

Glodon (002410 CH)

Clear operating leverage from SaaS

Glodon delivered a strong set of FY22 with revenue of RMB6.59bn (+17% YoY) and net profit of RMB963mn (+46% YoY). We are encouraged to see that construction costing SaaS newly signed contract amount has attained the RMB4bn target. We are positive to see improving margins from operating leverage although project-based construction management business FY22 revenue missed as COVID resurgence in FY4Q22 has caused temporary delays in delivery. China SaaS (mkt-weighted) is trading at 6.87x FY23E EV/sales, 1-SD below 3-year mean of 12.05x. Kingdee (268 HK) and Glodon (002410 CH) remain as our top picks.

- **Prelim FY22 largely in-line.** Glodon announced preliminary FY22 results on 20 Feb. Revenue was RMB6,587mn (+17% YoY), 4% below our and consensus forecast. Net profit was RMB963mn (+46% YoY), in-line with consensus but beat our estimate by 9%. We think the better than expected net profit was driven by margin improvement due to 1) increasing high-margin costing revenue exposure and 2) enhanced operating leverage as SaaS migration completed.
- **Construction costing: SaaS newly signed contract attained RMB4bn target.** Glodon's FY22 construction costing revenue was RMB4,773mn (+25.16% YoY). Newly signed contract was RMB3,901mn (+26% YoY), in-line with prior guidance of RMB4bn. We are encouraged to see strong growth in newly signed contract as it implied a better earnings and cash flow visibility amid macro uncertainty. Other SaaS metrics including unearned revenue, migration and renewal rate will be the focus in Mar when Glodon announces full sets of results.
- **Construction management: Revenue missed as 4Q22 was affected by COVID resurgence.** FY22 construction management revenue was RMB1,322mn (+9.66% YoY), missing our estimate by 16%. Although 9M22 construction management revenue grew 32.46% YoY (Company's target FY22E +30% YoY), COVID resurgence in FY4Q22 has affected the project delivery. We think the revenue miss was largely anticipated and the delivery should have accelerated in FY1Q23.
- **Maintain BUY.** We have not changed our FY22-24E earnings. Maintain BUY with target price of RMB78.56, based on 11x FY23E EV/sales, in-line with 3-year mean. China SaaS (mkt-weighted) is trading at 6.87x FY23E EV/sales, 1-SD below 3-year mean of 12.05x. We continue to prefer Kingdee (268 HK) and Glodon (002410 CH) as our China SaaS top picks.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,005	5,619	6,883	7,921	9,297
YoY growth (%)	13.1	40.3	22.5	15.1	17.4
Net profit (RMB mn)	330.4	661.0	883.9	1,073.6	1,375.6
EPS (Reported) (RMB)	0.29	0.56	0.74	0.90	1.15
YoY growth (%)	37.4	96.6	31.7	21.5	28.1
Consensus EPS (RMB)	0.28	0.56	0.82	1.12	1.46
P/E (x)	208.9	122.0	84.4	69.5	54.2
EV/Sales (x)	13.9	10.1	8.3	7.1	6.0
Yield (%)	0.4	0.4	0.3	0.3	0.3
ROE (%)	6.8	10.8	14.9	16.6	18.4
Net gearing (%)	(74.9)	(70.0)	(54.4)	(59.1)	(66.1)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB78.56
 (Previous TP RMB78.56)
Up/Downside 25.4%
Current Price RMB62.64

China Software & IT Services

Marley NGAN
 (852) 3916 3719
 marleyngan@cmbi.com.hk

Bowen LI
 (852) 3761 8957
 libowen@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn) 74,622.9
 Avg 3 mths t/o (RMB mn) 59.7
 52w High/Low (RMB) 68.33/41.79
 Total Issued Shares (mn) 1191.3
 Source: FactSet

Shareholding Structure

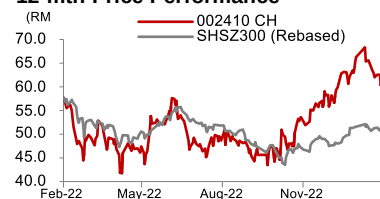
Diao Zhizhong - Chairman 16.0%
 Other co-founders 16.3%
 Source: Company data

