

SenseTime (20 HK)

CV demand strong but AI Cloud market is crowded

Demand for CV is strong as AI applications expand with sensing technology. However, China AI Cloud market competition intensifies with increasing commitment from Baidu and that the AI Public Cloud market is highly concentrated, leaving little room for new entrants like SenseTime. We expect SenseTime to deliver 36% YoY revenue growth to RMB4.7bn in FY21E. AlaaS plan and capex trend will be the key focuses for SenseTime FY21E results.

- CV demand is strong and AI applications are expanding with sensing technology.** Ambarella (AMBA US), leading computer vision (CV) SoC provider, reported robust FY22 (Jan-YE) revenue growth of +49% YoY to US\$331mn. Its CV revenue tripled and exceeded 25% of revenue (targets a more aggressive CV contribution of 45% in FY23E). We believe key read through are 1) CV demand remains resilient and 2) Security camera market is transforming with sensing technology.
- Uncertainty about SenseTime AlaaS business.** SenseTime plans to open up its SenseCore's capabilities through AlaaS Cloud offering with its Shanghai Lingang AIDC. However, we think China AI cloud market is becoming more competitive with 1) BAT and Huawei accounted for 93% of China AI public cloud share in 1H21, per IDC and 2) Baidu is increasingly committed in AI Cloud (FY21 capex doubled to RMB10.9bn; AI Cloud revenue +64% YoY to RMB15.1bn), leaving little room for new entrant like SenseTime.
- Focus on AlaaS and capex plan.** We expect SenseTime to deliver RMB4.7bn revenue in FY21E (+36% YoY, vs. +14% YoY in FY20), largely driven by Smart City project recovery. We observed that Hikvision also reported a strong revenue growth in FY21 (+28% YoY vs. +10% YoY in FY20). Meanwhile, we hold a more conservative view regarding GPM. We expect GPM to drop 3.6 ppts to 67.0% in FY21E (1.5 ppts below consensus). Updates of AlaaS and Lingang AI data center capex will be the key focuses in its results call. We expect SenseTime to spend RMB2.5bn capex in FY21E and we have not factored in the RMB3.3bn capex announced in Jan 2022 (office acquisition in Shanghai). SenseTime has RMB18.9bn net cash on hand as of 1H21.
- Maintain BUY.** Maintain BUY with unchanged target price of HK\$8.08, based on 34x FY22E EV/sales. Our target multiple takes into account the AI company scarcity in the market and its free float.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,027	3,446	4,678	6,399	8,825
YoY (%)	63%	14%	36%	37%	38%
Adj. Op. profit (RMB mn)	(1,416)	(2,148)	(3,818)	(2,584)	(2,392)
YoY (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net profit att. (RMB mn)	(4,963)	(12,158)	(32,489)	(1,812)	(1,547)
YoY (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Adj. net profit att. (RMB mn)	(1,150)	(708)	(2,072)	(1,306)	(975)
YoY (%)	n.a.	n.a.	n.a.	n.a.	n.a.
EV/sales (x)	60.0	50.4	37.2	27.6	20.2
FCF margin (%)	-125%	-74%	-128%	-40%	-21%
ROE (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net gearing (%) *	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates, *excl. preferred shares liabilities

BUY (Maintain)

Target Price	HK\$8.08
(Previous TP)	HK\$8.08)
Up/Downside	+18.0%
Current Price	HK\$6.85

China Software & IT Services

Marley Ngan

(852) 3916 3719

marleyngan@cmbi.com.hk

Bowen Li

(852) 3761 8957

libowen@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	229,526
Avg 3 mths t/o (HK\$ mn)	N/A
52w High/Low (HK\$)	9.70/ 3.90
Total Issued Shares (mn)	25,979

Source: Bloomberg

Shareholding Structure

Prof. Tang	26.3%
Softbank	14.1%
ESOP	8.2%
Alibaba	7.2%

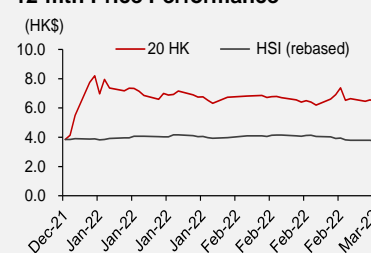
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.2%	2.1%
3-mth	NA	NA
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

