

SF Holding (002352 CH)

NDR takeaways: Back on track with share gain

We hosted SF (002352 CH) interim results conference call yesterday. Mgmt expressed upbeat outlook on volume recovery and progress of new business in view of 1) eye-catching volume contribution from preferential products since rollout in May and 2) strong growth of new business in 1H19. Investors were mainly concerned about 1) volume recovery persistence, 2) financial condition given heavy Capex this year, and 3) new business outlook. We maintain BUY rating with TP unchanged, based on 33% adj. EPS CAGR in FY18-20E.

- **Volume recovery to carry on into 2H19E.** As express products bottomed out since May, combined with robust incremental volume from preferential products, mgmt were confident that the Company would go ahead with accelerated volume growth. We expect volume to increase 21%/ 20% in FY19/ 20E. Meanwhile, preferential products would remain as part of LT strategies to enrich product portfolio and benefit SF from e-commerce prosperity, mgmt. added, with margins intact backed by 1) high-capacity truck adoption, 2) capacity sharing between heavy cargo and preferential products, and 3) technology empowerment.
- **Controllable financial pressure despite heavy Capex.** Mgmt expected Capex to accelerate in 2H19E, while total Capex in FY19E would be below 10% of total revenue. Considering continued ABS shelf offering (industrial parks as underlying asset) and CB issuance in 2H19E, mgmt believed the financial pressure would be under control.
- **Mixed prospects on new business.** Mgmt guided that revenue growth of heavy cargo would fall behind its volume growth due to self-operated business slowdown in FY20E, caused by fierce competition and limited size of high-end market, while under more aggressive strategy, cold chain was expected to accelerate with widening loss. We forecast that heavy cargo/ cold chain will grow 29%/ 41% YoY in FY20E, respectively.
- **Maintain BUY with TP unchanged.** We maintain our forecasts unchanged and reiterate BUY with TP of RMB46.53 based on 33x FY20E P/E, due to 1) SF's ongoing volume growth momentum and 2) easing financial pressure on heavy Capex. Key risks include deteriorating macro environment and slower-than-expected e-commerce growth.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	71,273	90,943	113,355	137,823	165,199
YoY growth (%)	24.0	27.6	24.6	21.6	19.9
Adj. net income (RMB mn)	3,703	3,484	5,310	6,139	7,405
Adj. EPS (RMB)	0.87	0.79	1.20	1.40	1.69
YoY growth (%)	30.1	-9.2	51.7	16.6	20.6
P/E (x)	45.9	50.6	33.3	28.6	23.7
P/B (x)	5.2	4.8	4.3	3.8	3.4
Yield (%)	0.6	0.5	0.6	0.7	0.9
ROE (%)	18.4	13.2	13.7	14.2	15.2
Net gearing (%)	Net cash	1.9	0.1	12.9	19.9

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	RMB46.53
(Previous TP)	RMB46.53)
Up/Downside	+16.5%
Current Price	RMB39.95

China Express Delivery Sector

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Stock Data

Mkt Cap (RMB mn)	176,363
Avg 3 mths t/o (RMB mn)	270.72
52w High/Low (RMB)	43.78/28.46
Total Issued Shares (mn)	4,415

Source: Bloomberg

Shareholding Structure

SZ Ming De Holding	61.2%
Shun Da Feng Run	7.6%
SZ Zhao Guang	6.0%

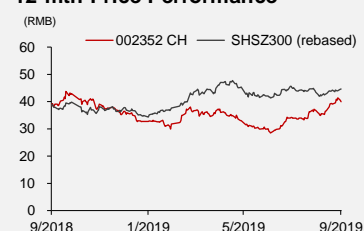
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	10.0%	7.1%
3-mth	35.4%	27.8%
6-mth	10.5%	7.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

