



Asian Insights SparX

China Logistics Sector - SF Holding Series

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Sep 2022

Roadmap for growth

- Trending towards integrated logistics services providers
- Cross-border e-commerce export logistics to see rapid development backed by booming demands where SF takes the lead via Kerry Logistics established network
- Win at the racetrack of supply chain logistics services by providing tailored integrated solutions
- Initiate [SF Holding](#) and [SF Intra-city](#) with BUY ratings; reiterate BUY on [Kerry Logistics](#) and [SF REIT](#)

Exploring new growth curve through diversifying its product mix. With changing demands amid supportive policies, logistics players are keen to build a long-term moat by transforming into integrated logistics service providers and diversifying their product mix. This would enable them to make headway into various subsegments, of which cross-border and supply chain logistics are two most promising subsegments.

Resource integration capability critical to strengthen scale effect. During business expansion, we saw that resource integration capability across the logistics chain is critical for scale expansion and growing business volume. Scale effect helps to establish cost competitiveness and safeguard profitability. Moreover, SF Holding has successfully launched SF REIT and listed SF Intra-city, diversifying its financing channels and strengthening its capital structure.

Initiating with BUYs on SF Holding (002352 CH) and SF Intra-city (9699 HK), reiterate BUY on Kerry Logistics (636 HK) and SF REIT (2191 HK). As a market leader in the logistics sector, we initiate SF Holding with a BUY rating, backed by accelerating international expansion. We also initiate SF Intra-city with a BUY rating, supported by strong revenue growth and improving profitability. We reiterate BUY on Kerry Logistics and SF REIT.

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Top picks

Company Name	Currency	Price Local\$	Target Price Local\$	PE 22F x
SF Holdings (002352 CH)	CNY	47.39	68.70	36.7
SF Intra-city (9699 HK)	HK\$	6.66	13.50	nm
Kerry Logistics Network (636 HK)	HK\$	15.6	19.80	7.8
SF REIT (2191 HK)	HK\$	3.00	5.45	nm

Based on closing prices as at 6 Sep 2022

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")



Live more, Bank less

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The DBS Asian Insights SparX report is a deep dive look into thematic angles impacting the longer term investment thesis for a sector, country or the region. We view this as an ongoing conversation rather than a one off treatise on the topic, and invite feedback from our readers, and in particular welcome follow on questions worthy of closer examination.

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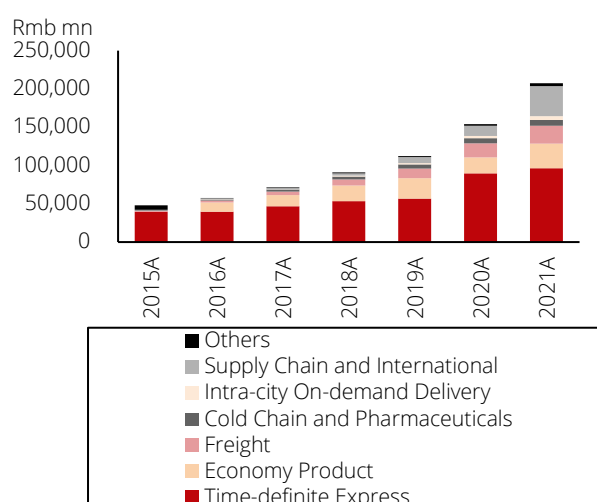
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Investment summary

Exploring a new growth curve with diversifying product mix amid improving logistics efficiency. China's logistics efficiency has improved with total logistics expenses as a percentage of GDP declining from 14.7% in 2020 to 14.6% in 2021. The downward trend should be maintained backed by more integrated solutions and advanced technology. With policy support to encourage market consolidation, logistics players are keen to build a long-term moat through a diversification strategy to transform themselves into integrated logistics service providers. SF Holding has taken the lead to horizontally expand its business fields and vertically improved product stratification to provide customer-oriented integrated solutions. This would help the company to gradually establish its competitive advantages in multiple subsegments of the logistics market.

Franchise players to promote cost efficiency amid increasing competition in the e-commerce express market. Riding on the booming e-commerce market, there is increasing demand for "go to countryside, go to factories, and go global". Tongda Operators (namely, ZTO Express (ZTO US, 2057 HK, BUY), STO Express (002468 CH, not rated), YTO Express (600233 CH, not rated), Yunda Express (002120 CH, not rated), and BEST Express (BEST US, not rated)) and J&T Express operating under a franchise model are the main players, and helped to lift the brand concentration ratio CR8 index to a new high of c.85% in mid-2022. Given homogeneous competition, these players have strategically invested in infrastructure and technology to improve operational efficiency and enhance their scale and network effects amid expanding business volume.

SF Holding's revenue breakdown



Source: Company, DBS HK

Sustainable volume expansion in the express market with SF Holding dominating the high-end time-definite market.

Although the growth rate in the overall express delivery market has been gradually moderating since 2017, the State Post Bureau is predicting 13% y-o-y growth in business volume for 2022E on stable price per shipment as policy regulations help to direct focus from price competition to service quality. Specifically, for the high-end time-definite market (or c.20% of total express market), SF Holding has cemented a dominant share with its reputation for timeliness and highly efficient delivery services, backed by continuous capex investments in the infrastructure network.

Freight network players to consistently gain market share.

IRResearch expects the market size of the freight network sector with superior network and service capability to deliver 28.6% CAGR in 2021-2025E, outpacing 6.5% CAGR in China's Less-Than-Truckload (LTL) market, with the aggregate market share of freight network players rising from 6.1% in 2020 to 15.7% in 2025E. Moreover, freight networks under a franchise model are the leading players with market share projected to rise from 68.6% in 2020 to 78.6% in 2025E, supported by resource consolidation and network effect. What's worth noting is that SF Holding has adopted a unique model by integrating a self-operated network "SF Freight" and a franchised network "SX Freight" to consolidate its leading position.

Leading players with extensive infrastructure and advanced technology to lead China's cold chain market consolidation.

Backed by increasing demand, TUC Media expects the China's cold chain market to reach Rmb550bn by 2025E, at a CAGR of 7.5% in 2021-2025E. Express delivery companies are actively entering the cold chain market to build a nationwide network, leveraging on their extensive infrastructure and technology capabilities. SF Holding and JD Logistics (2618 HK, BUY) have been ranked 1st and 2nd for two consecutive years in China Cold Chain Logistics Top100 List in 2019-2020. They have participated in market consolidation with the concentration ratio CR100 improving from 9.7% in 2015 to 18.1% in 2020. Looking forward, we expect SF Holding to reinforce its leading position, supported by diversifying products, and superior network and services capabilities.

Third-party on-demand delivery service providers to serve varying needs at an optimum fulfilment cost. By providing services that cater to varied demands, wide

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coverage and customer-centric requirements, third-party on-demand delivery service platforms expect order volumes to grow at a CAGR of 40% in 2021-2025E, outpacing the order volume growth CAGR of 31% for China's total on-demand delivery service, thus lifting the penetration rate from 14.4% in 2020 to 20.5% in 2025E. Looking forward, as the largest third-party on-demand delivery service provider with a market share of 10.4% in 2020 (vs. concentration ratio CR6 of 35.6% in 2020), we expect SF Intra-city (9699 HK) to consolidate its market leadership with improving profitability ahead.

Asia Pacific to see resilient growth amid moderating growth in global freight forwarding market. After a robust 2021, Transport Intelligence (Ti) expects the growth in the global freight forwarding market to moderate to a CAGR of 3.7% in 2022E-2026E, with Asia Pacific to remain as the fastest growing region at a CAGR of 4.5% in 2022E-2026E, outpacing the global growth rate. This points to abundant opportunities ahead. While the market is dominated by international players, we highlight two leading Chinese players that are ranked in the Top10 list, namely, Sinotrans (601598 CH/ 598 HK) and Kerry Logistics (636 HK).

Resource integration capability was critical amid booming cross-border e-commerce logistics services. According to iResearch, China's cross-border e-commerce export logistics market expect to exceed Rmb3.6bn in 2025E with a CAGR of 22% in 2022E-2025E. As evolving business flow led logistics service transformation, special lines among direct mail mode (直邮模式) and overseas warehouses mode (海外仓模式) became new focuses and expect to co-exist in the long run, backed by diversifying demands with differentiated requirements for pricing and timeliness. We see resource integration capability was critical to ensure the scale and stability of business volume and strength scale effect. Looking forward, we expect to see encouraging consolidation between SF Holding and Kerry logistics in the international business, backed by substantial business complementarities.

Diversifying to meet tailored integrated solutions and promote supply chain reform. In the omni-channel era, China Insights Consultancy (CIC) estimates the market size of integrated supply chain (ISC) logistics services industry in China to reach Rmb3.2tn by 2025E, at a CAGR of 9% in 2022E-2025E. In this highly fragmented market with concentration ratio CR5 and CR10 at 5.2% and 9.0% in 2020 respectively, we expect to see both giants (such as JD Logistics and SF Holding) and smaller niche players

co-exist. As a leading player, SF Holding has successfully embarked in acquisitions to achieve multi-industry coverage and leading competitiveness.

Roadmap of exploring second curve through business diversification while balancing expansion and profitability. SF Holding is targeting to deliver sustainable growth in the long term, by optimizing its products to meet varying demands and integrating its network to enhance efficiency and reduce costs. Through years of developing a digital logistics ecosystem, the company is continuously strengthening its infrastructure network and has diversified its financing channels. Moreover, SF Holding is accelerating the pace of international development and is forming international supply chains through strategic M&As. Hence, we expect supply chain and international business is an important market segment for SF Holding to establish its first-mover advantage. Logistics peers could replicate this business diversification strategy although this will take time.

Exploring diversifying financing channels. SF Holding has set up SF Real Estate Investment Trust (SF REIT, 2191.HK), which was listed in May-2021, as the first REIT in the HK market focusing on logistics properties, serving as a critical platform for the company to recycle its capital to support future business development. Meanwhile, SF Intra-city (9699.HK) was successfully spun off and listed on the HK market in Dec-2021, serving as an important milestone to enhance its competitiveness and reinforce its solid brand reputation. Looking forward, we expect to see more potential REIT listings and spin-off of new business segments, serving as critical financing channels to support logistics players' diversification business strategy.

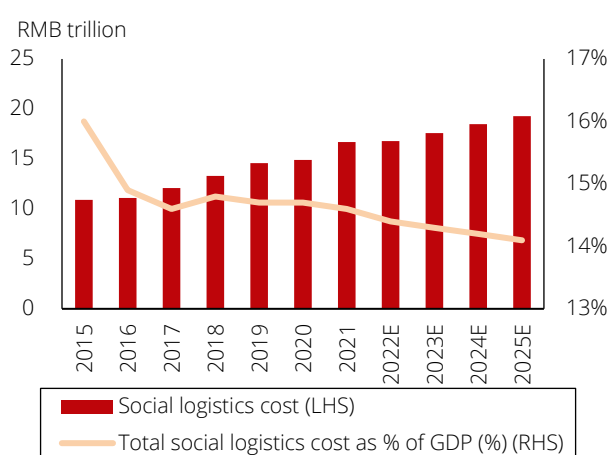
Initiate SF Holding and SF Intra-city with BUY ratings; reiterate BUY on Kerry Logistics and SF REIT. As a market leader in the logistics sector, we initiate SF Holding with a BUY rating, backed by fundamental recovery and accelerating international development. We have also initiate SF Intra-city with a BUY rating, supported by strong revenue growth and improving profitability. As for Kerry Logistics, the integration with S.F. Holding should add spice to its earnings growth and consolidate its leading position among Asia logistics plays in the long run. We also reiterate our BUY rating on SF REIT. High portfolio occupancy, coupled with guaranteed annual rental escalation, should underpin its steady and growing rental income ahead.

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Trending towards integrated logistics

Sustainable growth in logistics industry with improving efficiency ahead. Backed by the world's largest e-commerce market in China with diversifying demands, as well as accelerating shift in consumption from offline to online, China's total logistics expenses amounted to Rmb16.7tn in 2021 (+12.5% y-o-y), accounting for 14.6% of GDP, dropping by 0.1ppt from 14.7% in 2020. As players start to offer more integrated solutions and advanced technology, we expect to see improving logistics efficiency and a declining trend for logistics expenses as a percentage of GDP.

China's total logistics expenses, and percentage to GDP



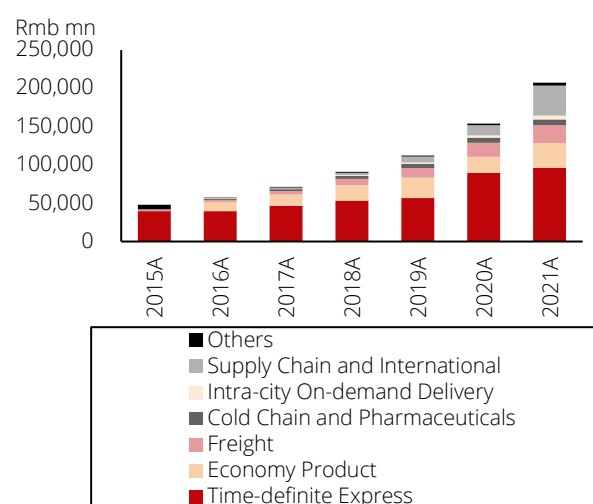
Source: China Federation of Logistics & Purchasing, DBS HK

Exploring new growth curve with a diversifying product mix. Except for the express delivery market which is relatively highly concentrated, China's logistics market remains highly fragmented in most subsegments. Therefore, most logistics titans are keen to build their long-term moat by transforming into integrated logistics service providers to differentiate themselves. SF Holding has taken the lead to horizontally diversify its business and vertically improve its product stratification to provide customer-oriented integrated solutions. JD Logistics (2618.HK) and Cainiao are also investing in infrastructure

network and product diversification to improve their competitive edge. Other competitors like Tongda operators (namely, ZTO Express, STO Express, YTO Express, Yunda Express and BEST Express) and J&T Express, are striving to keep up with the trends, so as to optimize the logistics ecosystem to explore new growth curves.

SF Holding as a pioneer with competitive advantages in several subsegments of the logistics market. SF Holding built its competitive advantage and brand recognition in the time-definite express product segment, and now holds a dominant market share in the domestic market. Leveraging on its strong management control with a well-established infrastructure network, it initiated its diversification strategy to seize global opportunities as early as 2008. After years of development, the company is now a leading comprehensive express logistics service provider in China and has established market leadership in new business segments (including freight, cold chain, intra-city delivery, international, etc), by providing intelligent and integrated solutions for various customers.









SF Holding's revenue breakdown



Source: Company, DBS HK










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SF Holding's business segments and product scope

Business segments		Business scope
	Time-definite Express	Provide time-definite and high-quality door-to-door delivery service for consumers, enterprises, merchants, etc
	Economy Express	Provide cost-effective and quality-guaranteed delivery services mainly for e-commerce platforms and merchants <ul style="list-style-type: none"> Self-operated network of SF Express Franchise network of Fengwang Express Integrated warehousing and distribution service
	Freight	Mainly for customers in manufacturing and commercial distribution sectors with demand for large parcel distribution and bulk transport <ul style="list-style-type: none"> Large parcel by air, large parcel by road, and extended services Self-operated network of SF Freight Franchise network of SX Freight
	Cold Chain and Pharmaceutical	Mainly for customers from three sectors: Seasonal fresh food, frozen food and pharmaceutical <ul style="list-style-type: none"> Fresh food speedy distribution, cold chain food transport, and pharmaceutical logistics
	Intra-city On-demand Delivery	Provide on-demand distribution service mainly for restaurants, retail/e-commerce merchants, individuals and enterprises <ul style="list-style-type: none"> To B services and to C services
Supply Chain and International		
	International Express	Provide domestic and foreign manufacturers, trading enterprises, cross-border e-commerce merchants and consumers <ul style="list-style-type: none"> International express, overseas local express, cross-border e-commerce parcel and overseas warehouse services
	International Freight and Freight Forwarding	Provide customers with air, sea, railway, road and multimodal freight transport solutions <ul style="list-style-type: none"> Air transport, sea transport and road transport
	Supply Chain	Provide customers in various industries with domestic and international end-to-end supply chain solutions <ul style="list-style-type: none"> SF Supply Chain and New HAVI to provide local supply chain service Kerry Logistics to provide global integrated logistics

Source: Company, DBS HK

Business diversification of major logistics players

	Express delivery	Freight	Cold chain logistics	Intra-city delivery	International delivery	Supply chain management	Last-mile network	Technology empowerment
 EXPRESS 顺丰速运	✓	✓	✓	✓	✓	✓	✓	✓
 JDL 京东物流	✓	✓	✓	✓	✓	✓	✓	✓
 CAINIAO 菜鸟	✓	✓	✓	✓	✓	✓	✓	✓
 ZTO 中通快递	✓	✓	✓		✓	✓	✓	
 韵达 韵达	✓	✓	✓		✓		✓	
 YTO 圆通速递	✓	✓			✓		✓	
 sto 申通快递	✓						✓	
 百世 BEST Inc.		✓	✓	✓	✓	✓	✓	
 J&T 极兔速递	✓	✓		✓	✓		✓	

Note: Red icon represents companies that already operate the business, pink icon represents companies that are still in the early stage.

Source: Companies, DBS HK

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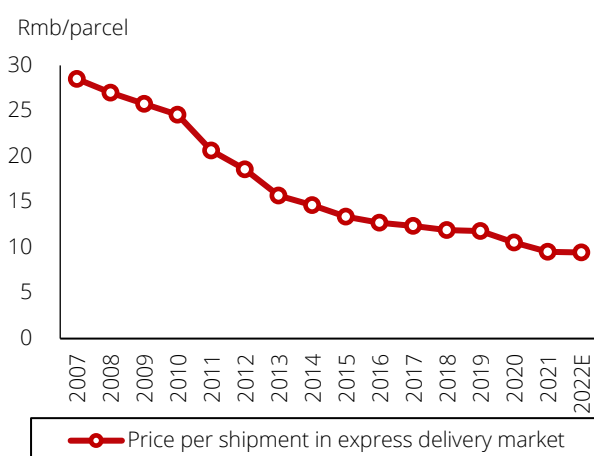
Subsegment business analysis

Express market overview

Sustainable volume expansion signs of stabilising prices amid policy regulation. According to the State Post Bureau, China's express delivery industry developed rapidly in 2007-2016, at a CAGR of 44% and 31% for business volume and business revenue respectively, mainly riding on the booming e-commerce demand. Starting from 2017, the industry's growth has gradually changed gears with CAGR slowing to 28% and 21% in business volume and business revenue in 2017-2021 respectively. Looking ahead, given the relatively high base amid gentle macroeconomic growth, the State Post Bureau at the beginning of this year conservatively predicted 13% and 12% growth in business volume and business revenue respectively for this year.

Meanwhile, the industry's overall express delivery price per shipment has been declining in the past few years, from Rmb28.5 in 2007 to Rmb9.5 in 2021, before stabilizing at Rmb9.5 in 2022E, according to estimates from the State Post Bureau.

Price per shipment in express delivery market

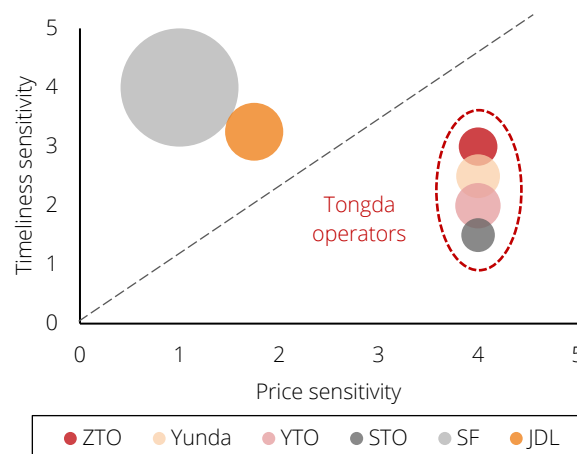


Source: State Post Bureau, DBS HK

Varied customer demands to differentiate business models with an aim to achieve optimal balance of timeliness and price. The quality of express delivery service depends on speed and safety, which should be balanced with service pricing. As such, logistics companies employ different business models, namely, direct operation model by SF Holding or franchise model by Tongda operators and J&T Express, to provide differentiated products to serve various customer demands. For time-definite express, the requirement for timeliness and superior services gives the service

provider strong pricing power, while intense competition among e-commerce delivery services have led to pricing pressure, as their target e-commerce customers are more sensitive to pricing than timeliness.

Sensitivity to timeliness and price



Note: 1) The size of circle represents company's total revenue in 2021.
2) BEST Express did not disclose 2021 express revenue as the business unit was sold to the unlisted logistics company J&T Express in Oct-2021.
Source: State Post Bureau, Companies, DBS HK

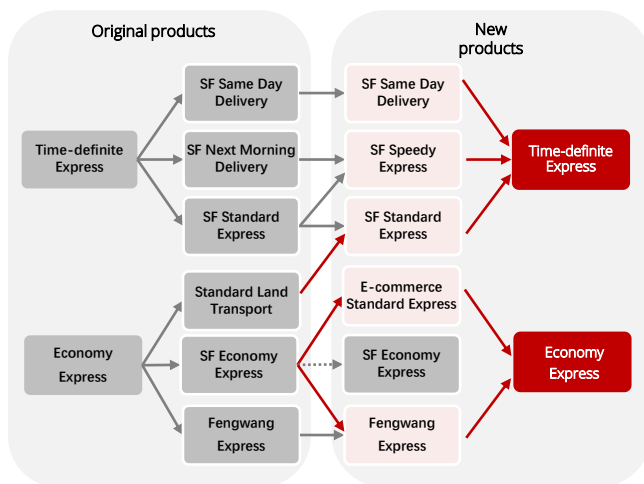
(1) Time-definite Express

SF Holding dominates China's time-definite express market.

The director of State Post Bureau stated in August 2021 that time-definite express parcels accounted for nearly 20% of the total volume in the express delivery market. SF Holding dominates this market, leveraging on its highly efficient and reliable delivery services. Moreover, to serve varying customer demands, SF Holding has continued to optimise and upgrade its products in 2021, such as SF Same Day Delivery, SF Speedy Express and SF Standard Express (with reclassified standardization of transport by land), while managing to shorten the average delivery duration by nearly two hours, pointing to its superior punctuality-based competitive advantage. Meanwhile, another major player in the time-definite express market is EMS (Express Mail Service) under SOE China Post, which is designated to provide high-quality delivery services for governmental agencies, backed by its extensive infrastructure nationwide.

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SF Holding upgraded its products in 2021



Source: Company, DBS HK

Heavy capex investment made in infrastructure network to build up high entry barriers. Through years of investments, SF Holding has established an efficient and reliable logistics infrastructure network under a direct operation model, thus ensuring high-quality delivery services. More specifically, the company owns the largest cargo airline in China and has abundant aircraft resources, and has established Ezhou HuaHu Airport, the first cargo hub airport in Asia and the fourth in the world. These should enable the company to further improve efficiency and enhance its delivery capacity. Moreover, the company is continuously investing in transportation resources, including land transport, rail and sea freight, to provide domestic and cross-border multimodal transportation services. In addition, it has a wide coverage of service points, transit depots and warehouses worldwide, with an aim to provide efficient and localized operations.

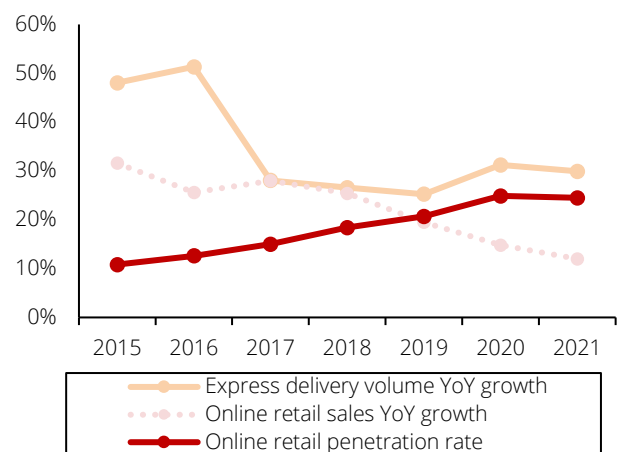
Timeliness and efficient delivery serve as key competitive advantages. Given relatively stable competitive landscape in the time-definite express market, as well as customers being less sensitive to price, it is suitable for logistics companies to adopt customer-centric differentiation strategy to build up pricing power and consolidate core competitive advantages of efficient, precise and reliable delivery services. SF Holding is committed to provide time-definite express delivery services with high timeliness, excellent experience, high reliability, thus reinforcing its market leadership and product competitiveness.

(2) Economy Express

Greater growth potential in China's economy express sector backed by varying e-commerce demands.

Economy Express parcels, mainly oriented towards e-commerce platforms and merchants, accounted for c.80% of total volume in the express delivery market, mainly backed by booming e-commerce market and surging online retail penetration rate from 10.8% in 2015 to a high of 24.9% in 2020, before stabilizing at 24.5% in 2021. While traditional e-commerce giants have gradually stepped into mature development phases with relatively moderate growths, we noted that new e-commerce platforms like livestreaming and content-based platforms is helping to trigger incremental demand for logistics services.

