

Ming Yuan Cloud (909 HK)

Limited operating leverage when sales weaken

China property sales by GFA declined by -22% YoY in 1H22 but the decrease is expected to moderate in 2H22 given low base (-15% YoY in 2H21 as per NBS data). However, we think 1) a muted Jul - Aug property sales data given low season, 2) recent mortgage boycott issue and 3) a weak 1H results will continue to weigh on MYC sentiment in the near term. We expect MYC FY22E to suffer from operating loss as its high commission model gives limited room for operating leverage. Maintain HOLD with new target price of HK\$8.93 (prior HK\$11.22).

- **Property sales data to remain weak in 3Q, mortgage boycotts add uncertainty.** China property sector data showed a moderate decline in Jun 2022 with real estate GFA sales -18% YoY (vs. -24% YoY in Jan – May 2022). However, a muted Jul/ Aug sales and recent homebuyers' mortgage boycotts due to construction delay add uncertainty to property sector recovery.
- **FY22E likely to suffer from operating loss as high commission model gives limited room for operating leverage.** We expect MYC FY22E top line to decline 4% YoY to RMB2.1bn and suffer from operating loss of RMB188mn. MYC pays commission to channel partners with respect to 1) first time sales (35-65% commission rate) and 2) renewal of subscription (50-65%) of SaaS products. Commission accounted for ~25% of opex. The high commission model (i.e. large amount of opex being variable cost) will limit the room for operating leverage. MYC is thus likely to suffer from operating loss in FY22E given top-line weakness.
- **On-going share repurchase could add some support.** On 5 Jan 2022, MYC announced share repurchase plan of up to US\$100mn or 192.7mn shares. Since Jan, MYC has repurchased 25mn shares (HK\$257mn). MYC has RMB5.5bn net cash on hand and we expect the repurchase program to continue. This could add some support to share price.
- **Maintain HOLD.** We expect MYC FY1H22E SaaS revenue to grow +17% YoY while ERP to decline 49% YoY. Total revenue in FY1H22E is estimated at RMB857mn (-12% YoY). We revised down FY22-24E revenue by 10-11% as we turn more conservative in property sector outlook and it takes time for property developers to re-accelerate IT spending on digitalization. Maintain HOLD with new target price of HK\$8.93 (prior HK\$11.22), based on 5.9x FY23E P/S, in-line with China SaaS peers.

Earnings Summary

(YE 31 Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,705	2,184	2,090	2,452	2,842
YoY growth (%)	35%	28%	-4%	17%	16%
Core net profit (RMB mn)	328	-344	-17	112	204
EPS (RMB)	0.22	-0.18	-0.01	0.06	0.11
YoY growth (%)	49%	-205%	N/A	N/A	82%
Consensus EPS (RMB)	0.22	-0.18	0.06	0.17	0.25
PE (x)	29.9	N/A	N/A	N/A	61.1
PS (x)	7.7	6.0	6.2	5.3	4.6
Dividend Yield (%)	0.01	0.00	0.00	0.00	0.00
ROE (%)	-11%	-6%	0%	2%	3%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **HK\$8.93**
 (Previous TP **HK\$11.22**)
 Up/Downside **+10.9%**
 Current Price **HK\$8.05**

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Stock Data

Mkt Cap (HK\$ mn)	15,717
Avg 3 mths t/o (HK\$ mn)	96.70
52w High/Low (HK\$)	37.15/ 7.00
Total Issued Shares (mn)	1,952
Source: Bloomberg	

Shareholding Structure

Mr. Gao Yu - Chairman	20.11%
Mr. Chen Xiaohui - VP	15.22%
Mr. Jiang Haiyang - CEO	9.49%

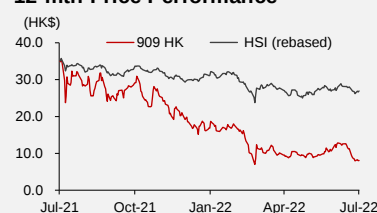
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-26.5%	-25.0%
3-mth	-15.9%	-14.5%
6-mth	-52.4%	-44.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

