

Hong Kong

ADD (no change)

Consensus ratings*: Buy 4 Hold 0 Sell 0

Current price:	HK\$3.30
Target price:	HK\$5.44
Previous target:	HK\$5.38
Up/downside:	64.9%
CGI / Consensus:	-28.3%
Reuters:	0596.HK
Bloomberg:	596 HK
Market cap:	US\$481.5m
	HK\$3,768m
Average daily turnover:	US\$1.34m
	HK\$10.68m
Current shares o/s:	1,142m
Free float:	39.7%

*Source: Bloomberg

Key changes in this note

- FY22F and FY23F revenue increased by 24% and 20%, respectively.
- FY22F and FY23F net profit increased by 31.9% and 41.7%, respectively.



Price performance	1M	3M	12M
Absolute (%)	-11.3	-26.7	52.1
Relative (%)	-8.1	-20.7	74.6

Major shareholders	% held
Inspur Group Limited	54.6

Analyst

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Inspur International

2021 results a strong beat

- Inspur International's (Inspur) 2021 results beat our forecasts regarding both revenue and net profit.
- The Company is one of the few reporting growth in both cloud and non-cloud business, along with lower losses in the cloud business segment. This is in line with our discussion in our previous update.
- We expect Inspur to remain a beneficiary of increasing localization, especially with large enterprises, which should support its operating performance.
- We reiterate our ADD rating, with a new target price of HK\$5.44 (SOTP – 15x 2022 P/E (down from 19x) for non-cloud services and 4x 2022 P/S (down from 6x) for cloud business).

2021 results highlights

Inspur reported a 53.2% yoy increase in turnover, from HK\$2,556.8m in 2020 to HK\$3,915.8m in 2021. It reported net profit of HK\$64.8m in 2021 vs. a net loss of HK\$157.0m in 2020. The Company's operating performance in terms of both revenue and net profit beat our expectations. The stronger-than-expected 2021 results were due to several factors: a) both cloud and non-cloud business reported strong yoy growth, b) profitability improved, especially the cloud business, which reported a smaller loss, and c) it achieved better cost control. In 2021, Inspur's cloud turnover growth outperformed its peers', including Kingdee and Yonyou. Cloud services were a growth driver, with yoy turnover growth of 79.1% yoy in 2021, accounting for 23.2% of total revenue, up from 19.8% in 2020 and 13.4% in 2019. Cloud services reported a segment loss of HK\$131.1m in 2021, improving from HK\$169m in 2020, due to better efficiency in our view. The management software division reported a 38.5% yoy increase in revenue to HK\$2,241.6m in 2021, up from HK\$1,618m in 2020. The revenue growth in the management software division is encouraging. The management software division reported segment profit of HK\$127.6m in 2021, up from HK\$4m in 2020. Inspur didn't declare a final dividend for 2021. It had a net cash position of over HK\$1bn at end-2021, so its financial position is solid.

ToB and ToG segments expected to be more resilient

As discussed in our previous update, we believe there are concerns about IT investment in 2022, as corporates may delay IT projects, given slower economic growth and tighter policies in multiple sectors. However, we believe the Chinese government has set the policy tone for 2022 and will take measures to boost economic growth. Local governments and SOEs are expected to lead investment to drive economic growth, and new infrastructure and digitalization are expected to be the key investment areas. The increasing adoption of cloud services (digitalization) by the largest enterprises will also create growth opportunities for the leading solutions providers. We believe that the ToB and ToG segments will be more resilient, which is positive for industry players with high exposure to both segments, such as Inspur.

Upward revision of net profit forecasts and target price

To factor in stronger-than-expected growth of both cloud and non-cloud revenue, we raised our net profit forecasts for 2022F and 2023F by 31.9% and 41.7%, respectively. In terms of valuation (P/E, P/S and P/B), Inspur International is trading at a discount to its peers, such as Kingdee and Yonyou. We maintain the view that Inspur has been under-appreciated by the market, given its market position and downstream exposure. We reiterate our ADD rating, with a new target price of HK\$5.44 (SOTP – 15x 2022 P/E (down from 19x) for non-cloud services and 4x 2022 P/S (down from 6x) for cloud business).

