

Glodon (002410 CH)

Infrastructure construction management as new growth driver in the 9th Three-Year Plan

Glodon hosted 2022 investor conference on 16 Jun. The company laid out its 9th Three-Year Plan (2023-2025) with core focuses in 1) Digital Construction Platform (PaaS), 2) Infrastructure Construction Management and 3) Digital Design products. Management is confident that the construction management segment will maintain high growth (revenue guidance: +30% YoY in 2022E) in 2023-2025 and will turn profitable in 2023-2024. We continue to like Glodon for its leadership in domestic construction software. Maintain BUY.

- Key focuses of the 9th Three-Year Plan (2023-2025): ecosystem, digital design and infrastructure management.** Glodon positions itself as an Industry Platform in the 9th Three-year Plan. The company will expand its product offerings along the construction supply chain with focuses in 1) Digital Construction Platform, 2) Infrastructure construction management and 3) Digital Design products.
- Expanding from SaaS to PaaS.** Glodon targets to build a software ecosystem by launching Digital Construction Platform (PaaS) this year. The company will focus on three core SaaS products including Digital Design, Zebra Progress and Construction Costing while allowing ISVs to develop niche applications for sub-verticals based on PaaS. For large enterprises, PaaS will be sold as a new product as it allows these enterprises to easily customize applications with the software tools.
- Clearer product plan for infrastructure construction management.** China construction companies face pain points, including 1) high utility usage and 2) low profitability, in infrastructure construction due to poor project management. Glodon has launched construction management solutions specifically targeting infrastructure (first stage: road/ high-ways). In 2022, Glodon expects newly signed contracts amount to RMB400mn (triple YoY). Regarding profitability timeline, management is confident that the construction management segment will turn profitable in 2023-2024. For existing construction management contracts, 30% is related to Glodon's proprietary software and 70% is related to hardware sales. Blended gross margin exceeds 60% although smart construction business margin is lower at 50%.
- Maintain BUY.** We keep our FY22-24E earnings forecast. Maintain BUY with unchanged target price of RMB72.03.

Earnings Summary

(YE 31 Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,005	5,619	6,760	7,964	9,389
YoY growth (%)	13%	40%	20%	18%	18%
Net profit (RMB mn)	330	661	904	1,050	1,261
EPS (RMB)	0.28	0.56	0.76	0.88	1.06
YoY growth (%)	34%	99%	37%	16%	20%
Consensus EPS (RMB)	0.28	0.56	0.83	1.11	1.41
PE (x)	187.0	93.7	68.1	59.0	49.1
EV/sales	14.3	10.3	8.5	7.1	5.9
Dividend Yiled (%)	0.01	0.01	0.00	0.00	0.00
ROE (%)	7%	11%	15%	17%	17%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB72.03**
 (Previous TP **RMB72.03**)
 Up/Downside **+38.3%**
 Current Price **RMB52.10**

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Stock Data

Mkt Cap (RMB mn)	62,019
Avg 3 mths t/o (RMB mn)	275.25
52w High/Low (RMB)	77.66/ 40.91
Total Issued Shares (mn)	1,190

Source: Bloomberg

Shareholding Structure

Diao Zhizhong - Chairman	16.0%
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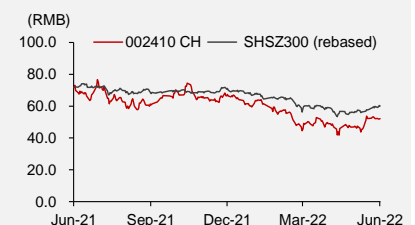
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	10.7%	3.2%
3-mth	16.5%	8.5%
6-mth	-21.8%	-8.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

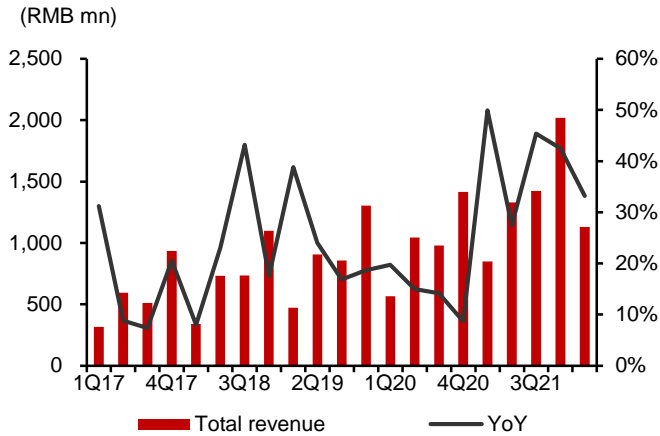
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Related Reports

