

Kingdee (268 HK)

Resilient performance amid macro headwinds

Kingdee released its preliminary financial results for 2023 on 5 January. Management expects total revenue of RMB5.65bn-5.70bn for 2023, representing YoY growth of 16.2%-17.2% (2022: 16.6%), slightly shy of Bloomberg consensus of RMB5.8bn which we attribute to macro headwinds, while the expectation for loss attributable to ordinary shareholders of RMB170mn-250mn was better than consensus at RMB259mn, in our view demonstrated on track loss reduction aided by efficient cost control. Although we expect demand recovery will take time amid current macro backdrop, digitalization and domestic substitution remains a vital long-term trend, and Kingdee is well-positioned to benefit from the trend, in our view. With greater revenue generation from subscription services than peers, Kingdee will likely enjoy greater visibility on revenue growth in 2024. We trim target price to HK\$15.1 per share (previous HK\$17.0), based on one-year average EV/Sales of 7.5x (previous: 8.4x). BUY.

■ **Resilient performance amid macro headwinds.** For 2023, Kingdee expects to record: 1) total revenue of RMB5.65bn-5.70bn, representing YoY growth of 16.2%-17.2% (2022: 16.6%), slightly shy of Bloomberg consensus of RMB5.8bn; 2) net cash flow from operating activities of c.RMB630mn-670mn, up 68.3%-78.9% YoY; 3) loss attributable to ordinary shareholders of RMB170mn-250mn, better than consensus at loss of RMB259mn, which indicated a loss reduction of RMB140mn-220mn YoY; 4) Cloud subscription annual recurring revenue (ARR) of RMB2.85bn (vs previous guidance of RMB3.0bn), up 32.8% YoY. Although recovery of revenue growth and ARR growth are likely slower than previous expectation owing to ongoing macro headwinds, the preliminary results have demonstrated Kingdee's ability to achieve resilient financial performance, in our view.

■ **Loss reduction and cash flow status improvement on track.** The results imply Kingdee has recorded: 1) 2H23 revenue of RMB3.08bn-3.13bn, up 15.5-17.4% YoY (2H22: 16.0%; 1H23: 16.8%); 2) 2H23 net profit of RMB34mn-114mn (2H22: net loss of RMB33mn), demonstrated an on track loss reduction, aided by Kingdee's disciplined spending, and scale effect driven by the increase in revenue contribution from subscription revenue.

■ **Operating efficiency improvement likely remains a key theme for software players in 2024.** We expect structural recovery of the software and IT services sector may still take time, due to macro uncertainty and enterprises' stringent budget. However, the improvement in market liquidity may support the re-rating of the sector. Looking ahead in the mid-to long term, we remain positive on the investment theme of software localization. We believe the recovery of the macro environment should support enterprise IT spending and sector valuation recovery. Kingdee's revenue growth may enjoy greater visibility compared to overall industry, given greater revenue contribution from subscription services. Reiterate Kingdee as our sector top pick within software and IT services coverage space.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,174	4,866	5,688	6,747	7,849
YoY growth (%)	24.4	16.6	16.9	18.6	16.3
Net profit (RMB mn)	(302.3)	(389.2)	(211.2)	(37.3)	156.3
EPS (Reported) (RMB cents)	(9.23)	(11.21)	(6.08)	(1.07)	4.50
Consensus EPS (RMB cents)	na	na	(7.37)	(1.94)	7.90
P/E (x)	na	na	na	na	212.3
EV/Sales (x)	7.2	6.3	5.4	4.5	3.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$15.10**
 (Previous TP **HK\$17.00**)
Up/Downside **44.9%**
Current Price **HK\$10.42**

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Stock Data

Mkt Cap (HK\$ mn)	36,209.5
Avg 3 mths t/o (HK\$ mn)	187.1
52w High/Low (HK\$)	18.70/8.86
Total Issued Shares (mn)	3475.0

Source: FactSet

Shareholding Structure

Mr. Xu - Chairman	20.3%
Oriental Tao Limited	11.1%

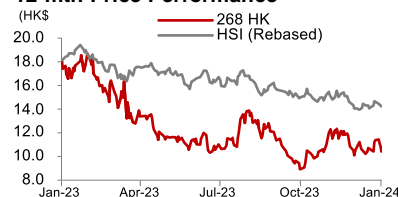
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.0%	1.7%
3-mth	17.6%	22.4%
6-mth	-4.1%	10.9%

