

# Yonyou (600588 CH)

## Business adjustment impact gradually fading

Yonyou reported (26 Apr) 1Q24 results: revenue was RMB1.7bn, up 19% YoY (1Q23: 15% YoY), 13% better than Bloomberg consensus driven by solid revenue growth in large enterprises. Net loss attributable to ordinary shareholders was RMB453mn, missing Bloomberg consensus by 16%, while adjusted net loss (excluding change in fair value gain or loss of investment) narrowed by RMB44mn YoY to RMB451mn, driven by expansion in gross margin aided by increase in cloud services revenue contribution and efficient cost control in operating expenses. Yonyou's business adjustment impact is gradually fading. The YoY growth in contract value should accelerate from 2Q, and operating leverage should continue with revenue growth recovery and opex optimization, while the increase in cloud services ARR contribution remains a key metric to watch. We maintain HOLD with a new target price of RMB12.11 (previous: RMB12.33).

- 1Q24 revenue beats expectation aided by robust cloud revenue growth in large enterprises.** In 1Q24, cloud services revenue was RMB1.3bn, up 32% YoY (1Q23: 27%) and ERP revenue fell 11% YoY to RMB454mn. As a percentage of revenue, cloud services revenue contribution increased to 72.0% of total, up 7.6pp YoY. Revenue generated from large/mid-sized enterprise/small and micro sized businesses came in at RMB1.1bn/288mn/213mn for 1Q24, with respective growth of 20/6/9% YoY.
- Gross margin expansion better than consensus expectation.** GPM improved by 6.2pp YoY to 50.8% in 1Q24, driven by healthy revenue growth, and was 2.3pp better than consensus, as the contribution from cloud revenue is increasing. As for operating expenses, S&M expenses grew 11% YoY in 1Q24 (29.2% of total revenue, -2.0ppts YoY), administrative expenses rose 24% YoY in 1Q24 (16.8% of revenue, +0.7ppts YoY), and R&D expenses climbed 12% YoY in 1Q24 (31.4% of total revenue, -1.9ppts YoY).
- Business adjustment impact is fading, while ARR contribution remains key to watch.** We lift 2024-2025E revenue to reflect better-than-expected revenue growth from large enterprises, but cut net profit forecast to RMB105mn/436mn to reflect the impact from fair value change of investment. We remain positive that Yonyou will swing from net loss to net profit in 2024, as business adjustment impact is fading, and the positive impact from headcount optimization should gradually translate into bottom line, in our view. Yonyou is striving for greater revenue contribution from cloud subscription, which should improve overall operating efficiency and drive for long-term margin expansion, while the increase in ARR contribution remains a key metric to watch, in our view. We maintain HOLD with a new target price of RMB12.11, based on unchanged 3.7x 2024E EV/sales.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	9,262	9,796	11,325	12,689	13,918
YoY growth (%)	3.7	5.8	15.6	12.0	9.7
Net profit (RMB mn)	219.2	(967.2)	105.0	435.5	906.7
EPS (Reported) (RMB cents)	6.38	(28.29)	3.07	12.74	26.52
Consensus EPS (RMB cents)	0.00	0.00	7.67	19.35	27.21
P/E (x)	184.1	N/A	382.6	92.2	44.3

Source: Company data, Bloomberg, CMBIGM estimates

### HOLD (Maintain)

<b>Target Price</b>	<b>RMB12.11</b>
(Previous TP)	RMB12.33)
<b>Up/Downside</b>	<b>3.0%</b>
<b>Current Price</b>	<b>RMB11.75</b>

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### Stock Data

Mkt Cap (RMB mn)	40,339.2
Avg 3 mths t/o (RMB mn)	366.2
52w High/Low (RMB)	23.13/9.92
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	-4.5%	-5.6%
3-mth	-7.2%	-13.7%
6-mth	-25.1%	-26.5%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 1: Yonyou: CMBI forecast change

