

Glodon (002410 CH)

Solid 3Q22 despite short-term GPM decline

Glodon delivered weaker than expected FY3Q22 results with revenue of RMB1.69bn (+19% YoY) and net profit of RMB241mn (+27% YoY). GPM was down 5.7 ppts to 80% due to higher labor cost related to the implementation of construction management projects. Construction costing SaaS demand remained solid with revenue growth of +25% YoY to RMB837mn. Newly signed contract (+31% YoY)/ Contracted liabilities (+30% YoY) suggested a strong outlook ahead. Management is confident to achieve full year targets: 1) Construction costing SaaS newly signed contract to reach RMB4bn and 2) Construction management revenue growth of +30% YoY. Maintain BUY.

■ **FY3Q22 miss on GPM.** Glodon reported in-line FY3Q22 revenue of RMB1,691mn (+19% YoY). Net profit was RMB241mn (+27% YoY), missed our/ consensus estimates by 10%/ 8% respectively, mainly attributable to GPM decline of -5.7 ppts to 80.0%. Higher implementation cost (more staff was hired and salary raise was done in FY3Q22) has resulted in GPM erosion. However, management indicated that FY4Q22 GPM will recover to prior level as revenue ramps up (4Q usually accounts for 35-36% of full year revenue). Meanwhile, we are positive on the stricter opex control (opex merely +7% YoY). OPM improved +1.2 ppts YoY to 14.6%.

■ **Construction costing: SaaS demand exceeded prior guidance, confident to achieve RMB4bn newly signed SaaS contract target.** Glodon costing SaaS revenue was RMB837mn in FY3Q22 (+25% YoY), accounting for 50% of total revenue. SaaS metrics suggested strong demand ahead: 1) Newly signed contract was RMB1,062mn (+31% YoY), 2) Contracted liabilities was RMB2,419mn (+30% YoY). In particular, SaaS newly signed contract growth exceeded prior guidance (+20-25% YoY).

■ **Construction Management: project delivery affected by COVID-19 resurgence, maintain full year guidance of +30% YoY.** Construction management revenue was up +12% YoY to RMB394mn, accounting for 23% in FY3Q22. In FY9M22, Glodon covered 16,000 construction projects of which 60% adopted more than 2 modules from Glodon. Glodon maintains its +30% YoY revenue target in construction management business and that SOE/basic infrastructure projects will be the key focus.

■ **Maintain BUY.** We cut FY22-23E net profit by 3-6% to reflect lower GPM. Maintain BUY with new target price of RMB78.56 (prior RMB85.19), based on 11x FY23E EV/sales, in-line with three year mean.

Earnings Summary

(YE 31 Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,005	5,619	6,883	7,921	9,297
YoY growth (%)	13%	40%	22%	15%	17%
Net profit (RMB mn)	330	661	884	1,074	1,376
EPS (RMB)	0.28	0.56	0.74	0.90	1.15
YoY growth (%)	34%	99%	34%	21%	28%
Consensus EPS (RMB)	0.28	0.56	0.83	1.12	1.40
PE (x)	182.7	91.6	68.6	56.5	44.1
EV/sales	13.9	10.1	8.3	7.1	6.0
Dividend Yield (%)	0.00	0.01	0.00	0.00	0.00
ROE (%)	7%	11%	15%	17%	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	RMB78.56
(Previous TP	RMB85.19)
Up/Downside	+54.3%
Current Price	RMB50.90

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Stock Data

Mkt Cap (RMB mn)	60,637
Avg 3 mths t/o (RMB mn)	220.29
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%

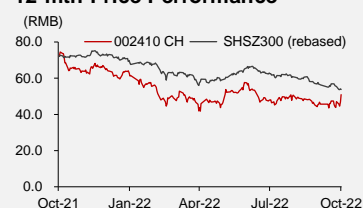
Source: Company data

Share Performance

	Absolute	Relative
1-mth	5.9%	11.1%
3-mth	-2.1%	13.7%
6-mth	12.0%	15.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

