

# Kingdee (268 HK)

## Bidding data implied accelerated software substitution

We expect Kingdee to deliver FY22E revenue of RMB4.8bn (+15% YoY) with net loss widened to RMB395mn (vs. -RMB302mn in FY21). Looking into FY23E, ARR growth recovery, core SaaS product Galaxy profitability improvement and Xinchuang initiative will remain as the key growth drivers. Our recent channel check suggested an accelerating software local substitution trend. Kingdee's total bidding won was up +82%/ +141% YoY in FY22/ FY23 YTD, based on dollar amount. Despite near-term correction pressure after >80% share price rally since Oct 2022, we remain positive on the long-term software substitution trend. Maintain BUY.

- **FY22 preview: Revenue +15% YoY though net loss widened.** We expect Kingdee to deliver FY22 revenue of RMB4.8bn (+15% YoY) with net loss widened to RMB395mn (vs. -RMB302mn in FY21). ARR is expected to grow 33% YoY to RMB2.1bn, below company's prior target of +45-50% YoY. We estimate cloud revenue to grow 32% YoY to RMB3.6bn of which core SaaS product Galaxy will experience moderate growth of +15% YoY as COVID resurgence in FY4Q22 has affected new customer acquisition and ARR. Our FY22 revenue forecast is 5% below consensus.
- **FY23E: focus on ARR recovery, Galaxy profitability improvement and Xinchuang opportunities.** We think Kingdee will focus on quality growth in FY23E and that net loss will narrow to below RMB300mn level. We expect to see ARR growth to pick up (+40% YoY vs. +33% YoY in FY22E). Meanwhile, further improvement in Galaxy OPM to 30% (vs. 20%+ in FY22E) will help offset the margin dilution impact from Xinchuang projects.
- **Bidding data showed accelerating local substitution among large enterprises.** Our recent channel check suggested that ERP is being put in a core direction in the Xinchuang initiative since FY2H22 and that 40,000 gov't-backed enterprises have to submit Xinchuang work plan in 2023. This is in-line with our observation in SOEs/ large enterprise bidding data. In FY22, based on dollar amount, Kingdee's total bidding won was up 82% YoY. FY23 YTD growth is more significant at +141% YoY. These reaffirmed our view that China is accelerating software localization and it gives Kingdee the opportunities to penetrate into SOEs/ large enterprises.
- **Maintain BUY with China's Two Sessions being the near-term catalyst.** We slightly revised down FY22-24E revenue by 1-2% to reflect slower ARR growth. Maintain BUY with new target price of HK\$23.56 (prior HK\$23.83), based on unchanged 11x FY23E EV/sales (in-line with 3-year mean). Despite near-term correction pressure after >80% rally in share price since Oct 2022, we remain positive on the long-term software substitution trend. Key catalyst: technology self-sufficiency to be one of the key focuses in upcoming China's Two Sessions in Mar.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,356	4,174	4,788	5,849	7,031
YoY growth (%)	0.9	24.4	14.7	22.2	20.2
Net profit (RMB mn)	(335.5)	(302.3)	(394.6)	(263.5)	27.4
EPS (Reported) (RMB cents)	(10.12)	(9.23)	(11.37)	(7.59)	0.79
Consensus EPS (RMB cents)	(10.12)	(9.23)	(12.80)	(7.90)	0.00
P/E (x)	na	na	na	na	1761.8
EV/Sales (x)	13.6	11.1	9.6	7.9	6.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(4.9)	(3.9)	(5.3)	(3.7)	0.4
Net gearing (%)	(33.2)	(25.9)	(27.7)	(32.2)	(39.0)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$23.56
(Previous TP)	HK\$23.83)
Up/Downside	41.3%
Current Price	HK\$16.68

### China Software & IT Services

**Marley NGAN**  
(852) 3916 3719  
marleyngan@cmbi.com.hk

**Bowen LI**  
(852) 3761 8957  
libowen@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	57,954.0
Avg 3 mths t/o (HK\$ mn)	16.0
52w High/Low (HK\$)	20.50/9.18
Total Issued Shares (mn)	3474.9

