

EDA Group Holdings (2505 HK)

Riding on tide of B2C export e-commerce industry development

EDA Group (EDA) is a one-stop end-to-end supply chain solutions provider for e-commerce vendors. It offers supply chain solutions that encompass cross-border logistics, overseas warehousing, and fulfillment delivery services that are seamlessly integrated into EDA Cloud. EDA Cloud is EDA's self-developed platform that houses a comprehensive range of digital supply management tools, enables operating efficiency improvement for all related parties, and serves as the core pillar within EDA's ecosystem in helping improve connecting efficiency between logistic suppliers and end customers. In terms of revenue in 2022, EDA ranked the seventh among all B2C export e-commerce supply chain solutions providers primarily utilizing pre-sale stocking model in the PRC, with market share of c.0.4%, per Frost and Sullivan (F&S). We are positive on EDA's long-term business development potential, backed by rapid increase in industry demand, and its technology capability which can aid customers to improve inventory turnover and fulfillment efficiency. On a 2023-26E rev CAGR of 31.9%, we are forecasting an adj. NP CAGR of 34.3%. Our TP of HK\$3.57 per share is based on 11.0x 24E PE, inline with that of industry peers. Initiate at BUY.

- **B2C export e-commerce market is expected to record fast growth.** Per F&S, market size of B2C export e-commerce supply chain solutions market achieved a CAGR of 28.8% over 2017-2022, and reached RMB402.4bn in 2022. F&S estimates the market size to reach RMB621.3bn in 2027, representing a 2022-2027E CAGR of 9.1%, within which F&S forecasts the market of supply chain solutions adopting the direct shipping model to achieve a CAGR of 3.9%, and the market of supply chain solutions adopting the pre-sale stocking to achieve a CAGR of 14.5%.
- **EDA Cloud platform a key competitive edge.** EDA Cloud platform can efficiently connect logistics and supply chain services providers with B2C ecommerce merchants, which in our view could improve operational efficiency for all related parties. Both strong technological capabilities as well as EDA's differentiated asset-light model consisting of self-operated warehouses and partnered warehouses, enable EDA to grow its business scale in a more efficient way compared to industry peers, in our view. This could support a decent profitability level in the long term. We forecast adjusted NPM to expand from 7.6% in 2023 to 7.7/7.8/8.0% in 24/25/26E.
- **A broad and high-quality customer base with long-term relationship paves way for long-term development.** EDA has maintained stable and long-term strategic relationships with its largest customers. It has on average around four years of business relationship with its five largest customers, which in our view demonstrated EDA's ability in sustainably providing differentiated value-add to its customers. EDA has established solid relationship with some of the leading e-commerce platforms worldwide, which in our view demonstrated EDA's strong technological and fulfillment capability. EDA has become an eBay Certified Docking Warehouse in 2022, and it has successfully connected EDA Cloud platform with the TEMU system, becoming an official TEMU-Certified Warehouse in 2Q24.
- **Key catalysts:** 1) mitigation of geopolitical risks; 2) cooperation with more leading e-commerce platforms; and 3) stronger-than-expected earnings growth.

BUY (Initiate)

Target Price HK\$3.57
Up/Downside 53.2%
Current Price HK\$2.33

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Stock Data

Mkt Cap (HK\$ mn)	1,046.0
Avg 3 mths t/o (HK\$ mn)	6.0
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	448.9

Source: FactSet

Shareholding Structure

China Lesso Group Holdings Limited	41.1%
Liu Yong	38.1%

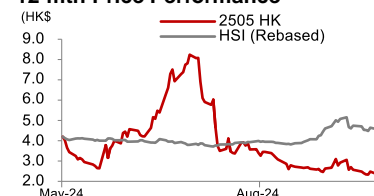
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.7%	-20.6%
3-mth	-68.4%	-73.4%
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	709	1,209	1,714	2,267	2,776
YoY growth (%)	12.2	70.6	41.8	32.3	22.5
Net profit (RMB mn)	36.3	69.4	91.1	165.9	212.5
Adjusted net profit (RMB mn)	36.8	91.9	132.0	176.0	222.6
YoY growth (%)	(20.7)	149.5	43.6	33.4	26.5
EPS (Adjusted) (RMB)	na	0.27	0.29	0.39	0.50

Source: Company data, Bloomberg, CMBIGM estimates

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Investment Thesis

Riding on tide of solid development of B2C export e-commerce

Per F&S, market size of B2C export e-commerce supply chain solutions market achieved a CAGR of 28.8% over 2017-2022, and reached RMB402.4bn in 2022. F&S estimates the market size to reach RMB621.3bn in 2027, representing a 2022-2027E CAGR of 9.1%, within which F&S forecasts the market of supply chain solutions adopting the direct shipping model to achieve a CAGR of 3.9%, and the market of supply chain solutions adopting the pre-sale stocking model to achieve a CAGR of 14.5%. The potential outperformance in CAGR of pre-sale stocking model can be justified by more optimized shopping experience, in our view, as the model can provide individual consumers with faster and more predictable delivery time.

EDA is one of the leading players in the B2C e-commerce supply chain solutions market

Per F&S, the B2C export e-commerce supply chain solutions market in the PRC is fragmented with more than 4,000 market players. In terms of revenue in 2022, EDA ranked the seventh among all B2C export e-commerce supply chain solutions providers primarily utilizing pre-sale stocking model in the PRC, with market share of approximately 0.4%, per F&S. In view of this, EDA is one of the largest B2C export e-commerce supply chain solutions providers adopting the partnered overseas warehousing model in the PRC.

EDA managed/contracted 10 self-operated warehouses and 46 partnered warehouses, which are located in over five countries, including the US, Canada, the UK, Germany and Australia as of end-1H24. According to F&S, EDA has one of the largest networks of overseas partnered warehouses among its peers. Adopting a mixed model of self-operated warehouses and partnered warehouses allows EDA to continuously adapt its warehouse network to its needs, and adjust its costs whenever necessary.

EDA Cloud platform a key competitive edge and has started monetization

EDA Cloud platform (a SaaS platform) is the core illustration of EDA's technology capabilities which helped EDA gain competitive advantage over its industry peers, in our view. The platform plays a critical role in providing customers with a seamless supply chain experience and allowing EDA to reach optimal levels of operation efficiency. In 1H24, EDA has made progress in the reconstruction and commercialization of its SaaS system by acquiring five users in foreign countries of the SaaS system, and it recorded SaaS revenue of RMB168,000 (0.02% of total 1H24 revenue). Although commercialization has just started and is immaterial in the near term, the increase in SaaS revenue contribution in the long term could potentially drive a rerating of valuation for the company, in our view.

EDA remains committed to enhancing its technological capabilities, which in our view could help EDA enhance operating efficiency and lay solid foundation for future revenue growth. As of 20 Feb 2024, IT and R&D team accounted for 19.1% of total number of EDA's total staff, most of whom had experience in product management, interface design or software development.

A broad and high-quality customer base with long-term relationship paves way for long-term development

During the years ended 31 December 2021, 31 December 2022 and 31 December 2023, EDA served over 850 customers, many of whom being brand owners and manufacturers and are generally considered as high-quality customers due to their ability to generate

consistent income and their general propensity for sustainable growth, per F&S. Also, the number of core customers (customers with specialised sales effort which contribute more than RMB3mn to revenue for a year) of EDA increased from 40 in 2021 to 58 in 2023, and further to 73 in 1H24 (defined as customers which contributed more than RMB1.5mn revenue in the semi-annual period). In addition, EDA has maintained stable and long-term strategic relationships with its largest customers. EDA has on average around four years of business relationship with its five largest customers in each year during 2021-2023.

EDA has established solid relationship with some of the leading e-commerce platforms worldwide, which in our view demonstrated EDA's strong technological and fulfillment capability. EDA has become an eBay Certified Docking Warehouse in 2022, and it has successfully connected EDA Cloud platform with the TEMU system, becoming an official TEMU-Certified Warehouse in 2Q24.

Company Overview

EDA is a one-stop end-to-end supply chain solutions provider for e-commerce vendors, empowering the B2C export e-commerce industry in the PRC. It offers supply chain solutions that encompass cross-border logistics, overseas warehousing, and fulfilment delivery services that are seamlessly integrated into EDA Cloud. EDA Cloud is EDA's self-developed platform that houses a comprehensive range of digital supply management tools.

Figure 1: EDA: key development milestones

Year	Milestones
2014	Shenzhen EDA was founded and commenced its business in North America with the establishment of EDA International, Inc. and 8987947 Canada Inc.
2016	Shenzhen EDA expanded its operations to Europe with the establishment of EDA Cloud UK Ltd
2019	Shenzhen EDA further expanded its operations to Australia with the establishment of EDA Cloud and EDA AU
2020	Lesso made its initial investment in Shenzhen EDA EDA Cloud Technology was incorporated as an exempted company with limited liability in the Cayman Islands
2021	Shenzhen EDA was consolidated into EDA Group and Lesso
2022	Shenzhen EDA was recognized as an Excellent Cross-border E-commerce Service Provider by the Shenzhen Cross-Border E-commerce Association
2023	EDA Cloud Technology was renamed as EDA Group Holdings Limited

Source: Company data, CMBIGM

EDA's B2C export e-commerce supply chain solutions encompass each stage of the product logistics and fulfilment life cycle in China's B2C export e-commerce industry. The solutions cover "first-mile" international freight services and "last-mile" fulfilment services that are fully-integrated into each stage and can be traced, monitored and managed through the EDA Cloud platform. EDA primarily utilizes a pre-sale stocking model which allows its e-commerce vendor customers to transport their products from the PRC to EDA's overseas warehouses as pre-sale stock, removing uncertainties in delivery and price volatility and enabling efficient and timely fulfilment to end-consumers. As part of its supply chain solutions, EDA provides value-added services, such as products return processing and stock disposal, to reduce the amount of processing work that needs to be done by EDA's customers. EDA's comprehensive range of capabilities also enables it to provide customized solutions to its customers based on their needs.

EDA Cloud platform is able to address industry pain points in an efficient way

E-commerce vendors face challenges in managing their own supply chain needs, as most e-commerce vendors do not have mature processes and the technological infrastructure to cope with: 1) fragmented information in the supply chain ecosystem; 2) the need to consolidate orders from multiple channels due to the rise of omni-channel shopping; 3) the plethora of regulations which are subject to constant changes due to the nature of trade activities; 4) the demand for shorter delivery time; and 5) the costs and complexities of arranging product exchange and returns for end-consumers.

EDA addresses these industry pain points and creates value propositions through: 1) efficient allocation of resources and management of various stakeholders in supply chain and logistics market through consolidating fragmented information with the help of its EDA Cloud platform; 2) primarily adopting a pre-sale stocking model to bring customers' merchandise closer to end-consumers; and 3) a global logistics business model. EDA's business model includes a global network of service providers and a digitalized cloud platform, which in our view enables it to capture opportunities in the industry.

EDA Cloud platform can efficiently connect logistics and supply chain services providers with B2C ecommerce merchants, which in our view could improve operational efficiency for all related parties. EDA Cloud provides value proposition to its customers and business partners mainly in four aspects: 1) one-stop end-to-end supply chain solutions; 2) efficient

and convenient services guaranteed by a technology-driven business; 3) reliable and quality solutions; and 4) access to a broad customer base.

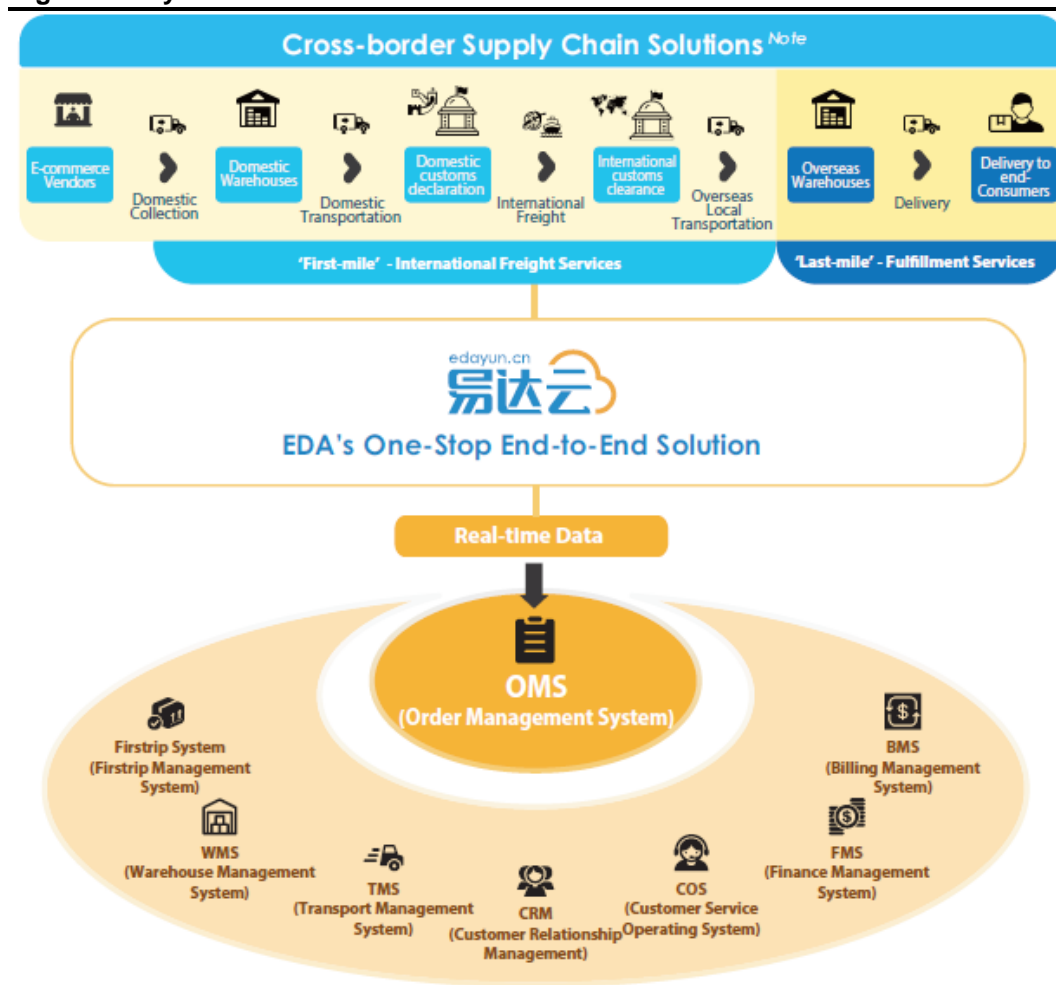
Figure 2: Value propositions that EDA can deliver to its customers and business partners

