

Horizon CD (9930 HK)

Back to capex growth model to achieve product diversification & overseas expansion

Horizon CD's core net profit in 1H24 dropped 16% YoY to RMB268mn, largely in line with our expectation. Horizon CD proposed HK\$0.04/ share of interim dividend, the first time since listing. While Horizon CD maintains the asset-light model for its aerial work platform (AWP) leasing business in China, it is expanding the equipment portfolio through investing in material handling equipment and mining equipment, which took its capex up 3.6x YoY to RMB4.4bn in 1H24. Meanwhile, Horizon CD continues to see overseas markets as the growth driver (35 outlets as at end-Jun). We therefore forecast the net debt/equity ratio to rebound in 2024E. We revise down our 2024E/25E/26E earnings forecast by 2%/10%/12%, largely due to higher finance expense projections. We slightly cut our TP to HK\$3.6 from HK\$3.7, based on unchanged 10x 2024E P/E. Trading at <4x 2024E P/E, we think the downside risk is limited.

- **Key highlights in 1H24 results:** Revenue grew 16% YoY to RMB4.9bn. Gross margin contracted 2.1ppt YoY to 32%, as the 6.3ppt margin expansion of engineering service segment was offset by the contraction of operating lease (-2.5ppt) and asset management segment (-5.3ppt). Selling & distribution expense ratio increased 2.5ppt YoY to 5.4%. The net expected credit loss (ECL) ratio slightly dropped 0.5ppt YoY to 3.5%. Excluding the listing expense and interest expense & FX change from the redemption liabilities on pre-IPO investment in 1H23, core net profit in 1H24 dropped 16% YoY to RMB268mn. Operating cash inflow increased 4% YoY to RMB1.35bn. With investing cash outflow of RMB3.1bn, net debt to equity ratio rebounded to 164% at end-Jun (vs 147% at end-2023).
- **Operating lease services (39% of revenue).** The segment revenue dropped 24% YoY to RMB1.9bn in 1H24, largely due to the decrease in rental rates and overall utilisation rate of AWP that offset the increase in equipment volume and utilisation rate of neo-excavation systems and neo-formwork systems.
- **Engineering & technical services (40% of revenue).** The segment revenue surged 71% YoY to RMB1.95bn in 1H24, with gross margin expanding by 6.3ppt YoY to 27%.
- **Asset management & other services (21% of revenue).** The segment revenue surged 84% YoY to RMB1bn in 1H24. Breakdown: (1) Asset management service revenue surged 1.5x YoY to RMB744mn, driven by the adoption of an asset-light model for AWP. The managed fleet size of AWP grew >1.6x YoY to 73k units. (2) Trade and others revenue grew 10% YoY to RMB287mn. The segment gross margin contracted 5.3ppt YoY to 32%.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	7,878	9,611	10,989	12,241	13,386
YoY growth (%)	28.3	22.0	14.3	11.4	9.4
Adjusted net profit (RMB mn)	944.8	1,043.0	1,186.0	1,320.8	1,511.8
YoY growth (%)	28.2	10.4	13.7	11.4	14.5
EPS (Adjusted) (RMB)	0.33	0.34	0.37	0.41	0.47
Consensus EPS (RMB)	na	0.00	0.41	0.50	0.63
P/E (x)	5.8	4.3	3.7	3.3	2.9
P/B (x)	0.6	0.4	0.4	0.3	0.3
Yield (%)	0.0	0.0	8.2	9.1	10.4
ROE (%)	10.5	11.0	10.4	10.6	11.2
Net gearing (%)	286.4	147.2	151.4	128.9	104.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$3.60**
 (Previous TP) **HK\$3.70**
Up/Downside **143.2%**
Current Price **HK\$1.48**

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Stock Data

Mkt Cap (HK\$ mn)	4,731.9
Avg 3 mths t/o (HK\$ mn)	6.4
52w High/Low (HK\$)	4.59/1.06
Total Issued Shares (mn)	3197.2

Source: FactSet

Shareholding Structure

Far East Horizon	41.7%
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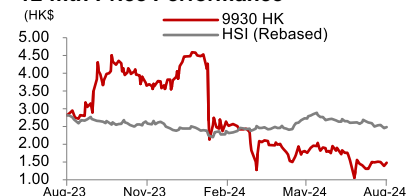
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.1%	5.9%
3-mth	-19.1%	-12.3%
6-mth	-42.2%	-45.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

