

Ming Yuan Cloud (909 HK)

SaaS growth outlook intact, upgrade to BUY

MYC hosted FY20 investor conference call yesterday. Mgmt. guided 3-year growth targets: 1) SaaS revenue CAGR no less than +50% and 2) ERP revenue CAGR at 15-20%. MYC is set to benefit from property developers accelerating digitalization to boost profitability. MYC share price has corrected over 40% since Feb on SaaS sector de-rating. We think the share price starts to look attractive given solid earnings growth outlook. Raise to BUY.

- **FY20 core profit miss on higher commission expense related to SaaS expansion.** MYC FY20 revenue grew 35% YoY to RMB1,705mn, largely in-line with our and consensus estimates. However, operating profit missed on higher-than-expected commission to sales channel. Adj. net profit of RMB328mn beat our estimate mainly on higher gov't grants and forex gain.
- **SaaS to maintain +50% YoY growth, NPM turned positive in FY20.** FY20 SaaS revenue was at RMB871mn (+71% YoY), beat our prior estimate by 4% mainly on strong CRM Cloud growth (+88% YoY). SaaS GPM declined 4.1 pct pts to 87.1% given increased hardware/ software integration work but NPM turned profitable at 2.1% (vs. -8.2% in FY19). CRM Cloud remained the core driver with revenue contribution increased to 77% of MYC FY20 SaaS revenue. We are positive to see improved renewal rate (90% in FY21 vs. 76% in FY19) and higher ARPU (RMB44.6k per property sales office in FY20, +9% YoY). We expect MYC to deliver 51% FY20-23E SaaS revenue CAGR.
- **ERP to maintain stable growth at +15-20% YoY.** FY20 ERP revenue was at RMB834mn (+11% YoY), missed our prior estimate by -9%. Mgmt. attributed the miss to COVID-19 that affected large-scale project contract signed in 1H20 and hence service delivery schedule in 2H20. ERP revenue growth in FY21 is expected to rebound back to +15-20% YoY level. We expect ERP segment to maintain steady growth of 17% FY20-23E ERP revenue CAGR.
- **Upgrade to BUY.** We fine-tuned FY21-22E net profit by -1% to -4% mainly to reflect stronger SaaS growth and higher related commission expense. MYC share price has corrected by 40% from its peak in Feb 2021. We upgrade MYC to BUY from Hold with new target price of HK\$44.75, based on lowered 22x (prior 25x) FY22E P/S on SaaS sector de-rating. We believe MYC should be trading at premium given stronger FY20-23E EPS growth (MYC 42% vs. peers 31%).

Earnings Summary

(YE 31 Dec)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,264	1,705	2,425	3,254	4,338
YoY growth (%)	38%	35%	42%	34%	33%
Core net profit (RMB mn)	216	328	459	650	931
EPS (RMB)	0.15	0.22	0.24	0.34	0.48
YoY growth (%)	40%	49%	40%	42%	43%
Consensus EPS (RMB)	0.15	0.19	0.28	0.42	0.00
PE (x)	197.0	132.4	124.4	87.8	61.4
PS (x)	45.2	33.5	23.5	17.5	13.2
Dividend Yield (%)	0.00	0.00	0.00	0.00	0.01
ROE (%)	n.a.	-11%	7%	9%	12%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

Target Price	HK\$44.75
(Previous TP	HK\$48.75)
Up/Downside	+25.4%
Current Price	HK\$35.70

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Stock Data

Mkt Cap (HK\$ mn)	71,015
Avg 3 mths t/o (HK\$ mn)	518.32
52w High/Low (HK\$)	60.80/ 25.00
Total Issued Shares (mn)	1,927

Source: Bloomberg

Shareholding Structure

Mr. Gao - Chairman	20.50%
Mr. Chen - VP	15.40%
Mr. Jiang - CEO	9.70%

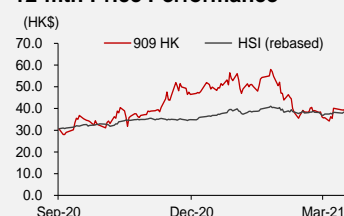
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.1%	1.2%
3-mth	-20.0%	-22.2%
6-mth	5.2%	-11.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

