

## 浪潮国际 [0596.HK]

### 乘风破浪；首次覆盖并予「买入」评级

浪潮国际主要从事信息技术业务。公司的业务焦点是为大中型企业提供专业的人力资源云服务解决方案。公司经营两大业务：a) 企业资源管理（ERM）相关业务（包括云服务和软件）及数据业务（如大数据服务）；b) 软件外包，当中涉及IT外包、业务流程外包、数据分析、基础设施维护和云服务。于2018年7月，浪潮国际完成向其母公司浪潮集团和Merit Express International收购软件开发业务浪潮天元76%股权，以发行1.86亿股新股的方式支付，发行价为每股2.65港元。预计浪潮国际将在2018/2019/2020年实现88.1%/19.7%/15.2%的稳健净利润增长。尽管公司年初至今的股价表现强劲，但我们认为目前13.0倍2018年市盈率的估值并不昂贵。股份吸引更多市场关注、政府出台利好政策，以及公司新产品的发布，均是股价催化剂。首次覆盖并予买入评级，目标价为4.50港元（基于18倍2018年市盈率，低于其历史平均及上市同业平均）。

- **中国对ERP的需求有利公司前景。**根据Gartner的数据，2011 - 2016年中国企业软件市场的复合年增长率为13.9%。企业资源规划（ERP）是企业软件市场中增长最快的分部之一。中国的ERP市场在2011 - 2016年以17.1%年均复合率增长，2016年达到14亿美元。作为大中型企业市场的领先企业，浪潮国际是企业IT支出增加的主要受益者。随着ERP需求增加、云相关业务强劲增长，以及中国推广5G，浪潮国际有望在2017-2020年录得坚挺的收入增长。
- **国有企业继续投资。**国有企业是浪潮国际的主要客户。公司的企业资源管理（ERM）相关产品覆盖了《财富》中国500强企业的26%以上。2018年上半年，浪潮国际的ERM相关产品收入约为6.347亿港元，同比增长约54.1%，其中超过54%的收入来自新客户，新客户从浪潮国际取得的产品取代了浪潮国际竞争对手的产品。根据国有资产监督管理委员会（SASAC）的数据，2017年中央国有企业的总收入约为26.4万亿元人民币，同比增长13.3%；净利润达1.4万亿元人民币，同比增长15.2%，为过去五年来的最高增长。我们预计国有企业将增加对IT服务的投资，因为a) 其盈利能力不断提高；b) 中央国有企业合并，这可能会产生IT需求以应付更大型企业的管理工作。
- **云服务业务有望保持高增长。**公司预计，其云服务业务到2030年将达到总收入的50%左右。公司的云服务业务收入占总收入比例从2017年上半年的2.5%增加到2018年上半年的6.7%。尽管云服务业务收入的分成将在短期内被摊薄（由于收购天元），但我们认为云服务业务收入将在中长期内继续增加。
- **预计政府将出台云计算政策指引。**中国政府正积极推动本地IT产业，希望取代海外公司的软件和硬件。此外，随着政府积极推动业务“上云”，浪潮国际发布了一个全面的产品组合，涵盖大、中、小型微型企业市场。我们相信浪潮国际将成为政府支持本地软件开发商政策的受益者。

主要财务指标 (百万港元)	2016	2017*	2018E	2019E	2020E
收入	1,163.2	1,796.0	2,305.7	2,833.9	3,627.3
变动 (同比%)	19.7	54.4	28.4	22.9	28.0
毛利润	342.2	527.3	738.0	936.1	1,220.0
毛利润率 (%)	29.4	29.4	32.0	33.0	33.6
净利润	59.9	151.3	284.6	340.6	392.2
净利润率 (%)	5.1	8.4	12.3	12.0	10.8
每股收益 (基本)	0.07	0.16	0.28	0.30	0.34
变动 (同比%)	n.a.	147.86	67.75	8.25	15.17
每股股息	\$0.030	\$0.030	\$0.050	\$0.060	\$0.069
净资产收益率 (%)	3.4	7.9	11.6	11.5	12.0
股息收益率 (%)	0.83	0.83	1.39	1.66	1.91
市盈率 (倍)	54.2	21.9	13.0	12.0	10.5
市净率 (倍)	1.9	1.7	1.5	1.3	1.2
自由现金流收益率 (%)	3.20%	-1.26%	5.17%	6.72%	8.94%
资本开支 (百万元)	29.6	25.7	27.7	29.8	32.1
每股自由现金流	0.1	(0.0)	0.2	0.2	0.3
净负债比率 (%)	净现金	净现金	净现金	净现金	净现金

来源: 公司, 中国银河国际证券研究部估计; \*包括来自天元的贡献

### TMT行业

## 买入 (首次覆盖)

收盘价: 3.60港元 (2018年12月4日)

目标价: 4.50港元 (+24.9%)

#### 股价表现



来源: 彭博, 中国银河国际证券研究部

市值	5.253亿美元
已发行股数	11.389亿股
核数师	Deloitte Touche Tohmatsu
自由流通量	39.7%
52周交易区间	2.01-3.78港元
三个月日均成交量	100万美国
主要股东	浪潮集团 (54.58%)

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## Inspur International Ltd [0596.HK]

### Catch the Wave. Initiate with BUY

Inspur International (Inspur) is engaged principally in the information technology business. The Company has positioned itself to provide professional human resources cloud services solutions for large and medium enterprises. It operates two major business segments: a) enterprise resource management (ERM) related business, which includes cloud services and software, and data business, like big data services; and b) software outsourcing, which provides IT outsourcing, business process outsourcing, data analysis, infrastructure maintenance and cloud services. In Jul 2018, Inspur completed the acquisition of a 76% stake in Inspur Tianyuan, a software development operation, from its parent, Inspur Group, and Merit Express International by issuing 186m new shares at HK\$2.65 per share. Inspur should deliver solid net profit growth of 88.1%/19.7%/15.2% in 2018E/2019E/2020E. We believe Inspur's current valuation of 13.0x 2018E, despite its strong YTD share price performance, doesn't look expensive. Increasing market attention, positive government policies, and a breakthrough in new product launches are share price catalysts. Initiate with **BUY** and a target price of HK\$4.50 (based on 18x 2018E PER, lower than its historical average and the average of its listed peers).

- Outlook helped by China ERP demand.** According to Gartner, China's enterprise software market grew at a compound annual growth rate (CAGR) of 13.9% in 2011-2016. Enterprise resource planning (ERP) is one of the fastest-growing segments of the enterprise software market. China's ERP market grew at a CAGR of 17.1% in 2011-2016 and reached US\$1.4bn in 2016. As a leading player in the large and medium enterprise segment, Inspur is a major beneficiary of increased IT spending. Inspur should report resilient top-line growth in 2017-2020E, given increasing demand for ERP, strong growth of cloud-related business, and the 5G roll-out in China.
- Continued investment from state-owned enterprises.** State-owned enterprises (SOEs) are Inspur's main clients. The Company's Enterprise Resource Management (ERM)-related products cover over 26% of the Fortune 500 Companies in China. In 1H 2018, Inspur's revenue from ERM-related products was about HK\$634.7m, up about 54.1% YoY, and over 54% of this revenue was generated from new customers, which replaced their original products from Inspur's competitors. According to the State-owned Assets Supervision and Administration Commission (SASAC), the total revenue generated by central government-owned enterprises reached about RMB26.4trn in 2017, up 13.3% YoY; and the net profit reached RMB1.4trn, up 15.2% YoY, which is the highest growth rate in the past five years. We expect SOEs to increase their investment in IT services, because of a) their increasing profitability, and b) mergers of central SOEs, which may create IT demand to strengthen the management of the bigger entities.
- Cloud services business is expected to maintain a high growth rate.** The Company expects its cloud services business to reach about 50% of total revenue by 2030. The Company's revenue from its cloud services business increased from 2.5% of total revenue in 1H 2017 to 6.7% in 1H 2018. Although the revenue share of its cloud services business will be diluted in the short term due to the acquisition of Tianyuan, we believe revenue from the cloud services business will continue to increase in the mid to long term.
- Policy guidelines on cloud computing expected.** China's government is actively promoting the local IT industry to replace software and hardware from overseas companies. Also, as the government is actively promoting "moving business to the cloud", Inspur released a comprehensive product portfolio, which covers the large, medium and small micro-enterprise markets. We believe Inspur will be a beneficiary of the government's policy of supporting local software developers.
- Risks:** (1) A massive slowdown in IT spending in China; (2) higher-than-expected marketing expenses; and (3) slower-than-expected growth of sales of ERM-related services.

