

Horizon CD (9930 HK)

No.1 equipment operation service provider ready to capture the opportunities in AWP

As a leading equipment operation service provider with the strong capability of offering integrated services, nationwide service network and proven digitalization capability, Horizon Construction Development is set to capture the fast-growing aerial work platform (AWP) demand and the rising penetration of equipment operation service market. In addition, we believe the successful IPO as well as the gradual shift to asset-light re-rent model will help improve balance sheet over the coming two years. We initiate coverage on Horizon Construction with **BUY** rating and TP of HK\$4.80. Our TP is based on 15x 2023E P/E, equivalent to the five-year average of **Huatie (603300 CH, NR)**, the major peer of Horizon Construction.

- **Ranked first in China's equipment operation service market.** Horizon Construction is a subsidiary of **Far East Horizon (3360 HK, BUY, covered by Financial team)**. According to F&S, Horizon Construction was the largest equipment operation service provider in China in terms of revenue in 2022, with the capabilities of providing multi-dimensional services covering the full cycle of projects. Horizon Construction is mainly involved in three types of services, namely (i) operating lease services (66% of revenue in 2022); (ii) engineering & technical services (27%); (iii) platform & other services (7%).
- **China's equipment operation market growth driven by rising penetration rate.** The market size of equipment operation service (in terms of revenue) in China increased from RMB607bn in 2018 to RMB935bn in 2022 (CAGR: 11.4%), and is expected to further increase to RMB1,593bn in 2027E (CAGR: 10.3% in 2023-27E). Meanwhile, the penetration rate of the equipment leasing industry increased from 51.3% in 2018 to 57.5% in 2022, and is expected to further increase to 64% in 2027E.
- **Fast-growing demand for AWP.** Driven by higher safety standard, higher operating efficiency and replacement of labor, demand for AWP in China has been growing rapidly, with the total fleet size of AWP increased from 113k units in 2018 to 487k units in 2022 (CAGR: 44.1%) and is expected to grow at a CAGR of 17.7% to 1,195k units in 2023-27E.
- **Earnings projection.** We forecast 25%/25%/23% revenue growth in 2023E/24E/25E, mainly driven by steady growth of equipment volume and recovery of utilization rate. We forecast the core net profit to grow 21%/37%/35% to RMB0.97bn/RMB1.32bn/RMB1.79bn in 2023E/24E/25E. We forecast core EPS growth of 14%/29%/35% after taking the new shares in IPO into consideration.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	6,141	7,878	9,870	12,337	15,206
YoY growth (%)	67.6	28.3	25.3	25.0	23.3
Adjusted net profit (RMB mn)	709.6	796.4	966.8	1,319.7	1,788.2
EPS (Adjusted) (RMB)	0.25	0.28	0.32	0.41	0.56
P/E (x)	na	na	7.7	6.0	4.4
P/B (x)	na	na	0.9	0.8	0.7
Yield (%)	na	na	1.9	2.5	3.4
ROE (%)	12.5	10.5	12.3	13.7	16.2
Net gearing (%)	287.9	286.4	214.1	212.2	192.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY

Target Price HK\$4.80
Up/Downside 79.1%
Current Price HK\$2.68

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Stock Data

Mkt Cap (HK\$ mn)	8,568.6
Avg 3 mths t/o (HK\$ mn)	0.9
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	3197.2

Source: FactSet

Shareholding Structure

Far East Horizon	77.2%
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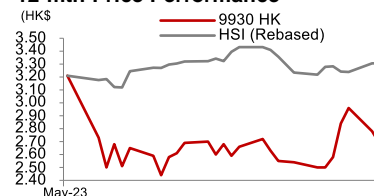
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.1%	-0.7%
3-mth	NM	NM
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Contents

Executive summary	3
Valuation.....	5
Industry Overview	6
Business Overview	20
Competitive edge	31
Growth strategies.....	34
Financial Analysis and Forecast.....	37
Appendix.....	46

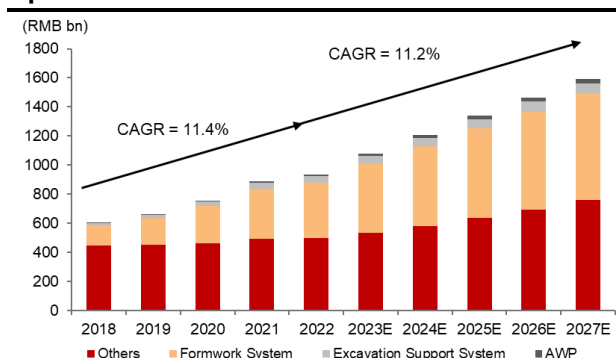
Executive summary

China's equipment operation market growth driven by rising penetration rate.

China's equipment operation service has experienced a significant increase in the past five years. The market size of equipment operation service in China (in terms of revenue) increased from RMB607bn in 2018 to RMB935.4bn in 2022 (CAGR: 11.4%), and is expected to further increase to RMB1,593bn in 2027E (CAGR: 10.3% in 2023-27E). Meanwhile, the penetration rate of the equipment leasing industry increased from 51.3% in 2018 to 57.5% in 2022, and is expected to further increase to 64% in 2027E.

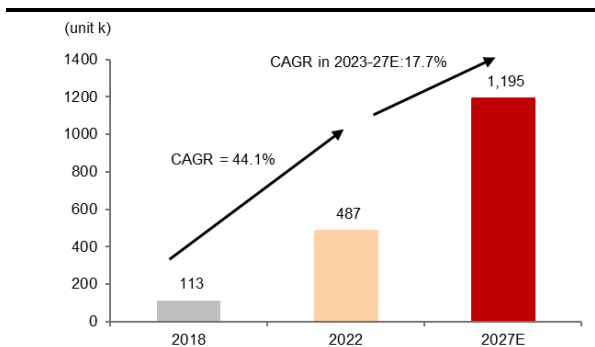
Fast-growing demand for AWP. Driven by a higher safety standard, higher operating efficiency and replacement of labor, demand for AWP in China has been growing rapidly, with the total fleet size of AWP increased from 113k units in 2018 to 487k units in 2022 (CAGR: 44.1%) and is expected to grow at a CAGR of 17.7% to 1,195k units in 2023-27E. Horizon Construction ranked first in terms of equipment volume of AWP, accounting for 30.6% of the market share in terms of equipment volume in China in 2022.

Figure 1: Increasing market size of equipment operation market in China



Source: Frost & Sullivan, CMBIGM

Figure 2: Fast-growing fleet size of AWP in China

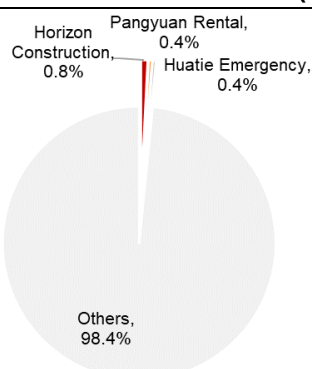


Source: Frost & Sullivan, CMBIGM

Horizon Construction ranked first in China's equipment operation service market.

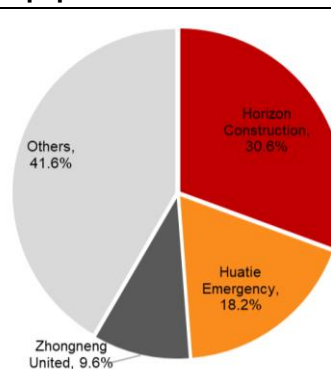
Horizon Construction Development, a subsidiary of **Far East Horizon (3360 HK)**, is a leading equipment service provider in China. According to F&S, Horizon Construction ranked first in China's equipment operation service market in terms of revenue in 2022, with the capabilities of providing multi-dimensional services covering the full cycle of projects. Horizon Construction is mainly involved in three types of services, namely (i) operating lease services; (ii) engineering and technical services; (3) platform and other services. The Company's service portfolio for operating lease services mainly comprises the neo-excavation support system, neo-formwork system and aerial work platform (AWP), all of which ranked first in terms of equipment volume in China in 2022, according to F&S.

Figure 3: Market share breakdown of China's equipment operation service market (2022)



Source: Company data, Frost & Sullivan, CMBIGM

Figure 4: Horizon Construction ranked first in terms of equipment volume of AWP (2022)

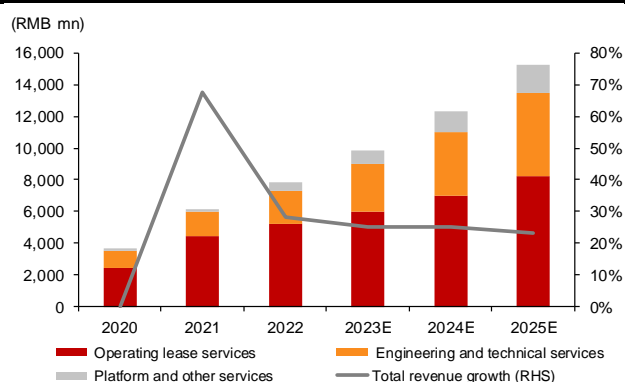


Source: Company data, Frost & Sullivan, CMBIGM

Competitive edge and growth strategy. With the strong capability of offering integrated services, nationwide service network and proven digitalization capability, Horizon Construction is set to capture the fast-growing AWP demand and the rising penetration of equipment operation service market. Horizon Construction plans to boost capex, which includes expansion of service network, optimization of equipment portfolio, overseas market expansion and a series of digital upgrades, which we believe will enable it to outpace the competitors.

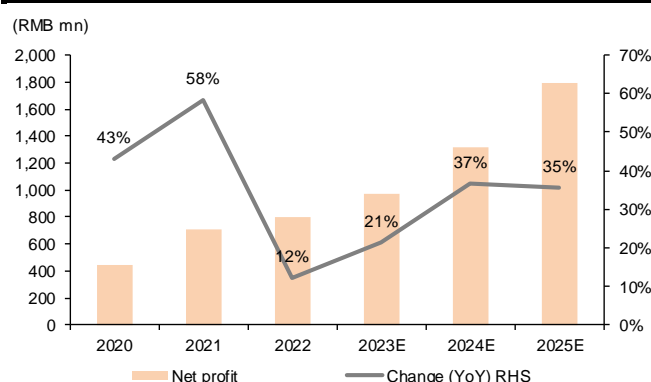
Earnings projection. We forecast 25%/25%/23% revenue growth in 2023E/24E/25E, mainly driven by steady growth of equipment volume and recovery of utilization rate. We forecast the core net profit to grow 21%/37%/35% to RMB0.97bn/RMB1.32bn/RMB1.79bn in 2023E/24E/25E, mainly driven by steady growth of equipment volume and recovery of utilization rate.

Figure 5: Revenue breakdown and forecast



Source: Company data, CMBIGM estimates

Figure 6: Adjusted net profit and growth



Source: Company data, CMBIGM estimates

Major risk factors include: 1) economic slowdown and China's policy changes; 2) significant fluctuations in the rental prices of leased equipment; 3) uncertain capabilities of managing utilization rate of leased equipment; 4) fierce industry competition; 5) shortening of useful life and decline of market value due to improper management of leased equipment; 6) increasing cost of new equipment. 7) concentrated suppliers; and 8) net current liabilities.

Valuation

United Rentals (URI US) and **Ashtead Group (AHT LN)**, the two largest players in the US equipment leasing market, had a combined market share of 30% in 2022. The major players in the US are trading at an average PE of 12x (2023E). Among the major players, Ashtead Group is trading at a valuation premium, likely due to a more diversified demand for its equipment.

In China, **Zhejiang Huatie Emergency Equipment (603300 CH)**, the closest peer of Horizon Construction, is trading at ~11x 2023E P/E.

We value Horizon Construction by benchmarking Huatie. Our target multiple is set at 15x 2023E P/E, in line with the 5-year average of Huatie.

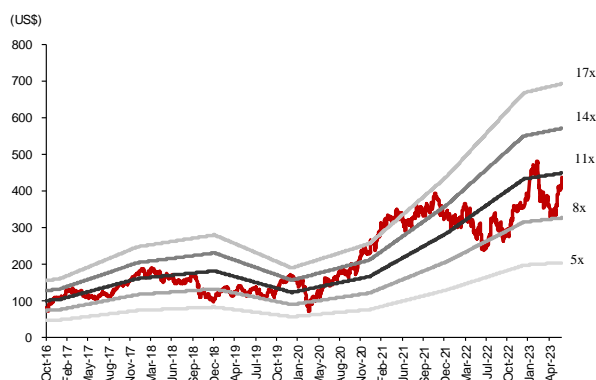
Figure 7: Peers comparison

Ticker	Company	Rating	Price (local currency)	Market cap (US\$ m)	PE (x)		PB (x)	
					FY23E	FY24E	FY23E	FY24E
Equipment leasing								
The US								
URI US Equity	UNITED RENTALS	-	448.63	30,835	11.4	10.6	3.7	3.0
AHT LN Equity	ASSTEAD GROUP	-	5,374.00	29,025	15.5	14.0	4.2	3.5
HRI US Equity	HERC HOLDINGS	-	138.07	3,933	9.9	9.3	n/a	n/a
HEES US Equity	H&E EQUIPMENT SE	-	45.60	1,659	10.9	9.6	3.3	2.7
Average					11.9	10.9	3.8	3.1
A share / HK share								
603300 CH Equity	ZHEJIANG HUATIE-A	-	5.60	1,506	11.0	8.2	2.0	1.7
9930 HK Equity	HORIZON DC	BUY	2.68	1,092	7.7	6.0	0.9	0.8

Source: Bloomberg, Company data, CMBIGM estimates

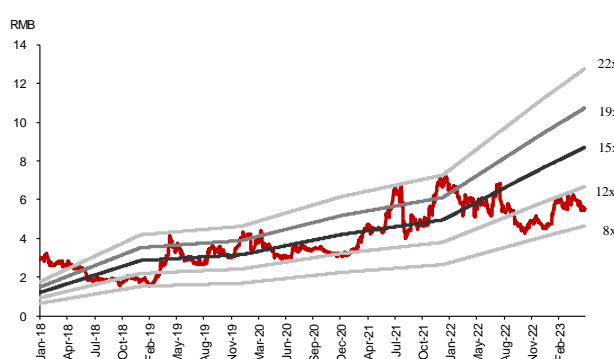
Note: For Ashtead, FY22 stands for year-end Apr.

Figure 8: United Rentals P/E Band



Source: Bloomberg, CMBIGM

Figure 9: Huatie P/E Band



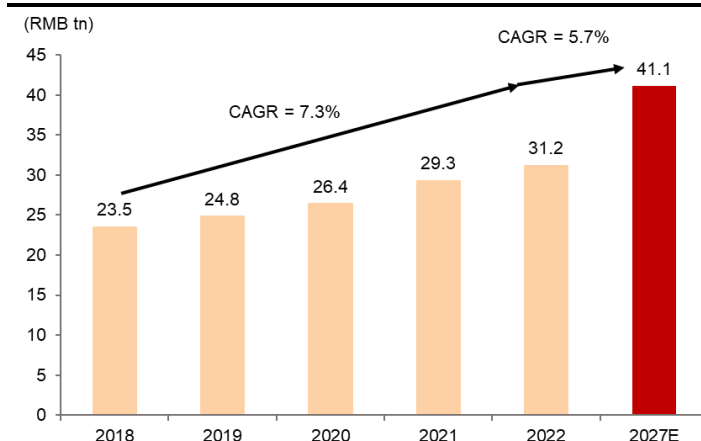
Source: Bloomberg, CMBIGM

Industry Overview

Construction industry is heading to a tech upgrade era

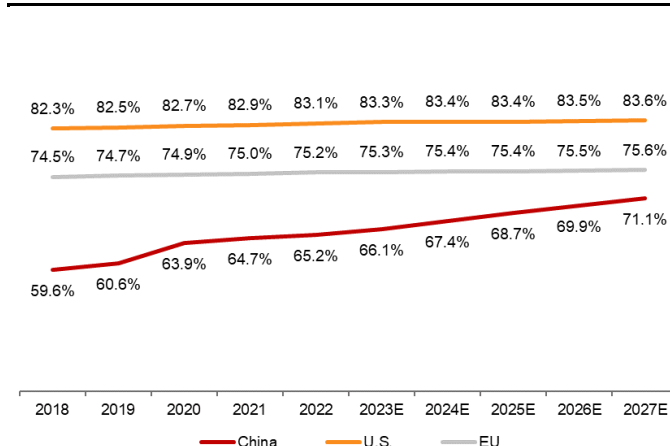
China's urbanization rate increased from 59.6% in 2018 to 65.2% in 2022 (CAGR: 2.3%), and is expected to up to 71.1% in 2027E (CAGR: 1.8%). Driven by the rapid urbanization progress, as well as the growing investment in the infrastructure industry, China's construction industry has maintained steady growth. Total output value of the construction industry in China increased from RMB23.5tn in 2018 to RMB31.2tn in 2022, representing a CAGR of 7.3%. It is expected to further increase to RMB41.1tn in 2027E (CAGR: 5.6% in 2023-2027E).

Figure 10: Total output value of China construction industry



Source: NBS, Frost & Sullivan, CMBIGM

Figure 11: China and other major economies' urbanization rate trend



Source: NBS, World Bank, Frost & Sullivan, CMBIGM

Why China's construction industry is embracing tech upgrades?

With steady growth in the macro economy, China's construction industry has entered a new era of technology transformation and upgrade, driven by the following factors:

- **Labor shortage and higher labor costs.** China's rapidly aging population has led to a contraction of the labor force and higher labor costs. China's aging rate surged from 12% in 2018 to 14.9% in 2022, and is projected to further increase to 17.3% in 2027E. With a view to addressing such issues, the construction industry has been positioning itself for technology transformation and upgrade to meet customers' demands for higher quality, comprehensive services.
- **Challenges in construction due to the complex terrain.** China has a complex terrain, which creates huge challenges in construction. Such challenges, coupled with the rapid development of infrastructure, jointly foster a huge demand for advanced construction methods and customized equipment operation services.
- **Increasingly stringent regulations.** In terms of construction safety, new laws and regulations have been employed to reduce the tolerance for accident work injury and impose stricter requirements and standards for construction safety. In terms of environmental protection, requirements for energy conservation and emission reduction have become more stringent as China targeted to achieve carbon peaks by 2030 and carbon neutrality by 2060. Hence, construction methods and engineering equipment are constantly upgrading.

