

Ming Yuan Cloud (909 HK)

Benefiting from property sector digitalization

MYC delivered strong sets of FY1H21 results that beat our and consensus estimates. SaaS core product - CRM Cloud growth remained strong at +66% YoY. We are positive to see increasing no. of property sales office coverage and ARPU uptrend. ERP solutions, esp. the Business Analytical System, is gaining traction amid tighter regulations. We think digitalization trend for property sector as a whole remains intact in China, although SOE/ industrial buildings are the new drivers instead of private companies/ residential properties. Maintain BUY.

- FY1H21 beat.** MYC FY1H21 revenue grew at +45% YoY to RMB974mn, beat both our and consensus estimates. Gross margin improved to 79.5% as higher-margin SaaS revenue contribution increased to 57% (vs. 50% in FY1H20). Opex increased at 60% YoY as 1) Commission expense rose at +61% YoY and 2) R&D team expanded (+66% YoY to 1,759 employees). On an adjusted level, net profit growth was at +33% YoY to RMB194mn.
- SaaS – CRM Cloud ARPU uptrend continues.** SaaS revenue was at RMB552mn (+66% YoY). CRM cloud remained as MYC core SaaS product (78% of FY1H21 SaaS revenue). We are positive on the increasing no. of property sales offices coverage as well as ARPU uptrend. Property sales office equipped with MYC CRM cloud grew further to 16,200 in FY1H21 (vs. 15,000 in FY20). For ARPU, we roughly estimated that avg. annual revenue per property sales office has increased from RMB45mn in FY20 to RMB53mn in FY1H21. This reflects customers are adopting more modules and services.
- ERP – Strong software licensing growth with new customer wins.** ERP solutions revenue was at RMB422mn (+25% YoY). Growth is mainly driven by increasing software license sales (+38% YoY) as MYC expanded into third and lower-tier cities. Product support and value-added services also grew at +25% YoY. We believe demand for MYC ERP solutions is increasing, as the Business Analytical System is critical in monitoring financial/ operational performance under stricter regulations towards property sector.
- Maintain BUY.** China property sector as a whole will continue to undergo digitalization despite landscape change (i.e. driven by SOE vs. private property companies/ residential properties vs. industrial purpose). We largely kept our FY21-23E earnings forecast. Maintain BUY with new target price of HK\$43.56 (prior HK\$44.75), based on unchanged 22x fully diluted FY22E P/S.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,264	1,705	2,432	3,263	4,362
YoY growth (%)	38%	35%	43%	34%	34%
Core net profit (RMB mn)	216	328	446	649	928
EPS (RMB)	0.15	0.22	0.24	0.35	0.50
YoY growth (%)	40%	49%	36%	45%	43%
Consensus EPS (RMB)	0.15	0.22	0.19	0.29	0.44
PE (x)	166.1	111.7	103.9	71.4	49.9
PS (x)	39.2	29.1	20.4	15.2	11.4
Dividend Yield (%)	0.00	0.00	0.00	0.01	0.01
ROE (%)	n.a.	-11%	6%	9%	11%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$43.56**
 (Previous TP **HK\$44.75**)
 Up/Downside **+44.7%**
 Current Price **HK\$30.10**

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Stock Data

Mkt Cap (HK\$ mn)	59,255
Avg 3 mths t/o (HK\$ mn)	191.81
52w High/Low (HK\$)	60.67/ 23.20
Total Issued Shares (mn)	1,969

Source: Bloomberg

Shareholding Structure

Mr. Gao - Chairman	20.50%
Mr. Chen - VP	15.40%
Mr. Jiang - CEO	9.70%

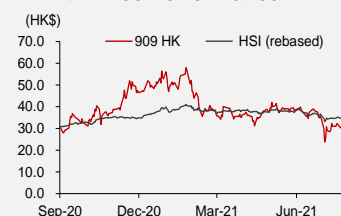
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.8%	-5.3%
3-mth	-17.6%	-9.0%
6-mth	-34.4%	-24.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

