

# Xuan Wu Cloud (2392 HK)

## Leading intelligent CRM service provider

Xuan Wu Cloud is the second largest provider of intelligent CRM services in China, and the largest domestic intelligent CRM services provider in China with a market share of 13.8% in 2021 in terms of revenue, according to Frost & Sullivan. We expect Xuan Wu Cloud's revenue/ adj. net profit to grow at 19%/ 62% CAGR in FY21-24E as Xuan Wu Cloud prevails over peers in terms of client base (net dollar retention rate of 109.4% in FY21), one-stop intelligent PaaS and SaaS services. Initiate at BUY with target price of HK\$10.14.

- **Leading position in the intelligent CRM services industry.** Xuan Wu Cloud, founded in 2010, is the largest domestic intelligent CRM services provider in China with 13.8% market share in 2021, according to Frost & Sullivan. Xuan Wu Cloud served 2,640 clients in FY21, among whom 325 were core clients (annual contribution >RMB300k). Core clients contributed 94.6% of FY21 revenue with dollar-based net retention rate of 102.2%.
- **Increasing demand for one-stop intelligent CRM solutions.** According to Frost & Sullivan, China's intelligent CRM services market is estimated to increase from RMB7.2bn in 2021 to RMB36.8bn in 2026 (38.6% CAGR). The market is still fragmented as different types of players are trying to expand their services mix alongside rapid growth of the entire market.
- **FY21-24E revenue/ adj. net profit to grow at 19%/ 62% CAGR.** We expect Xuan Wu Cloud's revenue to grow at 19% CAGR in FY21-24E to RMB1,661mn, driven by 1) 11% CAGR in the number of core clients to 449 and 2) 9% CAGR in revenue per core clients to RMB3.7mn. Adj. net profit CAGR is expected to grow faster at 62% on improving margin as higher-margin CRM SaaS segment (+31% CAGR) will outgrow the lower-margin CRM PaaS business (+7% CAGR).
- **Initiate at BUY with target price of HK\$10.14.** We use EV/ sales to value Xuan Wu Cloud as net profit cannot fully reflect business profitability during ramp-up phase for SaaS. Initiate at BUY with target price of HK\$10.14, based on 3.2x FY23E EV/sales (based on the avg. of cloud communication service providers and China software peers valuation). Key risks include 1) intensifying competition, and 2) rising telecommunication resources costs.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	797	992	1,132	1,380	1,661
YoY growth (%)	33%	24%	14%	22%	20%
Operating profit (RMB mn)	24	7	9	84	141
YoY growth (%)	248%	-72%	33%	839%	68%
Adj. net profit (RMB mn)	29	31	38	81	132
YoY growth (%)	117%	6%	23%	112%	63%
Free cash flow margin (%)	4%	-2%	3%	4%	6%
EV/sales (x)	5.5	4.5	3.7	3.0	2.5
P/E (x)	125	239	285	48	30
ROE (%)	10%	5%	3%	14%	18%
Net gearing (%)	net cash	1%	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Initiation)

**Target Price** HK\$10.14  
**Up/Downside** +27.9%  
**Current Price** HK\$7.93

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#### Stock Data

Mkt Cap (HK\$ mn)	4,533
Avg 3 mths t/o (HK\$ mn)	N/A
52w High/Low (HK\$)	8.17/ 5.25
Total Issued Shares (mn)	560

Source: Bloomberg

#### Shareholding Structure

Mr. Chen, Mr. Huang, Mr. Li	53.35%
Mr. Song	15.90%
ESOP	5.62%
Fosun International	5.61%

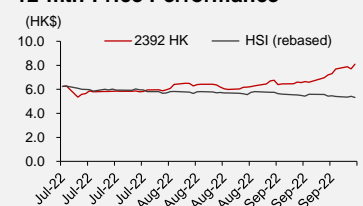
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	28.5%	35.3%
3-mth	N/A	N/A
6-mth	N/A	N/A

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

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## Investment Thesis

### 13.8% share in China intelligent CRM services market

Xuan Wu Cloud is the largest domestic intelligent CRM services provider in China with a market share of 13.8% in 2021 in terms of revenue, according to Frost & Sullivan. In 2021, Xuan Wu Cloud served 2,640 clients, among which 325 were core clients (annual revenue contribution >RMB300,000). These core clients contributed 94.6% of total revenue. Overall clients' retention rate was 66.6% (86.1% for core clients) while net dollar retention rate was 109.4% (102.2% for core clients).

### China intelligent CRM services market to grow at 38.6% CAGR

According to Frost & Sullivan, the intelligent CRM services market is estimated to increase from RMB7.2bn in 2021 to RMB36.8bn in 2026 (38.6% CAGR) due to the development of stable communication facilities, higher demand of intelligent CRM services integration and favorable policies. In 2021, intelligent CRM services market accounted for 10.0% of the TAM, and will further account for 13.1% of the TAM in 2026 as expected.

### CRM PaaS – cPaaS platform at the core

The CRM PaaS services of Xuan Wu Cloud include consolidated communication capabilities in the form of easily-deployed APIs and SDKs by various functional modules (e.g. voice and text verification code module, notification text and call module, hidden-number module). The cPaaS platform of Xuan Wu Cloud is also integrated with AI and DI capabilities to support intelligent CRM business.

### CRM SaaS – One-stop cloud-based intelligent CRM services

Xuan Wu Cloud offers three types of intelligent CRM SaaS services, namely Marketing Cloud, Sales Cloud and Service Cloud. CRM SaaS services integrate traditional CRM functions with cloud, upgraded and encapsulated communication capabilities as well as AI and DI capabilities to offer clients with one-stop intelligent CRM services. CRM SaaS services are provided with customized plug-ins and features that can be tailored to address clients' needs and they can be integrated into one interface.

### FY21-24E revenue to grow at 19% CAGR

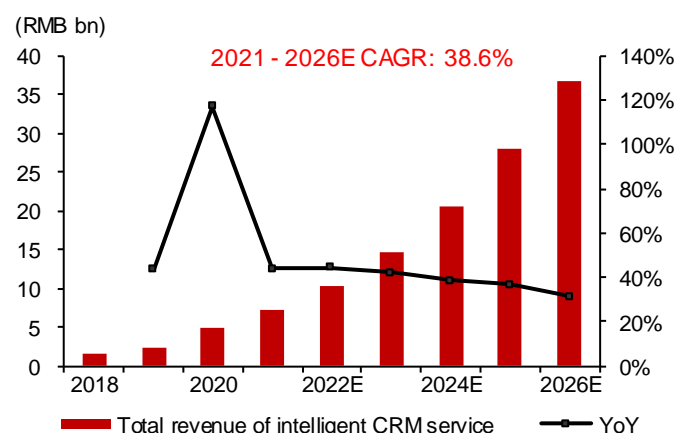
We expect Xuan Wu Cloud's revenue to grow at 19% CAGR in FY21-24E from RMB992mn to RMB1,661mn. Key growth drivers being 1) 11% CAGR in the total number of core clients to 449, and 2) 9% CAGR in revenue per core clients to RMB3.7mn. Adj. net profit CAGR is expected to grow faster at 62% mainly on improving gross margin. We expect gross margin to increase from 23.4% in FY21 to 29.6% in FY24 on better revenue mix. We estimate that higher-margin (GPM: 39.3% in FY21) CRM SaaS will grow at 31% CAGR vs. 7% CAGR for lower-margin (GPM: 10.9% in FY21) CRM PaaS segment.

### Initiate at BUY with target price of HK\$10.14

We initiate coverage with BUY recommendation and target price of HK\$10.14, based on 3.2x FY23E EV/sales (in-line with the avg. of cloud communication service providers and China software peers). We use EV/sales as the valuation methodology as operating leverage is insignificant during the expansion phase of SaaS given higher R&D/ marketing spending. Key risks include 1) intensifying competition and 2) further increase in telecommunication resources costs.

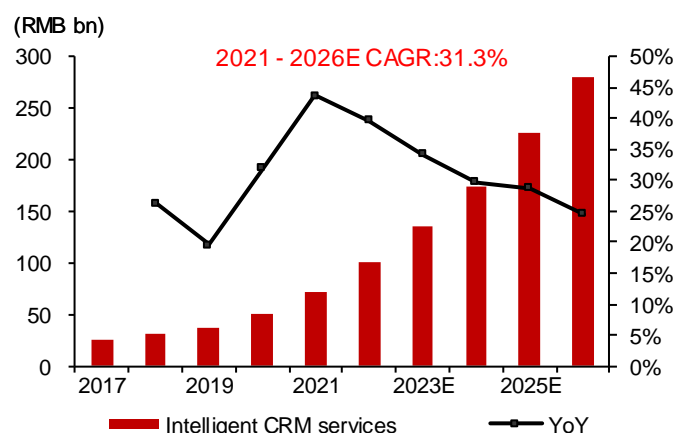
## Focus Charts

**Figure 1: Total revenue of Intelligent CRM services market to grow at 38.6% CAGR in 2021-2026E**



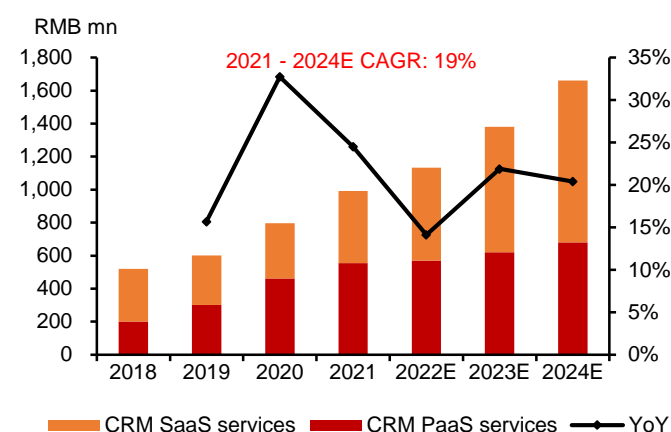
Source: Frost & Sullivan

**Figure 2: Intelligent CRM services TAM to grow at 31.3% CAGR in 2021-2026E**



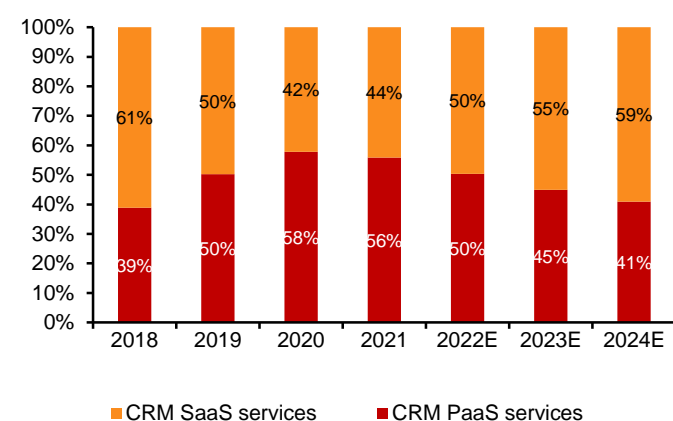
Source: Frost & Sullivan

**Figure 3: Xuan Wu Cloud revenue**



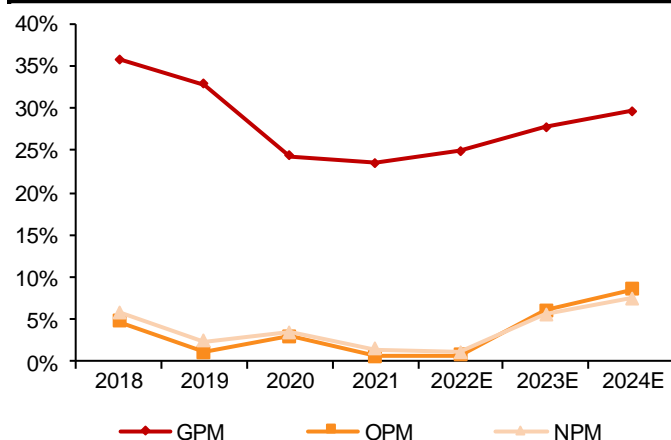
Source: Company data, CMBIGM estimates

**Figure 4: Revenue breakdown**



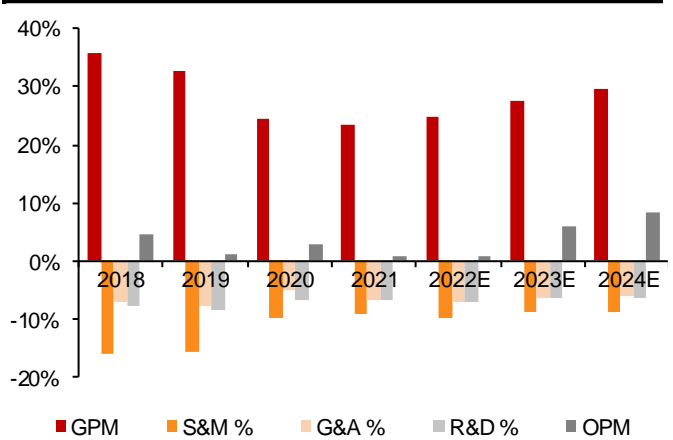
Source: Company data, CMBIGM estimates

**Figure 5: Margins**



Source: Company data, CMBIGM estimates

**Figure 6: Opex breakdown**



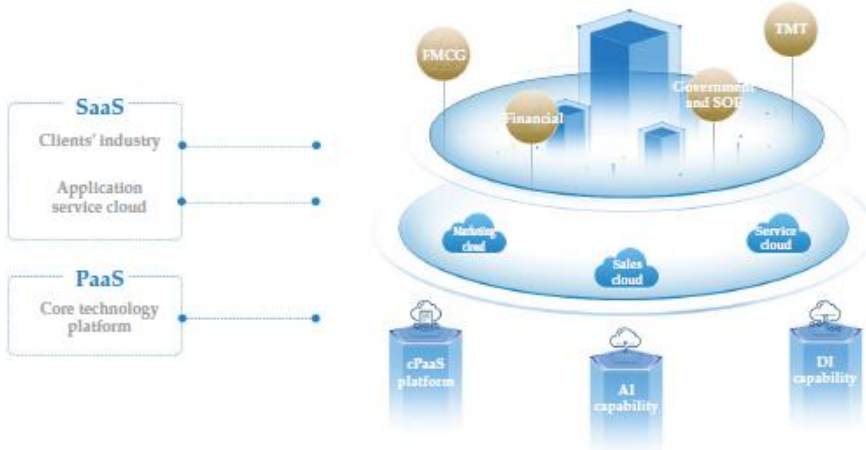
Source: Company data, CMBIGM estimates

## Company Overview

Xuan Wu Cloud, founded in 2010, has over 10 years of history in the intelligent CRM services industry. According to Frost & Sullivan, Xuan Wu Cloud is the second largest provider of intelligent CRM services in China, and the largest domestic intelligent CRM services provider in China with a market share of 13.8% in 2021 in terms of revenue, according to Frost & Sullivan. In 2021, the company generated 55.9% of revenue from CRM PaaS services and 44.1% from CRM SaaS services.

