

Hong Kong Technology Venture Co Ltd

Bloomberg: 1137 HK EQUITY | Reuters: 1137.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

31 Mar 2022

BUY

Last Traded Price (30 Mar 2022): HK\$7.36 (HSI : 22,232)

Price Target 12-mth: HK\$12.50 (70% upside) (Prev HK\$10.00)

Analyst

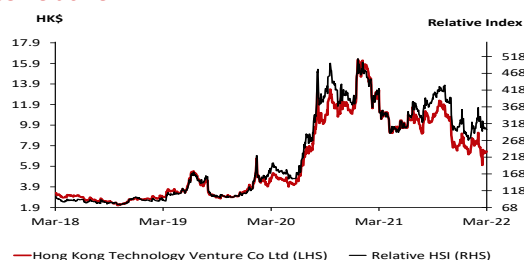
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What's New

- Revenue increased by 8.8% y-o-y to HK\$3,130m in FY21, below market expectations
- Despite a weak FY21 performance, GMV in 1Q22 reached a record-high amid fifth wave of Covid
- Expect GMV to grow at 22% CAGR in 2021-2023; revised down FY22-23F earnings by 42% and 68% after incorporating higher fulfillment investments
- Maintain BUY with higher TP of HK\$12.5 based on 3x FY22F P/S

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021A	2022F	2023F
Turnover	2,878	3,130	3,814	4,313
EBITDA	207	81	167	176
Pre-tax Profit	184	6	80	90
Net Profit	184	15	88	98
Net Profit Gth (Pre-ex) (%)	N/A	(91.9)	497.9	10.4
EPS (HK\$)	0.20	0.02	0.10	0.11
EPS Gth (%)	N/A	(92.1)	497.9	10.4
Diluted EPS (HK\$)	0.20	0.02	0.09	0.10
DPS (HK\$)	0.00	0.08	0.00	0.00
BV Per Share (HK\$)	2.56	2.16	2.27	2.39
PE (X)	36.0	456.2	76.3	69.1
P/Cash Flow (X)	10.9	27.3	18.8	16.1
P/Free CF (X)	12.7	360.6	nm	177.7
EV/EBITDA (X)	30.8	86.7	42.4	40.6
Net Div Yield (%)	0.0	1.0	0.0	0.0
P/Book Value (X)	2.9	3.4	3.2	3.1
Net Debt/Equity (X)	CASH	0.1	0.2	0.2
ROAE (%)	10.3	0.7	4.2	4.4
Earnings Rev (%)			(42)	(68)
Consensus EPS (HK\$)			0.17	0.29
Other Broker Recs:		B:6	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Riding on the rise of online shopping

Investment Thesis

Key beneficiary of rising penetration of online retailing in HK. HKTV is a leading online retail player, benefitting from the strong growth of Hong Kong's online retail sales, which is expected to grow at a 10.8% CAGR to HK\$82bn in FY25.

Fulfillment capability supports resilient growth. HKTV's well-established logistics network and automated sorting process provides shorter delivery time and enjoys operating leverage.

New e-commerce solutions business supporting medium-term growth. The company has secured two contracts with local and overseas retail players, which is a good start for monetisation of HKTV's digital solutions.

Valuation:

Factoring in HKTV's shift in focus from profit to growth, near-term profitability should be affected by higher capex. Given the strong GMV growth, we revised up our revenue forecast by 6% and 4% for FY22 and FY23 and changed our valuation methodology based on P/S (vs P/E previously). New TP arrived at HK\$12.5, based on 3x FY22F P/S, largely in line with historical range of leading players.

Where we differ:

Our GMV estimate for FY22F and FY23F is 9% and 8% higher than consensus. We believe HKTV's diverse product offerings and well-established fulfillment gives the company a strong competitive advantage in Hong Kong.

Key Risks to Our View:

Intense competition from new entrants. New entrants such as Chinese e-commerce players could be aggressive and intensify competition in the online retail market.

Prolonged deterioration of consumption sentiment. Prolonged deterioration of consumption sentiment could reduce retail sales for discretionary items, and in turn, impact the company's GMV growth.

