

Kingdee (268 HK)

Strategic investment from QIA announced

Kingdee announced (10 Dec) that it has entered into a share subscription agreement with a subsidiary of Qatar Investment Authority (QIA), pursuant to which Kingdee has conditionally agreed to allot and issue, and the subsidiary of QIA has agreed to subscribe for c. HK\$1.56bn (c. US\$200mn) amount of Kingdee's shares (c. 4.26% of enlarged share capital post transaction) at the subscription price of HK\$10.10 per share. The share subscription will be allotted and issued under the General Mandate (GM) granted to Kingdee's board at the Annual General Meeting (AGM) held on 18 May 2023. As such, this subscription will not be subject to additional shareholder's approval. The transaction, in our view, is conducted at a reasonable price, and has demonstrated that Kingdee's leading position in enterprise digitalization management industry has been further recognized by leading institutional investors, and shall pave the way for Kingdee's potential international expansion in the future. We maintain financial forecast and TP of HK\$17.0 per share unchanged. Reiterate BUY.

■ **More details regarding the transaction:** 1) transaction price: the price of HK\$10.10 per share represented a discount of c. 2.7% to the closing price on 8 Dec, and c. 3.0% to the average closing price for the last five consecutive trading days; 2) use of proceeds: c. 80% of the proceeds will be allotted towards potential capital market transactions including potential acquisitions and share buy-backs, and the remaining 20% will be allotted towards general operation and working capital of Kingdee; 3) lock-up period: 180-days; 4) future share subscription under GM: management highlighted that it is cautious when utilizing the quota of GM, as it is cautious on the share dilution impact; the subscription agreement with QIA represents c. 44% of the quota of the GM, and management is cautious when considering further utilizing the remaining 56% of the amount, and sees limited possibilities for further utilization in the near term; 5) management highlighted that future business expansion opportunities may arise with this strategic investment.

■ **Recent business update:** management noted a further improving trend to net dollar retention (NDR) ratios across business line post the voluntary announcement on 11 Oct ([link](#)), in which Kingdee highlighted that as of 30 Sep 2023, Cosmic & Constellation/ Galaxy/ Stellar/ Jingdou Cloud achieved NDR ratios of 105%/95%/90%/86% respectively, and Kingdee Cloud's subscription annual recurring revenue (ARR) has reached RMB2.67bn, up 40% YoY. Management maintained its guidance of achieving RMB3.0bn ARR for 2023E (implies 40% YoY growth), and of delivering 50% CAGR in operating cash flow over 2023-2025E.

■ **Reiterate BUY rating.** Although overall digitalization demand recovery will likely take time amid current macro backdrop, digitalization and domestic substitution remain vital long-term trends, and Kingdee is well-positioned to benefit from the trend, in our view. We maintain our financial forecast and per share valuation of HK\$17.0 unchanged (based on 8.4x 2023E EV/sales), and reiterate our BUY rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMBmn)	4,174	4,866	5,795	6,880	8,110
YoY growth (%)	24.4	16.6	19.1	18.7	17.9
Net profit (RMBmn)	(302.3)	(389.2)	(198.5)	(39.9)	167.7
EPS (Reported) (RMBcents)	(9.23)	(11.21)	(5.71)	(1.15)	4.83
Consensus EPS (RMB cents)	(9.23)	(11.31)	(7.58)	(1.95)	7.78
P/E (x)	na	na	na	na	197.1
EV/Sales (x)	8.2	7.1	6.0	5.0	4.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$17.00
(Previous TP)	HK\$17.00)
Up/Downside	63.8%
Current Price	HK\$10.38

China Software & IT Services

Ye TAO

franktao@cmbi.com.hk

Saiyi HE, CFA

(852) 3916 1739

hesaiyi@cmbi.com.hk

Wentao LU, CFA

luwentao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	36,070.5
Avg 3 mths t/o (HK\$ mn)	159.3
52w High/Low (HK\$)	18.86/8.86
Total Issued Shares(mn)	3475.0

