

Ming Yuan Cloud (909 HK)

Weak SaaS demand with tighter cost control ahead

MYC reported FY1H22 revenue of RM881mn (-9% YoY) and net loss of RMB562mn, suffering from property sector weakness and recurrent pandemic. SaaS ARR was up +25% YoY but contracted liabilities declined -8% YoY/ -4% HoH. This suggested a weak SaaS outlook and hence lower visibility in cash flow. MYC expects to recover from net loss and turn profitable in FY23E as property sector is still experiencing a “long winter”. MYC will remain under pressure in the near term if China’s property sales data are weak. Maintain HOLD.

- FY1H22 miss with higher opex.** MYC’s FY1H21 revenue declined -9% YoY to RMB881mn. Net loss was -RMB562mn, missing both our and consensus estimates. Gross margin improved slightly to 80.2% (vs. 79.5% in FY1H21) as SaaS revenue contribution increased to 76% (vs. 57% in FY1H21). Opex increased +66% YoY to RMB1,197mn, mainly due to 1) share-based compensation of RMB221mn, 2) +21% YoY in commission expense and 3) +16% YoY in R&D staff to 2,049.
- A sluggish SaaS outlook despite increasing CRM Cloud ARPU.** SaaS revenue was RMB669mn (+21% YoY). CRM cloud, MYC’s core SaaS product contributing 67% of FY1H22 SaaS revenue, only grew +5% YoY to RMB450mn. Property sales office coverage decreased by 18% YoY to 13.3k (vs. 16.2k) as property developers delay new launches given weak macro environment and recurrent pandemic. MYC SaaS ARR was RMB1,054mn (+25% YoY), according to management. However, we observed that MYC’s FY1H22 contracted liabilities has declined -8% YoY/ -4% HoH. This suggested a weak SaaS outlook as it reflects subscription fee paid in advance by customers before service is delivered.
- May take a long time before property sector recovers, expect FY23E to be slightly profitable.** Management commented that the property sector is experiencing a “long winter” with unclear recovery timeline. MYC will focus on 1) expanding SOE customer base (40% of revenue in FY1H22), 2) workforce restructuring (targets ex-share based compensation to decrease YoY in FY2H22). FY1H22 workforce dropped by 10% HoH. MYC expects to recover from net loss and turn profitable in FY23E.
- Maintain HOLD.** We cut FY22-24E revenue by 4-12% to reflect property sector uncertainty. Maintain HOLD with new target price of HK\$6.39 (prior HK\$8.93), based on lowered 4.7x FY23E P/S, in-line with China SaaS peers.

Earnings Summary

(YE 31 Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,705	2,184	2,007	2,202	2,511
YoY growth (%)	35%	28%	-8%	10%	14%
Core net profit (RMB mn)	383	(344)	(666)	29	306
EPS (RMB)	0.26	0.16	-0.36	0.02	0.16
YoY growth (%)	62%	-20%	-156%	-438%	64%
Consensus EPS (RMB)	0.26	0.16	0.09	0.20	0.26
PE (x)	19.9	31.4	-14.6	334.5	31.7
PS (x)	5.9	4.6	5.0	4.6	4.0
Dividend Yield (%)	0.01	0.00	0.00	0.00	0.00
ROE (%)	-11%	-6%	-13%	1%	5%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **HK\$6.39**
 (Previous TP **HK\$8.93**)
 Up/Downside **+2.4%**
 Current Price **HK\$6.24**

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Stock Data

Mkt Cap (HK\$ mn)	12,183
Avg 3 mths t/o (HK\$ mn)	80.58
52w High/Low (HK\$)	32.90/ 5.78
Total Issued Shares (mn)	1,952

Source: Bloomberg

Shareholding Structure

Mr. Gao Yu - Chairman	20.11%
Mr. Chen Xiaohui - VP	15.22%
Mr. Jiang Haiyang - CEO	9.49%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-22.5%	-19.3%
3-mth	-38.3%	-35.4%
6-mth	-63.3%	-55.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