Key Financials (in HKD m)	2016	2017*	2018E	2019E	2020E
Revenue	1,163.2	1,796.0	2,305.7	2,833.9	3,627.3
Change (yoy %)	19.7	54.4	28.4	22.9	28.0
Gross Profit	342.2	527.3	738.0	936.1	1,220.0
Gross Margin %	29.4	29.4	32.0	33.0	33.6
Net Profit	59.9	151.3	284.6	340.6	392.2
Net Margin %	5.1	8.4	12.3	12.0	10.8
EPS (Basic)	0.07	0.16	0.28	0.30	0.34
Change (yoy %)	n.a.	147.86	67.75	8.25	15.17
DPS	\$0.030	\$0.030	\$0.050	\$0.060	\$0.069
ROE (%)	3.4	7.9	11.6	11.5	12.0
Dividend Yield (%)	0.83	0.83	1.39	1.66	1.91
PER (x)	54.2	21.9	13.0	12.0	10.5
PBR (x)	1.9	1.7	1.5	1.3	1.2
FCF Yield (%)	3.20%	-1.26%	5.17%	6.72%	8.94%
Capex (m)	29.6	25.7	27.7	29.8	32.1
Free cash flow per share	0.1	(0.0)	0.2	0.2	0.3
Net Gearing (%)	net cash				

Sources: Company, CGIS Research estimates; \*: including contribution from Tianyuan

### TMT Sector

## BUY (Initiation)

Close: HK\$3.60 (Dec 04, 2018)

Target Price: HK\$4.50 (+24.9%)

#### Share Price Performance



Source: Bloomberg, CGIS Research

Market Cap	US\$525.3m
Shares Outstanding	1,138.9m
Auditor	Deloitte Touche
Free Float	39.7%
52W range	HK\$2.01-3.78
3M average daily T/O	US\$1.0m
Major Shareholding	Inspur Group Limited (54.58%)

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## Investment positives

### 1) ERP market expected to grow in the long term

***Increasing market size to support growth***

The traditional ERP business is developing well in China, as China's future IT spending increases and the SaaS market continues to grow. According to chyxx.com, China's enterprise software market grew at a CAGR of 13.9% in 2011-2016. The enterprise resource planning (ERP) segment is one of the fastest-growing components of China's software market. According to Gartner, China's ERP market grew at a CAGR of 17.1% in 2011-2016 and reached US\$1.4bn in 2016.

***Inspur is the leading player in the SOE segment.***

As China's SOE and SME segments still have a low penetration rate for ERP installations, the ERP market in China will continue to see fast growth in the coming years. China's software market is dominated by domestic players due to high entry barriers, such as government support and ability to meet local needs. International players, such as SAP and Oracle, are dominant in the high-end segment, but have a lower share of the SME and SOE segments. Inspur, the market leader in ERP software among China's SOEs, stands to benefit from this secular sector growth.

Management expects an increase in IT spending, since companies are looking for ways to become more efficient and reduce costs. Inspur reported fast turnover growth in 1H 2018, due mainly to strong demand for ERM-related services. Sales of ERM-related business increased 54.1% YoY to HK\$634.7m in 1H 2018 and are expected to increase 50% in 2019. Currently, SOEs are Inspur's major clients. The Company covers over 26% of Fortune 500 Companies in China, and over 54% of ERM revenue was generated from new customers. Also, the Company's business structure is continuously optimized. The revenue proportion of IT outsourcing decreased from 25.2% of total revenue in 1H 2017 to 17.8% in 1H 2018. We expect the Company's revenue mix to continue to be optimized and the proportion of IT sourcing to continue to decrease.

***Government support, expanding in the SME segment***

As the government is actively promoting "moving business into the cloud", Inspur released a comprehensive product portfolio, which covers the large, medium and small enterprise markets, including HCM Cloud, Travel Cloud, e-Procure Cloud, Tax-control Cloud and Cloud+, to assist GS7.0 to provide enterprise cloud services to large enterprises. Also, Inspur established a joint venture with Odoo, a Belgian software company, which focuses on the open source segment, to provide cloud computing solutions for small and medium enterprises (SMEs). Inspur and Odoo jointly launched the micro-service, architecture-based, open source cloud ERP product and platform PS Cloud in Apr 2018. This is an application platform for SMEs, which has the characteristics of openness, sharing and agility, and it can be implemented in most operating systems in China. PS Cloud provides a one-stop solution for SMEs, and it can support the Industrial Internet. Its functions cover multiple application scenarios, such as collaborative applications, industry chain collaboration, intelligent manufacturing and financial sharing.

## 2) Increasing Enterprise IT Spending and Support from Inspur Group

According to Gartner, China will continue to lead in enterprise software spending in the coming year, with an 18.9% increase from last year, reaching US\$5.1bn. SOEs are Inspur's main clients, and Inspur covers over 26% of the Fortune 500 Companies in China. In 1H 2018, revenue from enterprise management software increased 34% YoY, and 54% was contributed by new customers, which replaced products from Inspur's competitors with Inspur's ERM products.

The increasing IT spending by SOEs is mainly due to growing profitability. The total profit of SOEs rose 15.2% YoY in 2017 to about RMB1.4trn. Total profit was the highest ever, while the rate of growth was the highest in five years, according to Xinhua News Agency. As at the end of last year, total operating revenue of SOEs rose 13.3% YoY to 26.4trn, and total assets reached RMB54.5trn, an increase of 7.9% YoY. The profit figures vindicate plans the Chinese government announced in 2015 to overhaul its lumbering, debt-ridden state sector, by launching a radical reform programme designed to make SOEs more profitable and responsive to the market.

Inspur Group is the leading cloud computing and big data services provider in China. The Group controls Inspur Software [600756.CH], Inspur International, Inspur Electronic Information Industry Co. Ltd [000977.CH], and Shandong Huaguang Optoelectronic [838157.CH]. While Shandong Huaguang focuses mainly on the semiconductor industry, manufacturing semiconductors and related solid-state devices, the other three subsidiaries focus primarily on the computer industry. Inspur Software develops communication and enterprise management software, and provides network engineering technology services; and Inspur Electronic Information manufactures and sells computer servers, computer terminal products, electronic products and telecommunications equipment.

**Increasing IT spending in the SOE segment**

**Support from Inspur Group**

**Figure 1: Worldwide IT Spending**

	2017 Spendings (US\$ bn)	2017 YoY Growth	2018 Spendings (US\$ bn)	2018 YoY Growth	2019 Spendings (US\$ bn)	2019 YoY Growth
Data Center Systems	181	6.4%	192	6.0%	195	1.6%
Enterprise Software	369	10.4%	405	9.9%	439	8.3%
Device	665	5.7%	689	3.6%	706	2.4%
IT Services	931	4.1%	987	5.9%	1,034	4.7%
Communications Services	1,392	1.0%	1,425	2.4%	1,442	1.2%
<b>Overall IT Spending</b>	<b>3,538</b>	<b>3.9%</b>	<b>3,699</b>	<b>4.5%</b>	<b>3,816</b>	<b>3.2%</b>

Sources: Gartner, CGIS Research

**Figure 2: China IT Spending**



Sources: FORDWARD-THE ECONOMIST, CGIS Research

*Growing demand for cloud computing*

*Inspur enjoys first-mover advantage*

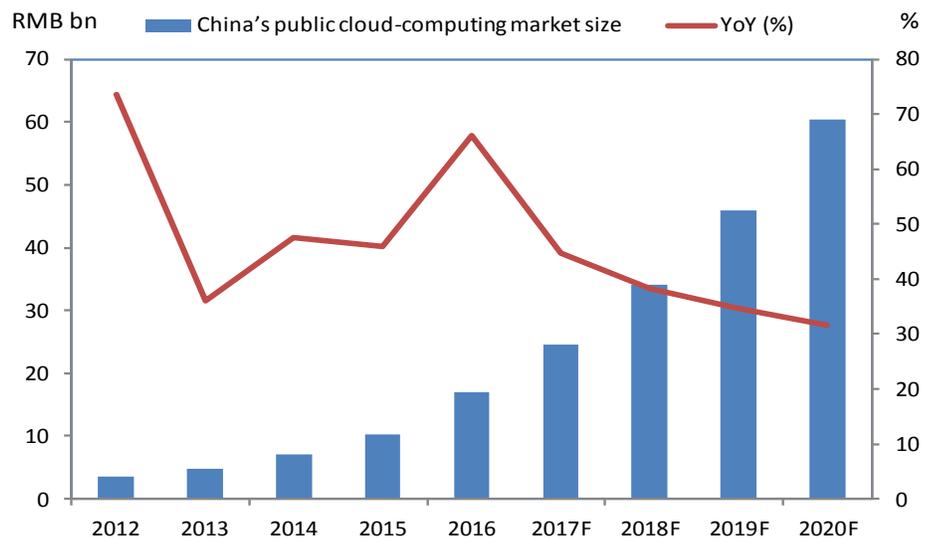
### 3) Strong Demand for Cloud Computing and ERP Products

The market for global cloud computing services is estimated at US\$5.5trn in 2022, up 18.0% YoY, according to Gartner. The global public cloud computing services market reached US\$2.6trn in 2017, up 18.5% YoY. In 2018, China enterprise application software spending is expected to reach US\$5.1bn, an 18.9% rise from 2017. According to chyxx.com, Inspur was the fourth largest ERP solutions provider in China, with a total market share of about 11% in 2017.

