

ChinaSoft International (354.HK)

Net profit failed to meet due to the upsurge in costs

Hong Kong | TMT | Company Report

3 October 2019

Investment Summary

ChinaSoft International is one of the leading software and information services companies in China. Revenue growth was in line with expectations, while net profit failed to meet due to the upsurge in costs. Based on 2019 net profit, we assume a P/E ratio of 15.5x (average over the past three years), deriving a TP of HK\$5.01, 23.7% lower than previous TP. Due to the slump in stock price, we reiterate a “Buy” rating with a potential return of approximately 44.8%. (Closing price at 30 Sep 2019)

Annual result update

Revenue growth in line with expectations, while net profit failed to meet due to the upsurge in costs

The Group announced its interim results. During the period, revenue increased by 15% YoY to RMB 5.54 billion. Net profit attributable to shareholders increased slightly by 1.5% YoY to RMB 360 million. The Technical and Professional Services Group (TPG) increased by 17.8% YoY to RMB 4.75 billion; the Internet IT Services Group (IIG) increased slightly by 0.7% YoY to RMB 790 million. Gross profit margin decreased by 0.6% YoY, mainly due to the preparation on staffs for Huawei, resulting in an increase in labor costs. Administrative costs as a percentage of revenue increased by 0.9% YoY, mainly due to the continuing investment in research and development of cloud smart services, and increased research and development expenses. And, operating profit margin fell by 1% YoY.

In terms of business, the Group entered the list of Huawei consumer business group IT core suppliers and became the best supplier of Huawei CBG annual IT framework. HSBC's business grew steadily, covering HSBC's new generation of personal mobile banking credit card customization system Apollo and HSBC Personal Business. Banking system RBB, etc. In addition, the business from financial and banking have also steadily increased, adding more than 20 domestic and foreign banks, private banks, non-bank financial institutions and overseas financial institutions.

Launching the “Z Plan” - a human resource outsourcing platform

The Group plans to launch the “Z Plan” for the human resource outsourcing on the Jointforce, and has now enrolled in more than 400 suppliers. The Group will serve as a bridge between the demand side and the supply side, which will meet the demand and quality requirements of the demand side and bring high quality customers with large volume to the supplier. In addition, the Group can continue to provide services to the long-tail market in a platform manner and leave important human resource to large customers. Therefore, we believe that the move will help the long-term development.

Buy

CMP HKD 3.46

(Closing price at 30 Sep 2019)

TARGET HKD 5.01 (+44.8%)

COMPANY DATA

O/S SHARES (MN)	:	2,533
MARKET CAP (HKDMN)	:	8,803
52 - WK HI/LO (HKD)	:	5.33 / 3.19

SHARE HOLDING PATTERN , %

Mr. Chen Yuhong	16.35
UBS Group AG	10.40
CSI Profit Share Scheme	5.54

PRICE PERFORMANCE , %

	1M	3M	1Y
Chinasoft Int'l	6.13	-28.66	-33.72
HSI	1.07	-8.03	-6.69

RETURN VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

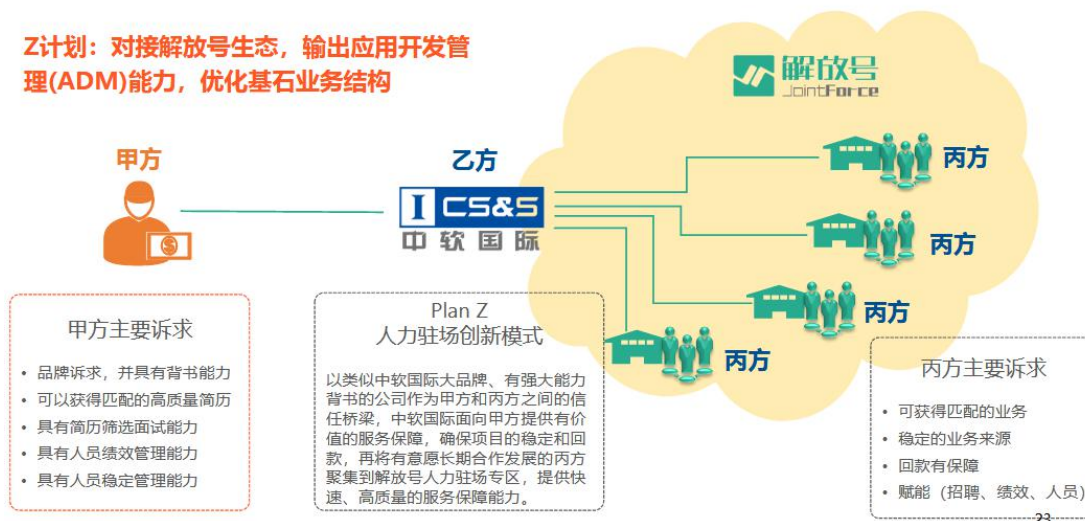
KEY FINANCIALS

RMB mn	FY17	FY18	FY19F	FY20F
Revenue	9,244	10,585	11,989	13,885
Net Profit	561	716	752	971
EPS, RMB	0.235	0.308	0.295	0.335
PER, x	13.42	10.25	10.69	9.44
BVPS, RMB	2.15	2.42	2.68	3.06
P/BV, x	1.47	1.31	1.18	1.03
ROE, %	12.0	13.7	11.8	11.7

Source: Company reports, Phillip Securities Est.

