

SenseTime (20 HK)

Gen AI business maintains momentum on increased AI investment

SenseTime reported FY24 results: total revenue was up by 11% YoY to RMB3.77bn, below consensus estimate of RMB4.50bn, mainly due to the decline in Traditional AI business revenue; adjusted net loss narrowed by 21% YoY to RMB4.25bn, but worse than consensus net loss estimate of RMB3.53bn, primarily due to the greater-than-expected R&D investment in AI. Supported by its growing computing power and enriching industry solutions, management remains upbeat on the Gen AI revenue growth in FY25E. We forecast total revenue to grow by 27% YoY in FY25E, driven by the Gen AI business. We revise our FY25E adjusted net loss estimates to RMB2.75bn (previous: RMB2.10bn), in view of the increased AI investment. We lower our target price to HK\$1.85, which translates into 10.5x FY25E EV/sales in tune with AI-related sector valuation re-rating (previous: HK\$2.00 on 9.0x FY25E EV/sales). Maintain BUY.

- **Robust Gen AI business.** Revenue from Gen AI business was up by 103% YoY to RMB2.40bn in 2024, accounting for 64% of total revenue. The robust growth was mainly driven by the 92% YoY increase in the operational computing power, which has exceeded 23,000 Petaflops as of Mar 2025. SenseTime was ranked among the top three in China's Large Model Application Market with a market share of 13.8%, as per IDC. Computer Vision business revenue declined by 40% YoY to RMB1.11bn (29% of total revenue), as the company continues to focus on high-quality customers. The number of customers with over 3-year cooperation expanded to 389 in 2024 and accounted for c.40% of total Computer Vision client base. Smart Auto business revenue declined by 33% YoY to RMB256mn in 2024, primarily due to the decreased revenue from V2X business.
- **Key growth initiatives in FY25.** Looking ahead, SenseTime will focus on: 1) reinforcing the synergy among AI infrastructure, large model and applications: the company will not only capture the demand for large model training & inference, but also enrich industry solutions with distinct advantages; 2) developing industry-leading multimodal large model and next-generation agent applications; 3) improving commercialization of Computer Vision business. For FY25E, we expect total revenue to increase by 27% YoY to RMB4.80bn, driven by over 40% YoY growth of the Gen AI business revenue.
- **Expect further efficiency gains in FY25.** GPM declined by 1.1ppts YoY to 42.9% in FY24, primarily due to the increase in hardware and AIDC operation costs. We expect GPM will drop to 38.5% in FY25E given the higher revenue contribution from lower-margin Gen AI business. Thanks to the "1+X" organizational restructuring in FY24, adjusted net loss margin improved by 46ppts YoY to -112.7% in FY24. We expect further operating efficiency gains in FY25E, as SenseTime continues to optimize its organizational structure and drive reductions in large model training expenses.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	3,406	3,772	4,802	5,819	6,757
YoY growth (%)	(10.6)	10.8	27.3	21.2	16.1
Adjusted net profit (RMB mn)	(5,359.7)	(4,224.6)	(2,731.0)	(718.3)	13.3
EPS (Reported) (RMB cents)	(19.24)	(12.82)	(8.68)	(2.71)	(0.50)
Consensus EPS (RMB cents)	(19.24)	(12.82)	(7.20)	(3.99)	na
P/S (x)	14.1	12.8	10.0	8.3	7.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$1.85**
 (Previous TP) **HK\$2.00**
Up/Downside **16.4%**
Current Price **HK\$1.59**

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)	51,581.7
Avg 3 mths t/o (HK\$ mn)	1,216.5
52w High/Low (HK\$)	2.33/0.58
Total Issued Shares (mn)	32441.3

Source: FactSet

Shareholding Structure

Amind	19.7%
SenseTalent Management	9.7%

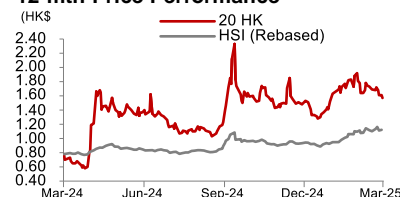
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.6%	-11.5%
3-mth	7.4%	-8.1%
6-mth	14.4%	-2.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: SenseTime: forecast revision