At A Glance

Issued Capital (m shrs)	920
Mkt Cap (HK\$m/US\$m)	6,770 / 865
Major Shareholders (%)	
Top Group International Limited	38.6
Free Float (%)	61.4
3m Avg. Daily Val. (US\$m)	4.73
GICS Industry: Consumer Discretionary / Retailing	



Watchlist the stock on Insights Direct to receive prompt updates



Hong Kong Technology Venture Co Ltd**WHAT'S NEW****FY21 results missed; Raised FY22 GMV and EBITDA targets****FY21 results highlights**

- Revenue increased by 8.8% y-o-y to HK\$3,130m, below market expectations of c.13% growth.
- Net profit fell by 92% to HK\$14.3m, below market expectations, mainly due to slower revenue growth and higher opex expenses in 2H21
- Adjusted EBITDA contracted to HK\$112.7m in FY21 vs. HK\$236.2m in FY20.
- In terms of operating matrix, GMV grew by 10.4% to HK\$6,574m; average daily orders increased to 39k in FY21, up from 32.3k in FY20; average order value decreased by 8% to HK\$462.
- Gross profit as % of GMV was 23.7% in FY21, slightly lower from 24.6% in FY20. The lower margin was mainly due to intensifying competition for online groceries and lower 3P commission rate for electronic products.
- Fulfillment cost as a percentage of GMV remained stable at 11.7% in FY21 (vs 11.8% in FY20).
- No final dividend was declared for FY21.
- Note that the company disclosed 2022 GMV guidance of HK\$7.5-8bn and adjusted EBITDA of c.HK\$50bn in a business update announced in Jan 22. It has since raised FY22 targets as follows: (1) GMV of HK\$8-8.5bn, representing 21.7-29.4% y-o-y growth (2) adjusted EBITDA as a % of GMV at 2.0-2.5% (vs 2021: 2.3%), representing y-o-y growth of 42%-89% to c.HK\$160-213m. The guidance for multimedia advertising income remained unchanged at c.HK\$120m.
- To support mid-long-term growth, HKTV has launched a 5-year CAPEX plan to expand automated fulfillment capacity from existing 570k sq.ft. to 900k+ sq.ft., at a total cost of around HK\$860m.

Our View:

- Average daily GMV in Jan, Feb, and first 28 days of Mar of around HK\$22.5 m, HK\$30.5 m and HK\$23.3m respectively. Based on that, we estimate that 1Q22 GMV grew by 46% y-o-y.
- Therefore, we believe the new FY22 targets should be achievable, supported by strong online shopping demand under the fifth wave of Covid and its enhanced fulfillment capability.
- As for the automated retail store business, management targets to have the first deployment on a pilot basis in Manchester in 2H22. This represents longer term growth potential.
- Overall, we are revising down our earnings by 42% and 68% for FY22 and FY23 respectively, after incorporating increased investments on fulfillment facilities to enable 95% orders to meet "2 days delivery" target (from a low base of 35% in 2021). We believe HKTV will further enlarge its business scale with enhanced fulfillment, and we expect GMV to grow by 30% in FY22 and 15% in FY23 respectively. Our adjusted EBITDA for FY22F is c.HK\$195m.
- Factoring in HKTV's shift in focus from profit to growth mode, we changed our valuation methodology to be based on P/S (vs P/E previously) and raised our TP to HK\$12.5, based on 3x FY22F P/S, largely in line with historical range of leading players.

Company Background

HKTV launched online shopping platform "HKTVmall" to start its e-commerce business in 2015. Since then, HKTVmall has become the largest local online retail platform with a c.20% market share in Hong Kong.

Interim Income Statement (HK\$m)

FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	1,538	1,518	1,612	4.8	6.2
Cost of Goods Sold	(787)	(755)	(820)	4.2	8.6
Gross Profit	751	763	792	5.5	3.8
Other Oper. (Exp)/Inc	(756)	(697)	(905)	19.8	29.9
Operating Profit	(5)	66	(113)	2,145.7	nm
Other Non Opg (Exp)/Inc	84	34	29	(65.3)	(15.1)
Associates & JV Inc	0	0	0	nm	nm
Net Interest (Exp)/Inc	(4)	(4)	(6)	(56.6)	(64.0)
Exceptional Gain/(Loss)	0	0	0	nm	nm
Pre-tax Profit	75	97	(90)	nm	nm
Tax	0	(1)	9	nm	nm
Minority Interest	0	0	1	nm	nm
Net Profit	74	96	(81)	nm	nm
Net profit bef Except.	74	96	(81)	nm	nm
EBITDA	51	121	(58)	nm	nm
Margins (%)					
Gross Margins	48.8	50.3	49.1		
Opg Profit Margins	(0.3)	4.4	(7.0)		
Net Profit Margins	4.8	6.3	(5.0)		

