

Yonyou (600588 CH)

Distressed margin with non-standardized cloud

Yonyou announced preliminary FY22 net profit of RMB200-220mn (-68.9-71.7% YoY). The weakness was attributable to COVID resurgence and FY4Q22 and higher R&D spending. While Yonyou's business is slowly recovering in FY23E, we remain cautious on its cloud migration progress as its large enterprise customers (68% of revenue) are less willing to adopt standardized cloud model. Customization would result in higher R&D and thus limiting business scalability and margin upside from cloud migration.

■ **Yonyou preliminary FY22 missed on COVID-resurgence and higher R&D expenses.** Yonyou announced FY22 preliminary net profit ranged from RMB200-220mn (down 68.9-71.7% YoY), missed consensus estimate of RMB505mn. The was attributable to 1) COVID resurgence in FY4Q22 and 4Q usually accounts for 45% of full-year revenue 2) higher R&D and 3) FY21 recorded one-off disposal gain of RMB214mn. FY22 core revenue (software + cloud) delivered YoY increase but the growth rate was lower than that in FY21 (+16% YoY). We think the FY4Q22 top-line weakness is largely anticipated but the R&D surge is not.

■ **Business slowly recovering in Jan, Yonyou's subsidiary Chanjet targets 30% YoY top-line growth in FY23E.** Yonyou's HK-listed subsidiary Chanjet (1588 HK) also announced FY22 profit warning. Yonyou's business targeting small/ micro enterprises is operated through Chanjet (Yonyou owns 61.85% stake). Chanjet FY22 revenue was up 12-18% YoY while SaaS subscription revenue grew +45% YoY. Implied FY4Q22 revenue was down 18% YoY to RMB180mn (vs. +34% YoY in FY9M22). Management hosted a conference call and commented that business is slowly recovering since Jan 2023. Chanjet targets to achieve +30% YoY in top-line growth and to break-even in FY23E. This suggested RMB883mn revenue contribution by small/ micro enterprises to Yonyou, missed our prior forecast of RMB1.1bn.

■ **Customization for large-enterprises adds margin pressure.** We keep our view that Yonyou's cloud migration path is tough with it large enterprise-focused strategy (68% of revenue) as these customers (mostly SOEs) are less willing to adopt a standardized cloud model. The demand for customization would result in extra IT services work. This is in-line with our observation that Yonyou has increased its workforce by 4,000 people (+20% YoY) to over 25,000 even in FY22. Also, since the company launched its cloud-focused strategy in 2019, 1) revenue/ operating profit generated per employee has been decreasing (fig.5-6) and 2) R&D capitalization rate was up from about 20% to 35%.

■ **Maintain HOLD.** We cut FY22-24E revenue by 5-6% and derived new target price of RMB22.27 (prior RMB23.51), based on unchanged 6.0x FY23E EV/sales.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	8,525	8,932	9,818	12,083	14,267
YoY growth (%)	0.2	4.8	9.9	23.1	18.1
Net profit (RMB mn)	988.6	707.8	217.1	560.2	654.7
EPS (Reported) (RMB)	0.30	0.22	0.06	0.16	0.19
YoY growth (%)	(16.8)	(28.4)	(70.8)	158.0	16.9
Consensus EPS (RMB)	0.30	0.22	0.14	0.25	0.38
P/E (x)	128.6	164.2	387.7	150.2	128.6
EV/Sales (x)	9.6	9.4	8.3	6.6	5.6
Yield (%)	0.5	0.6	0.0	0.0	0.0
ROE (%)	13.4	9.7	2.3	4.7	5.2
Net gearing (%)	(42.2)	(20.4)	(33.7)	(40.6)	(46.1)

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price RMB22.27
(Previous TP RMB23.51)
Up/Downside (9.2%)
Current Price RMB24.51

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Stock Data

Mkt Cap (RMB mn)	84,224.3
Avg 3 mths t/o (RMB mn)	23.8
52w High/Low (RMB)	36.45/16.73
Total Issued Shares (mn)	3436.3