RMBmn	2025E			2026E			2027E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	4,802	5,955	-19%	5,819	7,498	-22%	6,757	NA	NA
Gross profit	1,850	2,422	-24%	2,163	2,921	-26%	2,482	NA	NA
OP Profit	-2,841	-1,886	NA	-580	-114	NA	223	NA	NA
Adj net profit	-2,750	-1,655	NA	-724	78	NA	12	NA	NA
EPS	-0.09	-0.07	NA	-0.03	-0.02	NA	-0.01	NA	NA
Margins									
GM	38.5%	40.7%	-214 bps	37.2%	39.0%	-178 bps	36.7%	NA	NA
OPM	-59.2%	-31.7%	-2748 bps	-10.0%	-1.5%	-845 bps	3.3%	NA	NA
Adj. net margin	-57.3%	-27.8%	-2947 bps	-12.4%	1.0%	-1349 bps	0.2%	NA	NA

Source: CMBIGM estimates

Figure 2: SenseTime: CMBIGM estimates vs consensus

RMBm	2025E			2026E			2027E		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	4,802	5,843	-18%	5,819	7,648	-24%	6,757	NA	NA
Gross profit	1,850	2,635	-30%	2,163	3,498	-38%	2,482	NA	NA
Operating profit	-2,841	-2,387	NA	-580	-1,399	NA	223	NA	NA
Adj. net profit	-2,750	-2,104	NA	-724	-1,109	NA	12	NA	NA
EPS	-0.09	-0.07	NA	-0.03	-0.04	NA	-0.01	NA	NA
Margins									
GPM	38.5%	45.1%	-658 bps	37.2%	45.7%	-855 bps	36.7%	NA	N/A
OPM	-59.2%	-40.8%	-1831 bps	-10.0%	-18.3%	832 bps	3.3%	NA	N/A
Adj. net margin	-57.3%	-36.0%	-2125 bps	-12.4%	-14.5%	206 bps	0.2%	NA	N/A

Source: Bloomberg, CMBIGM estimates

Valuation

We value SenseTime at US\$1.85 per share based on 10.5x FY25E EV/sales. Our target EV/sales is at a premium to the sector average (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	45.5	16.7	12.5	14.7	11.0	29%
Hikvision	002415 CH	31.2	2.7	2.4	2.4	2.2	10%
Dahua	002236 CH	17.3	1.6	1.4	1.3	1.1	8%
		Average	7.0	5.4	6.1	4.8	
Overseas							
UiPath	PATH US	11.2	4.4	4.1	3.2	3.0	14%
C3.ai	AI US	23.5	8.0	6.6	6.2	5.1	21%
Ambarella	AMBA US	55.6	8.3	7.0	7.5	6.2	0%
		Average	6.9	5.9	5.6	4.8	
		Global Avg.	6.9	5.7	5.9	4.8	

