

2019年6月14日

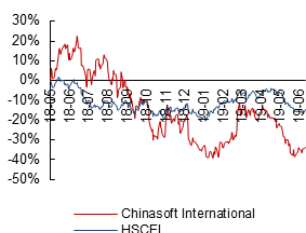
增持
下调

转型需要时间 中软国际 (00354:HK)

Market Data: 12 Jun

Closing Price (HK\$)	3.77
Price Target (HK\$)	4.50
HSCEI	10495
HSCCI	4309
52-week High/Low (HK\$)	7.13/3.43
Market Cap (HK\$ bn)	9.59
Market Cap (US\$ bn)	1.22
Shares Outstanding (Mn)	2429
Exchange Rate (US\$-HK\$)	7.85

Price Performance Chart:



Source: Bloomberg

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Chinasoft International(354:HK)

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Chinasoft International(354:HK)

Published 10 August 2018

Financial summary and valuation

	2017	2018	2019E	2020E	2021E
Revenue (Rmbm)	9,244	10,585	11,622	12,875	14,207
YoY (%)	36.3	14.5	9.8	10.8	10.3
Net income (Rmbm)	566	716	791	879	1,008
YoY (%)	27.9	26.6	10.6	11.1	14.7
EPS (Rmb)	0.24	0.30	0.31	0.33	0.38
Diluted EPS (Rmb)	0.23	0.28	0.28	0.30	0.34
ROE (%)	11.74	12.72	12.74	12.91	9.72
Debt/asset (%)	40	42	45	41	26
Dividend yield (%)	0.3	0.4	0.3	0.4	0.4
PE (x)	13.5	10.8	10.3	9.6	8.4
PB (x)	1.5	1.3	1.2	1.1	1.0
EV/Ebitda (x)	7.7	6.8	5.6	4.8	0.3

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

在宏观压力下，中软国际的估值维持在 10 倍稀释后的 19E 的市盈率低位。尽管市场情绪疲弱，但公司积极参与大客户内部的业务调整，预计今年来自大客户的总收入绝对值不会下降。但鉴于公司新兴业务增速低于预期，结构改善效果放缓，因此拉低了整体利润率预期。我们将稀释后的每股收益预测 19 年从 0.36 下调至 0.28 元人民币(同比增长 1%)，将 20 年从 0.46 元人民币下调至 0.30 元人民币(同比增长 10%)，并预测 21 年为 0.38 元人民币(同比增长 15%)。我们的目标价由 8.64 港元下调至 4.5 港元，对应 12x 19E PE。股价仍有 19% 上涨空间，我们将评级从买入下调至增持。

外部影响。2018 年头部客户收入占总收入的 53%。公司预计来自头部客户的收入 2019 年没有下降。在当前宏观趋势下，大客户内部业务结构正在发生变化，有的部门在扩张，有的部门在收缩。我们注意到这一变化对中软未来的相关业务构成了较高的不确定性。

结构改进停滞。近年来，随着云计算、大数据、JF 平台等新兴业务的快速发展，净利润率不断增长。然而，自 2H18 年以来，新兴业务增速放缓，短期内不太可能实现预期的利润率提升。未来几年，随着研发费用的增加，公司将更多地专注于云业务的发展。我们预期短期内利润率持平，而很难有所改善。

云业务。公司成立云智能业务集团作为一个独立的部门，支持云业务的发展。与云迁移服务不同，公司会更关注大企业的云解决方案。从一次性解决方案收费向 SAAS 模型转型，需要时间。我们预计云业务部门的财务状况或将在 2020E 年的财务报表中单独披露。

下调至增持评级。我们将稀释后的每股收益预测 19 年从 0.36 下调至 0.28 元人民币(同比增长 1%)，将 20 年从 0.46 元人民币下调至 0.30 元人民币(同比增长 10%)，并预测 21 年为 0.38 元人民币(同比增长 15%)。我们的目标价由 8.64 港元下调至 4.5 港元，对应 12x 19E PE。股价仍有 19% 上涨空间，我们将评级从买入下调至增持。

Structural adjustments

Due to the macroeconomic impact, Chinasoft International's valuation remains low at 10x 19E PE. Nonetheless, the company foresees no decline in total revenue generated from its largest client this year. Meanwhile, the firm's margin expansion has slowed down due to the slower-than-expected growth of its emerging businesses. We lower our diluted EPS forecasts from Rmb0.36 to Rmb0.28 in 19E (flat YoY) and from Rmb0.46 to Rmb0.30 in 20E (+7.1% YoY), and forecast Rmb0.34 in 21E (+13.3% YoY). We cut our target price from HK\$8.64 to HK\$4.50, representing 12x 19E PE. With 19% upside, we downgrade our rating from BUY to Outperform.

