

SF Holding-A (002352 CH)

Set to deliver strong earnings recovery in 2022E; U/G to BUY

Following the completion of share placement and the spin-off of SF REIT (2191 HK, NR) and the intra-city business unit, SF completed the major fund-raising exercise in 2021. Going forward, with a focus on premium delivery service, SF is set to become a major beneficiary given that the industry focus is moving away from pricing to service quality after the government's intervention. Meanwhile, SF's strategic shift from scale to profitability, together with the consolidation of Kerry Logistics (636 HK, NR), will boost significant earnings recovery in 2022E. What's more, the potential market share gain in the premium e-commerce delivery segment will boost SF's economy express volume. We revise up our earnings forecast in 2022E/23E by 26%/22%, and lift our TP to RMB100 (based on 61x 2022E P/E) from RMB77 accordingly. Upgrade to **BUY** from Hold.

- E-commerce standard express a potential growth driver.** "E-commerce standard express" is the key product of SF with a focus on the premium e-commerce delivery segment (ASP: RMB6/parcel). At present, the daily parcel volume of E-commerce standard express is ~7mn units which account for ~25% of SF's total daily volume (excluding Kerry Logistics), based on our estimates. Given the rising demand for the improvement of delivery service, we see potential for SF to gain market share in the premium e-commerce delivery space. We do not rule out the possibility for SF to initiate business relationship with the major e-commerce platform.
- Consolidation of Kerry Logistics.** SF completed the acquisition of 51.5% of Kerry Logistics interest in late Sep. With the contribution from Kerry Logistics, SF's consolidated revenue from supply chain logistics grew 7.8x/6.4x YoY in Oct/Nov. We see strong synergies between SF and Logistics in China supply chain logistics market, given that the top three brands are all under SF. We estimate that supply chain logistics will account for 25% of SF's consolidated revenue in 2022E.
- Freight segment (less-than-truck-load): Focus on profit.** SF achieved segment net profit of RMB20-30mn in 3Q21, compared with a loss of RMB580mn in 1H21, thanks to the shift of focus from scale to profit. SF targets to achieve profitable revenue growth of 20% in 2022E.
- Major risks:** (1) Decline in ASP; (2) further increase in operating cost; (3) delay of new business development.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	112,193	153,987	217,238	280,105	327,664
YoY growth (%)	23	37	41	29	17
Core net income (RMB mn)	4,948	6,883	3,765	8,079	11,618
Core EPS (RMB)	1.12	1.54	0.82	1.65	2.37
YoY growth (%)	32.2	37.2	-46.7	100.6	43.8
Consensus EPS (RMB)	n/a	n/a	0.76	1.49	2.14
EV / EBITDA (x)	28.8	22.8	22.0	14.8	11.4
P/E (x)	61.2	44.6	83.7	41.7	29.0
P/B (x)	7.2	5.5	4.2	3.9	3.5
Yield (%)	0.4	0.5	0.1	0.5	0.7
ROE (%)	12.5	13.9	5.5	9.7	12.6
Net gearing (%)	Net cash	Net cash	2.2	4.5	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

Target Price: **RMB100.00**
 (Previous TP RMB77.00)
 Up/Downside: **+45%**
 Current Price: **RMB68.92**

China Logistics

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Stock Data

Mkt Cap (RMB mn)	338,136
Avg 3 mths t/o (RMB mn)	1,260
52w High/Low (RMB)	124.7/54.39
Total Issued Shares (mn)	4,906

Source: Bloomberg

Shareholding Structure

Shenzhen Mingde	55.07%
Shenzhen Zhaoguang Inv.	4.29%
Ningbo Shunda Fengrun VC	2.27%
Others	38.37%