There are three major business models under cloud computing: Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS). PaaS is capital intensive and requires a huge investment in hardware. SaaS requires less upfront IT spending and is suitable for companies without sufficient in-house resources. The global market for SaaS was estimated at US\$73.6bn in 2018, up 22.2%.

According to management, Inspur was one of the first domestic software developers to develop cloud-based services for SOEs and other large enterprises. Inspur uses the SaaS model, and the group is now operating a portfolio of cloud-based ERM services and products that cover the large, medium and small enterprise markets, including HCM Cloud, Travel Cloud, e-Procure Cloud, Tax-control Cloud and Cloud+. In addition to cloud services, Inspur Tianyuna provides big data analysis with value-added services. Unlike traditional big data services providers, which provide only analytical tools for their customers, Inspur's big data services focus mainly on providing value-added services, which help their customers understand their current business and expand their business to new markets by leveraging their proprietary data. Currently, Inspur Tianyuan provides big data services to China Mobile, China Telecom, and China Unicom; China Mobile is its largest customer. In addition, compared with other big data platforms, Inspur's big data platform is more flexible and can be implemented in various industries.

**Figure 3 : China's public cloud-computing market size**



Sources: Gartner, CGIS Research

#### 4) High entry barriers: high level of customization and localization

**Diversified business includes both SOE and SME markets**

Inspur's foreign competitors, such as SAP and Oracle, are all multinational giants. Their products are more expensive, and their costs are all higher than those of Inspur. Given their worldwide network and global recognition, they focus mainly on the high-end market and the largest companies. Inspur does not compete direct with them in the high-end market; its competitive niche is in large companies. Inspur's main domestic competitor, Yonyou, is the leading domestic ERP software supplier; most of its customers are also SOEs. Unlike Yonyou, Inspur has diversified its business to the SME market.

**Capable of using the local supply chain**

Inspur is one of the few companies in China capable of offering solutions to customers reliant purely on the local supply chain for chips, equipment, platforms and applications. The strong support from Inspur Group (which is a leading hardware and software supplier) is one of the key advantages Inspur has over its competitors. Inspur management also highlighted that the Company's main customers (medium to large enterprises, especially SOEs) have high stickiness with Inspur, which will benefit from their migration to the cloud.

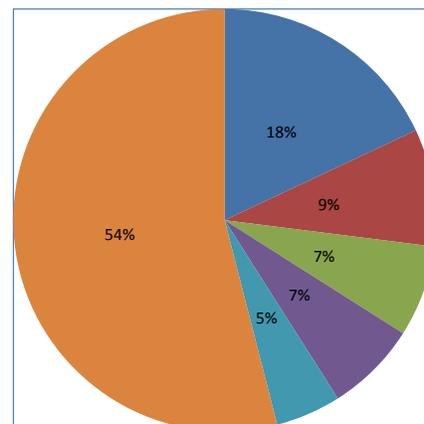
**Figure 4: Major Management Software and Services Providers**

Segment	Company Name	Home Country	Business scope
ERP	SAP	Germany	Focused on high-end large scale ERP projects.
	Oracle	US	Focused on high-end large scale ERP projects. It also provides hardware and software for enterprises
	Yonyou	China	Focused on SOE segment and largest financial management software provider
	Kingdee	China	2nd Largest Chinese financial management software provider and focused on SMEERP segment
	Digiwin	China	Focused on ERP and specialized in manufacturing sector
Industry Solution	Inspur	China	Strong presence in SOEs and conglomerates. However, market share came down in recent years
	YGSofit	China	Largest management software vendor for the (power plants and grids) in China electricity industry
	Aisino	China	Comprehensive IT vendor with financial software, low-end ERP and industry solution offerings
	Baosight	China	Largest management software vendor for steel and non-ferrous metal industry in China
	Mesnac	China	Largest equipment and software vendor for tire, rubber and related chemical industries in China
Consulting and Implementation	Mysoft	China	Focused on management software for property sector
	IBM	US	Leading consulting and implementation firm for both SAP and Oracle. Strategic partner with Kingdee
	Deiottle	Switzerland	Leading consulting and implementation firm for both SAP and Oracle.
	Accenture	US	Leading consulting and implementation firm for both SAP and Oracle
	Capgemini	US	Leading consulting and implementation firm for both SAP and Oracle
SaaS	Digital China	China	Consulting and implementation firm for Digiwin
	Hand	China	Largest Chinese ERP consulting and implementation firm with co-operation with both SAP and Oracle
	800App	China	Largest online CRM vendor in China
	Xtools	China	Second largest online CRM vendor in China
	Salesforce	US	Largest online CRM vendor in the world
Kingdee	China	Launched K/3 cloud and Cloud Hub.	
Yonyou/Chanjet	China	Will officially launch cloud based services	

Sources: Company data, CGIS Research

**Figure 5: China ERM Market Share in 2017**

■ Kingdee ■ SAP ■ Beisen ■ Oracle ■ Yonyou ■ Others



Sources: IDC, CGIS Research

## Company background

Inspur International Ltd. was incorporated on Jan 29, 2003 in the Cayman Islands and was listed on the Hongkong Stock Exchange Growth Enterprise Market in April 2004. Initially, it specialized mainly in trading, providing components to computer manufacturers. Taking the advantage of Microsoft's investment in 2005, Inspur rapidly transformed into a company focusing on IT services and software outsourcing, and in the following two years, the Company tapped into industries like taxation, finance, government, ERP, telecommunications, and software outsourcing. Today, Inspur has completed the main business transformation from trading to IT services and software outsourcing. In the next few years, Inspur plans to expand its investment in IT services, while further enhancing its position in the IT services market. Inspur operates two major business segments: a) enterprise resource management (ERM)-related business, which includes cloud services and software, and data business like big data services; and b) software outsourcing, providing IT outsourcing, business process outsourcing, data analysis, infrastructure maintenance and cloud services. The Company's ERM-related products comprehensively cover the large, medium and small enterprise market.

In the large enterprise market, Inspur released a series of products, including HCM Cloud, Travel Cloud, e-Procure Cloud, Tax-control Cloud and Cloud+, to assist GS7.0 in providing enterprise cloud services for large companies. The Company further enhanced the application scenario and product experience of HCM Cloud and positioned itself as the leading provider of professional human resources cloud service solutions for large and medium enterprises. For the procurement of cloud products, the Company has cooperated with customers like China Construction Steel Structure Corp. Ltd, Yuexiu (China) Transportation Infrastructure Investment, Guangdong Fenghua Hi-Tech and Jingzhi Construction.

In the medium-sized enterprise market, Inspur and Odoo jointly released the open source ERP product and platform PS Cloud. This is an application platform that provides a one-stop solution for SMEs and can support the industrial internet and various application scenarios, such as collaborative applications, industry chain collaboration, and intelligent manufacturing.

In the small enterprise market, Inspur's Cloud Accounting 3.0 has completed the online migration, the registration page has been completely revised, and 42 functions were optimized. The Cloud Accounting products, which were launched in 2016, help clients improve their work efficiency and eliminate at least 60% of repetitive work. In 1H 2018, the Company's Cloud Accounting had over 500,000 registered users and over 200 partners.

In Jul 2018, Inspur completed the acquisition of a 76% stake in Inspur Tianyuan, a software development company, from its parent, Inspur Group, and Merit Express International by issuing 186m new shares at HK\$2.65 per share.

The Company's turnover rose 40.2% YoY to HK\$772.0m in 1H 2018. The strong top-line growth was driven by the rapid growth of the Company's ERM-related business, which increased 54.1% YoY in revenue to HK\$634.7m in 1H 2018. Software outsourcing revenue decreased very slightly YoY to HK\$137.3m in 1H 2018. Its gross margin increased about 7ppt to 35%, mainly due to the 1) improved product standardization; 2) an increase in the gross profit margin of the management software business; and 3) a decline in the low-margin software outsourcing business.

