

ZTO Express (ZTO US)

Lower parcel volume guidance but largely expected; ASP story well intact

ZTO's 1Q22 adjusted net profit grew 35% YoY to RMB1bn, largely in line with our expectation. The company revised down its full year parcel volume growth range guidance to 12-16% (from 18-24% previously) largely due to COVID-related lockdowns, which we believe has been widely expected. ZTO's parcel shipment volume has gradually improved. We expect a high single-digit growth in May (versus a decline in Apr), followed by further improvement in Jun. We revised down our 2022E/24E earnings by 7-8% as we model in more conservative assumptions on volume and cost of sorting center and transportation. We trimmed our TP to US\$37.3 from US\$41, based on unchanged target multiple of 35x. We continue to expect the favourable industry landscape will continue to support higher ASP going forward. Maintain **BUY**.

Key highlights in 1Q22 results:

- **Reported net profit in 1Q22 grew 70% YoY to RMB906mn.** Excluding the share-based compensation expense and other non-recurring items, adjusted net profit grew 35% YoY to RMB1bn. The growth was driven by (1) 22% YoY revenue growth, (2) 3.5ppt YoY gross margin expansion to 20.5%, and (3) stable SG&A expense YoY.
- **Parcel volume +17% YoY to 5.2bn units with market share gain.** The volume growth rate was higher than the industry average of 10%. Market share expanded 1.5ppt to 21.6%. We believe that ZTO successfully gained some market shares from BEST (the express delivery business acquired by J&T Express).
- **ASP +8% YoY.** Parcel delivery ASP increased 8% YoY (or RMB0.11/unit) and 4% QoQ (or RMB0.06/unit) to RMB1.45/unit in 1Q22, as major industry players have continued to put the focus on profitability.
- **Unit cost +3.6% YoY.** Unit cost of transportation was stable YoY at RMB0.57/unit, as the fuel cost hike was offset by efficiency improvement (84% of self-owned trucks were 15-17 meters long). That said, unit sorting hub cost increased 6.5% YoY to RMB0.36/unit, due to higher salary and depreciation. Unit gross margin grew 31% YoY but dropped 12% QoQ to RMB0.31/unit, still at a decent level in our view.
- **Major risk factors:** (1) continuous lockdowns; (2) further slowdown of online retail sales; and (3) further increase in diesel price.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	25,214	30,406	36,058	42,087	47,774
YoY growth (%)	14	21	19	17	14
Core net profit (RMB mn)	4,312	4,755	5,718	7,373	8,618
Core EPS (RMB)	5.43	5.70	6.85	8.83	10.32
YoY growth (%)	-14.5	5.0	20.3	28.9	16.9
Consensus EPS (RMB)	N/A	N/A	7.56	9.67	11.98
EV/EBITDA (x)	17.5	14.9	11.5	9.0	7.7
P/E (x)	31.3	28.1	24.0	18.9	16.2
P/B (x)	2.9	2.7	2.6	2.4	2.1
Yield (%)	1.0	1.0	1.3	1.6	1.9
ROE (%)	9.9	9.7	11.3	13.2	13.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$37.3
(Previous TP)	US\$41.0
Up/Downside	+51%
Current Price	US\$24.75

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Stock Data

Mkt Cap (US\$ mn)	20,040
Avg 3 mths t/o (US\$ mn)	94
52w High/Low (US\$)	34.48/19.53
Total Issued Shares (mn)	855.3

Source: Bloomberg

Shareholding Structure

Meisong Lai	25.6%
Alibaba	8.6%
Others	65.8%

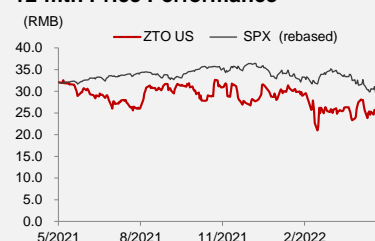
Note: Under the weighted voting rights structure, Meisong Lai has 76.8% of the total voting right
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.1%	14.6%
3-mth	-13.0%	-4.1%
6-mth	-19.8%	-5.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related reports:

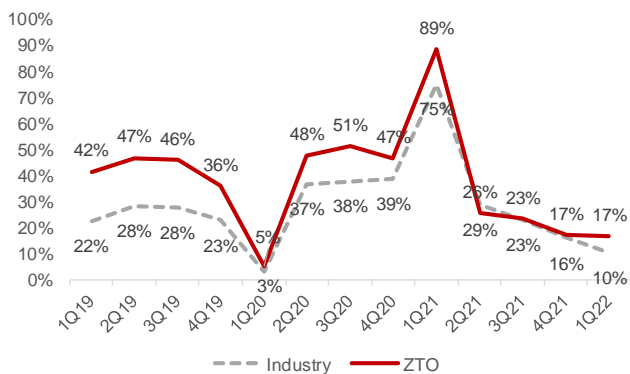
1. Solid 4Q21 results; Expect strong earnings recovery in 2022E – 17 Mar 2022
2. Upbeat guidance on profitable growth in 2022E; raising earnings forecast and TP – 19 Nov 2021
3. China Express Delivery Sector – On-track ASP improvement in Sep; Expect further increase on the back of policy support – 20 Oct 2021

Figure 1: ZTO's 1Q22 results

(RMB mn)	1Q21	1Q22	Change YoY	2Q20	2Q21	Change YoY	3Q20	3Q21	Change YoY	4Q20	4Q21	Change YoY
Total revenue	6,473	7,904	22.1%	6,402	7,325	14.4%	6,639	7,391	11.3%	8,257	9,218	11.6%
Cost of sales	-5,376	-6,285	16.9%	-4,633	-5,651	22.0%	-5,248	-5,822	10.9%	-6,399	-6,967	8.9%
Gross profit	1,097	1,619	47.7%	1,769	1,674	-5.4%	1,391	1,568	12.7%	1,858	2,251	21.1%
Other income	157	115	-26.6%	190	176	-7.3%	152	182	19.6%	126	275	118.8%
SG&A expenses	-620	-618	-0.3%	-312	-394	26.1%	-374	-389	4.2%	-418	-472	13.1%
EBIT	633	1,116	76.4%	1,647	1,456	-11.6%	1,169	1,360	16.4%	1,566	2,054	31.1%
D&A	521	633	21.4%	426	565	32.6%	479	538	12.3%	527	598	13.4%
EBITDA	1,154	1,749	51.5%	2,073	2,020	-2.5%	1,648	1,898	15.2%	2,093	2,652	26.7%
Net finance income/(expense)	60	51	-14.1%	105	69	-34.7%	83	40	-52.3%	93	69	-25.7%
Finance income	75	111	47.2%	114	102	-10.4%	97	92	-5.0%	106	94	-10.8%
Finance expenses	-16	-60	282.7%	-9	-34	270.0%	-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	16	-1	n/a	0	32	n/a	0	0	n/a	0	-48	n/a
FX gain/(loss)	-0	-13	3763.4%	3	-26	n/a	-64	-8	-87.5%	-82	-22	-72.8%
Share of profit of JV and associates	-25	-23	-7.4%	-2	-4	53.0%	-5	-20	272.6%	3	16	459.1%
Pretax profit	683	1,131	65.5%	1,752	1,527	-12.8%	1,182	1,377	16.5%	1,581	2,119	34.0%
Income tax	-150	-255	70.6%	-298	-255	-14.6%	28	-230	n/a	-290	-371	28.3%
After tax profit	534	876	64.1%	1,454	1,272	-12.5%	1,210	1,148	-5.2%	1,291	1,748	35.3%
MI	0	31	30956.6%	-5	20	n/a	-9	19	n/a	-3	15	n/a
Net profit	534	906	69.8%	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	16.9%	20.5%	3.5	27.6%	22.8%	-4.8	21.0%	21.2%	0.3	22.5%	24.4%	1.9
EBIT margin	9.8%	14.1%	4.3	25.7%	19.9%	-5.8	17.6%	18.4%	0.8	19.0%	22.3%	3.3
After tax profit margin	8.2%	11.1%	2.8	22.7%	17.4%	-5.3	18.2%	15.5%	-2.7	15.6%	19.0%	3.3
Effective tax rate	21.9%	22.6%	0.7	17.0%	16.7%	-0.3	-2.4%	16.7%	19.0	18.3%	17.5%	-0.8

