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Glodon (002410 CH)

Penetrating into basic infrastructure segment

Glodon delivered better than expected FY2Q22 results with revenue of RMB1.64bn (+23% YoY) and net profit of RMB288mn (+38% YoY). Construction costing SaaS revenue grew at +28% YoY to RMB794mn. Newly signed contract (+18% YoY)/ contracted liabilities (+28% YoY) suggested a solid SaaS outlook ahead. For Construction Management, revenue ramped up from low base (+67% YoY) and Glodon maintains full year growth target of +30% YoY. We continue to like Glodon for its SaaS performance and R&D capabilities. Expanding in basic infrastructure projects will lessen property sector fluctuations. Maintain BUY.

- **FY2Q22 beat.** Glodon reported FY2Q22 revenue of RMB1,640mn (+23% YoY), beating our estimate by 5%. Net profit was RMB288mn (+38% YoY), beating our/ consensus estimates by 19%/ 6% respectively. GPM was flattish QoQ at 85.6%. OPM was 20.1% (+1.7 pct pts YoY), a record high level since FY3Q18. FY22 marks the final year for SaaS migration and we expect OPM improvement to continue.
- **Construction costing: SaaS metrics implied solid growth ahead.** Glodon costing SaaS revenue was RMB794mn in FY2Q22 (+28% YoY), accounting for 48% of total revenue. SaaS metrics suggested decent growth outlook: 1) Newly signed contract was RMB1,229mn (+18% YoY), 2) Contracted liabilities was RMB2,194mn (+28% YoY), 3) Regions that started SaaS migration in 2021 recorded 60% migration and 80% renewal rate. All these implied high user stickiness as well as revenue/ cash flow visibility. In FY2H22, Glodon will release costing products targeting basic infrastructure segment. Glodon targets FY22E construction costing revenue to increase at +20% YoY.
- **Construction management: Ramping up in basic infrastructure projects.** Construction management revenue was up +67% YoY to RMB393mn, accounting for 24% in FY2Q22. The strong growth was attributable to 1) low base in FY2Q21 (-2% YoY) and 2) ramp-up in basic infrastructure projects (>10% of contracts). In FY1H22, Glodon added 10,000 projects and 500 customers. Glodon maintains FY22E target that construction management business will grow +30% YoY with a flattish GPM.
- **Maintain BUY.** We revised up FY22-24E net profit by 1-10% to reflect operating leverage from SaaS. Maintain BUY with new target price of RMB85.19 (prior RMB85.00), based on unchanged 12x FY23E EV/sales.

Earnings Summary

(YE 31 Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,005	5,619	6,823	8,029	9,452
YoY growth (%)	13%	40%	21%	18%	18%
Net profit (RMB mn)	330	661	914	1,143	1,381
EPS (RMB)	0.28	0.56	0.77	0.96	1.16
YoY growth (%)	34%	99%	38%	25%	21%
Consensus EPS (RMB)	0.28	0.56	0.83	1.12	1.42
PE (x)	182.3	91.4	66.2	52.9	43.8
EV/sales	13.9	10.0	8.3	6.9	5.8
Dividend Yiled (%)	0.00	0.01	0.00	0.00	0.00
ROE (%)	7%	11%	15%	18%	18%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB85.19**
(Previous TP	RMB85.00)
Up/Downside	**+67.7%**
Current Price	**RMB50.80**

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Stock Data

Mkt Cap (RMB mn)	59,751
Avg 3 mths t/o (RMB mn)	256.31
52w High/Low (RMB)	75.49/ 40.91
Total Issued Shares (mn)	1,191

Source: Bloomberg

Shareholding Structure

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

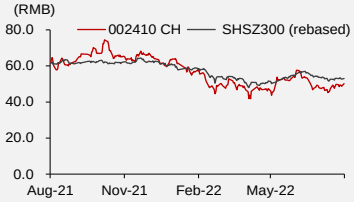
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-0.4%	1.6%
3-mth	2.6%	0.8%
6-mth	-15.6%	-5.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

