

SenseTime (20 HK)

Restructuring to focus on Gen AI business and accelerate breakeven progress

SenseTime announced (4 Dec) the completion of a strategic organizational restructuring, after which the company has established a new “1+X” structure: 1) “1” stands for the core business, which will focus on AI cloud services, integration of large models & AI applications, development of general computer vision (CV) models; 2) “X” stands for other ecological businesses within the group including smart auto, domestic robot, smart healthcare, smart retail, etc. Each ecological business will 1) designate an independent CEO; 2) have a flexible incentive mechanism and financing channels; 3) use SenseTime’s AI infrastructure & large models (and pay SenseTime on an arm’s length transaction basis) to develop AI applications in their respective fields. We expect the restructuring will help SenseTime focus on its generative AI business, accelerate its progress to achieve breakeven and unleash the value of its ecological businesses. We revise up our earnings forecast and now expect SenseTime to achieve breakeven in FY26E (previous: adjusted net loss of RMB1.7bn). We raise our TP to HK\$2.00 based on 9.0x FY25E EV/Sales (previous: HK\$1.36 on 6.5x FY25E EV/Sales). Maintain BUY.

■ **Focus on core AI Cloud and Gen AI businesses.** Upon restructuring, SenseTime will focus on the core AI Cloud and Gen AI businesses, the revenue of which grew by 256% YoY and accounted for 60% of the total revenue in 1H24. We also expect meaningful expense cuts, as the total headcount of core business is below 2,000 and represents less than 50% of the Group headcount before restructuring (4,672 as of 1H24). The ecological businesses, including smart auto/domestic robot/smart healthcare/smart retail etc, will focus on the AI applications opportunities in their respective fields. The ecological businesses together have c.2,000 employees. Depending on the financing and divestiture progress, some ecological businesses will be deconsolidated from SenseTime financial statements, but these ecological businesses will continue to use SenseTime AI infrastructure, pay SenseTime on an arm’s length basis and drive SenseTime’s Gen AI revenue growth.

■ **Upbeat on Gen AI business growth.** We forecast Gen AI business revenue to grow at a CAGR of 68% over FY24-26E, mainly driven by SenseTime’s growing compute power and robust demand for AI compute. SenseTime is the third largest Gen AI IaaS service providers in China in 2H23, with a market share of 15%, per IDC. The company has total operating computing power of over 20,000 PetaFLOPS in Aug 2024 (+233% YoY), and management expects it to surpass 25,000 PetaFLOPS by end-FY24. Supported by its strong AI infrastructure, we are upbeat that SenseTime will continue to benefit from the development of Gen AI.

■ **Expect breakeven by FY26E.** Due to the restructuring, we are now more positive on SenseTime’s breakeven trajectory. We forecast its adjusted net margin to improve from -79.6% in FY24E to +1.1% in FY26E, fuelled by the robust Gen AI business growth and significant decline in opex. With a more sustainable business model, we see SenseTime as better positioned to capture opportunities in the new AI era.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	3,809	3,406	4,541	5,955	7,498
Adjusted net profit (RMB mn)	(4,688.0)	(5,359.7)	(3,615.9)	(1,636.2)	84.1
EPS (Adjusted) (RMB cents)	(14.68)	(16.63)	(10.80)	(4.89)	0.25
Consensus EPS (RMB cents)	(18.93)	(19.24)	(11.10)	(7.36)	(4.50)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$2.00**
 (Previous TP) **HK\$1.36**
Up/Downside **17.0%**
Current Price **HK\$1.71**

China Software & IT Services

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Ye TAO, CFA
 franktao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	55,474.6
Avg 3 mths t/o (HK\$ mn)	1,005.6
52w High/Low (HK\$)	2.33/0.58
Total Issued Shares (mn)	32441.3