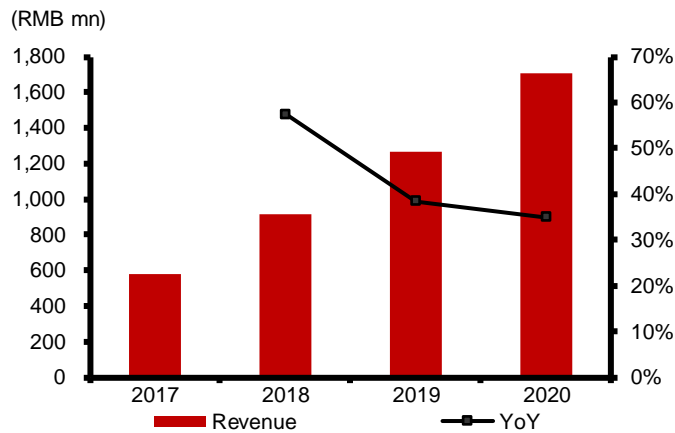
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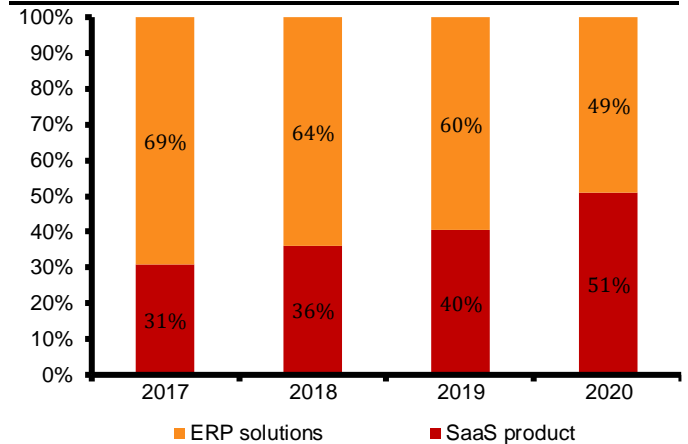
Focus Charts

