

Yonyou (600588 CH)

Structural recovery on revenue growth likely still takes time

Yonyou reported (23 Aug) 2Q24 results: revenue was RMB2.1bn, up 9% YoY (2Q23: -16% YoY; 1Q24: 19% YoY), 4% short of Bloomberg consensus, which we attributed to slower-than-expected revenue growth in large enterprises due to elongated deal cycle. Although cost control remains stringent, the miss on revenue growth also translates into a miss on loss reduction: net loss attributable to ordinary shareholders was RMB341mn in 2Q24 (consensus: loss of RMB205mn). We remain positive that Yonyou will benefit from increasing digitalization demand nationwide over the long term, but reiterate concern regarding impact from macro headwinds in the near term. The slow increase in cloud services ARR contribution, as well as the rising R&D capitalization ratio still point to an uneasy loss reduction trajectory in the near term, and management may need to strive hard to reach its full-year target of turning into profitability in 2024, especially amid current macro backdrop. We maintain HOLD with a new target price of RMB9.08 (was RMB12.11), based on 3.1x 2024E EV/Sales (was 3.7x).

■ **Macro headwinds and elongated deal cycle weighed on 2Q24 revenue growth.** In 2Q24, cloud services revenue was RMB1.6bn, up 14% YoY (2Q23: -10%; 1Q24: 32%) and ERP revenue fell 10% YoY to RMB428mn. As a percentage of revenue, cloud services revenue contribution increased to 77% of total, up 3pp YoY. Revenue generated from large/mid-sized enterprise/small and micro sized businesses came in at RMB1.3bn/311mn/243mn for 2Q24, with respective growth of 5%/11%/33% YoY (2Q23: -20%/-6%/3%). Management attributed the slower-than-expected growth of large enterprises to elongated deal cycle, but noted a sequential recovery in contract value growth in Jul. We are positive on the revenue growth recovery of large enterprises, as Yonyou is making solid progress in new logos, and the launch of super version of YonBIP should provide additional support.

■ **Recovery in GPM inline with management expectation, but continuous increase in R&D capitalization rate remains a concern.** GPM improved by 1.8pp YoY to 54.0% in 2Q24, driven by increase in revenue contribution from cloud services, and was 1.2pp better than consensus. Management is confident on driving GPM back to over 55% in the coming quarters, driven by operating efficiency gains. As for operating expenses, S&M expenses grew 2% YoY in 2Q24 (30.8% of total revenue, -2.0ppts YoY), administrative expenses was flat YoY in 2Q24 (13.2% of revenue, -1.1ppts YoY), and R&D expenses was down 1% YoY in 2Q24 (25.1% of total revenue, -2.4ppts YoY). However, we noticed that R&D expense that capitalized increased to 51.3% of total in 1H24 (1H23: 47.7%; 2023: 50%), which partly aided the optimization in R&D expenses ratio.

■ **Maintain HOLD with a new TP of RMB9.08.** We lower 2024-2026E revenue forecast by 3-4% due to slower-than-expected revenue growth in large enterprises, and our new TP was based on 3.1x 2024E EV/sales, inline with one-year average minus 1 s.d (was 3.7x, inline with two-year average minus two s.d.).

HOLD (Maintain)

Target Price RMB9.08
(Previous TP RMB12.11)
Up/Downside 8.3%
Current Price RMB8.38

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Stock Data

Mkt Cap (RMB mn)	28,769.6
Avg 3 mths t/o (RMB mn)	194.8
52w High/Low (RMB)	18.15/8.21
Total Issued Shares (mn)	3433.1

Source: FactSet

Shareholding Structure

Mr. Wang - Chairman	38.9%
HKSCC	7.9%

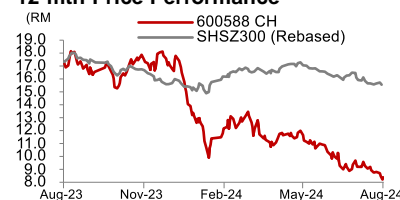
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-10.9%	-7.9%
3-mth	-28.1%	-21.3%
6-mth	-31.7%	-28.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	9,262	9,796	10,942	12,161	13,505
YoY growth (%)	3.7	5.8	11.7	11.1	11.1
Net profit (RMB mn)	219.2	(967.2)	3.5	182.7	654.5
EPS (Reported) (RMB cents)	6.38	(28.29)	0.10	5.35	19.15
Consensus EPS (RMB cents)	0.00	0.00	3.09	11.55	21.87

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Yonyou: CMBI forecast change

