ANE (9956 HK)

Largest express freight network operator in China LTL market

ANE has been the largest express freight network in less-than-truckload (LTL) market in China for the fourth consecutive year in terms of total freight volume, with market share reaching 17.3% in 2020. Besides, ANE's express freight is one of the fast-growing networks from 2015 to 2020, with a CAGR of ~31% in terms of total freight volume growth, significantly above the industry average. Leveraging the efficient freight partner platform model on the back of technology advantage, there is a good potential for ANE to capture the opportunity of the industry consolidation going forward. We forecast ANE's core net profit will grow 22%/32%/34% in 2021E/22E/23E. Initiate with BUY with TP of HK$16.8, based on 15.8x 2022E P/E. Initiate with **BUY**.

- **China is the largest LTL market in the world but fragmented.** The market size of China's LTL industry (in terms of revenue) reached RMB1.5tn in 2020. At present, China's LTL market is highly fragmented and inefficient, with CR10 of only 5.7% in 2020, whereas a large number of small-and-medium direct-line LTL freight operators provide the local logistics services. That said, the supply chain upgrade driven by e-commence and rapid digitalization have sped up the development of the innovative freight partner platform model. We see large potential of industry consolidation in future.
- **ANE adopts an efficient freight partner platform model.** ANE directly operates and controls all mission-critical sorting and line-haul processes, while its freight partners and agents are responsible for operating the outlets at their own costs, as well as providing standardized feeder service, pickup and dispatch services. ANE, together with its partners, are capable of providing nationwide express freight services.
- **Earnings projection.** We forecast ANE to deliver freight volume CAGR of 30% in 2021E-23E, reaching 22.6mn tons in 2023E, driven by the Company's continuous effort in expanding both the number of freight partners and the freight volume per freight partner. We forecast ANE's core net profit will grow 22%/32%/34% in 2021E/22E/23E, driven largely by volume growth, resilient unit gross profit and lower expense ratios.
- **Initiate with BUY.** We benchmark ANE to the non-express delivery sector average in China (15.8x 2022E P/E) to reach our TP of HK$16.8. We believe the pullback of share price since listing, due largely to profit taking from some retail investors, offers good entry opportunity.

Earnings Table

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,338	7,082	10,334	12,929	16,279
YoY growth (%)	0	33	46	25	26
Core net income (RMB mn)	224	642	782	1,031	1,384
Core EPS (RMB)	N/A	N/A	0.67	0.89	1.19
YoY growth (%)	N/A	N/A	N/A	31.9	34.2
Consensus EPS (RMB)	N/A	N/A	N/A	N/A	N/A
EV / EBITDA (x)	N/A	N/A	5.9	3.9	2.9
P/E (x)	N/A	N/A	10.4	7.9	5.9
P/B (x)	N/A	N/A	7.4	4.2	2.7
Yield (%)	N/A	N/A	0.0	0.0	0.0
ROE (%)	-	-	-	68.3	55.4
Net gearing (%)	N/A	N/A	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Initiation)

Target Price	**HK$16.8**
Up/Downside	**+100%**
Current Price	**HK$8.40**

China Logistics

Wayne Fung, CFA
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waynefung@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	9,766
Avg 3 mths t/o (HK$ mn)	20.9
52w High/Low (HK$)	13.88/8.39
Total Issued Shares (mn)	1,175

Source: Bloomberg

Shareholding Structure

WANG Yongjun	36.8%
Centurium Capital Partners	24.3%
Free float	38.8%

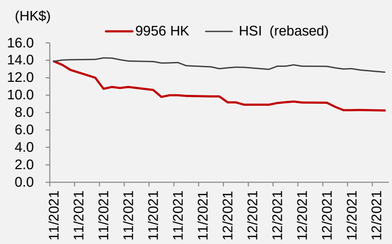
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-24.1%	-18.1%
3-mth	-	-
6-mth	-	-

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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Executive summary

Supply chain evolution. Driven by technological innovation and infrastructure development, China's e-commerce grew rapidly and facilitated a supply chain evolution. Under the B2B supply chain evolution, the demand for timely transportation services that ensured fast turnover has soared, which in turn generates a significant demand for nationwide less-than-truckload ("LTL") services, enabling an integration of the full spectrum of the supply chain through the provision of comprehensive freight services from manufacturers to distributors, merchants and retailers.

China is the largest LTL market in the world but fragmented. The market size of China's LTL industry (in terms of revenue) reached RMB1.5tn in 2020, representing a CAGR of 5.6% between 2015 and 2020. At present, China's LTL market is highly fragmented and inefficient, with CR10 of only 5.7%, whereas a large number of small-and-medium direct-line LTL freight operators provide the local logistics services. That said, the supply chain upgrade and rapid digitalization have sped up the development of the innovative freight partner platform model. We expect operators applying freight partner platform model will benefit from the industry consolidation in future.

ANE is a leading express freight network operator in China's LTL market. According to F&S, ANE has been the largest express freight network in LTL market in China for the fourth consecutive year in terms of total freight volume. The Company delivered total freight volume of ~10.2mn tons with a market share of 17.3% in 2020. Moreover, ANE's express freight network is one of fast-growing networks from 2015 to 2020, with a CAGR of ~31% in terms of total freight volume growth, significantly outpacing the industry average growth.

Superior freight partner platform model. Under the model, ANE directly operates and controls all mission-critical sorting and line-haul processes, while its freight partners and agents are responsible for investing, establishing and maintaining the outlets at their own costs, as well as providing standardized feeder service, pickup and dispatch services. As the first-mover and innovator of the freight partner platform model in China's LTL industry, ANE has created a self-reinforcing ecosystem that benefits all market participants and helps reshape the industry landscape. Given that the exclusive ecosystem has been a crucial key to the Company's success, ANE strives to continuously refine a vibrant ecosystem that empowers its freight partners and agents through enhanced digitalized solutions and management systems. This in turn further propels the Company's growth and improves its operational efficiency.

Growth drivers. To strengthen its leadership role and increase its market share in China's LTL market, ANE is ambitious in capturing the growing market demand brought about by the rapid development of digitalized supply chain, through expanding its shipper, freight partner and agent base. Furthermore, ANE will continue to expand and upgrade its product offerings by providing differentiated solutions to different segments along the supply chain. Meanwhile, ANE plans to solidify its cost advantage through increasing the loading rate, reducing the transit ratio as well as expanding the self-owned high-capacity truck fleet.

Earnings projection: We forecast ANE to deliver freight volume CAGR of 30% in 2021E-23E, reaching 22.6mn tons in 2023E, driven by the Company's continuous effort in expanding both the number of freight partners and the freight volume per freight partner. On the cost front, we expect the transportation cost will gradually decrease in 2022E-23E, driven by higher loading rate and cost efficiency to be achieved by the high-capacity trucks. Besides, we expect ANE to achieve lower unit sorting cost on the back of more self-owned sorting centers (versus leasing). We forecast ANE's core net profit will grow 22%/32%/34%

in 2021E/22E/23E, driven largely by volume growth, resilient unit gross profit and lower expense ratios.

Initiate with BUY. We benchmark ANE to the non-express delivery sector average in China (15.8x 2022E P/E) to reach our TP of HK$16.8. As a crosscheck, our target price implies 8x 2022E EV/EBITDA, which represents a discount to the China logistics average, suggesting that our target is not excessive.

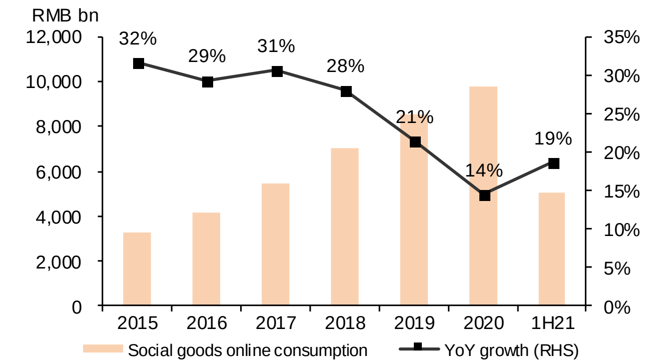
Major risk factors include: 1) Uncertain capabilities of maintaining the freight partner platform; 2) Economic slowdown and China's policy changes; 3) Inability to meet and adapt to the evolving market trends; 4) Fierce industry competition; 5) High dependence on reputation and brand image; 6) Huge reliance on freight partners and agents and associated risks; 7) Continuous adverse impacts from the COVID-19 outbreak.

Industry overview

China's Logistics Market boosted by the fast-growing e-commerce

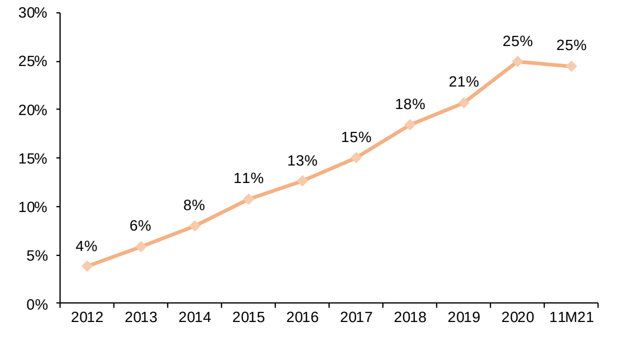
Driven by technology innovation and infrastructure development, China's e-commerce penetration rate increased from 3.8% in 2012 to 25% in 11M21, according to the National Bureau of Statistics (NBS). The online consumption value reached RMB9.7tn in 2020, according to NBS. The fast growing e-commerce has facilitated a profound evolution in the supply chain. Under the evolution, transportation network is a key enabler and beneficiary as it is well-integrated into the system of supply chain, enabling more merchants to meet customers' demand through the Omni-channel strategy. This has created a fast-growing demand that cannot be met by traditional freight operators in the past, under the historically fragmented freight transportation model in China. With the development of nationwide transportation networks such as nationwide LTL and express freight networks, which enables an integration of the full spectrum of supply chain through the provision of reliable, comprehensive freight services, from manufacturers to distributors, merchants and retailers. The growing capabilities of nationwide transportation network under supply chain evolution are expected to be the main drivers of China's economy in near decades.

Figure 1: China social goods online consumption



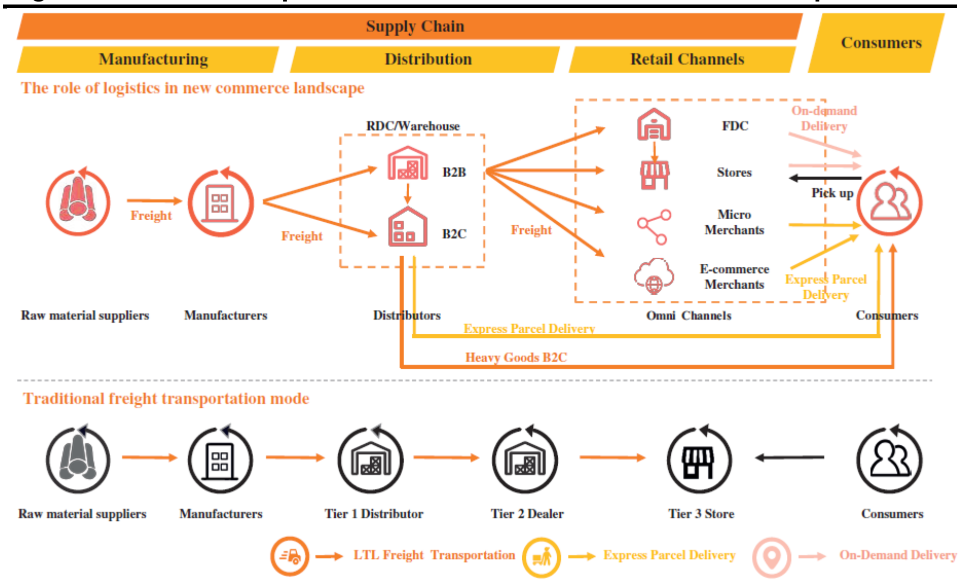
Source: NBS, CMBIS

Figure 2: China e-commerce penetration rate



Source: NBS, CMBIS

Figure 3: Flatter transportation mode in new commerce landscape



Source: Company data, iResearch, CMBIS

In 2020, the market size of China's logistics industry reached RMB15tn, accounting for 14.7% of China's GDP. Within the logistics industry, transportation is a major component, which accounted for over half of the market size of China's logistics industry, in which road transportation accounted for over 70% of China's total transportation volume from 2015 to 2020.

China's LTL is an attractive sub-segment of the logistics sector

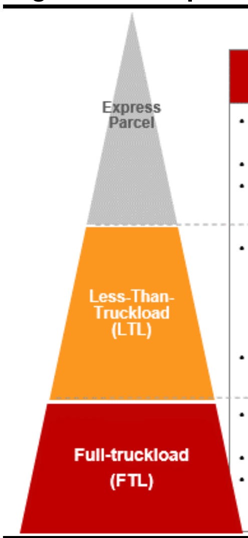
The road transportation industry is divided into three segments by the weight per shipment, which are express delivery, less-than-truckload ("LTL") and full-truckload ("FTL").

Among the three segments, LTL provides a relatively flexible transportation approach, which handles the shipping of freight weighing between 10kg and 3tons and freight that do not require an entire high-capacity line-haul truck.

Compared to FTL, LTL has higher profitability and higher growth, stronger network effects and faces less market competition. Compared to express delivery, LTL has a larger market size, lower market concentration, facing less competition and price pressure in recent years.

In 2020, the market size of LTL market has reached RMB1.5tn, with a steady CAGR of 5.6%. Serving both the lower weight range of the FTL market and higher weight range of the express delivery market, the LTL industry has huge potential to expand its market and is thus expected to continue to grow.

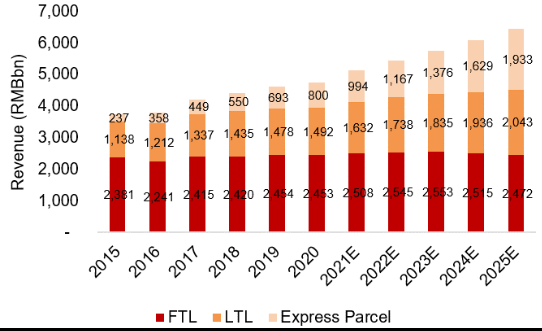
Figure 4: Comparison of the three road transportation segments



Definition	Shipper and Industry Profile	Market Size in 2020	Market Concentration	Operational Efficiency
• Expedited delivery of customers' small parcels • Door to door • Weighing primarily 10kg or below	•Mainly e-commerce merchants •Business mails	RMB 0.8tn	•Concentrated •Top 6 networks held 83.4% market share by volume	•High standardization and efficiency within top express parcel delivery networks
• Shipment of relatively small loads of freight or bulk parcels by consolidating multiple freight shipments together • Weighing primarily 10kg to 3,000kg	• Diversified, including merchants, manufacturers, distributors and retailers • General goods	RMB 1.5tn	• Fragmented • Express freight networks are accelerating market consolidation	• Rapidly enhancing standardization and efficiency through express freight network
• An entire truck carries on dedicated shipment • Point to pint • Weighing primarily 3,000kg or above	• Mainly manufacturers and distributors	RMB2.5tn	• Extremely fragmented • CR6<0.01% by freight volume	• Significant potential to improve standardization and efficiency

Source: Company data, iResearch, CMBIS

Figure 5: China's road transportation market size



CARG	2015-2020	2020-2025E
Express Parcel	27.5%	19.3%
LTL	5.6%	6.5%
FTL	0.6%	0.2%

Source: Company data, National Bureau of Statistics, State Post Bureau, iResearch, CMBIS

China's LTL market size reaches RMB1.5tn

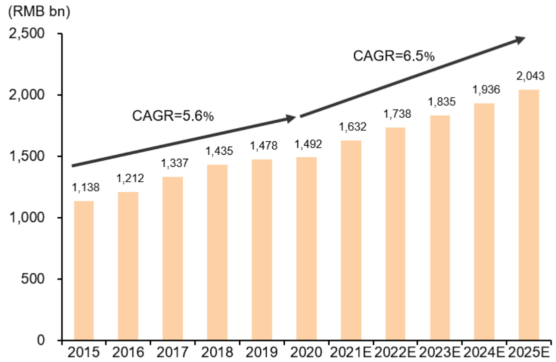
China: Decent industry growth + Industry consolidation

- **Growing faster than the US.** China is the largest LTL market, followed by the U.S. The market size of China's LTL industry as measured by revenue reached RMB1.5tn in 2020, with a CAGR of 5.6% from 2015 to 2020, outpacing a CAGR of 3.7% in the U.S. LTL market.