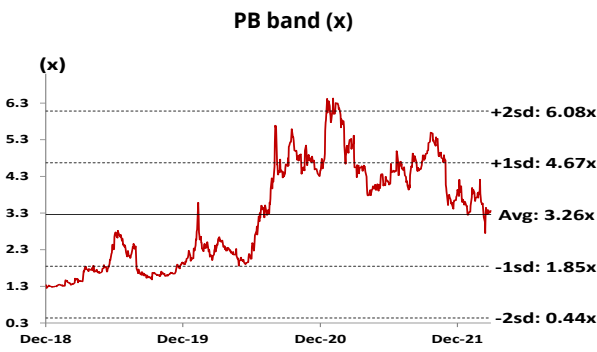
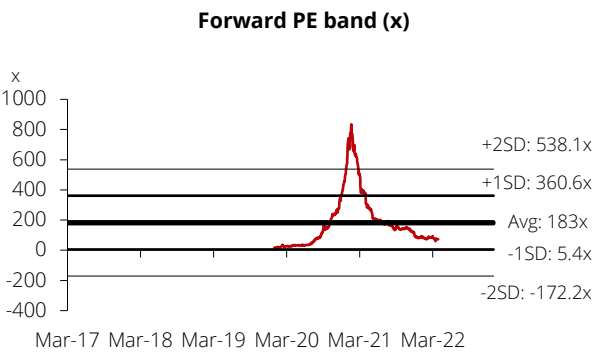
Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2020A	2021A	% cha yoy
Revenue	2,878	3,130	8.8
Cost of Goods Sold	(1,463)	(1,575)	7.6
Gross Profit	1,414	1,555	9.9
Other Opng (Exp)/Inc	(1,331)	(1,602)	20.4
Operating Profit	84	(47)	(156.5)
Other Non Opg (Exp)/Inc	103	58	(43.8)
Associates & JV Inc	0	0	nm
Net Interest (Exp)/Inc	(7)	(10)	(40.6)
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	184	6	(96.7)
Tax	(1)	8	(1,558.0)
Minority Interest	0	1	nm
Net Profit	184	15	(91.9)
Net Profit before Except.	184	15	(91.9)
EBITDA	207	81	(60.8)
Margins & Ratio			
Gross Margins (%)	49.1	49.7	
Opg Profit Margin (%)	2.9	(1.5)	
Net Profit Margin (%)	6.4	0.5	

Source: Company, DBS HK

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Hong Kong Technology Venture Co Ltd

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
GMV (HK\$m)	2,707.8	5,838.1	6,494.6	8,439.9	9,705.9
Average daily order	15,100.0	32,300.0	39,000.0	47,190.0	54,268.5
Revenue from new solution business (HK\$m)	0.0	0.0	0.9	50.0	100.0

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Direct merchandise sales	1,101	1,970	2,047	2,259	2,395
Multimedia advertising income and licensing of programme rights	303	884	991	1,375	1,628
New business and Others	10	24	92	180	290
Total	1,414	2,878	3,130	3,814	4,313

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	1,414	2,878	3,130	3,814	4,313
Cost of Goods Sold	(853)	(1,463)	(1,575)	(1,758)	(1,887)
Gross Profit	561	1,414	1,555	2,056	2,426
Other Opng (Exp)/Inc	(893)	(1,331)	(1,602)	(2,017)	(2,378)
Operating Profit	(333)	84	(47)	39	48
Other Non Opg (Exp)/Inc	50	103	58	46	46
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(12)	(7)	(10)	(10)	(10)
Dividend Income	5	5	5	5	5
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(290)	184	6	80	90
Tax	0	(1)	8	8	8
Minority Interest	0	0	1	0	0
Preference Dividend	0	0	0	0	0
Net Profit	(290)	184	15	88	98
Net Profit before Except.	(290)	184	15	88	98
EBITDA	(227)	207	81	167	176
Growth					
Revenue Gth (%)	57.7	103.5	8.8	21.9	13.1
EBITDA Gth (%)	19.6	N/A	(60.8)	106.3	5.5
Opg Profit Gth (%)	(12.5)	(125.1)	(156.5)	(183.0)	23.4
Net Profit Gth (%)	(117.8)	N/A	(91.9)	497.9	10.4
Margins & Ratio					
Gross Margins (%)	39.7	49.1	49.7	53.9	56.3
Opg Profit Margin (%)	(23.5)	2.9	(1.5)	1.0	1.1
Net Profit Margin (%)	(20.5)	6.4	0.5	2.3	2.3
ROAE (%)	(18.3)	10.3	0.7	4.2	4.4
ROA (%)	(12.8)	6.8	0.5	2.7	2.8
ROCE (%)	(16.5)	3.4	(1.6)	1.2	1.4
Div Payout Ratio (%)	N/A	0.0	496.2	0.0	0.0
Net Interest Cover (x)	(26.8)	12.0	(4.8)	4.0	4.9

