

# SenseTime (20 HK)

## Accelerating Generative AI monetization

SenseTime reported FY23 financial results on 26 Mar: total revenue declined by 11% YoY to RMB3.4bn in FY23, below consensus estimate of RMB4.3bn, primarily due to the decline in the Traditional AI business as the company shifted its strategic focus to Generative AI business; adjusted net loss widened by 14% YoY to RMB5.4bn in FY23, versus consensus estimate of RMB3.7bn, due to investment in AI infra and impairment loss of RMB1.8bn (mainly for trade receivables of the smart city business). For 2024, the company will further accelerate the monetization of generative AI services, which we expect to support its revenue rebound. Meanwhile, the company will enhance operating efficiency and improve cash flow conversion capability in 2024, via cutting non-core businesses. However, we expect the adjustment of Traditional AI business will drag overall revenue growth in the short term, and thus cut our FY24/25E revenue estimate by 24/24%. Our target price is lowered to HK\$1.25 (previous: HK\$2.30 based on 13x FY23 EV/sales) based on 7.0x FY24E EV/sales, which is a discount to the average EV/Sales of China's AI peers (7.8x), reflecting SenseTime's Traditional AI business headwind.

- Generative AI business recorded strong growth in FY23.** Generative AI business revenue grew by 200% YoY to RMB1.18bn, and accounted for 35% of total revenue in FY23 (FY22: 10%), mainly driven by strong demand for model training and fine-tuning services. Over 70% of the Generative AI customers are new customers to SenseTime in FY23, while the average revenue per customer of the remaining 30% also recorded c.50% YoY growth. The consumer-end usage of SenseNova foundation model also saw a c.120-fold increase in FY23. On the other hand, the Traditional AI business revenue was down by 41% YoY to RMB1.84bn in 2023, as the company focused its resources on Generative AI business and scaled back smart city business. Revenue contribution from smart city business declined from 29% in FY22 to less than 10% in FY23. We expect the revenue mix shift to improve the cash conversion and profitability of SenseTime in the long term.
- Monetizing generative AI opportunities.** Looking into 2024, SenseTime's strategic goals will focus on: 1) maintaining competitive edges in AI technology by further doubling the scale of its computing power (currently at 12,000 petaFLOPs with 45,000 GPUs); 2) accelerating the monetization of Generative AI business; 3) enhancing profitability and cash conversion capability via spinning off non-core businesses. We see SenseTime to benefit from the secular trend of generative AI development, given its robust AI infrastructure and large model capability.
- Expect enhancing profitability and cash conversion in FY24E.** SenseTime's GPM dropped by 23ppt YoY to 44.1% in 2023, primarily due to investment in AI infrastructure. We expect the GPM to stabilize over FY24-26 as the company accelerates monetization of Generative AI business. We also expect improving adjusted net loss margin from -157% in FY23 to -71/-42% in FY24/25E, as SenseTime continues to enhance its operating efficiency and scale back non-core business.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	3,809	3,406	4,349	5,464	6,532
Adjusted net profit (RMB mn)	(4,688.0)	(5,359.7)	(3,077.7)	(2,278.4)	(1,603.1)
EPS (Reported) (RMB cents)	(18.93)	(19.24)	(10.89)	(8.63)	(7.13)
Consensus EPS (RMB cents)	(18.93)	(19.24)	(9.41)	(6.48)	(4.00)
EV/Sales (x)	2.9	4.7	3.7	3.2	3.5
ROE (%)	(19.9)	(24.7)	(16.4)	(14.6)	(13.9)

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$1.25</b>
(Previous TP)	HK\$2.30
<b>Up/Downside</b>	<b>60.3%</b>
<b>Current Price</b>	<b>HK\$0.78</b>

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### Stock Data

Mkt Cap (HK\$ mn)	25,133.7
Avg 3 mths t/o (HK\$ mn)	196.7
52w High/Low (HK\$)	3.33/0.78
Total Issued Shares (mn)	32222.7

Source: FactSet

### Shareholding Structure

Amind	20.6%
Softbank	10.8%

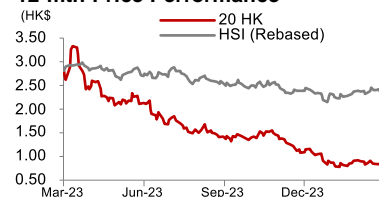
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-15.2%	-15.1%
3-mth	-27.8%	-29.0%
6-mth	-45.1%	-42.3%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 1: SenseTime: forecast revision

