

# ZTO Express (2057 HK)

## Still positive on profitable growth strategy despite lower volume guidance

ZTO Express (ZTO) EBIT grew 17% YoY to RMB2.8bn, which is in line with our expectation. Reported net profit in 3Q24 grew only 1% YoY to RMB2.46bn, but this was largely due to one-off tax refunds in 3Q23. Unit gross margin expanded 6.5% YoY to RMB0.38/parcel in 3Q24 amid industry price competition. ZTO revised down the full-year parcel volume growth guidance to 11.6-12.3% (from 15-18% in Aug), which implies 7.5-10% growth in 4Q24E. That said, we think the lower target is aligned with ZTO's strategic focus of profitable growth. We trim our 2024E-26E earnings forecast by 5-9%, due to lower volume and unit gross margin. Accordingly, our TP for ZTO US/2057 HK is revised down to US\$34.5/HK\$271, based on 22x 2024E P/E (previously 23x), equivalent to the historical average. We continue to like ZTO's strong free cash flow capability. Maintain **BUY**.

### Key highlights in 3Q24 results:

- **EBIT grew 17% YoY to RMB2.8bn**, driven by an 18% YoY increase in revenue and 1.4ppt gross margin expansion, partially offset by a 25% increase in SG&A and reduction of other income. Pretax net income increased only 12% YoY to RMB2.9bn, due to FX loss.
- **Parcel volume +16% YoY to 8.72bn units**. Market share in 3Q24 was 20%, down 2.4ppt YoY but slightly up 0.4ppt QoQ, as ZTO focused on profitable parcel volume growth instead of volume.
- **ZTO's parcel delivery ASP increased YoY while major players saw ASP reduction**. ASP in 3Q24 increased RMB0.03/parcel (or 1.8%) YoY to RMB1.20/unit (breakdown: reverse parcels +RMB0.07, parcel weight -RMB0.02, volume incentives -RMB0.02). This is much better than other key players such as Yunda (-10%), YTO (-6%) and STO (-5%).
- **Unit cost was stable (YoY) at RMB0.82/parcel**. Unit cost of transportation decreased RMB0.04 (or -10% YoY) to RMB0.39/unit, helped by economies of scale and improved load rate. Unit cost of sorting hubs dropped 6% YoY to RMB0.25/unit, helped by the standardization in operating procedures and an increase in automation level. Other unit cost increased RMB0.05/unit (or 56%) to RMB0.15/unit, due to a low base.

**Major risk factors:** (1) a prolonged price war; (2) further slowdown of overall consumption.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	35,377	38,419	42,719	47,095	52,183
YoY growth (%)	16.3	8.6	11.2	10.2	10.8
Adjusted net profit (RMB mn)	6,719.5	8,579.0	9,431.7	10,608.6	11,918.3
EPS (Reported) (RMB)	8.16	10.48	10.62	12.71	14.28
YoY growth (%)	43.2	28.5	1.4	19.6	12.3
Consensus EPS (RMB)	0.00	0.00	12.07	13.86	15.63
P/E (x)	18.9	14.7	14.5	12.1	10.8
P/B (x)	2.4	2.1	2.0	1.8	1.6
Yield (%)	1.7	2.9	2.8	3.3	3.7
ROE (%)	13.0	15.4	14.2	15.5	15.7
Net gearing (%)	(37.5)	(41.6)	(41.1)	(43.5)	(47.1)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$271.00**  
 (Previous TP **HK\$299.00**)  
**Up/Downside** **63.5%**  
**Current Price** **HK\$165.70**

### China Logistics

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### Stock Data

Mkt Cap (HK\$ mn) 141,723.2  
 Avg 3 mths t/o (HK\$ mn) 274.9  
 52w High/Low (HK\$) 215.40/126.10  
 Total Issued Shares (mn) 855.3

Source: FactSet

### Shareholding Structure

Meisong Lai 25.9%  
 Alibaba 8.9%

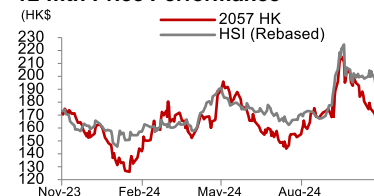
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-16.7%	-11.9%
3-mth	6.8%	-4.6%
6-mth	-11.3%	-11.8%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

