

Kingdee (268 HK)

Recovery in revenue growth in line with expectation, with more updates on AI

Kingdee reported 1H25 results: revenue was RMB3.19bn, up 11.2% YoY (1H24: 11.9%; 2H24: 8.8%), inline with our forecast and Bloomberg consensus; net loss attributable to ordinary shareholders was RMB97.7mn (1H24: loss of RMB217.9mn), shy of Bloomberg consensus loss of RMB73mn due to slightly higher-than-expected operating expenses. Management shared key progresses and development targets regarding its three key strategic focuses: 1) subscription: cloud subscription revenue grew 22.1% YoY in 1H25 and accounted for 52.8% of total revenue; 2) AI: AI contract value exceeded RMB150mn in 1H25, and management guided for AI-related revenue to contribute >30% of total revenue in 2030; 3) globalization: management expects international business revenue to contribute 5-10% of total revenue in 3-5 years. We remain positive that Kingdee is one of the key beneficiaries in the AI application era in our coverage universe, and believe progress on AI monetization and recovery in revenue growth, along with recovery in macro and increased digitalization demand could serve as key drivers for its stock price. Our 2025-2027E revenue forecast remains unchanged, and our TP is fine tuned to HK\$19.2 (was HK\$19.3), based on 8.4x 2025E EV/sales (was 8.5x), inline with the two-year mean plus two s.d. Maintain BUY.

- **Cloud subscription revenue delivered solid growth.** In 1H25, Kingdee's cloud services revenue grew 11.9% YoY to RMB2.67bn (83.7% of total revenue; +0.5ppt YoY), recovering from 10.2% YoY growth in 2H24, among which cloud subscription revenue reached RMB1.68bn, up 22.1% YoY and accounted for 52.8% of total revenue. Cloud subscription annual recurring revenue (ARR) reached RMB3.7bn, up 18.5% YoY (2024: 20.0%), and contract liabilities of the cloud subscription business amounted to RMB3.38bn, up 24.7% YoY (1H24: 28.2%). By segment, cloud subscription revenue for Cloud Cosmic & Constellation (C&C)/ Galaxy/Stella & Jingdou grew 41.1/19.0/23.8% YoY in 1H25, and net dollar retention rate for C&C/Galaxy reached 108%/94% in 1H25 (2024: 108%/95%).
- **AI-related monetization has more visibility.** Kingdee highlighted that AI contract value exceeded RMB150mn in 1H25, and key clients such as Hisense Group, Tongwei, China Jinmao and CRRC Tangshan have signed up AI-related contracts with Kingdee. It has launched the Cosmic AI Agent Platform 2.0 along with a series of native AI agents. Kingdee also focuses on tax and financial management scenarios for SMEs, and its AI Assistant has an active user base of 170,000 enterprises as of 1H25. Kingdee Cloud Stellar has launched AI-powered tax and financial applications, helping thousands of SMEs improve overall bookkeeping efficiency by 80%, invoicing efficiency by 40%, and tax filing efficiency by 60% in 1H25, according to the company. Management targets >30% total revenue to be generated from AI-related products in 2030.
- **Maintained guidance for breakeven and >RMB1bn OCF generation for 2025.** In 1H25, net loss attributable to Kingdee was RMB97.7mn, narrowed from RMB217.9mn in 1H24, and loss margin was narrowed to 3.1% (1H24: 7.6%). Management maintained its target of achieving net profit breakeven and over RMB1.0bn OCF in 2025E. Also, it guided for over RMB3.0bn OCF for 2030E. Management reiterated its strategic focus of "AI First, Subscription First, and Globalization", and targeted 5-10% of revenue generation from international business over 3-5 years.

BUY (Maintain)

Target Price **HK\$19.20**
(Previous TP) **HK\$19.30**
Up/Downside **20.0%**
Current Price **HK\$16.00**

China Software & IT Services

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

Ye TAO, CFA
franktao@cmbi.com.hk

Wentao LU, CFA
luwentao@cmbi.com.hk

Joanna Ma
(852) 3761 8838
joannama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	57,564.5
Avg 3 mths t/o (HK\$ mn)	541.7
52w High/Low (HK\$)	18.82/5.42
Total Issued Shares (mn)	3597.8

Source: FactSet

Shareholding Structure

Mr. Xu - Chairman	19.6%
Oriental Tao Limited	10.8%

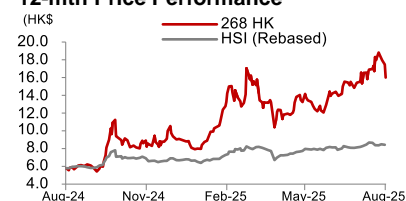
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.7%	1.2%
3-mth	13.0%	6.6%
6-mth	12.5%	-1.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	5,679	6,256	7,036	8,105	9,074
YoY growth (%)	16.7	10.2	12.5	15.2	12.0
Net profit (RMB mn)	(209.9)	(142.1)	109.3	348.4	586.4
EPS (Reported) (RMB cents)	(6.04)	(3.96)	3.07	9.79	16.47
Consensus EPS (RMB cents)	na	(4.01)	3.85	10.72	19.90

