

# GigaCloud (GCT US)

## Improving fundamentals with BaaS initiatives

After short-term stock price volatility on insider filings, we suggest investors to refocus on GigaCloud (GCT)'s strong organic growth and fundamentals improvement. We expect GCT to deliver another eye-catching 1Q24E, with topline accelerating to +96% YoY (5% above high-end of guidance) and bottom line at US\$30mn (+89% YoY, 44% above consensus). We are more confident in its margin outlook, backed by freight fee normalization, annual contracts and Noble House (NH)'s narrowing loss. The discount rate & margin benefits from annual freight contracts were underestimated by the market, in our view. BaaS, as the industry-first service, will export GCT's brands & expertise into participants, and boost collective growth ahead. To reflect stronger 1Q24E, we lift FY24-26E earnings forecast by 8%-10%, with higher SOTP-based TP at US\$46 (16x FY24E P/E, still below industry average).

■ **Expecting a strong start in FY24E.** We are more bullish on GCT's continuous outperformance and share gain, after our visit to Giga Face-To-Face Event in Shenzhen. 1Q24E would benefit from CNY promotion and outdoors furniture's ramp-up. We expect GCT's topline to continuously accelerate to US\$251mn in 1Q24E (+96% YoY, vs. prior +84% YoY). Excluding NH's contribution (estimating revenue of US\$45mn in 1Q24E), GCT's organic growth would be stronger at +60% YoY. For the bottom line, we forecast 1Q24E net profit at US\$30mn (+89% YoY, 44% above consensus), in which GPM would be relatively stable QoQ.

■ **Better margin outlook.** We keep positive on GCT's margin outlook, in which freight fee would pose less-than-expected impact on its GPM. Freight fee declined for six consecutive weeks post CNY. Moreover, GCT will enter into agreements with shippers with favourable pricing for upcoming sizable volume, as mgmt. stated. Based on Freightos and our channel check, annual freight contracts between shippers and carriers typically charge even at a lower price than average fee on a regular basis (e.g. US\$2,000-US\$3,000 in 2023). We think such contracts would help GCT to manage costs across both lull and peak season, and further benefit its LT margin expansion (positive to 2Q24E GPM after the contracts come into effect). 2Q24E net margin might be slightly diluted by SBC, but non-GAAP NM would be intact. We lifted its NPM by 0.8-0.9ppts to 10.4%-11.5% in FY24-26E, backed by freight fee declining, annual contracts and NH narrowing loss.

■ **Tapping into larger TAM with BaaS initiatives.** GCT launched BaaS program to allow sellers to sell and distribute the approved SKUs under Christopher Knight. By leveraging CK's brand effect and GCT's supply chain capability, we expect BaaS to benefit all participants on streamline efficiency, market reach and profitability. Meanwhile, BaaS can strengthen GCT's seller & buyer stickiness, accelerate its premium SKU expansion, attract more brands engaged and boost GMV secular growth.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	490	704	1,112	1,353	1,632
YoY growth (%)	18.3	43.6	58.1	21.6	20.6
Net profit (US\$ mn)	24.0	94.1	116.0	149.6	187.9
EPS (Reported) (US\$)	0.98	2.30	2.82	3.62	4.52
YoY growth (%)	(65.6)	134.2	22.7	28.3	24.9
Consensus EPS (US\$)	NA	NA	2.79	3.51	4.00
P/S (x)	2.8	2.0	1.2	1.0	0.8
P/E (x)	32.2	13.7	11.1	8.6	7.0
ROE (%)	16.3	38.8	34.7	32.3	28.9

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>US\$46.00</b>
(Previous TP)	US\$43.00)
<b>Up/Downside</b>	<b>45.6%</b>
<b>Current Price</b>	<b>US\$31.59</b>

### China Entertainment

#### Sophie HUANG

(852) 3900 0889

sophiehuang@cmbi.com.hk

### Stock Data

Mkt Cap (US\$ mn)	1,373.1
Avg 3 mths t/o (US\$ mn)	78.3
52w High/Low (US\$)	43.15/5.01
Total Issued Shares (mn)	41.0

Source: FactSet

### Shareholding Structure

Larry, Lei Wu	22.8%
DCM	13.9%

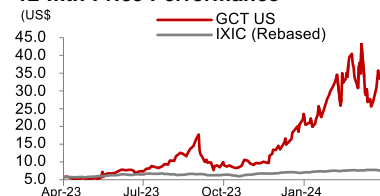
Source: Nasdaq

### Share Performance

	Absolute	Relative
1-mth	-2.6%	-3.6%
3-mth	42.7%	30.4%
6-mth	236.2%	178.9%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Auditor: KPMG