## Business Overview

### OVERVIEW OF ERM-RELATED BUSINESS

Inspur's ERP-related business covers two main general segments: a) cloud services, and b) software and data services. As enterprises are increasing their IT spending, and the government is actively promoting "moving business to the cloud", the Company has grasped the opportunity to provide a comprehensive portfolio of products for large, medium and small enterprises. The Company has built core competitiveness in the cloud era with a high-quality "cloud engine" to empower Inspur partners and enterprises.

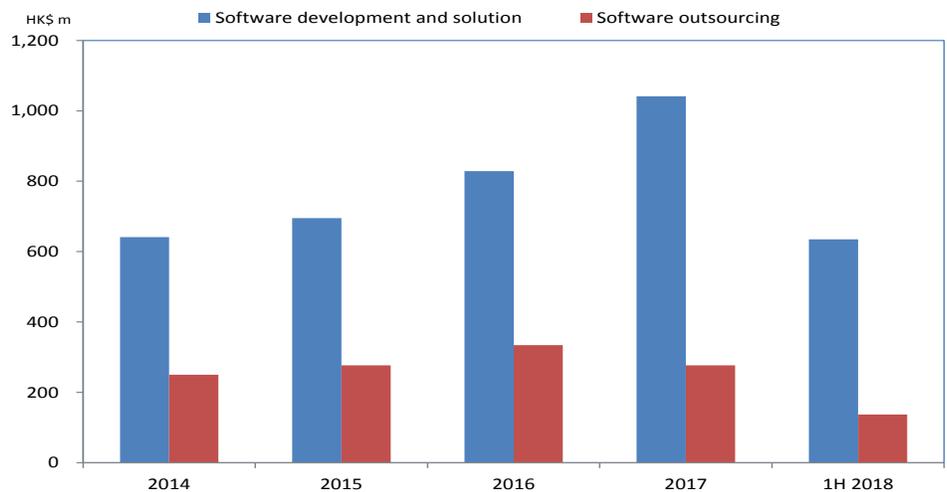
Inspur has released a portfolio of ERM-related products for large enterprises. The major products are HCM Cloud, Travel Cloud, e-Procure Cloud, Tax-control Cloud and Cloud+. The Company has expanded the application scenario of HCM Cloud and enhanced the product experience to cover personnel, attendance, recruitment, performance and self-service. The Company has positioned itself to provide professional human resources cloud service solutions for large and medium enterprises. Currently, the Company's HCM Cloud service has over 1.5m users, and covers 80% of the daily activity of employees and 90% of executive activity. The Company's typical customers include Chongqing Yunhai Machinery Manufacturing, Fujian Construction Engineering Group, China Insurance Information, and Shandong Grain Group. iGo Cloud is the Company's major procurement cloud service, which it actively promotes and applies in the manufacturing industry. Currently, Inspur is successfully cooperating with major customers, including China Construction Steel Structure Corp. Ltd, Yuexiu (China) Transportation Infrastructure Investment, Guangdong Fenghua Hi-Tech and Jingzhi Construction. Inspur's Cloud+ intelligent enterprise collaboration platform provides five main functions: a) a mobile portal; b) a digital work platform; c) a digital collaborative platform; d) an intelligent assistant; and e) a mobile open platform. The Cloud+ platform also provides mobile application services using the public cloud mode as a unified portal for employee collaboration and mobile applications, integrating GS, PS and business applications, and also integrating intelligent functions, such as a natural language-based conversational platform. The major clients of Cloud+ include Hubei Airport, CRRC Qingdao Sifang Co., Ltd, Rongsheng Pharmaceutical, and China Forestry Group Corp.

In the medium-sized enterprise market, the Company cooperated with Odoo to jointly release the micro-service architecture-based open-source cloud ERP product and platform PS Cloud. For the SME market, the Company has completed the online migration of Cloud Accounting 3.0, which improves clients' work efficiency and eliminates at least 60% of repetitive work. It has received positive feedbacks from users. Cloud Accounting 3.0 provides basic online finance and online invoicing services for SMEs and connects with services providers, taxation, banks and related institutions to provide one-stop cloud ERP solutions for finance, tax and business integration. Currently, Cloud Accounting 3.0 has over 500,000 users and more than 200 partners. In 1H 2018, the Company's ERM revenue increased 54.1% YoY to HK\$634.7m.

## OVERVIEW OF SOFTWARE OUTSOURCING BUSINESS

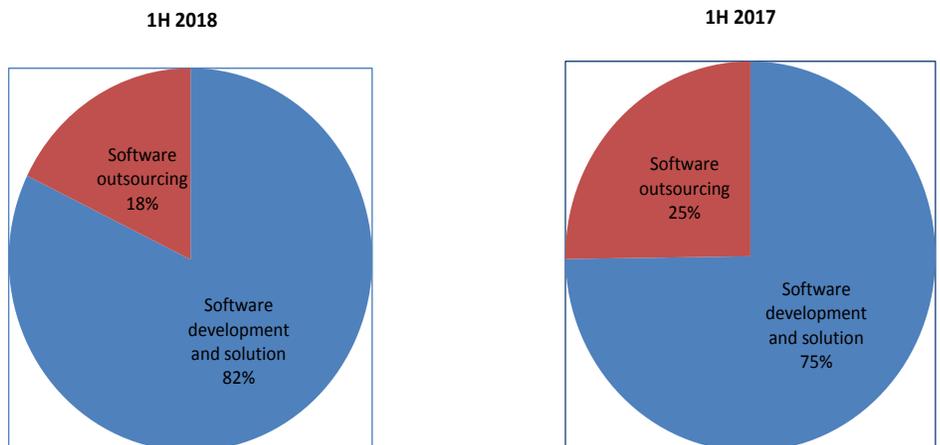
In 1H 2018, the Company's software outsourcing revenue decreased about 1.1% YoY to HK\$137.3m. Currently, Inspur's outsourcing business faces difficulty in business transformation and expansion of new customers. The Company has continuously tapped into the core business layout of key customers such as Microsoft, Furukawa Electric, and China Mobile Aspire, and added new customers, such as Haier, and other new projects. Inspur has effectively promoted cooperation with Furukawa Electric in the area of cloud computing, by helping it unify its global operations. This Furukawa project has helped the Company lay a solid foundation for future expansion in China, Asia Pacific and even the rest of the world.

**Figure 6 : Inspur's turnover by business segment**



Sources: Gartner, CGIS Research

**Figure 7: Inspur turnover breakdown**



Sources: Gartner, CGIS Research

## Industry Overview

### Cloud Computing Industry in China

Cloud computing, which involves storing, managing and processing data on a network of remote servers on the Internet rather than on a local server, is now an important growth driver for China's IT industry. Since the data, software and processing power is held in a remote location instead of at an individual's work station, cloud computing offers users the advantages of low initial investment and maintenance costs, and easier access. Cloud computing has grown fast in the past several years in China, as both businesses and individuals have rapidly adopted cloud services. The Chinese government has been very supportive of cloud development by releasing favourable policies to increase the use of cloud computing. SOEs have been encouraged to shift their systems to the cloud. Through the adoption of cloud services, the Chinese government will have more direct control of SOEs.

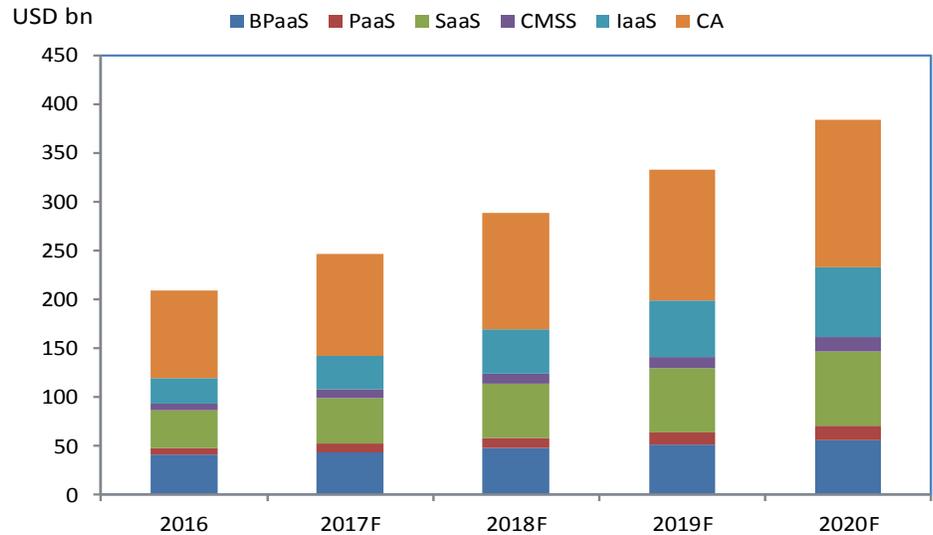
There are three major business models under cloud computing: (a) infrastructure as a service (IaaS), (b) platform as a service (PaaS), and (c) software as a service (SaaS). PaaS is capital intensive and requires a huge investment in hardware. SaaS requires less upfront IT spending and is suitable for companies without sufficient in-house resources.