Glodon (002410 CH) – “1Q22 beat, cash flow fluctuations manageable” – 27 Apr 2022 ([link](#))

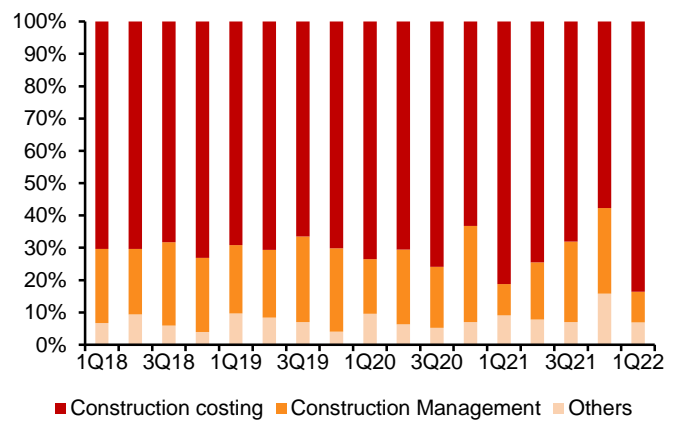
Focus Charts

Figure 1: Revenue and growth



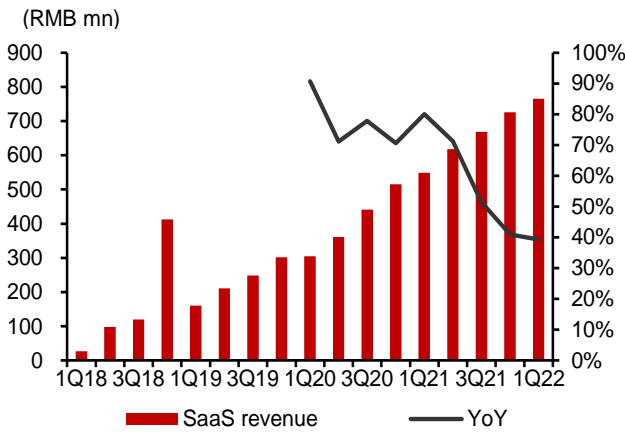
Source: Company data

Figure 2: Revenue breakdown



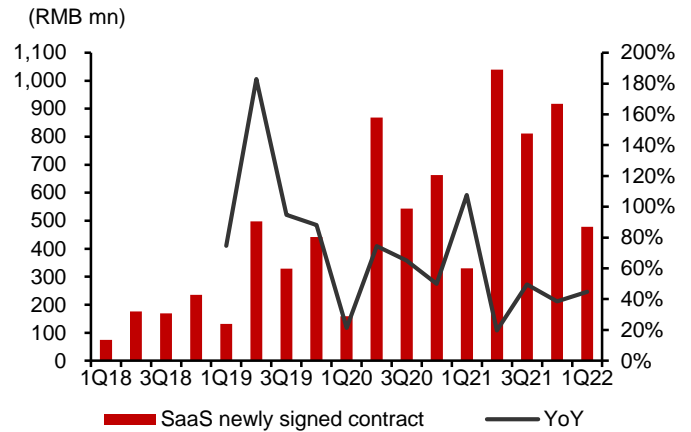
Source: Company data

Figure 3: SaaS revenue



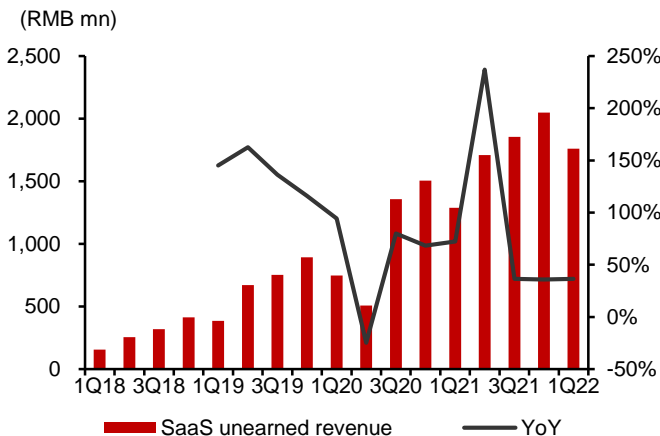
Source: Company data

Figure 4: SaaS newly signed contract



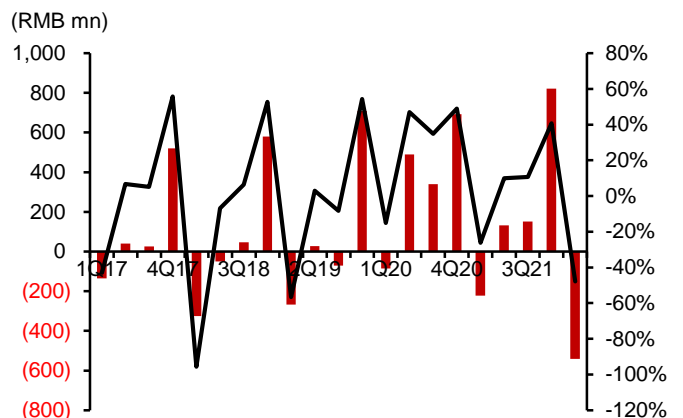
Source: Company data

Figure 5: SaaS unearned revenue



Source: Company data

Figure 6: Free cash flow



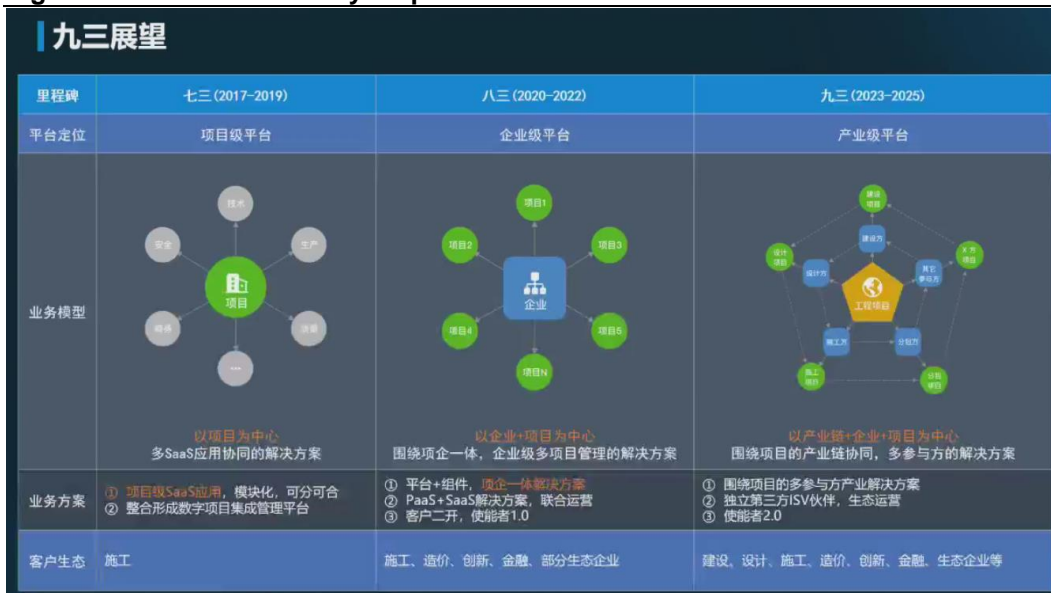
Source: Company data

2022 Investor Conference Takeaways

Glodon 9th three year plan

- Focusing on ecosystem.** Glodon positioned itself as an Industry Platform in the 9th Three-year Plan (2023 – 2025). The company will focus more on building a comprehensive software ecosystem for the construction industry, leverage on its open PaaS platform, together with other independent software vendors.
- New initiatives in design and infrastructure.** In 2020-2022, Glodon focuses on Construction Costing, Construction Management and Innovative Businesses. In 2023-2025, Glodon targets to expand product portfolio into construction design and infrastructure.

