

Zoomlion Heavy Industry - H (1157 HK)

2019E net profit to grow 113-123% YoY; in line with expectation

Zoomlion issued a positive profit alert saying that its net profit in 2019 is expected to grow 113-123% YoY to RMB4.3-4.5bn. The net profit range is slightly below our estimate of RMB4.55bn but is largely in line with the consensus of RMB4.4bn. We have left our earnings forecast unchanged but we raise our TP to HK\$7.92 from HK\$7.65 after rolling over the valuation base to 2020E (based on 1.3x P/B, on the back of 13% ROE in 2020E-21E). Strong industry sales data points will likely serve as near term catalyst. Reiterate **BUY**.

- **Key reasons for the earnings growth in 2019E.** The strong net profit growth was driven by strong demand for both crane and concrete machinery, as well as new products such as the earth working machinery (i.e. excavators) and aerial working platform (AWP). Besides, oversea business also reported continuous growth. All these helped Zoomlion achieve above industry average growth. On the other hand, gross margin expanded thanks to the improvement in manufacturing efficiency, product upgrade and higher sales volume. Net profit in 4Q19E grew 47% YoY to RMB1.07bn.
- **Upcoming drivers.** We maintain our positive stance on Zoomlion in 2020E, with positive drivers coming from the potential recovery of infrastructure spending in 1Q20E, resilient property construction activities, acceleration of the replacement of NES III trucks, strong delivery of large-size tower cranes and fast-growing new products sales.
- **Risk factors:** (1) Unexpected weakness on property construction activities; (2) Slow recovery of infrastructure spending; (3) High earnings volatility.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	20,608	28,697	44,342	50,749	54,824
YoY growth (%)	2.9	39.3	54.5	14.4	8.0
Net income (RMB mn)	1,342	2,031	4,551	5,321	5,719
EPS (RMB)	0.18	0.27	0.58	0.68	0.73
YoY growth (%)	n/a	51.5	118.6	16.6	7.5
EV/EBITDA (x)	n/a	13.6	7.6	6.7	6.4
P/E (x)	32.2	22.0	10.3	8.9	8.2
P/B (x)	1.2	1.2	1.2	1.1	1.1
Yield (%)	3.5	4.3	5.8	6.8	7.3
ROE (%)	3.6	5.4	11.9	13.2	13.1
Net gearing (%)	39.6	33.6	33.2	23.0	15.0

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$7.92**
 (Previous TP **HK\$7.65**)
 Up/Downside **+17%**
 Current Price **HK\$6.79**

China Capital Goods

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Stock Data

Mkt Cap (HK\$ mn)	53,265
Avg 3 mths t/o (HK\$ mn)	82
52w High/Low (HK\$)	6.99/2.94
Total Issued Shares (mn)	1,388 (H) 6,456 (A)

Source: Bloomberg

Shareholding Structure

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

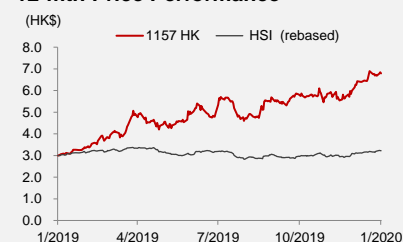
Source: HKEx, Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	14.2%	9.5%
3-mth	17.5%	7.9%
6-mth	37.6%	35.7%