### Related reports:

- Riding on stepping-up expansion - 19 Mar 2024
- More surprises to come - 26 Jan 2024
- Eye on stronger 4Q23E and M&A synergies - 6 Dec 2023
- Initiation: Data-driven B2B pioneer on large parcel logistics - 16 Oct 2023

## Expecting continuous outperformance in 1Q24E

After multiple upbeat quarters, we are confident in GCT's continuous outperformance in 1Q24E and FY24E. CNY promotion in Feb and outdoors furniture's ramp-up in Mar would support a strong start in FY24E for GCT. We expect GCT's topline to accelerate to US\$251mn in 1Q24E (+96% YoY, vs. prior +84% YoY), ahead of already-high guidance and expectation. Excluding Noble House (NH)'s contribution (estimating revenue of US\$45mn in 1Q24E), GCT's organic growth would be stronger at +60% YoY. For the bottom line, we expect 1Q24E net profit at US\$30mn (+89% YoY, 44% above consensus), in which GPM would be relatively stable QoQ at 28% (vs. consensus of 25.5%).

Figure 1: 1Q24E financial preview

US\$ mn, Dec-YE	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	QoQ	YoY	Consensus	Diff %
Revenue	128	126	128	153	178	245	251	2.4%	96.0%	235	7%
Gross profit	23	27	30	40	49	70	70	0.4%	137.2%	60	17%
Operating Profit	4	15	18	23	32	37	37	-0.1%	107.6%	25	48%
Net profit	1	12	16	18	24	36	30	-15.3%	89.1%	21	44%
EPS (US\$)	0.02	0.31	0.39	0.45	0.59	0.87	0.74	-15.5%	88.2%	0.51	45%
<b>Margin (%)</b>											
Gross margin	17.6%	21.2%	23.1%	26.4%	27.4%	28.5%	28.0%			25.5%	
Operating margin	3.3%	12.0%	14.0%	15.3%	17.8%	15.2%	14.8%			10.6%	
Net margin	0.5%	9.9%	12.5%	12.0%	13.6%	14.5%	12.0%			8.9%	
<b>Growth (%)</b>											
Revenue (YoY)	NA	NA	13.7%	23.5%	39.2%	94.8%	96.0%			83.9%	
Revenue (QoQ)	3.2%	-1.9%	1.7%	19.8%	16.4%	37.4%	2.4%			-4.0%	
Operating Profit	NA	NA	141.3%	185.4%	646.2%	146.5%	107.6%			40.0%	
Net profit	NA	NA	242.2%	203.1%	3583.7%	185.1%	89.1%			31.7%	

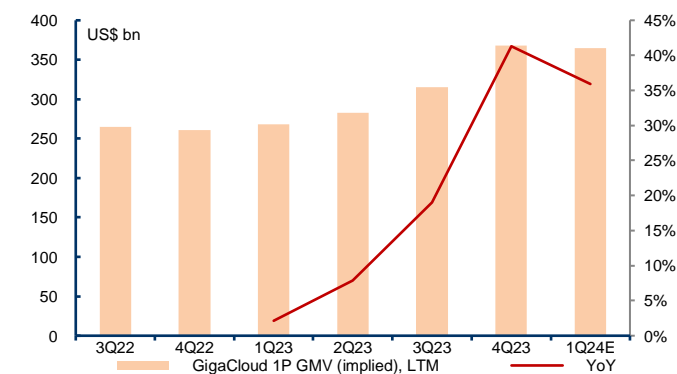
Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 1Q24E revenue breakdown

US\$ mn, Dec-YE	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	QoQ	YoY
<b>Total revenue</b>	<b>128</b>	<b>126</b>	<b>128</b>	<b>153</b>	<b>178</b>	<b>245</b>	<b>251</b>	<b>2%</b>	<b>96%</b>
Service rev (3P)		41	36	35	43	51	61	-11%	75%
Product rev (1P and off-platform)		87	90	93	110	127	189	8%	104%

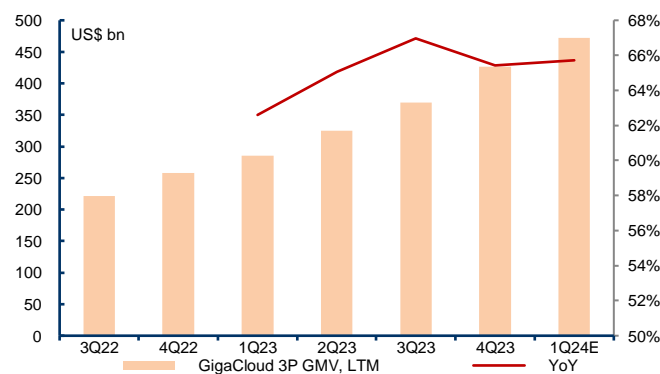
Source: Company data, CMBIGM estimates

Figure 3: 1P GMV growth (LTM)



