

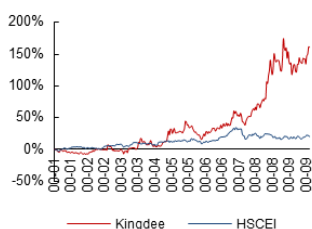
16 August 2018

Hold
Downgraded

Market Data: 15, Aug

Closing Price (HK\$)	8.90
Price Target (HK\$)	8.09
HSCEI	10535
HSCCI	4,043
52-week High/Low (HK\$)	11.34/3.04
Market Cap (HK\$ bn)	29
Market Cap (US\$ bn)	3.9
Shares Outstanding (Mn)	3273
Exchange Rate (US\$-HK\$)	7.85

Price Performance Chart:



Source: Bloomberg

Analyst

Mae Huang

A0230517010002

BGT702

huangqian@swsresearch.com

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"Target in sight"

Kingdee International (268:HK)

Published 18 May 2018

"Property gains"

Kingdee International (268:HK)

Published 14 March 2018

"On cloud nine"

Kingdee International (268:HK)

Published 23 January 2018

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Damp clouds

Kingdee International (00268:HK)

Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	1,862	2,303	2,809	3,290	3,740
YoY (%)	22.8	23.7	21.9	17.1	13.7
Net income (Rmbm)	212	310	351	516	678
YoY (%)	100.2	46.4	13.1	47.3	31.3
EPS (Rmb)	0.07	0.11	0.11	0.16	0.20
Diluted EPS (Rmb)	0.07	0.11	0.10	0.15	0.20
ROE (%)	6.35	8.54	7.97	9.95	11.82
Debt/asset (%)	41	41	36	36	36
Dividend yield (%)	0.0	0.1	0.2	0.3	0.5
PE (x)	103.7	68.9	69.4	48.6	37.9
PB (x)	6.3	5.3	4.8	4.6	4.2
EV/Ebitda (x)	36.8	28.7	30.0	25.1	21.0

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

Kingdee reported 1H18 revenue of Rmb1.3bn (+21.3% YoY) and net profit of Rmb169.8m (+59.5% YoY). The firm's cloud business recorded revenue of just Rmb355m (+25.6% YoY), missing the firm's guidance of 60% YoY growth and consensus expectation of c.50% YoY growth, as Kingdee's cloud retention rate fell to 81%. Cloud business growth was weighed mainly by Guanyi Cloud, revenue from which fell 17% YoY. We lower our cloud business revenue forecast but raise our forecasts for the firm's traditional enterprise resource planning (ERP) products business, maintaining our diluted EPS forecasts at Rmb0.10 in 18E (-9.1% YoY), and Rmb0.15 in 19E (+50.0% YoY) but lowering our forecast from Rmb0.21 to Rmb0.20 in 20E (+33.3% YoY). We cut our target price from HK\$9.40 to HK\$8.09. With 9.1% downside, we downgrade our rating to Hold.

Cloud growth and retention rate lower. Cloud business revenue hit just Rmb355m (+25.6% YoY), of which, Kingdee Cloud contributed Rmb255m (+43% YoY), but Guanyi Cloud contribution fell 17% YoY. The firm lowered its full-year revenue growth guidance from 60% YoY to 45% YoY. We lower our cloud revenue growth forecasts to 45% YoY in 18E, 40% YoY in 19E and 35% in 20E. The interim report also notes that Kingdee's cloud retention rate fell from 90%+ in 17A (by transaction amount) to 81% (by number of orders) in 1H18; the change in measurement method notwithstanding, we believe the measure still demonstrates a decline in per customer value for its cloud business. The company's stock price implies a c.18x 19E PS ratio for its cloud business, a premium clearly not justified by its current growth rate. Next-generation cloud services may stimulate cloud growth in 2019-20E, but as Software as a Service (SaaS) solutions for large clients need longer implementation times, any uptick in revenue contribution would be a slow process.

Traditional business. The firm's ERP business outperformed expectations with over 20% YoY growth, contributing to the firm's expectation-beating overall profit. Higher traditional business growth is due to substantial growth in orders in 2017, as enterprise applications services (EAS) generally take 1-year-plus to implement. However, with the development of the firm's cloud business and the launch of the second generation of Kingdee Cloud, tradition ERP business growth will likely be capped in years to come and some revenue may be transferred to the cloud segment. With stable margin in its traditional ERP business, the segment is not a substantial contributor to Kingdee's overall valuation.

Downgrade to Hold. We lower our cloud business revenue forecast but raise our forecasts for the firm's traditional enterprise resource planning (ERP) products business. We maintain our diluted EPS forecasts at Rmb0.10 in 18E (-9.1% YoY), and Rmb0.15 in 19E (+50.0% YoY) but lower our forecast from Rmb0.21 to Rmb0.20 in 20E (+33.3% YoY). We lower our target multiples for the cloud business, and thus cut our target price from HK\$9.40 to HK\$8.09, representing 43x 19E PE, 32x 20E PE, 4.1x 19E PB, and 3.8x 20E PB. With 9.1% downside, we downgrade our rating from Outperform to Hold.

