

Glodon (002410 CH)

1H23 miss amid property sector headwind

Glodon announced 2Q23 results: total revenue increased by 7.2% YoY to RMB1.76bn in 2Q23, below consensus estimate of RMB2.00bn. Net profit was RMB129.2mn in 2Q23, down 55% YoY, mainly due to the soft housing construction market and Glodon's adjustment to its organizational structure. Total revenue/net profit was +10.7/-37.5% YoY in 1H23. In view of the long-lasting property sector headwind, the company revised down the full-year revenue/net profit growth guidance, and now expects total revenue/net profit to deliver teens percentage/positive YoY growth in FY23 (previous: +30/30% YoY). We lowered FY23-FY25 total revenue forecast by 7-16%, as the property sector headwind persists and organizational adjustment impacts short-term revenue growth. That said, Glodon's leadership in China's digital construction market remains intact and we expect its earnings growth to reaccelerate in FY24E (when we expect its focused strategy to deliver results). Maintain BUY with new TP of RMB45.10 on 9x FY23 EV/Sales.

- Construction costing: soft demand impacts newly signed contract.** Construction costing SaaS revenue grew by 34% YoY to RMB1.1bn in 2Q23, accounting for 81/60% of construction costing revenue/Glodon's total revenue. Newly signed contract valued declined by 8.3% YoY to RMB1.57bn in 1H23, mainly due to the soft demand from property market (especially the SME clients) and the Glodon's adjustment to its sales policy (shortening certain contract term from 3 years to 1 year). The new digital cost solution business was accumulating lighthouse customers and projects at its early development stage, with its revenue up by 123.7% YoY to RMB303mn in 1H23 (16% of costing SaaS revenue). Looking into 2H23, Glodon will focus on the expansion of KA customers such as state-owned enterprises and increase penetration rate into the large-enterprise market.
- Construction management: shift focus to quality growth.** Construction management revenue declined by 20% YoY to RMB316mn in 2Q23 and represented 18% of total revenue, as construction companies are more cautious on digital spending amid the property sector headwind. This has led to a longer deal negotiation and deployment cycle. To weather the sector headwind, Glodon will focus on both revenue and earnings growth (instead of just revenue growth) in the future, mainly through optimizing product structure and increasing sales of self-developed products.
- Short-term pressure on margin.** Overall GPM was flattish YoY at 85.6% in 1H23, as the increase in construction costing GPM was offset by the decline in construction management GPM (due to operating deleverage). The company continues to invest in PaaS and AI to solidify its leadership in the digital construction market, with its R&D expenses up by 30.7% YoY and accounting for 28.0% of total revenue in 1H23 (1H22: 23.8%). OPM was down 6.9pct YoY to 9.4% in 1H23. We lower our target price by 23% to RMB45.10 (previous: RMB58.41, ex-dividend), based on 9.0x FY23E EV/Sales, which is a discount to SaaS peer's average (10.0x), reflecting our conservative view on the SaaS demand from property sector. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,619	6,591	7,539	8,652	9,829
YoY growth (%)	40.3	17.3	14.4	14.8	13.6
Net profit (RMB mn)	661.0	966.7	993.4	1,292.3	1,455.7
EPS (Reported) (RMB)	0.56	0.82	0.60	0.78	0.87
Consensus EPS (RMB)	0.56	0.81	0.77	1.03	1.36
EV/Sales (x)	8.2	6.9	5.7	4.8	4.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB45.10
(Previous TP)	RMB58.41
Up/Downside	53.1%
Current Price	RMB29.46

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Stock Data

Mkt Cap (RMB mn)	35,098.3
Avg 3 mths t/o (RMB mn)	513.2
52w High/Low (RMB)	55.21/27.81
Total Issued Shares (mn)	1191.4

Source: FactSet

Shareholding Structure

Diao Zhizhong - Chairman	16.0%
Other co-founders	14.9%

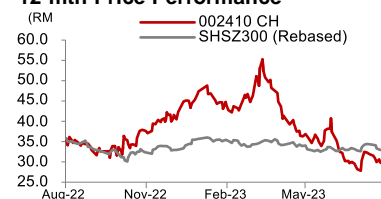
Source: Company data

Share Performance

	Absolute	Relative
1-mth	4.6%	5.7%
3-mth	-18.8%	-15.4%
6-mth	-32.9%	-26.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Glodon: forecast revision

RMBm	2023E			2024E			2025E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	7,539	8,140	-7%	8,652	9,800	-12%	9,829	11,698	-16%
Gross profit	6,232	6,540	-5%	6,969	7,780	-10%	7,910	9,225	-14%
OP Profit	1,160	1,389	-16%	1,431	1,761	-19%	1,591	2,087	-24%
PBT	1,100	1,360	-19%	1,425	1,751	-19%	1,616	2,097	-23%
Net profit	993	1,195	-17%	1,292	1,581	-18%	1,456	1,882	-23%
EPS	0.60	0.72	-17%	0.78	0.95	-18%	0.87	1.13	-23%
Margins									
GM	82.7%	80.4%	231 bps	80.6%	79.4%	117 bps	80.5%	78.9%	162 bps
OPM	15.4%	17.1%	-167 bps	16.5%	18.0%	-143 bps	16.2%	17.8%	-165 bps
PBT margin	14.6%	16.7%	-211 bps	16.5%	17.9%	-139 bps	16.4%	17.9%	-149 bps
Net margin	13.2%	14.7%	-151 bps	14.9%	16.1%	-120 bps	14.8%	16.1%	-128 bps

