

# China Software & IT Services

## Higher visibility in SaaS along China cloud value chain

China cloud growth has been disrupted by Omicron spread. IDC operators have suffered from slower move-in and incurred extra operating cost in FY2Q22 due to lockdown measures. For IaaS/ PaaS, internet cloud service providers are prioritizing profitability and down-sizing CDN business. Meanwhile, telecom operators are becoming aggressive to take cloud market share. Along the cloud value chain, we like SaaS most for its subscription based business model. SaaS companies' earnings visibility fluctuates less with economy cycle, compared to IaaS/ PaaS/ IDC. Prefer Glodon (002410 CH) and Kingdee (268 HK).

- IDC: lockdown has disturbed FY2Q22 move-in and margin, 2H recovery is likely to be mild.** We believe IDC operators such as GDS, 21Vianet will face sequential margin decline in FY2Q22E as lockdown in Apr-May has caused 1) delay in capacity move-in schedule and 2) extra cost to ensure data center 24/7 operations. Although IDC demand is expected to recover in FY2H22E, the recovery could be mild and slow. IDC core customers (internet cloud service providers) are taking a slower expansion pace and focus more on improving profitability of their cloud services. Also, server delivery logistics will remain a concern with tight Omicron-preventive measures.
- IaaS/ PaaS: demand driven by non-internet enterprises, telecom operators are becoming aggressive.** The driver of IaaS/ PaaS has shifted from internet companies to traditional enterprises such as financial institutions (replace foreign database) and SOEs in public services sector. We observed that Tencent, Kingsoft Cloud, UCloud have downsized CDN business and focused on improving profitability of their cloud services. Meanwhile, telecom operators are becoming more aggressive with cloud business (IDC+IaaS/PaaS) growth remained strong at ~30% YoY in FY1Q22. We expect the landscape change to continue in FY2H22E.
- SaaS: limited impact from COVID-19/ lockdowns.** There is concern that enterprises may cut IT spending on software as economic growth slows down. However, we see lower pressure to subscription-based SaaS companies compared to license software/ project-based IT service companies. For critical software like construction costing and ERP, enterprises will have to pay the subscription fee as long as they carry out daily operation. Among China SaaS, we continue to like Glodon and Kingdee.
- Prefer quality SaaS names including Glodon and Kingdee.** We prefer the downstream SaaS players more than the upstream IaaS/ PaaS and IDC along the China cloud supply chain. Raise Glodon target price to RMB85.00 (prior RMB72.03) and Kingdee target price to HK\$24.37 (prior HK\$18.31) as we expect supporting policies on software localization to drive sector re-rating.

### Valuation Table

Company	Ticker	Rating	Price (LC)	TP (LC)	EV/sales FY22E	P/E FY22E	ROE FY22E	Sales CAGR FY21-24E
Glodon	002410 CH	BUY	57.43	85.00	9.5	69.6	15%	19%
Kingdee	268 HK	BUY	20.00	24.37	10.9	n.a.	n.a.	31%
Yonyou	600588 CH	HOLD	20.35	19.58	6.2	101.8	6%	20%
MYC	909 HK	HOLD	12.68	11.22	6.2	107.0	4%	13%
GDS	GDS US	BUY	34.74	46.00	8.2	n.a.	n.a.	19%
GDS	9698 HK	BUY	35.80	44.55	8.5	n.a.	n.a.	19%
Kingsoft Cloud	KC US	BUY	4.67	7.26	0.5	n.a.	n.a.	13%
Chinasoft	354 HK	BUY	8.00	10.52	0.8	15.6	10%	19%

Source: Bloomberg, CMBIGM estimates

**OUTPERFORM**  
(Maintain)

### China Software & IT Services

#### Marley Ngan

(852) 3916 3719

marleyngan@cmbi.com.hk

#### Bowen Li

(852) 3761 8957

libowen@cmbi.com.hk



### Related Reports

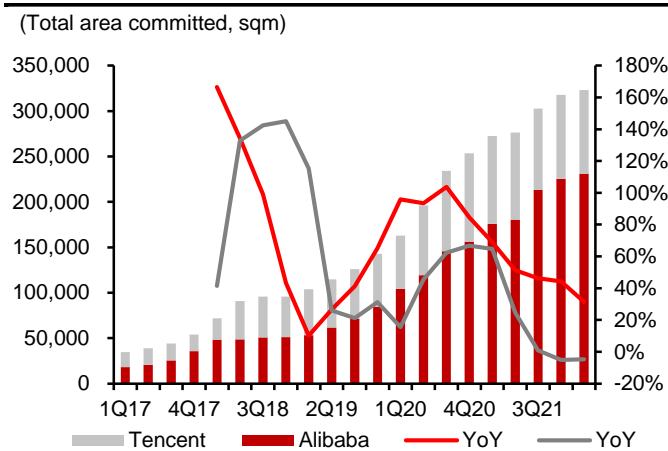
- China Software & IT Services "Lockdowns add uncertainty to cloud recovery timeline" – 12 Apr 2022 ([link](#))
- China Software & IT Services "Positive cloud outlook despite Russia-Ukraine crisis" – 25 Feb 2022 ([link](#))
- China Software & IT Services "China cloud market to recover in 2022E" – 25 Jan 2022 ([link](#))

## China cloud market

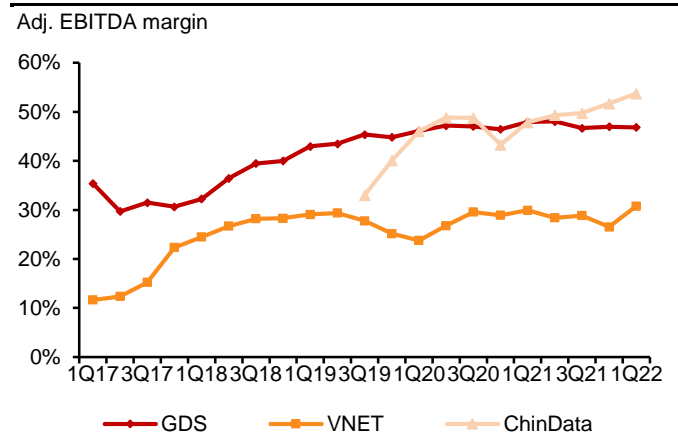
### IDC

- **COVID-19/ lockdowns impacts to FY2Q22**
  - Disturbed move-in schedule: Lockdowns have caused delay in capacity move-in in Mar-May. Although lockdown measures have been largely removed, server delivery/ logistics remain an issue in Jun and it is unlikely to see big jump in capacity move-in.
  - Extra cost in 2Q: Some data centers in use are affected by lockdown measures. However, as these data centers operate 24/7, extra operating cost was incurred in Mar-May and could slightly affect FY2Q22 margin.

