

ZTO Express (ZTO US/2057 HK)

Shifting back to volume growth strategy

ZTO Express (ZTO)'s 4Q24 core net profit grew 11% YoY to RMB2.49bn, which is in line with our expectation. The company targets to achieve full year parcel volume of 40.8-42.2bn (20-24% YoY growth), which is expected to outpace the industry growth of 15% (ZTO's forecast). This suggests a shift of strategy from profitability to volume growth, which we believe was due to the continuous decline in market share (18.8% in 4Q24, in terms of parcel volume). We fine-tune our 2025E-26E earnings forecast by +1%. We roll our valuation base to 2025E, with new TP for ZTO US/2057 HK revised down to US\$32.6/HK\$256. Our new target multiple of 18x (previously 22x) is based on 0.5SD below historical average, in order to reflect the earnings slowdown. That said, we continue to like ZTO's strong free cash flow capability to support its semi-annual dividend payment and share buyback programme (remaining fund of US\$778mn by mid-2025). Maintain **BUY**.

Key highlights in 4Q24 results:

- **Core net profit grew 11% YoY to RMB2.49bn**, driven by 11% parcel volume growth and unit gross profit expansion of 8% YoY to RMB0.39/parcel despite fierce industry price competition. For the full year in 2024, core net profit grew 11% YoY to RMB9.56bn. ZTO generated free cash flow of ~RMB3.5bn in 2024. By end-2024, net cash reached RMB24.8bn.
- **Parcel volume lifted 11% YoY to 9.67bn units in 4Q24**. Market share in 4Q24 was 18.8%, down 3.5ppts YoY and 1.2ppts QoQ, as ZTO focused on profitable parcel volume growth.
- **ZTO's parcel delivery ASP increased YoY, the only one among major peers**. ASP in 4Q24 increased RMB0.03/parcel (or 10%) YoY to RMB1.32/unit (breakdown: KA +RMB0.19, parcel weight -RMB0.02, volume incentives -RMB0.04). This is much better than other key players such as Yunda (-12%), YTO (-5%) and STO (-6%).
- **Unit gross profit rose 8% YoY to RMB0.39/parcel**. Unit cost of transportation decreased RMB0.06 (or -11% YoY) to RMB0.40/parcel, helped by economies of scale, improved load rate and decrease in diesel prices. Unit cost of sorting hubs was stable YoY at RMB0.26, as the increase in automation level was offset by increased cost on behalf of franchisees. Other unit cost surged RMB0.14/unit (or 1.4x) YoY to RMB0.24/unit, due to increase in KA cost.

Earnings Summary - ZTO US

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	38,419	44,281	52,222	59,326	66,266
YoY growth (%)	8.6	15.3	17.9	13.6	11.7
Adjusted net profit (RMB mn)	8,579.0	9,555.8	10,753.7	11,993.6	13,116.3
EPS (Adjusted) (RMB)	10.62	11.45	13.27	14.80	16.19
Consensus EPS (RMB)	na	na	13.13	14.62	na
P/E (x)	14.2	14.6	11.6	10.4	9.5
P/B (x)	2.1	2.0	1.8	1.6	1.5
Yield (%)	2.9	3.2	3.9	4.3	4.7
ROE (%)	15.4	14.6	16.5	16.6	16.5
Net gearing (%)	(41.6)	(40.0)	(42.8)	(45.7)	(49.4)

Source: Company data, Bloomberg, CMBIGM estimates

ZTO US	2057 HK
BUY	BUY
Maintain	Maintain

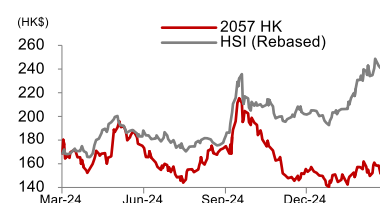
TP	US\$32.60	HK\$256.00
Prior TP	US\$34.50	HK\$271.00
Up/Downside	53.1%	55.2%
Current Price	US\$21.3	HK\$165.0