Source: FactSet

Shareholding Structure

Mr. Wang - Chairman	38.9%
HKSCC	7.2%

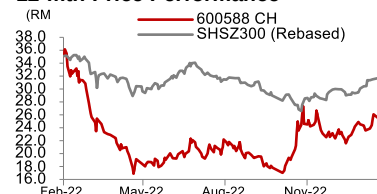
Source: Company data

Share Performance

	Absolute	Relative
1-mth	1.4%	-6.6%
3-mth	0.3%	-16.2%
6-mth	17.6%	16.7%

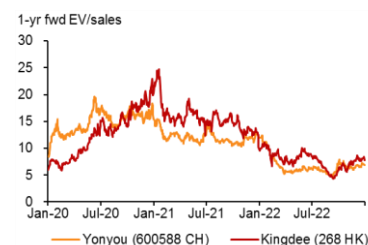
Source: FactSet

12-mth Price Performance



Source: FactSet

Kingdee vs. Yonyou valuation

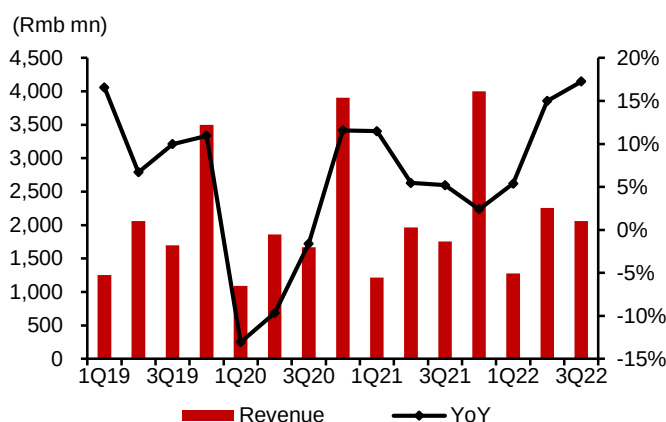


Related Reports

- Yonyou (600588 CH) - "Software localization adds uncertainty to cloud strategy" - 28 Oct 2022 ([link](#))
- Yonyou (600588 CH) - "Takes time to build the cloud platform" - 22 Aug 2022 ([link](#))

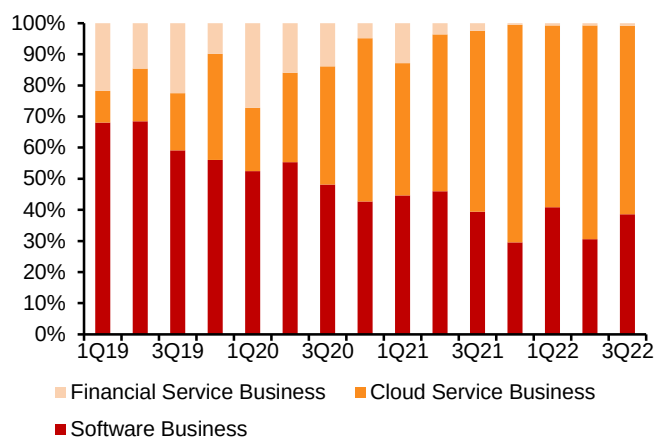
Focus Charts

Figure 1: Revenue and growth (Quarterly)



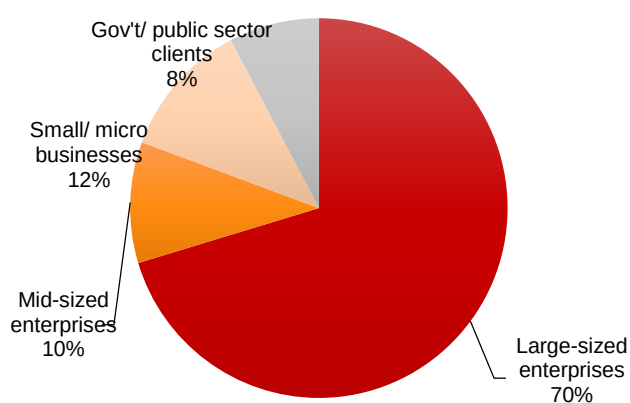
Source: Company data, CMBIGM estimates

Figure 2: Revenue mix (Quarterly)



