

# Chinasoft (354 HK)

## Shenzhen to provide subsidies in building Harmony/ Euler ecosystem

We think Chinasoft Cloud intelligent services will maintain steady growth as 1) Shenzhen gov't will provide subsidies to software developers/ end users to cultivate Huawei's Harmony/ Euler OS ecosystem and 2) Chinasoft continues to gain share in China managed cloud service market. However, Traditional IT services segment could face slower growth as demand from internet customers softened. Maintain BUY with new target price of HK\$9.87 (prior HK\$10.52).

- **Shenzhen to launch supportive measures to cultivate Harmony/ Euler ecosystem.** Shenzhen gov't released a draft for opinion ([link](#)) related to cultivating Huawei Harmony (IoT devices)/ Euler (Server) ecosystem on 30 Jun. According to the draft, Shenzhen gov't will provide subsidies to software developers/ end users to develop applications /procure devices based on Harmony/ Euler OS. We view this as positive to Chinasoft as it 1) develops kits on Harmony/ Euler OS, 2) provides embedded modules to IoT OEM.
- **Cloud intelligent services: share gainer in managed cloud services market.** According to IDC, China managed cloud services market grew at +26.8% YoY in 2H21 to RMB11.8bn. Chinasoft share climbed to 3.1% in 2H21 (vs. 2.5% in 1H21). Although China cloud outlook has dampened with new Omicron variant, we are positive on new businesses related to Harmony OS/ embedded IoT modules.
- **Traditional IT services: internet customers to be more conservative in IT spending.** We think IT services demand from internet customers could slow given present challenging environment. Alibaba/ Tencent accounted for ~7% of Chinasoft revenue. We think Chinasoft FY22E revenue from Alibaba/ Tencent may come down to +10% YoY (vs. >40% CAGR in the past 3 years). Also, lockdowns/ Omicron spread have added difficulty and caused delays in project implementation.
- **1H22E: Expect steady top line growth but a lower margin.** We expect Chinasoft FY1H22E revenue to grow at +15% YoY to RMB9.6bn. GPM erosion (-1.7 pts to 25.8%) will be partly offset by lower opex. Net profit is estimated to increase 5% YoY to RMB544mn. We cut FY22-24E net profit by 1-8% mainly on lower margin. Maintain BUY with new target price of HK\$9.87 (prior HK\$10.52).

### Earnings Summary

| (YE 31 Dec)         | FY20     | FY21     | FY22E    | FY23E    | FY24E    |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)    | 14,101   | 18,398   | 22,124   | 27,283   | 32,412   |
| YoY growth (%)      | 17%      | 30%      | 20%      | 23%      | 19%      |
| Net profit (RMB mn) | 955      | 1,137    | 1,249    | 1,520    | 1,978    |
| EPS (RMB)           | 0.32     | 0.36     | 0.40     | 0.48     | 0.63     |
| YoY growth (%)      | 13%      | 13%      | 10%      | 22%      | 30%      |
| Consensus EPS (RMB) | 0.32     | 0.36     | 0.44     | 0.56     | 0.70     |
| PE (x)              | 20.2     | 17.9     | 16.3     | 13.4     | 10.3     |
| EV/Sales (x)        | 1.2      | 0.8      | 0.6      | 0.5      | 0.4      |
| Dividend Yield (%)  | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     |
| ROE (%)             | 12%      | 11.1%    | 10.2%    | 11.3%    | 13.1%    |
| Net debt to equity  | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **HK\$9.87**  
 (Previous TP **HK\$10.52**)  
 Up/Downside **+33.7%**  
 Current Price **HK\$7.38**

### 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)        | 22,654      |
| Avg 3 mths t/o (HK\$ mn) | 92.75       |
| 52w High/Low (HK\$)      | 16.21/ 5.26 |
| Total Issued Shares (mn) | 3,070       |

Source: Bloomberg

### Shareholding Structure

|                        |       |
|------------------------|-------|
| Chen Yuhong - Chairman | 10.8% |
| UBS Group AG           | 10.0% |
| ESOP                   | 6.0%  |

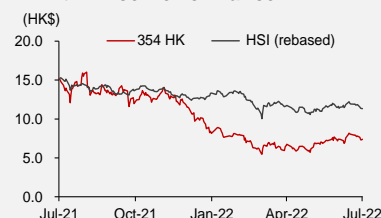
Source: HKEx

### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -0.4%    | 0.9%     |
| 3-mth | 11.8%    | 14.9%    |
| 6-mth | -10.4%   | 5.2%     |