Figure 1: Revenue and growth



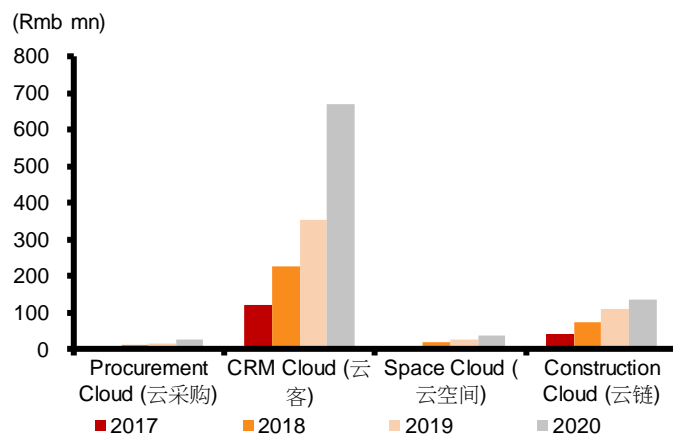
Source: Company data

Figure 2: Revenue breakdown



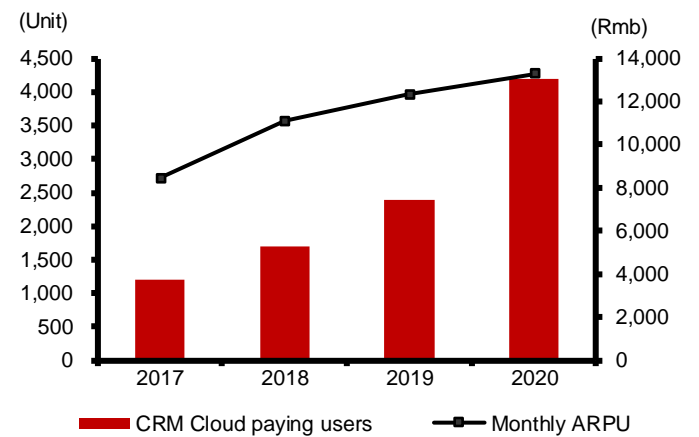
Source: Company data

Figure 3: SaaS revenue breakdown



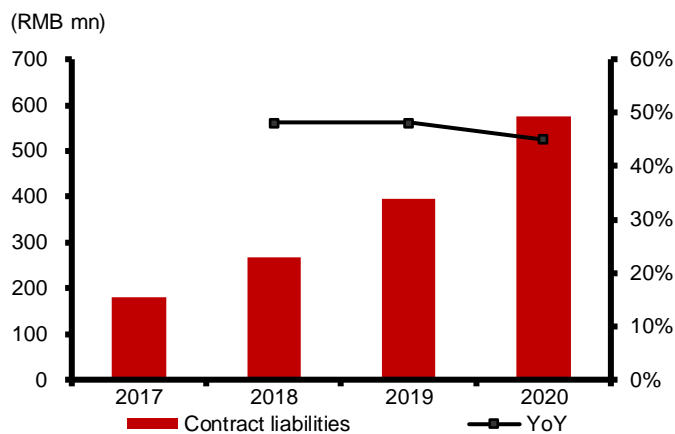
Source: Company data

Figure 4: CRM Cloud paying users and ARPU



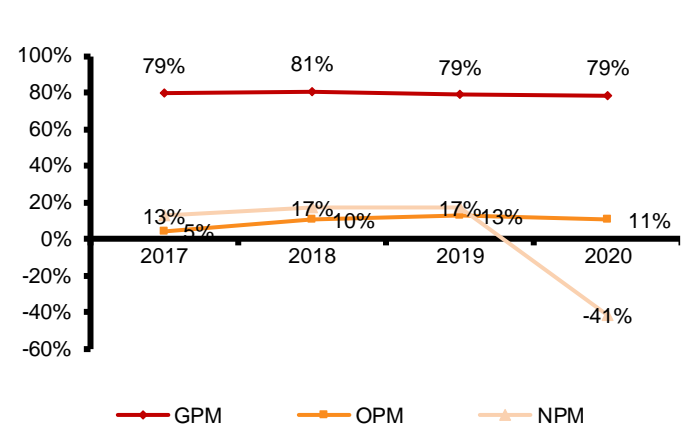
Source: Company data

Figure 5: SaaS contract liabilities



Source: Company data

Figure 6: Margins



Source: Company data

FY20 results review

- **Revenue** was at RMB1,705mn (+35% YoY), largely in-line with our and consensus estimates.
- **Gross profit** was at RMB1,340mn (+35% YoY), below both our and consensus estimates by 5%.
- **Gross margin** was at 78.6%, (-0.2 pct pts YoY), below our estimate by 2.1 pct pts and consensus by 2.2 pct pts.
- **Adj. operating profit** was at RMB248mn (+60% YoY), below our estimates by 28% and consensus by 31%.
- **Adj. operating margin** was at 14.5% (+2.4 pct pts YoY), below our estimates by 5.2 pct pts and consensus by 6.1 pct pts.
- **Adj. Net profit** was at RMB328mn (+49% YoY), beat our estimates by 7% but below consensus by 3%, mainly due to higher government grants (RMB25.4mn) and forex gain (RMB44.6mn).
- **Adj. EPS** was at RMB0.22 (+49% YoY).

