

ZTO Express (ZTO US)

Solid 4Q21 results; Expect strong earnings recovery in 2022E

ZTO's 4Q21 net profit growth (37% YoY) is in line with our expectation. ZTO targets to achieve 18-24% YoY parcel volume growth in 2022E. We expect profitable growth to continue, driven by resilient ASP and solid market share. What's more, we expect ZTO to start generating positive free cash flow in 2022E, on the back of volume growth and good capex discipline. With regard to the listing status, ZTO has started formulating different plans, and we expect dual primary listing is a possible solution. We revised down our 2022E/23E earnings by 8%/3% as we revised up our assumptions on sorting center cost and transportation cost due to potentially higher labour cost and diesel price. We trimmed our TP to US\$41 from US\$44, based on unchanged target multiple of 35x. The recent market sell-off sent ZTO to only 17x forward P/E, close to the trough valuation in 2018. We expect net profit in 1Q22E to double YoY to ~RMB1.06bn, which will serve as the next catalyst.

Key highlights in 4Q21 results:

- **Net profit in 4Q21 grew 37% YoY to RMB1.76bn** (in line with our expectation), driven by (1) 12% YoY revenue growth, (2) 1.9ppt gross margin expansion YoY to 24.4%, and (3) 120% YoY increase in other income. SG&A expense increased by 13% YoY, largely in line with the revenue growth. The full year net profit grew 10% YoY to RMB4.76bn.
- **Parcel volume in 4Q21 grew 17% YoY to 6.3bn units** (growth rate slightly higher than the industry average of 16%). Market share was 20.1%, slightly dropped from 20.8% in 3Q21.
- **Resilient ASP.** Parcel delivery ASP only dropped 1.3% YoY (or RMB0.02/unit) but increased 12% QoQ to RMB1.39/unit in 4Q21 (breakdown: [1] RMB0.04 for incentives to support network partners, and [2] RMB0.01 due to lower parcel weight).
- **Unit cost dropped 3% YoY in 4Q21.** Unit cost of transportation decreased 3% YoY to RMB0.53/unit, due to continuous investment in high-capacity trucks (83% of self-owned trucks were 15-17 meters long). However, sorting hub cost increased 4% YoY (10% QoQ) to RMB0.32/unit, due to higher labour cost. Unit gross margin increased 4% YoY and 30% QoQ to RMB0.35/unit.
- **Major risk factors:** (1) further slowdown of online retail sales; (2) volatile ASP trend; (3) further increase in diesel price.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	25,214	30,406	36,711	42,133	47,406
YoY growth (%)	14	21	21	15	13
Core net profit (RMB mn)	4,312	4,755	6,196	7,975	9,270
Core EPS (RMB)	5.43	5.70	7.42	9.55	11.10
YoY growth (%)	-14.5	5.0	30.3	28.7	16.2
Consensus EPS (RMB)	N/A	N/A	7.68	9.62	12.51
EV/EBITDA (x)	18.8	16.0	12.0	9.5	8.2
P/E (x)	33.3	29.9	22.4	17.5	15.1
P/B (x)	3.1	2.9	2.6	2.3	2.1
Yield (%)	0.9	1.0	1.3	1.7	2.0
ROE (%)	9.9	9.7	12.1	14.1	14.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$41.0
(Previous TP)	US\$44.0)
Up/Downside	+64.4%
Current Price	US\$24.94

China Express Delivery

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Stock Data

Mkt Cap (US\$ mn)	20,629
Avg 3 mths t/o (US\$ mn)	84.41
52w High/Low (US\$)	34.82/19.72
Total Issued Shares (mn)	855.3

Source: Bloomberg

Shareholding Structure

Meisong Lai	25.6%
Alibaba	8.6%
Others	65.8%

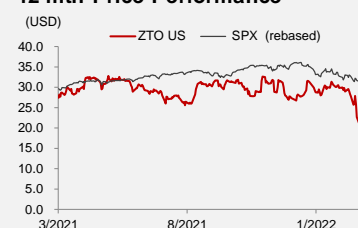
Note: Under the weighted voting rights structure, Meisong Lai has 76.8% of the total voting right
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-18.3%	-18.9%
3-mth	-10.4%	-6.2%
6-mth	-19.1%	-18.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related reports:

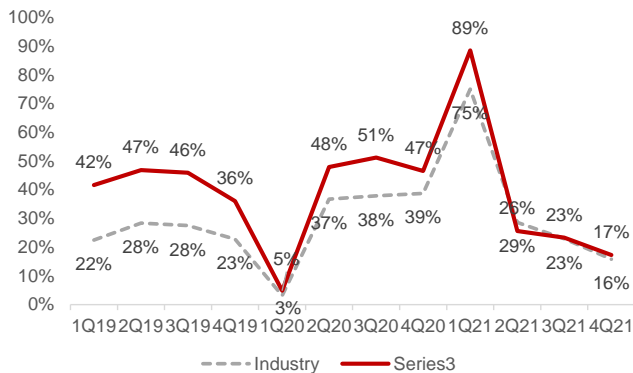
1. Upbeat guidance on profitable growth in 2022E; raising earnings forecast and TP – 19 Nov 2021
2. China Express Delivery Sector – On-track ASP improvement in Sep; Expect further increase on the back of policy support – 20 Oct 2021

Figure 1: ZTO's 4Q21 results

(RMB mn)	1Q20	1Q21	Change YoY	2Q20	2Q21	Change YoY	3Q20	3Q21	Change YoY	4Q20	4Q21	Change YoY
Total revenue	3,916	6,473	65.3%	6,402	7,325	14.4%	6,639	7,391	11.3%	8,257	9,218	11.6%
Cost of sales	-3,097	-5,376	73.6%	-4,633	-5,651	22.0%	-5,248	-5,822	10.9%	-6,399	-6,967	8.9%
Gross profit	819	1,097	33.9%	1,769	1,674	-5.4%	1,391	1,568	12.7%	1,858	2,251	21.1%
Other income	113	157	38.1%	190	176	-7.3%	152	182	19.6%	126	275	118.8%
SG&A expenses	-560	-620	10.7%	-312	-394	26.1%	-374	-389	4.2%	-418	-472	13.1%
EBIT	372	633	70.1%	1,647	1,456	-11.6%	1,169	1,360	16.4%	1,566	2,054	31.1%
D&A	408	521	27.7%	426	565	32.6%	479	538	12.3%	527	598	13.4%
EBITDA	780	1,154	47.9%	2,073	2,020	-2.5%	1,648	1,898	15.2%	2,093	2,652	26.7%
Net finance income/(expense)	126	60	-52.4%	105	69	-34.7%	83	40	-52.3%	93	69	-25.7%
Finance income	126	75	-40.2%	114	102	-10.4%	97	92	-5.0%	106	94	-10.8%
Finance expenses	-0	-16	n/a	-9	-34	n/a	-14	-52	281.3%	-12	-25	104.1%
Gain/(loss) on disposal of subsidiaries	0	0	n/a	0	0	n/a	0	5	n/a	1	-3	n/a
Impairment of investment in equity investees	0	0	n/a	0	0	n/a	0	0	n/a	-1	53	n/a
Fair value changes of financial instruments	0	16	n/a	0	32	n/a	0	0	n/a	0	-48	n/a
FX gain/(loss)	16	-0	n/a	3	-26	n/a	-64	-8	-87.5%	-82	-22	-72.8%
Share of profit of JV and associates	-14	-25	83.7%	-2	-4	53.0%	-5	-20	272.6%	3	16	459.1%
Pretax profit	501	683	36.4%	1,752	1,527	-12.8%	1,182	1,377	16.5%	1,581	2,119	34.0%
Income tax	-130	-150	15.3%	-298	-255	-14.6%	28	-230	n/a	-290	-371	28.3%
After tax profit	371	534	43.8%	1,454	1,272	-12.5%	1,210	1,148	-5.2%	1,291	1,748	35.3%
MI	4	0	-97.3%	-5	20	-482.3%	-9	19	n/a	-3	15	n/a
Net profit	375	534	42.4%	1,449	1,292	-10.8%	1,201	1,167	-2.9%	1,288	1,762	36.8%
Ratios:			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>
Gross margin	20.9%	16.9%	-4.0	27.6%	22.8%	-4.8	21.0%	21.2%	0.3	22.5%	24.4%	1.9
EBIT margin	9.5%	9.8%	0.3	25.7%	19.9%	-5.8	17.6%	18.4%	0.8	19.0%	22.3%	3.3
After tax profit margin	9.5%	8.2%	-1.2	22.7%	17.4%	-5.3	18.2%	15.5%	-2.7	15.6%	19.0%	3.3
Effective tax rate	25.9%	21.9%	-4.0	17.0%	16.7%	-0.3	-2.4%	16.7%	19.0	18.3%	17.5%	-0.8