Source: FactSet

12-mth Price Performance



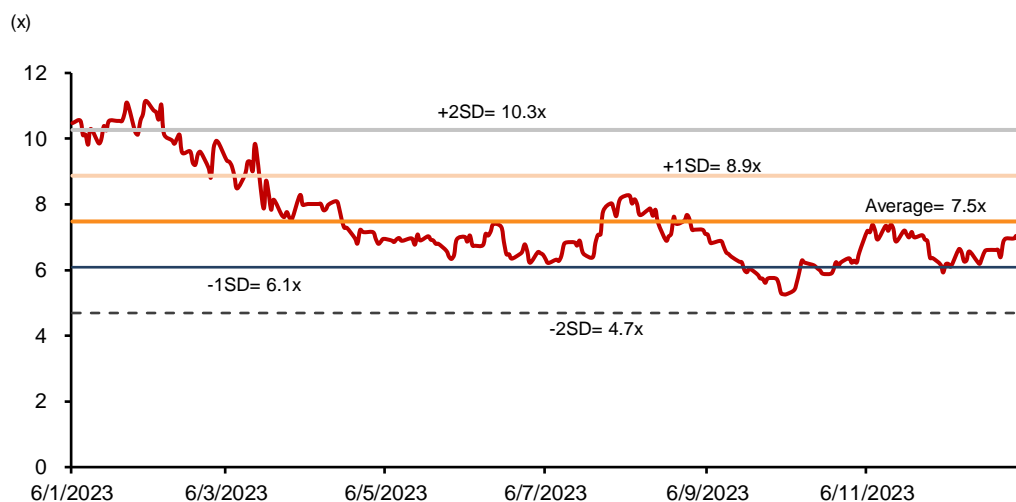
Source: FactSet

Figure 1: Kingdee: CMBI forecast vs Bloomberg consensus

RMBm	2023E			2024E			2025E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	5,688	5,795	-2%	6,747	6,880	-2%	7,849	8,110	-3%
Gross profit	3,537	3,604	-2%	4,237	4,322	-2%	4,930	5,094	-3%
OP profit	-589	-572	3%	-394	-405	-3%	-174	-169	3%
PBT	-231	-214	8%	-49	-52	-6%	204	219	-7%
Net profit	-211	-198	6%	-37	-40	-6%	156	168	-7%
EPS	-0.06	-0.06	6%	-0.01	-0.01	-6%	0.04	0.05	-7%
Margins									
GM	62.2%	62.2%	0 bps	62.8%	62.8%	-1 bps	62.8%	62.8%	-1 bps
OPM	-10.4%	-9.9%	-48 bps	-5.8%	-5.9%	4 bps	-2.2%	-2.1%	-13 bps
PBT margin	-4.1%	-3.7%	-36 bps	-0.7%	-0.8%	3 bps	2.6%	2.7%	-10 bps
Net margin	-3.7%	-3.4%	-29 bps	-0.6%	-0.6%	3 bps	2.0%	2.1%	-8 bps

Source: Bloomberg, CMBIGM estimates

Figure 2: Kingdee: one-year average EV/S



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	3,356	4,174	4,866	5,688	6,747	7,849
Cost of goods sold	(1,147)	(1,541)	(1,868)	(2,151)	(2,509)	(2,920)
Gross profit	2,209	2,634	2,998	3,537	4,237	4,930
Operating expenses	(2,823)	(3,392)	(3,826)	(4,126)	(4,632)	(5,104)
Selling expense	(1,425)	(1,741)	(2,027)	(2,193)	(2,463)	(2,748)
Admin expense	(414)	(466)	(504)	(528)	(589)	(631)
R&D expense	(984)	(1,185)	(1,295)	(1,404)	(1,580)	(1,725)
Operating profit	(614)	(758)	(828)	(589)	(394)	(174)
Net Interest income/(expense)	36	76	100	92	90	106
Others	195	299	254	266	255	272
Pre-tax profit	(383)	(382)	(474)	(231)	(49)	204
Income tax	41	44	22	4	5	(20)
Minority interest	6	36	63	16	7	(28)
Net profit	(335)	(302)	(389)	(211)	(37)	156

