

Ming Yuan Cloud (909 HK)

Property policy bottomed but sales data still weak

MYC hosted online investor day on 15 Nov. MYC believes property sector policy has bottomed in Oct but it will take a longer time to see property sales data rebound. CRM Cloud, Construction Cloud and Skyline PaaS will remain as MYC key products but customers mix will tilt more towards property developers with SOE background as they are gaining share in terms of new land acquisition.

- Property sector policy bottomed but it takes time to reflect in property sales data.** MYC believes the recent policy headwinds in property sector is temporary. Mgmt. remained confident in achieving this year revenue target (ERP +15-20% YoY, SaaS over +50% YoY). Although policy has bottomed out in Oct but it will take a longer time to reflect in property sales data. There is more uncertainty to FY22E outlook, depending on new land acquisition and delivery pace. MYC will maintain its product strategy to focus on standardized SaaS + Skyline PaaS that enables third-party IT service providers to develop customized products for property customers.
- CRM Cloud – ARPU will be the key growth driver.** CRM Cloud is MYC's core SaaS product which accounted for 39% of FY20 revenue. Given already-high penetration rate (covering 16,200 or approx. 40% of property sales offices in China as of 1H21), ARPU improvement will be the key growth driver. MYC targets to raise ARPU through 1) AIoT (AI-enabled precision marketing), 2) VR (online showroom) and 3) data analytics products.
- Construction Cloud – Targets SOEs.** Construction Cloud accounted for 8% of MYC FY20 revenue. Through Construction Cloud products, developers can better monitor construction progress, ensure property quality and reduce costs. Private property developers are facing policy headwinds but SOEs are gaining share in terms of new land acquisition. MYC targets to increase Construction Cloud penetration among developers with SOE-background.
- Wait for better entry point.** NBS released Oct property data that property sales further weakened in Oct with volume and value down 22%/23% YoY (vs. -13%/-16% in Sep 2021). We think there is downside risk to consensus FY22E revenue estimate (Consensus: +38% YoY vs. CMBI +27% YoY). Although MYC is trading at 1-SD below mean valuation, we suggest investors to wait until property sales data show obvious improvement. Maintain BUY with unchanged target price of HK\$35.75, based on unchanged 20x FY22E P/S.

Earnings Summary

(YE 31 Dec)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,264	1,705	2,328	2,946	3,858
YoY growth (%)	38%	35%	36%	27%	31%
Core net profit (RMB mn)	216	328	384	538	772
EPS (RMB)	0.15	0.22	0.21	0.29	0.42
YoY growth (%)	40%	49%	17%	40%	43%
Consensus EPS (RMB)	0.15	0.22	0.19	0.27	0.40
PE (x)	148.7	100.0	108.0	77.2	53.8
PS (x)	35.1	26.0	19.1	15.1	11.5
Dividend Yield (%)	0.00	0.00	0.00	0.01	0.01
ROE (%)	n.a.	-11%	6%	7%	10%
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\$35.75
(Previous TP)	HK\$35.75)
Up/Downside	+32.7%
Current Price	HK\$26.95

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Stock Data

Mkt Cap (HK\$ mn)	53,054
Avg 3 mths t/o (HK\$ mn)	185.90
52w High/Low (HK\$)	60.67/ 21.80
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%

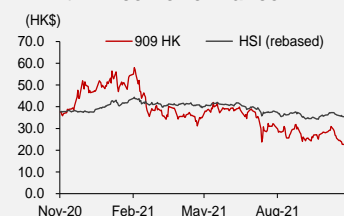
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.7%	-2.1%
3-mth	-8.9%	-5.1%
6-mth	-21.1%	-12.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

