

# Glodon (002410 CH)

## Expanding into digital design software

Glodon hosted 2021 investor conference on 18 May. Engineering Costing SaaS will remain the core business while Engineering Construction segment is changing from providing individual products to total solution (platform + modules) as to better-fit enterprise demand. Glodon is investing in proprietary 3D graphics engine and engineering design software but we think it takes time for developers and designers to change to use Glodon's platform. Maintain BUY.

- **Engineering construction – from individual product to “platform + module”.** Glodon is delivering a total solution (combining BIM, Smart Construction Site products and Project Management System) to construction enterprises. In 2020, total solution based (platform + module) contract size was up +70% YoY with 1,700 new customers. Glodon will focus on expanding no. of project coverage instead of profitability at this stage. Despite a total solution model, customization level is only at 20-30% per project as modules developed on the platform can be re-used by other customers.
- **Visionary view in digital design software.** Glodon is developing proprietary 3D graphics engine and working on related design software. There are 1mn objects on the Digital Design Platform as Glodon acquired MagiCAD few years ago. The construction design TAM is larger than engineering costing with 4.63mn practitioners vs. 1mn cost estimators in China. Glodon will open up the graphics engine and allow third parties to develop applications and toolsets. We think it is a visionary step to develop core technology – 3D graphics engine but it will take a lot of time and effort to change developers' habits who are currently using overseas software development toolkits.
- **Engineering costing – market reform opportunities in digital cost management.** Glodon's costing SaaS migration has been completed in 25 regions with conversion rate >80%, renewal rate >85%. In 2021, Costing SaaS will enter 4 new regions (Jiangsu, Zhejiang, Fujian and Anhui). In a longer term perspective, Glodon can seize the market reform opportunities raised by MOHURD to provide costing big data platform.
- **Maintain BUY.** We have not changed our FY21-23E earnings. Maintain BUY with target price of RMB91.36, based on 18x FY22E EV/sales.

### Earnings Summary

(YE 31 Dec)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,541	4,005	4,977	5,695	6,403
YoY growth (%)	22%	13%	24%	14%	12%
Net profit (RMB mn)	235	330	546	815	986
EPS (RMB)	0.21	0.28	0.46	0.69	0.83
YoY growth (%)	-47%	34%	65%	49%	21%
Consensus EPS (RMB)	0.21	0.28	0.55	0.81	1.11
PE (x)	340.8	254.8	154.3	103.4	85.5
EV/sales	23.8	20.1	16.1	13.9	12.3
Dividend Yield (%)	0.00	0.00	0.00	0.00	0.00
ROE (%)	7%	7%	8%	12%	13%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	RMB91.36
(Previous TP)	RMB91.36)
Up/Downside	+27.1%
Current Price	RMB71.89

### China Software and IT Services

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### Stock Data

Mkt Cap (RMB mn)	82,770
Avg 3 mths t/o (RMB mn)	514.17
52w High/Low (RMB)	92.50/ 51.59
Total Issued Shares (mn)	1,187

Source: Bloomberg

### Shareholding Structure

Xi Zhizhong - Chairman	16.0%
Other co-founders	20.3%

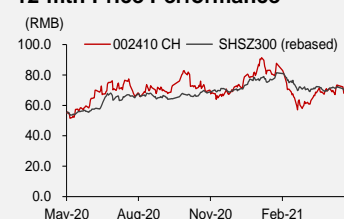
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	0.3%	-3.9%
3-mth	-20.5%	-11.0%
6-mth	-0.4%	-6.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