Share Performance

	Absolute	Relative
1-mth	-5.5%	-4.4%
3-mth	16.9%	7.5%
6-mth	28.7%	29.3%

Source: FactSet

12-mth Price Performance



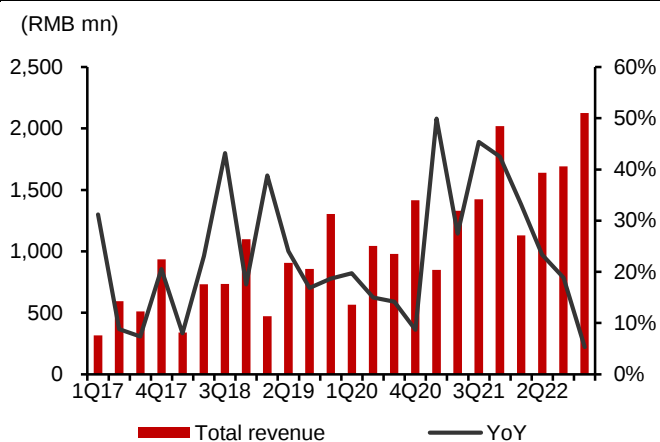
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Related reports

1. Glodon (002410 CH) - "Solid 3Q22 despite short-term GPM decline" – 28 Oct 2022 ([link](#))
2. Glodon (002410 CH) - "Penetrating into basic infrastructure segment" – 24 Aug 2022 ([link](#))
3. China Software & IT Services "Higher visibility in SaaS along China cloud value chain" – 28 Jun 2022 ([link](#))

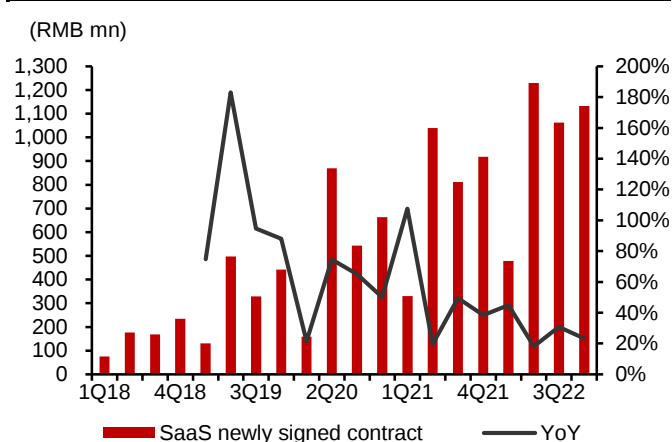
Focus Charts

Figure 1: Revenue and growth



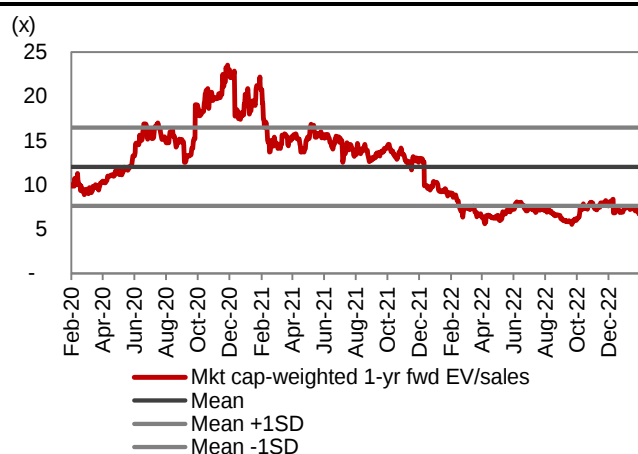
Source: Company data

Figure 2: SaaS newly signed contract



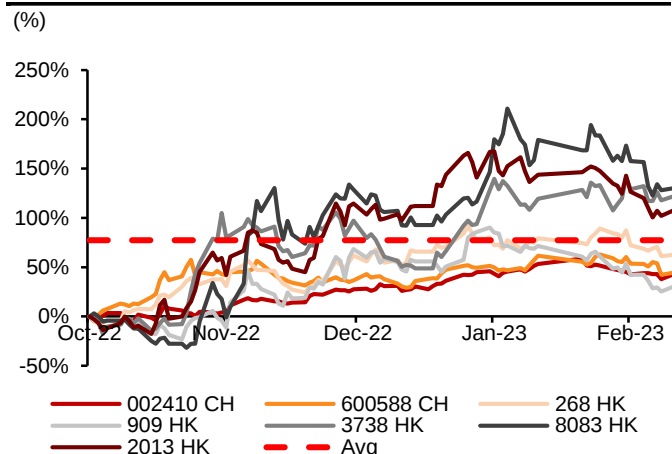
Source: Company data

Figure 3: China SaaS valuation



Source: Bloomberg, CMBIGM

Figure 4: China SaaS performance



Source: Bloomberg, CMBIGM

Figure 5: SaaS unearned revenue

RMB mn	FY21 actual	FY22 actual	YoY	FY22E CMBI	versus	FY22E consensus	versus
Revenue	5,619	6,587	17%	6,883	-4%	6,869	-4%
Net income	661	963	46%	884	9%	975	-1%
EPS (RMB)	0.56	0.82	47%	0.74	10%	0.82	0%
Construction costing	3,813	4,713	24%	4,749	-1%		
Construction Management	1,206	1,322	10%	1,567	-16%		

