

Chinasoft Intl. | 354 HK

New business growth in sight

Cathy Chan, CFA

 (852) 3911 8271
 cathychan@ccbintl.com

Ronnie Ho

 (852) 3911 8259
 ronnieho@ccbintl.com

- **Mixed 2021 results**
- **Multi-engines in new businesses**
- **Solid track record of business transformation to build investor confidence**

Outperform (maintained)

Current price:

HK\$6.73

(as at 29 Mar 2022)

Target:

HK\$10.20

(down from HK\$11.60)

2021 top line in-line but earnings a slight miss. Revenue grew 30% YoY to RMB18.4b, 2% above Bloomberg consensus. New businesses were the spotlight with revenue surging 62% YoY to RMB5.3b, contributing 29% of total sales, up from 23% a year ago. More competitive pricing to lighthouse customers in new business projects has led to contraction in blended gross margin (-2.6ppt YoY to 26.7%). OPEX-to-sale ratio climbed 1ppt YoY to 22% with rising S&M (+34% YoY) and G&A (+35% YoY) as the company proactively promoted its new businesses. Operating profit declined 17% YoY to RMB956m, as OPM edged down 3ppt YoY to 5.2%. All-in-all, net profit grew 19% YoY to RMB1,137m, 7% below consensus due to lower-than-expected margins.

New business growth in sight. We expect multiple engines to fuel the company's long-term growth in new businesses. Starting with the cloud segment, its all-in-one solution offering (product and service) to help enterprise digitalization is gaining recognition in key verticals like transportation and energy. Early mover advantage from participating in OpenHarmony operating system development will open up new IoT markets for the company. Finally, the company's active positioning along the smart auto and digital renminbi value chain by leveraging its technology capability will also pave the way for long-term growth. With these in mind, we expect the company will sustain robust growth in its new businesses in the near-to-medium term.

Maintain Outperform. We believe the company's solid track record in business transformation will build investor confidence for re-rating. We raise our 2022/2023F revenue forecasts by 4%/10% after factoring in a higher growth rate for new businesses. However, we cut our 2022/2023F earnings forecasts by 3%/8% as we assume lower margins for new businesses at the ramp up stage. Accordingly, we lower our target price on the stock by 12% to HK\$10.20, based on 18x 2022F P/E versus 20x previously on our revised estimates as well as heightened market volatility.

Forecast and valuation

Year to 31 Dec	2020	2021	2022F	2023F	2024F
Revenue (RMB m)	14,101	18,398	22,998	28,747	33,921
YoY (%)	17.1	30.5	25.0	25.0	18.0
Net profit (RMB m)	955	1,137	1,424	1,706	2,114
YoY (%)	26.5	19.1	25.3	19.8	23.9
Fully Diluted EPS (RMB)	0.34	0.38	0.46	0.56	0.69
YoY (%)	20.6	12.5	20.9	20.2	24.1
P/E(x)	17.5	14.6	11.9	10.0	8.0
DPS (HK\$)	0.02	0.03	0.03	0.03	0.04
Dividend yield (%)	0.3	0.4	0.4	0.5	0.6
P/B (x)	2.1	1.5	1.3	1.2	1.0
ROAE (%)	12.5	11.2	11.6	12.4	13.5
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

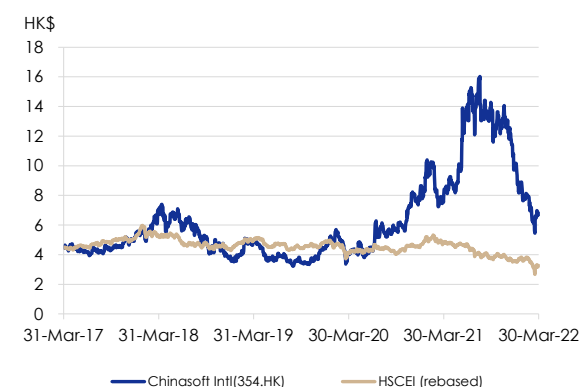
Source: Bloomberg, CCBIS estimates

Trading data

52-week range	HK\$ 16.28 – 5.28
Market capitalization (m)	HK\$ 20,648/US\$2,654
Shares outstanding (m)	3,068
Free float (%)	80
3M average daily T/O (m share)	17.8
3M average daily T/O (US\$ m)	17.4
Expected return (%) – 12 month	51.6