**Figure 1: Alibaba/ Tencent total committed area to GDS continued to decline in FY1Q22**



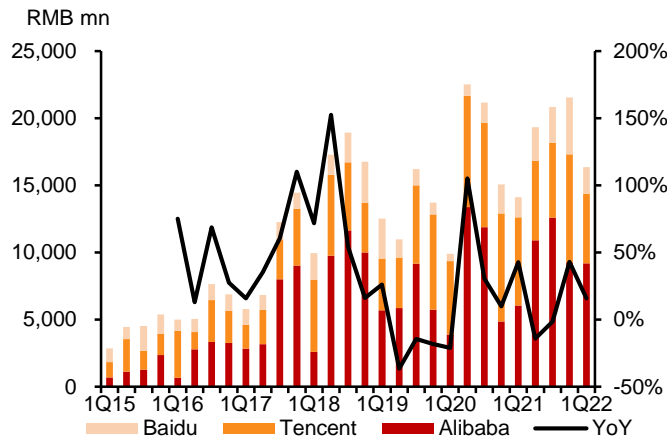
**Figure 2: IDC profitability (in terms of adj. EBITDA margin) slightly improved in FY1Q22**



- **Demand**

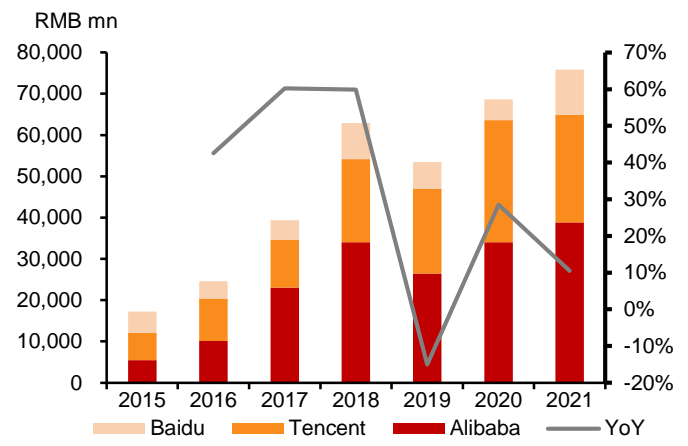
- Changing customer mix: IDC demand by customer mix is changing with increasing proportion from internet companies and enterprises.
- Cloud service providers (CSP) are taking a slower pace: CSP demand grow moderately and they are focusing more on improving profitability and efficiency of their cloud services.
- Large internet companies are building private cloud: Large internet companies use less public cloud services starting from 2019 and build their own private cloud.
- Financial institutions' IT infrastructure undergoes domestic substitution: Financial enterprises have high acceptance to cloud services with demand driven by domestic substitution. These large financial institutions order size could be similar to internet companies. However, the demand for wholesale IDC may not be very sustainable as it is correlated to the server upgrade cycle.

**Figure 3: BAT operating capex (quarterly)**



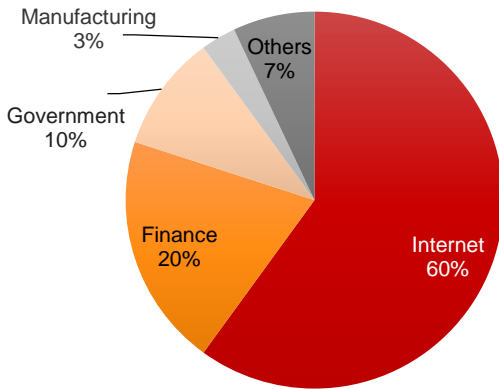
Source: Company data, CMBIGM

**Figure 4: BAT operating capex (yearly)**



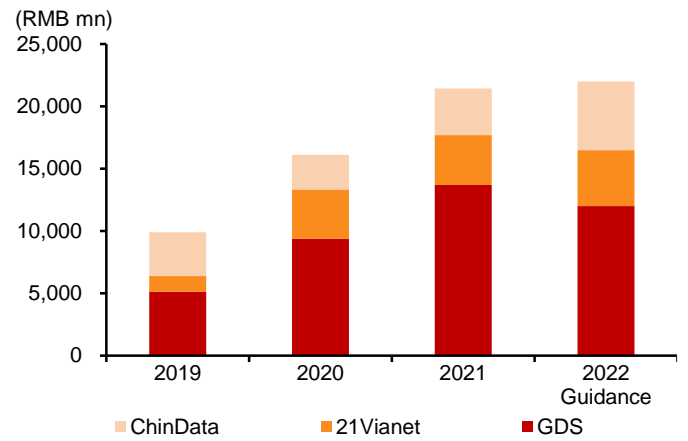
Source: Company data, CMBIGM

**Figure 5: IDCs downstream customers are mainly internet cloud service providers**



Source: iResearch (2019), CMBIGM

**Figure 6: IDCs are turning conservative in expansion in 2022E according to their capex plan**



Source: Company data, CMBIGM

• **Eastern Data, Western Compute (EDWC)**

- Latency issue: Latency remains the core difficulty in implementing the Eastern Data, Western Compute plan. It first requires telecom operators to invest in network enhancement in the western regions before cloud service providers could commit into such plan.
- PUE/ utilization requirements: IDC utilization rate in western regions is low at 20-30%. If government requires a utilization at 60-65%, some regions may not give out new power/ land quota for IDC before meeting the utilization requirement.

