

Xuan Wu Cloud (2392 HK)

Investing in CRM SaaS

We recently talked to Xuan Wu Cloud regarding FY23E outlook. For CRM PaaS services related to voice/ text notification, the Company will focus on stabilizing margin by optimizing customer portfolio. Meanwhile, higher-margin CRM SaaS will be the key growth driver and we expect CRM SaaS revenue to recover from COVID (+25% YoY in FY23E vs. +8% YoY in FY22). The Company will continue to invest in R&D on SaaS product standardization and S&M expenses in expanding customer base to durables industry (vs. FMCG focus now). Maintain BUY with new target price of HK\$8.65 (prior HK\$10.14).

- **CRM PaaS services: margin to stabilize with proactive client portfolio optimization.** Xuan Wu Cloud provides communication PaaS services (e.g. voice/ text verification and notification code module, hidden-number module) in the form of easily-deployed APIs and SDKs. In FY22, revenue from CRM PaaS services was relatively stable at RMB569mn (+3% YoY). However, rising telecommunication resource costs (95% of COGS) and intensifying competition have resulted in gross margin decline (7.9% in FY22 vs. 10.9% in FY21). We expect CRM PaaS gross margin to be relatively stable at 7.0% in FY23E as the Company is proactively reducing the business scale with low-margin customers.
- **CRM SaaS services: regaining growth momentum in FY23E.** In FY22, CRM SaaS services revenue was up +8% YoY to RMB474mn (vs. +30% YoY in FY21), mainly due to delays in revenue recognition affected by the pandemic. Meanwhile, we are positive to see the increase in no. of CRM SaaS customers (+9% YoY to 1,645 in FY22). We expect CRM SaaS revenue growth to reaccelerate in FY23E (+25% YoY), driven by 1) client base expansion and 2) +77% YoY growth in Sales Cloud (12.8% of FY22 CRM SaaS revenue) with the ramp up of AIoT product revenue.
- **Increasing R&D on SaaS product standardization and S&M expenses on new customer penetration.** Looking into FY23E, we expect Xuan Wu Cloud to achieve revenue growth of +14% YoY to RMB1,193mn with net loss narrowing to RMB8.4mn. Gross margin recovery (+2.3 pts YoY) will be partly offset by higher opex as the Company is increasing R&D on SaaS product standardization and expanding sales team to penetrate durables industry customers (CRM SaaS mainly serves FMCG customers currently).
- **Maintain BUY.** We revised down FY23-24E revenue forecast by 14-19% to reflect a slow recovery in CRM PaaS/ SaaS post-COVID. Maintain BUY with new target price of HK\$8.65 (prior HK\$10.14), based on 3.3x (prior 3.2x) FY23E EV/sales, in-line with China software peers valuation. Key risks include 1) intensifying price competition and 2) rising telecommunication resource costs.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	992	1,043	1,193	1,346	1,502
YoY growth (%)	24.5	5.2	14.4	12.8	11.6
Operating profit (RMB mn)	7	(45)	(17)	19	68
YoY growth (%)	(71.8)	na	na	na	247.4
Net profit (RMB mn)	14.5	(35.7)	(8.4)	25.8	69.1
FCF margin (%)	-2%	-15%	4%	0%	3%
P/E (x)	na	na	na	54.7	20.4
EV/Sales (x)	1.7	1.6	1.3	1.2	1.0
ROE (%)	5.2	(10.1)	(2.0)	6.0	14.6
Net gearing (%)	0.7	(10.5)	(21.2)	(20.7)	(27.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$8.65
(Previous TP)	HK\$10.14)
Up/Downside	200.4%
Current Price	HK\$2.88

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Stock Data

Mkt Cap (HK\$ mn)	1,613.7
Avg 3 mths t/o (HK\$ mn)	0.9
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	560.3

Source: FactSet

Shareholding Structure

Mr. Chen, Mr. Huang, Mr. Li	53.3%
Mr. Song	15.9%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.0%	-8.7%
3-mth	2.5%	9.0%
6-mth	-51.0%	-60.2%

