

# Ming Yuan Cloud (909 HK)

## In a sweet spot

MYC stock price was down 7% last Fri and mgmt. hosted a business update call after market close. Key highlights include: 1) 1Q21 revenue growth is well above target, 2) SaaS CRM Cloud ARPU is increasing and will maintain positive net margin in FY21E and 3) ERP operational analytic system demand is strong with “three red lines” policy. We like MYC for its high growth, profitable SaaS and consistently positive free cash flow. Maintain BUY.

- 1Q21 revenue target overachieved.** Management reiterated its three-year growth target, i.e. SaaS +50% CAGR/ ERP +15% CAGR during the conference call and 1Q21 revenue growth is well above its guidance, especially for ERP segment.
- SaaS – CRM Cloud ARPU increasing, Construction Cloud nearly breakeven.** MYC SaaS core product – CRM Cloud (77% of MYC FY20 SaaS revenue) ARPU has further upside as property sales office sales & marketing budget should be at RMB10mn level while spending on MYC CRM Cloud is only at RMB40k in FY20. There are already over 100 property sales offices paying >RMB300k for CRM Cloud in FY20. Construction Cloud will be the growth focus this year and is nearly at breakeven point. Overall SaaS net profit is expected to maintain at positive level in FY21E (SaaS net margin turned positive at 2.1% in FY20).
- ERP – Demand is strong as new financing rule being implemented in 4Q20.** ERP operational analytic system demand is strong as property developers are required to report operational data to regulators monthly since the implementation of “three red lines” in 4Q20. Top 100 property developers ARPU increased to RMB6.1mn in 2020. Meanwhile MYC won two key customers in 1Q21 for ERP PaaS with contract size over RMB10mn level. For margin, FY21 net margin will be maintained at around 35% level.
- Maintain BUY.** We have not changed our FY21-23E earnings forecast. Maintain BUY with target price of HK\$44.75, based on 22x FY22E P/S (40% above peers) given stronger FY20-23E EPS growth (MYC 41% vs. peers 31%). MYC share price has corrected by nearly 50% from its peak in Feb 2021 and we believe the stock is oversold. MYC is a rare China SaaS company that 1) SaaS is growing at 50% CAGR, 2) SaaS is profitable, and 3) consistently positive free cash flow with 40% payout.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	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	0.22	0.25	0.36	0.53
PE (x)	171.9	115.6	108.6	76.7	53.6
PS (x)	39.4	29.2	20.5	15.3	11.5
Dividend Yield (%)	0.00	0.00	0.00	0.01	0.01
ROE (%)	28%	-33%	28%	23%	22%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$44.75
(Previous TP)	HK\$44.75)
Up/Downside	+43.7%
Current Price	HK\$31.15

### China Software & IT Services

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#### Stock Data

Mkt Cap (HK\$ mn)	60,031
Avg 3 mths t/o (HK\$ mn)	369.25
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%

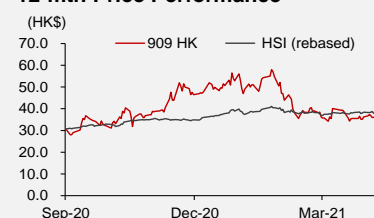
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-16.5%	-15.6%
3-mth	-33.3%	-31.7%
6-mth	-17.2%	-25.6%