Express delivery growth mainly driven by online retail

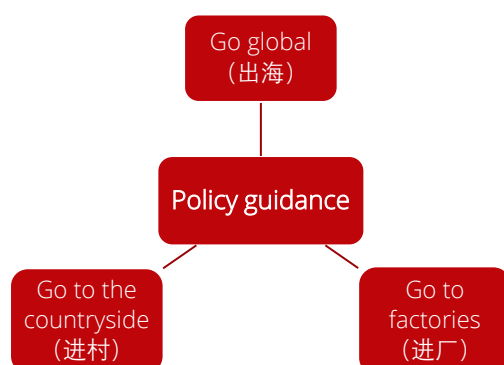


Source: National Bureau of Statistics, State Post Bureau, DBS HK

Policy guidance points to new directions of “go to countryside, go to factories, and go global” amid “dual circulation”. The government is encouraging the express delivery service players to actively expand their business scope to include these new directions: (1) for “go to the countryside”, the industry is expected to provide the infrastructure to support the flow of industrial goods and farm produce between countryside and villages via e-commerce; (2) for “go to factories”, the industry is expected to help manufacturing enterprises to improve efficiency and reduce costs amid various channels, backed by cost-effective logistics services with nationwide coverage; (3) and “go global” encourages logistics players to build a global logistics system with diversifying services and products, to support cross-border trade and contribute to globalization of Chinese brands. Therefore, we expect to see strong endogenous driving forces to propel future development.

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Policy guidance points to new directions

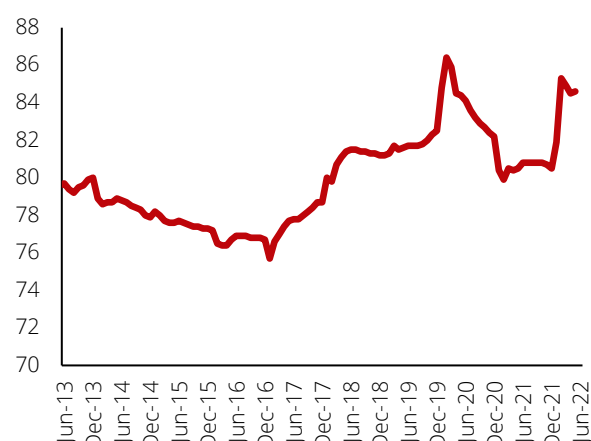


Source: State Post Bureau, DBS HK

Tongda operators under franchise model constitute the main force in the market amid market consolidation. The State Post Bureau disclosed that the brand concentration ratio (CR8) in the express delivery market increased to a peak of 86.4 as of Feb-2020, before declining sharply for approximately one year till Feb-2021 mainly affected by an aggressive new entrant J&T Express. The ratio started to regain its upward trend as J&T Express succeeded to be ranked among the top 8 players. More specifically, Tongda operators under a franchise model constituted the main force for the express delivery market, with ZTO Express topped the list with a market share of 22.3% in 1H22, followed by Yunda Express at 16.7% and YTO Express at 15.8%, while STO Express kept up with a market share of 11.1%.

As for SF Holding, in order to serve e-commerce clients with diversifying preferences for services and pricing, it operates under two brands, namely, directly operated network under "SF Express" and the franchise network under "Fengwang Express". The company upgraded its e-commerce express products in 2021, and mainly focuses on "e-commerce standard express" with superior fulfilment capabilities, while keeping an eye on the development of Fengwang, which is still in the early stage of building its network as of 2021.

Brand concentration ratio CR8 regained its upward trend



Source: State Post Bureau, DBS HK

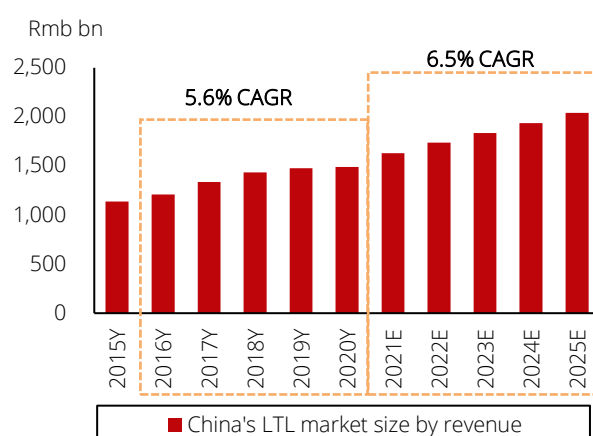
Cost efficiency to differentiate market competitiveness, backed by capex investments and technology empowerment. Given severe competition in e-commerce delivery services, which is largely homogenous, Tongda operators endeavour to optimize cost efficiency to strengthen market competitiveness. For instance, ZTO Express has adopted an aggressive capital expenditure strategy to construct self-owned sorting hubs, increase self-owned line-haul vehicles and improve automation capabilities, thus significantly expanding its service capacity and enhancing network stability to establish its first-mover advantage amid booming e-commerce demands. Moreover, technology capability is critical to further improve operational efficiency and reduce costs, through digital and intelligent upgrade of the logistics network across the end-to-end operation process.

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Freight

China's Less-Than-Truckload (LTL) market is the largest in the world with sustainable growth. Road transportation contributed for 75% of total transportation volume in China in 2021, mainly comprising three segments by weight per shipment, namely, express delivery (weighing 30kg and below), Less-Than-Truckload (LTL, weighing between 30kg and 3,000kg) and Full-Truckload (FLT, weighing 3,000kg and above). Looking forward, iResearch estimated China's LTL market size to be Rmb1.6tn in 2021E and expects it to reach Rmb2.0tn by 2025E, at a 6.5% CAGR in 2021E-2025E (vs. 5.6% CAGR in 2016-2020), ranking as the largest LTL market worldwide.

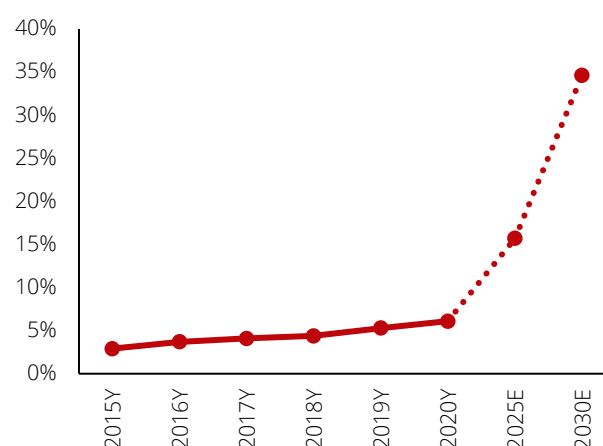
China's LTL market size by revenue



Source: iResearch, DBS HK

Freight network players to gain market share backed by superior competitive advantages. Looking forward, as freight network players provide services with nationwide coverage, iResearch forecasts that the market size of freight networks will expand at a 28.6% CAGR in 2021E-2025E and 21.9% CAGR in 2026E-2030E, outpacing the CAGR of 6.5% and 4.1% in China's LTL market during the same period. This would lift the aggregate market share of freight network players from 6.1% in 2020 to 15.7% in 2025E and 34.6% in 2030E, pointing to freight network players' superior service capability to better serve varied customer demands.

Aggregate market share of freight network players in China's LTL market (by shipper spending)



Source: iResearch, DBS HK

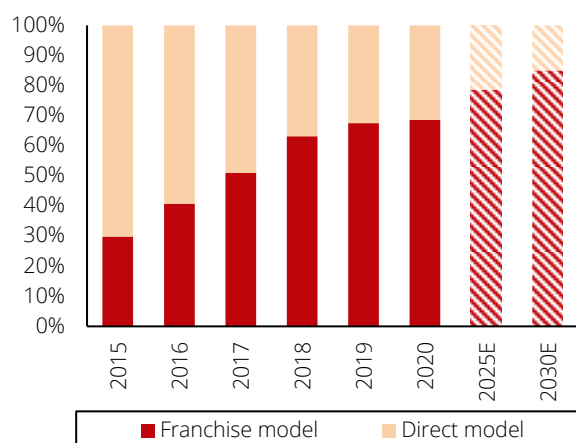
Freight network players under franchise model to constitute the main force with expanding market share.

Freight network players are primarily operated under two models, namely, (1) direct model as per SF Freight and Deppon (acquired by JD Logistics in July-21), with strong control over the whole operation process, (2) franchise model (or freight partner platform model), which empowers partners to expand coverage, with ANE (9969 HK) ranked first with a market share of 17% in 2020.

Supported by resource consolidation and self-reinforcing network effect, iResearch estimated that the freight volume for players under franchise model grew at 44.4% CAGR in 2016-2020 (vs. 4.1% CAGR for players under direct model), and to achieve a 35.1% CAGR in 2021E-2025E (vs. 21.7% CAGR for direct model), thus improving its market share from 68.6% in 2020 to 78.6% in 2025E.

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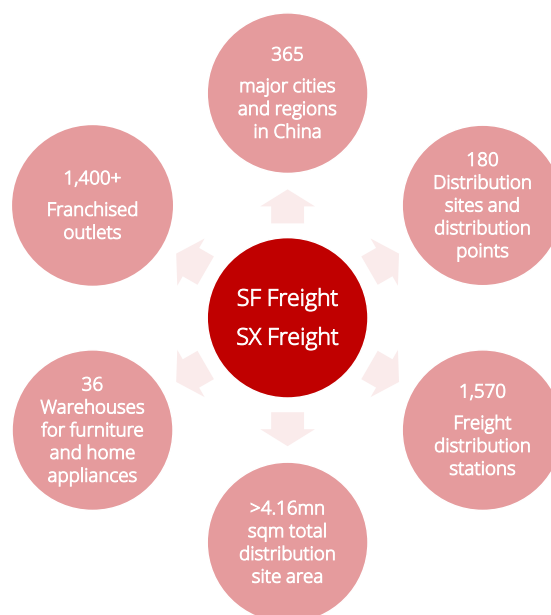
Market share evolution for freight networks under direct model and franchise model (by freight volume)



Source: iResearch, DBS HK

Continuous investment in infrastructure and technology to upgrade service quality to serve as high barriers to entry. With an aim to satisfy varying demands, SF Holding has adopted a unique model for freight business by integrating two networks, namely, a self-operated network "SF Freight" to serve high-end customers, and a franchise network "SX Freight" to serve lower-tier e-commerce markets. Backed by superior network, it continuously strives to improve products, timeliness and punctuality, while also pushing forward the four-network integration program to improve resource utilization, with the help of technology and automatic equipment.

SF Holding's freight infrastructure network



Source: Company, DBS HK

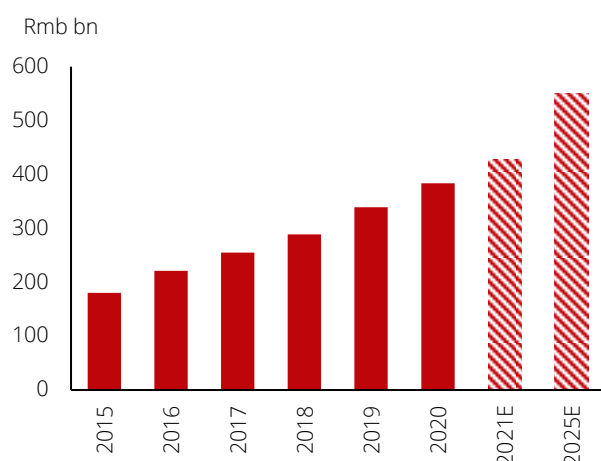
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Cold chain and pharmaceutical

Cold chain logistics market to witness encouraging growth supported by booming demand. China Federation of Logistics & Purchasing estimated that China's cold chain logistics market size was Rmb383bn in 2020 with a CAGR of 16% in 2016-2020 and expects the market to exceed Rmb400bn in 2021E. Food cold chain accounts for c.90%, while the rest 10% is contributed by pharmaceutical logistics.

Looking forward, given booming demands from consumption upgrade with diversifying channels, deeper penetration of retail brands into lower-tier markets, as well as increasingly centralized pharmaceutical supply chain, TUC Media expects the total market size to further expand to Rmb550bn by 2025E with a CAGR of 7.5% in 2021E-2025E.

Market size of China's cold chain logistics industry

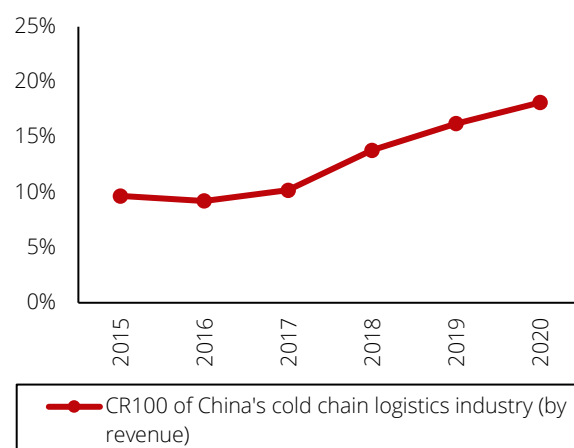


Source: China Federation of Logistics & Purchasing, TUC Media, DBS HK

Highly fragmented cold chain market to gradually consolidate. According to the China Cold Chain Logistics Top100 List released by China Federation of Logistics & Purchasing, although the cold chain market is highly fragmented, the industry has continued to concentrate with concentration ratio CR100 (by revenue) improving from 9.7% in 2015 to 18.1% in 2020.

Following the trend of the traditional e-commerce platforms tapping into fresh food e-commerce business, express delivery companies have started to enter the cold chain business and are actively exploring to establish national networks. SF Holding and JD Logistics under their direct operation models have been ranked 1st and 2nd for two consecutive years among China Cold Chain Logistics Top100 List in 2019-2020 backed by superior service and timeliness, while ZTO and Yunda have also started to develop national networks under franchise models.

Rising CR100 in China's cold chain logistics industry



Source: China Federation of Logistics & Purchasing, DBS HK

Diversifying products to enhance leadership by leveraging on extensive infrastructure and advance technology.

Leveraging on its investments in cold warehouse and refrigerated trucks, extensive last-mile distribution network and advanced technology, SF Holding has established three major segments, namely, (1) fresh food speedy distribution, driven by booming online sales of agricultural products, (2) cold chain food transport to serve fresh food e-commerce, place-of-origin fresh food market and farmers markets, and (3) pharmaceutical logistics to provide end-to-end services. We expect SF Holding to reinforce its market leadership in the cold chain business, supported by diversifying products, superior network and wide range of services.

SF Holding's cold chain and pharmaceutical products

Fresh food speedy distribution

- Covered >4,000 types of farm produce
- Freight volume rose 30% y-o-y in 2021

Cold chain food transport

- Self-built "3+1" extensive backbone networks
- Covered 193 cities with 34 cold warehouses and >23,000 refrigerated trucks

Pharmaceutical logistics

- Covered 271 cities with 16 warehouses
- 52 pharmaceutical trunk routes and 292 GSP standard certified cold chain trucks

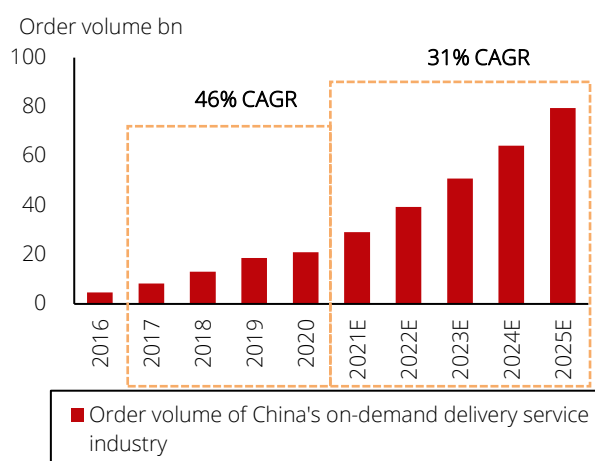
Source: Company, DBS HK

China Logistics Sector - SF Holding Series

Intra-city on-demand delivery

Rapidly developing on-demand delivery service to be the infrastructure for local consumer market in a new consumption era. As merchants gather to form a local consumer market and customers actively expand their consumption needs with increasing willingness to pay, iResearch estimated that China's local consumer market will reach Rmb26.8tn in 2021E at a CAGR of 9% in 2021E-2025E. Alongside an upgrade in the local consumer market, China's intra-city on-demand delivery service industry is rapidly developing with order volume growing at a CAGR of 46% in 2017-2020, and is expected to maintain rapid growth momentum at a CAGR of 31% in 2021E-2025E with order volume reaching c.80bn by 2025E, according to forecasts by iResearch.

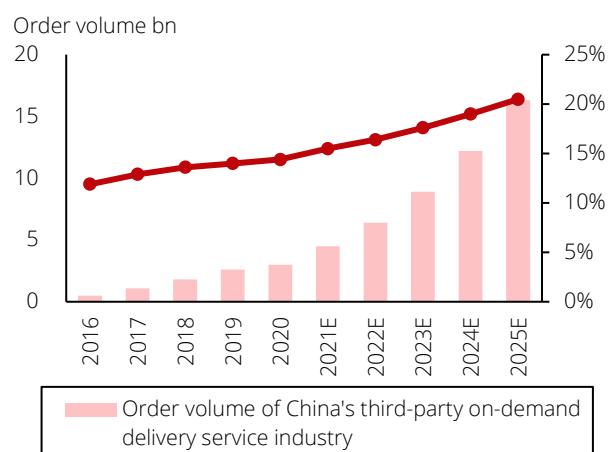
Order volume of China's on-demand delivery service industry



Source: iResearch, DBS HK

Emerging third-party on-demand delivery service platforms with rising penetration rate. China's on-demand delivery service providers can be classified into two major categories depending on the independence of the order source, namely, platforms affiliated with centralized marketplaces or third-party platforms. As more merchants are exploring to build proprietary customer acquisition channels, and consumers demand higher quality and a greater variety of services, third-party on-demand delivery service platforms should see rapid development ahead, with order volume growing at a CAGR of 40% in 2021E-2025E (vs. 57% CAGR in 2017-2020), with the penetration rate lifting from 14.4% in 2020 to 20.5% in 2025E, according to iResearch. Moreover, the third-party on-demand delivery service market is fragmented with concentration ratio CR6 recording 35.6% in 2020, of which SF intra-city (9699 HK) is ranked as the largest player with a market share of 10.4% in 2020.

Rising penetration rate of China's third-party on-demand delivery service platforms



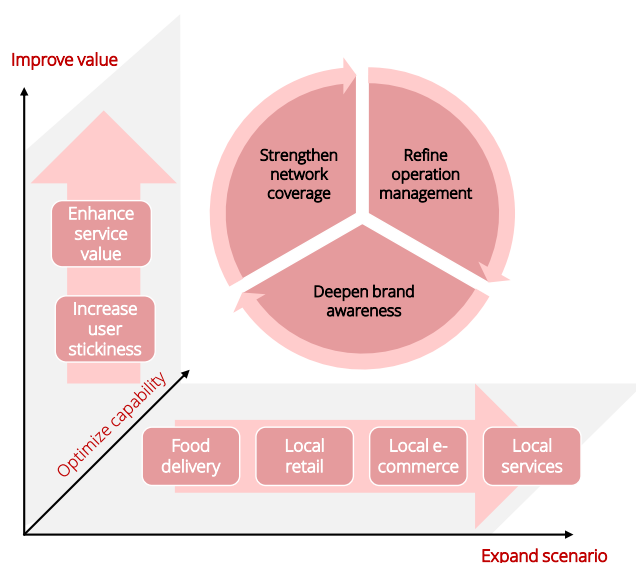
Source: iResearch, DBS HK

Reinforcing market position as the largest third-party on-demand delivery service provider with improving profitability. Leveraging on sufficient rider pool resources, SF Intra-city has enhanced the last-mile delivery capability of SF Holding to improve operational efficiency and network stability, while also strategically cooperating with SF Holding's logistics ecosystem to broaden its customer base.

Looking forward, SF Intra-city expects to actively explore various service scenarios with continuous investment in technology, while also endeavouring to strengthen its service network and optimize order structure to improve operational efficiency and reduce fulfilment costs. This should improve profitability, thus consolidating its market leadership as the largest third-party service provider.

China Logistics Sector - SF Holding Series

SF Holding's strategy for intra-city on-demand delivery



Source: Company, DBS HK

Supply chain and international

Reinforcing market leading position by establishing global network and developing international supply chain.

Supported by Chinese companies' robust growth in foreign trade and cross-border e-commerce, Chinese logistics service providers are actively seizing opportunities to go global. As a leading logistics player with sufficient infrastructure resources and efficient operations capability, SF Holding integrates its three subsegments in 2021 to form a critical part of its logistics ecosystem, namely, international express, international freight and freight forwarding and supply chain, with an aim to enhance its competitiveness in the international logistics market.

SF Holding's supply chain and international product system

International express	International freight and freight forwarding	Supply chain
<ul style="list-style-type: none"> • International express • International e-commerce • Overseas local express 	<ul style="list-style-type: none"> • Air transport • Sea transport • Road transport 	<ul style="list-style-type: none"> • SF Supply Chain and New HAVI to provide local supply chain service • Kerry Logistics to provide global integrated logistics

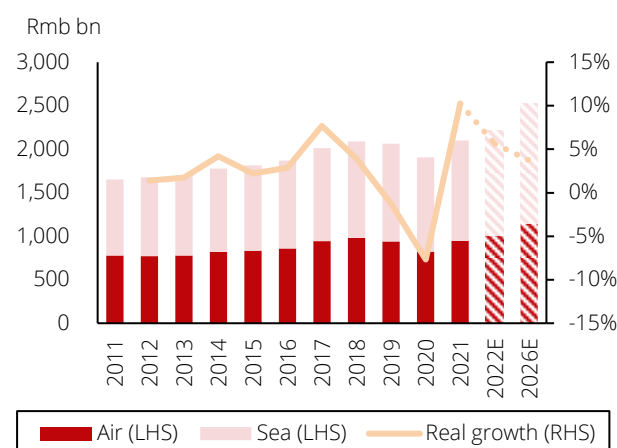
Source: Company, DBS HK

(1) International

Global freight forwarding market to moderate given volatile global trade growth. Transport Intelligence (Ti) estimated the global freight forwarding market amounted to Rmb2.1tn in 2021, with growth reaching a peak of c.10% y-o-y. More specifically, air freight market accounted for 45% of the total market with a robust 15% y-o-y growth, while the sea freight was 55% of total market with 6.7% y-o-y growth, mainly attributable to carrier capacity shortage and port congestion.

Looking forward, as global trade growth may moderate in 2022E, Ti has forecasted a slower growth rate of 5.6% y-o-y for the global freight forwarding market in 2022E. Moreover, Ti held a relatively conservative stance and estimated the global freight forwarding market to grow at a CAGR of 3.7% in 2022E-26E.

Global freight forwarding market size by mode with growth



Note: Forecasts are driven by estimated changes to freight forwarding volumes only.

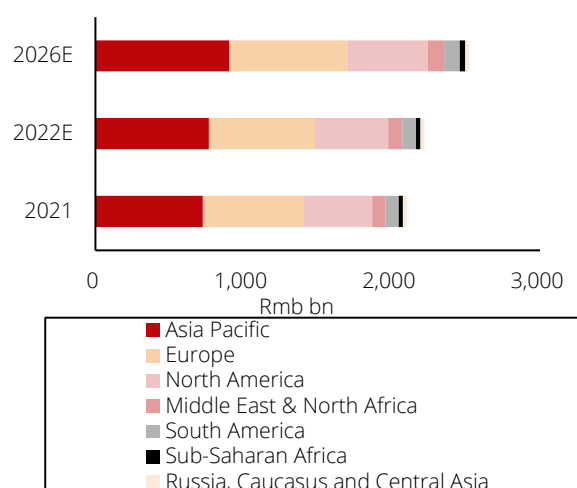
Source: Transport Intelligence, DBS HK

Differentiated freight forwarding regional markets with Asia Pacific remain the largest region with resilient growth outlook. Within the global freight forwarding market, according to Ti, Asia Pacific, Europe, and North America are the top 3 largest regional markets with market sizes of Rmb724bn, Rmb679bn and Rmb465bn in 2021, accounting for 34.5%, 32.3% and 22.2% of the total market respectively. Meanwhile, the three regions recorded robust double-digit growth in 2021, namely, Asia Pacific (+13% y-o-y), South America (+11% y-o-y) and North America (+10% y-o-y).

Looking forward, Ti expects the Asia Pacific to remain as the largest region with an estimated growth of 5.8% y-o-y in 2022E and 4.5% CAGR in 2022E-26E, outpacing the global growth rate, thus implying abundant opportunities in the future.

China Logistics Sector - SF Holding Series

Global freight forwarding market size by region



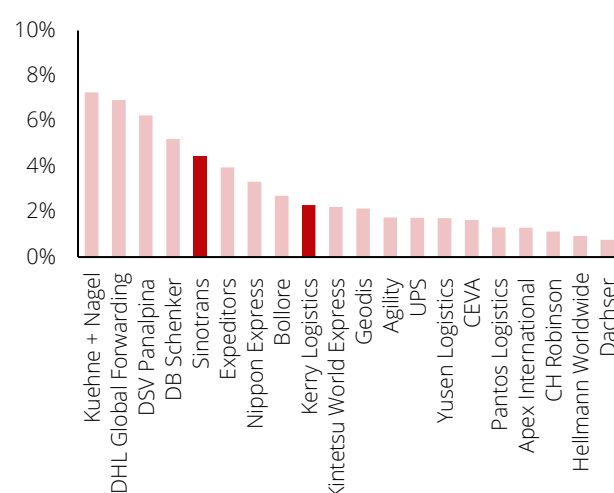
Note: Forecasts are driven by estimated changes to freight forwarding volumes only.