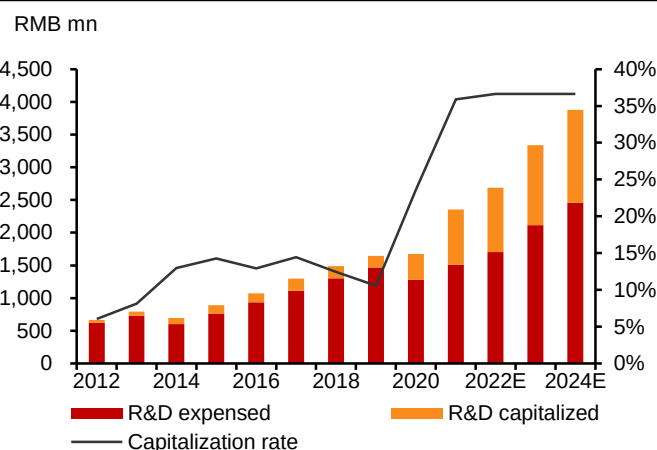
Source: Company data, CMBIGM estimates

Figure 3: Cloud service revenue mix (3Q22)



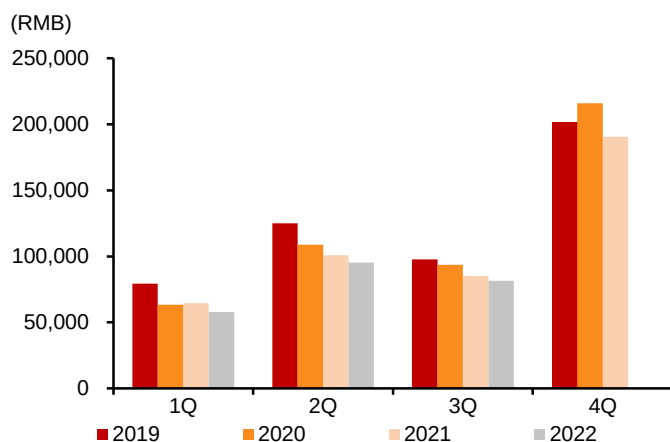
Source: Company data, CMBIGM estimates

Figure 4: R&D capitalization rate (Yearly)



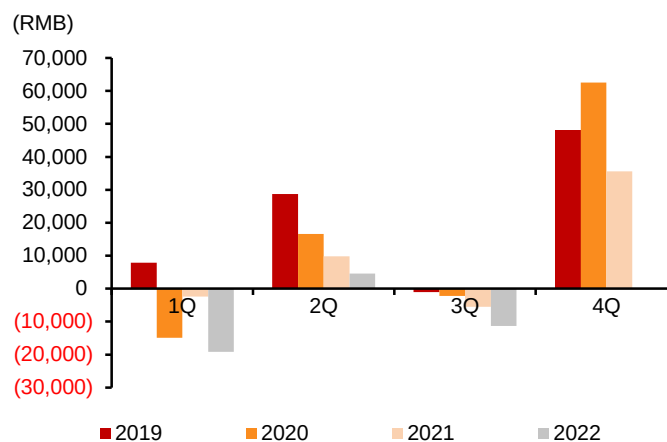
Source: Company data, CMBIGM estimates

Figure 5: Yonyou revenue per employee



Source: Company data

Figure 6: Yonyou operating profit per employee



Source: Company data

Preliminary FY22 results key points

Yonyou preliminary FY22 net profit missed

FY22 net profit attributable to owners of the parent ranges from RMB200mn to RMB220mn (down 68.9-71.7% YoY). Excluding non-recurring items, net profit would range between RMB85-105mn (down 74.1-79.0% YoY). The decline in net profit was resulted from

1) COVID resurgence in FY4Q22

- Project delivery usually takes place in 4Q. 4Q usually accounted for 45% of full year revenue. The COVID resurgence, especially in Dec 2022, has resulted in new contract sign and project implementation delay.
- FY22 core revenue (software + cloud) delivered YoY increase but the growth rate was lower than that in FY21 (+16% YoY).

2) R&D expenses increased with structural change in workforce

- Due to the increasing demand in digitalization and localization, Yonyou added 4,000+ employees in FY22, resulting in an increase of R&D expenses. Meanwhile, Yonyou spent more opex to boost IT partners' project delivery capability in order to fulfil large customers' demand in software customization.
- Yonyou plans to raise the profit sharing ratio with their IT partners going forward to enhance profitability.

3) Impact from non-operating item in FY21

- Yonyou recorded one-off disposal gain of RMB214mn in FY21.

Chanjet (1588 HK) FY22 profit warning

Yonyou HK-listed subsidiary Chanjet (1588 HK) announced FY22 profit warning. Yonyou's business targeting small/ micro enterprises is operated through Chanjet and Yonyou holds 61.85% stake in Chanjet. Management hosted a call on 31 Jan to discuss FY23 outlook.

