China Software & IT Services

Software localization to benefit China ERP

We think ERP is relatively ready for localization than other industrial software such as EDA/ CAD. China ERP is still in the painful earnings distortion phase with SaaS migration. However, the benefits with enhancing earnings visibility and improving cash flow in the longer term will drive share price re-rating. We like Kingdee for its early mover advantage in SaaS ERP and higher subscription revenue contribution. Initiate coverage on Kingdee (BUY) and Yonyou (HOLD).

- **China ERP to grow steadily as China calls for IT infrastructure localization.** China calls for accelerating domestic substitution along the IT infrastructure supply chain to reduce US technology reliance. We think China ERP is relatively mature than other industrial software (e.g. EDA/ CAD) for localization, given that China began ERP development and adoption in the 1990s. In 2020, SAP/ Oracle/ IBM still accounted for 61% of China large-enterprise ERP market. We believe software localization brings new opportunities for domestic ERP companies.

- **ERP SaaS transformation takes time.** ERP system integrates all functional units of an enterprise. The complexity makes it difficult for SaaS migration, compared to vertical-specific, tool-based software. We observed that even after 9 years of cloud transformation, SAP's subscription model only accounted for 30% of revenue (vs. Adobe at 78%). We believe China ERP is still undergoing the painful earnings distortion phase with SaaS migration. However, enhancing earnings visibility and improving cash flow will drive share price re-rating, as we observed from US SaaS.

- **A good time to compare Kingdee vs. Yonyou cloud performance.** We think it is a good time now to compare the cloud transition performance among domestic ERP leaders – Kingdee, Yonyou and Inspur as each of them has accumulated 3 years of SaaS data. Kingdee launched first cloud-native platform Cloud Galaxy in 2014 while Yonyou/ Inspur are late joiners in 2019. We like Kingdee most given its strong footprint in medium-sized enterprise market where customers have higher acceptance level to standardized SaaS/ subscription model. ARR accounted for 38% of Kingdee FY21 revenue, vs. 18% for Yonyou, although Yonyou reported a 2x larger cloud revenue.

- **Prefer Kingdee (BUY) over Yonyou (HOLD).** We like Kingdee for its early mover advantage in SaaS ERP and that domestic substitution has helped the company penetrate into large corporates such as Huawei, Venke, China Merchants Group. Meanwhile, it will be difficult for Yonyou, who launched first cloud-native platform 5 years later than Kingdee, to gain share in the medium-sized enterprise market. We expect Kingdee/ Yonyou to deliver 20%/ 18% revenue CAGR and GPM to improve by +1.5pcts/ 0.3pcts in FY21-24E mainly on higher subscription revenue. Key catalyst includes government launching supportive measures related to "Xinchuang" implementation.

China enterprise SaaS valuation table

Company	Ticker	Rating	Mkt Cap (US$ mn)	Price (LC)	TP (LC)	EV/sales FY22E	FCF margin FY22E	Sales CAGR FY21-24E
Kingdee	268 HK	BUY	5,886	13.30	18.31	7.4	0%	20%
Yonyou	600588 CH	HOLD	9,215	18.06	19.58	5.7	-2%	18%
Glodon	002410 CH	BUY	8,062	45.59	72.03	7.7	16%	19%
MYC	909 HK	HOLD	2,262	9.02	11.22	4.2	11%	13%
Kingsoft Office	688111 CH	NR	13,711	200.20	N/A	20.0	32%	31%
					Average	**9.0**	**11%**	**20%**

Source: Bloomberg, Company data, CMBIGM estimates

OUTPERFORM (Initiation)

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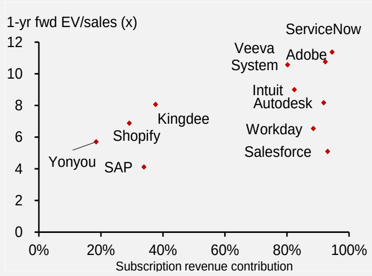
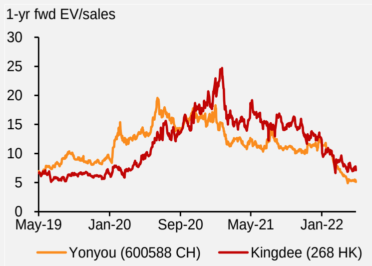


Source: Company data, Bloomberg



Source: Bloomberg, CMBIGM estimates

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Investment Thesis

China ERP is relatively ready for localization…

According to 14th Five-Year Plan, China software and IT services industry size will increase at 11.4% CAGR in 2021 – 2025 reaching RMB14tn, driven by IT infrastructure localization (known as "Xinchuang" initiative), enterprise digitalization and cloudification, in our view. We believe China ERP is relatively mature than other industrial software for localization, given that China began ERP development and adoption in the 1990s (SAP entered China market in 1995, Yonyou launched first ERP in 1998, Kingdee in 1999). In 2020, Yonyou, SAP and Kingdee are the top 3 players in China ERP with 61% share.

…but SaaS transformation takes time

Compared to vertical-specific, tool-based software, ERP system cloud migration process is lengthy and more complicated. Highly-customized legacy ERP, complexity of integrating multiple business functional units and cloud security concerns are the key hurdles to SaaS migration. For instance, even after 9 years of transformation, SAP subscription revenue only accounted for 30% of revenue while Adobe achieved 78% in the same time frame. Despite multiple years of profitability distortion, SaaS migration is still necessary and beneficial to software companies given enhancing earnings visibility as well as share price re-rating. We observed that for SaaS with subscription revenue contribution below 40%, stocks are trading at 4-8x 12M EV/sales. However, for SaaS with >80% of subscription revenue contribution, valuations range between 6-12x.

The long-standing debate: Kingdee vs. Yonyou

We think it is a good time now to compare the cloud transition performance among the domestic ERP leaders (Kingdee, Yonyou and Inspur) as each of them has accumulated 3 years of SaaS data. Kingdee is the early mover in cloud (launched cloud-native platform Cloud Galaxy in 2014), compared to Yonyou and Inspur International which launched cloud-native products in 2019. We like Kingdee most as it has strong footprint in medium-sized enterprise market where customers have higher acceptance level to standardized SaaS/ subscription model. We observed that ARR accounted for 38% of Kingdee's FY21 revenue, compared to 18% for Yonyou, although Yonyou reported a 2x larger cloud revenue. This implies Yonyou cloud customers, mostly large enterprises (70% of FY21 cloud revenue), are less willing to accept the subscription model. Although operating leverage is unclear yet for all three companies, Kingdee's operating cash flow improvement from increasing subscription revenue is significant.

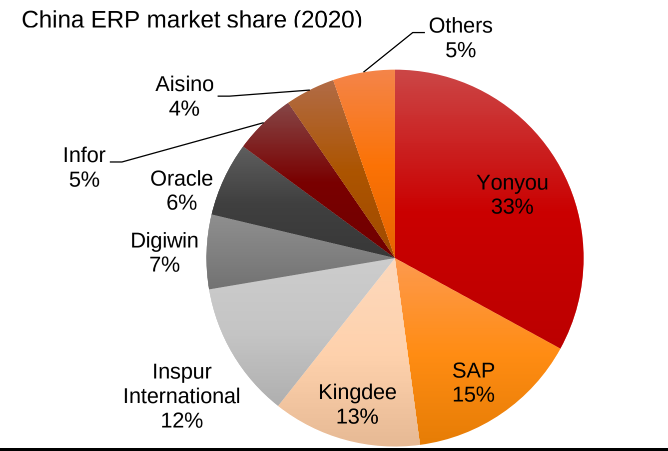
Initiate on Kingdee (BUY) and Yonyou (HOLD)

Kingdee (268 HK, BUY, TP HK$18.31). Kingdee is the largest enterprise application SaaS vendor in China with 5.8% market share in 1H20, according to IDC. We like Kingdee for its continuous SaaS transition in SME market while new opportunity in large enterprise market is emerging with domestic substitution trend. We expect Kingdee to deliver 20% revenue CAGR in FY21-24E reaching RMB7,207mn in FY24E. Initiate at BUY with target price of HK$18.31, based on 8.3x FY23E EV/sales (in-line with global horizontal SaaS peers).

Yonyou (600588 CH, HOLD, TP RMB19.58). Yonyou is the largest ERP in China but a late comer in cloud. Its first cloud-native platform YonSuite was only launched in 2019, compared to Kingdee's Galaxy in 2014. We believe it is more difficult for large enterprises to accept standardized/ SaaS model. Meanwhile, competition in the medium-sized market is intense with Kingdee being a strong competitor. We expect Yonyou to deliver 18%/ 21% revenue/ net profit CAGR in FY21-24E. Initiate at HOLD with target price of RMB19.58, based on 5.0x FY23E EV/sales.

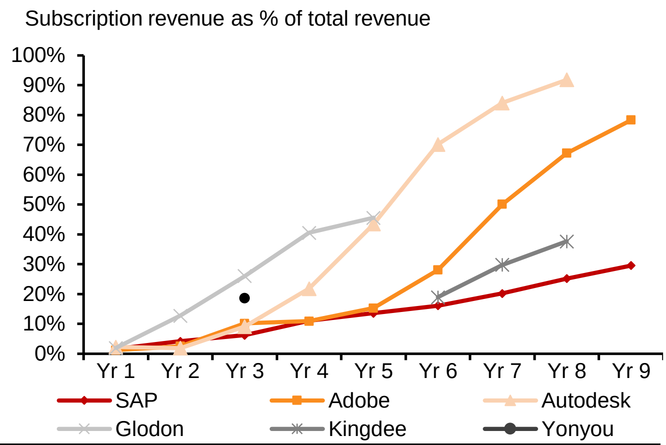
Focus Charts

Figure 1: China ERP to benefit from software localization demand



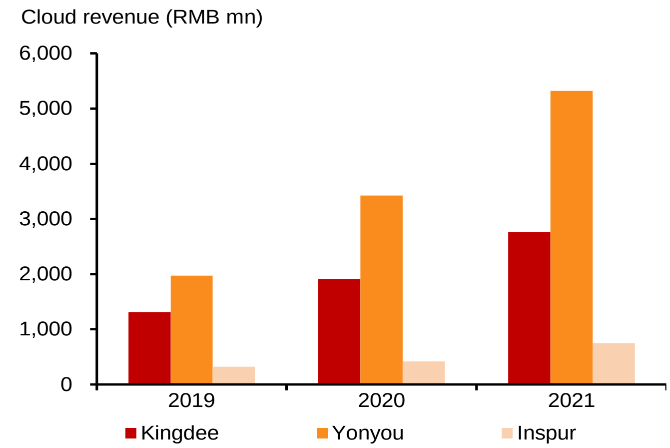
Source: Qianzhan, CMBIGM

Figure 2: Harder for ERP to undergo SaaS migration compared to vertical-specific tool-based software



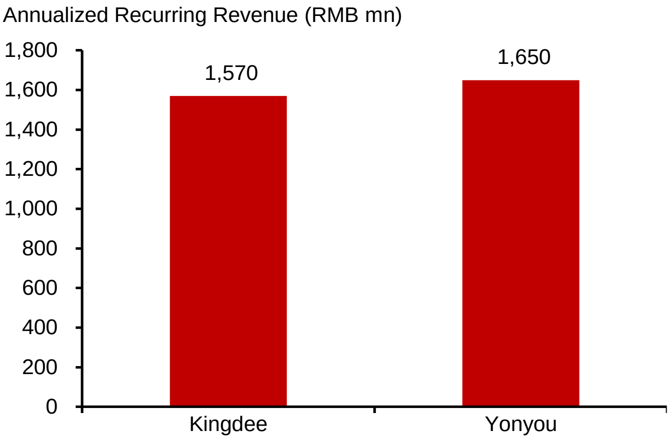
Source: Company data, CMBIGM *Kingdee/ Yonyou is defined as ARR/ revenue as part of their cloud revenue are charged in license model*

Figure 3: Yonyou cloud revenue is 2x larger than Kingdee but ARR is similar in FY21…



Source: Company data, CMBIGM estimates

Figure 4: implying fewer customers are charged on subscription/ recurring model for Yonyou



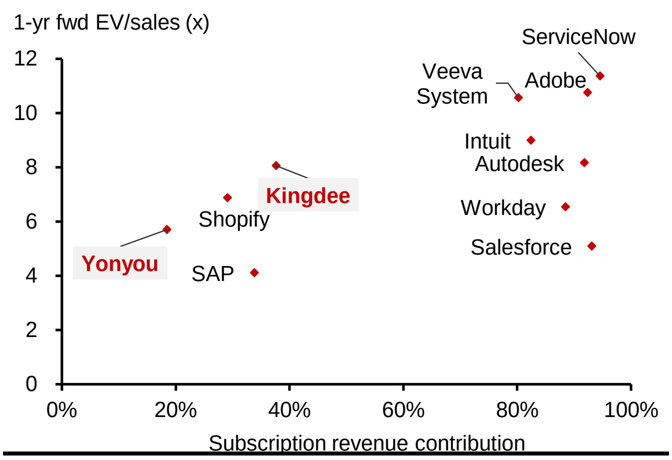
Source: Company data, CMBIGM estimates

Figure 5: Kingdee launched first cloud-native product 5 years earlier than Yonyou

Company size	Company	Product	Launch date
Large enterprises	Kingdee	Kingdee Cloud Cosmic (星瀚)	2018
		Kingdee Cloud Constellation (苍穹)	2021
	Yonyou	YonBIP	2020
	Inspur	GS Cloud	2020
Medium enterprises	Kingdee	Kingdee Cloud Galaxy (星空)	2014
	Yonyou	YonSuite	2019
	Inspur	InSuite	2020
Small & micro enterprises	Kingdee	Kingdee Cloud Stellar (星辰)	2020
		Kingdee Cloud Jingdou (精斗云)	2021
	Yonyou	Chanjet T+Cloud (好会计, 易代账, 好生意)	2017
	Inspur	PSCloud (云会计, 易云)	2019

Source: Company data, CMBIGM estimates

Figure 6: Horizontal SaaS EV/sales vs. subscription revenue contribution



Source: Bloomberg, Company data

Ample room for domestic ERP growth

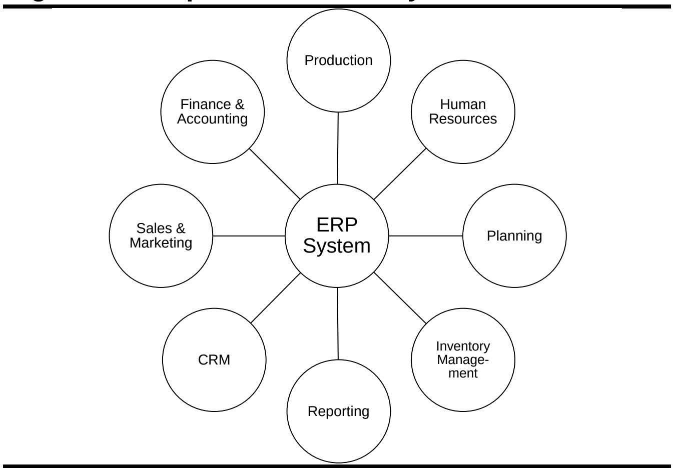
China calls for building a digital economy in the 14th Five-Year Plan (2021 – 2025). Software and IT services industry size is expected to increase at 11.4% CAGR, reaching RMB14tn in 2025. We expect China ERP market to be growing at 10-15% YoY in the coming 3 years, driven by enterprise digitalization and IT infrastructure localization trend. We think China ERP is relatively mature for domestic substitution compared to other industrial software. We believe Kingdee and Yonyou will gain share from foreign vendors SAP/ Oracle, especially in the large enterprise segment.

China ERP market growing at 10-15% YoY annually

ERP (Enterprise Resource Planning) is a software system that an enterprise uses to integrate all functional units such as accounting, procurement, project management, risk management and compliance, and supply chain operations, based on common databases. Organizations use ERP to collect, store, manage, report and interpret data from their various business activities.

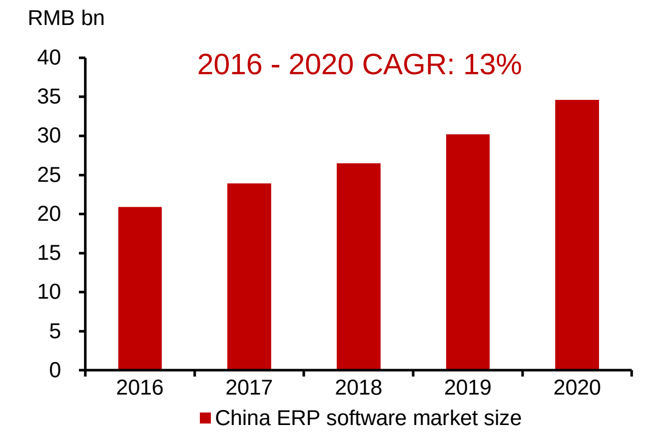
According to Qianzhan, China ERP market grew at 13% CAGR from RMB20.9bn in 2016 to RMB34.6bn in 2020. We believe China ERP market will still be growing at 10-15% YoY in the coming 3 years, mainly driven by accelerated digital transformation. In terms of end market, China ERP is largely driven by manufacturing sector today, accounting for 41% of the market as of 2020.

Figure 7: Components of ERP system



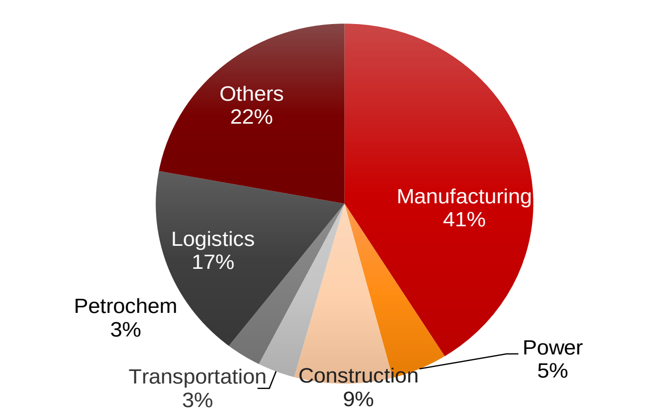
Source: CMBIGM

Figure 8: China ERP market size



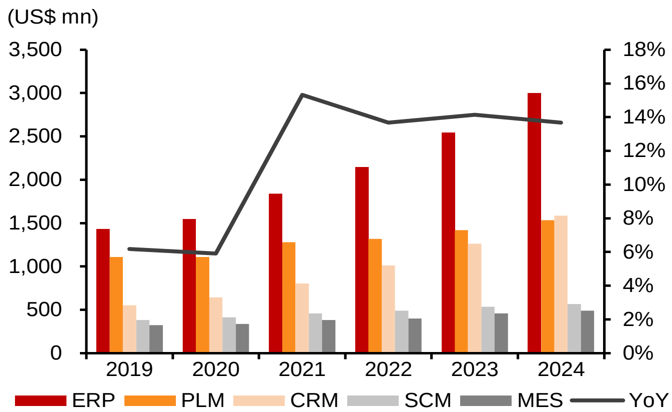
Source: Qianzhan, CMBIGM

Figure 9: China ERP market by sector (2020)



Source: Qianzhan, CMBIGM

Figure 10: China manufacturing sector IT spending



Source: IDC, CMBIGM

China calls for building a digital economy in 14th Five-Year Plan

In early 2022, the State Council has unveiled the 14th Five-Year Plan (2021-2025) on digital economy development. According to the Plan, China aims to raise core digital economy's share of GDP from 7.8% in 2020 to 10% by 2025 and that software & IT services industry scale should increase from RMB8.16tn in 2020 to RMB14tn in 2025 (11.4% CAGR).

Figure 11: China 14th Five-Year Plan key targets on digital economy

Targets	2020	2025E	CAGR
Core digital economy share of GDP	7.8%	10%	n.a.
IPv6 active user (mn)	460	800	11.7%
Households connected to broadband with at least 1 Gbps speed (mn)	6.4	60	56.5%
Software & IT Services industry scale (RMB tn)	8.16	14	11.4%
Industrial internet platform penetration	14.7%	45%	n.a.
National online retail sales (RMB tn)	11.76	17	7.6%
E-commerce transaction size (RMB tn)	37.21	46	4.3%
Real name users under online government service platform	400	800	14.9%

Source: Chinese Institute of Electronics, CMBIGM

Government encourages SOEs to accelerate ERP adoption

Echoing with the State Council's digital economy development plan, the State-owned Assets Supervision and Administration Commission (SASAC) encourages SOEs to accelerate ERP adoption in order to enhance capital/ cost management and operating efficiency. We believe that SOEs undergoing digitalization will be a key driving force in China ERP in the coming five years

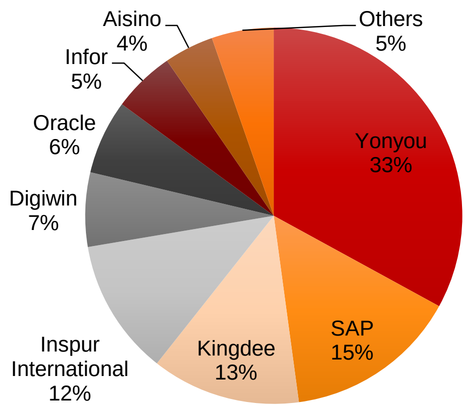
On 2 Mar 2022, the SASAC issued the "Guiding opinion on accelerating the building of world-class financial management systems for SOEs" (关于中央企业加快建设世界一流财务管理体系的指导意见). According to the Opinion, financial management capabilities of SOEs should reach a higher level in 5 years. In 10-15 years, most of the SOEs should have built a well-established financial management system that is comparable with world-class enterprises. A group of SOEs financial management level should rank tier-1 worldwide. Specifically, the adoption of a more sophisticated financial management system should help SOEs strengthen 1) auditing and compliance, 2) capital management, 3) cost control, 4) tax management and 5) operating efficiency.

Software localization provides opportunities for domestic ERP

Compared to other industrial software such as EDA (Electronic Design Automation) for chip design or CAD (Computer-Aided Design software) for architectural design, we think ERP is relatively ready for domestic substitution given years of development. The call for IT infrastructure localization has created opportunities for Yonyou and Kingdee to gain share from foreign peers including SAP and Oracle, especially in the large enterprise/ high-end market.