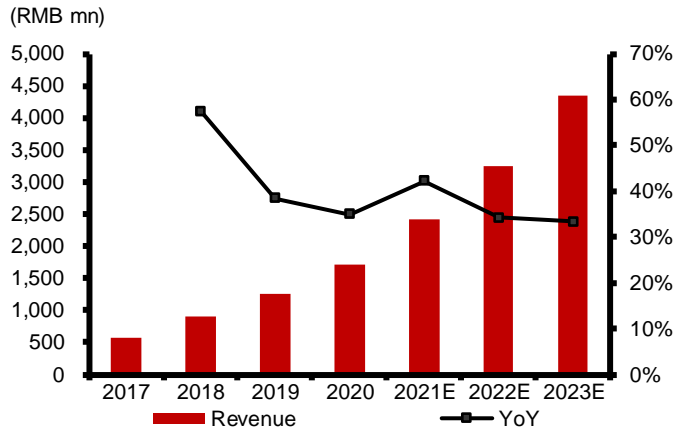
Auditor: PwC

Related Reports

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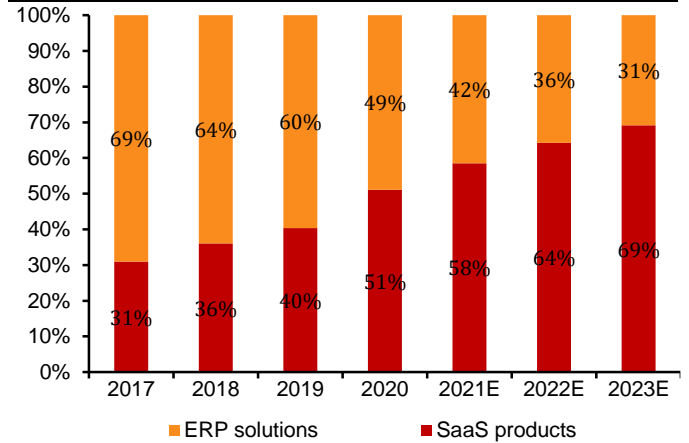
Focus Charts

