

# China Software & IT Services

## Year of rabbit: still about localization

We recently talked to some software and IT services companies regarding FY23E business outlook. While most companies are encouraged by China re-opening and lifting of COVID restrictions, the pace of business recovery is likely to be slow. We suggest investors to focus on the localization theme. Horizontal SaaS and IT services companies with government/ telecom/ financial customer exposure are likely to benefit. Meanwhile, China IaaS/PaaS market has entered a quality growth phase. We anticipate a moderate cloud capex spending in FY23E and thus a slow growth for upstream IDC. Prefer Kingdee (268 HK, BUY), Chinasoft (354 HK, BUY) and AsialInfo (1675 HK, NR).

- **SaaS: Localization demand still intact.** After a year of de-rating due to US rate hike cycle and lower investment appetite to growth stock, China SaaS has rebounded by 50% since its trough in Oct 2022, together with the improvement in sentiment especially towards China internet sector. China SaaS is trading at 8.8x FY23E EV/sales, 28% below 3-year mean. In FY23E, we believe sector re-rating will continue as enterprise SaaS demand will pick up gradually. We expect enterprise SaaS to deliver +15-25% YoY top line growth in FY23E. We prefer horizontal SaaS with localization/ Xinchuang theme than vertical SaaS in property sector as the latter may still be under pressure in FY1H23E.
- **IT Services: Workforce restructuring completed, margin to recover gradually.** As a labour-intensive business, China IT services companies underwent a year of workforce restructuring in FY22 amid weak macro environment. We expect China IT service to deliver a steady +10-15% YoY top-line growth in FY23E with margin improvement. However, IT service demand (e.g. data transfer/ system migration) has shifted from companies in internet/ technology to telecom/ government/ financial sectors due to the Xinchuang (localization) initiative.
- **IaaS/ PaaS/ IDC: Focus on bottom line improvement:** China cloud has passed the fast growth stage (+30-40% YoY) and entered a new phase focusing on quality growth, in our view. We expect China cloud market to grow at +10-20% YoY in FY23E. It is inevitable for telecom operators to gain share from internet cloud service providers (CSP) as telecom operators have the cost advantage in Content Delivery Network (CDN) business. Internet CSP will become picky in cloud projects. Profitability rather than top-line growth is the focus this year. We anticipate a moderate cloud capex spending in FY23E and thus a slow growth for upstream IDC/ server suppliers. China IDC has rebounded by 20% since Oct 2022 and is trading at 16.5x FY23E EV/EBITDA, 27% below 3-year mean.
- **Prefer companies with localization theme.** We believe localization is still the key investment theme in FY23E. Along the software and IT services supply chain, we like SaaS > IT Services > IaaS/ PaaS/ IDC. We like **Kingdee (268 HK, BUY), Chinasoft (354 HK, BUY) and AsialInfo (1675 HK, NR)** for their Xinchuang business exposure.

### Valuation Table

Company	Ticker	Rating	Price (LC)	TP (LC)	EV/sales FY23E	P/E FY23E	ROE FY23E	Sales CAGR FY21-24E
Kingdee	268 HK	BUY	17.22	23.83	8.1	n.a.	n.a.	19%
Chinasoft	354 HK	BUY	6.89	9.14	0.5	13.0	11%	15%
AsialInfo	1675 HK	NR	13.98	n.a.	1.3	10.8	14%	13%

Source: Company data, CMBIGM estimates

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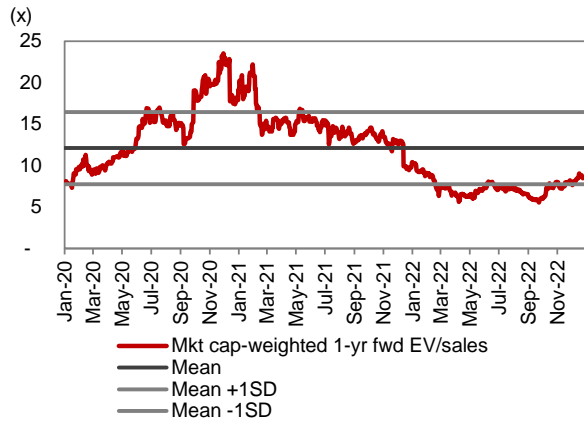
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### Related Reports

1. China Strategy Outlook 2023 "HK Stocks to Rebound as China & US Economies Diverge" – 23 Dec 2022 ([link](#))
2. China Software & IT Services "China IaaS + PaaS growth slowed further in 3Q22" – 11 Nov 2022 ([link](#))
3. China Software & IT Services "Which stocks are less vulnerable to market volatility?" – 29 Sep 2022 ([link](#))

