

Outperform

(maintained)

Retail & Commerce

Key Data

Jan. 20, 2020

Closing Price	7.47
Total Shares (Mn)	3257.81
Shares Outstanding (Mn)	3182.65
Market Cap(CNY/Mn)	24335.88
Market Float(CNY/Mn)	23774.41
Net Assets (CNY/Mn)	13095.6
Total Assets (CNY/Mn)	28923.79
BVPS	4.02

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Transfar Zhilian

(002010.SZ)

The Turning Point of Logistics Boosts Performance Growth

31-Jan-20

Company Profile

Transfar Zhilian Co., Ltd., formerly Zhejiang Transfar Co., Ltd. is a China-based company principally engaged in the manufacture and distribution of special chemical products, as well as the provision of logistics information services and the development of related software. The Company's products mainly include textile dyeing auxiliaries, chemical oil agents for leather, fuel and butadiene rubber. The Company is also involved in the trading of fuel and tire as well as the provision warehousing, hotel rental, as well as transportation services. The Company mainly distributes its products within domestic markets, with eastern China as its major market. (Source: Reuters)

Event

Transfar Zhilian (the company) announced its 2019 preliminary financial report, stating that its net profit attributable to shareholders is expected to stand at CNY 1.4bn-CNY 1.57bn, growing 70.94% YoY to 91.7%.

Comments

Benefited from the continuous growth of the park business and the confirmation of operating subsidies, the company's net profit attributable to shareholders in Q419 rose 38% YoY to 79%. The company's net profit attributable to shareholders in Q419 came in at CNY 573mn-CNY 743mn, up 38% YoY to 79%. We hold that the high growth is the result of the harvest time of park business, the continuous enhancement of utilization and the confirmation of operating subsidies in Q419. For the whole year, the performance growth is mainly due to 1) the increase of gross margin brought by the utilization improvement of park business and the optimization of logistics business mode; 2) the removal compensation and award of CNY 400mn earned by the relocation of Hangzhou Chuanhua Fine Chemical Co., Ltd (the non-recurring profit and loss are most deducted in Q1-Q3). As the non-recurring items are basically presented in the first three quarters, the earnings after deducting non-recurring items in Q419 are expected to be better.

With the confirmation of logistics turning point, the park businesses continue the high growth. As the new park becomes mature since H218, the income from logistics park increases continuously. As of the middle of 2019, there were 68 highway logistics platforms conducting business nationwide. Among which, there were 13 projects in construction and to-be-started. Besides, there were over 160 projects of reserved contracts. The areas of land warrants nationwide realized about 11.07 million square meters, the operating areas in the park reached 3.48 million square meters and the overall rental rate of property reached 85%. In H119, the accumulative traffic flow on the platforms achieved 12.464 vehicle trips, the operating amount of the platforms realized CNY 20bn and the amount of tax payment registered CNY 669mn. The revenue of park business was CNY 470mn, with gross profit rising CNY 80mn from a year earlier, up 47% YoY.

Earnings forecast and investment recommendation

With an obvious business mode barrier and the ramp-up cycle of earnings, we continue to be optimistic about the company's repair of valuations. After the large-scale input over the past several years, the network of highway logistics platforms is very difficult to be replicated. With more practical strategies and in-depth offline value exploration of highway logistic platforms, the company is very likely to enter into a profit explosive period in highway logistics business. The net profit attributable to shareholders is expected to be



CNY 1.428bn/CNY 1.948bn for year 2019/2020 and its EPS is to be CNY 0.44/CNY 0.6, implying a P/E ratio to be 17.0X/12.5X, based on the closing price of January 20th 2020. We are optimistic about the company's repair of valuations and maintain "Outperform" rating for the company.

Potential risks: more-than-expected input in the construction of parks; lower-than-expected demand for the parks; slower-than-expected expansion of new businesses

This English translation of the original Chinese version <物流主业拐点带来业绩高增长> issued by Industrial Securities on January 20, 2020 is for information purpose only. In case of a discrepancy, the Chinese original will prevail.

