

China Software & IT Services

Which stocks are less vulnerable to market volatility?

Growing macro concerns related to stagflation, US rate hike, geopolitical tensions and RMB depreciation continue to weigh on growth stocks, especially to software tech. We use five criteria including 1) valuation, 2) profitability, 3) cash level, 4) short ratio and 5) RMB/USD depreciation to determine companies that are less vulnerable to market fluctuations. We find Hikvision (BUY), Glodon (BUY) and AsialInfo (NR) in the best positions under these five criteria.

■ Heightened macro uncertainties unfavorable to software tech stocks.

HSTech index underperformed the market with -31% return in the past three months, compared to HSI -23% return. Stagflation and US rate hike fears, rising geopolitical tensions and RMB depreciation continue to weigh on growth stocks, especially to software tech. Without clear way out to these growing concerns, we expect the volatility to remain in the 4Q22.

■ Five criteria to determine safer names. We use five criteria to look for companies that are less vulnerable to market fluctuations.

- **Valuation: below 10% difference to 3-year trough.** Glodon, Hikvision, AsialInfo and Vobile.
- **Profitability: ROE >10% with positive free cash flow.** Glodon, Kingsoft Office, Hikvision, Dahua, Chinasoftware and AsialInfo.
- **Cash level: net cash representing 50% of market cap/ on-going share repurchase program.** MYC's net cash level accounted for 67% of market cap. Kingsoft Cloud is trading below net cash level. MYC, Vobile, SenseTime, AlInnovation, Hikvision, Chinasoftware and Kingsoft Cloud have on-going repurchase program. On 16 Sep, Hikvision announced share repurchase plan of no less than RMB2-2.5bn in the coming 12 months.
- **Short ratio: low short ratio and in a declining trend in the past 1 month.** Among the HK-listed stocks, AlInnovation and AsialInfo have relatively low short ratio of below 1%. Kingdee, Youzan, GDS, and TravelSky short ratio declined in the past 1 month.
- **RMB depreciation impact: neutral to positive impact.** Hikvision and Dahua will benefit from RMB/USD depreciation. Meanwhile, GDS (net debt in USD) and SenseTime (server cost in USD) will suffer.

■ Hikvision (BUY) > Glodon (BUY) > AsialInfo (NR) are less vulnerable.

Deteriorating earnings visibility and share price fluctuations are inevitable with growing macro concerns. However, we think Hikvision, Glodon and AsialInfo are less vulnerable as they are industry leaders in their respective field. We believe their low valuation, better profitability and strong cash level provide support to their share price.

Valuation Table

Company	Ticker	Rating	Price (LC)	TP (LC)	EV/sales FY22E	P/E FY22E	ROE FY22E	Sales CAGR FY21-24E
Hikvision	002415 CH	BUY	30.28	45.08	2.9	16.1	25%	10%
Glodon	002410 CH	BUY	46.58	85.19	7.7	56.3	15%	19%
AsialInfo	1675 HK	NR	10.58	N/A	1.0	9.6	12%	13%

Source: Bloomberg, CMBIGM estimates

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Figure 1: Software universe financials and valuation