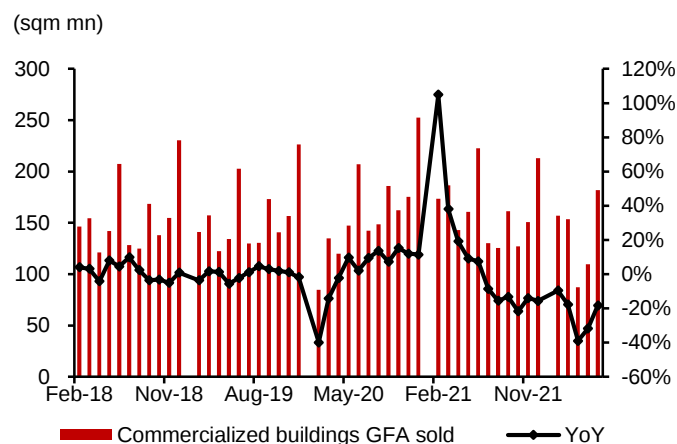
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Related Reports

1. China Software & IT Services – “Higher visibility in SaaS along China cloud value chain” – 28 Jun 2022 ([link](#))
2. China Software & IT Services – “Diverging property SaaS outlook” – 1 Apr 2022 ([link](#))

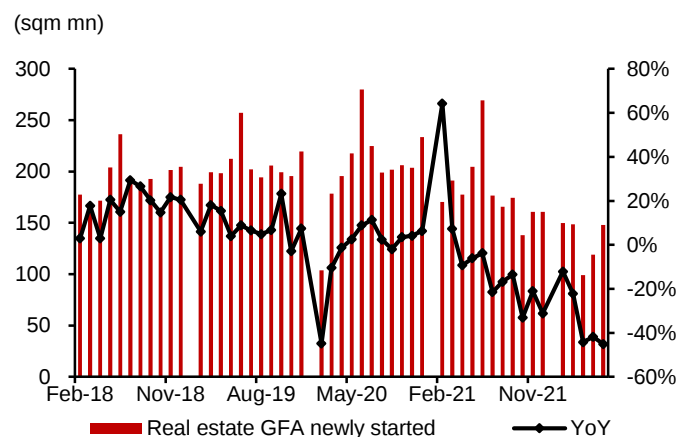
Focus Charts

Figure 1: China commercialized buildings GFA sold was down 18% YoY in Jun 2022



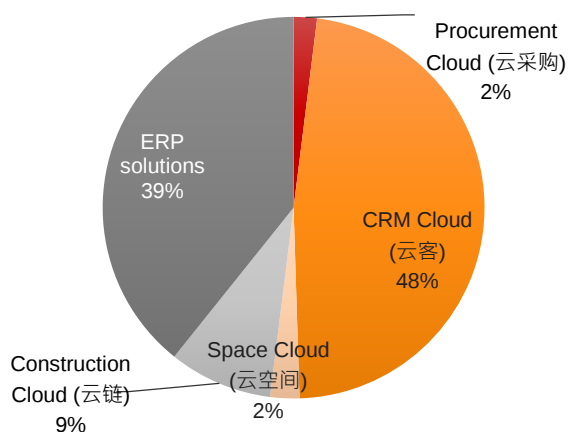
Source: NBS, CMBIGM

Figure 2: China real estate GFA newly started was down 45% YoY in Jun 2022



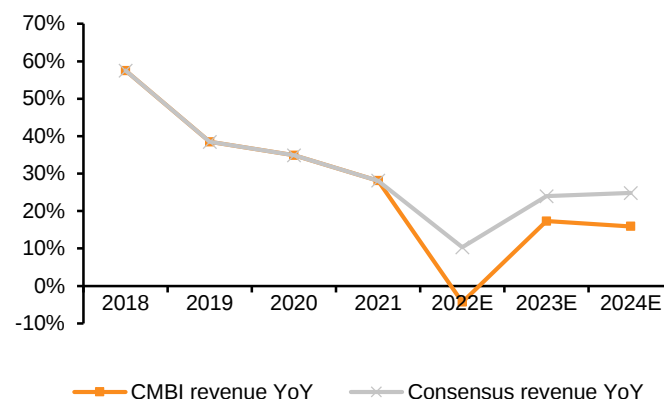
Source: NBS, CMBIGM

Figure 3: 48% of MYC revenue is from CRM Cloud, which is based on no. of property sales office



