

Zoomlion Heavy Industry - A (000157 CH)

Interim dvd. a positive; Gross margin stabilized; Sector top pick

Zoomlion's net profit in 1H20 grew 56% YoY to RMB4bn, which is the midpoint of the earnings range of RMB3.8-4.2bn stated in the profit alert released in Jul. In 2Q20, net profit surged 90% YoY to ~RMB3bn, driven by 49% YoY revenue growth and cost reduction. A surprise comes from the proposed interim dividend of RMB0.21 per share. Besides, in the post-result conference call, management revealed that the gross margin has been stabilized after a short-term contraction in 2Q, which should enhance market confidence. We maintain our bullish stance on Zoomlion, due to the introduction of strategic investors, solid upcycle of concrete machinery and tower crane, as well as the fast-growing excavator and aerial working platform (AWP). We slightly revised up our earnings forecast by 3-6% in 2020E-22E due to lower expense ratios and higher other income assumptions, and lifted our TP to RMB10.2 based on unchanged 12x 2020E P/E. Zoomlion is now our sector top pick.

- **Strong revenue growth of crane and other machinery in 1H20.** Total revenue in 1H20 grew 30% YoY to RMB28.8bn. Crane machinery grew 39% YoY to RMB15.3bn (revenue mix: truck crane: 60%; tower crane: 40%). Other machinery increased by 34% YoY to RMB3.3bn, driven by fast-growing sales of AWP and excavator. Revenue of agricultural machinery grew 16% YoY with the segment gross margin expanded 2.3ppt YoY to 12.3%. Agricultural machinery achieved breakeven in 1H20, according to the management.
- **Concrete machinery revenue +15% with decent gross margin in 1H20.** Management reveals that the slow growth of concrete machinery was due to (1) delay of the delivery of some concrete pump stations; (2) revenue decline in overseas due to COVID-related lockdown; (3) lower ASP of concrete trucks due to the cost savings from the use of more domestic chassis. Gross margin of concrete machinery expanded 0.3ppt to 27.7% in 1H20, due mainly to cost reduction.
- **Gross margin has been stabilized since Jun.** Blended gross margin in 2Q20 reduced by 1.2ppt YoY to 28.8%, due to (1) a change in product mix; and (2) more discount for orders taken during 1Q20 due to COVID-19 which affected the margin in 2Q. Management revealed that ASP started to stabilize in Jun with gross margin trending up in Jun and Jul.
- **Excellent operating cost control.** In 2Q20, distribution expense ratio dropped 2.7ppt YoY to 6.1%. Besides, decline in finance expense helped boost the net margin by 3.2ppt YoY to 15.2% in 2Q20.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	28,697	43,307	59,001	70,398	79,689
YoY growth (%)	39.3	50.9	36.2	19.3	13.2
Net income (RMB mn)	2,031	4,381	6,958	8,682	9,938
EPS (RMB)	0.27	0.58	0.82	0.95	1.09
YoY growth (%)	51.5	119.2	40.4	16.2	14.5
Consensus EPS (RMB)	n/a	n/a	0.75	0.86	0.95
EV/EBITDA (x)	17.3	11.3	8.4	6.9	6.1
P/E (x)	29.7	13.9	10.2	8.8	7.5
P/B (x)	1.6	1.6	1.4	1.3	1.1
Yield (%)	3.2	0.0	3.9	4.6	5.4
ROE (%)	5.4	11.4	15.1	15.4	15.9
Net gearing (%)	33.6	31.3	2.6	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB10.20**
 (Previous TP **RMB9.56**)
 Up/Downside **+22%**
 Current Price **RMB8.34**

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Stock Data

Mkt Cap (RMB mn)	64,393
Avg 3 mths t/o (RMB mn)	537
52w High/Low (RMB)	8.97/5.28
Total Issued Shares (mn)	6,411 (A)
	1,388 (H)

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%

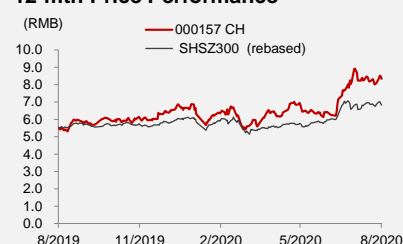
Source: HKEx, Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	-5.0%	-5.1%
3-mth	29.5%	4.9%
6-mth	28.3%	12.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

