

THE OIC GROUP

HKG GROUP 4

Monthly Report

January 2025



OIC Research Group | Analyst Group Report

Director: Jason Chiang Analysts: Karson Shi, Richard Lo, and Yvonne Do

January 2025

S.F. Holding's IPO in HKEX (HK.6936)

Transaction Summary

IPO Date	November 27, 2024
Amount Raised	HK\$ 5.66 bn
Offered Price (Range)	HK\$ 34.3 (HK\$ 32.3 – 36.3)
Opening Price	HK\$ 34.3
IPO Date Closing Price	HK\$ 34.3
A-H Share Discount	24.2%
Number of Shares	170 mn Shares
Listing Structure	H-share
Pre-IPO Cornerstone Investors	Oaktree Capital, Xiaomi, China Pacific Insurance, etc.
Lead Underwriters	Goldman Sachs, Huatai International, J.P. Morgan, etc.

Business Operation

- **Express Delivery:** A core business providing high-efficiency delivery services, including standard, same-day, and intra-city delivery.
- **Supply Chain Management:** Integrated services encompassing warehousing, transportation, sorting, and distribution.
- **International Logistics:** Cross-border logistics services, including international express, air freight, and sea freight.
- **Cold Chain Logistics:** Specialized logistics services for temperature-sensitive goods like food and pharmaceuticals.

Supply Chain

- **Upstream suppliers:** Equipment and technology providers, infrastructure service providers, energy and material suppliers
- **Downstream customers:** E-commerce platforms, manufacturing enterprises, individual consumers, international traders

Deal Rationale

- **Supporting Global Expansion:** (1) **Importance of International Markets:** In 2023, SF reported **domestic revenue accounted for 90.03%**. However, Mainland e-commerce is facing a slowdown in growth. This highlights the necessity of SF to search for its “second growth curve”. Particularly, **the surge of e-commerce in Southeast Asia** creates an opportunity for SF. (2) **Funding for Global Expansion:** Given the asset-heavy attribute of the industry and near depletion of over 30 billion yuan raised before for Capex, **approximately 45% of the net proceeds** from the Hong Kong IPO are earmarked for enhancing international and cross-border logistics capabilities. Key initiatives of this IPO include expanding in Southeast Asia through **its prior acquisition of Kerry Logistics, which is a major player in Southeast Asia** and gradually entering Western markets, with Southeast Asia contributing 37% of its international flights and Europe/North America 10%.
- **Enhancing Global Brand Influence:** Hong Kong offers a gateway to international markets. Listing in Hong Kong may be an effective way to strengthen SF's global brand visibility.

Company

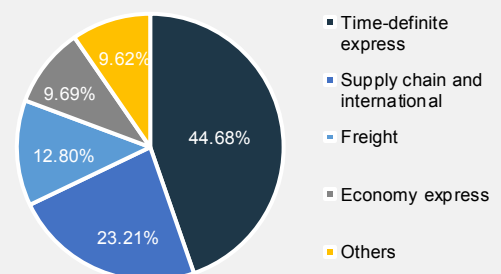
S.F. Holding (HKG: 6936)



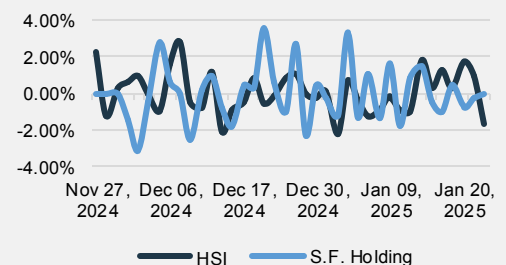
SF Holdings has become the first express logistics company listed on both the A-share and H-share markets. It is the largest integrated logistics service provider in China and Asia, and the fourth-largest globally. As of June 30, 2024, SF Holdings served **approximately 2.2 million active monthly invoiced customers and 699 million individual transaction customers**. It has established an extensive global distribution network covering **202 countries** and regions. It operates **a fleet of 99 aircraft and over 186,000 vehicles**, delivering efficient and reliable logistics solutions worldwide.

