

## Company Report

China Merchants Securities (HK) Co., Ltd.  
Hong Kong Equity Research

### Chinasoft (354 HK)

#### Steady sailing

- Resilient IT R&D outsourcing and cloud services demand growth
- Limited impact from COVID, but seeing some pricing pressure from major customers
- Maintain BUY: Slight earnings downward revision on margins, TP cut to HKD13.1

#### Deeper ties with Huawei, resilient demand from internet customers

**IT R&D outsourcing:** Demand remains robust, driven by Huawei continued R&D investments. Chinasoft also deepened its business ties with more internet peers in addition to focusing on its existing larger internet customers, such as Alibaba (BABA US) and Tencent (700 HK). Overall we forecast IT R&D outsourcing FY23E revenue growth to reach 18% yoy. We believe Chinasoft also has some moderate benefit from recent internet sector slowdown, where some processes converted to outsourcing, and there is less pressure on engineer compensation compared to 2021 due to looser labor market. **Emerging business:** Cloud services continue to remain exceptionally strong, driven by strong demand from Huawei, which we project 47% CAGR in FY21-24E driven by Harmony OS, Automotive, and Industry solutions. The software sector continues to benefit from Chinese government's push for industry digitalization, import substitution and other measures. For example, The Ministry of Industry and Information Technology made an announcement, encouraging leading corporations to support more than 100k SMEs in digitalization and cloud services ([Link](#)).

#### Facing some pricing and margin pressure

In terms of impact from COVID in recent months, Chinasoft experienced limited impact mainly due to project delays from collaboration challenges. However, the macro pressure year to date has put some pricing pressure on Chinasoft and we expect it to result in some margin pressures. Moreover, due to Chinasoft's deepening commitment in its partnership with Huawei, Chinasoft has made some service promotion efforts resulting in margin pressure. As a result, we lowered our FY22 GPM and OPM forecasts to 26.4% and 7.0% (vs. 26.7% and 7.3% previously).

#### Positive outlook unchanged

Chinasoft maintains its guidance of 20~30% yoy revenue growth in FY22E, and revenue target of RMB30bn in FY23E. We lowered our FY22/23E core NP forecast by 4.8% and 6.9%, mainly from lower margin forecasts. We lowered our TP to HKD13.1 from HKD14.9, mainly from earnings cuts and exchange rate. Our TP is based on 21x FY23E P/E (unchanged) and implies 25x FY22E P/E. Share price has recovered lately, currently trading at 13.7x FY22E P/E, at a historical 5-year average of 13.5x, we believe as the company delivers on its revenue growth forecasts and Huawei positive developments could be catalysts for re-rating as current FY23E PEG of 0.6x attractive for growth. **Key risks:** 1) Competitive landscape; 2) Regulations; 3) Huawei's performance and Chinasoft's relationship with Huawei.

#### Financials

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	14,101	18,398	23,226	29,314	36,538
Growth (%)	17	30	26	26	25
Adj. NP to shareholders	1,153	1,207	1,352	1,638	2,025
Growth (%)	43	5	12	21	24
Adj. diluted EPS (HKD)	0.48	0.49	0.53	0.64	0.77
P/E (x)	15.4	15.0	13.7	11.5	9.4
ROE (%)	12.5	11.2	9.8	10.8	12.1

Sources: Company data, Bloomberg, CMS (HK) estimates; Share price as of June 13, 2022

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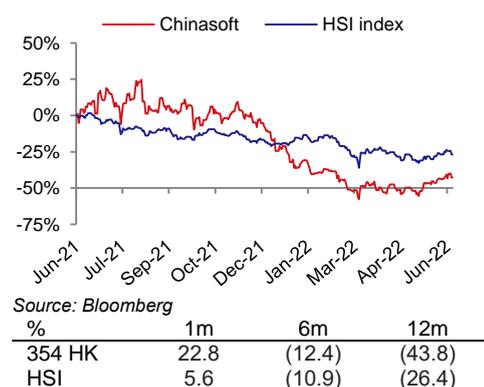
#### WHAT'S NEW

Earnings/TP revision

### BUY

Previous	BUY
Price (June 13, 2022)	HKD7.3
12-month Target Price (Potential Up/downside)	HKD13.1 (+79%)
Previous	HKD14.9

