

Kingdee (268 HK)

Steady rev growth with on-track loss reduction

Kingdee reported 2023 financial results: revenue was RMB5.7bn, up 17% YoY (2022: 17% YoY), and net loss attributable to ordinary shareholders was RMB210mn (2022: loss of RMB389mn), both in line with our estimate and Bloomberg consensus. Kingdee's loss reduction effort was on track, with loss margin narrowing from -17.9% in 2022 to -12.1% in 2023, driven by 2.6ppt improvement in gross margin, on an increase in subscription revenue, cloud infrastructure cost optimization, as well as operating efficiency improvement. We remain positive that Kingdee is well-positioned to benefit from the domestic substitution trend, backed by strong and continuously enhanced product capability and partner ecosystem. We roll forward our valuation to 2024E, and our new target price of HK\$15.5 (prior HK\$15.1) is based on 6.4x FY24E EV/sales, in-line with the one-year mean. Maintain BUY.

- **2023 results in line with cloud contributing 79% of revenue.** Kingdee delivered in-line 2023 results with revenue growth of 17% YoY to RMB5.7bn. Cloud revenue grew 21% YoY to RMB4.5bn (79% of revenue; +3ppt YoY). ERP business and others revenue also grew by 2% YoY (2022: 19% YoY decline), driven by one-off revenue from the implementation of some offline SOE projects. Although facing macro headwinds, the 34% YoY growth in ARR (2022: 36%) and 30% YoY growth in subscription contract liabilities (2022: 38%) still suggest Kingdee's solid SaaS growth outlook in 2024, in our view.
- **Small- and medium-sized enterprises: Galaxy maintained solid margin expansion.** Kingdee's core SaaS product Galaxy achieved revenue of RMB2.0bn, up 16.3% YoY (2022: 18.4%). Galaxy recorded over 39,000 customers by end-2023, indicating over 8,000 YoY net adds (2022: 5,600), and saw 29% YoY growth in subscription ARR. Dollar retention rate remained stable at 97.2% in 2023, flat YoY. Management highlighted that the operating margin of Galaxy business further increased to 22% in 2023 (2021: 20%), and would be ~30% if excluding the impact from investment in the Galaxy Flagship version.
- **Large enterprises: expecting revenue growth to reaccelerate in 2024.** Benefiting from ongoing software localization demand, as well as enhanced product capability, Kingdee Cosmic & Constellation (C&C) revenue grew 40.9% YoY to RMB981mn (17.3% of revenue). In view of a strong project pipeline and ARR growth (+48.7% YoY), management expects C&C revenue growth to reaccelerate in 2024E.
- **Update on financial guidance.** Management guided for: 1) a 2023-2026E revenue CAGR of 15-20%; 2) a 2023-2026E subscription ARR CAGR of 30%; 3) at least RMB900mn in operating cash flow in 2024, indicating at least 38% YoY growth. Also, management vowed to continuously improve operating efficiency in 2024, and targets to achieve breakeven no later than 2025.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	4,866	5,679	6,722	7,980	9,250
YoY growth (%)	16.6	16.7	18.4	18.7	15.9
Net profit (RMB mn)	(389.2)	(209.9)	(10.6)	251.7	484.1
EPS (Reported) (RMB cents)	(11.21)	(6.04)	(0.30)	7.24	13.93
Consensus EPS (RMB cents)	na	na	(1.64)	7.34	27.67
P/E (x)	ns	ns	ns	118.4	61.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$15.50
(Previous TP)	HK\$15.10
Up/Downside	66.3%
Current Price	HK\$9.32

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Stock Data

Mkt Cap (HK\$ mn)	32,387.0
Avg 3 mths t/o (HK\$ mn)	175.5
52w High/Low (HK\$)	14.54/7.41
Total Issued Shares (mn)	3475.0

Source: FactSet

Shareholding Structure

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

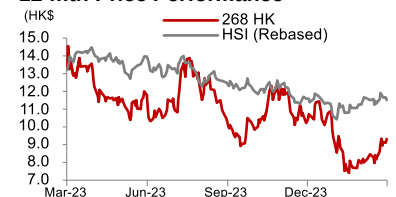
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	17.2%	14.6%
3-mth	-7.9%	-8.0%
6-mth	-10.6%	-2.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Kingdee: change in CMBI forecast

