

# Zoomlion (000157 CH)

## 1Q23 earnings slightly below expectation but recovery trend largely on track

Zoomlion's net profit in 1Q23 dropped 11% YoY to RMB810mn, below our expectation but due largely to fx loss. On the positive side, Zoomlion delivered revenue growth of 4% in 1Q23, the first YoY growth since 2Q21, driven by 123% YoY increase in overseas revenue. Besides, gross margin expanded 6.3ppt YoY and 2.2ppt QoQ to 26.3%. We expect a gradual recovery of construction machinery demand over the coming months. Maintain **BUY** with TP of RMB7.30.

■ **1Q23 results highlights.** Revenue grew 4% YoY to RMB10.4bn. Gross margin reached 26.4% (the highest level in two years), driven by the decline in raw material cost and improvement in production efficiency. Administrative expense ratio increased 0.6ppt YoY to 5.4%. R&D expense ratio increased 1.9ppt YoY to 6.2%. Net finance expense was RMB124mn, versus net finance income of RMB6mn in 1Q22, as a result of the recognition of fx loss. Effective tax rate dropped 1.1ppt to 9.1%. Net profit dropped 11% YoY to RMB810mn, representing 22% of our full year forecast (run rate in 1Q22: 39%). Operating cash inflow dropped 52% YoY to RMB286mn.

■ **Maintain BUY.** Our TP of RMB7.3 is based on 17x 2023E P/E (1SD above the average of 12.5x since the upcycle starting 2019; up from 0.5SD previously). We believe our target valuation is not excessive given (1) the potential earnings recovery; (2) the peak valuation reached 23x in the past.

■ **Major risk factors.** (1) Unexpected slowdown on infrastructure spending; (2) Weaker-than-expected property construction; (3) Risks of new business expansion; (4) Rebound of steel price.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	67,131	41,631	46,363	51,798	56,953
YoY growth (%)	3.1	(38.0)	11.4	11.7	10.0
Adjusted net profit (RMB mn)	6,303.0	2,347.0	3,719.1	4,404.0	4,747.8
EPS (Reported) (RMB)	0.76	0.28	0.43	0.51	0.55
YoY growth (%)	(21.6)	(63.3)	54.2	18.4	7.8
Consensus EPS (RMB)	na	0.32	0.40	0.49	0.00
P/E (x)	13.0	22.4	14.4	12.2	11.3
P/B (x)	1.5	1.0	1.0	0.9	0.9
Yield (%)	3.3	5.0	3.5	4.1	4.4
ROE (%)	12.4	4.4	6.9	8.0	8.2
Net gearing (%)	(1.6)	7.3	11.2	12.2	11.6

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB7.30

(Previous TP) RMB7.30)

**Up/Downside** 17.9%

**Current Price** RMB6.19

### China Capital Goods

**Wayne FUNG, CFA**

(852) 3900 0826

waynefung@cmbi.com.hk

**Katherine NG**

(852) 3761 8725

katherineng@cmbi.com.hk

### Stock Data

Mkt Cap (RMB mn)	53,716.8
Avg 3 mths t/o (RMB mn)	276.4
52w High/Low (RMB)	6.88/5.35
Total Issued Shares (mn)	8678.0

Source: FactSet

### Shareholding Structure

SASAC of Hunan Province	15.0%
Management team	8.0%

Source: SSE

### Share Performance

	Absolute	Relative
1-mth	0.3%	1.7%
3-mth	6.0%	11.9%
6-mth	10.7%	1.6%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Reports

- Zoomlion (000157 CH, BUY) – Surprise on dividend; Potential resumption of A-share repurchase; U/G to BUY
- China Construction Machinery & HDT Sector – Near-term recovery more seasonal than structural; Pair trade opportunities – 27 Feb 2023 ([link](#))
- China Construction Machinery & HDT Sector – Upbeat guidance from US AWP manufacturers reaffirms our positive stance on the sector – 13 Feb 2023 ([link](#))
- Zoomlion (1157 HK, BUY) – Spin-off of AWP busines to unlock value – 17 Jan 2023 ([link](#))