Note: Shenzhen Mingde is owned by WANG Wei

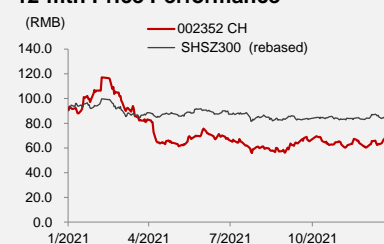
Source: Company data

Share Performance

	Absolute	Relative
1-mth	12.6%	10.1%
3-mth	5.5%	3.9%
6-mth	1.8%	7.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
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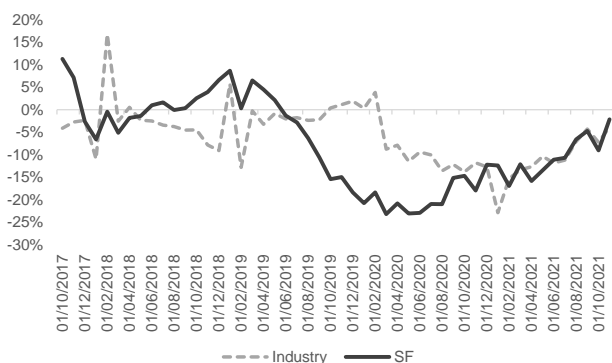
- China Express Delivery Sector – Strong policy measures to reshape the competitive landscape; Upgrade to Outperform – 1 Dec 2021
- SF Holding (002352 CH, HOLD) – Further earnings downside risk; Wait for a better entry point – 12 Apr 2021

Figure 1: Change in key assumptions

(RMB mn)	Old			New			Change		
	2021E	2022E	2023E	2021E	2022E	2020E	2021E	2022E	2023E
Shipment volume (mn units of parcel)	10,741	13,426	16,514	10,578	12,376	14,357	-1.5%	-7.8%	-13.1%
Growth (YoY)	32.0%	25.0%	23.0%	30.0%	17.0%	16.0%			
ASP (RMB/unit)	16.0	15.4	14.9	16.8	16.8	16.8	5.2%	9.3%	13.2%
Growth (YoY)	-10.0%	-3.7%	-3.5%	-5.3%	0.0%	0.0%			
Unit cost (RMB/unit)	15.0	14.6	14.1	15.3	15.2	15.0	2.2%	4.5%	6.7%
Growth (YoY)	-5.2%	-2.9%	-3.3%	-3.2%	-0.7%	-1.3%			
Unit gross margin (RMB/unit)	1.0	0.8	0.8	1.5	1.6	1.8	51.4%	92.3%	131.9%
Growth (YoY)	-48.8%	-16.0%	-7.2%	-22.5%	6.8%	11.9%			
(RMB mn)									
Revenue									
Revenue from express logistics	171,831	206,842	245,511	178,065	208,336	241,670	3.6%	0.7%	-1.6%
Revenue from supply chain	10,656	14,919	20,886	36,586	68,782	82,539	243.3%	361.0%	295.2%
Express logistic & supply chain	182,487	221,760	266,397	214,651	277,118	324,209	17.6%	25.0%	21.7%
Sales of goods	1,417	1,701	2,041	1,417	1,701	2,041	0.0%	0.0%	0.0%
Others	1,169	1,286	1,414	1,169	1,286	1,414	0.0%	0.0%	0.0%
Total revenue	185,074	224,747	269,852	217,238	280,105	327,664	17.4%	24.6%	21.4%
Revenue growth									ppt
Revenue from express logistics	18.8%	20.4%	18.7%	23.1%	17.0%	16.0%	4.3	(3.4)	(2.7)
Revenue from supply chain	50.0%	40.0%	40.0%	415.0%	88.0%	20.0%	365.0	48.0	(20.0)
Express logistic & supply chain	20.3%	21.5%	20.1%	41.5%	29.1%	17.0%	21.2	7.6	(3.1)
Sales of goods	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	0.0	0.0	0.0
Others	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	0.0	0.0	0.0
Total revenue	20.2%	21.4%	20.1%	41.1%	28.9%	17.0%	20.9	7.5	(3.1)
Gross margin									ppt
Blended gross margin	12.9%	13.0%	13.8%	11.6%	12.1%	13.0%	(1.4)	(0.9)	(0.8)
S&D expense ratio	1.6%	1.6%	1.8%	1.3%	1.3%	1.3%	(0.3)	(0.3)	(0.5)
Admin expense ratio	7.3%	7.0%	6.8%	6.3%	5.6%	5.5%	(1.0)	(1.4)	(1.3)
R&D expense ratio	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	0.0	0.0	0.0
Recurring net profit	3,885	6,390	9,495	3,765	8,079	11,618	-3.1%	26.4%	22.4%

Source: Company data, CMBIS

Figure 2: SF's ASP change versus industry



Source: The State Post Bureau, Company data, CMBIS

Figure 3: SF's monthly parcel shipment growth versus industry



Source: The State Post Bureau, Company data, CMBIS

Figure 4: Earnings sensitivity to ASP and unit outsourcing cost

2022E Net profit (RMB mn)	ASP (RMB/unit)					
	15.99	16.50	16.8	17.17	17.68	
	-9.97	-1,288	2,210	4,542	6,874	10,372
	-9.68	834	4,332	6,664	8,996	12,494
Unit outsourcing cost (RMB/unit)	-9.49	2,249	5,747	8,079	10,411	13,909
	-9.30	3,663	7,161	9,493	11,825	15,323
	-9.02	5,785	9,283	11,615	13,947	17,445