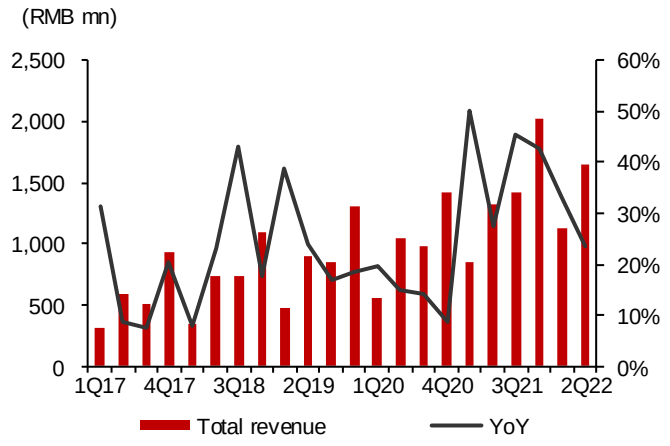
Auditor: BDO

Related Reports

1. China Software & IT Services "Higher visibility in SaaS along China cloud value chain" – 28 Jun 2022 (link)
2. Glodon(002410 CH) - "Infrastructure construction management as new growth driver in the 9th Three-Year Plan" – 17 Jun 2022 (link)
3. Glodon (002410 CH) - "1Q22 beat, cash flow fluctuations manageable" – 27 Apr 2022 (link)