- **Room for industry consolidation.** At a relatively early stage, China's LTL market is still highly fragmented, with a CR10 of only 5.7%. China's LTL market comprises ~200k to 300k small-and-medium direct-line, regional LTL freight operators, which faced the problems of limited geographical coverage and resources for growth, inconsistent service quality, lack of technology and digitalisation capabilities, as well as lack of capabilities to provide comprehensive logistics services for shippers. Hence, a considerable room for standardisation and improvement exists in enhancing operational efficiency of the LTL market, therefore providing substantial opportunities for the leading players to consolidate the market.

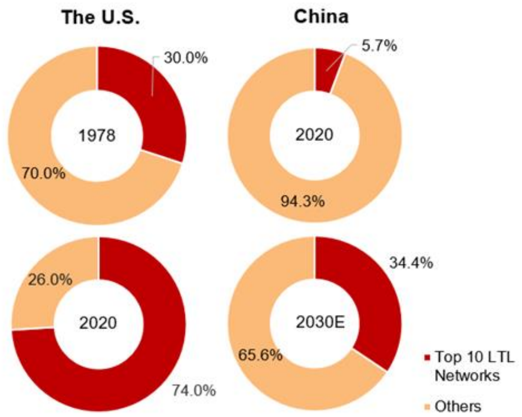
- **Platform model to boost efficiency.** With the supply chain evolution and the development of an innovative freight partner platform model, China is experiencing a more rapid digitalization development and market consolidation as compared to the U.S. Under the partner platform model, express freight networks are able to attain a more rapid growth through a consolidation of direct line and local freight operators in China, while the consolidation in the U.S. LTL market was mainly driven by M&A.

Figure 6: China's LTL market size by revenue



Source: Company data, iResearch, CMBIS

Figure 7: Concentration ratios of the China and U.S. LTL markets (by shipper spending)



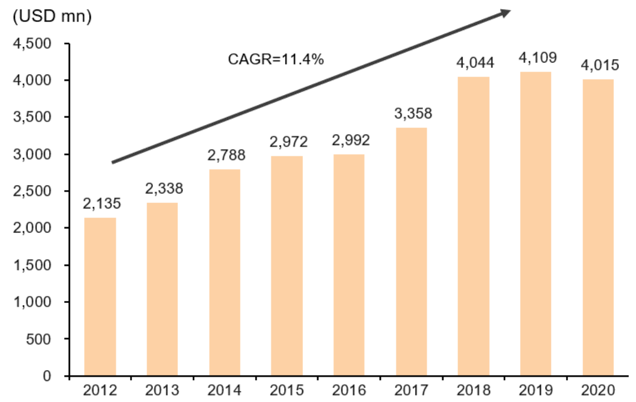
Source: Company data, iResearch, CMBIS

Experience in The U.S.: Quality players stand out with huge market share gain

- Despite the relatively stable growth of the LTL market, pure-play LTL players are still able to grow their market shares and profit margin through economies of scale and improvement in efficiency. From 2002 to 2020, the U.S. LTL market size increased from US$26.7bn to US$42.1bn at a CAGR of 2.6%, with a CR10 of 74% in 2020.

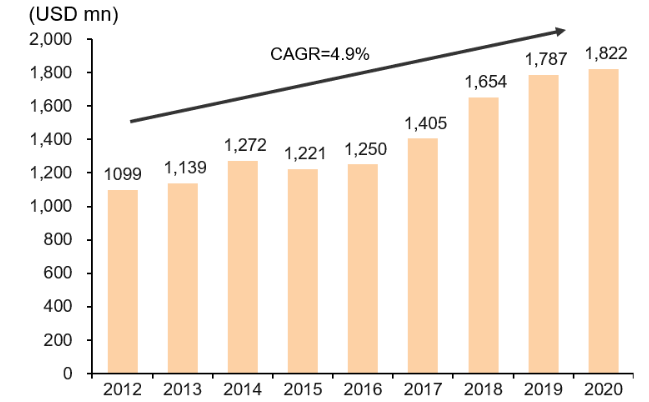
- The U.S. LTL industry is characterized by the leading express freight networks taking up a significant portion of the market share due to scale and efficiency. From 2002 to 2020, ODFL, one of the two biggest nationwide LTL freight operators in the U.S., has posted a revenue growth from US$566mn to US$4bn, at a CAGR of 11.4%, as well as an increase in its market share from 2.1% to 9.4%. Similarly, SAIA, another major operator, posted a revenue increase from US$775mn to US$1.8bn, at a CAGR of 4.9%, whereas its market share increased from 2.9% to 4.3%. Both ODFL and SAIA have achieved a higher-than-industry-average growth, mainly via economies of scale under the acquisitions of their competitors. Driven by an improvement in operating efficiency after the acquisitions, the operators further consolidated their investments in transit hubs and outlets, technology, as well as the development of high-end products and services offering, which effectively raised customer stickiness.

Figure 8: Revenue of ODFL



Source: ODFL, CMBIS

Figure 9: Revenue of SAIA



Source: SAIA, CMBIS

Drivers of China's LTL Market

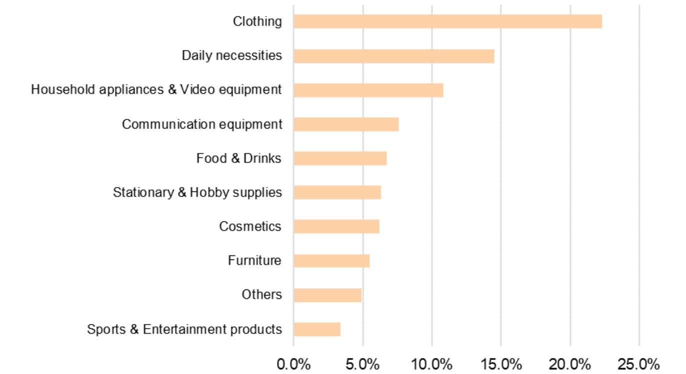
Significant demand due to B2B supply chain upgrade

- **Increasing e-commerce merchants**: A great number of small, medium e-commerce merchants emerged in China's e-commerce market, amounting to a huge proportion of China's retail trade. While it is not cost-effective for merchants of their scale to use integrated supply chain logistics solutions, we expect them to rely on third-party LTL freight service providers as their growing volume and inventory management needs.
- **Just-in-time manufacturing**: A more flexible and "just-in-time" manufacturing model, namely the C2M model, is evolved from the traditional manufacturing model, featuring more SKUs with smaller batches, more frequent shipments, and a shorter production cycle. Besides, just-in-time manufacturing helps accelerate inventory turnover, which translates to an enhancement of distribution efficiency. Therefore, the term-scheduled, bulk freight transportation is replaced by the time-definite, frequent and low-volume shipments, which ultimately drives the growth of LTL.
- **Omni-channel and delayering of trade distribution**: To address challenges posed by B2C e-commerce, the original multi-layered trade distribution channels in various industries became flatter. Moreover, most brands, distributors and retailers have been increasingly adopting both online and offline Omni-channels to cater to the consumers' needs. As a result, efficient LTL services are largely demanded to ensure fast turnover and facilitate shipping services to nationwide destinations.
- **Growing nationwide service demand due to consumption upgrade**: Following a new wave of urbanization, the lower-tier and rural cities in China developed rapidly and their demand for digital consumption increased, such that nationwide express freight networks are able to fulfil such demand by speeding up the merchants' product delivery to consumers through a highly-efficient supply chain.

Deepened penetration of B2C heavy-goods e-commerce

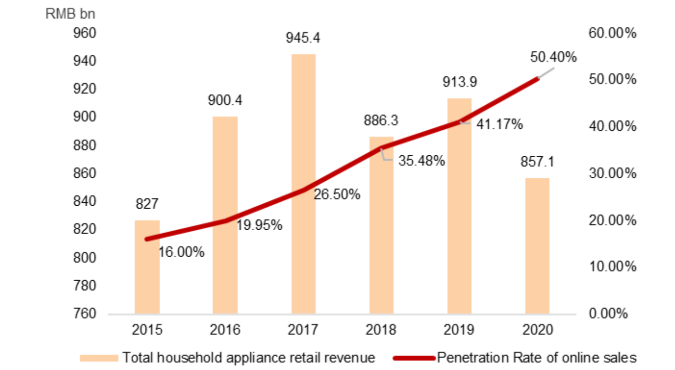
- Empowered by the consumption upgrade, B2C heavy-goods e-commerce, such as household appliances and furnishing, has experienced, and will continue to experience strong growth. Given that express parcel delivery typically allows shipping under 10kg, LTL industry can cater more to the door-to-door shipments of B2C heavy-goods. Hence, the LTL service industry is vastly benefitted. All in all, with an upgrade in the supply chain and diversification in the demand for shipment, the boundaries between transportation segments began to obscure, which ultimately allows the LTL industry to expand its business into other markets like B2C heavy-goods e-commerce.

Figure 10: China's top 10 online sales breakdown in 2020



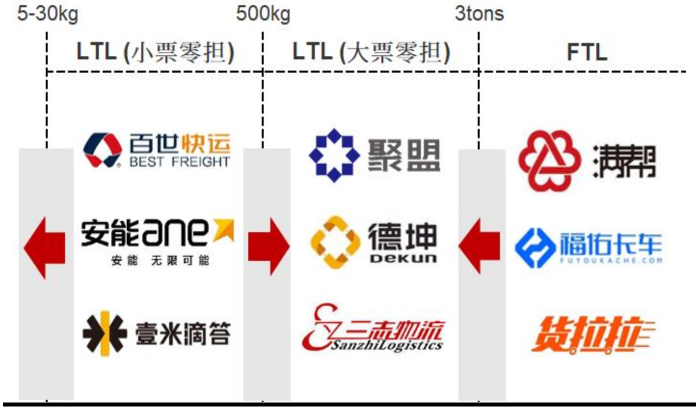
Source: iResearch, CMBIS

Figure 11: China's total household appliance retail sales and online sales penetration rate



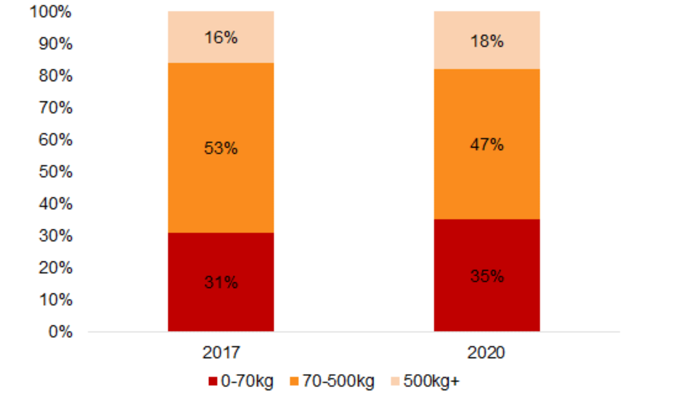
Source: NBS, CCID, CMBIS

Figure 12: Blurring boundaries between transportation segments



Source: TUC Intelligence, CMBIS

Figure 13: Breakdown of freight weight of LTL industry leaders



Source: TUC Intelligence, CMBIS

Market Landscape of China LTL industry

China's LTL industry is highly fragmented and inefficient, comprising of 200k to 300k small- and medium-sized direct line and local freight operators. The market can be typically categorized into two types of players: (i) Express freight networks with nationwide coverage, and (ii) Direct line and local freight operators with regional presence.

Figure 14: Comparison between freight network and direct line model

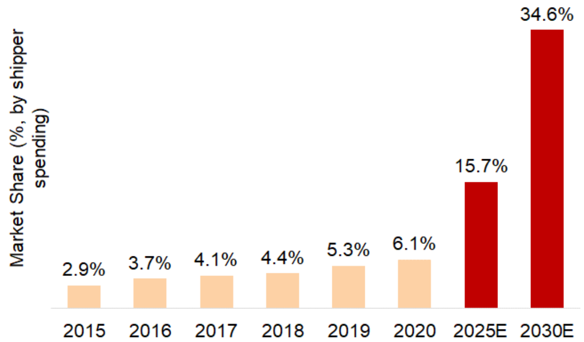
		Express freight networks	Direct line and local freight operators
Operation model		• Hub-and-spoke model • Hubs are responsible for freight consolidation and sortation, and freight is transported via routes to outlets responsible for pickup and dispatch	• Local freight operator collect orders and transport through direct lines
Network coverage		• Nationwide network with broad and in-depth coverage in most provinces, cities, countries and towns	• Point-to-point transportation without network
Shipping service	Nationwide	✓ Nationwide coverage	× Limited lime-haul routes
	End-to-end	✓ Numerous outlets to perform pickup and dispatch at relatively low cost	× Self-pickup or engage intra-city logistics companies
	Comprehensiveness	✓ Various product offerings to satisfy different needs	× Single type of product offering
	Reliability	✓ Real-time tracking	× Shippers may not be able to track on freight status
	Timeliness	✓ Infrastructure and system in place to ensure timeliness of different products	× No guarantee of consistent timely delivery due to lack of standardization
	Quality	✓ Consistent service quality via standardized operations	× Able to provide customized service but inconsistent service quality
Entry barrier and industry concentration		• High entry barrier in terms of establishing a stable network • Only around a dozen express freight networks are in operation	• Low entry barrier • Currently 200,000 – 300,000 of direct line and local freight operators are in operation

Source: Company data, CMBIS

Why express freight network model? Compared to direct line and local freight, express freight networks deliver comprehensive services to comply with shippers' diverse demands on product offerings, timeliness and security. With its well-established network, express freight networks can attain economies of scale, which subsequently enables the allocation of more resources in routing optimization, the development of new technologies, as well as the increased investments in core assets and product upgrades that continuously enhance service quality. Accordingly, it is ideal for express freight networks to fulfill more potential demands from broader markets with their better service quality, higher responsiveness and more comprehensive service offerings. All in all, express freight networks are regarded as an increasingly crucial logistics infrastructure underpinning the entire commerce landscape.

The market share of express freight networks as measured by shipper spending rose from 2.9% in 2015 to 6.1% in 2020, and is expected to up to 15.7% in 2025 and 34.6% in 2030.

Figure 15: Market share of express freight networks in China's LTL Market



Source: Company data, iResearch, CMBIS

China's express freight networks: Platform model vs Direct model

Express freight networks mainly operate under two models, namely the traditional direct model and freight partner platform model.

