

2019年6月24日

买入  
首次覆盖

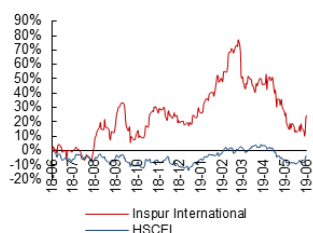
## 转云伊始

### 浪潮国际 (00596:HK)

#### Market Data: 21 Jun

Closing Price (HK\$)	3.49
Price Target (HK\$)	5.00
HSCEI	10921
HSCCI	4417
52-week High/Low (HK\$)	5.19/2.57
Market Cap (US\$bn)	0.51
Market Cap (HK\$bn)	3.97
Shares Outstanding (Mn)	1139
Exchange Rate (HK\$-US\$)	7.8

#### Price Performance Chart:



Source: Bloomberg

#### Analyst

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The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

#### Financial summary and valuation

	2017	2018	2019E	2020E	2021E
Revenue (HK\$m)	1,965	2,443	2,889	3,403	4,076
YoY (%)	68.9	24.3	18.3	17.8	19.8
Net Income (HK\$m)	139	324	264	279	314
YoY (%)	132.4	132.8	(18.4)	5.4	12.6
EPS (HK\$)	0.13	0.29	0.23	0.24	0.28
Diluted EPS (HK\$)	0.13	0.29	0.23	0.24	0.28
ROE (%)	8.33	17.86	12.95	12.26	12.40
Debt/asset (%)	53	44	49	54	55
Dividend Yield (%)	0.8	1.2	1.0	1.1	1.2
P/E (x)	26.5	12.0	14.9	14.3	12.7
P/B (x)	2.0	1.9	1.8	1.6	1.4
EV/EBITDA (x)	10.1	8.1	10.6	9.3	7.7

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

浪潮国际是浪潮集团的子公司，专注于企业服务业务。公司业务主要是传统 ERM 服务，从 2018 年开始着重向云转型。公司有传统 ERM、云业务、外包和物联网四个板块业务。2018 年，传统的 ERM 服务占总收入的 65%，云服务占 8%。公司无意扩大其现有的外包业务，物联网业务的硬件收入配合软件服务的发展或稳步增长。我们预测 19 年 EPS 为 0.23 元港币(同比下降 20%)，20 年 EPS 为 0.20 元港币(同比上升 4%)，21 年 EPS 为 0.28 元港币(同比上升 13%)。基于云业务 8x PS，其他业务 8x PE 的分部加总模型，我们得出目标价格为 5.0 港元。股价仍有 43% 的上涨空间，我们首次覆盖给予买入评级。

更多 SaaS 产品即将上线。浪潮国际的云部署已经成型，虽然比金蝶晚不少，但仍处于云快速发展的行业红利时期。对于大型企业，浪潮国际推出了部分 GS 云产品，于 2018 年 9 月发布。今年 9 月，GS 云将推出全云 SaaS 模块。该产品可与浪潮线下 GS 产品配合，形成客户定制需求的私有云、公有云或混合云。除了 GS 云之外，浪潮国际还与 ODOO 合资成立了一家公司于 2018 年 4 月推出了专为中小企业设计的 PS 云，浪潮持有合资企业 75% 的股权。对于小微企业，浪潮也有易云在线产品。

云业务质量和扩张。尽管 2018 年云业务里有约 70% 是私有云，但公司云业务都是基于 SaaS 商业模式搭建的。除了 GScloud 里面的实施费，剩下大部分都是可持续性的年费收入。公司预计到 2023 年整个云业务收入将达到总收入的 50%，其中大约有一半来自 GS 云，40% 以上来自 PS 云，PS 云对公司来说是一个较大的挑战，因为在公司的传统业务主要服务于大型企业，中小型客户较少。挑战也是机遇。如果 PS 云的发展如公司预期，会为公司整体的发展带来一片新的天地。

首次覆盖给予买入评级。我们预测 19 年 EPS 为 0.23 元港币(同比下降 20%)，20 年 EPS 为 0.20 元港币(同比上升 4%)，21 年 EPS 为 0.28 元港币(同比上升 13%)。由于云业务发展前期投入较多，因此利润率将有所下降。基于云业务 8x PS，其他业务 8x PE 的分部加总模型，我们得出目标价格为 5.0 港元，相当于 21x 19E PE or 2.5x 19E PB, or 21x 20E PE or 2.3x 20E PB。股价仍有 43% 上涨空间，我们首次覆盖给予买入评级。

## Getting ahead in the cloud

As a subsidiary of Inspur Group, Inspur International specialises in enterprise services, with a focus on traditional environmental resource management (ERM) services to state-owned enterprises (SOEs) and the transition to cloud services. The firm has four business lines, traditional ERM, cloud, outsourcing and Internet of Things (IoT) services. While ERM accounts for the majority of revenue, cloud services represent Inspur's primary focus and key growth driver. We forecast EPS of HKD0.23 in 19E (-20% YoY), HKD0.24 in 20E (-4% YoY), and HKD0.28 in 21E (13% YoY), and derive a target price of HK\$5.0, based on sum of the parts, assigning 8x 19E PS to the cloud business, and 8x 19E PE to traditional and other business. With 43% upside, we initiate coverage with a BUY rating.

**Building the SaaS business.** Inspur's cloud deployment is progressing well, though a bit later than that of Kingdee's. For large enterprises, Inspur launched partial GS Cloud products in Sep 2018. In September this year, an all-cloud software as a service (SaaS) module for GS Cloud will be released, that will integrate Inspur's offline GS products, to form private cloud, public cloud or hybrid cloud. Besides GS Cloud, PS Cloud is designed for small and medium-sized enterprises (SMEs). PS Cloud was released in April 2018 via a joint venture with Odoo, a well-known business software provider for SMEs in Europe, with Inspur holding a 75% stake. For small and micro enterprises, Inspur offers the Eyun online product line.

**Cloud expansion.** In 2018, 70% of cloud revenue was derived from private cloud, which is based on a SaaS model that generates recurring revenue in addition to implementation fees for GS Cloud. For 19E, we expect Inspur's cloud business to grow by 90% YoY. Management expects the overall cloud business to account for 50% of revenue in 2023, with half generated from GS Cloud, and 40%+ derived from PS Cloud. We view PS cloud growth as a major challenge for the company, as the proportion of medium-sized enterprises in the traditional services business is low.

**Valuation to improve.** SaaS companies are generally valued at high PS multiples. The stock is trading at 12x trailing PE and 15x forward PE, with little emphasis on the value of the cloud business as it only accounted for 8% of revenue in 2018. We also note that of the HK\$193m in cloud revenue, 70% is derived from private cloud. With the expansion of the cloud business and higher proportion of recurring revenue, the company may be able to enjoy a higher valuation.

**Initiate with a BUY.** We forecast EPS of HKD0.23 in 19E (-20% YoY), HKD0.24 in 20E (-4% YoY), and HKD0.28 in 21E (13% YoY). We expect the bottom line to drag due to the shift to the cloud business. Based on sum of the parts, assigning 8x 19E PS to the cloud business, and 8x 19E PE to traditional and other business, we derive a target price of HK\$5.0, representing 21x 19E PE or 2.5x 19E PB, or 21x 20E PE or 2.3x 20E PB. With 43% upside, we initiate coverage with a BUY rating.

## Traditional ERP giant enters cloud

Backed by the state, Inspur Group is one of the largest IT companies in China. The group's business covers four business lines, including cloud data center, cloud services, smart city and smart enterprise, with solutions ranging from Infrastructure as a Service (IaaS), Platform as a Service (PaaS) to SaaS.

