GigaCloud (GCT US)

Data-driven B2B pioneer on large parcel logistics

As a global B2B pioneer, GCT formed a high barrier to market entry with supply chain, end-to-end logistics and data-driven operations. We believe GCT would be relatively resilient on macro uncertainty, and keep confident on its organic GMV growth and solid profitability, backed by booming demand of cross-border ecommerce and sellers & buyers expansion. Potential M&A would scale up its 1P&3P business, and bring further synergy in the long run, with improving margin ahead. We initiate BUY with TP of US$17.2, for its attractive valuation (4.8x FY23E P/E) and above-industry growth (22% earnings CAGR in FY23-25E), with multiple catalysts to come.

- **A global B2B boutique focusing on large parcel logistics.** GCT is a B2B pioneer to provide global end-to-end ecommerce solutions to trade large parcel products (e.g. furniture), for 665 active 3P sellers and 4,351 active buyers (by 2Q23). Backed by its strong edges in supply chain & logistics and data-driven technology, we forecast GCT to deliver 22% earnings CAGR in FY23-25E.

- **Well-positioned to capture overseas ecommerce & furniture retail tailwinds.** We are bullish on potential of US B2B large parcel market, backed by rising online penetration and improving furnishing needs. US furniture mkt size was US$243bn in 2022, with 35% online penetration, suggesting ample room for GCT to gain share (especially with fragmented landscape). GCT exceled itself with low-cost end-to-end supply chain solutions, flat rated pricing and strong fulfillment capability, and would benefit from price competitiveness with high manufacturing efficiency in Asia and decreasing shipping fee post China's reopening.

- **Clear growth trajectory with seller expansion and enriched offerings.** We expect GCT to tap into huge seller base in China and SEA (>10,000 furniture manufactories), as domestic manufactories are faced with fierce competition and challenging macro. With brand effect and effective marketing campaign, we forecast its 3P sellers at 34% CAGR in FY23-25E, to drive 44% 3P GMV CAGR, while SKU expansion would boost solid growth of 1P rev (forecasting 18% CAGR). We see high visibility for GCT to see earnings rebound and keep healthy margin ahead (~12% adj. NPM), with freight cost normalization.

- **Initiate with BUY.** We set our SOTP-based TP at **US$17.2** (implying **10x/8x** FY23/24E P/E)**,** largely below industry average of **18x/15x**. We think the market was overreacted on acquisition of Noble House, and such sell-offs create attractive entry points. Key catalysts: 1) potential upbeat 3Q23E; 2) strong ecommerce seasonality in 4Q23E; and 3) more updates on NH acquisition.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US$ mn)	414	490	608	756	906
YoY growth (%)	50.4	18.3	24.0	24.3	20.0
Adj. net income (US$ mn)	29	24	74	92	110
EPS (US$)	2.86	0.98	1.80	2.24	2.69
YoY growth (%)	(27.6)	(65.6)	83.2	24.6	20.0
Consensus EPS (US$)	NA	NA	1.55	1.67	NA
P/E (x)	12.2	14.9	4.8	3.9	3.2
P/S (x)	0.9	0.7	0.6	0.5	0.4
ROE (%)	29.5	12.3	33.2	27.9	24.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Initiation)

Target Price	US$17.2
Up/Downside	+98%
Current Price	US$8.7

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Stock Data

Mkt Cap (US$ mn)	356
Avg 3 mths t/o (US$ mn)	9.55
52w High/Low (US$)	18.6/ 4.1
Total Issued Shares (mn)	41

Source: Bloomberg

Shareholding Structure

Larry, Lei Wu	22.9%
DCM	19.2%
JD	10.3%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-34.2%	-30.2%
3-mth	25.0%	30.5%
6-mth	49.0%	36.5%

Source: Bloomberg

12-mth Price Performance
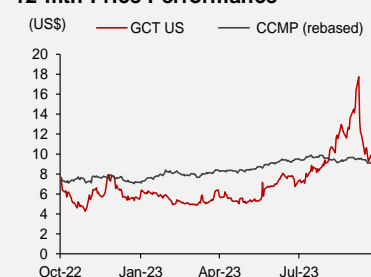
Source: Bloomberg

Auditor: KPMG

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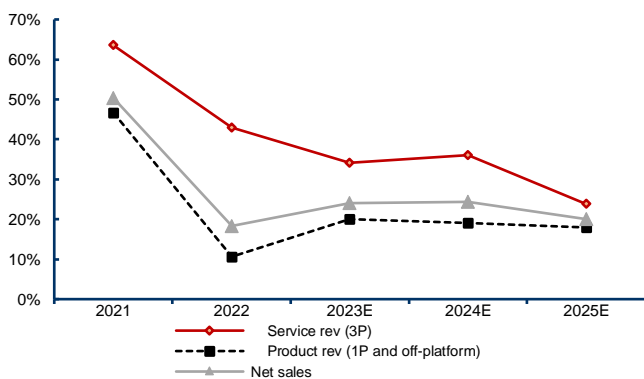
Focus Charts

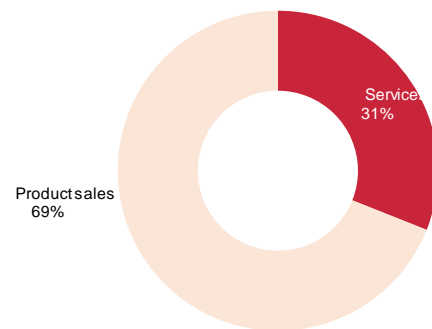### Figure 1: Overview of GigaCloud Technology

Source: Company data

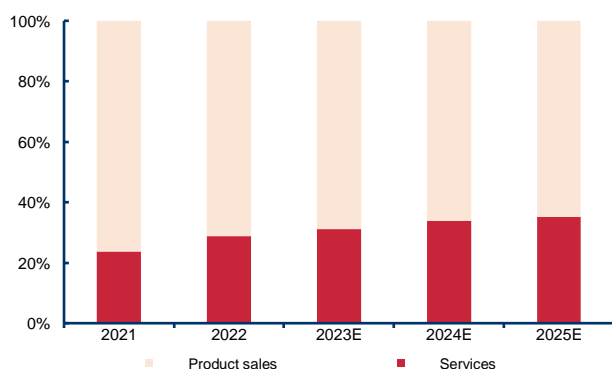### Figure 2: 22% rev CAGR in FY23-25E

Source: Company data, CMBIGM estimates

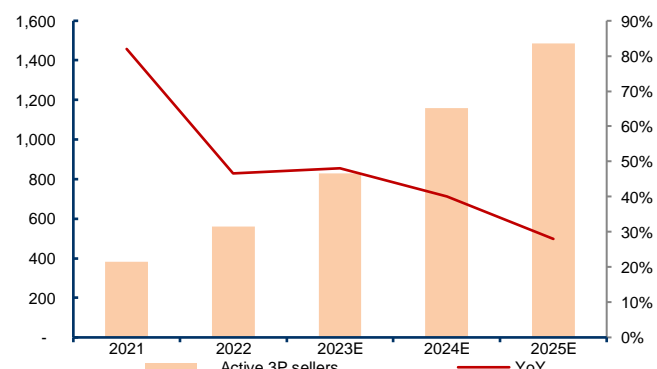### Figure 3: FY23E revenue breakdown

Source: CMBIGM estimates

Figure 4: Revenue breakdown

Source: Company data, CMBIGM estimates

Figure 5: Active 3P sellers expansion

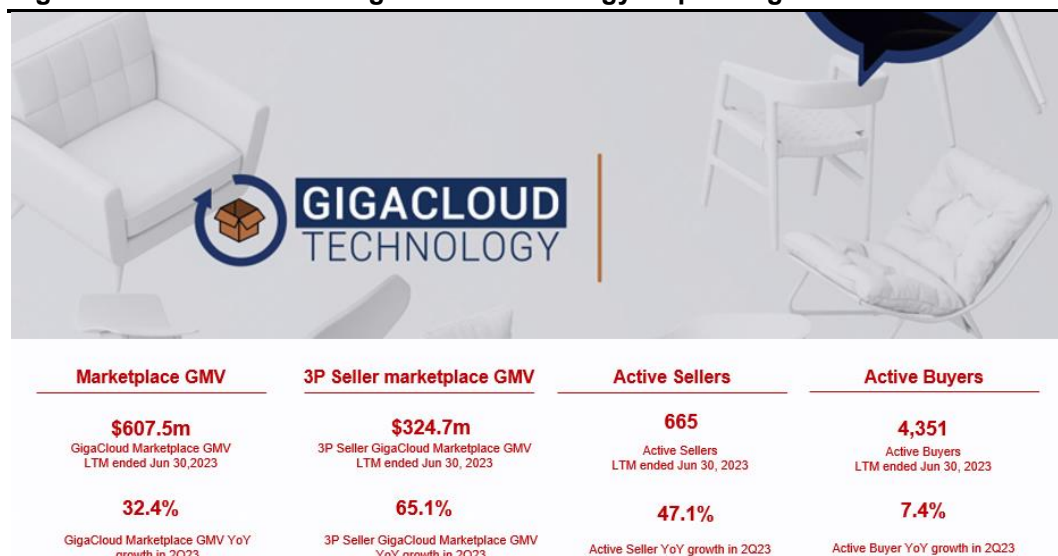Source: Company data, CMBIGM estimates

Company Overview

A global B2B marketplace provider focusing on large parcel logistics

GigaCloud Technology (GCT) is a B2B marketplace pioneer providing global end-to-end ecommerce solutions (eg. logistics tools, payments, etc.) for sellers and buyers to trade large parcel products. GigaCloud, founded in 2006, connects sellers (mostly manufacturers in Asia) with buyers (mostly resellers in the US/Europe/Asia) on a platform that allows participants to transact with one another through a digital interface.

Figure 6: The overview of GigaCloud Technology's operating matrix

Source: Company data, CMBIGM

GCT is a trusted marketplace with 665 active 3P sellers (+47% YoY in 2Q23) and 4,351 active buyers (+7.4% YoY in 2Q23), respectively. Sellers are able to leverage supply chain capabilities to approach overseas sales channels without investing in their own logistics. Buyers are offered with a broad variety of products at wholesale prices, along with a virtual warehousing solution and multiple fulfillment solutions including cloud courier, cloud wholesale fulfillment, white glove and drop shipping solutions to trade products with minimal inventory risks. Its compelling value proposition to both sellers and buyers in marketplace will position GCT as partner of choice, further boosting GMV growth.

GCT primarily focuses on large parcel products, including furniture (accounting for approximately 70%-80% of GMV, in our estimates), home appliance and other items (e.g. outdoor gardening, luggage, pet products, etc).

Figure 7: Supplier fulfilled retailing: multi-directional trade, uni-directional fulfilment
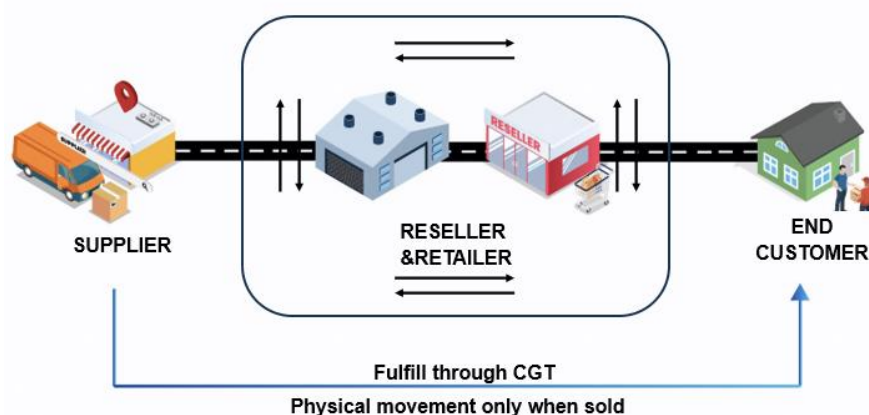
Source: Company data, CMBIGM

Figure 8: Expansion of product categories from large furniture to home appliance, fitness equipment, and gardening

Source: Company data, CMBIGM

Supply chain & end-to-end logistics make the difference

In the digital retail economy, B2B ecommerce marketplaces have emerged as a crucial solution to address the challenges faced by small to medium-sized retailers in competing with larger ecommerce platforms. The traditional supply chain model faces various pain points, including multiple touchpoints, prolonged delivery time, limited SKU selection, and high inventory carrying costs. However, GCT offers a more efficient and cost-effective alternative by leveraging B2B marketplaces and industry-leading global fulfillment capabilities.

In GigaCloud, resellers can access low-cost end-to-end supply chain solutions with fewer touchpoints. This allows them to focus on growing their sales without the need to build and manage their own supply chain. With more retailers engaged, the pooling effect of B2B marketplaces also reduces inventory risks for sellers and buyers. Furthermore, the optimization provided by a central party enhances overall efficiency for both sellers and buyers.

GCT leverages self-learning AI to enhance operational efficiency by automating global inventory management, optimizing merchandise distribution, and providing valuable market insights to suppliers. It also utilizes data analytics to offer supply chain finance solutions to high-quality suppliers. Overall, GCT aims to improve operational efficiency and enable informed decision-making in the supply chain.

Figure 9: The GigaCloud Cycle – 1P, 3P and logistics

Source: Company data, CMBIGM

Figure 10: Harnessing pooling effect to reduce inventory risk
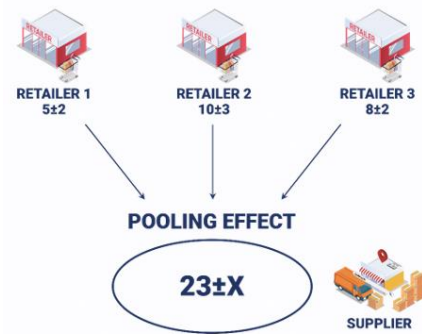
Source: Company data, CMBIGM

Expanding offering spectrum with 3P and 1P biz

GCT offers a range of physical consumer products and operates both 1P and 3P business. For 1P, it sells own inventory through 1P GigaCloud and through 1P off-platforms (third-party e-commerce sites like Amazon, Walmart, etc.). 1P biz helps GCT to expand market presence, reduce inventory and logistics risks for sellers, create more products for buyers and drive volume-based cost efficiencies for sourcing products.

3P biz generates service rev by facilitating transactions between sellers and buyers in GigaCloud Marketplace (with no inventory risk), with GMV at US$324.7mn during 1H23 (53% of total GMV vs. 50% in 2022). 3P rev accounted for 21.8%/ 23.7%/ 28.7%/ 28.3% of total revenue in 2020/ 2021/ 2022/ 1H23, respectively. As GigaCloud Marketplace continues to grow, we expect 3P rev mx to climb up ahead (excluding potential M&A).

3P expansion would increase the engagement of more sellers/buyers, with decent retention. In 2021, the annual retention rate for 3P sellers and buyers averaged 86.2% and 60.2%, respectively. As sellers and buyers are added to the marketplace, the value of the marketplace grows.