- FY22 revenue:** RMB661-697mn (+12-18% YoY). SaaS subscription was up +45% YoY. Customer retention and dollar renewal rate also increased YoY but renewal rate improvement was not significant.
- Implied FY4Q22 revenue:** RMB180mn (-18% YoY), vs. +34% YoY in FY9M22.
- FY22 net loss:** RMB204-222mn (vs. net loss of RMB185.07mn in FY21).
- FY23E targets:**
 - Revenue +30% YoY
 - Limited change in employee scale, will focus on boosting profitability
 - Target to break-even in FY23E

Figure 7: Chanjet quarterly financials

RMB mn	4Q21	1Q22	2Q22	3Q22	4Q22E	FY21	FY22E (mid-point of guidance)
Revenue	219	161	174	163	181	590	679
YoY		58.0%	54.3%	4.2%	-17.5%	16.0%	15.0%
SaaS subscription	80	85	92	99	98	259	375
YoY		94.8%	64.5%	25.7%	23.1%	123.0%	45.0%
SaaS subscription revenue mix		53.0%	53.0%	60.7%	54.4%	43.8%	55.2%

Source: Company data, CMBIGM

Earnings revision

Figure 8: Yonyou earnings revision

RMB mn	2022E			2023E			2024E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	9,818	10,390	-6%	12,083	12,667	-5%	14,267	15,011	-5%
Gross profit	5,699	6,105	-7%	7,084	7,473	-5%	8,341	8,853	-6%
OP Profit	134	465	-71%	471	765	-38%	585	1,012	-42%
PBT	285	657	-57%	659	977	-33%	770	1,236	-38%
Net profit	217	535	-59%	560	830	-33%	655	1,051	-38%
EPS	0.06	0.16	-59%	0.16	0.24	-33%	0.19	0.31	-38%
Margins									
GM	58.0%	58.8%	-72 bps	58.6%	59.0%	-37 bps	58.5%	59.0%	-51 bps
OPM	1.4%	4.5%	-311 bps	3.9%	6.0%	-214 bps	4.1%	6.7%	-264 bps
PBT margin	2.9%	6.3%	-341 bps	5.5%	7.7%	-226 bps	5.4%	8.2%	-283 bps
Net margin	2.2%	5.1%	-293 bps	4.6%	6.6%	-192 bps	4.6%	7.0%	-241 bps

Source: Company data, CMBIGM

Figure 9: Yonyou CMBI estimates vs. consensus

RMB mn	CMBI	2022E		CMBI	2023E		CMBI	2024E	
		Street	Diff		Street	Diff		Street	Diff
Sales	9,818	10,448	-6%	12,083	12,824	-6%	14,267	15,879	-10%
Gross profit	5,699	6,245	-9%	7,084	7,701	-8%	8,341	9,599	-13%
OP Profit	134	629	-79%	471	1,025	-54%	585	1,445	-60%
PBT	285	567	-50%	659	1,024	-36%	770	1,547	-50%
Net profit	217	505	-57%	560	880	-36%	655	1,365	-52%
EPS	0.06	0.14	-56%	0.16	0.25	-34%	0.19	0.37	-49%
Margins									
GM	58.0%	59.8%	-173 bps	58.6%	60.1%	-143 bps	58.5%	60.5%	-199 bps
OPM	1.4%	6.0%	-465 bps	3.9%	8.0%	-410 bps	4.1%	9.1%	-500 bps
PBT margin	2.9%	5.4%	-252 bps	5.5%	8.0%	-253 bps	5.4%	9.7%	-435 bps
Net margin	2.2%	4.8%	-262 bps	4.6%	6.9%	-223 bps	4.6%	8.6%	-401 bps

Source: Company data, CMBIGM, Bloomberg

Operating model

Figure 10: Revenue breakdown

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	8,525	8,932	9,818	12,083	14,267
Cost of sales	(3,321)	(3,461)	(4,119)	(4,999)	(5,926)
Gross Profit	5,204	5,471	5,699	7,084	8,341
Gross margin	61.0%	61.2%	58.0%	58.6%	58.5%
R&D	(1,459)	(1,704)	(2,149)	(2,523)	(3,078)
SG&A	(2,496)	(3,099)	(3,281)	(3,930)	(4,486)
Operating Income	1,093	555	134	471	585
Operating margin	12.8%	6.2%	1.4%	3.9%	4.1%
Non-Operating Income	33	219	151	188	185
Profit Before Tax	1,126	774	285	659	770
Income tax (expense) gain	(75)	(92)	(87)	(66)	(77)
Minorities	(63)	25	19	(33)	(39)
Net Income to Shareholders	989	708	217	560	655
Net margin	11.6%	7.9%	2.2%	4.6%	4.6%
EPS (RMB)	0.30	0.22	0.06	0.16	0.19
DPS (RMB)	0.20	0.20	0.00	0.00	0.00