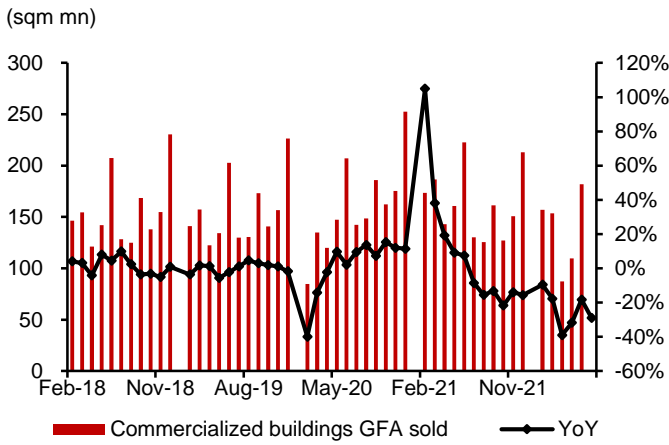
Auditor: PwC

Related Reports

- Ming Yuan Cloud (909 HK) – “Limited operating leverage when sales weaken” – 21 July 2022 ([link](#))
- China Software & IT Services – “Higher visibility in SaaS along China cloud value chain” – 28 Jun 2022 ([link](#))
- China Software & IT Services – “Diverging property SaaS outlook” – 1 Apr 2022 ([link](#))

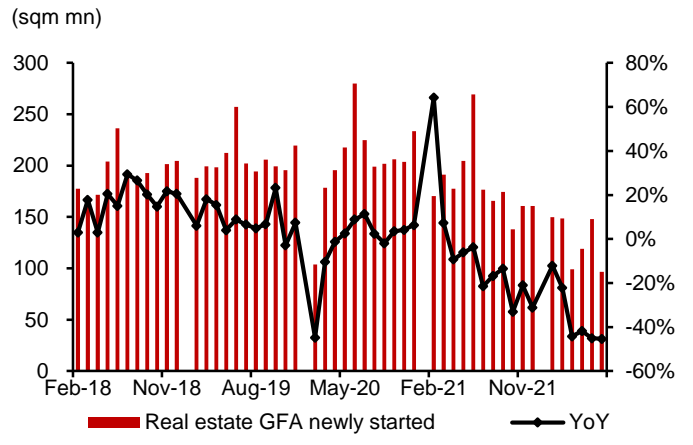
Focus Charts

Figure 1: China commercialized buildings GFA sold was down 29% YoY in Jul 2022



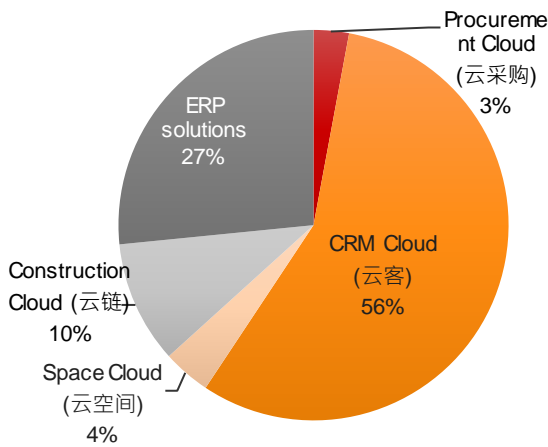
Source: NBS, CMBIGM

Figure 2: China real estate GFA newly started was down 45% YoY in Jul 2022



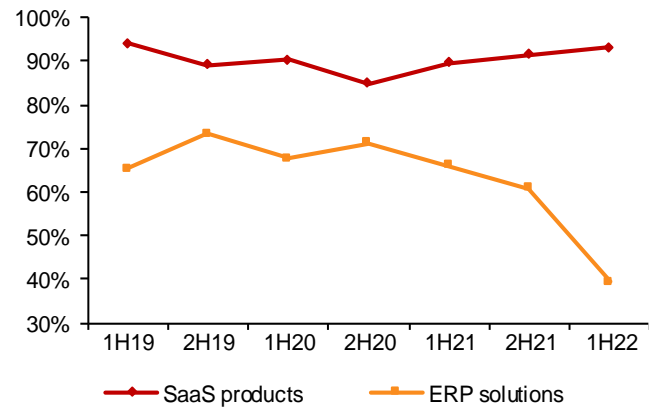
Source: NBS, CMBIGM

Figure 3: Revenue mix (FY1H22)



