

Hangzhou SF Intra-City Industrial

Bloomberg: 9699 HK Equity | Reuters: 9699.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Sep 2022

BUY (Initiating Coverage)

Last Traded Price (6 Sep 2022): HK\$6.66 (HSI : 19,203)

Price Target 12-mth: HK\$13.50 (102.7% upside)

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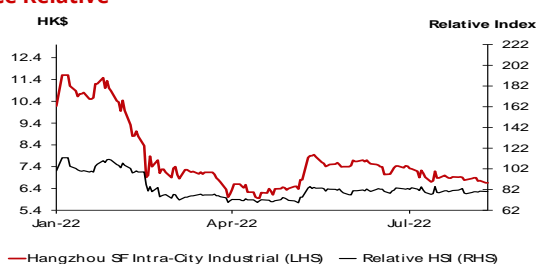
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Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2021A	2022F	2023F	2024F
Turnover	8,174	10,440	13,934	18,184
EBITDA	(842)	(299)	30	354
Pre-tax Profit	(903)	(359)	(58)	232
Net Profit	(899)	(358)	(58)	231
Net Pft (Pre Ex) (core)	(667)	(358)	(58)	231
Net Profit Gth (Pre-ex)	(10.3)	46.4	83.9	N/A
EPS (RMB)	(1.28)	(0.38)	(0.06)	0.25
EPS (HK\$)	(1.45)	(0.43)	(0.07)	0.28
Core EPS (RMB)	(0.95)	(0.38)	(0.06)	0.25
Core EPS (HK\$)	(1.07)	(0.43)	(0.07)	0.28
EPS Gth (%)	17.9	70.1	83.9	N/A
Core EPS Gth (%)	25.5	59.7	83.9	N/A
Diluted EPS (HK\$)	(1.07)	(0.43)	(0.07)	0.28
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	5.32	3.57	3.50	3.78
PE (X)	nm	nm	nm	23.9
Core PE (X)	nm	nm	nm	23.9
P/Cash Flow (X)	nm	nm	nm	18.3
P/Free CF (X)	nm	nm	nm	69.5
EV/EBITDA (X)	nm	nm	119.7	9.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.3	1.9	1.9	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	N/A	N/A	N/A	N/A
Earnings Rev (%):		New	New	New
Consensus EPS (RMB)		(0.42)	(0.02)	0.28
Other Broker Recs:		B:4	S:0	H:0

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

Riding emerging demands

- Leading third-party on-demand delivery service platform with largest market share, at 11.1% in 1Q21
- Multi-scenario business model with customer-centric solutions to enhance network and scale effects
- Diverse rider pool and advanced technology to ensure efficiency and deepen synergy with SFH
- Initiate with BUY rating at TP of HK\$13.50

Leading third-party on-demand delivery service platform with strong revenue growth and improving profitability; initiate with BUY. SF Intra-City provides customer-centric solutions under multiple scenarios to enhance network and scale effects, while leveraging on its diverse rider pool and technology to ensure efficiency and deepen its synergy with SFH. With diversifying demands accelerated by the recent regional lockdowns, we expect the company to deliver a strong revenue CAGR of 31% in FY22-24F, with its non-IFRS net margin close to turning positive in FY23F, after its gross profit improved from -3.9% in 2020 to 1.2% in 2021 and 4.0% in 1H22 while optimising fulfilment costs.

Neutral and open company riding on multi-traffic matrix and diversifying demands. It actively expanded its services from food delivery to non-food segments, with the relevant revenue contribution increasing from 52% in 2020 to over c.60% in 1H22, thereby strengthening its leadership with a growing market share.

Valuation:

We initiate coverage with a BUY rating and TP of HK\$13.50, which was derived by assigning c.0.8x FY23F PS multiple.

Key Risks to Our View:

Potential fluctuations in the industry, intensifying market competition, and increasingly tight labour market.

At A Glance

Issued Capital (m shrs)	933
Mkt Cap (HKm/US\$m)	6,214 / 792
Major Shareholders (%)	
Alibaba Group Holding Ltd.	22.4
Skycus China Fund LP	16.2
Lionet Fund, L.P.	6.3
Legend Capital Ltd.	5.1
LC Fund VIII, L.P.	5.1
Free Float (%)	44.9
3m Avg. Daily Val. (US\$m)	0.09
GICS Industry: Industrials / Transportation	



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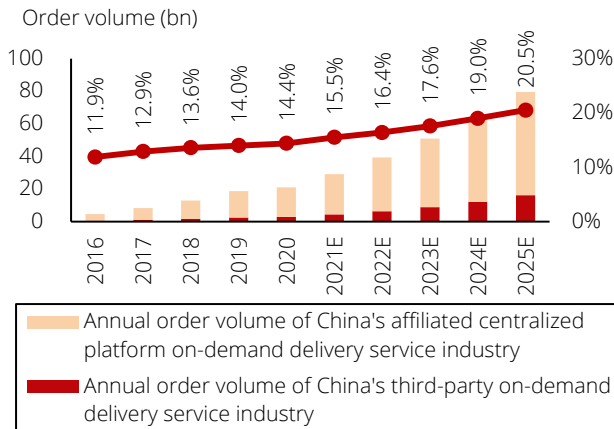
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Investment Summary

China's largest third-party on-demand delivery service platform. According to an iResearch report, supported by the continuous development of the local consumer market, China's on-demand delivery service industry witnessed rapid development in annual order volume, with a CAGR of 46% in 2017-20, and is expected to achieve a CAGR of 30.5% in 2021-25E. Backed by robust demand, the penetration of independent third-party on-demand delivery services is expected to increase from 15.5% in 2021E to 20.5% in 2025E.

Alongside continuous market consolidation in the third-party on-demand delivery service industry, with the CR6 (concentration rate of the top six players by order volume) rising from 35.6% in 2020 to 38.4% in 1Q21, SF Intra-City remains China's largest third-party on-demand delivery service platform, with its market share increasing from 10.4% in 2020 to 11.1% in 1Q21, signifying its leading position in the industry with solid entry barriers.

