



Dig in the F: Comparing ZTO and SFE in various angles

- In 2019, ZTO exceeded SFE in US/PRC GAAP net incomes. This, however, overlooked the fact that SFE paid more interest expenses and taxes. SFE's EBIT and EBITDA are still above ZTO's. ZTO is catching up in fixed assets and land use rights (LUR) but SFE is refocusing;
- ZTO represents a singular logistic model executed to its extreme. SFE represents multiple logistic models benefited from a singular brand.

ZTO and SFE are different and are moving further apart

SFE as a corporate entity is both broader in scope and deeper in integration than ZTO. SFE's comparable products to ZTO, namely *Time*, *Economy*, *International*, *Supply Chain*, *Commercial Sales* and *Material Handling*, contributed 91%, 88% and 85% of revenues in 2017-19, with the rising contributions from *Freight (LTL)*, *Cold chain & Medicine* and *Intracity* filling the gap (Exhibit 7). ZTO also has freight (LTL) business of which the listco holds 18% with equity income consolidated into ZTO's book. In 2019 it lost ~Rmb(40mn).

Even in e-commerce packages the two are very different

Based on SFE's product line breakdowns, we estimate SFE's *Freight (LTL)*, *Cold chain* and *Intracity* products contributed 8.5% of SFE's parcel volume in 2019 (Exhibit 8). We estimate SFE's split between *Time (Courier)* and *Economy (E-commerce)* parcels to be 3:1. This put SFE's comparable-to-ZTO e-commerce package volume at ~10% and ASP at ~3.9x of ZTO's, after adding back ZTO's last mile and network subsidy cost. The disparity in scale explained the difference in ASP. In 2019, addition of Vipshop's orders (minimum 640mn) should help SFE's E-commerce package to grow >50%, which suggested SFE's 1Q20 parcel growth of 76% YoY might not be totally related to the price war and pandemic. Meanwhile, collapse of Luckin Coffee will substantially cut SFE's *Intracity* revenue.

ZTO is catching up with SFE in key fixed and intangible assets

Despite that ZTO leaves its last mile and LTL outside of the listco, its land use right, fixed assets and in particular machineries and vehicles, have already closed on to SFE (Exhibit 9). ZTO's machinery PPE as percentage of SFE's rose from 67% in 2017 to 106% in 2018 to 123% in 2019. Its vehicles rose from 34% to 44% to 66% over the same period. SFE persistently invested in airplanes (TBC)

Key financial of stock mentioned

(RMB mn)	Revenues			Non-(PRC) GAAP op.profit			Non-(PRC) GAAP NI		
	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E
ZTO Express	22,110	24,615	30,226	5,779	6,122	7,650	5,988	6,486	7,820
S.F. Express	112,193	153,036	188,171	6,375	5,554	6,460	5,658	5,061	5,830

Source: Bloomberg, Blue Lotus (as of May 4, 2020)

BUY

HOLD

SELL

Top picks

	Ticker	Rating	Target
ZTO Express	ZTO US	BUY	US\$28

Source: Bloomberg, Blue Lotus (as of May 4, 2020)

What has changed

	To	From
ZTO Express	-	-
S.F. Express (Group) Co., Ltd	-	-

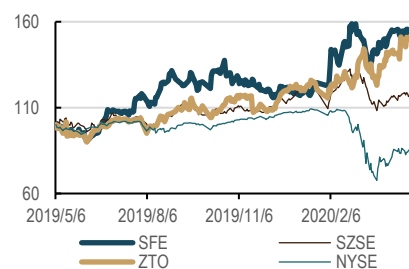
Source: Blue Lotus (as of May 4, 2020)

Stocks mentioned

Name	BBG	Rating	TP	Curr. price	Next yr PE
ZTO Express	ZTO US	BUY	US\$ 28	US\$ 28.4	20.2
S.F. Express	002352 SZ	HOLD	RMB 40	RMB 46.8	35.4

Source: Bloomberg, Blue Lotus (as of May 4, 2020)

Price performance and volume data



Source: Bloomberg (as of May 4, 2020)

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Blue Lotus Capital Advisors Limited

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Financial Summary – ZTO Express

