

# Glodon (002410 CH)

## Focus on quality growth in FY24E

Glodon announced FY23 results: total revenue declined by 16% YoY to RMB1.78bn in 4Q23, 10% below consensus estimate mainly due to the soft construction market; the company recorded net loss of RMB146mn in 4Q23, deteriorating from net income of RMB328mn in 4Q22, primarily attributable to the operating deleverage. FY23 total revenue was largely flat YoY at RMB6.56bn, while net income was down by 88% YoY to RMB116mn. Looking ahead to FY24, we expect top-line growth will remain under pressure as the overall construction market remains challenging and the decline in new contracts signed in FY23 will weigh on revenue recognition in FY24. However, we expect a solid rebound of net income in FY24 as the company implements stringent cost control measures and focus on key growth areas. We trim FY24-25 total revenue estimate by 16-18% and lower our TP to RMB20.20 based on 4.0x FY24E EV/Sales (previous: RMB29.75 on 6.0x FY23E EV/Sales).

- Construction costing business to navigate sector headwinds.** Digital costing revenue grew by 8% YoY to RMB5.17bn in FY23, with construction costing SaaS revenue up by 11% YoY to RMB3.22bn, primarily thanks to the revenue recognition of previous contracts signed. Newly-signed contract value dropped by 6% YoY to RMB3.03bn in FY23 amid the overall property sector downturn, while the renewal rate and active rate remained largely stable YoY. For the new digital costing business, its SaaS revenue grew by 52% YoY to RMB598mn in FY23. The company focused on building “lighthouse” projects rather than new customer acquisition in 2023, with both retention rate and active rate up YoY.
- Construction management remains under pressure.** Construction management revenue declined by 35% YoY to RMB862mn in FY23, mainly due to the decline in the number of construction project kick-offs and the tightening budget of construction companies. Looking ahead, the company will focus more on the quality growth of construction management business via: 1) optimization of contract terms; 2) active management of cash flow and profitability; 3) increasing sales of higher-margin self-developed products. We expect the GPM of construction management business to improve in FY24 as a result.
- Expect margin to improve in FY24E.** Net margin declined by 12.9ppt YoY to 1.8% in FY23, mainly due to the increased investments in product development and customer acquisition, while revenue was largely flat YoY. As the company completed headcount optimization in 1Q24 and implements more stringent opex control in FY24, we expect NPM to rebound to 10.1/11.6% in FY24/25E. We lower our target price to RMB20.20 (previous: RMB29.75), based on 4.0x FY24E EV/Sales, which is a discount to the peer average of 6.1x in view of the persistent construction sector headwinds. Glodon’s leadership in China’s digital construction market remains intact and we are upbeat on its earnings rebound in FY24E. We believe its current valuation of 2x FY24 EV/Sales offers ample safety margin. Maintain BUY.

### Earnings Summary

| (YE 31 Dec)          | FY22A | FY23A | FY24E | FY25E | FY26E   |
|----------------------|-------|-------|-------|-------|---------|
| Revenue (RMB mn)     | 6,591 | 6,563 | 6,807 | 7,457 | 8,122   |
| Net profit (RMB mn)  | 966.7 | 115.8 | 686.5 | 867.9 | 1,044.9 |
| EPS (Reported) (RMB) | 0.82  | 0.07  | 0.41  | 0.52  | 0.63    |
| Consensus EPS (RMB)  | 0.82  | 0.07  | 0.59  | 0.79  | 3.15    |
| P/E (x)              | 44.7  | 470.2 | 30.5  | 24.1  | 20.0    |
| EV/Sales (x)         | 2.4   | 2.5   | 2.0   | 1.8   | 1.6     |

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

|                      |                 |
|----------------------|-----------------|
| <b>Target Price</b>  | <b>RMB20.20</b> |
| (Previous TP)        | RMB29.75)       |
| <b>Up/Downside</b>   | <b>60.7%</b>    |
| <b>Current Price</b> | <b>RMB12.57</b> |

### China Software & IT Services

#### Saiyi HE, CFA

(852) 3916 1739

hesaiyi@cmbi.com.hk

#### Wentao LU, CFA

luwentao@cmbi.com.hk

#### Ye TAO

franktao@cmbi.com.hk

### Stock Data

|                          |             |
|--------------------------|-------------|
| Mkt Cap (RMB mn)         | 20,927.4    |
| Avg 3 mths t/o (RMB mn)  | 453.6       |
| 52w High/Low (RMB)       | 55.21/10.90 |
| Total Issued Shares (mn) | 1664.9      |