Figure 11: GCT's product overview

Revnue	Product (1P) 72% as of total rev*		Service (3P) 28% as of total rev*
Segment	On-platform 47% as of total rev*	Off-platform 26% as of total rev*	Platform Services Warehouse Services Last Mile Delivery Services Ocean Transport Services Other Services
GMV (LTM)	US$282.8mn (43% of total GMV)		US$324.7mn (57% of total GMV)
Description	The Group sells merchandise to customers who are the Buyers of the GigaCloud Marketplace. Revenue is recognized after accounting for discounts and return allowances. The recognition occurs shortly after the control of the merchandise is transferred to the Buyers, which typically happens when the Group's warehouse ships the merchandise to the Buyers' designated destination.	The Group has two business lines in Off-platform ecommerce: a) Product sales to third-party ecommerce websites: primarily Amazon, Waltmart, Wayfair and Eakuten. b) Product sales to individual customers through third-party ecommerce websites: The Group directly sells products to individual customers using these third-party platforms.	The Group charges commission fees on sales made through GigaCloud Marketplace. As an agent, the Group doesn't control the merchandise or set prices. Commission fees are a percentage of the GMV (1-5%). Customers who reach specified transaction thresholds receive retrospective credits based on their tier. Revenue is recognized when Buyers take ownership and control of the merchandise.

Source: Company data, CMBIGM
Note: * as of 1H23

Figure 12: Active buyer spending (GMV) in GigaCloud Marketplace
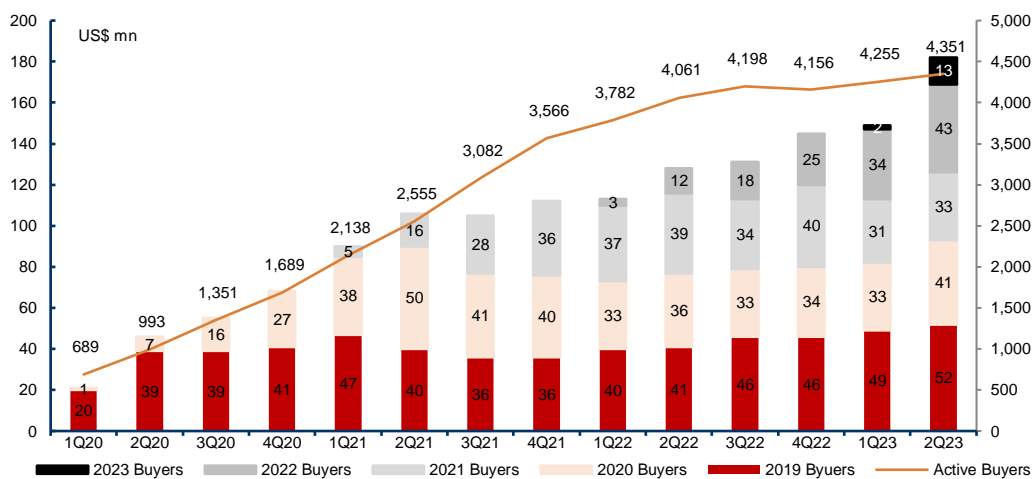
Source: Company data, CMBIGM

Better margin outlook with enhancing scale and freight cost normalization

2Q23 saw significant margin improvement, with adj. EBITDA margin up to 16%, from 6.5% in 2Q22. Such margin recovery was mainly attributable to higher GPM (26.4% in 2Q23, vs. 13.7% in 2Q22), as freight cost normalized post China's reopening. Looking ahead, we model GPM to stabilize at 24% in FY23-25E. We expect adj. EBITDA margin at teens level, specifically at 16% in FY23-25E.

GigaCloud has a healthy balance sheet with net cash of US$182mn in 2Q23, maintaining consistent profitability since 2019. Furthermore, GCT has recently initiated a repurchase plan (up to US$25mn of its Class A ordinary shares in 12 months), demonstrating its commitment to returning value to its shareholders.

Figure 13: GMV and growth
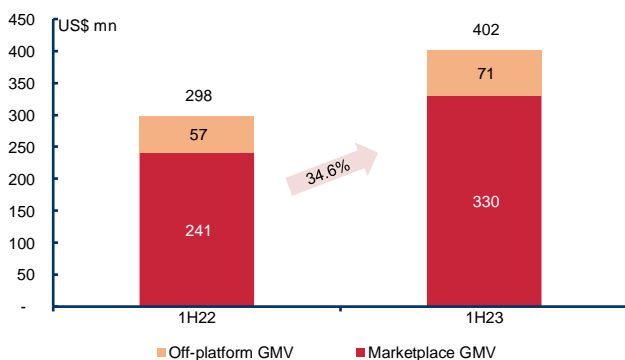
Source: Company data, CMBIGM

Figure 14: Revenue and growth

Source: Company data, CMBIGM

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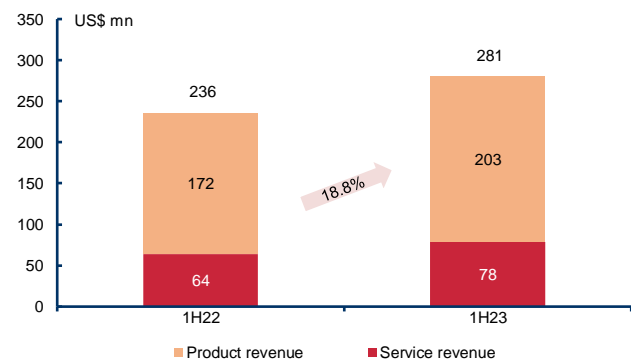
Figure 15: Gross profit and growth
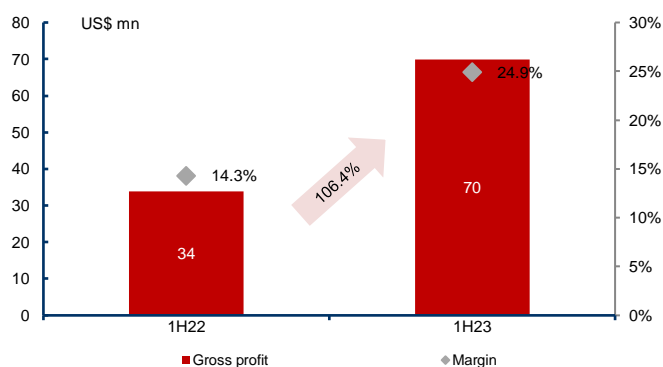
Source: Company data, CMBIGM

Figure 16: Adj. EBITDA trend
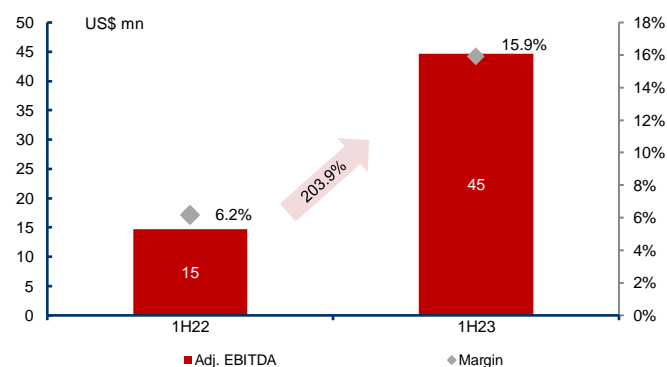
Source: Company data, CMBIGM

Investment Summary

Well-positioned to capture overseas ecommerce & furniture retail tailwinds

Riding on tailwind of rising online penetration of furniture, with fragmented market landscape

We are bullish on the potential of US B2B large parcel market, backed by rising online penetration and improving furnishing needs. According to F&S, the US B2B market is estimated at US$14.8tn, with online penetration at 9%, lagging US retail sales penetration of 14%, indicating ample room for long-term growth. US B2B ecommerce sales is expected to grow up to US$2.2tn in 2025E (from US$1.3tn in 2020), at 10.7% CAGR in 2020-2025E, based on F&S.

Among large parcel categories, furniture and home appliance are key contributors. According to Research and Markets, the US furniture market is expected to record a value of US$289bn in 2026, from US$242.5bn in 2022, suggesting 4.4% CAGR. With wider products selection and flexible shopping schedule, online penetration of the US furniture market will climb to 45% in 2025E, from 35% in 2022, based on Statista. For home appliance, online sales of home appliance will grow to US$14bn in 2025E, from US$10bn in 2020, at 6.6% CAGR in 2020-2025E (based on F&S estimates). COVID-19 boosted furnishing demand and online penetration with rising work-at-home and play-at-home needs, and we expect this trend to continue, backed by resilient WFH needs.

Figure 17: US B2B ecommerce sales
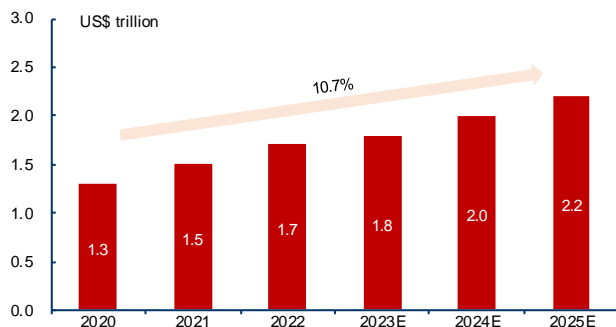
Source: F&S, CMBIGM

Figure 18: US furniture market
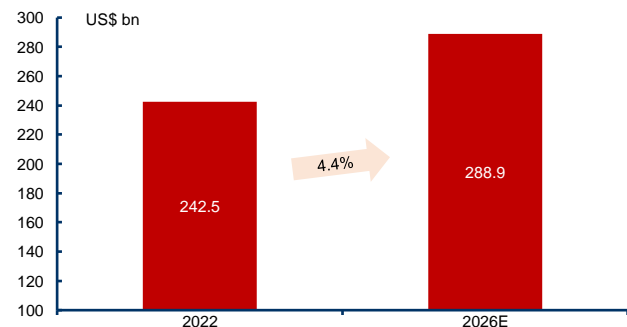
Source: Research and Markets, CMBIGM

Figure 19: Online penetration rate of US home furnishing market (2017-25E)
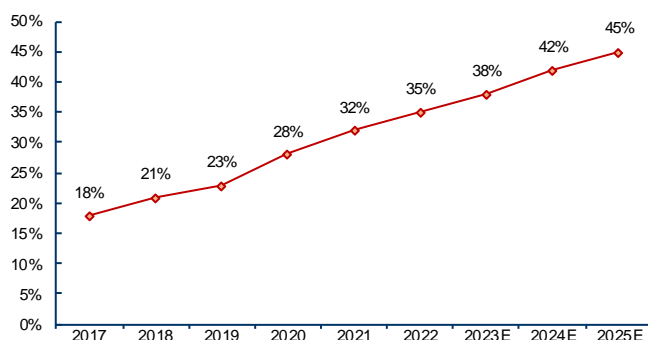
Source: Statista, CMBIGM

Figure 20: US home appliance market
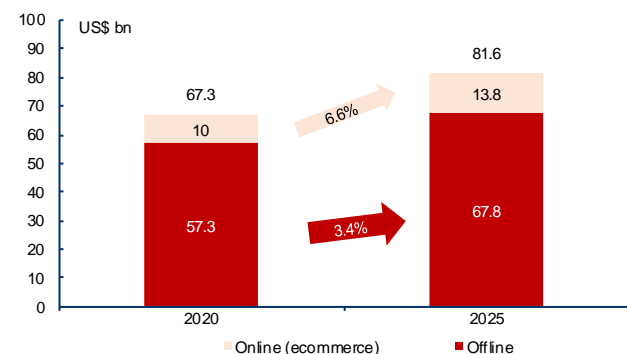
Source: F&S, CMBIGM

Figure 21: Ecommerce development in key markets (2022)

Region	Ecommerce GMV (US$ bn)	Penetration rate	YoY		Retailer CR5			Key ecommerce platforms	Properties
			Eco	Retail	Overall	Online	Offline		
North America	11,450	25%	8%	3%	31%	54%	28%	Amazon, Walmart	Well-developed offline retail; market dominated by domestic ecommerce
Western Europe	6,946	16%	-13%	3%	13%	34%	14%	Amazon, eBay, AliExpress	Developed offline retail; market dominated by cross-border ecommerce
Latin America	1,678	13%	22%	6%	14%	48%	13%	Mercado Livre, Magalu, Americanas	Developed offline retail; market dominated by domestic ecommerce
Mid/Eastern Europe	1,419	16%	24%	5%	17%	38%	18%	Wildberries, Ozon, Allegro	Developed offline retail; market dominated by domestic ecommerce
Southeast Asia	1,148	10%	29%	9%	17%	67%	4%	Shopee, Lazada, Tokopedia	Dispersed offline retail; both domestic and cross-border ecommerce thrive in the market
Middle East & Africa	694	3%	12%	16%	5%	31%	4%	Amazon, Noon, Apple	Dispersed offline retail; market dominated by cross-border ecommerce
China	16,617	27%	6%	0%	29%	89%	2%	Alibaba, JD, Pinduoduo	Dispersed offline retail; market dominated by domestic ecommerce

Source: eMarketer, Statista, Momentum Works, Euromonitor, CMBIGM

For the US furniture market, it is dominated by domestic suppliers, as imports accounted for 38% of total market size in 2022 (+7% YoY), based on Euromonitor. Vietnam and China were TOP2 import countries, and contributed 31%/27% of furniture imports for the US market in 2022. Apart from traditional players (Amazon, Walmart and Target), key US furniture vertical retailers include Wayfair, HomeGoods, IKEA, Big Lots, and La-Z-Boy.

Figure 22: US furniture market breakdown in 2022
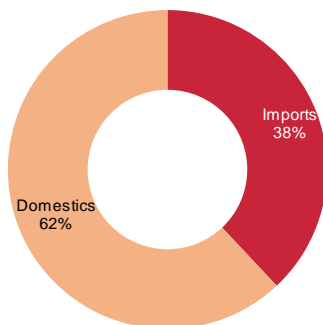
Source: Euromonitor, CMBIGM

Figure 23: 2022 import country share of US furniture
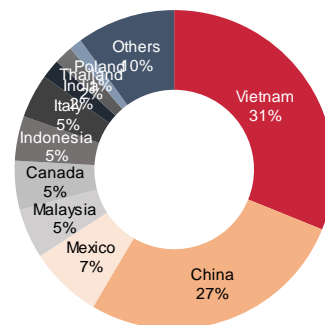
Source: Euromonitor, CMBIGM

Amazon as the largest sales channel, while MBS are fragmented. According to Furniture Today, sales of TOP25 furniture retailers in the US reached US$83.6bn in 2022 (flat YoY). DTC (direct-to-customer retailers) was the largest sales channel for US furniture market, accounting for 29.3% mkt share in 2022, followed by LFS (lifestyle furniture stores) with 18.2% share. TOP5 players accounted for 45% market share, including Amazon, Wayfair, Ashley, Walmart and William-Sonoma. Amazon's sales grew 12.5% YoY to US$12.6bn, with 15% mkt share. MBS (manufacturer-branded stores) and TF (traditional furniture stores) in US markets are fragmented, as top players with <10% market share. There is ample room for GCT to gain share, as DTC are key sales channels for GCT buyers. We think GCT is well-positioned to capture the growing US furniture ecommerce tailwinds, with its low-cost end-to-end supply chain solutions and fulfillment capability.