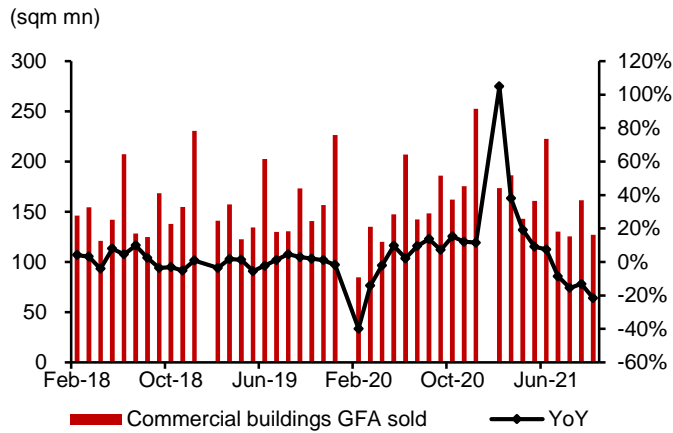
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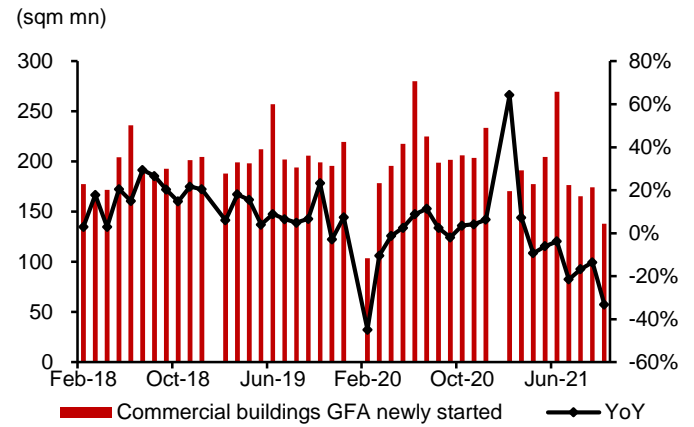
Focus Charts

Figure 1: China commercial buildings GFA sold was down +22% YoY in Oct 2021



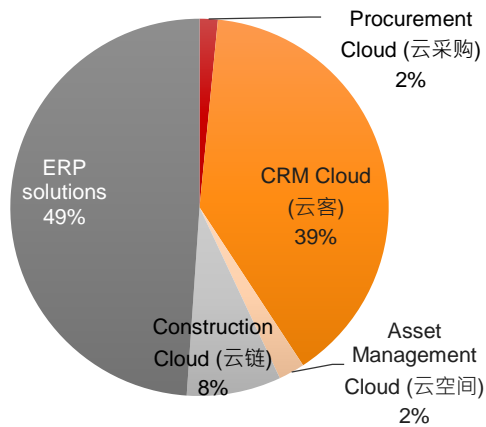
Source: NBS, Company data

Figure 2: China commercial buildings newly started was down -33% YoY in Oct 2021



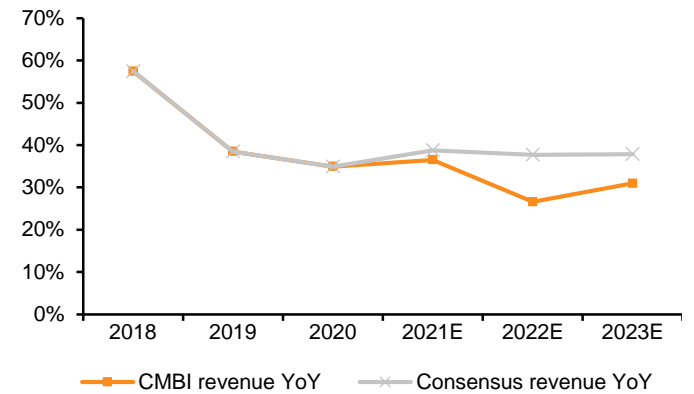
Source: NBS, Company data

Figure 3: CRM Cloud accounted for 39% of MYC FY20 revenue



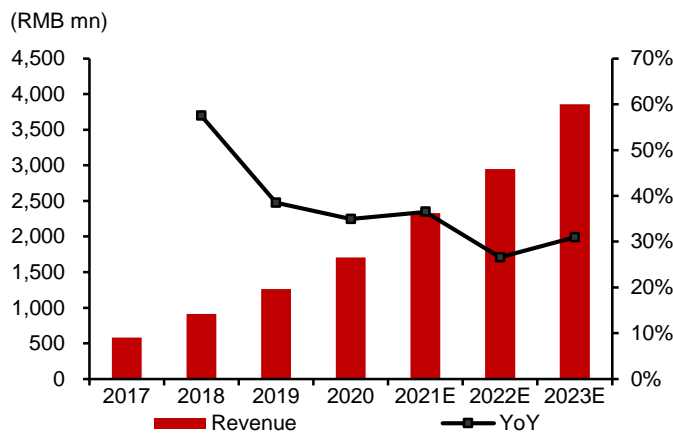
Source: Company data

Figure 4: We are more conservative in FY22E outlook (vs. consensus FY22E revenue +38% YoY)



