



Activation Group (9919 HK)

1H23 Results in line, TP raised to HK\$2.18

Results Commentary & Earnings Revision

Thanks to the easing of pandemic prevention measures in China since the beginning of 2023, economic activities have gradually returned to normal, particularly in the service industry and consumption. Activation has successfully seized the opportunities and achieved significant growth in 1H23, with revenue doubled to RMB350.3mn. It also recorded RMB38.1mn of profit, compared to a loss of RMB8.5mn in the same period last year, which is in-line with our forecast considering the seasonality effect. An interim DPS of 2.0 HK cents was declared. Although we have trimmed our forecasts on the company for 2023E & 2024E to reflect the challenging macroeconomic environment, we reiterate our BUY rating on Activation with a new TP of HK\$2.18 based on 12x 2024E P/E, implying 74.4% upside potential.

Solid recovery in 1H23: Although the economic activities in Mainland China and the operations of the company were severely impacted by the COVID-19 pandemic in 1H22, the mid-range and high-end consumer market has shown a steadily increasing trend, which has been further propelled post-pandemic, leading to strong rebound of the luxury goods marketing industry. Customers' demand for experiential saw a solid recovery, resulting in a 102.7% y/y increase in revenue to RMB350.3mn. Revenue from experiential marketing services rocketed 160.4% y/y and accounted for 80.0% of revenue. Revenue from digital and communication services dropped 5.5% y/y and accounted for 17.6% of total revenue, as some clients have reallocated more marketing budgets to offline marketing activities after the end of the pandemic. With strict control of operating expenses, the company reported RMB38.1mn of profit for 1H23, compared to a net loss of RMB8.5mn in 1H22. Considering the seasonality effect, its 1H23 results were in line with our estimates.

Leading pan-fashion brand marketing group: Activation is the largest experiential marketing service provider for mid-range to high-end fashion brands in Greater China with a market share of 10.0% in 2022. It has accumulated a pool of over 550 renowned global brands, including BVLGARI, CHANEL, DIOR, GUCCI, LOUIS VUITTON, LOEWE, IWC, AUDEMARS PIGUET, ASTON MARTIN, BMW, Mercedes-Benz, Cartier, etc. Looking into 2H23, the company will continue to monitor market developments and optimise its services to fulfil market demands, while leveraging its competitive advantages to offer one-stop data interactive marketing services and bring extensive online exposure to pan-fashion brand customers.

Reiterate BUY and new TP of HK\$2.18: We reiterate our BUY rating with an upgraded TP of HK\$2.18 (Previous: HK\$2.01) based on an unchanged 12x target P/E for 2024E, as we rolled forward the valuation. We believe the valuation is justified as we believe normalization of the Chinese economy would sustain Activation's recovery in 2H23 and the years ahead, which would sustain 2022-25E NP CAGR of 84.1%, backed by its rich customer base and its leading data interactive marketing business. An interim DPS of 2.0 HK cents was declared, and we believe Activation will maintain a stable payout policy of no less than 35% per year, backed by its debt-free financial position and net cash of RMB313.2mn on hand (i.e., 37% of market cap).

Activation's Key Financials

(RMB'mn)	2021	2022	2023E	2024E	2025E
Revenue	904	695	921	1,061	1,199
Growth	97.4%	-23.1%	32.6%	15.2%	13.0%
Profit before tax	145	56	145	180	214
Growth	275.2%	-61.5%	161.2%	23.5%	18.9%
Attributable net profit	92	24	100	124	147
Growth	294.9%	-74.4%	324.7%	23.5%	18.9%
PER (x)	9.2	35.7	8.5	6.9	5.8
Dividend Yield	8.0%	18.2%	4.1%	5.1%	6.0%

Source: Company Data, Quam Securities estimates

Equity Research

Digital Marketing

14 Aug 2023

Ticker	9919 HK
Stock Rating	BUY
Industry View	POSITIVE
Price Target (HK\$)	2.18
Price (14-Aug-2023)	HK\$ 1.25
Potential	74%
Upside/Downside	Upside
Market Cap (HK\$m)	930.9
Shares Outstanding (mn)	744.7
Free Float (%)	32.4
3M Avg Daily Turnover (HK\$m)	1.41

52 Week range HK\$ 0.74-1.60
HSI 18,773.55



Source: Bloomberg

Edwin Poon

(852) 2971 5432

Edwin.poon@quamgroup.com

ADJUSTING 2023&24E 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 2023&24E.

Overall, China's economy has been recovering in 1H23. However, China is currently still in the recovery stage of economic operations and the critical stage of industrial upgrading, whilst the external environment is still challenging. We have trimmed our forecast top-line growth for 2023-24E. In sum, we expect revenue and profit of the company to be fully recovered in 2023E and outpace the level recorded in 2021.

We expect GPM to be stable at around 30% in 2023-24E, as it managed to improve it to 30.0% in 1H23, compared to 29.6% and 29.1% in 2020 and 2021, respectively.

We expect net margin to improve to 10.9% in 2023E, from 10.2% in 2021 and 3.4% in 2022. Thus, we expect the company to achieve strong growth in net profit (2022-25E CAGR of 84.1%), reaching RMB147mn in 2025E.