Source: Company data, CMBIGM

Figure 11: Operating model

RMB mn	2020	2021	2022E	2023E	2024E
<u>Revenue breakdown</u>					
Software Business	4,044	3,320	3,072	2,789	2,650
Cloud Service Business	3,422	5,321	6,704	9,293	11,617
Financial Service Business	1,005	276	42	-	-
Others	54	14	-	-	-
Total	8,525	8,932	9,818	12,083	14,267
<u>Revenue YoY</u>					
Software Business	-22%	-18%	-7%	-9%	-5%
Cloud Service Business	74%	55%	26%	39%	25%
Financial Service Business	-22%	-73%	-85%	-100%	0%
Blended	0%	5%	10%	23%	18%
<u>Revenue mix</u>					
Software Business	47%	37%	31%	23%	19%
Cloud Service Business	40%	60%	68%	77%	81%
Financial Service Business	12%	3%	0%	0%	0%
<u>Revenue breakdown (by customer)</u>					
Large/ mid-sized enterprises	5,818	6,777	7,925	9,687	11,446
- Large-sized	5,016	5,870	6,810	8,461	10,005
- Mid-sized	803	907	1,114	1,226	1,441
Small/ micro businesses	515	596	694	881	1,059
Gov't/ public sector clients	1,137	1,268	1,158	1,515	1,761
<u>Revenue YoY (by customer)</u>					
Large/ mid-sized enterprises		16%	17%	22%	18%
- Large-sized		17%	16%	24%	18%
- Mid-sized		13%	23%	10%	18%
Small/ micro businesses		16%	16%	27%	20%
Gov't/ public sector clients		12%	-9%	31%	16%

Source: Company data, CMBIGM

Figure 12: Quarterly operating model

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E
Revenues	1,214	1,963	1,756	3,999	1,279	2,258	2,059	4,222
Gross Profit	572	1,244	1,020	2,634	628	1,383	1,028	2,660
Operating profit	-314	67	-124	926	-465	89	-366	876
Net profit (loss)	-13	228	-88	581	-393	137	-284	757
EPS (RMB)	-0.00	0.07	-0.03	0.18	-0.12	0.04	-0.08	0.22
Margins								
Gross margin	47%	63%	58%	66%	49%	61%	50%	63%
Operating margin	-26%	3%	-7%	23%	-36%	4%	-18%	21%
Net margin	-1%	12%	-5%	15%	-31%	6%	-14%	18%
Growth (QoQ)								
Revenues	-69%	62%	-11%	128%	-68%	76%	-9%	105%
Gross Profit	-79%	118%	-18%	158%	-76%	120%	-26%	159%
Operating profit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net profit (loss)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Growth (YoY)								
Revenues	11%	5%	5%	2%	5%	15%	17%	6%
Gross Profit	13%	15%	9%	-2%	10%	11%	1%	1%
Operating profit	n.a.	-72%	n.a.	-22%	n.a.	34%	n.a.	-5%
Net profit (loss)	n.a.	-14%	n.a.	-42%	n.a.	-43%	n.a.	24%

Source: Company data, CMBIGM

Valuation

Yonyou (600588 CH, HOLD, TP RMB22.27)

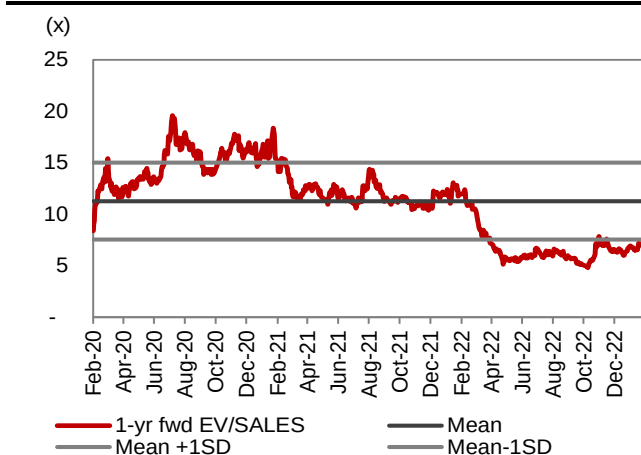
We maintain HOLD with new target price of RMB22.27 (prior RMB23.51), based on unchanged 6.0x FY23E EV/sales.