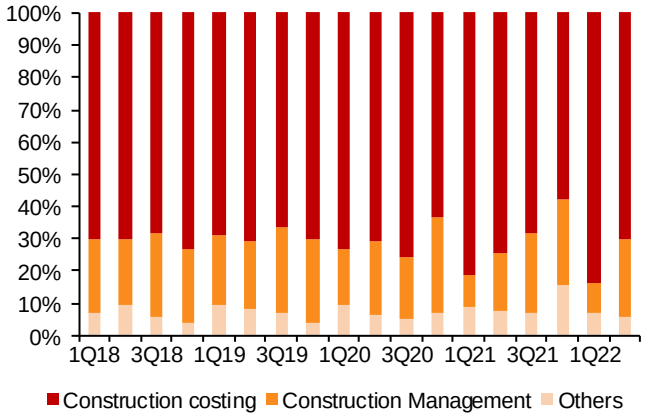
Focus Charts

Figure 1: Revenue and growth



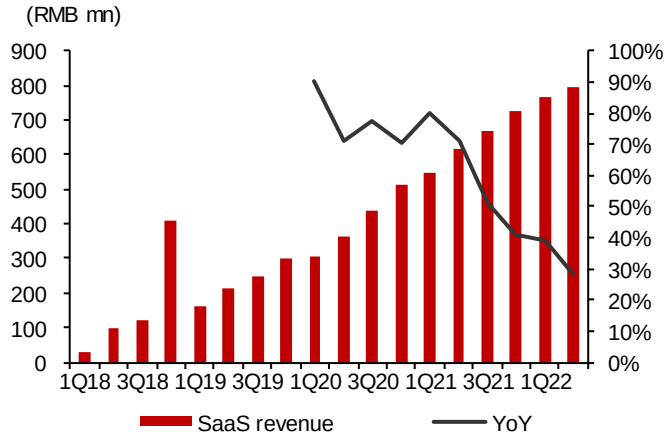
Source: Company data

Figure 2: Revenue breakdown



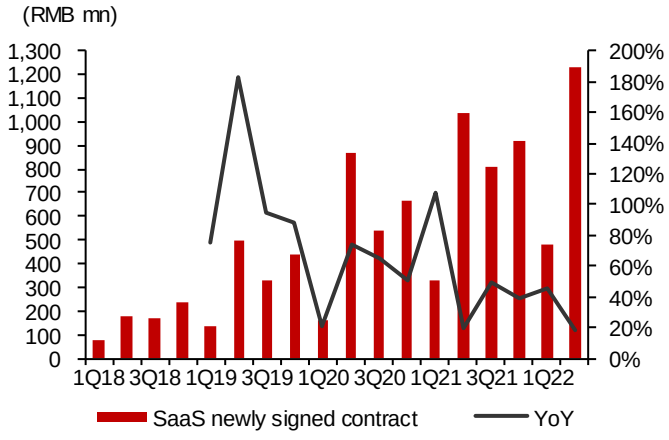
Source: Company data

Figure 3: SaaS revenue



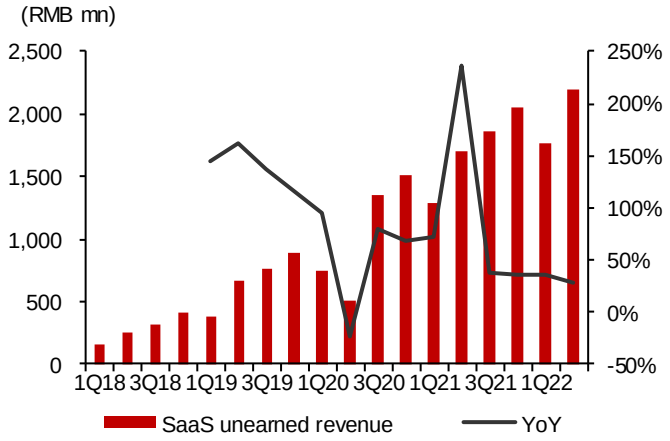
Source: Company data

Figure 4: SaaS newly signed contract



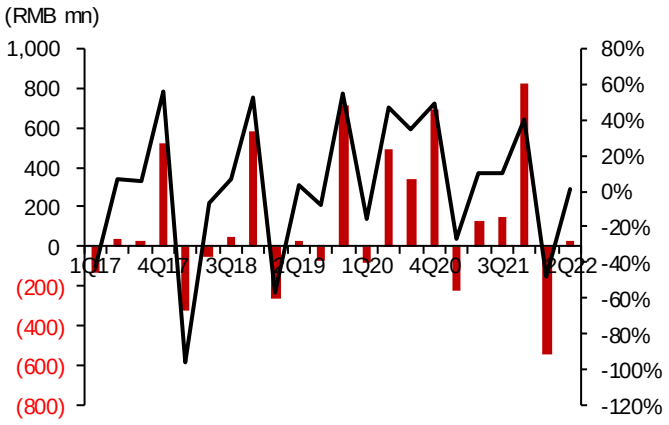
Source: Company data

Figure 5: SaaS unearned revenue



Source: Company data

Figure 6: Free cash flow



Source: Company data

FY2Q22 results review

- **Revenue** was RMB1,640mn (+23% YoY, +45% QoQ), beating our estimate by 5% and in-line with consensus.
- **Gross profit** was RMB1,403mn (+20% YoY, +45% QoQ), beating our estimate by 2% and in-line with consensus.
- **Gross margin** was 85.6%, (-2.5 pct pts YoY, +0.1 pct pts QoQ), below our estimate by -2.6 pct pts and consensus by -0.2 pct pts.
- **Operating profit** was RMB330mn (+35% YoY, +127% QoQ), below our and consensus estimates by -5%.
- **Operating margin** was 20.1% (+1.7 pct pts YoY, +7.3 pct pts QoQ), below our estimates by -2.3 pct pts and consensus by -0.9 pct pts.
- **Net profit** was RMB288mn (+38% YoY, +165% QoQ), beating our estimate by 19% and consensus by 6%.

Figure 7: FY2Q22 results review

	Jun-21 2Q21	Mar-22 1Q22	Jun-22 2Q22			Jun-22 2Q22		Jun-22 2Q22	
RMB mn	**actual**	**actual**	**actual**	**YoY**	**QoQ**	**CMBI**	**versus CMBI**	**consensus**	**versus consensus**
Revenue	1,329	1,131	1,640	23%	45%	1,555	5%	1,654	-1%
Gross profit	1,171	967	1,403	20%	45%	1,371	2%	1,418	-1%
Gross margin	88.1%	85.5%	85.6%	-2.5 pct pts	0.1 pct pts	88.2%	-2.6 pct pts	85.8%	-0.2 pct pts
Operating profit	244	145	330	35%	127%	348	-5%	348	-5%
Operating margin	18.4%	12.9%	20.1%	1.7 pct pts	7.3 pct pts	22.4%	-2.3 pct pts	21.0%	-0.9 pct pts
Net non-op	-5	-19	-5	5%	76%	-6	23%	23	-120%
PBT	239	126	325	36%	158%	342	-5%	371	-12%
Net income	209	109	288	38%	165%	241	19%	271	6%
EPS (RMB)	0.18	0.09	0.24	37%	165%	0.20	19%	0.24	2%

Source: Company data, CMBIGM

FY2Q22 revenue breakdown

- **Construction costing SaaS revenue** was RMB794mn (+28% YoY, +4% QoQ). SaaS revenue accounted for 48% of total FY2Q22 revenue.
- **Construction costing non-SaaS revenue** was RMB360mn (-3% YoY, +100% QoQ).
- **Newly signed SaaS contract** was RMB1,229mn (+18% YoY, +157% QoQ).
- **SaaS contracted liabilities** was RMB2,194mn (+28% YoY, +25% QoQ).
- **Construction management revenue** was RMB393mn (+67% YoY, +267% QoQ).
- **Digital design revenue** was RMB39mn, accounting for 2% of revenue. Part of municipal engineering products underwent SaaS migration and hence partial revenue recognition will be delayed. Adj. revenue in FY1H22 was RMB58mn, flattish YoY.