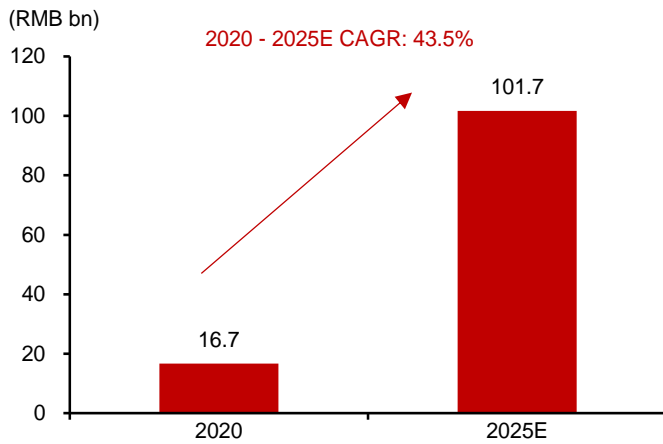
Auditor: PwC

Related Reports:

- China AI "AI leaders taking different expansion paths" – 10 Feb 2022 ([link](#))
- SenseTime (20 HK) "Unrivaled computer vision leader in China" – 2 Feb 2022 ([link](#))

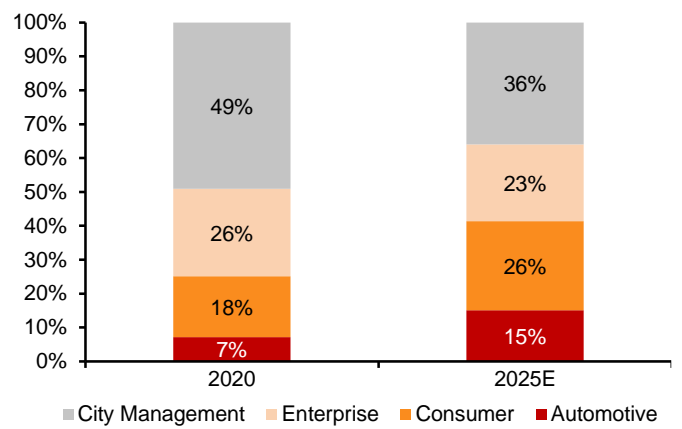
Focus Charts

Figure 1: China computer vision market to increase at 43.5% CAGR in FY20-25E



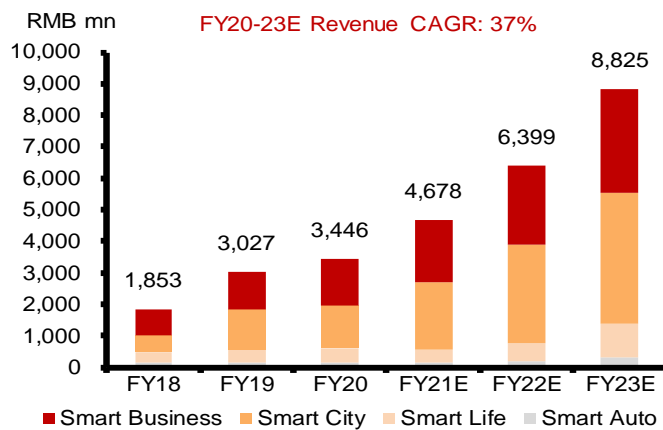
Source: Frost & Sullivan, CMBIGM

Figure 2: China CV software market mix will change on stronger Consumer and Automotive growth