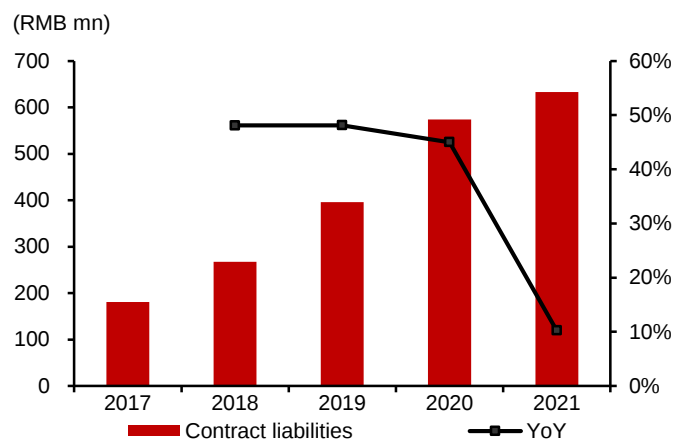
Source: Company data

Figure 4: We are more conservative in FY22E growth outlook



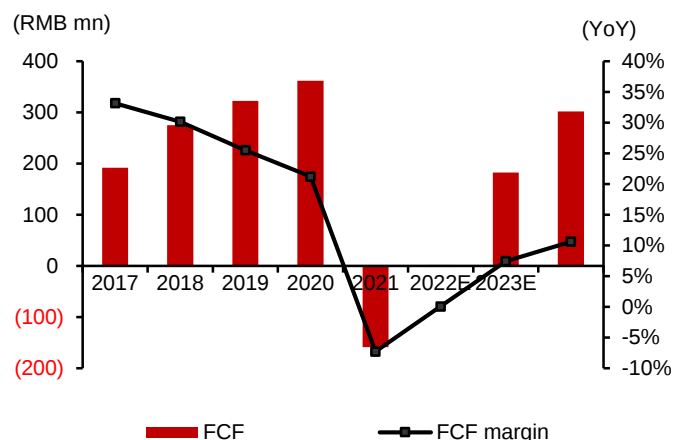
Source: Company data

Figure 5: MYC contract liabilities



Source: Company data, CMBIGM estimates

Figure 6: MYC FCF margin



Source: Company data, CMBIGM estimates

Earnings revision

Figure 7: Earnings revision

RMB mn	2022E			2023E			2024E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	2,090	2,323	-10%	2,452	2,737	-10%	2,842	3,186	-11%
Gross profit	1,729	1,909	-9%	2,063	2,282	-10%	2,400	2,677	-10%
OP Profit	-188	118	-259%	-45	166	-127%	75	270	-72%
PBT	-19	286	-107%	131	344	-62%	238	438	-46%
Net profit	-17	250	-107%	112	294	-62%	204	376	-46%
EPS	-0.01	0.13	-107%	0.06	0.16	-62%	0.11	0.20	-46%
Margins									
GM	82.7%	82.2%	52 bps	84.1%	83.4%	76 bps	84.4%	84.0%	43 bps
OPM	-9.0%	5.1%	-1405 bps	-1.9%	6.1%	-792 bps	2.6%	8.5%	-582 bps
PBT margin	-0.9%	12.3%	-1324 bps	5.3%	12.6%	-724 bps	8.4%	13.8%	-538 bps
Net margin	-0.8%	10.8%	-1157 bps	4.6%	10.8%	-619 bps	7.2%	11.8%	-462 bps