Figure 8: FY2Q22 revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Revenue breakdown										
Construction costing	416	736	743	896	689	990	969	1,165	945	1,154
…SaaS	305	361	441	515	549	618	668	726	765	794
…non-SaaS	111	375	302	381	140	372	301	439	180	360
Construction Management	96	241	185	421	83	235	354	534	107	393
Others	54	66	51	100	77	104	100	319	79	93
Total	**566**	**1,043**	**979**	**1,417**	**849**	**1,329**	**1,423**	**2,018**	**1,131**	**1,640**
Revenue YoY										
Construction costing	27%	15%	30%	-2%	66%	34%	30%	30%	37%	17%
…SaaS	91%	71%	78%	71%	80%	71%	51%	41%	39%	28%
…non-SaaS	-34%	-13%	-6%	-38%	26%	-1%	0%	15%	29%	-3%
Construction Management	-4%	27%	-19%	25%	-14%	-2%	91%	27%	29%	67%
Others	18%	-14%	-15%	88%	42%	58%	97%	220%	2%	-10%
Total	20%	15%	14%	9%	50%	27%	45%	42%	33%	23%
SaaS metrics										
Newly signed contract	159	869	543	663	330	1,040	812	918	478	1,229
YoY	21%	74%	65%	50%	108%	20%	50%	38%	45%	18%
Unearned revenue	748	507	1,357	1,506	1,288	1,708	1,854	2,047	1,759	2,194
YoY	94%	-25%	80%	68%	72%	237%	37%	36%	37%	28%

Source: Company data, CMBIGM

Earnings revision

Figure 9: Earnings revision

	2022E			2023E			2024E		
RMBm	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	6,823	6,760	1%	8,029	7,964	1%	9,452	9,389	1%
Gross profit	5,626	5,627	-0%	6,566	6,496	1%	7,599	7,549	1%
OP Profit	1,086	1,142	-5%	1,341	1,248	8%	1,566	1,464	7%
PBT	1,048	1,107	-5%	1,324	1,237	7%	1,569	1,474	6%
Net profit	914	905	1%	1,143	1,050	9%	1,381	1,261	10%
EPS	0.77	0.76	1%	0.96	0.88	9%	1.16	1.06	9%
Margins									
GM	82.5%	83.2%	-79 bps	81.8%	81.6%	21 bps	80.4%	80.4%	-1 bps
OPM	15.9%	16.9%	-98 bps	16.7%	15.7%	104 bps	16.6%	15.6%	98 bps
PBT margin	15.4%	16.4%	-102 bps	16.5%	15.5%	96 bps	16.6%	15.7%	90 bps
Net margin	13.4%	13.4%	2 bps	14.2%	13.2%	104 bps	14.6%	13.4%	118 bps

Source: Company data, CMBIGM

Figure 10: CMBI vs. consensus forecast

	2022			2023			2024		
RMBm	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	6,823	6,909	-1%	8,029	8,359	-4%	9,452	10,036	-6%
Gross profit	5,626	5,787	-3%	6,566	6,966	-6%	7,599	8,310	-9%
OP Profit	1,086	1,177	-8%	1,341	1,563	-14%	1,566	1,906	-18%
PBT	1,048	1,131	-7%	1,324	1,496	-11%	1,569	1,823	-14%
Net profit	914	995	-8%	1,143	1,341	-15%	1,381	1,672	-17%
EPS	0.8	0.8	-7%	1.0	1.1	-14%	1.2	1.4	-18%
Margins									
GM	82.5%	83.8%	-132 bps	81.8%	83.3%	-155 bps	80.4%	82.8%	-240 bps
OPM	15.9%	17.0%	-113 bps	16.7%	18.7%	-200 bps	16.6%	19.0%	-242 bps
PBT margin	15.4%	16.4%	-102 bps	16.5%	17.9%	-140 bps	16.6%	18.2%	-157 bps
Net margin	13.4%	14.4%	-100 bps	14.2%	16.0%	-181 bps	14.6%	16.7%	-205 bps

