in working capital	10,037	1,152	-461	554	387
Others	186	-221	0	0	0
Cash flow from operation	2,453	4,717	6,013	7,728	7,870
Net capex on PP&E	-73	-272	-700	-700	-600
Investment in JV/associates	-8	-4	0	0	0
Investment in subsidiaries	10,428	0	0	0	0
Investment in intangible assets	-156	-103	-100	-100	0
Dividend received	5	4	0	0	0
Interest received	398	347	414	431	459
Others	-6,558	-7,214	0	0	0
Cash flow from investing	4,036	-7,242	-386	-369	-141
Equity financing/(repurchase)	216	37	0	0	0
Net bank borrowings	-3,442	6,817	-1,400	-1,000	100
Dividend paid	-1,141	-1,308	-1,952	-4,116	-4,811
Interest paid	-1,527	-1,428	-1,745	-1,682	-1,658
Others	-12	-16	0	0	0
Cash flow from financing	-5,906	4,102	-5,097	-6,798	-6,370
Change in cash	583	1,577	531	561	1,359
Cash at beginning of the year	6,575	7,148	8,754	9,285	9,846
Exchange and others	-10	29	-0	0	-0
Cash at the end of the year	7,148	8,754	9,285	9,846	11,205

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	25,218	28,657	28,512	30,219	28,987
PP&E	6,274	6,077	6,185	6,279	6,255
Lease prepayment	1,935	1,943	1,893	1,843	1,793
JV/associates	3,123	3,500	3,735	3,978	4,237
Finance lease receivables	1,870	3,656	2,175	3,108	1,398
Goodwill	2,088	2,046	2,046	2,046	2,046
Trade receivables	4,106	5,498	6,651	7,253	7,767
Intangible assets	2,250	2,153	2,043	1,927	1,708
Financial assets	2,154	2,379	2,379	2,379	2,379
Others	0	0	0	0	0
Deferred tax assets	1,358	1,276	1,276	1,276	1,276
Deposits	60	129	129	129	129
Current assets	57,894	64,762	75,417	72,318	81,145
Inventories	8,886	9,551	12,178	10,600	12,473
Trade & other receivables	22,661	21,554	26,068	26,766	28,508
Finance lease receivables	10,931	8,835	11,818	9,038	12,891
Financial assets at FVPL	6,323	13,787	13,787	13,787	13,787
Others	897	1,097	1,097	1,097	1,097
Pledged deposits	1,048	1,184	1,184	1,184	1,184
Cash	7,148	8,754	9,285	9,846	11,205
Current liabilities	24,488	39,623	48,758	46,988	53,745
Trade and other payables	14,992	15,786	24,640	22,654	28,736
Bank borrowings	9,348	22,044	21,844	21,644	21,744
Tax payable	148	151	151	151	151
Contract liabilities	0	1,602	2,083	2,499	3,074
Others	0	40	40	40	40
Non-current liabilities	20,434	15,065	13,865	13,065	13,065
Bank borrowings	19,296	13,645	12,445	11,645	11,645
Deferred tax liabilities	485	429	429	429	429
Others	653	991	991	991	991
Equity	38,190	38,731	41,307	42,484	43,322
Shareholders' equity	37,540	38,164	40,785	42,015	42,910
MI	650	567	522	469	412

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Concrete machinery	32%	35%	37%	37%	36%
Crane machinery	29%	43%	45%	45%	45%
Others machinery	16%	14%	14%	14%	15%
Agricultural machinery	10%	5%	3%	3%	3%
Financial services	2%	2%	1%	1%	1%
Environmental (discontinued)	11%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	20.9	27.1	30.7	30.6	30.2
EBIT margin	(40.7)	12.7	16.2	16.0	15.6
Net profit margin	(40.2)	6.9	10.2	10.4	10.3
Growth (%)					
Revenue	2.9	39.3	54.5	14.4	8.0
Gross profit	(9.9)	80.6	75.0	14.1	6.6
EBIT	n/a	n/a	97.9	13.1	5.1
Core net profit	54.4	332.9	108.0	16.9	6.7
Balance sheet ratio					
Current ratio (x)	2.4	1.6	1.5	1.5	1.5
Trade receivable turnover days	548	342	246	240	234
Finance lease receivable turnover	238	161	109	94	88
Inventory turnover days	242	161	129	118	110
Payable turnover days	359	268	240	245	245
Net debt / total equity (%)	39.6	33.6	26.8	22.4	19.1
Profitability (%)					
ROA	1.6	2.3	4.6	5.2	5.4
Core ROE	1.4	5.8	11.6	12.9	13.4
Per share data					
EPS (RMB)	0.18	0.27	0.58	0.68	0.73
Core EPS (RMB)	0.07	0.29	0.58	0.68	0.73
BVPS (RMB)	4.82	4.89	5.20	5.36	5.47
DPS (RMB)	0.20	0.25	0.52	0.61	0.65

Source: Company data, CMBIS estimates

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