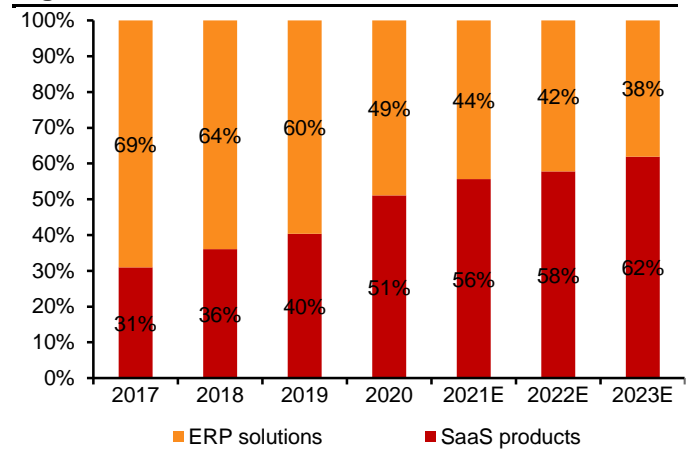
Source: Company data

Figure 5: MYC revenue and YoY



Source: Company data, CMBIS estimates

Figure 6: MYC revenue breakdown



Source: Company data, CMBIS estimates

Investor day takeaways

Industry view – fluctuation is temporary

Chinese government imposed stricter policies, such as “three red lines” and “centralized land supply”, towards the property sector since Aug 2020. In 2H21, on tightening liquidity, some property developers faced liquidity and default risks. Management believes property sector policy has bottomed out in Oct but it will take longer time for the property sales market to rebound. On the other side, MYC believes there are new opportunities emerging from SOEs digitalization trend.

Figure 7: Property sector fluctuation is temporary

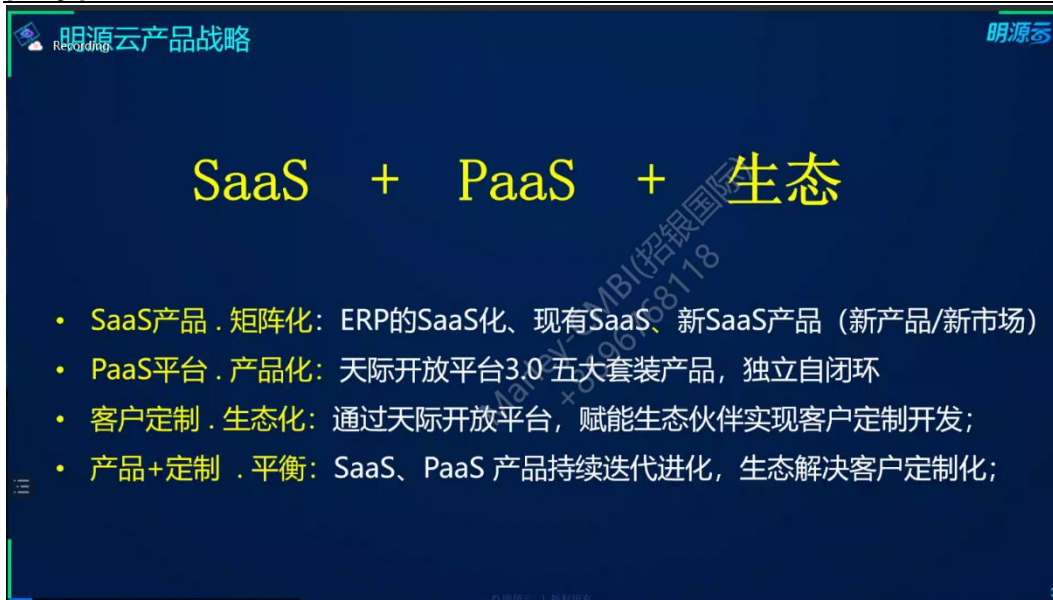


Source: Company data, CMBIS

Overall product strategy – standardized SaaS + PaaS

Standardized SaaS will remain as MYC focus. The company will continue to launch new SaaS modules and upgrade ERP to cloud model. Meanwhile, to meet customers' customization demand, MYC opens up Skyline PaaS platform for third party IT service providers to develop dedicated solutions.

