

SenseTime (20 HK)

1H25 review: strong Gen AI revenue momentum with improving margin

SenseTime reported 1H25 results: total revenue increased by 36% YoY to RMB2.36bn, 6% ahead of our estimate, mainly due to the strong revenue growth of Generative AI business; adjusted net loss narrowed by 50% YoY to RMB1.16bn, thanks to the operating leverage and organizational restructuring, which should be largely in line with our estimate (RMB1.63bn) if excluding other gains of RMB641mn related to disposal of subsidiaries. Fuelled by the strong demand for AI compute and AI applications, we forecast total revenue to maintain a solid growth of 25% YoY in 2H25E. We revise our FY25/26E adjusted net loss forecast to RMB2.29/0.60bn (previous: RMB2.75bn/0.72bn), given the strong operating leverage and opex control. We roll forward our valuation window to FY26E and raise our target price to HK\$2.45 based on 12x FY26E EV/sales (previous: HK\$1.85 on 10.5x FY25E EV/sales), in view of the improved earnings outlook and sector valuation. Maintain BUY.

- Strong Gen AI revenue growth on robust AI demand.** Revenue from Generative AI business was up by 73% YoY to RMB1.82bn in 1H25 (77% of total revenue), mainly attributable to strong demand for AI computing power and applications. 1) AI computing power: the company grew its total compute power to 25,000 PetaFLOPS as of Aug (vs. 23,000 PetaFLOPS in Mar), with the computing power/energy consumption rate up by 20% YoY. SenseTime ranked the third in China's LLM service platform, with a market share of 12% in 2024, as per IDC. 2) AI applications: SenseTime Raccoon, an AI productivity tool, grew its users to over 3mn and the daily token processing to c.10bn in 1H25, with strong demand from finance, education and public service sectors. The educational version of Raccoon now covers over 500 educational institutions and over 250,000 teachers & students.
- Computer Vision revenue to stabilize.** Revenue from Computer Vision business was down by 15% YoY to RMB436mn (18% of total revenue), mainly due to the change in collaboration with a particular customer. That said, the revenue quality improved, and the Computer Vision business served cover 660 customers in 1H25, with a repeat purchase ratio of 57%. We expect Computer Vision revenue to recover YoY in 2H25E, driven by the enhanced revenue quality. Revenue from X businesses (incl. smart auto, smart healthcare, home robotics and smart retail) decreased by 40% YoY to RMB107mn in 1H25, primarily due to decline in revenue from smart auto. Management expects the existing X businesses will gradually be deconsolidated from the financial statements.
- Narrowing net loss.** GPM was down by 5.6ppt YoY to 38.5% in 1H25, mainly due to the higher hardware and AIDC operation costs. Nonetheless, adjusted net loss margin improved by 84ppt YoY to -49% in 1H25, thanks to enhanced operating leverage and the organizational restructuring. The company recorded other gains of RMB641mn in 1H25, including gains on disposal of subsidiaries amounting to RMB938mn (c.40% of total revenue). We expect adjusted net loss to further narrow by 43% YoY in 2H25E.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	3,406	3,772	4,908	6,236	7,235
Adjusted net profit (RMB mn)	(5,359.7)	(4,224.6)	(2,272.6)	(598.4)	119.6
EPS (Adjusted) (RMB cents)	(16.63)	(12.66)	(6.29)	(1.66)	0.33
Consensus EPS (RMB cents)	(19.24)	(11.10)	(7.29)	(3.54)	0.00
P/S (x)	20.4	18.4	14.1	11.1	9.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.45
(Previous TP)	HK\$1.85)
Up/Downside	17.2%
Current Price	HK\$2.09

China Software & IT Services

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Ye TAO, CFA
 franktao@cmbi.com.hk

Joanna Ma
 (852) 3761 8838
 joannama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	75,468.9
Avg 3 mths t/o (HK\$ mn)	976.5
52w High/Low (HK\$)	2.33/1.03
Total Issued Shares (mn)	36109.5

Source: FactSet

Shareholding Structure

Amind	18.7%
SenseTalent Management	5.4%

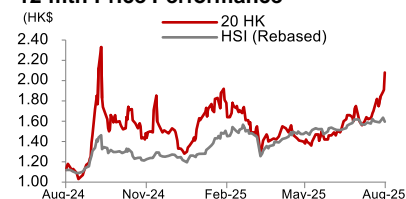
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	27.4%	30.3%
3-mth	51.4%	40.9%
6-mth	27.4%	17.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: SenseTime: forecast revision

