Presentation Outline

Long *A* , Short *B*
Time frame: middle run, 6-12 months (from May.3)

Expected pair trade strategy return: 25.13%

What is the essential differences? -- Expansion strategy.

A	*B*
Specialized express company	Comprehensive transportation company
1) Firmly roots in express industry, enjoys 20% growth of ticket volume; 2) Steadily gaining scale effect and ecosystem controlling	1) Expands in international business with high cost, small m/s, low CAGR; 2) local business is under pressure

How we see the cost reduction strategies? -- A's strategies are more affirmatory and effective, while those of SF may burden its growth.

A	*B*
87% own vehicles: cut down 20% transportation cost	E'zhou Airport: marginal profit is hard to cover Capex and depreciation
Scale effect: ￥0.83 per ticket; no need to add Capex in the short term	Saturated network integration and high labor cost

How we predict the market share and expansion? -- A is gaining m/s, while B is losing m/s and faces challenges in market expansion.

A	*B*
Collaborate with local government for regional position	Direct mode bring operating difficulties
Turn the franchisees to shareholders to solve proxy issues	1) Local document express faces a slowing growth; 2) global and comprehensive business faces uncertainties

Valuation

Until 2023/4/28	Current price (￥)	Current PE (TTM)	Revenue 2023 YOY (%)	DCF target price (￥)	Upside (%)	Further discussion
A	188.1	23.1	23.2	247.0	31.31	Comparables
B	56.5	40.2	15.8	59.94	6.09	SOTP

- Potential following trackables includes stock incentive, express volume, underlying share, etc.

Other discussion

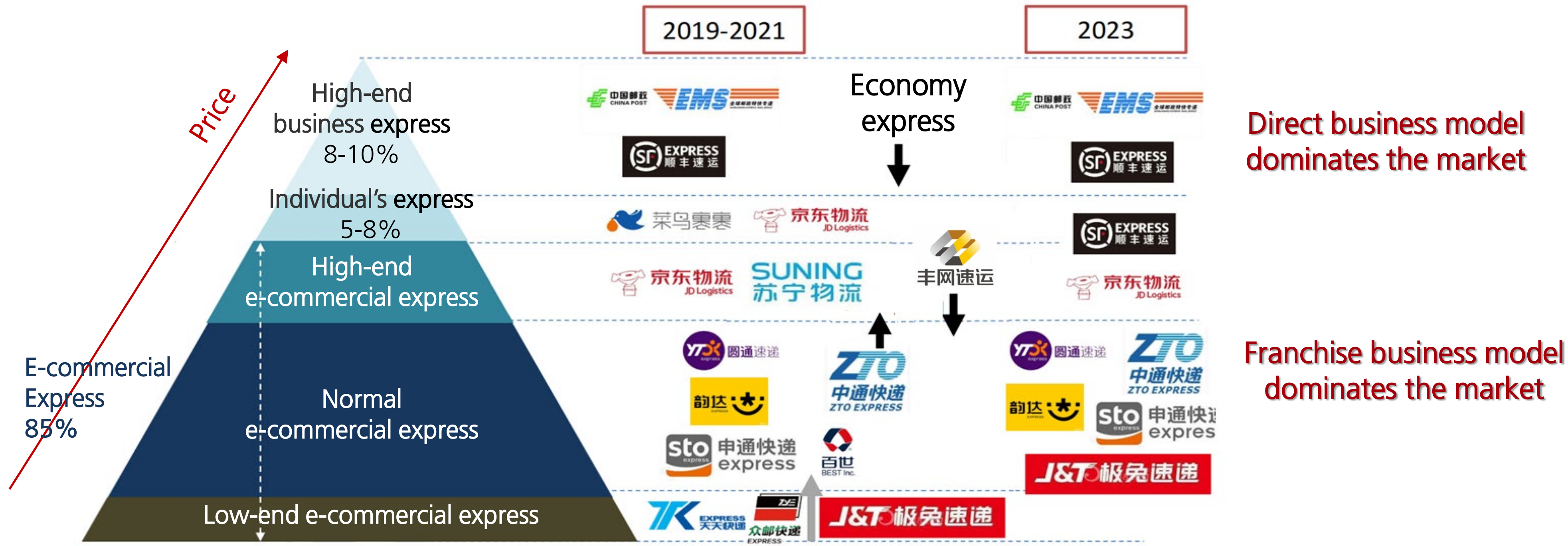
- **We downgrade *B* against the market**. But how we see the wide potential market and highlights of *B*? -- Already priced-in but will below expectation.
- Why not short *C/D*? – (1) There might be little downside risk without a price war, which is less likelihood. (2) It's less valuable to compare similar business model.

