

Yonyou (600588 CH)

Striving for large-scale loss reduction in 2025

Yonyou hosted (2 April) an earnings conference call following its 2024 annual results. In 2024, Yonyou's total revenue reached RMB9.2bn, down 7% YoY, owing to postponed customer demand amid macro headwinds, and Yonyou's strategy to promote the subscription business model with greater intensity. Net loss attributable to ordinary shareholders expanded to RMB2.1bn in 2024 (2023: RMB967mn), mainly due to: 1) the decline in revenue generation; 2) compensation provided to the employees that have left their jobs; and 3) provisions for goodwill impairment. Management guided to strive for large-scale loss reduction in 2025 through improving labour productivity and improving the quality and efficiency of product delivery. Although we remain positive that Yonyou will benefit from increasing digitalization demand nationwide over the long term, and think the international expansion plan should help revive revenue growth in the coming years, we remain cautious in the near term. The 40% rise in its stock price YTD has largely priced in positive market sentiment regarding incremental benefits brought by the "DeepSeek moment", in our view, and concrete evidence on incremental monetization from AI is the next key to watch to drive a further rerating. We lift our TP to RMB14.49 (was RMB9.08) based on 5.3x 2025E EV/sales, in line with its two-year average. Maintain HOLD.

- **Solid progress made in large enterprise customer acquisition.** By the end of 2024, Yonyou recorded 7 new contract wins from central state-owned enterprises, bringing the total number of contract wins to 44. Revenue generation from the core BIP3 product reached RMB3.14bn in 2024, and its revenue contribution to total revenue was up by 2.4ppts YoY. The overall subscription revenue growth of 26% YoY was also higher than that of total revenue, demonstrating an improvement in revenue structure. Subscription related contract liabilities reached RMB2.31bn in 2024, up 25.9% YoY.
- **High R&D capitalization rate remains a concern.** In 2024, Yonyou's R&D expenditure came in at RMB2.1bn, flat YoY, which in our view demonstrated Yonyou's effort in optimizing cost while maintaining investment to drive product feature enhancement. However, R&D capitalization rate rose to a record high of 52% (vs. 48/50% in 2022/2023, compared to Kingdee's 32% in 2024). Although Yonyou suspended the disclosure of ARR contribution in 2024, it needs to improve ARR contribution and further optimize R&D capitalization, to drive a better long-term profitability outlook, in our view. The number of employees for Yonyou was 21,283, down 3,666 YoY (or 15% YoY), and we expect the improvement in labor productivity to help drive better operating efficiency ahead.
- **Maintain HOLD with a new TP of RMB14.49.** We lower 2025E and 2026E revenue forecast both by 18% to factor in slower-than-expected revenue growth in both large-sized enterprises and mid-sized enterprises. However, our TP is lifted to RMB14.49 based on 5.3x 2025E EV/sales (previously RMB9.08 on 3.1x 2024E EV/sales), in line with its two-year average, to factor in the industrywide rerating trend brought by more positive sentiment on AI-related monetization.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	9,796	9,153	9,982	11,081	12,233
YoY growth (%)	5.8	(6.6)	9.1	11.0	10.4
Net profit (RMB mn)	(967.2)	(2,061.3)	(426.0)	(25.2)	768.2
EPS (Reported) (RMB cents)	(28.29)	(60.32)	(12.47)	(0.74)	22.48
Consensus EPS (RMB cents)	0.00	0.00	(3.06)	13.72	27.20

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price RMB14.49
 (Previous TP RMB9.08)
Up/Downside (3.4%)
Current Price RMB14.99

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Stock Data

Mkt Cap (RMB mn)	51,220.8
Avg 3 mths t/o (RMB mn)	1,826.5
52w High/Low (RMB)	20.00/8.13
Total Issued Shares (mn)	3417.0

Source: FactSet

Shareholding Structure

Mr. Wang - Chairman	38.9%
HKSCC	7.9%

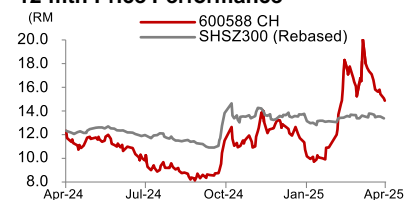
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-1.7%	-1.6%
3-mth	47.4%	44.8%
6-mth	30.3%	34.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Yonyou: changes in CMBI forecast