Currently, the Inspur Group has three listed companies Inspur Electronic Information (000977:CH), Inspur Software (600756:CH) and Inspur International (596:HK). Inspur has a unique presence in China's IT industry as its business covers both hardware and software. Inspur Electronic Information covers mainly hardware services with the majority of revenue derived from server and microcomputer sales. Its sales scale for server ranks 3rd globally and 1st in China. Inspur Electronic Information recorded robust growth in 2018 with revenue of Rmb46.9bn, up 84% YoY. Inspur Software and Inspur International are mainly involved with software services, with the latter mainly oriented to enterprise services whereas Inspur Software mainly sells government solutions. The group is trying to make software, especially in areas related to cloud services, its new growth driver, and planning an IPO for Inspur Cloud.

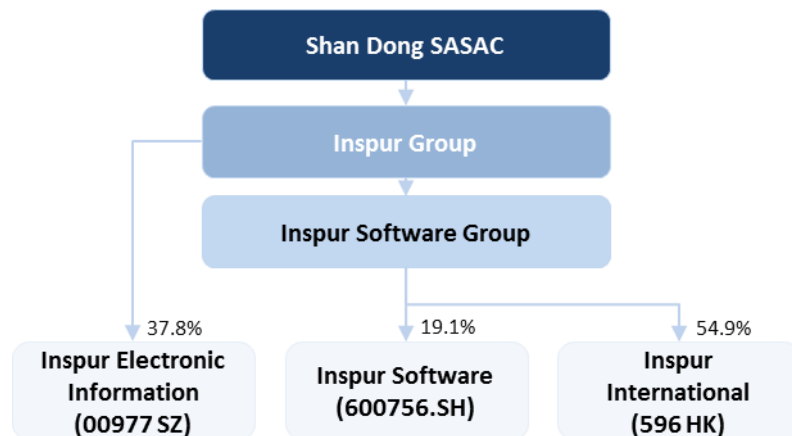
Fig 1: China retail consumption (Based on Gross Transaction Volume)

Subsidiaries	Status	Ticker	Shareholding by Group (2018)	Major Business
Inspur Electronic Information	Listed	000977 CH	37.80%	Hardware: server & microcomputers
Inspur Software	Listed	600756 CH	19.10%	Government solutions: software and system integration
Inspur International	Listed	596 HK	54.60%	ERM (offline & cloud) to SOEs and open market
Inspur Cloud	IPO plans	n.a.	100%	Cloud IaaS
Shandong Huaguang Optoelectronics	Delisted	838157 CH	50.96%	Laser Diode products

Source: Company, SWS Research

The Inspur Group currently has a 55% stake in Inspur International, increasing its holding from 20%-plus to 55% in August 2017 and paying a 30%-plus price premium. The group intended to focus more on software development when its hardware sold well and the company enjoyed a large market share. We expect continued support from SOE and government related resources backed by group.

Fig 2: Shareholding structure by end-2018



Source: Annual report, SWS Research

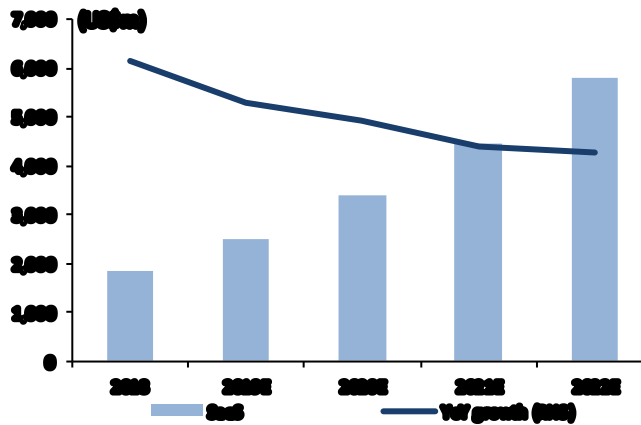
According to an IDC report, Inspur International ranked 5th in China's enterprise resource planning (ERP) market, after SAP, Oracle, Yonyou and Kingdee in 2H17. According to CCID data, company ranked 1st in a niche ERM market for very large enterprises in China for 16 consecutive years, and 2nd in enterprise application software market. Customers of Inspur International are mostly state-owned enterprises as well.

With the rapid development of the cloud industry in recent years, cloud services have begun to mature. We've seen qualitative change in the cloud market, with clients becoming more

active. As the acquisition cost for new customers declines, the IaaS to SaaS market is entering a period of rapid growth, and the pace of monetisation will accelerate.

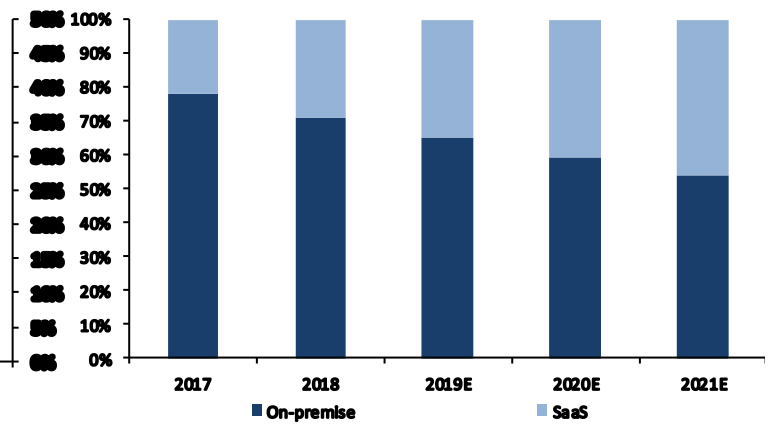
According to market research data from Canalys, the global cloud market reached US\$80bn in 2018, up 46.5% YoY. Data from the China Ministry of Industry and Information Technology also shows that China's cloud computing industry maintained an annual growth rate of 30% in recent years. According to Jiazi Research, 7.6% of CIOs of technology companies worldwide plan to increase spending on SaaS products, ranking second on the list of new IT spending. IDC's report on the Chinese public cloud SaaS market also points out that the Chinese SaaS market grew eight times faster than the traditional application software market in 2018.

Fig 3: China SaaS market



Source: IDC, SWS Research

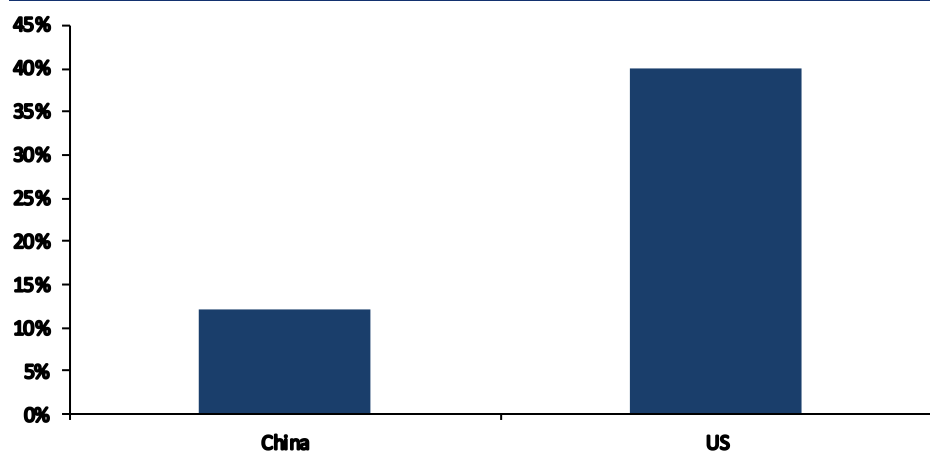
Fig 4: China ERM market share



Source: IDC, SWS Research

IaaS public clouds have a domestic penetration rate of only 10%+ plus, compared with 30-40% in the United States. SaaS is established on the basis of IaaS, and increased IaaS penetration will further stimulate the development of SaaS. SaaS is growing in China, and the market size will rise gradually with the increase in penetration rate.

