

## Zoomlion Heavy Industry - A (000157 CH)

### Net profit +196% YoY in 1H19 within expectations

Zoomlion's net profit came in at RMB2.58bn, up 196% YoY, within the range of 172%-212% growth mentioned in the profit alert. This implied 218% YoY increase in net profit in 2Q19. The strong growth was driven by both sales volume and margin expansion. Net profit in 1H19 is within expectation and accounts for 64% of our full year forecast. Operating cash flow surged 135% YoY to RMB3.3bn, suggesting high quality earnings. We continue to like crane and concrete segment as the demand should continue to be driven by the growth of property area under construction and potential recovery of infrastructure activities. We maintain our **BUY** rating and TP of RMB6.70, based on 1.3x 2019E target P/B.

- Strong revenue growth + margin expansion.** Revenue grew 51% YoY to RMB22.3bn, mainly driven by 95% YoY increase in crane machinery (49% of total revenue) and 31% YoY increase in concrete machinery (34% of total revenue). Blended gross margin expanded significantly by 4.5ppt to 30%. Administrative expense ratio reduced 1.8ppt YoY to 5.9% in 1H19. In 2Q19, growth of revenue / net profit accelerated to 59% YoY / 218% YoY.
- Strong cash flow and reducing gearing ratio.** Zoomlion's operating cash flow grew 1.35x to RMB3.3bn. We believe it was due to management's strong execution on cash collection and inventory management. Besides, the net debt / equity ratio reduced to 30% in Jun 2019 from 34% in Dec 2018 (note: we included the wealth management product investment into the calculation). This was significantly lower than the 65% in Dec 2016. We believe debt reduction is another driver to lift the Company's valuation.
- Risk factors:** (1) 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	41,830	46,051	49,440
YoY growth (%)	2.9	39.3	45.8	10.1	7.4
Net income (RMB mn)	1,342	2,031	4,055	4,626	4,830
EPS (RMB)	0.18	0.27	0.52	0.59	0.62
YoY growth (%)	n/a	51.5	94.7	13.8	4.4
EV/EBITDA (x)	n/a	12.1	7.4	6.7	6.5
P/E (x)	27.7	18.9	10.0	8.7	8.4
P/B (x)	1.0	1.0	1.0	1.0	1.0
Yield (%)	4.1	5.0	9.0	10.3	10.7
ROE (%)	3.6	5.4	10.3	11.4	11.6
Net gearing (%)	39.6	33.6	25.3	22.0	19.0

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	RMB6.70
(Previous TP)	RMB6.7)
Up/Downside	+26%
Current Price	RMB5.30

#### China Capital Goods

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#### Stock Data

Mkt Cap (RMB mn)	45,734
Avg 3 mths t/o (RMB mn)	302
52w High/Low (RMB)	6.47/3.15
Total Issued Shares (mn)	<b>6,456 (A)</b>
	1,388 (H)

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%

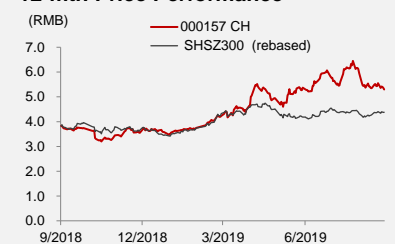
Source: HKEx, Shanghai Stock Exchange

#### Share Performance

	Absolute	Relative
1-mth	-14.1%	-13.3%
3-mth	-1.3%	-5.7%
6-mth	+26.2%	+21.9%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: KPMG

#### Related Reports

- "Zoomlion (000157 CH, BUY) – 2Q19 Earnings above expectations; Initiate with BUY – 15 Jul 2019
- "Zoomlion (1157 HK, BUY) – Strong set of 1Q19 result; Impressive cash flow" – 30 Apr 2019
- "China Construction Machinery Sector – Further upside on potential earnings surprise" – 16 Apr 2019