**Figure 1: Zoomlion's quarterly results**

(RMB mn)	1Q22	1Q23	Change YoY	2Q21	2Q22	Change YoY	3Q21	3Q22	Change YoY	4Q21	4Q22	Change YoY
<b>Total revenue</b>	<b>10,012</b>	<b>10,426</b>	<b>4.1%</b>	<b>23,398</b>	<b>11,288</b>	<b>-51.8%</b>	<b>11,979</b>	<b>9,349</b>	<b>-22.0%</b>	<b>12,704</b>	<b>10,982</b>	<b>-13.6%</b>
Cost of sales	(8,002)	(7,674)	-4.1%	(17,961)	(8,871)	-50.6%	(9,336)	(7,348)	-21.3%	(10,109)	(8,322)	-17.7%
<b>Gross profit</b>	<b>2,009</b>	<b>2,752</b>	<b>36.9%</b>	<b>5,438</b>	<b>2,417</b>	<b>-55.6%</b>	<b>2,643</b>	<b>2,001</b>	<b>-24.3%</b>	<b>2,594</b>	<b>2,660</b>	<b>2.5%</b>
Other income	(7)	(6)	-12.5%	585	699	19.6%	180	(98)	n/a	589	388	-34.1%
S&D expenses	(498)	(677)	35.8%	(1,006)	(658)	-34.6%	(752)	(728)	-3.3%	(662)	(751)	13.5%
Administrative expenses	(488)	(567)	16.2%	(1,968)	(1,238)	-37.1%	(564)	(578)	2.6%	(684)	(1,230)	79.7%
R&D expenses	(434)	(645)	48.7%	(1,193)	(688)	-42.3%	(933)	(668)	-28.4%	(927)	(717)	-22.7%
<b>EBIT</b>	<b>582</b>	<b>856</b>	<b>47.2%</b>	<b>3,049</b>	<b>1,221</b>	<b>-60.0%</b>	<b>574</b>	<b>(72)</b>	<b>n/a</b>	<b>910</b>	<b>351</b>	<b>-61.4%</b>
Net finance income/(cost)	6	(124)	n/a	107	219	104.0%	2	322	17306.0%	(42)	(247)	491.0%
Other gains/(losses)	406	180	-55.6%	(226)	(406)	79.4%	310	244	-21.1%	(310)	(244)	-21.1%
Share of profit of JV and associates	48	32	-33.5%	55	20	-64.0%	9	15	64.9%	48	47	-1.5%
<b>Pretax profit</b>	<b>1,042</b>	<b>944</b>	<b>-9.3%</b>	<b>2,985</b>	<b>1,054</b>	<b>-64.7%</b>	<b>895</b>	<b>510</b>	<b>-43.1%</b>	<b>607</b>	<b>(93)</b>	<b>n/a</b>
Income tax	(105)	(86)	-18.8%	(465)	(211)	-54.8%	(25)	(73)	187.4%	(2)	303	n/a
<b>After tax profit</b>	<b>936</b>	<b>859</b>	<b>-8.3%</b>	<b>2,520</b>	<b>843</b>	<b>-66.5%</b>	<b>869</b>	<b>436</b>	<b>-49.8%</b>	<b>605</b>	<b>210</b>	<b>-65.3%</b>
MI	(30)	(49)	64.0%	(60)	(13)	-77.7%	6	(4)	n/a	(53)	(32)	-40.1%
<b>Net profit</b>	<b>906</b>	<b>810</b>	<b>-10.6%</b>	<b>2,460</b>	<b>830</b>	<b>-66.3%</b>	<b>875</b>	<b>432</b>	<b>-50.6%</b>	<b>552</b>	<b>178</b>	<b>-67.7%</b>
<b>Key ratios</b>			<b>Change (ppt)</b>			<b>Change (ppt)</b>			<b>Change (ppt)</b>			<b>Change (ppt)</b>
Gross margin	20.1%	26.4%	6.3	23.2%	21.4%	-1.8	22.1%	21.4%	-0.7	20.4%	24.2%	3.8
S&D expenses ratio	5.0%	6.5%	1.5	4.3%	5.8%	1.5	6.3%	7.8%	1.5	5.2%	6.8%	1.6
Administrative expense ratio	4.9%	5.4%	0.6	8.4%	11.0%	2.6	4.7%	6.2%	1.5	5.4%	11.2%	5.8
R&D expense ratio	4.3%	6.2%	1.9	5.1%	6.1%	1.0	7.8%	7.1%	-0.6	7.3%	6.5%	-0.8
Net margin	9.3%	8.2%	-1.1	10.8%	7.5%	-3.3	7.3%	4.7%	-2.6	4.8%	1.9%	-2.9
Effective tax rate	10.1%	9.1%	-1.1	15.6%	20.0%	4.4	2.8%	14.4%	11.5	0.3%	325.6%	325.4

