

# Horizon CD (9930 HK)

## Sell-off unjustified; expect pressure to end in 2-3 days; BUY on price weakness

Horizon CD's share price declined 50% over the past two days, which we believe was a result of share sales from some shareholders of **FE Horizon (3360 HK)** who need to cash in, regardless of share price level, to fulfil their own financial purposes. While we are surprised by the lack of buying force, our analysis suggests that it would only take another 2-3 days to digest the selling pressure. We see the sharp pullback a buying opportunity as the sell-off is not fundamentally driven. Horizon CD is trading at 5x 2024E P/E, which is attractive in our view. We believe its transformation to the asset-light model will enhance balance sheet and earnings. The overseas expansion will become a new growth driver over the coming years. Maintain **BUY**.

- **Rising trading volume following the distribution of shares.** A total of 160mn Horizon CD's shares were distributed to the shareholders of FE Horizon on 16 Jan. Trading volume of Horizon CD on 17/18 Jan amounted to 6.6mn/15mn, much higher than the two-month average of 0.37mn. We assume the incremental trading volume came largely from the shareholders of FE Horizon.
- **Our estimate on maximum potential share sales.** Sinochem is the largest shareholder of FE Horizon with 21.3% interest. Fanxing KONG, the CEO of FE Horizon, owns a 20.8% stake. DCP Capital Partners, an institutional investor with a seat in the board, owns 8.4%. We believe these three major shareholders, with a total of ~50.5% interest combined, have no intention to sell the shares of Horizon CD. Therefore, assuming the remaining shareholders of FE Horizon to offload all the shares of Horizon CD, there are a total of ~79mn shares to be sold potentially. Subtracting the trading volume over the past two days and assuming 20mn trading volume per day going forward, it would take another 2-3 days to complete the remaining share sales.
- **Maintain BUY.** We maintain our TP of HK\$5.2, based on 13x P/E which is equivalent to the two-year average P/E of **Huatie (603300 CH, NR)**. Key drivers: (1) solid 2023E earnings to be released on 12 Mar, and (2) better liquidity.
- **Key risks:** (1) reduction of rental rates and utilisation rates; (2) weakness of manufacturing capex; and (3) unsuccessful overseas expansion.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	6,141	7,878	8,933	10,499	11,857
YoY growth (%)	67.6	28.3	13.4	17.5	12.9
Adjusted net profit (RMB mn)	736.8	836.7	1,006.2	1,284.7	1,574.9
EPS (Adjusted) (RMB)	0.26	0.30	0.33	0.40	0.49
Consensus EPS (RMB)	na	na	0.33	0.39	0.49
P/E (x)	na	na	6.4	4.9	4.0
P/B (x)	na	na	0.7	0.6	0.5
Yield (%)	na	na	2.3	3.1	3.8
ROE (%)	12.5	10.5	11.8	13.4	14.5
Net gearing (%)	287.9	286.4	178.3	140.4	105.5

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$5.20  
 (Previous TP) HK\$5.20  
**Up/Downside** 143.0%  
**Current Price** HK\$2.14

### China Capital Goods

**Wayne FUNG, CFA**

(852) 3900 0826

waynefung@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	6,842.1
Avg 3 mths t/o (HK\$ mn)	0.7
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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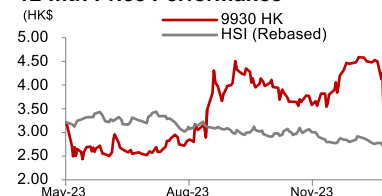
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-50.5%	-46.5%
3-mth	-47.9%	-40.0%
6-mth	-17.1%	2.5%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related reports:

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

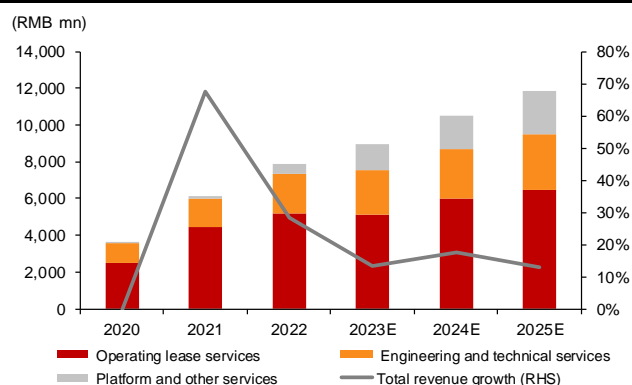
Horizon CD - 1H23 core profit +10% YoY; positive on the structural growth and mgmt. execution – 9 Aug 2023 ([link](#))