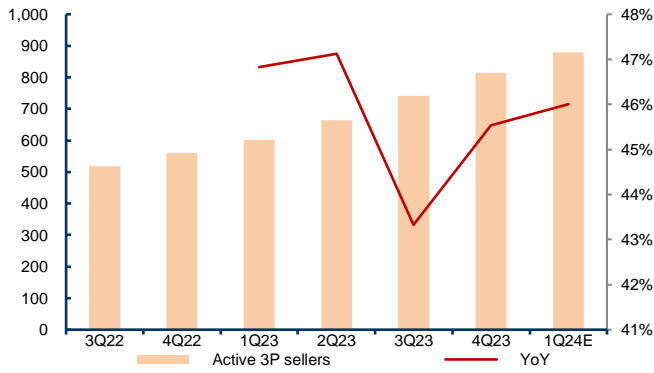
Source: Company data, CMBIGM estimates

Figure 4: 3P GMV growth (LTM)



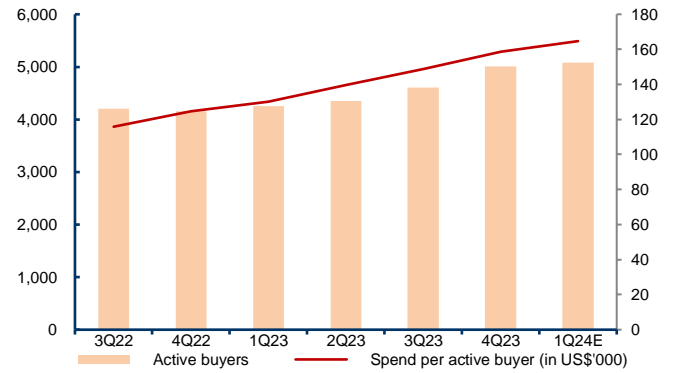
Source: Company data, CMBIGM estimates

**Figure 5: No. of active 3P sellers and growth**



Source: Company data, CMBIGM estimates

**Figure 6: Active buyers & spending per buyers**



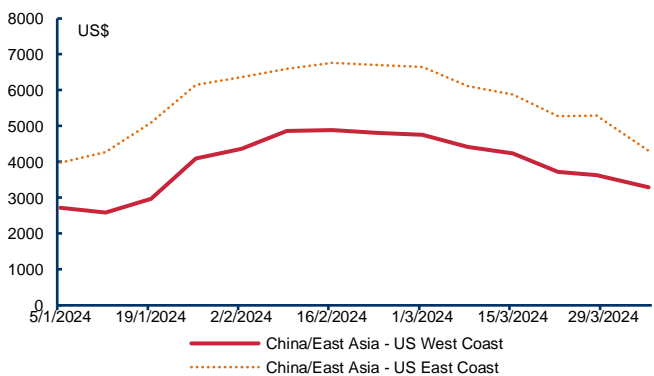
Source: Company data, CMBIGM estimates

## Better margin outlook

We keep positive on GCT's margin outlook ahead, in which freight fee would pose less-than-expected impact on its GPM and NH cost efficiency paid off. According to Freightos, freight fee declined for six consecutive weeks post CNY (China/East Asia – US West Coast prices declined to US\$3,285/FEU by 4 Apr from US\$4,889/FEU in mid-Feb; China - US East Coast ocean rates dropped to US\$4,307/FEU from US\$6,764/FEU), suggesting freight fee normalization in sight. On top of that, GCT will enter into agreements with ship owners with favourable pricing for upcoming sizable volume, as mgmt. stated in earnings call. Based on Freightos and our channel check, annual freight contracts between shippers and carriers typically charge even at a lower price than average fee on a regular basis (e.g. US\$2,000~US\$3,000 in 2023). We think such contracts would help GCT to manage costs across both lull and peak season, and further benefit its LT margin expansion (positive to 2Q24E GPM after the contracts come into effect).

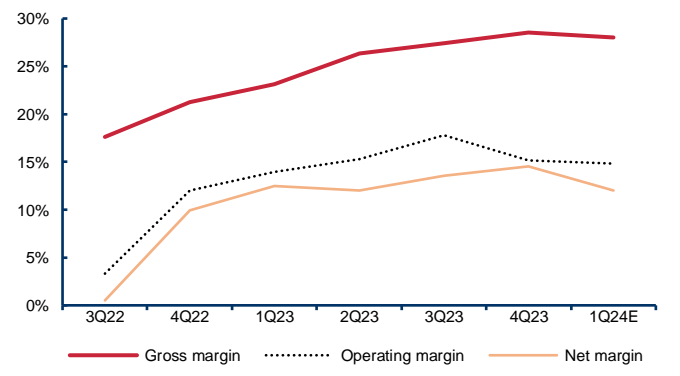
For NH, NH recorded a net loss of US\$0.3mn in 4Q23 (better than our estimates on improving productivity, supply management and price hike), and we expect similar net loss position in 1Q24E. 2Q24E net margin might be slightly diluted by SBC, but non-GAAP NM would be intact. We lifted its adj. NPM by 0.8-0.9ppts to 10.4%-11.5% in FY24-26E, backed by freight fee declining, annual freight contracts and NH narrowing loss.