Figure 24: US furniture sales channel breakdown in 2022

Direct-to-consumer retailers (DTC) 29.3%	Traditional furniture stores (TF) 16.3%	Discount department stores (DDS) 14.0%
Lifestyle furniture stores (LFS) 18.2%	Manufacturer-branded stores (MBS) 9.0%	Warehouse membership clubs (WC) 5.8%
	Bedding specialty stores (BS) 7.3%	
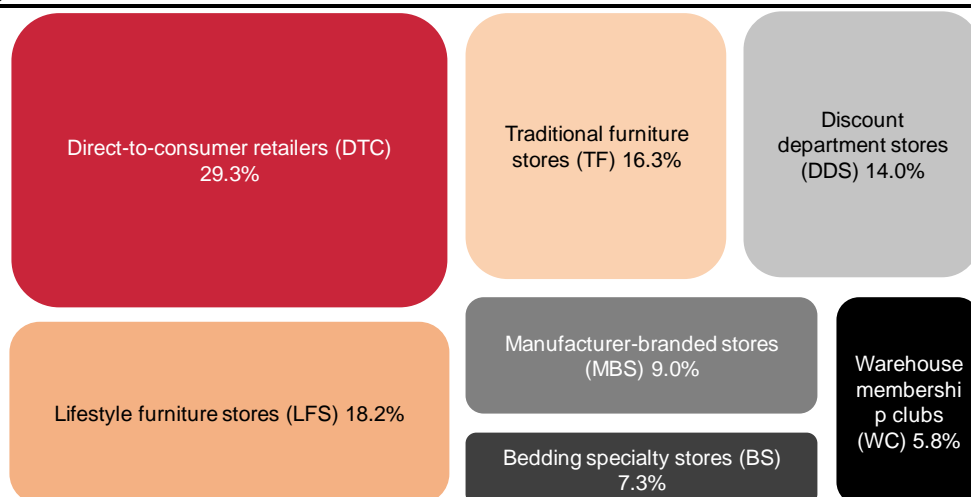
Source: Furniture Today, CMBIGM

Figure 25: Top25 furniture retailers in the US by sales in 2022

Rank	Top25 furniture retailers in the US	Sales in 2022 (US$bn)	Type of channel
1	Amazon	12.6	Direct-to-consumer retailers (DTC)
2	Wayfair	7.9	Direct-to-consumer retailers (DTC)
3	Ashley	6.1	Manufacturer-branded stores (MBS)
4	Walmart	6.0	Discount department stores/Warehouse membership clubs (DDS/WC)
5	Williams-Sonoma	4.8	Lifestyle furniture stores (LFS)
6	Costco	4.5	Warehouse membership clubs (WC)
7	Ikea	4.0	Lifestyle furniture stores (LFS)
8	Mattress Firm	4.0	Bedding specialty stores (BS)
9	Rooms to Go	3.8	Traditional furniture stores (TF)
10	RH	3.3	Lifestyle furniture stores (LFS)
11	TJX Cos.	2.6	Discount department stores (DDS)
12	Qurate Retail	2.6	Direct-to-consumer retailers (DTC)
13	Berkshire Hathaway furniture division	2.3	Traditional furniture stores (TF)
14	Bob's Discount Stores	2.1	Traditional furniture stores (TF)
15	Sleep Number	2.1	Bedding specialty stores (BS)
16	Raymour & Flanigan	2.0	Traditional furniture stores (TF)
17	Crate & Barrel	1.9	Lifestyle furniture stores (LFS)
18	Target	1.9	Discount department stores (DDS)
19	La-Z-Boy	1.5	Manufacturer-branded stores (MBS)
20	Overstock	1.4	Direct-to-consumer retailers (DTC)
21	Big Lots	1.3	Discount department stores (DDS)
22	Arhaus	1.2	Lifestyle furniture stores (LFS)
23	American Signature	1.2	Traditional furniture stores (TF)
24	Franchise Group	1.2	Traditional furniture stores/Rental stores (TF/RS)
25	Dufresne Spencer Group	1.1	Traditional furniture stores (TF)
Total		**83.6**	

Source: Furniture Today, CMBIGM

Benefiting from growing cross-border ecommerce tailwinds with supply chain advantage and decreasing shipping fee

Cross-border ecommerce solid momentum to continue. Despite slowing external demand, we expect cross-border ecommerce would continuously gain tractions, backed by favorable policies, price competitiveness with high manufacturing efficiency, and enhancing logistics capability in China and SEA. According to WJS (网经社)，China's cross-border ecommerce market size reached RMB15.7tn in 2022, +11% YoY, in which the exports value recorded RMB12.3tn, +12% YoY. Among the export destinations, US accounted for 34% of the market. China's General Administration of Customs (GAC) released a report that the value of China's cross-border e-commerce imports and exports reached 1.1tn in 1H23, +16% YoY, in which export value +20% YoY. China's government has rolled out a series of supportive measures to stimulate cross-border development, including expanding free-trade agreements to reduce tariffs, encouraging to build overseas warehouses, etc. Aggressive investments on major cross-border e-tail platforms (e.g. TEMU, Shein, Bytedance) could reinforce this trend. We think GCT would directly benefit from cross-border ecommerce tailwinds, with branding effect and more participants actively engaged (e.g. more buyers from emerging TEMU & Shein).

Figure 26: Market size of China's cross-border ecommerce and growth (2014-2022)
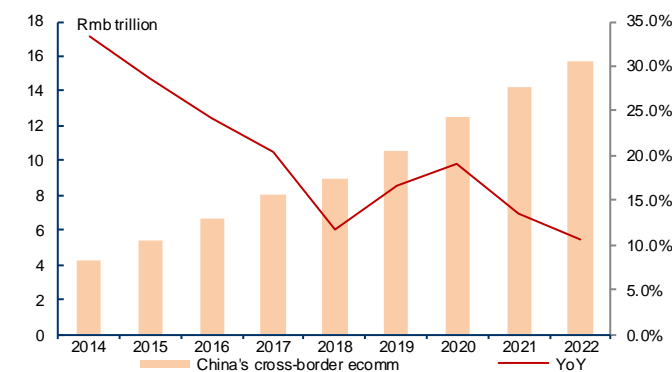
Source: WJS, CMBIGM

Figure 27: Rev mix of China's cross-border ecommerce (2013-2022)
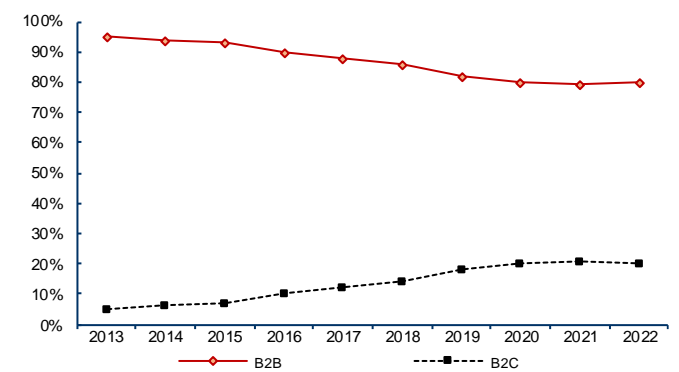
Source: WJS, CMBIGM

B2B as the largest contributor, with low competition pressure. According to GAC, B2B cross-border ecommerce accounted for 75.6% in China in 2022, still as the largest contributor. B2B e-tailer vertical is relatively fragmented with lower competition pressure, compared to B2C players.

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Figure 28: The mapping of cross-border ecommerce in 2022

Source: WJS, CMBIGM

Vietnam to be another promising supply chain country with lower costs. Apart from China, Vietnam has been the key furniture exporter to the US. In 2022, Vietnam's cross-border e-commerce export value exceeded VND80tn (US$3.5bn), +7% YoY. According to Access Partnership, the export value could grow up to VND124tn by 2027E (at 9% CAGR), or VND296tn (US$12.5bn) if local businesses are fully enabled and speed up adoption of ecommerce. No. of Vietnamese sellers on Amazon rose 80% YoY in 2022, and exports +45% YoY to over 10mn items, based on Amazon data. Vietnam sellers on GCT also saw significant growth, and we expect GCT would seize the incremental supply from Vietnam with lower costs.

Declining freight fee post-COVID-19 to drive higher margin. Shipping & freight has been disrupted severely since COVID-19. After China's reopening, ocean freight prices declined to pre-pandemic level after its peak in 4Q21. For instance, Asia-US West Coast prices decreased to around $2,000/FEU in Sep 2023, vs. US$15,000-20,000 during 4Q21 and 1Q22. Looking ahead, we expect freight cost to stabilize with less supply chain crisis and healthy new ship deliveries. Typically, freight cost is the largest expense part for cross-border platforms (apart from COGS), accounting for 10%-30% of total rev (according to China peers financial data). GCT can pass through freight costs to sellers. As such, we expect GCT would embrace solid margin outlook with declining shipping fee.

Figure 29: Baltic Exchange Dry Index (BDI)
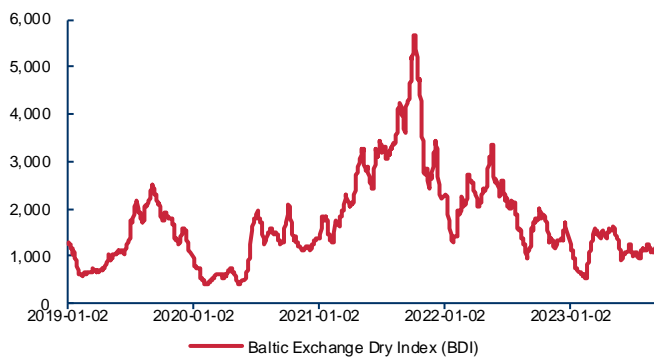
Source: Wind, CMBIGM

Figure 30: Freightos Baltic Index (FBX)
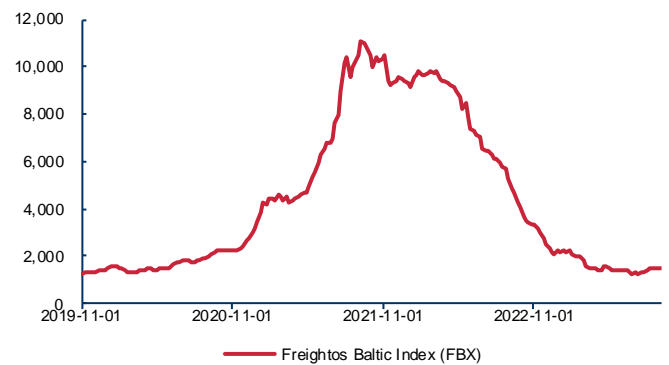
Source: Wind, CMBIGM

Figure 31: Ocean container spot rate during the pandemic
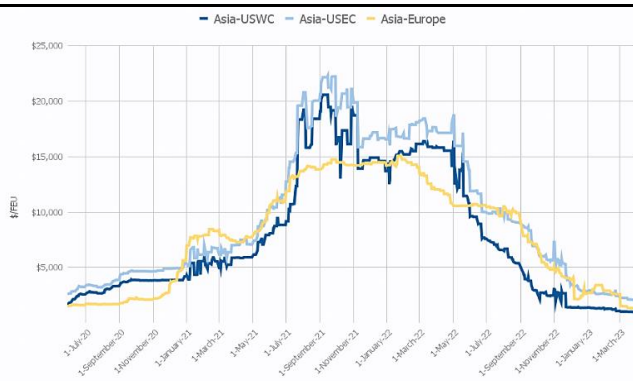
Source: Freightos, CMBIGM

Figure 32: New ship delivery and YoY growth estimate
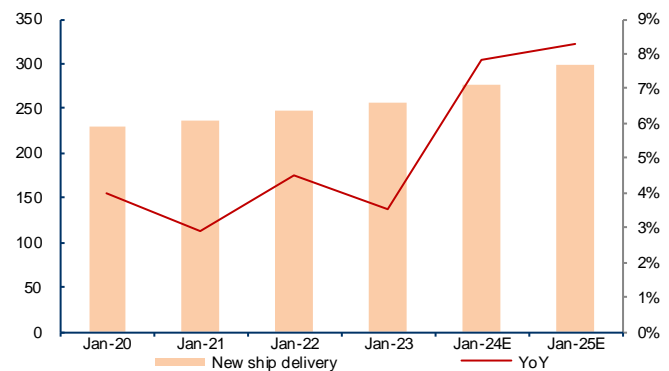
Source: BIMCO, Yiou, CMBIGM

Solid reseller recovery from Amazon issue after healthy adjustment. In the US, Amazon was TOP1 platform for Chinese sellers. In Sep 2021, Amazon closed about 3,000 Chinese-brand online merchant accounts against fake reviews. The clean-up campaign promoted healthy development for online stores in the long run. With corrective measures for operation, Chinese online merchants on Amazon resumed growth from 2H22, suggesting the seller environment to stabilize.

Figure 33: % of Chinese sellers among total sellers in Amazon
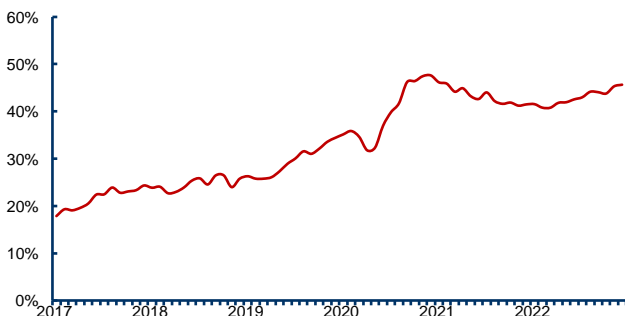
Source: Marketplace Pulse, CMBIGM

Negligible financial impact from potential tariffs exemption change. Regarding cross-border issue, key market concern might lie on potential elimination of the US tariff exemption for imports from China valued at US$800 or less if the items are shipped to individual consumers, which was discussed in Jun 2023. Given the heavy volume of low-value packages and execution difficulty for the US customs, we think it would take time for US lawmakers to evaluate the operability and necessity of the new rule. Unlike China B2C platforms (e.g. Shein, Temu), products of B2B platforms are subject to applicable tariffs (not beneficiaries of the exemption), and thus the potential change would pose negligible impact to GCT. Moreover, GCT may enjoy tariffs exemption if products are purchased from Vietnam or SEA sellers.

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High barrier with supply chain, end-to-end logistics and data-driven operations

First-mover advantage in large parcel logistics with participants strongly engaged
Thanks to the booming demand of cross-border ecommerce, GCT has first-mover advantage in large parcel logistics and provides unique value proposition to both buyers and sellers. For sellers (e.g. furniture manufacturers in Vietnam or China), they care more about sales channel, overseas logistics and pricing discussion with buyers. GCT differentiates itself with: 1) one-stop solution to manage the entire logistics process from the moment the product leaves the factory floor, with a flat rate program for shipping and handling; 2) multiple sale channels in key global markets (e.g. the US, the UK, Germany and Japan), thus enhancing inventory turnover rate and profitability; and 3) opportunity to directly connect with resellers (or buyers). In 2Q23, active sellers surged 47% YoY to 665, with 3P sellers retention rate at 86.2% in 2021 (for comprehensive services and high switch cost). We view sellers expansion as a key driver to boost GMV growth.