Source: FactSet

### Shareholding Structure

Mr. Xu - Chairman	20.3%
Oriental Tao Limited	11.1%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	0.4%	1.0%
3-mth	31.8%	0.0%
6-mth	3.5%	-4.2%

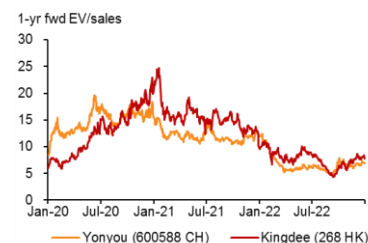
Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Kingdee vs. Yonyou valuation

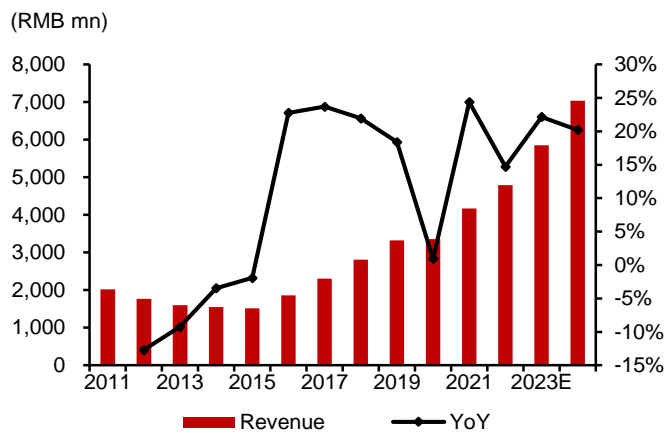


### Related reports

1. Kingdee (268 HK) – "Cloud on track with improved earnings quality" – 22 Aug 2022 ([link](#))
2. China Software & IT Services "Software localization to benefit China ERP" – 27 May 2022 ([link](#))