Figure 7: FY20 results review

909 HK Rmb mn	2019 Actual	2020 Actual	YoY	2020E CMBI	versus CMBI	2020E Consensus	versus Consensus
Revenue	1,264	1,705	35%	1,756	-3%	1,746	-2%
Gross profit	995	1,340	35%	1,416	-5%	1,410	-5%
GPM	78.7%	78.6%	-0.2 pct pts	80.6%	-2.1 pct pts	80.7%	-2.2 pct pts
Operating profit	159	186	17%	346	-46%	359	-48%
OPM	12.6%	10.9%	-1.7 pct pts	19.7%	-8.8 pct pts	20.5%	-9.7 pct pts
PBT	242	(650)	-368%	371	-275%	221	-394%
Net income	216	(704)	-426%	307	-330%	338	-308%
NPM	17.1%	-41.3%	-58.5 pct pts	17.5%	-58.8 pct pts	19.4%	-60.7 pct pts
EPS (RMB)	0.15	0.22	49%	0.18	28%	0.19	19%

Source: Company data, CMBIS

Figure 8: Adj. FY20 results review

909 HK Rmb mn	2019 Actual	2020 Actual	YoY	2020E CMBI	versus CMBI	2020E Consensus	versus Consensus
Revenue	1,264	1,705	35%	1,756	-3%	1,746	-2%
Gross profit	995	1,340	35%	1,416	-5%	1,410	-5%
GPM	78.7%	78.6%	-0.2 pct pts	80.6%	-2.1 pct pts	80.7%	-2.2 pct pts
Operating profit	159	186	17%				
+ Share based compensation	-	18	-				
+ Listing expenses	(4)	44					
Adj. operating profit	154	248	60%	346	-28%	359	-31%
Adj. OPM	12.2%	14.5%	2.4 pct pts	19.7%	-5.2 pct pts	20.5%	-6.1 pct pts
+ Fin. Liab. at FV through P&L	-	989					
Adj. net income	221	328	49%	307	7%	338	-3%
Adj. NPM	17.5%	19.3%	1.8 pct pts	17.5%	1.8 pct pts	19.4%	-0.2 pct pts
EPS (RMB)	0.15	0.22	49%	0.18	28%	0.19	19%

Source: Company data, CMBIS

Earnings revision

Figure 9: Earnings revision

RMB mn	2021E			2022E		
	New	Old	%Diff	New	Old	%Diff
Sales	2,425	2,373	2%	3,254	3,119	4%
Gross profit	1,930	1,918	1%	2,626	2,550	3%
OP Profit	410	487	-16%	622	694	-10%
PBT	525	565	-7%	744	780	-5%
Net profit	459	477	-4%	650	658	-1%
EPS (RMB)	0.24	0.25	-4%	0.34	0.34	-1%
Margins						
GM	79.6%	80.8%	-126 bps	80.7%	81.8%	-106 bps
OPM	16.9%	20.5%	-361 bps	19.1%	22.3%	-314 bps
PBT margin	21.6%	23.8%	-214 bps	22.9%	25.0%	-216 bps
Net margin	18.9%	20.1%	-117 bps	20.0%	21.1%	-113 bps

Source: Company data, CMBIS

Figure 10: CMBI estimates vs consensus

RMB mn	CMBI	2021E		CMBI	2022E	
		Street	Diff		Street	Diff
Sales	2,425	2,456	-1%	3,254	3,424	-5%
Gross profit	1,930	2,003	-4%	2,626	2,841	-8%
OP Profit	410	518	-21%	622	767	-19%
PBT	525	565	-7%	744	856	-13%
Net profit	459	496	-7%	650	748	-13%
EPS (RMB)	0.24	0.28	-14%	0.34	0.42	-19%
Margins						
GM	79.6%	81.6%	-198 bps	80.7%	83.0%	-227 bps
OPM	16.9%	21.1%	-417 bps	19.1%	22.4%	-329 bps
PBT margin	21.6%	23.0%	-135 bps	22.9%	25.0%	-214 bps
Net margin	18.9%	20.2%	-127 bps	20.0%	21.8%	-185 bps

