

Glodon (002410 CH)

Operating leverage from SaaS emerging

Glodon delivered strong sets of FY2Q21 results that beat our/ consensus estimates. Construction Costing SaaS revenue grew at +71% YoY to RMB618mn (46% of FY2Q21 revenue) although Construction Management revenue was down 2% YoY. We think key highlights of the result are 1) operating leverage from SaaS appearing and OPM improved significantly (+6.8 pct pts YoY) and 2) Construction Management newly signed contract size was up +100% YoY.

- FY2Q21 beat on operating leverage.** Glodon reported FY2Q21 revenue of RMB1,329mn (+27% YoY), beat our/consensus estimates by 4%/19% respectively. Net profit was RMB209mn (+172% YoY), beat our estimate by 56% as operating leverage from SaaS migration is emerging. Opex was merely up +15% YoY to RMB927mn, although GPM was down to 88.1% (-0.5 pct pts YoY). Construction Management business GPM decreased to 62% in 1H21 (vs. 70% in 1H20) as hardware contribution increased.
- Construction costing: SaaS growth remains impressive.** Glodon costing SaaS delivered revenue growth of +71% YoY to RMB618mn in FY2Q21. All operating metrics suggested SaaS migration is in good shape: 1) SaaS accounted for 62% of Costing revenue, 2) Newly signed contract was at RMB1,040mn (+20% YoY), 3) Unearned revenue was at RMB1,708mn (+237% YoY). As SaaS transition is nearly completed (last 4 regions undergoing migration in FY21), we started to see operating leverage and OPM has improved by +6.8 pct pts YoY to 18.4% in FY2Q21 (highest level since FY3Q18).
- Construction Management: no change in 30% YoY growth target.** Construction management revenue declined by 2% YoY in FY2Q21 although newly signed contract amount was up +100% YoY to approx. FY20 full year revenue level (RMB943mn). Historically, 50-70% of the project signed will be delivered within the same year. Management maintained full year +30% YoY growth target but we are more conservative in construction management segment growth (CMBI: +23% YoY in FY21E) given tightening policy towards property sector and hence new construction projects could delay.
- Maintain BUY.** We kept FY21E forecast largely unchanged and raised FY22-23E net profit by 2% to reflect operating leverage from SaaS. Maintain BUY with new target price of RMB91.72 (prior RMB91.36), based on unchanged 18x FY22E EV/sales.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,541	4,005	4,984	5,751	6,518
YoY growth (%)	22%	13%	24%	15%	13%
Net profit (RMB mn)	235	330	546	836	1,004
EPS (RMB)	0.21	0.28	0.46	0.70	0.84
YoY growth (%)	-47%	34%	65%	53%	20%
Consensus EPS (RMB)	0.21	0.28	0.54	0.80	1.06
PE (x)	304.9	227.9	138.3	90.3	75.2
EV/sales	20.9	17.6	14.2	12.2	10.6
Dividend Yiled (%)	0.00	0.00	0.00	0.00	0.00
ROE (%)	7%	7%	8%	12%	13%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB91.72**
 (Previous TP **RMB91.36**)
 Up/Downside **+44.4%**
 Current Price **RMB63.51**

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Stock Data

Mkt Cap (RMB mn)	75,401
Avg 3 mths t/o (RMB mn)	514.78
52w High/Low (RMB)	92.50/ 55.90
Total Issued Shares (mn)	1,187

Source: Bloomberg

Shareholding Structure

Xi Zhizhong - Chairman	16.0%
Other co-founders	20.3%

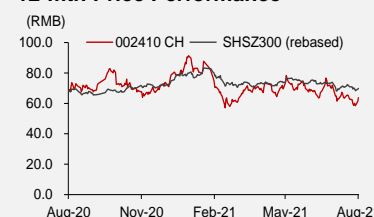
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-12.6%	-8.0%
3-mth	-11.8%	-6.4%
6-mth	-17.9%	-5.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