RMB mn	2025E			2026E			2027E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	9,982	12,161	-18%	11,081	13,505	-18%	12,233	-	n/a
Gross profit	5,490	6,921	-21%	6,194	8,042	-23%	7,158	-	n/a
Operating profit	-533	193	-377%	-102	722	-114%	722	-	n/a
PBT	-412	215	-292%	22	770	-97%	904	-	n/a
Net profit	-426	183	-333%	-25	655	-104%	768	-	n/a
EPS	-0.12	0.05	-333%	-0.01	0.19	-104%	0.22	-	n/a
Margins									
GM	55.0%	56.9%	-192 bps	55.9%	59.5%	-365 bps	58.5%	-	n/a
OPM	-5.3%	1.6%	-692 bps	-0.9%	5.3%	-627 bps	5.9%	-	n/a
PBT margin	-4.1%	1.8%	-589 bps	0.2%	5.7%	-550 bps	7.4%	-	n/a
Net margin	-4.3%	1.5%	-577 bps	-0.2%	4.8%	-507 bps	6.3%	-	n/a

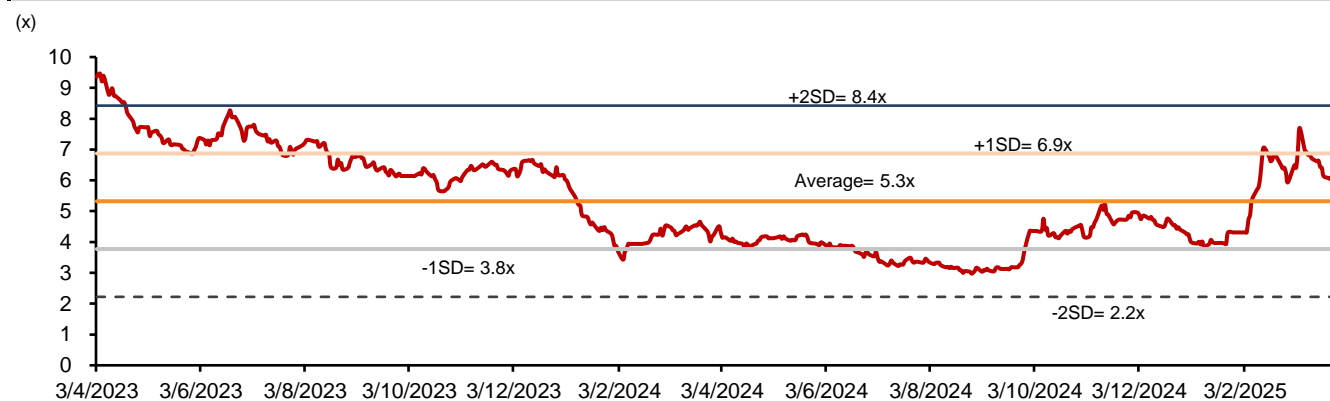
Source: CMBIGM estimates

Figure 2: Yonyou: CMBI forecast vs Bloomberg consensus

RMB mn	2025E			2026E			2027E		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	9,982	10,839	-8%	11,081	11,832	-6%	12,233	11,940	2%
Gross profit	5,490	5,761	-5%	6,194	6,536	-5%	7,158	6,977	3%
Operating profit	-533	-94	n/a	-102	448	-123%	722	984	-27%
PBT	-412	-97	n/a	22	530	-96%	904	952	-5%
Net profit	-426	-35	n/a	-25	473	-105%	768	782	-2%
EPS	-0.12	-0.03	n/a	-0.01	0.13	-106%	0.22	0.27	-17%
Margins									
GM	55.0%	53.2%	184 bps	55.9%	55.2%	66 bps	58.5%	58.4%	8 bps
OPM	-5.3%	-0.9%	-447 bps	-0.9%	3.8%	-471 bps	5.9%	8.2%	-234 bps
PBT margin	-4.1%	-0.9%	-323 bps	0.2%	4.5%	-428 bps	7.4%	8.0%	-59 bps
Net margin	-4.3%	-0.3%	-395 bps	-0.2%	4.0%	-422 bps	6.3%	6.6%	-27 bps

Source: Bloomberg, CMBIGM estimates

Figure 3: Yonyou: EV/S valuation band over the past two years



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	9,262	9,796	9,153	9,982	11,081	12,233
Cost of goods sold	(4,041)	(4,826)	(4,802)	(4,493)	(4,887)	(5,075)
Gross profit	5,221	4,970	4,351	5,490	6,194	7,158
Operating expenses	(5,213)	(6,066)	(6,068)	(6,022)	(6,297)	(6,436)
Selling expense	(2,235)	(2,743)	(2,622)	(2,619)	(2,739)	(2,810)
Admin expense	(1,117)	(1,108)	(1,221)	(1,188)	(1,260)	(1,286)
R&D expense	(1,754)	(2,106)	(2,122)	(2,108)	(2,177)	(2,210)
Others	(106)	(108)	(104)	(108)	(120)	(130)
Operating profit	8	(1,096)	(1,717)	(533)	(102)	722
Interest expense	12	(68)	(115)	(70)	(88)	(40)
Other income/expense	227	254	(244)	191	213	222
Pre-tax profit	247	(910)	(2,076)	(412)	22	904
Income tax	(22)	(23)	6	(35)	(47)	(90)
After tax profit	225	(933)	(2,070)	(447)	(24)	813
Minority interest	(6)	(34)	9	21	(1)	(45)
Net profit	219	(967)	(2,061)	(426)	(25)	768

