

Huitongda Network (9878 HK)

Focusing on earnings growth

HTD delivered FY23 results with solid earnings growth (+42% YoY) despite soft top line (+0.4% YoY). For FY24E, mgmt. emphasized secular earnings growth and margin enhancement with aggressive cost control and operating leverage. As such, we modelled stable YoY revenue growth in FY24E, but earnings would surge 28% YoY (with GPM up to 3.5%, +0.2ppts YoY). We are positive on its enhanced profitability ahead, backed by: 1) a higher share of direct sales from member stores; 2) enhancing upstream supply chains; and 3) expanding high-GPM tier-2 categories. We slightly trim HTD's FY24-25E earnings forecast by 12%-14%, to factor in macro uncertainty and strategic adjustments. Our DCF-based TP is revised to HK\$50.

- FY23 results show an improving margin.** FY23 revenue rose 0.4% YoY, 8% below consensus, while net profit reached RMB448mn (+42% YoY), 11% below consensus. Commerce business was stable YoY, in which consumer electronics/household appliances revenue was resilient at +19%/+0.7% YoY while agricultural product/liquor and beverage fell 22%/32% YoY. Services business revenue declined 17.6% YoY in FY23. GPM climbed up to 3.3% in FY23 from 3.1% in FY22, as HTD prioritizes high-GPM business and cost discipline. Its solid earnings growth and improving margin look acceptable, in our view.
- Focusing more on earnings growth with strategic transition.** Looking ahead to FY24E, mgmt. emphasized secular earnings growth and margin enhancement with aggressive cost control and operating leverage. As such, topline growth would not be top metrics in the short run. Considering macro uncertainty and the strategic adjustments, we modelled flat revenue YoY in FY24E, as HTD would focus more on high-GPM business development. On the margin side, we are positive on its enhanced profitability ahead, backed by: 1) a higher share of direct sales from member stores; 2) enhancing upstream supply chains; 3) expanding high-GPM tier-2 categories; and 4) continued discipline in expenditure. We forecast its GPM to improve to 3.5%/3.6% in FY24/25E, and NPM to 0.7%/0.8% in FY24/25E. Net profit would surge 28% YoY in FY24E, in our estimates.
- Maintain BUY.** We slightly trim HTD's FY24-25E earnings forecast by 12%-14%, to factor in macro uncertainty and strategic adjustments. We remain positive on its secular earnings growth. Our DCF-based TP is adjusted to HK\$50.

Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|--------|--------|--------|--------|--------|
| Revenue (RMB mn) | 82,094 | 82,433 | 82,726 | 86,303 | 88,797 |
| YoY growth (%) | 24.8 | 0.4 | 0.4 | 4.3 | 2.9 |
| Adjusted net profit (RMB mn) | 316 | 448 | 576 | 670 | 754 |
| Diluted EPS (RMB) | 0.62 | 0.80 | 1.03 | 1.19 | 1.34 |
| YoY growth (%) | (3.4) | 28.3 | 28.4 | 16.4 | 12.5 |
| Consensus EPS (RMB) | NA | NA | 1.20 | 1.54 | 1.63 |
| P/E (x) | 45 | 35 | 28 | 24 | 21 |
| P/S (x) | 0.19 | 0.19 | 0.19 | 0.18 | 0.18 |
| ROE (%) | 22.9 | 8.8 | 10.7 | 10.9 | 10.8 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$50.00**
 (Previous TP) HK\$55.00
Up/Downside **63.1%**
Current Price **HK\$30.65**

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Stock Data

| | |
|--------------------------|-------------|
| Mkt Cap (HK\$ mn) | 17,243.0 |
| Avg 3 mths t/o (HK\$ mn) | 8.7 |
| 52w High/Low (HK\$) | 34.40/25.00 |
| Total Issued Shares (mn) | 180.0 |

Source: FactSet

Shareholding Structure

| | |
|---------------|-------|
| Wang Jianguo | 21.9% |
| Alibaba China | 13.8% |