China's equipment operation service market to reach RMB1tn in 2023E

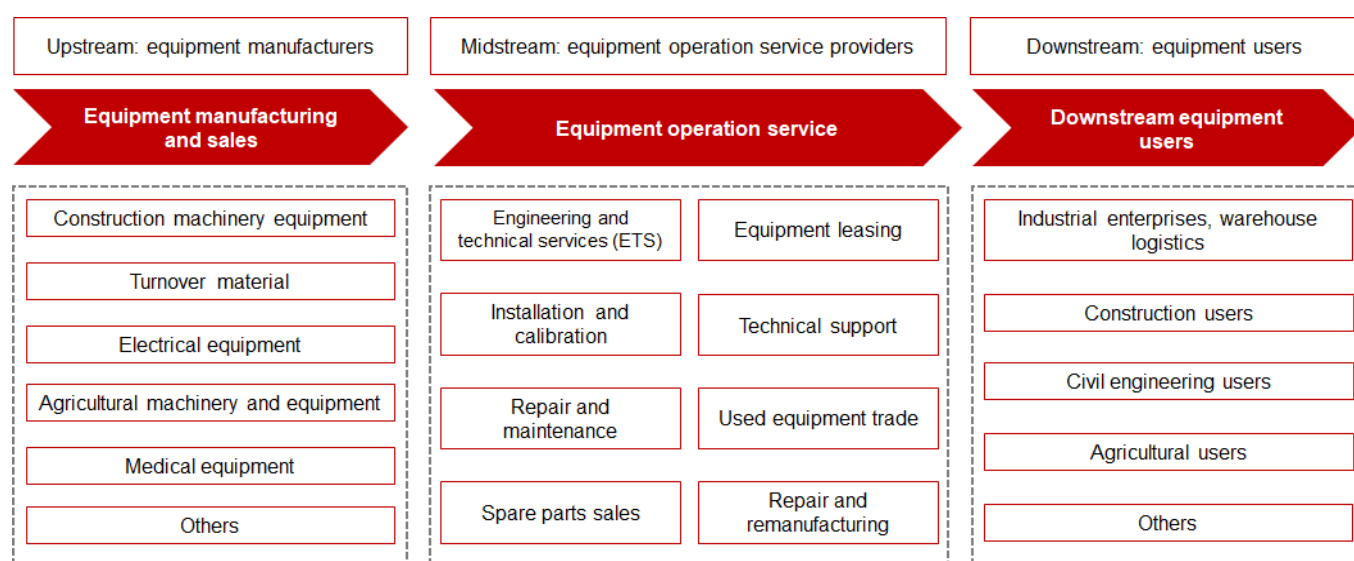
What is Equipment Operation Service?

Equipment operation service refers to the services provided by equipment operation service providers that cover the full-cycle of projects to the equipment end-users. It mainly includes (i) traditional equipment operation service (e.g. equipment leasing); (ii) customized one-stop solutions (e.g. construction and instalment, repair and maintenance, used equipment disposal, and equipment remanufacturing); and (iii) other value-added services.

In comparison to direct procurement of equipment, equipment operation service end users can (i) lower their one-off fixed asset investment expenditures; (ii) avoid being directly responsible for construction, instalment, repair and maintenance, and (iii) enjoy other value-added services, such as spare parts sales, used equipment disposal, and equipment remanufacturing from service providers.

Currently, end users in the equipment operation service market has raised their demand for high-quality, comprehensive services. By adopting new technologies such as IoT, Apps and WeChat applets, the leading service providers are capable of delivering more diversified value-added services, such as remote control and smart equipment management. This suggests that equipment operation industry is experiencing a rapid digital transformation and supply chain upgrade.

Figure 12: Supply chain of equipment operation service industry



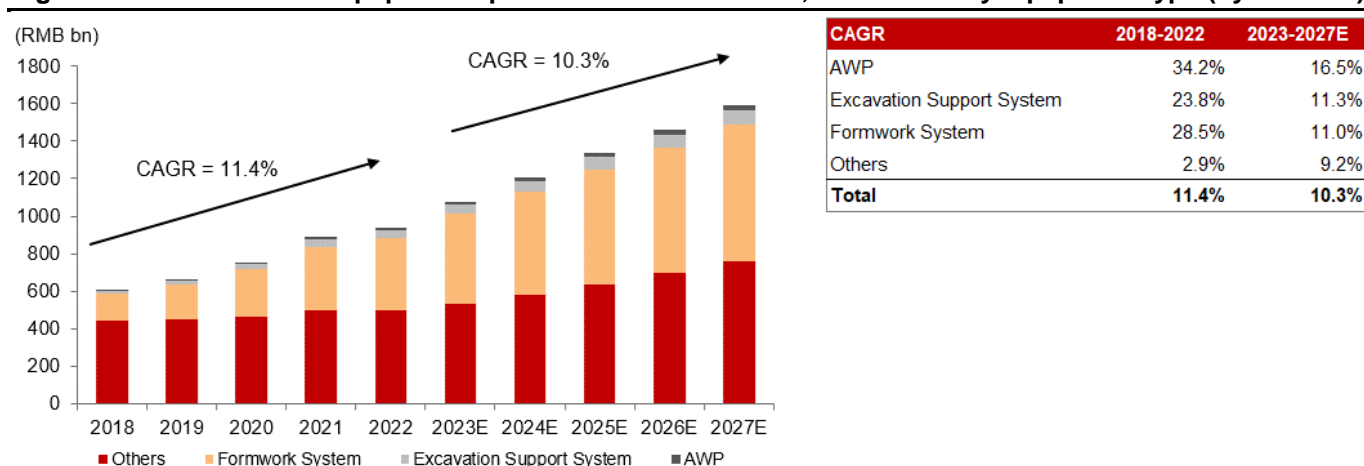
Source: Frost & Sullivan, CMBIGM

Increasing penetration driven by demand for high quality service

China's equipment operation service market has experienced a significant increase in the past five years. The size of equipment operation service market in China (in terms of revenue) increased from RMB607bn in 2018 to RMB935bn in 2022 (CAGR: 11.4%), and is expected to reach RMB1,593bn in 2027E with a CAGR of 10.3% in 2023-2027E.

However, the penetration rate of the equipment leasing industry in China is still relatively low (57.5% in 2022) as compared to other developed countries (average: 66.9% in 2022). According to F&S, China's penetration rate of equipment leasing service will increase to 64% in 2027E. Therefore, we see upside in the equipment leasing industry over the coming years, while leading players with high technology capabilities to achieve market share gain.

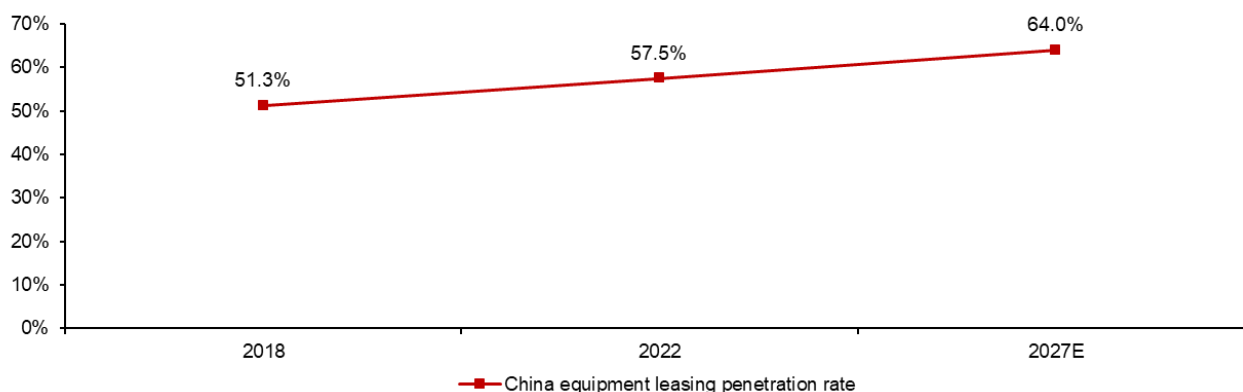
Figure 13: Market size of equipment operation market in China, breakdown by equipment type (by revenue)



Source: Frost & Sullivan, China Formwork and Scaffold Association, CCMA, CMBIGM

Note: Others mainly include excavator, loader, forklift and road construction equipment operation services.

Figure 14: Market penetration rate of equipment operation service in China



Source: Frost & Sullivan, CMBIGM

Growth Drivers of Equipment Operation Service Market

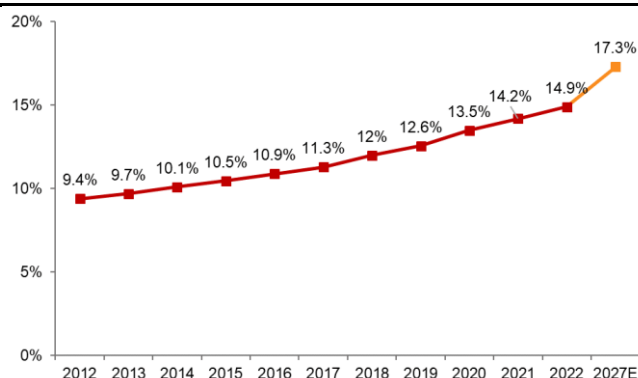
■ Increasing demand for labor replacement

Due to improvements in people's living standard and medical condition, coupled with a low birth rate, China's aging population is continuously expanding. China's aging rate surged from 12% in 2018 to 14.9% in 2022, and is projected to up to 17.3% in 2027E, according to F&S.

The aging population over the past years has led to a decline in labor supply in China, causing an increase in labor costs. For instance, the annual wage of China's urban employee increased from RMB74.3k in 2017 to RMB106.4k in 2021, with a CAGR of 9.4%, and is expected to increase to RMB161.9k in 2026E, representing a CAGR of 8.8% from 2021-2026E. Meanwhile, the majority of young workforce refuse to engage despite high compensation. The average age of construction workers in China increased to 43 in 2022, and is expected to further increase to 48.1 in 2027E.

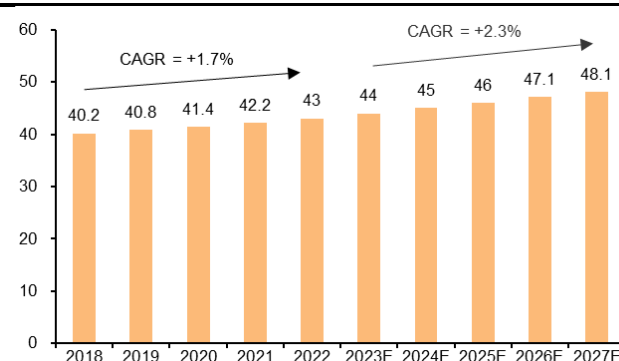
We expect this will lead to an increase in demand for equipment, which can reduce or replace human labor in several scenarios, especially the one in risky conditions, e.g. aerial work platform (AWP).

Figure 15: China's aging rate (population over 65 years old/ total population)



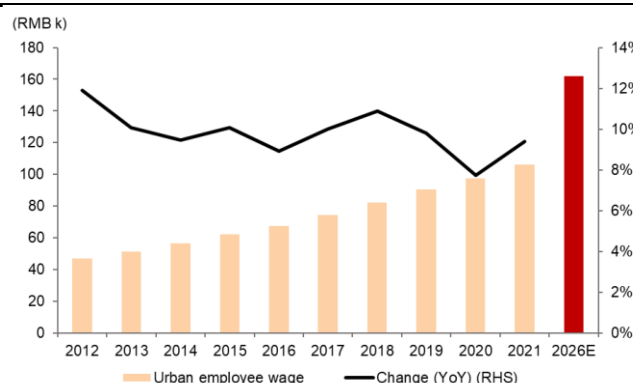
Source: NBS, Frost & Sullivan, CMBIGM

Figure 16: Average age of construction workers in China



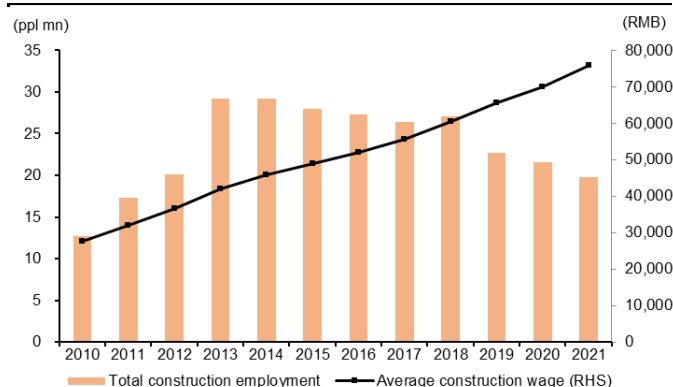
Source: Frost & Sullivan, CMBIGM

Figure 17: China's urban employee annual wage and growth



Source: NBS, Frost & Sullivan, CMBIGM

Figure 18: China's urban non-private employment and average wage of construction industry



Source: NBS, CMBIGM

■ Expansion of applicable scenarios

Thanks to technological breakthroughs, equipment operation service providers are capable of offering diversified equipment offering portfolio and service offerings tailored to the customers' needs, including but not limited to, subways, integrated pipe galleries, housing, large-scale entertainment events and sports events. Moreover, driven by the continuous escalation of urbanization and the ever-growing demand from the construction market, the equipment operation service market has huge opportunities in the tier-3 cities in China.

■ Sustainable growth of infrastructure industry

Infrastructure is one of the major downstream businesses of the equipment operation services industry. Total output of China infrastructure industry surged from RMB23.5tn in 2018 to RMB31.2tn in 2022 (CAGR: 7.3%), and is expected to up to RMB41.1tn in 2027E (CAGR: 5.6%). Attributable to the steady growth of economy, the national strategies of regional economic integration and new urbanization, infrastructure construction will continue to see high demand in the upcoming years, which will raise the demand for equipment operation services.

■ Favorable policies

A series of policies that facilitate the transformation to an environmental-friendly and low-carbon emission economic system have been issued in China. For instance, the Proposals of the Central Committee of the Communist Party of China on Formulating the 14th Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035 issued in 2020 proposes to facilitate the environmental-friendly transformation in key industries, and facilitate the low-carbon, safe and efficient use of energy. Moreover, it highlights the significance of work safety, encouraging the extensive application of efficient, safe and environmental-friendly equipment, which in turn grows the demand of equipment operation service. Hence, we expect equipment operation service providers to enjoy a supportive and orderly market environment in China.

■ Division of labor for industry specification

An increasing number of enterprises prefer to lower their investments in fixed asset and asset-liability ratio, and to concentrate their resources on their core business. Meanwhile, with the transformation of the construction industry, customers demand more advanced construction methods to deal with complex construction scenarios. Under the increasing prevalence of division of labor in the industry, equipment users tend to engage equipment operation service providers to provide related services, instead of self-procurement. This presents huge growth potential for the equipment operation services market in China.

Sub-Sector Overview

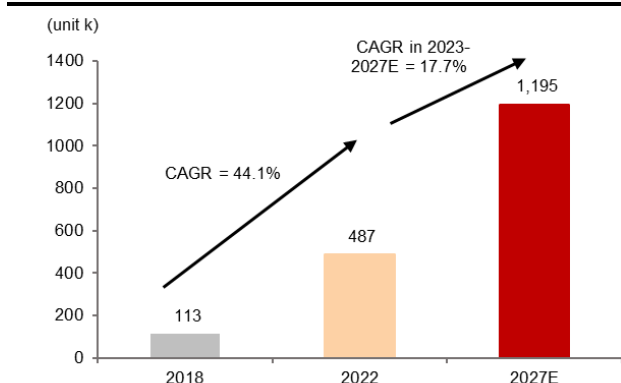
Aerial Work Platform

Aerial Work Platform (AWP) refers to the mobile machinery equipment used for the work carried out at certain heights.

Compared with the traditional aerial work tool (e.g. hanging baskets), AWP is more flexible in operation and deployment, which helps **(i) accelerate construction progress, (ii) reduce labor intensity and labor costs, and (iii) ensure the safety of construction workers**. Moreover, applicable scenarios of AWP are expanding to more diversified areas, including agricultural, consumer, cultural, tourism and recreational areas.

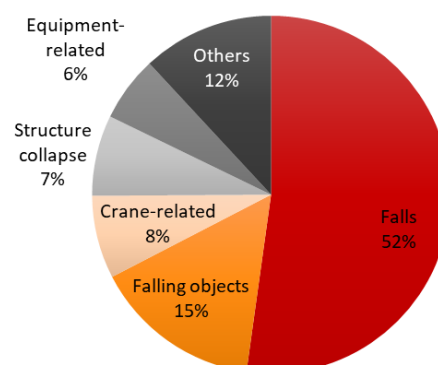
Driven by the advantages of AWP, market demand is rapidly increasing, with the total equipment volume of AWP increased from 113k units in 2018 to 487k units in 2022 with a CAGR of 44.1% and is expected to increase to 1,195k units in 2027E with a CAGR of 17.7% in 2023-2027E. Among the total equipment volume, equipment operation service providers held 88% (429k units).

