

# HKTV (1137 HK)

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## Company Update

**BUY**
**UNCHANGED**
**Close price:** HK\$11.74

**Target Price:** HK\$17.00 (+45%)

**Prior TP:** HK\$17.00

### Key Data

HKEx code	1137	HK
12 Months High (HK\$)	13.76	
12 Month Low (HK\$)	2.95	
3M Avg Dail Vol. (mn)	7.28	
Issue Share (mn)	911.27	
Market Cap (HK\$m)	10,698.35	
Fiscal Year	12/2019	
Major shareholder (s)	Top Group Int'l	(38.98%)

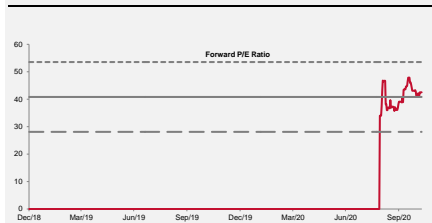
Source: Company data, Bloomberg, OP Research  
Closing price are as of 07/12/2020

### Price Chart



	1mth	3mth	6mth
Absolute %	-1.3	16.5	183.6
Rel. MSCI HK %	-7.2	9.6	171.0

### PE



### Company Profile

Hong Kong Television Network Limited, through its subsidiaries, operates HKTVMall as its major business since 2015, providing an "one-stop shop" ecommerce platform to people in Hong Kong. Before this, it was one of the earliest telecommunication services providers in HK.

## Satisfactory November GMV

- **HKTV announced Nov KPIs, with encouraging GMV at HK\$490 mn and sticky monthly customer base of ~410k. We believe this bodes well for future growth as SKU continues to grow and penetration deepens.**
- **Reiterate BUY as we see multiple catalysts ahead, incl. ramp-up of advertisement next year and kick-off of promising overseas solution business. TP unchanged at HK\$17 at 37x FY21E PE.**

**Stable Nov GMV with pick-up in yoy growth.** HKTV announced Nov operations, with GMV up 96% yoy to HK\$490 mn, a better growth than that of Oct (86%), though decreased 4.5% mom. This was satisfactory given mixed impacts from distracted traffic by "Double 11 festival" for the first half of Nov and HK Covid-19 outburst during second half. Jan to Nov GMV totaled HKD 5.4 bn, up 115% and reached 92% of our estimates. No. of daily orders reached 34.9k, marking the second highest in the year, up 93% yoy, vs year-average of 32k.

We spotted that avg. GMV per person yoy growth picked up to 20% from 15% in Oct, a sign of payout from increased SKUs after the launch of 13Landmark page that featured brand products of higher price. Even so, compared to 63% yoy growth of monthly unique customers, we believe there is **ample room of lifting avg. spending as SKU expands (currently 400k)**. The est. annual avg. spending is 20% and 46% less than JD and TB, in spite of 6.6x higher minimum salaries in HK.

**Strengthening customer stickiness suggests promising post-Covid-19 outlook.** HKTV added 110k monthly unique customers during the 1<sup>st</sup> wave from Feb. to Jun., then upon that another 30k during the 2<sup>nd</sup> wave from Jul. to Nov. The current monthly active buyers stabilize at 410k (vs 250k in 2019) with each one buying avg. 2.5 orders per month (vs less than 2 in 2019). We believe customer habit is taking root and this enlarged base would spark word of mouth effect for a higher penetration going forward. **We expect a strong Dec as pushed by festival promotions and constrained inbound consumption.**

**Reiterate BUY as we see multiple catalysts ahead.** We also noticed that the Company plans to step up advertisement business next year. The upcoming overseas solution business also offers a very promising business model. HKTV is now trading at 26x FY21E PE, Our TP remained unchanged at HK\$17 at 37x FY21E PE, versus net profit growth of 52%/45% in FY21E/FY22E on a conservative annual revenue growth of 22% and 1-2 ppt net margin expansion.

