

ZTO Express (ZTO US)

1Q24 core earnings beat estimates; Shifted to profitable growth strategy

ZTO Express (ZTO) shifted the strategic focus to profitable growth in 1Q24, enabling it to deliver core net profit of RMB1.9bn (+23% YoY), representing 19% of our full-year forecast (run rate in 1Q23: 17.6%), which is better than our expectation. Looking forward, ZTO maintains the 15-18% parcel volume growth target in 2024E (same as previous guidance), despite higher industry growth forecast of 15-20% by the Company (previously 10%). We like ZTO's decisive change to profitable growth strategy. We continue to expect ZTO to generate free cash flow over the coming years to support its semi-annual dividend and buyback programs. We have left our earnings forecast unchanged. Our TP for ZTO US/2057 HK is unchanged at US\$38.50/HK\$303, based on 24x 2024E P/E, equivalent to the historical average. Maintain **BUY**.

Key highlights in 1Q24 results:

- **Core net profit grew 23% YoY.** Reported net income in 1Q24 dropped 15% YoY to RMB1.4bn, due to an impairment of RMB478mn as the tender offer for Cainiao's shares was below ZTO's carrying amount. Excluding the one-off items, the adjusted net profit grew 23% YoY to RMB1.9bn. The decent earnings growth was driven by (1) 10% YoY revenue growth, (2) 2.1ppt YoY gross margin expansion to 30.1%, and (3) a 1.6x YoY increase in net finance income.
- **Parcel volume +14% YoY to 7.2bn units, 11ppt below the industry (+25% YoY).** This is the first time since early 2021 that ZTO has delivered below-industry growth as ZTO shifted its focus to quality growth. Market share in 1Q24 dropped 4.1ppt YoY to 19.3%.
- **ASP -3% YoY, most resilient among major peers.** Parcel delivery ASP in 1Q24 only dropped RMB0.04/unit YoY to RMB1.36/unit. The decrease was much less than that of YTO (-9%), STO (-13%) and Yunda (-24%).
- **Unit cost -5% YoY to RMB0.94/parcel.** Unit cost of transportation decreased RMB0.04 (or -7% YoY) to RMB0.46/unit, helped by economies of scale and improved load rate. Unit cost of sorting hubs decreased 5% YoY to RMB0.30/unit, due to the continued standardization in operating procedures and an increase in automation level.
- **Unit gross margin +4% YoY to RMB0.42/parcel.** Gross margin expanded 2.1ppt YoY to 30.1%.

Major risk factors: (1) a prolonged price war; (2) a slowdown in online retail sales; and (3) increases in fuel costs.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	35,377	38,419	43,870	50,111	56,055
YoY growth (%)	16.3	8.6	14.2	14.2	11.9
Adjusted net profit (RMB mn)	6,719.5	8,579.0	9,744.3	11,324.5	12,789.4
EPS (Reported) (RMB)	8.16	10.48	11.67	13.56	15.32
YoY growth (%)	43.2	28.5	11.4	16.2	12.9
Consensus EPS (RMB)	0.00	10.81	12.62	14.70	0.00
P/E (x)	18.9	14.7	13.2	11.4	10.1
P/B (x)	2.4	2.2	2.0	1.8	1.6
Yield (%)	1.6	2.9	3.0	3.5	4.0
ROE (%)	13.0	15.4	15.5	16.3	16.5
Net gearing (%)	(37.5)	(41.6)	(40.9)	(43.0)	(47.1)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$38.50
Up/Downside 80.0%
Current Price US\$21.39

China Logistics

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	18,294.9
Avg 3 mths t/o (US\$ mn)	49.5
52w High/Low (US\$)	29.04/16.08
Total Issued Shares (mn)	855.3