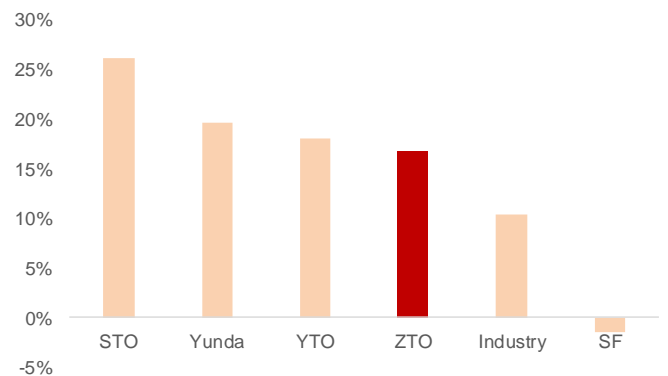
Source: Company data, CMBIGM

Figure 2: ZTO's parcel volume growth in 1Q22 outpaced the industry average



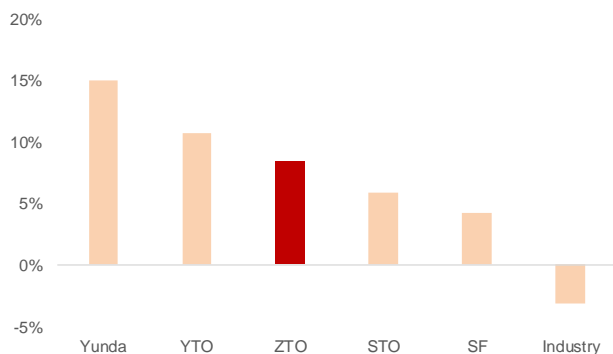
Source: Company data, The State Post Bureau, CMBIGM

Figure 3: ZTO's parcel volume growth in 1Q22



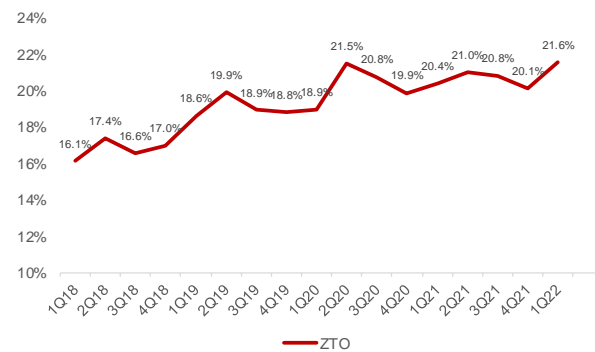
Source: Company data, The State Post Bureau, CMBIGM

Figure 4: ZTO's ASP change (YoY) in 1Q22



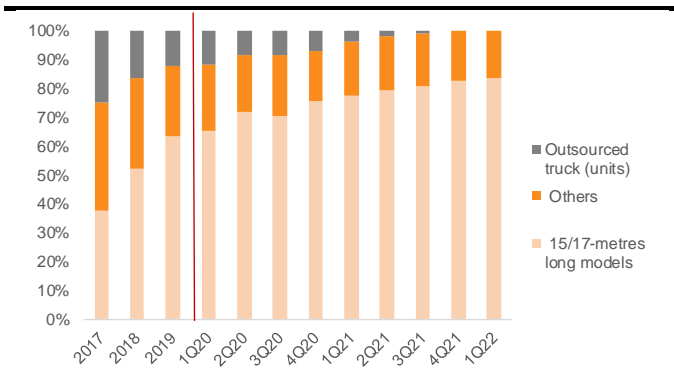
Source: Company data, The State Post Bureau, CMBIGM

