

Kingdee (268 HK)

AI related monetization the next key to watch

Kingdee reported 2024 results: revenue was RMB6.3bn, up 10% YoY (2023: 17% YoY), 4% short of Bloomberg consensus; dragged by RMB55mn fair value losses on investment properties; net loss attributable to ordinary shareholders was RMB142mn (2023: loss of RMB210mn), shy of Bloomberg consensus at RMB75mn. Excluding the impact from fair value loss, Kingdee's loss reduction effort was largely inline with our expectation, with loss margin narrowing from 3.2% in 2023 to 1.4% in 2024, driven by 0.9ppt improvement in gross margin, on an increase in subscription revenue contribution, as well as operating efficiency improvement. We remain positive that Kingdee is well-positioned to benefit from the domestic substitution trend, backed by strong and continuously enhanced product capability and partner ecosystem. Its "AI First" strategy, aiming to accelerate AI-ERP integration and prioritize AI-applicable scenarios, should help drive ARPU expansion over the long-run and drive a reacceleration in revenue growth when macro recovers, in our view. We are looking for revenue growth to recover to 12.5%/15.2% YoY in 2025E/2026E. We roll forward our valuation to 2025E, and our TP is lifted to HK\$19.3 (prior HK\$10.8) based on 8.5x FY25E EV/S, in-line with two-year mean plus two s.d. to reflect Kingdee's industry-leading position and its strong development potential in the AI era (was 4.4x 2024E EV/S; 5-year mean of 11.4x). Maintain BUY.

- **Cloud revenue contribution increased steadily.** In 2024, Kingdee's cloud rev grew 13% YoY to RMB5.1bn (82% of total; +3ppt YoY). ERP business and others revenue declined by 2% YoY (2023: +2% YoY). Despite macro headwinds, Kingdee inked 20% YoY growth in ARR (2023: 34%) and 21% YoY growth in subscription contract liabilities (2023: 28%).
- **Small- and medium-sized enterprises: Galaxy maintained healthy OPM.** Kingdee's core SaaS product Galaxy achieved revenue of RMB2.2bn in 2024, up 10.3% YoY (2023: 16.3%). Galaxy recorded c.44,000 customers by end-2024, indicating c.5,000 YoY net adds (2023: c.8,000), and saw 19% YoY growth in subscription ARR (2023: 29%). Net dollar retention (NDR) rate came in at 95% in 2024, down slightly from 97% in 2023 owing to macro headwinds. Management highlighted that Kingdee has a market share of 46% in national-level niche-and-specialized little giants, and noted that the OPM of Galaxy business stayed at >20% level in 2024, which demonstrated its ability to maintain stable profitability amid macro headwinds, in our view.
- **Large enterprises: NDR recovered from trough in 1H24.** Benefiting from ongoing software localization demand, as well as enhanced product capability, Kingdee Cosmic & Constellation (C&C) revenue grew 33% YoY to RMB1.3bn (20.8% of total revenue; +3.5ppts YoY) in 2024, and NDR recovered from 97%/105% in 1H24/2023 to 108.0%, which demonstrated Kingdee's sustained large customer recognition.
- **Update on financial guidance.** Although facing macro uncertainties, management maintained its target to achieve net profit breakeven in 2025E, and guided for over RMB1.0bn OCF in 2025E (2024: RMB933.5mn). Also, it guided for >20% YoY growth in ARR in 2025E based on preliminary estimates. Management highlighted "AI First, Subscription First, and Globalization" strategy, which in our view should help drive innovation through AI integration, deepen subscription models, and accelerate global expansion. Kingdee expects the incorporation of AI features to improve both user stickiness and ARPU, and to help improve operating efficiency of both its customers and itself.

BUY (Maintain)

Target Price **HK\$19.30**
(Previous TP **HK\$10.80**)
Up/Downside **22.5%**
Current Price **HK\$15.76**

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Stock Data

Mkt Cap (HK\$ mn)	56,701.1
Avg 3 mths t/o (HK\$ mn)	713.6
52w High/Low (HK\$)	17.06/5.42
Total Issued Shares (mn)	3597.8

Source: FactSet

Shareholding Structure

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

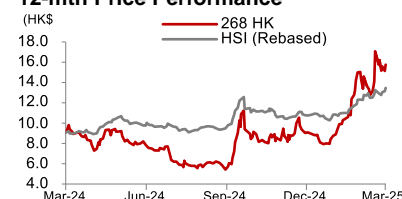
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.2%	2.4%
3-mth	72.6%	38.6%
6-mth	189.7%	106.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	5,679	6,256	7,036	8,105	9,074
YoY growth (%)	16.7	10.2	12.5	15.2	12.0
Net profit (RMB mn)	(209.9)	(142.1)	137.4	346.2	554.9
EPS (Reported) (RMB cents)	(6.04)	(3.96)	3.83	9.65	15.47
Consensus EPS (RMB cents)	na	(2.17)	5.90	15.32	38.00