Source: Company data

Valuation

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

We maintain BUY with unchanged target price of RMB78.56, based on 11x FY23E EV/sales, in-line with three-year mean.

Figure 6: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales (x)		FCF margin (%)		Sales CAGR FY21-24E	EPS CAGR FY21-24E
						FY22E	FY23E	FY22E	FY23E		
Glodon	002410 CH	BUY	10,886	62.64	78.56	8.3	7.1	13%	13%	18%	28%
MYC	909 HK	HOLD	1,532	6.13	6.39	2.8	2.4	14%	-27%	5%	n.a.
Yonyou	600588 CH	HOLD	11,810	23.58	22.24	7.7	6.2	13%	4%	17%	n.a.
Kingdee	268 HK	BUY	7,101	16.02	23.56	9.3	7.5	4%	1%	19%	n.a.
Kingsoft Office	688111 CH	NR	18,993	282.29	N/A	31.1	23.4	59%	30%	28%	25%
Autodesk	ADSK US	NR	47,465	219.98	N/A	11.1	9.7	36%	29%	13%	23%
CoStar	CSGP US	NR	31,543	77.56	N/A	12.8	11.2	22%	19%	14%	18%
Mean						11.5	9.5	26%	16%	17%	19%
Median						8.9	7.5	21%	18%	18%	19%

