

SF Holding-A (002352 CH)

Spin-off of intra-city instant delivery business to unlock value

What's new? SF announced last Friday the plan to spin off the intra-city instant delivery business on HKEX. Dada Nexus (DADA US, NR), a major peer, is trading at 5x 2021E EV/Sales, and we estimate the valuation of SF's intra-city business attributable to SF can potentially reach RMB23.5bn, representing ~8% of the current market cap. We believe a successful separate listing will help SF unlock value.

- **Target to be spun off.** SF's intra-city instant delivery business is conducted through Hangzhou SF Intra-City (杭州顺丰同城实业). At present, SF has an equity interest of 66.76% in Hangzhou SF. At as end-2020, SF's intra-city instant delivery business covered 500 cities in China with riders reaching 2mn.
- **Key financials of Hangzhou SF.** According to the latest announcement of SF, Hangzhou SF generated RMB4.84bn revenue in 2020 (different from the intra-city revenue of RMB3.15bn stated in 2020 annual report as internal revenue is included). Net loss in 2020/1Q21 was RMB760mn/RMB210mn. As at Mar 2021, the net asset of Hangzhou SF was RMB2.1bn.
- **Estimated valuation.** Based on our back-of-the-envelope calculation (due to limited financial information available), the valuation of Hangzhou SF attributable to SF can potentially reach RMB23.5bn (based on 5x 2021E EV/sales, assuming revenue growth of 50% in 2021E).
- **Maintain HOLD.** We expect continuous spending on business transformation and fierce competition will put pressure on earnings in the near-term, despite our long-term positive stance on SF's unique infrastructure network and good management execution.
- **Upside risks:** (1) Better-than-expected earnings recovery in 2H21E; (2) recovery of parcel shipment ASP. **Downside risks:** (1) prolonged price war; (2) further increase in operating cost; (3) higher-than-expected spending on new business development.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	112,193	153,987	185,074	224,747	269,852
YoY growth (%)	23	37	20	21	20
Core Net income (RMB mn)	4,948	6,883	4,828	6,390	9,495
Core EPS (RMB)	1.12	1.54	1.06	1.40	2.08
YoY growth (%)	32.2	37.2	-31.3	32.3	48.6
Consensus EPS (RMB)	n/a	n/a	1.09	1.61	2.13
EV / EBITDA (x)	29.3	23.2	28.1	22.4	16.9
P/E (x)	62.2	45.3	65.9	49.8	33.5
P/B (x)	7.3	5.6	5.3	4.9	4.3
Yield (%)	0.4	0.5	0.3	0.4	0.6
ROE (%)	12.5	13.9	8.3	10.2	13.7
Net gearing (%)	Net cash	Net cash	0.6	3.2	1.7

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price: RMB77.00
 (Previous TP: RMB77.00)
Up/Downside: +10%
Current Price: RMB69.85

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Stock Data

Mkt Cap (RMB mn)	318,267
Avg 3 mths t/o (RMB mn)	2,190
52w High/Low (RMB)	124.7/46.42
Total Issued Shares (mn)	4,448

Source: Bloomberg

Shareholding Structure

Shenzhen Mingde	59.30%
Shenzhen Zhaoguang Inv.	5.85%
Ningbo Shunda Fengrun VC	3.03%
Others	31.82%