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12-mth Price Performance



Source: FactSet

Stock Performance

	ZTO US		2057 HK	
	Abs.	Rel.	Abs.	Rel.
1-mth	6.5%	15.3%	5.1%	-1.2%
3-mth	8.0%	11.7%	6.9%	-13.8%
6-mth	-6.2%	-5.5%	-5.7%	-31.7%

Source: FactSet

Stock Data

(LC)	ZTO US	2057 HK
Mkt Cap (mn)	17260.22	133706
Avg 3 mths t/o (mn)	48.36	240.28
52w High	26.99	215.4
52w Low	17.93	140.4
Issued Shares (mn)	810.3392	810.3392

Source: FactSet

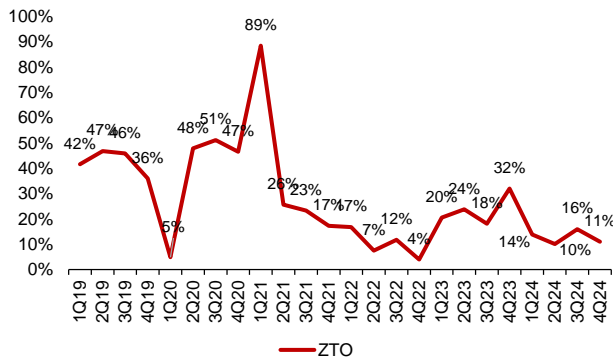
Related reports:

1. Still positive on profitable growth strategy despite lower volume guidance – 20 Nov 2024 (ZTO US: [link](#)) (2057 HK: [link](#))
2. 2Q24 core earnings +10% with stable unit margin – 21 Aug 2024 (ZTO US: [link](#)) (2057 HK: [link](#))
3. 1Q24 core earnings beat estimates; Shifted to profitable growth strategy – 16 May 2024 (ZTO US: [link](#)) (2057 HK: [link](#))

