14 Oct 2020

China Express Delivery Sector

Bloody battle to end soon; War for market share to continue; BUY winners in the respective playing fields

While price reduction along with continuous cost control is a long-term trajectory in the express delivery industry, we do not expect the cutthroat price war at present to be sustainable. We expect the pricing to stabilize which will serve as near-term share price catalyst. In the long-term, we see huge room of industry consolidation and we prefer winners in the respective playing fields. We like **SF Holding (002352 CH, BUY),** the winner in the premium market, and **ZTO Express (2057 HK / ZTO US, BUY)**, the cost leader in the mid-to-low end market.

- **War for market share - It's not the beginning of the end**. China's express delivery industry has long been fragmented, with the top three players accounting for only 52% of the total market (1H20). We see substantial room of consolidation in China express delivery industry, driven not only by price competition but also M&A activities over the coming years. Taking Japan express delivery sector as reference, the market share of the top three players increased from 82% in FY04 (Mar year-end) to 94% in FY20.

- **But it's, perhaps, the end of the beginning**. The express delivery companies have been fighting harder than ever for market share since early this year, due to (1) fast expansion of J&T Express, (2) growth strategy taken by SF and ZTO, and (3) strong balance sheet for most players. For the industry as a whole, the parcel delivery fee dropped 9% YoY in 8M20, while major players cut price more than the industry average. That said, we do not expect such head-to-head battle to sustain as (1) even large players are running at loss at the gross profit level, and (2) latest investment by **Alibaba (9988 HK, BABA US, BUY, covered by Sophie Huang)** in **YTO (600233 CH, NR)** and **STO (002468 CH, NR)** sent a clear signal to the industry that cutthroat price war will become a less effective way to gain market share. We expect the pricing to stabilize in the foreseeable future.

- **Positive to China express delivery demand growth.** We forecast parcel shipment volume growth to reach 26% in 2020E, driven by higher penetration rate of ecommerce. We expect a 16%/18% shipment growth in 2021/22E, on the back of a recovery of retail consumption with a stable penetration rate.

- **ZTO Express.** On the back of proven track record of market share gain, strong operational efficiency and superior cost advantage, ZTO is not only able to mitigate the impact of price war, but also capable to take the opportunity to achieve further share gain and stand out as a long-term winner, in our view. We forecast ZTO to deliver 34%/25% core earnings growth in 2021E/22E. We resume coverage on ZTO US with a **BUY** rating and TP of US$38.3, based on 33x 2021E P/E. Initiate coverage on ZTO (2057 HK) with a **BUY** rating and TP of HK$297, based on 33x 2021E P/E.

- **SF Holding.** We resume coverage on SF Holding with a **BUY** rating and TP of RMB114, based on 55x 2021E P/E. We like SF solid position in the premium time-definite express segment, as well as the effective strategy to enter the mid-to-low end segment, which successfully boosted market share and raised utilization rate. We believe SF will continue to be least affected by the price war. We forecast SF to deliver core earnings growth of 46%/28%/26% in 2020E/21E/22E. In the longer term, we expect the commencement of Ezhou Airport to further enhance its core competitiveness in the time-definite business.

MARKET PERFORM (Maintain)

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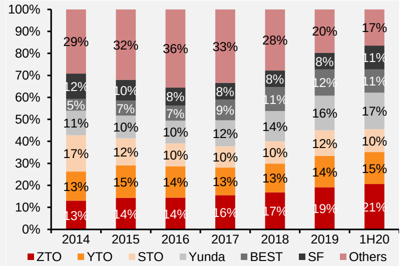
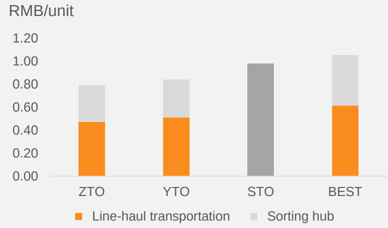
China express delivery market share



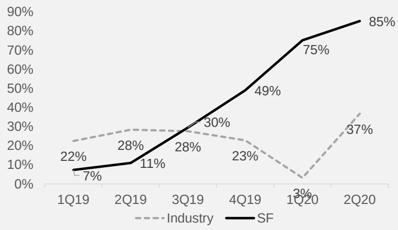
Source: Company data, CMBIS

ZTO enjoys superior cost advantage



Note 1: 1H20 figures
Note 2: Line-haul + sorting hub cost for STO
Source: Company data, CMBIS

SF's parcel volume growth



Source: Company data, The State Post Bureau, CMBIS

Stock recommendation

Company	SF Holding	ZTO Express	
Ticker	002352 CH	2057 HK	ZTO US
Currency	RMB	HK$	US$
Current px	93.18	232	30.18
TP	114.00	297	38.30
Upside	22%	28%	27%
PE			
2020E	57	35	35
2021E	45	26	26
2022E	36	21	21

Source: Company data, CMBIS estimate

Peers comparison

Figure 1: Comparison of major players

	SF	ZTO	YTO	STO	Yunda	BEST
Ticker	002352 CH	ZTO US / 2057 HK	600233 CH	002468 CH	002120 CH	BEST US
Business model	Self-operation	Franchise	Franchise	Franchise	Franchise	Franchise
Market share in 1H20 (in terms of parcel shipment)	10.8%	20.6%	14.6%	10.4%	16.6%	10.6%
Alibaba's stakeholding	n/a	8.7%	22.5%	25.0%	2.0%	33.0%
Value proposition	High/Mid-end market	Mid/Low-end market	Mid/Low-end market	Mid/Low-end market	Mid/Low-end market	Mid/Low-end market
Target market	Enterprises/Ecommerce	Ecommerce	Ecommerce	Ecommerce	Ecommerce	Ecommerce
Revenue recognition	Entire process	Line-haul transportation Parcel sorting	Line-haul transportation Parcel sorting Parcel delivery	Line-haul transportation Parcel sorting Parcel delivery	Line-haul transportation Parcel sorting Parcel delivery	Line-haul transportation Parcel sorting Parcel delivery
Key financials (1H20)						
Total revenue (RMB mn)	71,129	10,318	14,581	9,258	14,318	13,884
Growth (YoY)	*42.0%*	*3.2%*	*4.5%*	*-6.2%*	*-8.0%*	*-11.4%*
Gross margin	18.7%	25.1%	11.6%	4.3%	10.3%	2.8%
Net profit (RMB mn)	3,762	1,823	980	71	681	-767
Growth (YoY)	*21.3%*	*-10.6%*	*12.6%*	*-91.5%*	*-47.5%*	*n/a*
As at end-Jun 2020						
Fixed assets (RMB mn)	19,646	14,651	7,390	3,723	6,414	3,548
District & county coverage	99.4%	99.0%	97.3%	n/a	n/a	100.0%
Number of outlets	18,000	30,000	33,088	26,800	32,229	47,397
Direct network partners	n/a	5,000	4,395	4,100	3,795	n/a
Couriers ('000)	350.0	n/a	n/a	124.53*	169.3*	n/a
Sorting						
No. of sorting hubs	360	90	73	68	60	181
No. of self-owned sorting hubs	360	81	73	63	60	181
% of self-owned hubs	*100%*	*90%*	*100%*	*93%*	*100%*	*100%*
No. of automated equipment	n/a	282	92	194	n/a	77
Transportation						
No. of vehicles	100,000	9,900	5,000	5,200*	n/a	n/a
Self-owned vehicle	45,000	9,050	2,002	3,650	n/a	n/a
% of self-owned vehicles	*45.0%*	*91.4%*	*40.0%*	*70.2%*	*n/a*	*n/a*
No. of routes	110,000	3,400	n/a	3,226*	n/a	6,100
No. of aircrafts	59	0	12	0	0	0

*Figures in 2019

Source: Company data, CMBIS

Figure 2: Peers valuation table

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US$ m)	PE (x)		PB (x)		EV/EBITDA (x)		Dividend yield (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
China														
ZTO US Equity	ZTO EXPRESS-ADR	BUY	30.18	38.30	27%	25,609	34.9	26.2	3.5	3.1	20.5	15.1	0.8	1.1
2057 HK Equity	ZTO EXPRESS	BUY	232.00	297.00	28%	25,609	34.6	26.0	3.5	3.1	20.3	15.0	0.9	1.1
002352 CH Equity	S F HOLDING CO-A	BUY	93.18	114.00	22%	62,960	57.4	44.9	8.6	7.4	30.7	24.5	0.4	0.5
600233 CH Equity	YTO EXPRESS-A	-	14.85	-	-	6,958	22.0	19.7	3.0	2.6	11.3	9.9	1.2	2.2
002468 CH Equity	STO EXPRESS CO-A	-	15.61	-	-	3,544	30.0	22.5	2.3	2.1	14.6	10.9	0.5	0.6
002120 CH Equity	YUNDA HOLDING-A	-	20.63	-	-	8,869	27.2	23.2	3.9	3.4	13.1	10.8	0.8	0.9
603056 CH Equity	DEPPON LOGISTIC-A	-	16.45	-	-	2,342	35.3	26.5	3.4	3.1	11.4	8.8	0.8	1.1
	Average						**34.5**	**27.0**	**4.0**	**3.5**	**17.4**	**13.6**	**0.8**	**1.1**
Overseas														
FDX US Equity	FEDEX CORP	-	272.74	-	-	71,619	17.8	16.1	3.3	2.9	11.3	10.5	1.0	1.0
UPS US Equity	UNITED PARCEL-B	-	175.33	-	-	151,376	24.6	21.8	22.0	15.2	17.0	15.4	2.3	2.4
DPW GR Equity	DEUTSCHE POST-RG	-	41.94			61,019	19.1	16.4	3.4	3.1	8.3	7.5	2.9	3.1
9064 JP Equity	YAMATO HOLDINGS	-	2,825.0	-	-	10,421	29.2	24.9	1.9	1.8	7.9	7.0	1.2	1.3
9143 JP Equity	SG HOLDINGS	-	5,750.0	-	-	17,478	29.0	29.2	4.4	4.0	16.0	15.3	1.0	1.0
6178 JP Equity	JAPAN POST	-	739.3	-	-	31,582	8.6	8.9	0.3	0.3	n/a	n/a	6.8	6.8
	Average						**21.4**	**19.6**	**5.9**	**4.5**	**12.1**	**11.1**	**2.5**	**2.6**

Source: Bloomberg, Company data, CMBIS estimates

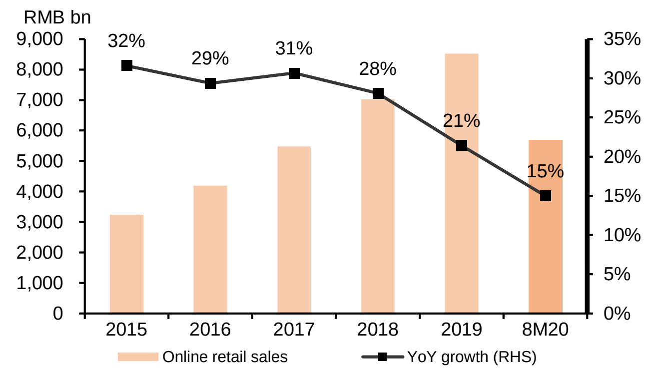
Investment case

Solid demand growth of express delivery service to continue

China express delivery demand was largely driven by the fast-growing ecommerce over the past couple of years. The annual express delivery parcel shipment volume surged from 14bn units in 2014 to 63.5bn units in 2019, representing a CAGR of 35%, mainly driven by a 28% CAGR of online consumption of social goods.

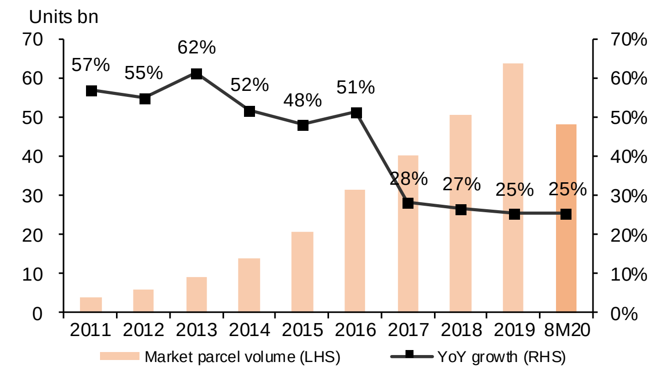
This year, as a result of the COVID-related lockdown, ongoing shift from shopping offline to online, and growth of live-streaming, the ecommerce retail sales grew 16% YoY to RMB 5.9tn, with penetration rate rising to 24.6% in 8M20, up significantly from 20.7% in 2019. This boosted the express delivery shipment volume up 25% YoY to 48bn units in 8M20.

Figure 3: China online sales value



Source: NBS, CMBIS

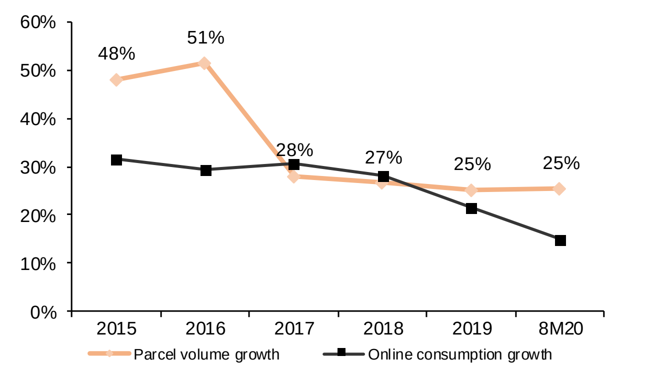
Figure 4: Parcel shipment volume in China



Source: State Post Bureau, CMBIS

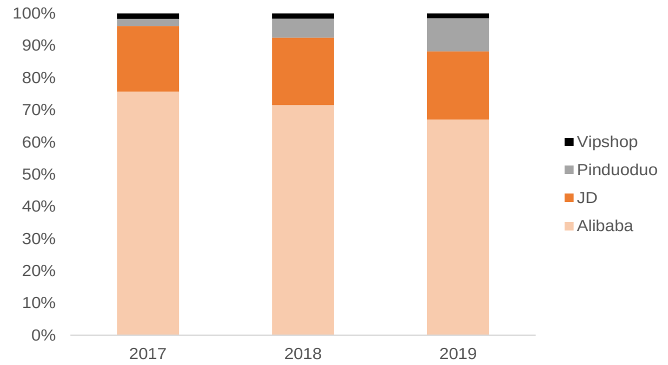
In 2019, the growth of parcel shipment reached 25%, outpacing the 21% growth of ecommerce, due to higher sales growth of low-price items contributed by **Pinduoduo (PDD US, BUY, covered by Sophie Huang)**. The gap widened further in 8M20 with parcel shipment growth reaching 25%, versus online sales growth of 15%.

