Kingdee (268 HK)

Strategic investment from QIA announced

Kingdee announced (10 Dec) that it has entered into a share subscription agreement with a subsidiary of Qatar Investment Authority (QIA), pursuant to which Kingdee has conditionally agreed to allot and issue, and the subsidiary of QIA has agreed to subscribe for c. HK$1.56bn (c. US$200mn) amount of Kingdee's shares (c. 4.26% of enlarged share capital post transaction) at the subscription price of HK$10.10 per share. The share subscription will be allotted and issued under the General Mandate (GM) granted to Kingdee's board at the Annual General Meeting (AGM) held on 18 May 2023. As such, this subscription will not be subject to additional shareholder's approval. The transaction, in our view, is conducted at a reasonable price, and has demonstrated that Kingdee's leading position in enterprise digitalization management industry has been further recognized by leading institutional investors, and shall pave the way for Kingdee's potential international expansion in the future. We maintain financial forecast and TP of HK$17.0 per share unchanged. Reiterate BUY.

- **More details regarding the transaction:** 1) transaction price: the price of HK$10.10 per share represented a discount of c. 2.7% to the closing price on 8 Dec, and c. 3.0% to the average closing price for the last five consecutive trading days; 2) use of proceeds: c. 80% of the proceeds will be allotted towards potential capital market transactions including potential acquisitions and share buy-backs, and the remaining 20% will be allotted towards general operation and working capital of Kingdee; 3) lock-up period: 180-days; 4) future share subscription under GM: management highlighted that it is cautious when utilizing the quota of GM, as it is cautious on the share dilution impact; the subscription agreement with QIA represents c. 44% of the quota of the GM, and management is cautious when considering further utilizing the remaining 56% of the amount, and sees limited possibilities for further utilization in the near term; 5) management highlighted that future business expansion opportunities may arise with this strategic investment.
- **Recent business update:** management noted a further improving trend to net dollar retention (NDR) ratios across business line post the voluntary announcement on 11 Oct (link), in which Kingdee highlighted that as of 30 Sep 2023, Cosmic & Constellation/ Galaxy/ Stellar/ Jingdou Cloud achieved NDR ratios of 105%/95%/90%/86% respectively, and Kingdee Cloud's subscription annual recurring revenue (ARR) has reached RMB2.67bn, up 40% YoY. Management maintained its guidance of achieving RMB3.0bn ARR for 2023E (implies 40% YoY growth), and of delivering 50% CAGR in operating cash flow over 2023-2025E.
- **Reiterate BUY rating.** Although overall digitalization demand recovery will likely take time amid current macro backdrop, digitalization and domestic substitution remain vital long-term trends, and Kingdee is well-positioned to benefit from the trend, in our view. We maintain our financial forecast and per share valuation of HK$17.0 unchanged (based on 8.4x 2023E EV/sales), and reiterate our BUY rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,174	4,866	5,795	6,880	8,110
YoY growth (%)	24.4	16.6	19.1	18.7	17.9
Net profit (RMB mn)	(302.3)	(389.2)	(198.5)	(39.9)	167.7
EPS (Reported) (RMB cents)	(9.23)	(11.21)	(5.71)	(1.15)	4.83
Consensus EPS (RMB cents)	(9.23)	(11.31)	(7.58)	(1.95)	7.78
P/E (x)	na	na	na	na	197.1
EV/Sales (x)	8.2	7.1	6.0	5.0	4.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$17.00**
(Previous TP	HK$17.00)
Up/Downside	**63.8%**
Current Price	**HK$10.38**

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Stock Data

Mkt Cap (HK$ mn)	36,070.5
Avg 3 mths t/o (HK$ mn)	159.3
52w High/Low (HK$)	18.86/8.86
Total Issued Shares (mn)	3475.0

Source: FactSet

Shareholding Structure

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

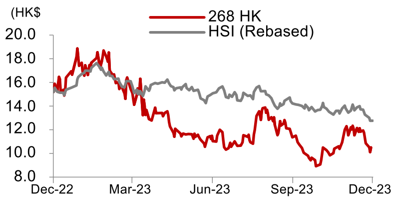
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.6%	-9.2%
3-mth	-8.6%	1.8%
6-mth	-6.0%	11.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	**3,356**	**4,174**	**4,866**	**5,795**	**6,880**	**8,110**
Cost of goods sold	(1,147)	(1,541)	(1,868)	(2,191)	(2,558)	(3,016)
Gross profit	**2,209**	**2,634**	**2,998**	**3,604**	**4,322**	**5,094**
Operating expenses	**(2,823)**	**(3,392)**	**(3,826)**	**(4,176)**	**(4,726)**	**(5,263)**
Selling expense	(1,425)	(1,741)	(2,027)	(2,200)	(2,493)	(2,809)
Admin expense	(414)	(466)	(504)	(538)	(600)	(652)
R&D expense	(984)	(1,185)	(1,295)	(1,438)	(1,633)	(1,802)
Operating profit	**(614)**	**(758)**	**(828)**	**(572)**	**(405)**	**(169)**
Net Interest income/(expense)	**36**	**76**	**100**	**92**	**98**	**116**
Others	195	299	254	266	255	272
Pre-tax profit	**(383)**	**(382)**	**(474)**	**(214)**	**(52)**	**219**
Income tax	41	44	22	2	5	(22)
Minority interest	6	36	63	13	7	(30)
Net profit	**(335)**	**(302)**	**(389)**	**(198)**	**(40)**	**168**