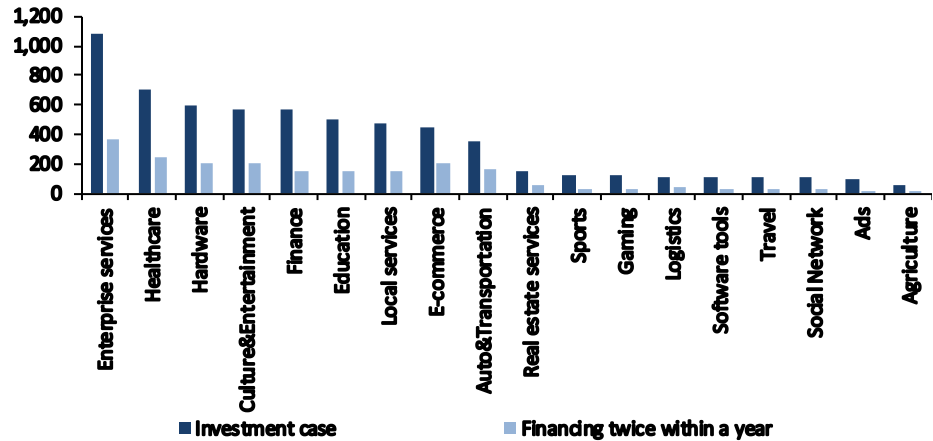
Fig 5: IaaS penetration



Source: AWS, SWS Research

We can also see that in the primary market, enterprise services businesses have attracted considerable investment in recent years. In 2018, number of investments in enterprise services reached 1,087, of which most are SaaS related, surpassing the investment amount of all the other markets.

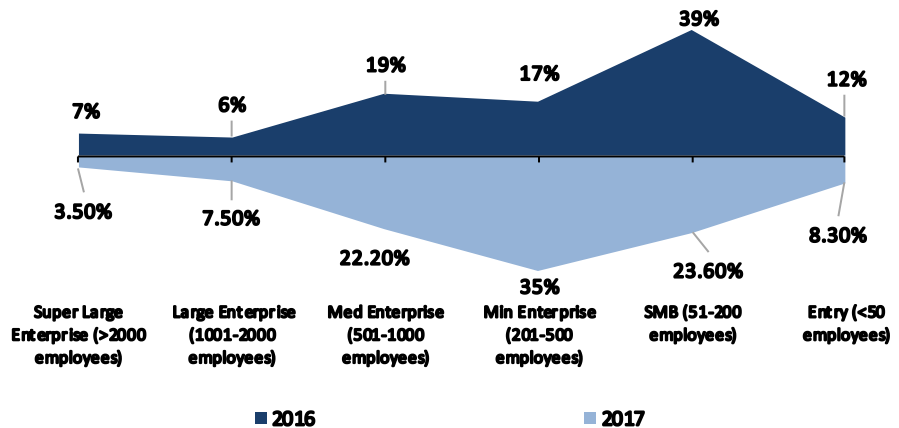
Fig 6: Capital focuses on enterprises services in 2018



Source: IT services, SWS Research

The acceptance of the cloud market has expanded from SMEs to large enterprises, as initially large enterprises were concerned about data security and data transmission speed. The birth of the cloud lowers the threshold for SMEs, and acceptance is generally faster. The latest data show that enterprise level SaaS services are rapidly penetrating large enterprises. In 2016, the peak number of existing users that had used SaaS and potential users who intended to purchase SaaS within one year, appeared in small and micro enterprises with 51-200 employees. However, in 2017, the peak value of existing users and potential users shifted to SMEs with 201-500 users and 501-1,000 users, accounting for 57.2% of the total.

Fig 7: Penetration of ERM in China from small to large

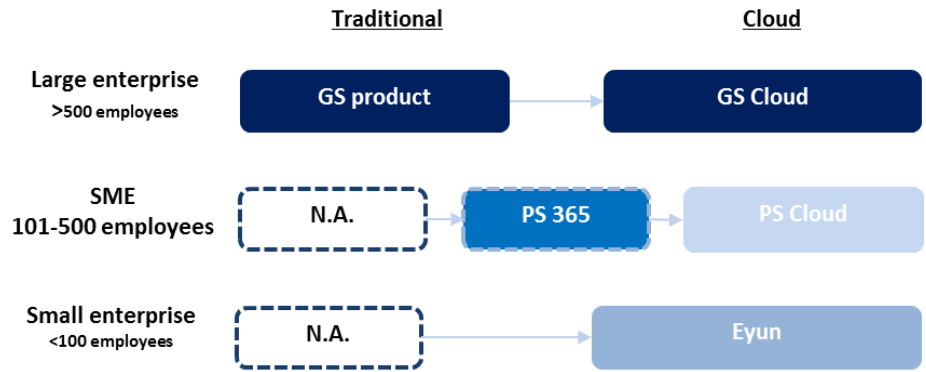


Source: IT orange, SWS Research

We believe that the market is far from saturated. Kingdee enjoys a leading market share in Chinese SMEs, with its Cloud Galaxy product reaching 9,500 customers by end-2018, while there are hundreds of SME enterprises that still could be penetrated domestically. The penetration of cloud business in large enterprise is just beginning to take root, with most beginning with private cloud or single cloud modules in a subsidiary.

Inspur's cloud deployment has lagged Kingdee's. For large enterprises, Inspur launched partial GS Cloud products, released in April 2019. In September this year, an all-cloud SaaS module for GS Cloud will be released. This product cooperates with Inspur's offline GS products, to form private cloud, public cloud or hybrid cloud. Besides GS Cloud, PS Cloud is designed for SMEs. It was released in April 2018, via a joint venture with Odoo, with Inspur holding 75%. For small and micro enterprises, Inspur offers the Eyun online product line.

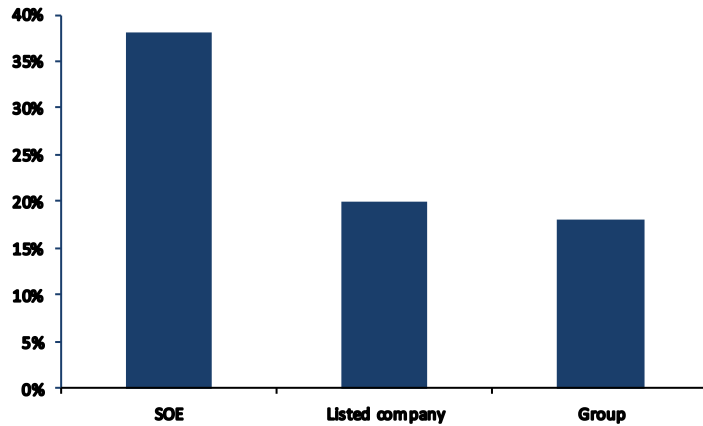
**Fig 8: China retail consumption (Based on Gross Transaction Volume)**