Figure 7: IDCs generally guided a softer FY22E outlook with slower revenue growth, decline in adj. EBITDA margin and a more conservative capex plan

RMB bn	FY1Q22			FY22E Guidance *		
	Revenue	Adj. EBITDA margin	Capex	Revenue	Adj. EBITDA margin	Capex
GDS	2.244 (+32% YoY)	46.9% (-1.1 ppts YoY)	4.93	9.5 (+22% YoY)	46.0% (-1.4 ppts YoY)	12.0 (-12.4% YoY)
21Vianet	1.645 (+19% YoY)	30.8% (+0.8 ppts YoY)	1.02	7.6 (+23% YoY)	27.0% (-1.4 ppts YoY)	4.5 (+12.8% YoY)
ChinData	0.921 (+43% YoY)	53.7% (+5.9 ppts YoY)	1.23	4.18 (+46% YoY)	51.2% (+1.5 ppts YoY)	5.5 (+46.0% YoY)

Source: Company data, CMBIGM \*reflects mid-point of guidance

## IaaS/ PaaS

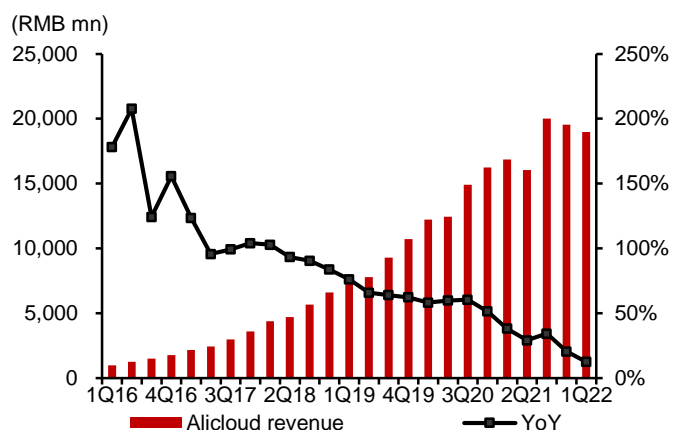
### Public cloud demand

- Content Delivery Network (CDN): Demand for CDN services has slowed down since 2021. Several CSPs have adjusted their CDN product strategy including Tencent, Kingsoft Cloud and UCloud. Apart from the top CSPs, telecom operators can also provide CDN services.
- Compute/ Storage: Demand is still largely driven by internet customers and they have shifted their focus from top line growth to profitability with stricter control on cloud spending. Cloud service demand and capex from internet companies will have moderate growth this year.

### Private/ hybrid cloud demand

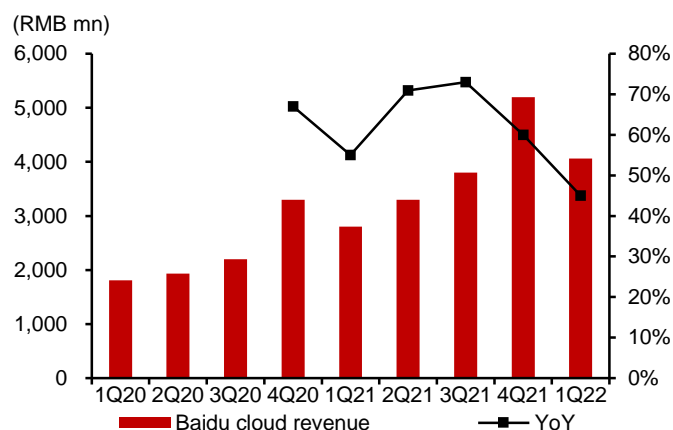
- Public services: The delivery of public service cloud project has experienced delay because of lockdowns, especially in Apr-May. There is still uncertainty in new bidding schedule.
- Financial institutions: Demand comes from domestic substitution to replace Oracle database with domestic database.
- Healthcare industry: To facilitate medical data integration and coordination between hospitals, National Health Commission of the People's Republic of China (卫健委) takes the lead role in building a regional cloud platform.

Figure 8: AliCloud revenue



Source: Company data, CMBIGM

Figure 9: Baidu Cloud revenue



Source: Company data, CMBIGM

Figure 10: IaaS/ PaaS providers comment on 1Q22 and cloud outlook

Cloud vendors	CY1Q22 revenue (RMB mn)	YoY	Comments
Alibaba	18,971	12%	<ul style="list-style-type: none"> <li>Strong growth in telecommunications, financial services and retail industries, partly offset by declining revenue in online education and entertainment.</li> <li>Excluding revenue generated from a top customer in the internet industry that has gradually stopped using our overseas cloud services due to non-product related requirements, our Cloud revenue, after inter-segment elimination, would have grown +15% YoY during the quarter.</li> </ul>
Tencent	n.a.	n.a.	<ul style="list-style-type: none"> <li>Business Services revenue declined slightly YoY as we proactively scaled back certain loss-making activities including 1) projects with high proportion of subcontracts; 2) deeply-discounted contracts for Cloud Virtual Machines and CDN capacity. Instead, we increased healthier-margin self-developed PaaS revenue, especially in video cloud and cybersecurity.</li> </ul>
Baidu	4,060	45%	<ul style="list-style-type: none"> <li>Non-online marketing revenue was RMB5.7bn (+35% YoY), driven by cloud and other AI-powered businesses.</li> </ul>
Kingsoft Cloud	2,174	20%	<ul style="list-style-type: none"> <li>Proactively downsizing CDN business since 4Q21. Core cloud services (excluding CDN) increased by +61.2% YoY.</li> </ul>
UCloud	528	-26%	<ul style="list-style-type: none"> <li>Lower-margin CDN business revenue declined YoY</li> </ul>
China Telecom	n.a.	n.a.	<ul style="list-style-type: none"> <li>Industrial Digitalization (including industry cloud, IDC, IoT etc.) revenue was at RMB29.41bn, up +23.2% YoY</li> </ul>
China Mobile	n.a.	n.a.	<ul style="list-style-type: none"> <li>DICT revenue was at RMB23.7bn, up +50.9% YoY</li> </ul>
China Unicom	9,120	114%	<ul style="list-style-type: none"> <li>Unicom Cloud (联通云) revenue was at RMB9,120mn, up +114% YoY</li> <li>IDC revenue was at RMB6,231mn, up +14.5% YoY</li> </ul>

Source: Company data, CMBIGM

## SaaS

- COVID-19/ lockdowns impact**
  - Limited impact: As contract renewal, delivery and training can be done online, subscription based SaaS companies did not face much impact from COVID-19/ lockdowns.
- Acceptance of subscription model by enterprises**
  - SME: SME are willing to pay for the use of software over the cloud if it helps in cost saving and improving operating efficiency.
  - Large enterprises: Large enterprises are less willing to accept subscription based SaaS model as the value-add from SaaS is not obvious. Large enterprises are not price sensitive, and they are willing to pay for highly customized software. Reducing internal IT workforce and cost savings are not the priority concerns of large enterprises.

