



Old bottle cannot contain new wine...Initiate @SELL

April 28, 2022

INVESTMENT SUMMARY

- We assess Huitongda (HTD) as a channel consolidator instead of a B2B sourcing platform or a supply chain SaaS. We base our assessment on HTD's working capital, merchandise nature, employee composition, corporate structure, customer characteristics and behaviours, etc.;
- We conclude that HTD's valuation as a supply chain SaaS solution is unjustified, and as a sourcing platform is overvalued;
- We, however, believe with its IPO, HTD will have a corporate currency for M&A to further pursue its channel consolidation strategy, which may lead to its further increase in scale in the short term. The catch is, offline distribution channels, even in rural areas, will eventually diminish as e-commerce and logistics capability reaching their penetration. The consolidated assets held by HTD have diminishing value.

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Huitongda Network Co., Ltd. (SEHK: 9878)

Sourcing platform, SaaS, or channel consolidator?

- We believe HTD is not a SaaS solution because its prime customers of small offline stores do not need software of meaningful sophistication. We believe it is also not a sourcing platform because its prime merchandise categories have dominant upstream suppliers and efficient distribution infrastructures;
- A successful capital market debut paves the way for HTD to raise secondary and complete its channel consolidation. Question is: for what?
- We initiate the stock with a SELL rating and TP of HK\$13.5.

Huitongda (HTD) is actually a channel consolidator

HTD's amazing working capital characteristics can be explained by its corporate structure of a headquarter holding 565 subsidiaries valuing at Rmb1.8bn on its book. Our analysis on the principal subsidiaries suggested that they were formed with offline wholesalers and/or industry veterans. This holding structure led to HTD having inventory and account payable days far superior to much large rivals. It also allows HTD to move Rmb65bn worth of product revenue without a meaningful fulfilment cost, PPE, capex, and warehouse/delivery personnel.

Business model transition begets own risks

HTD is transitioning from electronics to a more diversified portfolio of merchandises. It is also transitioning from small offline stores to include larger distributors. Both transitions aren't easy, in our view, as technology evolution and economic growth cycle aren't in HTD's favor.

Similar companies do not enjoy as high valuation

HTD needs a strong share price to continue its offline channel consolidation. However, companies with similar business models, whether Yunji, Youzan and Weimob, do not enjoy high valuations. Success of the Mitra business in Indonesia's Bukalapak isn't applicable to HTD, in our view.

Competition abound...Lack of GMV dominance is the key

In China, SaaS companies often monetize by transactional take rates over subscription. But HTD lacks market dominance in transaction to pursue this route. JD-5STAR, convenience chains and specialty logistics providers are HTD's most serious competitors.

Summary financial data

Highlights	2021A	2022E	2023E	2024E	2025E
Revenues (RMB mn)	65,763	82,219	99,461	111,204	115,574
IFRS operating profit (RMB mn)	639	899	1,303	1,591	1,745
IFRS EPS (RMB)	(1.10)	0.59	1.84	2.77	2.96
EBITDA margin	1.09%	1.18%	1.39%	1.51%	1.60%
P/E (IFRS)	NM	62.0	19.7	13.1	12.3
Free cash flow yield (%)	3.99%	13.43%	15.55%	13.23%	8.39%

Source: Bloomberg, Blue Lotus (as of Apr 28, 2022)

BUY

HOLD

SELL

Target Price: HK\$ 13.5

Current Price: HK\$44.1

RIC: (SEHK: 9878)

BBG: 9878 HK

Market cap (HK\$ mn)

24,781.2

Average daily volume (HK\$ mn)

22

Shares out/float (m)

180.3/53.0

Source: Bloomberg, Blue Lotus (as of Apr 28, 2022)

Key Changes

	New	Old	Diff
BLRI Recommendation	SELL	-	-
BLRI Target Price	HK\$13.5	-	-
2022E EPS (HK\$)	0.48	-	-
2023E EPS (HK\$)	1.52	-	-
2024E EPS (HK\$)	2.28	-	-

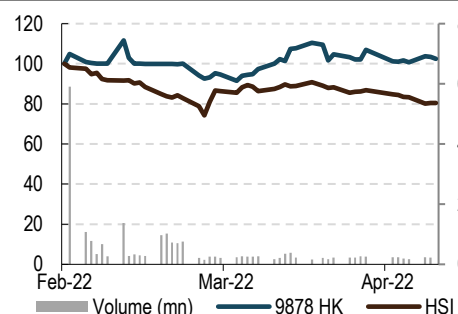
Source: Blue Lotus (as of 2022/04/28)

BLRI vs. The Street

No. of Bloomberg Recommendations	2
Target price vs. Bloomberg mean	(72.4%)
1-year-fwd EPS vs. Bloomberg mean	(30.5%)
Bloomberg recommendation	3

Source: Bloomberg Recommendation, Blue Lotus (1=SELL, 5=BUY) (as of Apr 28, 2022)

Price performance and volume data



Source: Bloomberg, Blue Lotus (as of Apr 28, 2022)

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Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

Huitongda Network Co., Ltd.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

(RMB mn)	2021A	2022E	2023E
Revenue	65,763	82,219	99,461
Cost of revenue	(63,895)	(79,752)	(96,493)
Gross profit	1,868	2,467	2,969
Gross margin%	2.8%	3.0%	3.0%
Other revenue	56	27	27
Other net gain	137	123	123
Research and development costs	(79)	(137)	(121)
Selling and marketing expenses	(864)	(998)	(1,009)
Administrative expenses	(479)	(583)	(685)
Income from operation, IFRS	639	899	1,303
Profit/(loss) before taxation, IFRS	(76)	362	773
Income tax	(101)	0	0
Net income/(loss), IFRS	(177)	362	773
No. of shares (mn)	319	322	326
Earnings per share - IFRS: (RMB)	(1.10)	0.59	1.84

Source: HTD, Blue Lotus (as of Apr 28, 2022)

Company Description

Huitongda Network Co Ltd, formerly Jiangsu Huitongda Supply Chain Management Co Ltd, is a China-based company mainly engaged in supply chain retail. The Company's main business is to provide merchant services such as a full range of commodities, smart commerce, and software-as-a-service (SaaS) for marketing stores for sinking markets and rural markets. In 2021, Huitongda commerce business revenue reached RMB65.22bn, accounting for 99.3% of total revenue, and the service business contributed RMB438mn, accounting for 0.7% of total revenue.

Industry View

According to Ministry of Commerce, the China rural retail market reached RMB5.9tn in 2021 with 12.1% YoY. We expect the China rural retail market grows at a CAGR of 9.1% in 2022E-2025E, outpace the urban retail market at the CAGR of 6.4%.

Exhibit 2. Balance sheet

(RMB mn)	2021A	2022E	2023E
Cash and cash equivalents.	2,967	5,986	9,477
Inventories	2,719	3,553	4,492
Trade and bills receivables	2,653	3,317	4,012
Restricted deposits	15	15	15
Prepayments, deposits, and other receivables	10,523	12,730	14,233
Financial assets at fair value through profit or loss	2,706	2,706	2,706
Other current assets	3,876	3,876	3,876
Current assets	23,353	29,976	37,308
Property, plant, and equipment.	43	47	55
Right-of-use assets	111	130	146
Other non-current assets	2,091	2,091	2,163
Non-current assets	2,245	2,269	2,365
Total Assets	25,598	32,244	39,673
Trade and bills payables	14,419	17,997	21,775
Other payables and accruals	612	764	924
Contract liabilities	2,937	2,937	2,937
Redeemable capital contributions	9,027	0	0
Other current liabilities	236	236	236
Current liabilities	27,231	21,934	25,872
Non-current liabilities	84	84	84
Total liabilities	27,315	22,018	25,956
Total Liability and Owners' Equity	25,598	32,244	39,673

Source: HTD, Blue Lotus (as of Apr 28, 2022)