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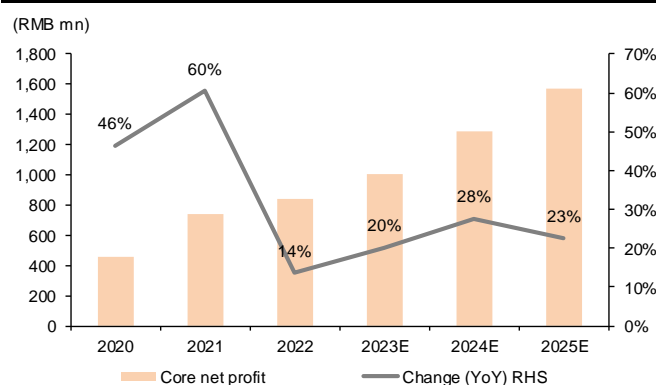
**Figure 1: Key operating assumptions for Horizon**

	2020	2021	2022	2023E	2024E	2025E
<b>Revenue (RMB mn)</b>						
Operating lease services	2,485	4,463	5,190	5,119	5,980	6,473
Engineering and technical services	1,063	1,519	2,137	2,436	2,728	3,055
Platform and other services	116	159	551	1,378	1,791	2,328
<b>Total revenue</b>	<b>3,664</b>	<b>6,141</b>	<b>7,878</b>	<b>8,933</b>	<b>10,499</b>	<b>11,857</b>
<b>Gross margin</b>						
Operating lease services	52.3%	53.1%	44.7%	41.0%	42.0%	42.0%
Engineering and technical services	28.8%	29.1%	30.0%	28.0%	28.0%	28.0%
Platform and other services	37.2%	19.6%	31.5%	37.0%	36.0%	36.0%
<b>Blended</b>	<b>45.0%</b>	<b>46.3%</b>	<b>39.8%</b>	<b>36.8%</b>	<b>37.3%</b>	<b>37.2%</b>