Source: Bloomberg, CCBIS estimates

Share price vs HSCEI



Source: Bloomberg

Stock performance

Performance over	1M	3M	12M
Absolute	-5	-32	-15
Relative (%) to HSCEI	1	-24	17

Source: Bloomberg

Chinasoft – 2021 results at a glance

RMB m	1H20	2H20	1H21	YoY (%/pp)	2H21	YoY (%/pp)	HoH (%/pp)	2020	2021	YoY (%/pp)
Total revenue	6,060	8,041	8,341	38	10,057	25	21	14,101	18,398	30
Gross profit	1,650	2,468	2,294	39	2,610	6	14	4,118	4,904	19
GPM (%)	27.2	30.7	27.5	0.3	26.0	-4.7	-1.5	29.2	26.7	-2.6
Operating profit	459	698	461	0	495	-29	7	1,157	956	-17
OPM (%)	7.6	8.7	5.5	-2.0	4.9	-3.8	-0.6	8.2	5.2	-3.0
PBT	443	592	576	30	676	14	17	1,035	1,252	21
Net profit	402	553	518	29	619	12	20	955	1,137	19
NPM (%)	6.6	6.9	6.2	-0.4	6.2	-0.7	-0.1	6.8	6.2	-0.6

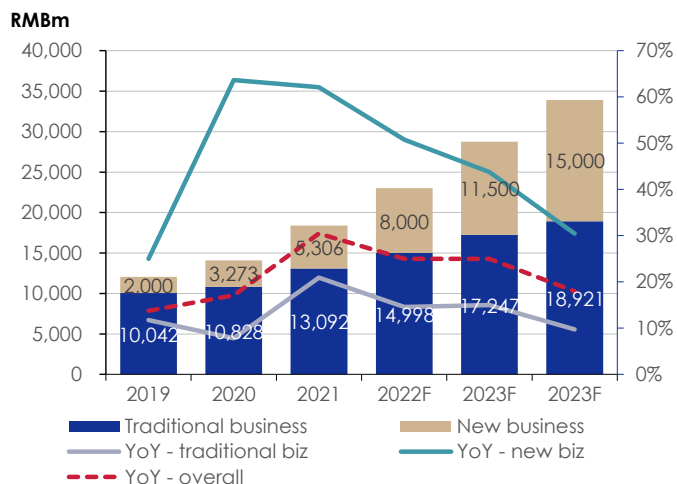
Source: Company, CCBIS

Chinasoft International – CCBIS earnings forecast revisions

P&L (HK\$ m)	New forecast			Previous forecast			Change (%)		
	2021	2022F	2023F	2021F	2022F	2023F	2021	2022F	2023F
Revenue	18,398	22,998	28,747	18,050	22,201	26,197	1.9	3.6	9.7
Gross profit	4,904	6,209	7,762	5,198	6,549	7,859	-5.7	-5.2	-1.2
Opex	-3,948	-4,944	-6,181	-3,935	-4,884	-5,763	0.3	1.2	7.2
Operating Profit	956	1,265	1,581	1,263	1,665	2,096	-24.4	-24.0	-24.6
Net profit	1,137	1,424	1,712	1,148	1,468	1,860	-0.9	-3.0	-8.0
%									
Gross margin	26.7	27.0	27.0	28.8	29.5	30.0	-2.1	-2.5	-3.0
OPEX to sales	-21.5	-21.5	-21.5	-21.8	-22.0	-22.0	0.3	0.5	0.5
OPM	5.2	5.5	5.5	7.0	7.5	8.0	-1.8	-2.0	-2.5
Net margin	6.2	6.2	6.0	6.4	6.6	7.1	-0.2	-0.4	-1.1