In 2021, Xuan Wu Cloud served 2,640 clients, among whom 325 were core clients whose annual revenue contribution exceeding RMB300,000. Overall clients' retention rate was 66.6% (86.1% for core clients) while net dollar retention rate was 109.4% (102.2% for core clients). Xuan Wu Cloud ranked first, first and third in financial, TMT and government-related industries respectively, measured by revenue in 2020 in the intelligent CRM services market in China, according to Frost & Sullivan.

**Figure 7: Xuan Wu Cloud snapshot**

FY21 Businesses		CRM PaaS services	CRM SaaS services
			
<b>Functionalities</b>		Voice and text verification code module, notification text and call module, hidden-number module	Marketing Cloud, Sales Cloud and Service Cloud which integrates traditional CRM with cloud and communication capabilities
<b>No. of clients</b>		1,438 (146 core clients*)	1,509 (193 core clients*)
<b>Core client' retention rate</b>		83.1%	89.1%
<b>Core clients' net dollar retention rate</b>		99.0%	112.9%
<b>FY21 revenue (RMB mn)</b>		554.6 (55.9% of total)	437.3 (44.1% of total)
<b>...% of revenue by core clients</b>		95.5%	91.8%
<b>FY21 GPM (%)</b>		10.9%	39.3%
<b>Pricing</b>		Usage based fee	Usage based fee, monthly or annual software subscription, implementation and annual maintenance fee
<b>Payment terms of long-term services agreement</b>		Charge monthly or in accordance with payment schedule of the agreement, credit term generally from 10 to 30 days	Charge monthly or in accordance with payment schedule of the agreement, credit term generally from 10 to 30 days

Source: Company data, \*core clients are clients with annual revenue >RMB300,000

## Industry analysis

### Intelligent CRM is subverting the traditional CRM market

Intelligent Customer Relationship Management (CRM) refers to comprehensive CRM services integrated with cloud and communications, Artificial Intelligence (“AI”) and Data Intelligence (“DI”), providing both PaaS and SaaS services. Since 2018, intelligent CRM services providers began to emerge, effectively solving the pain points of traditional CRM services with:

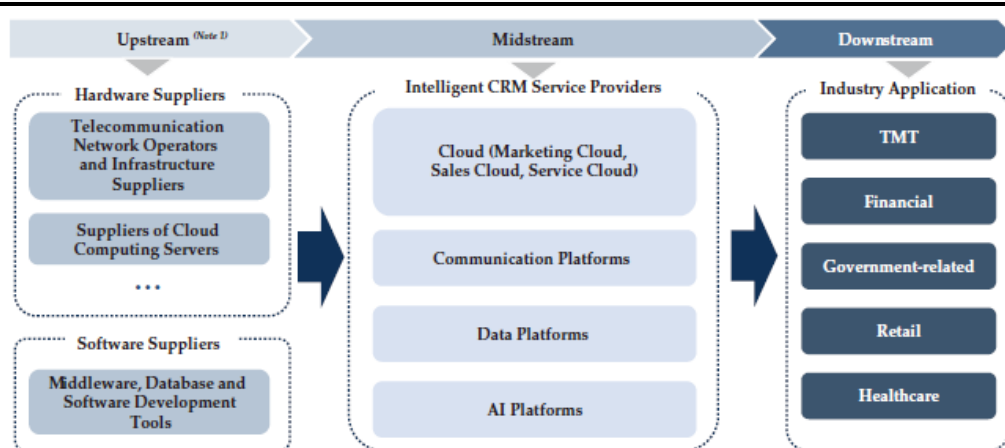
1. **Service customization:** Intelligent CRM services products provide one-stop intelligent CRM services through a comprehensive product matrix covering different sectors and business scenarios throughout clients’ entire business cycle from initial marketing, sales, to after-sales services, and therefore provide further customised and targeted solutions.
2. **Operating efficiency improvement:** Intelligent CRM services have strong ability of storing, computing and modelling. With intelligent CRM services, the industry clients are able to acquire and monitor their customers’ data timely, forecast future business opportunities and gain valuable insights through precise data analytics, which enable clients to make more efficient and reasonable business decisions.
3. **Enhancing client stickiness:** Intelligent CRM services enable clients to grasp end-customers’ changing insights and consumption habits in a timely manner to reach and interact with them more effectively, which can improve end-customers’ retention rate and stickiness.

### Cloud, AI and Data Intelligence are integrated into intelligent CRM

The value chain of the intelligent CRM services market in China consists of:

1. **Upstream hardware and software suppliers:** telecommunication network operators, infrastructure suppliers, suppliers of cloud computing servers, middleware, database and software development tools.
2. **Midstream intelligent CRM services providers:** CRM PaaS and SaaS service providers.
  - **CRM PaaS:** encapsulates cloud and multi-touch communication, AI and DI capabilities to be integrated into clients’ business systems.
  - **CRM SaaS:** includes (i) marketing cloud solutions which enable clients to promote their products or services to targeted audiences precisely; (ii) sales cloud solutions which are able to improve client’s customer acquisition capabilities and achieve higher sales efficiency; and (iii) service cloud solutions which help to enhance clients’ customer service quality and improve customer retention rate.
3. **Downstream industry users:** Technology, Media, Telecom (TMT), financial (including banking, securities and insurance), government-related, and retail are the major downstream industries.



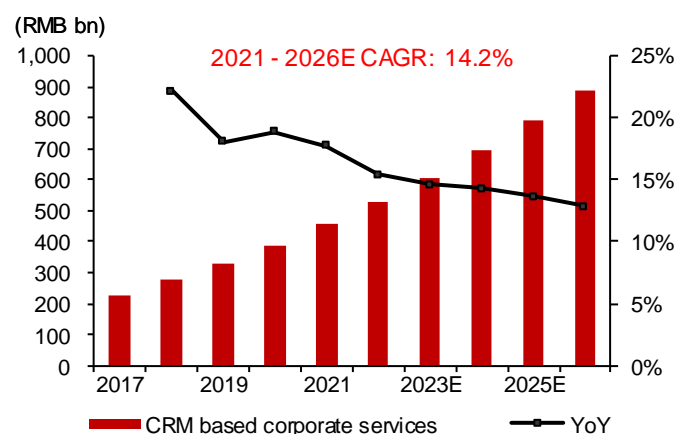
**Figure 8: Value chain of the intelligent CRM services industry**

Source: Frost &amp; Sullivan report

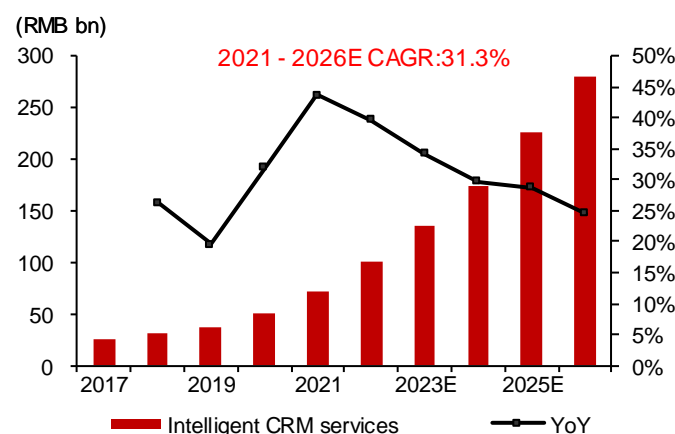
## China intelligent CRM services market to grow at 38.6% CAGR

According to Frost & Sullivan, the total addressable market (TAM) of China's CRM-based corporate services market is estimated to increase from RMB458.8bn in 2021 to RMB890.0bn in 2026, with a CAGR of 14.2%, assuming all enterprises use CRM-based corporate services and each enterprise spends approximately RMB9,000 per annum on CRM-based corporate services. The source of information regarding the number of corporates was the SAMR (State Administration for Market Regulation) and the information regarding CRM based corporate services fee was derived from interviews.

With the development of cloud communication facilities, the intelligent CRM services market has experienced tremendous growth in recent years. The TAM of the intelligent CRM services market is expected to grow at 31.3% CAGR in FY21-26E from RMB71.8bn to RMB280.0bn, according to Frost & Sullivan. Intelligent CRM services market is still in a relatively fragmented stage as different types of players are trying to expand their services mix alongside the rapid growth of the entire market.

**Figure 9: CRM based corporate services market to grow at 14.2% CAGR in 2021-2026E**

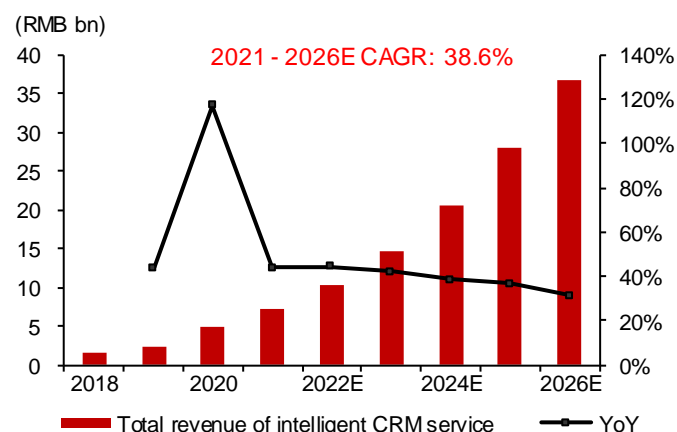
Source: Frost &amp; Sullivan

**Figure 10: Intelligent CRM services market to grow faster at 31.3% CAGR in 2021-2026E**

Source: Frost &amp; Sullivan

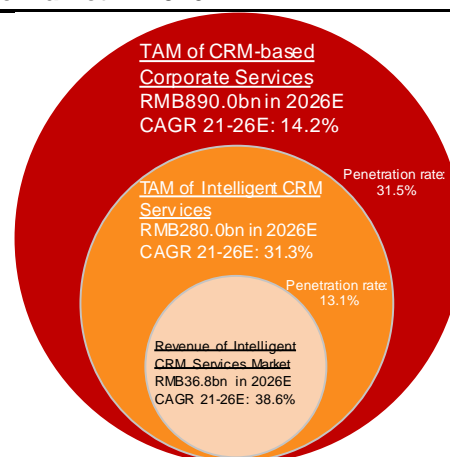
According to Frost & Sullivan, the total revenue of the intelligent CRM services market is expected to increase from RMB7.2bn in 2021 to RMB36.8bn in 2026, representing a CAGR of 38.6%. In 2021, the total revenue of intelligent CRM services market accounted for 10.0% of the TAM of intelligent CRM services market, and will further account for 13.1% of the TAM of intelligent CRM services market in 2026 as expected.

**Figure 11: Total revenue of Intelligent CRM services market to grow at 38.6% CAGR in 2021-2026E**



Source: Frost & Sullivan

**Figure 12: TAM of CRM-based, Intelligent CRM Service Market and Revenue of Intelligent CRM Service Market in 2026E**



Source: Frost & Sullivan

## Key drivers for the intelligent CRM services industry in China

- 1. Stable communication infrastructure development:** The steady growth of information technology ("IT") industry and the advancement of basic communication infrastructure in China provides a solid foundation for the development of the intelligent CRM services market.
- 2. Importance of service quality and intelligent CRM services integration:** More enterprises have been aware of the importance of integrated intelligent CRM services, thereby building comprehensive and efficient data and service system, as well as optimising their entire product life cycle systems.
- 3. Favourable policies:** The Chinese government has issued and implemented a series of policies that encourage the adoption of cloud computing, AI and big data. For example, the Ministry of Industry and Information Technology issued the "Three-year Action Plan for Cloud Computing Development (2017-2019)" to encourage the technological innovation and transformation of cloud computing related enterprises.

## Future development of intelligent CRM services in China

- 1. Integration of artificial intelligence and big data:** Benefiting from the rapid development of AI, enterprises can optimise the software use efficiency and simplify the software use. Big data, which is mainly reflected in Business Intelligence ("BI") and Data Intelligence ("DI"), helps enterprises to better manage and retain customer data and explore potential businesses and opportunities.



