



**Hong Kong Technology Venture Company Limited**  
(1137 HK)

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# Investment thesis

## Overview

- Hong Kong's leading e-commerce platform
- **Recommendation: Buy, HK\$12.0** per share (79% upside)
- US\$838mn market cap., US\$4.8mn 30-day ADTV

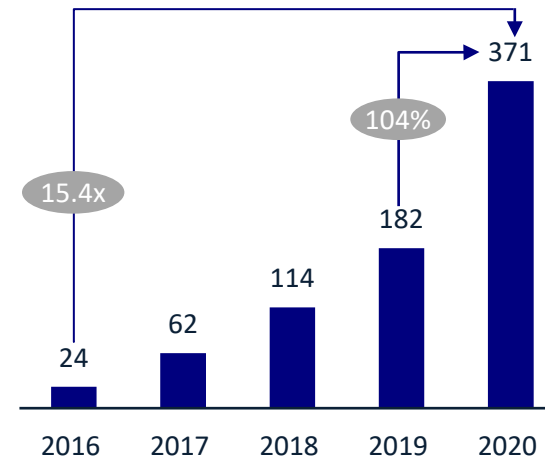
## Investment thesis

- Underpenetrated market: Hong Kong's retail sector only has a 13% of e-commerce penetration rate, indicating great potential
- Rapidly growing market: Hong Kong's e-commerce market has been growing by 19% p.a. (2016-2020); we estimate a 15% p.a. growth for the next five years
- Market leading position: HKTV mall is the leader in a fragmented market (12% market share), suggesting ample room for growth
- Attractive economics: revenue has been growing by 95% p.a. (2016-2020), company-wide profitability from 2020 onwards
- Local logistics advantage: mainland-HK border lockdown affected logistics of Taobao and JD, HKTV mall's competitors; people shift to buying on HKTV mall

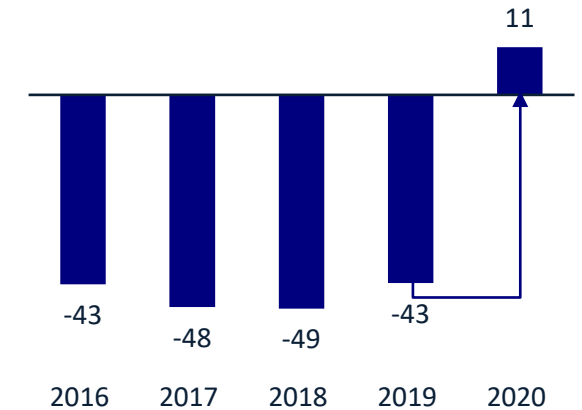
## Risks

- Intensifying retail sector competition from government consumption coupons policy
- Changes in customer online shopping behavior in post-COVID-19

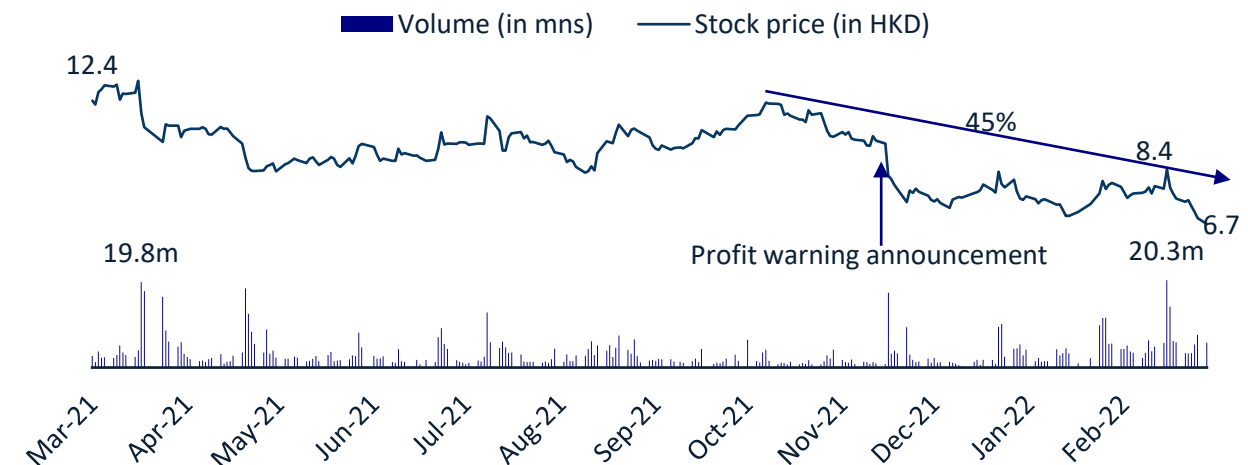
Revenue (\$USmn)