Value proposition	Details
One-stop end-to-end supply chain solutions	<ul style="list-style-type: none"> Providing customers with one-stop end-to-end solutions, decreasing time and resources required to deal with the multi-layer and multi-party nature of B2C export e-commerce transactions.
A supply chain partner for e-commerce vendors of varying scale	<ul style="list-style-type: none"> EDA offers value-added services to reduce the amount of processing work that needs to be done by its customers, such as products return processing and disposal of stock. EDA Cloud provides to all of its customers, including e-commerce customers operating on a smaller scale, a dedicated team responsive to their immediate demands and queries, which is usually not provided by large scale logistics service providers. EDA Cloud has consolidated logistics and fulfillment service providers' diversified services offerings (ie. large, medium, and small goods, partial goods, one-day and two-day delivery) into its system, and help its customers see what are available options for the desired orders. EDA is also able to supplement e-commerce vendors which have their own supply chain infrastructure during peak season in terms of transportation and warehouse capacity.
Specific value-added services catering to the pre-sale stocking needs of customers	<ul style="list-style-type: none"> EDA provides warehousing services and value-added services such as reverse logistics and inventory management.
Intelligent service provider recommendation and price comparison	<ul style="list-style-type: none"> EDA provides its customers with a wide array of service provider options during the course of providing supply chain solutions, and provides customers with intelligent recommendations for each subset of supply chain solutions; such recommendations allow EDA's customers to choose the service provider that is suitable for them in terms of price and services provided.
Efficient and convenient services guaranteed by EDA Cloud platform	<ul style="list-style-type: none"> Customers can freely enjoy services through the EDA Cloud platform, which can be integrated with various parties' ERP systems.
Reliable and quality solutions	<ul style="list-style-type: none"> EDA Cloud has applied industry-specific business management processes, which are applied in all key aspects of its operations to ensure control over every aspect of the execution of EDA's solutions. EDA Cloud standardizes the operations between self-operated warehouses and partnered warehouses through implementing the same working procedures, reporting system and KPI requirements. EDA's service providers have access to a broad customer base with a stable forecast of orders which may not normally be available to them through EDA.
Access to a broad customer base	<ul style="list-style-type: none"> EDA's service providers can reduce their sales and marketing efforts to reach the emerging e-commerce vendors, as orders from various customers are consolidated through EDA.

Source: Company data, CMBIGM

■ **Business model: connecting e-commerce vendors to end-customers in the global market through digitalized, end-to-end, one-stop supply chain solutions**

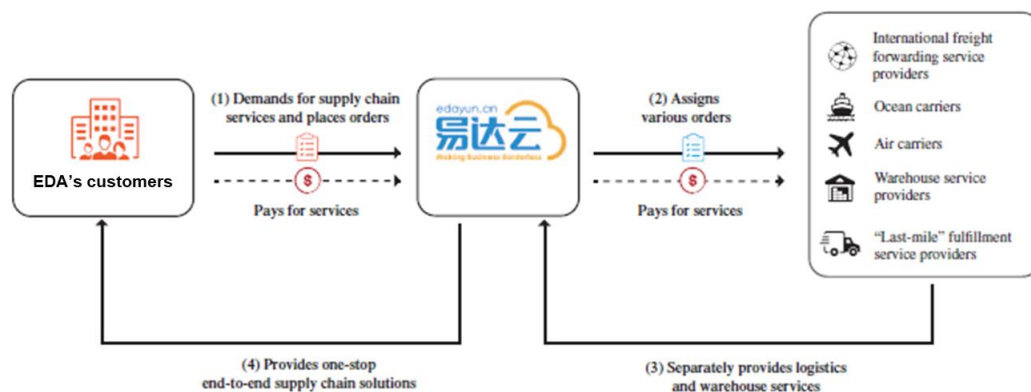
EDA connects e-commerce vendors in the PRC to end-customers in the global market through providing digitalized, end-to-end, one-stop supply chain solutions to its customers. EDA's supply chain solutions include "first-mile" international freight services and "last-mile" fulfillment services. It primarily adopts and utilizes a pre-sale stocking model which allows its e-commerce vendors to transport their products from the PRC to the overseas warehouses as pre-sale stocks.

Figure 3: Layout of EDA's business model

Source: Company data, CMBIGM

Note: During 2021-2023, except for some of the overseas storage services which were handled by EDA's own staff at self-operated warehouses, all components of EDA's supply chain solutions were provided by third-party services providers

Pursuant to the pre-sale stocking model, stocks of EDA's customers are shipped according to their inventory plan and stored at EDA's overseas warehouses until they are ready to be delivered to the end-consumers. Once an end-consumer places an order on the e-commerce shopping platform through which EDA's customers operate, the EDA Cloud platform will identify which warehouse with the relevant stock is the closest to such end-consumer. EDA's customers will thus utilize such information when considering which of EDA's overseas warehouses they plan to stock their products in. Due to its comprehensive range of services, EDA is able to cater to every stage of the product logistics and fulfillment life cycle leveraging its third-party logistics service providers and provide its customers with the ability to freely choose any service that they require. For example, customers may engage EDA for cross-border direct shipping services or only "last-mile" fulfillment services. EDA delivers technology-driven supply chain management experience by digitalizing its business processes with the use of EDA Cloud platform.

Figure 4: Illustration of fund flow for EDA's supply chain solutions

Source: Company data, CMBIGM

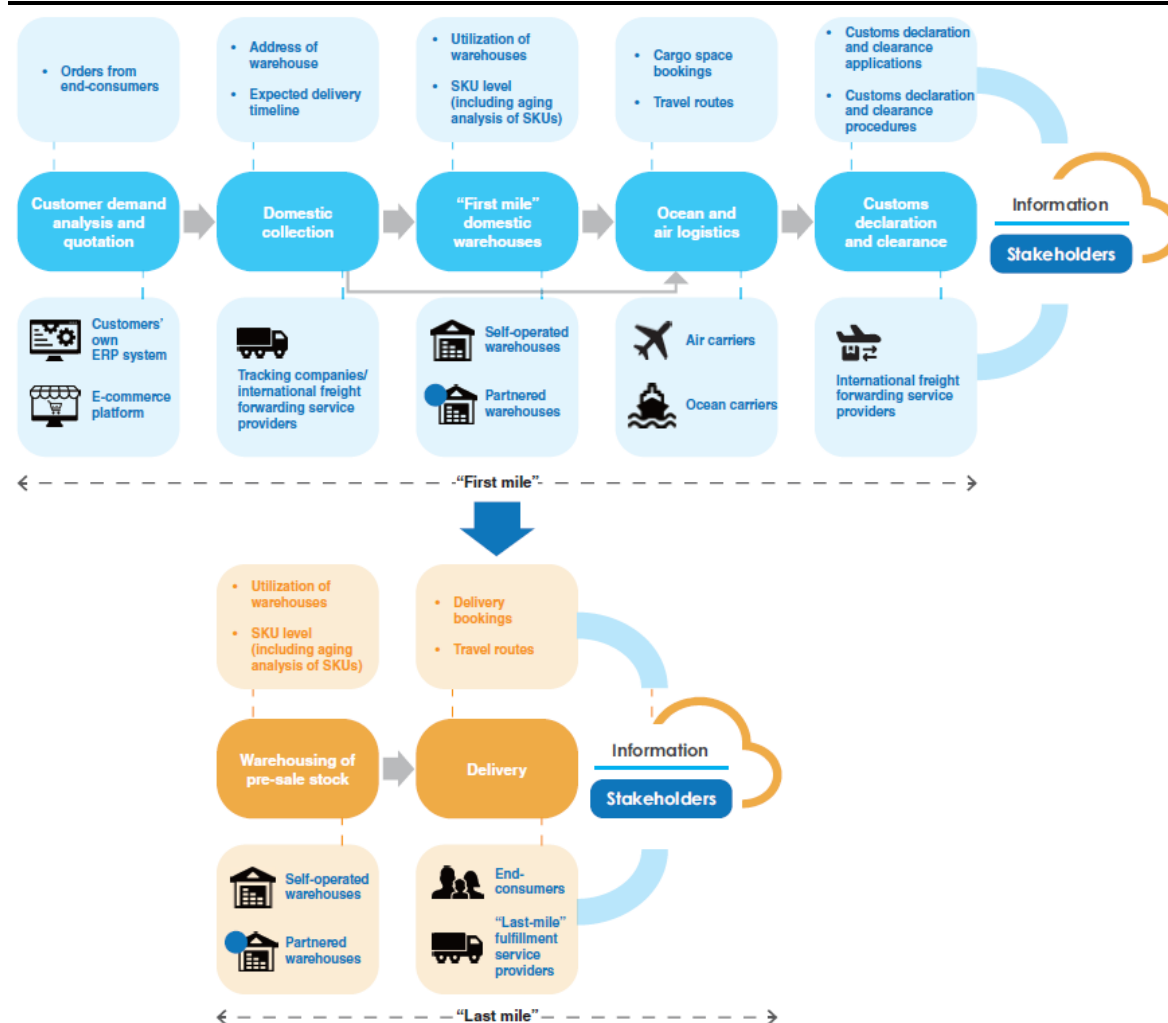
In 1H24, EDA has also made progress in the reconstruction and commercialization of its SaaS system by acquiring five users in foreign countries of the SaaS system, and it has recorded SaaS revenue of RMB168,000 (0.02% of total 1H24 revenue). Although commercialization has just started and is immaterial in the near term, the increase in SaaS revenue contribution in the long term could potentially drive a rerating of valuation for the company, in our view.

■ EDA's solutions could clearly address industry pain points

EDA offers an extensive range of solutions to a broad base of customers by coordinating the entire logistics and fulfillment life cycle, components of which include domestic collection and transportation, domestic warehousing storage, international freight services which consists of ocean logistics and air logistics, customs declaration and clearance, overseas warehousing storage and "last-mile" fulfillment delivery services. EDA's solutions are fully integrated into and can be traced, monitored and managed through the EDA Cloud Platform.

EDA's one-stop end-to-end solutions consist of two major components: 1) "first-mile" international freight services; and 2) "last-mile" fulfillment services. In addition to one-stop end-to-end solutions, customers are also free to engage EDA for only selected parts of the supply chain solutions. For example, customers can only engage EDA for cross-border direct shipping services, or only "last-mile" fulfillment services. However, EDA's one-stop end-to-end solutions and customized solutions create synergistic value for EDA as EDA is able to both attract new customers of different needs and enhance customer stickiness due to its well-rounded capabilities.

Major steps of workflow and solutions offered by EDA include: 1) customer demand analysis and quotation; 2) domestic collection, transportation and warehousing; 3) ocean and air logistics services; 4) customs declaration and clearance; 5) warehousing services; 6) fulfillment delivery services; and 7) customer services.

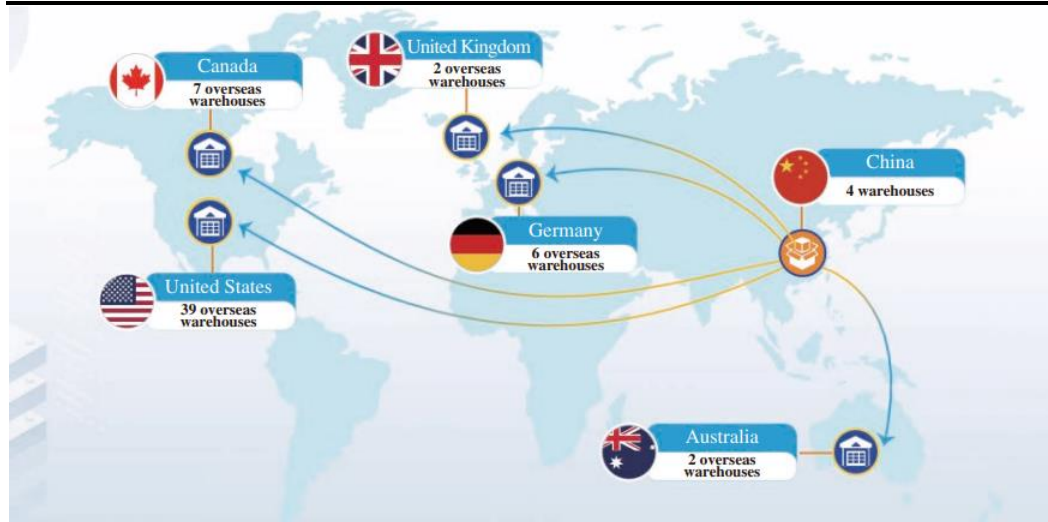
Figure 5: EDA: major steps of workflow and solutions

Source: Company data, CMBIGM

■ EDA has one of the largest networks of overseas partnered warehouse among its peers

EDA's global logistic network covering popular B2C e-commerce delivery destinations are maintained through the engagement of and collaboration with third-party logistics service providers. EDA has stationed employees in the PRC, the US, Canada and the UK to maintain effective communication with third-party logistics service providers. It has served various major trade lanes around the world, including Asia-North America, Asia-Europe and Asia-Australia. By the end of 1H24, EDA has a portfolio of over 60 third-party warehouse service providers, 300 international freight forwarding service providers, ocean carriers and air carriers, and 80 local "last-mile" fulfillment logistics service providers.

