

Yonyou (600588.SH)

Robust growth of Cloud services with good cost control, yet slightly overvalued

Hong Kong | TMT | Company Report

29 August 2019

Investment Summary

Yongyou is a leading provider of enterprise services in China, offering cloud, software and financial services. The result in first half was doing well, where the revenue grew by 10.2%, and continued its good cost control since the first quarter. Besides, the growth of revenue from cloud services remained robust, up by 114.6% YoY, and it has launched several new products, such as Yonyou Cloud Platform iuap V3.5.6, Yonyou NC Cloud 1903 and etc. We give a TP of RMB \$30.64, 3.6% higher than previous TP, downgrading to “Neutral” recommendation, with 7.2% potential downside. (Closing price at 27 Aug 2019)

Neutral

CMP HKD 33.00

(Closing price at 27 Aug 2019)

TARGET HKD 30.64 (-7.2%)

Result update

The Group announced interim results with revenue of RMB 3.31 bn, up 10.2% YoY; net profit attributable to owners was RMB 480 mn, up 290.1% YoY; net profit attributable to shareholders to owners after deducting non-recurring gains and losses was RMB 260 mn, an YoY increase of 155.1%; net profit attributable to shareholders to owners excluding non-recurring gains and losses and equity incentive costs was RMB 320 mn, also increasing by 40.5%.

COMPANY DATA

O/S SHARES (MN) :	2,486
MARKET CAP (RMBMN) :	82,042
52 - WK HI/LO (RMB):	40.38 / 20.80

SHARE HOLDING PATTERN , %

Wang Wenjing	44.61
Shanghai Yibei	4.23

PRICE PERFORMANCE , %

	1M	3M	1Y
Yonyou	16.65	39.59	14.38
SSE	-2.63	3.08	-1.59

Good cost control

The Group continued its good cost control since the first quarter. Selling expense and administrative expenses as percentage of revenue accounted for 17.6% and 16.3%, respectively, down 2.2% and 2.7% YoY. However, R&D expenses as percentage of revenue increased to 22.7%, up 2.7% YoY, due mainly to the increase in the development of cloud products. In addition, gross profit margin also fell by 2.9% YoY to 66%. The overall gross profit margin fell due to the strong growth of business with lower gross profit margin.

RETURN VS. SSE



Source: Aastocks, Phillip Securities (HK) Research

Robust growth on Cloud; more products will be launched

The revenue from cloud service business (excluding financial cloud service business) was RMB 470 mn, a YoY increase of 114.6%. Based on the classification of enterprises, the revenue from the micro-enterprise cloud service business was RMB 45.27 million, an increase of 142.3%; revenue from the large and medium-sized enterprise cloud service realized RMB 430 mn, an increase of 112%. Based on the business model, revenue from SaaS business was RMB 290 million, an increase of 133.6%; revenue from BaaS business realized RMB 110 mn, an increase of 146.1%; revenue from PaaS business was RMB 68.77 mn, an increase of 39.5%; revenue from DaaS business reached RMB 4.14 mn, an increase of 78.3%.

KEY FINANCIALS

RMB mn	FY17	FY18	FY19E	FY20E
Revenue	6,344	7,703	9,334	11,250
Net Profit	560	810	1,062	1,336
EPS, RMB	0.157	0.246	0.325	0.408
PER, x	210.86	134.03	101.65	80.78
BVPS, RMB	2.35	2.64	2.76	2.90
P/BV, x	14.03	12.49	11.97	11.38
ROE, %	6.7	9.9	12.0	14.4

Source: Company reports, Phillip Securities Est.

Research Analyst
Terry Li (2277 6527)
 teryli@phillip.com.hk

During the period, the Group released Yonyou Cloud Platform iuap V3.5.6, Yonyou NC Cloud 1903, U8 Cloud V 2.6 and U8 15.1, and also accelerated the development of Yonyou platform iuap5.0 and NC Cloud 1909. In addition, the company focused on strengthening business cooperation with strategic partners such as Huawei, China Telecom, and Industrial and Commercial Bank of China. The cloud market has grown steadily, in which its partners have exceeded 4,000, and its products and services have exceeded 6,200. Besides, the Group, together with China Software Association and Huawei, China Power Ke Puhua, Shanghai Zhaoxin, Loongson Zhongke, 360 Enterprise Security and other well-known domestic manufacturers, jointly launched the “Enterprise Digital Self-Controlled Service Alliance” and actively promoted the enterprise digitalization and localization.

Valuation

Based on the net profit attributable to the owner in 2020, we derive a TP of RMB \$30.64, 3.6% higher than the previous TP, reflecting a 75x P/E in light of the rapid growth in cloud services. Although increase in research and development on cloud services may reduce the net profit margin in the short term, but it is expected to create a long-term competitive advantage. Although we are positive on long term development, since the sharp rise in share prices recently, we have downgraded to the “Neutral” rating, with a potential downside of 7.2%.

Risk

1. Slower-than-expected growth in cloud products
2. The economy of China slows down
3. Cloud ERP may take away the existing customers of traditional ERP, particularly SME

Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios						
P/E (X), adj	253.42	415.63	210.86	134.03	101.65	80.78
P/B (X)	14.87	14.42	14.03	12.49	11.97	11.38
Dividend Yield (%)	0.5%	0.4%	0.5%	0.8%	0.6%	0.8%
Per share data (RMB)						
EPS, (Basic)	0.130	0.079	0.157	0.246	0.325	0.408
EPS, (Diluted)	0.130	0.079	0.157	0.246	0.325	0.408
DPS (HKD)	0.15	0.13	0.15	0.25	0.21	0.27
BVPS	2.22	2.29	2.35	2.64	2.76	2.90
Growth & Margins (%)						
Growth						
Revenue	1.8%	14.9%	24.1%	21.4%	21.2%	20.5%
EBIT	-120.6%	-63.6%	-1542.0%	47.7%	20.5%	30.1%
Net Profit	-39.8%	-28.8%	129.4%	44.7%	31.1%	25.8%
Margins						
EBIT margin	-1.7%	-0.5%	6.1%	7.4%	7.4%	7.9%
Net Profit Margin	7.7%	4.8%	8.8%	10.5%	11.4%	11.9%
Key Ratios						
ROE	6.8%	3.5%	6.7%	9.9%	12.0%	14.4%
Income statement (RMB mn)						
Revenue	4,451	5,113	6,344	7,703	9,334	11,250
EBIT	(74)	(27)	386	570	686	893
Operating profit	105	25	845	1,053	1,334	1,655
EBT	362	295	686	950	1,249	1,572
Net Profit	343	244	560	810	1,062	1,336
Minority Interest	324	197	389	612	807	1,016
Net profit for owners	19	47	171	198	255	321

Source: Company, Phillip Securities (HK) Research
(Financial figures as at 27 August 2019)

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2019 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005