

Hong Kong Technology Venture Co Ltd

Bloomberg: 1137 HK EQUITY | Reuters: 1137.HK

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DBS Group Research . Equity

29 Sep 2022

BUY

Last Traded Price (28 Sep 2022): HK\$4.85 (HSI : 17,251)

Price Target 12-mth: HK\$13.70 (182% upside)

Analyst

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What's New

- Expect GMV to sustain 12% y-o-y growth in 2H22 despite easing Covid measures
- Changes in consumer shopping habits and expansion into new categories are key drivers supporting 13% p.a. revenue growth in FY22-FY24
- Revised up earnings by 5% and 8% for FY23F and FY24F respectively on higher operating efficiency
- Maintain BUY with TP of HK\$13.7 based on 3x FY23F P/S

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2021A	2022F	2023F	2024F
Turnover	3,130	3,664	4,170	4,720
EBITDA	89	255	318	425
Pre-tax Profit	6	147	189	211
Net Profit	15	187	197	209
Net Pft (Pre Ex) (core profit)	15	187	197	209
Net Profit Gth (Pre-ex) (%)	(91.9)	1,167.2	5.4	6.1
EPS (HK\$)	0.02	0.20	0.22	0.23
EPS Gth (%)	(92.1)	1,167.2	5.4	6.1
Diluted EPS (HK\$)	0.02	0.20	0.21	0.22
DPS (HK\$)	0.08	0.08	0.00	0.00
BV Per Share (HK\$)	2.16	2.29	2.52	2.75
PE (X)	300.6	23.7	22.5	21.2
CorePE (X)	300.6	23.7	22.5	21.2
P/Cash Flow (X)	18.0	9.9	8.7	7.6
P/Free CF (X)	45.6	64.2	19.3	14.5
EV/EBITDA (X)	53.4	18.7	14.6	10.5
Net Div Yield (%)	1.6	1.6	0.0	0.0
P/Book Value (X)	2.2	2.1	1.9	1.8
Net Debt/Equity (X)	0.1	0.1	0.1	0.0
ROAE (%)	0.7	8.8	8.6	8.3
Earnings Rev (%)		Nil	5	8
Consensus EPS (HK\$)		0.22	0.23	0.21
Other Broker Recs:		B:5	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 13% CAGR to HK\$47bn from 2021 to 2025

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

New technology business is another new revenue stream. The company targets to launch its first Fully Automated Retail Store and System by end of 2022 in the UK, which is a good start to monetise HKTV's technology business.

Valuation:

We derive our TP of HK\$13.7 based on 3x FY23F P/S, largely in line with historical range of leading e-commerce players.

Where we differ:

Our GMV estimates for FY22F and FY23F are 1% and 6% higher than consensus. We believe HKTV's diverse product offerings and well-established fulfillment capabilities 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)	917
Mkt Cap (HKm/US\$m)	4,447 / 567
Major Shareholders (%)	
Top Group International Limited	38.5
Free Float (%)	61.5
3m Avg. Daily Val. (US\$m)	1.01
GICS Industry: Consumer Discretionary / Retailing	



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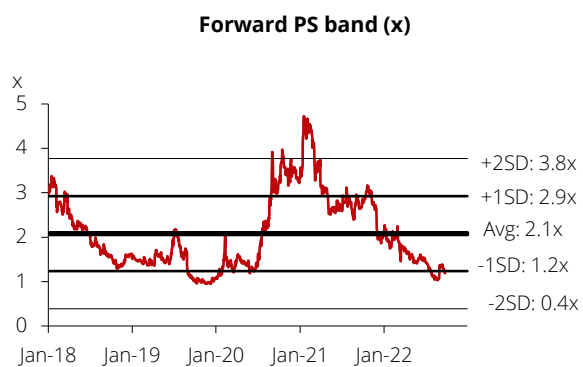
Live more, Bank less

Hong Kong Technology Venture Co Ltd

Company Background

HKTVM 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.

Historical PS and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
GMV (HK\$m)	5,838.1	6,494.6	8,027.7	9,212.6	10,594.5
Average daily order	32,300.0	39,000.0	46,995.0	54,514.2	62,691.3
Revenue from new solution business (HK\$m)	0.0	0.9	10.0	50.0	100.0

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (HK\$ m)					
Direct merchandise sales	1,970	2,047	2,259	2,440	2,587
Multimedia advertising income and licensing of programme rights	884	991	1,265	1,500	1,784
Others	24	92	140	230	350
Total	2,878	3,130	3,664	4,170	4,720

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	2,878	3,130	3,664	4,170	4,720
Cost of Goods Sold	(1,463)	(1,575)	(1,721)	(1,894)	(2,050)
Gross Profit	1,414	1,555	1,943	2,276	2,670
Other Opg (Exp)/Inc	(1,331)	(1,602)	(1,838)	(2,128)	(2,500)
Operating Profit	84	(47)	105	148	170
Other Non Opg (Exp)/Inc	103	58	47	46	46
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(7)	(10)	(10)	(10)	(10)
Dividend Income	5	5	5	5	5
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	184	6	147	189	211
Tax	(1)	8	40	8	(2)
Minority Interest	0	1	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	184	15	187	197	209
Net Profit before Except.	184	15	187	197	209
EBITDA	207	89	255	318	425
Growth					
Revenue Gth (%)	103.5	8.8	17.1	13.8	13.2
EBITDA Gth (%)	N/A	(57.1)	188.2	24.7	33.6
Opg Profit Gth (%)	(125.1)	(156.5)	(322.6)	41.0	14.8
Net Profit Gth (%)	N/A	(91.9)	1,167.2	5.4	6.1
Margins & Ratio					
Gross Margins (%)	49.1	49.7	53.0	54.6	56.6
Opg Profit Margin (%)	2.9	(1.5)	2.9	3.6	3.6
Net Profit Margin (%)	6.4	0.5	5.1	4.7	4.4
ROAE (%)	10.3	0.7	8.8	8.6	8.3
ROA (%)	6.8	0.5	5.6	5.6	5.4
ROCE (%)	3.4	(1.6)	3.3	4.4	4.5
Div Payout Ratio (%)	0.0	496.2	39.4	0.0	0.0
Net Interest Cover (x)	12.0	(4.8)	10.7	15.1	17.4