Source: FactSet

12-mth Price Performance



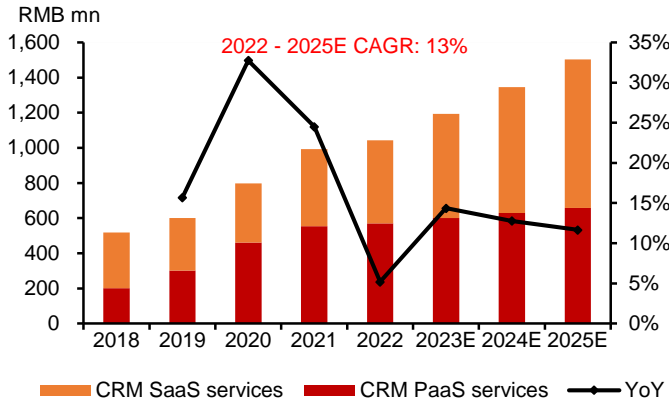
Source: FactSet

Related Reports

Xuan Wu Cloud (2392 HK) – “Leading intelligent CRM service provider” – 23 Sep 2022 ([link](#))

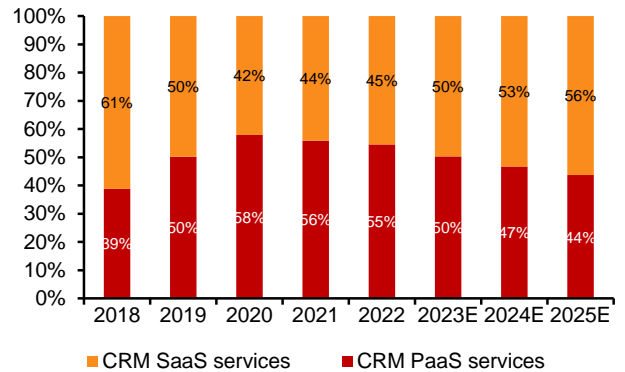
Focus Charts

Figure 1: Xuan Wu Cloud revenue



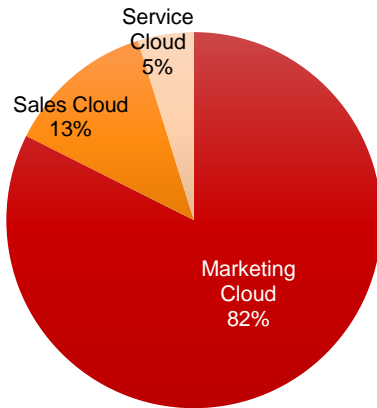
Source: Frost & Sullivan

Figure 2: Revenue breakdown



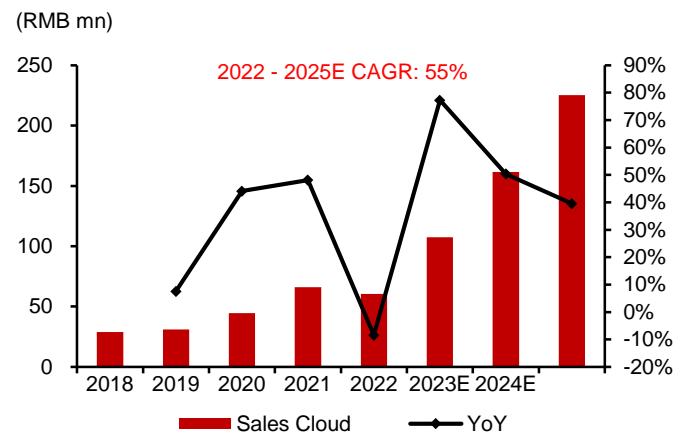
Source: Frost & Sullivan

Figure 3: CRM SaaS services revenue by solution (FY22)