Figure 16: Direct model and freight partner platform model

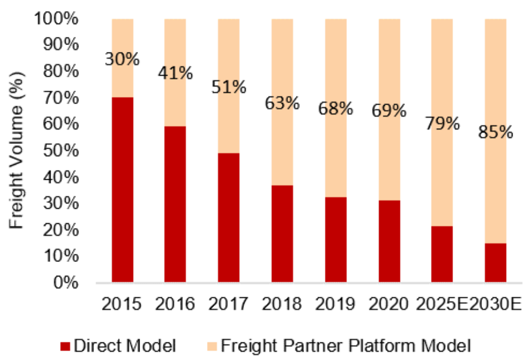
Category	Freight partner platform model	Direct model
Compatibility with China's commerce landscape	Highly scalable and cost-effective service offerings catering to the unique decentralized feature of commerce landscape in China	Challenges in serving cost-sensitive merchants
Economies of scale	Flexibility for quick expansion with optimized working capital efficiency to achieve economies of scale	• Platform contributes all capital for network expansion • Platform bears receivables risk and working capital pressure
Network effects	"Proactive" – empowered with data-driven technologies and network infrastructures from the platform, freight partners and agents are well incentivized to achieve low-cost and rapid network development	Passive – nationwide network follows the path of merger and acquisition for network expansion

Source: Company data, CMBIS

Prior to the emergence of express freight network, China's LTL industry, where most of the market participants were direct line and local freight operators, was highly fragmented. In the 1990s, express freight networks emerged, this innovative freight partner platform model has vastly expanded the operators' digital technology capabilities, operational efficiency by extending network coverage and offering high-quality, comprehensive services to shippers.

Express freight networks have been gaining market shares over direct line and local freight operators in the recent years. For the players under the freight partner platform model, their freight volume grew at a CAGR of 44.4% from 2015 to 2020, and it is expected to grow at a CAGR of 35.1% from 2020 to 2025, outpacing the overall industry growth. Their market shares by freight volume increased from 29.8% in 2015 to 68.6% in 2020, and it is expected to reach 78.6% in 2025. For the players under the direct model, their freight volume grew at a CAGR of merely 4.1% from 2015 to 2020, with their market share significantly dropping from 70.2% to 31.4%. It shows that freight partner platform model is able to consolidate the LTL market and scale up quickly. Ultimately, the self-reinforcing network effects can further stimulate their business growth in the long run.

Figure 17: Market share of express freight networks under the freight Partner Platform model and direct model



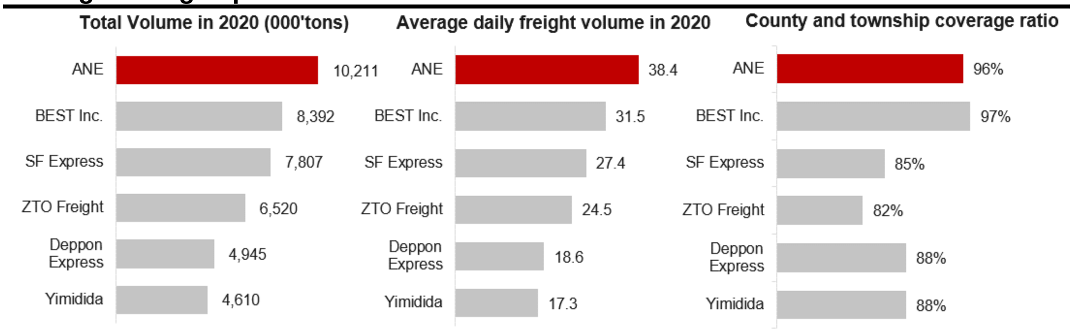
Freight Volume Growth Rate	2015-2020 CAGR
Express freight networks and under freight partner platform model	44.4%
Express freight networks under direct model	4.1%
Express freight networks	22.2%
China's LTL market	5.9%

Source: Company data, iResearch, CMBIS

Competitive Landscape

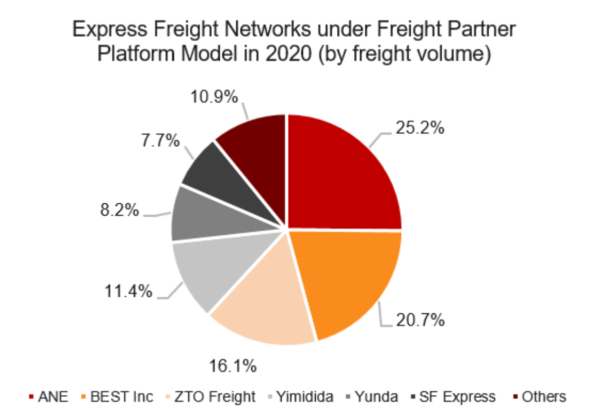
Among express freight networks under the freight partner platform model, the market share of ANE as measured by freight volume increased from 12.3% in 2015 to 17.3% in 2020. In terms of freight volume and average daily freight volume, ANE is the largest and fastest-growing express freight networks in China, according to iResearch. ANE, the industry pioneer, has maintained their market leadership in terms of scale, growth and profitability since 2012. Other major players in the market include BEST Inc. (百世), ZTO Freight (中通快运), Yimidida (壹米滴答), Yunda (韵达) and SF Express (顺丰速运).

Figure 18: Freight volume, average daily freight volume and network coverage among leading express networks in 2020



Note: SF includes SX Freight and SF Freight, which are the subsidiary brands of SF Holding
Source: Company data, iResearch, CMBIS

Figure 19: Market share and freight volume for top express freight networks under freight partner platform model in 2020 (by freight volume)



Company	Freight Volume (000'tons)	
	2020	2019
ANE	10,211	8,161
BEST Inc	8,392	6,980
ZTO Freight	6,520	4,650
Yimidida	4,610	4,282
Yunda	3,310	2,540
SF Freight	3,106	1,775

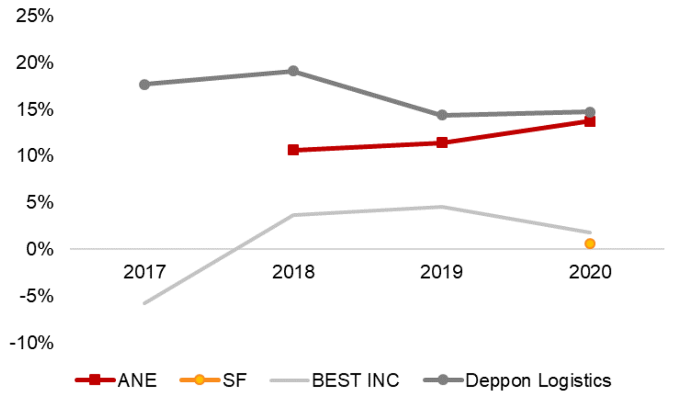
Source: Company data, iResearch, CMBIS

Figure 20: Overview of the market key players

	Freight volume (mn tons)	No. of sorting Centre	Number of trucks (Self-owned/ Total)
ANE	10.2	147	1,500 / 2,500
SF	7.8	185	15,000 / 35,000
BEST INC	8.4	93	N/A
Deppon	4.9	140	13,490 / N/A
Yunda	3.3	N/A	N/A
Yimidida	4.6	100	3,000 / N/A
ZTO Freight	6.5	72	3,200 / N/A

Note: SF includes SX Freight (partner platform model) and SF Freight (direct model)
Source: Company data, iResearch, CMBIS

Figure 21: Gross margin (LTL segment) comparison among major players



Note: ANE's gross margin is adjusted for dispatch service fee recognition.
Source: Company data, CMBIS

Key Entry Barriers

Capital and time intensive

Developing a self-sustaining express freight network entails a considerable amount of time, working capital and long-term investment in key infrastructure. For instance, establishment of extensive network coverages, securement of sorting facilities at pivotal locations, as well as the management of a growing sorting and line-haul network, are all crucial components that posed as tremendous challenges for new entrants to overcome, replicate and develop within a short period of time. For express freight networks under the freight partner platform model, operators are required to possess strong capabilities in acquiring and empowering their freight partners, in order to ultimately preserve a healthy freight partner ecosystem.

Technology capabilities

The operations of nationwide express freight networks entail robust technology capabilities, which requires tremendous years of operational data accumulation, sophisticated operation and a strong R&D team. Currently, the major players in the market have created technology barriers for new entrants through their continuous R&D efforts and substantial investments.

Brand recognition, differentiated product offering and consistent service quality

With the evolution in the supply chain, long-run industry experiences and extensive network coverage are keys to satisfying the increasing demands for differentiated product offerings and high-quality, comprehensive transportation services. Therefore, the leading players in the market, equipped with their noble, nationwide brand recognition, are best-positioned to fulfill such demands and to ultimately develop a self-sustaining and cost-effective network.

Business overview

Superior Freight Partner Platform Model

Leveraging the superior freight partner platform model, ANE together with its partners provide reliable, timely and efficient services with a nationwide express freight network. Under the model, ANE directly operates and controls all mission-critical sorting and line-haul processes, while its freight partners and agents are responsible for investing, establishing and maintaining the outlets at their own costs, as well as providing standardized feeder service, pickup and dispatch services. There are three key components of ANE's freight partner platform model:

1. **Direct control of critical infrastructure**
   - **Sorting** through 147 self-operated sorting centers (10 of which are key transit hubs and 45 of which are transit hubs) connecting >2,000 inter-provincial direct line-haul routes across major Tier 1/2/3 cities in China as of the end of 2020.
   - **Line-haul transportation operations** through ANE's self-operated fleet, consisting of ~1,500 high-capacity line-haul truck tractors and over 2,700 trailers, supported by >1,000 trucks operated by third party fleet as of 31 Dec 2020, all of which operate under high operation standards, the ANE brand and logo.

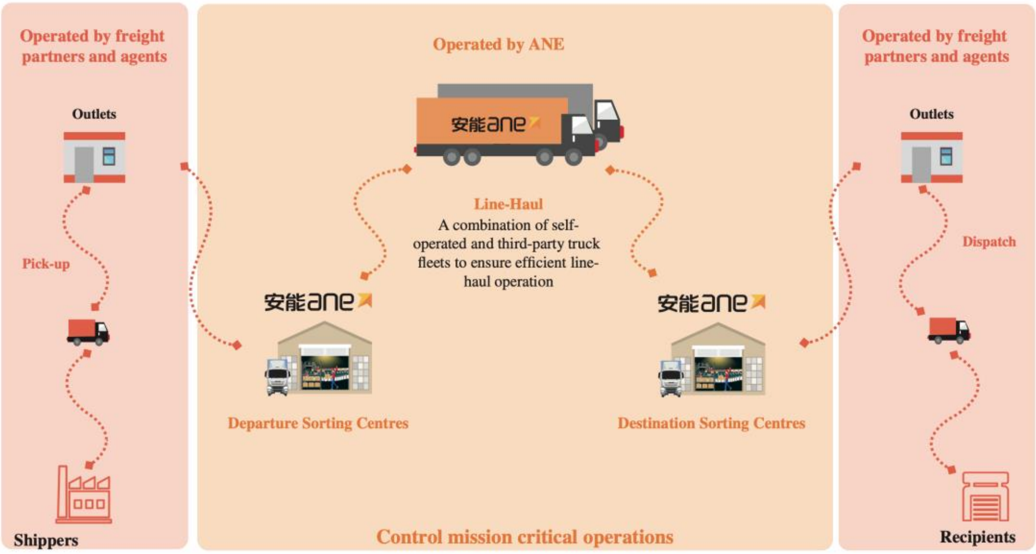
2. **Strong collaboration with 26,400 freight partners and agents as at end-2020.** By collaborating with freight partners and agents who maintain outlets at their own costs, ANE managed to serve 3.6mn shippers in 2020, covering 96% of counties and townships in China.

3. **Technology empowerment.** ANE has developed a suite of proprietary digitalization tools, such as the Compass System, a control tower that integrates and analyses extensive operational data from various technology systems, including the Luban system for integrated data management, the 360º system for outlet management, the TMS system for line-haul management and the Yitian system for sorting center management. These systems enhance the operational effectiveness, and help the Company manage the entire network and the platform, as well as making real-time decisions on critical operational processes, such as route planning, sorting management and outlet management. ANE also enables its freight partners and agents with technology capabilities to offer comprehensive and high-quality services to shippers.

ANE maintains strict control over the service quality of its freight partners and agents, who operate under its brand and are required to adhere to ANE's service guidelines, and polices. ANE constantly organizes trainings and continuously monitors their performance and compliance with its policies.

ANE's freight partner platform is highly scalable, which enables the Company rapidly expand its nationwide express freight network with optimized working capital efficiency. Moreover, the model provides ANE with the ability to standardize and maintain control over service quality, as well as controlling all mission-critical functions, enabling operational efficiency and optimal resource allocation.

Figure 22: Overview of ANE's shipment process under the freight partner platform model



Source: Company data, CMBIS

Figure 23: Detailed shipment process under ANE's freight partner platform model

I. Freight Pickup

1) Freight partners and agents **collect** the freight upon receiving an order/ shippers **self-drop off** at one of ANE's network outlets.
2) Freight partners and agents: **feeder transits to ANE's sorting centers**.
3) **Deliver the freights** to the sorting centers, with unique tracking number and barcode for real-time tracking, to the sorting centers

II. Consolidation Sorting

1) **Sort freights** to various loading bays based on routes and destinations **via Yitian System**, after unloading to the departing soring centers.
2) **Load freights to line-haul trucks for line-haul transportation**, according to different product features and timing requirements,
3) Apply ANE's operational know-hows, smart devices and automated equipment (e.g. cross-belt sorting equipment, dynamic weighing machine and unmanned forklift), which enable ANE to enhance efficiencies and maximize utility rates.

III. Routeing

1) **Plan the optimal route** in a multi-destination setting, which are designed and managed by a centralized line-haul management unit and regional sorting centers.
2) Direct transport is chosen if the departure sorting center and the destination sorting center are connected by a direct route. If not, the most suitable transit hub will be chosen to minimize costs.

IV. Line-haul transportation

1) Operate **line-haul transportation** between sorting centers **via line-haul management system TMS**
2) Barcodes attached are scanned when go through each sorting center to keep track of the dispatch progress.
3) **Monitor** the entire transportation process and **adjust** the line-haul routes based on freight volume to optimize efficiency

V. Dispatch

1) Destination sorting centers **unload and sort** the freight for our destination network freight partners and agents.
2) The freight partners and agents **pick up the freight and arrange for dispatch**.
3) A self-designed proprietary mobile application for dispatch staff of ANE's freight partners and agents, which provides order information and route recommendation to ensure timely and safety dispatch.

Source: Company data, CMBIS

Relationships with ANE's Freight Partners and Agents

Rigorous Screening Process. ANE selects freight partners based on various factors, which includes industry experience, geographic location, financial condition, management skills and risk control. By the end of 2018, 2019, 2020, ANE has ~4,700, 5,100, 6,200 freight partners respectively. The partner agreements are signed and renewed on a year basis. Freight partners are required to place an advanced deposit as a performance guarantee, which enhances ANE's control over their services.

Operation within Designated Area. ANE authorizes its freight partners to operate under ANE's brand only within a designated area, no permission for the partners to develop business outside of their designed area without ANE's consent. Depending on size and business volume in their respective authorized areas, the freight partners are typically required to subcontract a portion of their business to their respective agents.

Strict Supervision Scheme. To ensure freight partners' performance and service qualities, agreements also include terms such as operation process, service standards and quality, maintenance and expansion of outlets, and settlement. ANE continuously oversees the performance of freight partners, sets performance targets and provides them with training. Key performance indicators are reviewed on a real-time basis. In addition, ANE implements an incentive scheme with monetary rewards and penalties based on key performance targets, operation process and service standards, with the possibility of unilaterally terminate the partnership if the partner continuously failing the targets. ANE also requires them to make advanced deposits on ANE's system to settle transportation service fees.

Freight agents are also authorized to operate under ANE's brand and are managed directly by the freight partners under supervision. While freight agents do not directly enter agreements with ANE, they are required to adhere to the service standards and policies. ANE integrates their performances into the system and monitor them as well.

Meritocracy-Based System. To bolster entrepreneurship, ANE implements a meritocracy-based system, including (i) providing a tiered pricing system to reward top-performing freight partners with favorable terms, and (ii) creating healthy competition by promoting outperforming freight agents and replacing the nonperforming ones. It ensures that interests are aligned across the network, which brings higher network stability, better freight partner and agent performance and stronger loyalty to the platform.