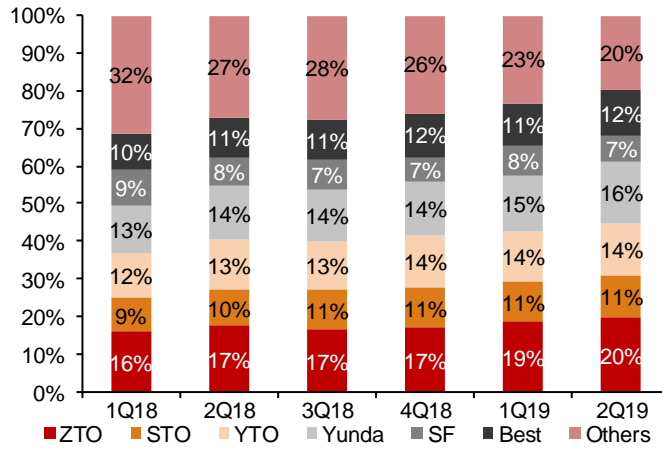
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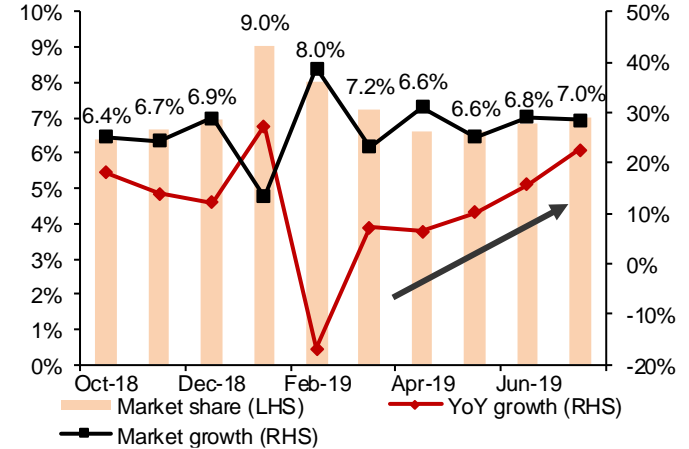
Focus Charts

Figure 1: Market shares comparison by volume



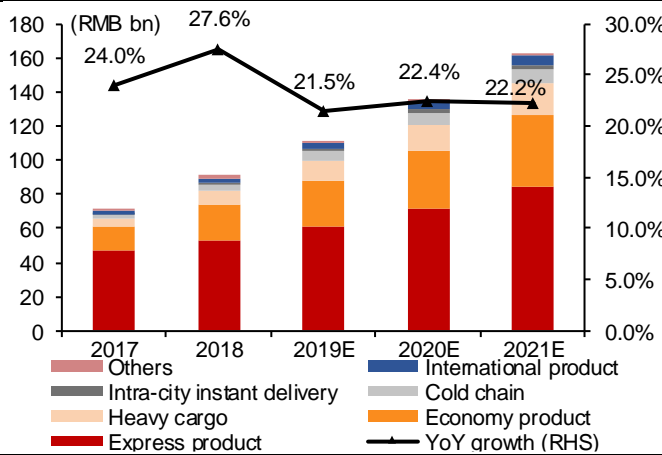
Source: State Post Bureau, Company data, CMBIS

