

# Huitongda Network (9878 HK)

## Solid recovery and margin improvement ahead

Despite challenging macro and ecommerce competition, we remain confident in HTD to deliver above-industrial growth with better margin in the long run. We suggest to look beyond FY22E (well anticipated), and expect HTD to benefit from consumption recovery post China's reopening. We forecast its FY23E earnings +20% YoY, with moderate but high-quality topline growth (+18% YoY). HTD announced an acquisition agreement with Hosjoy, to reduce potential competition and further promote cross-selling. To factor in 1Q23 epidemic impact, macro uncertainty and slower recovery in categories with higher margin, we trimmed our topline forecast by 4-7% in FY23-24E, and cut earnings by 20-21%, with new TP at HK\$55 (0.27x FY23E P/S or 45x FY24E P/E).

- **Looking beyond FY22E on epidemic impact.** FY22 rev/adj. net profit +22%/16% YoY, 2%/8% below consensus. 2H22 slowdown was mainly attributable to Covid and Foxconn incident (which affected consumer electronics momentum). For commerce biz, liquor and beverages/ others/ consumer electronics lead the growth, with rev +48%/41%/39% YoY. Household appliance and homebuilding materials were muted due to epidemic. Margin slightly missed on one-off impairment loss on trade and other receivables. We view this result as acceptable (above-industrial growth), and suggest to move into its quality growth in FY23E.
- **Solid recovery and margin improvement ahead.** 1Q23E might be soft on Covid disruptions, but it is well anticipated. Looking into FY23E, we expect its household appliance and homebuilding materials to gradually recover post China's reopening, while liquor and beverages and consumer electronics would maintain solid growth (forecasting rev 20%+ YoY in FY23E). HTD prioritizes on high-quality growth and profitability enhancement. We remain confident in its above-industrial growth, considering: 1) resilient demand in low-tier markets with category expansion; and 2) consumption recovery post reopening. We forecast its topline/ bottom line growth at 18%/20% YoY in FY23E (still largely above industry estimated GMV of +12% YoY). Service business rev +13.5% YoY in FY23E. in our estimates. As announced on 21<sup>st</sup> Mar. HTD planned to acquire Hosiov (好享家), a one-stop integrated solution services provider on comfort and smart home. We expect this acquisition to reduce potential competition and further promote market expansion with larger client base.
- **Maintain BUY.** While trimming HTD's FY23-24E rev forecast by 4-7% due to epidemic impact in 1Q23E and macro uncertainty, we cut earnings forecast by 20-21% on slower recovery in categories (household appliances and homebuilding) with higher margin and slightly rising S&M ratio after reopening. We keep positive on its secular growth (15%/24% topline/bottom line CAGR in FY23-25E). Our SoTP-based TP is adjusted to HK\$55.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	80,355	94,930	110,310	125,816
YoY growth (%)	22.2	18.1	16.2	14.1
Adj. net income (RMB mn)	379	456	576	704
Adj. EPS (RMB)	0.7	0.9	1.1	1.4
YoY growth (%)	15.7	20.3	26.2	22.3
Consensus EPS (RMB)	NA	1.1	1.6	NA
P/E (x)	35	29	23	19
P/S (x)	0.19	0.16	0.14	0.12
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **HK\$55.0**  
 (Previous TP **HK\$63.2**)  
 Up/Downside **+77.0%**  
 Current Price **HK\$31.1**

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	17,299
Avg 3 mths t/o (HK\$ mn)	8.09
52w High/Low (HK\$)	64.7/ 27.9
Total Issued Shares (mn)	180
Source: Bloomberg	

### Shareholding Structure

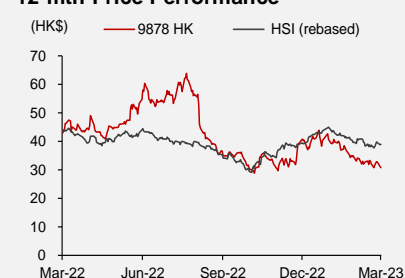
Wang Jianguo	21.92%
Alibaba China	13.82%
Xu Xiuxian	10.15%
Source: Bloomberg	