Source: Company, DBS HK

Hong Kong Technology Venture Co Ltd

Interim Income Statement (HK\$ m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	788	1,340	1,538	1,518	1,612
Cost of Goods Sold	(478)	(676)	(787)	(755)	(820)
Gross Profit	311	663	751	763	792
Other Oper. (Exp)/Inc	(454)	(575)	(756)	(697)	(905)
Operating Profit	(143)	89	(5)	66	(113)
Other Non Opg (Exp)/Inc	17	27	84	34	29
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(8)	(6)	(4)	(4)	(6)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(135)	109	75	97	(90)
Tax	0	0	0	(1)	9
Minority Interest	0	0	0	0	1
Net Profit	(135)	109	74	96	(81)
Net profit bef Except.	(135)	109	74	96	(81)

Growth

Revenue Gth (%)	55.3	114.2	95.1	13.3	4.8
Opg Profit Gth (%)	(25.8)	(146.8)	(96.5)	(25.3)	2,145.7
Net Profit Gth (%)	13.1	N/A	N/A	(12.3)	N/A

Margins

Gross Margins (%)	39.4	49.5	48.8	50.3	49.1
Opg Profit Margins (%)	(18.2)	6.6	(0.3)	4.4	(7.0)
Net Profit Margins (%)	(17.1)	8.2	4.8	6.3	(5.0)

Source: Company, DBS HK

Hong Kong Technology Venture Co Ltd

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	1,410	1,398	1,752	1,852	1,952
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	571	414	415	472	539
Cash & ST Invts	244	1,052	780	772	849
Inventory	96	127	134	141	148
Debtors	0	0	0	0	0
Other Current Assets	83	18	175	175	175
Total Assets	2,403	3,008	3,256	3,413	3,664
ST Debt	347	605	663	776	965
Creditors	315	0	0	0	0
Other Current Liab	92	101	134	124	124
LT Debt	197	204	397	347	297
Other LT Liabilities	1	1	1	1	1
Shareholder's Equity	1,452	2,098	2,062	2,165	2,278
Minority Interests	0	0	(1)	(1)	(1)
Total Cap. & Liab.	2,403	3,008	3,256	3,413	3,664
Non-Cash Wkg. Capital	(228)	44	176	193	200
Net Cash/(Debt)	(299)	243	(280)	(351)	(412)
Debtors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Creditors Turn (avg days)	95.6	42.7	N/A	N/A	N/A
Inventory Turn (avg days)	36.4	30.2	32.8	30.7	29.9
Asset Turnover (x)	0.6	1.1	1.0	1.1	1.2
Current Ratio (x)	0.6	1.7	1.4	1.2	1.1
Quick Ratio (x)	0.3	1.5	1.0	0.9	0.8
Net Debt/Equity (X)	0.2	CASH	0.1	0.2	0.2
Net Debt/Equity ex MI (X)	0.2	CASH	0.1	0.2	0.2
Capex to Debt (%)	25.8	10.9	21.5	33.8	30.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	(290)	184	6	80	90
Dep. & Amort.	171	206	213	213	213
Tax Paid	0	0	8	8	8
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	2	(1)	0	0	0
Chg in Wkg.Cap.	(40)	181	5	44	95
Other Operating CF	(15)	38	15	13	13
Net Operating CF	(172)	608	247	358	418
Capital Exp.(net)	(140)	(88)	(228)	(380)	(380)
Other Invts.(net)	141	201	(116)	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	39	30	20	20	20
Other Investing CF	0	0	(100)	0	0
Net Investing CF	40	143	(424)	(360)	(360)
Div Paid	0	0	(73)	0	0
Chg in Gross Debt	171	(409)	(58)	(58)	(58)
Capital Issues	9	454	0	0	0
Other Financing CF	(4)	(3)	(10)	(10)	(10)
Net Financing CF	176	42	(141)	(68)	(68)
Currency Adjustments	0	0	0	0	0
Chg in Cash	44	793	(318)	(70)	(10)
Opg CFPS (HK\$)	(0.16)	0.48	0.26	0.34	0.35
Free CFPS (HK\$)	(0.38)	0.58	0.02	(0.02)	0.04

Source: Company, DBS HK

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	29-Apr-21	HK\$11.10	HK\$13.50	Buy
2:	14-Dec-21	HK\$7.98	HK\$10.00	Buy

Source: DBS HK

Analyst: Tsz Wang Tam

Lilian Lv

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 31 Mar 2022 10:29:38 (HKT)

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Sources for all charts and tables are DBS HK unless otherwise specified.

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Hong Kong Technology Venture Co Ltd

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