Operating profit (\$USmn)

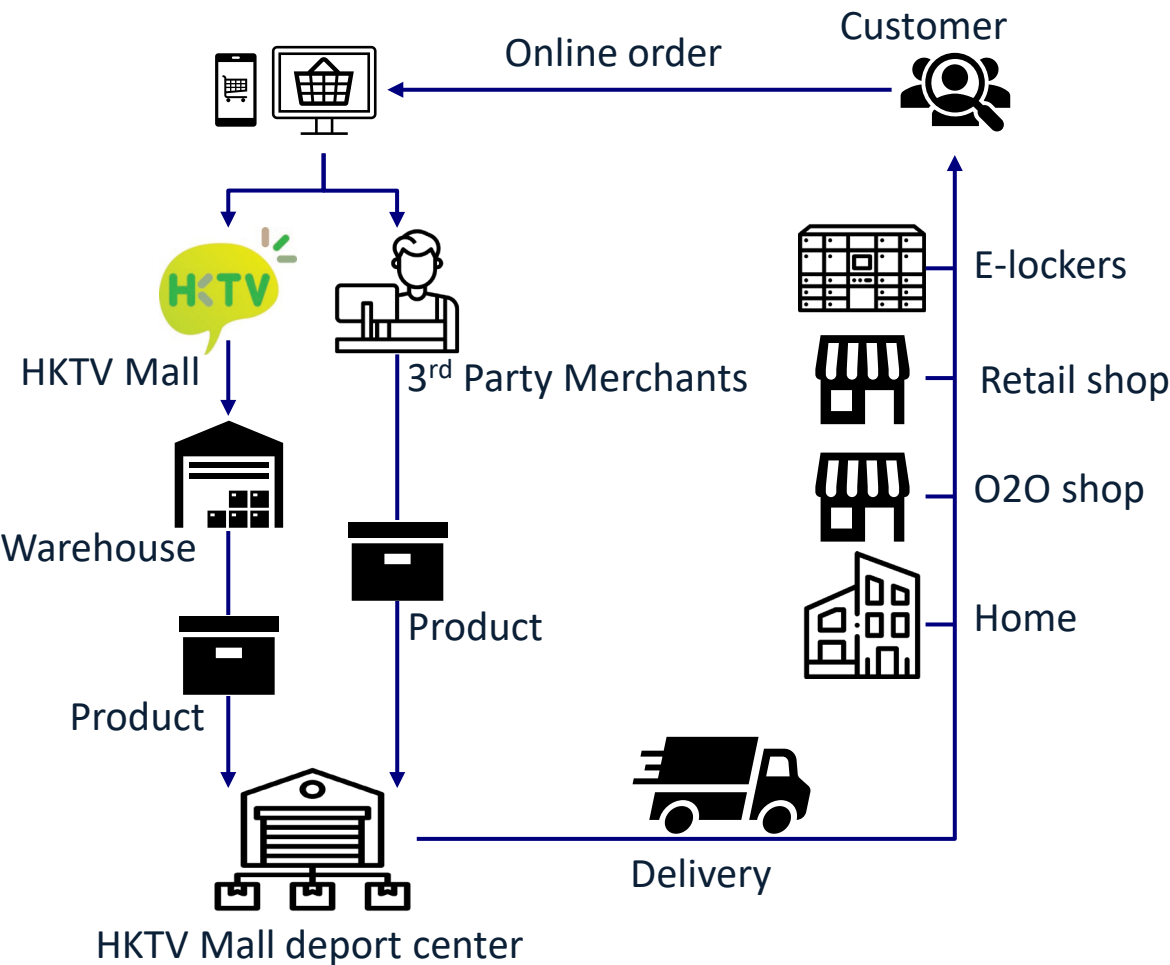


Price chart (HKD)