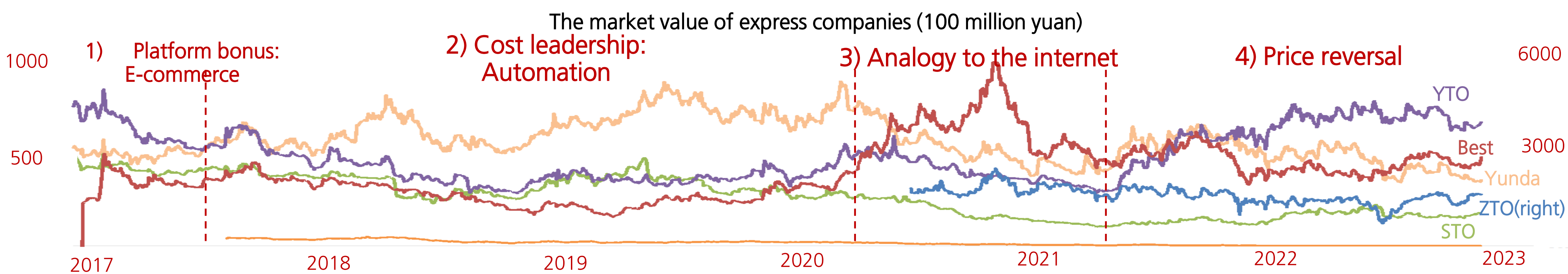
Risks

(1) Price war intensity exceeding expectations in the express delivery industry. (2) Stronger profitability of the full chain express business model. (3) The impact of policies on the industry

1.Express Delivery Industry: Direct Business Model & Franchise Business Model

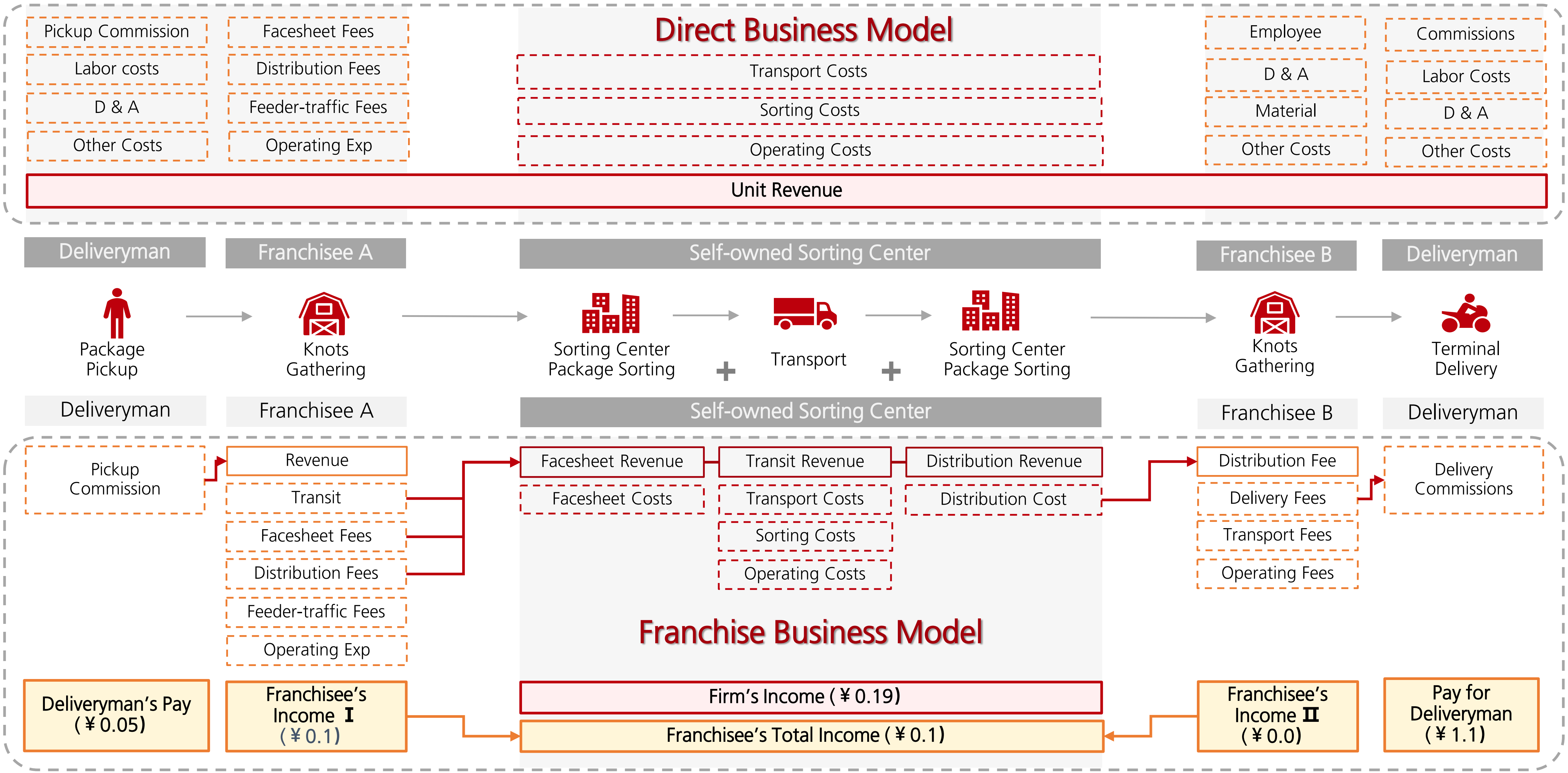
- Differentiation of business models, with two models dominating the market
- A vs B: Concentration of market share to top companies is accelerating





2.1 A: Leader of E-commerce Express, Head of Franchise Business Model

- As an franchise express firm focusing on E-commerce logistics, A is continuously reducing the cost and gaining market share in this vertical area



Source: Wind, Team members

2.2 B: The Integrated Logistics Service Provider with 8 Segments Services

- Focusing on the logistics ecosystem, the Company has consistently built on its service capabilities.
- Diversified into 8 segments, which can provide customers with domestic and international end-to-end one-stop supply chain services.