Figure 7: Glodon 9th three-year plan



Source: Company data, CMBIGM

Digital Construction Platform

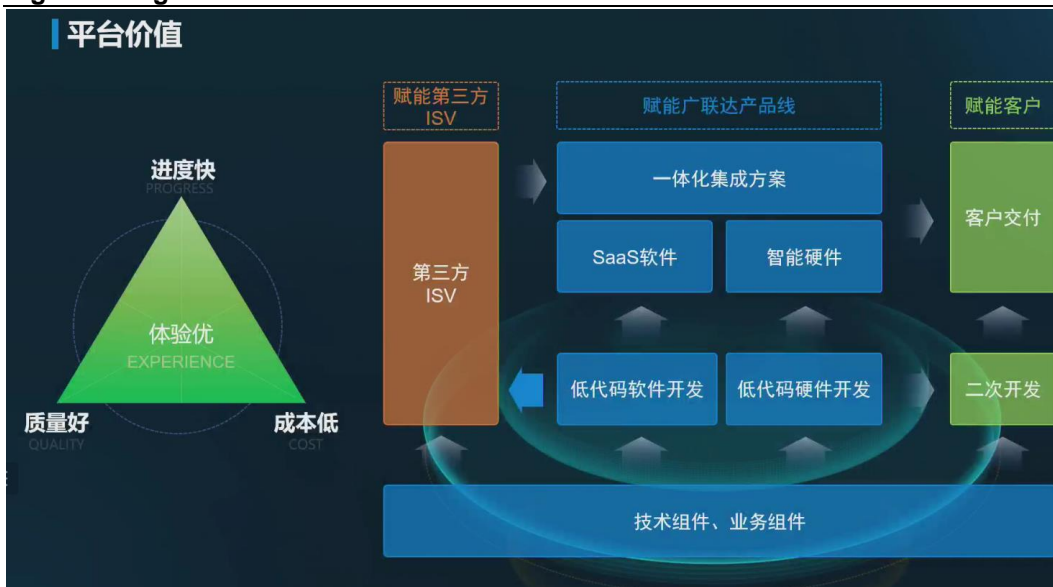
- Launching Digital Construction Platform (PaaS) this year.** Glodon will launch a cloud-based Digital Construction Platform later this year. Glodon will focus on three core SaaS products including 1) Digital Design, 2) Zebra Progress and 3) Construction Costing. For niche software applications to be used in sub-verticals, ISV can leverage on Glodon PaaS to develop accordingly. For large enterprises, PaaS will be sold as a new product which allows these enterprises to develop customized applications using software tools on the PaaS.