**Figure 7: Ocean rate trend (YTD)**



Source: Freightos

**Figure 8: Quarterly margin estimates**



Source: Company data, CMBIGM estimates

## BaaS to export brands & expertise

GCT launched its industry-first service, “Branding-as-a-Service” (BaaS), to allow sellers to sell and distribute the approved product SKUs under one of the leading US furniture brands, Christopher Knight. Under BaaS program, GCT will select qualified SKU, and oversees brand management, fulfillment, marketing and promotion of the branded products, with charging a designated fee. By leveraging CK’s brand effect, GCT’s supply chain capability and huge customer base, BaaS would enable participants to address industry challenges (e.g. infrequent purchases, slow brand value accumulation) and drive collective growth.

We expect BaaS program to benefit all participants involved: 1) for sellers: sellers can leverage NH brand effect with enhanced quality control and efficiency, to better develop & promote products with higher pricing & GPM; 2) for buyers: approach broader SKU selections from notable brands; 3) for brands: brands and manufacturers can introduce their own label to BaaS, further expanding market presence (e.g. Steve Silver Company, an industry-leading importer of dining, living, bedroom, home office, and outdoor furniture); 4) for GCT: BaaS can strengthen GCT’s seller & buyer stickiness, accelerate its premium SKU expansion, attract more brands engaged and boost GMV secular growth. In the SZ offline event, we noticed high motivation from sellers & good feedbacks from customers regarding BaaS, and will closely track the ongoing SKU approvals and BaaS GMV performance ahead.

Figure 9: BaaS structure



Source: Company data

Figure 10: CK’s performance and top customers



Source: Company data

Figure 11: A patio set from CK in Oprah's interview with Meghan, Duchess of Sussex, and Prince Harry



Source: Company data

Figure 12: GigaCloud Face-To-Face Event in SZ



Source: Site visit

Figure 13: GigaCloud Face-To-Face Event in SZ



Source: Site visit

Figure 14: GigaCloud Face-To-Face Event in SZ



Source: Site visit

Figure 15: GigaCloud Face-To-Face Event in SZ



Source: Site visit

## Looking beyond short-term volatility for stock sales from insiders

GCT's stock price corrected by ~20% from its peak post earnings, due to 10K filing delay and stock sales from insiders. After its 10K filing disclosure and closure of insiders trading windows (including DCM, CTO, COO, CFO, and President), price rebounded by ~40%. For the 10b-5(1) trading plan, it is independent from GCT's operations or fundamentals change. We view it to pose limited impact on stock price ahead, given GCT's sizable daily trading volume. We think recent insiders sales has been partially priced in, and suggest investors to refocus on its healthy organic growth and fundamentals improvement.

## Maintain BUY with higher TP on improving earnings

Given 1Q24E outperformance on share gain, we lifted GCT's topline forecast by 0.4%-0.5% in FY24-26E. Coupled with better margin outlook, we raised our earnings forecast by 8%-10%. As such, GCT is estimated to deliver 27% EPS CAGR in FY24-26E.

Correspondingly, we lifted our SOTP-based TP to US\$46 from US\$43, with valuation multiple unchanged. We applied 18x P/E multiple (10% discount to global ecommerce and retailer average multiple) for its 3P segment, while 16x PE multiple (at 18% discount) for 1P business as it has inventory risks, yielding TP of US\$46. Our SOTP valuation suggests 16x FY24E P/E. We selected three group peers for comparison, including global ecommerce comps, furniture-related retailers /consumer peers and logistics peers. Ecommerce/ retailers/ logistics peers trade at 20x/20x/17.6x FY24E P/E. The industry multiple is 19.4x FY24E P/E, 21% above our SOTP-based multiple.