#### Price Performance



Sector: Technology, Media & Telecom	
Hang Seng Index (June 13, 2022)	21,068
MSCI China (June 13, 2022)	71

Key Data	
52-week range (HKD)	5-16
Market cap (HKD bn)	22.5
Avg. daily volume (mn)	14.33
FY22E adj. EPS (HKD)	0.53

Shareholding Structure	
Chen Ph.D., Yuhong	8.6%
Others	0.4%
No. of shares outstanding (mn)	3,070
Free float	91%

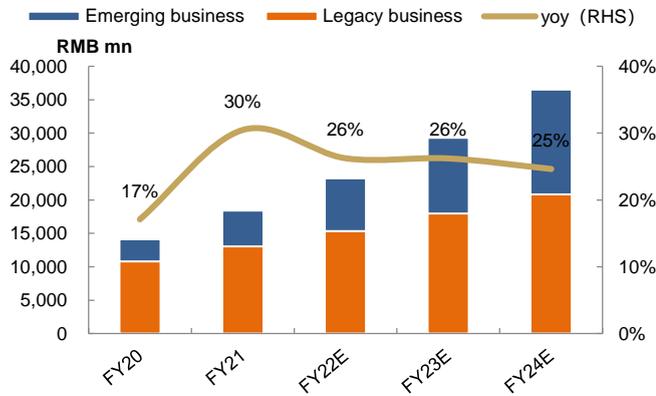
Sources: Bloomberg, Wind, CMS (HK) research

#### Related Research

1. Chinasoft (354 HK) - Attractive valuation on cloud market development (BUY) (Apr 1, 2022)
2. Chinasoft (354 HK) - Share price correction priced in negatives (BUY) (Jan 20, 2022)
3. Chinasoft (354 HK) - Deepened role in Harmony brings brighter outlook (BUY) (Nov 2, 2021)
4. Chinasoft (354 HK) - Solid 1H rev growth reinforce long term positive outlook (BUY) (Aug 27, 2021)