Exhibit 3. Cash flow statement

(RMB mn)	2021A	2022E	2023E
Profit/loss before taxation	(76)	362	773
Depreciation	80	70	80
Impairment loss	90	0	0
Net financial expense	713	535	528
Other adjustments	(120)	0	0
Changes in assets and liabilities:	241	2,080	2,144
Cash generated from operations	929	3,047	3,525
Tax paid	(114)	0	0
Net cash from operating activities	815	3,047	3,525
Payment for PPE	(22)	(28)	(34)
Cash from wealth management products	(1,499)	0	0
Others	(14)	0	0
Net cash from investing activities	(1,536)	(28)	(34)
Net bank borrowing	3,736	0	0
Other financial related cash inflow	(4,365)	0	0
Net cash from financing activities	(629)	0	0
Net increase/(decrease) in cash and cash equivalents	(1,349)	3,019	3,491
Cash and cash equivalents at the beginning of the year	4,316	2,967	5,986
Cash and cash equivalents at the end of the year	2,967	5,986	9,477

Source: HTD, Blue Lotus (as of Apr 28, 2022)

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Recent Reports

April 28th, 2022: [Kuaishou (1024 HK, HOLD, TP HK\$71) Rating Change]: **Facing increasing competition, DG to HOLD**

April 28th, 2022: [Alibaba Health (241 HK, SELL, TP HK\$2.1) Earnings Preview]: **Temporarily rebound but growth still below consensus**

April 27th, 2022: [Blue Lotus China Internet Sector Update]: **Alleviate sovereignty risk requires sovereignty measure**

April 26th, 2022: [Kanzhun (BZ US, BUY, TP US\$29) Rating Change]: **Short term sell-off overblown...UG to BUY**

April 26th, 2022: [Blue Lotus CXO Sector Update]: **Limited lockdown impact, positive for long-term growth**

April 25th, 2022: [NetEase (NTES US, BUY, TP US\$136) Earnings Preview]: **Slightly increase 2Q forecast because of COVID**

April 25th, 2022: [KE Holdings (BEKE US, BUY, TP US\$20) Target Price Change]: **Bull and bear case of pandemic impact**

April 25th, 2022: [Meituan (3690 HK, BUY, TP HK\$170) Rating Change]: **1H22 is priced in, UG to BUY for eased competition**

April 19th, 2022: [Bilibili (BILI US, BUY, TP US\$32.5) Rating Change]: **Story mode brings new opportunity, upgrade to BUY**

April 18th, 2022: [JD Logistics (2618 HK, BUY, TP HK\$28) Target Price Change]: **Negatively impacted by COVID disruption**

April 18th, 2022: [Kanzhun (BZ US, HOLD, TP US\$31) Earnings Preview]: **Project Conch may be hard to make a difference**

April 15th, 2022: [Tencent (700 HK, HOLD, TP HK\$399) Target Price Change]: **COVID hits online ads and fintech, cut TP to HK\$399**

Investment Cases at a Glance

Why is it a SELL

- **Huitongda's (HTD) primary business is B2B e-commerce, not SaaS:** We have three reasons to support this assessment: (1) Twelve years after HTD's inception, Jiangsu Province, where HTD's predecessor Five Star Appliance was based, and home electronics and appliances, which Five Star mainly sold, still contribute ~25% and ~60% of revenues, respectively; (2) HTD's prime customer base, standalone neighbourhood stores without direct access, but also exclusive restriction to brand distributors, do not need sophisticated SaaS to manage their businesses; (3) the majority of HTD's wholesaler business is derived from joint ventures formed with brand distributors, which in our view, is a grey area business practice;
- **HTD's B2B e-commerce is an out-dated business model:** Neighbourhood stores exist in cities in the form of convenience store chains, which through SKU selection and O2O service provide unique value to the busy urban population. Neighbourhood stores in rural/township exist as a result of negligence, which is why HTD's annual churn rate is as high as ~50%. When more competitors, such as convenience store chains and B2C e-commerce platforms, enters the ring and provides cost effective service as technology permits, these neighbourhood stores will no longer be neglected. We are afraid such time may arrive earlier than investors think;
- **Home electronics and appliance market is saturated:** In 2000, home electronics and household appliance constituted ~60% of HTD's revenues and 61% of gross profits. Home electronics penetration in rural household is already catching up with the urban. Government priority is helping agricultural products sell to urban (农产品上行) instead of helping industrial products selling to rural (工业品下行). We cannot find fundamental reason supporting household appliance to have a decent and sustainable gross margin, ex-fulfilment;
- **SaaS revenue growth is too fast:** HTD's SaaS revenue grew 134% YoY to Rmb278mn in 2021, yet it grew only 74% YoY in the first nine months, putting the C4Q21 growth at a neck-breaking 355% YoY. Our check found HTD's Android-based apps *Super Boss* (超级老板) and *Huixianggou* (汇享购) have minuscule user bases;
- **Supply chain management, globally, is a big company's game:** The advent of SaaS has breathed new life into supply chain management solutions (SCM) but we doubt HTD's customers need SCM, which is suitable for large scale, multi-step and ecosystem collaborative businesses with repetition and standardization. Rural retail is single-step, unreplicative and unstandardized. We don't believe it constitutes a ground for SaaS application;
- **Willingness of HTD's customers to pay is moot:** In our view, the channels from which rural/town retailers receive their merchandises will only multiply and

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April 15th, 2022: [Blue Lotus Transportation Sector Update]: **Strong March sales with supply chain challenges ahead**

April 15th, 2022: [Grab (GRAB US, SELL, TP US\$3) Earnings Preview]: **More challenges to trim spending**

April 12th, 2022: [Blue Lotus eCommerce Sector Update]: **Soft 1H22 performance is ahead**

April 11th, 2022: [ZTO Express (ZTO US, HOLD, TP US\$28.5) Target Price Change]: **Affected by COVID despite outperforming peers**

April 11th, 2022: [Agora, Inc. (API US, BUY, TP US\$14.3) Initiation]: **Global EdTech and social pave the way to Metaverse**

April 8th, 2022: [XPeng (XPEV US, BUY, TP US\$48) Target Price Change]: **2022 pressure ahead**

April 4th, 2022: [RemeGen (9995 HK, BUY, TP HK\$102) Earnings Review]: **Exchange 2H21 earnings for long-term benefits**

April 4th, 2022: [Blue Lotus Semiconductor Sector Update]: **Is the collapse of Ukrainian neon supply manageable?**

April 1st, 2022: [XD Inc. (2400 HK, BUY, TP HK\$41) Rating Change]: **The international play is coming, Upgrade to BUY**

April 1st, 2022: [MedBot (2252 HK, SELL, TP HK\$19.9) Earnings Review]: **Took the first step, but has a long way to go**

March 31st, 2022: [S.F. Express (002352 SZ, HOLD, TP RMB 52) Target Price Change]: **Potential price war weighs on margin recovery**

March 31st, 2022: [Blue Lotus Entertainment Sector Update]: **Industry is waiting for game code approval**

March 30th, 2022: [Pharmaron (3759 HK, BUY, TP HK\$126) Target Price Change]:

consolidate. In 2020-21, HTD only spent ~Rmb35mn in capex to build its warehouses, over a GMV of Rmb32bn. It has zero warehouse and delivery personnel and no fulfilment cost in its P&L for bulky merchandises like household appliance. We don't know what HTD's customers are paying for;

- **Competition comes from a number of directions:** (1) B2SME subsidiaries of e-commerce platforms like Alibaba Lingshoutong (零售通) and JD Jingxitong (京喜通), (2) JD-5STAR after JD purchased Five Star in 2019, which focuses on low tier cities, (3) B2SME subsidiaries of electronics retailers like Suning Cloud Retail (苏宁云零售), Tianyin (天音) and Aisidi (爱施德); (4) potential e-commerce entrants like Pinduoduo, (5) potential convenience store chain entrants like Bianlifeng (便利蜂); (6) potential logistics entrants like China Post (中国邮政). We notice that J&T Express (极兔) turned from an offline smartphone distributor to a logistics powerhouse with little difficulty;
- **Disclosure of HTD's joint ventures is not adequate:** HTD achieved 1/13 of JD.com's direct sales revenue with 1/500 of JD.com's PPE and 1/120 of capex. HTD's inventory days and payable days are both better than bigger rivals. HTD achieved this through a series of joint ventures worth Rmb1.8bn, at cost, many unconsolidated and unaudited, at its company level. Such holding structure makes HTD's true cash flow situation undiscernible, in our view.