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	**6,183**	**4,471**	**3,984**	**3,995**	**4,455**	**5,176**
Cash & equivalents	2,754	2,047	1,943	1,976	2,316	2,919
Restricted cash	334	392	293	408	484	571
Prepayment	1,236	370	626	626	626	626
Other current assets	1,503	1,339	776	644	692	719
Contract assets	357	323	347	342	337	342
Non-current assets	**4,539**	**6,616**	**7,747**	**7,939**	**8,207**	**8,560**
PP&E	746	1,045	1,377	1,420	1,480	1,560
Intangibles	786	1,037	1,192	1,340	1,548	1,821
Other non-current assets	3,007	4,534	5,178	5,178	5,178	5,178
Current liabilities	**2,599**	**3,084**	**3,766**	**4,310**	**5,094**	**5,972**
Short-term borrowings	120	0	85	51	49	49
Account payables	795	759	899	924	1,025	1,148
Other current liabilities	200	160	150	150	150	150
Contract liabilities	1,484	2,165	2,631	3,184	3,870	4,625
Non-current liabilities	**165**	**200**	**558**	**428**	**420**	**418**
Long-term borrowings	0	0	385	255	247	245
Other non-current liabilities	165	200	173	173	173	173
Total liabilities	**2,764**	**3,284**	**4,324**	**4,738**	**5,514**	**6,390**
Share capital	83	83	84	84	84	84
Capital surplus	5,053	5,149	5,085	5,085	5,085	5,085
Retained earnings	1,922	1,619	1,230	1,032	992	1,160
Other reserves	732	744	867	867	867	867
Total shareholders equity	**7,790**	**7,596**	**7,265**	**7,067**	**7,027**	**7,195**
Minority interest	169	207	142	129	122	151
Total equity and liabilities	**10,722**	**11,087**	**11,731**	**11,934**	**12,662**	**13,736**

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(383)**	**(382)**	**(474)**	**(214)**	**(52)**	**219**
Depreciation & amortization	493	439	0	504	557	621
Tax paid	41	44	22	2	5	(22)
Change in working capital	364	560	466	600	666	760
Others	(1)	44	382	(103)	(102)	(147)
Net cash from operations	**473**	**661**	**374**	**787**	**1,070**	**1,453**
Investing						
Capital expenditure	(353)	(772)	(888)	(695)	(826)	(973)
Others	(1,138)	(433)	101	105	107	125
Net cash from investing	**(1,491)**	**(1,205)**	**(787)**	**(590)**	**(719)**	**(848)**
Financing						
Dividend paid	(37)	0	0	0	0	0
Net borrowings	(80)	(120)	473	(164)	(11)	(2)
Proceeds from share issues	2,091	0	0	0	0	0
Others	(9)	(24)	(172)	0	0	0
Net cash from financing	**1,966**	**(144)**	**301**	**(164)**	**(11)**	**(2)**
Net change in cash						
Cash at the beginning of the year	1,899	2,754	2,047	1,943	1,976	2,316
Exchange difference	(93)	(19)	8	0	0	0
Cash at the end of the year	**2,754**	**2,047**	**1,943**	**1,976**	**2,316**	**2,919**

GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	0.9%	24.4%	16.6%	19.1%	18.7%	17.9%
Gross profit	(8.1%)	19.2%	13.8%	20.2%	19.9%	17.9%

PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	65.8%	63.1%	61.6%	62.2%	62.8%	62.8%
Operating margin	(18.3%)	(18.2%)	(17.0%)	(9.9%)	(5.9%)	(2.1%)
Return on equity (ROE)	(4.9%)	(3.9%)	(5.2%)	(2.8%)	(0.6%)	2.4%

GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.3)	(0.2)	(0.2)	(0.3)	(0.4)
Current ratio (x)	2.4	1.4	1.1	0.9	0.9	0.9
Receivable turnover days	34.9	31.7	25.7	25.7	25.7	25.7
Inventory turnover days	1.4	2.2	2.8	2.8	2.8	2.8
Payable turnover days	224.3	184.1	162.0	153.9	146.2	138.9

VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	na	na	na	197.1
P/B	6.1	9.3	6.4	4.6	4.6	4.5
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.1
EV	33,566.2	34,153.0	34,727.1	34,530.6	34,179.3	33,574.5
EV/Sales	10.0	8.2	7.1	6.0	5.0	4.1

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

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