Note: Shenzhen Mingde is owned by WANG Wei

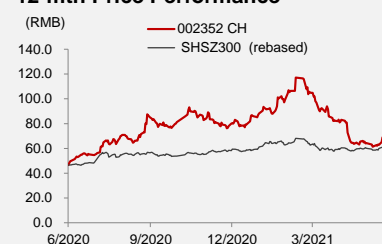
Source: Company data

Share Performance

	Absolute	Relative
1-mth	9.0%	5.8%
3-mth	-33.5%	-33.3%
6-mth	-10.4%	-16.1%

Source: Bloomberg

12-mth Price Performance



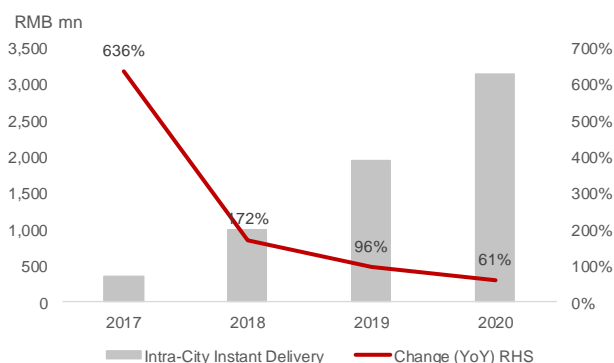
Source: Bloomberg

Auditor: PricewaterhouseCoopers Zhong Tian LLP

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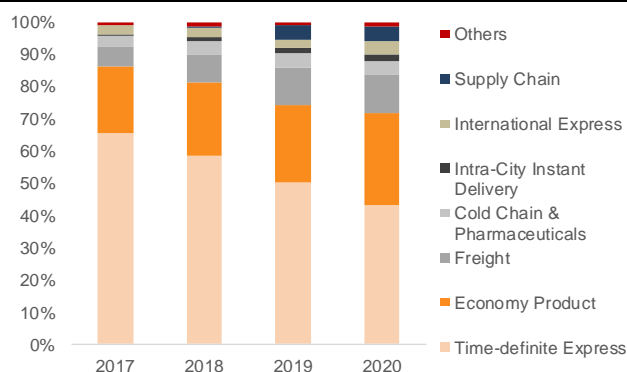
1. SF Holding (002352 CH) – Further earnings downside risk; Wait for a better entry point – 12 Apr 2021
2. China Express Delivery Sector – Bloody battle to end soon; War for market share to continue; BUY winners in the respective playing fields – 14 Oct 2020

Figure 1: SF's intra-city instant delivery revenue



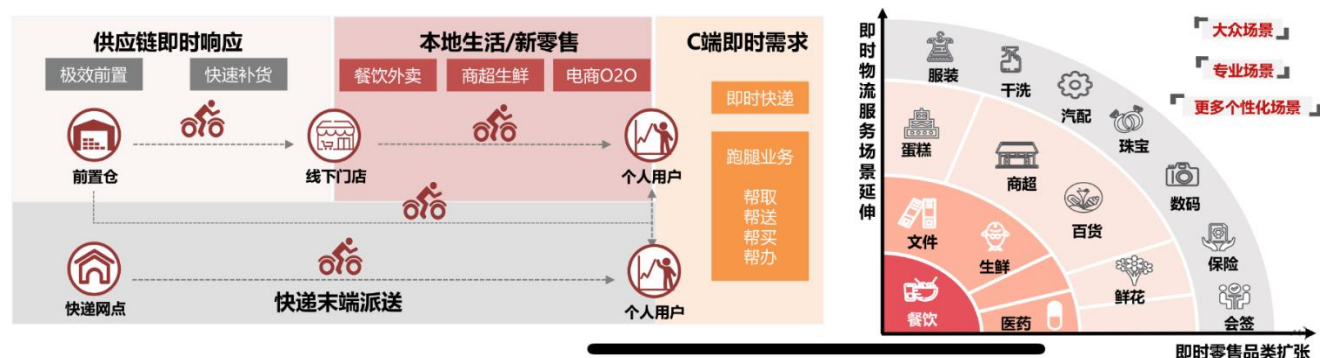
Note: Including external revenue only
Source: Company data, CMBIS

Figure 2: SF's revenue breakdown



Source: Company data, CMBIS

Figure 3: SF's intra-city instant delivery business model



Source: Company data, CMBIS

Figure 4: Hangzhou SF Intra-City's equity valuation

Intra-city revenue in 2021E (assuming 50% growth YoY) (RMB mn)	7,260
EV/Sales (x)	5
Target EV (RMB mn)	36,300
Net debt (RMB mn)	-1,050
Total equity value (RMB mn)	35,250
Equity interest owned by SF	66.76%
Equity value attributable to SF (RMB mn)	23,533

