

# Huitongda Network (9878 HK)

## An ecommerce boutique surfing on lower-tier retail digitalization

As an O2O leader in low-tier retail market, HTD is expected to surf on the growing industry tailwinds, with deep market insights, highly localized team, store-friendly ecosystem and strong supply chain. We expect its rev to grow at 34% CAGR in FY21-24E, driven by active stores expansion and SaaS initiatives. Coupled with GPM improvement (rev mix change) and opex control, we forecast its earnings at 57% CAGR in FY21-24E. HTD would be more resilient to regulations and epidemic impacts, for its favorable policies of "Rural revitalization" and low exposure in high-tier cities. Initiate BUY with TP at **HK\$66 (0.27x FY23E P/S)** based on DCF and SOTP cross check. HTD is still at its high growth stage, and categories exploring and SaaS initiatives could unlock its TAM and valuation.

- **An ecommerce pioneer for lower-tier retail digitalization.** HTD ranked 1st among the commerce providers in China's lower-tier market in terms of GTV in 2020, with <1% market share, according to F&S report. With HTD's powerful network and highly localized team, we forecast its rev will surge at 34% CAGR in FY21-24E, backed by store expansion and monetization diversification.
- **Riding on industry tailwinds with effective store expansion.** As China's lower-tier retail market is highly fragmented and less penetrated by digitalization, we expect HTD to surf on the industry tailwinds, with mkt size growing at 6.5% CAGR in 2020-2025E. HTD excels itself with deep market insights, in-depth control over supply chain and stores-friendly ecosystem. We are bullish on its active network expansion and ARPU upside, and expect its active stores/ARPU to grow at 33%/5% CAGR in FY21-24E. Apart from its initial success in Yangtze Delta area, we expect HTD to further strengthen its presence in other promising areas (e.g. Henan, Hebei, Guangdong provinces).
- **SaaS solutions to diversify monetization and unlock synergies.** We believe HTD can further enhance its monetization with richer offerings and SaaS initiatives. We see high visibility for HTD to continuously explore higher-GPM SKUs. SaaS solutions would be another driver, to improve stores' GTV (by 30% on average), promote digitization, and create synergies with commerce. We expect its service biz rev to grow at 67% CAGR in FY21-24E.
- **Initiate with BUY.** We set our DCF-based TP at **HK\$66** (implying **39x/25x FY23/24E P/E** or **0.27x FY23E P/S**). Further catalysts: 1) upcoming resilient earning result; and 2) potential stock connect.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	49,629	65,763	85,384	116,273	158,017
YoY growth (%)	13.7	32.5	29.8	36.2	35.9
Net income (RMB mn)	197	328	453	807	1,262
EPS (RMB)	0.4	0.6	0.8	1.4	2.2
YoY growth (%)	41.6	66.4	38.3	78.2	56.2
Consensus (RMB)	NA	NA	0.8	1.5	2.2
P/E (x)	96	61	49	27	17
P/S (x)	0.4	0.3	0.3	0.2	0.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(11)	(17)	11	7	10
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Initiation)

Target Price	HK\$66
Up/Downside	+41.3%
Current Price	HK\$46.7

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### Stock Data

Mkt Cap (HK\$ mn)	25,822
Avg 3 mths t/o (HK\$ mn)	14.80
52w High/Low (HK\$)	49.50/ 37.00
Total Issued Shares (mn)	180

Source: Bloomberg

### Shareholding Structure

Wang Jianguo	21.92%
Alibaba China	13.82%
Xu Xiuxian	10.15%

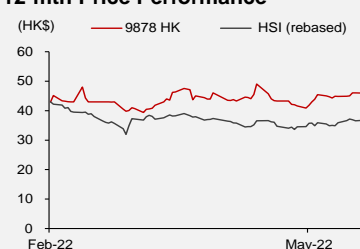
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	6.0%	4.5%
3-mth	7.1%	11.3%
6-mth	N/A	N/A

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

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## Investment Thesis

### **An ecommerce pioneer for lower-tier retail digitalization.**

HTD ranked first among the commerce providers in China's lower-tier market in terms of GTV in 2020, with <1% market share, according to F&S report. With HTD's powerful network and highly localized team, we forecast rev will surge at 34% CAGR in FY21-24E, backed by store expansion and monetization diversification.

### **Riding on industry tailwinds with effective store expansion.**

As China's lower-tier retail market is highly fragmented and less penetrated by digitalization, we expect HTD to surf on the industry tailwinds, with mkt size growing at 6.5% CAGR in 2020-2025E. HTD excels itself with deep market insights, in-depth control over supply chain and stores-friendly ecosystem. We are bullish on its active network expansion and ARPU upside, and expect its active stores/ARPU to grow at 33%/5% CAGR in FY21-24E. Apart from its initial success in Yangtze Delta area, we expect HTD to further strengthen its presence in other promising areas (e.g. Henan, Hebei, Guangdong provinces).

### **SaaS solutions to diversify monetization and unlock synergies.**

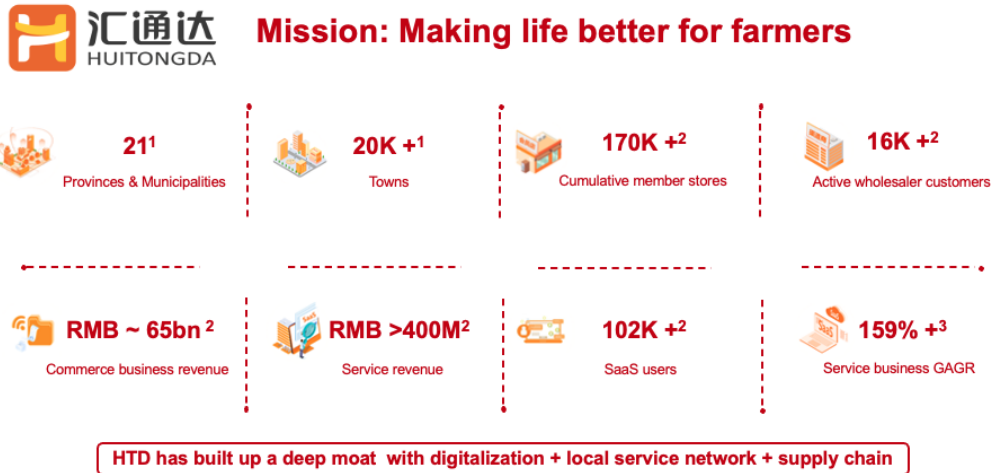
We believe HTD can further enhance its monetization with richer offerings and SaaS initiatives. We see high visibility for HTD to continuously explore higher-GPM SKUs. SaaS solutions would be another driver, to improve stores' GTV (by 30% on average), promote digitization, and create synergies with commerce. We expect its service biz rev to grow at 67% CAGR in FY21-24E.

### **Initiate with BUY.**

We set our DCF-based TP at HK\$66 (implying 39x/25x FY23/24E P/E, or 0.27x FY23E P/S), in line with industry average. Further catalysts: 1) upcoming resilient earning result; and 2) potential stock connect.

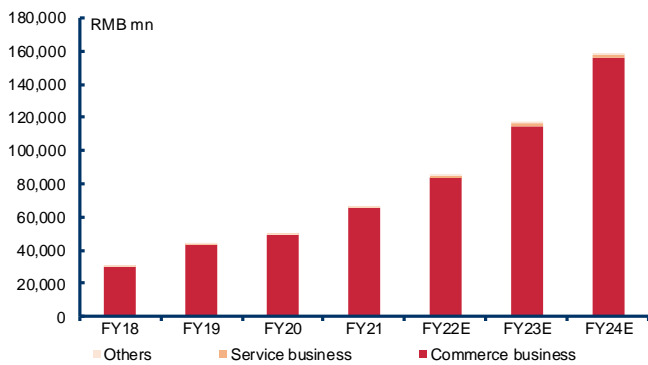
## Focus charts

Figure 1: Overview of HTD's business



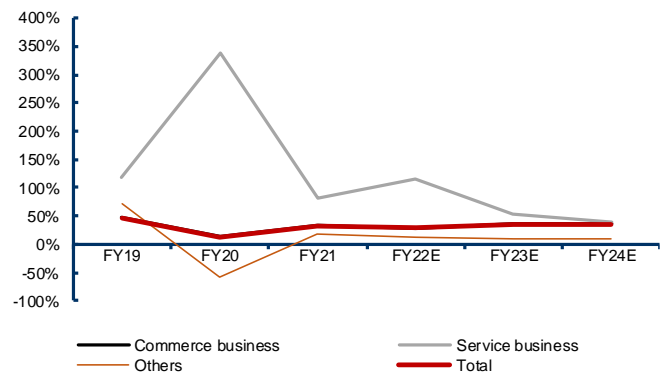
Source: Company data, F&S; Notes refer to Figure 6

Figure 2: 34% rev CAGR in FY21-24E



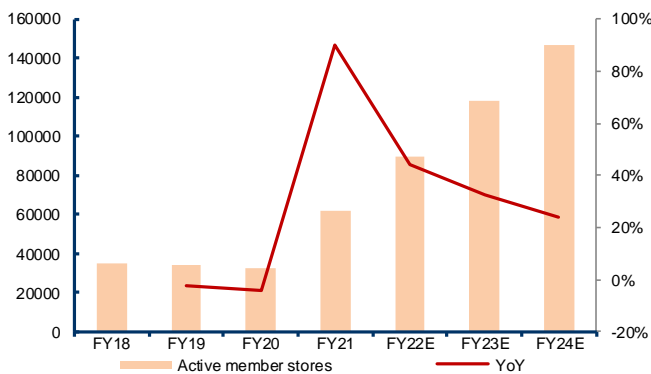
Source: Company data, CMBIGM estimates

Figure 3: Rev growth of sub segment



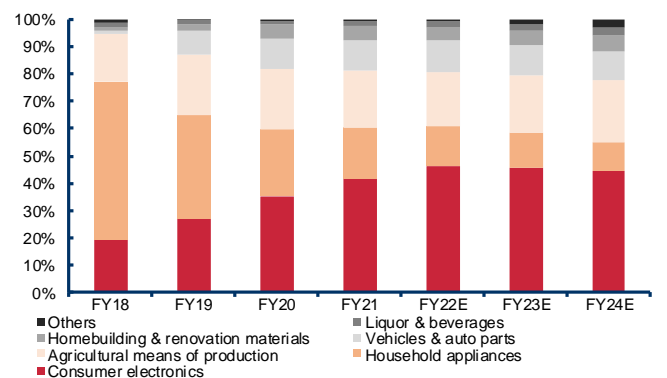
Source: Company data, CMBIGM estimates

Figure 4: HTD active stores growth estimates



Source: Company data, CMBIGM estimates

Figure 5: Revenue breakdown (commerce biz)



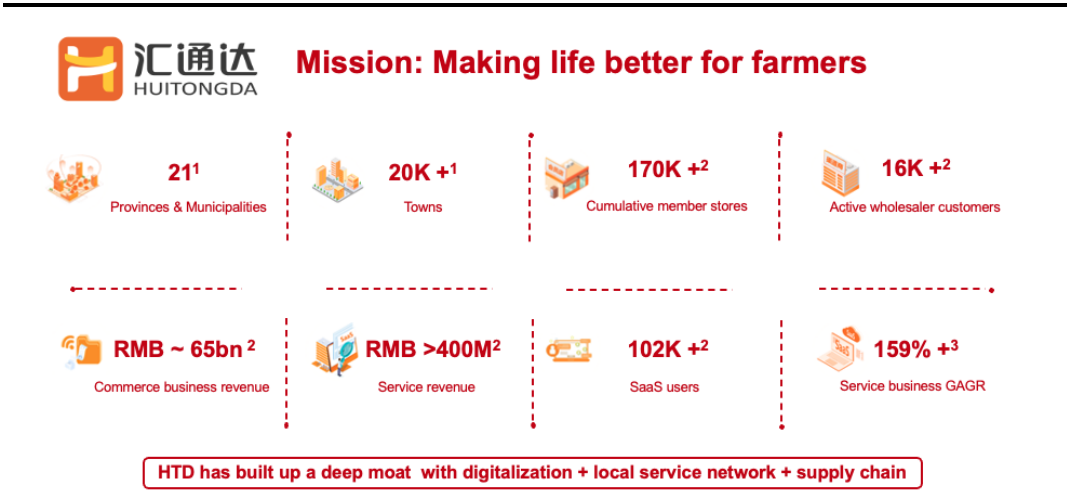
Source: Company data, CMBIGM estimates

## Company Overview

### An e-commerce pioneer in lower-tier markets

Established in 2010, HTD has been a fast-growing e-commerce and service platform dedicated to serving business customers in China’s lower-tier retail market. According to Frost & Sullivan, in 2020, HTD ranked first and third in terms of the transaction value of commerce business in the lower-tier market and in the overall PRC market, respectively, with market share of less than 1% in each market.

