



Company Report: Kingsoft (03888 HK)

公司报告: 金山软件 (03888 HK)

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Strong Growth of Office Software and Gaming Business; Initiate With "Accumulate"

“办公软件 + 游戏”双驱动，首予“收集”评级

- We initiate Kingsoft (the "Company") with a rating of "Accumulate" and a target price of HK\$27.80.** We forecast the Company's 2022-2024 basic EPS to be RMB0.105/ RMB0.229/ RMB0.432, respectively.
- Office software is leading the way and gaming innovation continues.** The Company has strong competitive advantages in domestic productivity software and is the pioneer of productivity software localization for government and enterprises; Jianxia series (剑侠系列) are loved by many players, and the Company continues to explore new games to drive growth.
- We believe that demand for digital office of government and enterprises and the revenue growth brought by mobile games will exceed expectations.** With the trend of localization of office software for the government and huge market demand from enterprises, we think that revenue growth of office software business will exceed expectations; We believe that Jianxia series is still a rarity with its high quality in Wuxia (武侠) games, and it will be easier to attract more players with mobile games.
- Catalysts:** Digital office budgets of government departments increase; the Company develops a popular Jianxia series mobile game.
- Major Risks:** 1) The recovery of information technology application innovation sector does not meet expectations; 2) the payment ratio of individual users drops; 3) the market acceptance of new games does not meet expectations; 4) risk of declining market acceptance of Jianxia series.
- 我们首次覆盖金山软件（“公司”）并给予 27.80 港元的目标价以及“收集”的投资评级。** 我们预测公司 2022-2024 年基本每股盈利为人民币 0.105 元/ 人民币 0.229 元/ 人民币 0.432 元。
- 办公软件独领风骚，游戏业务持续推新。** 公司在国产办公软件领域有较强优势，为政企客户办公软件国产化的先锋；剑侠 IP 产品获得大众玩家喜爱，并且公司不断探索新类型打开增长空间。
- 我们认为政企数字化办公需求和手游带来的收入增长有望超预期。** 受益于政府部门办公软件国产化的明显趋势以及庞大的企业级市场需求，我们认为办公软件业务的收入增长有望超预期；我们认为剑侠系列的高质量使其仍是武侠游戏中的稀缺品，手游化后将更容易吸引更多玩家。
- 催化剂：** 政府部门获得更多的数字化办公预算；公司开发出爆款剑侠系列手游。
- 主要风险：** 1) 信创产业恢复不达预期；2) 个人用户付费率下降；3) 新游戏市场接受度不达预期；4) 剑侠系列市场接受度下降的风险。

Rating:

Accumulate

Initial

评级:

收集 (首次覆盖)

6-18m TP 目标价:

HK\$27.80

Revised from 原目标价:

Share price 股价:

HK\$22.900

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 y
股价变动	1 个月	3 个月	1 年
Abs. %			
绝对变动 %	-5.7	-22.6	-23.2
Rel. % to HS Index			
相对恒指变动 %	2.1	-8.9	1.9
Avg. Share price(HK\$)	23.4	26.1	29.0
平均股价 (港元)			

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	yield	ROE
年结	收入 (RMB m)	股东净利 (RMB m)	每股净利 (RMB)	每股净利变动 (△ %)	市盈率 (x)	每股净资产 (RMB)	市净率 (x)	每股股息 (RMB)	股息率 (%)	净资产收益率 (%)
12/31										
2020A	5,594	10,045	7.348	n.a.	2.6	17.968	1.1	0.168	0.9	52.2
2021A	6,371	395	0.289	(96.1)	64.6	18.088	1.0	0.098	0.5	1.6
2022F	7,629	144	0.105	(63.7)	190.8	18.231	1.1	0.052	0.3	0.6
2023F	9,343	314	0.229	118.1	87.5	18.487	1.1	0.069	0.3	1.2
2024F	11,581	590	0.432	88.6	46.4	18.910	1.1	0.108	0.5	2.3
Shares in issue (m)	总股数 (m)		1,370.2	Major shareholder 大股东						Jun LEI 22.6%
Market cap. (HK\$ m)	市值 (HK\$ m)		31,377.6	Free float (%) 自由流通比率 (%)						77.4
3 month average vol.	3 个月平均成交股数 ('000)		4,517.9	FY22 Net gearing (%) FY22 净负债/股东资金 (%)						Net Cash
52 Weeks high/low (HK\$)	52 周高/低 (HK\$)		39.200 / 19.520	FY22 Est. NAV (HK\$)	FY22 每股估值 (港元)					55.0

Source: the Company, Guotai Junan International.

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1. Investment Thesis

Office software is leading the way with gaming business producing new products. As early as the last century, Kingsoft (the "Company") has made great efforts in office software and once dominated the Chinese market. Currently, it is the trailblazer in the field of domestic office software with great competitive advantages. Monthly active users (MAU) of its major products have exceeded 500 million, and it is a pioneer in the localization of office software for government and enterprise users; In terms of gaming, the Jianxia series (剑侠系列) has a history of more than 20 years, witnessing the gaming industry going from single-player to online gaming, then to mobile gaming. Through continuous self-updating, the Company has won favor from masses of players. Meanwhile, it is constantly exploring possibilities of developing new types of games to increase revenue potential.

Government and enterprise digital office demand and information technology application innovation sector (信创, or ITAI) open up growth potential. Over the years, China has continuously introduced policies on government information security and the use of copyrighted software. The Company is a leading figure in this market by virtue of its core product WPS Office and has accumulated a large customer base over the years. On the other hand, with the development of cloud computing and the reshaping of office habits, digitalization, mobilization and collaboration of office technology has created huge demand. The Company's creation of a digital office platform around WPS Office can help enterprise users carry out digital transformation. At the same time, the Company is strengthening its ecosystem partnership to support digital office trends. We believe that revenue growth of office software business will exceed market expectations under the trend of localization and the use of copyrighted software.

We expect revenue growth brought by Jianxia series mobile games to exceed expectations. Due to a lack of attractive games and new anti-addiction regulations, the demand side of the overall domestic games market shows signs of slowing down in both number of players and ARPU. However, we believe that there are still structural opportunities in this huge market, and the Company can still improve number of players and ARPU by releasing high-quality games. Some market views predict that Jianxia series will be overshadowed by new games of competitors or that players will stop playing by themselves just because they lose interest. However, we believe that Jianxia series' high-quality production and constantly updated game content over the years makes it a scarce gem among Wuxia games. After expansion in mobile games, we believe that the Jianxia series will be more accessible for more Wuxia game lovers, so that revenue growth of the gaming business will exceed market expectations.

Catalysts: Budgets of provincial governments increase; the Company develops popular mobile games.

Major risks: 1) The recovery of information technology application innovation sector does not meet expectations; 2) the payment ratio of individual users declines; 3) the acceptance of the new games market does not meet expectations; 4) risk of decreasing market acceptance of Jianxia series.

2. Earnings Forecasts and Valuation

2.1 Earnings Forecasts

We forecast revenue of Kingssoft from 2022-2024 to be RMB7,629 million/ RMB9,343 million/ RMB11,581 million, respectively, equivalent to yoy growth of 19.7%/ 22.5%/ 23.9%. Our revenue forecasts are primarily based on the following reasons:

1) For office software and services revenue historical data and forecasts, we used data from Kingssoft Office (688111.SH) instead of data from the Company, where the areas are highlighted in orange in Table 1, as the difference between the two is less than 1%. **We expect revenue from office software and services to increase by 18.5%/ 27.8%/ 31.9% from 2022-2024, respectively**, and the growth rate in 2022 will decrease by 26.1 ppt compared with that of last year. We forecast that:

- The growth rate of personal subscription revenue from 2022-2024 will be 37.8%/ 32.8%/ 30.4%, respectively, mainly because the Company's core product WPS Office continues to be upgraded and improved, and we are optimistic about growth of individual users.
- Revenue from domestic institutional subscription and related service business will grow at rate of 50.0%/ 55.0%/ 60.0% from 2022-2024, respectively, mainly due to the Company's active promotion of institution license model to subscription model and demand for digital office technology from enterprises.
- The institution license business will grow at rate of 5.0%/ 10.0%/ 15.0% from 2022-2024, respectively, mainly considering that the expansion of ITAI customers was slow in 1H22 due to repeated local Covid epidemic resurgences and other factors, and that revenue declined by 11.0% yoy. We expect that the business will improve in 2H22 as the epidemic situation gradually stabilizes.
- We forecast that the growth rate of online marketing business revenue from 2022-2024 will be -44.4%/ -33.0%/ -21.8%, respectively, primarily considering that the Company's strategic contraction of the business will improve user experience.