Source: FactSet

Shareholding Structure

Amind	20.6%
SenseTalent Management	10.5%

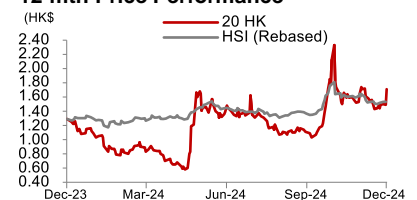
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.6%	9.1%
3-mth	51.3%	32.9%
6-mth	15.5%	7.5%

Source: FactSet

12-mth Price Performance



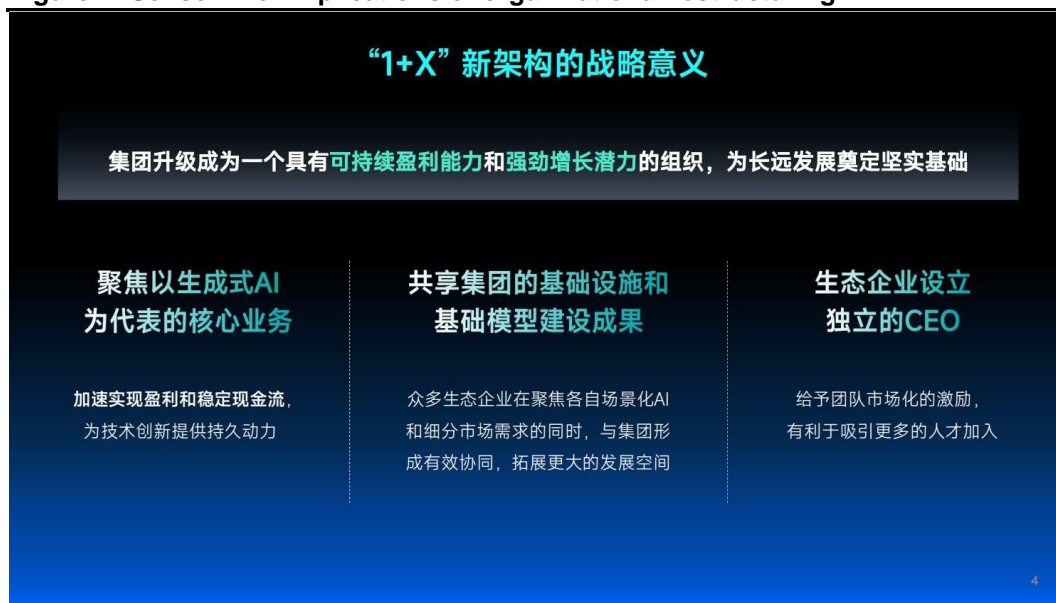
Source: FactSet

Figure 1: SenseTime: “1+X” organizational restructuring



Source: Company data, CMBIGM

Figure 2: SenseTime: implications of organizational restructuring



Source: Company data, CMBIGM

Figure 3: SenseTime: forecast revision

RMB mn	2024E			2025E			2026E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	4,541	4,363	4%	5,955	5,480	9%	7,498	6,599	14%
Gross profit	1,942	1,859	4%	2,422	2,208	10%	2,921	2,535	15%
Operating profit	-3,946	-3,843	NA	-1,886	-2,805	NA	-114	-1,997	NA
Adj. net profit	-3,652	-3,542	NA	-1,655	-2,522	NA	78	-1,740	NA
EPS	-0.13	-0.12	NA	-0.07	-0.09	NA	-0.02	-0.08	NA
Margins									
GM	42.8%	42.6%	16 bps	40.7%	40.3%	37 bps	39.0%	38.4%	53 bps
OPM	-86.9%	-88.1%	118 bps	-31.7%	-51.2%	1951 bps	-1.5%	-30.3%	2875 bps
Adj. net margin	-80.4%	-81.2%	75 bps	-27.8%	-46.0%	1822 bps	1.0%	-26.4%	2742 bps