Figure 5: Parcel shipment growth has outpaced ecommerce value growth since 2019



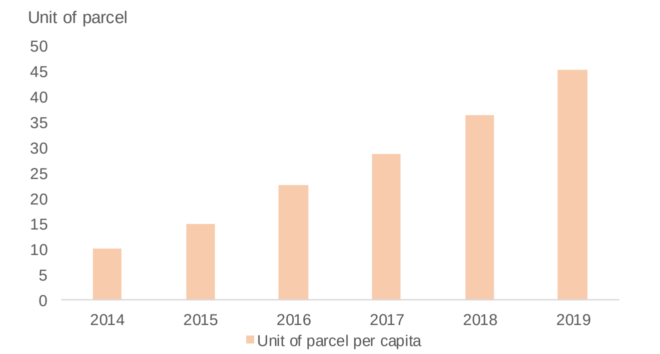
Source: NBS, State Post Bureau, CMBIS

Figure 6: China major ecommerce platform market share



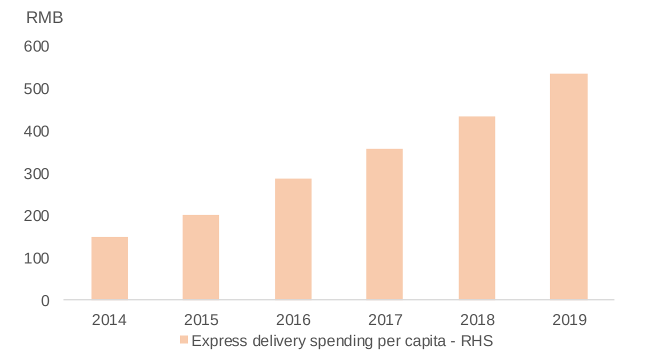
Note: 2019 = FY20 for Alibaba in this chart
Source: Company data, CMBIS

Figure 7: Unit of parcel per capita in China



Source: State Post Bureau, CMBIS

Figure 8: Express delivery spending per capita



Source: State Post Bureau, CMBIS

CMBI Economic Research expects a double-digit growth of social consumption in 2021E, helped by a low base effect this year. Besides, our internet team forecasts ecommerce to maintain high teens growth in 2021E. In addition, we are positive to the cold chain logistic demand. We forecast parcel shipment volume growth to reach 26% in 2020E, driven by higher penetration rate of ecommerce. We expect a 16%/18% shipment growth in 2021/22E, on the back of a recovery of retail consumption with a stable penetration rate.

Figure 9: China express delivery industry projection

	2015	2016	2017	2018	2019	2020E	2021E	2022E
Express delivery parcel volume (mn)	**20,670**	**31,280**	**40,060**	**50,710**	**63,520**	**79,888**	**92,799**	**109,176**
YoY	*48.1%*	*51.3%*	*28.1%*	*26.6%*	*25.3%*	*25.8%*	*16.2%*	*17.6%*
Revenue (RMB bn)	**277**	**397**	**496**	**604**	**750**	**858**	**977**	**1,126**
YoY	*35.5%*	*43.5%*	*24.7%*	*21.8%*	*24.2%*	*14.4%*	*13.8%*	*15.3%*
ASP (RMB/unit)	**13.4**	**12.7**	**12.4**	**11.9**	**11.8**	**10.7**	**10.5**	**10.3**
YoY	*-8.5%*	*-5.2%*	*-2.6%*	*-3.8%*	*-0.9%*	*-9.0%*	*-2.0%*	*-2.0%*
Consumption and e-commerce								
Social retail consumption (RMB bn)	30,093	33,232	36,626	38,099	41,165	39,518	45,446	49,082
YoY	*14.7%*	*10.4%*	*10.2%*	*4.0%*	*8.0%*	*-4.0%*	*15.0%*	*8.0%*
Online retail sales (RMB bn)	**3,242**	**4,194**	**5,481**	**7,020**	**8,524**	**10,077**	**11,589**	**13,497**
YoY	*31.6%*	*29.4%*	*30.7%*	*28.1%*	*21.4%*	*18.2%*	*15.0%*	*16.5%*
E-commerce penetration rate	**10.8%**	**12.6%**	**15.0%**	**18.4%**	**20.7%**	**25.5%**	**25.5%**	**27.5%**

Source: State Post Bureau, NBS, CMBIS estimates

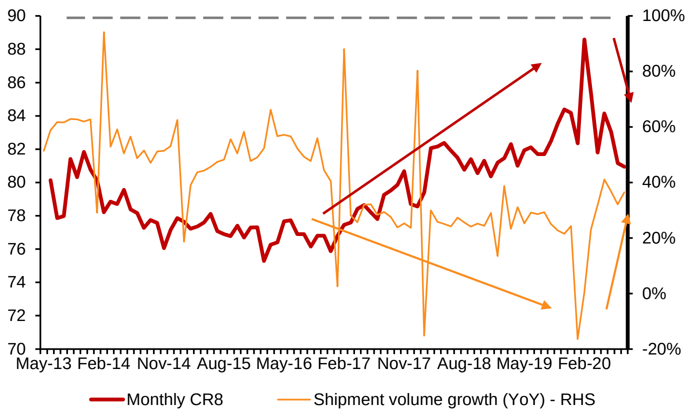
A war for market share: It's not the beginning of the end

The China's express delivery industry has long been fragmented, with the top three players accounting for only 52% of the total market (1H20). Historically, there has been a negative correlation between the market concentration rate and the parcel volume growth in China (figure 10). In terms of parcel shipment volume, the market concentration rate of the top eight players (i.e. CR8) dropped from 80% in early 2013 to 76% in late 2016, the time when the parcel shipment volume growth was robust that attracted more new players. CR8 started to rebound in early 2017 from 76% to 88% early this year. We believe the slowdown of parcel shipment growth after the rapid growth stage was a key reason contributing to the rising market concentration as large players managed to gain more market share. That said, the sharp increase in express delivery demand since 2Q20, coupled with more new players, drove CR8 down to 81% in Aug this year.

ZTO becomes a clear winner. Amid the competitive landscape over the past few years, however, ZTO has been a winner with market share consistently increased from 13% in 2014 to 21% in 1H20. Besides, **Yunda (002120 CH, NR)** and **BEST (BEST US, NR)** also raised share from 11% and 5% in 2014, respectively, to 17% and 11% in 1H20. Meanwhile, **STO (002468 CH, NR)**, the largest player with 17% share in 2014, lost share to 10-12% between 2015 and 1H20.

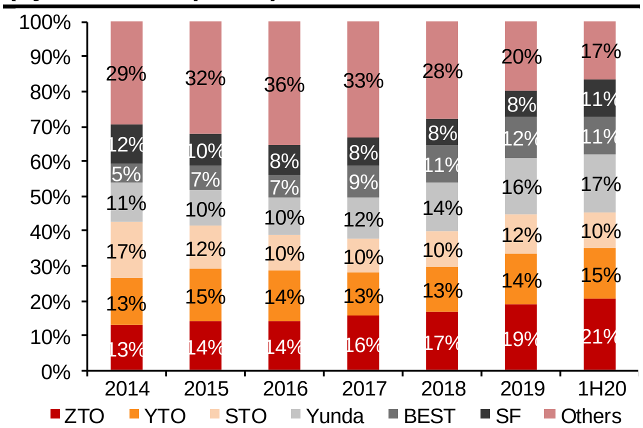
The fightback of SF. SF has long been focusing on the high-end segment (i.e. time-definite express) along with substantial pricing premium. However, due to the rapid growth of ecommerce with rising volume of low-price items, some mass market operators with growing service capacity were capable to shorten the delivery time and offer time-definite business. SF therefore adopted a more proactive approach to defend. In May 2019, SF rolled out the special economy services for ecommerce clients, which has been proved to be very successful. In 2H19, SF's volume growth accelerated immediately and market share rebounded in 1H20.

Figure 10: Negative correlation (-52% in last 7 years) between CR8 and parcel shipment growth in China



Source: State Post Bureau, Wind, CMBIS

Figure 11: China express delivery market share (by number of parcel)



Source: State Post Bureau, Company data, Wind, CMBIS

But it's, perhaps, the end of the beginning

The strong demand growth of express delivery this year brought along with a cutthroat price reduction as express delivery companies are fighting harder than ever for market share. For the industry as a whole, the parcel delivery fee dropped 9% YoY in 8M20. As a result, the express delivery revenue for the industry as a whole grew only 14% YoY to RMB527bn in 8M20, below the 25% growth of shipment volume.

There were several reasons that triggered the war:

(1) J&T Express ("極兔速遞"), an emerging express delivery operator based in Southeast Asia with geographical coverage reaching 90% in China, has adopted an aggressive pricing strategic aiming to grab market share in China.

(2) Major players, except BEST, have maintained strong net cash position which enables them to participate in a head-to-head battle (figure 15).

(3) ZTO is well-prepared to take this opportunity to gain more market share, given the Company's superior cost advantage.

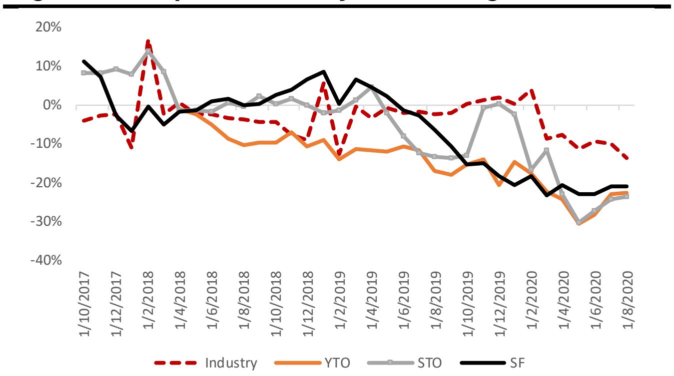
(4) SF, faced with rising threat from its competitors, aimed to protect its time-definite business through participating in the price competition in the mid-to-low end segment. With utilisation rate of ~70% at present, SF is able to enjoy certain operating leverage despite lower ASP.

Any chance to cease fire in the near term?

While price reduction along with continuous cost reduction is a long-term trajectory, we do not expect the current cutthroat price war to be the way the industry players are looking for. Based on our calculation, the ASP in Aug was lower than the unit cost of some big players, such as YTO, Yunda and STO (figure 13). We do not expect such price cut will last for too long as even big players are unlikely to break even.

In early Sep, YTO announced the A-share fund raising exercise to raise a maximum of RMB4.5bn, along with the increase in stake by Alibaba from 10.5% to 22.5%. In late Sep, STO also announced that Alibaba will increase its stake in STO from 14.6% to 25%. We believe Alibaba's latest investment is a clear signal to the industry players that "Tongda Operators" (namely ZTO, YTO, STO, Yunda and BEST) are capable to defend market share on the back of abundant financial resources, and that price war will become a less effective way to gain market share given the similar level of financial strengthen among players. We believe Alibaba's move will potentially force other players to cease fire.

Figure 12: Express delivery ASP change



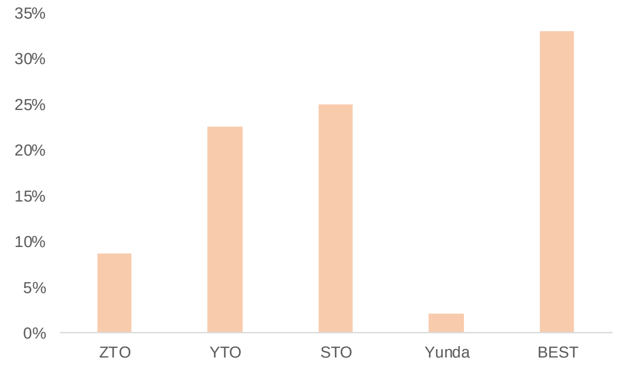
Source: State Post Bureau, Company data, Wind, CMBIS

Figure 13: Stress test on unit margin

Company	ASP in Aug 2020 (RMB)	Unit cost* (RMB)	Unit margin (RMB)
SF	17.11	15.30	1.81
YTO	2.11	2.13	-0.02
STO	2.11	2.28	-0.17
Yunda	2.12	2.13	-0.01

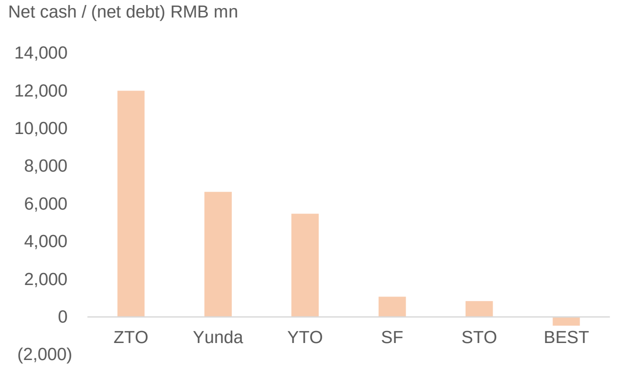
* Note: 2Q20 figures for SF, STO and Yunda; 1H20 figures for YTO
Source: Company data, CMBIS estimates

Figure 14: Alibaba's interest in Tongda operators



Note: As at end Sep 2020
Source: Company data, CMBIS

Figure 15: Major players have maintained strong financial position



Note: As at end Jun 2020
Source: Company data, CMBIS

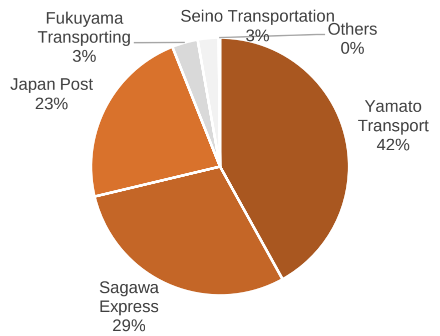
Industry consolidation will serve as a structural long-term driver

A case study on Japan's express delivery industry

Yamato Transport (9064 JP), **Sagawa Express (under SG Holding [9143 JP]**) and **Japan Post (6178 JP)** are the top three players in the express delivery industry in Japan at present. Japan's delivery industry has been highly competitive. While after a prolonged price competition, the combined market share of the top three players (in terms of parcel volume) consistently increased from 82% in FY04 (Mar year-end) to a highly concentrated level of 94% in FY20. Meanwhile, the number of express delivery service provider in Japan reduced from 36 in FY02 to 21 in FY14, and the oligopoly landscape has remained stable since then.

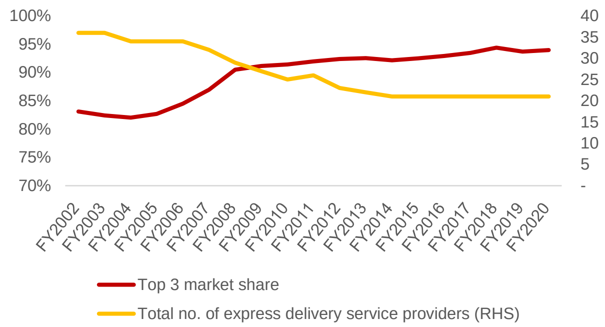
In FY17, Yamato raised the delivery service price for the first time in more than two decades. While the price hike was attributable to many factors such as labour shortage, surging ecommerce-driven demand and macro factors such as inflation, we believe the underlying condition for a price hike was a highly concentrated market. In FY17-20, the ASP of Yamato and Sagawa Express increased by 17% and 26%, respectively.