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



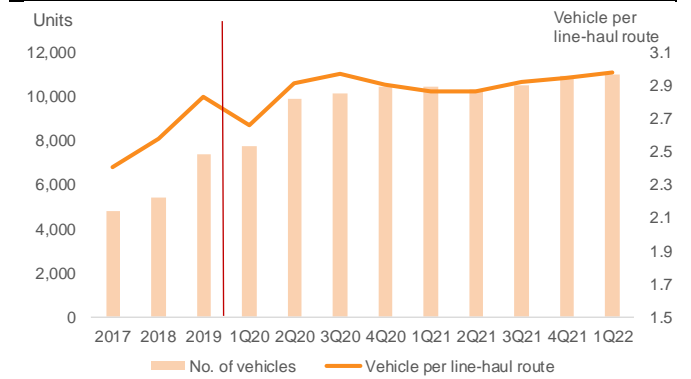
Source: Company data, CMBIGM

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



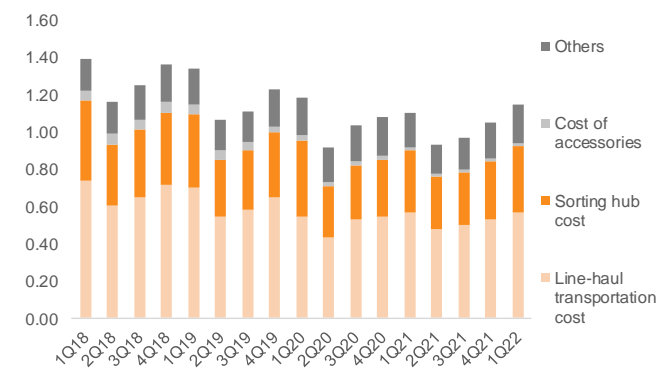
Source: Company data, CMBIGM

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



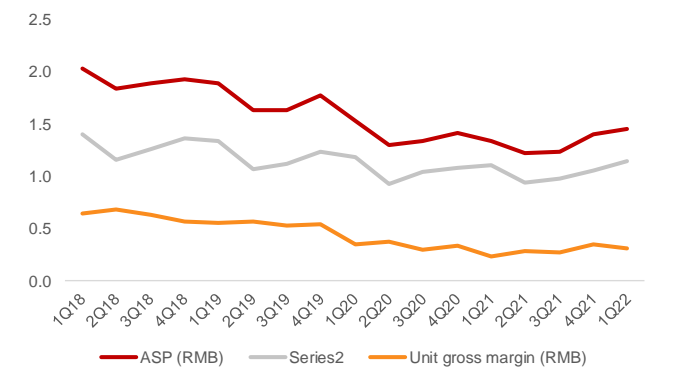
Source: Company data, CMBIGM

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	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Shipment volume (mn units of parcel)									
Unit of parcel	26,302	30,248	34,482	24,965	29,209	33,590	-5.1%	-3.4%	-2.6%
ASP (RMB/unit)									
Per unit of parcel	1.33	1.33	1.32	1.39	1.39	1.37	4.1%	4.1%	4.1%
Unit cost breakdown (RMB)									
Line-haul transportation cost	-0.52	-0.49	-0.48	-0.53	-0.51	-0.50	3.0%	4.1%	4.1%
Sorting hub cost	-0.29	-0.29	-0.28	-0.32	-0.31	-0.30	8.8%	8.8%	8.8%
Others	-0.17	-0.17	-0.17	-0.18	-0.17	-0.17	2.0%	2.0%	2.0%
Total	-1.00	-0.97	-0.95	-1.04	-1.01	-1.00	4.5%	5.0%	5.0%
Unit gross margin (RMB)	0.33	0.37	0.37	0.34	0.37	0.38	2.9%	1.6%	1.7%
(RMB mn)									
Revenue									
Express delivery, accessories & others	35,028	40,282	45,463	34,605	40,488	46,096	-1.2%	0.5%	1.4%
Freight forwarding services	1,683	1,851	1,943	1,453	1,598	1,678	-13.6%	-13.6%	-13.6%
Total	36,711	42,133	47,406	36,058	42,087	47,774	-1.8%	-0.1%	0.8%