Source: CMBIGM estimates

Figure 4: SenseTime: CMBIGM estimates vs consensus

RMB mn	2024E			2025E			2026E		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	4,541	4,444	2%	5,955	5,740	4%	7,498	7,369	2%
Gross profit	1,942	2,003	-3%	2,422	2,599	-7%	2,921	3,409	-14%
Operating profit	-3,946	-3,704	NA	-1,886	-2,381	NA	-114	-1,323	NA
Adj. net profit	-3,652	-3,572	NA	-1,655	-2,214	NA	78	-1,352	NA
EPS	-0.13	-0.11	NA	-0.07	-0.07	NA	-0.02	-0.05	NA
Margins									
GPM	42.8%	45.1%	-230 bps	40.7%	45.3%	-460 bps	39.0%	46.3%	-730 bps
OPM	-86.9%	-83.4%	-355 bps	-31.7%	-41.5%	981 bps	-1.5%	-18.0%	1643 bps
Adj. net margin	-80.4%	-80.4%	-5 bps	-27.8%	-38.6%	1077 bps	1.0%	-18.3%	1939 bps

Source: Bloomberg, CMBIGM estimates

Valuation

We value SenseTime at HK\$2.00 per share based on 9.0x FY25E EV/sales. Our target EV/sales is at a premium to the sector average (7.8x), primarily due to SenseTime's leadership in China's Gen AI cloud services market and strong AI infrastructure.

Figure 5: Global AI companies: valuation comparison

Companies	Ticker	Price (LC)	P/S (x)			EV/Sales (x)			Rev CAGR 24-26E
			2024E	2025E	2026E	2024E	2025E	2026E	
China									
Arcsoft	688088 CH	36.7	18.5	14.1	11.2	15.9	12.1	9.6	26%
Hikvision	002415 CH	29.7	2.9	2.6	2.3	2.6	2.3	2.1	11%
		Average	10.7	8.4	6.8	9.3	7.2	5.9	
Overseas									
UiPath	PATH US	15.3	6.4	5.8	5.2	5.0	4.5	4.0	15%
C3.ai	AI US	37.6	15.4	12.4	10.3	13.2	10.6	8.8	20%
Ambarella	AMBA US	71.1	12.6	10.3	8.9	11.7	9.5	8.2	-1%
		Average	11.5	9.5	8.1	10.0	8.2	7.0	
		Global Avg.	11.2	9.0	7.6	9.7	7.8	6.5	