Figure 16: Top 3 players accounted for 94% of Japan express delivery market share in FY20



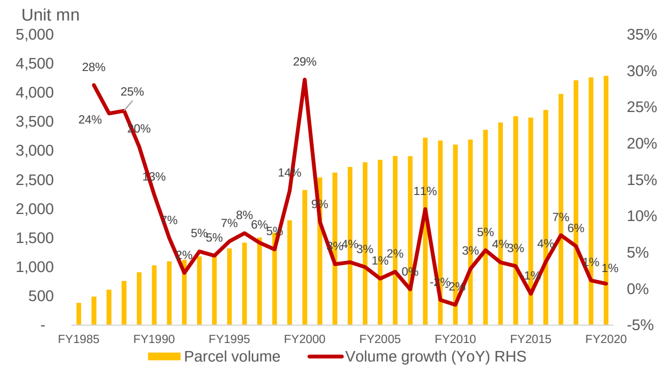
Source: Company data, Japanese Ministry of Land, Infrastructure, Transport and Tourism, CMBIS

Figure 17: Japan's top 3 players consistently gaining market share from small players



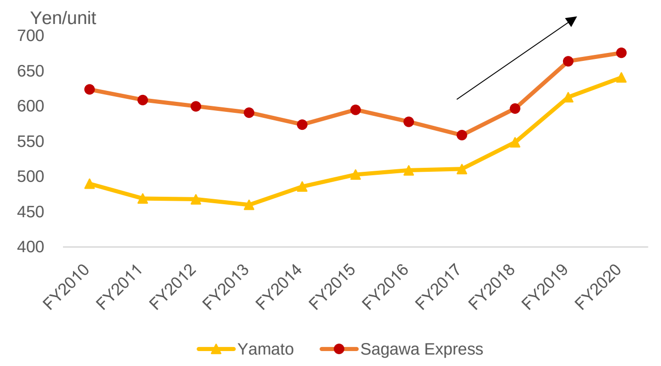
Source: Japanese Ministry of Land, Infrastructure, Transport and Tourism, Company data, CMBIS

Figure 18: Japan express delivery parcel volume



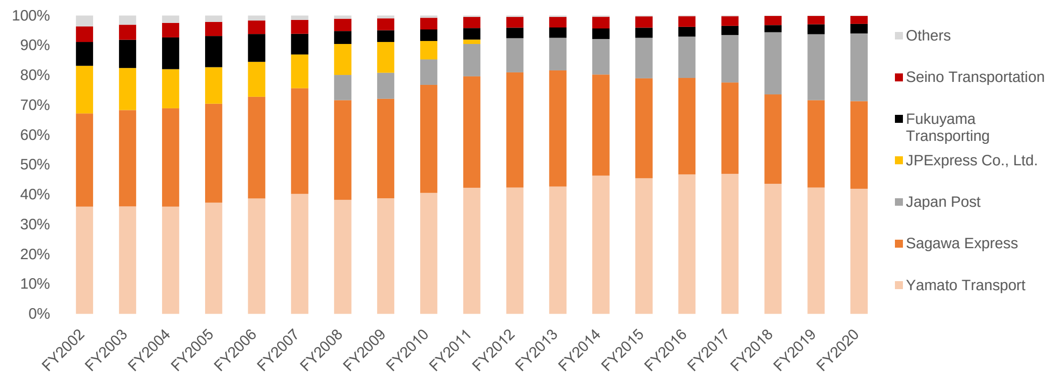
Source: Company data, Japanese Ministry of Land, Infrastructure, Transport and Tourism, CMBIS

Figure 19: ASP - Yamato and Sagawa Express



Source: Company data, CMBIS

Figure 20: Market share trend of Japan express delivery service provider

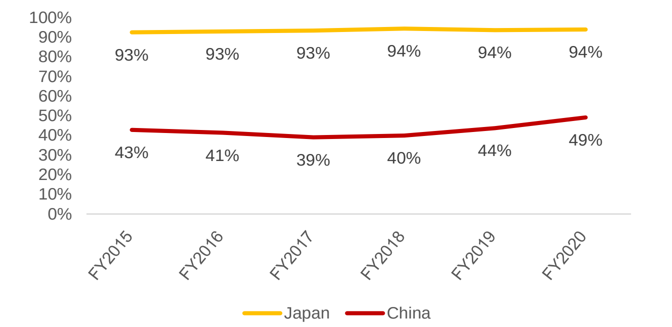


Source: Japanese Ministry of Land, Infrastructure, Transport and Tourism, Company data, CMBIS

Huge room of consolidation in China express delivery industry

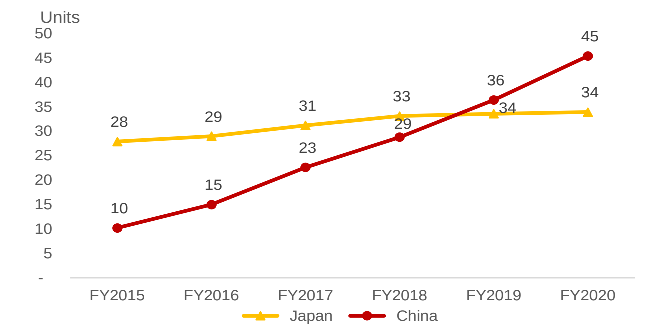
We see substantial room of consolidation in China express delivery industry, driven not only by price competition but also M&A activities over the coming years, in our view. That said, we expect it will take a relatively long period of time to achieve a highly concentrated market, because Alibaba, as important shareholder of the Tongda operators, has been supporting every single Tongda operator financially (such as equity investment) in order to maintain bargaining power over the express delivery operators.

Figure 21: Market share of top 3 in Japan and China



Note: Japan: FY = Mar year end; China: FY = previous fiscal year
Source: Japanese Ministry of Land, Infrastructure, Transport and Tourism, Company data, CMBIS

Figure 22: Parcel volume per capita in China surpassed Japan due to higher penetration rate of ecommerce



Source: State Post Bureau, Company data, Japanese Ministry of Land, Infrastructure, Transport and Tourism, CMBIS

We expect SF and ZTO will become long-term winners in their respective playing fields

We believe SF will stand out as a long-term winner as its direct model with value proposition on better quality and service has created a strong brand and entry barrier. Such competitiveness comes from SF consistent investment in the infrastructure and excellent operation efficiency. At as Jun 2020, SF had 360 sorting hubs and a total of 100k units of vehicle under operation, including 45k units of self-owned trucks. The number of hubs and fleet size are several times larger than that of the major players. Most importantly, SF owned 59 all-cargo aircrafts, accounting for more than half of the total number of aircrafts operating for express delivery service in China. Going forward, the commencement of Ezhou Airport will further solidify its competitive edge in time-definite service.

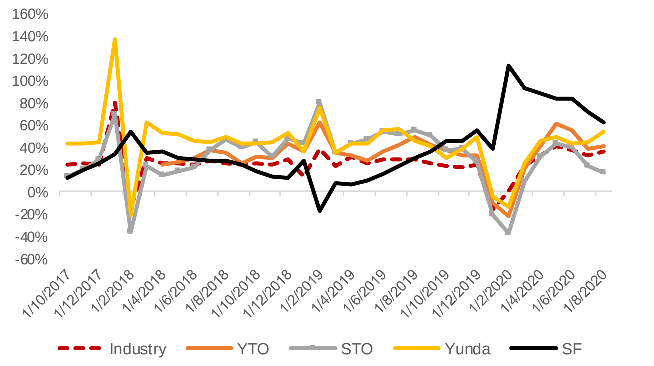
Tongda operators adopt the network partner model which allows for much faster network construction at the expense of lower degree of control. Competition among Tongda is intensive due to the homogenous services they offered. At present, we estimate only ZTO is profit making at the current ASP level. We like ZTO for its solid track record of market share gains and superior cost advantage. We expect ZTO not only is able to mitigate the impact of price war, but also capable to take the opportunity to achieve further market share gain.

Figure 23: Business model comparison

Business model	Company	Advantage	Disadvantage
Direct model	SF	Network scalability Network flexibility Standardized service quality Cost and capital efficiency	Huge capex requirement Take time to expand Huge courier team
Network partner model	ZTO YTO STO Yunda BEST	Fast expansion Asset-light	Complicated network Difficult to manage Difficult to ensure service quality

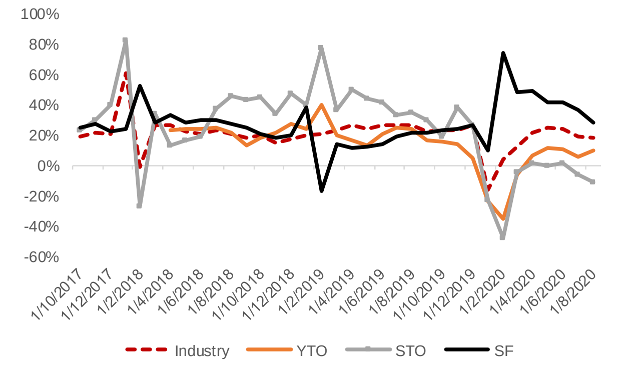
Source: CMBIS

Figure 24: Parcel shipment volume growth comparison



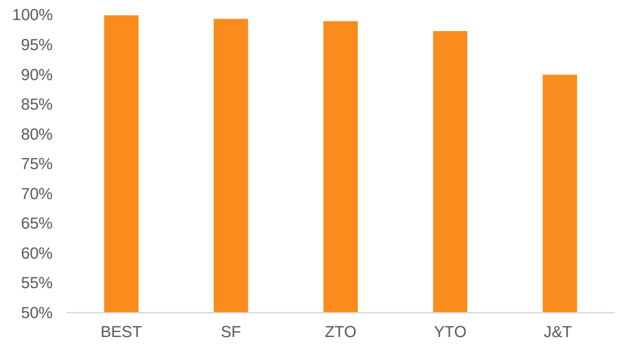
Source: State Post Bureau, Company data, Wind, CMBIS

Figure 25: Express delivery revenue growth comparison



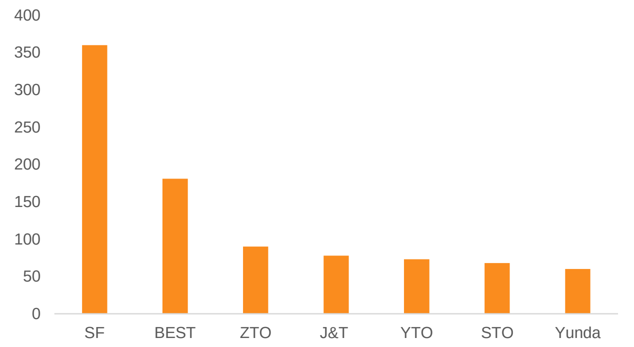
Source: State Post Bureau, Company data, Wind, CMBIS

Figure 26: Geographical coverage in China



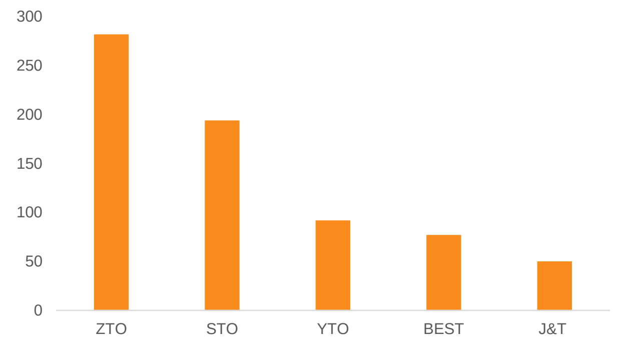
Source: Company data, CMBIS

Figure 27: No. of sorting hub



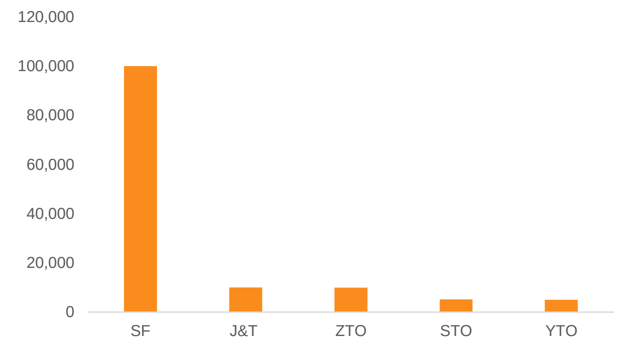
Source: Company data, CMBIS

Figure 28: No. of automatic equipment



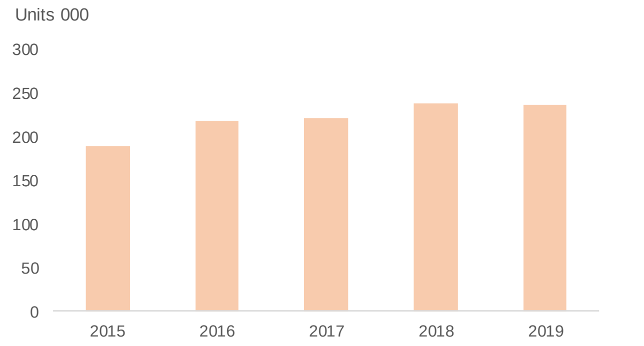
Source: Company data, CMBIS

Figure 29: No. of vehicles



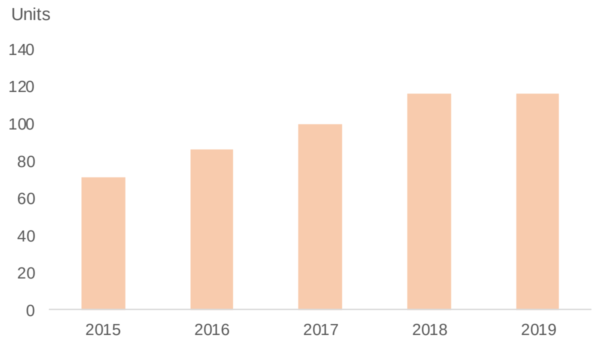
Source: Company data, CMBIS

Figure 30: No. of vehicles deployed in the express delivery industry in China



Source: The State Post Bureau, CMBIS

Figure 31: No. of aircrafts deployed in the express delivery industry in China



Source: The State Post Bureau, CMBIS

Figure 32: Key supporting policies for express delivery industry in China

Date	Authority	Document	Summary
Feb-18	State Council	Opinions of the Central State Council of China on Implementing the Rural Revitalization Strategy (<中共中央国务院关于实施乡村振兴战略的意见>)	· Advocated building a cold chain warehousing and logistics system for modern agricultural products and extending service outlets to rural areas · Encouraged to develop a comprehensive infrastructure to promote rural e-commerce development, and expedite penetration of e-commerce into rural area
Mar-18	State Council	Interim Regulation on Express Delivery (<快递暂行条例>)	· Set the industry standard in terms of operation, supervision and business management · Emphasized customer privacy security and environmental friendly operation
Apr-18	State Post Bureau	Work Plan for the Establishment of a Credit System for the Express Delivery Industry (<快递业信用体系建设工作方案>)	· Nationwide construction of credit systems for the industry · Facilitated cooperation with government and key clients and decreased companies' ongoing financing costs
May-18	State Council	Confirmation of the measures for further reducing logistics cost of the real economy	· Tax reduction, simplifying review process for goods vehicles and procedures for establishing branches of logistics enterprises · Expected to reduce logistics cost by more than RMB12bn
Jun-18	Ministry of Finance, Sate Taxation Administration	Policy under which urban land use tax is reduced by 50% for logistics companies that lease land for commodities warehousing. <将物流企业承租的仓储设施用地减按50%计征城镇土地使用税>	· In Mar 2020, the implementation period of the policy has been extended to Dec 2020.
Oct-18	State Council	Three-year Action Plan (2018-2020) for Promoting the Structural Adjustment of Transportation (<推进运输结构调整三年行动计划(2018—2020年)>)	· Promoted railway and waterway freight · Railway/ Waterway freight volume expected to increase by 30%/ 7.5%
Oct-18	State Council	Work Plan for Optimizing Checkpoint Business Operation Environment to Facilitate Convenience in Cross-border Trade(《优化口岸营商环境促进跨境贸易便利化工作方案》)	· Aimed at improving the efficiency of logistics services through the checkpoints and facilitating business operation environment at the checkpoints
Dec-18	NDRC, MOT	Planning on construction and layout of national logistics hubs (<国家物流枢纽布局和建设规划>)	· Planned to construct 212 national logistics hubs which benefit decrease of social logistic costs
Jun-19	The State Post Bureau	Opinions on Supporting the Development of Private Express Delivery Enterprises <国家邮政局关于支持民营快递企业发展的指导意见>	· Promotes reduction of institutional transaction costs, and guides private express delivery enterprises to fully enjoy tax reduction and benefits offered by the government
Sep-20	NDRC	Opinions on the development of air cargo transportation facilities <关于促进航空货运设施发展的意见>	· Aimed at raising the capacity of air cargo transportation to meet the rising demand. · By 2025: To complete the construction of Ezhou Aiport; to enhance the cargo airport hub status in Shanghai, Guangzhou and Shenzhen. · By 2035: To complete the construction of 1-2 professional hubs; To nurture several large-scale air logistic companies with global competitiveness.