Figure 19: The fleet size of AWP in China



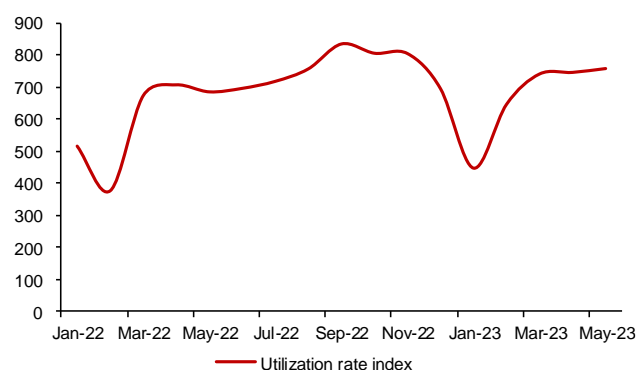
Source: Forest & Sullivan, CMBIGM

Figure 20: Type of workplace incidents breakdown (2021)



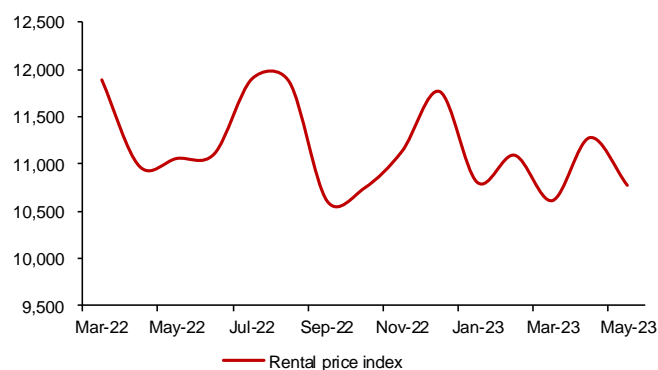
Source: The Ministry of Housing and Urban-Rural Development, CMBIGM

Figure 21: AWP utilisation rate index



Source: CCMA, CMBIGM

Figure 22: AWP rental index



Source: CCMA, CMBIGM

Excavation Support System

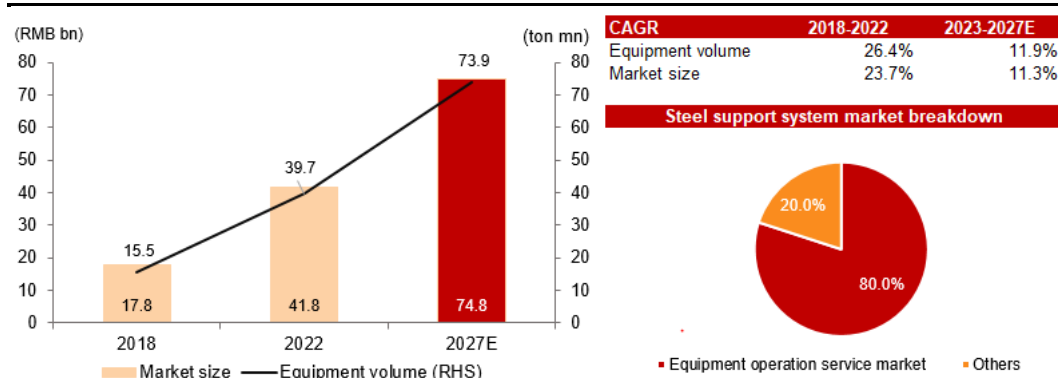
Excavation Support System refers to the temporary support structure applied in the pit or cofferdam to protect workers and equipment during the underground or underwater construction process. The traditional excavation support system is made up of unrecyclable concrete or cement.

Neo-excavation support system mainly refers to steel support system, which is environmental-friendly, safe and recyclable. Neo-excavation system has numerous advantages, as it: 1) ensures construction safety and completes tasks that cannot be undertaken by traditional system or manpower; 2) reduces the material consumption and lowers construction costs; 3) accelerates the construction progress. The market share of neo-excavation support system is expanding rapidly, driven by the following factors:

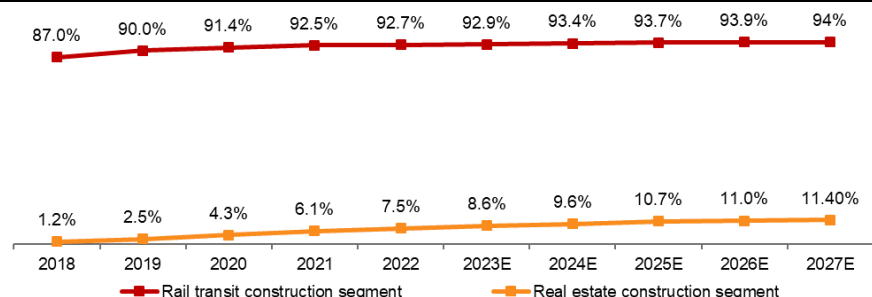
- **Increasingly stringent guidelines.** The Guidance on Facilitating Construction Waste Reduction issued by the Ministry of Housing and Urban Rural Development in 2020 set out that local governmental entities shall proactively adopt working mechanisms for construction waste reduction, such as by controlling waste from its source and throughout the entire process, to facilitate the transformation of the construction and production patterns, and to continuously promote the sustainable development of the construction industry.
- **Boosted by the growth of underground construction.** Underground construction, in which excavation support system is vastly applied, has maintained rapid growth over the past few years. According to the F&S Report, since the implementation of 13th FYP, the total increase in gross area of underground construction amounted to 1.4bn sq.m. from 2016 to 2020. As a percentage of gross construction area in urban areas completed, the increase in gross area of underground construction increased from 15% in 2016 to 22% in 2020. The increase in gross area of underground construction is expected to reach ~310mn sq.m. in 2026E, and the percentage of gross construction area in urban areas completed is expected to increase to 23% in 2026E.

The equipment volume of steel support system in China has increased from 15.5mn tons in 2018 to 39.7mn tons in 2022 with a CAGR of 26.4%, and is expected to up to 73.9mn tons in 2027E with a CAGR of 13.2% in 2023-2027E. The market size of steel support system in terms of revenue increased from RMB17.8bn in 2018 to RMB41.8bn in 2022 with a CAGR of 23.7%, and is expected to increase to RMB74.8bn in 2027E with a CAGR of 11.3% in 2023-2027E. Among the total equipment volume, equipment operation service providers held ~80% (31.7mn tons).

Figure 23: Total equipment volume and market size of steel support system in China



Source: Frost & Sullivan, CMBIGM

Figure 24: Market share of neo-excavation support system, by equipment volume

Source: Ministry of Housing and Urban Rural Development, Frost & Sullivan, CMBIGM

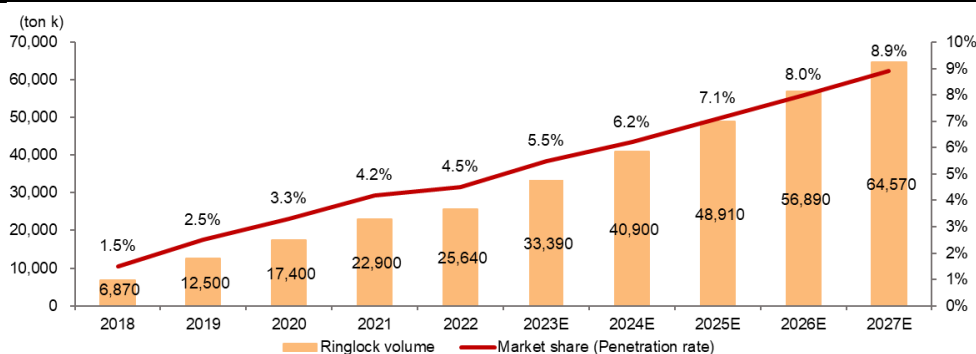
Formwork System

Formwork system refers to the system for support and protection during the construction of the main structure, which includes two major categories, scaffold (traditional) and formwork. Traditional formwork system refers to wooden or bamboo scaffold, steel pipe fastener or bowl buckle scaffold. In 2022, the total equipment volume of traditional scaffold reached ~571mn tons.

Neo-formwork system mainly refers to steel ringlock scaffold. Ringlock scaffold outperforms the traditional formwork system in terms of its flexibility in assembly, safety and cost efficiency. It is widely applied in subways, railways, bridges, factories and buildings.

Recently, some provinces and municipalities (e.g. Jiangsu, Shanghai, and Hubei) launched policies that encouraged the application of ringlock scaffold. For instance, the Notice of Enhancing the Safety Management of Building Construction issued by the Housing and Urban Rural Development Department of Jiangsu in May 2020 advocated the extensive application of socket ringlock steel scaffold in urban railway transportation projects, large-scale and complex projects.

With the increasingly stringent industry-related requirements, coupled with the rapid development of infrastructure construction in urban areas, ringlock scaffold is gaining market acceptance and is gradually overtaking the role of traditional scaffold. The total equipment volume of ringlock scaffold in China increased from 6,870k tons in 2018 to 25,640k tons in 2022 with a CAGR of 39%, and is expected to increase to 64,570k tons in 2027E with a CAGR of 17.9% in 2023-2027E. Among the total volume, equipment operation service providers held ~75% (19.2mn tons).

Figure 25: Market share and equipment volume of neo-formwork system in China

Source: Frost & Sullivan, CMBIGM

Competitive Landscape

The overall equipment operation service market in China is extremely fragmented, with CR3 of 1.6% in terms of revenue in 2022. There are over 15,000 small-to-medium market participants.

Horizon ranked first in the equipment operation service market in terms of revenue in 2022, accounting for 0.8% of market share. Other major players in the market include Huatie Emergency (华铁应急) (603300 CH), PY Rental (庞源租赁), and Zhongneng United (众能联合).

Figure 26: Equipment volume of top 3 major players in the AWP sub-sector

Company name	Ticker	Revenue (RMB mn)		Revenue growth (YoY)		Gross margin		No. of service outlet		Market Share
		2021	2022	2021	2022	2021	2022	2021	2022	
Horizon Constructon	Private	4,463	5,190	79.6%	16.3%	53.1%	44.7%	299	349	0.8%
Huatie	603300 CH	2,557	3,239	71%	26.7%	52.4%	50.6%	150	192	0.4%
PY Rental	Subsidiary of Shannxi Construction Machinery (600984 CH)	4,334	n/a	22.7%	n/a	37.0%	n/a	n/a	n/a	0.4%

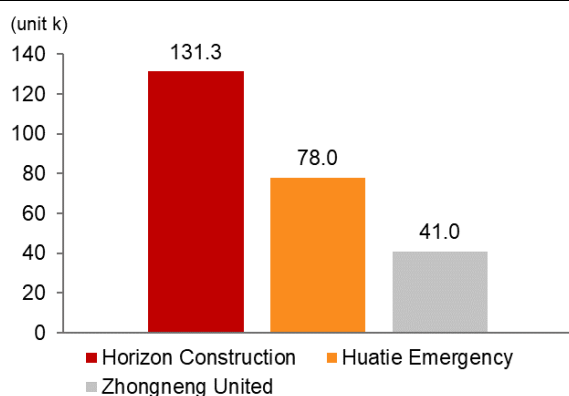
Source: Company data, Huatie, PY Rental, Frost & Sullivan, CMBIGM

Note: Data of revenue and gross margin refers to construction machinery releasing service.

Aerial Work Platform

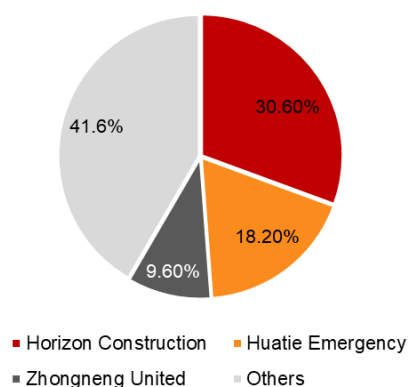
Unlike the other two sub-sectors, the AWP operation service market in China is highly concentrated, with CR3 of 58.4% in terms of equipment volume in 2022, while ~1,600 small-to-medium market participants account for the rest. **Horizon Construction ranked first in terms of equipment volume (131.3k units) in 2022, accounting for 30.6% of the market share in terms of equipment volume in China.**

Figure 27: Equipment volume of top 3 major players in the AWP sub-sector (2022)



Source: Company data, Frost & Sullivan, CMBIGM

Figure 28: Market share of major players in the AWP sub-sector (2022)

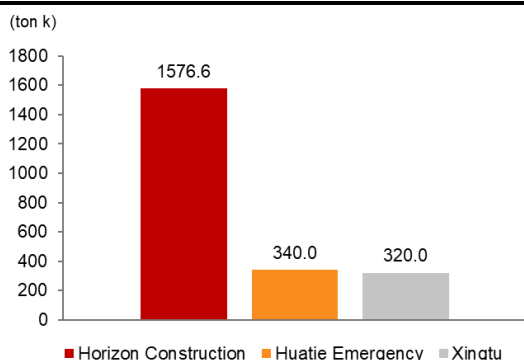


Source: Frost & Sullivan, CMBIGM

Excavation Support System

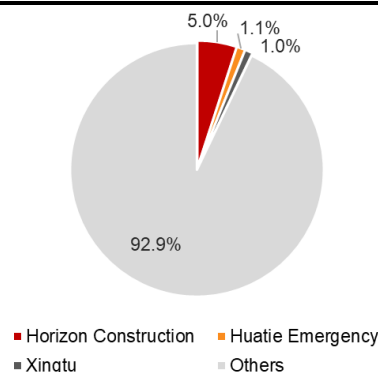
Horizon Construction's neo-excavation support system mainly refers to steel support system. The steel support system operation service market in China is highly fragmented, with CR3 of 7.1% in terms of equipment volume in 2022. **Horizon Construction ranked first in terms of equipment volume (1,577k tons) in 2022, accounting for 5% of the market share.**

Figure 29: Equipment volume of top 3 major players in the steel support system sub-sector (2022)



Source: Company data, Frost & Sullivan, CMBIGM

Figure 30: Market share of major players in the steel support system sub-sector (2022)

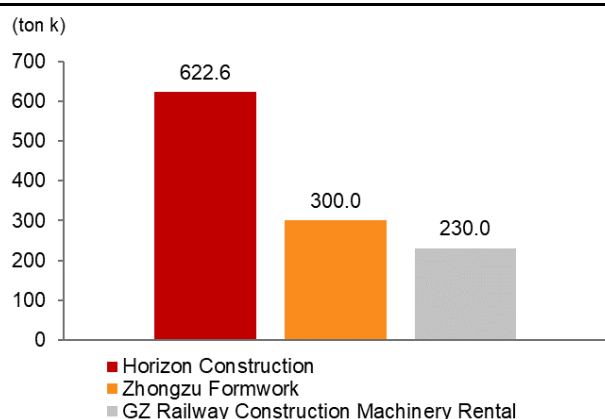


Source: Frost & Sullivan, CMBIGM

Formwork System

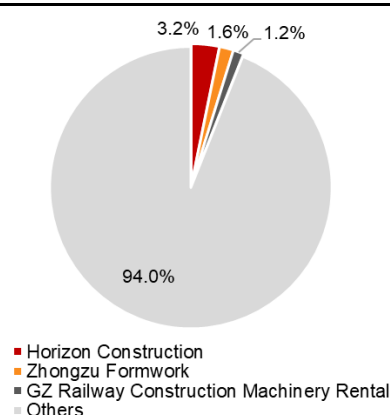
Horizon Construction's neo-formwork system mainly refers to ringlock scaffold. The ringlock scaffold operation service market in China is highly fragmented, with CR3 of 6% in terms of equipment volume in 2022, while ~800 small-to-medium market participants account for the rest. **Horizon Construction ranked first in terms of equipment volume (622.6k tons) in 2022, accounting for 3.2% of the market share.**

Figure 31: Equipment volume of top 3 major players in the ringlock scaffold sub-sector (2022)



Source: Company data, Frost & Sullivan, CMBIGM

Figure 32: Market share of major players in the ringlock scaffold sub-sector (2022)



Source: Frost & Sullivan, CMBIGM

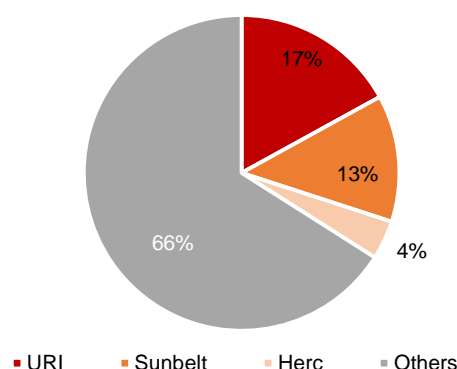
Case Study in the U.S.

U.S. vs. China Market

In terms of market penetration, the penetration rate of the equipment leasing industry in China was relatively low at 57.5% in 2022, as compared to the average penetration rate of 66.9% in most developed countries including North America, EU and Japan in 2021, according to the F&S report. Therefore, there exists tremendous growth potential for China's equipment leasing market over the coming years.

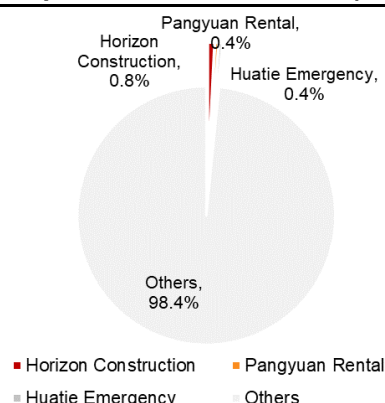
In terms of market concentration, the U.S. equipment rental market is relatively concentrated. Its top 3 market participants, namely United Rental, Ashtead and Herc, collectively accounted for 34% of the total market size in terms of revenue in 2022. In contrast, China's equipment operation service market is highly fragmented, with a CR3 of merely 1.5% and over 15k micro-and-small enterprises spreading across tier-two cities and lower tier cities. Therefore, there exists a considerable room for standardization in China's equipment operation service market, which provides huge opportunities for its leading players to consolidate the market.

Figure 33: Market share breakdown of the US equipment operation service market (2022)



Source: United Rental, CMBIGM

Figure 34: Market share breakdown of China's equipment operation service market (2022)



Source: Frost & Sullivan, CMBIGM

United Rental: Quality player with continuous market share gain

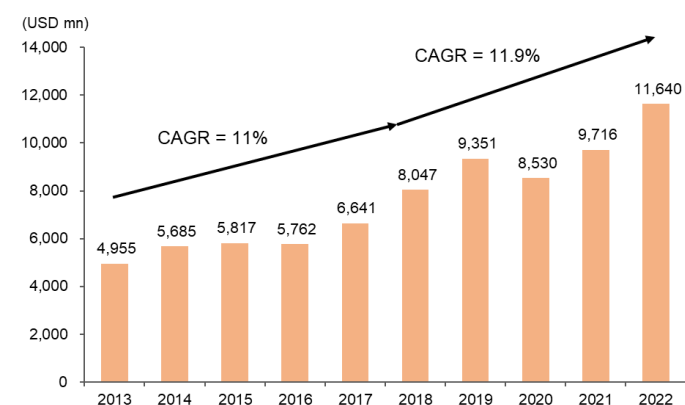
The U.S. equipment rental industry has been experiencing consolidation and structural change over the past decade. United Rental, the largest nationwide player in the U.S. equipment rental market, has successfully taken up the most market shares in the U.S. market via merger and acquisition, from 7% in 2010 to 15% in 2022.

