

GigaCloud (GCT US)

Embracing continued outperformance

GCT delivered a solid start in 1Q24, with strong topline and guidance. 1Q24 net margin was temporarily diluted by new fulfilment centers expenses and FX fluctuation, but will gradually pick up in 2H24E (with improving warehouse utilization and annual freight contracts), in our view. We are positive on 2Q24E topline growth (guiding +73%~83% YoY), boosted by rising demand for outdoor furniture. With expanding fulfilment network and BaaS initiatives, we are confident on GCT's continued outperformance ahead. We keep our full-year financials forecast unchanged, with TP at US\$46.

■ **Solid 1Q24 with strong topline and guidance.** GCT delivered strong 1Q24 results with revenue +96% YoY (3%/0% above consensus/our estimates) and net profit at US\$27mn (+71% YoY, 7% above consensus, while 10% below our estimates). Its NPM slightly declined 1.7ppts YoY (-3.7ppts QoQ), mainly due to: 1) ~US\$2mn of cost from four new fulfilment centers during the setting-up phase in 1Q; and 2) FX fluctuation losses of roughly US\$2mn from the euro depreciation. Mgmt guided 2Q24E revenue at US\$265mn-280mn (+73%~83% YoY), with midpoint 1%/9% above consensus/our estimates.

■ **Positive on 2H24E margin trend.** For 2Q24E, we expect GCT to benefit from rising demand for outdoor furniture, backed by expanding SKUs and Noble House synergies. By Apr 30, GCT's global fulfilment network had expanded into 42 locations with over 10.5mn square feet (+169% vs. Mar 31, 2023), supporting the continued robust growth of 1P & 3P business. With improving utilization of warehouse after new fulfilment centers setting-up phase, we estimate 2Q24E GPM might be less dragged by this factor. As annual freight contracts come into effect, GCT can effectively hedge against ocean shipping rates fluctuations. Excluding SBC dilution, we think non-GAAP net margin would be intact in 2Q24E. We are positive on 2H24E margin trend, boosted by: 1) a narrowing loss for NH (or upcoming breakeven), 2) more benefits from annual freight contracts; and 3) higher warehouse utilization.

■ **BaaS initiatives to unlock TAM and foster stronger engagement of buyer & sellers.** GCT launched the BaaS program in Apr, and they are observing widespread enthusiasm from sellers as they prepare for inaugural transactions under the program in 2Q24. GCT will operate it by SKUs evaluation. Once the SKU is qualified, GCT will charge a competitive designated fee (nominal fee at around 4%, vs. industry standard at 10%). We expect long-term incremental upside from BaaS initiatives, although it would take some time for sellers to join and ramp up SKUs.

■ **Maintain BUY.** We keep our FY24-26E earnings forecast unchanged, with SOTP-based TP at US\$46 (16x FY24E P/E).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	490	704	1,112	1,353	1,632
YoY growth (%)	18.3	43.6	58.1	21.6	20.6
Net profit (US\$ mn)	24.0	94.1	116.0	149.6	187.9
EPS (Reported) (US\$)	0.98	2.30	2.82	3.62	4.52
YoY growth (%)	(65.6)	134.2	22.7	28.3	24.9
Consensus EPS (US\$)	NA	NA	2.91	3.65	4.16
P/S (x)	3.1	2.2	1.4	1.1	0.9
P/E (x)	38.0	16.2	13.2	10.3	8.3
ROE (%)	16.3	38.8	34.7	32.3	28.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$46.00
Up/Downside 23.2%
Current Price US\$37.35

China Entertainment

Sophie HUANG

(852) 3900 0889

sophiehuang@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	1,531.4
Avg 3 mths t/o (US\$ mn)	59.5
52w High/Low (US\$)	43.15/5.24
Total Issued Shares (mn)	41.0