RMB mn	2024E			2025E			2026E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	11,325	11,201	1%	12,689	12,550	1%	13,918	13,757	1%
Gross profit	6,403	6,324	1%	7,254	7,173	1%	8,341	8,238	1%
OP Profit	58	147	-61%	309	297	4%	855	730	17%
PBT	189	330	-43%	512	524	-2%	1,067	961	11%
Net profit	105	280	-63%	436	445	-2%	907	817	11%
EPS	0.03	0.08	-63%	0.13	0.13	-2%	0.27	0.24	11%
<b>Margins</b>									
GM	56.5%	56.5%	9 bps	57.2%	57.2%	1 bps	59.9%	59.9%	4 bps
OPM	0.5%	1.3%	-80 bps	2.4%	2.4%	6 bps	6.1%	5.3%	83 bps
PBT margin	1.7%	2.9%	-128 bps	4.0%	4.2%	-13 bps	7.7%	7.0%	68 bps
Net margin	0.9%	2.5%	-157 bps	3.4%	3.5%	-11 bps	6.5%	5.9%	58 bps

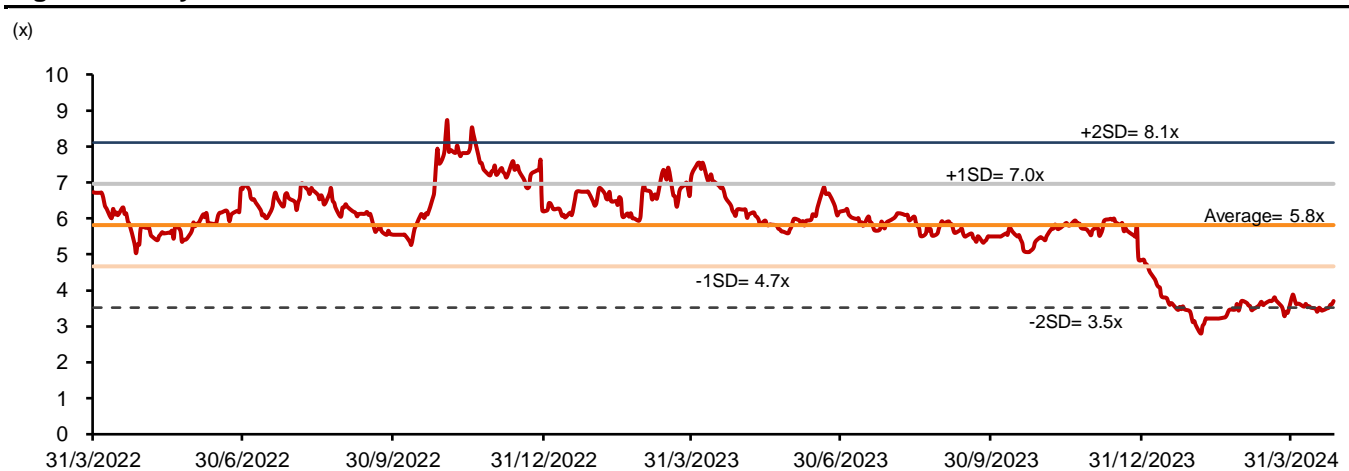
Source: CMBIGM estimates

Figure 2: Yonyou: CMBI forecast vs Bloomberg consensus

RMB mn	2024			2025			2026		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	11,325	11,318	0%	12,689	13,151	-4%	13,918	14,730	-6%
Gross profit	6,403	6,240	3%	7,254	7,419	-2%	8,341	8,390	-1%
OP Profit	58	247	-77%	309	698	-56%	855	707	21%
PBT	189	270	-30%	512	691	-26%	1,067	1,065	0%
Net profit	105	275	-62%	436	704	-38%	907	956	-5%
EPS	0.03	0.08	-59%	0.13	0.19	-33%	0.27	0.26	1%
<b>Margins</b>									
GM	56.5%	55.1%	140 bps	57.2%	56.4%	75 bps	59.9%	57.0%	297 bps
OPM	0.5%	2.2%	-167 bps	2.4%	5.3%	-288 bps	6.1%	4.8%	135 bps
PBT margin	1.7%	2.4%	-72 bps	4.0%	5.3%	-122 bps	7.7%	7.2%	44 bps
Net margin	0.9%	2.4%	-150 bps	3.4%	5.4%	-192 bps	6.5%	6.5%	2 bps