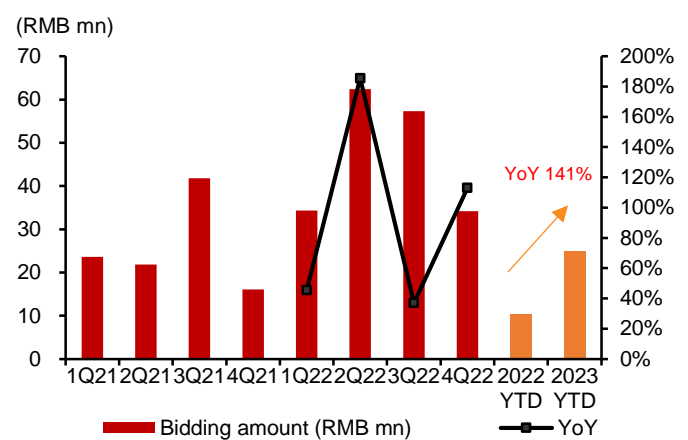
## Focus Charts

**Figure 1: Revenue and growth**



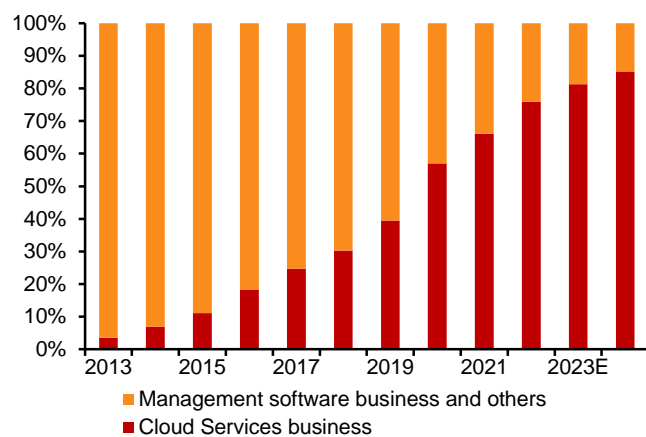
Source: Company data, CMBIGM estimates

**Figure 2: Kingdee bidding won**



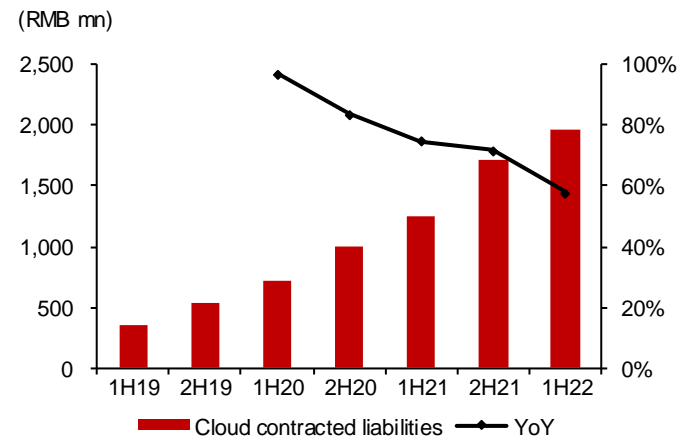
Source: QCC.com, CMBIGM

**Figure 3: Revenue mix**



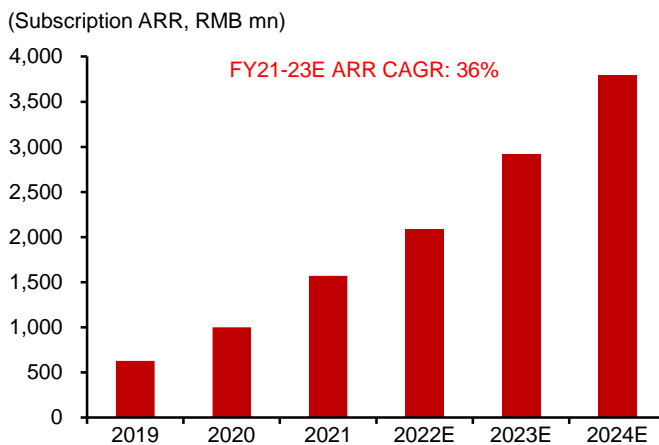
Source: Company data, CMBIGM estimates

**Figure 4: Contracted liabilities**



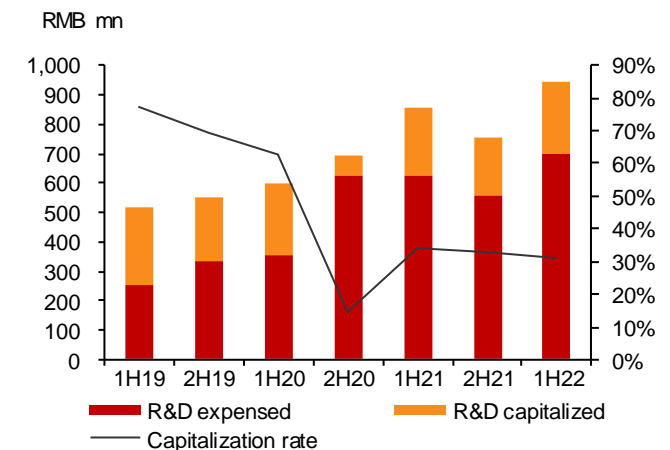
Source: Company data, CMBIGM estimates

**Figure 5: Subscription ARR**



Source: Company data, CMBIGM estimates

**Figure 6: Decreasing R&D capitalization rate**



Source: Company data, CMBIGM estimates

## FY22E preview

Figure 7: Revenue breakdown

RMB mn	2019	2020	2021	2022E	2023E	2024E
<b>Revenue breakdown</b>						
Cloud Services business	1,314	1,912	2,758	3,632	4,751	5,988
Cosmic & Constellation	60	190	385	616	924	1,247
Galaxy	868	1,141	1,418	1,631	1,957	2,309
Others	386	581	955	1,385	1,870	2,431
ERP business	2,012	1,444	1,416	1,156	1,098	1,043
License	980	448	472	354	336	320
Implementation and maintenance	1,066	996	944	802	762	724
<b>Revenue YoY</b>						
Cloud Services business	55%	46%	44%	32%	31%	26%
ERP business	3%	-28%	-2%	-18%	-5%	-5%
Blended	18%	1%	24%	15%	22%	20%
<b>Revenue mix</b>						
Cloud Services business	39%	57%	66%	76%	81%	85%
ERP business	61%	43%	34%	24%	19%	15%
ARR (RMB mn)	630	1,000	1,570	2,088	2,923	3,800
YoY	-	59%	57%	33%	40%	30%