Source: Company, SWS Research

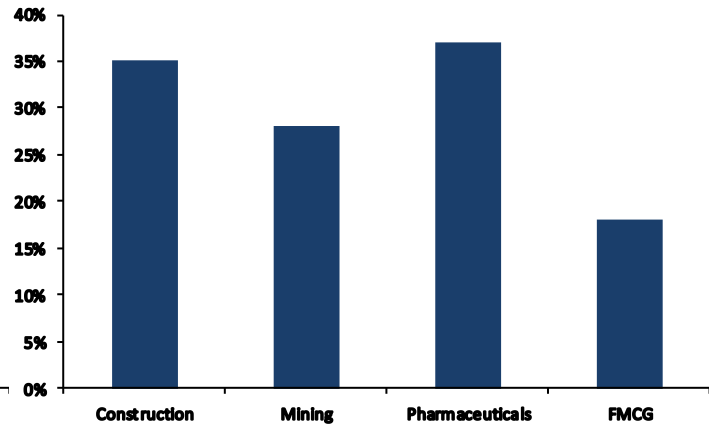
From the perspective of offline ERM revenue, GS products account for more than 90% of total revenue. PS 365 is a transitional product from traditional to cloud. The number of GS traditional customers currently tops 290, and the unit price for major customers is c.Rmb5m. SOEs accounted for a high proportion of customers. Last year, through the acquisition of Tianyuan, the company enhanced its services in the telecom sector.

**Fig 9: Client type and percentage**



Source: Company, SWS Research

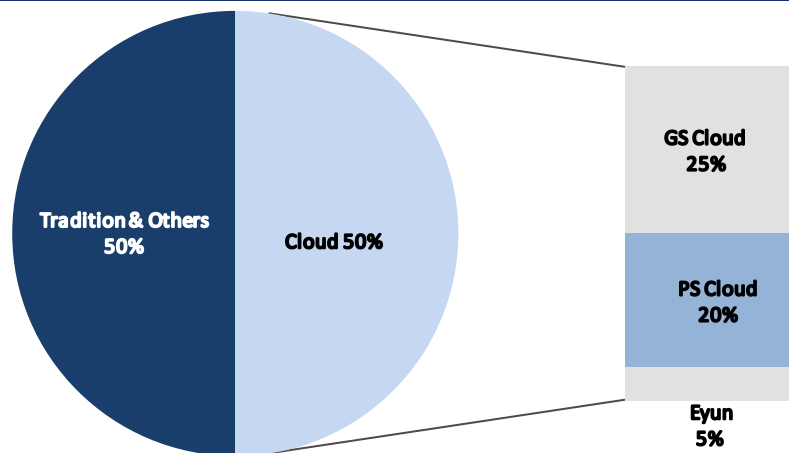
**Fig 10: Client industry and percentage**



Source: Company, SWS Research

Management expects the overall cloud business to account for 50% of revenue in 2023, with half generated from GS Cloud, and 40%+ derived from PS Cloud. We view this as a major challenge for the company, as the proportion of medium-sized enterprises in the traditional services business is low.

**Fig 11: 5 year target, revenue structure**

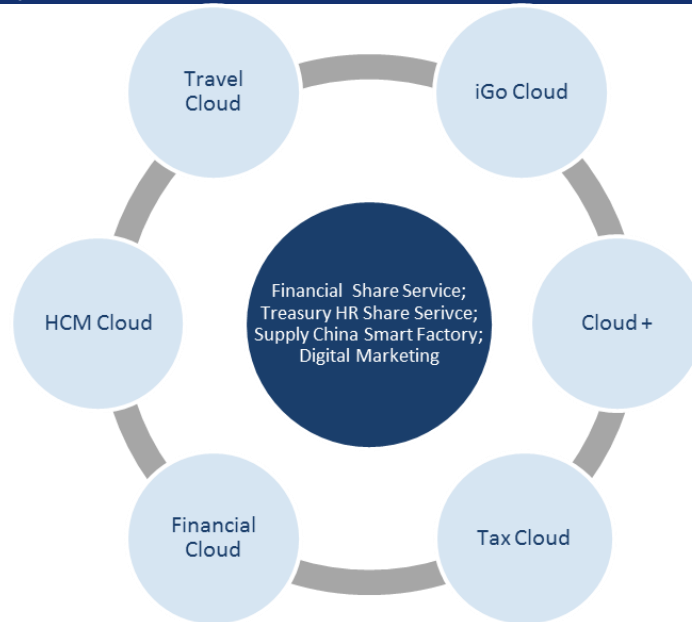


Source: Company, SWS Research

## GS Cloud

In 2018, 70% of cloud revenue was derived from GS Cloud, which lagged Kingdee's August 2018 release of Cloud Cosmic. Inspur released GS Cloud on Sep 2018 and intends to release a full SaaS version of GS Cloud by September 2019. Whether to choose a SaaS module or traditional ERP system, or a mix depends on the demand of client.

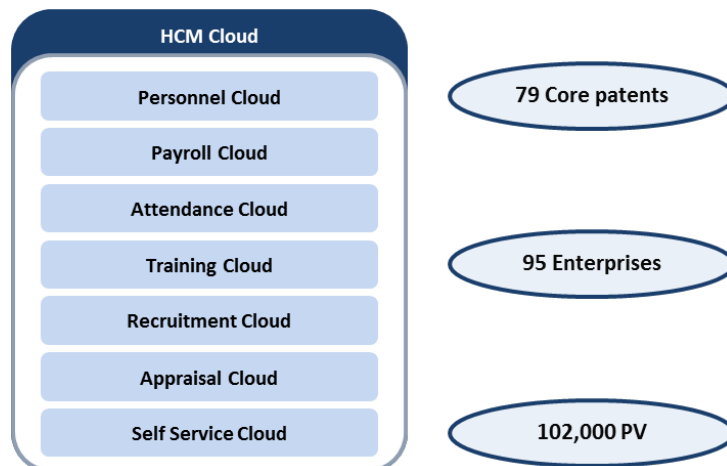
Fig 12: GS cloud platform



Source: Company, SWS Research

Within a SaaS product for large enterprise, there are many modules with specific functions, such as human resource cloud (HCM cloud), travel cloud, sales cloud, tax cloud, OA cloud, purchasing cloud etc. These value-add modules can be deployed alongside existing ERP systems, compatible with its core ERP system in financial share services, treasury HK share service, supply chain smart factory and digital marketing. Among all the modules, HCM cloud for GS Cloud is the most competitive (mostly subscribed), accounting for a third of GS Cloud revenue.

Fig 13: HRM cloud

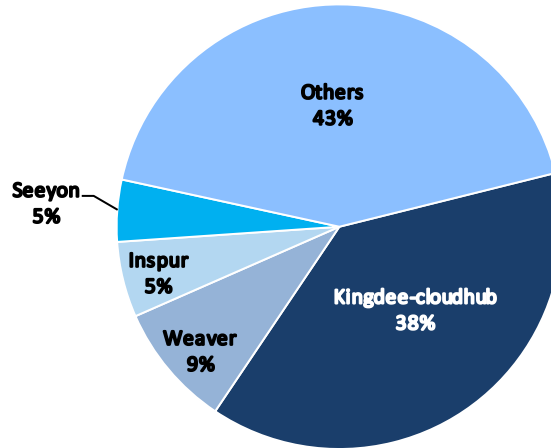


Source: Company, SWS Research

OA Cloud ranks second in terms of numbers of subscribers, ranking 3rd in the Chinese SaaS OA market with a 5.5% market share in 2H18, according to IDC. Other key modules for GS Cloud are purchasing cloud and travel cloud.



