

Chinasoft (00354)

Enrich a New Era of OpenHarmony Ecosystem,
Cloud intelligent business as the second curve
China | Technology | Software & IT Services

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In FY2021, the Chinasoft's revenue was RMB18,398.076 million, representing a YoY growth of 30.5% (FY2020: RMB14,101mn). The service revenue was RMB18,132.013mn, representing a YoY growth of 31.8% (FY2020: RMB13,762mn). The growth was mainly driven by the steady growth of the core large customer business and the rapid growth of cloud intelligent business. Profit attributable to the shareholders was RMB1,137mn (FY2020: RMB955mn), representing a YoY growth of 19.1%. EPS for FY2021 was RMB40.89 cents (FY2020: RMB37.86 cents), representing a YoY increase of 8.0%.

In terms of segment revenue, the revenue of TPG was RMB16,622mn (90.3% of total revenue), represented a YoY increase of 34.1%, the increase was mainly from the growth of core clients businesses such as HSBC, Tencent, Ali, Honor and other top ICT infrastructure and smart terminal provider. But the results of TPG just increased 4.1% YoY to RMB1,210mn, which was mainly due to the decline in the gross profit margin of the business during the reporting period and the further increase in R&D investment. The revenue of IIG was RMB1,776mn (9.7% of total revenue), represented a YoY increase of 4.2%, the increase was mainly due to the growth brought by the Internet platform business of the software industry of JointForce. The results of IIG was RMB148mn represented a YoY increase of 19.2%, the increase was mainly due to the improvement in the gross profit margin of the business and the decrease in provision for bad debt.

Market share capture, gross margin pressure

During the reporting period, gross profit was RMB4,904mn (FY2020: RMB4,118mn), representing a YoY growth of 19.1%. The gross margin was 26.7% (FY2020: 29.2%), representing a YoY decrease of 2.5ppt. The gross margin (to service revenue) was 27.0% (FY2020: 29.9%), representing a YoY decrease of 2.9ppt. The fluctuation of the gross profit margin was mainly due to the company was optimistic about the strategic transformation prospects of major clients, and under the premise of ensuring rapid revenue growth, sacrificed the short-term profits to seize the first mover position and market share; In 2020, the social security provident fund was reduced or exempted, and it returned to normal during the reporting period; Chinasoft increased investment in strategies and new businesses, and increased the reserve of mid-to-high-end technical talents.

R&D expenses were RMB1,249mn (FY2020: RMB930mn), representing a YoY increase of 34.3%. During the reporting period, the main reason for the increase was continued to increase its R&D investment in cloud intelligent business and industrial Internet platforms, which further increased the total R&D expenses. In 2021, the R&D expenses accounted for 6.8% (FY2020: 6.6%) of the total revenue, representing a YoY increase of 0.2ppt. As of the end of 2021, the total number of employees reached 92,039, an increase of 21.2% YoY. Among them, the number of technical personnel reached 87,401, accounting for 95% of the total number of employees, including 32,601 project managers, consultants and senior engineers, accounting for 37.3% of the total number of technical personnel.

Accumulate

CMP HKD6.94
(Closing price as of 2 Aug)
Target HKD8.21 (+18.3%)

COMPANY DATA

O/S SHARES (MN) :	3,065.791
MARKET CAP (HKD MN) :	21276.6
52 - WK HI/LO (HKD):	16.248/5.248

SHARE HOLDING PATTERN, %

Chen Yuhong	12.39%
UBS Group AG	10.32%
Bank of Communications Trustee Limited	5.22%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY20	FY21	FY22E	FY23E
Revenue	14,101	18,398	22,232	27,071
Shareholders Net profit	941	1,136	1,258	1,573
Reported EPS	0.38	0.41	0.45	0.55
P/E ratio, x	15.3	13.7	13.2	10.8
Dividend Yield, %	0.4%	0.5%	0.5%	0.6%

Source: Company reports, Phillip Securities Est.

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During the reporting period, Chinasoft has 2,083 active customers (the service revenue from the top five and top ten customers accounted for 71.3% & 78.2% of the total service revenue respectively) in 47 countries around the world. Among them, the company has 161 large customers, has a number of Fortune 500 clients including HSBC, Tencent, Alibaba, Honor, Ping An, China Mobile, Baidu, Microsoft, China Telecom, and other top ICT infrastructure and smart terminal provider etc. Company was ranked 80th in the Gartner Global IT Services Market Share TOP100 for four consecutive years, while revenue and profit reached new highs.