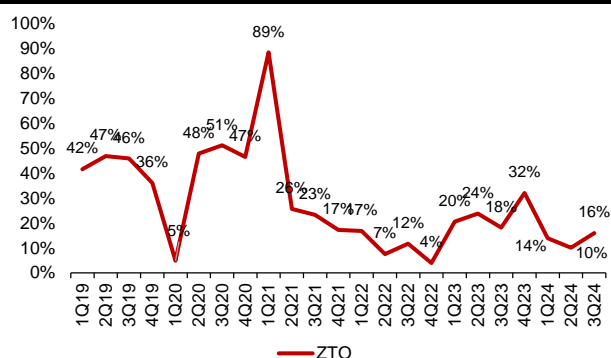
### Related reports:

- 2Q24 core earnings +10% with stable unit margin – 21 Aug 2024 (ZTO US: [link](#)) (2057 HK: [link](#))
- 1Q24 core earnings beat estimates; Shifted to profitable growth strategy – 16 May 2024 (ZTO US: [link](#)) (2057 HK: [link](#))
- High dividend pay-out target and expanded share buyback scale – 30 Mar 2024 (ZTO US: [link](#)) (2057 HK: [link](#))

**Figure 1: ZTO's 3Q24 results**

(RMB mn)	1Q23	1Q24	Change YoY	2Q23	2Q24	Change YoY	3Q23	3Q24	Change YoY	4Q22	4Q23	Change YoY
<b>Total revenue</b>	<b>8,983</b>	<b>9,960</b>	<b>10.9%</b>	<b>9,740</b>	<b>10,726</b>	<b>10.1%</b>	<b>9,076</b>	<b>10,675</b>	<b>17.6%</b>	<b>9,871</b>	<b>10,619</b>	<b>7.6%</b>
Cost of sales	-6,460	-6,958	7.7%	-6,436	-7,105	10.4%	-6,369	-7,340	15.2%	-7,099	-7,491	5.5%
<b>Gross profit</b>	<b>2,523</b>	<b>3,002</b>	<b>19.0%</b>	<b>3,304</b>	<b>3,620</b>	<b>9.6%</b>	<b>2,706</b>	<b>3,335</b>	<b>23.2%</b>	<b>2,773</b>	<b>3,128</b>	<b>12.8%</b>
Other income	214	161	-24.5%	79	188	137.7%	151	52	-65.8%	248	327	31.9%
SG&A expenses	-787	-897	14.0%	-505	-593	17.5%	-434	-545	25.6%	-561	-700	24.9%
<b>EBIT</b>	<b>1,950</b>	<b>2,267</b>	<b>16.2%</b>	<b>2,879</b>	<b>3,215</b>	<b>11.7%</b>	<b>2,424</b>	<b>2,842</b>	<b>17.3%</b>	<b>2,460</b>	<b>2,755</b>	<b>12.0%</b>
D&A	686	786	14.5%	705	755	7.1%	745	731	-1.8%	701	739	5.5%
<b>EBITDA</b>	<b>2,637</b>	<b>3,053</b>	<b>15.8%</b>	<b>3,584</b>	<b>3,970</b>	<b>10.8%</b>	<b>3,168</b>	<b>3,573</b>	<b>12.8%</b>	<b>3,160</b>	<b>3,494</b>	<b>10.6%</b>
Net finance income/(expense)	20	161	697.5%	95	172	81.5%	163	172	5.9%	36	140	291.8%
Finance income	92	245	166.6%	167	288	72.4%	246	239	-3.2%	112	201	80.2%