Source: FactSet

Shareholding Structure

Larry, Lei Wu	20.8%
DCM	13.8%

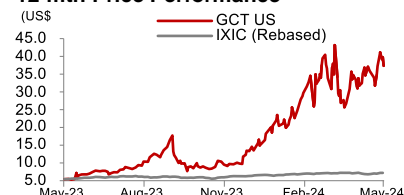
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	20.4%	19.1%
3-mth	27.6%	24.8%
6-mth	301.2%	238.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: KPMG

Related reports:

1. Improving fundamentals with BaaS initiatives – 11 Apr 2024
2. Riding on stepping-up expansion– 19 Mar 2024
3. More surprises to come - 26 Jan 2024
4. Eye on stronger 4Q23E and M&A synergies - 6 Dec 2023
5. Initiation: Data-driven B2B pioneer on large parcel logistics - 16 Oct 2023

Figure 1: 1Q24 financial review

US\$ mn, Dec-YE	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	128	126	128	153	178	245	251	2.6%	96.5%	243	3%	251	0%
Gross profit	23	27	30	40	49	70	67	-4.7%	125.0%	65	2%	70	-5%
Operating Profit	4	15	18	23	32	37	35	-6.2%	95.0%	31	13%	37	-6%
Net profit	1	12	16	18	24	36	27	-23.5%	70.6%	25	7%	30	-10%
EPS (US\$)	0.02	0.31	0.39	0.45	0.59	0.87	0.66	-23.8%	69.6%	0.63	6%	0.74	-10%
Margin (%)													
Gross margin	17.6%	21.2%	23.1%	26.4%	27.4%	28.5%	26.5%			26.8%		28.0%	
Operating margin	3.3%	12.0%	14.0%	15.3%	17.8%	15.2%	13.9%			12.7%		14.8%	
Net margin	0.5%	9.9%	12.5%	12.0%	13.6%	14.5%	10.8%			10.4%		12.0%	
Growth (%)													
Revenue (YoY)	NA	NA	13.7%	23.5%	39.2%	94.8%	96.5%			90.1%		96.0%	
Revenue (QoQ)	3.2%	-1.9%	1.7%	19.8%	16.4%	37.4%	2.6%			-0.7%		2.4%	
Operating Profit	NA	NA	141.3%	185.4%	646.2%	146.5%	95.0%			72.8%		107.6%	
Net profit	NA	NA	242.2%	203.1%	3583.7%	185.1%	70.6%			59.0%		89.1%	

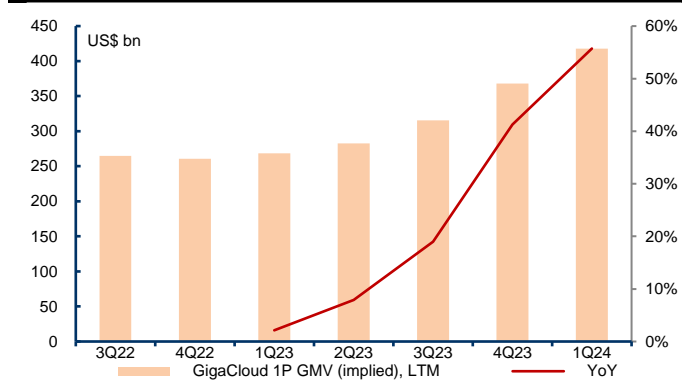
Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 1Q24 revenue breakdown

US\$ mn, Dec-YE	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Total revenue	128	126	128	153	178	245	251	3%	96%
Service rev (3P)	41	36	35	43	51	69	67	-3%	92%
Product rev (1P and off-platform)	87	90	93	110	127	175	184	5%	98%