Source: Bloomberg

#### 12-mth Price Performance

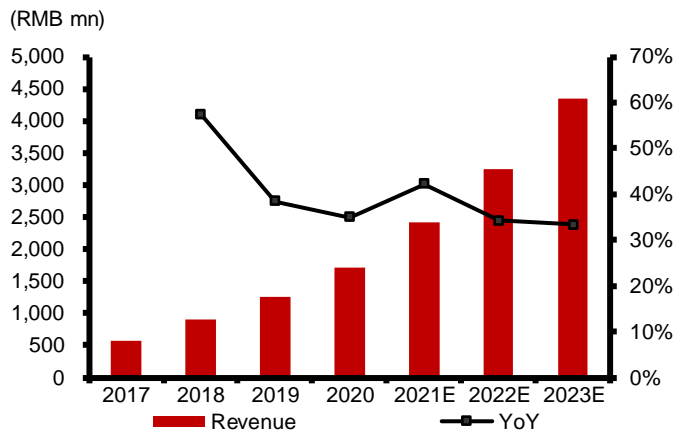


Source: Bloomberg

Auditor: PwC

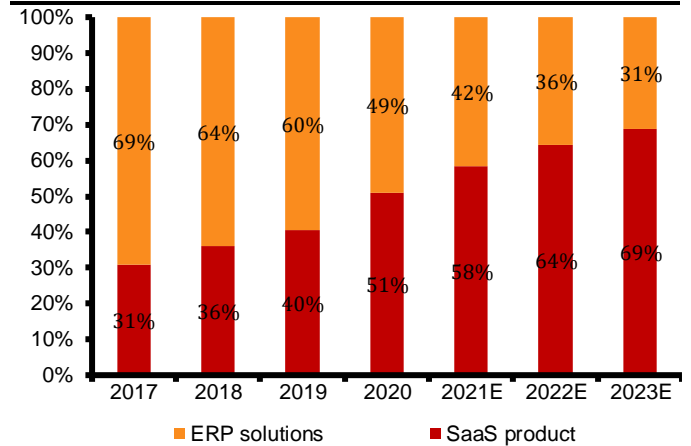
## Focus Charts

**Figure 1: Revenue and growth**



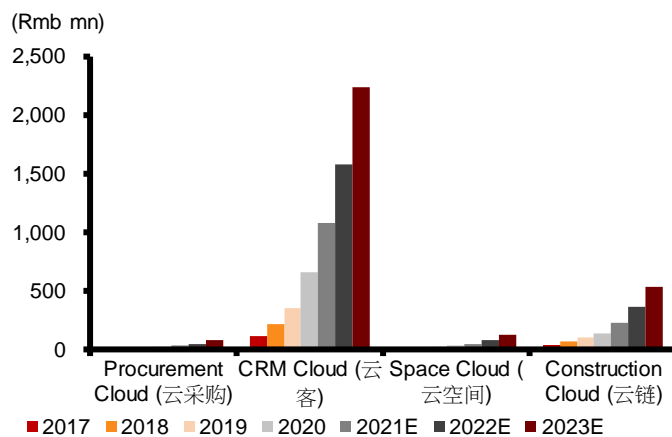
Source: Company data

**Figure 2: Revenue breakdown**



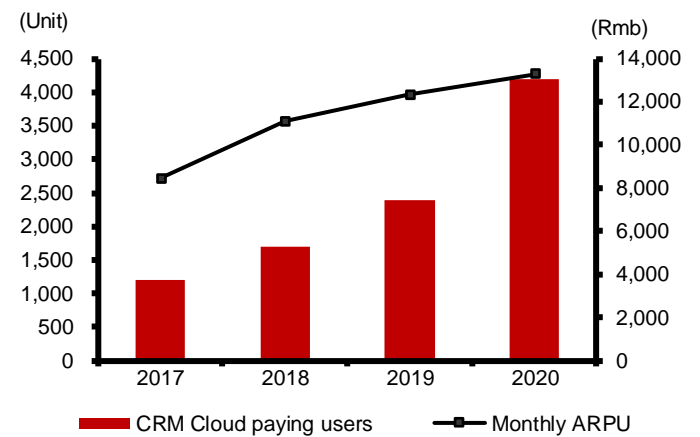
Source: Company data

**Figure 3: SaaS revenue breakdown**



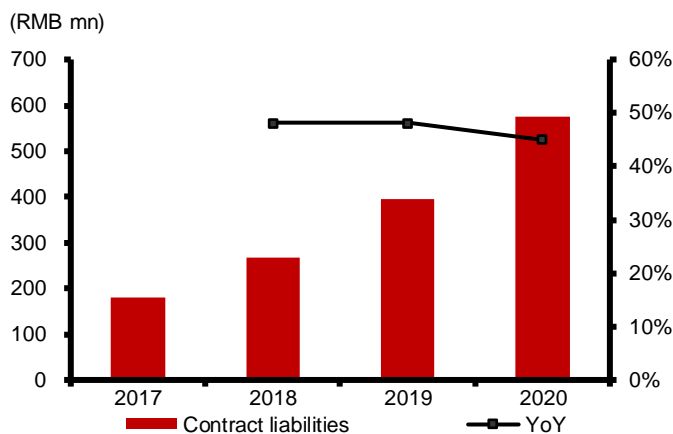
Source: Company data

**Figure 4: CRM Cloud paying users and ARPU**



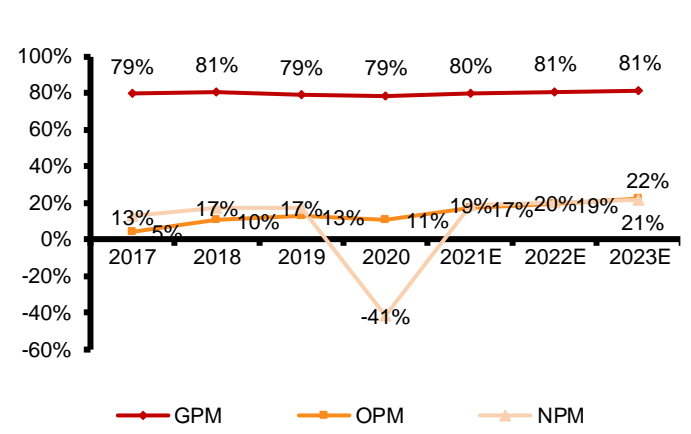
Source: Company data

**Figure 5: SaaS contract liabilities**



Source: Company data

**Figure 6: Margins**



Source: Company data

## Conference call key takeaways

### 1Q21 revenue target overachieved

1Q21 is well above initial guidance for both SaaS and ERP segments. Management reiterated there is no change to company's three-year revenue growth target:

- SaaS to grow at 50% CAGR
- ERP to grow at 15% CAGR

### SaaS – CRM Cloud ARPU upside

- **CRM Cloud:** There is still **upside in CRM Cloud ARPU** as it has become the sales & marketing budget for property developers, which is less tight compared to IT budget. Sales & Marketing budget for each property sales office is around 2.5-3.5% of new property sales, so each property sales office should have sales & marketing budget >RMB10mn while MYC CRM Cloud revenue per property office was only RMB40k in 2020.
- In 2020, there were property sales office spending over RMB1mn on MYC CRM Cloud service and there were over 100 property sales office paying RMB300k above to MYC.