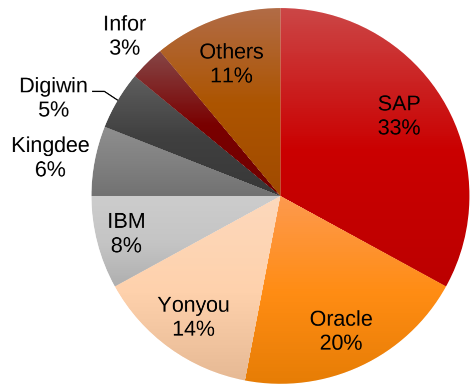
ERP is a relatively mature enterprise application in China as adoption began in the 1990s (SAP entered China market in 1995, Yonyou launched first ERP in 1998, Kingdee in 1999). Yonyou, SAP and Kingdee are the top 3 players in China ERP market with 61% share in 2020. However, in the high-end market for large enterprises, foreign vendors such as SAP/Oracle still dominated with 33%/ 20% market share respectively.

Figure 12: China ERP market share (2020)



Source: Qianzhan, CMBIGM

Figure 13: China high-end ERP market share (2020)



Source: Qianzhan, CMBIGM

Since the US initiated a series of sanctions towards Chinese technology companies in 2018, China has accelerated domestic substitution along the IT infrastructure supply chain which aims to reduce reliance on US technology. In particular, with the development of heterogeneous computing and open source, China is building a domestic IT infrastructure supply chain that aims to break the long-established Wintel (Windows + Intel) monopoly. The Wintel alliance has dominated the PC/ server ecosystem for more than 20 years. Increasing China-US tension has resulted in rising concerns regarding network security and technology accessibility. This has created new opportunities for domestic IT companies.

Figure 14: Wintel vs. domestic IT infrastructure supply chain

	CPU	OS	Storage	Database	Middleware	Network security	Applications
Wintel	Intel	Microsoft	Samsung Hynix Micron	Oracle DB2	Weblogic Websphere Tuxedo Jboss Tomcat	KnowBe4 Raytheon FireEye RSA Symantec	SAP Oracle Autodesk Adobe …
Domestic	Huawei Kunpeng	Huawei Kirin	Yangtze Memory	Dameng	TongTech	Venustech	Kingsoft Office
	华为鲲鹏	麒麟	长江存储	武汉达梦	东方通	启明星辰	金山办公
	Phytium	Uniontech	CXMT	Kingbase	INFORS	Qihoo360	Weaver Network
	飞腾	统信	长鑫存储	人大金仓	中创软件	奇虎 360	泛微软件
	Zhaoxin	NFS-China	JHICC	Shentongdata	Apusic	Star-net	Seeyon
	兆芯	中科方德	晋华	神州通用	金蝶天燕	星网锐捷	致远互联
	Hygon	China Red Flag	Tsinghua Unigroup	Gbase	Primeton	Qianxin	Kingdee
	海光	中科红旗	紫光	南大通用	普元	奇安信	金蝶国际
	Loogson	CETC-Puhua				Zhongfu Information	Yonyou
	龙芯	普华				中孚信息	用友网络
	Shenwei						MYC
	申威						明源云
							ZWsoft
							中望软件

Source: Chinese Institute of Electronics, CMBIGM

Takes times for ERP SaaS migration

SaaS has the advantages over on-premise software in scalability, agility and lower cost of ownership. However, we observed that for ERP, the SaaS migration process is lengthy and more complicated than vertical-specific, tool-based software. For instance, after 9 years of migration, SAP subscription revenue only accounted for 30% of revenue while that of Adobe was at 78%. Despite multiple years of earnings distortion, cloud/ subscription model will create re-rating opportunities as earnings visibility/ cash flow improve.

Uneasy for ERP to undergo cloud migration

Cloud software has the advantages over on-premise software in scalability, agility and lower cost of ownership (can be as low as one-third of the cost of license software). We have observed a lot of U.S. software companies underwent SaaS migration successfully. However, compared to other vertical-specific, tool-based software, ERP SaaS migration process is more lengthy. For reference, after 9 years of migration progress, SAP's cloud revenue only accounted for 39% of its software revenue. We attribute the hurdles to:

1) Customization level: legacy on-premise ERP systems are highly customized according to business needs but Cloud ERP is relatively standardized. Large enterprises could be reluctant to migrate from existing ERP system that they have spent a lot of money in customization.

2) Complexity: ERP is a system that integrates multiple functional units within an enterprise. Complexity of the system has resulted in a lengthy and difficult SaaS migration process. Some large corporates with legacy software applications dedicated for HRM (human resources management), SCM (supply chain management) may not procure the all-in-one ERP system from a single provider. Instead, they require cloud ERP system to integrate with existing data/ software.

3) Security: Some large corporates are still concerned about public cloud security. ERP vendors are thus offering Cloud ERP not only in public cloud environment but private/ hybrid cloud. Customers are thus not necessarily paying under subscription model.

Figure 15: On-premise ERP vs. Cloud ERP

	On-premise ERP	Private Cloud ERP	Public Cloud ERP
Hosting	Customers' server room	Customers' server room	Public cloud
Total cost of ownership	Higher	Lower	Lower
Pricing	One-time perpetual license fee	One-time perpetual license fee/ subscription and implementation	Subscription
Application customization	Customized	Standardized	Standardized
Security	In the hands of the customer	In the hands of the customer	Software vendor
Implementation time	Longer	Longer	Shorter

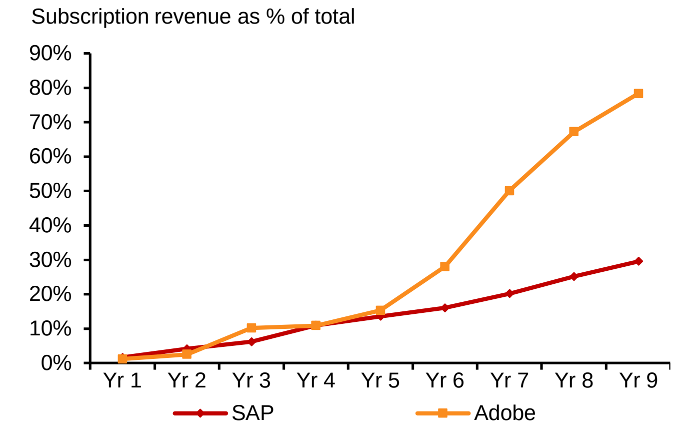
Source: CMBIGM

A more lengthy transition process compared to tool-based software

In Fig 16 & 17, we compared the cloud migration timeline of two leading U.S. software companies. Both companies are long-established and started with license model in the 1970-1980s. Both of them spent years in cloud migration that has resulted in an enhanced ARR and valuation re-rating. SAP is a well-known ERP leader that started to promote cloud transition in 2012 while Adobe is a tool-based software that specializes in media & design industry.

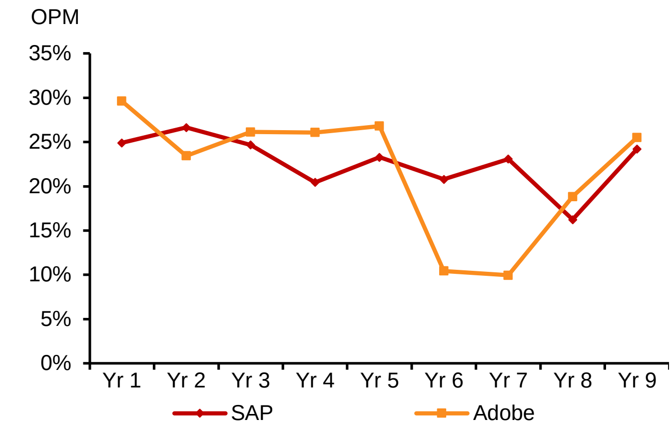
We observed that Adobe has experienced fast growth in subscription revenue as % of total revenue since the 5th year of SaaS migration. It suffered from operating loss at the time when license sales slowed. For SAP, even after 9 years of SaaS transformation, subscription revenue as % of total is still low at less than 30%. Apart from the above-mentioned complexity of ERP, SAP also faced market share loss to the flourishing SaaS companies such as Salesforce in CRM, Workforce in HCM. These have resulted in an even slower pace of subscription revenue growth.

Figure 16: Harder for ERP vendor to undergo SaaS migration



Source: Company data, CMBIGM

Figure 17: Operating margin distortion brought by SaaS migration

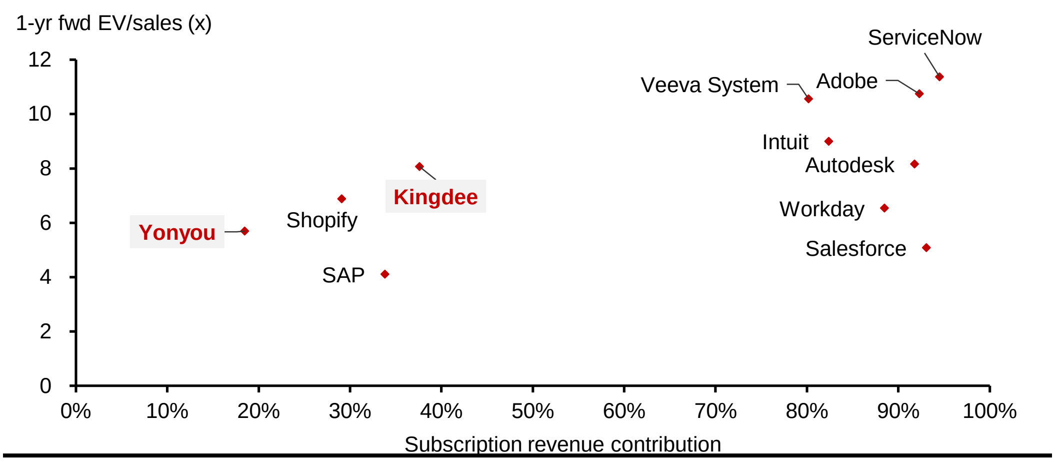


Source: Company data, CMBIGM

SaaS re-rated on higher earnings visibility with subscription

SAP and Adobe both experienced re-rating as their subscription revenue contribution increased. SAP re-rated from 3 to 6.5x while Adobe re-rated from 4 to 18x EV/sales. We attribute the difference to the subscription contribution to revenue and it implies earnings visibility, considering that subscription revenue is recurring in nature. The fluctuation to macro environment is hence smaller. We compared Kingdee, Yonyou and other US SaaS companies and observed that for subscription revenue contribution below 40%, stocks are trading at 4-8x EV/sales. For SaaS with over 80% subscription revenue contribution, valuation could range between 6-12x.

Figure 18: Horizontal SaaS valuation and subscription revenue contribution



Source: Company data, CMBIGM

SAP

SAP, founded in 1972, is a leading ERP software provider with >440,000 customers worldwide (about 80% of its customers are small and mid-sized companies). In 2021, Cloud revenue was at EUR9.42bn, accounting for 39.1% of total software revenue.

In 2011, SAP launched SAP HANA (**H**igh Performance **An**alytic **A**ppliance) database management system that stores and retrieves data requested by other software. SAP began cloud transition in 2012 and launched PaaS (Platform as a Service) SAP HANA Cloud Platform. In 2015, SAP launched SAP S/4HANA, an ERP suite developed specifically on SAP HANA platform. SAP S/4HANA is designed in a way that can be operated on an on-premise basis at the company or through the cloud.

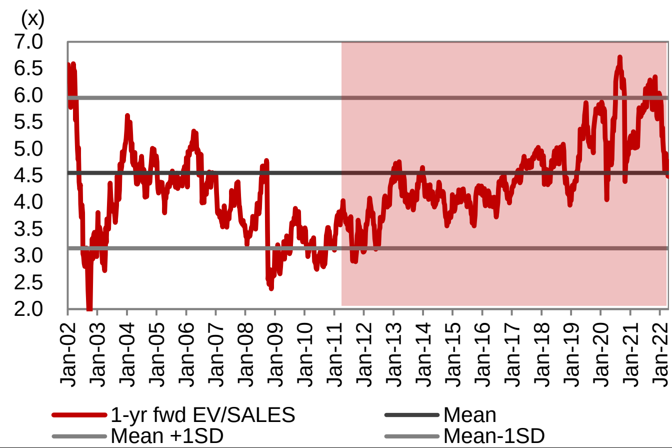
Figure 19: SAP key milestones

Year	Key milestones
1972	SAP was **founded** by 5 former IBM employees with an idea to create standard enterprise software that integrates all business processes and enables data processing in real time
1975	SAP has built applications for financial accounting, invoice verification, and inventory management.
1988	**IPO**
1987 - 1999	SAP **acquired some of its competitors** including Business Objects, Sybase, Ariba, SuccessFactors, Fieldglass and Concur
2012	SAP promoted **cloud** computing and launched PaaS - SAP HANA Cloud Platform
2015	SAP launched SAP S/4HANA, an ERP suite developed specifically for SAP HANA

Source: CMBIGM

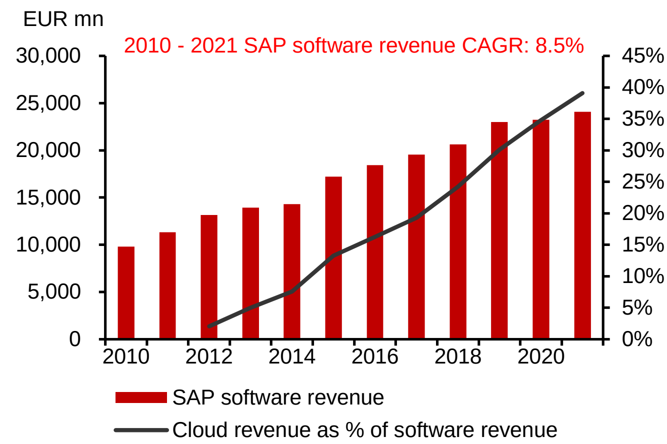
Before the SaaS migration since 2012, SAP has been trading at 3-5x 1-yr fwd EV/sales. Although SAP software revenue growth was slow (2010-2021 software revenue CAGR at 8.5%), SaaS has brought higher earnings visibility and hence resulted in re-rating. SAP share price re-rated from 3x to 6.5x since SaaS migration.

Figure 20: SAP re-rated since SaaS migration plan that started in 2012



Source: Company data, CMBIGM **shaded area indicates years which undergo SaaS migration*

Figure 21: SAP cloud revenue as % of total software revenue



Source: Company data, CMBIGM

Adobe

Adobe, founded in 1982, is specialized in graphic design/ creative arts software. Adobe offers three cloud solutions, namely 1) Adobe Creative Cloud (Core product: Photoshop), 2) Adobe Document Cloud (Core product: PDF) and 3) Adobe Experience Cloud (online marketing and web analytics products). In 2021, Adobe recorded US$14.57bn subscription revenue, accounting for 92.3% of total revenue.

The company started to test the SaaS acceptance by introducing Acrobat.com in 2008. In 2012, Adobe launched subscription-based Adobe Creative Cloud, SaaS version of its Adobe Creative Suite which bundles all products. In 2013, the company announced SaaS migration plan that the company will no longer sell perpetual license of Creative Suite and will focus solely on cloud. This has resulted in a sharp jump of subscription revenue contribution from 15.3% in 2012 to 50.1% in 2014.

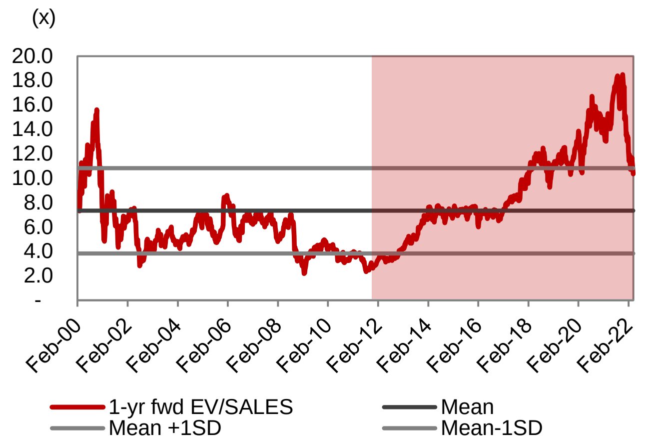
Figure 22: Adobe key milestones

Year	Key milestones
1982	Adobe was **founded** by 2 former employees of Xerox. The founders developed a programming language, Postscript, that translates computer images and text to print.
1986	**IPO**
1987	Adobe introduced **Adobe illustrator**, a design and illustration software
1989	Adobe launched the flagship graphics editing software **Photoshop.**
1993	Adobe introduced **Adobe Acrobat (PDF)** to enhance the viewing of digital publishing.
2003	Adobe released **Adobe Creative Suite** that bundles all of their products together.
2008	Adobe released Acrobat.com
2012	Adobe launched Adobe Creative **Cloud**
2013	Adobe announced that Creative Suite 6 **perpetual license will not be available for purchase** and the company will focus on cloud going forward
2020	Subscription revenue contribution exceeded **90%**

Source: CMBIGM

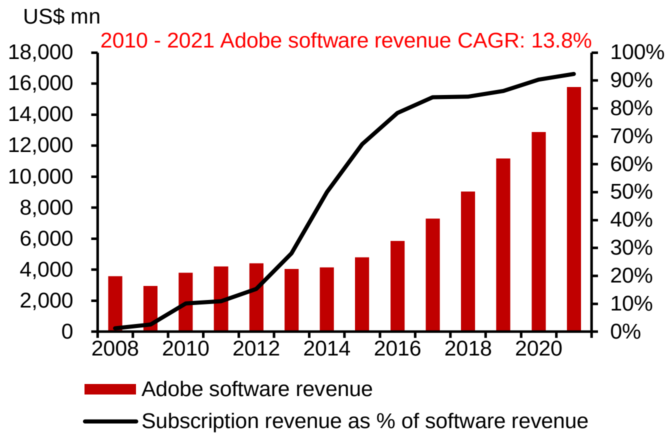
Before the SaaS migration, Adobe was suffering from declining revenue and net profit. Adobe was trading at 4x to 7.5x EV/sales. Since SaaS migration, Adobe has re-rated from 4x to as high as 18x EV/sales as subscription revenue contribution continued to increase.

Figure 23: Adobe re-rated since SaaS migration plan that started in 2012



Source: Company data, CMBIGM **shaded area indicates years which undergo SaaS migration*

Figure 24: Adobe subscription revenue as % of software revenue



Source: Company data, CMBIGM

China ERP peers comparison

We think it is a good time to compare the cloud transition performance among the three domestic ERP leaders (Kingdee, Yonyou and Inspur) as each has accumulated 3 years of SaaS data. We like Kingdee most as the company is the early mover in cloud and it has accumulated more customers under subscription model than Yonyou/ Inspur. However, as China ERP companies have to spend significant amount of R&D to maintain product competitiveness and S&M in client acquisition, we do not expect to see clear operating leverage yet.

Peers comparison snapshot

Figure 25: Cloud revenue

FY21 (RMB mn) Ticker	Kingdee 268 HK	Yonyou 600588 CH	Inspur 596 HK
Established	1993	1988	2003
Cloud metrics			
- ARR	**1,570**	**1,650**	**-**
- ARR as % of revenue	**38%**	**18%**	**-**
- ARR as % of cloud revenue	**57%**	**31%**	**-**
Cloud revenue mix			
- Large enterprise	14%	70%	-
- Medium-sized	51%	7%	-
- Small/ micro businesses	35%	10%	-
- Gov't/ public sector		13%	
Total revenue	4,174	8,932	3,250
YoY	24.4%	4.8%*	53.2%
GPM	63.1%	61.2%	31.7%
OPM	-18.2%	6.2%	-3.0%
R&D expenditure	1,185	2,354	382
R&D expenditure ratio ^	28.4%	26.4%	11.7%
S&M ratio	41.7%	22.7%	14.7%

Source: Company data, CMBIGM ** Core cloud & software revenue grew at +15.7% YoY, ^ including capitalized R&D*

Product offering

Figure 26: Kingdee vs. Yonyou cloud native products

Company size	Company	Product	Launch date	SaaS	PaaS	Deployment	Pricing
Large enterprises	Kingdee	Kingdee Cloud Cosmic (星瀚)	2018		v	Public Cloud/ Hybrid Cloud	Subscription + implementation
		Kingdee Cloud Constellation (苍穹)	2021	v		Public Cloud/ Hybrid Cloud	Subscription + implementation
	Yonyou	YonBIP	2020	v	v	Public Cloud/ Hybrid Cloud	Subscription/ license
	Inspur	GS Cloud	2020	v	v	Public Cloud/ Hybrid Cloud/ Private Cloud	Subscription/ license
Medium enterprises	Kingdee	Kingdee Cloud Galaxy (星空)	2014	v		Public Cloud/ Hybrid Cloud	Subscription/ license
	Yonyou	YonSuite	2019	v	v	Public Cloud/ Hybrid Cloud	Subscription/ license
	Inspur	InSuite	2020	v	v	Public Cloud/ Private Cloud	Subscription/ license
Small & micro enterprises	Kingdee	Kingdee Cloud Stellar (星辰)	2020	v		Public Cloud	Subscription
		Kingdee Cloud Jingdou (精斗云)	2021	v		Public Cloud	Subscription
	Yonyou	Chanjet T+Cloud (好会计, 易代账, 好生意)	2017	v		Public Cloud	Subscription
	Inspur	PSCloud (云会计, 易云)	2019	v		Public Cloud	Subscription

Source: Company data, CMBIGM

Cloud transition progress – Kingdee is doing better

Kingdee is the early mover in cloud migration among the domestic ERP vendors. The company began SaaS migration in 2014 (launched Cloud Galaxy), compared to Yonyou and Inspur International both released first cloud-native product in 2019. We believe Kingdee is a better SaaS company than Yonyou given higher ARR revenue contribution and dollar retention.