For buyers (e.g. furniture online stores in Amazon or Walmart, US local offline stores), SKU base, inventory risk, delivery efficiency and price are key criteria. GCT can provide: 1) virtual warehousing and multiple fulfillment solutions to effectively minimize inventory risks for buyers; 2) strong delivery capability to reach over 90% of customers in the lower 48 states in US within an average of three days at an affordable price; and 3) abundant SKUs. Active buyers reached 4,351 in 2Q23 (+7% YoY), with spending per active buyer at US$139.6k.

Figure 34: The GigaCloud marketplace
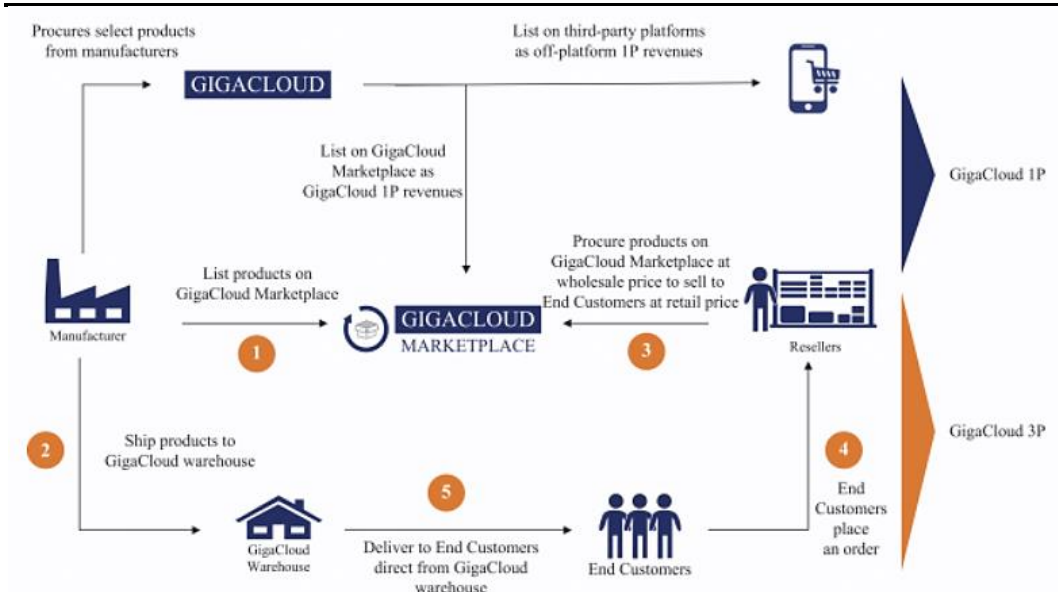
Source: Company data, CMBIGM

Figure 35: 1P and off-platform virtuous cycle by adding sellers into its ecosystem
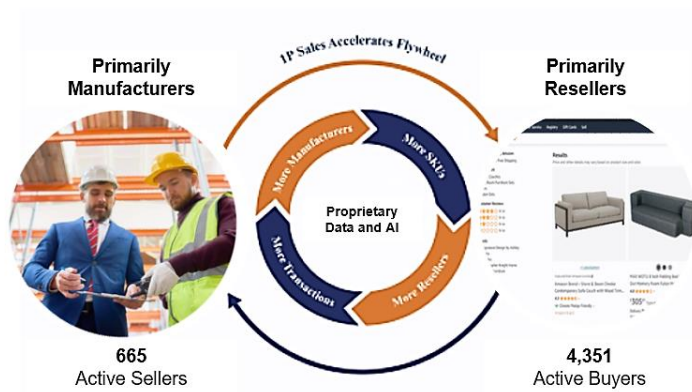
Source: Company data, CMBIGM

Supply chain & end-to-end logistics capacities to form high barrier for market entry
GCT has strong supply chain capability, with rich SKUs, competitive wholesale price and high-quality products inspection system. With 665 active sellers from SEA and China, GCT provides 7,849 1P SKUs and 12,312 3P SKUs by 4Q22, across furniture, home appliance, fitness equipment, etc. GCT established a unified product inspection system for products sold in its 1P business, to ensure product quality and safety. It also actively monitors 3P products to proactively identify and remove suspicious listings, and provides complaint channels for sellers and buyers to report infringement, as well as 90-day warranties. GCT's products target mid-range market, with AOV at US$200-500 per item, based on our estimates. Such value-for-money products would gain tractions amid macro uncertainty.

Figure 36: GCT B2B platform
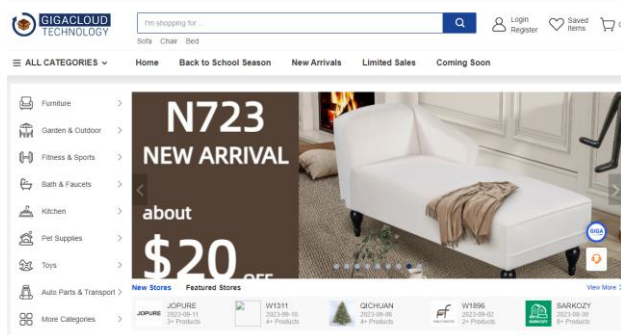
Source: Company website

Figure 37: Product display
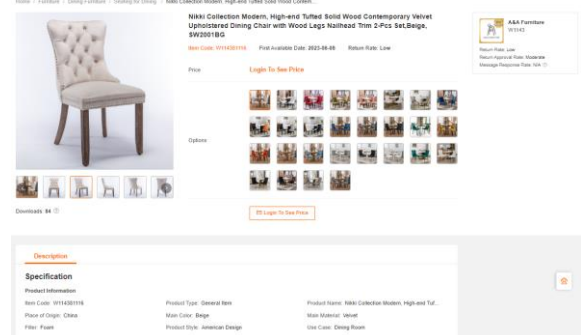
Source: Company website

GCT exceled itself with: 1) efficient end-to-end cross border fulfillment capabilities, with freight providers to ensure last mile logistics, assembly and return services; 2) powerful logistics network with 24 warehouses to minimize distance to ports and key customers: 16 warehouses and 7 ports of destination in the US, with 3 key operating centers. 2/2/4 warehouses in UK/Germany/Japan; and 3) flat rated competitive pricing to customers (cheaper than standard rates from FedEx and UPS). On top of that, such integrated supply chain solutions and logistics network have positioned GCT as partners for some of ecommerce giants. For instance, GCT provides large parcel fulfillment services for JD throughout the US.

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Figure 38: End-to-end logistics capabilities
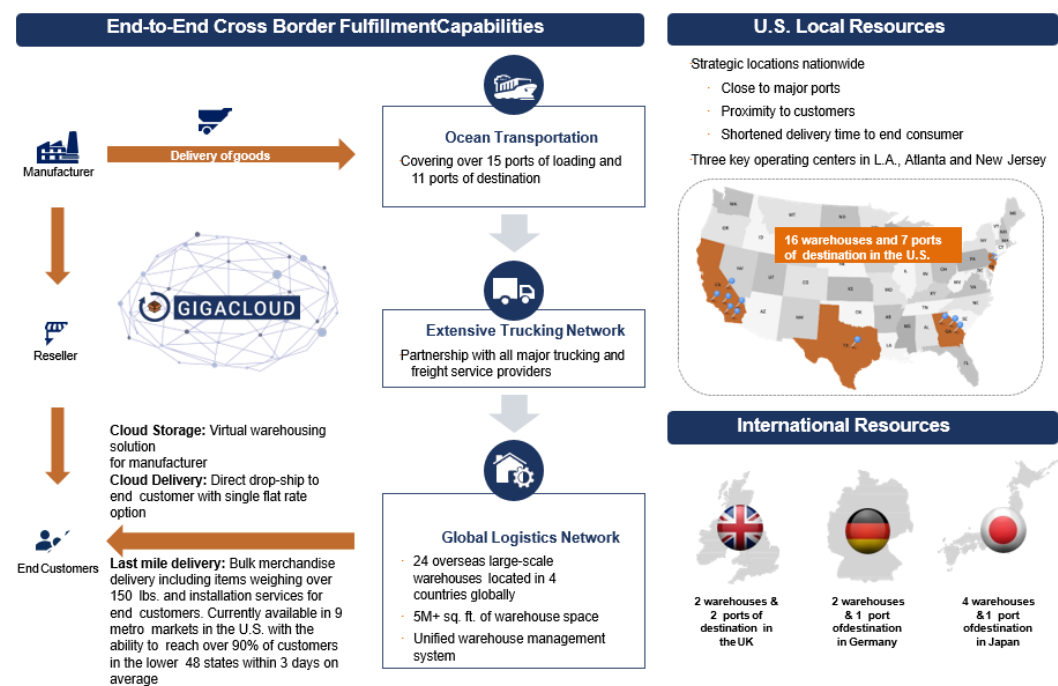
Source: Company data, CMBIGM

Leveraging data-driven technology to optimize operating efficiency
A virtuous cycle from building on data to monetizing data. We view GCT as a data-driven platform, to leverage its data to better rebalance inventory, predict product sales, and serve both buyers and sellers by enhancing product design, pricing, marketing and delivery mechanism. GCT excels itself in both breadth and depth of data: 1) sizable data collected from buyers, sellers and transactions (without any personal information). 2) multi-channel data resources, such as warehousing data, product data, end-customer data. We expect GCT to integrate data set to its analytic tools and trading platform, further enhance its GMV performance and improve efficiency.

Enhancing inventory management with in-house algorithm. GCT leverages in-house reinforcement learning algorithms to optimize inventory management across its global warehouses. These algorithms analyze historical data to determine the best strategies for inventory management, including where to establish new warehouses. They also account for the fragility of certain products, to minimize product movements and reduce the risk of damage.

Sales analytics for products marketing, development, and supply chain finance. With valuable product data and purchase data, GCT can create sales analytics to provide insights to sellers for marketing and product development, and further support high retention for sellers. Additionally, GCT utilizes AI to establish credit profile and provide supply chain finance solutions to sellers. Sellers are carefully evaluated based on sales record, volume, and rating. This data-driven approach allows GCT to offer tailored finance solutions to eligible sellers, supporting their financial needs and strengthening the supply chain ecosystem.

Advanced trading platform to monitor real-time transaction and maximize flexibility & scalability. GCT has built a trading platform upon three layers: 1) foundation layer: e.g. single login system access, micro-service management system and data synchronization/back services; 2) service layer: stock management system, warehouse

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management system and bulk merchandise transportation system; 3) application layer: B2B Inbound Supply Chain Management Module, B2B trading platform, multi-channel global order management module and a GigaCloud's B2B Peripheral System. Through the comprehensive trading platform, both sellers and buyers could have a holistic view of their business from beginning to end. With flexible trading tools, sellers can set prices based on quantities, delivery dates and fulfillment methods, and buyers have the option to purchase merchandise individually or in bulk.

Figure 39: Data-driven technology stack powered by AI & machine learning drives incremental operating efficiencies
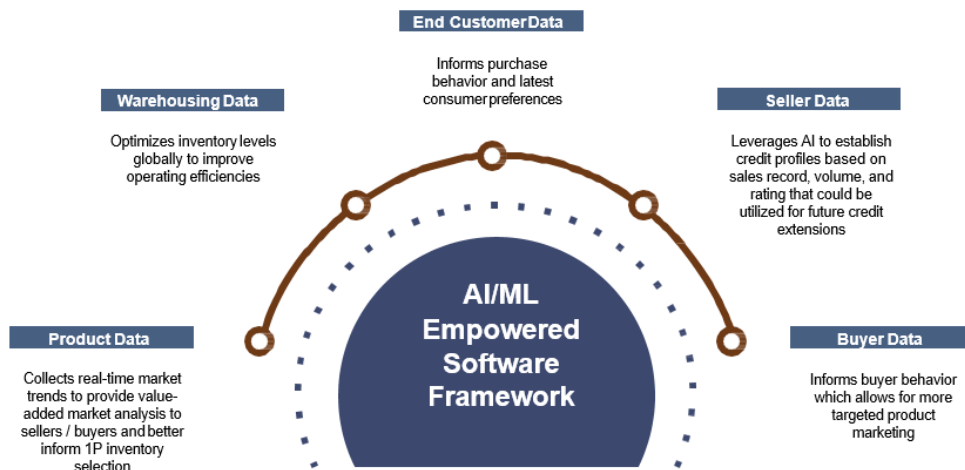
Source: Company data, CMBIGM

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Clear growth trajectory with seller expansion and enriched offerings

Share gain with rapidly growing seller base and diversified SKU

We think seller expansion would be a key driver for 3P GMV, as active sellers would send products in GCT warehouses in advance. GCT had 210/382/560/665 active 3P sellers in FY20/21/22/1H23, with significant YoY growth of +196%/82%/47%/47%, translating into 3P seller GMV of $157mn/$258mn/$325mn/ (+184%/64%/65% YoY) in FY21/22/1H23. In FY20/21, 90%/85% of total active 3P sellers were based in mainland China. On one hand, we expect GCT to tap into huge seller base in China, as domestic furniture manufactories face fierce competition and challenging macro. There are 7,273 furniture manufactories in China in 2022, according to NBS, suggesting ample room to penetrate (<10% share).

On the other hand, we see high visibility for GCT to expand its exposure into SEA, including Vietnam, Thailand, Indonesia, and Philippines. For example, there are around 5,600 companies that produce furniture in Vietnam in 2022 (~1,500 exporters), based on ARC data. Vietnam has large and low-cost wood supply (e.g. Acacia, Rubberwood), and importers can enjoy lower tariffs from Vietnam to the US under bilateral trade agreement, compared to China. Other than exploring new markets, GCT will build out additional infrastructure in key markets in the US (incl. Braselton, Georgia, Ontario, California, Dallas, and Texas).

With brand effect and effective marketing campaign, we think GCT can attract more sellers to engage, and keep high retention rate with data-driven technology and one-stop supply chain solutions. For example, GCT organized an offline customer meeting in Shenzhen in Jun 2023, in which over 110 sellers and 1,000 buyers attended. GCT has a sales team of over 100 sales representatives globally to source product for 1P sales and bring in buyers & sellers. We forecast its 3P sellers at 34% CAGR in FY23-25E, to drive 44% 3P GMV CAGR ahead.

For 1P biz, we expect SKU expansion would boost solid growth of 1P rev (forecasting 18% CAGR in FY23-25E). In 4Q22, GCT has 7,849 1P SKUs, and we expect SKUs to rise to 13,226 in 2025E, backed by diversified products with more manufactories.