From 2010 to 2021, United Rental posted a significant increase in revenue, from US\$2.2bn in 2010 to US\$11.6bn in 2022 at a CAGR of 14.7%. The Company's gross margin increased from 29.4% in 2010 to 42.9% in 2022. In terms of operating portfolio, its equipment volume surged from 210k in 2010 to 1,020k in 2022, whereas its number of service points increased from 531 in 2010 to 1,521 in 2022. Through the leveraging of cross-selling and differentiation of services via new technologies, innovation and smart M&A strategies, United Rental has taken up a significant portion of the market share and higher-than-industry average growth.

United Rental vs. Horizon Construction

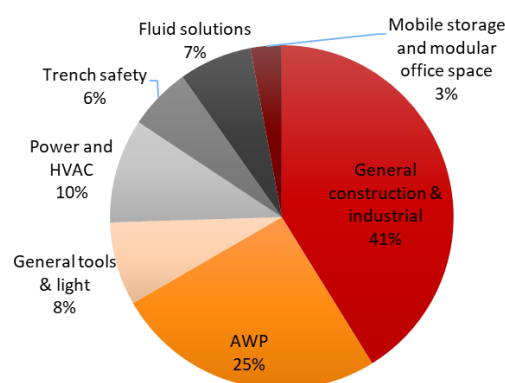
As compared to United Rental, Horizon Construction is still currently at its early stage of development, given its relatively smaller business portfolio. Hence, under the background of rapid growth of overall industry, there exists huge room for Horizon Construction to expand its business under the continuous growth of the overall industry.

Figure 35: Total revenue of United Rental



Source: United Rental, CMBIGM

Figure 36: United Rental's revenue breakdown by fleet type (2022)



Source: United Rental, CMBIGM

Figure 37: Comparison of United Rental and Horizon Construction

	Revenue (USD mn)			Revenue growth			Gross margin			No. of service pt		Employee	Market Cap (USD mn)
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2021	2022	2022	
URI	8,530	9,716	11,642	35.0%	13.9%	19.8%	37.3%	39.7%	42.9%	1,345	1,521	24,600	25,717
Horizon	534	952	1,165	39.7%	67.6%	28.3%	45.0%	46.3%	39.8%	299	349	4,249	-

Source: Company data, United Rental, Bloomberg, CMBIGM

Note: Revenue of Horizon Construction is converted into USD based on the yearly average exchange rate of 1 USD=6.866CNY for 2020, 1USD=6.453CNY for 2021 and 1 USD=6.763CNY for 2022.

Growth opportunities

Considerable room for growth and consolidation

The penetration rate of China's equipment leasing industry is relatively low when compared to the developed countries. According to F&S, the penetration rate of equipment leasing industry in China was 57.5% in 2022, while the average penetration rate in developed countries, including countries in North America, European Union and Japan, was 66.9%. The penetration rate of the equipment leasing industry in China is expected to further increase to 64% in 2027E, which could derive more business opportunities and a broader customer base to the leading equipment operation service providers in China.

In terms of concentration, China's equipment operation service market is vast but relatively fragmented, with a mere CR3 of 1.6% in 2022. In the future, equipment operation service providers with limited assets and customer resources, weak service capabilities and weak profitability will be driven out of the market competing against the leading players that are able to offer comprehensive, multi-dimensional equipment operation services that oversee the full cycle of the client's projects. Hence, we expect that these leading equipment operation service providers will gain larger market shares and further consolidate the market in the future.

Transformation to multi-dimensional services

The early and current form of China's equipment operation service market is characterized by the provision of only equipment leasing service. Driven by higher demand for light-asset, environmental-friendly operations and higher operational efficiency from the downstream customers, there exists a heightened demand for multi-dimensional value-added services, including engineering and technical services, IoT-based technical support and the disposal of used equipment. Hence, China's equipment operation service market would be gradually transforming from the provision of only leasing service to the provision of multi-dimensional equipment operation services.

Digitalized operation with advanced equipment

With the newly-developed infrastructure technologies such as 5G, IoT and cloud computing, as well as innovations in construction methods, low-carbon and digitalized construction technology, the construction methods in China's market are constantly upgrading. In view of these, equipment operation service providers in China can grasp the opportunities to size up their shares in the market through the implementation of innovative business models and the provision of abundant value-added services with higher service quality and efficiency through big data analysis and other technologies.

Overseas opportunity driven by favorable policies

Infrastructure and real estate construction industries in ASEAN region are expected to experience a rapid growth momentum over the coming years driven by a series of favorable regional and country-level policies. This will facilitate the demand for construction machinery and equipment such as AWP. In 2020, the ASEAN Comprehensive Recovery Framework (ACRF), which includes a series of relief plans for countries within the region to encourage investment in multiple fields including infrastructure construction. In terms of country level policies, 97 out of 246 national strategic projects released by Indonesian government in 2022 are related to road and railway infrastructure; the "12th Malaysia Plan" (2021-2025) stated that the construction of transportation infrastructure such as airports will become the national investment focus, etc. Overall, investment in transportation infrastructure continues to fuel ASEAN's economic growth in the future, which will ultimately bring broad development opportunities to the equipment operation and service market.

Key Entry Barriers

Capabilities in Large-Scale Asset Operation and Management

Different from small-to-medium scale market participants with limited availability in portfolio scale, leasing and maintenance service capabilities, leading equipment operation service providers are generally equipped with sizable equipment volume with diversified equipment categories, with strong capabilities in ensuring project efficiency and quality, in maximizing the equipment value, and in reducing equipment depreciation associated with misoperation. The capabilities in large-scale asset operation and management originated from long-term experiences in conducting large-scale projects that involve significant investments, iteration, development and upgrade in digitalized operation.

High Technical Requirements

Along with rapid urbanization and development of the infrastructure industry, construction methods, especially those applied in large-scale construction projects, have become more complex and specialized. As a result, market demand for one-stop and multi-dimensional equipment operation services surged tremendously. While one-stop and multi-dimensional equipment operation services require expertise and technologies from equipment operation service providers, such services are typically provided by leading market participants which possess high-quality equipment, advanced construction methods and professional team.

Fast Response and Resource Allocation Capabilities

China has a vast territory, such that construction projects can spread across its map. When clients request for equipment operation service, the equipment operation service providers must respond promptly to ensure that clients' demand are met. To enable timely responses, equipment operation service providers ought to have an extensive service network across China, and to possess equipment and other readily available assets at each service outlet. In particular, for large-scale projects, which typically require vast amount of equipment and supporting staff, equipment operation service providers should possess strong capabilities in conducting the flexible re-allocation of resources and equipment across different service outlets.

Brand Recognition and Established Brand Reputation

A well-recognized brand name brought by decades of proven operation results is one of the major keys to success in the equipment operation service market. For instance, to ensure the implementation quality of construction project, construction contractors often set out stringent requirements on equipment performance, construction safety as well as construction techniques. Under this circumstance, construction contractors will be more willing to cooperate with equipment operation service providers with well-recognized brand names. Hence, this sets a high entry barrier for new entrants as it is extremely challenging for them to establish a well-recognized brand name in a short time period.

Business Overview

Horizon Construction is a leading equipment operation service provider in China. According to F&S, the Company was the largest equipment service provider in China in terms of revenue in 2022, with the endeavor to provide multi-dimensional services covering the full cycle of projects. Horizon Construction's major brands include Horizon Construction Development (宏信建发), Horizon Equipment (宏信设备), and Hongjin Equipment (宏金设备).

Horizon Construction is mainly involved in three types of services, namely **(i) operating lease services; (ii) engineering and technical services; (3) platform and other services**. For operating lease services, the Company's portfolio mainly comprises AWP, neo-excavation support system, and neo-formwork system. The Company ranked first in all three equipment markets in terms of equipment volume in China in 2022, according to F&S. In terms of network coverage, by end-2022, the Company's nationwide service outlet network has expanded to 349 service outlets covering 187 Chinese cities.

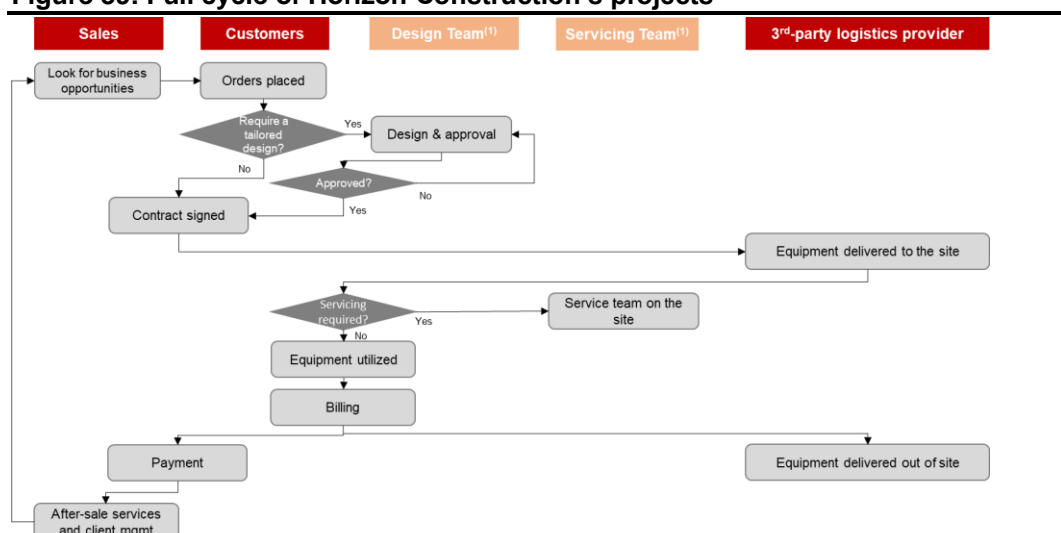
Leveraging its industry leader role, Horizon Construction participated in milestone projects such as the National Exhibition and Convention Center (Shanghai) project, the Beijing Daxing International Airport project, the Hong Kong-Zhuhai-Macao Bridge project and the Huoshenshan Hospital project.

Figure 38: Service portfolio of Horizon Construction and respective average project completion/contact days

Service Portfolio	Definition	Average project completion / contract days
Operating lease services	Covers a wide spectrum of equipment and materials, which primarily include neo-excavation support system, neo-formwork system, aerial work platform and other equipment	<ul style="list-style-type: none"> • AWP: 50 days • Neo-excavation support: 130 days • Neo-formwork: 260 days
Engineering and technical services	Tailor-made one-stop solutions for a wide spectrum of business or operation scenarios	<ul style="list-style-type: none"> • Neo-excavation support: 200 days • Neo-formwork: 400 days
Platform and other services	Mainly focuses on re-rent of equipment and materials and sales of equipment, materials and spare parts	Sales and other businesses cannot be described by project duration; the cycle of re-renting business is consistent with the operating business cycle

Source: Company data, CMBIGM

Figure 39: Full cycle of Horizon Construction's projects



Note: Revenue or operational contribution by servicing team would not be counted towards the Company's operating lease services business segment, as it would form part of the engineering and technical services business segment. The design team contributions would be counted towards the operating leases service should customers require certain calibrations, adjustments or design upgrades before the equipment is leased.

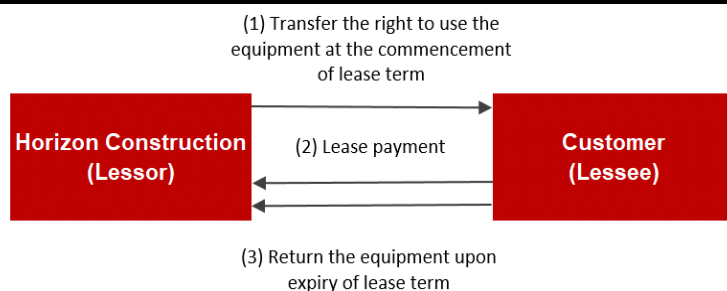
Source: Company data, CMBIGM

Key services of Horizon Construction

Operating Lease Services

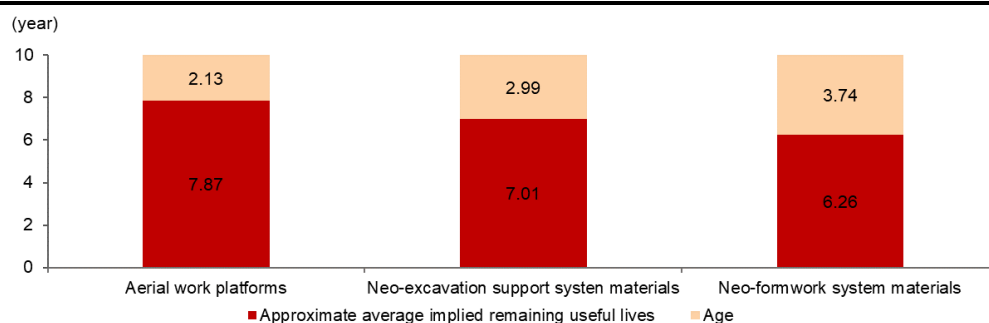
Horizon Construction's service portfolio for operating lease services covers various types of equipment and materials, with flexible leasing duration for customers. Main product lines include 1) **AWP**, 2) **neo-excavation support system**, 3) **neo-formwork system**, and 4) **other equipment** (e.g. road equipment, electrical power equipment and forklift truck).

Figure 40: Relationship among the lessor and the lessee



Source: Company data, CMBIGM

Figure 41: Horizon Construction's equipment portfolio (as of end-2022)



Source: Company data, CMBIGM

Note: With reference to the Company's accounting policy (10 years on straight-line depreciation basis), the average implied remaining useful life of equipment is calculated by deducting the age of such equipment.

Aerial Work Platform

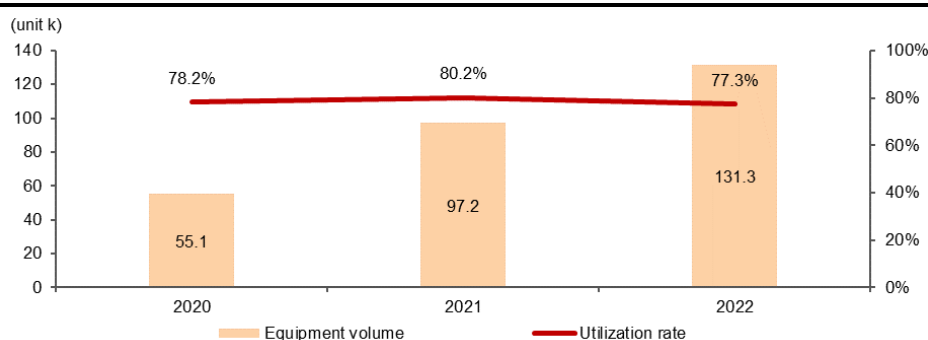
The Company's AWP portfolio covers scissor lift, straight boom lift, articulated boom lift, mast boom lift, spider lift, glass sucker truck and rail high-altitude vehicle. Horizon Construction's AWP system encompasses the following competitive advantages:

- **High-quality and comprehensive product portfolio.** As of end-2022, Horizon Construction owned 131.3k units of AWP in China service market. To ensure the high quality services, the Company constantly procures AWP from top-tier suppliers, e.g. **Zhejiang Dingli (603338 CH)**.
- **Multi-scenario application.** The application scenarios of AWP expand from traditional areas such as manufacturing and construction to more diversified areas, including agricultural, property management, cultural, tourism and recreational areas.
- **Operation service model integrating online and offline services.** With this model, the Company can provide flexible one-stop AWP service solutions to end users. For offline services, Horizon Construction has a nationwide service outlet network and close collaboration with numerous logistics service providers. As of end-2022, the Company had over 1,900 employees responsible for its offline services.

For online services, Horizon Construction has successfully attained digitalization in its entire equipment operation services process through the development of the WeChat applet ("Horizon Equipment Aerial Work Platform"), for external users and an app ("Xiaohongren") for internal operation management. Over 98% of the Company's monthly contracts are executed online, with over 98% of the equipment deliveries confirmed via electronic billing, 91% of bills confirmed with customers online, and over 61% of the order payments settled online. The Company also has a customer service team that addresses customers' needs on a 24/7 basis.

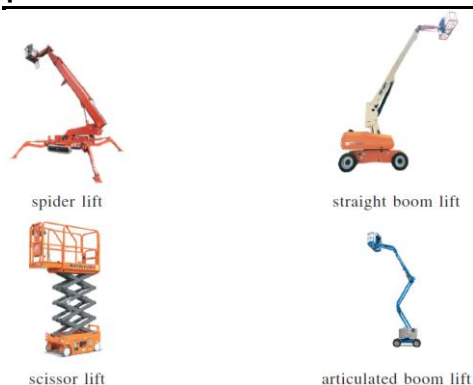
As of end-2022, Horizon Construction had 250 service outlets for its AWP system, spreading across fast-developing regions like the Yangtze River Delta Region, Pearl River Delta Region, Beijing-Tianjin-Hebei Region, Middle reaches of the Yangtze River and Chengdu-Chongqing Region. Leveraging the extensive and nationwide service network, Horizon Construction has shortened its average service delivery mileage for AWP from 70km in 2018 to 37km in 2022.