What are the key catalysts for the next 3-6 months

- **Roll ups in HTD's subsidiaries may continue (+):** With a liquid stock as its corporate currency, HTD can quicken the pace of its consolidation of rural distribution channels and offer incentives for JV partners to contribute results. The risk of roll ups, however, is that such growth is usually not sustainable;
- **A secondary offering might be the turning point (+/-):** We believe a successful secondary offering will enable HTD to pursue its channel consolidation strategy further. But we also believe secondary offering might also expose more of HTD business risks.

Where can we be wrong?

- **Can HTD be China's Mitra?** Bukalapak (BUKA JK, NR) of Indonesia has a thriving business named Mitra that serves small kiosks or 'Warung'. In 2021, Mitra GMV grew 146% and revenue grew 311% YoY. We believe HTD, which sells electronics and agricultural means of production, is different from Mitra, which sells mostly groceries and daily personal products. China's wholesale infrastructure is also more efficient than Indonesia. But the business model of the two are similar. We can be wrong in overemphasizing the difference of the two and neglect the similarities;

What can change our view?

- **HTD continues to scale its SaaS business in rapid fashion:** HTD's SaaS revenue in 2021 has reached 20-30% of Weimob and Youzan, which puts it at the borderline of a serious SaaS business. We believe China's rural/township

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Improved business structure will drive margin up

March 30th, 2022: [Kuaishou (1024 HK, BUY, TP HK\$118) Target Price Change]: **CUT TP due to covid and regulatory uncertainty**

March 30th, 2022: [Blue Lotus Logistics Sector Update]: **J&T-BEST's woes benefit rivals**

March 29th, 2022: [NIO (NIO US, BUY, TP US\$44) Target Price Change]: **A slow 4Q21 with margin pressure ahead**

March 29th, 2022: [JD Health (6618 HK, SELL, TP HK\$39) Target Price Change]: **Gross margin miss but fulfilment and OPEX beat**

stores do not need a commercial SaaS product. But if we are wrong, we will change our view;

- **HTD successfully developed a new merchandise category targeting the consumer:** We believe consumer products are more transparent and competitive in its supply chains. Their demand is also more assured and authentic. We would change our view if HTD distributes consumer products like food, beverage, personal products, etc that really sell in neighbourhood stores.

Operating Metrics

Exhibit 4. Quarterly revenue table

RMB (mn)	9M21	4Q21	1Q22E	2Q22E	3Q22E	4Q22E
Revenue	46,496	19,267	20,047	20,396	20,724	21,051
Cost of revenue	(45,267)	(18,628)	(19,466)	(19,804)	(20,083)	(20,399)
Gross profit	1,229	639	581	591	641	653
Gross margin%	2.6%	3.3%	2.9%	2.9%	3.1%	3.1%
Other revenue	33	23	7	7	7	7
Other net gain	116	21	31	31	31	31
Research and development costs	(55)	(24)	(32)	(34)	(35)	(36)
Selling and marketing expenses	(527)	(338)	(241)	(245)	(250)	(263)
Administrative expenses	(357)	(122)	(143)	(143)	(147)	(149)
Income from operation, IFRS	439	200	202	208	247	242
Profit/(loss) before taxation, IFRS	(83)	7	69	74	112	106
Income tax	(75)	(26)	0	0	0	0
Net income/(loss), IFRS	(158)	(19)	69	74	112	106
No. of shares (mn)	315	319	322	322	322	322
Earnings/(Loss) per share, IFRS:(RMB)	(0.89)	(0.22)	0.08	0.10	0.21	0.20
Number of active member stores	57,074	62,203	70,007	77,066	83,450	89,224
Number of active wholesaler customers	13,653	16,756	16,490	16,267	16,082	15,949
Total number of SaaS+ subscription users	73	102	107	112	119	121
Paid SaaS+ users	15	18	19	20	21	21

Source: HTD, Blue Lotus (as of Apr 28, 2022)

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A business built on relationships

As a company with Rmb65bn in annual direct sales, Huitongda (HTD) spends little on capex and has no warehouse/delivery personnel. Its account payable days and inventory days beat much bigger rivals, even globally. We found HTD achieved so by forming a myriad of joint ventures with offline wholesalers, either owners or management. HTD's Chairman is an active private equity investor who acts as a limited partner in a number of VC/PE firms after he sold his first company to BEST BUY (BBY US, NR) in 2009.

Huitongda (HTD) has a light business model

Comparing to e-commerce peers under the direct model, Huitongda (HTD) appears to be operating under a very light business model.

In 2021, the inventory and account payable days of HTD were 14 days and 74 days, comparing to 30 days and 55 days for JD.com's direct business, and 28 days and 55 days for VipShop. HTD has better inventory and account payable days than both.

By the end of 2021, HTD only has Rmb43mn worth of PPE on its book, with capex of the year being Rmb23mn, supporting an annual direct sales revenue of Rmb65bn. For the same year, JD.com has Rmb32.9bn worth of PPE on its book, with capex of the year being Rmb13.5bn, supporting an annual direct sales revenue of Rmb866bn. VipShop has Rmb14.4bn worth of PPE on its book, with capex of the year being Rmb3.58bn, supporting an annual direct sales revenue of Rmb111bn (Exhibit 5). In terms of capex over revenue, HTD uses Rmb3 worth of capex to generate Rmb100 worth of revenue. In terms of revenue over PPE, HTD generates Rmb1,500+ worth of revenue on Rmb1 worth of fixed assets.

Needless to say, HTD is B2B, not B2C like JD.com and VipShop, and possibly doesn't need a big logistic infrastructure to operate. But behind each B2B begets a question: what value exactly does it provide to its customers? Why you?

As Exhibit 6 shows, we believe HTD uses an array of joint ventures to operate its ecosystem. HTD has 565 direct or indirect subsidiaries, of which principal ones, as disclosed by Prospectus, was 75 as of September 2021. These subsidiaries have an on-the-book value of Rmb1.8bn which shows on HTD's Company but not on Consolidated balance sheets. Judged from its working capitals, HTD conduct a significant portion of its businesses through its subsidiaries.

HTD uses a PPE 1/500 of JD.com and capex 1/120 of JD.com to support a direct sales business 1/13 of JD.com. The gap with Vipshop is even wider.

HTD conduct a significant portion of its businesses through its subsidiaries.

Exhibit 5. Financial and operating matrices comparison, 2021

(Rmb bn)	HTD	JD.com	VipShop	Amazon*
Direct sales revenue	65.2	866	111	1,596
PPE	0.043	32.9	14.4	534
Capex	0.023	13.5	3.58	145
Capex as revenue	0.03%	1.56%	3.2%	9.1%
Revenue over PPE	1,530	26	7.7	3.0
Account payable turnover days	74	55	55	101
Inventory turnover days	14	30	28	38

Source: iResearch, Blue Lotus (as of Apr 28, 2022). * Excl. AWS PPE and capex, US\$1=Rmb6.6

Exhibit 6. HTD oversized joint venture book

(Rmb bn)	Consolidated	Company	Company/ Consolidated
Total assets	21.7	15.9	73%
Interests in subsidiaries	-	1.80	NM
PPE	0.0451	0.0263	58%
Account receivables	1.85	0.861	47%
Inventory	2.25	-	0%
Prepayment	6.62	3.32	50%
Account payables	11.4	9.35	82%
Contract liabilities	2.13	0.00817	0.38%

Source: HTD, Blue Lotus (as of Apr 28, 2022)

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As a result of this holding structure, 18% of HTD's total employee count of 4,545, as of September 2021, were in Finance, Internal Control and Legal, totalling 840 people. We believe the reason that HTD has such an oversized finance and legal team is to control its subsidiaries. We further notice that as a company that holds inventory for 99% of its revenues, HTD has no warehouse and delivery employees reported.

HTD has no warehouse employees but has an oversized finance team of 840 to control its 565 subsidiaries.