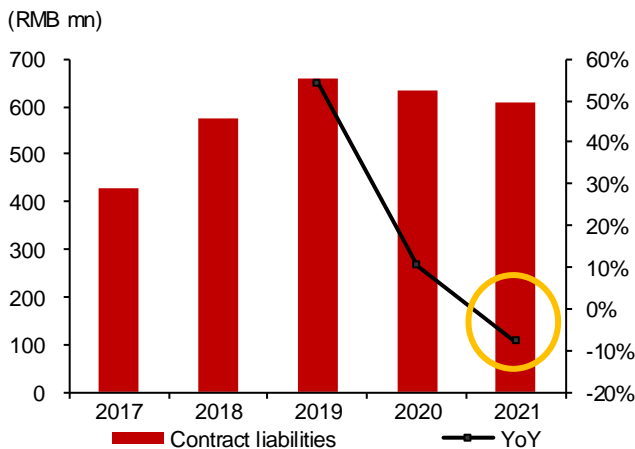
Source: Company data

Figure 4: Gross margin by segment



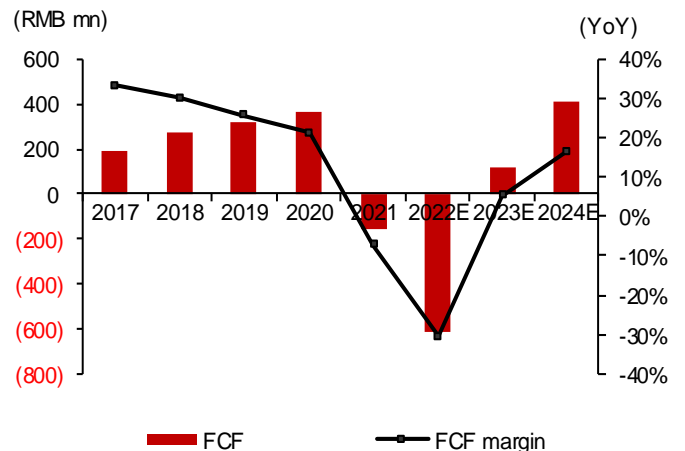
Source: Company data

Figure 5: MYC contract liabilities



Source: Company data, CMBIGM estimates

Figure 6: MYC FCF margin



Source: Company data, CMBIGM estimates

FY1H22 results review

- **Revenue** was RMB881mn (-9% YoY, -27% HoH), beating our estimate by 3% but below consensus by 7%.
- **Gross profit** was RMB707mn (-9% YoY, -28% HoH), in-line with our estimate but below consensus by 7%.
- **Gross margin** was 80.2%, (+0.8 pct pts YoY, -0.6 pct pts HoH), below our estimate by 3.4 pct pts but in-line with consensus.
- **Operating loss** was RMB491mn, larger than our estimate of RMB124mn and consensus of RMB377mn.
 - **S&M:** S&M expense increased by +30.1% YoY
 - **R&D:** R&D expense increased by +54.2% YoY, mainly due to increasing no. of R&D staff (+16.5% YoY to 2,049).
 - **G&A:** G&A expense increased by +274.0% YoY, mainly due to share based compensation. G&A (excl. share based compensation) increased at +25.8% YoY.
- **Operating margin** was -55.7% (-61.1 pct pts YoY, +14.1 pct pts HoH)
- **Net loss** was RMB562mn, missing both our and consensus estimates
- **Adj. net loss** was RMB342mn, compared to adj. net profit of RMB194mn in FY1H21.