Figure 42: Horizon Construction's equipment volume and utilization rate of AWP



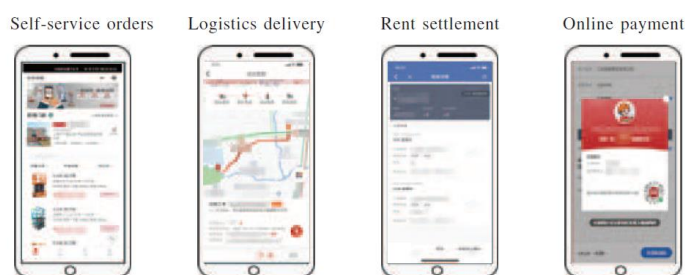
Source: Company data, CMBIGM

Figure 43: Horizon Construction's major AWP products



Source: Company data, CMBIGM

Figure 44: Major interfaces of online platform Xiaohongren



Source: Company data, CMBIGM

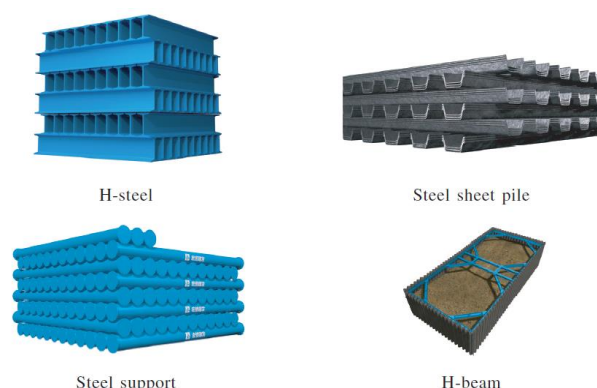
Neo-excavation support system

Key products in Horizon Construction's neo-excavation support system include steel sheet pile, steel support, H-steel, HC support (combined steel support) and pile Lassen combine piles ("PLC"). The Company provides comprehensive services, including product design, construction method guidance, construction resource allocation, product installation & demolition, safety condition monitoring, customized solutions etc. Horizon Construction's neo-excavation support system has the following competitive advantages:

- **Comprehensive and high-quality products with self-owned IP rights.** The Company's neo-excavation support system portfolio contains eight categories and 27 models. Besides, the Company has registered for its customized unique key nodes, including the trench steel support adjustable head, corner node of steel waling, H-beam strut converter, and integrated servo system, all of which are light in weight and flexible in installation.
- **Proficient design and construction solutions for complex projects.** As China has a complex terrain, strong technical expertise is required in the design and application of excavation system. By applying advanced construction methods such as simulation algorithm and axial force synchronous loading equipment, Horizon Construction sets out one-stop construction design and solutions that are highly efficient.
- **Professional project execution and management.** Horizon Construction adopts an advanced, intelligent building information modeling ("BIM") system that oversees its project design, which significantly improves the efficiency of project design and project management. Moreover, Horizon Construction has a professional project execution team to ensure the practice of standardized operating manual. Besides, an advanced monitoring system is adopted to monitor the live safety status of the pit.

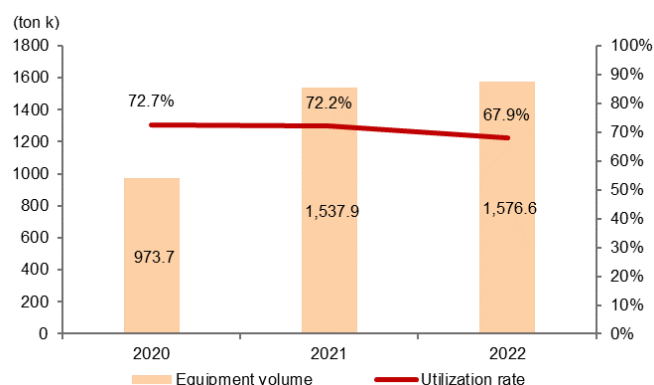
As of end-2022, Horizon Construction owned 1,577k tons of neo-excavation support system, ranking first in the excavation support system operation service market in China, according to F&S. In terms of service coverage, as of end-2022, the Company had 59 service outlets for neo-excavation support system in China. The Company has participated in over 16,000 projects and served over 7,000 customers.

Figure 45: Major neo-excavation support system of Horizon Construction



Source: Company data, CMBIGM

Figure 46: Horizon Construction's equipment volume and utilization rate of neo-excavation support system



Source: Company data, CMBIGM

Neo-formwork system

Horizon Construction offers tailor-made solutions for various construction scenarios above the ground, covering design, material supply, installation, demolition, on-site operation and maintenance. Its neo-formwork system has the following competitive advantages:

- **R&D and design capabilities with self-owned intellectual property rights.** With a professional R&D team, the Company achieved breakthroughs in the design of key nodes for formwork system, such as pole sleeves, cross roads joints and connecting plates. As of end-2022, the Company owned over 39 patents for the neo-formwork system. Compared to similar products in the market, the Company's unique design in pole sleeve lowers the usage of steel in the neo-formwork system, which not only saves leasing costs for the customers but is also an environmental-friendly alternative.

In addition, the Company's tailored design in the neo-formwork system increases its bearing capacity by 11 tons, and extends the life of service of the system, which ultimately contributes to an increase in safety level.

- **Self-manufacturing capacities and comprehensive equipment offerings.** Horizon Construction self-manufactures all its ringlock scaffold. Horizon has the annual installed capacity of 153k tons of ringlock scaffold, as of end-2022.

- **Customized project design and on-site management.** To address the customers' varying needs for neo-formwork system due to different construction scenarios faced, the Company has a professional team of ~30 people that deliver tailor-made designs. In addition, the Company's standardized on-site management capabilities ensure that its customized project design is smoothly implemented.

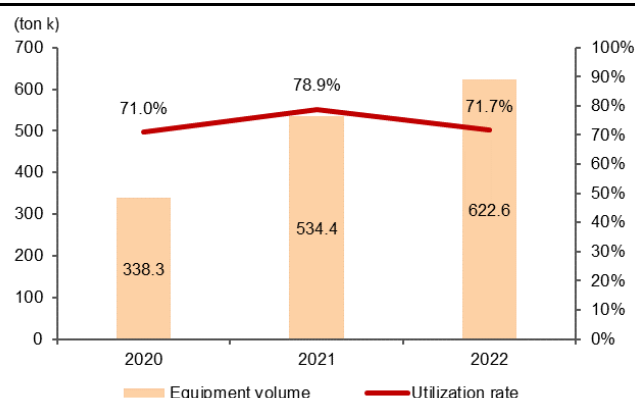
As of end-2022, the Company owned more than 623k tons of neo-formwork system, covering over 12 categories, over 3,400 specifications and models, ranking first in China's formwork system operation service market, according to F&S. Horizon Construction had 25 service outlets for its neo-formwork system in China. The Company has participated in ~2,000 projects, serving 1,200 customers.

Figure 47: Major neo-formwork system ringlock scaffold of Horizon Construction



Source: Company data, CMBIGM

Figure 48: Horizon Construction's equipment volume and utilization rate of neo-formwork system





Source: Company data, CMBIGM

Other Equipment

To solidify its market leader position, Horizon Construction proactively seeks opportunities in other equipment including road equipment and electrical power equipment.

Figure 49: Horizon Construction's portfolio of other equipment

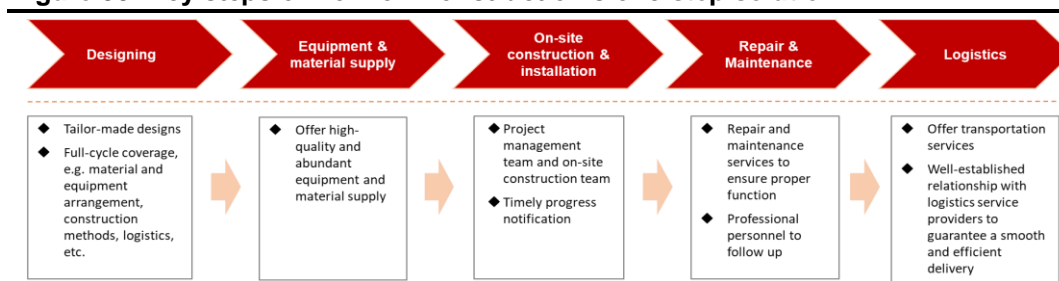
Equipment	Picture	Service Description	Advantages / Relevant Project
Road equipment		<ul style="list-style-type: none"> ◆ Mainly includes road milling machine, wheeled loader and paver. ◆ Their services cover various scenarios, e.g. highways, national, provincial and municipal roads, airport runways and tracks. 	<p><u>Project Participated:</u> Beijing Capital International Airport, Shanghai Hongqiao International Airport, Bosch Automobile East Sea Testing Yard and Sri Lanka Airport</p>
Electrical power equipment		<ul style="list-style-type: none"> ◆ Mainly includes high-quality power generating units, power distribution cabinets, electric cable, uninterruptible power supplies, inverter, load box and transformer to provide comprehensive services including professional emergency protection for electrical power equipment, and power testing and commissioning. ◆ The scenarios cover large activities or sporting events, mines, factories and shipyards, and exhibitions. 	<p><u>Project Participated:</u> China International Import Expo, Shanghai Fintech Conference, Huoshenshan Hospital and Leishenshan Hospital and Wuhan Military World Games Arenas.</p>

Source: Company data, CMBIGM

Engineering and Technical Services

Horizon Construction also provides tailor-made, one-stop engineering technical services in accordance to different business scenarios. These services include design, equipment and material supply, on-site construction and installation, repair and maintenance, and logistics services, etc.

Figure 50: Key steps of Horizon Construction's one-stop solution



Source: Company data, CMBIGM

Figure 51: Examples of one-stop solutions for different customers' needs

Service	Description
Neo-excavation support system-related service	<ul style="list-style-type: none"> • Offer designing, construction and installation, 24/7 monitoring of construction process • Comprehensive product offering: Lassen steel sheet piles, H-steel, steel pipe support, etc. • Numerous pit construction scenarios: subway, high-speed railway, elevated bridge, tunnel, bridge, pipe gallery, pipe trench, river, port and other infrastructure
Neo-formwork system-related service	<ul style="list-style-type: none"> • Offer installation, repair & maintenance and demolition services for scaffold • Professional construction and construction inspection team • Numerous project scenarios: municipal, industrial plant, housing construction, bridge construction
Electrical power supply services	<ul style="list-style-type: none"> • Offer one-stop solutions, include on-site inspection, design, equipment supply, construction, operation and maintenance, and technical support services • Highly-flexible, supply-stable electrical power equipment with low noise, low emission and high mobility, which can provide customers with temporary and backup electrical power supplies for large-scaled outdoor events • Numerous project scenarios: exhibitions, sports events, mining construction and ocean engineering
Road construction & maintenance services	<ul style="list-style-type: none"> • Offer high-quality one-stop solutions • Multiple professional road construction team • Numerous project scenarios: municipal roads, airstrips, test tracks and highways

Source: Company data, CMBIGM

Platform and Other Services

Horizon Construction's platform and other services consist of (i) platform services, focusing on the re-rent of equipment and materials; (ii) sales of equipment, materials and spare parts.

Platform services

Leveraging the platform services capabilities and customer resources advantages, Horizon Construction established a well-integrated engineering equipment service platform that ran through the upstream and downstream of the equipment operation service industry. The platform includes two modes: (1) joint mode and (2) matching mode.

- **Joint mode (Re-rent):** According to F&S, the equipment leasing industry in China has the problem of low matching efficiency between a lessor and a lessee. Horizon Construction will source and rent from other equipment providers, before entering into re-rent arrangements with the customers upon their requests, which helps customers to reduce time and costs in communicating with multiple lessors for one project.
- **Matching mode:** Horizon Construction acts as an intermediary between the equipment providers and customers with relevant needs, charging an intermediary service fee from both customers and suppliers. Such business model (pricing and fees structure) is yet to be launched.

Sales of equipment, materials and spare parts

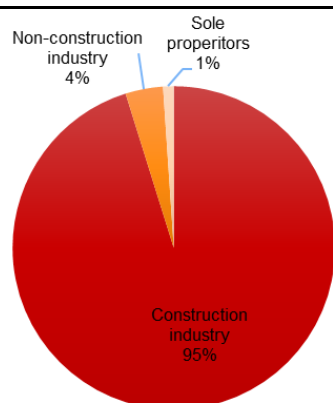
Horizon Construction also engages in the sales of its equipment, materials and spare parts. The main products sold are AWP, road equipment, forklift and electrical power equipment, as well as certain parts of the equipment in the scaffold and steel support.

Customers

Horizon Construction's customer base comprises large central enterprises, local SOEs, public entities, private companies, as well as individuals from industries including construction, manufacturing, commerce, real estate, culture and entertainment etc.

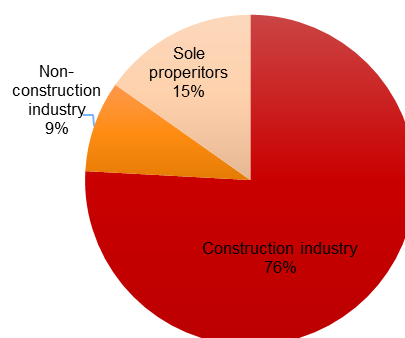
The number of customers increased from 47k in 2020 to 97k in 2021 and further to 158k in 2022. For years ended 31 Dec 2020, 2021 and 2022, revenue generated from the five largest customers accounted for 26.3%, 18.9% and 17.9% of total revenue. In 2020, among the top 10 construction enterprises in PRC (according to China Construction Enterprises Management Association), 7 of them have established business relationships with the Company for over 5 years.

Figure 52: Horizon Construction's customer breakdown by revenue generated

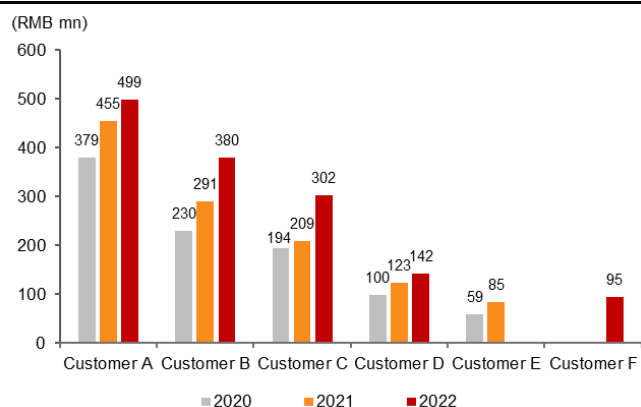


Source: Company data, CMBIGM

Figure 53: Horizon Construction's customer breakdown by number of customers

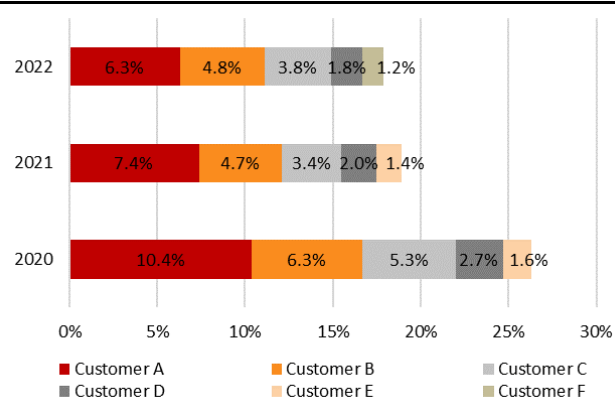


Source: Company data, CMBIGM

Figure 54: Horizon Construction's revenue from top 5 customers


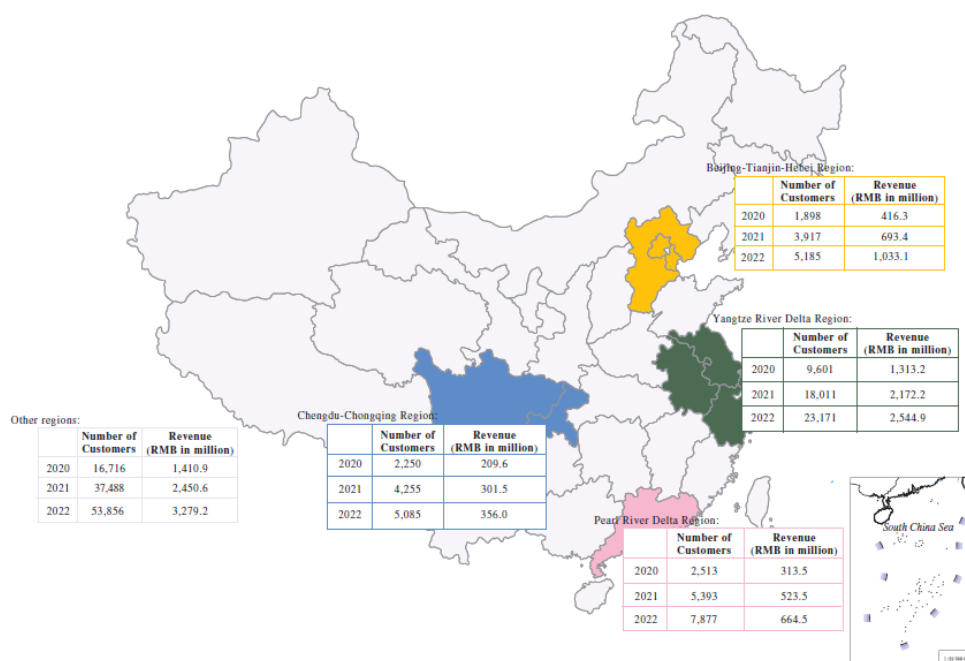
Source: Company data, CMBIGM

Note: No data provided for Customer E in 2022; No data provided for Customer F in 2020/2021

Figure 55: Horizon Construction's revenue from top 5 customers as % of total revenue


Source: Company data, CMBIGM

Note: No data provided for Customer E in 2022; No data provided for Customer F in 2020/2021

Figure 56: Horizon Construction's number of customers and revenue by geographical location


Source: Company data, CMBIGM

Pricing Strategy

Operating lease services: pricing is mainly determined by the equipment type and length of rental period, with flexible adjustments made accordingly with the utilization rate and market demand. During 2020-2022, the rental price of Horizon Construction's AWP ranged from RMB750-250,000/unit per month and one of the neo-formwork materials ranged from RMB5-10.3/ton per day.

