

# SF Holding-A (002352 CH)

## Core net profit in 4Q21 below expectation but recovery trend will continue

Over the weekend, SF preannounced that the net profit in 4Q21 is expected to grow 39-50% YoY to RMB2.4-2.6bn, versus our estimate of RMB2.9bn. The core net profit is expected to be only RMB1.45-1.60bn (up 41-56% YoY), due to large amount of one-off gains in 4Q21. That said, the core net profit in 4Q is the highest in 2021 and represents the first YoY growth in the year, which marks a key turning point and sets a good stage for a full recovery in 2022E. We revised down our earnings forecast in 2022E/23E by 6/5% and lowered our TP to RMB94 (based on unchanged 61x 2022E P/E). Maintain **BUY**.

- Details in the preannounced 4Q21 results.** SF attributed the improvement of earnings to the following factors: (1) focus on earnings and sustainable growth; (2) improvement in ASP and client mix; (3) better operating efficiency following the integration of the four networks, namely express delivery, freight, warehouse and Fengwang Express, as well as the upgrade of automated sorting equipment and route optimization; (4) contribution of **KLN (636 HK, NR)**. Meanwhile, SF reported ~RMB1bn of one-off gains in 4Q, due to (1) the disposal of three properties to **SF REIT (2191 HK, NR)**; (2) the disposal of subsidiaries; and (3) the recognition of government subsidies.
- Expect ASP improvement to continue.** SF's parcel ASP growth (YoY) turned positive in Nov (+1.4% YoY) following a decline for 29 months consecutively. In Dec, however, the ASP increased only 0.4% YoY while volume growth slowed to 8% (from 14% in Nov), which we think is a reason for the lower-than-expected earnings in 4Q21. That said, we maintain our view that ASP uptrend will continue with the industry focus moving to service quality and profitability. SF, as a premium integrated logistics service provider, is set to benefit from such favourable trend.
- High visibility for overseas business in 1Q22E.** SF's consolidated revenue from supply chain logistics grew 7.8x/6.4x/5.3x YoY in Oct/Nov/Dec 2021, following the consolidation of KLN. In the latest conference call, management of KLN revealed that the visibility of shipping market in 1Q22E remains favourable given the strong backlog in Mainland China for export.
- Major risks:** (1) Decline in ASP; (2) further increase in operating cost; (3) slower-than-expected new business expansion.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	112,193	153,987	216,220	279,808	320,407
YoY growth (%)	23	37	40	29	15
Core net income (RMB mn)	4,948	6,883	2,785	7,594	11,081
Core EPS (RMB)	1.12	1.54	0.61	1.55	2.26
YoY growth (%)	32.2	37.2	-60.6	154.9	45.9
Consensus EPS (RMB)	n/a	n/a	0.75	1.48	2.16
EV / EBITDA (x)	30.0	23.8	25.8	16.0	12.2
P/E (x)	56.4	41.1	104.3	40.9	28.0
P/B (x)	6.6	5.1	3.9	3.6	3.2
Yield (%)	0.4	0.5	0.2	0.5	0.7
ROE (%)	12.5	13.9	4.1	9.2	12.2
Net gearing (%)	Net cash	Net cash	2.1	5.8	Net cash

Note: CMBI core net income excluded gains from the disposal of large subsidiaries.

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price:	<b>RMB94.00</b>
(Previous TP)	RMB100.00)
Up/Downside:	<b>+48%</b>
Current Price:	<b>RMB63.35</b>

### China Logistics

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### Stock Data

Mkt Cap (RMB mn)	310,809
Avg 3 mths t/o (RMB mn)	1,147
52w High/Low (RMB)	124.7/54.39
Total Issued Shares (mn)	4,906

Source: Bloomberg

### Shareholding Structure

Shenzhen Mingde	55.07%
Shenzhen Zhaoguang Inv.	4.29%
Ningbo Shunda Fengrun VC	2.27%
Others	38.37%

Note: Shenzhen Mingde is owned by WANG Wei

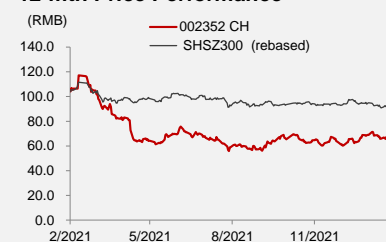
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-8.2%	-1.0%
3-mth	-2.0%	5.4%
6-mth	7.2%	13.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PricewaterhouseCoopers Zhong Tian LLP