Finance expenses	-72	-84	17.0%	-72	-116	60.4%	-84	-66	-20.8%	-76	-62	-18.8%
Gain/(loss) on disposal of subsidiaries	0	0	n/a	-1	12	n/a	11	-1	n/a	9	-5	n/a
Impairment of investment in equity investees	0	-478	n/a	0	-194	n/a	0	0	n/a	46	165	255.7%
Fair value changes of financial instruments	156	43	-72.5%	52	55	6.2%	9	-63	n/a	37	-216	n/a
FX gain/(loss)	-10	5	n/a	81	15	-81.3%	5	-38	n/a	9	18	98.3%
Share of profit of JV and associates	4	16	319.8%	0	4	3410.6%	11	22	107.5%	33	-10	n/a
<b>Pretax profit</b>	<b>2,120</b>	<b>2,014</b>	<b>-5.0%</b>	<b>3,106</b>	<b>3,279</b>	<b>5.6%</b>	<b>2,621</b>	<b>2,934</b>	<b>11.9%</b>	<b>2,630</b>	<b>2,846</b>	<b>8.2%</b>
Income tax	-455	-566	24.5%	-576	-665	15.5%	-271	-555	104.5%	-501	-637	27.2%
<b>After tax profit</b>	<b>1,665</b>	<b>1,448</b>	<b>-13.0%</b>	<b>2,530</b>	<b>2,614</b>	<b>3.3%</b>	<b>2,350</b>	<b>2,379</b>	<b>1.3%</b>	<b>2,129</b>	<b>2,210</b>	<b>3.8%</b>
MI	6	-22	n/a	11	-2	n/a	-4	17	n/a	33	-18	n/a
<b>Net profit</b>	<b>1,670</b>	<b>1,426</b>	<b>-14.6%</b>	<b>2,541</b>	<b>2,612</b>	<b>2.8%</b>	<b>2,345</b>	<b>2,396</b>	<b>2.2%</b>	<b>2,163</b>	<b>2,192</b>	<b>1.4%</b>
<b>Core net profit</b>	<b>1,515</b>	<b>1,862</b>	<b>22.9%</b>	<b>2,490</b>	<b>2,740</b>	<b>10.0%</b>	<b>2,326</b>	<b>2,460</b>	<b>5.8%</b>	<b>2,070</b>	<b>2,248</b>	<b>8.6%</b>
<b>Ratios:</b>			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>			<i>ppt</i>
Gross margin	28.1%	30.1%	2.1	33.9%	33.8%	-0.2	29.8%	31.2%	1.4	28.1%	29.5%	1.4
EBIT margin	21.7%	22.8%	1.0	29.6%	30.0%	0.4	26.7%	26.6%	-0.1	24.9%	25.9%	1.0
After tax profit margin	18.5%	14.5%	-4.0	26.0%	24.4%	-1.6	25.9%	22.3%	-3.6	21.6%	20.8%	-0.8
Effective tax rate	21.5%	28.1%	6.7	18.5%	20.3%	1.7	10.4%	18.9%	8.6	19.0%	22.4%	3.3

