

## ZTO Express

# Sustained ASP recovery unlikely, even in the long term; cut PO by 21% to US\$22

Reiterate Rating: NEUTRAL | PO: 22.00 USD | Price: 17.99 USD

## Reiterate Neutral; cut PO by 21% on lower target multiple

We reiterate our Neutral rating on ZTO and cut our PO by 21% to US\$22, based on 12x FY24E P/E, 1.5 standard deviations (SD) below the historical average (earlier: 16x FY24E P/E or 1SD below the historical mean). The lower multiple is to reflect our long-term view that ZTO is unlikely to raise its ASP despite having an above-industry-average execution capability. We tweak our FY23-25E EPS by -3% to +1%. We note one potential catalyst could be the southbound eligibility for ZTO's H-shares (which, in turn, should lend support to the ADR valuation). The timing is likely in March 2024.

## Last-mile fee cut in early-2024; ASP pressure to sustain

The cut to last-mile express delivery fee early in 2024 by some of ZTO's peers reaffirmed our view that price pressure will likely be sustained. We expect ZTO to see a 15% growth in express delivery volume in 2024 (vs industry volume growth of 10%), offset by a 4% ASP decline. In view of ZTO's current optimal capacity of 120mn parcels/day, we think it is sensible for ZTO to prioritize volume growth and increase asset utilization.

## Sustained ASP recovery unlikely, even in the long term

Long term, we believe China's express delivery services are becoming "utilities-like," given the high eCommerce penetration and shoppers getting used to low-cost shipping. Hence, contrary to some investors' expectations, franchisee-based operators are unlikely to re-gain pricing power even after the competitive landscape improves. A more reasonable assumption is that ZTO maintains its unit profit (c.RMB0.3) through efficiency gains, offsetting further ASP downside.

## Expect 4Q23 adj net profit to grow 20% YoY

We project ZTO to achieve parcel volume growth of 32% in 4Q23, offset by a 13% decline in ASP. Excluding a potential impairment (non-recurrent) loss of RMB100mn, we project an adjusted net profit of RMB2.5bn, up 20% YoY. We expect full-year FY23 adjusted net profit to come in at RMB9.33bn.

Estimates (Dec) (CNY)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - mn)	5,000	6,956	9,327	10,666	12,124
EPS	6.10	8.59	11.52	13.17	14.98
EPS Change (YoY)	6.1%	40.9%	34.1%	14.4%	13.7%
Dividend / Share	1.59	2.55	3.50	4.00	4.55
Free Cash Flow / Share	(1.39)	5.45	13.56	7.09	10.65
Valuation (Dec)					
P/E	18.80x	14.56x	11.08x	9.81x	8.63x
Dividend Yield	1.39%	2.04%	2.74%	3.09%	3.52%
EV / EBITDA*	11.72x	8.54x	6.77x	5.86x	5.20x
Free Cash Flow Yield*	-1.09%	4.22%	10.49%	5.48%	8.24%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

17 January 2024

## Equity

## Key Changes

(CNY)	Previous	Current
Price Obj.	US\$28.00	US\$22.00
2023E Rev (m)	39,431.0	39,149.5
2024E Rev (m)	42,600.8	43,112.1
2025E Rev (m)	46,352.2	46,680.9
2023E EPS	11.46	11.52
2024E EPS	13.08	13.17
2025E EPS	15.08	14.98

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## Stock Data

Price	17.99 USD
Price Objective	22.00 USD
Date Established	17-Jan-2024
Investment Opinion	B-2-7
52-Week Range	17.90 USD-30.05 USD
Mrkt Val / Shares Out (mn)	14,565 USD / 809.6
Average Daily Value (mn)	58.84 USD
Free Float	69.0%
BofA Ticker / Exchange	ZTO / NYS
Bloomberg / Reuters	ZTO US / ZTO.N
ROE (2023E)	16.3%
Net Dbt to Eqty (Dec-2022A)	-11.56%

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**Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 17 January 2024 06:11AM EST