Source: State Council, State Post Bureau, NDRC, Ministry of Transport, CMBIS

ZTO Express (ZTO US)

Cost leader set to stand out as a long-term winner

On the back of proven track record of market share gain, strong operational efficiency and superior cost advantage, ZTO is not only able to mitigate the impact of price war, but also capable to take the opportunity to achieve further share gain and stand out as a long-term winner, in our view. We forecast ZTO to deliver 34%/25% core earnings growth in 2021E/22E. We resume coverage on ZTO with a **BUY** rating and TP of US$38.3, based on 33x 2021E P/E.

- **Proven track record of market share gain**. In terms of parcel shipment volume, ZTO's market share increased from 13% in 2014 to 21% in 1H20. Most importantly, the share gain came along with profitable growth, suggesting an outstanding operating efficiency under the network partner model. ZTO is confident of achieving 25% market share in two years even without adopting price reduction strategy.
- **Superior cost advantage on the back of better mix of truck fleet and automation of sorting hub.** ZTO's unit cost of transportation and sorting hub added up to ~RMB0.79 (in 1H20), lower than the major peers. We believe such advantage came from consistent facilities enhancement. ZTO expanded the number of self-owned truck from 3.6k units in 2017 to 9k units in 2Q20, with the proportion high capacity trucks (i.e. 15/17-metre trailers) increasing from 38% to 72% of the total fleet size. Besides, ZTO had 282 sets of automated sorting equipment installed (as at Jun), much higher than the competitors.
- **Balance sheet even stronger after the IPO in HK.** ZTO raised a gross amount of HK$9.8bn (~RMB8.6bn) after listing in HKEx in Sep. Adding this amount to the net cash of RMB12bn as at Jun, a total of ~RMB20bn could be deployed. The financial strengthen enables the Company to boost capex and network investment amid a price war. ZTO has budgeted RMB7bn capex this year and we expect further increase in spending going forward.
- **Earnings forecast.** We forecast a slight decline of core net profit in 2020E (-3% YoY) due mainly to the price war. That said, we expect the core net profit growth to accelerate to 34%/25% in 2021E/22E. We estimate every 1% change in ASP will result in 3.7% change in net profit (2021E).
- **Major risk factors:** (1) prolonged price war; (2) slowdown of online retail sales; (3) lack of effective control over network partners.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	17,604	22,110	25,305	30,191	36,263
YoY growth (%)	35	26	14	19	20
Net profit (RMB mn)	3,820	4,979	4,845	6,476	8,109
EPS (RMB)	5.08	6.35	6.10	7.83	9.81
YoY growth (%)	14.3	25.0	-4.0	28.4	25.2
Consensus EPS (RMB)	N/A	N/A	6.25	7.67	9.67
EV/EBITDA (x)	27.6	21.3	20.5	15.1	11.7
P/E (x)	39.7	32.6	34.9	26.2	20.9
P/B (x)	4.6	4.2	3.5	3.1	2.8
Yield (%)	0.8	1.0	0.8	1.1	1.4
ROE (%)	13.7	13.7	11.0	12.3	13.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY

Target Price	**US$38.3**
Up/Downside	**+27%**
Current Price	**US$30.18**

China Express Delivery

Wayne Fung, CFA
(852) 3900 0826
waynefung@cmbi.com.hk

Stock Data

Mkt Cap (US$ mn)	25,609
Avg 3 mths t/o (US$ mn)	91
52w High/Low (US$)	38.99/20.04
Total Issued Shares (mn)	828.9

Source: Bloomberg

Shareholding Structure

Meisong Lai	25.8%
Alibaba	8.7%
Others	65.5%

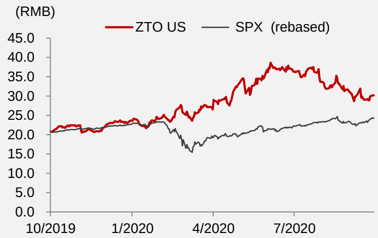
Note: Under the weighted voting rights structure, Meisong Lai has 77.1% of the total voting right
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.6%	-9.2%
3-mth	-18.4%	-26.7%
6-mth	11.0%	-12.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

14 Oct 2020

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ZTO Express (2057 HK)

Cost leader set to stand out as a long-term winner

On the back of proven track record of market share gain, strong operational efficiency and superior cost advantage, ZTO not only is able to mitigate the impact of price war, but also capable to take the opportunity to achieve further share gain and stand out as a long-term winner, in our view. We forecast ZTO to deliver 34%/25% core earnings growth in 2021E/22E. We initiate coverage on ZTO with a **BUY** rating and TP of HK$297, based on 33x 2021E P/E.

- **Proven track record of market share gain**. In terms of parcel shipment volume, ZTO's market share increased from 13% in 2014 to 21% in 1H20. Most importantly, the share gain came along with profitable growth, suggesting an outstanding operating efficiency under the network partner model. ZTO is confident of achieving 25% market share in two years even without adopting price reduction strategy.
- **Superior cost advantage on the back of better mix of truck fleet and automation of sorting hub.** ZTO's unit cost of transportation and sorting hub added up to ~RMB0.79 (in 1H20), lower than the major peers. We believe such advantage came from consistent facilities enhancement. ZTO expanded the number of self-owned truck from 3.6k units in 2017 to 9k units in 2Q20, with the proportion high capacity trucks (i.e. 15/17-metre trailers) increasing from 38% to 72% of the total fleet size. Besides, ZTO had 282 sets of automated sorting equipment installed (as at Jun), much higher than the competitors.
- **Balance sheet even stronger after the IPO in HK.** ZTO raised a gross amount of HK$9.8bn (~RMB8.6bn) after listing in HKEx in Sep. Adding this amount to the net cash of RMB12bn as at Jun, a total of ~RMB20bn could be deployed. The financial strengthen enables the Company to boost capex and network investment amid a price war. ZTO has budgeted RMB7bn capex this year and we expect further increase in spending going forward.
- **Earnings forecast.** We forecast a slight decline of core net profit in 2020E (-3% YoY) due mainly to the price war. That said, we expect the core net profit growth to accelerate to 34%/25% in 2021E/22E. We estimate every 1% change in ASP will result in 3.7% change in net profit (2021E).
- **Major risk factors:** (1) prolonged price war; (2) slowdown of online retail sales; (3) lack of effective control over network partners.

Earnings Summary

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P/E (x)	39.4	32.3	34.6	26.0	20.8
P/B (x)	4.6	4.2	3.5	3.1	2.7
Yield (%)	0.8	1.0	0.9	1.1	1.4
ROE (%)	13.7	13.7	11.0	12.3	13.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	**HK$297**
Up/Downside	**+28%**
Current Price	**HK$232**

China Express Delivery

Wayne Fung, CFA
(852) 3900 0826
waynefung@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	196,864
Avg 3 mths t/o (HK$ mn)	165
52w High/Low (HK$)	245.2 /219.2
Total Issued Shares (mn)	828.9

Source: Bloomberg

Shareholding Structure

Meisong Lai	25.8%
Alibaba	8.7%
Others	65.5%

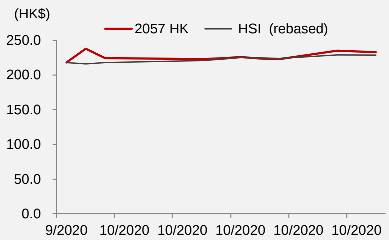
Note: Under the weighted voting rights structure, Meisong Lai has 77.1% of the total voting right
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	n/a	n/a
3-mth	n/a	n/a
6-mth	n/a	n/a

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

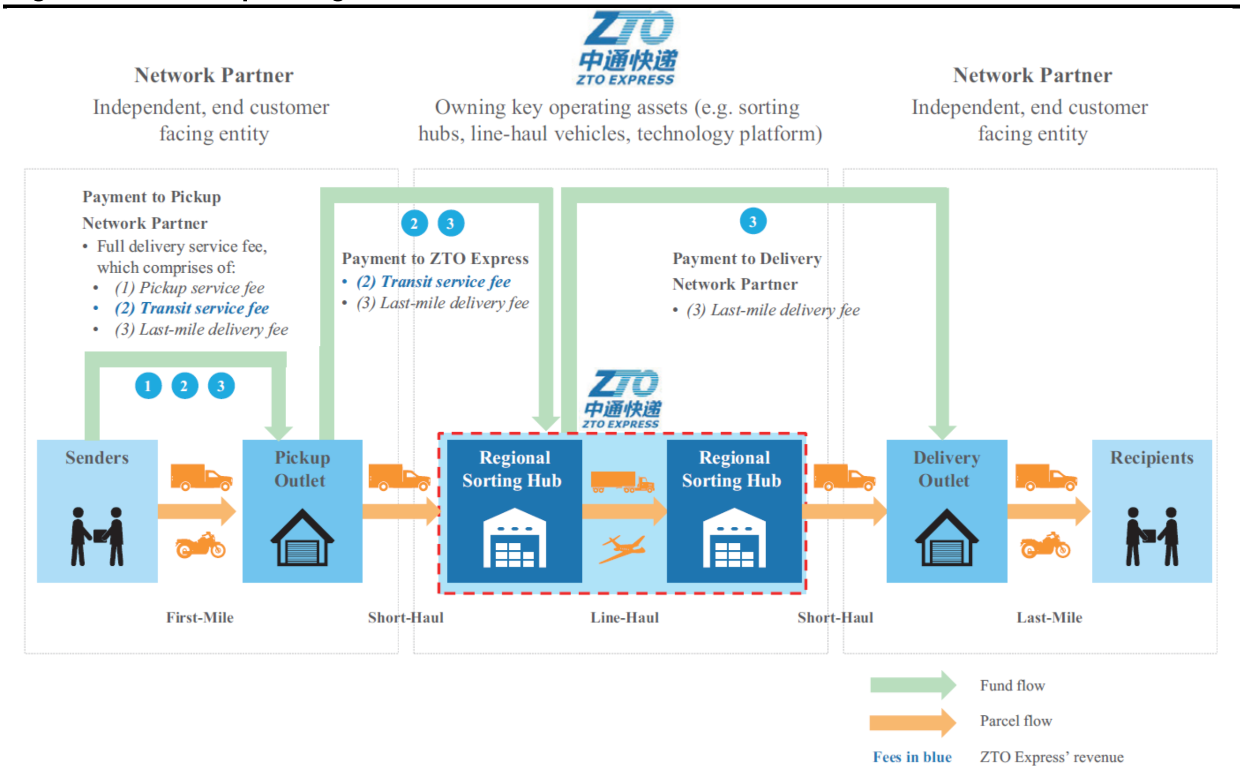
Auditor: Deloitte

Well-managed Network Partner model

Under a network partner model, ZTO operates the mission-critical line haul transportation and sorting network within the express delivery value chain, whereas the network partners operate the outlets that provide first-mile pickup and last-mile delivery services.

In 2008, ZTO was the first among the Tongda Operators to implement a sharing mechanism (which started compensating delivery outlets with last-mile delivery service fees) to address inequitable burden of cost and the associated inequitable allocation of fee revenue between pickup and delivery outlets. Before the implementation of such mechanism, service outlets relied on pickup fees to sustain their business, which was difficult for outlets with significantly higher delivery volumes than pickup volumes due to the uneven nature of economic development, geographic concentration of ecommerce merchants and geographical distribution of consumers in China. The principle design for this balancing mechanism came from ZTO's "shared success" philosophy, which was formally introduced in 2010 and fully established by 2015 when ZTO completed the conversion of part of the major network partners to shareholder-employees. Through this reorganization, ZTO became the first and the only among the Tongda Operators to reengineer the traditional network partner model into a structure of centralized strategic, financial and human resource decision making, and build trust and foster a win-win mindset among network participants. ZTO has successfully built a more cohesive and stable network.

Figure 33: ZTO's operating model

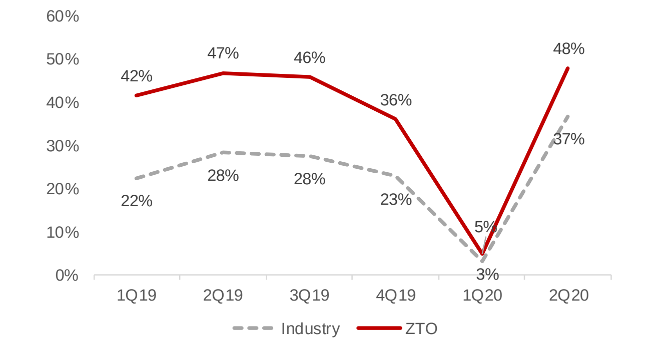


Source: Company data, CMBIS

Figure 34: ZTO's network and infrastructure

Source: Company data, CMBIS

Figure 35: ZTO's parcel volume growth has consistently outpaced the industry average

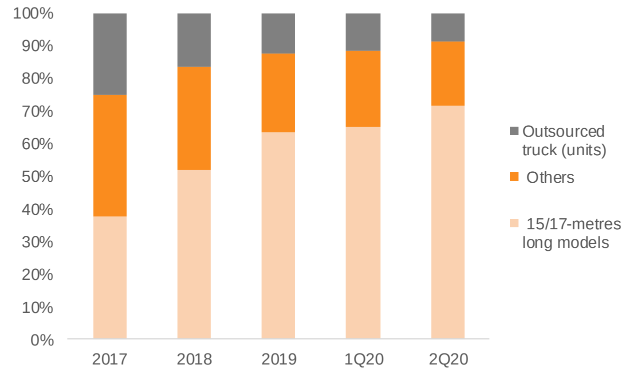


Source: Company data, The State Post Bureau, CMBIS

Figure 36: ZTO achieved lower-than-peers unit cost of transportation and sorting hub

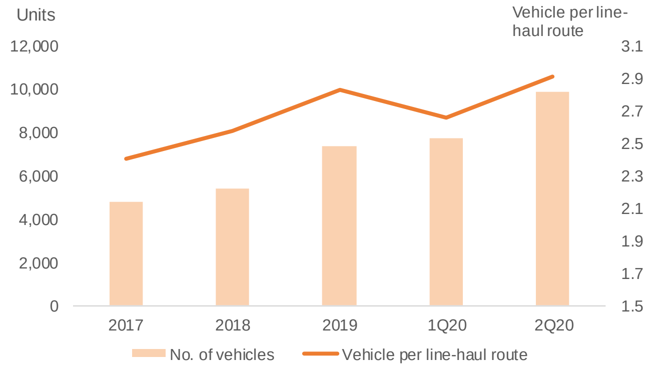
Note 1: 1H20 figures
Note 2: Line-haul + sorting hub cost for STO
Source: Company data, CMBIS

Figure 37: ZTO's self-owned high capacity truck ratio on the rise



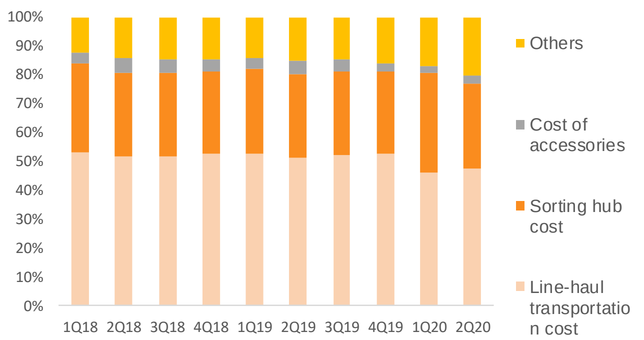
Source: Company data, CMBIS

Figure 38: ZTO enhanced its efficiency with more vehicles per line-haul route



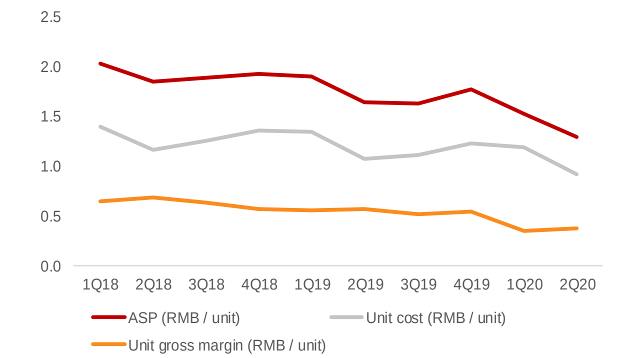
Source: Company data, CMBIS

Figure 39: ZTO unit cost breakdown



Source: Company data, CMBIS

Figure 40: ZTO's ASP, unit cost & unit gross margin



Source: Company data, CMBIS

Earnings projection

Parcel volume: We forecast ZTO to deliver 36%/25%/22% parcel volume growth in 2020E/21E/22E, implying an above-industry-average growth as we expect ZTO to continue to achieve market share gain.