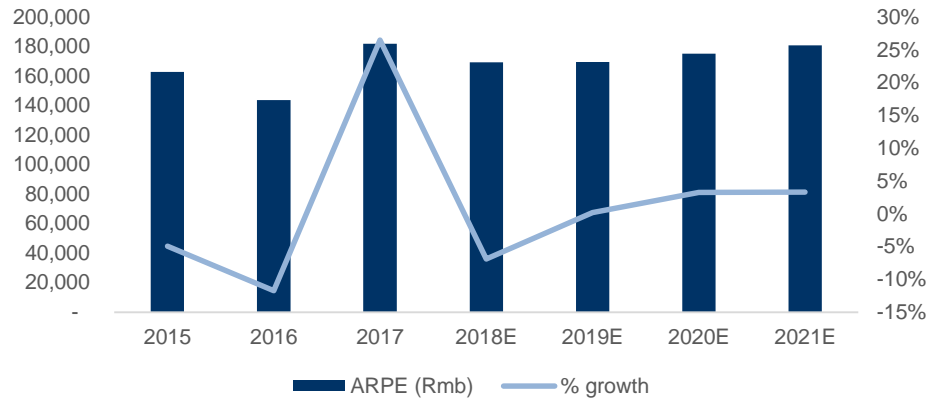
Overhang. Top client accounted for 53% of Chinasoft's total revenue in 2018. The company does not expect revenue generated from top client to decline in 2019. We note clients' business structure is being adjusted due to the current macroeconomic environment, with a number of departments expanding while others shrink. We believe these structural adjustments increase uncertainty on Chinasoft's future revenue source from top client.

Margin expansion coming to a standstill. The firm's net margin has expanded over the past few years, thanks to the rapid development of emerging businesses, such as cloud, big data, and the JF platform. However, we note the growth of emerging businesses has slowed down since 2H18, making it difficult for the company's net margin to further improve in the short term. Chinasoft is transforming to focus more on the cloud business in the next few years with more research and development (R&D) expenses. Overall, we expect the firm's net margin to remain flat in the short term.

Cloud business. The company set up Cloud & Intelligence Group as a separate department to support the development of its cloud business. We expect the firm to focus more on cloud solutions for large companies than on cloud migration services. The transition from a one-time solution payment to a software-as-a-service (SAAS) recurring payment model takes time. We expect financials for the cloud business segment to be listed separately in the firm's 2020 financial statements.

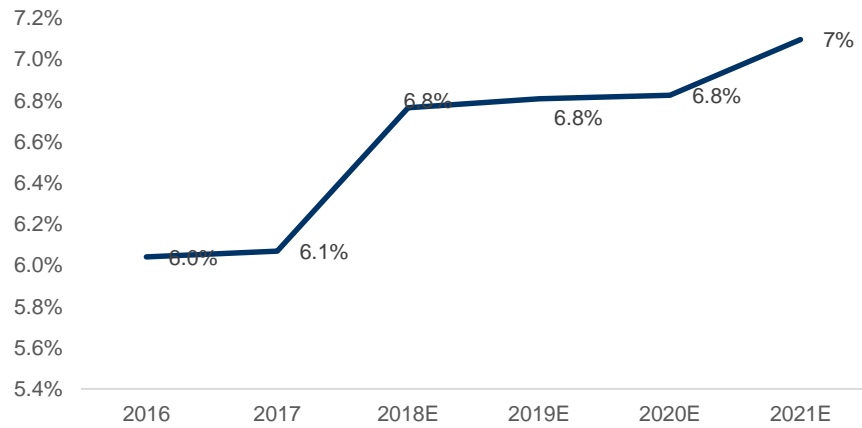
Downgrade to Outperform. We lower our diluted EPS forecasts from Rmb0.36 to Rmb0.28 in 19E (flat YoY) and from Rmb0.46 to Rmb0.30 in 20E (+7.1% YoY), and forecast Rmb0.34 in 21E (+13.3% YoY). The stock is currently trading at 10x 19E basic PE and 11x 19E diluted PE. We cut our target price from HK\$8.64 to HK\$4.50, representing 12x 19E PE. With 19% upside, we downgrade our rating from BUY to Outperform.

