

# Software & IT Services

## Implications of Huawei MetaERP

Media reported that Huawei may launch self-developed ERP (MetaERP) in Apr. This is negative to the China ERP market as competition heats up but the impacts to Yonyou and Inspur will be larger than Kingdee as the formers are more large-enterprises/ SOEs focused. Also, Huawei has to consider the potential implications to its Cloud business as Kingdee/ Yonyou/ Inspur may scale down their cloud resources usage with Huawei Cloud given direct competition in ERP. Meanwhile, Huawei's IT service partners such as Chinasoft, iSoftStone and SiE will benefit given more R&D and customization demand. However, we are concerned that the top-line benefits cannot be fully reflected in their bottom-line as Huawei's projects margin declined.

- **Huawei may launch self-developed ERP in Apr.** Media [reported](#) that Huawei may launch MetaERP officially in Apr 2023. The news quoted a speech delivered by Huawei's founder Mr. Ren Zhengfei in Feb 2023. According to the speech, Huawei has replaced 13,000 components and 4,000 circuit boards for its products with domestic substitutes in the past three years. Meanwhile, Huawei has developed an ERP system (MetaERP) with its own OS, database, compiler and language. MetaERP has been implemented and tested by internal departments globally.
- **China ERP market competition heats up.** We think Huawei's potential move is negative to the overall ERP market as competition may heat up. For the positioning of MetaERP, we think it aims to replace SAP/ Oracle being used by large-enterprises. The impact to Yonyou (83% cloud revenue from large enterprises + Govt in FY21) and Inspur will be larger than Kingdee (19%). Also, we think that Huawei has to consider the impact of direct competition with its cloud customers including Kingdee, Yonyou. We estimate that Kingdee's annual procurement of Huawei Cloud resources amounts to over RMB100mn level. Kingdee/ Yonyou may scale back and shift to use other cloud vendors if competition in ERP becomes fierce.
- **Huawei's IT service partners to benefit on top-line but margin is a concern.** We think Huawei's IT service partners including Chinasoft, iSoftStone and SiE will benefit given increasing R&D and implementation work related to MetaERP. However, we are concerned that these projects have lower margin and that the top-line benefits cannot be fully reflected in their bottom-line. We have observed the margin decline trend in Chinasoft (GPM 29.8% in FY19 to 26.7% in FY21) and iSoftStone (GPM 26.9% in FY19 to 24.7% in FY21) since Huawei business faced headwinds from US sanctions.
- **Share price over-reacted, buy Kingdee.** As a new entrant to the ERP market, we think it takes time for Huawei to prove and ramp up the MetaERP. The potential competition with existing ERP vendors could be limited in the near to medium term. Along the ERP supply chain, we prefer Kingdee for its standardized SaaS Galaxy performance and strong Xinchuang orders.

### Valuation Table

			Price	TP	EV/sales	P/E	ROE	Sales CAGR
	Ticker	Rating	(LC)	(LC)	FY23E	FY23E	FY23E	FY21-24E
Kingdee	268 HK	BUY	13.42	23.28	6.4	n.a.	-4%	17%
Yonyou	600588 CH	HOLD	25.40	22.27	6.7	102.8	4%	17%
Inspur	596 HK	NR	4.51	n.a.	0.7	17.7	10%	26%
Chinasoft	354 HK	BUY	5.30	9.14	0.5	9.5	11%	15%
iSoftstone	301236 CH	NR	42.62	n.a.	1.0	15.7	17%	23%
SiE	300687 CH	NR	36.92	n.a.	4.5	38.5	14%	29%

Source: Company data, CMBIGM estimates

**OUTPERFORM**  
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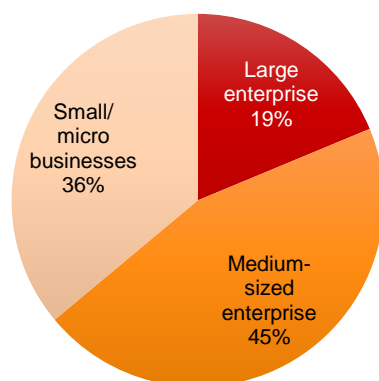
1. Kingdee (268 HK) – "SaaS and Xinchuang both in good shape" 17 Mar 2023 ([link](#))
2. Kingdee (268 HK) – "Bidding data implied accelerated software substitution" – 14 Feb 2023 ([link](#))
3. Yonyou (600588 CH) – "Distressed margin with non-standardized cloud" – 1 Feb 2023 ([link](#))