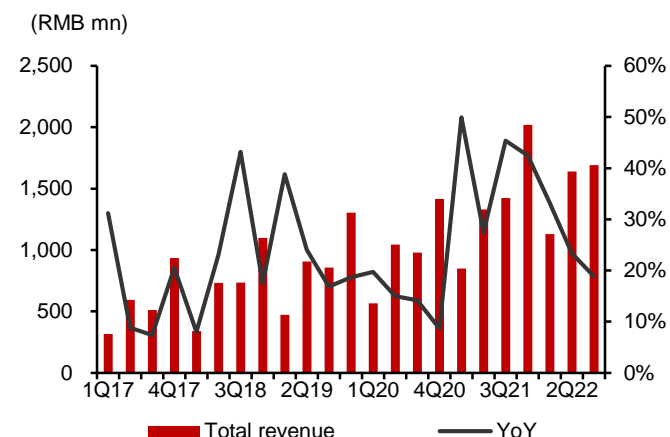
Auditor: BDO

Related Reports

1. Glodon (002410 CH) - "Penetrating into basic infrastructure segment" - 24 Aug 2022 ([link](#))
2. China Software & IT Services "Higher visibility in SaaS along China cloud value chain" - 28 Jun 2022 ([link](#))
3. Glodon (002410 CH) - "Infrastructure construction management as new growth driver in the 9th Three-Year Plan" - 17 Jun 2022 ([link](#))