Figure 40: GCT offline customer meeting in SZ

Source: Company data, CMBIGM

Figure 41: GCT offline customer meeting in SZ

Source: Company data, CMBIGM

Figure 42: No. of active 3P sellers and % of 3P sellers based in mainland China
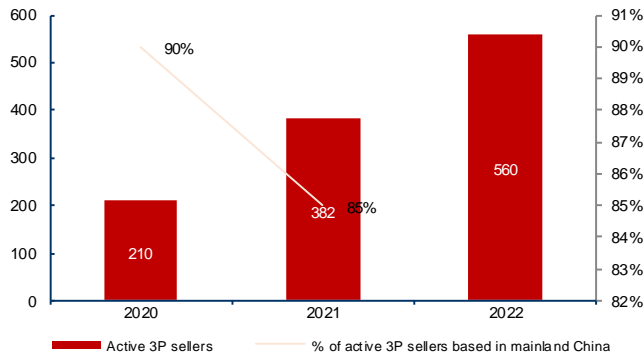
Source: Company data, CMBIGM

Figure 43: The estimated GMV mix by category
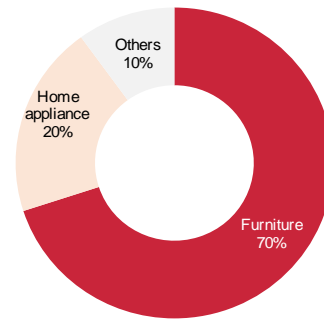
Source: CMBIGM estimates

Figure 44: Active 3P sellers expansion
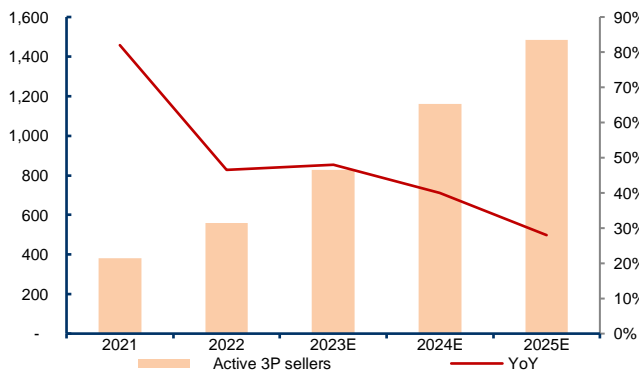
Source: Company data, CMBIGM estimates

Figure 45: Active buyers expansion
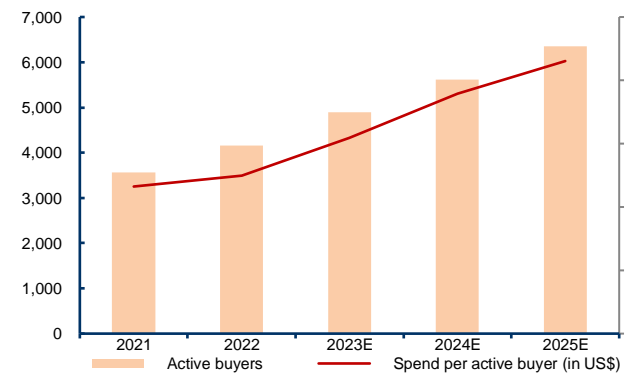
Source: Company data, CMBIGM estimates

Figure 46: 3P GMV growth estimates
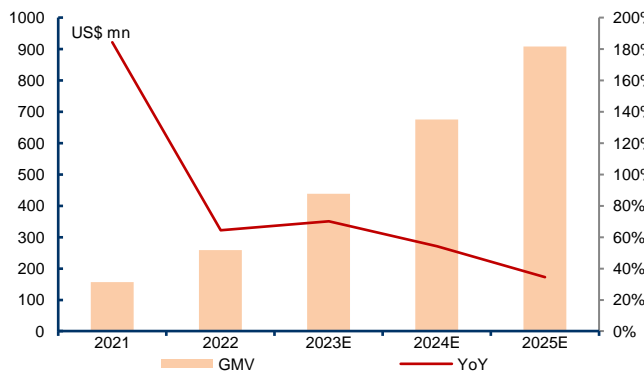
Source: Company data, CMBIGM estimates

Figure 47: 1P GMV growth estimates
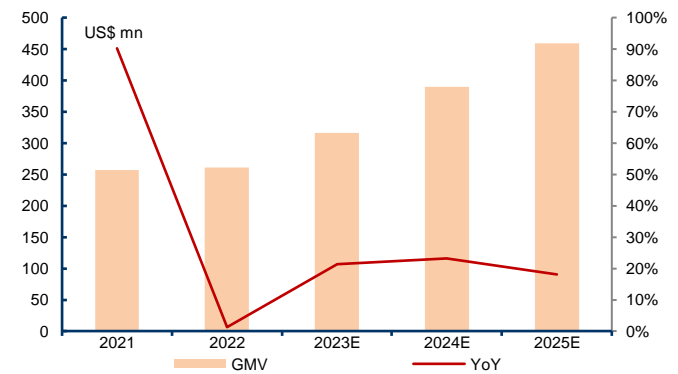
Source: Company data, CMBIGM estimates

Figure 48: Active sellers quarterly growth and GMV trend
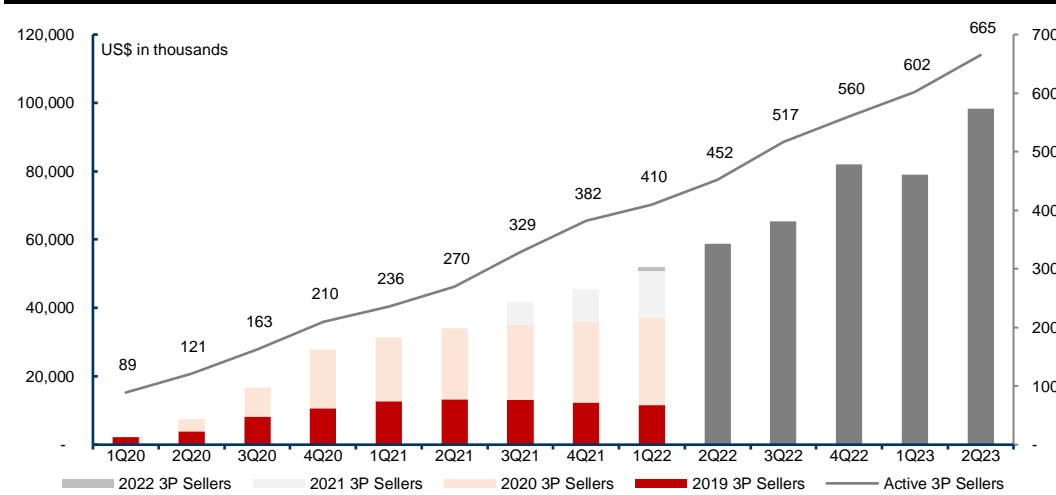
Source: Company data, CMBIGM

Expanding offerings to unlock GMV upside

GCT has successfully expanded its product offerings beyond furniture, diversifying into various categories such as home fitness, gardening, and home appliances. We estimate furniture/home appliance to account for 70%/20% of total GMV. Apart from that, we expect GCT to extend catalog opportunistically to adjacent categories such as auto parts, pet supplies, and seasonal decorations, to further solidify its position as the leading large parcel solution provider.

Figure 49: Expansion of product categories from large furniture to home appliance, fitness equipment, and gardening

Source: Company data, CMBIGM

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Acquisition of Noble House to bring synergy with abundant SKU and valuable buyers

On 12 Sep 2023, GCT announced an US$85mn (in cash) "stalking horse" agreement for the assets of bankrupt Noble House Home Furnishings. The deal is expected to close till 31 Oct, if no higher and better offer arise. It is important to note that the transaction is structured as an asset purchase without debt (estimated assets between US$100mn and US$500mn), despite NH listed US$74mn in funded debt and US$65mn in trade debt (based on Bankrupt Company News). GCT currently holds sufficient cash to complete the transaction (US$182mn in 2Q23).

Noble House overview: Noble House, a leading distributor, manufacturer, and retailer of indoor and outdoor furniture based in Los Angeles, sells its products through a diverse set of third-party channels (e.g. Amazon, WalMart, Costco, Wayfair, Overstock, Target and Home Depot). NH was established in 1992, and focuses on 1P mode with multi-brands strategy, including Christopher Knight Home, NobleHouse, LePouf, OkiOki, Best Selling and GDFStudio. Its offices and warehouses are located in Texas, California and Georgia.

Acquisition rationale and business synergy: We believe GCT will see straightforward business synergies from NH, if the transaction is closed, given 1) the acquisition would expand GCT's 1P & 3P business, with approximately 8,000 SKUs (vs. GCT's organic SKUs at 7,849 in 2022); 2) NH's strong connection with big retailers and platforms (e.g. Amazon, Wayfair as its direct buyer) would help GCT to expand valuable buyers; and 3) its strong supply chain (~50 suppliers in Asia) and multi-brands matrix can scale up GCT's seller base.

Financial impact estimates: According to Bankrupt Company News, NH rev was US$671mn/US$491mn in FY21/22, with bottom line at +US$7mn/-US$34mn. NH topline decline and net loss position in FY22 was primarily on high freight cost and weak inventory management. GCT's stock price plunged after the announcement, closing down ~45% in five trading days, as market concern lies on the potential margin dilution and operational challenges under macro uncertainty. However, we think the market is overreacted, as: 1) <15% earnings dilution in FY23E (in our estimates) with only two-month financial impact with consolidation, if the deal is completed by 31 Oct; 2) we see high visibility for GCT to improve NH efficiency and help it to narrow loss, backed by similar business and GCT's strong inventory management capability. As such, we expect NH net loss to narrow at -US$27mn/-US$12mn in FY23/24E (13% earnings dilution in FY24E). On top of that, NH would scale up GCT's topline with similar amount of its 1P biz (forecasting US$300-400mn per year). As the bidding process was not yet over, NH financials are not consolidated in our current financial model.

Figure 50: Noble House B2B platform
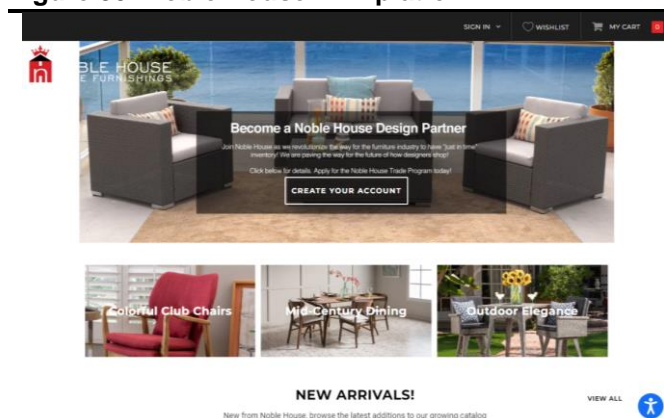
Source: NH website

Figure 51: Multi-brands strategy for NH
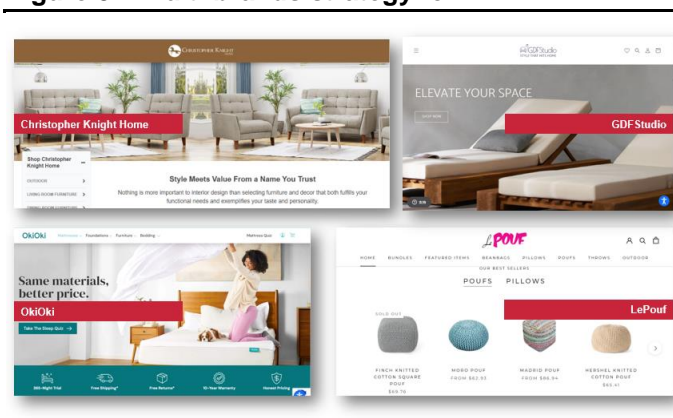
Source: NH website

Financial Analysis

Revenue Breakdown

We forecast GCT's revenue to grow 24%/24%/20% YoY in FY23/24/25E, in which service rev (3P) will be the main rev driver in the long run. By segment, we anticipate a CAGR of 30% for service rev (3P) and 18% for product rev (1P and off-platform) during FY23-25E.

Key topline drivers come from:

- **Service revenue (3P):** We forecast 30% rev CAGR in FY23-25E, mainly driven by 1) rising active 3P sellers (+34% CAGR in FY 23-25E), attributable to the booming cross-border ecommerce demand amid soft domestic macro and GCT's seller global expansion (particularly in China and SEA); 2) higher GMV per 3P active seller (+7% CAGR in FY23-25E) with solid sales performance. We forecast 3P GMV (LTM) to increase to US$908mn in FY25E (66% share), with 44% CAGR in FY23-25E, while 3P take rate would normalize at 35%-43% in FY23-25E.

- **Product revenue (1P and off-platform):** We expect 18% rev CAGR in FY23-25E, fueled by expanding SKU (in patent, color and size). 1P GMV (LTM) would grow at 21% CAGR in FY23-25E, accounting for 34% of total GMV in FY25E.