# iQprofile<sup>SM</sup> ZTO Express

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(CNY Millions)					
Sales	30,406	35,377	39,150	43,112	46,681
Gross Profit	6,589	9,039	11,969	13,840	15,655
Sell General & Admin Expense	(1,876)	(2,077)	(2,349)	(2,457)	(2,614)
Operating Profit	5,447	7,857	10,347	12,109	13,768
Net Interest & Other Income	293	429	625	765	905
Associates	(32)	6	8	9	10
Pretax Income	5,707	8,292	10,979	12,883	14,682
Tax (expense) / Benefit	(1,005)	(1,633)	(1,994)	(2,575)	(2,935)
Net Income (Adjusted)	5,000	6,956	9,327	10,666	12,124
Average Fully Diluted Shares Outstanding	820	810	810	810	810

Key Cash Flow Statement Data					
Net Income	4,755	6,809	9,150	10,490	11,947
Depreciation & Amortization	2,222	2,671	2,934	3,232	3,518
Change in Working Capital	(502)	836	(25)	55	31
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	745	1,164	185	186	129
Cash Flow from Operations	7,220	11,479	12,244	13,963	15,625
Capital Expenditure	(8,360)	(7,068)	(1,266)	(8,225)	(7,002)
(Acquisition) / Disposal of Investments	(795)	(6,483)	(308)	(259)	(260)
Other Cash Inflow / (Outflow)	(1,237)	(25)	961	681	668
Cash Flow from Investing	(10,392)	(13,576)	(612)	(7,803)	(6,594)
Shares Issue / (Repurchase)	(3,418)	217	0	0	0
Cost of Dividends Paid	(1,354)	(1,323)	(2,776)	(3,183)	(3,625)
Cash Flow from Financing	(2,904)	641	(2,776)	(3,183)	(3,625)
Free Cash Flow	(1,140)	4,412	10,978	5,738	8,623
Net Debt	(6,263)	(6,298)	(15,038)	(18,794)	(24,080)
Change in Net Debt	8,252	2,904	(8,855)	(2,977)	(5,406)

Key Balance Sheet Data					
Property, Plant & Equipment	24,930	28,813	27,145	31,242	34,726
Other Non-Current Assets	19,176	25,235	24,662	24,324	23,991
Trade Receivables	2,045	1,770	1,959	2,157	2,336
Cash & Equivalents	9,721	11,693	20,433	24,188	29,475
Other Current Assets	6,900	11,012	11,538	12,116	12,660
Total Assets	62,772	78,524	85,737	94,027	103,187
Long-Term Debt	NA	NA	NA	NA	NA
Other Non-Current Liabilities	848	7,646	7,683	7,722	7,756
Short-Term Debt	3,459	5,394	5,394	5,394	5,394
Other Current Liabilities	9,538	11,011	11,978	13,105	14,107
Total Liabilities	13,845	24,051	25,055	26,221	27,258
Total Equity	48,928	54,472	60,681	67,807	75,929
Total Equity & Liabilities	62,772	78,524	85,737	94,027	103,187

iQmethod <sup>SM</sup> - Bus Performance*					
Return On Capital Employed	9.2%	11.1%	12.8%	13.4%	13.9%
Return On Equity	10.2%	13.6%	16.3%	16.7%	16.9%
Operating Margin	17.9%	22.2%	26.4%	28.1%	29.5%
EBITDA Margin	25.2%	29.8%	33.9%	35.6%	37.0%

iQmethod <sup>SM</sup> - Quality of Earnings*					
Cash Realization Ratio	1.4x	1.7x	1.3x	1.3x	1.3x
Asset Replacement Ratio	3.8x	2.6x	0.4x	2.5x	2.0x
Tax Rate (Reported)	17.6%	19.7%	18.2%	20.0%	20.0%
Net Debt-to-Equity Ratio	-12.8%	-11.6%	-24.8%	-27.7%	-31.7%
Interest Cover	43.1x	41.2x	28.9x	33.8x	38.4x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Land Transport (Warehousing/Logistics)

## Company Description

Founded in 2002, ZTO is a leading express delivery company in China in terms of parcel volume. ZTO operates a network partner model and leverages its network partners to provide pickup and last-mile delivery services while controlling line-haul transportation and sorting network.

## Investment Rationale

We rate ZTO a Neutral. While we like ZTO's above-average execution and unit cost advantage, the prolonged price competition among the franchisee-based express delivery operators will keep the stock re-rating at bay.