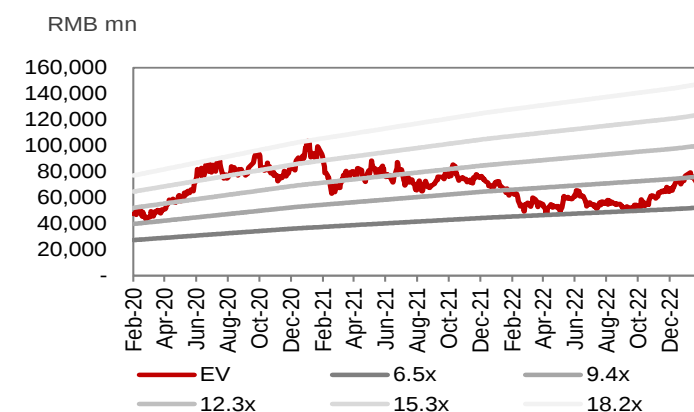
Source: Bloomberg, CMBIGM estimates

Figure 7: 12M forward EV/sales chart



Source: Bloomberg, CMBIGM

Figure 8: 12M forward EV/sales band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	3,541	4,005	5,619	6,883	7,921	9,297
Cost of goods sold	(371)	(454)	(893)	(1,267)	(1,517)	(1,809)
Gross profit	3,170	3,550	4,727	5,615	6,404	7,488
Operating expenses	(2,832)	(3,142)	(3,978)	(4,601)	(5,157)	(5,946)
Selling expense	(1,102)	(1,256)	(1,587)	(1,822)	(2,041)	(2,357)
Admin expense	(820)	(879)	(1,099)	(1,291)	(1,440)	(1,663)
R&D expense	(969)	(1,083)	(1,333)	(1,539)	(1,731)	(1,990)
Others	59	75	41	51	55	64
Operating profit	338	408	748	1,014	1,248	1,542
Investment gain/loss	(23)	(10)	0	(7)	(7)	(7)
Interest income	0	17	53	32	32	41
Interest expense	(41)	0	0	0	0	0
Foreign exchange gain/loss	0	0	(1)	0	0	0
Other income/expense	9	(5)	(51)	(55)	(40)	(32)
Pre-tax profit	284	410	749	984	1,233	1,544
Income tax	(29)	(29)	(31)	(42)	(70)	(62)
Minority interest	(20)	(51)	(58)	(57)	(90)	(106)
Net profit	235	330	661	884	1,074	1,376
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	2,950	5,420	5,122	5,017	5,756	6,962
Cash & equivalents	2,231	4,797	4,050	3,296	4,074	5,307
Account receivables	591	475	560	671	623	585
Inventories	21	26	71	53	62	72
Other current assets	106	121	441	997	997	997
Non-current assets	3,217	4,127	4,946	5,604	6,164	6,675
PP&E	860	994	1,219	1,529	2,226	2,873
Investment in JVs & assos	233	255	326	342	342	342
Intangibles	1,148	1,664	1,979	2,451	2,315	2,178
Other non-current assets	976	1,214	1,421	1,282	1,282	1,282
Total assets	6,167	9,547	10,068	10,622	11,920	13,637
Current liabilities	2,809	2,858	3,637	3,909	4,371	4,951
Short-term borrowings	1,089	3	0	0	0	0
Account payables	1,068	1,740	2,395	2,873	3,336	3,915
Other current liabilities	653	1,115	1,242	1,036	1,036	1,036
Non-current liabilities	9	131	158	195	195	195
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	9	131	158	195	195	195
Total liabilities	2,818	2,989	3,795	4,104	4,566	5,146
Share capital	1,129	1,186	1,189	1,191	1,191	1,191
Capital surplus	509	3,135	3,174	2,869	2,869	2,869
Retained earnings	1,709	1,957	2,432	2,981	3,816	4,953
Other reserves	(78)	125	(1,007)	(983)	(983)	(983)
Total shareholders equity	3,269	6,402	5,788	6,057	6,893	8,030
Minority interest	80	156	485	461	461	461
Total equity and liabilities	6,167	9,547	10,068	10,622	11,920	13,637

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	284	410	749	984	1,233	1,544
Depreciation & amortization	282	229	158	225	280	335
Tax paid	(29)	(29)	(31)	(42)	(70)	(62)
Change in working capital	312	784	525	385	502	607
Others	(208)	482	200	(397)	0	0
Net cash from operations	641	1,876	1,601	1,154	1,945	2,423
Investing						
Capital expenditure	(243)	(439)	(720)	(844)	(839)	(845)
Acquisition of subsidiaries/ investments	(6)	(239)	0	(30)	0	0
Net proceeds from disposal of short-term investments	22	(19)	(931)	(648)	0	0
Others	1	0	110	16	0	0
Net cash from investing	(227)	(697)	(1,541)	(1,506)	(839)	(845)
Financing						
Dividend paid	(301)	(157)	(354)	(357)	(238)	(238)
Net borrowings	(112)	(1,088)	(3)	0	0	0
Proceeds from share issues	23	3,040	636	295	0	0
Others	0	(395)	(1,074)	(364)	(90)	(106)
Net cash from financing	(389)	1,400	(795)	(426)	(328)	(345)
Net change in cash						
Cash at the beginning of the year	2,212	2,231	4,797	4,050	3,296	4,074
Exchange difference	(5)	(14)	(13)	24	0	0
Cash at the end of the year	2,231	4,797	4,050	3,296	4,074	5,307
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	21.9%	13.1%	40.3%	22.5%	15.1%	17.4%
Gross profit	16.7%	12.0%	33.1%	18.8%	14.0%	16.9%
Operating profit	(38.9%)	20.6%	83.5%	35.5%	23.0%	23.6%
Net profit	(46.5%)	40.5%	100.1%	33.7%	21.5%	28.1%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	89.5%	88.7%	84.1%	81.6%	80.8%	80.5%
Operating margin	9.5%	10.2%	13.3%	14.7%	15.7%	16.6%
Return on equity (ROE)	7.3%	6.8%	10.8%	14.9%	16.6%	18.4%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.7)	(0.7)	(0.5)	(0.6)	(0.7)
Current ratio (x)	1.1	1.9	1.4	1.3	1.3	1.4
Receivable turnover days	47.2	48.6	33.6	32.7	29.8	23.7
Inventory turnover days	1.6	2.2	3.2	3.3	2.6	2.6
Payable turnover days	110.1	158.6	155.6	152.4	153.7	153.7
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	148.4	208.9	122.0	84.4	69.5	54.2
P/B	10.7	11.1	14.1	12.3	10.8	9.3
Div yield (%)	0.3	0.4	0.4	0.3	0.3	0.3
EV	59,494.6	55,843.2	56,587.5	57,341.2	56,563.5	55,330.0
EV/Sales	16.8	13.9	10.1	8.3	7.1	6.0

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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