**Figure 1: Highlights on 1H19 results**

(RMB mn)	1H18	1H19	Change (YoY)
<b>Total revenue</b>	<b>14,706</b>	<b>22,262</b>	<b>51.4%</b>
Cost of sales	-10,953	-15,584	42.3%
<b>Gross profit</b>	<b>3,753</b>	<b>6,678</b>	<b>77.9%</b>
Other income	397	622	56.7%
S&D expenses	-1,213	-1,881	55.1%
Administrative expenses	-1,139	-1,324	16.2%
R&D expenses	-197	-461	134.0%
<b>EBIT</b>	<b>1,601</b>	<b>3,634</b>	<b>127.0%</b>
Net finance income/(cost)	-607	-596	-1.8%
Other gains/(losses)	0	0	n/a
Share of profit of JV and associates	86	82	-4.7%
<b>Pretax profit</b>	<b>1,080</b>	<b>3,120</b>	<b>188.9%</b>
Income tax	-217	-540	148.8%
<b>After tax profit</b>	<b>863</b>	<b>2,580</b>	<b>199.0%</b>
MI	11	5	-54.5%
<b>Net profit</b>	<b>874</b>	<b>2,585</b>	<b>195.8%</b>
Recurring net profit	<b>771</b>	<b>2,878</b>	<b>273.3%</b>
D&A	412	394	-4.4%
<b>EBITDA</b>	<b>2,013</b>	<b>4,028</b>	<b>100.1%</b>
<b>Key ratios</b>			<b>Change (ppt)</b>
Gross margin	25.5%	30.0%	4.5
S&D expenses ratio	8.2%	8.4%	0.2
Administrative expense ratio	7.7%	5.9%	-1.8
Effective tax rate	20.1%	17.3%	-2.8

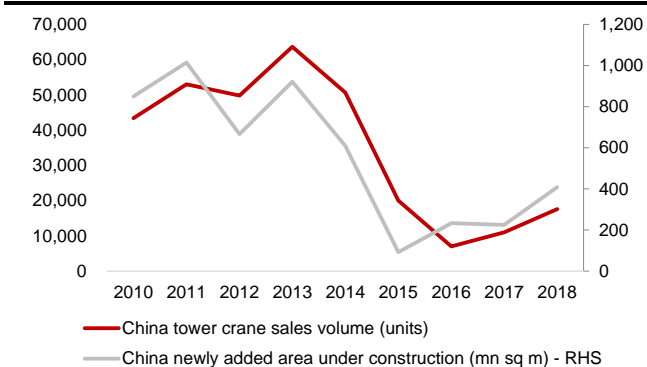
Source: Company data, CMBIS

**Figure 2: Highlights on 2Q19 results**

(RMB mn)	1Q18	1Q19	Change YoY	2Q18	2Q19	Change YoY
<b>Total revenue</b>	<b>6,360</b>	<b>9,017</b>	<b>41.8%</b>	<b>8,346</b>	<b>13,245</b>	<b>58.7%</b>
Cost of sales	-4,749	-6,311	32.9%	-6,204	-9,273	49.5%
<b>Gross profit</b>	<b>1,611</b>	<b>2,706</b>	<b>68.0%</b>	<b>2,142</b>	<b>3,972</b>	<b>85.4%</b>
Other income	51	29	-42.5%	346	593	71.3%
S&D expenses	-504	-715	41.8%	-709	-1,166	64.5%
Administrative expenses	-575	-740	28.6%	-761	-1,045	37.4%
<b>EBIT</b>	<b>583</b>	<b>1,281</b>	<b>119.8%</b>	<b>1,018</b>	<b>2,353</b>	<b>131.1%</b>
Net finance income/(cost)	-261	-405	55.1%	-346	-191	-44.7%
Other gains/(losses)	102	234	129.3%	-102	-234	129.3%
Share of profit of JV and associates	25	34	32.7%	61	48	-20.2%
<b>Pretax profit</b>	<b>449</b>	<b>1,144</b>	<b>154.6%</b>	<b>631</b>	<b>1,976</b>	<b>213.3%</b>
Income tax	-78	-162	107.8%	-139	-378	n/a
<b>After tax profit</b>	<b>371</b>	<b>981</b>	<b>164.5%</b>	<b>492</b>	<b>1,599</b>	<b>225.0%</b>
MI	6	21	265.0%	5	-16	n/a
<b>Net profit</b>	<b>377</b>	<b>1,002</b>	<b>166.0%</b>	<b>497</b>	<b>1,583</b>	<b>218.3%</b>
<b>Key ratios</b>			<b>Change (ppt)</b>			<b>Change (ppt)</b>
Gross margin	25.3%	30.0%	4.7	25.7%	30.0%	4.3
S&D expenses ratio	7.9%	7.9%	0.0	8.5%	8.8%	0.3
Administrative expense ratio	9.0%	8.2%	-0.8	9.1%	7.9%	-1.2
Effective tax rate	17.4%	14.2%	-3.2	22.0%	19.1%	-2.9