Source: Transport Intelligence, DBS HK

International players to continue to dominate the market with new emerging force from Chinese players. Based on the Top20 global freight forwarders list by revenue in 2020 released by Ti, we noted that market shares were concentrated among leading players with CR5, CR10 and CR20 of 30%, 45% and 59% respectively.

Moreover, while the market is dominated by international players, we noted that two leading Chinese players succeeded in ranking among the Top10 list, namely, Sinotrans (601598 CH/ 598 HK) ranked No.5 with market share of 4.5%, and Kerry Logistics (636 HK) ranked No.9 with market share of 2.3% in 2020.

Top 20 global freight forwarders by revenue in 2020



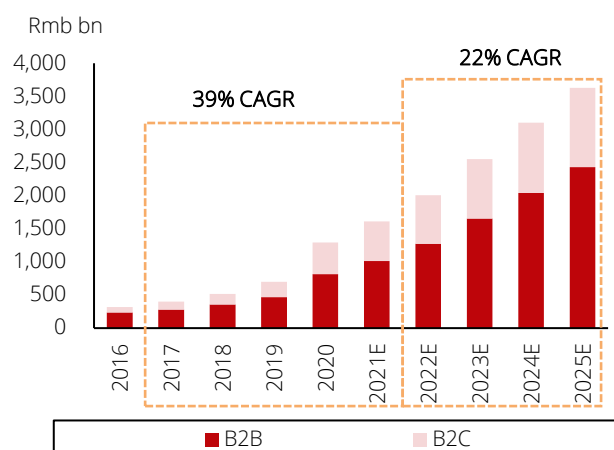
Source: Transport Intelligence, DBS HK

Booming demand to promote cross-border logistics services to extend from partial process to door-to-door solutions. The thriving cross-border e-commerce export trades is bringing abundant business opportunities for Chinese logistics players, mainly supported by improving online consumption penetration in overseas markets with reinforced online shopping habits.

According to iResearch, China's cross-border e-commerce export logistics market is expected to reach Rmb1.6tn in 2021E, with a CAGR of 39% in 2017-2021E. Looking forward, with expanding coverage and diversifying products in cross-border e-commerce trades, iResearch has forecasted that China's cross-border e-commerce export logistics market size would exceed Rmb3.6bn in 2025E with a CAGR of 22% in 2022E-2025E.

China Logistics Sector - SF Holding Series

Breakdown of China's cross-border e-commerce export logistics market

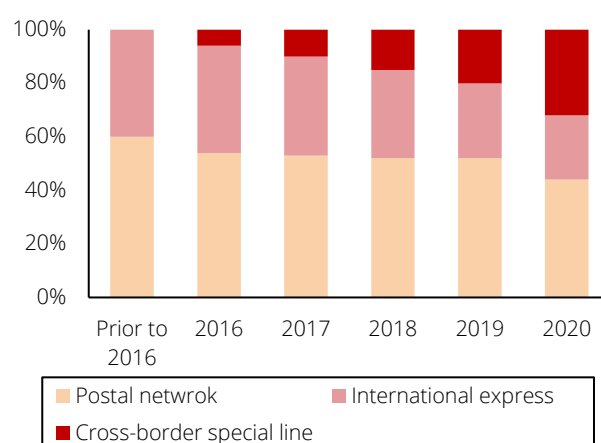


Source: iResearch, DBS HK

Changing business flows is pushing logistics services transformation with a focus on special lines and overseas warehouses. The cross-border e-commerce market continues to evolve with e-commerce platforms still dominating the market, while the development of independent stations is promoting special lines. As a result, iResearch estimated the contribution of special lines in the direct mail mode (直邮模式) had increased from 6% in 2016 to 32% in 2020, vs. 44% for postal parcels and 25% for international express respectively.

Meanwhile, overseas warehouses (海外仓模式) are gradually playing an important role, by shipping the goods to overseas warehouses in advance and delivering directly to customers to guarantee better timeliness and customer experience. Looking forward, we expect these two modes to co-exist in the long run, backed by diversifying demands with differentiated pricing and timeliness.

Breakdown of China's direct mail cross-border e-commerce export logistics market by type



Source: iResearch, DBS HK

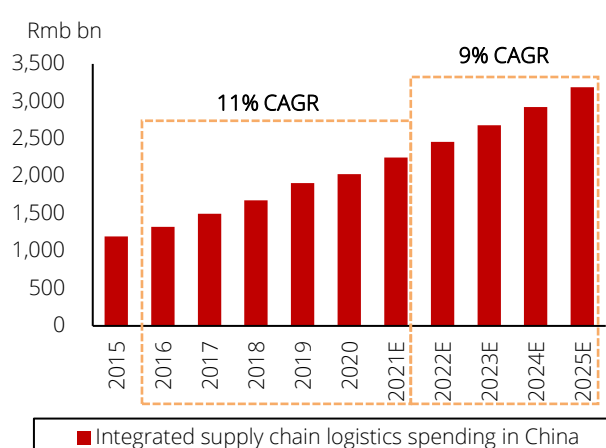
Resource integration capability is critical to ensure the scale and stability of business volume and strengthen scale effect. SF Holding expected to continuously strengthen its operation efficiency in the domestic market and reinforce its air transport capability backed by extensive infrastructure network. Kerry Logistics is expected to significantly enhance SF Holding's global network, supplement overseas local express networks in Southeast Asian countries, help to optimise and plan international routes with higher efficiency, and improve freight load rate at lower costs, backed by its freight volume advantages and valuable industry know-how. Therefore, we expect to see greater cooperation between SF Holding and Kerry Logistics in the international business, aided by substantial complementary businesses.

China Logistics Sector - SF Holding Series

(2) Supply chain

Integrated supply chain (ISC) logistics services market to see sustainable development ahead. Backed by extensive infrastructure network, advanced technology, and sufficient industry know-how, ISC logistics players provide tailored integrated solutions with comprehensive service capability. CIC estimated the market size of ISC logistics services industry in China to be Rmb2.3tn in 2021E with a CAGR of 11% in 2016-2021E, to reach Rmb3.2tn by 2025E with a CAGR of 9% in 2022E-2025E.

China's integrated supply chain logistics spending

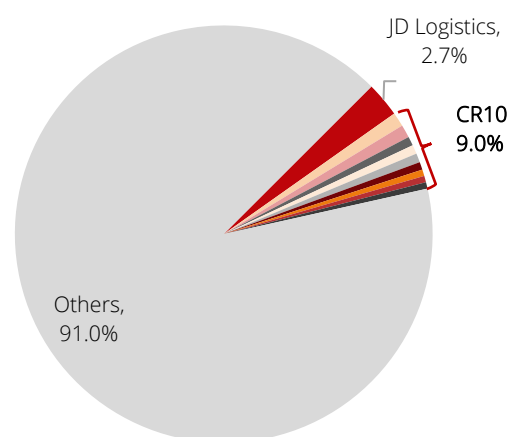


Source: CIC Report, DBS HK

Highly fragmented ISC market, logistic giants and niche market players to coexist. Given the sizeable market with diversifying demand across various industry verticals, the ISC logistics services market is highly fragmented with CR5 and CR10 at 5.2% and 9.0% in 2020 respectively, according to CIC. JD Logistics was ranked as the largest service provider with a market share of 2.7% in 2020, and takes the leading position in this industry.

Looking forward, the market is expected to remain concentrated, with integrated giants providing tailored solutions across multiple industry verticals, while a number of smaller-sized players will coexist to play important roles in niche markets with specific barriers.

Market share breakdown of China's top10 ISC players by revenue in 2020

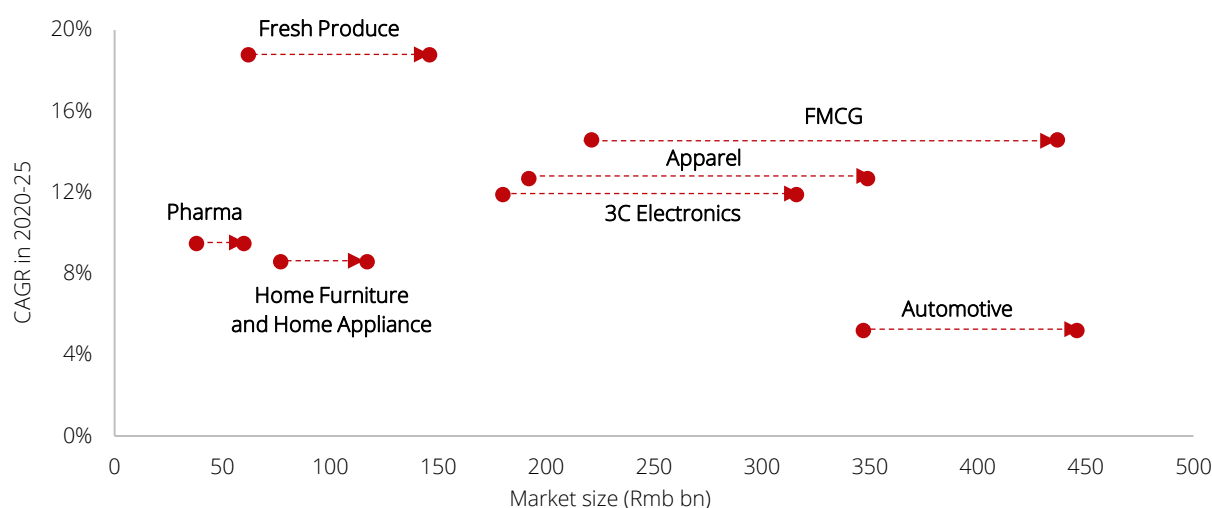


Source: CIC Report, DBS HK

Diversifying industrial verticals require tailored integrated solutions. As for diversifying industrial verticals, CIC summarized the three largest industry verticals in 2020, consisted of automotive (Rmb347bn), FMCG (Rmb221bn) and apparel (Rmb192bn), while fresh produce, FMCG and apparel are expected to post higher CAGR of 19%, 15% and 13% in 2020-2025E respectively. Moreover, in the omni-channel era, various industry verticals require differentiated logistics services, thus demanding functional networks with integrated solutions tailored to industry characteristics.

China Logistics Sector - SF Holding Series

Market size and growth of ISC logistics services market by industry verticals

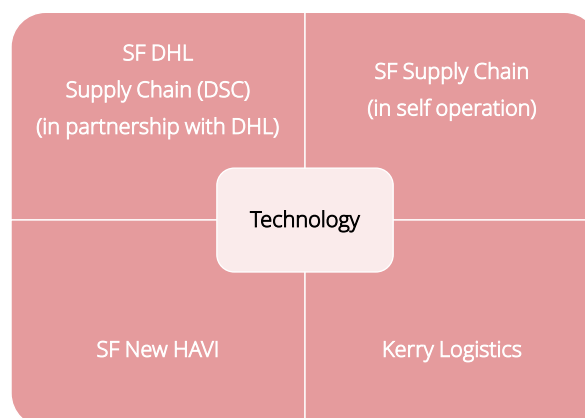


Source: CIC Report, DBS HK

Acquisition strategy and technology empowerment to consolidate leading edge. In order to quickly achieve multi-industry coverage with scale expansion, logistics giants such as SF Holding are actively establishing comprehensive service capabilities in multiple industry verticals through acquisitions and cooperation. As an example, SF Supply Chain and New HAVI provide local supply chain services in China, while Kerry Logistics provides global integrated logistics services.

Moreover, SF Holding's leading logistics technology will further push the supply chain to upgrade and help to provide full-chain digital solutions with better efficiency at lower costs, thus cementing its competitiveness.

SF Holding's supply chain business matrix



Source: Company, DBS HK

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Summary

Priority placed on delivering steady developments and sound profits backed by optimal network model. SF Holding is targeting sustainable and healthy development in the long term, with an aim to achieve reasonable growth led by quality revenue and improving earnings and margins, while continuing to improve employee and client satisfaction and consolidate its leading position.

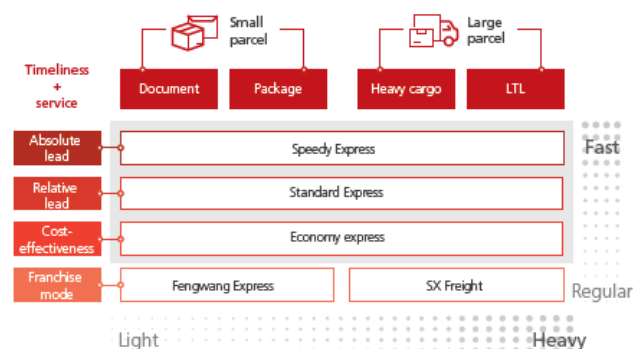
The company continues to optimize its network operation model with its “one network, two categories of major product lines and three service with different time frames”. By leveraging on its superior and extensive network with integrated resources, it has divided its product categories into small parcels and large parcels, and offers three types of delivery services - “speedy express, standard express and economy express” - to satisfy differentiated requirements of timeliness, service and price. This enables SF Holding to effectively provide clients with diversified high-quality delivery services while contributing to business expansion at the same time.

SF Holding's operational priorities for 2022



Source: Company, DBS HK

SF Holding's product planning for 2022



Source: Company, DBS HK

Four-network integration programme to enhance efficiency and reduce costs. In order to achieve higher efficiency and lower costs, the company launched its four-network integration programme in 2021, through integration of sites, trunk routes and branches. The four-network integration programme is continuously evolving to optimize its infrastructure network and strengthen terminal services capability. This should help to reduce costs and raise efficiency.

Building a digital ecosystem with comprehensive capabilities backed by integrating critical resources and undertaking strategic M&As. In contrast to most logistic peers, SF Holding has adopted a direct operating model with strong management control over the entire network, thus aligning its corporate strategies and ensuring service quality and flexibility. With the aim to provide optimal services and ensure quality, effectiveness and timeliness, the company continues to consolidate its unique three-in-one logistics infrastructure network of “aviation network + ground network + information network”, which helps to build differentiated service barriers and reinforce its competitive edge.

Moreover, by maintaining strong controls over critical resources, SF Holding has horizontally expanded into other business fields through strategic M&As, joint ventures, investments, self-operation, etc., while vertically improving its product stratification to satisfy diversifying customer demand in different market segments. SF Holding is able to offer integrated supply chain solutions to meet various requirements, signifying its superior comprehensive capabilities.

Within its business segments, in addition to its superior advantages in time-definite express services, we see the supply chain and international businesses as vital business segments for the company to establish first-mover advantages. The company is accelerating the pace of international development and building an efficient

China Logistics Sector - SF Holding Series

and reliable international supply chain network, backed by sufficient experience through its strategic M&A of Kerry Logistics, as well as establishing SF DHL Supply Chain (DSC) and SF New HAVI. These would set a high bar for the company to maintain its competitive edge against logistics peers.

Exploring various financing channels. To expand its financing channels, SF Holding set up the SF Real Estate Investment Trust (SF REIT, 2191.HK), which was listed in May-2021. This was the first REIT in the HK market focusing on logistics properties, serving as a critical platform for the company to recycle its capital to support future business development. To crystallise the value of its investment, SF Holding moved to spin-off and list SF Intra-city (9699.HK) in the HK market in Dec-2021. SF Intra-city is an independent on-demand delivery service provider, and the listing was an important milestone to enhance its competitiveness and reinforce brand reputation. Looking forward, we expect to see more potential REIT listings and new business segment spin-offs. These would serve as critical financing channels to support logistics players' diversification business strategy.

Initiate SF Holding and SF Intra-city with BUY rating; As a market leader in the logistics sector, we initiate SF Holding with a BUY rating, backed by strong recovery and accelerating pace of international development. We also initiate SF Intra-city with a BUY rating, supported by strong revenue growth and improving profitability.

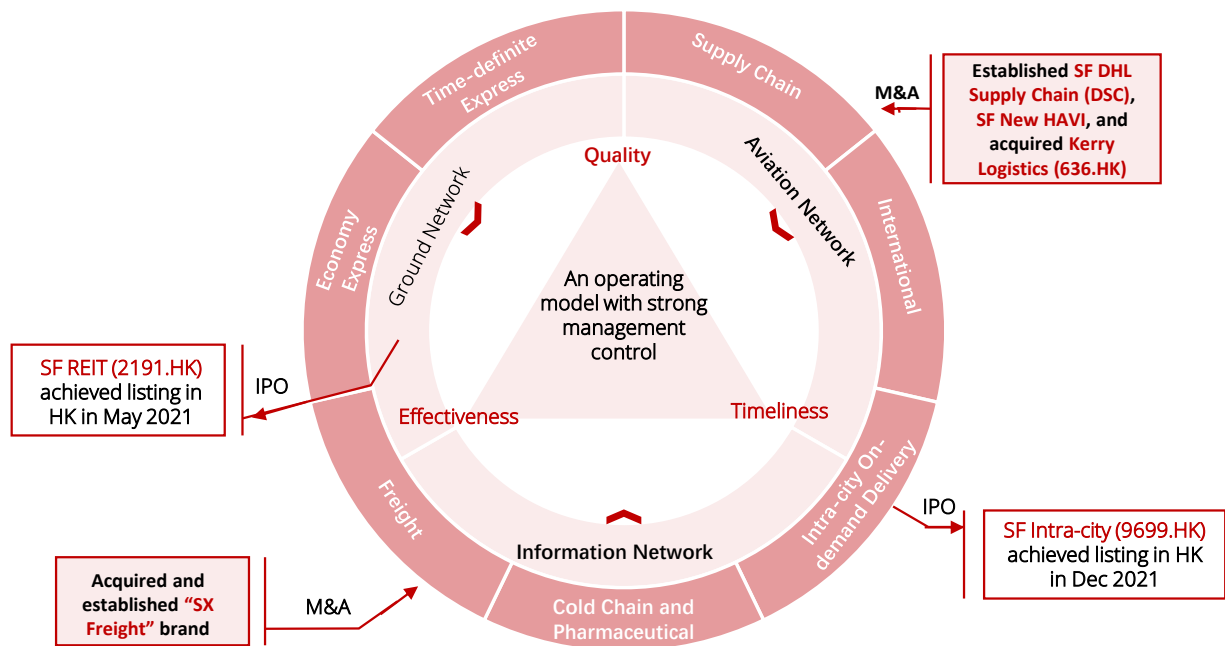
Reiterate BUY on Kerry Logistics and SF REIT. Soaring energy prices and growing inflation would inevitably dampen the global economic growth, thus lowering global demand. This should exert pressure on freight rates which has been normalising since mid-22. While the near-term outlook of international freight forwarding becomes more challenging, KLN has expanded its global coverage through M&As. Following the acquisition of

Topocean, KLN has grown to be No.1 NVOCC in transpacific trades. Synergy from the integration with its parent S.F. Holding has been coming through. KLN is now the principal service provider outside Mainland China for S.F. Holding's international business and serves as the exclusive cargo General Sales Agent (GSA) for S.F. Airlines. The integration should expand KLN's scale and coverage. This should help to make up the earnings shortfall caused by the normalisation of freight rate. Kerry Logistics is trading at 7.8x and 9.1x PE for FY22 and FY23, which compares favourably with its 5-year average of 13.0x. Integration with S.F. Holding should add spice to its earnings growth and consolidate its leading position among Asia logistics plays in the long run.

SF REIT's 1H22 distributable income was HK\$109m, broadly in line with our estimate. Thanks to expansion from existing tenants and the inclusion of new food supply tenant, Tsing Yi property saw its occupancy improving to 97.3% in Jun-22 from Dec-21's 92.6%. This brought the portfolio occupancy higher at 98.1% in Jun-22 (Dec-21's 95.8%) with 78.8% of the space let by SFH Group tenants. After the acquisition of Changsha property, gearing rose to 34.5% in Jun-22 from Dec-21's 30.6%. This allows the REIT to pursue for yield accretive acquisition when opportunities knock. SF REIT is trading at 8.7-9.1% distribution yields for FY22- 23, translating into yield spread of 5.6-6.1%. Even allowing for interest rate hikes, the REIT remains attractively valued when compared to its Hong Kong and Singapore listed peers. High portfolio occupancy, coupled with guaranteed annual rental escalation, should underpin its steady and growing rental income ahead. With the right of first refusal over SFH's completed majority-owned projects, SF REIT is well poised to pursue yield-accretive acquisitions to drive earnings and valuation.

China Logistics Sector - SF Holding Series

SF Holding's development of logistics ecosystem



Source: Company, DBS HK

SF Holding

Bloomberg: 002352 CH Equity | Reuters: 002352.SZ

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Sep 2022

BUY (Initiating Coverage)

Last Traded Price (6 Sep 2022): RMB47.39 (CSI300 Index : 4,052)

Price Target 12-mth: RMB68.70 (45.0% upside)

Analyst

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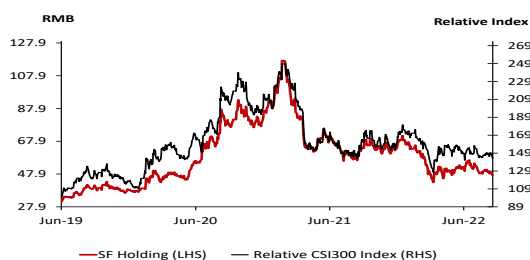
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Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2021A	2022F	2023F	2024F
Turnover	207,187	273,968	315,283	371,725
EBITDA	15,552	20,261	25,230	30,952
Pre-tax Profit	7,134	8,956	11,661	14,991
Net Profit	4,269	6,314	8,344	10,886
Net Pft (Pre Ex) (core)	1,834	6,314	8,344	10,885
Net Profit Gth (Pre-ex)	(70.1)	244.2	32.2	30.5
EPS (RMB)	0.93	1.29	1.70	2.22
EPS (RMB)	0.93	1.29	1.70	2.22
Core EPS (RMB)	0.40	1.29	1.70	2.22
Core EPS (RMB)	0.40	1.29	1.70	2.22
EPS Gth (%)	(43.5)	39.1	32.2	30.5
Core EPS Gth (%)	(71.0)	223.7	32.2	30.5
Diluted EPS (RMB)	0.40	1.37	1.81	2.36
DPS (RMB)	0.18	0.26	0.34	0.45
BV Per Share (RMB)	18.02	17.97	19.34	21.11
PE (X)	51.1	36.7	27.8	21.3
Core PE (X)	118.9	36.7	27.8	21.3
P/Cash Flow (X)	14.2	5.1	5.7	4.1
P/Free CF (X)	nm	7.3	9.2	6.2
EV/EBITDA (X)	14.2	11.2	9.1	7.7
Net Div Yield (%)	0.4	0.5	0.7	0.9
P/Book Value (X)	2.6	2.6	2.5	2.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	6.1	7.4	9.1	11.0
Earnings Rev (%)		New	New	New
Consensus EPS (RMB)		1.36	1.94	2.49
Other Broker Recs:		B:37	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Brighter future from the bottom up

- Leading integrated logistics service provider with diversified product mix and superior brand
- Foreseeable synergy from acquisition of Kerry Logistics to accelerate international development
- Strategic priority of steady development with four-network integration to enhance efficiency
- Initiate with BUY rating at TP of Rmb68.7

Leading integrated logistics service provider rises from the bottom with fundamental recovery. SF Holding took the lead to employ a business diversification strategy to establish its competitiveness in multiple logistics subsegments, while aiming for the strategic priorities of steady development and sound profits in the long term, which are backed by the optimisation of its network operation model and continuous four-network integration. Its core net profit reached Rmb2.1bn in 1H22, a turnaround from a loss of Rmb477m in 1H21. Its current valuation is attractive at 28x FY23F PE, vs. its three-year historical average of 45x. We expect continuous recovery in volume and the new growth driver of international business to support a valuation re-rating. Initiate with BUY.

Accelerating the pace of international development with the Ezhou Airport serving as a catalyst. Looking forward, we expect the supply chain and international business to become the second curve for the company, with strong synergies generated from SF Holding's acquisition of Kerry Logistics in Sep 2021. Meanwhile, the upcoming Ezhou Airport would serve as an international cargo hub to further expand its international aviation network, thus contributing to reach 35% of total revenue by FY24F.

Valuation:

As the four-year share option incentive scheme underscored sustainable revenue growth and profitability recovery, we expect its core net profit to deliver an c.80% CAGR in 2022E-2024E. Our TP of Rmb68.7 is based on SOTP, equivalent to a blended PE multiple of 40x FY23F.

Key Risks to Our View:

Intensifying market competition, increasing labour cost, potential COVID resurgences.

At A Glance

Issued Capital (m shrs)	4,895
Mkt Cap (RMBm/US\$m)	231,974 / 33,357
Major Shareholders (%)	
Shenzhen Mingde Holdings Dev Ltd.	55.2
Free Float (%)	44.8
3m Avg. Daily Val. (US\$m)	132.84
GICS Industry: Industrials / Transportation	



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Investment Summary

Leading integrated logistics service provider with diversifying product mix and superior brand reputation.