# Business description

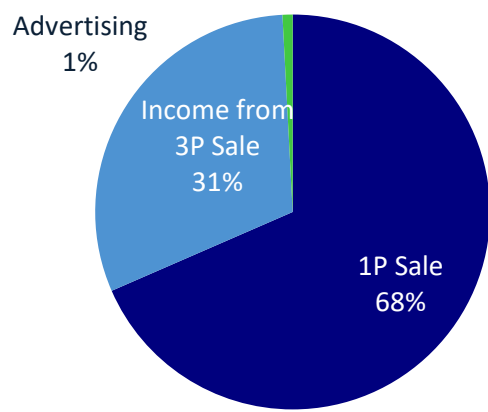
## HKTV Mall E-commerce process



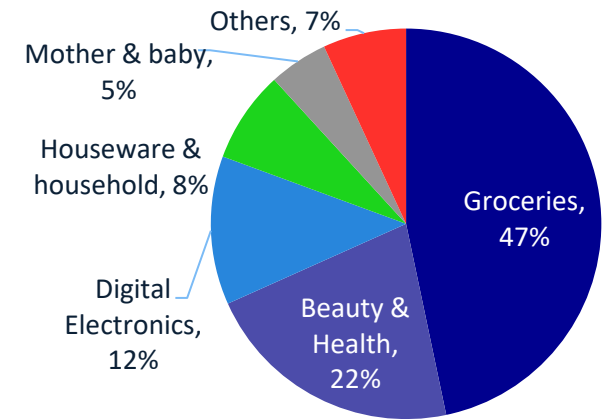
## Business segments

- Online E-commerce (HKTV Mall) (US\$774mn GMV in 2020)**
- **Self-owned sale (1P)** (35% of GMV): purchase inventory from vendors and directly sell to consumers (26% Gross margin)
  - **3rd Party seller sale (3P)** (65% of GMV): allow 3rd party merchants to sell to consumers and charge service fee (23% charge rate)
- Offline stores:** customer engagement and delivery pickup
- O2O Shop; supermarkets
  - Partnership stores; e-lockers
- Multimedia advertising**
- Logistics**
- Fulfilment and Distribution Centre: automatically sorting and picking products for delivery

Revenue sources (2020) (in %)