Source: Company data, Bloomberg, CMBIGM estimates

Change in forecast and valuation

We lower our 2025/2026E revenue forecast by 8/9% respectively due to macro headwinds, which have led to slower-than-our expected revenue growth in small- and medium-sized enterprise. Accounting for the cut in revenue forecast, as well as slower-than-expected release in operating leverage due to incremental investment to drive business growth in the AI era, we lower 2025/2026E net profit forecast by 43/26%.

However, we remain positive that Kingdee is well-positioned to benefit from the domestic substitution trend, backed by its strong and continuously enhanced product capability and partner ecosystem. Its “AI First” strategy, aiming to accelerate AI-ERP integration and prioritize AI-applicable scenarios, should help drive ARPU expansion over the long-run and drive a reacceleration in revenue growth when macro recovers, in our view. We are looking for revenue growth to recover to 12.5%/15.2% YoY in 2025E/2026E from 10.2% YoY in 2024.

We roll forward our valuation to 2025E, and our TP is lifted to HK\$19.3 (prior HK\$10.8) based on 8.5x FY25E EV/S, in-line with two-year mean plus two s.d. to reflect Kingdee’s industry-leading position and its strong development potential in the AI era (was 4.4x 2024E EV/S; 5-year mean of 11.4x). Maintain BUY.

Figure 1: Kingdee: change in CMBI forecast

RMBmn	2025E			2026E			2027E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	7,036	7,682	-8%	8,105	8,902	-9%	9,074	-	-
Gross profit	4,646	5,008	-7%	5,422	5,833	-7%	6,135	-	-
OP Profit	-252	-70	-259%	27	199	-87%	295	-	-
PBT	116	239	-51%	373	505	-26%	647	-	-
Net profit	137	241	-43%	346	467	-26%	555	-	-
EPS	0.04	0.07	-45%	0.10	0.13	-28%	0.15	-	-
Margins									
GM	66.0%	65.2%	85 bps	66.9%	65.5%	138 bps	67.6%	-	-
OPM	-3.6%	-0.9%	-266 bps	0.3%	2.2%	-190 bps	3.2%	-	-
PBT margin	1.7%	3.1%	-146 bps	4.6%	5.7%	-107 bps	7.1%	-	-
Net margin	2.0%	3.1%	-118 bps	4.3%	5.2%	-97 bps	6.1%	-	-

Source: CMBIGM estimates

Figure 2: Kingdee: CMBI forecast vs Bloomberg consensus

RMBmn	2025			2026			2027		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	7,036	7,551	-7%	8,105	8,842	-8%	9,074	-	-
Gross profit	4,646	4,991	-7%	5,422	5,949	-9%	6,135	-	-
Operating profit	-252	86	-394%	27	435	-94%	295	-	-
Profit before tax	116	229	-49%	373	593	-37%	647	-	-
Net profit	137	195	-30%	346	526	-34%	555	-	-
EPS	0.04	-0.08	-150%	0.10	0.92	-90%	0.15	-	-
Margins									
GM	66.0%	66.1%	-6 bps	66.9%	67.3%	-38 bps	67.6%	-	-
OPM	-3.6%	1.1%	-471 bps	0.3%	4.9%	-458 bps	3.2%	-	-
Profit before tax margin	1.7%	3.0%	-139 bps	4.6%	6.7%	-210 bps	7.1%	-	-
Net margin	2.0%	2.6%	-63 bps	4.3%	6.0%	-168 bps	6.1%	-	-

Source: Bloomberg, CMBIGM estimates

Figure 3: Kingdee: P/S valuation band over the past two years


Source: Bloomberg, CMBIGM estimates

Risks

1) slower-than-expected revenue growth; 2) slower-than-expected margin expansion; 3) more intensified-than-expected industry competition.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	4,866	5,679	6,256	7,036	8,105	9,074
Cost of goods sold	(1,868)	(2,035)	(2,185)	(2,389)	(2,683)	(2,939)
Gross profit	2,998	3,644	4,071	4,646	5,422	6,135
Operating expenses	(3,826)	(4,249)	(4,556)	(4,898)	(5,395)	(5,840)
Selling expense	(2,027)	(2,320)	(2,503)	(2,763)	(3,082)	(3,370)
Admin expense	(504)	(490)	(539)	(531)	(569)	(596)
R&D expense	(1,295)	(1,440)	(1,514)	(1,604)	(1,744)	(1,874)
Operating profit	(828)	(605)	(485)	(252)	27	295
Net Interest income/(expense)	100	90	94	143	137	155
Others	254	214	162	225	209	197
Pre-tax profit	(474)	(301)	(230)	116	373	647
Income tax	22	31	45	0	(37)	(97)
Minority interest	63	60	42	21	11	5
Net profit	(389)	(210)	(142)	137	346	555

