

ZTO Express (ZTO US)

Clear guidance on volume and market share target; further room of cost reduction

ZTO managed to deliver net profit growth of 25% YoY in 4Q22 amid the tough macro environment, which showed strong resilience. This took the full year net profit to RMB6.8bn (+43% YoY). Meanwhile, ZTO achieved positive free cash flow in 2022, the first time since 2018. Looking ahead, ZTO is confident of achieving 18-22% parcel volume growth, which will translate into 1.5ppt YoY increase in market share. On the cost side, given the current low utilization rate of vehicles and further improvement of route planning, there exists room for unit transportation cost reduction brought by operating leverage. We revise up our 2023E/24E earnings by 6%/9%, due largely to higher parcel volume projection. Besides, we expect ZTO will continue to generate free cash flow, which will potentially boost higher dividend payout in the future (31% in 2022). We expect parcel volume growth will accelerate to 18% in 1Q23E (up from 4% in 4Q22), which will serve as positive catalyst. We raise our TP to US\$41 from US\$39.1, based on 29x 2023E P/E. Maintain **BUY**.

Key highlights in 4Q22 results:

- **Reported net profit in 4Q22 grew 25% YoY to RMB2.2bn.** The growth was driven by (1) 7% YoY revenue growth, and (2) 3.7ppt YoY gross margin expansion to 28.1%. SG&A expenses grew 19% YoY due to the increased employee compensation. The full-year net profit surged 43% YoY to RMB6.8bn in 2022, with gross margin improved to 25.6% (vs. 21.7% in 2021).
- **Parcel volume grew 4% YoY to 6.6bn units in 4Q22, outpacing the industry average (-3% YoY).** Market share expanded to 21.6% in 4Q22 from 20.1% in 4Q21.
- **ASP +5% YoY in 4Q22.** Parcel delivery ASP increased 5% YoY to RMB1.46/unit in 4Q22 (vs. RMB1.39/unit in 4Q21), the fourth consecutive quarterly increase. The full-year parcel ASP increased 8% YoY to RMB1.4/unit (vs. RMB1.3/unit in 2021).
- **Unit cost -0.7% YoY in 4Q22.** Unit cost of transportation decreased 2.5% YoY to RMB0.51/unit despite the increased diesel price (industry data: +12% YoY), largely offset by the continuous truck efficiency and route planning improvement. However, unit cost of sorting hub increased 2.2% YoY to RMB0.32/unit, due to higher salary and depreciation. Unit gross margin grew 21% YoY to RMB0.42/unit.
- **Major risk factors:** (1) unexpected price competition; (2) slowdown of online retail sales; and (3) further increase in diesel price.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	30,406	35,377	41,861	48,587	55,469
YoY growth (%)	21	16	18	16	14
Core net profit (RMB mn)	4,755	6,809	8,119	9,762	11,252
Core EPS (RMB)	5.70	8.16	9.72	11.69	13.48
YoY growth (%)	5.0	43.2	19.2	20.2	15.3
Consensus EPS (RMB)	N/A	N/A	9.75	11.92	12.98
EV/EBITDA (x)	17.4	12.9	10.5	8.7	7.6
P/E (x)	32.2	23.4	19.8	16.5	14.3
P/B (x)	3.1	2.9	2.7	2.4	2.1
Yield (%)	0.9	1.3	1.5	1.8	2.1
ROE (%)	9.7	13.3	14.2	15.3	15.7
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\$39.1)
Up/Downside	+46.4%
Current Price	US\$28.0

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Stock Data

Mkt Cap (US\$ mn)	22,625
Avg 3 mths t/o (US\$ mn)	65.62
52w High/Low (US\$)	29.79/ 16.27
Total Issued Shares (mn)	808.4
Source: Bloomberg	

Shareholding Structure

Meisong Lai	25.6%
Alibaba	8.6%
Others	65.8%

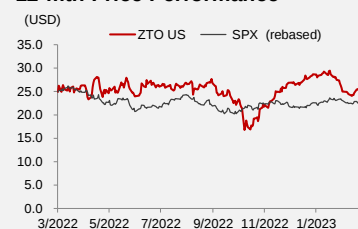
Note: Under the weighted voting rights structure, Meisong Lai has 76.8% of the total voting right
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.7%	12.3%
3-mth	4.2%	1.3%
6-mth	4.5%	2.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related reports:

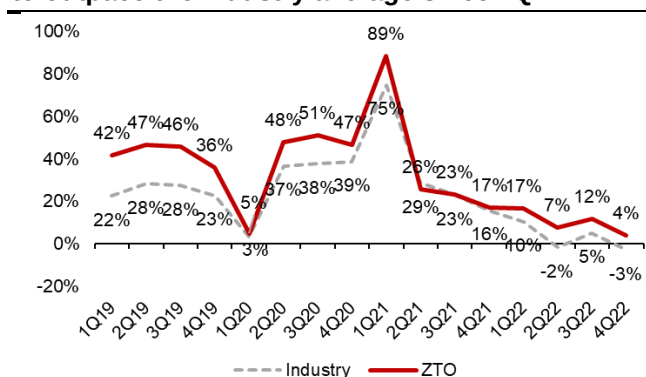
1. Record-high market share; Good cost control; Earnings raised on better margin – 18 Aug 2022
2. Lower parcel volume guidance but largely expected; ASP story well intact – 27 Mar 2022

Figure 1: ZTO's 4Q22 results

(RMB mn)	1Q21	1Q22	Change YoY	2Q21	2Q22	Change YoY	3Q21	3Q22	Change YoY	4Q21	4Q22	Change YoY
Total revenue	6,473	7,904	22.1%	7,325	8,657	18.2%	7,391	8,945	21.0%	9,218	9,871	7.1%
Cost of sales	-5,376	-6,285	16.9%	-5,651	-6,454	14.2%	-5,822	-6,501	11.6%	-6,967	-7,099	1.9%
Gross profit	1,097	1,619	47.7%	1,674	2,203	31.6%	1,568	2,444	55.9%	2,251	2,773	23.2%
Other income	157	115	-26.6%	176	240	36.1%	182	172	-5.4%	275	248	-9.9%
SG&A expenses	-620	-618	-0.3%	-394	-457	16.0%	-389	-441	13.4%	-472	-561	18.8%
EBIT	633	1,116	76.4%	1,456	1,986	36.4%	1,360	2,175	59.9%	2,054	2,460	19.8%
D&A	521	633	21.4%	565	672	19.0%	538	665	23.7%	598	701	17.2%
EBITDA	1,154	1,749	51.5%	2,020	2,658	31.5%	1,898	2,840	49.6%	2,652	3,160	19.2%
Net finance income/(expense)	60	51	-14.1%	69	95	39.0%	40	131	230.7%	69	36	-48.6%
Finance income	75	111	47.2%	102	118	15.7%	92	162	76.9%	94	112	18.6%
Finance expenses	-16	-60	282.7%	-34	-23	-31.6%	-52	-32	-39.5%	-25	-76	n/a
Gain/(loss) on disposal of subsidiaries	0	0	n/a	0	0	n/a	5	-23	n/a	-3	92	n/a
Impairment of investment in equity investees	0	0	n/a	0	0	n/a	0	0	n/a	53	20	-62.4%
Fair value changes of financial instruments	16	-1	n/a	32	-14	n/a	0	0	n/a	-48	14	n/a
FX gain/(loss)	-0	-13	3763.4%	-26	120	n/a	-8	31	n/a	-22	9	n/a
Share of profit of JV and associates	-25	-23	-7.4%	-4	10	n/a	-20	-13	-31.9%	16	33	103.8%
Pretax profit	683	1,131	65.5%	1,527	2,197	43.9%	1,377	2,301	67.0%	2,119	2,664	25.7%
Income tax	-150	-255	70.6%	-255	-438	71.9%	-230	-439	91.4%	-371	-501	34.8%
After tax profit	534	876	64.1%	1,272	1,759	38.2%	1,148	1,861	62.1%	1,748	2,163	23.8%
MI	0	31	30956.6%	20	46	133.0%	19	40	110.2%	15	33	127.6%
Net profit	534	906	69.8%	1,292	1,805	39.7%	1,167	1,901	62.9%	1,762	2,197	24.7%
Ratios:			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>
Gross margin	16.9%	20.5%	3.5	22.8%	25.4%	2.6	21.2%	27.3%	6.1	24.4%	28.1%	3.7
EBIT margin	9.8%	14.1%	4.3	19.9%	22.9%	3.1	18.4%	24.3%	5.9	22.3%	24.9%	2.6
After tax profit margin	8.2%	11.1%	2.8	17.4%	20.3%	2.9	15.5%	20.8%	5.3	19.0%	21.9%	3.0
Effective tax rate	21.9%	22.6%	0.7	16.7%	19.9%	3.3	16.7%	19.1%	2.4	17.5%	18.8%	1.3