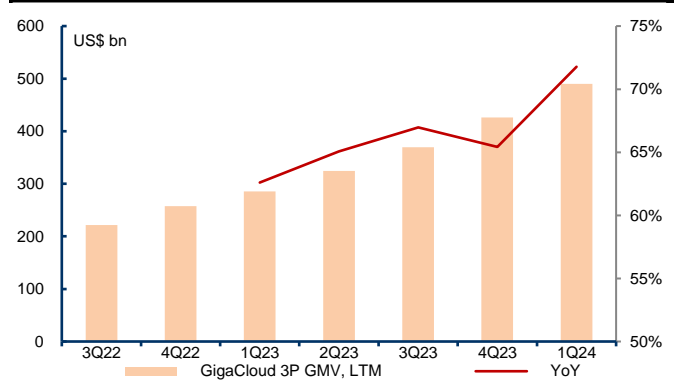
Source: Company data, CMBIGM

Figure 3: 1P GMV growth (LTM)



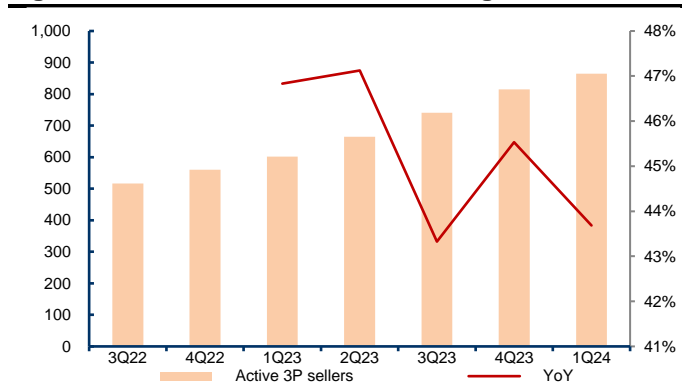
Source: Company data, CMBIGM estimates

Figure 4: 3P GMV growth (LTM)



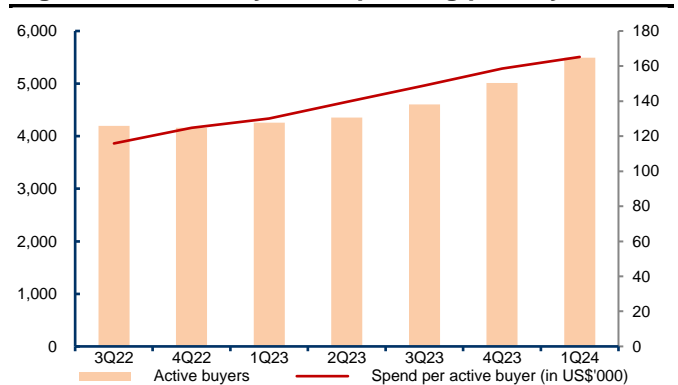
Source: Company data, CMBIGM estimates

Figure 5: No. of active 3P sellers and growth



Source: Company data, CMBIGM estimates

Figure 6: Active buyers & spending per buyers



Source: Company data, CMBIGM estimates

Figure 7: Income statement

US\$ mn, Dec-YE	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	414	490	704	1,112	1,353	1,632
Service rev (3P)	98	141	199	257	338	439
Product rev (1P and off-platform)	316	349	505	855	1,014	1,193
COGS	325	407	515	812	988	1,191
Gross profit	90	83	189	300	365	441
Selling and marketing	26	24	41	81	92	106
General and administrative	25	23	30	62	72	82
Research and development	-	1	4	14	18	21
Operating profit	39	35	110	142	184	232
Interest expense	(0)	(1)	(1)	(1)	(1)	(1)
Interest Income	1	0	3	3	3	3
Foreign currency exchange gain/(loss)	(2)	(5)	2	-	-	-
Government Grant	-	1	1	-	-	-
EBT	38	31	115	145	187	235
Taxes	(8)	(7)	(21)	(29)	(37)	(47)
Net income	29	24	94	116	150	188
Adj. EBITDA	48	42	118	159	198	249
Margin Analysis						
Gross margin	22%	17%	27%	27%	27%	27%
Operating margin	10%	7%	16%	13%	14%	14%
Net margin	7%	5%	13%	10%	11%	12%
Adj. EBITDA margin	12%	9%	17%	14%	15%	15%
Growth Analysis						
Revenue	50%	18%	44%	58%	22%	21%
Gross profit	19%	-7%	127%	59%	22%	21%
Operating profit	-11%	-11%	214%	29%	29%	26%
Net profit	-22%	-18%	293%	23%	29%	26%
Adj. EBITDA	-9%	-13%	183%	35%	24%	26%