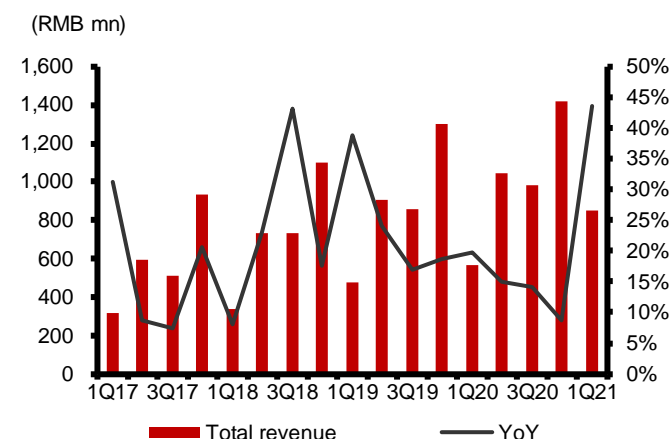
### Auditor: BDO

### Related Reports

Glodon (002410 CH) “Exceptionally strong SaaS boosted free cash flow” – 27 Apr 2021

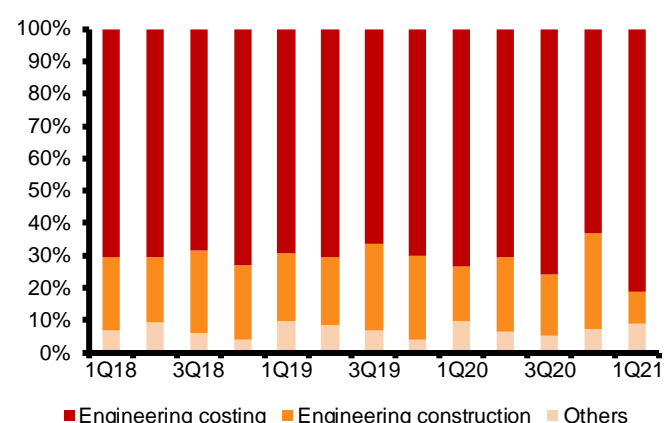
## Focus Charts

**Figure 1: Revenue and growth**



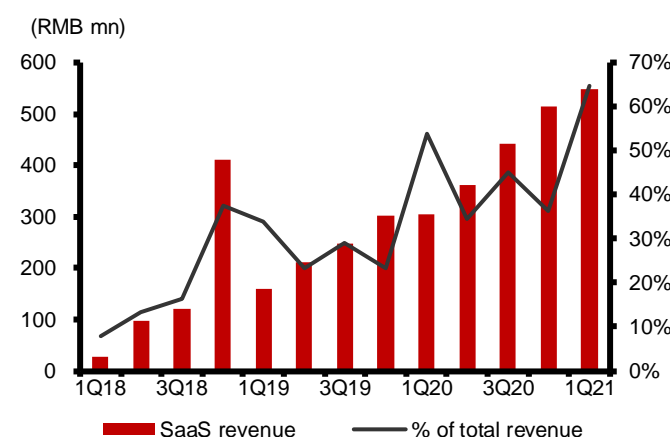
Source: Company data

**Figure 2: Revenue breakdown**



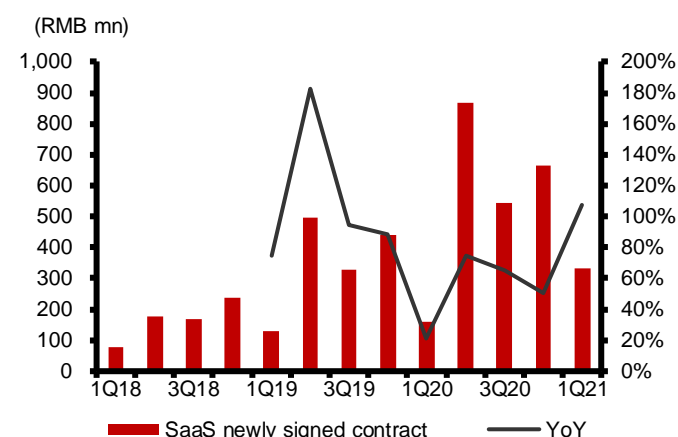
Source: Company data

**Figure 3: SaaS revenue**



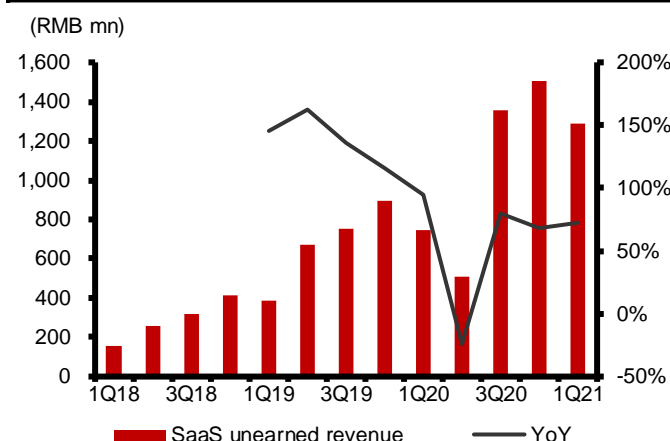
Source: Company data

**Figure 4: SaaS newly signed contract**



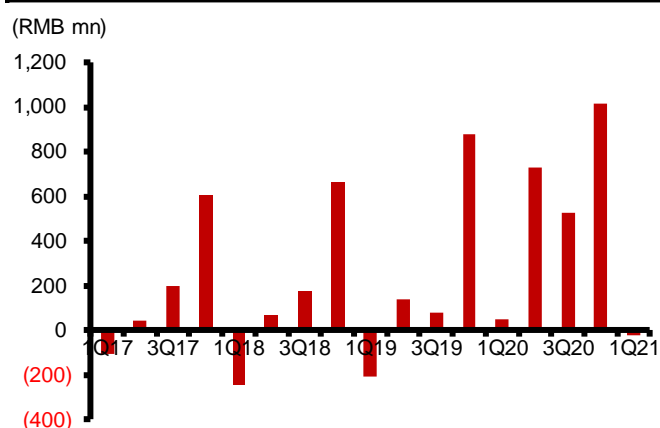
Source: Company data

**Figure 5: SaaS unearned revenue**



Source: Company data

**Figure 6: Free cash flow**



Source: Company data

## 2021 Investor Conference Takeaways

### Engineering Construction

- Instead of providing individual products, Glodon is delivering a **total solution** (consulting, software and hardware, training, testing and implementation) for enterprises to tackle construction problems from costing, construction progress, quality control and safety. In 2020, Engineering Construction solution contract size increased by +70% YoY, adding 1,700 new customers.

Figure 7: Engineering construction solution-based contract size up 70% YoY



Source: Company data, CMBIS

- Glodon is combining BIM, Smart Construction Site products and project management system to a form a **“platform + modules” model**. This Digital Project Management Platform enhances enterprise level digitalization as individual project information is consolidated into a single platform for better management.

Figure 8: Digital Project Management Platform



Source: Company data, CMBIS

Figure 9: Glodon's BIM total solution illustration



Source: Company data, CMBIS

- Although Glodon is changing from offering single products to total solution, customization level is not that high. **On average, 20-30% of customers demand is customized. Software modules developed on the platform can be reused** by other enterprises. Glodon is responsible for solution delivery but third parties are responsible for hardware installation.
- Glodon engineering construction business is not profitable yet as Glodon is strategically focusing on expanding no. of construction project coverage. Only when coverage reaches a certain level, Glodon will start to raise service fee.

## Digital Design

- Digital design total addressable market is larger than engineering costing.** There are 23,739 surveying and engineering design companies in China with total no. of 4.63mn practitioners, compared to only 1mn for cost estimators.

Figure 10: Digital design TAM is large



Source: Company data, CMBIS

- During the construction process, architects, MEP (mechanical, electrical and plumbing) engineers will come back and forth to adjust the design. Mistakes and redesign will lead to higher construction cost and management efficiency is low.
- Glodon is **developing a proprietary 3D graphics platform** and is working on design software based on the platform. Since the acquisition of MagiCAD, Glodon already has over 1mn BIM object that can be added to the platform.