With an aim to build a long-term moat to satisfy diversifying customer demand, SF Holding took the lead among its logistics peers to horizontally expand its diversified business fields and vertically improve product stratification to provide customer-oriented integrated solutions, thus establishing its competitive advantage in multiple subsegments of the logistics market. In addition to its dominating share in the time-definite express market, we see SF Holding entering the harvest period for its diversified layout strategy, after several years of incubation. From this, SF REIT (2191.HK) and SF Intra-city (9699.HK) succeeded to spin-off and separately list in the Hong Kong market in 2021, serving as important milestones to expand financing channels, enhance comprehensive competitiveness, and reinforce brand reputation.

Accelerated the pace of international development to explore the second curve through strategic M&As. While consolidating its core infrastructure resources with the upcoming Ezhou Huahu Airport as an international cargo hub to further expand its international aviation network, SF Holding integrated the three subsegments of international express, international freight and freight forwarding, and supply chain into a vital business segment in 2021. It also actively adopted various methods to optimise its product system through the strategic M&A of Kerry Logistics (636.HK) as well as the establishment of SF DHL Supply Chain (DSC) and SF New HAVI. Looking forward, we expect to see strong synergies from SF Holding's acquisition of Kerry Logistics in Sep 2021, supported by the former's exceptional air cargo airline resources and upcoming Ezhou Huahu Airport and the latter's extensive international freight forwarding network, sufficient overseas customer resources, and valuable management experience.

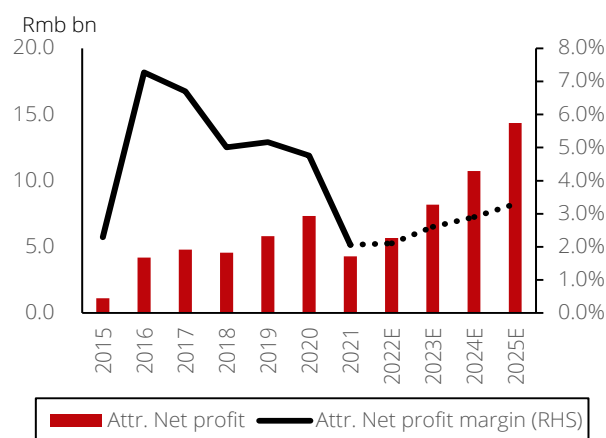
Aiming for strategic priorities of steady development and sound profits backed by optimised network operation model. SF Holding targets sustainable and healthy development in the long term, with an aim to achieve reasonable growth with healthy revenue quality and improving profitability, while continuing to improve employee and client satisfaction and consolidate leading competitiveness. Meanwhile, it continued to optimise the network operation model with its "one network, two categories of major product lines, and three services with different time frames" product plan, so as to provide three major product series – speedy express, standard express, and economy express – to satisfy the differentiated requirements of clients in terms of timeliness, service, and price, thus effectively providing them with diversified, high-

quality delivery services and contributing to business expansion.

Continued to consolidate four-network integration to enhance efficiency and reduce costs. In order to achieve higher efficiency with lower costs, SF Holding launched the four-network integration programme in 2021 covering the SF Express, Fengwang Express, SF Freight, and warehousing networks, through the integration of resources including sites, trunk routes, branches, etc. Looking forward, backed by the continuous four-network integration, innovation in technology, optimised infrastructure network, and strengthened terminal service capability, we expect to see a consolidated foundation with lean management to boost cost reduction and efficiency enhancement for the company in the future.

Four-year share option incentive scheme to underscore sustainable revenue growth and profitability recovery. With an aim to closely align the interests of core talents and the company to achieve sustainable development, SF Holding announced a four-year share option incentive scheme in end-Apr 2022 to grant a total of no more than 60m share options (or 1.23% of its existing share capital) with an exercise price of Rmb42.61 per share (or 90% of the average trading price on the trading day before the announcement). Moreover, in addition to individual performance appraisal requirements, it set annual performance goals for total revenue and the attributable net profit margin in 2022E-2025E, where it specified that total revenue shall not be less than Rmb270bn, Rmb315bn, Rmb370bn, and Rmb435bn over 2022E-2025E, respectively (equivalent to a CAGR of 20% in 2022E-2025E), and the attributable net profit margin shall not be less than 2.1%, 2.6%, 2.9%, and 3.3% in the same period (vs. recent low of 2.1% in 2021), thus signifying strong commitment in achieving sustainable revenue growth with profitability recovery in the future.

SF Holding's annual performance appraisal goals in 2022E-2025E for share option incentive scheme



Source: Company, DBS HK

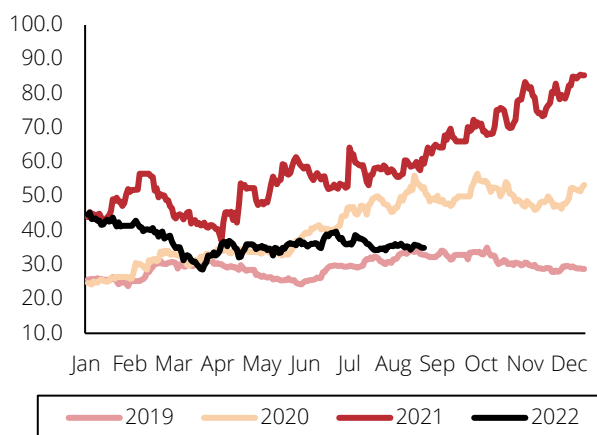
SF Holding

Valuation & Peer Comparison

Initiate with BUY at TP of Rmb68.7 from SOTP method

Historically, as a leading integrated logistics service provider with a superior service and brand reputation, SF Holding maintained a valuation premium when compared to other logistics peers, with its average one-year forward PE standing at 30x, 41x, and 59x in 2019-2021, respectively.

1-year forward PE trend of SF Holding



Source: Bloomberg Finance L.P., DBS HK

As SF Holding took the lead to employ a business diversification strategy and managed to establish its competitiveness in multiple logistics subsegments, we employed the sum-of-the-parts (SOTP) methodology to calculate its target price.

The company summarised its business into four major segments, namely, express segment, freight segment, intra-city segment, and supply chain and international segment. Moreover, we assigned PS multiples for the businesses that were in the relatively early stage of development, while assigning PE multiples for the business that gradually entered a mature stage and generated profits.

More specifically, based on our FY23F forecasts, see below estimates for each segment:

(1) Express segment: For time-definite express, we estimated the net profit margin to reach 5% by FY23F with an assigned PE multiple of 25x FY23F at a valuation premium to other express delivery peers of c.20x FY23F. Meanwhile, we assigned a PS multiple of 1.0x FY23F to economy express (vs. the average of 1.3x FY23F PS of other peers) as it's still in the early stage of establishing a network and optimising its products. For its medical product and cold chain delivery service, given SF Holding's leading market position and improving infrastructure utilisation rate, we estimate the net profit margin would reach 3% by FY23F with an assigned PE multiple of 32x FY23F at a valuation premium to other express delivery peers.

(2) Freight segment: As SF Holding continued to enhance its market leading position, backed by an extensive network and superior timeliness, we assign a PS multiple of 1.0x FY23F at a premium valuation in contrast to other comparable peers.

(3) Intra-city segment: SF intra-city was the largest third-party on-demand delivery service platform with robust revenue growth. Considering its lack of business flow support and stock liquidity in the HK stock market, we assign a PS multiple of 0.8x FY23F from a conservative perspective, at a discount to that of on-demand delivery service platforms that are affiliated with centralised marketplaces.

(4) Supply chain and international segment: We see the acquisition of Kerry Logistics further accelerating the development pace of international business and expect to see strong synergies in the future, especially with Ezhou Airport further expanding the company's international aviation network. We estimate the net margin to reach 5% by FY23F, and assign a PE multiple of 20x FY23F at a premium to the average PE of c.15x FY23F of its peers.

In summary, we derived a target valuation of Rmb336bn with a target price of Rmb68.70 per share, equivalent to a blended PE multiple of 40x FY23F. Initiate with BUY rating.

SF Holding

Breakdown of SOTP valuation for SF Holding

Segment	Service	Revenue (Rmb mn)	Estimated net margin	Net profit (Rmb mn)	Valuation method	Valuation multiple (x)	Valuation (Rmb mn)	As % of total valuation
Express segment	Time-definite express	112,075	5%	5,604	PE	25	140,093	42%
	Economy express	38,930			PS	1.0	38,930	12%
Freight segment	Medical product and cold chain delivery service	10,448	3%	313	PE	32	10,030	3%
	Large-size service and freight service	31,844			PS	1.0	31,844	9%
Intra-city segment	Intra-city on-demand delivery service	9,030			PS	0.8	7,224	2%
Supply chain and international segment	International express service							
	International freight transport and forwarding service	108,012	5%	5,401	PE	20	108,012	32%
	Supply chain service							
Total							336,134	100%
Target price (Rmb/share)							68.7	

Source: DBS HK

Peer comparison

			3m daily									
			Price	Mkt	trading	PE	PE	PE	P/S	P/S	P/S	
Company Name	Code	Currency	Local\$	Cap	volume	21F	22F	23F	21F	22F	23F	
				US\$m	US\$m	x	x	x	x	x	x	
S F Hdg.'A'*	002352	CH	CNY	47.39	33,357	132.8	51.1	36.7	27.8	1.1	0.8	0.7
Express segment												
JD Logistics*	2618	HK	HKD	16.46	13,834	18.1	n.a.	n.a.	n.a.	0.9	0.7	0.5
ZTO Express (Cayman) 'A'*	ZTO	US	USD	25.88	26,290	69.3	31.1	24.1	18.9	4.8	4.0	3.3
Yunda Holding 'A'	002120	CH	CNY	17.73	7,399	52.4	34.8	25.4	18.0	1.2	1.0	0.9
YTO Express 'A'	600233	CH	CNY	19.36	9,566	48.1	29.1	19.2	16.0	1.5	1.2	1.0
STO Express 'A'	002468	CH	CNY	11.21	2,468	30.1	n.a.	34.8	24.9	0.7	0.6	0.5
Average						31.6	25.9	19.5	1.8	1.5	1.3	
Freight segment												
JD Logistics*	2618	HK	HKD	16.46	13,834	18.1	n.a.	n.a.	n.a.	0.9	0.7	0.5
BEST	BEST	US	USD	1.13	249	0.3	2.2	n.a.	n.a.	0.1	n.a.	n.a.
Deppon Logistics 'A'	603056	CH	CNY	14.42	2,129	17.2	90.1	n.a.	26.4	0.5	0.4	0.4
ANE Cayman	9956	HK	HKD	3.16	468	0.3	n.a.	7.6	5.3	0.3	0.3	0.3
Average						46.1	7.6	15.9	0.5	0.5	0.4	
Inter-city segment												
Meituan*	3690	HK	HKD	173.4	136,684	637.4	n.a.	n.a.	89.9	5.3	4.4	3.3
Dada Nexus	DADA	US	USD	5.64	1,460	6.6	n.a.	n.a.	20.0	1.4	1.1	0.8
Dingdong Cayman	DDL	US	USD	3.68	869	4.4	n.a.	n.a.	n.a.	0.3	0.2	0.2
Doordash A	DASH	US	USD	58.23	22,481	392.2	n.a.	n.a.	n.a.	4.6	3.5	2.9
Pinduoduo*	PDD	US	USD	66.62	84,233	801.5	74.9	29.0	19.1	6.2	5.0	4.0
Alibaba Group Holding*#	BABA	US	USD	88.45	234,175	2,764.0	26.8	17.7	14.4	1.9	1.8	1.6
JD Com*	JD	US	USD	59.35	92,313	562.6	n.a.	182.4	43.4	0.7	0.6	0.5
Average						50.8	76.4	37.4	2.9	2.4	1.9	
Supply CH Equityian and international segment												
JD Logistics*	2618	HK	HKD	16.46	13,834	18.1	n.a.	n.a.	n.a.	0.9	0.7	0.5
Kerry Logistics Network*	636	HK	HKD	15.6	3,592	1.4	3.5	7.8	9.1	0.3	0.3	0.4
BEST	BEST	US	USD	1.13	249	0.3	2.2	n.a.	n.a.	0.1	n.a.	n.a.
Sinotrans 'A'	601598	CH	CNY	3.86	3,543	12.6	n.a.	8.3	8.8	n.a.	0.2	0.2
CTS Int'l Logistics 'A'	603128	CH	CNY	9.21	1,734	16.9	14.2	11.7	10.1	0.5	0.4	0.4
Eternal Ai.Spch.Man.'A'	002183	CH	CNY	6.06	2,263	99.4	27.5	28.9	20.5	0.2	0.2	0.2
Milkyway Chemical Supply 'A'	603713	CH	CNY	132	3,122	19.2	49.5	34.2	25.1	2.5	1.6	1.1
Average						19.4	18.2	14.7	0.8	0.6	0.5	

FY22: FY23; FY23: FY24

Source: Thomson Reuters, *DBS HK

SF Holding

Key Risks

Potential fluctuations in macroeconomic trends. The development of the logistics industry is highly related to macroeconomic changes. A potential slowdown of economic growth may harm people's willingness to consume and thereby affect demand for logistics delivery services, while economic prosperity would trigger new growth opportunities for the industry. Consequently, the uncertainties and potential fluctuations in future macroeconomic conditions may affect the business development and growth of SF Holding.

Intensifying market competition amid continuous regulations. Many e-commerce companies and other social capital have entered the logistics industry, which may pose

a competitive threat to the sales performance and business growth of SF Holding. Moreover, a vast majority of competitors in the market provide homogenous services, making competition increasingly intensified. Therefore, it's crucial for the company to develop differentiated capabilities and optimise its product mix to enhance its market leadership, so as to avoid losing market share.

Rising labour cost and fuel price hike may hurt profitability.

Due to the ageing population, an increasingly tight labour market may lead to rising labour cost. Meanwhile, as a key component of transportation cost, fuel price fluctuations will affect the profitability of logistics companies. Therefore, as a leading player in the labour-intensive logistics industry, SF Holding may face margin pressure from higher-than-expected labour costs and potential fuel price hikes.

SF Holding

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Unique three-dimensional intelligent logistics infrastructure network with use of modern technology • Strong management control over the whole network supported by direct operating model • Superior brand image and ranked first in terms of customer satisfaction in express delivery industry for 13 consecutive years 	<ul style="list-style-type: none"> • Need more time to improve the input-output ratio of core resources amid the optimisation of its product mix • Continuous efforts needed to consolidate its four-network integration to improve operation efficiency
Opportunities	Threats
<ul style="list-style-type: none"> • Increasing penetration rate of e-commerce over post-pandemic era leads to booming demand • Establishment of a wide-coverage, low-cost, and high-efficiency hub-and-spoke aviation network enabled by the construction of Ezhou Huahu Airport • Continuous resource integration with the acquired KLN to strengthen its international development 	<ul style="list-style-type: none"> • Pandemic resurgence in several cities may pose a threat to the stability of its logistics network • Fuel price fluctuations may lead to rising transportation cost and affect margin performance

Source: DBS HK

SF Holding

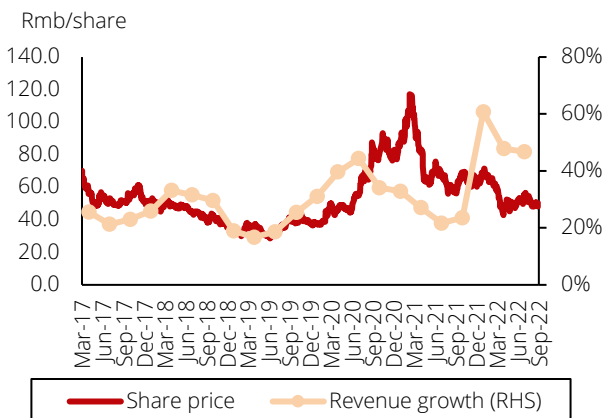
Critical Factors

Diversifying product mix riding on various demands to support revenue growth.

We see revenue growth as a comprehensive indicator of the company's capability in market share expansion and sustainable business development.

Backed by its plans of diversifying its product mix to satisfy various demands, the company's total revenue was Rmb207bn in 2021, demonstrating a CAGR of 28% in 2016-2021. This factors in the contribution from the acquisition of Kerry Logistics since 4Q21. Looking forward, after revenue growth remain resilient in 1H22 despite seasonality and regional lockdowns, we expect to see encouraging revenue growth in the coming quarters backed by booming demand amid the relaxation of regional lockdown measures to ensure the resumption of work and production, thus helping to support its share price going ahead.

Revenue growth vs. share price trend



Source: Company, DBS HK

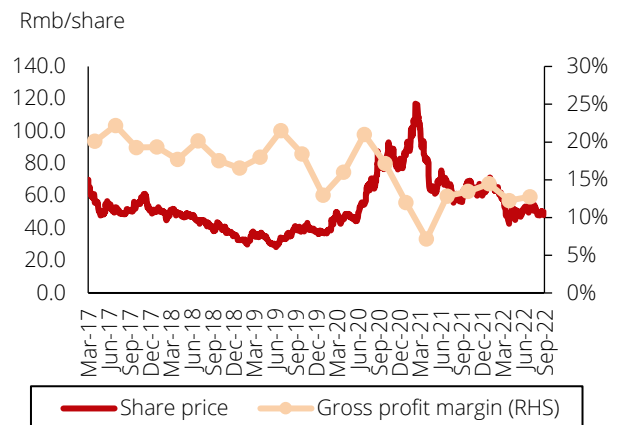
Gross profit margin to recover, backed by optimised network operation model and effective cost controls.

The gross profit margin is an indicator of profitability and has a close correlation with the company's share performance.

The company's gross profit margin bottomed at 7.2% in 1Q21, before steadily recovering to 12.3% in 1Q22 and 12.8% in 2Q22, respectively. This was mainly attributable to its optimised product system, customer structure, and precise pricing strategy and effective cost controls with continuous four-network integration. Looking forward, we expect to see a continuous improvement in the company's gross margin, as it is committed to re-focus on its core

businesses with the strategic priorities of steady development and sound profits. Moreover, we expect the upcoming Ezhou Huahu Airport to help reduce cost and improve efficiency in the long run through the significant optimisation of the company's international hub-and-spoke aviation network.

Gross profit margin vs. share price trend

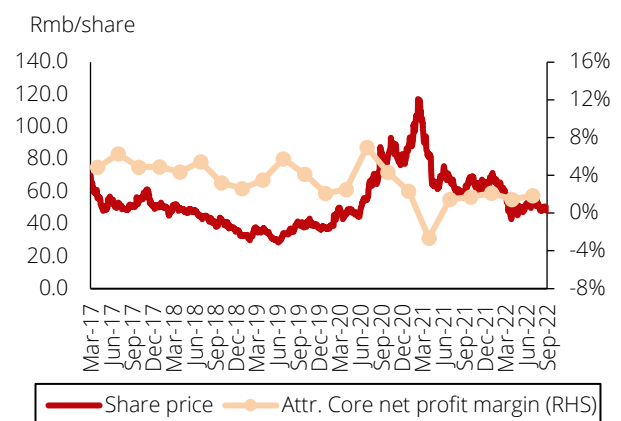


Source: Company, DBS HK

Core net profit margin to improve, supported by enhanced lean management powered by advanced technology.

The company's core net margin turned negative to -2.7% in 1Q21 for the first time, before rebounding to 1.4% in 1Q22 and 1.8% in 2Q22. This was supported by operating leverage optimisation through improved operational efficiency. Looking forward, we expect the company's core net margin to continuously improve, backed by enhanced lean management through reduced expenses and improving productivity powered by advanced technology.

Core net profit margin vs. share price trend



Source: Company, DBS HK

SF Holding

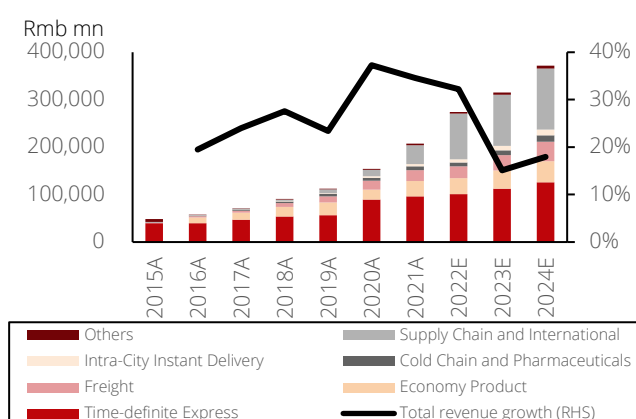
Financials

Diversifying demands and growing international footprint to support a revenue CAGR of 22% in 2022E-2024E.

Backed by a diversified product mix with booming demand, the company's total revenue was recorded at Rmb207bn in 2021, with a CAGR of 28% in 2016-2021. Of this, time-definite express accounted for 46% of total revenue, followed by a contribution of 19% from supply chain and international, 16% from economy express, and 11% from freight, while the remaining 8% was from cold chain and pharmaceuticals, intra-city on-demand delivery, and other business.

Looking forward, we see time-definite express remaining as the largest revenue contributor in 2022E-2024E, with a CAGR of 9%, consolidating its dominant market position. Supply chain and international is to serve as the vital second curve for the company, with a revenue CAGR of 49% in 2022E-2024E, backed by the company's optimised international network through the acquisition of Kerry Logistics. Moreover, we expect the rest of the business segments to achieve double-digit revenue CAGRs in 2022E-2024E, given SF Holding's market-leading positions in various subsegments. Thus, in summary, we expect total revenue to grow at a CAGR of 22% in 2022E-2024E, consistent with its performance goals set in the latest share option incentive scheme.

Breakdown of total revenue alongside growth rate



Source: Company, DBS HK

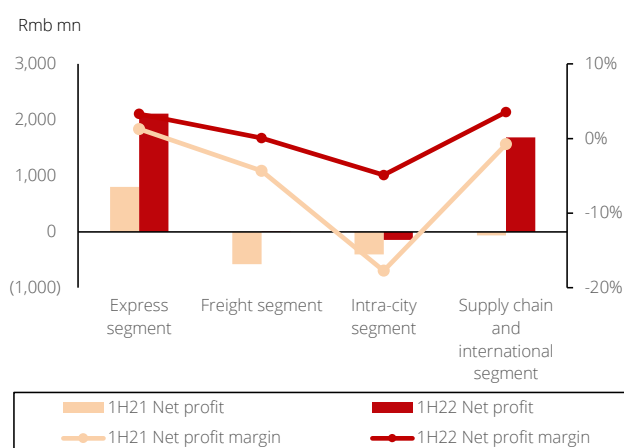
Aim for sustainable and healthy development, with enhanced lean management to support margin recovery.

After making a loss in 1Q21 for the first time, the company actively shifted its strategy from focusing on business volume to sustainable and healthy growth, and managed to make a profit starting from 2Q21 through the implementation of various effective management

measures. Its attributable core net profit margin turned positive from -2.7% in 1Q21 to 1.4% in 1Q22 and 1.8% in 2Q22. Moreover, the company disclosed the breakdown of net profit by segment in 1H22, with the supply chain and international segment recording the highest net margin at 3.6%, followed by 3.3% from the express segment, while the freight segment managed to make profit with a net margin of 0.1%, leaving intra-city segment with a narrowing net loss margin of -4.9%.

Looking forward, after factoring in the improved operation efficiency powered by advanced technology, we expect the enhanced lean management and strengthened scale effect to support the declining trend in the SG&A-to-expenses ratio, while the R&D expenses ratio is to remain relatively stable, with a steady pace in technological investment. While the intra-city segment expect to gradually reduce losses by optimising its customer structure and precise pricing policy, we see the express segment and supply chain and international segment continuing to constitute the solid foundation for earnings growth in the future. We forecast the attributable core net profit to bottom out from its recent low of Rmb1.8bn in 2021 to Rmb6.3bn, Rmb8.3bn, and Rmb10.9bn in 2022E-2024E, respectively, at a CAGR of c.80%, with improving core net margins of 2.3%, 2.6%, and 2.9%, respectively.

Net profit and net margin by segment in 1H21/1H22

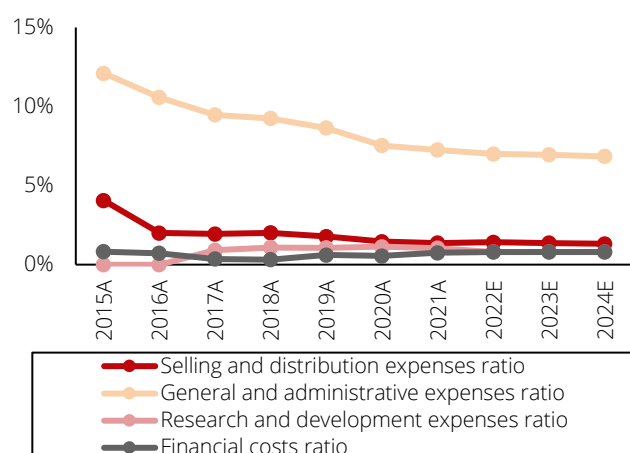


Note: Express segment, which provides time-define express and economy express except for large-size delivery service, as well as medical product and cold chain delivery service; Freight segment, which provides large-size delivery service and freight service; Intra-city segment, which provides intra-city on-demand delivery service; Supply chain and international business segment, which provides international express service, international freight transport and forwarding service, as well as supply chain service.