Horizon CD – 2023 earnings in line; 15% share price pullback looks overdone – 13 Mar 2024 ([link](#))

Horizon CD - Sell-off unjustified; expect pressure to end in 2-3 days; BUY on price weakness – 19 Jan 2024 ([link](#))

Horizon CD – Expect solid 2023E earnings; Higher free float to boost valuation – 10 Jan 2024 ([link](#))

Horizon CD - 1H23 core profit +10% YoY; positive on the structural growth and mgmt. execution – 9 Aug 2023 ([link](#))

Horizon CD - No.1 equipment operation service provider ready to capture the opportunities in AWP – 5 Jul 2023 ([link](#))

Figure 1: Key highlights for 1H24 results

YE Dec 31 (RMB mn)	1H23	1H24	Change (YoY)
Revenue			
Operating lease services	2,506	1,896	-24.3%
Engineering and technical services	1,141	1,946	70.6%
Platform and other services	560	1,031	84.1%
Total revenue	4,206	4,872	15.8%
Cost of sales	-2,770	-3,313	19.6%
Gross profit	1,436	1,559	8.6%
Other income	79	82	3.3%
Other gains and losses	25	15	-39.9%
S&D expenses	-122	-263	116.0%
Administrative expenses	-436	-424	-2.9%
Expected credit losses of financial & contract assets, net	-167	-171	2.2%
Other expenses	-31	-20	-35.2%
EBIT	785	779	-0.7%
Net finance income/(expense)	-447	-372	-16.7%
Finance income	8	10	29.4%
Finance expenses	-455	-382	-16.0%
Share of profit of JV and associates	0	0	n/a
Pretax profit	338	407	20.5%
Income tax	-101	-139	37.9%
After tax profit	237	268	13.1%
MI	0	0	n/a
Net profit	237	268	13.1%
Core net profit	318	268	-15.6%
D&A	1,181	1,225	3.7%
EBITDA	1,965	2,004	2.0%
Non-operating or one-off gains/(loss)	-81	0	n/a
Listing expense	-13	0	n/a
FX change & others	-68	0	n/a
Key ratios			Change (ppt)
Gross margin	34.1%	32.0%	-2.1
S&D expense ratio	2.9%	5.4%	2.5
Admin expense ratio	10.4%	8.7%	-1.7
Expected credit loss ratio	4.0%	3.5%	-0.5
Core net margin	7.6%	5.5%	-2.0

Source: Company data, CMBIGM

Figure 2: Revenue and gross margin breakdown in 1H24

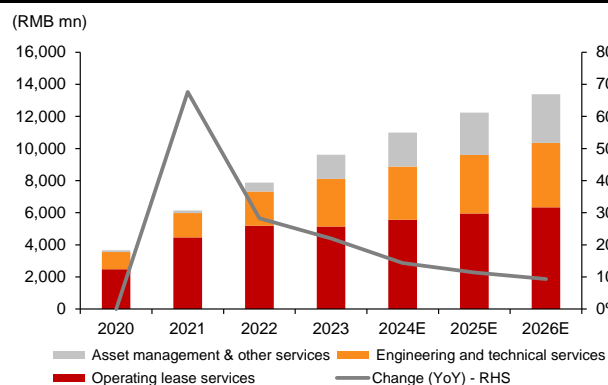
	1H23	1H24	Change (YoY)
Revenue (RMB mn)			
Operating lease services	2,506	1,896	-24.3%
Engineering and technical services	1,141	1,946	70.6%
Asset management & other services	560	1,031	84.1%
Total revenue	4,206	4,872	15.8%
Gross margin			Change ppt
Operating lease services	39.5%	37.1%	-2.46
Engineering and technical services	20.7%	27.0%	6.30
Asset management & other services	37.4%	32.1%	-5.32
Blended	34.1%	32.0%	-2.14