**Figure 11: Glodon is developing proprietary 3D graphics platform**



Source: Company data, CMBIS

- Digital Design Platform is under testing phase and will launch officially after Jun 2021. Most designers are using Autodesk's software in China. To promote the use of Glodon's 3D graphic design platform, Glodon believes the ease of use is essential. Also, Glodon will promote the self-developed platform to architecture and design institutes in China.

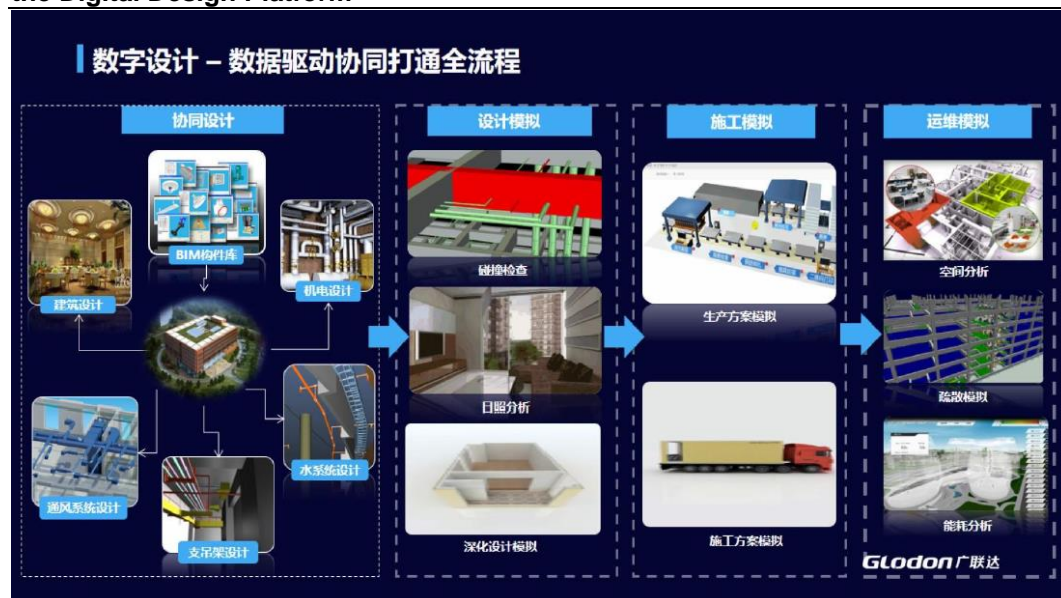
**Figure 12: Digital Design Platform**



Source: Company data, CMBIS



**Figure 13: Simulating full cycle construction process from design to operation on the Digital Design Platform**



Source: Company data, CMBIS

## Engineering costing

- Glodon will seize the **market reform opportunities in digital costing management**. The legacy material procurement list published by MOHURD (Ministry of Housing and Urban-Rural Development) every 4-5 years cannot catch up with the fast-changing market environment. As such MOHURD is promoting market reform that Glodon can offer one-stop costing data management platform to support digitalization.
- SaaS migration has been completed in 25 regions with conversion rate >80%, renewal rate >85%. In 2021, Costing SaaS will enter 4 new regions including Jiangsu, Zhejiang, Fujian and Anhui.