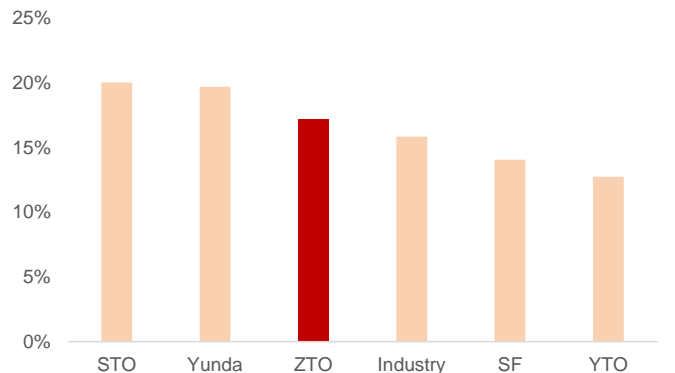
Source: Company data, CMBIGM

Figure 2: ZTO's parcel volume growth in 4Q21 was in line with the industry average



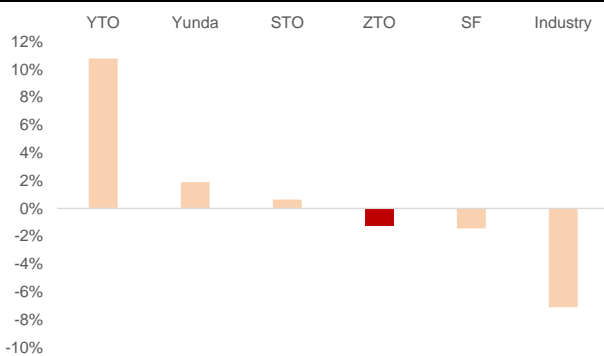
Source: Company data, The State Post Bureau, CMBIGM

Figure 3: ZTO's parcel volume growth in 4Q21



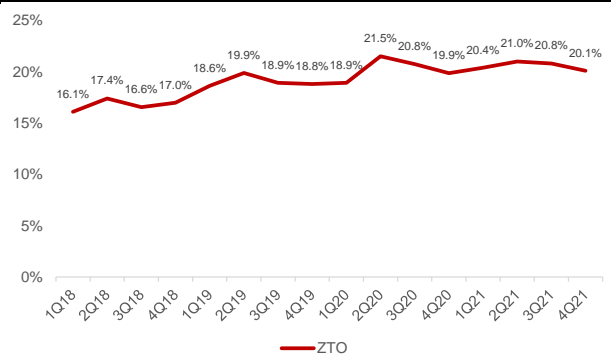
Source: Company data, The State Post Bureau, CMBIGM

Figure 4: ZTO's ASP change (YoY) in 4Q21



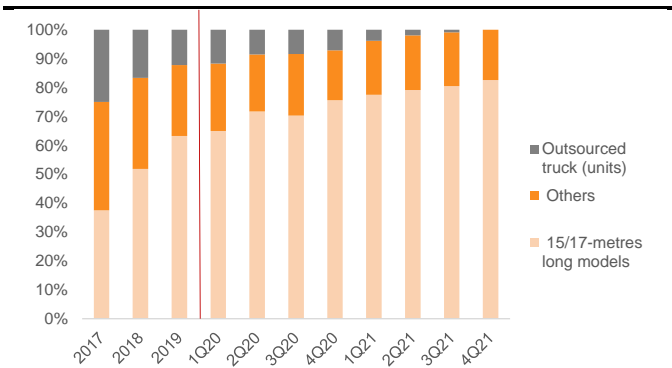
Source: Company data, The State Post Bureau, CMBIGM