Figure 8: MYC focuses on standardized SaaS and PaaS platform which enables third-party partners to meet customers' customization demand



Source: Company data, CMBIS

Figure 9: MYC products are compatible with customers' existing system

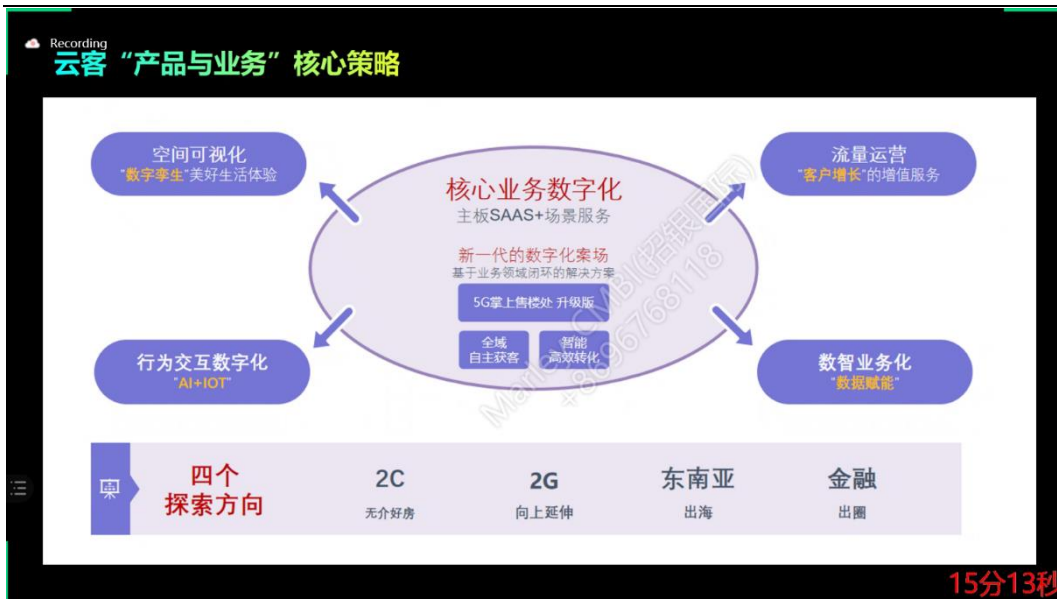


Source: Company data, CMBIS

CRM Cloud - focuses on ARPU improvement

CRM Cloud the MYC's core SaaS product (39% of FY20 revenue). Given high penetration (covered 16.2k property sales offices as of 1H21), ARPU improvement will be the key growth driver going forward. MYC targets to increase ARPU through 1) AIoT, 2) VR and 3) data intelligence products.

Figure 10: MYC is adding new products and services (AIoT, data analytics, VR) to boost CRM Cloud ARPU



Source: Company data, CMBIS

Construction Cloud – Targeting SOEs

Construction Cloud accounted for 8% of FY20 revenue. MYC Construction Cloud products monitor the whole construction process and thus help developers to ensure property quality and reduce costs. Private property developers are facing policy headwinds but SOEs are gaining share in terms of new land acquisition. MYC believes SOEs digitalization is an emerging opportunities for its Construction Cloud business.

Figure 11: MYC Construction Cloud helps property developers to better manage construction quality



Source: Company data, CMBIS

Figure 12: Increasing opportunities from SOEs digitalization



Source: Company data, CMBIS

Figure 13: Part of MYC SOEs customer list



Source: Company data, CMBIS

Operating model

Figure 14: Operating model

RMB mn	2019	2020	2021E	2022E	2023E
Revenues	1,264	1,705	2,328	2,946	3,858
Cost of sales	(269)	(366)	(482)	(592)	(752)
Gross Profit	995	1,340	1,846	2,354	3,106
<i>Gross margin</i>	78.7%	78.6%	79.3%	79.9%	80.5%
R&D	(286)	(356)	(566)	(632)	(776)
SG&A	(550)	(798)	(1,065)	(1,329)	(1,652)
Operating Income	159	186	215	393	678
<i>Operating margin</i>	12.6%	10.9%	9.2%	13.3%	17.6%
Non-Operating Income	84	(836)	226	222	226
Profit Before Tax	242	(650)	441	615	903
Income tax (expense) gain	(11)	(18)	(21)	(49)	(90)
Minorities	15	36	35	28	41
Net Income to Shareholders	216	(704)	384	538	772
Core net income	216	328	384	538	772
<i>Net margin</i>	17.1%	19.3%	16.5%	18.3%	20.0%
Core EPS (RMB)	0.15	0.22	0.21	0.29	0.42
Revenue breakdown					
SaaS product	329	510	871	1,296	1,702
Procurement Cloud (云采购)	11	17	27	41	64
CRM Cloud (云客)	226	355	669	1,043	1,380
Asset Management Cloud (云空间)	18	27	38	50	66
Construction Cloud (云链)	74	111	138	157	188
ERP solutions	584	754	834	1,032	1,244
Gross margin breakdown					
SaaS product	91%	87%	87%	87%	87%
ERP solutions	70%	70%	70%	70%	70%
Growth YoY					
Revenues	38%	35%	36%	27%	31%
Gross profit	35%	35%	38%	28%	32%
Operating Income	67%	17%	16%	83%	72%
Core EPS	40%	49%	-7%	40%	43%