Figure 8: Digital Construction Platform features



Source: Company data, CMBIGM

Figure 9: Digital Construction Platform value

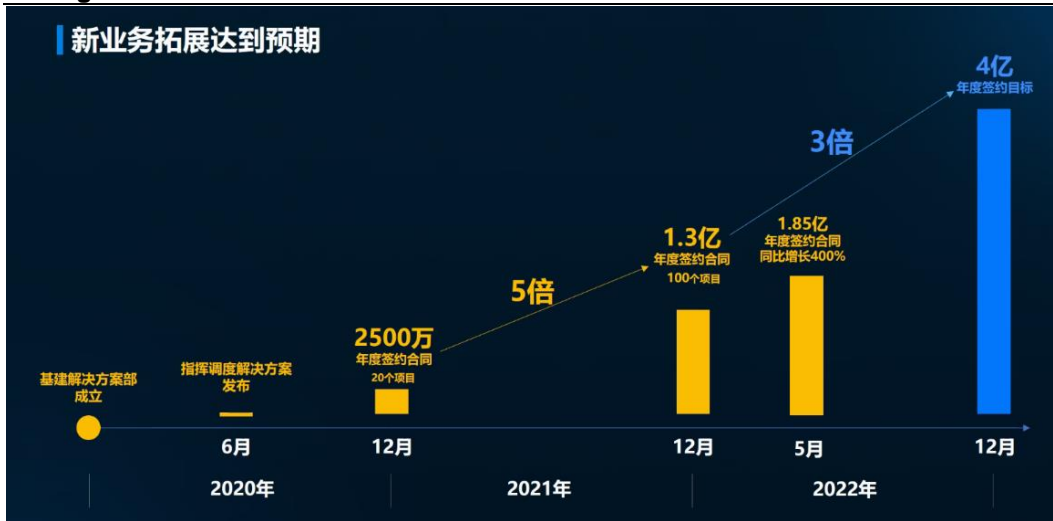


Source: Company data, CMBIGM

Construction Management - Infrastructure

- Pain points of infrastructure construction management.** China infrastructure construction companies face two problems including 1) high utility usage and resources wastage and 2) low profitability due to poor project management. Glodon has launched construction management products targeting the infrastructure industry. In particular, Glodon will first focus on roads/ high-ways construction.
- Targeting RMB400mn newly signed contracts related to infrastructure construction management.** Glodon set up infrastructure management business unit in 2020. In 2021, Glodon signed 100 projects amounted to RMB130mn. In 2022, Glodon targets newly signed contract amount to triple to RMB400mn.

Figure 10: Targeting RMB400mn newly signed contracts related to infrastructure management in 2022



Source: Company data, CMBIGM

Figure 11: Infrastructure Management Platform



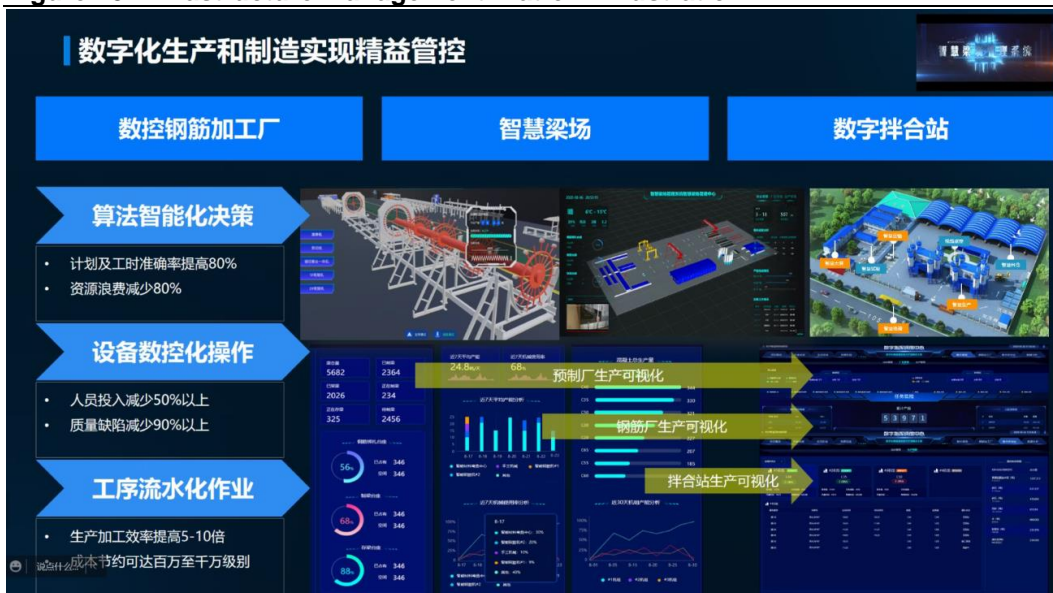
Source: Company data, CMBIGM

Figure 12: Infrastructure Management Platform illustration



Source: Company data, CMBIGM

Figure 13: Infrastructure Management Platform illustration



Source: Company data, CMBIGM

Figure 14: Infrastructure Management Platform illustration



Source: Company data, CMBIGM

- **RMB17.2bn market size.** Glodon expects digitalization spending in infrastructure construction (including roads and railways) in the 14th Five-Year Plan will amount to RMB17.2bn annually.