1. Zoomlion (000157 CH, BUY) – 2Q20 profit a strong beat; Lift earnings est. & TP – 15 Jul 2020
2. China Construction Machinery & HDT Sector – Raise industry sales forecast in 2020E-21E; Solid upcycle – 30 Jun 2020
3. Zoomlion (000157 CH, BUY) – Dividend cut a surprise; Positive on the recovery story – 31 Mar 2020

- **Resumption of dividend payment.** Zoomlion did not propose dividend payment after the release of 2019 results. This time, the Company proposed interim dividend of RMB0.21 per share, which is scheduled to be distributed in late Oct 2020. To recap, Zoomlion plans to distribute at least RMB0.317 per share dividend (per year) in 2020E-22E, according to the announcement of A-share placement plan released in Jul.
- **A-share placement progress.** Zoomlion is currently in progress to prepare the documentation. The Company plans to submit the materials to CSRC in mid-Sep. The actual date of placement will depend on CSRC's approval progress.

Figure 1: 1H20 results highlights

(RMB mn)	1H19	1H20	Change (YoY)
Total revenue	22,262	28,827	29.5%
Cost of sales	(15,584)	(20,364)	30.7%
Gross profit	6,678	8,463	26.7%
Other income	622	662	6.4%
S&D expenses	(1,881)	(1,916)	19%
Administrative expenses	(1,324)	(1,464)	10.6%
R&D expenses	(461)	(1,048)	127.3%
EBIT	3,634	4,697	29.3%
Net finance income/(cost)	(596)	(37)	-93.8%
Finance income	277	267	-3.7%
Finance expenses	(873)	(304)	-65.2%
Other gains/(losses)	0	0	n/a
Share of profit of JV and associates	82	66	-19.5%
Pretax profit	3,120	4,726	51.5%
Income tax	(540)	(668)	23.7%
After tax profit	2,580	4,058	57.3%
MI	5	(33)	-760.0%
Net profit	2,585	4,025	55.7%
D&A	441	449	18%
EBITDA	4,075	5,146	26.3%
Key ratios	Change (ppt)		
Gross margin	30.0%	29.4%	-0.6
S&D expenses ratio	8.4%	6.6%	-1.8
Administrative expense ratio	5.9%	5.1%	-0.9
R&D expense ratio	2.1%	3.6%	1.6
Net margin	11.6%	14.1%	2.5
Effective tax rate	17.3%	14.1%	-3.2

Source: Company data, CMBIS

Figure 2: 1H20 revenue and gross margin breakdown

(RMB mn)	1H19	1H20	Change (YoY)
Revenue			
Construction machinery	21,017	27,352	30.1%
Concrete machinery	7,490	8,637	15.3%
Crane machinery	11,005	15,339	39.4%
Others	2,522	3,376	33.9%
Agricultural machinery	911	1,056	15.9%
Financial services	334	419	25.4%
Revenue (continuous operations)	22,262	28,827	29.5%
Environmental industry (discontinued)	0	0	n/a
Total revenue	22,262	28,827	29.5%
Gross margin			Change (ppt)
Construction machinery	29.8%	28.9%	(0.8)
Concrete machinery	27.4%	27.7%	0.3
Crane machinery	32.2%	31.2%	(0.9)
Others	26.2%	21.7%	(4.5)
Agricultural machinery	10.0%	12.3%	2.3
Financial services	100.0%	99.5%	(0.5)
Gross margin (continuous operations)	30.0%	29.4%	(0.6)
Environmental industry (discontinued)	n/a	n/a	n/a
Average gross margin	30.0%	29.4%	(0.6)

