Zoomlion Heavy Industry - A (000157 CH)

Profit surprise in 3Q20 reaffirms our positive view

Zoomlion released a positive profit alert last night, stating that the net profit in 3Q20E would surge 64-97% YoY to RMB1.48-1.78bn. The high-end of the range is above our expectation. We expect Zoomlion's growth will continue to be driven by both the upcycle of existing products (concrete, crane and agricultural machinery) and the Company's expansion in new products. Besides, we believe the subscription of new shares by management team in the upcoming fund-raising exercise will further enhance market confidence. Maintain **BUY** with TP of RMB10.2 (12x 2020E P/E).

- **9M20E net profit up 58%-67% YoY.** Zoomlion estimated the net profit in 9M20E to be in the range of RMB5.5-5.8bn. This would represent 76%-80% of our above-consensus full year estimate, and we see potential upside to the consensus forecast. The growth in 9M20E was driven by the infrastructure, new energy and agricultural machinery. Besides, new business such as aerial working platform (AWP) and excavator continued to achieve breakthrough in the market.
- **Upcoming catalysts:** The stock is trading at only 9x 2021E P/E, which we believe has yet to reflect the Company's structural growth potential. We expect strong machinery sales datapoint in 4Q20E and the completion of share placement in early 2021E will serve as share price catalysts. Besides, the potential upside on China's wind power installation target in the 14th FYP will lift the demand for truck crane.
- **Risk factors:** (1) Unexpected weakness on infrastructure spending; (2) Slow recovery of property construction; (3) Risks of new business expansion.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	28,697	43,307	58,902	69,872	79,005
YoY growth (%)	39.3	50.9	36.0	18.6	13.1
Net income (RMB mn)	2,031	4,381	7,206	8,933	10,175
EPS (RMB)	0.27	0.58	0.92	1.05	1.12
YoY growth (%)	51.5	119.2	56.9	14.9	6.1
Consensus EPS (RMB)	n/a	n/a	0.82	0.92	0.99
EV/EBITDA (x)	18.7	12.2	8.8	7.2	6.4
P/E (x)	32.6	15.3	10.8	9.3	8.0
P/B (x)	1.8	1.8	1.6	1.4	1.2
Yield (%)	2.9	0.0	3.7	4.3	5.0
ROE (%)	5.4	11.4	15.6	15.8	16.2
Net gearing (%)	33.6	31.3	3.7	1.3	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**RMB10.20**
(Previous TP	RMB10.20)
Up/Downside	**+17%**
Current Price	**RMB8.74**

China Capital Goods

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Stock Data

Mkt Cap (RMB mn)	66,800
Avg 3 mths t/o (RMB mn)	547
52w High/Low (RMB)	8.97/5.28
Total Issued Shares (mn)	**6,411 (A)**
	1,388 (H)

Source: Bloomberg

Shareholding Structure

SASAC of Hunan Province	15.9%
Management team	4.9%
A share free float	61.4%
H share free float	17.7%