Fiscal year ends-31-Dec

Exhibit 1. Income statement

(RMB mn)	F2019A	F2020E	F2021E
Revenues	22,110	24,615	30,226
Cost of revenues	(15,489)	(17,584)	(21,417)
Gross profit	6,621	7,031	8,809
Gross margin	29.9%	28.6%	29.1%
SG&A	(1,546)	(1,733)	(2,086)
EBIT, non-GAAP	5,779	6,122	7,650
EBIT margin, non-GAAP	26.1%	24.9%	25.3%
Interest income/expense	585	550	621
Non-operating income, net	5,779	6,122	7,650
Profit or loss from equity investments	698	698	349
Foreign currency adjustment	13	(20)	-
Pre-tax (Loss)/income	6,757	7,006	8,701
Income taxes expenses	(1,078)	(865)	(1,305)
Net income, GAAP	5,671	6,141	7,396
Net income, non-GAAP	5,988	6,486	7,820
Net margin, non-GAAP	27.1%	26.3%	25.9%
Number of ADS, diluted	790	792	796
EPADS, non-GAAP(RMB)	7.59	8.19	9.85

Source: ZTO Express, Blue Lotus (as of May 4, 2020)

Exhibit 2. Balance sheet

(RMB mn)	F2019A	F2020E	F2021E
Cash and cash equivalents	5,277	9,525	15,326
Accounts receivable	676	752	924
Inventories	44	50	61
Advances to suppliers	438	488	599
Prepayments and other current assets	1,965	2,187	2,686
Amounts due from related parties	74	84	103
CURRENT ASSETS	20,098	24,711	31,322
Investment in equity investees	3,109	3,109	3,109
PPE	12,471	14,164	15,612
TOTAL ASSETS	45,891	50,912	60,256
ST bank borrowing	0	0	0
Accounts payable	1,475	1,659	2,002
Advance from customers	1,211	1,348	1,611
Income tax payable	80	89	110
Amounts due to related parties	39	43	53
CURRENT LIABILITIES	6,681	7,293	8,955
Additional paid-in capital	22,337	22,737	23,137
Retained earnings	16,727	22,867	30,263
Accumulated other comprehensive loss	676	(13,986)	(15,782)
TOTAL EQUITY	38,303	42,712	50,394
TOTAL LIABILITIES AND EQUITY	45,891	50,912	60,256

Source: ZTO Express, Blue Lotus (as of May 4, 2020)

Company Description

ZTO Express is China's leading delivery operator using the franchise model. In 2019, ZTO had 30K pickup outlets, 4.8K self-operated line-haul trucks, and 91 self-operated sorting hubs. In 2019, delivery, freight forwarding, and sale of accessories contributed 88%, 7.0%, and 4.5% of revenues. In 2019, ZTO's delivery market share (parcel) was 19.1%.

Industry View

China delivery industry's parcel volume grew 24% YoY, reaching to 63 bn in 2019. We expect China's delivery industry's parcel volume to grow 21.0% YoY to 76.2bn in 2020, and CAGR from 2018-2020 is 22.3%.

Exhibit 3. Cash flow statement

(RMB mn)	F2019A	F2020E	F2021E
Net income/(loss)	5,671	6,141	7,396
<i>Adjustment</i>			
Depreciation and amortization	1,265	1,812	2,404
Loss on disposal of PPE	16	18	22
Change in working capital	(260)	548	852
NET CASH USED IN OPERATING ACTIVITIES	6,304	8,501	10,652
Purchase of property and equipment	(4,636)	(3,446)	(3,778)
Purchase of land use rights	(591)	(615)	(756)
Others	118	44	50
NET CASH USED IN INVESTING ACTIVITIES	(3,664)	(4,040)	(4,511)
Proceeds from capital contribution from shareholders	(1,801)	400	400
Proceeds from ST borrowing	-	-	-
Repayment of ST borrowing	-	-	-
Payment of dividends	(1,271)	(614)	(740)
Purchase of ordinary shares	(763)	-	-
NET CASH USED IN FINANCING ACTIVITIES	(1,982)	(214)	(340)
Net increase in cash and cash equivalents	655	4,247	5,802
Cash and cash equivalents, beginning of year	4,623	5,277	9,525
Cash and cash equivalents, end of year	5,277	9,525	15,326

Source: ZTO Express, Blue Lotus (as of May 4, 2020)

See the last page of the report for important disclosures

Financial Summary – S.F. Express (Group) Co., Ltd

Fiscal year ends-31-Dec

Exhibit 4. Income statement

(RMB mn)	F2019A	F2020E	F2021E
Revenues	112,193	153,036	188,171
Business tax	(280)	(374)	(460)
Cost of revenues	(92,650)	(129,988)	(160,882)
Gross profit	19,264	22,674	26,829
Gross margin	17.2%	14.8%	14.3%
SG&A	(12,889)	(17,119)	(20,370)
EBIT	6,375	5,554	6,460
EBIT margin	5.7%	3.6%	3.4%
Non-operating income and loss	18	19	21
Pre-tax (Loss)/income	7,459	6,748	7,774
Pre-tax margin	6.6%	4.4%	4.1%
Income taxes expenses	(1,802)	(1,687)	(1,943)
Net (loss)/income, GAAP	5,658	5,061	5,830
Net margin	5.0%	3.3%	3.1%
EPS, PRC GAAP (RMB)	1.32	1.17	1.32
EBITDA	10,210	9,971	11,709
Dividends	(1,189)	(1,045)	(1,203)

