

Glodon (002410 CH)

Reset expectation

Glodon preliminary FY21 net profit beat our estimate on improving operating leverage as SaaS migration is reaching a final stage. We expect Glodon FY21E costing/ construction management revenue to grow at +30%/ +25% YoY in spite of weak property industry data. We think current valuation has not reflected the long-term benefits brought by SaaS, including less fluctuation to property business cycle and significant free cash flow improvement. Maintain BUY.

- **FY21 net profit to beat on better operating leverage.** Glodon reported preliminary FY21 net profit to range between RMB650-700mn (+96.7-111.9% YoY). Mid-point of net profit guidance is 18% above our prior estimate, driven by better operating leverage as SaaS migration is reaching a final stage. We expect Glodon FY21 revenue/ operating profit to grow at +31%/ +76% YoY reaching RMB5,250mn/ RMB716mn respectively (OPM +3.5 pct pts to 13.6%).
- **High costing SaaS retention helps cash flow.** After 5 years of SaaS transformation (since 2017), Glodon's costing SaaS migration will complete by the end of 2022E. We like Glodon over MYC (909 HK) given 1) higher user stickiness and 2) lower exposure to property developers. Glodon SaaS is charged based on no. of cost estimator users, vs. MYC CRM SaaS charges based on no. of property sales offices. Also, Glodon's exposure to property developers is lower at 10% of costing revenue. These have resulted in a better free cash flow (FCF margin Glodon: 36% vs. MYC: 21% in FY20). We estimate Glodon's FY21 costing revenue to grow at +30% YoY to RMB3.7bn.
- **Construction management business ramping up from low base.** Although China real estate GFA newly started in 2021 was down by -12% YoY, we expect Glodon's construction management business to achieve strong revenue growth of +25% YoY to RMB1.2bn as it ramps up from low base (TAM: RMB50bn, assuming 500k new construction projects in China annually x digitalization input RMB100k per project). In 9M21, construction management business grew at +29% YoY.
- **Maintain BUY.** We raised FY21E net profit by 20% but we kept FY22-23E earnings largely unchanged. Glodon is trading at 1-SD below its 3-year mean. We think current valuation has not reflected the cash flow improvement brought by SaaS. Maintain BUY with new target price of RMB80.55 (prior RMB91.72), based on lowered 15x (prior 18x) FY22E EV/sales to reflect higher uncertainty in construction management if macro weakness persists.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,541	4,005	5,250	6,017	6,647
YoY growth (%)	22%	13%	31%	15%	10%
Net profit (RMB mn)	235	330	686	871	1,020
EPS (RMB)	0.21	0.28	0.58	0.73	0.86
YoY growth (%)	-47%	34%	107%	27%	17%
Consensus EPS (RMB)	0.21	0.28	0.56	0.84	1.13
PE (x)	270.8	202.4	97.6	76.9	65.7
EV/sales	18.6	15.5	11.9	10.2	9.1
Dividend Yield (%)	0.00	0.00	0.00	0.00	0.00
ROE (%)	7%	7%	11%	13%	14%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB80.55
(Previous TP	RMB91.72)
Up/Downside	+42.8%
Current Price	RMB56.41

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Stock Data

Mkt Cap (RMB mn)	67,103
Avg 3 mths t/o (RMB mn)	299.62
52w High/Low (RMB)	90.00/ 54.39
Total Issued Shares (mn)	1,190

Source: Bloomberg

Shareholding Structure

Xi Zhizhong - Chairman	16.0%
Other co-founders	16.3%

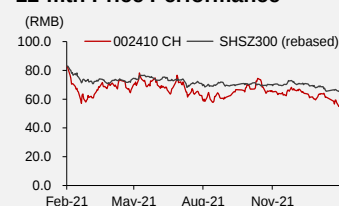
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-5.7%	-3.1%
3-mth	-14.9%	-9.6%
6-mth	-10.4%	-3.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