Figure 27: Cloud metrics comparison

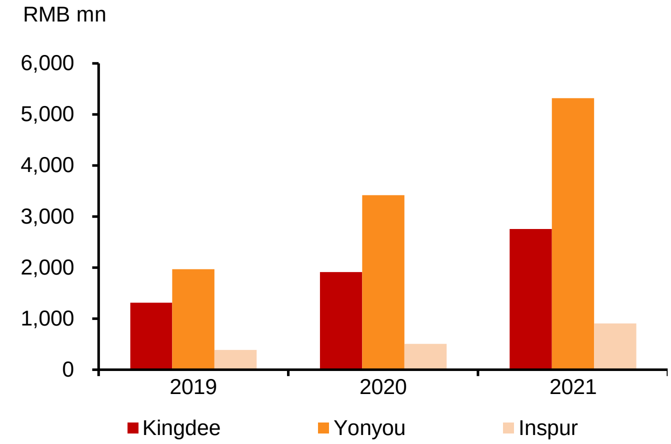
RMB mn	2019	2020	2021
Large enterprise			
Revenue			
- Kingdee	60	190	385
- Yonyou	1,537	2,568	3,735
No. of paying customers			
- Kingdee			551
- Yonyou			14,800 *YonBIP: 13,000* *NC Cloud: 1,800*
Dollar retention			
- Kingdee			>120%
- Yonyou			103%
Medium-sized enterprise			
Revenue			
- Kingdee	868	1,141	1,418
- Yonyou	87	157	393
No. of paying customers			
- Kingdee			25,400
- Yonyou			3,500
Dollar retention			
- Kingdee			98.6%
- Yonyou			73%
Small/ micro businesses			
Revenue			
- Kingdee	386	581	955
- Yonyou	146	241	509
No. of paying customers			
- Kingdee			223,000 *Stellar: 11,000* *Jingdou: 212,000*
- Yonyou			397,000
Dollar retention			
- Kingdee			*Stellar: 82.0%* *Jingdou: 84.1%*
- Yonyou			83%

Source: Company data, CMBIGM

Yonyou Cloud revenue size is 2x larger than Kingdee

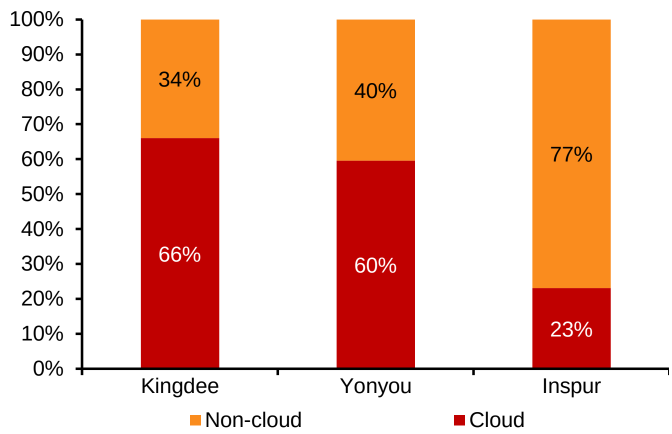
In 2019-2021, Yonyou recorded the fastest cloud revenue CAGR of 64%, compared to Kingdee's 45% and Inspur International's 53%. In 2021, 66% of Kingdee's revenue came from cloud, slightly better than Yonyou's 60% cloud revenue contribution. Inspur International only had 23% of revenue derived from cloud business during the same period.

Figure 28: Cloud revenue



Source: Company data, CMBIGM

Figure 29: FY21 Revenue mix (cloud vs. non-cloud)



Source: Company data, CMBIGM

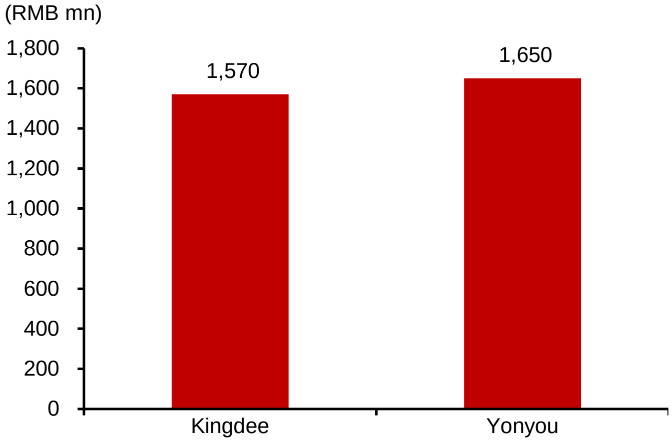
But Kingdee and Yonyou have similar size of ARR…

As we discussed before, ERP cloud migration is different to tool-based software cloud migration given its complexity. Most of the tool-based software vendors change completely to SaaS (public cloud) subscription based model as their products are highly standardized. For ERP vendors like SAP, many of its large enterprise customers are still demanding a private/ hybrid cloud solutions although some of them are willing to pay on subscription basis.

Kingdee began to disclose ARR (Annualized Recurring Revenue) in 2019 at RMB630mn. This reflects the revenue from Kingdee's cloud subscription services. In 2019 – 2021, Kingdee ARR increased at 58% CAGR. ARR accounted for 38% of its total 2021 revenue.

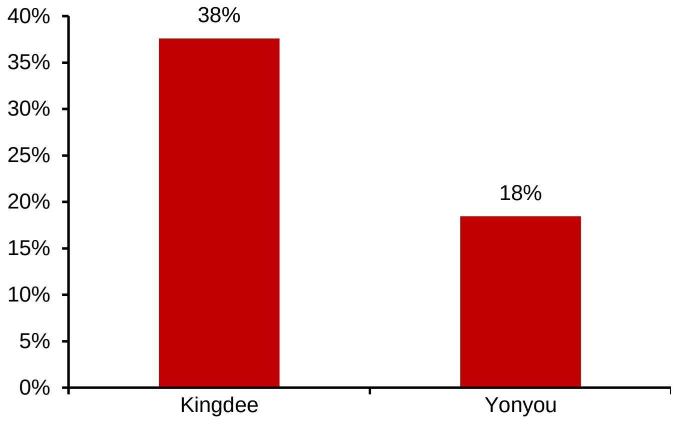
Yonyou started to provide ARR data in 2021 at RMB1,650mn, accounting for 18% of its total revenue. Although Yonyou cloud revenue is nearly 2x larger than that of Kingdee, these two companies reported a very similar ARR in FY21. This implies that most of Yonyou's cloud revenue is not charged on subscription or not on a recurring basis.

Figure 30: FY21 ARR



Source: Company data, CMBIGM

Figure 31: FY21 ARR as % of revenue

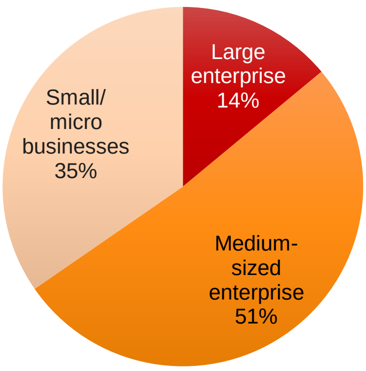


Source: Company data, CMBIGM

Implying fewer customers are charged on subscription/ recurring model for Yonyou

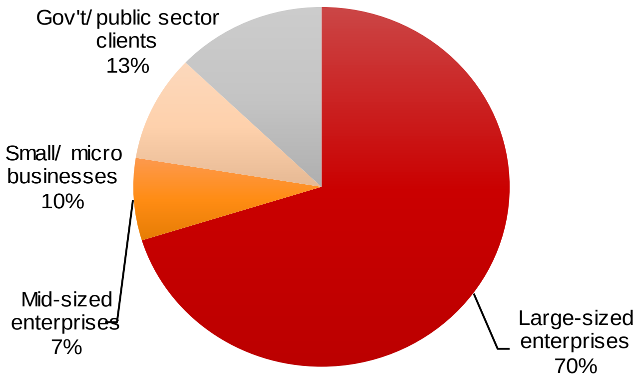
We think the higher cloud revenue but lower ARR can be explained with their client mix. In 2021, 51% of Kingdee's cloud revenue came from medium-sized enterprises. However, for Yonyou, 70% of its cloud revenue came from large enterprises. Large enterprises prefer to deploy the ERP in a private/ hybrid cloud environment which requires more customization and implementation work. As such, they are less likely to accept standardized/ subscription base model. This echoed with SAP cloud migration that even after 9 years of cloud migration, subscription revenue as % of total software revenue is just at 30%.

Figure 32: Kingdee Cloud revenue



Source: Company data, CMBIGM

Figure 33: Yonyou Cloud revenue mix



Source: Company data, CMBIGM

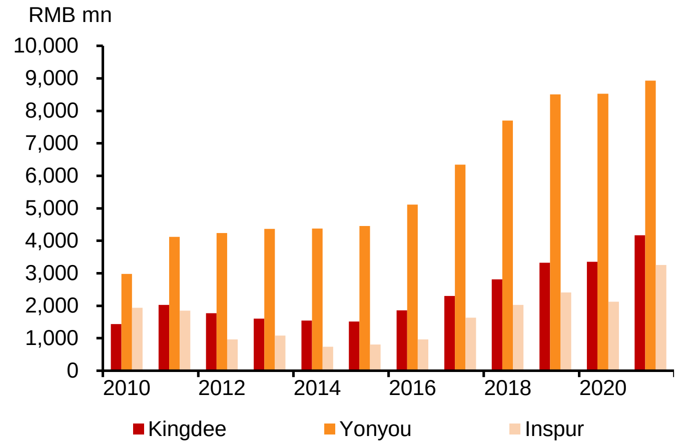
R&D – Chinese ERP companies tend to capitalize R&D

Chinese ERP companies spent around 20-30% of revenue in R&D annually and this ratio has been increasing amid cloud transition. Among the peers, Kingdee is spending R&D more efficiently than Yonyou. It generated higher revenue per dollar of R&D spent. Also, Chinese ERP companies tend to capitalize part of R&D, which is uncommon among other domestic tool-based software companies. We believe this is related to the ERP system complexity that requires higher up-front development cost. Kingdee has the higher R&D capitalization rate at over 80% in 2010 – 2019 but such ratio has decreased to 35% in 2020 – 2021. Meanwhile, we observed that Yonyou has increased R&D capitalization rate to 36% in 2021 (vs. 15% on average in 2010 – 2020)

Yonyou R&D expenditure is 2x larger than Kingdee…

Yonyou spent nearly 2x moreR&D (for capitalized R&D) than Kingdee throughout 2010 - 2021. The two companies spent roughly 15-20% of revenue in R&D between 2010 – 2019 but this ratio jumped to 20-30% in 2020 – 2021 as the companies undergo SaaS migration that license sales was distorted.

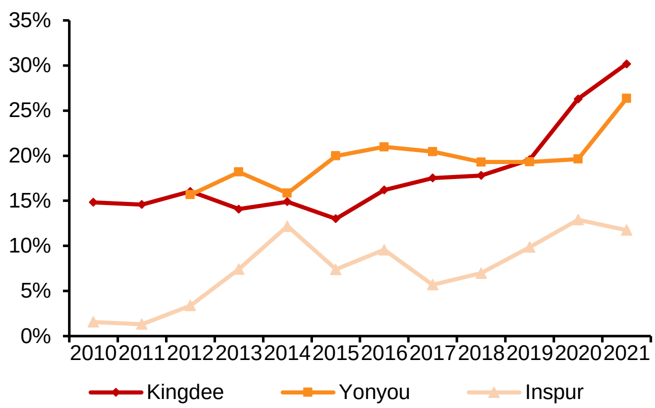
Figure 34: R&D expenditure



Source: Company data, CMBIGM

Figure 35: R&D expenditure ratio

(R&D expenditure to sales ratio)



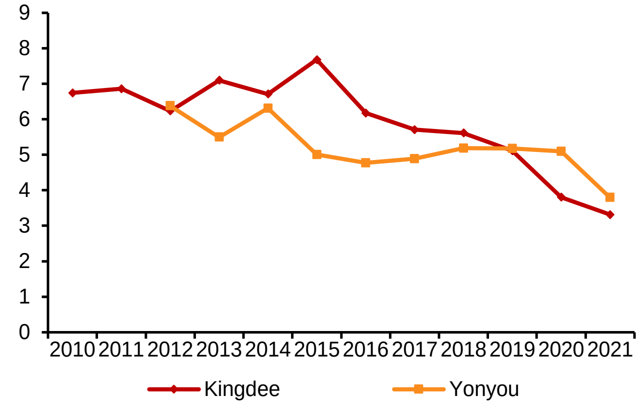
Source: Company data, CMBIGM

But Kingdee is spending R&D more efficiently

Although Yonyou is spending more R&D than Kingdee, we observed that Kingdee's R&D efficiency is higher, in terms of revenue generated per R&D expenditure. As both companies are still in early stage of cloud migration that operating leverage is insignificant, they recorded decline in revenue per R&D expenditure spent in 2019 – 2021. Kingdee has always capitalized over 80% of R&D expenditure in 2010 – 2019 but its capitalization rate dropped to around 35% in 2020 – 2021. Meanwhile, Yonyou capitalized 15% of R&D annually during 2010 - 2020 but such ratio has increased to 36% in 2021.

Figure 36: Revenue generated per R&D expenditure

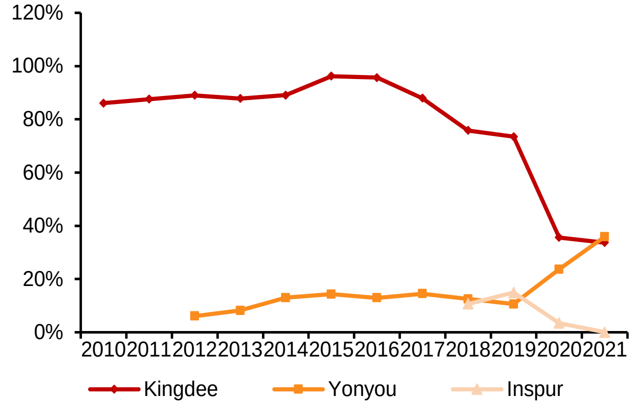
(Revenue per R&D expenditure spent)



Source: Company data, CMBIGM

Figure 37: R&D capitalization ratio

(R&D capitazliation ratio)



Source: Company data, CMBIGM

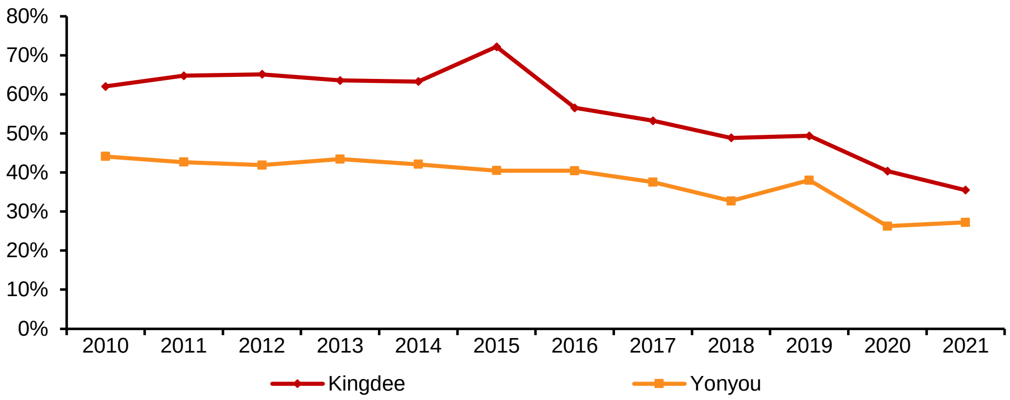
Kingdee has higher self-developed software value

In China, self-developed software revenue is first taxed at standard VAT rate of 16%. Any amount in excess of 3% will be refunded back to the company. Kingdee has a higher self-developed software revenue contribution at 50-60% in FY10 – FY19 (vs. 30-40% for Yonyou). Kingdee's ratio gradually decreased to 36% in FY21 (vs. 27% for Yonyou) due to higher SaaS contribution as SaaS is treated as a service and is being taxed at 6% instead.

We believe the gap between Kingdee and Yonyou in self-developed software value is related to customer mix. Yonyou, focusing on large corporates, is required to deliver more implementation and customization IT service. However, for Kingdee focusing on medium-sized corporates, customers have higher acceptance to standardized products.

Figure 38: Self-developed software value as % of total revenue

(self-developed software value as % of total revenue)



Source: Company data, CMBIGM

Profitability – Unclear operating leverage yet

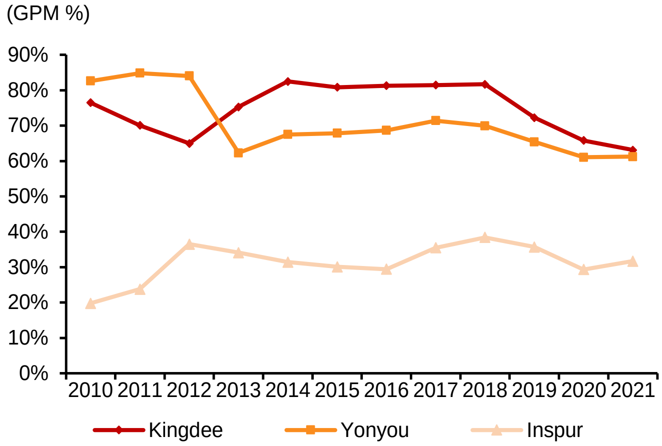
China ERP companies barely achieved positive operating profit or free cash flow in the past 10 years. We attribute this to intense competition with foreign ERP companies including SAP and Oracle. Chinese ERP companies have to spend significant amount of R&D to maintain product competitiveness and S&M in client acquisition.

Unclear operating leverage for China ERP companies

Kingdee used to have higher GPM than Yonyou as the company focused on pure software license sales to mid-sized companies. Since 2018, Kingdee GPM decreased from 80% to 63% in 2021 as a result of more private/ hybrid cloud projects delivered that required delivery/ testing service. Yonyou has always been focusing on large corporates projects and GPM was maintained at around 60%.

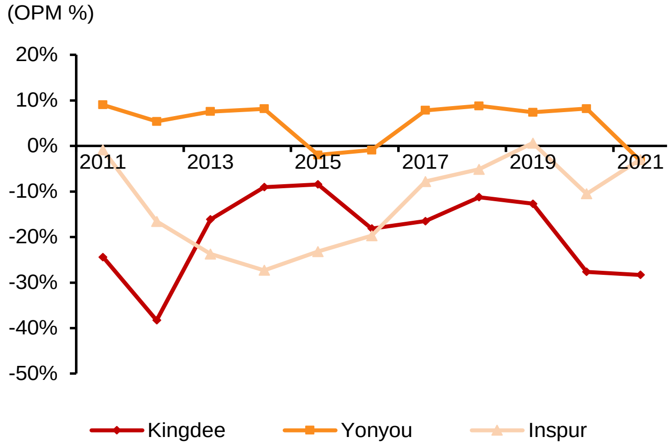
On the operating level, if we assume all R&D are being expensed, Kingdee is barely unprofitable throughout 2011 to 2021. Meanwhile, Yonyou generally achieved high single digit operating margin on an adjusted basis.

Figure 39: GPM



Source: Company data, CMBIGM

Figure 40: Adj. OPM

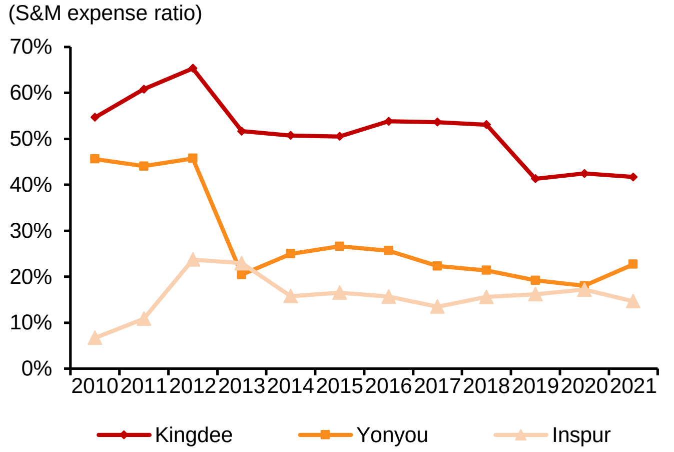


Source: Company data, CMBIGM

Kingdee has the highest S&M expense ratio but is in a declining trend

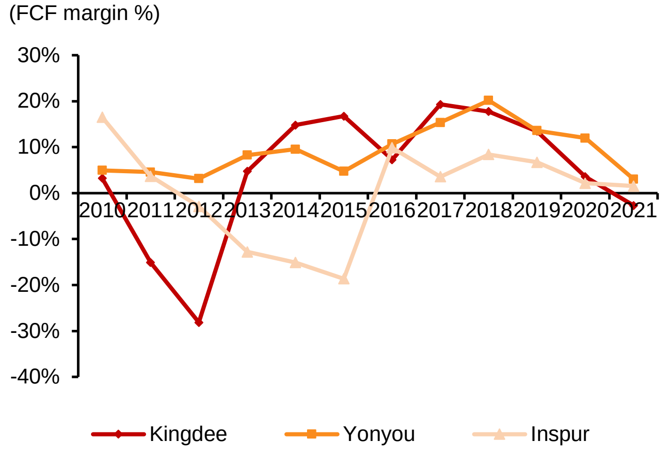
Kingdee has the highest sales & marketing (S&M) ratio among the three listed China ERP peers. The company spent around 50% of revenue on sales and marketing in 2013 – 2018. In 2019 – 2021, S&M ratio decreased to 40%. Yonyou and Inspur spent roughly 10-20% of revenue on S&M. All three companies barely achieved a positive free cash flow.

Figure 41: S&M expense ratio



Source: Company data, CMBIGM

Figure 42: FCF margin

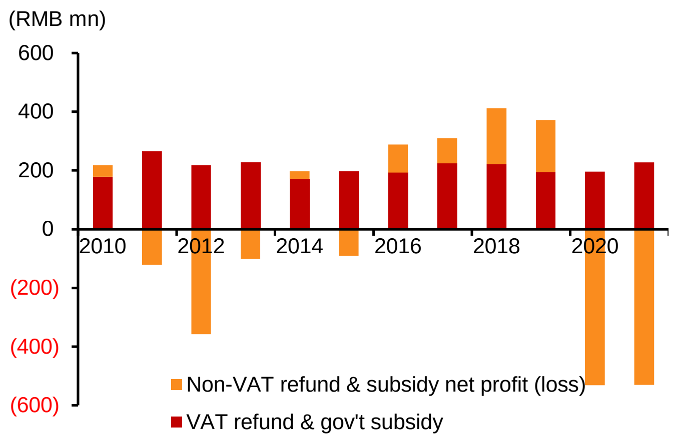


Source: Company data, CMBIGM

Both companies rely on government support in VAT and direct subsidy

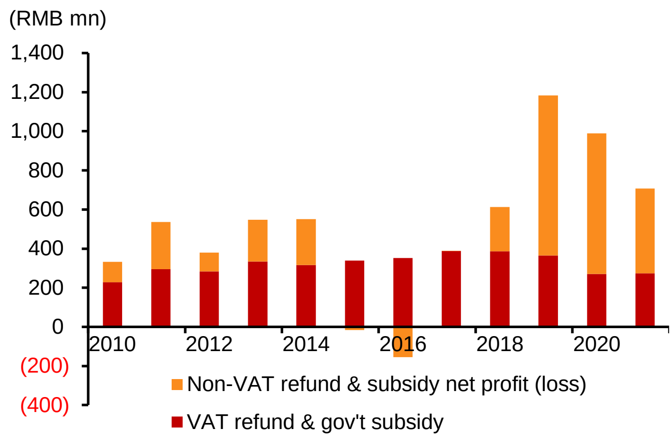
With high opex spending, Kingdee and Yonyou are barely profitable if VAT refund and government subsidies are being excluded.

