



中國通海證券
CHINA TONGHAI SECURITIES

Activation Group (9919 HK)

Anticipating a solid recovery next year

Earnings Revision

Affected by the lockdown in Mainland China in 1H22, a number of premium and luxury brand events have been put on hold or postponed. However, Activation has successfully engaged in over 100 new projects in the 2H22, with various operating indicators recovering and improving in an orderly manner. According to the management, its business has resumed to normal in July 2022, as compared with the same month in 2021. We have lowered our forecasts on the company for 2022&23E to reflect changes in business outlook and the macroeconomic environment. We reiterate our BUY rating with a revised TP of HK\$2.01 based on a 12x 2023E P/E, implying 105% upside potential.

Business in 1H22 was severely affected by the lockdown: 1H22 results were hit by various negative factors, which include: (i) lockdown and a range of social distancing measures implemented in various cities in China; and (ii) temporary suspension of clients' business causing cancellations or postponements in large scale events and exhibitions, resulting in a 55.1% y/y decrease in revenue to RMB172.8mn. Revenue from experiential marketing services decreased by 61.1% y/y and accounted for 62.3% of the total, while revenue from digital and communication services dropped 33.9% y/y and accounted for 37.7% of the total. Hence, the company reported a net loss of RMB8.5mn for 1H22, compared to a profit of RMB35.5mn in 1H21.

Leading market position unchanged: Activation has accumulated a pool of over 500 renowned global brands, including BVLGARI, CHANEL, DIOR, GUCCI, LOUIS VUITTON, PRADA, VERSACE, AUDEMARS PIGUET, BLANCPAIN, AUDI, BMW, Mercedes-Benz, Tiffany & Co., etc. Looking forward to the 2H22, the company will continue to seize market opportunities aiming to achieve steady progress. Despite the temporary setback, we believe that luxury brands will continue to push massive advertising and promotional activities in China in the upcoming years. As a leading data interactive marketing group for pan-fashion brands in Greater China and offering one-stop data interactive marketing services, Activation is expected to bring extensive online exposure to pan-fashion brand customers and become the world's leading pan-fashion brand data interactive marketing group.

Reiterate BUY and adjust TP to HK\$2.01: We reiterate our BUY rating for Activation with a revised TP of HK\$2.01 based on an unchanged 12x target P/E for 2023E. Despite the setback this year, we believe such valuation is justified as we believe normalization of the Chinese economy would sustain a recovery similar to that of 2021, which would sustain 2022-24E NP CAGR of 71.1%, backed by its rich customer base and the solid potential of a new livestreaming e-commerce initiative. Nevertheless, we have factored in the slowdown of the global economy and the depreciation of the RMB.

Key catalysts: Faster-than-expected growth on its livestreaming e-commerce GMV; faster-than-expected growth of luxury consumption in Mainland China; higher-than-expected marketing budget of premium brands in Mainland China.

Key risks: Failure to execute its strategic upgrades; slower-than-expected growth on its livestreaming e-commerce GMV; regulation risk on livestreaming e-commerce.

Activation's Key Financials

(RMB'mn)	2020	2021	2022E	2023E	2024E
Revenue	458	904	663	1,039	1,221
Growth	-30.8%	97.4%	-26.7%	56.7%	17.4%
Profit before tax	39	145	66	158	192
Growth	-42.3%	275.2%	-54.6%	140.4%	21.8%
Attributable net profit	23	92	44	107	130
Growth	-21.8%	294.9%	-52.0%	140.4%	21.8%
PER (x)	27.5	6.7	14.1	5.9	4.8
Dividend Yield	0.0%	10.2%	1.4%	3.4%	4.2%

Source: Company Data, China Tonghai estimates

Equity Research
Digital Marketing

22 Aug 2022

Ticker	9919 HK
Stock Rating	BUY
Industry View	POSITIVE
Price Target (HK\$)	2.01
Price (22-Aug-2022)	HK\$ 0.98
Potential	105%
Upside/Downside	Upside
Market Cap (HK\$m)	731.0
Shares Outstanding (mn)	746.0
Free Float (%)	15.0
3M Avg Daily Turnover (HK\$m)	0.41
52 Week range	HK\$ 0.94-2.03



Source: Bloomberg

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ADJUSTING 2022&23E FORECASTS

In order to reflect the company's business outlook and the changes in the macroeconomic environment, we have adjusted our forecast on Activation for 2022&23E.

In 1H22, Beijing, Shanghai and Shenzhen have experienced economic downturn due to the worsening of the pandemic outbreak. We have revised down the company's top-line growth for 2022-23E. In sum, we expect the total revenue of the company to be fully recover in 2023E and outpace the revenue recorded in 2021.

We expect GPM to be stable at around 30% in 2022-24E, as it managed to improve it to 30.5% in 1H22, compared to 28.7% and 29.6% in 2020 and 2021, respectively.