Source: Company data, CMBIS estimates

Figure 5: SF's intra-city instant delivery operating data

No. of cities covered	500
No. of brands under cooperation	7,000
No. of merchants covered (000)	330
No. of registered customers (mn)	100
No. of riders (mn)	2

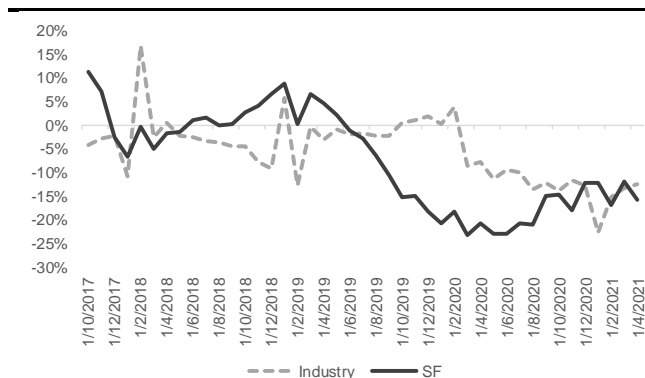
Source: Company data, CMBIS

Figure 6: Key operating assumptions on SF

	2017	2018	2019	2020	2021E	2022E	2023E
Shipment volume (mn units of parcel)	3,052	3,839	4,831	8,137	10,741	13,426	16,514
Growth (YoY)	18.3%	25.8%	25.8%	68.4%	32.0%	25.0%	23.0%
ASP (RMB/unit)	23.1	23.3	21.9	17.8	16.0	15.4	14.9
Growth (YoY)	4.5%	0.5%	-5.7%	-19.0%	-10.0%	-3.7%	-3.5%
Unit cost (RMB/unit)	18.6	19.4	19.2	15.8	15.0	14.6	14.1
Growth (YoY)	4.2%	4.3%	-1.4%	-17.5%	-5.2%	-2.9%	-3.3%
Unit gross margin (RMB/unit)	4.5	3.8	2.8	1.9	1.0	0.8	0.8
Growth (YoY)	5.5%	-15.1%	-27.6%	-29.5%	-48.8%	-16.0%	-7.2%
(RMB mn)	2017	2018	2019	2020	2021E	2022E	2023E
Revenue							
Revenue from express logistic	70,609	89,276	105,983	144,639	171,831	206,842	245,511
Revenue from supply chain	0	400	4,918	7,104	10,656	14,919	20,886
Express logistic & supply chain	70,609	89,677	110,901	151,743	182,487	221,760	266,397
Sales of goods	79	406	491	1,181	1,417	1,701	2,041
Others	585	860	801	1,063	1,169	1,286	1,414
Total revenue	71,273	90,943	112,193	153,987	185,074	224,747	269,852
Revenue growth							
Revenue from express logistic	23.6%	26.4%	18.7%	36.5%	18.8%	20.4%	18.7%
Revenue from supply chain	-	-	1129.5%	44.5%	50.0%	40.0%	40.0%
Express logistic & supply chain	23.6%	27.0%	23.7%	36.8%	20.3%	21.5%	20.1%
Sales of goods	287.1%	413.3%	21.0%	140.4%	20.0%	20.0%	20.0%
Others	82.3%	47.0%	-6.9%	32.7%	10.0%	10.0%	10.0%
Total revenue	24.0%	27.6%	23.4%	37.3%	20.2%	21.4%	20.1%
Gross margin							
Blended gross margin	20.2%	17.9%	17.4%	16.4%	12.9%	13.0%	13.8%