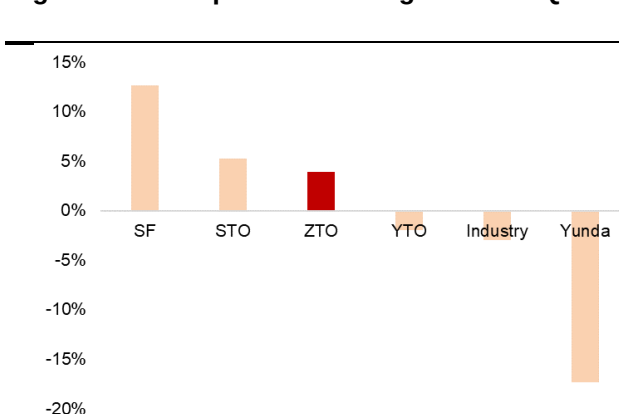
Source: Company data, CMBIGM

Figure 2: ZTO's parcel volume growth has continued to outpace the industry average since 4Q21



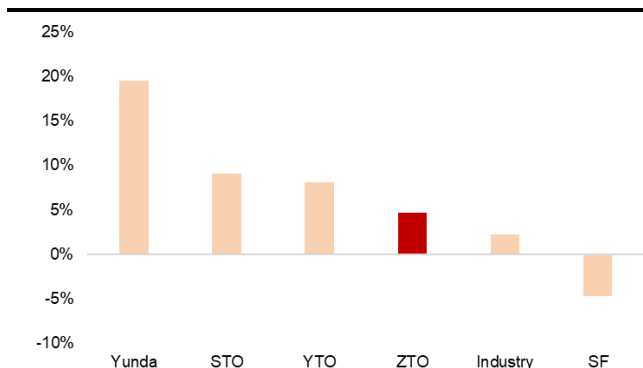
Source: Company data, The State Post Bureau, CMBIGM

Figure 3: ZTO's parcel volume growth in 4Q22



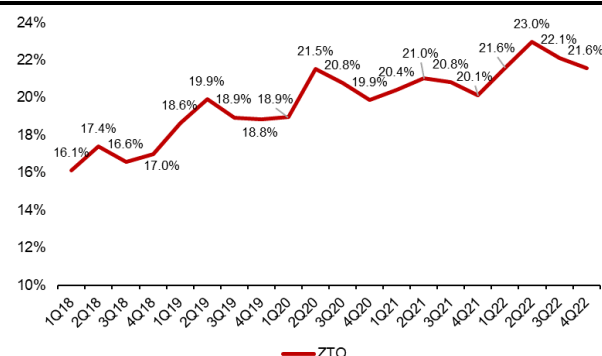
Source: Company data, The State Post Bureau, CMBIGM

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



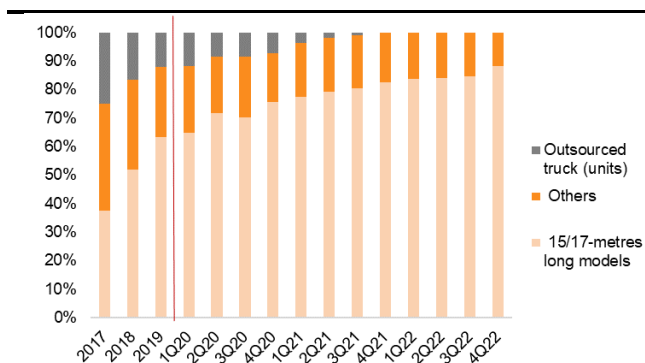
Source: Company data, The State Post Bureau, CMBIGM