2) **We forecast that the growth rate of revenue from online games and others business from 2022-2024 will be 21.0%/ 17.0%/ 15.0%, respectively**, considering:

- In terms of computer games, "Jianxia Qing Yuan Online 3" (剑侠情缘网络版叁, or "Jian OL 3"), as the core game, is still stable in contributing revenue, and it held its 13th anniversary celebration in August 2022, which we expect will bring more players. In terms of mobile games, "Jian OL 1: Return" (剑网 1: 归来), which was launched in 2H21, and "Jianxia Shijie 3" (剑侠世界 3, or "Jian 3"), which was released at the end of 2021, won great market praise. Among them, Jian 3 once ranked first in the free list of iOS App Store and was publicly tested on all platforms in August 2022. We expect that the revenue contribution of these two new games will be reflected in 2022;
- For games that are awaiting launch, "Fengbao Moyu 2" (风暴魔域 2, or "Moyu 2") already has been given a serial number from the National Press and Publication Administration, and is expected to be launched at the end of 2022; its revenue contribution will be reflected in 2023-2024. In addition, the Company has another two non-Jianxia mobile games: "Project Snow" (尘白禁区) and "Bijie" (彼界) awaiting approval. Due to the high base and the sharp slowdown in the number of domestic game players and ARPU growth, we expect that the growth of the Company's games business will also moderate.

Table-1: Earnings Forecasts for The Company

RMB mn	2020A	2021A	2022F	2023F	2024F
- Revenue – Office software and services (data from the Company)	2,257	3,265	-	-	-
- Revenue – Office software and services (data from Kingsoft Office)*	2,261	3,280	3,870	4,945	6,523
- YoY	43.3%	44.6%	18.5%	27.8%	31.9%
- Sale and subscription of software and related services	1,916	2,956	3,699	4,830	6,433
Personal subscription	1,016	1,465	2,019	2,681	3,495
Domestic institutional subscription and related service	362	446	669	1,038	1,660
Domestic institutional licensing	465	962	1,011	1,112	1,278
- Online marketing services	341	308	171	115	90
Revenue – Online games and others	3,337	3,107	3,759	4,398	5,058
YoY	19.3%	-6.9%	21.0%	17.0%	15.0%
Revenue - Total	5,594	6,371	7,629	9,343	11,581
YoY	28.0%	13.9%	19.7%	22.5%	23.9%
Gross Profit	4,677	5,214	6,261	7,726	9,682
Gross Profit Margin	83.6%	81.8%	82.1%	82.7%	83.6%
Operating Profit	1,855	1,361	1,807	2,126	2,660
Operating Margin	33.2%	21.4%	23.7%	22.8%	23.0%
Profit/(loss) attributable to Owners of the Company	10,045	395	144	314	590
Net Margin	179.6%	6.2%	1.9%	3.4%	5.1%
Net income for continuing operations (Non-IFRS)	1,443	601	483	697	1,013
Net margin for continuing operations (Non-IFRS)	25.8%	9.4%	6.3%	7.5%	8.7%
 Basic EPS (RMB)	7.35	0.29	0.10	0.23	0.43

Source: the Company, Kingsoft Office, Guotai Junan International.

Table-2: Earnings Forecasts for Kingsoft Office

RMB mn	2020A	2021A	2022F	2023F	2024F
Revenue	2,261	3,280	3,870	4,945	6,523
YoY	43.1%	45.1%	18.0%	27.8%	31.9%
Gross profit	1,983	2,851	3,367	4,317	5,701
Gross profit margin	87.7%	86.9%	87.0%	87.3%	87.4%
 R&D expenses	711	1,082	1,296	1,706	2,348
R&D expenses as % of revenue	31.4%	33.0%	33.5%	34.5%	36.0%
Selling and marketing expenses	483	695	832	1,038	1,292
Selling and marketing expenses as % of revenue	21.4%	21.2%	21.5%	21.0%	19.8%
Administrative expenses	213	326	348	435	554
Administrative expenses as % of revenue	9.4%	9.9%	9.0%	8.8%	8.5%
 Net profit	887	1,069	1,339	1,699	2,186
Net Margin	39.2%	32.6%	34.6%	34.4%	33.5%

Source: Kingsoft Office, Guotai Junan International.

Table-3: Earnings Forecasts for Online Games and Others

RMB mn	2020A	2021A	2022F	2023F	2024F
Revenue	3,337	3,107	3,759	4,398	5,058
YoY	19.3%	-6.9%	21.0%	17.0%	15.0%
Gross Profit	2,694	2,364	2,894	3,408	3,980
Gross Profit Margin	80.7%	76.1%	77.0%	77.5%	78.7%
R&D expenses	945	1,246	1,316	1,517	1,694
<i>R&D expenses as % of revenue</i>	28.3%	40.1%	35.0%	34.5%	33.5%
Selling and marketing expenses	356	370	376	440	506
<i>Selling and marketing expenses as % of revenue</i>	10.7%	11.9%	10.0%	9.5%	9.3%
Administrative expenses	241	244	323	378	435
<i>Administrative expenses as % of revenue</i>	7.2%	7.9%	8.6%	8.3%	8.0%
Operating profit (after tax)	1,091	481	840	1,025	1,286
Operating profit margin (after tax)	32.7%	15.5%	22.4%	23.3%	25.4%

Source: the Company, Guotai Junan International.

Table-4: Key Revenue Assumptions

Segment	2020A	2021A	2022F	2023F	2024F
Sale and subscription of software and related services					
- Personal subscription					
Accumulated paying individual subscribers (mn)	19.6	25.4	31.2	35.9	39.5
YoY	63.2%	29.3%	23.0%	15.0%	10.0%
ARPU (RMB)	51.8	57.8	64.7	74.7	88.5
YoY	-8.4%	11.5%	12.0%	15.5%	18.5%
- Domestic institutional subscription and related service YoY	N.A.	23.4%	50.0%	55.0%	60.0%
- Domestic institutional licensing YoY	-6.3%	107.1%	5.0%	10.0%	15.0%
Online marketing services					
Monthly active devices of the key product (mn)					
- WPS for PC	185	219	252	295	351
YoY	20.1%	18.4%	15.0%	17.0%	19.0%
- WPS for mobile	282	321	353	381	404
YoY	13.7%	13.8%	10.0%	8.0%	6.0%
ARPU (RMB)	0.7	0.6	0.3	0.2	0.1
YoY	-26.7%	-20.9%	-50.0%	-40.0%	-30.0%

Source: the Company, Kingsoft Office, Guotai Junan International.

We forecast net profit attributable to shareholders from 2022-2024 will be RMB144 million/ RMB314 million/ RMB590 million, respectively, representing yoy growth of -63.7%/ 118.3%/ 88.3%, and the corresponding net margin will be 1.9%/ 3.4%/ 5.1%, respectively. Our forecasts are based on the following:

- We forecast that the gross margin of the Company in 2022 will be 82.1%, yoy growth of 0.3 ppt.** We forecast that gross margin of office software business will be stable in 2022, with a yoy increase of 0.1 ppt, and gross margin of gaming business will increase by 0.9 ppt yoy, mainly reflecting the increase in ARPU after the launch of new games. We expect that the gross margin of the Company will grow steadily from 2023-2024;
- We expect that the R&D expense as a percentage of revenue will remain at around 35% from 2022-2024**, reflecting the Company's continuous, sufficient and stable investment to maintain the competitiveness of office software and gaming business, **and sales expense as a percentage of revenue will remain at about 16%**, which is consistent with historical levels;
- We estimate that the loss from associates in 2022-2024 will be RMB1,823 million/ RMB1,796 million/ RMB1,740 million**, yoy change of 40.1%/ -1.5%/ -3.1%, respectively, mainly reflecting the loss from Kingsoft Cloud. In 1H22, according to the quarterly report of Kingsoft Cloud, its net loss reached RMB1,365 million, a yoy increase of 126.5%.

2.2 Valuation

We used SOTP to calculate the value of the Company in 2022 to be RMB42,258 million, corresponding to a target price of HK\$27.80; after considering a 10% discount for the Company, and we set our investment rating as "Accumulate". Our valuations are as follows:

- Office software:** We selected A-share listed software companies such as Glodon, Yonyou and Guotai Epoint as comparable companies and the average 2022 PER is 41.5x. Considering the trend of localization of office software and the Company's leading position in the market, we give a 48.0x 2022 PER, corresponding to market value of RMB33,865 million.
- Gaming:** We selected game companies listed on the Stock Exchange of Hong Kong, such as Tencent, NetDragon, and CMGE, as comparable companies, with an average 2022 PER of 10.8x. Considering the uncertainty of new game titles, we consider a 2022 PER of 9.0x for the Company, with a corresponding market value of RMB5,106 million.
- Cloud computing:** We use the consensus from Bloomberg that revenue in 2022 will be RMB9,365 million, and then selected Tencent, UCloud and QingCloud as comparable companies. The average 2022 PSR in 2022 is 2.8x. Considering the contraction of Kingsoft Cloud's CDN business and effect of the losses, we will give a 0.9x 2022 PSR, and the corresponding market value is RMB3,287 million.

Table-5: The Company's Valuation Using SOTP

Entity	Type	Revenue 2022F	Net Profit 2022F	PE(x) 2022E	PS(x) 2022E	Market Value	Ownership Share	Market Value attributable to the Company
Kingsoft Office	Subsidiary	3,870	1,339	48.0		64,260	52.7%	33,865
Seasun	Subsidiary	3,759	840	9.0		7,564	67.5%	5,106
Sub Total		7,629	2,179			71,824		38,971
Kingsoft Cloud	Associate	9,365*			0.9	8,429	39.0%	3,287
Total								42,258

Source: the Company, Kingsoft Office, Bloomberg, Wind, Guotai Junan International.