**Figure 16: Income statement**

US\$ mn, Dec-YE	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>414</b>	<b>490</b>	<b>704</b>	<b>1,112</b>	<b>1,353</b>	<b>1,632</b>
Service rev (3P)	98	141	199	257	338	439
Product rev (1P and off-platform)	316	349	505	855	1,014	1,193
COGS	325	407	515	812	988	1,191
<b>Gross profit</b>	<b>90</b>	<b>83</b>	<b>189</b>	<b>300</b>	<b>365</b>	<b>441</b>
Selling and marketing	26	24	41	81	92	106
General and administrative	25	23	30	62	72	82
Research and development	-	1	4	14	18	21
<b>Operating profit</b>	<b>39</b>	<b>35</b>	<b>110</b>	<b>142</b>	<b>184</b>	<b>232</b>
Interest expense	(0)	(1)	(1)	(1)	(1)	(1)
Interest Income	1	0	3	3	3	3
Foreign currency exchange gain/(loss)	(2)	(5)	2	-	-	-
Government Grant	-	1	1	-	-	-
<b>EBT</b>	<b>38</b>	<b>31</b>	<b>115</b>	<b>145</b>	<b>187</b>	<b>235</b>
Taxes	(8)	(7)	(21)	(29)	(37)	(47)
<b>Net income</b>	<b>29</b>	<b>24</b>	<b>94</b>	<b>116</b>	<b>150</b>	<b>188</b>
<b>Adj. EBITDA</b>	<b>48</b>	<b>42</b>	<b>118</b>	<b>159</b>	<b>198</b>	<b>249</b>
<b>Margin Analysis</b>						
Gross margin	22%	17%	27%	27%	27%	27%
Operating margin	10%	7%	16%	13%	14%	14%
Net margin	7%	5%	13%	10%	11%	12%
Adj. EBITDA margin	12%	9%	17%	14%	15%	15%
<b>Growth Analysis</b>						
Revenue	50%	18%	44%	58%	22%	21%
Gross profit	19%	-7%	127%	59%	22%	21%
Operating profit	-11%	-11%	214%	29%	29%	26%
Net profit	-22%	-18%	293%	23%	29%	26%
Adj. EBITDA	-9%	-13%	183%	35%	24%	26%

Source: Company data, CMBIGM estimates

**Figure 17: CMBIGM estimates vs consensus**

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,112	1,353	1,632	1,107	1,319	1,625	0.5%	2.6%	0.4%
Gross Profit	300	365	441	294	348	423	2.0%	4.9%	4.3%
Operating Profit	142	184	232	138	173	199	3.2%	6.4%	16.7%
Net profit	116	150	188	114	144	166	1.8%	4.3%	13.5%
EPS (US\$)	2.82	3.62	4.52	2.79	3.51	4.00	1.3%	3.1%	13.2%
Gross Margin	27.0%	27.0%	27.0%	26.6%	26.4%	26.0%	+0.4ppts	+0.6ppts	+1.0ppts
Operating Margin	12.8%	13.6%	14.2%	12.5%	13.1%	12.2%	+0.3ppts	+0.5ppts	+2.0ppts
Net Margin	10.4%	11.1%	11.5%	10.3%	10.9%	10.2%	+0.1ppts	+0.2ppts	+1.3ppts

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 18: Earnings revision**

US\$ mn, Dec-YE	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,112	1,353	1,632	1,107	1,347	1,625	0.5%	0.4%	0.4%
Gross Profit	300	365	441	286	350	422	5.1%	4.3%	4.3%
Operating Profit	142	184	232	130	170	214	9.9%	8.4%	8.0%
Net profit	116	150	188	106	138	174	9.7%	8.3%	7.9%
EPS (US\$)	2.82	3.62	4.52	2.59	3.38	4.15	9.1%	7.1%	8.9%
Gross Margin	27.0%	27.0%	27.0%	25.8%	26.0%	26.0%	+1.2ppts	+1.0ppts	+1.0ppts
Operating Margin	12.8%	13.6%	14.2%	11.7%	12.6%	13.2%	+1.1ppts	+1.0ppts	+1.0ppts
Net Margin	10.4%	11.1%	11.5%	9.6%	10.3%	10.7%	+0.9ppts	+0.8ppts	+0.8ppts

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 19: SOTP valuation (P/E methodology)**

Business (US\$ mn)	2024E Rev		2024E		Multiple	Valuation	Stakes	Value
	(US\$mn)	Adj. NP (US\$mn)	Methodology					
Service rev (3P)	257	31	P/E	18.0x	555	100%	555	
Product rev (1P and off-platform)	855	84	P/E	16.0x	1,341	100%	1,341	
<b>Equity Value (US\$ mn)</b>								<b>1,896</b>
<b>TP (US\$) based on SOTP</b>								<b>46</b>