Figure 13: Yonyou peers valuation comparison

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales (x)		FCF margin (%)		Sales CAGR FY21-24E	EPS CAGR FY21-24E
Yonyou	600588 CH	HOLD	12,458	24.51	22.27	7.9	6.4	5%	6%	17%	n.a.
Kingdee	268 HK	BUY	7,570	17.08	23.83	9.8	7.9	1%	7%	19%	n.a.
Kingsoft Office	688111 CH	NR	19,206	281.30	N/A	30.9	23.3	40%	41%	28%	28%
SAP	SAP US	NR	142,617	116.09	N/A	4.5	4.2	16%	17%	8%	n.a.
Intuit	INTU US	NR	116,991	416.45	N/A	9.6	8.6	29%	29%	18%	27%
Xero	XRO AU	NR	8,102	76.80	N/A	11.7	9.0	-7%	2%	26%	63%
Workday	WDAY US	NR	45,355	176.48	N/A	8.4	7.0	26%	20%	19%	n.a.
ServiceNow	NOW US	NR	89,399	442.57	N/A	12.1	9.9	29%	30%	22%	114%
Salesforce	CRM US	NR	164,750	164.75	N/A	6.3	5.4	19%	20%	17%	9%
Mean						11.3	9.1	17%	19%	19%	48%
Median						9.6	7.9	19%	20%	19%	28%

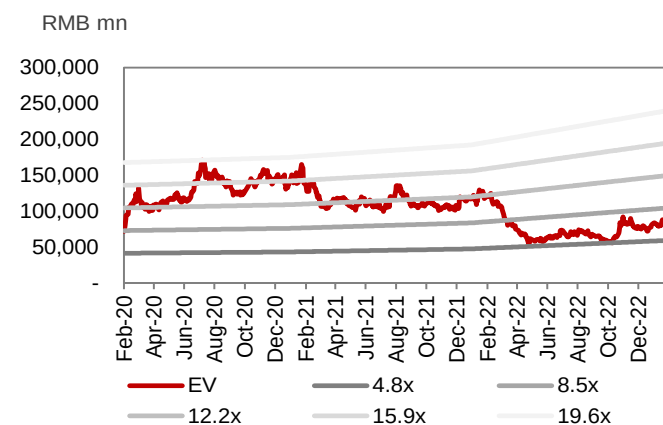
Source: Bloomberg, CMBIGM estimates

Figure 14: Yonyou 12M forward EV/sales chart



Source: Bloomberg, CMBIGM estimates

Figure 15: Yonyou 12M forward EV/sales band



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	8,510	8,525	8,932	9,818	12,083	14,267
Cost of goods sold	(2,942)	(3,321)	(3,461)	(4,119)	(4,999)	(5,926)
Gross profit	5,567	5,204	5,471	5,699	7,084	8,341
Operating expenses	(4,766)	(4,111)	(4,916)	(5,565)	(6,613)	(7,756)
Selling expense	(1,634)	(1,537)	(2,027)	(2,192)	(2,575)	(2,942)
Admin expense	(1,389)	(959)	(1,072)	(1,089)	(1,355)	(1,543)
R&D expense	(1,630)	(1,459)	(1,704)	(2,149)	(2,523)	(3,078)
Others	(113)	(156)	(113)	(135)	(159)	(192)
Operating profit	802	1,093	555	134	471	585
Interest expense	(118)	(110)	(79)	(28)	0	0
Other income/expense	720	143	298	179	188	185
Pre-tax profit	1,404	1,126	774	285	659	770
Income tax	(83)	(75)	(92)	(87)	(66)	(77)
After tax profit	1,321	1,051	682	198	593	693
Minority interest	(138)	(63)	25	19	(33)	(39)
Net profit	1,183	989	708	217	560	655