Figure 52: Rev estimates
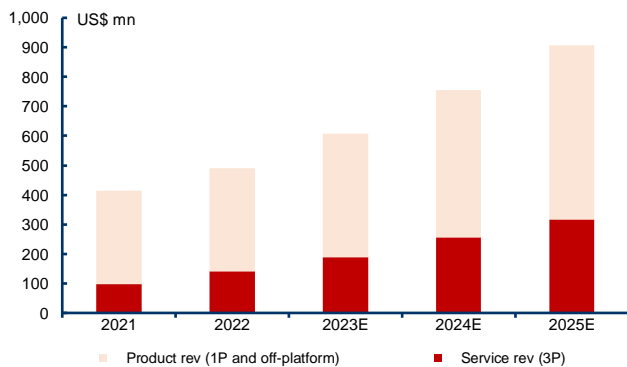
Source: Company data, CMBIGM estimates

Figure 53: Rev growth breakdown
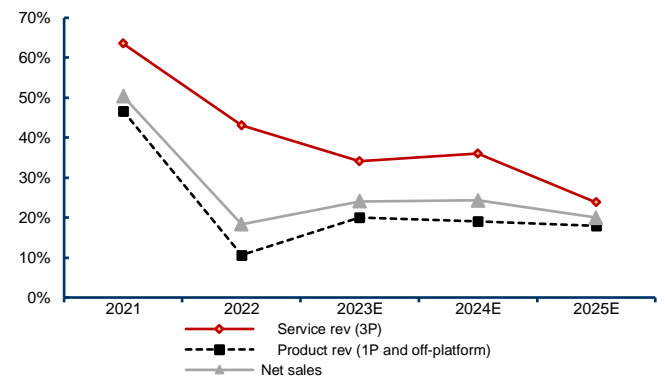
Source: Company data, CMBIGM estimates

Figure 54: Rev mix trend
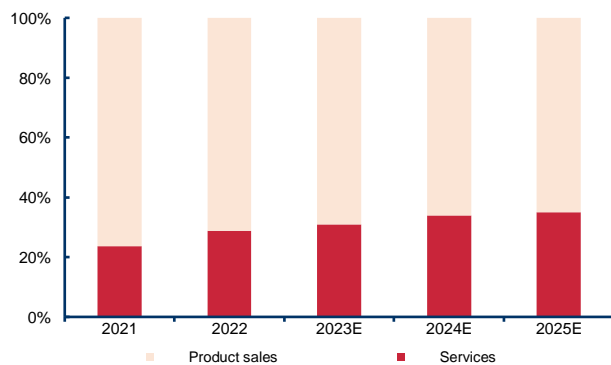
Source: Company data, CMBIGM estimates

Figure 55: FY23E revenue breakdown
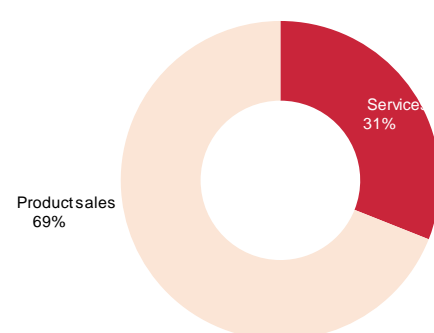
Source: Company data, CMBIGM estimates

Figure 56: Revenue driver estimates

US$ mn, Dec-YE	FY21	FY22	FY23E	FY24E	FY25E
Revenue					
Service rev (3P)	98	141	189	257	318
Product rev (1P and off-platform)	316	349	419	499	589
Total	**414**	**490**	**608**	**756**	**906**
% YoY					
Service rev (3P)	64%	43%	34%	36%	24%
Product rev (1P and off-platform)	47%	11%	20%	19%	18%
Total	**50%**	**18%**	**24%**	**24%**	**20%**
% of rev					
Service rev (3P)	24%	29%	31%	34%	35%
Product rev (1P and off-platform)	76%	71%	69%	66%	65%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
GMV	**414**	**518**	**754**	**1,065**	**1,367**
3P GMV, LTM	157	258	439	675	908
1P GMV (implied), LTM	257	261	316	389	459
% YoY					
3P GMV, LTM	184%	64%	70%	54%	34%
1P GMV (implied), LTM	90%	1%	21%	23%	18%
Total	**117%**	**25%**	**46%**	**41%**	**28%**
% of GMV					
3P GMV, LTM	38%	50%	58%	63%	66%
1P GMV (implied), LTM	62%	50%	42%	37%	34%
Total	100%	100%	100%	100%	100%
Operating metrics					
Active 3P sellers	382	560	829	1,160	1,485
GMV per 3P seller (in US$)	411	460	529	582	611
Active buyers	3,566	4,156	4,887	5,621	6,351
Spend per active buyer (in US$)	116	125	154	189	215
YoY					
Active 3P sellers	82%	47%	48%	40%	28%
GMV per 3P seller (in US$)	56%	12%	15%	10%	5%
Active buyers	111%	17%	18%	15%	13%
Spend per active buyer (in US$)	3%	7%	24%	23%	14%
Take rate					
Blended	**69%**	**72%**	**62%**	**55%**	**52%**
Service rev (3P)	63%	55%	43%	38%	35%
Product rev (1P platform)	73%	89%	88%	85%	85%

Source: Company data, CMBIGM estimates

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Income Statement

We expect earnings to recover in FY23E and maintain healthy margin in the long run.

FY22 margin was weighed by higher ocean freight rate with epidemic resurgence (especially during 1Q-3Q22). After China's reopening, we expect FY23E margin to rebound as freight cost normalizes. We model GPM to pick up at 24% in FY23E, and stabilize during FY23-25E, coupled with rev mix shift towards 3P service. For opex level, we forecast opex ratio to stabilize at 9%-10% in FY23-25E, with operating leverage in G&A partially offset by higher S&M expenses for seller & buyer expansion.

As such, we expect adj. NPM to stabilize at 12% in FY23-25E (similar to 1H23 level), while adj. EBITDA margin at 16%. Adj. NP will reach US$74mn in FY23E (+207% YoY), and then lift to US$110mn in FY25E (with 22% FY23-25E CAGR), in our estimates.

Figure 57: Income statement

US$ mn, Dec-YE	FY21	FY22	FY23E	FY24E	FY25E	23-25E CAGR
Revenue	**414**	**490**	**608**	**756**	**906**	**22%**
Service rev (3P)	98	141	189	257	318	
Product rev (1P and off-platform)	316	349	419	499	589	
COGS	325	407	461	574	689	
Gross profit	**90**	**83**	**147**	**181**	**218**	**22%**
Selling and marketing	26	24	34	40	48	
General and administrative	25	23	22	26	32	
Research and development	-	1	2	3	3	
Operating profit	**39**	**35**	**89**	**112**	**135**	**23%**
Interest expense	(0)	(1)	(1)	(1)	(1)	
Interest Income	1	0	3	3	3	
Foreign currency exchange gain/(loss)	(2)	(5)	-	-	-	
Government Grant	-	1	-	-	-	
EBT	38	31	91	115	137	
Taxes	(8)	(7)	(17)	(23)	(27)	
Net income	**29**	**24**	**74**	**92**	**110**	
Adj. net profit	**29**	**24**	**74**	**92**	**110**	**22%**
Adj. EBITDA	**48**	**42**	**96**	**120**	**145**	**23%**
Margin Analysis						
Gross margin	22%	17%	24%	24%	24%	
Operating margin	10%	7%	15%	15%	15%	
Net margin	7%	5%	12%	12%	12%	
Adj. EBITDA margin	12%	9%	16%	16%	16%	
Growth Analysis						
Revenue	50%	18%	24%	24%	20%	
Gross profit	19%	-7%	77%	23%	20%	
Operating profit	-11%	-11%	153%	26%	20%	
Net profit	-22%	-18%	207%	25%	20%	
Adj. EBITDA	-9%	-13%	129%	26%	20%	

Source: Company data, CMBIGM estimates

Figure 58: CMBIGM estimates vs consensus

US$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	608	756	906	601	657	NA	1.2%	15.1%	NA
Gross Profit	147	181	218	145	158	NA	1.2%	15.1%	NA
Operating Profit	89	112	135	82	91	NA	8.3%	23.1%	NA
Adj. net profit	74	92	110	63	68	NA	16.6%	35.2%	NA
EPS (US$)	1.80	2.24	2.69	1.55	1.67	NA	16.1%	34.7%	NA
Gross Margin	24.2%	24.0%	24.0%	24.2%	24.0%	NA	0.0ppts	0.0ppts	NA
Operating Margin	14.6%	14.8%	14.8%	13.6%	13.9%	NA	+1.0ppts	+1.0ppts	NA
Net Margin	12.1%	12.1%	12.1%	10.5%	10.3%	NA	+1.6ppts	+1.8ppts	NA

Source: Company data, Bloomberg, CMBIGM estimates

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Figure 59: Quarterly financial forecast

US$ mn, Dec-YE	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	QoQ	YoY	Consensus	Diff %
Revenue	112	124	128	126	128	153	163	6.4%	27.3%	164	-1%
Gross profit	17	17	23	27	30	40	39	-3.9%	72.0%	38	1%
Operating Profit	7	8	4	15	18	23	24	0.7%	454.5%	20	15%
Adj. net profit	5	6	1	12	16	18	19	5.9%	2987.7%	14	35%
Margin (%)											
Gross margin	14.9%	13.7%	17.6%	21.2%	23.1%	26.4%	23.8%			23.5%	
Operating margin	6.6%	6.6%	3.3%	12.0%	14.0%	15.3%	14.5%			12.4%	
Adj. net margin	4.1%	4.9%	0.5%	9.9%	12.5%	12.0%	12.0%			8.8%	
Growth (%)											
Revenue (YoY)	NA	NA	NA	NA	13.7%	23.5%	27.3%			28.1%	
Revenue (QoQ)	NA	10.3%	3.2%	-1.9%	1.7%	19.8%	6.4%			7.1%	
Operating Profit	NA	NA	NA	NA	141.3%	185.4%	454.5%			380.2%	
Adj. net profit	NA	NA	NA	NA	242.2%	203.1%	2987.7%			2190.0%	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 60: Quarterly revenue breakdown

US$ mn, Dec-YE	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	QoQ	YoY
Total revenue	**112**	**124**	**128**	**126**	**128**	**153**	**163**	**6%**	**27%**
Service rev (3P)	31	33	41	36	35	43	54	26%	34%
Product rev (1P and off-platform)	81	91	87	90	93	110	108	-1%	24%

Source: Company data, CMBIGM estimates

Balance Sheet

Healthy balance sheet with strong net cash in FY23/24/25E

GCT demonstrates resilient financial position, as evidenced by its robust balance sheet and consistent profitability. Despite the two-year US$50mn credit facility, we see low visibility for GCT to utilize it in the near term.

Thanks to its sustainable profitability, limited capex requirements, and minimal debt, GCT is projected to maintain a healthy cash position. According to our estimates of profit before taxation and change in working capital, GCT has solid operating cash flow & financing cash flow in supporting CAPEX in the next three years. GCT had net cash of US$182mn in 2Q23, and we expect GCT to have sufficient cash position with US$210mn/312mn/420mn in FY23/24/25E.

Figure 61: Balance sheet

US$ mn, Dec-YE	FY21	FY22	FY23E	FY24E	FY25E
Non-current assets	**14**	**161**	**158**	**159**	**160**
Operating lease right-of-use-assets	0	144	144	144	144
Property & equipment	11	13	14	15	16
Other long-term assets	3	3	0	0	0
Current assets	**172**	**258**	**374**	**504**	**656**
Cash & cash equivalents	64	145	210	312	420
Accounts receivable	18	27	40	47	57
Inventories	81	78	111	128	159
Prepayments and other current assets	9	8	13	17	20
Current liabilities	**57**	**103**	**194**	**218**	**246**
Accounts payable	25	32	44	53	67
Long-term borrowings - current	0	0	0	0	0
Contract liabilities	4	2	4	5	5
Taxes payable	8	4	4	4	4
Current operating lease liabilities	0	28	28	28	28
Accrued expenses	20	37	49	63	76
Non-current liabilities	**4**	**121**	**117**	**117**	**117**
Long-term borrowings	0	0	0	0	0
Operating lease liabilities, non-current	0	117	117	117	117
Other long-term liabilities	4	4	0	0	0
Total equity	**61**	**223**	**310**	**335**	**363**
Debt Analysis					
Total Debt	1	0	0	0	0
Total Equity	61	223	310	335	363
D/E ratio	1.0%	0.1%	0.0%	0.0%	0.0%
D/A ratio	0.3%	0.0%	0.0%	0.0%	0.0%
Current ratio (x)	3.0	2.5	1.9	2.3	2.7
Gearing ratio	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimates

Cash Flow and Working Capital

Expanding GMV and solid profitability guarantee strong cash flow
We expect GCT to see robust operating cash inflow in the future, forecasting operating cash flow of US$67mn/103mn/111mn in FY23/24/25E, respectively, backed by: 1) GMV expansion with healthy cash conversion (in which 3P with low working capital requirements), and 2) enhanced profitability.

Figure 62: Operating cash flow projections
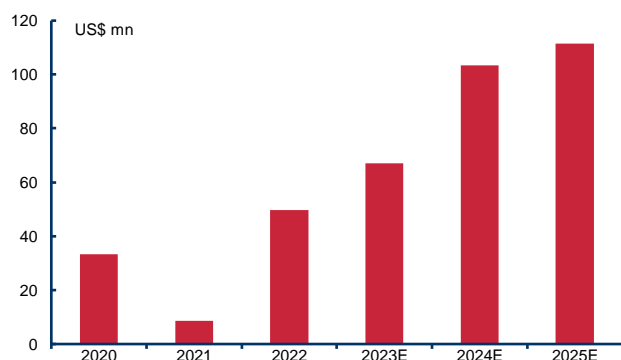
Source: Company data, CMBIGM estimates

Figure 63: Cash flow and working capital analysis

US$ mn, Dec-YE	FY21	FY22	FY23E	FY24E	FY25E
Cash Flow					
Net income	29	24	74	92	110
Depreciation and amortization	1	1	1	1	1
Change in working capital	(35)	6	(14)	3	(9)
Others	13	18	6	7	9
Operating cash flow	**9**	**50**	**67**	**103**	**111**
CAPEX	(2)	(1)	(2)	(2)	(3)
Others	-	-	-	-	-
Investing cash flow	**(2)**	**(1)**	**(2)**	**(2)**	**(3)**
Proceeds from IPO	-	34	-	-	-
Others	(3)	(2)	-	-	-
Financing cash flow	**(3)**	**32**	**-**	**-**	**-**
Cash at period end	**64**	**145**	**210**	**312**	**420**
Working Capital Turnover					
Inventory days	66	72	75	76	76
Trade receivables days	19	17	20	21	21
Trade payables days	25	25	30	31	32
Cash conversion cycle	**60**	**63**	**71**	**73**	**74**

Source: Company data, CMBIGM estimates

Valuation

Investment Thesis

We initiate BUY with SOTP-based TP of **US$17.2**, implying **10x/8x** FY23/24E P/E. We believe GCT would be relatively resilient on macro uncertainty, and keep confident on its organic GMV growth and solid profitability, backed by booming demand of cross-border commerce and sellers & buyers expansion. Potential M&A would scale up its 1P&3P business, and bring further synergy in the long run, with improving margin ahead. GCT's positive price drivers and catalysts would originate from: 1) potentially better-than-expected 3Q23E results with Amazon Prime Day in Jul; 2) strong ecommerce seasonality in 4Q23E; and 3) more updates on NH acquisition. GCT's share price has pulled back recently for "stalking horse" of NH acquisition (market concern lies on margin dilution) and allegations from a short seller report published on 28 Sep (comments refer to Appendix 2). We think the market was overreacted, and such sell-offs create attractive entry points. We initiate BUY at this moment for its attractive valuation (4.8x FY23E P/E), above-industry growth (22% earnings CAGR in FY23-25E) and solid profitability, with multiple catalysts to come.

SOTP valuation and peers comparison

Given its 1P & 3P mode, we adopted SOTP valuation (P/E methodology) as our primary valuation method. We applied **8x** P/E multiple (at 52% discount) for its 3P segment (on 2023-24E average adj. NP), while **5x** PE multiple (at 70% discount) for 1P business as it has inventory risks, yielding TP of **US$17.2**. Our SOTP valuation suggests **9.6x/7.7x FY23/24E P/E**. For crosscheck, we also list EV/Sales methodology for reference. We applied 1.3x/0.5x EV/Sales for its 3P/1P model, suggesting TP of US$17.8.

We selected 11 global ecommerce comps, 8 furniture-related retailers /consumer peers and 8 logistics peers for comparison. Ecommerce/ retailers/ logistics peers trade at 19x/15x/19x FY23E P/E. The industry multiple is 17.6x/15.4x FY23/24E P/E, 83%/100% higher than our SOTP-based multiple of **9.6x/7.7x** FY23/24E P/E.