			P/E			EPS 3-year CAGR		P/S			Rev 3- year CAGR	ROE	FCF (US\$mn)
		Mkt cap (US\$mn)	FY22E	3-yr trough P/E	Diff	FY21- 24E	FY22E	3-yr trough P/S	Diff	FY21- 24E	FY22E	FY22E	
Company	Ticker												
SaaS													
Glodon	002410 CH	7,513	55.1	50.7	9%	35%	7.8	7.2	8%	21%	15.5	136	
Yonyou	600588 CH	8,469	91.5	61.4	49%	23%	5.8	5.4	7%	21%	7.6	26	
Kingdee	268 HK	4,657	n.a.	n.a.	n.a.	n.a.	6.7	5.9	13%	23%	-5.7	60	
MYC	909 HK	1,343	n.a.	n.a.	n.a.	n.a.	4.6	3.9	19%	10%	-12.0	(31)	
Vobile	3738 HK	580	61.4	59.5	3%	n.a.	3.3	1.4	140%	57%	5.3	(5)	
Youzan	8083 HK	239	n.a.	n.a.	n.a.	n.a.	1.4	1.0	45%	2%	-28.6	(112)	
Weimob	2013 HK	939	n.a.	n.a.	n.a.	n.a.	3.2	1.8	80%	5%	-29.9	(112)	
Kingsoft Office	688111 CH	13,189	76.4	53.6	42%	29%	23.7	16.8	41%	28%	14.6	298	
IDC													
GDS	9698 HK	3,577	n.a.	n.a.	n.a.	n.a.	2.8	2.4	15%	17%	-6.7	(1,318)	
21Vianet	VNET US	859	n.a.	n.a.	n.a.	-162%	0.8	0.4	89%	16%	-4.6	(202)	
ChinData	CD US	2,950	41.9	23.3	80%	80%	5.1	2.2	126%	35%	6.4	(370)	
AI													
SenseTime	20 HK	7,383	n.a.	n.a.	n.a.	-64%	10.3	9.9	4%	29%	-11.4	(536)	
AlInnovation	2121 HK	1,255	n.a.	n.a.	n.a.	-60%	6.0	2.7	126%	63%	-23.1	(44)	
Hikvision	002415 CH	39,253	16.0	15.0	6%	14%	3.1	2.9	6%	16%	24.8	1,442	
Dahua	002236 CH	5,535	10.2	9.3	10%	18%	1.1	1.1	1%	15%	14.9	70	
IT services													
Chinasoft	354 HK	1,968	11.0	8.5	28%	15%	0.6	0.6	9%	21%	10.5	106	
Asiainfo	1675 HK	1,247	9.6	8.8	9%	17%	1.2	0.8	44%	13%	12.0	104	
TravelSky	696 HK	4,533	44.5	11.8	278%	57%	5.7	3.4	67%	16%	4.0	398	
Cloud													
Kingsoft Cloud	KC US	492	n.a.	n.a.	n.a.	-25%	0.4	0.4	9%	13%	-17.5	(222)	
Ucloud	688158 CH	725	n.a.	n.a.	n.a.	2%	1.5	1.5	0%	18%	-27.0	(1,095)	

Source: Bloomberg, WIND, CMBIGM

Figure 2: Software universe financials and valuation

Company	Ticker	Short ratio	Short ratio 1 month trend	Net cash (US\$mn) FY1H22	Net cash vs. mkt cap	On going share repurchase	RMB/USD depreciation impact
SaaS							
Glodon	002410 CH	n.a.	n.a.	423	5%	No	Neutral
Yonyou	600588 CH	n.a.	n.a.	463	5%	No	Neutral
Kingdee	268 HK	4.74%	Down	277	6%	No	Neutral
MYC	909 HK	7.16%	Up	687	67%	Yes, announced to repurchase up to US\$100mn, bought back HK\$416.7mn YTD	Neutral
Vobile	3738 HK	4.83%	Up	(70)	-12%	Yes, announced to repurchase shares not exceeding 10% of total issued shares with existing cash	Neutral
Youzan	8083 HK	3.35%	Down	69	29%	No	Neutral
Weimob	2013 HK	9.87%	Up	180	20%	No	Neutral
Kingsoft Office	688111 CH	n.a.	n.a.	994	7%	No	Neutral
IDC							
GDS	9698 HK	1.05%	Down	(4,854)	-136%	No	Negative
21Vianet	VNET US	n.a.	n.a.	(1,514)	-177%	No	Neutral
ChinData	CD US	n.a.	n.a.	(407)	-14%	No	Neutral
AI							
SenseTime	20 HK	1.20%	Up	1,831	25%	Yes, commenced share buyback on 19 Jul. Spent HK\$56mn on repurchase YTD	Negative
AlInnovation	2121 HK	0.00%	Up	248	20%	Yes, announced to repurchase up to HK\$315mn, spent HK\$192.1mn YTD	Neutral
Hikvision	002415 CH	n.a.	n.a.	2,482	6%	Yes, on 16 Sep, Hikvision announced share repurchase plan of no less than RMB2-2.5bn in the coming 12 months.	Positive
Dahua	002236 CH	n.a.	n.a.	(226)	-4%	No	Positive
IT services							
Chinasoft	354 HK	1.72%	Up	27	1%	Yes, on 11 Apr, Chinasoft announced to repurchase up to HK\$1bn. Spent HK\$365.6mn on buyback YTD.	Neutral
Asiainfo	1675 HK	0.27%	Up	192	15%	No	Neutral
TravelSky	696 HK	2.17%	Down	1,495	33%	No	Neutral
Cloud							
Kingsoft Cloud	KC US	n.a.	n.a.	574	113%	Yes, on 5 Sep, KC announced share repurchase plan up to US\$30mn during a 90 days window	Neutral
Ucloud	688158 CH	n.a.	n.a.	225	31%	No	Neutral

Source: Bloomberg, WIND, CMBIGM

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