## Stock Data

Price to Book Value

1.7x

**Exhibit 1: ZTO estimate changes**  
We tweak our FY23-25E EPS by -3% to +1%

(RMB mn)	FY23E	New		FY23E	Old		Change		
		FY24E	FY25E		FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	39,150	43,112	46,681	39,112	42,994	46,760	0.1%	0.3%	-0.2%
EBIT	10,347	12,109	13,768	10,074	12,406	14,290	2.7%	-2.4%	-3.7%
Adjusted net profits	9,327	10,666	12,124	9,186	10,901	12,544	1.5%	-2.2%	-3.3%

Source: BofA Global Research

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## Price objective basis & risk

### ZTO Express (ZTO)

Our PO of US\$22 is based on 12x FY24E P/E, 1.5 SD below historical average to reflect our view on price competition lasting longer.

Upside risk: higher-than-expected volume growth on consumption recovery. Unexpected exit of major competitors.

Downside risks: slower-than-expected volume growth on weaker e-commerce, cost pressure due to oil price hike. Stiffer-than-expected competition, resulting in more ASP pressure.

## Analyst Certification

I, Fan Tso, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### APR - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Airports of Thailand	ARPRF	AOT TB	Charti Phrawphraikul
	Aurizon Holdings Limited	QRNNF	AZJ AU	Reinhardt van der Walt
	Beijing-Shanghai High Speed Railway	XMREF	601816 CH	Nathan Gee, CFA
	Cathay Pac Air	CPCAF	293 HK	Nathan Gee, CFA
	China Eastern	CHEAF	670 HK	Nathan Gee, CFA
	China Eastern Airlines Co-A	XCHEF	600115 CH	Nathan Gee, CFA
	China Southern	CHKIF	1055 HK	Nathan Gee, CFA
	China Southern Airlines Co-A	CHKFF	600029 CH	Nathan Gee, CFA
	COSCO Shipping Energy Transportation	CSDXF	1138 HK	Nathan Gee, CFA
	COSCO Shipping Energy Transportation	CSDJF	600026 CH	Nathan Gee, CFA
	Daqin Railway	XDRCY	601006 CH	Nathan Gee, CFA
	Guangshen Railway	GNGYF	525 HK	Nathan Gee, CFA
	Guangshen Railway	GSHHF	601333 CH	Nathan Gee, CFA
	Guangzhou Baiyun Airport	GZBYF	600004 CH	Nathan Gee, CFA
	IndiGo	XQBSF	INDIGO IN	Nathan Gee, CFA
	Int'l Container Terminal Service	ICTEF	ICT PM	Philip Albert Felix
	J&T Global Express	XJTGf	1519 HK	Fan Tso, CFA
	Japan Airlines	JPNRF	9201 JP	Nathan Gee, CFA
	JD Logistics	XKQDF	2618 HK	Fan Tso, CFA
	JR East	EJPRF	9020 JP	Nathan Gee, CFA
	JR West	WJRYF	9021 JP	Nathan Gee, CFA
	Milkyway Chemical Supply Chain	XMCYF	603713 CH	Fan Tso, CFA
	Pacific Basin	PCFBF	2343 HK	Nathan Gee, CFA
	Qantas Airways	QUBSF	QAN AU	Nathan Gee, CFA
	Qantas Airways	QABSY	QABSY US	Nathan Gee, CFA
	S.F. Holding Co., Ltd	XSLRF	002352 CH	Fan Tso, CFA
	SF Intra-city	XDFFF	9699 HK	Fan Tso, CFA
	SG Holdings	SGHHF	9143 JP	Nathan Gee, CFA
	Sinotrans Limited	SNOTF	598 HK	Karl Choi, CFA
	Skymark Airlines	XHNJF	9204 JP	Nathan Gee, CFA
	Spring Airlines	XSCCF	601021 CH	Nathan Gee, CFA
	Thailand Future Fund	XTFFF	TFFIF TB	Sirichai Chalokepunrat
	TravelSky Technology	TSYHF	696 HK	Nathan Gee, CFA
	Yamato Holdings	YATRF	9064 JP	Nathan Gee, CFA
<b>NEUTRAL</b>				
	Auckland International Airport	ACKDF	AIA NZ	Roy Harrison
	Auckland International Airport	XDORF	AIA AU	Roy Harrison
	Auckland International Airport	AUKNY	AUKNY US	Roy Harrison
	China Merchants Port Holdings	CMHHF	144 HK	Karl Choi, CFA
	COSCO SHIPPING Holdings Co. Ltd.	CICOF	1919 HK	Nathan Gee, CFA