Figure 6: HTD’s business overview



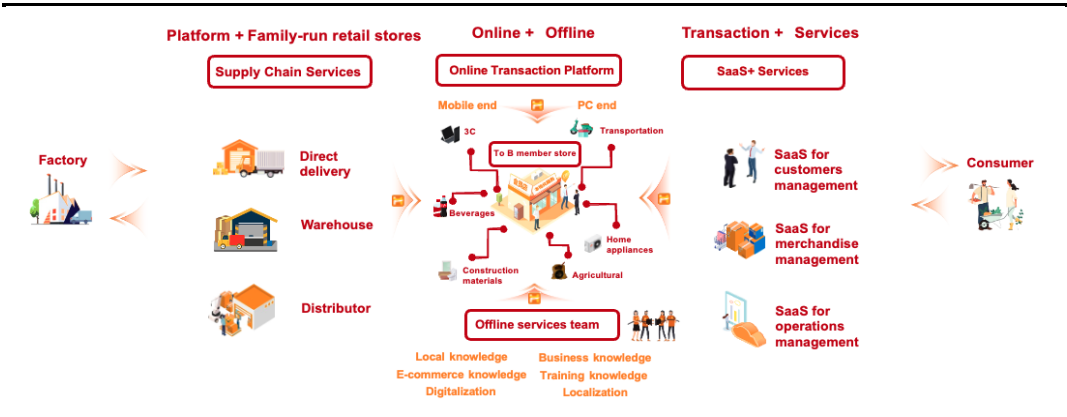
Source: Company data, F&S, CMBIGM  
Notes: 1) In 9M21. 2) In 2021. 3) From 2018 to 2021

As a retail-sector pioneer, HTD established a membership-based business model and provided one-stop supply chain with a team of highly localized client managers to serve local family-run retailers in lower-tier markets in China. By FY21, HTD has accumulatively connected over 169,466 member stores and 16,756 wholesaler customers, covering 21 provinces and over 20,000 towns and villages across China.

### With deep insights into rural markets and a highly localized team

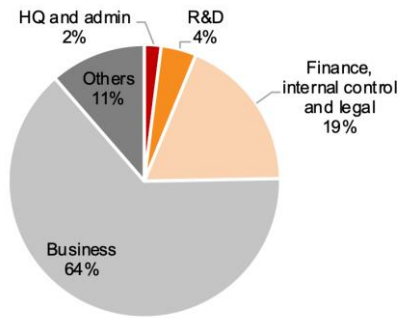
HTD has developed a large number of loyal member stores, attributable to cultural affinity, deep knowledge of local customs and communication, and in-person interaction. In 9M21 HTD had 2,902 client managers, who are responsible for business development (such as acquiring, engaging, and retaining member stores), located across 21 provinces in China.

Figure 7: The summary of HTD’s industry know-how



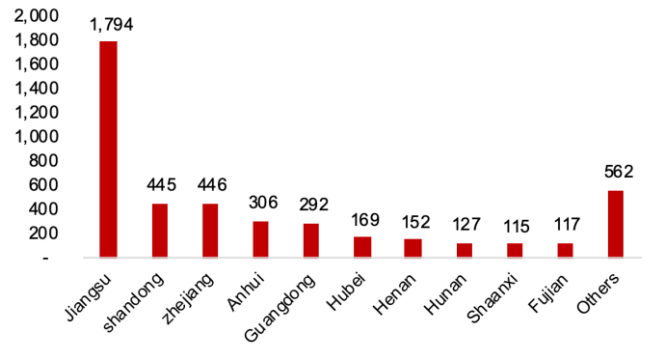
Source: Company data, CMBIGM

**Figure 8: HTD – Number of employees by function (As of Sep 30, 2021)**



Source: Company data, CMBIGM

**Figure 9: HTD – Number of employees by geographic region (As of Sep 30, 2021)**

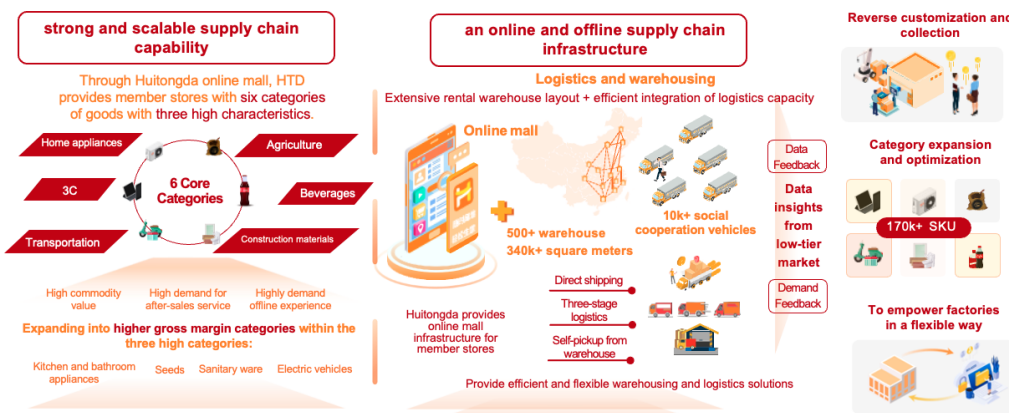


Source: Company data, CMBIGM

### Efficient supply chain and SaaS solutions to build the high barrier

HTD has developed strong supply chain capabilities in merchandise with significant growth potential in household spending in the lower-tier market and gradually diversified merchandise offerings under various categories including household appliances, consumer electronics, agricultural means of production, vehicles and auto parts, and home building and renovation materials, as well as liquor and beverages.

**Figure 10: Strong supply chain expansion capability and efficient supply chain infrastructure**

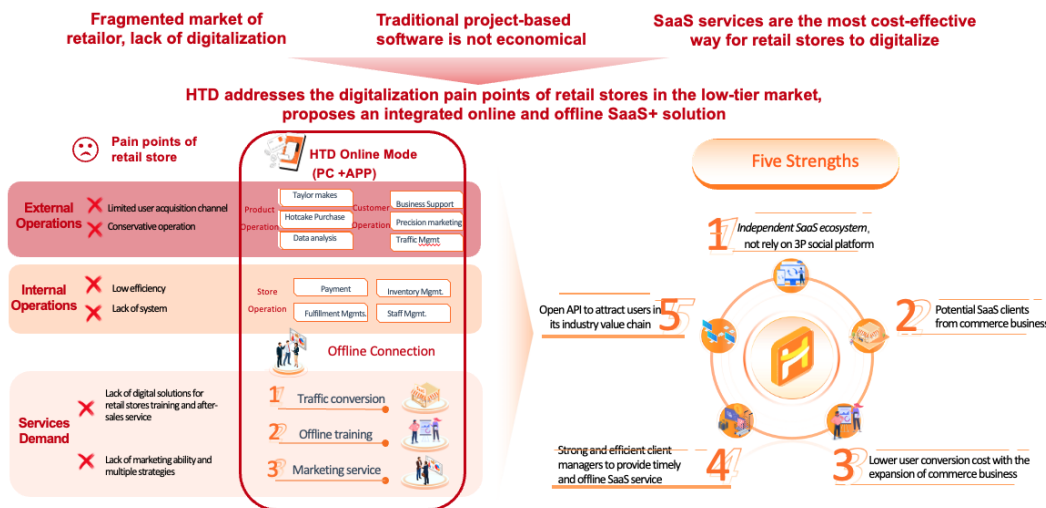


Source: Company data, CMBIGM

HTD had 169,466 member stores as of 2021, providing a large potential user pool for SaaS+ businesses that it can convert into paying users and monetize on a recurring basis. The number of users for free SaaS products was 66k/55k/59k/85k and the number of paying users of our SaaS+ was 2.5k/4.1k/ 2.6k/17.9k in 2018/19/20/21 respectively.

HTD's SaaS+ service addresses the digitalization pain points of retail stores in the low-tier market with five strengths, including 1) independent SaaS ecosystem; 2) potential SaaS clients from commerce business; 3) lower user conversion cost with the expansion of commerce business; 4) strong and efficient client managers to provide timely and offline SaaS service; 5) open API to attract users in its industry value chain.

**Figure 11: SaaS+ services fit market needs**



Source: Company data, CMBIGM

### Backed by a powerful network with long-standing relationships

HTD’s member stores are generally family-run local stores located in towns, covering residents in villages nearby and selling merchandise, most of which have generally high ASPs, require more after-sales services, and more consumer experiences, implying more services needed from local stores. As of 2020/2021, HTD had 32,715/62,203 active member stores in its network.

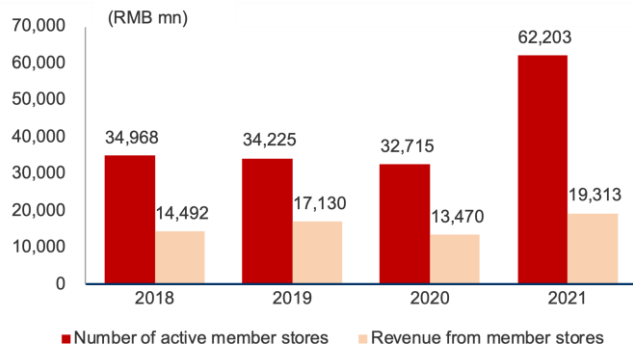
The majority of wholesalers are typically national or regional distributors, and the rest are chain stores, national distributors, and e-commerce platforms. Their customer bases are mainly small and medium-sized wholesalers, retailers, constructors, and consumers. As of 2020/2021, HTD had 18,807/16,756 active wholesale customers.

**Figure 12: HTD’s member store distribution in China, as of 30 Sep 2021**



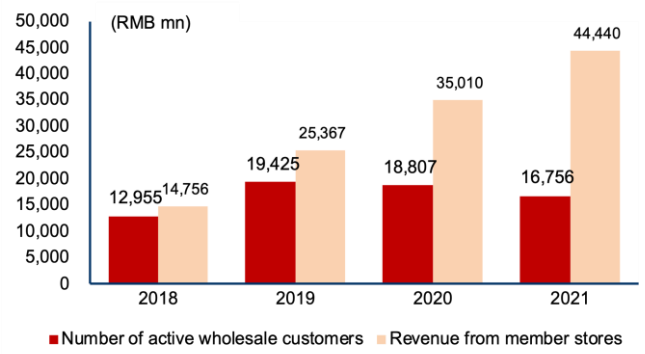
Source: Company data, CMBIGM

**Figure 13: HTD's rev generated from member stores**



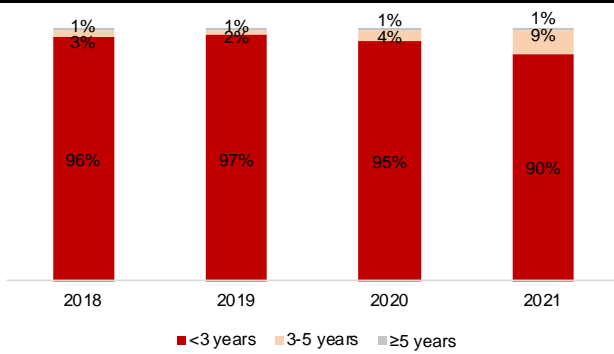
Source: Company data, CMBIGM

**Figure 14: HTD's rev from wholesaler customers**



Source: Company data, CMBIGM

**Figure 15: Length of business relationship between HDT and wholesaler customers**



Source: Company data, CMBIGM

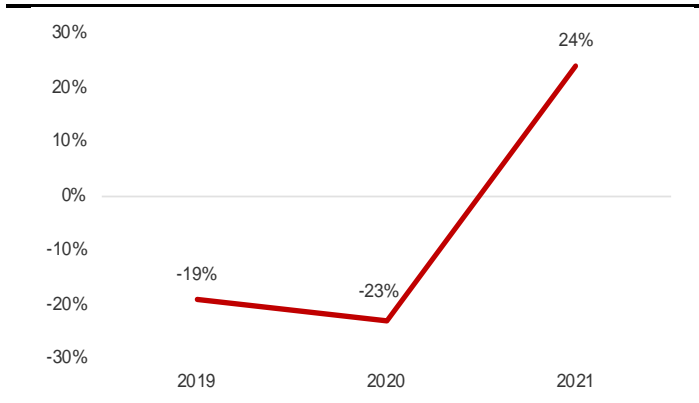


## Robust customers and financial growth

Commerce business maintained solid growth with store expansion and rising ARPU. Member stores/wholesaler stores +24%/-11% YoY in FY21. Commerce biz accelerated to 32% YoY in FY21 from 15% YoY in FY20, attributable to higher ARPU by enriching merchandise portfolio, digitalizing member stores, and enhancing procurement capabilities.

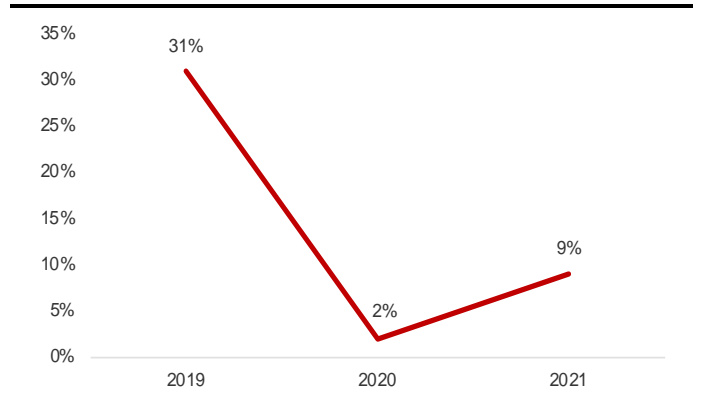
Fast-growing SaaS service is backed by further penetration into member stores and paying ratio improvement. SaaS rev surged 134% YoY in FY21, mainly on deeper penetration (60% into member stores) and rising paying ratio (up to 18%). Looking ahead, paying ratio improvement will be a key strategic focus for service biz.

