

Horizon CD (9930 HK)

2023 earnings in line; 15% share price pullback looks overdone

Horizon CD's core net profit in 2023 grew 10% YoY to RMB1bn, in line with our expectation. While the lack of dividend payout is disappointing given that positive free cash flow is achieved, we believe the 15% share price pullback yesterday was overdone. We revise down our 2024E-25E earnings forecast by 6-7%, as (1) we lower our operating lease service revenue given less capex will be spent on equipment, (2) we revise down the rental rate given the continuous downtrend. These two factors could be slightly offset by the positive impact from the lower depreciation expense after the change in accounting policy starting this year. On the valuation front, we no longer apply 13x target P/E as it's less likely to be reached after the recent removal from the Stock Connect. Our new TP of HK\$3.7 is based on 9x 2024E P/E, which is 10% discount to the current P/E of **Huatie (603300 CH, NR)**. Horizon CD is trading at only 3x 2024E P/E, suggesting that the market is giving almost no value to any potential earnings growth.

- **Key highlights in 2023 results:** Total revenue grew 22% YoY to RMB9.6bn. Gross margin contracted 0.7ppt YoY to 39.1%, as platform & engineering business (lower margin) grew faster than operating lease services. Selling & distribution expense ratio increased 1.2ppt YoY to 5.4%. For the sake of prudence, Horizon increased the net expected credit loss (ECL) ratio by 1.5ppt YoY to 2.9%. Excluding the listing expense as well as the interest expense & FX change from the redemption liabilities on pre-IPO investment, core net profit grew 10% YoY to RMB1.04bn. Operating cash inflow increased 40% YoY to RMB3.95bn. With net capex of only ~RMB1.8bn, Horizon achieved free cash flow of RMB2.1bn. Net debt to equity ratio dropped to 147% at end 2023 (vs 286% in Dec 2022).
- **Operating lease services (53.5% of revenue).** The segment revenue dropped 1% YoY to RMB5.1bn in 2023 (-9% YoY in 2H23), as the decrease in rental rates offset the increase in the overall utilisation rate. As at end 2023, Horizon had 494 service outlets (4 overseas) and 232k customers (+47% YoY).
- **Engineering & technical services (30.8% of revenue).** The segment revenue grew 39% YoY to RMB2.9bn in 2023 (accelerated in 2H23), with gross margin reduced by 0.8ppt YoY to 29.2%.
- **Platform & other services (15.7% of revenue).** The segment revenue surged 1.7x YoY to RMB1.5bn in 2023. Breakdown: (1) Platform service revenue surged 3x YoY to RMB984mn, driven by the adoption of asset-light model for AWP business. The managed fleet size of AWP grew >1.6x YoY to 56.7k units. (2) Trade and others revenue grew 72% YoY to RMB522mn. The segment gross margin expanded 8.7ppt to 40.2%.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	7,878	9,611	10,908	12,150	13,269
YoY growth (%)	28.3	22.0	13.5	11.4	9.2
Adjusted net profit (RMB mn)	944.8	1,043.0	1,204.3	1,469.7	1,717.9
YoY growth (%)	28.2	10.4	15.5	22.0	16.9
EPS (Adjusted) (RMB)	0.33	0.34	0.38	0.46	0.54
Consensus EPS (RMB)	na	0.00	0.38	0.48	0.00
P/E (x)	na	3.8	3.1	2.6	2.2
P/B (x)	na	0.4	0.3	0.3	0.3
Yield (%)	na	0.0	4.8	5.9	6.9
ROE (%)	10.5	11.0	10.6	11.6	12.3
Net gearing (%)	286.4	147.2	118.3	89.0	64.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$3.70
 (Previous TP) HK\$5.20
Up/Downside 189.1%
Current Price HK\$1.28

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Stock Data

Mkt Cap (HK\$ mn)	4,092.5
Avg 3 mths t/o (HK\$ mn)	6.9
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	3197.2