Source: Company data, CMBIGM

Operating model

Figure 11: Operating model

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	**4,005**	**5,619**	**6,823**	**8,029**	**9,452**
Cost of sales	-454	-893	-1,197	-1,463	-1,852
Gross Profit	3,550	4,727	5,626	6,566	7,599
Gross margin	*88.7%*	*84.1%*	*82.5%*	*81.8%*	*80.4%*
R&D	-1,083	-1,333	-1,511	-1,754	-2,017
SG&A	-2,135	-2,686	-3,089	-3,533	-4,092
Operating Income	408	748	1,086	1,341	1,566
Operating margin	*10.2%*	*13.3%*	*15.9%*	*16.7%*	*16.6%*
Interest Expense	17	53	33	38	48
Non-operating income/ (expense)	-15	-52	-71	-55	-46
Profit Before Income Taxes	410	749	1,048	1,324	1,569
Income Tax Expense	-29	-31	-63	-82	-73
Net profit (loss)	330	661	914	1,143	1,381
Net margin	*8.3%*	*11.8%*	*13.4%*	*14.2%*	*14.6%*
EPS (RMB)	0.28	0.56	0.77	0.96	1.16
DPS (RMB)	0.25	0.30	0.20	0.20	0.20
Revenue breakdown					
Engineering costing	2,791	3,813	4,572	5,362	6,214
…recurring revenue	1,622	2,561	3,382	4,232	5,140
…non-recurring revenue	1,169	1,252	1,190	1,130	1,074
Engineering construction	943	1,206	1,567	1,849	2,219
Others	271	601	684	818	1,019
Gross margin breakdown					
Engineering costing	94.2%	92.3%	91.6%	91.8%	91.6%
Engineering construction	72.1%	65.8%	63.3%	63.0%	62.0%
Growth (YoY)					
Revenues	13%	40%	21%	18%	18%
Gross Profit	12%	33%	19%	17%	16%
Operating Income	21%	84%	45%	24%	17%
EPS	34%	99%	38%	25%	21%

Source: Company data, CMBIGM

Figure 12: Quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E
Revenues	566	1,043	979	1,417	849	1,329	1,423	2,018	1,131	1,640	1,706	2,347
Gross Profit	534	924	879	1,213	764	1,171	1,220	1,572	967	1,403	1,441	1,815
Operating income	82	121	121	84	90	244	191	222	145	330	312	298
Net profit	53	77	100	101	77	209	189	186	109	288	267	250
EPS (RMB)	0.05	0.07	0.08	0.08	0.06	0.18	0.16	0.16	0.09	0.24	0.22	0.21
Margins												
Gross margin	94.3%	88.6%	89.8%	85.6%	90.0%	88.1%	85.7%	77.9%	85.5%	85.6%	84.5%	77.3%
Operating margin	14.5%	11.6%	12.4%	5.9%	10.6%	18.4%	13.5%	11.0%	12.9%	20.1%	18.3%	12.7%
Net margin	9.4%	7.4%	10.2%	7.1%	9.0%	15.7%	13.3%	9.2%	9.6%	17.6%	15.6%	10.7%
Growth (QoQ)												
Revenues	-57%	84%	-6%	45%	-40%	57%	7%	42%	-44%	45%	4%	38%
Gross Profit	-53%	73%	-5%	38%	-37%	53%	4%	29%	-38%	45%	3%	26%
Operating income	-26%	47%	1%	-31%	8%	171%	-22%	16%	-35%	127%	-5%	-5%
EPS	-31%	42%	26%	1%	-24%	173%	-10%	-2%	-41%	165%	-7%	-6%
Growth (YoY)												
Revenues	20%	15%	14%	9%	50%	27%	45%	42%	33%	23%	20%	16%
Gross Profit	20%	8%	18%	8%	43%	27%	39%	30%	27%	20%	18%	15%
Operating income	9%	113%	28%	-25%	10%	103%	58%	166%	61%	35%	63%	34%
EPS	-5%	119%	37%	26%	38%	165%	89%	84%	41%	37%	41%	35%

Source: Company data, CMBIGM

Valuation

Glodon (002410 CH, BUY, TP RMB85.19)