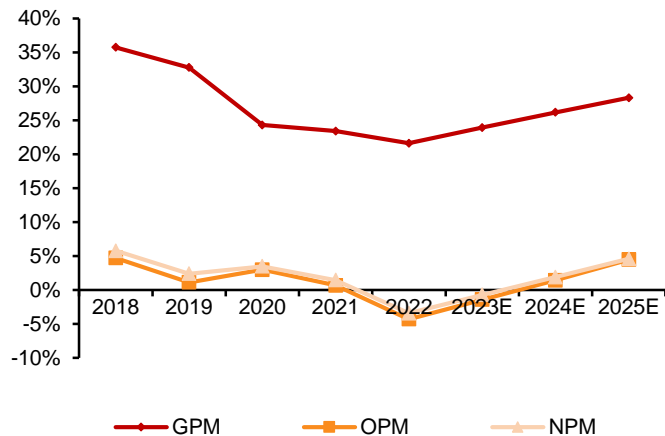
Source: Company data, CMBIGM estimates

Figure 4: Sales cloud revenue to grow at 55% CAGR in FY22-25E



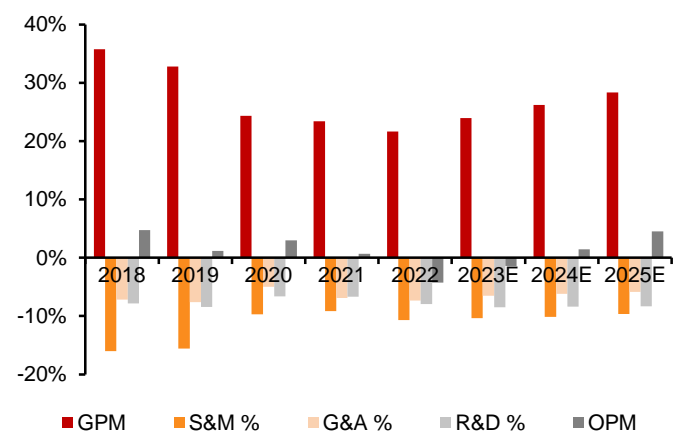
Source: Company data, CMBIGM estimates

Figure 5: Margins



Source: Company data, CMBIGM estimates

Figure 6: Opex breakdown



Source: Company data, CMBIGM estimates

Earnings revision

Figure 7: Earnings revision

RMB mn	2023E			2024E		
	New	Old	%Diff	New	Old	%Diff
Sales	1,193	1,380	-14%	1,346	1,661	-19%
Gross profit	286	382	-25%	352	492	-28%
OP Profit	-17	84	n.a.	19	141	-86%
PBT	-10	95	n.a.	30	155	-81%
Net profit	-8	76	n.a.	26	125	-79%
EPS	-0.01	0.14	n.a.	0.05	0.22	-74%
Margins						
GM	23.9%	27.7%	-375 bps	26.2%	29.6%	-342 bps
OPM	-1.4%	6.1%	n.a.	1.4%	8.5%	-704 bps
PBT margin	-0.8%	6.9%	n.a.	2.2%	9.3%	-713 bps
Net margin	-0.7%	5.5%	n.a.	1.9%	7.5%	-559 bps

Source: Company data, CMBIGM

Operating model

Figure 8: Operating model

RMB mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Revenues	519	600	797	992	1,043	1,193	1,346	1,502
Cost of sales	(333)	(404)	(603)	(760)	(818)	(908)	(993)	(1,077)
Gross Profit	186	197	194	232	226	286	352	426
<i>Gross margin</i>	<i>35.8%</i>	<i>32.8%</i>	<i>24.3%</i>	<i>23.4%</i>	<i>21.6%</i>	<i>23.9%</i>	<i>26.2%</i>	<i>28.3%</i>
R&D	(41)	(51)	(53)	(66)	(83)	(101)	(113)	(125)
S&M	(83)	(93)	(77)	(91)	(111)	(123)	(136)	(145)
G&A	(37)	(46)	(40)	(69)	(76)	(78)	(83)	(88)
Operating Income	25	7	24	7	(45)	(17)	19	68
<i>Operating margin</i>	<i>4.7%</i>	<i>1.1%</i>	<i>3.0%</i>	<i>0.7%</i>	<i>-4.3%</i>	<i>-1.4%</i>	<i>1.4%</i>	<i>4.5%</i>
Non-Operating Income	6	4	3	6	8	7	10	12
Profit Before Tax	31	11	27	12	(36)	(10)	30	80
Income tax (expense) credit	(1)	3	2	3	1	1	(4)	(12)
Minorities	(0)	(1)	2	1	1	0	(1)	(1)
Net Income to Shareholders	30	14	28	15	(36)	(8)	26	69
<i>Net margin</i>	<i>6%</i>	<i>2%</i>	<i>3%</i>	<i>1%</i>	<i>-3%</i>	<i>-1%</i>	<i>2%</i>	<i>5%</i>