Flexible Discretion. ANE grants its freight partners the discretion to manage pricing and operations within the guidelines. ANE sets guidelines for its freight partners' pricing charges without any explicit limitations, based on their cost structure and market conditions, while also giving them flexibilities to manage their pricing. Therefore, pricing latitude is given to the freight partners to effectively respond to the competitive dynamics in their local markets with their own tailor-made pricing set. The freight partners also have discretion over daily operations, such as recruitment and facilities.

Pricing of Transportation Services

The freight partners' transportation service fees are charged mainly by volumetric weight, transportation distance, product types, market conditions and competition among others. ANE has established an extensive dynamic pricing system to evaluate and adjust the pricing levels periodically, allowing ANE to optimize on capacity management and operational efficiencies. Discounts may be offered by ANE to its freight partners if they meet performance targets.

Value-Added Services

- **Value-Added Services to Freight Partners**

As a vital part of ANE's LTL services and its core transportation services, ANE provides various value-added services to the freight partners. ANE enables freight partners with technology solutions to enhance operational efficiencies and management capabilities For instance, ANE empowers the growth and improves service quality of their freight partners and agents by offering electronic waybills, SaaS and mobile applications, insurance and operation management services.

In addition, with the partnerships with several financial institutions, ANE strives to facilitate freight partners with loan applications, and assist the financial institutions in credit evaluation of our freight partners.

- **Value-Added Services to Truck Drivers**

Various value-added services are also provided to ANE's line-haul fleet operated by third parties and their drivers, including:

- **Truck aftermarket services:** ANE offers centralized sourcing of products and services, such as bulk purchase of truck accessories, truck and freight insurance, fuel and ETC toll payment, to lower procurement costs for truck drivers.

- **Working capital facilities**: ANE assists truck fleet operated by third parties and drivers in obtaining customized financial services, including truck loans, trailer rentals and finance lease of trucks or equipment from financial institutions.

For truck aftermarket, the fleet operated by third parties is charged with a percentage of fees based on savings ANE generated. For facilitation services, a fee is charged based on the types of facilitation services provided.

Product Offerings to Shippers

ANE, together with its freight partners and agents, offer a portfolio of LTL transportation solutions to shippers. In 2020, ANE served 3.6mn shippers, including e-commerce merchants, manufacturers, wholesalers, retailers and individuals across China.

- **Time-Definite Product**

Time-Definite Product guarantees dispatch within the promised time, which addresses shippers' increasing focus on timeliness. It covers from mini freight weighing <70kg to larger freights weighing ≤3tons. Mini freight mainly comprises heavy goods B2C merchandise, such as home appliances, home furnishing and household products. Compensation will be made by ANE for any unexpected delay outside of the guaranteed time. With its extensive network and technical support, ANE is able to deliver industry-leading services metrics with an average of 58.6hrs per shipment, while the industry standard is 65-72hrs, according to iResearch.

- **Guaranteed-Safety Product**

Guaranteed-Safety Product is designed to cater for the shippers' need of delivering fragile and valuable goods. It covers from mini freight weighing < 70kg to larger freights weighing up to 3tons. Full compensation and expedited claim are offered to the shippers in case of damages. In addition, ANE has established a customer service line for better service.

- **Standard Freight Product**

Standard freight product covers all freight weight with a focus on B2B cargo, e.g. FMCG, apparel and electronic products. It offers safe, timely and cost-efficient door-to-door dispatch to shippers including e-commerce merchants, supply chain distributers and SMEs. The total volume for standard freight product increased 8.9% from 5.2mn tons in 2018 to 5.7mn tons in 2019, and further up 32.1% to 7.5mn tons in 2020.

- **Economy Freight Product**

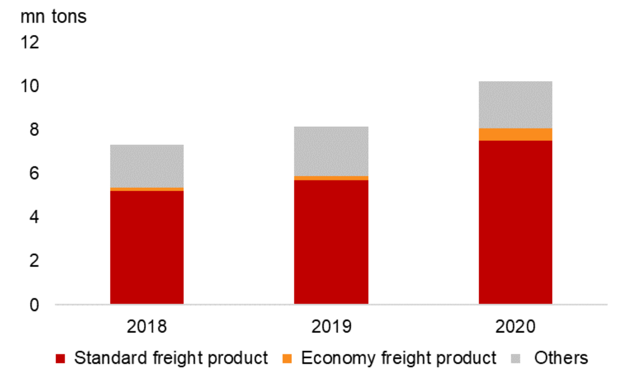
Economy freight product primarily comprises freight weighing 500kg-10tons, which chiefly consists of raw materials, agricultural products, industrial goods and equipment. It offers cost-effective direct dispatch service to shippers including raw material suppliers, manufacturers and contract logistics companies. The total volume for economy freight product increased 30.2% from 149k tons in 2018 to 194k tons in 2019, with a further 193.5% increase in 2020 to 569.3k tons.

Figure 24: ANE's comprehensive product offerings

	Time-Definite	Guaranteed-Safety	Standard Freight	Economy Freight
<70kg Mini-freight	✓	✓	✓	
70kg-500kg	✓	✓	✓	
500kg-3t	✓	✓	✓	✓
3t-10t			✓	✓

Source: Company data, CMBIS

Figure 25: ANE's shipment volume by product type



Source: Company data, CMBIS

Network and Infrastructure

ANE provides LTL services through its extensive nationwide network and infrastructure.

Sorting Centers

As of 31 Dec 2020, ANE had 147 self-operated centers across China, covering ~96% of counties and townships in China. Connected by self-operated transportation network, the consolidation sorting centers receive, sort and dispatch the freights to destination sorting centers.

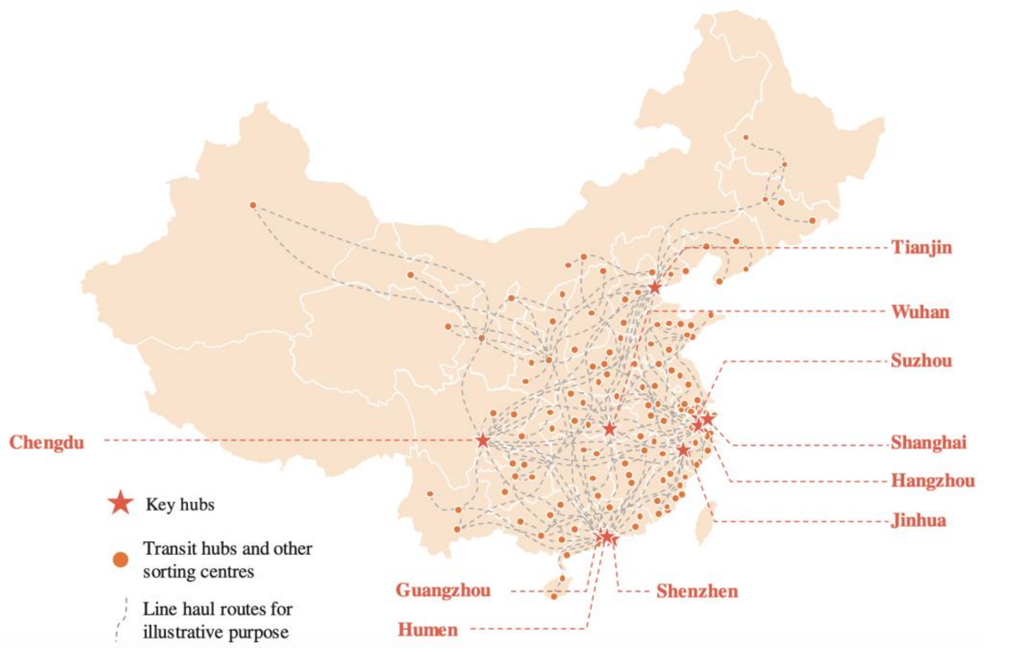
ANE's sorting centers are categorized into **1) key transit hubs, 2) transit hubs and 3) other sorting centers**, based on functions, operating freight volume and line-haul connectivity. As of 31 Dec 2020, ANE had 10 key transit hubs and 45 transit hubs among the 147 sorting centers, which are responsible for inter-provincial transfer. Due to the enhanced connectivity, the average transit ratio improved from 1.52 in 2018 to 1.38 in 2020.

The key transit hubs are located in key commercial centers, such as Shanghai, Shenzhen, and Wuxi, handling an average freight volume of over 1.3mn tons in 2020, which is normally adjacent to highways and is each directly connected to ~15 provinces on average.

ANE's centralized planning team coordinates the development of new sorting centers, expansion of existing ones, including site selection, facility layout design and equipment purchase. Moreover, ANE regularly assesses the necessity of adding new sorting centers to react to market demand and growth, increase its capacity and optimize the cost structure.

All sorting centers are self-operated and are located on leased premises, in which are generally subject to long-term lease agreements (1-5 years). Due to the considerable moving cost of major sorting centers, ANE plans to acquire land and build self-owned sorting centers to ensure long-term and more stable operations.

Figure 26: Summary of ANE's sorting centers (as of the end of 2020)



Source: Company data, CMBIS

Line-Haul Network

ANE directly manages all the line-haul transportation in its network. There are ~2,700 well-planned routes (~92% being two-way routes) connecting all the sorting centers. ANE's self-operated fleet consists of 2,400 high-capacity line-haul trucks and >3,600 trailers as of Apr 30, 2021. ANE's fleet also consists of >1,000 trucks operated by third party fleet under ANE brand and logo. The fleet has maintained high operation standards during the Track Record Period.

For the outsourcing of line-transportation, an agreement is generally subject to a term of 2-3 years. The third-party operators' trucks are required to be equipped with GPS devices and monitored by ANE's system to enhance control. The operators are responsible for freight damages during the transportation. A set of performance standards is set for the third-party operators, which ANE can unilaterally terminate their cooperation if they fail to meet such standards.

ANE's trucks usually have a useful life of up to 5 years. The line-haul transportation network is able to achieve greater efficiency and lower transportation cost by leveraging the algorithm-driven smart route planning. As the utilization rate of truck tractor increases, ANE will continue invest in self-operated trucks, especially ones with high capacity and high utilization rate, which optimize output and reduce costs.

Drop-and-pull, where truck tractors operate in motion the whole time while trailers wait for loading, is widely applied in ANE's self-operated fleet running two-way return routes to improve the utilization rate. The TMS system manages freight volume and route, and optimizes the utilization rate of truck tractors and loading time. Benefiting from the extensive line-haul network and optimized route planning, the average mileages per month of a 17.5-metre high capacity truck reached >20,600km in 2020.

Network Outlets

As of the end of 2020, ANE's network outlets are all owned and operated by ~26,400 freight partners and agents across China, covering ~96% of the counties and townships in China. Each network outlet generally has its own designated geographical coverage and operates business within that coverage area. Network outlets are responsible for business development, and picking up and dispatching freights within their coverage area. A well-operated outlet is expected to consist of 5-10 staffs, 1-2 trucks with an operating premise of 200-400 sq m.

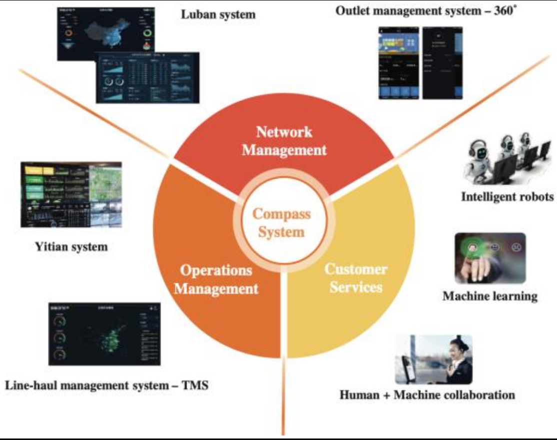
The performance of the network outlets is closely monitored by ANE, while incentives are also given to maximize performance. According to iResearch, ANE is the first express freight networks in China that is able to pick up and dispatch twice per day.

Information Technology and Intellectual Property

Technology is the core of ANE's operations, given that ANE's enhanced operational efficiency is achieved by empowering freight partners and agents with innovative technology solutions, which includes mobile applications, IoT devices and self-developed electronic waybills.

ANE's exclusive Compass System, a managerial tool to monitor the overall operation of the network ecosystem, is the core of ANE's decision-making process, integrating extensive operational data from various management systems. As a result, the Compass System is able to digitalize ANE's critical operation paths, as well as enhancing planning and execution efficiency. Besides, ANE has self-developed 48 IT systems for business operations, all of which are widely applied in daily operations. As of Dec 2020, ANE owned 26 computer software copyrights in China for various aspects of the operations, and upheld 69 trademark registrations inside China.

Figure 27: ANE's key technology – the Compass System (as of the end of 2020)



Source: Company data, CMBIS

■ Integrated data management system – Luban system

Luban system is an integrated data management system providing centralized, visualized and real-time data management across the transportation process. Key features of the system include order, materials, waybill and account management, as well as data monitoring and processing, while other LTL companies' data input, especially direct line and local operators, is typically conducted in individual accounts, which the information is only accessible for a particular level in the hierarchy.

Figure 28: Screenshot of Luban systems

Source: Company data, CMBIS

■ Outlet management system – 360° system

ANE's freight partners and agents are able to use the 360°system to perform various tasks, such as shipment pick-up and dispatch, as well as client and account management, which improves the operational efficiency of the outlets. By analyzing and monitoring various operational data, the 360° system helps freight partners and agents make operational decisions and enhance service quality.

With convenient and visualized management tools, the system digitalizes the operations of the network outlets. In addition, ANE is able to achieve strong managerial control as it directly delivers management directions and tracks performance of each freight partner and agent through the 360° system, which significantly improves the operational efficiency and management effectiveness.

Figure 29: Screenshot of 360° system

Source: Company data, CMBIS

■ Sorting center management system – Yitian system

Yitian system provides full visibility throughout the entire sorting process, including load and unload management, site monitoring, and sorting management. It monitors the real-time information of workloads in each zone, and enables optimization of capacity and equipment allocation and continuously improves the load factor to increase utilization and cost efficiency. Furthermore, the Yitian system can provide volume projections and capacity recommendations by analyzing historical volume data, allowing the Company to prepare in advance for peak times.

Figure 30: Screenshot of Yitian system

Source: Company data, CMBIS

■ Line-haul management system – TMS system

TMS monitors the fleet via V2X on a real-time basis. Various features have been developed to project required line-haul transportation capacity based on historical freight volume, growth rate, seasonality and geographic region. Key features of the TMS system include route planning, fleet deployment, freight volume prediction, load management, driver management, transportation scheduling and visualized report output. The TMS system has helped decrease the transit ratio by 10% from Jun 2018 to Jun 2020, while increasing the two-way ratio by 3.4% from 4Q19 to 2Q20.

Figure 31: Screenshot of TMS system

Source: Company data, CMBIS

Machine learning

Leveraging the data accumulated over years, ANE has been developing its algorithms and AI machine learning capabilities. Route planning, dispatching arrangements are optimized by analyzing data collected with the above systems and AI-based management systems. In addition, smart equipment such as unmanned forklifts and autonomous driving technology is utilized to improve labor efficiency. Computer vision capabilities help ANE analyze and monitor operations in sorting centers, ensuring workplace safety in a more effective manner.

Figure 32: Fleet Size Scanning with the Application of Computer Vision and Machine Learning

Source: Company data, CMBIS

"Human + AI" Integrated Customer Services

ANE has developed a "human + AI" integrated customer service system to provide high-quality customer services to shippers. With intelligent robots and machine learning algorithms, ANE is able to unceasingly improve real-time and tailored customer services, such as Q&A, inspection and claims, without significantly adding services personnel.

Competitive Edge

Operating the largest and fast-growing freight networks in China

Largest freight network

ANE operates the largest freight network in China in terms of annual total freight volume in 2017-2020, according to iResearch. In 2020, ANE's total freight volume reached ~10.2mn tons, with the largest market share of 17.3% among all China's express freight networks. China's LTL market is the largest in the world, with a market size of ~RMB1.5tn in 2020, ~5x that of the US.