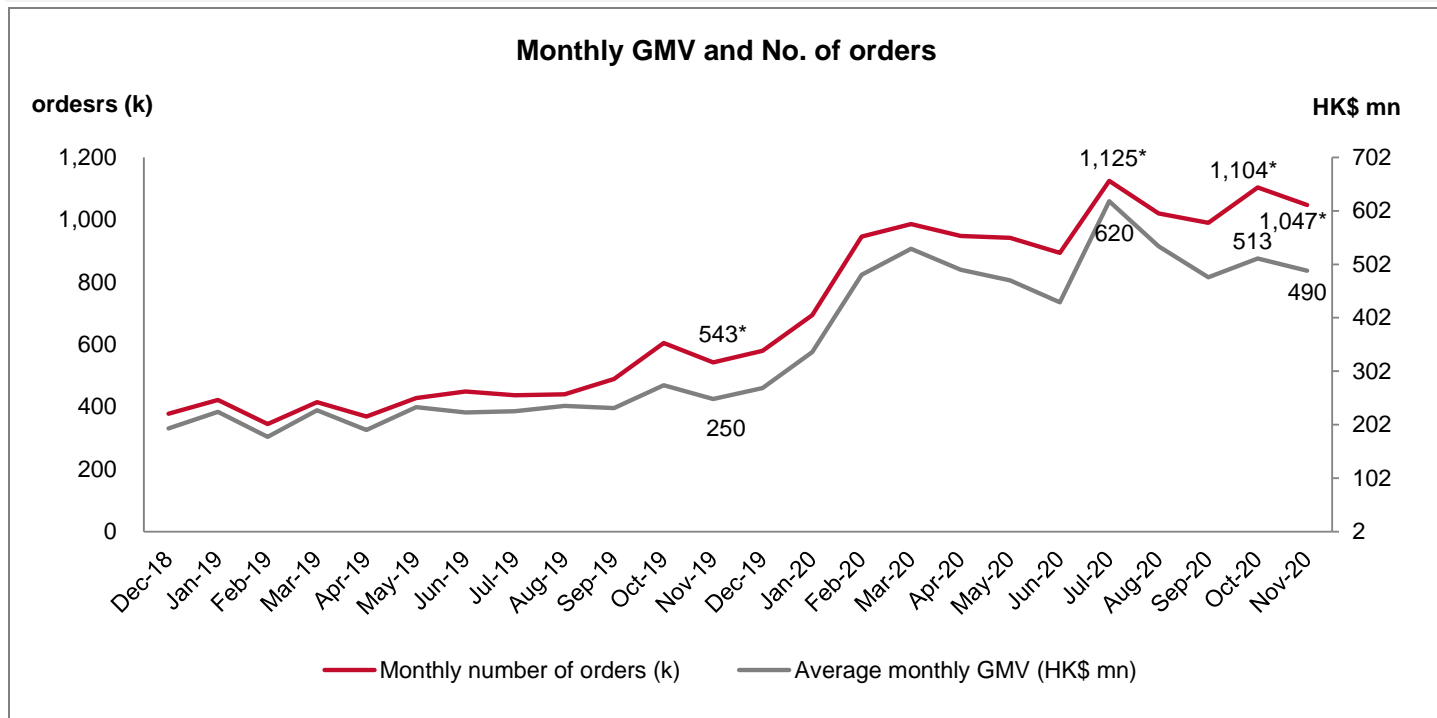
**Risks:** (1) prolonged recession and political uncertainty in Hong Kong; (2) unsuccessful overseas business expansion; (3) earlier bottlenecks in penetration

### Exhibit 1: Forecast and Valuation

Year to Dec (HKD mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	896.4	1,414.0	3,124.1	3,799.2	4,616.1
Growth (%)	84.0	57.7	120.9	21.6	21.5
EBITDA	(242.0)	(199.1)	373.8	527.0	728.9
Growth (%)	(9.8)	17.7	287.8	41.0	38.3
Net profit	(323.0)	(283.9)	275.7	419.0	607.2
Growth (%)	(56.0)	12.1	197.1	52.0	44.9
Diluted EPS (HK\$)	(0.359)	(0.316)	0.307	0.460	0.667
EPS growth (%)	(56.0)	12.1	197.1	49.9	44.9
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK\$)			0.278	0.400	
ROE (%)	(7.5)	(18.3)	15.2	17.5	20.9
EV/Rev (x)	10.6	7.1	3.3	2.6	2.0
EV/EBITDA (x)	(39.1)	(50.3)	27.8	19.0	13.0
P/E (x)	(32.7)	(37.2)	38.3	25.5	17.6