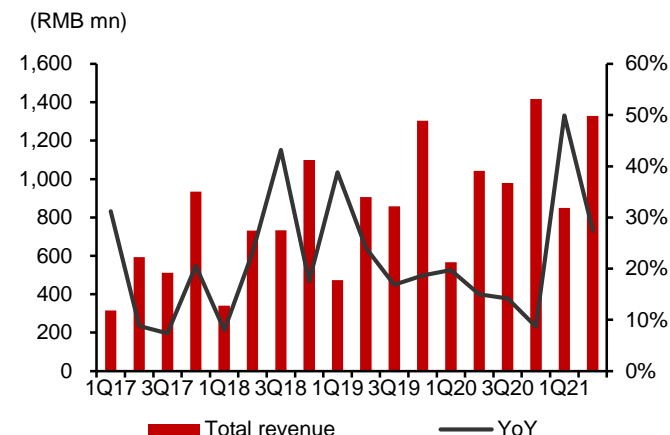
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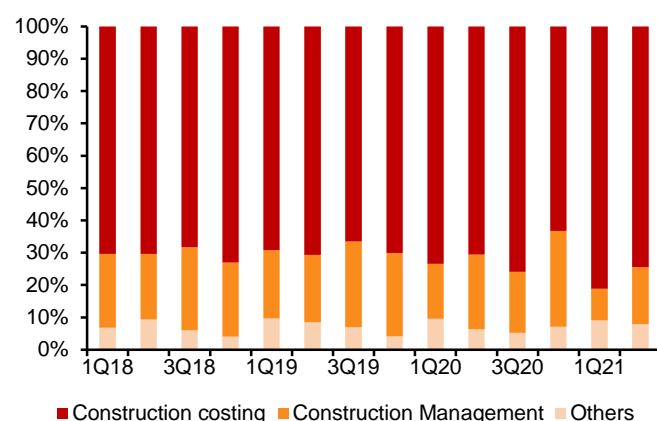
Focus Charts