Figure 5: ZTO's market share in China in terms of parcel volume



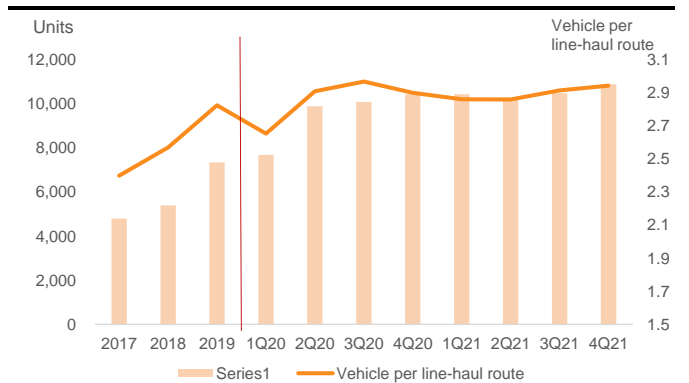
Source: Company data, CMBIGM

Figure 6: ZTO's self-owned high-capacity truck ratio



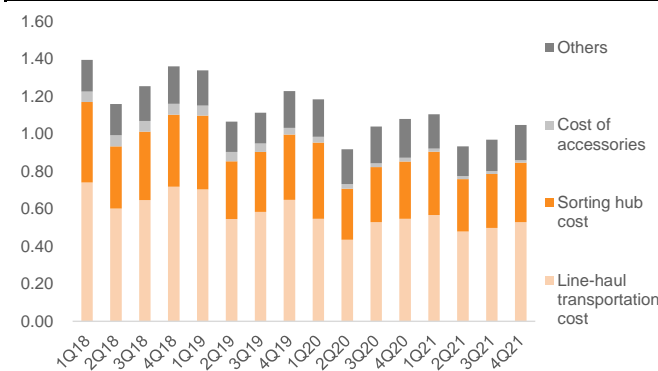
Source: Company data, CMBIGM

Figure 7: ZTO's number of vehicles per line-haul route



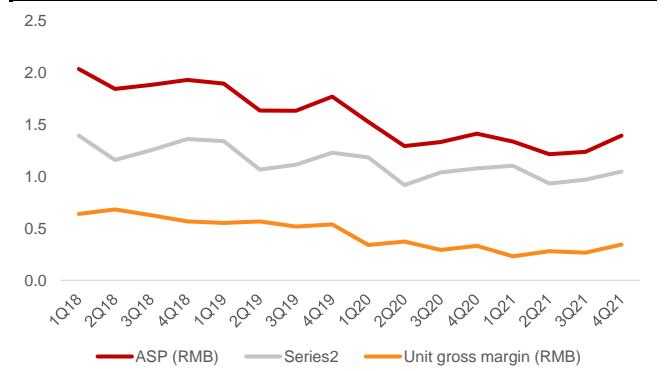
Source: Company data, CMBIGM

Figure 8: ZTO unit cost breakdown



Source: Company data, CMBIGM

Figure 9: ZTO's ASP, unit cost & unit gross margin



Source: Company data, CMBIGM

Figure 10: Change in key operating assumptions

	Old		New		Change	
	2022E	2023E	2022E	2023E	2022E	2023E
Shipment volume (mn units of parcel)						
Unit of parcel	25,711	29,311	26,302	30,248	2.3%	3.2%
ASP (RMB/unit)						
Per unit of parcel	1.33	1.31	1.33	1.33	0.3%	1.4%
Unit cost breakdown (RMB)						
Line-haul transportation cost	-0.49	-0.48	-0.52	-0.49	4.4%	2.3%
Sorting hub cost	-0.26	-0.24	-0.29	-0.29	13.7%	18.6%
Others	-0.19	-0.19	-0.17	-0.17	-9.0%	-9.0%
Total	-0.96	-0.93	-1.00	-0.97	3.7%	3.7%
Unit gross margin (RMB)	0.36	0.38	0.33	0.37	-8.4%	-4.3%
(RMB mn)						
Revenue						
Express delivery, accessories & others	34,124	38,512	35,028	40,282	2.6%	4.6%
Freight forwarding services	2,213	2,434	1,683	1,851	-24.0%	-24.0%