**Figure 16: Active member growth under direct-sales model**



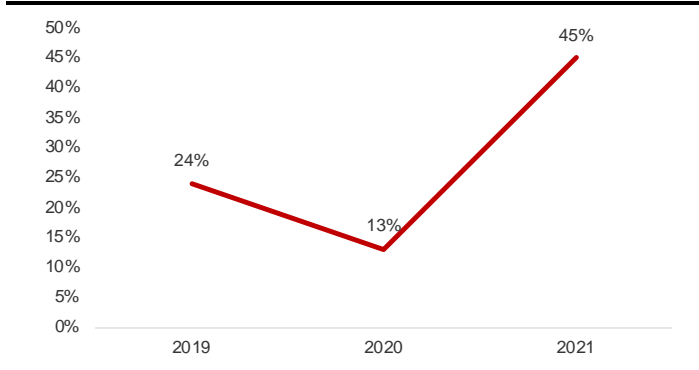
Source: Company data, CMBIGM

**Figure 17: ARPU growth of member stores under direct-sales model**



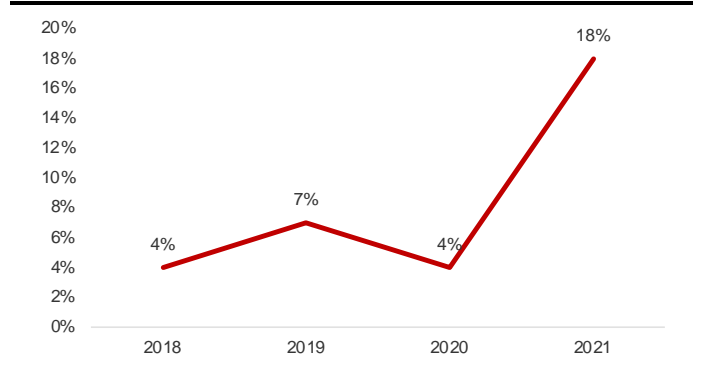
Source: Company data, CMBIGM

**Figure 18: ARPU growth of wholesaler customers**



Source: Company data, CMBIGM

**Figure 19: Paying ratio of SaaS**



Source: Company data, CMBIGM

## Investment Summary

### Riding on the industry tailwinds with further penetration

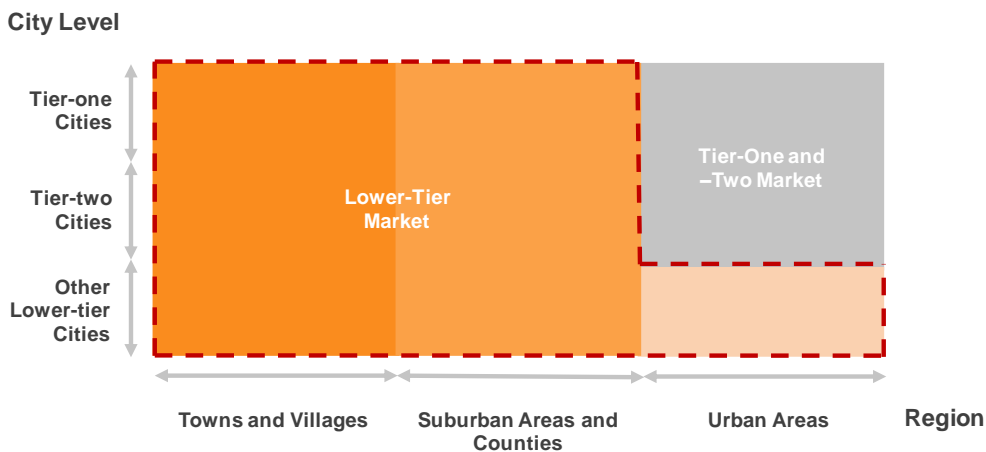
#### Well positioned to seek the growth potential of lower-tier markets

We are bullish on China’s massive low-tier retail market, supported by large population, rising disposable income, higher demand for quality service and favorable policy. According to F&S report, China’s lower-tier market has covered 87% of China’s total population, contributing 77.6% of China’s total GDP in 2020. The market size of China’s lower-tier retail market is expected to increase from RMB15.1tn in 2020 to RMB20.6tn in 2025, at 6.5% CAGR. By segment, FMCG/durables goods/agricultural means of production accounted for 58.4%/27.7%/3.3% in 2020, and is expected to grow at 4.15%/10.1%/3.5% CAGR in 2020-2025.

Underpinned by the massive population and vast geographical coverage, China’s lower-tier retail market has followed a different development trajectory with distinct market attributes (higher demand for logistics) and consumption characteristics (community influence, greater demand for offline interactions, more price-sensitive). As such, this market remains highly reliant on offline retail stores, which contributed 70% of GTV (>4.7mn offline retail stores in China). Looking ahead, we expect offline store to remain key contributor, and O2O model would be suitable in such fragmented low-tier market, rather than online ecommerce platform.

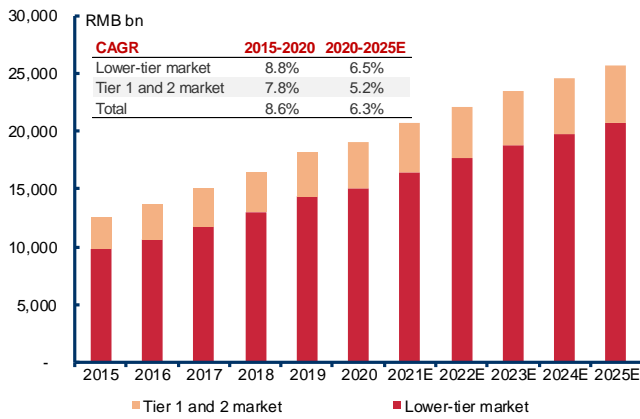
As the largest commerce platform in China’s lower-tier retail market, we expect HTD to continuously surf on the industry tailwinds, in such promising market (highly fragmented and less penetrated by digitalization). On top of that, we expect HTD to unlock its TAM (e.g., SaaS+ initiatives), with innovative business model, strong partnership and service spectrum expansion.

**Figure 20: Large China lower-tier market with huge potential**



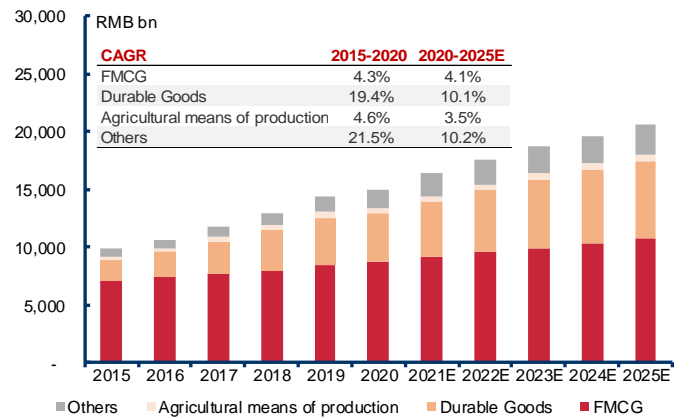
Source: F&S, CMBIGM

**Figure 21: Mkt size of China retail market**



Source: F&S

**Figure 22: Mkt size of China lower-tier retail market**



Source: F&S

**Decent room for active store expansion, with further penetration**

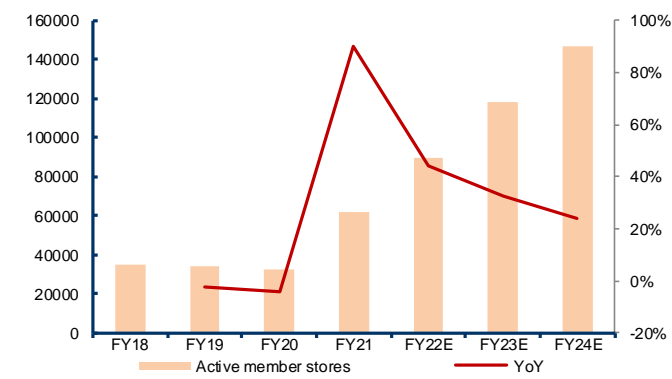
We think that there is still ample room for HTD’s store expansion, as lower-tier cities are less digitalized and HTD’s market share is still lower than 1% (>4.7mn retail stores in lower-tier market in China, vs. 169k of total member stores for HTD). For instance, the online penetration rate for the durable goods and agricultural means of production categories in China’s town-and-village market was only 30.9% and 0.9% in 2020, respectively.

**Expect active member stores to grow at 33% CAGR in FY21-24E.** Leveraging its highly-replicated model, we expect HTD to bear fruit from lower-tier cities penetration and gain share in existing markets. As of Dec 2021, HTD had a network of 62,203 active member stores and 16,756 active wholesaler customers. We expect HTD to expand its member stores to over 140k stores by 2024E (implying 33% CAGR, and 3% market share in 2024). Apart from its initial success in Yangtze Delta area, we expect HTD to further strengthen its presence in other promising areas (e.g. Henan, Hebei, Guangdong, and Fujian provinces). For wholesale customers, we expect no. of wholesales customers to slightly shrink for strategic adjustment.

**...backed by rising active ratio.** With in-depth understanding on market and highly localized team, we expect HTD to achieve effective network expansion with improving active ratio (37% in 4Q21 to 48% in FY24E), backed by expanding merchandise portfolios and more marketing initiatives.

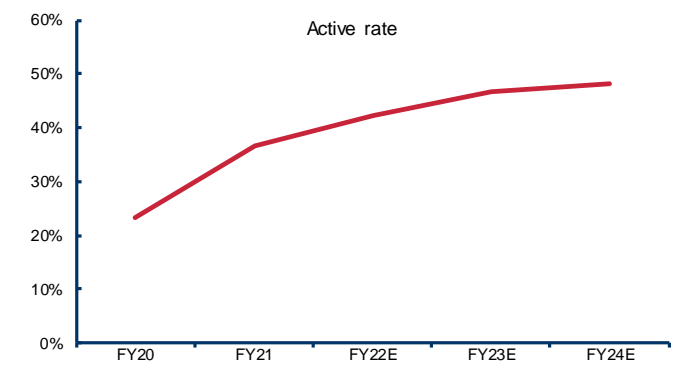
**ARPU at 5% CAGR in FY21-24E.** Meanwhile, HTD’s service enrichment (e.g. SaaS solutions) and procurement capabilities would help drive ARPU. We expect expanding SKUs and services to support its APRU of member stores/ wholesale customers (direct sales) at 32%/6% CAGR in FY21-24E.

**Figure 23: HTD’s active member stores growth**



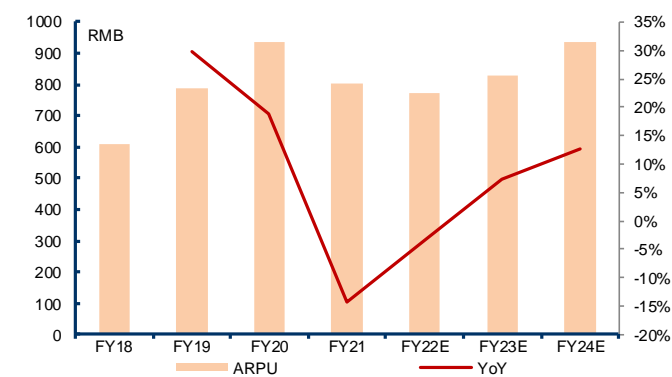
Source: Company data, CMBIGM estimates

**Figure 24: HTD’s active rate of member stores**



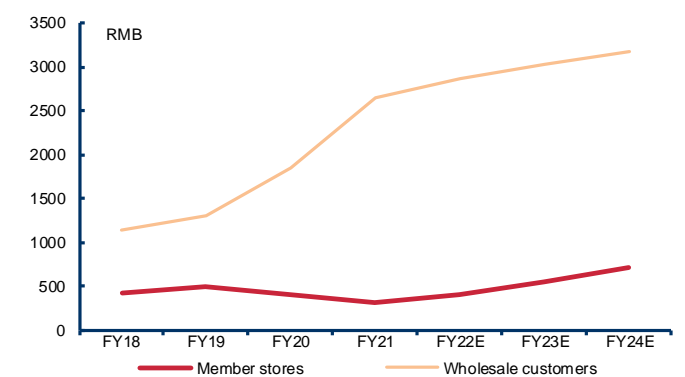
Source: Company data, CMBIGM estimates

**Figure 25: Blended ARPU to rebound**



Source: Company data, CMBIGM estimates

**Figure 26: Member stores & wholesale ARPU**



Source: Company data, CMBIGM estimates

## Supply chain & localization to build high barrier

### Distinguishing itself with deep market insights and highly localized team

HTD has developed deep insights into demands and preferences of the lower-tier market, based on over 10-year experience. On the one hand, it has built a store-friendly ecosystem to support family-run stores to develop their businesses. With expanding network and rising GTV, HTD could enjoy higher price edge and further attract more member stores. On the other hand, it further strengthened strategic alliances with leading brand manufacturers, to expand offerings (covering over 175,000 SKUs) and to provide high-quality merchandise and customized services. Meanwhile, manufacturers have easier access to penetrate into low-tier market with cost-effective partnership.