Time-definite express

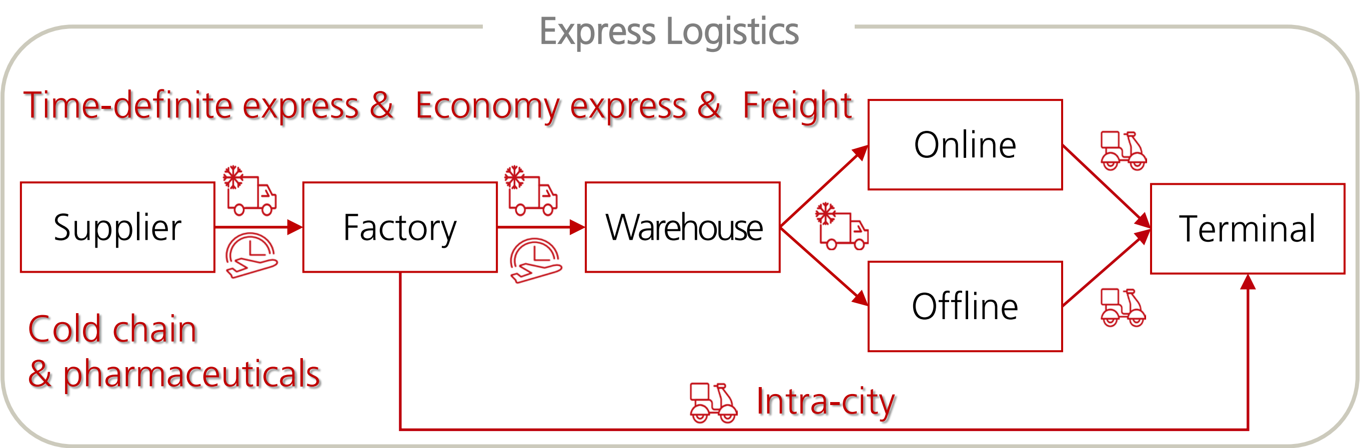
- Expand to cover **e-commerce goods returns**
- Cover more scenarios, e.g. **intra-city resources**
- Put **Ezhou Airport** into operation

Economy express

- **Directly operated** brand service
- **Franchise brand** service
- Integrated **warehousing and distribution service**

Freight

- **2C:** terminal service capabilities, around the furniture industry
- **2B:** large products in industrial areas and high-kilogram sections
- **SX Freight franchise** network



Cold chain & pharmaceuticals

- Shipment of **fresh food** and build **food cold chain**
- **Pharmaceutical logistics**: operation optimization

Intra-city

- **Revenue:** expansion of lower-tier cities
- **Costs:** scale economies, but still not profitable

International Express & International Freight

- services in **Southeast Asian countries with K**
- **international network** layout
- Facing challenges, striving to find opportunities

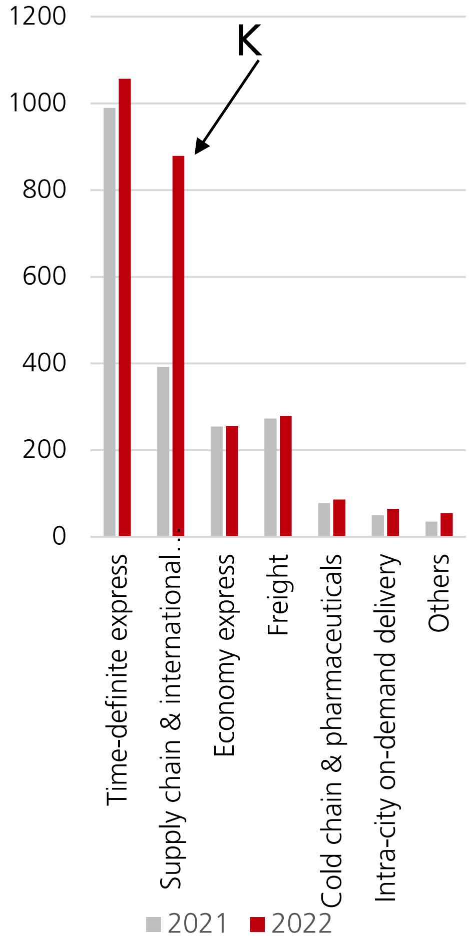
Supply Chain

- **B DSC and New Havi** provide local supply chain services in China
- **K Logistics** mainly provides global services.
- domestic supply chain cycle was blocked temporarily in 2022, with great challenges

Source: Company Announcement, Team members

2.3 B: Reducing Core Competitiveness through Multiple Business

- Each part has different challenges, which hinder the its focus on its main business and core competitiveness
- The franchisee model is more effective in reaching users, and has more advantages in China