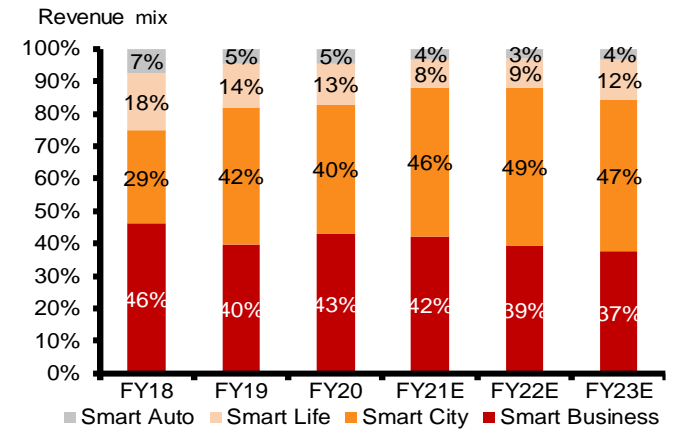
Source: Frost & Sullivan, CMBIGM

Figure 3: SenseTime revenue to grow at 37% CAGR in FY20-23E



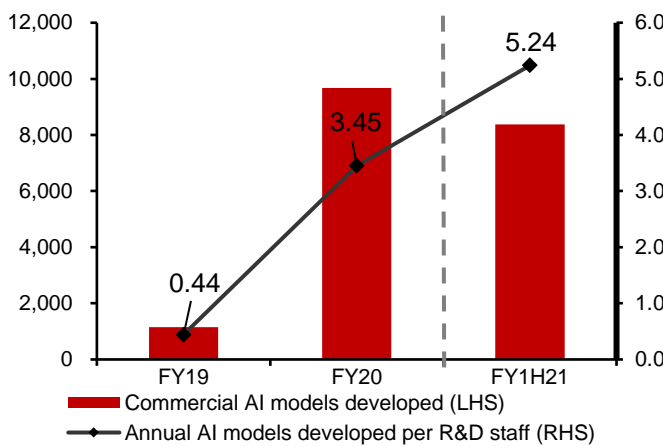
Source: Company data, CMBIGM estimates

Figure 4: SenseTime AI are deployed in a wide range of scenarios



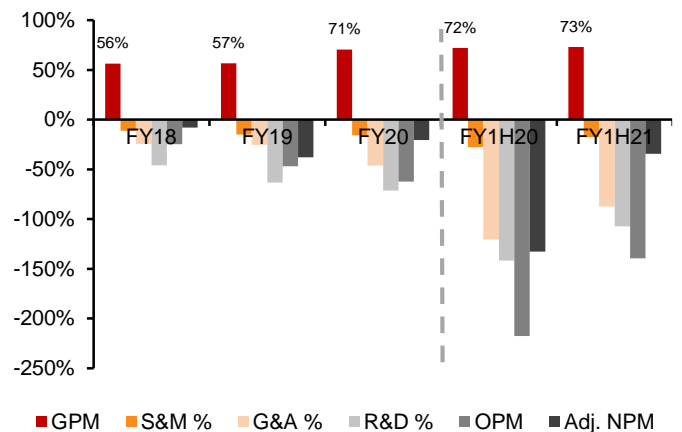
Source: Company data, CMBIGM estimates

Figure 5: SenseCore enables more efficient AI model development



Source: Company data, CMBIGM

Figure 6: SenseTime has high GPM (71% in FY20) due to its AI software-centric business model



Source: Company data, CMBIGM

AI applications expanding with sensing technology

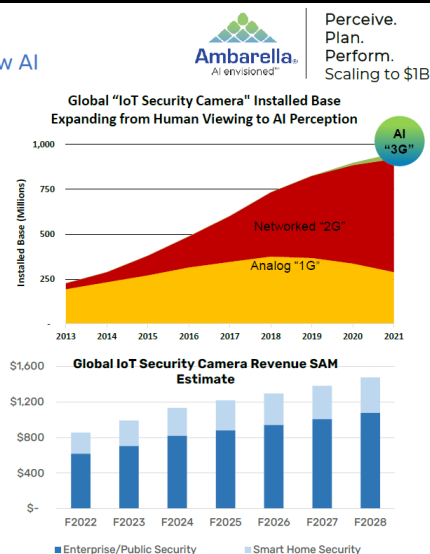
- **New AI sensing applications is expanding beyond traditional security.** Security camera market is the largest AIoT market today but AI is driving a 3x larger SAM (serviceable available market). Highlighted by AMBA, by FY26 AIoT cameras application will expand beyond security to other applications such as robotics, new retail, healthcare, machine vision, logistics, etc.
- **AMBA targets 45% of FY23E revenue from computer vision.** Ambarella (AMBA US), leading computer vision (CV) SoC provider, reported FY22 (Jan-YE) results on 28 Feb. FY22 revenue was up +49% YoY to US\$331.0mn, of which CV revenue tripled and exceeded 25% of total revenue. Company expects to derive 45% of total revenue from CV in FY23.