Source: Company data, Bloomberg, CMBIGM estimates

Change in forecast and valuation

Figure 1: Kingdee: change in CMBI forecast

RMBmn	2025E			2026E			2027E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	7,036	7,036	-	8,105	8,105	-	9,074	9,074	-
Gross profit	4,694	4,646	1%	5,478	5,422	1%	6,225	6,135	1%
Operating profit	-166	-252	-34%	115	27	328%	429	295	46%
Profit before tax	45	116	-61%	375	373	1%	683	647	6%
Net profit	109	137	-20%	348	346	1%	586	555	6%
EPS (RMB)	0.03	0.04	-20%	0.10	0.10	1%	0.16	0.15	6%
Margins									
GM	66.7%	66.0%	68 bps	67.6%	66.9%	68 bps	68.6%	67.6%	99 bps
OPM	-2.4%	-3.6%	122 bps	1.4%	0.3%	108 bps	4.7%	3.2%	148 bps
PBT margin	0.6%	1.7%	-101 bps	4.6%	4.6%	2 bps	7.5%	7.1%	41 bps
Net margin	1.6%	2.0%	-40 bps	4.3%	4.3%	3 bps	6.5%	6.1%	35 bps

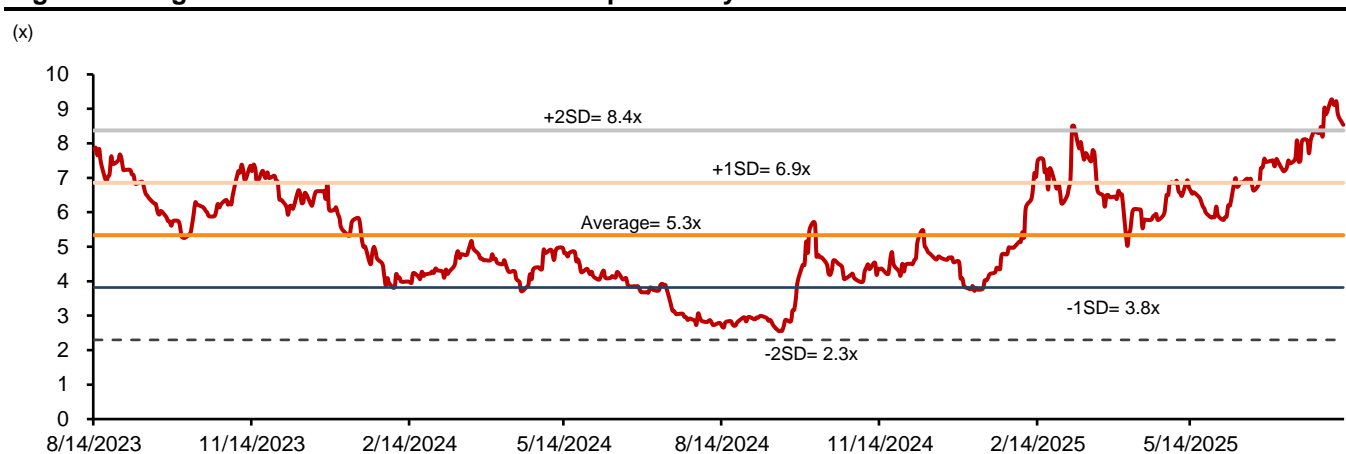
Source: CMBIGM estimates

Figure 2: Kingdee: CMBI forecast vs Bloomberg consensus

RMBmn	2025			2026			2027		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	7,036	7,081	-1%	8,105	8,154	-1%	9,074	9,426	-4%
Gross profit	4,694	4,692	0%	5,478	5,479	-0%	6,225	6,420	-3%
Operating profit	-166	10	-1,798%	115	292	-61%	429	657	-35%
Profit before tax	45	132	-66%	375	416	-10%	683	744	-8%
Net profit	109	139	-21%	348	376	-7%	586	668	-12%
EPS (RMB)	0.03	0.04	-22%	0.10	0.11	-10%	0.16	0.20	-18%
Margins									
GM	66.7%	66.3%	45 bps	67.6%	67.2%	39 bps	68.6%	68.1%	49 bps
OPM	-2.4%	0.1%	-250 bps	1.4%	3.6%	-217 bps	4.7%	7.0%	-224 bps
PBT margin	0.6%	1.9%	-122 bps	4.6%	5.1%	-48 bps	7.5%	7.9%	-36 bps
Net margin	1.6%	2.0%	-40 bps	4.3%	4.6%	-31 bps	6.5%	7.1%	-62 bps