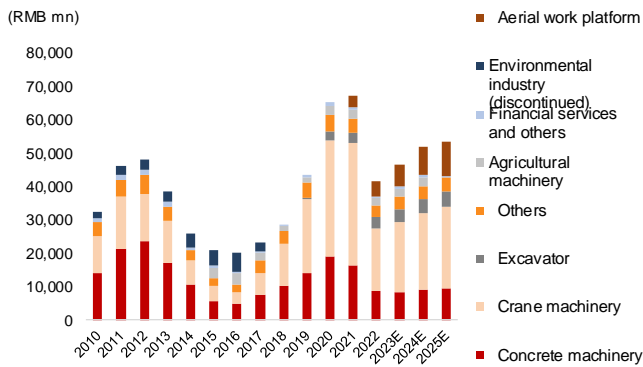
Source: Company data, CMBIGM

**Figure 2: Key assumptions**

(RMB mn)	2020	2021	2022	2023E	2024E	2025E
<b>Revenue</b>						
Construction machinery	61,383	63,523	38,991	43,236	48,249	53,017
Concrete machinery	18,985	16,380	8,460	8,375	9,045	9,498
Crane machinery	34,897	36,493	18,979	20,877	22,756	24,576
Aerial work platform	-	3,351	4,597	6,436	8,367	10,458
Excavator	2,665	3,236	3,511	3,897	4,248	4,460
Others	4,837	4,063	3,444	3,651	3,833	4,025
Agricultural machinery	2,644	2,907	2,138	2,605	2,995	3,355
Financial services and others	1,082	701	502	522	553	581
<b>Total revenue</b>	<b>65,109</b>	<b>67,131</b>	<b>41,631</b>	<b>46,363</b>	<b>51,798</b>	<b>56,953</b>
<b>Revenue growth</b>						
Construction machinery	49.7%	3.5%	-38.6%	10.9%	11.6%	9.9%
Concrete machinery	36.6%	-13.7%	-48.4%	-10%	8.0%	5.0%
Crane machinery	57.6%	4.6%	-48.0%	10.0%	9.0%	8.0%
Aerial work platform	-	-	37.2%	40.0%	30.0%	25.0%
Excavator	282.0%	21.4%	8.5%	11.0%	9.0%	5.0%
Others	13.9%	-16.0%	-15.2%	6.0%	5.0%	5.0%
Agricultural machinery	67.0%	9.9%	-26.5%	21.8%	15.0%	12.0%
Financial services	47.6%	-35.2%	-28.4%	4.0%	6.0%	5.0%
<b>Total revenue growth</b>	<b>50.3%</b>	<b>3.1%</b>	<b>-38.0%</b>	<b>11.4%</b>	<b>11.7%</b>	<b>10.0%</b>
<b>Gross profit</b>						
Construction machinery	17,096	14,766	8,502	9,835	11,308	12,429
Concrete machinery	5,000	3,968	1,779	1,884	2,080	2,184
Crane machinery	10,825	8,501	4,348	4,906	5,416	5,849
Aerial work platform	-	696	957	1,416	1,966	2,458
Excavator	427	614	824	935	1,041	1,093
Others	843	987	594	694	805	845
Agricultural machinery	444	405	95	287	389	436
Financial services	1,077	680	491	506	537	564
<b>Total gross profit</b>	<b>18,617</b>	<b>15,851</b>	<b>9,088</b>	<b>10,628</b>	<b>12,234</b>	<b>13,429</b>
<b>Gross margin</b>						
Construction machinery	27.9%	23.2%	21.8%	22.7%	23.4%	23.4%
Concrete machinery	26.3%	24.2%	21.0%	22.5%	23.0%	23.0%
Crane machinery	31.0%	23.3%	22.9%	23.5%	23.8%	23.8%
Aerial work platform	-	20.8%	20.8%	22.0%	23.5%	23.5%
Excavator	16.0%	19.0%	23.5%	24.0%	24.5%	24.5%
Others	17.4%	24.3%	17.2%	19.0%	21.0%	21.0%
Agricultural machinery	16.8%	13.9%	4.4%	11.0%	13.0%	13.0%
Financial services	99.5%	97.0%	97.8%	97.0%	97.0%	97.0%
<b>Average gross margin</b>	<b>28.6%</b>	<b>23.6%</b>	<b>21.8%</b>	<b>22.9%</b>	<b>23.6%</b>	<b>23.6%</b>