	2025E			2026E			2027E		
RMBmn	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	4,908	4,802	2%	6,236	5,819	7%	7,235	6,757	7%
Gross profit	1,883	1,850	2%	2,364	2,163	9%	2,718	2,482	10%
Operating profit	-3,692	-2,841	NA	-1,450	-580	NA	-409	223	NA
Adj. net profit	-2,287	-2,750	NA	-602	-724	NA	120	12	NA
EPS (RMB)	-0.06	-0.09	NA	-0.02	-0.03	NA	0.00	-0.01	NA
Margins									
GPM	38.4%	38.5%	-0.2pct	37.9%	37.2%	0.7pct	37.6%	36.7%	0.8pct
OPM	-75.2%	-59.2%	-16.1pct	-23.3%	-10.0%	-13.3pct	-5.7%	3.3%	-9.0pct
Adj. net margin	-46.6%	-57.3%	10.7pct	-9.7%	-12.4%	2.8pct	1.7%	0.2%	1.5pct

Source: CMBIGM estimates

Figure 2: SenseTime: CMBIGM estimates vs consensus

	2025E			2026E			2027E		
RMBmn	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	4,908	4,751	3%	6,236	6,010	4%	7,235	7,571	-4%
Gross profit	1,883	1,880	0%	2,364	2,338	1%	2,718	2,906	-6%
Operating profit	-3,692	-2,860	NA	-1,450	-1,607	NA	-409	-837	NA
Adj. net profit	-2,287	-2,673	NA	-602	-1,543	NA	120	-839	NA
EPS (RMB)	-0.06	-0.07	NA	-0.02	-0.04	NA	0.00	-0.01	NA
Margins									
GPM	38.4%	39.6%	-1.2pct	37.9%	38.9%	-1.0pct	37.6%	38.4%	-0.8pct
OPM	-75.2%	-60.2%	-15.0pct	-23.3%	-26.7%	3.5pct	-5.7%	-11.1%	5.4pct
Adj. net margin	-46.6%	-56.3%	9.7pct	-9.7%	-25.7%	16.0pct	1.7%	-11.1%	12.7pct

Source: Bloomberg, CMBIGM estimates

Valuation

We value SenseTime at US\$2.45 per share based on 12x FY26E EV/sales. Our target EV/sales is at a premium to the sector average in China (6x), primarily due to SenseTime's leadership in China's Gen AI cloud services market and strong AI infrastructure.

Figure 3: Global AI companies: valuation comparison

Companies	Ticker	Price (LC)	PS (x)		EV/Sales (x)		Rev CAGR 24-26E
			2025E	2026E	2025E	2026E	
China							
Arcsoft	688088 CH	53.3	21.1	16.5	19.3	15.1	26%
Hikvision	002415 CH	30.9	2.9	2.7	2.7	2.4	5%
Dahua	002236 CH	18.9	1.8	1.7	1.6	1.5	5%
		Average	8.6	7.0	7.9	6.4	
Overseas							
Coreweave	CRWV US	96.9	9.0	4.0	10.8	4.7	150%
UiPath	PATH US	11.1	4.2	3.8	3.0	2.8	10%
C3.ai	AI US	17.3	6.1	5.6	4.4	4.0	17%
		Average	6.4	4.5	6.1	3.8	
		Global Avg.	7.5	5.7	7.0	5.1	

Source: Bloomberg, CMBIGM

Note: Data as of 27 Aug

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	3,809	3,406	3,772	4,908	6,236	7,235
Cost of goods sold	(1,266)	(1,905)	(2,152)	(3,026)	(3,872)	(4,517)
Gross profit	2,542	1,501	1,620	1,883	2,364	2,718
Operating expenses	(6,483)	(5,795)	(6,250)	(5,575)	(3,814)	(3,127)
Selling expense	(901)	(819)	(655)	(568)	(499)	(433)
Admin expense	(1,568)	(1,511)	(1,464)	(1,053)	(663)	(539)
R&D expense	(4,014)	(3,466)	(4,132)	(3,954)	(2,652)	(2,155)
Operating profit	(3,941)	(4,295)	(4,630)	(3,692)	(1,450)	(409)
Interest income	261	342	449	452	511	433
Interest expense	(55)	(147)	(180)	(193)	(247)	(236)
Other income/expense	(2,597)	(2,405)	62	1,252	583	269
Pre-tax profit	(6,333)	(6,504)	(4,300)	(2,182)	(603)	56
Income tax	240	9	(7)	(4)	(1)	0
After tax profit	(6,093)	(6,495)	(4,307)	(2,185)	(604)	56
Minority interest	(48)	(55)	(28)	(14)	(4)	0
Net profit	(6,045)	(6,440)	(4,278)	(2,171)	(600)	56
Adjusted net profit	(4,688)	(5,360)	(4,225)	(2,273)	(598)	120