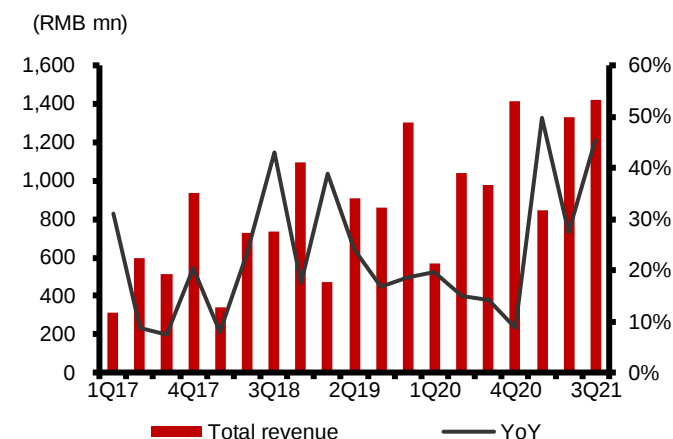
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Related Reports

1. China property SaaS - "Property weakness may slow digitalization pace" – 28 Oct 2021
2. Glodon (002410 CH) - "Operating leverage from SaaS emerging" – 25 Aug 2021

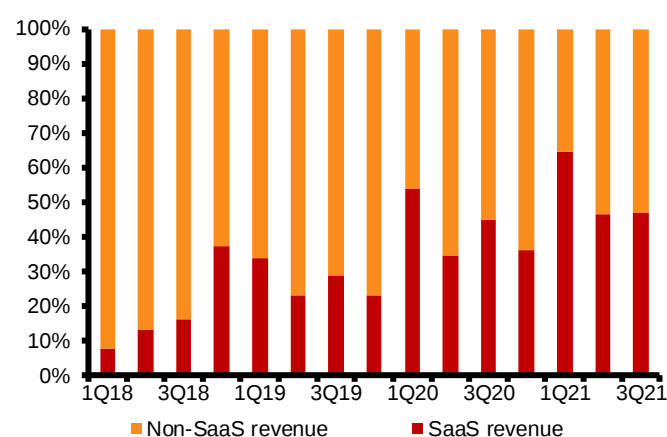
Focus Charts

Figure 1: Revenue and growth



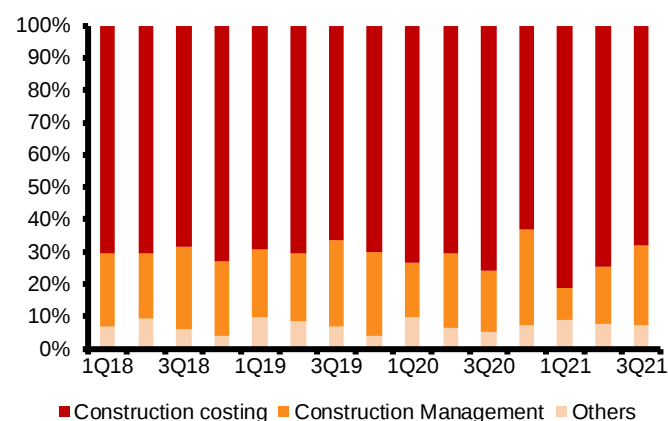
Source: Company data

Figure 2: Revenue breakdown (SaaS vs. non-SaaS)



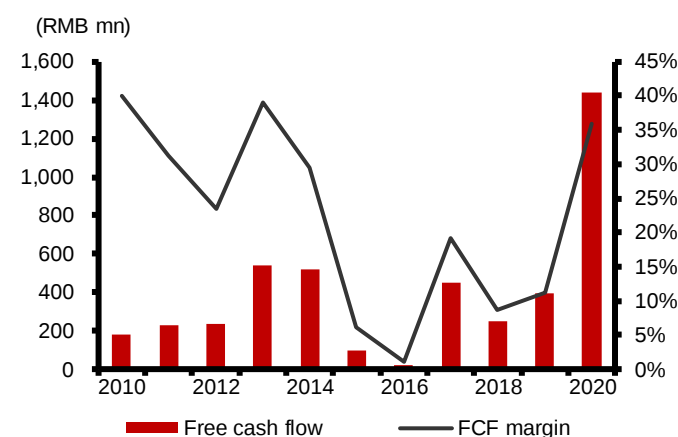
Source: Company data

Figure 3: Revenue breakdown (by segment)