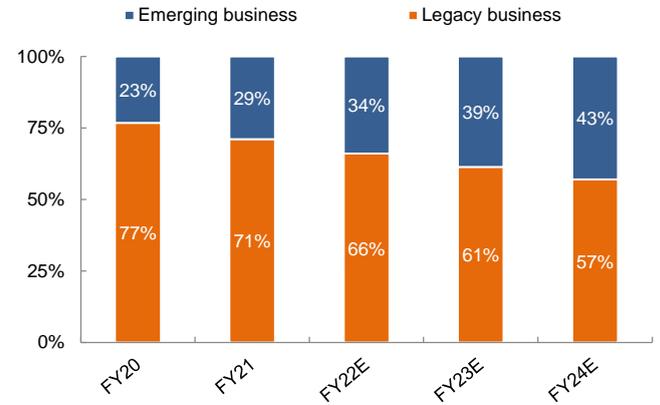
Focus charts

Figure 1: Total revenue by segment and growth



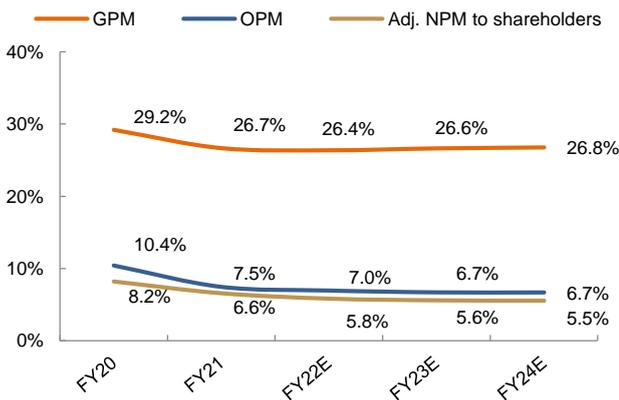
Sources: Company, CMS (HK) estimates

Figure 2: Revenue structure



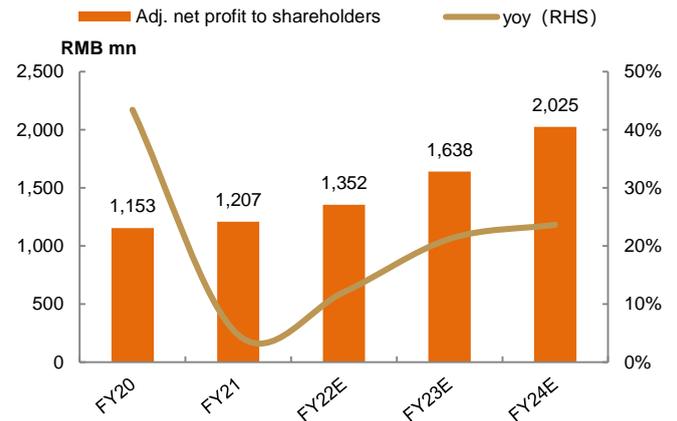
Sources: Company, CMS (HK) estimates

Figure 3: Margins performance



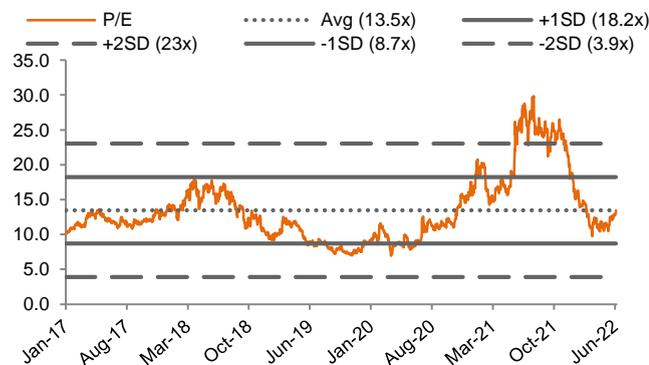
Sources: Company, CMS (HK) estimates

Figure 4: Adj. NP to shareholders



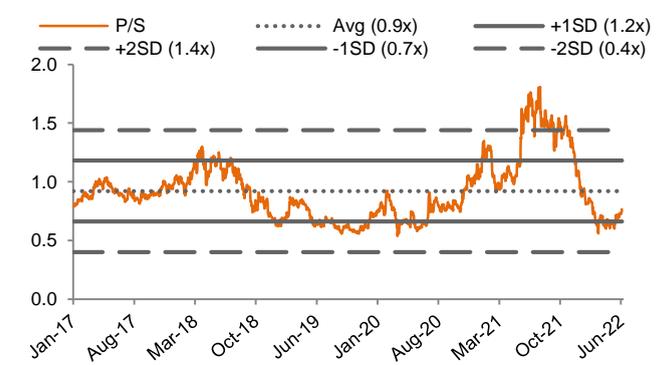
Sources: Company, CMS (HK) estimates

Figure 5: Chinasoft's P/E band



Sources: Bloomberg, Company, CMS (HK) estimates

Figure 6: Chinasoft's P/S band



Sources: Bloomberg, Company, CMS (HK) estimates

Figure 7: Policies overview related to digitalization, data security and infrastructure