Source: Company, DBS HK

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Interim Income Statement (HK\$ m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	1,340	1,538	1,518	1,612	1,922
Cost of Goods Sold	(676)	(787)	(755)	(820)	(902)
Gross Profit	663	751	763	792	1,020
Other Oper. (Exp)/Inc	(575)	(756)	(697)	(905)	(917)
Operating Profit	89	(5)	66	(113)	103
Other Non Opg (Exp)/Inc	27	84	34	29	(14)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(6)	(4)	(4)	(6)	(6)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	109	75	97	(90)	83
Tax	0	0	(1)	9	45
Minority Interest	0	0	0	1	0
Net Profit	109	74	96	(81)	128
Net profit bef Except.	109	74	96	(81)	128
Growth					
Revenue Gth (%)	114.2	95.1	13.3	4.8	26.6
Opg Profit Gth (%)	(146.8)	(96.5)	(25.3)	2,145.7	55.4
Net Profit Gth (%)	N/A	N/A	(12.3)	N/A	33.5
Margins					
Gross Margins (%)	49.5	48.8	50.3	49.1	53.1
Opg Profit Margins (%)	6.6	(0.3)	4.4	(7.0)	5.3
Net Profit Margins (%)	8.2	4.8	6.3	(5.0)	6.7

Source: Company, DBS HK

Hong Kong Technology Venture Co Ltd

Balance Sheet (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	1,398	1,752	1,852	1,852	1,852
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	414	415	482	549	616
Cash & ST Invt	1,052	780	733	946	1,270
Inventory	127	134	141	148	155
Debtors	0	0	0	0	0
Other Current Assets	18	175	175	175	175
Total Assets	3,008	3,256	3,384	3,670	4,069
ST Debt	605	663	776	965	1,254
Creditors	0	0	0	0	0
Other Current Liab	101	134	134	134	134
LT Debt	204	397	282	168	54
Other LT Liabilities	1	1	1	1	1
Shareholder's Equity	2,098	2,062	2,190	2,403	2,627
Minority Interests	0	(1)	(1)	(1)	(1)
Total Cap. & Liab.	3,008	3,256	3,384	3,670	4,069
Non-Cash Wkg. Capital	44	176	183	190	197
Net Cash/(Debt)	243	(280)	(326)	(187)	(37)
Debtors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Creditors Turn (avg days)	42.7	N/A	N/A	N/A	N/A
Inventory Turn (avg days)	30.2	32.9	31.8	30.5	30.7
Asset Turnover (x)	1.1	1.0	1.1	1.2	1.2
Current Ratio (x)	1.7	1.4	1.2	1.2	1.2
Quick Ratio (x)	1.5	1.0	0.8	0.9	0.9
Net Debt/Equity (X)	CASH	0.1	0.1	0.1	0.0
Net Debt/Equity ex MI (X)	CASH	0.1	0.1	0.1	0.0
Capex to Debt (%)	10.9	14.1	35.9	24.7	21.4
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	184	6	147	189	211
Dep. & Amort.	206	250	213	213	213
Tax Paid	0	0	40	8	(2)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	(1)	0	0	0	0
Chg in Wkg.Cap.	181	(22)	44	95	159
Other Operating CF	38	14	5	5	5
Net Operating CF	608	247	449	510	586
Capital Exp.(net)	(88)	(150)	(380)	(280)	(280)
Other Invt.(net)	201	(116)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	30	19	20	20	20
Other Investing CF	0	(142)	0	0	0
Net Investing CF	143	(388)	(360)	(260)	(260)
Div Paid	0	(73)	(74)	0	0
Chg in Gross Debt	(409)	(124)	(124)	(124)	(124)
Capital Issues	454	20	0	0	0
Other Financing CF	(3)	0	0	0	0
Net Financing CF	42	(177)	(198)	(124)	(124)
Currency Adjustments	0	0	0	0	0
Chg in Cash	793	(318)	(109)	126	202
Opg CFPS (HK\$)	0.48	0.29	0.44	0.45	0.47
Free CFPS (HK\$)	0.58	0.11	0.08	0.25	0.33

Source: Company, DBS HK

Hong Kong Technology Venture Co Ltd

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	14-Dec-21	HK\$7.98	HK\$10.00	Buy
2:	31-Mar-22	HK\$7.36	HK\$12.50	Buy
3:	31-Aug-22	HK\$4.73	HK\$13.70	Buy

Source: DBS HK

Analyst: Tsz Wang Tam
Lilian Lv

Hong Kong Technology Venture Co Ltd

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

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