- **Construction Cloud:** Construction Cloud will be the key focus of MYC this year with increase no. of construction site coverage. **Construction Cloud business is nearly at breakeven point.**
- SaaS is expected to maintain **positive net profit margin in 2021.**

### ERP – Demand is strong with new financing rule

- **Demand for Operational Analytic System is strong.** The system provides real-time analysis about property developers' financial position, such as profitability, cash flow and operating leverage. This is particularly useful as **property developers are required to report operational data to regulators every month** since the implementation of new financing rules "three red lines" in 4Q20.
- ARPU from Top 100 property developers has increased from RMB3.1mn to RMB6.1mn in 2020.
- Private cloud ERP solution was launched in 2019, over 50% of 1Q21 ERP sales is cloud-based. There will be small upgrade to cloud ERP every half year and 15% of the license fee will be used as upgrading fee. Cloud ERP price is the same as traditional ERP system but implementation cycle is shorter.
- Expected to **maintain ERP net profit margin at around 35%.** Shorter implementation cycle will not significantly improve gross margin. Gross margin is more depending on direct vs. channel sales mix.
- ERP PaaS launched in 4Q20 helps property developers to accelerate application development. There are less than 10 customers using ERP PaaS but won 2 large customers' in 1Q21 with contract size over RMB10mn each.