Figure 43: Kingdee net profit (loss)



Source: Company data, CMBIGM

Figure 44: Yonyou net profit (loss)



Source: Company data, CMBIGM *Yonyou recorded one-off investment and revaluation gain or RMB522mn in FY19*

Valuation

Kingdee (268 HK, BUY, TP HK$18.31)

We initiate coverage on Kingdee with BUY rating and target price of HK$18.31, based on 8.1x FY23E EV/sales. Our target multiple is based on the average of global horizontal enterprise SaaS, excluding SAP as the company is trading at a valuation discount given slower revenue growth (FY21-24E sales CAGR only 10% vs. 22% on average) and a capex heavy business model with self-developed cloud infrastructure. Kingdee is trading at 6.0x 12M forward EV/sales, 1-SD below its 3-year mean. We believe that Kingdee deserves re-rating given increasing subscription revenue contribution and hence better cash flow visibility.

Yonyou (600588 CH, HOLD, TP RMB19.58)

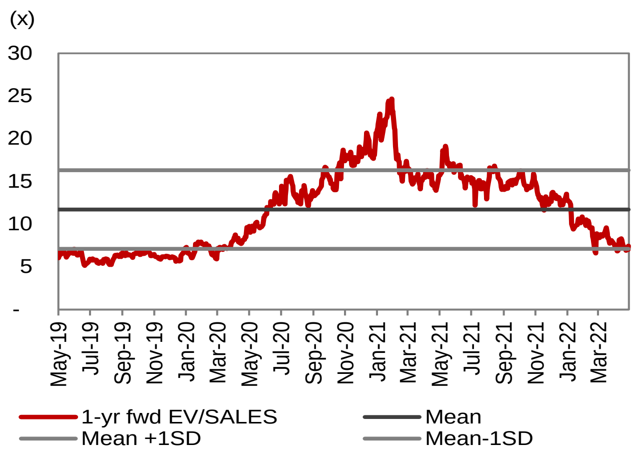
We initiate coverage on Yonyou with HOLD recommendation and target price of RMB19.58, based on 5.0x FY23E EV/sales (40% discount to global horizontal enterprise SaaS given lower subscription revenue contribution). Yonyou is trading at three-year low but we believe re-rating would be difficult in the short term given that 80% of its cloud revenue is derived from large-enterprises who are less willing to accept subscription model and require higher customization work.

Figure 45: Horizontal SaaS peers valuation comparison

Company	Ticker	Rating	Market Cap (US$ mn)	Price (LC)	TP (LC)	EV/sales (x) FY22E	EV/sales (x) FY23E	FCF margin (%) FY22E	FCF margin (%) FY23E	Sales CAGR FY21-24E	EPS CAGR FY21-24E
Kingdee	268 HK	BUY	5,886	13.30	18.31	7.4	6.0	0%	5%	20%	n.a.
Yonyou	600588 CH	HOLD	9,215	18.06	19.58	5.7	4.6	-2%	8%	18%	19%
Kingsoft Office	688111 CH	NR	13,711	200.20	N/A	20.0	15.1	32%	39%	31%	30%
SAP	SAP US	NR	119,558	97.32	N/A	4.0	3.7	12%	16%	10%	n.a.
Intuit	INTU US	NR	109,573	388.45	N/A	8.9	7.8	28%	30%	20%	29%
Xero	XRO AU	NR	9,265	87.43	N/A	13.3	10.4	-7%	2%	25%	72%
Workday	WDAY US	NR	41,731	164.51	N/A	7.8	6.5	26%	20%	20%	n.a.
ServiceNow	NOW US	NR	90,666	452.29	N/A	12.0	9.6	31%	32%	25%	119%
Salesforce	CRM US	NR	158,679	159.65	N/A	6.2	5.1	19%	21%	21%	9%
					Mean	**9.5**	**7.6**	**16%**	**19%**	**21%**	**46%**
					Median	**7.8**	**6.5**	**19%**	**20%**	**20%**	**30%**

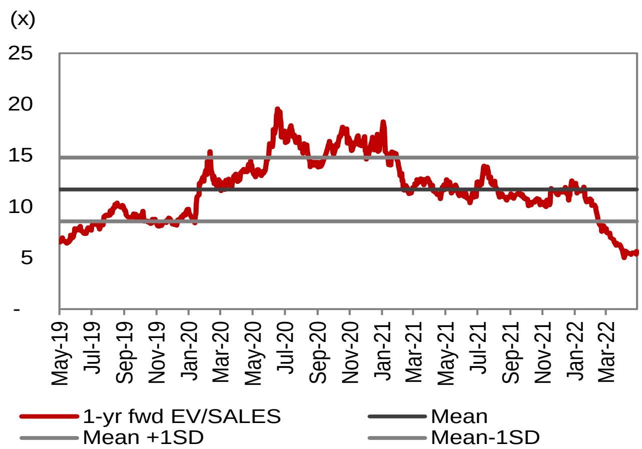
Source: Bloomberg, CMBIGM estimates

Figure 46: Kingdee 12M forward EV/sales chart



Source: Bloomberg, CMBIGM estimates

Figure 47: Yonyou 12M forward EV/sales chart



Source: Bloomberg, CMBIGM estimates

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Kingdee (268 HK)

Domestic ERP SaaS leader

Kingdee is the largest enterprise application SaaS vendor in China with 5.8% market share in 1H20, according to IDC. We like Kingdee for its continuous SaaS transition in SME market while new opportunities in large enterprise market are emerging with domestic substitution trend. We expect Kingdee to deliver 20% revenue CAGR in FY21-24E reaching RMB7,207mn. Initiate with BUY.

- **Largest enterprise application SaaS vendor in China.** Kingdee, established in 1993, is the largest enterprise application SaaS vendor in China with 5.8% market share in 1H20, according to IDC. Kingdee first tapped into financial software in 1996 and achieved a leading position in China ERP market, especially in SME segment. In 2014, the company started cloud migration. In 2021, Kingdee achieved RMB4.17bn revenue (66.1% from cloud business) but recorded a net loss of RMB302mn.
- **Terminated license sales in 2020 to accelerate SaaS transition.** Kingdee launched first ERP SaaS product Cloud Galaxy that targets medium sized enterprises in 2014. In 2020, to accelerate SaaS migration, Kingdee terminated the license sales of legacy KIS and K/3 license. In 2021, Cloud Galaxy revenue was at RMB1.41bn, accounting for 34% of total revenue. We like Kingdee for its high subscription ARR (annual recurring revenue) of RMB1.57bn (37.6% of total revenue) in 2021. Kingdee targets a subscription ARR CAGR of 45% in 2021-23E to RMB3.3bn.
- **New opportunities in large enterprise segment on localization demand.** As China calls for domestic substitution in software, this has created new opportunities for Kingdee to tap into large enterprise market which was dominated by foreign vendors including SAP and Oracle. As of 2021, Kingdee has served 102 large enterprises including Huawei, Vanke, China Merchants Group etc. in domestic substitution. In 2021, Cloud Cosmic and Constellation revenue grew strongly at +102.9% YoY to RMB385mn. Dollar retention was high at over 120%.
- **Initiate at BUY.** We expect Kingdee to deliver 20% revenue CAGR in FY21-24E reaching RMB7,207mn while bottom-line will improve from net loss of RMB302mn in FY21 to net profit of RMB192mn in FY24E. Initiate at BUY with target price of HK$18.31, based on 8.1x FY23E EV/sales (in-line with global horizontal enterprise SaaS peers).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,356	4,174	4,925	6,048	7,207
YoY growth (%)	1%	24%	18%	23%	19%
Net profit (RMB mn)	(335)	(302)	(372)	(128)	192
EPS (RMB)	(0.10)	(0.09)	(0.11)	(0.04)	0.06
YoY growth (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Consensus EPS (RMB)	(0.10)	(0.09)	(0.07)	(0.01)	0.07
EV/sales (x)	10.7	8.8	7.4	6.0	4.9
P/E (x)	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
ROE (%)	-4%	-4%	-5%	-2%	3%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Initiation)

Target Price	**HK$18.31**
Up/Downside	**+37.7%**
Current Price	**HK$13.30**

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Stock Data

Mkt Cap (HK$ mn)	46,205
Avg 3 mths t/o (HK$ mn)	234.62
52w High/Low (HK$)	32.15/ 11.82
Total Issued Shares (mn)	3,474

Source: Bloomberg

Shareholding Structure

Mr. Xu - Chairman	20.25%
JPMorgan Chase & Co.	12.31%

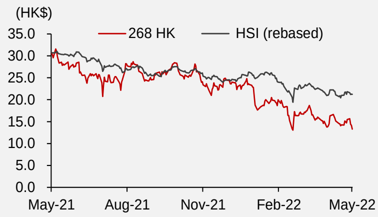
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.6%	1.1%
3-mth	-29.3%	-20.2%
6-mth	-41.4%	-28.1%

Source: Bloomberg

12-mth Price Performance

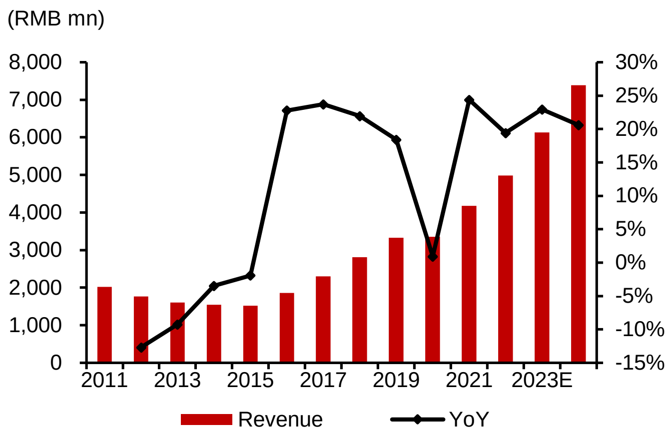


Source: Bloomberg

Auditor: PwC

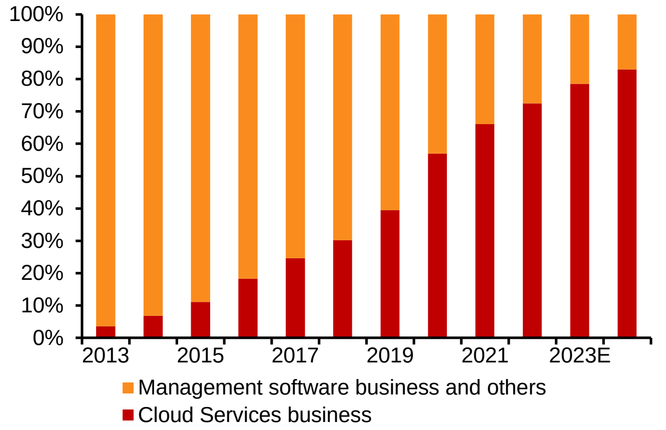
Focus Charts

Figure 48: Revenue and growth



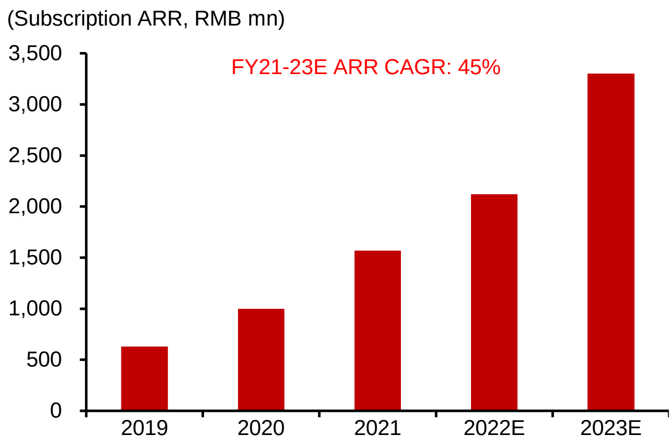
Source: Company data, CMBIGM estimates

Figure 49: Revenue mix



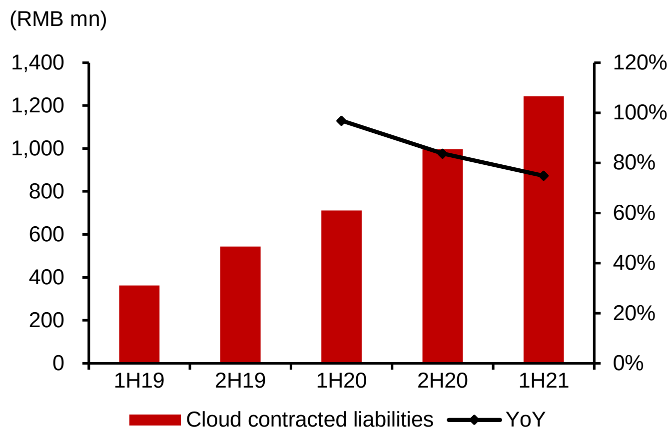
Source: Company data, CMBIGM estimates

Figure 50: Subscription ARR



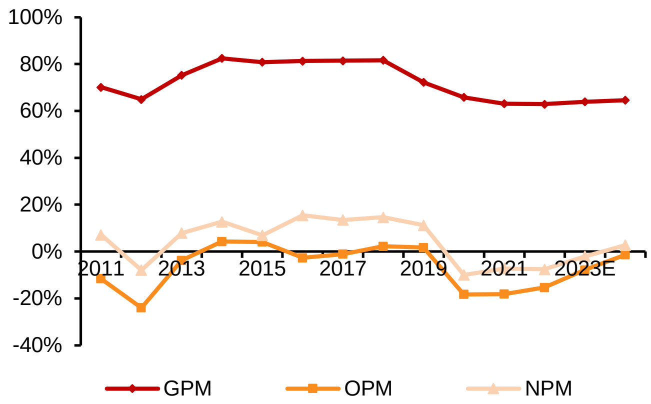
Source: Company data, CMBIGM estimates

Figure 51: Contracted liabilities



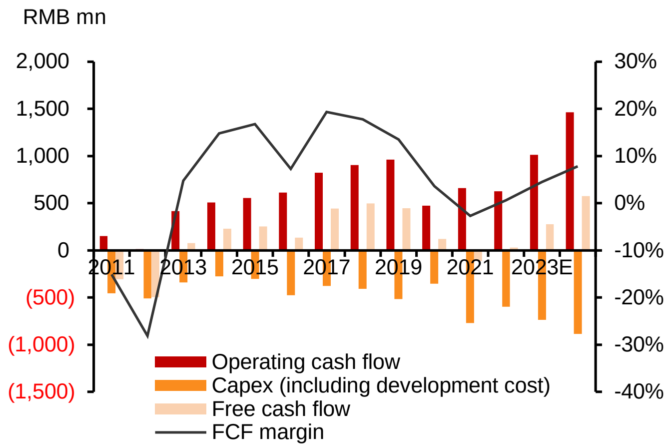
Source: Company data, CMBIGM estimates

Figure 52: Margins to improve



Source: Company data, CMBIGM estimates

Figure 53: Positive free cash flow



Source: Company data, CMBIGM estimates

Company Overview

Kingdee, established in 1993 in Shenzhen, was listed on HKEx GEM board in 2001 and changed to the Main Board in 2005. Kingdee is the largest enterprise application SaaS vendor in China with 5.8% market share in 1H20, according to IDC.

Kingdee launched first Windows-based financial software in 1996 and first ERP system K/3 in 1999. The company has then dominated the SME market with its ERP systems K/3 (medium enterprise) and KIS (small enterprise). In 2014, the company underwent SaaS migration and launched Cloud Galaxy targeting medium enterprise segment. In 2018, to penetrate the large enterprise market, Kingdee launched cloud-native platform Cosmic.

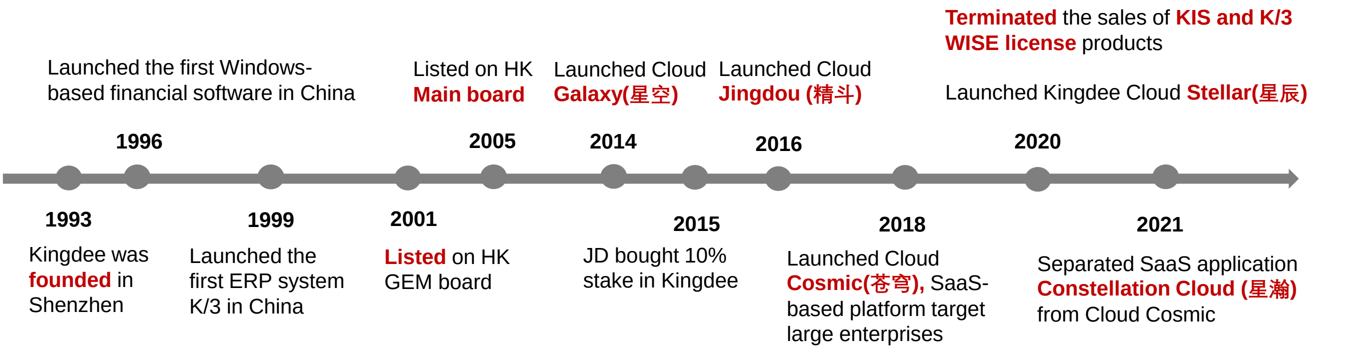
To accelerate SaaS migration, Kingdee terminated the sales of KIS and K/3 license products in 2020. K/3 used to be Kingdee's flagship ERP product. In FY21, Kingdee derived 66% of revenue from cloud model and Cloud Galaxy (SaaS version of K/3) accounted for 51% of total cloud service revenue. As of FY21, Kingdee's cloud subscription annual recurring revenue (ARR) was at RMB1.57bn (+57% YoY). The company targets ARR to reach RMB3.3bn in 2023E, implying FY21-23E CAGR of 45%.

Figure 54: Kingdee key business segment

RMB mn	Cloud service business	ERP business
Business model	Mostly SaaS + PaaS subscription except for private cloud solutions that are charged partly on license model	License, implementation and maintenance
FY21		
Revenue	2,758 (+44% YoY)	1,416 (-2% YoY)
% of total	66%	34%
Cloud subscription ARR	1,570 (+57% YoY)	-
Contract liabilities	1,713 (+72% YoY)	451 (-7.3%)

Source: Company data

Figure 55: Kingdee milestones



Source: Company data, CMBIGM

Figure 56: Kingdee products portfolio

Segments	Market segment (annual revenue)	TAM (no. of enterprises)	Cloud	Customers cumulatively	Dollar retention	ERP (license)
Large enterprises	RMB4bn+	10,000	Cosmic (苍穹) - PaaS Constellation (星瀚) - SaaS	n.a.	120%	EAS
Medium enterprises	RMB100mn-4bn	500,000	Galaxy (星空) - SaaS	25,400	98.6%	K/3 Wise (terminated in 2020)
Small & micro enterprises	<RMB100mn	>35mn	Stellar (星辰) - SaaS	11,000	82.0%	KIS
			Jingdou (精斗) - SaaS	212,000	84.1%	

Source: Company data, CMBIGM

Product offerings

Cloud solutions

Figure 57: Cloud metrics

RMB mn	2019	2020	2021	2022E	2023E	2024E
Cloud revenue	1,314	1,912	2,758	3,551	4,734	5,949
…YoY	55%	46%	44%	29%	33%	26%
Subscription ARR	630	1,000	1,570	2,120	3,300	4,290
...as % of cloud revenue	48%	52%	57%	60%	70%	72%
Cloud Contract Liabilities						
Subscription	422	825	1,358	1,727	2,308	2,849
…YoY	90%	96%	65%	27%	34%	23%
Others	76	121	172	356	479	632
Dollar retention						
Cosmic & Constellation			120%			
Galaxy	90%	86%	99%			
Stellar			86%			
Jingdou	80%	76%	84%			

Source: Company data

Large enterprises (Annual revenue >RMB4bn+)

Kingdee Cloud Cosmic was launched in 2018 as a PaaS + SaaS solution targeting large enterprises. In May 2021, the Company split it into (i) PaaS – Kingdee Cloud Cosmic and (ii) SaaS – by launching a new brand Kingdee Cloud Constellation. In FY21, Kingdee Cloud Cosmic and Constellation recorded RMB385mn in revenue (+102.6% YoY) and represented 9.2% to total revenue. Average contract size was at RMB1.27mn in FY21.

- **Kingdee Cloud Cosmic (金蝶云·苍穹):** Kingdee Cloud Cosmic is now a PaaS platform designed for large enterprises. It also hosts all of Kingdee Cloud's flagship products including Cloud Constellation, Cloud Galaxy and Cloud Stellar. As of 2021, total no. of Cosmic ecological partners amounted to nearly 1,200. Kingdee Cloud Cosmic has passed the adaptation certificate with 11 products of domestic Xinchuang partners such as Huawei Kunpeng, DM Database, Kylinsoft etc.

- **Kingdee Cloud Constellation (金蝶云·星瀚):** As of 1H21, Kingdee Cloud Constellation provides over 200 SaaS applications.

Figure 58: Cosmic & Constellation customers

Source: Company data

Medium enterprises (Annual revenue RMB100mn – RMB4bn)

- **Kingdee Cloud Galaxy (金蝶云•星空):** Kingdee Cloud Galaxy is the first ERP SaaS product that Kingdee launched in 2014 targeting medium-sized enterprises. In FY20, Kingdee terminated the sale of K/3 WISE license products to accelerate cloud transition.

