

Huitongda Network (9878 HK)

Quality growth with advanced profitability

We keep confident on HTD to deliver above-industrial growth and margin improvement in the long run. 2H22E & 1Q23E momentum would be disrupted by epidemic outbreak & reopening impact (forecasting rev/adj. net profit +16%/17% YoY in 2H22E), but well anticipated by the market. We expect HTD to benefit from consumption recovery post reopening, and forecast its FY23E earnings >30% YoY, with moderate but high-quality topline growth (+21% YoY). HTD announced voluntary lock-up undertakings made by certain shareholders last week, suggesting confidence from shareholders. To factor in epidemic impact and quality growth target, we trimmed its topline by 5-26% in FY22-24E, with new TP at HK\$63.2 (0.25x FY23E P/S or 43x FY23E P/E). More catalysts to come: 1) potential positive profit alert, and 2) biz recovery from 2Q23E.

- **Factoring in epidemic outbreak & reopening impact.** We expect 2H22E rev/adj. net +16%/17% YoY, 13%/12% below consensus. 2H22E potential slowdown should be mainly attributable to: 1) rising covid cases after reopening to dampen growth of vehicles and auto parts, household appliance and homebuilding materials; and 2) Foxconn incident to affect consumer electronics momentum (forecasting rev +27% in 2H22E); and 3) moderate service biz expansion for macro challenges (forecasting rev +57% in 2H22E, vs. prior +109% YoY). However, we expect its margin expansion trend intact, in which GPM would see sequential growth in 2H22E (up to 3.3%) and OPM up to 1.2% (+0.4ppts HoH). We see high visibility for HTD to deliver >30% earnings growth in FY22E. 2H22E deceleration disrupted by epidemic should be forgivable and transitory, and we suggest to move into its long-term share gain and advanced profitability.
- **Quality growth with continuous margin improvement in FY23E.** Looking into FY23E, we expect HTD's priority shift to high-quality growth and profitability enhancement rather than aggressive expansion. As such, we reset its topline/ bottom line growth at 21%/32% YoY in FY23E (still largely above industrial estimated GMV of +12% YoY). We keep confident on its above-industrial growth, backed by: 1) resilient demand in low-tier markets with category expansion; and 2) consumption recovery post reopening. We expect service business rev +30% YoY in FY23E. 1Q23E might be soft on covid disruptions, but is well anticipated by the market.
- **Maintain BUY.** To factor in epidemic impact and priority on quality growth, we trimmed HTD's FY22-24E topline forecast by 5-26%. After financial resetting, we keep positive on its secular growth (21%/30% topline/bottom line CAGR in FY22-24E) and better margin outlook. Our SOTP-based TP was adjusted to HK\$63.2.

Earnings Summary

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	65,763	81,372	98,713	118,509
YoY growth (%)	32.5	23.7	21.3	20.1
Adj. net income (RMB mn)	328	431	568	732
Adj. EPS (RMB)	0.6	0.8	1.0	1.3
YoY growth (%)	66.4	31.7	31.7	28.9
Consensus EPS (RMB)	NA	0.8	1.4	2.0
P/E (x)	58	49	37	29
P/S (x)	0.32	0.26	0.21	0.18
Yield (%)	0.0	0.0	0.0	0.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$63.2
(Previous TP) HK\$70.0
Up/Downside +52.6%
Current Price HK\$41.4

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	24,697
Avg 3 mths t/o (HK\$ mn)	4.92
52w High/Low (HK\$)	64.7/ 27.9
Total Issued Shares (mn)	180
Source: Bloomberg	

Shareholding Structure

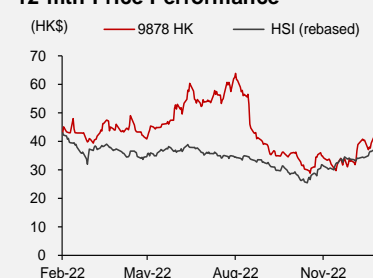
Wang Jianguo	21.92%
Alibaba China	13.82%
Xu Xiuxian	10.15%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	25.8%	12.0%
3-mth	15.6%	-11.8%
6-mth	-22.9%	-28.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Figure 1: 2H22E financial preview