Figure 1: Revenue and growth



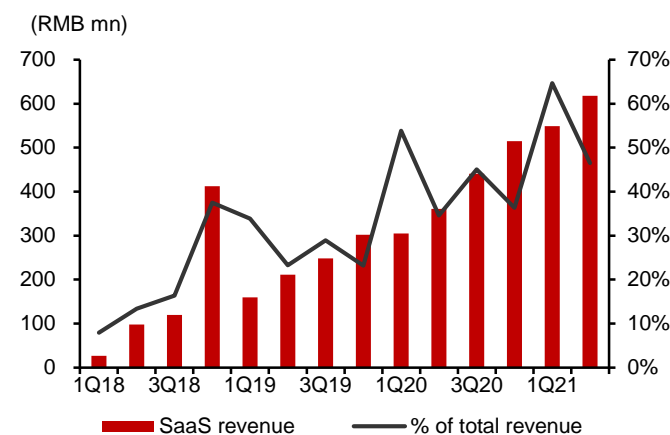
Source: Company data

Figure 2: Revenue breakdown



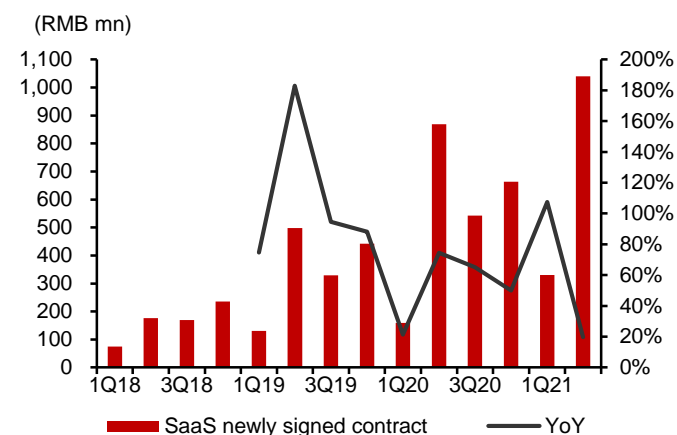
Source: Company data

Figure 3: SaaS revenue



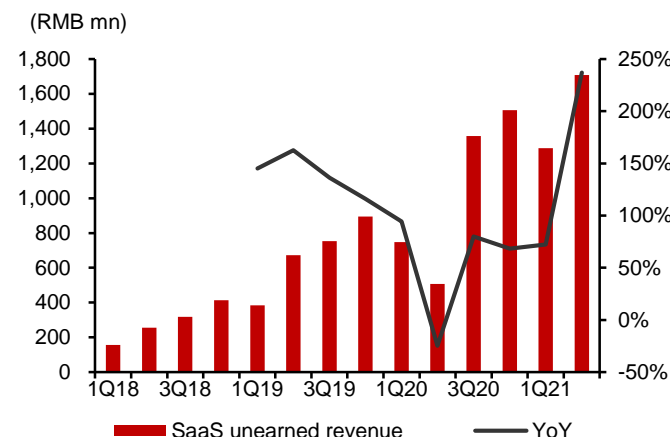
Source: Company data

Figure 4: SaaS newly signed contract



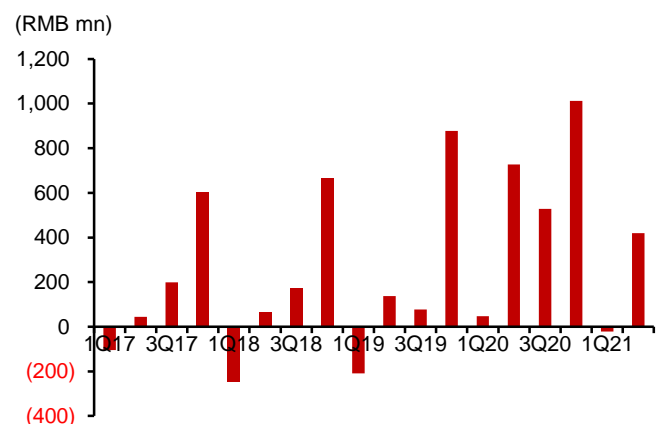
Source: Company data

Figure 5: SaaS unearned revenue



Source: Company data

Figure 6: Free cash flow



Source: Company data

FY2Q21 results review

- **Revenue** was at RMB1,329mn (+27% YoY, +57% QoQ), beat our estimate by 4% and consensus by 19%.
- **Gross profit** was at RMB1,171mn (+27% YoY, +53% QoQ), beat our estimate by 3% and consensus by 18%.
- **Gross margin** was at 88.1%, (-0.5 pct pts YoY, -1.9 pct pts QoQ), below our estimate by 1.4 pct pts and consensus by -0.5 pct pts.
- **Operating profit** was at RMB244mn (+103% YoY, +171% QoQ), beat our estimates by +46% and consensus by +102%.
- **Operating margin** was at 18.4% (+6.8 pct pts YoY, +7.7 pct pts QoQ), beat our estimates by 5.3 pct pts and consensus by 7.5 pct pts.
- **Net profit** was at RMB209mn (+172% YoY, +173% QoQ), beat our estimate by 56% and consensus by 84%.

Figure 7: FY2Q21 results review

	Jun-20 2Q20	Mar-21 1Q21	Jun-21 2Q21			Jun-21 2Q21	versus	Jun-21 2Q21	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI	CMBI	consensus	consensus
Revenue	1,043	849	1,329	27%	57%	1,275	4%	1,116	19%
Gross profit	924	764	1,171	27%	53%	1,140	3%	989	18%
Gross margin	88.6%	90.0%	88.1%	-0.5 pct pts	-1.9 pct pts	89.5%	-1.4 pct pts	88.6%	-0.5 pct pts
Operating profit	121	90	244	103%	171%	167	46%	121	102%
Operating margin	11.6%	10.6%	18.4%	6.8 pct pts	7.7 pct pts	13.1%	5.3 pct pts	10.8%	7.5 pct pts
Net non-op	-14	7	-5	65%	-169%	15	-133%	62	-108%
PBT	107	97	239	125%	146%	182	32%	183	31%
Net income	77	77	209	172%	173%	135	56%	114	84%
EPS RMB	0.07	0.06	0.18	165%	173%	0.11	56%	0.12	47%

Source: Company data, CMBIS

FY2Q21 revenue breakdown

- **Engineering costing SaaS revenue** was at RMB618mn (+71% YoY, +13% QoQ). SaaS revenue accounted for 46% of total FY1Q21 revenue.
- **Engineering costing non-SaaS revenue** was at RMB372mn (-1% YoY, +166% QoQ).
- **Newly signed SaaS contract** was at RMB1,040mn, (+20% YoY, +215% QoQ).
- **Unearned SaaS revenue** was at RMB1,708mn (+237% YoY, +33% QoQ).
- **Engineering construction revenue** was at RMB235mn (-2% YoY, +184% QoQ).