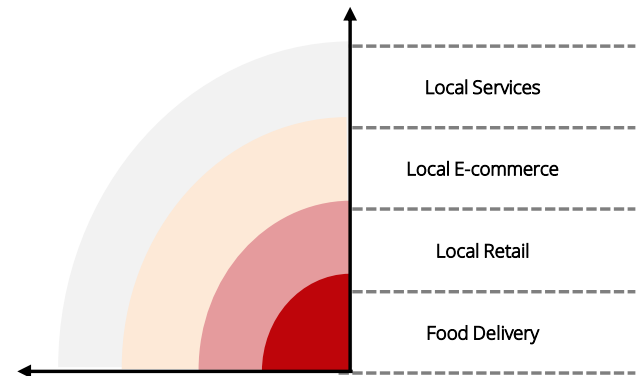
Increasing penetration of third-party on-demand delivery services in China



Source: iResearch, DBS HK

Multi-scenario business model with customer-centric solutions to enhance network and scale effects. As on-demand delivery services are expanding from food delivery to various local consumption scenarios (including local retail, local e-commerce, and local services), SF Intra-City adopted a multi-scenario business model with extensive geographical coverage in over 1,900 cities and counties in end-2021 (vs. 1,046 in end-2020), and provided tailored services to a diverse and rapidly growing customer base of 258,000+ active merchants (+55% y-o-y) and 10.6m active consumers (+106% y-o-y) in 2021.

Scenarios of China's on-demand delivery service industry



Source: iResearch, DBS HK

This multi-scenario business model contributes to broadening SF Intra-City's customer base and attracting more riders to strengthen its fulfilment capability, thus leading to sustainable growth powered by network effects. Meanwhile, this business model also enables the company to improve order density and balance order structure, thus continuously optimising unit economics backed by enhanced economies of scale.

Larger order volume to enhance economies of scale

	Smaller order volume	Larger order volume
Number of orders delivered by a rider on a day	35	45
Average fee payable to a rider (Rmb/order)	6	5.5
Total fee payable to a rider (Rmb/day)	210.0	247.5

Source: Company, DBS HK

Optimising order structure to lower fulfilment cost

	Without order structure optimisation		With order structure optimisation	
	Number of orders delivered	Average fulfillment cost per order (Rmb/order)	Number of orders delivered	Average fulfillment cost per order (Rmb/order)
During peak hours	30	8	30	8
During off-peak hours	0	4	15	4
Total rider cost (Rmb)	240		300	
Average rider cost (Rmb/order)	8		6.7	

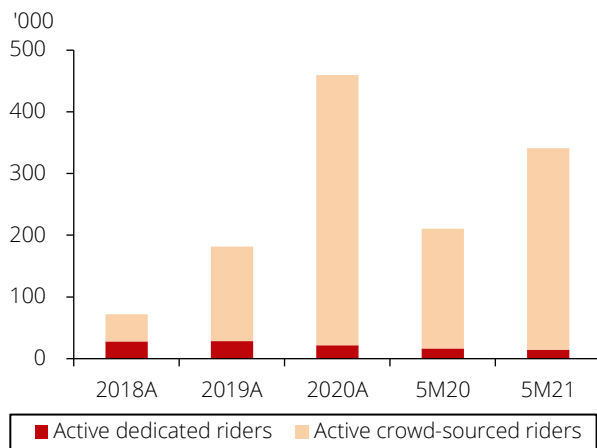
Source: Company, DBS HK

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Diverse rider pool and advanced technology infrastructure to ensure operational efficiency and service quality. To ensure the service quality and stability of order fulfilment, the company established an integrated rider pool with total active riders amounting to 341k in May 2021 (+62% y-o-y), of which crowd-sourced riders accounted for 96%, to ensure service flexibility, while the rest (4%) were dedicated riders who offered highly customised services. The rider pool further increased to 606k by end-2021 (+32% y-o-y). As a result, total orders were recorded at 514m in 5M21 (a CAGR of 209% in 2019-2020), of which crowd-sourced riders delivered 92% of total orders vs. dedicated riders' 8%.

The company continued to invest in and build advanced technology infrastructure to increase efficiency in its operations. It applied big data and AI technologies in its City Logistics System (CLS) to digitalise the operations of order recommendation and dispatching, delivery route planning, delivery pricing, etc., thus enhancing service quality, improving efficiency, and decreasing delivery costs.

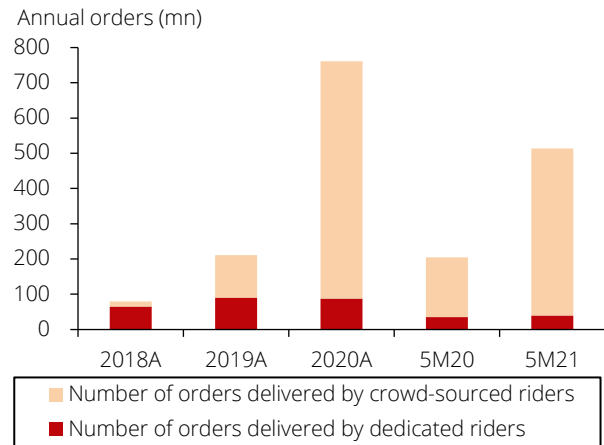
Active rider pool breakdown by rider type



Note: SF Intra-City didn't disclose active rider pool breakdown for FY21

Source: Company, DBS HK

Order breakdown by rider type



Source: Company, DBS HK

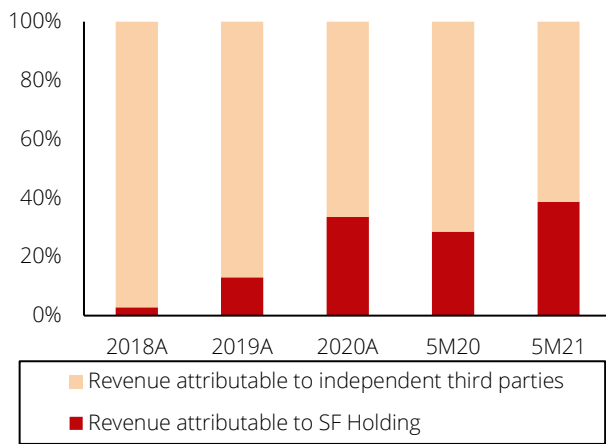
Strategic cooperation with SF Holding to deepen synergy under well-recognised "SF" brand. Initially incubated as a business unit of SF Holding, SF Intra-City shared the well-recognised "SF" brand to help explore its potential customer base and improve customer loyalty, while providing cost-effective services to SF Holding in terms of both intra-city delivery and last-mile delivery, leveraging on its sufficient on-demand delivery capacity.

As a result, SF Holding contributed 39% to SF Intra-City's total revenue in 5M21 (up from 3% of the total in 2018). This was a result of substantial order volume, at 335m in 5M21 or 65% of total order volume (vs. 1.3% of total in 2018); and a narrowing average service fee per order, at Rmb3.5 in 5M21 (-7% y-o-y), amid the scale-enhancing effect.

Moreover, the company continued to explore cooperation opportunities with SF Holding's ecosystem participants, aiming to deepen synergy in diverse delivery scenarios.