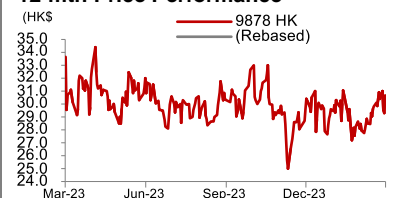
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 7.7% | NM |
| 3-mth | 0.8% | NM |
| 6-mth | 0.8% | NM |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: FY23 financial review

| RMB mn, Dec-YE | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net revenue | 49,629 | 65,763 | 82,106 | 82,433 | 82,726 | 86,303 | 88,797 |
| Cost of revenue | (48,285) | (63,895) | (79,597) | (79,693) | (79,870) | (83,237) | (85,558) |
| Gross profit | 1,345 | 1,868 | 2,509 | 2,740 | 2,856 | 3,066 | 3,239 |
| Selling and distribution expenses | (610) | (864) | (1,356) | (1,381) | (1,211) | (1,237) | (1,251) |
| Administrative expenses | (415) | (479) | (622) | (649) | (647) | (660) | (678) |
| R&D | (58) | (79) | (113) | (94) | (96) | (97) | (99) |
| Other gains | 145 | 192 | 218 | 177 | 175 | 175 | 175 |
| Operating (loss)/profit | 407 | 639 | 636 | 794 | 1,077 | 1,247 | 1,386 |
| Other expenses* | (604) | (713) | (61) | 4 | 3 | 10 | 28 |
| (Loss)/profit before income tax | (197) | (74) | 575 | 798 | 1,080 | 1,257 | 1,414 |
| Income taxes (expense)/credit | (81) | (101) | (96) | (100) | (183) | (214) | (240) |
| (Loss)/profit for the year | (405) | (350) | 316 | 448 | 576 | 670 | 754 |
| Adj. net profit | 197 | 328 | 316 | 448 | 576 | 670 | 754 |
| Margin Analysis | | | | | | | |
| Gross margin | 2.71% | 2.84% | 3.06% | 3.32% | 3.45% | 3.55% | 3.65% |
| Operating margin | 0.82% | 0.97% | 0.77% | 0.96% | 1.30% | 1.44% | 1.56% |
| Adj. net margin | 0.40% | 0.50% | 0.39% | 0.54% | 0.70% | 0.78% | 0.85% |
| Growth Analysis | | | | | | | |
| Revenue | 14% | 33% | 25% | 0% | 0% | 4% | 3% |
| Gross profit | 5% | 39% | 34% | 9% | 4% | 7% | 6% |
| Operating profit | 22% | 57% | 0% | 25% | 36% | 16% | 11% |
| Adj. net profit | 42% | 66% | -3% | 42% | 28% | 16% | 13% |

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

| RMB mn, Dec-YE | CMBIGM | | | Consensus | | | Diff (%) | | |
|------------------|--------|--------|--------|-----------|---------|-------|----------|----------|-------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 82,726 | 86,303 | 88,797 | 104,172 | 120,968 | NA | -20.6% | -28.7% | NA |
| Gross profit | 2,856 | 3,066 | 3,239 | 3,432 | 4,311 | NA | -16.8% | -28.9% | NA |
| Operating profit | 1,077 | 1,247 | 1,386 | 1,107 | 1,363 | NA | -2.7% | -8.5% | NA |
| Adj. net profit | 576 | 670 | 754 | 646 | 826 | NA | -10.8% | -18.9% | NA |
| Adj. EPS (RMB) | 1.03 | 1.19 | 1.34 | 1.20 | 1.54 | NA | -14.7% | -22.4% | NA |
| Gross margin | 3.5% | 3.6% | 3.6% | 3.3% | 3.6% | NA | +0.2ppts | -0.0ppts | NA |
| Operating margin | 1.3% | 1.4% | 1.6% | 1.1% | 1.1% | NA | +0.2ppts | +0.3ppts | NA |
| Adj. net margin | 0.7% | 0.8% | 0.8% | 0.6% | 0.7% | NA | +0.1ppts | +0.1ppts | NA |

