

# Yonyou (600588 CH)

## Inflection point appeared, but structural improvement likely takes time

Yonyou reported (28 Oct) mixed 3Q23 results: revenue was RMB2.3bn (+14 % YoY), in line with Bloomberg consensus estimates, and demonstrated an improvement from -5% YoY decline in 1H23, thanks to the gradual wear off of reorganizational impact. 3Q23 net loss attributable to ordinary shareholders was RMB185mn; although it narrowed from that of RMB284mn in 3Q22, it missed consensus of a loss of RMB138mn, which we attribute to the 4.3ppt miss on GPM, which came in at 50.9% (3Q22: 49.9%). We upgrade the stock from SELL to HOLD given likely better outlook on revenue growth and margin improvement in 4Q23 with the wear off of reorganizational impact, but overall macro and enterprises' budget pressure takes time to relieve, and we await more concrete evidence to become more positive. Our TP of RMB16.45 is based on 5.5x EV/Sales (was 6.0x) on 2023E revenue, in line with the one-year mean.

- **Inflection point on cloud revenue growth appeared...** In 3Q23, cloud services revenue was RMB1.6bn, up 28% YoY (1H23: 2.0% YoY) and ERP revenue fell 10% YoY to RMB713mn. Cloud service revenue for large /mid-sized enterprise came in at RMB1.1bn/162mn for 3Q23, with respective growth of 22%/61% YoY, improving from -3%/+25% YoY in 1H23. Management highlighted that new contract value growth was over 20% YoY each month for four consecutive months since June 2023 vs. -6% YoY in 5M23, and cumulative contract value for large enterprises reached RMB3.0bn/1.27bn in 9M23/3Q23, up 17/29% YoY, which both demonstrated an improvement in fundamentals, in our view.
- **...but concrete margin improvement likely takes time.** GPM improved 1.0ppt to 50.9% in 3Q23, driven by healthy revenue growth, but was 4.3ppts shy of consensus forecast due to greater-than-expected impact from organizational change (especially for large enterprise projects). As for operating expenses, S&M expenses grew 20% YoY in 9M23 (30.3% of total revenue, +4.7ppts YoY), administrative expenses up 1% YoY in 9M23 (14.0% of revenue, -0.2ppt YoY), and R&D expenses grew 1% YoY in 9M23 (26.2% of total revenue, -0.3ppt YoY). We estimate ARR contribution for cloud revenue to be stable YoY at around 32% for Yonyou (vs. >60% for Kingdee) in 2023, and we believe an increase in ARR contribution is vital to drive the unleash of operating leverage over the long term.
- **Cut target price to RMB16.45 but upgrade to HOLD.** Yonyou's share price has fallen 33% vs. -8% for CSI300 YTD, and we believe the market has priced in the impact of the organizational changes. With a better revenue growth outlook compared with that in 1H23, further downside on stock price could be limited, but recovery on macro and enterprises' digitalization budget likely still takes time to bring concrete improvement on Yonyou's top-line growth, and we await more concrete evidence to become more positive.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	8,932	9,262	10,155	11,915	13,342
Net profit (RMB mn)	707.8	219.2	(262.0)	520.6	654.8
EPS (Reported) (RMB cents)	21.64	6.38	(7.63)	15.16	19.07
Consensus EPS (RMB)	0.22	0.06	0.10	0.25	0.40
P/E (x)	164.2	365.9	na	106.4	84.6
EV/Sales (x)	6.1	5.7	5.5	4.6	4.1
ROE (%)	9.7	2.4	(2.3)	4.6	5.6

Source: Company data, Bloomberg, CMBIGM estimates

**HOLD (Upgrade)**

**Target Price** RMB16.45  
(Previous TP RMB19.56)  
**Up/Downside** 1.9%  
**Current Price** RMB16.14

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### Stock Data

Mkt Cap (RMB mn)	55,410.6
Avg 3 mths t/o (RMB mn)	307.8
52w High/Low (RMB)	28.22/15.27
Total Issued Shares (mn)	3433.1