RMBm	2024E			2025E			2026E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	4,349	5,704	-24%	5,464	7,208	-24%	6,532	n/a	n/a
Gross profit	1,860	2,744	-32%	2,353	3,641	-35%	2,832	n/a	n/a
Operating profit	-3,335	-3,620	n/a	-2,542	-2,779	n/a	-1,849	n/a	n/a
Adj. EBITDA	-2,080	-2,071	n/a	-1,145	-1,039	n/a	-318	n/a	n/a
Adj. Net profit	-3,109	-3,039	n/a	-2,303	-2,232	n/a	-1,623	n/a	n/a
EPS	-0.11	-0.11	n/a	-0.09	-0.09	n/a	-0.07	n/a	n/a
<b>Margins</b>									
GM	42.8%	48.1%	-533 bps	43.1%	50.5%	-744 bps	43.4%	n/a	n/a
OPM	-76.7%	-63.5%	-1322 bps	-46.5%	-38.6%	-797 bps	-28.3%	n/a	n/a
Adj. EBITDA margin	-47.8%	-36.3%	-1151 bps	-21.0%	-14.4%	-655 bps	-4.9%	n/a	n/a
Net margin	-71.5%	-53.3%	-1820 bps	-42.1%	-31.0%	-1118 bps	-24.9%	n/a	n/a

Source: CMBIGM estimates

Figure 2: SenseTime: CMBIGM estimates vs consensus

RMBm	2024E			2025E			2026E		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	4,349	5,560	-22%	5,464	7,120	-23%	6,532	n/a	n/a
Gross profit	1,860	2,871	-35%	2,353	3,788	-38%	2,832	n/a	n/a
Operating profit	-3,335	-3,076	n/a	-2,542	-2,175	n/a	-1,849	n/a	n/a
Adj. EBITDA	-2,080	-1,733	n/a	-1,145	-782	n/a	-318	n/a	n/a
Adj. Net profit	-3,109	-2,550	n/a	-2,303	-1,901	n/a	-1,623	n/a	n/a
EPS	-0.11	-0.09	n/a	-0.09	-0.06	n/a	-0.07	n/a	n/a
<b>Margins</b>									
GM	42.8%	51.6%	-887 bps	43.1%	53.2%	-1013 bps	43.4%	n/a	n/a
OPM	-76.7%	-55.3%	-2135 bps	-46.5%	-30.5%	-1597 bps	-28.3%	n/a	n/a
Adj. EBITDA margin	-47.8%	-31.2%	-1665 bps	-21.0%	-11.0%	-997 bps	-4.9%	n/a	n/a
Net margin	-71.5%	-45.9%	-2560 bps	-42.1%	-26.7%	-1545 bps	-24.9%	n/a	n/a

Source: Bloomberg, CMBIGM estimates

## Valuation

Figure 3: Global AI companies: valuation comparison

Companies	Ticker	Price (LC)	PS(x)		EV/Sales (x)		Rev CAGR 2023E-2025E
			2024E	2025E	2024E	2025E	
<b>China</b>							
Cloudwalk	688327 CH	14.2	13.8	9.7	12.9	9.1	42%
Arcsoft	688088 CH	34.5	15.9	11.4	13.6	9.7	32%
Hikvision	002415 CH	32.7	3.0	2.6	2.8	2.4	11%
Dahua	002236 CH	19.6	1.7	1.5	1.7	1.5	12%
		<b>Average</b>	<b>8.6</b>	<b>6.3</b>	<b>7.8</b>	<b>5.7</b>	
<b>Overseas</b>							
Palantir	PLTR US	24.5	20.2	16.8	19.4	16.1	19%
UiPath	PATH US	23.1	10.2	8.4	9.3	7.7	21%
C3.ai	AI US	27.6	10.9	9.2	8.5	7.2	13%
Ambarella	AMBA US	51.4	9.1	8.3	8.3	7.5	-9%
		<b>Average</b>	<b>12.6</b>	<b>10.6</b>	<b>11.4</b>	<b>9.6</b>	
		<b>Global Average</b>	<b>10.6</b>	<b>8.5</b>	<b>9.6</b>	<b>7.7</b>	