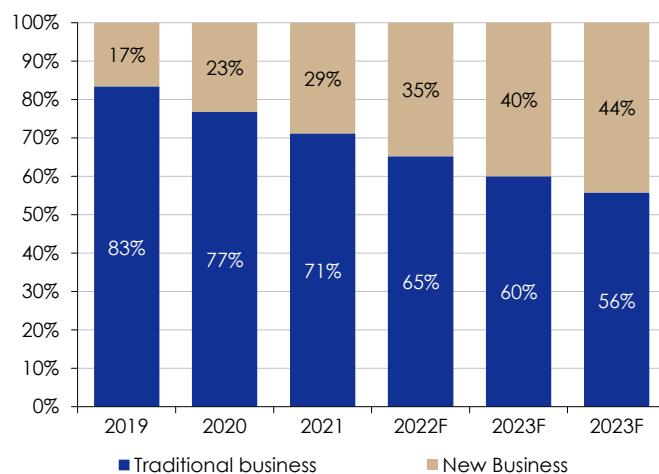
Source: CCBIS estimates

Chinasoft – expect new businesses to deliver strong growth momentum



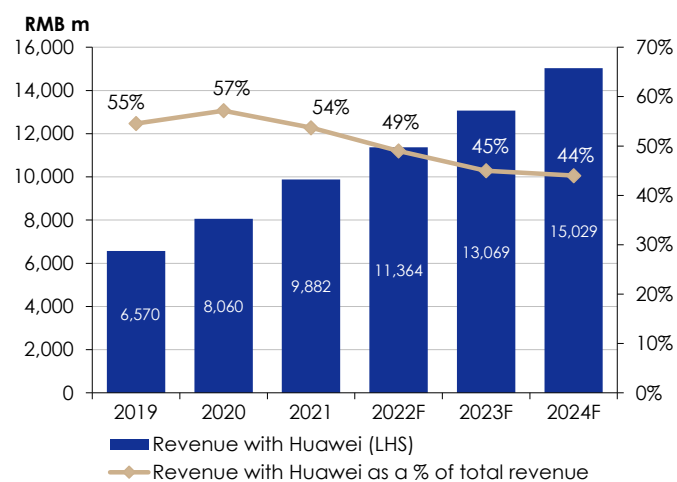
Source: Company, CCBIS estimates

Chinasoft – increasing revenue contribution from new businesses



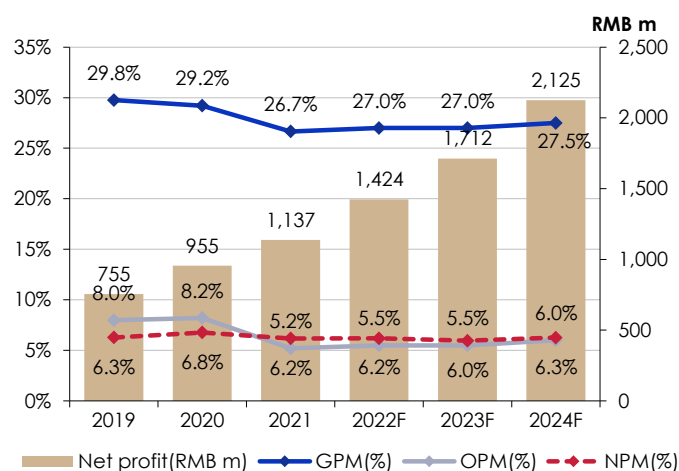
Source: Company, CCBIS estimates

Chinasoft – revenue contribution from Huawei



Source: Company, CCBIS estimates

Chinasoft – net income (RMB m) and margin ratios



Source: Company, CCBIS estimates

Chinasoft International – P&L assumptions

RMB m	FY19	FY20	FY21	FY22F	FY23F	FY24F	1H20	2H20	1H21	2H21
Revenue breakdown										
Old business	10,042	10,828	13,092	14,998	17,247	18,921	4,830	5,998	6,211	6,881
New business	2,000	3,273	5,306	8,000	11,500	15,000	1,231	2,042	2,130	3,176
Total revenue	12,042	14,101	18,398	22,998	28,747	33,921	6,060	8,041	8,341	10,057
YoY (%)	14	17	30	25	25	18	9	24	38	25
Cost of revenue	-8,459	-9,983	-13,494	-16,788	-20,985	-24,593	-4,410	-5,572	-6,047	-7,447
Gross profit	3,583	4,118	4,904	6,209	7,762	9,328	1,650	2,468	2,294	2,610
Gross profit margin (%)	29.8	29.2	26.7	27.0	27.0	27.5	27.2	30.7	27.5	26.0
Sales and marketing expense	-618	-729	-943	-1,150	-1,437	-1,696	-294	-435	-451	-492
General & administrative expense	-1,196	-1,302	-1,756	-2,185	-2,731	-3,223	-896	-406	-1,381	-374
Research and development	-809	-930	-1,249	-1,610	-2,012	-2,375	0	-930	0	-1,249
Total operating expense	-2,622	-2,962	-3,948	-4,944	-6,181	-7,293	-1,191	-1,771	-1,833	-2,116
Operating profit	961	1,157	956	1,265	1,581	2,035	459	698	461	495
Operating profit margin (%)	8.0	8.2	5.2	5.5	5.5	6.0	7.6	8.7	5.5	4.9
Other income, gains and losses	143	298	571	450	450	450	119	178	208	363
Allowance for doubtful debts	0	-161	-112	0	0	0	0	-161	0	-112
Other expenses	-59	-44	-48	-50	-50	-50	-22	-21	-23	-24
Fair value on derivatives	0	0	0	0	0	0	0	0	0	0
Finance costs	-166	-151	-100	-100	-100	-100	-90	-61	-45	-55
Share of results of associates	0	-24	-10	0	0	0	0	-24	0	-10
Gain on disposal of associates	0	0	0	0	0	0	0	0	0	0