Figure 2: Volume growth pickup in 2Q19



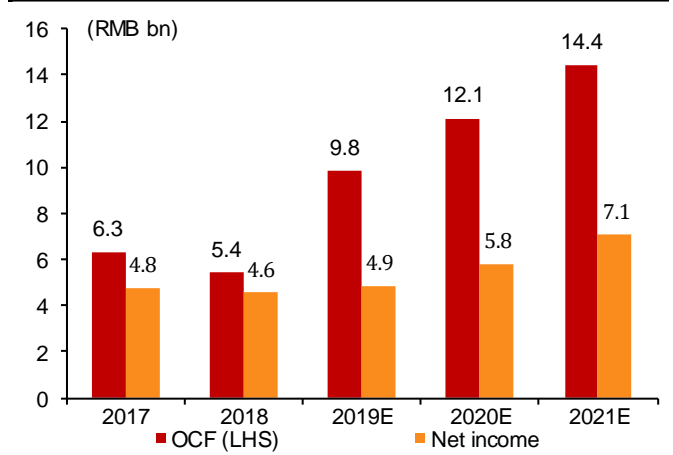
Source: Company data, CMBIS estimates

Figure 3: Market shares comparison by volume



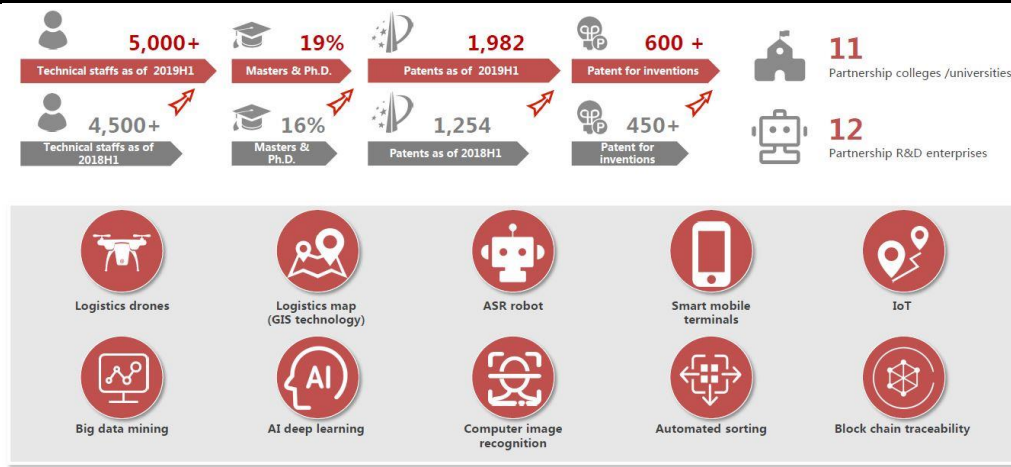
Source: Company data, CMBIS estimates

Figure 4: Operating cash flow estimates



Source: Company data, CMBIS estimates

Figure 5: SF's cutting-edge technologies for Smart Logistics



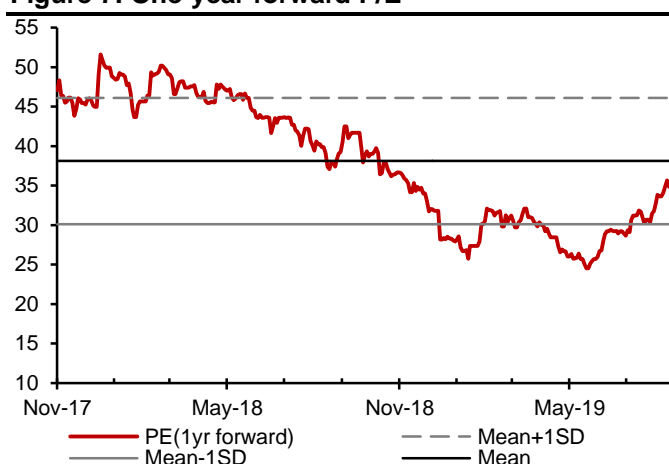
Source: Company data, CMBIS

Figure 6: Peers comparison

Company	Ticker	Mkt cap (USD mn)	Curr.	Price	ROE		P/E		P/B		EV/EBITDA		FY18-20E EPS CAGR
					19E	20E	19E	20E	19E	20E	19E	20E	
China express delivery													
ZTO	ZTO US	16,041	USD	20.51	12.4	13.8	23.8	20.7	3.0	2.7	14.4	11.5	12%
SF	002352 CH	24,573	CNY	39.95	13.7	14.3	33.3	28.6	4.3	3.8	17.4	14.0	33%
YTO	600233 CH	4,387	CNY	11.10	16.4	16.3	14.8	12.7	2.4	2.1	8.4	7.3	14%
STO	002468 CH	4,880	CNY	22.88	20.9	21.0	17.2	14.7	3.5	2.9	10.2	8.3	8%
Yunda	002120 CH	11,823	CNY	38.11	20.6	20.7	29.1	23.9	6.2	5.2	16.8	13.2	14%
Deppon	603056 CH	1,752	CNY	13.10	17.0	18.1	15.7	12.4	2.7	2.3	6.3	5.0	20%
Average					16.8	17.4	22.3	18.8	3.7	3.2	12.2	9.9	17%
Overseas express delivery													
FedEx	FDX US	41,376	USD	158.61	19.7	19.7	10.4	10.8	2.0	2.1	6.7	6.7	3%
UPS	UPS US	101,894	USD	118.7	121	85.9	15.8	14.7	15.4	10.3	11.7	10.8	6%
Yamato	9064 JP	7,060	JPY	1,823	6.4	6.2	19.9	20.0	1.3	1.2	6.1	5.8	53%