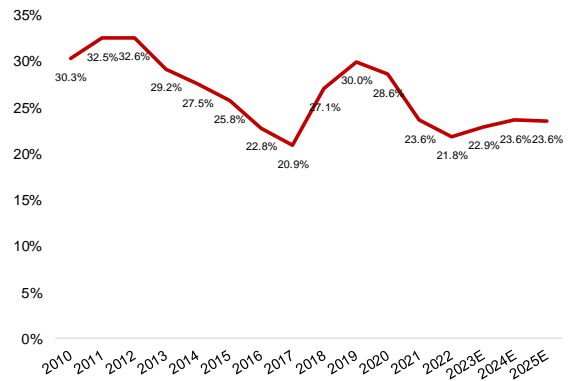
Source: Company data, CMBIGM estimates

**Figure 3: Zoomlion revenue breakdown**



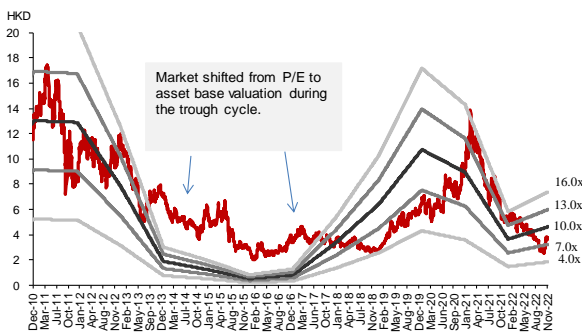
Source: Company data, CMBIGM estimates

**Figure 4: Zoomlion blended gross margin trend**



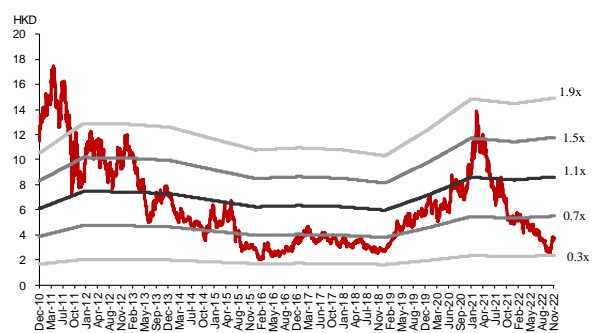
Source: Company data, CMBIGM estimates

**Figure 5: Zoomlion - H 12M forward P/E band**



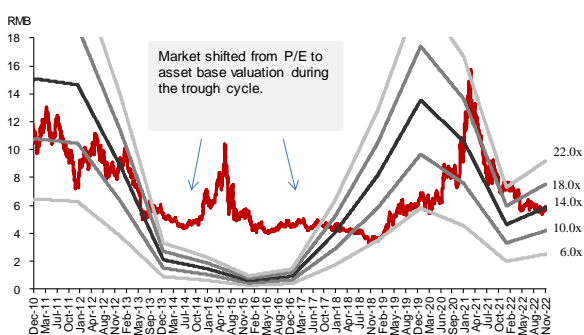
Source: Bloomberg, Company data, CMBIGM estimates

**Figure 6: Zoomlion - H 12M forward P/B band**



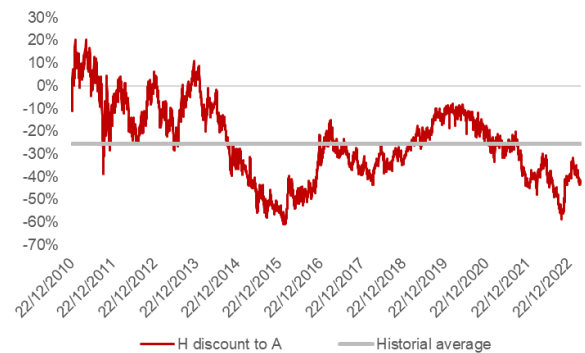
Source: Bloomberg, Company data, CMBIGM estimates