Source: Company data, CMBIGM estimates

Figure 8: CMBIGM estimates vs consensus

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,112	1,353	1,632	1,109	1,322	1,632	0.3%	2.3%	0.0%
Gross Profit	300	365	441	302	356	441	-0.4%	2.7%	0.0%
Operating Profit	142	184	232	144	180	208	-1.1%	2.2%	11.7%
Net profit	116	150	188	119	150	173	-2.5%	0.1%	8.9%
EPS (US\$)	2.82	3.62	4.52	2.91	3.65	4.16	-3.0%	-0.8%	8.7%
Gross Margin	27.0%	27.0%	27.0%	27.2%	26.9%	27.0%	-0.2ppts	+0.1ppts	0.0ppts
Operating Margin	12.8%	13.6%	14.2%	13.0%	13.6%	12.7%	-0.2ppts	-0.0ppts	+1.5ppts
Net Margin	10.4%	11.1%	11.5%	10.7%	11.3%	10.6%	-0.3ppts	-0.2ppts	+0.9ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 9: SOTP valuation (P/E methodology)

Business (US\$ mn)	2024E Rev (US\$mn)		2024E Adj. NP (US\$mn)		Methodology	Multiple	Valuation	Stakes	Value
Service rev (3P)	257		31		P/E	18.0x	555	100%	555
Product rev (1P and off-platform)	855		84		P/E	16.0x	1,341	100%	1,341
Equity Value (US\$ mn)									1,896
TP (US\$) based on SOTP									46

Source: CMBIGM estimates

Figure 10: DCF valuation

DCF Valuation (US\$ mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	142	184	232	276	318	356	391	421	448
Tax	(29)	(37)	(47)	(55)	(64)	(71)	(78)	(84)	(90)
D&A	1	2	2	2	2	2	2	2	2
Change in working capital	(8)	24	(45)	(48)	(50)	(52)	(55)	(58)	(61)
CAPEX	(3)	(4)	(5)	(5)	(6)	(7)	(7)	(8)	(9)
FCF	103	168	137	170	200	228	253	274	291
FCF Growth	-13%	64%	-19%	24%	18%	14%	11%	8%	6%
PV	103	145	102	109	112	110	105	98	824
Terminal Value									2,356

Assumptions	
WACC	15.7%
Tax rate	20.0%
Risk free rate	3.95%
Beta	1.30
Market risk return	13.0%
Cost of equity	15.7%
Debt/Assets	0.0%
Long term growth	3.0%

Equity Value	
PV	1,709
minus: Net debt (US\$ mn)	(184)
minus: Minority interest (US\$ mn)	0
Equity Value(US\$ mn)	1,893
No. of shares (mn)	41
Target Price (US\$) based on DCF	46

Source: Bloomberg, CMBIGM estimates

		WACC				
Terminal growth rate	~	14%	15%	16%	17%	18%
	1.5%	50.0	46.4	44.2	40.6	38.3
	2.0%	51.0	47.2	44.9	41.2	38.7
	2.5%	52.0	48.0	45.6	41.7	39.2
	3.0%	53.1	48.9	46.3	42.3	39.7
	3.5%	54.3	49.9	47.2	42.9	40.2
	4.0%	55.7	50.9	48.1	43.6	40.7
	4.5%	57.2	52.1	49.0	44.3	41.3