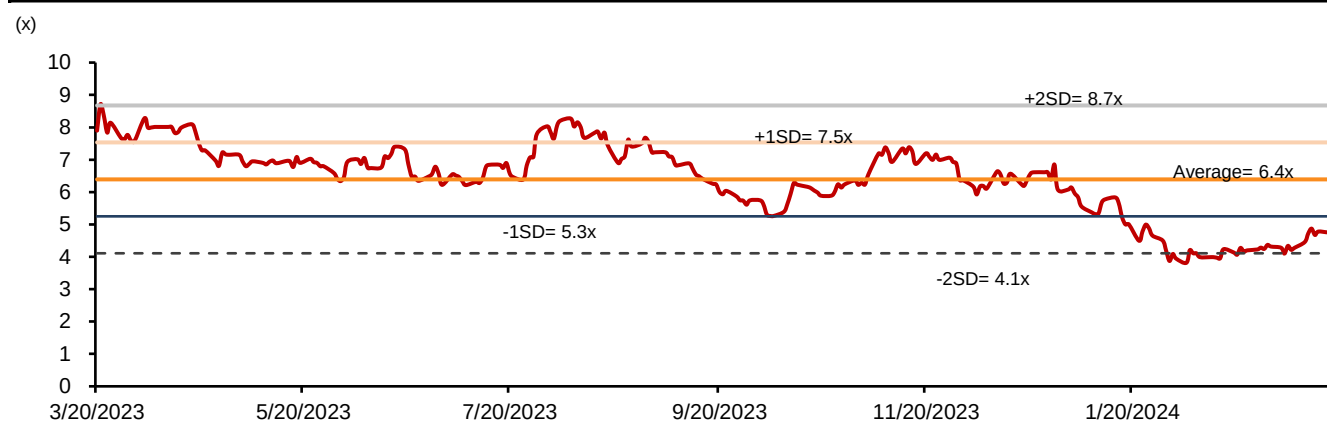
RMBmn	2024E			2025E			2026E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	6,722	6,747	-0%	7,980	7,849	2%	9,250	-	-
Gross profit	4,335	4,237	2%	5,172	4,930	5%	6,025	-	-
OP profit	-405	-394	3%	-80	-174	n.a.	199	-	-
Profit before tax	-78	-49	60%	246	204	21%	521	-	-
Net profit	-11	-37	-72%	252	156	61%	484	-	-
EPS	-0.00	-0.01	-72%	0.07	0.04	61%	0.14	-	-
Margins									
GM	64.5%	62.8%	169 bps	64.8%	62.8%	201 bps	65.1%	-	-
OPM	-6.0%	-5.8%	-18 bps	-1.0%	-2.2%	122 bps	2.2%	-	-
PBT margin	-1.2%	-0.7%	-44 bps	3.1%	2.6%	48 bps	5.6%	-	-
Net margin	-0.2%	-0.6%	40 bps	3.2%	2.0%	116 bps	5.2%	-	-

Source: CMBIGM estimates

Figure 2: Kingdee: CMBI forecast vs Bloomberg consensus

RMBmn	2024			2025			2026		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	6,722	6,925	-3%	7,980	8,337	-4%	9,250	10,100	-8%
Gross profit	4,335	4,405	-2%	5,172	5,401	-4%	6,025	6,650	-9%
Operating profit	-405	-168	n.a.	-80	178	-145%	199	895	-78%
Profit before tax	-78	-99	n.a.	246	275	-10%	521	930	-44%
Net profit	-11	-91	n.a.	252	249	1%	484	825	-41%
EPS	-0.00	-0.08	n.a.	0.07	-0.08	-195%	0.14	0.92	-85%
Margins									
GM	64.5%	63.6%	88 bps	64.8%	64.8%	4 bps	65.1%	65.8%	-70 bps
OPM	-6.0%	-2.4%	-359 bps	-1.0%	2.1%	-313 bps	2.2%	8.9%	-671 bps
PBT margin	-1.2%	-1.4%	26 bps	3.1%	3.3%	-21 bps	5.6%	9.2%	-358 bps
Net margin	-0.2%	-1.3%	115 bps	3.2%	3.0%	17 bps	5.2%	8.2%	-293 bps