Figure 8: FY1Q21 revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Revenue breakdown										
Construction costing	327	641	570	914	416	736	743	896	689	990
...SaaS	160	211	248	302	305	361	441	515	549	618
...non-SaaS	167	430	322	612	111	375	302	381	140	372
Construction Management	100	190	227	336	96	241	185	421	83	235
Others	46	77	60	53	54	66	51	100	77	104
Total	473	907	857	1,303	566	1,043	979	1,417	849	1,329
Revenue YoY										
Construction costing	36%	25%	14%	14%	27%	15%	30%	-2%	66%	34%
...SaaS	493%	115%	107%	-27%	91%	71%	78%	71%	80%	71%
...non-SaaS	-21%	3%	-15%	57%	-34%	-13%	-6%	-38%	26%	-1%
Construction Management	28%	28%	20%	33%	-4%	27%	-19%	25%	-14%	-2%
Others	100%	12%	37%	22%	18%	-14%	-15%	88%	42%	58%
Total	39%	24%	17%	19%	20%	15%	14%	9%	50%	27%
SaaS metrics										
Newly signed contract	131	498	329	442	159	869	543	663	330	1,040
YoY	75%	183%	95%	88%	21%	74%	65%	50%	108%	20%
Unearned revenue	385	672	754	894	748	507	1,357	1,506	1,288	1,708
YoY	145%	163%	136%	116%	94%	-25%	80%	68%	72%	237%

Source: Company data, CMBIS

Earnings revision

Figure 9: Earnings revision

RMBm	2021E			2022E			2023E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	4,984	4,977	0%	5,751	5,695	1%	6,518	6,403	2%
Gross profit	4,326	4,398	-2%	4,999	5,006	-0%	5,623	5,589	1%
OP Profit	617	608	2%	1,013	949	7%	1,172	1,108	6%
PBT	637	665	-4%	1,043	1,023	2%	1,216	1,199	1%
Net profit	546	546	-0%	836	815	2%	1,004	986	2%
EPS	0.46	0.46	-0%	0.70	0.69	2%	0.84	0.83	2%
Margins									
GM	86.8%	88.4%	-160 bps	86.9%	87.9%	-97 bps	86.3%	87.3%	-103 bps
OPM	12.4%	12.2%	17 bps	17.6%	16.7%	95 bps	18.0%	17.3%	67 bps
PBT margin	12.8%	13.4%	-58 bps	18.1%	18.0%	16 bps	18.7%	18.7%	-7 bps
Net margin	10.9%	11.0%	-3 bps	14.5%	14.3%	21 bps	15.4%	15.4%	0 bps

Source: Company data, CMBIS

Figure 10: CMBI vs. consensus forecast

RMBm	CMBI	2021E		2022E			2023E		
		Street	Diff	Street	Diff	Street	Diff		
Sales	4,984	5,010	-1%	5,751	6,097	-6%	6,518	7,343	-11%
Gross profit	4,326	4,430	-2%	4,999	5,376	-7%	5,623	6,442	-13%
OP Profit	617	751	-18%	1,013	1,119	-9%	1,172	1,526	-23%
PBT	637	757	-16%	1,043	1,122	-7%	1,216	1,477	-18%
Net profit	546	634	-14%	836	957	-13%	1,004	1,275	-21%
EPS	0.5	0.5	-14%	0.7	0.8	-11%	0.8	1.1	-21%
Margins									
GM	86.8%	88.4%	-165 bps	86.9%	88.2%	-125 bps	86.3%	87.7%	-146 bps
OPM	12.4%	15.0%	-261 bps	17.6%	18.4%	-74 bps	18.0%	20.8%	-280 bps
PBT margin	12.8%	15.1%	-234 bps	18.1%	18.4%	-28 bps	18.7%	20.1%	-146 bps
Net margin	10.9%	12.6%	-170 bps	14.5%	15.7%	-117 bps	15.4%	17.4%	-197 bps