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	10,168	8,773	7,682	12,456	13,887	15,579
Cash & equivalents	7,147	5,605	4,616	8,656	9,253	10,217
Restricted cash	1,914	1,680	1,572	1,995	2,392	2,927
Account receivables	23	423	407	361	606	658
Other current assets	1,084	1,065	1,088	1,444	1,637	1,776
Non-current assets	7,370	8,177	9,647	12,028	12,315	12,540
PP&E	2,510	2,507	2,529	2,686	2,815	2,979
Intangibles	870	785	1,862	2,557	3,305	4,141
Other non-current assets	3,990	4,885	5,256	6,785	6,195	5,420
Total assets	17,538	16,950	17,329	24,484	26,202	28,119
Current liabilities	9,112	7,950	8,325	9,606	10,799	12,056
Short-term borrowings	4,326	2,420	2,802	4,108	3,705	3,690
Account payables	597	549	654	730	890	1,068
Other current liabilities	130	2,240	2,219	1,657	2,764	3,132
Accrued expenses	4,059	2,741	2,649	3,111	3,441	4,167
Non-current liabilities	132	453	1,078	1,372	1,337	1,342
Long-term borrowings	45	0	390	606	570	575
Other non-current liabilities	87	453	688	767	767	767
Total liabilities	9,244	8,403	9,403	10,978	12,135	13,398
Share capital	2,504	3,270	3,271	3,434	3,434	3,434
Capital surplus	1,762	1,096	892	6,109	6,109	6,109
Retained earnings	3,392	3,418	3,489	3,367	3,927	4,582
Other reserves	(485)	(242)	(664)	(1,224)	(1,224)	(1,224)
Total shareholders equity	7,173	7,543	6,987	11,687	12,247	12,901
Minority interest	1,122	1,004	939	962	962	962
Total equity and liabilities	17,538	16,950	17,329	23,627	25,344	27,261

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,404	1,126	774	285	659	770
Depreciation & amortization	334	357	473	526	686	876
Tax paid	(83)	(75)	(92)	(87)	(66)	(77)
Change in working capital	762	605	146	(397)	762	546
Others	(885)	(400)	2	388	0	0
Net cash from operations	1,533	1,613	1,304	715	2,041	2,115
Investing						
Capital expenditure	(376)	(592)	(1,030)	(1,311)	(1,562)	(1,877)
Others	383	(183)	921	(2,990)	590	775
Net cash from investing	(183)	(894)	(1,230)	(4,301)	(972)	(1,102)
Financing						
Dividend paid	(474)	(651)	(654)	0	0	0
Net borrowings	909	(1,950)	702	1,505	(439)	(10)
Others	(161)	346	(1,108)	6,026	(33)	(39)
Net cash from financing	273	(2,256)	(1,060)	7,531	(471)	(49)
Net change in cash						
Cash at the beginning of the year	5,531	7,147	5,605	4,616	8,656	9,253
Exchange difference	(7)	(6)	(2)	14	0	0
Cash at the end of the year	7,147	5,605	4,616	8,575	9,253	10,217
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	10.5%	0.2%	4.8%	9.9%	23.1%	18.1%
Gross profit	3.3%	(6.5%)	5.1%	4.2%	24.3%	17.7%
Operating profit	(7.2%)	36.4%	(49.2%)	(75.8%)	251.4%	24.1%
Net profit	93.3%	(16.4%)	(28.4%)	(69.3%)	158.0%	16.9%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	65.4%	61.0%	61.2%	58.0%	58.6%	58.5%
Operating margin	9.4%	12.8%	6.2%	1.4%	3.9%	4.1%
Return on equity (ROE)	17.2%	13.4%	9.7%	2.3%	4.7%	5.2%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.4)	(0.2)	(0.3)	(0.4)	(0.5)
Current ratio (x)	1.1	1.1	0.9	1.3	1.3	1.3
Receivable turnover days	83.2	76.9	66.4	66.3	66.3	68.0
Inventory turnover days	1.0	9.6	17.0	14.3	14.6	16.2
Payable turnover days	74.1	60.3	69.0	64.7	26.9	27.3
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	56.6	128.6	164.2	387.7	150.2	128.6
P/B	8.1	14.9	14.7	6.7	6.4	6.1
Div yield (%)	0.7	0.5	0.6	0.0	0.0	0.0
EV	82,568.9	82,044.1	83,739.4	81,244.2	80,208.6	79,233.5
EV/Sales	9.7	9.6	9.4	8.3	6.6	5.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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