Source: Company, DBS HK

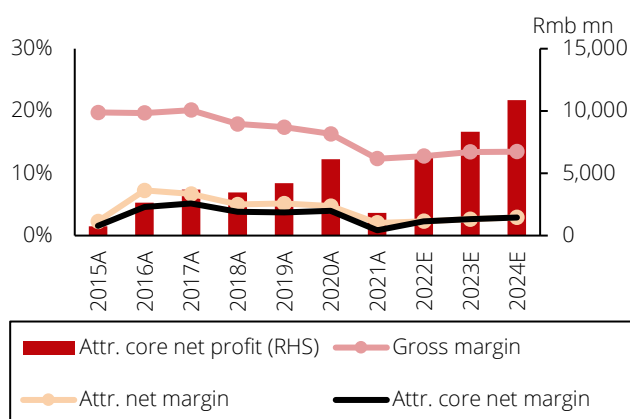
SF Holding

SG&A, R&D, and financial expenses ratios



Source: Company, DBS HK

Attr. core net profit with margin levels



Source: Company, DBS HK

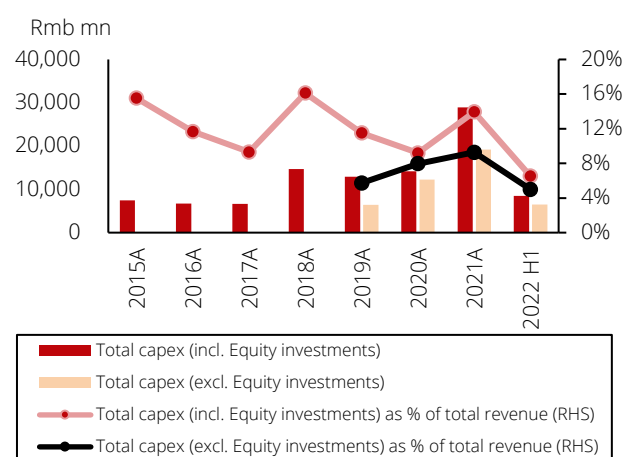
Capex investment to moderate with healthy balance sheet.

With an aim to optimise its intelligent logistics infrastructure system through the integration of its "aviation, ground, and information" networks, and amid the peak level of investment in the Ezhou Huahu Airport construction project, the company's total capital expenditure amounted to Rmb28.9bn in 2021 with a CAGR of 25% in 2016-2021, or Rmb19.2bn (excluding equity investments), with capex as a percentage of total revenue reaching its recent high of 13.9%, or 9.3% (excluding equity investments). Looking forward, as the company strives to improve resource efficiency and the construction of the Ezhou Huahu Airport project gradually comes to an end,

we expect to see a downward trend in its capex as a percentage of total revenue in the coming years.

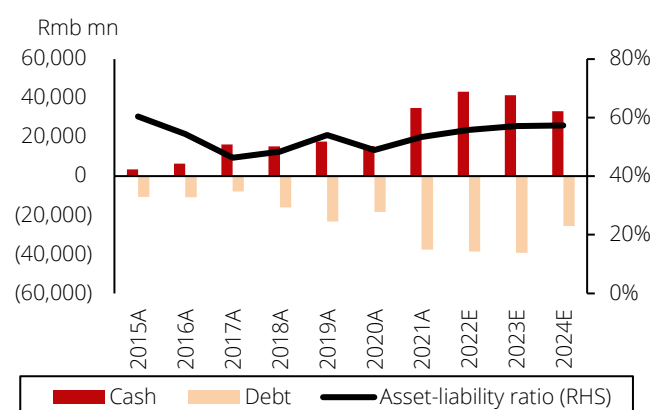
Backed by diversified financing channels, the company managed to maintain a healthy balance sheet. More specifically, the company's asset-liability ratio mildly rose 4.4ppt from 48.9% in 2020 to 53.4% in 2021, mainly due to the acquisition of Kerry Logistics, increased investment in network construction, as well as the adoption of new lease standards. Looking forward, we expect the company's balance sheet to remain robust, supported by enhanced lean management, effective cost controls, and a moderating capital investment pace.

Capital expenditure as a % of total revenue



Source: Company, DBS HK

Cash, debt, and asset-liability ratio



Source: Company, DBS HK

SF Holding**Environmental, Social, & Governance (ESG)**

SF Holding is enhancing its investment in ESG, with continued focus on improving the sustainability of the environment and society as well as benefiting both employees and customers.

Environment: SF Holding released its Carbon Target White Paper 2021 in Jun 2021, where it outlines its aim to improve its carbon efficiency by 55% and reduce the carbon footprint of each express parcel by 70% by 2030 compared to 2021. With the goal of protecting the environment, saving energy, and reducing emissions, SF Holding employed various measures, such as green transit, green packaging, and others. Therefore, it managed to reduce greenhouse gas emissions by 920,000 tonnes through green transportation and by 279,000 tonnes through green packaging in 2021.

Social: SF Holding continues to emphasise on supporting the local community. SF Charity Foundation's total annual public welfare expenditure amounted to Rmb98.9m in 2021, with its volunteer service hours reaching 21,601. Furthermore, SF Charity Foundation conducted research and formulated a five-year development plan for three major fields, namely, education, healthcare, and carbon neutrality. In addition, during the pandemic period, SF Holding committed to provide safe and efficient transportation services to serve society and ensure people's livelihood, leveraging on its advantages in timeliness and stability.

Governance: As a leading logistics service provider, SF Holding attaches importance to the rights of employees as well as customers. Aiming at ensuring equality for employees, the company makes continuous efforts to promote female participation in the workplace, with the employment rate of females reaching 14.7% in 2021. For customers, the company continuously improves its quality of service by actively collecting and analysing customer feedback, thereby ranking top in terms of customer satisfaction.

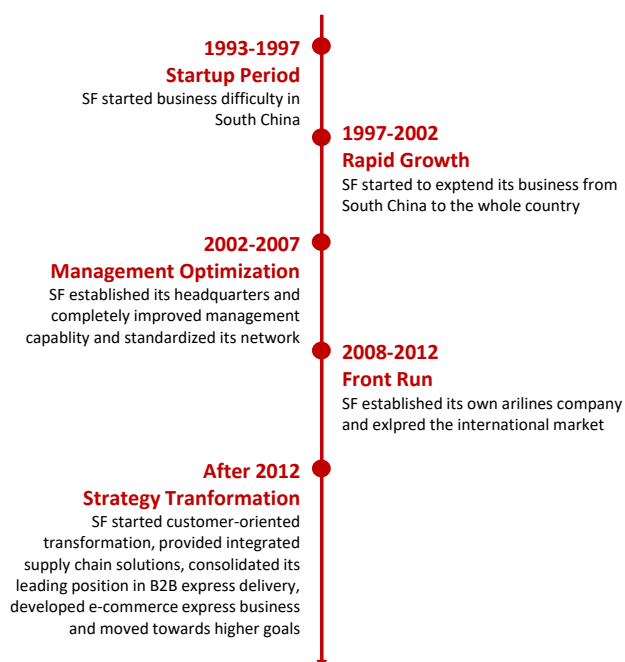
SF Holding

Company Background

Leading comprehensive logistics service provider offering integrated supply chain solutions. Established in 1993, SF Holding started to provide its services in south China and later expanded to the entire domestic market. In 2002, the company implemented a differentiation strategy by adopting a direct management model and targeting the high-end market, which helps increase its brand awareness rapidly. It also explored overseas markets since 2008 in order to capture global demand and gradually develop competitive advantages. After years of development, SF Holding has become a leading comprehensive express logistics service provider in China and the fourth largest express company in the world, providing intelligent and integrated smart supply chain solutions for various customers.

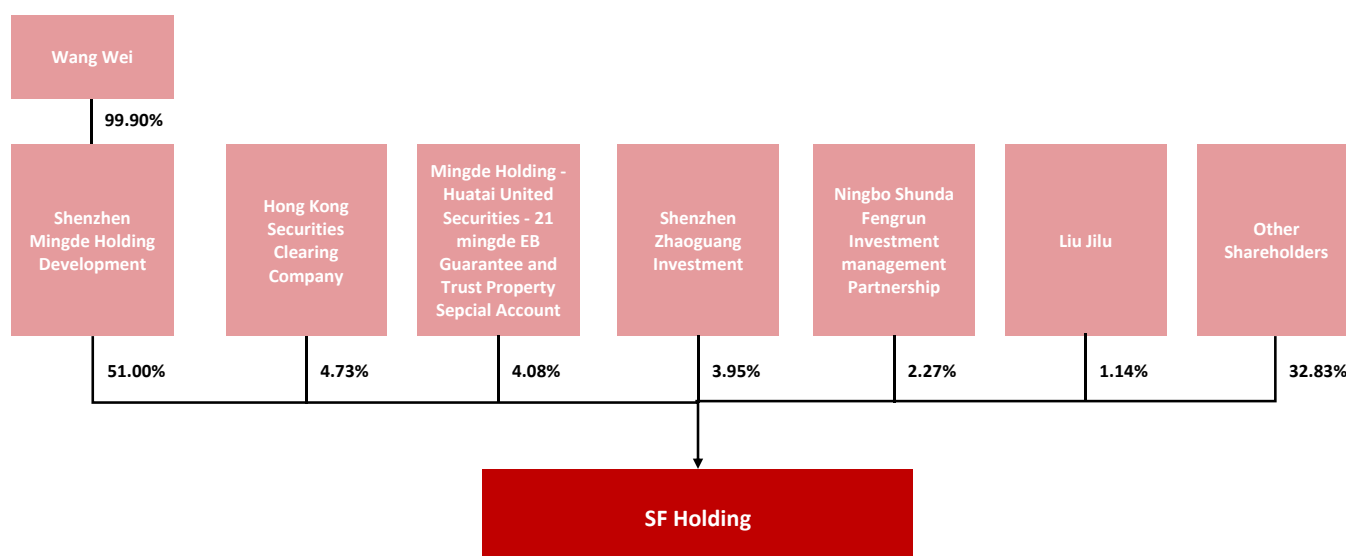
Strong management control model with well-established three-dimensional infrastructure network. Under a direct operating model, SF Holding has strong control over the critical process and core resources, which would ensure standardisation and efficiency in operations, thus enhancing the stability of the whole network system. Meanwhile, the company has also established an intelligent logistics infrastructure system that integrates its "aviation, ground, and information" networks.

Company milestones



Source: Company, DBS HK

Shareholding structure



Source: Company, DBS HK

Management & Strategy

Key Management Team

Name	Age	Position	Profile
Wang Wei	52	Chairman, general manager	Wang Wei is the founder and de facto controller of the company. He currently serves as chairman and general manager of the company. He has served as the chairman of the board of directors and a non-executive director of SF REIT Asset Management Limited since February 2021, and the chairman of the board of directors and a non-executive director of Kerry Logistics (636 HK) since October 2021.
Lin Zheyang	58	Deputy chairman	Lin Zheyang has been chairman of Ancient Jade Capital Management Co., Ltd. since 2011 and an independent non-executive director of Koolearn Technology Holding Limited (1797 HK) since January 2020. He has served as deputy chairman of the company since December 2016.
Zhang Yichen	59	Director	Zhang Yichen serves as chairman and CEO of CITIC Capital, chairman of Harbin Pharmaceutical Group Holding Co., Ltd. (600664.SH), independent non-executive director of China Vanke Co., Ltd. (000002.SZ, 2202.HK), and independent non-executive director of Hong Kong Exchanges and Clearing Limited (388 HK) currently. He has been a director of the company since December 2016.
Deng Weidong	55	Director	Deng Weidong currently serves as a director of China International Marine Containers (Group) Ltd. (000039.SZ, 2039.HK), director of China Merchants Energy Shipping Co., Ltd. (601872.SH), director of China Merchants Shekou Industrial Zone Holdings Co., Ltd. (001979.SZ), executive director of China Merchants Port Holdings Company Limited (144 HK), and director of Sinotrans Limited (601598.SH, 0598.HK). Deng has served as a director of the company since April 2019.
Liu Chengwei	52	Director	Liu Chengwei served as deputy chairman and president of Suzhou Oriza Holdings Corporation from 2016 to 2020. Since January 2021, he has served as chairman and president of Suzhou Oriza Holdings Corporation. Currently, he serves as director of Zhongji Innolight Co., Ltd. (300308.SZ). He has served as a director of the company since December 2016.
Ho Chit	47	Director, deputy general manager, financial head	Ho Chit has 24 years of experience in financial management and the internet sector. He has served as an independent director of China Great Wall Securities Co., Ltd. (002939.SZ) since 2015, deputy general manager and financial head of the company since September 2021, non-executive director of Kerry Logistics (636 HK) since October 2021, and as a director of the company since November 2021.
Chan Fei	47	Director, deputy general manager	Chan Fei has served as the chairman of the board of directors and non-executive director of SF INTRA-CITY (9699 HK) since December 2019, assistant CEO of the company since March 2021, and non-executive director of Kerry Logistics (636 HK) since October 2021. He has served as a director and deputy general manager of the company since December 2019.
Lo Sai Lai	60	Director	Lo Sai Lai served as chief information officer and deputy general manager of the company from 2016 to March 2019. He has served as chief advisor to the company since March 2019 and as a director of the company since December 2016.
Zhou Zhonghui	75	Independent director	Zhou Zhonghui currently serves as an independent non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (688505.SH, 1349 HK), independent non-executive director of COSCO SHIPPING Holdings Co., Ltd. (601919.SH, 1919 HK), and independent non-executive director of CITIC Securities Co., Ltd. (600030.SH, 6030 HK). Zhou has served as an independent director of the company since December 2016.
Jin Li	52	Independent director	Jin Li currently serves as an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. (601318.SH, 2318 HK). Jin was elected a member of the National Committee of the Chinese People's Political Consultative Conference in March 2018. He has served as an independent director of the company since December 2016.
Dicky Peter Yip	75	Independent director	Dicky Peter Yip served as president of HSBC China, general manager of HSBC, deputy governor of Bank of Communications, independent non-executive director of Ping An (601318.SH, 2318 HK), and independent non-executive director of South China Holdings (413 HK). He has served as an independent director of the company since February 2017.
Chow Wing Kin Anthony	72	Independent director	Chow Wing Kin Anthony currently serves as a non-executive director of Kingmaker Footwear Holdings Limited (1170 HK), independent non-executive director of Ping An Healthcare and Technology Co., Ltd. (1833 HK), etc. He has served as an independent director of the company since December 2016.

Source: Company, DBS HK

SF Holding

Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	153,987	207,187	273,968	315,283	371,725
Cost of Goods Sold	(128,810)	(181,549)	(238,979)	(272,865)	(321,604)
Gross Profit	25,177	25,638	34,989	42,418	50,121
Other Opng (Exp)/Inc	(14,189)	(16,826)	(23,721)	(28,402)	(32,929)
Operating Profit	10,988	8,812	11,268	14,016	17,192
Other Non Opg (Exp)/Inc	(118)	(304)	(123)	(160)	(206)
Associates & JV Inc	0	0	0	0	1
Net Interest (Exp)/Inc	(831)	(1,374)	(2,189)	(2,195)	(1,996)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	10,039	7,134	8,956	11,661	14,991
Tax	(3,107)	(3,214)	(2,993)	(3,781)	(4,710)
Minority Interest	394	350	351	464	605
Preference Dividend	0	0	0	0	0
Net Profit	7,326	4,269	6,314	8,344	10,886
Net Profit before Except.	6,132	1,834	6,314	8,344	10,885
EBITDA	16,162	15,552	20,261	25,230	30,952
Growth					
Revenue Gth (%)	37.3	34.5	32.2	15.1	17.9
EBITDA Gth (%)	28.8	(3.8)	30.3	24.5	22.7
Opg Profit Gth (%)	35.8	(19.8)	27.9	24.4	22.7
Net Profit Gth (%)	26.4	(41.7)	47.9	32.2	30.5
Margins & Ratio					
Gross Margins (%)	16.3	12.4	12.8	13.5	13.5
Opg Profit Margin (%)	7.1	4.3	4.1	4.4	4.6
Net Profit Margin (%)	4.8	2.1	2.3	2.6	2.9
ROAE (%)	14.8	6.1	7.4	9.1	11.0
ROA (%)	7.2	2.7	2.9	3.4	4.1
ROCE (%)	10.5	4.2	4.8	5.9	7.3
Div Payout Ratio (%)	20.5	19.4	20.1	20.1	20.1
Net Interest Cover (x)	13.2	6.4	5.1	6.4	8.6

Source: Company, DBS HK

SF Holding

Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	22,357	36,926	43,811	51,588	60,765
Invt in Associates & JVs	3,647	7,260	7,333	7,406	7,480
Other LT Assets	37,126	78,862	91,391	105,691	122,569
Cash & ST Invt	15,466	34,814	43,300	41,499	33,290
Inventory	987	1,547	1,547	1,547	1,547
Debtors	17,016	30,759	24,906	26,274	28,594
Other Current Assets	18,208	26,993	26,993	26,993	26,993
Total Assets	111,160	209,900	231,947	253,591	273,757
ST Debt	7,997	18,397	18,997	19,597	20,197
Creditors	15,485	23,468	39,830	54,573	80,401
Other Current Liab	18,327	34,157	34,157	34,157	34,157
LT Debt	1,866	3,511	4,111	4,711	5,311
Other LT Liabilities	10,726	32,452	32,246	31,746	16,796
Shareholder's Equity	56,443	82,943	87,986	94,650	103,344
Minority Interests	317	14,972	14,621	14,157	13,552
Total Cap. & Liab.	111,160	209,900	231,947	253,591	273,757
Non-Cash Wkg. Capital	2,398	1,674	(20,541)	(33,917)	(57,424)
Net Cash/(Debt)	5,604	12,906	20,192	17,191	7,782
Debtors Turn (avg days)	34.5	42.1	37.1	29.6	26.9
Creditors Turn (avg days)	40.6	40.7	50.3	65.9	80.1
Inventory Turn (avg days)	2.8	2.6	2.5	2.2	1.8
Asset Turnover (x)	1.5	1.3	1.2	1.3	1.4
Current Ratio (x)	1.2	1.2	1.0	0.9	0.7
Quick Ratio (x)	0.8	0.9	0.7	0.6	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	123.7	86.9	59.3	64.9	72.9
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	10,039	7,134	8,956	11,661	14,991
Dep. & Amort.	5,292	7,044	9,115	11,375	13,966
Tax Paid	0	0	0	0	1
Assoc. & JV Inc/(loss)	0	0	0	0	1
(Pft)/ Loss on disposal of FAs	188	196	0	0	0
Chg in Wkg.Cap.	(1,835)	(1,403)	22,215	13,376	23,507
Other Operating CF	(2,360)	2,387	5,003	4,438	3,688
Net Operating CF	11,324	15,358	45,290	40,849	56,154
Capital Exp.(net)	(12,203)	(19,048)	(13,698)	(15,764)	(18,586)
Other Invt.(net)	111,544	126,558	(5,479)	(6,306)	(7,434)
Invt in Assoc. & JV	772	(6,706)	(141)	(142)	(144)
Div from Assoc & JV	0	0	0	0	1
Other Investing CF	(114,998)	(117,935)	(15,018)	(17,264)	(20,260)
Net Investing CF	(14,884)	(17,131)	(34,337)	(39,476)	(46,424)
Div Paid	(1,917)	(2,380)	(3,460)	(3,875)	(4,188)
Chg in Gross Debt	2,648	17,227	994	700	(13,750)
Capital Issues	687	23,795	0	0	0
Other Financing CF	(85)	(17,423)	0	0	0
Net Financing CF	1,332	21,220	(2,467)	(3,175)	(17,938)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(2,229)	19,446	8,486	(1,801)	(8,208)
Opg CFPS (RMB)	2.95	3.64	4.71	5.61	6.67
Free CFPS (RMB)	(0.20)	(0.80)	6.45	5.12	7.67

Source: Company, DBS HK

Hangzhou SF Intra-City Industrial

Bloomberg: 9699 HK Equity | Reuters: 9699.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Sep 2022

BUY (Initiating Coverage)

Last Traded Price (6 Sep 2022): HK\$6.66 (HSI : 19,203)

Price Target 12-mth: HK\$13.50 (102.7% upside)

Analyst

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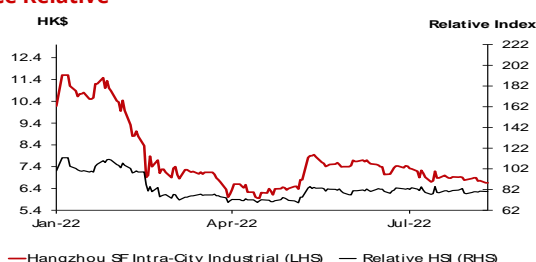
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Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2021A	2022F	2023F	2024F
Turnover	8,174	10,440	13,934	18,184
EBITDA	(842)	(299)	30	354
Pre-tax Profit	(903)	(359)	(58)	232
Net Profit	(899)	(358)	(58)	231
Net Pft (Pre Ex) (core)	(667)	(358)	(58)	231
Net Profit Gth (Pre-ex)	(10.3)	46.4	83.9	N/A
EPS (RMB)	(1.28)	(0.38)	(0.06)	0.25
EPS (HK\$)	(1.45)	(0.43)	(0.07)	0.28
Core EPS (RMB)	(0.95)	(0.38)	(0.06)	0.25
Core EPS (HK\$)	(1.07)	(0.43)	(0.07)	0.28
EPS Gth (%)	17.9	70.1	83.9	N/A
Core EPS Gth (%)	25.5	59.7	83.9	N/A
Diluted EPS (HK\$)	(1.07)	(0.43)	(0.07)	0.28
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	5.32	3.57	3.50	3.78
PE (X)	nm	nm	nm	23.9
CorePE (X)	nm	nm	nm	23.9
P/Cash Flow (X)	nm	nm	nm	18.3
P/Free CF (X)	nm	nm	nm	69.5
EV/EBITDA (X)	nm	nm	119.7	9.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.3	1.9	1.9	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	N/A	N/A	N/A	N/A
Earnings Rev (%)		New	New	New
Consensus EPS (RMB)		(0.42)	(0.02)	0.28
Other Broker Recs:		B:4	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Riding emerging demands

- Leading third-party on-demand delivery service platform with largest market share, at 11.1% in 1Q21
- Multi-scenario business model with customer-centric solutions to enhance network and scale effects
- Diverse rider pool and advanced technology to ensure efficiency and deepen synergy with SFH
- Initiate with BUY rating at TP of HK\$13.50

Leading third-party on-demand delivery service platform with strong revenue growth and improving profitability; initiate with BUY. SF Intra-City provides customer-centric solutions under multiple scenarios to enhance network and scale effects, while leveraging on its diverse rider pool and technology to ensure efficiency and deepen its synergy with SFH. With diversifying demands accelerated by the recent regional lockdowns, we expect the company to deliver a strong revenue CAGR of 31% in FY22-24F, with its non-IFRS net margin close to turning positive in FY23F, after its gross profit improved from -3.9% in 2020 to 1.2% in 2021 and 4.0% in 1H22 while optimising fulfilment costs.

Neutral and open company riding on multi-traffic matrix and diversifying demands. It actively expanded its services from food delivery to non-food segments, with the relevant revenue contribution increasing from 52% in 2020 to over c.60% in 1H22, thereby strengthening its leadership with a growing market share.

Valuation:

We initiate coverage with a BUY rating and TP of HK\$13.50, which was derived by assigning c.0.8x FY23F PS multiple.

Key Risks to Our View:

Potential fluctuations in the industry, intensifying market competition, and increasingly tight labour market.

At A Glance

Issued Capital (m shrs)	933
Mkt Cap (HKm/US\$m)	6,214 / 792
Major Shareholders (%)	
Alibaba Group Holding Ltd.	22.4
Skycus China Fund LP	16.2
Lionet Fund, L.P.	6.3
Legend Capital Ltd.	5.1
LC Fund VIII, L.P.	5.1
Free Float (%)	44.9
3m Avg. Daily Val. (US\$m)	0.09
GLCS Industry: Industrials / Transportation	



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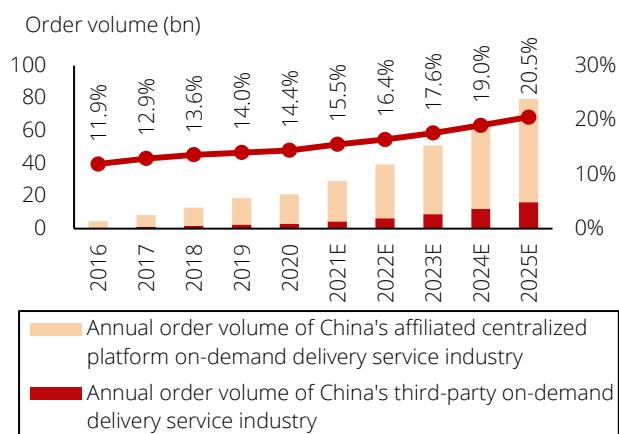
Hangzhou SF Intra-City Industrial

Investment Summary

China's largest third-party on-demand delivery service platform. According to an iResearch report, supported by the continuous development of the local consumer market, China's on-demand delivery service industry witnessed rapid development in annual order volume, with a CAGR of 46% in 2017-20, and is expected to achieve a CAGR of 30.5% in 2021-25E. Backed by robust demand, the penetration of independent third-party on-demand delivery services is expected to increase from 15.5% in 2021E to 20.5% in 2025E.

