

Hong Kong

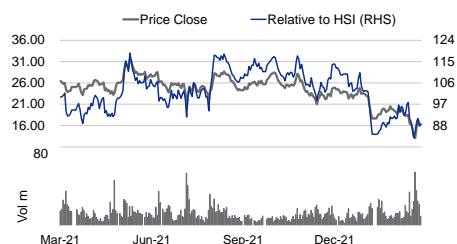
ADD (no change)

Consensus ratings*: Buy 26 Hold 4 Sell 0

Current price:	HK\$16.34
Target price:	HK\$26.96
Previous target:	HK\$35.71
Up/downside:	65.0%
CGI / Consensus:	-8.0%
Reuters:	0268.HK
Bloomberg:	268 HK
Market cap:	US\$7,242m
	HK\$56,673m
Average daily turnover:	US\$32.82m
	HK\$256.1m
Current shares o/s:	3,468m
Free float:	70.6%
*Source: Bloomberg	

Key changes in this note

- Expected to report higher losses in 2022F and 2023F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-17.4	-33.7	-38.8
Relative (%)	-5.2	-26.1	-12

Major shareholders	% held
CEO, Mr Xu Shao Chun	22.3
The Capital Group Companies, Inc.	7.1

Analyst

Mark Po

T (852) 3698 6318

E markpo@chinastock.com.hk

Kingdee

Remains a key beneficiary of IT investment growth

- Despite short-term uncertainties, Kingdee is expected to remain one of the key beneficiaries of IT industry development in China.
- We believe that the Company will continue to deliver solid growth, given its share gain in the large enterprise market and new product launches.
- We factored in higher losses for 2022F and 2023F, given higher expenses, including sales & marketing and R&D.
- We maintain our ADD rating despite factoring in a higher net loss for 2021F and 2022F. We set a target price of HK\$26.96 based on a 2022F P/S target of 15x. The downward revision is mainly due to the adoption of a lower P/S target (from 25x to 15x).

Management remains positive on the outlook for the Company

Despite macro uncertainties, Kingdee's operations in Jan–Feb 22 were smooth, but the resurgence in COVID-19 cases in Mar has led to some uncertainties regarding project deliveries. The Company's cloud business is expected to deliver solid growth, given a market share gain in the large enterprise segment and the launch of new products. Management reiterated the target of a 50% CAGR for subscription annual recurring revenue (ARR) in 2021–2023. The ARR is expected to reach Rmb3.3bn by 2023. The Company also aims to double Cosmic & Constellation revenue in 2022, with the launch of Constellation HR solutions. The dollar retention rate was 120% in 2021, and the target is above 100% for 2022. Galaxy's growth target is just 20% for 2022 due to a high base. The accelerated transformation to the subscription revenue model is expected to help the Company continue to deliver resilient top-line growth and cash flow generation.

Recap of 2021 results

In 2021, Kingdee recorded revenue of approximately Rmb4.2bn, up by 24.4% yoy. Revenue of the Group's cloud business reached Rmb2.8bn, up by 44.2%, accounting for 66.1% of total revenue in 2021. In 2021, ARR of Kingdee Cloud subscription services grew rapidly by 58.5%, reaching Rmb1.6bn (the subscription ARR reflects the approximate annualized recurring revenue from Kingdee Cloud subscription services; it does NOT include maintenance or recurring revenue associated with traditional software licensing). Contract liabilities related to Cloud subscription services – which consist mainly of advance receipts or deferred revenue from the subscription business – increased by 64.6%. The Company's operating cash flow increased by 39.6% yoy to approximately Rmb661m. Kingdee reported a net loss of Rmb302m, narrowing down from Rmb355m in 2020. The net loss was mainly due to the increased investment in product R&D on Kingdee Cloud Cosmic and Kingdee Cloud Constellation, especially since the Company is in the investment cycle of the large enterprise market. Selling and marketing expenses increased by 22.2% yoy, mainly due to labor costs, which increased by 20%. Sales promotion and marketing activity accounted for 41.7% of total revenue (down by 0.8 ppt yoy). Administrative expenses increased by 12.6% yoy, owing mainly to labor costs, which grew by 17.6% and accounted for 11.2% of total revenue (down by 1.1 ppt yoy). R&D expenses accounted for 28.4% of revenue, up by 20.4% yoy. But this rate was affected by a change in the capitalization rate in 2020, which led to a downturn in the amortization rate, formed by historical capitalization in 2020. When the influence of the capitalization rate is removed, R&D growth increased 42.8% yoy.