Engineering and technical services: pricing is mainly determined on (i) a cost-plus basis (e.g. the overall tonnage + labor and design costs); or (ii) a commission, calculated based on the services required and utilized depending on the complexity of the instructions received from the customers.

Platform and other services: the pricing scheme is similar to that of operating lease services, such that Horizon Construction made profit from the pricing difference between the price charged to the customers and the price paid to the equipment providers. The price of re-rented AWP / neo-excavation systems averaged at RMB3,700 per unit per month (range: RMB750-3,700 per ton) / RMB7 per ton per day (range: RMB 1-10 per ton). For the sales of equipment, pricing is benchmarked to the instant market rate of relevant products.

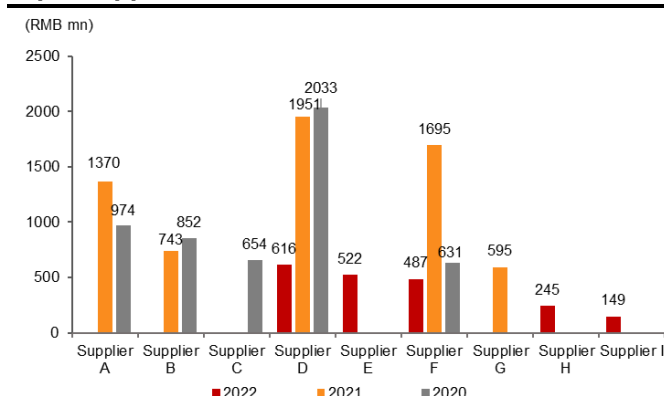
Horizon Construction usually sets a benchmark price to determine the range of rental fees and commission, based on various parameters, including equipment operating costs, profit margins, historical contract prices in different regions as well as the corresponding intensity of competition. The final price charged to the customers is based on the benchmark price with an addition of the prices of service and commodity attributes. The Company considers various internal and external factors, with internal factors such as customer's credit rating, product quantity and supply-demand relationship, customer's overdue records and risks, and external factors include amount of customer demand, lease period, requirement for level of newness of equipment.

Procurement and suppliers

Horizon Construction's suppliers are primarily equipment and materials manufacturers. The Company has implemented a centralized procurement management model, alongside specific guidelines and standards based on different goods types. The major steps involved in a procurement process include: open or invitation-only bidding, price inquiry comparison, competitive negotiation and single source procurement etc., whereas the utilization of each option is based on the principle of best interest.

For years ended 31 Dec 2020, 2021 and 2022, procurement from the top 5 suppliers, accounting for 64.7%, 53.8% and 42.2% of the total purchases respectively. For years ended 31 Dec 2020, 2021 and 2022, procurement from the largest supplier, accounting for 25.6%, 16.5% and 12.9% of the total purchases respectively.

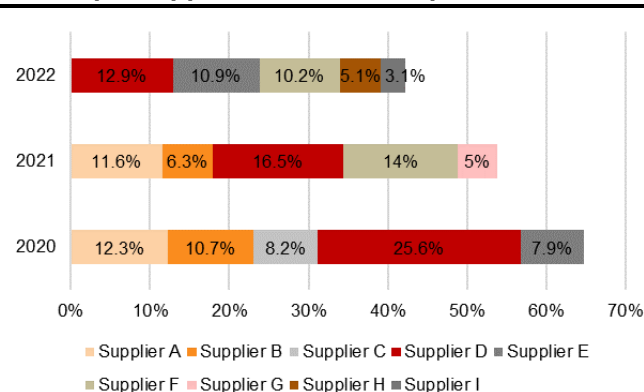
Figure 57: Horizon Construction's procurement from top 5 suppliers



Source: Company data, CMBIGM

Note: No data of 2022 provided for Supplier A, B, C and G; No data of 2021 provided for Supplier C, E, H and I; No data of 2020 provided for Supplier E, G, H and I.

Figure 58: Horizon Construction's procurement from top 5 suppliers as % of total purchases



Source: Company data, CMBIGM

Note: No data of 2022 provided for Supplier A, B, C and G; No data of 2021 provided for Supplier C, E, H and I; No data of 2020 provided for Supplier E, G, H and I.

Competitive edge

Leading equipment operation service provider in China

With a leading market position and renowned brand recognition, Horizon Construction has a tremendous competitive edge over its peers in such a large and highly fragmented market. Attributed to the increasing demand for high-quality comprehensive services, the Company managed to establish long-term relationship with top-tier customers, enabling the Company to receive high-profile projects under its expertise in project implementation.

China's equipment operation service market continues to demonstrate its strong potential for rapid growth under China's continuous urbanization, industrial upgrade, implementation of the 14th FYP, as well as strong demand from China's construction market. Besides, the market is expected to become more concentrated, as the large-scale service providers seek to further expand and consolidate the market. We expect Horizon Construction, as the market leader, will further benefit from its expansion and market consolidation.

Market leadership in sub-sectors

Horizon Construction's key business focuses are equipment operation services in the neo-excavation support system, neo-formwork system and AWP. According to F&S, the Company ranked first in all three markets in terms of equipment volume owned in China in 2022, and all three markets are stated to be well-positioned for rapid growth in the future. With catalysts including the implementation of 14th Five Year Plan, the upgrade of the construction industry, as well as the increasing demand for equipment to replace human labor, the application scenarios of such equipment will continuously expand, the ultimate driver of the equipment operation services market.

Integrated, comprehensive and multi-dimensional services covering the full cycle of projects

Horizon Construction provides comprehensive and multi-dimensional services covering the full cycle of projects, leveraging the synergies among various product lines and diversified service categories to enhance its market competitiveness and customer stickiness. According to F&S, Horizon Construction ranked first in all three equipment operation service sub-markets (AWP/ steel support system/ ringlock scaffolds) in terms of equipment volume in 2022, with market share of 30.6%/5%/ 3.2%.

Horizon Construction has been expanding and diversifying its service scenarios and project types. This enables the Company to develop a loyal and high-quality customer base, spreading across industries including construction, manufacturing, commerce, real estate, culture and entertainment, etc. In total, the number of customers grew from ~21k in 2019 to 97k in 2021 and further to 158k in 2022, with a vastly expanding customer base, covering large central enterprises, local SOEs, public entities, private companies and individuals.

With such breadth and range of services offered, coupled with a high-quality customer base, Horizon Construction has a potential of growing market share.

Nationwide service outlet network with outstanding response time

Horizon Construction established a nationwide service outlet network with 349 service outlets covering 187 Chinese cities as of end-2022, ranking first among all equipment operation service providers in terms of number of service outlet in China. Under the expansion of network coverage, the Company's average service delivery mileage for AWP managed to reduce from ~70km in 2018 to 37km in 2022, which represents a huge improvement in response time to customers' needs.

More importantly, the Company has a strategic plan over the location of service outlets based on the market demand, which not only enables the Company to have an effective allocation of equipment but also fulfil customers' needs. For instance, as of end-2022, 250/ 59/ 25/ 15 service outlets have been set up for AWP/ neo-excavation support system/ neo-formwork system/ other equipment, respectively. Moreover, the Company collaborated with ~568 logistics service providers in China to guarantee the timely delivery.

Proven digitalization capabilities

Horizon Construction engages digitalization in its provision of equipment operation services. As of end-2022, the Company had 351 employees (8.3% of the total number of employees) responsible for IT-related tasks and digital operation. Elements of digitalization were incorporated throughout the Company's entire service process of AWP, including order placement, rental fee calculation, customer reconciliation and payment collection etc. As a result, the average equipment service capacity per employee climbed from 1,000 units in 2021 to 2,500 units in 2022 for AWP.

- **Digitalized operation management:** The Company built up an ERP system in 2015, which has been upgraded to now becoming a unified online system, serving many aspects of business operation including customer service, order management, procurement, logistics, and financials etc. Also, the Company established an IoT system, enhancing customers' experience through remote equipment operation. It also enables the collection of data from daily business operation, which optimizes the equipment maintenance service, ultimately laying a crucial foundation for the future development of other platform services.
- **Digitalized service offerings:** The Company has developed a WeChat applet, the Horizon Equipment AWP, covering the full cycle of equipment operation. Numerous online services are enabled on this platform, including online contracting and payment, logistics tracking and transaction settlement etc., which allows the Company to establish direct linkages to small-and-medium enterprise customers through online orders. Ultimately, through digitalized service offerings, the Company consists of both online and offline service offering channels, which ultimately enhance customer experience and satisfaction.

Close collaboration with Far East Horizon

Under a close collaboration with its Controlling Shareholder, Far East Horizon, Horizon Construction has a broader exposure to vast opportunities.

Far East Horizon (stock code: 3360 HK) is a leading innovative financial service provider in China. Similarly, Horizon Construction, shared a similar brand name, could enjoy Far East Horizon's brand reputation and recognition. Besides, service offerings of Far East Horizon can contribute to the expansion of the Company. For instance, the Company can effectively procure customers through connections between Far East Horizon and central enterprises, large-scale SOEs and listed enterprises etc. Moreover, collaboration with Far East Horizon helps facilitate the operations of Horizon Construction in aspects including financial leasing, investment operation. Finally, Horizon Construction can gain tremendous experiences, especially in terms of standardized management, a crucial criterion for the Company to have sustainable business growth.

Growth strategies

Optimize equipment portfolio

The optimization of equipment portfolio is viewed as one of the main drivers of Horizon Construction's future growth. With the abilities in enhancing equipment volume and equipment quality, Horizon Construction can further consolidate its market share by the provision of a comprehensive and diversified service portfolio. Moreover, given the large amount of data collected from daily equipment operations, the Company is capable of providing the equipment manufacturers with a timely feedback regarding the equipment's quality, which facilitates equipment transformation and optimization. The Company plans to take these actions for its major equipment system:

- **Aerial work platform:** Given that AWP is gaining popularity and is widely applied in numerous scenarios in China, such as large-scale entertainment and sport events, demand for AWP operation services is expected to experience a boost in China and Southeast Asia. The Company plans to increase the procurement of AWP that are in high demand, while selectively entering into re-renting arrangements to further increase the AWP portfolio scale, which can enable them to expand their equipment volume in an asset-light manner.
- **Neo-excavation support system:** The Company plans to increase the procurement of high-quality neo-excavation support system to address the increase in demand for neo-excavation support system operation services.
- **Neo-formwork system:** The Company plans to self-manufacture and procure high-end ringlock scaffold, when necessary, to support its business expansion.

Figure 59: Procurement targets for major equipment system

Equipment volume	2022 (at end-22)	2023E	2024E
AWP	131.3k units	increase 20-30k units	increase 30-40k units
Neo-excavation support systems	1,577k tons	increase 2-10k tons	increase 100-150k tons
Neo-formwork systems	623k tons	increase 40-50K tons	increase 90-100k tons

Source: Company data, CMBIGM

Strategically expand service outlet network

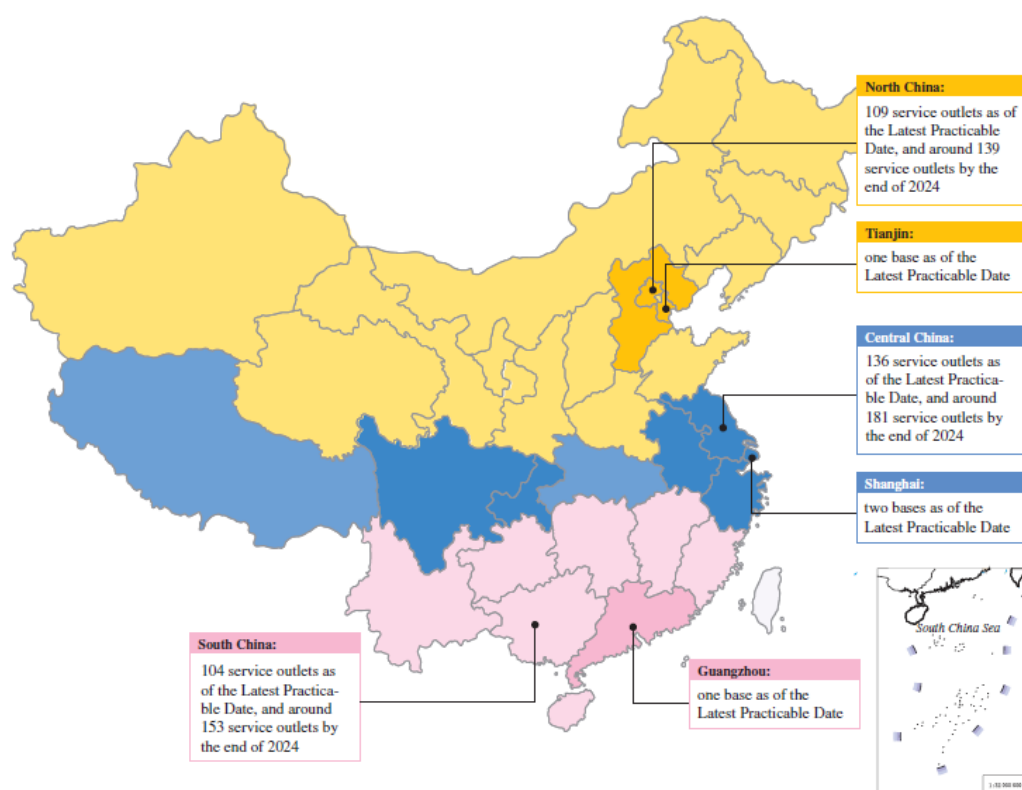
Horizon Construction aims to increase its market share, reduce its average service delivery mileage to 30km, and attain sustainable revenue growth by expanding its service outlet network and enhancing its service capabilities. Therefore, the Company strives to increase the number of its service outlets to over 430/500 by end of 2023E/24E respectively, while downsize or close certain service outlets with low utilization.

- **Increase service outlet density.** The Company intends to increase its service outlet density in tier-one and tier-two cities in national economic areas in China, to further increase market shares in these cities. Through an increase of service outlet density, we expect that Horizon Construction can solidify its existing, and potential customer base in the future.
- **Further expand geographical coverage.** The Company intends to establish service outlets in tier-three and lower-tier cities in the Yangtze River Delta Region and Pearl River Delta Region, as well as certain core cities in central and western regions in China.

Moreover, given that the ASEAN Comprehensive Recovery Framework ("ACRF")

targets to stimulate investment in infrastructure construction in the region, the Company has established an overseas service outlet for AWP in Malaysia. In the upcoming future, Horizon Construction will explore overseas opportunities by setting up service outlet in new regions, such as Singapore, Malaysia and other Southeast Asian countries in 2023 and 2024. Moreover, the Company intends to roll out sales of second-hand AWP in these overseas markets, while expanding the equipment portfolio.

Figure 60: Horizon Construction's geographical distribution of main bases, and existing and expected future service outlets in China by the end of 2024



Source: Company data, CMBIGM

Figure 61: Implement targets for service outlet network

No. of service outlets	2022	2023E	2024E
AWP	250	250-300	300-350
Neo-excavation support systems	59	30-35	40-45
Neo-formwork systems	25	75-80	85-90
Other equipment service	15	20-30	30-40

Source: Company data, CMBIGM estimates

Enhance one-stop solution capabilities

As demand for equipment operation services, especially for operation and maintenance service, is expected to experience a rapid surge in the future, the Company plans to further consolidate its one-stop solution capabilities, which can help enhance the utilization rate of its equipment materials, increase its market competitiveness and establish higher entry barriers. The following actions are expected to be carried out:

- **Engineering technological upgrade.** The Company targets to enhance its R&D capabilities by expanding the size of its R&D team dedicated to new construction methods in order to cater to diverse needs arising from more complex scenarios. Also, the Company plans to recruit more industrial experts and carry out in-depth cooperation with well-known universities and research institutes. In addition, the Company will closely keep track of technological trends. On the other hand, the Company will use steel support system as the basis to promote the vast application of environmental-friendly and intelligent pits in the industry.
- **Logistics service capabilities upgrade.** The Company plans to enhance its logistics and services through the accurate judgement of supply-and-demand relationship and reasonable deployment. Besides, the Company intends to provide bulky item logistics services.
- **Construction service capabilities upgrade.** The Company aims to enhance its construction service capabilities by recruiting more talents and increasing R&D efforts to ensure safe and efficient construction.

Improve operational efficiency through digitalization upgrade

Given that information technology is of importance to its business development and operational efficiency, Horizon Construction strives to optimize the management and logistics of equipment by improving AI-based algorithms and big data analytics.

The Company plans to upgrade its core business system to an engineering equipment operation service platform, facilitating its transformation from being a mere equipment operation service provider to a comprehensive equipment operation service platform. To be specific, the Company can offer its customers with more integrated services and provide its partners with more business opportunities under a nationwide supply chain network.

Acquire talents

Horizon Construction plans to enhance its competitive edges through human resources management, such as expansion of team of talents and establish sustainable incentive mechanisms. For example, the Company targets to recruit talents from emerging industries such as engineering and technologies and high-tech equipment manufacturing. Horizon Construction targets to increase its R&D staff size from 146 in 2022 to 400-450/500-550 in 2023E/24E.

Moreover, Horizon will strive to establish sustainable incentive mechanism to retain and motivate employees through aligning their benefits with the Company's interests.

Financial Analysis and Forecast

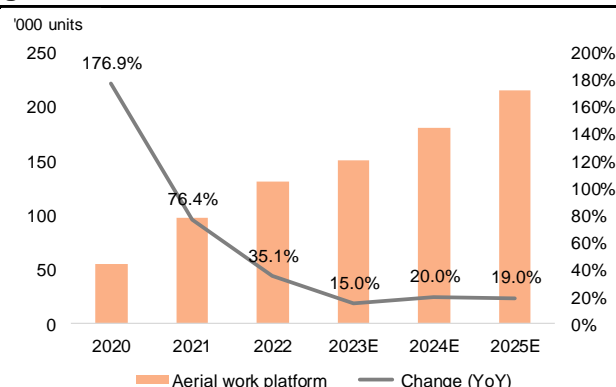
Revenue

The Company's total revenue surged 67.6%/ 28.3% YoY to RMB6.1bn/ RMB7.9bn in 2021/ 2022, primarily driven by the growth of operating lease services, as well as engineering and technical services.