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (HK\$m)	2,557	3,916	4,489	5,109	5,888
Operating EBITDA (HK\$m)	(230.6)	(75.4)	(9.5)	101.3	258.4
Net Profit (HK\$m)	(157.0)	64.8	162.0	282.7	450.9
Normalised EPS (HK\$)	(0.11)	0.08	0.14	0.25	0.39
Normalised EPS Growth	(166%)		79%	74%	60%
FD Normalised P/E (x)	NA	41.62	23.25	13.33	8.36
DPS (HK\$)	-	0.006	0.028	0.050	0.079
Dividend Yield	0.00%	0.17%	0.86%	1.50%	2.39%
EV/EBITDA (x)	NA	NA	NA	21.46	6.94
P/FCFE (x)	44.92	17.38	28.53	14.13	8.67
Net Gearing	(51.4%)	(58.8%)	(60.8%)	(64.1%)	(68.4%)
P/BV (x)	1.91	1.79	1.67	1.50	1.30
ROE	(6.5%)	4.4%	7.4%	11.8%	16.6%
% Change In Normalised EPS Estimates			37.5%	41.3%	
Normalised EPS/consensus EPS (x)			2.68	2.31	

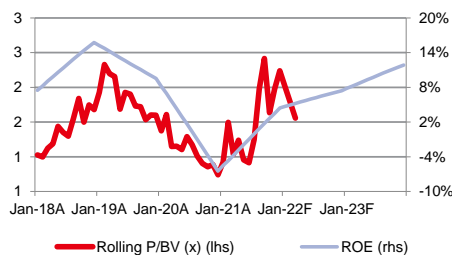
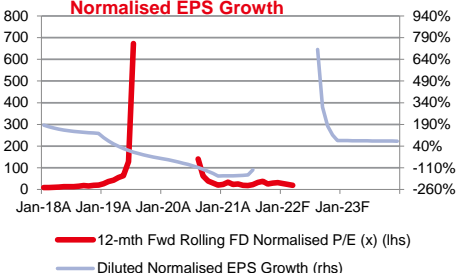
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Change in assumptions

	FY2022F			FY2023F		
	Old	New	% change	Old	New	% change
Revenue (HK\$ m)						
IoT solution	523.2	844.4	61%	575.6	928.8	61%
Management software	2,135.7	2,465.7	15%	2,349.3	2,589.0	10%
Cloud services	965.5	1,178.6	22%	1,323.0	1,591.1	20%
Total	3,624.5	4,488.7	24%	4,247.8	5,109.0	20%
YoY Change (%)						
IoT solution	10.0	10.0		10.0	10.0	
Management software	10.0	10.0		10.0	5.0	
Cloud services	37.0	30.0		37.0	35.0	
Gross margin (%)						
			ppt			ppt
IoT solution	34.3	32.5	(1.9)	35.0	33.2	(1.8)
Management software	25.0	25.0	0	27.0	27.0	0
Cloud services	39.3	37.4	(1.9)	39.3	37.4	(1.9)
Net margin (%)	3.2	3.6	0.4	4.7	5.5	0.8
Costs (HK\$ m)						
S,G&A	(914.2)	(928.9)	1.6%	(1,049.0)	(1,031.1)	-1.7%
R&D Expenses	(415.8)	(582.3)	40.0%	(444.9)	(611.7)	37.5%
Financial Expenses	(1.0)	(0.9)	0.0%	(1.2)	(1.1)	0.0%
Net profit (HK\$ m)	117.5	162.0	37.9%	199.5	282.7	41.7%
YoY Change (%)						
S,G&A	5.5	6.8		14.7	11.0	
R&D Expenses	6.8	19.2		7.0	5.0	
Financial Expenses	n.a.	n.a.		n.a.	n.a.	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE

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


Profit & Loss

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	2,557	3,916	4,489	5,109	5,888
Gross Profit	788	1,283	1,502	1,744	2,062
Operating EBITDA	(231)	(75)	(10)	101	258
Depreciation And Amortisation	(38)	(41)	(44)	(47)	(51)
Operating EBIT	(269)	(116)	(54)	54	207
Financial Income/(Expense)	1	2	4	4	5
Pretax Income/(Loss) from Assoc.	25	14	15	17	18
Non-Operating Income/(Expense)	122	186	197	209	222
Profit Before Tax (pre-EI)	(121)	86	162	284	453
Exceptional Items	(28)	(26)	0	0	0
Pre-tax Profit	(149)	60	162	284	453
Taxation	(17)	3	(1)	(3)	(4)
Exceptional Income - post-tax					
Profit After Tax	(167)	63	160	281	449
Minority Interests	9	2	2	2	2
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	(157)	65	162	283	451
Normalised Net Profit	(139)	89	160	281	449
Fully Diluted Normalised Profit	(129)	90	162	283	451