Source: Company data, CMBIGM

## Earnings revision

Figure 8: Earnings revision

RMB mn	2022E			2023E			2024E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	4,788	4,906	-2%	5,849	5,931	-1%	7,031	7,091	-1%
Gross profit	2,990	3,011	-1%	3,622	3,761	-4%	4,398	4,530	-3%
OP Profit	-839	-978	-14%	-650	-616	5%	-313	-304	3%
PBT	-447	-586	-24%	-308	-277	11%	32	37	-13%
Net profit	-395	-513	-23%	-263	-237	11%	27	32	-13%
EPS	-0.11	-0.15	-23%	-0.08	-0.07	11%	0.01	0.01	-13%
<b>Margins</b>									
GM	62.5%	61.4%	109 bps	61.9%	63.4%	-149 bps	62.5%	63.9%	-134 bps
OPM	-17.5%	-19.9%	240 bps	-11.1%	-10.4%	-72 bps	-4.5%	-4.3%	-17 bps
PBT margin	-9.3%	-11.9%	260 bps	-5.3%	-4.7%	-60 bps	0.5%	0.5%	-7 bps
Net margin	-8.2%	-10.5%	222 bps	-4.5%	-4.0%	-51 bps	0.4%	0.4%	-6 bps

Source: Company data, CMBIGM

Figure 9: CMBI estimates vs consensus

RMB mn	2022			2023			2024		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	4,788	5,028	-5%	5,849	6,281	-7%	7,031	7,819	-10%
Gross profit	2,990	3,096	-3%	3,622	3,995	-9%	4,398	5,057	-13%
Operating profit	-839	-683	23%	-650	-444	46%	-313	-133	136%
Profit before tax	-447	-512	-13%	-308	-290	6%	32	23	40%
Core net profit	-395	-422	-7%	-263	-215	23%	27	67	-59%
EPS	-0.11	-0.13	-11%	-0.08	-0.08	-1%	0.01	0.00	97%
<b>Margins</b>									
GM	62.5%	61.6%	87 bps	61.9%	63.6%	-169 bps	62.5%	64.7%	-212 bps
OPM	-17.5%	-13.6%	-394 bps	-11.1%	-7.1%	-404 bps	-4.5%	-1.7%	-276 bps
Profit before tax margin	-9.3%	-10.2%	86 bps	-5.3%	-4.6%	-66 bps	0.5%	0.3%	16 bps
Net margin	-8.2%	-8.4%	15 bps	-4.5%	-3.4%	-108 bps	0.4%	0.9%	-47 bps

Source: Company data, CMBIGM

## Valuation

### Kingdee (268 HK, BUY, TP HK\$23.56)

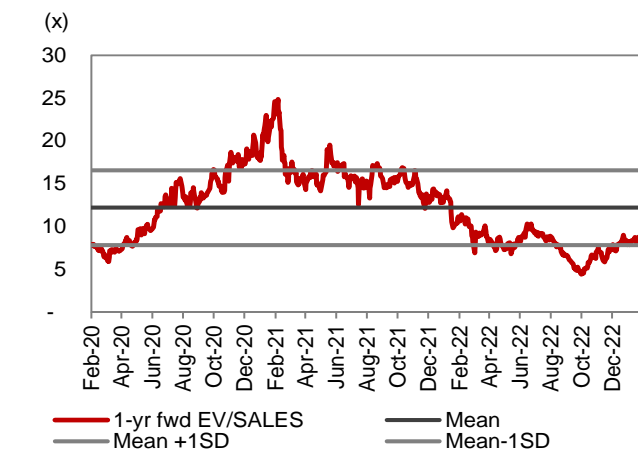
We maintain BUY on Kingdee with new target price of HK\$23.56 (prior HK\$23.83), based on unchanged 11.0x FY23E EV/sales, in-line with its three-year mean.