Fastest-growing express freight networks

The average daily freight volume of ANE increased from 28.9k tons in 2019 to 38.4k tons in 2020, the highest growth in volume among all freight networks, according to iResearch. Boosted by the rapid network expansion, total freight volume recorded a CAGR of 31% from 2015 to 2020, outpacing that of China's overall LTL market (5.4%).

Most extensive freight networks

As one of the most extensive express freight networks, ANE is able to attain high utilization and efficiency in all sorting centers and line-haul transportation. A collaboration with 26,400 freight partners enables ANE to reach a diverse end-customer base of over 3.6mn shippers in 2002, covering 96% of the counties and townships in China.

Pioneer in freight partner platform

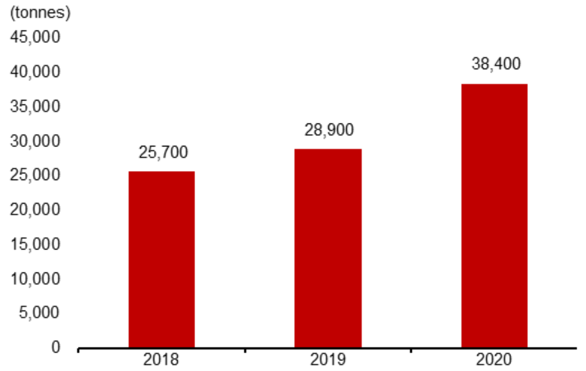
Leader and innovator of the freight partner platform model

China's LTL market was fragmented before the emergence of express freight networks, as it was mainly served by a large number of small- to medium-sized local freight operators that typically grew slowly due to the lack of operational scale and technological capabilities. Under a fast-developing and digitalizing commerce landscape, the tremendous demand for comprehensive, timely and digitalized transportation services is unmet. As the first-mover and innovator of the freight partner platform model in the LTL industry, ANE has built an extensive ecosystem that benefits all market participants and helps reshape the industry landscape. Such innovative platform allows ANE to have a direct control over all nationwide sorting and transportation operations with economies of scale, while its freight partners and agents are responsible for pickup and dispatch services.

Creation of network effects

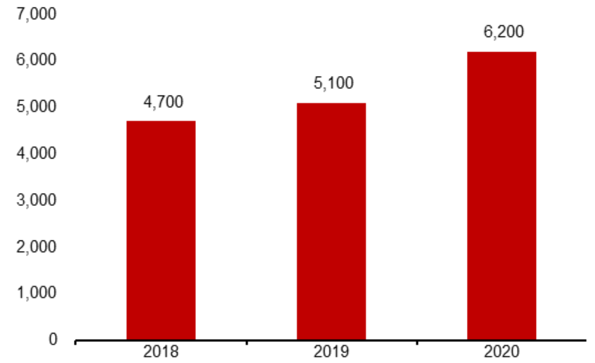
With the dedication of creating more value to its freight partners and agents, we believe that ANE is well positioned to consolidate China's LTL market. ANE had ~4,700/5,100/ 6,200 freight partners in 2018/2019/2020, which can help expand its nationwide coverage. In addition, the Company's superior management and incentive system motivates freight partners and agents to grow in respect of freight volume, operational efficiency and service capability, which in turn strengthens the network and enhances partner stickiness. With more partners and agents joining the platform, ANE is able to expand its network coverage, attract more shippers, partners and agents, and ultimately create a self-reinforcing network effect that drives the growth of its platform in the long run.

Figure 33: ANE's daily shipment volume



Source: Company data, CMBIS

Figure 34: ANE's number of freight partners



Source: Company data, CMBIS

High operating efficiency and cost leadership

- **Operating the most extensive sorting network**
  With the support of ANE's 151 sorting centers across Tier 1/2/3 cities in China as of 31 Apr 2021, ANE has achieved superior direct connectivity, which is the key performance indicator in the LTL industry. The sorting centers are connected via >2,000 inter-provincial direct line-haul routes, which results in lower transit ratios per freight shipment. Besides, the extensive sorting network shortens the distance from the outlets to the sorting centers, enhancing its economies of scale.

- **Increasing proportion of self-operated trucks**
  With the high utilization rate of the truck tractors brought by economies of scale, ANE starts investing in self-operated trucks to improve its operational efficiency. To optimize unit output and reduce unit costs, ANE focuses strategically on high-capacity trucks, comprising ~1,500 and >2,700 trailers as of 31 Dec 2020. The unit line-haul transportation costs are thus reduced by 22.7% from 2018 to 2020.

- **Exclusive technology systems**
  ANE's technology innovation has further enhanced the operational efficiency and cost leadership. Through digitalization of its entire operation process, the Company is able to consistently optimize operations.

- **Extensive management know-how**
  With the accumulation of considerable management know-how, the Company is able to achieve high growth and adapt to the fast-changing market conditions over the past decade.

Continuous technology innovation and digitalized operation

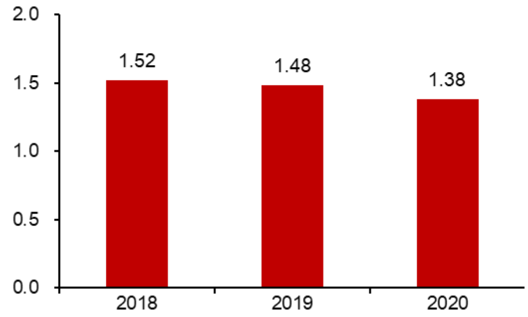
ANE has digitalized every process of the operations through self-developed IT systems to achieve real-time data tracking, smart outlet management, route planning, sorting management and automated customer service to shippers, contributing to its superior network capabilities.

- **Shipping and tracking**
  ANE has developed an open order management system, which is fully integrated with all major e-commerce platforms. The system is compatible with ANE's digital waybill technology, allowing shippers to place and track the orders in real time.

- **Outlet management**
  Luban integrated data management system, the 360° outlet management system and other AI and IoT applications have been applied to its freight partners and agents, which has significantly enhanced the operational efficiency and service quality. With the exclusive Compass System, ANE is able to achieve strong managerial control.

- **Sorting**
  ANE has developed an in-house Yitian sorting center management, which targets at optimizing workforce deployment, utilizing sorting area and truck loading/unloading. The system provides full visibility throughout the sorting process. It has also utilized various smart equipment and AI technologies to improve sorting efficiency. Benefiting from the increased capabilities, the transit ratio has continuously improved, which was recorded at 1.52/1.48/1.38 in 2018/2019/2020 respectively.

Figure 35: ANE's transit ratio



Source: Company data, CMBIS

- **Line-haul transportation**
  Various transportation management systems have been deployed by ANE to manage freight volume prediction, load management, fleet deployment, route planning, driver management, safety control, dispatch scheduling and visualized reports in a digitalized environment. Besides, ANE is continuously improving the algorithms to maximize the truck and line-haul route utilization.

Leveraging the vast amount of operational data accumulated for years, exclusive algorithms and AI machine learning capabilities have enabled ANE to continue innovate and improve its efficiencies.

Growth Potential

Expand Shipper Base and Upgrade Product Offerings

To continue to grow its market share in China's LTL market, ANE will strive to capture the growing market demand brought by the rapid development of digitalized supply. In particular, ANE will strategically focus on developing high growth regions, industries and shipper groups. Besides, the Company will endeavor to attract more freight operators to join its platform, especially the ones with key industry expertise.

On the product side, ANE plans to expand the product offerings to meet the continuously-evolving customer needs. Moreover, the Company will upgrade products and service offerings to provide differentiated solutions to meet specific transportation demand of shippers from different industries and segments of supply chain. The Company's service scope has expanded to cover freight weighing 3-10tons in 2021, allowing it to better serve new shipper needs as well as enhancing the network efficiency. On the back of market leading position and optimized product offerings, ANE will further enhance the pricing power.

Strengthen Partner Platform Ecosystem

The ecosystem of freight partner platform model has been key to the Company's success. Therefore, ANE strives to build a more vibrant ecosystem, empowering the freight partners and agents with better exclusive technologies and management systems. ANE plans to further stimulate the freight partner and agents' growth and improve their operational efficiency, for instance, by facilitating them with loan applications. In addition, ANE will continuously upgrade the customer service capability and capacity, such as expansion of the service scope of centralized customer service center, which improves freight partners' service capabilities, enhancing shipper satisfaction and retention. The Company also plans to help freight partners and agents to attract key shippers by developing tailor-made solutions, and provide value-added services to expand and diversify revenue sources.

ANE strives to continuously innovate and refine the incentive system for the freight partners and agents, for instance, the Company will optimize its pricing mechanism to provide customized and transparent prices based on different growth stages and market conditions.

Mission-critical infrastructure investment

Expand sorting center footprint and capacity

To accommodate high volume growth and improve network structure, ANE will vastly expand its sorting capacity. Apart from establishing more centers in economically vibrant regions and bringing critical infrastructure closer to commercial and production centers, ANE also plans to acquire and build key transit hubs to deliver better services, optimize its leasing cost and enable long-term strategic planning.

Invest in industry-leading line-haul truck fleet

With the ambition of owning and operating the largest line-haul truck fleet in China, ANE has set a long-term investment plan for modern and high-capacity tractors and trailers with satisfactory unit economics and cost efficiency. Given that the Company's freight volume is growing, the Company targets to collaborate with major trucking manufacturers to customize their models to fit ANE's operational needs. Besides, the Company plans to invest in state-of-the-art trucking technologies, including autonomous driving and clean fuel, to enhance safety and efficiency while minimizing environmental impact.

Enhance Operation Efficiency

Maintaining and enhancing cost leadership has been the Company's strategic focus. With the Company's leading network scale in the industry, it aims to add new line-haul routes to improve direct connectivity among sorting centers, enhancing its economies of scale. The Company aims to increase the adoption of drop and pull to considerably enhance utilization rates of truck tractors. Besides, by expanding the size of line-haul fleet and optimizing unit output, the Company plans to continue reducing its procurement costs for major cost items for trucks including fuel, truck parts or maintenance costs given the Company's improved bargaining power and stronger supplier relationships.

Continuous Technology Innovations

To build on the existing technological innovations and capabilities, the Company intends to significantly increase its R&D spending.

- **Sorting**
  The Company aims to improve its freight flow forecasts, intelligent resource allocation and just-in-time monitoring to achieve the optimal labor arrangements and maximize productivities per head. To further stimulate the employees' productivity and efficiency, the Company will invest in researching, developing and applying sorting automation, with core focuses on AI vision monitoring systems, dynamic volume weighing devices, unmanned forklift, IoT devices and automated cross-belts tailored for freight sorting and loading.

- **Line-haul**
  The Company intends to further invest in the intelligent transportation management systems, utilizing proprietary technologies and algorithms. This will help better predict freight volumes, maximize fleet capacity and optimize the routing. ANE is cooperating with the leading autonomous truck driving companies to trial and deploy level 3+ autonomous driving technologies on its fleet, with the goal of enhancing transportation safety and efficiency.

- **Full AI-enabled decision-making process**
  The Company plans to leverage full AI-enabled decision-making in management and operation processes, which helps reduce errors and reliance on individuals. ANE will continue to invest in machine learning, big data and cloud computing. We expect all these efforts to consolidate the Company's position as an innovation and technology leader in the industry.

Financial analysis and earnings forecast

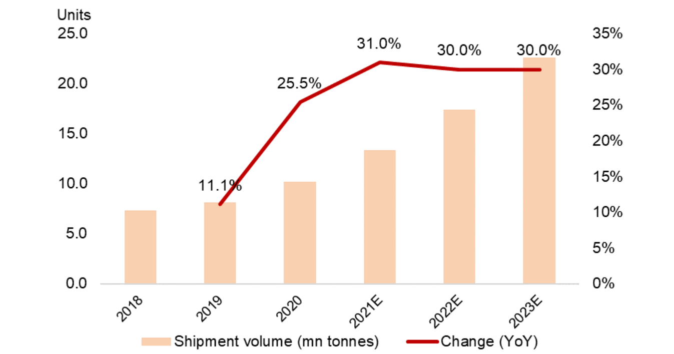
Income statement

Freight volume

ANE's total LTL freight volume grew 11.1%/25.5% YoY to 8.1mn tons/10.2mn tons in 2019/2020. The average daily freight volume in 2020 increased 33% YoY to 38.4k tons in 2020, driven by network expansion despite a decrease in the number of working days in 2020 under the pandemic. In 4M21, the LTL freight volume surged 71% to 3.6mn tons, with the average daily freight volume grew 42% YoY to 44k tons.

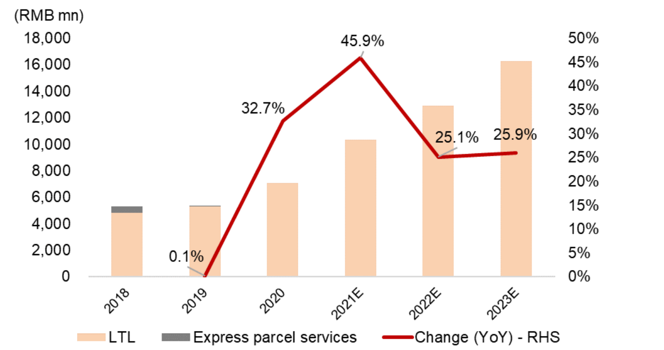
Forecast: We forecast freight volume to maintain a CAGR of 30% in 2021E-23E, reaching 22.6mn tons in 2023E. We expect the growth will be driven by ANE's continuous effort in expanding both the number of freight partners and the freight volume per freight partner.

Figure 36: ANE freight shipment volume



Source: Company data, CMBIS estimates

Figure 37: ANE's revenue and growth trend



Source: Company data, CMBIS estimates

Average Selling Price (ASP)

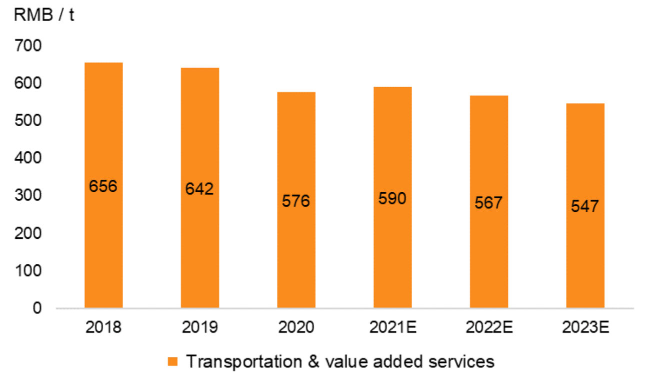
- **Transportation and value-added service.** ASP dropped 2.2% YoY and 10.2% YoY to RMB642/t and RMB576/t in 2019 and 2020, respectively. The double-digit percentage decrease in ASP in 2020 was mainly due to lower cost achieved by the economies of scale and the waiver of toll charges under the pandemic in Feb-May 2020, which enabled lower pricing offered by the freight partners and agents to shippers.

- **Dispatch services.** Prior to Jul 2020, the dispatch service revenue was recorded on a net basis, and therefore the ASP was only RMB1/t and RMB14/t in 2018 and 2019. Starting from Jul 2020, ANE reinforced the contractual responsibilities for any damages to or loss of freight in connection with dispatch on gross basis. Therefore, ANE recorded all the dispatch fees received from pick-up freight partners as revenue, and all dispatch fees paid to dispatch freight partners as cost of revenue. As a result, the dispatch serviced ASP reached RMB118/t in 2020. Assuming that dispatch revenue is recognized on gross basis for the full year in 2020, the ASP per ton would be RMB178/t.