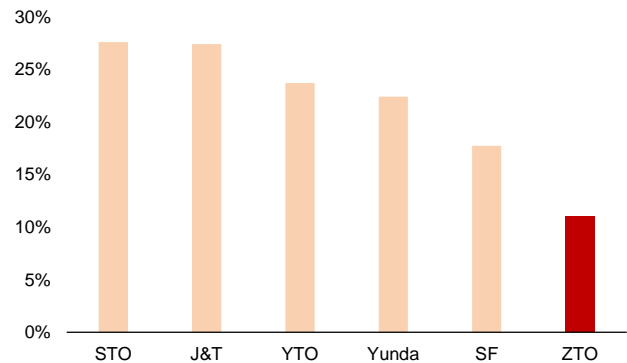
Figure 1: ZTO's 4Q24 results

(RMB mn)	1Q23	1Q24	Change YoY	2Q23	2Q24	Change YoY	3Q23	3Q24	Change YoY	4Q23	4Q24	Change YoY
Total revenue	8,983	9,960	10.9%	9,740	10,726	10.1%	9,076	10,675	17.6%	10,619	12,920	21.7%
Cost of sales	-6,460	-6,958	7.7%	-6,436	-7,105	10.4%	-6,369	-7,340	15.2%	-7,491	-9,160	22.3%
Gross profit	2,523	3,002	19.0%	3,304	3,620	9.6%	2,706	3,335	23.2%	3,128	3,760	20.2%
Other income	214	161	-24.5%	79	188	137.7%	151	52	-65.8%	327	349	6.7%
SG&A expenses	-787	-897	14.0%	-505	-593	17.5%	-434	-545	25.6%	-700	-656	-6.4%
EBIT	1,950	2,267	16.2%	2,879	3,215	11.7%	2,424	2,842	17.3%	2,755	3,453	25.3%
D&A	686	786	14.5%	705	755	7.1%	745	731	-1.8%	739	751	1.6%
EBITDA	2,637	3,053	15.8%	3,584	3,970	10.8%	3,168	3,573	12.8%	3,494	4,204	20.3%
Net finance income/(expense)	20	161	697.5%	95	172	81.5%	163	172	5.9%	140	150	7.6%
Finance income	92	245	166.6%	167	288	72.4%	246	239	-3.2%	201	222	10.2%
Finance expenses	-72	-84	17.0%	-72	-116	60.4%	-84	-66	-20.8%	-62	-72	16.1%
Gain/(loss) on disposal of subsidiaries	0	0	n/a	-1	12	n/a	11	-1	n/a	-5	-21	362.2%
Impairment of investment in equity investees	0	-478	n/a	0	-194	n/a	0	0	n/a	0	-259	n/a
Fair value changes of financial instruments	156	43	-72.5%	52	55	6.2%	9	-63	n/a	-51	168	n/a
FX gain/(loss)	-10	5	n/a	81	15	-81.3%	5	-38	n/a	18	-0	n/a
Share of profit of JV and associates	4	16	319.8%	0	4	3410.6%	11	22	107.5%	-10	15	n/a
Pretax profit	2,120	2,014	-5.0%	3,106	3,279	5.6%	2,621	2,934	11.9%	2,846	3,506	23.2%
Income tax	-455	-566	24.5%	-576	-665	15.5%	-271	-555	104.5%	-637	-1,059	66.4%
After tax profit	1,665	1,448	-13.0%	2,530	2,614	3.3%	2,350	2,379	1.3%	2,210	2,447	10.7%
MI	6	-22	n/a	11	-2	n/a	-4	17	n/a	-18	-64	266.2%
Net profit	1,670	1,426	-14.6%	2,541	2,612	2.8%	2,345	2,396	2.2%	2,192	2,383	8.7%
Core net profit	1,515	1,862	22.9%	2,490	2,740	10.0%	2,326	2,460	5.8%	2,248	2,494	11.0%
Ratios:			<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	29.5%	29.1%	-0.4
EBIT margin	21.7%	22.8%	1.0	29.6%	30.0%	0.4	26.7%	26.6%	-0.1	25.9%	26.7%	0.8
After tax profit margin	18.5%	14.5%	-4.0	26.0%	24.4%	-1.6	25.9%	22.3%	-3.6	20.8%	18.9%	-1.9
Effective tax rate	21.5%	28.1%	6.7	18.5%	20.3%	1.7	10.4%	18.9%	8.6	22.4%	30.2%	7.8