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

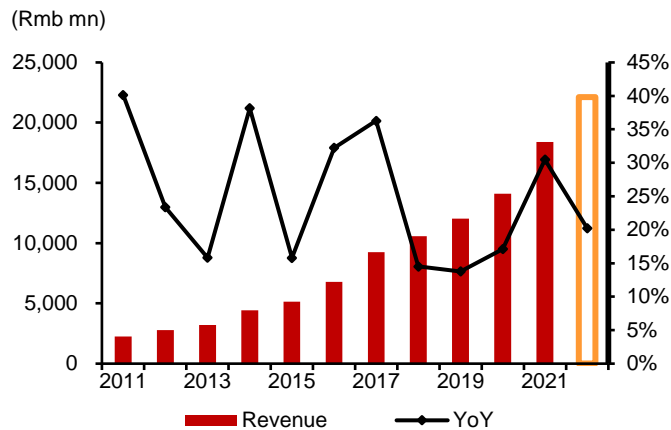
### Auditor: Deloitte

### Related Reports

1. Chinasoft (354 HK) – "Strong demand despite near-term margin pressure" – 30 Mar 2022 ([link](#))
2. Chinasoft (354 HK) – "Business outlook read-through from iSoftStone" – 11 Mar 2022 ([link](#))

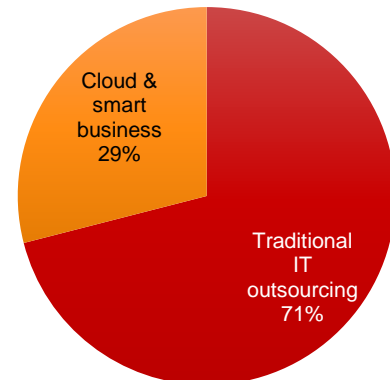
## Focus Charts

**Figure 1: Revenue and growth**



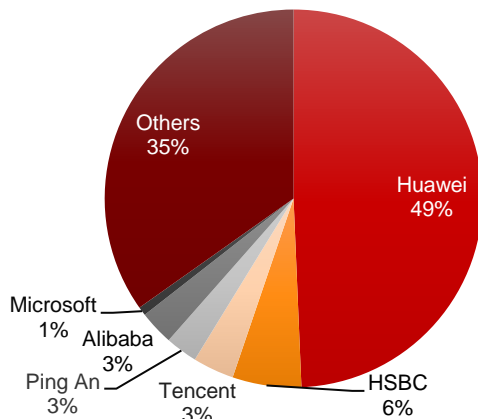
Source: Company data, CMBIGM estimates

**Figure 2: Revenue mix (2021)**



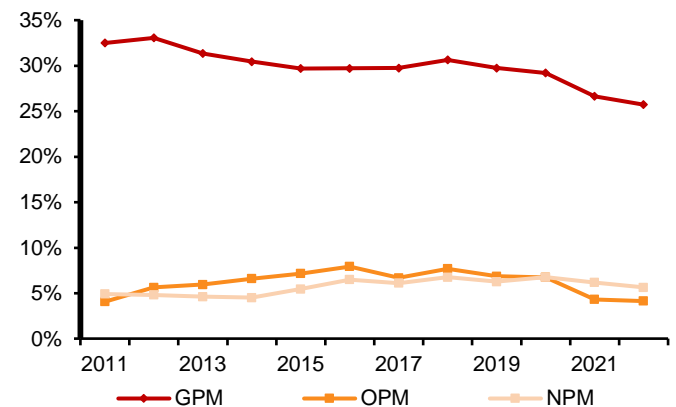
Source: Company data, CMBIGM estimates

**Figure 3: Customer breakdown (2021)**



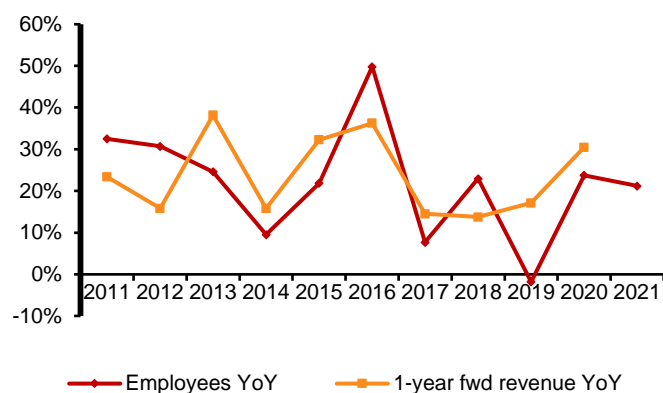
Source: Company data, CMBIGM estimates

**Figure 4: Margins**



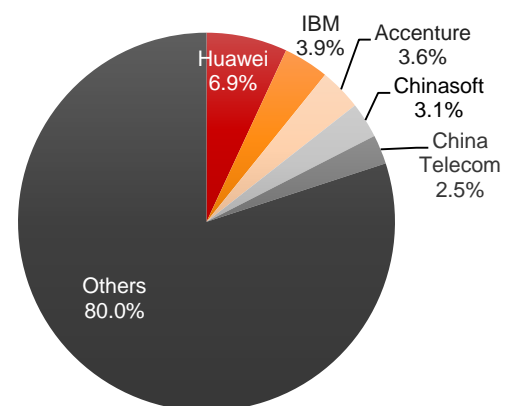
Source: Company data, CMBIGM

**Figure 5: 1-year forward revenue YoY and employees YoY**



Source: Company data, CMBIGM

**Figure 6: China managed cloud services market share (2H21)**



Source: IDC, CMBIGM

## Shenzhen to launch supportive measures in speeding up the building of Harmony ecosystem

### Event

- On 30 Jun, Industry and Information Technology Bureau of Shenzhen Municipality released “Measures to accelerate the cultivation of Harmony Euler ecosystem (draft for opinion)”. ([link](#))
- According to the draft, Shenzhen government will provide subsidies to 1) end users and 2) software developers to accelerate the adoption of HarmonyOS products. Some of the key subsidizing items are listed as below:
  - End users**
    - Encouraging government and SOE to procure Harmony/ Euler products.
    - For projects that are nominated as “excellent demo” in the manufacturing and service industries, Shenzhen government will pay no more than RMB10mn (or 30% of total investment amount) to these enterprises.
  - Software developers**