Figure 1: Revenue and growth



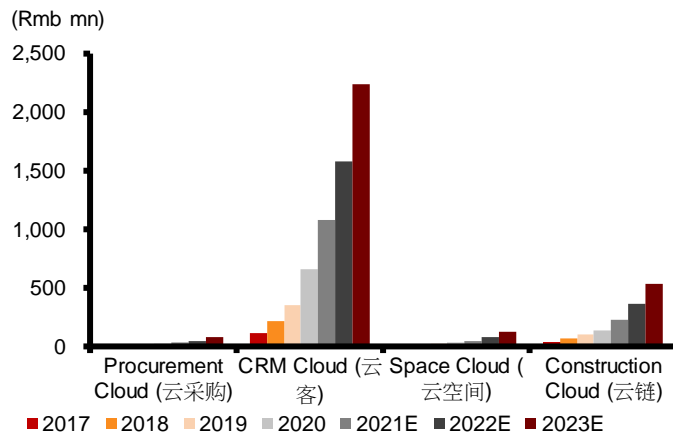
Source: Company data

Figure 2: Revenue breakdown



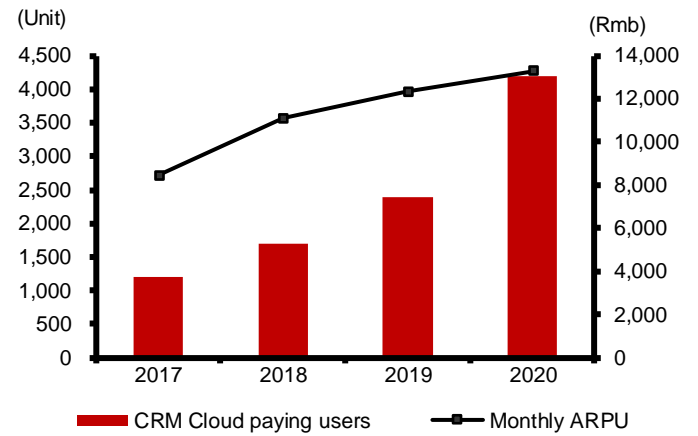
Source: Company data

Figure 3: SaaS revenue breakdown



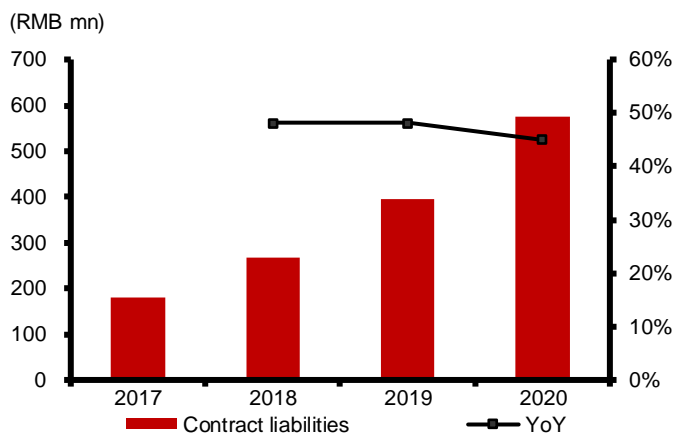
Source: Company data

Figure 4: CRM Cloud paying users and ARPU



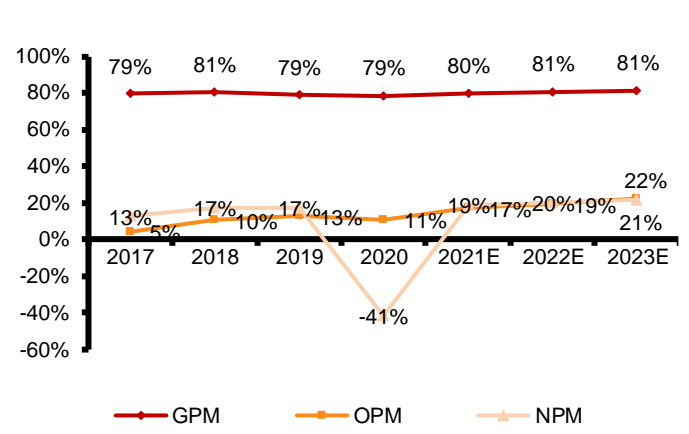
Source: Company data

Figure 5: SaaS contract liabilities



Source: Company data

Figure 6: Margins



Source: Company data

FY1H21 results review

- **Revenue** was at RMB974mn (+45% YoY), beat our estimate by 6% and consensus by 5%.
- **Gross profit** was at RMB774mn (+46% YoY), beat our and consensus estimates by 5%.
- **Gross margin** was at 79.5%, (+0.6 pct pts YoY), below our estimate by 0.5 pct pts but in-line with consensus.
- **Operating profit** was at RMB53mn (-32% YoY), below our estimates by 60% and consensus by 57%.
 - **S&M:** S&M expense increased by 67.7% YoY, mainly due to higher commission expense related to SaaS (+14% YoY) and expanding sales team. If we exclude commission expenses, S&M expenses was flattish HoH at around RMB188mn.
 - **R&D:** R&D expense increased by 71.9% YoY, mainly due to increasing no. of R&D staff (+65.8% YoY to 1,759).
 - **G&A:** G&A expense merely increased by 10.1% YoY, G&A ratio decreased to 8.3% in 1H21 (vs. 11.0% in 1H20)
- **Operating margin** was at 5.4% (-6.3 pct pts YoY), below our estimates by 8.9 pct pts and consensus by 7.7 pct pts.
- **Net profit** was at RMB165mn (+136% YoY), beat our estimates by 5% and consensus by +37%, mainly due to higher forex gain (RMB28.5mn) and finance income (RMB62mn).
- **EPS** was at RMB0.08 (+70% YoY), beat our and consensus estimates.

Figure 7: FY1H21 results review

909 HK	1H20	2H20	1H21			1H21	versus	1H21	versus
RMB mn	Actual	Actual	Actual	YoY	HoH	CMBI	CMBI	Consensus	Consensus
Revenue	671	1,035	974	45%	-6%	922	6%	929	5%
Gross profit	529	810	774	46%	-5%	736	5%	738	5%
GPM	78.9%	78.3%	79.5%	0.6 pct pts	1.2 pct pts	79.9%	-0.5 pct pts	79.5%	0.1 pct pts
Operating profit	78	108	53	-32%	-51%	131	-60%	122	-57%
OPM	11.6%	10.4%	5.4%	-6.3 pct pts	-5.1 pct pts	14.2%	-8.9 pct pts	13.1%	-7.7 pct pts
PBT	94	(744)	187	99%	-125%	180	4%	114	64%
Net income	70	(774)	165	136%	-121%	157	5%	121	37%
NPM	10.4%	-74.9%	17.0%	6.6 pct pts	91.9 pct pts	17.0%	-0.1 pct pts	13.0%	4 pct pts
EPS (RMB)	0.05	(0.53)	0.09	70%	-117%	0.08	9%	0.08	11%