Source: CMBIGM estimates

Figure 20: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY24-26 EPS CAGR
							FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	
<b>GigaCloud Technology</b>	<b>GCT US</b>	<b>1,366</b>	<b>USD</b>	<b>33</b>	<b>BUY</b>	<b>46</b>	<b>11.9</b>	<b>9.3</b>	<b>7.4</b>	<b>1.2</b>	<b>1.0</b>	<b>0.8</b>	<b>27%</b>
<b>Global ecommerce</b>													
eBay	EBAY US	27,040	USD	52	NA	NA	11.9	11.6	10.6	2.6	2.5	2.4	8%
Wayfair	W US	7,336	USD	61	NA	NA	62.7	27.9	18.6	0.6	0.6	0.5	72%
Groupon	GRPN US	491	USD	13	NA	NA	16.0	7.9	4.4	1.0	0.9	0.7	NA
Mercadolibre	MELI US	76,021	USD	1,500	NA	NA	42.9	31.8	22.8	4.3	3.5	2.9	37%
Etsy	ETSY US	7,851	USD	66	NA	NA	17.8	15.9	14.6	2.8	2.6	2.4	11%
RB Global	GB US	968	USD	5	NA	NA	24.4	11.5	9.4	2.0	1.7	1.5	61%
OPENLANE	KAR US	1,728	USD	16	NA	NA	14.6	12.8	9.5	1.0	1.0	0.9	30%
IndiaMART	INMART IN	1,902	INR	2,628	NA	NA	49.3	40.0	32.0	13.2	11.0	9.2	25%
SONGMICS HOME	301376 CH	1,342	CNY	24	NA	NA	23.8	19.4	15.9	1.6	1.3	1.1	22%
Average							20.3	16.6	12.9	1.6	1.5	1.3	19%
<b>Retailers / Consumers (Furniture-related)</b>													
Home Depot	HD US	369,877	USD	373	NA	NA	24.5	23.3	21.8	2.4	2.3	2.2	8%
Walmart	WMT US	488,962	USD	61	NA	NA	25.6	23.6	21.5	0.7	0.7	0.7	10%
La-Z-Boy	LZB US	1,558	USD	37	NA	NA	13.1	12.9	12.6	0.8	0.8	0.7	9%
Ethan Allen Interiors	ETD US	828	USD	33	NA	NA	11.9	11.1	NA	1.2	1.2	NA	NA
Lifetime Brands	LCUT US	217	USD	10	NA	NA	15.7	11.7	12.3	0.3	0.3	0.3	14%
Tempur Sealy	TPX US	9,203	USD	53	NA	NA	18.8	16.5	15.7	1.8	1.7	1.7	10%
RH	RH US	5,297	USD	291	NA	NA	32.2	23.8	17.9	1.7	1.6	1.5	42%
Williams-Sonoma	WSM US	18,204	USD	284	NA	NA	18.8	18.2	17.4	2.4	2.3	2.2	6%
Average							20.1	17.6	17.0	1.3	1.2	1.2	14%
<b>Logistics</b>													
United Parcel Service	UPS US	130,771	USD	153	NA	NA	18.5	15.9	14.8	1.4	1.3	1.3	13%
FedEx	FDX US	63,295	USD	253	NA	NA	14.4	12.0	10.6	0.7	0.7	0.7	17%
Expeditors International of W.	EXPD US	17,248	USD	120	NA	NA	25.6	24.3	24.7	1.9	1.8	1.8	5%
GXO logistics	GXO US	5,902	USD	49	NA	NA	17.9	15.3	13.9	0.6	0.5	0.5	14%
ArcBest	ARCB US	3,021	USD	129	NA	NA	12.5	10.2	8.8	0.7	0.6	0.6	19%
Full Truck	YMM US	7,985	USD	7	NA	NA	16.3	12.5	10.0	5.5	4.5	3.7	28%
Average							17.6	15.0	13.5	1.3	1.2	1.1	17%
<b>Average</b>							<b>19.4</b>	<b>17.3</b>	<b>14.8</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>17%</b>