EDA managed/contracted 10 self-operated warehouses and 46 partnered warehouses, which are located in over five countries, including the US, Canada, the UK, Germany and Australia by the end of 1H24. For the six months ended 30 June 2024, EDA has contracted six new overseas warehouses, which are located in the US, Canada, Germany and Australia respectively, with an increase in total area of approximately 100,000 sq.m.. According to F&S, EDA has one of the largest networks of overseas partnered warehouses among its peers. Adopting a mixed model of self-operated warehouses and partnered warehouses allows EDA to continuously adapt its warehouse network to its needs, and adjust its costs whenever necessary.

Figure 6: EDA: deployment of EDA's global logistic network

Source: Company data, CMBIGM

For 2021/2022/2023, EDA has served 40/49/58 core customers (defined as customers that contributed more than RMB3mn revenue for the year), finished 2,052/2,663/4,589 Forty-foot Equivalent Unit (FEUs) of ocean freight volume, and EDA's capabilities have enabled it to process approximately 3.0mn/3.1/6.0mn orders for delivery of goods to end-customers.

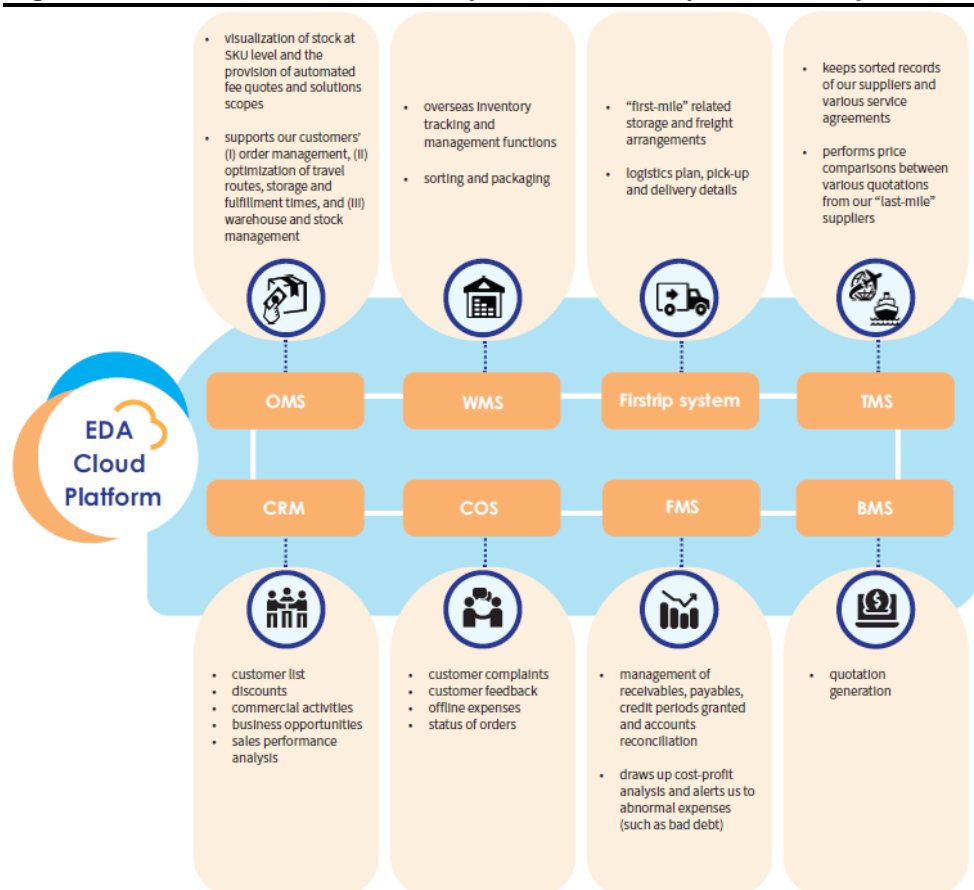
Strong competitive strength paves way for future growth

EDA has accumulated strong competitive strengths which in our view could pave way for long-term growth. It is an established B2C export e-commerce supply chain solutions provider with capability to provide one-stop end-to-end supply chain solutions at a global scale with local expertise. In addition, the company has highly effective and nimble execution capabilities enabled by its refined business management processes. Also, the EDA has proved its ability in accumulating a broad and high-quality customer base with long-term relationships, which in our view lays solid foundation for long-term business development.

■ EDA Cloud platform a key competitive edge for EDA

EDA is committed to investing in technology enhancement to improve operational efficiency of both itself and its customers and business partners. EDA Cloud platform is the core illustration of EDA's technology capabilities which helped EDA gain competitive advantage over its industry peers, in our view. The platform plays a critical role in providing customers with a seamless supply chain experience and allowing EDA to reach optimal levels of operation efficiency.

Customer-facing front of EDA cloud platform is comprised of the Order Management System (OMS), which renders a seamless experience for customers through providing them with various supply chain tools to manage inventory and to support EDA's internal operations. The EDA Cloud platform also houses the Firstrip system, Transport Management System (TMS), Warehouse Management System (WMS), Customer Relationship Management (CRM), Customer Service Operating System (COS), Finance Management System (FMS) and Billing Management System (BMS) modular systems. Through the integration of all modular systems, EDA Cloud platform helps fulfill customer orders online and enable real-time communication, tracking and financial management. The dashboard of the EDA Cloud platform could provide visualization and customer alerts to help customers plan their operations and freight expense through predictive analytics and online quotations, thereby improving customer decision-making efficiency and enhancing the predictability of supply chain solutions.

Figure 7: Functions of the modular systems housed by EDA Cloud platform

Source: Company data, CMBIGM

■ A broad and high-quality customer base with long-term relationship paves way for long-term development

During 2021-2023, EDA has served over 850 customers, many of whom are brand-owners and manufacturers. Per F&S, brand-owners and manufacturers are generally considered as high-quality customers due to their ability to generate consistent income and their general propensity for sustainable growth.

In addition, EDA has maintained stable and long-term strategic relationships with its largest customers. EDA has on average around four years of business relationship with its five largest customers in each year during 2021-2023. The long-term relationships with these customers have allowed EDA to gain in-depth understanding of customers' needs, and the application of these understanding in the development of EDA Cloud platform, as well as solution offerings render a seamless experience for all of the customer base.

Also, the number of core customers of EDA increased from 40 in 2021 to 58 in 2023. During 2021-2023, 85.0%/79.6%/69.0% of the core customers have engaged EDA for solutions with both "first-mile" international freight services and "last-mile" fulfilment services.

For 2021/2022/2023, total revenue attributable to EDA's five largest customers amounted to RMB228.5mn/242.1mn/447.5mn, respectively, representing 36.2%/34.2%/37.0% of total revenue.

Figure 8: EDA: the top five largest customers and respective revenue contribution (2023)

Customer	Services rendered to EDA's customers	Credit terms	Payment method	Commencement of business relationship	Total amount of revenue (RMB'000)	Contribution to total revenue (%)
Customer G	Only "first-mile" international freight services	15 days	Bank transfer	2023	151,141	12.5
Customer A	Solutions with both "first-mile" international freight services and "last-mile" fulfillment services	20 days	Bank transfer	2020	107,304	8.9
Customer E	Only "last-mile" fulfillment services	10 days	Bank transfer	2020	70,106	5.8
Customer H	Solutions with both "first-mile" international freight services and "last-mile" fulfillment services	7 days	Bank transfer	2020	68,657	5.7
Customer I	Solutions with both "first-mile" international freight services and "last-mile" fulfillment services	15 days	Bank transfer	2020	50,242	4.2
Total					447,450	37.0

Source: Company data, CMBIGM

■ A well-recognized B2C export e-commerce supply chain solutions provider

EDA was recognized as an Excellent Cross-border E-commerce Technology Enterprise and an Excellent Cross-border E-commerce Service Provider by Shenzhen Cross-Border E-commerce Association in 2020 and 2022, respectively, and as a Guangdong Province Major Credible Enterprise by Shenzhen Administration for Market Regulation in 2019. Further, eBay recognized EDA as a certified docking warehouse in 2022.

Figure 9: EDA: selected list of important awards, recognitions and accreditations

Year	Name of award/recognition/accreditation	Awarding organizations
2023	Provincial Public Overseas Warehouse (省级公共海外仓)	Department of Commerce of Guangdong Province
2022	eBay Certified Docking Warehouse	eBay
2022	Excellent Cross-border E-commerce Service Provider	Shenzhen Cross-Border E-commerce Association
2021	High and New Technology Enterprise Certificate	Shenzhen Science and Technology Innovation Commission, Shenzhen Finance Bureau and Shenzhen Taxation Bureau of the State Administration of Taxation
2020	Excellent Cross-border E-commerce Technology Enterprise	Shenzhen Cross-Border E-commerce Association

Source: Company data, CMBIGM

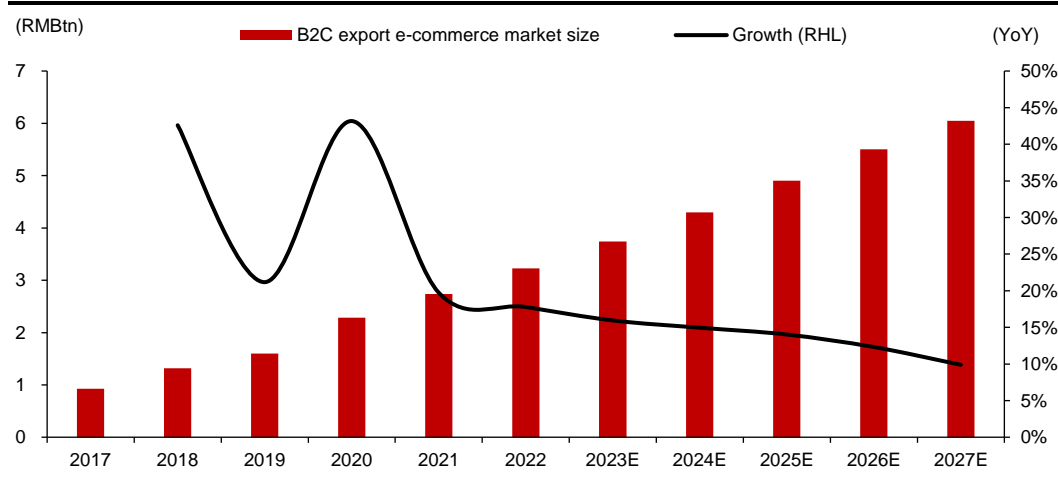
Industry analysis

B2C export e-commerce saw rapid development

According to F&S, B2C export e-commerce market refers to e-commerce activities that exchange products, services, and information between businesses and individual consumers across different borders. Per F&S, driven by further improvement of payment system, improved cross-border logistic delivery efficiency, increase in the number of new B2C e-commerce platforms and the gradually formed habits of online shopping among global consumers, B2C export e-commerce market has grown rapidly since 2013.

Per F&S, GMV of B2C export e-commerce market in the PRC has reached RMB3.2tn in 2022, representing a 2017-2022 CAGR of 28.4%. F&S estimates the market GMV to achieve a CAGR of 13.4% over 2022-2027, with total market size to reach RMB6.0tn in 2027, driven by: 1) the continued growth of the global economy; 2) the increase in global consumer purchasing power; and 3) the further strengthened international trade and economic cooperation between countries.

Figure 10: The GMV of B2C export e-commerce market in the PRC



Source: CIECC, F&S, CMBIGM

Note: RHL: right-hand line

Per F&S, despite the projected growth, e-commerce vendors in the B2C export e-commerce market face several key pain points: 1) fragmented information; 2) order management; 3) limited knowledge of local regulations; 4) demand for fast delivery to end-consumers; and 5) high cost of after-sale services. In our view, these pain points propel the development of B2C export e-commerce supply chain solutions market, which can address the complicated, fragmented and costly process of the delivery of goods to end-customers overseas.

Pain points propelled the development of supply chain solution market

According to F&S, B2C export e-commerce supply chain solutions refer to the supply chain solutions provided during the entire process of B2C e-commerce export. Therefore, there are many opportunities for participants in the B2C export e-commerce supply chain solution market, especially for providers who can provide end-to-end solution that can cover goods transportation, customs declaration and clearance services, warehousing, demand forecasting, and inventory management.