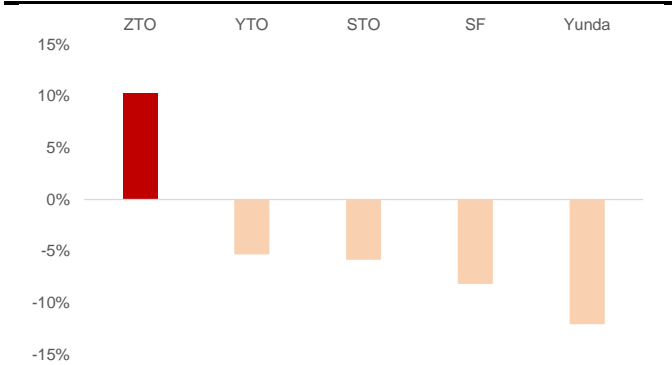
Source: Company data, CMBIGM

Figure 2: ZTO's quarterly parcel volume growth

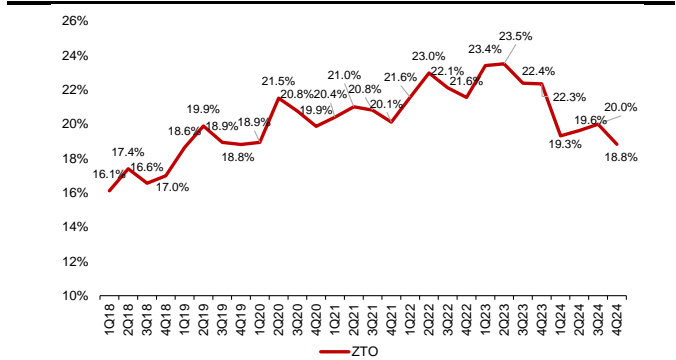
Source: Company data, CMBIGM

Figure 3: Major players' parcel volume growth in 4Q24

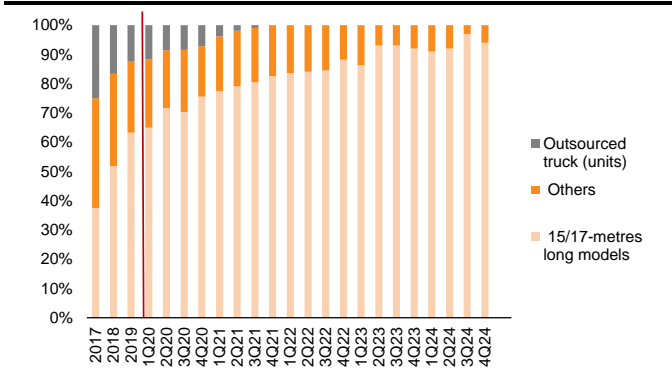
Source: Company data, CMBIGM

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

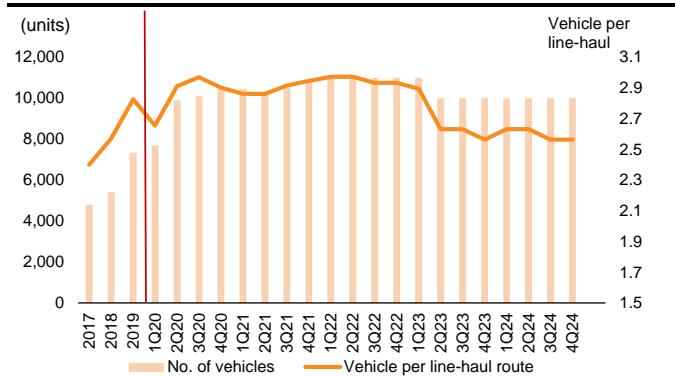
Source: Company data, the State Post Bureau, CMBIGM