Total	36,337	40,947	36,711	42,133	1.0%	2.9%
Revenue growth					ppt	
Express delivery, accessories & others	18%	13%	21%	15%	3.1	2.1
Freight forwarding services	10%	10%	10%	10%	0.0	0.0
Revenue	18%	13%	21%	15%	3.1	2.1
Gross margin					ppt	
Express delivery, accessories & others	27%	29%	25%	27%	(2.4)	(1.6)
Freight forwarding services	13%	14%	13%	13%	0.0	(1.0)
Gross margin	27%	28%	25%	27%	(2.1)	(1.4)
Net profit	6,735	8,201	6,196	7,975	-8.0%	-2.8%

Source: Company data, CMBIGM estimates

Figure 11: Earnings sensitivity to ASP and unit line-haul transportation cost

2022E Net profit (RMB mn)	ASP (RMB/unit)					
	1.27	1.31	1.33	1.36	1.40	
-0.541	4,196	5,048	5,617	6,185	7,037	
-0.526	4,544	5,396	5,964	6,532	7,384	
Unit line-haul transportation cost (RMB)	-0.515	4,775	5,627	6,196	6,764	7,616
-0.505	5,007	5,859	6,427	6,995	7,848	
-0.490	5,354	6,207	6,775	7,343	8,195	

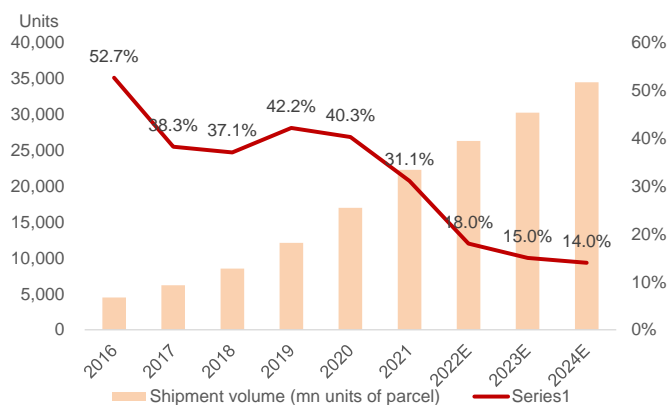
Source: Company data, CMBIGM estimates

Figure 12: Earnings sensitivity to ASP and unit sorting hub cost

2022E Net profit (RMB mn)	ASP (RMB/unit)					
	1.27	1.31	1.33	1.36	1.40	
-0.310	4,444	5,296	5,864	6,433	7,285	
-0.301	4,643	5,495	6,063	6,631	7,483	
Unit sorting hub cost (RMB)	-0.295	4,775	5,627	6,196	6,764	7,616
-0.289	4,908	5,760	6,328	6,896	7,748	
-0.280	5,107	5,959	6,527	7,095	7,947	