Source: Company data, CMBIGM

Figure 8: CMBI estimates vs consensus

RMB mn	2022			2023			2024		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	2,090	2,409	-13%	2,452	2,987	-18%	2,842	3,728	-24%
Gross profit	1,729	1,968	-12%	2,063	2,497	-17%	2,400	3,165	-24%
Operating profit	-188	-337	-44%	-45	91	-150%	75	394	-81%
Profit before tax	-19	-123	-84%	131	212	-38%	238	488	-51%
Core net profit	-17	137	-112%	112	313	-64%	204	543	-62%
EPS	-0.01	0.06	-115%	0.06	0.17	-64%	0.11	0.25	-56%
Margins									
GM	82.7%	81.7%	104 bps	84.1%	83.6%	51 bps	84.4%	84.9%	-45 bps
OPM	-9.0%	-14.0%	503 bps	-1.9%	3.0%	-490 bps	2.6%	10.6%	-793 bps
Profit before tax margin	-0.9%	-5.1%	416 bps	5.3%	7.1%	-177 bps	8.4%	13.1%	-472 bps
Net margin	-0.8%	5.7%	-649 bps	4.6%	10.5%	-591 bps	7.2%	14.6%	-739 bps

Source: Company data, CMBIGM

Operating model

Figure 9: Operating model

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	1,705	2,184	2,090	2,452	2,842
Cost of sales	(366)	(433)	(361)	(389)	(442)
Gross Profit	1,340	1,751	1,729	2,063	2,400
<i>Gross margin</i>	<i>78.6%</i>	<i>80.2%</i>	<i>82.7%</i>	<i>84.1%</i>	<i>84.4%</i>
R&D	(356)	(642)	(663)	(677)	(716)
SG&A	(798)	(1,900)	(1,253)	(1,432)	(1,609)
Operating Income	186	(791)	(188)	(45)	75
<i>Operating margin</i>	<i>10.9%</i>	<i>-36.2%</i>	<i>-9.0%</i>	<i>-1.9%</i>	<i>2.6%</i>
Non-Operating Income	(836)	288	168	176	163
Profit Before Tax	(650)	(504)	(19)	131	238
Income tax (expense) gain	(18)	8	2	(13)	(24)
Minorities	36	(152)	(1)	6	11
Net Income to Shareholders	(704)	(344)	(17)	112	204
Core net income	328	(344)	(17)	112	204
<i>Net margin</i>	<i>19.3%</i>	<i>-15.7%</i>	<i>-0.8%</i>	<i>4.6%</i>	<i>7.2%</i>
Core EPS (RMB)	0.22	(0.18)	(0.01)	0.06	0.11
Revenue breakdown					
SaaS product	510	871	1,338	1,568	1,907
Procurement Cloud (云采购)	17	27	43	50	69
CRM Cloud (云客)	355	669	1,025	1,193	1,392
Asset Management Cloud (云空间)	27	38	53	66	95
Construction Cloud (云链)	111	138	189	234	319
ERP solutions	754	834	847	522	545
Gross margin breakdown					
SaaS product	87%	91%	89%	90%	89%
ERP solutions	70%	63%	64%	64%	64%
Growth YoY					
Revenues	35%	28%	-4%	17%	16%
Gross profit	35%	31%	-1%	19%	16%
Operating Income	17%	-526%	-76%	-76%	-265%
Core EPS	49%	-182%	-95%	-756%	82%

Source: Company data, CMBIGM

Figure 10: Semi-annual Operating model

RMB mn	1H20	2H20	1H21	2H21	1H22E	2H22E
Revenues	671	1,035	974	1,211	857	1,233
Gross Profit	529	810	774	977	716	1,013
Operating profit	78	108	53	-844	-124	-64
Core net profit	146	244	194	-509	-56	39
EPS (RMB)	0.05	-0.53	0.09	-0.27	-0.03	0.02
Margins						
Gross margin	78.9%	78.3%	79.5%	80.7%	83.5%	82.2%
Operating margin	11.6%	10.4%	5.4%	-69.7%	-14.5%	-5.2%
Net margin	10.4%	23.6%	19.9%	-42.1%	-6.6%	3.2%
Growth (HoH)						
Revenues	-14%	54%	-6%	24%	-29%	44%
Gross Profit	-14%	53%	-5%	26%	-27%	42%
Operating profit	-41%	38%	-51%	-1703%	-85%	-49%
Core net profit	-15%	68%	-21%	-363%	-89%	-170%
Growth (YoY)						
Revenues	37%	33%	45%	17%	-12%	2%
Gross Profit	40%	31%	46%	21%	-7%	4%
Operating profit	194%	-19%	-32%	-883%	-335%	-92%
Core net profit	165%	43%	33%	-308%	-129%	-108%