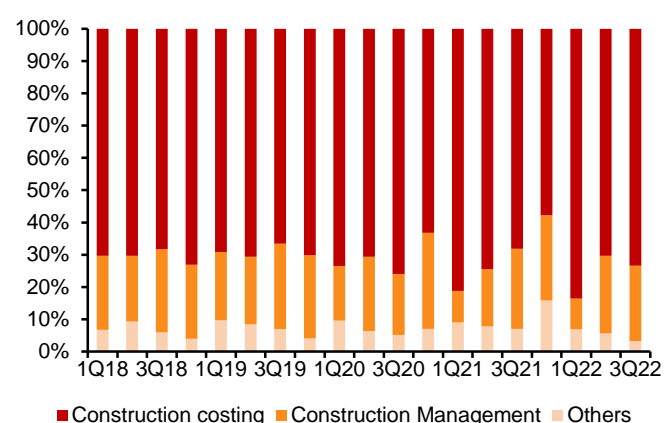
Focus Charts

Figure 1: Revenue and growth



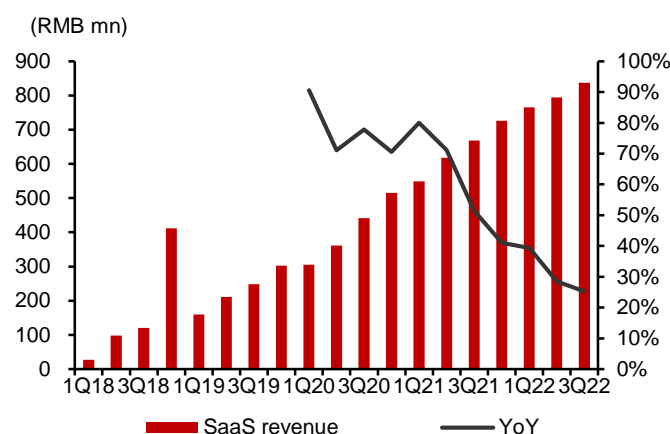
Source: Company data

Figure 2: Revenue breakdown



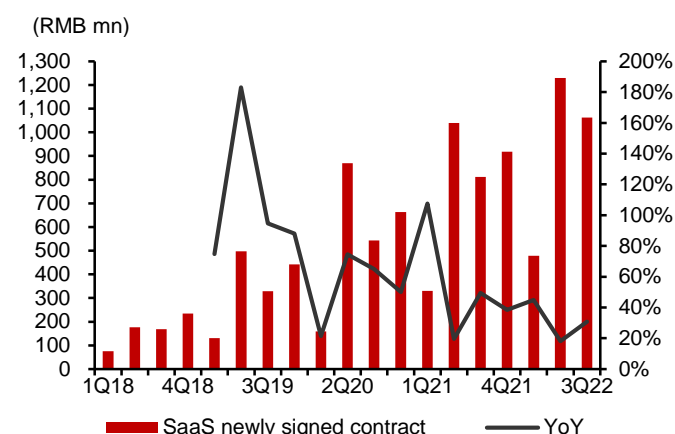
Source: Company data

Figure 3: SaaS revenue



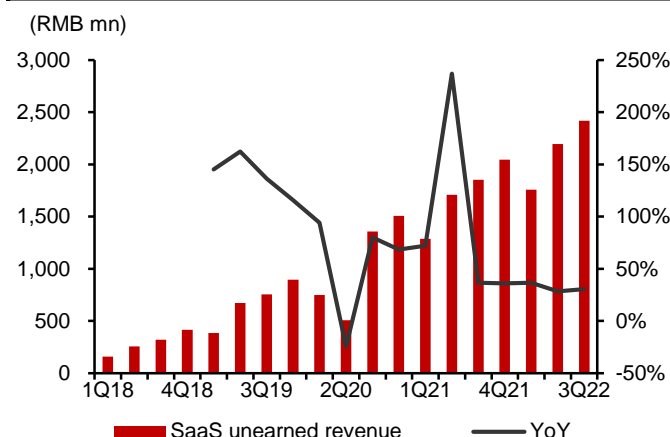
Source: Company data

Figure 4: SaaS newly signed contract



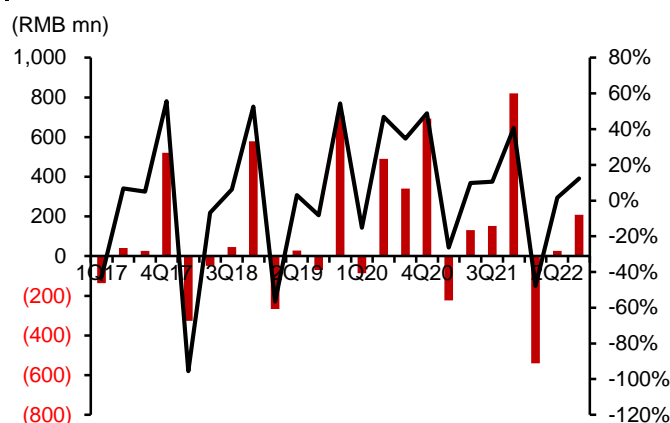
Source: Company data

Figure 5: SaaS unearned revenue



Source: Company data

Figure 6: Free cash flow



Source: Company data

FY3Q22 results review

- **Revenue** was RMB1,691mn (+19% YoY, +3% QoQ), in-line with our/ consensus estimate.
- **Gross profit** was RMB1,353mn (+11% YoY, -4% QoQ), missed our/ consensus estimate by 6%.
- **Gross margin** was 80.0%, (-5.7 pct pts YoY, -5.6 pct pts QoQ), below our/ consensus estimate by -4.5 pct pts.
- **Operating profit** was RMB247mn (+29% YoY, -25% QoQ), below our estimate by 21%.
- **Operating margin** was 14.6% (+1.2 pct pts YoY, -5.5 pct pts QoQ), below our estimate by -3.7 pct pts.
- **Net profit** was RMB241mn (+27% YoY, -16% QoQ), missed our estimate by 10% and consensus by 8%.

Figure 7: FY3Q22 results review

	Sep-21 3Q21	Jun-22 2Q22	Sep-22 3Q22			Sep-22 3Q22	versus	Sep-22 3Q22	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI	CMBI	consensus	consensus
Revenue	1,423	1,640	1,691	19%	3%	1,706	-1%	1,701	-1%
Gross profit	1,220	1,403	1,353	11%	-4%	1,441	-6%	1,438	-6%
Gross margin	85.7%	85.6%	80.0%	-5.7 pct pts	-5.6 pct pts	84.5%	-4.5 pct pts	84.5%	-4.5 pct pts
Operating profit	191	330	247	29%	-25%	312	-21%	312	-21%
Operating margin	13.5%	20.1%	14.6%	1.2 pct pts	-5.5 pct pts	18.3%	-3.7 pct pts	18.3%	-3.7 pct pts
Net non-op	4	-5	-1	-113%	89%	-7	93%	-1	50%
PBT	195	325	247	26%	-24%	305	-19%	311	-21%
Net income	189	288	241	27%	-16%	267	-10%	263	-8%
EPS RMB	0.16	0.24	0.20	27%	-16%	0.22	-10%	0.21	-3%