Source: Bloomberg, CMBIGM estimates

Figure 3: Yonyou: EV/sales valuation band



Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>8,932</b>	<b>9,262</b>	<b>9,796</b>	<b>11,325</b>	<b>12,689</b>	<b>13,918</b>
Cost of goods sold	(3,461)	(4,041)	(4,826)	(4,922)	(5,435)	(5,577)
<b>Gross profit</b>	<b>5,471</b>	<b>5,221</b>	<b>4,970</b>	<b>6,403</b>	<b>7,254</b>	<b>8,341</b>
<b>Operating expenses</b>	<b>(4,916)</b>	<b>(5,213)</b>	<b>(6,066)</b>	<b>(6,346)</b>	<b>(6,946)</b>	<b>(7,486)</b>
Selling expense	(2,027)	(2,235)	(2,743)	(2,843)	(3,271)	(3,472)
Admin expense	(1,072)	(1,117)	(1,108)	(1,259)	(1,383)	(1,503)
R&D expense	(1,704)	(1,754)	(2,106)	(2,128)	(2,163)	(2,373)
Others	(113)	(106)	(108)	(116)	(128)	(139)
<b>Operating profit</b>	<b>555</b>	<b>8</b>	<b>(1,096)</b>	<b>58</b>	<b>309</b>	<b>855</b>
Interest expense	(79)	12	(68)	(25)	4	7
Other income/expense	298	227	254	156	200	204
<b>Pre-tax profit</b>	<b>774</b>	<b>247</b>	<b>(910)</b>	<b>189</b>	<b>512</b>	<b>1,067</b>
Income tax	(92)	(22)	(23)	(65)	(51)	(107)
<b>After tax profit</b>	<b>682</b>	<b>225</b>	<b>(933)</b>	<b>124</b>	<b>461</b>	<b>960</b>
Minority interest	25	(6)	(34)	(19)	(26)	(53)
<b>Net profit</b>	<b>708</b>	<b>219</b>	<b>(967)</b>	<b>105</b>	<b>436</b>	<b>907</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>7,682</b>	<b>12,387</b>	<b>12,922</b>	<b>11,207</b>	<b>12,823</b>	<b>14,205</b>
Cash & equivalents	4,616	8,304	8,045	5,970	6,790	7,993
Restricted cash	1,572	2,634	3,059	2,519	3,005	3,092
Account receivables	407	531	552	590	696	743
Other current assets	1,088	918	1,266	2,128	2,333	2,377
<b>Non-current assets</b>	<b>9,647</b>	<b>11,168</b>	<b>12,599</b>	<b>13,600</b>	<b>13,666</b>	<b>13,510</b>
PP&E	2,529	2,531	2,619	2,832	2,791	2,757
Intangibles	1,862	2,838	3,872	4,773	5,746	6,491
Other non-current assets	5,256	5,799	6,108	5,994	5,128	4,262
<b>Total assets</b>	<b>17,329</b>	<b>23,555</b>	<b>25,521</b>	<b>24,806</b>	<b>26,489</b>	<b>27,715</b>
<b>Current liabilities</b>	<b>8,325</b>	<b>9,574</b>	<b>11,122</b>	<b>10,450</b>	<b>11,641</b>	<b>11,994</b>
Short-term borrowings	2,802	3,611	4,240	4,030	4,261	4,139
Account payables	654	832	1,007	888	1,020	1,010
Other current liabilities	2,219	2,569	2,936	2,813	3,260	3,481
Accrued expenses	2,649	2,563	2,940	2,719	3,100	3,364
<b>Non-current liabilities</b>	<b>1,078</b>	<b>1,463</b>	<b>2,596</b>	<b>2,526</b>	<b>2,583</b>	<b>2,549</b>
Long-term borrowings	390	826	1,910	1,094	1,151	1,117
Other non-current liabilities	688	637	685	1,432	1,432	1,432
<b>Total liabilities</b>	<b>9,403</b>	<b>11,037</b>	<b>13,718</b>	<b>12,976</b>	<b>14,224</b>	<b>14,543</b>