Rmb mn	1H20	2H20	1H21	2H21	1H22	2H22E
Revenue	20,679	28,950	29,975	35,789	39,895	41,477
YoY growth	NA	NA	45.0%	23.6%	33.1%	15.9%
HoH growth	NA	40.0%	3.5%	19.4%	11.5%	4.0%
Gross profit	498	847	771	1,097	1,150	1,372
GPM	2.4%	2.9%	2.6%	3.1%	2.9%	3.3%
Operating profit (IFRS)	96	311	257	382	336	481
OPM	0.5%	1.1%	0.9%	1.1%	0.8%	1.2%
Net profit (IFRS)	-231	-49	-138	-39	200	388
NPM	-1.1%	-0.2%	-0.5%	-0.1%	0.5%	0.9%
Adjusted net profit attributable to equity shareholders (Non-IFRS)	17	179	119	209	187	245
Adjusted NPM attributable to equity shareholders	0.1%	0.6%	0.4%	0.6%	0.5%	0.6%
YoY growth	NA	NA	581.4%	16.5%	57.7%	16.9%

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Revenue breakdown

Rmb mn	1H20	2H20	1H21	2H21	1H22	2H22E
Commerce business						
Revenue	20,524	28,778	29,757	35,469	39,485	40,996
% total rev	99.2%	99.4%	99.3%	99.1%	99.0%	98.8%
YoY growth	NA	NA	45.0%	23.2%	32.7%	15.6%
GPM	1.9%	2.7%	2.2%	2.4%	2.1%	2.4%
Service business						
Revenue	109	133	168	270	364	424
% total rev	0.5%	0.5%	0.6%	0.8%	0.9%	1.0%
YoY growth	NA	NA	53.5%	102.5%	117.2%	56.9%
GPM	59.8%	42.8%	44.6%	78.5%	75.4%	81.9%
Others						
Revenue	46	38	50	50	45	57
% total rev	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%
YoY growth	NA	NA	8.0%	30.4%	-9.9%	15.0%
GPM	75.2%	62.1%	81.5%	84.4%	81.4%	85.0%

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	81,372	98,713	118,509	86,904	114,527	146,876	-6.4%	-13.8%	-19.3%
Gross Profit	2,522	3,377	4,239	2,673	4,043	5,427	-5.6%	-16.5%	-21.9%
Operating Profit	817	989	1,294	806	1,350	1,994	1.3%	-26.7%	-35.1%
Adj. net profit	431	568	732	456	815	1,187	-5.5%	-30.3%	-38.3%
Adj. EPS (RMB)	0.77	1.01	1.30	0.83	1.40	2.02	-7.1%	-27.8%	-35.6%
Gross Margin	3.1%	3.4%	3.6%	3.1%	3.5%	3.7%	+0.0ppts	-0.1ppts	-0.1ppts
Operating Margin	1.0%	1.0%	1.1%	0.9%	1.2%	1.4%	+0.1ppts	-0.2ppts	-0.3ppts
Adj. net margin	0.5%	0.6%	0.6%	0.5%	0.7%	0.8%	+0.0ppts	-0.1ppts	-0.2ppts

Source: CMBIGM estimates, Bloomberg

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	81,372	98,713	118,509	85,832	116,393	159,444	-5.2%	-15.2%	-25.7%
Gross Profit	2,522	3,377	4,239	2,696	4,090	5,817	-6.5%	-17.4%	-27.1%
Operating Profit	817	989	1,294	905	1,454	2,302	-9.7%	-31.9%	-43.8%
Adj. net profit	431	568	732	464	806	1,261	-6.9%	-29.5%	-41.9%
EPS (RMB)	0.77	1.01	1.30	0.82	1.43	2.24	-6.9%	-29.5%	-41.9%
Gross Margin	3.1%	3.4%	3.6%	3.1%	3.5%	3.6%	-0.0ppts	-0.1ppts	-0.1ppts
Operating Margin	1.0%	1.0%	1.1%	1.1%	1.2%	1.4%	-0.1ppts	-0.2ppts	-0.4ppts
Net Margin	0.5%	0.6%	0.6%	0.5%	0.7%	0.8%	-0.0ppts	-0.1ppts	-0.2ppts

Source: Company data, CMBIGM estimates

Given its diversified monetization, we adopted SOTP for valuation. We applied FY23E EV/Sales multiple (0.2x/5x) for its commerce biz/ service biz, yielding TP of **HK\$63.2**. Our SOTP valuation suggests **0.25x FY23E P/S** or 43x FY23E P/E.

We selected five group comps for peer comparison, in which ecommerce trade at 1.7x FY23E EV/Sales on average, and SaaS at 3.5x FY23E EV/Sales. Given its biz model, we think JD would be the most comparable one, and its SOTP valuation (0.25x FY23E P/S) suggest 55% discount to JD. As leading lower-tier commerce player, we think there are re-rating upside for HTD, backed by its 1) strong supply chain & localization to build high barrier; and 2) 21%/30% FY22-24E rev/earnings CAGR and margin enhancement (vs. industrial average at 15%/20% rev/earnings CAGR).

