uSMART Securities
盈立证券

STRONG BUY (REIT) | HKD101.0 PT

15 April 2025

| HSI | 21,417.4 |
| HSTECH | 5,015.12 |

Key Data

Closing price (HKD)	41.75
52-week High/Low (HKD)	144/32.4
Market Cap (HK$bn)	107.12
Avg 3m Daily Volume	4,478,140

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Marketingforce (2556.HK) - FY24 Results Review

Strong FY24 with Revenue +26.5% and Turnaround; Set to Emerge as Leading AI Play with AI Infra + SaaS Monetization in FY2025

- Revenue +26.5% YoY. Gross Profit +16.9% YoY. Adj. Net Profit (Non-IFRS) turned positive with 385.6% YoY, driven by strong growth across AI+SaaS solutions and precision marketing

- **Key Focuses**

  1) **AI+SaaS business outlook: Strong performance with dual-engine growth (+ve):** The AI+SaaS revenue reached Rmb 842.2mn (+19.9% YoY). We believe this acceleration is driven by the company's efficient operating model, as evidenced by its 96% revenue retention rate across 26.6K enterprise customers, supported by 700+ direct sales force in 22 key cities. The high gross profit of Rmb 726.5mn, +17.9% YoY, demonstrates that AI-driven strategy is yielding strong returns. Notably, while SMB segment maintains healthy growth with 88% subscription revenue retention, the KA segment shows even stronger momentum with 124% retention rate, suggesting successful up-selling and cross-selling. In the current Chinese SaaS unsaturated market (where SaaS/PaaS penetration stands at just 34.3% vs U.S. 80%, while IaaS dominates at 65.7% vs U.S. 28%), Marketingforce's ability to maintain high margins while growing both SMB and KA revenue indicates their technology leadership in the segment. This structural difference presents significant opportunities: 1) the high IaaS penetration provides robust computing infrastructure for AI deployment; 2) lower legacy SaaS lock-in enables direct adoption of AI-native solutions; and 3) the low SaaS penetration indicates substantial growth runway. Looking ahead, we expect its AI+SaaS business to maintain strong revenue growth at +49.8% YoY.

  2) **AI-Agentforce intelligent platform and international expansion strategy (+ve):** The company's proprietary AI-Agentforce platform serves as an intelligent middleware integrating data processing, Agent lifecycle management and security frameworks. First, the Intelligent All-in-one Terminal device primarily serves basic administrative productivity needs in government sector, with features like secure data storage, unified document management and workflow automation. While currently focused on fundamental administrative functions, this hardware entry point establishes important government client relationships that could lead to future cross-selling opportunities for more advanced AI and cloud services. Second, and notably, the company's cross-border e-commerce digitalization platform has shown strong momentum with revenue reaching Rmb32.4mn (+30.1% YoY), primarily through SaaS offerings with selective AI-enabled features to help Chinese SMBs with international expansion. This positions the company as "China's eSalesforce, the world's eMarketingforce," aligning with government policies encouraging Chinese SMBs to develop overseas markets. We believe this dual-approach strategy - establishing government sector presence while expanding international business capabilities - provides solid foundation for growth in FY25-26E.

  3) **Precision marketing business outlook (+ve):** Precision marketing revenue reached Rmb 716.4mn (+35.2% YoY vs our forecast of Rmb 671.7mn, +26.8% YoY), with gross profit increasing 10.3% YoY. We believe the business is well-positioned to benefit from two structural tailwinds: 1) rising customer acquisition costs across major online channels are driving enterprises to seek AI-powered solutions for better marketing ROI; 2) the increasing complexity of managing multi-channel leads (online platforms, offline stores, and private domains) demands sophisticated automation tools over traditional manual operations. As these trends accelerate, we expect deeper integration between precision marketing and AI-enabled SaaS solutions to become essential for enterprises seeking sustainable growth and cost optimization. Given the stronger-than-expected momentum, we revise up our FY25E revenue growth forecast to 36.2% YoY.

- **Downside risks:** macro headwinds impacting client IT budgets, AI adoption friction among resource-constrained SMBs, and evolving data privacy regulations affecting precision marketing operations.