Cash Flow

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	(230.6)	(75.4)	(9.5)	101.3	258.4
Cash Flow from Inv. & Assoc.					
Change In Working Capital	127.0	(203.7)	14.8	15.9	17.8
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(2.5)	(45.0)	199.3	221.2	221.2
Other Operating Cashflow	79.1	430.3	218.6	208.8	222.4
Net Interest (Paid)/Received	(2.0)	(1.8)	(0.9)	(1.1)	(1.2)
Tax Paid					
Cashflow From Operations	(29.1)	104.5	422.2	546.1	718.6
Capex	(17.2)	(43.8)	(47.2)	(50.8)	(54.7)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	(13.3)	(18.1)	(18.1)	(18.1)	(18.1)
Other Investing Cashflow	133.5	170.1	(228.5)	(214.6)	(216.0)
Cash Flow From Investing	102.9	108.2	(293.8)	(283.4)	(288.8)
Debt Raised/(repaid)	9.8	3.8	3.6	3.9	4.9
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	0.0	0.0	(6.5)	(32.4)	(56.5)
Preferred Dividends					
Other Financing Cashflow	(12.7)	(18.7)	2.8	2.8	3.0
Cash Flow From Financing	(2.8)	(14.9)	(0.1)	(25.7)	(48.6)
Total Cash Generated	71.0	197.8	128.4	237.0	381.2
Free Cashflow To Equity	83.7	216.5	132.1	266.6	434.8
Free Cashflow To Firm	75.9	214.5	129.4	263.8	431.1

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet					
(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	1,034	1,266	1,404	1,643	2,025
Total Debtors	488	918	1,053	1,198	1,381
Inventories	1	2	2	3	3
Total Other Current Assets	610	649	723	803	899
Total Current Assets	2,133	2,835	3,182	3,647	4,308
Fixed Assets	396	399	402	405	409
Total Investments	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	1,629	1,541	1,708	1,895	2,102
Total Non-current Assets	2,025	1,940	2,110	2,300	2,511
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	745	931	1,067	1,215	1,400
Other Current Liabilities	1,054	1,328	1,515	1,730	1,976
Total Current Liabilities	1,799	2,259	2,582	2,944	3,375
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	105	112	124	137	151
Total Non-current Liabilities	105	112	124	137	151
Total Provisions	244	251	276	303	333
Total Liabilities	2,148	2,622	2,982	3,384	3,860
Shareholders' Equity	1,964	2,107	2,263	2,513	2,907
Minority Interests	46	46	48	49	51
Total Equity	2,010	2,153	2,310	2,562	2,959

Key Ratios					
	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(11.8%)	53.2%	14.6%	13.8%	15.3%
Operating EBITDA Growth	(513%)	(67%)	(87%)	N/A	155%
Operating EBITDA Margin	(9.02%)	(1.93%)	(0.21%)	1.98%	4.39%
Net Cash Per Share (HK\$)	0.91	1.11	1.23	1.44	1.77
BVPS (HK\$)	1.72	1.85	1.98	2.20	2.55
Gross Interest Cover	(132.8)	(65.0)	(57.0)	50.4	168.2
Effective Tax Rate	0.00%	0.00%	0.91%	0.94%	0.96%
Net Dividend Payout Ratio	NA	7.2%	20.0%	20.0%	20.0%
Accounts Receivables Days	67.13	65.55	80.13	80.39	80.14
Inventory Days	0.22	0.23	0.27	0.28	0.28
Accounts Payables Days	164.3	116.2	122.1	123.8	125.1
ROIC (%)	(17.2%)	(8.8%)	(4.3%)	4.1%	15.2%
ROCE (%)	(11.6%)	(4.8%)	(2.0%)	2.2%	6.9%
Return On Average Assets	(3.41%)	1.94%	3.12%	4.93%	6.95%

Key Drivers					
	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Cloud services YoY growth (%)	30.5%	79.1%	30.0%	35.0%	35.0%
Management software YoY growth (%)	-17.8%	38.5%	10.0%	5.0%	5.0%
IoT solution YoY growth (%)	-20.0%	77.5%	10.0%	10.0%	10.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2021		
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)

Inspur International (596 HK)

RECOMMENDATION FRAMEWORK

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Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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