Target price cut but maintain our ADD rating

We lowered our 2022–2023F revenue by 2.6–3.8% after the 2021 results adjustment. We also factored in losses in both 2022F and 2023F after factoring in higher expenses. We maintain our ADD rating and lower our P/S-based TP to HK\$26.96, implying 15x 2022F P/S (vs. 25x previously).

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	3,356	4,174	5,282	6,988	9,450
Operating EBITDA (Rmbm)	(574.6)	(697.6)	(638.4)	(509.7)	(207.1)
Net Profit (Rmbm)	(265.6)	(223.6)	(186.3)	(51.2)	269.4
Core EPS (Rmb)	(0.079)	(0.065)	(0.054)	(0.015)	0.078
Core EPS Growth	(162%)	(18%)	(17%)	(73%)	
FD Core P/E (x)	NA	NA	NA	NA	170.8
DPS (Rmb)	-	-	-	-	0.017
Dividend Yield	0.000%	0.000%	0.000%	0.000%	0.129%
EV/EBITDA (x)	NA	NA	NA	NA	NA
P/FCFE (x)	NA	NA	NA	103.9	41.3
Net Gearing	(48.9%)	(31.0%)	(33.5%)	(41.8%)	(57.9%)
P/BV (x)	5.83	6.06	6.27	6.37	6.20
ROE	(3.86%)	(2.91%)	(2.49%)	(0.70%)	3.68%
% Change In Core EPS Estimates			(49%)	(116%)	
CGI/consensus EPS (x)			1.10	(0.48)	0.62

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Large enterprise segment development

Kingdee plays a leading role in domestic substitution and has helped 102 enterprises achieve domestic substitution. It also supports digitalization restructuring for various Fortune Global 500 companies, including Huawei, Vanke, China Merchants Group, HBIS Group, and State Power Investment Corporation.

Cloud Cosmic and Constellation. In 2021, Kingdee made progress in the large enterprise segment, focusing on its leading role in domestic substitution. Cloud Cosmic and Constellation, products targeting large enterprise customers, recorded revenue of Rmb385m, up by 102.9% yoy. The dollar retention ratio of both exceeded 120%. Kingdee recorded 551 signed customers, 316 of which were new customers, including CCB Fintech, WZ Group, Shagang Group, Yixintang, BGI, Chinasoft International, and Fenghua Advanced Technology. Cloud Cosmic and Constellation clients further diversified from 2020. Kingdee received subscriptions for taxation and manufacturing for the first time in 2021, accounting for 2% of total subscriptions. The further diversification of its customer base will help Kingdee defuse the downside risks in a single industry.

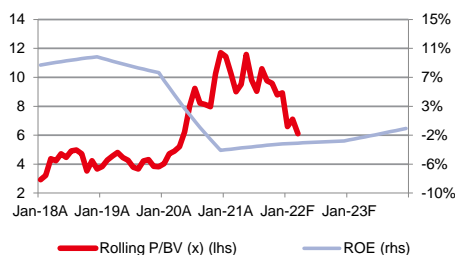
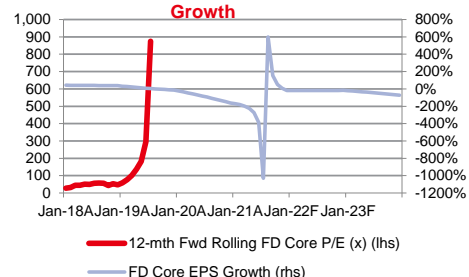
In 2022, Kingdee will launch Constellation HR, a product based on the practice of Huawei HR. It is believed to be the leading next-generation HR system. Kingdee Cloud Galaxy, focusing on technologically advanced enterprises and unicorn companies, recorded 60.3% yoy ARR growth, a 98.6% dollar retention rate, and an 86.1% customer retention rate.