Figure 7: New AI sensing applications emerging

IOT Camera Market

-60% total F2021 revenue; mostly security/viewing - new AI sensing applications emerging

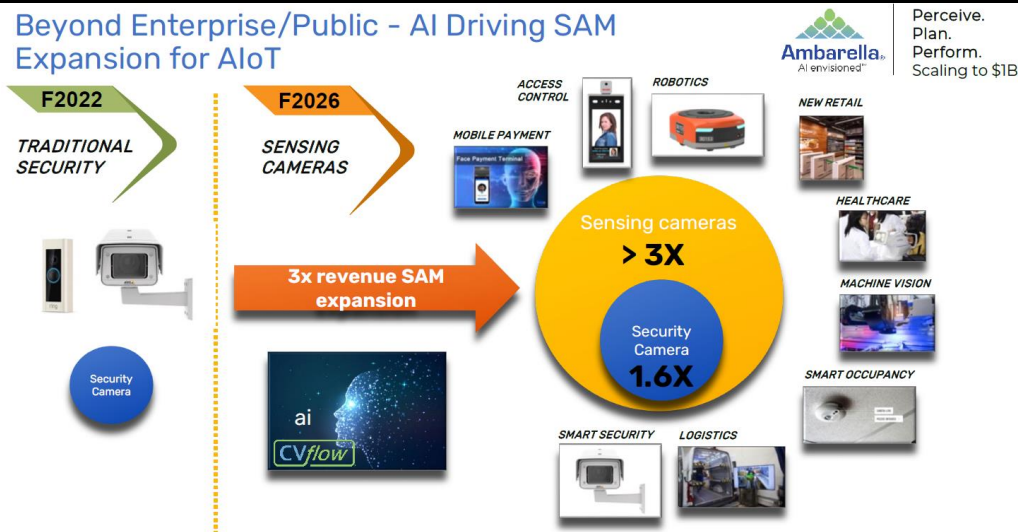
- **“Security camera” market transformation**
 - The security camera market is the largest AIoT market today (Gartner)
 - AI enabled cameras enable video analytics plus human viewing
 - Customer software on our CVflow AI SoCs enables new data driven camera applications and new business models for our customers
- **-900M “security camera” installed base C2021**
 - Installed base today is almost all human viewing (“2G”) primarily deployed for security applications; -75% enterprise/public
 - The human viewing installed base is expected to continue to grow while the installed base for AI-based perception is just beginning
 - Installed base replacement rate estimated between 4 to 6 years
- **Annual Unit Shipments ~260 million in C2021**
 - “3G” CV SoCs command a ~2x ASP versus a similar 2G video processor
 - “1G” analog camera market shrinking - we do not serve this market
 - Ambarella security SAM focusing on higher value market segments