According to F&S, two models are adopted by B2C export e-commerce supply chain solution providers: 1) the direct shipping model; and 2) the pre-sale stocking model. Per F&S:

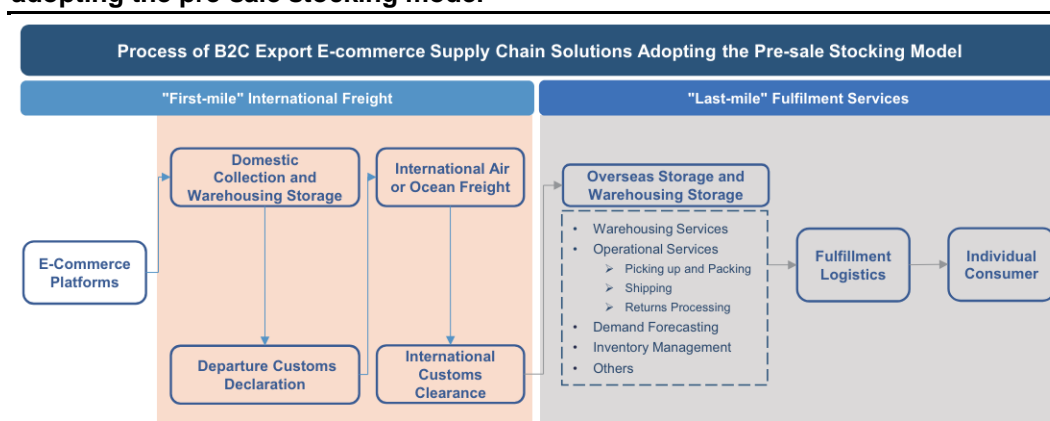
Direct shipping model is considered as the traditional method of cross-border shipping by which merchandise is shipping to end-customers directly from the domestic warehouses

of the e-commerce vendors upon the orders being placed. It provides more flexibility to e-commerce vendors given that it removes the risk of stagnant overseas inventory.

Under direct shipping model, international shipping process from domestic sellers to overseas individual consumers usually take two to four weeks. After receiving logistics orders from export e-commerce vendors, the B2C export supply chain solution providers carry out the corresponding business processes, which involve domestic collection, customs declaration and clearance, cross-border transportation and delivery of goods to individual consumers.

Pre-sale stocking model is a relatively new model in the B2C export e-commerce supply chain solutions industry. It refers to the model by which e-commerce vendors first transport their goods to the overseas warehouses in the destination regions in advance for stocking, such that they can deliver the goods directly from the overseas warehouses to the consumers when the end-customers place orders. This model helps e-commerce vendors: 1) bridge the distance between the end-customers and the goods; 2) improve the quality control of goods; 3) become more time-effective; and 4) allow e-commerce vendors to provide after-sales services at lower costs and quicker turnaround time.

Figure 11: Value chain of the B2C export e-commerce supply chain solutions market adopting the pre-sale stocking model



Source: F&S analysis (including interviews conducted by F&S with experts from major market players and reviews on the annual reports and prospectus of other market participants regarding their positions in the B2C export e-commerce supply chain solutions market and their principal businesses), CMBIGM

In contrast to direct shipping model, under the pre-sale stocking model, the B2C export e-commerce supply chain solutions providers ship the goods from sellers to the overseas warehouses in advance as pre-sale stock in the destination regions, then deliver the goods directly from the overseas warehouses upon the placing of orders by end-consumers. Pre-sale stocking services can be further divided into “first-mile” international freight and “last-mile” fulfilment services.

- **“First-mile”** international freight services refer to the transport services of goods from vendors to port of entry of imports. The services of “first-mile” international freight generally include domestic collection services, domestic warehousing storage services, customs declaration and clearance services and cross-border transportation services. Under the pre-sale stocking model, B2C export e-commerce supply chain solutions providers integrate the whole supply chain by outsourcing the whole process to third-party logistics providers which have the ability to provide “first-mile” international freight forwarding services.
- **“Last-mile”** fulfilment services involve delivery from overseas warehouses to individual consumers. For “last-mile” fulfilment services, the B2C export e-commerce supply chain solutions providers under the pre-sale stocking model offer warehousing services and other value-added services, including operational services such as

picking up and packing, shipping and return processing services, demand forecasting and inventory management services, and other ancillary services such as distribution services and after-sale services that support vendors in selling their products, and co-operate with the fulfilment logistics to deliver goods to individual consumers.

Figure 12: Major participants in B2C export e-commerce supply chain solutions industry

Major participants	Business scope/service features	Market position
End-to-end export e-commerce supply chain solutions providers	<ul style="list-style-type: none"> • End-to-end export e-commerce supply chain solutions providers, leveraging on third-party logistics service providers, shipping the goods from sellers to port of entry of import or end consumers, which consist of “first-mile” international freight services and “last-mile” fulfillment service. • Based on the advantages of comprehensiveness and flexibility, end-to-end export e-commerce supply chain solutions providers can cater to every stage of the product logistics and fulfillment life cycle and have the capacity to provide value-added services. 	<ul style="list-style-type: none"> • The vast majority of end-to-end export e-commerce supply chain solutions providers focus on information consolidation and digitalization of the whole process and do not have their own logistics infrastructures.
International freight forwarding service providers	<ul style="list-style-type: none"> • Generally, leveraging the air or ocean carriers, the international freight forwarding service providers focus on the “first-mile” which in charge of the goods shipping from one region to the other region through air or ocean. 	<ul style="list-style-type: none"> • International freight forwarding service providers do not have their own shipping capacity. They consolidate shipping capacities from various air or ocean carriers. • They collaborate with end-to-end export e-commerce supply chain solutions providers in order to receive more orders from customers. • Air or ocean carriers invest heavily to build their own shipping logistics network and infrastructure, and provide logistics services to other industry participants.
Air or ocean carriers	<ul style="list-style-type: none"> • Air or ocean carriers traditionally provide shipping service from port of export to port of import through air or ocean, which focus on delivery of “first-mile” international freight services. 	<ul style="list-style-type: none"> • Except a few large enterprises, most air or ocean carriers focus on one area of the value chain to save costs.
“Last mile” fulfillment service providers	<ul style="list-style-type: none"> • “Last-mile” fulfillment service providers generally deliver goods from port or overseas warehouse to end customers, which focus on “last-mile” delivery. 	<ul style="list-style-type: none"> • “Last-mile” fulfillment service providers construct their local logistics network and infrastructure, and provide logistics services to other industry participants. • Due to heavy investments, most “last mile” fulfillment service providers focus on part of the value chain to achieve operational efficiency.

Source: F&S analysis (including interviews conducted by F&S with experts from major market players and reviews on the annual reports and prospectus of other market participants regarding their positions in the B2C export e-commerce supply chain solutions market and their principal businesses), CMBIGM

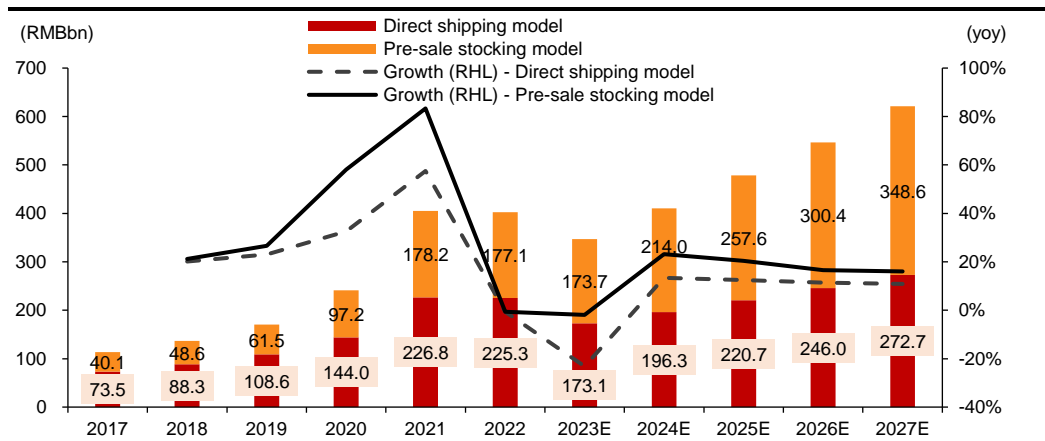
Pre-sale stocking supply chain solutions is expected to see solid growth

Per F&S, market size of B2C export e-commerce supply chain solutions market achieved a CAGR of 28.8% over 2017-2022, and reached RMB402.4bn in 2022. Notably, the market size jumped 41.8/67.9% YoY in 2020/2021, driven by the outbreak of COVID-19, which

boosted the demand for online shopping. F&S estimates the market size to reach RMB621.3bn in 2027, representing a 2022-2027E CAGR of 9.1%, within which F&S forecasts direct shipping supply chain solutions market to achieve a CAGR of 3.9%, and pre-sale stocking market to achieve a CAGR of 14.5%.

Major drivers for the growth of overall B2C export e-commerce supply chain solutions market include: 1) government support; 2) rapid development of B2C export e-commerce market; 3) the popularity of pre-sale stocking model; and 4) application of new technologies, such as SaaS solution and big data.

Figure 13: The market size of B2C export e-commerce supply chain solutions market in the PRC*



Source: Drewry, ICAO Air Transport Report, Freightos FBX, SCFI, F&S, CMBIGM

Note: * by service models

For direct shipping model, market size has expanded at a CAGR of 25.1% over 2017-2022. Affected by declining freight rates, F&S estimates the market size to decline 23.2% in 2023E, but expects market growth to resume to a normal level in the future. Per F&S, market size of direct shipping model may reach RMB272.7bn in 2027, with a 2022-2027E CAGR of 3.9%.

For pre-sale stocking mode, its market size achieved 2017-2022 CAGR of 34.6%. This model is becoming more popular in recent years, as it can provide individual consumers with faster and more predictable delivery time which could optimize shopping experience. Between 2019 and 2021, many e-commerce vendors realized the advantages of the pre-sale stocking model due to port congestion under the COVID pandemic and prolonged cargo unloading cycles in 2021, which led to a sharp rise for the market size of pre-sale stocking model. F&S expects the market size to achieve a 2022-2027E CAGR of 14.5%, to reach RMB348.6bn in 2027E.

Based on F&S data, as a percentage of total market size, pre-sale stocking model is expected to increase its contribution from 44.0% in 2022 to 56.1% in 2027E.

EDA is one of the leading players in the solutions market

Per F&S, the B2C export e-commerce supply chain solutions market in the PRC is fragmented with more than 4,000 market players, among which some adopt the direct shipping model, and some adopt pre-sale stocking model. Sometimes, B2C export e-commerce supply chain solution providers adopt both direct shipping model and pre-sale stocking model, for the convenience of the customers.

Particularly, compared with those B2C export e-commerce supply chain solutions providers which focus on small packages, those solutions providers that focus on medium and large packages generally have some differential advantages, such as higher gross profit margins and customer loyalty.

In terms of revenue in 2022, EDA ranked the seventh among all B2C export e-commerce supply chain solutions providers primarily utilizing pre-sale stocking model in the PRC, with market share of approximately 0.4%, per F&S. In addition, EDA is one of the largest B2C export e-commerce supply chain solutions providers adopting the partnered overseas warehousing model in the PRC.

Figure 14: Major participants in B2C export e-commerce supply chain solutions industry (in the PRC; 2022)

Ranking	Company	Background information	Market share (%)
1	Company A	Founded in 2009, one of the leading export e-commerce supply chain solutions providers in the PRC, specializing in overseas storage and warehousing, "first-mile" international freight, "last-mile" delivery services, etc.	1.7%
2	Company B	Founded in 2012, one of the leading export e-commerce supply chain solutions providers in the PRC, providing overseas warehousing, special line logistics, etc.	1.5%
3	Company C	Founded in 2004, a leading export e-commerce supply chain solutions provider in the PRC, focusing on overseas warehousing, FBA, special line logistics, etc.	1.3%
4	Company D	Founded in 2015, a fast-growing export e-commerce supply chain solutions provider in the PRC, providing overseas warehousing, "first-mile" international freight, etc.	0.9%
5	Company E	Founded in 2016, a well-known export e-commerce supply chain solutions provider in the PRC, focusing on "first-mile" international freight, overseas warehousing, etc.	0.6%
6	Company F	Founded in 2012, a well-known export e-commerce supply chain solutions provider in the PRC, focusing on overseas warehousing, logistic solutions, etc.	0.5%
7	EDA		0.4%
8	Company G	Founded in 2002, a listed and top manufacturer of ergonomic solution products in the PRC. It also offers overseas warehousing services.	0.2%
9	Company H	Founded in 2009, a well-recognized export e-commerce supply chain solutions provider in the PRC, providing overseas warehousing, FBA, special line logistics, etc.	0.2%
10	Company I	Founded in 2016, a well-known export e-commerce supply chain solutions provider in the PRC, focusing on "first-mile" international freight, overseas warehousing, etc.	0.2%
Top 10 in total			7.5%

Source: Annual Reports, Interviews conducted by Frost & Sullivan with experts from leading market players and Frost & Sullivan Analysis, CMBIGM

Key industry entry barriers, market trend and cost drivers analysis

■ Industry expertise, technology and customer relationship are key entry barriers

B2C export e-commerce supply chain solutions market has some key entry barriers, which include: 1) industry knowledge; 2) developing long-term collaboration relationships with customers and market participants; 3) technology; and 4) overseas local expertise.

■ The ability to integrate supply chain solution and digitalization a key differentiator in the long run

Key market trends include: 1) integrated supply chain solution platform; 2) digitalization; 3) popularity of partnered overseas warehousing model. The B2C export e-commerce supply chain solutions market is complex and involves multiple parties including end-to-end export e-commerce supply chain solutions providers, international freight forwarding services providers, air or ocean carriers, and "last mile" fulfillment service providers, etc.. Therefore, in our view, B2C export e-commerce supply chain solutions providers with the ability to better obtain and integrate the scattered resources of the whole value chain to form an end-to-end one-stop B2C export e-commerce supply chain solution platform could excel other peers in the long run.