Time-definite express (40%)

- **momentum of e-commerce penetration slow down:** growth= 2%< GDP
- The epidemic **overdraw the online consumption process:** growth=3%
- **reverse returns** from e-commerce platforms will lower the price

Supply chain & international business (33%)

- Many **Chinese express delivery competitors**
- **many domestic companies** in Southeast Asia

Co.	Base
J&T, JNE	Indonesia
Ninja Van, Singapore Post	Singapore
K	Thailand
Xin Hwa Holdings	Malaysia

Economy express (10%)

- **Directly operated** brand service and **franchise brand** service
- High quality requires high manual input from delivery terminals
- cost effectiveness requires the deep connecting with e-commerce platforms

Freight (10%)

- Through vigorous R&D, B has strong timeliness capabilities
- However, the unit revenue is not as high as E.

Cold chain & pharmaceuticals (3%)

- requires the advantage of capital.
- faced with **many competitive opponents**

Intra-city on-demand delivery (2%)

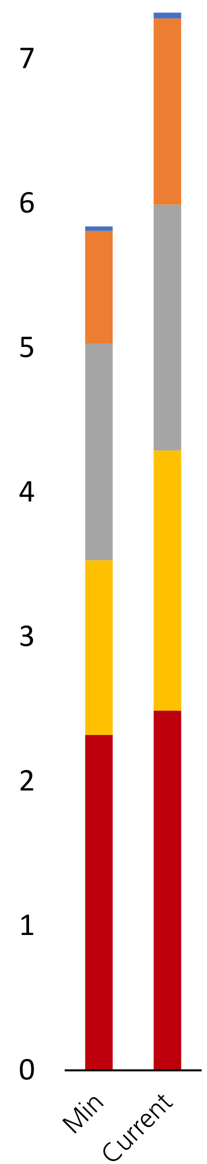
- A Game with financial strength and scale
- delivery costs is high, **losses have been sustained** for many years

Source: Company Announcement, Team members

3.1 Cost Reduction: A's Realization Is the Highest among Peers

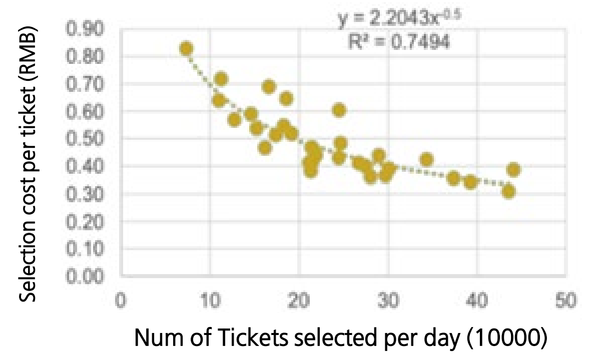
B

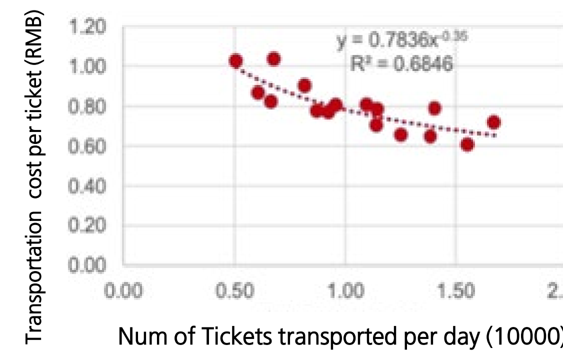
Process	Minimum cost	Space
Picking up	Transportation: 0.03	0.01
Gathering at branch	Branch transportation: 0.15 Good sorting: 0.15 Weighting: 0.30 Depreciation: 0.18	0.51
Selection & trans	Transportation: 0.98 Sorting: 0.50 Waybill: 0.02	0.20
Gathering at branch	Transportation: 0.15 Good sorting: 0.15 Weighting: 0.30 Customer service: 0.61	0.59
Delivery by courier	Transportation: 0.03 Dispatch fee: 2.29	0.17
Total	5.84	1.48



A

Dropping Selection & Trans Cost with Increasing Tickets





Using ASG robots:0.19
Considering other sizes: 0.25

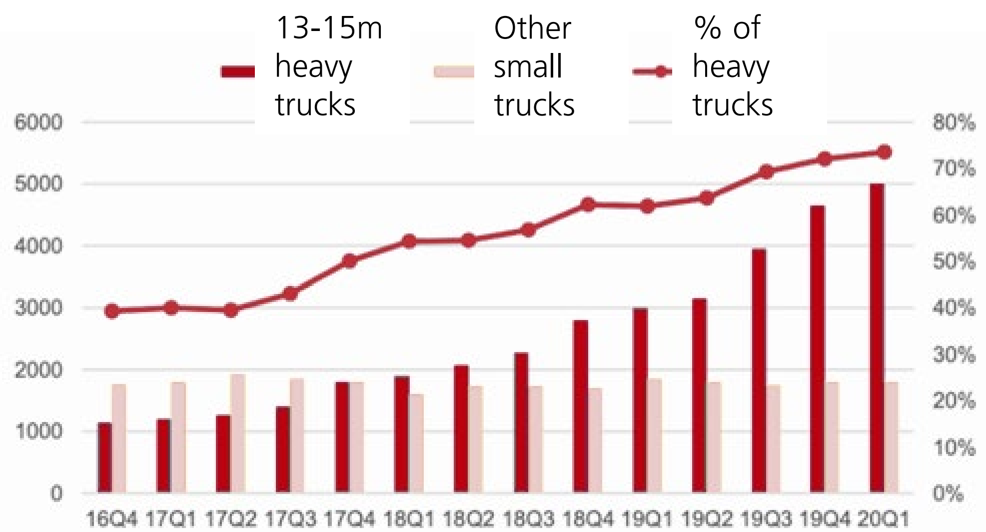
Using 15m truck: 0.36
Considering flexibility: 0.45