Figure 7: FY1H22 results review

909 HK RMB mn	1H21 Actual	2H21 Actual	1H22 Actual	YoY	HoH	1H22 CMBI	versus CMBI	1H22 Consensus	versus Consensus
Revenue	974	1,211	881	-9%	-27%	857	3%	943	-7%
Gross profit	774	977	707	-9%	-28%	716	-1%	756	-7%
GPM	79.5%	80.7%	80.2%	0.8 pct pts	-0.6 pct pts	83.5%	-3.4 pct pts	80.1%	0.1 pct pts
Operating profit	53	(844)	(491)	-1032%	-42%	(124)	296%	(377)	30%
OPM	5.4%	-69.7%	-55.7%	-61.1 pct pts	14.1 pct pts	-14.5%	-41.3 pct pts	-40.0%	-15.7 pct pts
PBT	187	(690)	(567)	-404%	-18%	(64)	780%	(181)	213%
Net income	165	(509)	(562)	-440%	10%	(56)	896%	27	-2159%
NPM	17.0%	-42.1%	-63.7%	-80.7 pct pts	-21.7 pct pts	-6.6%	-57.2 pct pts	2.9%	-66.7 pct pts
EPS (RMB)	0.09	(0.27)	(0.30)	-436%	10%	(0.03)	891%	-	n.a.

Source: Company data, CMBIGM

FY1H22 breakdown

- **SaaS products** revenue was RMB669.4mn (+21.3% YoY). Core SaaS product CRM Cloud, accounting for 67% of SaaS, delivered revenue of RMB450mn (+5% YoY). Due to macro environment and the recurrent pandemic, property developers have delayed new launches, which resulted in decrease in property sales office coverage by MYC by 18% YoY to 13,300. SaaS GPM increased to 93.1% (vs. 89.7% in FY1H21) as MYC decreased sales of smart hardware.
- **Contracted liabilities** was at RMB607mn (-8% YoY, -4% HoH). The decline suggested a very weak SaaS outlook as it reflects subscription fee paid by customers before service is delivered.
- **ERP solutions revenue** was at RMB212mn (-50% YoY). In particular, revenue from ERP software license dropped 70% YoY to RMB42mn. This dragged ERP GPM to 39.3% (vs. 66.1% in FY1H21) with less standardized software but more implementation/ product support services.

Figure 8: FY1H22 operating performance (by segment)

RMB mn	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Revenue breakdown							
SaaS products	202	308	333	538	552	786	669
Procurement Cloud (云采购)	9	8	11	15	20	23	23
CRM Cloud (云客)	134	222	235	434	428	597	450
Asset Management Cloud (云空间)	11	15	18	20	22	31	32
Construction Cloud (云链)	48	63	69	68	79	110	81
Others	0	0	0	0	2	25	84
ERP solutions	286	468	337	497	422	425	212
Growth (YoY)							
SaaS products			64.9%	74.8%	65.5%	46.1%	21.3%
Procurement Cloud (云采购)			28.7%	91.8%	76.7%	48.4%	16.5%
CRM Cloud (云客)			75.9%	95.8%	82.1%	37.6%	5.1%
Asset Management Cloud (云空间)			57.5%	34.0%	25.2%	51.5%	40.9%
Construction Cloud (云链)			43.0%	8.5%	14.1%	61.3%	2.3%
Others							
ERP solutions			17.9%	6.1%	25.1%	-14.5%	-49.8%
GPM							
SaaS products	94.2%	89.2%	90.4%	85.0%	89.7%	91.5%	93.1%
ERP solutions	65.2%	73.3%	67.6%	71.1%	66.1%	60.8%	39.3%
OPM							
SaaS products	-13.4%	-4.6%	-3.5%	5.7%	-4.7%		
ERP solutions	30.9%	42.0%	44.8%	35.2%	31.8%		

Source: Company data, CMBIGM

Earnings revision

Figure 9: Earnings revision

RMB mn	2022E			2023E			2024E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	2,007	2,090	-4%	2,202	2,452	-10%	2,511	2,842	-12%
Gross profit	1,609	1,729	-7%	1,804	2,063	-13%	2,099	2,400	-13%
OP Profit	-694	-188	n.a.	-159	-45	249%	142	75	89%
PBT	-677	-19	n.a.	29	131	-78%	325	238	37%
Net profit	-666	-17	n.a.	29	112	-74%	306	204	50%
EPS	-0.36	-0.01	n.a.	0.02	0.06	-74%	0.16	0.11	49%
Margins									
GM	80.2%	82.7%	-254 bps	81.9%	84.1%	-221 bps	83.6%	84.4%	-85 bps
OPM	-34.6%	-9.0%	-2563 bps	-7.2%	-1.9%	-535 bps	5.7%	2.6%	301 bps
PBT margin	-33.7%	-0.9%	-3279 bps	1.3%	5.3%	-400 bps	13.0%	8.4%	459 bps
Net margin	-33.2%	-0.8%	-3235 bps	1.3%	4.6%	-324 bps	12.2%	7.2%	503 bps