*Note: Revenue data for Kingsoft Cloud comes from Bloomberg consensus.

Table-6: Peers Comparison

Company	Ticker	Currency	Last Price	PE (x)			PS (x)			PB 22F	Market Cap Local Currency (mn)
				22F	23F	24F	22F	23F	24F		
Gaming Company											
Kingsoft Corp Ltd	03888 HK	HKD	22.900	96.6	37.2	23.9	3.7	3.0	2.7	1.1	31,364
Tencent Holdings Ltd	00700 HK	HKD	286.000	21.5	17.9	14.9	4.3	3.8	3.4	2.7	2,716,211
Netdragon Websoft Holdings	00777 HK	HKD	14.740	5.5	4.4	3.9	0.9	0.8	0.7	0.9	7,938
Cmge Technology Group Ltd	00302 HK	HKD	1.680	6.7	5.0	4.2	1.1	0.8	0.7	0.6	4,540
Zengame Technology Holding	02660 HK	HKD	1.510	2.2	2.0	1.8	0.8	0.8	0.7	0.7	1,525
Qingci Games Inc	06633 HK	HKD	5.940	11.5	6.5	n.a.	3.9	2.0	n.a.	2.0	3,747
Igg Inc	00799 HK	HKD	2.880	n.a.	18.3	12.4	0.7	0.6	0.6	1.9	3,388
Netease Inc-Adr	NTES US	USD	79.760	17.7	15.4	13.9	3.8	3.4	3.1	4.7	52,386
Simple Average				23.1	13.3	10.7	2.4	1.9	1.7	1.8	
Weighted Average				22.1	18.0	14.9	4.3	3.8	3.4	2.7	

Kingsoft 金山软件 (03888 HK)

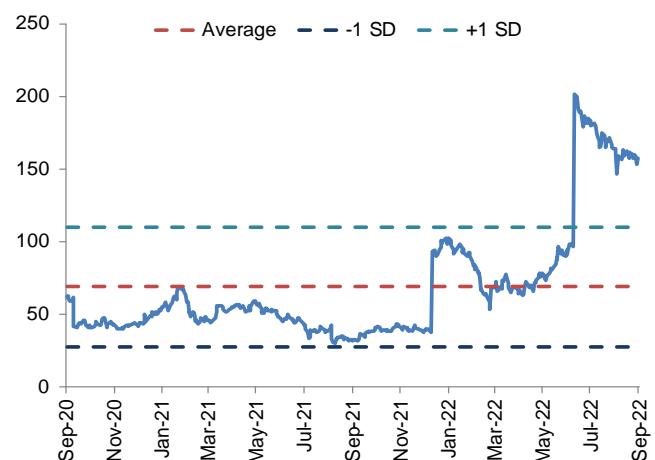
Software Company	688111 CH	CNY	210.890	77.9	58.1	44.0	24.6	18.6	14.3	11.1	98,411
Glodon Co Ltd	002410 CH	CNY	46.700	56.4	41.8	32.6	7.9	6.5	5.4	9.0	54,572
Beijing Thunisoft Corp Ltd	300271 CH	CNY	6.380	26.6	14.2	11.3	1.3	1.2	1.0	0.8	5,261
Yonyou Network Technology	600588 CH	CNY	18.290	93.8	63.3	44.2	6.0	4.9	4.0	6.2	63,836
Shanghai Baosight Software	600845 CH	CNY	39.420	32.0	24.3	18.9	4.7	3.7	3.0	7.1	68,664
Zhewen Interactive Group	600986 CH	CNY	4.850	16.2	13.1	11.7	0.4	0.4	0.4	1.5	6,467
Guotai Epoint Software	688232 CH	CNY	46.730	23.9	18.2	14.4	4.5	3.6	2.8	2.7	15,246
Simple Average				46.7	33.3	25.3	7.1	5.6	4.4	5.5	
Weighted Average				62.5	45.3	33.8	11.6	9.0	7.1	8.1	

Company Report

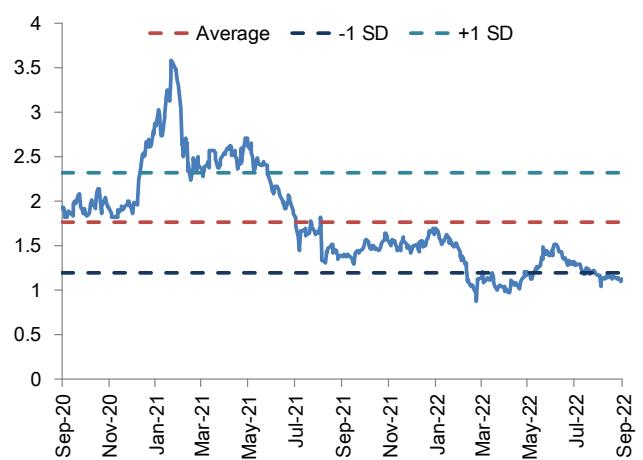
Cloud Computing Company

Kingsoft Cloud Holdings-Adr	KC US	USD	1.950	n.a.	n.a.	n.a.	0.4	0.3	0.3	0.4	475
Ucloud Technology Co Ltd	688158 CH	CNY	12.290	n.a.	n.a.	n.a.	1.6	1.4	1.2	2.1	5,623
Qingcloud Technologies	688316 CH	CNY	29.810	n.a.	n.a.	n.a.	2.5	1.9	1.5	3.9	1,398
Tencent Holdings Ltd	00700 HK	HKD	286.000	21.5	17.9	14.9	4.3	3.8	3.4	2.7	2,716,211
Simple Average				21.5	17.9	14.9	2.2	1.9	1.6	2.3	
Weighted Average				21.4	17.9	14.9	4.3	3.8	3.4	2.7	
Overall Average				30.4	21.5	17.0	3.9	3.1	2.6	3.2	
Overall Weighted Average				35.4	27.0	21.2	6.7	5.5	4.6	4.5	

Source: Bloomberg.

Figure-1: Kingsoft's Historical PE Graph


Source: Bloomberg.

Figure-2: Kingsoft's Historical PB Graph


Source: Bloomberg.

3. Kingsoft: Software Veteran for Years

3.1 The Company is now driven by office software and gaming business

Kingsoft has been established for more than 30 years and witnessed the ups and downs of China's software industry.

The Company originally evolved from Kingsoft Hong Kong. Qiu Bojun (求伯君) joined Kingsoft in 1988, which was generally regarded as the starting point of the Company, and the epoch-making product WPS1.0 was launched the next year. Because WPS solved the pain point of "typing is easy but printing is difficult" at that time, it quickly occupied the market and opened the prelude to Chinese office software and Microsoft (MS) had not entered the Chinese market yet. In 1994, the predecessor of Seasun (西山居), Kingsoft Game (金山游戏), was established, and two years later, it released the first commercial computer game in mainland China, marking the Company's entry into the gaming industry. So far, the Company has formed a business model of "Office software + Gaming", laying the cornerstone for the Company's future growth. Reviewing the Company's business development, we divide it into three stages:

- 1) **Before 2000, the Company competed with Microsoft and faced rampant piracy of its software.** During this stage, the Company's main task was to form basic product competitiveness and quickly occupy the market. Initially, WPS was built on the DOS system and was highly praised when it made its debut with its market share once close to monopoly status. However, because the Company thought that the Windows system would quickly replace DOS, it shifted its research and development efforts accordingly to develop a Windows-based software named Pangu (盘古) which included word processing, spreadsheets, electronic dictionaries and other functions. Contrary to what the Company had expected, the market did not accept Pangu and DOS had not been rapidly replaced by Windows. As a result, in 1995, the Company's sales were less than one third of that in 1994. In order to support the continuity of business, in 1997, the Company advanced to the gaming industry and launched "Jianxia Qing Yuan" (剑侠情缘), which later became the representative of Wuxia games, and meanwhile developed WPS based on the Windows 97 operating system to regain market share. At this time, Microsoft had occupied the Chinese market with the strategy of bundled sales of Windows 97 and its office software. In the face of Microsoft's competition and low PC penetration rate, coupled with rampant piracy, the Company's solution was to constantly step up its research and development of products that could compete with Microsoft, and launch the "Red Copyright Storm" (红色正版风暴) to significantly reduce the price of software to mitigate the influence of pirated software. At this stage, although the Company experienced a short period of strategic mistakes, fierce competition from Microsoft and widespread piracy, its office software products and games had been well known in the market, which helped shape its competitiveness;
- 2) **From 2000 to 2010, the Company seized the opportunity to provide productivity software for the Chinese government to ensure national information security, and gaming business continued to launch high-quality products.** At the beginning of 2000, Microsoft relaxed its attack on software piracy in an effort to strengthen the market share of its products and achieve the goal of becoming the industry standard. WPS, which had gradually reclaimed its market influence on the one hand reshaped its product competitiveness by rewriting codes, and on the other hand it seized the National High-tech R&D Program (863 计划) and the Core Electronic Devices, High-end Generic Chips and Basic Software Program (核高基 重大专项) to obtain research funds. Therefore, WPS has become the first choice for independent and controllable office software and it also announced in 2007 that the version for individuals would be free permanently. In terms of gaming, the Company entered the online gaming market in 2003 and launched the star product "Jianxia Qing Yuan Online Edition" (剑侠情缘网络版, or "Jian OL"), which gained massive popularity. WPS's cost performance ratio, together with opportunities brought by the national information security strategy, and Jian OL's market recognition, represented the Company's two core business pillars which had formed a stronghold in their own territory.
- 3) **After 2010, the Company focused on going mobile and providing services.** With the rise of smartphones and cloud computing, the world has entered the era of mobile internet and "as-a-service" (即服务). The Company has adopted corresponding strategies: in 2011, WPS released a mobile version, and in the same year, Seasun also announced its mobile strategy. In 2012, Kingsoft Cloud, which was a subsidiary of Kingsoft until 2020, was founded, marking the Company's formal entry into cloud computing business and its further transformation into providing services. At the same time, Kingsoft Cloud also provided technical support for the Company's office software business and gaming business. From 2013, the Company's subsidiary, Kingsoft Office, to which its office software business belongs, started to promote a subscription-based model in order to initiate its transformation to a service-oriented company. In the future, we believe that

the Company will further implement the service-oriented strategy to cultivate the market's acceptance of the subscription model.