Source: Company data, CMBIS

Segment performance

- **SaaS products** revenue was at RMB552mn (+65.5% YoY). We are positive to see the SaaS core product CRM still delivering robust growth. CRM cloud revenue grew at +82% YoY. Property sales office coverage increased further from 15,000 in FY20 to 16,200 in FY1H21. We estimated that avg. annual revenue per property sales office has increased further from RMB44.6mn in FY20 to RMB52.8mn in FY1H21, reflecting customer adopting more modules and services.
- **ERP solutions revenue** was at RMB422mn (+25.1% YoY). We are positive to see the growth in revenue being mainly driven by software licensing (+37.6% YoY) as MYC expands into third and lower-tier cities and offers ERP solutions that help enterprises to monitor financial performance under “Three Red Line” policy.

Figure 8: FY1H21 operating performance (by segment)

RMB mn	1H19	2H19	1H20	2H20	1H21
Revenue breakdown					
SaaS products	202	308	333	538	552
Procurement Cloud (云采购)	9	8	11	15	20
CRM Cloud (云客)	134	222	235	434	428
Asset Management Cloud (云空间)	11	15	18	20	22
Construction Cloud (云链)	48	63	69	68	79
Others	0	0	0	0	2
ERP solutions	286	468	337	497	422
Growth (YoY)					
SaaS products			64.9%	74.8%	65.5%
Procurement Cloud (云采购)			28.7%	91.5%	76.7%
CRM Cloud (云客)			75.9%	95.8%	82.1%
Asset Management Cloud (云空间)			57.5%	33.8%	25.2%
Construction Cloud (云链)			43.0%	8.5%	14.1%
Others					
ERP solutions			17.9%	6.1%	25.1%
GPM					
SaaS products	94.2%	89.2%	90.4%	85.0%	89.7%
ERP solutions	65.2%	73.3%	67.6%	72.1%	67.1%
OPM					
SaaS products	-13.4%	-4.6%	-3.5%	5.7%	-4.7%
ERP solutions	30.9%	42.0%	44.8%	35.2%	31.8%

Source: Company data, CMBIS

Earnings revision

Figure 9: Earnings revision

RMB mn	2021E			2022E			2023E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	2,432	2,425	0%	3,263	3,254	0%	4,362	4,338	1%
Gross profit	1,934	1,930	0%	2,642	2,626	1%	3,563	3,533	1%
OP Profit	280	410	-32%	509	622	-18%	850	965	-12%
PBT	511	525	-3%	742	743	-0%	1,086	1,088	-0%
Net profit	446	459	-3%	649	650	-0%	928	930	-0%
EPS	0	0.24	1%	0.35	0.34	4%	0.50	0.48	4%
Margins									
GM	79.5%	80.6%	-107 bps	81.0%	80.8%	11 bps	81.7%	81.8%	-8 bps
OPM	11.5%	19.7%	-816 bps	15.6%	20.5%	-491 bps	19.5%	22.3%	-278 bps
PBT margin	21.0%	21.1%	-10 bps	22.8%	23.8%	-104 bps	24.9%	25.0%	-12 bps
Net margin	18.3%	17.5%	88 bps	19.9%	20.1%	-21 bps	21.3%	21.1%	17 bps