Source: Company data, CMBIGM

FY3Q22 revenue breakdown

- **Construction costing SaaS revenue** was RMB837mn (+25% YoY, +5% QoQ). SaaS revenue accounted for 50% of total FY3Q22 revenue.
- **Construction costing non-SaaS revenue** was RMB403mn (+34% YoY, +12% QoQ).
- **Newly signed SaaS contract** was RMB1,062mn (+31% YoY, -14% QoQ).
- **SaaS contracted liabilities** was RMB2,419mn (+30% YoY, +10% QoQ).
- **Construction management revenue** was RMB394mn (+12% YoY, 0.4% QoQ).
- **Digital design revenue** was RMB11mn, accounting for 1% of revenue. Part of municipal engineering products underwent SaaS migration and hence partial revenue recognition will be delayed.

Figure 8: FY3Q22 revenue breakdown

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Revenue breakdown									
Construction costing	743	896	689	990	969	1,165	945	1,154	1,240
...SaaS	441	515	549	618	668	726	765	794	837
...non-SaaS	302	381	140	372	301	439	180	360	403
Construction Management	185	421	83	235	354	534	107	393	394
Others	51	100	77	104	100	319	79	93	56
Total	979	1,417	849	1,329	1,423	2,018	1,131	1,640	1,691
Revenue YoY									
Construction costing	30%	-2%	66%	34%	30%	30%	37%	17%	28%
...SaaS	78%	71%	80%	71%	51%	41%	39%	28%	25%
...non-SaaS	-6%	-38%	26%	-1%	0%	15%	29%	-3%	34%
Construction Management	-19%	25%	-14%	-2%	91%	27%	29%	67%	12%
Others	-15%	88%	42%	58%	97%	220%	2%	-10%	-44%
Total	14%	9%	50%	27%	45%	42%	33%	23%	19%
SaaS metrics									
Newly signed contract	543	663	330	1,040	812	918	478	1,229	1,062
YoY	65%	50%	108%	20%	50%	38%	45%	18%	31%
Unearned revenue	1,357	1,506	1,288	1,708	1,854	2,047	1,759	2,194	2,419
YoY	80%	68%	72%	237%	37%	36%	37%	28%	30%

Source: Company data, CMBIGM

Earnings revision

Figure 9: Earnings revision

RMBm	2022E			2023E			2024E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	6,883	6,823	1%	7,921	8,029	-1%	9,297	9,452	-2%
Gross profit	5,615	5,626	-0%	6,404	6,566	-2%	7,488	7,599	-1%
OP Profit	1,014	1,086	-7%	1,248	1,341	-7%	1,542	1,566	-2%
PBT	984	1,048	-6%	1,233	1,324	-7%	1,544	1,569	-2%
Net profit	884	914	-3%	1,074	1,143	-6%	1,376	1,381	-0%
EPS	0.74	0.77	-3%	0.90	0.96	-6%	1.15	1.16	-0%
Margins									
GM	81.6%	82.5%	-86 bps	80.8%	81.8%	-93 bps	80.5%	80.4%	14 bps
OPM	14.7%	15.9%	-118 bps	15.7%	16.7%	-96 bps	16.6%	16.6%	2 bps
PBT margin	14.3%	15.4%	-106 bps	15.6%	16.5%	-93 bps	16.6%	16.6%	1 bps
Net margin	12.8%	13.4%	-56 bps	13.6%	14.2%	-68 bps	14.8%	14.6%	18 bps

Source: Company data, CMBIGM

Figure 10: CMBI vs. consensus forecast

RMBm	2022			2023			2024		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	6,883	6,894	-0%	7,921	8,299	-5%	9,297	9,913	-6%
Gross profit	5,615	5,801	-3%	6,404	6,958	-8%	7,488	8,262	-9%
OP Profit	1,014	1,140	-11%	1,248	1,502	-17%	1,542	1,867	-17%
PBT	984	1,127	-13%	1,233	1,504	-18%	1,544	1,892	-18%
Net profit	884	986	-10%	1,074	1,306	-18%	1,376	1,647	-16%
EPS	0.7	0.8	-10%	0.9	1.1	-20%	1.2	1.4	-18%
Margins									
GM	81.6%	84.1%	-255 bps	80.8%	83.8%	-299 bps	80.5%	83.3%	-280 bps
OPM	14.7%	16.5%	-180 bps	15.7%	18.1%	-235 bps	16.6%	18.8%	-225 bps
PBT margin	14.3%	16.3%	-206 bps	15.6%	18.1%	-256 bps	16.6%	19.1%	-247 bps
Net margin	12.8%	14.3%	-145 bps	13.6%	15.7%	-219 bps	14.8%	16.6%	-182 bps