## Shareholders structure

Figure 7: Operating model

Shareholders	No. of shares (mn)	Holdings
Mr. Gao - Chairman	395.5	21%
Mr. Chen - Vice President	296.6	15%
Mr. Jiang - CEO	186.8	10%
Mr. Yao - Vice President	48.3	3%
Employees	292.6	15%
Share option scheme	74.8	4%
Beijing Chenchuang	111.9	6%
Profitech	70.1	4%
Glodon	20.0	1%
Hillhouse	44.4	2%
GIC	25.8	1%
China Structural Reform Fund	25.8	1%
Sequoia Capital China Growth	15.5	1%
Blackrock	15.5	1%
Fidelity International	15.5	1%
Public	287.7	15%
<b>Total</b>	<b>1,927.1</b>	<b>100%</b>

Source: Company data, CMBIS

## Operating model

Figure 8: Operating model

RMB m	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
<b>Revenue breakdown</b>					
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
<b>Gross margin breakdown</b>					
SaaS product	91%	87%	86%	87%	87%
ERP solutions	70%	70%	70%	70%	70%
<b>Growth YoY</b>					
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 estimates

**Figure 9: 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
<b>Margins</b>						
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%
<b>Growth (HoH)</b>						
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%
<b>Growth (YoY)</b>						
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 estimates

## Valuation

### MYC (909 HK, BUY, TP HK\$44.75)

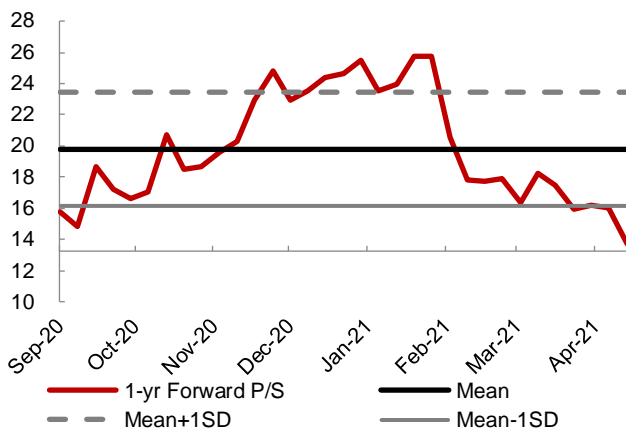
We derived our target price of HK\$44.75 on 22x FY22E P/S, 40% above SaaS peers of 15.6x FY22E as we believe MYC deserves premium given higher EPS growth (FY20-23E MYC: 42% vs. peers 31%). We use P/S as the valuation methodology as earnings cannot reflect operating profitability during SaaS ramp-up stage as operating leverage is not obvious with high S&M and R&D cost.

Figure 10: 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	7,729	31.15	44.75	20.5	15.3	23%	22%	37%	41%	
Glodon	002410 CH	BUY	12,541	68.19	91.36	16.2	13.3	25%	28%	22%	52%	
Yonyou	600588 CH	NR	16,367	32.30	N/A	10.4	8.1	17%	11%	23%	33%	
Kingsoft Office	688111 CH	NR	25,463	356.50	N/A	47.7	34.5	47%	63%	41%	39%	
Kingdee	268 HK	NR	10,743	24.05	N/A	16.7	13.2	7%	11%	25%	n.a.	
Adobe	ADBE US	NR	231,166	483.61	N/A	14.9	13.0	42%	41%	17%	17%	
Autodesk	ADSK US	NR	62,575	284.35	N/A	16.6	14.5	36%	38%	16%	36%	
Salesforce	CRM US	NR	201,093	218.05	N/A	9.5	7.8	20%	18%	22%	13%	
Veeva System	VEEV US	NR	39,312	258.25	N/A	27.1	22.3	36%	36%	24%	20%	
CoStar	CSGP US	NR	32,409	820.61	N/A	16.7	14.4	24%	28%	18%	27%	
						<b>Mean</b>	<b>19.7</b>	<b>15.6</b>	<b>27%</b>	<b>29%</b>	<b>25%</b>	<b>31%</b>
						<b>Median</b>	<b>16.6</b>	<b>13.8</b>	<b>24%</b>	<b>28%</b>	<b>23%</b>	<b>30%</b>