Source: Company data, CMBIGM

Figure 10: CMBI estimates vs consensus

RMB mn	2022			2023			2024		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	2,007	2,398	-16%	2,202	2,957	-26%	2,511	3,672	-32%
Gross profit	1,609	1,960	-18%	1,804	2,475	-27%	2,099	3,119	-33%
Operating profit	-694	-351	98%	-159	18	-976%	142	254	-44%
Profit before tax	-677	-224	n.a.	29	108	-73%	325	340	-4%
EPS	-0.36	0.09	n.a.	0.02	0.20	-92%	0.16	0.26	-36%
Margins									
GM	80.2%	81.7%	-154 bps	81.9%	83.7%	-176 bps	83.6%	84.9%	-134 bps
OPM	-34.6%	-14.6%	-1996 bps	-7.2%	0.6%	-782 bps	5.7%	6.9%	-125 bps
PBT margin	-33.7%	-9.3%	-2439 bps	1.3%	3.7%	-234 bps	13.0%	9.3%	371 bps
Net margin	-8.5%	9.0%	-1750 bps	26.2%	13.7%	1254 bps	37.7%	17.6%	2012 bps

Source: Company data, CMBIGM

Operating model

Figure 11: Operating model

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	1,705	2,184	2,007	2,202	2,511
Cost of sales	(366)	(433)	(398)	(398)	(412)
Gross Profit	1,340	1,751	1,609	1,804	2,099
<i>Gross margin</i>	78.6%	80.2%	80.2%	81.9%	83.6%
R&D	(356)	(642)	(790)	(650)	(657)
SG&A	(798)	(1,900)	(1,513)	(1,313)	(1,300)
Operating Income	186	(791)	(694)	(159)	142
<i>Operating margin</i>	10.9%	-36.2%	-34.6%	-7.2%	5.7%
Non-Operating Income	(836)	288	18	188	183
Profit Before Tax	(650)	(504)	(677)	29	325
Income tax (expense) gain	(18)	8	4	1	(3)
Minorities	36	(152)	(7)	2	16
Net Income to Shareholders	(704)	(344)	(666)	29	306
Core net income	383	(344)	(666)	29	306
<i>Net margin</i>	22.4%	-15.7%	-33.2%	1.3%	12.2%
Core EPS (RMB)	0.26	0.16	(0.36)	0.02	0.16
Revenue breakdown					
SaaS product	510	871	1,338	1,503	1,675
Procurement Cloud (云采购)	17	27	43	50	69
CRM Cloud (云客)	355	669	1,025	1,015	1,041
Asset Management Cloud (云空间)	27	38	53	75	108
Construction Cloud (云链)	111	138	189	187	256
ERP solutions	754	834	847	504	527
Gross margin breakdown					
SaaS product	87%	91%	94%	94%	94%
ERP solutions	70%	63%	40%	44%	46%
Growth YoY					
Revenues	35%	28%	-8%	10%	14%
Gross profit	35%	31%	-8%	12%	16%
Operating Income	17%	n.a.	n.a.	n.a.	n.a.
Core EPS	62%	n.a.	n.a.	n.a.	n.a.