Source: Company data, CMBIS

Figure 10: CMBI estimates vs consensus

RMB mn	2021			2022			2023		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	2,432	2,372	3%	3,263	3,281	-1%	4,362	4,526	-4%
Gross profit	1,934	1,895	2%	2,642	2,660	-1%	3,563	3,699	-4%
Operating profit	280	375	-25%	509	583	-13%	850	876	-3%
Profit before tax	511	414	24%	742	632	18%	1,086	934	16%
Core net profit	446	381	17%	649	571	14%	928	862	8%
EPS	0.24	0.19	24%	0.35	0.29	19%	0.50	0.44	14%
Margins									
GM	79.5%	79.9%	-37 bps	81.0%	81.1%	-12 bps	81.7%	81.7%	-5 bps
OPM	11.5%	15.8%	-430 bps	15.6%	17.8%	-215 bps	19.5%	19.3%	14 bps
Profit before tax margin	21.0%	17.4%	359 bps	22.8%	19.3%	350 bps	24.9%	20.6%	427 bps
Net margin	18.3%	16.1%	228 bps	19.9%	17.4%	249 bps	21.3%	19.0%	225 bps

Source: Company data, CMBIS

Operating model

Figure 11: Operating model

RMB mn	2019	2020	2021E	2022E	2023E
Revenues	1,264	1,705	2,432	3,263	4,362
Cost of sales	(269)	(366)	(497)	(621)	(799)
Gross Profit	995	1,340	1,934	2,642	3,563
<i>Gross margin</i>	78.7%	78.6%	79.5%	81.0%	81.7%
R&D	(286)	(356)	(605)	(746)	(937)
SG&A	(550)	(798)	(1,050)	(1,387)	(1,776)
Operating Income	159	186	280	509	850
<i>Operating margin</i>	12.6%	10.9%	11.5%	15.6%	19.5%
Non-Operating Income	84	(836)	231	233	236
Profit Before Tax	242	(650)	511	742	1,086
Income tax (expense) gain	(11)	(18)	(27)	(59)	(109)
Minorities	15	36	38	34	49
Net Income to Shareholders	216	(704)	446	649	928
Core net income	216	328	446	649	928
<i>Net margin</i>	17.1%	19.3%	18.3%	19.9%	21.3%
Core EPS (RMB)	0.15	0.22	0.24	0.35	0.50
Revenue breakdown					
SaaS product	329	510	871	1,423	2,098
Procurement Cloud (云采购)	11	17	27	45	71
CRM Cloud (云客)	226	355	669	1,087	1,565
Asset Management Cloud (云空间)	18	27	38	56	83
Construction Cloud (云链)	74	111	138	231	374
ERP solutions	584	754	834	1,009	1,166
Gross margin breakdown					
SaaS product	91%	87%	85%	87%	87%
ERP solutions	70%	70%	72%	70%	70%
Growth YoY					
Revenues	38%	35%	43%	34%	34%
Gross profit	35%	35%	44%	37%	35%
Operating Income	67%	17%	51%	82%	67%
Core EPS	40%	49%	7%	45%	43%

Source: Company data, CMBIS

Figure 12: Semi-annual Operating model

RMB mn	1H20	2H20	1H21	2H21E	1H22E	2H22E
Revenues	671	1,035	974	1,458	1,273	1,991
Gross Profit	529	810	774	1,161	1,043	1,599
Operating profit	78	108	53	227	138	371
Core net profit	73	274	165	303	209	440
EPS (RMB)	0.05	-0.53	0.09	0.16	0.11	0.24
Margins						
Gross margin	78.9%	78.3%	79.5%	79.6%	81.9%	80.3%
Operating margin	11.6%	10.4%	5.4%	15.6%	10.9%	18.6%
Net margin	10.4%	26.4%	17.0%	20.8%	16.4%	22.1%
Growth (HoH)						
Revenues	-14%	54%	-6%	50%	-13%	56%
Gross Profit	-14%	53%	-5%	50%	-10%	53%
Operating profit	-41%	38%	-51%	332%	-39%	168%
Core net profit	-57%	276%	-40%	84%	-31%	110%
Growth (YoY)						
Revenues	37%	33%	45%	41%	31%	37%
Gross Profit	40%	31%	46%	43%	35%	38%
Operating profit	194%	-19%	-32%	111%	163%	63%
Core net profit	32%	60%	127%	11%	27%	45%

Source: Company data, CMBIS

Valuation

MYC (909 HK, BUY, TP HK\$43.56)