Operating lease services

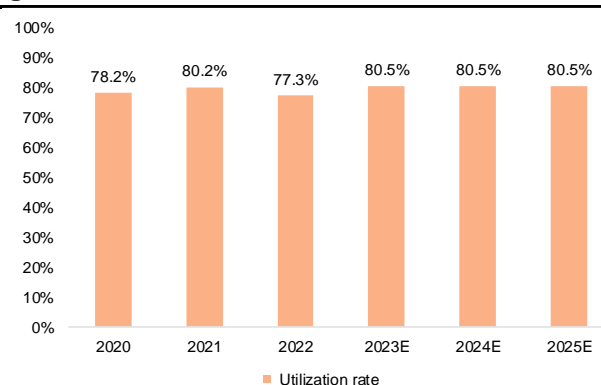
- Revenue increased 79.6%/ 16.3% YoY to RMB4.46bn/ RMB5.19bn in 2021/ 2022 respectively. In 2021, the increase in revenue was driven by (i) an increase in revenue from operating lease services for neo-excavation system and neo-formwork system, and (ii) strong expansion of equipment portfolio and customer base. In 2022, the segment revenue growth slowed to 16.3% YoY due largely to COVID-related control measures, which dragged the utilization rates of the equipment and materials.
- Forecast:** We forecast 16%/16%/18% segment revenue growth in 2023E/24E/25E, mainly driven by the continuous spending on equipment volume of materials and fleet size of AWP. Besides, we expect Horizon will continue to increase the asset utilization rate, on the back of technology support.

Figure 62: Horizon Construction's AWP fleet size



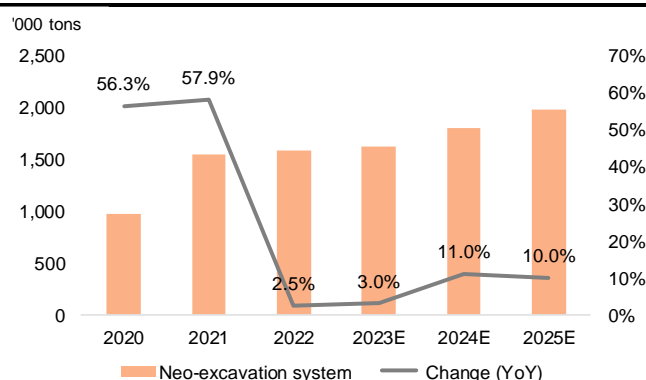
Source: Company data, CMBIGM estimates

Figure 63: Utilization rate of AWP



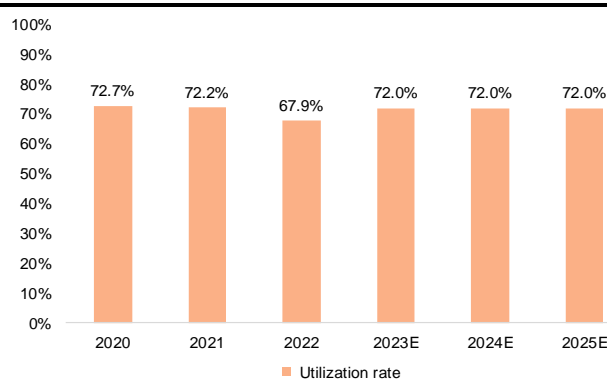
Source: Company data, CMBIGM estimates

Figure 64: Horizon Construction's neo-excavation system equipment volume

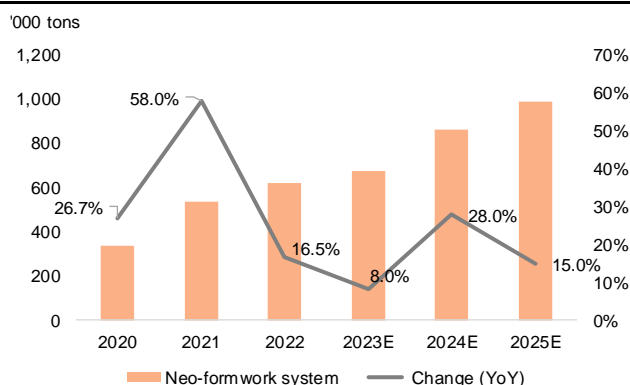


Source: Company data, CMBIGM estimates

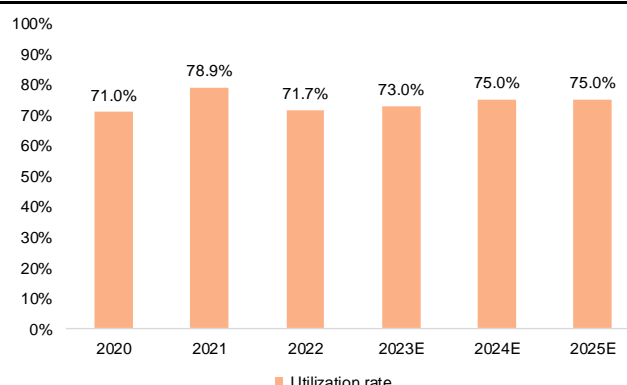
Figure 65: Utilization rate of neo-excavation system



Source: Company data, CMBIGM estimates

Figure 66: Horizon Construction's neo-formwork system equipment volume

Source: Company data, CMBIGM estimates

Figure 67: Utilization rate of neo-formwork system

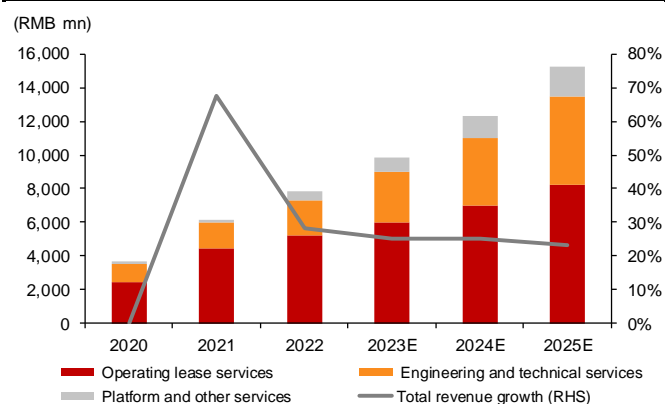
Source: Company data, CMBIGM estimates

Engineering and technical services

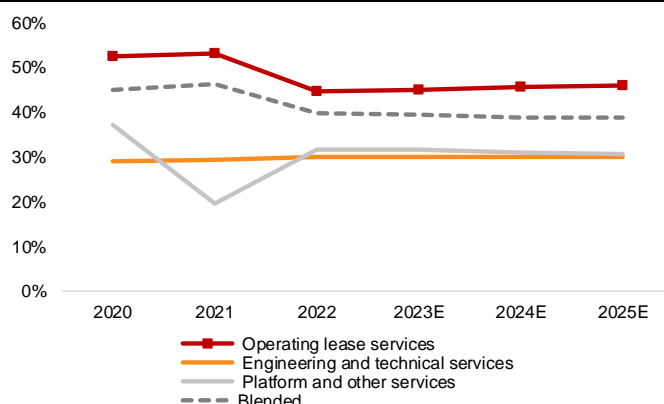
- The segment revenue increased by 43%/ 41% YoY to RMB1.52bn/ RMB2.14bn in 2021/ 2022, both driven by more offerings of labor-intensive on-site construction services.
- **Forecast:** We forecast 40%/35%/30% segment revenue growth in 2023E/24E/25E, driven by the continuous growth of diversified equipment operation services.

Platform and other services

- In 2021, the segment revenue increased 36.3% YoY to RMB158.5mn, due to an increase in sales of equipment, materials and spare parts. In 2022, thanks to the rapid growth of equipment portfolio (AWP re-rented through joint-mode platform services increased 3.6x to 21k units in 2022), segment revenue surged 2.5x to RMB551mn.
- **Forecast:** We forecast 60%/50%/30% segment revenue growth in 2023E/24E/25E. We expect an acceleration over the coming years given the shift of more effort to platform model.

Figure 68: Revenue breakdown and forecast

Source: Company data, CMBIGM estimates

Figure 69: Gross margin trend

Source: Company data, CMBIGM estimates

Gross Margin

The Company's blended gross margin was relatively stable at 45-46% in 2020-2021, before dropping to 39.8% in 2022, due to lower segmental gross margin for operating lease services.

- **Operating lease services.** In 2021, the gross margin expanded to 53.1% from 52.3% in 2020, driven by operating leverage arising from higher equipment volume and utilization rate. However, in 2022, with the decrease in utilization rate as a result of suspension of operating leases with customers and COVID-related suspension of operations of service outlets, gross margin contracted to 44.7%. We forecast the segment gross margin to slightly expand to 45-46% in 2023E-25E.
- **Engineering and technical services.** The segment gross margin was lower than the Company's average, primarily due to the nature of labor-intensive on-site construction services which had a higher cost of sales than other service offerings. However, the gross margin has maintained a steady uptrend, increasing from 28.8% in 2020 to 30% in 2022. We forecast the segment gross margin to remain largely stable at 30% in 2023E-25E.
- **Platform and other services.** In 2021, the gross margin decreased to 19.6% from 37.2% in 2020, due to a higher proportion of sales of materials with relatively lower gross profit margins. The gross margin further rebounded to 31.5% in 2022, driven by the higher proportion of revenue from platform services, which carried relatively higher margin. We forecast the segment gross margin to remain largely stable at 30-31% in 2023E-25E.

Figure 70: Revenue and gross margin forecast

	2020	2021	2022	2023E	2024E	2025E
Revenue (RMB mn)						
Operating lease services	2,485	4,463	5,190	5,997	6,976	8,237
Engineering and technical services	1,063	1,519	2,137	2,991	4,038	5,250
Platform and other services	116	159	551	882	1,323	1,719
Total revenue	3,664	6,141	7,878	9,870	12,337	15,206
Growth (YoY)						
Operating lease services	-	79.6%	16.3%	15.6%	16.3%	18.1%
Engineering and technical services	-	43.0%	40.6%	40.0%	35.0%	30.0%
Platform and other services	-	36.3%	247.6%	60.0%	50.0%	30.0%
Total revenue	-	67.6%	28.3%	25.3%	25.0%	23.3%
Breakdown						
Operating lease services	67.8%	72.7%	65.9%	60.8%	56.5%	54.2%
Engineering and technical services	29.0%	24.7%	27.1%	30.3%	32.7%	34.5%
Platform and other services	3.2%	2.6%	7.0%	8.9%	10.7%	11.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit (RMB mn)						
Operating lease services	1,299	2,372	2,319	2,699	3,174	3,789
Engineering and technical services	306	443	640	897	1,211	1,575
Platform and other services	43	31	173	278	410	524
Total	1,648	2,846	3,133	3,874	4,796	5,888
Gross margin						
Operating lease services	52.3%	53.1%	44.7%	45.0%	45.5%	46.0%
Engineering and technical services	28.8%	29.1%	30.0%	30.0%	30.0%	30.0%
Platform and other services	37.2%	19.6%	31.5%	31.5%	31.0%	30.5%
Blended	45.0%	46.3%	39.8%	39.2%	38.9%	38.7%

Source: Company data, CMBIGM estimates

Selling and distribution expense

Selling and distribution expense increased by 65.5% YoY to RMB452mn in 2021, largely driven by an increase in sales staff costs on account of an increase in salary and benefits of sales staff, as well as headcounts, to support business expansion. In 2022, S&D expenses decreased 25% YoY to RMB341mn, primarily due to a decrease in sales staff costs as a result of decreased headcount following staff restructuring.

The expense ratio (as a percentage of revenue) increased to 7.5% in 2020, due to the increased marketing efforts for promoting AWP business. In 2021, the expense ratio remained relatively stable at 7.4%, followed by a significant reduction to 4.3% in 2022. We expect the ratio to stay at 4.3-4.5% in 2023E-25E.

Administrative expense

The administrative expense increased 81.2%/ 15.9% YoY to RMB745mn/ RMB864mn in 2021/ 2022, respectively (expense ratio: 11.2%/12.1%/ 11% in 2020/2021/2022). In 2021, the increase was primarily due to (i) an increase in administrative staff costs as a result of an increase in headcounts and salary; (ii) an increase in R&D expenses. The increase in 2022 was largely driven by the increased R&D expense (RMB54mn) while partially offset by the decreased administrative staff cost.

Research and development is one of the key items, which amounted to RMB154mn/ RMB217mn/ RMB271mn in 2020/ 2021/ 2022, representing 4.2%/ 3.5%/ 3.4% of the total revenue for the corresponding years. As at end-2022, the Company's R&D and IT employees amounted to 351, accounting for 8.3% of the total number of employees. We expect the administrative expense ratio (as a percentage of revenue) to stay at 10.5-11.0% in 2023E-25E.

Finance expense

The Company's net finance expenses increased 124%/ 43% YoY to RMB641mn/ RMB913mn in 2021/ 2022m, due to rising borrowing to finance capex. Going forward, given the equity fund raising (~RMB1.4bn) and stabilizing capex, we forecast the net finance expense to be controlled at RMB1.05bn-1.18bn in 2023E-25E.

Earnings forecast

Horizon Construction's net profit (attributable to shareholders) surged 58% YoY to RMB710mn in 2021. Reported net profit (attributable to shareholder) in 2022 dropped 6.1% YoY to RMB666.6mn. Excluding the FX loss of RMB130mn, the adjusted net profit increased 12% YoY to RMB796m.

We forecast the adjusted net profit to grow 21%/37%/35% to RMB0.97bn /RMB1.32bn/RMB1.79bn in 2023E/24E/25E, mainly driven by (1) steady growth of equipment volume, (2) recovery of utilization rate and (3) slowdown of finance expense growth.

Operating cash flow

Horizon Construction generated ~RMB1bn of net operating cash inflow in 2020. In 2021, the net operating cash inflow jumped to RMB2.45bn, and further increased to RMB2.82bn in 2022. We expect the operating cash flow to grow largely in line with net profit growth going forward, reaching RMB3.3bn/3.9bn/4.9bn in 2023E/24E/25E.

Balance sheet

In Dec 2020, the controlling shareholder subscribed new shares issued by Horizon for a consideration of RMB3.39bn. Following the capital injection, Horizon's net debt to equity ratio (as at end-2020) was ~158%.

In Apr 2021, strategic investors including (i) Xuzhou XCMG, (ii) Zoomlion, (iii) GSPR Holdings, (iv) Zhejiang Dingli, (v) LGMG International, (vi) Terex International and (vii) Thrive Accomplish Limited subscribed a total of RMB1.33bn of new shares issued by Horizon Construction. The aforementioned fund raising exercise has provided Horizon with capital base to expand its equipment volume.

That said, given that the net debt to equity ratio increased from 158% at end-2020 to 287% at end-2022, we forecast Horizon Construction to maintain capex discipline going forward. We forecast the net debt to equity ratio to gradually reduce to <200% in 2025E.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	3,664	6,141	7,878	9,870	12,337	15,206
Cost of goods sold	(2,015)	(3,295)	(4,745)	(5,996)	(7,541)	(9,318)
Gross profit	1,648	2,846	3,133	3,874	4,796	5,888
Selling expense	(273)	(452)	(341)	(424)	(555)	(684)
Admin expense	(411)	(745)	(864)	(1,086)	(1,332)	(1,597)
Expected credit losses of financial & contract assets, net	(92)	(304)	(110)	(148)	(185)	(228)
Other income	22	219	111	118	148	182
Other expense	(6)	(52)	(157)	(30)	(37)	(46)
Other gains/(losses)	41	32	35	35	39	46
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	1,885	3,197	4,081	4,909	5,600	6,559
Depreciation	957	1,653	2,273	2,570	2,727	2,997
EBIT	928	1,544	1,807	2,339	2,874	3,562
Interest income	17	9	11	24	41	40
Interest expense	(304)	(650)	(925)	(1,074)	(1,155)	(1,218)
Net Interest income/(expense)	(287)	(641)	(913)	(1,050)	(1,114)	(1,178)
Pre-tax profit	642	902	894	1,289	1,760	2,384
Income tax	(148)	(193)	(227)	(322)	(440)	(596)
Minority interest	(45)	0	0	0	0	0
Net profit	448	710	667	967	1,320	1,788
Adjusted net profit	448	710	796	967	1,320	1,788

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	4,422	7,972	10,340	14,376	14,481	17,057
Cash & equivalents	166	507	2,159	3,909	2,990	3,167
Account receivables	2,530	4,198	4,487	6,438	7,353	9,395
Inventories	166	291	186	372	330	538
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	21,288	23,505	25,008
PP&E	10,348	18,278	19,102	20,579	22,797	24,301
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	35,664	37,986	42,066
Current liabilities	4,694	7,990	8,191	10,191	10,438	12,128
Short-term borrowings	2,435	5,065	6,143	7,143	7,643	8,043
Account payables	896	1,436	1,110	2,110	1,857	3,147
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	16,426	17,326	18,126
Long-term borrowings	5,382	12,633	15,069	16,069	16,969	17,769
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	26,617	27,764	30,253
Total shareholders equity	5,301	6,011	6,675	9,047	10,222	11,812
Minority interest	0	0	0	0	0	0
Total equity and liabilities	15,639	26,961	30,292	35,664	37,986	42,066

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	642	902	894	1,289	1,760	2,384
Depreciation & amortization	957	1,653	2,273	2,570	2,727	2,997
Tax paid	(138)	(202)	(321)	(322)	(440)	(596)
Change in working capital	(782)	(691)	(1,161)	(1,435)	(1,461)	(1,338)
Others	349	786	1,138	1,198	1,299	1,406
Net cash from operations	1,027	2,449	2,823	3,300	3,884	4,852
Investing						
Capital expenditure	(6,809)	(10,319)	(3,613)	(3,906)	(4,944)	(4,500)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	118	(152)	150	24	41	40
Net cash from investing	(6,691)	(10,471)	(3,463)	(3,882)	(4,903)	(4,460)
Financing						
Dividend paid	(14)	0	0	0	(145)	(198)
Net borrowings	4,947	8,485	3,293	2,000	1,400	1,200
Proceeds from share issues	1,348	1,326	0	1,405	0	0
Others	(473)	(1,441)	(1,007)	(1,074)	(1,155)	(1,218)
Net cash from financing	5,808	8,370	2,286	2,331	100	(216)
Net change in cash						
Cash at the beginning of the year	23	166	507	2,159	3,909	2,990
Exchange difference	(1)	(8)	6	0	0	0
Cash at the end of the year	166	507	2,159	3,909	2,990	3,167

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

Risk Factors

Economic slowdown and China's policy changes

As equipment operation service is highly correlated with construction and industrial activities, an economic slowdown could cause a decrease in demand for equipment operation services, which are cyclical in nature. Besides, as the equipment operation service market is subjected to monetary and industry policies in China, if the Company failed to promptly address to policy changes, there could be adverse impacts on the Company's business, operations and financial conditions.