Figure 1. Activation – Key financials, 2021-2025E

RMB'mn	2021	2022E	2023E	2024E	2025E
Revenue	904.1	694.8	921.0	1,060.6	1,198.9
Gross margin	29.6%	29.1%	30.2%	30.3%	30.3%
Selling and distribution expenses to turnover ratio	9.5%	12.4%	9.4%	8.7%	8.2%
General and administrative expenses to turnover ratio	4.7%	9.5%	6.2%	5.7%	5.2%
Profit before tax	144.6	55.7	145.5	179.6	213.6
Net profit	102.6	28.2	109.1	134.7	160.2
Net margin	11.3%	4.1%	11.8%	12.7%	13.4%
Attributable net profit	92.5	23.6	100.4	123.9	147.4
Attributable net margin	10.2%	3.4%	10.9%	11.7%	12.3%

Source: Company data, Quam Securities estimates

Figure 2. Activation – Valuation

RMB'mn	Valuation
2024E Attributable net profit	123.9
Target P/E multiple	12x
Total valuation	1,487
Total diluted shares	744,742,000
Exchange rate (RMB/HKD)	1.09
Target price (HK\$)	2.18

Source: Company data, Quam Securities estimates

FINANCIAL STATEMENTS

Activation Group

Income statement (RMB'mn)	2021	2022E	2023E	2024E	2025E	Cashflow statement (RMB'mn)	2021	2022E	2023E	2024E	2025E
Revenue	904.1	694.8	921.0	1,060.6	1,198.9	EBITDA	153.6	51.4	135.8	170.1	204.3
Cost of goods sold	(636.8)	(492.6)	(642.9)	(739.2)	(835.6)	Others	0.2	6.1	13.0	13.0	13.0
Gross profit	267.3	202.2	278.2	321.4	363.3	Change in working capital	55.5	(9.3)	62.2	(24.3)	52.3
Operating expenses	(128.5)	(152.1)	(143.7)	(152.7)	(160.7)	Tax paid	(33.9)	(27.5)	(36.4)	(44.9)	(53.4)
Other items, net	10.3	5.8	13.0	13.0	13.0	Operating cash flow	175.4	20.7	174.7	113.9	216.1
EBIT	149.1	55.9	147.5	181.6	215.6	Capex	(4.4)	(1.2)	(1.3)	(1.4)	(1.6)
Finance costs	(0.6)	(0.5)	(2.0)	(2.0)	(2.0)	Others	4.8	0.0	0.0	0.0	0.0
JV and associates	(3.8)	0.3	0.0	0.0	0.0	Investing cash flow	0.3	(1.2)	(1.3)	(1.4)	(1.6)
Pre-tax profit	144.6	55.7	145.5	179.6	213.6	Change in borrowings	0.0	0.0	0.0	0.0	0.0
Tax	(42.1)	(27.5)	(36.4)	(44.9)	(53.4)	Others	(68.9)	(123.9)	(37.1)	(45.4)	(53.6)
Minority Interest	10.1	4.6	8.7	10.8	12.8	Financing cash flow	(68.9)	(123.9)	(37.1)	(45.4)	(53.6)
Attributable profits	92.5	23.6	100.4	123.9	147.4	Net change in cash	106.8	(104.4)	136.3	67.1	161.0
Net profit	102.6	28.2	109.1	134.7	160.2	Free cash flow	170.9	19.5	173.4	112.5	214.5
Per Share Items (HK cent)	2021	2022E	2023E	2024E	2025E	Ratio Analysis	2021	2022E	2023E	2024E	2025E
Diluted EPS	13.6	3.5	14.7	18.1	21.6	Growth (YoY%)					
DPS	10.0	22.7	5.1	6.3	7.6	Revenue	97.4	(23.1)	32.6	15.2	13.0
BVPS	63.3	52.4	62.6	75.9	91.8	EBIT	258.4	(62.5)	163.8	23.2	18.7
Balance sheet (RMB'mn)	2021	2022E	2023E	2024E	2025E	Attributable profit	294.9	(74.4)	324.7	23.5	18.9
PPE	5.3	6.4	5.2	5.1	5.0	Diluted EPS	310.2	(74.3)	319.4	23.5	18.9
Intangible assets	0.4	0.3	0.3	0.3	0.3	Margins (%)					
Other non-current assets	39.8	79.1	79.1	79.1	79.1	Gross profit margin	29.6	29.1	30.2	30.3	30.3
Inventories	0.0	0.0	0.0	1.0	1.0	EBIT margin	16.5	8.0	16.0	17.1	18.0
Trade receivables	231.7	308.9	195.8	269.1	190.7	Net profit margin	10.2	3.4	10.9	0.0	0.0
Cash and equivalents	405.8	300.3	437.7	504.8	665.8	Other ratios (%)					
Other current assets	33.2	16.2	16.2	16.2	16.2	Return on assets	15.7	4.0	15.1	16.7	17.5
Total assets	716.2	711.2	734.4	875.7	958.3	Return on equity	25.6	7.2	27.9	28.5	27.9
Long-term borrowings	0.0	0.0	0.0	1.0	1.0	ROIC	21.5	6.7	23.5	23.8	23.5
Other non-current liabilities	7.5	9.9	9.9	9.9	9.9	Net debt to equity	(94.5)	(84.9)	(102.4)	(97.1)	(105.9)
Accounts payable	221.8	289.6	238.8	287.8	261.7	Interest coverage (x)	243.2	106.3	73.7	90.8	107.8
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Valuation measures ratios					
Other current liabilities	57.6	58.1	58.1	58.1	58.1	PER (x)	9.2	35.7	8.5	6.9	5.8
Total liabilities	286.8	357.7	306.9	356.8	330.7	PBR (x)	2.0	2.4	2.0	1.6	1.4
Total shareholders' equity	406.3	336.3	401.6	482.1	577.9	Dividend yield (%)	8.0%	18.2%	4.1%	5.1%	6.0%
Minority interests	23.1	17.3	26.0	36.8	49.6						
Total equity	429.4	353.6	427.6	518.9	627.5						

Source: Company Data, Quam Securities estimates

Note: FY End 31 Dec

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<p>HOLD We expect the stock to have a total return of < 10% and >-10% over the next 12 months</p>	
<p>SELL We expect the stock to have a total return of < -10% over the next 12 months</p>	
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