

SenseTime (20 HK)

Strengthening Gen AI competitive edges

SenseTime announced 1H24 results on 27 Aug: total revenue grew by 21% YoY to RMB1.74bn, largely in line with our estimate; adjusted net loss narrowed by 3% YoY to RMB2.33bn with net loss margin improving by 33ppt YoY to -134%, which is below full-year consensus margin estimate of -79% due to continuous investments in foundations models and generative AI application development. Looking ahead in 2H24E, we expect total revenue growth will further accelerate to +33% YoY, driven by the robust growth of Gen AI business. We maintain our FY24-26E total revenue forecast largely unchanged but expect larger adjusted net loss of RMB3.5/2.5/1.7bn over FY24-26E (previous: RMB3.1/2.3/1.6bn), mainly due to more conservative GPM outlook as SenseTime will expand its computing power through a partner network. We fine-tuned our target price to HK\$1.36 based on 6.5x FY25E EV/sales (previous: HK\$1.25 based on 7.0x FY24E EV/sales), a premium to the average EV/sales of China's AI peers (5.2x), reflecting SenseTime's strong positioning in the Gen AI market.

- Gen AI business as the key growth driver.** Gen AI business revenue increased by 256% YoY to RMB1.05bn and represented 60% of total revenue in 1H24 (1H23: 21%), fuelled by the strong demand for large models and AIDC. The number of users registered for SenseNova MaaS grew by 725% from Jan to Jul 2024. As per IDC, SenseTime became the third largest AIDC service provider in China in 2H23, with market share of 15.4%. Smart Auto business revenue grew by 100% YoY to RMB168mn in 1H24. 705k new vehicles were delivered in 1H24, up 80% YoY. SenseTime was confirmed as the designated supplier for 15 new models in 1H24, which represents additional 6mn vehicles and will support future growth of Smart Auto. Traditional AI revenue declined by 51% YoY to RMB520mn in 1H24, primarily due to adjustment of Smart City business.
- Positive on SenseTime's Gen AI competitive edge.** For 2H24E, we expect SenseTime's total revenue to grow by 33% YoY to RMB2.62bn, mainly driven by 75% YoY growth in Gen AI business revenue. We are upbeat on SenseTime's positioning in China's Gen AI market, given its: 1) strong AI infrastructure with total operational computing power exceeding 20,000 PetaFLOPS, and management expects it to surpass 25,000 PetaFLOPS by end-FY24; 2) solid operational capabilities for large-scale AI clusters; 3) independence (had no direct competition) to its suppliers and clients.
- More conservative GPM outlook in FY24-26E.** GPM was 44.1% in 1H24, down 1.2ppt YoY, mainly due to the increase in AIDC operation costs. Thanks to the operating leverage and control in selling & administrative expenses, adjusted net margin improved by 33ppt YoY to -134% in 1H24. Looking ahead, we expect the GPM will gradually decline to 38% in FY26E, as SenseTime will expand its computing power through partner network instead of its own capex investments. However, this adjustment should improve its cash flow and financial flexibility. For its long-term path to profitability, we expect SenseTime will need to make meaningful improvement in operating efficiency.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	3,809	3,406	4,363	5,480	6,599
Adjusted net profit (RMB mn)	(4,688.0)	(5,359.7)	(3,506.7)	(2,495.3)	(1,719.0)
EPS (Reported) (RMB cents)	(18.93)	(19.24)	(12.40)	(9.44)	(7.60)
Consensus EPS (RMB cents)	(18.93)	(19.24)	(11.08)	(7.69)	(5.94)
EV/Sales (x)	6.1	8.2	6.6	5.5	5.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$1.36
(Previous TP)	HK\$1.25)
Up/Downside	15.3%
Current Price	HK\$1.18

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Stock Data

Mkt Cap (HK\$ mn)	38,280.7
Avg 3 mths t/o (HK\$ mn)	566.9
52w High/Low (HK\$)	1.68/0.58
Total Issued Shares (mn)	32441.3

Source: FactSet

Shareholding Structure

Amind	20.6%
SenseTalent Management	10.5%

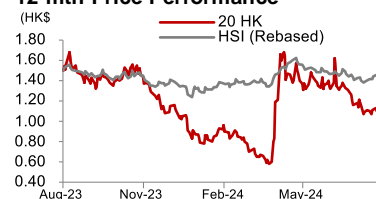
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.9%	-4.0%
3-mth	-13.9%	-9.3%
6-mth	22.9%	15.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: SenseTime: forecast revision

