

Kingdee (268 HK)

Loss reduction on track

Kingdee reported its 1H23 results: revenue was up 16.8% YoY to RMB2.6bn, 1.2% shy of Bloomberg consensus, while the net loss of RMB284mn was 8% narrower than consensus estimate of RMB307mn loss, indicating an on-track loss reduction. Core SaaS product Galaxy's ARR growth momentum remained healthy with 28.6% YoY growth in subscription ARR. Meanwhile, domestic substitution trend continues to drive solid large enterprise revenue growth (+38.4% YoY). But we expect demand recovery will 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 BUY with new TP of HK\$17.0, based on 8.4x 2023E EV/Sales, in line with one-year mean (was 11x based on 3-year mean).

- **Revenue contribution from cloud rose further.** In 1H23, cloud revenue grew 22% YoY to RMB2.0bn, and was 79.5% of total revenue (1H22: 76.4%), while license ERP revenue grew 2% YoY (1H22: -18% YoY), aided by the private deployment of some of the Xinchuang projects. Looking ahead, management guided for a continuous rising trend in cloud revenue contribution. Net loss shrank to RMB284mn in 1H23 (1H22: RMB 356mn), driven by GPM expansion (+1.3pp YoY to 61.9% in 1H23) aided by increase in cloud revenue contribution, and cost control.
- **Small and medium-sized enterprises: user stickiness remains high.** In 1H23, Kingdee's core SaaS product Galaxy achieved revenue of RMB922mn, up 17% YoY (1H22: 16%), and Galaxy's subscription ARR was up 28.6% YoY. Dollar retention rate recorded a YoY increase of 7pp to 96% in 1H23, demonstrating further improvement on user stickiness. Management highlighted that customers with an ARR of over RMB100k accounted for 12% of total, while this user group contributed to c. 40% of total Galaxy ARR, and Kingdee aims for more up-sell opportunities to drive further ARR and revenue growth.
- **Solid large enterprise revenue growth driven by domestic substitution.** Kingdee's Cosmic & Constellation (CC) revenue grew 38% YoY (1H22: 78% YoY) to RMB393mn, and was 15.3% of total revenue (1H22: 12.9%). Management highlighted a strong customer acquisition trend, although noted a delay in project delivery. Kingdee has signed up 794 customers during 1H23, including 297 new customers such as China National Building Material Group, Tongwei, iFlytek and Belle Fashion. As of 1H23, management highlighted that it has helped 177 enterprises in achieving all-rounded local substitution in core ERP system.
- **Update on guidance and valuation.** In view of slower-than-expected recovery in client demand due to macro headwinds, management updated its guidance on ARR to RMB3.0bn for 2023E (was RMB3.3bn), which implies 40% YoY growth, but remains confident on generating RMB600mn OCF in 2023E and on its target to deliver 50% CAGR in operating cash flow over 2023-2025E. We maintain BUY with new target price of HK\$17.0, based on 8.4x 2023E EV/Sales, in line with one-year mean.

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
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\$23.28)
Up/Downside	37.1%
Current Price	HK\$12.40

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Stock Data

Mkt Cap (HK\$ mn)	43,090.0
Avg 3 mths t/o (HK\$ mn)	160.7
52w High/Low (HK\$)	18.86/9.18
Total Issued Shares (mn)	3475.0

Source: FactSet

Shareholding Structure

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

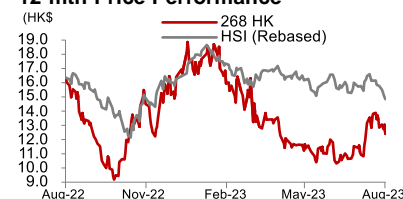
Source: HKEx

Share Performance

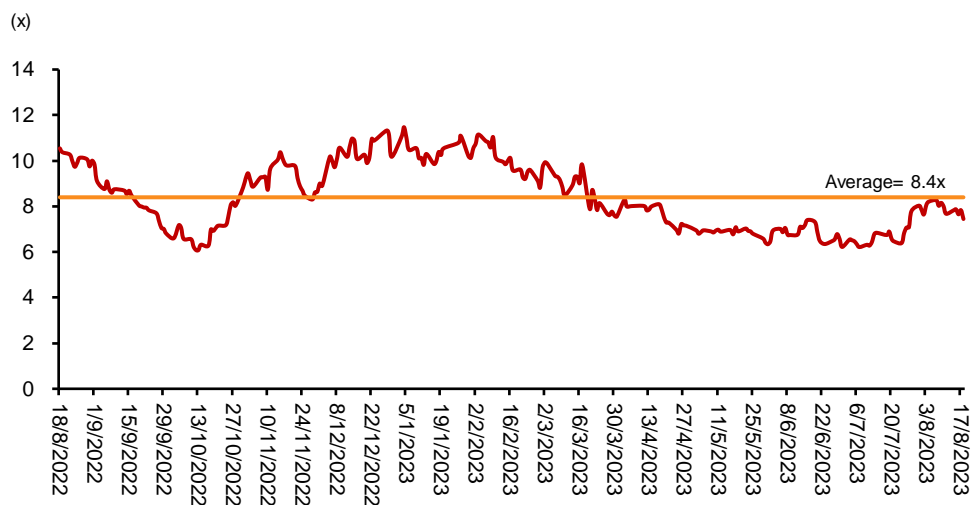
	Absolute	Relative
1-mth	8.8%	15.2%
3-mth	6.3%	16.9%
6-mth	-22.2%	-9.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Kingdee: one-year average EV/S

Source: Bloomberg, CMBIGM

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	239.1
P/B	6.1	9.3	6.4	5.6	5.6	5.5
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
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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