### Share Performance

	Absolute	Relative
1-mth	-6.9%	-5.1%
3-mth	-19.8%	-19.7%
6-mth	-14.5%	-22.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: KPMG**

**Figure 1: FY22 financial review**

RMB mn, Dec-YE	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net revenue	29,802	43,633	49,629	65,763	80,355	94,930	110,310	125,816
Cost of revenue	(28,795)	(42,354)	(48,285)	(63,895)	(77,858)	(91,693)	(106,415)	(121,342)
Gross profit	1,007	1,279	1,345	1,868	2,497	3,238	3,895	4,474
Selling and distribution expenses	(428)	(564)	(610)	(864)	(1,328)	(1,460)	(1,715)	(1,902)
Administrative expenses	(451)	(478)	(415)	(479)	(610)	(671)	(794)	(932)
R&D	(35)	(49)	(58)	(79)	(113)	(193)	(265)	(325)
Other gains	114	146	145	192	217	0	0	0
Operating (loss)/profit	207	334	407	639	663	914	1,120	1,314
Other expenses*	(400)	(581)	(604)	(713)	(60)	(69)	(69)	(29)
(Loss)/profit before income tax	(193)	(247)	(197)	(74)	603	845	1,051	1,285
Income taxes (expense)/credit	(82)	(58)	(81)	(101)	(93)	(144)	(179)	(218)
(Loss)/profit for the year	(296)	(415)	(405)	(350)	287	456	576	704
Adj. net profit	104	139	197	328	379	456	576	704
<b>Margin Analysis</b>								
Gross margin	3.38%	2.93%	2.71%	2.84%	3.11%	3.41%	3.53%	3.56%
Operating margin	0.69%	0.77%	0.82%	0.97%	0.83%	0.96%	1.02%	1.04%
Adj. net margin	0.35%	0.32%	0.40%	0.50%	0.47%	0.48%	0.52%	0.56%
<b>Growth Analysis</b>								
Revenue		46%	14%	33%	22%	18%	16%	14%
Gross profit		27%	5%	39%	34%	30%	20%	15%
Operating profit		61%	22%	57%	4%	38%	23%	17%
Adj. net profit		33%	42%	66%	16%	20%	26%	22%

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	94,930	110,310	125,816	103,485	126,666	NA	-8.3%	-12.9%	NA
Gross Profit	3,238	3,895	4,474	3,581	4,560	NA	-9.6%	-14.6%	NA
Operating Profit	914	1,120	1,314	1,059	1,533	NA	-13.7%	-26.9%	NA
Adj. net profit	456	576	704	627	841	NA	-27.3%	-31.5%	NA
Adj. EPS (RMB)	0.90	1.13	1.38	1.11	1.55	NA	-18.8%	-27.0%	NA
Gross Margin	3.4%	3.5%	3.6%	3.5%	3.6%	NA	-0.0ppts	-0.0ppts	NA
Operating Margin	1.0%	1.0%	1.0%	1.0%	1.2%	NA	-0.0ppts	-0.0ppts	NA
Adj. net margin	0.5%	0.5%	0.6%	0.6%	0.7%	NA	-0.0ppts	-0.0ppts	NA

Source: CMBIGM estimates, Bloomberg

**Figure 3: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	94,930	110,310	125,816	98,713	118,509	NA	-3.8%	-6.9%	NA
Gross Profit	3,238	3,895	4,474	3,377	4,239	NA	-4.1%	-8.1%	NA
Operating Profit	914	1,120	1,314	989	1,294	NA	-7.6%	-13.4%	NA
Adj. net profit	456	576	704	568	732	NA	-19.7%	-21.3%	NA
EPS (RMB)	0.90	1.13	1.38	1.01	1.30	NA	-11.2%	-12.9%	NA
Gross Margin	3.4%	3.5%	3.6%	3.4%	3.6%	NA	+0.0ppts	-0.0ppts	NA
Operating Margin	1.0%	1.0%	1.0%	1.0%	1.1%	NA	-0.0ppts	-0.0ppts	NA
Net Margin	0.5%	0.5%	0.6%	0.6%	0.6%	NA	-0.0ppts	-0.0ppts	NA