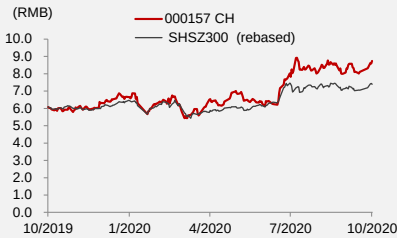
Source: HKEx, Shanghai Stock Exchange

Share Performance

	Absolute	Relative
1-mth	7.4%	2.7%
3-mth	7.1%	7.4%
6-mth	32.2%	2.5%

Source: Bloomberg

12-mth Price Performance



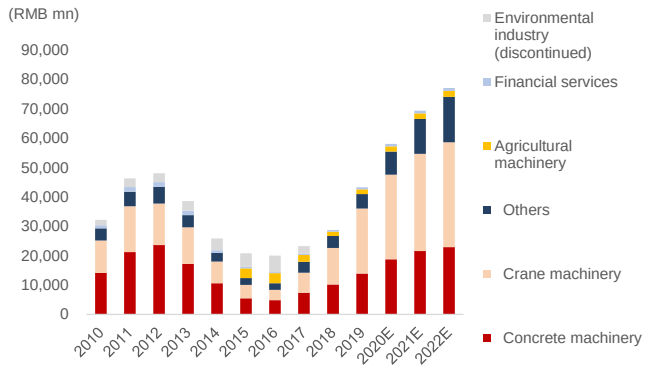
Source: Bloomberg

Auditor: KPMG

Related Reports

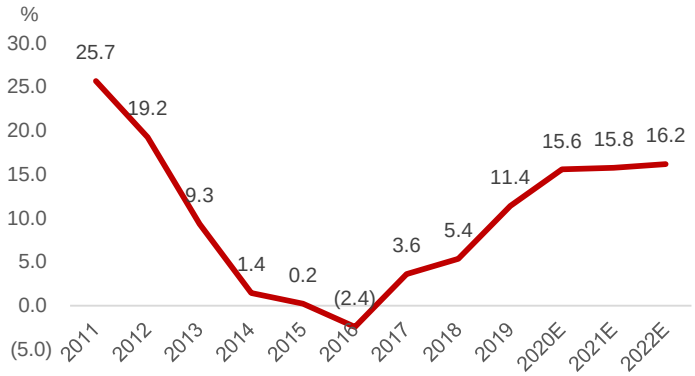
1. Zoomlion (000157 CH, BUY) – Interim dvd. a positive; Gross margin stabilized; Sector top pick – 24 Aug 2020
2. Zoomlion (000157 CH, BUY) – 2Q20 profit a strong beat; Lift earnings est. & TP – 15 Jul 2020
3. China Construction Machinery & HDT Sector – Raise industry sales forecast in 2020E-21E; Solid upcycle – 30 Jun 2020

Figure 1: Zoomlion's revenue trend



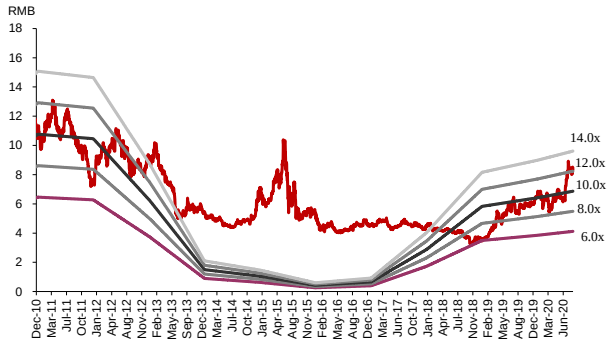
Source: Company data, CMBIS estimates

Figure 2: Zoomlion's ROE trend



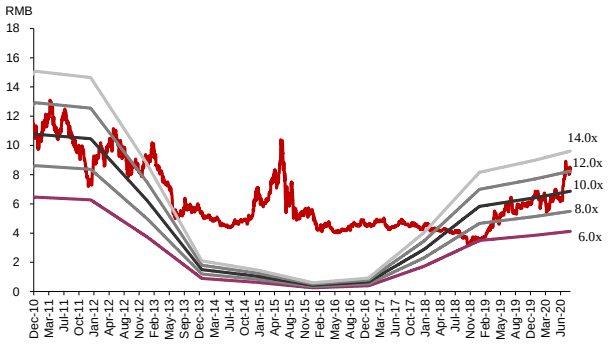
Source: Company data, CMBIS estimates

Figure 3: Zoomlion - A 12M forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 4: Zoomlion – A 12M forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**28,697**	**43,307**	**58,902**	**69,872**	**79,005**
Cost of sales	(20,923)	(30,314)	(41,192)	(48,558)	(54,915)
Gross profit	**7,774**	**12,993**	**17,710**	**21,314**	**24,090**
Other income	882	1,017	1,048	978	978
S&D expenses	(2,379)	(3,780)	(4,653)	(5,380)	(6,083)
Administrative expenses	(2,063)	(2,693)	(3,416)	(4,053)	(4,424)
R&D expenses	(581)	(1,516)	(2,120)	(2,306)	(2,607)
EBIT	**3,633**	**6,021**	**8,568**	**10,554**	**11,953**
Net finance income/(cost)	(1,205)	(1,165)	(329)	(39)	44
Finance income	347	539	766	1,032	1,008
Finance expenses	(1,552)	(1,704)	(1,094)	(1,071)	(964)
Other gains/(losses)	0	0	0	0	0
Profit of JV and associates	222	188	254	271	288
Pretax profit	**2,650**	**5,044**	**8,493**	**10,786**	**12,285**
Income tax	(682)	(759)	(1,359)	(1,941)	(2,211)
After tax profit	**1,968**	**4,285**	**7,134**	**8,844**	**10,074**
MI/discontinued operation	63	96	71	88	101
Net profit	**2,031**	**4,381**	**7,206**	**8,933**	**10,175**
D&A	837	817	923	1,005	1,080
EBITDA	**4,470**	**6,838**	**9,490**	**11,559**	**13,033**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pretax profit	2,650	5,044	8,493	10,786	12,285
Finance cost	1,451	1,704	1,094	1,071	964
Interest income	(347)	(539)	(766)	(1,032)	(1,008)
Profit or loss of associates	(222)	(188)	(254)	(271)	(288)
Disposal of PP&E/business	(152)	0	0	0	0
Depreciation and amortization	837	817	923	1,005	1,080
Income tax paid	(431)	(773)	(1,359)	(1,941)	(2,211)
Change in working capital	1,152	442	(2,762)	(2,674)	(2,932)
Others	(221)	(539)	0	0	0
Cash flow from operation	**4,717**	**5,968**	**5,369**	**6,943**	**7,890**
Net capex on PP&E	(272)	(1,082)	(2,246)	(2,646)	(2,500)
Investment in JV/associates	(4)	(301)	0	0	0
Investment in subsidiaries	0	(177)	0	0	0
Investment in intangible assets	(103)	(128)	(100)	0	0
Dividend received	4	45	0	0	0
Interest received	347	253	766	1,032	1,008
Others	(7,214)	11,374	0	0	0
Cash flow from investing	**(7,242)**	**9,984**	**(1,580)**	**(1,614)**	**(1,492)**
Equity financing/(repurchase)	37	(2,145)	7,674	0	0
Net bank borrowings	6,817	(14,008)	(1,000)	100	(4,100)
Dividend paid	(1,308)	(1,801)	0	(3,077)	(3,573)
Interest paid	(1,428)	(1,707)	(1,094)	(1,071)	(964)
Others	(16)	13	0	0	0
Cash flow from financing	**4,102**	**(19,648)**	**5,579**	**(4,047)**	**(8,637)**
Change in cash	1,577	(3,696)	9,368	1,282	(2,239)
Cash at beginning of the year	7,148	8,754	5,073	14,441	15,723
Exchange and others	29	15	0	(0)	(0)
Cash at the end of the year	8,754	5,073	14,441	15,723	13,483