Source: Bloomberg, CMBIGM

Note: Data as of 25 Mar

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	3,809	3,406	3,772	4,802	5,819	6,757
Cost of goods sold	(1,266)	(1,905)	(2,152)	(2,952)	(3,655)	(4,275)
Gross profit	2,542	1,501	1,620	1,850	2,163	2,482
Operating expenses	(6,483)	(5,795)	(6,250)	(4,691)	(2,744)	(2,258)
Selling expense	(901)	(819)	(655)	(573)	(484)	(422)
Admin expense	(1,568)	(1,511)	(1,464)	(1,011)	(599)	(488)
R&D expense	(4,014)	(3,466)	(4,132)	(3,107)	(1,660)	(1,349)
Operating profit	(3,941)	(4,295)	(4,630)	(2,841)	(580)	223
Interest income	261	342	449	452	397	326
Interest expense	(55)	(147)	(180)	(193)	(217)	(204)
Other income/expense	(2,597)	(2,405)	62	(330)	(507)	(515)
Pre-tax profit	(6,333)	(6,504)	(4,300)	(2,912)	(908)	(169)
Income tax	240	9	(7)	(5)	(1)	(0)
After tax profit	(6,093)	(6,495)	(4,307)	(2,917)	(909)	(169)
Minority interest	(48)	(55)	(28)	(19)	(6)	(1)
Net profit	(6,045)	(6,440)	(4,278)	(2,898)	(904)	(168)
Adjusted net profit	(4,688)	(5,360)	(4,225)	(2,731)	(718)	13
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	21,524	16,940	18,227	16,668	15,898	15,905
Cash & equivalents	7,963	9,423	8,888	7,988	6,513	5,987
Account receivables	6,072	5,159	5,068	4,237	4,833	5,284
Inventories	617	506	452	624	735	816
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	16,377	16,274	16,100
PP&E	6,999	7,379	7,277	7,292	7,202	7,045
Right-of-use assets	315	350	239	239	239	239
Intangibles	333	326	239	228	215	198
Other non-current assets	8,256	7,894	8,617	8,618	8,618	8,618
Total assets	37,427	32,888	34,600	33,045	32,173	32,006
Current liabilities	3,323	3,287	4,754	5,096	5,327	5,352
Short-term borrowings	321	194	1,240	2,339	2,257	2,238
Account payables	2,473	2,262	1,789	2,162	2,400	2,375
Other current liabilities	460	613	2,591	2,485	2,403	2,384
Contract liabilities	208	266	277	353	427	496
Non-current liabilities	5,090	6,445	6,204	6,019	5,825	5,803
Long-term borrowings	2,907	4,279	4,681	4,482	4,273	4,238
Bond payables	12	5	36	36	36	36
Other non-current liabilities	2,171	2,161	1,486	1,501	1,516	1,529
Total liabilities	8,413	9,733	10,958	11,115	11,152	11,155
Share capital	0	0	0	0	0	0
Retained earnings	(46,194)	(52,634)	(56,913)	(59,811)	(60,714)	(60,882)
Other reserves	75,164	75,794	80,373	81,578	81,578	81,578
Total shareholders equity	28,970	23,159	23,461	21,768	20,864	20,696
Minority interest	44	(4)	181	162	156	155
Total equity and liabilities	37,427	32,888	34,600	33,045	32,173	32,006

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,333)	(6,504)	(4,300)	(2,912)	(908)	(169)
Depreciation & amortization	968	994	1,157	1,224	1,340	1,458
Tax paid	(11)	(22)	(26)	(5)	(1)	(0)
Change in working capital	(101)	823	(672)	1,122	(377)	(476)
Others	2,393	1,475	(86)	(259)	(180)	(122)
Net cash from operations	(3,084)	(3,234)	(3,927)	(830)	(126)	690
Investing						
Capital expenditure	(5,167)	(1,518)	(1,129)	(1,228)	(1,237)	(1,285)
Others	(4,131)	4,976	(1,668)	452	397	326
Net cash from investing	(9,298)	3,458	(2,796)	(776)	(841)	(958)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	3,389	1,228	6,442	899	(291)	(54)
Proceeds from share issues	0	0	0	0	0	0
Others	(60)	(145)	(182)	(193)	(217)	(204)
Net cash from financing	3,329	1,084	6,260	706	(508)	(258)
Net change in cash						
Cash at the beginning of the year	16,530	7,963	9,423	8,888	7,988	6,513
Exchange difference	487	153	(72)	0	0	0
Cash at the end of the year	7,963	9,423	8,888	7,988	6,513	5,987
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(19.0%)	(10.6%)	10.8%	27.3%	21.2%	16.1%
Gross profit	(22.4%)	(41.0%)	7.9%	14.2%	16.9%	14.7%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	66.8%	44.1%	42.9%	38.5%	37.2%	36.7%
Operating margin	(103.5%)	(126.1%)	(122.8%)	(59.2%)	(10.0%)	3.3%
Adj. net profit margin	(123.1%)	(157.4%)	(112.0%)	(56.9%)	(12.3%)	0.2%
Return on equity (ROE)	(19.9%)	(24.7%)	(18.4%)	(12.8%)	(4.2%)	(0.8%)
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.1)	(0.0)	0.0	0.0
Current ratio (x)	6.5	5.2	3.8	3.3	3.0	3.0
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	ns
P/B	1.7	2.1	2.1	2.3	2.4	2.4
EV	(11,850.9)	(6,936.2)	(6,830.4)	(5,031.6)	0.0	0.0
EV/Sales	(3.1)	(2.0)	(1.8)	(1.0)	0.0	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.