Figure 10: Kingdee peers valuation comparison

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales (x)		FCF margin (%)		Sales CAGR FY21-24E	EPS CAGR FY21-24E
						FY22E	FY23E	FY22E	FY23E		
Kingdee	268 HK	BUY	7,383	16.68	23.56	9.6	7.9	1%	7%	19%	n.a.
Yonyou	600588 CH	HOLD	12,509	24.87	22.27	8.1	6.6	4%	6%	17%	n.a.
Kingsoft Office	688111 CH	NR	19,587	289.92	n.a.	32.0	24.1	40%	40%	28%	29%
SAP	SAP US	NR	144,165	117.35	n.a.	4.7	4.3	16%	17%	8%	n.a.
Intuit	INTU US	NR	116,168	413.52	n.a.	9.6	8.6	29%	28%	18%	27%
Xero	XRO AU	NR	8,002	76.88	n.a.	11.8	9.0	-7%	2%	26%	63%
Workday	WDAY US	NR	48,020	186.85	n.a.	8.9	7.4	26%	20%	19%	n.a.
ServiceNow	NOW US	NR	93,047	458.36	n.a.	12.6	10.3	29%	30%	22%	114%
Salesforce	CRM US	NR	167,030	167.03	n.a.	6.4	5.5	19%	20%	17%	9%
Mean						11.5	9.3	17%	19%	19%	48%
Median						9.6	7.8	19%	20%	19%	29%

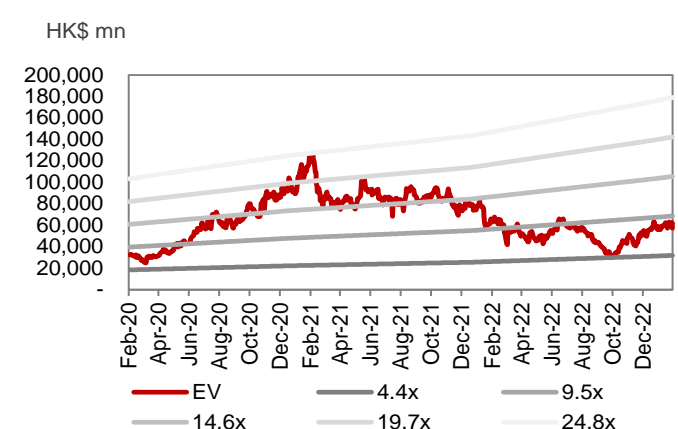
Source: Bloomberg, CMBIGM estimates

Figure 11: Kingdee 12M forward EV/sales chart



Source: Bloomberg, CMBIGM estimates

Figure 12: Kingdee 12M forward EV/sales band



Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	3,326	3,356	4,174	4,788	5,849	7,031
Cost of goods sold	(922)	(1,147)	(1,541)	(1,798)	(2,227)	(2,633)
Gross profit	2,403	2,209	2,634	2,990	3,622	4,398
Operating expenses	(2,347)	(2,823)	(3,392)	(3,830)	(4,272)	(4,711)
Selling expense	(1,374)	(1,425)	(1,741)	(2,009)	(2,124)	(2,324)
Admin expense	(386)	(414)	(466)	(519)	(570)	(618)
R&D expense	(587)	(984)	(1,185)	(1,302)	(1,578)	(1,769)
Operating profit	56	(614)	(758)	(839)	(650)	(313)
Net Interest income/(expense)	5	36	76	66	65	73
Others	335	195	299	326	276	272
Pre-tax profit	396	(383)	(382)	(447)	(308)	32
Income tax	(30)	41	44	18	31	(3)
Minority interest	7	6	36	34	14	(1)
Net profit	373	(335)	(302)	(395)	(263)	27