**Figure 1: Huawei to launch self-developed MetaERP in Apr 2023 according to a speech delivered by Huawei's founder Mr. Ren in Feb 2023 in a Chinese university**

幸亏我们过去用了近二十年时间，在基础理论上作了准备，投了几千亿培养了一批研究基础理论的科学家、技术诀窍的专家。他们一直在爬科学的“喜马拉雅山”。当我们受打压时，就请这些科学家到“山脚”来“放羊”、“种地”……，拿着“手术刀”参加“杀猪”的战斗。我们用三年时间内完成13000+颗器件的替代开发、4000+电路板的反复换板开发……。直到现在我们电路板才稳定下来，因为我们有国产的零部件供应了。今年4月份我们的MetaERP将会宣誓，完全用自己的操作系统、数据库、编译器和语言……，做出了自己的管理系统MetaERP软件。MetaERP已经历了公司全球各部门的应用实战考验，经过了公司的总账使用年度结算考验，我们公司的账是业界中很复杂的，已成功地证明MetaERP是有把握推广的。许多设计工具也上华为云公开给社会应用，逐步克服了断供的尴尬。

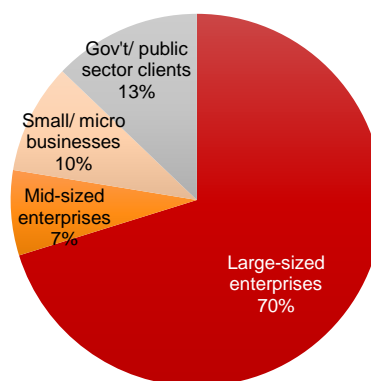
Source: CMBIGM

**Figure 2: Kingdee cloud revenue mix (FY21)**



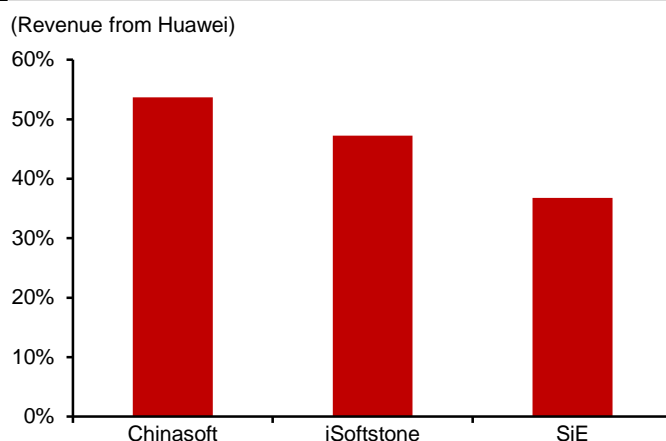
Source: Company data, CMBIGM

**Figure 3: Yonyou cloud revenue mix (FY21)**



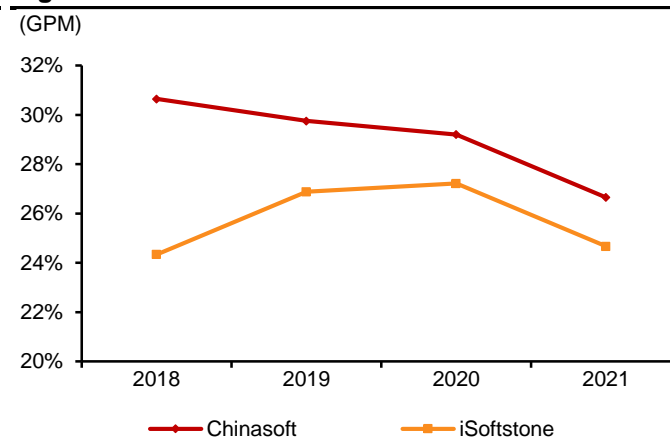
Source: Company data, CMBIGM

**Figure 4: Huawei revenue contribution (FY21)**



Source: Company data, CMBIGM

**Figure 5: GPM trend**



Source: Company data, CMBIGM

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