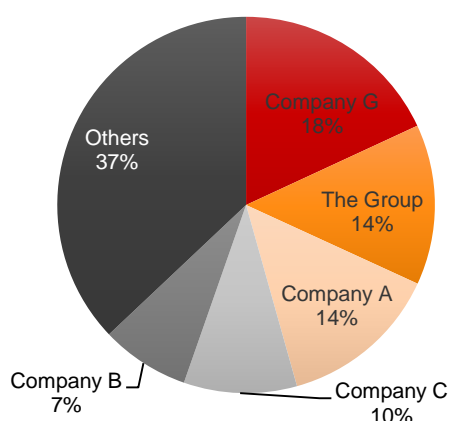
2. **Complete industrial chain development:** a complete industrial chain linking enterprise, distributors, and service providers is expected to become one of the major features in the intelligent CRM services market of China.
3. **The development of comprehensive CRM services with multi-touch communication:** Intelligent CRM services providers are expected to offer comprehensive, all-channel marketing solutions with multi-touch communication capabilities to satisfy clients' needs.
4. **Cross-selling and integrated solutions:** Services providers are expected to adopt the strategy of cross-selling in marketing cloud, sale cloud and service cloud by replicable technical foundation and experience.
5. **Impact of the COVID-19:** Under the COVID-19 epidemic, more companies have turned to online customer acquisition and online customer management, and intelligent CRM services has been a powerful digital tool. With the explosive growth of customer data, more comprehensive integration of AI technology into intelligent CRM services systems has also become another trend.

## Competitive landscape

According to Frost & Sullivan, intelligent CRM services industry consists of CRM SaaS and CRM PaaS services. The market is highly concentrated with top five players accounted for an aggregate market share of 63.0% in terms of revenue in 2021. However, the addressable market is still in a relatively fragmented stage as different types of players are trying to expand their services mix alongside rapid growth of the entire market.

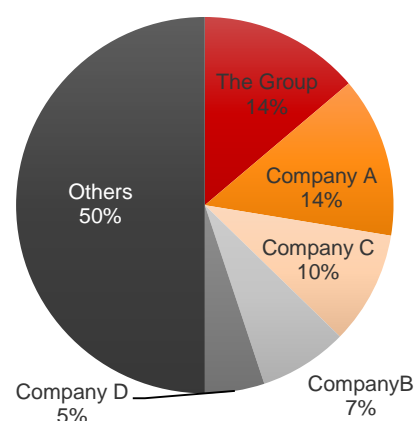
Xuan Wu Cloud is the second largest provider of intelligent CRM services in China in terms of revenue in 2021, and the largest domestic provider of the intelligent CRM services in China in terms of revenue in 2021, with a market share of 13.8%.

**Figure 13: Market share of the top 5 players in the intelligent CRM services industry in terms of revenue in 2021**

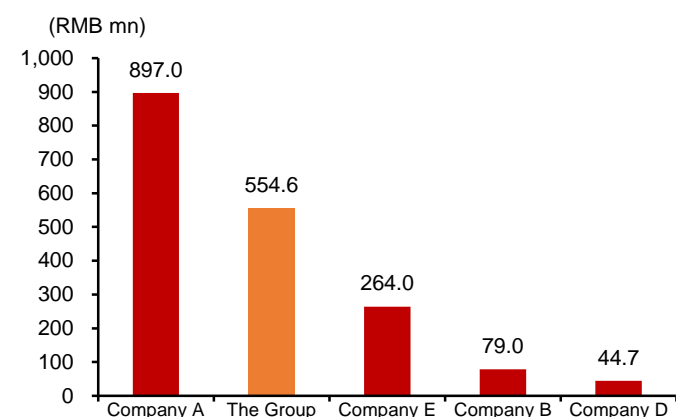


Source: Frost & Sullivan

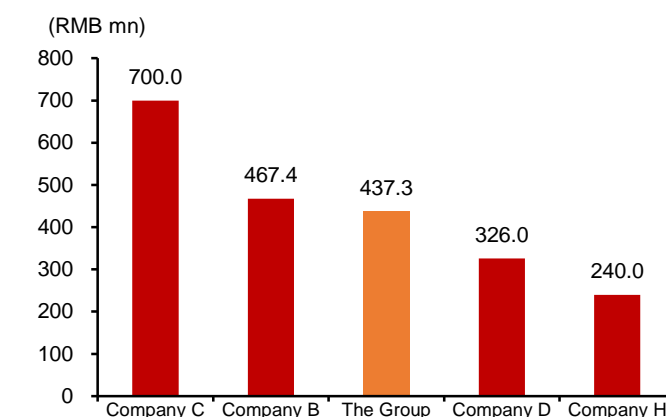
**Figure 14: Market share of the top 5 domestic players in the intelligent CRM services industry in terms of revenue in 2021**



Source: Frost & Sullivan

**Figure 15: Ranking of top five players in the CRM PaaS services segment**


Source: Frost &amp; Sullivan

**Figure 16: Ranking of top five players in the CRM SaaS services segment**


Source: Frost &amp; Sullivan

**Figure 17: Xuan Wu Cloud peers comparison**

Company	Listing status	Established year	Headquarters	Registered capital (RMB mn)	Customer base		Major customers by industry	Number of employees
					Large enterprises	SME		
A	Yes	2013	Beijing	100	V		Internet, telecommunications, financial services, education, industrial manufacturing and energy	1,200
B	Yes	2012	Zhejiang	~3,000		V	E-commerce retail, beauty, education	4,500
C	Yes	2013	Shanghai	4,000	V		E-commerce retail, catering, education, home furnishing, financial services, tourism	8,500
D	No	2006	Beijing	~50	V		Technology, education, insurance	450
E	No	2010	Fujian	60		V	Retail, beauty, food, healthcare fashion	400
G	Yes	1999	California	n.a.	V		Financial services, healthcare and life sciences, manufacturing	73,000
H	No	2008	Guangdong	~100		V	Education, internet, financial services, commercial services, healthcare, corporate services	300

Source: Frost &amp; Sullivan

**Company A** principally provides cloud-based communications solutions including cPaaS, cloud-based contact center solutions, cloud-based unified communications and collaborations, as well as intelligent CRM services.

**Company B** principally provides SaaS subscription solutions including intelligent CRM services, and various payment services for merchants.

**Company C** principally provides subscription solutions including intelligent CRM services and ERP solutions, as well as merchant solutions including advertisement placement services, data analysis tools, etc.

**Company D** principally provides cloud-based communications solutions including intelligent contact center solutions, mobile application of customer communication solutions, as well as intelligent CRM services.

**Company E** principally provides cloud-based intelligent CRM SaaS services, such as marketing cloud, sales cloud, service cloud, social CRM, as well as CRM PaaS services.

**Company G** principally provides CRM software and applications focused on sales, customer service marketing automation, analytics, and application development, including intelligent CRM services.

**Company H** principally provides social CRM solutions focused on sales cloud, as well as marketing cloud, service cloud.

## Business model

Xuan Wu Cloud offers two types of intelligent CRM services, CRM PaaS services and CRM SaaS services. CRM PaaS services encompass different functional modules to empower clients with communication capabilities mainly in the form of APIs and SDKs. CRM SaaS services comprise Marketing Cloud, Sales Cloud and Service Cloud, which integrate the traditional CRM functions with cloud, communication, AI and DI capabilities. CRM PaaS/ CRM SaaS services accounted for 55.9%/ 44.1% of FY21 revenue respectively.

**Figure 18: Xuan Wu Cloud business model**

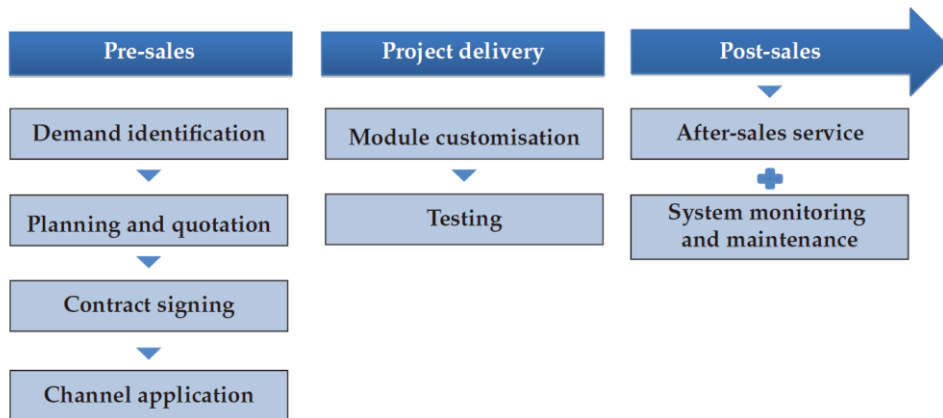
<b>FY21</b>	<b>CRM PaaS services</b>	<b>CRM SaaS services</b>
<b>Functionalities</b>	Voice and text verification code module, notification text and call module, hidden-number module	Marketing Cloud, Sales Cloud and Service Cloud which integrates traditional CRM with cloud and communication capabilities
<b>Delivery</b>	Readily integrated into clients' PC ends and mobile Apps or directly deployed in Xuan Wu cloud-based CRM platform in the form of APIs and SDKs.	Provided with customized plug-ins and features that can be integrated into an interface
<b>Deployment</b>	Private, public or hybrid cloud	Private, public or hybrid cloud
<b>Degree of customization</b>	May need to customize existing modules as per clients' demands, and to run tests before delivery	Tailored to meet certain demands
<b>No. of clients</b>	1,438 (146 core clients*)	1,509 (193 core clients*)
<b>Avg. price per clients</b>	RMB386,000	RMB290,000
<b>Avg. price per core clients</b>	RMB3.628mn	RMB2.079mn
<b>Core client' retention rate</b>	83.1%	89.1%
<b>Core clients' net dollar retention rate</b>	99.0%	112.9%
<b>FY21 revenue (RMB mn)</b>	554.6 (55.9% of total)	437.3 (44.1% of total)
<b>...% of revenue by core clients</b>	95.5%	91.8%
<b>FY21 GPM (%)</b>	10.9%	39.3%
<b>Pricing</b>	Usage based fee	Usage based fee, monthly or annual software subscription, implementation and annual maintenance fee
<b>Payment terms of long-term services agreement</b>	Charge monthly or in accordance with payment schedule of the agreement, credit term generally from 10 to 30 days	Charge monthly or in accordance with payment schedule of the agreement, credit term generally from 10 to 30 days

Source: Company data, \*core clients are clients with annual revenue >RMB300,000.

## CRM PaaS services

The CRM PaaS services of Xuan Wu Cloud encompass various functional modules (e.g. voice and text verification code module, notification text and call module, hidden-number module) to empower clients with consolidated communication capabilities mainly in the form of easily-deployed APIs and SDKs. The CRM PaaS services are also integrated with AI and DI capabilities which Xuan Wu Cloud have developed for the purposes of their intelligent CRM services.

**Figure 19: Xuan Wu Cloud CRM PaaS services standard business process**

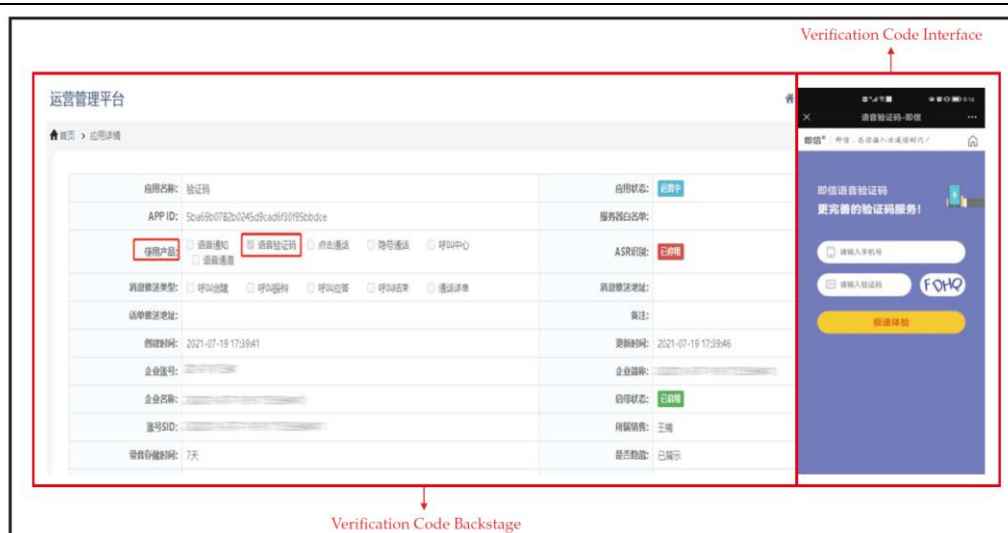


Source: Company data

## Verification code module

Verification code module can be readily integrated into clients' PC ends and mobile APPs or directly deployed in cloud-based CRM platform. For example, an end customer may not receive his/her SMS verification code when logging into the online bank account due to his/her own telecom network operator's messaging channel problem. Xuan Wu Cloud's voice verification code module can solve this by sending verification codes via an automated voice phone call and hence end customers can complete their log-in steps.

**Figure 20: Xuan Wu Cloud Verification Code Module**



Source: Company data

## Notification module

Notification module is an automation function which can be triggered in certain scenarios. This module will detect the applicable scenario by following the algorithm customized for clients. By integrating this module, the system will initiate phone calls and text messages automatically to notify the end customers with certain content designated by clients. For example, food delivery platform operators can inform their customers when the orders are in transit or pending for delivery by way of notification calls and/or text messages.