❑ **Investment thesis**

We lower our target price to HKD101.0 (from previous HKD157.7) with revised 12x FY25E PS multiple (from 16x), reflecting heightened macro uncertainties around AI sector valuation amid U.S. trade restrictions and pending validation of China's AI ecosystem. Despite valuation reset, as a AI SaaS pure-play immune to trade restrictions, Marketingforce's accelerating growth trajectory and improving earnings visibility (turning adjusted net profit positive) underpin our constructive long-term view on three key factors:

1)**Clear AI monetization with proven ROI:** The company exemplifies the first wave of AI beneficiaries in high-frequency, data-intensive enterprise software sector. Its 96% subscription retention rate and expanding revenue per customer validate tangible productivity gains from AI integration. The dual-engine growth model (SMB: 88% retention; KA: 124% retention) demonstrates successful monetization across customer segments;

2)**Market leadership in underpenetrated SaaS market:** With China's SaaS/PaaS penetration at just 34.3% (vs US 80%), Marketingforce's comprehensive offering positions it favorably to capture the structural shift from point solutions to integrated platforms. The efficient operating model (700+ direct sales force, 26.6K enterprise customers) provides immediate monetization channels for AI capabilities;

3)**Operational leverage with AI scaling:** High gross margins (FY24: 89.8% for enterprise SaaS) and improving profitability metrics demonstrate significant operational leverage as AI features scale. The company's successful transition to positive adjusted net profit and cash flow validates its path to sustainable growth. While near-term sector sentiment remains cautious, we believe current valuations don't fully capture the long-term potential of Marketingforce's AI-enhanced platform in driving productivity gains.

❑ **Valuation**

Cut PT to HK$101.0 (from HK$157.7) on sector de-rating; maintain Strong Buy.

Marketingforce reported strong FY2024 results that significantly beat expectations, with revenue growth of (26.5%) YoY to (RMB1,559mn, vs our previous forecast of RMB 1,563mn) and adjusted net profit of (RMB79.2mn vs our previous estimate of RMB 42.5mn), exceeding our estimate by 86%. These results validate our core thesis from "DEEP-SEEKING ALPHA"(see here for more detail) **China's AI sector is rapidly transitioning from conceptual to commercial validation, with Marketingforce emerging as a prime example of AI-enabled vertical solutions,** demonstrating clear monetization and ROI in high-frequency, data-intensive marketing scenarios.

As a key component of our AI investment basket, Marketingforce demonstrates a unique dual positioning: as an AI infrastructure provider offering scalable marketing intelligence platforms that address the universal need for marketing automation (given that marketing is a core function for every business), and as an AI-enabled solution provider achieving breakthroughs in content generation, user intent understanding, and precision marketing through deep learning and LLM technologies. However, given the AI sector valuation reset amid Trump's tariff concerns and pending validation of China's AI ecosystem through upcoming tech earnings (e.g., Alibaba's May results), we adopt a more conservative valuation approach. We raise our FY2025 revenue forecast to (RMB2,243mn) but reduce our target PS multiple to (12x) (from 16x), implying 7.0x/4.6x FY26E/27E P/S. Based on 256.27mn outstanding shares, this implies a target price of HKD101.0 per share. Maintain Buy.

uSMART Forecast(updated)

Fiscal years	2023A	2024A	2025E	2026E	2027E
Total revenue	1,232,120	1,558,586	2,242,685	3,360,655	5,078,441
YoY	7.82%	26.50%	43.89%	49.85%	51.11%
Total operating cost	(525,938)	(732,793)	(926,207)	(1,274,286)	(1,779,741)
Gross Profit	**706,182**	**825,793**	**1,316,477**	**2,086,368**	**3,298,701**
EBT	(169,423)	(876,670)	79,697	159,155	240,506
Net income	**(169,478)**	**(876,670)**	**67,743**	**135,282**	**204,430**
Net income margin (%)	NM	NM	3.02%	4.03%	4.03%
Adj net income	**(27,736)**	**79,212**	**76,121**	**143,660**	**212,808**
Adj net income margin (%)	NM	5.08%	3.39%	4.27%	4.19%
PS (x)	6.59	5.21	3.62	2.41	1.60