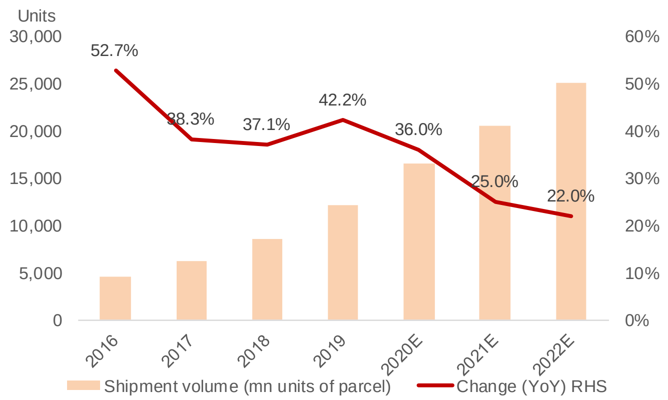
ASP: We forecast 16% ASP decline in 2020E due to the price war. However, we expect the ASP reduction will slow to -4%/-1% in 2021E/22E, as we expect continuous cost reduction will further drive down the ASP, similar to the trajectory in the past.

Unit cost: We forecast ZTO to achieve 10% reduction of unit cost per parcel in 2020E. We expect a gradual decline of unit cost of 2-3% in 2021E-22E, driven by rising number of automatic equipment, larger fleet of high capacity trailers and operating leverage.

Core earnings: We forecast ZTO to deliver core net profit of RMB4.85bn in 2020E (within the Company's profit guidance of RMB4.8-5.2bn), representing a decline of 3% YoY due mainly to the price war (note: our core net profit in 2019 is adjusted for the impairment and unrealized gain from investment). That said, we expect the core net profit growth to accelerate to 34%/25% in 2021E/22E. Adjusted for the share dilution from the recent IPO in Hong Kong, we forecast the core EPS growth to be 28%/25% in 2021E/22E.

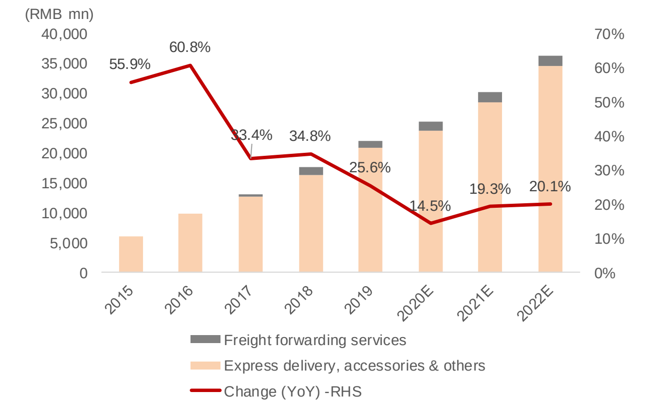
Earnings sensitivity: We estimate every 1% change in ASP will result in 3.7% change in net profit (2021E), assuming other factors being constant. On the cost side, every 1% decrease in line-haul transportation unit cost will result in 1.5% increase in net profit, and every 1% decrease in sorting hub cost will drive net profit by 0.8%.

Figure 41: ZTO's parcel shipment volume forecast



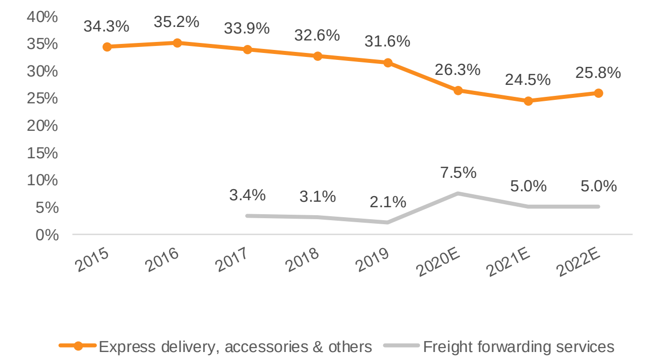
Source: Company data, CMBIS estimate

Figure 42: ZTO's revenue forecast



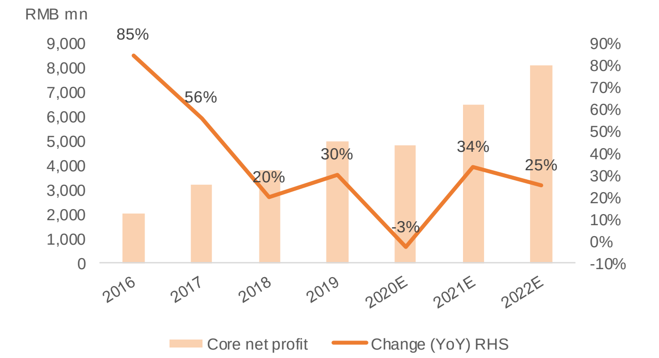
Source: Company data, CMBIS estimate

Figure 43: ZTO's gross margin trend



Source: Company data, CMBIS estimate

Figure 44: ZTO's core net profit forecast



Source: Company data, CMBIS estimate

Figure 45: Key operating assumptions

(RMB mn)	2016	2017	2018	2019	2020E	2021E	2022E
Shipment volume (mn units of parcel)							
Unit of parcel	4,498	6,219	8,524	12,121	16,485	20,606	25,139
Change (YoY)	*52.7%*	*38.3%*	*37.1%*	*42.2%*	*36.0%*	*25.0%*	*22.0%*
ASP (RMB/unit)							
Per unit of parcel	**2.18**	**2.06**	**1.92**	**1.72**	**1.45**	**1.39**	**1.37**
Change (YoY)	*5.3%*	*-5.5%*	*-6.9%*	*-10.1%*	*-16.0%*	*-4.0%*	*-1.0%*
Unit cost breakdownRMB)							
Line-haul transportation cost	(0.83)	(0.77)	(0.68)	(0.62)	(0.54)	(0.54)	(0.52)
Sorting hub cost	(0.43)	(0.39)	(0.38)	(0.34)	(0.31)	(0.30)	(0.30)
Cost of accessories	(0.06)	(0.06)	(0.06)	(0.04)	(0.03)	(0.03)	(0.03)
Others	(0.09)	(0.14)	(0.18)	(0.18)	(0.18)	(0.18)	(0.17)
Total	(1.41)	(1.36)	(1.29)	(1.18)	(1.07)	(1.05)	(1.02)
Change (YoY)							
Line-haul transportation cost	*5.0%*	*-6.6%*	*-12.4%*	*-8.8%*	*-12.0%*	*-1.0%*	*-3.0%*
Sorting hub cost	*7.2%*	*-8.7%*	*-4.3%*	*-9.6%*	*-7.4%*	*-3.0%*	*-3.0%*
Cost of accessories	*39.3%*	*-6.4%*	*-2.2%*	*-22.2%*	*-30.0%*	*-3.0%*	*-3.0%*
Others	*-26.3%*	*48.5%*	*33.2%*	*-2.2%*	*0.0%*	*-1.0%*	*-1.0%*
Total	*3.9%*	*-3.6%*	*-5.1%*	*-8.7%*	*-9.5%*	*-1.6%*	*-2.7%*
Unit gross margin (RMB)	**0.77**	**0.70**	**0.62**	**0.54**	**0.38**	**0.34**	**0.35**
Change (YoY)	*8.0%*	*-8.9%*	*-10.4%*	*-12.9%*	*-30.0%*	*-10.6%*	*4.1%*
Revenue							
Express delivery, accessories & others	9,789	12,791	16,326	20,874	23,846	28,616	34,562
Freight forwarding services	0	270	1,279	1,236	1,458	1,575	1,701
Total	**9,789**	**13,060**	**17,604**	**22,110**	**25,305**	**30,191**	**36,263**
Revenue growth							
Express delivery, accessories & others	*60.8%*	*30.7%*	*27.6%*	*27.9%*	*14.2%*	*20.0%*	*20.8%*
Freight forwarding services	-	-	*374.4%*	*-3.3%*	*18.0%*	*8.0%*	*8.0%*
Revenue	***60.8%***	***33.4%***	***34.8%***	***25.6%***	***14.5%***	***19.3%***	***20.1%***
Gross margin							
Express delivery, accessories & others	35.2%	33.9%	32.6%	31.6%	26.3%	24.5%	25.8%
Freight forwarding services	0.0%	3.4%	3.1%	2.1%	7.5%	5.0%	5.0%
Gross margin	**35.2%**	**33.3%**	**30.5%**	**29.9%**	**25.3%**	**28.0%**	**29.4%**

Source: Company data, CMBIS estimates

Figure 46: Earnings sensitivity to ASP and unit line-haul transportation cost

2021E Net profit (RMB mn)		**ASP (RMB/unit)**				
		1.32	1.36	**1.39**	1.42	1.46
	-0.563	4,789	5,519	6,006	6,493	7,223
	-0.547	5,070	5,801	6,288	6,775	7,505
Unit line-haul	**-0.537**	5,258	5,989	**6,476**	6,963	7,693
transportation cost (RMB)	-0.526	5,446	6,177	6,663	7,150	7,881
	-0.510	5,728	6,458	6,945	7,432	8,163

Source: Company data, CMBIS estimates

Figure 47: Earnings sensitivity to ASP and unit sorting hub cost

2021E Net profit (RMB mn)		**ASP (RMB/unit)**				
		1.32	1.36	**1.39**	1.42	1.46
	-0.320	4,992	5,722	6,209	6,696	7,426
	-0.311	5,152	5,882	6,369	6,856	7,586
Unit sorting hub cost	**-0.305**	5,258	5,989	**6,476**	6,963	7,693
(RMB)	-0.298	5,365	6,095	6,582	7,069	7,800
	-0.289	5,525	6,255	6,742	7,229	7,959

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**17,604**	**22,110**	**25,305**	**30,191**	**36,263**
Cost of sales	-12,240	-15,489	-18,915	-21,740	-25,618
Gross profit	**5,365**	**6,621**	**6,390**	**8,451**	**10,646**
Other operating income	178	388	531	604	725
SG&A expense	-1,211	-1,546	-1,771	-2,053	-2,393
EBIT	**4,332**	**5,463**	**5,150**	**7,002**	**8,978**
Net finance income/(cost)	400	585	618	691	659
Finance income	401	585	618	691	659
Finance expenses	-1	0	0	0	0
Gain/(loss) on disposal	563	-3	0	0	0
Impairment of equity investees	0	-56	0	0	0
Unrealized gain fr. equity investee	0	754	0	0	0
FX gain/(loss)	41	13	0	0	0
Profit of JV & associates	-19	-8	0	16	17
Pretax profit	**5,317**	**6,750**	**5,768**	**7,709**	**9,653**
Income tax	-929	-1,078	-923	-1,233	-1,544
After tax profit	**4,388**	**5,671**	**4,845**	**6,476**	**8,109**
MI	-5	3	0	0	0
Net profit	**4,383**	**5,674**	**4,845**	**6,476**	**8,109**
Recurring net profit	**3,820**	**4,979**	**4,845**	**6,476**	**8,109**
D&A	854	1,265	1,837	2,491	3,225
EBITDA	**5,186**	**6,727**	**6,987**	**9,493**	**12,202**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	5,317	6,750	5,768	7,709	9,653
Finance cost	1	0	0	0	0
Interest income	-401	-585	-618	-691	-659
Profit or loss of associates	19	8	0	-16	-17
Depreciation & amortization	854	1,265	1,837	2,491	3,225
Income tax paid	-1,068	-1,119	-923	-1,233	-1,544
Change in working capital	-443	-260	-591	-142	-219
Others	-275	-338	0	0	0
Cash flow from operation	**4,003**	**5,719**	**5,473**	**8,118**	**10,439**
Net capex on PP&E	-3,324	-4,636	-7,000	-8,000	-9,000
Purchase of land use rights	-657	-591	-700	-700	-700
Investment in JV/associates	-1,865	-218	-100	-50	-50
Investment in subsidiaries	-110	-20	0	0	0
Interest received	401	585	618	691	659
Others	-7,718	629	0	-0	-0
Cash flow from investing	**-13,274**	**-4,250**	**-7,182**	**-8,059**	**-9,091**
Equity financing/(repurchase)	8,122	-763	8,605	0	0
Net bank borrowings	-250	0	0	0	0
Dividend paid	-895	-1,271	-1,667	-1,429	-1,910
Others	66	51	0	0	0
Cash flow from financing	**7,042**	**-1,982**	**6,938**	**-1,429**	**-1,910**
Change in cash	-2,229	-513	5,229	-1,371	-562
Cash at beginning of the year	5,425	4,623	5,270	10,499	9,129
Exchange gains/(losses) and others	1,426	1,161	0	0	0
Cash at the end of the year	4,623	5,270	10,499	9,129	8,566

