

Horizon CD (9930 HK)

Expect solid 2023E earnings; Higher free float to boost valuation

Horizon CD will release 2023E earnings on 12 Mar. We expect Horizon CD to deliver core net profit of RMB1bn (+20% YoY). Given the transformation to asset-light model, we expect Horizon CD substantially scaled back the capex in 2023E to ~RMB1bn (from our previous forecast of >RMB4bn). While we trim our earnings forecast by 3%/12% in 2024E/25E on lower capex assumptions, we see stronger free cash flow going forward, which potentially helps reduce the net debt/equity ratio to 106% by end-2025E (versus 159% as at end-Jun 2023). We see overseas as a new growth driver as Horizon CD targets to establish 20 service outlets in 2024E (up from five in 2023E). In the near term, the distribution of Horizon's shares on 16 Jan by **Far East Horizon (3360 HK, BUY, covered by Finance team)** will potentially boost trading volume and valuation. Maintain **BUY** with a new TP of HK\$5.2.

- **2023E earnings preview:** We forecast revenue growth of 13% YoY, on the back of fast growing platform service revenue. Excluding the listing expense as well as the interest expense and FX change from the redemption liabilities on pre-IPO investment, we estimate core net profit of RMB1bn.
- **Growth of AWP fleet size through re-renting.** We expect Horizon CD has built up a fleet of 180k units by end-2023E, including ~50 units entrusted by other equipment owners (i.e. re-renting). We forecast Horizon to add 30-50k units in 2024E, which will be largely by re-renting.
- **Overseas expansion a growth driver.** We estimate Horizon CD established five service outlets in overseas in 2023E. Horizon CD has already started offering operating lease services in some overseas areas. Horizon targets to take the overseas service outlets number to 20 in 2024E, covering regions such as Saudi Arabia, Turkey, Dubai etc. We understand that the pricing in some overseas markets is much higher than that in China.
- **Higher free float to boost turnover.** Far East Horizon is the controlling shareholder of Horizon CD. In the EGM held in late Dec, shareholders of Far East Horizon approved the plan to distribute 160mn shares of Horizon CD through special dividend. Every 27 shares held by Far East Horizon's shareholder will be eligible to obtain one share of Horizon CD. The shares (5% of Horizon's total o/s shares) will be distributed on 16 Jan.
- **Maintain BUY.** We revise up our TP to HK\$5.2 (previously HK\$4.8), based on 13x P/E which is equivalent to the two-year average of **Huatie (603300 CH, NR)**, the major peer of Horizon CD. Our higher TP is to reflect (1) the rollover of valuation base to 2024E, (2) the lower risk of balance sheet as a result of the adoption of asset-light model, and (3) better liquidity.

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	13.4	10.3	8.4
P/B (x)	na	na	1.5	1.3	1.1
Yield (%)	na	na	1.1	1.5	1.8
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\$4.80**

Up/Downside **15.8%**

Current Price **HK\$4.49**

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Stock Data

Mkt Cap (HK\$ mn)	14,355.6
Avg 3 mths t/o (HK\$ mn)	0.4
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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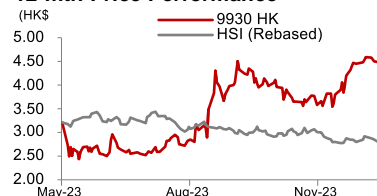
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	18.2%	19.2%
3-mth	4.9%	13.5%
6-mth	70.1%	92.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

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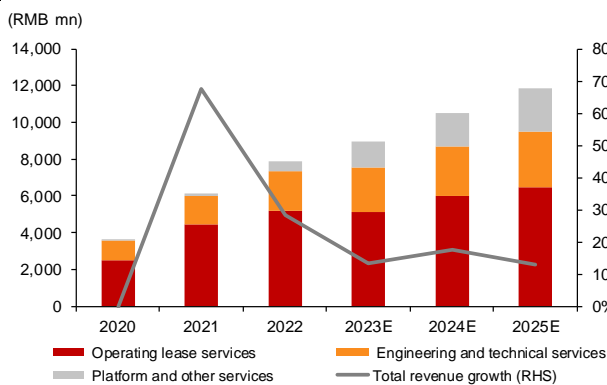
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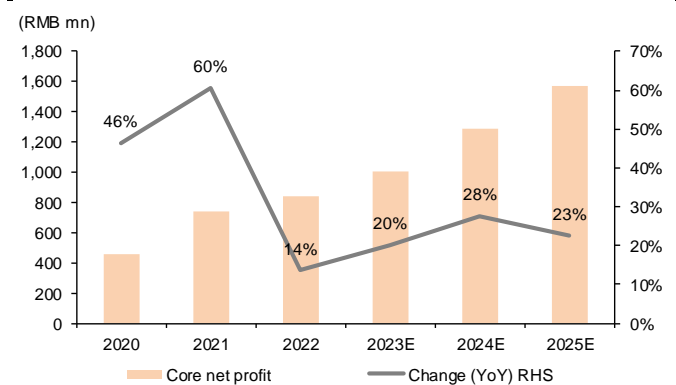
Figure 1: Change in key operating assumptions