Founded Year	1993
HQ	Shenzhen, China
Sector	Air Freight and Logistics
Market Cap	HK\$ 165 bn
FY23 Revenue	HK\$ 284.7 bn
FY23 EBITDA	HK\$ 20.5 bn
EV/Sales	0.82x
EV/EBITDA	11.42x

Revenue Segmentation in 2023



Change in Stock Price of S.F. Holding vs HSI



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Pre-Offering: Subdued performance despite oversubscription

- Oversubscription from investors:** SF Holdings attracted HK\$47.3 billion in margin loans for 16.15 million shares, making the **retail tranche 79 times oversubscribed**. At the same time, its **institutional subscriptions exceeded the plan by 10.1 times**. At the same time, SF's listing drew about **\$205 million from 10 cornerstone investors**, led by Oaktree Capital Management and other Hong Kong property investors from Sino Land and New World Development which agreed to hold shares for at least six months in exchange for guaranteed allocation. Expectations and demand for SF's shares were high given this is **the second-largest listing of the city in 2024**, just behind Midea's IPO.
- Lackluster performance in both Hong Kong and Shenzhen:** The company's share price **ended the day unchanged at HK\$34.30** while the benchmark Hang Seng Index rose 2.3% from a two-month low that day. As for the company's listing in Shenzhen, on the Hong Kong IPO day, the stock price closed at RMB10.5 compared to its opening price of RMB9.59, then largely stayed flat for the next few weeks. The industry overall is still **suffering from global trade risks and economic uncertainties**, evidenced by the same performance for J&T Express whose closing price on the day was half its IPO price (HK\$5.85 vs HK\$12).

Post-Offering: A flight towards Global Dominance

- Expanding its Global Logistics Network:** SF plans to allocate **45% of IPO proceeds (HK\$2.55 billion)** to bolster its **cross-border logistics** capabilities in **SEA** and **Europe**. Moreover, it wants to **integrate Kerry Logistics**, which contributed **37%** of international flights in SEA in 2023, to capture a larger share of **e-commerce demand**.
- Stronger Air Freight Capabilities:** SF currently operates a fleet of **99 aircraft** and plans to expand its air cargo hub in Ezhou Airport to double cargo handling capacity by 2026, reaching **2.5 million tons** annually. SF will purchase new aircraft and modernize its existing fleet to reduce **operating costs** by **5-8%** annually.
- Technology and Automation:** **20%** of IPO proceeds (**~HK\$1.13 billion**) will be allocated to enhance automation in sorting facilities and transportation systems, aiming for a **30%** increase in operational efficiency by 2026. Also plans to invest in AI-powered demand forecasting and route optimization that could **save HK\$ 500 million** annually in **logistics cost**.
- Cold Chain Logistics:** Cold chain logistics, accounting for **12.8%** of revenue in 2023, will receive **15%** of IPO proceeds (**~HK\$850 million**) to expand temperature-controlled facilities. This move targets the growing demand for **pharmaceutical transportation**, with the global cold chain market projected to grow at 14% CAGR until 2028.

Risk and Considerations

- Global trade tensions:** Given President Trump's successful election, investors have heightened their concerns over **tariffs and another potential trade war**. Such global risks would directly affect SF's revenue and upcoming strategies.
- Reliance on the recovery of mainland China:** Despite SF's effort to enhance its global presence, **86.3% of its revenue is still generated from its Chinese market** customer base. However, the Chinese economy is currently at the risk of **deflation with weak consumer confidence** despite stimulus packages from the government and the outlook for 2025 economy is still filled with uncertainties.

Precedent Transaction

Offering Date	Company	Ticker	Amount Raised (US\$ bn)	EV/Sales	EV/EBITDA
Nov 27, 2024	SF Holding	HKEX:6936	0.749	0.82x	11.42x
Jul 24, 2024	Lineage Logistics	Nasdaq:LINEAGE	4.44	2.54x	13.67x
Nov 29, 2024	Talabat	DFM:TALABAT	2.00	3.10x	10.45x
Jun 5, 2023	Cainiao Network	HKEX:1223	1.30	3.50x	13.5x
Oct 27, 2016	ZTO Express	NYSE:ZTO	1.40	3.00x	12.30x
May 17, 2021	SF REIT	HKEX:2191	0.34	0.89x	8.90x
Mean				2.31x	11.37x
Median				2.54x	11.42x