Risks

1) Intensified competition; 2) economic uncertainties; 3) geopolitical tension and tariff changes; 4) potential rises in ocean freight rate; 5) ineffective inventory management and operational misstep; and 6) failure to maintain and expand relationships with third-party platforms, sellers, and buyers.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	414	490	704	1,112	1,353	1,632
Cost of goods sold	325	407	515	812	988	1,191
Gross profit	90	83	189	300	365	441
Operating expenses	50	48	75	158	181	209
Selling expense	26	24	41	81	92	106
Admin expense	25	23	30	62	72	82
R&D expense	0	1	4	14	18	21
Operating profit	0	0	0	0	0	0
EBIT	39	35	110	142	184	232
Interest income	1	0	3	3	3	3
Interest expense	(0)	(1)	(1)	(1)	(1)	(1)
Foreign exchange gain/loss	(2)	(5)	2	0	0	0
Other income/expense	0	0	(0)	0	0	0
Pre-tax profit	38	31	115	145	187	235
Income tax	(8)	(7)	(21)	(29)	(37)	(47)
Net profit	29	24	94	116	150	188

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	172	258	386	604	810	1,075
Cash & equivalents	64	145	184	305	489	644
Account receivables	18	27	59	69	87	110
Inventories	81	78	126	196	195	276
Prepayment	9	8	18	34	39	45
Non-current assets	14	161	454	415	417	420
PP&E	11	13	25	16	18	21
Right-of-use assets	0	144	399	399	399	399
Other non-current assets	3	3	31	0	0	0
Current liabilities	57	103	199	386	423	476
Short-term borrowings	0	0	0	0	0	0
Account payables	25	32	63	79	94	121
Tax payable	8	4	15	15	15	15
Other current liabilities	54	65	132	132	132	132
Lease liabilities	0	28	58	58	58	58
Contract liabilities	4	2	6	7	8	10
Accrued expenses	20	37	57	95	116	140
Non-current liabilities	4	121	351	344	344	344
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	0	117	344	344	344	344
Total liabilities	61	223	550	730	766	820
Capital surplus	37	109	112	127	140	155
Retained earnings	61	84	178	294	443	631
Other reserves	(0)	1	1	0	0	0
Total shareholders equity	99	195	290	379	547	752

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	38	31	115	145	187	235
Depreciation & amortization	1	1	3	1	2	2
Tax paid	(8)	(7)	(21)	(29)	(37)	(47)
Change in working capital	(35)	6	28	(8)	24	(45)
Net cash from operations	9	50	133	125	188	160
Investing						
Capital expenditure	(2)	(1)	(4)	(3)	(4)	(5)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Net cash from investing	(2)	(1)	(91)	(3)	(4)	(5)
Financing						
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	34	0	0	0	0	0
Others	(37)	32	(4)	0	0	0
Net cash from financing	(3)	32	(4)	0	0	0
Net change in cash						
Cash at the beginning of the year	62	64	145	184	305	489
Exchange difference	(2)	0	0	0	0	0
Cash at the end of the year	64	145	184	305	489	644
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	50.4%	18.3%	43.6%	58.1%	21.6%	20.6%
Gross profit	19.3%	(7.2%)	127.0%	59.2%	21.6%	20.6%
EBIT	(10.9%)	(11.0%)	214.3%	29.4%	29.2%	25.9%
Net profit	(21.9%)	(18.1%)	292.6%	23.3%	29.0%	25.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	21.6%	17.0%	26.8%	27.0%	27.0%	27.0%
Operating margin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Return on equity (ROE)	36.4%	16.3%	38.8%	34.7%	32.3%	28.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio (x)	3.0	2.5	1.9	1.6	1.9	2.3
Receivable turnover days	18.5	16.8	22.3	21.0	21.0	22.0
Inventory turnover days	65.8	71.6	72.2	72.2	72.2	72.2
Payable turnover days	24.7	25.4	33.5	32.0	32.0	33.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	13.1	38.0	16.2	13.2	10.3	8.3
P/B	3.9	4.7	5.2	4.0	2.8	2.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.