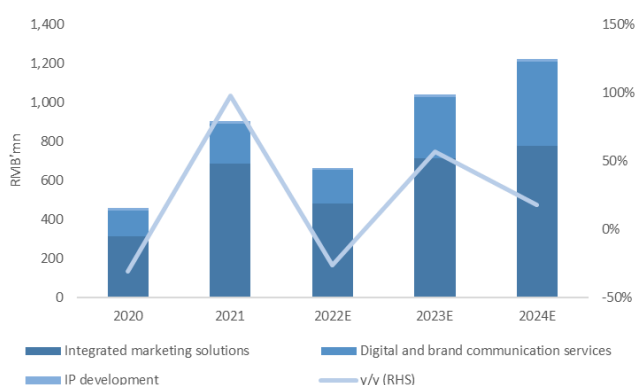
Although its financials would be affected in 2022E, we expect Activation to recover in 2H22 with revenue and earnings in 2023E to exceed the level in 2021. We expect net margin to improve to 10.3% in 2023E, from 10.2% in 2021 and 6.7% in 2022E. Thus, we expect the company to achieve strong growth in net profit (2022-24E CAGR of 71.1%), reaching RMB130mn in 2024E.

Figure 1. Activation – Key financials, 2020-2024E

RMB'mn	2020	2021	2022E	2023E	2024E
Revenue	458.0	904.1	663.1	1,039.3	1,220.6
Gross margin	28.7%	29.6%	30.0%	30.2%	30.3%
Selling and distribution expenses to turnover ratio	13.3%	9.5%	14.0%	9.8%	9.2%
General and administrative expenses to turnover ratio	9.1%	4.7%	8.6%	6.8%	6.7%
Profit before tax	38.6	144.6	65.7	158.0	192.4
Net profit	25.2	102.6	49.3	118.5	144.3
Net margin	5.5%	11.3%	7.4%	11.4%	11.8%
Attributable net profit	23.4	92.5	44.4	106.7	129.9
Attributable net margin	5.1%	10.2%	6.7%	10.3%	10.6%

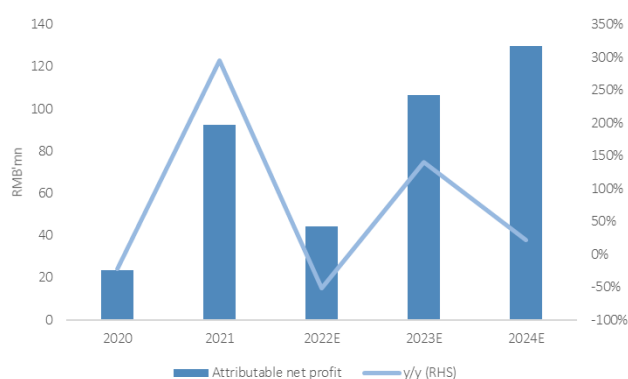
Source: Company data, China Tonghai estimates

Figure 2. Activation – Revenue and y/y growth, 2020-24E



Source: Company Data, China Tonghai estimates

Figure 3. Activation – Attributable net profit and y/y growth, 2020-24E



Source: Company Data, China Tonghai estimates

VALUATION

Maintain Buy rating with a revised TP of HK\$2.01

We maintain our BUY rating for Activation with a revised TP of HK\$2.01 based on 12x 2023E P/E, as we roll forward our valuation to 2023E based on the same 12x target P/E. Such TP implied 105% upside potential from current levels. Such valuation is supported by our expectation for its NP CAGR of 71.1% in 2022-24E. On the back of our expected earnings recovery, we believe Activation's share price is heading for a re-rating.

We believe such valuation is justified by (i) the company's leading market position; (ii) the massive potential for its new livestreaming e-commerce business; (iii) the solid growth of consumption power on luxury products in Mainland China in the near future; and (iv) increasing marketing budget of premium brands in Mainland China on the back of the recovery from the pandemic-hit results this year.

We assume the payout ratio of Activation to be no less than 20% in the coming few years as the company is expected to generate strong cash flow. This assumption gives us an expected DPS of 3.35 HK cents in 2023E, representing an expected yield of about 3.4% at the current price.

Figure 4. Activation – Target P/E valuation

RMB'mn	Valuation
2023E Attributable net profit	106.7
Target P/E multiple	12x
Total valuation	1,280
Total diluted shares	745,968,000
Exchange rate (RMB/HKD)	1.17
Target price (HK\$)	2.01

Source: China Tonghai estimates

Figure 5. Activation – Target P/E valuation

PE Ratio (x)	Changes on 2023E earnings forecasts						
	-15%	-10%	-5%	0%	5%	10%	15%
9.0	1.28	1.35	1.43	1.51	1.58	1.66	1.73
10.0	1.42	1.51	1.59	1.67	1.76	1.84	1.92
11.0	1.56	1.66	1.75	1.84	1.93	2.02	2.12
12.0	1.71	1.81	1.91	2.01	2.11	2.21	2.31
13.0	1.85	1.96	2.07	2.17	2.28	2.39	2.50
14.0	1.99	2.11	2.22	2.34	2.46	2.58	2.69
15.0	2.13	2.26	2.38	2.51	2.63	2.76	2.89