### Related report(s):

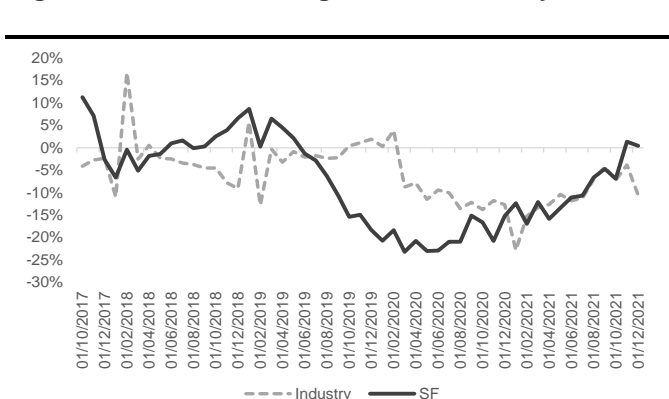
- SF Holding (002352 CH) – Set to deliver strong earnings recovery in 2022E; U/G to BUY – 3 Jan 2022
- China Express Delivery Sector – Strong policy measures to reshape the competitive landscape; Upgrade to Outperform – 1 Dec 2021

Figure 1: Change in key assumptions

(RMB mn)	Old		New		Change	
	2022E	2023E	2022E	2023E	2022E	2023E
<b>Shipment volume (mn units of parcel)</b>	12,376	14,357	12,325	14,297	-0.4%	-0.4%
<b>Growth (YoY)</b>	17.0%	16.0%	17.0%	16.0%		
<b>ASP (RMB/unit)</b>	16.8	16.8	16.8	16.8	0.0%	0.0%
<b>Growth (YoY)</b>	0.0%	0.0%	0.0%	0.0%		
<b>Unit cost (RMB/unit)</b>	15.2	15.0	15.3	15.1	0.4%	0.1%
<b>Growth (YoY)</b>	-0.7%	-1.3%	-1.1%	-1.6%		
<b>Unit gross margin (RMB/unit)</b>	1.6	1.8	1.5	1.8	-4.2%	-1.0%
<b>Growth (YoY)</b>	6.8%	11.9%	12.9%	15.6%		
<b>(RMB mn)</b>						
<b>Revenue</b>						
Revenue from express logistics	208,336	241,670	207,468	240,662	-0.4%	-0.4%
Revenue from supply chain	68,782	82,539	69,354	76,289	0.8%	-7.6%
Express logistic & supply chain	277,118	324,209	276,822	316,952	-0.1%	-2.2%
Sales of goods	1,701	2,041	1,701	2,041	0.0%	0.0%
Others	1,286	1,414	1,286	1,414	0.0%	0.0%
<b>Total revenue</b>	<b>280,105</b>	<b>327,664</b>	<b>279,808</b>	<b>320,407</b>	<b>-0.1%</b>	<b>-2.2%</b>
<b>Revenue growth</b>						
Revenue from express logistics	17.0%	16.0%	17.0%	16.0%	(0.0)	(0.0)
Revenue from supply chain	88.0%	20.0%	91.0%	10.0%	3.0	(10.0)
Express logistic & supply chain	29.1%	17.0%	29.6%	14.5%	0.5	(2.5)
Sales of goods	20.0%	20.0%	20.0%	20.0%	0.0	0.0
Others	10.0%	10.0%	10.0%	10.0%	0.0	0.0
<b>Total revenue</b>	<b>28.9%</b>	<b>17.0%</b>	<b>29.4%</b>	<b>14.5%</b>	<b>0.5</b>	<b>(2.5)</b>
<b>Gross margin</b>						
<b>Blended gross margin</b>	<b>12.1%</b>	<b>13.0%</b>	<b>11.8%</b>	<b>12.8%</b>	<b>(0.3)</b>	<b>(0.1)</b>
S&D expense ratio	1.3%	1.3%	1.3%	1.3%	0.0	0.0
Admin expense ratio	5.6%	5.5%	5.6%	5.5%	0.0	0.0
R&D expense ratio	1.1%	1.1%	1.1%	1.1%	0.0	0.0
<b>Recurring net profit</b>	<b>8,079</b>	<b>11,618</b>	<b>7,594</b>	<b>11,081</b>	<b>-6.0%</b>	<b>-4.6%</b>