Source: Bloomberg, CMBIGM

Note: data are as of 25 Mar 2024

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>4,700</b>	<b>3,809</b>	<b>3,406</b>	<b>4,349</b>	<b>5,464</b>	<b>6,532</b>
Cost of goods sold	(1,423)	(1,266)	(1,905)	(2,489)	(3,111)	(3,699)
<b>Gross profit</b>	<b>3,278</b>	<b>2,542</b>	<b>1,501</b>	<b>1,860</b>	<b>2,353</b>	<b>2,832</b>
<b>Operating expenses</b>	<b>(6,594)</b>	<b>(6,483)</b>	<b>(5,795)</b>	<b>(5,195)</b>	<b>(4,895)</b>	<b>(4,681)</b>
Selling expense	(682)	(901)	(819)	(774)	(728)	(697)
Admin expense	(2,298)	(1,568)	(1,511)	(1,373)	(1,295)	(1,238)
R&D expense	(3,614)	(4,014)	(3,466)	(3,048)	(2,872)	(2,746)
<b>Operating profit</b>	<b>(3,316)</b>	<b>(3,941)</b>	<b>(4,295)</b>	<b>(3,335)</b>	<b>(2,542)</b>	<b>(1,849)</b>
Interest income	188	261	342	277	319	308
Interest expense	(34)	(55)	(147)	(169)	(244)	(294)
Other income/expense	(13,979)	(2,597)	(2,405)	(454)	(449)	(575)
<b>Pre-tax profit</b>	<b>(17,142)</b>	<b>(6,333)</b>	<b>(6,504)</b>	<b>(3,682)</b>	<b>(2,916)</b>	<b>(2,410)</b>
Income tax	(36)	240	9	5	4	4
<b>After tax profit</b>	<b>(17,177)</b>	<b>(6,093)</b>	<b>(6,495)</b>	<b>(3,677)</b>	<b>(2,912)</b>	<b>(2,406)</b>
Minority interest	(37)	(48)	(55)	(31)	(24)	(20)
<b>Net profit</b>	<b>(17,140)</b>	<b>(6,045)</b>	<b>(6,440)</b>	<b>(3,646)</b>	<b>(2,887)</b>	<b>(2,386)</b>
<b>Adjusted net profit</b>	<b>(1,381)</b>	<b>(4,688)</b>	<b>(5,360)</b>	<b>(3,078)</b>	<b>(2,278)</b>	<b>(1,603)</b>
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>28,084</b>	<b>21,524</b>	<b>16,940</b>	<b>18,251</b>	<b>18,586</b>	<b>17,001</b>
Cash & equivalents	16,530	7,963	9,423	11,651	11,893	10,281
Account receivables	5,776	6,072	5,159	3,623	3,392	3,095
Inventories	496	617	506	1,125	1,449	1,774
Financial assets at FVTPL	273	632	522	522	522	522
Other current assets	4,991	6,213	1,310	1,310	1,310	1,310
Contract assets	19	27	20	20	20	20
<b>Non-current assets</b>	<b>8,860</b>	<b>15,903</b>	<b>15,948</b>	<b>15,849</b>	<b>15,627</b>	<b>15,171</b>
PP&E	2,909	6,999	7,379	7,291	7,081	6,640
Right-of-use assets	432	315	350	350	350	350
Intangibles	225	333	326	315	303	288
Other non-current assets	5,294	8,256	7,894	7,894	7,894	7,894
<b>Total assets</b>	<b>36,944</b>	<b>37,427</b>	<b>32,888</b>	<b>34,100</b>	<b>34,213</b>	<b>32,172</b>
<b>Current liabilities</b>	<b>2,795</b>	<b>3,323</b>	<b>3,287</b>	<b>6,004</b>	<b>7,492</b>	<b>8,921</b>
Short-term borrowings	0	321	194	385	574	441
Account payables	2,290	2,473	2,262	4,715	5,927	7,405
Other current liabilities	177	460	613	803	992	860
Contract liabilities	172	208	266	340	427	510
<b>Non-current liabilities</b>	<b>2,162</b>	<b>5,090</b>	<b>6,445</b>	<b>6,942</b>	<b>8,479</b>	<b>7,416</b>
Long-term borrowings	340	2,907	4,279	6,444	7,972	6,902
Bond payables	45	12	5	5	5	5
Other non-current liabilities	1,778	2,171	2,161	493	501	509