Figure 5: SOTP valuation

Business (RMB mn)	'23E Rev	Multiple	Methodology	Value
Commerce business	97,575	0.20x	EV/Sales	19,515
Service business	1,025	5.0x	EV/Sales	5,125
Enterprise Value				24,640
(+) Net Cash				5,440
Equity Value				30,080
FX				0.85
Valuation (HK\$ mn)				35,388
TP (HK\$) based on SOTP				63

Source: Company data, Bloomberg, CMBIGM estimates

Figure 6: Comps table

Source: Company data, Bloomberg, CMBIGM estimates

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBIT		
							FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Huitongda	9878 HK	3,025	HKD	42	BUY	63	48.7	36.9	28.7	0.2	0.2	0.1	19.3	11.5	7.8
EC Service Provider															
Baozun	BZUN US	477	USD	8	BUY	8	19.1	12.3	7.1	0.4	0.4	0.3	20.2	15.6	8.1
Lily & Beauty	605136 CH	774	CNY	13	NA	NA	24.4	16.9	13.5	1.3	1.1	0.9	15.8	10.9	8.8
Ruoyuchen	003010 CH	314	CNY	17	NA	NA	NA	57.4	36.3	1.9	1.7	1.5	85.5	45.7	28.7
Onechance	300792 CH	953	CNY	27	NA	NA	22.7	17.8	15.7	4.9	4.0	3.5	14.8	11.5	9.8
Transcosmos	9715 JP	1,235	JPY	3,260	NA	NA	7.6	10.7	10.1	0.5	0.5	0.4	5.4	5.7	5.4
Average							18.5	14.4	16.6	1.8	1.5	1.3	28.3	17.9	12.2
China Ecommerce															
Pinduoduo	PDD US	122,645	USD	97	BUY	93	22.5	19.5	15.5	6.3	5.0	4.2	22.2	17.6	13.4
Alibaba	BABA US	309,788	USD	117	BUY	156	15.1	12.9	11.1	2.4	2.1	1.9	16.0	13.2	11.3
JD.com	JD US	100,466	USD	64	BUY	79	25.7	20.6	16.1	0.6	0.6	0.5	31.5	21.2	15.6
Vipshop	VIPS US	9,562	USD	16	NA	NA	9.8	9.4	8.9	0.6	0.6	0.6	8.2	7.5	7.0
Suning.com	002024 CH	3,096	CNY	2	NA	NA	NA	NA	67.6	0.3	0.2	0.2	NA	NA	42.0
Meituan	3690 HK	129,685	HKD	164	BUY	216	NA	63.2	29.9	4.0	3.2	2.5	NA	NA	37.9
Yatsen	YSG US	945	USD	2	NA	NA	NA	NA	NA	1.8	1.6	1.4	NA	NA	NA
Average							18.3	15.6	16.3	2.3	1.9	1.6	19.5	14.9	21.2
Global Ecommerce															
Amazon	AMZN US	1,000,986	USD	98	NA	NA	69.0	33.9	23.6	2.0	1.8	1.6	89.7	46.9	28.9
eBay	EBAY US	25,103	USD	46	NA	NA	12.7	11.6	10.9	2.6	2.6	2.5	9.9	10.3	9.8
Groupon	GRPN US	261	USD	9	NA	NA	NA	11.5	5.6	0.4	0.4	0.4	NA	NA	20.9
Average							12.7	19.0	13.4	1.7	1.6	1.5	49.8	28.6	19.9
SaaS															
Youzan	8083 HK	261	HKD	0	NA	NA	NA	NA	NA	2.8	2.5	2.1	NA	NA	NA
Weimob	2013 HK	1,507	HKD	6	NA	NA	NA	NA	NA	7.1	5.6	4.7	NA	NA	NA
KE Holdings	BEKE US	18,081	USD	20	BUY	23	91.0	33.5	26.2	2.8	2.4	2.0	NA	28.9	21.4
Average							91.0	33.5	26.2	4.2	3.5	2.9	NA	28.9	21.4
Delivery															
SF Holding	002352 CH	37,361	CNY	61	BUY	94	44.0	32.0	23.8	1.1	1.0	0.8	29.0	23.3	17.9
YTO Express	600233 CH	10,344	CNY	21	NA	NA	19.0	16.2	13.7	1.3	1.2	1.0	13.3	11.3	9.6
JD Logistics	2618 HK	12,898	HKD	16	NA	NA	NA	55.1	28.5	0.7	0.5	0.5	NA	44.8	20.5
Dada Nexus	DADA US	1,944	USD	14	NA	NA	NA	NA	18.9	2.6	1.9	1.4	NA	NA	20.2
ZTO Express	2057 HK	21,078	HKD	222	BUY	307	23.4	19.3	15.9	4.3	3.7	3.3	19.1	15.7	12.9
Full Truck	YMM US	7,648	USD	10	NA	NA	57.4	39.3	22.6	11.2	9.2	6.9	NA	72.4	21.5
Average							35.9	26.7	20.6	3.5	2.9	2.3	20.5	33.5	17.1
Average							20.5	18.5	16.7	2.7	2.3	1.9	22.4	22.2	17.1