Figure 15: Infrastructure management market size in 14th Five-Year Plan



Source: Company data, CMBIGM

Operating model

Figure 16: Operating model

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	4,005	5,619	6,760	7,964	9,389
Cost of sales	-454	-893	-1,132	-1,467	-1,838
Gross Profit	3,550	4,727	5,627	6,497	7,551
<i>Gross margin</i>	<i>88.7%</i>	<i>84.1%</i>	<i>83.3%</i>	<i>81.6%</i>	<i>80.4%</i>
R&D	-1,083	-1,333	-1,508	-1,765	-2,046
SG&A	-2,135	-2,686	-3,038	-3,547	-4,116
Operating Income	408	748	1,142	1,248	1,465
<i>Operating margin</i>	<i>10.2%</i>	<i>13.3%</i>	<i>16.9%</i>	<i>15.7%</i>	<i>15.6%</i>
Interest Expense	17	53	44	54	66
Non-operating income/ (expense)	-15	-52	-79	-64	-56
Profit Before Income Taxes	410	749	1,107	1,238	1,475
Income Tax Expense	-29	-31	-97	-74	-71
Net profit (loss)	330	661	904	1,050	1,261
<i>Net margin</i>	<i>8.3%</i>	<i>11.8%</i>	<i>13.4%</i>	<i>13.2%</i>	<i>13.4%</i>
EPS (RMB)	0.28	0.56	0.76	0.88	1.06
DPS (RMB)	0.25	0.30	0.20	0.20	0.20
Revenue breakdown					
Engineering costing	2,791	3,813	4,572	5,362	6,214
...recurring revenue	1,622	2,561	3,382	4,232	5,140
...non-recurring revenue	1,169	1,252	1,190	1,130	1,074
Engineering construction	943	1,206	1,471	1,736	2,083
Others	271	601	717	867	1,092
Gross margin breakdown					
Engineering costing	94.2%	92.3%	93.3%	92.6%	92.8%
Engineering construction	72.1%	65.8%	65.5%	63.0%	63.0%
Growth (YoY)					
Revenues	13%	40%	20%	18%	18%
Gross Profit	12%	33%	19%	15%	16%
Operating Income	21%	84%	53%	9%	17%
EPS	34%	99%	37%	16%	20%

Source: Company data, CMBIGM

Figure 17: Quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	3Q22E	4Q22E
Revenues	566	1,043	979	1,417	849	1,329	1,423	2,018	1,131	1,588	1,690	2,350
Gross Profit	534	924	879	1,213	764	1,171	1,220	1,572	967	1,400	1,431	1,829
Operating income	82	121	121	84	90	244	191	222	145	355	348	294
Net profit	53	77	100	101	77	209	189	186	109	247	301	248
EPS (RMB)	0.05	0.07	0.08	0.08	0.06	0.18	0.16	0.16	0.09	0.21	0.25	0.21
Margins												
Gross margin	94.3%	88.6%	89.8%	85.6%	90.0%	88.1%	85.7%	77.9%	85.5%	88.2%	84.7%	77.8%
Operating margin	14.5%	11.6%	12.4%	5.9%	10.6%	18.4%	13.5%	11.0%	12.9%	22.4%	20.6%	12.5%
Net margin	9.4%	7.4%	10.2%	7.1%	9.0%	15.7%	13.3%	9.2%	9.6%	15.5%	17.8%	10.6%
Growth (QoQ)												
Revenues	-57%	84%	-6%	45%	-40%	57%	7%	42%	-44%	40%	6%	39%
Gross Profit	-53%	73%	-5%	38%	-37%	53%	4%	29%	-38%	45%	2%	28%
Operating income	-26%	47%	1%	-31%	8%	171%	-22%	16%	-35%	145%	-2%	-16%
EPS	-31%	42%	26%	1%	-24%	173%	-10%	-2%	-41%	127%	22%	-17%
Growth (YoY)												
Revenues	20%	15%	14%	9%	50%	27%	45%	42%	33%	19%	19%	16%
Gross Profit	20%	8%	18%	8%	43%	27%	39%	30%	27%	20%	17%	16%
Operating income	9%	113%	28%	-25%	10%	103%	58%	166%	61%	46%	82%	32%
EPS	-5%	119%	37%	26%	38%	165%	89%	84%	41%	17%	58%	33%

Source: Company data, CMBIGM

Valuation

Glodon (002410 CH, BUY, TP RMB72.03)