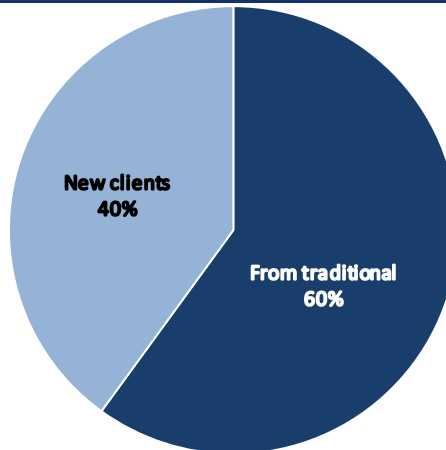
Fig 14: 2H18 OA SaaS market share in China



Source: IDC

The monetisation model for GS Cloud is the same as the other cloud business, implementation fees plus the recurring annual fees. The average price per enterprise of GS Cloud was c.Rmb800k in 2018, of which c.35% is recurring, generally consistent with the industry level. The number of customers has exceeded 290, among which c.60% are new customers and 40% are old customers. New customers are predominately SOEs.

Fig 15: Customer structure approx..



Source: Company, SWS Research

We are positive on the development of GS Cloud. With the upgrading requirements of large enterprises, some modules will be gradually transferred to the cloud version for implementation. Therefore, the development of GS Cloud may negatively impact incremental revenue for the GS traditional business, and we estimate that over three years the traditional business will contract.

## PS Cloud & Eyun

In April 2018, the company collaborated with Odoo and jointly established a joint venture in China, focusing on the development of SaaS service business for SMEs, with Inspur holding a 75% stake. According to the cooperation agreement, the joint venture company provides SaaS services for SMEs. The JV launched an open source ERP product - PS Cloud, which provides a variety of applications covering integrated R&D, industrial chain integration, intelligent manufacturing, financial sharing, human resource management, digital marketing, etc. It aims to provide a one-stop solution for SME SaaS demand, and build a new SaaS service engine.

Odoo is a well-known software provider for SMEs in Europe, with mature cloud ERP and SaaS products. Odoo has the highest market share in ERP software in Europe. With 950



partners, Odoo provides complete enterprise management solutions to over 3.7 million software users worldwide. Odoo has officially released more than 100 standard function modules, with an additional c.2,000 modules provided by the Open Object Community. The software is c.70% similar in functionality to SAP, but 40% less code. The advantage of Odoo is that enterprises can build their own desired system, or use Odoo's underlying framework.

Another advantage of open source code is that it is free with unrestricted user numbers. Odoo's main modules include sales, procurement, inventory, finance, production, project management, customer relationship management (CRM), point of sale (POS), human resources, vehicle management, etc. The App contains more than 5,000 modules, which can be matched with customised open source software in line with specific enterprise requirements, and can be integrated with existing systems to provide enterprises with integrated solutions.

Odoo operated in China independently for 7-8 years with little reputation in the market due to its lack of knowledge for local practices in China. The cooperation with Inspur International provides the company with localisation resources and business connections for expanding in China. Odoo's mature platform also provides Inspur International with PaaS knowhow, which has helped to bridge the gap with Kingdee. The two parties have a three-year deal where if Inspur International achieves its three-year targeted goal, it will become Odoo's sole partner in China, and management is confident with its progress so far.

PS Cloud is a duplication of Odoo's PaaS. It contains 56 standard applications, 800 business components and industry modules as well as 12,000 third-party plugins. The most popular modules relate to accounting and sales. Inspur's PS Cloud PaaS platform has already caught the industry's attention in China as the first open source ERM platform, attracting more programmers and communities to develop their own modules and functions. The larger the ecosystem of third-party plugins, modules or applications, the larger the impact of PS Cloud in the industry.



Source: Company, SWS Research

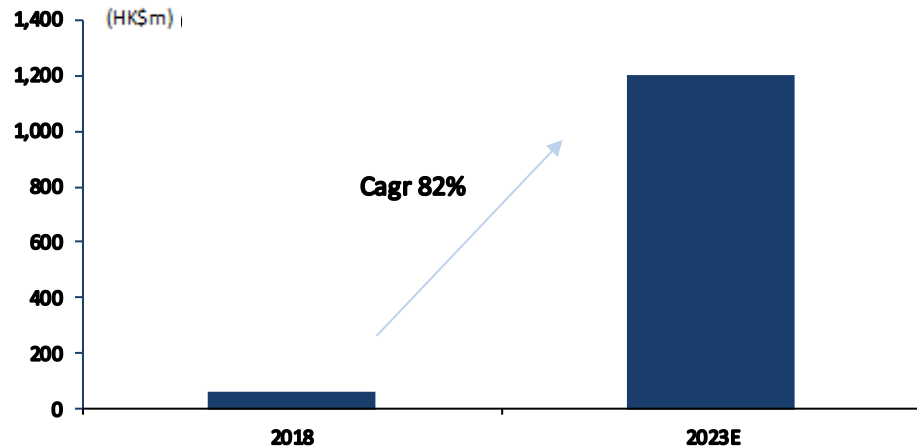
SaaS is more expensive compared to its alternatives, but is gaining share due to its flexibility, security and sales and distribution channels. Open-sourced products enjoy a natural advantage in a flexible development environment, as well as data security based on visible Python coding.

We believe Inspur's differentiation strategy is effective in the SME ERP market. By the end of 2018, PS Cloud has more than 300 SME customers with an ASP of c.Rmb80k. Distribution is the main sales and promotion method for PS Cloud. The modules within the first PS Cloud launched last year are more based around a standard SaaS platform. In late 2019, the company is expected to launch a new, customisable PaaS version.

Eyuan online is targeted at small and micro companies with less than 100 employees. Modules are all standardised, and are focused on accounting cloud and purchase-sale-stock management. Eyuan has accumulated 40k-plus customers with an ASP of Rmb700-800.

We believe that PS Cloud is the key area for the company when transferring to the cloud. The company has deep relationships with large enterprises, it is not difficult to expand from GS traditional products to online cloud, but the incremental driver for cloud stems from PS Cloud, which will generate more SME customers for the company. We believe whether PS Cloud can achieve the development goal is the most important measurement standard of Inspur International in the future. The target of 50% cloud revenue in 2023 will require PS Cloud to post a Cagr of 82% from 2018.

Fig 17: PS Cloud revenue



Source: Company, SWS Research

While Inspur's PS Cloud product line is not as mature as Kingdee Cloud or Yonyou Cloud, the company provides an open source PaaS platform with a wide coverage of SaaS applications. However, in our view the flexibility of an open source ERP system is adequate to meet the demands of most enterprises. At the same time, the company's strong relationships with local governments offer it a solid base on which to expand sales channels.

We note that in 2017, Inspur had the largest share of China's government cloud services, taking 18.7% of the market. The Inspur Group was included on 14 provincial lists and 13 city-level lists for local enterprises to migrate to cloud services.

The market is very competitive with Alibaba, Tencent and Huawei all working with the government to facilitate cloud transformation. However, the CEO of Inspur Group is confident on the company's government cloud business as he believes that the key advantage here is not code or tech, but an understanding of government needs and well-executed implementation, which is a strength for Inspur companies as the company has accumulated its experience with government and SOEs for more than 30 years.

Excluding subsidies, clients for PS Cloud still need to pay 70%, and the firm targets affordable cloud business, instead of focusing on subsidies by distributing free products to small companies. However, the company may face some cash flow pressure when subsidies are removed.