**APR - Transportation Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	COSCO SHIPPING Holdings Co. Ltd.-A	XCHDF	601919 CH	Nathan Gee, CFA
	CTS International Logistics	XMKUF	603128 CH	Summer Wang, CFA
	Evergreen Marine	EVGQF	2603 TT	Nathan Gee, CFA
	JR Central	CJPRF	9022 JP	Nathan Gee, CFA
	Kelsian	XKSIF	KLS AU	Josephine Forde
	Shanghai International Airport	XAISF	600009 CH	Nathan Gee, CFA
	ZTO Express	ZTO	ZTO US	Fan Tso, CFA

**UNDERPERFORM**

	Air China Ltd	AICAF	753 HK	Nathan Gee, CFA
	Air China Ltd -A	XANLF	601111 CH	Nathan Gee, CFA
	ANA Holdings	ALNPF	9202 JP	Nathan Gee, CFA
	Beijing Capital Airport	BJCHF	694 HK	Nathan Gee, CFA
	China Airlines	XCHIF	2610 TT	Nathan Gee, CFA
	EVA Airways	XEACF	2618 TT	Nathan Gee, CFA
	Hyundai Glovis	GLVIF	086280 KS	KJ Hwang
	Kawasaki Kisen	KAKKF	9107 JP	Nathan Gee, CFA
	Mitsui O.S.K. Lines	MSLOF	9104 JP	Nathan Gee, CFA
	Nippon Yusen	NYUKF	9101 JP	Nathan Gee, CFA
	Shanghai International Port	SIPGF	600018 CH	Summer Wang, CFA
	Singapore Airlines	SINGF	SIA SP	Nathan Gee, CFA
	Sinotrans	XMKOF	601598 CH	Karl Choi, CFA
	STO Express	XSELF	002468 CH	Fan Tso, CFA
	YTO Express	XYTOF	600233 CH	Fan Tso, CFA
	Yunda Holding	XFSWF	002120 CH	Fan Tso, CFA

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
Basic EBIT + Depreciation + Amortization

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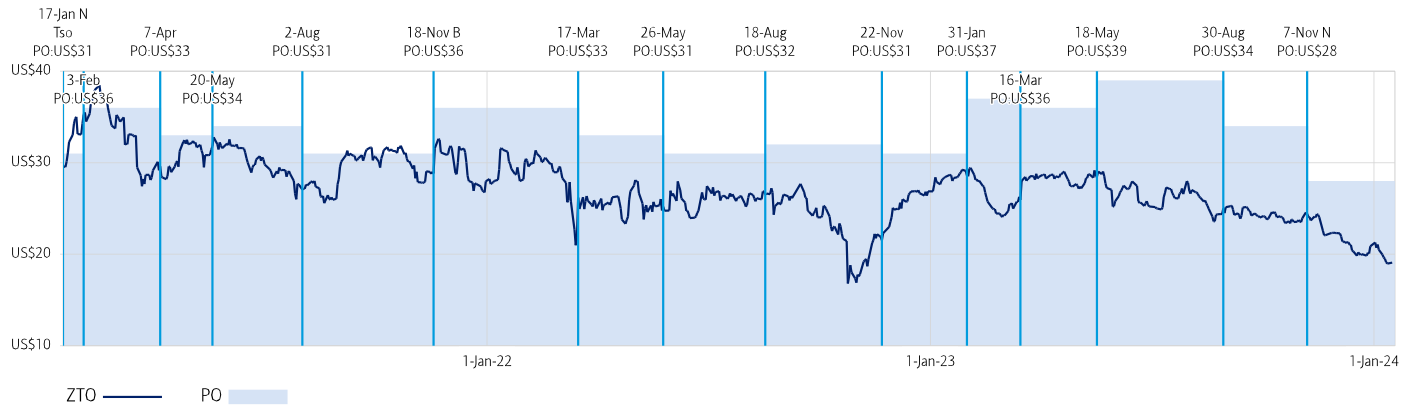
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### ZTO Express (ZTO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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