Source: FactSet

### Shareholding Structure

|                          |       |
|--------------------------|-------|
| Diao Zhizhong - Chairman | 16.0% |
| Other co-founders        | 14.9% |

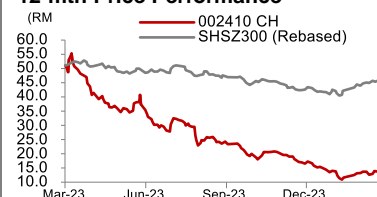
Source: Company data

### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -5.9%    | -7.4%    |
| 3-mth | -23.9%   | -28.2%   |
| 6-mth | -48.2%   | -45.8%   |

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Business Forecasts Update and Valuation

Figure 1: Glodon: forecast revision

| RMBmn          | 2024E |       |          | 2025E |       |          | 2026E |     |       |
|----------------|-------|-------|----------|-------|-------|----------|-------|-----|-------|
|                | New   | Old   | %Diff    | New   | Old   | %Diff    | New   | Old | %Diff |
| Sales          | 6,807 | 8,116 | -16%     | 7,457 | 9,090 | -18%     | 8,122 | n/a | n/a   |
| Gross profit   | 5,619 | 6,812 | -18%     | 6,075 | 7,504 | -19%     | 6,565 | n/a | n/a   |
| OP Profit      | 908   | 1,415 | -36%     | 1,082 | 1,441 | -25%     | 1,249 | n/a | n/a   |
| PBT            | 767   | 1,415 | -46%     | 973   | 1,468 | -34%     | 1,169 | n/a | n/a   |
| Net profit     | 687   | 1,278 | -46%     | 868   | 1,309 | -34%     | 1,045 | n/a | n/a   |
| EPS            | 0.41  | 0.77  | -46%     | 0.52  | 0.79  | -34%     | 0.63  | n/a | n/a   |
| <b>Margins</b> |       |       |          |       |       |          |       |     |       |
| GM             | 82.5% | 83.9% | -138 bps | 81.5% | 82.6% | -109 bps | 80.8% | n/a | n/a   |
| OPM            | 13.3% | 17.4% | -409 bps | 14.5% | 15.9% | -134 bps | 15.4% | n/a | n/a   |
| PBT margin     | 11.3% | 17.4% | -616 bps | 13.0% | 16.2% | -311 bps | 14.4% | n/a | n/a   |
| Net margin     | 10.1% | 15.7% | -566 bps | 11.6% | 14.4% | -276 bps | 12.9% | n/a | n/a   |

Source: CMBIGM estimates

Figure 2: Glodon: CMBIGM estimates vs consensus

| RMBmn          | 2024E |        |          | 2025E |        |          | 2026E |        |            |
|----------------|-------|--------|----------|-------|--------|----------|-------|--------|------------|
|                | CMBI  | Street | Diff     | CMBI  | Street | Diff     | CMBI  | Street | Diff       |
| Sales          | 6,807 | 7,929  | -14%     | 7,457 | 9,121  | -18%     | 8,122 | 10,402 | -22%       |
| Gross profit   | 5,619 | 6,648  | -15%     | 6,075 | 7,649  | -21%     | 6,565 | 8,919  | -26%       |
| OP Profit      | 908   | 1,121  | -19%     | 1,082 | 1,546  | -30%     | 1,249 | 2,177  | -43%       |
| PBT            | 767   | 1,088  | -29%     | 973   | 1,488  | -35%     | 1,169 | 3,757  | -69%       |
| Net profit     | 687   | 957    | -28%     | 868   | 1,294  | -33%     | 1,045 | 3,018  | -65%       |
| EPS            | 0.4   | 0.6    | -29%     | 0.5   | 0.8    | -33%     | 0.6   | 3.145  | -80%       |
| <b>Margins</b> |       |        |          |       |        |          |       |        |            |
| GM             | 82.5% | 83.8%  | -130 bps | 81.5% | 83.9%  | -240 bps | 80.8% | 85.7%  | -491 bps   |
| OPM            | 13.3% | 14.1%  | -80 bps  | 14.5% | 17.0%  | -244 bps | 15.4% | 20.9%  | -555 bps   |
| PBT margin     | 11.3% | 13.7%  | -245 bps | 13.0% | 16.3%  | -327 bps | 14.4% | 36.1%  | -2,172 bps |
| Net margin     | 10.1% | 12.1%  | -199 bps | 11.6% | 14.2%  | -255 bps | 12.9% | 29.0%  | -1,615 bps |