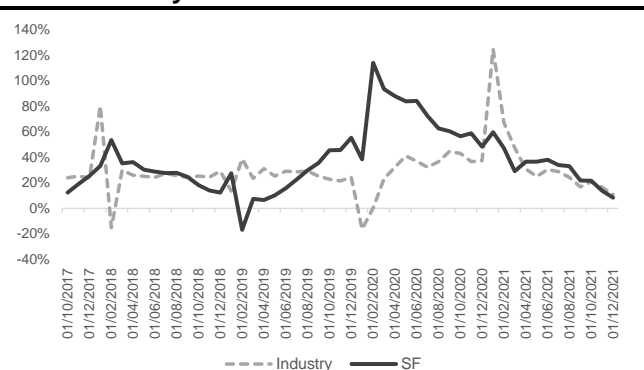
Source: Company data, CMBIS

Figure 2: SF's ASP change versus industry



Source: The State Post Bureau, Company data, CMBIS

Figure 3: SF's monthly parcel shipment growth versus industry



Source: The State Post Bureau, Company data, CMBIS

Figure 4: Earnings sensitivity to ASP and unit outsourcing cost

2022E Net profit (RMB mn)	ASP (RMB/unit)				
	15.99	16.50	16.8	17.17	17.68
-10.02	-1,752	1,731	4,054	6,376	9,859
-9.73	372	3,855	6,178	8,500	11,983
<b>Unit outsourcing cost (RMB/unit)</b>	<b>-9.54</b>	<b>1,788</b>	<b>5,272</b>	<b>7,594</b>	<b>13,400</b>
-9.35	3,204	6,688	9,010	11,332	14,816
-9.06	5,328	8,812	11,134	13,456	16,940

Source: Company data, CMBIS estimates

Figure 5: Earnings sensitivity to ASP and unit transportation cost

2022E Net profit (RMB mn)	ASP (RMB/unit)				
	15.99	16.50	16.8	17.17	17.68
-1.79	1,157	4,641	6,963	9,285	12,769
-1.73	1,536	5,019	7,341	9,664	13,147
<b>Unit transportation cost (RMB/unit)</b>	<b>-1.70</b>	<b>1,788</b>	<b>5,272</b>	<b>7,594</b>	<b>13,400</b>
-1.67	2,041	5,524	7,846	10,169	13,652
-1.62	2,419	5,903	8,225	10,547	14,031

Source: Company data, CMBIS estimates

Figure 6: Earnings sensitivity to ASP and unit employee cost

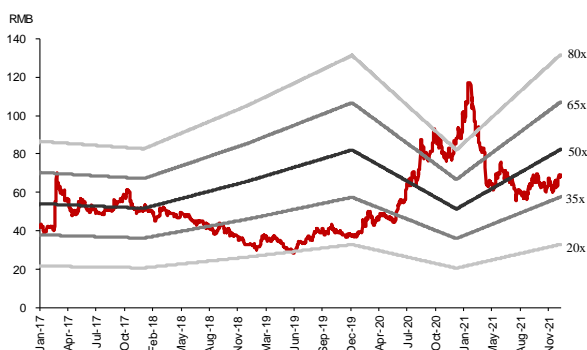
2022E Net profit (RMB mn)	ASP (RMB/unit)				
	15.99	16.50	16.8	17.17	17.68
-1.65	1,205	4,689	7,011	9,333	12,817
-1.60	1,555	5,038	7,361	9,683	13,166
<b>Unit employee cost (RMB/unit)</b>	<b>-1.57</b>	<b>1,788</b>	<b>5,272</b>	<b>7,594</b>	<b>13,400</b>
-1.54	2,021	5,505	7,827	10,149	13,633
-1.49	2,371	5,855	8,177	10,499	13,983

Source: Company data, CMBIS estimates

## Valuation

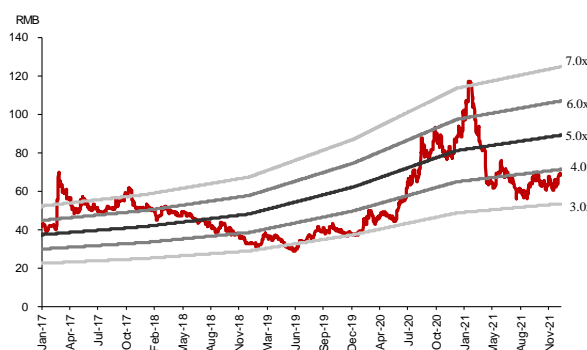
We believe the sluggish share price performance since 2Q21 has already reflected the margin pressure and weak earnings in 2021E. Our TP of RMB94 is based on 61x 2022E P/E, 1SD above the historical average of 44x. We believe SF deserves a valuation premium, given the strong earnings recovery in 2022E-23E.