Alongside continuous market consolidation in the third-party on-demand delivery service industry, with the CR6 (concentration rate of the top six players by order volume) rising from 35.6% in 2020 to 38.4% in 1Q21, SF Intra-City remains China's largest third-party on-demand delivery service platform, with its market share increasing from 10.4% in 2020 to 11.1% in 1Q21, signifying its leading position in the industry with solid entry barriers.

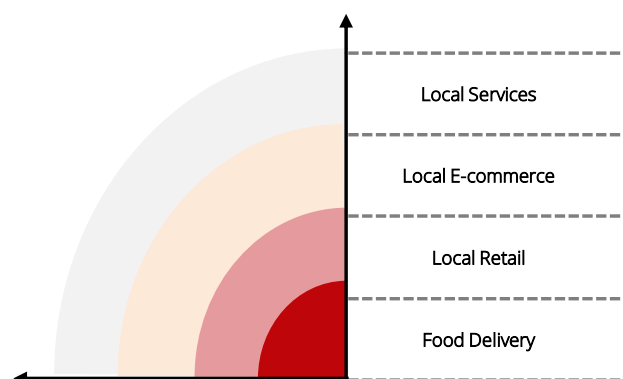
Increasing penetration of third-party on-demand delivery services in China



Source: iResearch, DBS HK

Multi-scenario business model with customer-centric solutions to enhance network and scale effects. As on-demand delivery services are expanding from food delivery to various local consumption scenarios (including local retail, local e-commerce, and local services), SF Intra-City adopted a multi-scenario business model with extensive geographical coverage in over 1,900 cities and counties in end-2021 (vs. 1,046 in end-2020), and provided tailored services to a diverse and rapidly growing customer base of 258,000+ active merchants (+55% y-o-y) and 10.6m active consumers (+106% y-o-y) in 2021.

Scenarios of China's on-demand delivery service industry



Source: iResearch, DBS HK

This multi-scenario business model contributes to broadening SF Intra-City's customer base and attracting more riders to strengthen its fulfilment capability, thus leading to sustainable growth powered by network effects. Meanwhile, this business model also enables the company to improve order density and balance order structure, thus continuously optimising unit economics backed by enhanced economies of scale.

Larger order volume to enhance economies of scale

	Smaller order volume	Larger order volume
Number of orders delivered by a rider on a day	35	45
Average fee payable to a rider (Rmb/order)	6	5.5
Total fee payable to a rider (Rmb/day)	210.0	247.5

Source: Company, DBS HK

Optimising order structure to lower fulfilment cost

	Without order structure optimisation		With order structure optimisation	
	Number of orders delivered	Average fulfillment cost per order (Rmb/order)	Number of orders delivered	Average fulfillment cost per order (Rmb/order)
During peak hours	30	8	30	8
During off-peak hours	0	4	15	4
Total rider cost (Rmb)	240		300	
Average rider cost (Rmb/order)	8		6.7	

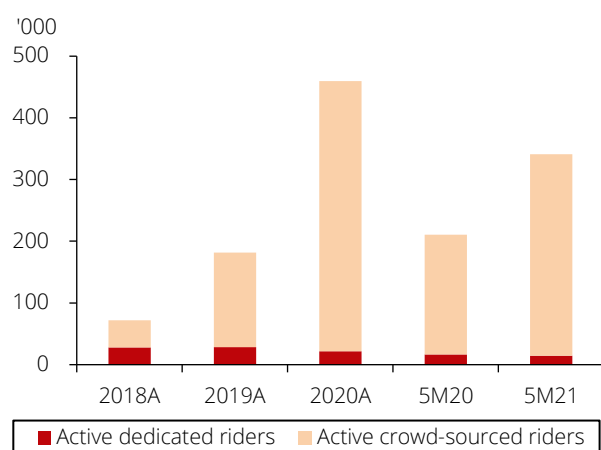
Source: Company, DBS HK

Hangzhou SF Intra-City Industrial

Diverse rider pool and advanced technology infrastructure to ensure operational efficiency and service quality. To ensure the service quality and stability of order fulfilment, the company established an integrated rider pool with total active riders amounting to 341k in May 2021 (+62% y-o-y), of which crowd-sourced riders accounted for 96%, to ensure service flexibility, while the rest (4%) were dedicated riders who offered highly customised services. The rider pool further increased to 606k by end-2021 (+32% y-o-y). As a result, total orders were recorded at 514m in 5M21 (a CAGR of 209% in 2019-2020), of which crowd-sourced riders delivered 92% of total orders vs. dedicated riders' 8%.

The company continued to invest in and build advanced technology infrastructure to increase efficiency in its operations. It applied big data and AI technologies in its City Logistics System (CLS) to digitalise the operations of order recommendation and dispatching, delivery route planning, delivery pricing, etc., thus enhancing service quality, improving efficiency, and decreasing delivery costs.

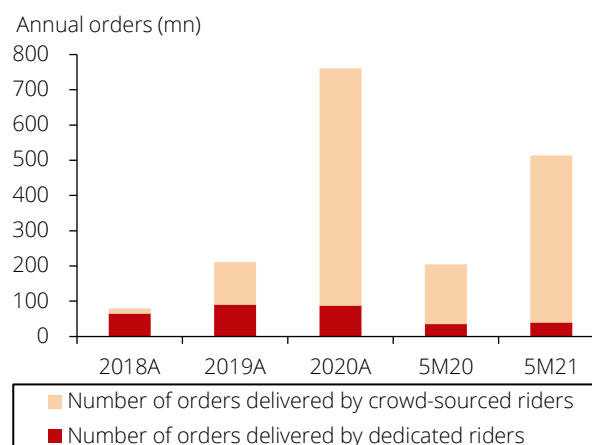
Active rider pool breakdown by rider type



Note: SF Intra-City didn't disclose active rider pool breakdown for FY21

Source: Company, DBS HK

Order breakdown by rider type



Source: Company, DBS HK

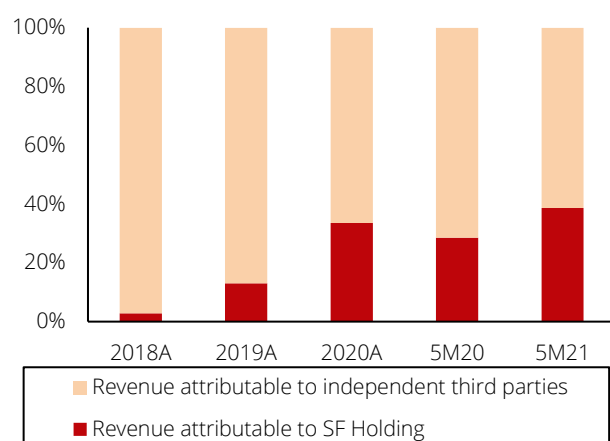
Strategic cooperation with SF Holding to deepen synergy under well-recognised "SF" brand. Initially incubated as a business unit of SF Holding, SF Intra-City shared the well-recognised "SF" brand to help explore its potential customer base and improve customer loyalty, while providing cost-effective services to SF Holding in terms of both intra-city delivery and last-mile delivery, leveraging on its sufficient on-demand delivery capacity.

As a result, SF Holding contributed 39% to SF Intra-City's total revenue in 5M21 (up from 3% of the total in 2018). This was a result of substantial order volume, at 335m in 5M21 or 65% of total order volume (vs. 1.3% of total in 2018); and a narrowing average service fee per order, at Rmb3.5 in 5M21 (-7% y-o-y), amid the scale-enhancing effect.

Moreover, the company continued to explore cooperation opportunities with SF Holding's ecosystem participants, aiming to deepen synergy in diverse delivery scenarios.

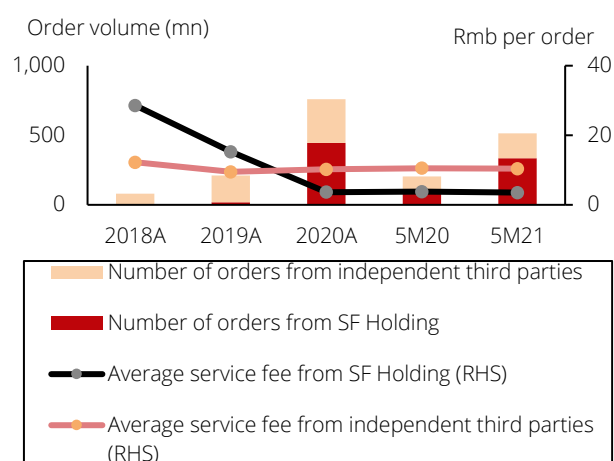
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Total revenue breakdown by source



Source: Company, DBS HK

Order breakdown by source with average service fee



Source: Company, DBS HK

Hangzhou SF Intra-City Industrial

Valuation & Peer Comparison

As it will take time for the company to achieve profits, we employ a price/sales (PS) multiple valuation methodology to derive the target price for SF Intra-City.

Our TP of HK\$13.50 is based on c.0.8x FY23F PS. Given that it has consolidated its leading position as the largest third-party on-demand delivery service platform empowered by a diverse rider pool and advanced technology, we expect the company to achieve strong revenue growth at a CAGR of 31% in FY22-24F. Thus, the stock deserves to trade at a premium compared to other Chinese logistics companies' median FY23F PS of 0.7x.

As some on-demand delivery service platforms are affiliated with centralized marketplaces, it may take time for SF Intra-city to improve its order volume and order density and benefit from an enhanced network effect and scale effect. Therefore, in the near term, the lack of business flow support may see the stock trading at a relatively lower multiple compared to other on-demand delivery service platforms such as Meituan (3690 HK, BUY).

In a summary, factoring in stock liquidity in the HK stock market, we assign a target FY23F PS multiple of c.0.8x taking a conservative perspective, and arrive at a target price of HK\$13.50. We have a BUY rating on SF Intra-city.

Peer comparison

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	3m daily trading volume US\$m	PE	PE	PE	P/S	P/S	P/S
						21F x	22F x	23F x	21F x	22F x	23F x
Hangzhou SF Intra-City*	9699 HK	HKD	6.66	792	0.1	n.a.	n.a.	n.a.	0.7	0.5	0.4
Chinese logistics companies											
S F Hdg.'A'*	002352 CH	CNY	47.39	33,357	133	51.1	36.7	27.8	1.1	0.8	0.7
JD Logistics*	2618 HK	HKD	16.46	13,834	18	n.a.	n.a.	n.a.	0.9	0.7	0.5
ZTO Express (Cayman) 'A'*	ZTO US	USD	25.88	26,290	69	31.1	24.1	18.9	4.8	4.0	3.3
Yunda Holding 'A'	002120 CH	CNY	17.73	7,399	52	34.8	25.4	18.0	1.2	1.0	0.9
YTO Express 'A'	600233 CH	CNY	19.36	9,566	48	29.1	19.2	16.0	1.5	1.2	1.0
STO Express 'A'	002468 CH	CNY	11.21	2,468	30	n.a.	34.8	24.9	0.7	0.6	0.5
Deppon Logistics 'A'	603056 CH	CNY	14.42	2,129	17	90.1	n.a.	26.4	0.5	0.4	0.4
Average						47.2	28.0	22.0	1.5	1.2	1.0
Median						34.8	25.4	21.9	1.1	0.8	0.7
Logistics-related internet companies											
Meituan*	3690 HK	HKD	173.4	136,684	637	n.a.	n.a.	89.9	5.3	4.4	3.3
Dada Nexus	DADA US	USD	5.64	1,460	7	n.a.	n.a.	20.0	1.4	1.1	0.8
Dingdong Cayman	DDL US	USD	3.68	869	4	n.a.	n.a.	n.a.	0.3	0.2	0.2
Doordash A	DASH US	USD	58.23	22,481	392	n.a.	n.a.	n.a.	4.6	3.5	2.9
Pinduoduo*	PDD US	USD	66.62	84,233	801	74.9	29.0	19.1	6.2	5.0	4.0
Alibaba Group Holding*#	BABA US	USD	88.45	234,175	2,764	26.8	17.7	14.4	1.9	1.8	1.6
JD Com*	JD US	USD	59.35	92,313	563	n.a.	182.4	43.4	0.7	0.6	0.5
Average						50.8	76.4	37.4	2.9	2.4	1.9
Median						50.8	29.0	20.0	1.9	1.8	1.6

FY22: FY23; FY23: FY24

Source: Thomson Reuters, *DBS HK

Hangzhou SF Intra-City Industrial

Key Risks

Potential fluctuations in the development of China's on-demand delivery service industry. The industry is new and fast evolving, and it may fluctuate significantly. Many factors the company might be subject to, such as the development of mobile internet and technology and general economic conditions, may be beyond the company's control. For instance, with the macroeconomic fluctuations, overall consumer spending may change and, in turn, the demand for on-demand delivery services could be turbulent. Accordingly, the company's operating performance might be affected by fluctuations in industry development.

Intensifying market competition. Apart from providing a broad potential customer group, the unique multi-scenario operation model also puts the company ahead of a series of on-demand delivery service providers operating in one

or some of the scenarios. Intensified competition resulting from players with better resources may urge the company to increase marketing resources, incur higher selling and marketing expenses, and offer more incentives. These actions could affect the company's profitability adversely.

Increasingly tight labour market may pose challenges. As the company operates in a labour-intensive industry, an increasingly competitive labour market may result in higher labour cost and affect delivery service quality. Moreover, due to a rapid evolution of the industry amid fierce market competition, the company may face challenges to attract, train, and retain qualified personnel, leading to insufficient delivery resources.

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none">Multi-scenario logistics service provider that serves customers in a wide range of industriesStable labour supply with riders from diverse sourcesStrong digital technology ability and the use of AI help in instant resource allocationWell-recognised “SF” brand contributes to superior brand reputation	<ul style="list-style-type: none">Yet to strength its capability to expand its external customer baseNeed more time to optimise cost structure
Opportunities	Threats
<ul style="list-style-type: none">Robust demand for tailored services from merchants to help establish direct interactions with consumersAbility to leverage the variations in peak hours and order density across service scenarios could contribute towards efficiency improvement	<ul style="list-style-type: none">Intensifying market competition driven by competitors from each subdivision scenarioIncreasingly tight labour market may lead to rising labour cost and insufficient delivery resources

Source: DBS HK

Hangzhou SF Intra-City Industrial

Critical Factors

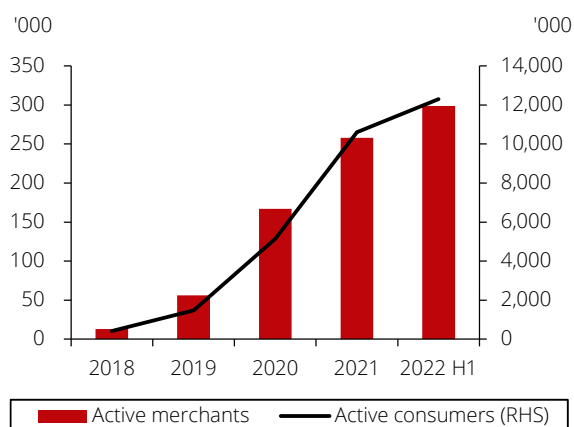
Strong customer base expansion under multi-scenario business model to support revenue growth.

The strong expansion of its customer base is a vital driver supporting SF Intra-City's revenue growth, while also enhancing its network and scale effects.

As China's largest third-party on-demand delivery service platform, SF Intra-City's total revenue witnessed strong growth, with a CAGR of 102% in 2019-21, mainly backed by robust customer base expansion under the multi-scenario business model. More specifically, during the same period, the company's active merchants recorded a CAGR of 171%, while its active consumers reported a CAGR of 195%, signifying its strong expansion capability.

Looking forward, backed by superior service quality and sufficient delivery capacity, we expect strong customer base expansion to support revenue growth.

Customer base expansion demonstrated via number of active merchants and active consumers



Note: 2022 H1 refers to the past 12 months ended June30, 2022.

Source: Company, DBS HK

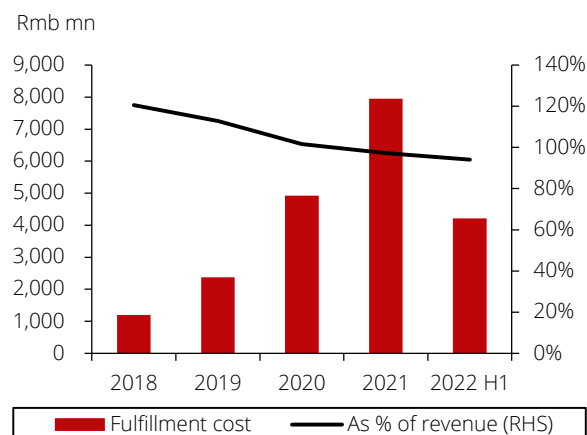
Fulfilment cost optimisation empowered by technology amid improving order density and more balanced order structure.

Fulfilment cost, defined as the sum of labour outsourcing costs and employee benefit expenses in relation to riders, was the largest component of the cost of revenue and the key factor determining SF Intra-City's operational efficiency and profitability.

The company's fulfilment costs amounted to Rmb4.2bn in 1H22 after growing at a CAGR of 88% in 2019-21, with its percentage of total revenue narrowing from over 120% in 2018 to 97.3% in 2021 and 94.1% in 1H22, mainly supported by improving order density and the optimisation of order structure enabled by advanced technology. Looking forward, despite the potential short-term fluctuations during

business expansion, we expect to see the continuous optimisation of fulfilment cost, backed by the strengthened scale effect and advanced technology in the long term.

Continuous fulfilment cost optimisation



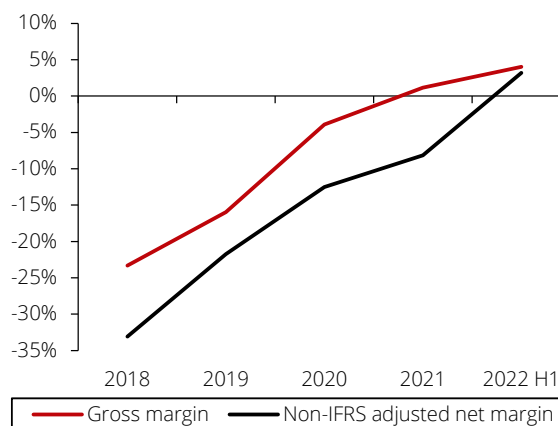
Source: Company, DBS HK

Margin improvements supported by economies of scale, effective cost controls, and enhanced operating leverage.

Although the company recorded gross loss in 2018-20, given continuous investments in business development and technology advancement, its gross margin significantly narrowed from -23.3% in 2018 to -3.9% in 2020 amid enhanced economies of scale, before turning positive to 1.2% in 2021 and 4.0% in 1H22, implying continuous margin improvement.

Looking forward, the company targets to achieve profitability by 2023, mainly supported by customer base and order volume expansion, effective cost control measures, and enhanced operating leverage. This should help alleviate market concerns and support its share price.

Improving gross margin and non-IFRS net margin



Source: Company, DBS HK

Hangzhou SF Intra-City Industrial

Financials

Revenue to grow at a CAGR of 31% in FY22-24F, mainly supported by continuous order volume expansion.

SF Intra-City's total revenue was recorded at Rmb8.1bn in 2021 with a CAGR of 102% in 2019-21, mainly comprising two business segments, namely, (1) intra-city delivery service (62.3% of total revenue in 2021), including revenue contributions from merchants and consumers at 47.5% and 14.8%, respectively; and (2) last-mile delivery service (37.6% of total revenue in 2021), vs. 0.1% of total revenue in 2021 from other business.

In terms of order volume expansion, SF Intra-City continuously strengthened its leading position as China's largest third-party on-demand delivery service platform, with its order volume amounting to 761m in 2020 (a CAGR of 209% in 2019-20), of which the intra-city delivery service order volume contribution narrowed from 99% in 2018 to 42% in 2020, while last-mile delivery service order volume became the largest contributor, at 58% in 2020 (vs. merely 1% in 2018). Meanwhile, SF Intra-City's average service fee decreased from Rmb12.4 per order in 2018 to Rmb6.4 per order in 2020 (CAGR of -28% in 2019-20). Of this, intra-city delivery service fee remains relatively resilient at Rmb10.2 per order in 2020 (CAGR of -9% in 2019-20), while last-mile delivery service fee narrowed from Rmb25.0 per order in 2018 to Rmb3.64 per order in 2020 (CAGR of -62% in 2019-20). This reduction of last-mile delivery service fee was mainly due to decreased delivery costs backed by the enhanced scale effect amid rapidly increasing order volume, as it was priced at a relatively stable mark-up, on top of rider commission fee.

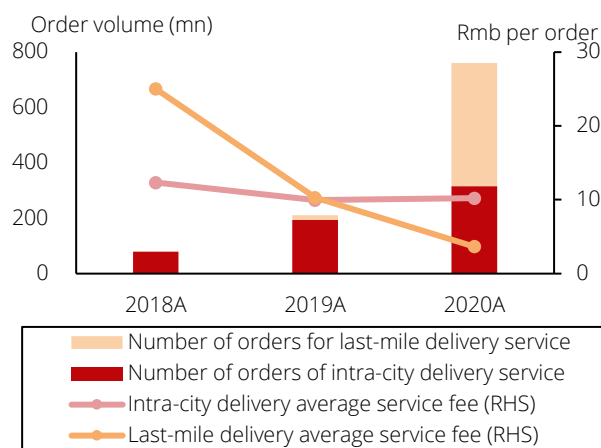
As the company continued to explore innovative pricing models and evaluate business development from the perspective of revenue growth, it didn't disclose the order volumes and average service fees of the two major business segments for FY21.

Looking forward, we expect to see strong volume expansion, given continuous customer base expansion backed by high-quality multi-scenario service capabilities with customised

solutions; strengthened penetration into lower tier cities; and strong synergy with SF Holding and cornerstone investors, further enhancing its leading position. Meanwhile, in terms of pricing, we expect to see an upward trend in service fee, given rising contributions from non-food and long-distance customised services provided to merchants and customers with higher order values, and enhanced user discount management.

In summary, we expect SF Intra-City's total revenue to grow at a CAGR of 31% in FY22-24F, of which intra-city delivery service revenue contribution is to rise from 62.3% in FY21 to 66.8% in FY24F (vs. the rest, i.e., 33.1%, from last-mile delivery service and 0.1% from other business), consolidating its leading position with its high-quality service capability.

Actual and estimated order breakdown by service segment with average service fee

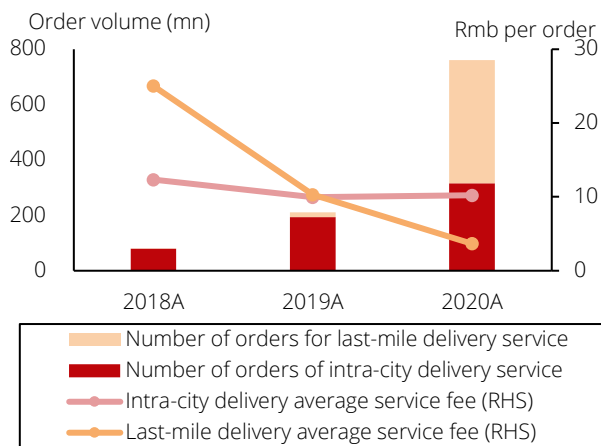


Note: SF Intra-City didn't disclose order volume and average service fee for FY21

Source: Company, DBS HK

Hangzhou SF Intra-City Industrial

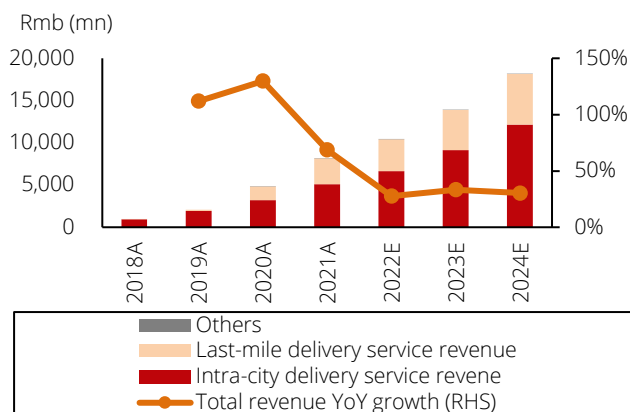
Actual and estimated order breakdown by service segment with average service fee



Note: SF Intra-City didn't disclose order volume and average service fee for FY21

Source: Company, DBS HK

Total revenue breakdown by service segment



Source: Company, DBS HK

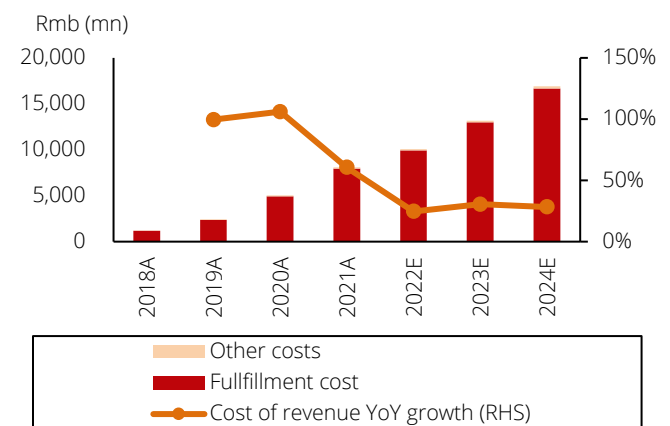
Gross margin to recover in FY22-24F on the back of optimised fulfilment costs, enabled by scale effect and technology.

