

Horizon CD (9930 HK)

1H23 core profit +10% YoY; positive on the structural growth and mgmt. execution

Horizon's reported net profit in 1H23 came in at RMB237mn, up 49% YoY. Excluding the listing expense as well as the interest expense and FX change from the redemption liabilities on pre-IPO investment, core net profit moderately grew 10% YoY to RMB318mn which is in line with our expectation. We like Horizon's disciplined cost management, improved free cash flow through the execution of asset-light model and reduced gearing ratio. Horizon targets to add 45k / 35-40k units of aerial work platforms (AWP) in 2023E/24E. We maintain our positive stance on the structural growth of AWP in China market as well as the penetration in the overseas. Maintain **BUY** with unchanged TP of HK\$4.8 (15x 2023E P/E).

■ **Key financials in 1H23.** Total revenue grew 18% YoY to RMB4.2bn. Gross margin contracted 4.3ppt YoY to 34.1% due to lower rental rate that offset the growth of equipment volume and utilisation rate. With stringent cost control, selling & distribution expense ratio reduced 4.2ppt YoY to 2.9%. For the sake of prudence, Horizon increased the net expected credit loss (ECL) ratio by 1.7ppt YoY to 4%. Core net profit grew 10% YoY to RMB318mn, accounting for 33% of our full year forecast (run rate in 1H22: 35%). Operating cash inflow dropped 8% YoY to RMB1.3bn. That said, given the limited capex of RMB600mn, Horizon achieved free cash flow of RMB700mn in 1H23. Net debt to equity ratio reduced to 159% at end Jun 2023 (vs 286% in Dec 2022), after the IPO.

■ **Operating lease service (60% of revenue).** The segment revenue grew 9% YoY to RMB2.5bn in 1H23, driven largely by (1) a 14% YoY growth of self-owned AWP fleet (to 132k units), (2) 6% YoY growth of neo-formwork system equipment volume, and (3) increase in overall utilisation rate. However, the segment gross margin contracted 8.1ppt YoY to 39.5%, due to lower rental rates related to the neo-formwork and neo-excavation support system. As at end Jun, Horizon had 419 service outlets (4 in overseas) and 191k customers (+21% YoY).

■ **Engineering & technical services (27% of revenue).** The segment revenue grew 8% YoY to RMB1.14bn in 1H23, with gross margin slightly reduced by 0.26ppt YoY to 20.7%.

■ **Platform & other services (13% of revenue).** The segment revenue surged 1.7x YoY to RMB560mn in 1H23. (1) Platform service revenue surged 7.3x YoY to RMB300mn, driven by the adoption of asset-light model for AWP business. The managed fleet size of AWP grew 5x YoY to 27.8k units. (2) Trade and others revenue grew 55% YoY to RMB260mn. The segment gross margin sharply expanded 12.7ppt to 37.4%.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	6,141	7,878	9,870	12,337	15,206
YoY growth (%)	67.6	28.3	25.3	25.0	23.3
Adjusted net profit (RMB mn)	736.8	836.7	966.8	1,319.7	1,788.2
EPS (Adjusted) (RMB)	0.26	0.30	0.32	0.41	0.56
Consensus EPS (RMB)	na	na	0.34	0.41	0.53
P/E (x)	na	na	8.1	6.3	4.6
P/B (x)	na	na	0.9	0.8	0.7
Yield (%)	na	na	1.9	2.4	3.2
ROE (%)	12.5	10.5	12.3	13.7	16.2
Net gearing (%)	287.9	286.4	214.1	212.2	192.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$4.80
 (Previous TP) HK\$4.80)
Up/Downside 70.2%
Current Price HK\$2.82

China Capital Goods

Wayne FUNG, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Katherine NG

(852) 3761 8725

katherineng@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	9,016.2
Avg 3 mths t/o (HK\$ mn)	0.5
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	3197.2

Source: FactSet

Shareholding Structure

Far East Horizon	77.2%
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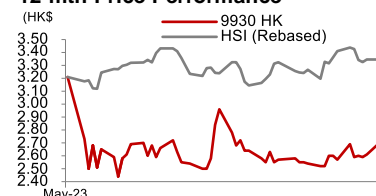
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.8%	2.3%
3-mth	NM	NM
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Related report:

Horizon CD - No. 1 equipment operation service provider ready to capture the opportunities in AWP – 5 Jul 2023 ([link](#))

Figure 1: Revenue and gross margin breakdown in 1H23

	1H22	1H23	Change (YoY)
Revenue (RMB mn)			
Operating lease services	2,306	2,506	8.7%
Engineering and technical services	1,055	1,141	8.1%
Platform and other services	204	560	174.0%
Total revenue	3,565	4,206	18.0%
Gross margin			Change ppt
Operating lease services	47.7%	39.5%	-8.14
Engineering and technical services	21.0%	20.7%	-0.26
Platform and other services	24.7%	37.4%	12.74
Blended	38.4%	34.1%	-4.30