Source: Ambarella, CMBIGM

Figure 8: Security camera market is transforming with sensing technology

Beyond Enterprise/Public - AI Driving SAM Expansion for AIoT

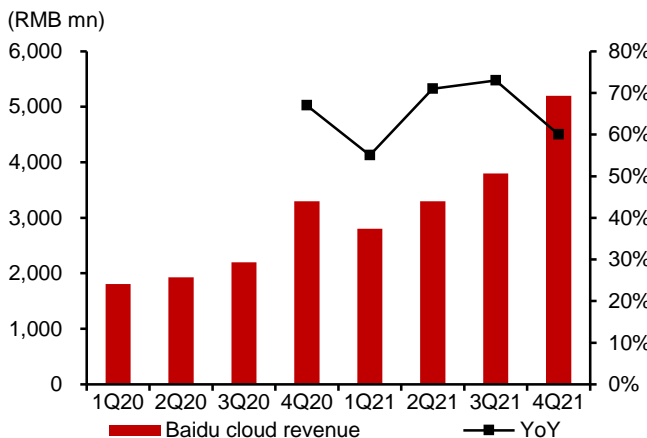


Source: Ambarella, CMBIGM

AI Cloud market is highly competitive

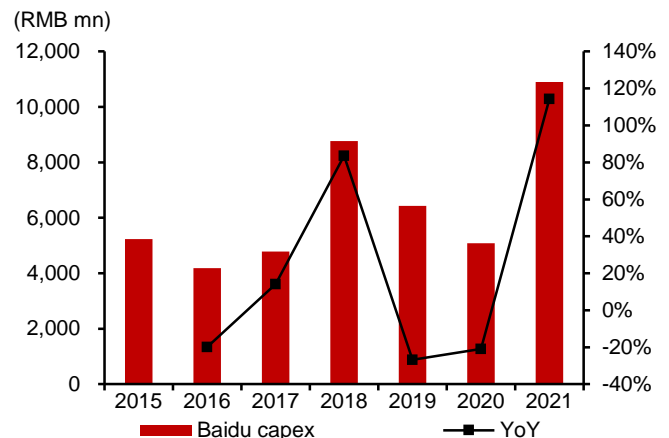
- Baidu delivered strong AI Cloud growth in FY21.** Baidu released FY21 AI Cloud revenue growth of +64% YoY to RMB15.1bn. Meanwhile, we observed that Baidu capex also jumped more than double to RMB10,896mn (vs. RMB5,084mn in FY20). Management expects to maintain a solid growth momentum for AI Cloud and deliver at above-industry level growth in FY22.
- China AI Public Cloud entry barrier high.** According to IDC, China AI public cloud service market size was RMB2.41bn (10.4% of total China AI software market) in 2020. The market is dominated by BAT and Huawei, together accounted for 93% of the market. We think the China AI Public Cloud market is very consolidated that the entry barrier is high.
- Uncertainty in SenseTime AlaaS outlook.** SenseTime plans to open up SenseCore’s capabilities through AlaaS Cloud offering with its Shanghai Lingang AIDC. We are concerned about the already-fierce competition in AI Cloud market as well as the potential margin dilution as AlaaS is an asset-heavy business (lower GPM with depreciation to be included in cost of sales).

Figure 9: Baidu cloud revenue



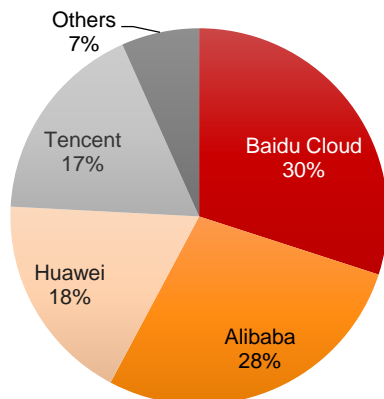
Source: Company data, CMBIGM

Figure 10: Baidu capex



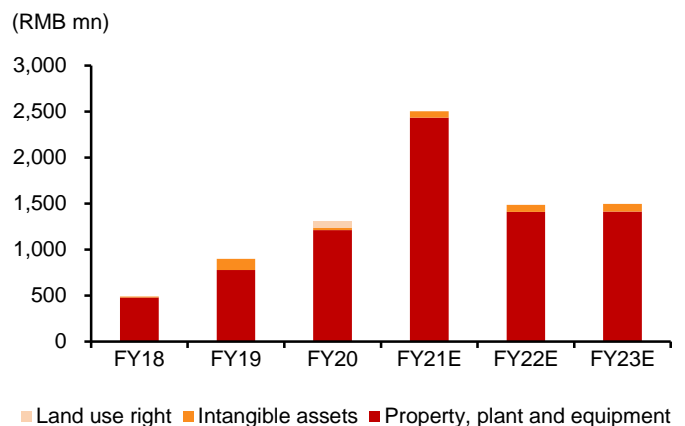
Source: Company data, CMBIGM

Figure 11: China AI Cloud market share (1H21)



Source: IDC, CMBIGM

Figure 12: SenseTime capex



Source: Company data, CMBIGM

FY21 results preview

- Revenue:** We expect SenseTime FY21E revenue to grow at +36% YoY (vs. +14% YoY in FY20), in-line with consensus. The is largely driven by Smart City project recovery, after delay in FY20 due to Covid-19. We observed that Hikvision also delivered strong FY21E revenue growth of +28% YoY (vs. +10% YoY in FY20).
- Gross margin:** We expect SenseTime FY21E GPM to decline to 67.0% (-3.6 ppts YoY), our forecast is 1.5 ppts lower than consensus estimate of 68.5%. The GPM decrease is driven by increasing hardware sales.
- Operating loss:** We expect operating loss to widen to RMB2,148mn in FY21, due to higher share based compensation and listing expense in the year of IPO.
- Focus on top-line growth and capex guidance:** We expect SenseTime to deliver +37% YoY revenue growth in FY22E to RMB6,399mn, 3% below consensus. There could be downside risk if weakening macro continues (COVID-19/ chip shortage). Also, we believe updates of AlaaS and Lingang AI data center capex will be other key focus points during SenseTime FY21 results. On 28 Jan 2022, SenseTime announced RMB3.3bn capex plan to acquire several flows in a business building located in Shanghai Xuhui area. Together with Lingang AI data center ramp up, capex in FY22E could be higher than expected. We have not factored in the office building acquisition into our forecast yet. As of 31 Jun 2021, SenseTime had net cash of RMB18.9bn.