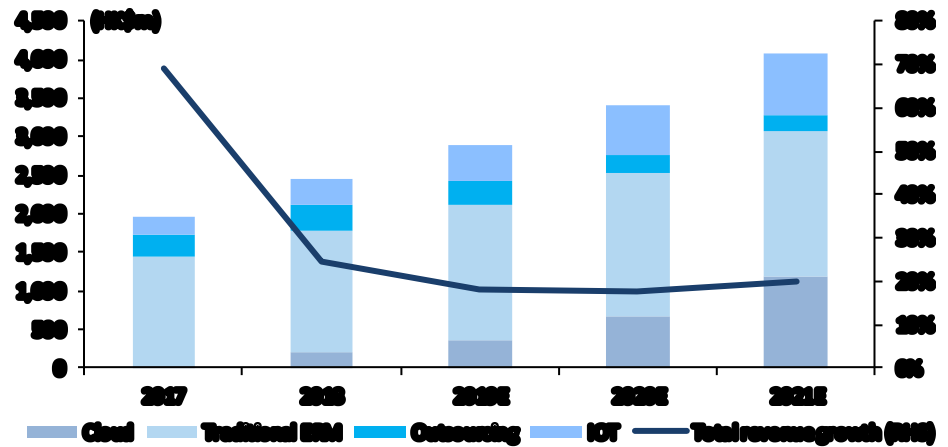
In addition to traditional ERM services and cloud business, Inspur provides software outsourcing and Internet of Things (IoT) solutions. The outsourcing business was acquired in 2008 and currently 40% of orders are from Microsoft, and 50% are from the domestic market. The company has no intention to expand this part of the business, and plans to convert it into big data services for enterprises in the future. The IoT solutions business was mainly provided to the agricultural industry and the communications industry, a hardware selling unit to meet the needs for clients that requires a complete solution (software & hardware). The gross margin for IoT is stable at c.10%.

## Earnings outlook & valuation

We forecast 90% YoY growth for the cloud business and 10% YoY growth for the traditional ERM business in 2019E. We expect a moderate growth for the IoT business for hardware

sales, with the outsourcing segment contracting moderately. Overall revenue is projected at HKD2.9bn (+18% YoY) in 19E, HKD3.4bn (+18% YoY) in 20E and HKD4.1bn (+20% YoY) in 21E.

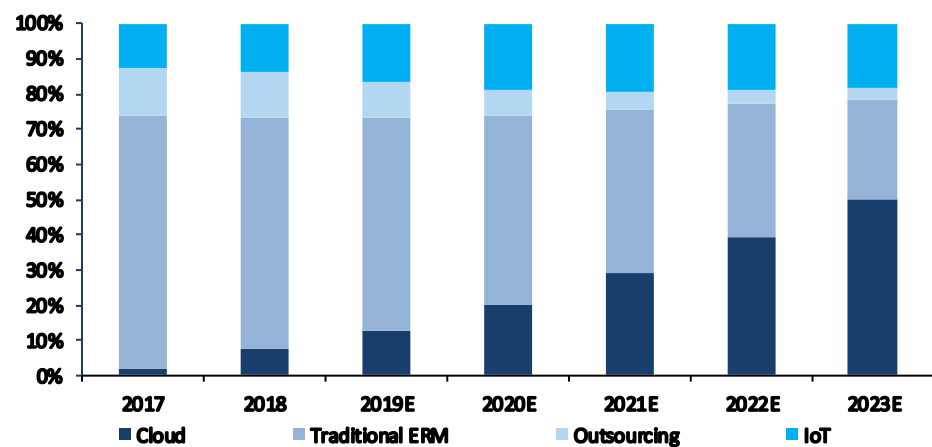
Fig 18: Revenue forecast



Source: Annual Reports, SWS Research

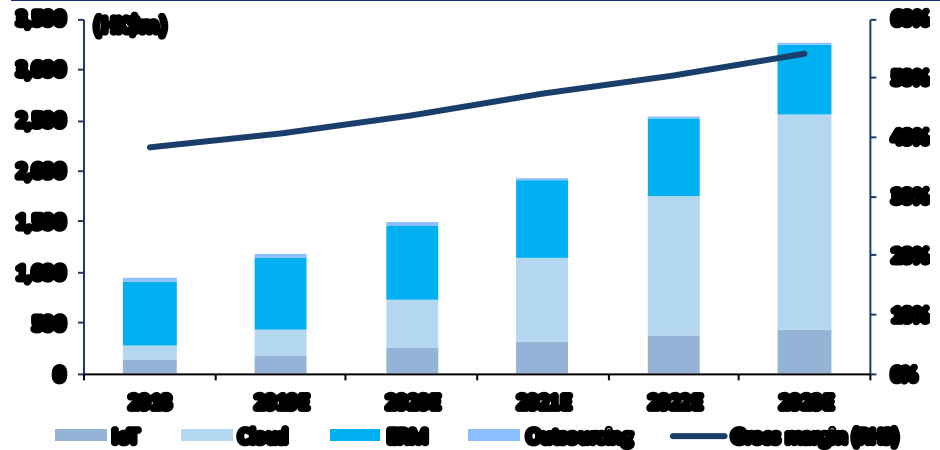
Management’s guidance is ambitious with cloud revenue rising from 8% of the total in 2018 to 50% in 2023. The cloud business generally has a higher gross margin of c.70%, as cost of sales are more related to IaaS fees, followed by the traditional ERM business with c.45% gross margins, IoT with c.10% gross margin and outsourcing at just c.11%. As the product mix shifts towards the cloud business, gross margin will improve gradually from 38% in 2018 to 39% in 19E and 50% in 23E.

Fig 19: Revenue structure forecast



Source: Annual Reports, SWS Research

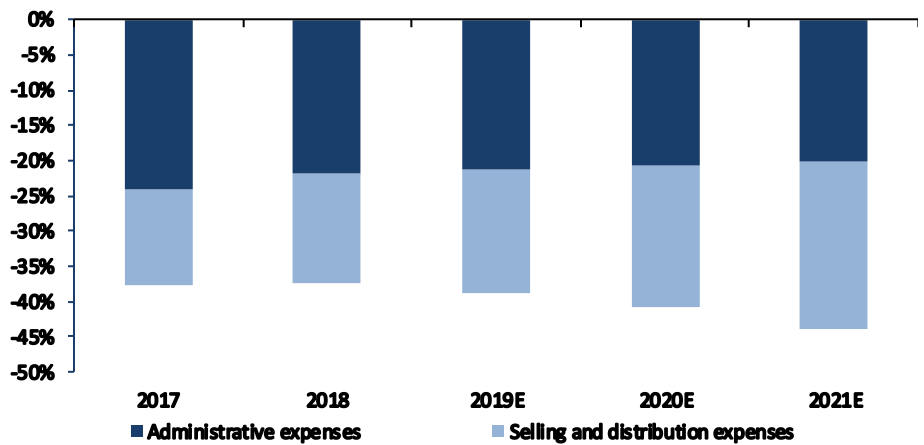
Fig 20: Gross profit and gross margin



Source: Annual Reports, SWS Research

Administrative expenses and selling and distribution expenses are Inspur's largest two expenses. R&D expenses are included in administrative expenses, thus we expect little leverage from administrative expenses, as cloud development will require continuous R&D investment. Selling and distribution expenses are expected to expand due to higher commissions from cloud sales.