Source: Company data, CMBIS

Figure 15: Semi-annual Operating model

RMB mn	1H20	2H20	1H21	2H21E	1H22E	2H22E
Revenues	671	1,035	974	1,354	1,178	1,768
Gross Profit	529	810	774	1,072	948	1,406
Operating profit	78	108	53	162	106	287
Core net profit	146	244	194	240	179	360
EPS (RMB)	0.05	-0.53	0.09	0.13	0.10	0.19
Margins						
Gross margin	78.9%	78.3%	79.5%	79.2%	80.5%	79.5%
Operating margin	11.6%	10.4%	5.4%	12.0%	9.0%	16.2%
Net margin	10.4%	23.6%	19.9%	17.7%	15.1%	20.3%
Growth (HoH)						
Revenues	-14%	54%	-6%	39%	-13%	50%
Gross Profit	-14%	53%	-5%	39%	-12%	48%
Operating profit	-41%	38%	-51%	208%	-34%	170%
Core net profit	-15%	68%	-21%	24%	-26%	101%
Growth (YoY)						
Revenues	37%	33%	45%	31%	21%	31%
Gross Profit	40%	31%	46%	32%	23%	31%
Operating profit	194%	-19%	-32%	50%	102%	77%
Core net profit	165%	43%	33%	-2%	-8%	50%

Source: Company data, CMBIS

Valuation

MYC (909 HK, BUY, TP HK\$35.75)

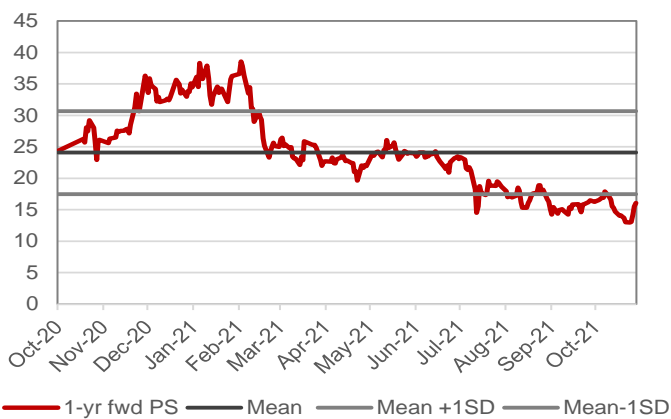
We have not changed our forecast and maintained target price of HK\$35.75, based on 20x FY22E fully diluted P/S. We use P/S as the valuation methodology as earnings cannot reflect operating profitability during SaaS ramp-up stage as operating leverage is not obvious with high S&M and R&D cost.

Figure 16: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	P/S (x)		FCF margin (%)		Sales CAGR FY20-23E	EPS CAGR FY20-23E
						FY21E	FY22E	FY21E	FY22E		
MYC	909 HK	BUY	6,809	26.95	35.75	18.4	13.3	23%	22%	37%	30%
Glodon	002410 CH	BUY	12,282	65.99	95.18	15.2	12.5	20%	22%	23%	53%
Yonyou	600588 CH	NR	16,748	32.68	N/A	10.8	8.4	13%	11%	21%	26%
Kingsoft Office	688111 CH	NR	20,766	287.48	N/A	39.4	29.1	56%	58%	38%	36%
Kingdee	268 HK	NR	12,073	27.10	N/A	18.1	14.5	2%	6%	27%	-180%
Adobe	ADBE US	NR	312,886	657.60	N/A	19.9	17.2	43%	42%	18%	19%
Autodesk	ADSK US	NR	72,401	329.32	N/A	19.3	16.6	36%	35%	17%	36%
CoStar	CSGP US	NR	32,724	82.86	N/A	16.9	14.7	22%	25%	16%	23%
					Mean	19.7	15.8	27%	28%	25%	5%
					Median	18.2	14.6	22%	24%	22%	28%