Figure-3: Kingsoft Office and Seasun Are Two Major Businesses of the Company



Source: the Company, Kingsoft Office, Seasun, Kingsoft Cloud, Cheetah Mobile, Guotai Junan International.

Figure-4: Preliminary Version of WPS Office



Source: 51CTO, Guotai Junan International.

Figure-5: The Company Was an Early Entrant into the Gaming Industry



Source: Seasun, Guotai Junan International.

3.2 The management members are all leaders in the industry

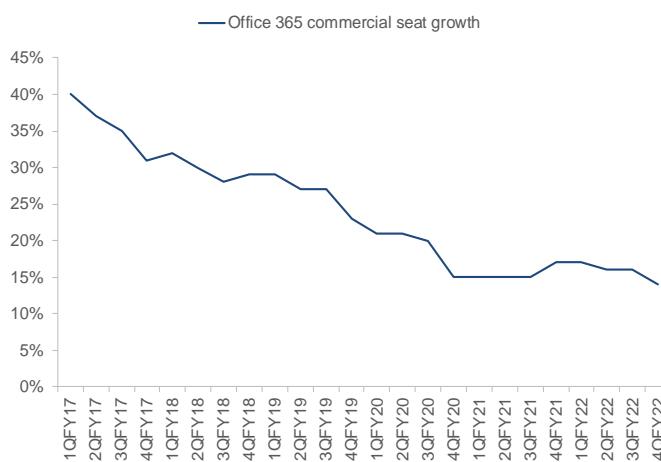
The management team of the Company are also leaders in China's software industry, helping the Company to pass through economic cycles. During the initial stages of its establishment, the Company gathered elites in the Chinese software industry, such as the founder of the Company, Qiu Bojun, who was honored as the "No. 1 Programmer in China", as well as the founder of Xiaomi, Lei Jun. In addition, the Company also has Zou Tao, the head of development of Kingsoft PowerWord (金山词霸) (now CEO of the Company and chairman of Kingsoft Office), Zhang Qingyuan, the core technician who developed WPS2005 (now the COO of Kingsoft Office Zhuhai), and Guo Weiwei, the producer of Jian OL 3 (now the CEO of Seasun). The management members had helped shape the industry and served in the Company for many years, making them a relatively stable team force.

4. Office Software Business: Continuous Growth in B2C, Opening Up New Space in B2B

4.1 Microsoft still leads in office software but diversity is emerging

Looking back on the history of Microsoft Office, we believe that the easy use of the software and the monopoly position of Windows were key to Microsoft's to lead the industry. In 1996, Microsoft upgraded Windows 95 for the second time, which was Windows 95 OSR2 (OSR: OEM Service Release), also known as Windows 97. When Windows 97 once again occupied the market by virtue of Microsoft's monopoly position, Microsoft announced that MS Word would be used in combination with Windows 97, making use of the scale effect of the operating system to allow users also to become familiar with its office software in order to share the advantages brought by its strong market presence, and actively cultivate user loyalty to Microsoft. This is similar to the way Microsoft used Internet Explorer (IE) to gain market share over Netscape. Microsoft's operating system bundled in IE, which was free to use, and thereby Microsoft attracted a large number of Netscape users to switch to IE. For individual users, the practicability, cost and compatibility of productivity software are key factors to consider when choosing products. Reviewing the history of Microsoft Office products, we found that the upgrade cycle is around 2-3 years, from the previous offline version of MS Office to the current Microsoft 365, which is based on subscription; we have summarized its characteristics as follows: **1) the user interface is developing towards simplicity and appealing appearance; 2) continual increase in smoothness of use; 3) constant polishing of functions.** The key is to build around the core of making productivity software productive for users, which is also the core appeal of this type of software. The number of Microsoft 365 consumer subscriptions reached 59.7 million in the fourth quarter of Microsoft's fiscal year 2022, yoy growth rate of 15.0%.

Figure-6: Growth of Office 365 Commercial Has Been Stabilizing



Source: Microsoft, Guotai Junan International.

Note: The fiscal year of Microsoft ends in June.

Figure-7: Consumer Subscribers of Microsoft 365 Has Been Increasing



Source: Microsoft, Guotai Junan International.

Note: The fiscal year of Microsoft ends in June.

Table-7: Microsoft Office Has Been Evolving Every 2-3 Years

Version	Feature
DOS	Based on DOS, there was no graphical interface, no mouse, and it was difficult to use by inputting code.
Office (Early Version)	Based on Windows, such as Office 2.0/ 3.0/ 4.0, starting to support using mouse and interface buttons, greatly improving editing efficiency.
Office 95	The interface started to be systematized and standardized.
Office 97	Adopted more humanized design, and the presentation on the computer was consistent with that printed, basically realizing "what you see is what you get".
Office 2000	Combined with the most advanced network functions at that time, many Chinese related function designs were added according to Chinese characteristics.
Office XP	Similar to Office 2000, there was no obvious upgrade to attract consumers.
Office 2003	The interface has been greatly beautified, and focusing on adding some detailed functions, such as reading layout, document comparison and tracking revision, had become a popular version of Office in history.
Office 2007	The Ribbon interface was enabled for the first time. The document format was brand-new XML (such as docx, xlsx, and pptx), but it cannot be read by previous versions. Microsoft later introduced a compatibility package to solve this problem.
Office 2010	The interface was more mature, with richer SmartArt templates, more PowerPoint animations, etc., greatly improving the usability.
Office 2013	Used a new and more advanced interface to continue to optimize details, such as inserting network pictures, editing PDF documents directly, etc.
Office 2016	There were few upgrades, and users cannot perceive the difference from the previous version.
Office 2019	More seamless to use the previous version.
Office 2021	More concise design, new collaboration mode, dark mode and other details upgrade.
Office 365 (now Microsoft 365)	Adopted a subscription model and enjoyed software update service anytime

Source: Sina Technology, Microsoft, Guotai Junan International.

Table-8: Subscription Fees of WPS Office Still Have Room to Grow Compared with Microsoft 365

Product	Use	Version	Subscription Fee
Microsoft 365	Home	Family	RMB498/ year or RMB50/ month
		Personal	RMB398/ year or RMB39/ month
	Business (small-to-median firms, international version)	Basic	RMB43/ month/ user (Annual commitment)
		Apps for business	RMB60/ month/ user (Annual commitment)
	Standard		RMB90/ month/ user (Annual commitment)
		Premium	RMB159/ month/ user (Annual commitment)
	Enterprise (Large firms)	E3	RMB260/ month/ user (Annual commitment)
		E5	RMB391/ month/ user (Annual commitment)
		F3	RMB58/ month/ user (Annual commitment)
WPS Office (Membership)	Personal	WPS	RMB89/ year/ user
		Docer	RMB89/ year/ user
	Enterprise	Super Member (WPS + Docer)	RMB179/ year/ user
		Kingsoft Docs	RMB89/ year/ user
	Digital Office Platform		According to different versions: RMB168 – RMB860/ year/ user

Source: Microsoft, Kingsoft Office, Guotai Junan International.

The non-exclusive nature of office software enables other players to gain sufficient market share through differentiation along with the strong position of Microsoft. It is common for users to use software from multiple vendors because most of the formats of different office software are compatible with each other. For example, besides WPS Office, there is Google G Suite (Google Docs) of Google and Yongzhong Office of Yongzhong Software. They all have unique market positions through differentiated products: Google Docs focuses on online collaboration on mobile terminals, with free-to-use and convenience as its main features; WPS is also free for personal use with a subscription fee option for value-added services,

much cheaper than that for Microsoft. On top of that, WPS can process PDF files with more flexibility and has many AI functions (such as image processing, assisted writing and OCR), which are liked by many users. Therefore, in the consumer market, helping users solve their pain points and improving efficiency of office work are key to obtain market share.