Source: Bloomberg, OP Research

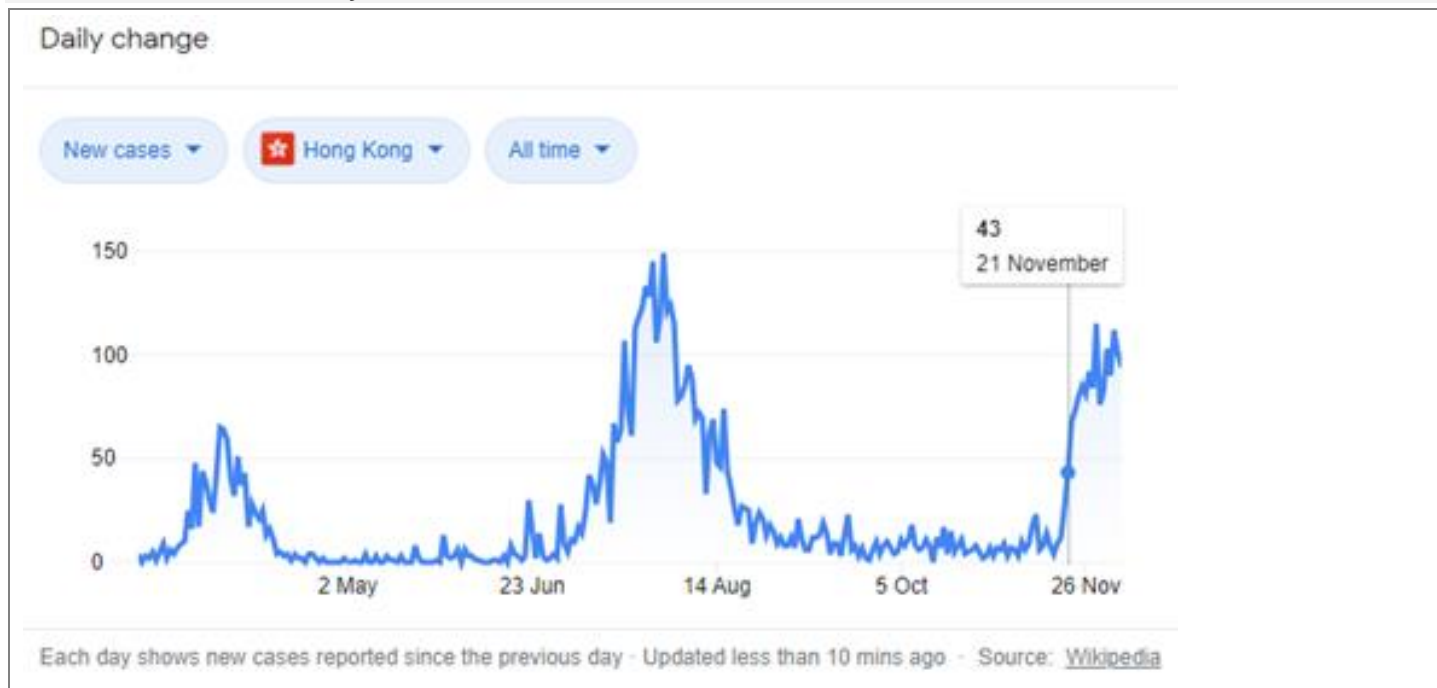
Exhibit 2: HKTVM monthly GMV and No. of orders



\*monthly number of orders are estimated by reported daily orders times days of the month.