- **Total ASP.** The ASP for the total LTL services was RMB656/t (-0.2% YoY) in 2019 and RMB694/t (+5.8%) in 2020. The increase in ASP for total LTL services from 2019 to 2020 was largely due to the change of its revenue recognition for dispatch services mentioned above.

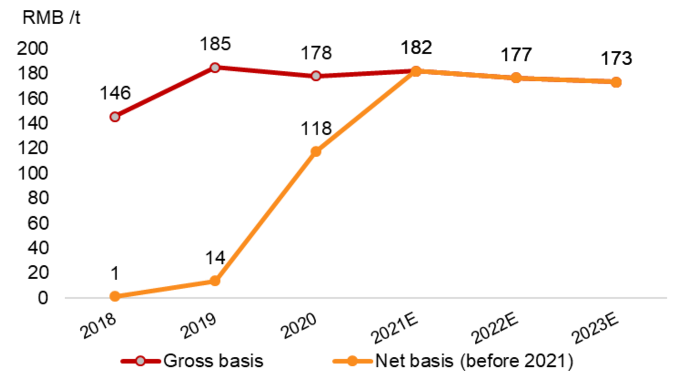
Forecast: We forecast the overall ASP will slightly rebound in 2021E and then moderately decease in 2022E-23E, as the continuous cost reduction measures will make ANE able to offer competitive pricing going forward.

Figure 38: ANE freight ASP (transportation + VAS)



Source: Company data, CMBIS estimates

Figure 39: ANE freight dispatch services ASP



Source: Company data, CMBIS estimates

Revenue

ANE's total revenue grew 33% YoY to RMB7.1bn in 2020, which is mainly driven by (i) a 6.6% YoY increase in transportation revenues to ~RMB4.5bn, (ii) a 12.6% YoY increase in the value-added services revenue to ~RMB1.4bn, and (iii) a significant increase in dispatch revenue by 9.9x YoY to ~RMB1.2bn (partially due to the aforementioned change in revenue recognition. In 4M21, the total revenue surged 127% YoY to RMB2.8bn.

For the express parcel services, it was operated from Dec 2016 to early 2019 and discontinued after that. In 2018 / 2019, ANE generated revenue of RMB519mn / RMB3.2mn from express parcel services, accounting for only 9.7% / 0.1% of the total revenue, respectively.

Forecast: We forecast ANE to deliver revenue growth of 46% YoY in 2021E, and 25-26% growth in 2022E-23E, driven mainly by volume growth.

Operating Costs

ANE's operating costs comprise line-haul transportation cost, sorting hub cost, dispatch and value-added services.

- **Line-haul transportation cost for LTL services.** The unit cost decreased 5.7% YoY and 17.9% YoY to RMB365/t and RMB299/t in 2019 and 2020, respectively. The contributory factors were (i) economies of scale as a result of enlarged freight volume, (ii) enhanced direct connectivity and routing with optimal line-haul management, (iii) enhanced placement of self-operated high-capacity trucks, and (iv) enhanced centralized acquisition of truck auto parts and fuel, of which self-operated fleet size substantially increased from 12 trucks to 1,500 high-capacity line-haul trucks from end-2019 to end-2020, strengthening the bargaining power against major suppliers.

- **Sorting hub cost for LTL services.** The unit cost was RMB174/t, RMB187/t and RMB173/t in 2018, 2019 and 2020, respectively. The decrease in unit sorting hub cost from 2019 to 2020 was mainly driven by (i) economies of scale achieved by the investment in sorting centers, and (ii) the utilization of smart devices and automated equipment.

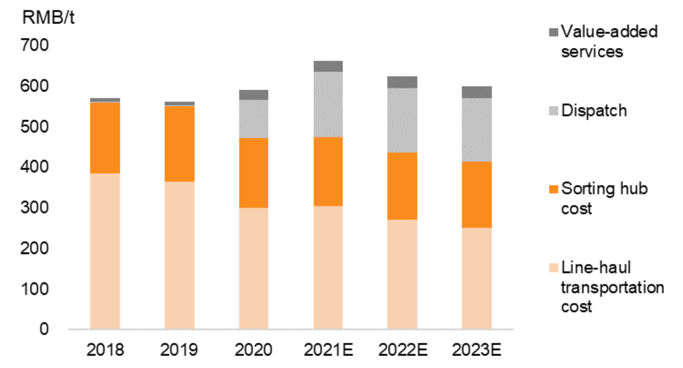
- **Value-added services cost.** The unit cost was RMB10/t, RMB9/t and RMB24/t in 2018, 2019 and 2020, respectively.

- **Dispatch cost**. The unit cost was RMB2/t, RMB1/t and RMB94/t in 2018, 2019 and 2020, respectively. The substantial increase in unit dispatch cost in 2020 was driven by the change in the revenue recognition for dispatch revenues from a net basis to gross basis.

The total unit cost dropped 1.8% YoY to RMB561/t in 2019 but increased 5.2% YoY to RMB591/t 2020.

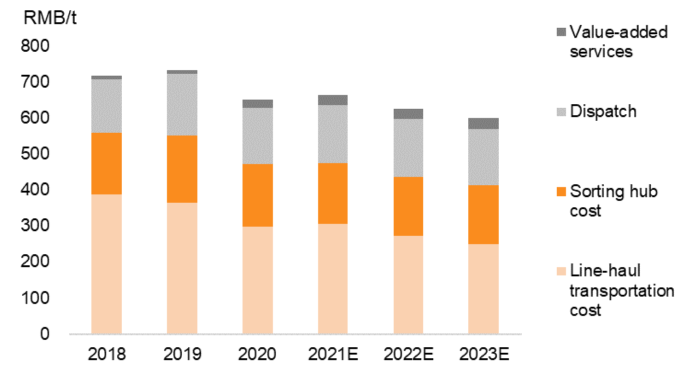
Forecast: We forecast the total unit cost to increase to RMB663/t in 2021E, due to large volume of new trucks commencement that results in lower loading rate in 1H21E. We expect the transportation cost will gradually decrease in 2022E-23E, driven by higher loading rate and cost efficiency to be achieved by the high-capacity trucks. Besides, we expect ANE to achieve lower unit sorting cost on the back of more self-owned sorting centers (versus leasing).

Figure 40: ANE's unit cost breakdown (net basis for dispatch segment in 2018-1H20)



Source: Company data, CMBIS estimates

Figure 41: Estimated unit cost breakdown (gross basis)



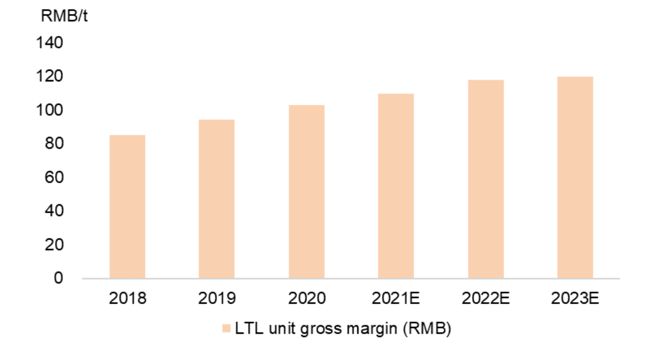
Source: Company data, CMBIS estimates

Gross Margin

ANE's blended gross margin expanded from 12.7% in 2018 to 14.8% in 2019, in spite of the change in revenue recognition for dispatch services from a net basis to gross basis, which could result in a lower gross margin. The gross margin expansion was driven by both the enhancement in profitability of the LTL services, as well as the termination of the loss-marking express parcel business at the beginning of 2019.

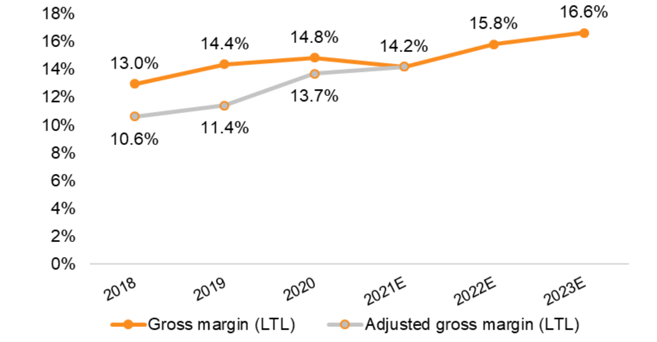
Forecast: We calculate that the unit gross profit of LTL business increased from RMB85/t in 2018 to RMB103/t in 2020. In 4M21, the unit gross profit increased 9% YoY to RMB110/t, driven by increased economics of scale and network efficiency. We forecast the unit gross profit to gradually increase from RMB110/t in 2021E to RMB120/t in 2023E, implying gross margin of 14.2% to 16.6% respectively.

Figure 42: ANE unit gross profit



Source: Company data, CMBIS estimates

Figure 43: ANE's gross margin and growth



Source: Company data, CMBIS estimates

SG&A expense ratios

SG&A expense reduced by 12% YoY to RMB632mn in 2019, largely due to the discontinuation of express delivery business. The expense further dropped 17% YoY to RMB526mn, due mainly to the decrease in share-based payment expenses. The SG&A ratio (as a percentage of revenue) dropped from 13.5% in 2018 to only 7.4% in 2020.

In 4M21, the SG&A expense ratio was 8.7% due to (1) the end of COVID-19 related reduction in social insurance, (2) higher number of employees, (3) increase in share-based compensations, (4) increase in professional fee in R&D projects. We forecast the SG&A expense ratio to reach 8.2% in 2021E, and to gradually decline to below 7% in 2023E due to operating leverage.

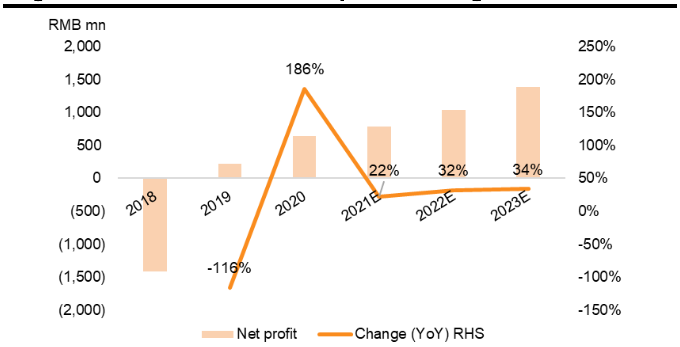
Net Profit

After making a loss of RMB2.1bn in 2018, ANE terminated the loss-making express parcel business in the beginning of 2019. Since then, ANE significantly improved the financials performance and achieved net profit of RMB215mn / RMB218mn in 2019/2020.

In 4M21, ANE recorded a net loss of RMB2.25bn (versus net profit of RMB151mn in 4M20), due mainly to a fair value loss of RMB2.2bn arising from the convertible securities. Excluding all the non-recurring items, the core net profit in 4M21 was RMB183mn, up significantly from RMB46.3mn in 4M20.

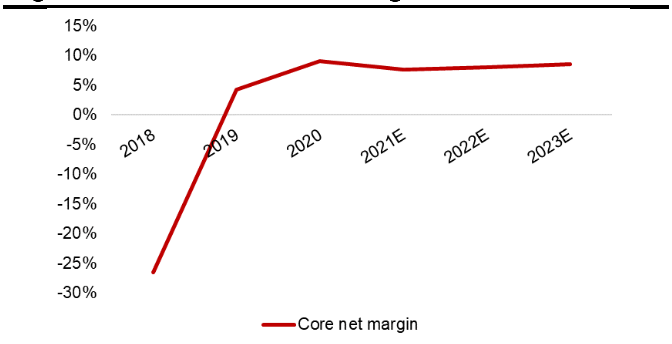
Forecast: We forecast ANE's core net profit will grow 22%/32%/34% in 2021E/22E/23E, driven largely by volume growth, resilient unit gross profit and lower expense ratios.

Figure 44: ANE's core net profit and growth



Source: Company data, CMBIS estimates

Figure 45: ANE's core net margin



Source: Company data, CMBIS

Figure 46: Calculation of core net profit

(RMB mn)	2018	2019	2020	2021E	2022E	2023E
Net profit	-2,114	-215	218	-6,568	831	1,144
Recurring net profit	**-1,418**	**224**	**642**	**782**	**1,031**	**1,384**
Exception items	**-696**	**-439**	**-423**	**-7,350**	**-200**	**-240**
Fair value change of financial liabilities at fair value trhough P&L	-545	-240	-396	-6,988	0	0
Changes in expected redemption amount associated with the put option liabillities	91	-44	-18	-192	0	0
Share-based payment expenses	-49	-142	-9	-170	-200	-240
Asset impairment in relation to the discontinued express parcel business	-192	-14	0	0	0	0

Source: Company data, CMBIS estimates

Figure 47: Earnings sensitivity to ASP and unit line-haul transportation cost

2022E Net profit (RMB mn)		Trasportation and VAS ASP (RMB/unit)				
		538	555	**567**	578	595
	-285	475	695	842	989	1,209
	-277	589	809	956	1,102	1,322
Unit line-haul transportation cost (RMB)	**-272**	665	885	**1,031**	1,178	1,398
	-266	740	960	1,107	1,254	1,474
	-258	854	1,074	1,221	1,367	1,587

Source: Company data, CMBIS estimates

Figure 48: Earnings sensitivity to ASP and unit sorting hub cost

2022E Net profit (RMB mn)		Trasportation and VAS ASP (RMB/unit)				
		538	555	**567**	578	595
	-174	549	769	916	1,063	1,283
	-169	618	838	985	1,132	1,352
Unit sorting hub cost (RMB)	**-166**	665	885	**1,031**	1,178	1,398
	-162	711	931	1,077	1,224	1,444
	-157	780	1,000	1,147	1,293	1,513

Source: Company data, CMBIS estimates

Balance sheet and cash flow

Convertible loans and convertible redeemable preferred shares

ANE issued several tranches of convertible loans over the past few years. Some of the convertible loans were converted to convertible redeemable preferred shares. As at end-2020, the total outstanding convertible loans amounted to RMB1.04bn. On the other hand, the outstanding convertible redeemable preferred shares amounted to RMB4.8bn as at end-2020. As at end-Apr 2021, the total outstanding convertible redeemable preferred shares amounted to RMB9.29bn (included in non-current liabilities), while the outstanding convertible loan amounted to zero.

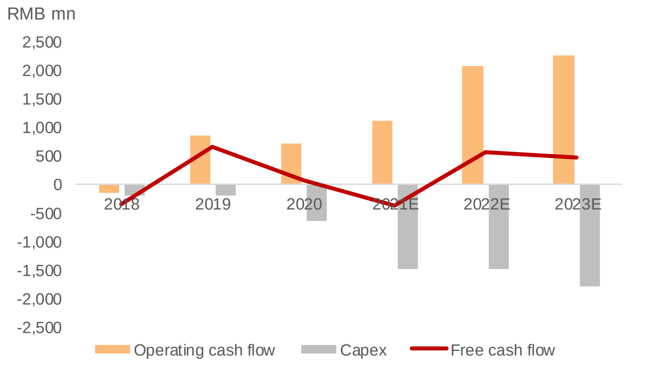
Equity to potentially turn positive starting 2021E

We forecast ANE's equity attributable to shareholders to turn positive after the recent listing on HKEX as well as the conversion of the preferred shares into common equity.

Cash flow

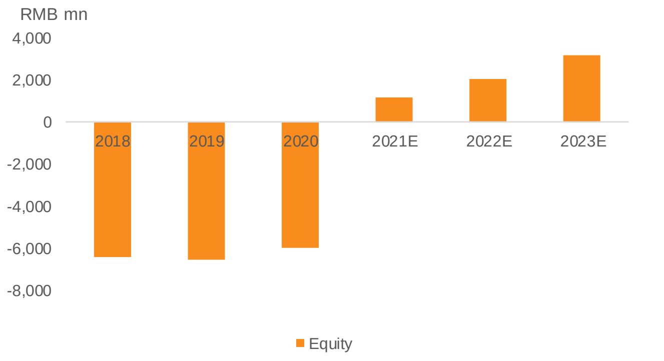
We project ANE to spend RMB1.5bn each year in 2021E and 22E to expand the truck fleet and add more sorting centers. We expect the future budget will be enough to be financed by the growing operating cash flow.