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

Figure: Business model of “Z Plan”



Source: Company report, Phillip Securities (HK) Research

“Cloud Integrative Services” goes well

In addition, the Group continued to develop and expand its “Cloud Integrative Services” business and achieved good results in both Nanjing and Xi'an. The platform mainly provides procurement, digital supervision, software project control, value-added services and financial services for budget units, industry management departments and IT suppliers. The platform has registered more than 3,000 government units, with more than 500 service projects, and the project amount reached about 200 million. The platforms of Guangzhou Baiyun and Chongqing Yubei have also started operations and reached strategic cooperation intentions with Chengdu, Changsha and Guizhou. The Group expects that the market space will reach RMB 300 billion in 2022, with a CAGR of approximately 15%.

Figure: The market size of “Cloud Integrative Services”

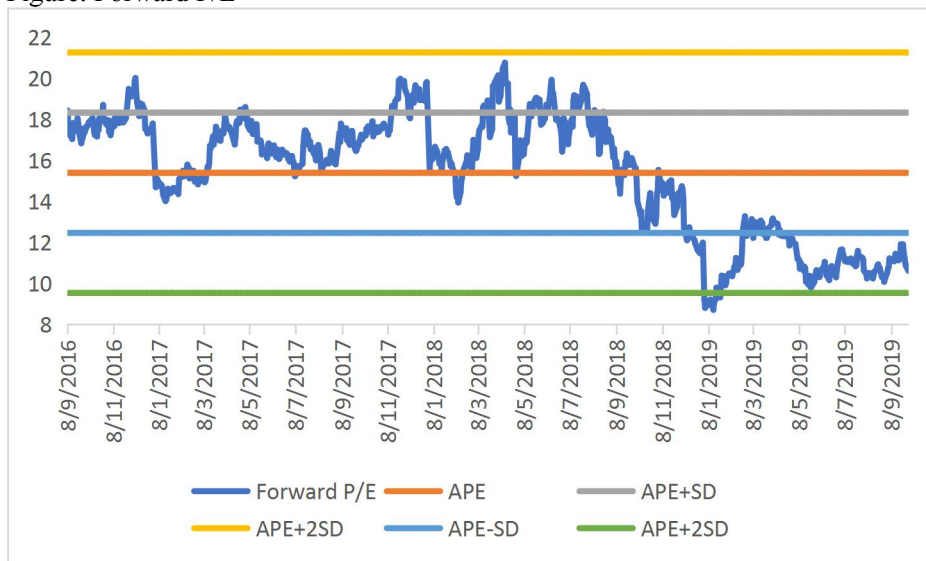


Source: Company report, Phillip Securities (HK) Research

Valuation

Based on 2019 net profit, we assume a P/E ratio of 15.5x (average over the past three years), deriving a TP of HK\$5.01, 23.7% lower than previous TP. Due to the slump in stock price, we reiterate a “Buy” rating with a potential return of approximately 41.0%. (HKD/CNY=0.913)

Figure: Forward P/E



Source: Bloomberg, Phillip Securities (HK) Research

Risk

1. Slower-than-expected growth in SaaS market
2. Suddenly loss on major customers
3. Slower-than-expected growth in emerging business
4. New products replace the company's existing products

Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios						
P/E (X), adj	23.31	16.54	13.42	10.25	10.69	9.44
P/B (X)	2.01	1.71	1.47	1.31	1.18	1.03
Dividend Yield (%)	N/A	0.3%	0.5%	0.6%	0.6%	0.7%
Per share data (RMB)						
EPS, (Basic)	0.136	0.191	0.235	0.308	0.295	0.335
EPS, (Diluted)	0.132	0.184	0.216	0.274	0.270	0.306
DPS (HKD)	N/A	0.012	0.018	0.0215	0.0207	0.0234
BVPS	1.57	1.84	2.15	2.42	2.68	3.06
Growth & Margins (%)						
Growth						
Revenue	15.8%	32.3%	36.3%	14.5%	13.3%	12.6%
EBIT	34.3%	21.0%	18.0%	20.0%	7.0%	14.2%
Net Profit	30.5%	23.1%	37.0%	27.6%	1.4%	15.0%
Margins						
Gross margin	29.7%	29.7%	29.8%	30.7%	30.2%	30.5%
EBIT margin	10.0%	9.1%	7.9%	8.3%	7.8%	8.0%
Net Profit Margin	6.5%	6.0%	6.1%	6.8%	6.1%	6.2%
Key Ratios						
ROA	5.7%	6.0%	7.0%	7.4%	6.5%	6.5%
ROE	9.8%	11.8%	12.0%	13.7%	11.8%	11.7%
Income statement (RMB mn)						
Revenue	5,129	6,783	9,244	10,585	11,989	13,503
Gross Profit	1,523	2,016	2,750	3,245	3,621	4,118
EBIT	513	620	732	878	940	1,074
EBT	420	525	633	760	807	928
Net Profit	333	410	561	716	726	835
Minority Interest	53	(32)	(4)	(44)	(25)	(17)
Net profit for owners	280	442	566	760	752	851

Source: Company, Phillip Securities (HK) Research

Exchange rate (0.913) is HKDCNY1Y forward contract price on September 30 from Wind.

(Financial figures as at 30 September 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 10, 330 Collins Street,
Melbourne, VIC 3000, Australia
Tel (613) 86339803
Fax (613) 86339899
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