Source: Bloomberg

12-mth Price Performance

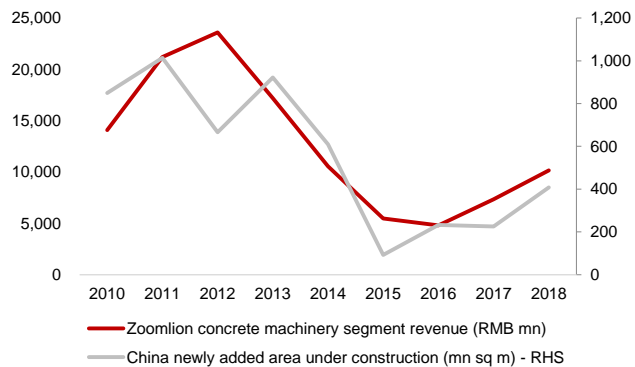


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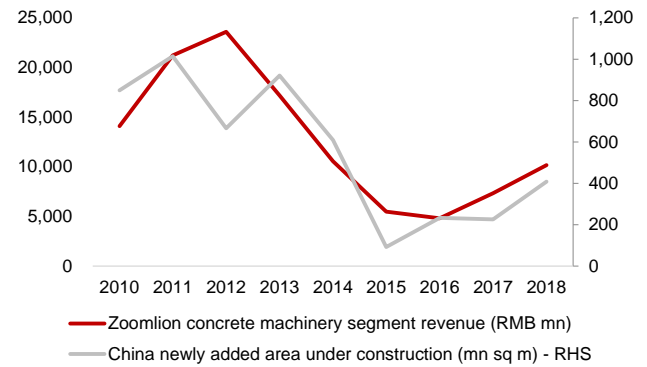
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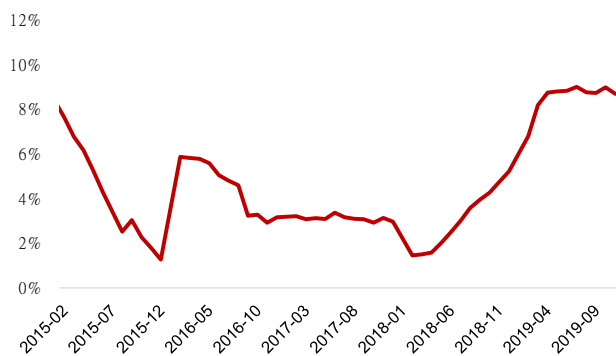
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Figure 1: China tower crane sales vs China newly added property area under construction


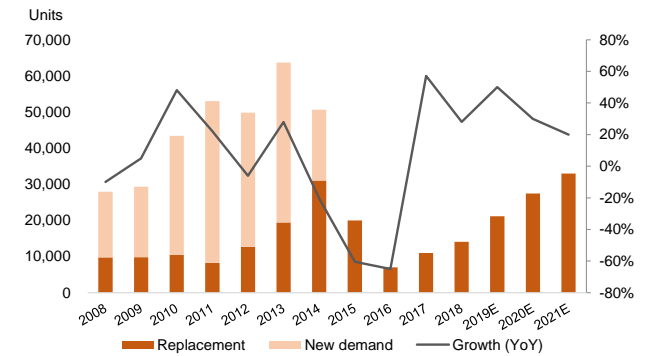
Source: NBS, CCMA, Wind, CMBIS

Figure 2: Zoomlion concrete machinery sales vs China newly added area under construction


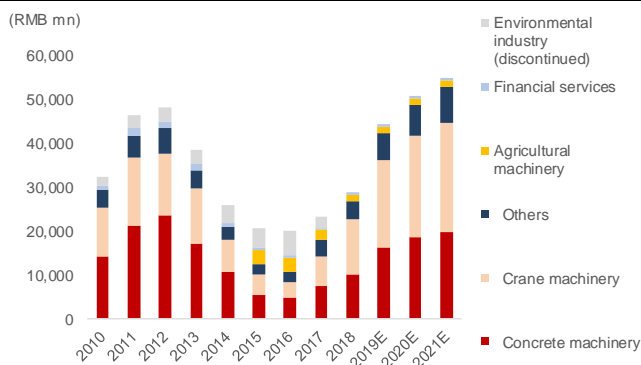
Source: NBS, Wind, Company data, CMBIS

Figure 3: China monthly property area under construction growth (YoY)