Source: Bloomberg, CMBIGM
Note: Data as of 5 Dec 2024

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	4,700	3,809	3,406	4,541	5,955	7,498
Cost of goods sold	(1,423)	(1,266)	(1,905)	(2,599)	(3,533)	(4,577)
Gross profit	3,278	2,542	1,501	1,942	2,422	2,921
Operating expenses	(6,594)	(6,483)	(5,795)	(5,888)	(4,308)	(3,035)
Selling expense	(682)	(901)	(819)	(730)	(664)	(582)
Admin expense	(2,298)	(1,568)	(1,511)	(1,465)	(1,050)	(674)
R&D expense	(3,614)	(4,014)	(3,466)	(3,694)	(2,594)	(1,779)
Operating profit	(3,316)	(3,941)	(4,295)	(3,946)	(1,886)	(114)
Interest income	188	261	342	277	297	314
Interest expense	(34)	(55)	(147)	(169)	(236)	(294)
Other income/expense	(13,979)	(2,597)	(2,405)	(464)	(464)	(588)
Pre-tax profit	(17,142)	(6,333)	(6,504)	(4,303)	(2,290)	(682)
Income tax	(36)	240	9	0	0	0
After tax profit	(17,177)	(6,093)	(6,495)	(4,303)	(2,290)	(682)
Minority interest	(37)	(48)	(55)	(36)	(19)	(6)
Net profit	(17,140)	(6,045)	(6,440)	(4,267)	(2,270)	(677)
Adjusted net profit	(1,381)	(4,688)	(5,360)	(3,616)	(1,636)	84
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	28,084	21,524	16,940	17,587	19,301	21,188
Cash & equivalents	16,530	7,963	9,423	10,778	12,107	13,589
Account receivables	5,776	6,072	5,159	3,783	3,697	3,553
Inventories	496	617	506	1,175	1,646	2,195
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	15,892	15,752	15,402
PP&E	2,909	6,999	7,379	7,331	7,196	6,852
Right-of-use assets	432	315	350	350	350	350
Intangibles	225	333	326	318	313	307
Other non-current assets	5,294	8,256	7,894	7,894	7,894	7,894
Total assets	36,944	37,427	32,888	33,479	35,053	36,591
Current liabilities	2,795	3,323	3,287	6,203	8,335	10,847
Short-term borrowings	0	321	194	361	573	536
Account payables	2,290	2,473	2,262	4,923	6,732	9,161
Other current liabilities	177	460	613	779	992	954
Contract liabilities	172	208	266	355	465	586
Non-current liabilities	2,162	5,090	6,445	6,749	8,480	8,188
Long-term borrowings	340	2,907	4,279	6,249	7,971	7,667
Bond payables	45	12	5	5	5	5
Other non-current liabilities	1,778	2,171	2,161	494	504	516
Total liabilities	4,957	8,413	9,733	12,951	16,815	19,035
Share capital	0	0	0	0	0	0
Retained earnings	(40,149)	(46,194)	(52,634)	(56,901)	(59,171)	(59,848)
Other reserves	72,042	75,164	75,794	77,469	77,469	77,469
Total shareholders equity	31,893	28,970	23,159	20,568	18,298	17,621
Minority interest	95	44	(4)	(41)	(60)	(65)
Total equity and liabilities	36,944	37,427	32,888	33,479	35,053	36,591

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(17,142)	(6,333)	(6,504)	(4,303)	(2,290)	(682)
Depreciation & amortization	658	968	994	1,144	1,247	1,344
Tax paid	(38)	(11)	(22)	0	0	0
Change in working capital	(2,026)	(101)	823	3,465	1,544	2,157
Others	16,062	2,393	1,475	(107)	(61)	(20)
Net cash from operations	(2,485)	(3,084)	(3,234)	199	441	2,798
Investing						
Capital expenditure	(1,266)	(5,167)	(1,518)	(1,089)	(1,106)	(995)
Others	(283)	(4,131)	4,976	277	297	314
Net cash from investing	(1,548)	(9,298)	3,458	(812)	(810)	(681)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	4,769	3,389	1,228	2,137	1,934	(341)
Proceeds from share issues	4,643	0	0	0	0	0
Others	(34)	(60)	(145)	(169)	(236)	(294)
Net cash from financing	9,378	3,329	1,084	1,967	1,698	(635)
Net change in cash						
Cash at the beginning of the year	11,428	16,530	7,963	9,423	10,778	12,107
Exchange difference	(243)	487	153	0	0	0
Cash at the end of the year	16,530	7,963	9,423	10,778	12,107	13,589
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	36.4%	(19.0%)	(10.6%)	33.3%	31.1%	25.9%
Gross profit	34.8%	(22.4%)	(41.0%)	29.4%	24.7%	20.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	69.7%	66.8%	44.1%	42.8%	40.7%	39.0%
Operating margin	(70.6%)	(103.5%)	(126.1%)	(86.9%)	(31.7%)	(1.5%)
Adj. net profit margin	(29.4%)	(123.1%)	(157.4%)	(79.6%)	(27.5%)	1.1%
Return on equity (ROE)	(316.7%)	(19.9%)	(24.7%)	(19.5%)	(11.7%)	(3.8%)
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)	(0.2)	(0.3)
Current ratio (x)	10.0	6.5	5.2	2.8	2.3	2.0
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	1.7	1.8	2.3	2.6	2.9	3.0
EV	29,239.4	38,841.8	43,756.6	44,538.9	45,143.6	50,692.7
EV/Sales	6.2	10.2	12.8	9.8	7.6	6.8

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.