- As of FY21, Galaxy has become Kingdee's core SaaS product (51% of FY21 cloud revenue) and has served 25,400 customer cumulatively. ARPU was at RMB55,827. Customer retention was at 86.1% while dollar retention was at 98.6% in FY21. Galaxy has achieved an operating margin of 20%.

Figure 59: Galaxy SaaS portfolio

Source: Company data

Figure 60: Galaxy customers

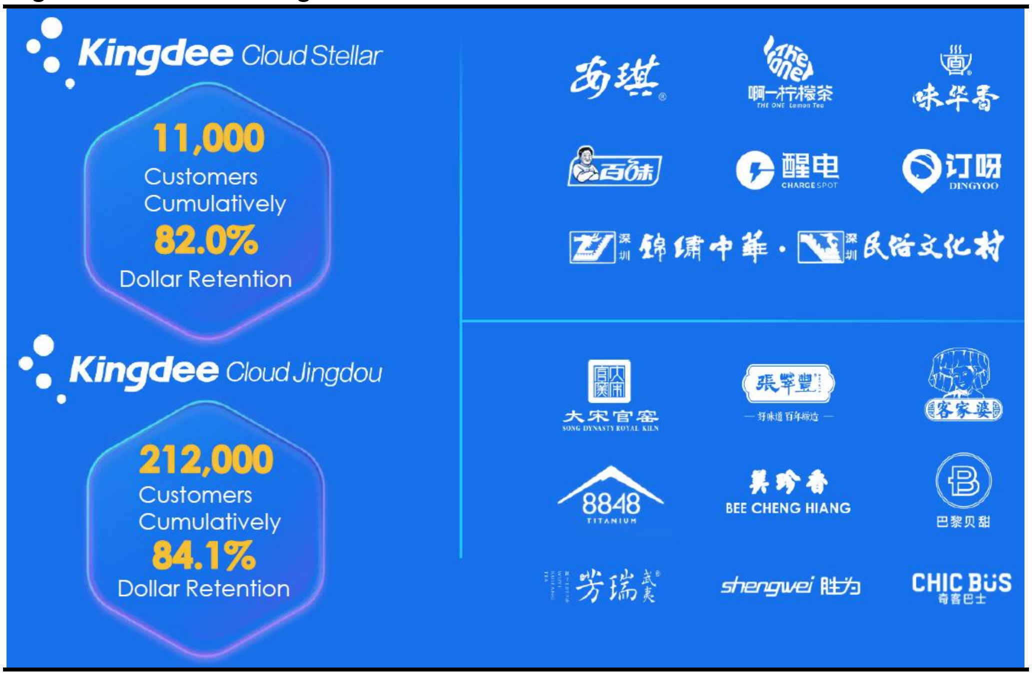
Source: Company data

Small & Micro enterprises (<RMB100mn)

- **Kingdee Cloud Stellar (金蝶云•星辰):** Kingdee launched Cloud Stellar targeting small and micro enterprises in 2020. Avg. subscription price was at RMB8,000 in FY20, 4-5 times higher than Jingdou Cloud. Cloud Stellar has served over 11,000 customers as of FY21 with dollar retention rate of 82.0%.

- **Kingdee Cloud Jingdo (金蝶云•精斗):** In 2016, Kingdee upgraded Youshang.com to Jingdou Cloud. Jindou Cloud is positioned as an accounting cloud for small & micro enterprises. In FY21, Jingdou has accumulated over 212,000 customers with dollar retention rate of 84.1%.

Figure 61: Stellar & Jingdou overview



Source: Company data, as of FY21

ERP

Kingdee ERP segment is priced under license model with EAS, K/3 WISE and KIS targeting Large, Mid-size, Small & Micro businesses. To accelerate cloud migration, in 2020, Kingdee terminated the sale of KIS and K/3 WISE license products while EAS is still available for large enterprise customers to purchase.

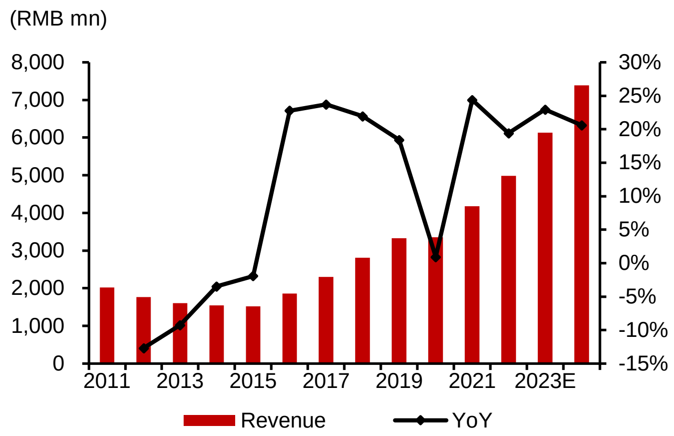
Financial analysis

Income statement

Revenue

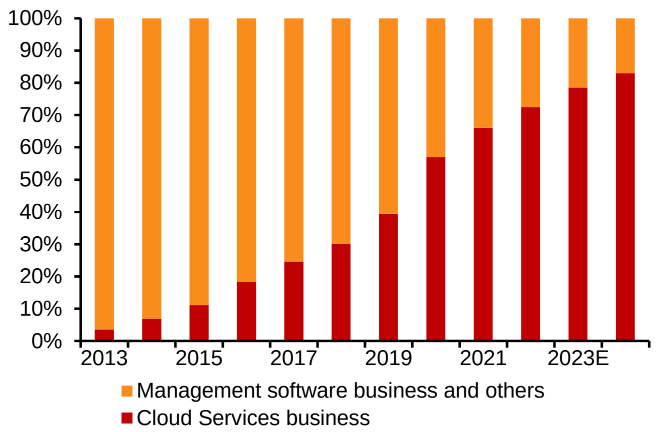
There are two revenue streams including (1) traditional license-model ERP and (2) Cloud Services. In FY20, Kingdee terminated sales of KIS and K/3 license products to accelerate SaaS migration. As of FY21, ERP and Cloud Services accounted for 34%/ 66% of revenue. Among the traditional ERP consists 40% being sales of software licenses and 60% being implementation and maintenance. Since the launch of flagship SaaS Cloud Galaxy in 2014, Kingdee delivered 14% revenue CAGR in FY14-20. We expect revenue growth to accelerate in FY21-24E at 20% CAGR (FY24E: RMB7,207mn vs. FY21: RMB4,174mn). In particular, Cloud Services revenue is expected to grow at 29% CAGR from RMB2,758mn in FY21 to RMB5,949mn in FY24E, driven by 1) continuous SaaS migration from traditional ERP to new platform and 2) increasing cloud subscription ARR.

Figure 62: Revenue YoY



Source: Company data, CMBIGM estimates

Figure 63: Revenue mix



Source: Company data, CMBIGM estimates

Margins

Kingdee has a normal software companies' GPM of 60-80% in FY11 to FY20. FY19 GPM declined to 72.3% (vs. 81.7% in FY18) as Cloud Cosmic ramped up (higher IaaS cost). In FY20, GPM further decreased to 65.8%. Apart from Cloud impact, Kingdee reclassified implementation cost from S&M expense to cost of sales also contributed to the lower GPM. If we exclude the reclassification impact, GPM was at 73.9% in FY20.

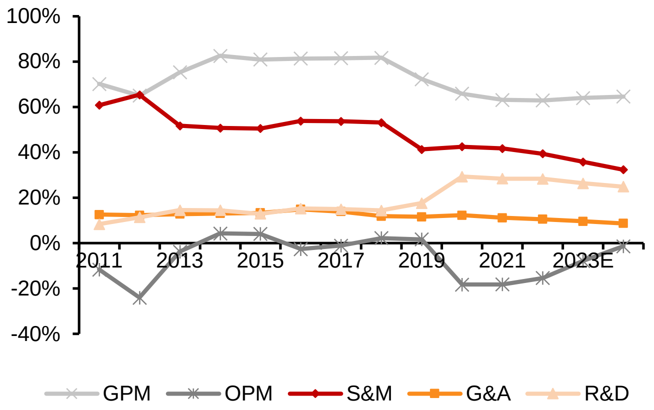
As the company is still undergoing SaaS migration with hefty S&M/ R&D expenditure, operating leverage is not in sight yet. In FY11-FY20, Kingdee spent 70-90% of revenue on opex majority being sales & marketing (S&M) expense. We expect Kingdee's operating loss to narrow from RMB758mn in FY21 to RMB107mn in FY24E as operating leverage becomes obvious with cloud business ramp up.

S&M: S&M accounted for approx. 50% of revenue. In 2019 and 2020, S&M expense ratio decreased to 41% /42% respectively. We believe part of the reason being implementation cost reclassification (from S&M to COGS).

R&D: R&D expense accounted for 10-18% of revenue in FY11-FY19 but this ratio increased to 29% in FY20. Kingdee used to capitalize 73-96% of R&D expenditure. In FY20, Kingdee's R&D capitalization rate declined to 36% (vs. 73% in FY19). If all R&D is expensed as it incurred, R&D ratio would be at 26% in FY20 (vs. 20% in FY19).

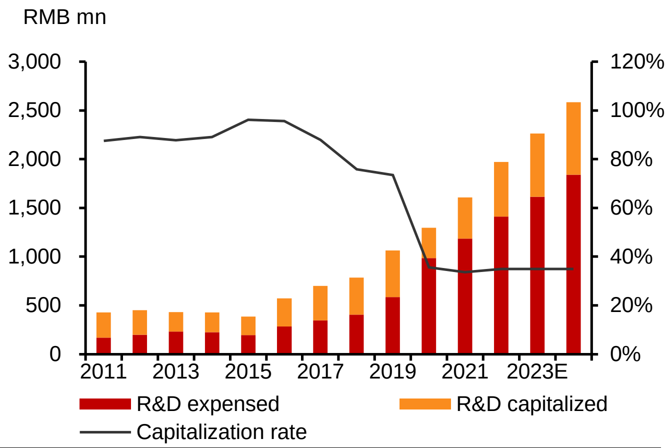
G&A: G&A ratio for Kingdee was relatively stable at 12-15% of revenue in FY11-19.

Figure 64: Margins and opex ratio



Source: Company data, CMBIGM estimates

Figure 65: R&D and capitalization ratio



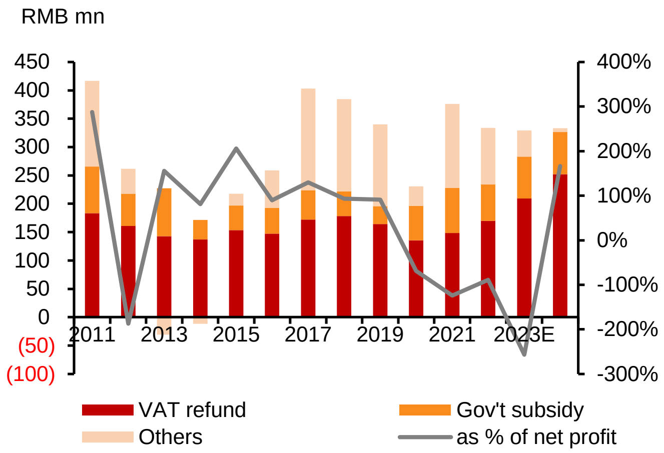
Source: Company data, CMBIGM estimates

Non-ops

Kingdee has very thin operating profit or even suffered operating loss in FY11-FY21 (OPM at -6% on average) and its net profit was mainly contributed by non-operating items including VAT refund and government subsidy.

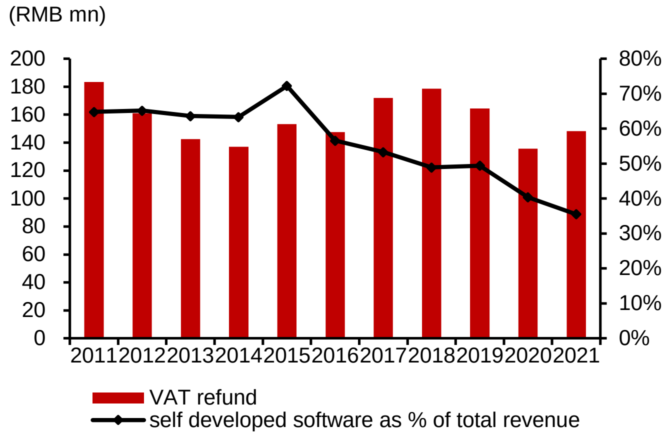
In FY11 – FY21, Kingdee received RMB56mn government subsidiary annually on average. VAT refund arouse from self-developed software sales. In China, self-developed software (license model) is first taxed at standard VAT rate. Any amount in excess of 3% will be refunded back. Kingdee self-developed software value was at 50-70% of total revenue in FY11 – FY19. However, such ratio decreased gradually to 36% in FY21 as a result of increasing SaaS contribution. SaaS is classified as service and is being taxed at 6% instead.

Figure 66: Non-operating items as % of net profit



Source: Company data, CMBIGM estimates

Figure 67: Self-developed software value

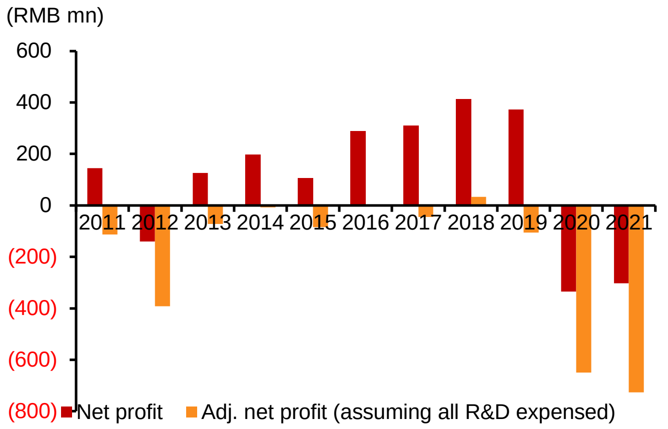


Source: Company data, CMBIGM estimates

Net profit

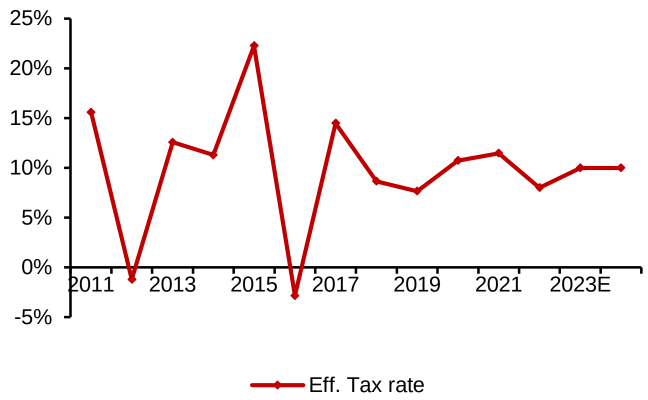
In FY11- FY19, Kingdee generated positive net profit on its book. However, if we assume all R&D expenditure is expensed, Kingdee was barely in a breakeven position. In FY20, Kingdee recorded a net loss of RMB335mn (vs. net profit of RMB373mn in FY19), largely due to 1) merely 1% revenue growth as Kingdee terminated flagship K/3 products and 2) R&D increased with increasing investment in Cosmic PaaS platform. We expect Kingdee to remain in a net loss position in FY22-23E. However, net loss is estimated to narrow gradually from RMB302mn in FY21 and turn profitable in FY24E with net profit of RMB192mn.

Figure 68: Adj. net profit



Source: Company data, CMBIGM estimates

Figure 69: Effective tax rate



Source: Company data, CMBIGM estimates

Operating model

Figure 70: Revenue breakdown

RMB mn	2019	2020	2021	2022E	2023E	2024E
Revenue breakdown						
Cloud Services business	1,314	1,912	2,758	3,551	4,734	5,949
Cosmic & Constellation	60	190	385	424	635	826
Galaxy	868	1,141	1,418	1,886	2,546	3,183
Others	386	581	955	1,242	1,553	1,941
ERP business	1,959	2,012	1,444	1,416	1,373	1,314
License	980	448	472	477	463	449
Implementation and maintenance	1,066	996	944	896	852	809
Revenue YoY						
Cloud Services business	55%	46%	44%	29%	33%	26%
ERP business	3%	-28%	-2%	-3%	-4%	-4%
Blended	18%	1%	24%	18%	23%	19%
Revenue mix						
Cloud Services business	39%	57%	66%	72%	78%	83%
ERP business	61%	43%	34%	28%	22%	17%

Source: Company data, CMBIGM

Figure 71: Operating model

RMB mn	2019	2020	2021	2022E	2023E	2024E
Revenues	3,326	3,356	4,174	4,925	6,048	7,207
Cost of sales	(922)	(1,147)	(1,541)	(1,827)	(2,181)	(2,551)
Gross profit	2,403	2,209	2,634	3,097	3,867	4,656
Gross margin	72.3%	65.8%	63.1%	62.9%	63.9%	64.6%
R&D	(587)	(984)	(1,185)	(1,398)	(1,598)	(1,806)
SG&A	(1,760)	(1,839)	(2,207)	(2,459)	(2,747)	(2,957)
Operating income	56	(614)	(758)	(760)	(478)	(107)
Operating margin	1.7%	-18.3%	-18.2%	-15.4%	-7.9%	-1.5%
Non-operating income	340	231	376	334	328	332
Profit before tax	396	(383)	(382)	(426)	(150)	225
Income tax (expense) gain	(30)	41	44	34	15	(22)
Minorities	(7)	(6)	(36)	(20)	(7)	10
Net income to shareholders	373	(335)	(302)	(372)	(128)	192
Net margin	11.2%	-10.0%	-7.2%	-7.6%	-2.1%	2.7%
*Adj. net margin**	-3.2%	-19.4%	-17.4%	-18.8%	-12.7%	-7.4%
Core EPS (RMB)	0.12	(0.10)	(0.09)	(0.11)	(0.04)	0.06

Source: Company data, CMBIGM

Balance sheet

Figure 72: Balance sheet

RMB mn	2019	2020	2021	2022E	2023E	2024E
Property, plant and equipment	547	746	1,045	1,087	1,147	1,225
Intangible assets	923	786	1,037	1,139	1,312	1,550
Investment properties	1,856	1,651	1,538	1,538	1,538	1,538
Financial assets	429	623	958	958	958	958
Long-term bank deposits	-	30	1,325	1,325	1,325	1,325
Others	424	703	713	713	713	713
Total non-current assets	**4,179**	**4,539**	**6,616**	**6,760**	**6,993**	**7,309**
Inventories	7	19	30	29	36	43
Trade and other receivables	308	334	392	428	526	626
Contract assets	452	357	323	377	352	351
Contract obtaining costs	61	142	248	150	180	193
Financial assets	596	994	748	748	748	748
Bank deposits	688	1,263	376	376	376	376
Cash and equivalents	1,899	2,754	2,047	2,426	2,762	3,370
Others	231	321	308	308	308	308
Total current assets	**4,241**	**6,183**	**4,471**	**4,841**	**5,287**	**6,013**
Total assets	**8,420**	**10,722**	**11,087**	**11,601**	**12,280**	**13,323**
Trade and other payables	616	795	759	875	993	1,103
Contract liabilities	997	1,484	2,165	2,644	3,359	4,096
Short-term borrowings	200	120	-	99	93	91
Others	186	200	160	160	160	160
Total current liabilities	**1,998**	**2,599**	**3,084**	**3,778**	**4,605**	**5,450**
Long-term borrowings	-	-	-	211	198	193
Others	276	165	200	200	200	200
Total non-current liabilities	**276**	**165**	**200**	**411**	**398**	**393**
Share capital	80	83	83	83	83	83
Capital surplus and reserves	5,907	7,706	7,513	7,141	7,013	7,205
Non-controlling interest	159	169	207	187	180	190
Total equity	**6,146**	**7,958**	**7,803**	**7,411**	**7,277**	**7,479**
ROE	**6.1%**	**-4.2%**	**-3.9%**	**-5.0%**	**-1.8%**	**2.6%**
Net debt to equity	**net cash**	**net cash**	**net cash**	**net cash**	**net cash**	**net cash**

Source: Company data, CMBIGM

Cash flow

Figure 73: Cash flow

RMB mn	2019	2020	2021	2022E	2023E	2024E
Operating activities						
Profit before tax	396	(383)	(382)	(426)	(150)	225
Amortisation of intangible assets	430	431	367	390	432	483
Others	136	192	97	(10)	(6)	(13)
Change in working capital	131	364	560	604	723	729
Loans to third parties from the micro-credit business	(95)	(104)	31	0	0	0
Interest paid	(15)	(13)	(6)	(3)	(16)	(15)
Income tax paid	(19)	(14)	(7)	34	15	(22)
Net cash flows from operating activities	**963**	**473**	**661**	**590**	**999**	**1,386**
Investing activities						
Purchases of PP&E	(39)	(43)	(323)	(98)	(121)	(144)
Purchases of intangible assets	(476)	(310)	(449)	(492)	(605)	(721)
Investment in term deposits	(328)	(606)	(407)	0	0	0
Others	290	(532)	(26)	70	82	94
Net cash flows used in investing activities	**(553)**	**(1,491)**	**(1,205)**	**(521)**	**(643)**	**(771)**
Financing activities						
Proceeds from equity financing	0	2,091	0	0	0	0
Proceeds from borrowings, net	(102)	(80)	(120)	310	(20)	(7)
Others	134	(46)	(24)	0	0	0
Net cash flows used in financing activities	**33**	**1,966**	**(144)**	**310**	**(20)**	**(7)**
Net change in cash	**443**	**948**	**(688)**	**379**	**336**	**608**
Currency translation differences	3	(93)	(19)	0	0	0
Cash and cash equivalents (BoP)	1,453	1,899	2,754	2,047	2,426	2,762
Cash and cash equivalents (EoP)	**1,899**	**2,754**	**2,047**	**2,426**	**2,762**	**3,370**
Free cash flow	448	120	(111)	(1)	273	521
FCF margin	**13%**	**4%**	**-3%**	0%	5%	7%

Source: Company data, CMBIGM

Valuation

Initiate at BUY with target price of HK$18.31

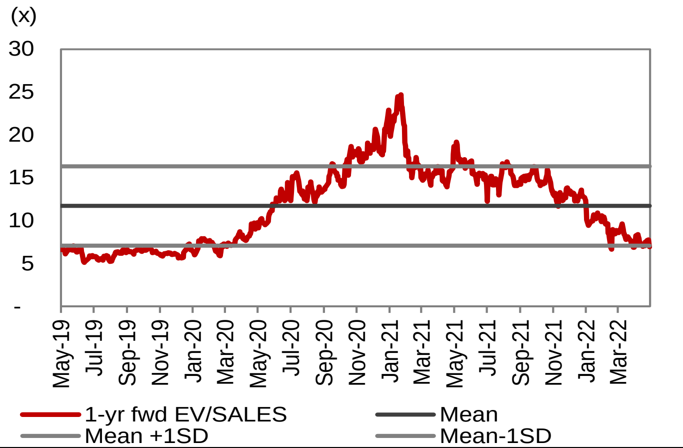
We initiate coverage on Kingdee with BUY rating and target price of HK$18.31, based on 8.1x FY23E EV/sales. Our target multiple is based on the average of global horizontal enterprise SaaS, excluding SAP as the company is trading at a valuation discount given slower revenue growth (FY21-24E sales CAGR only 10% vs. 22% on average) and a capex heavy business model with self-developed cloud infrastructure. Kingdee is trading at 6.0x 12M forward EV/sales, 1-SD below its 3-year mean. We believe that Kingdee deserves re-rating given increasing subscription revenue contribution and hence better cash flow visibility.