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



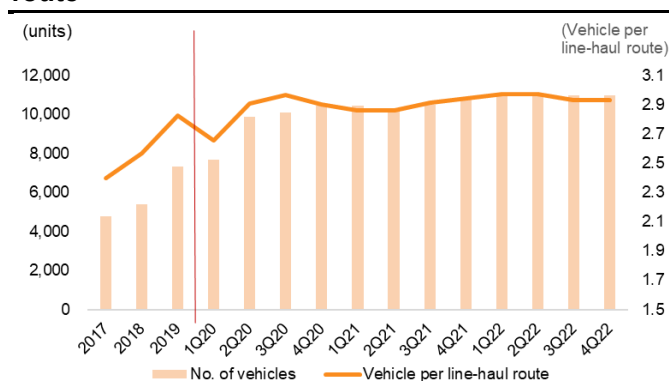
Source: Company data, CMBIGM

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



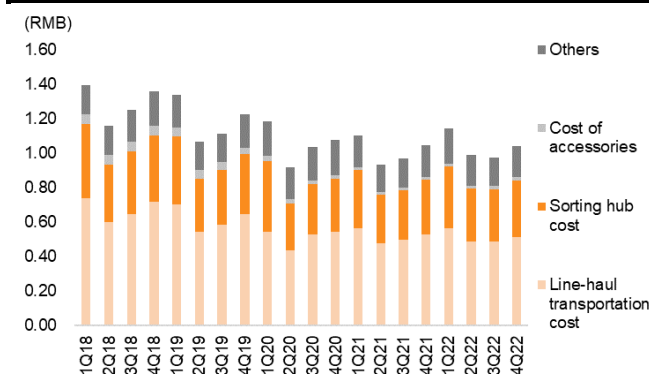
Source: Company data, CMBIGM

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



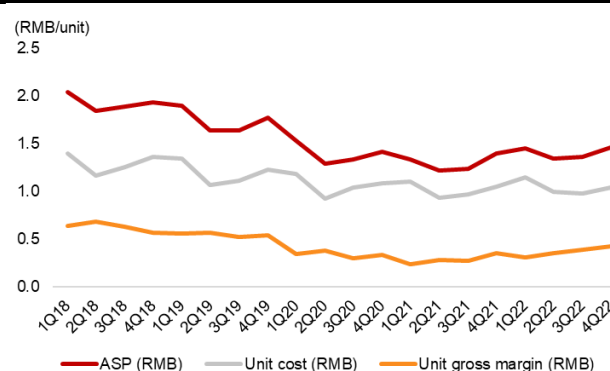
Source: Company data, CMBIGM

Figure 8: ZTO's 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	
	2023E	2024E	2023E	2024E	2023E	2024E
Shipment volume (mn units of parcel)						
Unit of parcel	28,710	33,016	29,268	34,244	1.9%	3.7%
ASP (RMB/unit)						
Per unit of parcel	1.39	1.38	1.39	1.38	-0.4%	0.1%
Unit cost (RMB)						
Line-haul transportation cost	-0.50	-0.49	-0.50	-0.49	-1.5%	-1.5%
Sorting hub cost	-0.31	-0.30	-0.31	-0.30	2.3%	2.3%
Others	-0.18	-0.18	-0.18	-0.18	-1.0%	-1.0%
Total	-1.00	-0.99	-1.01	-0.99	0.1%	0.1%
Unit gross margin (RMB)	0.39	0.39	0.38	0.39	-1.8%	0.0%
(RMB mn)						
Revenue						
Express delivery, accessories & others	39,982	45,520	40,587	47,250	1.5%	3.8%
Freight forwarding services	1,445	1,518	1,273	1,337	-11.9%	-11.9%
Total	41,428	47,037	41,861	48,587	1.0%	3.3%
Revenue growth					ppt	
Express delivery, accessories & others	15%	14%	19%	16%	3.8	2.6
Freight forwarding services	5%	5%	5%	5%	0.0	0.0
Revenue	15%	14%	18%	16%	3.7	2.5
Gross margin					ppt	
Express delivery, accessories & others	28%	29%	27%	28%	(0.4)	(0.0)
Freight forwarding services	9%	9%	8%	8%	(1.0)	(1.0)
Gross margin	27%	28%	27%	28%	(0.3)	0.0
SG&A expense ratio	-5.8%	-5.8%	-5.8%	-5.8%	0.0	0.0
Net profit	7,653	8,930	8,119	9,859	6.1%	10.4%