## Operating model

Figure 14: Operating model

RMB mn	2019	2020	2021E	2022E	2023E
<b>Revenues</b>	<b>3,541</b>	<b>4,005</b>	<b>4,977</b>	<b>5,695</b>	<b>6,403</b>
Cost of sales	-371	-454	-578	-689	-813
<b>Gross Profit</b>	<b>3,170</b>	<b>3,550</b>	<b>4,398</b>	<b>5,006</b>	<b>5,589</b>
<i>Gross margin</i>	<i>89.5%</i>	<i>88.7%</i>	<i>88.4%</i>	<i>87.9%</i>	<i>87.3%</i>
 R&D	 -969	 -1,083	 -1,329	 -1,455	 -1,589
SG&A	-1,922	-2,135	-2,515	-2,663	-2,959
Operating Income	338	408	608	949	1,108
<i>Operating margin</i>	<i>9.5%</i>	<i>10.2%</i>	<i>12.2%</i>	<i>16.7%</i>	<i>17.3%</i>
 Interest Expense	 -41	 17	 72	 80	 92
Non-operating income/ (expense)	-14	-15	-15	-6	-2
Profit Before Income Taxes	284	410	665	1,023	1,199
Income Tax Expense	-29	-29	-64	-99	-98
<b>Net profit (loss)</b>	<b>235</b>	<b>330</b>	<b>546</b>	<b>815</b>	<b>986</b>
<i>Net margin</i>	<i>6.6%</i>	<i>8.3%</i>	<i>11.0%</i>	<i>14.3%</i>	<i>15.4%</i>
 EPS (RMB)	 0.21	 0.28	 0.46	 0.69	 0.83
DPS (RMB)	0.10	0.25	0.20	0.20	0.20
 <b>Revenue breakdown</b>					
Engineering costing	2,452	2,791	3,492	3,949	4,291
...recurring revenue	921	1,622	2,440	3,003	3,439
...non-recurring revenue	1,531	1,169	1,052	947	852
Engineering construction	853	943	1,179	1,415	1,740
Others	236	271	306	331	372
 <b>Gross margin breakdown</b>					
Engineering costing	94%	94%	95%	96%	95%
Engineering construction	76%	72%	69%	69%	69%
 <b>Growth (YoY)</b>					
Revenues	22%	13%	24%	14%	12%
Gross Profit	17%	12%	24%	14%	12%
Operating Income	-39%	21%	49%	56%	17%
EPS	-47%	34%	65%	49%	21%

Source: Company data, CMBIS estimates

Figure 15: Quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E
Revenues	473	907	857	1,304	566	1,043	979	1,417
Gross Profit	446	852	747	1,125	534	924	879	1,213
Operating income	75	57	95	111	82	121	121	84
Net profit	55	34	69	76	53	77	100	101
EPS (RMB)	0.05	0.03	0.06	0.07	0.05	0.07	0.08	0.08
<b>Margins</b>								
Gross margin	94%	94%	87%	86%	94%	89%	90%	86%
Operating margin	16%	6%	11%	9%	15%	12%	12%	6%
Net margin	12%	4%	8%	6%	9%	7%	10%	7%
<b>Growth (QoQ)</b>								
Revenues	-57%	92%	-5%	52%	-57%	84%	-6%	45%
Gross Profit	-56%	91%	-12%	51%	-53%	73%	-5%	38%
Operating income	-56%	-25%	67%	17%	-26%	47%	1%	-31%
EPS	-62%	-38%	102%	10%	-31%	42%	26%	1%
<b>Growth (YoY)</b>								
Revenues	39%	24%	17%	19%	20%	15%	14%	9%
Gross Profit	37%	21%	10%	12%	20%	8%	18%	8%
Operating income	-1%	-42%	-54%	-35%	9%	113%	28%	-25%
EPS	-3%	-62%	-53%	-48%	-5%	119%	37%	26%