RMBm	2024E			2025E			2026E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	4,363	4,349	0%	5,480	5,464	0%	6,599	6,532	1%
Gross profit	1,859	1,860	-0%	2,208	2,353	-6%	2,535	2,832	-10%
Operating profit	-3,843	-3,335	NA	-2,805	-2,542	NA	-1,997	-1,849	NA
Adj. EBITDA	-2,514	-2,080	NA	-1,353	-1,145	NA	-425	-318	NA
Adj. net profit	-3,542	-3,109	NA	-2,522	-2,303	NA	-1,740	-1,623	NA
EPS	-0.12	-0.11	NA	-0.09	-0.09	NA	-0.08	-0.07	NA
Margins									
GPM	42.6%	42.8%	-16 bps	40.3%	43.1%	-277 bps	38.4%	43.4%	-494 bps
OPM	-88.1%	-76.7%	-1140 bps	-51.2%	-46.5%	-467 bps	-30.3%	-28.3%	-196 bps
Adj. EBITDA margin	-57.6%	-47.8%	-979 bps	-24.7%	-21.0%	-373 bps	-6.4%	-4.9%	-156 bps
Net margin	-81.2%	-71.5%	-970 bps	-46.0%	-42.1%	-388 bps	-26.4%	-24.9%	-152 bps

Source: CMBIGM estimates

Figure 2: SenseTime: CMBIGM estimates vs consensus

RMBm	2024E			2025E			2026E		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	4,363	4,428	-1%	5,480	5,645	-3%	6,599	7,090	-7%
Gross profit	1,859	1,916	-3%	2,208	2,438	-9%	2,535	3,095	-18%
Operating profit	-3,843	-3,562	NA	-2,805	-2,301	NA	-1,997	-1,371	NA
Adj. EBITDA	-2,514	-2,535	NA	-1,353	-1,055	NA	-425	-249	NA
Adj. net profit	-3,542	-3,508	NA	-2,522	-2,004	NA	-1,740	-1,361	NA
EPS	-0.12	-0.11	NA	-0.09	-0.08	NA	-0.08	-0.06	NA
Margins									
GPM	42.6%	43.3%	-65 bps	40.3%	43.2%	-290 bps	38.4%	43.7%	-523 bps
OPM	-88.1%	-80.4%	-764 bps	-51.2%	-40.8%	-1042 bps	-30.3%	-19.3%	-1092 bps
Adj. EBITDA margin	-57.6%	-57.2%	-38 bps	-24.7%	-18.7%	-600 bps	-6.4%	-3.5%	-293 bps
Net margin	-81.2%	-79.2%	-194 bps	-46.0%	-35.5%	-1051 bps	-26.4%	-19.2%	-718 bps

Source: Bloomberg, CMBIGM estimates

Valuation

Figure 3: Global AI companies: valuation comparison

Companies	Ticker	Price (LC)	PS(x)			EV/Sales (x)			Rev CAGR 24-26E
			2024E	2025E	2026E	2024E	2025E	2026E	
China									
Arcsoft	688088 CH	24.3	11.6	9.6	7.9	9.0	7.4	6.1	22%
Cloudwalk	688327 CH	7.9	10.1	6.7	5.1	9.7	6.4	4.8	30%
Hikvision	002415 CH	26.4	2.5	2.2	1.9	2.1	1.9	1.7	12%
		Average	8.1	6.1	5.0	7.0	5.2	4.2	
Overseas									
Palantir	PLTR US	31.8	25.0	20.6	17.2	23.8	19.6	16.3	22%
UiPath	PATH US	12.4	5.6	5.1	4.6	4.2	3.9	3.4	15%
C3.ai	AI US	24.5	10.0	8.0	6.6	7.8	6.2	5.1	21%
Ambarella	AMBA US	49.9	9.3	8.4	6.7	8.3	7.5	6.0	-2%
		Average	12.5	10.5	8.8	11.0	9.3	7.7	
		Global Avg.	10.6	8.7	7.1	9.3	7.6	6.2	