    - Supporting enterprises and individual developers to contribute source code to Open Harmony/ Euler communities. Top contributors can receive up to RMB1mn reward.
    - Supporting enterprise to develop and sell terminal products (e.g. server, edge computing, embedded IoT devices, cloud services etc.) based on Open Harmony/ Euler OS. Top ranked enterprises will be given a reward up to RMB2.5mn.
    - Provide R&D subsidy up to RMB500k to each of the top ranked applications developed based on Harmony OS.

### Our view

- We were concerned about the commercialization of Harmony OS as developers lack incentives to develop applications on a new OS or port applications from other OS to Harmony OS. Without popular apps, users may not want to use the devices.
- We think Shenzhen government's new initiatives would be effective in cultivating the Harmony OS ecosystem. Developers and end users are both incentivized to use Harmony OS. In particular, government and SOEs in Shenzhen will be encouraged to procure equipment based on Harmony OS.

## Chinasoft servies surrounding Harmony OS

- **Help Huawei develop different types of kits on Harmony OS.** The development cost of each type of kits could range between RMB500k to RMB1mn. If Chinasoft develops 500 kits per year, the related IT service revenue would amount to RMB250mn.
- **Provide embedded modules for IoT OEM.** Chinasoft partners with IoT hardware suppliers to provide embedded modules to OEM such that applications can be easily deployed to Harmony OS smart devices. Chinasoft charges a fixed fee per device deployed. Assuming Chinasoft takes 10% market share of the 100mn non-Huawei smart devices on Harmony OS with each module ASP of RMB10, this will bring RMB100mn revenue opportunity to Chinasoft.
- **Co-develop IoT products with OEM.** Chinasoft can co-develop IoT products with OEM that wishes to use Harmony OS. This could be charged on project based or by fixed fee per device deployed.