## Focus charts

**Figure 1: China SaaS is trading at 8.8x FY23E EV/sales, 28% below three-year mean**



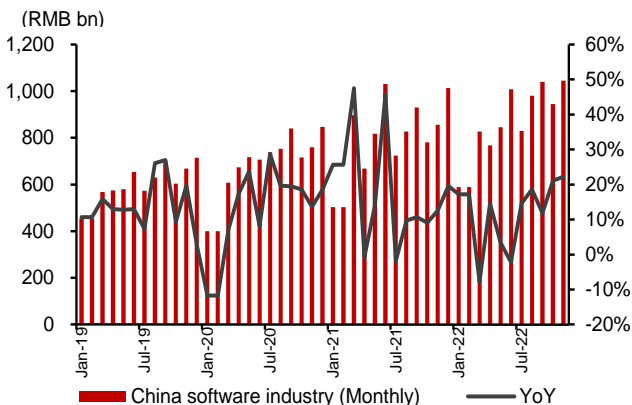
Source: Bloomberg, CMBIGM (China SaaS: 002410 CH, 600588 CH, 268 HK, 909 HK, 3738 HK, 8083 HK, 2013 HK)

**Figure 2: China SaaS outperformed US SaaS since Jan 2023**



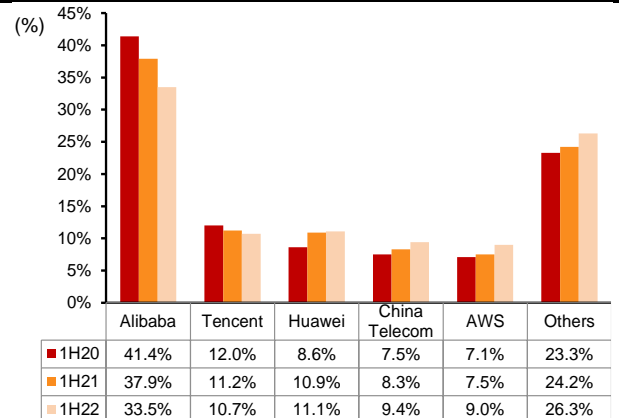
Source: Company data, CMBIGM estimates (US SaaS: MSFT US, ADBE US, CRM US, CRWD US, VEEV US, NET US, SZ US, DDOG US, DBX US, DOCU US, OKTA US, PAYC US, INTU US, NOW US, TWLO US, SPLK US, SHOP US, SNOW US, WDAY US, ZM US, TEAM US)

**Figure 3: China software market back to steady growth**



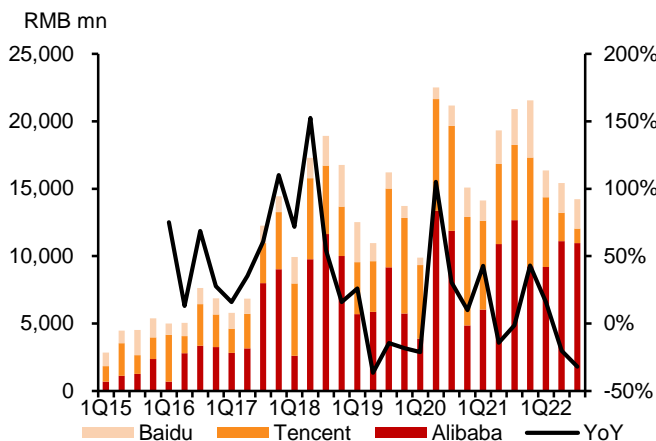
Source: MIIT, CMBIGM

**Figure 4: China IaaS + PaaS market share**



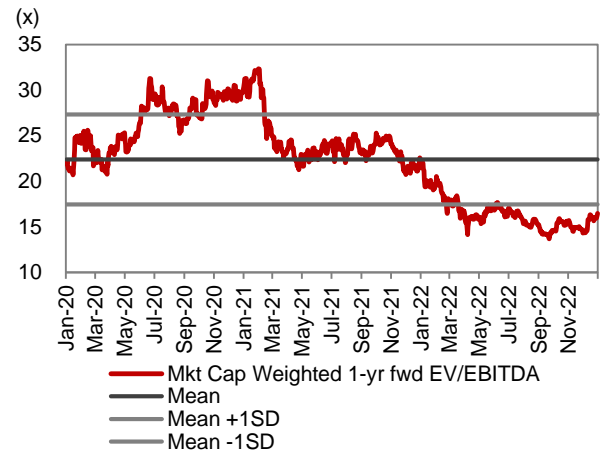
Source: IDC, CMBIGM

**Figure 5: BAT operating capex was down 15% YoY in 9M22**



Source: Company data

**Figure 6: China IDC sector is trading at 16.5x FY23E EV/EBITDA, 27% below three-year mean**



Source: Bloomberg, CMBIGM (China IDC: GDS US, VNET US, CD US, 300383 CH, 600845 CH, 603881 CH)