Figure 13: SenseTime FY21E preview

	FY18	FY19	FY20	FY21E		FY21E	
	Actual	Actual	Actual	CMBI	YoY	Consensus	CMBI vs.
Revenue	1,853	3,027	3,446	4,678	36%	4,684	0%
Gross profit	1,047	1,719	2,432	3,134	29%	3,209	-2%
Gross margin	56.5%	56.8%	70.6%	67.0%	-3.6 ppts	68.5%	-1.5 ppts
Operating profit	-459	-1,416	-2,148	-3,818	#N/A	-6,100	#N/A
Operating margin	-24.8%	-46.8%	-62.3%	-81.6%	#N/A	-130.2%	#N/A
Adj. EBITDA	-90	-1,101	-361	-1,558	#N/A	-2,229	#N/A
Adj. EBITDA margin	-4.9%	-36.4%	-10.5%	-33.3%	#N/A	-47.6%	#N/A
Net non-op	-2,997	-3,757	-10,171	-28,660	#N/A	-15,672	#N/A
PBT	-3,456	-5,173	-12,319	-32,478	#N/A	-21,772	#N/A
Net income	-3,428	-4,963	-12,158	-32,489	#N/A	-33,261	#N/A
Net margin	-184.9%	-164.0%	-352.8%	-694.4%	#N/A	-710.1%	#N/A
Adj. net income	-145	-1,150	-708	-2,072	#N/A		
Adj. net margin	-7.8%	-38.0%	-20.5%	-44.3%	#N/A		
EPS RMB	-0.39	-0.56	-1.33	-0.97	#N/A	#N/A	#N/A

Source: Bloomberg, CMBIGM estimates

Valuation

Maintain BUY with target price of HK\$8.08

We maintain BUY on SenseTime with unchanged target price of HK\$8.08, based on 34x FY22E EV/sales. We use EV/sales as valuation methodology as AI deployment is still in an early stage that short term earnings are distorted by high R&D, marketing expense and depreciation related to heavy capex for computing infrastructure.

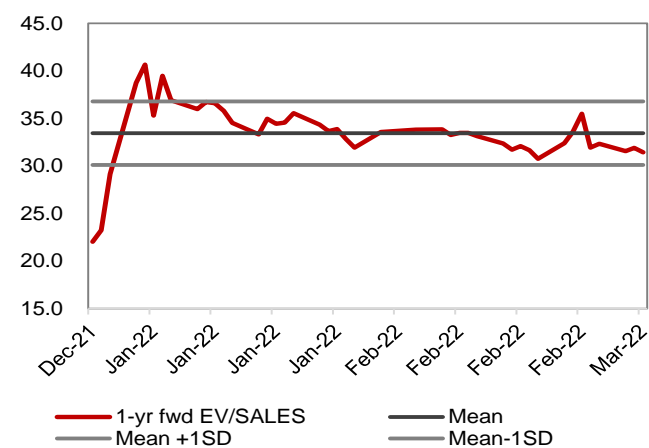
Our target multiple is derived from 20% premium to Cambricon. We think Cambricon, leading AI chip design company in China, is the closest comparable to SenseTime. Both SenseTime and Cambricon are national champions in emerging technology. We apply premium to Cambricon valuation to reflect SenseTime larger business scale. Our target multiple also takes into account the AI company scarcity and free float.