Figure 74: Kingdee peers valuation comparison

Company	Ticker	Rating	Market Cap (US$ mn)	Price (LC)	TP (LC)	EV/sales (x) FY22E	EV/sales (x) FY23E	FCF margin (%) FY22E	FCF margin (%) FY23E	Sales CAGR FY21-24E	EPS CAGR FY21-24E
Kingdee	268 HK	BUY	5,886	13.30	18.31	7.4	6.0	0%	5%	20%	n.a.
Yonyou	600588 CH	HOLD	9,215	18.06	19.58	5.7	4.6	-2%	8%	18%	19%
Kingsoft Office	688111 CH	NR	13,711	200.20	N/A	20.0	15.1	32%	39%	31%	30%
SAP	SAP US	NR	119,558	97.32	N/A	4.0	3.7	12%	16%	10%	n.a.
Intuit	INTU US	NR	109,573	388.45	N/A	8.9	7.8	28%	30%	20%	29%
Xero	XRO AU	NR	9,265	87.43	N/A	13.3	10.4	-7%	2%	25%	72%
Workday	WDAY US	NR	41,731	164.51	N/A	7.8	6.5	26%	20%	20%	n.a.
ServiceNow	NOW US	NR	90,666	452.29	N/A	12.0	9.6	31%	32%	25%	119%
Salesforce	CRM US	NR	158,679	159.65	N/A	6.2	5.1	19%	21%	21%	9%
					Mean	**9.5**	**7.6**	**16%**	**19%**	**21%**	**46%**
					Median	**7.8**	**6.5**	**19%**	**20%**	**20%**	**30%**

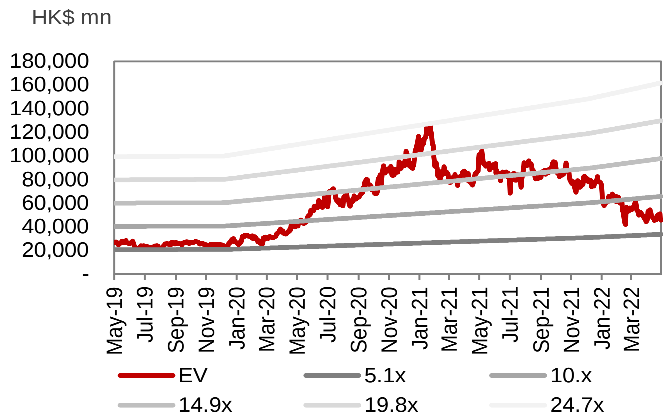
Source: Bloomberg, CMBIGM estimates

Figure 75: Kingdee 12M forward EV/sales chart



Source: Bloomberg, CMBIGM estimates

Figure 76: Kingdee 12M forward EV/sales band



Source: Bloomberg, CMBIGM estimates

Appendix:

Management profile

Figure 77: Kingdee products portfolio

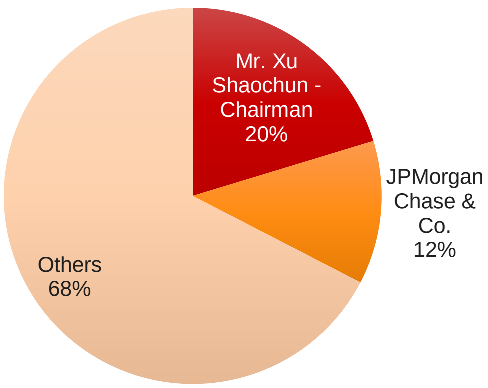
Name	Position	Age	Background
Shaochun Xu (徐少春)	Chairman, CEO	57	Shaochun Xu is the founder and the CEO of Kingdee (268 HK), chairman of the Board. Mr. Xu also served as an independent non-executive director of Zero2IPO(1945 HK) since 2020. Mr. Xu received a bachelor's degree in Computer Science in the Southeast University and a Master degree of Accounting from the Chinese Academy of Fiscal Sciences and an EMBA degree from China Europe International Business School.
Bo Lin (林波)	CFO	48	Bo Lin is the CFO of Kingdee. Mr. Lin joined the group in 1997 and has served as the general manager in the Fujian Province Region, the general manager of the Operation Management Department and the director of the Strategic Development Department of the Group. Mr. Lin received a bachelor's degree of Computer Science in Xiamen University.
Chongfeng Shen (沈崇峰)	Rotating president	50	Chongfeng Shen is the rotating president of Kingdee Group. Mr. Shen is mainly in charge of the management software business in the Company. Before joining Kingdee in 1998, Mr. SHEN was a lecturer at the Changchun University of Science and Technology. Mr. Shen received a master's degree in engineering in Jilin University.
Yong Zhang (章勇)	Rotating president	46	Yong Zhang is the rotating president of Kingdee China. Mr. Zhang has played vital roles in the marketing management of the Company. Mr. Zhang Graduated from China Europe International Business School and joined the Company in 1995.

Source: Company data, CMBIGM

Shareholding structure

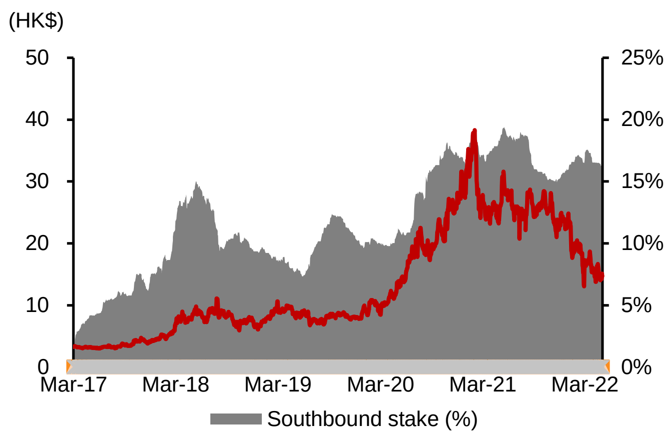
As of 30 Apr 2022, Kingdee has 3,474.1mn issued shares and 14.7mn options outstanding (0.4% of issued share capital).

Figure 78: Kingdee shareholding structure



Source: Company data, CMBIGM

Figure 79: Kingdee southbound stake



Source: WIND, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**3,356**	**4,174**	**4,925**	**6,048**	**7,207**
Cost of sales	(1,147)	(1,541)	(1,827)	(2,181)	(2,551)
Gross profit	**2,209**	**2,634**	**3,097**	**3,867**	**4,656**
Selling exp	(1,425)	(1,741)	(1,940)	(2,163)	(2,332)
Admin exp	(414)	(466)	(519)	(584)	(625)
R&D exp	(984)	(1,185)	(1,398)	(1,598)	(1,806)
Other operating exp.	0	0	0	0	0
Operating profit	**(614)**	**(758)**	**(760)**	**(478)**	**(107)**
Finance income/ (costs)	36	76	66	67	79
Other non-op income/ (exp)	195	299	268	262	254
Pre-tax profit	**(383)**	**(382)**	**(426)**	**(150)**	**225**
Income tax expense	41	44	34	15	(22)
Minority interests	6	36	20	7	(10)
Net profit to shareholders	**(335)**	**(302)**	**(372)**	**(128)**	**192**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	**(383)**	**(382)**	**(426)**	**(150)**	**225**
Depreciation/amortization	493	439	447	493	548
Change in working capital	364	560	604	723	729
Others	(1)	44	(35)	(67)	(116)
Net cash from operating	**473**	**661**	**590**	**999**	**1,386**
Capex	(353)	(772)	(591)	(726)	(865)
Others	(1,138)	(433)	70	82	94
Net cash from investing	**(1,491)**	**(1,205)**	**(521)**	**(643)**	**(771)**
Net borrowings	(80)	(120)	310	(20)	(7)
Dividend paid	(37)	0	0	0	0
New shares	2,091	0	0	0	0
Others	(9)	(24)	0	0	0
Net cash from financing	**1,966**	**(144)**	**310**	**(20)**	**(7)**
Net change in cash	**948**	**(688)**	**379**	**336**	**608**
Cash at beginning of the year	1,899	2,754	2,047	2,426	2,762
Exchange difference	(93)	(19)	0	0	0
Cash at the end of the year	**2,754**	**2,047**	**2,426**	**2,762**	**3,370**

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	**6,183**	**4,471**	**4,841**	**5,287**	**6,013**
Cash & equivalents	2,754	2,047	2,426	2,762	3,370
Short-term bank deposits	1,236	370	370	370	370
Account receivables	334	392	428	526	626
Contract assets	357	323	377	352	351
Contract obtaining costs	142	248	150	180	193
Others	1,361	1,091	1,090	1,096	1,103
Non-current assets	**4,539**	**6,616**	**6,760**	**6,993**	**7,309**
PPE	746	1,045	1,087	1,147	1,225
Intangible assets	786	1,037	1,139	1,312	1,550
Investment properties	1,651	1,538	1,538	1,538	1,538
Other non-current assets	1,356	2,995	2,995	2,995	2,995
Total assets	**10,722**	**11,087**	**11,601**	**12,280**	**13,323**
Current liabilities	**2,599**	**3,084**	**3,778**	**4,605**	**5,450**
Trade and other payables	795	759	875	993	1,103
Contract liabilities	1,484	2,165	2,644	3,359	4,096
Borrowings	120	0	99	93	91
Others	200	160	160	160	160
Non-current liabilities	**165**	**200**	**411**	**398**	**393**
Borrowings	0	0	211	198	193
Trade and other payables	0	0	0	0	0
Other non-current liabilities	165	200	200	200	200
Total liabilities	2,764	3,284	4,190	5,003	5,843
Share capital	83	83	83	83	83
Capital surplus	5,053	5,149	5,149	5,149	5,149
Retained earnings	1,922	1,619	1,247	1,120	1,312
Other reserves	732	744	744	744	744
Minority interest	169	207	187	180	190
Total equity	**7,958**	**7,803**	**7,411**	**7,277**	**7,479**
Total liabilities and equity	**10,722**	**11,087**	**11,601**	**12,280**	**13,323**

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
Cloud Services	57%	66%	72%	78%	83%
Cosmic & Constellation	6%	9%	9%	11%	11%
Galaxy	34%	34%	38%	42%	44%
Others	17%	23%	25%	26%	27%
Management Software	43%	34%	28%	22%	17%
License	13%	11%	10%	8%	6%
Implementation & maintenance	30%	23%	18%	14%	11%
Growth (%)					
Revenue	1%	24%	18%	23%	19%
Operating profit	n.a.	n.a.	n.a.	n.a.	n.a.
Net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Profit & loss ratio (%)					
Gross margin	65.8%	63.1%	62.9%	63.9%	64.6%
Operating margin	-18.3%	-18.2%	-15.4%	-7.9%	-1.5%
Net profit margin	-10.0%	-7.2%	-7.6%	-2.1%	2.7%
Balance sheet ratio					
Receivable turnover days	35	32	32	32	32
Payable turnover days	224	184	175	166	158
Current ratio (x)	2.38	1.45	1.28	1.15	1.10
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Profitability (%)					
FCF margin	4%	-3%	0%	5%	7%
ROE	-4%	-4%	-5%	-2%	3%
Per share data (RMB)					
Core EPS (RMB)	-0.10	-0.09	-0.11	-0.04	0.06
DPS (RMB)	0.00	0.00	0.00	0.00	0.01
BVPS (RMB)	2.40	2.38	2.13	2.10	2.15

Source: Company data, CMBIGM estimates

Yonyou (600588 CH)

Aiming to catch up in cloud

Yonyou is the largest ERP in China but a late comer in cloud. Its first cloud-native platform YonSuite was launched in 2019 (vs. Kingdee's Galaxy in 2014). In FY21, 68% of software and cloud revenue was derived from large enterprises that are less willing to accept standardized product and subscription pricing. Meanwhile, Yonyou's medium-sized market share gain strategy will be tough to achieve with Kingdee being a strong competitor. We expect Yonyou to deliver 18%/ 21% revenue/ net profit CAGR in FY21-24E. Initiate at HOLD.

- **Largest ERP in China.** Yonyou, launched first financial reporting software in 1988, has become the largest ERP vendor in China with 33.0% market share in 2020, according to Qianzhan. Yonyou has an advantage in the large enterprise segment (68% of software and cloud revenue). The company achieved RMB8.9bn revenue (60% from cloud business) and net profit of RMB0.71bn in FY21.
- **A late joiner in the cloud game.** Compared to Kingdee, Yonyou is a late joiner in cloud ERP and SaaS era. In 2014-2018, Yonyou upgraded its ERP products to be private-cloud based. Only in 2019, Yonyou launched its first cloud-native platform YonSuite (targeting medium sized clients) which is a competitive product to Kingdee's Galaxy (launched in 2014). This has resulted in a lower ARR than Kingdee (18% of revenue in FY21 vs. 38% for Kingdee), implying that a large part of its cloud revenue is not recurring in nature.
- **Targeting the medium-sized market where competition is intense.** As it is more difficult for large enterprises to adopt standardized/ subscription model, Yonyou is targeting to increase its share in medium-sized enterprise market with flagship product YonSuite. Yonyou targets cloud revenue from this segment to double YoY in FY22E. However, we are concerned with the intensifying competition and that Kingdee holds a strong footprint in the medium-sized market given better developed ecosystem with a higher dollar retention rate (99% for Kingdee in FY21 vs. 73% for Yonyou).
- **Initiate at HOLD.** We expect Yonyou to deliver 18%/ 21% revenue/ net profit CAGR in FY21-24E and cloud to account for 85% of FY24E revenue. Initiate at HOLD with target price of RMB19.58, based on 5.0x FY23E EV/sales. Our FY22-24E net profit forecast is 12-18% below consensus mainly on higher opex estimates.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	8,525	8,932	10,202	12,478	14,738
YoY growth (%)	0%	5%	14%	22%	18%
Net profit (RMB mn)	989	708	652	954	1,263
EPS (RMB)	0.30	0.22	0.19	0.28	0.37
YoY growth (%)	-17%	-28%	-12%	46%	32%
Consensus EPS (RMB)	0.30	0.22	0.24	0.33	0.44
EV/sales (x)	7.0	6.9	5.7	4.6	3.8
P/E (x)	59.7	83.5	95.1	65.1	49.1
Dividend yield (%)	0.01	0.01	0.01	0.01	0.01
ROE (%)	12%	9%	6%	7%	9%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Initiation)

Target Price	**RMB19.58**
Up/Downside	**+8.4%**
Current Price	**RMB18.06**

China Software and IT Services

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Stock Data

Mkt Cap (RMB mn)	62,033
Avg 3 mths t/o (RMB mn)	588.88
52w High/Low (RMB)	42.91/ 16.53
Total Issued Shares (mn)	3,435

Source: Bloomberg

Shareholding Structure

Mr. Wang- Chairman	38.9%
HKSCC	7.0%
Mr. Guo - Vice Chairman	3.7%

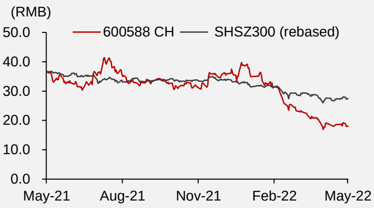
Source: Company data

Share Performance

	Absolute	Relative
1-mth	1.3%	-3.0%
3-mth	-42.5%	-34.0%
6-mth	-42.4%	-29.2%

Source: Bloomberg

12-mth Price Performance

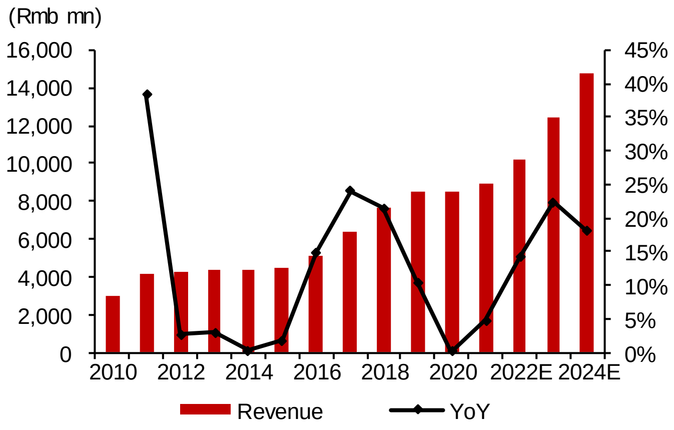


Source: Bloomberg

Auditor: Ernst & Young

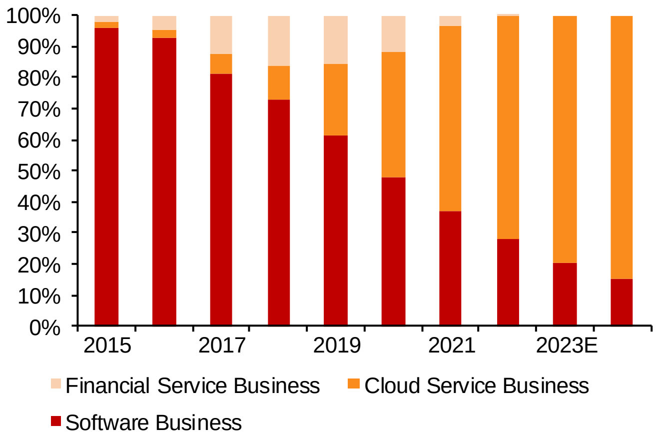
Focus Charts

Figure 80: Revenue and growth



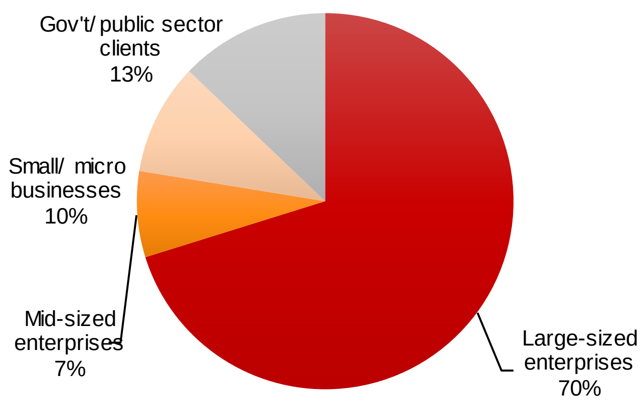
Source: Company data, CMBIGM estimates

Figure 81: Revenue mix



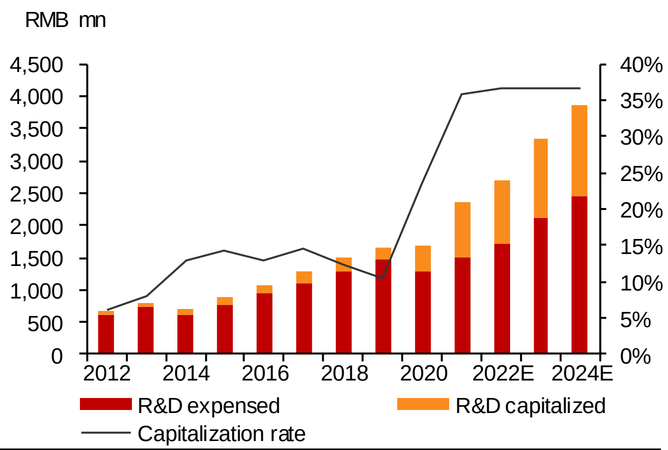
Source: Company data, CMBIGM estimates

Figure 82: Cloud service revenue mix (FY21)



Source: Company data, CMBIGM estimates

Figure 83: Increasing R&D capitalization rate



Source: Company data, CMBIGM estimates

Figure 84: Yonyou products portfolio

Segments	Business Innovation Platform				Cloud ERP			
	Products	Architecture	Deployment	Pricing Model	Products	Architecture	Deployment	Pricing model
Large enterprises	YonBIP	Cloud Native	Private/ Public Cloud	License / Subscription	NC Cloud	Cloud Native	Private/ Public Cloud	Subscription (Public Cloud) License (Private Cloud)
Medium enterprises	YonSuite	Cloud Native	Public Cloud	Subscription	U8 Cloud	SOA		
Small & micro enterprises	Chanjet Cloud	Cloud Native	Public Cloud	Subscription	T+ Cloud	SOA	Public Cloud	License

Source: Company data, CMBIGM

Company Overview

Yonyou, established in 1988, was listed on the Shanghai Stock Exchange in May 2001. In 2014, Yonyou is the largest ERP vendor in China with 33.0% market share in 2020 (according to Qianzhan) and it ranked 2nd among China enterprise SaaS with 5.3% market share in 1H20 (according to IDC). In 2014, Yonyou spun off its subsidiary Chanjet on HKEx. Chanjet focuses on ERP SaaS for small and micro enterprises. As of FY21, Yonyou holds 61.85% of share in Chanjet. In 2021, Yonyou divested fintech business to focus purely on cloud and software businesses.

Yonyou launched first financial reporting software in 1988 and began its cloud strategy in 2014 with the release of iUAP PaaS. In 2017 – 2018, Yonyou upgraded ERP products to be deployed under private cloud environment. Since 2019, Yonyou has launched cloud-native products YonSuite and YonBIP that marked the SaaS transformation. YonSuite and YonBIP are competitive products of Kingdee's Galaxy and Cosmic.