Source: FactSet

### Shareholding Structure

Mr. Wang - Chairman	38.9%
HKSCC	7.9%

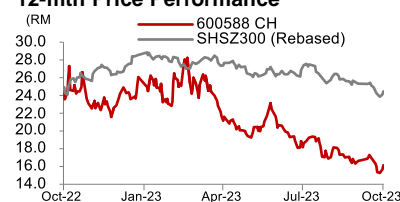
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-2.4%	1.4%
3-mth	-11.2%	-2.7%
6-mth	-23.7%	-14.6%

Source: FactSet

### 12-month Price Performance



Source: FactSet

Figure 1: Yonyou: CMBI forecast vs Bloomberg consensus

	2023			2024			2025		
RMB mn	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	10,155	10,458	-3%	11,915	12,605	-5%	13,342	15,300	-13%
Gross profit	5,505	5,973	-8%	6,955	7,325	-5%	7,873	9,049	-13%
OP	-349	479	-173%	459	938	-51%	614	1,511	-59%
PBT	-183	330	-155%	612	918	-33%	770	1,531	-50%
Net profit	-262	389	-167%	521	879	-41%	655	1,427	-54%
EPS	-0.08	0.10	-174%	0.15	0.25	-39%	0.19	0.40	-52%
<b>Margins</b>									
GM	54.2%	57.1%	-291 bps	58.4%	58.1%	26 bps	59.0%	59.1%	-13 bps
OPM	-3.4%	4.6%	-801 bps	3.8%	7.4%	-359 bps	4.6%	9.9%	-527 bps
PBT margin	-1.8%	3.2%	-496 bps	5.1%	7.3%	-214 bps	5.8%	10.0%	-423 bps
Net margin	-2.6%	3.7%	-630 bps	4.4%	7.0%	-260 bps	4.9%	9.3%	-442 bps

Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	8,525	8,932	9,262	10,155	11,915	13,342
Cost of goods sold	(3,321)	(3,461)	(4,041)	(4,650)	(4,960)	(5,468)
Gross profit	5,204	5,471	5,221	5,505	6,955	7,873
Operating expenses	(4,111)	(4,916)	(5,213)	(5,853)	(6,496)	(7,259)
Selling expense	(1,537)	(2,027)	(2,235)	(2,641)	(2,834)	(3,148)
Admin expense	(959)	(1,072)	(1,117)	(1,171)	(1,252)	(1,435)
R&D expense	(1,459)	(1,704)	(1,754)	(1,930)	(2,285)	(2,540)
Others	(156)	(113)	(106)	(111)	(126)	(136)
Operating profit	1,093	555	8	(349)	459	614
Interest expense	(110)	(79)	12	(76)	3	6
Other income/expense	143	298	227	242	150	151
Pre-tax profit	1,126	774	247	(183)	612	770
Income tax	(75)	(92)	(22)	(88)	(61)	(77)
After tax profit	1,051	682	225	(271)	551	693
Minority interest	(63)	25	(6)	9	(31)	(39)
Net profit	989	708	219	(262)	521	655