In addition, the partnered warehousing model is becoming more popular in recent years, and may be widely adopted by the B2C export e-commerce supply chain solutions providers in the future, as: 1) services providers under the partnered warehousing model can save rental costs of the overseas storage and warehousing, thus reducing capital expenditure; 2) the partnered warehousing model is scalable allowing B2C export e-commerce supply chain solutions providers to easily expand its existing network of warehouses.

■ Freight rate and fulfilment delivery rate are major cost line items

Regarding costs for B2C export e-commerce supply chain solutions providers, freight rate of seaborne transportation and “last-mile” fulfillment delivery rate are main cost line items. Before 2020, the freight rate of seaborne transportation from the PRC remained steady and was kept under US\$1,400 per FEU. The outbreak of COVID-19 in 2020 has led to a surge in online shopping, and an uneven distribution of seaborne freight capacity globally during the epidemic era, which eventually led to an increase of the freight rate of seaborne transportation. The freight rate of seaborne transportation rose and peaked at US\$7,321.0 per FEU in 2022 from US\$1,360.6 per FEU in 2017, with a CAGR of 40.0%, per CIC. With the normalization of pandemic impact, F&S expects PRC freight rate of seaborne transportation will drop to US\$2,526.3 per FEU in 2027, with a CAGR of -19.2% over 2022-2027.

For last-mile delivery fee rate, there is a continuous increase in the average “last mile” delivery fee in the US, and this led to growing costs for B2C export e-commerce supply chain solutions providers. According to F&S, the average “last mile” delivery fee rate in the US increased from US\$6.3 per parcel in 2017 to US\$8.0 per parcel in 2022, with a CAGR of 4.9%, and F&S expects the fee rate to reach US\$10.2 per parcel in 2027 with a 2022-2027 CAGR of 5.0%.

Financial forecast

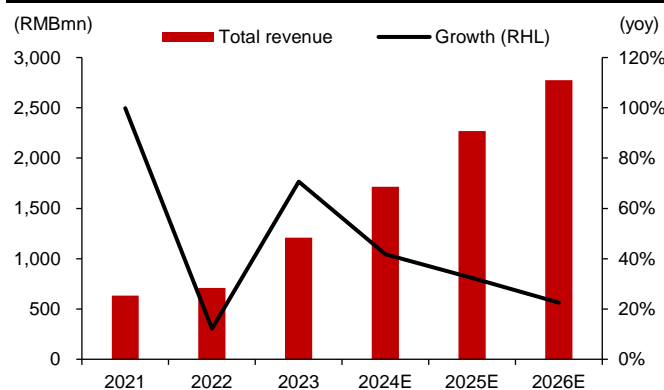
Income statement

Revenue

EDA derived revenue from: 1) “first-mile” international freight services (FMIFS); and 2) “last mile” fulfillment services (LMFS). We expect EDA’s revenue to achieve a 2023-2026E CAGR of 31.9% to RMB2.8bn in 2026E, among which we forecast “first-mile” international freight services (FMIFS) to deliver revenue CAGR of 8.0%, and “last-mile” fulfillment services (LMFS) to deliver revenue CAGR of 37.1%.

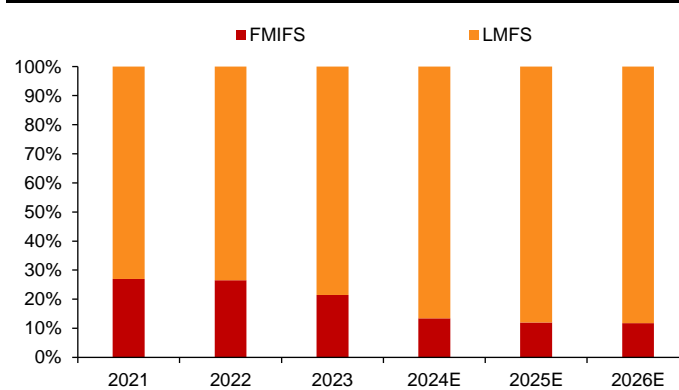
Revenue generation from FMIFS and LMFS accounted for 21.5% and 78.5%, respectively, of total revenue in 2023, and we estimate revenue generation from FMIFS and LMFS to account for 11.8% and 88.2%, respectively, of total revenue in 2026E.

Figure 15: EDA: revenue forecast



Source: Company data, CMBIGM estimates

Figure 16: EDA: Revenue breakdown



Source: Company data, CMBIGM estimates

Figure 17: Summary of key assumptions

(RMBmn)	2021	2022	2023	2024E	2025E	2026E
“First-mile” international freight services	170.1	187.8	259.5	229.8	271.5	326.9
Growth (YoY%)	166.6%	10.4%	38.2%	-11.4%	18.1%	20.4%
As % of total revenue	26.9%	26.5%	21.5%	13.4%	12.0%	11.8%
1) Ocean freight services	169.3	182.0	106.3	194.4	252.3	307.2
Growth (YoY%)	199.1%	7.5%	-41.6%	82.8%	29.8%	21.7%
As % of FMIFS revenue	100%	97%	41%	85%	93%	94%
2) Air freight services	0.8	5.8	153.2	35.4	19.2	19.8
Growth (YoY%)	-89.1%	630.8%	2558.7%	-76.9%	-45.8%	3.0%
As % of FMIFS revenue	0%	3%	59%	15%	7%	6%
“Last-mile” fulfillment services	461.8	520.9	949.8	1,484.4	1,995.8	2,449.4
Growth (YoY%)	83.0%	12.8%	82.3%	56.3%	34.5%	22.7%
As % of total revenue	73.1%	73.5%	78.5%	86.6%	88.0%	88.2%
Total revenue	631.9	708.7	1,209.3	1,714.3	2,267.3	2,776.4
Growth (YoY%)	99.9%	12.2%	70.6%	41.8%	32.3%	22.5%
Gross profit	106.9	106.5	197.1	269.5	360.6	446.6
- FMIFS	6.3	4.0	5.9	(0.7)	1.4	3.3
- LMFS	100.6	102.5	191.2	270.2	359.2	443.3
Operating profit (loss)	67.8	54.6	93.6	121.2	208.1	266.1
Selling and distribution expenses	(7.6)	(7.8)	(11.5)	(17.1)	(23.8)	(27.8)
As % of total revenue	1.2%	1.1%	0.9%	1.0%	1.1%	1.0%
Administrative expenses	(18.8)	(27.4)	(60.9)	(84.0)	(65.8)	(77.1)
As % of total revenue	3.0%	3.9%	5.0%	4.9%	2.9%	2.8%
Research and development expenses	(18.0)	(20.8)	(33.3)	(49.7)	(65.8)	(79.1)

As % of total revenue	2.8%	2.9%	2.8%	2.9%	2.9%	2.9%
Profit for the year	46.4	36.3	69.4	91.1	165.9	212.5
Adjusted net profit (loss)	46.4	36.8	91.9	132.0	176.0	222.6
GPM (%)	16.9%	15.0%	16.3%	15.7%	15.9%	16.1%
- FMIFS	3.7%	2.1%	2.3%	-0.3%	0.5%	1.0%
- LMFS	21.8%	19.7%	20.1%	18.2%	18.0%	18.1%
OPM (%)	10.7%	7.7%	7.7%	7.1%	9.2%	9.6%
Adjusted NPM (%)	7.3%	5.2%	7.6%	7.7%	7.8%	8.0%

Source: Company data, CMBIGM estimates

Figure 18: Summary of key operating metrics and forecast

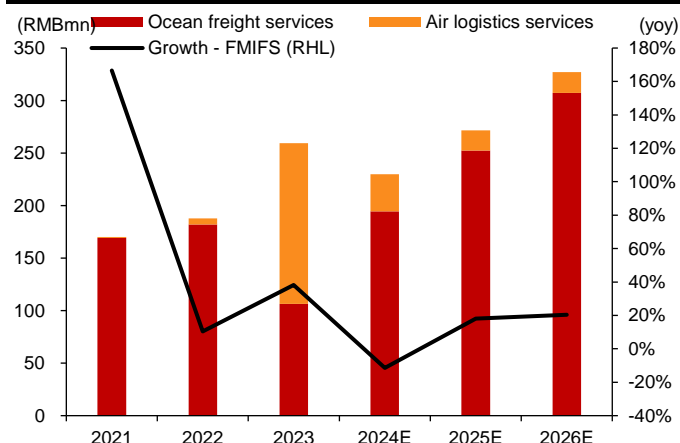
(RMBmn)	2021	2022	2023	2024E	2025E	2026E
"First-mile" international freight services						
1. Ocean freight services						
a) Shipping volume by ocean freight services (FEU)	2,052	2,663	4,589	6,425	8,095	9,568
YoY%	105.4%	29.8%	72.3%	40.0%	26.0%	18.2%
b) RMB per FEU (RMB'000)	82.5	68.4	23.2	30.3	31.2	32.1
YoY%	45.6%	-17.2%	-66.1%	30.6%	3.0%	3.0%
2. Air freight services						
a) Shipping volume by air freight services (tonnes)	13	127	1,887	456	240	240
YoY%	-91.9%	876.9%	1385.8%	-75.8%	-47.4%	0.0%
b) Average price per tonne (RMB'000)	58.0	45.4	81.2	77.7	80.1	82.5
YoY%	28.9%	-21.8%	78.9%	-4.2%	3.0%	3.0%
"Last-mile" fulfillment services						
a) Number of orders delivered to end-consumers (mn)	3.0	3.1	6.0	8.9	11.4	13.5
YoY%	23.3%	3.5%	96.2%	48.0%	28.0%	18.2%
b) RMB per order (RMB)	156	170	158	167	175	182
YoY%	48.4%	9.0%	-7.1%	5.6%	5.0%	3.8%

Source: Company data, CMBIGM estimates

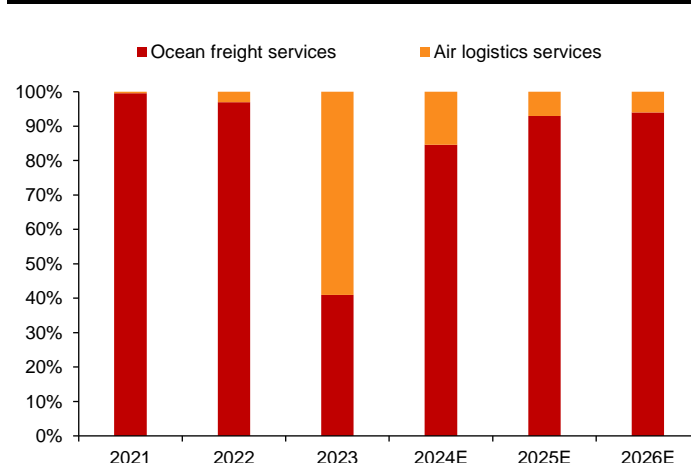
FMIFS revenue: 2023-2026E revenue CAGR of 8.0%

Revenue of FMIFS is generated through the provision of domestic collection, customs declaration and clearance and international shipping by ocean or air logistics, direct shipping and other value-added services including quality checks, digitalization services and such. Major drivers for revenue generation are: 1) service volume; 2) average price per FEU and per tonne.

The service volume depends significantly on the market demand which is subject to various factors affecting the macroeconomic trends and the demand of supply chain solutions. The price per FEU is market-driven, and EDA adopts a market-based pricing model for its FMIFS services, taking into account of factors such as: 1) length of working relationship and future business opportunities; 2) the transportation route and distance taking into account of the customer goods collection point and drop off point; 3) preferred international shipping method and schedule; 4) product dimension and weight and its potential stocking time; 5) market rate taking into account of the cost and market competition; and 6) seasonality.

Figure 19: EDA: FMIFS revenue forecast

Source: Company data, CMBIGM estimates

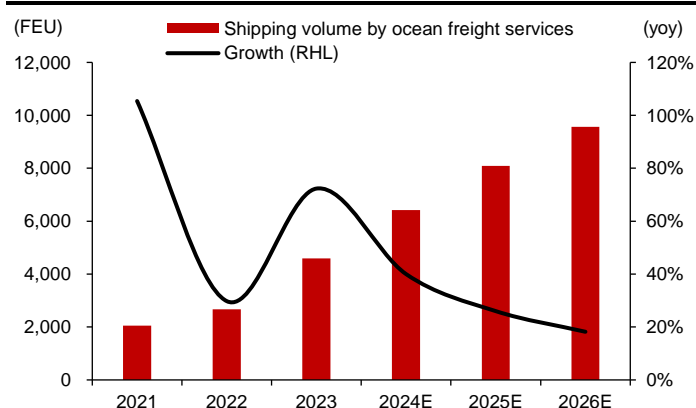
Figure 20: EDA: FMIFS revenue breakdown

Source: Company data, CMBIGM estimates

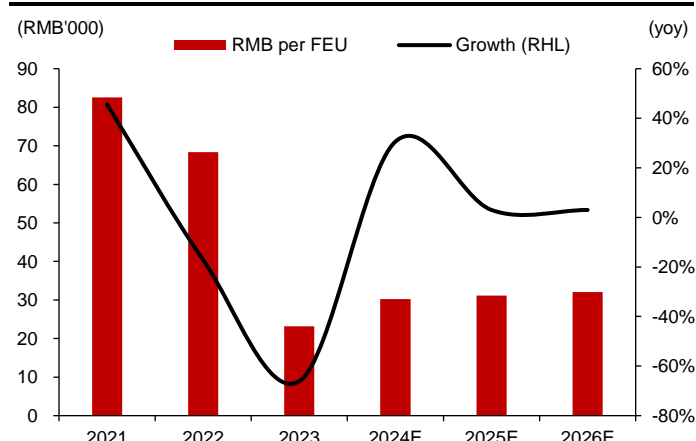
Revenue generated from FMIFS was RMB259.5mn in 2023, up 38% YoY, among which revenue generated from ocean freight services was RMB106.3mn, down 42% YoY, and revenue generated from air freight services was RMB153.2mn, up 2,559% YoY.