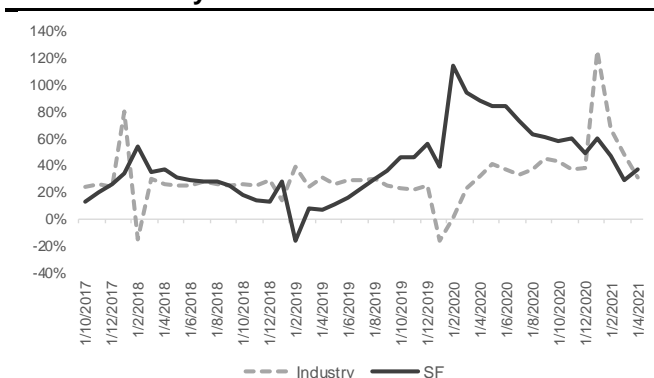
Source: Company data, CMBIS estimates

Figure 7: SF's ASP change versus industry



Source: The State Post Bureau, Company data, CMBIS

Figure 8: SF's monthly parcel shipment growth versus industry



Source: The State Post Bureau, Company data, CMBIS

Figure 9: Earnings sensitivity to ASP and unit outsourcing cost

2021E Net profit (RMB mn)		ASP (RMB/unit)				
		15.20	15.68	16.0	16.32	16.80
	-10.17	-5,384	-1,709	741	3,191	6,866
	-9.88	-2,932	743	3,193	5,643	9,318
Unit outsourcing cost	-9.69	-1,297	2,378	4,828	7,278	10,953
(RMB/unit)	-9.49	338	4,013	6,463	8,913	12,588
	-9.20	2,790	6,465	8,915	11,365	15,040

Source: Company data, CMBIS estimates

Figure 10: Earnings sensitivity to ASP and unit transportation cost

2021E Net profit (RMB mn)		ASP (RMB/unit)				
		15.20	15.68	16.0	16.32	16.80
	-1.80	-2,022	1,653	4,103	6,553	10,228
	-1.75	-1,587	2,088	4,538	6,988	10,663
Unit transportation cost	-1.72	-1,297	2,378	4,828	7,278	10,953
(RMB/unit)	-1.68	-1,007	2,668	5,118	7,568	11,243
	-1.63	-572	3,103	5,553	8,003	11,678

Source: Company data, CMBIS estimates

Figure 11: Earnings sensitivity to ASP and unit employee cost

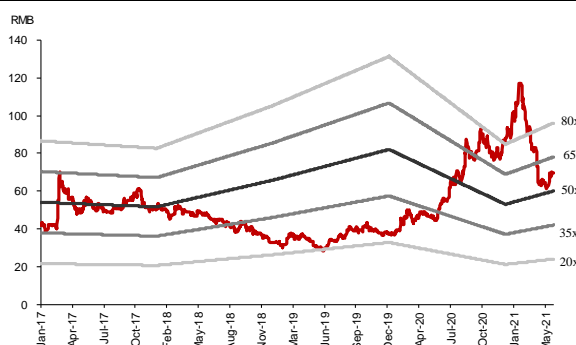
2021E Net profit (RMB mn)		ASP (RMB/unit)				
		15.20	15.68	16.0	16.32	16.80
	-1.43	-1,872	1,803	4,253	6,703	10,378
	-1.39	-1,527	2,148	4,598	7,048	10,723
Unit employee cost	-1.36	-1,297	2,378	4,828	7,278	10,953
(RMB/unit)	-1.34	-1,067	2,608	5,058	7,508	11,183
	-1.29	-722	2,953	5,403	7,853	11,528