Source: FactSet

Shareholding Structure

Far East Horizon	66.7%
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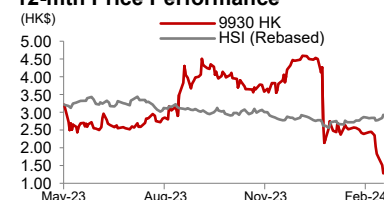
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-49.2%	-53.2%
3-mth	-68.4%	-69.7%
6-mth	-70.2%	-68.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

Horizon CD - Sell-off unjustified; expect pressure to end in 2-3 days; BUY on price weakness - 13 Mar 2024 ([link](#))

Horizon CD - Expect solid 2023E earnings; Higher free float to boost valuation - 10 Jan 2024 ([link](#))

Horizon CD - 1H23 core profit +10% YoY; positive on the structural growth and mgmt. execution - 9 Aug 2023 ([link](#))

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

Figure 1: Key highlights for 2023 results

YE Dec 31 (RMB mn)	2022	2023	Change (YoY)
Revenue			
Operating lease services	5,190	5,139	-1.0%
Engineering and technical services	2,137	2,965	38.8%
Platform and other services	551	1,507	173.4%
Total revenue	7,878	9,611	22.0%
Cost of sales	-4,745	-5,849	23.3%
Gross profit	3,133	3,761	20.1%
Other income (government grants and others)	111	162	45.5%
Other gains and losses	35	32	-6.9%
S&D expenses	-341	-516	51.4%
Administrative expenses	-864	-1,077	24.7%
Expected credit losses of financial & contract	-110	-283	157.4%
Other expenses	-157	-34	-78.4%
EBIT	1,807	2,045	13.2%
Net finance income/(expense)	-913	-819	-10.4%
Finance income	11	16	37.2%
Finance expenses	-925	-834	-9.8%
Share of profit of JV and associates	0	0	n/a
Pretax profit	894	1,227	37.2%
Income tax	-227	-264	16.2%
After tax profit	667	962	44.4%
MI	0	0	n/a
Net profit	667	962	44.4%
Core net profit	945	1,043	10.4%
D&A	2,273	2,435	7.1%
EBITDA	4,081	4,480	9.8%

Source: Company data, CMBIGM

Figure 2: Key highlights for 2H23

YE Dec 31 (RMB mn)	1H22	1H23	Change (YoY)	2H22	2H23	Change (YoY)
Revenue						
Operating lease services	2,306	2,506	8.7%	2,884	2,634	-8.7%
Engineering and technical services	1,055	1,141	8.1%	1,082	1,824	68.6%
Platform and other services	204	560	174.0%	347	947	173.1%
Total revenue	3,565	4,206	18.0%	4,312	5,405	25.3%
Cost of sales	-2,194	-2,770	26.2%	-2,550	-3,079	20.8%
Gross profit	1,371	1,436	4.8%	1,762	2,325	31.9%
Other income	71	79	11.7%	40	83	105.0%
Other gains and losses	13	25	98.1%	22	8	-65.9%
S&D expenses	-254	-122	-52.2%	-86	-394	356.3%
Administrative expenses	-356	-436	22.6%	-508	-641	26.2%
Expected credit losses of financial & contract assets, net	-80	-167	108.6%	-30	-116	288.9%
Other expenses	-89	-31	-65.6%	-68	-3	-95.3%
EBIT	675	785	16.3%	1,132	1,260	11.3%
Net finance income/(expense)	-430	-447	4.0%	-484	-372	-23.2%
Finance income	5	8	52.4%	6	8	25.0%
Finance expenses	-435	-455	4.5%	-490	-380	-22.5%
Share of profit of JV and associates	0	0	n/a	0	0	n/a
Pretax profit	245	338	37.8%	649	889	37.0%
Income tax	-86	-101	17.2%	-141	-164	15.6%
After tax profit	159	237	49.0%	507	725	42.9%
MI	0	0	n/a	0	0	n/a
Net profit	159	237	49.0%	507	725	42.9%
Core net profit	289	318	9.7%	655	725	10.7%
D&A	1,089	1,181	8.4%	1,185	1,255	5.9%
EBITDA	1,764	1,965	11.4%	2,317	2,515	8.6%
Non-operating or one-off gains/(loss)	-130	-81	-38.2%	-148	0	-100.0%
Listing expense	-5	-13	129.2%	-35	0	-100.0%
FX change & others	-125	-68	-45.5%	-113	0	-100.0%
Key ratios			Change (ppt)			Change (ppt)
Gross margin	38.4%	34.1%	-4.3	40.9%	43.0%	2.2
S&D expense ratio	7.1%	2.9%	-4.2	2.0%	7.3%	5.3
Admin expense ratio	10.0%	10.4%	0.4	11.8%	11.9%	0.1
Expected credit loss ratio	2.3%	4.0%	1.7	0.7%	2.1%	1.5
Core net margin	8.1%	7.6%	-0.6	15.2%	13.4%	-1.8