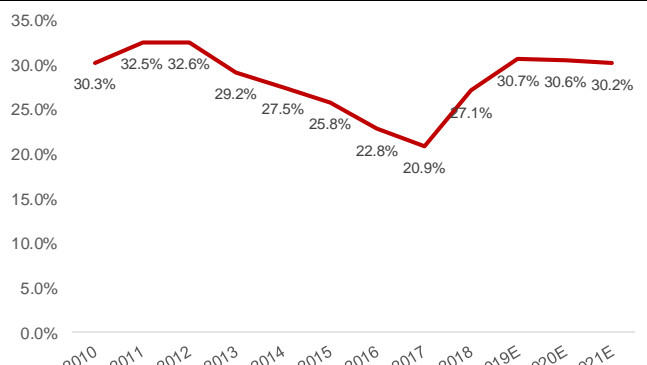
Source: NBS, Wind, CMBIS

Figure 4: CMBI forecast on China tower crane sales volume


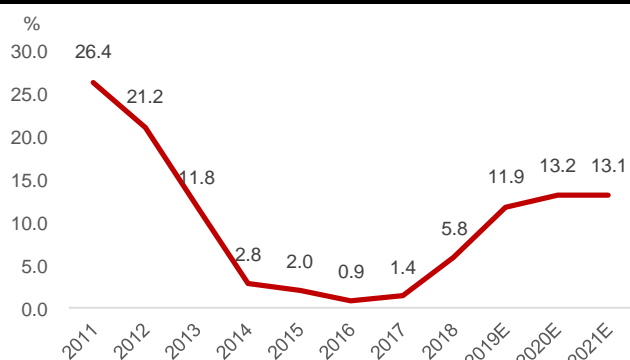
Source: CCMA, CMBIS estimates

Figure 5: Zoomlion's revenue trend


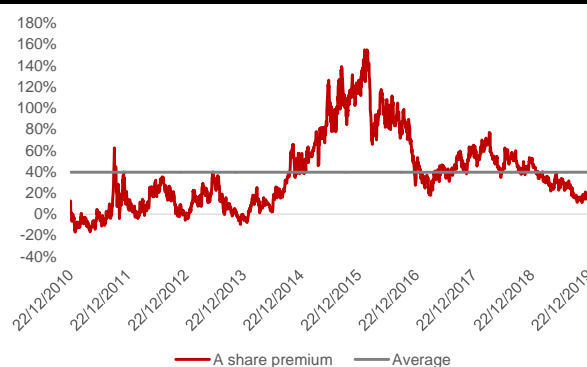
Source: Company data, CMBIS estimates

Figure 6: Zoomlion's gross margin trend


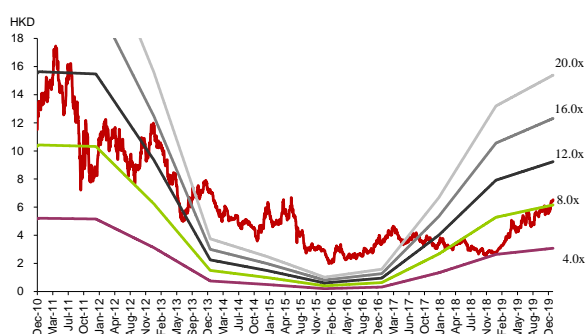
Source: Company data, CMBIS estimates

Figure 7: Zoomlion's ROE trend

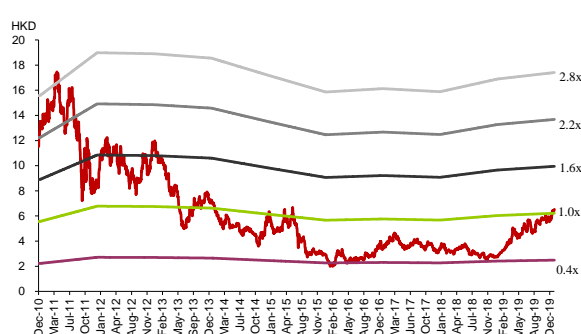
Source: Company data, CMBIS estimates

Figure 8: Zoomlion A share premium to H share

Source: Bloomberg, CMBIS

Figure 9: Zoomlion - H 12M forward P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 10: Zoomlion - H 12M forward P/B band

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Total revenue	20,608	28,697	44,342	50,749	54,824
Cost of sales	-16,303	-20,923	-30,741	-35,229	-38,280
Gross profit	4,305	7,774	13,602	15,520	16,544
Other income	259	882	682	732	772
S&D expenses	-2,180	-2,379	-3,326	-3,806	-4,112
Administrative expenses	-10,487	-2,063	-2,882	-3,299	-3,564
R&D expenses	-277	-581	-887	-1,015	-1,096
EBIT	-8,380	3,633	7,189	8,132	8,544
Net finance income/(cost)	-1,443	-1,205	-1,359	-1,285	-1,182
Finance income	366	347	385	397	477
Finance expenses	-1,809	-1,552	-1,745	-1,682	-1,658
Other gains/(losses)	0	0	0	0	0
Profit of JV and associates	110	222	235	243	259
Pretax profit	-9,713	2,650	6,065	7,090	7,621
Income tax	1,425	-682	-1,559	-1,822	-1,959
After tax profit	-8,288	1,968	4,506	5,268	5,662
MI/discontinued operation	9,630	63	45	53	57
Net profit	1,342	2,031	4,551	5,321	5,719
Recurring net profit	508	2,199	4,551	5,321	5,719
D&A	924	837	852	879	911
EBITDA	-7,456	4,470	8,041	9,012	9,454

