

SECTOR UPDATE

Logistics – China

Nov 24 Industry Data Remains Healthy; Expect Positive Sector Outlook In 2025

Recent logistics sector data remained healthy, with Nov 24 LPI of 52.8 (+0.2 mom) indicating expanding logistics activities. Nov 24 ELI stood at 115.5, the highest level since 2018, reflecting strong e-commerce logistics demand. We expect a positive outlook for the China logistics sector in 2025, underpinned by the country’s domestic consumption focus. JDL’s proposed acquisition of the remaining stake in Kuayue is expected to be earnings accretive. Maintain OVERWEIGHT. Top pick: JDL.

WHAT’S NEW

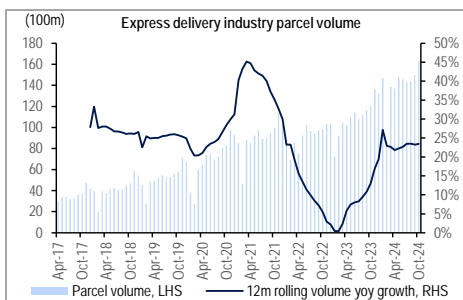
- Update on some China logistics industry statistics.
- JD Logistics (JDL) to acquire the remaining 36.4% stake in Kuayue Express (Kuayue).

ESSENTIALS

- Recent logistics industry data points to an upbeat sector performance in 4Q24, with LPI standing at 52.8 in Nov 24, the highest level ytd. Business volume and price indices for major logistics sub-segments remained healthy.

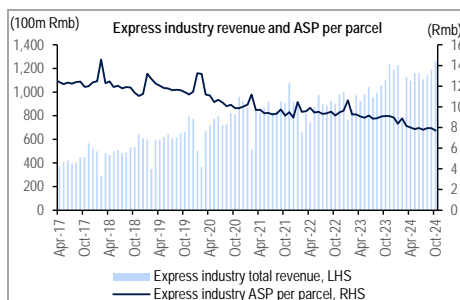
- Logistics Performance Index (LPI), an index compiled by China Federation of Logistics & Purchasing (CFLP) to measure the performance and livelihood of logistics activities in China, stood at 52.8 in Nov 24 (+0.2 mom), the highest level ytd, indicating an expanding logistics demand in China. The new orders and business activity expectation sub-indices also stayed in the expansion range. According to CFLP, logistics demand in industries such as telecommunications equipment, electrical machinery, furniture and appliances, agricultural products and new energy vehicles rose steadily in 4Q24, driven by both increasing consumer spending and industrial upgrades.
- E-logistics index (ELI), an index jointly compiled by CFLP and JD.com tracking e-commerce logistics activities, reached 115.5 in Nov 24 (+0.5 mom), the highest level since 2018. Sub-index for total logistics business volume indicated a 34.1% yoy growth (Oct 24: +33.7% yoy), the highest yoy growth rate for monthly volume in the past six years.
- Freight price index (Dec 15 level set as a base of 100) stood at 104.6 in Nov 24 (+0.8% yoy), only a minor pullback from the six-year-high level of 105.1 seen in Oct 24. The steady price level reflects stable demand in the road freight transportation segment.
- According to China State Post Bureau statistics, express delivery parcel volume (about 90% of which are e-commerce related) rose 24.0% yoy in Oct 24 and 22.3% yoy in 10M24. Although ASP per parcel has been in an overall downward trend in the past years, investors should not be overly concerned in our view, as express delivery companies’ earnings performances have been more than compensated by the significant increase in parcel volume as well as improved per unit cost economy.

CHINA EXPRESS DELIVERY VOLUME ROSE 24.0% YOY IN OCT 24 AND 22.3% IN 10M24



Source: China State Post Bureau

CHINA EXPRESS DELIVERY REVENUE ROSE 12.3% YOY IN OCT 24 AND 13.9% IN 10M24



China State Post Bureau

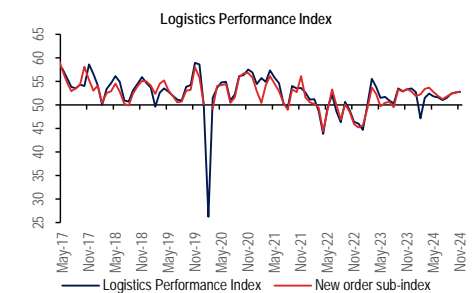
OVERWEIGHT (Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
JDL	2618 HK	BUY	14.50	22.00