Revenue growth								ppt	
Express delivery, accessories & others	21%	15%	13%	20%	17%	14%	(1.5)	2.0	1.0
Freight forwarding services	10%	10%	5%	-5%	10%	5%	(15.0)	0.0	0.0
Revenue	21%	15%	13%	19%	17%	14%	(2.1)	1.9	1.0
Gross margin								ppt	
Express delivery, accessories & others	25%	27%	28%	25%	27%	27%	(0.3)	(0.7)	(0.6)
Freight forwarding services	13%	13%	13%	7%	9%	9%	(6.0)	(4.0)	(4.0)
Gross margin	25%	27%	28%	24%	26%	27%	(0.5)	(0.7)	(0.7)
SG&A expense ratio	-6.0%	-5.8%	-5.8%	-6.0%	-5.8%	-5.8%	0.0	0.0	0.0
Net profit	6,196	7,975	9,270	5,718	7,373	8,618	-7.7%	-7.5%	-7.0%

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)					
	1.32	1.36	1.39	1.41	1.46	
	-0.557	3,825	4,634	5,174	5,714	6,523
	-0.541	4,151	4,961	5,501	6,040	6,850
Unit line-haul transportation cost (RMB)	-0.531	4,369	5,179	5,718	6,258	7,067
	-0.520	4,587	5,396	5,936	6,476	7,285
	-0.504	4,913	5,723	6,263	6,802	7,612

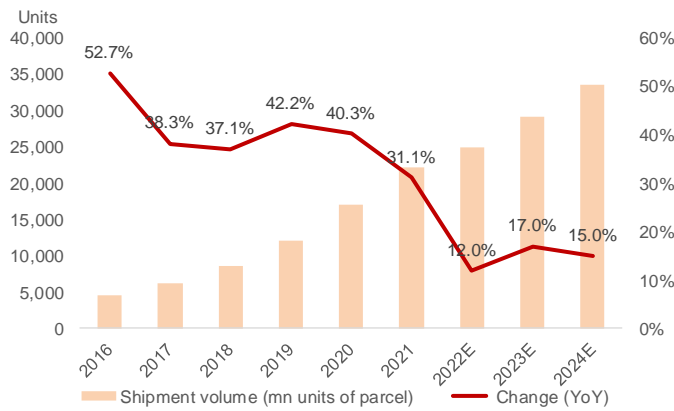
Source: Company data, CMBIGM estimates

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

2022E Net profit (RMB mn)	ASP (RMB/unit)					
	1.32	1.36	1.39	1.41	1.46	
	-0.337	4,040	4,850	5,389	5,929	6,739
	-0.327	4,238	5,047	5,587	6,126	6,936
Unit sorting hub cost (RMB)	-0.321	4,369	5,179	5,718	6,258	7,067
	-0.314	4,501	5,310	5,850	6,389	7,199
	-0.305	4,698	5,507	6,047	6,587	7,396