Source: Bloomberg, CMBIGM estimates

Figure 21: DCF valuation

DCF Valuation (US\$ mn)																																																																												
	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E																																																																			
EBIT	142	184	232	276	318	356	391	421	448																																																																			
Tax	(29)	(37)	(47)	(55)	(64)	(71)	(78)	(84)	(90)																																																																			
D&A	1	2	2	2	2	2	2	2	2																																																																			
Change in working capital	(8)	24	(45)	(48)	(50)	(52)	(55)	(58)	(61)																																																																			
CAPEX	(3)	(4)	(5)	(5)	(6)	(7)	(7)	(8)	(9)																																																																			
<b>FCF</b>	<b>103</b>	<b>168</b>	<b>137</b>	<b>170</b>	<b>200</b>	<b>228</b>	<b>253</b>	<b>274</b>	<b>291</b>																																																																			
FCF Growth	-13%	64%	-19%	24%	18%	14%	11%	8%	6%																																																																			
<b>PV</b>	<b>103</b>	<b>145</b>	<b>102</b>	<b>109</b>	<b>112</b>	<b>110</b>	<b>105</b>	<b>98</b>	<b>824</b>																																																																			
<b>Terminal Value</b>										<b>2,356</b>																																																																		
<b>Assumptions</b>																																																																												
<b>WACC</b>	<b>15.7%</b>																																																																											
Tax rate	20.0%																																																																											
Risk free rate	3.95%																																																																											
Beta	1.30																																																																											
Market risk return	13.0%																																																																											
Cost of equity	15.7%																																																																											
Debt/Assets	0.0%																																																																											
<b>Long term growth</b>	<b>3.0%</b>																																																																											
<b>Equity Value</b>																																																																												
<b>PV</b>	<b>1,709</b>																																																																											
minus: Net debt (US\$ mn)	(184)																																																																											
minus: Minority interest (US\$ mn)	0																																																																											
<b>Equity Value(US\$ mn)</b>	<b>1,893</b>																																																																											
No. of shares (mn)	41																																																																											
<b>Target Price (US\$) based on DCF</b>	<b>46</b>																																																																											
<table border="1"> <thead> <tr> <th colspan="2"></th> <th colspan="6">WACC</th> </tr> <tr> <th colspan="2"></th> <th>~</th> <th>14%</th> <th>15%</th> <th>16%</th> <th>17%</th> <th>18%</th> </tr> </thead> <tbody> <tr> <td rowspan="7"><b>Terminal growth rate</b></td> <td>1.5%</td> <td>50.0</td> <td>46.4</td> <td>44.2</td> <td>40.6</td> <td>38.3</td> <td></td> </tr> <tr> <td>2.0%</td> <td>51.0</td> <td>47.2</td> <td>44.9</td> <td>41.2</td> <td>38.7</td> <td></td> </tr> <tr> <td>2.5%</td> <td>52.0</td> <td>48.0</td> <td>45.6</td> <td>41.7</td> <td>39.2</td> <td></td> </tr> <tr> <td>3.0%</td> <td>53.1</td> <td>48.9</td> <td><b>46.3</b></td> <td>42.3</td> <td>39.7</td> <td></td> </tr> <tr> <td>3.5%</td> <td>54.3</td> <td>49.9</td> <td>47.2</td> <td>42.9</td> <td>40.2</td> <td></td> </tr> <tr> <td>4.0%</td> <td>55.7</td> <td>50.9</td> <td>48.1</td> <td>43.6</td> <td>40.7</td> <td></td> </tr> <tr> <td>4.5%</td> <td>57.2</td> <td>52.1</td> <td>49.0</td> <td>44.3</td> <td>41.3</td> <td></td> </tr> </tbody> </table>													WACC								~	14%	15%	16%	17%	18%	<b>Terminal growth rate</b>	1.5%	50.0	46.4	44.2	40.6	38.3		2.0%	51.0	47.2	44.9	41.2	38.7		2.5%	52.0	48.0	45.6	41.7	39.2		3.0%	53.1	48.9	<b>46.3</b>	42.3	39.7		3.5%	54.3	49.9	47.2	42.9	40.2		4.0%	55.7	50.9	48.1	43.6	40.7		4.5%	57.2	52.1	49.0	44.3	41.3	
		WACC																																																																										
		~	14%	15%	16%	17%	18%																																																																					
<b>Terminal growth rate</b>	1.5%	50.0	46.4	44.2	40.6	38.3																																																																						
	2.0%	51.0	47.2	44.9	41.2	38.7																																																																						
	2.5%	52.0	48.0	45.6	41.7	39.2																																																																						
	3.0%	53.1	48.9	<b>46.3</b>	42.3	39.7																																																																						
	3.5%	54.3	49.9	47.2	42.9	40.2																																																																						
	4.0%	55.7	50.9	48.1	43.6	40.7																																																																						
	4.5%	57.2	52.1	49.0	44.3	41.3																																																																						

Source: Bloomberg, CMBIGM estimates



## Risks

1) Intensified competition landscape; 2) economic uncertainties; 3) geopolitical tension and tariff change; 4) potential rise in ocean freight rate; 5) ineffective inventory management and operational misstep; and 6) failure to maintain and expand relationships with third-party platforms, sellers, and buyers.