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**28,657**	**37,979**	**41,150**	**46,206**	**49,542**
PP&E	6,077	6,735	8,324	10,234	11,922
Lease prepayment	1,943	2,433	2,383	2,333	2,283
JV/associates	3,500	3,909	4,163	4,434	4,723
Finance lease receivables	3,656	7,771	7,721	9,890	9,590
Goodwill	2,046	2,017	2,017	2,017	2,017
Trade receivables	5,498	9,072	10,616	11,590	13,518
Intangible assets	2,153	2,043	1,927	1,708	1,489
Financial assets	2,379	2,644	2,644	2,644	2,644
Others	0	0	0	0	0
Deferred tax assets	1,276	1,271	1,271	1,271	1,271
Deposits	129	84	84	84	84
Current assets	**64,762**	**54,052**	**74,865**	**75,786**	**84,332**
Inventories	9,551	11,772	11,702	14,107	15,081
Trade & other receivables	21,554	20,839	26,605	26,995	31,447
Finance lease receivables	8,835	9,229	14,977	11,823	17,182
Financial assets at FVPL	13,787	4,311	4,311	4,311	4,311
Others	1,097	1,413	1,413	1,413	1,413
Pledged deposits	1,184	1,415	1,415	1,415	1,415
Cash	8,754	5,073	14,441	15,723	13,483
Current liabilities	**39,623**	**34,569**	**44,545**	**44,755**	**54,336**
Trade and other payables	15,786	25,012	34,801	34,377	43,858
Bank borrowings	22,044	7,312	7,112	7,212	7,312
Tax payable	151	186	186	186	186
Contract liabilities	1,602	1,934	2,321	2,855	2,855
Others	40	125	125	125	125
Non-current liabilities	**15,065**	**17,965**	**17,165**	**17,165**	**12,965**
Bank borrowings	13,645	14,515	13,715	13,715	9,515
Deferred tax liabilities	429	455	455	455	455
Others	991	2,995	2,995	2,995	2,995
Equity	**38,731**	**39,497**	**54,305**	**60,072**	**66,573**
Shareholders' equity	38,164	38,827	53,706	59,562	66,164
MI	567	670	599	510	409

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Concrete machinery	35%	32%	30%	29%	28%
Crane machinery	43%	51%	53%	51%	50%
Others machinery	14%	11%	13%	16%	18%
Agricultural machinery	5%	4%	3%	3%	3%
Financial services	2%	2%	1%	1%	1%
Environmental (discontinued)	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	27.1	30.0	30.1	30.5	30.5
EBIT margin	12.7	13.9	14.5	15.1	15.1
Net profit margin	6.9	9.9	12.1	12.7	12.8
Growth (%)					
Revenue	39.3	50.9	36.0	18.6	13.1
Gross profit	80.6	67.1	36.3	20.4	13.0
EBIT	n/a	65.7	42.3	23.2	13.3
Net profit	51.3	115.7	64.5	24.0	13.9
Balance sheet ratio					
Current ratio (x)	1.6	1.6	1.7	1.7	1.6
Trade receivable turnover days	342	240	208	198	193
Finance lease receivable turnover days	161	124	123	116	112
Inventory turnover days	161	128	104	97	97
Payable turnover days	268	246	265	260	260
Net debt / total equity (%)	33.6	31.3	3.7	1.3	Net cash
Profitability (%)					
ROA	2.3	4.7	6.9	7.5	8.0
ROE	5.4	11.4	15.6	15.8	16.2
Per share data					
EPS (RMB)	0.27	0.58	0.85	0.98	1.12
BVPS (RMB)	4.89	4.93	5.89	6.53	7.25
DPS (RMB)	0.25	0.00	0.34	0.39	0.45

Source: Company data, CMBIS estimates

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