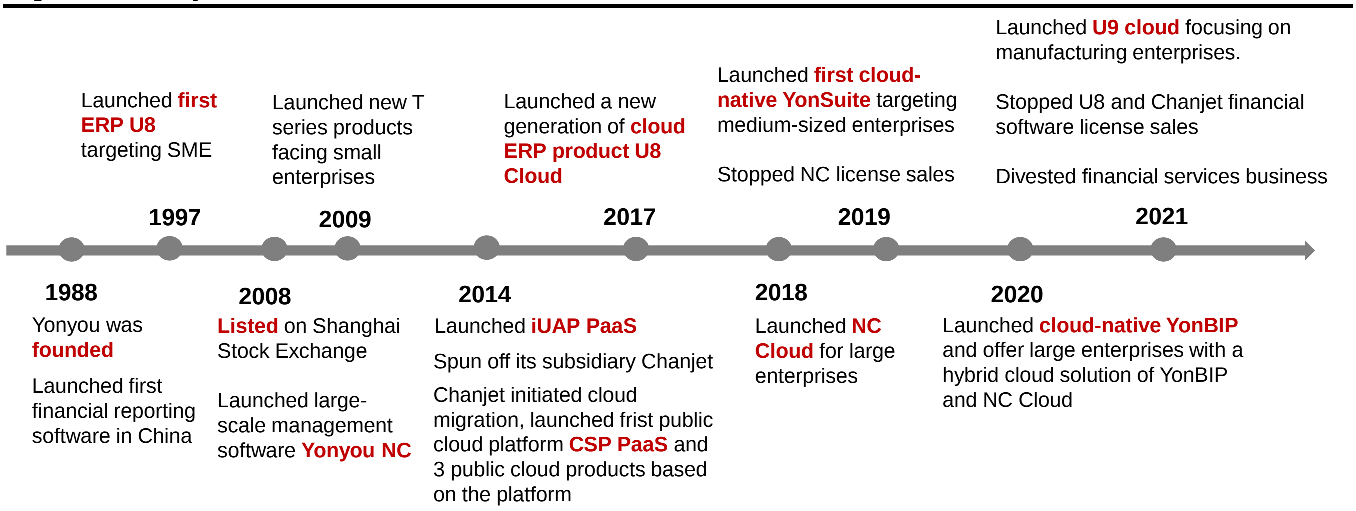
Yonyou has stopped some products' license sales (NC in 2019, T+ and U8 in 2021) since 2019 to accelerate cloud migration. In FY21, Yonyou derived 60% of revenue from Cloud Services business and 37% from Software business. As of FY21, Yonyou's cloud subscription annual recurring revenue (ARR) was at RMB1,650mn (80% from public cloud).

Figure 85: Yonyou key business segment

FY21 (RMB mn)	Cloud Service	Software
Revenue	5,321 (+55% YoY)	3,320 (-18% YoY)
% of total	60% (vs 40% in FY20)	37% (vs 47% in FY20)
Cloud subscription ARR	1,650	-
Contract liabilities	1,580 (+45% YoY)	575 (-43% YoY)
Subscription related contract liabilities	847 (+79% YoY)	-

Source: Company data

Figure 86: Yonyou milestones



Source: Company data, CMBIGM

Comprehensive product offerings

Cloud solutions

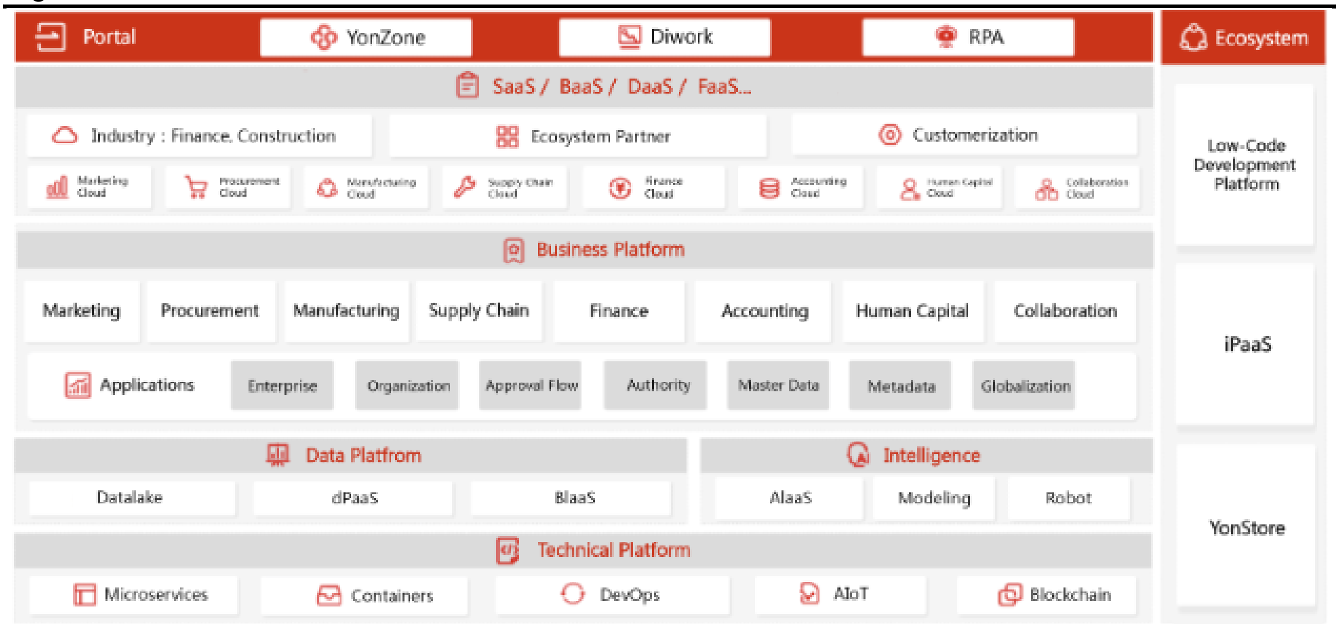
Large enterprises:

For large enterprises, Yonyou provides hybrid cloud solutions through YonBIP and NC Cloud. Yonyou stopped the license sales of NC in 2019 to accelerate cloud migration. In FY21, large enterprises cloud service business recorded RMB3,735mn in revenue (+45.4% YoY) and represented 70% of total cloud revenue.

- **YonBIP:** Yonyou launched YonBIP, a cloud-native PaaS + SaaS solution for large enterprises, in 2020. YonBIP includes applications, a low-code development platform and a ISV ecosystem that integrate and connect enterprise applications. This is a competitive product to Kingdee's Cloud Cosmic.

  As of FY21, YonBIP had 13,000 customers in service, covering a wide variety of fields, including finance, human resources, collaboration, procurement, marketing, supply chain, manufacturing, and R&D. In FY21, YonBIP recorded RMB2,197mn in revenue.

Figure 87: YonBIP service architecture overview



Source: Company data, CMBIGM estimates

- **NC Cloud:** NC Cloud is the ERP Cloud product that Yonyou launched in 2018 targeting large enterprises. NC Cloud provides solutions for 14 industry and 68 sub-sectors. It consists of accounting & finance, supply chain and human resources applications.

  As of FY21, NC Cloud had 1,800 customers in service and passed the adaptation certificate with nearly 50 products of Xinchuang partners. In FY21, NC Cloud generated revenue over RMB1,570mn.

Medium enterprises:

In FY21, Yonyou continued accelerating cloud transformation in medium-sized enterprises market. Medium enterprises cloud service revenue was at RMB393mn in FY21 (+150.3% YoY).

- **YonSuite:** YonSuite, launched in 2020, is a cloud-native public cloud system. It is a competitive product with Kingdee's Galaxy. As of FY21, YonSuite products have 3,500 customers in service from over 30 industries.

- **U8 Cloud:** U8 Cloud is an upgraded Cloud ERP product for medium-sized enterprises.

- **U9 Cloud:** Yonyou launched U9 Cloud in 2021 tailored for enterprises in the manufacturing sector. It integrates Product Lifecycle Management (PLM), Supply Chain Management (SCM), financial management, human resource management etc. As of FY21, U9 Cloud had 300 customers in service and contributed RMB180mn in revenue.

Figure 88: Yonyou cloud-native products - YonBIP & YonSuite

Source: Company data, as of FY21

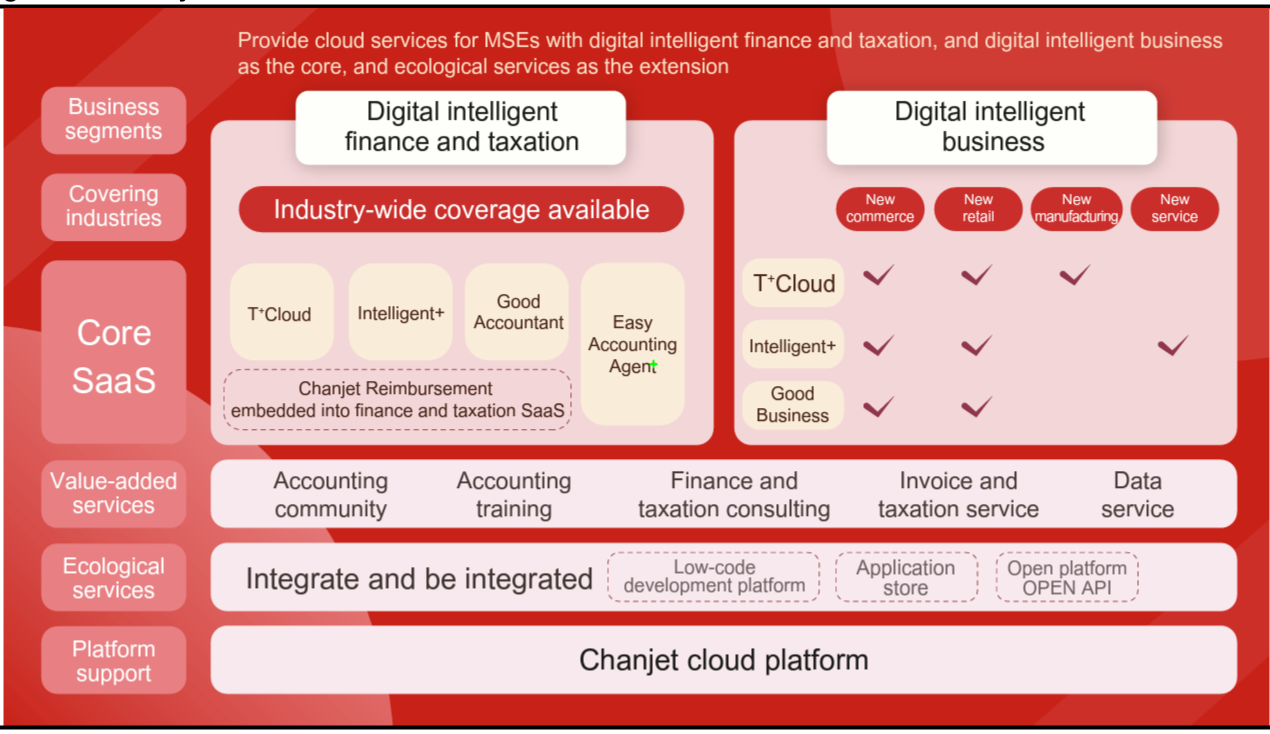
Small & Micro enterprises:

Yonyou provides cloud services to small-micro enterprises through its holding subsidiary Beijing Chanjet Payment Technology Company Limited.

- **Chanjet Cloud:** Chanjet Cloud is a self-developed cloud-native platform to develop and operate cloud Financial and ERP products.

- **T+ Cloud:** T+Cloud is an integrated SaaS product with human capital management, accounting, inventories and CRM for small enterprises in industry, integrated operation of industry and trade, commerce wholesale, and chain retail.

Figure 89: Chanjet business overview



Source: Company data

Management Software

Yonyou provides ERP software under license model NC6, U9, MES, HCM for large enterprises, and NC6, U9, MES targeting medium-sized enterprises. In 2019, Yonyou terminated NC license sales. In 2021, Yonyou terminated the sales of license products to small & micro enterprises.

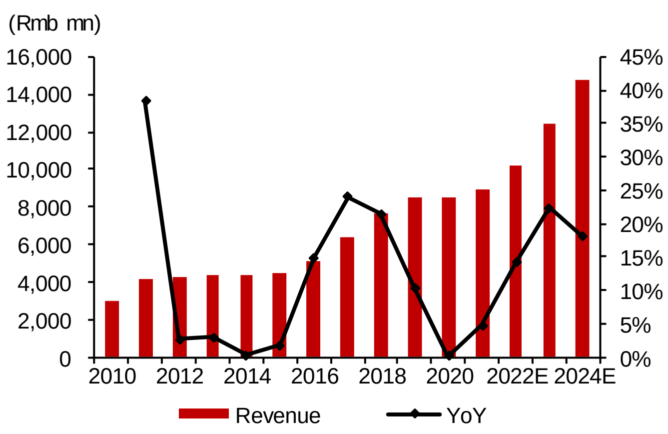
Financial analysis

Revenue

In 2011 - 2015, Yonyou revenue barely grew at 2% CAGR. In 2015 – 2018, Yonyou experienced revenue growth of 20% CAGR, largely driven by internet finance business. Excluding the internet finance segment, Yonyou software and cloud services grew at 10-15% YoY in 2015 – 2019. In 2021, Yonyou decided to divest its financial service business. Currently, Yonyou operates through two segments including (1) traditional license-model ERP and (2) Cloud Services. As of FY21, 60% of revenue came from Cloud Services. Yonyou cloud ARR was at RMB1.65bn (80% from public cloud) in FY21. This only accounted for 31% of its cloud service revenue. This is because among the cloud customers Yonyou serves, 70% are large enterprises which mostly adopt a hybrid cloud, one-off license model.

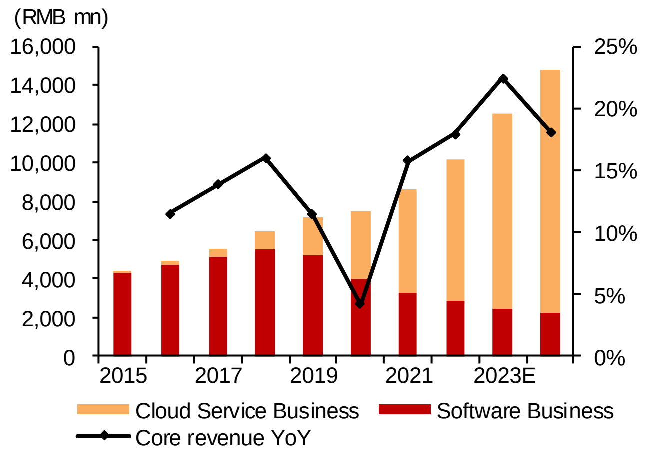
We expect revenue to grow at 18% CAGR in FY21-24E (FY24E: RMB14,738mn vs. FY21: RMB8,932mn). In particular, Cloud Services revenue is expected to grow at 55% CAGR from RMB5,321mn in FY21 to RMB12,473mn in FY24E, driven by 1) continuous implementation of cloud transformation strategy and 2) increasing cloud subscription ARR.

Figure 90: Revenue YoY



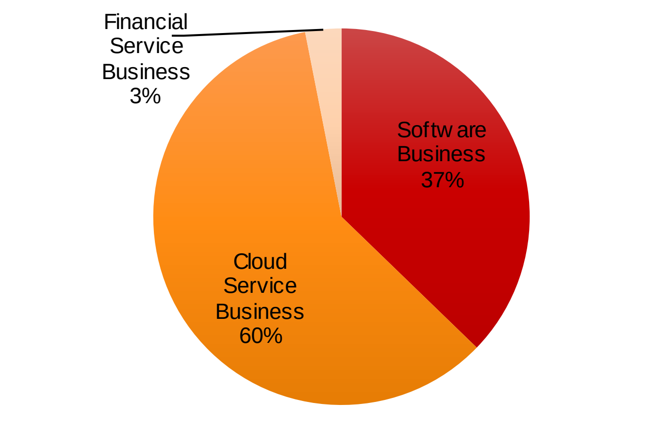
Source: Company data, CMBIGM estimates

Figure 91: Core revenue grew at 10-15% YoY



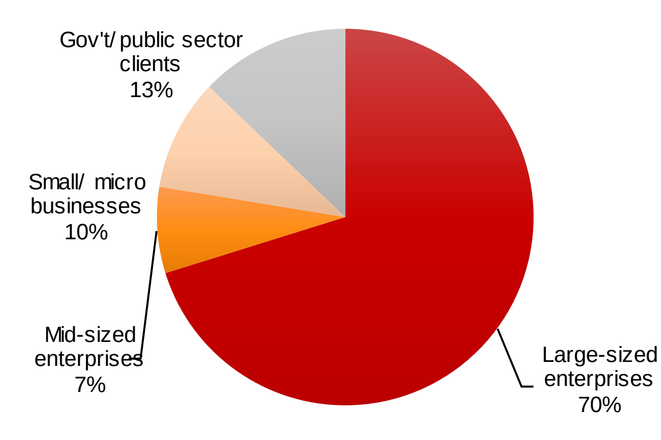
Source: Company data, CMBIGM estimates

Figure 92: Revenue mix (FY21)



Source: Company data, CMBIGM estimates

Figure 93: Cloud service customer mix (FY21)



Source: Company data, CMBIGM estimates

Margins

Yonyou faced margin erosion from 82.6% in FY10 to 61.2% in FY21. We attribute the decline to increasing focus on large enterprises (68% of software and cloud revenue in FY21) which require Yonyou to deliver the low-margin implementation work. We expect Yonyou's GPM to slightly improve from 61.2% in FY21 to 61.5% in FY24E as the company continues to ramp up public cloud YonSuite for medium-sized enterprises, although gross profit will be partly dragged by hybrid cloud YonBIP + NC Cloud solutions for large enterprises.

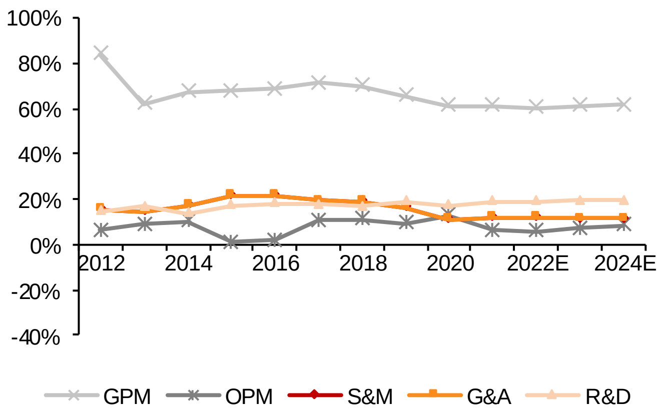
However, we believe opex spending will remain high (opex ratio at 55% in FY21) amid the cloud acceleration phase in FY22-23E. We expect to see operating leverage starting from FY24E and achieve operating margin of 8.6% (vs. 6.2% in FY21)

S&M: Yonyou has been spending around 20% of revenue on S&M annually since 2013. In FY21, S&M expense ratio was at 22.7% as the company expanded its sales team and increased customer coverage and business promotion.

R&D: Yonyou R&D expense ratio increased from 15% in FY12 to 19% in FY21 as the company re-developed its products to cloud model. Yonyou R&D capitalization rate also jumped from 6% in FY12 to 36% in FY21. If we assume all R&D is being expensed as it is incurred, Yonyou R&D expenditure to revenue ratio would increase from 16% in FY12 to 26% in FY21.

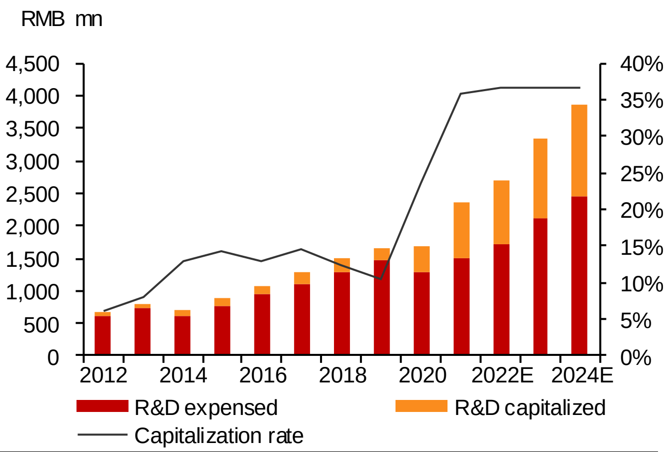
G&A: Yonyou G&A ratio significantly decreased from 15.4% in FY12 to 12.0% in FY21 as Yonyou scaled up.

Figure 94: Margins and opex ratio



Source: Company data, CMBIGM estimates

Figure 95: R&D and capitalization ratio



Source: Company data, CMBIGM estimates

Non-ops

In FY21, non-operating items accounted for 31% of Yonyou net profit. VAT refund & government subsidy as well as asset impairments are recurring items.

VAT refund reflects increasing SaaS sales

In FY10-21, Yonyou received roughly RMB300mn annually from VAT refund and government subsidy. Self-developed software value is taxed at 3% (excess VAT will be refunded). We observed that self-development software value as % of total revenue was at approx. 40% between FY10-FY19. However, in FY20-FY21, such ratio declined to 26-

27%. We attribute the decline to increasing SaaS (service) revenue which is being taxed at 6% with no refund.

Figure 96: VAT refund and self-developed software value

RMB mn	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
VAT refund	184	246	248	265	258	252	290	334	328	324	224	243
VAT rate standard	17%	17%	17%	17%	17%	17%	17%	17%	16%	13%	13%	13%
Self-developed software value	1,314	1,758	1,774	1,895	1,841	1,803	2,069	2,383	2,520	3,238	2,240	2,433
as % of total revenue	**44%**	**43%**	**42%**	**43%**	**42%**	**40%**	**40%**	**38%**	**33%**	**38%**	**26%**	**27%**

Source: Company data, CMBIGM estimates

Investment/ revaluation gain and impairment loss roughly offset each other

Investment/ revaluation gain and impairment loss (resulted from goodwill and contract asset) amount roughly offset each other.