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	3,984	5,703	5,632	5,524	5,982	6,569
Cash & equivalents	1,943	2,964	1,530	1,401	1,781	2,299
Restricted cash	293	364	416	439	506	566
Prepayment	626	1,045	1,537	1,537	1,537	1,537
Other current assets	776	968	1,783	1,789	1,797	1,804
Contract assets	347	362	366	358	362	362
Non-current assets	7,747	8,436	8,149	8,837	9,562	10,279
PP&E	1,377	1,919	1,744	2,239	2,722	3,168
Intangibles	1,192	1,232	1,232	1,426	1,667	1,938
Other non-current assets	5,178	5,284	5,173	5,173	5,173	5,173
Total assets	11,731	14,139	13,781	14,361	15,545	16,848
Current liabilities	3,766	4,529	5,480	5,944	6,791	7,544
Short-term borrowings	85	20	205	205	208	218
Account payables	899	1,231	1,488	1,412	1,506	1,568
Other current liabilities	150	101	63	63	63	63
Contract liabilities	2,631	3,177	3,724	4,263	5,013	5,695
Non-current liabilities	558	908	172	172	173	174
Long-term borrowings	385	757	0	0	0	1
Other non-current liabilities	173	151	172	172	172	172
Total liabilities	4,324	5,437	5,652	6,116	6,964	7,718
Share capital	84	87	86	86	86	86
Capital surplus	5,085	6,512	6,174	6,174	6,174	6,174
Retained earnings	1,230	1,020	878	1,016	1,362	1,917
Other reserves	867	979	911	911	911	911
Total shareholders equity	7,265	8,599	8,050	8,187	8,534	9,088
Minority interest	142	103	79	58	47	42
Total equity and liabilities	11,731	14,139	13,781	14,361	15,545	16,848

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(474)	(301)	(230)	116	373	647
Depreciation & amortization	414	499	571	592	669	753
Tax paid	22	31	45	0	(37)	(97)
Change in working capital	328	299	485	443	766	676
Others	85	126	62	(151)	(144)	(163)
Net cash from operations	374	653	934	1,001	1,626	1,815
Investing						
Capital expenditure	(888)	(897)	(681)	(1,280)	(1,394)	(1,470)
Others	101	(408)	(393)	151	144	163
Net cash from investing	(787)	(1,305)	(1,074)	(1,130)	(1,250)	(1,307)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	473	307	(572)	0	4	10
Proceeds from share issues	0	1,412	0	0	0	0
Others	(172)	(48)	(719)	0	0	0
Net cash from financing	301	1,671	(1,291)	0	4	10
Net change in cash						
Cash at the beginning of the year	2,047	1,943	2,964	1,530	1,401	1,781
Exchange difference	8	1	(2)	0	0	0
Cash at the end of the year	1,943	2,964	1,530	1,401	1,781	2,299
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	16.6%	16.7%	10.2%	12.5%	15.2%	12.0%
Gross profit	13.8%	21.6%	11.7%	14.1%	16.7%	13.1%
Operating profit	na	na	na	na	na	1,001.2%
Net profit	na	na	na	na	151.9%	60.3%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	61.6%	64.2%	65.1%	66.0%	66.9%	67.6%
Operating margin	(17.0%)	(10.7%)	(7.8%)	(3.6%)	0.3%	3.2%
Return on equity (ROE)	(5.2%)	(2.6%)	(1.7%)	1.7%	4.1%	6.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)
Current ratio (x)	1.1	1.3	1.0	0.9	0.9	0.9
Receivable turnover days	25.7	21.1	22.8	22.8	22.8	22.8
Inventory turnover days	2.8	2.9	2.7	2.7	2.7	2.7
Payable turnover days	162.0	191.1	227.1	215.7	204.9	194.7
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	ns	ns	382.3	151.8	94.7
P/B	6.9	5.8	6.5	6.4	6.1	5.8
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV	48,451.2	47,737.1	48,599.3	48,728.2	48,351.8	47,843.6
EV/Sales	10.0	8.4	7.8	6.9	6.0	5.3

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

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