Date	Entity/Source	Policy/Event	Content	Category
2015/1	State Council	Opinion of the State Council on Promoting the Innovative Development of Cloud Computing and Cultivating New Business Forms of the Information Industry 《关于促进云计算创新发展培育信息产业新业态的意见》	It is necessary to accelerate the development of cloud computing and create a new business form for the information industry	Infrastructure
2016/6	G20 Hangzhou Summit	the G20 Digital Economy Development and Cooperation Initiative 《二十国集团数字经济发展与合作倡议》	For the first time, the "digital economy" is listed as an important topic in the G20's blueprint for innovation and growth	Digitalization
2016/11	NPC	The Cybersecurity Law of the People's Republic of China 《中华人民共和国网络安全法》	Strengthen cybersecurity management	Data security
2016/12	MIIT	Guiding Opinions on Further Advancing the Informatization of Small and Medium-sized Enterprises 《关于进一步推进中小企业信息化的指导意见》	Further improve the application level of information technology in small and medium-sized enterprises, and enhance the vitality of entrepreneurship and innovation	Digitalization
2016/12	State Council	Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People's Republic of China 《“十三五”国家信息化规划》	Accelerate the development of informatization	Digitalization
2017/4	MIIT	Three-year Action Plan for Cloud Computing Development (2017-2019) 《云计算发展三年行动计划 (2017-2019 年)》	Promote the healthy and rapid development of cloud computing	Infrastructure
2018/4	State Council	Measures for the Management of Scientific Data 《科学数据管理办法》	Further strengthen and standardize scientific data management and ensure scientific data security	Data security
2018/9	MIIT	Implementation Guide for Promoting the Migration of Enterprises to the Cloud (2018-2020) 《推动企业上云实施指南 (2018-2020 年)》	Encourage enterprises to use cloud computing to accelerate digital, network, and intelligent transformation, and promote the deep integration of the Internet, big data and artificial intelligence with the real economy	Infrastructure
2019/7	MIIT	Special Action Plan for Telecommunication and Internet Industry to Improve Network Data Security Protection Capability 《电信和互联网行业提升网络数据安全保护能力专项行动方案》	Accelerate the construction of a comprehensive security system for industry network data security	Infrastructure
2020/4	NDRC	Implementation Plan for Promoting the Actions of "Migrating to Cloud, Using Digital Tools and Enabling Intelligence" and Fostering the Development of New Economy 《关于推进“上云用数赋智”行动培育新经济发展实施方案》	Deeply implement the digital economy strategy and accelerate digital industrialization and industrial digitization	Digitalization
2020/9	State Council	Notice on Accelerating the Digital Transformation of State-owned Enterprises 《关于加快推进国有企业数字化转型工作的通知》	State-owned enterprises shall give full play as a leading role in the state-owned economy, and take the initiative to grasp and lead the new generation of information technology transformation trends	Digitalization
2021/6	13 <sup>th</sup> NPC	Data Security Law 《数据安全法》	Approved by the 29 <sup>th</sup> meeting of the Standing Committee of the 13 <sup>th</sup> National People's Congress and officially promulgated, it will come into force on September 1, 2021	Data security
2021/8	NPC	Personal Information Protection Law of the People's Republic of China 《个人信息保护法》	Comprehensive regulations on citizens' rights in processing personal information, obligations of personal information processors, cross-border transfer of personal information, etc.	Data security
2022/1	State Council	The "14th Five-Year" Development Plan for the Digital Economy 《“十四五”数字经济发展规划》	Continuously improve digital infrastructure, accelerate the cultivation of new business forms and new models, and achieve positive results in promoting digital industrialization and industrial digitization	Infrastructure, Digitalization
2022/5	The General Office of CPC Central Committee and State Council	Opinions on the Implementation of the National Cultural Digitalization Strategy 《关于推进实施国家文化数字化战略的意见》	Generally build a cultural digital infrastructure and service platform, and form a cultural service supply system that promotes online and offline interaction with comprehensive coverage	Infrastructure, Digitalization

Sources: Relevant government websites, CMS (HK)

Figure 8: Earnings forecast revision

RMB mn	Revised		Previous		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Total revenue	23,226	29,314	23,269	29,000	-0.2%	1.1%
Legacy business	15,345	17,994	15,433	18,039	-0.6%	-0.3%
Emerging business	7,881	11,321	7,836	10,961	0.6%	3.3%
Gross profit	6,122	7,804	6,206	7,877	-1.4%	-0.9%
Operating profit	1,618	1,969	1,694	2,105	-4.5%	-6.5%
Net income to shareholders	1,202	1,477	1,270	1,601	-5.3%	-7.7%
Adj. net profit to shareholders	1,352	1,638	1,420	1,760	-4.8%	-6.9%
Gross margin (%)	26.4	26.6	26.7	27.2	-0.3ppt	-0.5ppt
Operating margin (%)	7.0	6.7	7.3	7.3	-0.3ppt	-0.5ppt
Net margin to shareholders (%)	5.2	5.0	5.5	5.5	-0.3ppt	-0.5ppt
Adj. net profit margin to shareholders (%)	5.8	5.6	6.1	6.1	-0.3ppt	-0.5ppt