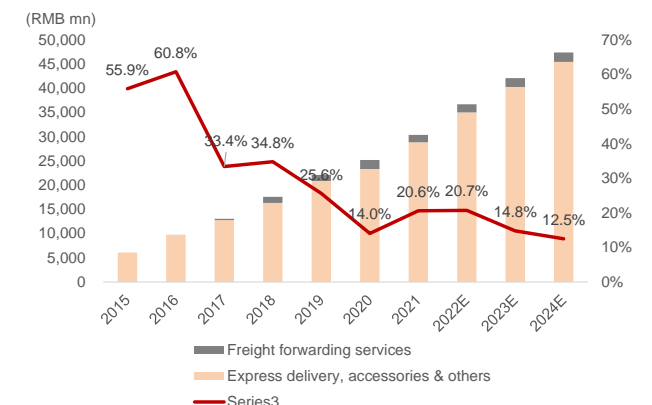
Source: Company data, CMBIGM estimates

Figure 13: ZTO's parcel shipment volume forecast



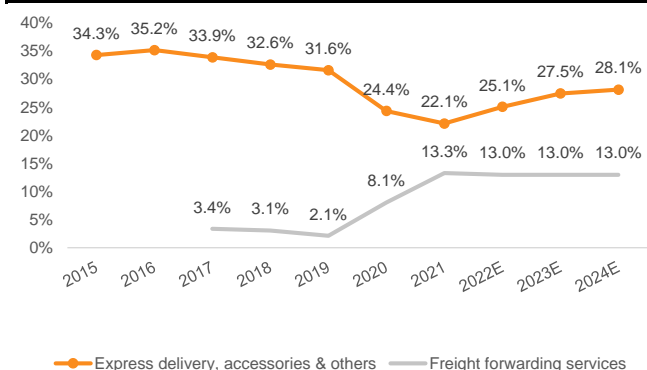
Source: Company data, CMBIGM estimate

Figure 14: ZTO's revenue forecast



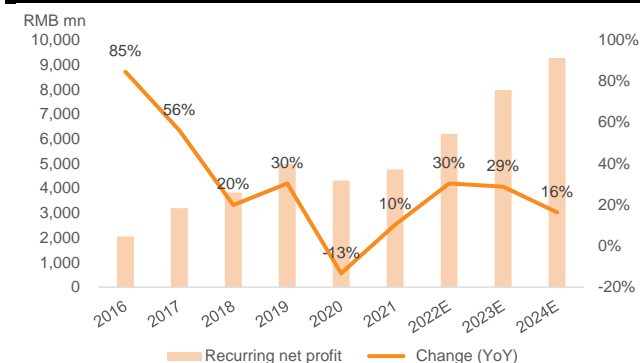
Source: Company data, CMBIGM estimate

Figure 15: ZTO's gross margin trend



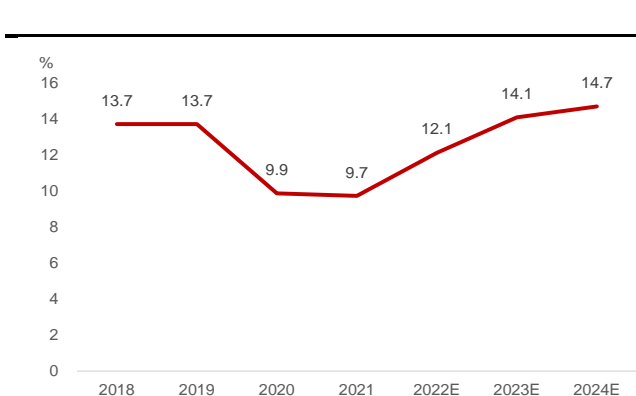
Source: Company data, CMBIGM estimate

Figure 16: ZTO's core net profit forecast



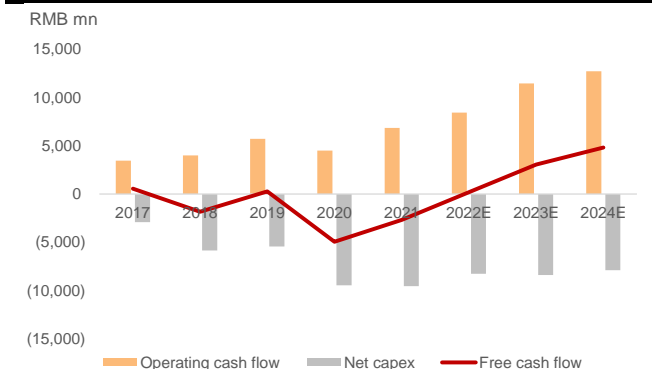
Source: Company data, CMBIGM estimate

Figure 17: ZTO's ROE trend



Source: Company data, CMBIGM estimate

Figure 18: ZTO to achieve +ve free cash flow starting 2022E

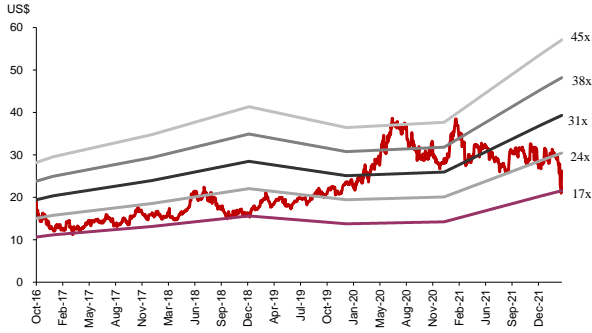


Source: Company data, CMBIGM estimate

Valuation

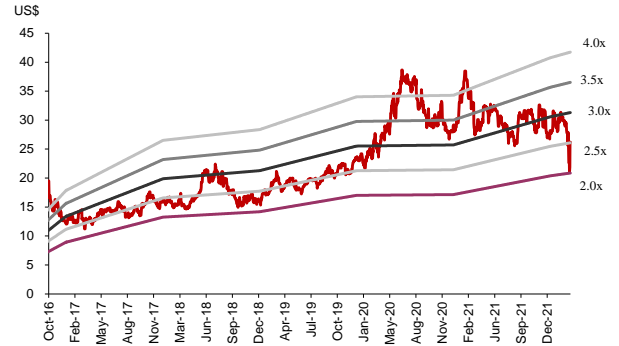
We trimmed our TP from US\$44 to US\$41, based on an unchanged target multiple of 35x, the mid-point between peak (45x) and the historical average (26x). Our higher-than-average target multiple is to reflect the Company’s gradual market share gain and the strong recovery of profitability.

Figure 19: ZTO US’s P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 20: ZTO US’s P/B band



Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	25,214	30,406	36,711	42,133	47,406
Cost of sales	(19,377)	(23,816)	(27,704)	(30,829)	(34,364)
Gross profit	5,837	6,589	9,007	11,304	13,042
Other operating income	581	790	367	421	474
SG&A expense	(1,664)	(1,876)	(2,203)	(2,444)	(2,750)
EBIT	4,754	5,503	7,171	9,281	10,767
Net finance income/(cost)	407	237	128	146	193
Finance income	443	364	231	214	244
Finance expenses	(35)	(127)	(104)	(69)	(51)
Gain/(loss) on disposal	1	2	0	0	0