Source: Company data, CMBIGM

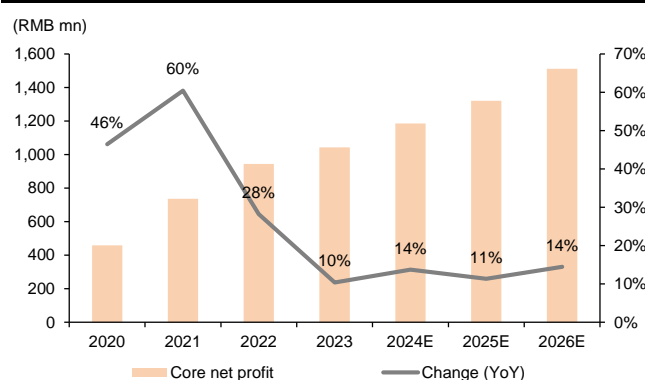
Figure 3: Change in key operating assumptions for Horizon CD

	Old			New			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue (RMB mn)									
Operating lease services	5,629	6,049	6,436	5,559	5,952	6,336	-1.2%	-1.6%	-1.5%
Engineering and technical services	3,320	3,652	4,018	3,320	3,652	4,018	0.0%	0.0%	0.0%
Asset management & other services	1,959	2,448	2,816	2,109	2,637	3,032	7.7%	7.7%	7.7%
Total revenue	10,908	12,150	13,269	10,989	12,241	13,386	0.7%	0.7%	0.9%
Gross margin									
Operating lease services	42.8%	42.8%	42.8%	42.5%	42.2%	42.1%	-0.3	-0.6	-0.7
Engineering and technical services	28.0%	28.0%	28.0%	30.0%	29.0%	29.0%	2.0	1.0	1.0
Asset management & other services	36.0%	36.0%	36.0%	35.0%	35.0%	35.0%	-1.0	-1.0	-1.0
Blended	37.1%	37.0%	36.9%	37.3%	36.7%	36.6%	0.2	-0.3	-0.3
Key expense ratios									
S&D expenses	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	0.0	0.0	0.0
Administrative expenses	10.8%	10.7%	10.7%	10.8%	10.7%	10.7%	0.0	0.0	0.0
Expected credit losses of financial & contract assets, net	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.0	0.0	0.0
Net finance expense (RMB mn)	-702	-604	-488	-756	-765	-708	7.6%	26.7%	45.2%
Reported net profit	1,204	1,470	1,718	1,186	1,321	1,512	-1.5%	-10.1%	-12.0%
Core net profit	1,204	1,470	1,718	1,186	1,321	1,512	-1.5%	-10.1%	-12.0%

Source: Company data, CMBIGM estimates

Figure 4: Revenue forecast

Source: Company data, CMBIGM estimates

Figure 5: Adjusted net profit and growth

Source: Company data, CMBIGM estimates

Key risks: (1) further decline in rental rates and utilisation rates; (2) weakness of manufacturing capex; and (3) unsuccessful overseas expansion.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	6,141	7,878	9,611	10,989	12,241	13,386
Cost of goods sold	(3,295)	(4,745)	(5,849)	(6,892)	(7,747)	(8,492)
Gross profit	2,846	3,133	3,761	4,097	4,494	4,894
Selling expense	(452)	(341)	(516)	(549)	(612)	(669)
Admin expense	(745)	(864)	(1,077)	(1,187)	(1,310)	(1,432)
Others	(304)	(110)	(283)	(220)	(245)	(268)
Other income	219	111	162	143	147	161
Other expense	(52)	(157)	(34)	(33)	(37)	(40)
Other gains/(losses)	32	35	32	35	37	27
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	3,197	4,081	4,480	4,670	4,928	5,186
Depreciation	1,653	2,273	2,435	2,384	2,454	2,514
EBIT	1,544	1,807	2,045	2,286	2,474	2,672
Interest income	9	11	16	17	20	22
Interest expense	(650)	(925)	(834)	(773)	(785)	(731)
Net Interest income/(expense)	(641)	(913)	(819)	(756)	(765)	(708)
Pre-tax profit	902	894	1,227	1,530	1,709	1,963
Income tax	(193)	(227)	(264)	(344)	(388)	(452)
Minority interest	0	0	0	0	0	0
Net profit	710	667	962	1,186	1,321	1,512
Adjusted net profit	737	945	1,043	1,186	1,321	1,512