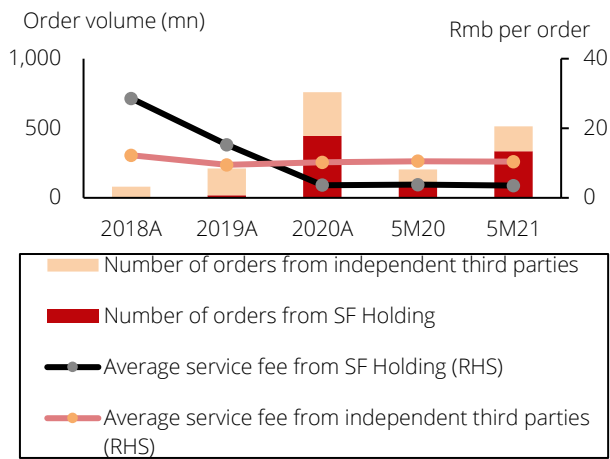
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Total revenue breakdown by source



Source: Company, DBS HK

Order breakdown by source with average service fee



Source: Company, DBS HK

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Valuation & Peer Comparison

As it will take time for the company to achieve profits, we employ a price/sales (PS) multiple valuation methodology to derive the target price for SF Intra-City.

Our TP of HK\$13.50 is based on c.0.8x FY23F PS. Given that it has consolidated its leading position as the largest third-party on-demand delivery service platform empowered by a diverse rider pool and advanced technology, we expect the company to achieve strong revenue growth at a CAGR of 31% in FY22-24F. Thus, the stock deserves to trade at a premium compared to other Chinese logistics companies' median FY23F PS of 0.7x.

As some on-demand delivery service platforms are affiliated with centralized marketplaces, it may take time for SF Intra-city to improve its order volume and order density and benefit from an enhanced network effect and scale effect. Therefore, in the near term, the lack of business flow support may see the stock trading at a relatively lower multiple compared to other on-demand delivery service platforms such as Meituan (3690 HK, BUY).

In a summary, factoring in stock liquidity in the HK stock market, we assign a target FY23F PS multiple of c.0.8x taking a conservative perspective, and arrive at a target price of HK\$13.50. We have a BUY rating on SF Intra-city.

Peer comparison

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	3m daily trading volume US\$m	PE	PE	PE	P/S	P/S	P/S	
						21F	22F	23F	21F	22F	23F	
Hangzhou SF Intra-City*	9699	HK	HKD	6.66	792	0.1	n.a.	n.a.	n.a.	0.7	0.5	0.4
Chinese logistics companies												
S F Hdg.'A'*	002352	CH	CNY	47.39	33,357	133	51.1	36.7	27.8	1.1	0.8	0.7
JD Logistics*	2618	HK	HKD	16.46	13,834	18	n.a.	n.a.	n.a.	0.9	0.7	0.5
ZTO Express (Cayman) 'A'*	ZTO	US	USD	25.88	26,290	69	31.1	24.1	18.9	4.8	4.0	3.3
Yunda Holding 'A'	002120	CH	CNY	17.73	7,399	52	34.8	25.4	18.0	1.2	1.0	0.9
YTO Express 'A'	600233	CH	CNY	19.36	9,566	48	29.1	19.2	16.0	1.5	1.2	1.0
STO Express 'A'	002468	CH	CNY	11.21	2,468	30	n.a.	34.8	24.9	0.7	0.6	0.5
Deppon Logistics 'A'	603056	CH	CNY	14.42	2,129	17	90.1	n.a.	26.4	0.5	0.4	0.4
Average							47.2	28.0	22.0	1.5	1.2	1.0
Median							34.8	25.4	21.9	1.1	0.8	0.7
Logistics-related internet companies												
Meituan*	3690	HK	HKD	173.4	136,684	637	n.a.	n.a.	89.9	5.3	4.4	3.3
Dada Nexus	DADA	US	USD	5.64	1,460	7	n.a.	n.a.	20.0	1.4	1.1	0.8
Dingdong Cayman	DDL	US	USD	3.68	869	4	n.a.	n.a.	n.a.	0.3	0.2	0.2
Doordash A	DASH	US	USD	58.23	22,481	392	n.a.	n.a.	n.a.	4.6	3.5	2.9
Pinduoduo*	PDD	US	USD	66.62	84,233	801	74.9	29.0	19.1	6.2	5.0	4.0
Alibaba Group Holding*#	BABA	US	USD	88.45	234,175	2,764	26.8	17.7	14.4	1.9	1.8	1.6
JD Com*	JD	US	USD	59.35	92,313	563	n.a.	182.4	43.4	0.7	0.6	0.5
Average							50.8	76.4	37.4	2.9	2.4	1.9
Median							50.8	29.0	20.0	1.9	1.8	1.6

FY22: FY23; FY23: FY24

Source: Thomson Reuters, *DBS HK

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Key Risks

Potential fluctuations in the development of China's on-demand delivery service industry. The industry is new and fast evolving, and it may fluctuate significantly. Many factors the company might be subject to, such as the development of mobile internet and technology and general economic conditions, may be beyond the company's control. For instance, with the macroeconomic fluctuations, overall consumer spending may change and, in turn, the demand for on-demand delivery services could be turbulent. Accordingly, the company's operating performance might be affected by fluctuations in industry development.

Intensifying market competition. Apart from providing a broad potential customer group, the unique multi-scenario operation model also puts the company ahead of a series of on-demand delivery service providers operating in one

or some of the scenarios. Intensified competition resulting from players with better resources may urge the company to increase marketing resources, incur higher selling and marketing expenses, and offer more incentives. These actions could affect the company's profitability adversely.

Increasingly tight labour market may pose challenges. As the company operates in a labour-intensive industry, an increasingly competitive labour market may result in higher labour cost and affect delivery service quality. Moreover, due to a rapid evolution of the industry amid fierce market competition, the company may face challenges to attract, train, and retain qualified personnel, leading to insufficient delivery resources.