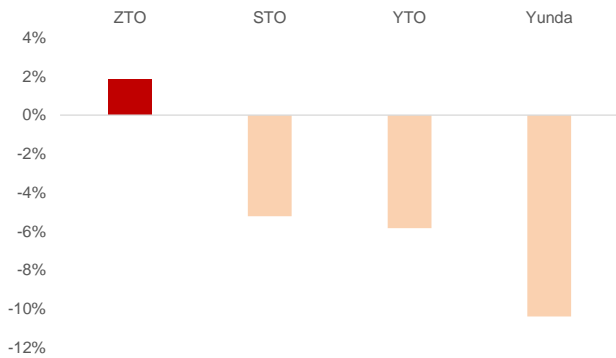
Source: Company data, CMBIGM

**Figure 2: ZTO's quarterly parcel volume growth**

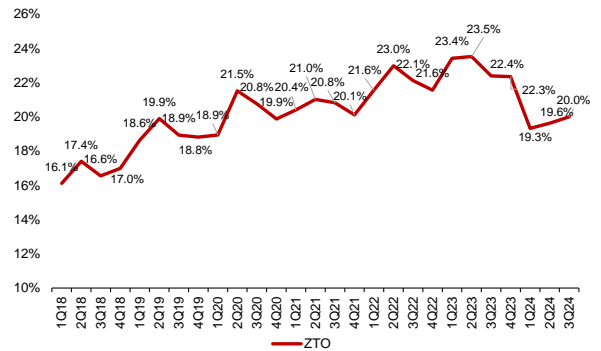
Source: Company data, CMBIGM

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

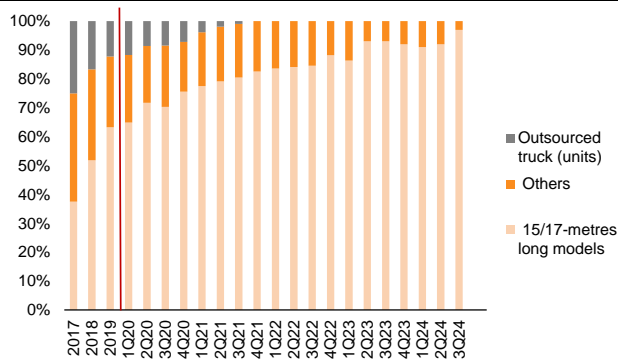
Source: Company data, the State Post Bureau, CMBIGM

**Figure 4: Major players' ASP change (YoY) in 3Q24**

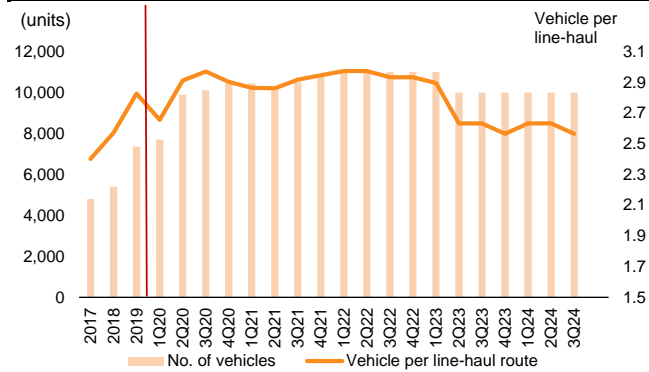
Source: Company data, the State Post Bureau, CMBIGM