Source: Company data, CMBIS estimates

Valuation

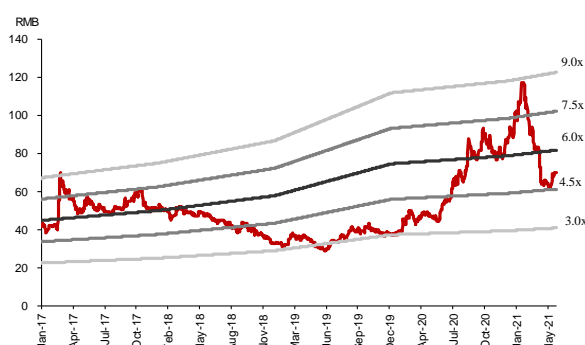
Our new TP is unchanged at RMB77, based on 55x 2022E P/E (38% above historical average) as we believe SF deserves a valuation premium, due to its scarcity value in infrastructure and network, diversifying revenue stream and transforming to data/technology-driven business model.

Figure 12: SF's P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 13: SF's P/B band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	112,193	153,987	185,074	224,747	269,852
Cost of sales	(92,650)	(128,810)	(161,139)	(195,608)	(232,688)
Gross profit	19,544	25,177	23,935	29,139	37,164
Surcharge	(280)	(379)	(370)	(449)	(540)
S&D expenses	(1,997)	(2,252)	(2,961)	(3,596)	(4,857)
Administrative expenses	(9,699)	(11,600)	(13,510)	(15,732)	(18,350)
R&D expense	(1,193)	(1,742)	(2,036)	(2,472)	(2,968)
Impairment loss	(449)	(520)	(740)	(899)	(1,079)
EBIT	5,925	8,684	4,317	5,990	9,369
Net finance income/(cost)	(683)	(853)	(721)	(768)	(776)
Finance income	288	209	153	99	94
Finance expenses	(971)	(1,062)	(874)	(867)	(870)
Other gains/(losses)	2,282	2,229	2,591	3,146	3,778
Share of profit of JV & associates	(98)	(22)	(19)	(44)	49
Pretax profit	7,426	10,039	6,168	8,324	12,419
Income tax	(1,802)	(3,107)	(1,480)	(1,998)	(3,018)
After tax profit	5,625	6,932	4,687	6,326	9,401
MI	172	394	141	63	94
Net profit	5,797	7,326	4,828	6,390	9,495
Core net profit	4,948	6,883	4,828	6,390	9,495
D&A	4,503	4,503	6,538	7,648	8,665
EBITDA	10,429	13,188	10,855	13,637	18,034

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	7,426	10,039	6,168	8,324	12,419
Finance cost	892	981	874	867	870
Interest income	(288)	(209)	(153)	(99)	(94)
Profit or loss of associates	98	22	19	44	(49)
Provision for impairment	417	508	0	0	0
Depreciation & amortization	4,533	5,376	6,538	7,648	8,665
Income tax paid	(1,802)	(3,107)	(1,480)	(1,998)	(3,018)
Change in working capital	(664)	(1,579)	(1,194)	(804)	(1,970)
Others	(1,491)	(707)	0	0	0
Cash flow from operation	9,121	11,324	10,772	13,982	16,825
Net capex on PP&E & intangibles	(6,372)	(12,202)	(13,500)	(12,500)	(12,000)
Investment in JV/associates	(245)	(1,523)	(500)	(500)	(500)
Investment in subsidiaries	(5,168)	(74)	0	0	0
Interest received	288	209	153	99	94
Others	(2,552)	(1,295)	(1,368)	(926)	(1,439)
Cash flow from investing	(14,049)	(14,884)	(15,215)	(13,827)	(13,846)
Equity financing/(repurchase)	204	687	0	0	0
Net bank borrowings	9,625	2,648	(500)	0	100
Dividend paid	(926)	(1,189)	(1,500)	(990)	(1,310)
Interest paid	(992)	(1,082)	(892)	(885)	(888)
Others	(540)	268	0	0	0
Cash flow from financing	7,372	1,332	(2,892)	(1,874)	(2,098)
Change in cash	2,444	(2,229)	(7,335)	(1,719)	881
Cash at beginning of the year	16,131	18,521	16,418	9,083	7,363
Exchange gains/(losses) & others	(54)	126	0	0	0
Cash at the end of the year	18,521	16,418	9,083	7,363	8,245