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SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> Multi-scenario logistics service provider that serves customers in a wide range of industries Stable labour supply with riders from diverse sources Strong digital technology ability and the use of AI help in instant resource allocation Well-recognised "SF" brand contributes to superior brand reputation 	<ul style="list-style-type: none"> Yet to strength its capability to expand its external customer base Need more time to optimise cost structure
Opportunities	Threats
<ul style="list-style-type: none"> Robust demand for tailored services from merchants to help establish direct interactions with consumers Ability to leverage the variations in peak hours and order density across service scenarios could contribute towards efficiency improvement 	<ul style="list-style-type: none"> Intensifying market competition driven by competitors from each subdivision scenario Increasingly tight labour market may lead to rising labour cost and insufficient delivery resources

Source: DBS HK

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Critical Factors

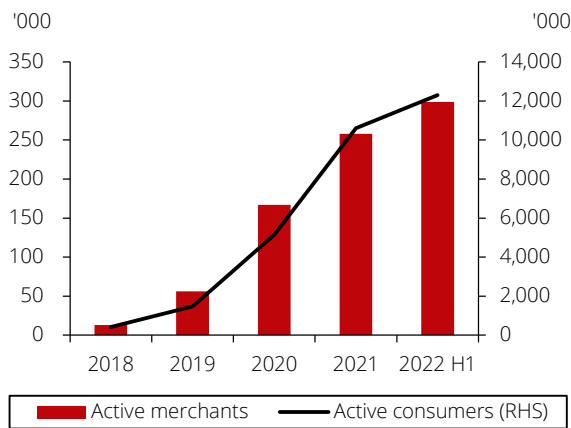
Strong customer base expansion under multi-scenario business model to support revenue growth.

The strong expansion of its customer base is a vital driver supporting SF Intra-City's revenue growth, while also enhancing its network and scale effects.

As China's largest third-party on-demand delivery service platform, SF Intra-City's total revenue witnessed strong growth, with a CAGR of 102% in 2019-21, mainly backed by robust customer base expansion under the multi-scenario business model. More specifically, during the same period, the company's active merchants recorded a CAGR of 171%, while its active consumers reported a CAGR of 195%, signifying its strong expansion capability.

Looking forward, backed by superior service quality and sufficient delivery capacity, we expect strong customer base expansion to support revenue growth.

Customer base expansion demonstrated via number of active merchants and active consumers



Note: 2022 H1 refers to the past 12 months ended June 30, 2022.

Source: Company, DBS HK

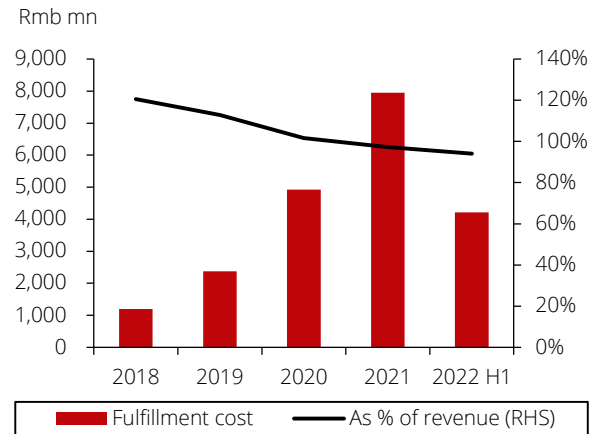
Fulfilment cost optimisation empowered by technology amid improving order density and more balanced order structure.

Fulfilment cost, defined as the sum of labour outsourcing costs and employee benefit expenses in relation to riders, was the largest component of the cost of revenue and the key factor determining SF Intra-City's operational efficiency and profitability.

The company's fulfilment costs amounted to Rmb4.2bn in 1H22 after growing at a CAGR of 88% in 2019-21, with its percentage of total revenue narrowing from over 120% in 2018 to 97.3% in 2021 and 94.1% in 1H22, mainly supported by improving order density and the optimisation of order structure enabled by advanced technology. Looking forward, despite the potential short-term fluctuations during

business expansion, we expect to see the continuous optimisation of fulfilment cost, backed by the strengthened scale effect and advanced technology in the long term.

Continuous fulfilment cost optimisation



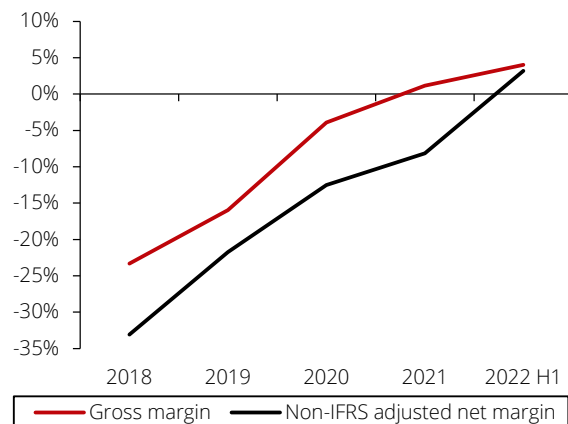
Source: Company, DBS HK

Margin improvements supported by economies of scale, effective cost controls, and enhanced operating leverage.

Although the company recorded gross loss in 2018-20, given continuous investments in business development and technology advancement, its gross margin significantly narrowed from -23.3% in 2018 to -3.9% in 2020 amid enhanced economies of scale, before turning positive to 1.2% in 2021 and 4.0% in 1H22, implying continuous margin improvement.

Looking forward, the company targets to achieve profitability by 2023, mainly supported by customer base and order volume expansion, effective cost control measures, and enhanced operating leverage. This should help alleviate market concerns and support its share price.

Improving gross margin and non-IFRS net margin



Source: Company, DBS HK

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Financials

Revenue to grow at a CAGR of 31% in FY22-24F, mainly supported by continuous order volume expansion.

SF Intra-City's total revenue was recorded at Rmb8.1bn in 2021 with a CAGR of 102% in 2019-21, mainly comprising two business segments, namely, (1) intra-city delivery service (62.3% of total revenue in 2021), including revenue contributions from merchants and consumers at 47.5% and 14.8%, respectively; and (2) last-mile delivery service (37.6% of total revenue in 2021), vs. 0.1% of total revenue in 2021 from other business.

In terms of order volume expansion, SF Intra-City continuously strengthened its leading position as China's largest third-party on-demand delivery service platform, with its order volume amounting to 761m in 2020 (a CAGR of 209% in 2019-20), of which the intra-city delivery service order volume contribution narrowed from 99% in 2018 to 42% in 2020, while last-mile delivery service order volume became the largest contributor, at 58% in 2020 (vs. merely 1% in 2018). Meanwhile, SF Intra-City's average service fee decreased from Rmb12.4 per order in 2018 to Rmb6.4 per order in 2020 (CAGR of -28% in 2019-20). Of this, intra-city delivery service fee remains relatively resilient at Rmb10.2 per order in 2020 (CAGR of -9% in 2019-20), while last-mile delivery service fee narrowed from Rmb25.0 per order in 2018 to Rmb3.64 per order in 2020 (CAGR of -62% in 2019-20). This reduction of last-mile delivery service fee was mainly due to decreased delivery costs backed by the enhanced scale effect amid rapidly increasing order volume, as it was priced at a relatively stable mark-up, on top of rider commission fee.