Source: Company data, CMBIGM estimates

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

2023E Net profit (RMB mn)		ASP (RMB/unit)				
		1.32	1.36	1.39	1.41	1.46
	-0.521	5,916	6,879	7,521	8,163	9,127
	-0.506	6,274	7,237	7,880	8,522	9,485
Unit line-haul transportation cost (RMB)	-0.496	6,513	7,476	8,119	8,761	9,724
	-0.486	6,752	7,715	8,358	9,000	9,963
	-0.472	7,111	8,074	8,716	9,358	10,322

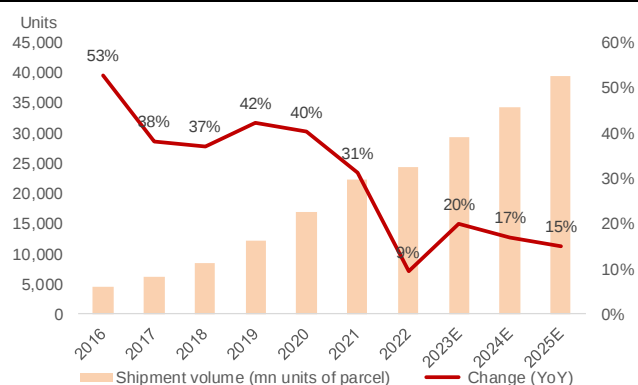
Source: Company data, CMBIGM estimates

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

2023E Net profit (RMB mn)		ASP (RMB/unit)				
		1.32	1.36	1.39	1.41	1.46
	-0.328	6,137	7,101	7,743	8,385	9,349
	-0.318	6,363	7,326	7,968	8,611	9,574
Unit sorting hub cost (RMB)	-0.312	6,513	7,476	8,119	8,761	9,724
	-0.306	6,663	7,627	8,269	8,911	9,875
	-0.296	6,889	7,852	8,494	9,137	10,100