Source: Bloomberg, CMBIGM estimates

Figure 3: Glodon: 2023 results review

| RMBmn            | FY22   | FY23   | YoY       | FY23      | versus    |
|------------------|--------|--------|-----------|-----------|-----------|
|                  | actual | actual |           | consensus | consensus |
| Revenue          | 6,591  | 6,563  | 0%        | 7,001     | -6%       |
| Gross profit     | 5,467  | 5,423  | -1%       | 5,859     | -7%       |
| Gross margin     | 82.9%  | 82.6%  | -0.3 ppts | 83.7%     | -1.1 ppts |
| Operating profit | 1,120  | 325    | -71%      | 691       | -53%      |
| Operating margin | 17.0%  | 4.9%   | -12 ppts  | 9.9%      | -4.9 ppts |
| Net non-op       | -42    | -174   |           | -18       |           |
| PBT              | 1,078  | 150    | -86%      | 672       | -78%      |
| Net income       | 967    | 116    | -88%      | 631       | -82%      |
| EPS (RMB)        | 0.81   | 0.14   | -83%      | 0.37      | -62%      |

Source: Bloomberg, CMBIGM estimates

**Figure 4: Peer comparison: SaaS sector**

| Company        | Ticker    | Price<br>(Local) | EV/Sales (x) |            | EV/EBITDA (x) |             | Rev CAGR<br>23-25E |
|----------------|-----------|------------------|--------------|------------|---------------|-------------|--------------------|
|                |           |                  | 2024E        | 2025E      | 2024E         | 2025E       |                    |
| Mingyuan Cloud | 909 HK    | 2.5              | 0.2          | 0.2        | NA            | 43.8        | -3.0%              |
| Kingdee        | 268 HK    | 9.2              | 3.9          | 3.3        | 33.3          | 21.8        | 14.8%              |
| Yonyou         | 600588 CH | 12.6             | 3.2          | 2.7        | 28.2          | 19.1        | 11.9%              |
| Autodesk       | ADSK US   | 261.8            | 10.3         | 9.3        | 24.3          | 20.8        | 11.4%              |
| CoStar         | CSGP US   | 95.8             | 12.7         | 10.8       | 60.3          | 33.5        | 14.3%              |
| <b>Average</b> |           |                  | <b>6.1</b>   | <b>5.2</b> | <b>36.5</b>   | <b>27.8</b> |                    |