Seized the strategic window period of OpenHarmonyOS, Chinasoft has actively explored a new business model for the joint operation of OpenHarmony applications and services, expanded more hardware terminal products to join the OpenHarmony ecosystem, and promoted the development of the OpenHarmony ecosystem. The cloud intelligent business group, as the second curve, continued to maintain strong growth. Chinasoft ranked second in the IDC Third-party cloud management service market, and cloud migration and cloud development professional services both ranked first. Financial business steadily improved, added 29 new clients including domestic and foreign banks, private banks, and overseas financial institutions. Continued to cultivate the Internet industry, accelerated the penetration of major clients such as Tencent, Ali, Baidu, etc., while maintaining leading position, continued to expand the clients of wellknown Internet companies such as ByteDance, Meituan, JD.com. Operator IT service business has grown steadily, made breakthrough of acquiring key clients such as Migu Video, Migu Digital Media, China Telecom Tianyi Telecom Terminal, and CEC Hongxin for the first time, and cooperated with operators to promote 5G To B digital factory solutions, covering Aluminum, steel, mechatronics, transportation and other industries.

Company valuation

Since the listing on the Growth Enterprise Market in 2003, company's revenue and service revenue have maintained rapid growth. From 2003 to 2021, recorded CAGR growths of 29.9% and 37.6% for its revenue and service revenue. The company maintains its FY2022 revenue growth guidance of 20-30% YoY, with a revenue target of \$30 billion for FY2023. Chiansoft, SZ Kai Hong Digital Industry Development Co., the People's Government of Tianjin Municipality and Qingdao Guochuang Intelligent Household Appliances Research Institute went into an Agreement for Strategic Cooperation in 2022. Chiansoft will partner with SZ Kai Hong to popularize and implement OpenHarmony system solutions in the area of the smart city, smart government affairs and smart communities, focus on promoting the adaption and application of commercial release version of OpenHarmony for Party and government, traffic, energy, water conservancy & water service, finance, industry and other fields, facilitate and build an OpenHarmony industrial demonstration zone in Tianjin featured with robust industrial ecology, leading core technologies, resourceful application scenarios and powerful industrial competitiveness by setting up benchmarking model cases. Meanwhile, Chiansoft, SZ Kai Hong and Qingdao Guochuang start from OpenHarmony to develop pan-terminal operating systems in household appliance industry in combination with smart security and scenarized technology. Three parties will jointly promote the development of operating system application components, chips, modules, development board, complete machine and other kits which are oriented to the household appliance field to form a kit of solution for household products from non-intellectualization to intellectualization or low-end intellectualization to high-end intellectualization or from end to end. Moreover, Chiansoft has recently signed a technical service agreement with BYD Auto Industry, to jointly promote the intelligence level of intelligent connected vehicles and accelerate the intelligent upgrade of the automotive industry. we Forcast FY2022E EPS to be RMB0.45, with TP HKD8.21, implies a FY2022E P/E of 15.6x (2-years average). Our investment rating is "Accumulate".

Risk factors

1) The pandemic has worsened more than expected; 2) the development of OpenHarmony application was slower than expected; and 3) the development of intelligent cloud business was worse than expected.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21	FY22E	FY23E
Revenue	12,042	14,101	18,398	22,232	27,071
COGS	(8,459)	(9,983)	(13,494)	(16,267)	(19,509)
Gross Profit	3,583	4,118	4,904	5,965	7,561
S&D expense	(618)	(729)	(943)	(1,143)	(1,392)
Administrative expenses	(1,196)	(1,302)	(1,756)	(2,087)	(2,739)
R&D expenses	(809)	(930)	(1,249)	(1,488)	(1,855)
Other income	5	54	406	280	323
Operating Profit	965	1,211	1,362	1,527	1,898
Financial cost, net	(166)	(151)	(100)	(98)	(136)
Share of Associates/ JV	(0.3)	(24.4)	(10.2)	(12)	(6)
Profit before tax	799	1,035	1,252	1,418	1,756
Income tax	(42)	(87)	(115)	(158)	(182)
Minority interest	1.8	(6.8)	(0.2)	(2)	(1)
Shareholders Net profit	755	955	1,137	1,271	1,580
Reported EPS	0.31	0.38	0.41	0.45	0.55
DPS (HKD)	0.02	0.03	0.03	0.03	0.04
Payout ratio	6%	6%	6%	6%	6%
Shares outstanding	2,459	2,522	2,780	2,828	2,877