The increase in revenue of air logistics was mainly driven by 1,386% YoY increase in shipping volume to 1,887 tonne, due to the successful development of business relationship with one of the large scale e-commerce platforms in the PRC, and 79% YoY increase in the average price per tonne for air logistics, owing to the effects of extreme weather in the US such as heavy rain and snow from October 2023 and the Israel-Palestinian conflict which took place in 2H23 that eventually reduced supply of the air logistics available in the market and drove up the average price per tonne.

However, the decrease in revenue from ocean freight services was mainly driven by 66% YoY decrease in average price per FEU, primarily because the rate charged by international freight forwarding service providers has come down with increasing number of logistics suppliers and less restrictions on shipping since COVID-19 restrictions have been widely lifted globally, while partially being offset by 72% YoY increase in service volume in ocean logistics, as EDA is able to actively reach out to customers to enhance its visibility in the market and secure an increasing services volume in the market.

Figure 21: Ocean freight service: shipping volume forecast

Source: Company data, CMBIGM estimates

Figure 22: Ocean freight service: RMB per FEU

Source: Company data, CMBIGM estimates

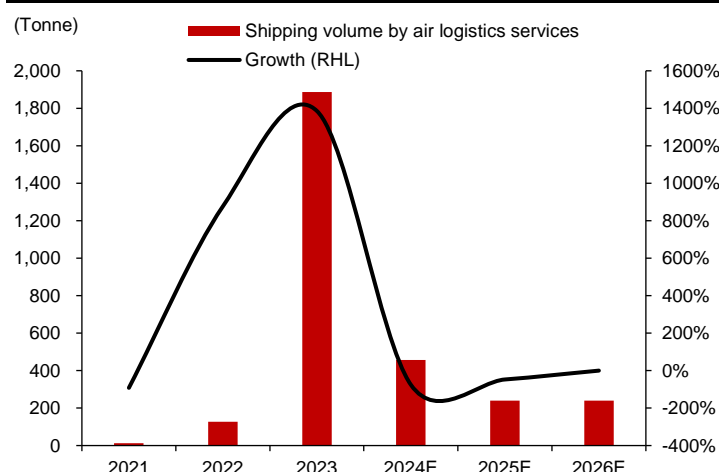
For 1H24, revenue generated from FMIFS was RMB115.6mn, up 36.5% YoY, mainly attributable to an increase in the volume of containers transported through first-mile ocean freight services, a significant increase in unit price of first-mile ocean freight services, and

a significant increase in the unit price of first-mile ocean freight services as compared with that in 1H23 due to the continuous increase in international transportation expenses.

We forecast a combined revenue CAGR of 8.0% for FMIFS over 2023-2026E, driven by 42.4% revenue CAGR for ocean freight services, while partly offset by -49.4% revenue CAGR for air logistics services, owing to the normalization in shipping volume due to the change in method of business cooperation between EDA and the related business partners.

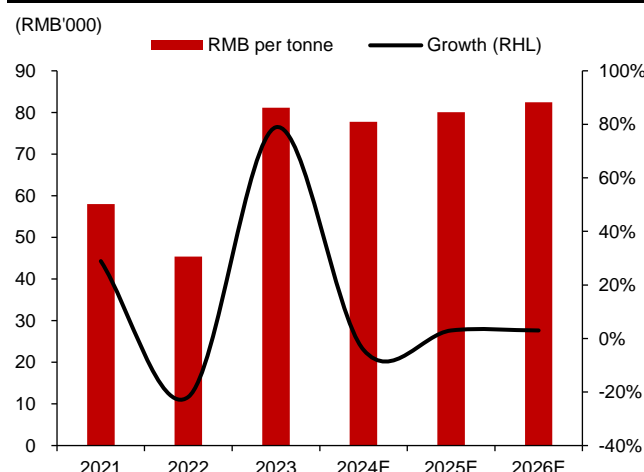
For ocean freight services revenue growth, we see support coming from 27.8% CAGR in shipping volume, from 4,589 FEUs in 2023 to 9,568 in 2026E, driven by business scale expansion of existing customers, and new customer acquisition, aided by robust development outlook for the cross-border e-commerce industry, as well as EDA's strong technological capability to serve customers at scale.

Figure 23: Air freight service: shipping volume forecast



Source: Company data, CMBIGM estimates

Figure 24: Air freight service: RMB per tonne



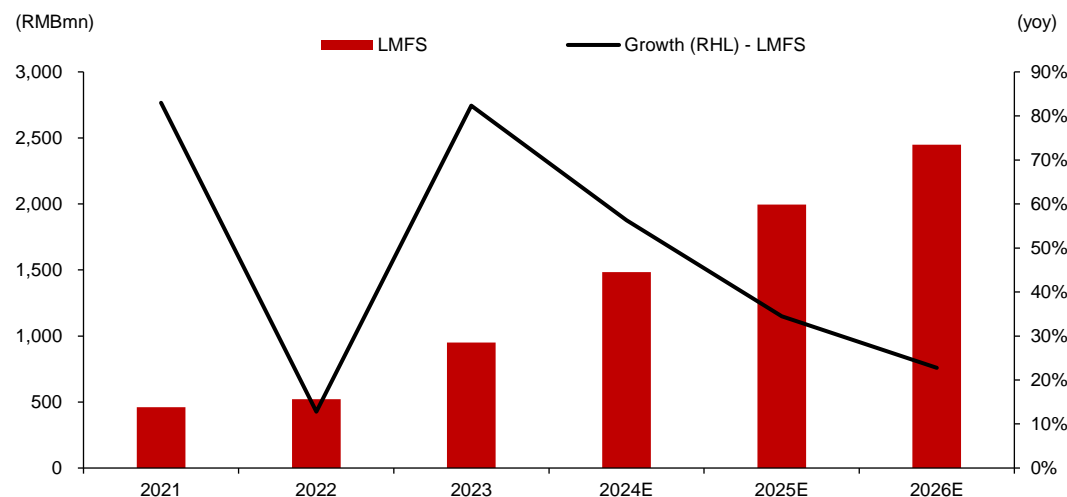
Source: Company data, CMBIGM estimates

LMFS revenue: 2023-2026E revenue CAGR of 37.1%

Revenue of LMFS primarily consists of delivery of pre-sale stocks from EDA's overseas warehouses to end-customers through local "last-mile" fulfillment logistics service providers upon receiving end-customers' orders on e-commerce platform. EDA also charges customers on value-added services such as assisting on products return and repackaging. Major revenue drivers for LMFS include: 1) service volume; and 2) average price per order delivered.

The service volume of LMFS depends on the consumer behavior towards online shopping and the number of customers EDA served, as well as their number of pre-sale stock orders to be fulfilled by EDA. The average price per order is driven by the market prices and affected by the product dimension and weight since each order may consist of different number, weight and size of items.

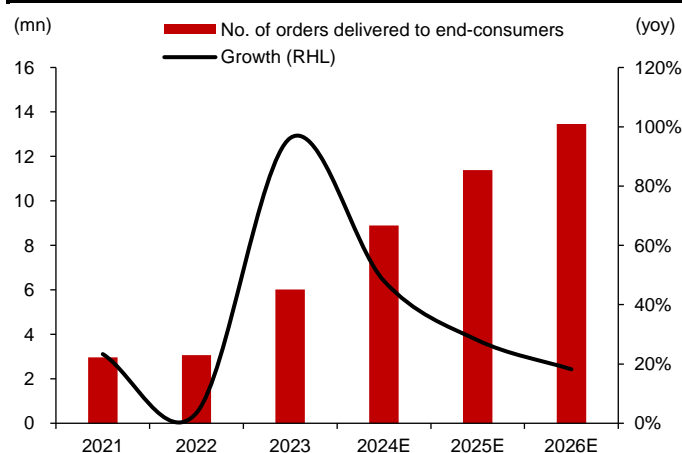
Revenue generated from LMFS was RMB949.8mn in 2023, up 82.3% YoY, driven by the increase in service volume from 3.1mn in 2022 to 6.0mn in 2023, while partly offset by the decrease in the average price per order delivered, as EDA is able to negotiate better pricing with "last-mile" fulfillment services providers with its economies of scale under continuously growing business scale.

Figure 25: EDA: LMFS revenue forecast

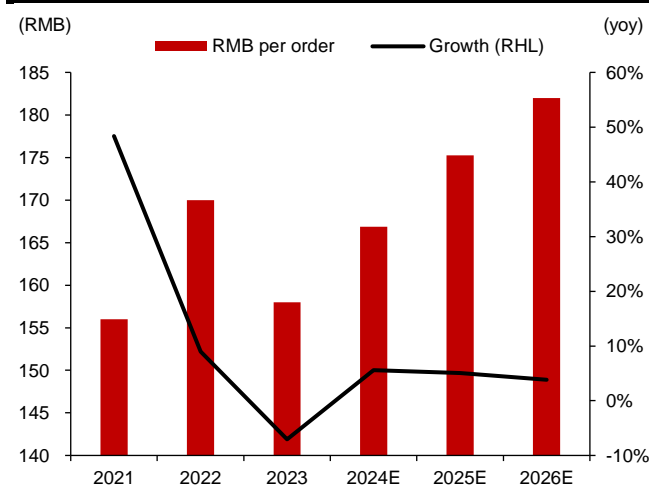
Source: Company data, CMBIGM estimates

Revenue from LMFS reached RMB629.8mn in 1H24, up 67.2% YoY, mainly driven by an increase in last-mile order quantity and the continuous increase in last-mile order prices which were affected by the prices of the local delivery service markets.

We forecast revenue CAGR of 37.1% for LMFS over 2023-2026, driven by 30.8% CAGR for the number of orders delivered to end-consumers, aided by the increase in customers demand with the rise in the number of both self-operated warehouse and partnered warehouse.

Figure 26: LMFS: No. of orders delivered to end-consumers

Source: Company data, CMBIGM estimates

Figure 27: LMFS: RMB per order

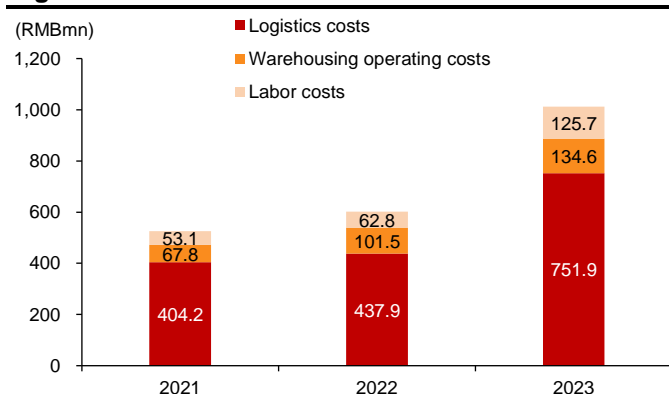
Source: Company data, CMBIGM estimates

Cost structure

EDA's cost of sales primarily consists of three parts: 1) logistic costs; 2) warehouse operating costs; and 3) labor costs.

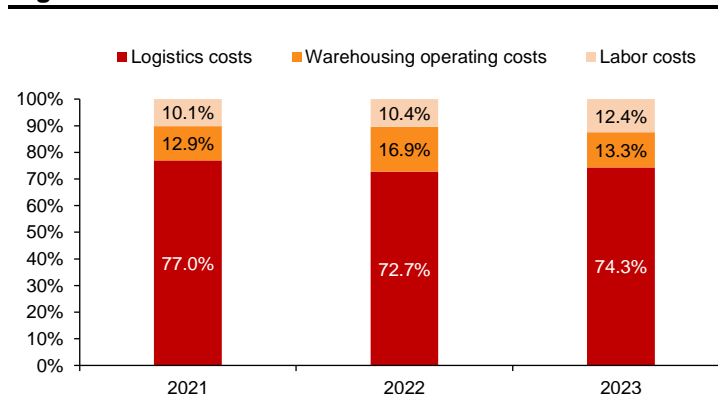
Logistic cost is the major cost line item which contributed to 77.0%/72.7%/74.3% of total cost of sales in 2021/2022/2023. The logistic costs primarily include service fees paid to local "last-mile" fulfillment logistics service providers in the regions that EDA operate for delivering the products to end-consumers in accomplishing "last-mile" fulfillment services and international freight forwarding service providers, ocean carriers and air carriers for international freight services to deliver products from one region to another.

Figure 28: EDA: cost of sales



Source: Company data, CMBIGM

Figure 29: EDA: cost of sales breakdown



Source: Company data, CMBIGM estimates

Warehouse operating costs primarily consist of: 1) warehousing service fee for EDA's partnered warehouses, which was primarily charged based on the utilization of the warehouse on a pre-agreed fee scale or upon settlement between EDA and service providers; 2) depreciation expenses incurred of the properties leased and property, plant, and equipment for EDA's self-leased warehouses; and 3) other costs incurred in EDA's self-leased warehouse in relation to scan and pack works performed, costs of packaging material, costs of trucking services provided, security charges, property management and utilities expenses.

Labor costs primarily represent remuneration paid to the personnel involved in warehouse management, sorting, picking, packaging shipping and delivery, contributions made to the various benefit plans and other staff benefits.