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	8,773	7,682	12,387	20,977	13,045	14,232
Cash & equivalents	5,605	4,616	8,304	15,929	7,082	7,358
Restricted cash	1,680	1,572	2,634	2,269	2,907	3,462
Account receivables	423	407	531	583	681	802
Other current assets	1,065	1,088	918	2,197	2,375	2,609
Non-current assets	8,177	9,647	11,168	13,263	13,397	13,418
PP&E	2,507	2,529	2,531	2,543	2,497	2,459
Intangibles	785	1,862	2,838	3,940	4,813	5,743
Other non-current assets	4,885	5,256	5,799	6,781	6,087	5,216
Total assets	16,950	17,329	23,555	34,240	26,442	27,650
Current liabilities	7,950	8,325	9,574	17,949	11,476	12,525
Short-term borrowings	2,420	2,802	3,611	11,818	4,165	4,164
Account payables	549	654	832	819	926	1,033
Other current liabilities	2,240	2,219	2,569	2,680	3,247	3,756
Accrued expenses	2,741	2,649	2,563	2,634	3,138	3,571
Non-current liabilities	453	1,078	1,463	3,848	1,756	1,750
Long-term borrowings	0	390	826	3,223	1,131	1,125
Other non-current liabilities	453	688	637	625	625	625
Total liabilities	8,403	9,403	11,037	21,798	13,232	14,275
Share capital	3,270	3,271	3,434	3,433	3,433	3,433
Capital surplus	1,096	892	5,852	5,476	5,476	5,476
Retained earnings	3,418	3,489	3,369	2,903	3,670	3,836
Other reserves	(242)	(664)	(1,193)	(952)	(952)	(952)
Total shareholders equity	7,543	6,987	11,461	10,861	11,628	11,793
Minority interest	1,004	939	1,057	1,582	1,582	1,582
Total equity and liabilities	16,950	17,329	23,555	34,240	26,442	27,650

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,126	774	247	(183)	612	770
Depreciation & amortization	357	473	579	609	789	964
Tax paid	(75)	(92)	(22)	(88)	(61)	(77)
Change in working capital	605	146	(819)	452	264	139
Others	(400)	2	301	18,146	0	0
<b>Net cash from operations</b>	<b>1,613</b>	<b>1,304</b>	<b>286</b>	<b>18,936</b>	<b>1,604</b>	<b>1,796</b>
<b>Investing</b>						
Capital expenditure	(592)	(1,030)	(1,557)	(1,655)	(1,616)	(1,856)
Others	(302)	(200)	(2,296)	439	694	871
<b>Net cash from investing</b>	<b>(894)</b>	<b>(1,230)</b>	<b>(3,853)</b>	<b>(1,217)</b>	<b>(922)</b>	<b>(985)</b>
<b>Financing</b>						
Dividend paid	(651)	(654)	(344)	(206)	246	(489)
Net borrowings	(1,950)	702	1,077	(7,062)	(9,744)	(7)
Others	346	(1,108)	6,508	(2,221)	(31)	(39)
<b>Net cash from financing</b>	<b>(2,256)</b>	<b>(1,060)</b>	<b>7,241</b>	<b>(9,489)</b>	<b>(9,529)</b>	<b>(535)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	7,147	5,605	4,616	8,304	15,929	7,082
Exchange difference	(6)	(2)	14	2	0	0
<b>Cash at the end of the year</b>	<b>5,605</b>	<b>4,616</b>	<b>8,304</b>	<b>16,536</b>	<b>7,082</b>	<b>7,358</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	0.2%	4.8%	3.7%	9.6%	17.3%	12.0%
Gross profit	(6.5%)	5.1%	(4.6%)	5.4%	26.3%	13.2%
Operating profit	36.4%	(49.2%)	(98.6%)	na	na	33.9%
Net profit	(16.4%)	(28.4%)	(69.0%)	na	na	25.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	61.0%	61.2%	56.4%	54.2%	58.4%	59.0%
Operating margin	12.8%	6.2%	0.1%	(3.4%)	3.8%	4.6%
Return on equity (ROE)	13.4%	9.7%	2.4%	(2.3%)	4.6%	5.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.4)	(0.2)	(0.3)	(0.1)	(0.2)	(0.2)
Current ratio (x)	1.1	0.9	1.3	1.2	1.1	1.1
Receivable turnover days	76.9	66.4	82.9	88.1	79.3	87.1
Inventory turnover days	9.6	17.0	18.5	20.0	19.3	20.3
Payable turnover days	60.3	69.0	75.1	29.4	28.4	28.3
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	128.6	164.2	365.9	na	106.4	84.6
P/B	14.9	14.7	6.4	4.5	4.2	4.1
Div yield (%)	0.5	0.6	0.4	0.4	ns	0.9
EV	53,230.4	54,925.7	52,600.6	56,104.3	55,207.0	54,923.3
EV/Sales	6.2	6.1	5.7	5.5	4.6	4.1

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

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