Source: Company data, CMBIGM estimates

Figure 13: ZTO's parcel shipment volume forecast



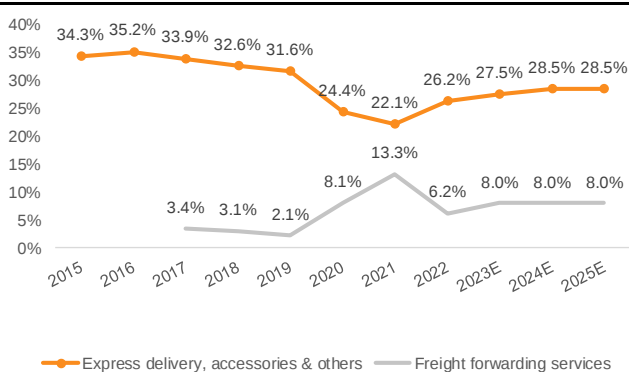
Source: Company data, CMBIGM estimate

Figure 14: China diesel price



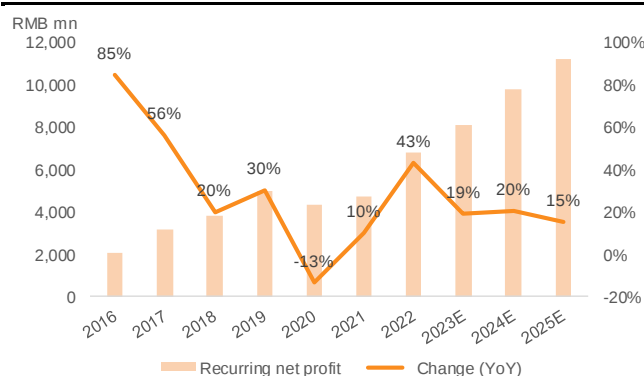
Source: Wind, CMBIGM

Figure 15: ZTO's gross margin trend



Source: Company data, CMBIGM estimate

Figure 16: ZTO's net profit forecast

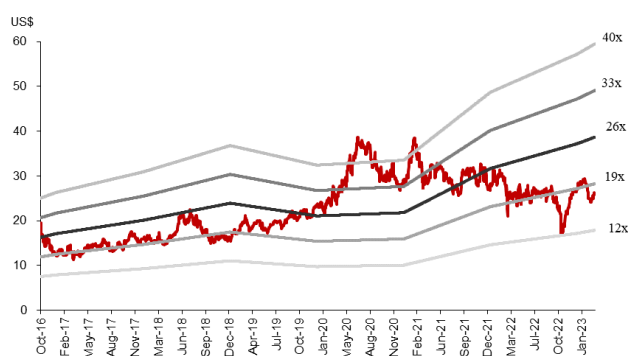


Source: Company data, CMBIGM estimate

Valuation

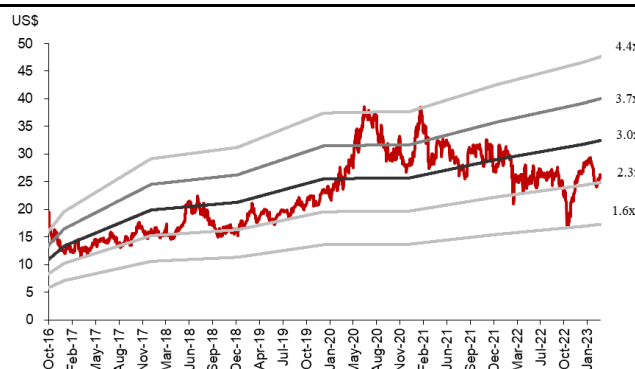
We raise our TP from US\$39.1 to US\$41. Our higher TP reflects (1) a rolled-over valuation base from 2022 to 2023E, and (2) higher earnings forecast. Our earnings multiple is changed from previously 35x (the mid-point between the peak (45x) and the historical average (25x)) to 29x (0.5 SD above the historical average). Such revision is to reflect a more stable growth outlook compared with 2022.

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)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	30,406	35,377	41,861	48,587	55,469
Cost of sales	(23,816)	(26,338)	(30,611)	(35,014)	(39,951)
Gross profit	6,589	9,039	11,250	13,573	15,518
Other operating income	790	775	837	972	1,109
SG&A expense	(1,876)	(2,077)	(2,428)	(2,818)	(3,162)
EBIT	5,503	7,736	9,659	11,727	13,466
Net finance income/(cost)	237	313	282	333	438
Finance income	364	504	462	505	609
Finance expenses	(127)	(191)	(180)	(171)	(171)
Gain/(loss) on disposal	2	70	0	0	0
Impairment of equity investees	53	20	0	0	0
FX gain/(loss)	(56)	147	0	0	0
Profit of JV & associates	(32)	6	8	21	22
Pretax profit	5,707	8,292	9,949	12,082	13,926
Income tax	(1,005)	(1,633)	(1,990)	(2,416)	(2,785)
After tax profit	4,701	6,659	7,960	9,665	11,141
MI	54	150	159	97	111
Net profit	4,755	6,809	8,119	9,762	11,252
Recurring net profit	4,755	6,809	8,119	9,762	11,252
D&A	2,222	2,671	3,144	3,679	4,173
EBITDA	7,725	10,407	12,803	15,405	17,639

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Pretax profit	5,707	8,292	9,949	12,082	13,926
Finance cost	127	191	180	171	171
Interest income	(364)	(504)	(462)	(505)	(609)
Profit or loss of associates	32	(6)	(8)	(21)	(22)
Depreciation & amortization	2,222	2,671	3,144	3,679	4,173
Income tax paid	(1,005)	(1,633)	(1,990)	(2,416)	(2,785)
Change in working capital	158	619	(269)	(390)	(217)
Others	(20)	1,346	0	0	0
Cash flow from operation	6,856	10,976	10,544	12,599	14,637
Net capex on PP&E	(8,461)	(7,200)	(7,000)	(6,500)	(6,000)
Purchase of land use rights	(967)	(231)	(700)	(700)	(700)
Investment in JV/associates	(570)	(256)	(200)	(200)	(200)
Investment in subsidiaries	(101)	0	0	0	0
Interest received	364	504	462	505	609
Others	615	(9,362)	(0)	(0)	(0)
Cash flow from investing	(9,120)	(16,546)	(7,438)	(6,895)	(6,291)
Equity financing/(repurchase)	0	0	0	0	0
Net bank borrowings	2,026	1,936	(500)	0	0
Dividend paid	(1,313)	(1,353)	(2,125)	(2,436)	(2,929)
Others	(3,617)	0	0	0	0
Cash flow from financing	(2,904)	7,058	(2,805)	(2,607)	(3,100)
Change in cash	(5,168)	1,488	301	3,097	5,246
Cash at beginning of the year	14,213	9,721	11,693	11,994	15,091
Exchange gains/(losses) and others	677	483	0	0	0
Cash at the end of the year	9,721	11,693	11,994	15,091	20,337