## Earnings revision

Figure 7: Earnings revision

|                | 2022E  |        |         | 2023E  |        |          | 2024E  |        |         |
|----------------|--------|--------|---------|--------|--------|----------|--------|--------|---------|
| RMB mn         | New    | Old    | %Diff   | New    | Old    | %Diff    | New    | Old    | %Diff   |
| Sales          | 22,124 | 22,361 | -1%     | 27,283 | 27,133 | 1%       | 32,412 | 31,341 | 3%      |
| Gross profit   | 5,695  | 5,858  | -3%     | 7,044  | 7,246  | -3%      | 8,479  | 8,455  | 0%      |
| OP Profit      | 918    | 1,066  | -14%    | 1,215  | 1,484  | -18%     | 1,621  | 1,868  | -13%    |
| PBT            | 1,347  | 1,362  | -1%     | 1,655  | 1,798  | -8%      | 2,151  | 2,253  | -5%     |
| Net profit     | 1,249  | 1,267  | -1%     | 1,520  | 1,654  | -8%      | 1,978  | 2,074  | -5%     |
| EPS (RMB)      | 0.40   | 0.40   | -1%     | 0.48   | 0.52   | -8%      | 0.63   | 0.66   | -5%     |
| <b>Margins</b> |        |        |         |        |        |          |        |        |         |
| GM             | 25.7%  | 26.2%  | -46 bps | 25.8%  | 26.7%  | -89 bps  | 26.2%  | 27.0%  | -82 bps |
| OPM            | 4.1%   | 4.8%   | -62 bps | 4.5%   | 5.5%   | -101 bps | 5.0%   | 6.0%   | -96 bps |
| PBT margin     | 6.1%   | 6.1%   | 0 bps   | 6.1%   | 6.6%   | -56 bps  | 6.6%   | 7.2%   | -55 bps |
| Net margin     | 5.6%   | 5.7%   | -2 bps  | 5.6%   | 6.1%   | -53 bps  | 6.1%   | 6.6%   | -51 bps |

Source: Company data, CMBIGM

Figure 8: CMBI estimates vs consensus

|                | 2022E  |        |          | 2023E  |        |          | 2024E  |        |          |
|----------------|--------|--------|----------|--------|--------|----------|--------|--------|----------|
| RMB mn         | CMBI   | Street | Diff     | CMBI   | Street | Diff     | CMBI   | Street | Diff     |
| Sales          | 22,124 | 22,565 | -2%      | 27,283 | 27,844 | -2%      | 32,412 | 33,826 | -4%      |
| Gross profit   | 5,695  | 6,070  | -6%      | 7,044  | 7,550  | -7%      | 8,479  | 9,218  | -8%      |
| OP Profit      | 918    | 1,267  | -28%     | 1,215  | 1,667  | -27%     | 1,621  | 2,181  | -26%     |
| PBT            | 1,347  | 1,440  | -6%      | 1,655  | 1,804  | -8%      | 2,151  | 2,258  | -5%      |
| Net profit     | 1,249  | 1,344  | -7%      | 1,520  | 1,665  | -9%      | 1,978  | 2,091  | -5%      |
| EPS (RMB)      | 0.40   | 0.44   | -10%     | 0.48   | 0.55   | -12%     | 0.63   | 0.67   | -7%      |
| <b>Margins</b> |        |        |          |        |        |          |        |        |          |
| GM             | 25.7%  | 26.9%  | -116 bps | 25.8%  | 27.1%  | -130 bps | 26.2%  | 27.3%  | -109 bps |
| OPM            | 4.1%   | 5.6%   | -147 bps | 4.5%   | 6.0%   | -153 bps | 5.0%   | 6.4%   | -145 bps |
| PBT margin     | 6.1%   | 6.4%   | -29 bps  | 6.1%   | 6.5%   | -41 bps  | 6.6%   | 6.7%   | -4 bps   |
| Net margin     | 5.6%   | 6.0%   | -31 bps  | 5.6%   | 6.0%   | -41 bps  | 6.1%   | 6.2%   | -8 bps   |