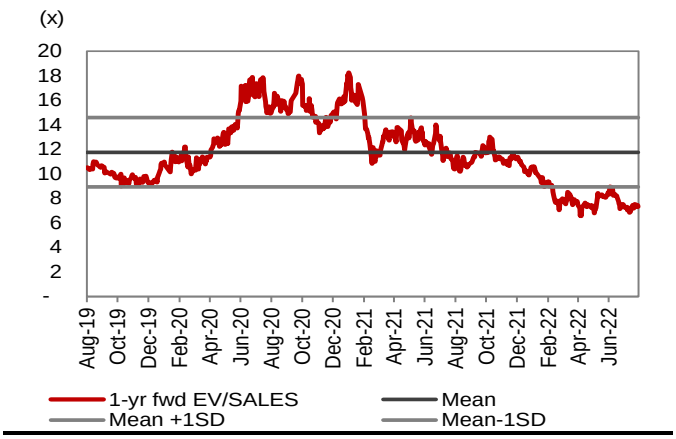
We maintain BUY with new target price of RMB85.19 (prior RMB85.00) based on unchanged 12x FY23E EV/sales, in-line with three-year mean.

Figure 13: Peers' valuation

Company	Ticker	Rating	Market Cap (US$ mn)	Price (LC)	TP (LC)	EV/sales (x) FY22E	EV/sales (x) FY23E	FCF margin (%) FY22E	FCF margin (%) FY23E	Sales CAGR FY21-24E	EPS CAGR FY21-24E
Glodon	002410 CH	BUY	8,832	50.80	85.19	8.3	6.9	7%	15%	19%	28%
MYC	909 HK	HOLD	1,438	5.78	6.39	4.3	3.9	-31%	5%	5%	n.a.
Yonyou	600588 CH	HOLD	10,905	21.75	19.81	6.5	5.2	0%	7%	19%	20%
Kingdee	268 HK	BUY	6,828	15.42	23.83	9.1	7.5	-2%	1%	19%	n.a.
Kingsoft Office	688111 CH	NR	11,788	175.05	N/A	17.3	13.1	59%	29%	29%	28%
Autodesk	ADSK US	NR	47,018	216.40	N/A	11.4	9.9	36%	29%	15%	26%
CoStar	CSGP US	NR	28,338	71.57	N/A	11.7	10.1	22%	17%	15%	16%
					Mean	**10.4**	**8.7**	**19%**	**19%**	**18%**	**20%**
					Median	**10.2**	**8.7**	**21%**	**17%**	**19%**	**19%**

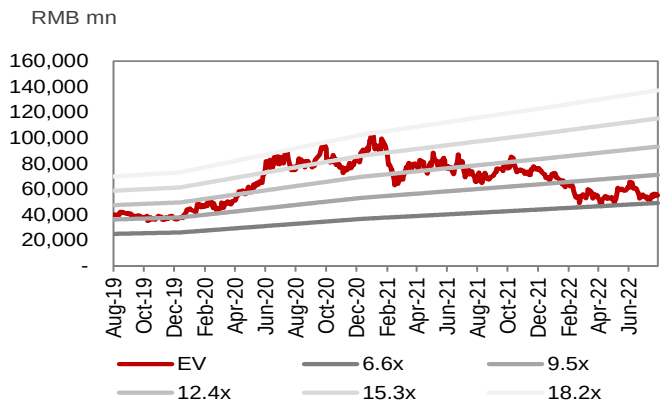
Source: Bloomberg, CMBIGM estimates

Figure 14: 12M forward EV/sales chart



Source: Bloomberg, CMBIGM

Figure 15: 12M forward EV/sales band



Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	**4,005**	**5,619**	**6,823**	**8,029**	**9,452**
Cost of sales	(454)	(893)	(1,197)	(1,463)	(1,852)
Gross profit	**3,550**	**4,727**	**5,626**	**6,566**	**7,599**
Selling exp	(1,256)	(1,587)	(1,806)	(2,067)	(2,394)
Admin exp	(879)	(1,099)	(1,283)	(1,466)	(1,699)
R&D exp	(1,083)	(1,333)	(1,511)	(1,754)	(2,017)
Other operating exp.	75	41	60	62	76
Operating profit	**408**	**748**	**1,086**	**1,341**	**1,566**
Finance income/ (costs)	17	53	33	38	48
Other non-op exp.	(15)	(52)	(71)	(55)	(46)
Pre-tax profit	**410**	**749**	**1,048**	**1,324**	**1,569**
Income tax expense	(29)	(31)	(63)	(82)	(73)
Minority interests	(51)	(58)	(70)	(100)	(115)
Net profit to shareholders	**330**	**661**	**914**	**1,143**	**1,381**