According to Gartner, the global cloud-computing market has reported solid growth in the past several years. The global cloud-computing market size (IaaS, PaaS and SaaS) is expected to grow at a CAGR of 22.9% in 2016-2020 and to reach US\$162.1bn in 2020. The IaaS segment is expected to report the fastest growth, estimated at a CAGR of 26.7% in 2016-2020. The global cloud-computing market is led by the US market, which accounted for 54.1% of the global market in 2016, down slightly from 56.5% in 2015. The US cloud-computing market is expected to grow at a CAGR of 15% in 2016-2020.

*Solid growth in the cloud computing market*

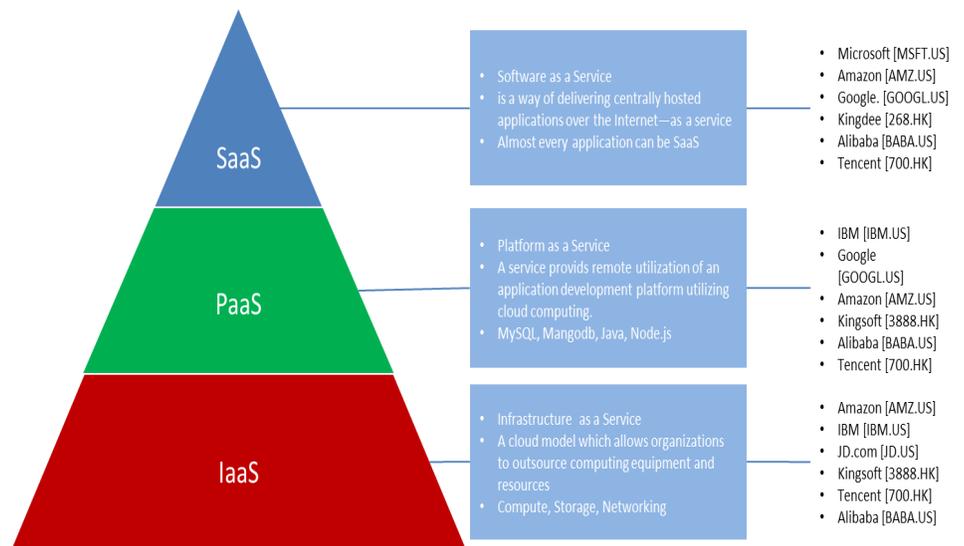
Cloud computing in China has been growing faster than the global average. The public cloud-services market in China reached RMB17.0bn in 2016, up 66% YoY. The overall cloud-computing market reached RMB51.5bn in 2016 and is expected to grow strongly to reach RMB136.6bn in 2020. The China public cloud market is expected to see a five-year CAGR of 37.2% from 2016-2020F. By 2020, the size of China's cloud market might be only about 4.2% of that of the US cloud market, which implies considerable growth potential for cloud-computing-related names. The strong growth of the cloud-computing market in China has encouraged all of China's internet giants, such as Alibaba, Tencent and Kingsoft, together with overseas software companies, such as Microsoft, to launch public, private and hybrid cloud services in China. Ali Cloud (Alibaba) is the clear leader in the IaaS vertical, followed by Telecom, Tencent Cloud, Huawei Cloud and Kingsoft Cloud (Kingsoft). IaaS is expected to be dominated by existing big names, as the entry barriers are high. Since Alibaba released information on its cloud-computing segment, Ali Cloud, the market has treated it as reference for the performance of the overall cloud-computing market in China. Ali Cloud business has reported triple-digit, top-line growth in six quarters since Q2 2015, which shows that the cloud-computing market in China is growing fast. On the applications side, China's SaaS market has also reported solid growth since 2015. Well-established names such as Kingsoft, ChinaSoft, DC Holdings and SinoSofit have been developing and offering cloud-based products. Kingdee is a leader in cloud-based ERP products. ChinaSoft and Huawei Cloud are offering cloud-based IT services together. DC Holdings is leveraging its expertise to offer cloud-based Smart City solutions.

Figure 8 : Global cloud-computing market size



Sources: Gartner, CGIS Research

Figure 9 : Cloud-computing ecosystem



Sources: Gartner, CGIS Research

## Earnings forecast

### Turnover and net profit growth remains strong

- Inspur is projected to deliver net profit growth of 88.1%/19.7%/15.2% in 2018E/2019E/2020E, supported by strong turnover growth and a more favourable macro environment.
- We expect Inspur to report turnover growth of 28.1% YoY in 2018E due to strong growth of ERP products and steady performance of its IT outsourcing business. Inspur's top-line growth is expected to remain at over 20% in 2019E and 2020E due to continuous IT investment by corporates in China and the 5G roll-out in China. The strong turnover growth of cloud computing will also support overall top-line growth.
- We expect the Company's gross margin to remain at over 30% in 2018E-2020E (2016 and 2017: below 30%), given the increasing contribution from higher-margin ERP products.
- Inspur has a healthy and improving balance sheet. The Company had a net cash position of HK\$1,359m at end-2017. We expect Inspur's net cash position to increase to over HK\$2bn in 2020E.

Figure 10: Key Assumptions for Inspur

	2014	2015	2016	2017*	2018F	2019F	2020F
Turnover (HKD m)							
Sales of IT peripheral and software	186.9	219.5	201.7	206.6	212.8	219.2	225.8
Provision of software development services	454.3	475.5	627.1	834.7	1,210.3	1,634.0	2,205.8
Software outsourcing	249.9	276.6	334.3	276.6	284.9	293.5	302.3
Tianyuan	0.0	0.0	0.0	478.1	597.6	687.2	893.4
YoY Change (%)							
Sales of IT peripheral and software	n.a.	17.5	(8.1)	2.4	3.0	3.0	3.0
Provision of software development services	n.a.	4.7	31.9	33.1	45.0	35.0	35.0
Software outsourcing	n.a.	10.7	20.9	(17.3)	3.0	3.0	3.0
Tianyuan					25.0	15.0	30.0
Gross margin (%)	31.4	30.1	29.4	29.4	32.0	33.0	33.6
Sales of IT peripheral and software	94.0	91.0	18.0	18.0	21.0	23.0	25.0
Provision of software development services	71.0	66.3	37.2	37.2	40.2	40.2	40.2
Software outsourcing	67.5	63.5	25.0	25.0	27.0	27.0	27.0
Tianyuan	-	-	-	20.0	22.0	22.0	22.0
Net margin (%)	(7.9)	0.6	5.1	8.4	12.3	12.0	10.8
Cost (HKD m)							
S,G&A	(306.2)	(368.5)	(348.7)	(495.2)	(617.5)	(729.4)	(945.7)
R&D Expenses	(108.62)	(71.79)	(111.33)	(61.68)	(79.18)	(125.66)	(160.84)
Financial Expenses	-	-	-	-	(1.0)	-	-
YoY Change (%)							
S,G&A	n.a.	20.4	(5.4)	42.0	24.7	18.1	29.7
R&D Expenses	n.a.	(33.9)	55.1	(44.6)	28.4	58.7	28.0
Financial Expenses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Company, CGIS Research; \*: including contribution from Tianyuan