Sources: Company, CMS (HK) estimates

Figure 9: Chinasoft valuation

	Bear case	Base case	Bull case
<b>2023E adj. net profit to shareholders (RMB mn)</b>	<b>1,638</b>	<b>1,638</b>	<b>1,638</b>
<b>Target P/E multiple (x)</b>	<b>19</b>	<b>21</b>	<b>23</b>
Target P/E multiple basis	Mean	+1SD	+2SD
Adj. net profit to shareholders CAGR 2022E-24E (%)	22	22	22
Implied PEG ratio (x)	0.8	0.9	1.0
Valuation (RMB mn)	31,122	34,398	37,675
<b>Valuation (HKD mn)</b>	<b>36,189</b>	<b>39,998</b>	<b>43,808</b>
FY23E outstanding shares (mn)	3,061	3,061	3,061
<b>Target price (HKD)</b>	<b>11.8</b>	<b>13.1</b>	<b>14.3</b>
Implied 2022E PE (x)	23	25	28

Sources: Company, CMS (HK) estimates

Figure 10: Chinasoft's recent announcement on strategic partnership with other companies

Date	Company	Type	Industry	Segment	Object
2021.9.23	China Energy I&C Interconnection Technology Co., Ltd	Chinasoft holds 12% shares of China Energy I&C	Energy	Digital energy transformation	The cooperation makes for the Company's further output of digital transformation consulting and solution capabilities, building IP in the energy industry, exploring the ecological application path of OpenHarmony, constantly optimizing the business model and creating greater value for shareholders.
2021.9.22	Fujian Newland Payment Technology Limited	Strategic cooperation	Financial smart terminals	AIoT + Finance + Digital Intelligent Transformation	The two parties launched an in-depth development of the OpenHarmony operating system applied to financial intelligent terminals to promote the upgrading of the kernel of financial intelligent terminals and realize the construction of the ecosystem of "AIoT+Finance+Digital Intelligent Transformation".
2021.9.20	Kingdee International Software Group	Strategic cooperation	High-end enterprise software vendors	Digital transformation of government and enterprises	The two parties focus on the layout of government, telecommunications, finance, construction and real estate, manufacturing and distribution, new retail and other industries, with scenarios covering human resources, finance, taxation, supply chain and other business and management digitization fields, and carry out joint creation in the field of products and services to create differentiated industry solution benchmark projects and form industry best practices.
2021.9.20	Yonyou Network Technology Co	Strategic cooperation	High-end enterprise software vendors	Digital transformation of government and enterprises	The two sides focus on the layout of real estate, construction, engineering, new retail, government, manufacturing and distribution, finance, high-tech and Internet industries, and carry out joint innovation in the field of products and services to form configurable enterprise service products for the IT service industry, as well as high-value integrated convergence solutions.
2021.9.13	Huichuan Technology	Strategic cooperation	Industrial automation control and drive technology	Industrial intelligence based on domestic autonomous and controllable bases	The official launch of the world's first OpenHarmony industrial intelligent operating system.
2021.8.25	Chongqing Changan Automobile Co., Ltd.	Strategic cooperation	Automobile	Automotive industry's digital transformation	The two parties will carry out software innovation cooperation for all-scenario travel services of intelligent connected vehicles, and carry out joint cooperation around 5G technology, Internet of Vehicles big data, intelligent cloud, intelligent cockpit, intelligent travel, intelligent life, intelligent service and etc.

Sources: Company, CMS (HK)