Source: Company data, CMBIGM

**Figure 9: Operating model**

| RMB mn                     | 2020         | 2021         | 2022E        | 2023E        | 2024E        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenues                   | 14,101       | 18,398       | 22,124       | 27,283       | 32,412       |
| Cost of sales              | (9,983)      | (13,494)     | (16,428)     | (20,238)     | (23,933)     |
| Gross Profit               | 4,118        | 4,904        | 5,695        | 7,044        | 8,479        |
| <i>Gross margin</i>        | <i>29.2%</i> | <i>26.7%</i> | <i>25.7%</i> | <i>25.8%</i> | <i>26.2%</i> |
| R&D                        | (930)        | (1,249)      | (1,553)      | (1,853)      | (2,226)      |
| SG&A                       | (2,031)      | (2,699)      | (2,945)      | (3,688)      | (4,359)      |
| Operating Income           | 952          | 796          | 918          | 1,215        | 1,621        |
| <i>Operating margin</i>    | <i>6.7%</i>  | <i>4.3%</i>  | <i>4.1%</i>  | <i>4.5%</i>  | <i>5.0%</i>  |
| Non-Operating Income       | 83           | 456          | 429          | 440          | 530          |
| Profit Before Tax          | 1,035        | 1,252        | 1,347        | 1,655        | 2,151        |
| Income tax (expense) gain  | (87)         | (115)        | (102)        | (137)        | (177)        |
| Minorities                 | (7)          | (0)          | (4)          | (3)          | (4)          |
| Net Income to Shareholders | 955          | 1,137        | 1,249        | 1,520        | 1,978        |
| <i>Net margin</i>          | <i>6.8%</i>  | <i>6.2%</i>  | <i>5.6%</i>  | <i>5.6%</i>  | <i>6.1%</i>  |
| EPS (RMB)                  | 0.33         | 0.37         | 0.40         | 0.48         | 0.63         |
| Fully diluted EPS (RMB)    | 0.32         | 0.36         | 0.40         | 0.48         | 0.63         |
| <b>Revenue breakdown</b>   |              |              |              |              |              |
| IT outsourcing             | 10,830       | 13,063       | 14,761       | 16,975       | 19,012       |
| Emerging cloud business    | 3,271        | 5,335        | 7,363        | 10,308       | 13,400       |
| Huawei                     | 8,030        | 9,880        | 11,362       | 12,839       | 14,508       |
| HSBC                       | 830          | 1,180        | 1,180        | 1,180        | 1,180        |
| Tencent                    | 500          | 706          | 741          | 890          | 1,067        |
| Alibaba                    | 400          | 590          | 620          | 805          | 1,047        |
| Ping An                    | 450          | 550          | 660          | 792          | 950          |
| Others                     | 3,891        | 5,492        | 7,561        | 10,777       | 13,659       |
| <b>Growth YoY</b>          |              |              |              |              |              |
| Revenues                   | 17%          | 30%          | 20%          | 23%          | 19%          |
| Gross profit               | 15%          | 19%          | 16%          | 24%          | 20%          |
| Operating Income           | 15%          | -16%         | 15%          | 32%          | 33%          |
| EPS                        | 7%           | 13%          | 7%           | 22%          | 30%          |

Source: Company data, CMBIGM estimates

**Figure 10: Semi-annual operating model**

| RMB mn              | 1H20  | 2H20  | 1H21  | 2H21   | 1H22E | 2H22E  |
|---------------------|-------|-------|-------|--------|-------|--------|
| Revenues            | 6,059 | 8,042 | 8,341 | 10,057 | 9,624 | 12,500 |
| Gross Profit        | 1,649 | 2,469 | 2,294 | 2,610  | 2,483 | 3,212  |
| Operating profit    | 421   | 531   | 423   | 374    | 443   | 475    |
| Net profit (loss)   | 401   | 554   | 518   | 619    | 544   | 705    |
| EPS (RMB)           | 0.16  | 0.19  | 0.19  | 0.20   | 0.18  | 0.22   |
| <b>Margins</b>      |       |       |       |        |       |        |
| Gross margin        | 27.2% | 30.7% | 27.5% | 26.0%  | 25.8% | 25.7%  |
| Operating margin    | 6.9%  | 6.6%  | 5.1%  | 3.7%   | 4.6%  | 3.8%   |
| Net margin          | 6.6%  | 6.9%  | 6.2%  | 6.2%   | 5.7%  | 5.6%   |
| <b>Growth (HoH)</b> |       |       |       |        |       |        |
| Revenues            | -7%   | 33%   | 4%    | 21%    | -4%   | 30%    |
| Gross Profit        | -18%  | 50%   | -7%   | 14%    | -5%   | 29%    |
| Operating profit    | 5%    | 26%   | -20%  | -12%   | 18%   | 7%     |
| Net profit (loss)   | 2%    | 38%   | -6%   | 20%    | -12%  | 30%    |
| <b>Growth (YoY)</b> |       |       |       |        |       |        |
| Revenues            | 9%    | 24%   | 38%   | 25%    | 15%   | 24%    |
| Gross Profit        | 5%    | 22%   | 39%   | 6%     | 8%    | 23%    |
| Operating profit    | -1%   | 32%   | 0%    | -30%   | 5%    | 27%    |
| Net profit (loss)   | 11%   | 41%   | 29%   | 12%    | 5%    | 14%    |