Source: Company data, CMBIGM estimates

Figure 9: Key assumptions

RMB mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Revenue breakdown								
CRM PaaS services	201	302	461	555	569	600	629	657
CRM SaaS services	317	299	336	437	474	593	716	845
- Marketing Cloud	262	233	257	348	391	459	525	586
- Sales Cloud	29	31	45	66	61	107	161	225
- Service Cloud	27	34	35	24	23	26	30	34
Total	519	600	797	992	1,043	1,193	1,346	1,502
Revenue mix								
CRM PaaS services	39%	50%	58%	56%	55%	50%	47%	44%
CRM SaaS services	61%	50%	42%	44%	45%	50%	53%	56%
- Marketing Cloud	50%	39%	32%	35%	37%	39%	39%	39%
- Sales Cloud	6%	5%	6%	7%	6%	9%	12%	15%
- Service Cloud	5%	6%	4%	2%	2%	2%	2%	2%
Revenue YoY								
CRM PaaS services		50%	53%	20%	3%	5%	5%	4%
CRM SaaS services		-6%	12%	30%	8%	25%	21%	18%
- Marketing Cloud		-11%	10%	35%	12%	18%	14%	12%
- Sales Cloud		8%	44%	48%	-8%	77%	50%	40%
- Service Cloud		28%	0%	-32%	-3%	15%	14%	13%
Total		16%	33%	24%	5%	14%	13%	12%
Key operating metrics								
Total no. of clients	2,598	2,809	2,690	2,640	2,604	2,770	2,960	3,178
- Total no. of core clients	199	231	266	325	338	378	414	445
No. of PaaS clients	1,933	1,871	1,632	1,438	1,282	1,232	1,183	1,137
- No. of core clients	94	110	130	146	154	160	165	170
...PaaS core clients YoY		17%	18%	12%	5%	4%	3%	3%
No. of SaaS clients	959	1,258	1,379	1,509	1,645	1,899	2,181	2,497
- No. of core clients	110	128	147	193	200	237	270	299
...SaaS core clients YoY		16%	15%	31%	4%	19%	14%	11%
% of revenue contribution by core clients	89%	91%	93%	95%	94%	93%	92%	91%
PaaS Core clients' retention rate		96%	89%	83%	88%	88%	88%	88%
PaaS Core clients' net dollar retention rate		136%	94%	99%	94%	89%	89%	89%
SaaS Core clients' retention rate		92%	91%	89%	89%	89%	89%	89%
SaaS Core clients' net dollar retention rate		79%	97%	113%	90%	93%	93%	93%

Source: Company data, CMBIGM estimates

Valuation

Xuan Wu Cloud (2392 HK, BUY, TP: HK\$8.65)

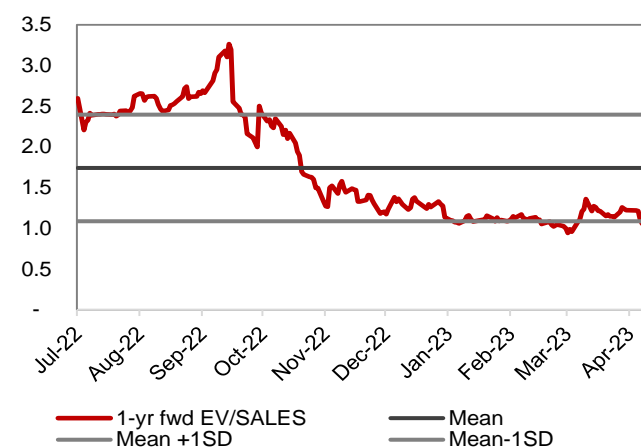
Maintain BUY with new target price of HK\$8.65 (prior HK\$10.14). Our target price is based on 3.3x (prior 3.2x) FY23E EV/sales, in-line with China software peers average valuation.