**Figure 21: Xuan Wu Cloud Notification Code Module**



Source: Company data

## Hidden-number module

To cater for privacy concern, the hidden-number module developed by Xuan Wu Cloud has been selected by many of the clients from the transportation and logistics industry. For example, drivers and passengers may utilize the call function in ride-hailing application. This module creates a temporary communication channel between the driver and passenger during the whole trip, and neither party would be able to contact each other further through the virtual number upon completion of the journey.

**Figure 22: Xuan Wu Cloud hidden-number module**



Source: Company data



## Channel resource module

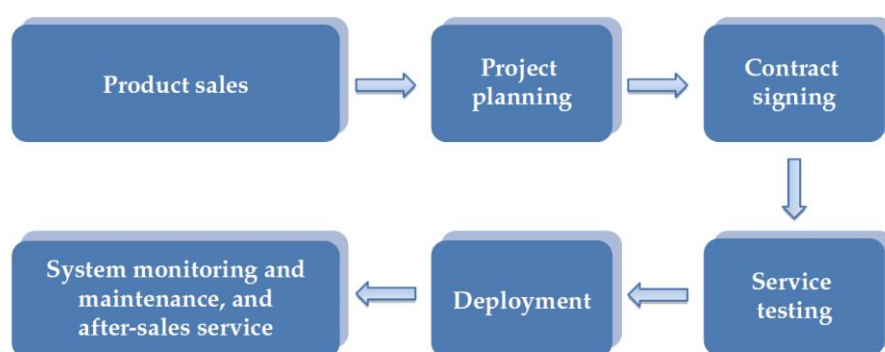
Xuan Wu Cloud provides three types of channel resources to customers, namely (i) “95xxx” channel for corporate service hotlines, (ii) DID (Direct Inward Dialling) channel for financial services companies, and (iii) channel for the hidden-number module and marketing campaigns. The five-digit service line, started with “95”, is a unique telecommunication resource commonly used by state-owned banks in China. With the corporate service hotline “95xxx”, clients can increase their corporate image and credibility upon calling their end customers.

## CRM SaaS services

Xuan Wu Cloud CRM SaaS services comprise three cloud services, including (i) Marketing Cloud, (ii) Sales Cloud and (iii) Service Cloud. CRM SaaS services integrate traditional CRM functions with cloud, upgraded and encapsulated communication capabilities as well as AI and DI capabilities to offer clients with one-stop intelligent CRM services throughout their entire business cycle, from initial marketing to after-sales services.

CRM SaaS services are provided with customized plug-ins and features that can be tailored to address clients’ needs and they can be integrated into an interface without the clients’ need to further integrate the API or SDK into their business systems.

**Figure 23: Xuan Wu Cloud CRM SaaS service standard business process**



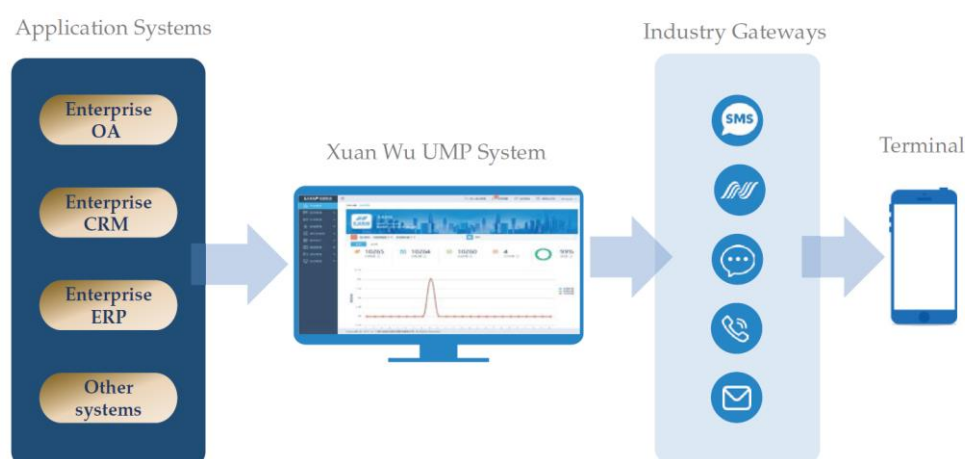
Source: Company data

## Marketing Cloud

Xuan Wu Cloud provides a range of modules under Marketing Cloud.

- (i) UMP module, a **private cloud-based** solution, is a new generation **messaging module** that can simultaneously process millions of messages. The UMP module can connect with clients’ Office Automation (“OA”), CRM, ERP and database systems without locally installing any additional software or APP.

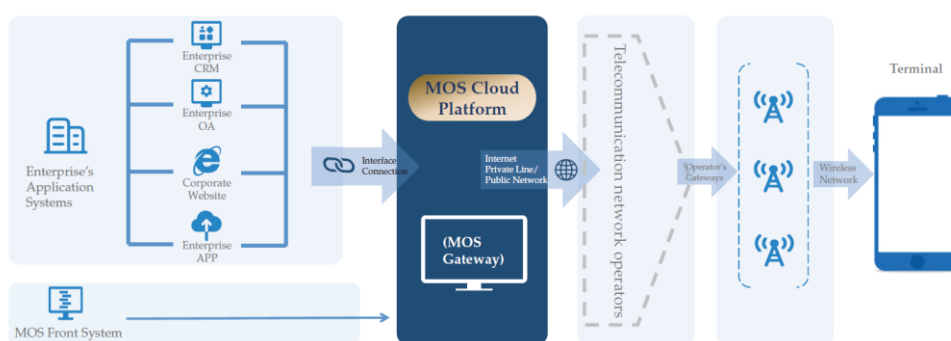
For example, Xuan Wu Cloud provides UMP module to a Chinese-foreign joint venture bank to imports, creates and synchronizes the customers’ data to a unified messaging platform so that staff from headquarters and branches can apply for sending of messages via the same platform, and prepare the “10690/10691” channels for client to disseminate marketing campaign messages.

**Figure 24: Xuan Wu Cloud Marketing Cloud – UMP module**


Source: Company data

- (ii) MOS module is a **public cloud-based** instant messaging platform that links clients' APP, OA, CRM systems and websites on the one hand, and internet and channels of telecom providers on the other hand without locally installing any additional software or APP.

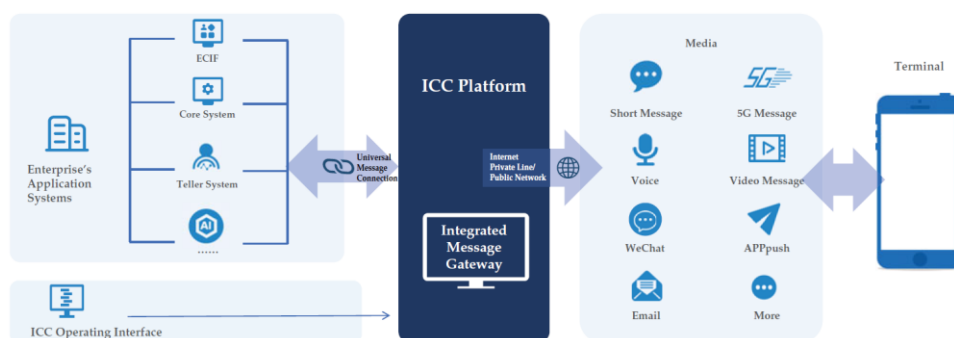
For example, Xuan Wu Cloud provides MOS module to a professional virtual technology and video developer to establish a communication platform to convey messages to their target customers, which includes announcement of new product launch, promotional information, security notification, account authentication, etc.

**Figure 25: Xuan Wu Cloud Marketing Cloud – MOS module**


Source: Company data

- (iii) ICC module is an **upgraded version of UMP module**, which enables clients to customize their marketing content and deploy different communication channels for different groups of end customers, and plays the role as a converged communication middle station for large-sized clients.

For example, for a medium-sized joint-stock commercial bank, ICC module was introduced to replace the redundant APIs embedded in client's CRM and customer service system with the unified ICC APIs, which simplified the structure of the client's system drastically.

**Figure 26: Xuan Wu Cloud Marketing Cloud – ICC module**


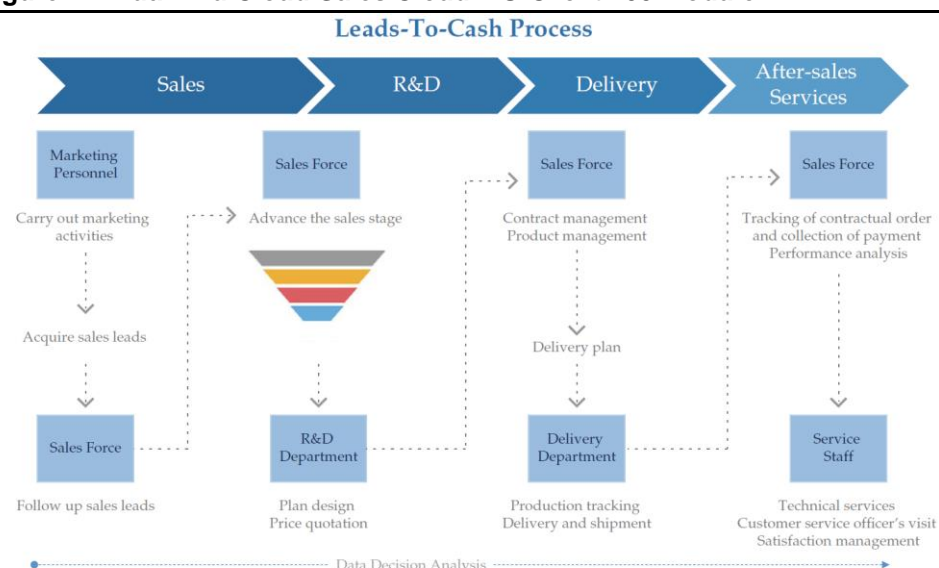
Source: Company data

## Sales Cloud

U-Client 100 and Smart Sales 100 are **sales management modules** offered under the Sales Cloud. The Sales Cloud solutions provide all-channel (from online WeChat store to offline terminal stores) marketing management to clients with the integration of AI and DI capabilities.

U-Client 100 module enables clients to identify and obtain new business opportunities through analyzing market trends and consolidating business data of end customers, which creates a full customer profile in the CRM system. Clients' sales team can contact the potential end customers by utilizing the contact person information available on the customers' profile in the CRM system.

For example, Xuan Wu Cloud provides an intelligent fire alarm equipment company with U-Client 100 module. It helps the client (i) integrate and digitalize sales procedures (from generating contract and purchase order to handling of payments received) and (ii) generate payment schedule and reminder. The client experienced increase in gross profit margin and overall operational efficiency.

**Figure 27: Xuan Wu Cloud Sales Cloud – U-Client 100 module**


Source: Company data

Smart Sales 100 is dedicated **for clients in industries that are highly involved in distribution model**, especially the FMCG (Fast Moving Consumer Goods) industry.

Smart Sales 100 enables clients to enhance data collection and analysis abilities through the application of AI and Sales Force Automation (SFA), Trade Promotion Management (TPM), Promoter Merchandiser Management (PMM), Distributor Management System (DMS), and Retail Management System (RMS) functions.

For example, Xuan Wu Cloud provides Smart Sales 100 to a bottled drinking water manufacturer that used to have a traditional CRM system. Leveraging Xuan Wu Cloud's Smart Sales 100 module, the client can process photos and distinguish SKUs with high similarity, thus ensuring high accuracy of the product display and planogram in the process of data collection. The adoption of Smart Sales 100 significantly decreases the sales staff costs due to improvement in accuracy of data collection and thus lowers false rate.

**Figure 28: Sales Cloud – Smart Sales 100 module**



Source: Company data

In addition, Xuan Wu Cloud complements Smart Sales 100 module with smart devices (e.g. AI camera) to better monitor store performance.