**Figure 11: Earnings projection**

Income Statement (HKD m)						Cash Flow Statement (HK\$ m)					
	FY2016	FY2017*	FY2018F	FY2019F	FY2020F		FY2016	FY2017*	FY2018F	FY2019F	FY2020F
<b>Revenue</b>	<b>1,163</b>	<b>1,796</b>	<b>2,306</b>	<b>2,834</b>	<b>3,627</b>	<b>Net Income</b>	<b>22</b>	<b>84</b>	<b>165</b>	<b>216</b>	<b>261</b>
<i>Growth yoy%</i>	19.7%	54.4%	28.4%	22.9%	28.0%	Depreciation & Amort.	30	26	28	30	32
<b>Gross Profit</b>	<b>342</b>	<b>527</b>	<b>738</b>	<b>936</b>	<b>1,220</b>	Change in Working Capital	71	(135)	29	62	108
<i>Growth yoy%</i>	17.1%	54.1%	40.0%	26.9%	30.3%	<b>Cash from Ops.</b>	<b>122</b>	<b>(25)</b>	<b>221</b>	<b>308</b>	<b>401</b>
Selling General & Admin Exp.	(460)	(557)	(697)	(855)	(1,107)	Capital Expenditure	(18)	(17)	(30)	(32)	(34)
Others Operating Expenses/Items	129	120	127	138	152	Sale of Property, Plant, and Equipment	-	-	-	-	-
<b>Operating Income</b>	<b>12</b>	<b>91</b>	<b>169</b>	<b>219</b>	<b>265</b>	Change in Investing Activities	(265)	382	55	(45)	(57)
<i>Growth yoy%</i>	n.a.	680.7%	86.2%	29.7%	21.1%	<b>Cash from Investing</b>	<b>(283)</b>	<b>365</b>	<b>26</b>	<b>(77)</b>	<b>(92)</b>
Interest Expense	0	0	(1.0)	0	0	Net increase in bank borrowings	0	0	0	0	0
Interest and Invest. Income	26.3	16.1	22.6	26.6	29.8	Issuance of Common Stock	0	0	0	0	0
Income/(Loss) from Affiliates	29.2	40.6	116.5	124.6	133.2	Common Dividends Paid	(27)	(27)	(29)	(57)	(68)
Other Non-Operating Inc. (Exp.)	20.7	18.0	0	0	0	Special Dividend Paid	-	-	-	-	-
Impairment of Goodwill	-	-	-	-	-	Other Financing Activities	(10)	3	19	22	24
Gain (Loss) On Sale Of Invest.	-	-	-	-	-	<b>Cash from Financing</b>	<b>(37)</b>	<b>(24)</b>	<b>(9)</b>	<b>(35)</b>	<b>(44)</b>
Gain (Loss) On Sale Of Assets	-	-	-	-	-	<b>Net Change in Cash</b>	<b>(199)</b>	<b>316</b>	<b>238</b>	<b>195</b>	<b>265</b>
Income Tax Expense	(27)	(18)	(26)	(33)	(40)						
Minority Int. in Earnings	(1)	3	4	4	4						
<b>Net Income</b>	<b>60</b>	<b>151</b>	<b>285</b>	<b>341</b>	<b>392</b>						
<i>Growth yoy%</i>	n.a.	152.6%	88.1%	19.7%	15.2%						

Balance Sheet (HKD m)						Ratios					
	FY2016	FY2017*	FY2018F	FY2019F	FY2020F		FY2016	FY2017*	FY2018F	FY2019F	FY2020F
<b>ASSETS</b>						<b>Profitability</b>					
Cash And Equivalents	853	1,351	1,589	1,784	2,049	Return on Assets %	2.3%	5.3%	8.1%	8.1%	8.2%
Receivables	240	233	283	348	445	Return on Capital %	1.7%	5.8%	6.9%	7.3%	7.9%
Inventory	8	13	16	20	25	Return on Equity %	3.4%	7.9%	11.6%	11.5%	12.0%
Other Current Assets	451	218	238	261	286	<b>Margin Analysis</b>					
<b>Total Current Assets</b>	<b>1,552</b>	<b>1,814</b>	<b>2,126</b>	<b>2,412</b>	<b>2,806</b>	Gross Margin %	29.4%	29.4%	32.0%	33.0%	33.6%
Net Property, Plant & Equipment	18	28	30	32	34	SG&A Margin %	30.0%	27.6%	26.8%	25.7%	26.1%
Long-term Investments	-	-	-	-	-	EBIT Margin %	3.3%	5.9%	8.3%	8.7%	8.1%
Other Intangibles	234	296	325	358	394	EBITDA Margin %	5.8%	7.4%	9.5%	9.7%	9.0%
Deferred Tax Assets, LT	-	-	-	-	-	Net Income Margin %	5.1%	8.4%	12.3%	12.0%	10.8%
Other Long-Term Assets	854	919	1,504	1,654	1,820	<b>Asset Turnover</b>					
Goodwill	-	-	-	-	-	Total Asset Turnover	0.4x	0.6x	0.6x	0.6x	0.7x
Accounts Receivable Long-Term	-	-	-	-	-	Fixed Asset Turnover	1.1x	1.4x	1.2x	1.4x	1.6x
<b>Total Long Term Assets</b>	<b>1,106</b>	<b>1,243</b>	<b>1,859</b>	<b>2,044</b>	<b>2,247</b>	Accounts Receivable Turnover	5.7x	7.6x	8.9x	9.0x	9.1x
<b>Total Assets</b>	<b>2,658</b>	<b>3,057</b>	<b>3,985</b>	<b>4,456</b>	<b>5,053</b>	Inventory Turnover	140.2x	142.7x	142.7x	142.7x	142.7x
<b>LIABILITIES &amp; EQUITY</b>						<b>Liquidity</b>					
Accounts Payable	576	554	711	874	1,119	Current Ratio	1.8x	2.0x	2.0x	1.9x	1.8x
Accrued Exp.	-	-	-	-	-	Quick Ratio	1.2x	1.7x	1.6x	1.6x	1.5x
Short-term Borrowings	0	0	0	0	0	Avg. Days Sales Out.	75.2	47.3	44.8	44.8	44.8
Curr. Port. of LT Debt	-	-	-	-	-	Avg. Days Inventory Out.	2.6	2.6	2.6	2.6	2.6
Curr. Income Taxes Payable	-	-	-	-	-	Avg. Days Payable Out.	262.4	162.6	147.3	152.5	151.2
Unearned Revenue, Current	-	-	-	-	-	Avg. Cash Conversion Cycle	-101.9	-61.7	-64.1	-64.0	-64.0
Other Current Liabilities	293	363	376	390	407	Net Debt to Equity	net cash				
<b>Total Current Liabilities</b>	<b>869</b>	<b>917</b>	<b>1,087</b>	<b>1,265</b>	<b>1,526</b>	<b>Growth Over Prior Year</b>					
Long-Term Debt	0	0	0	0	0	Total Revenue	19.7%	54.4%	28.4%	22.9%	28.0%
Def. Tax Liability, Non-Curr.	42	52	57	63	69	Net Income	n.a.	152.6%	88.1%	19.7%	15.2%
Other Non-Current Liabilities	12	6	6	7	8	Payout Ratio %	45.2%	18.2%	18.1%	20.0%	20.0%
<b>Total Liabilities</b>	<b>924</b>	<b>975</b>	<b>1,151</b>	<b>1,335</b>	<b>1,603</b>						
Common Stock	9	10	11	11	11						
Additional Paid In Capital	-	-	-	-	-						
Retained Earnings	1,725	2,068	2,815	3,098	3,422						
Treasury Stock	-	-	-	-	-						
Comprehensive Inc. and Other	-	-	-	-	-						
Minority Interest	0.3	4.2	8.0	12.0	16.2						
<b>Total Equity</b>	<b>1,735</b>	<b>2,081</b>	<b>2,834</b>	<b>3,122</b>	<b>3,450</b>						
<b>Total Liabilities And Equity</b>	<b>2,658</b>	<b>3,057</b>	<b>3,985</b>	<b>4,456</b>	<b>5,053</b>						

Sources: Company, CGIS Research; \*: including contribution from Tianyuan

## Valuation

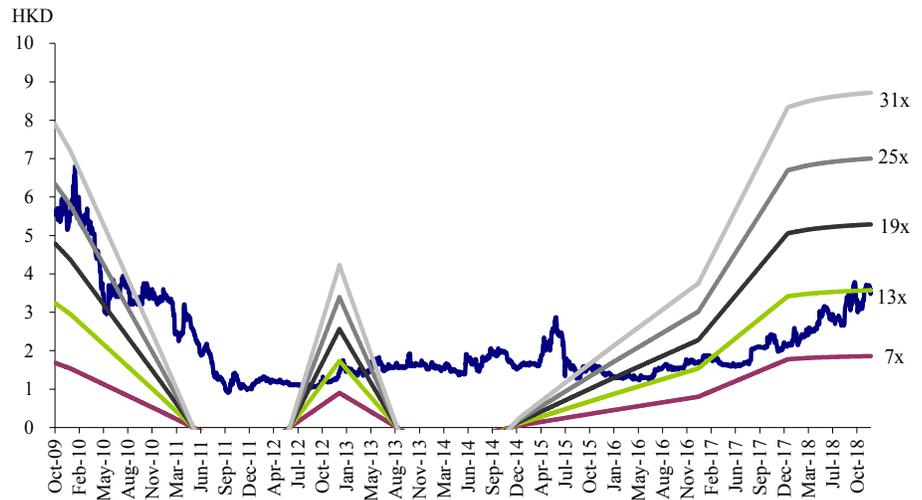
*Discount to its historical average, deep discount to HK and A-share peers.*

Inspur is trading at 13.0x 2018E PER, below its historical average of 19x. Inspur's recent share price consolidation, in our view, was due to market concerns about a slow-down in IT spending, triggered by increasing macro uncertainties. However, we still expect Inspur to achieve satisfactory top- and bottom-line growth in 2018E–2020E, given the increasing penetration of ERP software in China, the fast-growing cloud-based business, and business opportunities from the 5G roll-out in China.

