

Glodon (002410 CH)

Sector headwinds continue to impact growth

Glodon reported 3Q23 financial results: total revenue grew by 1% YoY to RMB1.71bn in 3Q23, below CMBI/consensus estimate of RMB1.89/2.00bn. 9M23 total revenue was up 7% YoY to RMB4.78bn. Net income declined by 94% YoY to RMB13.4mn in 3Q23 (versus CMBI/consensus estimate of RMB279/351mn), primarily due to soft revenue growth and increase in R&D investments. 9M23 net income decreased by 58% YoY to RMB278mn. In view of the persisting headwinds in the housing construction market and softer-than-expected 9M23 performance, we lower FY23-25 total revenue estimate by 6-8% and also trim FY23 net income estimate by 27%. We cut our target price to RMB29.75 (previous: RMB45.10), based on 6.0x FY23E EV/Sales.

- Construction costing: persisting sector headwinds impact growth.** Construction costing revenue grew by 6% YoY to RMB1.3bn in 3Q23 (77% of total revenue), with its SaaS revenue up by 15% YoY to RMB963mn. Newly signed contract value declined by 13% YoY to RMB968mn in 3Q23, as construction clients cut their digital spending given the headwinds in housing market. Despite the decline in new contract acquisition, the renewal rate increased by c.3ppt YoY in 3Q23. For the new digital costing business, SaaS revenue grew by 79% YoY to RMB454mn in 9M23, but newly signed contract value was down 22% YoY to RMB427mn, as the company focuses more on the project deployment and lighthouse customer accumulation rather than new customer acquisition in 2023.
- Construction management: focus on quality growth.** Construction management revenue dropped by 26% YoY to RMB291mn in 3Q23 (17% of total revenue), mainly due to the decline in housing new start (down 23% YoY in 9M23) and the tightening budget of construction enterprises. Going forward, the company will take initiatives to drive more quality growth of construction management business: 1) increase sales of higher-margin self-developed products; 2) optimize customer structure to have higher revenue contribution from infrastructure projects; 3) focus on the loss reduction and cash flow performance of the projects.
- Expense control to drive margin recovery.** Glodon's net margin was down by 13.5ppt YoY to 0.8% in 3Q23, primarily due to the company's investments in R&D and slowdown in revenue growth. S&M/R&D expenses rose 20/49% YoY to RMB522/546mn in 3Q23, equivalent to 30.5/31.9% of total revenue (vs. 25.8/21.6% of total revenue in 2Q23). In view of sector headwinds, the company has stopped hiring, controlled headcount growth and cut discretionary expenses. Supported by its quality growth strategy, we expect its net margin to bottom out from 3Q23 onwards.
- Maintain BUY.** We lower our target price by 34% to RMB29.75 (previous: RMB45.10), based on 6.0x FY23E EV/Sales, which is on par with the SaaS peer's average. Glodon's leadership in China's digital construction market remains intact and we expect its earnings growth to reaccelerate in FY24E. Current forward 1-year PE and PS are both 2 S.D below 3-year average, offering decent safety margin. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,619	6,591	7,102	8,116	9,090
YoY growth (%)	40.3	17.3	7.7	14.3	12.0
Net profit (RMB mn)	661.0	966.7	727.9	1,277.8	1,308.8
EPS (Reported) (RMB)	0.56	0.82	0.44	0.77	0.79
Consensus EPS (RMB)	0.56	0.81	0.62	0.83	1.05
EV/Sales (x)	5.0	4.2	3.6	3.0	2.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB29.75
(Previous TP	RMB45.10)
Up/Downside	52.6%
Current Price	RMB19.49

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Stock Data

Mkt Cap (RMB mn)	23,220.1
Avg 3 mths t/o (RMB mn)	492.2
52w High/Low (RMB)	55.21/19.20
Total Issued Shares (mn)	1191.4

Source: FactSet

Shareholding Structure

Diao Zhizhong - Chairman	16.0%
Other co-founders	14.9%

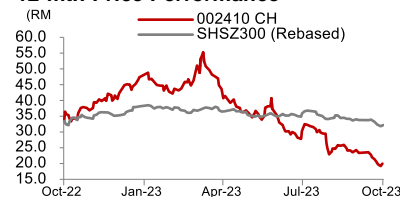
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-20.1%	-15.8%
3-mth	-36.2%	-28.9%
6-mth	-52.1%	-45.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business Forecasts Update and Valuation