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	6,183	4,471	3,984	3,854	4,261	4,844
Cash & equivalents	2,754	2,047	1,943	1,843	2,132	2,607
Restricted cash	334	392	293	400	475	553
Prepayment	1,236	370	626	626	626	626
Other current assets	1,503	1,339	776	643	691	717
Contract assets	357	323	347	342	337	342
Non-current assets	4,539	6,616	7,747	7,965	8,264	8,641
PP&E	746	1,045	1,377	1,420	1,483	1,565
Intangibles	786	1,037	1,192	1,366	1,603	1,897
Other non-current assets	3,007	4,534	5,178	5,178	5,178	5,178
Current liabilities	2,599	3,084	3,766	4,209	4,969	5,747
Short-term borrowings	120	0	85	51	49	49
Account payables	795	759	899	907	1,005	1,111
Other current liabilities	200	160	150	150	150	150
Contract liabilities	1,484	2,165	2,631	3,101	3,764	4,437
Non-current liabilities	165	200	558	428	419	417
Long-term borrowings	0	0	385	255	246	244
Other non-current liabilities	165	200	173	173	173	173
Total liabilities	2,764	3,284	4,324	4,638	5,388	6,164
Share capital	83	83	84	84	84	84
Capital surplus	5,053	5,149	5,085	5,085	5,085	5,085
Retained earnings	1,922	1,619	1,230	1,019	982	1,138
Other reserves	732	744	867	867	867	867
Total shareholders equity	7,790	7,596	7,265	7,054	7,017	7,173
Minority interest	169	207	142	127	120	148
Total equity and liabilities	10,722	11,087	11,731	11,818	12,525	13,485

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(383)	(382)	(474)	(231)	(49)	204
Depreciation & amortization	493	439	0	465	511	565
Tax paid	41	44	22	4	5	(20)
Change in working capital	364	560	466	508	644	670
Others	(1)	44	382	(101)	(95)	(136)
Net cash from operations	473	661	374	641	1,011	1,304
Investing						
Capital expenditure	(353)	(772)	(888)	(683)	(810)	(942)
Others	(1,138)	(433)	101	105	100	115
Net cash from investing	(1,491)	(1,205)	(787)	(577)	(710)	(827)
Financing						
Dividend paid	(37)	0	0	0	0	0
Net borrowings	(80)	(120)	473	(164)	(11)	(2)
Proceeds from share issues	2,091	0	0	0	0	0
Others	(9)	(24)	(172)	0	0	0
Net cash from financing	1,966	(144)	301	(164)	(11)	(2)
Net change in cash						
Cash at the beginning of the year	1,899	2,754	2,047	1,943	1,843	2,132
Exchange difference	(93)	(19)	8	0	0	0
Cash at the end of the year	2,754	2,047	1,943	1,843	2,132	2,607
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	0.9%	24.4%	16.6%	16.9%	18.6%	16.3%
Gross profit	(8.1%)	19.2%	13.8%	18.0%	19.8%	16.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	65.8%	63.1%	61.6%	62.2%	62.8%	62.8%
Operating margin	(18.3%)	(18.2%)	(17.0%)	(10.4%)	(5.8%)	(2.2%)
Return on equity (ROE)	(4.9%)	(3.9%)	(5.2%)	(2.9%)	(0.5%)	2.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)
Current ratio (x)	2.4	1.4	1.1	0.9	0.9	0.8
Receivable turnover days	34.9	31.7	25.7	25.7	25.7	25.7
Inventory turnover days	1.4	2.2	2.8	2.8	2.8	2.8
Payable turnover days	224.3	184.1	162.0	153.9	146.2	138.9
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	na	na	na	212.3
P/B	6.1	9.3	6.4	4.6	4.6	4.5
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV	29,496.0	30,082.9	30,656.9	30,593.4	30,292.3	29,815.3
EV/Sales	8.8	7.2	6.3	5.4	4.5	3.8

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

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