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

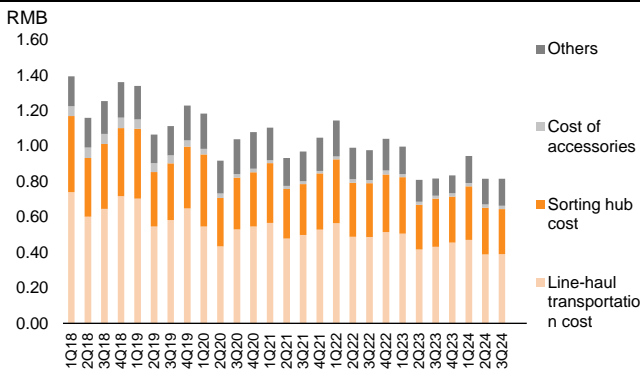
Source: Company data, CMBIGM

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

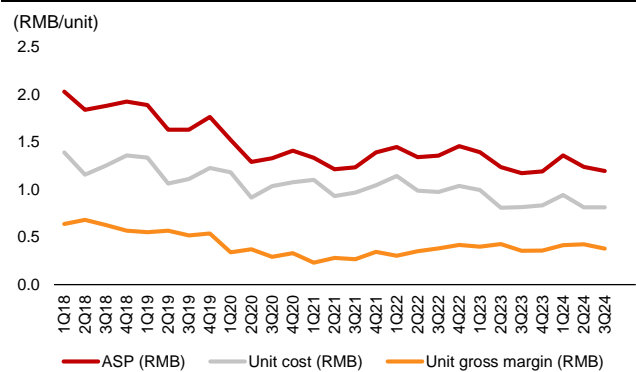
Source: Company data, CMBIGM

**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: Changes in key operating assumptions**

	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
<b>Shipment volume (mn units of parcel)</b>									
Unit of parcel	35,034	40,289	45,124	33,826	37,547	41,677	-3.4%	-6.8%	-7.6%
<b>ASP (RMB/unit)</b>									
Per unit of parcel	1.23	1.22	1.22	1.24	1.23	1.23	0.7%	0.7%	0.7%
<b>Unit cost (RMB)</b>									
Line-haul transportation cost	-0.44	-0.43	-0.43	-0.44	-0.43	-0.43	0.0%	0.0%	0.0%
Sorting hub cost	-0.27	-0.26	-0.26	-0.27	-0.26	-0.26	0.0%	0.0%	0.0%
Others	-0.12	-0.12	-0.12	-0.13	-0.13	-0.13	7.8%	7.8%	7.8%
<b>Total</b>	<b>-0.84</b>	<b>-0.83</b>	<b>-0.83</b>	<b>-0.85</b>	<b>-0.84</b>	<b>-0.84</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.1%</b>
<b>Unit gross margin (RMB)</b>	<b>0.39</b>	<b>0.39</b>	<b>0.39</b>	<b>0.39</b>	<b>0.39</b>	<b>0.39</b>	<b>-0.2%</b>	<b>-0.2%</b>	<b>-0.2%</b>
<b>(RMB mn)</b>									
<b>Revenue</b>									
Express delivery, accessories & others	42,992	49,193	55,097	41,803	46,170	51,249	-2.8%	-6.1%	-7.0%
Freight forwarding services	916	925	934	916	925	934	0.0%	0.0%	0.0%
<b>Total</b>	<b>43,908</b>	<b>50,118</b>	<b>56,031</b>	<b>42,719</b>	<b>47,095</b>	<b>52,183</b>	<b>-2.7%</b>	<b>-6.0%</b>	<b>-6.9%</b>
<b>Revenue growth</b>								ppt	
Express delivery, accessories & others	15%	14%	12%	11%	10%	11%	(3.2)	(4.0)	(1.0)
Freight forwarding services	1%	1%	1%	1%	1%	1%	0.0	0.0	0.0
<b>Revenue</b>	<b>14%</b>	<b>14%</b>	<b>12%</b>	<b>11%</b>	<b>10%</b>	<b>11%</b>	<b>(3.1)</b>	<b>(3.9)</b>	<b>(1.0)</b>
SG&A expense ratio	-6.4%	-6.2%	-6.1%	-6.4%	-6.2%	-6.1%	0.0	0.0	0.0
<b>Net profit</b>	<b>9,399</b>	<b>11,551</b>	<b>13,099</b>	<b>8,869</b>	<b>10,609</b>	<b>11,918</b>	<b>-5.6%</b>	<b>-8.2%</b>	<b>-9.0%</b>
<b>Core net profit</b>	<b>9,962</b>	<b>11,551</b>	<b>13,099</b>	<b>9,432</b>	<b>10,609</b>	<b>11,918</b>	<b>-5.3%</b>	<b>-8.2%</b>	<b>-9.0%</b>

Source: Company data, CMBIGM estimates

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

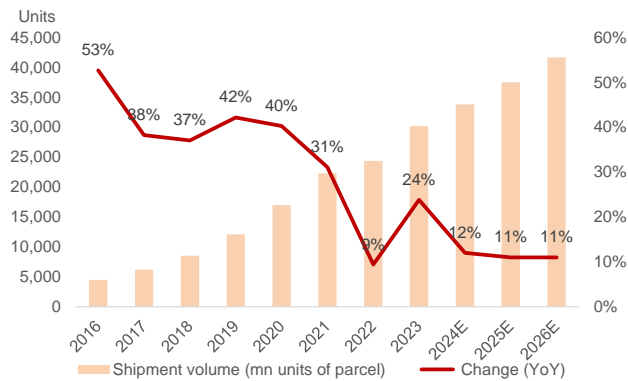
2025E Net profit (RMB mn)		ASP (RMB/unit)				
		1.17	1.21	1.23	1.25	1.29
	-0.453	8,166	9,239	9,954	10,670	11,742
	-0.440	8,559	9,632	10,347	11,062	12,135
<b>Unit line-haul transportation cost (RMB)</b>	<b>-0.431</b>	8,821	9,893	<b>10,609</b>	11,324	12,397
	-0.423	9,082	10,155	10,870	11,585	12,658
	-0.410	9,475	10,548	11,263	11,978	13,051