<b>Total liabilities</b>	<b>4,957</b>	<b>8,413</b>	<b>9,733</b>	<b>12,947</b>	<b>15,971</b>	<b>16,336</b>
Share capital	0	0	0	0	0	0
Retained earnings	(40,149)	(46,194)	(52,634)	(56,280)	(59,167)	(61,553)
Other reserves	72,042	75,164	75,794	77,469	77,469	77,469
<b>Total shareholders equity</b>	<b>31,893</b>	<b>28,970</b>	<b>23,159</b>	<b>21,189</b>	<b>18,302</b>	<b>15,916</b>
Minority interest	95	44	(4)	(35)	(60)	(80)
<b>Total equity and liabilities</b>	<b>36,944</b>	<b>37,427</b>	<b>32,888</b>	<b>34,100</b>	<b>34,213</b>	<b>32,172</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(17,142)	(6,333)	(6,504)	(3,682)	(2,916)	(2,410)
Depreciation & amortization	658	968	994	1,141	1,237	1,323
Tax paid	(38)	(11)	(22)	5	4	4
Change in working capital	(2,026)	(101)	823	3,451	1,214	1,541
Others	16,062	2,393	1,475	(107)	(75)	(14)
<b>Net cash from operations</b>	<b>(2,485)</b>	<b>(3,084)</b>	<b>(3,234)</b>	<b>808</b>	<b>(535)</b>	<b>443</b>
<b>Investing</b>						
Capital expenditure	(1,266)	(5,167)	(1,518)	(1,043)	(1,015)	(866)
Others	(283)	(4,131)	4,976	277	319	308
<b>Net cash from investing</b>	<b>(1,548)</b>	<b>(9,298)</b>	<b>3,458</b>	<b>(766)</b>	<b>(697)</b>	<b>(558)</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	4,769	3,389	1,228	2,356	1,717	(1,203)
Proceeds from share issues	4,643	0	0	0	0	0
Others	(34)	(60)	(145)	(169)	(244)	(294)
<b>Net cash from financing</b>	<b>9,378</b>	<b>3,329</b>	<b>1,084</b>	<b>2,186</b>	<b>1,474</b>	<b>(1,497)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	11,428	16,530	7,963	9,423	11,651	11,893
Exchange difference	(243)	487	153	0	0	0
<b>Cash at the end of the year</b>	<b>16,530</b>	<b>7,963</b>	<b>9,423</b>	<b>11,651</b>	<b>11,893</b>	<b>10,281</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	36.4%	(19.0%)	(10.6%)	27.7%	25.6%	19.5%
Gross profit	34.8%	(22.4%)	(41.0%)	24.0%	26.5%	20.3%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	69.7%	66.8%	44.1%	42.8%	43.1%	43.4%
Operating margin	(70.6%)	(103.5%)	(126.1%)	(76.7%)	(46.5%)	(28.3%)
Adj. net profit margin	(29.4%)	(123.1%)	(157.4%)	(70.8%)	(41.7%)	(24.5%)
Return on equity (ROE)	(316.7%)	(19.9%)	(24.7%)	(16.4%)	(14.6%)	(13.9%)
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.5)	(0.1)	(0.1)	(0.2)	(0.2)	(0.1)
Current ratio (x)	10.0	6.5	5.2	3.0	2.5	1.9
Receivable turnover days	319.3	493.6	345.5	241.9	169.3	118.5
Inventory turnover days	155.4	160.5	107.6	165.0	170.0	175.0
Payable turnover days	128.9	189.9	175.3	200.9	206.9	224.3
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	ns	ns	ns	ns	ns	ns
P/B	4.1	3.8	2.6	1.1	1.3	1.5
EV	1,480.1	11,082.5	15,997.3	16,125.0	17,600.5	22,933.4
EV/Sales	0.3	2.9	4.7	3.7	3.2	3.5

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

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**NOT RATED** : Stock is not rated by CMBIGM

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