### Valuation comparison

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (x)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E				FY22E	FY23E	Sales	EPS	EBITDA
<b>Platform</b>																		
Tencent	700 HK	HKD	BUY	377.0	507.0	461.6	16.8	13.1	28.1	21.0	3.7	5.3	16.9	11.7	13.8	9.9	7.5	10.1
Alibaba	BABA US	USD	BUY	98.5	140.0	267.1	8.1	8.0	12.0	13.8	n.a.	2.0	12.6	6.6	9.2	12.9	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	188.2	234.0	148.3	n.a.	n.a.	n.a.	n.a.	n.a.	4.6	n.a.	n.a.	n.a.	23.8	n.a.	n.a.
Baidu	BIDU US	USD	NR	131.9	n.a.	45.6	9.7	7.5	18.9	14.8	3.8	2.4	16.9	5.3	7.6	8.7	5.0	24.1
Alphabet	GOOGL US	USD	NR	2,127.9	n.a.	1,404.4	10.9	9.5	17.1	14.5	0.7	5.8	12.8	28.0	26.8	7.0	24.4	23.2
Facebook	FB US	USD	NR	164.3	n.a.	444.5	7.4	6.3	13.4	11.5	n.a.	3.6	8.3	24.8	26.5	13.6	n.a.	11.0
Naver	035420 KS	KRW	NR	254,000.0	n.a.	32.3	20.9	17.5	28.6	22.1	n.a.	5.0	26.4	6.1	7.4	15.9	n.a.	12.7
<b>China Mean</b>							<b>10.9</b>	<b>9.4</b>	<b>18.0</b>	<b>16.1</b>	<b>3.7</b>	<b>3.3</b>	<b>15.0</b>	<b>7.5</b>	<b>10.0</b>	<b>13.6</b>	<b>6.3</b>	<b>17.1</b>
<b>Global Mean</b>							<b>13.0</b>	<b>11.1</b>	<b>19.7</b>	<b>16.0</b>	<b>0.7</b>	<b>4.8</b>	<b>15.9</b>	<b>19.6</b>	<b>20.2</b>	<b>12.2</b>	<b>24.4</b>	<b>15.7</b>
<b>Cloud</b>																		
Chinasoft	354 HK	HKD	BUY	7.3	13.1	2.9	8.4	8.1	13.7	11.5	1.0	0.8	n.a.	9.8	10.8	26.2	14.1	10.6
Tencent	700 HK	HKD	BUY	377.0	507.0	461.6	16.8	13.1	28.1	21.0	3.7	5.3	16.9	11.7	13.8	9.9	7.5	10.1
Alibaba	BABA US	USD	BUY	98.5	140.0	267.1	8.1	8.0	12.0	13.8	n.a.	2.0	12.6	6.6	9.2	12.9	n.a.	n.a.
Kingsoft	3888 HK	HKD	BUY	29.7	38.0	5.2	10.8	8.5	35.3	22.6	n.a.	4.4	7.1	2.8	4.7	22.8	n.a.	45.9
Kingdee	268 HK	HKD	NR	16.6	n.a.	7.3	n.a.	n.a.	n.a.	n.a.	n.a.	9.6	n.a.	n.a.	n.a.	24.6	n.a.	n.a.
Mingyuan Cloud	909 HK	HKD	NR	10.4	n.a.	2.6	n.a.	45.9	n.a.	45.6	n.a.	6.9	n.a.	2.1	4.6	20.9	n.a.	n.a.
Microsoft	MSFT US	USD	NR	242.3	n.a.	1,811.9	18.2	16.0	25.4	22.8	1.5	9.2	20.4	43.2	39.4	17.0	16.6	16.4
Alphabet	GOOGL US	USD	NR	2,127.9	n.a.	1,404.4	10.9	9.5	17.1	14.5	0.7	5.8	12.8	28.0	26.8	7.0	24.4	23.2
Amazon	AMZN US	USD	NR	103.7	n.a.	1,054.8	15.8	11.9	46.0	25.2	n.a.	2.0	15.8	7.2	16.1	16.7	9.0	21.6
Salesforce	CRM US	USD	NR	166.0	n.a.	165.2	35.4	17.4	n.a.	34.5	n.a.	6.5	28.9	2.0	8.0	n.a.	n.a.	n.a.
Oracle	ORCL US	USD	NR	64.1	n.a.	170.9	13.5	10.7	26.7	12.1	n.a.	4.2	10.9	n.a.	n.a.	n.a.	n.a.	