Source: Company data, CMBIS

Operating model

Figure 11: Operating model

RMB mn	2019A	2020A	2021E	2022E	2023E
Revenues	3,541	4,005	4,984	5,751	6,518
Cost of sales	-371	-454	-659	-751	-895
Gross Profit	3,170	3,550	4,326	4,999	5,623
<i>Gross margin</i>	<i>89.5%</i>	<i>88.7%</i>	<i>86.8%</i>	<i>86.9%</i>	<i>86.3%</i>
R&D	-969	-1,083	-1,232	-1,342	-1,488
SG&A	-1,922	-2,135	-2,519	-2,688	-3,012
Operating Income	338	408	617	1,013	1,172
<i>Operating margin</i>	<i>9.5%</i>	<i>10.2%</i>	<i>12.4%</i>	<i>17.6%</i>	<i>18.0%</i>
Interest Expense	-41	17	56	57	66
Non-operating income/ (expense)	-14	-15	-37	-27	-22
Profit Before Income Taxes	284	410	637	1,043	1,216
Income Tax Expense	-29	-29	-43	-97	-98
Net profit (loss)	235	330	546	836	1,004
<i>Net margin</i>	<i>6.6%</i>	<i>8.3%</i>	<i>10.9%</i>	<i>14.5%</i>	<i>15.4%</i>
EPS (RMB)	0.21	0.28	0.46	0.70	0.84
DPS (RMB)	0.10	0.25	0.20	0.20	0.20
Revenue breakdown					
Engineering costing	2,452	2,791	3,515	4,024	4,429
...recurring revenue	921	1,622	2,440	3,003	3,439
...non-recurring revenue	1,531	1,169	1,075	1,021	991
Engineering construction	853	943	1,160	1,392	1,712
Others	236	271	309	335	376
Gross margin breakdown					
Engineering costing	94%	94%	95%	96%	95%
Engineering construction	76%	72%	65%	64%	64%
Growth (YoY)					
Revenues	22%	13%	24%	15%	13%
Gross Profit	17%	12%	22%	16%	12%
Operating Income	-39%	21%	51%	64%	16%
EPS	-47%	34%	65%	53%	20%

Source: Company data, CMBIS

Figure 12: Quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21E	4Q21E
Revenues	566	1,043	979	1,417	849	1,329	1,207	1,599
Gross Profit	534	924	879	1,213	764	1,171	1,044	1,346
Operating income	82	121	121	84	90	244	188	95
Net profit	53	77	100	101	77	209	168	92
EPS (RMB)	0.05	0.07	0.08	0.08	0.06	0.18	0.14	0.08
<u>Margins</u>								
Gross margin	94%	89%	90%	86%	90%	88%	87%	84%
Operating margin	15%	12%	12%	6%	11%	18%	16%	6%
Net margin	9%	7%	10%	7%	9%	16%	14%	6%
<u>Growth (QoQ)</u>								
Revenues	-57%	84%	-6%	45%	-40%	57%	-9%	33%
Gross Profit	-53%	73%	-5%	38%	-37%	53%	-11%	29%
Operating income	-26%	47%	1%	-31%	8%	171%	-23%	-49%
EPS	-31%	42%	26%	1%	-24%	173%	-20%	-45%
<u>Growth (YoY)</u>								
Revenues	20%	15%	14%	9%	50%	27%	23%	13%
Gross Profit	20%	8%	18%	8%	43%	27%	19%	11%
Operating income	9%	113%	28%	-25%	10%	103%	55%	14%
EPS	-5%	119%	37%	26%	38%	165%	68%	-9%

Source: Company data, CMBIS

Valuation

Glodon (002410 CH, BUY, TP RMB91.72)