Wayfair and SONGMICS HOME (致欧科技) could be the most comparable one, for the similar furniture-related ecommerce business. Wayfair is a clear leader in the US and Canada, but operated as a B2C platform with asset-light strategy and multi-brand portfolio (> 70 brands). It recorded rev of US$12.2bn in FY22 (-11% YoY), with net loss position in FY22 for high freight cost and competition. It achieved breakeven of adj. EBITDA in 2Q23, and targets long-term 10%+ EBITDA margin (no timeline), with rev returning to double-digit growth. Wayfair traded at 0.5x FY23E P/S (similar to GCT), but we think GCT has better profitability, higher growth potential and lower competition pressure than Wayfair. SONGMICS HOME is a China-based cross-border ecommerce platform (B2C as key contributor), developing three major products brands, including SONGMICS for home furnishings, VASAGLE for stylish furniture and Feandrea for pet supplies. Its rev reached RMB5.5bn in FY22, with adj. NPM at 5%. It traded at 23x/18x FY23/24E P/E, with 24% earnings CAGR in FY23-25E (based on BBG consensus). Currently, GCT is trading at 4.8x/3.9x FY23/24E P/E, far below SONGMICS HOME. Looking ahead, we expect GCT's robust GMV growth, solid margin outlook, and consistently upbeat quarterly results would boost its re-rating.

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Figure 64: SOTP valuation (P/E methodology)

Business (US$ mn)	2023-24E average Rev (US$mn)	2023-24E average Adj. NP (US$mn)	Methodology	Multiple	Valuation	Stakes	Value
Service rev (3P)	223	24	P/E	8.0x	196	100%	196
Product rev (1P and off-platform)	459	60	P/E	5.0x	298	100%	298
Enterprise Value							494
(+) Net Cash							210
Equity Value (US$ mn)							705
TP (US$) based on SOTP							17.2

Source: CMBIGM estimates

Figure 65: SOTP valuation (EV/Sales methodology)

Business (US$ mn)	2023-24E average Rev. (US$mn)	Methodology	Multiple	Valuation	Stakes	Value
Service rev (3P)	223	EV/Sales	1.3x	289	100%	289
Product rev (1P and off-platform)	459	EV/Sales	0.5x	230	100%	230
Enterprise Value						519
(+) Net Cash						210
Equity Value (US$ mn)						729
TP (US$) based on SOTP						17.8

Source: CMBIGM estimates

Figure 66: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Raiting	CMBI TP	PE FY23E	PE FY24E	PE FY25E	PS FY23E	PS FY24E	PS FY25E	EV/EBITDA FY23E	EV/EBITDA FY24E	EV/EBITDA FY25E	FY23-25 EPS CAGR
GigaCloud Technology	GCT US	356	USD	8.69	BUY	17.2	4.8	3.9	3.2	0.6	0.5	0.4	3.7	3.0	2.5	22%
Global ecommerce																
Amazon	AMZN US	1,365,348	USD	132	NA	NA	42.6	32.6	24.0	2.4	2.1	1.9	13.9	12.2	10.3	29%
Alibaba	BABA US	214,945	USD	85	BUY	155	9.3	8.6	7.7	1.6	1.5	1.4	8.5	6.6	5.7	11%
eBay	EBAY US	22,686	USD	43	NA	NA	10.2	10.0	9.6	2.2	2.1	2.1	8.1	7.5	6.8	7%
Wayfair	W US	5,829	USD	50	NA	NA	NA	NA	62.7	0.5	0.4	0.4	31.2	16.7	10.7	NA
JD	JD US	43,735	USD	28	BUY	57	9.7	8.4	7.1	0.3	0.3	0.2	6.8	5.9	4.8	24%
Groupon	GRPN US	342	USD	11	NA	NA	NA	30.3	5.8	0.7	0.6	0.6	NA	NA	NA	NA
Mercadolibre	MELI US	61,612	USD	1,230	NA	NA	61.6	43.4	31.1	4.5	3.6	3.0	25.5	19.8	15.0	43%
Etsy	ETSY US	7,966	USD	65	NA	NA	20.3	16.9	15.0	2.9	2.7	2.4	11.9	9.5	8.9	10%
RB Global	GB US	1,063	USD	6	NA	NA	23.4	13.2	11.5	2.3	2.0	1.7	NA	9.4	6.8	43%
OPENLANE	KAR US	1,536	USD	14	NA	NA	16.1	16.9	14.4	0.9	0.9	0.8	8.7	7.8	5.1	19%
IndiaMART	INMART IN	2,077	INR	2,823	NA	NA	51.4	39.9	33.2	14.3	11.7	9.8	54.1	41.5	30.3	21%
SONGMICS HOME	301376 CH	1,220	CNY	22	NA	NA	22.6	18.1	14.8	1.4	1.2	1.0	NA	NA	NA	24%
Average							19.3	19.8	14.1	1.5	1.4	1.3	11.9	10.6	9.3	21%
Retailers / Consumers (Furniture-related)																
Home Depot	HD US	293,039	USD	293	NA	NA	19.2	18.5	17.8	1.9	1.9	1.8	12.3	13.5	13.1	6%
Walmart	WMT US	427,824	USD	159	NA	NA	24.4	22.4	20.7	0.7	0.6	0.6	13.5	12.2	11.3	10%
La-Z-Boy	LZB US	1,251	USD	29	NA	NA	10.1	9.4	9.5	0.6	0.6	0.6	NA	6.3	6.1	5%
Ethan Allen Interiors	ETD US	746	USD	29	NA	NA	9.1	8.5	NA	1.0	1.0	NA	NA	NA	NA	NA
Lifetime Brands	LCUT US	108	USD	5	NA	NA	9.2	5.6	5.6	0.2	0.2	0.1	5.3	4.3	3.3	29%
Tempur Sealy	TPX US	6,886	USD	40	NA	NA	14.9	12.7	11.4	1.4	1.3	1.2	10.1	8.9	7.8	13%
RH	RH US	4,397	USD	239	NA	NA	19.6	14.7	11.6	1.4	1.3	1.2	4.9	11.2	9.6	36%
Williams-Sonoma	WSM US	10,428	USD	163	NA	NA	11.5	11.6	11.3	1.3	1.3	1.3	6.4	7.1	7.0	4%
Average							14.7	12.9	12.5	0.9	0.9	0.8	8.8	9.1	8.3	15%
Logistics																
United Parcel Service	UPS US	132,764	USD	155	NA	NA	16.6	15.1	14.1	1.4	1.4	1.3	10.6	10.0	9.3	10%
FedEx	FDX US	63,368	USD	252	NA	NA	13.9	11.6	10.5	0.7	0.7	0.6	8.2	7.3	6.5	17%
Expeditors International of W	EXPD US	17,268	USD	117	NA	NA	21.7	23.1	22.0	1.8	1.8	1.7	15.2	15.8	15.6	2%
GXO logistics	GXO US	6,561	USD	55	NA	NA	22.1	18.3	14.7	0.7	0.6	0.6	10.5	8.9	7.4	21%
ArcBest	ARCB US	2,380	USD	99	NA	NA	16.4	10.8	8.9	0.5	0.5	0.5	7.6	5.8	4.6	38%
SF Holding	002352 CH	27,504	CNY	41	BUY	97	22.8	17.9	14.3	0.7	0.6	0.5	7.6	6.0	4.8	26%
Full Truck	YMM US	7,279	USD	7	NA	NA	21.2	16.4	12.4	6.5	5.2	4.3	NA	NA	NA	32%
ZTO Express	ZTO US	19,603	USD	24	NA	NA	15.7	13.2	11.0	3.6	3.1	2.7	9.4	7.6	6.0	19%
Average							18.8	15.8	13.5	1.3	1.2	1.1	9.9	8.8	7.8	21%
Average							17.6	15.4	14.2	1.4	1.3	1.2	10.3	9.6	8.5	19%

Source: Bloomberg, CMBIGM estimates

Note: Data as of 13 Oct 2023

Figure 67: Operating metrics of GCT and peers

		GigaCloud Technology	SONGMICS HOME	Wayfair
Business Description	Overview	a marketplace pioneer to provide global end-to-end ecommerce solutions for sellers and buyers to trade large parcel products	a leading cross-border e-commerce platform for home products, primarily engaging in the research, design, and sale of proprietary brand products	an online-first retailer specialized in the Home category, with eCommerce marketplaces
	Date of establishment	2006	2007	2002
	Headquarter	Walnut, California, U.S	Zhengzhou, China	Boston, U.S
	Supplier/Seller	665 suppliers, primarily in China and SEA	Suppliers primarily in China	23k suppliers, primarily in Asia
	Buyer	4,351 buyers	buyers primarily in Europe and N.A.	22mn buyers, primarily in N.A and W.E
	Category	Furniture, Home Appliance, Fitness Equipment, Gardening	Furniture, Home Appliance, Gardening, Pet Supplies	Furniture, Home Appliance, Gardening, Pet Supplies
	SKU	7,849 1P SKUs; 12,312 3P SKUs	3k+	350k+
	AOV	US$200-500/unit	Furniture: US$400/unit; Home product: US$200/unit	US$300/unit
	In-house brands	N/A	SONGMICS, VASAGLE,FEANDREA	Wayfiar, AllModern, Birch Lane, Joss & Main and Perigold
Business Model		B2B	B2C (mainly) +B2B	B2C (mainly) +B2B
Operation Model		1P + 3P	1P	1P + 3P
Logistics Model		1P + 3P	1P + FBA +3P (warehouse & delivery)	proprietary end-to-end logistics network

Source: Bloomberg, Company data, CMBIGM

Figure 68: Financial metrics of GCT and peers in FY22

US$mn	GCT	SONGMICS HOME	Wayfair
Ticker	GCT US	301376 CH	W US
Revenue	490	779	12,218
Gross profit	83	246	3,416
GPM	17%	32%	28%
Adj. NP	24	36	(1,331)
Adj. NPM	5%	5%	-11%

Source: Bloomberg, Company data, CMBIGM

Figure 69: FY22 rev comparison
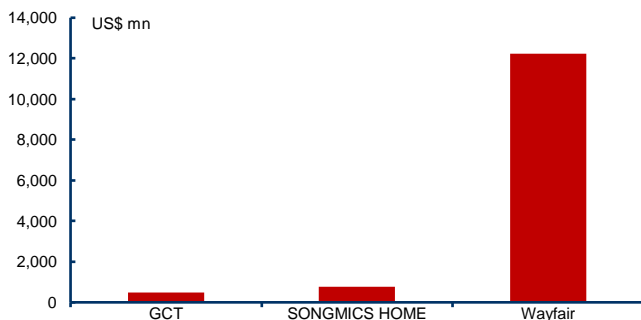
Source: Bloomberg, Company data, CMBIGM

Figure 70: Revenue growth comparison

Source: Bloomberg, Company data, CMBIGM estimates

Figure 71: Earnings growth comparison

Source: Bloomberg
Notes: Wayfair was not included, for its net loss position

Figure 72: GPM comparison

Source: Bloomberg, Company data, CMBIGM estimates

Figure 73: OPM comparison

Source: Bloomberg, Company data, CMBIGM estimates

Figure 74: Adj. NPM comparison

Source: Bloomberg, Company data, CMBIGM estimates

DCF valuation

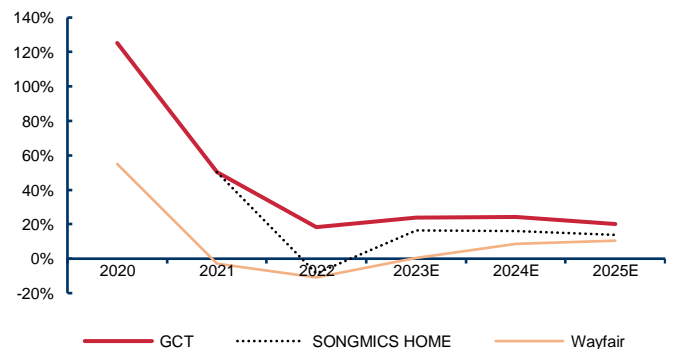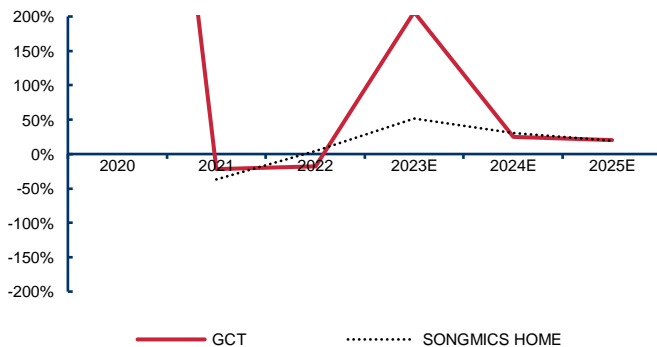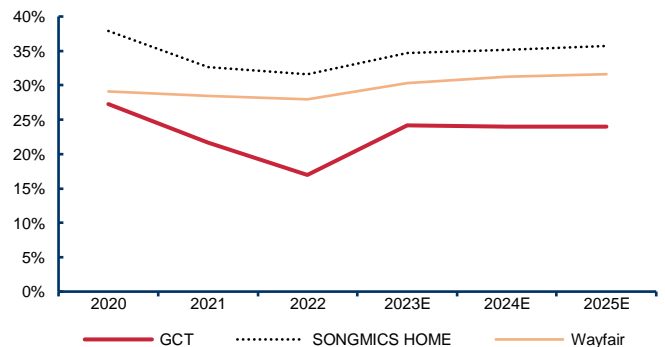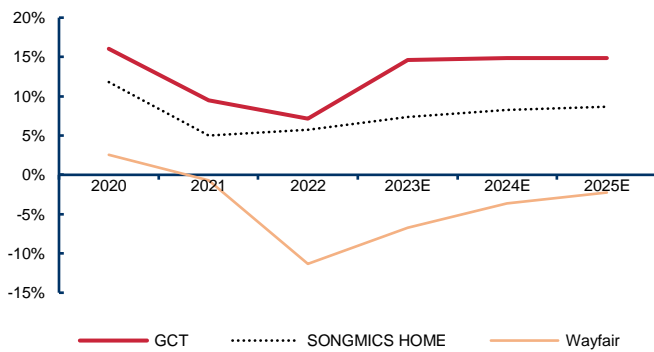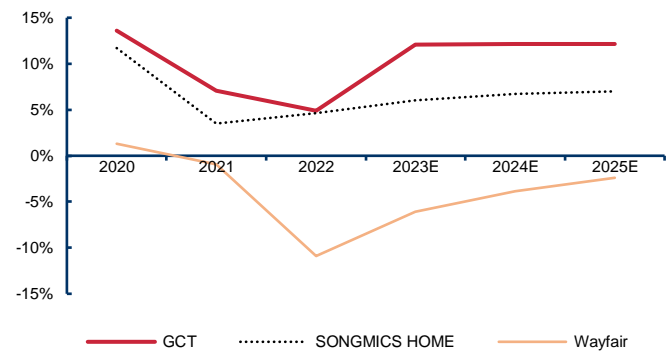We also use DCF valuation for crosschecking since it is suitable to apply DCF valuation to ecommerce companies with healthy cash flow in the long run. Assuming a WACC of 15.7% and a terminal growth rate of 3%, our estimated TP is **US$22.8**, representing **13x/10x** FY23/24E P/E, still below industry average of **18x/15x** FY23/24E P/E.