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**18,449**	**25,792**	**32,380**	**38,637**	**45,551**
PP&E	9,036	12,471	17,701	23,291	29,161
Land use right	1,969	2,509	3,148	3,774	4,385
Investment in JV/associates	2,207	3,109	3,209	3,276	3,342
Operating lease right-of-use assets	0	902	962	1,022	1,082
Goodwill	4,242	4,242	4,242	4,242	4,242
Long term financing receivables	0	550	1,114	1,036	1,348
Intangible assets	54	48	42	36	29
Long-term investment	0	946	946	946	946
Others	623	612	612	612	612
Deferred tax assets	318	404	404	404	404
Current assets	**21,234**	**20,098**	**25,743**	**24,590**	**24,514**
Inventories	44	44	60	59	81
Account receivables	597	676	780	957	1,130
Financing receivables	518	511	806	848	1,139
Advances to suppliers	338	438	438	438	438
Short-term investment	13,600	11,113	11,113	11,113	11,113
Others	1,515	2,039	2,039	2,039	2,039
Restricted cash	0	7	7	7	7
Cash	4,623	5,270	10,499	9,129	8,566
Current liabilities	**5,141**	**6,681**	**7,130**	**7,189**	**7,827**
Account payables	1,312	1,475	1,924	1,983	2,621
Operating lease liabilities	0	299	299	299	299
Bank borrowings	0	0	0	0	0
Tax payable	406	80	80	80	80
Advanced from customers	437	1,211	1,211	1,211	1,211
Others	2,987	3,616	3,616	3,616	3,616
Non-current liabilities	**272**	**806**	**806**	**806**	**806**
Bank borrowings	0	0	0	0	0
Deferred tax liabilities	158	208	208	208	208
Non-current operating lease	0	504	504	504	504
Others	114	94	94	94	94
Shareholders' equity	**34,217**	**38,303**	**50,086**	**55,132**	**61,330**
MI	52	101	101	101	101

Key ratios

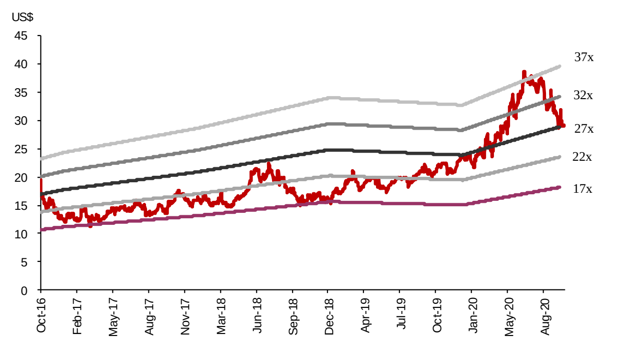
YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Express delivery, accessories & others	93%	94%	94%	95%	95%
Freight forwarding services	7%	6%	6%	5%	5%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	30.5	29.9	25.3	28.0	29.4
EBITDA margin	29.5	30.4	27.6	31.4	33.6
EBIT margin	24.6	24.7	20.4	23.2	24.8
Net profit margin	24.9	25.7	19.1	21.4	22.4
Growth (%)					
Revenue	34.8	25.6	14.5	19.3	20.1
Gross profit	23.5	23.4	(3.5)	32.3	26.0
EBITDA	n/a	29.7	3.9	35.9	28.5
EBIT	15.6	26.1	(5.7)	36.0	28.2
Core net profit	19.8	30.3	(2.7)	33.7	25.2
Balance sheet ratio					
Current ratio (x)	4.1	3.0	3.6	3.4	3.1
Trade receivable turnover days	9	15	23	24	23
Inventory turnover days	1	1	1	1	1
Payable turnover days	33	33	33	33	33
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	13.4	13.3	9.3	10.7	12.2
ROE	13.7	13.7	11.0	12.3	13.9
Per share data					
EPS (RMB)	5.83	7.24	6.10	7.83	9.81
Core EPS (RMB)	5.08	6.35	6.10	7.83	9.81
BVPS (RMB)	43.56	48.98	60.48	66.57	74.06
DPS (RMB)	1.69	2.13	1.80	2.31	2.89

Source: Company data, CMBIS estimates

Valuation

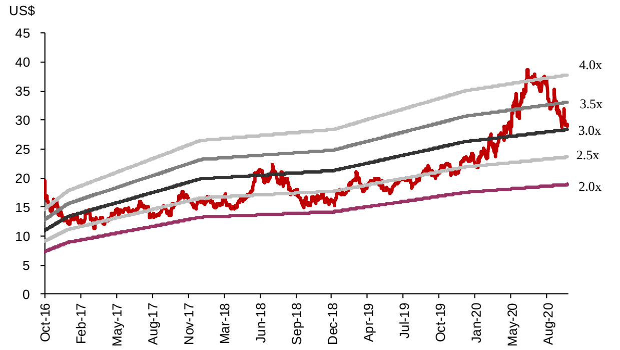
We resume coverage on ZTO US and initiate coverage on ZTO (2057 HK) with **BUY** rating. We set our TP for ZTO US/ 2057 HK of US$38.3/HK$297 based on 33x 2021E P/E, which represents 50% premium to the historical average of 22x but below the peak level of 37x. We believe ZTO deserves a higher valuation compared with the historical average, due to the rising industry concentration, the Company's consistent market share gain and recovery of earnings growth starting 2021E.

Figure 48: ZTO US's P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 49: ZTO US's P/B band



Source: Bloomberg, Company data, CMBIS estimates

SF Holding-A (002352 CH)

Strong infrastructure + effective strategy = Best-in-class

BUY

Target Price:	**RMB114.0**
Up/Downside:	**+22%**
Current Price:	**RMB93.18**

We resume coverage on SF Holding with a **BUY** rating and TP of RMB114, based on 55x 2021E P/E. We like SF solid position in the premium time-definite express segment, as well as the effective strategy to enter the mid-to-low end segment, which successfully boosted market share and raised utilization rate. We believe SF will continue to be least affected by the price war. We forecast SF to deliver an impressive core earnings growth of 46%/28%/26% in 2020E/21E/22E. In the longer term, we expect the commencement of Ezhou Airport to further enhance its core competitiveness in the time-definite business.

- **Strong competitive edge in time-definite segment.** The whole network model, backed by well-established infrastructure and transportation capacity, has enabled SF to maintain high quality service and strong brand effect. In particular, SF's numbers of all-cargo aircraft (self-owned + chartered) accounted for >60% of the total aircrafts in the express delivery industry in China, creating a strong entry barrier to new entrants.
- **Strategically expanding in the economy product proved to be successful.** In May 2019, SF rolled out the special economy services for ecommerce clients, which has been proved to be very successful. In 2H19, SF's volume growth accelerated immediately and outpaced the industry average significantly. This year, SF's parcel shipment growth further accelerated to 75%/85% in 1Q/2Q. While such move resulted in lower blended ASP, the net result is encouraging as it helped SF regain market share, increase utilization rate, and most importantly, create a firewall to protect the competitiveness of the time-definite express business.
- **Ezhou Airport project to solidify SF's core competitive edge in the long-run**. The construction of Hubei International Logistics Hub project (including Ezhou Airport) is currently in progress. The hub is expected to commence operation in late 2021E. By the time, SF will be able to expand the geographical coverage through adopting the hub-and-spoke network model.
- **Risk factors:** (1) prolonged price war; (2) increase in operating cost; (3) delay of construction projects.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	90,943	112,193	152,602	187,381	231,248
YoY growth (%)	28	23	36	23	23
Net income (RMB mn)	3,748	4,948	7,219	9,237	11,608
EPS (RMB)	0.85	1.12	1.62	2.08	2.61
YoY growth (%)	2.1	32.2	44.4	28.0	25.7
Consensus EPS (RMB)	n/a	n/a	1.59	1.96	2.43
EV / EBITDA (x)	49.6	39.2	30.7	24.5	20.4
P/E (x)	109.7	82.9	57.4	44.9	35.7
P/B (x)	11.2	9.7	8.6	7.4	6.3
Yield (%)	0.2	0.3	0.4	0.5	0.6
ROE (%)	10.8	12.5	15.9	17.7	19.0
Net gearing (%)	Net cash	8.6	12.9	9.0	0.9

Source: Company data, Bloomberg, CMBIS estimates

China Express Delivery

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Stock Data

Mkt Cap (RMB mn)	424,569
Avg 3 mths t/o (RMB mn)	1,609
52w High/Low (RMB)	93.89/36.01
Total Issued Shares (mn)	4,448

Source: Bloomberg

Shareholding Structure

Shenzhen Mingde	60.74%
Shenzhen Zhaoguang Inv.	5.99%
Ningbo Shunda Fengrun VC	4.96%
Others	28.3%

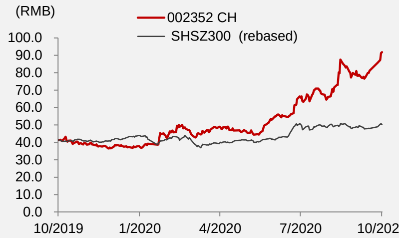
Note: Shenzhen Mingde is owned by WANG Wei
Source: Company data

Share Performance

	Absolute	Relative
1-mth	14.4%	9.4%
3-mth	37.4%	37.8%
6-mth	86.3%	44.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers Zhong Tian LLP

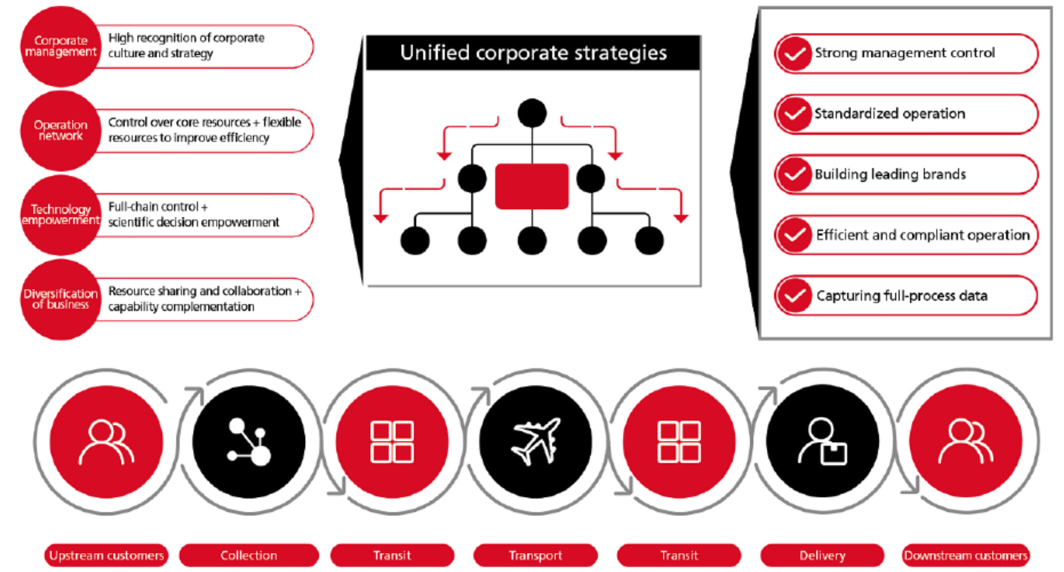
Whole model with unique logistic network creates strong entry barrier

Whole model with strong management control over the entire network

SF adopts an operating model that maintains strong management and control over the whole network, with the entire delivery network and key resources under the strict control of the headquarters, covering all links of the business chain. It helps maintain the stability and controllability of the operation, and ensure standardized operations and high service quality, thereby enhancing customer's loyalty and reputation.

This year, SF has been successful in maintaining quality and reliable services amid the COVID-19 related lockdown and post-lockdown period, while some of the competitors' services were interrupted.

Figure 50: SF's whole network model



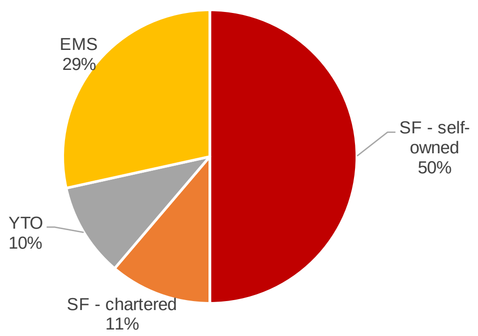
Source: Company data

Strong aviation network on the back of the largest air cargo fleet in China

SF became the first privately-owned air freight company in China in 2009. At present, among the domestic express delivery companies, only three companies (namely SF, EMS and YTO) have established logistic airlines with independent air transportation capabilities. Based on our calculation, SF's self-owned and chartered aircrafts accounted for >60% of the total aircrafts deployed for express delivery industry in China. As at end Jun 2020, SF had a total of 59 self-owned all-cargo aircrafts and operated 14 external chartered aircrafts.

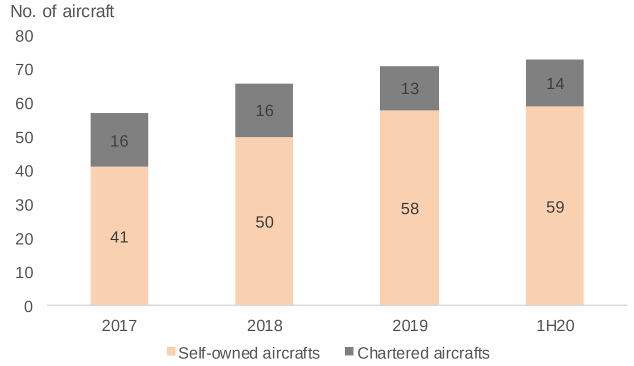
Besides, SF has secured stable passenger aircraft bellyhold resources from >100 commercial airlines in China and abroad to operate 1,922 flight routes across China and the overseas.