Table-9: WPS Office Is Compatible with More Platforms and Standards than its Peers

Category	Items for Comparison	WPS Office 2019	Microsoft Office 2019	Google Docs
Component	Key Module	word, spreadsheet, presentation, PDF	word, spreadsheet, presentation	word, spreadsheet, presentation
	Windows	√	√	
	Linux	√		
	MacOS	√	√	
	Android	√	√	√
	iOS	√	√	√
	Web	√	√	√
	CPU	X86、ARM、Loongson (龙芯)、Phytium (飞腾)、Zhaoxin (兆芯)、Sunway (申威)、NeoKylin (中标麒麟)、KylinOS (银河麒麟)、Deepin (深度)、NewStart (新支点) and etc.	X86	X86
	Domestic OS			
	OOXML	Strong compatibility	Creator of the standard	Normal compatibility
Standard	PDF	Read and edit		
	UOF	Creator of the standard	√	
	OFD	√		
	Official document	√	√	
Cloud service	Multi-user collaborative editing	√	√	√
	File Storage	Worldwide	Worldwide	Only available outside China
	Privatization deployment	√		
	Online resources	Millions of document templates, icons, fonts, pictures, charts and other materials	Basic template	Basic template
Secondary development	Secondary development	Local secondary development/ Web secondary development	Local secondary development	Web secondary development
AI	AI	PPT beautification, proofreading, auxiliary writing, image processing, OCR	PPT beautification, translation	PPT beautification

Source: the Company, Guotai Junan International.

4.2 Complete Product Portfolio, Localization and ITAI Opening up New Space for B2B

Focusing on the strategy of "multi-screen, cloud, content, AI, collaboration", the Company has formed a product portfolio of "client office + online collaborative office". The main office products of the Company are as follows: 1) WPS Office, the core product, and its main components are word, presentation and spreadsheet processing software, which are offered through WPS Office desktop version (for Windows/ Mac/ Linux) and mobile version (for Android/ iOS), covering most mainstream operating systems and compatible with other mainstream office software such as Microsoft Office; 2) Kingsoft Docs, an online office product for individual users, is based on HTML5 and also covers multiple mainstream platforms. Users can conduct online viewing, managing and editing of documents, and cooperative office work through browsers, WeChat and QQ. Kingsoft Docs is flexible and convenient and is compatible with WPS files. Users can choose to use WPS for heavy editing or Kingsoft Docs for light editing according to their needs. According to the Statistical Report on the Development of Internet in China, issued by China Internet Network Information Center, as of December 2021, the number of people using online office software in China reached 469 million, with yoy growth of 35.7%, accounting for 45.4% of the total Internet users, nearly half of the whole user population, and thus still has room for improvement; 3) Kingsoft Digital Office Platform (金山数字办公平台), an online collaborative office solution developed by the Company for enterprise users, mainly includes WPS, Kingsoft Docs, and Kingsoft Collaboration (金山协作), which is delivered through mediums such as public cloud, hybrid cloud, private access, etc., empowering large enterprises and organizations. In addition to the above products, the Company also provides software and

services such as Kingsoft PowerWord and Docer (稻壳).

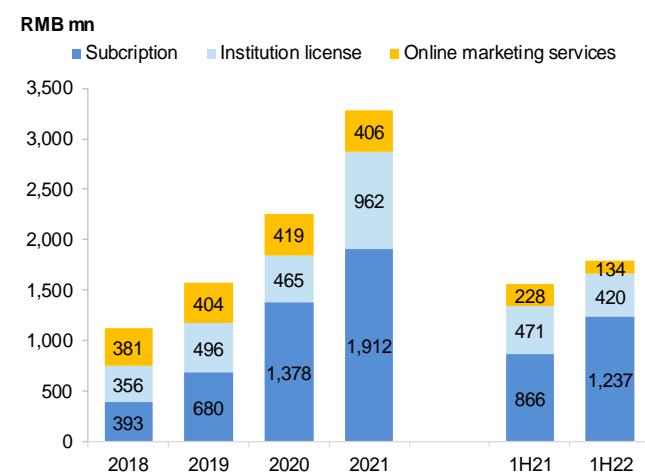
Figure-8: The Company's Major Office Products



Source: the Company, Guotai Junan International.

The Company's business model is "subscription (individuals and institutions) + Licenses (institutions) + traffic monetization (online marketing)". For individual consumers, the Company's strategy is similar to other internet companies; it adopts the model of "free basic functions + membership for value-added services (WPS membership, Docer membership and super membership) + traffic monetization". The Company offers basic free functions in its software to gain market share. When the Company accumulates a certain amount of users, it monetizes its services by offering value-added services and through advertising. For institutions, under the subscription model, the Company signs annual or multi-year contracts, within the period agreed in the contract, institutions can use the Company's products according to the number of terminals or number of users agreed in the contract and enjoy product upgrades and technical support. Under the license model, the Company grants institutional customers a certain number of licenses for a certain version of the product, which also includes a certain period (usually one year) of upgrade service. If the upgrade or service guarantee expires, customers need to purchase again. For the online marketing business, the Company mainly provides marketing services for advertisers within its products and official websites. According to the different billing methods, the online marketing business is generally divided into four types: CPS (cost per sale), CPT (cost per time), CPA (cost per action) and CPC (cost per click). However, in order to provide productivity software users with better experience, the Company carried out strategic contraction for the online marketing business under the premise of ensuring business stability. In 1H22, online marketing revenue accounted for only 7% of the Company's total revenue, down 8 ppt yoy, while subscription revenue from individuals and institutions accounted for 69%, up 14 ppt yoy. We believe that the reduced online marketing revenue shows the Company's emphasis on improving users' experience, so as to attract more users and improve the payment ratio.

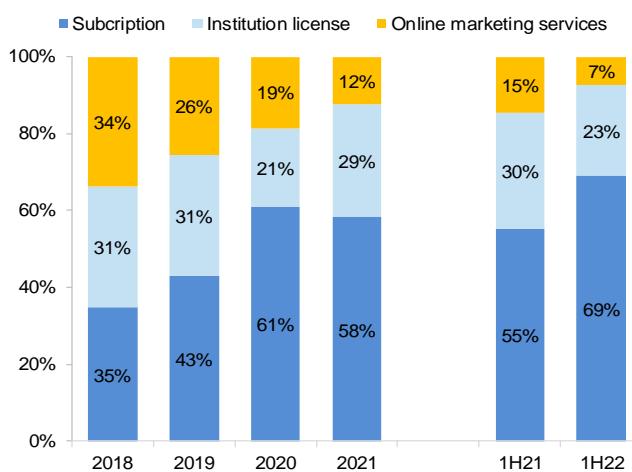
Figure-9: Revenue from Subscriptions Has Been Climbing



Source: Kingsoft Office, Guotai Junan International.

Note: Subscription includes consumers and institutions.

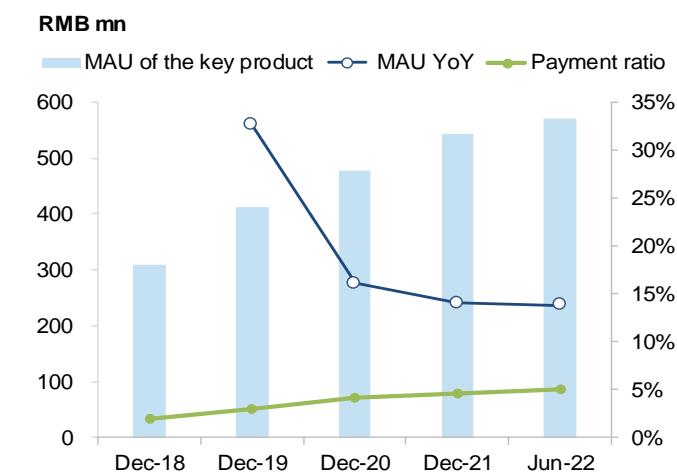
Figure-10: Revenue from Subscriptions is Becoming Increasingly Important



Source: Kingsoft Office, Guotai Junan International.

High intensity investment in R&D helped the Company to continuously improve individual users's payment ratio and ARPU. In June 2022, the monthly active users (MAU) of the major products of Kingsoft Office (excluding Kingsoft Docs) reached 570 million, up 13.8% yoy. WPS Office PC version and mobile version recorded yoy growth of 16.6% and 12.8%. In 1H22, according to data from China Academy of Information and Communications, shipments of smartphones in China fell by 21.7% yoy. For PCs, according to Canalys, shipments of PCs in China fell yoy by 1% and 16% in 1Q22 and 2Q22, respectively. Under the current weak market conditions where numbers of newly shipped mobile devices and PC devices have been declining, we believe that the Company's newly added users will be negatively affected, however, the Company can focus on increasing the penetration rate in the existing market. In 1H22, the cumulative number of paid individual users was 28.56 million, with a payment ratio of 5.0%, up 0.6 ppt yoy, and the corresponding individual user ARPU was RMB32.9, up 7.7% yoy. Compared with the annual subscription fee of Microsoft 365 for individual consumers, which is RMB398 per year, the annual subscription fee of WPS Office costs only RMB89 yuan. Due to continuous high R&D investment of the Company (R&D expenses as a percentage of the Company's total revenue was maintained at more than 30% almost every year), the Company's software will be improved to better meet users' needs, thus we believe that the ARPU still has much room for improvement.