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

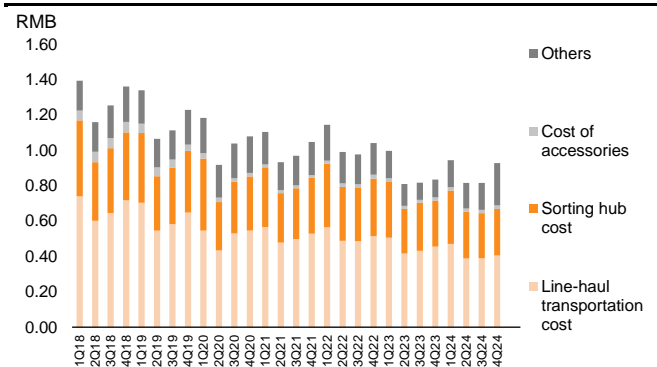
Source: Company data, CMBIGM

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

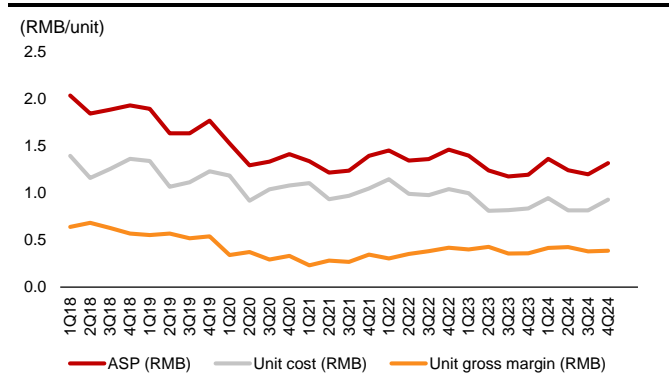
Source: Company data, CMBIGM

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	
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E
Shipment volume (mn units of parcel)								
Unit of parcel	37,547	41,677	-	41,493	47,717		10.5%	14.5%
ASP (RMB/unit)								
Per unit of parcel	1.23	1.23	-	1.24	1.23		0.6%	-0.4%
Unit cost (RMB)								
Line-haul transportation cost	-0.43	-0.43	-	-0.39	-0.39		-8.6%	-8.6%
Sorting hub cost	-0.26	-0.26	-	-0.27	-0.27		2.2%	2.2%
Others	-0.13	-0.13	-	-0.18	-0.18		35.6%	35.6%
Total	-0.84	-0.84	-	-0.86	-0.86		2.0%	2.0%
Unit gross margin (RMB)	0.39	0.39	-	0.38	0.37		-2.2%	-5.3%
(RMB mn)								
Revenue								
Express delivery, accessories & others	46,170	51,249	-	51,354	58,467		11.2%	14.1%
Freight forwarding services	925	934	-	868	859		-6.2%	-8.1%
Total	47,095	52,183	-	52,222	59,326		10.9%	13.7%
Revenue growth								ppt
Express delivery, accessories & others	10%	11%	-	18%	14%		7.9	2.9
Freight forwarding services	1%	1%	-	-2%	-1%		(3.0)	(2.0)
Revenue	10%	11%	-	18%	14%		7.7	2.8
SG&A expense ratio	-6.2%	-6.1%	-	-6.0%	-6.0%		0.2	0.1
Net profit	10,609	11,918	-	10,752	11,989		1.3%	0.6%
Core net profit	10,609	11,918	-	10,752	11,989		1.3%	0.6%

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)				
		1.18	1.21	1.24	1.26	1.30
	-0.414	8,263	9,384	10,132	10,879	12,000
	-0.402	8,635	9,756	10,504	11,251	12,372
Unit line-haul transportation cost (RMB)	-0.394	8,883	10,004	10,752	11,499	12,620
	-0.386	9,131	10,252	11,000	11,747	12,868
	-0.375	9,503	10,624	11,371	12,119	13,240

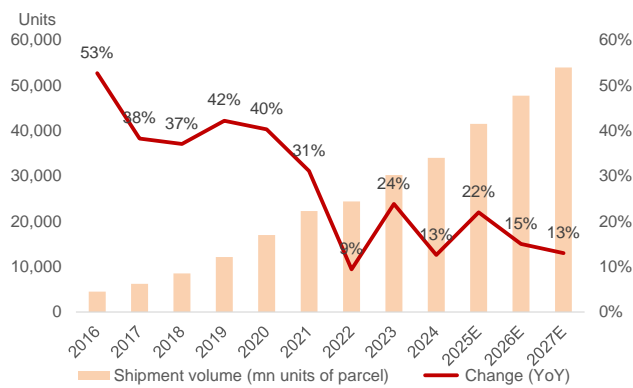
Source: Company data, CMBIGM estimates

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

2025E Net profit (RMB mn)		ASP (RMB/unit)				
		1.18	1.21	1.24	1.26	1.30
	-0.281	8,462	9,583	10,330	11,077	12,198
	-0.273	8,715	9,836	10,583	11,330	12,451
Unit sorting hub cost (RMB)	-0.268	8,883	10,004	10,752	11,499	12,620
	-0.263	9,052	10,173	10,920	11,668	12,789
	-0.255	9,305	10,426	11,173	11,920	13,042