Figure 10: Peers' comparison

Company	Ticker	Rating	Market cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales (x)		FCF margin (%)		GPM	Sales CAGR	EPS CAGR
						FY23E	FY24E	FY23E	FY24E	FY22	FY22-25E	FY22-25E
Xuan Wu Cloud	2392 HK	BUY	206	2.88	8.65	1.3	1.2	4%	0%	22%	13%	n.a.
Kingdee	268 HK	BUY	5,942	13.42	23.28	6.9	5.6	5%	11%	62%	23%	n.a.
Yonyou	600588 CH	SELL	12,232	24.40	19.56	9.0	7.3	5%	8%	56%	24%	103%
Glodon	002410 CH	BUY	11,663	67.04	82.34	1.6	1.3	25%	25%	83%	25%	30%
Ming Yuan Cloud	909 HK	HOLD	1,147	4.70	6.39	1.1	1.0	-8%	-3%	81%	18%	n.a.
TI Cloud	1675 HK	NR	1,841	15.48	N/A	4.0	3.3	n.a.	13%	38%	14%	15%
Weimob	2013 HK	NR	1,502	4.24	N/A	1.8	1.5	-22%	-6%	59%	23%	n.a.
Youzan	8083 HK	NR	512	0.22	N/A	0.4	0.3	35%	31%	64%	10%	n.a.
Chanjet	1588 HK	NR	217	5.24	N/A	2.7	2.4	15%	1%	61%	30%	n.a.
Montnets	002123 CH	NR	1,936	16.52	N/A	0.5	0.4	6%	-1%	n.a.	n.a.	n.a.
Chinasoft	354 HK	BUY	2,063	5.35	N/A	1.1	1.0	2%	2%	23%	13%	26%
AsialInfo	1675 HK	NR	1,841	15.48	N/A	3.6	3.0	n.a.	13%	38%	14%	15%
Travelsky	696 HK	NR	5,636	15.12	N/A	6.3	5.1	9%	42%	41%	28%	80%
Mean						3.3	2.7	7%	12%	52%	20%	45%
Median						2.3	1.9	6%	10%	58%	23%	28%

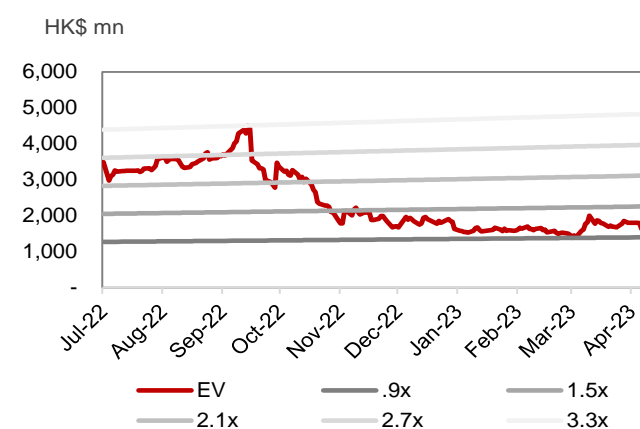
Source: Bloomberg, CMBIGM estimates

Figure 11: Xuan Wu Cloud forward EV/sales chart



Source: Bloomberg, CMBIGM estimates

Figure 12: Xuan Wu Cloud forward EV/sales band



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	797	992	1,043	1,193	1,346	1,502
Cost of goods sold	(603)	(760)	(818)	(908)	(993)	(1,077)
Gross profit	194	232	226	286	352	426
Operating expenses	(170)	(226)	(270)	(303)	(333)	(358)
Selling expense	(77)	(91)	(111)	(123)	(136)	(145)
Admin expense	(40)	(69)	(76)	(78)	(83)	(88)
R&D expense	(53)	(66)	(83)	(101)	(113)	(125)
Operating profit	24	7	(45)	(17)	19	68
Interest income	1	1	1	1	1	1
Interest expense	(3)	(3)	(4)	(5)	(3)	(3)
Others	6	8	11	10	12	13
Pre-tax profit	27	12	(36)	(10)	30	80
Income tax	2	3	1	1	(4)	(12)
After tax profit	29	15	(35)	(8)	25	68
Minority interest	2	1	1	0	(1)	(1)
Net profit	28	15	(36)	(8)	26	69
Adjusted net profit	29	31	(12)	(8)	25	68