Source: Company, OP Research

Exhibit 3: HK Covid-19 daily new cases broke out in later half of November



Source: Wikipedia, OP Research

## Financial Summary

Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
<b>Income Statement HK\$ mn</b>					
Direct merchandise	686	1,101	2,365	2,818	3,351
Concessionaire sales income	197	303	743	962	1,243
Net advertising & program licensing income	13	10	16	19	22
<b>Turnover</b>	<b>896</b>	<b>1,414</b>	<b>3,124</b>	<b>3,799</b>	<b>4,616</b>
YoY%	84.0	57.7	120.9	21.6	21.5
COGS	(539)	(853)	(1,703)	(2,029)	(2,413)
<b>Gross profit (blended)</b>	<b>358</b>	<b>561</b>	<b>1,421</b>	<b>1,770</b>	<b>2,203</b>
Gross margin (blended)	39.9%	39.7%	45.5%	46.6%	47.7%
Other income	46	54	62	64	66
Advertising & promotion	(75)	(66)	(78)	(95)	(115)
Admin & distribution	(662)	(827)	(1,118)	(1,299)	(1,514)
<b>Total opex</b>	<b>(738)</b>	<b>(893)</b>	<b>(1,196)</b>	<b>(1,394)</b>	<b>(1,629)</b>
<b>Operating profit (EBIT)</b>	<b>(333)</b>	<b>(278)</b>	<b>287</b>	<b>440</b>	<b>640</b>
Operating margin	-37.2%	-19.7%	9.2%	11.6%	13.9%
Provisions	162	0	0	0	0
FV chg on investment prop.	44	1	0	0	0
Interest Income	0	0	5	5	6
Finance costs	(5)	(13)	(13)	(13)	(13)
Profit after financing costs	(133)	(290)	278	432	633
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	(133)	(290)	278	432	633
Tax	(0)	0	(3)	(13)	(25)
Minority interests	0	0	0	0	0
<b>Net profit</b>	<b>(133)</b>	<b>(290)</b>	<b>276</b>	<b>419</b>	<b>607</b>
Net margin	-14.8%	-20.5%	8.8%	11.0%	13.2%
<b>Adj. net profit</b>	<b>(323)</b>	<b>(284)</b>	<b>276</b>	<b>419</b>	<b>607</b>
Adj. net margin	-36.0%	-20.1%	8.8%	11.0%	13.2%
YoY%	n.a.	n.a.	n.a.	52	45
<b>EBITDA</b>	<b>(242)</b>	<b>(199)</b>	<b>374</b>	<b>527</b>	<b>729</b>
EBITDA margin	-27.0%	-14.1%	12.0%	13.9%	15.8%
<b>EPS (HKD)</b>	<b>(0.164)</b>	<b>(0.355)</b>	<b>0.307</b>	<b>0.460</b>	<b>0.667</b>
YoY%	n.a.	n.a.	n.a.	50	45
DPS (HK\$)	0.000	0.000	0.000	0.000	0.000
<b>Cash Flow HK\$ mn</b>					
EBITDA	(242)	(199)	374	527	729
Chg in working cap	38	(19)	32	11	16
Others	(32)	45	0	0	0
<b>Operating cash</b>	<b>(236)</b>	<b>(172)</b>	<b>406</b>	<b>538</b>	<b>745</b>
Interest received	0	0	5	5	6
Tax	1	0	(3)	(13)	(25)
<b>Net cash from operations</b>	<b>(235)</b>	<b>(172)</b>	<b>408</b>	<b>530</b>	<b>726</b>
Capex	(140)	(140)	(110)	(140)	(150)
Investments	143	141	0	0	0
Asset disposal	329	0	0	0	0
Payment for leasehold	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests paid	39	33	0	0	0
Others	8	6	5	6	6
<b>Investing cash</b>	<b>378</b>	<b>40</b>	<b>(105)</b>	<b>(134)</b>	<b>(144)</b>
<b>FCF</b>	<b>143</b>	<b>(132)</b>	<b>303</b>	<b>396</b>	<b>582</b>
Issue of shares	8	9	453	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	0	0	0	0	0
Interest paid	(5)	(4)	(13)	(13)	(13)
Net change in bank loans	(140)	236	0	0	0
Others	0	(65)	(4)	0	0
<b>Financing cash</b>	<b>(138)</b>	<b>176</b>	<b>436</b>	<b>(13)</b>	<b>(13)</b>
<b>Net change in cash</b>	<b>6</b>	<b>44</b>	<b>739</b>	<b>383</b>	<b>569</b>
Exchange rate or other Adj	(0)	(0)	0	0	0
Opening cash	100	106	150	889	1,272
<b>Closing cash</b>	<b>106</b>	<b>150</b>	<b>889</b>	<b>1,272</b>	<b>1,841</b>
<b>CFPS (HK\$)</b>	<b>0.177</b>	<b>-0.162</b>	<b>0.337</b>	<b>0.435</b>	<b>0.639</b>