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	1,252	2,650	6,065	7,090	7,621
Finance cost	1,488	1,451	1,745	1,682	1,658
Interest income	-398	-347	-385	-397	-477
Profit or loss of associates	-90	-222	-235	-243	-259
Disposal of PP&E/business	-10,763	-152	0	0	0
Depreciation and amortization	968	837	852	879	911
Income tax paid	-227	-431	-1,559	-1,822	-1,959
Change in working capital	10,037	1,152	-218	68	873
Others	186	-221	0	0	0
Cash flow from operation	2,453	4,717	6,264	7,257	8,369
Net capex on PP&E	-73	-272	-700	-1,046	-946
Investment in JV/associates	-8	-4	0	0	0
Investment in subsidiaries	10,428	0	0	0	0
Investment in intangible assets	-156	-103	-100	-100	0
Dividend received	5	4	0	0	0
Interest received	398	347	385	397	477
Others	-6,558	-7,214	0	0	0
Cash flow from investing	4,036	-7,242	-415	-749	-469
Equity financing/(repurchase)	216	37	-2,145	1,074	0
Net bank borrowings	-3,442	6,817	-1,400	-1,000	100
Dividend paid	-1,141	-1,308	-1,952	-2,731	-3,193
Interest paid	-1,527	-1,428	-1,745	-1,682	-1,658
Others	-12	-16	0	0	0
Cash flow from financing	-5,906	4,102	-7,242	-4,339	-4,751
Change in cash	583	1,577	-1,392	2,169	3,149
Cash at beginning of the year	6,575	7,148	8,754	7,362	9,531
Exchange and others	-10	29	0	0	0
Cash at the end of the year	7,148	8,754	7,362	9,531	12,679

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	25,218	28,657	28,512	30,558	29,655
PP&E	6,274	6,077	6,185	6,618	6,923
Lease prepayment	1,935	1,943	1,893	1,843	1,793
JV/associates	3,123	3,500	3,735	3,978	4,237
Finance lease receivables	1,870	3,656	2,175	3,108	1,398
Goodwill	2,088	2,046	2,046	2,046	2,046
Trade receivables	4,106	5,498	6,651	7,253	7,767
Intangible assets	2,250	2,153	2,043	1,927	1,708
Financial assets	2,154	2,379	2,379	2,379	2,379
Others	0	0	0	0	0
Deferred tax assets	1,358	1,276	1,276	1,276	1,276
Deposits	60	129	129	129	129
Current assets	57,894	64,762	73,251	72,246	82,376
Inventories	8,886	9,551	12,178	10,600	12,473
Trade & other receivables	22,661	21,554	25,826	27,009	28,265
Finance lease receivables	10,931	8,835	11,818	9,038	12,891
Financial assets at FVPL	6,323	13,787	13,787	13,787	13,787
Others	897	1,097	1,097	1,097	1,097
Pledged deposits	1,048	1,184	1,184	1,184	1,184
Cash	7,148	8,754	7,362	9,531	12,679
Current liabilities	24,488	39,623	48,758	46,988	53,745
Trade and other payables	14,992	15,786	24,640	22,654	28,736
Bank borrowings	9,348	22,044	21,844	21,644	21,744
Tax payable	148	151	151	151	151
Contract liabilities	0	1,602	2,083	2,499	3,074
Others	0	40	40	40	40
Non-current liabilities	20,434	15,065	13,865	13,065	13,065
Bank borrowings	19,296	13,645	12,445	11,645	11,645
Deferred tax liabilities	485	429	429	429	429
Others	653	991	991	991	991
Equity	38,190	38,731	39,140	42,751	45,221
Shareholders' equity	37,540	38,164	38,618	42,282	44,809
MI	650	567	522	469	413

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Concrete machinery	32%	35%	37%	37%	36%
Crane machinery	29%	43%	45%	45%	45%
Others machinery	16%	14%	14%	14%	15%
Agricultural machinery	10%	5%	3%	3%	3%
Financial services	2%	2%	1%	1%	1%
Environmental (discontinued)	11%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	20.9	27.1	30.7	30.6	30.2
EBIT margin	(40.7)	12.7	16.2	16.0	15.6
Net profit margin	(40.2)	6.9	10.2	10.4	10.3
Growth (%)					
Revenue	2.9	39.3	54.5	14.4	8.0
Gross profit	(9.9)	80.6	75.0	14.1	6.6
EBIT	n/a	n/a	97.9	13.1	5.1
Core net profit	54.4	332.9	107.0	16.9	7.5
Balance sheet ratio					
Current ratio (x)	2.4	1.6	1.5	1.5	1.5
Trade receivable turnover days	548	342	245	240	234
Finance lease receivable turnover days	238	161	109	94	88
Inventory turnover days	242	161	129	118	110
Payable turnover days	359	268	240	245	245
Net debt / total equity (%)	39.6	33.6	33.2	23.0	15.0
Profitability (%)					
ROA	1.6	2.3	4.7	5.2	5.3
Core ROE	1.4	5.8	11.9	13.2	13.1
Per share data					
EPS (RMB)	0.18	0.27	0.58	0.68	0.73
Core EPS (RMB)	0.07	0.29	0.58	0.68	0.73
BVPS (RMB)	4.82	4.89	4.92	5.39	5.71
DPS (RMB)	0.20	0.25	0.35	0.41	0.44

Source: Company data, CMBIS estimates

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