Figure 14: Peers comparison

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	EV/sales (x)		P/S		Sales CAGR FY20-23E	EPS CAGR FY20-23E	GPM FY20	FCF margin FY20
					FY21E	FY22E	FY21E	FY22E				
Global AI companies												
Palantir	PLTR US	NR	24,483	12.06	14.6	11.1	16.0	12.2	33%	50%	68%	-28%
UiPath	PATH US	NR	17,821	33.93	18.1	13.6	20.1	15.2	52%	n.a.	82%	3%
C3.ai	AI US	NR	2,380	22.66	7.8	5.6	13.1	9.5	29%	n.a.	75%	-41%
Nvidia	NVDA US	NR	605,500	242.20	36.1	22.3	36.7	22.7	47%	59%	62%	39%
Ambarella	AMBA US	NR	3,693	99.79	16.1	10.6	16.9	11.1	19%	38%	58%	16%
				Mean	18.5	12.7	20.6	14.1	36%	49%	69%	-2%
				Median	16.1	11.1	16.9	12.2	33%	50%	68%	3%
China AI companies												
Cambricon	688256 CH	NR	5,061	79.79	39.8	28.4	45.0	32.1	46%	n.a.	65%	-55%
Arcsoft	688088 CH	NR	2,152	33.50	18.5	13.7	22.1	16.4	21%	10%	90%	11%
				Mean	29.1	21.1	33.5	24.2	33%	10%	77%	-22%
				Median	29.1	21.1	33.5	24.2	33%	10%	77%	-22%
Global SaaS												
Microsoft	MSFT US	NR	2,250,484	300.19	13.3	11.1	13.5	11.3	17%	24%	68%	32%
Adobe	ADBE US	NR	222,256	471.18	14.0	12.3	14.1	12.4	17%	18%	87%	41%
Autodesk	ADSK US	NR	47,626	216.51	13.0	11.2	12.7	10.9	16%	35%	90%	42%
Salesforce	CRM US	NR	207,234	210.39	10.0	8.0	9.8	7.8	23%	17%	75%	22%
Atlassian	TEAM US	NR	78,398	309.28	38.3	29.2	38.2	29.1	27%	22%	83%	33%
Datadog	DDOG US	NR	51,632	164.48	51.2	33.2	51.9	33.7	51%	70%	78%	14%
Docusign	DOCU US	NR	22,637	114.40	15.9	10.9	15.9	10.8	39%	106%	75%	4%
Intuit	INTU US	NR	137,447	486.00	15.3	11.6	14.6	11.2	23%	25%	82%	30%
Okta	OKTA US	NR	28,418	182.70	33.9	21.9	34.5	22.3	45%	n.a.	73%	7%
ServiceNow	NOW US	NR	117,412	587.06	19.8	15.7	19.9	15.8	27%	28%	78%	30%
Shopify	SHOP US	NR	83,189	659.83	16.7	12.7	18.2	13.8	40%	12%	53%	13%
Workday	WDAY US	NR	62,843	248.39	14.2	12.0	14.6	12.3	20%	26%	71%	17%
Veeva System	VEEV US	NR	35,461	230.62	22.9	18.0	24.5	19.2	25%	22%	73%	39%
				Mean	21.4	16.0	21.7	16.2	28%	34%	76%	25%
				Median	15.9	12.3	15.9	12.4	25%	24%	75%	30%

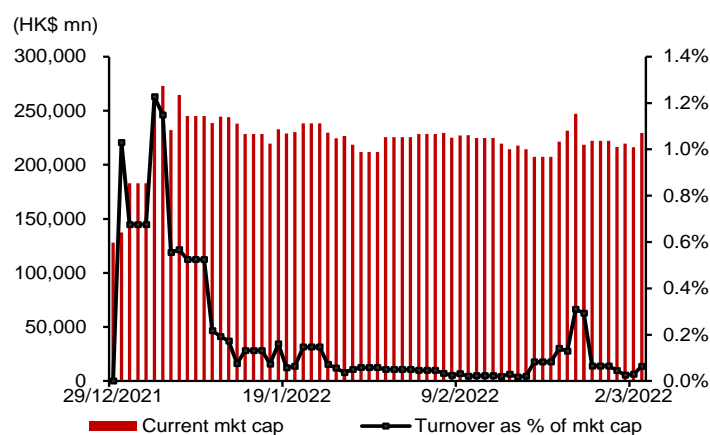
Source: Bloomberg, CMBIGM, closing price as of 3 Mar 2022

Figure 15: SenseTime forward EV/sales



Source: Bloomberg, CMBIGM

Figure 16: SenseTime trading volume vs. mkt cap



Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,027	3,446	4,678	6,399	8,825
Cost of sales	(1,307)	(1,014)	(1,544)	(2,141)	(3,008)
Gross profit	1,719	2,432	3,134	4,258	5,818
S&M	(453)	(537)	(906)	(893)	(1,158)
G&A	(766)	(1,590)	(2,290)	(1,889)	(2,167)
R&D	(1,916)	(2,454)	(3,755)	(4,060)	(4,886)
Adj. op. profit/ (loss)	(1,416)	(2,148)	(3,818)	(2,584)	(2,392)
Finance income	268	175	240	210	170
Finance expense	(150)	(113)	(58)	(60)	(55)
Other non-ops	(3,875)	(10,234)	(28,842)	452	631
Profit before tax	(5,173)	(12,319)	(32,478)	(1,981)	(1,646)
Income tax	205	161	(11)	168	99
Profit after tax	(4,968)	(12,158)	(32,489)	(1,812)	(1,547)
Non controlling Interest	(5)	(0)	(0)	(0)	(0)
Net profit	(4,963)	(12,158)	(32,489)	(1,812)	(1,547)
Adj. net profit	(1,150)	(708)	(2,072)	(1,306)	(975)