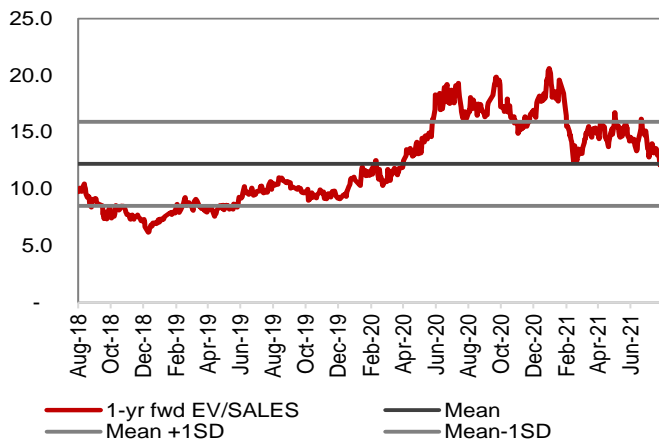
We maintain BUY with new target price of RMB91.72 (prior RMB91.36), based on unchanged 18x FY22E EV/Sales (50% above its 3-year average). We believe Glodon deserves re-rating as free cash flow continues to expand with increasing SaaS revenue contribution and operating leverage from SaaS transition is emerging.

Figure 13: Peers' valuation

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales (x)		FCF margin (%)		Sales CAGR FY20-23	EPS CAGR FY20-23	
						FY21E	FY22E	FY21E	FY22E			
Glodon	002410 CH	BUY	11,643	63.51	91.72	14.2	12.2	19%	17%	22%	50%	
MYC	909 HK	BUY	7,810	30.90	44.75	19.2	13.9	26%	19%	37%	34%	
Yonyou	600588 CH	NR	18,818	37.27	N/A	12.2	9.5	14%	10%	22%	27%	
Kingsoft Office	688111 CH	NR	24,483	344.00	N/A	43.0	31.2	45%	41%	41%	39%	
Kingdee	268 HK	NR	12,586	28.25	N/A	18.5	14.6	5%	6%	26%	-190%	
Adobe	ADBE US	NR	312,928	656.86	N/A	19.9	17.3	43%	36%	17%	18%	
Autodesk	ADSK US	NR	74,092	336.76	N/A	20.0	17.3	36%	31%	17%	36%	
Salesforce	CRM US	NR	241,242	260.52	N/A	11.0	8.9	20%	15%	22%	14%	
Veeva System	VEEV US	NR	49,307	322.44	N/A	32.6	25.9	36%	33%	26%	23%	
CoStar	CSGP US	NR	33,002	83.56	N/A	15.6	13.4	22%	23%	17%	24%	
						Mean	20.6	16.4	27%	23%	25%	7%
						Median	18.9	14.3	24%	21%	22%	26%