The overall GPM declined from 16.9% in 2021 to 15.0% in 2022, owing to the lead time between investment for warehouse expansion and realization of profit, while recovered to 16.3% in 2023, driven by the increase in GPM of both FMIFS and LMFS, as well as the increase in revenue contribution of relatively high margin LMFS. However, overall GPM declined to 15.7% in 1H24, as compared to 18.2% in 1H23 and 15.1% in 2H23, which we attributed to the intensified industry competition, and the incorporation of new warehouses, which takes time to ramp up utilization.

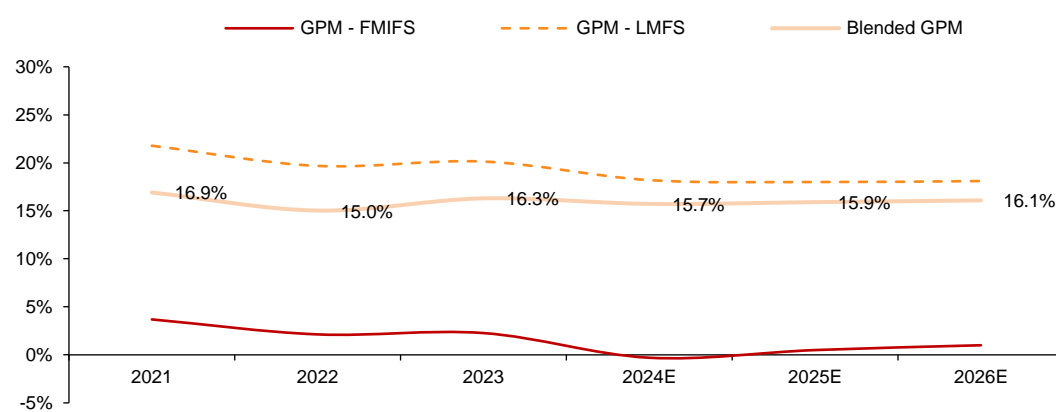
For FMIFS, GPM increased from 2.1% in 2022 to 2.3% in 2023, mainly driven by the improvement of GPM from ocean logistics, due to the expanded business scale, but was partially offset by the relatively thin GPM from the contribution of direct shipping services. In 1H24, GPM of FMIFS declined to -1.1% from 4.1% in 1H23, mainly due to: 1) the prolonged drought in the Panama Canal, which led to the increase in freight rates since 1Q24; 2) difficulties in navigating the European shipping route caused by the Palestine-Israel Conflict, and a certain degree of panic in the shipping industry; and longer shipping routes and reduced transport capacities due to subsequent detours around the Cape of Good Hope; 3) shipment in advance arranged by some sellers due to the above situations, resulting in an early peak season and higher freight rates in the sellers' market; and 4) more losses on the small package air transportation business in 1H24, mainly due to significant penalties given by counterparties. The GPM of direct mail for small package air

transportation in 1H24 was -20.9%, which widened from -1.8% in 1H23, owing to the penalties given by counterparties. We estimate segmental GPM to decline to -0.3% in 2024E, due to the deterioration in GPM in 1H24, but expect it to recover to 0.5/1.0% in 2025/2026E, thanks to EDA's ability to transfer the price hike to its customers, and EDA's increasing bargaining power with the expansion in business scale.

For LMFS, GPM increased from 19.7% in 2022 to 20.1% in 2023, driven by the economies of scale achieved, as well as more favorable pricing provided by EDA's logistic suppliers. In 1H24, GPM of LMFS has declined to 18.8% from 21.4% in 1H23, owing to the increase in the unit price of overseas orders, the labour costs of overseas warehouses, and rent.

For the full year, we estimate segmental GPM to decline to 18.2%/18.0% in 2024/2025E, as EDA made strategic movement to launch more self-operated warehouses, as well as provide more discount temporarily for its customers when facing more intense industry competition. However, we are positive that GPM could see a recovery in the long term, as the irrational price competition is not sustainable, and EDA could effectively help customers optimize fulfillment cost leveraging its strong technology capability. We forecast segmental GPM to gradual improve to 18.1% in 2026E.

Figure 30: EDA: gross profit margin by segment



Source: Company data, CMBIGM estimates

Operating expenses and margin profile

We expect EDA's total operating expense ratio (note: defined as the sum of selling and distribution expenses, administrative expenses, and research and development expenses, divided by total revenue) to optimize from 8.7/8.8% in 2023/2024E to 6.9%/6.6% in 2025E/2026E, driven by the unleash of operating leverage aided by robust revenue growth and the empowerment of EDA Cloud platform, which is able to drive for continuous operating efficiency improvement, as well as the dissipation of one-off impact from listing expenses.

We expect R&D expense ratio (note: defined as R&D expenses as percentage of total revenue) to rise to 2.9% in 2024E from 2.8% in 2023, and to remain stable at 2.9% in 2025E/2026E, driven by EDA's incremental investment to enhance its technological capability, which in our view could help EDA enhance operating efficiency and lay solid foundation for future revenue and earnings growth. As of 20 Feb 2024, IT and R&D team accounted for 19.1% of total number of EDA's total staff, most of whom had experience in product management, interface design or software development.

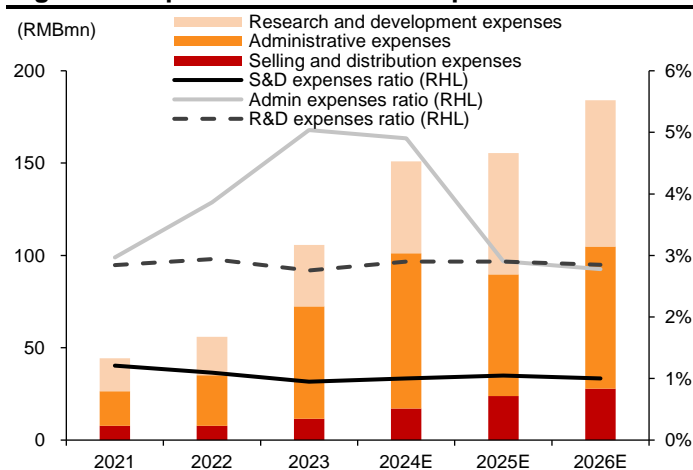
For S&D expense ratio (note: defined as selling and distribution expenses as percentage of total revenue), we forecast it will rise from 0.95% in 2023 to 1.00/1.05% in 2024/2025E, driven by increase in staff costs to help with business development, especially in new customer acquisition in industry belt areas, but to optimize to 1.0% in 2026E, aided by the solid revenue growth, which should help unleash operating leverage.

For administrative expense ratio (note: defined as administrative expense as percentage of total revenue), we expect it to optimize from 5.0% in 2023 to 4.9%/2.9%/2.8% in

2024E/2025E/2026E, due to the wear off of impact from one-off listing expenses, and the unleash of operating leverage aided by solid revenue growth and strong technological capabilities.

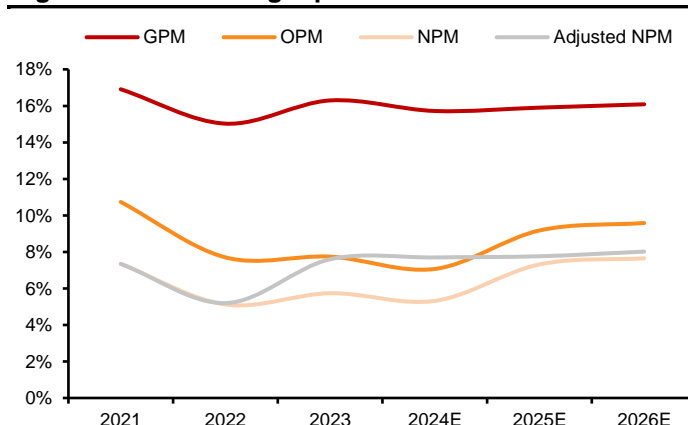
Overall, we estimate the adjusted net profit margin to increase to 7.7%/7.8%/8.0% from 7.6% in 2023. Based on our estimates, we expect EDA to achieve adjusted net profit CAGR of 34.3% over 2023-2026E to RMB222.6mn in 2026E.

Figure 31: Opex breakdown and expense ratio



Source: Company data, CMBIGM estimates

Figure 32: EDA: margin profile



Source: Company data, CMBIGM estimates

Balance sheet

Cash conversion

Receivables: EDA's average turnover days of trade receivables was 30/32 days in 2022/2023 from 24 days in 2021, mainly due to the longer credit term offered to certain customers to maintain good customer relationship. We expect average days of trade receivables to increase to 35/36 days in 2024/2025E due to the prior mentioned reason, and stay largely stable at 36 days in 2026E.

Payables: trade payable days was 34 days in 2023, shortening from 58/44 days in 2021/2022. This was mainly due to the decrease in trade payable balances, as EDA has strategically purchased from overseas third-party logistics services providers directly instead of the agent for more stable services. We forecast trade payable days to remain largely stable at 34/34/34 days over 2024-2026E.

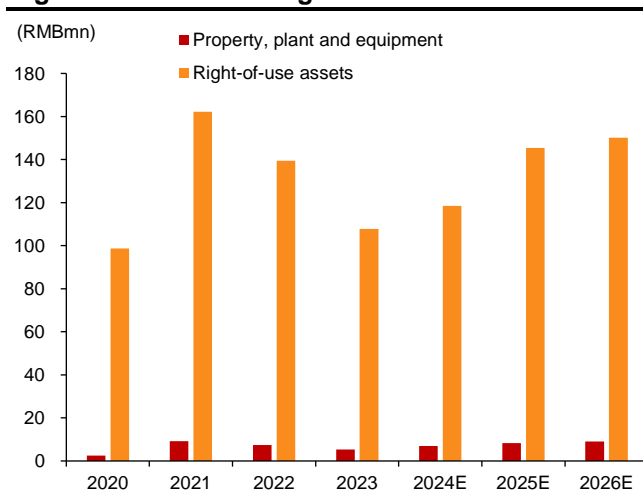
Figure 33: EDA: working capital analysis

(RMBmn)	2021	2022	2023	2024E	2025E	2026E
Current assets						
Trade receivables	44.2	70.4	142.4	187.5	261.3	288.2
Prepayments, deposits and other receivables	75.1	69.0	58.7	129.2	144.1	190.6
Inventories	0	0	0	0	0	0
Current liabilities						
Trade payables	83.9	61.8	127.9	141.3	213.9	220.1
Other payables and accruals	23.3	57.2	35.6	96.6	77.9	135.3
Avg. trade receivables days	24	30	32	35	36	36
Avg. trade payables days	58	44	34	34	34	34

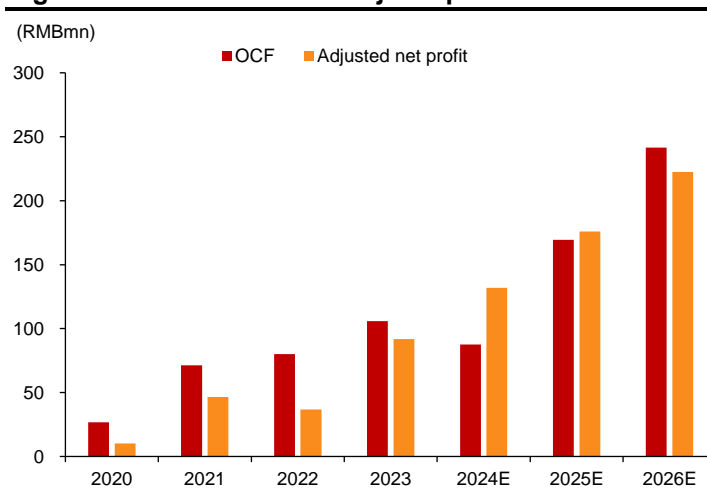
Source: Company data, CMBIGM estimates

Non-current assets and cash flow

EDA is operated under an asset-light model, which leads to relatively low property, plant and equipment number on balance sheet. We expect operating cash flow to rise accordingly with the increase in adjusted net profit in the long term, while to see some short-term fluctuation due to favourable terms provided to certain customers to maintain good customer relationship. We estimate operating cash flow to decline from RMB106mn in 2023 to RMB88mn in 2024E, but to improve to RMB169mn/241mn in 2025E/2026E.

Figure 34: PP&E and right-of-use assets trend

Source: Company data, CMBIGM estimates

Figure 35: EDA: OCF* and adj. net profit forecast

Source: Company data, CMBIGM estimates

*Note: OCF: operating cash flow

Valuation

Per share valuation of HK\$3.57 based on 11.0x 2024E PE

We value EDA based on P/E valuation method, as the company has entered into a steady profitable stage. We use average P/E of China logistics and supply chain solutions companies to derive the equity value of EDA. Our TP of HK\$3.57 per share is based on 11.0x 2024E PE, inline with that of industry peers.

The EDA Cloud platform can efficiently connect logistics and supply chain services providers with B2C ecommerce merchants, which in our view could improve operating efficiency for all related parties. Both strong technological capabilities, as well as EDA's differentiated asset-light model consisting of self-operated warehouses and partnered warehouse, enable EDA to grow its business scale in a more efficient way compared to its industry peers, in our view, and this could support a decent profitability level in the long term.

Moreover, although commercialization of SaaS platform has just started and is immaterial in the near term, the increase in SaaS revenue contribution in the long term could potentially drive a rerating of valuation for the company, in our view.