Source: Company data, CMBIS

Figure 3: Quarterly results highlights

(RMB mn)	1Q19	1Q20	Change YoY	2Q19	2Q20	Change YoY
Total revenue	9,017	9,067	0.6%	13,245	19,760	49.2%
Cost of sales	(6,311)	(6,296)	-0.2%	(9,273)	(14,068)	51.7%
Gross profit	2,706	2,770	2.4%	3,972	5,693	43.3%
Other income	29	114	289.3%	593	548	-7.6%
S&D expenses	(715)	(704)	-1.5%	(1,166)	(1,212)	3.9%
Administrative expenses	(624)	(488)	-21.7%	(1,045)	(1,782)	70.5%
R&D expenses	(116)	(242)	108.9%	(345)	(806)	133.5%
EBIT	1,281	1,450	13.3%	2,353	3,247	38.0%
Net finance income/(cost)	(405)	(280)	-30.8%	(191)	243	n/a
Other gains/(losses)	234	69	-70.7%	(234)	(69)	-70.7%
Share of profit of JV and associates	34	47	40.7%	48	19	-61.2%
Pretax profit	1,144	1,286	12.5%	1,976	3,440	74.1%
Income tax	(162)	(236)	45.3%	(378)	(432)	14.4%
After tax profit	981	1,050	7.0%	1,599	3,008	88.1%
MI	21	(24)	n/a	(16)	(9)	n/a
Net profit	1,002	1,026	2.4%	1,583	2,999	89.5%
Operating cash flow	1,867	319	-82.9%	1,431	1,068	-25.4%
Key ratios			Change (ppt)			Change (ppt)
Gross margin	30.0%	30.6%	0.5	30.0%	28.8%	-1.2
S&D expenses ratio	7.9%	7.8%	-0.2	8.8%	6.1%	-2.7
Administrative expense ratio	6.9%	5.4%	-1.5	7.9%	9.0%	1.1
R&D expense ratio	1.3%	2.7%	1.4	2.6%	4.1%	1.5
Net margin	10.9%	11.6%	0.7	12.1%	15.2%	3.2
Effective tax rate	14.2%	18.3%	4.1	19.1%	12.6%	-6.5

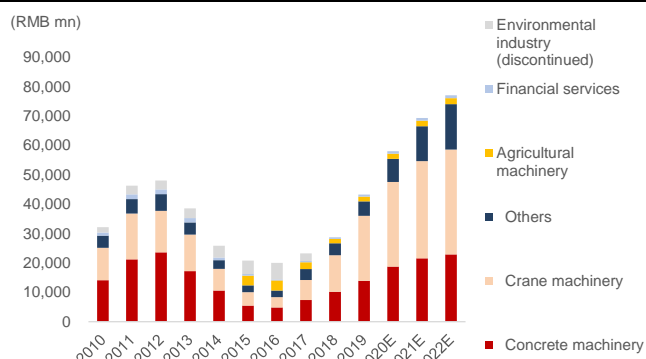
Source: Company data, CMBIS

Figure 4: Change in key assumptions

	Old			New			Change		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
(RMB mn)									
Revenue									
Construction machinery	56,573	67,827	76,982	56,223	66,924	75,810	-1%	-1%	-2%
Concrete machinery	18,768	21,583	23,741	17,656	20,304	22,334	-6%	-6%	-6%
Crane machinery	29,898	34,383	37,822	31,006	35,657	39,222	4%	4%	4%
Others	7,907	11,861	15,419	7,561	10,964	14,253	-4%	-8%	-8%
Agricultural machinery	1,741	1,915	2,107	1,836	2,020	2,222	5%	5%	5%
Financial services	843	927	974	843	927	974	0%	0%	0%
Total revenue	59,158	70,670	80,062	58,902	69,872	79,005	0%	-1%	-1%
Revenue growth							Change in ppt		
Construction machinery	38.0%	19.9%	13.5%	37.2%	19.0%	13.3%	(0.9)	(0.9)	(0.2)
Concrete machinery	35.0%	15.0%	10.0%	27.0%	15.0%	10.0%	(8.0)	0.0	0.0
Crane machinery	35.0%	15.0%	10.0%	40.0%	15.0%	10.0%	5.0	0.0	0.0
Others	60.0%	50.0%	30.0%	53.0%	45.0%	30.0%	(7.0)	(5.0)	0.0
Agricultural machinery	10.0%	10.0%	10.0%	16.0%	10.0%	10.0%	6.0	0.0	0.0
Financial services	15.0%	10.0%	5.0%	15.0%	10.0%	5.0%	0.0	0.0	0.0
Total revenue growth	36.6%	19.5%	13.3%	36.0%	18.6%	13.1%	(0.6)	(0.8)	(0.2)
Gross margin							Change in ppt		
Construction machinery	30.3%	30.2%	30.2%	29.7%	30.2%	30.2%	(0.53)	0.01	0.01
Concrete machinery	29.0%	29.0%	29.0%	27.8%	28.5%	28.5%	(1.20)	(0.50)	(0.50)
Crane machinery	33.0%	33.0%	33.0%	32.5%	33.0%	33.0%	(0.50)	0.00	0.00
Others	23.0%	24.0%	25.0%	23.0%	24.0%	25.0%	0.00	0.00	0.00
Agricultural machinery	6.0%	8.0%	10.0%	8.0%	10.0%	11.0%	2.00	2.00	1.00
Financial services	100.0%	100.0%	100.0%	99.5%	100.0%	100.0%	(0.50)	0.00	0.00
Average gross margin	30.6%	30.5%	30.5%	30.1%	30.5%	30.5%	(0.49)	0.03	0.01