Source: Company, OP Research

Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
<b>Ratios</b>					
Gross margin (%) - blended	39.9	39.7	45.5	46.6	47.7
Operating margin (%)	(37.2)	(19.7)	9.2	11.6	13.9
Net margin (%)	(14.8)	(20.5)	8.8	11.0	13.2
Net adj. margin (%)	(36.0)	(20.1)	8.8	11.0	13.2
Admin & distr. exp/GMV (%)	36.1	30.6	19.7	18.3	17.1
Staff exp/GMV (%)	16.0	14.7	9.4	8.8	8.3
A&P/GMV (%)	4.1	2.4	1.4	1.3	1.3
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Effective tax (%)	(0.3)	0.0	1.0	3.0	4.0
Total debt/equity (%)	4.6	41.2	27.4	23.0	18.6
Net debt/equity (%)	Net cash	30.6	Net cash	Net cash	Net cash
Current ratio (x)	0.6	0.6	1.4	1.7	2.2
Quick ratio (x)	0.5	0.4	1.2	1.5	1.9
Inventory T/O (days)	37	41	39	39	39
AR T/O (days)	29	23	19	19	19
AP T/O (days)	99	72	72	72	72
Cash conversion cycle (days)	(33)	(8)	(14)	(14)	(14)
Asset turnover (x)	0.4	0.6	1.1	1.1	1.1
Financial leverage (x)	1.2	1.4	1.6	1.5	1.4
EBIT margin (%)	(37.2)	(19.7)	9.2	11.6	13.9
Interest burden (x)	0.4	1.0	1.0	1.0	1.0
Tax burden (x)	1.0	1.0	1.0	1.0	1.0
<b>Return on equity (%)</b>	<b>(7.5)</b>	<b>(18.3)</b>	<b>15.2</b>	<b>17.5</b>	<b>20.9</b>
<b>ROIC (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>15.0</b>	<b>22.4</b>	<b>31.6</b>
<b>Balance Sheet HK\$ mn</b>					
Fixed assets	1,115	1,410	1,447	1,510	1,579
Intangible assets & goodwill	89	74	61	51	42
Associated companies & JVs	0	0	(6)	(12)	(18)
Long-term investments	5	25	26	26	26
Other non-current assets	657	472	475	475	475
<b>Non-current assets</b>	<b>1,866</b>	<b>1,980</b>	<b>2,002</b>	<b>2,049</b>	<b>2,104</b>
Inventories	54	96	182	217	258
AR	71	90	163	198	240
Prepayments & deposits	0	0	0	0	0
Other current assets	29	87	89	89	89
Cash	106	150	889	1,272	1,841
<b>Current assets</b>	<b>261</b>	<b>423</b>	<b>1,323</b>	<b>1,776</b>	<b>2,428</b>
AP	146	169	336	400	476
Tax	0	0	1	0	0
Accruals & other payables	185	178	203	220	245
Bank loans & leases	79	401	401	401	401
CB & othe debts	0	0	0	0	0
Other current liabilities	6	6	6	6	6
<b>Current liabilities</b>	<b>417</b>	<b>754</b>	<b>947</b>	<b>1,028</b>	<b>1,128</b>
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	1	198	198	198	198
MI	0	0	0	0	0
<b>Non-current liabilities</b>	<b>1</b>	<b>198</b>	<b>198</b>	<b>198</b>	<b>198</b>
<b>Total net assets</b>	<b>1,708</b>	<b>1,452</b>	<b>2,180</b>	<b>2,599</b>	<b>3,206</b>
<b>Shareholder's equity</b>	<b>1,708</b>	<b>1,452</b>	<b>2,180</b>	<b>2,599</b>	<b>3,206</b>
Share capital	1,280	1,293	1,293	1,293	1,293
Reserves	428	158	887	1,306	1,913
<b>BVPS (HK\$)</b>	<b>2.11</b>	<b>1.78</b>	<b>2.39</b>	<b>2.85</b>	<b>3.52</b>
Total debts	79	598	598	598	598
Net cash/(debts)	30	(444)	295	678	1,247
<b>Key assumption (mn)</b>					
GMV	1,891	2,779	5,845	7,306	9,133
GPM direct MDSE (%)	21.5%	22.5%	28.0%	28.0%	28.0%
Commission rate (%)	17.6%	19.2%	23.0%	23.0%	23.0%
GMV mix of direct MDSE	39%	42%	43%	41%	39%