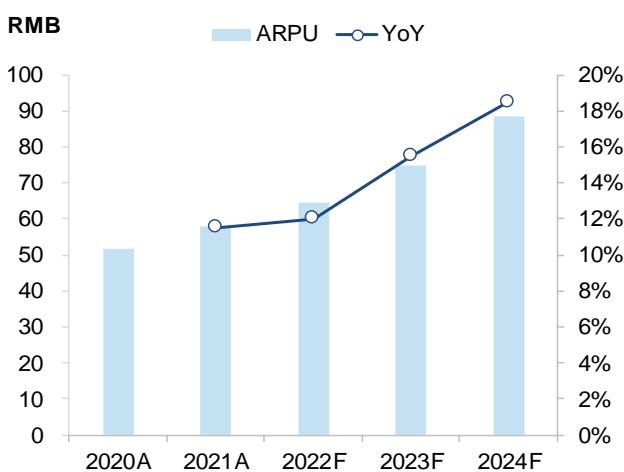
Figure-11: MAU of Key Products and Payment Ratio Are Rising



Source: the Company, Guotai Junan International.

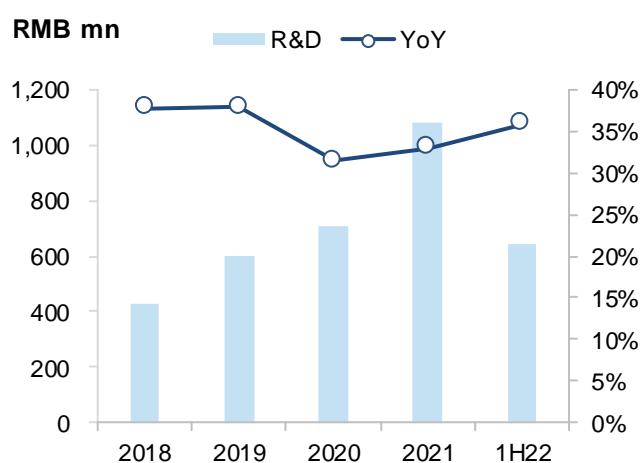
Note: MAU of key products takes into account active users of WPS Office and Kingsoft PowerWord on all platforms, not including Kingsoft Docs.

Figure-12: ARPU of Consumers Subscription Is Expected to Continue Increasing



Source: the Company, Guotai Junan International.

Figure-13: Kingsoft Office Invests Heavily in R&D



Source: Kingsoft Office, Guotai Junan International.

In terms of institutional business, the Company seized the opportunity of localization and ITAI. Since 2000, China has been promoting the use of copyrighted software and information security by introducing relevant policies. For example, in the Notice on Promoting the Use of Copyrighted Software by Central Enterprises in 2013, it mentioned that "after three years of efforts, we will fully use copyrighted software in central enterprises by the end of 2015". The Company has always been the leader in the institutional productivity software market: by the end of 2020, the Company's office products had served 62 of the 65 ministries and commissions of the State Council, 33 of 34 provincial governments, and more than 400 municipal and county governments and central enterprise markets. Similarly, the Company also serves numerous large enterprises. In 1H22, the Company's digital office platform added 1,838 government and enterprise customers, driving the revenue of the digital office platform to increase by 51% yoy. Considering the Company's leading position in government and enterprises through 30 years of investment and development, and the trend of information security requirements of the government coupled with the digital transformation needs of enterprises, it is difficult for competitors to expand their market share and thereby we believe that the Company will remain highly competitive in the future and subscription revenue will continue to rise rapidly.

22 September 2022

5. Gaming Business: Jianxia IP Leads; Exploring More Diversity

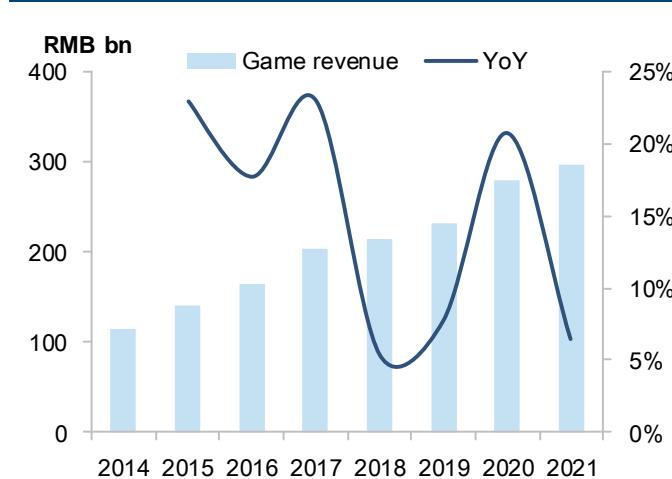
5.1 The gaming industry is plateauing but structural opportunities exist

The growth rate of domestic games revenue has been slowing down. According to GPC (中国音数协游戏工委), industry game revenue in the Chinese market in 2021 was RMB296.5 billion, up 6.4% yoy, 14.3 ppt lower than the growth rate in 2020. This was mainly due to the introduction of new anti-addiction regulations in 2021 and the lack of popular games, which made growth of the number of game players to be saturated. Data shows that the number of game players in 2021 reached 666 million, increasing by only 0.6% yoy. In 2021, most of game revenue came from mobile games, accounting for 76.1% of the total revenue, which was the main area for game companies to compete. Growth of mobile games ARPU also slowed. ARPU data in 2021 was RMB344 yuan, up 7.3% yoy, slowing down 19.2 ppt compared with growth in 2020.

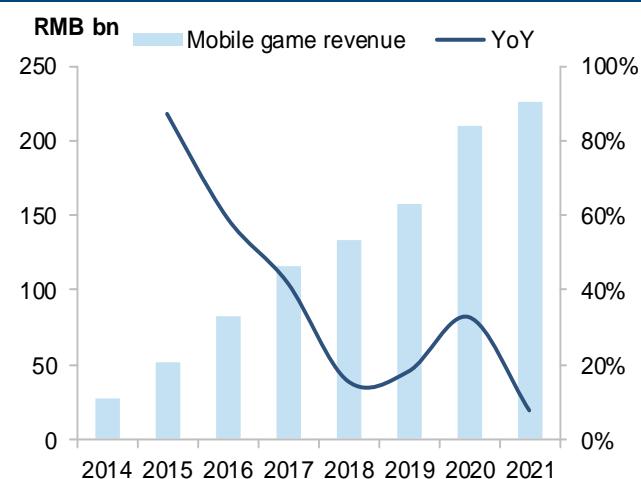
Role-playing games (RPG) are the main source of revenue. Although total number of players and ARPU growth declined, there are still structural opportunities in the gaming market. In 2021, for mobile games, ARPG (action role-playing Game)/MMORPG (massive multiplayer online role-playing game), where the Company's Jianxia series belongs, dominated revenue contribution, with a share of nearly 20%, and MOBA (multiplayer online battle arena) games took second place with a share of 15%. We believe that with the introduction of more popular games, there is still room for mobile games revenue to grow by increasing ARPU, and role-playing games will benefit from being the largest category.

Figure-14: Game Revenue in China Slowed Down in 2021

Figure-15: Mobile Game Revenue Slowed Down From Previous Rapid Growth



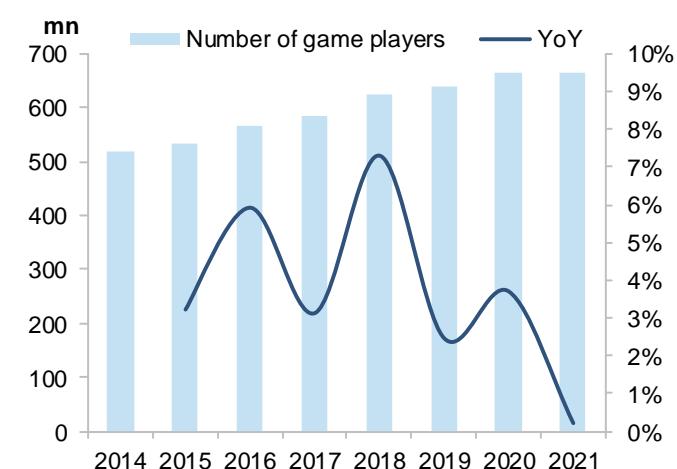
Source: GPC, Guotai Junan International.



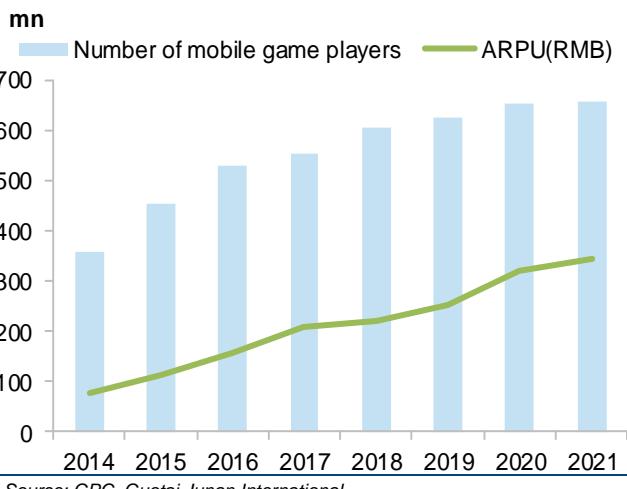
Source: GPC, Guotai Junan International.