Figure 1: Assumptions

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Turnover (Rmbm)															
Software	812.6	1,088.0	873.6	786.2	870.3	673.9	734.6	836.3	907.7	938.2	296.7	89.0	28.6	9.6	3.4
Computer & related products	18.1	78.6	51.0	56.1	56.1	33.0	39.9	41.8	43.9	46.0	48.3	50.7	53.2	55.8	58.6
Solution consulting and support services	253.7	346.6	354.2	357.7	375.6	316.8	346.7	406.5	476.7	500.5	466.5	536.4	552.5	569.1	586.2
Implementation services	352.3	509.3	486.8	402.1	138.5	325.1	400.2	450.6	531.2	527.2	632.6	739.6	764.4	787.4	811.0
Cloud	0.0	0.0	0.0	0.0	106.0	168.0	340.8	568.2	849.3	1,313.6	1,912.4	2,758.4	3,883.6	5,566.4	7,990.8
YoY Change (%)															
Software		33.9	(19.7)	(10.0)	10.7	(22.6)	9.0	13.8	8.5	3.4	(68.4)	(70.0)	(67.8)	(66.6)	(64.9)
Computer & related products		335.0	(35.1)	10.0	0.0	(41.2)	20.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Solution consulting and support services		36.6	2.2	1.0	5.0	(15.7)	9.5	17.3	17.3	5.0	(6.8)	15.0	3.0	3.0	3.0
Implementation services		44.6	(4.4)	(17.4)	(65.6)	134.8	23.1	12.6	17.9	(0.7)	20.0	16.9	3.4	3.0	3.0
Cloud							102.8	66.7	49.5	54.7	45.6	44.2	40.8	43.3	43.6
Gross margin (%)															
Gross margin (%)	76.5	70.1	65.0	75.3	82.5	80.9	81.3	81.5	81.7	72.3	65.8	63.1	63.9	63.8	64.2
Net margin (%)															
Net margin (%)	18.9	7.2	(7.9)	7.9	12.7	14.4	11.5	13.5	14.7	11.2	(10.0)	(7.2)	(4.8)	(1.8)	2.1
Cost (Rmbm)															
S,G&A	(985.7)	(1,652.9)	(1,570.9)	(1,265.9)	(1,210.1)	(1,164.6)	(1,563.6)	(1,901.4)	(2,230.8)	(2,347.2)	(2,822.6)	(3,391.6)	(4,077.3)	(5,037.8)	(6,351.7)
R&D Expenses	(121.3)	(168.7)	(216.9)	(205.0)	(202.2)	(196.4)	(283.6)	(345.3)	(405.2)	(586.8)	(983.9)	(1,184.5)	(1,472.6)	(1,843.4)	(2,369.9)
Financial Expenses	(8.7)	(12.4)	(65.9)	(110.7)	(97.3)	(94.2)	(57.6)	(67.1)	(30.5)	(14.4)	(12.9)	(5.1)	(10.8)	(14.3)	(19.3)
YoY Change (%)															
S,G&A		67.7	(5.0)	(19.4)	(4.4)	(3.8)	34.3	21.6	17.3	5.2	20.3	20.2	20.2	23.6	26.1
R&D Expenses		39.1	28.5	(5.5)	(1.4)	(2.9)	44.4	21.8	17.3	44.8	67.7	20.4	24.3	25.2	28.6
Financial Expenses		42.5	432.8	67.9	(12.1)	(3.2)	(38.9)	16.5	(54.6)	(52.8)	(10.7)	(60.4)	112.3	32.3	35.2
Cloud turnover (Rmbm)															
Cosmic					-	-	-	-	-	59.0	78.7	111.4	144.2	177.0	209.8
Galaxy					-	-	-	393.0	605.0	927.4	1,356.3	1,901.6	2,673.6	3,753.7	5,270.2
Finance cloud					-	-	-	-	85.7	169.9	288.8	528.0	739.2	1,145.7	1,775.8
Industry cloud					-	-	-	-	107.1	142.9	172.5	212.2	318.3	477.5	716.2
Others					-	-	-	175.2	51.5	14.4	16.2	5.2	8.4	12.5	18.8
Galaxy subscribers								-	9,500.0	13,800.0	25,400.0	33,020.0	42,926.0	55,803.8	72,544.9

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth


Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	3,356	4,174	5,282	6,988	9,450
Gross Profit	2,248	2,694	3,439	4,528	6,145
Operating EBITDA	(575)	(698)	(638)	(510)	(207)
Depreciation And Amortisation	(39)	(60)	(65)	(70)	(75)
Operating EBIT	(614)	(758)	(703)	(580)	(283)
Financial Income/(Expense)	36	76	75	93	139
Pretax Income/(Loss) from Assoc.	(3)	8	9	10	10
Non-Operating Income/(Expense)	268	370	370	370	371
Profit Before Tax (pre-EI)	(313)	(303)	(250)	(107)	237
Exceptional Items					
Pre-tax Profit	(313)	(303)	(250)	(107)	237
Taxation	41	44	25	14	(12)
Exceptional Income - post-tax					
Profit After Tax	(272)	(260)	(225)	(92)	225
Minority Interests	6	36	39	41	44
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	(266)	(224)	(186)	(51)	269
Recurring Net Profit	(266)	(224)	(186)	(51)	269
Fully Diluted Recurring Net Profit	(266)	(224)	(186)	(51)	269