Share capital	3,271	3,434	3,419	3,419	3,419	3,419
Capital surplus	892	5,852	5,290	5,324	5,324	5,324
Retained earnings	3,489	3,369	2,198	2,303	2,739	3,645
Other reserves	(664)	(1,193)	(754)	(855)	(855)	(855)
<b>Total shareholders equity</b>	<b>6,987</b>	<b>11,461</b>	<b>10,152</b>	<b>10,191</b>	<b>10,626</b>	<b>11,533</b>
Minority interest	939	1,057	1,651	1,639	1,639	1,639
<b>Total equity and liabilities</b>	<b>17,329</b>	<b>23,555</b>	<b>25,521</b>	<b>24,806</b>	<b>26,489</b>	<b>27,715</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	774	247	(910)	189	512	1,067
Depreciation & amortization	473	579	855	788	959	1,165
Tax paid	(92)	(22)	(23)	(65)	(51)	(107)
Change in working capital	146	(819)	338	112	163	297
Others	2	301	(350)	583	0	0
<b>Net cash from operations</b>	<b>1,304</b>	<b>286</b>	<b>(91)</b>	<b>1,607</b>	<b>1,583</b>	<b>2,422</b>
<b>Investing</b>						
Capital expenditure	(1,030)	(1,557)	(1,797)	(1,577)	(1,891)	(1,875)
Others	(200)	(2,296)	1,254	(497)	866	1,072
<b>Net cash from investing</b>	<b>(1,230)</b>	<b>(3,853)</b>	<b>(542)</b>	<b>(2,074)</b>	<b>(1,025)</b>	<b>(803)</b>
<b>Financing</b>						
Dividend paid	(654)	(344)	(206)	0	0	0
Net borrowings	702	1,077	1,829	(250)	288	(156)
Others	(1,108)	6,508	(1,252)	(1,010)	(26)	(53)
<b>Net cash from financing</b>	<b>(1,060)</b>	<b>7,241</b>	<b>372</b>	<b>(1,260)</b>	<b>262</b>	<b>(210)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	5,605	4,616	8,304	8,045	5,970	6,790
Exchange difference	(2)	14	3	0	0	0
<b>Cash at the end of the year</b>	<b>4,616</b>	<b>8,304</b>	<b>8,045</b>	<b>6,318</b>	<b>6,790</b>	<b>8,199</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	4.8%	3.7%	5.8%	15.6%	12.0%	9.7%
Gross profit	5.1%	(4.6%)	(4.8%)	28.9%	13.3%	15.0%
Operating profit	(49.2%)	(98.6%)	na	na	432.5%	177.1%
Net profit	(28.4%)	(69.0%)	na	na	314.8%	108.2%
<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	61.2%	56.4%	50.7%	56.5%	57.2%	59.9%
Operating margin	6.2%	0.1%	(11.2%)	0.5%	2.4%	6.1%
Return on equity (ROE)	9.7%	2.4%	(8.9%)	1.0%	4.2%	8.2%
<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)	(0.2)	(0.3)	(0.2)	(0.1)	(0.1)	(0.2)
Current ratio (x)	0.9	1.3	1.2	1.1	1.1	1.2
Receivable turnover days	66.4	82.9	106.1	89.9	79.4	79.9
Inventory turnover days	17.0	18.5	20.2	18.4	18.5	18.9
Payable turnover days	69.0	75.1	37.5	28.6	29.3	26.5
<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	54.3	184.1	ns	382.6	92.2	44.3
P/B	4.8	3.2	3.4	3.4	3.3	3.0
Div yield (%)	1.7	0.9	0.5	0.0	0.0	0.0

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

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