Source: China Tonghai estimates

FINANCIAL STATEMENTS

Activation Group

Income statement (RMB'mn)	2020	2021	2022E	2023E	2024E	Cashflow statement (RMB'mn)	2020	2021	2022E	2023E	2024E
Revenue	458.0	904.1	663.1	1,039.3	1,220.6	EBITDA	46.4	153.6	50.3	142.7	177.3
Cost of goods sold	(326.3)	(636.8)	(464.2)	(725.4)	(850.8)	Others	0.8	0.2	16.7	16.7	16.7
Gross profit	131.7	267.3	198.9	313.9	369.9	Change in working capital	(64.1)	55.5	(41.9)	59.3	(40.3)
Operating expenses	(102.7)	(128.5)	(149.9)	(172.5)	(194.1)	Tax paid	(12.2)	(33.9)	(16.4)	(39.5)	(48.1)
Other items, net	12.6	10.3	12.7	12.7	12.7	Operating cash flow	(29.1)	175.4	8.6	179.2	105.5
EBIT	41.6	149.1	61.7	154.0	188.4	Capex	(1.0)	(4.4)	(1.2)	(1.3)	(1.4)
Finance costs	(2.5)	(0.6)	0.0	0.0	0.0	Others	11.6	4.8	0.0	0.0	0.0
Pre-tax profit	(0.5)	(3.8)	4.0	4.0	4.0	Investing cash flow	10.6	0.3	(1.2)	(1.3)	(1.4)
Tax	38.6	144.6	65.7	158.0	192.4	Change in borrowings	(74.8)	0.0	0.0	0.0	0.0
Minority Interest	(13.3)	(42.1)	(16.4)	(39.5)	(48.1)	Others	199.7	(68.9)	(8.9)	(21.3)	(26.0)
Attributable profits	1.8	10.1	4.9	11.9	14.4	Financing cash flow	124.9	(68.9)	(8.9)	(21.3)	(26.0)
Net profit	23.4	92.5	44.4	106.7	129.9	Net change in cash	106.4	106.8	(1.4)	156.6	78.1
						Free cash flow	(30.1)	170.9	7.5	177.9	104.1
Per Share Items (HK cent)	2020	2021	2022E	2023E	2024E						
Diluted EPS	3.6	14.6	7.0	16.7	20.4	Ratio Analysis	2020	2021	2022E	2023E	2024E
DPS	0.0	10.0	1.4	3.3	4.1	Growth (YoY%)					
BVPS	56.7	67.9	73.7	88.9	107.5	Revenue	(30.8)	97.4	(26.7)	56.7	17.4
						EBIT	(42.1)	258.4	(58.6)	149.5	22.4
Balance sheet (RMB'mn)	2020	2021	2022E	2023E	2024E	Attributable profit	(21.8)	294.9	(52.0)	140.4	21.8
PPE	1.9	5.3	5.2	5.2	5.1	Diluted EPS	(38.9)	310.2	(52.5)	140.4	21.8
Intangible assets	0.4	0.4	0.4	0.4	0.4	Margins (%)					
Other non-current assets	29.0	19.8	19.8	19.8	19.8	Gross profit margin	28.7	29.6	30.0	30.2	30.3
Inventories	0.0	0.0	0.0	0.0	1.0	EBIT margin	9.1	16.5	9.3	14.8	15.4
Trade receivables	222.7	231.7	186.1	223.9	244.3	Net profit margin	5.1	10.2	6.7	10.3	0.0
Cash and equivalents	302.9	405.8	404.4	561.0	639.1	Other ratios (%)					
Other current assets	31.7	33.2	33.2	33.2	33.2	Return on assets	5.3	16.0	7.3	15.9	16.2
Total assets	588.6	696.2	649.2	843.5	942.9	Return on equity	11.3	25.6	11.0	22.9	23.0
Long-term borrowings	0.0	0.0	0.0	0.0	1.0	ROIC	6.3	21.5	9.4	18.8	18.9
Other non-current liabilities	9.4	7.5	7.5	7.5	7.5	Net debt to equity	(81.3)	(94.5)	(86.1)	(98.9)	(93.1)
Accounts payable	143.5	221.8	134.3	231.4	211.5	Interest coverage (x)	16.5	243.2	N/A	N/A	N/A
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Valuation measures ratios					
Other current liabilities	62.9	57.6	57.6	57.6	57.6	PER (x)	27.5	6.7	14.1	5.9	4.8
Total liabilities	215.8	286.8	199.4	296.5	277.6	PBR (x)	1.7	1.4	1.3	1.1	0.9
Total shareholders' equity	359.9	406.3	441.8	527.1	631.0	Dividend yield (%)	0.0%	10.2%	1.4%	3.4%	4.2%
Minority interests	12.9	23.1	28.0	39.9	54.3						
Total equity	372.8	429.4	469.8	567.0	685.4						

Source: Company Data, China Tonghai estimates

Note: FY End 31 Dec

Rating Definitions	Disclaimer and Risk Statement
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HOLD We expect the stock to have a total return of < 10% and >-10% over the next 12 months	
SELL We expect the stock to have a total return of < -10% over the next 12 months	
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