SAP	SAP US	USD	NR	90.8	n.a.	111.6	13.8	11.8	17.6	16.0	n.a.	3.5	21.4	15.0	15.5	4.0	n.a.	19.2
VMware	VMW US	USD	NR	122.5	n.a.	51.6	17.3	12.7	29.8	18.3	n.a.	4.2	12.4	n.a.	n.a.	n.a.	n.a.	n.a.
Dropbox	DBX US	USD	NR	20.7	n.a.	7.8	10.4	9.6	13.7	12.6	1.5	3.4	9.6	n.a.	n.a.	9.0	9.0	35.0
<b>China Mean</b>							<b>11.0</b>	<b>16.7</b>	<b>22.3</b>	<b>22.9</b>	<b>2.3</b>	<b>4.8</b>	<b>12.2</b>	<b>6.6</b>	<b>8.6</b>	<b>19.6</b>	<b>10.8</b>	<b>22.2</b>
<b>Global Mean</b>							<b>16.9</b>	<b>12.5</b>	<b>25.2</b>	<b>19.5</b>	<b>1.3</b>	<b>4.9</b>	<b>16.5</b>	<b>19.1</b>	<b>21.2</b>	<b>10.7</b>	<b>14.8</b>	<b>23.1</b>
<b>Social network &amp; pan-entertainment</b>																		
Tencent	700 HK	HKD	BUY	377.0	507.0	461.6	16.8	13.1	28.1	21.0	3.7	5.3	16.9	11.7	13.8	9.9	7.5	10.1
Bilibili	BILI US	USD	BUY	23.5	43.0	9.2	n.a.	n.a.	n.a.	n.a.	n.a.	2.6	n.a.	n.a.	n.a.	25.2	n.a.	n.a.
China Literature	772 HK	HKD	NEUTRAL	34.9	68.0	4.5	15.5	13.2	22.1	18.1	1.3	3.2	23.0	7.2	8.1	10.4	16.7	n.a.
Kuaishou	1024 HK	HKD	NR	86.5	n.a.	47.1	n.a.	n.a.	n.a.	n.a.	n.a.	3.4	n.a.	n.a.	n.a.	19.5	n.a.	n.a.
Tencent Music	TME US	USD	NR	4.3	n.a.	7.3	8.6	7.6	13.7	12.5	0.4	1.8	14.4	5.6	6.2	n.a.	30.7	n.a.
Weibo	WB US	USD	NR	21.0	n.a.	5.0	7.0	5.6	8.6	7.4	n.a.	2.4	8.2	11.2	13.3	4.1	n.a.	1.3
iQiyi	IQ US	USD	NR	3.9	n.a.	3.4	17.2	7.6	n.a.	42.0	n.a.	0.8	n.a.	n.a.	3.2	2.3	n.a.	n.a.
YY	YY US	USD	NR	31.0	n.a.	2.2	n.a.	n.a.	21.3	11.3	0.5	0.8	n.a.	1.1	3.0	7.8	39.4	85.9
Momo	MOMO US	USD	NR	5.1	n.a.	1.0	2.2	2.0	4.8	4.2	n.a.	0.5	5.4	11.4	11.7	n.a.	n.a.	n.a.
Huya	HUYA US	USD	NR	4.0	n.a.	1.0	7.9	11.0	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Douyu	DOYU US	USD	NR	1.2	n.a.	0.4	10.4	17.0	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Meta	FB US	USD	NR	164.3	n.a.	444.5	7.4	6.3	13.4	11.5	n.a.	3.6	8.3	24.8	26.5	13.6	n.a.	11.0
Netflix	NFLX US	USD	NR	169.7	n.a.	75.4	12.3	11.1	14.8	13.9	2.1	2.3	n.a.	26.1	23.6	11.3	7.1	9.5
Snapchat	SNAP US	USD	NR	12.0	n.a.	19.7	43.0	16.8	n.a.	23.7	n.a.	3.9	n.a.	n.a.	5.8	31.6	6.4	n.a.
Spotify	SPOT US	USD	NR	98.6	n.a.	19.0	n.a.	n.a.	n.a.	n.a.	n.a.	1.6	n.a.	n.a.	4.3	13.3	n.a.	n.a.
<b>China Mean</b>							<b>10.7</b>	<b>9.6</b>	<b>16.4</b>	<b>16.6</b>	<b>1.5</b>	<b>2.1</b>	<b>13.6</b>	<b>8.0</b>	<b>8.5</b>	<b>13.1</b>	<b>23.6</b>	<b>32.4</b>
<b>Global Mean</b>							<b>20.9</b>	<b>11.4</b>	<b>14.1</b>	<b>16.4</b>	<b>2.1</b>	<b>2.8</b>	<b>8.3</b>	<b>25.5</b>	<b>15.1</b>	<b>17.4</b>	<b>6.8</b>	<b>10.3</b>