Source: Company data, CMBIGM

Figure 3: Change in key operating assumptions for Horizon CD

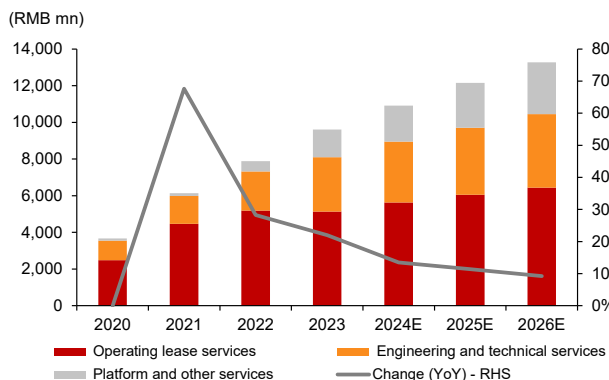
	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue (RMB mn)									
Operating lease services	5,980	6,473	-	5,629	6,049	6,436	-5.9%	-6.5%	-
Engineering and technical services	2,728	3,055	-	3,320	3,652	4,018	21.7%	19.5%	-
Platform and other services	1,791	2,328	-	1,959	2,448	2,816	9.4%	5.2%	-
Total revenue	10,499	11,857	-	10,908	12,150	13,269	3.9%	2.5%	-
Gross margin								ppt	
Operating lease services	42.0%	42.0%	-	42.8%	42.8%	42.8%	0.8	0.8	-
Engineering and technical services	28.0%	28.0%	-	28.0%	28.0%	28.0%	0.0	0.0	-
Platform and other services	36.0%	36.0%	-	36.0%	36.0%	36.0%	0.0	0.0	-
Blended	37.3%	37.2%	-	37.1%	37.0%	36.9%	-0.3	-0.2	-
Key expense ratios								ppt	
S&D expenses	3.0%	3.0%	-	5.0%	5.0%	5.0%	2.0	2.0	-
Administrative expenses	10.8%	10.7%	-	10.8%	10.7%	10.7%	0.0	0.0	-
Expected credit losses of financial & contract assets, net	2.0%	2.0%	-	2.0%	2.0%	2.0%	0.0	0.0	-
Net finance expense (RMB mn)	-687	-593	-	-702	-604	-488	2.2%	1.8%	-
Reported net profit	1,285	1,575	-	1,204	1,470	1,718	-6.3%	-6.7%	-
Core net profit	1,285	1,575	-	1,204	1,470	1,718	-6.3%	-6.7%	-

Source: Company data, CMBIGM estimates

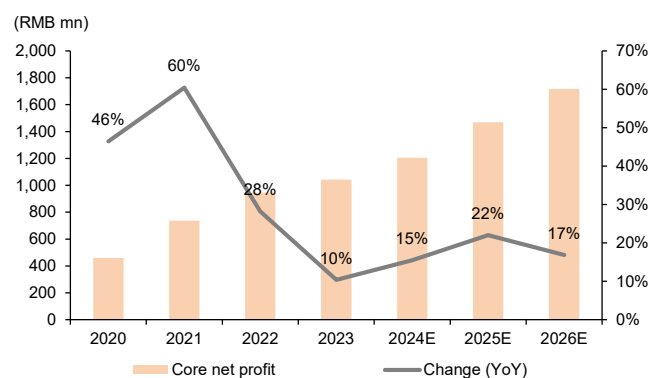
Figure 4: Key operating assumptions for Horizon CD