Loss from contingent consideration	0	0	0	0	0	0	0	0	0	0
Profit before tax	799	1,035	1,252	1,565	1,881	2,335	443	592	576	676
Taxation	-42	-87	-115	-141	-169	-210	-45	-42	-59	-56
Effective tax rate (%)	-5.3	-8.4	-9.2	-9.0	-9.0	-9.0	-10.2	-7.0	-10.3	-8.3
Net income	757	948	1,137	1,424	1,712	2,125	398	550	517	620
- Minority interests	2	-7	0	0	0	0	-4	-3	-1	1
Net income attributable to common shareholders	755	955	1,137	1,424	1,712	2,125	402	553	518	619
YoY (%)	5	26	19	25	20	24	11	41	29	12
Net profit margin (%)	6.3	6.8	6.2	6.2	6.0	6.3	6.6	6.9	6.2	6.2
EPS diluted (HK\$)	0.32	0.38	0.46	0.56	0.68	0.84	0.17	0.23	0.21	0.25
Diluted share volume (m)	2,666	2,797	2,961	3,068	3,068	3,068	2,695	2,797	2,913	2,961
Key ratios (%)										
EPS growth	9	21	19	23	20	24	9	39	29	10
Gross profit margin	29.8	29.2	26.7	27.0	27.0	27.5	27.2	30.7	27.5	26.0
Operating profit margin	8.0	8.2	5.2	5.5	5.5	6.0	7.6	8.7	5.5	4.9
Net profit margin	6.3	6.8	6.2	6.2	6.0	6.3	6.6	6.9	6.2	6.2
ROAE	12.1	12.5	11.2	11.6	12.4	13.5	N/A	N/A	N/A	N/A
Net debt-to-equity	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash	N/A	N/A	N/A	N/A

Source: Company, CCBI estimates

Chinasoft Intl.al | 354 HK – financial summary

Profit and loss

FYE 31 Dec (RMB m)	2020	2021	2022F	2023F	2024F
TPG business	12,396	16,622	20,778	25,972	30,647
IIG business	1,705	1,776	2,220	2,775	3,274
Revenue	14,101	18,398	22,998	28,747	33,921
COGS	(9,983)	(13,494)	(16,788)	(20,985)	(24,593)
Gross profit	4,118	4,904	6,209	7,762	9,328
Other income	–	–	–	–	–
Operating expenses	(2,962)	(3,948)	(4,944)	(6,181)	(7,293)
EBIT	1,157	956	1,265	1,581	2,035
Net financial inc(exp)	(151)	(100)	(100)	(100)	(100)
Others	29	396	400	400	400
Profit before tax	1,035	1,252	1,565	1,881	2,335
Tax	(87)	(115)	(141)	(169)	(210)
Total profit	948	1,137	1,424	1,712	2,125
Minority interest	7	0	–	(6)	(11)
Net profit attrib to shareholder	955	1,137	1,424	1,706	2,114
Reported EPS (HK\$)	–	–	–	–	–
Diluted EPS (RMB)	0.34	0.38	0.46	0.56	0.69
Dividend (RMB)(m)	52	70	71	86	106
DPS (RMB)	0.02	0.02	0.02	0.03	0.03