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	(575)	(698)	(638)	(510)	(207)
Cash Flow from Inv. & Assoc.					
Change In Working Capital	564	511	539	882	1,316
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(83)	28	45	133	272
Other Operating Cashflow	698	800	800	801	801
Net Interest (Paid)/Received	(13)	(5)	(11)	(14)	(19)
Tax Paid					
Cashflow From Operations	591	637	735	1,291	2,162
Capex	(311)	(592)	(339)	(345)	(350)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(1,168)	(432)	0	0	0
Other Investing Cashflow	(53)	(228)	(429)	(536)	(745)
Cash Flow From Investing	(1,532)	(1,252)	(769)	(881)	(1,095)
Debt Raised/(repaid)	(80)	(120)	21	33	47
Proceeds From Issue Of Shares	2,091	(36)	0	0	0
Shares Repurchased					
Dividends Paid	(37)	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	68	90	82	105	160
Cash Flow From Financing	2,043	(66)	103	138	207
Total Cash Generated	1,102	(681)	70	548	1,275
Free Cashflow To Equity	(1,020)	(735)	(12)	443	1,115
Free Cashflow To Firm	(928)	(610)	(22)	425	1,087

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	4,012	2,417	2,520	3,068	4,343
Total Debtors	334	392	496	656	887
Inventories	19	30	38	51	69
Total Other Current Assets	1,818	1,632	1,765	1,918	2,096
Total Current Assets	6,183	4,471	4,820	5,694	7,395
Fixed Assets	746	1,009	1,013	1,018	1,023
Total Investments	297	312	327	344	361
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	3,496	5,296	5,450	5,637	5,858
Total Non-current Assets	4,539	6,616	6,791	6,998	7,242
Short-term Debt	120	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	2,279	2,924	3,700	4,895	6,620
Other Current Liabilities	200	160	168	181	198
Total Current Liabilities	2,599	3,084	3,869	5,076	6,818
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	22	54	69	91	123
Total Non-current Liabilities	22	54	69	91	123
Total Provisions	143	146	161	177	194
Total Liabilities	2,764	3,284	4,098	5,343	7,135
Shareholders' Equity	7,790	7,596	7,345	7,222	7,419
Minority Interests	169	207	168	127	83
Total Equity	7,958	7,803	7,513	7,349	7,502

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	0.9%	24.4%	26.6%	32.3%	35.2%
Operating EBITDA Growth	(723%)	21%	(8%)	(20%)	(59%)
Operating EBITDA Margin	(17.1%)	(16.7%)	(12.1%)	(7.3%)	(2.2%)
Net Cash Per Share (Rmb)	1.14	0.70	0.73	0.88	1.25
BVPS (Rmb)	2.28	2.19	2.12	2.08	2.14
Gross Interest Cover	(47.7)	(148.8)	(65.0)	(40.5)	(14.6)
Effective Tax Rate	0.00%	0.00%	0.00%	0.00%	5.00%
Net Dividend Payout Ratio	NA	NA	NA	NA	22.0%
Accounts Receivables Days	35.00	31.73	30.68	30.09	29.89
Inventory Days	4.34	6.08	6.82	6.63	6.63
Accounts Payables Days	642.4	641.5	655.8	637.6	637.5
ROIC (%)	(16.4%)	(19.3%)	(13.3%)	(11.8%)	(6.7%)
ROCE (%)	(7.66%)	(8.37%)	(7.91%)	(6.22%)	(1.63%)
Return On Average Assets	(3.22%)	(3.08%)	(2.64%)	(1.53%)	0.63%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Software yoy growth (%)	-6838.1%	-7000.0%	-6781.5%	-6660.6%	-6491.8%
Computer & related products yoy growth (%)	492.5%	492.5%	492.5%	492.5%	492.5%
Solution consulting and support services yoy growth	(6.8)	15.0	3.0	3.0	3.0
Implementation services yoy growth (%)	1999.4%	1691.1%	335.8%	300.0%	300.0%
Galaxy subscribers	25,400.0	33,020.0	42,926.0	55,803.8	72,544.9

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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619 companies under coverage for quarter ended on 31 Dec 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

Kingdee (268 HK)

RECOMMENDATION FRAMEWORK

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