2022	Select	Space	Trans.	Space	LT Space
A	0.32	0.07	0.51	0.06	0.13
Yunda	0.31	0.06	0.58	0.13	0.19
YTO	0.34	0.09	0.59	0.14	0.23
STO	0.48	0.23	0.55	0.10	0.33
Baishi	0.41	0.16	0.60	0.15	0.31

Source: Guangfa Security, Team members

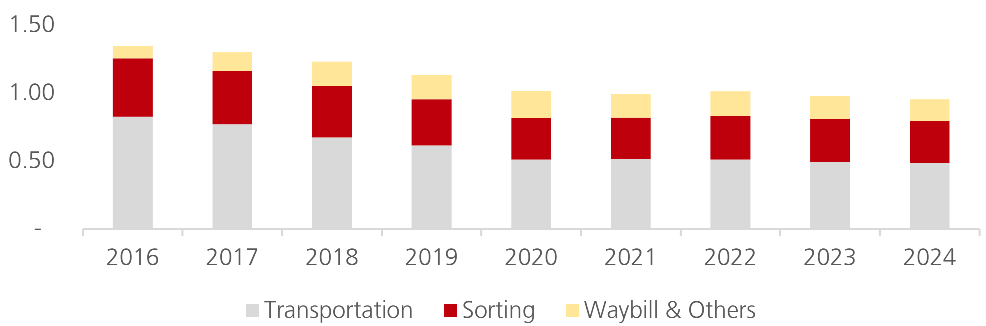
3.2 Cost Reduction: A Enjoys Low Cost Due to Historical Capex

A's own big truck can cut 20% transportation cost



	7m Isuzu	13m Zhongji	15m Zhongji
Num of units	8650	20000	32000
Price of Oil (per km)	2925	3510	3900
Toll (per km)	2134	3645	5400
Depreciation (per day)	166	290	323
Total trans cost (per unit)	0.77	0.46	0.35

Assumptions



- Transportation cost: 22/23/24 0.51/0.50/0.49, slightly goes down due to increasing scale and larger percentage of own trucks
- Sorting cost: 22/23/24 0.32/0.31/0.31
- LT cost: 0.45+0.25=0.7 (not includes SG&A expenses)

A also enjoys scale economy brought by large numbers of tickets (as part 4) and great historical Capex. It's rich fixed assets (trucks, storehouse, robots) prevent future financial burden.

Source: Guangfa Security, Team members

3.3 Cost reduction: B's Strategies Bring Burden and Uncertainty

Favorable Strategy	Questionable Strategy

23H2: The operation of E'zhou Airport

- Cuts 40% transportation cost of express pass
- Expand Next Day Arrival Service to 20-30 2-tier cities

- Great Capex in capacity ramp-up-period and LT depreciation burden the balance sheet
- Uncertainty: not earning money until 24H2 (mgmt. team)

23: Adjust the structure of e-commerce clients

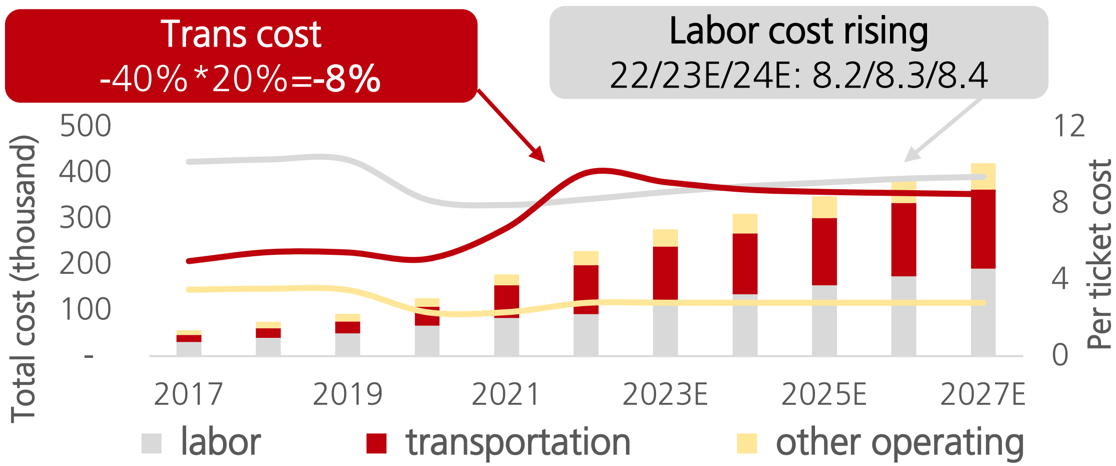
- Only focus on ￥6+ tickets (21% of e-commerce tickets, 10.5bn tickets, 2+times current SF tickets)