## Earnings revision – Glodon (002410 CH, BUY, TP RMB85.00)

Figure 11: Earnings revision

RMBm	2022E			2023E			2024E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	6,760	6,760	-	7,964	7,964	-	9,389	9,389	-
Gross profit	5,627	5,627	-0%	6,496	6,497	-0%	7,549	7,551	-0%
OP Profit	1,142	1,142	-0%	1,248	1,248	-0%	1,464	1,465	-0%
PBT	1,107	1,107	-0%	1,237	1,238	-0%	1,474	1,475	-0%
Net profit	905	904	0%	1,050	1,050	0%	1,261	1,261	0%
EPS	0.76	0.76	0%	0.88	0.88	0%	1.06	1.06	0%
<b>Margins</b>									
GM	83.2%	83.3%	-1 bps	81.6%	81.6%	-1 bps	80.4%	80.4%	-1 bps
OPM	16.9%	16.9%	-1 bps	15.7%	15.7%	-1 bps	15.6%	15.6%	-1 bps
PBT margin	16.4%	16.4%	-1 bps	15.5%	15.5%	-1 bps	15.7%	15.7%	-1 bps
Net margin	13.4%	13.4%	1 bps	13.2%	13.2%	1 bps	13.4%	13.4%	0 bps

Source: Company data, CMBIGM estimates

Figure 12: CMBI vs. consensus

RMBm	CMBI	2022		2023			2024		
		Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	6,760	6,911	-2%	7,964	8,402	-5%	9,389	10,142	-7%
Gross profit	5,627	5,782	-3%	6,496	6,989	-7%	7,549	8,374	-10%
OP Profit	1,142	1,181	-3%	1,248	1,571	-21%	1,464	1,920	-24%
PBT	1,107	1,126	-2%	1,237	1,492	-17%	1,474	1,836	-20%
Net profit	905	994	-9%	1,050	1,352	-22%	1,261	1,710	-26%
EPS	0.8	0.8	-8%	0.9	1.1	-21%	1.1	1.4	-26%
<b>Margins</b>									
GM	83.2%	83.7%	-42 bps	81.6%	83.2%	-161 bps	80.4%	82.6%	-216 bps
OPM	16.9%	17.1%	-20 bps	15.7%	18.7%	-303 bps	15.6%	18.9%	-333 bps
PBT margin	16.4%	16.3%	9 bps	15.5%	17.8%	-222 bps	15.7%	18.1%	-241 bps
Net margin	13.4%	14.4%	-100 bps	13.2%	16.1%	-291 bps	13.4%	16.9%	-343 bps

Source: Company data, Bloomberg, CMBIGM estimates

Figure 13: 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	1,555	1,690	2,384
Gross Profit	534	924	879	1,213	764	1,171	1,220	1,572	967	1,371	1,431	1,858
Operating income	82	121	121	84	90	244	191	222	145	348	348	301
Net profit	53	77	100	101	77	209	189	186	109	241	301	254
EPS (RMB)	0.05	0.07	0.08	0.08	0.06	0.18	0.16	0.16	0.09	0.20	0.25	0.21
<b>Margins</b>												
Gross margin	94.3%	88.6%	89.8%	85.6%	90.0%	88.1%	85.7%	77.9%	85.5%	88.2%	84.7%	77.9%
Operating margin	14.5%	11.6%	12.4%	5.9%	10.6%	18.4%	13.5%	11.0%	12.9%	22.4%	20.6%	12.6%
Net margin	9.4%	7.4%	10.2%	7.1%	9.0%	15.7%	13.3%	9.2%	9.6%	15.5%	17.8%	10.7%
<b>Growth (QoQ)</b>												
Revenues	-57%	84%	-6%	45%	-40%	57%	7%	42%	-44%	37%	9%	41%
Gross Profit	-53%	73%	-5%	38%	-37%	53%	4%	29%	-38%	42%	4%	30%
Operating income	-26%	47%	1%	-31%	8%	171%	-22%	16%	-35%	139%	0%	-14%
EPS	-31%	42%	26%	1%	-24%	173%	-10%	-2%	-41%	122%	25%	-15%
<b>Growth (YoY)</b>												
Revenues	20%	15%	14%	9%	50%	27%	45%	42%	33%	17%	19%	18%
Gross Profit	20%	8%	18%	8%	43%	27%	39%	30%	27%	17%	17%	18%
Operating income	9%	113%	28%	-25%	10%	103%	58%	166%	61%	42%	82%	35%
EPS	-5%	119%	37%	26%	38%	165%	89%	84%	41%	15%	58%	37%

Source: Company data, Bloomberg, CMBIGM estimates

## Valuation – Glodon (002410 CH, BUY, TP RMB85.00)

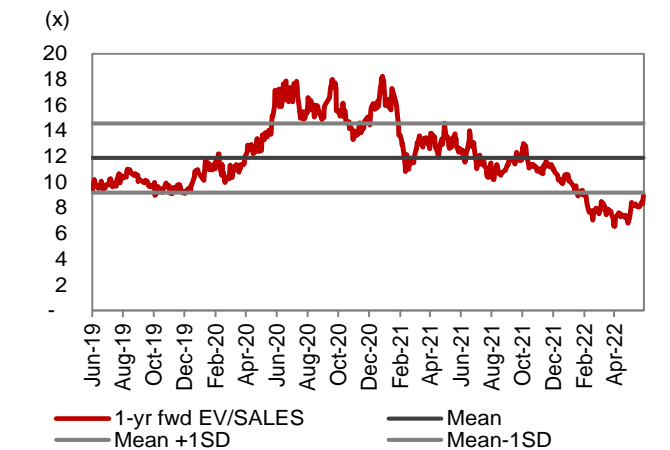
We maintain BUY with new target price of RMB85.00 (prior RMB72.03) as we roll-over our target multiple to 12x FY23E EV/Sales (prior FY22E).