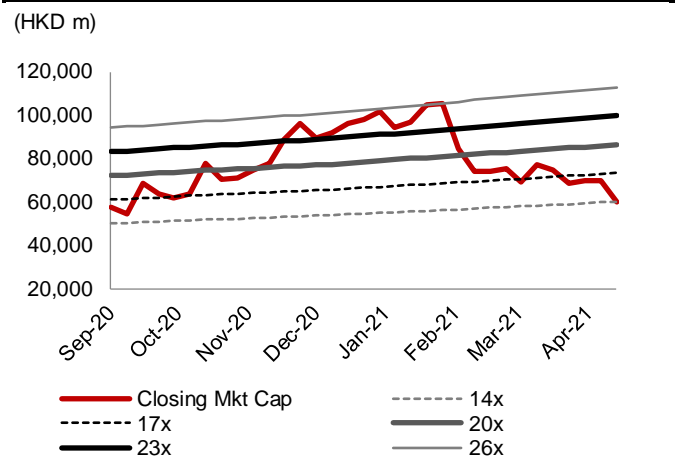
Source: Bloomberg, CMBIS estimates

Figure 11: 12M forward P/S chart



Source: Bloomberg, CMBIS

Figure 12: 12M forward P/S band



Source: Bloomberg, CMBIS

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>1,264</b>	<b>1,705</b>	<b>2,425</b>	<b>3,254</b>	<b>4,338</b>	<b>Net profit</b>	<b>242</b>	<b>(650)</b>	<b>525</b>	<b>744</b>	<b>1,088</b>
Cost of sales	(269)	(366)	(495)	(628)	(805)	Depreciation/amortization	28	7	8	9	11
<b>Gross profit</b>	<b>995</b>	<b>1,340</b>	<b>1,930</b>	<b>2,626</b>	<b>3,533</b>	Change in working capital	95	87	172	31	(67)
Selling exp	(441)	(590)	(830)	(1,107)	(1,452)	Others	(27)	(16)	(40)	(57)	(107)
Admin exp	(108)	(208)	(215)	(304)	(376)	<b>Net cash from operating</b>	<b>339</b>	<b>(572)</b>	<b>665</b>	<b>727</b>	<b>926</b>
R&D exp	(286)	(356)	(474)	(592)	(739)	Capex	(16)	(17)	(24)	(33)	(43)
Other operating exp.	0	0	0	0	0	Others	(67)	0	0	0	0
<b>Operating profit</b>	<b>159</b>	<b>186</b>	<b>410</b>	<b>622</b>	<b>965</b>	<b>Net cash from investing</b>	<b>(83)</b>	<b>(17)</b>	<b>(24)</b>	<b>(33)</b>	<b>(43)</b>
Finance income/ (costs)	(2)	12	31	33	35	Net borrowings	0	0	0	0	0
Other non-oper exp.	85	(848)	84	89	88	Dividend paid	0	(135)	(189)	(267)	(382)
<b>Pre-tax profit</b>	<b>242</b>	<b>(650)</b>	<b>525</b>	<b>744</b>	<b>1,088</b>	Others	30	4,751	(2)	(2)	(2)
Income tax expense	(11)	(18)	(42)	(60)	(109)	<b>Net cash from financing</b>	<b>30</b>	<b>4,616</b>	<b>(191)</b>	<b>(269)</b>	<b>(384)</b>
Minority interests	(15)	(36)	(24)	(34)	(49)	<b>Net change in cash</b>	<b>286</b>	<b>4,027</b>	<b>450</b>	<b>425</b>	<b>498</b>
<b>Net profit to shareholders</b>	<b>216</b>	<b>(704)</b>	<b>459</b>	<b>650</b>	<b>931</b>	Cash at beginning of the year	448	732	4,759	5,210	5,635
<b>Core net profit</b>	<b>216</b>	<b>328</b>	<b>459</b>	<b>650</b>	<b>931</b>	Exchange difference	(1)	0	0	0	0