Exhibit 7. HTD's subsidiary partners with wholesaler backgrounds

	Established	Paid in capital (Rmb mn)	HTD stake	Counter party profile
Nanjing Huijie (南京汇洁商贸)	2011	10	70%	Owner of aircon distributor, Ex-MIDEA Ningbo legal person
Nanjing Huixianglai (南京汇享莱)	2015	5	65%	Veteran of smartphone distribution
Xuancheng Huitongda (宣城汇通达)	2017	10	60%	Owner of Anhui agricultural means of production and motorcycle distributor
Hangzhou Huiyin (杭州汇银)	2018	10	60%	Veteran of smartphone distribution
Wuhan Huitongqicai (武汉汇通七彩)	2016	5	60%	Investor of agricultural means of production distributor
Beijing Huizhongxin (北京汇中鑫)	2018	10	60%	Investor of auto parts and bus distributor
Jinan Huidafeng (济南汇达丰)	2016	10	60%	Veteran of smartphone distribution
Yantai Huian (烟台汇安)	2018	12	60%	Owner of IT distributor
Chengdu Kaihehui (成都凯和汇)	2019	8.3	60%	Veteran of smartphone distribution
Wuxi Huijuheng (无锡汇聚恒)	2011	5	55%	Investor of aircon distributor for GREE
Nanjing Nuoshibo (南京诺仕博)	2016	10	55%	Investor of MIDEA distributor
Guangzhou Yueninghui (广州粤宁汇)	2016	6	60%	Investor of smartphone distributor
Jingmen Huitongyunke (荆门汇通芸科)	2016	5	60%	Investor of agricultural means of production distributor
Yangzhou Runmei (扬州润美)	2015	10	60%	Owner of smart home electronics distributor
Changzhou Xinmanyi (常州欣满意)	2015	10	60%	Investor of GREE distributor
Xian Huaxuntong (西安华讯通)	2017	4	60%	Owner of agricultural means of production distributor

Source: HTD, QCC (企查查), Blue Lotus (as of Apr 28, 2022)

We sieved through HTD's 75 principal subsidiaries and found 16 with identifiable JV partners with wholesaler businesses or experiences. The actual percentage should be higher as we notice several JV's had recent share transfers. Post IPO we expect HTD to possess a corporate currency to quicken its pace of channel consolidation.

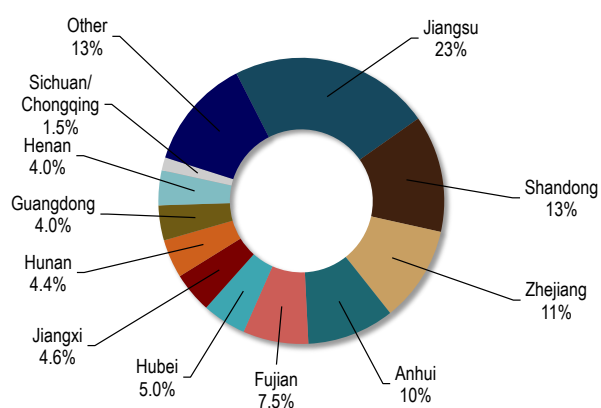
Certainly, like in many businesses, conduct business through JV or subsidiary is a normal practice. Express delivery, for example, deploys such practices widely. However, the headquarters of express delivery in a hub-and-spoke business model enjoys unparalleled leverage against its subsidiaries to ensure absolute control. What leverage does HTD have over its JV partners other than a high flying stock?

- (1) What is the value of consolidating channels to sell electronics to rural/town SME's?
- (2) What is the real economics of this business?

In our view, the questions in the end are: (1) what is the economic value of consolidating offline consumer electronics distribution channels in rural/township? (2) what is the real economics of this business?

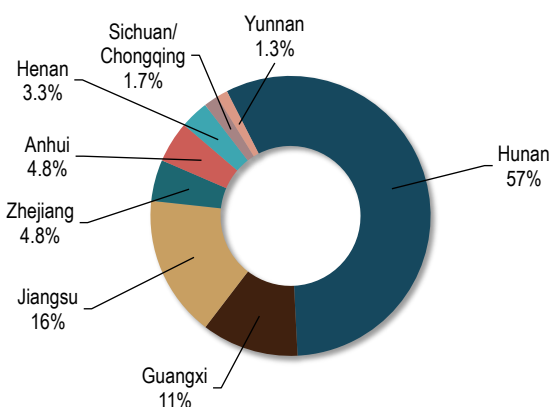
In our view, home electronics and household appliances are slow growing, well penetrated markets. Agricultural means of production and construction materials have dominant upstream suppliers and distribution peers. Consolidating these channels yield little to no economic benefits.

Exhibit 8. Store distribution of HTD, total=32,715



Source: HTD, Blue Lotus (as of Apr 28, 2022)

Exhibit 9. Store distribution of JD-5STAR, total=545



Source: JD-5STAR, NBS, Blue Lotus (as of Apr 28, 2022)

Exhibit 10. HTD's principal subsidiaries opening timeline

	Pre-2010	2010-15	2016	2017	2018	2019	2020	Total
Jiangsu (江苏)	3	7	3	1	4	7	1	26
Zhejiang (浙江)	1	3			5	2		11
Shandong (山东)		1	1		3	2		7
Anhui (安徽)				3	3			6
Hubei (湖北)		1	5		1			7
Fujian (福建)				1	1			2
Guangdong (广东)			1	1	1			3
Henan (河南)				1				1
Shaanxi (陕西)				1	1			2
Liaoning (辽宁)					1			1
Shanghai (上海)					2			2
Beijing (北京)					1	1		2
Heilongjiang (黑龙江)					1			1
Hunan (湖南)					2			2
Tianjin (天津)					1			1
Sichuan/Chongqing (四川/重庆)						1		1
Total	4	12	10	8	27	13	1	75

Source: HTD, Blue Lotus (as of Apr.28, 2022)

Nearly fifty percent of HTD's store count and revenue still comes from four provinces it shares with JD-5STAR.

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HTD is built on the past foundation of Five Star Electronics

HTD is one of the three incubated businesses of Five Star founder Wang Jianguo (汪建国) after he sold China's 3rd largest electronics chain store, Five Star Electronics (五星电器), in a series of transaction to BEST BUY (BBY US, NR) from 2006 to 2009. The other two incubated businesses are toys supermarket Kidswant (301078 CH, NR) and home renovation service provider HOSJOY (好享家).

Offline electronics retailing, however, soon faced the competition of online retailers like JD.com and Amazon. In 2014, BEST BUY sold Five Star to JOVAN (佳源创盛) Group, a Chinese real estate developer. In 2019-20, JD.com bought Five Star in a two-step transaction from JOVAN for a valuation of Rmb2.7bn. JD-5Star thus became JD.com's offline subsidiary focusing on low tier cities. According to JD.com, by 2019, JD-5Star has opened 340 town stores called ToManyTowns (万镇通). JD-5Star also launched 5Star-HOME (五星舒适家) to compete against HOSJOY. Our channel checks suggested, however, JD5STAR's rural initiatives haven't been very successful.

In 2021, 60% of HTD's revenues still came from consumer electronics (3C) and household appliances (home electronics), of which Five Star mainly sold, despite HTD's recent effort at diversifying into agricultural means of production, construction materials and liquor. HTD did slightly better in diversifying geographically. In 2020, Jiangsu, Zhejiang, Anhui and Henan accounted for 48% of HTD's store counts while the same four accounted for 29% of JD-5STAR. Besides these four provinces, HTD has successfully expanded to Shandong, Fujian, Hubei, Jiangxi and Guangdong while Five Star expanded into Hunan and Guangxi through a partnership with a super-market chain, Better Life Group (002251 CH, NR) in June 2020. Removing the partnership stores in Hunan and Guangxi, JD-5STAR's store coverage overlaps well with HTD's early provinces of Jiangsu and Zhejiang (Exhibit 8&9).

HTD resembles 5STAR more in product categories than in geographic coverage.

Jiangsu and Zhejiang were HTD's startup provinces. Its next stops were Shandong, Hubei, Guangdong, Anhui, Fujian and Henan.

HTD's revenue mix is shifting towards bigger customers

HTD's strategy of consolidating offline rural distribution is accelerating as its revenues from bigger customers have gained in importance.