Source: Company data

Figure 4: Free cash flow



Source: Company data

Figure 5: Glodon 1-yr fwd EV/sales



Source: Company data *Glodon disclosed SaaS revenue since 2017 (2% of 2017 revenue)

Figure 6: Autodesk 1-yr fwd EV/sales



Source: Company data *Autodesk disclosed subscription revenue since 2016 (9% of 2016 revenue)

Earnings revision

Figure 7: Earnings revision

RMB mn	2021E			2022E			2023E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	5,250	5,203	1%	6,017	5,987	0%	6,647	6,609	1%
Gross profit	4,524	4,495	1%	5,190	5,173	0%	5,610	5,588	0%
OP Profit	716	621	15%	977	1,019	-4%	1,107	1,167	-5%
PBT	771	639	21%	1,074	1,066	1%	1,219	1,234	-1%
Net profit	686	570	20%	871	862	1%	1,020	1,027	-1%
EPS (RMB)	0.58	0.48	20%	0.73	0.73	1%	0.86	0.86	-1%
Margins									
GM	86.2%	86.4%	-23 bps	86.3%	86.4%	-14 bps	84.4%	84.6%	-15 bps
OPM	13.6%	11.9%	170 bps	16.2%	17.0%	-77 bps	16.7%	17.7%	-101 bps
PBT margin	14.7%	12.3%	240 bps	17.8%	17.8%	4 bps	18.3%	18.7%	-33 bps
Net margin	13.1%	11.0%	212 bps	14.5%	14.4%	8 bps	15.3%	15.5%	-20 bps

Source: Company data, CMBIS

Figure 8: CMBI vs. consensus forecast

RMB mn	2021			2022			2023		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	5,250	5,141	2%	6,017	6,333	-5%	6,647	7,647	-13%
Gross profit	4,524	4,520	0%	5,190	5,541	-6%	5,610	6,633	-15%
OP Profit	716	802	-11%	977	1,168	-16%	1,107	1,539	-28%
PBT	771	787	-2%	1,074	1,183	-9%	1,219	1,583	-23%
Net profit	686	674	2%	871	1,000	-13%	1,020	1,344	-24%
EPS (RMB)	0.6	0.6	4%	0.7	0.8	-13%	0.9	1.1	-25%
Margins									
GM	86.2%	87.9%	-176 bps	86.3%	87.5%	-123 bps	84.4%	86.7%	-234 bps
OPM	13.6%	15.6%	-197 bps	16.2%	18.4%	-220 bps	16.7%	20.1%	-347 bps
PBT margin	14.7%	15.3%	-62 bps	17.8%	18.7%	-83 bps	18.3%	20.7%	-236 bps
Net margin	13.1%	13.1%	-3 bps	14.5%	15.8%	-132 bps	15.3%	17.6%	-223 bps