We believe cultural affinity, deep knowledge of local market and in-person interactions are keys to serve family-run retail stores. HTD has built a highly localized team of 2,902 client managers in 21 provinces, to acquire & retain member stores and provide customized services (e.g. marketing support, offline training, traffic transition).

**Figure 27: HTD’s highly localized team and store-friendly ecosystem**



Source: Company data, CMBIGM

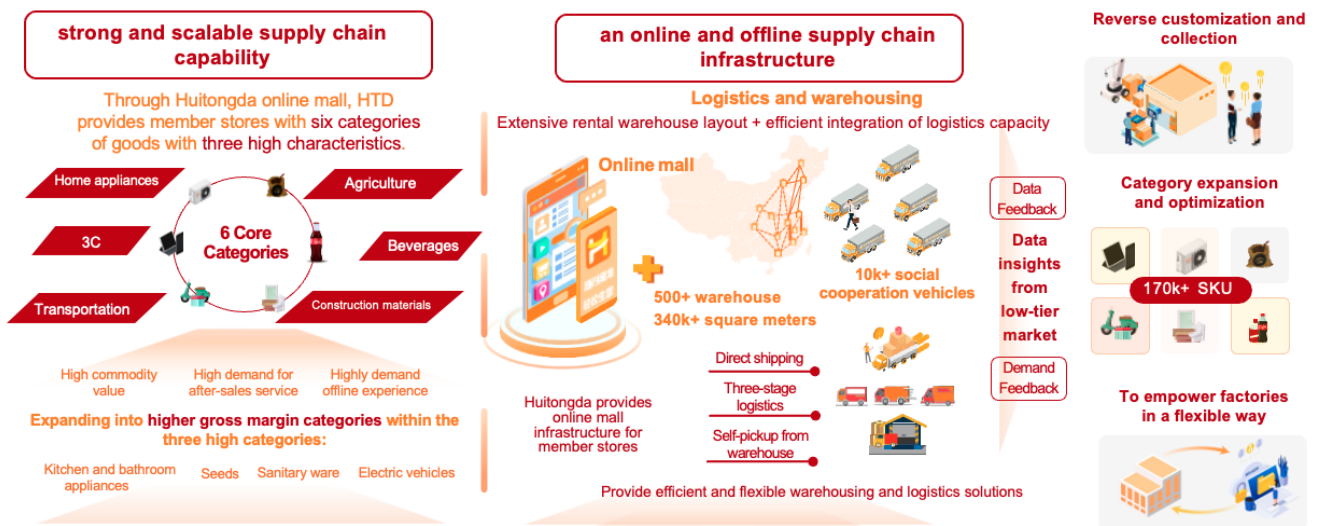
### In-depth control over supply chain and infrastructure to build high barrier

HTD built strong supply chain capabilities via long-standing relationships with brands and extensive fulfilment infrastructure. Its one-stop supply chains cover abundant merchandise (over 175,000 SKUs), including six major categories (household appliances, consumer electronics, agricultural means of production, vehicles and auto parts, and homebuilding and renovation materials, as well as liquor and beverages). Among these categories, HTD would explore more higher-GPM SKUs, such as kitchen & bathroom appliances, smart wearing devices & security, fertilizers, seeds & agricultural equipment.

Under its commerce biz, HTD procures products from its suppliers and distributes mainly to wholesaler customers and member stores through its self-operated *HTD Mall* webpage.

A flexible and extensive fulfilment infrastructure is critical to the success of HTD. As of 2021, HTD has established a warehouse network comprising 511 warehouses across 24 provinces (> 40,000 square meters), with 302 logistics service providers. By offering multiple delivery methods (direct delivery or customer pick-up), it meets diversified digitalization needs from both suppliers and customers.

**Figure 28: HTD’s strong supply chain and infrastructure**



Source: Company data, CMBIGM

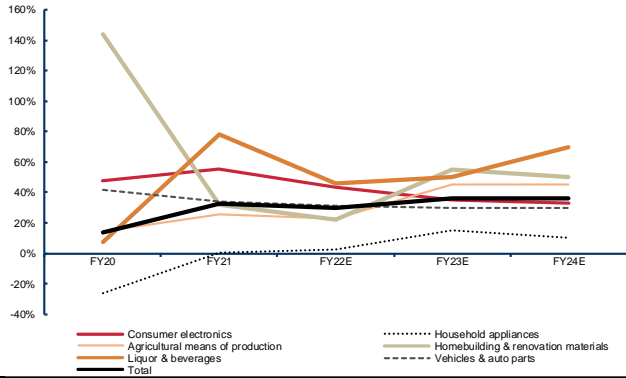
**Figure 29: HTD’s category expansion**

Categories	Core SKUs	Expanding SKUs
Household appliances	Refrigerators, air conditioners, washing machines	Kitchen and bathroom appliances
Consumer appliances	PC	Smart wearing devices and security
Agricultural products	Fertilizer	Fertilizers, seeds and agricultural equipment
Home building and construction	Glass	Hardware & cables
Vehicles & auto parts	Electric cars, batteries	2- and 3- wheelers and related accessories
Liquor & beverages	Liquor and spirits	Beverages

Source: Company, CMBIGM

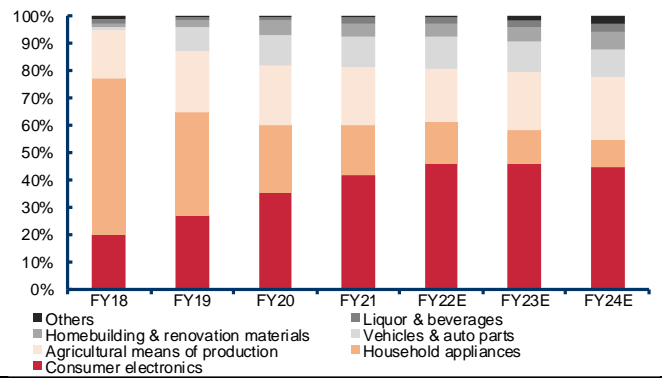
**Category expansion and SKU enrichment to drive topline growth.** With HTD's deeper penetration into higher-GPM SKUs, we expect customer electronics/ agricultural means of production/ homebuilding & renovation materials/ liquor & beverages to deliver above-group growth, at 37%/37%/42%/55% CAGR in FY21-24E.

**Figure 30: Rev growth of six categories**



Source: Company data, CMBIGM estimates

**Figure 31: Commerce biz direct sales mix change**



Source: Company data, CMBIGM estimates

### SaaS solutions to diversify monetization and unlock synergies

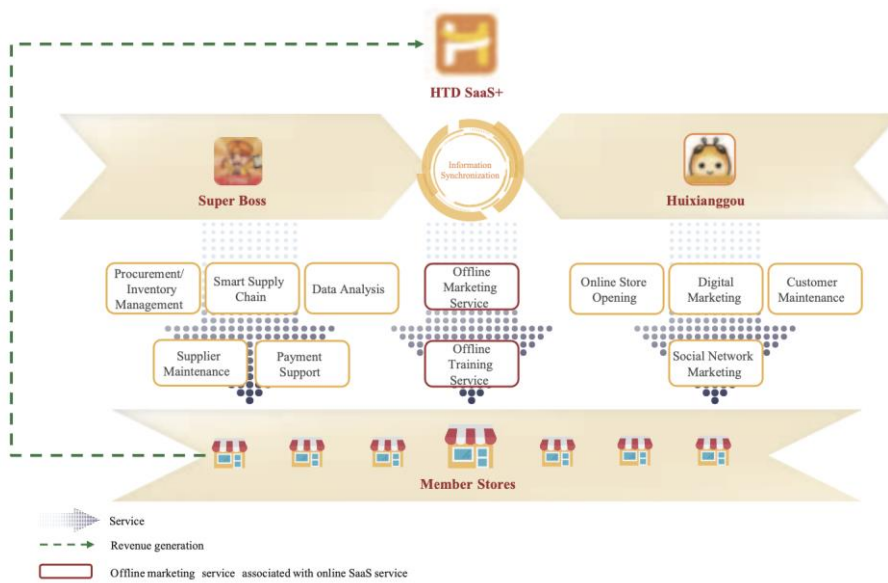
To diversify its monetization and enhance profitability, HTD offers SaaS+ subscription (64% of service biz revenue in 2021) to various industry parties along the value chain of China’s retail market. In addition, SaaS solutions unlock synergies between e-commerce and SaaS business, including 1) potential users to be converted from commerce business; 2) improving product features based on deep understanding of customers; and 3) attracting SME member stores through SaaS platform.

#### Expanding SaaS solutions to diversify its monetization

SaaS products provide retail stores with digital solutions through the Super Boss webpage and mobile app, which has digital retail management, online storefront, and data analytics functions. SaaS+ business also provides retail stores with customized on-site marketing services through client management teams.

As SaaS+ business continues to grow rapidly, we expect its revenue and profit contribution to increase ahead. HTD has offered standard SaaS products for free since its launch to promote the adoption of SaaS+. This has helped it build a large user base with monetization potential. Since 2017, HTD has launched a number of upgraded solutions through SaaS+ to further enhance customer experience and monetization capability.

Figure 32: HTD’s SaaS+ system



Source: Company data, CMBIGM

Figure 33: Pricing and respective modules of the four SaaS+ packages

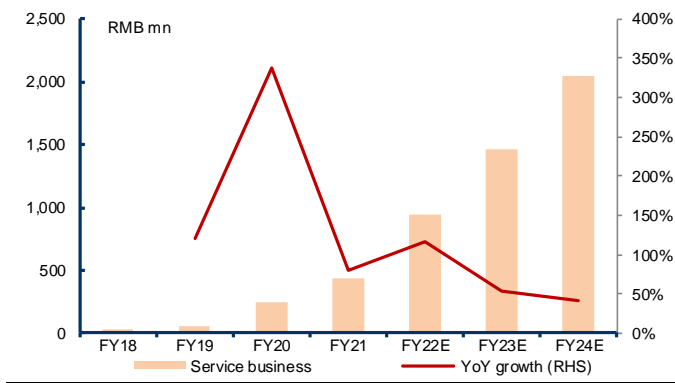
Key Modules (RMB per year)	Silver Package 1,999	Gold Package 5,999	Platinum Package 18,888	Diamond Package 28,888
Digital retail management system	√	√	√	√
Online storefront service		√	√	√
Customized marketing services			√	√
Data analytics and marketing support				√

Source: Company data, CMBIGM



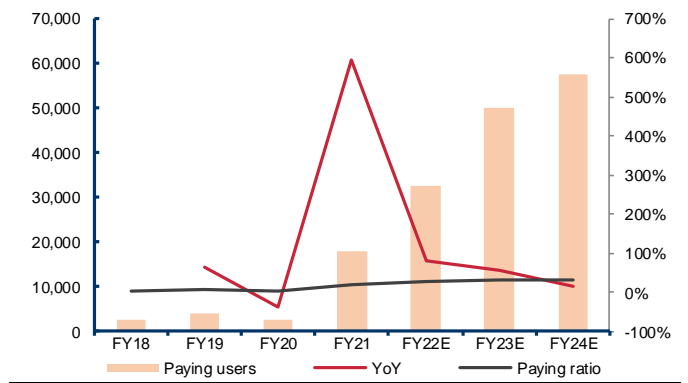
**Expect service biz rev +67% CAGR in FY21-24E, backed by deeper SaaS penetration.** With deeper SaaS penetration, we expect its SaaS+ subscription paying users to increase to over 50k in FY23E, with paying ratio at 33%. ARPU would also see upside, supported by upgraded solutions and higher engagement. We forecast ARPU of SaaS+ subscription will increase to RMB23,000 in FY24E, from RMB15,550 in FY21.

**Figure 34: Service biz growth estimate**



Source: Company data, CMBIGM estimates

**Figure 35: SaaS+ subscription paying users estimate**



Source: Company data, CMBIGM estimates

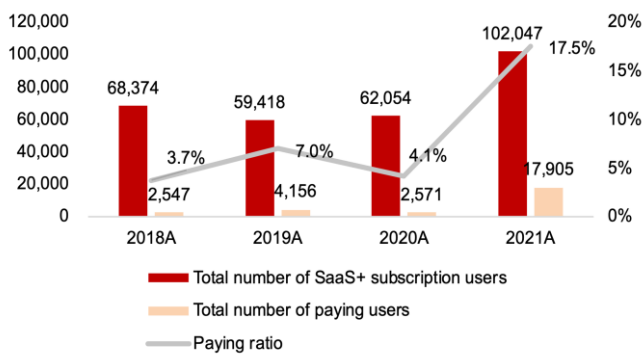
**More synergies between e-commerce and SaaS**

**Potential users to be converted from commerce business.** HTD had 169,466 member stores as of 2021, providing a large potential user pool for SaaS+ businesses that it can convert into paying users and monetize on a recurring basis. On top of that, member stores that have revenue of more than RMB5mn per year will be more likely to be converted into SaaS services. In addition, HTD plans to leverage wholesaler customers with interests in SaaS+ business and relevant service capabilities as part of external cooperation channels.