Source: Company data, CMBIS

Operating model

Figure 11: Operating model

RMB mn	2019	2020	2021E	2022E	2023E
Revenues	1,264	1,705	2,425	3,254	4,338
Cost of sales	(269)	(366)	(495)	(628)	(805)
Gross Profit	995	1,340	1,930	2,626	3,533
<i>Gross margin</i>	<i>78.7%</i>	<i>78.6%</i>	<i>79.6%</i>	<i>80.7%</i>	<i>81.4%</i>
R&D	(286)	(356)	(474)	(592)	(739)
SG&A	(550)	(798)	(1,046)	(1,412)	(1,829)
Operating Income	159	186	410	622	965
<i>Operating margin</i>	<i>12.6%</i>	<i>10.9%</i>	<i>16.9%</i>	<i>19.1%</i>	<i>22.2%</i>
Non-Operating Income	84	(836)	115	122	123
Profit Before Tax	242	(650)	525	744	1,088
Income tax (expense) gain	(11)	(18)	(42)	(60)	(109)
Minorities	15	36	24	34	49
Net Income to Shareholders	216	(704)	459	650	931
Core net income	216	328	459	650	931
<i>Net margin</i>	<i>17.1%</i>	<i>19.3%</i>	<i>18.9%</i>	<i>20.0%</i>	<i>21.5%</i>
Core EPS (RMB)	0.15	0.22	0.24	0.34	0.48
<u>Revenue breakdown</u>					
SaaS product	329	510	871	1,416	2,088
Procurement Cloud (云采购)	11	17	27	39	56
CRM Cloud (云客)	226	355	669	1,085	1,579
Asset Management Cloud (云空间)	18	27	38	56	83
Construction Cloud (云链)	74	111	138	236	370
ERP solutions	584	754	834	1,009	1,166
<u>Gross margin breakdown</u>					
SaaS product	91%	87%	86%	87%	87%
ERP solutions	70%	70%	70%	70%	70%
<u>Growth YoY</u>					
Revenues	38%	35%	42%	34%	33%
Gross profit	35%	35%	44%	36%	35%
Operating Income	67%	17%	121%	52%	55%
Core EPS	40%	49%	6%	42%	43%

Source: Company data, CMBIS

Figure 12: Semi-annual Operating model

RMB mn	1H20	2H20	1H21E	1H21E	1H22E	2H22E
Revenues	671	1,035	922	1,504	1,269	1,985
Gross Profit	529	810	736	1,194	1,037	1,589
Operating profit	78	108	131	279	231	392
Core net profit	73	274	157	302	247	403
EPS (RMB)	0.05	-0.53	0.08	0.16	0.13	0.21
Margins						
Gross margin	78.9%	78.3%	79.9%	79.4%	81.7%	80.1%
Operating margin	11.6%	10.4%	14.2%	18.6%	18.2%	19.7%
Net margin	10.4%	26.4%	17.0%	20.1%	19.5%	20.3%
Growth (HoH)						
Revenues	-14%	54%	-11%	63%	-16%	56%
Gross Profit	-14%	53%	-9%	62%	-13%	53%
Operating profit	-41%	38%	22%	113%	-17%	70%
Core net profit	-57%	276%	-43%	92%	-18%	63%
Growth (YoY)						
Revenues	37%	33%	37%	45%	38%	32%
Gross Profit	40%	31%	39%	47%	41%	33%
Operating profit	194%	-19%	68%	159%	76%	40%
Core net profit	32%	60%	116%	10%	57%	34%

Source: Company data, CMBIS

Valuation

MYC (909 HK, Raised to BUY, TP HK\$44.75)