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,972	10,340	11,122	12,521	13,599	14,608
Cash & equivalents	507	2,159	2,167	2,721	2,967	3,386
Account receivables	4,198	4,487	5,030	5,688	6,318	6,811
Inventories	291	186	170	207	260	206
Prepayment	2,055	2,104	2,122	2,122	2,122	2,122
ST bank deposits	13	63	0	0	0	0
Financial assets at FVTPL	480	1,036	1,237	1,387	1,537	1,687
Other current assets	150	0	13	13	13	13
Contract assets	277	304	384	384	384	384
Non-current assets	18,988	19,952	20,115	22,731	21,777	20,264
PP&E	18,278	19,102	18,221	21,158	20,505	19,292
Right-of-use assets	321	335	978	658	358	58
Deferred income tax	264	333	349	349	349	349
Investment in JVs & assos	0	0	0	0	0	0
Other non-current assets	125	181	567	566	565	564
Total assets	26,961	30,292	31,237	35,252	35,377	34,871
Current liabilities	7,990	8,191	9,282	11,311	11,071	10,350
Short-term borrowings	5,065	6,143	6,695	8,695	8,095	7,395
Account payables	1,436	1,110	1,552	1,582	1,942	1,921
Tax payable	166	141	174	174	174	174
Other current liabilities	0	0	0	0	0	0
Lease liabilities	66	60	192	192	192	192
Accrued expenses	1,258	737	669	669	669	669
Non-current liabilities	12,959	15,426	11,178	11,978	11,378	10,478
Long-term borrowings	12,633	15,069	10,645	11,445	10,845	9,945
Deferred income	17	17	15	15	15	15
Other non-current liabilities	309	340	518	518	518	518
Total liabilities	20,950	23,617	20,459	23,288	22,448	20,827
Total shareholders equity	6,011	6,675	10,778	11,964	12,929	14,044
Minority interest	0	0	0	0	0	0
Total equity and liabilities	26,961	30,292	31,237	35,252	35,377	34,871

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	902	894	1,227	1,530	1,709	1,963
Depreciation & amortization	1,653	2,273	2,435	2,384	2,454	2,514
Tax paid	(202)	(321)	(288)	(344)	(388)	(452)
Change in working capital	(691)	(1,161)	(528)	(1,036)	(717)	(878)
Others	786	1,138	1,104	975	1,010	976
Net cash from operations	2,449	2,823	3,950	3,509	4,067	4,124
Investing						
Capital expenditure	(10,319)	(3,613)	(1,836)	(5,000)	(1,500)	(1,000)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(152)	150	4	17	20	22
Net cash from investing	(10,471)	(3,463)	(1,832)	(4,983)	(1,480)	(978)
Financing						
Dividend paid	0	0	0	0	(356)	(396)
Net borrowings	8,485	3,293	(2,408)	2,800	(1,200)	(1,600)
Proceeds from share issues	1,326	0	1,488	0	0	0
Others	(1,441)	(1,007)	(1,194)	(773)	(785)	(731)
Net cash from financing	8,370	2,286	(2,113)	2,027	(2,341)	(2,727)
Net change in cash						
Cash at the beginning of the year	166	507	2,159	2,167	2,721	2,967
Exchange difference	(8)	6	2	0	0	0
Cash at the end of the year	507	2,159	2,167	2,721	2,967	3,386
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	67.6%	28.3%	22.0%	14.3%	11.4%	9.4%
Gross profit	72.7%	10.1%	20.1%	8.9%	9.7%	8.9%
EBITDA	69.6%	27.6%	9.8%	4.2%	5.5%	5.2%
EBIT	66.3%	17.1%	13.2%	11.8%	8.2%	8.0%
Net profit	58.3%	(6.1%)	44.4%	23.2%	11.4%	14.5%
Adj. net profit	60.4%	28.2%	10.4%	13.7%	11.4%	14.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	46.3%	39.8%	39.1%	37.3%	36.7%	36.6%
EBITDA margin	52.1%	51.8%	46.6%	42.5%	40.3%	38.7%
Adj. net profit margin	12.0%	12.0%	10.9%	10.8%	10.8%	11.3%
Return on equity (ROE)	12.5%	10.5%	11.0%	10.4%	10.6%	11.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	2.9	2.9	1.5	1.5	1.3	1.0
Current ratio (x)	1.0	1.3	1.2	1.1	1.2	1.4
Receivable turnover days	199.9	201.2	180.7	178.0	179.0	179.0
Payable turnover days	129.2	97.9	83.1	83.0	83.0	83.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	5.4	5.8	4.3	3.7	3.3	2.9
P/B	0.6	0.6	0.4	0.4	0.3	0.3
Div yield (%)	0.0	0.0	0.0	8.2	9.1	10.4

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

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