Source: Company data, CMBIGM estimates

## Valuation

### Chinasoft (354 HK, BUY, TP HK\$9.87)

We cut FY22-23E net profit by 1-8% mainly to reflect lower margins. Maintain BUY with lowered target price of HK\$9.87 (prior HK\$10.52), based on 18x FY23E fully diluted EPS. Our target multiple implies 30% premium to past three years mean as margin improvement in FY23-24E should drive re-rating.

Figure 11: Peers' valuation

| Company          | Ticker    | Rating | Mk Cap<br>(US\$ mn) | Price<br>(LC) | TP<br>(LC) | P/E<br>FY22E | P/E<br>FY23E | ROE<br>FY22E | ROE<br>FY23E | Sales<br>CAGR<br>FY21-24E | EPS<br>CAGR<br>FY21-24E |
|------------------|-----------|--------|---------------------|---------------|------------|--------------|--------------|--------------|--------------|---------------------------|-------------------------|
| Chinasoft        | 354 HK    | BUY    | BUY                 | 2,894         | 9.87       | 16.3         | 13.4         | 10.2         | 11.3         | 21%                       | 15%                     |
| iSoftStone       | 301236 CH | NR     | NR                  | 3,314         | 35.10      | N/A          | n.a.         | n.a.         | n.a.         | n.a.                      | n.a.                    |
| Digital China    | 000034 CH | NR     | NR                  | 1,491         | 15.18      | N/A          | n.a.         | n.a.         | n.a.         | n.a.                      | n.a.                    |
| Infosys          | INFO IN   | NR     | NR                  | 76,231        | 1444.45    | N/A          | 27.1         | 24.2         | 30.1         | 31%                       | 9%                      |
| Tata Consultancy | TCS IN    | NR     | NR                  | 139,462       | 3038.75    | N/A          | 29.1         | 26.4         | 41.2         | 44%                       | 8%                      |
| Mean             |           |        |                     |               |            | 27.3         | 22.8         | 23.4         | 25.3         | 15%                       | 20%                     |
| Median           |           |        |                     |               |            | 27.6         | 23.1         | 21.6         | 23.2         | 13%                       | 21%                     |

