

Dmall Inc (2586 HK)

Full-year breakeven in FY24; focus on AI retail to drive long-term growth

Dmall reported FY24 financial results: total revenue increased by 17% YoY to RMB1.86bn, in line with our estimate; adjusted net profit was RMB29.8mn, up from adjusted net loss of RMB277mn in FY23, and ahead of our estimate (adj. net loss of RMB105mn), mainly thanks to the robust growth of retail core service cloud and the enhanced operating efficiency. Looking ahead, Dmall will focus on the AI retail field to capture new growth opportunities. The company has launched several AI agent products, revenue of which shall gradually ramp up in the long term, in our view. For FY25E, management expects total revenue to grow by 15-20% YoY with further margin expansion. We lower our FY25-26 revenue forecast on slower customer acquisition pace, but raise our target price to HK\$16.00 based on 6.0x FY25E EV/sales due to sector rerating and long-term potential of AI retail (previous: HK\$8.50 on 2.5x FY25E EV/sales). Maintain BUY.

- **Robust growth of retail core service cloud solution.** Revenue from retail core service cloud solution grew by 39% YoY to RMB1.81bn in FY24, within which: 1) operating system (OS) revenue was up by 16% YoY to RMB786mn, primarily driven by increased revenue from distributed e-commerce system and overseas expansion. Dmall recorded a net addition of 46 customers to 370 customers (+14% YoY) for the OS business; 2) AIoT solutions revenue grew by 65% YoY to RMB1.02bn, driven by the ramp-up of new AIoT solutions such as intelligent delivery and intelligent cleaning. The company maintained a net dollar retention rate of 114% in 2024, and acquired several key account customers such as Better Life Group, Lishui Wanjianghui, and Shuanghui Development.
- **Focus on AI retail.** On the AI front, Dmall has launched several AI agent products such as AI Clearance, AI Customer Service and AI Service Quality Inspection etc. AI Clearance was deployed across over 200 stores under Wumei in 2024, which generated over RMB1mn incremental annual profit for Wumei via leveraging intelligent analytics for the dynamic discount program. AI Customer Service also reduced labour cost of customers, while also maintaining a high user satisfaction and online resolution rate of 80%. While AI retail products are yet to make meaningful revenue contribution in FY24, we are upbeat on their long-term potential.
- **Expanding margin; full-year breakeven achieved.** GPM improved from 35.0% in 2023 to 40.1% in 2024, primarily due to the cessation of the low-margin e-commerce service cloud solution and the organization optimization. Adjusted net margin was also up from -14.7% in 2023 to 1.6% in 2024. We expect net margin to further rise in FY25E, driven by the solid growth of high-margin OS business and improved operating efficiency.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	1,585	1,859	2,190	2,572	2,936
YoY growth (%)	19.4	17.3	17.8	17.5	14.1
Adjusted net profit (RMB mn)	(233.3)	29.8	134.4	337.8	517.5
YoY growth (%)	na	na	351.0	151.4	53.2
EPS (Adjusted) (RMB cents)	(44.43)	5.39	14.94	37.56	57.55
P/S (x)	6.9	5.9	5.0	4.3	3.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$16.00**
(Previous TP) HK\$8.50
Up/Downside **22.5%**
Current Price **HK\$13.06**

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Stock Data

Mkt Cap (HK\$ mn)	11,744.3
Avg 3 mths t/o (HK\$ mn)	34.3
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	899.3

Source: FactSet

Shareholding Structure

Celestial	47.8%
Vigorous Link	8.5%

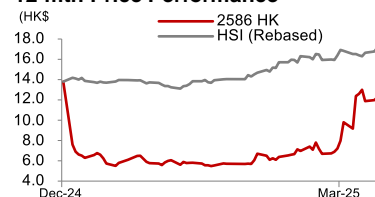
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	96.1%	81.6%
3-mth	109.3%	66.9%
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Dmall: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	2,190	2,572	2,936	2,564	3,505	NA	-14.6%	-26.6%	NA
Gross Profit	898	1,093	1,297	1,069	1,552	NA	-16.0%	-29.5%	NA
Operating Profit	121	334	551	221	628	NA	-45.4%	-46.8%	NA
Non-IFRS net profit	134	338	518	195	532	NA	-31.0%	-36.5%	NA
Non-IFRS EPS (RMB)	0.1	0.4	0.6	0.2	0.6	NA	-32.0%	-37.4%	NA
Gross Margin	41.0%	42.5%	44.2%	41.7%	44.3%	NA	-0.7 ppt	-1.8 ppt	NA
Operating Margin	5.5%	13.0%	18.8%	8.6%	17.9%	NA	-3.1 ppt	-4.9 ppt	NA
Non-IFRS net margin	6.1%	13.1%	17.6%	7.6%	15.2%	NA	-1.5 ppt	-2.0 ppt	NA

Source: CMBIGM estimates

Our target price is HK\$16.00 based on 6.0x FY25E EV/sales. Our valuation multiple is largely on par with the average EV/sales of global SaaS peers (5.9x).