Source: Bloomberg, CMBIGM

Note: Data as of 26 Aug 2024

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	4,700	3,809	3,406	4,363	5,480	6,599
Cost of goods sold	(1,423)	(1,266)	(1,905)	(2,504)	(3,272)	(4,063)
Gross profit	3,278	2,542	1,501	1,859	2,208	2,535
Operating expenses	(6,594)	(6,483)	(5,795)	(5,703)	(5,014)	(4,533)
Selling expense	(682)	(901)	(819)	(704)	(618)	(523)
Admin expense	(2,298)	(1,568)	(1,511)	(1,419)	(1,249)	(1,058)
R&D expense	(3,614)	(4,014)	(3,466)	(3,579)	(3,146)	(2,952)
Operating profit	(3,316)	(3,941)	(4,295)	(3,843)	(2,805)	(1,997)
Interest income	188	261	342	277	302	286
Interest expense	(34)	(55)	(147)	(169)	(238)	(281)
Other income/expense	(13,979)	(2,597)	(2,405)	(455)	(449)	(576)
Pre-tax profit	(17,142)	(6,333)	(6,504)	(4,191)	(3,191)	(2,569)
Income tax	(36)	240	9	6	5	4
After tax profit	(17,177)	(6,093)	(6,495)	(4,185)	(3,186)	(2,565)
Minority interest	(37)	(48)	(55)	(35)	(27)	(22)
Net profit	(17,140)	(6,045)	(6,440)	(4,150)	(3,159)	(2,543)
Adjusted net profit	(1,381)	(4,688)	(5,360)	(3,507)	(2,495)	(1,719)
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	28,084	21,524	16,940	17,592	17,714	16,310
Cash & equivalents	16,530	7,963	9,423	10,973	10,937	9,384
Account receivables	5,776	6,072	5,159	3,635	3,402	3,126
Inventories	496	617	506	1,132	1,524	1,948
Financial assets at FVTPL	273	632	522	522	522	522
Other current assets	4,991	6,213	1,310	1,310	1,310	1,310
Contract assets	19	27	20	20	20	20
Non-current assets	8,860	15,903	15,948	15,852	15,633	15,184
PP&E	2,909	6,999	7,379	7,293	7,086	6,652
Right-of-use assets	432	315	350	350	350	350
Intangibles	225	333	326	315	304	289
Other non-current assets	5,294	8,256	7,894	7,894	7,894	7,894
Total assets	36,944	37,427	32,888	33,444	33,347	31,494
Current liabilities	2,795	3,323	3,287	6,014	7,757	9,602
Short-term borrowings	0	321	194	365	531	389
Account payables	2,290	2,473	2,262	4,743	6,234	8,132
Other current liabilities	177	460	613	784	949	808
Contract liabilities	172	208	266	341	428	515
Non-current liabilities	2,162	5,090	6,445	6,784	8,130	6,997
Long-term borrowings	340	2,907	4,279	6,286	7,624	6,483
Bond payables	45	12	5	5	5	5
Other non-current liabilities	1,778	2,171	2,161	493	501	509
Total liabilities	4,957	8,413	9,733	12,798	15,888	16,599
Share capital	0	0	0	0	0	0
Retained earnings	(40,149)	(46,194)	(52,634)	(56,784)	(59,943)	(62,487)
Other reserves	72,042	75,164	75,794	77,469	77,469	77,469
Total shareholders equity	31,893	28,970	23,159	20,685	17,526	14,982
Minority interest	95	44	(4)	(40)	(66)	(88)
Total equity and liabilities	36,944	37,427	32,888	33,444	33,347	31,494

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(17,142)	(6,333)	(6,504)	(4,191)	(3,191)	(2,569)
Depreciation & amortization	658	968	994	1,141	1,238	1,324
Tax paid	(38)	(11)	(22)	6	5	4
Change in working capital	(2,026)	(101)	823	3,462	1,426	1,846
Others	16,062	2,393	1,475	(107)	(64)	(4)
Net cash from operations	(2,485)	(3,084)	(3,234)	311	(586)	600
Investing						
Capital expenditure	(1,266)	(5,167)	(1,518)	(1,046)	(1,018)	(875)
Others	(283)	(4,131)	4,976	277	302	286
Net cash from investing	(1,548)	(9,298)	3,458	(769)	(717)	(589)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	4,769	3,389	1,228	2,178	1,504	(1,282)
Proceeds from share issues	4,643	0	0	0	0	0
Others	(34)	(60)	(145)	(169)	(238)	(281)
Net cash from financing	9,378	3,329	1,084	2,008	1,266	(1,564)
Net change in cash						
Cash at the beginning of the year	11,428	16,530	7,963	9,423	10,973	10,937
Exchange difference	(243)	487	153	0	0	0
Cash at the end of the year	16,530	7,963	9,423	10,973	10,937	9,384
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	36.4%	(19.0%)	(10.6%)	28.1%	25.6%	20.4%
Gross profit	34.8%	(22.4%)	(41.0%)	23.9%	18.8%	14.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	69.7%	66.8%	44.1%	42.6%	40.3%	38.4%
Operating margin	(70.6%)	(103.5%)	(126.1%)	(88.1%)	(51.2%)	(30.3%)
Adj. net profit margin	(29.4%)	(123.1%)	(157.4%)	(80.4%)	(45.5%)	(26.1%)
Return on equity (ROE)	(316.7%)	(19.9%)	(24.7%)	(18.9%)	(16.5%)	(15.6%)
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)
Current ratio (x)	10.0	6.5	5.2	2.9	2.3	1.7
Receivable turnover days	319.3	493.6	345.5	241.9	169.3	118.5
Inventory turnover days	155.4	160.5	107.6	165.0	170.0	175.0
Payable turnover days	128.9	189.9	175.3	200.9	206.9	224.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	ns
P/B	1.1	1.2	1.6	1.7	2.1	2.4
EV	13,527.7	23,130.0	28,044.8	28,672.8	30,213.1	34,980.9
EV/Sales	2.9	6.1	8.2	6.6	5.5	5.3

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

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