Source: Bloomberg, CMBIGM

Note: data as at 25 Mar market close

## Financial Summary

| INCOME STATEMENT                    | 2021A          | 2022A          | 2023A          | 2024E          | 2025E          | 2026E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn)                  |                |                |                |                |                |                |
| <b>Revenue</b>                      | <b>5,619</b>   | <b>6,591</b>   | <b>6,563</b>   | <b>6,807</b>   | <b>7,457</b>   | <b>8,122</b>   |
| Cost of goods sold                  | (893)          | (1,124)        | (1,141)        | (1,188)        | (1,382)        | (1,557)        |
| <b>Gross profit</b>                 | <b>4,727</b>   | <b>5,467</b>   | <b>5,423</b>   | <b>5,619</b>   | <b>6,075</b>   | <b>6,565</b>   |
| <b>Operating expenses</b>           | <b>(3,978)</b> | <b>(4,347)</b> | <b>(5,098)</b> | <b>(4,710)</b> | <b>(4,993)</b> | <b>(5,316)</b> |
| Selling expense                     | (1,587)        | (1,690)        | (2,008)        | (1,876)        | (1,951)        | (2,138)        |
| Admin expense                       | (1,099)        | (1,229)        | (1,264)        | (1,231)        | (1,323)        | (1,382)        |
| R&D expense                         | (1,333)        | (1,515)        | (1,895)        | (1,679)        | (1,797)        | (1,881)        |
| Others                              | 41             | 87             | 69             | 76             | 78             | 86             |
| <b>Operating profit</b>             | <b>748</b>     | <b>1,120</b>   | <b>325</b>     | <b>908</b>     | <b>1,082</b>   | <b>1,249</b>   |
| Investment gain/loss                | 0              | 0              | 0              | (44)           | (47)           | (47)           |
| Interest income                     | 53             | 33             | 25             | 77             | 91             | 99             |
| Interest expense                    | 0              | 0              | 0              | 0              | 0              | 0              |
| Foreign exchange gain/loss          | (1)            | 2              | 0              | 0              | 0              | 0              |
| Other income/expense                | (51)           | (77)           | (199)          | (174)          | (155)          | (132)          |
| <b>Pre-tax profit</b>               | <b>749</b>     | <b>1,078</b>   | <b>150</b>     | <b>767</b>     | <b>973</b>     | <b>1,169</b>   |
| Income tax                          | (31)           | (66)           | (31)           | (48)           | (60)           | (70)           |
| Minority interest                   | (58)           | (45)           | (3)            | (33)           | (44)           | (54)           |
| <b>Net profit</b>                   | <b>661</b>     | <b>967</b>     | <b>116</b>     | <b>687</b>     | <b>868</b>     | <b>1,045</b>   |
| <b>BALANCE SHEET</b>                |                |                |                |                |                |                |
|                                     | <b>2021A</b>   | <b>2022A</b>   | <b>2023A</b>   | <b>2024E</b>   | <b>2025E</b>   | <b>2026E</b>   |
| YE 31 Dec (RMB mn)                  |                |                |                |                |                |                |
| <b>Current assets</b>               | <b>5,122</b>   | <b>5,797</b>   | <b>4,826</b>   | <b>7,246</b>   | <b>7,670</b>   | <b>8,332</b>   |
| Cash & equivalents                  | 4,050          | 4,344          | 3,697          | 6,399          | 6,896          | 7,625          |
| Account receivables                 | 560            | 1,120          | 894            | 620            | 543            | 474            |
| Inventories                         | 71             | 87             | 49             | 41             | 44             | 48             |
| Other current assets                | 441            | 245            | 186            | 186            | 186            | 186            |
| <b>Non-current assets</b>           | <b>4,946</b>   | <b>5,749</b>   | <b>5,850</b>   | <b>6,292</b>   | <b>6,681</b>   | <b>7,015</b>   |
| PP&E                                | 1,219          | 1,478          | 1,525          | 2,257          | 2,937          | 3,561          |
| Investment in JVs & assos           | 326            | 342            | 271            | 271            | 271            | 271            |
| Intangibles                         | 1,979          | 2,598          | 2,677          | 2,387          | 2,097          | 1,807          |
| Other non-current assets            | 1,421          | 1,331          | 1,377          | 1,377          | 1,377          | 1,377          |
| <b>Total assets</b>                 | <b>10,068</b>  | <b>11,545</b>  | <b>10,676</b>  | <b>13,538</b>  | <b>14,351</b>  | <b>15,348</b>  |
| <b>Current liabilities</b>          | <b>3,637</b>   | <b>4,576</b>   | <b>4,149</b>   | <b>6,657</b>   | <b>6,936</b>   | <b>7,220</b>   |
| Short-term borrowings               | 0              | 4              | 3              | 0              | 0              | 0              |
| Account payables                    | 2,395          | 531            | 406            | 2,917          | 3,196          | 3,480          |
| Other current liabilities           | 1,242          | 4,041          | 3,739          | 3,739          | 3,739          | 3,739          |
| <b>Non-current liabilities</b>      | <b>158</b>     | <b>168</b>     | <b>149</b>     | <b>149</b>     | <b>149</b>     | <b>149</b>     |
| Long-term borrowings                | 0              | 0              | 0              | 0              | 0              | 0              |
| Other non-current liabilities       | 158            | 168            | 149            | 149            | 149            | 149            |
| <b>Total liabilities</b>            | <b>3,795</b>   | <b>4,744</b>   | <b>4,297</b>   | <b>6,806</b>   | <b>7,084</b>   | <b>7,369</b>   |
| Share capital                       | 1,189          | 1,191          | 1,665          | 1,665          | 1,665          | 1,665          |
| Capital surplus                     | 3,174          | 2,910          | 2,020          | 2,020          | 2,020          | 2,020          |