Source: FactSet

Shareholding Structure

Meisong Lai	25.9%
Alibaba	8.9%

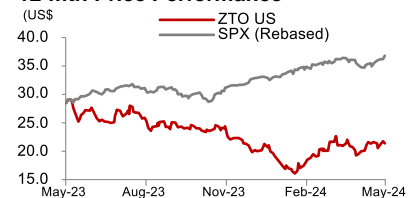
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.5%	5.1%
3-mth	15.7%	9.1%
6-mth	-11.0%	-24.4%

Source: FactSet

12-month Price Performance



Source: FactSet

Related reports:

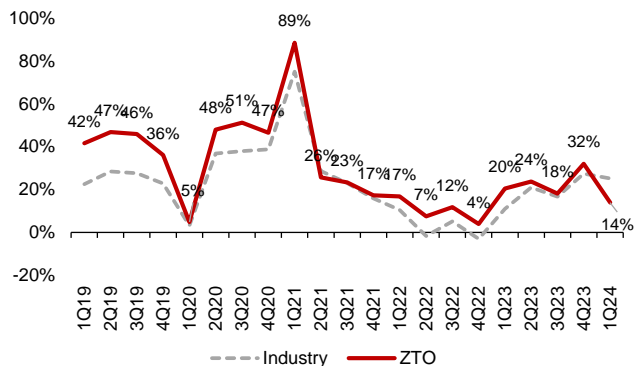
1. High dividend pay-out target and expanded share buyback scale – 30 Mar 2024 (ZTO US: [link](#)) (2057 HK: [link](#))
2. Good execution but rising concerns on price competition – 17 Nov 2023 (ZTO US: [link](#)) (2057 HK: [link](#))

Figure 1: ZTO's 1Q24 results

(RMB mn)	1Q23	1Q24	Change YoY	2Q22	2Q23	Change YoY	3Q22	3Q23	Change YoY	4Q22	4Q23	Change YoY
Total revenue	8,983	9,960	10.9%	8,657	9,740	12.5%	8,945	9,076	1.5%	9,871	10,619	7.6%
Cost of sales	-6,460	-6,958	7.7%	-6,454	-6,436	-0.3%	-6,501	-6,369	-2.0%	-7,099	-7,491	5.5%
Gross profit	2,523	3,002	19.0%	2,203	3,304	50.0%	2,444	2,706	10.7%	2,773	3,128	12.8%
Other income	214	161	-24.5%	240	79	-67.1%	172	151	-12.2%	248	327	31.9%
SG&A expenses	-787	-897	14.0%	-457	-505	10.4%	-441	-434	-1.8%	-561	-700	24.9%
EBIT	1,950	2,267	16.2%	1,986	2,879	45.0%	2,175	2,424	11.4%	2,460	2,755	12.0%
D&A	686	786	14.5%	672	705	4.9%	665	745	11.9%	701	739	5.5%
EBITDA	2,637	3,053	15.8%	2,658	3,584	34.9%	2,840	3,168	11.6%	3,160	3,494	10.6%
Net finance income/(expense)	20	161	697.5%	95	95	-0.5%	131	163	24.3%	36	140	291.8%
Finance income	92	245	166.6%	118	167	41.0%	162	246	51.7%	112	201	80.2%
Finance expenses	-72	-84	17.0%	-23	-72	212.6%	-32	-84	164.9%	-76	-62	-18.8%
Gain/(loss) on disposal of subsidiaries	0	0	n/a	0	-1	n/a	61	11	-82.1%	9	-5	n/a
Impairment of investment in equity investees	0	-478	n/a	0	0	n/a	-26	0	n/a	46	165	255.7%
Fair value changes of financial instruments	156	43	-72.5%	-14	52	n/a	-23	9	n/a	37	-216	n/a
FX gain/(loss)	-10	5	n/a	120	81	-32.3%	31	5	-85.1%	9	18	98.3%
Share of profit of JV and associates	4	16	319.8%	10	0	-98.7%	-13	11	n/a	33	-10	n/a
Pretax profit	2,120	2,014	-5.0%	2,197	3,106	41.4%	2,335	2,621	12.3%	2,630	2,846	8.2%
Income tax	-455	-566	24.5%	-438	-576	31.4%	-439	-271	-38.2%	-501	-637	27.2%
After tax profit	1,665	1,448	-13.0%	1,759	2,530	43.9%	1,895	2,350	24.0%	2,129	2,210	3.8%
MI	6	-22	n/a	46	11	-76.4%	40	-4	n/a	33	-18	n/a
Net profit	1,670	1,426	-14.6%	1,805	2,541	40.8%	1,935	2,345	21.2%	2,163	2,192	1.4%
Core net profit	1,515	1,862	22.9%	1,819	2,490	36.9%	1,924	2,326	20.9%	2,070	2,248	8.6%
Ratios:			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>
Gross margin	28.1%	30.1%	2.1	25.4%	33.9%	8.5	27.3%	29.8%	2.5	28.1%	29.5%	1.4
EBIT margin	21.7%	22.8%	1.0	22.9%	29.6%	6.6	24.3%	26.7%	2.4	24.9%	25.9%	1.0
After tax profit margin	18.5%	14.5%	-4.0	20.3%	26.0%	5.7	21.2%	25.9%	4.7	21.6%	20.8%	-0.8
Effective tax rate	21.5%	28.1%	6.7	19.9%	18.5%	-1.4	18.8%	10.4%	-8.5	19.0%	22.4%	3.3