Significant fluctuations in the rental prices of leased equipment

Operating lease service is a main contributor to the Company's revenue, hence fluctuations in rental prices of the Company's leased assets could adversely impact its operating lease services. If there are huge fluctuations in the rental prices of leased equipment, market demand for operating lease services could drop tremendously. Moreover, if the lessees defaulted on their payment obligations, the Company would have to locate alternative customers, which poses material impacts on the Company's business, operations and financial conditions.

Uncertain capabilities of managing utilization rate of leased equipment

Numerous factors can impact the Company's ability in managing its equipment's utilization rate, including the overall development pattern of the equipment operation service industry, competitive conditions that the operating leases have entered into, as well as maintenance, damage, and operating history of equipment. If there are significant fluctuations in terms of market demand, the Company may not be able to avoid having a significant off-lease period, locating interested lessees and entering into contracts on favorable terms with the lessees.

Fierce industry competition

China's equipment operation service industry is highly competitive and fragmented. To gain an edge over its competitors, the Company may compete via a number of factors including service quality, brand recognition, business scale, price and financial resources. Given that some of its competitors may have longer operating histories and greater financial resources etc., they may be more well-established and hence devote more resources on development, sales and support of their services as compared to the Company. Apart from the renowned companies, emerging companies that enter into the existing or new markets may also have a competitive edge in certain aspects over the Company. In addition, there exists possibility that the Company's competitors may emulate its business model, lessening its competitive advantages and ultimately posing adverse impacts on the Company's revenue, operations and financial conditions.

Shortening of useful life and decline of market value due to improper management of leased equipment

The Company may experience shortenings of useful life and decline of market value arising from an improper management or use of its equipment due to economic and market factors, such as accidents that affect compatibility, specification and configuration of its equipment. Besides, the Company cannot guarantee that its current equipment will not be replaced by more advanced equipment due to continuous technological development. If the Company is required to replace its current equipment with more

advanced ones, its current equipment can face huge depreciation and thus cannot be disposed at commercially acceptable prices.

The drop in market value of the Company's equipment may reduce the proceeds it receives in disposing such equipment, increase the pressure on its attempts to lease the equipment, or impact lease rates of the equipment. These can pose adverse impacts on the Company's business, operation results and financial conditions.

Increasing cost of new equipment

In line with the market demand, the Company regularly adds new equipment into its leasing fleet or replaces its aging equipment. As the cost of new equipment may increase, the costs of sales may increase, such that the Company may not be able to procure some equipment due to supplier constraints. Regarding increases in the cost of equipment, it could be driven by factors beyond the Company's control like inflation, government regulation and increase in raw material costs. Such cost increases could adversely impact the Company's business, operation results and financial conditions.

Moreover, if the demand for new equipment increases significantly, manufacturers may not be able to meet the Company's orders on time. As a result, the Company could experience long lead-times for certain equipment and no assurance could be made towards equipment sufficiency accordingly with the expected schedule. This can hamper the Company's ability in growing its business.

Concentrated suppliers

The Company has huge reliance on its major suppliers for the provision of AWP and related components. For years ended 2020/2021/2022, purchases from top five supplies accounted for 65%/54%/42%. If there is a loss of supply from certain key suppliers, it can cause interruptions to the Company's equipment supply and subsequently constraints on its abilities in meeting the contractual obligations to deliver equipment to customers in an efficient manner. Failure in meeting contractual obligations can pose adverse impacts on the Company's reputation, which hampers abilities in retaining customers and market share.

Net current liabilities

The Company's net current liabilities amounted to RMB272.3mm and RMB18mn in 2020 and 2021. This exposes that the Company faces liquidity risks and potential risks in the abilities to attract additional capital investments for future operations and business expansion, which hinge heavily on the ability of obtaining external financing and maintaining sufficient operating cash flow. Although we recorded net current assets of RMB2,149mn in 2022, there can be no assurance that net current liabilities position will not recur in the future. If the Company continues to be subjected to net current liabilities, its working capital for business operations could be constrained, which subsequently poses adverse material impacts on its financial conditions.

Appendix

Company background

Far East Horizon (3360 HK), the direct holding company of the Company, has been listed on the Main Board of HKEX since March 2011. Horizon Construction was incorporated in the Cayman Islands as an exempted company with limited liability in Sep 2020. It became the holding company of the Group's operations in Oct 2020.

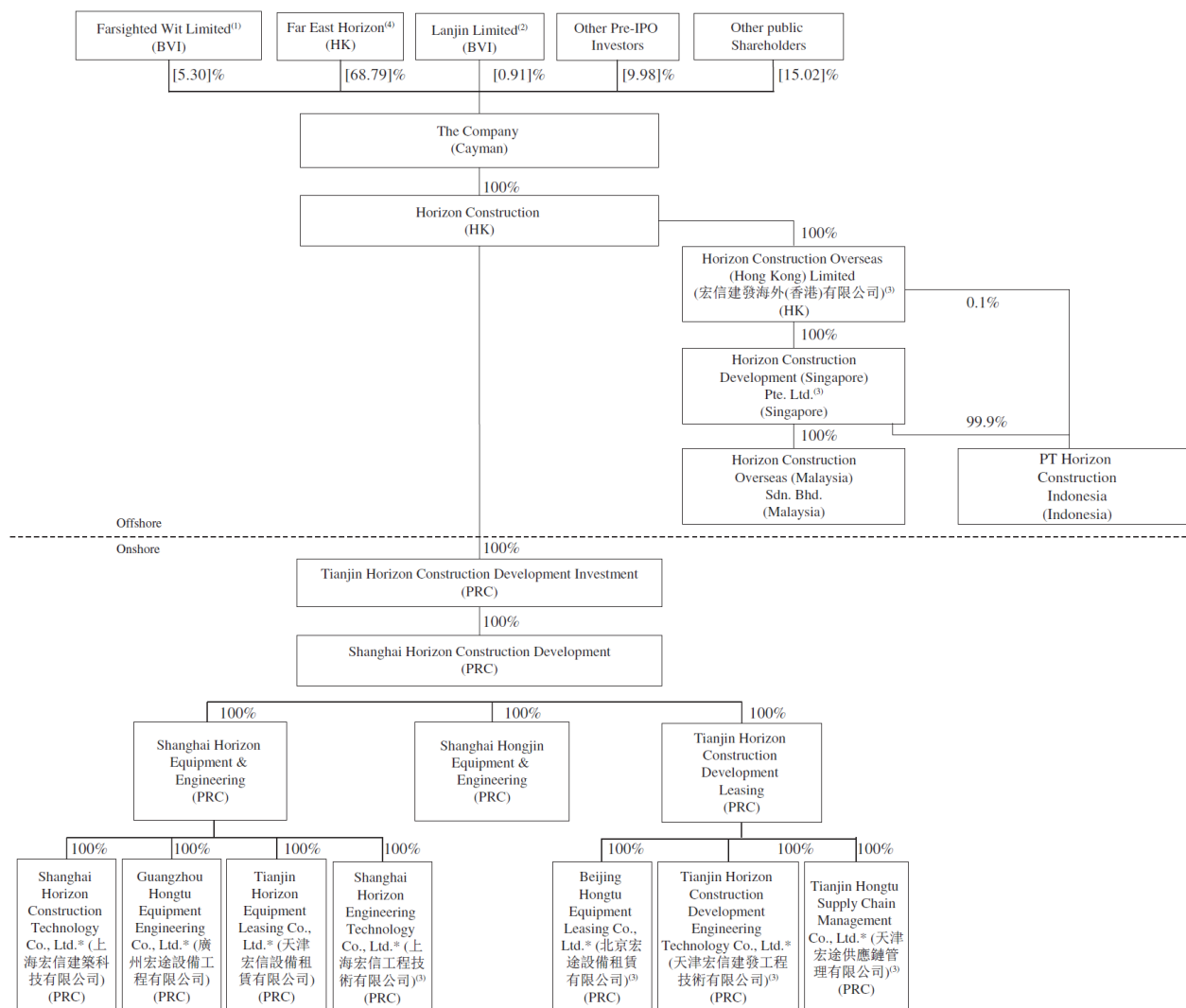
Going forward, Horizon Construction will continue to be principally engaged in its already-established equipment operation business, providing (i) operating lease services, (ii) engineering and technical services, and (iii) platform and other services; whilst Far East Horizon Group will continue to be principally engaged in (i) financial leasing and advisory services, and (ii) industrial operation and management services, including hospital investment and operation, preschool education and school operation management, trading and brokerage services, etc..

Figure 71: Horizon Construction's major business development milestones

Year	Business milestones
2011	<ul style="list-style-type: none"> Established Shanghai Horizon Equipment & Engineering. Commenced providing operating lease services for neo-excavation support system and road equipment.
2012	<ul style="list-style-type: none"> Commenced providing operating lease services for aerial work platform.
2013	<ul style="list-style-type: none"> Established Shanghai Hongjin Equipment & Engineering. Commenced providing operating lease services for neo-formwork system and electrical power equipment.
2014	<ul style="list-style-type: none"> Shanghai Horizon Equipment & Engineering and Shanghai Hongjin Equipment & Engineering were consolidated into Shanghai Horizon Construction Development. Four main business lines were established and commenced providing operating lease services for forklift truck. Commenced providing engineering and technical services to customers in the engineering equipment industry.
2016	<ul style="list-style-type: none"> Ranked 38th in ACCESS 50 and were the first Chinese enterprise to rank as AWP equipment service provider in the world in ACCESS 50 Commenced providing platform and other services to customers in the engineering equipment industry
2019	<ul style="list-style-type: none"> Awarded Top Five Brands in the Synthetic Leasing Industry in 2019 by T50 Summit Organization Committee of World Construction Machinery Industry
2020	<ul style="list-style-type: none"> Awarded Top Ten Brands in the Engineering Equipment Leasing Industry in 2020 by T50 Summit Organization Committee of World Construction Machinery Industry Ranked 6th in Top 50 Aerial Work Platform Leasing Companies in the World in ACCESS 50 in 2020
2021	<ul style="list-style-type: none"> Investment were made by pre-IPO investors, including XCMG Construction Machinery Co., Ltd., Zoomlion Heavy Industry Science and Technology Co., Ltd., Hillhouse Capital V, Ltd., Zhejiang Dingli Machinery Co., Ltd., Linyi Lingong, Machinery Group Co., Ltd., Terex Corporation and China Merchants Bank Co., Ltd. Ranked 4th in Top 50 Aerial Work Platform Leasing Companies in the World in ACCESS 50 and 24th in IRN World's Top 100 Rental Companies in 2021, each of which was awarded by KHL Group.
2022	<ul style="list-style-type: none"> Ranked 3rd in Top 50 AWP Leasing Companies in the World in ACCESS 50 and 14th in IRN World's Top 100 Rental Companies in 2022 Ranked 1st in China Top Ten Mobile Elevating Work Platform ("MEWP") Rental Company Tianjin Horizon Construction Development Leasing was recognized as the Leader of Green Leasing in the China Financial Leasing "Tengfei Award" for the year of 2022, which was awarded by Global Leasing Competitiveness Forum

Source: Company data, CMBIGM

Figure 72: Shareholding and corporate structure of Horizon Construction after the Pre-IPO Investments



Source: Company data, CMBIGM

Employee

As of end-2022, Horizon Construction totaled 4,249 employees, all of which were located in China, targeting to increase to 4,600 by end-2023. The following table presents the breakdown of their employees by function:

Figure 73: Breakdown of employee by function

	No. of employees	% of total employees
Business operation		
- Equipment & materials	266	6.3%
- Engineering	403	9.5%
- Business & operations	1,233	29.0%
- Production	1,036	24.4%
<i>Subtotal</i>	2,938	69.1%
Research & development	146	3.4%
General administration	657	15.5%
IT	205	4.8%
Management & support	303	7.1%
Total	4,249	100.0%

Source: Company data, CMBIGM

Management profile

The Company has an experienced management team. Their outstanding management capability, extensive industry experience, and in-depth understanding of business operations are keys that will enhance its market position and achieve sustainable growth.

Figure 74: Management team profile

Name	Age	Position(s)	Profile
PAN Yang	46	Executive Director, Chief executive officer	<ul style="list-style-type: none"> Appointed as executive director and CEO in Apr 2022 Serves as a director and GM of Tianjin Horizon Construction Development Investment/ Shanghai Horizon Construction Development/ Shanghai Horizon Equipment & Engineering/ Shanghai Hongjin Equipment & Engineering since 2022, etc. Mr. Pan has over 18 years of experience in financial leasing. Previous working experience as below: <ol style="list-style-type: none"> 1) Joined Far East Horizon since 2003 and held positions including project manager and deputy general manager of transportation system department and public utilities department III, the co-general manager of asset center and a VP of Far East Horizon, etc. 2) Served as a director of Horizon Construction Overseas (Hong Kong) Ltd. From May 2022 to Dec 2022. Mr. Pan obtained a bachelor's degree in marketing from Liaoning University in 1999, a master's degree in international financial market from University of Southampton in the UK in 2003 and a MBA degree from Fudan University in 2015
TANG Li	42	Executive Director, Chief financial officer	<ul style="list-style-type: none"> Appointed as executive director in Jan 2021 Serves as chief financial officer of Shanghai Horizon Construction Development, Tianjin Horizon Equipment Leasing, Shanghai Horizon Equipment & Engineering, Guangzhou Hongtu Equipment & Engineering, etc. Mr. Tang has over 18 years of experience in auditing, accounting and financial management. Previous working experience as below: <ol style="list-style-type: none"> 1) Worked at Shanghai Shengqiang Investment Co., Ltd. (上海申強投資有限公司) and Capital Dragon City (Shanghai) Commercial Land Co., Ltd. (凱德龍城(上海)商用置業有限公司) 2) Joined Far East Horizon since 2008, and served as the accounting management manager of finance department from 2010 to 2012, and financial director of several business division and the senior strategic operation director of industrial and equipment business division from 2017 to 2019. 3) Served as a director of Shanghai Horizon Construction Development in 2020, CFO of Guangzhou Kangda Industrial Technology Co., Ltd. (廣州康大工業科技產業有限公司) and director of Horizon Construction Overseas (Hong Kong) Limited (宏信建發海外(香港)有限公司) from Apr 2021 to Dec 2022. Mr. Tang obtained a college diploma with major in accounting from Lixin Accounting College in 2002, and an undergraduate diploma with a major in accounting from Tongji University in 2007.
KONG Fanxing	58	Non-executive Director, Chairman of the Board	<ul style="list-style-type: none"> Appointed as director in 2020, and re-designated as non-executive Director and the chairman of the Board in 2021 Serves as the chief executive officer of Far East Horizon since 2009, an executive director and the chairman of the board of directors of Far East Horizon since 2009 and 2022 Mr. Kong obtained a bachelor's degree in economics with a major in foreign trade and a master's degree in economics with a major in international trade from University of International Business and Economics (對外經濟貿易大學) in Jul 1986 and Jun 1991, respectively. Also, Mr. Pan obtained an EMBA from Peking University (北京大學) in 2006 Mr. Kong has over 22 years of experience in corporate management. Previous working experience as below: <ol style="list-style-type: none"> 1) Worked for Sinochem Group Co., Ltd. (中國中化集團公司) for 20 years, and successively served as deputy general manager and the general manager of Sinochem International Tendering Co., Ltd. (中化國際招標有限公司), the deputy director of chemical fertilizer center of Sinochem Group Co., Ltd. (中國中化集團公司) and executive deputy general manager of Sinochem Fertilizer Company (中化化肥公司), the assistant to president of Sinochem Group, etc. 2) Vice chairman of the board of directors of Far East Horizon from Oct 2009 to Dec 2022. Mr. Kong was offered a two-year honorary appointment to represent his institution in the executive committee of the First Lujiacui Financial City Council by Pudong New Area People's Government (浦東新區人民政府) in 2016. Mr. Kong was awarded as the financier of the year of China Financial Innovation List by China Business News.
YU Guang	36	Chief operational officer	<ul style="list-style-type: none"> Appointed as chief operational officer in 2021. Serves as deputy general manager of Shanghai Hongjin Equipment & Engineering since January 2017, the deputy general manager of Shanghai Horizon Construction Development, Guangzhou Hongtu Equipment & Engineering, Tianjin Horizon Equipment Leasing and Shanghai Horizon Equipment & Engineering since 2018. Mr. Yu has over 11 years of experience in operations management. Previous working experience as below: <ol style="list-style-type: none"> 1) Joined Far East Horizon since 2009 and worked as the business specialist of construction group from Mar 2010 to Aug 2010, the business manager of business operation department from Aug 2010 to Jan 2011, the operational leasing manager of construction group from May 2011 to Aug 2011 2) Worked as the deputy general manager of operation management department from 2013 to 2015, the general manager of operation management department in 2016 and the assistant to GM from 2017 to 2018. Mr. Yu obtained a bachelor's degree in economics with a major in international economics and trade and a master's degree in economics with a major in international trade from Zhejiang University (浙江大學) in 2007 and 2009, respectively.

Source: Company data, CMBIGM

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