Exhibit 11. HTD's customers are shifting to bigger and national

	2018	2019	2020
Store size			
>Rmb 10mn	12%	17%	24%
Rmb5-10mn	14%	16%	15%
Rmb1-5mn	42%	42%	38%
<Rmb 1mn	32%	26%	23%
Wholesaler type			
Regional	97%	64%	57%
National	2.8%	32%	28%
Channel	0.0%	4.1%	15%

Source: HTD, Blue Lotus (as of Apr 28, 2022)

Exhibit 12. HTD customers, addition, churn and ASP

	2018	2019	2020	2021E
Membership store				
Beginning	31,212	34,968	34,225	32,715
Addition	19,068	14,881	15,697	45,845
Churn	15,312	15,624	17,207	16,358
Churn rate	49%	45%	50%	50%
End	34,968	34,225	32,715	62,203
Annual rev. per store	0.44	0.50	0.40	0.34
Wholesaler				
Beginning	10,161	12,955	19,425	18,807
Addition	10,715	15,688	12,455	10,549
Churn	7,921	9,218	13,073	12,601
Churn rate	78%	71%	67%	67%
End	12,955	19,425	18,807	16,756
Annual rev. per wholesaler	1.28	1.57	1.83	2.67

Source: HTD, NBS, Blue Lotus (as of Apr 28, 2022)

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According to HTD's prospectus, in 2020, 61% of its membership stores had annual revenue below Rmb5mn, down from 68% in 2019 and 74% in 2018. HTD also derives more sales from national and channel-specific wholesalers (Exhibit 11).

HTD's high churn suggest customers are shopping for best deals

Judging from HTD's customer matrices, its churn rates for both SME stores and wholesalers have been high (Exhibit 12). However, HTD's sales marketing cost per new addition has been low. From 2018 to 2021, HTD's sales marketing costs per new customer have ranged from Rmb14-22K while its revenues per customer have been Rmb340-495K for SME stores and Rmb1.1-2.7mn for wholesalers. This very high marketing efficiency suggests that HTD's customers reside in its database and needs to be activated from time to time. The means of activation, we believe, are promotions and subsidies. HTD's high churn also means its customers aren't loyal to HTD. If more incentives are offered by HTD's bigger rivals, its churn rate might worsen further.

With HTD completing its IPO and capable of using its stock as M&A currency, we expect its consolidation of its JV ecosystem to proceed, or even accelerate, in the coming quarters. However, we remain concerned on what can happen next. How will these relationships evolve after JV partners holding more liquid HTD shares? How does HTD maintain influence over these subsidiaries over time? We believe HTD needs to build corporate-level competencies, which in our view is rural logistics infrastructure. However, so far, we haven't seen evidence of it happening.

HTD's high level of churn means its membership base needs periodical activation and refreshment.

HTD's D/S saturated, U/S concentrated

Nearly 60% of HTD's revenue was derived from home electronics and household appliances. But these two downstream (D/S) are well penetrated in rural markets. HTD's new category of agricultural means of production has dominant upstream (U/S) suppliers as well as powerful SOE distributor peers. Further, pandemic has hurt the offline market hard. We believe HTD's C1Q22 result will be challenging.

Home electronics and appliances are well penetrated in rural

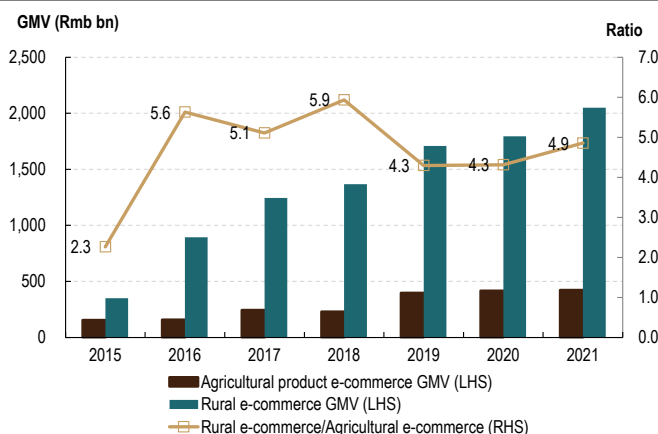
According to Ministry of Agriculture (MOA), it is more difficult to sell agricultural products upstream (农产品上行) than to sell industrial products downstream (工业品下行), therefore, government priority is to help farmers sell agricultural products to the city.

Needless to say, only by selling agricultural products upstream can rural residents generate income, which can then purchase industrial products from the city. If we view agricultural product e-commerce as a proxy for rural area's export and rural e-commerce GMV as rural area's import, the absolute deficit of the rural area has continuously widened over the years but the deficit ratio has stayed the same (Exhibit 13). This, according to MOA, the working priority is to facilitate agricultural products upstream and help rural population generates income to reach common prosperity. In recent years companies like Pinduoduo and JD.com have earnestly participated such initiatives and gained government support. Nevertheless, we believe the deficit between rural and urban is structural and hence there is no need to balance the two in absolute levels.

In fact, after many years of economic growth, the penetrations of major home electronics and household appliance items are no longer different between urban and rural (Exhibit 14). The ownership per 100 household for TV, refrigerator, washing machine and smartphone are similar. The difference on PC likely reflects educational and occupational differences. The difference on digital camera reflects the existence of cheap substitute, low-cost smartphones, while the differences on air conditioner, water heater and microwave likely reflect different lifestyles. In other words, rural consumption on home electronics and household appliance does have upgrade opportunities, but no longer has penetration opportunities.

Rural consumption of home appliance and household appliances only has upgrade opportunities, no longer has penetration opportunities.

Exhibit 13. Rural e-commerce vs. agricultural e-commerce GMV



Source: NBS, MOA (as of Apr 28, 2022)

Exhibit 14. Ownership per 100 household, China

	Urban			Rural		
	2018	2019	2020	2018	2019	2020
Household appliance						
TV	121	123	123	117	118	118
Refrigerator	101	103	103	96	99	100
Washing machine	98	99	100	89	92	93
Air conditioner	142	148	150	65	71	74
Water heater	97	98	101	69	72	76
Microwave	55	56	57	18	19	20
Consumer electronics						
Digital camera	20	20	19	2.5	2.3	2.2
PC	73	72	73	27	28	28
Smartphone	243	247	249	257	261	261

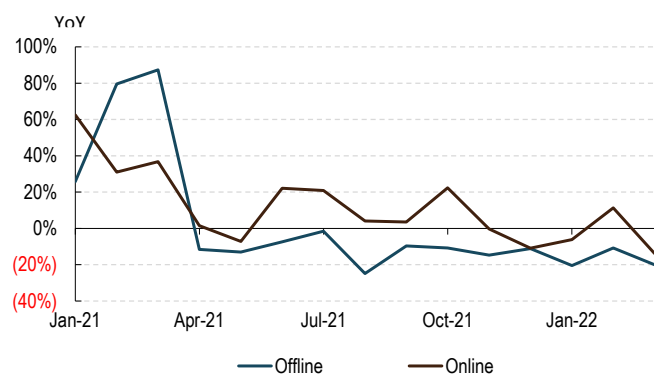
Source: NBS, Blue Lotus (as of Apr 28, 2022)

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Pandemic hit offline retail hard

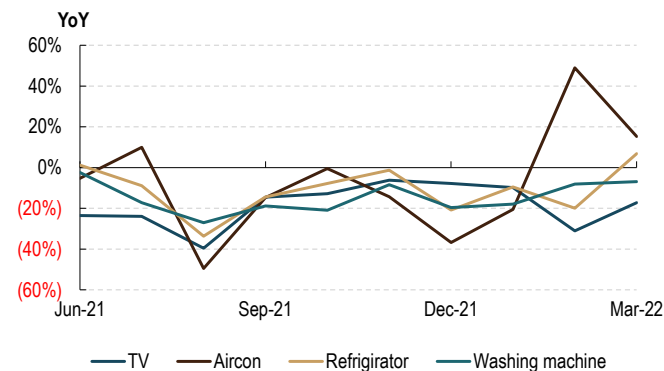
According to All View Cloud, offline sales of household appliances, including TV, aircon, refrigerator and washing machines registered negative growth since C2Q21 and has never recovered (Exhibit 15). Based on our limited tracking, Jiangsu Province has fetched relatively better than others (Exhibit 16). Lower tier cities have fetched slightly better than 1st and 2nd tier cities.

Exhibit 15. China household appliance sales YoY



Source: All View Cloud, Blue Lotus (as of 2022/04/28)

Exhibit 16. Jiangsu Province household appliance sales YoY



Source: All View Cloud, Blue Lotus (as of 2022/04/28)

Entering new categories requires logistics, but PPE has declined

HTD's effort at diversifying from home electronics and household appliances has been focusing on expanding to (1) agricultural means of production, which includes fertilizers, pesticides/herbicides, animal feeds and equipment, (2) vehicles and parts and (3) home building materials, all of which, we notice, require significant warehouse spaces. In 2021, agricultural means of production, vehicles and parts and home building materials constitute 21%, 11% and 5.0% of revenues, unchanged from 22%, 11% and 5.1% in 2020, up from 22%, 8.8% and 2.4% in 2019 and 18%, 1.5% and 0.9% in 2018.