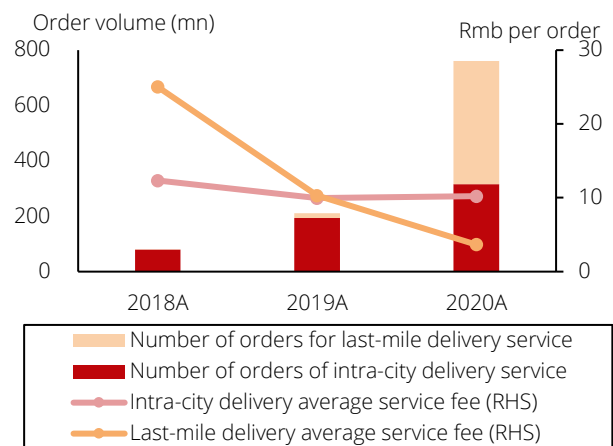
As the company continued to explore innovative pricing models and evaluate business development from the perspective of revenue growth, it didn't disclose the order volumes and average service fees of the two major business segments for FY21.

Looking forward, we expect to see strong volume expansion, given continuous customer base expansion backed by high-quality multi-scenario service capabilities with customised

solutions; strengthened penetration into lower tier cities; and strong synergy with SF Holding and cornerstone investors, further enhancing its leading position. Meanwhile, in terms of pricing, we expect to see an upward trend in service fee, given rising contributions from non-food and long-distance customised services provided to merchants and customers with higher order values, and enhanced user discount management.

In summary, we expect SF Intra-City's total revenue to grow at a CAGR of 31% in FY22-24F, of which intra-city delivery service revenue contribution is to rise from 62.3% in FY21 to 66.8% in FY24F (vs. the rest, i.e., 33.1%, from last-mile delivery service and 0.1% from other business), consolidating its leading position with its high-quality service capability.

Actual and estimated order breakdown by service segment with average service fee

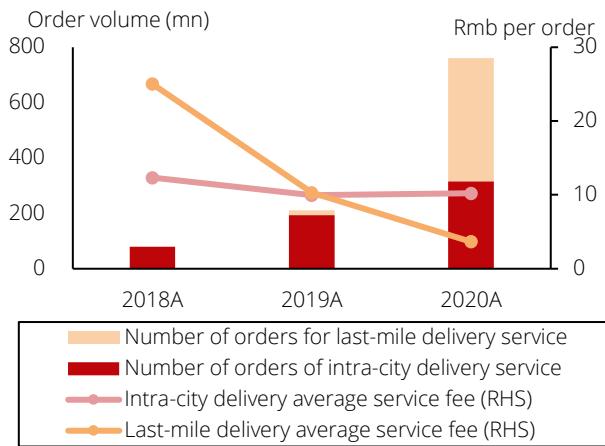


Note: SF Intra-City didn't disclose order volume and average service fee for FY21

Source: Company, DBS HK

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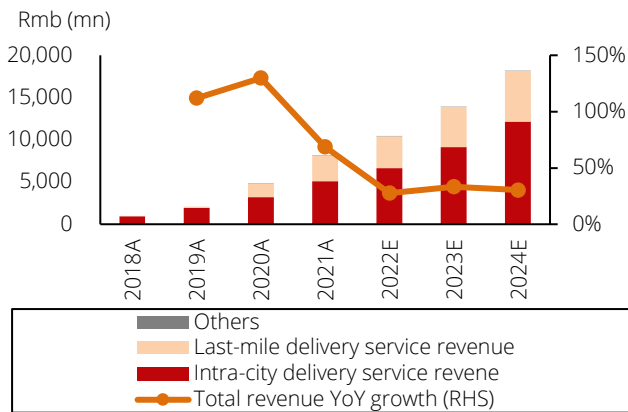
Actual and estimated order breakdown by service segment with average service fee



Note: SF Intra-City didn't disclose order volume and average service fee for FY21

Source: Company, DBS HK

Total revenue breakdown by service segment



Source: Company, DBS HK

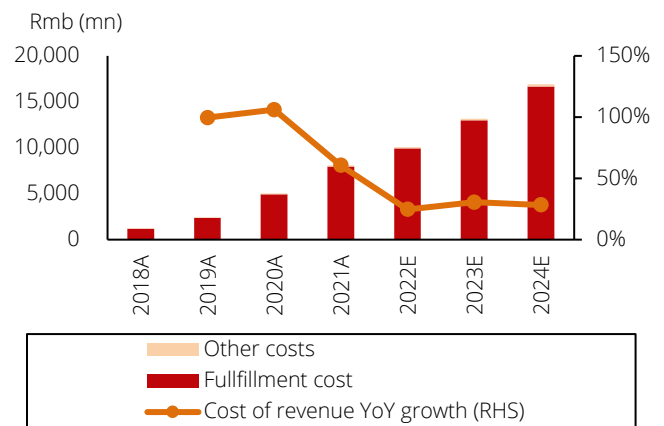
Gross margin to recover in FY22-24F on the back of optimised fulfilment costs, enabled by scale effect and technology.

To ensure the service quality and stability of order fulfilment, the company established an integrated rider pool, with total active riders amounting to 341k in May 2021 (+62% y-o-y), of which crowd-sourced riders' contribution rose from 62% in 2018 to 96% in 5M21 to ensure service flexibility and lower delivery costs (vs. the rest, i.e., 4%, from dedicated riders). This was before total active riders further increased to 606k by end-2021 (+32% y-o-y). As increasing contribution from crowd-sourced riders helps optimise unit economics, we noted that the company's average fulfilment cost continuously decreased from Rmb15.0 per order in 2018 to

Rmb6.5 per order in 2020, while total fulfilment cost continuously accounted for over 97% of total cost of revenue in 2018-21.

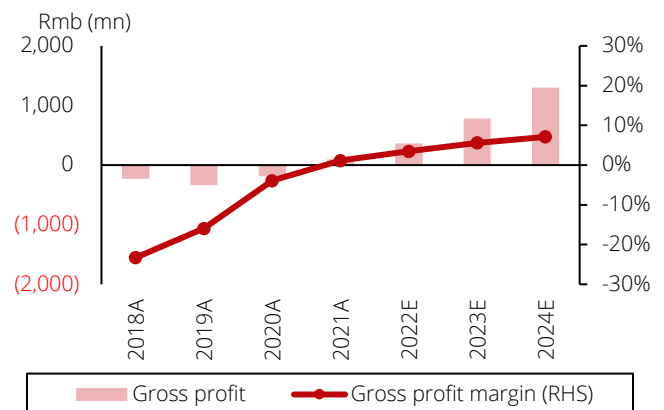
Thanks to the optimisation of the fulfilment cost per order, the company's gross margin narrowed from -23.3% in 2018 to -3.9% in 2020, before turning positive to 1.2% in 2021 and 4.0% in 1H22. Looking forward, backed by the optimisation of its rider pool structure, increased economies of scale, and improved order structure enabled by advancing technology, we expect better unit economics and enhanced delivery efficiency to support the gross margin to recover to 3.5%, 5.6%, and 7.1% in FY22-24F, respectively.