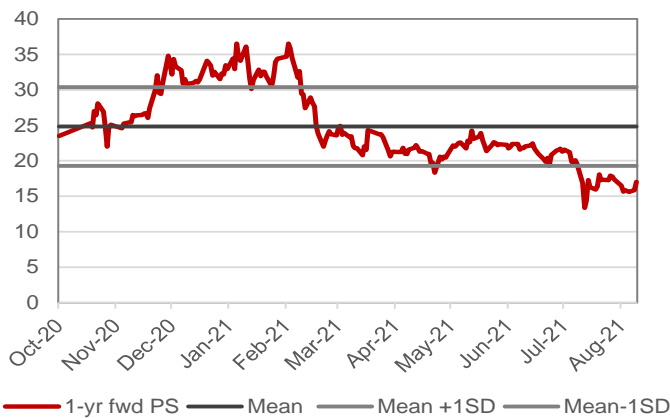
We derived our target price of HK\$43.56 (prior HK\$44.75) on unchanged 22x FY22E fully diluted P/S. We believe MYC deserves premium given higher sales and EPS growth. We use P/S as the valuation methodology as earnings cannot reflect operating profitability during SaaS ramp-up stage as operating leverage is not obvious with high S&M and R&D cost.

Figure 13: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	P/S FY21E	P/S FY22E	FCF margin (%) FY21E	FCF margin (%) FY22E	Sales CAGR FY20-23	EPS CAGR FY20-23
MYC	909 HK	BUY	7,612	30.10	43.56	20.4	15.2	26%	26%	37%	34%
Glodon	002410 CH	BUY	11,849	64.65	91.72	15.3	12.5	20%	20%	22%	51%
Yonyou	600588 CH	NR	18,172	36.00	N/A	11.7	9.1	14%	13%	22%	27%
Kingsoft Office	688111 CH	NR	20,136	283.00	N/A	37.4	27.0	45%	56%	41%	39%
Kingdee	268 HK	NR	12,549	28.15	N/A	19.2	15.2	5%	8%	26%	n.a.
Adobe	ADBE US	NR	312,995	657.00	N/A	20.0	17.4	43%	42%	17%	18%
Autodesk	ADSK US	NR	75,458	342.94	N/A	20.1	17.3	36%	37%	17%	36%
Salesforce	CRM US	NR	241,697	260.98	N/A	11.4	9.3	20%	18%	22%	14%
Veeva System	VEEV US	NR	49,532	323.91	N/A	34.2	27.2	36%	40%	26%	23%
CoStar	CSGP US	NR	33,222	84.12	N/A	17.0	14.7	22%	27%	17%	24%
					Mean	20.7	16.5	27%	29%	25%	30%
					Median	19.6	15.1	24%	26%	22%	26%