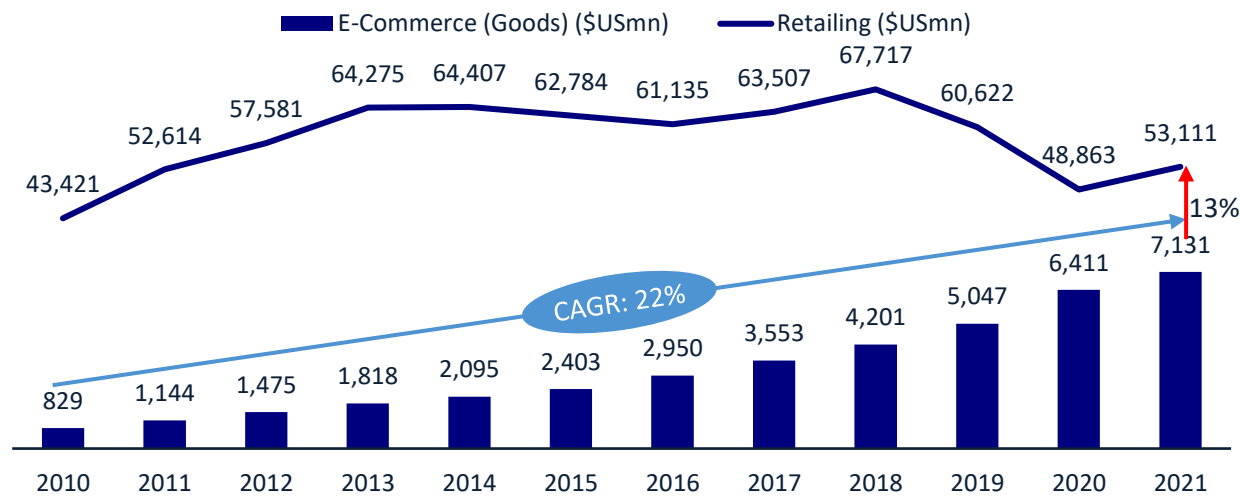


GMV by categories (2020) (in %)

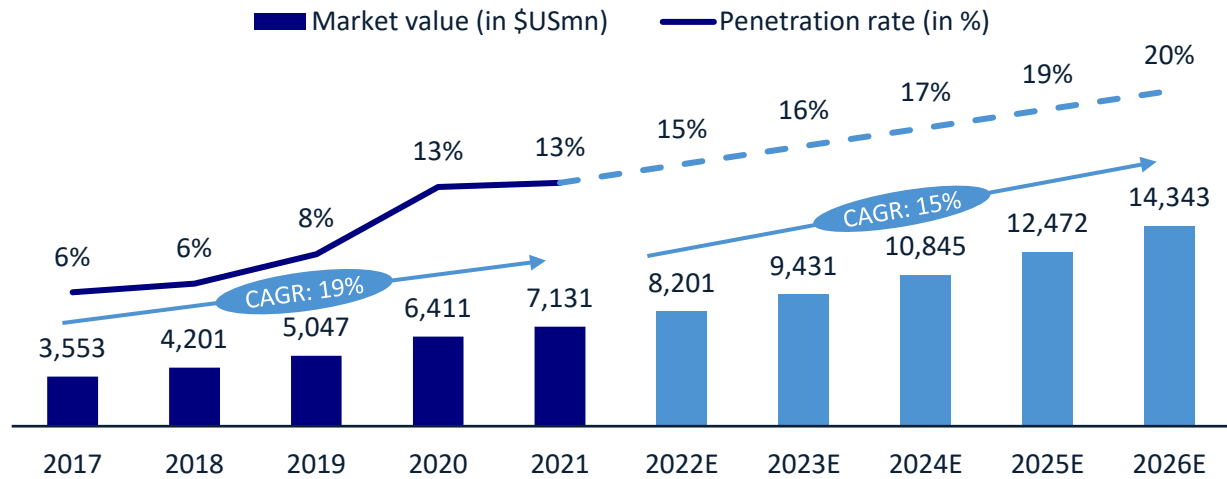


# Market size estimation

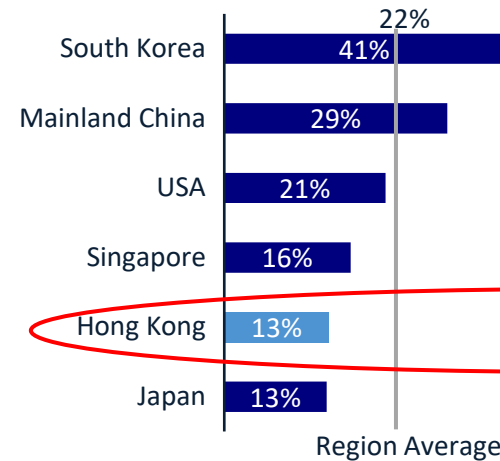
## Hong Kong's retail and e-commerce business (\$USmn)