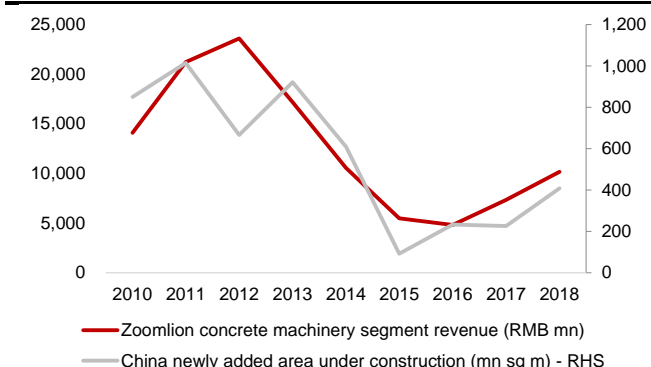
Source: Company data, CMBIS

**Figure 3: China tower crane sales vs China newly added property area under construction**



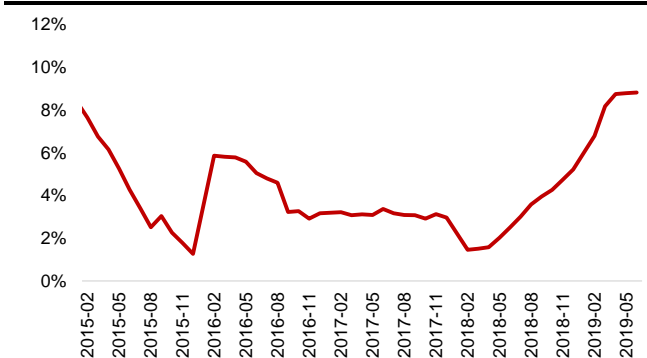
Source: NBS, CCMA, Wind, CMBIS

**Figure 4: Zoomlion concrete machinery sales vs China newly added area under construction**



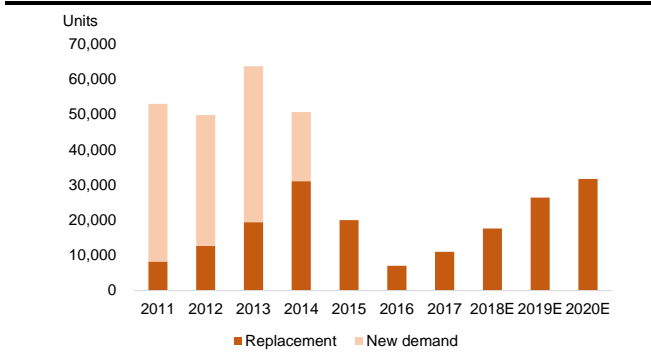
Source: NBS, Wind, Company data, CMBIS

**Figure 5: China monthly property area under construction growth (YoY)**



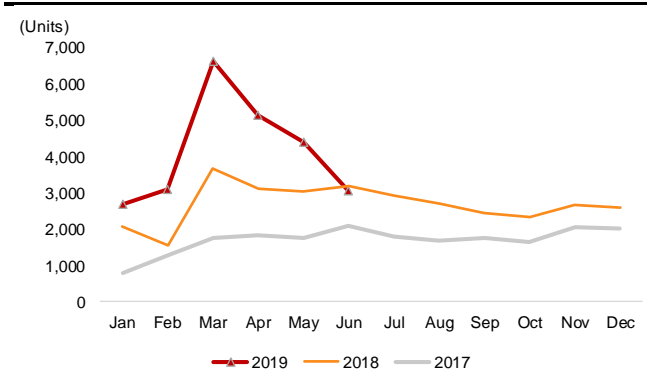
Source: NBS, Wind, CMBIS

**Figure 6: CMBI forecast on China tower crane sales volume**



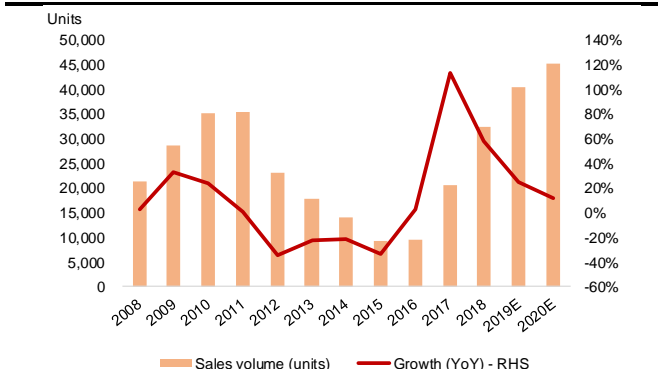
Source: CCMA, CMBIS estimates

**Figure 7: China truck crane monthly sales volume**



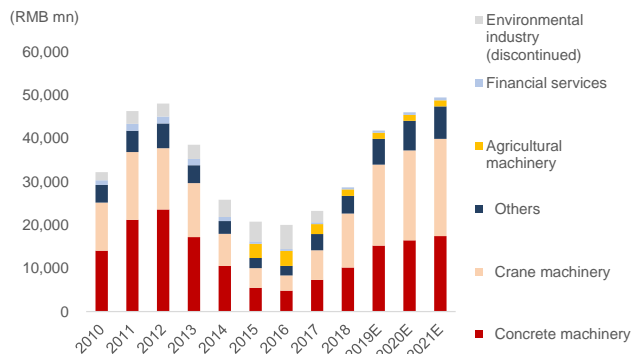
Source: CCMA, CMBIS

**Figure 8: CMBI forecast on China truck crane sales**



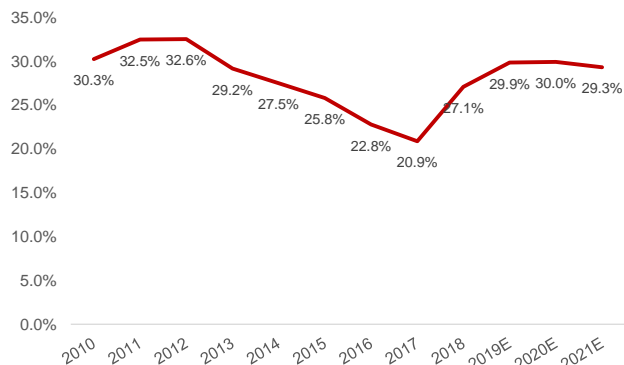
Source: CCMA, CMBIS estimates

**Figure 9: Zoomlion's revenue trend**



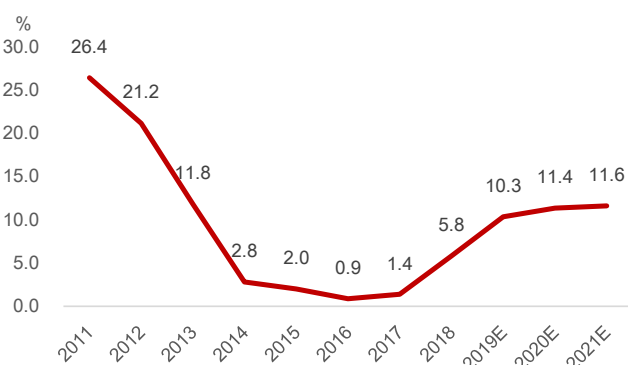
Source: Company data, CMBIS estimates

**Figure 10: Zoomlion's gross margin trend**



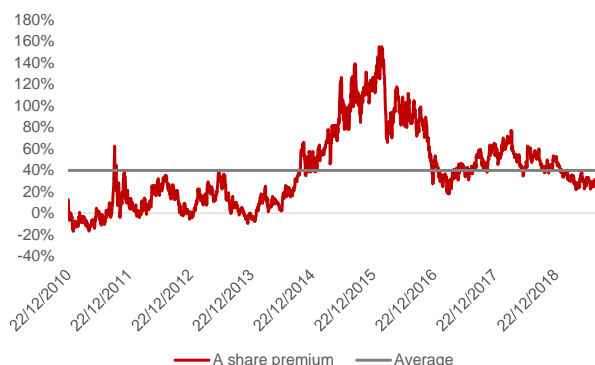
Source: Company data, CMBIS estimates

**Figure 11: Zoomlion's ROE trend**



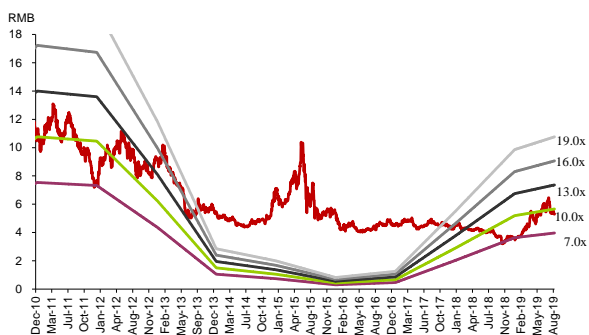
Source: Company, CMBIS estimates