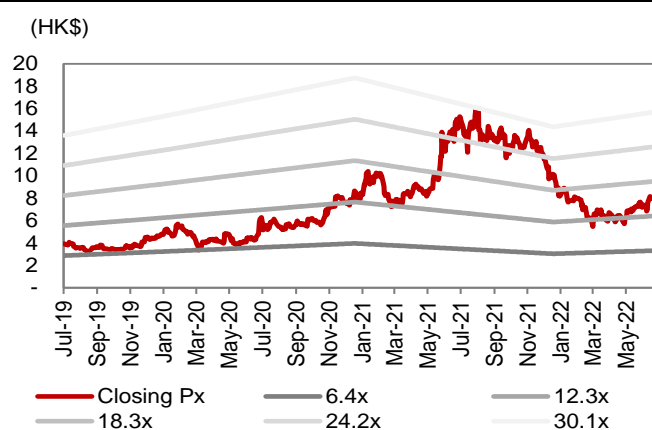
Source: Bloomberg, CMBIGM

Figure 12: 12M forward P/E band



Source: Company data, CMBIGM

Figure 13: 12M forward P/B band



Source: Company data, CMBIGM



## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)                | FY20A         | FY21A         | FY22E         | FY23E         | FY24E         |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>                    | <b>14,101</b> | <b>18,398</b> | <b>22,124</b> | <b>27,283</b> | <b>32,412</b> |
| Cost of sales                     | (9,983)       | (13,494)      | (16,428)      | (20,238)      | (23,933)      |
| <b>Gross profit</b>               | <b>4,118</b>  | <b>4,904</b>  | <b>5,695</b>  | <b>7,044</b>  | <b>8,479</b>  |
| Selling exp                       | (729)         | (943)         | (1,083)       | (1,336)       | (1,587)       |
| Admin exp                         | (1,302)       | (1,756)       | (1,862)       | (2,353)       | (2,772)       |
| R&D exp                           | (930)         | (1,249)       | (1,553)       | (1,853)       | (2,226)       |
| Other operating exp.              | (205)         | (159)         | (280)         | (289)         | (273)         |
| <b>Operating profit</b>           | <b>952</b>    | <b>796</b>    | <b>918</b>    | <b>1,215</b>  | <b>1,621</b>  |
| Finance costs                     | (151)         | (100)         | (87)          | (84)          | (94)          |
| Other non-oper exp.               | 235           | 555           | 517           | 523           | 624           |
| <b>Pre-tax profit</b>             | <b>1,035</b>  | <b>1,252</b>  | <b>1,347</b>  | <b>1,655</b>  | <b>2,151</b>  |
| Income tax expense                | (87)          | (115)         | (102)         | (137)         | (177)         |
| Minority interests                | (7)           | (0)           | (4)           | (3)           | (4)           |
| <b>Net profit to shareholders</b> | <b>955</b>    | <b>1,137</b>  | <b>1,249</b>  | <b>1,520</b>  | <b>1,978</b>  |

### Cash flow summary

| YE 31 Dec (RMB mn)                 | FY20A        | FY21A        | FY22E        | FY23E        | FY24E        |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net profit</b>                  | <b>1,035</b> | <b>1,252</b> | <b>1,347</b> | <b>1,655</b> | <b>2,151</b> |
| Depreciation/amortization          | 170          | 221          | 118          | 112          | 116          |
| Change in working capital          | (533)        | (887)        | 667          | (782)        | (989)        |
| Others                             | 480          | 376          | (102)        | (137)        | (177)        |
| <b>Net cash from operating</b>     | <b>1,153</b> | <b>962</b>   | <b>2,030</b> | <b>847</b>   | <b>1,101</b> |
| Capex                              | (159)        | (287)        | (150)        | (150)        | (150)        |
| Others                             | (32)         | (242)        | (43)         | (42)         | (40)         |
| <b>Net cash from investing</b>     | <b>(192)</b> | <b>(530)</b> | <b>(193)</b> | <b>(192)</b> | <b>(190)</b> |
| Net borrowings                     | 217          | 173          | (27)         | 232          | 290          |
| Dividend paid                      | -            | -            | (94)         | (114)        | (147)        |
| Others                             | 145          | 1,204        | 4            | 3            | 4            |
| <b>Net cash from financing</b>     | <b>362</b>   | <b>1,377</b> | <b>(117)</b> | <b>121</b>   | <b>147</b>   |
| <b>Net change in cash</b>          | <b>1,323</b> | <b>1,810</b> | <b>1,720</b> | <b>777</b>   | <b>1,058</b> |
| Cash at beginning of the year      | 2,526        | 3,787        | 5,556        | 7,591        | 8,409        |
| Exchange difference                | (62)         | (40)         | 315          | 42           | 40           |
| <b>Cash at the end of the year</b> | <b>3,787</b> | <b>5,556</b> | <b>7,591</b> | <b>8,409</b> | <b>9,507</b> |