Kingsoft 金山软件 (03888 HK)

Company Report

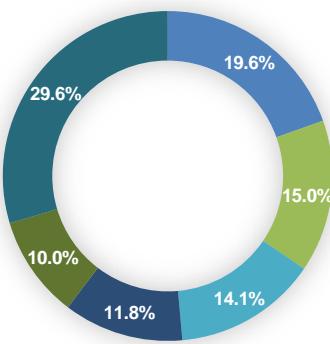
Figure-16: Number of Game Players Plateaued in 2021


Source: GPC, Guotai Junan International.

Figure-17: Number of Mobile Game Players and ARPU Are Slowing Down Growth


Source: GPC, Guotai Junan International.

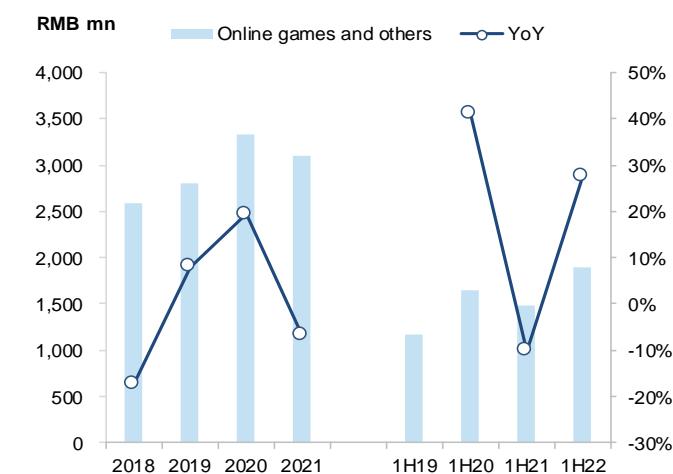
Figure-18: ARPG/ MMORPG Ranked First in 2021 Mobile Game Revenue



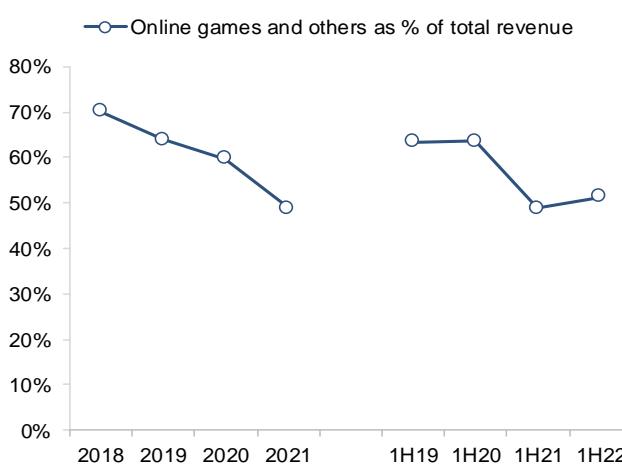
Source: GPC, Guotai Junan International.

5.2 Gaming, as another pillar for the Company, is evolving with Jianxia series and new game types

The gaming business is another core area for the Company. Seasun, the Company's games business subsidiary, was established as early as 1995. With Jianxia series as its iconic product, Seasun has experienced the full cycle of the gaming industry, from single-player games to online games, then to mobile games. In 2021, revenue from gaming business was RMB3,107 million, down 6.9% yoy, accounting for 48.8% of total revenue. This was mainly due to the late launch of the important new games Jian 3 and Jian OL 1: Return (剑网 1: 归来), and most of the revenue will be reflected in 2022: in 1H22, gaming revenue increased by 27.6% yoy, reflecting the market's positive attitude towards these new titles.

Figure-19: The Company's Game Revenue Showed Healthy Growth in 1H22


Source: the Company, Guotai Junan International.

Figure-20: Game Business Still Counts for about Half of the Total Revenue


Source: the Company, Guotai Junan International.

Over the years, Seasun has insisted on developing games by itself, and it continues to refine the Jianxia series into better games. Seasun's games are all self-developed, mainly divided into the Jianxia series and other non-Jianxia games, with PC games and mobile games being developed together. Seasun released Jian OL in 2003, marking its official entry into the online gaming industry. As a result of the good reputation accumulated in the Company's single-player games era, the online version was loved by many players once it was launched. At present, the major PC game, Jian OL 3, a 3D MMORPG game, debuted in 2009. Seasun has made drastic changes to the story plot and the way of playing compared with previous versions, laying the foundation for the current version of Jian OL 3. It is worth noting that Jian OL 3 has adopted a pay-to-play subscription-based model among many other free games, which shows Seasun's confidence in the competitiveness of this game. Seasun, on the other side, launched its own strategy towards mobile games and began to release mobile games in 2011. In 2016, it jointly launched "Jianxia Qing Yuan (New)" (新剑侠情缘) with Tencent, which is still contributing revenue after six years in operation. At the end of 2021, Seasun introduced Jian 3 and Jian OL 1: Return, among them, Jian 3 once topped the free games chart on the iOS App Store. We expect that both games will become growth drivers for Seasun in 2022. Looking back on the development of Seasun, we believe that its persistence in self-development, willingness to change and ability to keep up with industry trends are key to the long-term vitality of the Jianxia series.

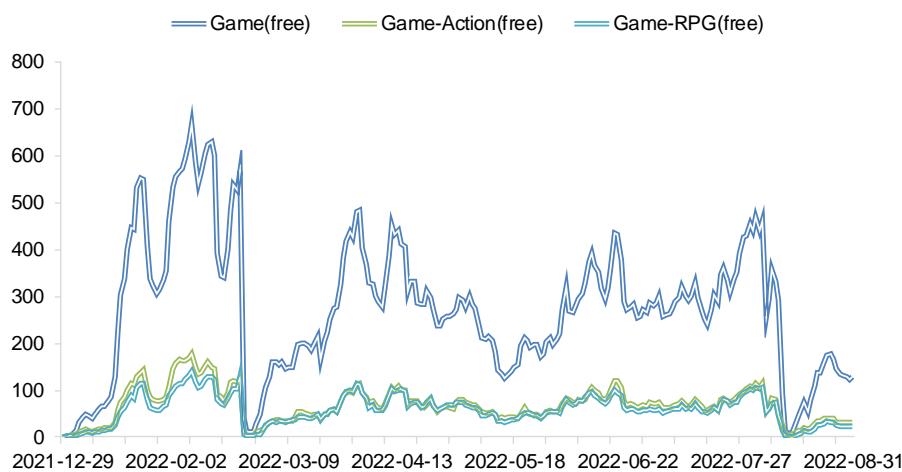
Table-10: Game Products Developed by Seasun

Category	Platform	Title	Time of Release	Developer	Operator	Distributor	Pay-to-Play
Jianxia Series	PC	Jian OL 3 (剑网3)	2009	Seasun	Seasun	Seasun	Yes
		Jian OL 3: Yuanqi (剑网3: 缘起)	2021	Seasun	Seasun	Seasun	
		Jianxia 2 Waizhuan (剑侠贰外传)	2009	Seasun	Seasun	Seasun	
		Jianxia Shijie (剑侠世界)	2008	Seasun	Seasun	Seasun	
		Jian OL 2 (剑网2)	2005	Seasun	Seasun	Seasun	
		Jian OL (剑网1)	2003	Seasun	Seasun	Seasun	
	Mobile	Jian 3 (剑侠世界3)	2021	Seasun	Seasun	Seasun	
		Jianxia Qing Yuan (New) (新剑侠情缘)	2016	Seasun	Tencent	Tencent	
		Jian OL 3: Zhijian Jianghu (剑网3: 指尖江湖)	2019	Seasun	Tencent	Tencent	
		Jian OL: Return (剑网1: 归来)	2021	Seasun	Seasun	Seasun	
Non-Jianxia Series	Mobile	Jian OL 3 Zhijian Duiyi (剑网3指尖对弈)	2020	Seasun	Seasun	Seasun	
		Jianxia Shijie (剑侠世界)	2016	Seasun	Seasun	Seasun	Yes
		Jianxia Shijie 2 (剑侠世界2)	2018	Seasun	Seasun	Seasun	
		Fankong Xingdong (反恐行动)	2009	Seasun	Seasun	Seasun	
		Chunqiu Q Zuan (春秋Q传)	2006	Seasun	Seasun	Seasun	

Source: Seasun, Tencent, Guotai Junan International.