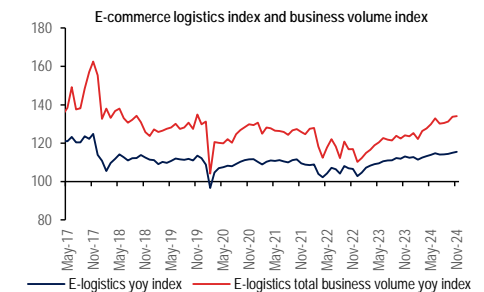
Source: Bloomberg, UOB Kay Hian

LPI STOOD AT 52.8 IN NOV 24 (+0.2 MOM), INDICATING EXPANDING LOGISTICS ACTIVITIES IN CHINA



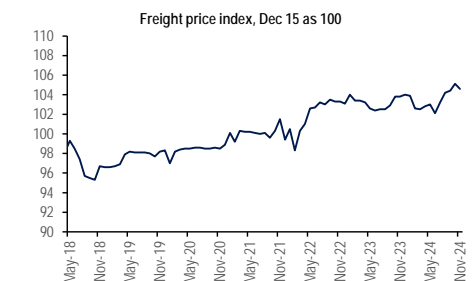
Source: China Federation of Logistics & Purchasing (CFLP)

ELI REACHED 115.5 IN NOV 24, THE HIGHEST LEVEL SINCE 2018, INDICATING STRONG E-COMMERCE LOGISTICS DEMAND



Source: CFLP

ROAD FREIGHT PRICE INDEX ROSE 0.8% YOY IN NOV 24



Source: CFLP

ANALYST(S)

Roy Chen, CFA
 +65 6590 6627
 roychen@uobkayhian.com

- **Expecting upbeat financial performances of logistics players in the seasonally strong 4Q24.** Given the upbeat industry statistics in Oct 24 and Nov 24, we expect the China logistics sector to turn in a satisfactory financial performance in the seasonally strong 4Q. Within our coverage, we forecast JDL's net profit to rise 122% yoy to Rmb2.31b in 4Q24 (4Q23: Rmb1.04b), driven by: a) a high-single-digit revenue growth, and b) operating margin expansion thanks to favourable operating leverage and JDL's improving cost efficiency.
- **2025: Positive sector outlook underpinned by China's domestic consumption focus.** Despite some uncertainties for global trade in 2025, the China logistics sector is poised to benefit significantly from the country's pivot towards consumption-driven economic growth. The press release by China Politburo on 9 Dec 24 highlighted domestic consumption expansion as one of the key focus areas of the country's economic work in 2025, alongside proactive fiscal policies and accommodative monetary policies that aim to support China's economic growth. More detailed measures may be announced in the days to come. Key logistics players with strong domestic networks, such as JDL, should be key beneficiaries, should China successfully boost domestic consumption growth.

JDL'S PROPOSED ACQUISITION OF REMAINING STAKE IN KUAYUE EXPRESS

- **Proposed acquisition of remaining 36.4% stake in Kuayue.** After market close on 6 Dec 24, JDL announced its plan to acquire the remaining 36.4% equity interest of Kuayue from Kuayue's founders. The acquisition will be conducted in three tranches over 2025-27, for a total consideration of no more than Rmb6.49b (base amount), subject to performance-based adjustments (earn-out amount). With the base consideration forming about 12% of JDL's net asset value, or about 7% of its current market cap, the acquisition is subject to shareholder approvals in an EGM, expected to be convened in early-25.
- **About Kuayue.** Founded in 2007, Kuayue is a leading integrated express transportation enterprise specialising in less-than-truckload (LTL) freight operations in China. As part of the efforts to strengthen its freight network and linehaul capabilities, JDL first made a strategic acquisition of a 55.1% controlling stake of Kuayue back in 2020, and subsequently raised its shareholding to 63.6% through an acquisition of additional stakes in 2022. Based on Kuayue's 2024 net profit target and JDL's current effective stake of 63.6%, Kuayue is estimated to contribute Rmb567m in net profit to JDL in 2024, forming about 8% of our 2024 full-year net profit forecast for JDL.
- **We are positive on this deal** for the following reasons:
 - a) JDL sees further expansion potential in Kuayue within JDL's network. The acquisition will enable JDL to gain full ownership of Kuayue, enabling greater strategic and operational control over its business and decisions.
 - b) A deeper integration between Kuayue and JDL allows room for resource optimisation, cost reduction and operational efficiency improvements.
 - c) The acquisition valuation is fair, with base-case considerations for the three tranches of the acquisition pegged to a 15x trailing PE, broadly in line with Hong Kong-listed logistics peers.
 - d) The deal is earnings-accretive, and hence a good utilisation of part of JDL's large net cash position (end-3Q24: over Rmb38b). The implied trailing earnings yield of 6.7% is better than bank deposits. Based on our rough estimate, once fully completed, the deal would increase our long-term earnings projection for JDL by 4-5%.

RECOMMENDATION

- **Maintain OVERWEIGHT on the China logistics sector**, expecting an accommodative policy environment as China focuses on boosting domestic consumption. We favour major logistics companies that have significant domestic exposure.
- **JDL (2618 HK/BUY/Target: HK\$22.00) remains our top pick.** We like JDL for its: a) market leadership in the integrated supply chain and premium logistics space, b) being a good proxy to China's domestic consumption growth, c) strong growth potential from the recent collaboration with the Taobao/Tmall platforms, and d) very compelling valuation – JDL currently trades at 12.0x/11.1x 2025/26F PE, or 5.9x/5.5x if excluding its significant net cash position.

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