Source: CMBIGM estimates

Figure 2: Glodon: CMBIGM estimates vs consensus

RMBm	2023E			2024E			2025E		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	7,539	8,292	-9%	8,652	10,258	-16%	9,829	12,656	-22%
Gross profit	6,232	6,831	-9%	6,969	8,429	-17%	7,910	10,376	-24%
OP Profit	1,160	1,442	-20%	1,431	1,923	-26%	1,591	2,397	-34%
PBT	1,100	1,453	-24%	1,425	1,971	-28%	1,616	2,517	-36%
Net profit	993	1,266	-22%	1,292	1,710	-24%	1,456	2,187	-33%
EPS	0.6	0.8	-23%	0.8	1.0	-25%	0.9	1.4	-36%
Margins									
GM	82.7%	82.4%	27 bps	80.6%	82.2%	-161 bps	80.5%	82.0%	-150 bps
OPM	15.4%	17.4%	-201 bps	16.5%	18.8%	-221 bps	16.2%	18.9%	-275 bps
PBT margin	14.6%	17.5%	-293 bps	16.5%	19.2%	-274 bps	16.4%	19.9%	-345 bps
Net margin	13.2%	15.3%	-209 bps	14.9%	16.7%	-173 bps	14.8%	17.3%	-247 bps

Source: Bloomberg, CMBIGM estimates

Figure 3: Glodon: 2Q23 results review

RMB mn	Jun-22	Mar-23	Jun-23	YoY	QoQ	Jun-23	versus	Jun-23	versus
	2Q22	1Q23	2Q23			2Q23		2Q23	
Revenue	1,640	1,312	1,757	7%	34%	2,035	-14%	2,001	-12%
Gross profit	1,403	1,138	1,490	6%	31%	1,779	-16%	1,641	-9%
Gross margin	85.6%	86.7%	84.8%	-0.8 pct pts	-1.9 pct pts	87.4%	-2.6 pct pts	82.0%	2.8 pct pts
Operating profit	330	139	195	-41%	40%	505	-61%	334	-42%
Operating margin	20.1%	10.6%	11.1%	-9 pct pts	0.5 pct pts	24.8%	-13.7 pct pts	16.7%	-5.6 pct pts
Net non-op	-5	3	-48	-951%	-1962%	-1	-4806%	88	-155%
PBT	325	142	146	-55%	3%	504	-71%	422	-65%
Net income	288	120	128	-55%	7%	408	-69%	351	-63%
EPS RMB	0.17	0.07	0.08	-55%	7%	0.24	-69%	0.23	-66%

Source: Bloomberg, CMBIGM estimates

Figure 4: Peer comparison: SaaS sector

Companies	Ticker	Price (Local)	EV/Sales (x)			EV/EBITDA (x)			Rev CAGR 22-25E
			2023E	2024E	2025E	2023E	2024E	2025E	
Glodon	002410 CH	29.5	4.8	3.9	3.2	25.1	18.8	14.6	24%
Mingyuan Cloud	909 HK	3.7	2.7	2.2	1.9	NA	NA	38.6	16%
Yonyou	600588 CH	17.1	5.3	4.4	3.6	60.5	32.4	23.1	18%
Kingdee	268 HK	11.5	6.2	5.1	4.2	NA	NA	49.9	21%
Kingsoft Office	688111 CH	370.6	30.9	23.2	17.7	NA	78.0	56.5	32%
Autodesk	ADSK US	199.7	8.7	8.0	7.2	21.4	18.7	16.8	11%
CoStar	CSGP US	78.3	11.3	9.8	8.3	53.7	42.4	29.9	15%
Average			10.0	8.1	6.6	40.2	38.1	32.8	