Source: Company data, CMBIGM

Operating model

Figure 11: Operating model

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	4,005	5,619	6,883	7,921	9,297
Cost of sales	-454	-893	-1,267	-1,517	-1,809
Gross Profit	3,550	4,727	5,615	6,404	7,488
<i>Gross margin</i>	<i>88.7%</i>	<i>84.1%</i>	<i>81.6%</i>	<i>80.8%</i>	<i>80.5%</i>
R&D	-1,083	-1,333	-1,539	-1,731	-1,990
SG&A	-2,135	-2,686	-3,114	-3,481	-4,020
Operating Income	408	748	1,014	1,248	1,542
<i>Operating margin</i>	<i>10.2%</i>	<i>13.3%</i>	<i>14.7%</i>	<i>15.7%</i>	<i>16.6%</i>
Interest Expense	17	53	32	32	41
Non-operating income/ (expense)	-15	-52	-62	-46	-39
Profit Before Income Taxes	410	749	984	1,233	1,544
Income Tax Expense	-29	-31	-42	-70	-62
Net profit (loss)	330	661	884	1,074	1,376
<i>Net margin</i>	<i>8.3%</i>	<i>11.8%</i>	<i>12.8%</i>	<i>13.6%</i>	<i>14.8%</i>
EPS (RMB)	0.28	0.56	0.74	0.90	1.15
DPS (RMB)	0.25	0.30	0.20	0.20	0.20
Revenue breakdown					
Engineering costing	2,791	3,813	4,749	5,505	6,350
...recurring revenue	1,622	2,561	3,371	4,196	5,107
...non-recurring revenue	1,169	1,252	1,377	1,309	1,243
Engineering construction	943	1,206	1,567	1,802	2,253
Others	271	601	566	614	694
Gross margin breakdown					
Engineering costing	94.2%	92.3%	91.5%	91.7%	91.6%
Engineering construction	72.1%	65.8%	56.0%	55.0%	58.0%
Growth (YoY)					
Revenues	13%	40%	22%	15%	17%
Gross Profit	12%	33%	19%	14%	17%
Operating Income	21%	84%	36%	23%	24%
EPS	34%	99%	34%	21%	28%

Source: Company data, CMBIGM

Figure 12: Quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E
Revenues	566	1,043	979	1,417	849	1,329	1,423	2,018	1,131	1,640	1,691	2,421
Gross Profit	534	924	879	1,213	764	1,171	1,220	1,572	967	1,403	1,353	1,893
Operating income	82	121	121	84	90	244	191	222	145	330	247	292
Net profit	53	77	100	101	77	209	189	186	109	288	241	246
EPS (RMB)	0.05	0.07	0.08	0.08	0.06	0.18	0.16	0.16	0.09	0.24	0.20	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%	80.0%	78.2%
Operating margin	14.5%	11.6%	12.4%	5.9%	10.6%	18.4%	13.5%	11.0%	12.9%	20.1%	14.6%	12.1%
Net margin	9.4%	7.4%	10.2%	7.1%	9.0%	15.7%	13.3%	9.2%	9.6%	17.6%	14.3%	10.1%
Growth (QoQ)												
Revenues	-57%	84%	-6%	45%	-40%	57%	7%	42%	-44%	45%	3%	43%
Gross Profit	-53%	73%	-5%	38%	-37%	53%	4%	29%	-38%	45%	-4%	40%
Operating income	-26%	47%	1%	-31%	8%	171%	-22%	16%	-35%	127%	-25%	18%
EPS	-31%	42%	26%	1%	-24%	173%	-10%	-2%	-41%	165%	-16%	2%
Growth (YoY)												
Revenues	20%	15%	14%	9%	50%	27%	45%	42%	33%	23%	19%	20%
Gross Profit	20%	8%	18%	8%	43%	27%	39%	30%	27%	20%	11%	20%
Operating income	9%	113%	28%	-25%	10%	103%	58%	166%	61%	35%	29%	31%
EPS	-5%	119%	37%	26%	38%	165%	89%	84%	41%	37%	27%	32%