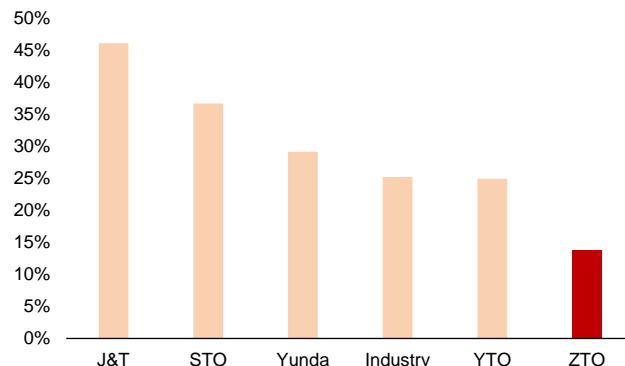
Source: Company data, CMBIGM

Figure 2: ZTO's parcel volume growth vs the industry average



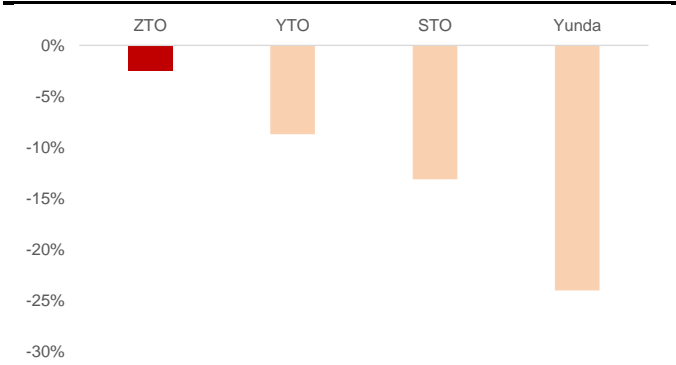
Source: Company data, the State Post Bureau, CMBIGM

Figure 3: Major players' parcel volume growth in 1Q24



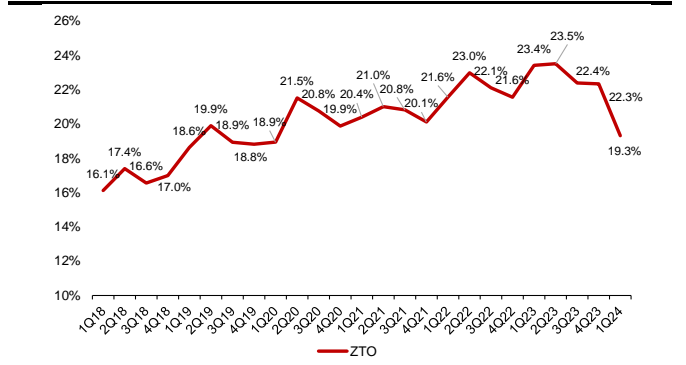
Source: Company data, the State Post Bureau, CMBIGM