**Improving product features based on deep understanding of customers.** HTD continues to improve customer experience through the iteration of SaaS products, on the back of deep understanding of the pain points faced by its customers, given the close interactions between localized client managers and customers in the lower-tier market.

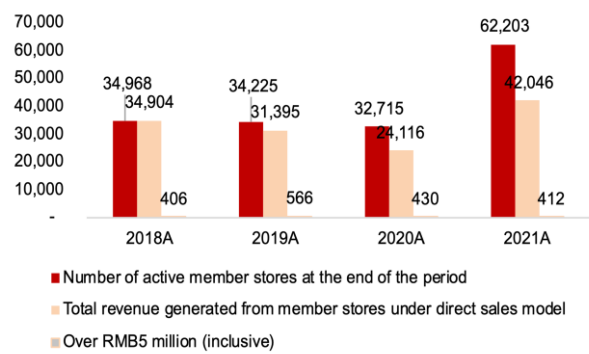
**Attracting small and medium member stores through the SaaS platform.** The revenue contribution from member stores is expected to be 50% in the coming three years (vs. 30% in 2021), driven by more small and medium member stores joining HTD’s ecosystem, given that HTD’s commerce service capability will be further enhanced as data accumulated from SaaS service.

**Figure 36: The number of SaaS+ subscription users, paying users and penetration rate**



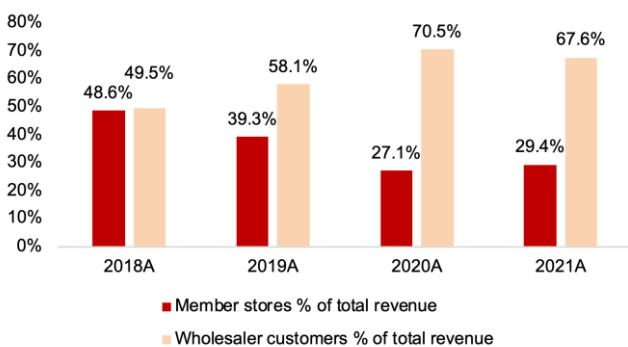
Source: Company data, CMBIGM

**Figure 37: The number of active member stores**



Source: Company data, CMBIGM

**Figure 38: Revenue mix by types of customers**



Source: Company data, CMBIGM

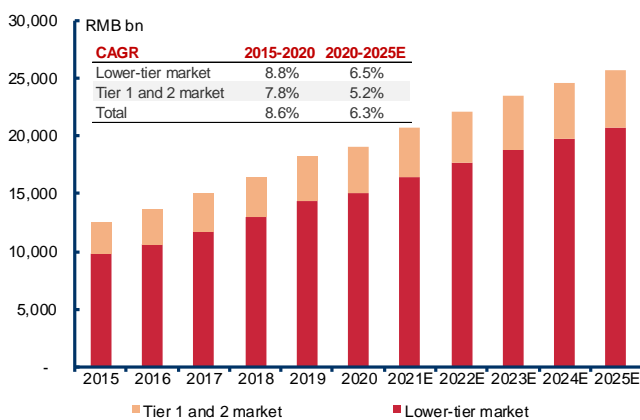
## Industry Analysis

### China’s massive lower-tier market with strong growth momentum

China’s retail market has experienced steady growth at a CAGR of 8.6% from RMB12.6tn in 2015 to RMB19.0tn in 2020. The growth is especially contributed by the lower-tier retail market, whose market size has grown from RMB9.9tn in 2015 to RMB15.1tn in 2020, representing a CAGR of 8.8%.

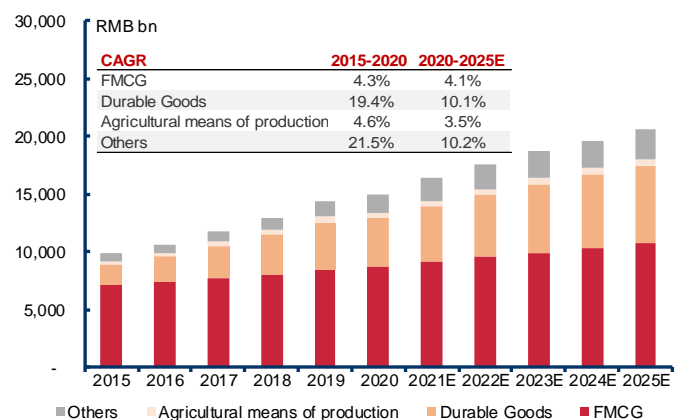
China’s lower-tier retail market is expected to experience robust growth with significant potential, driven by: 1) rising disposable income and stronger consumer spending appetite, 2) increasing demand for quality merchandise and services, and 3) favorable government policies. Per Frost & Sullivan, China’s retail market will further grow to RMB25.8tn in 2025, of which the lower-tier retail market would contribute RMB20.6tn.

**Figure 39: Mkt size of China retail market**



Source: F&S

**Figure 40: Mkt size of China lower-tier retail market**



Source: F&S

### Opportunities for digitalization in China’s lower-tier retail industry

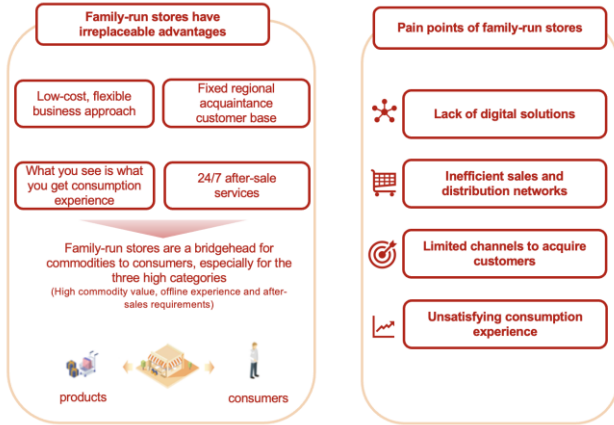
China’s lower-tier retail industry is a massive and fast-growing market with distinctive characteristics, while the industry participants are still faced with numerous challenges: 1) inefficient sales and distribution networks, 2) lack of digital solutions for retail stores, 3) unsatisfying consumption experience and 4) limited channels to acquire customers. This provides further opportunities for digital transformation of the entire value chain.

China’s lower-tier retail market remains highly reliant on offline retail stores, which play an indispensable role in the transaction process. According to F&S report, as of 31 Dec 2020, there were over 4.7mn offline retail stores in China’s lower-tier market, while the transaction value completed via offline channels reached RMB10.7tn in 2020, which accounted for over 70% of the total transaction value of China’s lower-tier retail market.

## The rapid growth of SaaS in China's lower-tier retail market

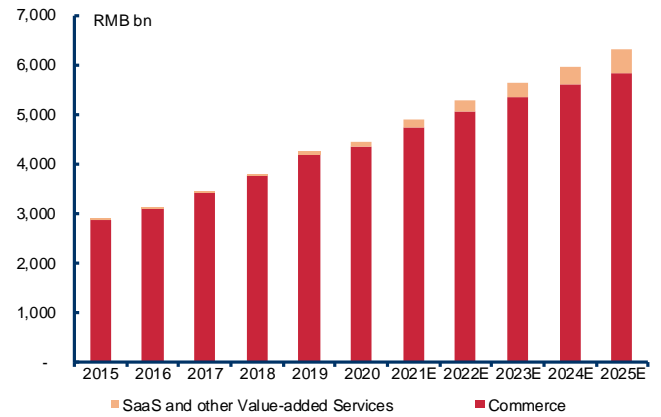
Backed by tech advancement and favorable policies, the market size of SaaS and other value-added services will reach RMB484bn by 2025E at a 20-25E CAGR of 36.1%.

**Figure 41: Pain points of China's low-tier retail market**



Source: F&S

**Figure 42: Mkt size of SaaS and other VAS services**



Source: F&S

## Competitive Landscape

The retail industry in both lower-tier market and China's market remains highly fragmented and less penetrated by digitalization. Among the commerce platforms serving businesses in the retail industry in China, HTD ranked first and third in terms of transaction value of commerce business in the lower-tier market and in the overall PRC market in 2020, respectively, with a market share of less than 1% in each market, per F&S.

**Figure 43: Ranking of all retail platforms in terms of the transaction value of commerce business in the lower-tier market in 2020**

Ranking	Platform	Transaction Value of Commerce Business in the lower-tier	Market Shares of the commerce platform industry in the lower-tier market	Merchandise categories	SaaS subscription Model	Business Description	Main Business Model
1	HTD	~32	0.7%	Durable Goods, Agricultural production, Transportation, FMCG, Others	Payable + Free	With its distinct business model and digitalization capabilities, Huitongda is committed to providing commerce and value-added services to businesses in China's retail market (especially town-and-village market)	Direct sales
2	Alibaba Lingshoutong	~27	0.6%	FMCG	Free	A platform operated by a US and HK listed company, focusing on new retail in communities and mainly providing sourcing, logistics, marketing, and other value-added services for community retail stores.	Marketplace
3	Jingxitong	~23	0.5%	Durable Goods, Agricultural production, FMCG	Free	A platform operated by a US and HK listed company, focusing on providing sourcing, logistics, marketing, and other value-added services for retail stores in the lower-tier market.	Marketplace
4	Suning Retail Cloud	~23	0.5%	Durable Goods, FMCG, Others	Free	A platform operated by a China listed company, serving retail stores in the town-and-village market, helping them achieve digitalization by providing sourcing, inventory, customer management and marketing services.	Direct sales
5	Tmall Youpin	~16	0.3%	Durable Goods, FMCG	Free	A platform operated by a US and HK listed company and mainly dedicated to digitalizing the supply chain channels and providing value-added services to retail stores in the town areas.	Direct sales

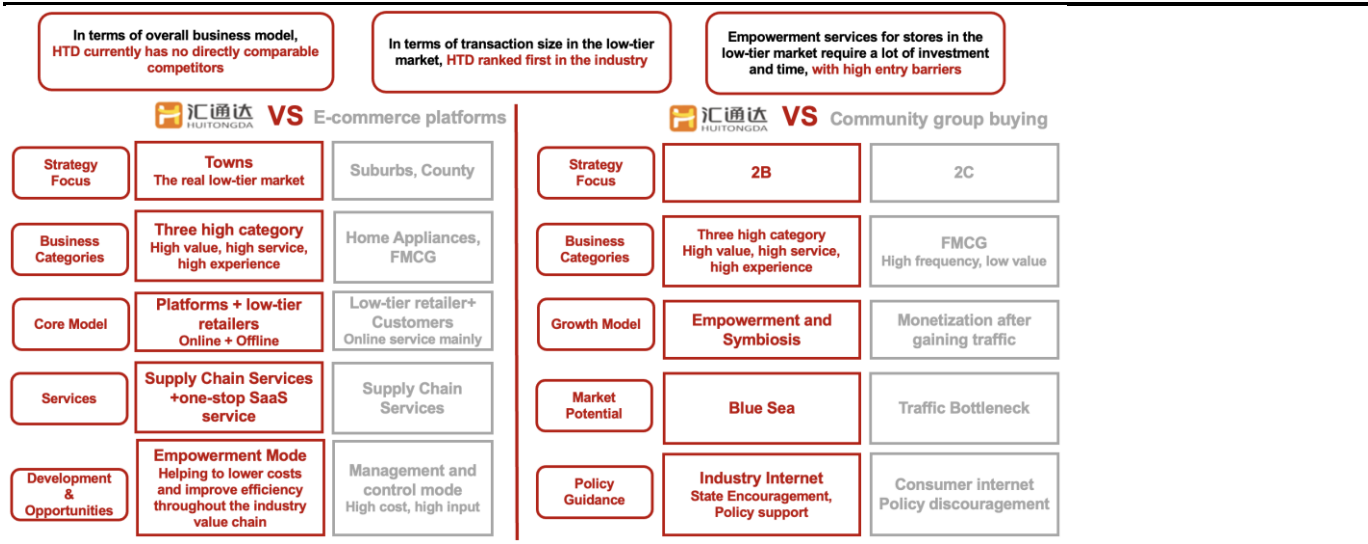
Source: F&S, Company data, CMBIGM

**Figure 44: Ranking of all retail platforms in terms of the transaction value of commerce business in the overall China's market in 2020**

Ranking	Platform	Transaction Value of Commerce Business in the lower-tier	Market Shares of the commerce platform industry in the lower-tier market	Merchandise categories	SaaS subscription Model	Business Description	Main Business Model
1	Tianyin	~61	1.0%	Durable Goods	N/A	A platform operated by a China listed company, mainly focusing on mainstream affordable premium and premium smartphone brands and mobile virtual network operator ("MVNO") business.	Direct sales
2	Aisidi	~59	0.9%	Durable Goods	N/A	A platform operated by a China listed company, focusing on distribution services for consumer electronics products and MVNO business.	Direct sales
3	HTD	~54	0.9%	Durable Goods, Agricultural production, Transportation, FMCG, Others	Payable + Free	With its distinct business model and digitalization capabilities, HTD is committed to providing commerce and value-added services to businesses in China's retail market (especially town-and-village market).	Direct sales
4	Alibaba Lingshoutong	~38	0.6%	FMCG	Free	A platform operated by a US and HK listed company, focusing on new retail in communities and mainly providing sourcing, logistics, marketing, and other value-added services for community retail stores.	Marketplace
5	Jingxiong	~23	0.4%	Durable Goods, Agricultural production, FMCG	Free	A platform operated by a US and HK listed company, focusing on providing sourcing, logistics, marketing, and other value-added services for retail stores in the lower-tier market.	Marketplace

Source: F&S, Company data, CMBIGM

**Figure 45: Analysis of industry competitor's business model**



Source: F&S, Company data, CMBIGM

## Financial Analysis

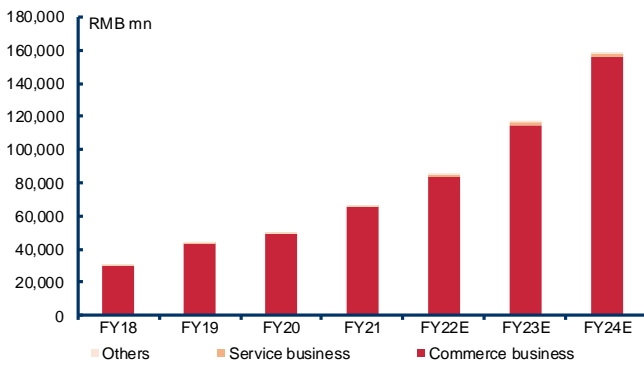
### Revenue breakdown

We forecast HTD’s revenue will grow 30%/36%/36% YoY in FY22/23/24E, in which commerce biz will make the largest revenue contribution, while SaaS service will bring synergies.