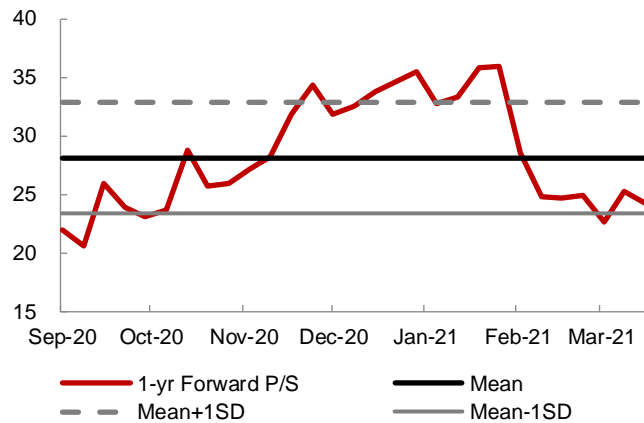
We derived our target price of HK\$44.75 on lowered 22x (prior 25x) FY22E P/S given SaaS sector de-rating. SaaS peers is trading at 15.7x FY22E but we believe MYC deserves premium given higher EPS growth (FY20-23E MYC: 42% vs. peers 31%). We use P/S as the valuation methodology as earnings cannot reflect operating profitability during SaaS ramp-up stage due to high sales and marketing cost.

Figure 13: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	P/S FY21E	P/S FY22E	FCF margin (%) FY21E	FCF margin (%) FY22E	Sales CAGR FY20-23	EPS CAGR FY20-23
MYC	909 HK	BUY	8,870	35.80	44.75	23.5	17.5	28%	23%	37%	42%
Glodon	002410 CH	BUY	12,188	67.17	89.19	16.0	13.1	28%	23%	22%	51%
Yonyou	600588 CH	NR	17,541	35.12	N/A	11.1	8.7	18%	13%	23%	33%
Kingsoft Office	688111 CH	NR	21,106	300.09	N/A	39.9	29.0	47%	63%	41%	38%
Kingdee	268 HK	NR	10,616	23.80	N/A	16.7	13.3	7%	11%	25%	n.a.
Adobe	ADBE US	NR	240,931	504.04	N/A	15.6	13.6	42%	41%	17%	17%
Autodesk	ADSK US	NR	65,344	297.57	N/A	17.4	15.2	36%	38%	16%	36%
Salesforce	CRM US	NR	213,009	231.28	N/A	10.1	8.3	20%	18%	22%	12%
Veeva System	VEEV US	NR	40,222	264.23	N/A	27.8	22.8	36%	37%	24%	20%
CoStar	CSGP US	NR	34,976	887.49	N/A	18.0	15.5	23%	28%	18%	28%
Mean						19.7	15.7	29%	30%	23%	31%
Median						17.1	14.4	28%	28%	22%	30%

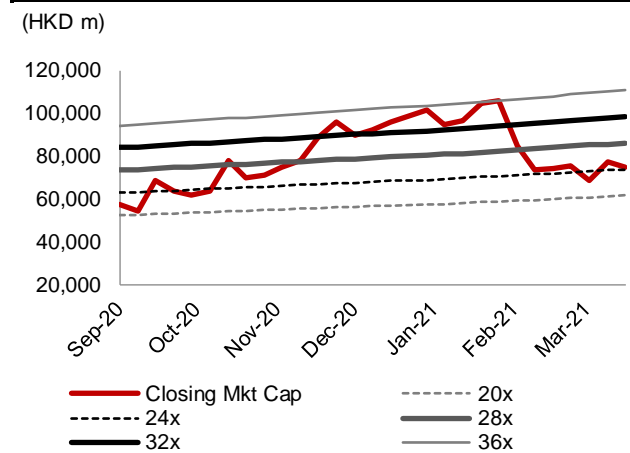
Source: Bloomberg, CMBIS

Figure 14: 12M forward P/S chart



Source: Bloomberg, CMBIS

Figure 15: 12M forward P/S band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,264	1,705	2,425	3,254	4,338
Cost of sales	(269)	(366)	(495)	(628)	(805)
Gross profit	995	1,340	1,930	2,626	3,533
Selling exp	(441)	(590)	(830)	(1,107)	(1,452)
Admin exp	(108)	(208)	(215)	(304)	(376)
R&D exp	(286)	(356)	(474)	(592)	(739)
Other operating exp.	0	0	0	0	0
Operating profit	159	186	410	622	965
Finance income/ (costs)	(2)	12	31	33	35
Other non-oper exp.	85	(848)	84	89	88
Pre-tax profit	242	(650)	525	744	1,088
Income tax expense	(11)	(18)	(42)	(60)	(109)
Minority interests	(15)	(36)	(24)	(34)	(49)
Net profit to shareholders	216	(704)	459	650	931
Core net profit	216	328	459	650	931