Source: Company data, CMBIGM

Valuation

Glodon (002410 CH, BUY, TP RMB78.56)

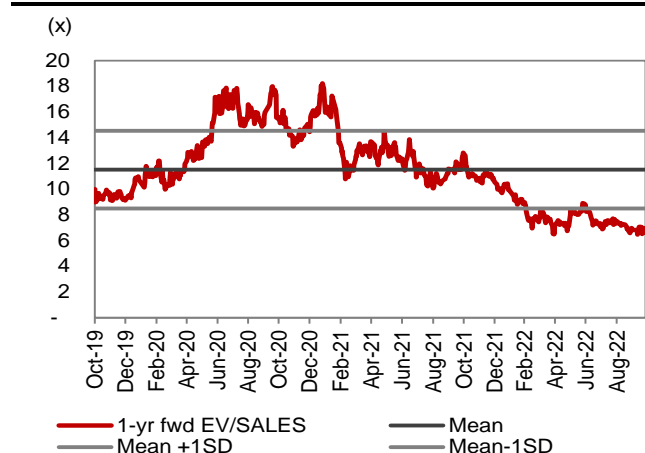
We maintain BUY with new target price of RMB78.56 (prior RMB85.19) based on 11x FY23E EV/sales, in-line with three-year mean.

Figure 13: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales (x)		FCF margin (%)		Sales CAGR	EPS CAGR
						FY22E	FY23E	FY22E	FY23E	FY21-24E	FY21-24E
Glodon	002410 CH	BUY	8,389	50.90	78.56	8.3	7.1	4.5%	14%	18%	28%
MYC	909 HK	HOLD	1,030	4.14	6.39	1.4	1.2	14%	-22%	5%	n.a.
Yonyou	600588 CH	HOLD	11,843	24.93	23.51	7.9	6.4	0.1%	5.3%	19%	12%
Kingdee	268 HK	BUY	5,339	12.06	23.83	7.3	5.9	4%	0%	19%	n.a.
Kingsoft Office	688111 CH	NR	17,247	270.30	N/A	29.4	22.3	59%	30%	28%	25%
Autodesk	ADSK US	NR	46,315	214.56	N/A	10.9	9.5	36%	29%	15%	26%
CoStar	CSGP US	NR	32,551	80.04	N/A	13.3	11.6	22%	18%	14%	17%
Mean						11.1	9.2	25%	16%	17%	19%
Median						8.4	7.3	21%	17%	19%	19%

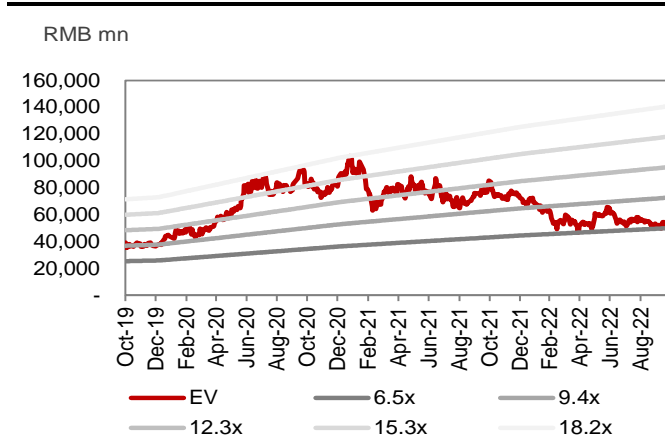
Source: Bloomberg, CMBIGM estimates

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	6,883	7,921	9,297
Cost of sales	(454)	(893)	(1,267)	(1,517)	(1,809)
Gross profit	3,550	4,727	5,615	6,404	7,488
Selling exp	(1,256)	(1,587)	(1,822)	(2,041)	(2,357)
Admin exp	(879)	(1,099)	(1,291)	(1,440)	(1,663)
R&D exp	(1,083)	(1,333)	(1,539)	(1,731)	(1,990)
Other operating exp.	75	41	51	55	64
Operating profit	408	748	1,014	1,248	1,542
Finance income/ (costs)	17	53	32	32	41
Other non-op exp.	(15)	(52)	(62)	(46)	(39)
Pre-tax profit	410	749	984	1,233	1,544
Income tax expense	(29)	(31)	(42)	(70)	(62)
Minority interests	(51)	(58)	(57)	(90)	(106)
Net profit to shareholders	330	661	884	1,074	1,376