Source: Bloomberg, CMBIGM

Note: data as at the 21 Aug market close

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	4,005	5,619	6,591	7,539	8,652	9,829
Cost of goods sold	(454)	(893)	(1,124)	(1,308)	(1,682)	(1,919)
Gross profit	3,550	4,727	5,467	6,232	6,969	7,910
Operating expenses	(3,142)	(3,978)	(4,347)	(5,072)	(5,539)	(6,319)
Selling expense	(1,256)	(1,587)	(1,690)	(1,919)	(2,165)	(2,431)
Admin expense	(879)	(1,099)	(1,229)	(1,353)	(1,504)	(1,650)
R&D expense	(1,083)	(1,333)	(1,515)	(1,890)	(1,977)	(2,355)
Others	75	41	87	91	108	117
Operating profit	408	748	1,120	1,160	1,431	1,591
Investment gain/loss	(10)	0	0	(14)	(15)	(15)
Interest income	17	53	33	51	95	112
Interest expense	0	0	0	0	0	0
Foreign exchange gain/loss	0	(1)	2	0	0	0
Other income/expense	(5)	(51)	(77)	(96)	(86)	(73)
Pre-tax profit	410	749	1,078	1,100	1,425	1,616
Income tax	(29)	(31)	(66)	(36)	(53)	(59)
Minority interest	(51)	(58)	(45)	(71)	(81)	(100)
Net profit	330	661	967	993	1,292	1,456
BALANCE SHEET						
	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	5,420	5,122	5,797	8,728	9,874	11,269
Cash & equivalents	4,797	4,050	4,344	7,238	8,464	9,941
Account receivables	475	560	1,120	1,079	991	900
Inventories	26	71	87	56	65	74
Other current assets	121	441	245	354	354	354
Non-current assets	4,127	4,946	5,749	6,271	6,683	7,044
PP&E	994	1,219	1,478	1,908	2,611	3,262
Investment in JVs & assos	255	326	342	308	308	308
Intangibles	1,664	1,979	2,598	2,609	2,319	2,028
Other non-current assets	1,214	1,421	1,331	1,445	1,445	1,445
Total assets	9,547	10,068	11,545	14,998	16,556	18,313
Current liabilities	2,858	3,637	4,576	7,435	8,034	8,668
Short-term borrowings	3	0	4	0	0	(0)
Account payables	1,740	2,395	531	4,061	4,660	5,294
Other current liabilities	1,115	1,242	4,041	3,374	3,374	3,374
Non-current liabilities	131	158	168	193	193	193
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	131	158	168	193	193	193
Total liabilities	2,989	3,795	4,744	7,629	8,228	8,861
Share capital	1,186	1,189	1,191	1,665	1,665	1,665
Capital surplus	3,135	3,174	2,910	2,509	2,509	2,509
Retained earnings	1,957	2,432	3,063	3,582	4,541	5,664
Other reserves	125	(1,007)	(853)	(884)	(884)	(884)
Total shareholders equity	6,402	5,788	6,312	6,872	7,831	8,954
Minority interest	156	485	489	498	498	498
Total equity and liabilities	9,547	10,068	11,545	14,998	16,556	18,313

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	410	749	1,078	1,100	1,425	1,616
Depreciation & amortization	384	313	225	415	464	519
Tax paid	(29)	(31)	(66)	(36)	(53)	(59)
Change in working capital	784	525	(2,440)	774	679	715
Others	327	45	2,850	1,843	0	0
Net cash from operations	1,876	1,601	1,648	4,096	2,516	2,791
Investing						
Capital expenditure	(439)	(720)	(850)	(886)	(876)	(880)
Acquisition of subsidiaries/ investments	(239)	0	(36)	(73)	0	0
Net proceeds from disposal of short-term investments	(19)	(931)	(95)	(195)	0	0
Others	0	110	16	37	0	0
Net cash from investing	(697)	(1,541)	(964)	(1,115)	(876)	(880)
Financing						
Dividend paid	(157)	(354)	(410)	(477)	(333)	(333)
Net borrowings	(1,088)	(3)	0	(3)	(0)	(0)
Proceeds from share issues	3,040	636	295	491	0	0
Others	(395)	(1,074)	(296)	(73)	(81)	(100)
Net cash from financing	1,400	(795)	(412)	(551)	(414)	(434)
Net change in cash						
Cash at the beginning of the year	2,231	4,797	4,050	4,344	7,238	8,464
Exchange difference	(14)	(13)	23	(5)	0	0
Cash at the end of the year	4,797	4,050	4,344	6,770	8,464	9,941
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	13.1%	40.3%	17.3%	14.4%	14.8%	13.6%
Gross profit	12.0%	33.1%	15.7%	14.0%	11.8%	13.5%
Operating profit	20.6%	83.5%	49.6%	3.6%	23.4%	11.2%
Net profit	40.5%	100.1%	46.3%	2.8%	30.1%	12.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	88.7%	84.1%	82.9%	82.7%	80.6%	80.5%
Operating margin	10.2%	13.3%	17.0%	15.4%	16.5%	16.2%
Return on equity (ROE)	6.8%	10.8%	16.0%	15.1%	17.6%	17.3%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.7)	(0.7)	(1.1)	(1.1)	(1.1)
Current ratio (x)	1.9	1.4	1.3	1.2	1.2	1.3
Receivable turnover days	48.6	33.6	46.5	53.2	43.7	35.1
Inventory turnover days	2.2	3.2	4.4	3.5	2.6	2.6
Payable turnover days	158.6	155.6	29.4	196.6	196.6	196.6
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	149.2	87.1	44.7	49.4	38.0	33.7
P/B	7.9	10.1	6.9	7.1	6.3	5.5
Div yield (%)	0.6	0.6	1.1	0.7	0.7	0.7
EV	45,335.3	46,079.7	45,788.5	42,891.6	41,665.0	40,188.3
EV/Sales	11.3	8.2	6.9	5.7	4.8	4.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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