Figure 4: Major players' ASP change (YoY) in 1Q24



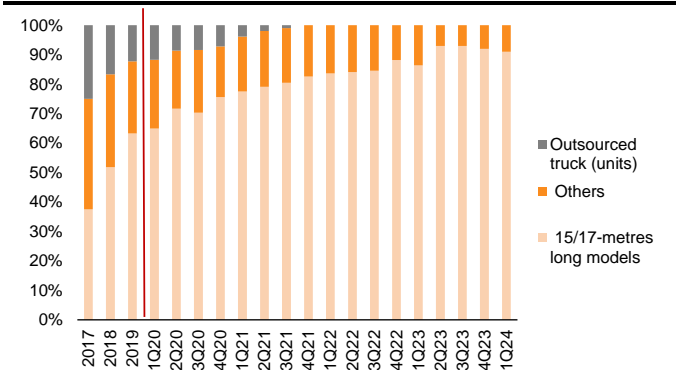
Source: Company data, the State Post Bureau, CMBIGM

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



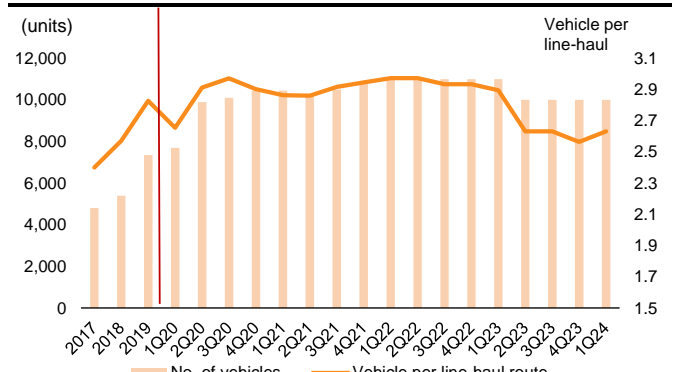
Source: Company data, CMBIGM

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



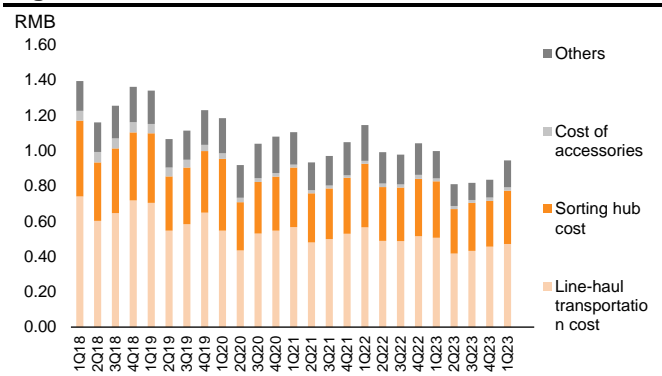
Source: Company data, CMBIGM

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



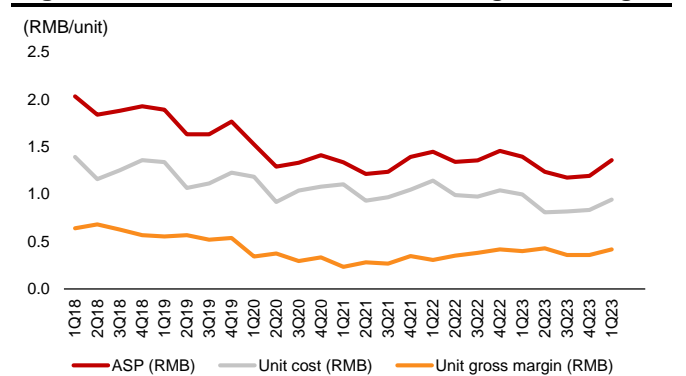
Source: Company data, CMBIGM

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: Key operating assumptions

(RMB mn)	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Shipment volume (mn units of parcel)										
Unit of parcel	6,219	8,524	12,121	17,002	22,290	24,390	30,202	35,638	40,984	45,902
Change (YoY)	38.3%	37.1%	42.2%	40.3%	31.1%	9.4%	23.8%	18.0%	15.0%	12.0%
ASP (RMB/unit)										
Per unit of parcel	2.06	1.92	1.72	1.37	1.30	1.40	1.24	1.20	1.20	1.20
Change (YoY)	-5.5%	-6.9%	-10.1%	-20.2%	-5.7%	8.1%	-11.3%	-3.0%	-0.5%	0.0%
Unit cost (RMB)										
Line-haul transportation cost	(0.77)	(0.68)	(0.62)	(0.51)	(0.52)	(0.51)	(0.45)	(0.44)	(0.43)	(0.43)
Sorting hub cost	(0.39)	(0.38)	(0.34)	(0.31)	(0.30)	(0.32)	(0.27)	(0.27)	(0.26)	(0.26)
Cost of accessories	(0.06)	(0.06)	(0.04)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Others	(0.14)	(0.18)	(0.18)	(0.20)	(0.17)	(0.18)	(0.12)	(0.12)	(0.12)	(0.12)