**Figure 7: Zoomlion - A 12M forward P/E band**



Source: Bloomberg, Company data, CMBIGM estimates

**Figure 8: Zoomlion - H is trading at 40% discount to A share**



Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>65,109</b>	<b>67,131</b>	<b>41,631</b>	<b>46,363</b>	<b>51,798</b>	<b>56,953</b>
Cost of goods sold	(46,493)	(51,280)	(32,543)	(35,734)	(39,563)	(43,524)
<b>Gross profit</b>	<b>18,617</b>	<b>15,851</b>	<b>9,088</b>	<b>10,628</b>	<b>12,234</b>	<b>13,429</b>
Selling expense	(4,046)	(3,473)	(2,635)	(2,735)	(2,901)	(3,132)
Admin expense	(4,048)	(2,729)	(2,846)	(2,225)	(2,434)	(2,677)
R&D expense	(3,345)	(3,865)	(2,507)	(2,643)	(2,952)	(3,246)
Other income	1,462	1,413	982	1,014	1,014	1,014
Other gains/(losses)	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	182	154	130	230	241	254
<b>EBITDA</b>	<b>9,467</b>	<b>8,096</b>	<b>3,116</b>	<b>5,141</b>	<b>6,098</b>	<b>6,560</b>
Depreciation	827	899	1,034	1,102	1,138	1,173
<b>EBIT</b>	<b>8,640</b>	<b>7,197</b>	<b>2,082</b>	<b>4,039</b>	<b>4,960</b>	<b>5,387</b>
Interest income	596	970	989	1,244	1,122	1,100
Interest expense	(750)	(964)	(689)	(1,054)	(1,045)	(1,049)
<b>Net Interest income/(expense)</b>	<b>(154)</b>	<b>6</b>	<b>300</b>	<b>190</b>	<b>78</b>	<b>51</b>
<b>Pre-tax profit</b>	<b>8,668</b>	<b>7,357</b>	<b>2,512</b>	<b>4,458</b>	<b>5,279</b>	<b>5,691</b>
Income tax	(1,297)	(938)	(86)	(624)	(739)	(797)
Minority interest	(75)	(116)	(79)	(115)	(136)	(147)
<b>Net profit</b>	<b>7,371</b>	<b>6,419</b>	<b>2,426</b>	<b>3,834</b>	<b>4,540</b>	<b>4,895</b>
<b>Adjusted net profit</b>	<b>7,296</b>	<b>6,303</b>	<b>2,347</b>	<b>3,719</b>	<b>4,404</b>	<b>4,748</b>
Gross dividends	4,202	2,777	2,694	1,860	2,202	2,374
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>66,956</b>	<b>72,714</b>	<b>73,602</b>	<b>71,293</b>	<b>77,280</b>	<b>78,355</b>
Cash & equivalents	10,086	13,190	13,791	11,081	10,305	10,444
Account receivables	23,972	32,108	33,962	34,629	39,165	38,854
Inventories	14,652	13,501	14,203	13,210	14,972	15,554
ST bank deposits	2,223	1,775	1,708	1,708	1,708	1,708
Financial assets at FVTPL	4,284	6,408	4,011	4,011	4,011	4,011
Other current assets	11,739	5,732	5,927	6,655	7,118	7,785
<b>Non-current assets</b>	<b>49,287</b>	<b>49,268</b>	<b>49,915</b>	<b>56,752</b>	<b>53,295</b>	<b>60,692</b>
PP&E	7,342	9,740	13,903	14,564	14,695	14,796
Deferred income tax	1,453	1,148	1,907	1,907	1,907	1,907
Investment in JVs & assos	3,388	4,190	4,476	4,706	4,947	5,201
Intangibles	1,965	1,850	1,926	1,813	1,694	1,570
Goodwill	2,054	1,908	2,562	2,562	2,562	2,562
Financial assets at FVTPL	2,703	2,418	2,263	2,263	2,263	2,263
Other non-current assets	30,382	28,014	22,878	28,937	25,227	32,393
<b>Total assets</b>	<b>116,243</b>	<b>121,982</b>	<b>123,517</b>	<b>128,045</b>	<b>130,575</b>	<b>139,047</b>
<b>Current liabilities</b>	<b>46,928</b>	<b>49,675</b>	<b>48,393</b>	<b>51,781</b>	<b>51,630</b>	<b>57,409</b>
Short-term borrowings	2,964	11,011	11,018	10,518	10,618	10,718
Account payables	40,387	36,600	35,259	39,147	38,896	44,575
Tax payable	710	97	101	101	101	101
Other current liabilities	2,867	1,967	2,015	2,015	2,015	2,015