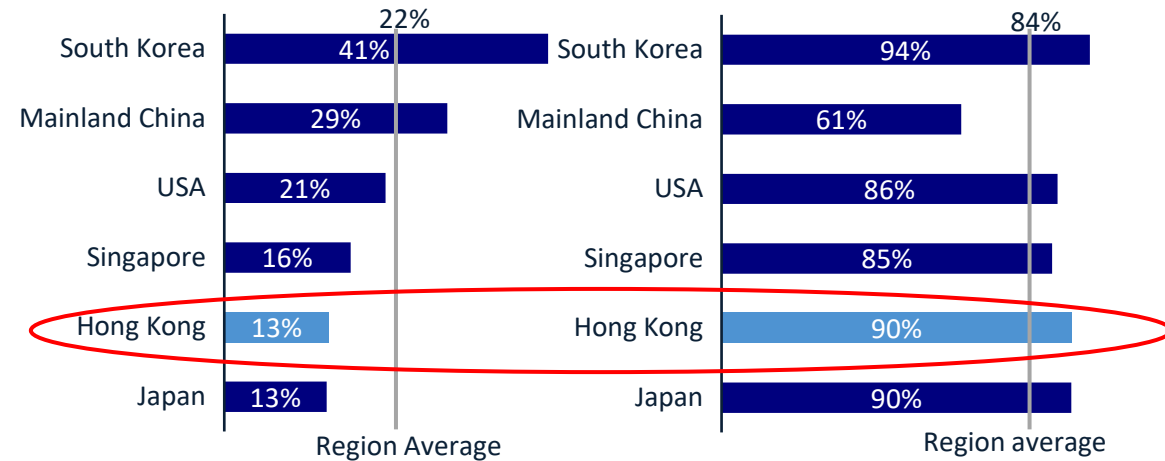
## E-commerce segment projection



## E-commerce sale of total retailing (2021)



## Internet user of total population (2020)



## Analysis

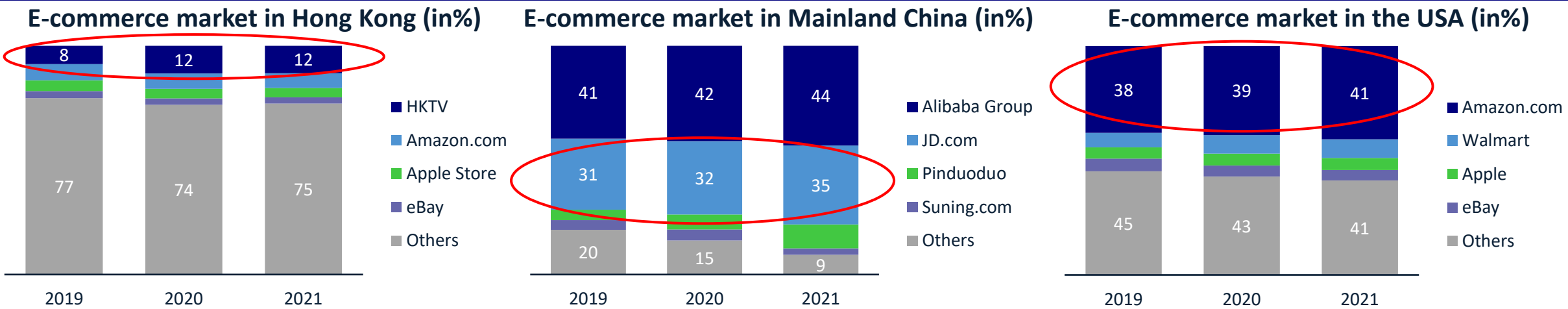
- Hong Kong's e-commerce has been growing rapidly at a 22% CAGR (2010-2021)
- Ample room for growth for e-commerce segment, with a high Internet population (90%), compared to low penetration (13%)

## Projection

- Hong Kong's e-commerce market to maintain a 15% growth CAGR (2022E-2026E)

# Comparative analysis

## Cross-market comparison (2021)



## Business infrastructure comparison

	HKTV Mall	YOHO
Offline network	1.O2O shops: 89 2.Outsourced Pick-up points: 18 3.E-lockers: 98 4.HKTV supermarkets: 3	1.OMO shops: 2 2.Pickup points: >2000
Logistics	1.Logistics centers: 5 2.Delivery: outsource and self-operated	1.Logistics center: 1 2.Delivery: outsource