Total	(1.36)	(1.29)	(1.18)	(1.04)	(1.01)	(1.03)	(0.86)	(0.83)	(0.83)	(0.83)
Change (YoY)										
Line-haul transportation cost	-6.6%	-12.4%	-8.8%	-17.0%	0.8%	-0.7%	-12.1%	-3.0%	-1.0%	0.0%
Sorting hub cost	-8.7%	-4.3%	-9.6%	-9.4%	-1.1%	5.8%	-15.0%	-3.0%	-1.0%	0.0%
Cost of accessories	-6.4%	-2.2%	-22.2%	-48.7%	-31.8%	21.1%	-10.5%	-1.0%	0.0%	0.0%
Others	48.5%	33.2%	-2.2%	10.6%	-11.8%	4.0%	-35.1%	-1.0%	0.0%	0.0%
Total	-3.6%	-5.1%	-8.7%	-11.8%	-2.9%	2.4%	-17.0%	-2.7%	-0.8%	0.0%
Unit gross margin (RMB)	0.70	0.62	0.54	0.33	0.29	0.37	0.38	0.37	0.37	0.37
Change (YoY)	-8.9%	-10.4%	-12.9%	-38.5%	-14.3%	28.3%	4.6%	-3.7%	0.3%	0.0%
Revenue										
Express delivery, accessories & others	12,791	16,326	20,874	23,352	28,876	34,164	37,512	42,936	49,130	55,026
Freight forwarding services	270	1,279	1,236	1,863	1,530	1,213	907	934	981	1,030
Total	13,060	17,604	22,110	25,214	30,406	35,377	38,419	43,870	50,111	56,055
Revenue growth										
Express delivery, accessories & others	30.7%	27.6%	27.9%	11.9%	23.7%	18.3%	9.8%	14.5%	14.4%	12.0%
Freight forwarding services	-	374.4%	-3.3%	50.7%	-17.9%	-20.7%	-25.2%	3.0%	5.0%	5.0%
Revenue	33.4%	34.8%	25.6%	14.0%	20.6%	16.3%	8.6%	14.2%	14.2%	11.9%
Gross margin										
Express delivery, accessories & others	33.9%	32.6%	31.6%	24.4%	22.1%	26.2%	31.0%	30.7%	31.0%	31.0%
Freight forwarding services	3.4%	3.1%	2.1%	8.1%	13.3%	6.2%	5.8%	6.0%	6.0%	6.0%
Gross margin	33.3%	30.5%	29.9%	23.1%	21.7%	25.6%	30.4%	30.2%	30.5%	30.5%