Figure 14: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales (x)		FCF margin (%)		Sales CAGR FY21-24E	EPS CAGR FY21-24E
						FY22E	FY23E	FY22E	FY23E		
Glodon	002410 CH	BUY	10,220	57.43	85.00	9.5	7.8	13%	12%	19%	24%
MYC	909 HK	HOLD	3,191	12.68	11.22	6.2	4.9	14%	3%	13%	n.a.
Yonyou	600588 CH	HOLD	10,448	20.35	19.58	6.2	5.1	13%	7%	18%	19%
Kingsoft Office	688111 CH	NR	13,895	201.63	N/A	20.4	15.4	59%	21%	30%	27%
Kingdee	268 HK	BUY	8,856	20.00	24.37	10.9	8.7	4%	3%	20%	n.a.
Autodesk	ADSK US	NR	41,821	192.48	N/A	9.9	8.6	36%	29%	15%	26%
CoStar	CSGP US	NR	24,903	62.85	N/A	10.2	8.8	22%	17%	15%	15%
<b>Mean</b>						<b>10.5</b>	<b>8.5</b>	<b>23%</b>	<b>13%</b>	<b>19%</b>	<b>22%</b>
<b>Median</b>						<b>9.9</b>	<b>8.6</b>	<b>14%</b>	<b>12%</b>	<b>18%</b>	<b>24%</b>

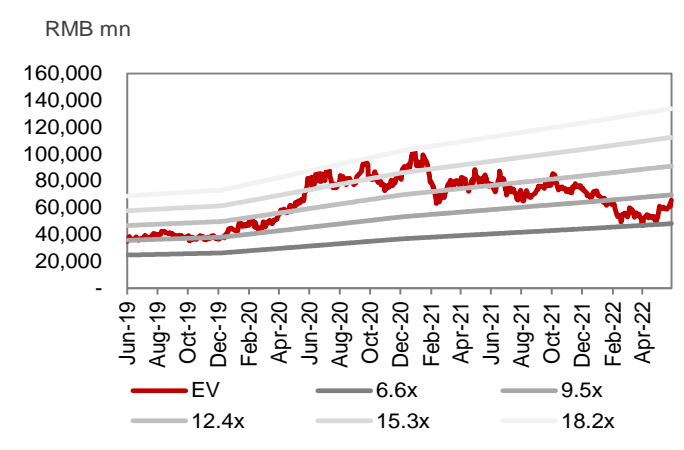
Source: Bloomberg, CMBIGM estimates

Figure 15: 12M forward EV/sales chart



Source: Bloomberg, CMBIGM

Figure 16: 12M forward EV/sales band



Source: Bloomberg, CMBIGM

## Earnings revision – Kingdee (268 HK, BUY, TP HK\$24.37)

Figure 17: Earnings revision

RMBm	2022E			2023E			2024E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	4,927	4,925	0%	6,050	6,048	0%	7,218	7,207	0%
Gross profit	3,100	3,097	0%	3,869	3,867	0%	4,663	4,656	0%
OP Profit	-769	-760	1%	-478	-478	0%	-107	-107	-0%
PBT	-435	-426	2%	-150	-150	0%	225	225	0%
Net profit	-380	-372	2%	-128	-128	0%	193	192	0%
EPS	-0.11	-0.11	2%	-0.04	-0.04	0%	0.06	0.06	0%
<b>Margins</b>									
GM	62.9%	62.9%	3 bps	63.9%	63.9%	0 bps	64.6%	64.6%	0 bps
OPM	-15.6%	-15.4%	-18 bps	-7.9%	-7.9%	0 bps	-1.5%	-1.5%	1 bps
PBT margin	-8.8%	-8.6%	-18 bps	-2.5%	-2.5%	0 bps	3.1%	3.1%	0 bps
Net margin	-7.7%	-7.6%	-16 bps	-2.1%	-2.1%	0 bps	2.7%	2.7%	0 bps

Source: Company data, CMBIGM estimates

Figure 18: CMBI vs. consensus

RMBm	CMBI	2022		CMBI	2023		CMBI	2024	
		Street	Diff		Street	Diff		Street	Diff
Sales	4,927	5,157	-4%	6,050	6,477	-7%	7,218	8,119	-11%
Gross profit	3,100	3,281	-6%	3,869	4,179	-7%	4,663	5,306	-12%
OP Profit	-769	-480	60%	-478	-280	71%	-107	-1	8,667%
PBT	-435	-323	35%	-150	-117	28%	225	196	15%
Net profit	-380	-284	34%	-128	-126	2%	193	127	52%
EPS	-0.11	-0.08	35%	-0.04	-0.03	15%	0.06	0.04	32%
<b>Margins</b>									
GM	62.9%	63.6%	-69 bps	63.9%	64.5%	-58 bps	64.6%	65.4%	-75 bps
OPM	-15.6%	-9.3%	-629 bps	-7.9%	-4.3%	-358 bps	-1.5%	0.0%	-146 bps
PBT margin	-8.8%	-6.3%	-257 bps	-2.5%	-1.8%	-67 bps	3.1%	2.4%	71 bps
Net margin	-7.7%	-5.5%	-220 bps	-2.1%	-1.9%	-17 bps	2.7%	1.6%	111 bps