	2021	2022	2023	2024E	2025E	2026E
Revenue (RMB mn)						
Operating lease services	4,463	5,190	5,139	5,629	6,049	6,436
Engineering and technical services	1,519	2,137	2,965	3,320	3,652	4,018
Platform and other services	159	551	1,507	1,959	2,448	2,816
Total revenue	6,141	7,878	9,611	10,908	12,150	13,269
Gross margin						
Operating lease services	53.1%	44.7%	44.6%	42.8%	42.8%	42.8%
Engineering and technical services	29.1%	30.0%	29.2%	28.0%	28.0%	28.0%
Platform and other services	19.6%	31.5%	40.2%	36.0%	36.0%	36.0%
Blended	46.3%	39.8%	39.1%	37.1%	37.0%	36.9%

Source: Company data, CMBIGM estimates

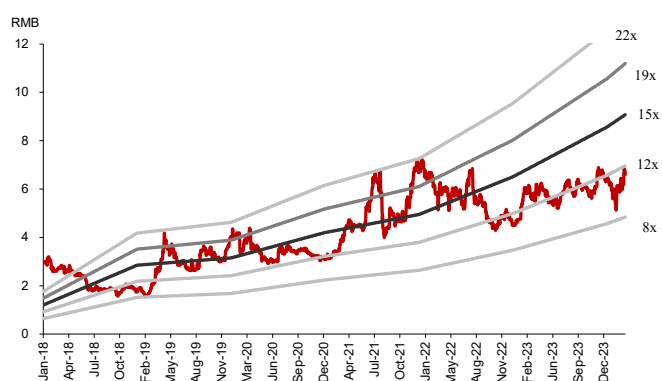
Figure 5: Revenue forecast

Source: Company data, CMBIGM estimates

Figure 6: Adjusted net profit and growth

Source: Company data, CMBIGM estimates

Figure 7: Huatie's P/E band



Source: Bloomberg, CMBIGM

Key risks: (1) a fall in rental rates and utilisation rates; (2) weakness of manufacturing capex; and (3) unsuccessful overseas expansion.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	6,141	7,878	9,611	10,908	12,150	13,269
Cost of goods sold	(3,295)	(4,745)	(5,849)	(6,864)	(7,657)	(8,376)
Gross profit	2,846	3,133	3,761	4,044	4,493	4,893
Selling expense	(452)	(341)	(516)	(545)	(608)	(663)
Admin expense	(745)	(864)	(1,077)	(1,178)	(1,300)	(1,420)
Others	(304)	(110)	(283)	(218)	(243)	(265)
Other income	219	111	162	142	146	159
Other expense	(52)	(157)	(34)	(33)	(36)	(40)
Other gains/(losses)	32	35	32	35	36	27
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	3,197	4,081	4,480	4,440	4,730	4,980
Depreciation	1,653	2,273	2,435	2,194	2,242	2,290
EBIT	1,544	1,807	2,045	2,246	2,488	2,690
Interest income	9	11	16	15	13	9
Interest expense	(650)	(925)	(834)	(718)	(617)	(497)
Net Interest income/(expense)	(641)	(913)	(819)	(702)	(604)	(488)
Pre-tax profit	902	894	1,227	1,544	1,884	2,202
Income tax	(193)	(227)	(264)	(340)	(415)	(485)
Minority interest	0	0	0	0	0	0
Net profit	710	667	962	1,204	1,470	1,718
Adjusted net profit	737	945	1,043	1,204	1,470	1,718