Source: Company data, CMBIGM estimates

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

2024E Net profit (RMB mn)	ASP (RMB/unit)					
	1.14	1.18	1.20	1.23	1.27	
-0.458	7,417	8,431	9,108	9,784	10,799	
-0.445	7,799	8,813	9,490	10,166	11,181	
Unit line-haul transportation cost (RMB)	-0.437	8,053	9,068	9,744	10,421	11,435
-0.428	8,308	9,323	9,999	10,675	11,690	
-0.415	8,690	9,704	10,381	11,057	12,072	

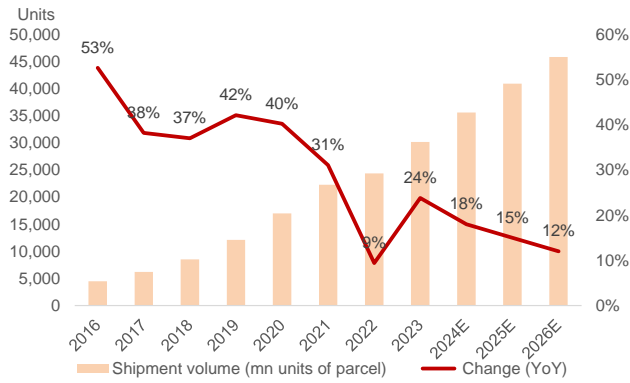
Source: Company data, CMBIGM estimates

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

2024E Net profit (RMB mn)	ASP (RMB/unit)					
	1.14	1.18	1.20	1.23	1.27	
-0.278	7,667	8,681	9,358	10,034	11,049	
-0.270	7,899	8,913	9,590	10,266	11,281	
Unit sorting hub cost (RMB)	-0.265	8,053	9,068	9,744	10,421	11,435
-0.260	8,208	9,223	9,899	10,575	11,590	
-0.252	8,440	9,454	10,131	10,807	11,822	