Figure 7: SF's P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 8: SF's P/B band



Source: Bloomberg, Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>112,193</b>	<b>153,987</b>	<b>216,220</b>	<b>279,808</b>	<b>320,407</b>
Cost of sales	(92,650)	(128,810)	(192,720)	(246,727)	(279,275)
<b>Gross profit</b>	<b>19,544</b>	<b>25,177</b>	<b>23,500</b>	<b>33,081</b>	<b>41,132</b>
Surcharge	(280)	(379)	(432)	(560)	(641)
S&D expenses	(1,997)	(2,252)	(2,811)	(3,638)	(4,165)
Administrative expenses	(9,699)	(11,600)	(13,622)	(15,669)	(17,622)
R&D expense	(1,193)	(1,742)	(2,378)	(3,078)	(3,524)
Impairment loss	(449)	(520)	(432)	(560)	(641)
<b>EBIT</b>	<b>5,925</b>	<b>8,684</b>	<b>3,824</b>	<b>9,577</b>	<b>14,538</b>
Net finance income/(cost)	(683)	(853)	(729)	(795)	(775)
Finance income	288	209	145	72	95
Finance expenses	(971)	(1,062)	(874)	(867)	(870)
Other gains/(losses)	2,282	2,229	4,108	3,917	4,486
Share of profit of JV & associates	(98)	(22)	(19)	(44)	49
<b>Pretax profit</b>	<b>7,426</b>	<b>10,039</b>	<b>7,183</b>	<b>12,656</b>	<b>18,298</b>
Income tax	(1,802)	(3,107)	(2,370)	(3,164)	(4,446)
<b>After tax profit</b>	<b>5,625</b>	<b>6,932</b>	<b>4,813</b>	<b>9,492</b>	<b>13,851</b>
MI	172	394	(385)	(1,898)	(2,770)
<b>Net profit</b>	<b>5,797</b>	<b>7,326</b>	<b>4,428</b>	<b>7,594</b>	<b>11,081</b>
<b>Core net profit</b>	<b>4,948</b>	<b>6,883</b>	<b>2,785</b>	<b>7,594</b>	<b>11,081</b>
D&A	4,503	4,503	8,307	9,942	11,052
<b>EBITDA</b>	<b>10,429</b>	<b>13,188</b>	<b>12,131</b>	<b>19,520</b>	<b>25,590</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	7,426	10,039	7,183	12,656	18,298
Finance cost	892	981	874	867	870
Interest income	(288)	(209)	(145)	(72)	(95)
Profit or loss of associates	98	22	19	44	(49)
Provision for impairment	417	508	0	0	0
Depreciation & amortization	4,533	5,376	8,307	9,942	11,052
Income tax paid	(1,802)	(3,107)	(2,370)	(3,164)	(4,446)
Change in working capital	(664)	(1,579)	(1,137)	(3,858)	(1,420)
Others	(1,491)	(707)	0	0	0
<b>Cash flow from operation</b>	<b>9,121</b>	<b>11,324</b>	<b>12,731</b>	<b>16,415</b>	<b>24,209</b>
Net capex on PP&E & intangibles	(6,372)	(12,202)	(21,500)	(17,500)	(12,500)
Investment in JV/associates	(245)	(1,523)	(500)	(500)	(500)
Investment in subsidiaries	(5,168)	(74)	(14,360)	0	0
Interest received	288	209	145	72	95
Others	(2,552)	(1,295)	(2,233)	(596)	(1,645)
<b>Cash flow from investing</b>	<b>(14,049)</b>	<b>(14,884)</b>	<b>(38,448)</b>	<b>(18,524)</b>	<b>(14,550)</b>
Equity financing/(repurchase)	204	687	19,907	0	0
Net bank borrowings	9,625	2,648	(500)	0	100
Dividend paid	(926)	(1,189)	(1,500)	(443)	(1,557)
Interest paid	(992)	(1,082)	(892)	(885)	(888)
Others	(540)	268	0	0	0
<b>Cash flow from financing</b>	<b>7,372</b>	<b>1,332</b>	<b>17,015</b>	<b>(1,327)</b>	<b>(2,345)</b>
Change in cash	2,444	(2,229)	(8,702)	(3,437)	7,315
Cash at beginning of the year	16,131	18,521	16,418	7,716	4,279
Exchange gains/(losses) & others	(54)	126	0	0	0
Cash at the end of the year	18,521	16,418	7,716	4,279	11,594