**Figure 12: Zoomlion A share premium to H share**



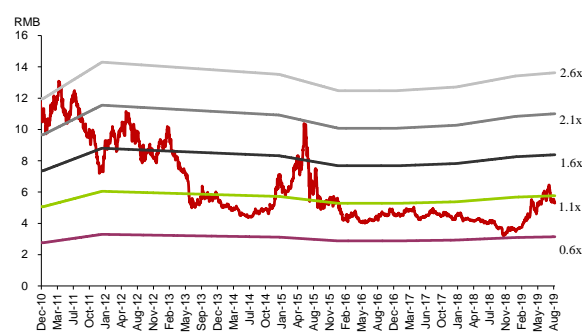
Source: Bloomberg, CMBIS

**Figure 13: Zoomlion - A 12M forward P/E band**



Source: Bloomberg, Company data, CMBIS estimates

**Figure 14: Zoomlion - A 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
<b>Total revenue</b>	<b>20,608</b>	<b>28,697</b>	<b>41,830</b>	<b>46,051</b>	<b>49,440</b>
Cost of sales	(16,303)	(20,923)	(29,332)	(32,259)	(34,933)
<b>Gross profit</b>	<b>4,305</b>	<b>7,774</b>	<b>12,498</b>	<b>13,792</b>	<b>14,506</b>
Other income	259	882	682	732	772
S&D expenses	(2,180)	(2,379)	(3,137)	(3,454)	(3,708)
Administrative expenses	(10,487)	(2,063)	(2,719)	(2,993)	(3,214)
R&D expenses	(277)	(581)	(837)	(921)	(989)
<b>EBIT</b>	<b>(8,380)</b>	<b>3,633</b>	<b>6,487</b>	<b>7,156</b>	<b>7,368</b>
Net finance income/(cost)	(1,443)	(1,205)	(1,319)	(1,235)	(1,191)
Finance income	366	347	426	447	467
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
<b>Pretax profit</b>	<b>(9,713)</b>	<b>2,650</b>	<b>5,403</b>	<b>6,164</b>	<b>6,436</b>
Income tax	1,425	(682)	(1,389)	(1,584)	(1,654)
<b>After tax profit</b>	<b>(8,288)</b>	<b>1,968</b>	<b>4,014</b>	<b>4,580</b>	<b>4,782</b>
MI/discontinued operation	9,630	63	40	46	48
<b>Net profit</b>	<b>1,342</b>	<b>2,031</b>	<b>4,055</b>	<b>4,626</b>	<b>4,830</b>