Source: S.F. Express (Group) Co., Ltd, Blue Lotus (as of May 4, 2020)

Exhibit 5. Balance sheet

(RMB mn)	F2019A	F2020E	F2021E
CURRENT ASSETS	42,897	48,121	58,319
Cash and cash equivalents	18,722	23,244	29,263
Account receivable	12,045	14,018	16,272
Prepayments	2,654	3,172	3,778
Other receivables	2,237	2,673	3,184
Other current assets	3,405	3,949	4,570
NON-CURRENT ASSETS	49,638	52,480	55,203
PPE	18,904	19,701	20,689
Construction in progress	3,116	4,140	4,516
Intangible assets	10,008	9,653	9,352
TOTAL ASSETS	92,535	100,601	113,522
Current liabilities	30,982	37,249	43,691
ST bank borrowing	6,053	6,747	7,283
Account payable	11,992	14,857	17,965
Salary payable	3,281	4,239	5,198
Other payables	4,707	5,681	6,686
Non-current liabilities due within one year	2,092	2,525	2,972
LT debt	17,138	17,138	17,138
TOTAL LIABILITIES AND EQUITY	92,535	100,601	113,522

Source: S.F. Express (Group) Co., Ltd, Blue Lotus (as of May 4, 2020)

Company Description

SF Express is China's leading warehouse-transport-delivery logistics operator using the self-owned model. In 2016, SFE had 40K pickup stations and 44K pickup boxes; 15K trucks, 144 railcars and 51 planes; 291 sorting hubs and 65 warehouses. In 2019, SFE had 115K full time employees. Delivery and Supply Chain contributed 98.8% of revenues. In 2019, SFE's delivery market share (parcel) was 7.6%.

Industry View

We expect China's domestic cargo transportation industry to grow 14.9% YoY in 2020 to RMB775bn. We expect China's international delivery industry to grow 3.8% YoY in 2020 to RMB78bn. We expect China's Delivery industry to grow 13.8% YoY in 2020 to RMB853bn and grow at 10.0% CAGR from 2020-2023.

Exhibit 6. Cash flow statement

(RMB mn)	F2019A	F2020E	F2021E
Net income/(loss)	5,658	5,061	5,830
Adjustments			
Depreciation and amortization	3,835	4,417	5,250
Change in working capital			
Account receivable	(4,671)	(1,973)	(2,254)
Prepayments and other receivables	(137)	(518)	(606)
Inventory	(64)	(182)	(188)
Other current assets	(574)	(981)	(1,131)
ST bank borrowing	(2,532)	693	536
Account payables	4,094	2,865	3,107
Salary payables	314	958	959
Non-current liabilities due within a year	1,819	433	447
NET CASH USED IN OPERATING ACTIVITIES	8,586	12,164	13,342
Purchase of PPE and intangible	(6,668)	(8,037)	(7,736)
NET CASH USED IN INVESTING ACTIVITIES	(5,674)	(7,642)	(7,323)
Net change in LT debt	9,734	0	0
NET CASH PROVIDED BY FINANCING ACTIVITIES	9,938	0	0
Net increase in cash and cash equivalents	12,850	4,523	6,019
Cash and cash equivalents, beginning of year	16,131	18,722	23,244
Cash and cash equivalents, end of year	18,722	23,244	29,263

Source: S.F. Express (Group) Co., Ltd, Blue Lotus (as of May 4, 2020)

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ZTO vs. SFE: what's in their annual reports?