### Market

- The E-commerce market in Hong Kong is fragmented, with a CR5 of 26%, compared to the USA (59%) and mainland China (91%), there is ample market for HKTV mall to acquire (2021)

### Company position

- HKTV mall posits the leading role, while 12% market share remains low compared to similar companies like JD.com and Amazon.com, with a market share of 35% and 41% (2021)

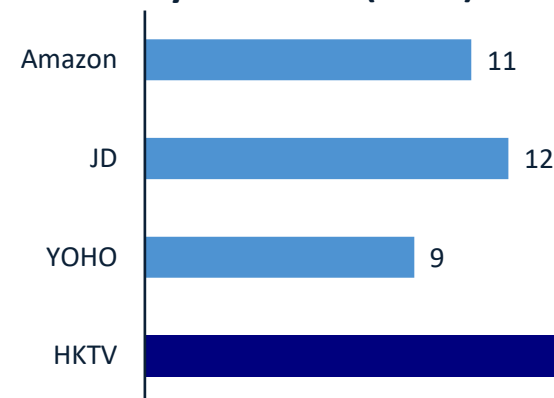
# Financial analysis

## Historical growth analysis (2016-2020) (USD thousands)

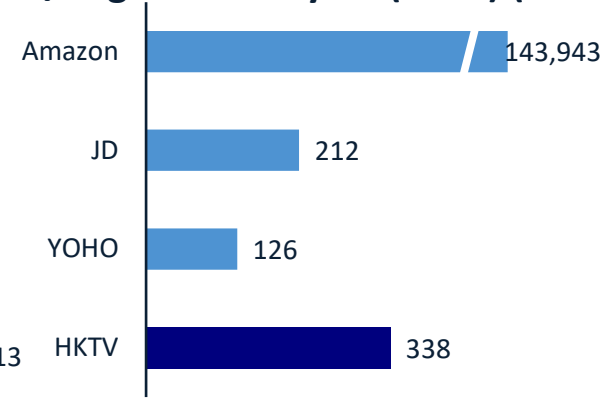
	2016	2017	2018	2019	2020
<b>Revenues</b>					
Direct Merchandise Sales	-	44,305	87,583	141,352	254,127
Growth (in %) YoY	-	-	98%	61%	80%
Concessionaire Sales and Other Service Income	-	17,797	25,201	38,871	113,984
Growth (in %) YoY	-	-	42%	54%	193%
Multimedia Advertising Income	-	260	1,676	1,307	3,070
Total Revenues	24,128	62,361	114,460	181,530	371,181
Growth (in %) YoY	-	158%	84%	59%	104%
<b>Expenses</b>					
Cost of Inventories	18,094	37,778	68,794	109,545	188,753
Gross margin (Direct Sales) (in %)	-	15%	21%	23%	26%
Other Operating Expenses	49,069	72,766	94,182	114,684	171,658
Operating income / EBIT	(43,036)	(48,183)	(48,516)	(42,699)	10,770
Operating / EBIT margin (in %)	-178%	-77%	-42%	-24%	3%
Earnings before Taxes (EBT)	(33,152)	(26,078)	(16,952)	(37,227)	23,750
EBT margin (in %)	-137%	-42%	-15%	-21%	6%
<b>EPS</b>					
	(0.04)	(0.03)	(0.02)	(0.05)	0.03
Cash Flow from Operating Activities	(26,792)	(25,336)	(29,986)	(22,132)	78,415
Cash Flow from Investing Activities	(4,381)	28,117	48,304	5,160	18,416
Cash Flow from Financing Activities	14,376	4,343	(17,584)	22,600	5,408
<b>Liquidity</b>					
Cash and Cash Equivalents	5,726	12,824	13,523	19,221	121,558
Growth (in %) YoY	-	124%	5%	42%	532%
Current Ratio (x)	1.4x	0.8x	0.6x	0.6x	1.7x
Quick Ratio (x)	1.3x	0.7x	0.4x	0.4x	1.4x