**Commerce biz to grow at 34% CAGR in FY21-24E, backed by solid store expansion and SKU expansion.** By segment, we expect commerce to grow at 34% rev CAGR in FY21-24E, with 99% share in FY22-24E. Despite the epidemic resurgence in 2Q22, we see high visibility for HTD to maintain solid growth with deeper penetration, given its higher exposure in lower tier market. For FY22E, liquor & beverages, consumer electronics, vehicles & auto parts would deliver above-group growth, forecasting +46%/44%/31% YoY.

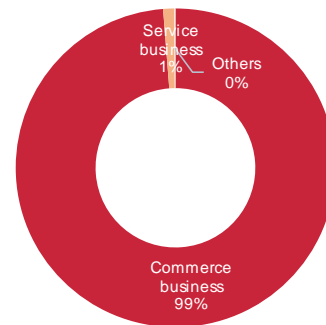
**SaaS to bring synergies in the long run.** We expect SaaS to support commerce biz momentum with higher store engagement. Given net rev recording method, revenue from service biz will account for only 1% in FY22-24E, at a CAGR of 67% in FY21-24E.

Figure 46: Revenue growth estimates



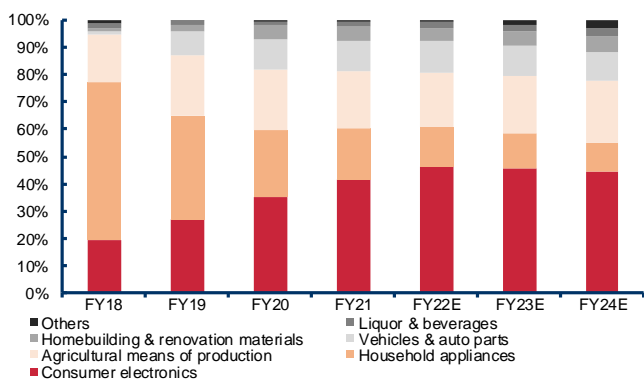
Source: Company data, CMBIGM estimates

Figure 47: FY23E revenue breakdown



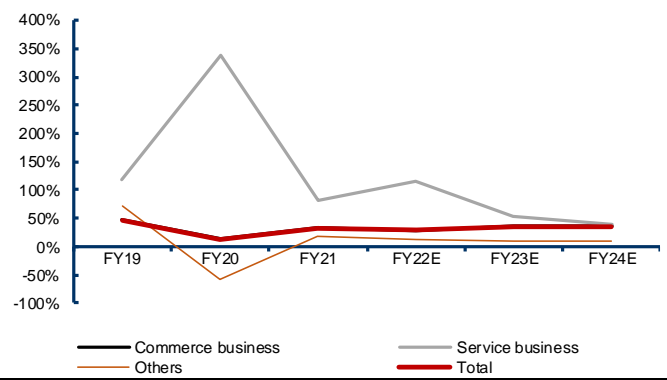
Source: CMBIGM estimates

Figure 48: Commerce biz direct sales mix change



Source: Company data, CMBIGM estimates

Figure 49: Revenue YoY growth (by segment)



Source: Company data, CMBIGM estimates

**Figure 50: Revenue driver**

Revenue (RMB mn, Dec-YE)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Commerce business	29,661	43,379	49,302	65,226	84,327	114,692	155,834
Service business	25	55	243	438	944	1,458	2,047
Others	116	199	84	100	112	123	136
<b>Total</b>	<b>29,802</b>	<b>43,633</b>	<b>49,629</b>	<b>65,763</b>	<b>85,384</b>	<b>116,273</b>	<b>158,017</b>
<b>% YoY</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Commerce business		46%	14%	32%	29%	36%	36%
Service business		119%	338%	80%	116%	54%	40%
Others		72%	-58%	18%	12%	10%	10%
<b>Total</b>		<b>46%</b>	<b>14%</b>	<b>33%</b>	<b>30%</b>	<b>36%</b>	<b>36%</b>
<b>% of revenue contribution</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Commerce business	100%	99%	99%	99%	99%	99%	99%
Service business	0%	0%	0%	1%	1%	1%	1%
Others	0%	0%	0%	0%	0%	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company data, CMBIGM estimates

## Income Statement

**We expect HTD's NP to surge at 57% CAGR in FY21-24E, with better margin outlook in the long run.** With well-established infrastructure and supply chain, we expect margin to improve for scale effect, enhanced monetization and operating leverage.

We expect gross margin to pick up to 3.5% in FY23E from 2.8% in FY21, thanks to 1) higher rev mix of higher-GPM SKUs, such as kitchen & bathroom appliance, smart wearing devices & security; 2) purchase channels enhancement; and 3) rising SaaS contribution.

Meanwhile, we expect its opex ratio to be stable at 2.2%-2.3% in FY22-24E, with operating leverage to offset marketing efforts on stores expansion and SaaS modernization.

In FY22E, 2Q22E might see short-term headwinds from lockdown disruptions, but we believe HTD would be relatively resilient given its high exposure in lower tier cities. We reiterate our confidence in its FY22E earnings growth (+38% YoY), and expect it to deliver 57% earnings CAGR in FY21-24E, with adj. net profit at RMB453mn/RMB807mn/RMB1.3bn in FY22/23/24E, respectively.

**Figure 51: Income statement**

RMB mn, Dec-YE	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net revenue</b>	<b>29,802</b>	<b>43,633</b>	<b>49,629</b>	<b>65,763</b>	<b>85,384</b>	<b>116,273</b>	<b>158,017</b>
Cost of revenue	(28,795)	(42,354)	(48,285)	(63,895)	(82,580)	(112,169)	(152,166)
<b>Gross profit</b>	<b>1,007</b>	<b>1,279</b>	<b>1,345</b>	<b>1,868</b>	<b>2,804</b>	<b>4,104</b>	<b>5,850</b>
Selling and distribution expenses	(428)	(564)	(610)	(864)	(1,145)	(1,596)	(2,085)
Administrative expenses	(451)	(478)	(415)	(479)	(592)	(764)	(988)
R&D	(35)	(49)	(58)	(79)	(143)	(288)	(489)
Other gains	114	146	145	192	0	0	0
<b>Operating (loss)/profit</b>	<b>207</b>	<b>334</b>	<b>407</b>	<b>639</b>	<b>924</b>	<b>1,456</b>	<b>2,288</b>
Other expenses*	(400)	(581)	(604)	(713)	22	200	260
<b>(Loss)/profit before income tax</b>	<b>(193)</b>	<b>(247)</b>	<b>(197)</b>	<b>(74)</b>	<b>946</b>	<b>1,656</b>	<b>2,549</b>
Income taxes (expense)/credit	(82)	(58)	(81)	(101)	(227)	(414)	(637)
<b>(Loss)/profit for the year</b>	<b>(296)</b>	<b>(415)</b>	<b>(405)</b>	<b>(350)</b>	<b>453</b>	<b>807</b>	<b>1,262</b>
<b>Adj. net profit</b>	<b>104</b>	<b>139</b>	<b>197</b>	<b>328</b>	<b>453</b>	<b>807</b>	<b>1,262</b>
<b>Margin Analysis</b>							
Gross margin	3.38%	2.93%	2.71%	2.84%	3.28%	3.53%	3.70%
Operating margin	0.69%	0.77%	0.82%	0.97%	1.08%	1.25%	1.45%
Adj. net margin	0.35%	0.32%	0.40%	0.50%	0.53%	0.69%	0.80%
<b>Growth Analysis</b>							
Revenue		46%	14%	33%	30%	36%	36%
Gross profit		27%	5%	39%	50%	46%	43%
Operating profit		61%	22%	57%	45%	58%	57%
Adj. net profit		33%	42%	66%	38%	78%	56%

Source: Company data, CMBIGM estimates



## Balance Sheet

### Healthy balance sheet with net cash position in FY22/23/24E

According to our estimates of profit before taxation and change in working capital, HTD has strong operating cash inflow in supporting CAPEX in the next three years. Therefore, we believe HTD can stay in net cash position in FY22/23/24E. We expect HTD to hold RMB5.8bn/RMB6.9bn cash and cash equivalent as of 31 Dec 2022E and 2023E.

Figure 52: Balance sheet

RMB mn, Dec-YE	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>203</b>	<b>353</b>	<b>1,420</b>	<b>2,245</b>	<b>2,238</b>	<b>2,238</b>	<b>2,229</b>
Property and equipment	40	41	45	43	56	73	78
Right-of-use assets	115	158	128	111	91	74	61
Intangible assets	0	0	0	0	0	0	0
Others	48	154	1,247	2,091	2,091	2,091	2,091
<b>Current assets</b>	<b>15,317</b>	<b>18,790</b>	<b>20,275</b>	<b>23,353</b>	<b>30,594</b>	<b>38,820</b>	<b>49,818</b>
Cash	2,501	1,168	4,316	2,967	5,781	6,854	7,960
Prepayments	4,858	6,876	6,620	8,417	11,086	15,673	22,095
Financial assets at fair value through profit or loss	2	2	2	2	2	2	2
Trade receivables	1,127	1,308	1,847	2,653	3,509	4,778	6,494
Others	6,829	9,436	7,490	9,314	10,216	11,513	13,266
<b>Current liabilities</b>	<b>16,725</b>	<b>20,475</b>	<b>23,643</b>	<b>27,231</b>	<b>22,531</b>	<b>29,292</b>	<b>37,981</b>
Accounts payables	7,181	8,493	11,419	14,419	17,873	23,356	30,433
Other payables and accruals	386	680	495	661	728	971	1,300
Advances from customers	7	12	1	0	0	0	0
Others	9,152	11,289	11,728	12,151	3,930	4,965	6,248
<b>Non-current liabilities</b>	<b>72</b>	<b>119</b>	<b>97</b>	<b>84</b>	<b>91</b>	<b>99</b>	<b>111</b>
Lease liabilities	69	101	80	67	67	67	67
Others	2	18	17	17	23	32	43
MI	835	1,109	1,256	1,358	1,358	1,358	1,358
Total Equity	(1,278)	(1,451)	(2,044)	(1,717)	10,211	11,667	13,955
<b>Shareholders' equity</b>	<b>(1,278)</b>	<b>(1,451)</b>	<b>(2,044)</b>	<b>(1,717)</b>	<b>10,211</b>	<b>11,667</b>	<b>13,955</b>

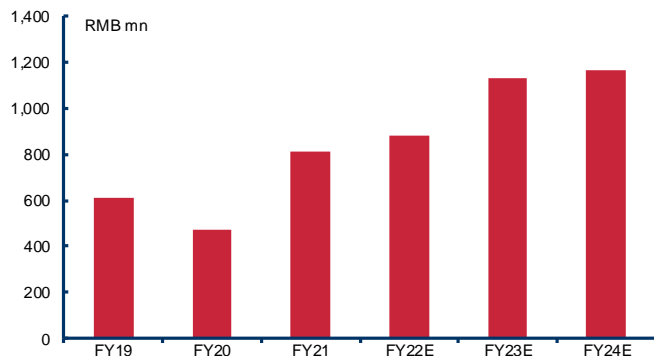
Source: Company data, CMBIGM estimates

## Cash Flow and Working Capital

### Strong operating cash flow

HTD recorded strong net operating cash flow of RMB472mn and RMB815mn in FY20, FY21 respectively. Given its store expansion, resilient growth and SaaS monetization, we expect HTD to maintain strong operating cash inflow trend and record RMB883mn/RMB1.1bn/RMB1.2bn of operating cash inflow in FY22/23/24E, respectively.