Network integration

- Share the storehouse, vehicles, mgmt. team among various kinds of services
- Limited space: already saved 0.65/0.75 bn in 2021/2022

Assumptions: Limited Cost Reduction

E-commerce tickets YOY(%): 22/23E/24E: 38/30/25



Source: Guangfa Security, Team members

Assumptions: Great Depreciation on E'zhou Airport

Item (bn)	21	22	23E	24E	25E
Buildings-new buying	7.35	5.65	5.00	4.00	3.00
Planes-new buying	2.02	2.15	2.50	2.50	2.50
Fixed assets-depreciation	7.94	5.96	7.50	8.59	9.60
Planes-depreciation	1.06	1.17	1.58	1.81	2.05

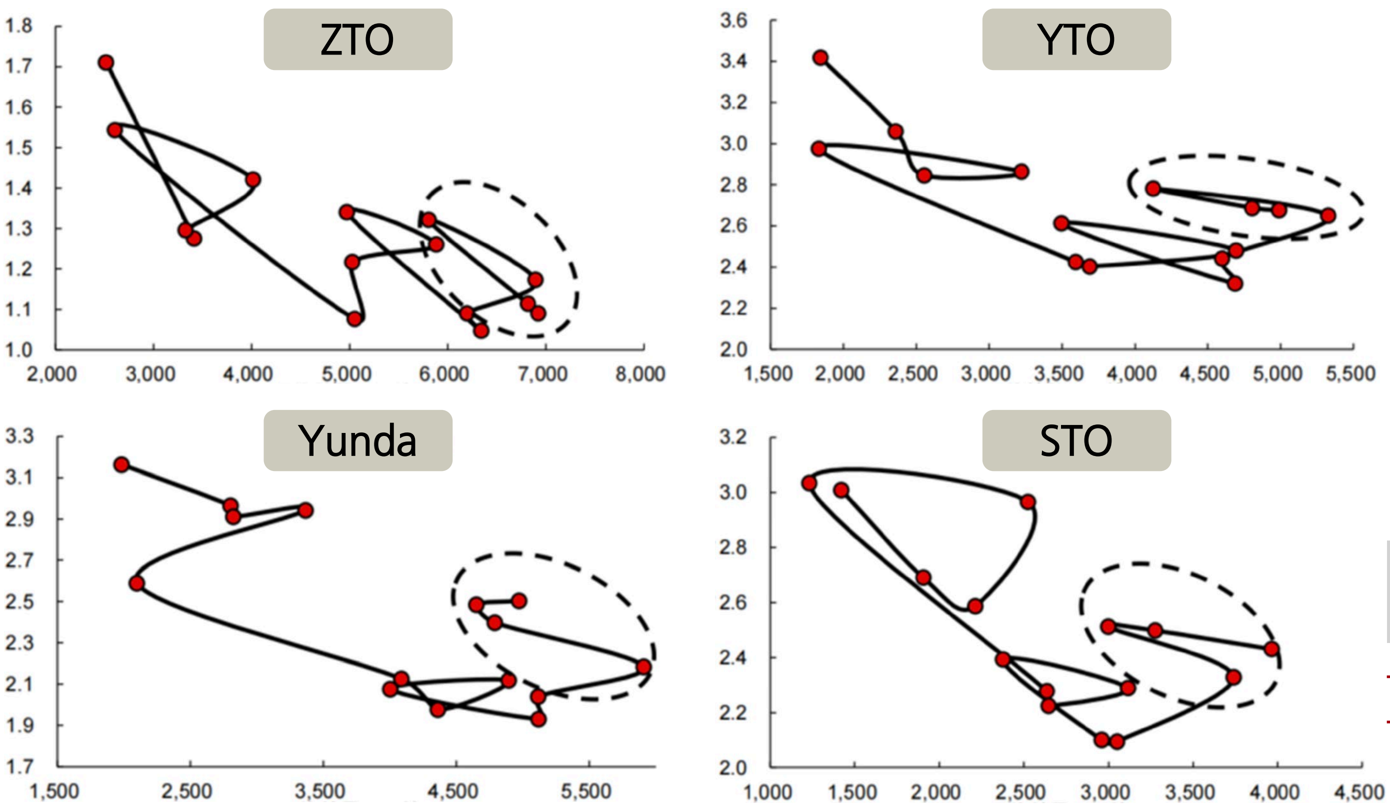
4.1 Market Share: A Has Gradually Gained Market Shares but B Went the Opposite

While the industry volume has experienced steady growth in recent years, in the post-price-war era, market share gaining counts.