Figure 2: Valuation assumptions

	Unit	FY25E
FY25E sales	RMB mn	2,190
Target multiple	(x)	6.0
Implied EV	RMB mn	13,137
Add: net cash	RMB mn	487
Equity value	RMB mn	13,624
Less: minority interest	RMB mn	(76)
Attributable equity value	RMB mn	13,548
Attributable equity value	HK\$m	14,567
Number of shares	mn	899
Target price	HK\$	16.00

Source: Company data, CMBIGM estimates

Note: RMB0.93 = HK\$1

Figure 3: Peers valuation

Companies	Ticker	Price (LC)	EV/Sales (x)		Revenue YoY		EBITDA margin	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
China SaaS								
Kingdee	268 HK	15.8	3.4	2.9	14%	16%	8%	11%
Yonyou	600588 CH	17.1	2.9	2.7	13%	9%	8%	12%
Glodon	002410 CH	15.0	2.5	2.2	6%	10%	18%	19%
Shiji	002153 CH	8.1	4.8	4.1	15%	16%	11%	15%
Average			3.4	3.0	12%	13%	11%	14%
Global SaaS								
Adobe	ADBE US	399.3	9.6	8.7	10%	10%	48%	48%
Salesforce	CRM US	280.8	7.1	6.6	9%	8%	39%	40%
Atlassian	TEAM US	221.0	8.1	6.7	19%	20%	25%	26%
Shopify	SHOP US	96.6	9.0	7.4	24%	21%	18%	19%
Workday	WDAY US	250.6	7.5	6.6	16%	13%	29%	32%
Average			8.2	7.2	16%	14%	32%	33%
Global average			6.1	5.3	14%	14%	23%	25%

Source: Bloomberg, Company data

Note: closing price as of 18 Mar 2025

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	1,328	1,585	1,859	2,190	2,572	2,936
Cost of goods sold	(823)	(1,031)	(1,113)	(1,292)	(1,479)	(1,639)
Gross profit	505	555	746	898	1,093	1,297
Operating expenses	(891)	(818)	(920)	(777)	(760)	(746)
Selling expense	(239)	(151)	(92)	(103)	(105)	(108)
Admin expense	(252)	(259)	(308)	(312)	(317)	(322)
R&D expense	(586)	(521)	(413)	(385)	(364)	(346)
Others	186	114	(107)	23	26	30
Operating profit	(386)	(263)	(174)	121	334	551
Share of (losses)/profits of associates/JV	0	0	(0)	0	0	0
Interest expense	(23)	(13)	(4)	(6)	(6)	(10)
Others	(493)	(476)	(2,276)	0	0	0
Pre-tax profit	(902)	(752)	(2,454)	115	328	541
Income tax	2	3	1	(3)	(16)	(54)
After tax profit	(900)	(749)	(2,453)	112	311	487
Minority interest	(33)	(63)	(25)	1	3	5
Discontinued operations	59	94	233	0	0	0
Net profit	(926)	(592)	(2,195)	111	308	482
Adjusted net profit	(356)	(233)	30	134	338	518

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	811	844	1,284	1,688	2,355	3,363
Cash & equivalents	533	533	801	1,127	1,731	2,680
Account receivables	141	165	248	191	213	231
Inventories	6	11	5	11	12	14
Other current assets	131	135	230	359	399	439
Non-current assets	496	534	376	362	363	380
PP&E	74	77	70	47	33	24
Intangibles	93	84	144	153	169	194
Other non-current assets	329	373	162	162	162	162
Total assets	1,307	1,378	1,659	2,050	2,719	3,743
Current liabilities	7,112	7,794	918	975	1,174	1,453
Short-term borrowings	70	202	445	306	465	723
Account payables	64	87	99	94	108	120
Other current liabilities	6,978	7,505	374	575	601	611
Non-current liabilities	273	349	100	322	481	739
Long-term borrowings	50	112	84	306	465	723
Other non-current liabilities	222	237	16	16	16	16
Total liabilities	7,385	8,143	1,018	1,297	1,655	2,192
Share capital	0	0	1	1	1	1
Retained earnings	(6,161)	(6,865)	565	676	984	1,466
Total shareholders equity	(6,161)	(6,865)	566	676	984	1,466
Minority interest	83	100	75	76	80	85
Total equity and liabilities	1,307	1,378	1,659	2,050	2,719	3,743

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(842)	(659)	(2,454)	115	328	541
Depreciation & amortization	52	46	50	43	49	57
Tax paid	(0)	0	1	(3)	(16)	(54)
Change in working capital	178	(54)	(273)	118	(23)	(38)
Others	407	487	2,286	19	21	24
Net cash from operations	(206)	(179)	(391)	292	358	530
Investing						
Capital expenditure	(17)	(4)	(8)	(21)	(34)	(49)
Others	85	(27)	(65)	(23)	(30)	(39)
Net cash from investing	69	(31)	(73)	(44)	(64)	(88)
Financing						
Net borrowings	110	191	215	83	318	516
Others	172	16	517	(6)	(6)	(10)
Net cash from financing	282	207	732	77	311	506
Net change in cash						
Cash at the beginning of the year	369	533	533	801	1,127	1,731
Exchange difference	19	3	0	0	0	0
Cash at the end of the year	533	533	801	1,127	1,731	2,680
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	56.6%	19.4%	17.3%	17.8%	17.5%	14.1%
Gross profit	192.5%	9.8%	34.6%	20.3%	21.8%	18.6%
Operating profit	na	na	na	na	176.6%	65.0%
Net profit	na	na	na	na	178.5%	56.6%
Adj. net profit	na	na	na	351.0%	151.4%	53.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	38.0%	35.0%	40.1%	41.0%	42.5%	44.2%
Operating margin	(29.0%)	(16.6%)	(9.4%)	5.5%	13.0%	18.8%
Adj. net profit margin	(26.8%)	(14.7%)	1.6%	6.1%	13.1%	17.6%
Return on equity (ROE)	na	na	na	17.8%	37.1%	39.4%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	0.1	0.1	1.4	1.7	2.0	2.3
Receivable turnover days	32.1	35.2	33.4	31.8	30.2	28.7
Inventory turnover days	2.9	3.1	3.1	3.1	3.1	3.1
Payable turnover days	25.1	26.6	26.6	26.6	26.6	26.6
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	ns	ns	98.9	35.5	22.7

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

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