Fig 1: Average revenue per employee (Rmb)



Source: Company, SWS Research

Fig 2: Net margin forecast



Source: Company, SWS Research

Appendix

Consolidated Income Statement

Rmbm	2017	2018	2019E	2020E	2021E
Revenue	9,244	10,585	11,622	12,875	14,207
Cost of Sales	-6,493	-7,340	-8,061	-8,895	-9,807
Gross Profit	2,750	3,245	3,561	3,980	4,400
Other Income	96	57	50	50	50
Distribution expenses	-370	-496	-546	-605	-668
Administrative expenses	-1,086	-1,091	-1,162	-1,288	-1,421
EBITDA	889	1,028	1,193	1,315	1,282
EBIT	712	866	1,020	1,159	1,282
Finance Costs	-99	-118	-154	-140	-112
Profit before tax	633	760	879	1,034	1,186
Income tax expense	-71	-44	-88	-155	-178
Minority interests	-4	0	0	0	0
Profit attributable	566	716	791	879	1,008

Source: SWS Research

Consolidated Cash Flow Statement

Rmbm	2017	2018	2019E	2020E	2021E
Profit before taxation	633	760	879	1,034	1,186
Plus: Depr. and amortisation	178	162	173	156	0
Finance cost	103	118	154	140	112
Losses from investments	0	0	0	0	0
Change in working capital	-687	1,816	-2,777	-435	4,408
Others	106	-44	-88	-155	-178
CF from operating activities	332	2,812	-1,659	740	5,528
CAPEX	-160	-129	-129	-129	0
Other CF from investing activities	-74	0	0	0	0
CF from investing activities	-234	-129	-129	-129	0
Equity financing	0	0	0	0	0
Net change in liabilities	-431	800	0	-466	0
Dividend and interest paid	-100	-147	-191	-179	-156
Other CF from financing activities	964	0	0	0	0
CF from financing activities	432	653	-191	-645	-156
Net cash flow	530	3,336	-1,978	-34	5,373

Source: SWS Research

Consolidated Balance Sheet

Rmbm	2017	2018	2019E	2020E	2021E
Current Assets	7,425	8,836	10,464	10,464	10,464
Bank balances and cash	2,207	2,498	2,858	2,858	2,858
Trade and other receivables	5,110	6,226	7,489	7,489	7,489
Inventories	47	51	56	56	56
Other current assets	61	61	61	61	61
Long-term investment	30	30	30	30	30
PP&E	1,093	1,349	1,585	1,585	1,585
Intangible and other assets	1,380	1,331	1,297	1,297	1,297
Total Assets	9,929	11,546	13,376	13,376	13,376
Current Liabilities	3,581	4,047	4,727	4,727	4,727
Borrowings	1,536	1,595	1,838	1,838	1,838
Trade and other payables	1,855	2,262	2,699	2,699	2,699
Other current liabilities	190	190	190	190	190
Long-term liabilities	922	1,327	1,489	1,489	1,489
Total Liabilities	4,503	5,374	6,215	6,215	6,215
Minority Interests	68	68	68	68	68
Shareholder Equity	5,357	6,104	7,092	7,092	7,092
Share Capital	115	115	115	115	115
Reserves	2,041	2,787	3,776	3,776	3,776
Equity attributable	5,357	6,104	7,092	7,092	7,092
Total Liabilities and equity	9,929	11,546	13,376	13,376	13,376

Source: SWS Research

Key Financial Ratios

	2017	2018	2019E	2020E	2021E
Ratios per share (Rmb)					
Earnings per share	0.24	0.30	0.31	0.33	0.38
Diluted earnings per share	0.23	0.28	0.28	0.30	0.34
Operating CF per share	0.14	1.16	(0.65)	0.28	2.09
Dividend per share	0.01	0.02	0.02	0.02	0.02
Net assets per share	2.16	2.46	2.67	2.88	3.25
Key Operating Ratios (%)					
ROIC	11.11	11.98	11.51	11.70	9.46
ROE	11.74	12.72	12.74	12.91	9.72
Gross profit margin	29.76	30.65	30.64	30.91	30.97
Ebitda margin	9.62	9.71	10.27	10.21	9.02
Ebit margin	7.70	8.18	8.77	9.00	9.02
Growth rate of Revenue(YoY)	36.27	14.51	9.80	10.78	10.35
Growth rate of Profit(YoY)	27.93	26.56	10.56	11.06	14.73
Debt-to-asset ratio	40.24	42.49	44.73	40.59	25.92
Turnover rate of net assets	1.77	1.75	1.82	1.78	1.05
Turnover rate of total assets	1.06	1.01	1.01	1.06	0.78
Effective tax rate (%)	11.30	5.82	10.00	15.00	15.00
Dividend yield (%)	0.27	0.43	0.35	0.37	0.43
Valuation Ratios (x)					
P/E	13.54	10.82	10.29	9.63	8.40
P/B	1.48	1.30	1.20	1.11	0.98
EV/Sale	0.75	0.66	0.58	0.49	0.03
EV/Ebitda	7.74	6.82	5.60	4.76	0.32

Source: SWS Research

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