Cost curve of major express firms

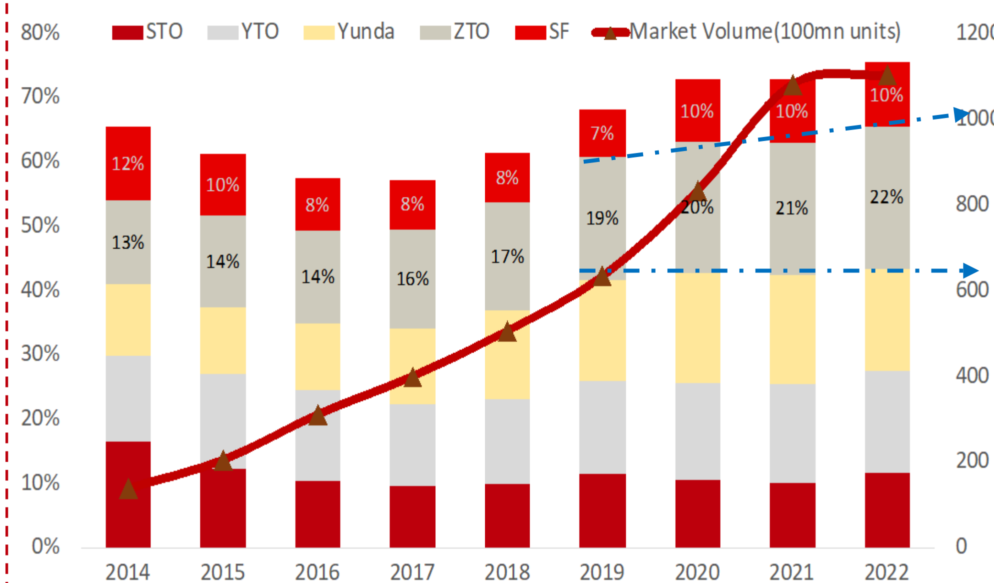
Market share gaining ⟷ Cost reduction

- A 2022 daily ticket: 90 million.



In 2022, CR5 in express industry exceeds 70%, CR8 climbed up to 84.5%.

- B: 10% in 2022 (in line)
  - -2pcts (2013-2022): losing share
- A: 22.1% in 2022 (+1.5pcts)
  - +10.4pcts (2013-2022): gaining share



We expect A's market share would grow towards 30% in the long run, while B might hold at 10%.

Market Share	2023E	2024E	2025E	2026E	2027E	2028E
A	23.5%	25%	26.5%	28%	30%	30%
B	10%	10%	10%	10%	10%	10%

Source: Wind, Changjiang Security, Team members

4.2 Market expansion: A’ Continuity and B’s Uncertainty

A: Potential to continue to gain market share

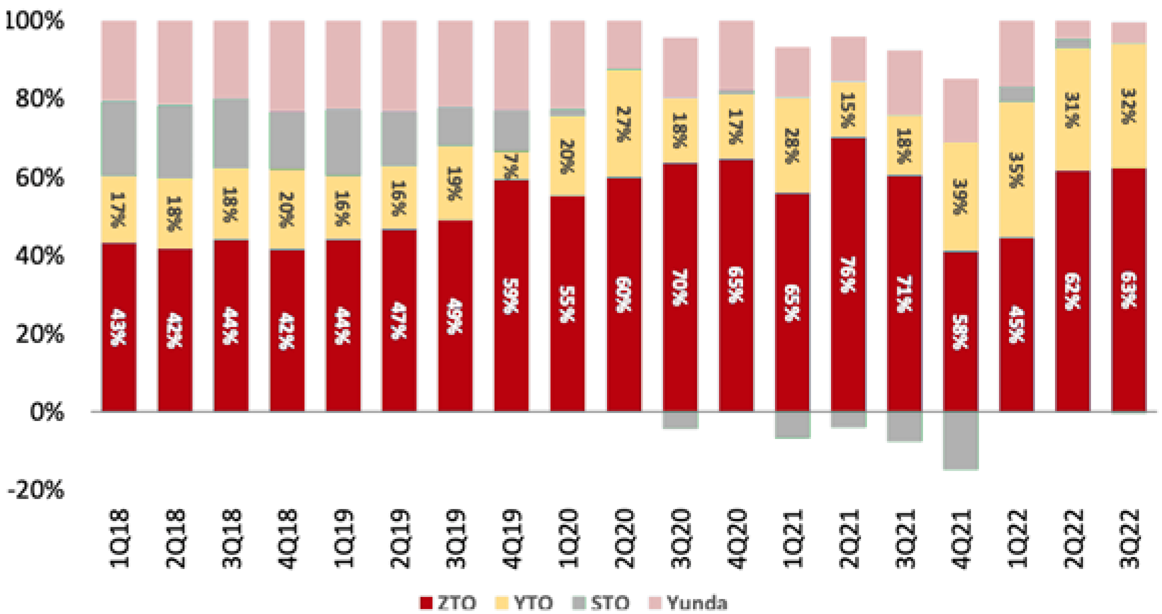
- Sustainability of A’s core competitiveness
  - ✓ Franchise connections: stock incentive
  - ✓ Enlarged franchise network and increased cash flow
- Mature lifecycle with concentrated profitability
- Heavy pre-investment industry properties.
- ➢ Assumption: A’s expected respective 1.5% share gain in 2023/2024.