To ensure the service quality and stability of order fulfilment, the company established an integrated rider pool, with total active riders amounting to 341k in May 2021 (+62% y-o-y), of which crowd-sourced riders' contribution rose from 62% in 2018 to 96% in 5M21 to ensure service flexibility and lower delivery costs (vs. the rest, i.e., 4%, from dedicated riders). This was before total active riders further increased to 606k by end-2021 (+32% y-o-y). As increasing contribution from crowd-sourced riders helps optimise unit economics, we noted that the company's average fulfilment cost continuously decreased from Rmb15.0 per order in 2018 to

Rmb6.5 per order in 2020, while total fulfilment cost continuously accounted for over 97% of total cost of revenue in 2018-21.

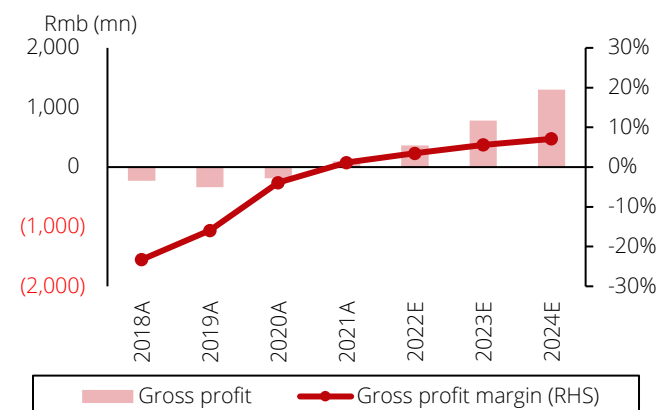
Thanks to the optimisation of the fulfilment cost per order, the company's gross margin narrowed from -23.3% in 2018 to -3.9% in 2020, before turning positive to 1.2% in 2021 and 4.0% in 1H22. Looking forward, backed by the optimisation of its rider pool structure, increased economies of scale, and improved order structure enabled by advancing technology, we expect better unit economics and enhanced delivery efficiency to support the gross margin to recover to 3.5%, 5.6%, and 7.1% in FY22-24F, respectively.

Total cost of revenue breakdown with y-o-y growth



Source: Company, DBS HK

Gross profit with gross profit margin



Source: Company, DBS HK

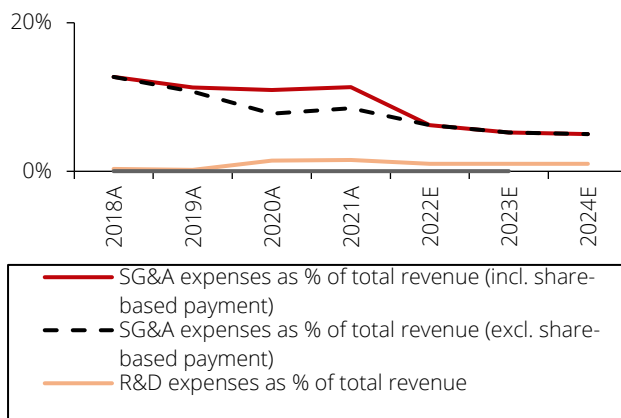
Hangzhou SF Intra-City Industrial

Continuous decline in SG&A expense ratio amid enhanced operating leverage, alongside stable R&D expense ratio, to strengthen technology capability.

SF Intra-City's SG&A expenses-to-revenue ratio continued to decline from 12.7% in 2018 to 11.3% in 2021, or 8.5% if excluding share-based payments, mainly due to effective cost controls and improving operational efficiency. Looking forward, factoring in short-term fluctuations caused by brand promotions and customer base expansion, we expect the SG&A expenses ratio to drop in the medium to longer term, supported by rising labour productivity amid enhanced network and scale effects.

Meanwhile, the company continued to invest in technology infrastructure to maximise delivery efficiency, with its R&D expenses-to-revenue ratio increasing from 0.3% in 2018 to 1.5% in 2021. Given its goal to enhance its technology capability, we forecast the R&D expenses ratio to remain stable at 1.0% in FY22-24F, thus consolidating its technology capability.

SG&A and R&D expenses-to-total revenue ratios



Source: Company, DBS HK

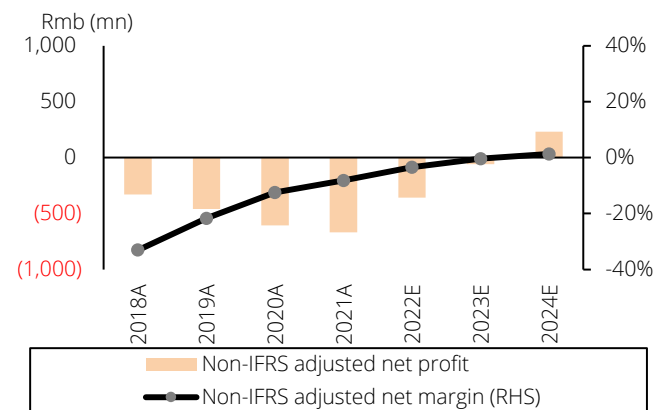
Strengthen market leadership as a leading third-party platform with profitability improvement in FY22-24F.

The company recorded non-IFRS net losses in 2018-21, with the non-IFRS net margin narrowing from -33.1% in 2018 to -8.2% in 2021 and -3.2% in 1H22. The company will continue to invest in business development and technology infrastructure, and endeavour to expand its geographical layout into new cities.

Looking forward, supported by customer base and order volume expansion, effective cost control measures, and enhanced operating leverage, we expect the company to incur a non-IFRS net loss of Rmb358m in FY22, before close to turning positive in FY23 at a minor net loss of Rmb58m and making net profit of Rmb231m, respectively. Meanwhile, the non-IFRS net margin is expected to improve from -8.2%

in FY21 to -3.4%, -0.4%, and 1.3% in FY22-24F, respectively, demonstrating its competitive advantage.

Non-IFRS adjusted net profit with net margin



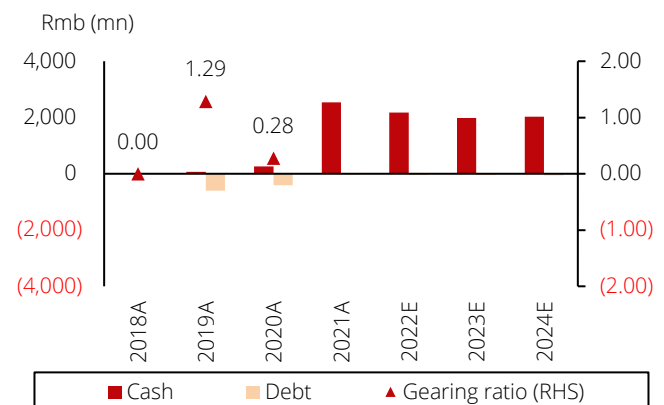
Source: Company, DBS HK

Healthy balance sheet with net cash position going ahead.

After listing in the Hong Kong stock market in Dec 2021, the company recorded a net cash position in end-2021, with its total cash on hand amounting to Rmb2.5bn, while total borrowings were reported at nil. Looking forward, we expect the company to maintain a net cash position in FY22-24F.

The company announced it would not distribute a final dividend for 2021, thus we assume a similar dividend policy with the payout ratio at nil in FY22-24F, as the company may need to retain any available funds to be channelled into business development.

Maintain a net cash position in FY22-24F



Source: Company, DBS HK

Hangzhou SF Intra-City Industrial

Environment, Social, & Governance (ESG)

Taking advantage of its resources and professional knowledge, SF Intra-City is continuously enhancing its investment in the environment and also social and governance aspects. It does so by improving its corporate social responsibility and sustainable development, which focus mostly on environmental protection and rider care.

Environment: SF Intra-City is committed to operating in environmental-friendly and sustainable ways, which include recommending riders use new energy and electric vehicles to minimise pollutant emissions during the distribution process. As of 31 May 2021, 98% of the active riders in the company fulfilled their orders by using electric vehicles and public transportation. Moreover, the company actively cooperates with customers to use eco-friendly and recycled packaging, which helps in lowering the packaging cost, protecting the environment, and also contributes to carbon neutrality.

Social: For the riders, the company, in cooperation with SF Foundation, launched the “Care for Millions of Riders” project to provide educational support to riders’ children and financial aid for the medical needs of riders’ families. For the industry, the company contributed to the benign

competition of the industry through its distinctive independence. In this case, the company acted as the infrastructure of the on-demand delivery service, without interfering the communication between merchants and their customers.

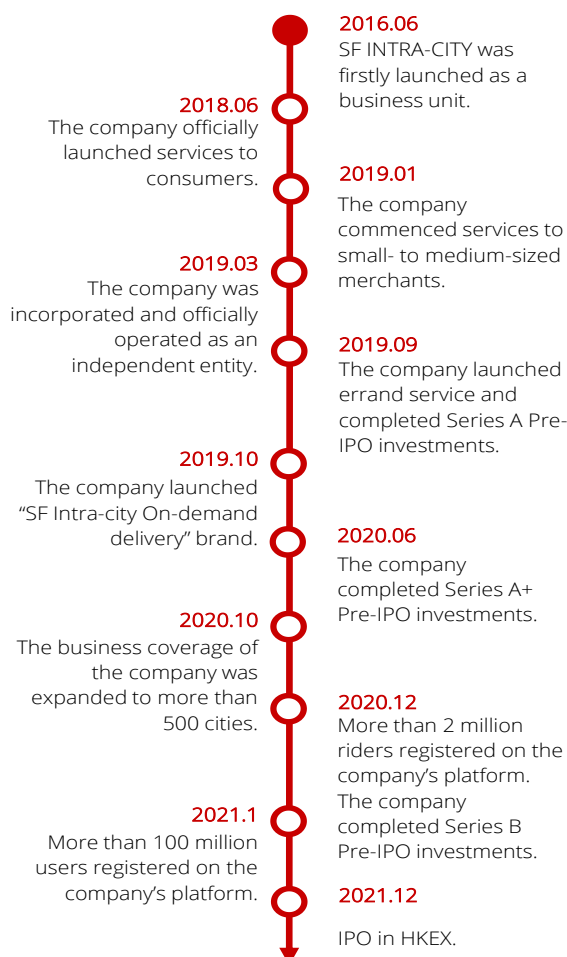
Governance: Although initially incubated as a business unit of the SF Holding Group, SF Intra-City established a series of corporate governance measures to ensure management independence. To illustrate, firstly, the company’s business is managed and conducted by its own board and senior management, and none of the directors or senior management hold or will hold positions within the SF Holding Group, except for three non-executive directors. Secondly, the company’s operation, which comprises its operational management, systems, intellectual property rights and licenses, and corporate governance structure, is independent from the SF Holding Group. Thirdly, the company has established its own finance and audit departments with full authority to make independent decisions. The company has completed a series of pre-IPO financing independent from the SF Holding Group.

Hangzhou SF Intra-City Industrial

Company Background

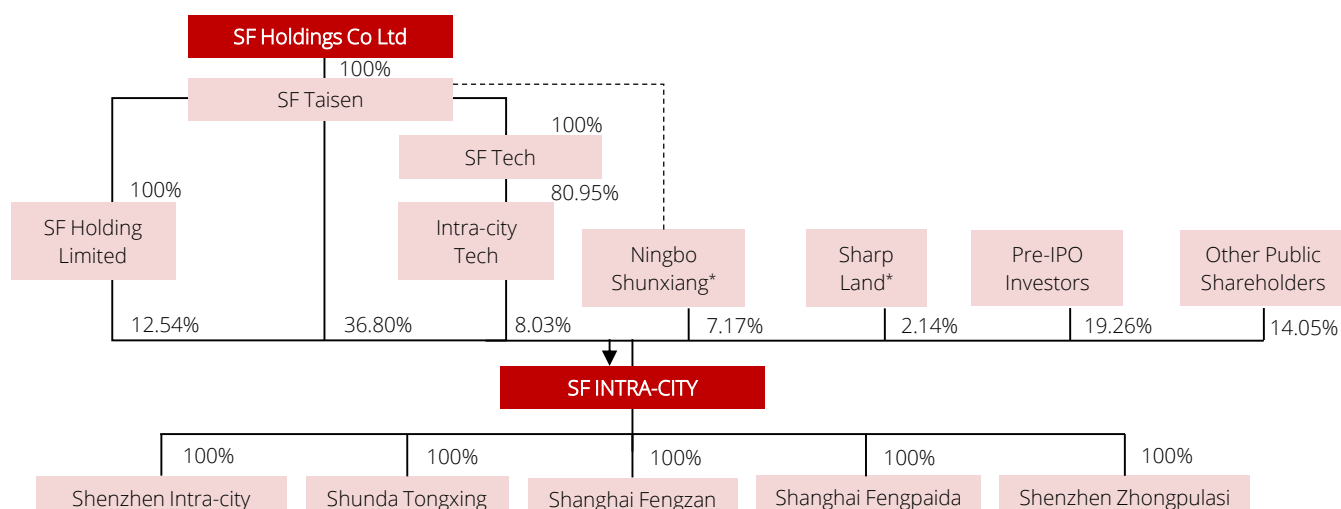
Largest third-party on-demand delivery service platform with multi-scenario business model. Initially incubated as a business unit of SF Holding to provide intra-city on-demand delivery services, SF Intra-City officially operated as an independent entity in 2019. The company is the largest third-party on-demand delivery service platform in China, with its market share in terms of order volume at 11.1% in 1Q21, according to iResearch. Backed by a diverse rider pool, sufficient operational know-how, and superior service quality, the company adopts a multi-scenario business model to help establish extensive coverage of mature scenarios (such as food delivery) and growth scenarios (such as local retail, local e-commerce, and local services), which leads to distinct network effects and economies of scale.

Milestones of development



Source: Company website, DBS

Shareholder structure



Notes: Immediately following the completion of the global offering; *stands for domestic shareholding platforms for the employees of the company

Source: Company, DBS

Hangzhou SF Intra-City Industrial

Management & Strategy

Key Management Team

Name	Age	Position	Profile
Sun Haijin	43	Executive director, CEO	Sun has over 16 years of experience in logistics, delivery, and online-to-offline business management, and has a deep understanding of the combination of the traditional logistics industry and new business forms. From 2016 to 2019, he worked as the manager and was responsible for the operation and management of the intra-city business unit. After the company was incorporated as an independent entity, he became CEO in June 2019 and executive director in December 2019.
Tsang Hoi Lam	40	Executive director, CFO	Tsang has been recognised as a certified public accountant by HKICPA and has obtained the Certificate of Board Secretary of Listed Companies. Having previously worked as a manager in Deloitte, he has over 17 years of experience in auditing, finance, and management. Before joining SF Intra-City, he worked for two listed companies in positions akin to a CFO. He is now serving as the executive director, CFO, one of the joint company secretaries, and a supervisor of multiple subsidiaries of the company.
Chen Lin	37	Executive director, CTO, deputy general manager	Chen has over 10 years of experience in information technology and system architecture design, especially in the research and development of food delivery and on-demand delivery systems based on AI big data. Previously, he served in Baidu for about seven years. He joined the SF Holding Group in September 2017 and now serves as executive director, CTO, and deputy general manager of SF Intra-City.
Chan Fei	47	Non-executive director, chairman	Chan has over 20 years of experience in management. From July 2006 to March 2016, he served as an executive director of the investment banking division of Goldman Sachs. From March 2016, he served in multiple positions within the SF Holding Group, including assistant CEO, CSO, director, and deputy general manager. He was appointed a non-executive director and chairman of the board of SF Intra-City in December 2019.
Xu Zhijun	46	Non-executive director	Xu has over 20 years of experience in logistics management. He consecutively served in multiple positions, with his last position as COO, within SF Taisen from December 2004 to September 2016. He has been serving as the deputy general manager of SF Holding since December 2016, the vice chairman of the board of China Railway SF International Express Co., Ltd. since June 2018, and the COO of SF Holding since December 2019. He was appointed a non-executive director of SF Intra-City in June 2020.
Li Qiuyu	34	Non-executive director	Li has over 11 years of experience in investment. From July 2010 to May 2018, he served in multiple positions within Huatai United Securities Co., Ltd., with his last position as a director of the investment banking division. He has served as the head of the investment and M&A department of SF Holding since June 2018 and was appointed a non-executive director in June 2019.
Chan Kok Chung, Johnny	62	Independent director	Chan has over 37 years of experience in investment banking and the investment management industry. He has been the chief investment officer of the Hong Kong Cyberport Management Company since September 2018. He was appointed an independent non-executive director in June 2021.
Wong Hak Kun	66	Independent director	Wong has over 36 years of experience in auditing, assurance, and management prior to his retirement from Deloitte China in May 2017. He has been a recognised member of ACCA, HKICPA, ICSA, and CIMA. He was appointed an independent non-executive director in June 2021.
Zhou Xiang	43	Independent director	Zhou obtained a bachelor's degree in industrial automation from Zhejiang University, and a master's and PhD in operations research from North Carolina State University. He has rich experience in logistics and supply chain industry. He was appointed an independent non-executive director of SF Intra-City in June 2021.

Source: Company, DBS

Hangzhou SF Intra-City Industrial

Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	4,843	8,174	10,440	13,934	18,184
Cost of Goods Sold	(5,032)	(8,079)	(10,076)	(13,153)	(16,886)
Gross Profit	(189)	95	364	781	1,299
Other Opng (Exp)/Inc	(562)	(1,008)	(752)	(864)	(1,091)
Operating Profit	(751)	(913)	(388)	(83)	208
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(15)	10	29	25	24
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(766)	(903)	(359)	(58)	232
Tax	27	4	1	0	(1)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	(739)	(899)	(358)	(58)	231
Net Profit before Except.	(605)	(667)	(358)	(58)	231
EBITDA	(723)	(842)	(299)	30	354
Growth					
Revenue Gth (%)	129.9	68.8	27.7	33.5	30.5
EBITDA Gth (%)	(31.9)	(16.4)	64.5	N/A	1,094.6
Opg Profit Gth (%)	32.6	21.6	(57.5)	(78.6)	(350.3)
Net Profit Gth (%)	(59.8)	(21.6)	60.2	83.9	N/A
Margins & Ratio					
Gross Margins (%)	(3.9)	1.2	3.5	5.6	7.1
Opg Profit Margin (%)	(15.5)	(11.2)	(3.7)	(0.6)	1.1
Net Profit Margin (%)	(15.3)	(11.0)	(3.4)	(0.4)	1.3
ROAE (%)	N/A	N/A	N/A	N/A	N/A
ROA (%)	N/A	N/A	N/A	N/A	N/A
ROCE (%)	N/A	N/A	N/A	N/A	N/A
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	0.0
Net Interest Cover (x)	(50.2)	NM	NM	NM	NM

Source: Company, DBS HK

Hangzhou SF Intra-City Industrial

Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	11	17	22	29	39
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	315	359	414	493	598
Cash & ST Invt	263	2,538	2,182	1,980	2,025
Inventory	7	4	5	5	6
Debtors	678	764	1,305	1,742	2,273
Other Current Assets	138	527	590	671	768
Total Assets	1,414	4,209	4,518	4,920	5,707
ST Debt	378	17	18	20	22
Creditors	603	807	1,463	1,910	2,452
Other Current Liab	41	55	62	71	81
LT Debt	0	0	0	0	0
Other LT Liabilities	26	21	23	25	27
Shareholder's Equity	365	3,309	2,952	2,894	3,125
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	1,414	4,209	4,518	4,920	5,707
Non-Cash Wkg. Capital	179	433	375	436	514
Net Cash/(Debt)	(114)	2,522	2,164	1,960	2,002
Debtors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Creditors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	NM	NM	NM	NM	NM
Current Ratio (x)	1.1	4.4	2.6	2.2	2.0
Quick Ratio (x)	0.9	3.8	2.3	1.9	1.7
Net Debt/Equity (X)	0.3	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.3	CASH	CASH	CASH	CASH
Capex to Debt (%)	20.0	541.0	696.8	845.5	1,003.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	(766)	(903)	(359)	(58)	232
Dep. & Amort.	46	71	89	113	146
Tax Paid	(1)	0	1	0	(1)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	6	59	58	(61)	(77)
Other Operating CF	151	240	1	2	2
Net Operating CF	(563)	(532)	(209)	(5)	302
Capital Exp.(net)	(76)	(90)	(128)	(170)	(222)
Other Invt.(net)	(3)	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	50	(325)	(21)	(29)	(37)
Net Investing CF	(28)	(415)	(149)	(199)	(260)
Div Paid	0	0	0	0	0
Chg in Gross Debt	(199)	(367)	0	0	0
Capital Issues	1,087	3,611	0	0	0
Other Financing CF	(103)	(25)	2	2	3
Net Financing CF	784	3,220	2	2	3
Currency Adjustments	0	0	0	0	0
Chg in Cash	192	2,272	(356)	(202)	44
Opg CFPS (RMB)	(1.20)	(0.84)	(0.29)	0.06	0.41
Free CFPS (RMB)	(1.35)	(0.89)	(0.36)	(0.19)	0.08

Source: Company, DBS HK

China / Hong Kong Company Update

Kerry Logistics Network

Bloomberg: 636 HK Equity | Reuters: 0636.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Sep 2022

BUY

Last Traded Price (6 Sep 2022): HK\$15.60 (HSI : 19,203)
Price Target 12-mth: HK\$19.80 (27% upside)

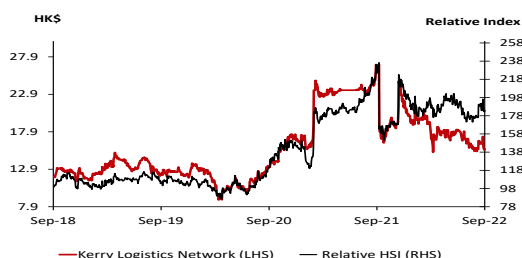
Analyst

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What's New

- Excluding discontinued operations, 1H22 core net profit jumped 96%, exceeding our estimate by 26%
- Contribution from international freight forwarding more than doubled in 1H22
- Narrowing losses from Kerry Express Thailand in 2Q22
- Maintain BUY with HK\$19.80 TP

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021A	2022F	2023F
Turnover	53,361	81,771	88,873	73,778
EBITDA	5,469	8,490	8,402	7,675
Pre-tax Profit	4,240	10,391	5,885	4,735
Core Net Profit	1,828	3,692	3,636	3,089
Core Net Profit Gth (%)	33.1	101.9	(1.5)	(15.1)
EPS (HK\$)	1.03	2.05	2.01	1.71
EPS Gth (%)	28.3	98.8	(1.7)	(15.1)
PE (X)	15.1	7.6	7.8	9.1
P/Cash Flow (X)	5.5	4.2	4.7	3.6
EV/EBITDA (X)	5.3	3.4	3.5	3.8
DPS (HK\$)	0.49*	7.99*	0.61	0.61
Div Yield (%)	3.1	51.2	3.9	3.9
Net Gearing (%)	3	CASH	5	9
ROE (%)	7.2	15.2	17.4	14.2

Earnings Rev (%): Nil
Consensus EPS (HK\$): 1.91
Other Broker Recs: B:7 S:0 H:4

*Include special DPS of HK\$0.14 and HK\$7.28 for FY20 and FY21 respectively

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Navigating challenges.

Investment Thesis

BUY with HK\$19.80 TP. The stock is trading at a PE of 7.8x and 9.1x for FY22 and FY23 respectively, against its five-year average of 13.0x. While softening freight rates would weigh on the company's near-term profitability, synergies with S.F. Holding should add to its long-term growth outlook.

Freight rate softening on weaker global demand. Macro uncertainties led by surging energy prices, rising interest rates and higher inflation have resulted in softening global demand. This should exert pressure on freight rates which have started to normalize, and affect the profitability of Kerry Logistics Network' (KLN) international freight forwarding operations.

Well placed to deliver long-term growth. KLN has been consolidating its position in international freight forwarding via acquisitions such as Topocean. Synergies with S.F. Holding is also coming through. This should help to offset the earnings shortfall led by freight rate normalization and propel the company's long-term growth.

Valuation:

Our TP is based on 11.6x FY23F PE, 0.5 SD below its average PE over the past five years.

Where we differ:

We are more positive on the company's long-term growth supported by its integration with S.F. Holding, and stronger network coverage for international freight forwarding business.

Key Risks to Our View:

Delayed retail market recovery and recurring pandemic lockdowns in China would drag the integrated logistics business in Hong Kong. Failure to execute on the M&A strategy and weaker-than-expected synergies with S.F. Holding would undermine growth prospects. Freight rate volatility could lead to lower earnings visibility.

At A Glance

Issued Capital (m shrs)	1,807
Mkt Cap (HKm/US\$m)	29,526 / 3,763
Major Shareholders (%)	
S.F. Holding Co. Ltd.	51.5
Kerry Properties Ltd	20.8
Kerry Group Ltd.	12.0
Free Float (%)	15.6
3m Avg. Daily Val. (US\$m)	1.35
GICS Industry: Industrials / Transportation	



Watchlist the stock on Insights Direct to receive prompt updates



Kerry Logistics Network

WHAT'S NEW

1H22 earnings boosted by international freight forwarding operations

Excluding discontinued operations and net fair value changes on investment properties, Kerry Logistics Network's (KLN) 1H22 core net profit surged 96% to HK\$2.37bn mainly boosted by substantially higher contributions from international freight forwarding. The result was 26% above our estimate mainly due to stronger-than-expected profit contribution from integrated logistics and international freight forwarding, and gains on stake disposal of Asia Airfreight Terminal. Interim DPS grew 33% to HK\$0.28.