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	44,106	54,049	59,034	63,118	66,098
PP&E	24,930	28,813	32,807	35,781	37,775
Land use right	5,336	5,443	6,011	6,565	7,103
Investment in JV/associates	3,730	3,951	4,159	4,380	4,602
Operating lease right-of-use assets	897	809	869	929	989
Goodwill	4,242	4,242	4,242	4,242	4,242
Long term financing receivables	1,413	1,296	1,457	1,738	1,909
Intangible assets	36	29	23	17	11
Long-term investment	1,215	7,323	7,323	7,323	7,323
Others	1,373	1,394	1,394	1,394	1,394
Deferred tax assets	935	750	750	750	750
Current assets	18,666	24,475	25,451	28,694	34,640
Inventories	83	41	127	65	154
Account receivables	933	819	1,016	1,247	1,458
Financing receivables	1,111	951	1,342	1,320	1,720
Advances to suppliers	668	862	862	862	862
Short-term investment	2,845	5,753	5,753	5,753	5,753
Others	3,276	3,461	3,461	3,461	3,461
Restricted cash	28	895	895	895	895
Cash	9,721	11,693	11,994	15,091	20,337
Current liabilities	12,996	16,405	16,532	16,629	17,343
Account payables	1,958	2,203	2,829	2,926	3,641
Operating lease liabilities	251	230	230	230	230
Bank borrowings	3,459	5,394	4,894	4,894	4,894
Tax payable	87	228	228	228	228
Advanced from customers	1,227	1,375	1,375	1,375	1,375
Others	6,016	6,975	6,975	6,975	6,975
Non-current liabilities	848	7,646	7,646	7,646	7,646
Bank borrowings	0	0	0	0	0
Deferred tax liabilities	292	346	346	346	346
Non-current operating lease	556	510	510	510	510
Others	0	6,789	6,789	6,789	6,789
Shareholders' equity	48,637	54,029	60,022	67,348	75,672
MI	290	444	285	188	77

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Express delivery, accessories & others	95%	97%	97%	97%	97%
Freight forwarding services	5%	3%	3%	3%	3%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	21.7	25.6	26.9	27.9	28.0
EBITDA margin	25.4	29.4	30.6	31.7	31.8
EBIT margin	18.1	21.9	23.1	24.1	24.3
Net profit margin	15.5	18.8	19.0	19.9	20.1
Growth (%)					
Revenue	20.6	16.3	18.3	16.1	14.2
Gross profit	12.9	37.2	24.5	20.7	14.3
EBITDA	17.1	34.7	23.0	20.3	14.5
EBIT	15.7	40.6	24.9	21.4	14.8
Core net profit	10.3	43.2	19.2	20.2	15.3
Balance sheet ratio					
Current ratio (x)	1.4	1.5	1.5	1.7	2.0
Trade receivable turnover days	30	23	20	21	21
Inventory turnover days	1	1	1	1	1
Payable turnover days	28	29	30	30	30
Net debt / total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Profitability (%)					
ROA	7.8	9.6	10.0	11.1	11.7
ROE	9.7	13.3	14.2	15.3	15.7
Per share data					
EPS (RMB)	5.70	8.16	9.72	11.69	13.48
Core EPS (RMB)	5.70	8.16	9.72	11.69	13.48
BVPS (RMB)	58.34	64.81	71.99	80.78	90.77
DPS (RMB)	1.62	2.55	2.92	3.51	4.04

Source: Company data, CMBIGM estimates

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