Source: Company data, CMBIGM

Figure 12: Semi-annual Operating model

RMB mn	1H20	2H20	1H21	2H21	1H22	2H22E	1H23E	2H23E
Revenues	671	1,035	974	1,211	881	1,135	991	1,211
Gross Profit	529	810	774	977	707	903	809	994
Operating profit	78	108	53	-844	-491	-204	-183	24
Core net profit	146	244	194	114	-343	-88	-91	120
EPS (RMB)	0.05	-0.53	0.09	-0.27	-0.30	-0.05	-0.05	0.06
Margins								
Gross margin	78.9%	78.3%	79.5%	80.7%	80.2%	79.5%	81.7%	82.1%
Operating margin	11.6%	10.4%	5.4%	-69.7%	-55.7%	-18.0%	-18.4%	2.0%
Net margin	10.4%	23.6%	19.9%	9.4%	-63.7%	-7.8%	-9.2%	9.9%
Growth (HoH)								
Revenues	-14%	54%	-6%	24%	-27%	29%	-13%	22%
Gross Profit	-14%	53%	-5%	26%	-28%	28%	-10%	23%
Operating profit	-41%	38%	-51%	-1703%	-42%	-58%	-10%	-113%
Core net profit	-15%	68%	-21%	-41%	-401%	-74%	3%	-232%
Growth (YoY)								
Revenues	37%	33%	45%	17%	-9%	-6%	12%	7%
Gross Profit	40%	31%	46%	21%	-9%	-8%	15%	10%
Operating profit	194%	-19%	-32%	n.a.	n.a.	n.a.	n.a.	n.a.
Core net profit	165%	43%	33%	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data, CMBIGM

Valuation

MYC (909 HK, HOLD, TP HK\$6.39)

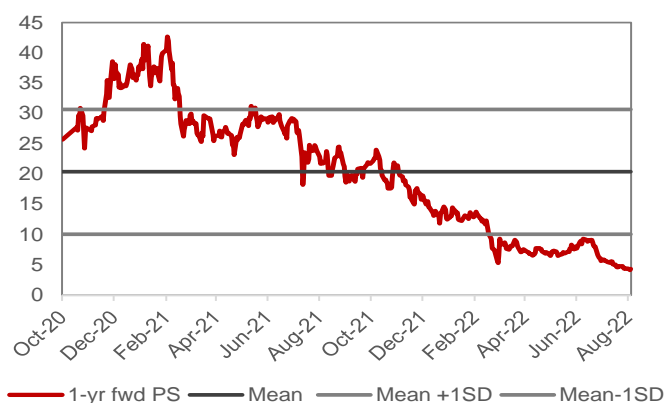
We derived our new target price of HK\$6.39 (prior HK\$8.93) based on lowered 4.7x (prior 5.9x) FY23E P/S, in-line with China's SaaS average. We use P/S as the valuation methodology as earnings cannot reflect operating profitability during SaaS ramp-up stage as operating leverage is not obvious with high S&M and R&D cost.

Figure 13: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	P/S (x)		FCF margin (%)		Sales CAGR FY21-24E	EPS CAGR FY21-24E
						FY22E	FY23E	FY22E	FY23E		
MYC	909 HK	HOLD	1,553	6.24	6.39	5.0	4.6	-31%	5%	5%	n.a.
Glodon	002410 CH	BUY	8,739	50.18	85.00	8.6	7.1	15%	19%	19%	24%
Yonyou	600588 CH	HOLD	10,657	21.22	19.81	6.9	5.6	0%	7%	19%	20%
Kingdee	268 HK	BUY	6,997	15.80	23.83	9.4	7.5	-2%	1%	19%	n.a.
Weimob	2013 HK	NR	1,134	3.49	N/A	3.3	2.7	-27%	-9%	9%	n.a.
Youzan	8083 HK	NR	296	0.13	N/A	1.7	1.4	-71%	11%	1%	n.a.
					Mean	5.7	4.7	-14%	7%	13%	22%
					Median	5.6	4.6	-1%	9%	14%	22%

Source: Bloomberg, CMBIGM

Figure 14: 12M forward P/S chart



Source: Bloomberg, CMBIGM

Figure 15: 12M forward P/S band



Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,705	2,184	2,007	2,202	2,511
Cost of sales	(366)	(433)	(398)	(398)	(412)
Gross profit	1,340	1,751	1,609	1,804	2,099
Selling exp	(590)	(897)	(1,040)	(994)	(993)
Admin exp	(208)	(1,003)	(473)	(319)	(308)
R&D exp	(356)	(642)	(790)	(650)	(657)
Other operating exp.	0	0	0	0	0
Operating profit	186	(791)	(694)	(159)	142
Finance income/ (costs)	12	123	70	61	63
Other non-oper exp.	(848)	164	(53)	127	121
Pre-tax profit	(650)	(504)	(677)	29	325
Income tax expense	(18)	8	4	1	(3)
Minority interests	(36)	152	7	(2)	(16)
Net profit to shareholders	(704)	(344)	(666)	29	306
Core net profit	383	(344)	(666)	29	306