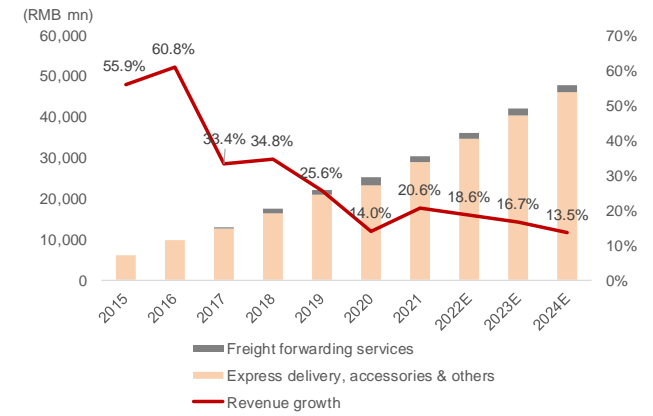
Source: Company data, CMBIGM estimates

Figure 13: ZTO's parcel shipment volume forecast



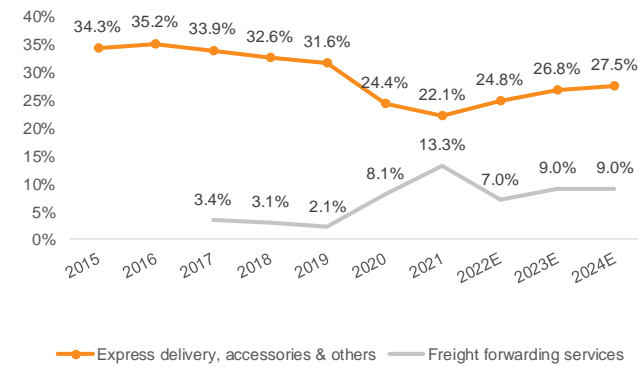
Source: Company data, CMBIGM estimate

Figure 14: ZTO's revenue forecast



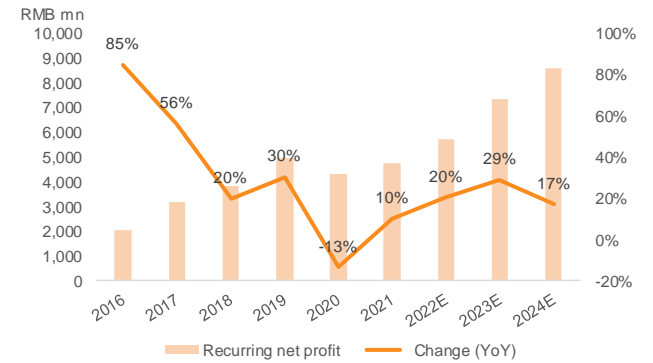
Source: Company data, CMBIGM estimate

Figure 15: ZTO's gross margin trend



Source: Company data, CMBIGM estimate

Figure 16: ZTO's net profit forecast

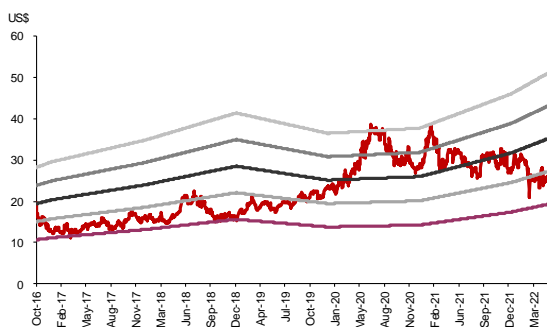


Source: Company data, CMBIGM estimate

Valuation

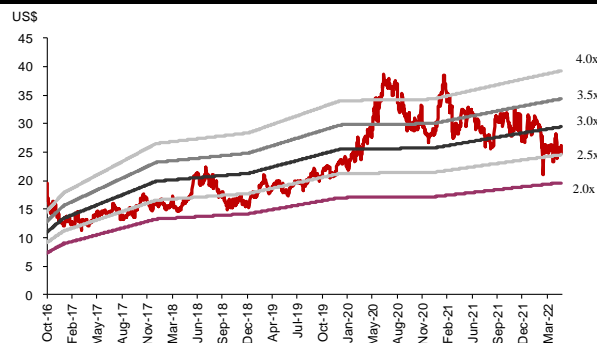
We trimmed our TP from US\$41 to US\$37.3, based on an unchanged target multiple of 35x, the mid-point between the peak (45x) and the historical average (26x). Our above average target multiple is to reflect the company's gradual market share gain and the recovery of profitability.