	2024E			2025E			2026E		
CNY m	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	10,942	11,325	-3%	12,161	12,689	-4%	13,505	13,918	-3%
Gross profit	6,132	6,403	-4%	6,921	7,254	-5%	8,042	8,341	-4%
OP Profit	82	58	42%	193	309	-38%	722	855	-16%
PBT	126	189	-33%	215	512	-58%	770	1,067	-28%
Net profit	3	105	-97%	183	436	-58%	655	907	-28%
EPS	0.00	0.03	-97%	0.05	0.13	-58%	0.19	0.27	-28%
Margins									
GM	56.0%	56.5%	-50 bps	56.9%	57.2%	-26 bps	59.5%	59.9%	-38 bps
OPM	0.8%	0.5%	24 bps	1.6%	2.4%	-85 bps	5.3%	6.1%	-79 bps
PBT margin	1.2%	1.7%	-51 bps	1.8%	4.0%	-227 bps	5.7%	7.7%	-196 bps
Net margin	0.0%	0.9%	-90 bps	1.5%	3.4%	-193 bps	4.8%	6.5%	-167 bps

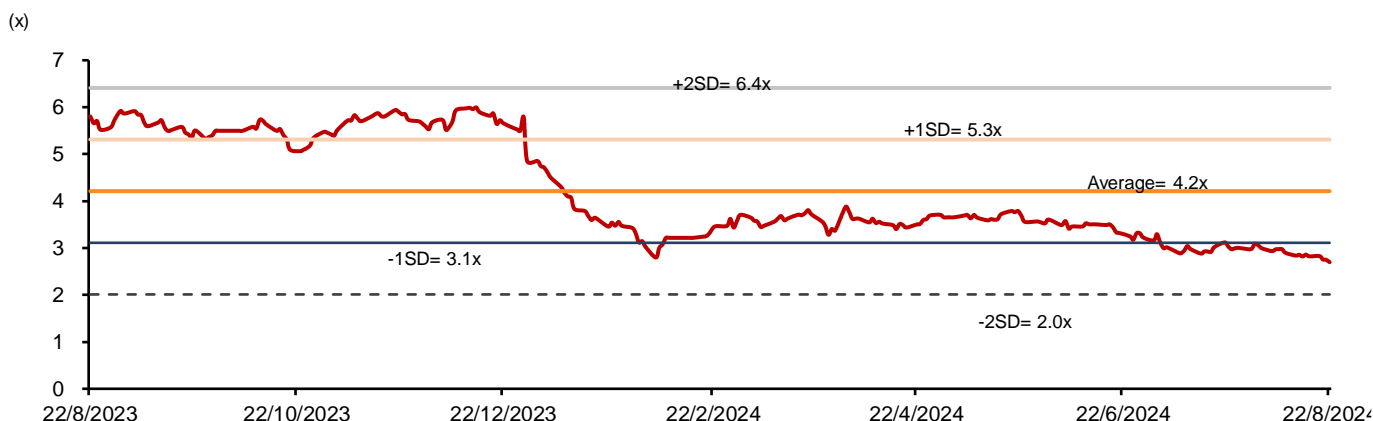
Source: CMBIGM estimates

Figure 2: Yonyou: CMBI forecast vs Bloomberg consensus

	2024			2025			2026		
CNY m	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	10,942	11,132	-2%	12,161	12,751	-5%	13,505	14,643	-8%
Gross profit	6,132	6,069	1%	6,921	7,062	-2%	8,042	8,238	-2%
OP Profit	82	155	-47%	193	443	-57%	722	731	-1%
PBT	126	142	-11%	215	493	-56%	770	820	-6%
Net profit	3	275	-99%	183	704	-74%	655	956	-32%
EPS	0.00	0.03	-96%	0.05	0.12	-56%	0.19	0.23	-17%
Margins									
GM	56.0%	54.5%	152 bps	56.9%	55.4%	152 bps	59.5%	56.3%	328 bps
OPM	0.8%	1.4%	-65 bps	1.6%	3.5%	-189 bps	5.3%	5.0%	36 bps
PBT margin	1.2%	1.3%	-13 bps	1.8%	3.9%	-210 bps	5.7%	5.6%	10 bps
Net margin	0.0%	2.5%	-244 bps	1.5%	5.5%	-402 bps	4.8%	6.5%	-168 bps

Source: Bloomberg, CMBIGM estimates

Figure 3: Yonyou: EV/sales valuation band



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	8,932	9,262	9,796	10,942	12,161	13,505
Cost of goods sold	(3,461)	(4,041)	(4,826)	(4,810)	(5,240)	(5,463)
Gross profit	5,471	5,221	4,970	6,132	6,921	8,042
Operating expenses	(4,916)	(5,213)	(6,066)	(6,050)	(6,728)	(7,319)
Selling expense	(2,027)	(2,235)	(2,743)	(2,648)	(3,011)	(3,240)
Admin expense	(1,072)	(1,117)	(1,108)	(1,169)	(1,268)	(1,397)
R&D expense	(1,704)	(1,754)	(2,106)	(2,122)	(2,327)	(2,549)
Others	(113)	(106)	(108)	(110)	(122)	(133)
Operating profit	555	8	(1,096)	82	193	722
Interest expense	(79)	12	(68)	(114)	(167)	(146)
Other income/expense	298	227	254	158	190	194
Pre-tax profit	774	247	(910)	126	215	770
Income tax	(92)	(22)	(23)	(93)	(21)	(77)
After tax profit	682	225	(933)	34	193	693
Minority interest	25	(6)	(34)	(30)	(11)	(39)
Net profit	708	219	(967)	3	183	655