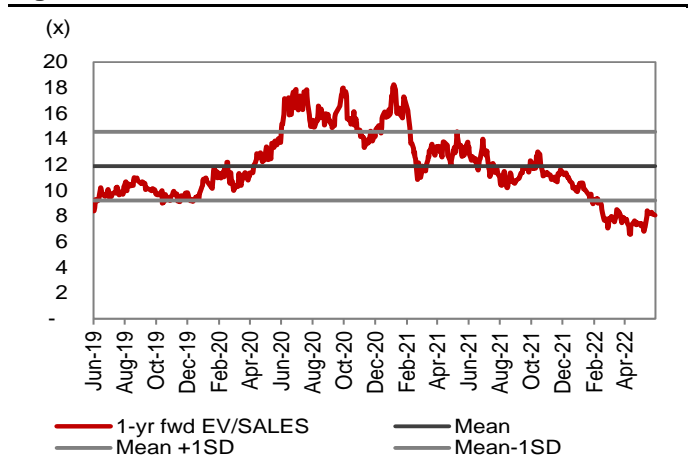
We maintain BUY with unchanged target price of RMB72.03, based on 12x FY22E EV/Sales, in-line with 3 year mean.

Figure 18: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales (x) FY22E	EV/sales (x) FY23E	FCF margin (%) FY22	FCF margin (%) FY23E	Sales CAGR FY21-24E	EPS CAGR FY21-24E
Glodon	002410 CH	BUY	9,243	52.10	72.03	8.5	7.1	16%	16%	19%	24%
MYC	909 HK	HOLD	2,663	10.62	11.22	4.8	3.8	14%	3%	21%	15%
Yonyou	600588 CH	NR	10,325	20.17	N/A	6.2	5.0	13%	7%	18%	15%
Kingssoft Office	688111 CH	NR	14,227	207.07	N/A	20.9	15.8	59%	17%	30%	28%
Kingdee	268 HK	NR	7,569	17.10	N/A	9.3	7.4	4%	3%	24%	n.a.
Autodesk	ADSK US	NR	38,394	176.71	N/A	9.1	7.9	36%	29%	15%	26%
CoStar	CSGP US	NR	22,327	56.35	N/A	9.0	7.8	22%	17%	15%	15%
					Mean	9.8	8.1	26%	17%	20%	20%
					Median	9.1	7.6	21%	16%	21%	15%