Source: Company data, CMBIS estimates

Figure 5: Earnings sensitivity to ASP and unit transportation cost

2022E Net profit (RMB mn)	ASP (RMB/unit)					
	15.99	16.50	16.8	17.17	17.68	
	-1.80	1,609	5,107	7,439	9,771	13,269
	-1.75	1,993	5,491	7,823	10,155	13,653
Unit transportation cost (RMB/unit)	-1.72	2,249	5,747	8,079	10,411	13,909
	-1.68	2,505	6,003	8,335	10,667	14,165
	-1.63	2,889	6,387	8,719	11,051	14,549

Source: Company data, CMBIS estimates

Figure 6: Earnings sensitivity to ASP and unit employee cost

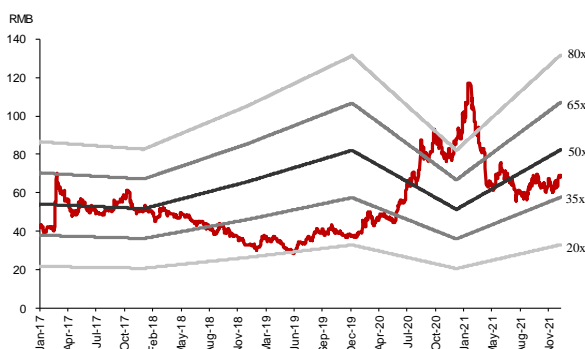
2022E Net profit (RMB mn)	ASP (RMB/unit)					
	15.99	16.50	16.8	17.17	17.68	
	-1.61	1,678	5,176	7,508	9,840	13,338
	-1.56	2,020	5,518	7,850	10,183	13,681
Unit employee cost (RMB/unit)	-1.53	2,249	5,747	8,079	10,411	13,909
	-1.50	2,477	5,975	8,307	10,639	14,137
	-1.45	2,819	6,317	8,649	10,981	14,479

Source: Company data, CMBIS estimates

Valuation

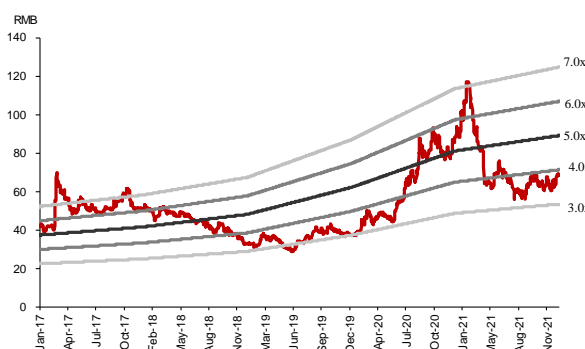
We believe the sluggish share price performance since 2Q21 has already reflected the margin pressure and weak earnings in 2021E. Our new TP of RMB100 is based on 61x 2022E P/E, 1SD above the historical average of 44x. We believe SF deserves a valuation premium, given the strong earnings recovery in 2022E-23E. Upgrade to **BUY**.

Figure 7: SF's P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 8: 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	217,238	280,105	327,664
Cost of sales	-92,650	-128,810	-192,124	-246,201	-285,154
Gross profit	19,544	25,177	25,114	33,904	42,509
Surcharge	-280	-379	-434	-560	-655
S&D expenses	-1,997	-2,252	-2,824	-3,641	-4,260
Administrative expenses	-9,699	-11,600	-13,686	-15,686	-18,022
R&D expense	-1,193	-1,742	-2,390	-3,081	-3,604
Impairment loss	-449	-520	-434	-560	-655
EBIT	5,925	8,684	5,345	10,375	15,313
Net finance income/(cost)	-683	-853	-730	-789	-765
Finance income	288	209	145	78	105
Finance expenses	-971	-1,062	-874	-867	-870
Other gains/(losses)	2,282	2,229	3,041	3,921	4,587
Share of profit of JV & associates	-98	-22	-19	-44	49
Pretax profit	7,426	10,039	7,638	13,465	19,184
Income tax	-1,802	-3,107	-2,520	-3,366	-4,662
After tax profit	5,625	6,932	5,117	10,098	14,522
MI	172	394	-409	-2,020	-2,904
Net profit	5,797	7,326	4,708	8,079	11,618
Core net profit	4,948	6,883	3,765	8,079	11,618
D&A	4,503	4,503	8,307	9,942	11,052
EBITDA	10,429	13,188	13,652	20,318	26,366