## Comparative analysis

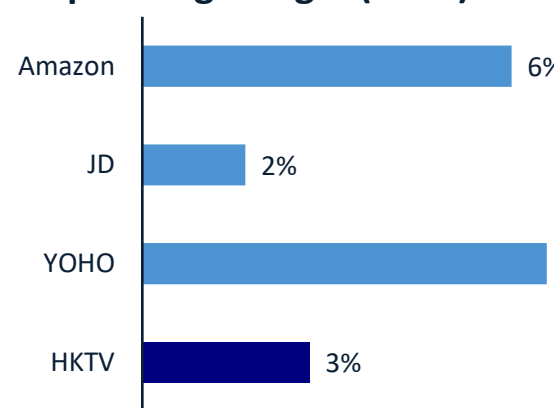
### Inventory turnover (2020)



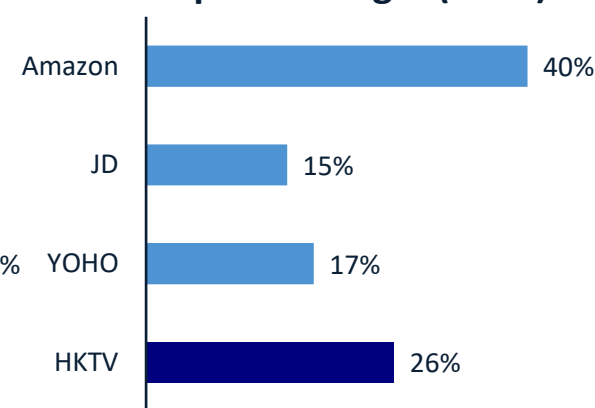
### Sales/Registered buyers (2020) (in USD)