Source: Company data, CMBIS estimates

Figure 16: Quarterly revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21
<b>Revenue breakdown</b>									
Engineering costing	327	641	570	914	416	736	743	896	689
...SaaS	160	211	248	302	305	361	441	515	549
...non-SaaS	167	430	322	612	111	375	302	381	140
Engineering construction	100	190	227	336	96	241	185	421	83
Others	46	77	60	53	54	66	51	100	77
<b>Total</b>	<b>473</b>	<b>907</b>	<b>857</b>	<b>1,303</b>	<b>566</b>	<b>1,043</b>	<b>979</b>	<b>1,417</b>	<b>849</b>
<b>Revenue YoY</b>									
Engineering costing	36%	25%	14%	14%	27%	15%	30%	-2%	66%
...SaaS	493%	115%	107%	-27%	91%	71%	78%	71%	80%
...non-SaaS	-21%	3%	-15%	57%	-34%	-13%	-6%	-38%	26%
Engineering construction	28%	28%	20%	33%	-4%	27%	-19%	25%	-14%
Others	100%	12%	37%	22%	18%	-14%	-15%	88%	42%
<b>Total</b>	<b>39%</b>	<b>24%</b>	<b>17%</b>	<b>19%</b>	<b>20%</b>	<b>15%</b>	<b>14%</b>	<b>9%</b>	<b>50%</b>
<b>SaaS metrics</b>									
Newly signed contract	131	498	329	442	159	869	543	663	330
YoY	75%	183%	95%	88%	21%	74%	65%	50%	108%
Unearned revenue	385	672	754	894	748	507	1,357	1,506	1,288
YoY	145%	163%	136%	116%	94%	-25%	80%	68%	72%

Source: Company data, CMBIS



## Valuation

### Glodon (002410 CH, BUY, TP RMB91.36)

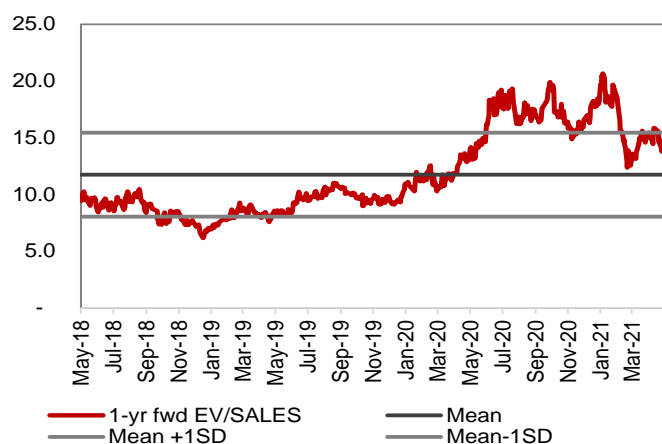
We maintain BUY with new target price of RMB91.36, based on unchanged 18x FY22E EV/Sales (50% above its 3-year average). We believe Glodon deserves re-rating as free cash flow continues to expand with increasing SaaS revenue contribution.

Figure 17: Peers' valuation

			Mkt Cap	Price	TP	EV/sales (x)		FCF margin (%)		Sales CAGR	EPS CAGR
Company	Ticker	Rating	(US\$ mn)	(LC)	(LC)	FY21E	FY22E	FY21E	FY22E	FY20-23	FY20-23
Glodon	002410 CH	BUY	13,254	71.89	91.36	16.2	13.9	21%	20%	17%	44%
MYC	909 HK	BUY	9,608	38.70	44.75	23.8	17.2	18%	13%	39%	39%
Yonyou	600588 CH	NR	17,982	35.40	N/A	11.3	8.8	17%	9%	23%	33%
Kingsoft Office	688111 CH	NR	27,280	381.00	N/A	48.5	35.1	47%	45%	41%	38%
Kingdee	268 HK	NR	11,643	26.05	N/A	16.9	13.4	7%	9%	25%	n.a.
Adobe	ADBE US	NR	229,665	480.47	N/A	14.8	12.9	41%	35%	17%	17%
Autodesk	ADSK US	NR	60,291	273.97	N/A	16.1	14.0	36%	32%	16%	36%
Salesforce	CRM US	NR	204,127	221.34	N/A	9.4	7.7	20%	15%	22%	13%
Veeva System	VEEV US	NR	38,697	253.25	N/A	25.6	21.0	36%	31%	24%	21%
CoStar	CSGP US	NR	32,743	829.06	N/A	15.5	13.4	24%	23%	18%	27%
Mean						19.8	15.7	27%	23%	25%	31%
Median						16.1	13.4	22%	22%	23%	30%