Cash flow summary

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Net profit	(650)	(504)	(677)	29	325
Depreciation/amortization	34	56	20	21	22
Change in working capital	108	(181)	47	74	84
Others	914	717	15	13	8
Net cash from operating	406	89	(595)	137	439
Capex	(44)	(248)	(20)	(22)	(25)
Others	(2,007)	(1,714)	0	0	0
Net cash from investing	(2,051)	(1,962)	(20)	(22)	(25)
Net borrowings	0	0	0	0	0
Dividend paid	0	(128)	0	0	0
Others	5,889	(688)	(11)	(11)	(11)
Net cash from financing	5,889	(816)	(11)	(11)	(11)
Net change in cash	4,243	(2,689)	(626)	104	403
Cash at beginning of the year	732	4,759	2,017	1,391	1,495
Exchange difference	(216)	(53)	0	0	0

Balance sheet

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Current assets	7,210	6,314	5,681	5,841	6,311
Cash & equivalents	4,759	2,017	1,391	1,495	1,898
Account receivables	30	80	50	55	63
Contract acquisition cost	191	279	344	389	438
Contract assets	48	83	49	52	53
Other receivables	51	65	54	59	67
Others	2,130	3,790	3,792	3,792	3,792
Non-current assets	262	659	660	661	664
PPE	150	326	326	327	331
Intangible assets	3	54	54	54	54
Other non-current assets	109	279	279	279	279
Total assets	7,472	6,973	6,340	6,502	6,975
Current liabilities	843	948	984	1,108	1,252
ST borrowings	0	0	0	0	0
Account payables	43	66	50	50	52
Contract liabilities	549	601	686	816	956
Others	252	281	248	243	244
Non-current liabilities	59	94	99	106	113
LT borrowings	0	0	0	0	0
Contract liabilities	25	32	37	44	51
Other non-current liabilities	34	62	62	62	62
Total liabilities	903	1,043	1,083	1,214	1,365
Share capital	0.2	0.2	0.2	0.2	0.2
Capital surplus	0.0	0.0	0.0	0.0	0.0
Retained earnings	(463)	(731)	(1,397)	(1,368)	(1,061)
Other reserves	7,001	6,664	6,664	6,664	6,664
Minority interest	(463)	(731)	(1,397)	(1,368)	(1,061)
Total equity	6,570	5,930	5,258	5,288	5,610
Total liabilities and equity	7,472	6,973	6,340	6,502	6,975

Key ratios

YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
Revenue mix					
SaaS product	40%	51%	61%	75%	76%
Procurement Cloud	2%	2%	2%	3%	4%
CRM Cloud	39%	47%	51%	47%	46%
Asset Management Cloud	2%	2%	4%	5%	6%
Construction Cloud	8%	9%	9%	12%	14%
ERP solutions	49%	39%	25%	24%	21%
Growth (%)					
Revenue	35%	28%	-8%	10%	14%
Operating profit	17%	-526%	-12%	-77%	-190%
Core net profit	62%	-20%	-156%	-438%	64%
Profit & loss ratio (%)					
Gross margin	78.6%	80.2%	80.2%	81.9%	83.6%
Operating margin	10.9%	-36.2%	-34.6%	-7.2%	5.7%
Core net profit margin	22.4%	-15.7%	-33.2%	1.3%	12.2%
Balance sheet ratio					
Receivable turnover days	5	9	9	9	9
Payable turnover days	33	46	46	46	46
Current ratio (x)	8.55	6.66	5.77	5.27	5.04
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Profitability (%)					
FCF margin	21%	-7%	-31%	5%	17%
ROE	-11%	-6%	-13%	1%	5%
Per share data (RMB)					
Core EPS (RMB)	0.26	0.16	-0.36	0.02	0.16
DPS (RMB)	0.07	0.00	0.00	0.00	0.00
BVPS (RMB)	4.48	3.18	2.81	2.82	2.99

Source: Company data, CMBIGM estimates

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