**Figure 29: Sales Cloud – Smart Sales 100 module**



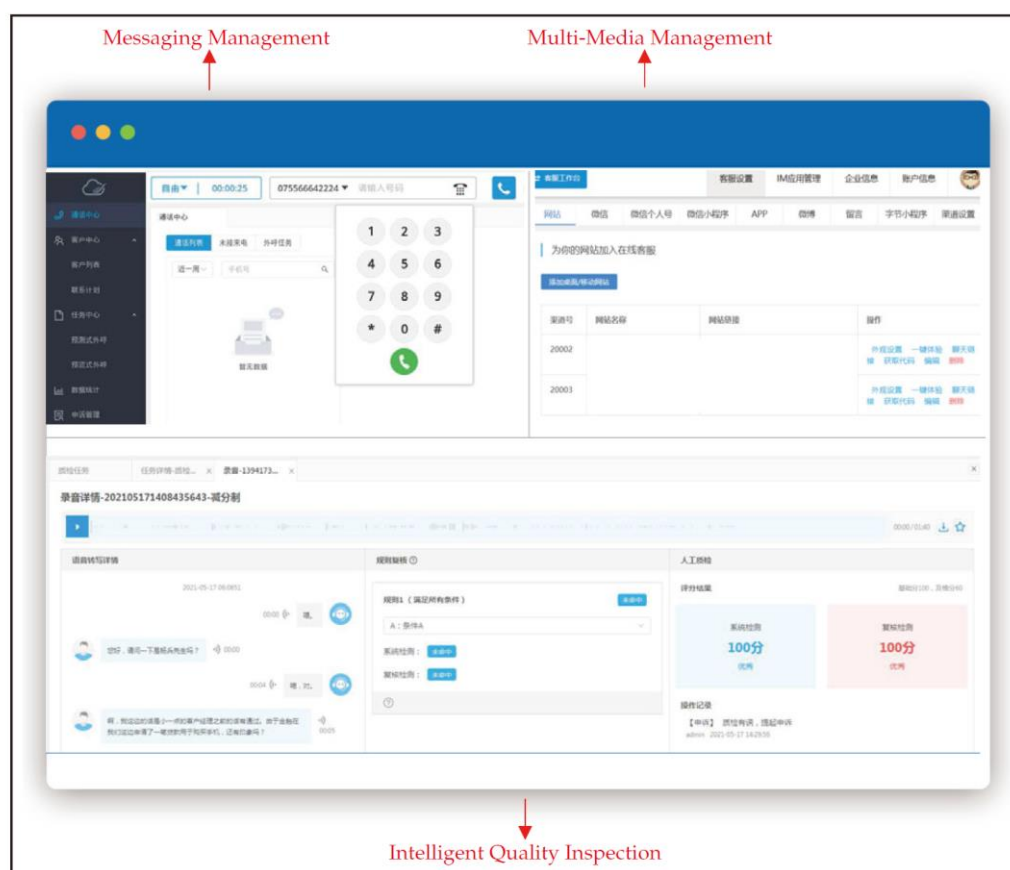
Source: Company data

## Service Cloud

Service Cloud solution is dedicated to enhancing clients' abilities on cloud-voice related service. The Service Cloud solution is offered in **Cloud Call Centre**, a customer service module that brings the traditional call centre onto the cloud. This includes two functions: (i) Call Centre – a centralized interface connected to various customer service channels and (ii) Intelligent Quality Inspection – a function developed to enhance service quality by voice recognition, semantic analysis and big data processing technology.

For example, a client operates a wide range of cosmetic brands and paid substantial amount of service fee for outsourcing its customer service operations. Xuan Wu Cloud developed industry-specific functions, i.e. multi-brand and all-channel unified management function, for this cosmetics client. This unified platform has assisted the client in analyzing, managing and storing the customers' data and customers' feedbacks in a more effective and efficient way.

**Figure 30: Xuan Wu Cloud Service Cloud user interface**



Source: Company data

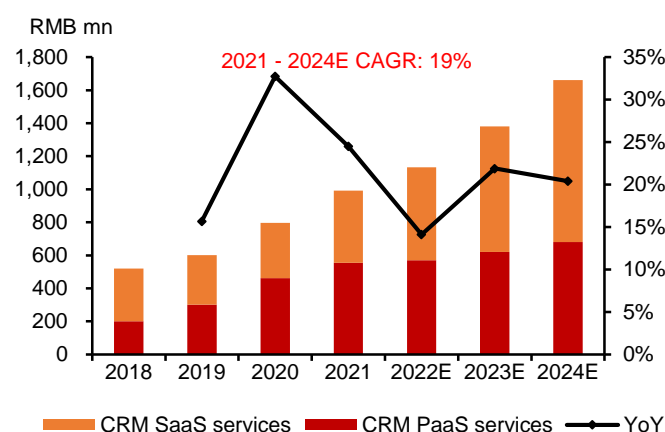
## Financial analysis

### Income statement

#### Revenue

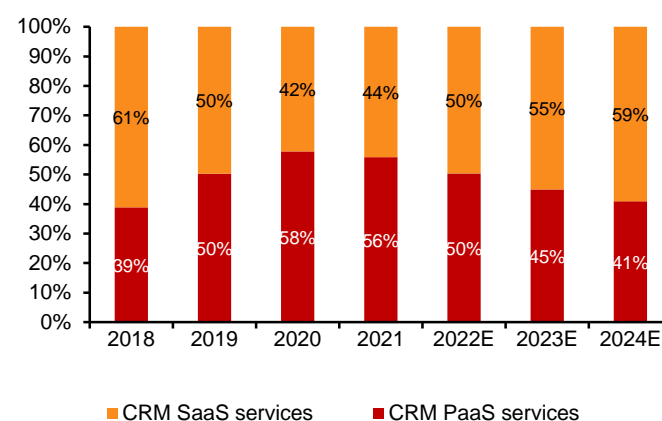
Revenue from core clients (annual revenue contribution >RMB300k) consistently accounted for around 90% of total revenue in FY18-21. We expect Xuan Wu Cloud's revenue to grow at 19% CAGR from RMB992mn in FY21 to RMB1,661mn in FY24E, driven by 1) 11% CAGR in total number of core clients to 449, and 2) 9% CAGR in revenue per core clients to RMB3.7mn.

Figure 31: Xuan Wu Cloud revenue



Source: Company data, CMBIGM estimates

Figure 32: Revenue breakdown

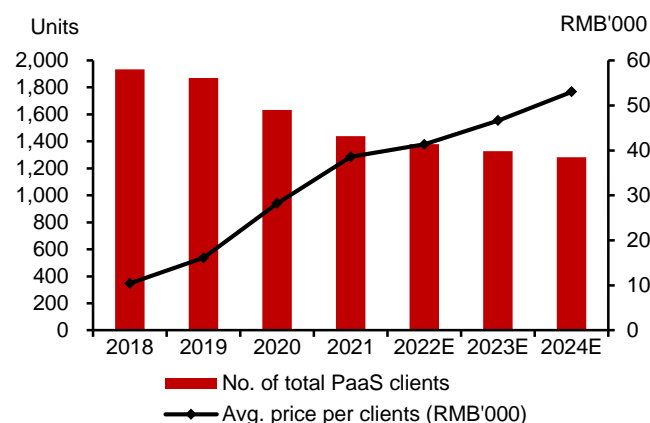


Source: Company data, CMBIGM estimates

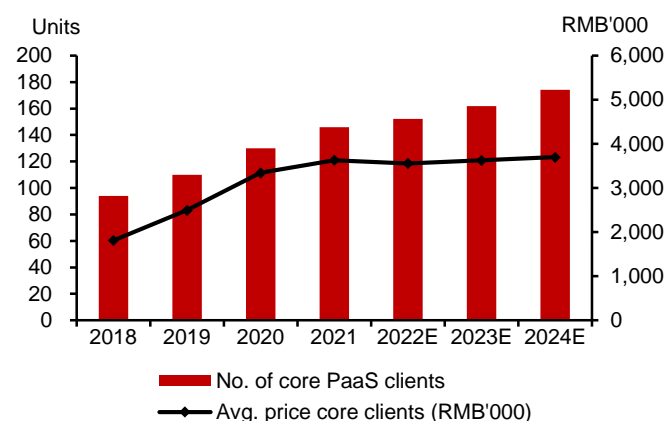
- 1) **CRM PaaS services:** Xuan Wu Cloud's CRM PaaS services revenue was RMB555mn in FY21 (+20% YoY). CRM PaaS services accounted for 56% of FY21 revenue, primarily consisting of the usage of text message fees provided to end customers. The total number of CRM PaaS clients decreased from 1,933 in FY18 to 1,438 in FY21 due to optimization of the client base. In FY21, core clients' net dollar retention rate of CRM PaaS services was 99.0%.

We expect CRM PaaS services to grow at 7% CAGR in FY21-24E from RMB555mn to RMB680mn, driven by 1) increasing number of core clients from 146 in FY21 to 174 in FY24E (6% CAGR) and 2) higher average revenue per core client from RMB3.6mn in FY21 to RMB3.7mn in FY24E (1% CAGR).



**Figure 33: Total no. of PaaS clients and avg. price per clients**

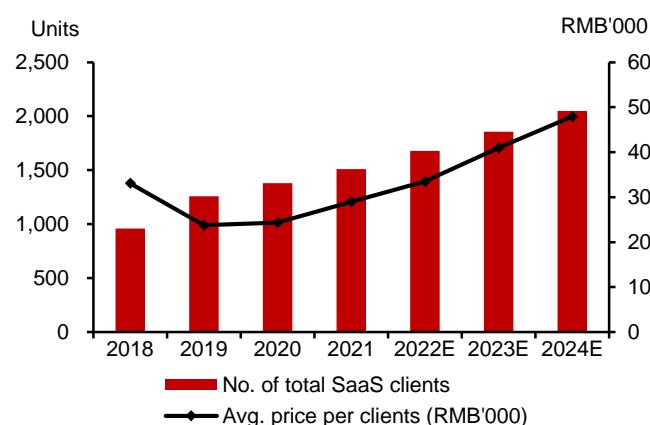
Source: Company data, CMBIGM estimates

**Figure 34: No. of core PaaS clients and avg. price per core clients**

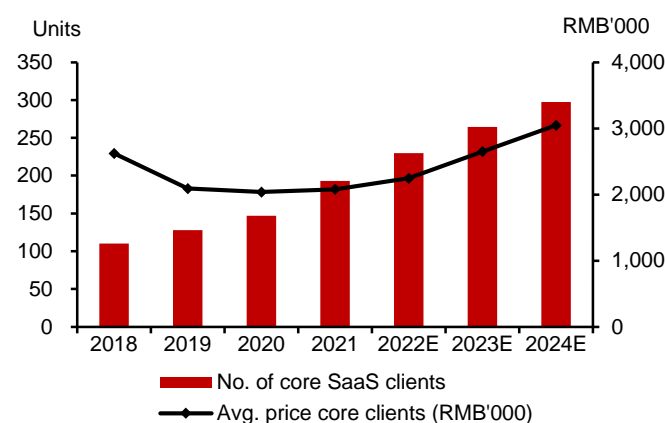
Source: Company data, CMBIGM estimates, \*core clients are clients with annual revenue &gt;RMB300k

- 2) CRM SaaS services:** Xuan Wu Cloud's CRM SaaS revenue was RMB437mn in FY21 (+30% YoY), accounting for 44% of revenue. CRM SaaS services revenue is segregated into (i) Marketing Cloud (79.5% of FY21 CRM SaaS revenue), (ii) Sales Cloud (15.1%) and (iii) Service Cloud (5.4%). In FY21, core clients' net dollar retention rate of CRM SaaS services was 112.9%.

We expect CRM SaaS services to grow at 31% CAGR in FY21-24E from RMB437mn to RMB982mn, driven by 1) 15% CAGR in numbers of core clients from 193 in FY21 to 297 in FY24E and 2) 14% CAGR for average revenue per core client from RMB2.1mn in FY21 to RMB3.0mn in FY24E.

**Figure 35: Total no. of SaaS clients and avg. price per clients**

Source: Company data, CMBIGM estimates

**Figure 36: No. of core SaaS clients and avg. price per core clients**

Source: Company data, CMBIGM estimates, \*core clients are clients with annual revenue &gt;RMB300k

## Cost structure

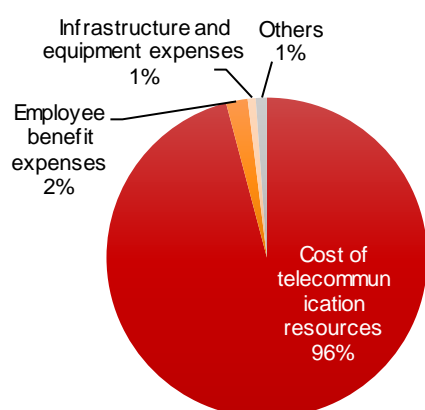
CRM PaaS services gross profit margin was 10.9% in FY21, down from 29.5% in FY18. This is mainly due to higher service fees charged by telecommunication network operators.

CRM SaaS services gross profit margin was relatively stable at 39.7%, 40.7%, 38.6% and 39.3% in FY18, FY19, FY20 and FY21 respectively.

In terms of cost structure, 95.9% of FY21 cost of sales was related to telecommunication resources. The remaining costs mainly include employee benefit expenses, infrastructure and equipment expenses.

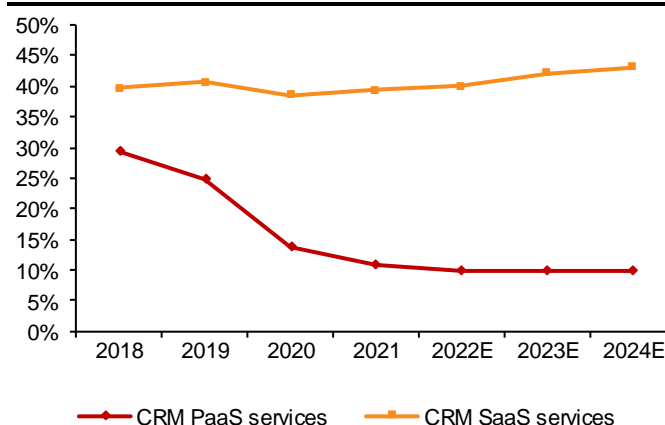
Overall gross profit margin decreased from 35.8% in FY18 to 23.4% in FY21 on mix change. Lower-margin CRM PaaS services delivered faster growth of 36% CAGR in FY18-21, compared to higher-margin CRM SaaS services revenue CAGR of 21% in the same period of time. We expect gross margin to expand to 29.6% in FY24E driven by improving revenue mix given 1) optimization of client portfolio, 2) increase in the revenue from AI and DI capabilities and 3) increase in the percentage of subscription-based revenue from Sales Cloud with higher gross margin as opposed to implementation revenue.