## Valuation

Figure 7: Peers' valuation

		Price	Market Cap	YTD	EV/sales (x)		P/E		Sales CAGR	EPS CAGR
Company	Ticker	(LC)	(US\$ mn)	(%)	FY22E	FY23E	FY22E	FY23E	FY21-24E	FY21-24E
SaaS										
Glodon	002410 CH	65.40	11,499	7%	11.0	9.0	80.0	58.9	21%	35%
Kingdee	268 HK	17.22	7,641	4%	10.4	8.1	n.a.	n.a.	23%	n.a.
Kingsoft Office	688111 CH	294.68	20,057	7%	32.5	24.5	114.7	82.8	28%	28%
Yonyou	600588 CH	25.32	12,830	1%	8.1	6.6	169.9	99.3	21%	20%
Ming Yuan Cloud	909 HK	7.89	1,974	13%	4.2	3.6	n.a.	n.a.	10%	n.a.
Vobile	3738 HK	4.33	1,171	25%	7.1	5.0	127.4	69.8	60%	n.a.
Youzan	8083 HK	0.25	588	25%	2.3	2.0	n.a.	n.a.	8%	n.a.
Weimob	2013 HK	6.04	2,145	-11%	6.4	5.1	n.a.	n.a.	5%	n.a.
Mean					10.2	8.0	121.7	76.9	22%	28%
Median					7.6	5.8	120.1	75.7	21%	28%
IDC										
GDS	GDS US	22.23	4,236	8%	6.9	6.2	n.a.	n.a.	15%	74%
21Vianet	VNET US	6.30	933	11%	2.5	2.2	n.a.	n.a.	14%	n.a.
ChinData	CD US	8.13	2,983	2%	5.6	4.2	39.3	26.8	37%	78%
Sinnet	300383 CH	9.17	2,433	12%	2.4	2.2	25.1	20.4	4%	n.a.
Baosight	600845 CH	48.26	12,059	6%	5.8	4.6	41.0	31.8	22%	28%
AtHub	603881 CH	28.06	1,362	17%	8.1	6.9	84.5	52.6	19%	30%
Mean					5.2	4.4	47.6	32.9	19%	52%
Median					5.7	4.4	40.0	29.2	17%	52%
AI										
Hikvision	002415 CH	36.79	50,840	1%	3.8	3.4	24.9	20.7	11%	5%
Sensetime	20 HK	2.11	9,019	-4%	9.6	6.9	n.a.	n.a.	28%	n.a.
Dahua	002236 CH	12.59	5,636	9%	1.2	1.1	14.5	12.0	7%	4%
Ainnovation	2121 HK	24.90	1,779	9%	6.9	4.4	n.a.	n.a.	63%	n.a.
China Transinfo	002373 CH	10.11	2,358	12%	1.6	1.3	45.3	29.1	6%	3%
iFlytek	002230 CH	38.61	13,240	8%	4.1	3.2	57.1	39.8	25%	23%
Cambricon Tech	688256 CH	61.00	3,608	7%	22.8	15.3	n.a.	n.a.	42%	n.a.
Arcsoft	688088 CH	25.53	1,530	11%	15.3	11.8	97.1	54.6	24%	29%
Mean					8.1	5.9	47.1	30.8	26%	13%
Median					5.6	3.9	45.2	29.0	24%	5%
IT services										
Chinasoft	354 HK	6.89	2,664	0%	0.6	0.5	16.0	13.0	20%	14%
Asiainfo	1675 HK	13.98	1,659	2%	1.3	1.1	13.0	10.8	13%	14%
Digital China	000034 CH	24.47	2,397	12%	0.2	0.2	15.6	12.8	9%	83%
Mean					0.8	0.7	14.5	12.0	14%	37%
Median					0.8	0.6	14.6	12.2	13%	14%
IaaS + PaaS										
Kingsoft Cloud	KC US	4.56	1,157	19%	0.6	0.5	n.a.	n.a.	3%	n.a.
Ucloud	688158 CH	14.97	1,001	18%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sinnet	300383 CH	9.17	2,433	12%	2.4	2.2	25.1	20.4	4%	n.a.
Mean					1.5	1.4	25.0	20.3	3%	n.a.
Median					1.5	1.4	25.0	20.3	3%	n.a.

Source: Bloomberg, CMBIGM estimates

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