云增速和续费率放缓

金蝶 18 年上半年收入为近人民币 13 亿元（同比增长 21%），净利润为人民币 1.7 亿元（同比增长 59.5%）。云业务仅实现 3.55 亿元人民币收入（同比增长 25.6%），未能达到之前 60% 年度增长指引和市场预期 50% 的半年度增长，主要受管易云同比下滑 17% 的拖累。之前几周金蝶的交易价格估值已经相当于约 18 倍 19 年 PS，对于当前的增长率而言，这样的溢价很难夯实。我们降低云业务收入三年预期但提升传统 RP 业务的预测，调整后 18 年摊薄后每股盈利预测维持不变为 0.10 元（同比下降 3%），19 年摊薄后每股盈利预测维持为 0.15 元（同比增长 45%），20 年摊薄后每股盈利预测从 0.21 元下调至 0.20 元（同比增长 31%）。我们将目标价由 9.4 港元下调至 8.09 港元，主要基于 19 年云收入预测及其 PS 估值下修。

云业务的增长和续费率下降。云业务上半年实现 3.55 亿人民币的收入（同比增长 25.6%），其中金蝶云业务的收入为人民币 2.55 亿元（同比增长 43%），管易云收入同比下降 17%。全年云增速指引从 60% 下修到 45%。我们将 18 年 / 19 年 / 20 年的云收入增长率降至 45% / 40% / 35%。中期业绩还显示，金蝶云的续费率从 2017 年的 90%+（金额口径）降至 18 年上半年的 81%（数量口径），统一口径下也会有些降低，续费率的下降对云业务的单个客户生命周期价值有一定负面影响。公司之前的交易估值高达 18 倍 19 年 PS，对于当前的客户增长率和客户续费率来说，溢价难以夯实。第二代云（金蝶云苍穹）可能会为 19 年和 20 年的云增长带来亮点，但由于大型客户的 SaaS 需要较长的实施时间，因此该部分的收入贡献增长缓慢。

传统 ERP。传统 ERP 业务的表现优于预期，同比增长约 20%，致使总利润表现亮眼。传统业务增长较高的原因在于 2017 年订单增长较快，因为 EAS 通常需要超过 1 年多的实施时间。但是随着云业务的发展和二代金蝶云的推出，传统 ERP 业务的增长很快将达到天花板，部分收入可能会逐渐转移到云业务上。由于传统 ERP 业务有着比较稳定的利润率，PE 估值法使得传统业务并无法成为金蝶总估值的重要贡献者。

下调至中性。我们降低云业务收入三年预测但提升传统 ERP 业务的收入预测。18 年摊薄后每股盈利预测维持不变，为人民币 0.10 元（同比下降 3%），19 年摊薄后每股盈利预测为 0.15 元（同比增长 45%），和 20 年摊薄后每股盈利预测从 0.21 元下调至 0.20 元（同比增长 31%）。随着我们降低 19 年云业务收入基数和 PS 倍数，我们将目标价从 9.40 港元下调至 8.09 港元。目标价格相当于 43 倍 19 年 PE，32 倍 20 年 PE，4.1 倍 19 年 PB 和 3.8 倍 20 年 PB。股票有 9.1% 的下浮空间，我们将评级从增持下调至中性。

Fig 1: Segment fundamental forecast

Segments						
	2015	2016	2017	2018E	2019E	2020E
ERP Business						
Revenue	1349	1521	1735	1985	2136	2183
% growth		13%	14%	14%	8%	2%
% over total	89%	82%	75%	71%	65%	58%
Operating profit	308	233	392	449	427	437
% growth		-24%	69%	14%	-5%	2%
% margin	23%	15%	23%	23%	20%	20%
% over total	90%	93%	93%	100%	67%	52%
Segment results	191	208	289	331	320	327
% growth		9%	39%	14%	-3%	2%
% margin	14%	14%	17%	17%	15%	15%
% over total	89%	98%	93%	94%	62%	48%
Cloud services						
Revenue	168	341	568	824	1153	1557
% growth		103%	67%	45%	40%	35%
% over total	11%	18%	25%	29%	35%	42%
Operating profit	-52	-88	-136	-99	115	265
% growth		70%	54%	-27%	-217%	130%
% margin	-31%	-26%	-24%	-12%	10%	17%
% over total	-15%	-35%	-32%	-22%	18%	32%
Segment results	-46	-81	-114	-66	92	187
% growth		77%	40%	-42%	-240%	103%
% margin	-27%	-24%	-20%	-8%	8%	12%
% over total	-21%	-38%	-37%	-19%	18%	28%
Others						
Operating profit	86	104	165	99	100	134
% growth		22%	58%	-40%	1%	35%
% over total	25%	42%	39%	22%	16%	16%
Segment results	73	89	148	89	90	121
% growth		22%	67%	-40%	1%	35%
% margin	85%	85%	90%	90%	90%	90%
% over total	34%	42%	48%	25%	17%	18%