Source: Company data, Bloomberg, CMBIGM estimates

Figure 19: Half-yearly operating model

RMB mn	1H20	2H20	1H21	2H21	1H22E	2H22E	1H23E	2H23E	
Revenues	1,387	1,969	1,872	2,302	2,069	2,858	2,602	3,449	
Gross Profit	890	1,319	1,174	1,459	1,338	1,762	1,661	2,208	
Operating profit	-383	-231	-546	-212	-570	-198	-561	83	
Net profit	-224	-111	-413	111	-349	-31	-331	203	
Adj. net profit	-467	-182	-642	-84	-625	-311	-657	-111	
EPS (RMB)	-0.07	-0.03	-0.12	0.03	-0.10	-0.01	-0.10	0.06	
<b>Margins</b>									
Gross margin	64.2%	67.0%	62.7%	63.4%	64.7%	61.7%	63.9%	64.0%	
Operating margin	-27.6%	-11.7%	-29.2%	-9.2%	-27.6%	-6.9%	-21.6%	2.4%	
Net margin	-16.1%	-5.7%	-22.1%	4.8%	-16.9%	-1.1%	-12.7%	5.9%	
Adj. net margin	-33.7%	-9.3%	-34.3%	-3.7%	-30.2%	-10.9%	-25.2%	-3.2%	
<b>Growth (HoH)</b>									
Revenues	-25%	42%	-5%	23%	-10%	38%	-9%	33%	
Gross Profit	-27%	48%	-11%	24%	-8%	32%	-6%	33%	
Operating profit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Net profit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Adj. net margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
<b>Growth (YoY)</b>									
Revenues	-7%	7%	35%	17%	11%	24%	26%	21%	
Gross Profit	-25%	8%	32%	11%	14%	21%	24%	25%	
Operating profit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Net profit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Adj. net margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	

Source: Company data, Bloomberg, CMBIGM estimates



## Valuation – Kingdee (268 HK, BUY, TP HK\$24.37)

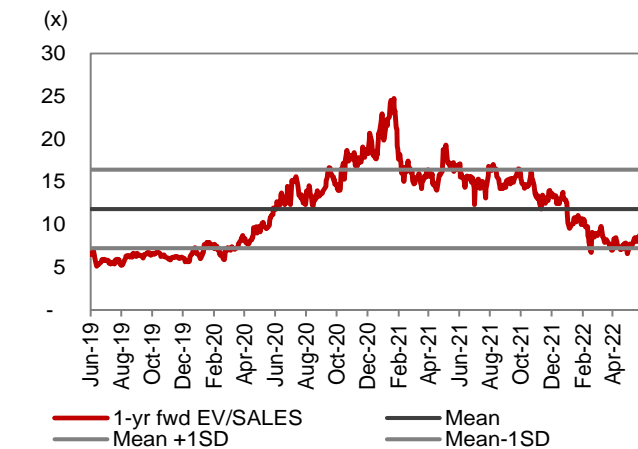
We maintain BUY on Kingdee with new target price of HK\$24.37 (prior HK\$18.31), based on 11.0x (prior 8.3x) FY23E EV/sales, in-line with its three year mean. We raise our target multiple as market sentiment on SaaS is improving as China is expected to roll out favourable policy to boost economy in FY2H22E. In particular, we expect government to launch more supportive policies related to “Xinchuang” implementation and hence result in software sector rerating opportunities.

Figure 20: Kingdee peers valuation comparison

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales (x)		FCF margin (%)		Sales CAGR FY21-24E	EPS CAGR FY21-24E
						FY22E	FY23E	FY22E	FY23E		
Kingdee	268 HK	BUY	8,856	20.00	24.37	10.9	8.7	4%	8%	20%	n.a.
Yonyou	600588 CH	HOLD	10,448	20.35	19.58	6.2	5.1	9%	7%	18%	19%
Kingsoft Office	688111 CH	NR	13,895	201.63	N/A	20.4	15.4	28%	34%	31%	31%
SAP	SAP US	NR	120,897	98.41	N/A	4.1	3.8	13%	16%	9%	n.a.
Intuit	INTU US	NR	117,801	417.62	N/A	9.6	8.3	29%	30%	20%	29%
Xero	XRO AU	NR	8,609	83.13	N/A	12.7	9.9	-7%	2%	25%	72%
Workday	WDAY US	NR	38,571	152.05	N/A	7.2	5.9	26%	19%	20%	n.a.
ServiceNow	NOW US	NR	101,050	504.09	N/A	13.4	10.7	31%	32%	25%	119%
Salesforce	CRM US	NR	184,990	185.92	N/A	7.0	5.8	19%	21%	21%	9%
<b>Mean</b>						<b>10.2</b>	<b>8.2</b>	<b>17%</b>	<b>19%</b>	<b>21%</b>	<b>46%</b>
<b>Median</b>						<b>9.6</b>	<b>8.3</b>	<b>19%</b>	<b>19%</b>	<b>20%</b>	<b>30%</b>