Figure 49: ANE's operating cash flow and capex



Source: Company data, CMBIS estimates

Figure 50: ANE's equity attributable to shareholders



Source: Company data, CMBIS estimates

Figure 51: Key operating assumptions

(RMB mn)	2018	2019	2020	2021E	2022E	2023E
Shipment volume (mn tonnes)						
Freight volume	7	8	10	13	17	23
Change (YoY)	*0.0%*	*11.1%*	*25.5%*	*31.0%*	*30.0%*	*30.0%*
ASP (RMB/tonne)						
Freight	**657**	**656**	**694**	**773**	**743**	**720**
Change (YoY)	-	-	-	-	*-3.8%*	*-3.1%*
Transportation & value added services	**656**	**642**	**576**	**590**	**567**	**547**
Change (YoY)	-	*-2.2%*	*-10.2%*	*2.5%*	*-4.0%*	*-3.5%*
Dispatch services	**1**	**14**	**118**	**182**	**177**	**173**
Change (YoY)	-	-	-	-	*-3.0%*	*-2.0%*
Unit cost breakdown (RMB/tonne)						
Line-haul transportation cost	-387	-365	-299	-305	-272	-250
Sorting hub cost	-174	-187	-173	-169	-166	-164
Dispatch	-2	-1	-94	-161	-159	-156
Value-added services	-10	-9	-24	-28	-29	-31
Total	**-572**	**-561**	**-591**	**-663**	**-626**	**-601**
Change (YoY)						
Line-haul transportation cost	-	*-5.7%*	*-17.9%*	*2.0%*	*-11.0%*	*-8.0%*
Sorting hub cost	-	*7.6%*	*-7.6%*	*-2.0%*	*-2.0%*	*-1.0%*
Dispatch	-	-	-	-	*-1.0%*	*-2.0%*
Value-added services	-	*-4.6%*	*161.0%*	*15.0%*	*6.0%*	*4.0%*
Total	**-**	**-**	**-**	**-**	***-5.6%***	***-4.1%***
LTL unit gross margin (RMB)	**85**	**94**	**103**	**110**	**118**	**120**
Change (YoY)	-	*10.6%*	*9.4%*	*6.6%*	*7.1%*	*1.7%*
Revenue						
LTL	4,813	5,335	7,082	10,334	12,929	16,279
Express parcel services	519	3	0	0	0	0
Total	**5,332**	**5,338**	**7,082**	**10,334**	**12,929**	**16,279**
Revenue growth						
LTL	-	*10.8%*	*32.7%*	*45.9%*	*25.1%*	*25.9%*
Express parcel services	-	*-99.4%*	*-100.0%*	*0.0%*	*0.0%*	*0.0%*
Revenue	***0.0%***	***0.1%***	***32.7%***	***45.9%***	***25.1%***	***25.9%***
Gross margin						
LTL	**13.0%**	**14.4%**	**14.8%**	**14.2%**	**15.8%**	**16.6%**
Express parcel services	-232.9%	-2672.0%	-	0.0%	0.0%	0.0%
Blended gross margin	-11.0%	12.7%	14.8%	14.2%	15.8%	16.6%

Note: Revenue from dispatch service is recognized on net basis in 2018-1H20.

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	**5,338**	**7,082**	**10,334**	**12,929**	**16,279**
Cost of sales	-4,659	-6,030	-8,867	-10,885	-13,575
Gross profit	**680**	**1,051**	**1,468**	**2,044**	**2,704**
Other income and gains /	12	50	-21	13	16
SG&A expense	-632	-526	-847	-931	-1,107
EBIT	**59**	**575**	**600**	**1,126**	**1,613**
Net finance income/(cost)	-95	-78	-88	-88	-88
Finance income	2	3	4	4	4
Finance expenses	-97	-81	-91	-91	-91
Fair value change	-283	-414	-7,180	0	0
Profit of JV & associates	0	0	0	0	0
Pretax profit	**-319**	**83**	**-6,668**	**1,039**	**1,526**
Income tax	104	135	100	-208	-381
After tax profit	**-215**	**218**	**-6,568**	**831**	**1,144**
MI	-0	-0	0	0	0
Net profit	**-215**	**218**	**-6,568**	**831**	**1,144**
Recurring net profit	**224**	**642**	**782**	**1,031**	**1,384**
D&A	694	603	662	808	962
EBITDA	**753**	**1,178**	**1,261**	**1,935**	**2,575**

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	-319	83	-6,668	1,039	1,526
Finance cost	97	81	91	91	91
Share based compensation	142	9	0	0	0
Fair value changes of convertible	28	200	6,964	0	0
Fair value changes of convertible	211	192	0	0	0
Changes in expected redemption amount associated with the put option liabilities	44	18	0	0	0
Loss/(gain) on disposal of PP&E	8	9	0	0	0
Depreciation and amortization	694	603	662	808	962
Income tax paid	-10	-18	100	-208	-381
Change in working capital	-41	-470	-34	335	68
Others	7	15	0	0	0
Cash flow from operation	**859**	**723**	**1,115**	**2,066**	**2,265**
Net capex on PP&E	-203	-652	-1,500	-1,500	-1,800
Investment in/(disposal of)	0	0	0	0	0
Investment in intangible assets	-19	-11	0	0	0
Advances of loans to related	-16	41	0	0	0
Advances of loans to third parties	-1	-3	0	0	0
Cash flow from investing	**-238**	**-625**	**-1,500**	**-1,500**	**-1,800**
Proceeds from equity	0	1	841	0	0
Net bank borrowings	-126	292	0	0	0
Dividend paid	0	0	0	0	0
Others	25	-9	0	0	0
Cash flow from financing	**-386**	**36**	**350**	**-491**	**-491**
Change in cash	235	134	-36	75	-26

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	**1,408**	**2,246**	**3,484**	**4,576**	**5,814**
PP&E	154	839	2,142	3,370	4,809
Right-of-use assets	833	856	806	683	488
Goodwill	114	114	114	114	114
Other intangible assets	37	35	20	6	1
Others	103	86	86	86	86
Deferred tax assets	160	302	302	302	302
Restricted cash	8	14	14	14	14
Current assets	**1,205**	**1,465**	**1,481**	**1,546**	**1,584**
Inventories	6	9	10	13	16
Trade receivables	52	49	99	86	146
Prepayments	32	71	71	71	71
Other receivables and other	701	766	766	766	766
Restricted cash	38	72	72	72	72
Cash	376	499	463	538	512
Current liabilities	**7,706**	**2,645**	**2,662**	**2,988**	**3,119**
Trade and bills payables	991	744	762	1,087	1,219
Bank borrowings	177	367	367	367	367
Tax payable	51	40	40	40	40
Convertible loans	175	0	0	0	0
Convertible redeemable	4,754	0	0	0	0
Other payables and accruals	1,162	1,091	1,091	1,091	1,091
Lease liabilities	396	402	402	402	402
Non-current liabilities	**1,503**	**7,054**	**1,207**	**1,207**	**1,207**
Bank borrowings	6	289	289	289	289
Lease liabilities	491	500	500	500	500
Convertible loans	518	1,041	0	0	0
Convertible redeemable	0	4,806	0	0	0
Others	488	418	418	418	418
Shareholders' equity	**-6,597**	**-5,991**	**1,093**	**1,925**	**3,069**
MI	1	2	2	2	2
Equity and liabilities	**2,613**	**3,711**	**4,965**	**6,122**	**7,398**

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
LTL	100%	100%	100%	100%	100%
Express parcel services	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	12.7	14.8	14.2	15.8	16.6
EBITDA margin	14.1	16.6	12.2	15.0	15.8
EBIT margin	1.1	8.1	5.8	8.7	9.9
Net profit margin	4.2	9.1	7.6	8.0	8.5
Growth (%)					
Revenue	0.1	32.7	45.9	25.1	25.9
Gross profit	n/a	54.7	39.6	39.3	32.3
EBITDA	n/a	56.4	7.1	53.4	33.1
EBIT	n/a	874.1	4.3	87.9	43.2
Core net profit	n/a	186.1	21.9	31.9	34.2
Balance sheet ratio					
Current ratio (x)	0.2	0.6	0.6	0.5	0.5
Trade receivable turnover days	5	3	3	3	3
Inventory turnover days	1	0	0	0	0
Payable turnover days	77	53	31	31	31
Net debt / total equity (%)	n/a	n/a	Net cash	Net cash	Net cash
Profitability (%)					
Core ROA	-	-	18.0	18.6	20.5
Core ROE	-	-	-	68.3	55.4
Per share data					
EPS (RMB)	-0.67	0.64	-5.65	0.71	0.98
Core EPS (RMB)	0.70	1.90	0.67	0.89	1.19
BVPS (RMB)	-20.34	-17.67	0.94	1.66	2.64
DPS (RMB)	0.00	0.00	0.00	0.00	0.00

Source: Company data, CMBIS estimates

Initiate with BUY

In China logistics sector, express delivery sector has enjoyed a valuation premium (29x 2022E P/E) due to the relatively higher sector growth and the stabilization of ASP as the government introduced measures to put the price war to an end. For the non-express delivery segment, the average P/E is 15.8x. We benchmark ANE to the non-express delivery sector average in China to reach our TP of HK$16.8.

As a crosscheck, our target price implies 8x 2022E EV/EBITDA. This represents a discount to the China logistics average, suggesting that our target is not excessive.

Figure 52: Peers comparison

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US$ m)	PE (x) FY21E	PE (x) FY22E	PB (x) FY21E	PB (x) FY22E	EV/EBITDA (x) FY21E	EV/EBITDA (x) FY22E
China express delivery												
ZTO US Equity	ZTO EXPRESS -ADR	BUY	27.85	44.00	58%	23,036	31.5	22.4	2.9	2.6	16.3	11.8
2057 HK Equity	ZTO EXPRESS	BUY	216.40	342.00	58%	23,036	31.5	22.4	2.9	2.6	16.3	11.8
002352 CH Equity	S F HOLDING CO-A	HOLD	63.74	77.00	21%	49,143	60.2	45.5	4.9	4.5	25.7	20.4
600233 CH Equity	YTO EXPRESS -A	-	17.25	-	-	9,309	35.6	26.1	2.9	2.6	18.4	13.6
002468 CH Equity	STO EXPRESS CO-A	-	8.81	-	-	2,119	n/a	117.5	1.6	1.6	19.1	12.3
002120 CH Equity	YUNDA HOLDING -A	-	20.28	-	-	9,251	43.7	29.4	3.8	3.5	17.2	13.3
	Average (excluding STO)						**40.5**	**29.1**	**3.5**	**3.1**	**18.8**	**14.2**
China logistics (others)												
636 HK Equity	KERRY LOGISTICS	-	20.25	-	-	4,691	12.4	12.7	1.4	1.3	7.1	8.3
2618 HK Equity	JD LOGISTICS	-	25.95	-	-	20,568	n/a	n/a	5.5	6.4	78.7	32.2
9956 HK Equity	**ANE CAYMAN INC**	**BUY**	**8.40**	**16.80**	**100%**	**1,228**	**10.4**	**7.9**	**7.4**	**4.2**	**5.9**	**3.9**
603056 CH Equity	DEPPON LOGISTIC-A	-	10.03	-	-	1,619	42.7	22.6	1.9	1.8	8.4	6.2
600787 CH Equity	CMST DEVELOPM-A	-	6.17	-	-	2,133	n/a	n/a	n/a	n/a	n/a	n/a
603128 CH Equity	CTS INTERNATIO-A	-	13.97	-	-	2,875	20.9	16.1	3.5	3.0	15.1	11.8
603565 CH Equity	SHANGHAI ZHONG-A	-	29.32	-	-	4,418	13.0	14.8	3.5	3.0	6.3	7.0
002930 CH Equity	GUANGDONG GREAT RIVER-A	-	27.16	-	-	1,906	40.8	29.8	5.5	5.0	19.6	14.7
600057 CH Equity	XIAMEN XIANGYU-A	-	8.13	-	-	2,756	8.2	6.9	1.1	1.0	10.2	8.5
	Average						**21.2**	**15.8**	**3.7**	**3.2**	**18.9**	**11.6**
Overseas (Integrated logistics)												
FDX US Equity	FEDEX CORP	-	250.32	-	-	66,327	12.2	11.0	2.5	2.1	8.7	7.9
UPS US Equity	UNITED PARCEL-B	-	206.59	-	-	179,556	17.8	17.1	13.9	10.2	12.5	12.1
DPW GR Equity	DEUTSCHE POST-RG	-	52.87	-	-	73,789	13.1	13.0	3.9	3.5	6.7	6.6
9064 JP Equity	YAMATO HOLDINGS	-	2,654.0	-	-	9,070	17.3	15.6	1.6	1.5	6.1	5.5
9143 JP Equity	SG HOLDINGS	-	2,616.0	-	-	14,734	19.5	19.3	3.6	3.2	11.6	11.3
6178 JP Equity	JAPAN POST	-	882.6	-	-	29,248	7.7	8.3	0.2	0.2	n/a	n/a
	Average						**14.6**	**14.1**	**4.3**	**3.5**	**9.1**	**8.7**
Overseas (Pure LTL)												
ODFL US Equity	OLD DOMINION FRT	-	340.62	-	-	39,175	39.0	33.2	10.8	9.2	23.8	20.7
SAIA US Equity	SAIA INC	-	305.03	-	-	8,033	33.3	26.9	6.7	5.4	17.3	14.3
XPO US Equity	XPO LOGISTICS IN	-	71.34	-	-	8,204	16.6	15.1	4.2	3.3	10.2	9.2
	Average						**29.7**	**25.1**	**7.2**	**6.0**	**17.1**	**14.7**

Source: Bloomberg, Company data, CMBIS estimates

Major risk factors

Uncertain capabilities of maintaining the freight partner platform

The ability to maintain a freight partner platform with self-reinforcing network effect is critical to ANE's success, which depends on the Company's ability to continue to empower the freight partners, agents and other participants with innovative technologies, improve their operational efficiency, maintain service quality and provide sufficient geographic coverage. In addition, given that ANE's freight partners and agents may compete with each other, failing to balance the interests of all freight partners and agents on the platform may fail to further attract and retain additional fright partners and agents.

Economic slowdown and China's policy changes

Any deterioration in the economic environment may hurt the demand for LTL and exert downward pressures on prices and margins, for instance, cyclical fluctuations due to economic recessions and reduction in per capita disposable income. In periods of strong economic growth, given that ANE has material expenses that are fixed for a period and may not be able to adjust the staffing level, demand for limited transportation resources can also result in increased network congestion and operating inefficiency.

In addition, ANE's future business opportunities depend upon the development of China's commerce landscape and related demand for nationwide LTL services. A number of factors, many of which are beyond control, including consumption power and disposable income of consumers, affects the future development and landscape of the commerce sector in China.

Inability to meet and adapt to evolving market trends and demand

To meet the evolving market trends, ANE must continue to adapt with continuous innovation, service improvement and strategy modification. However, this could incur substantial costs for the Company. If the Company is unable to adapt to the changing market in a timely and cost-effective manner, the Company may lose current and potential shippers, posing adverse impacts on the business and prospect. In addition, if the Company is incapable of maintaining innovative ability, it may fail to attract and retain its partners and agents, harming its platform development, business and market position.

Fierce industry competition

The Company may face significant competition with other express freight networks, direct line and local operators in China's LTL industry, as well as new entrants. Increased competition may lead to a loss of market share, increasing difficulty in launching new service offerings, reduction in revenue or increase in operating costs. For example, the Company's competitors may reduce their prices to gain business, which limits the Company's ability to maintain or increase its price.