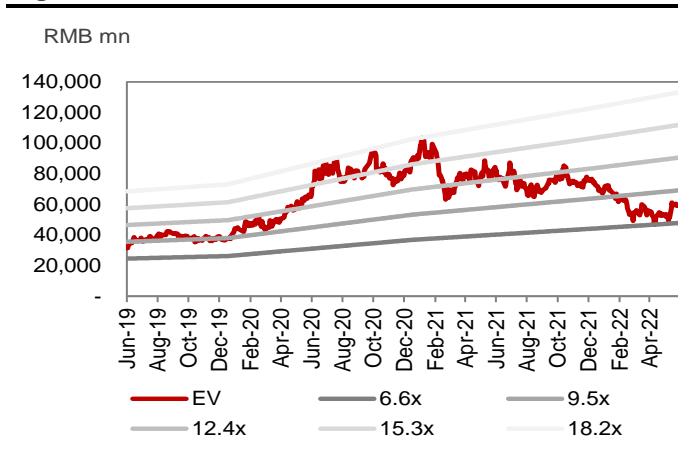
Source: Bloomberg, CMBIGM

Figure 19: 12M forward EV/sales chart



Source: Bloomberg, CMBIGM

Figure 20: 12M forward EV/sales band



Source: Bloomberg, CMBIGM

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,005	5,619	6,760	7,964	9,389	Net profit	330	661	904	1,050	1,261
Cost of sales	(454)	(893)	(1,132)	(1,467)	(1,838)	Depreciation/amortization	229	158	286	327	371
Gross profit	3,550	4,727	5,627	6,497	7,551	Change in working capital	784	525	322	525	612
Selling exp	(1,256)	(1,587)	(1,753)	(2,070)	(2,388)	Others	533	258	197	114	143
Admin exp	(879)	(1,099)	(1,285)	(1,477)	(1,728)	Net cash from operating	1,876	1,601	1,709	2,016	2,387
R&D exp	(1,083)	(1,333)	(1,508)	(1,765)	(2,046)	Capex	(439)	(720)	(643)	(718)	(691)
Other operating exp.	75	41	60	63	76	Other	(257)	(821)	155	0	0
Operating profit	408	748	1,142	1,248	1,465	Net cash from investing	(697)	(1,541)	(488)	(718)	(691)
Finance income/ (costs)	17	53	44	54	66	Net borrowings	(1,088)	(3)	0	0	0
Other non-oper exp.	(15)	(52)	(79)	(64)	(56)	Dividend paid	(157)	(354)	(357)	(238)	(238)
Pre-tax profit	410	749	1,107	1,238	1,475	Other	2,645	(438)	(277)	(114)	(143)
Income tax expense	(29)	(31)	(97)	(74)	(71)	Net cash from financing	1,400	(795)	(634)	(352)	(381)
Minority interests	(51)	(58)	(107)	(114)	(143)	Net change in cash	2,580	(735)	587	946	1,315
Net profit to shareholders	330	661	904	1,050	1,261	Cash at beginning of the year	2,231	4,797	4,050	4,630	5,576
						Exchange difference	(14)	(13)	(6)	0	0
						Cash at the end of the year	4,797	4,050	4,630	5,576	6,891

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E	YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
Current assets	5,420	5,122	5,427	6,344	7,635	Revenue mix					
Cash & equivalents	4,797	4,050	4,630	5,576	6,891	Engineering costing	70%	68%	68%	67%	66%
Account receivables	475	560	651	614	579	- SaaS	41%	46%	50%	53%	55%
Inventory	26	71	52	61	72	Engineering construction	24%	21%	22%	22%	22%
Other current assets	121	441	94	94	94	Overseas	4%	3%	2%	2%	2%
						Others	1%	5%	4%	4%	4%
Non-current assets	4,127	4,946	5,194	5,585	5,905	Finance income	1%	1%	0%	0%	0%
PPE	994	1,219	1,619	2,191	2,692	Growth (%)					
Intangible assets	1,664	1,979	1,888	1,707	1,526	Revenue	13%	40%	20%	18%	18%
Other non-current assets	1,470	1,747	1,687	1,687	1,687	Operating profit	21%	84%	53%	9%	17%
Total assets	9,547	10,068	10,621	11,929	13,540	EPS	34%	99%	37%	16%	20%
Current liabilities	2,858	3,637	4,018	4,515	5,103	Profit & loss ratio (%)					
ST borrowings	3	0	0	0	0	Gross margin	88.7%	84.1%	83.3%	81.6%	80.4%
Account payables	1,740	2,395	2,789	3,286	3,874	Operating margin	10.2%	13.3%	16.9%	15.7%	15.6%
Accrued expense	0	0	0	0	0	Net profit margin	8.3%	11.8%	13.4%	13.2%	13.4%
Unearned revenue	1,115	1,242	1,229	1,229	1,229	Balance sheet ratio					
						Receivable turnover days	49	34	33	29	23
Non-current liabilities	131	158	171	171	171	Unearned revenue days	81	77	67	56	48
LT borrowings	0	0	0	0	0	Payable turnover days	159	156	151	151	151
Other non-current liabilities	131	158	171	171	171	Current ratio (x)	1.90	1.41	1.35	1.41	1.50
Total liabilities	2,989	3,795	4,189	4,686	5,274	Net debt to equity	net cash	net cash	net cash	net cash	net cash
Share capital	1,186	1,189	1,190	1,190	1,190	Profitability (%)					
Capital surplus	3,135	3,174	3,062	3,062	3,062	ROE	7%	11%	15%	17%	17%
Retained earnings	1,957	2,432	2,979	3,790	4,813	ROIC	18%	34%	48%	62%	82%
Other reserves	125	(1,007)	(1,277)	(1,277)	(1,277)	Per share data (RMB)					
Minority interest	156	485	478	478	478	EPS (RMB)	0.28	0.56	0.76	0.88	1.06
Total equity	6,558	6,273	6,432	7,243	8,266	DPS (RMB)	0.25	0.30	0.20	0.20	0.20
Total liabilities and equity	9,547	10,068	10,621	11,929	13,540	BVPS (RMB)	5.40	4.87	5.00	5.68	6.54

Source: Company data, CMBIGM estimates

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