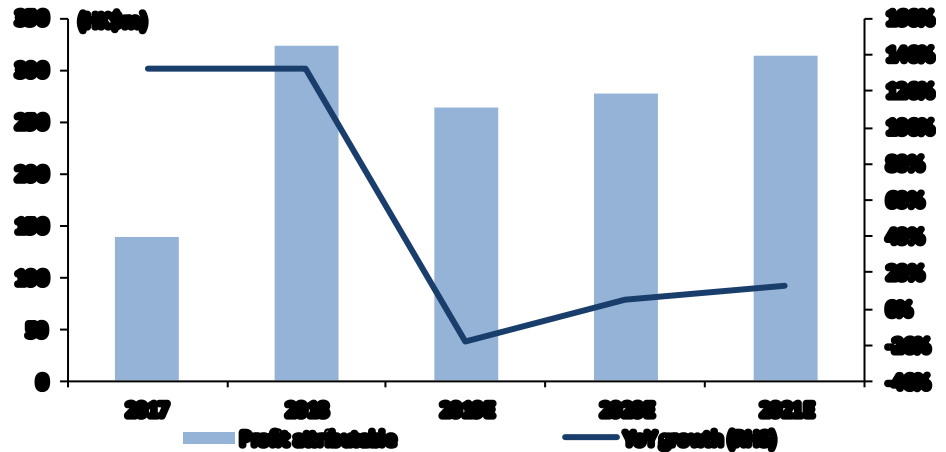
Fig 21: Major operating costs as percentage of total revenue



Source: Annual Reports, SWS Research

We forecast 19E adjusted net profit of HKD264m (-18% YoY, decline due to much less from share of profit from associate in 19E), 20E profit of HKD279m (+5% YoY), and 21E profit of HKD314m (+13% YoY). Profit growth is moderate due to the development required for the company's cloud business.

Fig 22: Net profit forecast



Source: Annual Reports, SWS Research

A sum of the part valuation (SOTP) is more appropriate for the company given the transition into a cloud business. We assign 8x PE for the traditional business, 8x PS for the cloud business, and arrive at a target price of HK\$5.0, representing 21x 19E PE or 2.5x 19E PB, or 21x 20E PE or 2.3x 20E PB.

Fig 23: Valuation

2019E	Base (HKDm)	Multiple	Valuation (HKDm)	Equity stake	Value to Inspur	Price per share (HK\$)
Traditional	369	8	2955	100%	2955	2.6
Cloud	367	8	2937	90%	2643	2.3
Target price						5.0

Source: SWS Research

We contrast the company's valuation with other Chinese TMT software stocks like Kingdee (00268 HK) and Yongyou (600588:CH). Kingdee is valued at over 12x PS for its cloud business and 10x PE for traditional, while Yongyou enjoys a higher valuation due to A-share premiums. We consider a 20% discount to Kingdee as fair as Inspur International is a follower in the ERP cloud sector but enjoys a higher pace of growth from a relatively low base.

Fig 24: Peer table

Peer comparison	Company name	Trading currency	Market cap (bn)	Gross margin	19E PE	20E PE	19E P/S	20E P/S
00268 HK	KINGDEE	HKD	26.5	81.7	49.6	40.5	3.9	3.6
600588 CH	YONGYOU	CHN	55.4	61.8	64.5	50.1	7.6	7
CRM US	SALESFORCE	USD	111.9	74	65.6	42.6	6.7	5.9
WDAY US	WORKDAY	USD	43.4	70.5	114.1	86.3	16.9	14.4
ZM US	ZOOM	USD	19.5	81.5	12650	852.8	37.9	41.8
02013 HK	WEIMOB	HKD	8.85	59.8	51.6	26.7	8.7	6.6
08083 HK	YOUZAN	HKD	7.66	21.5	n.a.	n.a.	1.6	1.79
<b>Average</b>				<b>64.4</b>	<b>2163.9</b>	<b>183.2</b>	<b>11.9</b>	<b>11.6</b>
596 HK	INSPUR INTERNATIONAL	HKD	3.64	38	13	13	1.2	1.1

Source: Bloomberg, SWS Research

With 43% upside to our target price, we initiate coverage of Inspur International with a BUY rating.

## Appendix 1: Ownership structure

**Fig 25: Shareholding structure by March, 2019**

Shareholder	Number of shares held	%
Inspur Group Limited	621,679,686	55%
Inspur Overseas Investment Limited	428,278,000	38%
Inspur Cloud Computing Investment Limited	193,401,286	17%
Wang Yu Kun	66,396,000	6%
Others	450,845,445	40%
<b>Total shares</b>	<b>1,138,920,731</b>	<b>100%</b>

Source: SWS Research

On October 16, 2018, company issued 30m shares option (2.6% of total shares outstanding currently) to management team, of which 7.8m were granted to directors and the remaining were granted to certain management of technical and business division of the company with exercise price of HK\$3.16. Chairman Wang were granted 3.6m in this issuance, and CEO Eric were granted 2.8m.

### Directors & senior management

Mr. Wang Xingshan, aged 54, is the chairman of the Board, expert in special government grants from the State Council, Talshan Scholar, a management accounting advisor of the Ministry of Finance and a member of management accounting leader think-tank in North Asia. Mr. Wang graduated in Xi'an Jiaotong University with a Master degree in Computational Mathematics in 1987. In early 1990, Mr. Wang as a visiting scholar conducted research relating to corporate management and software engineering in the Japan Productivity Center. Mr. Wang had worked in several departments of Inspur Group. Mr. Wang has attained over 30 years' experience in the operation and management of the IT industry in China, particularly in the field of software and IT service, and has been devoted to the innovation of ERP technology and innovation of management, which has led the Company to move towards its transformation to the leading cloud service provider in China. As a result of his outstanding achievement, he has been granted various awards of which have been awarded by the State and provincial governments, such as the "Top Ten Software Industry Leader of China", "China Management Institute Award" and "Young and Middle-Aged Expert of Outstanding Contribution of Shandong Province".

Mr. Lee Eric Kong, aged 50, is the chief executive officer ("CEO"), has over 25 years of experience in IT business. He first obtained a Master of Electrical Engineering from Eindhoven University of Technology, Netherlands, in 1993. For about 9 years, Eric has held technical, marketing and business development and business management positions in AT&T Network Systems International and Lucent Technologies in Europe, People's Republic of China ("PRC"), Australia, Philippines and Malaysia. During his time with Lucent Technologies, Eric received full sponsorship from the aforesaid company in 1997 to attend a fulltime MBA program of INSEAD in France. Eric later joined Oracle Corporation as client director for the Asia Pacific Enterprise Accounts Division. He joined Inspur in 2004 as investor, co-founder and COO, promoted to President & CEO of the Group's outsourcing start-up in the following year. He successfully built the business from practically zero to one of the PRC's top five outsourcing firm servicing domestic and international markets. He resigned in October 2013 and on 1 August 2017, he was appointed as an executive director, President and Chief Operation Officer of Inspur International, as well as President and Chief Operation Officer of Inspur Genersoft Co., Ltd (a subsidiary of the Inspur International). On 17 August 2018, he was appointed as chief executive director of Inspur International Limited.

Mr. Jin Xiaozhou, Joe, aged 57, has obtained a bachelor degree in Space Physics at Peking University, a master degree in Electrical Engineering at the Institute of Electronics, Chinese Academy of Sciences, a master degree in Electronics, Computer and Systematic Engineering at Boston University. He is currently a general manager of Inspur Worldwide Services Limited ('Inspur Worldwide'), a subsidiary of the Company and is in charge of the Company's international outsourcing business. Mr. Jin has 30 years of relevant experiences in the I.T. business sector, principally in charge of risk investment, designing and planning, and managing development.