Cash flow summary

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Net profit	**330**	**661**	**914**	**1,143**	**1,381**
Depreciation/amortization	229	158	227	286	339
Change in working capital	784	525	319	521	606
Others	533	258	(182)	100	115
Net cash from operating	**1,876**	**1,601**	**1,278**	**2,051**	**2,441**
Capex	(439)	(720)	(799)	(812)	(807)
Other	(257)	(821)	(88)	0	0
Net cash from investing	**(697)**	**(1,541)**	**(887)**	**(812)**	**(807)**
Net borrowings	(1,088)	(3)	0	0	0
Dividend paid	(157)	(354)	(357)	(238)	(238)
Other	2,645	(438)	(301)	(100)	(115)
Net cash from financing	**1,400**	**(795)**	**(658)**	**(339)**	**(353)**
Net change in cash	**2,580**	**(735)**	**(267)**	**900**	**1,280**
Cash at beginning of the year	2,231	4,797	4,050	3,792	4,692
Exchange difference	(14)	(13)	9	0	0
Cash at the end of the year	**4,797**	**4,050**	**3,792**	**4,692**	**5,972**

Balance sheet

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Current assets	**5,420**	**5,122**	**4,790**	**5,661**	**6,917**
Cash & equivalents	4,797	4,050	3,792	4,692	5,972
Account receivables	475	560	650	612	577
Inventory	26	71	51	61	71
Other current assets	121	441	297	297	297
Non-current assets	**4,127**	**4,946**	**5,598**	**6,123**	**6,591**
PPE	994	1,219	1,627	2,289	2,894
Intangible assets	1,664	1,979	2,217	2,081	1,944
Other non-current assets	1,470	1,747	1,753	1,753	1,753
Total assets	**9,547**	**10,068**	**10,388**	**11,785**	**13,508**
Current liabilities	**2,858**	**3,637**	**3,672**	**4,165**	**4,745**
ST borrowings	3	0	0	0	0
Account payables	1,740	2,395	2,785	3,277	3,858
Accrued expense	0	0	0	0	0
Unearned revenue	1,115	1,242	887	887	887
Non-current liabilities	**131**	**158**	**185**	**185**	**185**
LT borrowings	0	0	0	0	0
Other non-current liabilities	131	158	185	185	185
Total liabilities	**2,989**	**3,795**	**3,857**	**4,349**	**4,930**
Share capital	1,186	1,189	1,191	1,191	1,191
Capital surplus	3,135	3,174	3,111	3,111	3,111
Retained earnings	1,957	2,432	2,993	3,898	5,041
Other reserves	125	(1,007)	(1,219)	(1,219)	(1,219)
Minority interest	156	485	455	455	455
Total equity	**6,558**	**6,273**	**6,531**	**7,435**	**8,578**
Total liabilities and equity	**9,547**	**10,068**	**10,388**	**11,785**	**13,508**

Key ratios

YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
Revenue mix					
Engineering costing	70%	68%	67%	67%	66%
- SaaS	41%	46%	50%	53%	54%
Engineering construction	24%	21%	23%	23%	23%
Overseas	4%	3%	2%	2%	2%
Others	1%	5%	4%	4%	4%
Finance income	1%	1%	0%	0%	0%
Growth (%)					
Revenue	13%	40%	21%	18%	18%
Operating profit	21%	84%	45%	24%	17%
EPS	34%	99%	38%	25%	21%
Profit & loss ratio (%)					
Gross margin	88.7%	84.1%	82.5%	81.8%	80.4%
Operating margin	10.2%	13.3%	15.9%	16.7%	16.6%
Net profit margin	8.3%	11.8%	13.4%	14.2%	14.6%
Balance sheet ratio					
Receivable turnover days	49	34	32	29	23
Unearned revenue days	81	77	57	40	34
Payable turnover days	159	156	149	149	149
Current ratio (x)	1.90	1.41	1.30	1.36	1.46
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Profitability (%)					
ROE	7%	11%	15%	18%	18%
ROIC	18%	34%	38%	43%	52%
Per share data (RMB)					
EPS (RMB)	0.28	0.56	0.77	0.96	1.16
DPS (RMB)	0.25	0.30	0.20	0.20	0.20
BVPS (RMB)	5.40	4.87	5.10	5.86	6.82

Source: Company data, CMBIGM estimates

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