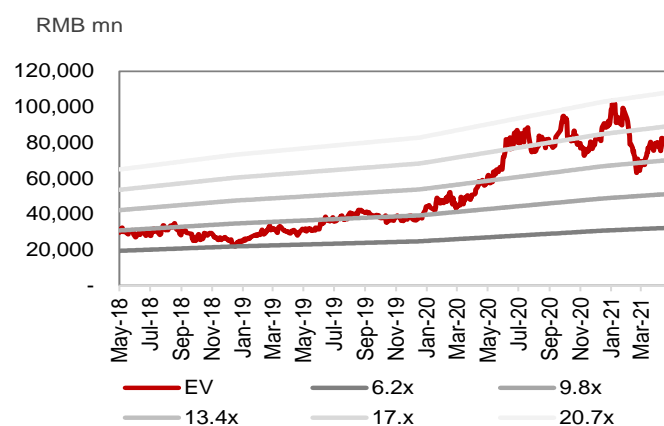
Source: Bloomberg, CMBIS estimates

Figure 18: 12M forward EV/sales chart



Source: Bloomberg, CMBIS

Figure 19: 12M forward EV/sales band



Source: Bloomberg, CMBIS

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>3,541</b>	<b>4,005</b>	<b>4,977</b>	<b>5,695</b>	<b>6,403</b>
Cost of sales	(371)	(454)	(578)	(689)	(813)
<b>Gross profit</b>	<b>3,170</b>	<b>3,550</b>	<b>4,398</b>	<b>5,006</b>	<b>5,589</b>
Selling exp	(1,102)	(1,256)	(1,491)	(1,568)	(1,749)
Admin exp	(820)	(879)	(1,023)	(1,095)	(1,210)
R&D exp	(969)	(1,083)	(1,329)	(1,455)	(1,589)
Other operating exp.	59	75	53	61	67
<b>Operating profit</b>	<b>338</b>	<b>408</b>	<b>608</b>	<b>949</b>	<b>1,108</b>
Finance income/ (costs)	(41)	17	72	80	92
Other non-oper exp.	(14)	(15)	(15)	(6)	(2)
<b>Pre-tax profit</b>	<b>284</b>	<b>410</b>	<b>665</b>	<b>1,023</b>	<b>1,199</b>
Income tax expense	(29)	(29)	(64)	(99)	(98)
Minority interests	(20)	(51)	(55)	(109)	(115)
<b>Net profit to shareholders</b>	<b>235</b>	<b>330</b>	<b>546</b>	<b>815</b>	<b>986</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net profit</b>	<b>235</b>	<b>330</b>	<b>546</b>	<b>815</b>	<b>986</b>
Depreciation/amortization	187	134	233	257	282
Change in working capital	312	784	175	336	336
Others	(93)	628	(40)	109	115
<b>Net cash from operating</b>	<b>641</b>	<b>1,876</b>	<b>915</b>	<b>1,517</b>	<b>1,718</b>
Capex	(243)	(439)	(397)	(431)	(418)
Other	16	(257)	(18)	0	0
<b>Net cash from investing</b>	<b>(227)</b>	<b>(697)</b>	<b>(415)</b>	<b>(431)</b>	<b>(418)</b>
Net borrowings	(112)	(1,088)	(3)	(0)	(0)
Dividend paid	(301)	(157)	(297)	(237)	(237)
Other	23	2,645	92	(109)	(115)
<b>Net cash from financing</b>	<b>(389)</b>	<b>1,400</b>	<b>(208)</b>	<b>(347)</b>	<b>(353)</b>
<b>Net change in cash</b>	<b>24</b>	<b>2,580</b>	<b>292</b>	<b>739</b>	<b>947</b>
Cash at beginning of the year	2,212	2,231	4,797	5,089	5,828
Exchange difference	(5)	(14)	0	0	0
<b>Cash at the end of the year</b>	<b>2,231</b>	<b>4,797</b>	<b>5,089</b>	<b>5,828</b>	<b>6,775</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>2,950</b>	<b>5,420</b>	<b>5,789</b>	<b>6,485</b>	<b>7,385</b>
Cash & equivalents	2,231	4,797	5,089	5,828	6,775
Account receivables	591	475	574	526	473
Inventory	21	26	36	41	46
Other current assets	106	121	90	90	90
<b>Non-current assets</b>	<b>3,217</b>	<b>4,127</b>	<b>4,440</b>	<b>4,614</b>	<b>4,751</b>
PPE	860	994	1,223	1,547	1,833
Intangible assets	1,148	1,664	1,598	1,449	1,300
Other non-current assets	1,209	1,470	1,618	1,618	1,618
<b>Total assets</b>	<b>6,167</b>	<b>9,547</b>	<b>10,229</b>	<b>11,099</b>	<b>12,135</b>
<b>Current liabilities</b>	<b>2,809</b>	<b>2,858</b>	<b>2,965</b>	<b>3,257</b>	<b>3,545</b>
ST borrowings	1,089	3	3	3	2
Account payables	1,068	1,740	2,024	2,317	2,605
Accrued expense	0	0	0	0	0
Unearned revenue	653	1,115	938	938	938
<b>Non-current liabilities</b>	<b>9</b>	<b>131</b>	<b>252</b>	<b>252</b>	<b>252</b>
LT borrowings	0	0	0	0	0
Other non-current liabilities	9	131	251	251	251
<b>Total liabilities</b>	<b>2,818</b>	<b>2,989</b>	<b>3,217</b>	<b>3,509</b>	<b>3,796</b>
Share capital	1,129	1,186	1,187	1,187	1,187
Capital surplus	509	3,135	3,227	3,227	3,227
Retained earnings	1,709	1,957	2,207	2,784	3,533
Other reserves	(78)	125	154	154	154
Minority interest	80	156	238	238	238
<b>Total equity</b>	<b>3,349</b>	<b>6,558</b>	<b>7,013</b>	<b>7,590</b>	<b>8,339</b>
<b>Total liabilities and equity</b>	<b>6,167</b>	<b>9,547</b>	<b>10,229</b>	<b>11,099</b>	<b>12,135</b>