**Mr. Dong Hallong, aged 41, a non-executive Director, Mr. Dong graduated from Southwest Jiaotong University with a Bachelor degree in Telecommunication Engineering in 1999. Mr. Dong joined the Company in 2002.**

**Mr. Wong Lit Chor, Alexis, aged 60, an independent non-executive Director, graduated from University of Toronto, Canada, in 1981 with Bachelor of Arts majoring in economics and commerce and has obtained a master of business administration degree from The Chinese University of Hong Kong in 1987. He has over 30 years of banking, investment, corporate finance and securities dealing experience gained by working as a senior executive in a number of listed local and PRC financial services companies. Mr. Wong is also an independent non-executive director of one company listed on the Main Board of the Stock Exchange of Hong Kong.**

**Ms. Zhang Ruijun, aged 57, an independent non-executive Director, graduated from the School of Business of Renmin University of China with a PhD degree in management studies in 2002. Ms. Zhang is currently a Professor of Finance and a PhD supervisor in the School of Business of Renmin University of China, and she is engaged in research on IT and Management Integrations of Enterprise Group Control Strategy, Enterprise Group Fund Management and Financial Resources, and Enterprise Risk Management.**

**Mr. Ding Xiangqian, age 57, is currently a supervisor of doctorate degree and a chief manager at Ocean University of China. He had held and participated in over 50 national and provincial lectures, participated in over 30 informatization building projects in large enterprises and has received and obtained 9 provincial technology award and 21 national patent rights. Mr. Ding has also published over 60 academic articles of relevant areas and 3 monographs.**

**Mr. Zhang Yuxin, aged 43, is the chief financial officer, graduated from Northeastern University and obtained his bachelor's degree in accounting in 1999. Mr. Zhang graduated from the Shandong University and obtained his master's degree in business administration in 2013. Prior to his appointment as the CFO of the Company, Mr. Zhang has been working as accounting manager of Inspur Group Limited, manager of the financial department of "Ericsson Inspur Wireless Technology Co., Ltd", general manager of the financial planning department of "Inspur General Software Co., Ltd", and vice president of the Company.**

**Ms. Chan Wing, aged 48, company secretary of the Company. She is a fellow member of The Hong Kong Institute of Certified Public Accountants, a member of ICAEW and the Chinese Institute of Certified Public Accountants respectively. Ms Chan joined the Group in 2008.**

**Mr. Zoubo, aged 40, is the authorised representative and joint company secretary. Mr. Zou was graduated from Huazhong University of Science and Technology with a bachelor degree in management and law in 2001. Mr. Zou joined the Group in 2006.**



## Appendix 2:

### Consolidated Income Statement

HKDm	2017	2018	2019E	2020E	2021E
Revenue	1,965	2,443	2,889	3,403	4,076
Cost of Sales	-1,268	-1,504	-1,763	-2,009	-2,290
Gross Profit	697	939	1,126	1,394	1,786
Other Income	172	190	200	210	220
General and administrative expenses	-265	-382	-507	-688	-963
Selling and distribution expenses	-473	-530	-613	-681	-734
adj. EBITDA	230	435	326	364	423
adj. EBIT	189	377	326	364	423
Finance Costs	-5	-14	-30	-52	-71
Profit before tax	184	363	296	312	351
Income tax expense	-23	-19	-15	-16	-18
Minority Interests	22	20	17	18	20
adj. Profit attributable	139	324	264	279	314

Source: SWS Research

### Consolidated Cash Flow Statement

HKDm	2017	2018	2019E	2020E	2021E
Profit before taxation	161	344	281	296	334
Plus: Depr. and amortisation	38	56	0	0	0
Finance cost	5	14	0	0	0
Losses from Investments	-4	-5	0	0	0
Change in working capital	-92	-2	-10	-35	-64
Others	-31	-147	0	0	0
CF from operating activities	77	260	271	261	270
CAPEX	-7	-54	-100	-100	-100
Other CF from investing activities	453	7	0	0	0
CF from investing activities	446	-47	-100	-100	-100
Equity financing	82	0	0	0	0
Net change in liabilities	0	-24	-511	-400	-640
Dividend and interest paid	-69	-29	-46	-40	-42
Other CF from financing activities	-129	-624	1,000	1,000	1,000
CF from financing activities	-116	-676	443	560	318
Net cash flow	407	-463	614	721	488

Source: SWS Research

### Consolidated Balance Sheet

HKDm	2017	2018	2019E	2020E	2021E
<b>Current Assets</b>	<b>2,140</b>	<b>1,816</b>	<b>2,555</b>	<b>3,420</b>	<b>4,095</b>
Bank balances and cash	1,391	865	1,479	2,201	2,689
Trade and other receivables	414	358	423	498	597
Inventories	13	16	16	16	16
Other current assets	322	577	636	704	793
Long-term investment	864	1,223	1,223	1,223	1,223
PP&E	734	505	605	705	805
Intangible and other assets	124	137	137	137	137
<b>Total Assets</b>	<b>3,861</b>	<b>3,682</b>	<b>4,520</b>	<b>5,485</b>	<b>6,261</b>
<b>Current Liabilities</b>	<b>1,840</b>	<b>1,318</b>	<b>1,921</b>	<b>2,629</b>	<b>3,113</b>
Borrowings	24	511	1,000	1,600	1,960
Trade and other payables	743	663	777	885	1,009
Other current liabilities	1,073	144	144	144	144
Long-term liabilities	218	311	311	311	311
<b>Total Liabilities</b>	<b>2,058</b>	<b>1,629</b>	<b>2,232</b>	<b>2,940</b>	<b>3,424</b>
Minority interests	-98	-1	16	33	53
<b>Shareholder Equity</b>	<b>1,901</b>	<b>2,054</b>	<b>2,273</b>	<b>2,512</b>	<b>2,784</b>
Share Capital	10	11	11	11	11
Reserves	1,892	2,043	2,261	2,501	2,773
Equity attributable	1,901	2,054	2,273	2,512	2,784
<b>Total Liabilities and equity</b>	<b>3,861</b>	<b>3,682</b>	<b>4,520</b>	<b>5,485</b>	<b>6,261</b>

Source: SWS Research

### Key Financial Ratios

	2017	2018	2019E	2020E	2021E
<b>Ratios per share (HKD)</b>					
Earnings per share	0.13	0.29	0.23	0.24	0.28
Diluted earnings per share	0.13	0.29	0.23	0.24	0.28
Operating CF per share	0.07	0.23	0.24	0.23	0.24
Dividend per share	0.03	0.04	0.03	0.04	0.04
Net assets per share	1.78	1.84	1.99	2.20	2.44
<b>Key Operating Ratios (%)</b>					
ROIC	8.47	16.28	10.59	9.30	8.98
ROE	8.33	17.86	12.95	12.26	12.40
Gross profit margin	35.47	38.43	38.96	40.98	43.82
Ebitda margin	11.70	17.81	11.29	10.69	10.37
Ebit margin	9.64	15.43	11.29	10.69	10.37
Growth rate of Revenue(YoY)	68.95	24.30	18.28	17.79	19.77
Growth rate of Profit(YoY)	132.42	132.78	(18.38)	5.41	12.65
Debt-to-asset ratio	53.30	44.24	49.37	53.60	54.68
Turnover rate of net assets	1.09	1.19	1.26	1.34	1.44
Turnover rate of total assets	0.51	0.66	0.64	0.62	0.65
Effective tax rate (%)	12.63	5.14	5.00	5.00	5.00
Dividend yield (%)	0.77	1.17	1.00	1.05	1.18
<b>Valuation Ratios (x)</b>					
P/E	26.54	12.00	14.91	14.27	12.67
P/B	1.96	1.90	1.75	1.58	1.43
EV/Sale	1.18	1.45	1.20	0.99	0.80
EV/Ebitda	10.13	8.12	10.62	9.28	7.69

Source: SWS Research

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