Source: Company data, CMBIS

Operating model

Figure 9: Operating model

RMB mn	2019	2020	2021E	2022E	2023E
Revenues	3,541	4,005	5,250	6,017	6,647
Cost of sales	-371	-454	-726	-827	-1,037
Gross Profit	3,170	3,550	4,524	5,190	5,610
<i>Gross margin</i>	<i>89.5%</i>	<i>88.7%</i>	<i>86.2%</i>	<i>86.3%</i>	<i>84.4%</i>
 R&D	 -969	 -1,083	 -1,324	 -1,445	 -1,554
SG&A	-1,922	-2,135	-2,532	-2,813	-2,999
Operating Income	338	408	716	977	1,107
<i>Operating margin</i>	<i>9.5%</i>	<i>10.2%</i>	<i>13.6%</i>	<i>16.2%</i>	<i>16.7%</i>
 Interest Expense	 -41	 17	 69	 93	 107
Non-operating income/ (expense)	-14	-15	-13	3	5
Profit Before Income Taxes	284	410	771	1,074	1,219
Income Tax Expense	-29	-29	-16	-86	-78
Net profit (loss)	235	330	686	871	1,020
<i>Net margin</i>	<i>6.6%</i>	<i>8.3%</i>	<i>13.1%</i>	<i>14.5%</i>	<i>15.3%</i>
 EPS (RMB)	 0.21	 0.28	 0.58	 0.73	 0.86
DPS (RMB)	0.10	0.25	0.20	0.20	0.20
 Revenue breakdown					
Engineering costing	2,452	2,791	3,696	4,271	4,440
...recurring revenue	921	1,622	2,539	3,230	3,451
...non-recurring revenue	1,531	1,169	1,157	1,041	989
Engineering construction	853	943	1,226	1,373	1,785
Others	236	271	329	372	421
 Gross margin breakdown					
Engineering costing	94.0%	94.2%	94.9%	95.5%	95.2%
Engineering construction	76.0%	72.1%	61.2%	60.0%	58.8%
 Growth (YoY)					
Revenues	22%	13%	31%	15%	10%
Gross Profit	17%	12%	27%	15%	8%
Operating Income	-39%	21%	76%	37%	13%
EPS	-47%	34%	107%	27%	17%

Source: Company data, CMBIS

Figure 10: Quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21E
Revenues	566	1,043	979	1,417	849	1,329	1,423	1,649
Gross Profit	534	924	879	1,213	764	1,171	1,220	1,369
Operating income	82	121	121	84	90	244	191	190
Net profit	53	77	100	101	77	209	189	211
EPS (RMB)	0.05	0.07	0.08	0.08	0.06	0.18	0.16	0.18
<u>Margins</u>								
Gross margin	94.3%	88.6%	89.8%	85.6%	90.0%	88.1%	85.7%	83.0%
Operating margin	14.5%	11.6%	12.4%	5.9%	10.6%	18.4%	13.5%	11.5%
Net margin	9.4%	7.4%	10.2%	7.1%	9.0%	15.7%	13.3%	12.8%
<u>Growth (QoQ)</u>								
Revenues	-57%	84%	-6%	45%	-40%	57%	7%	16%
Gross Profit	-53%	73%	-5%	38%	-37%	53%	4%	12%
Operating income	-26%	47%	1%	-31%	8%	171%	-22%	-1%
EPS	-31%	42%	26%	1%	-24%	173%	-10%	12%
<u>Growth (YoY)</u>								
Revenues	20%	15%	14%	9%	50%	27%	45%	16%
Gross Profit	20%	8%	18%	8%	43%	27%	39%	13%
Operating income	9%	113%	28%	-25%	10%	103%	58%	127%
EPS	-5%	119%	37%	26%	38%	165%	89%	109%

Source: Company data, CMBIS

Valuation

Glodon (002410 CH, BUY, TP RMB80.55)

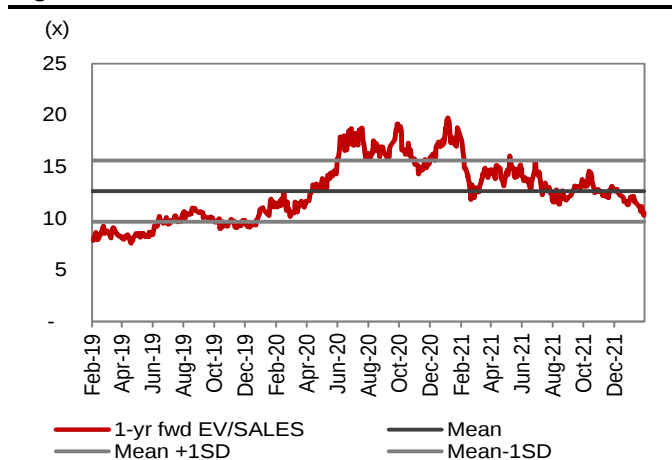
We maintain BUY with new target price of RMB80.55 (prior RMB91.72), based on lowered 15x (prior 18x) FY22E EV/Sales (1-SD above its 3-year mean). We use a lower target multiple to reflect growth uncertainty in construction management business if property sector weakness persists. However, we think Glodon deserves re-rating as free cash flow continues to expand with increasing SaaS revenue contribution and operating leverage from SaaS transition is emerging.