Source: Company data, CMBIGM estimates

Figure 2: Key financials in 1H23

YE Dec 31 (RMB mn)	1H22	1H23	Change (YoY)
Revenue			
Operating lease services	2,306	2,506	8.7%
Engineering and technical services	1,055	1,141	8.1%
Platform and other services	204	560	174.0%
Total revenue	3,565	4,206	18.0%
Cost of sales	-2,194	-2,770	26.2%
Gross profit	1,371	1,436	4.8%
Other income	71	79	11.7%
Other gains and losses	13	25	98.1%
S&D expenses	-254	-122	-52.2%
Administrative expenses	-356	-436	22.6%
Expected credit losses of financial & contract assets, net	-80	-167	108.6%
Other expenses	-89	-31	-65.6%
EBIT	675	785	16.3%
Net finance income/(expense)	-430	-447	4.0%
Finance income	5	8	52.4%
Finance expenses	-435	-455	4.5%
Share of profit of JV and associates	0	0	n/a
Pretax profit	245	338	37.8%
Income tax	-86	-101	17.2%
After tax profit	159	237	49.0%
MI	0	0	n/a
Net profit	159	237	49.0%
Core net profit	289	318	9.7%
D&A	1,089	1,181	8.4%
EBITDA	1,764	1,965	11.4%
Non-operating or one-off gains/(loss)	-130	-81	-38.2%
Listing expense	-5	-13	129.2%
FX change & others	-125	-68	-45.5%
Key ratios			Change (ppt)
Gross margin	38.4%	34.1%	-4.3
S&D expense ratio	7.1%	2.9%	-4.2
Admin expense ratio	10.0%	10.4%	0.4
Expected credit loss ratio	2.3%	4.0%	1.7
Core net margin	8.1%	7.6%	-0.6

Source: Company data, CMBIGM estimates

Figure 3: Revenue and gross margin forecast

	2020	2021	2022	2023E	2024E	2025E
Revenue (RMB mn)						
Operating lease services	2,485	4,463	5,190	5,997	6,976	8,237
Engineering and technical services	1,063	1,519	2,137	2,991	4,038	5,250
Platform and other services	116	159	551	882	1,323	1,719
Total revenue	3,664	6,141	7,878	9,870	12,337	15,206
Growth (YoY)						
Operating lease services	-	79.6%	16.3%	15.6%	16.3%	18.1%
Engineering and technical services	-	43.0%	40.6%	40.0%	35.0%	30.0%
Platform and other services	-	36.3%	247.6%	60.0%	50.0%	30.0%
Total revenue	-	67.6%	28.3%	25.3%	25.0%	23.3%
Breakdown						
Operating lease services	67.8%	72.7%	65.9%	60.8%	56.5%	54.2%
Engineering and technical services	29.0%	24.7%	27.1%	30.3%	32.7%	34.5%
Platform and other services	3.2%	2.6%	7.0%	8.9%	10.7%	11.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit (RMB mn)						
Operating lease services	1,299	2,372	2,319	2,699	3,174	3,789
Engineering and technical services	306	443	640	897	1,211	1,575
Platform and other services	43	31	173	278	410	524
Total	1,648	2,846	3,133	3,874	4,796	5,888
Gross margin						
Operating lease services	52.3%	53.1%	44.7%	45.0%	45.5%	46.0%
Engineering and technical services	28.8%	29.1%	30.0%	30.0%	30.0%	30.0%
Platform and other services	37.2%	19.6%	31.5%	31.5%	31.0%	30.5%
Blended	45.0%	46.3%	39.8%	39.2%	38.9%	38.7%

Source: Company data, CMBIGM estimates

Key risks: (1) further reduction of rental rates; (2) weakness of manufacturing capex.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	3,664	6,141	7,878	9,870	12,337	15,206
Cost of goods sold	(2,015)	(3,295)	(4,745)	(5,996)	(7,541)	(9,318)
Gross profit	1,648	2,846	3,133	3,874	4,796	5,888
Selling expense	(273)	(452)	(341)	(424)	(555)	(684)
Admin expense	(411)	(745)	(864)	(1,086)	(1,332)	(1,597)
Others	(92)	(304)	(110)	(148)	(185)	(228)
Other income	22	219	111	118	148	182
Other expense	(6)	(52)	(157)	(30)	(37)	(46)
Other gains/(losses)	41	32	35	35	39	46
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	1,885	3,197	4,081	4,909	5,600	6,559
Depreciation	957	1,653	2,273	2,570	2,727	2,997
EBIT	928	1,544	1,807	2,339	2,874	3,562
Interest income	17	9	11	24	41	40
Interest expense	(304)	(650)	(925)	(1,074)	(1,155)	(1,218)
Net Interest income/(expense)	(287)	(641)	(913)	(1,050)	(1,114)	(1,178)
Pre-tax profit	642	902	894	1,289	1,760	2,384
Income tax	(148)	(193)	(227)	(322)	(440)	(596)
Minority interest	(45)	0	0	0	0	0
Net profit	448	710	667	967	1,320	1,788
Adjusted net profit	459	737	837	967	1,320	1,788