Source: Bloomberg, CMBIGM estimates

Figure 3: Kingdee: one-year average EV/Sales

Source: Bloomberg, CMBIGM estimates

Risks

1) slower-than-expected revenue growth; 2) slower-than-expected margin expansion; 3) more intensified-than-expected industry competition.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	4,174	4,866	5,679	6,722	7,980	9,250
Cost of goods sold	(1,541)	(1,868)	(2,035)	(2,387)	(2,808)	(3,224)
Gross profit	2,634	2,998	3,644	4,335	5,172	6,025
Operating expenses	(3,392)	(3,826)	(4,249)	(4,740)	(5,252)	(5,826)
Selling expense	(1,741)	(2,027)	(2,320)	(2,614)	(2,906)	(3,223)
Admin expense	(466)	(504)	(490)	(540)	(589)	(667)
R&D expense	(1,185)	(1,295)	(1,440)	(1,585)	(1,757)	(1,936)
Operating profit	(758)	(828)	(605)	(405)	(80)	199
Net Interest income/(expense)	76	100	90	109	102	114
Others	299	254	214	218	224	208
Pre-tax profit	(382)	(474)	(301)	(78)	246	521
Income tax	44	22	31	8	(25)	(52)
Minority interest	36	63	60	60	30	15
Net profit	(302)	(389)	(210)	(11)	252	484

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	4,471	3,984	5,703	5,584	5,931	6,487
Cash & equivalents	2,047	1,943	2,964	2,830	3,087	3,559
Restricted cash	392	293	364	389	462	535
Prepayment	370	626	1,045	1,045	1,045	1,045
Other current assets	1,339	776	968	976	986	996
Contract assets	323	347	362	344	351	352
Non-current assets	6,616	7,747	8,436	9,177	10,005	10,887
PP&E	1,045	1,377	1,919	2,448	2,992	3,529
Intangibles	1,037	1,192	1,232	1,445	1,728	2,073
Other non-current assets	4,534	5,178	5,284	5,284	5,284	5,284
Total assets	11,087	11,731	14,139	14,761	15,936	17,374
Current liabilities	3,084	3,766	4,529	5,194	6,154	7,103
Short-term borrowings	0	85	20	22	21	23
Account payables	759	899	1,231	1,187	1,327	1,447
Other current liabilities	160	150	101	101	101	101
Contract liabilities	2,165	2,631	3,177	3,884	4,705	5,531
Non-current liabilities	200	558	908	935	928	949
Long-term borrowings	0	385	757	784	777	798
Other non-current liabilities	200	173	151	151	151	151
Total liabilities	3,284	4,324	5,437	6,129	7,082	8,052
Share capital	83	84	87	87	87	87
Capital surplus	5,149	5,085	6,512	6,512	6,512	6,512
Retained earnings	1,619	1,230	1,020	1,010	1,262	1,746
Other reserves	744	867	979	979	979	979
Total shareholders equity	7,596	7,265	8,599	8,589	8,840	9,324
Minority interest	207	142	103	43	13	(2)
Total equity and liabilities	11,087	11,731	14,139	14,761	15,936	17,374

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(382)	(474)	(301)	(78)	246	521
Depreciation & amortization	439	414	496	550	624	709
Tax paid	44	22	31	8	(25)	(52)
Change in working capital	560	328	522	649	870	862
Others	0	85	(95)	(136)	(130)	(141)
Net cash from operations	661	374	653	992	1,587	1,899
Investing						
Capital expenditure	(772)	(888)	(897)	(1,290)	(1,452)	(1,591)
Others	(433)	101	(408)	136	130	141
Net cash from investing	(1,205)	(787)	(1,305)	(1,155)	(1,323)	(1,450)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	(120)	473	307	29	(7)	22
Proceeds from share issues	0	0	1,412	0	0	0
Others	(24)	(172)	(48)	0	0	0
Net cash from financing	(144)	301	1,671	29	(7)	22
Net change in cash						
Cash at the beginning of the year	2,754	2,047	1,943	2,964	2,830	3,087
Exchange difference	(19)	8	1	0	0	0
Cash at the end of the year	2,047	1,943	2,964	2,830	3,087	3,559
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	24.4%	16.6%	16.7%	18.4%	18.7%	15.9%
Gross profit	19.2%	13.8%	21.6%	19.0%	19.3%	16.5%
Net profit	na	na	na	na	na	92.3%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	63.1%	61.6%	64.2%	64.5%	64.8%	65.1%
Operating margin	(18.2%)	(17.0%)	(10.7%)	(6.0%)	(1.0%)	2.2%
Return on equity (ROE)	(3.9%)	(5.2%)	(2.6%)	(0.1%)	2.9%	5.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Current ratio (x)	1.4	1.1	1.3	1.1	1.0	0.9
Receivable turnover days	31.7	25.7	21.1	21.1	21.1	21.1
Inventory turnover days	2.2	2.8	2.9	2.9	2.9	2.9
Payable turnover days	184.1	162.0	191.1	181.5	172.4	163.8
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	ns	ns	118.4	61.6
P/B	9.3	6.4	4.5	3.5	3.4	3.2
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

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

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