The increase in contribution from these three categories of merchandises, however, did not alter HTD's working capital items. Inventory days actually declined from 32 days in 2018 to 24 days in 2019 and further to 20 days in 2020 and to 14 days in 2021.

China's agricultural means of production market, however, is quite concentrated.

Fertilizer market is concentrated

According to NBS, China applied 54mn tons of fertilizers in 2019, among which 36% was nitrogenous, 13% was phosphate, 10% was potassic and the remaining was composite fertilizers. Total industry size was ~Rmb296bn (Source: Modor Intelligence), growing at low single digits, depressed by environmental factors as China has historically been overfertilizing its land.

Producing nitrogenous fertilizer requires coal and natural gas as input materials. As a result, upstream suppliers are mostly state monopolies like Shenhua (1088 HK, NR), China Gas (384 HK, NR) and Pingmei (601666 CH, NR). Raw material for producing phosphate fertilizer is phosphate rock, which is scarcer and local. CR10 for the phosphate fertilizer market was ~60% (Source: www.fert.cn). Potassic fertilizer is the most concentrated market with CR2 approaching 80% as China lacks potash mineral sites. China imports ~50% of its potassic fertilizers.

It is quite remarkable that although supply chains are different over time, the working capital characteristics of HTD remained largely the same.

The agricultural means of production market is low growth and concentrated. Raw material and production have strong bargaining power over distribution.

The industry structure of fertilizers led to (1) state coal and natural gas monopolies vertically integrated into nitrogenous fertilizers, (2) leading phosphate fertilizer producers horizontally integrated into nitrogenous and composite fertilizers, (3) Potassic fertilizer producers enjoy the highest gross margin, thanks to the scarcity of potash mineral in China and thus see no need to integrate. All three characteristics point to strong bargaining power on the upstream raw material and production over the downstream distribution side.

Pesticides/herbicides market is dominated by global players

According to Philips McDougal, China dispensed 340K tons of pesticides/herbicides in 2018, worth ~US\$6.7bn. Globally Bayer (BAYRY US), Syngenta, BASF (BASFY US, NR) and Corteva (CTVA US, NR) occupied 56% of market share in 2019. China's pesticides/herbicides industry mainly produces intermediary chemicals to be used in these end products made by global brands. About 60% of China's pesticides/herbicide production is for export. This means in the pesticides/herbicides industry, production again enjoys strong bargaining power over distribution.

Upstream concentration forced downstream consolidation by SOE's

The industry structures of agricultural means of production mean the distribution end will also form consolidated entities to counter the bargaining power of the production end. State monopolies and large SOE's typically take on this role. Sinofert (297 HK, NR), a wholly owned subsidiary of Sinochem (中化集团), sold 10mn tons of fertilizers (19%) in 2021. Sino-Agri (中国农资集团), formerly State Supply and Marketing Cooperative (供销合作总社), sold 19mn tons of fertilizers in 2021 and import/exported 7mn (Source: Sino-Agri). AHAMP (002556 CH, NR), formerly state agricultural means of production platform of the Anhui Province, sold 7mn tons of fertilizer (13%) and Rmb4bn worth of pesticides/herbicides annually, according to its filings. Most large distributors have regional SOE backgrounds, including Huiduoli (惠多利) of Zhejiang, Banglida (邦力达) of Sichuan, Beifeng (倍丰) of Heilongjiang, Tianhe (002999 CH, NR) of Guangdong, Nongjiale (农佳乐) of Xinjiang and HZNZ (湖北农资) of Hubei Provinces, each distributing 3-5mn tons per year. Most of these companies can be traced to the State Supply and Marketing Cooperative in the pre-reform days.

Our channel check suggested that that Internet penetration for distributing agricultural means of production is below 5%. We believe this is because (1) fertilizers are bulky and low priced while pesticides/herbicides are toxic, (2) strong bargaining power of the SOE wholesalers and producers. Because the consumption of agricultural means of production products are low frequency, repetitive and producer dominant, Internet plays a very little role. But because most of these distributors are not publicly traded, bugsell can be rampant, in our opinion.

Bugsell can help in the short run, but logistics is the long term answer

HTD's main leverage in getting into these new market, in our opinion, is logistics.

According to HTD, as of September 2021, it has 511 warehouses in 24 provinces, concentrating in its top provinces. Jiangsu, Zhejiang, Shandong, Anhui, Hubei, Guangdong and Henan provinces have 2/3 of the total warehouses. However, out of HTD's 4,545 employees as of September 2021, its warehouse employee count is zero (Exhibit 18). This compares to JD.com's warehouse and delivery personnel of 242K in 2020 over 2,300 warehouses, or 105 employees per warehouse. Vipshop restructured its logistics facilities in 2019 which cut its warehouse personnel from 12,750 to 1,419 and outsourced its logistics to SFE (002352 CH, HOLD, Rmb52), as shown in Exhibit 17.

Within distribution of fertilizers and pesticides/herbicides, state monopolies have a concentrated control at the wholesale level.

Despite having 511 warehouses in 24 provinces, HTD has zero employees in warehousing and delivery.

We fathom that HTD's warehouse is predominately outsourced. We notice that by September 2021, HTD carried on its book Rmb18.6mn worth of motorcycles pre-depreciation. This compares to Rmb1.8bn worth of vehicles for JD.com and Rmb382mn for Vipshop before it outsourced logistics to SFE. HTD's vehicle fleet was only 1% of JD.com's and 5% of Vipshop's, while its direct sales revenue was 7.5% of JD.com and 59% of Vipshop. Even if HTD outsources its warehouse to its supplier, it still needs to hire a fleet to move the goods. This cost seems to be missing.

HTD needs to beef up its fulfilment capability even if it leverages the warehouse of its partners. HTD's vehicle fleet is too small.

Exhibit 17. Warehouse and logistics employee comparisons

	HTD	JD.com	VipShop	Amazon
Warehouses, self-owned	-	900	6	9
Warehouse, 3rd party	511	1,400	15	176
Total warehouse area (mn sq m)	NA	21	3.3	13.7
Warehouse and delivery personnel (K)	0	242	12.8	1,298

Source: HTD, JD.com, VipShop, Amazon, Blue Lotus (as of Apr 28, 2022)

Exhibit 18. HTD's employee count

	No. of employees
Headquarters and administration	92
R&D	192
Finance, Internal Control and Legal	840
Business	519
Client management	2,902
Total	4,545

Source: NBS, Blue Lotus (as of Apr 28, 2022)

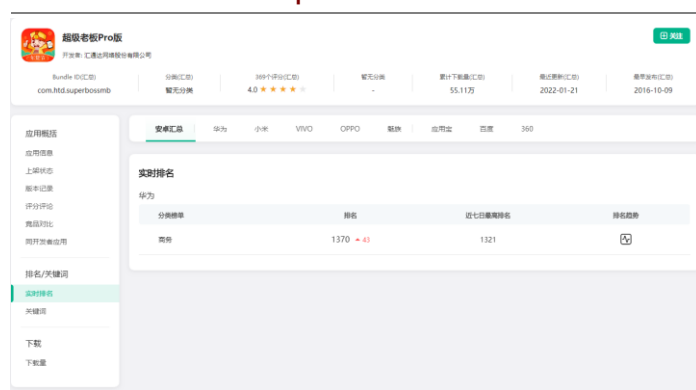
Problem of HTD's SaaS is it has no traffic

According to HTD, its SaaS product line contains *Super Boss* app (超级老板), which offers digital retail management, online storefront, data analytics and other functions. *Super Boss* connects to HTD Mall, a sourcing website for membership stores which drives 80% of HTD's revenues. Another HTD product is *Huixianggou* (汇享购), which is a 2C shopping app allowing stores to build store fronts and connects to *Super Boss*.

However, neither HTD Mall, nor *Super Boss* or *Huixianggou* has meaningful traffic. According to Qimai, accumulative download of *Super Boss* Android version was only 160K, ranking it 1,367 among 1,988 commerce apps tracked by Qimai in China on the Huawei platform. Accumulative download of *Huixianggou* was only 20K and was not ranked. Neither *Super Boss* nor *Huixianggou* offers iOS versions (Exhibit 19 & 20).