Source: Company data, CMBIGM estimates

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

2025E Net profit (RMB mn)		ASP (RMB/unit)				
		1.17	1.21	1.23	1.25	1.29
	-0.276	8,423	9,495	10,211	10,926	11,998
	-0.268	8,661	9,734	10,449	11,165	12,237
<b>Unit sorting hub cost (RMB)</b>	<b>-0.262</b>	8,821	9,893	<b>10,609</b>	11,324	12,397
	-0.257	8,980	10,053	10,768	11,483	12,556
	-0.249	9,219	10,292	11,007	11,722	12,795

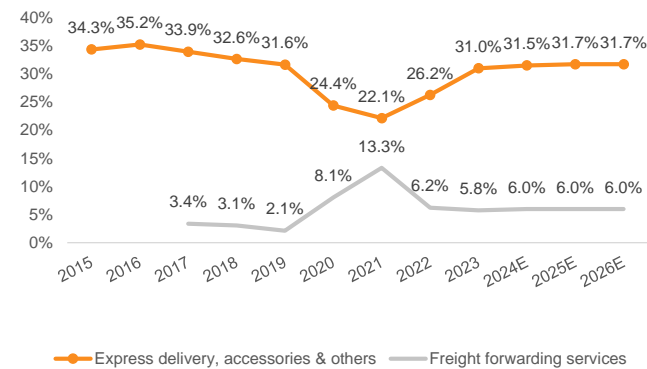
Source: Company data, CMBIGM estimates

**Figure 13: ZTO's parcel shipment volume forecast**

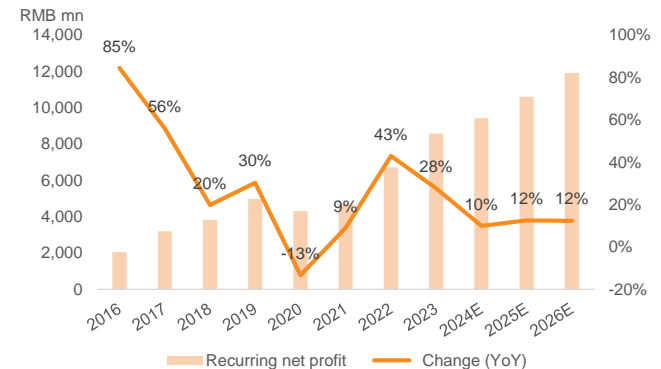
Source: Company data, CMBIGM estimates

**Figure 14: China's diesel price**

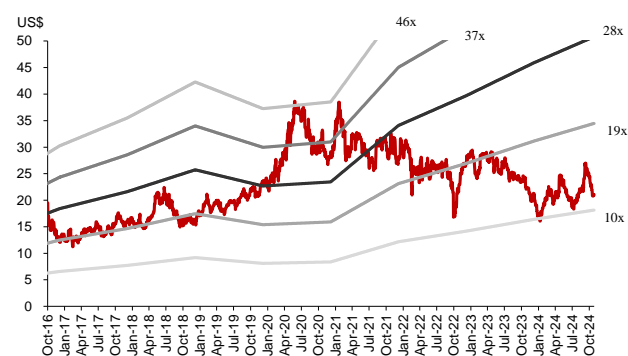
Source: Wind, CMBIGM

**Figure 15: ZTO's gross margin trend**

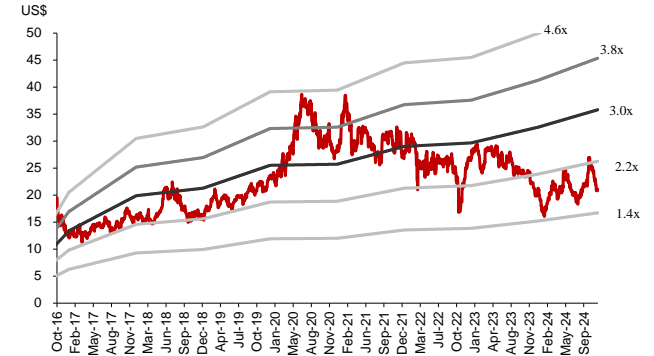
Source: Company data, CMBIGM estimates

**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	42,719	47,095	52,183
Cost of goods sold	(23,816)	(26,338)	(26,756)	(29,515)	(32,412)	(35,891)
Gross profit	6,589	9,039	11,663	13,204	14,683	16,292
SG&A expense	(1,876)	(2,077)	(2,425)	(2,734)	(2,920)	(3,183)
Others	790	775	771	854	942	1,044
Operating profit	5,503	7,736	10,008	11,325	12,705	14,153
Investment gain/loss	55	90	170	(563)	0	0
Share of (losses)/profits of associates/JV	(32)	6	4	18	19	20
Interest income	364	504	707	748	861	1,051
Interest expense	(127)	(191)	(290)	(311)	(311)	(311)
Net interest income/(expense)	237	313	417	437	551	740
Foreign exchange gain/loss	(56)	147	94	21	0	0
Pre-tax profit	5,707	8,292	10,693	11,237	13,274	14,913
Income tax	(1,005)	(1,633)	(1,939)	(2,360)	(2,655)	(2,983)
Minority interest	54	150	(5)	(9)	(11)	(12)
Net profit	4,701	6,659	8,754	8,877	10,619	11,930
Adjusted net profit	4,700	6,720	8,579	9,432	10,609	11,918
Gross dividends	1,353	2,125	3,722	3,547	4,243	4,767

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	18,666	24,475	26,954	28,899	33,964	40,244
Cash & equivalents	9,721	11,693	12,334	14,116	18,814	24,954
Account receivables	933	819	573	832	794	1,065
Inventories	83	41	28	50	39	59
Prepayment	668	862	822	822	822	822