Source: Bloomberg, CMBIS

Figure 17: 12M forward P/S chart



Source: Bloomberg, CMBIS

Figure 18: 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	2,328	2,946	3,858	Net profit	242	(650)	441	616	903
Cost of sales	(269)	(366)	(482)	(592)	(752)	Depreciation/amortization	28	7	11	12	14
Gross profit	995	1,340	1,846	2,354	3,106	Change in working capital	95	87	124	114	63
Selling exp	(441)	(590)	(848)	(1,043)	(1,322)	Others	(27)	(16)	(19)	(47)	(88)
Admin exp	(108)	(208)	(217)	(285)	(331)	Net cash from operating	339	(572)	556	696	893
R&D exp	(286)	(356)	(566)	(632)	(776)	Capex	(16)	(17)	(23)	(29)	(39)
Other operating exp.	0	0	0	0	0	Others	(67)	0	0	0	0
Operating profit	159	186	215	393	678	Net cash from investing	(83)	(17)	(23)	(29)	(39)
Finance income/ (costs)	(2)	12	96	101	109	Net borrowings	0	0	0	0	0
Other non-oper exp.	85	(848)	130	121	116	Dividend paid	0	(135)	(135)	(158)	(221)
Pre-tax profit	242	(650)	441	615	903	Others	30	4,751	(2)	(2)	(2)
Income tax expense	(11)	(18)	(21)	(49)	(90)	Net cash from financing	30	4,616	(137)	(160)	(224)
Minority interests	(15)	(36)	(35)	(28)	(41)	Net change in cash	286	4,027	395	506	630
Net profit to shareholders	216	(704)	384	538	772	Cash at beginning of the year	448	732	4,759	5,155	5,661
Core net profit	216	328	384	538	772	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	7,745	8,438	9,359	Revenue mix					
Cash & equivalents	732	4,759	5,155	5,661	6,291	SaaS product	36%	40%	51%	56%	58%
Account receivables	21	30	35	44	57	Procurement Cloud	1%	2%	2%	2%	2%
Contract acquisition cost	103	191	318	472	717	CRM Cloud	28%	39%	45%	47%	52%
Contract assets	25	48	59	72	85	Asset Management Cloud	2%	2%	2%	2%	2%
Other receivables	16	51	46	58	76	Construction Cloud	9%	8%	7%	6%	6%
Others	91	2,130	2,131	2,132	2,133	ERP solutions	60%	49%	44%	42%	38%
Non-current assets	246	262	275	292	317	Growth (%)					
PPE	118	150	163	180	205	Revenue	38%	35%	36%	27%	31%
Intangible assets	2	3	3	3	3	Operating profit	67%	17%	16%	83%	72%
Other non-current assets	126	109	109	109	109	Core net profit	40%	49%	17%	40%	43%
Total assets	1,235	7,472	8,019	8,731	9,676	Profit & loss ratio (%)					
Current liabilities	915	843	1,097	1,389	1,731	Gross margin	78.7%	78.6%	79.3%	79.9%	80.5%
ST borrowings	0	0	0	0	0	Operating margin	12.6%	10.9%	9.2%	13.3%	17.6%
Account payables	24	43	44	54	69	Core net profit margin	17.1%	19.3%	16.5%	18.3%	20.0%
Contract liabilities	378	549	760	981	1,221	Balance sheet ratio					
Others	513	252	293	354	442	Receivable turnover days	5	5	5	5	5
Non-current liabilities	49	59	69	79	90	Payable turnover days	21	33	33	33	33
LT borrowings	0	0	0	0	0	Current ratio (x)	1.08	8.55	7.06	6.08	5.41
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	1,166	1,468	1,821	FCF margin	26%	21%	23%	23%	22%
Share capital	0.1	0.2	0.2	0.2	0.2	ROE	n.a.	-11%	6%	7%	10%
Capital surplus	0.0	0.0	0.0	0.0	0.0	Per share data (RMB)					
Retained earnings	254	(463)	(213)	167	718	Core EPS (RMB)	0.15	0.22	0.21	0.29	0.42
Other reserves	13	7,001	7,001	7,001	7,001	DPS (RMB)	0.00	0.07	0.09	0.12	0.17
Minority interest	254	(463)	(213)	167	718	BVPS (RMB)	0.18	4.48	3.69	3.91	4.23
Total equity	271	6,570	6,854	7,263	7,854						
Total liabilities and equity	1,235	7,472	8,019	8,731	9,676						

Source: Company data, CMBIS estimates

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