Figure 11: Peers' valuation

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales (x)		FCF margin (%)		Sales CAGR	EPS CAGR
						FY21E	FY22E	FY21E	FY22E	FY20-23	FY20-23
Glodon	002410 CH	BUY	10,587	56.41	80.55	11.9	10.2	20%	17%	18%	46%
MYC	909 HK	BUY	4,416	17.50	25.24	9.3	7.2	22%	15%	23%	15%
Yonyou	600588 CH	NR	17,562	32.39	N/A	11.5	9.1	13%	8%	20%	24%
Kingsoft Office	688111 CH	NR	15,844	217.83	N/A	27.5	20.2	63%	46%	39%	36%
Kingdee	268 HK	NR	8,743	19.64	N/A	12.3	9.9	2%	5%	26%	n.a.
Adobe	ADBE US	NR	226,180	479.50	N/A	14.3	12.5	43%	37%	17%	18%
Autodesk	ADSK US	NR	51,337	233.38	N/A	14.0	12.0	36%	28%	17%	35%
Salesforce	CRM US	NR	211,036	214.25	N/A	10.2	8.2	20%	16%	23%	18%
Veeva System	VEEV US	NR	35,352	229.91	N/A	22.8	17.9	36%	34%	26%	22%
CoStar	CSGP US	NR	26,733	67.69	N/A	12.4	10.9	22%	22%	16%	23%
Mean						14.7	11.8	27%	23%	23%	26%
Median						12.4	10.5	22%	20%	22%	23%

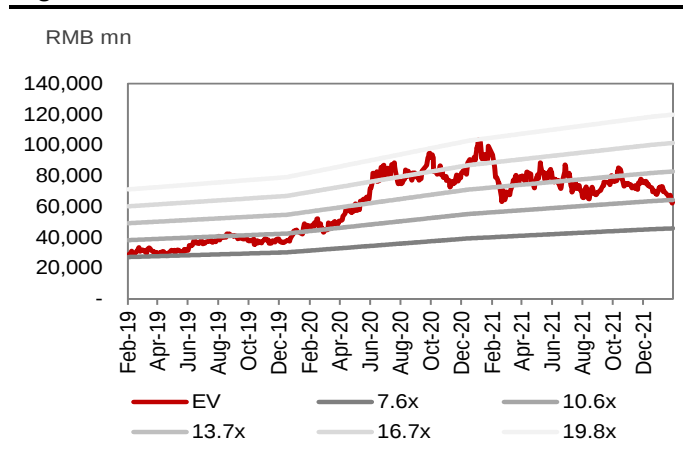
Source: Bloomberg, CMBIS

Figure 12: 12M forward EV/sales chart



Source: Bloomberg, CMBIS

Figure 13: 12M forward EV/sales band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,541	4,005	5,250	6,017	6,647
Cost of sales	(371)	(454)	(726)	(827)	(1,037)
Gross profit	3,170	3,550	4,524	5,190	5,610
Selling exp	(1,102)	(1,256)	(1,473)	(1,642)	(1,747)
Admin exp	(820)	(879)	(1,059)	(1,172)	(1,251)
R&D exp	(969)	(1,083)	(1,324)	(1,445)	(1,554)
Other operating exp.	59	75	48	45	50
Operating profit	338	408	716	977	1,107
Finance income/ (costs)	(41)	17	69	93	107
Other non-oper exp.	(14)	(15)	(13)	3	5
Pre-tax profit	284	410	771	1,074	1,219
Income tax expense	(29)	(29)	(16)	(86)	(78)
Minority interests	(20)	(51)	(69)	(117)	(122)
Net profit to shareholders	235	330	686	871	1,020