Other current assets	7,261	11,061	13,197	13,080	13,495	13,345
Non-current assets	44,106	54,049	61,512	64,945	67,253	68,987
PP&E	24,930	28,813	32,181	34,440	35,959	36,578
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	21,693	22,269	23,171
Total assets	62,772	78,524	88,465	93,844	101,217	109,232
Current liabilities	12,996	16,405	20,061	20,284	20,585	20,913
Short-term borrowings	3,459	5,394	7,766	7,766	7,766	7,766
Account payables	1,958	2,203	2,557	2,780	3,081	3,409
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	28,408	28,709	29,037
Total shareholders equity	48,637	54,029	59,802	64,949	72,010	79,685
Minority interest	290	444	479	488	498	510
Total equity and liabilities	62,772	78,524	88,465	93,844	101,217	109,232

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>5,707</b>	<b>8,292</b>	<b>10,693</b>	<b>11,237</b>	<b>13,274</b>	<b>14,913</b>
Depreciation & amortization	2,222	2,671	2,875	3,686	4,140	4,555
Tax paid	(1,005)	(1,633)	(1,939)	(2,360)	(2,655)	(2,983)
Change in working capital	158	1,498	700	(342)	(95)	(182)
Others	(225)	148	364	(455)	(569)	(760)
<b>Net cash from operations</b>	<b>6,856</b>	<b>10,976</b>	<b>12,693</b>	<b>11,766</b>	<b>14,095</b>	<b>15,543</b>
<b>Investing</b>						
Capital expenditure	(8,461)	(6,837)	(6,700)	(5,800)	(5,500)	(5,000)
Acquisition of subsidiaries/ investments	(670)	136	(200)	(200)	(200)	(200)
Others	11	(9,845)	385	48	161	351
<b>Net cash from investing</b>	<b>(9,120)</b>	<b>(16,546)</b>	<b>(6,515)</b>	<b>(5,952)</b>	<b>(5,539)</b>	<b>(4,849)</b>
<b>Financing</b>						
Dividend paid	(1,313)	(1,353)	(2,125)	(3,722)	(3,547)	(4,243)
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)
<b>Net cash from financing</b>	<b>(2,904)</b>	<b>7,058</b>	<b>246</b>	<b>(4,032)</b>	<b>(3,858)</b>	<b>(4,554)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	14,213	9,721	11,693	12,334	14,116	18,814
Exchange difference	677	483	(5,783)	0	0	0
<b>Cash at the end of the year</b>	<b>9,721</b>	<b>11,693</b>	<b>12,334</b>	<b>14,116</b>	<b>18,814</b>	<b>24,954</b>

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



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