Source: Company data, CMBIGM estimates

Figure 13: ZTO's parcel shipment volume forecast



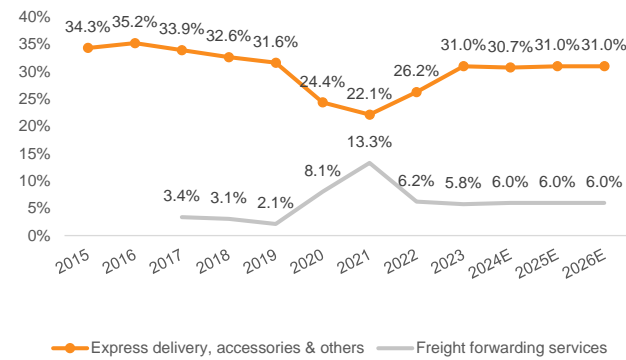
Source: Company data, CMBIGM estimates

Figure 14: China's diesel price



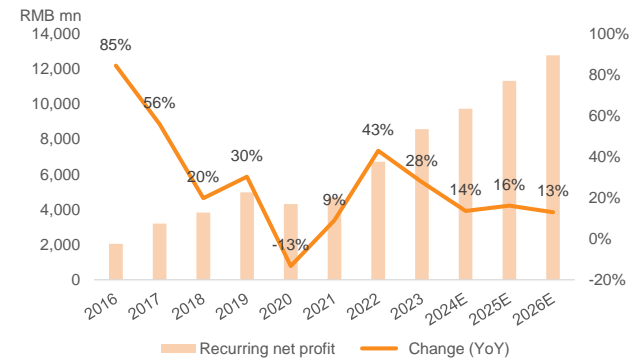
Source: Wind, CMBIGM

Figure 15: ZTO's gross margin trend



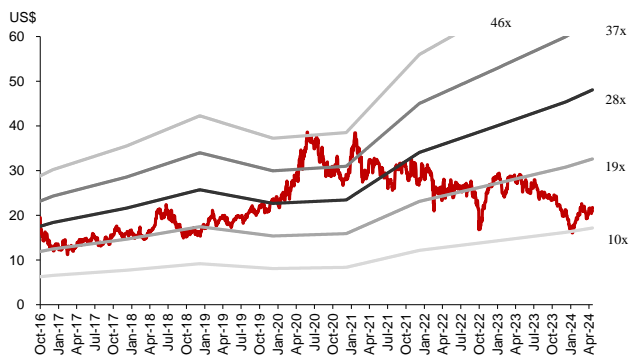
Source: Company data, CMBIGM estimates

Figure 16: ZTO's net profit forecast



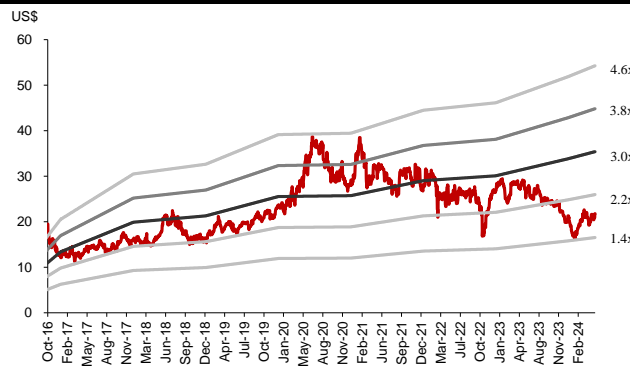
Source: Company data, CMBIGM estimates

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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	30,406	35,377	38,419	43,870	50,111	56,055
Cost of goods sold	(23,816)	(26,338)	(26,756)	(30,621)	(34,839)	(38,955)
Gross profit	6,589	9,039	11,663	13,249	15,272	17,100
SG&A expense	(1,876)	(2,077)	(2,425)	(2,544)	(2,856)	(3,195)
Others	790	775	771	877	1,002	1,121
Operating profit	5,503	7,736	10,008	11,582	13,418	15,026
Investment gain/loss	55	90	170	0	0	0
Share of (losses)/profits of associates/JV	(32)	6	4	18	19	20
Interest income	364	504	707	753	869	1,070
Interest expense	(127)	(191)	(290)	(311)	(311)	(311)
Net Interest income/(expense)	237	313	417	442	558	759
Foreign exchange gain/loss	(56)	147	94	0	0	0
Pre-tax profit	5,707	8,292	10,693	12,042	13,995	15,805
Income tax	(1,005)	(1,633)	(1,939)	(2,288)	(2,659)	(3,003)
Minority interest	54	150	(5)	(10)	(11)	(13)
Net profit	4,701	6,659	8,754	9,754	11,336	12,802
Adjusted net profit	4,700	6,720	8,579	9,744	11,324	12,789
Gross dividends	1,353	2,125	3,722	3,898	4,530	5,116
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	18,666	24,475	26,954	29,271	34,294	41,328
Cash & equivalents	9,721	11,693	12,334	14,389	18,975	25,859
Account receivables	933	819	573	870	860	1,136
Inventories	83	41	28	52	43	64
Prepayment	668	862	822	822	822	822
Other current assets	7,261	11,061	13,197	13,138	13,594	13,447
Non-current assets	44,106	54,049	61,512	65,650	68,405	70,047
PP&E	24,930	28,813	32,181	35,084	37,007	37,530
Deferred income tax	935	750	880	880	880	880
Investment in JVs & assos	3,730	3,951	3,455	3,673	3,892	4,112
Intangibles	36	29	23	17	11	5
Goodwill	4,242	4,242	4,242	4,242	4,242	4,242
Other non-current assets	10,234	16,264	20,731	21,755	22,373	23,279
Total assets	62,772	78,524	88,465	94,921	102,698	111,375
Current liabilities	12,996	16,405	20,061	20,484	20,824	21,228
Short-term borrowings	3,459	5,394	7,766	7,766	7,766	7,766
Account payables	1,958	2,203	2,557	2,980	3,320	3,724
Tax payable	87	228	333	333	333	333
Other current liabilities	7,493	8,580	9,405	9,405	9,405	9,405
Non-current liabilities	848	7,646	8,124	8,124	8,124	8,124
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	556	510	456	456	456	456
Other non-current liabilities	292	7,135	7,668	7,668	7,668	7,668
Total liabilities	13,845	24,051	28,185	28,608	28,947	29,352
Total shareholders equity	48,637	54,029	59,802	65,824	73,251	81,511
Minority interest	290	444	479	488	500	513
Total equity and liabilities	62,772	78,524	88,465	94,921	102,698	111,375