**Figure 37: Cost of sales mix**



Source: Company data, CMBIGM

**Figure 38: Gross profit margin by segment**



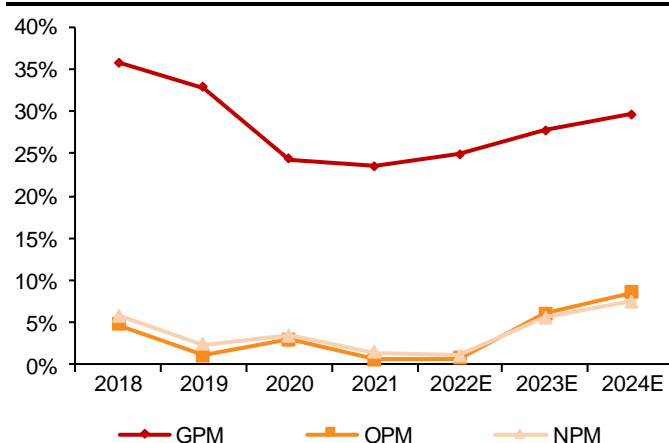
Source: Company data, CMBIGM estimates

## Opex

Xuan Wu Cloud's selling and distribution expenses increased 18.0% YoY from RMB77.1mn to RMB91.0mn in FY20-21 on 1) increase in employee benefit expenses by 16.2% YoY, attributed to business expansion and reduction in the amount of exemption of social security expenses by the relevant PRC government authorities granted in 2020 due to the impact of COVID-19, 2) increase in travel and entertainment expenses by 18.1% YoY and 3) increase in outsourcing customer service expenses by 37.1% YoY, in line with core clients growth. Administrative expenses increased 72.1% YoY from RMB39.8mn to RMB68.5mn in FY20-21, due to 1) one-off listing expense of RMB15.6mn, 2) increase in employee benefit expenses by 27.9% YoY. R&D expenses increased 24.7% from RMB53.0mn in FY20 to RMB66.1mn in FY21, in line with the expansion of R&D team.

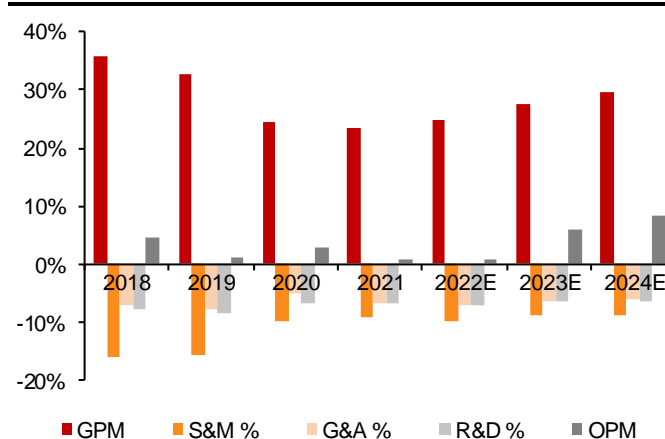
Xuan Wu Cloud's opex ratio decreased from 31.0% in FY18 to 22.7% in FY21 since revenue grew at a faster pace. We expect opex ratio to become 24.1%/ 21.6%/ 21.1% in FY22E/ 23E/ 24E. The increase in FY22E is due to 1) higher employee benefit expenses as the company expands its R&D and selling & distribution team, 2) higher marketing fees as businesses expand into other industries, and 3) listing expenses of RMB24.4mn.

Figure 39: Margins



Source: Company data, CMBIGM estimates

Figure 40: Opex breakdown

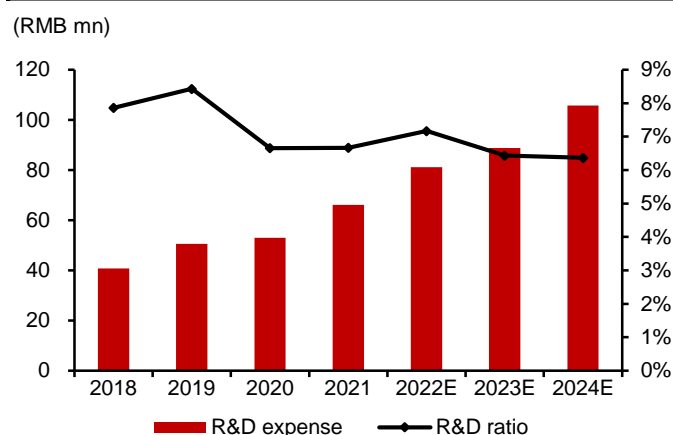


Source: Company data, CMBIGM estimates

## R&D

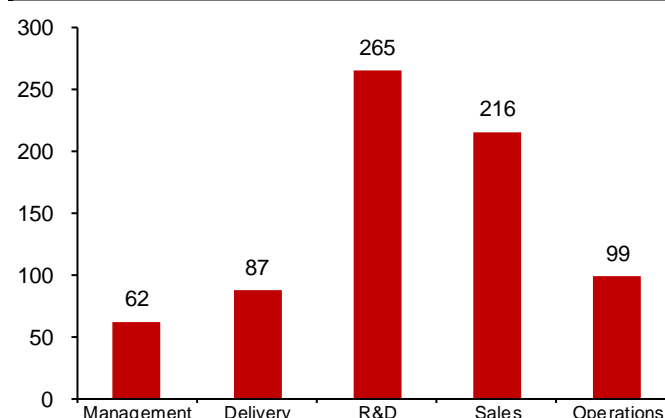
We expect R&D ratio to remain stable at 7.2%/ 6.4%/ 6.1% in FY22E/ 23E/ 24E (FY21: 6.7%) as the company continues to upgrade various CRM PaaS and CRM SaaS services, and improve AI and DI capabilities by bringing in more expertise and expanding R&D team. No R&D cost is capitalized but all are expensed. As of 7 Mar 2022, Xuan Wu Cloud has 729 employees, 265 (36.4%) of whom are R&D-related.

Figure 41: R&amp;D expense as % of revenue



Source: Company data, CMBIGM estimates

Figure 42: Employee mix (7 Mar 2022)



Source: Company data

## Non-operating income and expenses

Non-operating gains and losses accounted for 52% of net profit in FY21. VAT refund and additional deduction of VAT are the largest components. Self-developed software companies are entitled to VAT refund to the extent that effective VAT of the software sales in China exceeds 3%. Meanwhile, the Group companies engaged in the provision of CRM SaaS and CRM PaaS services in China are entitled to an extra 10% VAT deduction.

Figure 43: Non-operating items

RMB mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Other incomes</b>	<b>7.0</b>	<b>7.4</b>	<b>9.7</b>	<b>12.6</b>	<b>14.1</b>	<b>16.6</b>	<b>19.8</b>
- Government grants	3.6	1.5	1.9	0.5	0.5	0.7	0.8
- VAT refund	3.3	2.8	2.8	4.1	4.7	5.4	6.7
- Additional deduction of VAT	-	3.0	4.7	7.8	8.7	10.3	12.0
- Others	0.1	0.1	0.3	0.2	0.2	0.2	0.2
<b>Other gains/(losses)</b>	<b>1.3</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>0.1</b>
- Net FV gain on inv. In fin. Assets at FV through P/L	1.3	0.6	0.5	1.2	0.8	0.8	0.9
- Others	(0.0)	0.0	(0.1)	(0.8)	(0.9)	(0.9)	(0.9)
<b>Impairment losses</b>	<b>(2.5)</b>	<b>(2.9)</b>	<b>(4.3)</b>	<b>(5.4)</b>	<b>(4.2)</b>	<b>(4.6)</b>	<b>(4.7)</b>
<b>Total</b>	<b>5.9</b>	<b>5.1</b>	<b>5.8</b>	<b>7.6</b>	<b>9.8</b>	<b>11.9</b>	<b>15.1</b>
as % of net profit	20%	35%	21%	52%	76%	16%	12%

Source: Company data, CMBIGM estimates

## Tax

Xuan Wu Cloud recorded profit before tax but income tax credit of RMB1.9 and RMB2.9mn for the two years ended 31 December 2021 respectively, primarily due to the super deduction of R&D expenses detailed as follows:

- For those companies which were granted the qualification as “Small and Medium-sized Sci-tech Enterprise” during the financial years from 2019 to 2021, they could claim **175% of their R&D expenses so incurred as tax deductible expenses** when determining their assessable profits during the Track Record Period.

## Balance sheet

### Contract liabilities

Contract liabilities remained low at around 4% of revenue in FY18-21 since service fees are generally charged on a monthly basis or in accordance with the payment schedule of the agreement. Contract liabilities as % of SaaS revenue was stable at 7%-10% in FY18-21.

**Figure 44: Contract liabilities**

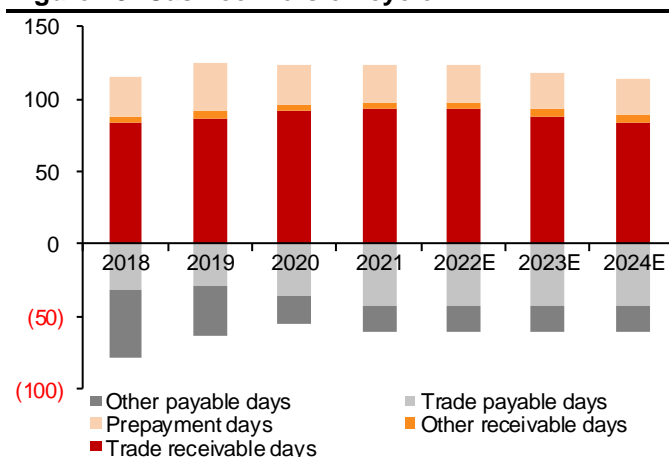
RMB mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Contract liabilities	24	29	34	32	57	69	83
YoY		21%	16%	-6%	77%	22%	20%
as % of revenue	5%	5%	4%	3%	5%	5%	5%
as % SaaS of revenue	8%	10%	10%	7%	10%	9%	8%

Source: Company data, CMBIGM estimates

### Cash conversion and gearing

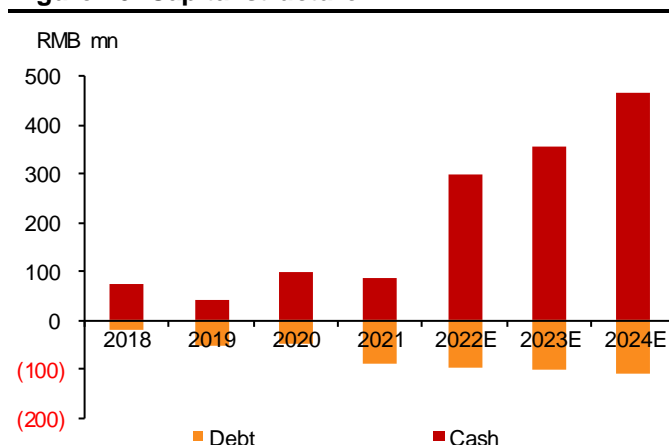
Xuan Wu Cloud has a cash conversion cycle of 62 days in FY21. Xuan Wu Cloud's account receivable (AR) days was 93 in FY21 due to longer credit terms offered to strategically important clients, while that of account payable (AP) and other payables was 43 and 18 respectively. We expect AR days and AP days to maintain a similar level throughout FY22-24E. Xuan Wu Cloud was in net debt position in FY21 mainly due to the increase of lease liabilities from RMB7.7mn in FY20 to RMB31.9mn in FY21, as the company entered a new lease agreement. In FY21, Xuan Wu Cloud has RMB58mn of borrowing and RMB88mn of cash on hand. We expect the company to achieve net cash position in FY22E.

**Figure 45: Cash conversion cycle**



Source: Company data, CMBIGM estimates

**Figure 46: Capital structure**



Source: Company data, CMBIGM estimates

## Cash flow

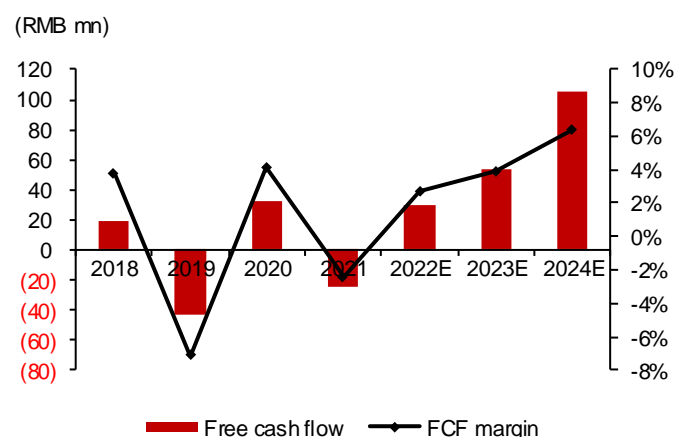
### Operating cash flow

In FY19 and FY21, Xuan Wu Cloud experienced negative operating cash flow, mainly due to increase in trade receivable days. Trade receivable days increased from 83 in FY18 to 93 in FY21.

### Free cash flow

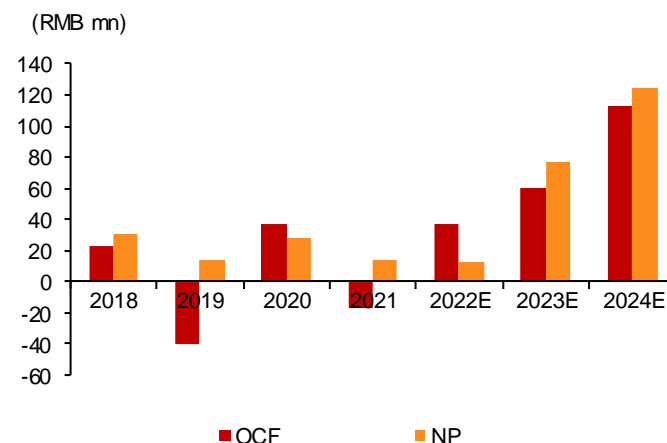
Xuan Wu Cloud has negative free cash flow in FY21 as prepayments increased from RMB47.8mn in FY20 to RMB86.7mn in FY21, primarily attributed to increase in prepayment to telecommunication resources suppliers.