Figure 1: Glodon: forecast revision

RMBm	2023E			2024E			2025E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	7,102	7,539	-6%	8,116	8,652	-6%	9,090	9,829	-8%
Gross profit	6,015	6,232	-3%	6,812	6,969	-2%	7,504	7,910	-5%
OP Profit	879	1,160	-24%	1,415	1,431	-1%	1,441	1,591	-9%
PBT	808	1,100	-27%	1,415	1,425	-1%	1,468	1,616	-9%
Net profit	728	993	-27%	1,278	1,292	-1%	1,309	1,456	-10%
EPS	0.44	0.60	-27%	0.77	0.78	-1%	0.79	0.87	-10%
Margins									
GM	84.7%	82.7%	205 bps	83.9%	80.6%	337 bps	82.6%	80.5%	208 bps
OPM	12.4%	15.4%	-301 bps	17.4%	16.5%	89 bps	15.9%	16.2%	-33 bps
PBT margin	11.4%	14.6%	-321 bps	17.4%	16.5%	96 bps	16.2%	16.4%	-28 bps
Net margin	10.2%	13.2%	-293 bps	15.7%	14.9%	81 bps	14.4%	14.8%	-41 bps

Source: CMBIGM estimates

Figure 2: Glodon: CMBIGM estimates vs consensus

RMBm	2023E			2024E			2025E		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	7,102	7,602	-7%	8,116	9,081	-11%	9,090	10,862	-16%
Gross profit	6,015	6,323	-5%	6,812	7,531	-10%	7,504	8,984	-16%
OP Profit	879	1,258	-30%	1,415	1,695	-17%	1,441	2,096	-31%
PBT	808	1,146	-29%	1,415	1,578	-10%	1,468	2,003	-27%
Net profit	728	1,024	-29%	1,278	1,386	-8%	1,309	1,811	-28%
EPS	0.4	0.6	-29%	0.8	0.8	-5%	0.8	1.0	-23%
Margins									
GM	84.7%	83.2%	153 bps	83.9%	82.9%	100 bps	82.6%	82.7%	-15 bps
OPM	12.4%	16.5%	-417 bps	17.4%	18.7%	-123 bps	15.9%	19.3%	-344 bps
PBT margin	11.4%	15.1%	-369 bps	17.4%	17.4%	6 bps	16.2%	18.4%	-229 bps
Net margin	10.2%	13.5%	-323 bps	15.7%	15.3%	48 bps	14.4%	16.7%	-227 bps

Source: Bloomberg, CMBIGM estimates

Figure 3: Glodon: 3Q23 results review

	Sep-22	Jun-23	Sep-23			Sep-23		Sep-23	
	3Q22	2Q23	3Q23			3Q23	versus	3Q23	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI		Consensus	
Revenue	1,691	1,757	1,711	1%	-3%	1,895	-10%	2,001	-14%
Gross profit	1,353	1,490	1,442	7%	-3%	1,554	-7%	1,641	-12%
Gross margin	80.0%	84.8%	84.3%	4.3 pct pts	-0.5 pct pts	82.0%	2.3 pct pts	82.0%	2.3 pct pts
Operating profit	247	195	26	-90%	-87%	319	-92%	334	-92%
Operating margin	14.6%	11.1%	1.5%	-13.1 pct pts	-9.6 pct pts	16.8%	-15.3 pct pts	16.7%	-15.2 pct pts
Net non-op	-1	-48	-11	-2130%	77%	-12	8%	88	-113%
PBT	247	146	14	-94%	-90%	307	-95%	422	-97%
Net income	241	128	13	-94%	-90%	279	-95%	351	-96%
EPS RMB	0.14	0.08	0.01	-94%	-90%	0.17	-95%	0.23	-96%

Source: Bloomberg, CMBIGM estimates

Figure 4: Peer comparison: SaaS sector

Companies	Ticker	Price (Local)	EV/Sales (x)			EV/EBITDA (x)			Rev CAGR 22-25E
			2023E	2024E	2025E	2023E	2024E	2025E	
Mingyuan Cloud	909 HK	3.2	2.0	1.8	1.6	NA	NA	NA	4.7%
Kingdee	268 HK	10.2	5.4	4.5	3.7	NA	NA	43.7	20.8%
Yonyou	600588 CH	15.7	4.9	4.0	3.3	50.4	29.5	21.2	18.1%
Autodesk	ADSK US	196.1	8.4	7.8	7.0	21.6	19.0	17.3	39.1%
CoStar	CSGP US	70.9	10.1	8.9	7.6	50.2	41.6	30.3	20.0%
Average			6.2	5.4	4.6	40.7	30.0	28.1	

Source: Bloomberg, CMBIGM

Note: data as at the 26 Oct market close

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	4,005	5,619	6,591	7,102	8,116	9,090
Cost of goods sold	(454)	(893)	(1,124)	(1,086)	(1,305)	(1,586)
Gross profit	3,550	4,727	5,467	6,015	6,812	7,504
Operating expenses	(3,142)	(3,978)	(4,347)	(5,136)	(5,397)	(6,063)
Selling expense	(1,256)	(1,587)	(1,690)	(1,900)	(2,083)	(2,335)
Admin expense	(879)	(1,099)	(1,229)	(1,352)	(1,455)	(1,596)
R&D expense	(1,083)	(1,333)	(1,515)	(1,963)	(1,955)	(2,234)
Others	75	41	87	79	97	102
Operating profit	408	748	1,120	879	1,415	1,441
Investment gain/loss	(10)	0	0	(15)	(15)	(15)
Interest income	17	53	33	32	92	107
Interest expense	0	0	0	0	0	0
Foreign exchange gain/loss	0	(1)	2	0	0	0
Other income/expense	(5)	(51)	(77)	(87)	(77)	(65)
Pre-tax profit	410	749	1,078	808	1,415	1,468
Income tax	(29)	(31)	(66)	(22)	(61)	(74)
Minority interest	(51)	(58)	(45)	(59)	(77)	(86)
Net profit	330	661	967	728	1,278	1,309