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,682	12,387	12,922	10,176	11,986	13,336
Cash & equivalents	4,616	8,304	8,045	4,700	5,520	6,353
Restricted cash	1,572	2,634	3,059	2,783	3,414	3,747
Account receivables	407	531	552	609	729	803
Other current assets	1,088	918	1,266	2,084	2,324	2,433
Non-current assets	9,647	11,168	12,599	14,528	14,541	14,444
PP&E	2,529	2,531	2,619	2,867	2,824	2,789
Intangibles	1,862	2,838	3,872	4,920	5,858	6,680
Other non-current assets	5,256	5,799	6,108	6,741	5,858	4,976
Total assets	17,329	23,555	25,521	24,704	26,527	27,780
Current liabilities	8,325	9,574	11,122	10,720	12,148	12,747
Short-term borrowings	2,802	3,611	4,240	4,305	4,733	4,712
Account payables	654	832	1,007	866	995	993
Other current liabilities	2,219	2,569	2,936	2,903	3,412	3,760
Accrued expenses	2,649	2,563	2,940	2,646	3,009	3,284
Non-current liabilities	1,078	1,463	2,596	2,312	2,524	2,524
Long-term borrowings	390	826	1,910	1,608	1,820	1,820
Other non-current liabilities	688	637	685	704	704	704
Total liabilities	9,403	11,037	13,718	13,032	14,672	15,271
Share capital	3,271	3,434	3,419	3,419	3,419	3,419
Capital surplus	892	5,852	5,290	5,361	5,361	5,361
Retained earnings	3,489	3,369	2,198	2,202	2,384	3,039
Other reserves	(664)	(1,193)	(754)	(854)	(854)	(854)
Total shareholders equity	6,987	11,461	10,152	10,126	10,309	10,964
Minority interest	939	1,057	1,651	1,546	1,546	1,546
Total equity and liabilities	17,329	23,555	25,521	24,704	26,527	27,780

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	774	247	(910)	126	215	770
Depreciation & amortization	473	579	855	788	975	1,179
Tax paid	(92)	(22)	(23)	(93)	(21)	(77)
Change in working capital	146	(819)	338	(237)	10	104
Others	2	301	(350)	1,111	0	0
Net cash from operations	1,304	286	(91)	1,696	1,179	1,976
Investing						
Capital expenditure	(1,030)	(1,557)	(1,797)	(1,721)	(1,871)	(1,966)
Others	(200)	(2,296)	1,254	(1,833)	883	1,087
Net cash from investing	(1,230)	(3,853)	(542)	(3,555)	(988)	(879)
Financing						
Dividend paid	(654)	(344)	(206)	1	0	0
Net borrowings	702	1,077	1,829	(215)	640	(21)
Others	(1,108)	6,508	(1,252)	(576)	(11)	(39)
Net cash from financing	(1,060)	7,241	372	(789)	629	(60)
Net change in cash						
Cash at the beginning of the year	5,605	4,616	8,304	8,045	4,700	5,520
Exchange difference	(2)	14	3	(0)	0	0
Cash at the end of the year	4,616	8,304	8,045	5,396	5,520	6,557
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	4.8%	3.7%	5.8%	11.7%	11.1%	11.1%
Gross profit	5.1%	(4.6%)	(4.8%)	23.4%	12.9%	16.2%
Operating profit	(49.2%)	(98.6%)	na	na	134.6%	275.1%
Net profit	(28.4%)	(69.0%)	na	na	5,196.0%	258.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	61.2%	56.4%	50.7%	56.0%	56.9%	59.5%
Operating margin	6.2%	0.1%	(11.2%)	0.8%	1.6%	5.3%
Return on equity (ROE)	9.7%	2.4%	(8.9%)	0.0%	1.8%	6.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.3)	(0.2)	0.1	0.1	0.0
Current ratio (x)	0.9	1.3	1.2	0.9	1.0	1.0
Receivable turnover days	66.4	82.9	106.1	97.4	93.0	96.8
Inventory turnover days	17.0	18.5	20.2	19.4	20.1	20.7
Payable turnover days	69.0	75.1	37.5	28.9	29.9	26.8
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	38.7	131.3	ns	8,305.3	156.8	43.8
P/B	3.5	2.3	2.4	2.5	2.4	2.3
Div yield (%)	2.4	1.2	0.7	ns	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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