**Figure 47: Free cash flow**



Source: Company data, CMBIGM estimates

**Figure 48: Operating cash flow and net profit**



Source: Company data, CMBIGM estimates

## Capex

With an asset-light PaaS and SaaS business model, Xuan Wu Cloud spends less than 1% of revenue in capex annually. Majority of the capex goes to purchase of property, plant and equipment (PPE). We expect capex spending to remain stable at around RMB7mn throughout FY22-24E.

**Figure 49: Capex breakdown**

RMB mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Purchase of PPE	2	3	1	6	4	4	4
Purchase of intangible assets	2	0	3	1	3	3	3
<b>Total</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>YoY</b>		-16%	29%	77%	0%	0%	0%
Capex as % of revenue	1%	1%	0%	1%	1%	1%	0%

Source: Company data, CMBIGM estimates



Figure 50: Key assumptions

RMB mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue breakdown</b>							
CRM PaaS services	201	302	461	555	570	619	680
CRM SaaS services	317	299	336	437	562	760	982
- Marketing Cloud	262	233	257	348	453	552	665
- Sales Cloud	29	31	45	66	79	131	174
- Service Cloud	27	34	35	24	30	77	143
<b>Total</b>	<b>519</b>	<b>600</b>	<b>797</b>	<b>992</b>	<b>1,132</b>	<b>1,380</b>	<b>1,661</b>
<b>Revenue mix</b>							
CRM PaaS services	39%	50%	58%	56%	50%	45%	41%
CRM SaaS services	61%	50%	42%	44%	50%	55%	59%
- Marketing Cloud	50%	39%	32%	35%	40%	40%	40%
- Sales Cloud	6%	5%	6%	7%	7%	10%	11%
- Service Cloud	5%	6%	4%	2%	3%	6%	9%
<b>Revenue YoY</b>							
CRM PaaS services		50%	53%	20%	3%	9%	10%
CRM SaaS services		-6%	12%	30%	28%	35%	29%
- Marketing Cloud		-11%	10%	35%	30%	22%	20%
- Sales Cloud		8%	44%	48%	20%	65%	33%
- Service Cloud		28%	0%	-32%	26%	162%	85%
<b>Total</b>		<b>16%</b>	<b>33%</b>	<b>24%</b>	<b>14%</b>	<b>22%</b>	<b>20%</b>
<b>Key operating metrics</b>							
Total no. of clients	2,598	2,809	2,690	2,640	2,724	2,823	2,936
- Total no. of core clients	199	231	266	325	365	407	449
No. of PaaS clients	1,933	1,871	1,632	1,438	1,380	1,328	1,282
- No. of core clients	94	110	130	146	152	162	174
...PaaS core clients YoY		17%	18%	12%	4%	6%	8%
No. of SaaS clients	959	1,258	1,379	1,509	1,677	1,857	2,049
- No. of core clients	110	128	147	193	230	264	297
...SaaS core clients YoY		16%	15%	31%	19%	15%	12%
% of revenue contribution by core clients	89%	91%	93%	95%	93%	93%	93%
PaaS Core clients' retention rate		96%	89%	83%	85%	87%	88%
PaaS Core clients' net dollar retention rate		136%	94%	99%	83%	88%	90%
SaaS Core clients' retention rate		92%	91%	89%	88%	89%	90%
SaaS Core clients' net dollar retention rate		79%	97%	113%	95%	105%	103%
<b>Cost of sales mix</b>							
CRM PaaS services	42.6%	56.1%	65.8%	65.0%	60.4%	55.9%	52.3%
CRM SaaS services	57.4%	43.9%	34.2%	35.0%	39.6%	44.1%	47.7%
<b>Gross margin breakdown</b>							
CRM PaaS services	29.5%	24.9%	13.9%	10.9%	10.0%	10.0%	10.0%
CRM SaaS services	39.7%	40.7%	38.6%	39.3%	40.0%	42.1%	43.2%

Source: Company data, CMBIGM estimates

**Figure 51: Operating model**

RMB mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenues	519	600	797	992	1,132	1,380	1,661
Cost of sales	(333)	(404)	(603)	(760)	(850)	(998)	(1,170)
Gross profit	<b>186</b>	<b>197</b>	<b>194</b>	<b>232</b>	<b>282</b>	<b>382</b>	<b>492</b>
<i>Gross margin</i>	<i>35.8%</i>	<i>32.8%</i>	<i>24.3%</i>	<i>23.4%</i>	<i>24.9%</i>	<i>27.7%</i>	<i>29.6%</i>
R&D	(41)	(51)	(53)	(66)	(81)	(89)	(106)
S&M	(83)	(93)	(77)	(91)	(110)	(120)	(143)
G&A	(37)	(46)	(40)	(69)	(82)	(89)	(102)
Operating income	<b>25</b>	<b>7</b>	<b>24</b>	<b>7</b>	<b>9</b>	<b>84</b>	<b>141</b>
<i>Operating margin</i>	<i>4.7%</i>	<i>1.1%</i>	<i>3.0%</i>	<i>0.7%</i>	<i>0.8%</i>	<i>6.1%</i>	<i>8.5%</i>
Non-operating income	6	4	3	6	7	11	14
Profit before tax	31	11	27	12	16	95	155
Income tax (expense) credit	(1)	3	2	3	(2)	(14)	(23)
Minorities	(0)	(1)	2	1	1	4	7
Net income to shareholders	<b>30</b>	<b>14</b>	<b>28</b>	<b>15</b>	<b>13</b>	<b>76</b>	<b>125</b>
<i>Net margin</i>	<i>6%</i>	<i>2%</i>	<i>3%</i>	<i>1%</i>	<i>1%</i>	<i>6%</i>	<i>8%</i>

Source: Company data, CMBIGM estimates

**Figure 52: Balance sheet**

RMB mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Current Assets</b>							
Cash and Equivalents	74	43	97	88	299	355	464
Trade, bill and other receivables and prepayments	170	241	299	369	381	447	518
Financial assets at fair value through profit or loss	26	-	30	21	21	21	21
Others	4	8	8	6	6	6	6
<b>Total Current Assets</b>	<b>274</b>	<b>292</b>	<b>435</b>	<b>485</b>	<b>707</b>	<b>829</b>	<b>1,009</b>
<b>Non-current Assets</b>							
Property Plant & Equipment - Net	5	6	5	8	10	12	13
Total Intangible Assets - Net	16	15	15	14	15	16	17
Right-of-use assets	19	13	7	32	32	32	32
Others	1	4	6	9	9	9	9
<b>Total Assets</b>	<b>314</b>	<b>329</b>	<b>468</b>	<b>548</b>	<b>774</b>	<b>898</b>	<b>1,080</b>
<b>Current Liabilities</b>							
Trade and other payables	74	66	115	138	142	166	195
Borrowings	-	40	40	58	64	71	78
Contract liabilities	24	29	34	32	57	69	83
Others	6	7	7	8	19	19	15
<b>Total Current Liabilities</b>	<b>104</b>	<b>143</b>	<b>196</b>	<b>237</b>	<b>281</b>	<b>325</b>	<b>371</b>
<b>Non Current Liabilities</b>							
Lease liabilities	12	6	0	24	13	13	17
Others	0	0	0	0	0	0	0
<b>Total Liabilities</b>	<b>116</b>	<b>149</b>	<b>196</b>	<b>261</b>	<b>295</b>	<b>338</b>	<b>388</b>
<b>Stockholder Equity</b>							
Share capital	-	-	-	0	0	0	0
Other reserves	212	181	246	(20)	(20)	(20)	(20)
(Accumulated losses) / retained earnings	(14)	(1)	25	36	49	125	250
Non-controlling interest	0	(1)	1	2	2	7	14
<b>Total Equity</b>	<b>198</b>	<b>180</b>	<b>272</b>	<b>287</b>	<b>479</b>	<b>560</b>	<b>692</b>

Source: Company data, CMBIGM estimates

**Figure 53: Cash flow**

<b>RMB mn</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
<b>Operating activities</b>							
Profit before tax	31	11	27	12	16	95	155
Finance (income)/costs - net	(0)	1	2	2	3	1	1
Depreciation & amortisation	12	13	12	14	4	5	5
Change in working capital	(18)	(67)	(10)	(51)	16	(29)	(28)
Corporate income tax paid	(3)	(0)	(0)	(0)	(2)	(14)	(23)
Others	2	3	4	6	1	3	3
<b>Net cash flows from operating activities</b>	<b>23</b>	<b>(40)</b>	<b>37</b>	<b>(17)</b>	<b>37</b>	<b>60</b>	<b>113</b>
<b>Investing activities</b>							
Purchases of PP&E	(2)	(3)	(1)	(6)	(4)	(4)	(4)
Purchases of intangible assets	(2)	(0)	(3)	(1)	(3)	(3)	(3)
Purchases of financial investments	(50)	(15)	(111)	(164)	-	-	-
Proceeds from disposal of financial investments	56	41	81	173	-	-	-
Others	(4)	-	-	-	-	-	-
<b>Net cash flows used in investing activities</b>	<b>(2)</b>	<b>23</b>	<b>(34)</b>	<b>3</b>	<b>(7)</b>	<b>(7)</b>	<b>(7)</b>
<b>Financing activities</b>							
Principal and interest elements of lease payments	(9)	(9)	(9)	(11)	-	-	-
Dividends paid to the then shareholders	(10)	(10)	-	-	-	-	-
Others	3	5	59	16	181	3	3
<b>Net cash flows used in financing activities</b>	<b>(17)</b>	<b>(14)</b>	<b>51</b>	<b>6</b>	<b>181</b>	<b>3</b>	<b>3</b>
<b>Net change in cash</b>	<b>4</b>	<b>(31)</b>	<b>54</b>	<b>(9)</b>	<b>211</b>	<b>56</b>	<b>109</b>
Cash and cash equivalents (beg of period)	70	74	43	97	88	299	355
<b>Cash and cash equivalents (end of period)</b>	<b>74</b>	<b>43</b>	<b>97</b>	<b>88</b>	<b>299</b>	<b>355</b>	<b>464</b>

Source: Company data, CMBIGM estimates

## Valuation

### Initiate at BUY with target price of HK\$10.14

We initiate coverage on Xuan Wu Cloud with BUY recommendation and target price of HK\$10.14, based on 3.2x FY23E EV/sales. Our target multiple is based on the average of cloud communication service providers and China software peers valuation.

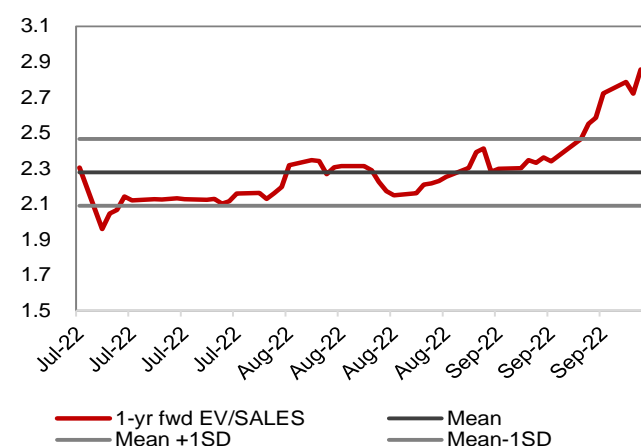
We value Xuan Wu Cloud based on EV/sales, a common methodology for valuing SaaS companies as short term earnings are distorted by high R&D and marketing expenses during the software ramp up stage.