Source: Company data, CMBIGM

Valuation

MYC (909 HK, BUY, TP HK\$8.93)

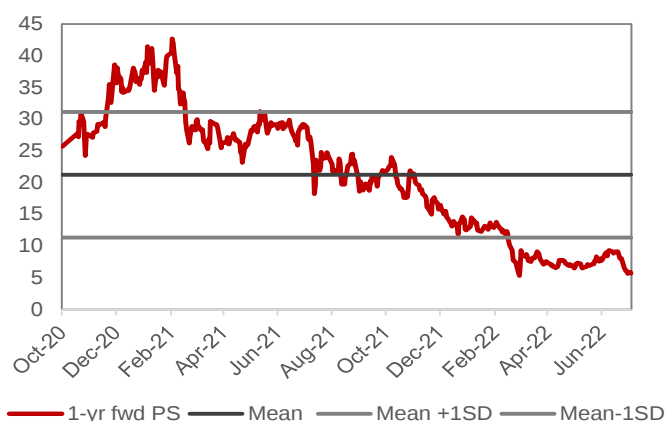
We derived our new target price of HK\$8.93 (prior HK\$11.22) based on 5.9x FY23E P/S, in-line with China's SaaS average. We use P/S as the valuation methodology as earnings cannot reflect operating profitability during SaaS ramp-up stage as operating leverage is not obvious with high S&M and R&D costs.

Figure 11: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	P/S (x) FY22E	P/S (x) FY23E	FCF margin (%) FY22E	FCF margin (%) FY23E	Sales CAGR FY21-24E	EPS CAGR FY21-24E
MYC	909 HK	HOLD	2,002	8.05	8.93	6.2	5.3	0%	8%	9%	N/A
Glodon	002410 CH	BUY	8,692	49.28	85.00	11.3	8.5	16%	16%	19%	24%
Yonyou	600588 CH	BUY	10,886	21.40	N/A	7.5	6.9	-2%	8%	18%	19%
Kingdee	268 HK	BUY	7,746	17.50	N/A	12.2	10.1	0%	5%	20%	N/A
Weimob	2013 HK	NR	1,461	4.50	N/A	3.7	3.2	-10%	-4%	19%	N/A
Youzan	8083 HK	NR	483	0.21	N/A	2.1	2.2	-65%	-60%	14%	N/A
Mean						7.1	5.9	-10%	-4%	16%	22%
Median						6.6	5.7	-1%	7%	18%	22%

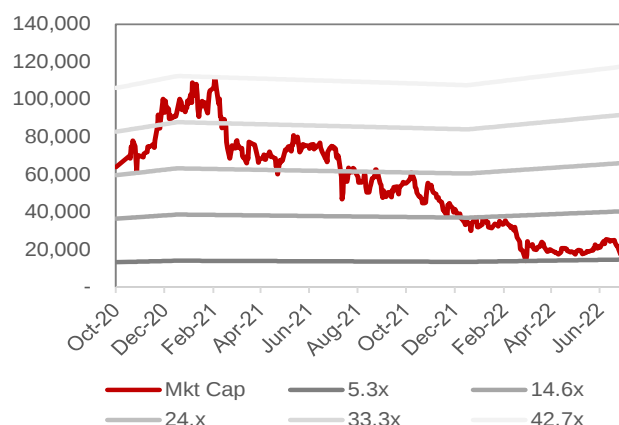
Source: Bloomberg, CMBIGM

Figure 12: 12M forward P/S chart



Source: Bloomberg, CMBIGM

Figure 13: 12M forward P/S band



Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,705	2,184	2,090	2,452	2,842
Cost of sales	(366)	(433)	(361)	(389)	(442)
Gross profit	1,340	1,751	1,729	2,063	2,400
Selling exp	(590)	(897)	(957)	(1,100)	(1,244)
Admin exp	(208)	(1,003)	(296)	(331)	(365)
R&D exp	(356)	(642)	(663)	(677)	(716)
Other operating exp.	-	-	-	-	-
Operating profit	186	(791)	(188)	(45)	75
Finance income/ (costs)	12	123	78	78	81
Other non-oper exp.	(848)	164	90	98	82
Pre-tax profit	(650)	(504)	(19)	131	238
Income tax expense	(18)	8	2	(13)	(24)
Minority interests	(36)	152	1	(6)	(11)
Net profit to shareholders	(704)	(344)	(17)	112	204
Core net profit	328	(344)	(17)	112	204