Source: Company data, CMBIGM estimates

We trimmed HTD's FY23-24E rev forecast by 4-7%, to factor in: 1) logistics and offline expansion are disrupted by epidemic peak in 1Q23; 2) despite mild recovery after reopening, we tend to be more conservative as mgmt. prioritized on high-quality growth instead of aggressive expansion. We revised FY23-24E earnings forecast down by 20-21% (margin by 0.02-0.10ppts) mainly on slower recovery in categories (household appliances and housebuilding) with higher margin and slightly rising S&M ratio after reopening. Since HTD's margin has been relative low, little change in it will lead to obvious differences in bottom line. Though we trimmed its FY23-24E earnings forecast by 20-21%, HTD would deliver 24% earnings CAGR in FY23-25E, a solid growth that outpaces the industry.

Meanwhile, in our SOTP-based valuation (primary method), we slightly trimmed assigned multiple for its commerce biz/ service biz to 0.18x/4x FY23E EV/Sales (from 0.2x/5x), to reflect recent ecommerce & SaaS sector de-rating. Our SOTP-based new TP is HK\$55, suggesting 0.27x FY23E P/S or 45x FY24E P/E. We also used DCF model for cross check.

We selected five group comps for peer comparison, in which ecommerce trades at 1.7x FY23E EV/Sales on average, and SaaS at 3.7x FY23E EV/Sales. Given Company's biz model, we think JD would be the most comparable one, and HTD's SOTP valuation (0.27x FY23E P/S) suggests 31% discount to JD. As a leading lower-tier commerce player, we think HTD's TP-implied valuation is not demanding, backed by its 1) strong supply chain & localization to build high barrier; and 2) 15%/24% FY23-25E rev/earnings CAGR and margin enhancement (vs. industrial average at 13%/20% rev/earnings CAGR).

**Figure 4: SOTP valuation**

Business (RMB mn)	'23E Rev	Multiple	Methodology	Value
Commerce business	93,894	0.18x	EV/Sales	16,901
Service business	902	4.0x	EV/Sales	3,609
<b>Enterprise Value</b>				<b>20,510</b>
(+) Net Cash				5,186
<b>Equity Value</b>				<b>25,695</b>
FX				0.88
<b>Valuation (HK\$ mn)</b>				<b>29,199</b>
<b>TP (HK\$) based on SOTP</b>				<b>55</b>

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 5: DCF valuation**

DCF valuation (RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	914	1,120	1,314	1,553	1,822	2,121	2,451	2,814	3,210
Tax	(144)	(179)	(218)	(258)	(303)	(352)	(407)	(468)	(534)
D&A	60	69	79	86	95	105	115	126	139
Working capital	448	599	408	452	498	547	602	662	729
CAPEX	(60)	(60)	(60)	(61)	(62)	(64)	(65)	(66)	(68)
<b>FCF</b>	<b>1,218</b>	<b>1,550</b>	<b>1,522</b>	<b>1,773</b>	<b>2,049</b>	<b>2,356</b>	<b>2,696</b>	<b>3,069</b>	<b>3,477</b>
FCF Growth		27%	-2%	16%	16%	15%	14%	14%	13%
Terminal Value									30,166
<b>PV (FCF+ Terminal Value)</b>	<b>1,218</b>	<b>1,349</b>	<b>1,153</b>	<b>1,169</b>	<b>1,177</b>	<b>1,178</b>	<b>1,173</b>	<b>1,163</b>	<b>11,096</b>

**Assumptions**

<b>WACC</b>	<b>14.9%</b>
Tax rate	17.0%
Risk free rate	3.6%
Beta	1.20
Market risk return	13.0%
Debt/Assets	0.0%
<b>Terminal growth rate</b>	<b>3.0%</b>
<b>Debt value</b>	<b>0</b>

**Equity Value**

<b>PV</b>	<b>20,678</b>
minus: Net cash	(5,186)
minus: Minority Interest	0
Equity Value	25,864
FX	0.88
<b>TP (HK\$) based on DCF</b>	<b>55</b>

		WACC				
Growth	1.5%	13%	14%	15%	16%	17%
	60	56	53	49	46	
	62	57	54	50	47	
	63	58	54	50	47	
	64	59	55	51	48	
	66	60	56	52	49	
	68	62	58	53	49	
	4.5%	70	63	59	54	50