<b>Non-current liabilities</b>	<b>21,465</b>	<b>14,047</b>	<b>18,185</b>	<b>18,185</b>	<b>18,185</b>	<b>18,185</b>
Long-term borrowings	16,337	7,894	10,962	10,962	10,962	10,962
Other non-current liabilities	5,128	6,153	7,223	7,223	7,223	7,223
<b>Total liabilities</b>	<b>68,393</b>	<b>63,722</b>	<b>66,578</b>	<b>69,966</b>	<b>69,815</b>	<b>75,594</b>
<b>Total shareholders equity</b>	<b>46,706</b>	<b>56,831</b>	<b>54,705</b>	<b>55,730</b>	<b>58,275</b>	<b>60,820</b>
Minority interest	1,144	1,429	2,234	2,349	2,485	2,632
<b>Total equity and liabilities</b>	<b>116,243</b>	<b>121,982</b>	<b>123,517</b>	<b>128,045</b>	<b>130,575</b>	<b>139,047</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	8,668	7,357	2,512	4,458	5,279	5,691
Depreciation & amortization	827	899	1,034	1,102	1,138	1,173
Tax paid	(900)	(1,361)	(436)	(624)	(739)	(797)
Change in working capital	(1,259)	(4,602)	(1,411)	(2,623)	(3,352)	(2,474)
Others	10,000	12,421	3,325	6,603	8,233	7,789
<b>Net cash from operations</b>	<b>7,232</b>	<b>2,189</b>	<b>1,951</b>	<b>1,893</b>	<b>2,007</b>	<b>3,290</b>
<b>Investing</b>						
Capital expenditure	(317)	(1,401)	(4,957)	(1,500)	(1,000)	(1,000)
Acquisition of subsidiaries/ investments	(448)	0	0	0	0	0
Others	1,741	4	5,998	1,144	1,022	1,000
<b>Net cash from investing</b>	<b>976</b>	<b>(1,397)</b>	<b>1,041</b>	<b>(356)</b>	<b>22</b>	<b>0</b>
<b>Financing</b>						
Dividend paid	(1,712)	(3,041)	(2,777)	(2,694)	(1,860)	(2,202)
Net borrowings	(2,309)	76	3,075	(500)	100	100
Proceeds from share issues	0	6,088	(1,555)	0	0	0
Others	777	(703)	(1,237)	(1,054)	(1,045)	(1,049)
<b>Net cash from financing</b>	<b>(3,244)</b>	<b>2,420</b>	<b>(2,494)</b>	<b>(4,248)</b>	<b>(2,804)</b>	<b>(3,152)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	5,073	10,086	13,190	13,791	11,081	10,305
Exchange difference	49	(108)	103	0	0	0
<b>Cash at the end of the year</b>	<b>10,086</b>	<b>13,190</b>	<b>13,791</b>	<b>11,081</b>	<b>10,305</b>	<b>10,444</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	50.3%	3.1%	(38.0%)	11.4%	11.7%	10.0%
Gross profit	43.3%	(14.9%)	(42.7%)	16.9%	15.1%	9.8%
EBITDA	37.4%	(14.5%)	(61.5%)	65.0%	18.6%	7.6%
EBIT	43.5%	(16.7%)	(71.1%)	94.0%	22.8%	8.6%
Net profit	72.0%	(12.9%)	(62.2%)	58.0%	18.4%	7.8%
Adj. net profit	66.5%	(13.6%)	(62.8%)	58.5%	18.4%	7.8%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	28.6%	23.6%	21.8%	22.9%	23.6%	23.6%
EBITDA margin	14.5%	12.1%	7.5%	11.1%	11.8%	11.5%
Adj. net profit margin	11.2%	9.4%	5.6%	8.0%	8.5%	8.3%
Return on equity (ROE)	17.2%	12.4%	4.4%	6.9%	8.0%	8.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.1	(0.0)	0.1	0.1	0.1	0.1
Current ratio (x)	1.4	1.5	1.5	1.4	1.5	1.4
Receivable turnover days	190.6	235.3	413.2	382.0	365.0	350.0
Inventory turnover days	103.7	100.2	155.4	140.0	130.0	128.0
Payable turnover days	256.7	274.0	403.0	380.0	360.0	350.0
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	7.7	13.0	22.4	14.4	12.2	11.3
P/B	1.3	1.5	1.0	1.0	0.9	0.9
Div yield (%)	7.2	3.3	5.0	3.5	4.1	4.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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## CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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