Cash flow summary

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Net profit	(650)	(504)	(19)	131	238
Depreciation/amortization	34	56	20	21	22
Change in working capital	108	(181)	17	66	92
Others	914	717	5	(9)	(20)
Net cash from operating	406	89	23	209	332
Capex	(44)	(248)	(21)	(25)	(28)
Others	(2,007)	(1,714)	-	-	-
Net cash from investing	(2,051)	(1,962)	(21)	(25)	(28)
Net borrowings	-	-	-	-	-
Dividend paid	-	(128)	-	-	-
Others	5,889	(688)	(4)	(4)	(4)
Net cash from financing	5,889	(816)	(4)	(4)	(4)
Net change in cash	4,243	(2,689)	(2)	181	300
Cash at beginning of the year	732	4,759	2,017	2,015	2,196
Exchange difference	(216)	(53)	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Current assets	7,210	6,314	6,311	6,574	6,958
Cash & equivalents	4,759	2,017	2,015	2,196	2,496
Account receivables	30	80	52	61	71
Contract acquisition cost	191	279	344	406	467
Contract assets	48	83	51	53	54
Other receivables	51	65	56	65	76
Others	2,130	3,790	3,792	3,792	3,793
Non-current assets	262	659	660	664	670
PPE	150	326	327	331	337
Intangible assets	3	54	54	54	54
Other non-current assets	109	279	279	279	279
Total assets	7,472	6,973	6,971	7,238	7,628
Current liabilities	843	948	960	1,103	1,270
ST borrowings	0	0	0	0	0
Account payables	43	66	45	49	56
Contract liabilities	549	601	686	816	956
Others	252	281	229	238	259
Non-current liabilities	59	94	99	106	113
LT borrowings	0	0	0	0	0
Contract liabilities	25	32	37	44	51
Other non-current liabilities	34	62	62	62	62
Total liabilities	903	1,043	1,059	1,208	1,383
Share capital	0.2	0.2	0.2	0.2	0.2
Capital surplus	0.0	0.0	0.0	0.0	0.0
Retained earnings	-463	-731	-748	-636	-432
Other reserves	7,001	6,664	6,664	6,664	6,664
Minority interest	-463	-731	-748	-636	-432
Total equity	6,570	5,930	5,912	6,030	6,244
Total liabilities and equity	7,472	6,973	6,971	7,238	7,628

Key ratios

YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
Revenue mix					
SaaS product	40%	51%	61%	75%	78%
Procurement Cloud	2%	2%	2%	3%	3%
CRM Cloud	39%	47%	57%	57%	56%
Asset Management Cloud	2%	2%	3%	4%	5%
Construction Cloud	8%	9%	11%	13%	15%
ERP solutions	49%	39%	25%	22%	20%
Growth (%)					
Revenue	35%	28%	-4%	17%	16%
Operating profit	17%	-526%	N/A	N/A	N/A
Core net profit	49%	-205%	N/A	N/A	82%
Profit & loss ratio (%)					
Gross margin	78.6%	80.2%	82.7%	84.1%	84.4%
Operating margin	10.9%	-36.2%	-9.0%	-1.9%	2.6%
Core net profit margin	19.3%	-15.7%	-0.8%	4.6%	7.2%
Balance sheet ratio					
Receivable turnover days	5	9	9	9	9
Payable turnover days	33	46	46	46	46
Current ratio (x)	8.55	6.66	6.57	5.96	5.48
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Profitability (%)					
FCF margin	21%	-7%	0%	8%	11%
ROE	-11%	-6%	0%	2%	3%
Per share data (RMB)					
Core EPS (RMB)	0.22	-0.18	-0.01	0.06	0.11
DPS (RMB)	0.07	0.00	0.00	0.00	0.00
BVPS (RMB)	4.48	3.18	3.17	3.23	3.35

Source: Company data, CMBIGM estimates

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