Source: Company data, Bloomberg, CMBIGM estimates

Figure 6: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Huitongda	9878 HK	2,412	HKD	31	BUY	55	29.5	23.4	19.1	0.16	0.14	0.12	24%
<b>EC Service Provider</b>													
Baozun	BZUN US	309	USD	5	BUY	8	11.9	5.9	3.0	0.2	0.2	0.2	64%
Lily & Beauty	605136 CH	924	CNY	16	NR	NA	29.9	20.7	16.2	1.6	1.4	1.1	21%
Ruoyuchen	003010 CH	364	CNY	21	NR	NA	NA	66.4	42.0	2.2	1.9	1.7	69%
Onechance	300792 CH	1,203	CNY	35	NR	NA	28.7	22.5	19.9	6.2	5.1	4.4	24%
Transcosmos	9715 JP	1,182	JPY	3,195	NR	NA	9.9	10.7	10.1	0.4	0.4	0.4	0%
Average							20.1	25.2	18.2	2.1	1.8	1.6	36%
<b>China Ecommerce</b>													
Pinduoduo	PDD US	92,098	USD	73	BUY	106	15.2	11.9	9.5	3.8	3.2	2.7	23%
Alibaba	BABA US	254,610	USD	98	BUY	156	12.6	11.0	9.7	2.0	1.8	1.6	7%
JD.com	JD US	65,635	USD	42	BUY	74	14.5	11.4	9.6	0.4	0.3	0.3	21%
Vipshop	VIPS US	8,923	USD	15	NR	NA	8.7	8.2	7.7	0.6	0.5	0.5	5%
Suning.com	002024 CH	2,961	CNY	2	NR	NA	NA	NA	64.7	0.3	0.2	0.2	NA
Meituan	3690 HK	111,313	HKD	140	BUY	168	55.8	28.1	17.4	2.7	2.2	1.8	80%
Yatsen	YSG US	811	USD	1	NR	NA	NA	61.5	29.3	1.4	1.2	1.1	NA
Average							12.7	10.6	10.8	1.6	1.4	1.2	14%
<b>Global Ecommerce</b>													
Amazon	AMZN US	996,444	USD	97	NR	NA	35.9	24.5	18.1	1.8	1.6	1.4	45%
eBay	EBAY US	23,016	USD	43	NR	NA	10.6	10.1	9.3	2.3	2.3	2.1	10%
Groupon	GRPN US	110	USD	4	NR	NA	7.1	3.9	2.5	0.2	0.2	0.2	NA
Average							28.8	12.8	10.0	1.4	1.3	1.2	27%
<b>SaaS</b>													
Youzan	8083 HK	521	HKD	0	NR	NA	NA	NA	68.9	2.2	1.8	1.8	NA
Weimob	2013 HK	2,001	HKD	6	NR	NA	NA	NA	NA	6.8	5.4	4.5	NA
KE Holdings	BEKE US	22,466	USD	18	BUY	23	25.1	20.1	17.2	2.1	1.8	1.7	15%
Average							25.1	20.1	17.2	3.7	3.0	2.7	15%
<b>Delivery</b>													
SF Holding	002352 CH	38,784	CNY	55	HOLD	77	29.3	22.2	17.4	0.9	0.8	0.7	33%
YTO Express	600233 CH	9,097	CNY	18	NR	NA	16.3	13.9	11.7	1.2	1.0	0.9	18%
JD Logistics	2618 HK	11,726	HKD	14	NR	NA	54.8	29.8	20.1	0.5	0.4	0.4	70%
Dada Nexus	DADA US	2,041	USD	8	NR	NA	71.6	12.5	6.7	1.1	0.8	0.7	415%
ZTO Express	2057 HK	23,263	HKD	226	BUY	306	19.3	16.0	13.7	3.9	3.4	3.0	20%
Full Truck	YMM US	7,980	USD	7	NR	NA	27.1	17.3	12.0	6.8	5.3	4.4	49%
Average							23.0	18.6	13.6	2.4	1.9	1.7	30%
Average							18.9	17.5	16.3	1.5	1.3	1.2	27%