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
<b>Revenue</b>	<b>414</b>	<b>490</b>	<b>704</b>	<b>1,112</b>	<b>1,353</b>	<b>1,632</b>
Cost of goods sold	325	407	515	812	988	1,191
<b>Gross profit</b>	<b>90</b>	<b>83</b>	<b>189</b>	<b>300</b>	<b>365</b>	<b>441</b>
<b>Operating expenses</b>	<b>50</b>	<b>48</b>	<b>75</b>	<b>158</b>	<b>181</b>	<b>209</b>
Selling expense	26	24	41	81	92	106
Admin expense	25	23	30	62	72	82
R&D expense	0	1	4	14	18	21
<b>Operating profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>EBIT</b>	<b>39</b>	<b>35</b>	<b>110</b>	<b>142</b>	<b>184</b>	<b>232</b>
Interest income	1	0	3	3	3	3
Interest expense	(0)	(1)	(1)	(1)	(1)	(1)
Foreign exchange gain/loss	(2)	(5)	2	0	0	0
Other income/expense	0	0	(0)	0	0	0
<b>Pre-tax profit</b>	<b>38</b>	<b>31</b>	<b>115</b>	<b>145</b>	<b>187</b>	<b>235</b>
Income tax	(8)	(7)	(21)	(29)	(37)	(47)
<b>Net profit</b>	<b>29</b>	<b>24</b>	<b>94</b>	<b>116</b>	<b>150</b>	<b>188</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
<b>Current assets</b>	<b>172</b>	<b>258</b>	<b>386</b>	<b>604</b>	<b>810</b>	<b>1,075</b>
Cash & equivalents	64	145	184	305	489	644
Account receivables	18	27	59	69	87	110
Inventories	81	78	126	196	195	276
Prepayment	9	8	18	34	39	45
<b>Non-current assets</b>	<b>14</b>	<b>161</b>	<b>454</b>	<b>415</b>	<b>417</b>	<b>420</b>
PP&E	11	13	25	16	18	21
Right-of-use assets	0	144	399	399	399	399
Other non-current assets	3	3	31	0	0	0
<b>Current liabilities</b>	<b>57</b>	<b>103</b>	<b>199</b>	<b>386</b>	<b>423</b>	<b>476</b>
Short-term borrowings	0	0	0	0	0	0
Account payables	25	32	63	79	94	121
Tax payable	8	4	15	15	15	15
Other current liabilities	54	65	132	132	132	132
Lease liabilities	0	28	58	58	58	58
Contract liabilities	4	2	6	7	8	10
Accrued expenses	20	37	57	95	116	140
<b>Non-current liabilities</b>	<b>4</b>	<b>121</b>	<b>351</b>	<b>344</b>	<b>344</b>	<b>344</b>
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	0	117	344	344	344	344
<b>Total liabilities</b>	<b>61</b>	<b>223</b>	<b>550</b>	<b>730</b>	<b>766</b>	<b>820</b>
Capital surplus	37	109	112	127	140	155
Retained earnings	61	84	178	294	443	631
Other reserves	(0)	1	1	0	0	0
<b>Total shareholders equity</b>	<b>99</b>	<b>195</b>	<b>290</b>	<b>379</b>	<b>547</b>	<b>752</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	38	31	115	145	187	235
Depreciation & amortization	1	1	3	1	2	2
Tax paid	(8)	(7)	(21)	(29)	(37)	(47)
Change in working capital	(35)	6	28	(8)	24	(45)
<b>Net cash from operations</b>	<b>9</b>	<b>50</b>	<b>133</b>	<b>125</b>	<b>188</b>	<b>160</b>
<b>Investing</b>						
Capital expenditure	(2)	(1)	(4)	(3)	(4)	(5)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
<b>Net cash from investing</b>	<b>(2)</b>	<b>(1)</b>	<b>(91)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>
<b>Financing</b>						
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	34	0	0	0	0	0
Others	(37)	32	(4)	0	0	0
<b>Net cash from financing</b>	<b>(3)</b>	<b>32</b>	<b>(4)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	62	64	145	184	305	489
Exchange difference	(2)	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>64</b>	<b>145</b>	<b>184</b>	<b>305</b>	<b>489</b>	<b>644</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	50.4%	18.3%	43.6%	58.1%	21.6%	20.6%
Gross profit	19.3%	(7.2%)	127.0%	59.2%	21.6%	20.6%
EBIT	(10.9%)	(11.0%)	214.3%	29.4%	29.2%	25.9%
Net profit	(21.9%)	(18.1%)	292.6%	23.3%	29.0%	25.5%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	21.6%	17.0%	26.8%	27.0%	27.0%	27.0%
Operating margin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Return on equity (ROE)	36.4%	16.3%	38.8%	34.7%	32.3%	28.9%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio (x)	3.0	2.5	1.9	1.6	1.9	2.3
Receivable turnover days	18.5	16.8	22.3	21.0	21.0	22.0
Inventory turnover days	65.8	71.6	72.2	72.2	72.2	72.2
Payable turnover days	24.7	25.4	33.5	32.0	32.0	33.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	11.7	32.2	13.7	11.1	8.6	7.0
P/B	3.5	4.2	4.7	3.6	2.5	1.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.