**Figure 53: Operating cash flow projections**



Source: Company data, CMBIGM estimates

**Figure 54: Cash flow and working capital analysis**

RMB mn, Dec-YE	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Cash Flow</b>							
<b>Operating cash flow</b>	(540)	614	472	815	883	1,133	1,166
CAPEX	(22)	(29)	(31)	(15)	(45)	(60)	(60)
Others*	(919)	(2,145)	2,170	(1,812)	0	0	0
<b>Investing cash flow</b>	<b>(941)</b>	<b>(2,174)</b>	<b>2,138</b>	<b>(1,827)</b>	<b>(45)</b>	<b>(60)</b>	<b>(60)</b>
Proceeds from share issuance	0	0	0	0	0	0	0
Others	2,756	227	538	(337)	1,977	0	0
<b>Financing cash flow</b>	<b>2,756</b>	<b>227</b>	<b>538</b>	<b>(337)</b>	<b>1,977</b>	<b>0</b>	<b>0</b>
<b>Cash at period end</b>	<b>2,501</b>	<b>1,168</b>	<b>4,316</b>	<b>2,967</b>	<b>5,781</b>	<b>6,854</b>	<b>7,960</b>

Source: Company data, CMBIGM estimates

## Valuation

### Investment Thesis

We initiate BUY with DCF-based TP of **HK\$66**, implying **39x/25x** FY23/24E P/E, or **0.27x** FY23E P/S. We keep bullish on HTD's stores expansion and monetization diversification, and see high visibility for HTD to improve its margin. HTD's positive price drivers and catalysts originate from: 1) potential defensive earning result; and 2) potential stock connect.

### Initiate with BUY

We use DCF valuation as our primary method since it is suitable to apply DCF valuation to internet companies with healthy cash flows in the long run. Assuming a WACC of 14.9% and a terminal growth rate of 3%, our estimated TP is **HK\$66**, representing **39x/25x** FY23/24E P/E (higher than industry average), or 0.27x FY23E P/S (below industry average).

Figure 55: DCF valuation

DCF valuation (RMB mn)										
	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	924	1,456	2,288	3,410	4,746	6,235	7,799	9,364	10,868	12,264
Tax	(227)	(414)	(637)	(852)	(1,187)	(1,559)	(1,950)	(2,341)	(2,717)	(3,066)
D&A	52	60	69	76	84	92	101	111	122	135
Working capital	(93)	(384)	(1,191)	(1,334)	(1,467)	(1,614)	(1,775)	(1,953)	(2,148)	(2,363)
CAPEX	(45)	(60)	(60)	(66)	(73)	(80)	(88)	(97)	(106)	(117)
<b>FCF</b>	<b>611</b>	<b>658</b>	<b>469</b>	<b>1,233</b>	<b>2,103</b>	<b>3,074</b>	<b>4,087</b>	<b>5,085</b>	<b>6,019</b>	<b>6,852</b>
FCF Growth		8%	-29%	163%	71%	46%	33%	24%	18%	14%
Terminal Value										59,449
<b>PV (FCF+ Terminal Value)</b>	<b>532</b>	<b>499</b>	<b>310</b>	<b>708</b>	<b>1,052</b>	<b>1,338</b>	<b>1,548</b>	<b>1,677</b>	<b>1,728</b>	<b>16,572</b>

Assumptions	
<b>WACC</b>	<b>14.9%</b>
Tax rate	25.0%
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>

		WACC				
		13%	14%	15%	16%	17%
<b>Growth</b>	1.5%	75	68	62	56	52
	2.0%	77	69	63	57	53
	2.5%	79	71	65	58	53
	3.0%	81	72	<b>66</b>	59	54
	3.5%	84	74	68	60	55
	4.0%	87	76	69	62	56
	4.5%	90	79	71	63	57
4.5%	90	79	71	63	57	

Equity Value	
<b>PV</b>	<b>25,964</b>
minus : Net cash	(5,652)
minus : Minority Interest	0
Equity Value	31,616
FX	0.85
Shares	563
<b>TP (HK\$) based on DCF</b>	<b>66</b>

Source: Company data, Bloomberg, CMBIGM estimates

## SOTP Valuation

Given its diversified monetization, we also adopted SOTP valuation to crosscheck. We applied FY23E EV/sales multiple (0.2x/5x) for its commerce biz/ service biz, yielding TP of **HK\$63**. Our SOTP valuation suggests **37x/24x** FY23/24E P/E, or **0.26x** FY23E P/S.

We selected five group comps for peer comparison, in which ecommerce trades at 1.6x FY23E EV/sales on average, and SaaS at 1.7x FY23E EV/sales. Given its biz model, we think JD would be the most comparable one, and HTD's SOTP valuation (0.26x FY23E P/S) suggests 43% discount to JD. As a leading lower-tier commerce player, we think there is potential for re-rating for HTD, backed by its 1) defensive growth amid epidemic resurgence; 2) strong supply chain & localization to build high barrier; and 3) 34% FY21-24E rev CAGR and margin enhancement (vs. industry average at <20% rev CAGR).

HTD is still at high growth stage, its further store expansion, categories enrichment and SaaS initiatives in the long run could unlock its TAM and valuation, in our view.

Figure 56: SOTP valuation

Business (RMB mn)	'23E Rev	Multiple	Methodology	Value
Commerce business	114,692	0.2x	EV/Sales	22,938
Service business	1,458	5.0x	EV/Sales	7,290
Enterprise Value				<b>30,228</b>
(+) Net Cash				5,652
Equity Value				<b>35,880</b>
Discounted EV (2022E)				<b>30,228</b>
FX				0.85
Valuation (HK\$ mn)				<b>35,563</b>
TP (HK\$) based on SOTP				<b>63</b>

Source: CMBIGM estimates

Figure 57: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBIT			FY22-24 EPS CAGR
							FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
<b>Huitongda</b>	<b>9878 HK</b>	<b>3,285</b>	<b>HKD</b>	<b>46</b>	<b>BUY</b>	<b>66</b>	<b>48.1</b>	<b>27.9</b>	<b>18.8</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>19.9</b>	<b>12.2</b>	<b>8.2</b>	<b>63%</b>
<b>EC Service Provider</b>																
Baозun	BZUN US	651	USD	10	BUY	28	17.9	9.0	6.5	0.4	0.4	0.4	29.5	11.4	7.3	64%
Lily & Beauty	605136 CH	941	CNY	16	NA	NA	16.5	14.2	12.0	1.5	1.3	1.2	10.4	9.0	7.9	14%
Ruoyuchen	003010 CH	315	CNY	17	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Onechance	300792 CH	1,239	CNY	35	NA	NA	21.5	17.8	14.9	5.9	4.9	4.1	13.1	10.9	9.3	19%
Transcosmos	9715 JP	1,317	JPY	3,525	NA	NA	11.2	10.7	10.7	0.5	0.4	0.4	5.8	5.5	5.5	3%
Average							16.8	12.9	11.0	2.1	1.8	1.5	14.7	9.2	7.5	25%
<b>China Ecommerce</b>																
Pinduoduo	PDD US	64,357	USD	51	BUY	175	24.1	17.1	12.7	3.9	3.1	2.7	23.5	15.1	10.7	40%
Alibaba	BABA US	252,684	USD	93	BUY	255	12.7	10.7	8.9	1.8	1.6	1.4	13.4	10.7	8.9	28%
JD.com	JD US	88,270	USD	57	NA	NA	33.2	22.1	16.6	0.5	0.5	0.4	47.0	25.5	17.1	40%
Vipshop	VIPS US	6,220	USD	9	NA	NA	7.7	6.9	6.3	0.4	0.4	0.3	4.9	4.4	4.0	10%
Suning.com	002024 CH	3,260	CNY	2	NA	NA	NA	NA	NA	0.2	0.2	0.1	NA	NA	55.6	-1%
Meituan	3690 HK	151,902	HKD	193	BUY	383	NA	NA	40.2	4.6	3.5	2.8	NA	NA	41.0	NA
Yatsen	YSG US	361	USD	1	NA	NA	NA	NA	NA	0.5	0.5	0.4	NA	NA	NA	NA
Average							19.4	14.2	16.9	1.7	1.4	1.2	22.2	13.9	22.9	23%
<b>Global Ecommerce</b>																
Amazon	AMZN US	1,244,839	USD	2,447	NA	NA	55.3	30.3	20.7	2.4	2.0	1.8	68.7	35.4	24.4	65%
eBay	EBAY US	26,363	USD	47	NA	NA	11.5	11.4	10.5	2.7	2.6	2.5	10.4	10.0	9.5	10%
Groupon	GRPN US	447	USD	15	NA	NA	62.5	8.2	6.2	0.6	0.6	0.5	NA	NA	50.1	1155%
Average							43.1	16.6	12.5	1.9	1.7	1.6	39.5	22.7	28.0	410%
<b>SaaS</b>																
Youzan	8083 HK	261	HKD	0	NA	NA	NA	NA	NA	1.1	0.9	0.7	NA	NA	NA	NA
Weimob	2013 HK	1,507	HKD	5	NA	NA	NA	NA	37.8	3.3	2.7	2.2	NA	NA	30.6	NA
KE Holdings	BEKE US	18,081	USD	14	NA	NA	NA	25.2	20.8	1.8	1.4	1.3	NA	19.8	12.1	178%
Average							NA	25.2	29.3	2.1	1.7	1.4	NA	19.8	21.4	178%
<b>Delivery</b>																
SF Holding	002352 CH	37,361	CNY	51	HOLD	77	34.4	25.4	19.9	0.9	0.8	0.7	26.1	19.9	15.9	31%
YTO Express	600233 CH	10,344	CNY	20	NA	NA	21.7	17.5	14.9	1.3	1.1	0.9	15.3	12.3	10.5	22%
JD Logistics	2618 HK	12,898	HKD	15	NA	NA	NA	65.8	24.9	0.7	0.5	0.4	NA	77.5	24.2	NA
Dada Nexus	DADA US	1,944	USD	7	NA	NA	NA	26.9	9.3	1.4	1.0	0.7	NA	16.7	5.2	NA
ZTO Express	2057 HK	21,078	HKD	204	BUY	306	22.8	17.5	14.4	3.9	3.3	2.9	18.6	14.1	11.7	25%
Full Truck	YMM US	7,648	USD	7	NA	NA	89.1	17.6	9.8	8.5	4.9	3.2	NA	10.0	4.5	192%
Average							42.0	28.5	15.5	2.8	1.9	1.5	20.0	25.1	12.0	67%
<b>Average</b>							<b>29.5</b>	<b>19.7</b>	<b>15.9</b>	<b>2.1</b>	<b>1.7</b>	<b>1.4</b>	<b>22.1</b>	<b>18.1</b>	<b>17.4</b>	<b>26%</b>

Source: Bloomberg

## Key Investment Risks

### Material changes in customer demand & preferences

HTD's major categories of merchandise include household appliances, consumer electronics, agricultural means of production, vehicles & auto parts, home building and renovation materials, as well as liquor and beverages for the lower-tier market. Variables such as local consumer preferences & needs, consumer spending patterns, income, consumer confidence, etc. will affect market demand for the above merchandise. Failure to anticipate changes in demand will adversely affect HTD's sales, affect pricing strategy, and may potentially increase sales & marketing expenses.

### Poor customer services and logistics arrangements adversely affect results

The client management team is the key to providing reliable and satisfactory customer services in a timely manner. As of 30 September 2021, HTD's client management team consists of 2,902 client managers across 21 provinces in China. The high turnover rate of client managers can be a possible scenario in the future for deteriorating the quality of customer services. Meanwhile, HTD relies on 3<sup>rd</sup> party logistic service providers for deliveries of merchandise. Transportation infrastructure may not be well developed which adds extra difficulty in delivering merchandise on time. Travel restrictions across cities and provinces may hamper delivery efficiency due to COVID-19 control measurement by the Chinese government.

### Diversification of merchandise categories may expose to new challenges & risks

Aside from the six main categories of product offerings, HTD also strived to launch new merchandise categories. This action may expose HTD to new challenges and risks due to its lack of familiarity and insight into the demand for these products. This may cause misjudgment of customer demand that piles up inventory write-down. Proper handling, storage, and delivery of merchandise may also affect the quality and customer reception of HTD services and lead to reputation damage.

HTD usually does not hold strong bargaining power in new categories of merchandise which is in a disadvantageous position in negotiating favorable terms with suppliers. This may inflict deficits in new category product lines and lower profit.

### Failure to compete against competitors in lower-tier cities in China

HTD's major competitors are e-commerce platforms that provide similar categories of products and services to the lower-tier retail market. Some competitors may be more resourceful in particular regions. They may practice a more aggressive pricing strategy, undertake wider coverage in merchandise channel development and marketing campaigns or negotiate more favorable terms with suppliers that help them attain competitive advantages. HTD also faces challenges from national and regional distributors who also ventured to develop their own e-commerce platforms to compete with HTD.