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	12,387	12,922	11,031	9,761	10,731	12,606
Cash & equivalents	8,304	8,045	6,424	5,101	5,464	6,699
Restricted cash	2,634	3,059	482	2,894	3,292	3,708
Account receivables	531	552	411	570	635	696
Other current assets	918	1,266	3,714	1,196	1,339	1,503
Non-current assets	11,168	12,599	13,126	13,068	12,483	11,604
PP&E	2,531	2,619	2,878	2,734	2,689	2,651
Intangibles	2,838	3,872	4,293	5,234	5,709	6,051
Other non-current assets	5,799	6,108	5,955	5,099	4,085	2,902
Total assets	23,555	25,521	24,157	22,829	23,214	24,210
Current liabilities	9,574	11,122	12,365	11,266	11,704	12,045
Short-term borrowings	3,611	4,240	5,592	5,294	5,057	4,686
Account payables	832	1,007	1,103	868	951	998
Other current liabilities	2,569	2,936	3,210	2,837	3,221	3,634
Accrued expenses	2,563	2,940	2,460	2,267	2,475	2,727
Non-current liabilities	1,463	2,596	1,992	2,189	2,162	2,049
Long-term borrowings	826	1,910	1,433	1,629	1,602	1,489
Other non-current liabilities	637	685	560	560	560	560
Total liabilities	11,037	13,718	14,357	13,455	13,866	14,094
Share capital	3,434	3,419	3,417	3,417	3,417	3,417
Capital surplus	5,852	5,290	5,433	5,433	5,433	5,433
Retained earnings	3,369	2,198	137	(289)	(314)	454
Other reserves	(1,193)	(754)	(740)	(740)	(740)	(740)
Total shareholders equity	11,461	10,152	8,247	7,821	7,795	8,564
Minority interest	1,057	1,651	1,553	1,553	1,553	1,553
Total equity and liabilities	23,555	25,521	24,157	22,829	23,214	24,210

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	247	(910)	(2,076)	(412)	22	904
Depreciation & amortization	579	855	1,134	948	1,105	1,271
Tax paid	(22)	(23)	6	(35)	(47)	(90)
Change in working capital	(819)	338	37	(854)	69	71
Others	301	(350)	626	0	0	0
Net cash from operations	286	(91)	(274)	(353)	1,150	2,156
Investing						
Capital expenditure	(1,557)	(1,797)	(1,759)	(1,455)	(1,535)	(1,576)
Others	(2,296)	1,254	651	566	1,015	1,183
Net cash from investing	(3,853)	(542)	(1,108)	(890)	(520)	(393)
Financing						
Dividend paid	(344)	(206)	0	0	0	0
Net borrowings	1,077	1,829	819	(101)	(265)	(483)
Others	6,508	(1,252)	(1,057)	21	(1)	(45)
Net cash from financing	7,241	372	(238)	(80)	(266)	(529)
Net change in cash						
Cash at the beginning of the year	4,616	8,304	8,045	6,424	5,101	5,464
Exchange difference	14	3	(2)	0	0	0
Cash at the end of the year	8,304	8,045	6,424	5,101	5,464	6,699
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	3.7%	5.8%	(6.6%)	9.1%	11.0%	10.4%
Gross profit	(4.6%)	(4.8%)	(12.5%)	26.2%	12.8%	15.6%
Operating profit	(98.6%)	na	na	na	na	na
Net profit	(69.0%)	na	na	na	na	na
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	56.4%	50.7%	47.5%	55.0%	55.9%	58.5%
Operating margin	0.1%	(11.2%)	(18.8%)	(5.3%)	(0.9%)	5.9%
Return on equity (ROE)	2.4%	(8.9%)	(22.4%)	(5.3%)	(0.3%)	9.4%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.2)	0.1	0.2	0.2	(0.1)
Current ratio (x)	1.3	1.2	0.9	0.9	0.9	1.0
Receivable turnover days	82.9	106.1	70.6	61.7	101.9	104.4
Inventory turnover days	18.5	20.2	19.2	17.9	19.8	19.9
Payable turnover days	75.1	37.5	44.0	31.7	31.3	29.8
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	234.8	ns	ns	ns	ns	66.7
P/B	4.1	4.3	5.2	5.5	5.5	5.1
Div yield (%)	0.7	0.4	0.0	0.0	0.0	0.0
EV	48,652.5	51,218.5	53,615.7	54,837.9	54,209.3	52,491.2
EV/Sales	5.3	5.2	5.9	5.5	4.9	4.3

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

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