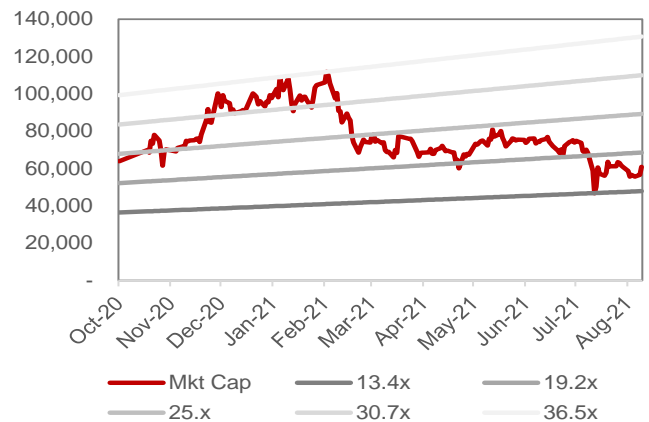
Source: Bloomberg, CMBIS

Figure 14: 12M forward P/S chart



Source: Bloomberg, CMBIS

Figure 15: 12M forward P/S band



Source: Bloomberg, CMBIS

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,264	1,705	2,432	3,263	4,362	Net profit	242	(650)	511	742	1,086
Cost of sales	(269)	(366)	(497)	(621)	(799)	Depreciation/amortization	28	7	11	12	14
Gross profit	995	1,340	1,934	2,642	3,563	Change in working capital	95	87	33	5	(116)
Selling exp	(441)	(590)	(822)	(1,123)	(1,478)	Others	(27)	(16)	(25)	(57)	(106)
Admin exp	(108)	(208)	(228)	(264)	(297)	Net cash from operating	339	(572)	530	703	878
R&D exp	(286)	(356)	(605)	(746)	(937)	Capex	(16)	(17)	(24)	(33)	(44)
Other operating exp.	0	0	0	0	0	Others	(67)	0	0	0	0
Operating profit	159	186	280	509	850	Net cash from investing	(83)	(17)	(24)	(33)	(44)
Finance income/ (costs)	(2)	12	96	102	109	Net borrowings	0	0	0	0	0
Other non-oper exp.	85	(848)	135	131	127	Dividend paid	0	(135)	(135)	(183)	(267)
Pre-tax profit	242	(650)	511	742	1,086	Others	30	4,751	(2)	(2)	(2)
Income tax expense	(11)	(18)	(27)	(59)	(109)	Net cash from financing	30	4,616	(137)	(186)	(269)
Minority interests	(15)	(36)	(38)	(34)	(49)	Net change in cash	286	4,027	369	485	566
Net profit to shareholders	216	(704)	446	649	928	Cash at beginning of the year	448	732	4,759	5,128	5,613
Core net profit	216	328	446	649	928	Exchange difference	(1)	0	0	0	0

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E	YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
Current assets	988	7,210	7,734	8,503	9,520	Revenue mix					
Cash & equivalents	732	4,759	5,128	5,613	6,179	SaaS product	36%	40%	51%	58%	64%
Account receivables	21	30	25	34	46	Procurement Cloud	1%	2%	2%	2%	2%
Contract acquisition cost	103	191	359	615	1,028	CRM Cloud	28%	39%	45%	48%	51%
Contract assets	25	48	58	67	78	Asset Management Cloud	2%	2%	2%	3%	3%
Other receivables	16	51	34	45	60	Construction Cloud	9%	8%	9%	11%	13%
Others	91	2,130	2,130	2,130	2,130	ERP solutions	60%	49%	42%	36%	31%
Non-current assets	246	262	276	296	325	Growth (%)					
PPE	118	150	164	184	213	Revenue	38%	35%	43%	34%	34%
Intangible assets	2	3	3	3	3	Operating profit	67%	17%	51%	82%	67%
Other non-current assets	126	109	109	109	109	Core net profit	40%	49%	36%	45%	43%
Total assets	1,235	7,472	8,010	8,800	9,845	Profit & loss ratio (%)					
Current liabilities	915	843	1,022	1,302	1,625	Gross margin	78.7%	78.6%	79.5%	81.0%	81.7%
ST borrowings	0	0	0	0	0	Operating margin	12.6%	10.9%	11.5%	15.6%	19.5%
Account payables	24	43	33	42	54	Core net profit margin	17.1%	19.3%	18.3%	19.9%	21.3%
Contract liabilities	378	549	760	981	1,221	Balance sheet ratio					
Others	513	252	229	279	351	Receivable turnover days	5	7	4	4	4
Non-current liabilities	49	59	69	79	90	Payable turnover days	21	45	24	24	24
LT borrowings	0	0	0	0	0	Current ratio (x)	1.08	8.55	7.57	6.53	5.86
Contract liabilities	18	25	35	45	56	Net debt to equity	net cash	net cash	net cash	net cash	net cash
Other non-current liabilities	31	34	34	34	34	Profitability (%)					
Total liabilities	964	903	1,091	1,381	1,715	FCF margin	28%	-33%	21%	21%	19%
Share capital	0.1	0.2	0.2	0.2	0.2	ROE	n.a.	-11%	6%	9%	11%
Capital surplus	0.0	0.0	0.0	0.0	0.0	Per share data (RMB)					
Retained earnings	254	(463)	(152)	314	976	Core EPS (RMB)	0.15	0.22	0.24	0.35	0.50
Other reserves	13	7,001	7,001	7,001	7,001	DPS (RMB)	0.00	0.07	0.10	0.14	0.21
Minority interest	254	(463)	(152)	314	976	BVPS (RMB)	0.18	4.48	3.73	4.00	4.38
Total equity	271	6,570	6,919	7,419	8,129						
Total liabilities and equity	1,235	7,472	8,010	8,800	9,845						

Source: Company data, CMBIS estimates

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