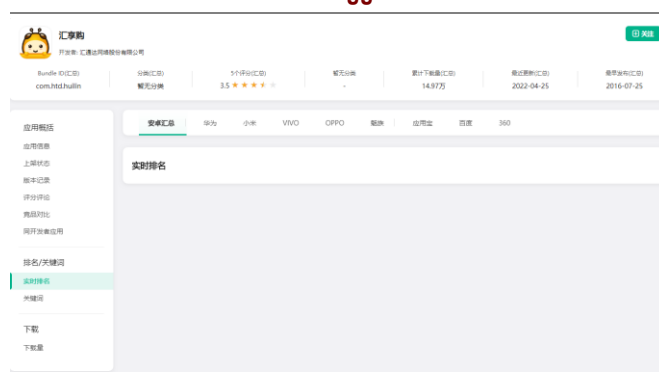
Merchants want traffic, sourcing, payment and logistics over management.

Exhibit 19. Statistics of Super Boss



Source: Qimai, Blue Lotus (as of Apr 28, 2022)

Exhibit 20. Statistics of Huixianggou



Source: NBS, Blue Lotus (as of Apr 28, 2022)

We believe traffic is the Achilles Heel for all e-commerce SaaS apps, including Weimob and Youzan, both of which can be viewed as offering similar SaaS products as HTD. As outlined in our e-commerce SaaS initiation <Caught Between a Rock and a Hard Place> in July, 2020, Weimob and Youzan effectively compete against Alibaba and JD.com directly because the SaaS function is the backend of e-commerce sites. The only difference is e-commerce site monetize the SaaS function through transactional take rate, while SaaS provider monetizes through subscription. The former is a free-to-play game while the latter is a pay-to-play game.

A merchant wants foremost traffic and sourcing, over payment and logistics and further over management and book-keeping, because traffic and sourcing generate revenue opportunities, ensuring the business's continuity, while payment and logistics complete the sales cycle by collecting cash and ensure delivery. Management tools arguably optimize costs, but their real function is control and ownership. The reason China's SaaS industry being poorly developed is because China's corporate governance hasn't widely achieved the separation of ownership and management, and as such M&A do not necessitate a clean and traceable book.

Many SaaS tools already tailored to the Weixin Merchants (微商) community, but offering neither traffic nor sourcing, hence their value is minuscule. Yunji (YJ US, NR) does focus on sourcing, but only connecting the suppliers and buyers. Yunji's top merchandise categories are beauty and personal care, food and fresh produce, apparel, bags and cases, computer and electronics and online

Both e-commerce site and e-commerce SaaS have SaaS functions. The only difference is the former is a free-to-play game, the latter is a pay-to-play game.

The differences between HTD and Yunji are (1) difference merchandise, (2) different traffic source.

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virtual services. To our understanding, beauty products in China have a complicated supply chain involving many illicit elements, but at least validate the need for a Yunji solution. In 2021, Yunji had a direct sales revenue of Rmb1.8bn, down 63% YoY. Unlike HTD, Yunji has a fulfilment expense equivalent to 11% of direct sales revenue, while Yunji's sales marketing cost reaches 13-15% of its revenues.

We believe that comparing to Yunji, HTD has different merchandise and traffic source. HTD's offline stores and wholesalers enjoy a relative monopoly over their vicinity and therefore do not expect HTD to providing traffic or sourcing. While the customers of Yunji, Weimob and Youzan do not enjoy such monopoly and hence the three quickly perished, how long-lasting will HTD's offline customer enjoy their location-based monopoly? How much are they willing to pay for it?

Yunji's today may be HTD's tomorrow.

HTD is valued as a SaaS company

Should HTD be valued as a SaaS company?

We don't think so. As aforementioned, HTD's customers are mostly SME's which doesn't have sophisticated inventory, cash flow and marketing management needs. HTD conduct its wholesaler business mainly through market consolidation. It is too early to talk about suitability of SaaS tools for these wholesalers, in our opinion.

In 2021, HTD generated a SaaS revenue of Rmb278mn, up 134% YoY and constituted 0.4% of total revenues, up from 0.2% in 2020. Despite very strong growth, HTD's SaaS revenue in 2021 was only 6.5% of Kanzhun (BZ US, HOLD, US\$31) and 0.3% of KE Holdings (BEKE US, BUY, US\$21). Comparing to other leading SaaS companies, HTD's SaaS revenue was 21% of Mingyuan Cloud (909 HK, NR), 29% of Youzan (8083 HK, NR) and 24% of Weimob (2013 HK, NR). HTD's market cap, however, is now 10x of Youzan, 2.2x of Weimob and 134% of Mingyuan.

HTD's SaaS revenue had a lump sized growth in C4Q21.

We further notice that most of HTD's SaaS revenue growth occurred in C4Q21. While first three quarters of 2021 HTD only grew SaaS revenue 74% YoY. C4Q21 saw SaaS grew 355% YoY. We did not find other SaaS companies in China demonstrating such seasonality.

Exhibit 21. DCF

Year to Dec (RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal
Core model assumptions										
Revenues	82,219	99,461	111,204	115,574	115,640	110,621	103,051	95,928	93,282	93,282
EBIT	899	1,303	1,591	1,745	1,827	1,800	1,719	1,657	1,682	1,682
NOPAT	899	1,303	1,591	1,527	1,599	1,575	1,289	1,243	1,261	1,261
Capex, net	(91)	(102)	(112)	(119)	(126)	(131)	(136)	(141)	(149)	(149)
Depreciation & amortization	70	80	89	100	109	116	121	127	132	132
Change in working capital	2,080	2,144	1,347	341	(229)	(868)	(1,165)	(1,082)	(514)	(514)
Free operating CF (FoCF)	2,958	3,424	2,915	1,849	1,353	691	110	146	730	7,592
WACC		14.0%								
NPV of FoCF		12,481								
+ Net cash (debt), current		6,840								
- Minorities (Market value)										
= Equity value (RMB mn)		5,640								
= Equity value (HKD mn)		6,850								
(+) Shares (mn)		509 *								
= NPV per share (HKD)		13.5								

Source: HTD, Blue Lotus (as of Apr 28, 2022). * 508,658,037 shares, based on domestic shares in issue from prospectus.