Total cost of revenue breakdown with y-o-y growth



Source: Company, DBS HK

Gross profit with gross profit margin



Source: Company, DBS HK

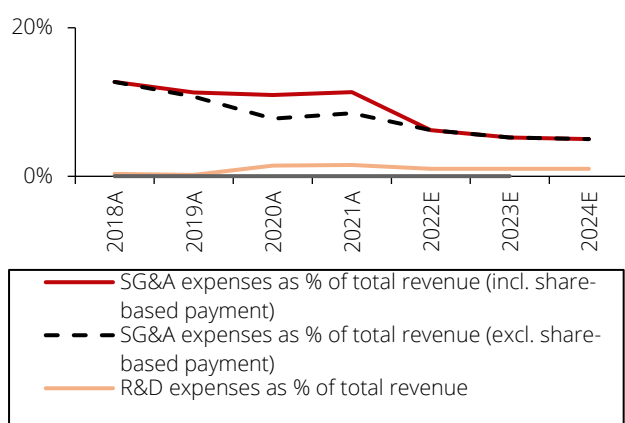
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Continuous decline in SG&A expense ratio amid enhanced operating leverage, alongside stable R&D expense ratio, to strengthen technology capability.

SF Intra-City's SG&A expenses-to-revenue ratio continued to decline from 12.7% in 2018 to 11.3% in 2021, or 8.5% if excluding share-based payments, mainly due to effective cost controls and improving operational efficiency. Looking forward, factoring in short-term fluctuations caused by brand promotions and customer base expansion, we expect the SG&A expenses ratio to drop in the medium to longer term, supported by rising labour productivity amid enhanced network and scale effects.

Meanwhile, the company continued to invest in technology infrastructure to maximise delivery efficiency, with its R&D expenses-to-revenue ratio increasing from 0.3% in 2018 to 1.5% in 2021. Given its goal to enhance its technology capability, we forecast the R&D expenses ratio to remain stable at 1.0% in FY22-24F, thus consolidating its technology capability.

SG&A and R&D expenses-to-total revenue ratios



Source: Company, DBS HK

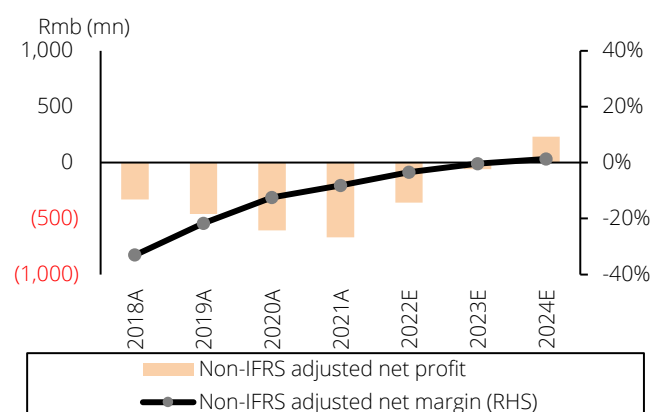
Strengthen market leadership as a leading third-party platform with profitability improvement in FY22-24F.

The company recorded non-IFRS net losses in 2018-21, with the non-IFRS net margin narrowing from -33.1% in 2018 to -8.2% in 2021 and -3.2% in 1H22. The company will continue to invest in business development and technology infrastructure, and endeavour to expand its geographical layout into new cities.

Looking forward, supported by customer base and order volume expansion, effective cost control measures, and enhanced operating leverage, we expect the company to incur a non-IFRS net loss of Rmb358m in FY22, before close to turning positive in FY23 at a minor net loss of Rmb58m and making net profit of Rmb231m, respectively. Meanwhile, the non-IFRS net margin is expected to improve from -8.2%

in FY21 to -3.4%, -0.4%, and 1.3% in FY22-24F, respectively, demonstrating its competitive advantage.

Non-IFRS adjusted net profit with net margin



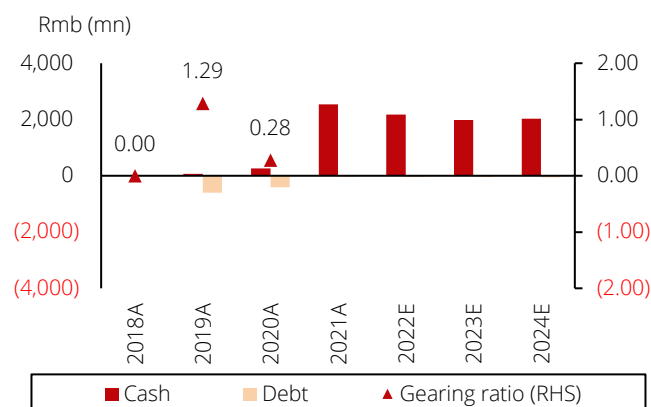
Source: Company, DBS HK

Healthy balance sheet with net cash position going ahead.

After listing in the Hong Kong stock market in Dec 2021, the company recorded a net cash position in end-2021, with its total cash on hand amounting to Rmb2.5bn, while total borrowings were reported at nil. Looking forward, we expect the company to maintain a net cash position in FY22-24F.

The company announced it would not distribute a final dividend for 2021, thus we assume a similar dividend policy with the payout ratio at nil in FY22-24F, as the company may need to retain any available funds to be channelled into business development.

Maintain a net cash position in FY22-24F



Source: Company, DBS HK

Hangzhou SF Intra-City Industrial

Environment, Social, & Governance (ESG)

Taking advantage of its resources and professional knowledge, SF Intra-City is continuously enhancing its investment in the environment and also social and governance aspects. It does so by improving its corporate social responsibility and sustainable development, which focus mostly on environmental protection and rider care.

Environment: SF Intra-City is committed to operating in environmental-friendly and sustainable ways, which include recommending riders use new energy and electric vehicles to minimise pollutant emissions during the distribution process. As of 31 May 2021, 98% of the active riders in the company fulfilled their orders by using electric vehicles and public transportation. Moreover, the company actively cooperates with customers to use eco-friendly and recycled packaging, which helps in lowering the packaging cost, protecting the environment, and also contributes to carbon neutrality.

Social: For the riders, the company, in cooperation with SF Foundation, launched the “Care for Millions of Riders” project to provide educational support to riders’ children and financial aid for the medical needs of riders’ families. For the industry, the company contributed to the benign

competition of the industry through its distinctive independence. In this case, the company acted as the infrastructure of the on-demand delivery service, without interfering the communication between merchants and their customers.