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	49,629	65,763	81,372	98,713	118,509
Commerce business	49,302	65,226	80,481	97,575	117,139
Service business	243	438	788	1,025	1,246
Others	84	100	102	113	124
COGS	(48,285)	(63,895)	(78,849)	(95,336)	(114,270)
Gross profit	1,345	1,868	2,522	3,377	4,239
S&M	(610)	(864)	(1,192)	(1,477)	(1,740)
Admin.Exp.	(415)	(479)	(540)	(685)	(822)
R&D	(58)	(79)	(119)	(225)	(383)
Other gains	122	137	124	-	-
Other rev	23	56	21	-	-
Operating profit	407	639	817	989	1,294
Other income/(exp), net	(604)	(713)	(81)	176	130
Pre-tax Income	(197)	(74)	736	1,166	1,423
Income Tax	(81)	(101)	(148)	(291)	(313)
Net profit	(405)	(350)	340	568	732
Adj. net profit	197	328	431	568	732

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(405)	1,168	340	568	732
D&A	80	37	52	60	69
Change in WC	2,134	901	(279)	(756)	(1,262)
Others	(1,337)	(1,291)	558	582	561
Operating CF	472	815	671	454	100
Capex	(31)	(15)	(45)	(60)	(60)
Purchase of investments	(17,164)	-	-	-	-
Others	19,334	(1,812)	-	-	-
Investing CF	2,138	(1,827)	(45)	(60)	(60)
Equity raised	-	-	-	-	-
Change of Debts	(289)	(107)	-	-	-
Cash from CB raised	1,200	-	-	-	-
Others	(373)	(230)	1,977	-	-
Financing CF	538	(337)	1,977	-	-
Net change in cash	3,148	(1,349)	2,602	394	40
Cash (beg of yr)	1,168	4,316	2,967	5,569	5,963
FX	-	-	-	-	-
Cash (end of yr)	4,316	2,967	5,569	5,963	6,003

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	1,420	2,245	2,238	2,238	2,229
Property and equipment	45	43	56	73	78
Right-of-use assets	128	111	91	74	61
Intangible assets	-	-	-	-	-
Others	1,247	2,091	2,091	2,091	2,091
Current assets	20,275	23,353	29,553	34,117	39,073
Cash	4,316	2,967	5,569	5,963	6,003
Prepayments	6,620	8,417	10,585	13,321	16,593
Financial assets at fair value	2	2	2	2	2
Trade receivables	1,847	2,653	3,344	4,057	4,870
Others	7,490	9,314	10,052	10,775	11,605
Current liabilities	23,643	27,231	21,517	24,927	28,575
Accounts payables	11,419	14,419	17,066	19,851	22,854
Other payables	495	661	697	832	988
Advances from customers	1	-	-	-	-
Others	11,728	12,151	3,754	4,244	4,732
Non-current liabilities	97	84	90	94	100
Lease liabilities	80	67	67	67	67
Others	17	17	22	27	32
MI	1,256	1,358	1,358	1,358	1,358
Total Equity	(2,044)	(1,717)	10,104	11,093	12,387
Shareholders' equity	(2,044)	(1,717)	10,184	11,334	12,628

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Commerce business	99.3	99.2	98.9	98.8	98.8
Service business	0.5	0.7	1.0	1.0	1.1
Others	0.2	0.2	0.1	0.1	0.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	13.7	32.5	23.7	21.3	20.1
Gross profit	5.1	38.9	35.0	33.9	25.5
EBIT	21.7	57.0	27.9	21.1	30.7
Adj. net profit	41.6	66.4	31.7	31.7	28.9
P&L ratios (%)					
Operating margin	0.8	1.0	1.0	1.0	1.1
Pre-tax margin	(0.4)	(0.1)	0.9	1.2	1.2
Adj. net margin	0.4	0.5	0.5	0.6	0.6
Effective tax rate	0.2	0.2	0.2	0.3	0.2
Returns (%)					
ROE	(11.3)	(17.4)	10.2	5.3	6.1
ROA	1.0	1.4	1.5	1.7	1.9

Source: Company data, CMBIGM estimates

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