Source: Bloomberg, CMBIGM estimates

Figure 3: Earnings revision

| RMB mn, Dec-YE | New | | | Old | | | Diff (%) | | |
|------------------|--------|--------|--------|--------|---------|-------|----------|----------|-------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 82,726 | 86,303 | 88,797 | 99,771 | 109,481 | NA | -17.1% | -21.2% | NA |
| Gross profit | 2,856 | 3,066 | 3,239 | 3,249 | 3,646 | NA | -12.1% | -15.9% | NA |
| Operating profit | 1,077 | 1,247 | 1,386 | 1,264 | 1,452 | NA | -14.8% | -14.2% | NA |
| Adj. net profit | 576 | 670 | 754 | 654 | 777 | NA | -12.0% | -13.8% | NA |
| EPS (RMB) | 1.03 | 1.19 | 1.34 | 1.29 | 1.53 | NA | -20.2% | -21.9% | NA |
| Gross margin | 3.5% | 3.6% | 3.6% | 3.3% | 3.3% | NA | +0.2ppts | +0.2ppts | NA |
| Operating margin | 1.3% | 1.4% | 1.6% | 1.3% | 1.3% | NA | +0.0ppts | +0.1ppts | NA |
| Net margin | 0.7% | 0.8% | 0.8% | 0.7% | 0.7% | NA | +0.0ppts | +0.1ppts | NA |

Source: Company data, CMBIGM estimates

Figure 4: DCF valuation

| DCF valuation (RMB mn) | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E |
|---------------------------------|------------|------------|--------------|--------------|--------------|--------------|--------------|---------------|
| EBIT | 1,077 | 1,247 | 1,386 | 1,705 | 2,077 | 2,508 | 3,003 | 3,565 |
| Tax | (183) | (214) | (240) | (296) | (360) | (435) | (521) | (618) |
| D&A | 69 | 79 | 89 | 97 | 107 | 118 | 130 | 143 |
| Working capital | (182) | (62) | 108 | 119 | 131 | 144 | 158 | 174 |
| CAPEX | (60) | (60) | (60) | (61) | (62) | (64) | (65) | (66) |
| FCF | 720 | 990 | 1,282 | 1,564 | 1,893 | 2,272 | 2,705 | 3,198 |
| FCF Growth | 18% | 38% | 30% | 22% | 21% | 20% | 19% | 18% |
| Terminal Value | | | | | | | | 27,744 |
| PV (FCF+ Terminal Value) | 720 | 862 | 972 | 1,032 | 1,087 | 1,136 | 1,177 | 11,723 |

Assumptions

| | |
|-----------------------------|--------------|
| WACC | 14.9% |
| Tax rate | 17.0% |
| Risk free rate | 3.6% |
| Beta | 1.20 |
| Market risk return | 13.0% |
| Debt/Assets | 0.0% |
| Terminal growth rate | 3.0% |
| Debt value | 0 |

Equity Value

| | |
|-------------------------------|---------------|
| PV | 18,709 |
| minus: Net cash | (5,186) |
| minus: Minority Interest | 0 |
| Equity Value | 23,894 |
| FX | 0.9 |
| TP (HK\$) based on DCF | 50 |

| | | WACC | | | | |
|--------|------|------|-----|-----|-----|-----|
| | | 13% | 14% | 15% | 16% | 17% |
| Growth | 1.5% | 54 | 50 | 47 | 44 | 41 |
| | 2.0% | 56 | 51 | 48 | 45 | 42 |
| | 2.5% | 57 | 52 | 49 | 45 | 43 |
| | 3.0% | 58 | 54 | 50 | 46 | 43 |
| | 3.5% | 60 | 55 | 51 | 47 | 44 |
| | 4.0% | 62 | 56 | 52 | 48 | 45 |
| | 4.5% | 64 | 58 | 54 | 49 | 45 |