Figure 97: Non-operating items

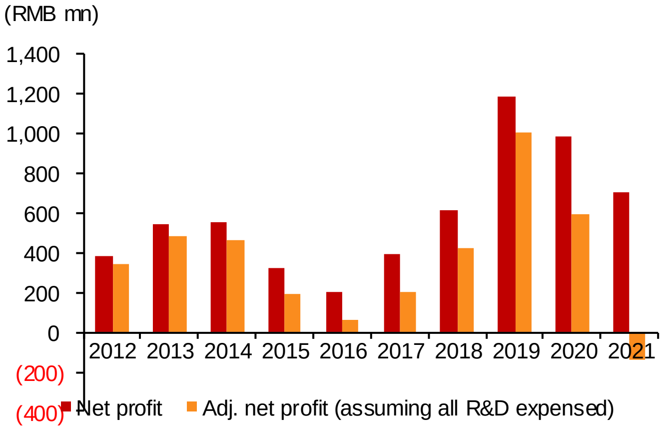
RMB mn	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
VAT refund	184	246	248	265	258	252	290	334	328	324	224	243
Gov't subsidy	44	48	36	69	59	87	63	55	59	41	46	31
Asset impairment loss	(22)	(38)	(61)	(87)	(90)	(112)	(120)	(299)	(294)	(172)	(265)	(355)
Investment gains	9	8	6	83	25	179	52	72	101	522	127	369
Others	8	(30)	(56)	(78)	(88)	(82)	(82)	(160)	(106)	(113)	(99)	(70)
Total	**223**	**234**	**173**	**252**	**165**	**324**	**203**	**1**	**86**	**602**	**33**	**219**

Source: Company data, CMBIGM estimates

Net profit

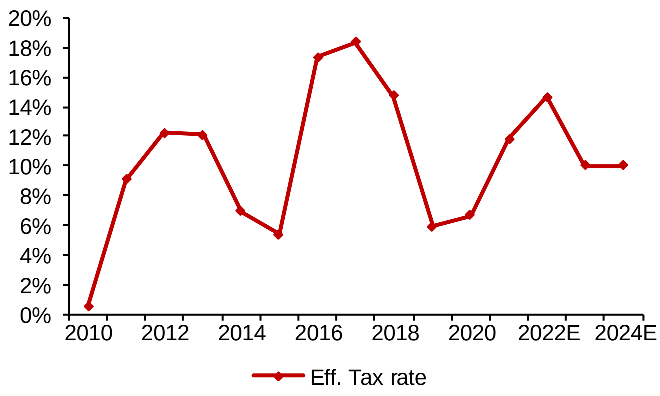
In FY10–FY16, Yonyou barely has positive net profit if we exclude the VAT refund and government subsidy. VAT refund & Government subsidy accounted for 44%-103% of Yonyou's net profit during the above period. In FY16-FY21, net profit contribution from these non-operating items decreased. We attribute the decline to Yonyou's higher-margin internet finance business. In FY21, when Yonyou divested its internet finance business, VAT refund and subsidy contribution to net profit increased to 39%. We expect such ratio to remain at 40-50% in FY22-23E as we do not expect operating leverage to appear before FY24E.

Figure 98: Adj. net profit



Source: Company data, CMBIGM estimates

Figure 99: Effective tax rate



Source: Company data, CMBIGM estimates

Operating model

Figure 100: Revenue breakdown

RMB mn	2019	2020	2021	2022E	2023E	2024E
Revenues	8,510	8,525	8,932	10,202	12,478	14,738
Cost of sales	(2,942)	(3,321)	(3,461)	(4,031)	(4,859)	(5,672)
Gross profit	5,567	5,204	5,471	6,172	7,619	9,066
Gross margin	65.4%	61.0%	61.2%	60.5%	61.1%	61.5%
R&D	(1,630)	(1,459)	(1,704)	(1,954)	(2,446)	(2,883)
SG&A	(3,023)	(2,496)	(3,099)	(3,465)	(4,084)	(4,695)
Operating income	802	1,093	555	590	913	1,266
Operating margin	*9.4%*	*12.8%*	*6.2%*	*5.8%*	*7.3%*	*8.6%*
Non-Operating Income	602	33	219	208	209	221
Profit before tax	1,404	1,126	774	799	1,122	1,486
Income tax (expense) gain	(83)	(75)	(92)	(117)	(112)	(149)
Minorities	(138)	(63)	25	(30)	(56)	(74)
Net Income to shareholders	1,183	989	708	652	954	1,263
Net margin	13.9%	11.6%	7.9%	6.4%	7.6%	8.6%
EPS (RMB)	0.36	0.30	0.22	0.19	0.28	0.37
DPS (RMB)	0.15	0.20	0.20	0.10	0.09	0.13

Source: Company data, CMBIGM

Figure 101: Operating model

RMB mn	2019	2020	2021	2022E	2023E	2024E
Revenue breakdown						
Software Business	5,195	4,044	3,320	2,856	2,500	2,265
Cloud Service Business	1,970	3,422	5,321	7,337	9,978	12,473
Financial Service Business	1,293	1,005	276	9	-	-
Others	52	54	14	-	-	-
Total	8,510	8,525	8,932	10,202	12,478	14,738
Revenue YoY						
Software Business	-7%	-22%	-18%	-14%	-12%	-9%
Cloud Service Business	132%	74%	55%	38%	36%	25%
Financial Service Business	4%	-22%	-73%	-97%	-100%	0%
Blended	10%	0%	5%	14%	22%	18%
Revenue mix						
Software Business	61%	47%	37%	28%	20%	15%
Cloud Service Business	23%	40%	60%	72%	80%	85%
Financial Service Business	15%	12%	3%	0%	0%	0%

Source: Company data, CMBIGM

Balance sheet

Figure 102: Balance sheet

RMB mn	2019	2020	2021	2022E	2023E	2024E
Cash and cash equivalent	7,147	5,605	4,616	8,482	9,741	10,902
Marketable securities	221	230	281	1,028	1,028	1,028
Account receivable	1,914	1,680	1,572	2,257	2,633	3,237
Inventory	23	423	407	409	667	728
Others	863	834	806	907	1,093	1,253
Total current assets	**10,168**	**8,773**	**7,682**	**13,083**	**15,163**	**17,148**
Net PP&E	2,510	2,507	2,529	2,644	2,779	2,952
Investments	1,782	2,473	2,553	2,610	2,610	2,610
Intangible assets	870	785	1,862	2,414	3,068	3,748
Others	2,208	2,413	2,703	2,856	2,286	1,547
Total non-current assets	**7,370**	**8,177**	**9,647**	**10,524**	**10,743**	**10,857**
Total assets	**17,538**	**16,950**	**17,329**	**23,607**	**25,906**	**28,005**
Short term debt+curr of LT	4,326	2,420	2,802	3,434	3,517	3,422
Account payable	597	549	654	760	905	1,068
Accrued expense	4,059	2,741	2,649	3,520	3,787	4,608
Others	130	2,240	2,219	1,875	3,042	3,464
Total current liabilities	**9,112**	**7,950**	**8,325**	**9,589**	**11,251**	**12,562**
Long term debt	45	0	390	420	420	408
Others	87	453	688	777	777	777
Total non-current liabilities	**132**	**453**	**1,078**	**1,197**	**1,197**	**1,185**
Share capital	2,504	3,270	3,271	3,436	3,436	3,436
Capital surplus	1,762	1,096	892	5,944	5,944	5,944
Retained earnings	3,392	3,418	3,489	3,798	4,434	5,235
Other reserves	636	762	274	(357)	(357)	(357)
Minorities	1,122	1,004	939	905	905	905
Total equity	**8,294**	**8,547**	**7,926**	**12,821**	**13,458**	**14,258**
Total liabilities and equity	**17,538**	**16,950**	**17,329**	**23,607**	**25,906**	**28,005**
ROE	**14.8%**	**11.7%**	**8.6%**	**6.3%**	**7.3%**	**9.1%**
Net debt to equity	**net cash**	**net cash**	**net cash**	**net cash**	**net cash**	**net cash**

Source: Company data, CMBIGM

Cash flow

Figure 103: Cash flow

RMB mn	2019	2020	2021	2022E	2023E	2024E
Operating activities						
Profit before tax	1,404	1,126	774	799	1,122	1,486
Depreciation of PPE	115	118	122	93	96	101
Amortisation of intangible assets	219	239	352	433	570	740
Change in working capital	762	605	146	(155)	759	581
Other non cash	(885)	(400)	2	(54)	0	0
Income tax paid	(83)	(75)	(92)	(117)	(112)	(149)
Net cash flows from operating activities	1,533	1,613	1,304	998	2,434	2,760
Investing activities						
Capex	(376)	(592)	(1,030)	(1,175)	(1,456)	(1,694)
Acquisitions - as reported	0	(44)	(555)	0	0	0
Purchase/Sale of Investments	64	(482)	241	(2,202)	0	0
Purchase/Sale of Other LT assets	318	343	1,236	113	570	740
Net cash flows used in investing activities	**(183)**	**(894)**	**(1,230)**	**(3,263)**	**(886)**	**(955)**
Financing activities						
Proceeds from equity financing	167	425	279	5,279	0	0
Proceeds from borrowings, net	909	(1,950)	702	660	83	(107)
Others						
Net cash flows used in financing activities	**273**	**(2,256)**	**(1,060)**	**6,137**	**(290)**	**(644)**
Net change in cash	**1,624**	**(1,536)**	**(987)**	**3,872**	**1,259**	**1,161**
Currency translation differences	(7)	(6)	(2)	(7)	0	0
Cash and cash equivalents (beg of period)	5,531	7,147	5,605	4,616	8,482	9,741
Cash and cash equivalents (end of period)	**7,147**	**5,605**	**4,616**	**8,482**	**9,741**	**10,902**
Free cash flow	1,157	1,021	274	(177)	979	1,066
FCF margin	**14%**	**12%**	**3%**	**-2%**	**8%**	**7%**

Source: Company data, CMBIGM

Valuation

Initiate at HOLD with target price of RMB19.58

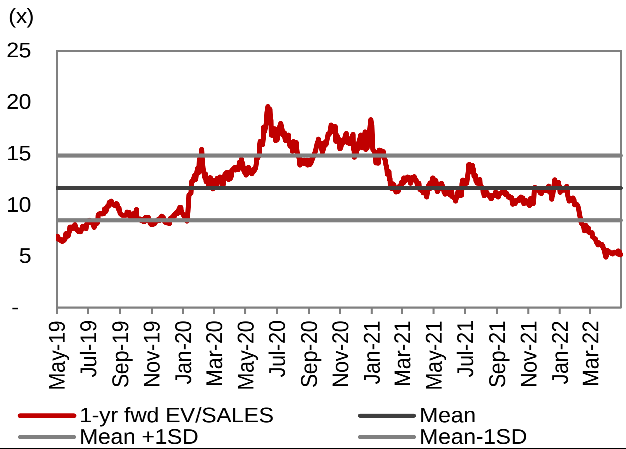
We initiate coverage on Yonyou with HOLD recommendation and target price of RMB19.58, based on 5.0x FY23E EV/sales (40% discount to global enterprise SaaS person lower subscription revenue contribution). Yonyou is trading at three-year low but we believe re-rating would be difficult in the short term given that 80% of its cloud revenue is derived from large-enterprises who are less willing to accept subscription model and require higher customization work.

Figure 104: Yonyou peers valuation comparison

Company	Ticker	Rating	Market Cap (US$ mn)	Price (LC)	TP (LC)	EV/sales (x) FY22E	EV/sales (x) FY23E	FCF margin (%) FY22E	FCF margin (%) FY23E	Sales CAGR FY21-24E	EPS CAGR FY21-24E
Yonyou	600588 CH	HOLD	9,215	18.06	19.58	5.7	4.6	-2%	8%	18%	19%
Kingdee	268 HK	BUY	5,886	13.30	18.31	7.4	6.0	0%	5%	20%	n.a.
Kingsoft Office	688111 CH	NR	13,711	200.20	N/A	20.0	15.1	32%	39%	31%	30%
SAP	SAP US	NR	119,558	97.32	N/A	4.0	3.7	12%	16%	10%	n.a.
Intuit	INTU US	NR	109,573	388.45	N/A	8.9	7.8	28%	30%	20%	29%
Xero	XRO AU	NR	9,265	87.43	N/A	13.3	10.4	-7%	2%	25%	72%
Workday	WDAY US	NR	41,731	164.51	N/A	7.8	6.5	26%	20%	20%	n.a.
ServiceNow	NOW US	NR	90,666	452.29	N/A	12.0	9.6	31%	32%	25%	119%
Salesforce	CRM US	NR	158,679	159.65	N/A	6.2	5.1	19%	21%	21%	9%
					Mean	**9.5**	**7.6**	**16%**	**19%**	**21%**	**46%**
					Median	**7.8**	**6.5**	**19%**	**20%**	**20%**	**30%**

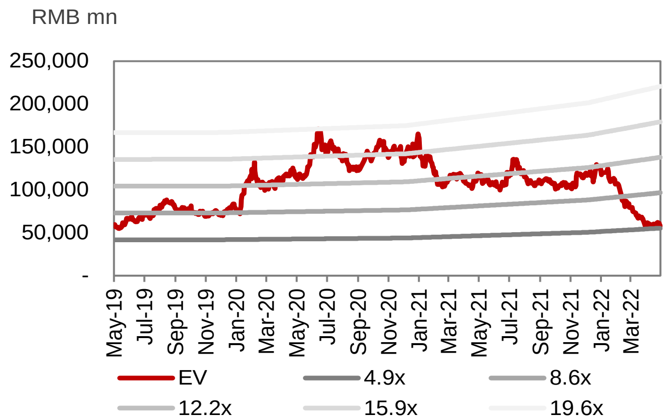
Source: Bloomberg, CMBIGM estimates

Figure 105: Yonyou 12M forward EV/sales chart



Source: Bloomberg, CMBIGM estimates

Figure 106: Yonyou 12M forward EV/sales band



Source: Bloomberg, CMBIGM estimates

Appendix:

Management profile

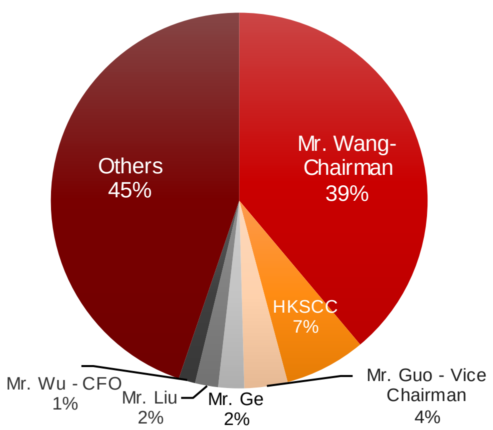
Figure 107: Management background

Name	Position	Age	Background
Wenjing Wang (王文京)	Chairman, CEO	57	Wenjing Wang is the co-founder and the CEO of Yonyou (600588 CH), chairman of the Board. Mr. Wang also served as vice-chairman of the China Software Industry Association. He was elected a member of the NPC's 9th, 10th, 11th and 12th session. Mr. Wang received a bachelor's degree in Economics from the Jiangxi University of Finance and Economics.
Xinping Guo (郭新平)	Vice-Chairman	58	Xinping Guo is the vice-chairman of Yonyou. Mr. Guo has also served as an independent non-executive director of CCID Consulting Company Limited from May 2002 to Jan 2022 and an independent director of Glodon (002410 CH) from Mar 2011 to Apr 2014. Mr. Guo received a Master degree of Business Administration in Hong Kong University of Science and Technology.
Zhengping Xu (吴政平)	CFO	57	Zhengping Wu is the CFO of Yonyou. Mr. Wu joined the group since 1992 and was served as a director of Yonyou, He was also a director of Yonyou Fintech since May 2012 and a director of Yonyou Auto since June 2015. Mr. Wu was a member of the 6th and 7th sessions of the Chinese People's Political Consultative Conference of Haidian District, Beijing. Mr. Wu graduated from China Europe International Business School with a master's degree in business administration in 2007.

Source: Company data, CMBIGM

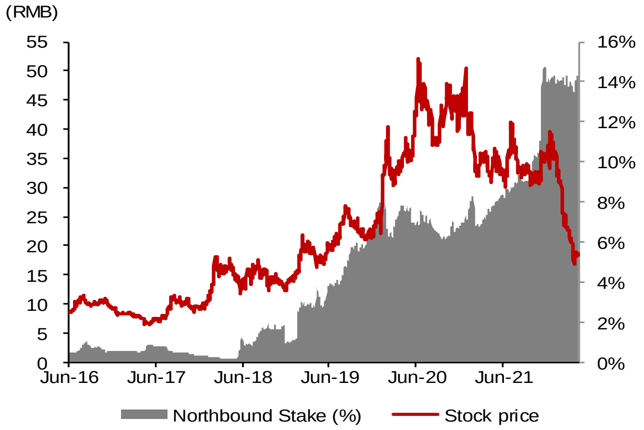
Shareholding structure

Figure 108: Yonyou shareholding structure



Source: Company data, CMBIGM

Figure 109: Yonyou northbound holding



Source: WIND, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**8,525**	**8,932**	**10,202**	**12,478**	**14,738**
Cost of sales	(3,321)	(3,461)	(4,031)	(4,859)	(5,672)
Gross profit	**5,204**	**5,471**	**6,172**	**7,619**	**9,066**
Selling exp	(1,537)	(2,027)	(2,224)	(2,624)	(2,986)
Admin exp	(959)	(1,072)	(1,241)	(1,460)	(1,709)
R&D exp	(1,459)	(1,704)	(1,954)	(2,446)	(2,883)
Other operating exp.	(156)	(113)	(162)	(177)	(222)
Operating profit	**1,093**	**555**	**590**	**913**	**1,266**
Finance costs	(110)	(79)	29	32	39
Other non-oper exp.	143	298	179	176	181
Pre-tax profit	**1,126**	**774**	**799**	**1,122**	**1,486**
Income tax expense	(75)	(92)	(117)	(112)	(149)
Minority interests	(63)	25	(30)	(56)	(74)
Net profit to shareholders	**989**	**708**	**652**	**954**	**1,263**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	**989**	**708**	**652**	**954**	**1,263**
Depreciation/amortization	357	473	526	666	841
Change in working capital	605	146	(155)	759	581
Others	(337)	(23)	(25)	56	74
Net cash from operating	**1,613**	**1,304**	**998**	**2,434**	**2,760**
Capex	(592)	(1,030)	(1,175)	(1,456)	(1,694)
Other	(183)	921	(2,088)	570	740
Net cash from investing	**(894)**	**(1,230)**	**(3,263)**	**(886)**	**(955)**
Net borrowings	(1,95	702	660	83	(107)
Dividend paid	(651)	(654)	(344)	(317)	(463)
Other	346	(1,108)	5,821	(56)	(74)
Net cash from financing	**(2,256)**	**(1,060)**	**6,137**	**(290)**	**(644)**
Net change in cash	**(1,536)**	**(987)**	**3,872**	**1,259**	**1,161**
Cash at beginning of the year	7,14	5,60	4,61	8,48	9,74
Exchange difference	(6)	(2)	(7)	-	-
Cash at the end of the year	**5,605**	**4,616**	**8,482**	**9,741**	**10,902**

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	**8,773**	**7,682**	**13,083**	**15,163**	**17,148**
Cash & equivalents	5,605	4,616	8,482	9,741	10,902
Account receivables	1,680	1,572	2,257	2,633	3,237
Inventory	423	407	409	667	728
Other current assets	1,065	1,088	1,935	2,122	2,282
Non-current assets	**8,177**	**9,647**	**10,524**	**10,743**	**10,857**
PPE	2,507	2,529	2,644	2,779	2,952
Intangible assets	785	1,862	2,414	3,068	3,748
Other non-current assets	4,885	5,256	5,466	4,896	4,157
Total assets	**16,950**	**17,329**	**23,607**	**25,906**	**28,005**
Current liabilities	**7,950**	**8,325**	**9,589**	**11,251**	**12,562**
ST borrowings	2,420	2,802	3,434	3,517	3,422
Account payables	549	654	760	905	1,068
Accrued expense	2,741	2,649	3,520	3,787	4,608
Other current liabilities	2,240	2,219	1,875	3,042	3,464
Non-current liabilities	**453**	**1,078**	**1,197**	**1,197**	**1,185**
LT borrowings	-	390	420	420	408
Other non-current liabilities	453	688	777	777	777
Total liabilities	**8,403**	**9,403**	**10,786**	**12,448**	**13,747**
Share capital	3,270	3,271	3,436	3,436	3,436
Capital surplus	1,096	892	5,944	5,944	5,944
Retained earnings	3,418	3,489	3,798	4,434	5,235
Other reserves	(242)	(664)	(1,262)	(1,262)	(1,262)
Minority interest	**1,004**	**939**	**905**	**905**	**905**
Total equity	**8,547**	**7,926**	**12,821**	**13,458**	**14,258**
Total liabilities and equity	**16,950**	**17,329**	**23,607**	**25,906**	**28,005**

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
Software Business	47%	37%	28%	20%	15%
Cloud Service Business	40%	60%	72%	80%	85%
Financial Service Business	12%	3%	0%	0%	0%
- Payment Service	9%	0%	0%	0%	0%
- Investment Information Servi	3%	0%	0%	0%	0%
Others	1%	0%	0%	0%	0%
Growth (%)					
Revenue	0%	5%	14%	22%	18%
Operating profit	36%	-49%	6%	55%	39%
EPS	-17%	-28%	-12%	46%	32%
Profit & loss ratio (%)					
Gross margin	61.0	61.2	60.5	61.1	61.5
Operating margin	12.8	6.2%	5.8%	7.3%	8.6%
Net profit margin	11.6%	7.9%	6.4%	7.6%	8.6%
Balance sheet ratio					
Current ratio (x)	1.10	0.92	1.36	1.35	1.37
Receivable turnover days	77	66	68	72	73
Inventory turnover days	10	17	15	16	17
Payable turnover days	60	69	69	26	26
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Profitability (%)					
ROE	11.7%	8.6%	6.3%	7.3%	9.1%
ROIC	18.6%	7.8%	6.8%	10.7%	15.9%
Per share data (RMB)					
EPS (RMB)	0.30	0.22	0.19	0.28	0.37
DPS (RMB)	0.20	0.20	0.10	0.09	0.13
BVPS (RMB)	2.61	2.42	3.73	3.92	4.15

Source: Company data, CMBIGM estimates

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