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	7,426	10,039	7,638	13,465	19,184
Finance cost	892	981	874	867	870
Interest income	-288	-209	-145	-78	-105
Profit or loss of associates	98	22	19	44	-49
Provision for impairment	417	508	0	0	0
Depreciation & amortization	4,533	5,376	8,307	9,942	11,052
Income tax paid	-1,802	-3,107	-2,520	-3,366	-4,662
Change in working capital	-664	-1,579	-1,488	-3,330	-2,380
Others	-1,491	-707	0	0	0
Cash flow from operation	9,121	11,324	12,686	17,543	23,912
Net capex on PP&E & intangibles	-6,372	-12,202	-21,500	-17,500	-12,500
Investment in JV/associates	-245	-1,523	-500	-500	-500
Investment in subsidiaries	-5,168	-74	-14,360	0	0
Interest received	288	209	145	78	105
Others	-2,552	-1,295	-2,217	-614	-1,803
Cash flow from investing	-14,049	-14,884	-38,432	-18,536	-14,698
Equity financing/(repurchase)	204	687	19,907	0	0
Net bank borrowings	9,625	2,648	-500	0	100
Dividend paid	-926	-1,189	-1,500	-471	-1,656
Interest paid	-992	-1,082	-892	-885	-888
Others	-540	268	0	0	0
Cash flow from financing	7,372	1,332	17,015	-1,355	-2,444
Change in cash	2,444	-2,229	-8,731	-2,348	6,770
Cash at beginning of the year	16,131	18,521	16,418	7,686	5,338
Exchange gains/(losses) & others	-54	126	0	0	0
Cash at the end of the year	18,521	16,418	7,686	5,338	12,108

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	49,638	59,483	90,084	98,845	103,065
PP&E	18,904	22,357	46,645	53,848	55,152
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	3,403	3,342	4,470
Goodwill	3,565	3,377	6,077	6,077	6,077
Long term trade receivables	466	607	940	1,055	1,459
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	53,134	56,227	70,858
Inventories	882	987	1,750	1,488	2,262
Trade and bills receivables	12,045	16,849	24,813	30,441	35,990
Other receivables	2,190	2,721	4,183	4,259	5,796
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	7,686	5,338	12,108
Current liabilities	30,982	41,809	49,845	51,571	57,556
Trade and bills payables	11,988	15,485	24,519	26,745	32,630
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	79,555	87,163	97,125
MI	74	317	726	2,746	5,650

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Revenue from express logistic	94%	94%	82%	74%	74%
Revenue from supply chain	4%	5%	17%	25%	25%
Sales of goods	0%	1%	1%	1%	1%
Others	1%	1%	1%	0%	0%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	17.4	16.4	11.6	12.1	13.0
EBITDA margin	9.3	8.6	6.3	7.3	8.0
EBIT margin	5.3	5.6	2.5	3.7	4.7
After tax profit margin	5.0	4.5	2.4	3.6	4.4
Growth (%)					
Revenue	23.4	37.3	41.1	28.9	17.0
Gross profit	19.9	28.8	(0.3)	35.0	25.4
EBITDA	26.6	26.5	3.5	48.8	29.8
EBIT	25.3	46.6	(38.5)	94.1	47.6
Net profit	32.0	39.1	(45.3)	114.6	43.8
Balance sheet ratio					
Current ratio (x)	1.4	1.2	1.1	1.1	1.2
Receivable turnover days	33	36	36	37	38
Inventory turnover days	3	3	3	2	2
Payable turnover days	39	39	38	38	38
Net debt / total equity (%)*	Net cash	Net cash	2.2	4.5	Net cash
Profitability (%)					
ROA	7.1	7.2	3.7	5.4	7.1
ROE	12.5	13.9	5.5	9.7	12.6
Per share data					
EPS (RMB)	1.32	1.64	1.03	1.65	2.37
Core EPS (RMB)	1.12	1.54	0.82	1.65	2.37
BVPS (RMB)	9.61	12.39	16.22	17.77	19.80
DPS (RMB)	0.27	0.34	0.10	0.34	0.49

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

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