DHL	DPW GR	40,054	EUR	29.62	18.7	19.3	14.0	12.0	2.5	2.2	6.8	6.2	16%
Average					41.4	32.8	15.0	14.4	5.3	4.0	7.8	7.4	19%
Total Average					37.4	37.6	19.4	12.5	3.9	7.3	10.2	5.6	18%

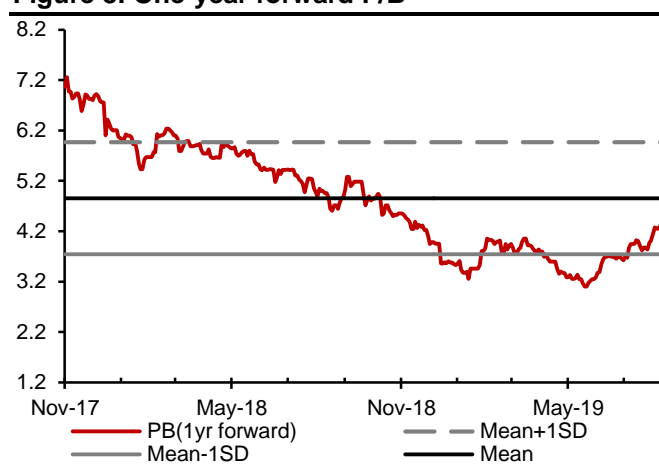
Source: Company data, Bloomberg, CMBIS estimates

Figure 7: One-year forward P/E



Source: Bloomberg, CMBIS

Figure 8: One-year forward P/B



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	71,273	90,943	113,355	138,482	166,333
Express & logistics	70,623	89,683	110,979	135,463	162,819
Supply chain	-	-	2,693	3,343	3,844
Others	649	1,259	(318)	(324)	(330)
Cost of revenue	(56,905)	(74,642)	(91,871)	(112,523)	(135,814)
Gross profit	14,368	16,301	21,484	25,959	30,518
Selling & distribution	(1,387)	(1,826)	(2,092)	(2,770)	(2,828)
General & administrative	(6,751)	(8,414)	(11,172)	(12,543)	(14,906)
R&D expenses	(649)	(984)	(1,268)	(1,662)	(1,996)
Financial (costs)/income	(259)	(287)	(616)	(679)	(789)
Other operating expenses	1,140	1,029	453	(217)	(214)
Operating profit	6,461	5,818	6,789	8,088	9,786
Non-operating income, net	52	49	28	-	-
Profit before taxation	6,513	5,868	6,817	8,088	9,786
Income tax	(1,758)	(1,403)	(1,577)	(1,941)	(2,349)
Profit for the year	4,755	4,464	5,241	6,147	7,437
Non-controlling interest	19	92	69	31	37
Net profit	4,774	4,556	5,310	6,178	7,474
Adj. net profit	3,703	3,484	5,310	6,178	7,474