Figure 36: Valuation assumptions

2024E	Unit	Base case
Adjusted net profit	RMB mn	132.0
Target P/E	(x)	11.0
Equity value	RMB mn	1,452
Equity value	HK\$mn	1,603
No. of shares outstanding (dil.)	mn	449
Per share valuation (HKD)		3.57
Current share price (HKD)		2.33
Implied upside to current share price (%)		53.2%

Source: Company data, CMBIGM estimates

Note: we are assuming HKD:RMB exchange rate of 0.9058:1, which also implies RMB:USD exchange rate of 7.06:1.

Figure 37: Peers valuation

Company	Ticker	Price	Market cap	PE (x)			PS(x)			PEG
		(LC)	(US\$mn)	2023A	2024E	2025E	2023A	2024E	2025E	2024E PE/23-25E EPS CAGR
Comps										
KERRY LOGISTICS CTS	636 HK	7.4	1,726	17.2	8.8	8.9	0.3	0.3	0.3	0.8
INTERNATIO-A	603128 CH	5.8	1,066	12.3	10.9	9.9	0.5	0.4	0.4	n.a.
GUANGZHOU JIAC-A	603535 CH Equity	10.4	505	22.0	11.4	9.7	2.9	2.4	2.1	n.a.
DHL GROUP	DHL GR Equity	36.9	47,783	12.1	12.7	10.9	0.5	0.5	0.5	n.a.
Average				15.9	11.0	9.9	1.1	0.9	0.8	
E-commerce logistics companies										
FEDEX CORP	FDX US Equity	268.1	65,491	15.7	15.5	12.0	0.7	0.7	0.7	1.1
S F HOLDING CO-A	002352 CH Equity	43.4	29,373	25.5	21.8	18.7	0.8	0.7	0.7	0.9
GIGACLOUD TECH-A	GCT US Equity	24.8	826	12.1	8.0	6.2	1.2	0.7	0.6	n.a.
Average				17.8	15.1	12.3	0.9	0.7	0.7	
International logistics and supply chain technology companies										
EXPEDITORS INTL	EXPD US Equity	119.5	16,865	23.9	23.8	22.6	1.8	1.8	1.7	n.a.
CH ROBINSON	CHRW US Equity	107.9	12,650	32.7	25.9	22.8	0.7	0.7	0.7	1.3
Average				28.3	24.9	22.7	1.3	1.2	1.2	

Source: Bloomberg, CMBIGM

Note: Price as of market close on 23 Oct 2024

Investment risks

Economic downturn and geopolitical issues may affect business operation

The B2C export e-commerce supply chain industry historically has experienced cyclical fluctuations in financial performance due to economic recessions, downturn in business cycles of its customers, interest rate fluctuations, currency fluctuations, and other economic factors. Deterioration in the economic environment or any potential geopolitical conflicts may expose EDA's business to various risks.

Success is tied to customers' expenditure on B2C export e-commerce supply chain solutions providers

EDA's growth strategy is partially based on the assumption that the trend toward engaging of B2C export e-commerce supply chain solutions providers will continue. Supply chain solutions providers like EDA are generally able to provide solutions more efficiently and cost-effectively than otherwise could be provided "in-house", primarily as a result of EDA's expertise, technology prowess and one-stop and flexible delivery options. However, if EDA's customers are able to improve the cost structure of their in-house B2C export e-commerce supply chain operations, EDA may not be able to provide its customers with an attractive alternative for their supply chain needs, and EDA's business may be adversely affected if new potential customers decide to carry out their own B2C export e-commerce supply chain solutions.

Intensifying industry competition

The B2C export e-commerce supply chain solutions industry in the PRC is fragmented and competitive. EDA's competitors may have a broader service or network coverage, more advanced technology infrastructure, broader customer base, stronger relationship with business and strategic partners, better brand recognition and greater capital, technical and marketing resources than EDA does, and EDA may face intensifying industry competition in the future.

Slower-than-expected new customer acquisition and worse-than-expected existing customer retention

The success of EDA's business depends on the business performance of its customers and the e-commerce platforms on which they operate, and EDA's ability to cost-effectively attract new customers and retain existing customers remains crucial to support the company's long-term development. Slower-than-expected new customer acquisition or failure to retain existing customers may cause slower-than-expected revenue growth.

Disruption to the operation of and failure to effectively utilize warehouse could adversely affect results of operations

As part of B2C export e-commerce supply chain solutions, EDA offers overseas and domestic warehousing services to its customers through self-operated and partnered warehouses. EDA's continued growth depends on part on its ability to profitably operate its self-operated and partnered warehouse. If EDA experiences any disruption to the operation of and fail to effectively utilize its warehouses, EDA may incur losses which could materially and adversely affect its business, financial condition and results of operations.

Appendix

Management profile

Figure 38: Management profile

Name	Position	Age	Background
Mr. Liu Yong (刘勇)	Executive Director, Chairman of the Board	44	Mr. Liu Yong is the chairman of the Board and an executive Director of the Group. Mr. Liu joined as a Director of the Group in March 2014 and redesignated as an executive Director in June 2023, primarily responsible for the overall management, strategic and business development of the Group. Mr. Liu has over 21 years of operational management experience in the technology sector. From October 2003 to May 2011, Mr. Liu worked as a deputy department head at Huawei Technologies Co., Ltd. and primarily responsible for telecommunications engineering construction.
Ms. Li Qin (李勤)	Executive Director, Chief Executive Officer	37	Ms. Li Qin is an executive Director and the chief executive officer of the Group. Ms. Li joined as a human resources manager of the Group in November 2016 and redesignated as an executive Director in June 2023, primarily responsible for the operation and management of the Group. Ms. Li has over 15 years of operational management experience in human resources and business operation management. From April 2009 to March 2013, Ms. Li worked as a human resources manager at Shenzhen Yinglong Jian' an (Group) Co., Ltd., and primarily responsible for the management of human resources and administrative matters. From June 2013 to November 2016, Ms. Li served as a human resources director at Shenhua Construction (Shenzhen) Co., Ltd. and primarily responsible for the management of human resources and administrative matters.
Mr. Cheung Man Yu (张文宇)	Executive Director, Chief Financial Officer and Company Secretary	49	Mr. Cheung Man Yu is an executive Director, the chief financial officer and company secretary of the Group. Mr. Cheung joined the Group as a Director in October 2022 and was redesignated as a Director in June 2023, and is responsible for the overall financial management of the Group. Mr. Cheung has more than 23 years of experience in financial reporting, management and services. Mr. Cheung has served as the chief financial officer, from August 2014 to September 2018, and company secretary from June 2014 to September 2018, of Feiyu Technology International Company Ltd., a company listed on the Main Board of the Stock Exchange of Hong Kong (stock code: 1022 HK). Mr. Cheung has also served as an independent non-executive director from December 2012 to September 2020, and a member of the remuneration committee, from September 2015 to September 2020, of Lesso. Mr. Cheung is currently serving as a director of subsidiary of Samanea. From December 2012 to January 2014, Mr. Cheung served as the vice general manager of Zhongxing Urban Digital Culture Media (Beijing) Co., Ltd., primarily responsible for its financial management and financial reporting matters. From February 2011 to December 2012, Mr. Cheung was the vice president of China Forestry Holdings Co., Ltd. Before that, Mr. Cheung worked at J.P. Morgan Securities (Asia Pacific) Limited from July 2010 to February 2011, with his last position held as vice president in the investment banking department. From August 2007 to July 2010, he worked at UBS AG, with his last position held as director in the investment banking department. From April 2004 to August 2007, he worked at BNP Paribas Capital (Asia Pacific) Limited, with his last position held as vice president in the corporate finance — execution department. From March 2000 to April 2004, Mr. Cheung held various positions in the assurance and advisory business services department of Ernst & Young in Hong Kong and Beijing, with his last position held as manager.
Mr. Li Hong Jun (黎红军)	Chief Technology Officer	42	Mr. Li Hong Jun was appointed as the chief technology officer of the Group in June 2023, and is responsible for providing overall development and operation of the technology platform of the Group. Mr. Li has nearly 21 years of experience in software research and development. From February 2006 to August 2008, Mr. Li served as a research and development engineer at Nanjing ZTESoft Technology Co., Ltd., primarily responsible for the research and development of software. From October 2008 to August 2011, Mr. Li served as a senior research and development engineer at Huawei Technology Co., Ltd., primarily responsible for software development and technical management. From August 2011 to November 2013, Mr. Li served as a senior development engineer at Taobao (China) Software Co., Ltd., primarily responsible for research and development of software. From December 2013 to June 2014, Mr. Li served as a senior project manager at Ping An Technology (Shenzhen) Co., Ltd., primarily responsible for software development and project development. From July 2014 to August 2019, Mr. Li served as the president of technology department at Beijing Yilong Aviation Service Co., Ltd. Shenzhen Branch, principally engaged in software development and planning. From September 2019 to June 2021, Mr. Li has served as the chief technology officer at Tiger Thorn Fear Internet Service (Shenzhen) Co., Ltd., principally responsible for software and technology development and management.

Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	632	709	1,209	1,714	2,267	2,776
Cost of goods sold	(525)	(602)	(1,012)	(1,445)	(1,907)	(2,330)
Gross profit	107	106	197	269	361	447
Operating expenses	(39)	(52)	(103)	(148)	(153)	(180)
Selling expense	(8)	(8)	(11)	(17)	(24)	(28)
Admin expense	(19)	(27)	(61)	(84)	(66)	(77)
R&D expense	(18)	(21)	(33)	(50)	(66)	(79)
Others	5	4	2	3	3	3
Operating profit	68	55	94	121	208	266
Share of (losses)/profits of associates/JV	(0)	(0)	(0)	0	0	0
Interest expense	(11)	(11)	(10)	(11)	(10)	(10)
Others	(5)	(2)	(3)	(5)	(6)	(7)
Pre-tax profit	52	41	80	106	193	250
Income tax	(5)	(4)	(11)	(15)	(27)	(37)
After tax profit	46	36	69	91	166	212
Net profit	46	36	69	91	166	212
Adjusted net profit	46	37	92	132	176	223

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	204	255	423	771	971	1,251
Cash & equivalents	55	113	221	454	566	772
Account receivables	44	70	142	187	261	288
Prepayment	75	69	59	129	144	191
Financial assets at FVTPL	30	3	0	0	0	0
Non-current assets	181	309	256	269	297	303
PP&E	9	7	5	7	8	9
Right-of-use assets	162	139	108	118	145	150
Deferred income tax	6	8	8	8	8	8
Investment in JVs & assos	3	11	0	0	0	0
Intangibles	0	66	59	59	59	59
Goodwill	0	76	76	76	76	76
Other non-current assets	1	0	0	1	1	1
Total assets	385	564	679	1,040	1,269	1,554
Current liabilities	156	199	256	352	415	488
Short-term borrowings	18	42	52	74	83	92
Account payables	84	62	128	141	214	220
Tax payable	23	57	36	97	78	135
Other current liabilities	3	7	6	6	6	6
Lease liabilities	28	31	35	35	35	35
Non-current liabilities	144	133	99	99	99	99
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	143	122	90	90	90	90
Other non-current liabilities	0	10	9	9	9	9
Total liabilities	300	332	355	451	514	586
Share capital	56	0	0	0	0	0
Other reserves	29	232	324	589	755	968
Total shareholders equity	86	232	324	589	755	968
Total equity and liabilities	385	564	679	1,040	1,269	1,554

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	52	41	80	106	193	250
Depreciation & amortization	34	44	45	38	38	39
Tax paid	(5)	(4)	(11)	(15)	(27)	(37)
Change in working capital	(26)	(15)	(18)	(41)	(35)	(10)
Others	17	15	9	0	0	0
Net cash from operations	71	80	106	88	169	241
Investing						
Capital expenditure	(9)	(2)	(1)	(5)	(6)	(6)
Acquisition of subsidiaries/ investments	0	(2)	0	0	0	0
Net proceeds from disposal of short-term investments	20	65	23	0	0	0
Others	(48)	(69)	18	(45)	(61)	(39)
Net cash from investing	(37)	(8)	40	(50)	(67)	(44)
Financing						
Dividend paid	0	0	(23)	0	0	0
Net borrowings	(8)	29	11	22	9	9
Proceeds from share issues	50	0	0	174	0	0
Others	(35)	(38)	(25)	0	0	0
Net cash from financing	7	(9)	(37)	196	9	9
Net change in cash						
Cash at the beginning of the year	8	49	112	221	454	566
Cash at the end of the year	49	111	220	454	566	772
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	99.9%	12.2%	70.6%	41.8%	32.3%	22.5%
Gross profit	147.6%	(0.3%)	85.1%	36.7%	33.8%	23.9%
Operating profit	189.6%	(19.5%)	71.5%	29.4%	71.7%	27.9%
Net profit	352.4%	(21.8%)	91.2%	31.3%	82.0%	28.1%
Adj. net profit	352.4%	(20.7%)	149.5%	43.6%	33.4%	26.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	16.9%	15.0%	16.3%	15.7%	15.9%	16.1%
Operating margin	10.7%	7.7%	7.7%	7.1%	9.2%	9.6%
Adj. net profit margin	7.3%	5.2%	7.6%	7.7%	7.8%	8.0%
Return on equity (ROE)	123.6%	22.8%	24.9%	20.0%	24.7%	24.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.3)	(0.5)	(0.6)	(0.6)	(0.7)
Current ratio (x)	1.3	1.3	1.6	2.2	2.3	2.6
Receivable turnover days	24.3	29.5	32.1	35.1	36.1	36.1
Payable turnover days	57.6	44.2	34.2	34.0	34.0	34.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	na	na	10.5	10.3	5.7	4.4
P/E (diluted)	na	na	10.5	10.5	5.8	4.5

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

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