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	5,420	5,122	5,797	8,295	9,335	10,436
Cash & equivalents	4,797	4,050	4,344	6,914	8,030	9,217
Account receivables	475	560	1,120	973	890	797
Inventories	26	71	87	51	58	65
Other current assets	121	441	245	357	357	357
Non-current assets	4,127	4,946	5,749	6,166	6,594	6,970
PP&E	994	1,219	1,478	1,700	2,419	3,085
Investment in JVs & assos	255	326	342	313	313	313
Intangibles	1,664	1,979	2,598	2,660	2,370	2,080
Other non-current assets	1,214	1,421	1,331	1,492	1,492	1,492
Total assets	9,547	10,068	11,545	14,460	15,928	17,406
Current liabilities	2,858	3,637	4,576	7,182	7,705	8,207
Short-term borrowings	3	0	4	0	0	(0)
Account payables	1,740	2,395	531	3,661	4,185	4,687
Other current liabilities	1,115	1,242	4,041	3,520	3,520	3,520
Non-current liabilities	131	158	168	169	169	169
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	131	158	168	169	169	169
Total liabilities	2,989	3,795	4,744	7,350	7,873	8,375
Share capital	1,186	1,189	1,191	1,665	1,665	1,665
Capital surplus	3,135	3,174	2,910	2,565	2,565	2,565
Retained earnings	1,957	2,432	3,063	3,316	4,261	5,237
Other reserves	125	(1,007)	(853)	(938)	(938)	(938)
Total shareholders equity	6,402	5,788	6,312	6,608	7,552	8,528
Minority interest	156	485	489	502	502	502
Total equity and liabilities	9,547	10,068	11,545	14,460	15,928	17,406

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	410	749	1,078	808	1,415	1,468
Depreciation & amortization	384	313	225	411	448	504
Tax paid	(29)	(31)	(66)	(22)	(61)	(74)
Change in working capital	784	525	(2,440)	486	599	587
Others	327	45	2,850	1,843	0	0
Net cash from operations	1,876	1,601	1,648	3,526	2,402	2,486
Investing						
Capital expenditure	(439)	(720)	(850)	(886)	(876)	(880)
Acquisition of subsidiaries/ investments	(239)	0	(36)	(73)	0	0
Net proceeds from disposal of short-term investments	(19)	(931)	(95)	(200)	0	0
Others	0	110	16	(9)	0	0
Net cash from investing	(697)	(1,541)	(964)	(1,167)	(876)	(880)
Financing						
Dividend paid	(157)	(354)	(410)	(477)	(333)	(333)
Net borrowings	(1,088)	(3)	0	(3)	(0)	(0)
Proceeds from share issues	3,040	636	295	491	0	0
Others	(395)	(1,074)	(296)	(114)	(77)	(86)
Net cash from financing	1,400	(795)	(412)	(562)	(410)	(419)
Net change in cash						
Cash at the beginning of the year	2,231	4,797	4,050	4,344	6,914	8,030
Exchange difference	(14)	(13)	23	(5)	0	0
Cash at the end of the year	4,797	4,050	4,344	6,137	8,030	9,217
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	13.1%	40.3%	17.3%	7.7%	14.3%	12.0%
Gross profit	12.0%	33.1%	15.7%	10.0%	13.2%	10.2%
Operating profit	20.6%	83.5%	49.6%	(21.5%)	61.0%	1.9%
Net profit	40.5%	100.1%	46.3%	(24.7%)	75.5%	2.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	88.7%	84.1%	82.9%	84.7%	83.9%	82.6%
Operating margin	10.2%	13.3%	17.0%	12.4%	17.4%	15.9%
Return on equity (ROE)	6.8%	10.8%	16.0%	11.3%	18.0%	16.3%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.7)	(0.7)	(1.0)	(1.1)	(1.1)
Current ratio (x)	1.9	1.4	1.3	1.2	1.2	1.3
Receivable turnover days	48.6	33.6	46.5	53.8	41.9	33.9
Inventory turnover days	2.2	3.2	4.4	3.5	2.5	2.5
Payable turnover days	158.6	155.6	29.4	188.2	188.2	188.2
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	149.2	87.1	44.7	44.6	25.4	24.8
P/B	7.9	10.1	6.9	4.9	4.3	3.8
Div yield (%)	0.6	0.6	1.1	1.0	1.0	1.0
EV	27,338.1	28,082.5	27,791.3	25,218.0	24,102.0	22,915.1
EV/Sales	6.8	5.0	4.2	3.6	3.0	2.5

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

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