### Operating margin (2020)



### Gross profit margin (2020)

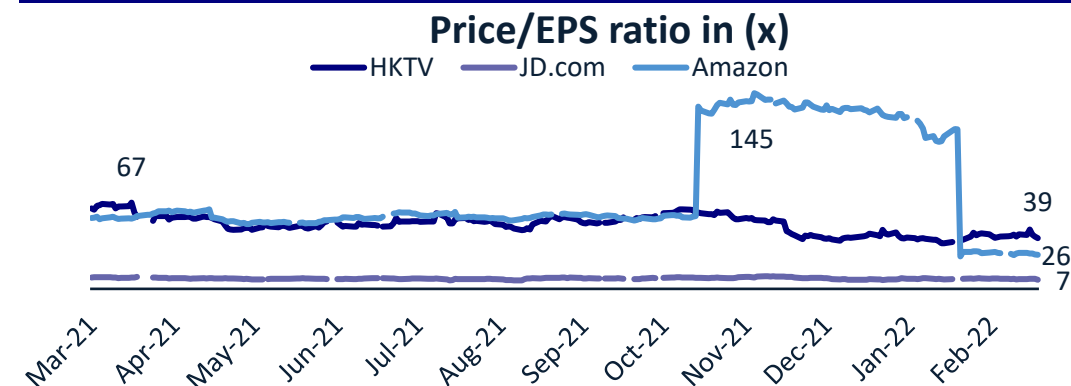


# Valuation:

## Discounted Cash Flow Valuation (in \$USmn)

	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E
E-commerce market value	3,553	4,201	5,047	6,411	7,131	8,201	9,431	10,845	12,472	14,343
% Growth	20%	18%	20%	27%	11%	15%	15%	15%	15%	15%
HKTVM-GMV	139	248	363	774	856	1,148	1,509	1,952	2,494	3,155
%Market share	4%	6%	7%	12%	12%	14%	16%	18%	20%	22%
GMV-direct sale	51	97	152	267	293	391	509	654	829	1,041
% of Total GMV	37%	39%	42%	35%	34%	34%	34%	34%	33%	33%
Revenue-direct sale	44	88	141	254	282	377	494	636	810	1,020
GMV-3P	87	151	212	507	562	758	999	1,298	1,665	2,114
% of Total GMV	63%	61%	58%	65%	66%	66%	66%	66%	67%	67%
Revenue-3P sale	18	25	39	114	129	175	233	306	396	507
Charge rate % of 3P GMV	21%	17%	19%	23%	23%	23%	23%	24%	24%	24%
Revenue-other operating activities	23	34	8	18	19	19	20	21	21	22
Total revenue	62	114	182	371	430	572	747	963	1,227	1,550
COGS-direct sale	38	70	111	190	209	279	365	469	596	750
Gross profit-direct sale	7	19	32	66	73	98	129	167	214	270
% Gross margin	15%	21%	23%	26%	26%	26%	26%	26%	26%	27%
Other operating expense(Excl D&A)	66	84	94	146	147	208	288	391	524	693
Total operating cost	104	154	205	337	357	487	652	860	1,120	1,443
EDITDA	(41)	(38)	(21)	38	73	84	95	103	107	106
Tax expense	-	-	-	-	8	9	10	10	11	10
%Tax rate	-	-	-	-	17%	17%	17%	17%	17%	17%
Capex	25	18	18	11	16	18	20	20	21	20
Change in NWC	2	(29)	0	(36)	36	29	3	3	3	4
FCFF	(67)	(27)	(39)	62	14	28	62	69	72	72
Cash and Cash Equivalents	13	14	19	122	39	57	75	96	123	124
Target price	1.7	USD								
	13.1	HKD								
WACC	7.7%									
Terminal growth	3%									

## Relative valuation



	Bear Case	Base Case	Bull Case
EPS (HKD)	0.2	0.22	0.23
P/E ratio	25x-40x	40x-45x	45x-60x
Target price (HKD)	5.0-8.0	8.8-9.9	10.4-13.8
Target price (USD)	0.7-1.0	1.1-1.2	1.3-1.8

## Key Assumptions

- E-commerce market growth (2021E-2026E): 15%
- HKTVM mall market share (2026E): 22%
- Capex (2021E-2023E): HK\$400mn

## Result

- FCFF valuation: HK\$13.1/share
- Relative valuation: HK\$5.0-\$13.8/share



# Risk & Opportunity analysis

## Risk

### Operation

- Client information security: HKTV detected part of the 4.3 million client information was accessed by an unauthorized source in Feb 2022
- Shock of Covid-19:
  - Temporary closure of O2O malls
  - Order cancellation or delivery delay
  - Manpower pressure

### External

- Government consumption coupon: the announced 10,000 HKD consumption coupon plan, intensifies the competition of retail business
- Market competition: HKTV mall faced competition from Taobao and JD.com and local e-commerce platforms like YOHO
- Covid-19 pandemic weaken: as the COVID-19 pandemic condition improves in the future, consumers' shopping willingness shifts from online back to offline

## Opportunity

### External

- E-commerce adaption acceleration: the fifth wave of COVID-19 pandemic in Hong Kong accelerated demand for e-commerce and to-door delivery service
- Strong growth of E-commerce: E-commerce maintain a CAGR of 22% (2010-2021), the growth remains resilient
- Hong Kong SMEs going digital: according to Paypal, around 90% of SMEs are using digital platforms for promotion and customer engagement

### Finance

- Liquidity for further expansion: HKTV turned from net loss to net profit, with cash account growing by 532% (2019-2020), providing liquidity for expansion

# Appendix-alternative information

## Stakeholders' opinions

### Customers

#### Pros

- To-door delivery services bring convenience
- Favorable prices or discounts during specific dates

#### Cons

- Order cancellation and long delivery time during Covid-19 pandemic
- Specialist goods don't have a price advantage
- Inflexible delivery time

### 3<sup>rd</sup> Party Merchants

#### Pros

- The system is convenient for sale

#### Cons

- High transaction charging rate
- Complex, strict packing and shipping rules
- Unreasonable cash penalty for violating the rules

### Employees

#### Cons

- The large workload and long working time
- Delayed and low commission payment
- Severe working environment (O2O mall)
- Falling behind in technological upgrading