Source: Company, SWS Research

Appendix

Consolidated Income Statement

Rmbm	2016	2017	2018E	2019E	2020E
Revenue	1,862	2,303	2,809	3,290	3,740
Cost of Sales	-348	-427	-521	-610	-693
Gross Profit	1,514	1,876	2,288	2,680	3,047
Other Income	264	349	320	350	380
Distribution expenses	-1,002	-1,236	-1,421	-1,561	-1,696
Administrative expenses	-278	-320	-379	-428	-486
EBITDA	609	780	808	949	1,112
EBIT	249	421	449	642	836
Finance Costs	-22	-27	-27	-28	-29
Profit before tax	209	378	405	595	786
Income tax expense	6	-55	-40	-66	-94
Minority interests	3	14	14	14	14
Profit attributable	212	310	351	516	678

Source: SWS Research

Consolidated Cash Flow Statement

Rmbm	2016	2017	2018E	2019E	2020E
Profit before taxation	162	289	378	405	595
Plus: Depr. and amortisation	275	364	360	359	307
Finance cost	54	35	27	27	28
Losses from investments	-15	-158	0	0	0
Change in working capital	143	107	279	-183	7
Others	-62	-26	-220	-68	-94
CF from operating activities	556	612	824	540	843
CAPEX	-301	-467	-377	-250	-250
Other CF from investing activities	-624	-94	-594	0	0
CF from investing activities	-924	-561	-971	-250	-250
Equity financing	1,108	24	18	737	40
Net change in liabilities	-447	-37	-80	45	44
Dividend and interest paid	-30	0	0	-53	-103
Other CF from financing activities	12	-111	-174	0	0
CF from financing activities	644	-125	-236	730	-19
Net cash flow	276	-74	-383	1,020	574

Source: SWS Research

Consolidated Balance Sheet

Rmbm	2016	2017	2018E	2019E	2020E
Current Assets	2,957	3,534	4,844	5,601	6,457
Bank balances and cash	1,465	1,057	2,077	2,651	3,335
Trade and other receivables	711	752	1,044	1,223	1,390
Inventories	6	14	13	18	22
Other current assets	775	1,710	1,710	1,710	1,710
Long-term investment	908	1,753	1,753	1,753	1,753
PP&E	796	510	533	554	575
Intangible and other assets	1,316	1,005	873	795	749
Total Assets	5,977	6,802	8,003	8,704	9,533
Current Liabilities	923	1,405	1,513	1,682	1,886
Borrowings	81	155	156	135	161
Trade and other payables	674	1,002	1,109	1,299	1,477
Other current liabilities	168	248	248	248	248
Long-term liabilities	1,518	1,354	1,398	1,463	1,504
Total Liabilities	2,441	2,759	2,911	3,145	3,389
Minority Interests	60	48	61	75	89
Shareholder Equity	3,476	3,995	5,031	5,484	6,055
Share Capital	73	72	80	80	81
Reserves	1,238	1,548	1,846	2,259	2,767
Equity attributable	3,476	3,995	5,031	5,484	6,055
Total Liabilities and equity	5,977	6,802	8,003	8,704	9,533

Source: SWS Research

Key Financial Ratios

	2016	2017	2018E	2019E	2020E
Ratios per share (Rmb)					
Earnings per share	0.07	0.11	0.11	0.16	0.20
Diluted earnings per share	0.07	0.11	0.10	0.15	0.20
Operating CF per share	0.21	0.29	0.17	0.26	0.29
Dividend per share	0.00	0.01	0.02	0.03	0.05
Net assets per share	1.20	1.42	1.57	1.66	1.79
Key Operating Ratios (%)					
ROIC	5.26	6.90	6.80	8.48	10.04
ROE	6.35	8.54	7.97	9.95	11.82
Gross profit margin	81.31	81.46	81.46	81.46	81.46
Ebitda margin	32.73	33.88	28.76	28.85	29.73
Ebit margin	13.37	18.27	15.98	19.52	22.34
Growth rate of Revenue(YoY)	22.77	23.70	21.94	17.13	13.68
Growth rate of Profit(YoY)	100.22	46.39	13.10	47.28	31.30
Debt-to-asset ratio	40.84	40.56	36.38	36.14	35.55
Turnover rate of net assets	0.53	0.57	0.55	0.59	0.61
Turnover rate of total assets	0.31	0.34	0.35	0.38	0.39
Effective tax rate (%)	(2.84)	14.48	10.00	11.00	12.00
Dividend yield (%)	0.00	0.12	0.16	0.30	0.48
Valuation Ratios (x)					
P/E	103.75	68.90	69.43	48.61	37.92
P/B	6.32	5.34	4.84	4.58	4.25
EV/Sale	12.06	9.72	8.62	7.25	6.25
EV/Ebitda	36.85	28.69	29.97	25.12	21.03

Source: SWS Research

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