Figure 75: DCF valuation

DCF Valuation (US$ mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	89	112	135	143	152	159	166	175	182	188
Tax	(17)	(23)	(27)	(29)	(30)	(32)	(33)	(35)	(36)	(38)
D&A	1	1	1	1	2	2	2	2	2	2
Change in working capital	(14)	3	(9)	(15)	(19)	(23)	(27)	(33)	(38)	(42)
CAPEX	(2)	(2)	(3)	(4)	(5)	(7)	(8)	(10)	(11)	(12)
FCF	57	91	97	97	98	99	99	99	99	99
FCF Growth	160%	59%	7%	0%	1%	1%	0%	0%	0%	0%
PV	57	79	73	63	55	48	41	35	31	241
Terminal Value										799

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	**723**
minus: Net debt (US$ mn)	(210)
minus: Minority interest (US$ mn)	0
Equity Value(US$ mn)	**934**
No. of shares (mn)	41
Target Price (US$) based on DCF	**22.8**

		WACC				
	~	14%	15%	16%	17%	18%
Terminal growth rate	1.5%	24.3	23.0	22.2	20.9	20.1
	2.0%	24.6	23.2	22.4	21.1	20.2
	2.5%	24.9	23.5	22.6	21.2	20.3
	3.0%	25.2	23.7	**22.8**	21.4	20.5
	3.5%	25.6	24.0	23.1	21.6	20.6
	4.0%	26.0	24.3	23.3	21.8	20.8
	4.5%	26.4	24.7	23.6	22.0	20.9

Source: Company data, Bloomberg, CMBIGM estimates

Key Investment Risks

Key investment risks may derive from: 1) intensified competition landscape; 2) economic uncertainties; 3) geopolitical tension and tariff change; 4) potential rise 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.

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Appendix 1: Company Background

Figure 76: Key milestones

Year	Event(s)
2006	Oriental Standard Human Resources incorporated as an exempt company in the Cayman Islands.
2010	Commencement of e-commerce business in Japan through wholly-owned subsidiary.
2013	Expansion to the UK through consolidated VIE, 'BTM TRAVEL AND TRADING LTD'.
2014	Acquisition of Comptree, later renamed as GigaCloud Technology.
2019	Launch of ecommerce platform GigaCloud Marketplace through Hong Kong subsidiary GigaCloud Technology Limited.
2021	Holding company name changed to GigaCloud Technology.
2022	Opening of first Malaysian office. Company was listed on NASDAQ with an offering of 3,381,000 Class A shares at a price to the public of $12.25 (Aug).

Source: Company data, CMBIGM

Figure 77: Employees breakdown

Department/Function	Employees	% as total
General and Administrative	103	13%
Information Technology	186	24%
Sales and Marketing	341	45%
Operations	88	12%
Customer Service	46	6%
Total	**764**	**100%**

Geographic Location	Employees	% as total
China	605	79%
US	73	10%
Japan	26	3%
U.K.	14	2%
Vietnam	35	5%
Germany	8	1%
Total	**764**	**100%**

Source: Company data, CMBIGM, As of 31 Dec 2022

Figure 78: Corporate structure
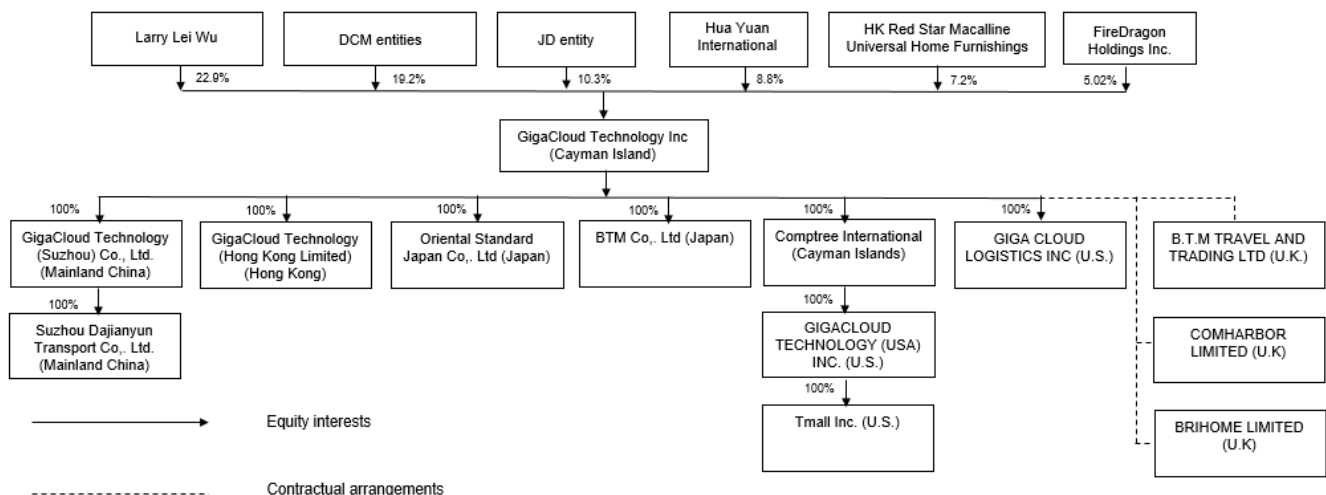
Source: Company data, as of 2022, CMBIGM

Figure 79: Management profile

Name	Age	Position	Profile	Date of Joining the Group	Date of Appointment as Director
Larry Lei Wu	52	Founder, chairman, director and chief executive officer	Prior to founding the company, Mr. Wu served as the general manager of a vocational education and online education company, New Oriental Education & Technology Group Inc. (NYSE: EDU and SEHK: 9901), from 2002 to 2006. Mr. Wu received his MBA degree from Yale University in 2002 and his bachelor's degree in mechanical manufacturing from Beijing Union University in 1994.	2006	2006
Xin Wan	45	Director and chief technology officer	Prior to joining the company, Mr. Wan served as the vice president of the education business unit of Aspire Company of China Mobile from 2010 to 2014 and as channel operation center manager and director in Oriental Standard (Beijing) Talent Service Co., Ltd. from 2007 to 2010.	2014	2020
Lin Frank	59	Director	Mr. Lin is a general partner of DCM, a technology venture capital firm, and DCM is one of the principal shareholders of GCT. Prior to joining DCM in 2006, Mr. Lin was the chief operating officer of SINA Corporation (Nasdaq: SINA). He co-founded SINA's predecessor, SinaNet, in 1995 and later helped guide SINA through its listing on Nasdaq.	2006	2006
Kainan Qian	44	Director	Mr. Qian has over 20 years of experience in logistics and warehouse management. Since 2018, Mr. Qian has served as logistics director of JD Logistics, Inc. Mr. Qian received his bachelor's degree in marketing from Shanghai University of Finance and Economics in 2001.	[●]	2023
Zhiwu Chen	61	Independent Director	Mr. Chen is an independent director at Noah Holdings (NYSE: NOAH) since December 2013 and an independent director at Bairong Inc. (HKSE: 6608 HK) since March 2021. Dr. Chen has been a faculty member in the University of Hong Kong since 2016 and currently serves as director of the Asia Global Institute and Victor and William Fung Professor in Economics at the University of Hong Kong.	[●]	[●]
Binghe Guo	50	Independent non-executive Director	Mr. Guo served as director from April 2017 to February 2022. Mr. Guo is currently the vice chairman, a member of the strategy and investment committee and the authorized representative of Red Star Macalline Group Corporation Ltd. (HKSE: 1528 and SSE: 601828), parent of one of GCT's principal shareholders, and serves on its board of directors.	[●]	[●]
Thomas Liu	59	Independent non-executive Director	Since August 2020, Mr. Liu has served as president of Prologis, Greater China Region, with full responsibilities for operations, business development, capital deployment, venture capital investment, and mergers and acquisitions.	[●]	[●]
Kwok Hei David Lau	39	Chief financial officer	Mr. Lau has been an investment banker for more than 12 years with experience in M&A and IPO transactions in the US and China. Prior to joining the company, Mr. Lau served as the director of Wells Fargo Securities Asia Limited from Aug 2013 to May 2022.	2022	2022

| Iman Schrock | 39 | President | Mr. Schrock has over 17 years of experience in the home furnishings industry as vice president of sales and marketing. | [●] | 2022 |

Source: Company data, CMBIGM

Appendix 2: Addressing key market debates on short report

GCT's share price saw a short-term pullback after a short seller report was published on 28 Sep 2023. The report listed several items surrounding GCT's warehouse employees, shipping activities, related parties and cash position, to challenge GCT's business authenticity and information disclosure. GCT refuted misleading claims in the short report on 9 Oct, and board of directors have authorized the Company to engage a reputable independent third-party to conduct an independent review concerning certain allegations made in the short seller report. GCT will issue further responses once the independent review is completed.

Q1: Warehouse operation: 14 US warehouses operated with few employees (73). Actually, GCT has utilized third-party staffing agencies and contractors to support its warehouse, and GCT has disclosed its use of third-party contractors in the filings made with SEC. Typically, a warehouse will hire full-time employees (e.g. warehouse manager) to oversee inventory control, but some positions (e.g. loader/unloader) are outsourced and part-time (only show up if needed). For example, SF Express (顺丰物流)'s outsourcing costs accounted for 49% of total COGS in FY22, and outsourced labor cost accounted for 84% of its total labor costs. Similarly, we think GCT could effectively run warehouses with limited full-time employees and outsourced labor.

Q2: Transportation network: little delivery activity and few internal truck fleet to support last-mile services. GCT employs its own trucks predominantly only for white glove services in nine metropolitan areas in the US. Typically, US customers tend to install furniture by themselves (or DIY), suggesting low demand for white glove services with scalable internal truck fleet. For other deliveries, including certain last mile deliveries, GCT utilizes a network of third-party delivery providers as disclosed in the filings made with SEC. We view it reasonable and effective, as ecommerce & logistics companies typically outsource part of its transportation services (e.g. SF Express's outsourced transportation cost account for 36% of its total transportation cost). In terms of little delivery activity, we think short-report's conclusion based on 3-hour observation is not convincing, as lots of last-mile deliveries with third-party delivery providers will be arranged in certain days/periods in a week.

Q3: Cash balances: low interest income from strong cash position. KPMG (China-based KPMG Huazhen LLP) has issued an unqualified opinion on GCT's financial reports. By 2022, GCT possessed US$144mn cash balance, in which US$47mn was in US (33%), US$43mn in HK (30%) and US$42mn in China (29%), based on its 20F filing. Given potential operation demand or M&A, GCT put a small part of net cash in short-term treasuries (savings accounts interest rate < 1% for most US banks in 2021 &2022), thus leading to low interest income in 2022. Additionally, GCT will enter into US$85mn (in cash) "stalking horse" agreement in Oct, if no higher and better offer arise. The potential transaction with such a size directly suggests that GCT has sufficient cash balances.

Q4: Related party transactions. GCT has disclosed its related party transactions in accordance with SEC. Further independent review will reveal more information on its transactions.

Financial Summary

Income statement

YE 31 Dec (US$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	**414**	**490**	**608**	**756**	**906**
Service rev (3P)	98	141	189	257	318
Product rev (1P and off-platform)	316	349	419	499	589
COGS	(325)	(407)	(461)	(574)	(689)
Gross profit	**90**	**83**	**147**	**181**	**218**
S&M	(26)	(24)	(34)	(40)	(48)
R&D	0	(1)	(2)	(3)	(3)
G&A	(25)	(23)	(22)	(26)	(32)
Operating profit	**39**	**35**	**89**	**112**	**135**
Other income/(expenses)	(2)	(4)	2	3	3
Pre-tax Income	**38**	**31**	**91**	**115**	**137**
Income Tax	(8)	(7)	(17)	(23)	(27)
Net profit	29	24	74	92	110
Adj. net profit	**29**	**24**	**74**	**92**	**110**

Cash flow summary

YE 31 Dec (US$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	**29**	**24**	**74**	**92**	**110**
D&A	1	1	1	1	1
Change in WC	(35)	6	(14)	3	(9)
Others	13	18	6	7	9
Operating CF	**9**	**50**	**67**	**103**	**111**
CAPEX	(2)	(1)	(2)	(2)	(3)
Others	0	0	0	0	0
Investing cash flow	**(2)**	**(1)**	**(2)**	**(2)**	**(3)**
Proceeds from IPO	0	34	0	0	0
Cash paid for capital lease obligations	(3)	(4)	0	0	0
Others	(0)	1	0	0	0
Financing cash flow	**(3)**	**32**	**0**	**0**	**0**
Net change in cash	**4**	**81**	**65**	**101**	**109**
Cash (beg of yr)	62	64	145	210	312
Cash (end of yr)	**64**	**145**	**210**	**312**	**420**

Balance sheet

YE 31 Dec (US$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	**14**	**161**	**158**	**159**	**160**
PP&E, net	11	13	14	15	16
Operating lease right-of-use-assets	0	144	144	144	144
Others	3	3	0	0	0
Current assets	**172**	**258**	**374**	**504**	**656**
Cash and cash equivalents	64	145	210	312	420
Accounts receivable	18	27	40	47	57
Inventories	81	78	111	128	159
Other current asset	9	8	13	17	20
Current liabilities	**57**	**103**	**194**	**218**	**246**
Accounts payable	25	32	44	53	67
Current operating lease liabilities	0	28	28	28	28
Accrued expenses	20	37	49	63	76
Others	12	6	73	74	75
Non-current liabilities	**4**	**121**	**117**	**117**	**117**
Operating lease liabilities, non-current	0	117	117	117	117
Total equity	**99**	**195**	**222**	**329**	**453**

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Service rev (3P)	23.7	28.7	31.0	34.0	35.1
Product rev (1P and off-platform)	76.3	71.3	69.0	66.0	64.9
Growth rate (%)					
Revenue	50.4	18.3	24.0	24.3	20.0
Gross profit	19.3	(7.2)	77.0	23.3	20.0
EBIT	(10.9)	(11.0)	153.4	26.2	20.1
Adj. net profit	(21.9)	(18.1)	207.0	24.6	20.0
P&L ratios (%)					
Operating margin	9.5	7.1	14.6	14.8	14.8
Pre-tax margin	9.1	6.4	14.9	15.2	15.2
Adj. net margin	7.1	4.9	12.1	12.1	12.1
Effective tax rate	(22.4)	(23.1)	(19.0)	(20.0)	(19.9)
Returns (%)					
ROE	29.5	12.3	33.2	27.9	24.3
ROA	15.7	5.7	13.8	13.8	13.5
Per share					
EPS (US$)	2.9	1.0	1.8	2.2	2.7
DPS (US$)	0.0	0.0	0.0	0.0	0.0
BVPS (US$)	9.7	8.0	5.4	8.0	11.1

Source: Company data, CMBIGM estimates

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