Cash flow summary

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Net profit	235	330	686	871	1,020
Depreciation/amortization	187	134	153	189	222
Change in working capital	312	784	480	383	337
Others	(93)	628	280	117	122
Net cash from operating	641	1,876	1,599	1,560	1,700
Capex	(243)	(439)	(535)	(515)	(529)
Other	16	(257)	(787)	0	0
Net cash from investing	(227)	(697)	(1,322)	(515)	(529)
Net borrowings	(112)	(1,088)	(3)	(0)	(0)
Dividend paid	(301)	(157)	(297)	(238)	(238)
Other	23	2,645	(181)	(117)	(122)
Net cash from financing	(389)	1,400	(481)	(355)	(359)
Net change in cash	24	2,580	(204)	690	811
Cash at beginning of the year	2,212	2,231	4,797	4,582	5,273
Exchange difference	(5)	(14)	(11)	0	0
Cash at the end of the year	2,231	4,797	4,582	5,273	6,084

Balance sheet

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Current assets	2,950	5,420	5,863	6,510	7,265
Cash & equivalents	2,231	4,797	4,582	5,273	6,084
Account receivables	591	475	575	527	466
Inventory	21	26	36	41	46
Other current assets	106	121	669	669	669
Non-current assets	3,217	4,127	4,734	5,060	5,367
PPE	860	994	1,198	1,605	1,993
Intangible assets	1,148	1,664	1,830	1,749	1,668
Other non-current assets	1,209	1,470	1,706	1,706	1,706
Total assets	6,167	9,547	10,597	11,570	12,632
Current liabilities	2,809	2,858	3,517	3,857	4,137
ST borrowings	1,089	3	0	0	0
Account payables	1,068	1,740	2,330	2,670	2,950
Accrued expense	0	0	0	0	0
Unearned revenue	653	1,115	1,187	1,187	1,187
Non-current liabilities	9	131	192	192	192
LT borrowings	0	0	0	0	0
Other non-current liabilities	9	131	191	191	191
Total liabilities	2,818	2,989	3,708	4,048	4,328
Share capital	1,129	1,186	1,188	1,188	1,188
Capital surplus	509	3,135	3,301	3,301	3,301
Retained earnings	1,709	1,957	2,446	3,079	3,861
Other reserves	(78)	125	(528)	(528)	(528)
Minority interest	80	156	482	482	482
Total equity	3,349	6,558	6,888	7,521	8,304
Total liabilities and equity	6,167	9,547	10,597	11,570	12,632

Key ratios

YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
Revenue mix					
Engineering costing	69%	70%	70%	71%	67%
- SaaS	26%	41%	48%	54%	52%
Engineering construction	24%	24%	23%	23%	27%
Overseas	4%	4%	3%	3%	3%
Others	1%	2%	2%	2%	2%
Finance income	2%	1%	1%	1%	1%
Growth (%)					
Revenue	22%	13%	31%	15%	10%
Operating profit	-39%	21%	76%	37%	13%
EPS	-47%	34%	107%	27%	17%
Profit & loss ratio (%)					
Gross margin	89.5%	88.7%	86.2%	86.3%	84.4%
Operating margin	9.5%	10.2%	13.6%	16.2%	16.7%
Net profit margin	6.6%	8.3%	13.1%	14.5%	15.3%
Balance sheet ratio					
Receivable turnover days	47	49	36	33	27
Unearned revenue days	67	81	80	72	65
Payable turnover days	110	159	162	162	162
Current ratio (x)	1.05	1.90	1.67	1.69	1.76
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Profitability (%)					
ROE	7%	7%	11%	13%	14%
ROIC	14%	18%	32%	36%	43%
Per share data (RMB)					
EPS (RMB)	0.21	0.28	0.58	0.73	0.86
DPS (RMB)	0.10	0.25	0.20	0.20	0.20
BVPS (RMB)	2.90	5.40	5.39	5.93	6.58

Source: Company data, CMBIS estimates

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