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	21,524	16,940	18,227	19,928	19,378	19,716
Cash & equivalents	7,963	9,423	8,888	11,139	9,603	9,377
Account receivables	6,072	5,159	5,068	4,331	5,179	5,659
Inventories	617	506	452	640	778	862
Financial assets at FVTPL	632	522	701	701	701	701
Other current assets	6,213	1,310	3,112	3,112	3,112	3,112
Contract assets	27	20	6	6	6	6
Non-current assets	15,903	15,948	16,373	17,149	17,345	17,136
PP&E	6,999	7,379	7,277	8,062	8,266	8,071
Right-of-use assets	315	350	239	239	239	239
Intangibles	333	326	239	230	221	207
Other non-current assets	8,256	7,894	8,617	8,618	8,618	8,618
Total assets	37,427	32,888	34,600	37,077	36,723	36,852
Current liabilities	3,323	3,287	4,754	5,492	5,871	5,918
Short-term borrowings	321	194	1,240	2,673	2,628	2,634
Account payables	2,473	2,262	1,789	2,215	2,542	2,509
Other current liabilities	460	613	2,591	2,819	2,774	2,780
Contract liabilities	208	266	277	360	458	531
Non-current liabilities	5,090	6,445	6,204	6,649	6,520	6,546
Long-term borrowings	2,907	4,279	4,681	5,110	4,962	4,974
Bond payables	12	5	36	36	36	36
Other non-current liabilities	2,171	2,161	1,486	1,503	1,522	1,536
Total liabilities	8,413	9,733	10,958	12,140	12,391	12,464
Share capital	0	0	0	0	0	0
Retained earnings	(46,194)	(52,634)	(56,913)	(59,084)	(59,684)	(59,628)
Other reserves	75,164	75,794	80,373	83,853	83,853	83,853
Total shareholders equity	28,970	23,159	23,461	24,770	24,169	24,226
Minority interest	44	(4)	181	167	163	163
Total equity and liabilities	37,427	32,888	34,600	37,077	36,723	36,852

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,333)	(6,504)	(4,300)	(2,182)	(603)	56
Depreciation & amortization	968	994	1,157	1,265	1,442	1,584
Tax paid	(11)	(22)	(26)	(4)	(1)	0
Change in working capital	(101)	823	(672)	1,076	(543)	(509)
Others	2,393	1,475	(86)	(259)	(264)	(196)
Net cash from operations	(3,084)	(3,234)	(3,927)	(103)	31	935
Investing						
Capital expenditure	(5,167)	(1,518)	(1,129)	(2,041)	(1,638)	(1,376)
Others	(4,131)	4,976	(1,668)	452	511	433
Net cash from investing	(9,298)	3,458	(2,796)	(1,589)	(1,127)	(943)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	3,389	1,228	6,442	4,136	(193)	18
Proceeds from share issues	0	0	0	0	0	0
Others	(60)	(145)	(182)	(193)	(247)	(236)
Net cash from financing	3,329	1,084	6,260	3,943	(440)	(218)
Net change in cash						
Cash at the beginning of the year	16,530	7,963	9,423	8,888	11,139	9,603
Exchange difference	487	153	(72)	0	0	0
Cash at the end of the year	7,963	9,423	8,888	11,139	9,603	9,377
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(19.0%)	(10.6%)	10.8%	30.1%	27.0%	16.0%
Gross profit	(22.4%)	(41.0%)	7.9%	16.2%	25.6%	15.0%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	66.8%	44.1%	42.9%	38.4%	37.9%	37.6%
Operating margin	(103.5%)	(126.1%)	(122.8%)	(75.2%)	(23.3%)	(5.7%)
Adj. net profit margin	(123.1%)	(157.4%)	(112.0%)	(46.3%)	(9.6%)	1.7%
Return on equity (ROE)	(19.9%)	(24.7%)	(18.4%)	(9.0%)	(2.5%)	0.2%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Current ratio (x)	6.5	5.2	3.8	3.6	3.3	3.3
Receivable turnover days	493.6	345.5	241.9	266.1	252.8	240.1
Inventory turnover days	160.5	107.6	81.3	77.2	73.3	69.7
Payable turnover days	189.9	175.3	200.9	94.0	73.7	67.1
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	1,237.5
P/B	2.2	2.8	2.7	2.8	2.9	2.8
EV	(11,850.9)	(6,936.2)	(6,830.4)	(7,220.4)	(5,877.7)	0.0
EV/Sales	(3.1)	(2.0)	(1.8)	(1.5)	(0.9)	0.0

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.