Source: Company data, uSMART estimate, uSMART Global Research

Appendix 1: 25 Operating & Financial Projections FY25E-27E

Rmb (000)		2022A	2023A	2024A	2025E	2026E	2027E
Precision marketing							
Revenue		**612,899**	**529,742**	**716,425**	**981,519**	**1,346,521**	**1,849,760**
	YoY	39.74%	-13.57%	35.24%	37.00%	37.19%	37.37%
	Operating cost	525,546	439,715	617,127	818,271	1,120,324	1,535,920
	Gross profit	87,353	90,027	99,298	163,249	226,196	313,841
	Gross profit margin (%)	14.25%	16.99%	13.86%	16.63%	16.80%	16.97%
	% of revenue (%)	53.63%	42.99%	45.97%	43.77%	40.07%	36.42%
AI-SaaS[1]							
Revenue		**529,877**	**702,378**	**842,161**	**1,261,165**	**2,014,134**	**3,228,681**
	YoY	20.80%	32.55%	19.90%	49.75%	59.70%	60.30%
	Operating cost	57,192	86,223	115,666	107,937	153,962	243,821
	Gross profit	472,685	616,155	726,495	1,153,229	1,860,172	2,984,860
	Gross profit margin (%)	89.21%	87.72%	86.27%	91.44%	92.36%	92.45%
	% of revenue (%)	46.37%	57.01%	54.03%	56.23%	59.93%	63.58%
Total revenue		**1,142,776**	**1,232,120**	**1,558,586**	**2,242,685**	**3,360,655**	**5,078,441**
	YoY	30.27%	7.82%	26.50%	43.89%	49.85%	51.11%
Total operating cost		(582,738)	(525,938)	(732,793)	(926,207)	(1,274,286)	(1,779,741)
Gross profit		**560,038**	**706,182**	**825,793**	**1,316,477**	**2,086,368**	**3,298,701**
Marketing expense		(314,995)	(326,798)	(327,480)	(392,976)	(471,571)	(565,885)
Administration expense		(188,931)	(203,892)	(264,747)	(317,696)	(381,236)	(457,483)
R&D expense		(224,621)	(210,037)	(245,449)	(343,629)	(481,080)	(481,080)
Marketing expense margin (%)		27.56%	26.52%	21.01%	17.52%	14.03%	11.14%
Administration expense margin (%)		16.53%	16.55%	16.99%	14.17%	11.34%	9.01%
R&D expense margin (%)		19.66%	17.05%	15.75%	15.32%	14.32%	9.47%
EBT		(216,487)	(169,423)	(876,670)	79,697	159,155	240,506
Income tax		32	(55)	-	(11,955)	(23,873)	(36,076)
Net income		**(216,455)**	**(169,478)**	**(876,670)**	**67,743**	**135,282**	**204,430**
Net income margin (%)					3.02%	4.03%	4.03%
Adj net income[2]		**(132,343)**	**(27,736)**	**79,212**	**76,121**	**143,660**	**212,808**
Adj net income margin (%)				5.08%	3.39%	4.27%	4.19%

Note:

1.Including revenue from AI agent hardware and integrated solutions

2.Adj net income is a Non-IFRS measure presenting the impact of changes in fair value of convertible redeemable preferred shares, interest on redeemable preferred shares, listing expenses and SBC.