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 65,763 | 82,094 | 82,433 | 82,726 | 86,303 | 88,797 |
| Cost of goods sold | (63,895) | (79,597) | (79,693) | (79,870) | (83,237) | (85,558) |
| Gross profit | 1,868 | 2,588 | 2,740 | 2,856 | 3,066 | 3,239 |
| Operating expenses | (1,229) | (1,873) | (1,946) | (1,779) | (1,819) | (1,853) |
| Selling expense | (864) | (1,356) | (1,381) | (1,211) | (1,237) | (1,251) |
| Admin expense | (479) | (622) | (649) | (647) | (660) | (678) |
| R&D expense | (79) | (113) | (94) | (96) | (97) | (99) |
| Others | 192 | 218 | 177 | 175 | 175 | 175 |
| Operating profit | 639 | 715 | 794 | 1,077 | 1,247 | 1,386 |
| Interest income | 166 | 180 | 181 | 95 | 137 | 155 |
| Interest expense | (879) | (245) | (238) | (92) | (127) | (127) |
| Pre-tax profit | (76) | 654 | 797 | 1,079 | 1,256 | 1,413 |
| Income tax | (101) | (96) | (100) | (183) | (214) | (240) |
| After tax profit | (177) | 558 | 697 | 896 | 1,042 | 1,173 |
| Minority interest | 173 | 241 | 249 | 320 | 372 | 419 |
| Net profit | (177) | 558 | 697 | 896 | 1,042 | 1,173 |
| Adjusted net profit | 328 | 408 | 448 | 576 | 670 | 754 |
| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 25,598 | 28,775 | 29,110 | 30,776 | 32,459 | 34,376 |
| Cash & equivalents | 2,967 | 4,038 | 3,749 | 6,544 | 7,747 | 9,270 |
| Account receivables | 2,653 | 3,127 | 2,831 | 3,173 | 3,192 | 3,284 |
| Inventories | 2,719 | 2,444 | 2,581 | 2,407 | 2,509 | 2,578 |
| Prepayment | 8,417 | 8,661 | 9,312 | 8,972 | 9,350 | 9,611 |
| ST bank deposits | 3,889 | 6,181 | 6,534 | 6,534 | 6,534 | 6,534 |
| Other current assets | 4,954 | 4,324 | 4,103 | 3,147 | 3,128 | 3,099 |
| Non-current assets | 2,245 | 1,991 | 1,661 | 704 | 685 | 657 |
| PP&E | 43 | 77 | 82 | 78 | 70 | 51 |
| Right-of-use assets | 111 | 104 | 78 | 61 | 49 | 40 |
| Investment in JVs & assos | 2 | 10 | 12 | 12 | 12 | 12 |
| Financial assets at FVTPL | 2 | 2 | 2 | 2 | 2 | 2 |
| Other non-current assets | 2,087 | 1,799 | 1,487 | 552 | 552 | 552 |
| Total assets | 27,843 | 30,766 | 30,771 | 31,480 | 33,145 | 35,033 |
| Current liabilities | 23,353 | 26,784 | 27,449 | 30,072 | 31,774 | 33,719 |
| Short-term borrowings | 129 | 699 | 369 | 369 | 369 | 369 |
| Account payables | 15,031 | 15,720 | 16,425 | 15,886 | 16,328 | 16,784 |
| Tax payable | 49 | 57 | 45 | 45 | 45 | 45 |
| Other current liabilities | 5,166 | 7,540 | 8,149 | 11,130 | 12,396 | 13,811 |
| Lease liabilities | 40 | 43 | 35 | 35 | 35 | 35 |
| Contract liabilities | 2,937 | 2,725 | 2,427 | 2,606 | 2,601 | 2,676 |
| Deferred income | 17 | 17 | 17 | 20 | 21 | 22 |
| Other non-current liabilities | 67 | 56 | 40 | 40 | 40 | 40 |
| Total liabilities | 84 | 73 | 57 | 60 | 61 | 62 |
| Share capital | 509 | 563 | 563 | 563 | 563 | 563 |
| Retained earnings | (3,584) | 7,392 | 7,303 | 8,379 | 9,626 | 11,012 |
| Total shareholders equity | (3,075) | 7,955 | 7,865 | 8,942 | 10,189 | 11,574 |