- **ZTO has gained on strategic assets:** In terms of intangibles, ZTO's land use rights (gross) also rose from 37% of SFE in 2017 to 44% in 2018 and 49% in 2019 (Exhibit 11);
- **SFE capitalizes on software development but ZTO expenses it:** Because ZTO does not recognize software, trademark, patents and very little customer relationship as intangibles, its total asset is much smaller than SFE, leading to higher Return-On-Assets (ROA). SFE, however, leverages more, so Returns On Equity (ROE) of the two are roughly the same;
- **SFE's debt is rising but still has enough capacity:** ZTO has zero debt but SFE's debt to equity ratio has risen from 2017's 24% to 2018's 43% to 2019's 54%. Despite SFE's rising leverage, its interest coverage ratio (EBIT/Interest expense) was 7.1 in 2019, adequate for the time being but declined from 7.5 in 2018 and 10 in 2017 (Exhibit 12);
- **SFE's strong pricing power supports its leverage:** Despite SFE's aggressive price cuts in 2H19, its full year ASP only declined (5.4)% YoY, comparing to ZTO's (10.5)%. We estimate SFE's apple-to-apple ASP is still ~4x of ZTO's, resulting in its gross profit per parcel, EBIT per parcel and EBITDA per parcel all significantly (3-4x) above ZTO's (Exhibit 13). Part of the foundation of SFE's pricing power is its aviation infrastructure, which can guarantee delivery time for high-priced packages, leading to SFE's high end brand image. SFE's direct model also ensures service quality, contributing to its brand image;
- **ZTO's business scalability supports its price cuts:** Despite ZTO's aggressive price cuts, its EBIT margin even improved 0.1ppt YoY. This is because the deeper the price cuts, the bigger the volume and the higher the capacity utilization of ZTO's truck fleets. Among T&D companies ZTO is the one who manages this virtuous cycle of price-cuts-volume-gains-cost-reductions the best;
- **ZTO has little money losing business:** ZTO's loss of shares in equity method investments narrowed substantially from Rmb(15.7mn) in 2017 to Rmb(7.6mn) in 2019. This means its LTL business's total loss was ~Rmb(40mn). On the contrary, SFE has engaged in many money losing businesses in the short term, especially those involving warehouses;
- **COVID-19 induced express delivery buildout is more positive for ZTO:** As both SFE and ZTO having their core competencies, their future rests on the split of future's logistics needs. Will the future of logistics be mostly 2C, meaning delivered to the individuals, or 2B2C, meaning delivered first to the businesses and then to the individuals? If the former is the future, then ZTO can continue to scale up its business. If the latter is the future, then SFE, who can leverage its brand over a heterogenous combination of logistic networks, can prevail. The advent of COVID-19, at least in China and in the foreseeable future, has induced a further buildout of 2C logistics. Whether the world will follow remains to be seen;

SFE competes on pricing power while ZTO competes on business scalability.

COVID-19 will support the further buildout of 2C logistics networks. But globally the national boundary might necessitate a 2B2C approach.

- **Maintain BUY on ZTO and HOLD on SFE:** We believe with the advent of COVID-19 and the success story of SE Asia, Chinese express delivery companies will be entering an expansion mode, which means the grip of control by Alibaba will loosen and the overall market will enlarge. This plays to the strength of ZTO. In terms of SFE, its pricing power continues to afford it ammunitions to build out a low-cost express delivery network to further strengthen its cost efficiency for e-commerce packages and challenge ZTO. If SFE can consolidate similar operations like BEST Inc., (which requires Alibaba/Cainiao's consent), it might be able to meaningfully improve its competitiveness and market position.

SFE should cut a deal to buy BEST Inc.

Exhibit 7. Revenue composition of ZTO vs. SFE

(Percent)	ZTO			SFE		
	2017	2018	2019	2017	2018	2019
Express delivery	93%	87%	89%	89%	84%	77%
Courier	-	-	-	66%	59%	50%
E-commerce	93%	87%	89%	21%	22%	24%
International	-	-	-	2.9%	2.9%	2.5%
Freight	Not in listco			9.4%	14%	16%
LTL	NA			6.2%	8.9%	11%
Cold chain/Medicine	NA			3.2%	4.7%	4.5%
Intracity	-	-	-	0.5%	1.1%	1.7%
Forwarding	-	7.3%	5.6%	-	-	4.4%
Others	6.8%	5.3%	5.6%	0.7%	1.4%	1.1%
Total	100%	100%	100%	100%	100%	100%

Source: SFE, ZTO, Blue Lotus (as of May 4, 2020)

Exhibit 8. Parcel volume and ASP breakdown of SFE vs. ZTO

(RMB mn, RMB, mn)	ZTO*			SFE		
	Revenue	ASP	Parcel	Revenue	ASP	Parcel
2019						
Express delivery	19,606	1.62	12,121	83,440	19	4,425
Courier	-	-	-	69,534	22	3,161
E-commerce	19,606	1.62	12,121	13,906	11	1,264
LTL	-	-	-	12,659	150	84
Cold chain & medicine	-	-	-	5,094	39	131
Intracity	-	-	-	1,952	10	195
Total express	19,606	1.62	12,121	105,983	22	4,835
Forwarding	1,236			4,918		
Others	1,234			1,292		
Total	22,110			112,193		