Figure 51: SF accounted for >60% of the total no. of all-cargo aircrafts for express delivery in China



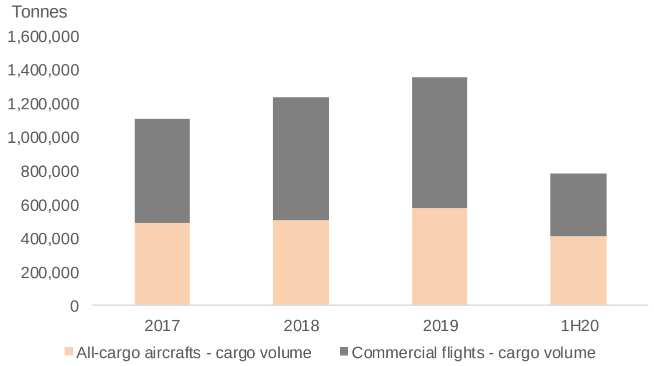
Note: 2019 figures
Source: The State Post Bureau, Company data, CMBIS

Figure 52: SF's fleet of all-cargo aircrafts



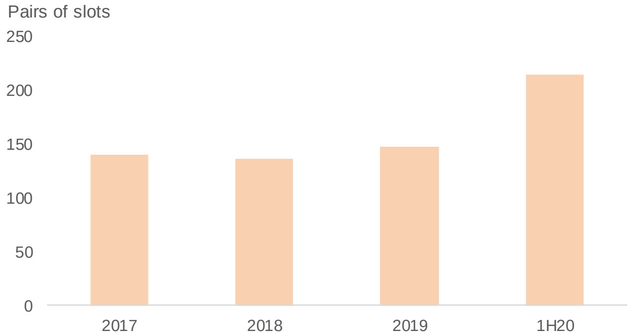
Source: Company data, CMBIS

Figure 53: SF's air cargo volume



Source: Company data, CMBIS

Figure 54: SF's total pairs of slots



Source: Company data, CMBIS

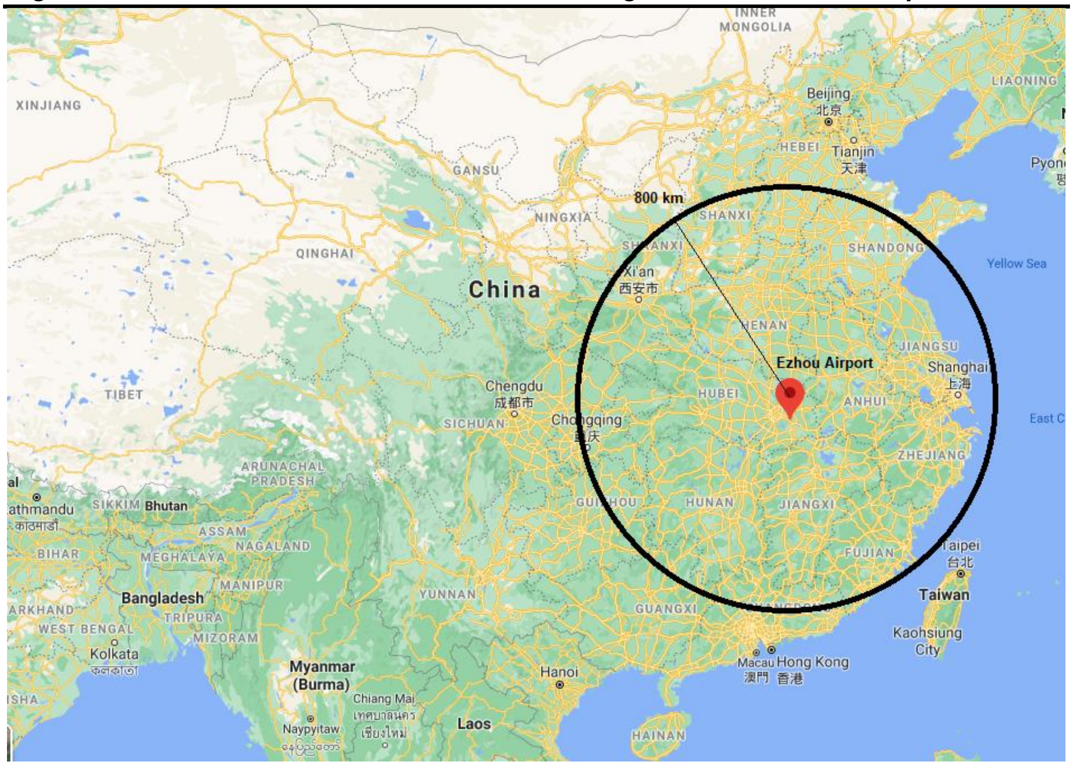
Ezhou Airport project to solidify SF's core competitive edge in the long run

The construction of Hubei International Logistics Hub project (including Ezhou Airport) is currently in progress. Ezhou airport is jointly invested by Hubei provincial government, Shenzhen Hongyin Airport Investment (深圳市农银空港投资) and SF (equity ratio: 49%/5%46%). The hub is expected to commence operation in late 2021E. It is estimated that cargo / mail throughput and passenger throughput will reach 2.45mn tonnes and 1mn in 2025.

SF will be able to expand the geographical coverage for its time-definite business through adopting the hub-and-spoke network model. The parcels will first be congregated at the hub and then distributed to the final destinations. According to SF, large aircrafts will be deployed to cover the large cities while small planes (such as Boeing 737) will be used for smaller cities. SF will be able to cover 200 cities upon the commencement of the airport.

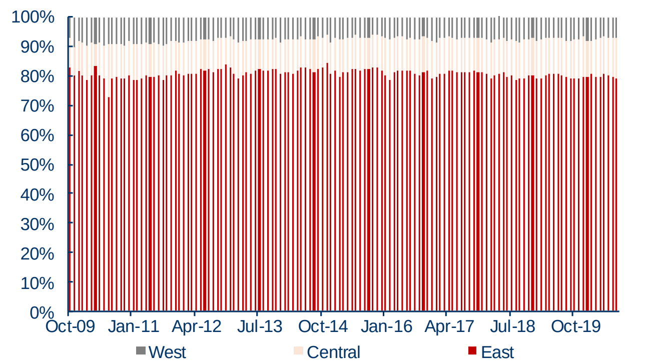
Given that air transportation is more effective with a distance of >800km, we believe the commencement of Ezhou Airport will help SF further expanding to the cities in the North and West regions. Besides, it will strengthen SF's international business.

Figure 55: Location of the Hubei International Logistic Hub – Ezhou Airport



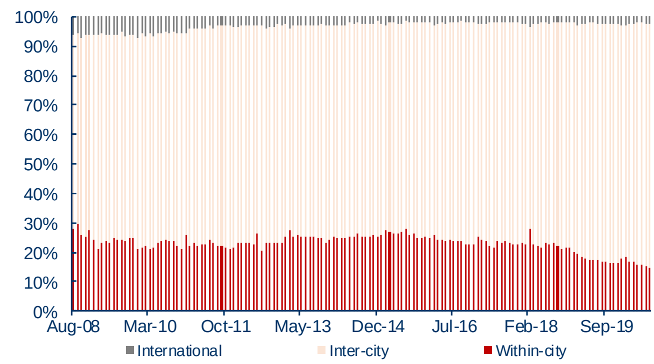
Source: CMBIS

Figure 56: East China accounted for ~80% of the total parcel shipment volume (for the industry)



Source: The State Post Bureau, CMBIS

Figure 57: Contribution of inter-city shipment volume on a rising trend (for the industry)



Source: The State Post Bureau, CMBIS

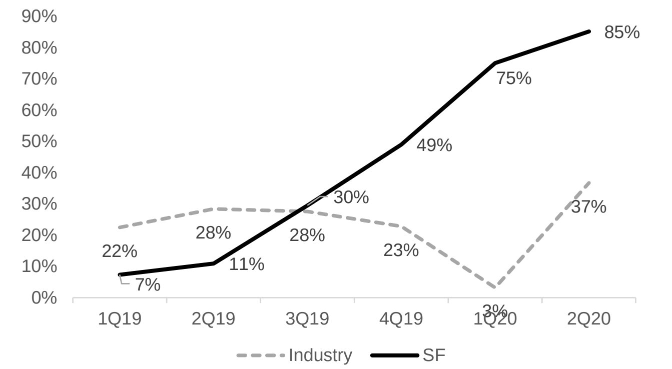
Successful diversification strategy

Growth accelerated following the expansion into mid-to-low end segment

SF has long been focusing on the high-end segment (i.e. time-definite express) along with substantial pricing premium. However, due to the rapid growth of ecommerce with rising volume of low-price items, some mass market operators with growing service capacity are now capable to shorten the delivery time and offer time-definite business. Such development would potentially threaten SF's core competitiveness in the time-definite business.

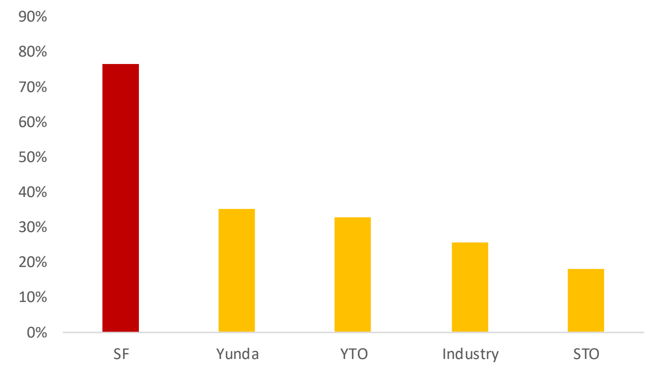
In May 2019, SF rolled out the special economy services for e-commerce clients, which has been proved to be very successful. In 2H19, SF's volume growth accelerated immediately and outpaced the industry average significantly (figure 58). This year, SF's parcel shipment growth further accelerated to 75%/85% in 1Q/2Q. While such move resulted in lower blended ASP, the net result is encouraging as it helped SF regain market share, increase utilisation rate, and most importantly, create a firewall to protect the competitiveness of the time-definite express business.

Figure 58: SF's parcel shipment volume has significantly outpaced industry average since 3Q19



Source: Company data, The State Post Bureau, CMBIS estimates

Figure 59: Parcel volume growth among key players in 8M20

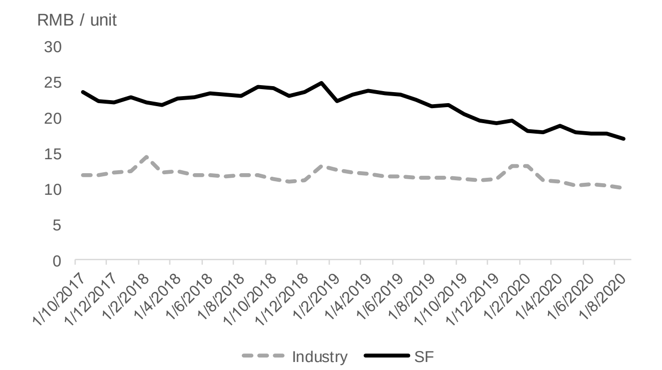


Source: Company data, The State Post Bureau, CMBIS

Figure 60: SF's ASP has dropped more than industry average since mid-2019

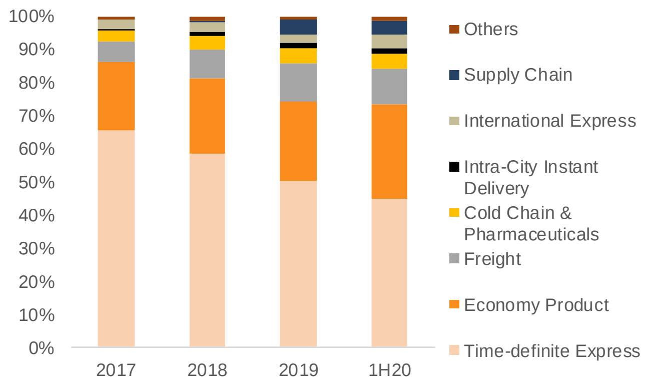
Source: Company data, The State Post Bureau, CMBIS

Figure 61: Still, SF maintains a decent level of premium pricing over the industry average



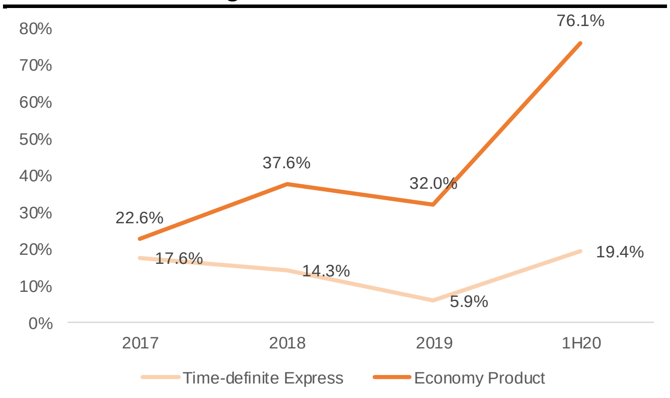
Source: Company data, The Sate Post Bureau, CMBIS

Figure 62: SF's revenue breakdown



Source: Company data, CMBIS

Figure 63: SF's Time-definite Express and Economy Product revenue growth



Source: Company data, CMBIS

Rapid growth of new business

Freight (11% of total revenue in 1H20): SF's freight business is operated under the dual brands of SF Freight and SX Freight in the less-than-truck load (LTL) industry. SF Freight targets the mid-to-high end market which requires high timeliness, quality and service experience, while SX Freight targets the mid-to-low end market. In 1H20, freight revenue increased by 51% YoY to RMB7bn. Revenue contribution from freight increased from 6% in 2017 to 11% in 1H20.

Cold chain and pharmaceuticals (4.6% of total revenue in 1H20): On the back of strong network coverage and leading cold chain technology, SF has established a national-wide chain network for food. Currently, SF's cold chain business covers segments ranging from production, ecommerce, distribution and retail operations. Besides, SF made use of its advantage in timeliness and preservation technology to boost the agricultural product delivery business. Regarding pharmaceutical, SF has strengthened its cooperation with drug manufacturers, distributors and hospitals. The cold chain and pharmaceuticals segment revenue grew 38% YoY in 1H20, with revenue contribution rising from 3.2% in 2017 to 4.6%.

Supply chain (4.2% of total revenue in 1H20): SF acquired the cold chain business of HAVI in Mainland China, Hong Kong and Macau in Aug 2018 and the supply chain business of DHL in the same regions in Feb 2019. The integration has been smooth after the acquisition. The supply chain segment revenue grew 61% YoY in 1H20. Given that SF DHL was consolidated in Mar 2019, the revenue growth was 25% YoY in Mar-Jun 2020 on like-for-like basis.

Earnings projection

Parcel volume: We forecast SF to deliver 66%/25%/25% parcel volume growth in 2020E/21E/22E, above the industry average. We expect SF's more proactive approach in the Economy segment will drive market share gain.

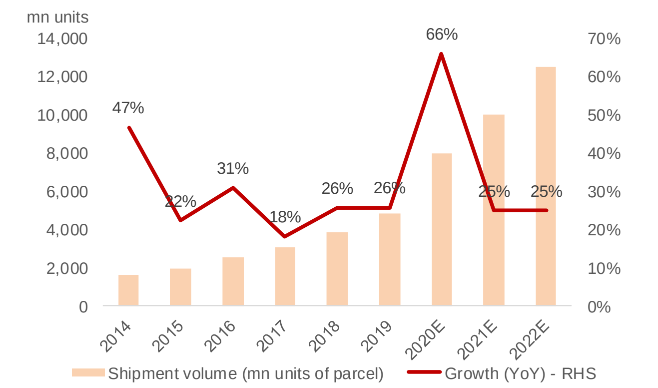
ASP: We expect, after an 18% price decline in 2020E, SF's ASP reduction will be moderate in 2021E-22E as we expect SF has no intention to enter head-to-head battle going forward.

Unit cost: We expect SF to achieve further unit cost reduction, on the back of potential increase in utilisation rate (currently 70%) and continuous investment in automation. We expect SF to maintain a relatively stable unit margin in 2021E-2E.

Core net profit: We forecast SF to deliver 46%/28%/26% core net profit growth in 2020E/21E/22E (excluding gains on disposal of subsidiaries). We expect the earnings growth will be driven largely by volume growth.

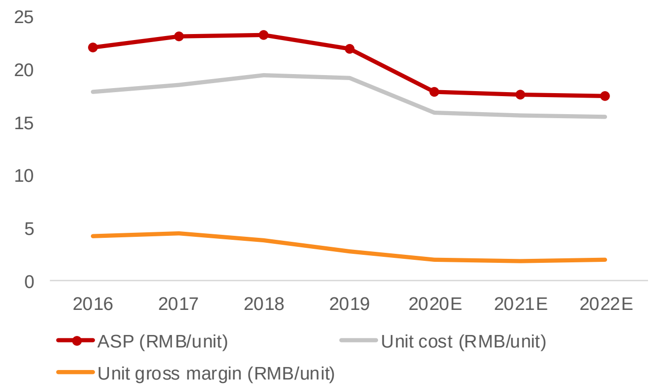
High earnings sensitivity: We estimate every 1% change in ASP will result in 14% change in net profit (2021E), assuming other factors being constant. On the cost side, every 1% decrease in unit outsourcing cost will result in 8% increase in net profit, while every 1% decrease in transportation cost will drive net profit by 1.3%.