### Balance sheet

| YE 31 Dec (RMB mn)                  | FY20A         | FY21A         | FY22E         | FY23E         | FY24E         |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Current assets</b>               | <b>10,394</b> | <b>13,520</b> | <b>14,868</b> | <b>17,046</b> | <b>19,835</b> |
| Cash & equivalents                  | 3,787         | 5,556         | 7,591         | 8,409         | 9,507         |
| Account receivables                 | 4,580         | 5,894         | 5,323         | 6,345         | 7,626         |
| Amount due from customers           | 1,904         | 1,741         | 1,585         | 1,885         | 2,249         |
| Other current assets                | 123           | 328           | 368           | 407           | 453           |
| <b>Non-current assets</b>           | <b>2,693</b>  | <b>3,383</b>  | <b>3,143</b>  | <b>3,181</b>  | <b>3,215</b>  |
| PPE                                 | 858           | 1,220         | 1,024         | 1,104         | 1,178         |
| Intangible assets                   | 1,086         | 1,037         | 993           | 951           | 911           |
| Other non-current assets            | 749           | 1,126         | 1,126         | 1,126         | 1,126         |
| <b>Total assets</b>                 | <b>13,087</b> | <b>16,902</b> | <b>18,011</b> | <b>20,227</b> | <b>23,050</b> |
| <b>Current liabilities</b>          | <b>2,718</b>  | <b>3,986</b>  | <b>4,060</b>  | <b>4,761</b>  | <b>5,617</b>  |
| ST borrowings                       | 368           | 917           | 1,012         | 1,135         | 1,288         |
| Account payables                    | 1,753         | 2,252         | 2,770         | 3,293         | 3,928         |
| Accrued expense                     | 117           | 181           | 0             | 0             | 0             |
| Other current liabilities           | 480           | 635           | 279           | 333           | 400           |
| <b>Non-current liabilities</b>      | <b>1,592</b>  | <b>1,290</b>  | <b>1,169</b>  | <b>1,279</b>  | <b>1,415</b>  |
| LT borrowings                       | 1,421         | 1,021         | 900           | 1,009         | 1,146         |
| Other non-current liabilities       | 171           | 269           | 269           | 269           | 269           |
| <b>Total liabilities</b>            | <b>4,311</b>  | <b>5,276</b>  | <b>5,229</b>  | <b>6,039</b>  | <b>7,032</b>  |
| Share capital                       | 132           | 139           | 139           | 139           | 139           |
| Capital surplus                     | 4,735         | 6,294         | 6,294         | 6,294         | 6,294         |
| Retained earnings                   | 4,492         | 5,760         | 6,916         | 8,322         | 10,152        |
| Other reserves                      | -605          | -589          | -589          | -589          | -589          |
| Minority interest                   | 23            | 23            | 23            | 23            | 23            |
| <b>Total equity</b>                 | <b>8,776</b>  | <b>11,627</b> | <b>12,782</b> | <b>14,188</b> | <b>16,019</b> |
| <b>Total liabilities and equity</b> | <b>13,087</b> | <b>16,902</b> | <b>18,011</b> | <b>20,227</b> | <b>23,050</b> |

### Key ratios

| YE 31 Dec                          | FY20A    | FY21A    | FY22E    | FY23E    | FY24E    |
|------------------------------------|----------|----------|----------|----------|----------|
| <b>Revenue mix</b>                 |          |          |          |          |          |
| Emerging cloud business            | 17%      | 23%      | 29%      | 33%      | 38%      |
| Traditional IT outsourcing         | 83%      | 77%      | 71%      | 67%      | 62%      |
| <b>Growth (%)</b>                  |          |          |          |          |          |
| Revenue                            | 17%      | 30%      | 20%      | 23%      | 19%      |
| Gross profit                       | 15%      | 19%      | 16%      | 24%      | 20%      |
| Operating profit                   | 15%      | -16%     | 15%      | 32%      | 33%      |
| Net profit                         | 26%      | 19%      | 10%      | 22%      | 30%      |
| <b>Profit &amp; loss ratio (%)</b> |          |          |          |          |          |
| Gross margin                       | 29.2%    | 26.7%    | 25.7%    | 25.8%    | 26.2%    |
| Operating margin                   | 6.7%     | 4.3%     | 4.1%     | 4.5%     | 5.0%     |
| Net profit margin                  | 6.8%     | 6.2%     | 5.6%     | 5.6%     | 6.1%     |
| <b>Balance sheet ratio</b>         |          |          |          |          |          |
| Receivable turnover days           | 117      | 115      | 87       | 84       | 85       |
| Amount due days                    | 49       | 34       | 26       | 25       | 25       |
| Payable turnover days              | 63       | 60       | 61       | 59       | 59       |
| Current ratio (x)                  | 3.82     | 3.39     | 3.66     | 3.58     | 3.53     |
| Net debt to equity                 | net cash | net cash | net cash | net cash | net cash |
| <b>Profitability (%)</b>           |          |          |          |          |          |
| ROE                                | 12.5%    | 11.1%    | 10.2%    | 11.3%    | 13.1%    |
| ROIC                               | 13.5%    | 10.1%    | 11.8%    | 15.6%    | 18.4%    |
| <b>Per share data (RMB)</b>        |          |          |          |          |          |
| EPS (RMB)                          | 0.32     | 0.36     | 0.40     | 0.48     | 0.63     |
| DPS (RMB)                          | 0.03     | 0.03     | 0.03     | 0.04     | 0.05     |
| BVPS (RMB)                         | 2.93     | 3.68     | 4.05     | 4.49     | 5.07     |

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

|                       |   |
|-----------------------|---|
| <b>BUY</b>            | : Stock with potential return of over 15% over next 12 months                                       |
| <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         |

## CMB International Global Markets Limited

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

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.