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	435	485	619	627	664	763
Cash & equivalents	97	88	161	164	161	220
Account receivables	299	369	444	449	489	528
Financial assets at FVTPL	30	21	0	0	0	0
Other current assets	8	6	14	14	14	14
Contract assets	0	0	0	0	0	0
Non-current assets	34	63	55	58	60	61
PP&E	5	8	8	9	10	11
Right-of-use assets	7	32	25	25	25	25
Intangibles	15	14	13	14	15	15
Other non-current assets	6	9	10	10	10	10
Total assets	468	548	675	685	724	824
Current liabilities	196	237	234	257	267	300
Short-term borrowings	40	58	88	48	42	53
Account payables	115	138	104	135	147	160
Lease liabilities	7	8	10	15	10	12
Contract liabilities	34	32	31	60	67	75
Non-current liabilities	0	24	18	14	18	16
Total liabilities	196	261	252	270	284	316
Share capital	0	0	0	0	0	0
Capital surplus	0	269	440	440	440	440
Retained earnings	25	36	0	(8)	18	87
Other reserves	246	(20)	(20)	(20)	(20)	(20)
Total shareholders equity	272	287	423	415	440	508
Minority interest	1	2	2	3	2	1
Total equity and liabilities	468	548	675	685	724	824

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	27	12	(36)	(10)	30	80
Depreciation & amortization	12	14	4	4	5	6
Change in working capital	(10)	(51)	(119)	54	(20)	(19)
Others	7	8	4	6	(1)	(9)
Investing						
Capital expenditure	(4)	(7)	(7)	(7)	(7)	(7)
Others	(30)	10	0	0	0	0
Net cash from investing	(34)	3	(7)	(7)	(7)	(7)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	53	9	30	(41)	(6)	11
Proceeds from share issues	0	0	178	0	0	0
Others	(3)	(3)	(4)	(5)	(3)	(3)
Net cash from financing	51	6	204	(45)	(9)	9
Net change in cash						
Cash at the beginning of the year	43	97	88	161	164	161
Cash at the end of the year	97	88	161	164	161	220
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	32.7%	24.5%	5.2%	14.4%	12.8%	11.6%
Gross profit	(1.5%)	19.9%	(2.9%)	26.6%	23.3%	20.8%
Operating profit	247.7%	(71.8%)	na	na	na	247.4%
Net profit	92.7%	(47.7%)	na	na	na	167.4%
Adj. net profit	117.4%	5.7%	na	na	na	167.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	24.3%	23.4%	21.6%	23.9%	26.2%	28.3%
Operating margin	3.0%	0.7%	(4.3%)	(1.4%)	1.4%	4.5%
Adj. net profit margin	3.7%	3.1%	(1.1%)	(0.7%)	1.9%	4.5%
Return on equity (ROE)	12.3%	5.2%	(10.1%)	(2.0%)	6.0%	14.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	0.0	(0.1)	(0.2)	(0.2)	(0.3)
Current ratio (x)	2.2	2.0	2.7	2.4	2.5	2.5
Receivable turnover days	91.7	92.6	96.1	91.3	86.7	82.4
Payable turnover days	35.3	42.6	31.8	31.8	31.8	31.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	na	na	54.7	20.4
P/E (diluted)	na	na	na	na	54.7	20.4
P/B	na	na	6.1	3.4	3.2	2.8
EV	1,636.7	1,688.7	1,642.2	1,598.6	1,595.4	1,547.9
EV/Sales	2.1	1.7	1.6	1.3	1.2	1.0

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

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