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>49,638</b>	<b>59,483</b>	<b>90,093</b>	<b>98,848</b>	<b>102,845</b>
PP&E	18,904	22,357	46,645	53,848	55,152
Investment properties	2,020	2,219	2,219	2,219	2,219
Investment in JV/associates	2,222	3,647	4,128	4,584	5,133
Long term prepaid expense	1,714	1,861	3,419	3,340	4,311
Goodwill	3,565	3,377	6,077	6,077	6,077
Long term trade receivables	466	607	933	1,060	1,398
Intangible assets	10,008	10,633	11,890	12,937	13,773
AFS investments	4,934	5,027	5,027	5,027	5,027
Others	4,741	8,215	8,215	8,215	8,215
Deferred tax assets	1,066	1,539	1,539	1,539	1,539
<b>Current assets</b>	<b>42,897</b>	<b>51,677</b>	<b>52,945</b>	<b>55,327</b>	<b>68,414</b>
Inventories	882	987	1,759	1,486	2,187
Trade and bills receivables	12,045	16,849	24,618	30,577	34,382
Other receivables	2,190	2,721	4,150	4,282	5,550
Advances to suppliers	2,654	3,177	3,177	3,177	3,177
AFS investments	2,910	6,277	6,277	6,277	6,277
Others	3,495	5,248	5,248	5,248	5,248
Cash	18,722	16,418	7,716	4,279	11,594
<b>Current liabilities</b>	<b>30,982</b>	<b>41,809</b>	<b>49,970</b>	<b>51,557</b>	<b>56,347</b>
Trade and bills payables	11,988	15,485	24,643	26,730	31,420
Other payables	4,707	7,531	7,531	7,531	7,531
Bank borrowings	8,145	10,942	9,942	9,442	9,542
Tax payable	1,139	1,855	1,855	1,855	1,855
Advanced from customers	670	28	30	30	30
Others	4,332	5,968	5,968	5,968	5,968
<b>Non-current liabilities</b>	<b>19,060</b>	<b>12,592</b>	<b>13,092</b>	<b>13,592</b>	<b>13,592</b>
Bank borrowings	17,138	10,291	10,791	11,291	11,291
Deferred tax liabilities	1,388	1,688	1,688	1,688	1,688
Long term employee benefits	204	146	146	146	146
Others	330	467	467	467	467
<b>Shareholders' equity</b>	<b>42,420</b>	<b>56,443</b>	<b>79,275</b>	<b>86,426</b>	<b>95,951</b>
MI	74	317	702	2,600	5,370

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Revenue from express logistic	94%	94%	82%	74%	75%
Revenue from supply chain	4%	5%	17%	25%	24%
Sales of goods	0%	1%	1%	1%	1%
Others	1%	1%	1%	0%	0%
Total	100%	100%	100%	100%	100%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	17.4	16.4	10.9	11.8	12.8
EBITDA margin	9.3	8.6	5.6	7.0	8.0
EBIT margin	5.3	5.6	1.8	3.4	4.5
After tax profit margin	5.0	4.5	2.2	3.4	4.3
<b>Growth (%)</b>					
Revenue	23.4	37.3	40.4	29.4	14.5
Gross profit	19.9	28.8	(6.7)	40.8	24.3
EBITDA	26.6	26.5	(8.0)	60.9	31.1
EBIT	25.3	46.6	(56.0)	150.5	51.8
Net profit	32.0	39.1	(59.5)	172.7	45.9
<b>Balance sheet ratio</b>					
Current ratio (x)	1.4	1.2	1.1	1.1	1.2
Receivable turnover days	33	36	36	37	38
Inventory turnover days	3	3	3	2	2
Payable turnover days	39	39	38	38	38
Net debt / total equity (%)*	Net cash	Net cash	2.1	5.8	Net cash
<b>Profitability (%)</b>					
ROA	7.1	7.2	3.5	5.1	6.8
ROE	12.5	13.9	4.1	9.2	12.2
<b>Per share data</b>					
EPS (RMB)	1.32	1.64	0.97	1.55	2.26
Core EPS (RMB)	1.12	1.54	0.61	1.55	2.26
BVPS (RMB)	9.61	12.39	16.16	17.62	19.56
DPS (RMB)	0.27	0.34	0.10	0.32	0.46

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

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