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	4,422	7,972	10,340	14,376	14,481	17,057
Cash & equivalents	166	507	2,159	3,909	2,990	3,167
Account receivables	2,530	4,198	4,487	6,438	7,353	9,395
Inventories	166	291	186	372	330	538
Prepayment	1,235	2,055	2,104	2,104	2,104	2,104
ST bank deposits	24	13	63	63	63	63
Financial assets at FVTPL	191	480	1,036	1,186	1,336	1,486
Other current assets	0	150	0	0	0	0
Contract assets	110	277	304	304	304	304
Non-current assets	11,218	18,988	19,952	21,288	23,505	25,008
PP&E	10,348	18,278	19,102	20,579	22,797	24,301
Right-of-use assets	682	321	335	195	195	195
Deferred income tax	182	264	333	333	333	333
Investment in JVs & assos	0	0	0	0	0	0
Other non-current assets	6	125	181	180	180	179
Total assets	15,639	26,961	30,292	35,664	37,986	42,066
Current liabilities	4,694	7,990	8,191	10,191	10,438	12,128
Short-term borrowings	2,435	5,065	6,143	7,143	7,643	8,043
Account payables	896	1,436	1,110	2,110	1,857	3,147
Tax payable	93	166	141	141	141	141
Other current liabilities	0	0	0	0	0	0
Lease liabilities	628	66	60	60	60	60
Accrued expenses	641	1,258	737	737	737	737
Non-current liabilities	5,644	12,959	15,426	16,426	17,326	18,126
Long-term borrowings	5,382	12,633	15,069	16,069	16,969	17,769
Deferred income	18	17	17	17	17	17
Other non-current liabilities	243	309	340	340	340	340
Total liabilities	10,337	20,950	23,617	26,617	27,764	30,253
Total shareholders equity	5,301	6,011	6,675	9,047	10,222	11,812
Minority interest	0	0	0	0	0	0
Total equity and liabilities	15,639	26,961	30,292	35,664	37,986	42,066

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	642	902	894	1,289	1,760	2,384
Depreciation & amortization	957	1,653	2,273	2,570	2,727	2,997
Tax paid	(138)	(202)	(321)	(322)	(440)	(596)
Change in working capital	(782)	(691)	(1,161)	(1,435)	(1,461)	(1,338)
Others	349	786	1,138	1,198	1,299	1,406
Net cash from operations	1,027	2,449	2,823	3,300	3,884	4,852
Investing						
Capital expenditure	(6,809)	(10,319)	(3,613)	(3,906)	(4,944)	(4,500)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	118	(152)	150	24	41	40
Net cash from investing	(6,691)	(10,471)	(3,463)	(3,882)	(4,903)	(4,460)
Financing						
Dividend paid	(14)	0	0	0	(145)	(198)
Net borrowings	4,947	8,485	3,293	2,000	1,400	1,200
Proceeds from share issues	1,348	1,326	0	1,405	0	0
Others	(473)	(1,441)	(1,007)	(1,074)	(1,155)	(1,218)
Net cash from financing	5,808	8,370	2,286	2,331	100	(216)
Net change in cash						
Cash at the beginning of the year	23	166	507	2,159	3,909	2,990
Exchange difference	(1)	(8)	6	0	0	0
Cash at the end of the year	166	507	2,159	3,909	2,990	3,167
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	na	67.6%	28.3%	25.3%	25.0%	23.3%
Gross profit	na	72.7%	10.1%	23.6%	23.8%	22.8%
EBITDA	na	69.6%	27.6%	20.3%	14.1%	17.1%
EBIT	na	66.3%	17.1%	29.4%	22.9%	24.0%
Net profit	na	58.3%	(6.1%)	45.0%	36.5%	35.5%
Adj. net profit	na	60.4%	13.6%	15.5%	36.5%	35.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	45.0%	46.3%	39.8%	39.2%	38.9%	38.7%
EBITDA margin	51.4%	52.1%	51.8%	49.7%	45.4%	43.1%
Adj. net profit margin	12.5%	12.0%	10.6%	9.8%	10.7%	11.8%
Return on equity (ROE)	na	12.5%	10.5%	12.3%	13.7%	16.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	1.6	2.9	2.9	2.1	2.1	1.9
Current ratio (x)	0.9	1.0	1.3	1.4	1.4	1.4
Receivable turnover days	205.5	199.9	201.2	202.0	204.0	201.0
Payable turnover days	199.5	129.2	97.9	98.0	96.0	98.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	na	8.1	6.3	4.6
P/B	na	na	na	0.9	0.8	0.7
Div yield (%)	na	na	na	1.9	2.4	3.2

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

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CMB International Global Markets Limited

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

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