	Old			New			Change		
	2023	2024	2025	2023	2024	2025	2023E	2024E	2025E
Revenue (RMB mn)									
Operating lease services	5,997	6,976	8,237	5,119	5,980	6,473	-14.6%	-14.3%	-21.4%
Engineering and technical services	2,991	4,038	5,250	2,436	2,728	3,055	-18.6%	-32.4%	-41.8%
Platform and other services	882	1,323	1,719	1,378	1,791	2,328	56.3%	35.4%	35.4%
Total revenue	9,870	12,337	15,206	8,933	10,499	11,857	-9.5%	-14.9%	-22.0%
Gross margin									
Operating lease services	45.0%	45.5%	46.0%	41.0%	42.0%	42.0%	-4.0	-3.5	-4.0
Engineering and technical services	30.0%	30.0%	30.0%	28.0%	28.0%	28.0%	-2.0	-2.0	-2.0
Platform and other services	31.5%	31.0%	30.5%	37.0%	36.0%	36.0%	5.5	5.0	5.5
Blended	39.2%	38.9%	38.7%	36.8%	37.3%	37.2%	-2.4	-1.5	-1.5
Key expense ratios									
S&D expenses	4.3%	4.5%	4.5%	2.5%	3.0%	3.0%	-1.8	-1.5	-1.5
Administrative expenses	11.0%	10.8%	10.5%	10.7%	10.8%	10.7%	-0.3	0.0	0.2
Expected credit losses of financial & contract assets, net	1.5%	1.5%	1.5%	2.0%	2.0%	2.0%	0.5	0.5	0.5
Net finance expense (RMB mn)	-1,050	-1,114	-1,178	-840	-687	-593	-20.0%	-38.3%	-49.6%
Reported net profit	967	1,320	1,788	926	1,285	1,575	-4.3%	-2.7%	-11.9%
Core net profit	1,047	1,320	1,788	1,006	1,285	1,575	-3.9%	-2.7%	-11.9%

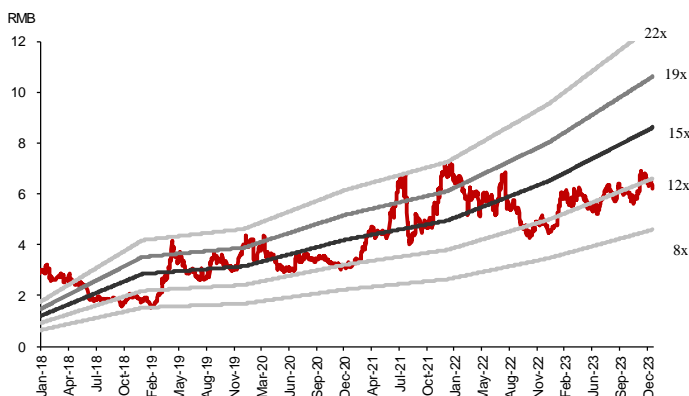
Source: Company data, CMBIGM estimates

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

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

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)
Gross profit	1,648	2,846	3,133	3,291	3,920	4,413
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
EBITDA	1,885	3,197	4,081	4,454	4,716	5,069
Depreciation	957	1,653	2,273	2,396	2,316	2,376
EBIT	928	1,544	1,807	2,058	2,400	2,693
Interest income	17	9	11	14	20	17
Interest expense	(304)	(650)	(925)	(854)	(707)	(610)
Net Interest income/(expense)	(287)	(641)	(913)	(840)	(687)	(593)
Pre-tax profit	642	902	894	1,218	1,713	2,100
Income tax	(148)	(193)	(227)	(292)	(428)	(525)
Minority interest	(45)	0	0	0	0	0
Net profit	448	710	667	926	1,285	1,575
Adjusted net profit	459	737	837	1,006	1,285	1,575

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	4,422	7,972	10,340	11,077	11,759	12,233
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
Non-current assets	11,218	18,988	19,952	18,556	17,240	15,865
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
Total assets	15,639	26,961	30,292	29,633	28,999	28,098
Current liabilities	4,694	7,990	8,191	8,001	6,622	5,538
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
Non-current liabilities	5,644	12,959	15,426	12,626	12,226	11,026
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
Total liabilities	10,337	20,950	23,617	20,627	18,848	16,564
Total shareholders equity	5,301	6,011	6,675	9,006	10,152	11,534
Minority interest	0	0	0	0	0	0
Total equity and liabilities	15,639	26,961	30,292	29,633	28,999	28,098

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
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
Net cash from operations	1,027	2,449	2,823	3,498	3,634	3,866
Investing						
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
Net cash from investing	(6,691)	(10,471)	(3,463)	(986)	(980)	(983)
Financing						
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)
Net cash from financing	5,808	8,370	2,286	(3,249)	(2,245)	(4,003)
Net change in cash						
Cash at the beginning of the year	23	166	507	2,159	1,422	1,830
Exchange difference	(1)	(8)	6	0	0	0
Cash at the end of the year	166	507	2,159	1,422	1,830	710
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	na	13.4	10.3	8.4
P/B	na	na	na	1.5	1.3	1.1
Div yield (%)	na	na	na	1.1	1.5	1.8

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

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