**Exhibit 4: Peer Group Comparison**

Company	Ticker	Price	Mkt cap 3-mth avg (US\$m)/o (US\$m)	EV/rev Hist (x)	EV/rev FY1 (x)	EV/rev FY2 (x)	Rev FY1 YoY%	Rev-FY2 YoY%	3-Yr rev Cagr (%)	EV/ Ebitda	EV/ Ebitda	P/B Hist	P/B FY1	Net gearing	Gross margin	Net margin	ROE Hist	ROE FY1	Sh px	Sh px	
										Hist	Cur Yr	(x)	(x)	Hist (%)	Hist (%)	Hist (%)	(%)	(%)	1mth%	3mth%	
Hong Kong Televi	1137 HK	11.74	1,380	10.8	7.1	3.3	2.6	120.9	21.6	48.3	(50.3)	27.8	6.6	4.9	30.6	22.5	(20.5)	(18.3)	15.2	(1.3)	9.7
HSI		26,506.85			16.2	15.4	13.0	5.5	18.7	12.6			1.2	1.27				7.5	8.3	3.1	7.6
HSCEI		10,473.32			11.1	11.1	9.9	(0.1)	12.9	8.2			1.2	1.22				11.0	10.9	-0.2	6.5
CSI300		5,022.23			19.1	17.2	14.6	11.2	17.6				2.2	2.1				11.5	12.1	2.8	7.0
<b>Adjusted sector avg*</b>					<b>17.3</b>	<b>10.8</b>	<b>7.6</b>	<b>47.4</b>	<b>27.2</b>	<b>35.4</b>	<b>38.1</b>	<b>93.1</b>	<b>10.0</b>	<b>17.6</b>	<b>7.3</b>	<b>45.4</b>	<b>1.0</b>	<b>17.0</b>	<b>7.9</b>	<b>(5.1)</b>	<b>9.9</b>
Amazon.Com Inc	AMZN US	3,158.00	1,584,530	15,892.1	5.7	4.3	3.6	35.2	18.5	23.5	40.3	29.6	19.0	17.2	36.3	41.0	4.1	25.0	23.1	(4.6)	(4.1)
Mercadolibre Inc	MELI US	1,575.60	78,428	648.1	33.4	20.0	14.6	66.5	36.9	47.4	(1,522.4)	285.4	44.9	41.1	0.0	48.0	(7.5)	(0.2)	3.4	6.0	45.4
Alibaba Grp-Adr	BABA US	264.00	714,288	4,899.2	8.5	6.2	4.7	37.0	30.6	29.2	30.9	20.9	5.4	4.8	0.0	44.6	29.3	18.1	17.9	(12.0)	(6.2)
Pinduoduo Inc	PDD US	146.79	180,644	907.4	37.8	22.3	14.3	69.9	55.2	53.0	(144.2)	(177.8)	N/A	49.4	0.0	79.0	(23.1)	N/A	(21.8)	28.2	72.6
Jd.Com Inc-Adr	JD US	83.49	130,653	978.6	1.4	1.1	0.9	28.3	22.9	23.6	43.1	36.5	5.6	7.1	0.0	14.6	2.1	25.4	16.9	(9.7)	4.4
Ebay Inc	EBAY US	50.03	34,488	459.0	3.6	3.8	3.5	(5.4)	7.2	3.3	12.0	10.2	11.8	13.7	195.0	76.8	16.5	173.8	130.0	(1.3)	(4.8)
Ocado Group Plc	OCDO LN	2,192.00	21,579	3,012.8	9.1	6.8	5.8	33.9	16.8	22.1	344.0	275.8	14.8	11.6	0.0	33.7	(12.1)	(17.2)	(13.9)	(15.0)	(6.5)

\* Outliners and "N/A" entries are in red and excl. from the calculation of averages

