

KINGDEE INT'L (268.HK)**PRC's promotion on the Cloud service as source of future revenue**
Rating: Accumulate
HONG KONG | SOFTWARE | COMPANY UPDATES

- The wholly owned subsidiary Kingdee China reported operation figures for the first three quarters. Revenue slightly up 0.47% yoy and net profit surged 582% yoy.
- PRC government has announced to promote China's cloud service to neighborhood countries in support to the "New Silk Road" strategic development, which expected as the future growing source of revenue.
- We give Kingdee "Accumulate" rating while lower the target price to HK\$ 2.75, equivalent to 21.8x/20x of 2014 and 2015 forecasted EPS, plus HK\$ 0.35 net cash per share in the first half.

Financial Highlights

The wholly owned subsidiary Kingdee China reported operation figures for the first three quarters. Revenue amounted to RMB 1,075 mn, slightly up 0.47% yoy. Net profit surged 582% yoy to RMB 109 mn. Net profit margin 10.13% was close to the Group's 10.86% in the first half. Cash from operating activities sharply increased 168% yoy to RMB 211.5 mn.

How we view this

The figures were in line with our expectation while we believed this showed a similar picture for the Group's performance. We forecast the Group's revenue for 2014 would just slightly higher than last year. Though the cloud business is believed to have further growth in the last quarter as well as 2015 since the PRC government has announced to promote China's cloud service to neighborhood countries in support to the "New Silk Road" strategic development. Kingdee is expected to be benefited. Meanwhile, the cost structure has improved as mentioned in the last reports, which increase in revenue would widen the profit margins.

Investment Action

We believe the cloud business would experience rapid growth in the next few years. Besides the New Silk Road, the government has frequently announced to promote the local software and servers. Thus, more large enterprise may try Kingdee's enterprise software or cloud server in the future

However, refer to the 1H14 data, we adjust the estimates on the other incomes, which are mainly the subsidies from government, resulting in lower profit and forecasted EPS. We give Kingdee "Accumulate" rating while lower the target price to HK\$ 2.75, equivalent to 21.8x/20x of 2014 and 2015 forecasted EPS, plus HK\$ 0.35 net cash per share in the first half.

Key Financial Summary

FYE Dec	FY12	FY13	FY14E	FY15E	FY16E
Revenue (RMB mn)	1,765	1,602	1,635	1,780	1,896
Net Profit (RMB mn)	(140)	127	225	242	255
EPS (HKD)	(0.07)	0.06	0.11	0.12	0.12
P/E (X)	(35.5)	39.4	22.5	21.0	19.9
BVPS (HKD)	0.78	0.86	0.96	1.07	1.20
P/B (X)	3.1	2.8	2.6	2.3	2.0
DPS (HKD)	0.00	0.00	0.00	0.00	0.02
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%	0.9%

Source: PSR est.

*All multiples & yields based on current market price

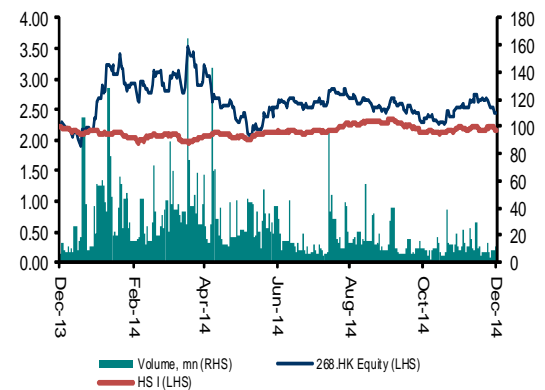
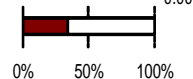
Target Price (HKD)	2.75
Forecast Dividend (HKD)	0.00
Closing Price (HKD)	2.45
Potential Upside	12.2%

Company Description

Kingdee International, founded in 1993, was a software and Internet service provider that served over one million SMEs in China and the Asia Pacific region. Its enterprise resource planning (ERP) software was ranked as No. 1 in the SME market in China.

Company Data

Raw Beta (Past 2yrs weekly data)	N/A
Market Cap. (HKD bn)	6,305
Enterprise Value (HKD mn)	6,994
52 week range (HKD)	1.80 - 3.69
Closing Price in 52 week range	0.00

**Major Shareholders**

1. Xu Shao Chun	30.29%
2. FIL Limited	5.02%
3. FMR LLC	5.01%
4. Templeton Investment Counsel, LLC	4.96%

Valuation Method

PE

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	FY12	FY13	FY14E	FY15E	FY16E
Valuation Ratios					
P/E (X)	(35.5)	39.4	22.5	21.0	19.9
P/B (X)	3.1	2.8	2.6	2.3	2.0
EV/EBITDA (X)	(67.9)	29.3	19.3	18.8	18.9
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.9%
Per share data (HKD)					
EPS	(0.07)	0.06	0.11	0.12	0.12
DPS	0.00	0.00	0.00	0.00	0.02
BVPS	0.78	0.86	0.96	1.07	1.20
Outstanding Shares (basic, mn)	2,516.34	2,523.74	2,566.65	2,566.65	2,566.65
Growth & Margins (%)					
Growth					
Revenue	-12.7%	-9.3%	2.1%	8.9%	6.5%
EBIT	-154.1%	-331.8%	51.7%	2.8%	-0.5%
Margins					
Gross profit margin	65.0%	75.3%	80.1%	79.9%	79.8%
EBT margin	-9.2%	8.5%	16.4%	16.3%	15.8%
Net Profit Margin	-7.9%	7.9%	13.8%	13.6%	13.4%
Key Ratios					
ROE (%)	-8.8%	7.2%	11.4%	10.9%	10.3%
ROA (%)	-3.5%	3.2%	5.4%	5.5%	5.5%
Income Statement (RMB mn)					
Revenue	1,765	1,602	1,635	1,780	1,896
Cost of revenue	(619)	(396)	(325)	(358)	(383)
Gross profit	1,147	1,206	1,310	1,422	1,513
Selling & Marketing expenses	(1,154)	(828)	(765)	(819)	(863)
Administrative expenses	(217)	(205)	(188)	(205)	(218)
R & D expenses	(200)	(233)	(230)	(251)	(267)
Other income, net	260	297	240	240	240
Fair value adjustments on investment propertie	61	1	(5)	(15)	(35)
Operating profit	(103)	239	362	372	370
Finance income	7	9	11	13	16
Finance expense	(66)	(111)	(105)	(95)	(86)
Associates & JVs	0	0	0	0	0
EBT	(162)	137	268	290	300
Taxation	(2)	(17)	(22)	(25)	(25)
Profit After Tax	(164)	120	246	265	275
Minority interest	24	7	(21)	(23)	(20)
Net Profit	(140)	127	225	242	255
EPS	(0.056)	0.050	0.088	0.094	0.099

Source: Company, PSR

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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