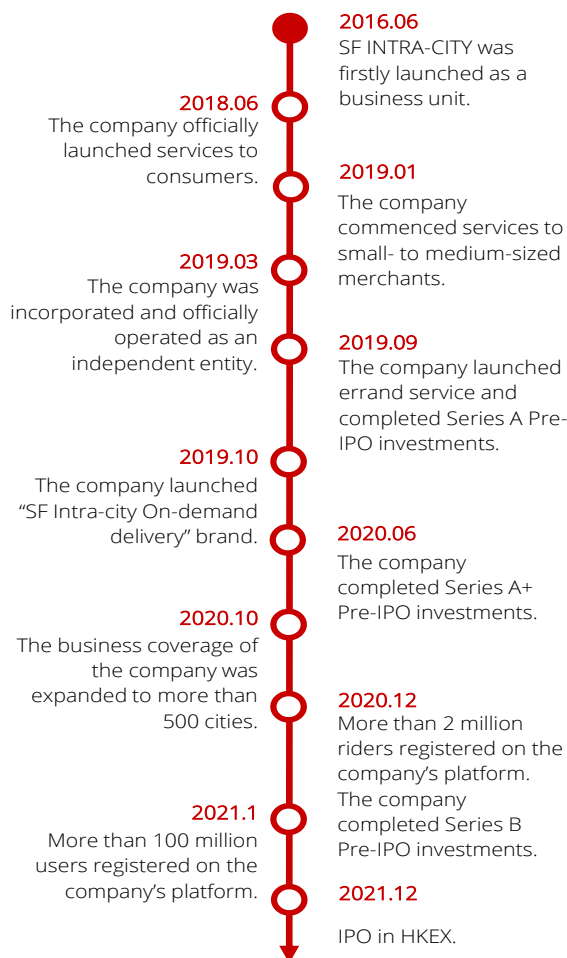
Governance: Although initially incubated as a business unit of the SF Holding Group, SF Intra-City established a series of corporate governance measures to ensure management independence. To illustrate, firstly, the company’s business is managed and conducted by its own board and senior management, and none of the directors or senior management hold or will hold positions within the SF Holding Group, except for three non-executive directors. Secondly, the company’s operation, which comprises its operational management, systems, intellectual property rights and licenses, and corporate governance structure, is independent from the SF Holding Group. Thirdly, the company has established its own finance and audit departments with full authority to make independent decisions. The company has completed a series of pre-IPO financing independent from the SF Holding Group.

Hangzhou SF Intra-City Industrial

Company Background

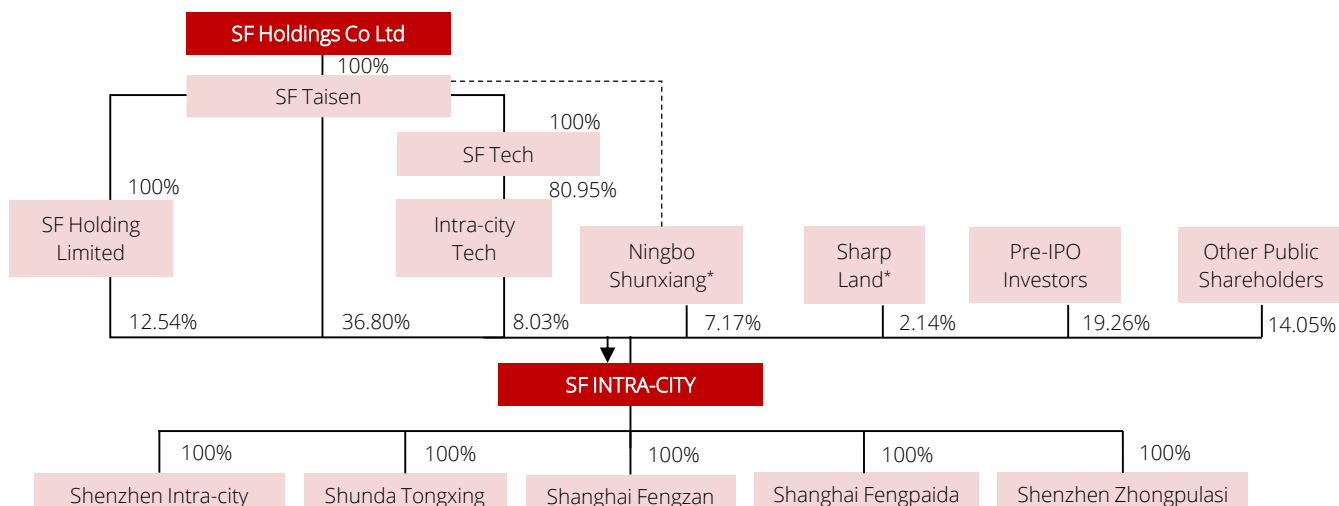
Largest third-party on-demand delivery service platform with multi-scenario business model. Initially incubated as a business unit of SF Holding to provide intra-city on-demand delivery services, SF Intra-City officially operated as an independent entity in 2019. The company is the largest third-party on-demand delivery service platform in China, with its market share in terms of order volume at 11.1% in 1Q21, according to iResearch. Backed by a diverse rider pool, sufficient operational know-how, and superior service quality, the company adopts a multi-scenario business model to help establish extensive coverage of mature scenarios (such as food delivery) and growth scenarios (such as local retail, local e-commerce, and local services), which leads to distinct network effects and economies of scale.

Milestones of development



Source: Company website, DBS

Shareholder structure



Notes: Immediately following the completion of the global offering; *stands for domestic shareholding platforms for the employees of the company