Key Financial Data

Dec Y/E	FY19	FY20	FY21	FY22E	FY23E
Valuation Ratio					
P/S ratio, x	1.3	1.0	0.8	0.8	0.6
P/E ratio, x	20.2	15.3	13.7	13.2	10.8
Dividend Yield, %	0.3%	0.4%	0.5%	0.5%	0.6%

Per share data (RMB)

EPS	0.31	0.38	0.41	0.45	0.55
BVPS	2.63	3.47	4.17	4.53	4.97
DPS (HKD)	0.02	0.03	0.03	0.03	0.04

Growth & Margin

	FY19	FY20	FY21	FY22E	FY23E
Growth					
Revenue Growth	13.8%	17.1%	30.5%	20.8%	21.8%
Gross Profit Growth	10.4%	14.9%	19.1%	21.6%	26.8%
Operating Profit Growth	11.4%	25.4%	12.5%	12.1%	24.3%
Net Profit Growth	5.7%	25.3%	19.9%	11.8%	24.3%
Margin					
Gross Profit Margin	29.8%	29.2%	26.7%	26.8%	27.9%
Operating Profit Margin	8.0%	8.6%	7.4%	6.9%	7.0%
Net Profit Margin	6.3%	6.8%	6.2%	5.7%	5.8%

Key Ratios

ROE	12.1%	12.5%	11.2%	10.4%	11.7%
ROA	7.1%	8.0%	7.6%	7.2%	8.0%

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21	FY22E	FY23E
Non Current Asset					
PPE	802	858	1,220	1,235	1,251
Intangible Assets	127	145	193	200	222
Others	1,617	1,690	1,970	2,308	2,829
Total Non Current Assets	2,547	2,693	3,383	3,744	4,302
Current Asset					
Amounts Due from Customers for Contract Work	2,228	1,904	1,741	1,487	1,360
Trade and other receivables	3,297	4,580	5,894	6,269	6,923
Bank balance and cash	2,526	3,787	5,556	6,778	7,899
Others	147	123	328	275	294
Total Current Assets	8,198	10,394	13,520	14,809	16,475
Total Assets	10,745	13,087	16,902	18,553	20,777
Current Liabilities					
Payables	1,229	1,753	2,252	2,422	2,964
Interest-bearing Borrowings	1,523	368	917	1,001	1,068
Other current Liabilities	397	597	817	898	871
Total current Liabilities	3,150	2,718	3,986	4,321	4,903
Non Current Liabilities					
Long-term debt	200	1,421	1,021	1,105	1,171
Others	862	171	269	303	380
Total Non-Current Liabilities	1,062	1,592	1,290	1,408	1,551
Equity					
Shareholders' equity	6,468	8,753	11,604	12,802	14,300
Non-controlling Interests	66	23	23	23	23
Total equity	6,534	8,776	11,627	12,824	14,323
Total Liabilities and Equity	10,745	13,087	16,902	18,553	20,777

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY19	FY20	FY21	FY22E	FY23E
CFO					
Profit before income tax	799	1,035	1,252	1,429	1,762
D&A add-back	303	329	444	652	862
Others	252	405	173	(116)	(121)
Net (Inc)/dec working capital	(516)	(533)	(887)	184	(30)
Tax	(84)	(83)	(20)	(117)	(118)
Net cash flow from operating activities	754	1,153	962	2,031	2,355
CFI					
Purchase of PP&E and Investment	(142)	(220)	(348)	(285)	(299)
Others	(82)	28	(181)	(619)	(986)
Net cash flow from investing activities	(224)	(192)	(530)	(903)	(1,286)
CFE					
Net Borrowings	52	217	173	167	133
Others	(701)	145	1,204	(73)	(81)
Net cash flows from financing activities	(650)	362	1,377	94	52
Net Change in Cash	(119)	1,323	1,810	1,221	1,121
Cash and CE at Y/E	2,526	3,787	5,556	6,778	7,899

Current Price as of: August 2

Source: PSHK Est.

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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