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	4,241	6,183	4,471	4,787	5,107	5,699
Cash & equivalents	1,899	2,754	2,047	2,384	2,600	3,071
Restricted cash	308	334	392	416	508	611
Prepayment	688	1,236	370	370	370	370
Other current assets	895	1,503	1,339	1,239	1,276	1,295
Contract assets	452	357	323	377	352	351
Non-current assets	4,179	4,539	6,616	6,743	6,954	7,252
PP&E	547	746	1,045	1,084	1,140	1,215
Intangibles	923	786	1,037	1,126	1,280	1,503
Other non-current assets	2,709	3,007	4,534	4,534	4,534	4,534
Current liabilities	1,998	2,599	3,084	3,745	4,567	5,438
Short-term borrowings	200	120	0	99	93	88
Account payables	616	795	759	861	1,014	1,139
Other current liabilities	186	200	160	160	160	160
Contract liabilities	997	1,484	2,165	2,625	3,301	4,052
Non-current liabilities	276	165	200	411	397	387
Long-term borrowings	0	0	0	211	196	187
Other non-current liabilities	276	165	200	200	200	200
Total liabilities	2,274	2,764	3,284	4,156	4,964	5,826
Share capital	80	83	83	83	83	83
Capital surplus	2,963	5,053	5,149	5,149	5,149	5,149
Retained earnings	2,257	1,922	1,619	1,225	961	989
Other reserves	687	732	744	744	744	744
Total shareholders equity	5,987	7,790	7,596	7,202	6,938	6,966
Minority interest	159	169	207	172	158	160
Total equity and liabilities	8,420	10,722	11,087	11,530	12,061	12,951

<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	396	(383)	(382)	(447)	(308)	32
Depreciation & amortization	485	493	439	447	491	545
Tax paid	(30)	41	44	18	31	(3)
Change in working capital	131	364	560	584	725	755
Others	(49)	(1)	44	(52)	(50)	(92)
<b>Net cash from operations</b>	<b>963</b>	<b>473</b>	<b>661</b>	<b>532</b>	<b>858</b>	<b>1,241</b>
<b>Investing</b>						
Capital expenditure	(515)	(353)	(772)	(575)	(702)	(844)
Others	(38)	(1,138)	(433)	70	81	88
<b>Net cash from investing</b>	<b>(553)</b>	<b>(1,491)</b>	<b>(1,205)</b>	<b>(505)</b>	<b>(621)</b>	<b>(755)</b>
<b>Financing</b>						
Dividend paid	(33)	(37)	0	0	0	0
Net borrowings	(102)	(80)	(120)	310	(21)	(14)
Proceeds from share issues	0	2,091	0	0	0	0
Others	167	(9)	(24)	0	0	0
<b>Net cash from financing</b>	<b>33</b>	<b>1,966</b>	<b>(144)</b>	<b>310</b>	<b>(21)</b>	<b>(14)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,453	1,899	2,754	2,047	2,384	2,600
Exchange difference	3	(93)	(19)	0	0	0
<b>Cash at the end of the year</b>	<b>1,899</b>	<b>2,754</b>	<b>2,047</b>	<b>2,384</b>	<b>2,600</b>	<b>3,071</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	18.4%	0.9%	24.4%	14.7%	22.2%	20.2%
Gross profit	4.7%	(8.1%)	19.2%	13.6%	21.1%	21.4%
Operating profit	(11.8%)	na	na	na	na	na
Net profit	(9.6%)	na	na	na	na	na
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	72.3%	65.8%	63.1%	62.5%	61.9%	62.5%
Operating margin	1.7%	(18.3%)	(18.2%)	(17.5%)	(11.1%)	(4.5%)
Return on equity (ROE)	6.5%	(4.9%)	(3.9%)	(5.3%)	(3.7%)	0.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Current ratio (x)	2.1	2.4	1.4	1.3	1.1	1.0
Receivable turnover days	39.4	na	na	na	na	na
Inventory turnover days	1.5	na	na	na	na	na
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	63.3	na	na	na	na	1,761.8
P/B	3.8	6.1	9.3	6.9	7.2	7.2
Div yield (%)	0.2	0.0	0.0	0.0	0.0	0.0
EV	46,574.2	45,639.7	46,226.5	46,199.5	45,962.1	45,476.9
EV/Sales	14.0	13.6	11.1	9.6	7.9	6.5

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



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<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
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## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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