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	49,638	59,483	68,517	74,745	80,431
PP&E	18,904	22,357	28,755	33,252	36,443
Investment properties	2,020	2,219	2,219	2,219	2,219
Investment in JV/associates	2,222	3,647	4,128	4,584	5,133
Long term prepaid expense	1,714	1,861	2,554	2,805	3,570
Goodwill	3,565	3,377	3,377	3,377	3,377
Long term trade receivables	466	607	813	788	1,134
Intangible assets	10,008	10,633	11,890	12,937	13,773
AFS investments	4,934	5,027	5,027	5,027	5,027
Others	4,741	8,215	8,215	8,215	8,215
Deferred tax assets	1,066	1,539	1,539	1,539	1,539
Current assets	42,897	51,677	47,913	51,617	57,248
Inventories	882	987	1,309	1,264	1,669
Trade and bills receivables	12,045	16,849	19,659	24,675	28,556
Other receivables	2,190	2,721	3,161	3,613	4,076
Advances to suppliers	2,654	3,177	3,177	3,177	3,177
AFS investments	2,910	6,277	6,277	6,277	6,277
Others	3,495	5,248	5,248	5,248	5,248
Cash	18,722	16,418	9,083	7,363	8,245
Current liabilities	30,982	41,809	43,394	47,489	50,714
Trade and bills payables	11,988	15,485	18,067	22,662	25,788
Other payables	4,707	7,531	7,531	7,531	7,531
Bank borrowings	8,145	10,942	9,942	9,442	9,542
Tax payable	1,139	1,855	1,855	1,855	1,855
Advanced from customers	670	28	30	30	30
Others	4,332	5,968	5,968	5,968	5,968
Non-current liabilities	19,060	12,592	13,092	13,592	13,592
Bank borrowings	17,138	10,291	10,791	11,291	11,291
Deferred tax liabilities	1,388	1,688	1,688	1,688	1,688
Long term employee benefits	204	146	146	146	146
Others	330	467	467	467	467
Shareholders' equity	42,420	56,443	59,768	65,168	73,354
MI	74	317	176	113	19

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Revenue from express logistic	94%	94%	93%	92%	91%
Revenue from supply chain	4%	5%	6%	7%	8%
Sales of goods	0%	1%	1%	1%	1%
Others	1%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	17.4	16.4	12.9	13.0	13.8
EBITDA margin	9.3	8.6	5.9	6.1	6.7
EBIT margin	5.3	5.6	2.3	2.7	3.5
After tax profit margin	5.0	4.5	2.5	2.8	3.5
Growth (%)					
Revenue	23.4	37.3	20.2	21.4	20.1
Gross profit	19.9	28.8	(4.9)	21.7	27.5
EBITDA	26.6	26.5	(17.7)	25.6	32.2
EBIT	25.3	46.6	(50.3)	38.7	56.4
Net profit	32.0	39.1	(29.9)	32.3	48.6
Balance sheet ratio					
Current ratio (x)	1.4	1.2	1.1	1.1	1.1
Receivable turnover days	33	36	37	37	37
Inventory turnover days	3	3	3	2	2
Payable turnover days	39	39	38	38	38
Net debt / total equity (%)*	Net cash	Net cash	0.6	3.2	1.7
Profitability (%)					
ROA	7.1	7.2	4.2	5.3	7.2
ROE	12.5	13.9	8.3	10.2	13.7
Per share data					
EPS (RMB)	1.32	1.64	1.06	1.40	2.08
Core EPS (RMB)	1.12	1.54	1.06	1.40	2.08
BVPS (RMB)	9.61	12.39	13.12	14.30	16.10
DPS (RMB)	0.27	0.34	0.22	0.29	0.43

*Net cash includes financial investment Source: Company data, CMBIS estimates

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