In terms of PER, Inspur is trading at a discount to HK-listed and A-share-listed IT services names, which trade at an average 2018 PER of 20.3x and 37.9x, respectively. Inspur has a leading position in the SOE segment. The increasing contribution from cloud-related business and business opportunities from the 5G roll-out provide further re-rating potential. The underperformance is not justified.

We are initiating coverage on Inspur with a BUY rating and target price of HK\$4.50, based on 18x 2018E PER (lower than its historical average of 19x). Our target PER is also lower than Yonyou's 2018E PER of 69.7x and Kingdee's 2018E of 61.3x. Share price catalysts include more news flow on favourable government policies, increasing coverage, and strong operating performance.

**Figure 12: Inspur PER trend**



Sources: Bloomberg, CGIS Research estimates

**Figure 13: Peer Comparison**

Ticker	Company	Price Lcy	Market Cap US\$m	PE			EV/EBITDA			P/B		ROE			ROA			Div yield			Share Price Performance				
				2018F	2019F	2020F	2018F	2019F	2020F	2017	2018F	2017	2018F	2017	2018F	2017	2018F	1M	3M	6M	12M	YTD			
<b>HK Listed Software plays</b>																									
856 HK	Vstecs Holdings Ltd	3.91	733	6.2	5.4	4.4	n.a.	n.a.	n.a.	1.2	1.0	14.4	17.3	4.3	4.2	0.6	5.1	2.4	-1.3	-7.1	-14.6	-18.9			
400 HK	Cogobuy Group	3.07	577	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.0	n.a.	17.3	n.a.	3.9	n.a.	0.0	n.a.	5.1	5.9	-24.2	-26.4	-26.0			
861 HK	DC Holdings Ltd	3.86	829	19.3	15.1	10.7	n.a.	n.a.	n.a.	0.7	n.a.	4.9	3.3	0.7	1.1	0.0	0.6	0.3	-7.2	-24.9	-7.0	-27.3			
1184 HK	Sas Dragon Holdings Ltd	2.46	197	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1	n.a.	20.9	n.a.	4.9	n.a.	8.2	n.a.	0.0	-2.8	-11.5	-4.7	-5.4			
1588 HK	Chanjet Information Tech-H	7.99	222	18.4	17.5	n.a.	n.a.	4.1	3.8	n.a.	1.2	1.2	-13.9	7.0	16.1	6.5	0.0	0.0	-10.1	-32.3	-38.8	-34.5	-28.4		
1297 HK	Sinosoft Technology Group Ltd	2.28	357	9.7	8.0	6.2	6.2	5.0	3.9	2.1	1.8	20.0	18.8	17.8	15.7	1.4	1.7	-3.4	-14.0	-37.7	-2.6	3.6			
2280 HK	Hc Group Inc	4.74	680	12.9	9.4	4.8	15.5	6.9	4.2	1.2	1.0	6.7	7.7	5.1	4.2	0.0	0.2	-10.6	-15.7	-6.5	-15.8	-17.3			
268 HK	Kingdee International Sftwr	8.11	3,426	61.3	46.8	34.0	27.2	23.1	18.8	4.4	4.8	8.6	8.1	5.8	5.5	0.2	0.2	8.4	-10.9	-8.9	101.2	84.3			
354 HK	Chinasoft International Ltd	4.75	1,480	14.2	11.3	9.2	10.1	8.3	7.0	1.8	1.8	11.8	13.6	8.1	8.2	0.4	0.4	-5.2	-12.2	-26.9	-3.8	-8.2			
596 HK	Inspur International Ltd	3.60	525	13.0	12.0	10.5	11.5	8.5	6.3	1.7	1.5	7.9	11.6	5.3	8.1	0.8	1.4	8.1	4.0	15.8	75.6	68.2			
<b>Average</b>				<b>20.3</b>	<b>16.2</b>	<b>11.6</b>	<b>12.6</b>	<b>9.4</b>	<b>8.4</b>	<b>1.6</b>	<b>1.9</b>	<b>10.1</b>	<b>10.8</b>	<b>7.4</b>	<b>6.5</b>	<b>1.2</b>	<b>1.2</b>	<b>-1.5</b>	<b>-10.0</b>	<b>-20.7</b>	<b>-0.9</b>	<b>-4.8</b>			
<b>Overseas Listed Distributors</b>																									
AVT US	Avnet Inc	44.64	4,965	10.3	9.6	8.9	7.2	6.8	6.5	1.1	1.0	10.8	10.6	-1.4	5.0	1.7	1.8	4.0	-7.4	15.7	9.4	12.7			
ARW US	Arrow Electronics Inc	78.40	6,834	8.9	8.6	8.7	7.1	7.1	7.0	1.3	1.3	12.2	15.0	3.4	4.4	0.0	0.0	4.6	1.8	3.6	0.9	-2.5			
3702 TT	Wpg Holdings Ltd	37.30	2,041	8.6	8.9	8.4	11.9	11.3	10.5	1.1	1.2	10.9	13.9	3.7	4.3	n.a.	8.0	-1.1	-9.9	-20.1	-14.4	-11.0			
ECM LN	Electrocomponents Plc	524.20	2,979	14.7	13.2	12.1	10.1	9.2	8.4	4.2	4.2	6.0	30.8	13.7	n.a.	2.5	2.8	-17.4	-28.4	-27.1	-16.9	-16.3			
3036 TT	Wt Microelectronics Co Ltd	40.80	738	7.4	6.4	5.3	9.2	7.6	6.4	1.1	1.0	10.0	14.5	3.4	3.6	n.a.	7.0	1.4	-7.3	-11.4	-11.9	-9.7			
<b>Average</b>				<b>10.0</b>	<b>9.4</b>	<b>8.7</b>	<b>9.1</b>	<b>8.4</b>	<b>7.8</b>	<b>1.8</b>	<b>1.8</b>	<b>10.0</b>	<b>17.0</b>	<b>4.6</b>	<b>4.3</b>	<b>1.4</b>	<b>3.9</b>	<b>-1.7</b>	<b>-10.2</b>	<b>-7.9</b>	<b>-6.6</b>	<b>-5.4</b>			
<b>Overseas Listed Online Platforms</b>																									
BABA US	Alibaba Group Holding-Sp ADR	163.74	424,444	31.9	24.8	19.0	22.5	17.4	13.3	7.9	6.1	39.4	15.9	10.5	7.6	0.0	0.0	10.9	-3.9	-21.6	-3.4	-5.0			
JD US	Jd.Com Inc-ADR	22.01	36,913	91.1	45.2	24.2	62.9	31.8	18.1	4.0	4.1	-11.8	-0.7	0.6	-0.4	0.0	0.6	-8.5	-25.2	-42.3	-40.1	-46.9			
DANG US	E-Commerce China-Spon ADR -A	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
LITB US	Lightinthebox Holding-ADR	0.80	54	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1	n.a.	n.a.	n.a.	-8.4	n.a.	0.0	n.a.	0.0	-50.6	-59.6	-55.6	-65.2			
JMEI US	Jumei International-ADR	2.11	317	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.5	n.a.	3.7	n.a.	2.5	n.a.	0.0	n.a.	-0.9	7.1	-20.4	-29.0	-27.7			
GSOL US	Global Sources Ltd	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.9	n.a.	10.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
<b>Average</b>				<b>61.5</b>	<b>35.0</b>	<b>21.6</b>	<b>42.7</b>	<b>24.6</b>	<b>15.7</b>	<b>3.4</b>	<b>5.1</b>	<b>10.8</b>	<b>7.6</b>	<b>2.9</b>	<b>3.6</b>	<b>0.0</b>	<b>0.3</b>	<b>0.4</b>	<b>-18.2</b>	<b>-36.0</b>	<b>-32.0</b>	<b>-36.2</b>			
300191 CH	Sino Geophysical Co Ltd-A	16.80	786	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.6	n.a.	1.0	n.a.	1.1	n.a.	n.a.	n.a.	0.9	-7.4	-18.0	-19.2	-25.7			
300212 CH	Beijing E-Hualu Info Tech-A	22.00	1,449	27.7	19.1	14.1	18.7	14.5	12.2	3.5	3.3	5.6	10.9	2.5	3.7	n.a.	1.0	-4.7	-18.9	-11.4	6.0	-2.6			
300277 CH	Shenzhen Hirsun Technology-A	6.41	314	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.6	n.a.	5.5	n.a.	1.3	n.a.	n.a.	n.a.	8.1	-2.3	-35.7	-29.7	-22.0			
300365 CH	Beijing Forever Technology-A	21.45	1,261	31.4	23.0	17.1	25.5	19.1	14.6	5.3	4.6	18.5	15.2	11.6	11.3	n.a.	0.4	-3.5	-15.4	9.6	34.7	35.5			
300366 CH	Sichuan Troy Information-A	7.65	588	21.9	19.6	16.6	n.a.	n.a.	n.a.	1.4	1.3	5.7	5.8	4.7	n.a.	n.a.	n.a.	9.9	-11.0	-25.9	-33.6	-36.4			
300377 CH	Shenzhen Ysstech Info-Tech-A	12.30	1,335	32.1	22.4	16.6	27.4	19.6	14.5	3.4	3.2	8.0	9.9	8.3	9.8	n.a.	1.7	-4.3	-19.1	-10.9	1.7	-0.5			
300383 CH	Beijing Sinnet Technology-A	13.39	3,014	29.4	20.4	15.2	20.0	14.4	10.9	3.0	2.7	9.8	9.5	5.6	5.8	n.a.	0.6	-3.3	-8.9	-6.9	1.5	1.5			
600392 CH	Shenghe Resources Holdings-A	9.83	2,522	31.5	24.8	21.5	22.2	20.0	17.3	3.3	3.1	-2.7	10.0	3.1	5.9	n.a.	0.0	-5.3	-1.9	-13.2	-23.2	-32.7			
600410 CH	Beijing Teamsun Technology-A	7.00	1,128	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.6	n.a.	1.0	n.a.	0.7	n.a.	n.a.	n.a.	13.8	-11.7	-29.6	-28.0	-33.5			
600588 CH	Yonyou Network Technology-A	24.39	6,831	69.7	50.6	37.8	38.2	31.5	23.2	7.6	7.2	3.5	10.7	6.0	5.2	n.a.	0.7	-4.2	-19.6	0.7	51.8	49.9			
600601 CH	Founder Technology Group -A	2.75	882	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.1	n.a.	1.8	n.a.	-7.6	n.a.	n.a.	n.a.	9.1	-2.8	-7.7	-27.8	-24.5			
600680 CH	Shanghai Polevio Co Ltd - A	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-47.6	n.a.	-11.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
600764 CH	Cec Corecast Corp Ltd -A	22.42	1,297	91.5	76.0	62.3	58.6	48.7	41.1	8.5	7.5	10.2	8.9	4.9	n.a.	n.a.	n.a.	-7.9	-29.4	-29.4	-20.5	-19.4			
600850 CH	Shanghai East-China Comput-A	18.28	1,131	23.4	19.4	16.6	n.a.	n.a.	n.a.	3.4	3.2	15.6	14.1	6.1	8.5	n.a.	0.9	8.4	-9.5	-4.8	-14.0	-7.3			
000555 CH	Digital China Information -A	10.69	1,506	20.2	23.2	19.3	n.a.	n.a.	n.a.	2.0	1.9	6.2	9.6	4.9	4.5	n.a.	0.5	3.3	-11.5	-11.3	-36.1	-9.0			
<b>Average</b>				<b>37.9</b>	<b>29.9</b>	<b>23.7</b>	<b>30.1</b>	<b>24.0</b>	<b>19.1</b>	<b>3.9</b>	<b>3.8</b>	<b>2.8</b>	<b>10.5</b>	<b>2.8</b>	<b>6.8</b>	<b>n.a.</b>	<b>0.7</b>	<b>1.5</b>	<b>-12.1</b>	<b>-13.9</b>	<b>-9.7</b>	<b>-9.0</b>			
HSI Index	Hang Seng Index																	2.9	-2.5	-12.1	-6.4	-8.9			
HSCEI Index	Hang Seng China Ent Indx																	2.1	0.2	-11.0	-5.3	-6.8			
SHCOMP Index	Shanghai Se Composite																	-0.4	-3.1	-13.8	-19.4	-19.4			
MXCN Index	Msci China																	3.1	-4.1	-18.6	-10.6	-13.1			
HSCEI Index																		2.1	0.2	-11.0	-5.3	-6.8			