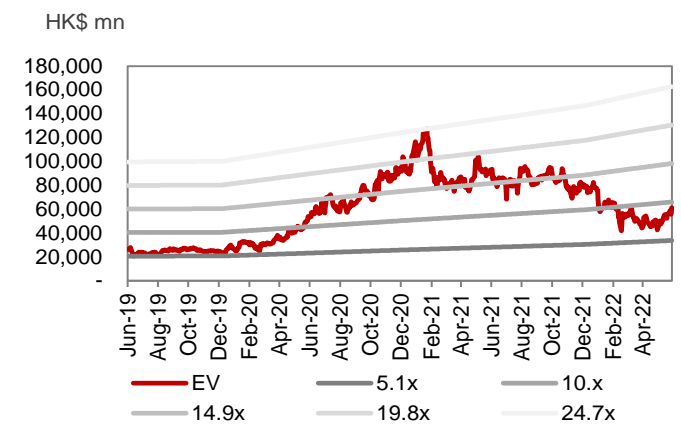
Source: Bloomberg, CMBIGM estimates

Figure 21: Kingdee 12M forward EV/sales chart



Source: Bloomberg, CMBIGM estimates

Figure 22: Kingdee 12M forward EV/sales band



Source: Bloomberg, CMBIGM estimates

## Financial Summary – Glodon (002410 CH)

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
<b>Revenue</b>	<b>4,005</b>	<b>5,619</b>	<b>6,760</b>	<b>7,964</b>	<b>9,389</b>	<b>Net profit</b>	<b>330</b>	<b>661</b>	<b>905</b>	<b>1,050</b>	<b>1,261</b>
Cost of sales	(454)	(893)	(1,133)	(1,468)	(1,839)	Depreciation/amortization	229	158	286	327	371
<b>Gross profit</b>	<b>3,550</b>	<b>4,727</b>	<b>5,627</b>	<b>6,496</b>	<b>7,549</b>	Change in working capital	784	525	352	533	621
Selling exp	(1,256)	(1,587)	(1,753)	(2,070)	(2,389)	Others	533	258	197	114	143
Admin exp	(879)	(1,099)	(1,285)	(1,477)	(1,727)	<b>Net cash from operating</b>	<b>1,876</b>	<b>1,601</b>	<b>1,740</b>	<b>2,024</b>	<b>2,396</b>
R&D exp	(1,083)	(1,333)	(1,508)	(1,765)	(2,045)	Capex	(439)	(720)	(643)	(718)	(691)
Other operating exp.	75	41	60	63	76	Other	(257)	(821)	155	0	0
<b>Operating profit</b>	<b>408</b>	<b>748</b>	<b>1,142</b>	<b>1,248</b>	<b>1,464</b>	<b>Net cash from investing</b>	<b>(697)</b>	<b>(1,541)</b>	<b>(488)</b>	<b>(718)</b>	<b>(691)</b>
Finance income/ (costs)	17	53	44	54	66	Net borrowings	(1,088)	(3)	0	0	0
Other non-op exp.	(15)	(52)	(79)	(64)	(56)	Dividend paid	(157)	(354)	(357)	(238)	(238)
<b>Pre-tax profit</b>	<b>410</b>	<b>749</b>	<b>1,107</b>	<b>1,237</b>	<b>1,474</b>	Other	2,645	(438)	(277)	(114)	(143)
Income tax expense	(29)	(31)	(95)	(73)	(69)	<b>Net cash from financing</b>	<b>1,400</b>	<b>(795)</b>	<b>(634)</b>	<b>(352)</b>	<b>(381)</b>
Minority interests	(51)	(58)	(107)	(114)	(143)	<b>Net change in cash</b>	<b>2,580</b>	<b>(735)</b>	<b>617</b>	<b>954</b>	<b>1,324</b>
<b>Net profit to shareholders</b>	<b>330</b>	<b>661</b>	<b>905</b>	<b>1,050</b>	<b>1,261</b>	Cash at beginning of the year	2,231	4,797	4,050	4,661	5,615
						Exchange difference	(14)	(13)	(6)	0	0
						<b>Cash at the end of the year</b>	<b>4,797</b>	<b>4,050</b>	<b>4,661</b>	<b>5,615</b>	<b>6,938</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E	YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>5,420</b>	<b>5,122</b>	<b>5,468</b>	<b>6,393</b>	<b>7,692</b>	<b>Revenue mix</b>					
Cash & equivalents	4,797	4,050	4,661	5,615	6,938	Engineering costing	70%	68%	68%	67%	66%
Account receivables	475	560	661	623	587	- SaaS	41%	46%	50%	53%	55%
Inventory	26	71	52	62	73	Engineering construction	24%	21%	22%	22%	22%
Other current assets	121	441	94	94	94	Overseas	4%	3%	2%	2%	2%
<b>Non-current assets</b>	<b>4,127</b>	<b>4,946</b>	<b>5,194</b>	<b>5,585</b>	<b>5,905</b>	Others	1%	5%	4%	4%	4%
PPE	994	1,219	1,619	2,191	2,692	Finance income	1%	1%	0%	0%	0%
Intangible assets	1,664	1,979	1,888	1,707	1,526	<b>Growth (%)</b>					
Other non-current assets	1,470	1,747	1,687	1,687	1,687	Revenue	13%	40%	20%	18%	18%
<b>Total assets</b>	<b>9,547</b>	<b>10,068</b>	<b>10,662</b>	<b>11,978</b>	<b>13,597</b>	Operating profit	21%	84%	53%	9%	17%
<b>Current liabilities</b>	<b>2,858</b>	<b>3,637</b>	<b>4,058</b>	<b>4,562</b>	<b>5,158</b>	EPS	34%	99%	37%	16%	20%
ST borrowings	3	0	0	0	0	<b>Profit &amp; loss ratio (%)</b>					
Account payables	1,740	2,395	2,829	3,333	3,930	Gross margin	88.7%	84.1%	83.2%	81.6%	80.4%
Accrued expense	0	0	0	0	0	Operating margin	10.2%	13.3%	16.9%	15.7%	15.6%
Unearned revenue	1,115	1,242	1,229	1,229	1,229	Net profit margin	8.3%	11.8%	13.4%	13.2%	13.4%
<b>Non-current liabilities</b>	<b>131</b>	<b>158</b>	<b>171</b>	<b>171</b>	<b>171</b>	<b>Balance sheet ratio</b>					
LT borrowings	0	0	0	0	0	Receivable turnover days	49	34	33	29	24
Other non-current liabilities	131	158	171	171	171	Unearned revenue days	81	77	67	56	48
<b>Total liabilities</b>	<b>2,989</b>	<b>3,795</b>	<b>4,229</b>	<b>4,733</b>	<b>5,330</b>	Payable turnover days	159	156	153	153	153
Share capital	1,186	1,189	1,190	1,190	1,190	Current ratio (x)	1.90	1.41	1.35	1.40	1.49
Capital surplus	3,135	3,174	3,062	3,062	3,062	Net debt to equity	net cash	net cash	net cash	net cash	net cash
Retained earnings	1,957	2,432	2,979	3,792	4,815	<b>Profitability (%)</b>					
Other reserves	125	(1,007)	(1,277)	(1,277)	(1,277)	ROE	7%	11%	15%	17%	17%
Minority interest	156	485	478	478	478	ROIC	18%	34%	48%	63%	85%
<b>Total equity</b>	<b>6,558</b>	<b>6,273</b>	<b>6,432</b>	<b>7,245</b>	<b>8,268</b>	<b>Per share data (RMB)</b>					
<b>Total liabilities and equity</b>	<b>9,547</b>	<b>10,068</b>	<b>10,662</b>	<b>11,978</b>	<b>13,597</b>	EPS (RMB)	0.28	0.56	0.76	0.88	1.06
						DPS (RMB)	0.25	0.30	0.20	0.20	0.20
						BVPS (RMB)	5.40	4.87	5.00	5.68	6.54