High dependence on reputation and brand image

ANE's reputation and brand image will continue to play an important role in enhancing its competitiveness and maintaining business growth. Many factors, some of which are beyond control, may negatively affect the Company's reputation and brand image, which includes the ability to provide superior services to shippers, manage relationship with and among its freight partners and agents, manage complaints and events of negative publicity, and maintain positive perception of brand and the LTL industry in general.

Moreover, negative publicity of the Company's freight partners, agents and other third parties with the authorization to use its "ANE" brand name in their operations, may have a material adverse impact on the Company's brand image, or even cause changes to the government policies and regulatory environment, which may materially and adversely affect the Company's shipper base, business and prospect.

High reliance on freight partners and agents

ANE provides reliable, timely and efficient services together with freight partners and agents, in which the Company has direct control over freight partners. However, such control may not be as effective as directly owning these businesses as ANE does not have any contractual agreements with freight agents. This may lead to 1) loss in shippers or decrease in business volume, 2) services disruptions and delay of processing and dispatch of freights, 3) violation of laws and regulations and material claims against the Company and 4) material adverse impact on ANE's reputation and brand image. All of these may cause the Company to suffer losses, incur liabilities and expose to reputational damages.

Continuous adverse impacts from the COVID-19 outbreak

Given that the Company's business is subject to the general socio-economic conditions in China, adverse conditions to the economy like natural disasters, extreme weather conditions, health epidemics and other unforeseeable incidents can adversely disrupt the Company's operations and restrict its economic activities, which ultimately hampers its business, operation results and prospects.

The outbreak of the COVID-19 epidemic has resulted in significant disruptions and distortions in the global economy, which has adversely affected the Company's business. For instance, the Company experienced extended closure of our branch offices, sorting centers and network outlets in Feb 2020 due to the COVID-19 outbreak, resulting in a decline of freight volume in such period, as compared with the same period in 2019.

Appendix

Value Propositions of ANE

With technology innovation brought to the express freight network and the commerce landscape, the industry has been rapidly evolving. Being the leading innovator in the industry, the Company is hoping that the innovative business model and technology capabilities can deliver unique values to the freight partners, agents and shippers, creating a win-win ecosystem.

Value to freight partners and agents offered by ANE

1. **Platform for growth**
   The freight partners and agents collaborate with the Company and one another to fulfil full service cycle in the well-established platform. With the largest express freight network operated in China in terms of annual total freight volume in 2017 – 2020, according to iResearch, the brand name is well recognized among shippers. By leveraging the proprietary data and insights, the Company can help the freight partners develop tailor-made solutions to key shippers. The freight partners and agents can thus be more able to serve and retain shippers by leveraging ANE's network coverage, brand recognition and operational support.

2. **Meritocracy-based system**
   As a growth-oriented platform promoting entrepreneurship, freight partners and agents are rewarded for their performance in the platform. A meritocracy-based incentive system to bolster entrepreneurship by: (1) providing a tiered pricing system to reward top-performing freight partners with favourable terms, (2) creating healthy competition by promoting outperforming freight agents to replace non-performing freight partners, such as entitling top-performing freight partners with more favourable terms, while promoting outperforming freight agents.

3. **Technology and digitalization empowerment**
   Freight partners and agents are empowered with innovative technology solutions such as Luban integrated data management system, 360° outlet management system, mobile applications, IoT devices and proprietary self-developed electronic waybills to improve operational efficiency. Besides, to better manage their freight agents, freight partners are also provided with digital operational tools by the Company.

4. **Value-added services**
   The value-added services, such as electronic waybills, insurance and operation management, are provided to the freight partners and agents. These services are essential to their business operations, helping them meet the growth target in an efficient way. Apart from that, digitalized solutions are also provided to freight partners and agents, including integrated SaaS and mobile applications. This allows freight partners and agents to better leverage the IT capabilities to provide digitalized services to shippers. The Company also aims to collaborate with financial institutions to provide financing support, such as working capital facilities for freight partners and agents. Operational guidance are also provided to help freight partners cope with increased complexities brought by the business expansion.

Value to shippers offered by ANE

ANE aims to meet shippers' growing and fast-changing demand for freight transportation services.

1. **Comprehensive and digitalized transportation solution.** Shippers can find a digitalized solution for their individual needs on their network. An end-to-end product mix from 10kg up to 10 tons are offered, together with time-definite and guaranteed-safety goods. This allows shippers to have their demands and preference met with a full spectrum of options provided.

2. **Nationwide coverage.** According to iResearch, ANE operates the largest express freight network in China in terms of annual total freight volume in 2017-2020, covering 96% of counties and townships of China as of the end of 2020. With the network, shippers enjoy door-to-door nationwide dispatch products timely and cost-effectively.

3. **Cost-efficient services.** With the evolving commerce landscape, shippers obtaining cost-efficient transportation services is critical to reduce operation costs and maintain competitive advantages in the efficiency and cost-driven omni-channel retail. Leveraging the technologies and operational efficiency, ANE and its freight partners and agents are able to offer high quality services at a cost-efficient manner.

4. **Reliable and quality services.** ANE only recorded a loss rate of ~0.001%, damage rate of 0.05% and a complaint rate of 0.07% in 2020, which they are committed to set the industry standard for service quality and to be a reliable transportation services provider. Besides, by digitalizing the transportation process, shippers are allowed to use the open-ended system to place and track their orders in real time and provide visibility and traceability across the entire dispatch process, satisfying customer experience with quality customer services with the freight partners and agents.

ANE's Customers

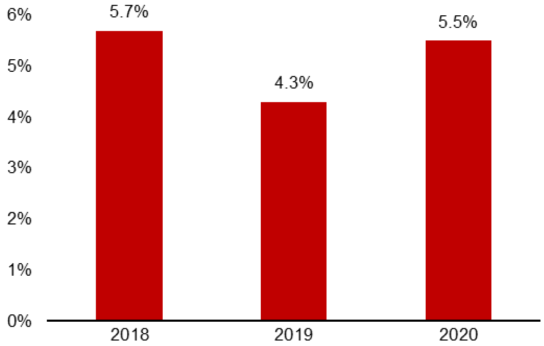
The direct customers of ANE are mainly its freight partners, who along with its freight agents, own and operate pickup and dispatch outlets. The freight partners are provided with access with the line-haul transportation and sorting network, forming the infrastructure of the LTL services to shippers. In total, 3.6mn shippers are served across China in 2020 by ANE and the freight partners and agents, which includes e-commerce merchants, traders, distributors, retailers and manufacturers.

Customer Services to Shippers

ANE is highly committed to fostering a customer-centric culture, providing training and guidance to freight partners and agents and collaborate with them to ensure high-quality customer services to shippers.

To deliver superior services, ANE provides centralized customer services to shippers in addition to services by outlets. For shippers of guaranteed-safety product and other key customers, customer service line has been dedicated in place to better serve them and address their needs, including call centers, online customer service and online AI-based customer service. Real-time customer assistance is provided every day and the AI-enabled system provides real-time customer assistance 24 hours a day, seven days a week.

Figure 53: Proportion of purchases by the five largest customers

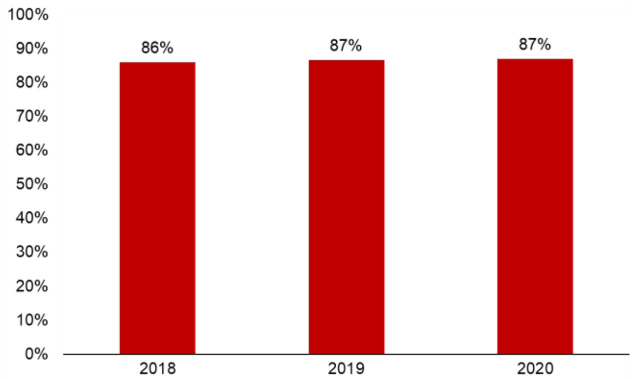


Source: Company data, CMBIS

ANE's Suppliers

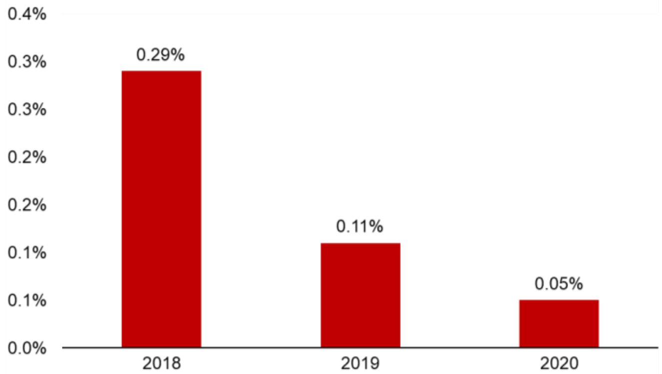
ANE primarily procures supplies through centralized procurement process, such as labor outsourcing, fuel, line-haul trucks, line-haul transportation services provided by third-party fleets, software development and premise leasing, through centralized procurement, hoping to obtain the best available pricing by periodically reviewing and strengthening the internal procurement policy and processes.

Figure 54: ANE's dispatch success rate



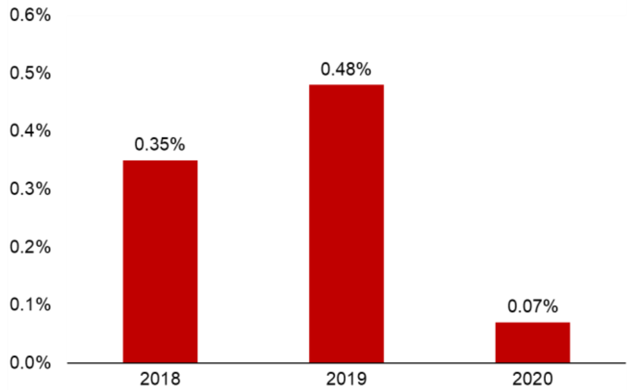
Source: Company data, CMBIS

Figure 55: ANE's damage rate



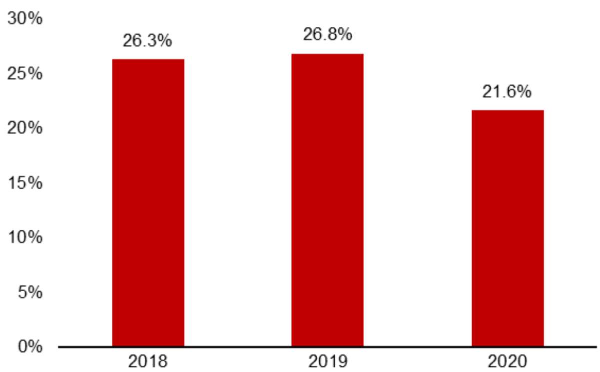
Source: Company data, CMBIS

Figure 56: ANE's effective complaint rate (ratio of effective complaints out of total orders)



Source: Company data, CMBIS

Figure 57: Proportion of purchases by the five largest suppliers



Source: Company data, CMBIS

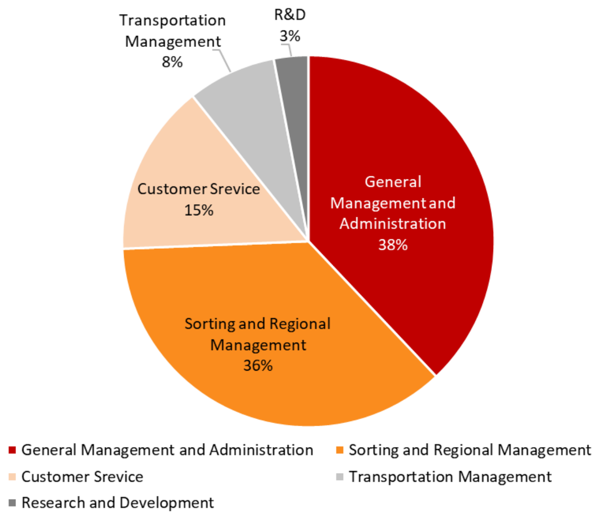
Employees

As of 31 Dec 2018, 2019 and 2020 and 30 Apr 2021, a total of 5,064, 3,582, 3,907 and 4,248 employees were employed respectively. The reduction of numbers in 2019 was due to the scale-down of express delivery business.

In addition to the own employees, ANE's workforce is comprised of outsourced sorting workers and contracted drivers. Its freight partners and agents hire their own employees according to operational needs.

All of their employees enter into employment contracts with ANE, which specifies their responsibilities, employee remuneration and grounds for termination of employment. Confidentiality and non-compete agreements are also signed with key employees. The employees are mainly recruited in on-campus job fairs, recruitment agencies and online channels, including corporate website and third-party employment websites. Regular training and reviews are provided to their employees to enhance their performances.

Figure 58: Breakdown of the numbers of employee by function (2020)



Source: Company data, CMBIS

Figure 59: Management profile

Title	Age	Date of Joining Group	Position	Roles and Responsibilities	Biography
Mr. Wang Yongjun	47	January 2012	Executive Director and Chairman of the Board	Overall strategic development, corporate governance and management of the company	Mr. Wang was appointed as Director in Jul 2014, and re-designated as executive Director in May 2021. He has over 10 years of experience in the logistics industry, previously served as vice president at TNT Hoau Logistics Group from 2009 to 2011. He was awarded the 2020 21st Century China Best Business Model Pioneer Award by the 21st Century Business Herald in Nov 2020
Mr. Qin Xinghua	50	June 2010	Executive Director, Chief Executive Officer and President	Overall strategic planning, organisational development and overseeing the business operations of the company	Mr. Qin was appointed as Director in Feb 2015, and re-designated as executive Director in May 2021. He has over 25 years of experience in the logistics industry, previously held a senior management role at Guangxi Airport Group Co., Ltd. for approx. 15 years till May 2009.
Mr. Zhu Jianhui	38	May 2013	Executive Director and Chief Operating Officer	Overall strategic planning and general management and execution of the business operations of the company	Mr. Zhu was appointed as Director in Jul 2015, and re-designated as executive Director in May 2021. He has over 20 years of experience in the logistics industry, and was the co-founder of Quanjitong Logistics, a regional LTL company acquired by BEST Inc. in Jan 2020. He currently holds directorships in Shanghai ANE and Giantruck, ANE's Major Subsidiaries
Mr. Lin Sam Disheng	38	May 2020	Chief Financial Officer	Overall finance, risk management, investor relations and strategic investment of the company	Mr. Lin has extensive experience in the finance industry, mainly corporate investment and investment banking. He has worked in Cainiao Smart Logistics Network (Hong Kong) Limited, an affiliate of the Alibaba Group (BABA.US, 9988.HK). Prior to that, he has worked in Cutfield Freeman & Co Ltd, an investment banking boutique from Mar 2010 to Jan 2018 in London and Hong Kong.
Mr. Chen Weihao	41	December 2019	Non-executive Director	Providing professonal strategic advice to the Board	Mr. Chen was re-designated as the non-executive Director in May 2021. He has been a partner nad managing director of Centurium Capital since July 2019. From Oct 2011 to May 2019, he worked at a Warburg Pincus entity where his last held position was a managing director. He is a member of the Association of Chartered Certified Accountants.
Mr. Wang Jian	40	February 2021	Non-executive Director	Providing professonal strategic advice to the Board	Mr. Wang was re-designated as non-executive Director in May 2021. He has been working at Beijing Panmao Inestment Management Co., Ltd since 2020, before that he was working at Tianjin Panmao Enterprise Management Partnership from Jan 2019 to Sep 2020.
Mr. Li Dan	39	March 2021	Non-executive Director	Providing professonal strategic advice to the Board	Mr. Li was re-designated as non-executive Director in May 2021. He has worked in the Beijing Panmao Investment Management Co., Ltd since Oct 2020.

Source: Company data, CMBIS

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