| Minority interest | 1,358 | 1,405 | 1,723 | 1,723 | 1,723 | 1,723 |
| Total equity and liabilities | 25,598 | 28,775 | 28,868 | 29,683 | 31,367 | 33,284 |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|----------------|--------------|--------------|--------------|--------------|--------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | (76) | 654 | 797 | 1,079 | 1,256 | 1,413 |
| Depreciation & amortization | 37 | 52 | 60 | 69 | 79 | 89 |
| Tax paid | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in working capital | 676 | 843 | 1,024 | 1,146 | 1,325 | 1,474 |
| Others | 178 | (811) | (1,519) | (1,330) | (1,396) | (1,394) |
| Net cash from operations | 815 | 737 | 362 | 963 | 1,264 | 1,583 |
| Investing | | | | | | |
| Capital expenditure | (19) | (45) | (60) | (60) | (60) | (60) |
| Acquisition of subsidiaries/ investments | (1) | 0 | 0 | 0 | 0 | 0 |
| Net proceeds from disposal of short-term investments | 21,853 | 0 | 0 | 0 | 0 | 0 |
| Others | (23,369) | (925) | 777 | 0 | 0 | 0 |
| Net cash from investing | (1,536) | (970) | 717 | (60) | (60) | (60) |
| Financing | | | | | | |
| Net borrowings | (76) | 569 | (330) | 0 | 0 | 0 |
| Others | (552) | 1,279 | 309 | 0 | 0 | 0 |
| Net cash from financing | (629) | 1,848 | (21) | 0 | 0 | 0 |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 4,316 | 2,967 | 4,582 | 5,640 | 6,544 | 7,747 |
| Cash at the end of the year | 2,967 | 4,582 | 5,640 | 6,544 | 7,747 | 9,270 |
| GROWTH | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Revenue | 32.5% | 24.8% | 0.4% | 0.4% | 4.3% | 2.9% |
| Gross profit | 38.9% | 38.6% | 5.9% | 4.2% | 7.3% | 5.6% |
| Operating profit | 57.0% | 11.9% | 11.1% | 35.6% | 15.8% | 11.2% |
| Net profit | na | na | 25.0% | 28.4% | 16.4% | 12.5% |
| Adj. net profit | 55.3% | 29.8% | 7.3% | 28.4% | 16.4% | 12.5% |
| PROFITABILITY | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 2.8% | 3.2% | 3.3% | 3.5% | 3.6% | 3.6% |
| Operating margin | 1.0% | 0.9% | 1.0% | 1.3% | 1.4% | 1.6% |
| Adj. net profit margin | 0.8% | 0.8% | 0.8% | 1.1% | 1.2% | 1.3% |
| Return on equity (ROE) | na | 22.9% | 8.8% | 10.7% | 10.9% | 10.8% |
| GEARING/LIQUIDITY/ACTIVITIES | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Net debt to equity (x) | na | (0.4) | (0.4) | (0.7) | (0.7) | (0.8) |
| Current ratio (x) | 1.1 | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 |
| Receivable turnover days | 12.5 | 12.8 | 13.2 | 13.2 | 13.5 | 13.3 |
| Inventory turnover days | 14.2 | 11.8 | 11.5 | 11.4 | 10.8 | 10.9 |
| Payable turnover days | 76.8 | 70.5 | 73.6 | 73.8 | 70.6 | 70.6 |
| VALUATION | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| P/E (diluted) | 43.9 | 45.5 | 35.5 | 27.6 | 23.7 | 21.1 |
| P/B | NA | 1.6 | 1.6 | 1.4 | 1.2 | 1.1 |

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

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| | |
|-----------------------|---|
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