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E	YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>988</b>	<b>7,210</b>	<b>7,873</b>	<b>8,614</b>	<b>9,585</b>	<b>Revenue mix</b>					
Cash & equivalents	732	4,759	5,210	5,635	6,134	SaaS product	36%	40%	51%	58%	64%
Account receivables	21	30	49	65	87	Procurement Cloud	1%	2%	2%	2%	2%
Contract acquisition cost	103	191	362	630	1,041	CRM Cloud	28%	39%	45%	49%	52%
Contract assets	25	48	58	67	78	Asset Management Cloud	2%	2%	2%	3%	3%
Other receivables	16	51	64	86	115	Construction Cloud	9%	8%	10%	11%	13%
Others	91	2,130	2,130	2,130	2,130	ERP solutions	60%	49%	42%	36%	31%
<b>Non-current assets</b>	<b>246</b>	<b>262</b>	<b>279</b>	<b>302</b>	<b>334</b>	<b>Growth (%)</b>					
PPE	118	150	166	189	222	Revenue	38%	35%	42%	34%	33%
Intangible assets	2	3	3	3	3	Operating profit	67%	17%	121%	52%	55%
Other non-current assets	126	109	109	109	109	Core net profit	40%	49%	40%	42%	43%
<b>Total assets</b>	<b>1,235</b>	<b>7,472</b>	<b>8,152</b>	<b>8,916</b>	<b>9,918</b>	<b>Profit &amp; loss ratio (%)</b>					
<b>Current liabilities</b>	<b>915</b>	<b>843</b>	<b>1,219</b>	<b>1,555</b>	<b>1,949</b>	Gross margin	78.7%	78.6%	79.6%	80.7%	81.4%
ST borrowings	0	0	0	0	0	Operating margin	12.6%	10.9%	16.9%	19.1%	22.2%
Account payables	24	43	61	78	100	Core net profit margin	17.1%	19.3%	18.9%	20.0%	21.5%
Contract liabilities	378	549	760	981	1,221	<b>Balance sheet ratio</b>					
Others	513	252	398	497	629	Receivable turnover days	5	7	7	7	7
<b>Non-current liabilities</b>	<b>49</b>	<b>59</b>	<b>69</b>	<b>79</b>	<b>90</b>	Payable turnover days	21	45	45	45	45
LT borrowings	0	0	0	0	0	Current ratio (x)	1.08	8.55	6.46	5.54	4.92
Contract liabilities	18	25	35	45	56	Net debt to equity	net cash	net cash	net cash	net cash	net cash
Other non-current liabilities	31	34	34	34	34	<b>Profitability (%)</b>					
<b>Total liabilities</b>	<b>964</b>	<b>903</b>	<b>1,288</b>	<b>1,635</b>	<b>2,040</b>	FCF margin	28%	-33%	28%	23%	22%
Share capital	0.1	0.2	0.2	0.2	0.2	ROE	n.a.	-11%	7%	9%	12%
Capital surplus	0.0	0.0	0.0	0.0	0.0	<b>Per share data (RMB)</b>					
Retained earnings	254	(463)	(192)	191	739	Core EPS (RMB)	0.15	0.22	0.24	0.34	0.48
Other reserves	13	7,001	7,001	7,001	7,001	DPS (RMB)	0.00	0.07	0.10	0.14	0.20
Minority interest	254	(463)	(192)	191	739	BVPS (RMB)	0.18	4.48	3.56	3.78	4.09
<b>Total equity</b>	<b>271</b>	<b>6,570</b>	<b>6,864</b>	<b>7,281</b>	<b>7,879</b>						
<b>Total liabilities and equity</b>	<b>1,235</b>	<b>7,472</b>	<b>8,152</b>	<b>8,916</b>	<b>9,918</b>						

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

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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