<b>Recurring net profit</b>	<b>508</b>	<b>2,199</b>	<b>4,055</b>	<b>4,626</b>	<b>4,830</b>
D&A	924	837	852	872	893
<b>EBITDA</b>	<b>(7,456)</b>	<b>4,470</b>	<b>7,339</b>	<b>8,028</b>	<b>8,261</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	1,252	2,650	5,403	6,164	6,436
Finance cost	1,488	1,451	1,745	1,682	1,658
Interest income	(398)	(347)	(426)	(447)	(467)
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)	(1,389)	(1,584)	(1,654)
Change in working capital	10,037	1,152	819	361	486
Others	186	(221)	0	0	0
<b>Cash flow from operation</b>	<b>2,453</b>	<b>4,717</b>	<b>6,769</b>	<b>6,805</b>	<b>7,093</b>
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	426	447	467
Others	(6,558)	(7,214)	0	0	0
<b>Cash flow from investing</b>	<b>4,036</b>	<b>(7,242)</b>	<b>(374)</b>	<b>(353)</b>	<b>(133)</b>
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)	(3,649)	(4,163)
Interest paid	(1,527)	(1,428)	(1,745)	(1,682)	(1,658)
Others	(12)	(16)	0	0	0
<b>Cash flow from financing</b>	<b>(5,906)</b>	<b>4,102</b>	<b>(5,097)</b>	<b>(6,331)</b>	<b>(5,722)</b>
Change in cash	583	1,577	1,298	121	1,239
Cash at beginning of the year	6,575	7,148	8,754	10,052	10,173
Exchange and others	(10)	29	0	0	0
Cash at the end of the year	7,148	8,754	10,052	10,173	11,412