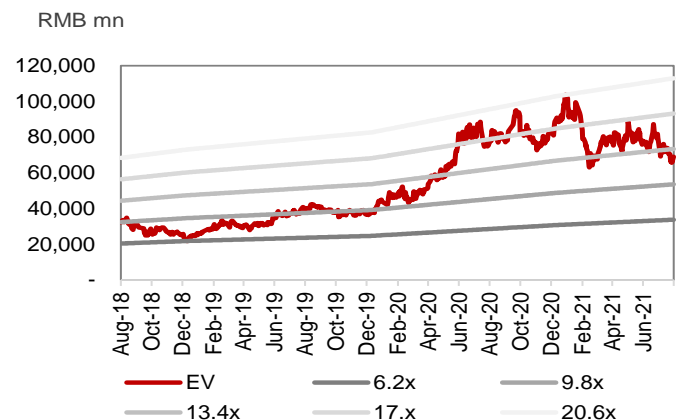
Source: Bloomberg, CMBIS

Figure 14: 12M forward EV/sales chart



Source: Bloomberg, CMBIS

Figure 15: 12M forward EV/sales band



Source: Bloomberg, CMBIS

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,541	4,005	4,984	5,751	6,518	Net profit	235	330	546	836	1,004
Cost of sales	(371)	(454)	(659)	(751)	(895)	Depreciation/amortization	187	134	153	190	218
Gross profit	3,170	3,550	4,326	4,999	5,623	Change in working capital	312	784	428	385	390
Selling exp	(1,102)	(1,256)	(1,459)	(1,565)	(1,748)	Others	(93)	628	(212)	110	114
Admin exp	(820)	(879)	(1,061)	(1,123)	(1,264)	Net cash from operating	641	1,876	915	1,520	1,726
R&D exp	(969)	(1,083)	(1,232)	(1,342)	(1,488)	Capex	(243)	(439)	(459)	(469)	(465)
Other operating exp.	59	75	43	44	49	Other	16	(257)	(161)	0	0
Operating profit	338	408	617	1,013	1,172	Net cash from investing	(227)	(697)	(620)	(469)	(465)
Finance income/ (costs)	(41)	17	56	57	66	Net borrowings	(112)	(1,088)	(1)	(0)	(0)
Other non-oper exp.	(14)	(15)	(37)	(27)	(22)	Dividend paid	(301)	(157)	(297)	(238)	(238)
Pre-tax profit	284	410	637	1,043	1,216	Other	23	2,645	(235)	(110)	(114)
Income tax expense	(29)	(29)	(43)	(97)	(98)	Net cash from financing	(389)	1,400	(533)	(348)	(352)
Minority interests	(20)	(51)	(48)	(110)	(114)	Net change in cash	24	2,580	(238)	704	910
Net profit to shareholders	235	330	546	836	1,004	Cash at beginning of the year	2,212	2,231	4,797	4,555	5,259
	3,541	4,005	4,984	5,751	6,518	Exchange difference	(5)	(14)	(3)	0	0
						Cash at the end of the year	2,231	4,797	4,555	5,259	6,169

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	2,950	5,420	5,226	5,892	6,759	Revenue mix					
Cash & equivalents	2,231	4,797	4,555	5,259	6,169	Engineering costing	69%	70%	71%	70%	68%
Account receivables	591	475	557	514	466	- SaaS	26%	41%	49%	52%	53%
Inventory	21	26	35	40	46	Engineering construction	24%	24%	23%	24%	26%
Other current assets	106	121	79	79	79	Overseas	4%	4%	3%	3%	3%
						Others	1%	2%	2%	2%	2%
Non-current assets	3,217	4,127	4,670	4,949	5,195	Finance income	2%	1%	1%	1%	1%
PPE	860	994	1,224	1,584	1,912	Growth (%)					
Intangible assets	1,148	1,664	1,735	1,654	1,572	Revenue	22%	13%	24%	15%	13%
Other non-current assets	1,209	1,470	1,711	1,711	1,711	Operating profit	-39%	21%	51%	64%	16%
Total assets	6,167	9,547	9,896	10,841	11,955	EPS	-47%	34%	65%	53%	20%
						Profit & loss ratio (%)					
Current liabilities	2,809	2,858	2,959	3,307	3,654	Gross margin	89.5%	88.7%	86.8%	86.9%	86.3%
ST borrowings	1,089	3	2	2	2	Operating margin	9.5%	10.2%	12.4%	17.6%	18.0%
Account payables	1,068	1,740	2,259	2,607	2,954	Net profit margin	6.6%	8.3%	10.9%	14.5%	15.4%
Accrued expense	0	0	0	0	0	Balance sheet ratio					
Unearned revenue	653	1,115	698	698	698	Receivable turnover days	47	49	38	34	27
						Unearned revenue days	67	81	66	44	39
Non-current liabilities	9	131	201	201	201	Payable turnover days	110	159	165	165	165
LT borrowings	0	0	0	0	0	Current ratio (x)	1.05	1.90	1.77	1.78	1.85
Other non-current liabilities	9	131	201	201	201	Net debt to equity	net cash	net cash	net cash	net cash	net cash
Total liabilities	2,818	2,989	3,161	3,508	3,855	Profitability (%)					
Share capital	1,129	1,186	1,188	1,188	1,188	ROE	7%	7%	8%	12%	13%
Capital surplus	509	3,135	3,277	3,277	3,277	ROIC	14%	18%	27%	39%	49%
Retained earnings	1,709	1,957	2,305	2,903	3,669	Per share data (RMB)					
Other reserves	(78)	125	(245)	(245)	(245)	EPS (RMB)	0.21	0.28	0.46	0.70	0.84
Minority interest	80	156	211	211	211	DPS (RMB)	0.10	0.25	0.20	0.20	0.20
Total equity	3,349	6,558	6,735	7,333	8,099	BVPS (RMB)	2.90	5.40	5.49	6.00	6.64
Total liabilities and equity	6,167	9,547	9,896	10,841	11,955						

Source: Company data, CMBIS estimates

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