Appendix

Balance Sheet Mn/CNY

FY	2018A	2019E	2020E	2021E
Current Assets	13425	14564	17106	19103
Cash and Cash Equivalent	5448	5134	5147	5193
Trading Financial Assets	3	1	2	2
Account Receivables	1650	2301	2886	3381
Other Receivables	726	688	946	1134
Inventory	2087	2421	3039	3657
Non-current Asset	16504	16567	17089	17541
Available-for-sale Financial Assets	460	444	452	451
Long-term Equity Investment	399	435	410	416
Investment Real Estate	9173	9273	9373	9473
Fixed Assets	1630	2001	2058	1958
Construction in Progress	1098	549	275	137
Oil and Gas Assets	0	0	0	0
Intangible Assets	1051	1612	2203	2795
Total Assets	29930	31131	34195	36644
Current Liabilities	11697	12647	13495	14625
Short-term Loans	4106	4973	4462	4535
Notes Payable	161	498	570	633
Account Payable	2287	2961	3677	4363
Others	5143	4215	4786	5094
Non-current Liabilities	4759	3736	4437	4372
Long-term Loans	1002	1124	1224	1264
Others	3757	2612	3213	3109
Total Liabilities	16457	16383	17932	18997
Share Capital	3258	3258	3258	3258
Capital Reserve	6078	6078	6078	6078
Undistributed Profit	2576	3708	5052	6264
Minority Interest	1311	1388	1465	1543
Total Shareholders' Equity	13473	14748	16263	17647
Total Liabilities and Equity	29930	31131	34195	36644

Cash Flow Statement Mn/CNY

FY	2018A	2019E	2020E	2021E
Net Profit	899	1428	1948	2083
Depreciation and Amortization	183	337	383	400
Property Depreciation Preparation	110	68	79	66
Amortization of Intangible Assets	180	158	165	163
Loss from Fair Value Change	-91	96	94	95
Financial Expense	433	387	333	326
Investment Loss	-11	-15	-13	-14
Minority Interest Income	80	77	77	77
Change in Working Capitals	-1258	916	1332	963
Cash Flows from Operating Activities	466	1075	1965	1987
Cash Flows from Investment Activities	-3800	-774	-853	-841
Cash Flows from Financing Activities	3616	-615	-1099	-1100
Net Change in Cash	278	-314	13	46
Beginning Balance of Cash	4220	5448	5134	5147
Ending Balance of Cash	4498	5134	5147	5193

Income Statement Mn/CNY

FY	2018A	2019E	2020E	2021E
Operating Income	20264	27389	34850	40721
Operating Expense	17729	23279	29327	34463
Business Tax and Surcharges	108	164	204	238
Selling Expense	862	1178	1499	1751
Administrative Expense	899	1187	1473	1721
Financial Expense	432	387	333	326
Asset Impairment	110	99	103	101
Change in Fair Value	91	96	94	95
Investment Income	11	15	13	14
Operating Profit	1284	2206	2919	3128
Non-business Income	5	6	6	6
Non-business Expense	42	31	35	34
Total Profit	1246	2181	2891	3100
Income Tax	348	676	866	940
Net Profit	899	1505	2025	2161
Minority Interest Income	80	77	77	77
Net Profit Attributable to Parent Company	819	1428	1948	2083
EPS(CNY)	0.25	0.44	0.60	0.64

Key Financial Ratios

FY	2018A	2019E	2020E	2021E
Growth				
Increase Rate of Business Revenue	4.9%	35.2%	27.2%	16.8%
Increase Rate of Business Profit	55.1%	71.8%	32.3%	7.1%
Net Profit Growth Rate	74.5%	74.3%	36.4%	7.0%
Profitability				
Gross Margin Rate	12.5%	15.0%	15.8%	15.4%
Net Profit Margin	4.0%	5.2%	5.6%	5.1%
ROE	6.7%	10.7%	13.2%	12.9%

Solvency

Asset-liability Ratio	55.0%	52.6%	52.4%	51.8%
Current Ratio	1.15	1.15	1.27	1.31
Quick Ratio	0.97	0.96	1.04	1.06

Operation Capacity

Asset Turnover Ratio	75.0%	89.7%	106.7%	115.0%
AR Turnover Ratio	1137.7	1258.4	1221.2	1180.4

Stock Info(CNY)

EPS	0.25	0.44	0.60	0.64
OCFPS	0.14	0.33	0.60	0.61
NAVPS	3.73	4.10	4.54	4.94

Valuation Ratio

PE	29.7	17.0	12.5	11.7
PB	2.0	1.8	1.6	1.5

Introduction of Share Investment Rating

Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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