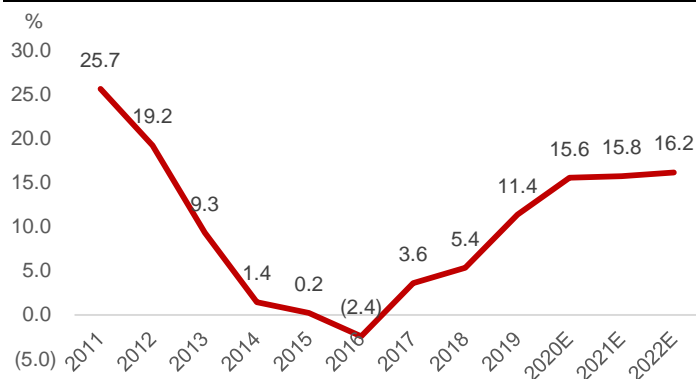
Source: Company data, CMBIS estimates

Figure 5: Zoomlion's revenue trend



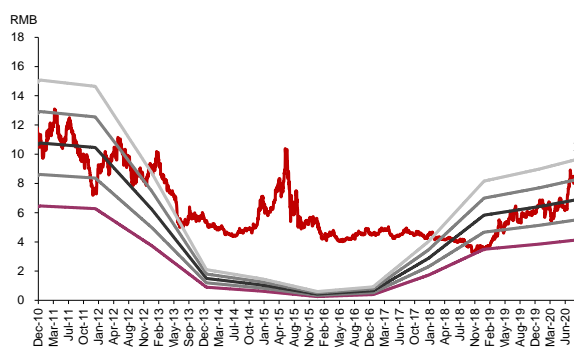
Source: Company data, CMBIS estimates

Figure 6: Zoomlion's ROE trend



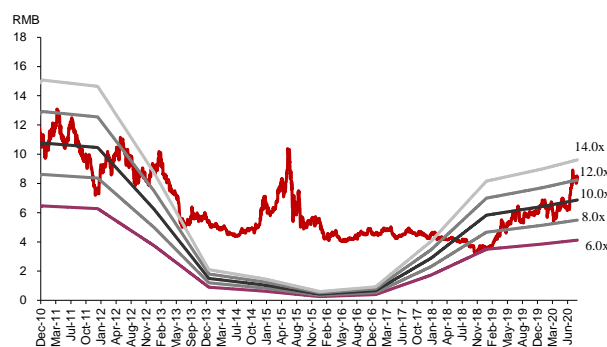
Source: Company data, CMBIS estimates

Figure 7: Zoomlion - A 12M forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 8: Zoomlion - A 12M forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

- **Risk factors:** (1) Unexpected weakness on infrastructure spending; (2) Slow recovery of property construction; (3) Risks of new business expansion.

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
Finance lease 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

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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

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