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,972	10,340	11,122	12,136	12,011	12,482
Cash & equivalents	507	2,159	2,167	2,259	1,417	1,270
Account receivables	4,198	4,487	5,030	5,729	6,322	6,765
Inventories	291	186	170	244	218	241
Prepayment	2,055	2,104	2,122	2,122	2,122	2,122
ST bank deposits	13	63	0	0	0	0
Financial assets at FVTPL	480	1,036	1,237	1,387	1,537	1,687
Other current assets	150	0	13	13	13	13
Contract assets	277	304	384	384	384	384
Non-current assets	18,988	19,952	20,115	18,721	17,279	15,790
PP&E	18,278	19,102	18,221	16,828	15,387	13,898
Right-of-use assets	321	335	978	978	978	978
Deferred income tax	264	333	349	349	349	349
Investment in JVs & assos	0	0	0	0	0	0
Other non-current assets	125	181	567	566	565	564
Total assets	26,961	30,292	31,237	30,858	29,291	28,271
Current liabilities	7,990	8,191	9,282	8,298	6,642	5,125
Short-term borrowings	5,065	6,143	6,695	5,695	3,695	2,195
Account payables	1,436	1,110	1,552	1,569	1,913	1,896
Tax payable	166	141	174	174	174	174
Other current liabilities	0	0	0	0	0	0
Lease liabilities	66	60	192	192	192	192
Accrued expenses	1,258	737	669	669	669	669
Non-current liabilities	12,959	15,426	11,178	10,578	9,378	8,378
Long-term borrowings	12,633	15,069	10,645	10,045	8,845	7,845
Deferred income	17	17	15	15	15	15
Other non-current liabilities	309	340	518	518	518	518
Total liabilities	20,950	23,617	20,459	18,876	16,020	13,503
Total shareholders equity	6,011	6,675	10,778	11,982	13,271	14,768
Minority interest	0	0	0	0	0	0
Total equity and liabilities	26,961	30,292	31,237	30,858	29,291	28,271

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	902	894	1,227	1,544	1,884	2,202
Depreciation & amortization	1,653	2,273	2,435	2,194	2,242	2,290
Tax paid	(202)	(321)	(288)	(340)	(415)	(485)
Change in working capital	(691)	(1,161)	(528)	(1,124)	(617)	(899)
Others	786	1,138	1,104	921	847	753
Net cash from operations	2,449	2,823	3,950	3,195	3,942	3,862
Investing						
Capital expenditure	(10,319)	(3,613)	(1,836)	(800)	(800)	(800)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(152)	150	4	15	13	9
Net cash from investing	(10,471)	(3,463)	(1,832)	(785)	(787)	(791)
Financing						
Dividend paid	0	0	0	0	(181)	(220)
Net borrowings	8,485	3,293	(2,408)	(1,600)	(3,200)	(2,500)
Proceeds from share issues	1,326	0	1,488	0	0	0
Others	(1,441)	(1,007)	(1,194)	(718)	(617)	(497)
Net cash from financing	8,370	2,286	(2,113)	(2,318)	(3,998)	(3,218)
Net change in cash						
Cash at the beginning of the year	166	507	2,159	2,167	2,259	1,417
Exchange difference	(8)	6	2	0	0	0
Cash at the end of the year	507	2,159	2,167	2,259	1,417	1,270
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	67.6%	28.3%	22.0%	13.5%	11.4%	9.2%
Gross profit	72.7%	10.1%	20.1%	7.5%	11.1%	8.9%
EBITDA	69.6%	27.6%	9.8%	(0.9%)	6.5%	5.3%
EBIT	66.3%	17.1%	13.2%	9.8%	10.8%	8.1%
Net profit	58.3%	(6.1%)	44.4%	25.1%	22.0%	16.9%
Adj. net profit	60.4%	28.2%	10.4%	15.5%	22.0%	16.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	46.3%	39.8%	39.1%	37.1%	37.0%	36.9%
EBITDA margin	52.1%	51.8%	46.6%	40.7%	38.9%	37.5%
Adj. net profit margin	12.0%	12.0%	10.9%	11.0%	12.1%	12.9%
Return on equity (ROE)	12.5%	10.5%	11.0%	10.6%	11.6%	12.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	2.9	2.9	1.5	1.2	0.9	0.6
Current ratio (x)	1.0	1.3	1.2	1.5	1.8	2.4
Receivable turnover days	199.9	201.2	180.7	180.0	181.0	180.0
Payable turnover days	129.2	97.9	83.1	83.0	83.0	83.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	na	na	3.8	3.1	2.6	2.2
P/B	na	na	0.4	0.3	0.3	0.3
Div yield (%)	na	na	0.0	4.8	5.9	6.9

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

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