Sources: Bloomberg, Company, CGIS Research estimates for covered stocks

## Major risk factors

**Potential risks from the political and economic environment.** Most of Inspur's operations are conducted in China, and most of its revenue comes from China. Accordingly, Inspur's results of operations, financial condition and prospects depend to a significant degree on economic, political and legal developments in the PRC. Adverse changes in the political and economic policies of the PRC government could have a material adverse effect on overall economic growth in China, which could reduce demand for Inspur's services and adversely affect its business and results of operations.

**Weaker-than-expected economic growth.** Inspur's financial results have been, and are expected to continue to be, affected by growth in the Chinese economy. Although the Chinese economy has experienced significant growth in the past decade, there can be no assurance it will continue at the current rate, or at all. The Company's revenue is dependent on the state of the overall Chinese economy, since expenditure on IT investment, cloud computing, SaaS products, and big data-related, value-added services is likely to decrease in a slowing economy.

**Potential risks from rapid technological changes.** The IT industry is characterized by rapid technological changes, changes in consumer preferences, the frequent development and enhancement of services and products, and new emerging industry standards. The introduction of services or products embodying new technologies, and the emergence of new industry standards and practices can render existing services obsolete. If the Company is unable to develop and introduce new products, or enhance its existing products or services in a timely manner in response to changing market conditions or customer requirements, or if its new products and services do not achieve market acceptance, the business of the Company will be adversely affected.

## Appendix: Selected Management Profile

**Mr. Wang Xingshan** is Chairman of the Board and Chief Executive Officer (“CEO”), an expert in special government grants from the State Council, a Taishan Scholar (泰山學者), a management accounting advisor of the Ministry of Finance, and a member of a leading management accounting think-tank in North Asia (北亞管理會計領袖智庫). Mr. Wang graduated from Xian Jiaotong University in 1987 with a Master’s degree in computer and maths sciences. He has worked in several departments in Inspur Group. Mr. Wang has over 30 years’ experience in the operation and management of the IT industry in China, particularly in the field of software and IT services. He has focused on innovations in ERP technology and management innovations, and has led the Company in its transformation to a leading cloud services provider in China.

**Mr. Lee Eric Kong** has over 16 years of experience in business management. He obtained a Master of Electrical Engineering in 1993 from the University of Technology in Eindhoven, the Netherlands. For about nine years, Mr. Lee has held technical, marketing, business development, and business management positions in AT&T Network Systems International and Lucent Technologies in Europe, Russia, the People’s Republic of China (“PRC”), Australia, the Philippines and Malaysia. He resigned in October 2013 and became a private investor in various projects. On 1 August 2017, Mr. Lee was appointed Executive Director, President, and Chief Operating Officer of the Company, and President and Chief Operating Officer of Inspur Genersoft Co., Ltd (a subsidiary of the Company).

**Mr. Dong Hailong** is a non-executive Director of the Company. He graduated from Southwest Jiaotong University with a Bachelor’s degree in Telecommunication Engineering in 1999. Mr. Dong joined the Company in 2002.

**Mr. Samuel Y. Shen**, a non-executive Director, holds a Master’s degree in Computer Science from the University of California, Santa Barbara. Mr. Shen is president of JD Cloud, the cloud business unit of JD.com. Mr. Shen was formerly the chief operation officer of Microsoft Asia-Pacific Research and Development Group. As the senior leader of Microsoft in the region, Mr. Shen was in charge of the strategy and direction for Microsoft’s global development in Asia Pacific. Additionally, he oversaw Microsoft Cloud-related development and deployment in China and managed the company’s joint-development ecosystem efforts. Mr. Shen has a solid technical background and rich experience in business operations and management. Mr. Shen resigned on 27 March 2018 as a non-executive Director of the Company.

**Mr. Wong Lit Chor, Alexis**, an independent non-executive director, graduated from University of Toronto, Canada, in 1981 with Bachelor’s degree in arts, majoring in economics and commerce, and obtained an MBA from The Chinese University of Hong Kong in 1987. He has over 30 years of banking, investment, corporate finance and securities dealing experience, from working as a senior executive in a number of listed local and PRC financial services companies.

**Ms. Zhang Ruijun**, an independent non-executive director, graduated from the School of Business of Renmin University of China with a PhD 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 Integration of Enterprise Group Control Strategy, Enterprise Group Fund Management and Financial Resources, and Enterprise Risk Management.

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