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net Income	(5,173)	(12,319)	(32,478)	(1,981)	(1,646)
Depre. and amortization	378	570	685	1,125	1,756
Change In working capital	(2,176)	(1,290)	(503)	(250)	(442)
Others	4,102	11,810	28,808	18	(17)
Net cash from operating act.	(2,869)	(1,229)	(3,489)	(1,087)	(349)
Capex	(899)	(1,306)	(2,503)	(1,484)	(1,497)
Others	(729)	(5,765)	240	210	170
Net cash from investing act.	(1,628)	(7,070)	(2,263)	(1,274)	(1,327)
Equity financing	-	-	5,316	-	-
Change of debts	3,897	13,327	60	(91)	(77)
Dividend paid	-	-	-	-	-
Others	(125)	(141)	(58)	(60)	(55)
Net cash from financing act.	3,773	13,186	5,318	(150)	(132)
Net change in cash	(725)	4,886	(434)	(2,512)	(1,808)
Cash at the beg. of the year	7,227	6,673	11,428	10,994	8,482
Cash at the end of the year	6,673	11,428	10,994	8,482	6,674

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	5,717	6,753	8,571	8,930	8,671
PPE, net	1,894	1,906	3,728	4,097	3,853
Intangible assets	140	108	105	95	80
Right-of-use assets	404	336	336	336	336
Others	3,279	4,402	4,402	4,402	4,402
Current assets	18,231	31,726	24,466	23,810	23,912
Cash & equivalents	6,673	11,428	10,994	8,482	6,674
Trade and other receivables	4,678	4,584	6,528	8,140	9,759
Inventories	430	716	538	782	1,073
Financial investments	-	-	-	-	-
Contract assets	1	22	22	22	22
Others	6,449	14,977	6,384	6,384	6,384
Current liabilities	6,856	9,822	3,816	5,381	6,811
Trade and other payables	3,103	1,724	2,897	4,377	5,667
Contract liabilities	153	244	331	453	625
Lease liabilities	123	110	110	110	110
Others	3,477	7,744	477	441	410
Non-current liabilities	27,747	49,589	1,528	1,478	1,438
Lease liabilities	296	184	184	184	184
Deferred tax liabilities	6	8	8	8	8
Contract liabilities	-	9	13	17	24
Others	27,445	49,388	1,323	1,269	1,223
Share capital	0	0	0	0	0
Reserves	(873)	(433)	80,682	80,682	80,682
Accumulated losses	(9,557)	(21,713)	(54,202)	(56,014)	(57,562)
Others	(224)	1,214	1,213	1,213	1,213
Total equity	(10,654)	(20,933)	27,693	25,881	24,334

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Smart Business	40%	43%	42%	39%	37%
Smart City	42%	40%	46%	49%	47%
Smart Life	14%	13%	8%	9%	12%
Smart Auto	5%	5%	4%	3%	4%
Total	100%	100%	100%	100%	100%
Growth (YoY)					
Revenue	63%	14%	36%	37%	38%
Gross profit	64%	41%	29%	36%	37%
Operating profit	n.a.	n.a.	n.a.	n.a.	n.a.
Net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Adj. net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Margins					
Gross margin	57%	71%	67%	67%	66%
Adj. Operating margin	-47%	-62%	-82%	-40%	-27%
Net profit margin	-164%	-353%	-694%	-28%	-18%
Adj. net profit margin	-38%	-21%	-44%	-20%	-11%
Balance sheet ratio					
Net debt / equity ratio (%)	net cash	net cash	net cash	net cash	net cash
Current ratio	2.7	3.2	6.4	4.4	3.5
Returns (%)					
ROE	n.a.	n.a.	n.a.	n.a.	n.a.
ROIC	n.a.	n.a.	n.a.	n.a.	n.a.
Per share					
EPS (RMB)	(0.56)	(1.33)	(0.97)	(0.05)	(0.05)
BVPS (RMB)	(1.20)	(2.29)	0.83	0.77	0.73

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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