Core operating profit was 37% higher at HK\$3.46bn thanks to significantly improved earnings from international freight forwarding. Excluding the shortfall from the Taiwan business and the Hong Kong warehouse that were sold in 2H21, segment profits from continuing operations would have grown by 74% despite the earnings drag from e-commerce & express business.

Operating profit from international freight forwarding more than doubled to HK\$3.4bn, with substantial growth from the Americas region. Thanks to high freight rates and the acquisition of Topocean in Apr-22, profit contribution from Americas more than tripled to HK\$1.61bn, accounting for 47% of the total profit from international freight forwarding. Meanwhile, despite the lingering pandemic situation, profit from China and Asia rose by 61% and 129% respectively. Overall gross profit margin improved 3ppts to 7.4% (1H21: 4.4%).

Despite weaker performance from China, profit from integrated logistics increased 28% to HK\$717m aided by higher contributions from Hong Kong. Driven by the additional pandemic-related contracts from the government, the Hong Kong segment, representing c.55% of the total integrated logistics segment profit, registered 88% growth to HK\$393m, with margin advancing by 8.3ppts to 17.4% in 1H22 from 1H21's 11.1%. On the other hand, profit contribution from China fell 11% to HK\$159m due to disruptions amid pandemic-led lockdowns.

In 1H22, the e-commerce & express segment recorded an operating loss of HK\$393m, compared to a profit of HK\$209m in 1H21. This was mainly due to the aggressive pricing approach in response to the intense price competition faced by Kerry Express Thailand (KET). Despite a loss, the company has continued to gain market share with delivery volume growing by 35.7% in 1H22. Market competition has exhibited signs of easing and losses from KET has gradually narrowed since May-22. As such, the segment is expected to reach close to breakeven by the end of 2022.

Due to the acquisition of Topocean and K-Apex, the company turned into a net debt position of HK\$1.6bn in Jun-22 from Dec-21's HK\$3bn net cash. This represents 8.8% of the shareholders' fund. The company remains financially sound to pursue accretive acquisitions when the opportunity arises.

Soaring energy prices and growing inflation would inevitably dampen the global economic growth, thus lowering global demand. This should exert pressure on freight rates which has been normalising since mid-22.

While the near-term outlook of international freight forwarding becomes more challenging, KLN has expanded its global coverage through M&As. Following the acquisition of Topocean, KLN has grown to be No.1 NVOCC in transpacific trades. This enables KLN to offer innovative and customized solutions to its clients amid supply chain disruptions.

Moreover, synergy from the integration with its parent S.F. Holding has been coming through and should be growing over time. KLN is now the international arm of S.F. Holding. As the principal service provider outside Mainland China for S.F. Holding's international business, KLN should be able to secure new customers in Mainland China, China-based companies in particular. It also serves as the exclusive cargo General Sales Agent (GSA) for S.F. Airlines from May-22. The integration should expand KLN's scale and coverage. This should help to make up the earnings shortfall caused by the normalisation of freight rates and play a crucial role in driving the company's long-term growth.

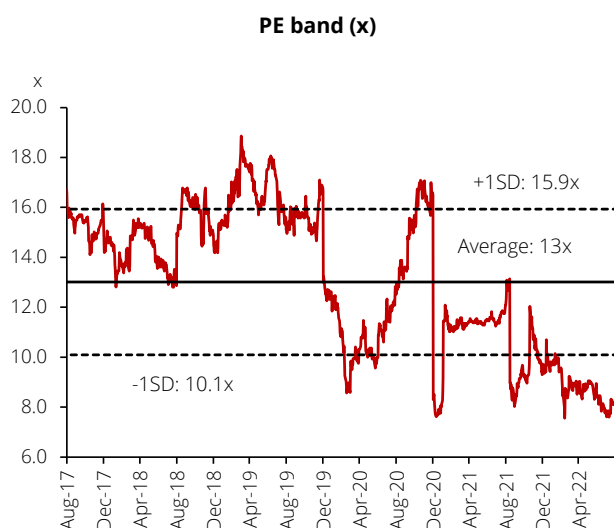
Kerry Logistics is trading at 7.8x and 9.1x PE for FY22 and FY23, which compares favourably with its 5-year average of 13.0x. While softening freight rates should weigh on the company's near-term profitability, we remain positive on the company's long-term outlook. The acquisitions of Topocean and remaining stake in K-Apex should solidify its competitive edge in international freight forwarding business. Integration with its parent company, S.F. Holdings, should add spice to its earnings growth and consolidate its leading position among Asia logistics plays in the long run. Maintain BUY with TP of HK\$19.80, premised on 11.6x FY23F PE.

Kerry Logistics Network

Company Background

Kerry Logistics Network (KLN) is the largest international logistics company listed on Hong Kong Stock Exchange. Its business now comprises three components namely integrated logistics, e-commerce and express, and international freight forwarding. In 2021, S.F. Holding became the controlling shareholder of KLN. KLN is now become the international arm of S.F. Holding, serving as its principal service provider for its business outside China and is the exclusive cargo General Sales Agent for S.F. Airlines. The recent acquisitions of Topocean and remaining stake in K-Apex has further consolidated its position in the IFF sector, being the largest non-vessel ocean common carrier (NVOCC) for the Asia to US trade lanes.

PE band



Source: Thomson Reuters, DBS HK

Kerry Logistics Network

Result Summary

FY Dec (HK\$m)	1H21	1H22	% Chg	Comments
Turnover	36,708.7	48,034.3	31	1H22: mainly led by the international freight forwarding segment
Integrated logistics	560.0	717.0	28	
International freight forwarding	1,416.0	3,398.3	140	1H22: Contribution from Greater China: 28%, ex-Greater China: 72%
E-Commerce & Express	209.3	(393.4)	n.a.	1H22: primarily caused by a price war in Thailand
Segmental profit before discontinued operations	2,185.3	3,721.9	70	
Discontinued operations	544.0	-	n.a.	1H21: from the Hong Kong Warehouses and Taiwan Operations sold in 2H21
Total segmental profit	2,729.3	3,721.9	36	
Unallocated administrative expenses	(193.8)	(260.7)	35	
Finance income	16.4	23.5	43	
Finance costs	(149.5)	(150.6)	1	
Associates & JV	81.4	92.5	14	
Gain on disposal of an associate	-	127.3	n.a.	
Profit before taxation	2,483.9	3,553.8	43	
Taxation	(478.1)	(864.2)	81	
Non controlling interest	(475.4)	(317.8)	(33)	
Core net profit	1,530.4	2,371.8	55	
Fair value change on investment properties	1,980.6	6.7	(100)	
Deferred tax on fair value change on investment	(2.6)	(1.7)	(35)	
Non-controlling interest of after-tax fair value change on investment properties	2.0	(0.0)	n.a.	
Impairment	(130.0)	-	n.a.	
Net profit	3,380.3	2,376.8	(30)	

Source: Kerry Logistics Network

Kerry Logistics Network

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Integrated Logistics and e-commerce & express	19,512	17,821	19,796	19,398	20,770
International freight forwarding	21,627	31,796	59,159	69,475	53,009
Discontinued operations	0	3,743	2,816	0	0
Total	41,139	53,361	81,771	88,873	73,778

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	41,139	53,361	81,771	88,873	73,778
EBITDA	4,686	5,469	8,490	8,402	7,675
Depr / Amort	(1,921)	(2,149)	(2,261)	(2,487)	(2,736)
EBIT	2,765	3,320	6,229	5,915	4,939
Associates Inc	86	118	159	182	155
Interest (Exp)/Inc	(317)	(265)	(243)	(339)	(359)
Exceptionals	2,414	1,067	4,247	127	0
Pre-tax Profit	4,947	4,240	10,391	5,885	4,735
Tax	(605)	(771)	(1,365)	(1,530)	(1,231)
Non-controlling Interest	(554)	(574)	(1,087)	(719)	(415)
Net Profit	3,788	2,896	7,939	3,636	3,089
Core Net Profit	1,374	1,828	3,692	3,636	3,089
Sales Gth (%)	8	30	53	9	(17)
Net Profit Gth (%)	55	(24)	174	(54)	(15)
EBITDA Margins (%)	11	10	10	9	10
EBIT Margin (%)	7	6	8	7	7
Tax Rate (%)	12	18	13	26	26

Source: Company, DBS HK

Kerry Logistics Network

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	21,652	23,196	9,466	10,867	11,060
Long-term Investments	343	365	593	593	593
Other LT Assets	3,986	4,766	4,348	4,348	4,348
Intangibles Assets	4,765	4,772	4,303	5,001	8,345
Deferred Tax Asset	74	98	156	156	156
Associates/JVs	1,387	1,971	2,281	2,408	2,408
Bank Balance/Cash & Liquid	5,846	8,485	9,096	10,066	6,164
ST Investments	469	470	817	817	817
Inventory	505	405	375	375	375
Debtors	10,154	12,362	16,663	19,663	17,663
Other Non Cash Current	25	10	64	64	64
Total Assets	49,204	56,900	48,162	54,359	51,995
ST Debt	2,182	4,163	3,848	3,848	3,848
Creditors	7,426	9,297	11,863	12,863	11,363
Other Current Liab	1,373	1,449	2,129	2,129	2,129
LT Debt	6,174	5,069	2,262	7,262	4,262
Deferred Tax Liabilities	656	744	406	406	406
Other LT Liabilities	4,319	3,698	2,817	2,817	2,817
Non-controlling Interests	4,061	4,997	3,793	4,293	4,442
Shareholder's Equity	23,013	27,483	21,044	20,741	22,727
Total Cap. & Liab.	49,204	56,900	48,162	54,359	51,995
Share Capital (m)	1,712	1,775	1,803	1,807	1,807
Net Cash/(Debt)	(2,509)	(747)	2,986	(1,044)	(1,946)
Working Capital	6,018	6,823	9,174	12,144	7,742
Net Gearing (%)	10	3	CASH	5	9

Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
EBIT	2,765	3,320	6,229	5,915	4,939
Tax Paid	(602)	(699)	(921)	(1,530)	(1,231)
Depr/Amort	1,921	2,149	2,261	2,487	2,736
Profit or loss on disposal of FAs/subsidiaries/investment	(2,115)	(59)	(2,197)	(127)	0
Chg in Wkg.Cap	(521)	(128)	(1,671)	(2,000)	500
Other Non-Cash	1,756	(256)	2,072	(273)	(450)
Operating CF	3,204	4,326	5,773	4,472	6,494
Net Capex	1,490	(1,285)	11,786	(3,889)	(2,929)
Investments	205	12	(1,173)	0	0
Associates & JVs	82	(544)	33	0	0
Associates' Dividends	76	170	99	182	155
Others	75	66	57	61	91
Investing CF	1,927	(1,581)	10,802	(3,646)	(2,683)
Net Chg in Debt	(1,412)	725	53	5,000	(3,000)
Non-controlling interests	27	1,487	(71)	(2,730)	(3,195)
New Capital	118	46	103	0	0
Dividend	(1,450)	(1,306)	(14,523)	(2,127)	(1,518)
Other Financing CF	(984)	(1,208)	(1,281)	0	0
Financing CF	(3,701)	(256)	(15,719)	144	(7,713)
Chg in Cash	1,430	2,489	856	970	(3,902)

Source: Company, DBS HK

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	8-Jul-22	HK\$16.52	HK\$21.90	Buy
2:	13-Jul-22	HK\$16.76	HK\$21.90	Buy
3:	31-Aug-22	HK\$16.54	HK\$19.80	Buy

Source: DBS HK

Analyst: Jeff Yau

Percy Leung

SF Real Estate Investment Trust

Bloomberg: 2191 HK Equity | Reuters: 2191.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Sep 2022

BUY

Last Traded Price (6 Sep 2022): HK\$3.00 (HSI : 19,203)

Price Target 12-mth: HK\$5.45 (82% upside)

Analyst

Jeff Yau CFA, +852 36684180 jeff_yau@db.com

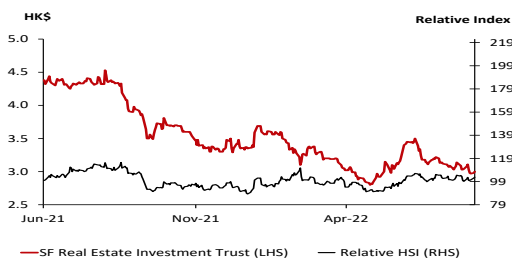
Ken HE CFA, +86 21 38562898 ken_he@db.com

Percy Leung percyleung@db.com

What's New

- 1H22 distributable income of HK\$109m was in line with our estimate
- Interim DPU was HK\$0.1367
- Portfolio occupancy improved to 98%
- BUY for its resilient portfolio with steady rental income increment, TP at HK\$5.45

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2021A	2022F	2023F
Gross Revenue	244	423	466
Net Property Inc	195	342	374
Net Profit	174	115	178
Distribution Inc	138	209	219
DPU (HK\$)	0.17	0.26	0.27
DPU Gth (%)	N/A	N/A	5
Div Yield (%)	9.2*	8.7	9.1
Gross Gearing (%)	31	35	34
Book Value (HK\$)	5.11	5.28	5.42
P/Book Value (x)	0.6	0.6	0.6

DPU Rev (%):		Nil	Nil
Consensus DPU (HK\$):		0.24	0.25
Other Broker Recs:	B:3	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

*on annualized basis

Quality play in uncertain times

Investment Thesis

BUY with HK\$5.45 TP. SF REIT offers distribution yields of 8.7-9.1% for FY22-23 which compares favourably to its Hong Kong and Singapore peers. Even allowing for interest rate hikes, the stock is attractively valued given its steadily growing rental stream which could be further propelled by acquisitions.

Resilient income with steady increment. As of Jun-22, SFH Group's connected tenants accounted for 78.8% of gross lettable area of the portfolio. These leases are guaranteed by its parent company, SFH, with long expiry profile and annual "step-up" arrangement. This should underpin resilient and steadily growing rental income in the years ahead.

Strong parent support to propel growth. In Jun-22, SF REIT made its maiden acquisition by acquiring a Rmb540m modern logistics property in Changsha from SFH. Initial gross yield is estimated at 7.9% with 76% of space leased to SF connected tenants. As of Dec-21, SFH owned 62 completed logistics facilities in China with total GFA of c.4m sm. SF REIT, with the right of first refusal over SFH's completed majority-owned projects, is well poised to pursue yield-accretive acquisitions to drive earnings and valuation.

Valuation:

Our TP for SF REIT is based on a dividend discount model using a discount rate of 6.6% and terminal growth rate of 1.5%.

Where we differ:

We are more positive on the post-COVID growth outlook of the logistics property sector led by the growing popularity of e-commerce, which should benefit SF REIT.

Key Risks to Our View:

Any faster-than-expected interest rate hike would impact SF REIT's distribution income and valuations. Failure to execute acquisitions may dampen investment sentiment on the counter.

At A Glance

Issued Capital (m shrs)	800
Mkt Cap (HKm/US\$m)	2,464 / 314
Major Shareholders (%)	
S.F. Holding Co. Ltd.	35.0
China Orient International Asset Mgt Limited	13.0
Free Float (%)	52.0
3m Avg. Daily Val. (US\$m)	0.41
GICS Industry: Real Estate / Equity Real Estate Investment (REITs)	



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SF Real Estate Investment Trust

WHAT'S NEW`

Interim results meet expectations

SF REIT's 1H22 distributable income was HK\$109m, broadly in line with our estimate. With a payout ratio of 100%, interim DPU was HK\$0.1367.

Total revenue was HK\$198m. The Tsing Yi property accounted for 79% of total revenue, with the remaining 14% and 6% from the Foshan and Wuhu property respectively. In 1H22, SFH Group tenants contributed 75.3% of the REIT's total income.

As of Jun-22, the portfolio was 98.1% let (Dec-21: 95.8%) with 78.8% occupied by SFH Group tenants. Thanks to expansion from existing tenants and the inclusion of new food supply tenant, Tsing Yi property saw its occupancy improving to 97.3% in Jun-22 from Dec-21's 92.6%. Vacancy of the property mainly came from the office portion and the warehouse area was virtually fully let. As of Jun-22, this property was 65.9% leased to SFH Group tenants. Meanwhile, the Foshan property is almost entirely let to SFH Group tenants. Occupancy at the Wuhu property softened slightly to 96.2% in Jun-22 from Dec-21's 98.5% due to the departure of office tenant. Nonetheless, portion of SFH Group tenants remained firm at 89.2%.

SF REIT acquired a Rmb540m modern logistics property in Changsha from SFH in Jun-22. Strategically located at the Changsha Linkong Economic Development Zone, the property is well poised to serve the logistics needs in Changsha and the central region of China. It is in proximity to major infrastructure including the airport, major expressways, and railway station. Spanning a total GLA of 120,055sm, the property comprises two land parcels with five major components including a two-storey ramp-up distribution centre, a three-storey warehouse with two underground levels, two single-storey warehouses, a nine-storey office building, and three ancillary buildings. With the initial gross yield estimated at 7.9%, this debt-funded acquisition should be immediately yield accretive. This property was 98.8% let in Jun-22. The portion of SFH Group tenants of this property further increased to 75.5% in Jun-22 from Mar-22's 68.4%.

Total property operating expense was HK\$35.9m. With NPI margin at 81.8%, net property income for the period was HK\$162m.

Cash finance cost amounted to HK\$23.9m. As of Jun-22, total borrowings rose to HK\$2.7bn from Dec-21's HK\$2.1bn due to the acquisition of Changsha property in Jun-22. This translates into a gearing of 34.5% (Dec-21: 30.6%). Offshore loan represents c.80% of the REIT's total debt with the remaining from onshore loans. As of Jun-22, 41.7% of offshore term loans have been hedged with interest rate swaps. This should help mitigate finance cost risk led by interest rate hikes. Assuming the REIT gears up to 40%, it would have a potential debt headroom of >HK\$720m for acquisitions.

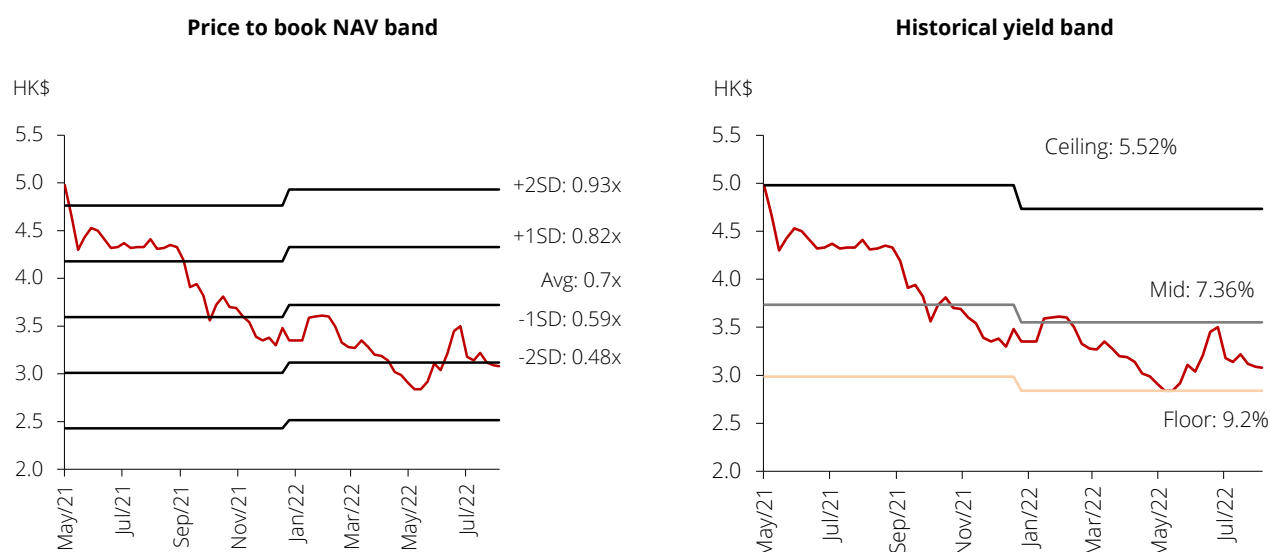
SF REIT is trading at 8.7-9.1% distribution yields for FY22-23, translating into yield spread of 5.6-6%. Even allowing for interest rate hikes, the REIT remains attractively valued when compared to its Hong Kong and Singapore listed peers. High portfolio occupancy, coupled with guaranteed annual rental escalation, should underpin its steady and growing rental income ahead. Any further acquisition from its sponsor, SFH, should propel its DPU growth and enhance its valuation. Hence, we maintain BUY with DDM-based TP of HK\$5.45.

Company Background

SF REIT's initial portfolio comprises three modern logistics properties in Hong Kong, Foshan, and Wuhu. In Jun-22, SF REIT made its maiden acquisition by acquiring a Rmb540m modern logistics property in Changsha from its sponsor, S.F. Holding. This offers investors exposure to the rapidly growing logistics sector in Hong Kong and China.

SF Real Estate Investment Trust

Price to book NAV band and historical yield band



Source: Bloomberg Finance L.P., DBS HK

Result Summary

FY Dec	1H22	Comments
Rental income	164.7	
Management service income	19.8	
Others	13.0	1H22: Included revenue from supplementary services and arrangement for provision of electricity and water
Total revenue	197.5	
Property operating expenses	(35.9)	
Net property income	161.6	1H22: NPI margin was high at 81.8%.
General and administrative expenses	(16.7)	
Fair value change on investment properties	210.4	
Other income, net	0.2	
Operating profit	355.5	
Net financing costs	(24.1)	1H22: Cash finance cost was at c.HK\$23.9m
Profit before tax	331.4	
Taxation	(56.5)	
Net profit	274.8	1H22: 100% payout ratio
Distribution income	109.4	
DPU (HK\$)	0.1367	

Source: SF REIT

SF Real Estate Investment Trust
Key Assumptions (%)

	2022F	2023F
Warehouse rents - HK	3	3
Warehosue rents - China	3	3

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2021A	2022F	2023F
Revenues (HK\$ m)			
Rental income	204	355	396
Management service income	24	42	44
Others	17	26	26
Total	244	423	466

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2021A	2022F	2023F
Gross revenue	244	423	466
Property expenses	(49)	(81)	(92)
Net Property Income	195	342	374
Other expenses	(32)	(42)	(42)
Interest (Exp)/Inc	(23)	(71)	(106)
Exceptionals	81	0	0
Pre-Tax Profit	221	229	227
Tax	(47)	(114)	(48)
Net Profit	174	115	178
Distribution income	138	209	219
Revenue Gth (%)	N/A	N/A	10
NPI Gth (%)	N/A	N/A	10
Dist. Inc Growth (%)	N/A	N/A	5
DPU Growth (%)	N/A	N/A	5

Source: Company, DBS HK

SF Real Estate Investment Trust
Balance Sheet (HK\$ m)

FY Dec	2021A	2022F	2023F
Fixed Assets	6,542	7,464	7,614
Other LT Assets	15	15	15
Intangibles Assets	0	0	0
Bank Balance/Cash & Liquid	430	402	362
Debtors	17	17	17
Other Non Cash Current	6	6	6
Total Assets	7,010	7,905	8,014
Creditors	96	171	121
Other Current Liab	89	89	89
LT Debt	2,141	2,728	2,728
Deferred Tax Liabilities	561	666	706
Other LT Liabilities	30	30	30
Unitholders' funds	4,092	4,221	4,339
Total Capital	7,010	7,905	8,014
Share Capital (m)	800	800	800
Gross Debt	(2,141)	(2,728)	(2,728)
Working Capital	268	165	175
Book NAV (HK\$)	5.11	5.28	5.42
Gross Gearing (%)	31	35	34

Source: DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2021A	2022F	2023F
Pre-Tax Income	221	229	227
Tax Paid	(3)	(9)	(8)
Depr/Amort	1	0	0
Chg in Wkg.Cap.	(58)	75	(50)
Other Non-Cash	(51)	71	106
Operational CF	109	366	274
Net Capex	(2)	0	0
Net change in asso/jv	0	0	0
Net Change in Investments	(1,422)	(661)	0
Assoc, MI, Invsmt	0	0	0
Other Investment CF	24	0	0
Investment CF	(1,401)	(661)	0
Net Chg in Debt	1,905	586	0
New issues/Unit Buyback	2,590	0	0
Distribution Paid	0	(247)	(209)
Other Financing CF	(2,806)	(71)	(105)
Financing CF	1,689	268	(314)
Chg in Cash	397	(27)	(40)

Source: Company, DBS HK

SF Real Estate Investment Trust
Target Price & Ratings History


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	18-Mar-22	HK\$3.26	HK\$5.50	Buy
2:	7-Jun-22	HK\$2.98	HK\$5.80	Buy
3:	19-Aug-22	HK\$3.08	HK\$5.45	Buy

Source: DBS HK

Analyst: Jeff Yau

Ken He

Percy Leung

China Logistics Sector - SF Holding Series

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 8 Sep 2022 12:26:37 (HKT)

Dissemination Date: 8 Sep 2022 15:19:40 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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