Impairment of equity investees	(1)	53	0	0	0
Unrealized gain fr. equity investee	0	0	0	0	0
FX gain/(loss)	(127)	(56)	0	0	0
Profit of JV & associates	(19)	(32)	4	19	21
Pretax profit	5,016	5,707	7,303	9,447	10,980
Income tax	(690)	(1,005)	(1,168)	(1,511)	(1,757)
After tax profit	4,326	4,701	6,134	7,935	9,223
MI	(14)	54	61	40	46
Net profit	4,312	4,755	6,196	7,975	9,270
Recurring net profit	4,312	4,755	6,196	7,975	9,270
D&A	1,840	2,222	3,163	3,777	4,351
EBITDA	6,595	7,725	10,334	13,058	15,118

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	5,016	5,707	7,303	9,447	10,980
Finance cost	35	127	104	69	51
Interest income	(443)	(364)	(231)	(214)	(244)
Profit or loss of associates	19	32	(4)	(19)	(21)
Depreciation & amortization	1,840	2,215	3,163	3,777	4,351
Income tax paid	(690)	(1,005)	(1,168)	(1,511)	(1,757)
Change in working capital	(1,422)	(18)	(736)	(92)	(644)
Others	152	162	0	0	0
Cash flow from operation	4,508	6,856	8,430	11,455	12,717
Net capex on PP&E	(7,237)	(8,467)	(7,500)	(7,500)	(7,000)
Purchase of land use rights	(1,971)	(1,082)	(700)	(700)	(700)
Investment in JV/associates	(238)	0	(50)	(200)	(200)
Investment in subsidiaries	0	0	0	0	0
Interest received	443	364	231	214	244
Others	5,012	64	(0)	(0)	(0)
Cash flow from investing	(3,992)	(9,120)	(8,019)	(8,186)	(7,656)
Equity financing/(repurchase)	8,543	0	0	0	0
Net bank borrowings	1,433	2,026	(1,000)	(1,000)	0
Dividend paid	(1,649)	(1,315)	(1,355)	(1,859)	(2,392)
Others	10	(3,615)	0	0	0
Cash flow from financing	8,337	(2,904)	(2,458)	(2,927)	(2,443)
Change in cash	8,853	(5,168)	(2,047)	342	2,617
Cash at beginning of the year	5,270	14,213	9,721	7,674	8,016
Exchange gains/(losses) and others	89	677	0	0	0
Cash at the end of the year	14,213	9,721	7,674	8,016	10,633