Source: Bloomberg, CMBIGM estimates

Figure 3: Kingdee: P/S valuation band over the past two years



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	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	4,866	5,679	6,256	7,036	8,105	9,074
Cost of goods sold	(1,868)	(2,035)	(2,185)	(2,342)	(2,627)	(2,849)
Gross profit	2,998	3,644	4,071	4,694	5,478	6,225
Operating expenses	(3,826)	(4,249)	(4,556)	(4,860)	(5,363)	(5,796)
Selling expense	(2,027)	(2,320)	(2,503)	(2,578)	(3,015)	(3,271)
Admin expense	(504)	(490)	(539)	(703)	(626)	(677)
R&D expense	(1,295)	(1,440)	(1,514)	(1,578)	(1,722)	(1,848)
Operating profit	(828)	(605)	(485)	(166)	115	429
Net Interest income/(expense)	100	90	94	66	61	70
Others	254	214	162	145	199	184
Pre-tax profit	(474)	(301)	(230)	45	375	683
Income tax	22	31	45	42	(37)	(103)
Minority interest	63	60	42	22	11	6
Net profit	(389)	(210)	(142)	109	348	586

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	3,984	5,703	5,632	5,467	5,923	6,524
Cash & equivalents	1,943	2,964	1,530	1,344	1,721	2,255
Restricted cash	293	364	416	439	506	566
Prepayment	626	1,045	1,537	1,537	1,537	1,537
Other current assets	776	968	1,783	1,789	1,797	1,804
Contract assets	347	362	366	358	362	362
Non-current assets	7,747	8,436	8,149	8,837	9,562	10,279
PP&E	1,377	1,919	1,744	2,239	2,722	3,168
Intangibles	1,192	1,232	1,232	1,426	1,667	1,938
Other non-current assets	5,178	5,284	5,173	5,173	5,173	5,173
Total assets	11,731	14,139	13,781	14,304	15,485	16,803
Current liabilities	3,766	4,529	5,480	5,915	6,759	7,495
Short-term borrowings	85	20	205	205	208	217
Account payables	899	1,231	1,488	1,384	1,475	1,520
Other current liabilities	150	101	63	63	63	63
Contract liabilities	2,631	3,177	3,724	4,263	5,013	5,695
Non-current liabilities	558	908	172	172	173	174
Long-term borrowings	385	757	0	0	0	1
Other non-current liabilities	173	151	172	172	172	172
Total liabilities	4,324	5,437	5,652	6,088	6,932	7,669
Share capital	84	87	86	86	86	86
Capital surplus	5,085	6,512	6,174	6,174	6,174	6,174
Retained earnings	1,230	1,020	878	988	1,336	1,922
Other reserves	867	979	911	911	911	911
Total shareholders equity	7,265	8,599	8,050	8,159	8,508	9,094
Minority interest	142	103	79	57	46	40
Total equity and liabilities	11,731	14,139	13,781	14,304	15,485	16,803

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(474)	(301)	(230)	45	375	683
Depreciation & amortization	414	499	571	592	669	753
Tax paid	22	31	45	42	(37)	(103)
Change in working capital	328	299	485	415	763	659
Others	85	126	62	(74)	(69)	(78)
Net cash from operations	374	653	934	1,021	1,700	1,914
Investing						
Capital expenditure	(888)	(897)	(681)	(1,280)	(1,394)	(1,470)
Others	101	(408)	(393)	74	69	78
Net cash from investing	(787)	(1,305)	(1,074)	(1,207)	(1,325)	(1,392)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	473	307	(572)	0	3	11
Proceeds from share issues	0	1,412	0	0	0	0
Others	(172)	(48)	(719)	0	0	0
Net cash from financing	301	1,671	(1,291)	0	3	11
Net change in cash						
Cash at the beginning of the year	2,047	1,943	2,964	1,530	1,344	1,721
Exchange difference	8	1	(2)	0	0	0
Cash at the end of the year	1,943	2,964	1,530	1,344	1,721	2,255
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	16.6%	16.7%	10.2%	12.5%	15.2%	12.0%
Gross profit	13.8%	21.6%	11.7%	15.3%	16.7%	13.6%
Operating profit	na	na	na	na	na	274.6%
Net profit	na	na	na	na	218.8%	68.3%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	61.6%	64.2%	65.1%	66.7%	67.6%	68.6%
Operating margin	(17.0%)	(10.7%)	(7.8%)	(2.4%)	1.4%	4.7%
Return on equity (ROE)	(5.2%)	(2.6%)	(1.7%)	1.3%	4.2%	6.7%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)
Current ratio (x)	1.1	1.3	1.0	0.9	0.9	0.9
Receivable turnover days	25.7	21.1	22.8	22.8	22.8	22.8
Inventory turnover days	2.8	2.9	2.7	2.7	2.7	2.7
Payable turnover days	162.0	191.1	227.1	215.7	204.9	194.7
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	ns	ns	476.8	149.6	88.9
P/B	6.9	5.8	6.5	6.3	6.1	5.7
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV	55,727.5	55,013.5	55,875.7	56,061.8	55,686.7	55,164.0
EV/Sales	11.5	9.7	8.9	8.0	6.9	6.1

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

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CMB International Global Markets Limited

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

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