Figure 54: Peers' comparison

Company	Ticker	Rating	Market cap (US\$ mn)	Price (LC)	EV/sales (x)		FCF margin (%)		GPM	Sales CAGR	EPS CAGR
					FY22E	FY23E	FY22E	FY23E	FY21	FY21-24E	FY21-24E
<b>Cloud communication service providers</b>											
Cloopen	RAAS US	NR	166	1.01	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Montnets	002123 CH	NR	1,212	10.65	2.2	1.9	n.a.	n.a.	13%	24%	n.a.
Avaya	AVYA US	NR	157	1.81	1.2	1.3	-13%	-13%	55%	-7%	n.a.
Cisco	CSCO US	NR	174,955	42.58	3.2	3.1	27%	28%	64%	4%	15%
<b>Mean</b>					<b>2.2</b>	<b>2.1</b>	<b>7%</b>	<b>8%</b>	<b>44%</b>	<b>7%</b>	<b>n.a.</b>
<b>Median</b>					<b>2.2</b>	<b>1.9</b>	<b>7%</b>	<b>8%</b>	<b>55%</b>	<b>4%</b>	<b>n.a.</b>
<b>China software</b>											
MYC	909 HK	HOLD	1,326	5.34	2.1	2.3	-26%	-7%	79%	10%	n.a.
Kingdee	268 HK	BUY	5,357	12.10	8.5	7.2	0%	6%	66%	23%	n.a.
TI Cloud	1675 HK	NR	1,266	10.68	1.1	1.0	15%	11%	38%	13%	17%
Weimob	2013 HK	NR	945	2.91	2.1	2.6	-30%	-11%	51%	5%	n.a.
Youzan	8083 HK	NR	253	0.11	0.7	0.9	-68%	9%	59%	2%	n.a.
Chanjet	1588 HK	NR	227	5.46	0.6	0.4	-6%	2%	84%	39%	-10%
Chinasoft	354 HK	BUY	2,140	5.48	0.8	0.6	1%	2%	29%	21%	15%
AsialInfo	1675 HK	NR	1,266	10.68	1.1	1.0	15%	11%	38%	13%	17%
Travelsky	696 HK	NR	4,749	12.74	3.9	4.1	9%	31%	44%	16%	57%
Glodon	002410 CH	BUY	7,764	45.90	10.1	7.5	10%	18%	89%	21%	35%
Yonyou	600588 CH	HOLD	8,897	18.26	6.2	5.7	5%	8%	61%	21%	23%
Shiji	002153 CH	NR	4,000	13.42	7.8	7.9	-2%	0%	41%	14%	n.a.
<b>Mean</b>					<b>3.8</b>	<b>3.4</b>	<b>-7%</b>	<b>7%</b>	<b>57%</b>	<b>17%</b>	<b>22%</b>
<b>Median</b>					<b>2.1</b>	<b>2.4</b>	<b>0%</b>	<b>7%</b>	<b>55%</b>	<b>15%</b>	<b>17%</b>

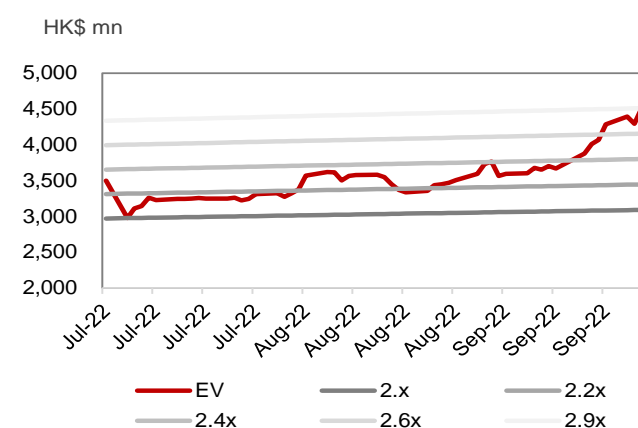
Source: Bloomberg, CMBIGM estimates

Figure 55: Xuan Wu Cloud forward EV/sales chart



Source: Bloomberg, CMBIGM estimates

Figure 56: Xuan Wu Cloud forward EV/sales band



Source: Bloomberg, CMBIGM estimates

## Investment risks

### Growth of CRM service market

Xuan Wu Cloud offers intelligent CRM services to the market, which largely depends on the market awareness of replacing traditional forms of management system and the development of intelligent CRM technology. If enterprises are reluctant to migrate to intelligent services or the intelligent CRM technology development fails to satisfy the demand of clients, business could be harmed significantly.

### Intensifying competition

Xuan Wu Cloud faces intensifying competition in the CRM service industry. Competitors may offer services of greater depth with lower price, and respond more effectively to new opportunities. If Xuan Wu Cloud is unable to compete effectively and maintain favourable pricing, revenue, margins and market acceptance could be reduced.

### System and data security

Xuan Wu Cloud's business is at risk of cyberattacks and breaches. The cybersecurity measures may not detect, prevent or control all attempts to attack the system of Xuan Wu Cloud. If Xuan Wu Cloud is unable to avert security breaches, significant legal and financial liabilities, reputation and business harm and substantial revenue loss could be resulted.

In addition, the service of Xuan Wu Cloud involves transmission of certain information of clients subjecting to complex and evolving laws and regulations regarding privacy and data protection. Although Xuan Wu Cloud has adopted various measures to ensure legal compliance, any failure to comply with privacy and data protection laws and regulations will adversely affect their business, results of operation and financial condition.

### Network disruption

Xuan Wu Cloud relies on telecommunication services (for cPaaS platform and other solutions) and cloud infrastructure operated by third parties to provide communication solutions. Xuan Wu Cloud exercises little control over third-party providers, which increases vulnerability to problems (such as system interruption, delays or outages) with the services they provide. These could affect clients' satisfaction and harm business and reputation.

### R&D in AI and DI capabilities

The services of Xuan Wu Cloud depend largely on the development of AI, DI, machine learning and other capabilities. If Xuan Wu Cloud is unable to respond effectively to technological developments in AI and DI, and develop their services that satisfy their clients, their results of operation and financial condition can be negatively impacted. Furthermore, The AI and DI models can create problems themselves and deliver biased results. Substantial resources need to be invested in R&D to enhance technology. If Xuan Wu Cloud is unable to respond to market changes, their solutions may be less competitive.

## Appendix: Company profile

### Key milestones

Figure 57: Key milestones

Year	Event
2010	<ul style="list-style-type: none"> <li>Main consolidated affiliated entities, Xuan Wu, was established</li> </ul>
2011	<ul style="list-style-type: none"> <li>Universal Message Platform (UMP), a marketing cloud solution, was launched</li> </ul>
2012	<ul style="list-style-type: none"> <li>cPaaS platform and MOS solution (public cloud based message operating system) were unveiled</li> </ul>
2015	<ul style="list-style-type: none"> <li>Fast Sales 100 (previous version of Smart Sales 100) was launched as a Sales Cloud solution</li> <li>Xuan Wu was quoted on the NEEQ under the stock code of 834968</li> </ul>
2018	<ul style="list-style-type: none"> <li>U-Client 100, a Sales Cloud solution with LTC module was launched</li> <li>cPaaS platform was incorporated with AI and DI capabilities</li> <li>Service Cloud solutions was launched through acquisition</li> <li>Xuan Wu was accredited with "2018 List of Unicorns in Guangzhou – Top Growth Rate Enterprise"</li> </ul>
2019	<ul style="list-style-type: none"> <li>ICC, an integrated communication centre, was launched as part of Marketing Cloud solution</li> <li>Xuan Wu was delisted from the NEEQ</li> </ul>
2020	<ul style="list-style-type: none"> <li>Upgraded Sales Cloud solution to Smart Sales 100</li> </ul>

Source: Company data

### Management background

Figure 58: Management background

Name	Position	Age	Background
Mr. Chen Yonghui (陈永辉)	Executive Director, Chairman and Chief Executive Officer	45	Mr. Chen cofounded the Group in 2010. Mr. Chen joined Xuanwu Information and Technology and had acted as a deputy general manager thereof until October 2010. Mr. Chen received a bachelor's degree in applied mathematics from South China University of Technology in 1999 and EMBA from China Europe International Business School in 2013.
Mr. Huang Fangjie (黄仿杰)	Executive Director and Senior Vice President	53	Mr. Huang cofounded the Group in 2010. Between June 2000 and October 2010, Mr. Huang had acted as a deputy general manager at Xuanwu Information and Technology. Mr. Huang received an EMBA degree from Cheung Kong Graduate School of Business in 2016.
Mr. Li Hairong (李海荣)	Executive Director and Senior Vice President	44	Mr. Li cofounded the Group in 2010. Before founding the Group, Mr. Li worked in Guangzhou Huagong Computer Network Engineering Co., Ltd. for the period between September 1999 and May 2000. Between June 2000 and October 2010, Mr. Li had served as a senior vice president at Xuanwu Information and Technology. Mr. Li received a bachelor's degree in applied mathematics from South China University of Technology in 1999 and EMBA from China Europe International Business School in 2013.
Mr. Guo Haiqiu (郭海珠)	Executive Director and Senior Vice President	46	Mr. Guo joined the Group in 2013. Prior to joining the Group, Mr. Guo had worked with Kingdee Software (China) Co., Ltd. as a project manager between 1999 and 2005 and served as a director of operation between 2006 and 2012. Mr. Guo received a bachelor's degree in applied mathematics from South China University of Technology in 1999 and EMBA from China Europe International Business School in 2019.
Ms. Ge Ping (葛萍)	Chief Financial Officer, Vice President and Joint Company Secretary	45	Ms. Ge joined the Group in 2015. Before joining the Group, Ms. Ge had worked as a deputy general manager and served as a director in Zhujiang Film & Media Corporation Limited since June 2012. Between January 2008 and May 2012, Ms. Ge had served as a vice general manager and the chief financial officer at Yipinhong Pharmaceutical Co., Ltd. Ms. Ge received a bachelor's degree in management from Anhui University of Finance and Economics in 2001 and EMBA from China Europe International Business School in 2013.

Source: Company data



## Financial Summary

### Income statement

YE Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>797</b>	<b>992</b>	<b>1,132</b>	<b>1,380</b>	<b>1,661</b>
Cost of sales	(603)	(760)	(850)	(998)	(1,170)
<b>Gross profit</b>	<b>194</b>	<b>232</b>	<b>282</b>	<b>382</b>	<b>492</b>
S&M	(77)	(91)	(110)	(120)	(143)
G&A	(40)	(69)	(82)	(89)	(102)
R&D	(53)	(66)	(81)	(89)	(106)
<b>Operating profit/(loss)</b>	<b>24</b>	<b>7</b>	<b>9</b>	<b>84</b>	<b>141</b>
Finance income	1	1	1	3	3
Finance costs	(3)	(3)	(3)	(4)	(4)
Other non-ops	6	8	10	12	15
<b>Profit before tax</b>	<b>27</b>	<b>12</b>	<b>16</b>	<b>95</b>	<b>155</b>
Income tax	2	3	(2)	(14)	(23)
<b>Profit after tax</b>	<b>29</b>	<b>15</b>	<b>14</b>	<b>81</b>	<b>132</b>
Non-controlling interest	2	1	1	4	7
<b>Net profit</b>	<b>28</b>	<b>15</b>	<b>13</b>	<b>76</b>	<b>125</b>

### Cash flow summary

YE Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	<b>27</b>	<b>12</b>	<b>16</b>	<b>95</b>	<b>155</b>
Depre. & amortization	12	14	4	5	5
Net change in working capital	(10)	(51)	16	(29)	(28)
Others	7	8	1	(11)	(19)
<b>Net cash from operating act.</b>	<b>37</b>	<b>(17)</b>	<b>37</b>	<b>60</b>	<b>113</b>
Capex	(4)	(7)	(7)	(7)	(7)
Others	(30)	10	-	-	-
<b>Net cash from investing act.</b>	<b>(34)</b>	<b>3</b>	<b>(7)</b>	<b>(7)</b>	<b>(7)</b>
Equity financing	-	-	178	-	-
Change of debts	53	9	6	6	7
Dividend paid	-	-	-	-	-
Others	(3)	(3)	(3)	(4)	(4)
<b>Net cash from financing act.</b>	<b>51</b>	<b>6</b>	<b>181</b>	<b>3</b>	<b>3</b>
<b>Net change in cash</b>	<b>54</b>	<b>(9)</b>	<b>211</b>	<b>56</b>	<b>109</b>
Cash at the beg. of the year	43	97	88	299	355
Cash at the end of the year	97	88	299	355	464

### Balance sheet

YE Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>34</b>	<b>63</b>	<b>66</b>	<b>69</b>	<b>71</b>
PPE, net	5	8	10	12	13
Intangible assets	15	14	15	16	17
Right-of-use assets	7	32	32	32	32
Others	6	9	9	9	9
<b>Current assets</b>	<b>435</b>	<b>485</b>	<b>707</b>	<b>829</b>	<b>1,009</b>
Cash & equivalents	97	88	299	355	464
Trade and other receivables	299	369	381	447	518
Financial investments	30	21	21	21	21
Contract assets	0	0	0	0	0
Others	8	6	6	6	6
<b>Current liabilities</b>	<b>196</b>	<b>237</b>	<b>281</b>	<b>325</b>	<b>371</b>
Trade and other payables	115	138	142	166	195
Contract liabilities	34	32	57	69	83
Lease liabilities	7	8	18	19	15
Others	40	59	64	71	78
<b>Non-current liabilities</b>	<b>0</b>	<b>24</b>	<b>13</b>	<b>13</b>	<b>17</b>
Lease liabilities	0	24	13	13	17
Deferred tax liabilities	0	0	0	0	0
Share capital	-	0	0	0	0
Reserves	246	(20)	(20)	(20)	(20)
Retained earnings	25	36	49	125	250
Others	1	271	450	454	462
<b>Total equity</b>	<b>272</b>	<b>287</b>	<b>479</b>	<b>560</b>	<b>692</b>

### Key ratios

YE Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
CRM PaaS services	58%	56%	50%	45%	41%
CRM SaaS services	42%	44%	50%	55%	59%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Growth (YoY)</b>					
Revenue	33%	24%	14%	22%	20%
Gross profit	-1%	20%	21%	36%	29%
Operating profit	248%	-72%	33%	839%	68%
Adj. net profit	117%	6%	23%	112%	63%
<b>Margins</b>					
Gross margin	24%	23%	25%	28%	30%
Operating margin	3%	1%	1%	6%	8%
Net profit margin	3%	1%	1%	6%	8%
Adj. net profit margin	4%	3%	3%	6%	8%
<b>Balance sheet ratio</b>					
Net debt / equity ratio (%)	net cash	1%	net cash	net cash	net cash
Current ratio	2.2	2.0	2.5	2.5	2.7
<b>Returns (%)</b>					
ROE	10%	5%	3%	14%	18%
ROIC	9%	4%	2%	12%	16%
<b>Per share</b>					
EPS (RMB)	0.05	0.03	0.02	0.14	0.22
BVPS (RMB)	0.52	0.55	0.85	1.00	1.23

Source: Company data, CMBIGM estimates

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<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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