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	36,880	44,106	50,454	54,553	59,364
PP&E	18,565	24,930	29,394	33,258	36,062
Land use right	4,361	5,336	5,915	6,480	7,031
Investment in JV/associates	3,224	3,730	3,784	4,004	4,224
Operating lease right-of-use assets	876	897	957	1,017	1,077
Goodwill	4,242	4,242	4,242	4,242	4,242
Long term financing receivables	1,970	1,413	2,610	2,007	3,188
Intangible assets	42	36	29	23	17
Long-term investment	1,842	1,842	1,842	1,842	1,842
Others	1,037	746	746	746	746
Deferred tax assets	721	935	935	935	935
Current assets	22,325	18,666	16,358	17,546	19,888
Inventories	53	83	69	100	88
Account receivables	746	933	1,098	1,234	1,390
Financing receivables	492	1,111	699	1,379	959
Advances to suppliers	589	668	668	668	668
Short-term investment	3,690	2,845	2,845	2,845	2,845
Others	2,408	3,276	3,276	3,276	3,276
Restricted cash	133	28	28	28	28
Cash	14,213	9,721	7,674	8,016	10,633
Current liabilities	9,348	12,996	12,256	11,467	11,788
Account payables	1,636	1,958	2,217	2,428	2,750
Operating lease liabilities	246	251	251	251	251
Bank borrowings	1,433	3,459	2,459	1,459	1,459
Tax payable	49	87	87	87	87
Advanced from customers	1,120	1,227	1,227	1,227	1,227
Others	4,864	6,016	6,016	6,016	6,016
Non-current liabilities	757	848	848	848	848
Bank borrowings	0	0	0	0	0
Deferred tax liabilities	255	292	292	292	292
Non-current operating lease	502	556	556	556	556
Others	(0)	0	0	0	0
Shareholders' equity	48,979	48,637	53,478	59,594	66,472
MI	121	290	229	189	143

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Express delivery, accessories & others	93%	95%	95%	96%	96%
Freight forwarding services	7%	5%	5%	4%	4%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	23.1	21.7	24.5	26.8	27.5
EBITDA margin	26.2	25.4	28.2	31.0	31.9
EBIT margin	18.9	18.1	19.5	22.0	22.7
Net profit margin	17.2	15.5	16.7	18.8	19.5
Growth (%)					
Revenue	14.0	20.6	20.7	14.8	12.5
Gross profit	(11.8)	12.9	36.7	25.5	15.4
EBITDA	(2.0)	17.1	33.8	26.4	15.8
EBIT	(13.0)	15.7	30.3	29.4	16.0
Core net profit	(13.4)	10.3	30.3	28.7	16.2
Balance sheet ratio					
Current ratio (x)	2.4	1.4	1.3	1.5	1.7
Trade receivable turnover days	29	30	30	30	30
Inventory turnover days	1	1	1	1	1
Payable turnover days	29	28	28	28	28
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	8.2	7.8	9.6	11.5	12.2
ROE	9.9	9.7	12.1	14.1	14.7
Per share data					
EPS (RMB)	5.43	5.70	7.42	9.55	11.10
Core EPS (RMB)	5.43	5.70	7.42	9.55	11.10
BVPS (RMB)	58.67	58.26	64.06	71.38	79.62
DPS (RMB)	1.65	1.62	2.23	2.87	3.33

Source: Company data, CMBIGM estimates

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