Source: SFE, ZTO, Blue Lotus (as of May 4, 2020). ZTO's ASP excludes last mile revenue which ranges from 50% to 100% and network subsidy revenue, which ranges from 16-25% of ASP

Exhibit 9. Fixed assets and CIP comparison of ZTO vs. SFE

(RMB bn)	ZTO			SFE		
	2017	2018	2019	2017	2018	2019
Machinery	1.3	2.5	3.8	1.9	2.3	3.1
Vehicle	1.5	2.3	3.4	4.5	5.2	5.1
Buildings & Leasehold	3.0	3.9	6.0	3.6	3.9	7.4
CIP	1.4	1.7	1.7	2.3	6.5	3.1
Airplanes	-	-	-	4.7	5.8	7.8
Furniture + computers	0.2	0.3	0.5	4.7	6.4	7.4
Gross PPE	7.4	11	15	22	30	34
Less: Accum. Dep.	(1.0)	(1.7)	(2.9)	(7.5)	(9.7)	(12)
Net PPE	6.5	9.0	12	14	20	22
Gross PPE less airplane	7.4	11	15	17	24	26
Net PPE less airplane	6.5	9.0	12	11	17	17

Source: SFE, ZTO, Blue Lotus (as of May 4, 2020)

Exhibit 11. Intangible assets comparison of SFE vs. ZTO

(RMB bn)	ZTO			SFE		
	2017	2018	2019	2017	2018	2019
Software-internal	-	-	-	1.0	1.7	2.9
Software-external	-	-	-	0.3	0.4	0.5
Land use rights (LUR)	1.7	2.1	2.7	4.6	4.7	5.5
Patent	-	-	-	0.0	0.1	0.0
Trademark	-	-	-	0.0	0.3	0.2
Cust. relationship	0.1	0.1	0.1	0.0	0.6	2.7
Others	-	-	-	0.0	0.1	0.1
Gross intangibles	1.8	2.2	2.7	6.0	7.8	11.9
Less: Accum. Amort.	(0.1)	(0.1)	(0.2)	(0.7)	(1.1)	(1.9)
Among: LUR amort.	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)	(0.5)
Net intangibles	1.7	2.0	2.6	5.3	6.7	10

Source: SFE, ZTO, Blue Lotus (as of May 4, 2020)

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Exhibit 12. Balance sheet and cash flow of ZTO and SFE

(RMB bn)	ZTO			SFE		
	2017	2018	2019	2017	2018	2019
Debt	0	0	0	7.9	16	23
Shareholders' equity	21	34	38	33	37	42
Debit to equity ratio	0.0%	0.0%	0.0%	24%	43%	55%
Operating cash flow	3.6	4.4	6.3	6.3	5.5	9.1
Cash flow fm.invest	(2.8)	(4.0)	(5.2)	(5.2)	(10.2)	(6.7)
Purchase PPE	(2.6)	(3.3)	(4.6)	(1.9)	(2.1)	(1.6)
Addition to CIP	0.0	0.0	0.0	(2.8)	(7.9)	(4.3)
Purchase of LUR	(0.3)	(0.7)	(0.6)	(0.5)	(0.2)	(0.8)
Cash flow fm. Finan.	(1.1)	7.0	(2.0)	6.8	3.1	7.4
Free cash flow	0.8	0.4	1.1	1.1	(4.8)	2.5

Source: SFE, ZTO, Blue Lotus (as of May 4, 2020)

Exhibit 13. Per parcel gross profit and EBIT of ZTO and SFE

(RMB bn)	ZTO			SFE		
	2017	2018	2019	2017	2018	2019
Gross profit	4.3	5.4	6.6	14.1	16.1	19.3
Parcel volume	6.2	8.5	12.1	3.1	3.9	4.8
Gross profit per parcel	0.70	0.63	0.55	4.61	4.18	3.98
OPEX	(0.8)	(1.2)	(1.5)	(8.7)	(11.2)	(12.9)
EBITDA per parcel	0.66	0.59	0.52	2.6	2.0	2.1
EBITDA	4.3	5.2	6.7	8.0	7.9	10
EBIT per parcel	0.57	0.49	0.42	1.76	1.26	1.32
EBIT	3.6	4.2	5.1	5.4	4.9	6.4
Interest expense	(0.02)	-	-	(0.56)	(0.64)	(0.90)
Interest coverage	234	NM	NM	10	7.5	7.1

Source: SFE, ZTO, Blue Lotus (as of May 4, 2020)

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