Source: Company data, CMBIGM estimates

Figure 13: ZTO's parcel shipment volume forecast



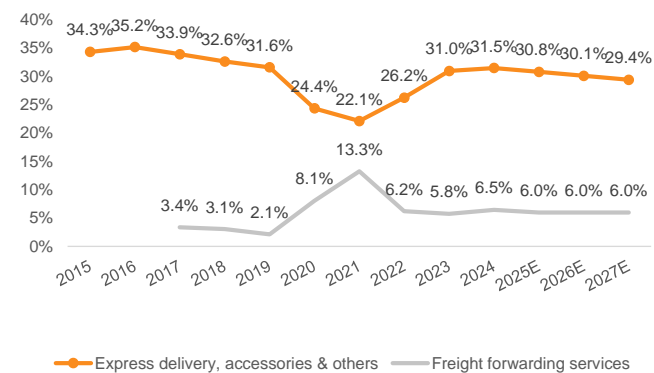
Source: Company data, CMBIGM estimates

Figure 14: China's diesel price



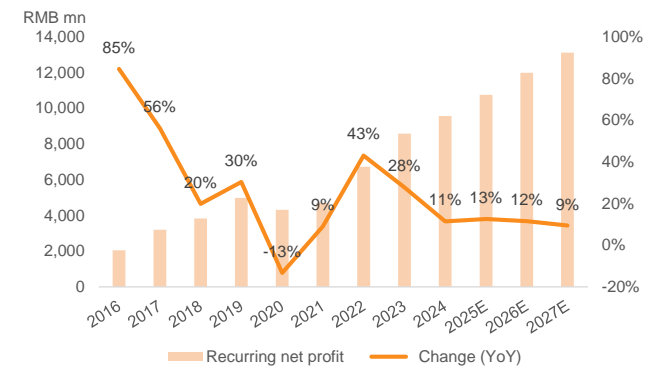
Source: Wind, CMBIGM

Figure 15: ZTO's gross margin trend



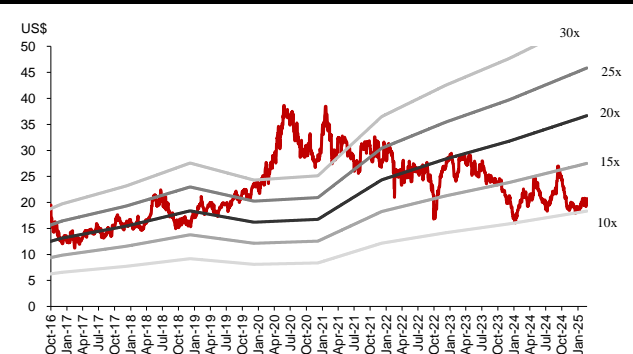
Source: Company data, CMBIGM estimates

Figure 16: ZTO's net profit forecast



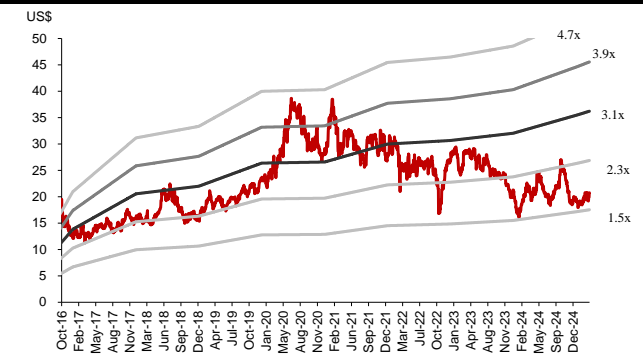
Source: Company data, CMBIGM estimates

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

Major risk factors include: (1) a prolonged price war, and (2) further slowdown of overall consumption.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	35,377	38,419	44,281	52,222	59,326	66,266
Cost of goods sold	(26,338)	(26,756)	(30,564)	(36,355)	(41,678)	(46,991)
Gross profit	9,039	11,663	13,717	15,866	17,647	19,274
SG&A expense	(2,077)	(2,425)	(2,690)	(3,133)	(3,560)	(3,976)
Others	775	771	750	1,044	1,187	1,325
Operating profit	7,736	10,008	11,777	13,778	15,274	16,624
Investment gain/loss	90	170	(739)	0	0	0
Share of (losses)/profits of associates/JV	6	4	57	10	11	12
Interest income	504	707	994	936	1,093	1,241
Interest expense	(191)	(290)	(338)	(371)	(371)	(371)
Net interest income/(expense)	313	417	656	565	722	870
Foreign exchange gain/loss	147	94	(18)	0	0	0
Pre-tax profit	8,292	10,693	11,733	14,353	16,007	17,506
Income tax	(1,633)	(1,939)	(2,845)	(3,588)	(4,002)	(4,376)
Minority interest	150	(5)	(71)	(11)	(12)	(13)
Net profit	6,659	8,754	8,888	10,764	12,006	13,129
Adjusted net profit	6,720	8,579	9,556	10,754	11,994	13,116
Gross dividends	2,063	3,592	4,056	4,839	5,397	5,902