Source: Company data, uSMART estimate

Appendix 2: Earnings Forecast Revision FY25E-27E

Rmb (000)	New estimates			Old estimates			% change		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Precision marketing									
Revenue	**981,519**	**1,346,521**	**1,849,760**	914,873	1,249,716	NM	7.3%	7.7%	NM
YoY	37.00%	37.19%	37.37%	36.20%	36.60%	NM	0.80%	0.59%	NM
Gross profit	163,249	226,196	313,841	148,209	204,953	NM	10.1%	10.4%	NM
Gross profit margin (%)	16.63%	16.80%	16.97%	16.20%	16.40%	NM	0.43%	0.40%	NM
AI-SaaS[1]									
Revenue	**1,261,165**	**2,014,134**	**3,228,681**	1,241,606	1,734,523	NM	1.6%	16.1%	NM
YoY	49.75%	59.70%	60.30%	39.30%	39.70%	NM	10.45%	20.00%	NM
Gross profit	1,153,229	1,860,172	2,984,860	1,119,928	1,568,009	NM	3.0%	18.6%	NM
Gross profit margin (%)	91.44%	92.36%	92.45%	90.20%	90.40%	NM	1.24%	1.96%	NM
Total revenue	**2,242,685**	**3,360,655**	**5,078,441**	**2,156,478**	**2,984,239**	**NM**	**4.0%**	**12.6%**	**NM**
YoY	43.89%	49.85%	51.11%	37.97%	38.38%	NM	5.92%	11.47%	NM
Total operating cost	(926,207)	(1,274,286)	(1,779,741)	(888,341)	(1,211,277)	NM	4.3%	5.2%	NM
Gross profit	**1,316,477**	**2,086,368**	**3,298,701**	**1,268,138**	**1,772,962**	**NM**	**3.8%**	**17.7%**	**NM**
Marketing expense	(392,976)	(471,571)	(565,885)	(541,276)	(722,186)	NM	-27.4%	-34.7%	NM
Administration expense	(317,696)	(381,236)	(457,483)	(329,941)	(453,604)	NM	-3.7%	-16.0%	NM
R&D expense	(343,629)	(481,080)	(481,080)	(336,411)	(459,573)	NM	2.1%	4.7%	NM
Marketing expense margin (%)	17.52%	14.03%	11.14%	25.10%	24.20%	NM	-7.58%	-10.17%	NM
Administration expense margin (%)	14.17%	11.34%	9.01%	15.30%	15.20%	NM	-1.13%	-3.86%	NM
R&D expense margin (%)	15.32%	14.32%	9.47%	15.60%	15.40%	NM	-0.28%	-1.08%	NM
Income tax	(11,955)	(23,873)	(36,076)	(9,076)	(20,640)	NM	31.7%	15.7%	NM
Net income	**67,743**	**135,282**	**204,430**	**51,433**	**116,959**	**NM**	**31.7%**	**15.7%**	**NM**
Net income margin (%)	3.02%	4.03%	4.03%	2.39%	3.92%	NM	0.63%	0.11%	NM
Adj net income	**76,121**	**143,660**	**212,808**	**59,811**	**125,337**	**NM**	**27.3%**	**14.6%**	**NM**
Adj net income margin (%)	3.39%	4.27%	4.19%	2.77%	4.20%	NM	0.62%	0.07%	NM

Note:

1. Including revenue from AI agent hardware and integrated solutions.

2. Adj net income is a Non-IFRS measure presenting the impact of changes in fair value of convertible redeemable preferred shares, interest on redeemable preferred shares, listing expenses and SBC.

Source: Company data, uSMART estimate

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Stock ratings of Buy, Hold and Sell have a time horizon of 6 months from the publishing date of the initiation or subsequent rating/price target change report issued for the subject company's stock.

Buy - The subject company's stock price should outperform the typical benchmark market index (eg. HSI) by 20% or above.

Hold - The subject company's stock price should outperform the typical benchmark market index by 5-20%.

Neutral - The subject company's stock price change is within ±5% compared to the benchmark index.

Rating Suspended - No judgment is made on the company's stock performance in the next 12 months.

Company long-term ratings

A - The company's long-term growth potential is above the industry comparable average level.

B - The company's long-term growth potential is in line with the industry comparable average level.

C - The company's long-term growth potential is below the industry comparable average level.

Sector ratings and definitions

Over the 6-month period from the publishing date of the initiation or subsequent rating/price target change, the performance of the industry index relative to the concurrent market benchmark (HSI) is used as the standard:

Overweight - The industry fundamentals are favorable, and the industry index outperforms the benchmark by more than 10%.

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