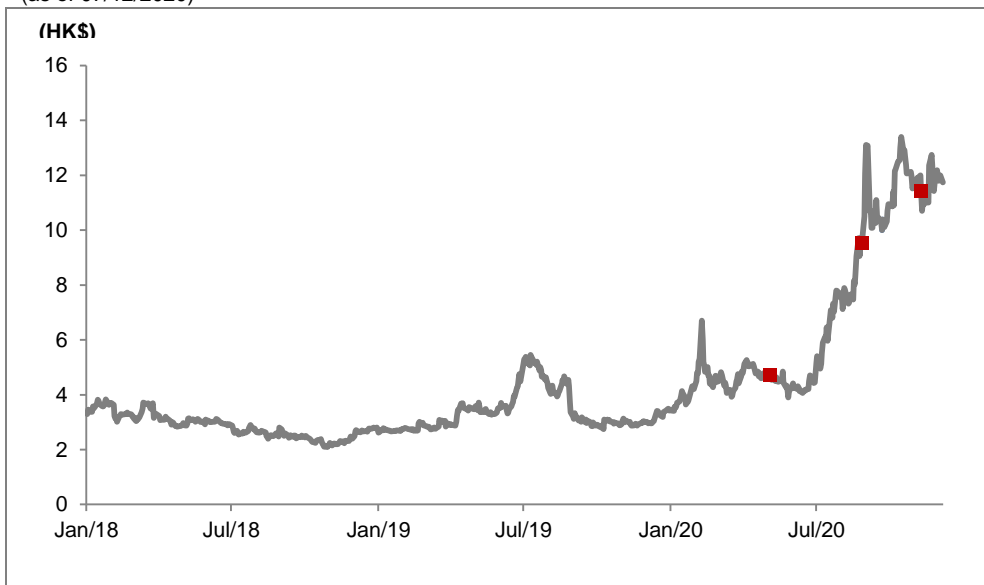
Source: Bloomberg, OP Research

## Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
20/11/2020	China Edu Group	839	A fast rising education giant grabbing ample opportunities in China education market	BUY	John Siah
19/11/2020	Ausnutria Dairy	1717	More to expect from FY21E	BUY	Megan Jin
11/11/2020	Edvantage Group	382	Robust organic growth with more boosters ahead	BUY	Megan Jin
10/11/2020	HKTV	1137	All fronts speeding up	BUY	Kevin Tam/Megan Jin
05/11/2020	TCL Electronics	1070	Falcom Network as a cream on top	BUY	Kevin Tam
02/11/2020	Razer	1337	Winner from "stay-at-home" life	NR	John Siah
27/10/2020	Greentown Mgmt	9979	New treasures in the property market	BUY	John Siah
21/10/2020	Li-Ning	2331	Resumed store openings bodes full recovery	BUY	Megan Jin
19/10/2020	Xtep Intl	1368	Recovery speeded up	BUY	Megan Jin
16/10/2020	Anta Sports	2020	More visible outlook of full revival	HOLD	Megan Jin
16/10/2020	Kerry Logistics	636	Grabbing opportunities in spite of COVID headwind	NR	Kevin Tam
15/10/2020	Edvantage Group	382	Room of more earnings surprise	BUY	Megan Jin
08/10/2020	Innovent	1801	PD-1 front runner setting off	BUY	Kevin Tam
01/09/2020	Yeahka	9923	1H20 soft patch, but still encouraging growth in technology services	HOLD	Kevin Tam
31/08/2020	Xtep Intl	1368	More confident on new brands and 2H20E recovery	BUY	Megan Jin
28/08/2020	HKTV	1137	Management vision beyond domestic e commerce	BUY	Kevin Tam/Megan Jin
27/08/2020	CG Services	6098	Leader aims higher	BUY	Megan Jin
26/08/2020	Anta Sports	2020	Less foreseeable catalysts	HOLD	Megan Jin
24/08/2020	GT Services	2869	1H20 steady on track	HOLD	Megan Jin
21/08/2020	A-Living	3319	Undervalued acquisition synergies	BUY	Megan Jin
20/08/2020	Sunny Optical	2382	Less convincing earnings outlook	HOLD	Kevin Tam
17/08/2020	Ausnutria Dairy	1717	2Q20 fluctuations to be under control by 4Q20	BUY	Megan Jin
17/08/2020	Li-Ning	2331	Well positioned to capture consumption recovery	BUY	Megan Jin
12/08/2020	China Youzan	8083	Robust momentum kept up	BUY	Megan Jin
14/08/2020	S-Enjoy Service	1755	3rd party expansion speeding up	BUY	Megan Jin
30/07/2020	Viva Biotech	1873	Biotech PE model to reap more long term return	NR	Kevin Tam
22/07/2020	Xtep Intl	1368	Uncertainties on new brands remain but worst is seen	BUY	Megan Jin

### Historical recommendations and target price: HKTV (1137 HK)

(as of 07/12/2020)



	DATE	RATING	TARGET PRICE	CLOSE PRICE
1	05 May 2020	BUY	HK\$7.00	HK\$4.64
2	28 Aug 2020	BUY	HK\$15.00	HK\$9.52
3	10 Nov 2020	BUY	HK\$17.00	HK\$12.00



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