### Key ratios

YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue mix</b>					
Engineering costing	69%	70%	70%	69%	67%
- SaaS	26%	41%	49%	53%	54%
Engineering construction	24%	24%	24%	25%	27%
Overseas	4%	4%	3%	3%	3%
Others	1%	2%	2%	2%	2%
Finance income	2%	1%	1%	1%	1%
<b>Growth (%)</b>					
Revenue	22%	13%	24%	14%	12%
Operating profit	-39%	21%	49%	56%	17%
EPS	-47%	34%	65%	49%	21%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	89.5%	88.7%	88.4%	87.9%	87.3%
Operating margin	9.5%	10.2%	12.2%	16.7%	17.3%
Net profit margin	6.6%	8.3%	11.0%	14.3%	15.4%
<b>Balance sheet ratio</b>					
Receivable turnover days	47	49	38	35	28
Unearned revenue days	67	81	75	60	53
Payable turnover days	110	159	148	148	148
Current ratio (x)	1.05	1.90	1.95	1.99	2.08
Net debt to equity	net cash	net cash	net cash	net cash	net cash
<b>Profitability (%)</b>					
ROE	7%	7%	8%	12%	13%
ROIC	14%	18%	27%	41%	53%
<b>Per share data (RMB)</b>					
EPS (RMB)	0.21	0.28	0.46	0.69	0.83
DPS (RMB)	0.10	0.25	0.20	0.20	0.20
BVPS (RMB)	2.90	5.40	5.71	6.19	6.82

Source: Company data, CMBIS estimates

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