B: Market expansion faces uncertainties

Industry	Players	Industry lifecycle
E-commerce express	ZTO, YTO, Yunda, STO	CAGR=30%, from developing stage to mature stage
Global and comprehensive express	UPS, DHL, Fedex, SF	CAGR=2.6%, already in mature stage with stable competitors.

A profitability share and it’s e-commerce express peers

- Top2 players gains 90%+ industry profit, which precludes another massive price war.



Upside from K?

- OPM contraction & pricing power weakening
- 29% decline risk in operating margin

Reverse Return?

- E-commerce only accounts for 10% of revenue
- Given the upside, the cap market share is about 12%

Our view on the new business holds conservative

Rev YOY	22A	23E	24E	25E	26E
Logistics	83%	50%	50%	40%	30%
Freight	195%	11%	10%	10%	10%
Global	8%	24%	25%	26%	21%

- Uncertainty of achieving the 17% revenue growth goal.
- 2024E/2025E margin goals (2.9%/3.3%) involve uncertainties.

Source: Wind, Team members

5.1 Valuation for A: Overweight

- We expect that e-commerce delivery will grow at 16%/12% in 2023E/2024E, considering the recovery and peak. The industry volume growth would drop towards 8% in the long run. After market share gaining until 2027, A's growth rate would match the industry's.
- Despite the slow growth market, the two main highlights of A are (1) market share gaining and (2) unit cost reduction.
- In the stable growth situation, we expect that A enjoys **30% market share** and **¥0.7 unit cost**, which indicates **30.3% EBIT margin**.
- Thus, in the base case scenario, we are expecting A to realize **RMB 199.88 billion** market value in 2023. We rate A as overweight.

Revenue and Cost Breakdown

Key Assumptions

Source: Wind, Team members

5.2 Valuation for B: Equal-weight

- The macroeconomic and consumer recovery may drive the growth of time-definite business.
- The Ezhou Airport will cut 40% transportation cost.
- International and supply chain businesses will benefit from the upgrading of China's industrial chain and greater market share overseas

- Momentum of e-commerce penetration to weaken
- The impact of hub-and-spoke model to kick post-2024, when it reaches full capacity and experiences depreciation.
- International and supply chain management: less earnings contribution to B.

Revenue and Cost Breakdown

Key Assumptions

Source: Wind, Team members

Investment Thesis

Long A-- specialized express co
Short B-- comprehensive transportation co includes international express, cold chain et al

Expansion strategic: A is steadily expanding in express after assets expansion, while in business except express, B is less competitive compared with international monopolist, which restricts the profitability of these business.

- 1) international business: SF's have higher cost (net profit margin=2%, while 13% in UPS), smaller m/s (3% of SF, 57% of UPS), and is playing in a ripe market (CAGR of international express=2.6%). 2) Local business: The traditional and most revenue contributing timeliness business has been greatly impacted, and the economic business is still under pressure due to the suppression of e-commerce and Alibaba
- Assumption: A roots in express industry, enjoys 20% growth of tickets. The 2023 growth rates of B's express and international business are 10% relatively.

The essential question we research is the difference of business models: professional /comprehensive express companies.

Cost reduction: A's strategies to decrease cost are more affirmatory and effective, while the ones of B may burden its growth.

- A: 1) 87% own vehicles cut down 20% of transportation cost. 2) enjoy scale economy (￥1.06 per ticket, while￥13.2 per ticket for SF). 3) Have put into enough Capex and no need to add in the ST. SF: 1) E'zhou airport is expected to cut 40% transportation cost of express pass from 23H2, but ￥20bn Capex and depreciation are to hard cover by marginal profit. 2) network integration is unrealistic. 3) high labor cost (40%+) is hard to cut down for diverse needs.
- Assumption: A: Further optimizing costs through digitization; B: Maintain the differentiated service strategy and keeping the relatively high labor costs

Market share and expansion: A is gaining m/s by collaborating with franchisee, while B is losing m/s and faces challenges in market expansion.

- A: collaborate with local gov to regional position, turn the franchisees to the shareholders to solve proxy issues. B: try to provide diverse service but the direct mode may bring high operating cost, and document express (10% of business) might be a downside factor of m/s for paperless trend.
- B: market expansion in new and global business faces challenges due to the industry life cycle, cash flow constraint and global risks.
- Assumption: A: continue to grow from 22% to 30% in 2030; B: expect to growing market share in Southeast Asia from 4% recently.

Other discussions

- **We downgrade B against the market**. But how we see the wide potential market and highlights of B? --Already priced-in but will below expectation.
- Why not short C/D? --They won't lose a lot without a price war, which is highly impossible. It's not valuable to compare the same business model.

Results

Until 2023/4/28	A	B		A	B
PE(TTM)	23.06	40.21	Revenue 2023 YoY(%)	23.2	15.8
Current Price (￥)	188.10	56.45	DCF Target Price (￥)	247.0	59.94

Expected pair trade strategy return: 25.13%

the time frame of the trading pair: middle run, basically 6-12 months

- When the market gradually realized the trend or signal of cost reduction, market share and market expansion changes.
- Potential trackables includes stock incentive, express volume, underlying share, etc.

Risks: Risk of price war intensity exceeding expectations in the express delivery industry, Stronger profitability of the full chain express business model, the impact of policies on the industry