Cash flow summary

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Net profit	242	(650)	525	744	1,088
Depreciation/amortization	28	7	8	9	11
Change in working capital	95	87	172	31	(67)
Others	(27)	(16)	(40)	(57)	(107)
Net cash from operating	339	(572)	665	727	926
Capex	(16)	(17)	(24)	(33)	(43)
Others	(67)	0	0	0	0
Net cash from investing	(83)	(17)	(24)	(33)	(43)
Net borrowings	0	0	0	0	0
Dividend paid	0	(135)	(189)	(267)	(382)
Others	30	4,751	(2)	(2)	(2)
Net cash from financing	30	4,616	(191)	(269)	(384)
Net change in cash	286	4,027	450	425	498
Cash at beginning of the year	448	732	4,759	5,210	5,635
Exchange difference	(1)	0	0	0	0

Balance sheet

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Current assets	988	7,210	7,873	8,614	9,585
Cash & equivalents	732	4,759	5,210	5,635	6,134
Account receivables	21	30	49	65	87
Contract acquisition cost	103	191	362	630	1,041
Contract assets	25	48	58	67	78
Other receivables	16	51	64	86	115
Others	91	2,130	2,130	2,130	2,130
Non-current assets	246	262	279	302	334
PPE	118	150	166	189	222
Intangible assets	2	3	3	3	3
Other non-current assets	126	109	109	109	109
Total assets	1,235	7,472	8,152	8,916	9,918
Current liabilities	915	843	1,219	1,555	1,949
ST borrowings	0	0	0	0	0
Account payables	24	43	61	78	100
Contract liabilities	378	549	760	981	1,221
Others	513	252	398	497	629
Non-current liabilities	49	59	69	79	90
LT borrowings	0	0	0	0	0
Contract liabilities	18	25	35	45	56
Other non-current liabilities	31	34	34	34	34
Total liabilities	964	903	1,288	1,635	2,040
Share capital	0.1	0.2	0.2	0.2	0.2
Capital surplus	0.0	0.0	0.0	0.0	0.0
Retained earnings	254	(463)	(192)	191	739
Other reserves	13	7,001	7,001	7,001	7,001
Minority interest	254	(463)	(192)	191	739
Total equity	271	6,570	6,864	7,281	7,879
Total liabilities and equity	1,235	7,472	8,152	8,916	9,918

Key ratios

YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
Revenue mix					
SaaS product	36%	40%	51%	58%	64%
Procurement Cloud	1%	2%	2%	2%	2%
CRM Cloud	28%	39%	45%	49%	52%
Asset Management Cloud	2%	2%	2%	3%	3%
Construction Cloud	9%	8%	10%	11%	13%
ERP solutions	60%	49%	42%	36%	31%
Growth (%)					
Revenue	38%	35%	42%	34%	33%
Operating profit	67%	17%	121%	52%	55%
Core net profit	40%	49%	40%	42%	43%
Profit & loss ratio (%)					
Gross margin	78.7%	78.6%	79.6%	80.7%	81.4%
Operating margin	12.6%	10.9%	16.9%	19.1%	22.2%
Core net profit margin	17.1%	19.3%	18.9%	20.0%	21.5%
Balance sheet ratio					
Receivable turnover days	5	7	7	7	7
Payable turnover days	21	45	45	45	45
Current ratio (x)	1.08	8.55	6.46	5.54	4.92
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Profitability (%)					
FCF margin	28%	-33%	28%	23%	22%
ROE	n.a.	-11%	7%	9%	12%
Per share data (RMB)					
Core EPS (RMB)	0.15	0.22	0.24	0.34	0.48
DPS (RMB)	0.00	0.07	0.10	0.14	0.20
BVPS (RMB)	0.18	4.48	3.56	3.78	4.09

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

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CMBIS Ratings

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

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