Source: Company data, CMBIGM estimates

## Financial Summary – Kingdee (268 HK)

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>3,356</b>	<b>4,174</b>	<b>4,927</b>	<b>6,050</b>	<b>7,218</b>
Cost of sales	(1,147)	(1,541)	(1,827)	(2,182)	(2,555)
<b>Gross profit</b>	<b>2,209</b>	<b>2,634</b>	<b>3,100</b>	<b>3,869</b>	<b>4,663</b>
Selling exp	(1,425)	(1,741)	(1,947)	(2,164)	(2,336)
Admin exp	(414)	(466)	(519)	(584)	(626)
R&D exp	(984)	(1,185)	(1,402)	(1,599)	(1,808)
Other operating exp.	0	0	0	0	0
<b>Operating profit</b>	<b>(614)</b>	<b>(758)</b>	<b>(769)</b>	<b>(478)</b>	<b>(107)</b>
Finance income/ (costs)	36	76	66	66	79
Other non-op income/ (exp)	195	299	268	262	254
<b>Pre-tax profit</b>	<b>(383)</b>	<b>(382)</b>	<b>(435)</b>	<b>(150)</b>	<b>225</b>
Income tax expense	41	44	35	15	(23)
Minority interests	6	36	20	7	(10)
<b>Net profit to shareholders</b>	<b>(335)</b>	<b>(302)</b>	<b>(380)</b>	<b>(128)</b>	<b>193</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net profit</b>	<b>(383)</b>	<b>(382)</b>	<b>(435)</b>	<b>(150)</b>	<b>225</b>
Depreciation/amortization	493	439	447	493	548
Change in working capital	364	560	605	724	735
Others	(1)	44	(35)	(67)	(116)
<b>Net cash from operating</b>	<b>473</b>	<b>661</b>	<b>583</b>	<b>1,000</b>	<b>1,392</b>
Capex	(353)	(772)	(591)	(726)	(866)
Others	(1,138)	(433)	70	82	94
<b>Net cash from investing</b>	<b>(1,491)</b>	<b>(1,205)</b>	<b>(522)</b>	<b>(644)</b>	<b>(773)</b>
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
<b>Net cash from financing</b>	<b>1,966</b>	<b>(144)</b>	<b>310</b>	<b>(20)</b>	<b>(7)</b>
<b>Net change in cash</b>	<b>948</b>	<b>(688)</b>	<b>371</b>	<b>336</b>	<b>613</b>
Cash at beginning of the year	1,899	2,754	2,047	2,418	2,754
Exchange difference	(93)	(19)	0	0	0
<b>Cash at the end of the year</b>	<b>2,754</b>	<b>2,047</b>	<b>2,418</b>	<b>2,754</b>	<b>3,367</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>6,183</b>	<b>4,471</b>	<b>4,834</b>	<b>5,279</b>	<b>6,012</b>
Cash & equivalents	2,754	2,047	2,418	2,754	3,367
Short-term bank deposits	1,236	370	370	370	370
Account receivables	334	392	428	526	627
Contract assets	357	323	377	352	351
Contract obtaining costs	142	248	150	180	193
Others	1,361	1,091	1,090	1,097	1,103
<b>Non-current assets</b>	<b>4,539</b>	<b>6,616</b>	<b>6,760</b>	<b>6,993</b>	<b>7,311</b>
PPE	746	1,045	1,087	1,147	1,226
Intangible assets	786	1,037	1,140	1,313	1,552
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
<b>Total assets</b>	<b>10,722</b>	<b>11,087</b>	<b>11,594</b>	<b>12,272</b>	<b>13,323</b>
<b>Current liabilities</b>	<b>2,599</b>	<b>3,084</b>	<b>3,779</b>	<b>4,606</b>	<b>5,459</b>
Trade and other payables	795	759	875	993	1,105
Contract liabilities	1,484	2,165	2,645	3,361	4,103
Borrowings	120	0	99	93	91
Others	200	160	160	160	160
<b>Non-current liabilities</b>	<b>165</b>	<b>200</b>	<b>411</b>	<b>398</b>	<b>393</b>
Borrowings	0	0	211	197	193
Trade and other payables	0	0	0	0	0
Other non-current liabilities	165	200	200	200	200
<b>Total liabilities</b>	<b>2,764</b>	<b>3,284</b>	<b>4,191</b>	<b>5,004</b>	<b>5,852</b>
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	1,239	1,111	1,304
Other reserves	732	744	744	744	744
Minority interest	169	207	187	180	190
<b>Total equity</b>	<b>7,958</b>	<b>7,803</b>	<b>7,403</b>	<b>7,268</b>	<b>7,471</b>
<b>Total liabilities and equity</b>	<b>10,722</b>	<b>11,087</b>	<b>11,594</b>	<b>12,272</b>	<b>13,323</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue mix</b>					
<b>Cloud Services</b>	57%	66%	72%	78%	83%
Cosmic & Constellation	6%	9%	11%	13%	15%
Galaxy	34%	34%	36%	39%	41%
Others	17%	23%	25%	26%	27%
<b>Management Software</b>	43%	34%	28%	22%	17%
License	13%	11%	10%	8%	6%
Implementation & maintenance	30%	23%	18%	14%	11%
<b>Growth (%)</b>					
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.
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	66%	63%	63%	64%	65%
Operating margin	-18%	-18%	-16%	-8%	-1%
Net profit margin	-10%	-7%	-8%	-2%	3%
<b>Balance sheet ratio</b>					
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
<b>Profitability (%)</b>					
FCF margin	4%	-3%	0%	5%	7%
ROE	-4%	-4%	-5%	-2%	3%
<b>Per share data (RMB)</b>					
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	2.09	2.15

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.