In the next year or two, we suggest focus on the performance of "Jian OL 3 + Jian 3 + New Type". Jian OL 3 is the economic backbone of Seasun when it comes to computer games. Currently, it mainly maintains its competitiveness by continuously releasing new content. Although mobile games have become increasingly popular, we believe that Jian OL 3 can still maintain strong performance with its high-quality content and good reputation. In terms of mobile games, Jian 3 received an excellent ranking and contributed strong cash flow soon after its release. Therefore, we think its contribution to the Company's revenue in 2022 is worth looking forward to. In addition, Seasun is also exploring games other than the Jianxia series, such as Girl Café Gun 2 (少女咖啡枪 2: 双生视界) operated by Bilibili (哔哩哔哩), and Shuangxiang (双相), a free game developed by SEED Lab, as well as Project Snow and Bijie, which are expected to be launched in 2022 or 2023. We believe that Seasun, with strong research and development capabilities, is also full of imagination in terms of future growth.

Figure-21: Jian Xia Shi Jie 3 Gained a Good Ranking on iOS



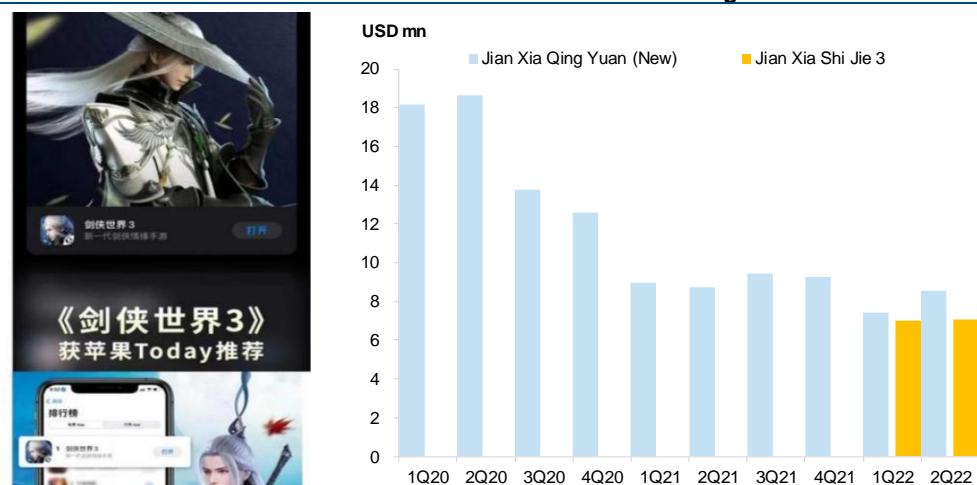
Source: Qimai Data, Guotai Junan International.

Figure-22: Jian Xia Shi Jie 3 Was Recommended in the iOS App Store



Source: Apple App Store, Guotai Junan International.

Figure-23: Jian Xia Qing Yuan (New) and Jian Xia Shi Jie 3 Are Contributing Notable Cash Inflow



Source: Qimai Data, Guotai Junan International.

Table-11: The Company is Focusing on Introducing Mobile Games

Title	Platform	Type	Expected Time of Release
Fengbao Moyu 2 (风暴魔域 2)	Mobile	MMORPG	2022
Project Snow (尘白禁区)	Mobile	TPS	2022-2023
Bijie (彼界)	Mobile	RPG/SLG	2022-2023

Source: the Company, Guotai Junan International.

6. Major Risks

Office software business:

- 1) **The recovery of ITAI sector is not as expected:** In 1H22, ITAI sector was negatively impacted due to repeated outbreaks of the local Covid-19 epidemic. If recovery is slow in the future, it will affect license business revenue.
- 2) **Risk of decline in payment ratio of individual users:** If the Company's products cannot continuously develop functions that can attract users to pay or users to switch to other productivity software, the payment ratio will decline, affecting revenue of individual subscription business.

Gaming business:

- 1) **The market acceptance of new games is not as expected:** most of the new games reserved by the Company are mobile games which are non-Jianxia ones. The Company's exploration in other types of games may not reach the heights of the Jianxia series. After the launch of new games, the Company may not reach sufficient popularity or the payment ratio may be low, which will affect gaming business revenue.
- 2) **Risk of declining market acceptance of Jianxia series:** Jianxia series is the core revenue driver for the Company's gaming business. If the Company cannot maintain enough players by introducing new gaming content, players will be attracted to other games from other companies, or the payment ratio of players may decline due to lack of attractiveness of gaming content, all of which will affect gaming business revenue.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F	Year end 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F
Revenue - Office software and services	2,257	3,265	3,870	4,945	6,523	Right-of-use assets	505	489	513	539	566
Revenue - Online games and others	3,337	3,107	3,759	4,398	5,058	PPE	1,185	1,259	1,384	1,523	1,675
Total Revenue	5,594	6,371	7,629	9,343	11,581	Investments in associates	12,752	12,131	12,737	13,374	14,043
Cost of revenue	(917)	(1,157)	(1,368)	(1,618)	(1,899)	Others	871	1,006	1,058	1,102	1,150
Gross profit	4,677	5,214	6,261	7,726	9,682	Total Non-current Assets	15,313	14,884	15,693	16,538	17,433
R&D expenses	(1,656)	(2,328)	(2,612)	(3,223)	(4,043)	Inventories	19	19	19	20	20
Sales and marketing expenses	(838)	(1,065)	(1,208)	(1,478)	(1,797)	Trade receivables	772	839	923	1,016	1,117
General and administration expenses	(454)	(570)	(672)	(813)	(989)	Prepayments, other receivables and other assets	967	1,692	1,861	1,489	1,042
Share-based compensation costs	(179)	(219)	(340)	(384)	(422)	Financial assets at fair value through profit or loss	3,911	2,902	3,192	3,512	3,863
Other income	311	391	411	329	263	Deposits with original maturity of over three months	9,594	11,637	11,555	11,502	11,753
Operating Profit	1,855	1,361	1,807	2,126	2,660	Cash & Cash Equivalents	4,455	4,553	4,535	5,354	6,438
Finance income	438	416	358	359	368	Others	13	9	10	12	13
Finance costs	(108)	(143)	(162)	(182)	(203)	Total Current Assets	19,732	21,652	22,096	22,903	24,246
Other gains, net	155	842	432	475	380	Total Assets	35,044	36,535	37,788	39,441	41,679
Share of profits and losses of JV and associates	(271)	(1,333)	(1,860)	(1,838)	(1,788)	Trade and other payables	1,449	1,850	2,120	2,387	2,757
Profit Before Tax	10,516	1,143	574	940	1,417	Contract liabilities	1,476	2,003	2,404	2,885	3,462
Income Tax	(271)	(190)	(96)	(157)	(236)	Lease liabilities	53	51	46	41	37
profit After Tax	10,245	953	479	784	1,181	Others	266	192	211	232	256
Non-controlling Interest	(200)	(558)	(335)	(470)	(590)	Total Current Liabilities	3,244	4,096	4,781	5,545	6,512
Shareholders' Profit / Loss	10,045	395	144	314	590						
Basic EPS	7.348	0.289	0.105	0.229	0.432						
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F	2020A	2021A	2022F	2023F	2024F	
Profit before tax	11,592	1,143	574	940	1,417	Gross profit margin (%)	84	81.8	82.1	82.7	83.6
D&A	490	212	227	248	277	Operating profit margin (%)	33	21.4	23.7	22.8	23.0
Net finance income	(172)	(273)	(195)	(177)	(165)	Net profit margin (%)	180	6.2	1.9	3.4	5.1
Others	(9,745)	756	756	(881)	(84)	ROA (%)	34	1.1	0.4	0.8	1.5
Change in working capital	901	601	415	1,025	1,290	ROE (%)	52	1.6	0.6	1.2	2.3
Interest received	90	82	96	89	89	Current ratio (x)	6	5.3	4.6	4.1	3.7
Tax paid	(165)	(301)	(202)	(253)	(323)	Quick ratio (x)	6	5.3	4.6	4.1	3.7
Cash from Operating Activities	2,991	2,220	1,670	992	2,502	Debt to equity ratio (%)	0	0.1	0.1	0.1	0.1
Payments for PPE	(488)	(289)	(260)	(234)	(210)	Net gearing (%)	Net	Net	Net	Net	Net Cash
Payments for intangible assets	(5)	(14)	(8)	(9)	(10)	Cash	Cash	Cash	Cash	Cash	
Others	(7,082)	(1,303)	(903)	565	(652)						
Cash from Investing Activities	(7,575)	(1,605)	(1,171)	322	(872)						
Dividends paid to owners of the parent	(238)	(228)	(134)	(72)	(94)						
Dividends paid to non-controlling interests	(161)	(173)	(178)	(183)	(189)						
Others	2,275	(79)	(71)	(80)	(70)						
Cash from Financing Activities	1,876	(480)	(383)	(335)	(352)						
Net Changes in Cash	(2,708)	135	117	980	1,277						
Cash at Beg of Year	7,330	4,455	4,553	4,535	5,354						
FX change	(167)	(37)	(136)	(161)	(193)						
Cash at End of Year	4,455	4,553	4,535	5,354	6,438						

Source: the Company, Guotai Junan International.

22 September 2022

Kingsoft 金山软件 (03888 HK)

Company Report

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition	
Buy	买入	Relative Performance >15%; or the fundamental outlook of the Company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the Company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the Company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the Company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the Company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition	
Outperform	跑赢大市	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance <-5%; Or the fundamental outlook of the sector is unfavorable.

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