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	65,763	80,355	94,930	110,310	125,816
Commerce business	65,226	79,438	93,894	109,146	124,494
Service business	438	795	902	1,018	1,168
Others	100	122	134	147	154
<b>COGS</b>	(63,895)	(77,858)	(91,693)	(106,415)	(121,342)
<b>Gross profit</b>	1,868	2,497	3,238	3,895	4,474
S&M	(864)	(1,328)	(1,460)	(1,715)	(1,902)
Admin.Exp.	(479)	(610)	(671)	(794)	(932)
R&D	(79)	(113)	(193)	(265)	(325)
Other gains	137	172	-	-	-
Other rev	56	45	-	-	-
<b>Operating profit</b>	639	663	914	1,120	1,314
Other income/(exp), net	(713)	(60)	(69)	(69)	(29)
<b>Pre-tax Income</b>	(74)	603	845	1,051	1,285
Income Tax	(101)	(93)	(144)	(179)	(218)
<b>Net profit</b>	(350)	287	456	576	704
<b>Adj. net profit</b>	328	379	456	576	704

### Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Net income</b>	1,168	287	456	576	704
D&A	37	52	60	69	79
Change in WC	901	794	448	599	408
Others	(1,291)	(446)	626	544	610
<b>Operating CF</b>	815	686	1,591	1,789	1,800
Capex	(26)	(45)	(60)	(60)	(60)
Purchase of investments	(23,314)	-	-	-	-
Others	21,804	(925)	-	-	-
<b>Investing CF</b>	(1,536)	(970)	(60)	(60)	(60)
Equity raised	-	-	-	-	-
Change of Debts	(97)	560	-	-	-
Cash from CB raised	-	10,225	-	-	-
Others	(532)	(8,937)	-	-	-
<b>Financing CF</b>	(629)	1,848	-	-	-
<b>Net change in cash</b>	(1,349)	1,564	1,531	1,729	1,740
Cash (beg of yr)	4,316	2,967	4,531	6,062	7,791
FX	-	-	-	-	-
<b>Cash (end of yr)</b>	2,967	4,531	6,062	7,791	9,531

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Non-current assets</b>	2,245	1,991	1,398	1,389	1,370
Property and equipment	43	77	73	78	70
Right-of-use assets	111	104	74	61	49
Intangible assets	-	-	-	-	-
Others	2,091	1,811	1,250	1,250	1,250
<b>Current assets</b>	23,353	26,784	31,531	35,696	39,985
Cash	2,967	4,038	6,062	7,791	9,531
Prepayments	8,417	8,661	10,300	11,954	13,630
Financial assets at fair value	2	2	2	2	2
Trade receivables	2,653	3,127	3,641	4,231	4,653
Others	9,314	10,955	11,526	11,718	12,168
<b>Current liabilities</b>	27,231	19,342	22,417	25,449	28,402
Accounts payables	14,419	14,939	17,585	20,117	22,606
Other payables	661	839	962	1,107	1,254
Advances from customers	-	-	-	-	-
Others	12,151	3,564	3,870	4,225	4,541
<b>Non-current liabilities</b>	84	73	80	83	87
Lease liabilities	67	56	56	56	56
Others	17	17	23	27	31
MI	1,358	1,405	1,405	1,405	1,405
Total Equity	(1,717)	9,360	10,274	11,394	12,709
<b>Shareholders' equity</b>	(1,717)	9,360	10,432	11,552	12,866

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Commerce business	99.2	98.9	98.9	98.9	98.9
Service business	0.7	1.0	1.0	0.9	0.9
Others	0.2	0.2	0.1	0.1	0.1
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	32.5	22.2	18.1	16.2	14.1
Gross profit	38.9	33.7	29.7	20.3	14.9
EBIT	57.0	3.8	37.8	22.6	17.3
Adj. net profit	66.4	15.7	20.3	26.2	22.3
<b>P&amp;L ratios (%)</b>					
Operating margin	1.0	0.8	1.0	1.0	1.0
Pre-tax margin	(0.1)	0.8	0.9	1.0	1.0
Adj. net margin	0.5	0.5	0.5	0.5	0.6
Effective tax rate	0.2	0.1	0.2	0.2	0.2
<b>Returns (%)</b>					
ROE	(17.4)	9.9	4.6	5.2	5.8
ROA	1.4	1.4	1.5	1.6	1.8

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

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