Source: FactSet

Shareholding Structure

Mr. Xu - Chairman	20.3%
Oriental Tao Limited	11.1%

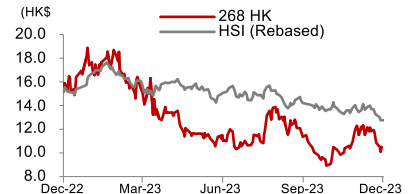
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.6%	-9.2%
3-mth	-8.6%	1.8%
6-mth	-6.0%	11.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	3,356	4,174	4,866	5,795	6,880	8,110
Cost of goods sold	(1,147)	(1,541)	(1,868)	(2,191)	(2,558)	(3,016)
Gross profit	2,209	2,634	2,998	3,604	4,322	5,094
Operating expenses	(2,823)	(3,392)	(3,826)	(4,176)	(4,726)	(5,263)
Selling expense	(1,425)	(1,741)	(2,027)	(2,200)	(2,493)	(2,809)
Admin expense	(414)	(466)	(504)	(538)	(600)	(652)
R&D expense	(984)	(1,185)	(1,295)	(1,438)	(1,633)	(1,802)
Operating profit	(614)	(758)	(828)	(572)	(405)	(169)
Net Interest income/(expense)	36	76	100	92	98	116
Others	195	299	254	266	255	272
Pre-tax profit	(383)	(382)	(474)	(214)	(52)	219
Income tax	41	44	22	2	5	(22)
Minority interest	6	36	63	13	7	(30)
Net profit	(335)	(302)	(389)	(198)	(40)	168
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	6,183	4,471	3,984	3,995	4,455	5,176
Cash & equivalents	2,754	2,047	1,943	1,976	2,316	2,919
Restricted cash	334	392	293	408	484	571
Prepayment	1,236	370	626	626	626	626
Other current assets	1,503	1,339	776	644	692	719
Contract assets	357	323	347	342	337	342
Non-current assets	4,539	6,616	7,747	7,939	8,207	8,560
PP&E	746	1,045	1,377	1,420	1,480	1,560
Intangibles	786	1,037	1,192	1,340	1,548	1,821
Other non-current assets	3,007	4,534	5,178	5,178	5,178	5,178
Current liabilities	2,599	3,084	3,766	4,310	5,094	5,972
Short-term borrowings	120	0	85	51	49	49
Account payables	795	759	899	924	1,025	1,148
Other current liabilities	200	160	150	150	150	150
Contract liabilities	1,484	2,165	2,631	3,184	3,870	4,625
Non-current liabilities	165	200	558	428	420	418
Long-term borrowings	0	0	385	255	247	245
Other non-current liabilities	165	200	173	173	173	173
Total liabilities	2,764	3,284	4,324	4,738	5,514	6,390
Share capital	83	83	84	84	84	84
Capital surplus	5,053	5,149	5,085	5,085	5,085	5,085
Retained earnings	1,922	1,619	1,230	1,032	992	1,160
Other reserves	732	744	867	867	867	867
Total shareholders equity	7,790	7,596	7,265	7,067	7,027	7,195
Minority interest	169	207	142	129	122	151
Total equity and liabilities	10,722	11,087	11,731	11,934	12,662	13,736

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(383)	(382)	(474)	(214)	(52)	219
Depreciation & amortization	493	439	0	504	557	621
Tax paid	41	44	22	2	5	(22)
Change in working capital	364	560	466	600	666	760
Others	(1)	44	382	(103)	(102)	(147)
Net cash from operations	473	661	374	787	1,070	1,453
Investing						
Capital expenditure	(353)	(772)	(888)	(695)	(826)	(973)
Others	(1,138)	(433)	101	105	107	125
Net cash from investing	(1,491)	(1,205)	(787)	(590)	(719)	(848)
Financing						
Dividend paid	(37)	0	0	0	0	0
Net borrowings	(80)	(120)	473	(164)	(11)	(2)
Proceeds from share issues	2,091	0	0	0	0	0
Others	(9)	(24)	(172)	0	0	0
Net cash from financing	1,966	(144)	301	(164)	(11)	(2)
Net change in cash						
Cash at the beginning of the year	1,899	2,754	2,047	1,943	1,976	2,316
Exchange difference	(93)	(19)	8	0	0	0
Cash at the end of the year	2,754	2,047	1,943	1,976	2,316	2,919
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	0.9%	24.4%	16.6%	19.1%	18.7%	17.9%
Gross profit	(8.1%)	19.2%	13.8%	20.2%	19.9%	17.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	65.8%	63.1%	61.6%	62.2%	62.8%	62.8%
Operating margin	(18.3%)	(18.2%)	(17.0%)	(9.9%)	(5.9%)	(2.1%)
Return on equity (ROE)	(4.9%)	(3.9%)	(5.2%)	(2.8%)	(0.6%)	2.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.3)	(0.2)	(0.2)	(0.3)	(0.4)
Current ratio (x)	2.4	1.4	1.1	0.9	0.9	0.9
Receivable turnover days	34.9	31.7	25.7	25.7	25.7	25.7
Inventory turnover days	1.4	2.2	2.8	2.8	2.8	2.8
Payable turnover days	224.3	184.1	162.0	153.9	146.2	138.9
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	na	na	na	197.1
P/B	6.1	9.3	6.4	4.6	4.6	4.5
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.1
EV	33,566.2	34,153.0	34,727.1	34,530.6	34,179.3	33,574.5
EV/Sales	10.0	8.2	7.1	6.0	5.0	4.1

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.