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit for the year	4,755	4,464	5,241	6,147	7,437
D&A	3,056	3,509	3,883	5,212	6,100
Change in working capital	(868)	(2,164)	141	142	189
Others	(609)	(385)	577	679	789
Operating cash flow	6,334	5,425	9,842	12,180	14,515
Capex	(5,659)	(11,638)	(10,542)	(13,156)	(16,633)
Investment return	300	365	328	438	329
Others	1,728	1,944	-	-	-
Investing cash flow	(3,630)	(9,329)	(10,214)	(12,718)	(16,304)
Equity raised	7,920	141	-	-	-
Change of Debts	(790)	6,418	5,000	5,000	-
Dividend & interest paid	(847)	(1,525)	(1,983)	(2,372)	(2,635)
Others	(17)	275	30	30	30
Financing cash flow	6,813	2,973	3,017	2,628	(2,635)
Net change in cash	9,503	(850)	2,645	2,091	(4,424)
Cash at the beginning	6,646	16,150	15,299	17,944	20,036
Exchange effect	(14)	81	-	-	-
Cash at the end	16,150	15,299	17,944	20,036	15,612

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	26,335	39,693	46,352	54,295	64,828
Fixed assets	11,896	13,967	21,147	25,383	32,783
Construction in progress	2,307	6,508	5,762	8,551	10,812
Investment properties	1,992	2,454	2,421	2,394	2,375
Intangible assets	5,267	6,662	6,459	6,336	6,308
Other non-current assets	4,874	10,102	10,563	11,631	12,551
Current assets	34,912	31,922	37,502	42,726	41,786
Cash and cash equivalent	16,150	15,299	17,944	20,036	15,612
Restricted cash	1,236	832	832	832	832
AR	5,816	7,374	9,635	11,771	14,138
Other current assets	11,710	8,417	9,091	10,087	11,204
Current liabilities	24,557	26,369	29,432	32,652	36,266
Borrowings	4,619	8,585	8,585	8,585	8,585
AP	6,907	7,887	10,106	12,377	14,940
Other payables	5,827	4,540	4,540	4,540	4,540
Other current liabilities	7,205	5,357	6,201	7,150	8,201
Non-current liabilities	3,759	8,331	13,345	18,399	18,459
Borrowings	2,721	998	998	5,998	5,998
Debentures payable	529	6,405	11,405	11,405	11,405
Long-term payables	21	84	92	113	136
Others	488	844	850	883	919
Minority Interest	52	353	284	253	216
Common equity	32,878	36,561	40,793	45,717	51,674
Total equity	32,930	36,914	41,077	45,970	51,890

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Express & logistics	99.1	98.6	97.9	97.8	97.9
Supply chain	0.0	0.0	2.4	2.4	2.3
Others	0.9	1.4	-0.3	-0.2	-0.2
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	20.2	17.9	19.0	18.7	18.3
EBITDA margin	14.1	11.0	10.2	10.4	10.2
Operating margin	9.1	6.4	6.0	5.8	5.9
Adj. net margin	5.2	3.8	4.7	4.5	4.5
Effective tax rate	27.0	23.9	23.1	24.0	24.0
Balance sheet ratios					
Current ratio (x)	1.4	1.2	1.3	1.3	1.2
Quick ratio (x)	1.3	1.1	1.1	1.2	1.0
AR turnover days	27	26	27	28	28
AP turnover days	78	72	71	73	73
Net gearing ratio(%)	Net cash	1.9	0.1	12.9	20.0
Returns (%)					
ROE	18.4	13.2	13.7	14.3	15.3
ROA	8.9	6.7	6.7	6.8	7.3
Per share					
Adj. EPS (RMB)	0.87	0.79	1.20	1.41	1.70
DPS (RMB)	0.22	0.21	0.24	0.29	0.35
BVPS (RMB)	7.68	8.29	9.21	10.41	11.76

Source: Company data, CMBIS estimates

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