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	24,475	26,954	30,354	34,107	40,859	46,577
Cash & equivalents	11,693	12,334	13,465	18,040	23,276	29,887
Account receivables	819	573	1,504	299	1,814	546
Inventories	41	28	39	61	53	76
Prepayment	862	822	784	784	784	784
Other current assets	11,061	13,197	14,562	14,924	14,932	15,285
Non-current assets	54,049	61,512	61,987	65,593	66,402	68,866
PP&E	28,813	32,181	33,915	35,763	36,710	37,257
Deferred income tax	750	880	985	985	985	985
Investment in JVs & assos	3,951	3,455	1,871	2,081	2,292	2,504
Intangibles	29	23	17	11	5	2
Goodwill	4,242	4,242	4,242	4,242	4,242	4,242
Other non-current assets	16,264	20,731	20,957	22,512	22,169	23,877
Total assets	78,524	88,465	92,340	99,700	107,260	115,443
Current liabilities	16,405	20,061	28,273	28,924	29,318	29,769
Short-term borrowings	5,394	7,766	9,514	9,514	9,514	9,514
Account payables	2,203	2,557	2,463	3,114	3,508	3,959
Tax payable	228	333	489	489	489	489
Other current liabilities	8,580	9,405	15,807	15,807	15,807	15,807
Non-current liabilities	7,646	8,124	1,392	1,392	1,392	1,392
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	510	456	378	378	378	378
Other non-current liabilities	7,135	7,668	1,015	1,015	1,015	1,015
Total liabilities	24,051	28,185	29,665	30,317	30,711	31,161
Total shareholders equity	54,029	59,802	62,062	68,760	75,915	83,634
Minority interest	444	479	612	623	635	648
Total equity and liabilities	78,524	88,465	92,340	99,700	107,260	115,443

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,292	10,693	11,733	14,353	16,007	17,506
Depreciation & amortization	2,671	2,881	3,030	3,802	4,212	4,619
Tax paid	(1,633)	(1,939)	(2,845)	(3,588)	(4,002)	(4,376)
Change in working capital	1,498	700	(1,035)	274	(432)	(28)
Others	148	318	(446)	(575)	(733)	(882)
Net cash from operations	10,976	12,654	10,436	14,265	15,053	16,838
Investing						
Capital expenditure	(6,837)	(6,529)	(5,900)	(5,500)	(5,000)	(5,000)
Acquisition of subsidiaries/ investments	136	63	0	(200)	(200)	(200)
Others	(9,845)	(6,494)	(1,074)	436	593	741
Net cash from investing	(16,546)	(12,960)	(6,974)	(5,264)	(4,607)	(4,459)
Financing						
Dividend paid	(1,353)	(2,063)	(3,592)	(4,056)	(4,839)	(5,397)
Net borrowings	1,936	2,372	1,748	0	0	0
Proceeds from share issues	(85)	(1,006)	0	0	0	0
Others	6,560	(72)	(3,151)	(371)	(371)	(371)
Net cash from financing	7,058	(770)	(4,995)	(4,427)	(5,210)	(5,768)
Net change in cash						
Cash at the beginning of the year	9,721	11,693	12,334	13,465	18,040	23,276
Exchange difference	483	1,716	2,665	0	0	0
Cash at the end of the year	11,693	12,334	13,465	18,040	23,276	29,887
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	16.3%	8.6%	15.3%	17.9%	13.6%	11.7%
Gross profit	37.2%	29.0%	17.6%	15.7%	11.2%	9.2%
Operating profit	40.6%	29.4%	17.7%	17.0%	10.9%	8.8%
Net profit	41.6%	31.5%	1.5%	21.1%	11.5%	9.4%
Adj. net profit	43.0%	27.7%	11.4%	12.5%	11.5%	9.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	25.6%	30.4%	31.0%	30.4%	29.7%	29.1%
Operating margin	21.9%	26.0%	26.6%	26.4%	25.7%	25.1%
Adj. net profit margin	19.0%	22.3%	21.6%	20.6%	20.2%	19.8%
Return on equity (ROE)	13.0%	15.4%	14.6%	16.5%	16.6%	16.5%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
Current ratio (x)	1.5	1.3	1.1	1.2	1.4	1.6
Receivable turnover days	23.0	17.3	16.1	16.3	16.5	17.0
Inventory turnover days	0.9	0.5	0.4	0.5	0.5	0.5
Payable turnover days	28.8	32.5	30.0	28.0	29.0	29.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	18.3	14.2	14.6	11.6	10.4	9.5
P/B	2.3	2.1	2.0	1.8	1.6	1.5
Div yield (%)	1.7	2.9	3.2	3.9	4.3	4.7

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

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