## Appendix 1: Regulations

### Regulations on commercial franchising

On 14 November 2021, the CAC promulgated the “Network Data Security Management Regulations” (Draft for Comments) (《网络数据安全条例(征求意见稿)》) (the “Draft for Comments”). It rules that data processors conducting the following activities, shall apply for cybersecurity review to the national cyberspace administration and competent authorities: (i) Internet platform operators that have acquired a large volume of data resources related to national security and economic development, (ii) data processors listed abroad that process more than 1 million users’ personal information, (iii) listing in HK which affect national security, (iv) other data processing activities that may affect national security.

The draft for comments also requires the internet platform to establish platform rules, privacy policies, and algorithm strategies relevant to data. Public comments also need to be solicited for no less than 30 working days before any platform rules or private policies are amended.

### Regulations on online trading and e-commerce

All operating activities for product sales and services provided via the internet are regulated by the Measures for the Supervision and Administration of Online Transactions 《网络交易监督管理办法》, which took effect on 1 May 2021. The Online Transaction Measures regulate e-commerce platforms, online social networking, and online live streaming to protect consumer rights and information protection, etc. A further restriction was imposed on the e-commerce platform in terms of verification and registration of trading parties’ identities. The law further consolidated the inspection and monitoring of information on the goods sold or services provided on the platform.

In August 2018, the Standing Committee of the National People’s Congress (the “SCNPC”) enacted the E-Commerce Law of the PRC (《中华人民共和国电子商务法》) to regulate e-commerce activities conducted within the territory of the PRC. It rules that e-commerce platforms hold liability to (i) Collect, verify and register truthful information submitted by 3rd party merchants that sell products or provide services on e-commerce platforms. (ii) Record and retain the information of the products and services, as well as the transaction information on its platform for no less than three years. (iii) Display the platform service agreement, transaction rule and noticeable labels about products and services provided on e-commerce platforms. (iv) Provide consumers with access to make comments publicly on products and services on the platform. Deleting comments is forbidden. (v) Establish intellectual property rules and take necessary measures once the intellectual property rights holder notifies the platform that his/her rights are infringed. RMB 2,000,000 will be fined to the platform for failure to take action on the occurrence of intellectual property infringement on the platform.

### Regulations on consumer protection and product quality

The Consumer Protection Law of the PRC (《中华人民共和国消费者权益保护法》) was last amended on 25 October 2013, which outlines the obligations of business operators and the rights and interests of consumers in China. Business operators have to guarantee the products are sold with satisfactory quality, function, usage and terms of validity. Products also need to meet requirements for personal and property safety and provide customers with authentic information. If E-commerce platforms fail to provide real names, addresses and valid contact details of the sellers or services on its platform the consumers may also claim damages to online e-commerce platforms. If e-commerce platforms fail to take

necessary measures to address illegal infringement upon legitimate rights and interests of consumers, they will bear legal liabilities with products or service providers on their platform.

The Measures for Cybersecurity Review 《网络安全审查办法》 was jointly revised and took effect on 15 February 2022 by authorities. It required platform operators with more than one million users' personal information to apply for a cybersecurity review and file reports to the Cybersecurity Review Office (网络安全审查办公室), before they seek listing status in foreign countries. The law also required any data processing activities that may affect national security shall also be subject to the cybersecurity review.

The Product Quality Law of the PRC (《中华人民共和国产品质量法》) was latest amended on 29 December 2018, which covered all production and sale activities in the PRC. Enterprises are forbidden in any counterfeit products, giving false information regarding their manufacturers. Products offered for sale must satisfy relevant quality and safety standards. If products violate state or industrial standards, civil liabilities and admin penalties such as compensations for damages, fines, suspension, or shutdown of business, confiscation of illegal products as well as sale proceeds will be imposed on manufacturers. If the defective products cause any physical injury or damage to property, the victim is entitled to claim compensation from the manufacturer, depending on circumstances about whom bears legal liability.

### **Regulations on information security and data privacy**

The Cyber Security Law of the PRC (《中华人民共和国网络安全法》) came into effect on 1 June 2017. The law states that any network operator of key information infrastructure during their operations in the PRC shall store the personal information and important data collected and produced within the territory of the PRC. The network operator shall announce rules, and express the purpose, methods, and scope of such data collection to obtain the consent of the users. Each individual is entitled to ask network operators to delete his/her personal information once the network operator is discovered to violate laws during operations.

The SCNPC promulgated the Data Security Law of the People's Republic of China (《中华人民共和国数据安全法》) and became effective on 1 September 2021. It stipulates that each data collector shall adopt legal and proper methods to obtain data. The data processing activities shall comply with laws and regulations and respect social norms and ethics. Data shall not endanger national security, public interest, or individuals' lawful rights and interests. It is also necessary for the data collector to establish and improve a whole-process data security management system with reference to provisions of laws and regulations.

## Appendix 2: Company Background

**Figure 58: Key milestones**

Year	Event
2010	<p>Its predecessor, Jiangsu HTD Supply Chain Management Limited (江苏汇通达供应链管理有限公司), was established in Nanjing, Jiangsu Province, China.</p> <p>It started the business of home appliance sales in Jiangsu Province and expanded outside of Jiangsu Province.</p>
2012	It started to build up supply chain capabilities, aiming to expand the reach of quality merchandise to rural areas.
2015	<p>The Company was converted from a limited liability company into HTD Network Co., Ltd. (汇通达网络股份有限公司), a joint stock company with limited liabilities.</p> <p>It is a pioneer in the retail industry that established a membership-based business model and afterwards it started to serve local family-run retail stores in China's towns and villages as member stores.</p> <p>It started to expand merchandise offerings from household appliances to agricultural means of production, homebuilding and renovation materials and other categories.</p>
2016	It expanded its member store network to over 10,000 towns and villages, with revenue exceeded RMB10bn.
2017	It launched its SaaS+ business.
2021	During the Track Record Period, it has accumulatively connected over 160,000 member stores, 10,000 suppliers and 20,000 wholesaler customers. As of 30 September 2021, it has developed a retail ecosystem covering 21 provinces and over 20,000 towns and villages across China.

Source: Company data, CMBIGM

**Figure 59: Employees breakdown**

Function	Number of employees	% of total
Headquarter and administration	92	2.0%
Research and development	192	4.2%
Finance, internal control and legal	840	18.5%
Business	519	11.4%
Client management	2,902	63.9%
<b>Total</b>	<b>4,545</b>	<b>100.0%</b>

Source: Company data, CMBIGM, As of 30 Sep 2021

**Figure 60: Corporate structure after the Global Offering**

Ranking	Shareholder	as % of total shares
1	Mr. Wang Jianguo	27.37%
2	Alibaba China	17.26%
3	Mr. Xu Xiuxian	12.67%
4	Mr. Wang Jian	5.16%
5	SOE IIF	4.79%
6	Huaxia Life	2.91%
7	Nanjiang Yuanbai	2.07%
8	China Structural Fund	2.42%
9	Bian Huimin	1.99%
10	Shenzhen Huasheng	1.98%
11	Zhongmei Green	1.73%
12	Tianjian New Vision	1.46%
13	Jiangsu Coastal Fund	1.47%
14	Zhihan (Shanghai)	1.46%
<b>Total</b>		<b>90.42%</b>

Source: Company data, CMBIGM



**Figure 61: Management profile**

Name	Age	Position	Roles and responsibilities	Date of joining the Group	Date of appointment as Director
Mr. WANG Jianguo (汪建国)	61	Chairman of the Board and Non-Executive Director	Convening and chairing general meetings and Board meetings; presiding over the decision-making of external affairs and strategic development of the Group	Dec 2010	Nov 2015
Mr. XU Xiuxian (徐秀賢)	58	Chief Executive Officer and Executive Director	Leading the business development of the Group; presiding over the decision-making and execution of major business, development and investment plans	Dec 2010	Nov 2015
Mr. ZHAO Liangsheng (赵亮生)	47	Executive Director, Chief Financial Officer, Secretary to the Board and Vice President	Overseeing the Group's financial affairs and corporate governance	Jan 2013	May 2021
Mr. WANG Jian (王健)	58	Non-executive Director	Participating in evaluation and approval of business plans, strategies and major decisions of the Group through the Board	Nov 2015	Nov 2015
Mr. CAI Zhongqiu (蔡仲秋)	51	Non-executive Director	Participating in evaluation and approval of business plans, strategies and major decisions of the Group through the Board	May 2021	May 2021
Mr. WANG Yi (王轶)	44	Non-executive Director	Participating in evaluation and approval of business plans, strategies and major decisions of the Group through the Board	May 2021	May 2021
Mr. LIU Xiangdong (刘向东)	55	Independent Non-executive Director	Supervising and providing independent advice to the Board	May 2021	May 2021
Mr. CHENG Zichuan (程子传)	39	Independent Non-executive Director	Supervising and providing independent advice to the Board	May 2021	May 2021
Mr. HUANG Shun (黄顺)	48	Independent Non-executive Director	Supervising and providing independent advice to the Board	Aug 2016	Aug 2016

Source: Company data, CMBIGM

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	49,629	65,763	85,384	116,273	158,017
Commerce business	49,302	65,226	84,327	114,692	155,834
Service business	243	438	944	1,458	2,047
Others	84	100	112	123	136
<b>COGS</b>	(48,285)	(63,895)	(82,580)	(112,169)	(152,166)
<b>Gross profit</b>	1,345	1,868	2,804	4,104	5,850
S&M	(610)	(864)	(1,145)	(1,596)	(2,085)
Admin. Exp.	(415)	(479)	(592)	(764)	(988)
R&D	(58)	(79)	(143)	(288)	(489)
Other gains	122	137	-	-	-
Other rev	23	56	-	-	-
<b>Operating profit</b>	407	639	924	1,456	2,288
Other income/(exp), net	(604)	(713)	22	200	260
<b>Pre-tax Income</b>	(197)	(74)	946	1,656	2,549
Income Tax	(81)	(101)	(227)	(414)	(637)
<b>Net profit</b>	(405)	(350)	453	807	1,262
<b>Adj. net profit</b>	197	328	453	807	1,262

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	(405)	1,168	453	807	1,262
D&A	80	37	52	60	69
Change in WC	2,134	901	(93)	(384)	(1,191)
Others	(1,337)	(1,291)	471	649	1,027
<b>Operating CF</b>	472	815	883	1,133	1,166
Capex	(31)	(15)	(45)	(60)	(60)
Purchase of investments	(17,164)	-	-	-	-
Others	19,334	(1,812)	-	-	-
<b>Investing CF</b>	2,138	(1,827)	(45)	(60)	(60)
Equity raised	-	-	-	-	-
Change of Debts	(289)	(107)	-	-	-
Cash from CB raised	1,200	-	-	-	-
Others	(373)	(230)	1,977	-	-
<b>Financing CF</b>	538	(337)	1,977	-	-
<b>Net change in cash</b>	3,148	(1,349)	2,814	1,073	1,106
Cash (beg of yr)	1,168	4,316	2,967	5,781	6,854
FX	-	-	-	-	-
<b>Cash (end of yr)</b>	4,316	2,967	5,781	6,854	7,960

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	1,420	2,245	2,238	2,238	2,229
Property and equipment	45	43	56	73	78
Right-of-use assets	128	111	91	74	61
Intangible assets	-	-	-	-	-
Others	1,247	2,091	2,091	2,091	2,091
<b>Current assets</b>	20,275	23,353	30,594	38,820	49,818
Cash	4,316	2,967	5,781	6,854	7,960
Prepayments	6,620	8,417	11,086	15,673	22,095
Financial assets at fair value	2	2	2	2	2
Trade receivables	1,847	2,653	3,509	4,778	6,494
Others	7,490	9,314	10,216	11,513	13,266
<b>Current liabilities</b>	23,643	27,231	22,531	29,292	37,981
Accounts payables	11,419	14,419	17,873	23,356	30,433
Other payables	495	661	728	971	1,300
Advances from customers	1	-	-	-	-
Others	11,728	12,151	3,930	4,965	6,248
<b>Non-current liabilities</b>	97	84	91	99	111
Lease liabilities	80	67	67	67	67
Others	17	17	23	32	43
MI	1,256	1,358	1,358	1,358	1,358
Total Equity	(2,044)	(1,717)	10,211	11,667	13,955
<b>Shareholders' equity</b>	(2,044)	(1,717)	10,211	11,667	13,955

Source: Company data, CMBIGM estimates

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Commerce business	99.3	99.2	98.8	98.6	98.6
Service business	0.5	0.7	1.1	1.3	1.3
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	13.7	32.5	29.8	36.2	35.9
Gross profit	5.1	38.9	50.1	46.4	42.5
EBIT	21.7	57.0	44.7	57.6	57.1
Adj. net profit	41.6	66.4	38.3	78.2	56.2
<b>P&amp;L ratios (%)</b>					
Operating margin	0.8	1.0	1.1	1.3	1.4
Pre-tax margin	(0.4)	(0.1)	1.1	1.4	1.6
Adj. net margin	0.4	0.5	0.5	0.7	0.8
Effective tax rate	0.2	0.2	0.2	0.3	0.3
<b>Returns (%)</b>					
ROE	(11.3)	(17.4)	10.7	7.4	9.8
ROA	1.0	1.4	1.6	2.2	2.7

# Disclosures & Disclaimers

## Analyst Certification

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