Figure 17: ZTO US's P/E band



Source: Bloomberg, Company data, CMBIGM estimates

Figure 18: 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	36,058	42,087	47,774
Cost of sales	-19,377	-23,816	-27,375	-31,091	-34,950
Gross profit	5,837	6,589	8,683	10,995	12,824
Other operating income	581	790	361	421	478
SG&A expense	-1,664	-1,876	-2,164	-2,441	-2,771
EBIT	4,754	5,503	6,880	8,975	10,531
Net finance income/(cost)	407	237	124	131	168
Finance income	443	364	227	199	219
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
FX gain/(loss)	-127	-56	0	0	0
Profit of JV & associates	-19	-32	4	19	21
Pretax profit	5,016	5,707	7,008	9,125	10,719
Income tax	-690	-1,005	-1,402	-1,825	-2,144
After tax profit	4,326	4,701	5,606	7,300	8,575
MI	-14	54	112	73	43
Net profit	4,312	4,755	5,718	7,373	8,618
Recurring net profit	4,312	4,755	5,718	7,373	8,618
D&A	1,840	2,222	3,163	3,777	4,351
EBITDA	6,595	7,725	10,043	12,752	14,882

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	5,016	5,707	7,008	9,125	10,719
Finance cost	35	127	104	69	51
Interest income	-443	-364	-227	-199	-219
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	-1,402	-1,825	-2,144
Change in working capital	-1,422	-18	-644	-228	-550
Others	152	162	0	0	0
Cash flow from operation	4,508	6,856	7,998	10,699	12,188
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	227	199	219
Others	5,012	64	-0	-0	-0
Cash flow from investing	-3,992	-9,120	-8,023	-8,201	-7,681
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	-1,715	-2,212
Others	10	-3,615	0	0	0
Cash flow from financing	8,337	-2,904	-2,458	-2,784	-2,263
Change in cash	8,853	-5,168	-2,483	-286	2,244
Cash at beginning of the year	5,270	14,213	9,721	7,238	6,952
Exchange gains/(losses) and others	89	677	0	0	0
Cash at the end of the year	14,213	9,721	7,238	6,952	9,196

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	36,880	44,106	50,382	54,620	59,338
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	2,539	2,074	3,162
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	15,851	16,549	18,426
Inventories	53	83	67	103	88
Account receivables	746	933	1,062	1,267	1,377
Financing receivables	492	1,111	667	1,409	947
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	7,238	6,952	9,196
Current liabilities	9,348	12,996	12,206	11,556	11,788
Account payables	1,636	1,958	2,167	2,518	2,749
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	53,001	58,659	65,065
MI	121	290	178	105	62

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Express delivery, accessories & others	93%	95%	96%	96%	96%
Freight forwarding services	7%	5%	4%	4%	4%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	23.1	21.7	24.1	26.1	26.8
EBITDA margin	26.2	25.4	27.9	30.3	31.1
EBIT margin	18.9	18.1	19.1	21.3	22.0
Net profit margin	17.2	15.5	15.5	17.3	17.9
Growth (%)					
Revenue	14.0	20.6	18.6	16.7	13.5
Gross profit	(11.8)	12.9	31.8	26.6	16.6
EBITDA	(2.0)	17.1	30.0	27.0	16.7
EBIT	(13.0)	15.7	25.0	30.4	17.3
Core net profit	(13.4)	10.3	20.3	28.9	16.9
Balance sheet ratio					
Current ratio (x)	2.4	1.4	1.3	1.4	1.6
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	8.9	10.7	11.6
ROE	9.9	9.7	11.3	13.2	13.9
Per share data					
EPS (RMB)	5.43	5.70	6.85	8.83	10.32
Core EPS (RMB)	5.43	5.70	6.85	8.83	10.32
BVPS (RMB)	58.67	58.26	63.48	70.26	77.93
DPS (RMB)	1.65	1.62	2.05	2.65	3.10

Source: Company data, CMBIGM estimates

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