Cash flow

FYE 31 Dec (RMB m)	2020	2021F	2022F	2023F	2024F
Profit before tax	1,035	1,252	1,565	1,881	2,335
Amort. & depr.	170	186	202	217	233
Net financial charge adj.	151	100	100	100	100
Non-cash items adj.	255	–	–	–	–
Change in working capital	(533)	(570)	(1,923)	(1,827)	(1,668)
Tax paid	(83)	(115)	(141)	(169)	(210)
Operating cash flow	995	852	(197)	203	791
Capex	(159)	(160)	(160)	(160)	(160)
Investment	(55)	–	–	–	–
Net interest rec.(paid)	63	–	–	–	–
Other	(40)	(50)	(50)	(50)	(50)
Investment cash flow	(192)	(210)	(210)	(210)	(210)
Change in borrowings	217	–	–	–	–
Equity issues	607	–	–	–	–
Dividend paid	(52)	(52)	(57)	(71)	(86)
Other	(276)	1,180	(100)	(100)	(100)
Financing cash flow	496	1,128	(157)	(171)	(186)
Change in cash flow	1,300	1,770	(564)	(179)	395
Cash & equivalents, begin	2,526	3,787	5,556	4,992	4,814
Forex	(62)	–	–	–	–
Cash & equivalents, ending	3,764	5,556	4,992	4,814	5,209
Free cash flow	836	692	(357)	43	631

Source: Company data, CCBIS estimates

Balance sheet

FYE 31 Dec (RMB m)	2020	2021	2022F	2023F	2024F
Cash & equivalents	3,787	5,556	4,992	4,814	5,209
Pledge dep., restricted cash	16	16	16	16	16
Receivables	6,540	7,784	10,498	13,085	15,414
Inventory	51	163	163	163	163
Total current assets	10,394	13,520	15,670	18,078	20,802
Property, plant & equip.	858	1,220	1,232	1,233	1,224
Intangible assets	145	193	189	180	166
Other non-current assets	1,690	1,970	1,970	1,970	1,970
Total non-current assets	2,693	3,383	3,391	3,383	3,360
Total assets	13,087	16,903	19,061	21,461	24,162
Short-term borrowings	368	917	917	917	917
Trade & bill payable	1,786	2,252	3,043	3,803	4,464
Other current liabilities	564	817	817	817	817
Total current liabilities	2,718	3,986	4,777	5,537	6,198
Long-term borrowings	1,421	1,021	1,021	1,021	1,021
Other non-current liabilities	171	269	269	269	269
Total non-current liabilities	1,592	1,290	1,290	1,290	1,290
Total liabilities	4,310	5,276	6,067	6,827	7,488
Share capital	4,867	6,432	6,432	6,432	6,432
Reserves and retained profits	3,886	5,172	6,539	8,179	10,219
Shareholders' equity	8,753	11,604	12,971	14,612	16,651
Minority interest	24	23	23	22	23
Total equity	8,777	11,627	12,994	14,634	16,674
Total equity and liabilities	13,087	16,903	19,061	21,461	24,162

Ratios

FYE 31 Dec	2020	2021	2022F	2023F	2024F
Growth (%)					
Revenue	17.1	30.5	25.0	25.0	18.0
EBITDA	14.6	(14.0)	28.4	22.6	26.1
EBIT	20.4	(17.4)	32.3	25.0	28.7
Net profit	26.5	19.1	25.3	19.8	23.9
Core net profit	–	–	–	–	–
Profitability (%)					
Gross margin	29.2	26.7	27.0	27.0	27.5
EBITDA margin	9.4	6.2	6.4	6.3	6.7
EBIT margin	8.2	5.2	5.5	5.5	6.0
Net margin	6.8	6.2	6.2	5.9	6.2
Core net margin	–	–	–	–	–
Tax rate	8.4	9.2	9.0	9.0	9.0
Efficiency (days)					
Inventory turnover days	2	3	4	3	2
Trade receivables days	102	104	102	99	102
Trade payable days	56	55	58	60	61
Returns & leverage (%)					
ROAA	8.0	7.6	7.9	8.4	9.3
ROAE	12.5	11.2	11.6	12.4	13.5
Net debt (cash)/equity	(22.8)	(31.1)	(23.5)	(19.7)	(19.6)
Liquidity (x)					
Current ratio	3.8	3.4	3.3	3.3	3.4
Quick ratio	3.8	3.4	3.2	3.2	3.3

Rating definitions:**Outperform (O) – expected return > 10% over the next twelve months****Neutral (N) – expected return between -10% and 10% over the next twelve months****Underperform (U) – expected return < -10% over the next twelve months****Analyst certification:**

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CCB International Securities Limited
12/F, CCB Tower, 3 Connaught Road, Central, Hong Kong
Tel: (852) 3911 8000 / Fax: (852) 2537 0097