Exhibit 22. Comparison table

Sector	Ticker	Price (Local)	P/E(cons.)			PEG	P/S(cons.)			EV/EBITDA(cons.)	
			2022E	2023E	2024E		2022E	2023E	2024E	2022E	2023E
Huitongda Network	9878 HK	44.1	62.0	19.7	13.1	0.31	0.2	0.2	0.2	5.8	4.1
China e-commerce											
JD.com, Inc.	JD US	50.7	26.7	17.7	13.4	0.7	0.4	0.4	0.4	17.3	10.8
Alibaba Group	BABA US	86.0	11.1	10.4	8.9	0.9	1.7	1.5	1.5	7.0	6.2
Pinduoduo	PDD US	34.8	16.7	11.1	8.0	0.4	2.5	2.0	2.0	13.2	8.3
Vipshop Holdings	VIPS US	7.1	5.2	4.7	4.3	0.5	0.3	0.2	0.2	2.0	1.8
Sector			15.1	12.0	9.7	0.8	1.5	1.3	1.3	9.9	7.4
Global e-commerce											
Amazon.com Inc.	AMZN US	2,965.9	43.7	30.7	23.2	1.2	2.8	2.4	2.4	19.2	14.9
IndiaMart InterMesh.	BIGC US	4,823.2	47.5	42.4	35.3	3.0	19.5	15.8	15.8	37.8	33.1
Shopify	SHOP US	481.0	183.6	112.4	67.0	2.8	9.9	7.5	7.5	117.7	73.5
BigCommerce	BIGC US	17.5	NM	NM	NM	NM	4.5	3.7	3.7	NM	NM
Bukalapak	BUKA IJ	370.0	NM	NM	259.0	NM	12.8	8.4	8.4	NM	NM
Sector			49.0	33.7	25.3	1.2	3.1	2.6	2.6	22.9	17.1
Global SaaS											
Salesforce.com	CRM US	177.2	36.7	28.8	22.4	1.3	5.5	4.6	4.6	18.2	15.5
Shopify	SHOP US	481.0	183.6	112.4	67.0	2.8	9.9	7.5	7.5	117.7	73.5
Zoom Video	ZM US	101.0	27.6	23.7	21.0	1.9	6.6	5.8	5.8	16.6	14.5
Autodesk	ADSK US	195.1	28.5	23.7	19.7	1.4	8.4	7.3	7.3	22.6	18.6
Workday	WDAY US	212.5	55.1	43.9	34.6	2.1	8.6	7.2	7.2	34.2	26.3
DocuSign	DOCU US	87.4	42.2	35.4	27.5	1.8	7.0	6.0	6.0	35.1	29.6
Twilio	TWLO US	124.8	NM	630.8	98.8	NM	5.9	4.5	4.5	84.3	51.2
Datadog	DDOG US	121.8	213.1	130.9	80.8	3.4	25.1	18.2	18.2	176.4	112.6
Okta	OKTA US	138.8	NM	NM	268.2	NM	12.2	9.1	9.1	NM	NM
CrowdStrike	CRWD US	209.9	180.6	119.7	82.1	3.7	22.5	16.7	16.7	116.1	79.3
RingCentral	RNG US	93.1	53.0	39.0	26.8	1.3	4.4	3.5	3.5	39.2	28.3
Slack	WORK US	45.2	310.9	334.4	205.1	13.4	20.5	16.0	16.0	356.2	228.5
Sector			88.8	92.4	59.3	2.4	10.5	8.2	8.2	69.2	47.0
China SaaS											
Kanzhun	BZ US	20.4	41.6	19.6	12.8	0.5	8.2	5.0	5.0	183.2	85.5
KE Holdings	BEKE US	11.9	32.8	16.4	14.8	0.7	1.2	1.0	1.0	102.9	48.3
Youzan Technology	8083 HK	0.1	NM	NM	NM	NM	1.0	0.8	0.8	NM	NM
Weimob	2013 HK	4.5	NM	NM	32.6	NM	3.0	2.4	2.4	NM	22.5
Agora	API US	6.9	NM	NM	NM	NM	4.5	3.4	3.4	NM	NM
Ming Yuan Cloud	909 HK	9.3	53.2	29.8	23.7	1.1	5.4	4.2	4.2	NM	29.3
Sense Time	20 HK	4.8	NM	NM	NM	NM	20.9	15.0	15.0	NM	NM
Kingsoft Office	688111 CH	171.0	58.0	42.9	32.0	1.7	18.0	13.6	13.6	52.4	38.5
Tongdao Liepin	6100 HK	13.7	17.9	13.1	11.2	0.7	1.8	1.5	1.5	10.0	7.5
Kingdee Int'l	268 HK	15.1	NM	NM	182.7	NM	8.2	6.5	6.5	197.4	104.9
Yonyou Network	600588 CH	19.5	83.0	60.9	44.6	2.3	6.1	4.9	4.9	50.5	39.6
Tuya Inc.	TUYA US	2.7	NM	NM	NM	NM	4.6	3.6	3.6	NM	NM
Sector			32.2	20.9	32.0	0.8	15.7	11.8	11.8	70.3	39.6

Source: Bloomberg, Blue Lotus, (as of Apr 28, 2022).

Annual Income Statement

Fiscal year ends-31-Dec

Exhibit 23. Annual income statement (Report Currency: RMB)

RMB mn	2020A	2021A	2022E	2023E	2024E	2025E
Revenue	49,629	65,763	82,219	99,461	111,204	115,574
Cost of revenue	(48,285)	(63,895)	(79,752)	(96,493)	(107,861)	(112,049)
Gross profit	1,345	1,868	2,467	2,969	3,343	3,525
Gross margin%	2.7%	2.8%	3.0%	3.0%	3.0%	3.0%
Other revenue	23	56	27	27	27	27
Other net gain	122	137	123	123	123	123
Research and development costs	(58)	(79)	(137)	(121)	(139)	(151)
Selling and marketing expenses	(610)	(864)	(998)	(1,009)	(1,020)	(1,029)
Administrative expenses	(415)	(479)	(583)	(685)	(744)	(750)
Income from operation, IFRS	407	639	899	1,303	1,591	1,745
Profit/(loss) before taxation, IFRS	(199)	(76)	362	773	1,083	1,322
Income tax	(81)	(101)	0	0	0	(165)
Net income/(loss), IFRS	(280)	(177)	362	773	1,083	1,157
Net income/(loss), non-IFRS	322	500	362	773	1,083	1,157
No. of shares (mn)	291	319	322	326	329	332
Earnings/(Loss) per share, IFRS (RMB)	(1.39)	(1.10)	0.59	1.84	2.77	2.96

Source: HTD, Blue Lotus (as of Apr 28, 2022)

Annual Balance Sheet

Fiscal year ends-31-Dec

Exhibit 24. Annual Balance Sheet (Report Currency: RMB)

RMB mn	2020A	2021A	2022E	2023E	2024E	2025E
Cash and cash equivalents.	4,316	2,967	5,986	9,477	12,464	14,443
Inventories	2,251	2,719	3,553	4,492	5,236	5,664
Trade and bills receivables	1,847	2,653	3,317	4,012	4,486	4,662
Restricted deposits	0	15	15	15	15	15
Prepayments, deposits, and other receivables	8,417	10,523	12,730	14,233	14,792	14,801
Financial assets at fair value through profit or loss	1,074	2,706	2,706	2,706	2,706	2,706
Other current assets	4,167	3,876	3,876	3,876	3,876	3,876
Current assets	20,275	23,353	29,976	37,308	43,016	46,158
Property, plant, and equipment.	45	43	47	55	64	71
Right-of-use assets	128	111	130	146	162	177
Other non-current assets	1,247	2,091	2,091	2,163	2,238	2,315
Non-current assets	1,420	2,245	2,269	2,365	2,464	2,563
Total Assets	21,695	25,598	32,244	39,673	45,480	48,722
Trade and bills payables	11,419	14,419	17,997	21,775	24,340	25,285
Other payables and accruals	444	612	764	924	1,033	1,073
Contract liabilities	2,133	2,937	2,937	2,937	2,937	2,937
Redeemable capital contributions	9,285	9,027	0	0	0	0
Other current liabilities	361	236	236	236	236	236
Current liabilities	23,643	27,231	21,934	25,872	28,546	29,531
Non-current liabilities	97	84	84	84	84	84
Total liabilities	23,740	27,315	22,018	25,956	28,631	29,616
Total Liability and Owners' Equity	21,695	25,598	32,244	39,673	45,480	48,722

Source: HTD, Blue Lotus (as of Apr 28, 2022)

See the last page of the report for important disclosures

Annual Cash Flow Statement

Fiscal year ends-31-Dec

Exhibit 25. Annual Cash Flow Statement (Report Currency: RMB)

RMB mn	2020A	2021A	2022E	2023E	2024E	2025E
Profit/loss before taxation	(199)	(76)	362	773	1,083	1,322
Depreciation	80	80	70	80	89	100
Impairment loss on receivables	90	90	0	0	0	0
Net financial expense	604	713	535	528	506	421
Other adjustments	(76)	(120)	0	0	0	0
Changes in assets and liabilities:	29	241	2,080	2,144	1,347	341
Cash generated from operations	540	929	3,047	3,525	3,025	2,184
Tax paid	(68)	(114)	0	0	0	(165)
Net cash from operating activities	472	815	3,047	3,525	3,025	2,019
Payment for the acquisition of PPE	(28)	(22)	(28)	(34)	(38)	(40)
Cash inflow from wealth management products	2,647	(1,499)	0	0	0	0
Others	(481)	(14)	0	0	0	0
Net cash generated from investing activities	2,138	(1,536)	(28)	(34)	(38)	(40)
Net bank borrowing	1,936	3,736	0	0	0	0
Other financial related cash inflow	(1,398)	(4,365)	0	0	0	0
Net cash generated from financing activities	538	(629)	0	0	0	0
Net increase/(decrease) in cash and cash equivalents	3,148	(1,349)	3,019	3,491	2,987	1,979
Cash and cash equivalents at the beginning of the year/period	1,168	4,316	2,967	5,986	9,477	12,464
Cash and cash equivalents at the end of the year/period	4,316	2,967	5,986	9,477	12,464	14,443

Source: HTD, Blue Lotus (as of Apr 28, 2022)

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