Figure 64: SF's parcel shipment volume



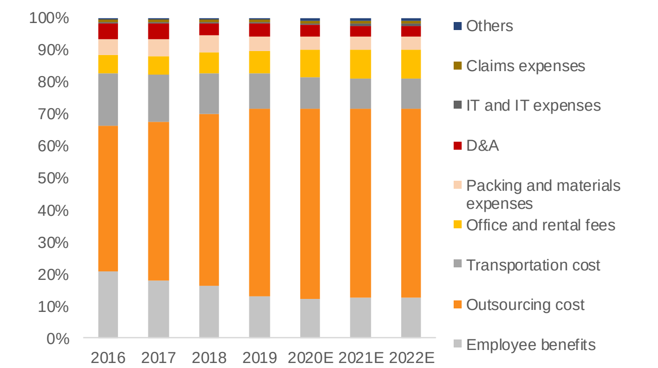
Source: Company data, CMBIS

Figure 65: SF's ASP, unit cost and unit gross margin



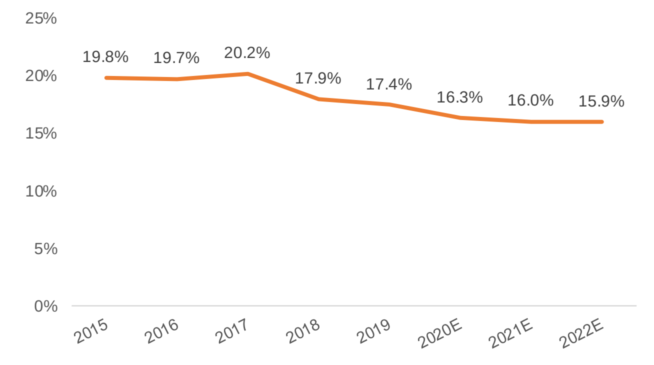
Source: Company data, CMBIS estimates

Figure 66: SF's unit cost structure



Source: Company data, CMBIS estimates

Figure 67: SF's blended gross margin trend



Source: Company data, CMBIS estimates

Figure 68: Key operating assumptions

	2016	2017	2018	2019	2020E	2021E	2022E
Shipment volume (mn units of parcel)	**2,580**	**3,052**	**3,839**	**4,831**	**8,019**	**10,024**	**12,530**
Change (YoY)	31.0%	18.3%	25.8%	25.8%	66.0%	25.0%	25.0%
ASP (RMB/unit)	**22.1**	**23.1**	**23.3**	**21.9**	**17.9**	**17.7**	**17.5**
Change (YoY)	-7.1%	4.5%	0.5%	-5.7%	-18.3%	-1.5%	-1.0%
Unit cost (RMB/unit)	**17.9**	**18.6**	**19.4**	**19.2**	**15.9**	**15.7**	**15.5**
Change (YoY)	-6.4%	4.2%	4.3%	-1.4%	-16.9%	-1.4%	-1.2%
Unit gross margin (RMB/unit)	**4.3**	**4.5**	**3.8**	**2.8**	**2.0**	**2.0**	**2.0**
Change (YoY)	-9.8%	5.5%	-15.1%	-27.6%	-27.7%	-1.9%	0.3%

(RMB mn)	2016	2017	2018	2019	2020E	2021E	2022E
Revenue							
Revenue from express logistic	57,141	70,609	89,276	105,983	143,736	176,975	219,007
Revenue from supply chain	0	0	400	4,918	6,885	8,262	9,915
Express logistic & supply chain	**57,141**	**70,609**	**89,677**	**110,901**	**150,621**	**185,238**	**228,922**
Sales of goods	20	79	406	491	860	989	1,137
Others	321	585	860	801	1,121	1,155	1,189
Total revenue	**57,483**	**71,273**	**90,943**	**112,193**	**152,602**	**187,381**	**231,248**
Revenue growth							
Revenue from express logistic	21.7%	23.6%	26.4%	18.7%	35.6%	23.1%	23.8%
Revenue from supply chain	-	-	-	1129.5%	40.0%	20.0%	20.0%
Express logistic & supply chain	21.7%	23.6%	27.0%	23.7%	35.8%	23.0%	23.6%
Sales of goods	-97.9%	287.1%	413.3%	21.0%	75.0%	15.0%	15.0%
Others	57.9%	82.3%	47.0%	-6.9%	40.0%	3.0%	3.0%
Total revenue	**19.5%**	**24.0%**	**27.6%**	**23.4%**	**36.0%**	**22.8%**	**23.4%**
Blended gross margin	**19.7%**	**20.2%**	**17.9%**	**17.4%**	**16.3%**	**16.0%**	**15.9%**

Source: Company data, CMBIS estimates

Figure 69: Earnings sensitivity to ASP and unit outsourcing cost

2021E Net profit (RMB mn)		**ASP (RMB/unit)**				
		16.77	17.30	**17.7**	18.01	18.54
	-9.63	-294	3,345	5,772	8,198	11,837
	-9.36	1,785	5,425	7,851	10,277	13,916
Unit outsourcing cost	**-9.17**	3,171	6,811	**9,237**	11,663	15,302
(RMB/unit)	-8.99	4,558	8,197	10,623	13,049	16,688
	-8.71	6,637	10,276	12,702	15,128	18,767

Source: Company data, CMBIS estimates

Figure 70: Earnings sensitivity to ASP and unit transportation cost

2021E Net profit (RMB mn)		**ASP (RMB/unit)**				
		16.77	17.30	**17.7**	18.01	18.54
	-1.57	2,608	6,247	8,674	11,100	14,739
	-1.52	2,946	6,585	9,012	11,438	15,077
Unit transportation	**-1.49**	3,171	6,811	**9,237**	11,663	15,302
cost (RMB/unit)	-1.46	3,397	7,036	9,462	11,888	15,528
	-1.42	3,735	7,374	9,800	12,226	15,866

Source: Company data, CMBIS estimates

Figure 71: Earnings sensitivity to ASP and unit employee cost

2021E Net profit (RMB mn)		**ASP (RMB/unit)**				
		16.77	17.30	**17.7**	18.01	18.54
	-2.01	2,447	6,087	8,513	10,939	14,578
	-1.96	2,882	6,521	8,947	11,373	15,013
Unit employee cost	**-1.92**	3,171	6,811	**9,237**	11,663	15,302
(RMB/unit)	-1.88	3,461	7,100	9,527	11,953	15,592
	-1.82	3,896	7,535	9,961	12,387	16,026

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**90,943**	**112,193**	**152,602**	**187,381**	**231,248**
Cost of sales	(74,642)	(92,650)	(127,742	(157,368	(194,427
Gross profit	**16,301**	**19,544**	**24,860**	**30,013**	**36,821**
Surcharge	(222)	(280)	(305)	(375)	(462)
S&D expenses	(1,826)	(1,997)	(2,594)	(2,998)	(3,700)
Administrative expenses	(8,415)	(9,699)	(11,903)	(13,679)	(16,419)
R&D expense	(984)	(1,193)	(1,679)	(2,061)	(2,544)
Impairment loss	(123)	(449)	(610)	(750)	(925)
EBIT	**4,731**	**5,925**	**7,769**	**10,150**	**12,771**
Net finance income/(cost)	(286)	(683)	(787)	(808)	(762)
Finance income	419	288	300	293	341
Finance expenses	(706)	(971)	(1,087)	(1,101)	(1,103)
Other gains/(losses)	1,460	2,282	2,594	2,998	3,469
Share of profit of JV & associates	(37)	(98)	(46)	(25)	0
Pretax profit	**5,867**	**7,426**	**9,530**	**12,316**	**15,478**
Income tax	(1,403)	(1,802)	(2,383)	(3,079)	(3,869)
After tax profit	**4,464**	**5,625**	**7,148**	**9,237**	**11,608**
MI	92	172	71	0	0
Net profit	**4,556**	**5,797**	**7,219**	**9,237**	**11,608**
Core net profit	**3,748**	**4,948**	**7,219**	**9,237**	**11,608**
D&A	3,509	4,503	5,517	6,497	7,297
EBITDA	**8,240**	**10,429**	**13,285**	**16,647**	**20,068**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	5,867	7,426	9,530	12,316	15,478
Finance cost	612	892	1,087	1,101	1,103
Interest income	(419)	(288)	(300)	(293)	(341)
Profit or loss of associates	37	98	46	25	0
Provision for impairment	104	417	0	0	0
Depreciation & amortization	3,558	4,533	5,517	6,497	7,297
Income tax paid	(1,403)	(1,802)	(2,383)	(3,079)	(3,869)
Change in working capital	(2,099)	(664)	(1,439)	(940)	(1,594)
Others	(798)	(1,491)	0	0	0
Cash flow from operation	**5,458**	**9,121**	**12,058**	**15,626**	**18,073**
Net capex on PP&E & intangibles	(11,747)	(6,372)	(11,000)	(11,000)	(9,000)
Investment in JV/associates	(1,605)	(245)	(200)	(200)	(200)
Investment in subsidiaries	0	(5,168)	0	0	0
Interest received	419	288	300	293	341
Others	3,470	(2,552)	(1,471)	(903)	(1,716)
Cash flow from investing	**(9,462)**	**(14,049)**	**(12,371)**	**(11,810)**	**(10,575)**
Equity financing/(repurchase)	141	204	0	0	0
Net bank borrowings	6,418	9,625	500	0	0
Dividend paid	(971)	(926)	(1,189)	(1,480)	(1,894)
Interest paid	(722)	(992)	(1,109)	(1,123)	(1,126)
Others	(1,788)	(540)	0	0	0
Cash flow from financing	**3,078**	**7,372**	**(1,798)**	**(2,603)**	**(3,019)**
Change in cash	(926)	2,444	(2,112)	1,213	4,479
Cash at beginning of the year	17,386	16,131	18,521	16,409	17,623
Exchange gains/(losses) & others	(329)	(54)	0	0	0
Cash at the end of the year	16,131	18,521	16,409	17,623	22,102

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**39,826**	**49,638**	**57,259**	**62,697**	**66,914**
PP&E	13,967	18,904	25,104	30,404	32,984
Investment properties	2,454	2,020	2,020	2,020	2,020
Investment in JV/associates	2,203	2,222	2,376	2,551	2,751
Long term prepaid expense	1,646	1,714	2,486	2,688	3,704
Goodwill	590	3,565	3,565	3,565	3,565
Long term trade receivables	571	466	956	790	1,364
Intangible assets	6,662	10,008	10,014	9,939	9,785
AFS investments	3,424	0	0	0	0
Others	7,724	9,675	9,675	9,675	9,675
Deferred tax assets	584	1,066	1,066	1,066	1,066
Current assets	**31,938**	**42,897**	**45,056**	**50,385**	**60,793**
Inventories	818	882	1,428	1,417	2,098
Trade and bills receivables	7,353	12,045	14,295	18,561	21,987
Other receivables	1,978	2,190	3,664	3,524	5,346
Advances to suppliers	2,517	2,654	2,654	2,654	2,654
AFS investments	0	2,910	2,910	2,910	2,910
Others	3,142	3,495	3,495	3,495	3,495
Cash	16,131	18,722	16,610	17,823	22,303
Current liabilities	**26,369**	**30,982**	**33,804**	**36,313**	**40,723**
Trade and bills payables	7,887	11,988	15,310	18,319	23,229
Other payables	4,540	4,707	4,707	4,707	4,707
Bank borrowings	8,858	8,145	7,645	7,145	6,645
Tax payable	639	1,139	1,139	1,139	1,139
Advanced from customers	468	670	670	670	670
Others	3,977	4,332	4,332	4,332	4,332
Non-current liabilities	**8,331**	**19,060**	**20,060**	**20,560**	**21,060**
Bank borrowings	7,403	17,138	18,138	18,638	19,138
Deferred tax liabilities	537	1,388	1,388	1,388	1,388
Long term employee benefits	143	204	204	204	204
Others	248	330	330	330	330
Shareholders' equity	**36,711**	**42,420**	**48,450**	**56,207**	**65,922**
MI	353	74	2	2	2

Key ratios

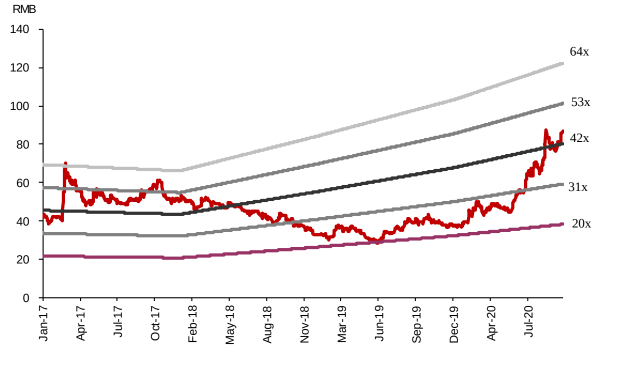
YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Revenue from express logistic	98%	94%	94%	94%	95%
Revenue from supply chain	0%	4%	5%	4%	4%
Sales of goods	0%	0%	1%	1%	0%
Others	1%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	17.9	17.4	16.3	16.0	15.9
EBITDA margin	9.1	9.3	8.7	8.9	8.7
EBIT margin	5.2	5.3	5.1	5.4	5.5
After tax profit margin	4.9	5.0	4.7	4.9	5.0
Growth (%)					
Revenue	27.6	23.4	36.0	22.8	23.4
Gross profit	13.5	19.9	27.2	20.7	22.7
EBITDA	n/a	26.6	27.4	25.3	20.6
EBIT	n/a	25.3	31.1	30.7	25.8
Net profit	2.1	32.0	45.9	28.0	25.7
Balance sheet ratio					
Current ratio (x)	1.2	1.4	1.3	1.4	1.5
Receivable turnover days	28	33	33	34	34
Inventory turnover days	3	3	3	3	3
Payable turnover days	36	39	39	39	39
Net debt / total equity (%)*	Net cash	8.6	12.9	9.0	0.9
Profitability (%)					
ROA	6.9	7.1	7.4	8.6	9.6
ROE	10.8	12.5	15.9	17.7	19.0
Per share data					
EPS (RMB)	1.03	1.32	1.62	2.08	2.61
BVPS (RMB)	8.31	9.61	10.89	12.64	14.82
DPS (RMB)	0.21	0.27	0.33	0.43	0.53

*Net cash includes financial investment   Source: Company data, CMBIS estimates

Valuation

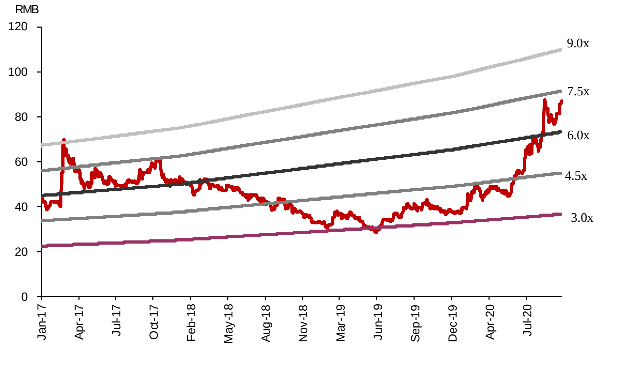
We resume coverage on SF with a **BUY** rating and TP of RMB114, based on 55x 2021E P/E. Our target multiple is set at 50% premium to the historical average of 36x but below the peak level of 65x. We believe SF deserves a valuation premium, due to its scarcity value in infrastructure and strong brand effect. Besides, we expect rising industry concentration will lift the valuation for leading players going forward.

Figure 72: SF's P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 73: SF's P/B band



Source: Bloomberg, Company data, CMBIS estimates

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