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,707	8,292	10,693	12,042	13,995	15,805
Depreciation & amortization	2,222	2,671	2,875	3,742	4,236	4,651
Tax paid	(1,005)	(1,633)	(1,939)	(2,288)	(2,659)	(3,003)
Change in working capital	158	1,498	700	(302)	(169)	(120)
Others	(225)	148	364	(460)	(577)	(779)
Net cash from operations	6,856	10,976	12,693	12,734	14,826	16,555
Investing						
Capital expenditure	(8,461)	(6,837)	(6,700)	(6,500)	(6,000)	(5,000)
Acquisition of subsidiaries/ investments	(670)	136	(200)	(200)	(200)	(200)
Others	11	(9,845)	385	53	169	370
Net cash from investing	(9,120)	(16,546)	(6,515)	(6,647)	(6,031)	(4,830)
Financing						
Dividend paid	(1,313)	(1,353)	(2,125)	(3,722)	(3,898)	(4,530)
Net borrowings	2,026	1,936	2,372	0	0	0
Proceeds from share issues	(3,811)	(85)	0	0	0	0
Others	194	6,560	0	(311)	(311)	(311)
Net cash from financing	(2,904)	7,058	246	(4,032)	(4,208)	(4,840)
Net change in cash						
Cash at the beginning of the year	14,213	9,721	11,693	12,334	14,389	18,975
Exchange difference	677	483	(5,783)	0	0	0
Cash at the end of the year	9,721	11,693	12,334	14,389	18,975	25,859
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	20.6%	16.3%	8.6%	14.2%	14.2%	11.9%
Gross profit	12.9%	37.2%	29.0%	13.6%	15.3%	12.0%
Operating profit	15.7%	40.6%	29.4%	15.7%	15.8%	12.0%
Net profit	8.7%	41.6%	31.5%	11.4%	16.2%	12.9%
Adj. net profit	9.0%	43.0%	27.7%	13.6%	16.2%	12.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	21.7%	25.6%	30.4%	30.2%	30.5%	30.5%
Operating margin	18.1%	21.9%	26.0%	26.4%	26.8%	26.8%
Adj. net profit margin	15.5%	19.0%	22.3%	22.2%	22.6%	22.8%
Return on equity (ROE)	9.6%	13.0%	15.4%	15.5%	16.3%	16.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
Current ratio (x)	1.4	1.5	1.3	1.4	1.6	1.9
Receivable turnover days	30.4	23.0	17.3	15.7	16.3	16.5
Inventory turnover days	1.0	0.9	0.5	0.5	0.5	0.5
Payable turnover days	27.5	28.8	32.5	33.0	33.0	33.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	27.1	18.9	14.7	13.2	11.4	10.1
P/B	2.6	2.4	2.2	2.0	1.8	1.6
Div yield (%)	1.0	1.6	2.9	3.0	3.5	4.0

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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