| Retained earnings                   | 2,432          | 3,063          | 2,710          | 3,064          | 3,599          | 4,311          |
| Other reserves                      | (1,007)        | (853)          | (512)          | (512)          | (512)          | (512)          |
| <b>Total shareholders equity</b>    | <b>5,788</b>   | <b>6,312</b>   | <b>5,883</b>   | <b>6,236</b>   | <b>6,771</b>   | <b>7,483</b>   |
| Minority interest                   | 485            | 489            | 496            | 496            | 496            | 496            |
| <b>Total equity and liabilities</b> | <b>10,068</b>  | <b>11,545</b>  | <b>10,676</b>  | <b>13,538</b>  | <b>14,351</b>  | <b>15,348</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                               | 749            | 1,078        | 150          | 767          | 973          | 1,169        |
| Depreciation & amortization                          | 617            | 529          | 414          | 435          | 492          | 544          |
| Tax paid   | (31)           | (66)         | (31)         | (48)         | (60)         | (70)         |
| Change in working capital                            | 525            | (2,440)      | 140          | 2,793        | 351          | 351          |
| Others   | (259)          | 2,546        | (36)         | 0            | 0            | 0            |
| <b>Net cash from operations</b>                      | <b>1,601</b>   | <b>1,648</b> | <b>637</b>   | <b>3,947</b> | <b>1,755</b> | <b>1,994</b> |
| <b>Investing</b>                                     |                |              |              |              |              |              |
| Capital expenditure                                  | (720)          | (850)        | (611)        | (876)        | (880)        | (879)        |
| Acquisition of subsidiaries/ investments             | 0              | (36)         | (106)        | 0            | 0            | 0            |
| Net proceeds from disposal of short-term investments | (931)          | (95)         | 43           | 0            | 0            | 0            |
| Others   | 110            | 16           | 6            | 0            | 0            | 0            |
| <b>Net cash from investing</b>                       | <b>(1,541)</b> | <b>(964)</b> | <b>(669)</b> | <b>(876)</b> | <b>(880)</b> | <b>(879)</b> |
| <b>Financing</b>                                     |                |              |              |              |              |              |
| Dividend paid  | (354)          | (410)        | (482)        | (333)        | (333)        | (333)        |
| Net borrowings                                       | (3)            | 0            | 0            | (2)          | 0            | (0)          |
| Proceeds from share issues                           | 636            | 295          | 250          | 0            | 0            | 0            |
| Others   | (1,074)        | (296)        | (392)        | (33)         | (44)         | (54)         |
| <b>Net cash from financing</b>                       | <b>(795)</b>   | <b>(412)</b> | <b>(624)</b> | <b>(368)</b> | <b>(377)</b> | <b>(387)</b> |
| <b>Net change in cash</b>                            |                |              |              |              |              |              |
| Cash at the beginning of the year                    | 4,797          | 4,050        | 4,344        | 3,697        | 6,399        | 6,896        |
| Exchange difference                                  | (13)           | 23           | 8            | 0            | 0            | 0            |
| <b>Cash at the end of the year</b>                   | <b>4,050</b>   | <b>4,344</b> | <b>3,697</b> | <b>6,399</b> | <b>6,896</b> | <b>7,625</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  | 40.3%          | 17.3%        | (0.4%)       | 3.7%         | 9.5%         | 8.9%         |
| Gross profit   | 33.1%          | 15.7%        | (0.8%)       | 3.6%         | 8.1%         | 8.1%         |
| Operating profit                                     | 83.5%          | 49.6%        | (71.0%)      | 179.7%       | 19.2%        | 15.4%        |
| Net profit   | 100.1%         | 46.3%        | (88.0%)      | 492.7%       | 26.4%        | 20.4%        |
| <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                                  | 84.1%          | 82.9%        | 82.6%        | 82.5%        | 81.5%        | 80.8%        |
| Operating margin                                     | 13.3%          | 17.0%        | 4.9%         | 13.3%        | 14.5%        | 15.4%        |
| Return on equity (ROE)                               | 10.8%          | 16.0%        | 1.9%         | 11.3%        | 13.3%        | 14.7%        |
| <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)                               | (0.7)          | (0.7)        | (0.6)        | (1.0)        | (1.0)        | (1.0)        |
| Current ratio (x)                                    | 1.4            | 1.3          | 1.2          | 1.1          | 1.1          | 1.2          |
| Receivable turnover days                             | 33.6           | 46.5         | 56.0         | 40.6         | 28.5         | 22.9         |
| Inventory turnover days                              | 3.2            | 4.4          | 3.8          | 2.4          | 2.1          | 2.1          |
| Payable turnover days                                | 155.6          | 29.4         | 22.6         | 156.4        | 156.4        | 156.4        |
| <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  | 87.1           | 44.7         | 470.2        | 30.5         | 24.1         | 20.0         |
| P/B  | 10.1           | 6.9          | 4.7          | 3.4          | 3.1          | 2.8          |
| EV   | 16,178.6       | 15,887.5     | 16,534.2     | 13,829.7     | 13,332.3     | 12,604.0     |
| EV/Sales   | 2.9            | 2.4          | 2.5          | 2.0          | 1.8          | 1.6          |

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

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## CMB International Global Markets Limited

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

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