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>25,218</b>	<b>28,657</b>	<b>28,639</b>	<b>29,324</b>	<b>29,860</b>
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
Financial assets receivables	1,870	3,656	1,845	3,454	2,235
Goodwill	2,088	2,046	2,046	2,046	2,046
Trade receivables	4,106	5,498	7,108	6,013	7,803
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
<b>Current assets</b>	<b>57,894</b>	<b>64,762</b>	<b>72,925</b>	<b>69,433</b>	<b>76,862</b>
Inventories	8,886	9,551	11,183	9,675	11,381
Trade & other receivables	22,661	21,554	24,287	23,656	26,190
Finance lease receivables	10,931	8,835	11,335	9,861	11,811
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	10,052	10,173	11,412
<b>Current liabilities</b>	<b>24,488</b>	<b>39,623</b>	<b>46,906</b>	<b>43,968</b>	<b>51,314</b>
Trade and other payables	14,992	15,786	22,788	19,634	26,306
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
<b>Non-current liabilities</b>	<b>20,434</b>	<b>15,065</b>	<b>13,865</b>	<b>13,065</b>	<b>13,065</b>
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
<b>Equity</b>	<b>38,190</b>	<b>38,731</b>	<b>40,793</b>	<b>41,724</b>	<b>42,343</b>
Shareholders' equity	37,540	38,164	40,267	41,243	41,910
MI	650	567	527	481	433

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Concrete machinery	32%	35%	36%	36%	35%
Crane machinery	29%	43%	45%	45%	45%
Others machinery	16%	14%	14%	15%	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%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	20.9	27.1	29.9	30.0	29.3
EBIT margin	(40.7)	12.7	15.5	15.5	14.9
Net profit margin	(40.2)	6.9	9.6	9.9	9.7
<b>Growth (%)</b>					
Revenue	2.9	39.3	45.8	10.1	7.4
Gross profit	(9.9)	80.6	60.8	10.4	5.2
EBIT	n/a	n/a	78.6	10.3	3.0
Core net profit	54.4	332.9	84.4	14.1	4.4
<b>Balance sheet ratio</b>					
Current ratio (x)	2.4	1.6	1.6	1.6	1.5
Trade receivable turnover days	548	342	255	242	235
Finance lease receivable turnover	238	161	112	105	101
Inventory turnover days	242	161	129	118	110
Payable turnover days	359	268	240	240	240
Net debt / total equity (%)	39.6	33.6	25.3	22.0	19.0
<b>Profitability (%)</b>					
ROA	1.6	2.3	4.2	4.6	4.7
Core ROE	1.4	5.8	10.3	11.4	11.6
<b>Per share data</b>					
EPS (RMB)	0.18	0.27	0.52	0.59	0.62
Core EPS (RMB)	0.07	0.29	0.52	0.59	0.62
BVPS (RMB)	4.82	4.89	5.13	5.26	5.34
DPS (RMB)	0.20	0.25	0.47	0.53	0.55

Source: Company data, CMBIS estimates

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## 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

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