Source: Company, DBS

Hangzhou SF Intra-City Industrial

Management & Strategy

Key Management Team

Name	Age	Position	Profile
Sun Haijin	43	Executive director, CEO	Sun has over 16 years of experience in logistics, delivery, and online-to-offline business management, and has a deep understanding of the combination of the traditional logistics industry and new business forms. From 2016 to 2019, he worked as the manager and was responsible for the operation and management of the intra-city business unit. After the company was incorporated as an independent entity, he became CEO in June 2019 and executive director in December 2019.
Tsang Hoi Lam	40	Executive director, CFO	Tsang has been recognised as a certified public accountant by HKICPA and has obtained the Certificate of Board Secretary of Listed Companies. Having previously worked as a manager in Deloitte, he has over 17 years of experience in auditing, finance, and management. Before joining SF Intra-City, he worked for two listed companies in positions akin to a CFO. He is now serving as the executive director, CFO, one of the joint company secretaries, and a supervisor of multiple subsidiaries of the company.
Chen Lin	37	Executive director, CTO, deputy general manager	Chen has over 10 years of experience in information technology and system architecture design, especially in the research and development of food delivery and on-demand delivery systems based on AI big data. Previously, he served in Baidu for about seven years. He joined the SF Holding Group in September 2017 and now serves as executive director, CTO, and deputy general manager of SF Intra-City.
Chan Fei	47	Non-executive director, chairman	Chan has over 20 years of experience in management. From July 2006 to March 2016, he served as an executive director of the investment banking division of Goldman Sachs. From March 2016, he served in multiple positions within the SF Holding Group, including assistant CEO, CSO, director, and deputy general manager. He was appointed a non-executive director and chairman of the board of SF Intra-City in December 2019.
Xu Zhijun	46	Non-executive director	Xu has over 20 years of experience in logistics management. He consecutively served in multiple positions, with his last position as COO, within SF Taisen from December 2004 to September 2016. He has been serving as the deputy general manager of SF Holding since December 2016, the vice chairman of the board of China Railway SF International Express Co., Ltd. since June 2018, and the COO of SF Holding since December 2019. He was appointed a non-executive director of SF Intra-City in June 2020.
Li Qiyu	34	Non-executive director	Li has over 11 years of experience in investment. From July 2010 to May 2018, he served in multiple positions within Huatai United Securities Co., Ltd., with his last position as a director of the investment banking division. He has served as the head of the investment and M&A department of SF Holding since June 2018 and was appointed a non-executive director in June 2019.
Chan Kok Chung, Johnny	62	Independent director	Chan has over 37 years of experience in investment banking and the investment management industry. He has been the chief investment officer of the Hong Kong Cyberport Management Company since September 2018. He was appointed an independent non-executive director in June 2021.
Wong Hak Kun	66	Independent director	Wong has over 36 years of experience in auditing, assurance, and management prior to his retirement from Deloitte China in May 2017. He has been a recognised member of ACCA, HKICPA, ICSA, and CIMA. He was appointed an independent non-executive director in June 2021.
Zhou Xiang	43	Independent director	Zhou obtained a bachelor's degree in industrial automation from Zhejiang University, and a master's and PhD in operations research from North Carolina State University. He has rich experience in logistics and supply chain industry. He was appointed an independent non-executive director of SF Intra-City in June 2021.

Source: Company, DBS

Hangzhou SF Intra-City Industrial

Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	4,843	8,174	10,440	13,934	18,184
Cost of Goods Sold	(5,032)	(8,079)	(10,076)	(13,153)	(16,886)
Gross Profit	(189)	95	364	781	1,299
Other Opng (Exp)/Inc	(562)	(1,008)	(752)	(864)	(1,091)
Operating Profit	(751)	(913)	(388)	(83)	208
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(15)	10	29	25	24
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(766)	(903)	(359)	(58)	232
Tax	27	4	1	0	(1)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	(739)	(899)	(358)	(58)	231
Net Profit before Except.	(605)	(667)	(358)	(58)	231
EBITDA	(723)	(842)	(299)	30	354
Growth					
Revenue Gth (%)	129.9	68.8	27.7	33.5	30.5
EBITDA Gth (%)	(31.9)	(16.4)	64.5	N/A	1,094.6
Opg Profit Gth (%)	32.6	21.6	(57.5)	(78.6)	(350.3)
Net Profit Gth (%)	(59.8)	(21.6)	60.2	83.9	N/A
Margins & Ratio					
Gross Margins (%)	(3.9)	1.2	3.5	5.6	7.1
Opg Profit Margin (%)	(15.5)	(11.2)	(3.7)	(0.6)	1.1
Net Profit Margin (%)	(15.3)	(11.0)	(3.4)	(0.4)	1.3
ROAE (%)	N/A	N/A	N/A	N/A	N/A
ROA (%)	N/A	N/A	N/A	N/A	N/A
ROCE (%)	N/A	N/A	N/A	N/A	N/A
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	0.0
Net Interest Cover (x)	(50.2)	NM	NM	NM	NM

Source: Company, DBS HK

Hangzhou SF Intra-City Industrial

Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	11	17	22	29	39
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	315	359	414	493	598
Cash & ST Invt	263	2,538	2,182	1,980	2,025
Inventory	7	4	5	5	6
Debtors	678	764	1,305	1,742	2,273
Other Current Assets	138	527	590	671	768
Total Assets	1,414	4,209	4,518	4,920	5,707
ST Debt	378	17	18	20	22
Creditors	603	807	1,463	1,910	2,452
Other Current Liab	41	55	62	71	81
LT Debt	0	0	0	0	0
Other LT Liabilities	26	21	23	25	27
Shareholder's Equity	365	3,309	2,952	2,894	3,125
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	1,414	4,209	4,518	4,920	5,707
Non-Cash Wkg. Capital	179	433	375	436	514
Net Cash/(Debt)	(114)	2,522	2,164	1,960	2,002
Debtors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Creditors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	NM	NM	NM	NM	NM
Current Ratio (x)	1.1	4.4	2.6	2.2	2.0
Quick Ratio (x)	0.9	3.8	2.3	1.9	1.7
Net Debt/Equity (X)	0.3	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.3	CASH	CASH	CASH	CASH
Capex to Debt (%)	20.0	541.0	696.8	845.5	1,003.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	(766)	(903)	(359)	(58)	232
Dep. & Amort.	46	71	89	113	146
Tax Paid	(1)	0	1	0	(1)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	6	59	58	(61)	(77)
Other Operating CF	151	240	1	2	2
Net Operating CF	(563)	(532)	(209)	(5)	302
Capital Exp.(net)	(76)	(90)	(128)	(170)	(222)
Other Invt.(net)	(3)	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	50	(325)	(21)	(29)	(37)
Net Investing CF	(28)	(415)	(149)	(199)	(260)
Div Paid	0	0	0	0	0
Chg in Gross Debt	(199)	(367)	0	0	0
Capital Issues	1,087	3,611	0	0	0
Other Financing CF	(103)	(25)	2	2	3
Net Financing CF	784	3,220	2	2	3
Currency Adjustments	0	0	0	0	0
Chg in Cash	192	2,272	(356)	(202)	44
Opg CFPS (RMB)	(1.20)	(0.84)	(0.29)	0.06	0.41
Free CFPS (RMB)	(1.35)	(0.89)	(0.36)	(0.19)	0.08

Source: Company, DBS HK

Hangzhou SF Intra-City Industrial

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: 8 Sep 2022 11:05:45 (HKT)

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Hangzhou SF Intra-City Industrial

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Hangzhou SF Intra-City Industrial

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