Cash flow summary

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Net profit	330	661	884	1,074	1,376
Depreciation/amortization	229	158	225	280	335
Change in working capital	784	525	385	502	607
Others	533	258	(339)	90	106
Net cash from operating	1,876	1,601	1,154	1,945	2,423
Capex	(439)	(720)	(844)	(839)	(845)
Other	(257)	(821)	(662)	0	0
Net cash from investing	(697)	(1,541)	(1,506)	(839)	(845)
Net borrowings	(1,088)	(3)	0	0	0
Dividend paid	(157)	(354)	(357)	(238)	(238)
Other	2,645	(438)	(69)	(90)	(106)
Net cash from financing	1,400	(795)	(426)	(328)	(345)
Net change in cash	2,580	(735)	(778)	778	1,233
Cash at beginning of the year	2,231	4,797	4,050	3,296	4,074
Exchange difference	(14)	(13)	24	0	0
Cash at the end of the year	4,797	4,050	3,296	4,074	5,307

Balance sheet

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Current assets	5,420	5,122	5,017	5,756	6,962
Cash & equivalents	4,797	4,050	3,296	4,074	5,307
Account receivables	475	560	671	623	585
Inventory	26	71	53	62	72
Other current assets	121	441	997	997	997
Non-current assets	4,127	4,946	5,604	6,164	6,675
PPE	994	1,219	1,529	2,226	2,873
Intangible assets	1,664	1,979	2,451	2,315	2,178
Other non-current assets	1,470	1,747	1,623	1,623	1,623
Total assets	9,547	10,068	10,622	11,920	13,637
Current liabilities	2,858	3,637	3,909	4,371	4,951
ST borrowings	3	0	0	0	0
Account payables	1,740	2,395	2,873	3,336	3,915
Accrued expense	0	0	0	0	0
Unearned revenue	1,115	1,242	1,036	1,036	1,036
Non-current liabilities	131	158	195	195	195
LT borrowings	0	0	0	0	0
Other non-current liabilities	131	158	195	195	195
Total liabilities	2,989	3,795	4,104	4,566	5,146
Share capital	1,186	1,189	1,191	1,191	1,191
Capital surplus	3,135	3,174	2,869	2,869	2,869
Retained earnings	1,957	2,432	2,981	3,816	4,953
Other reserves	125	(1,007)	(983)	(983)	(983)
Minority interest	156	485	461	461	461
Total equity	6,558	6,273	6,518	7,353	8,491
Total liabilities and equity	9,547	10,068	10,622	11,920	13,637

Key ratios

YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
Revenue mix					
Engineering costing	70%	68%	69%	69%	68%
- SaaS	41%	46%	49%	53%	55%
Engineering construction	24%	21%	23%	23%	24%
Overseas	4%	3%	2%	2%	2%
Others	1%	5%	4%	4%	4%
Finance income	1%	1%	0%	0%	0%
Growth (%)					
Revenue	13%	40%	22%	15%	17%
Operating profit	21%	84%	36%	23%	24%
EPS	34%	99%	34%	21%	28%
Profit & loss ratio (%)					
Gross margin	88.7%	84.1%	81.6%	80.8%	80.5%
Operating margin	10.2%	13.3%	14.7%	15.7%	16.6%
Net profit margin	8.3%	11.8%	12.8%	13.6%	14.8%
Balance sheet ratio					
Receivable turnover days	49	34	33	30	24
Unearned revenue days	81	77	60	48	41
Payable turnover days	159	156	152	154	154
Current ratio (x)	1.90	1.41	1.28	1.32	1.41
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Profitability (%)					
ROE	7%	11%	15%	17%	18%
ROIC	18%	34%	33%	34%	43%
Per share data (RMB)					
EPS (RMB)	0.28	0.56	0.74	0.90	1.15
DPS (RMB)	0.25	0.30	0.20	0.20	0.20
BVPS (RMB)	5.40	4.87	5.08	5.79	6.74

Source: Company data, CMBIGM estimates

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