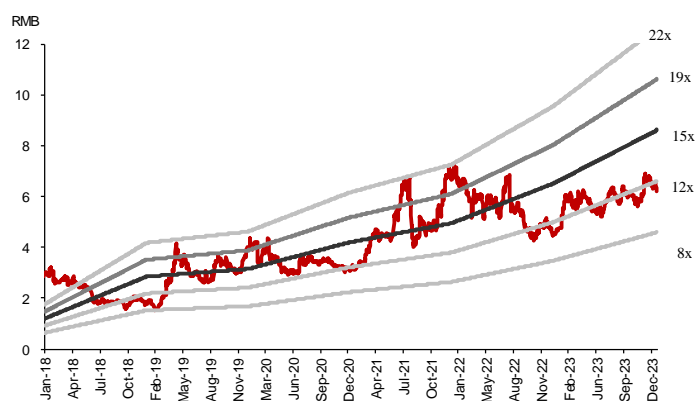
Source: Company data, CMBIGM estimates

**Figure 2: Revenue forecast**

Source: Company data, CMBIGM estimates

**Figure 3: Adjusted net profit and growth**

Source: Company data, CMBIGM estimates

**Figure 4: Huatie's P/E band**

Source: Bloomberg, CMBIGM

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	3,664	6,141	7,878	8,933	10,499	11,857
Cost of goods sold	(2,015)	(3,295)	(4,745)	(5,642)	(6,579)	(7,445)
<b>Gross profit</b>	<b>1,648</b>	<b>2,846</b>	<b>3,133</b>	<b>3,291</b>	<b>3,920</b>	<b>4,413</b>
Selling expense	(273)	(452)	(341)	(223)	(315)	(356)
Admin expense	(411)	(745)	(864)	(956)	(1,134)	(1,269)
Others	(92)	(304)	(110)	(179)	(210)	(237)
Other income	22	219	111	125	136	142
Other expense	(6)	(52)	(157)	(54)	(31)	(36)
Other gains/(losses)	41	32	35	54	34	36
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
<b>EBITDA</b>	<b>1,885</b>	<b>3,197</b>	<b>4,081</b>	<b>4,454</b>	<b>4,716</b>	<b>5,069</b>
Depreciation	957	1,653	2,273	2,396	2,316	2,376
<b>EBIT</b>	<b>928</b>	<b>1,544</b>	<b>1,807</b>	<b>2,058</b>	<b>2,400</b>	<b>2,693</b>
Interest income	17	9	11	14	20	17
Interest expense	(304)	(650)	(925)	(854)	(707)	(610)
<b>Net Interest income/(expense)</b>	<b>(287)</b>	<b>(641)</b>	<b>(913)</b>	<b>(840)</b>	<b>(687)</b>	<b>(593)</b>
<b>Pre-tax profit</b>	<b>642</b>	<b>902</b>	<b>894</b>	<b>1,218</b>	<b>1,713</b>	<b>2,100</b>
Income tax	(148)	(193)	(227)	(292)	(428)	(525)
Minority interest	(45)	0	0	0	0	0
<b>Net profit</b>	<b>448</b>	<b>710</b>	<b>667</b>	<b>926</b>	<b>1,285</b>	<b>1,575</b>
<b>Adjusted net profit</b>	<b>459</b>	<b>737</b>	<b>837</b>	<b>1,006</b>	<b>1,285</b>	<b>1,575</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>4,422</b>	<b>7,972</b>	<b>10,340</b>	<b>11,077</b>	<b>11,759</b>	<b>12,233</b>
Cash & equivalents	166	507	2,159	1,422	1,830	710
Account receivables	2,530	4,198	4,487	5,596	5,910	7,084
Inventories	166	291	186	401	212	482
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
<b>Non-current assets</b>	<b>11,218</b>	<b>18,988</b>	<b>19,952</b>	<b>18,556</b>	<b>17,240</b>	<b>15,865</b>
PP&E	10,348	18,278	19,102	17,847	16,533	15,158
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
<b>Total assets</b>	<b>15,639</b>	<b>26,961</b>	<b>30,292</b>	<b>29,633</b>	<b>28,999</b>	<b>28,098</b>
<b>Current liabilities</b>	<b>4,694</b>	<b>7,990</b>	<b>8,191</b>	<b>8,001</b>	<b>6,622</b>	<b>5,538</b>
Short-term borrowings	2,435	5,065	6,143	5,143	4,143	2,143
Account payables	896	1,436	1,110	1,920	1,541	2,457
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
<b>Non-current liabilities</b>	<b>5,644</b>	<b>12,959</b>	<b>15,426</b>	<b>12,626</b>	<b>12,226</b>	<b>11,026</b>
Long-term borrowings	5,382	12,633	15,069	12,269	11,869	10,669
Deferred income	18	17	17	17	17	17
Other non-current liabilities	243	309	340	340	340	340
<b>Total liabilities</b>	<b>10,337</b>	<b>20,950</b>	<b>23,617</b>	<b>20,627</b>	<b>18,848</b>	<b>16,564</b>
<b>Total shareholders equity</b>	<b>5,301</b>	<b>6,011</b>	<b>6,675</b>	<b>9,006</b>	<b>10,152</b>	<b>11,534</b>
Minority interest	0	0	0	0	0	0
<b>Total equity and liabilities</b>	<b>15,639</b>	<b>26,961</b>	<b>30,292</b>	<b>29,633</b>	<b>28,999</b>	<b>28,098</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	642	902	894	1,218	1,713	2,100
Depreciation & amortization	957	1,653	2,273	2,396	2,316	2,376
Tax paid	(138)	(202)	(321)	(292)	(428)	(525)
Change in working capital	(782)	(691)	(1,161)	(842)	(864)	(916)
Others	349	786	1,138	1,019	897	831
<b>Net cash from operations</b>	<b>1,027</b>	<b>2,449</b>	<b>2,823</b>	<b>3,498</b>	<b>3,634</b>	<b>3,866</b>
<b>Investing</b>						
Capital expenditure	(6,809)	(10,319)	(3,613)	(1,000)	(1,000)	(1,000)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	118	(152)	150	14	20	17
<b>Net cash from investing</b>	<b>(6,691)</b>	<b>(10,471)</b>	<b>(3,463)</b>	<b>(986)</b>	<b>(980)</b>	<b>(983)</b>
<b>Financing</b>						
Dividend paid	(14)	0	0	0	(139)	(193)
Net borrowings	4,947	8,485	3,293	(3,800)	(1,400)	(3,200)
Proceeds from share issues	1,348	1,326	0	1,405	0	0
Others	(473)	(1,441)	(1,007)	(854)	(707)	(610)
<b>Net cash from financing</b>	<b>5,808</b>	<b>8,370</b>	<b>2,286</b>	<b>(3,249)</b>	<b>(2,245)</b>	<b>(4,003)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	23	166	507	2,159	1,422	1,830
Exchange difference	(1)	(8)	6	0	0	0
<b>Cash at the end of the year</b>	<b>166</b>	<b>507</b>	<b>2,159</b>	<b>1,422</b>	<b>1,830</b>	<b>710</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	na	67.6%	28.3%	13.4%	17.5%	12.9%
Gross profit	na	72.7%	10.1%	5.0%	19.1%	12.6%
EBITDA	na	69.6%	27.6%	9.1%	5.9%	7.5%
EBIT	na	66.3%	17.1%	13.9%	16.6%	12.2%
Net profit	na	58.3%	(6.1%)	38.9%	38.8%	22.6%
Adj. net profit	na	60.4%	13.6%	20.3%	27.7%	22.6%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	45.0%	46.3%	39.8%	36.8%	37.3%	37.2%
EBITDA margin	51.4%	52.1%	51.8%	49.9%	44.9%	42.8%
Adj. net profit margin	12.5%	12.0%	10.6%	11.3%	12.2%	13.3%
Return on equity (ROE)	na	12.5%	10.5%	11.8%	13.4%	14.5%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	1.6	2.9	2.9	1.8	1.4	1.1
Current ratio (x)	0.9	1.0	1.3	1.4	1.8	2.2
Receivable turnover days	205.5	199.9	201.2	206.0	200.0	200.0
Payable turnover days	199.5	129.2	97.9	98.0	96.0	98.0
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	na	na	na	6.4	4.9	4.0
P/B	na	na	na	0.7	0.6	0.5
Div yield (%)	na	na	na	2.3	3.1	3.8

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

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

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