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (X)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E				FY22E	FY22E	FY22E	FY23E	Sales
<b>Online Gaming</b>																		
Netease	NTES US	USD	BUY	101.3	148.0	66.6	13.2	11.7	21.6	19.3	2.5	4.6	18.3	17.2	16.7	11.6	8.5	17.4
Tencent	700 HK	HKD	BUY	377.0	507.0	461.6	16.8	13.1	28.1	21.0	3.7	5.3	16.9	11.7	13.8	9.9	7.5	10.1
Bilibili	BILI US	USD	BUY	23.5	43.0	9.2	n.a.	n.a.	n.a.	n.a.	n.a.	2.6	n.a.	n.a.	n.a.	25.2	n.a.	n.a.
Kingsoft	3888 HK	HKD	BUY	29.7	38.0	5.2	10.8	8.5	35.3	22.6	n.a.	4.4	7.1	2.8	4.7	22.8	n.a.	45.9
iDreamSky	1119 HK	HKD	BUY	5.2	4.4	0.9	33.5	15.5	n.a.	20.8	n.a.	2.1	n.a.	4.6	7.9	29.2	n.a.	52.0
XD	2400 HK	HKD	NR	25.6	n.a.	1.6	n.a.	n.a.	n.a.	n.a.	n.a.	3.3	11.6	n.a.	3.5	26.7	n.a.	n.a.
Netdragon	777 HK	HKD	NR	17.2	n.a.	1.2	2.6	2.4	6.3	5.6	0.3	1.0	4.8	15.3	15.4	11.3	19.8	7.0
CMGE	302 HK	HKD	NR	2.4	n.a.	0.8	6.0	5.0	7.6	5.6	0.3	1.1	4.6	13.2	14.0	23.9	27.4	17.7
IGG	799 HK	HKD	NR	3.3	n.a.	0.5	n.a.	7.7	n.a.	9.4	n.a.	0.7	n.a.	n.a.	8.1	n.a.	n.a.	n.a.
Archosaur Game	9990 HK	HKD	NR	6.3	n.a.	0.6	5.1	3.2	13.9	7.3	n.a.	2.1	4.0	8.8	15.1	80.9	n.a.	n.a.
SEA	SE US	USD	NR	70.6	n.a.	39.5	n.a.	n.a.	n.a.	n.a.	n.a.	3.0	n.a.	n.a.	n.a.	36.0	n.a.	n.a.
Nintendo	7974 JP	JPY	NR	57,810.0	n.a.	55.9	n.a.	n.a.	13.8	16.8	n.a.	3.9	22.8	24.2	20.9	n.a.	n.a.	n.a.
Activision Blizzard	ATVI US	USD	NR	74.8	n.a.	58.5	16.1	12.7	25.9	19.3	n.a.	7.5	24.6	12.9	13.5	5.9	3.8	5.8
Electronic Arts	EA US	USD	NR	128.8	n.a.	36.0	21.6	12.4	48.0	17.8	n.a.	5.4	20.0	10.2	20.5	n.a.	n.a.	n.a.
Take-Two	TTWO US	USD	NR	123.2	n.a.	20.0	23.3	19.4	n.a.	31.2	n.a.	6.0	n.a.	11.7	16.7	n.a.	n.a.	n.a.
Nexon	3659 JP	JPY	NR	3,150.0	n.a.	21.1	18.0	13.9	27.3	22.2	n.a.	8.2	25.6	12.3	13.3	12.6	n.a.	18.6
Ncsoft	036570 KS	KRW	NR	436,500.0	n.a.	7.4	9.3	8.2	16.7	14.1	0.7	3.3	13.6	16.7	17.5	13.3	22.4	39.4
Zynga	ZNGA US	USD	NR	8.2	n.a.	9.3	15.5	14.1	24.7	19.5	n.a.	3.2	14.7	n.a.	n.a.	8.4	n.a.	54.2
Netmarble	251270 KS	KRW	NR	75,700.0	n.a.	5.0	15.2	12.6	30.0	20.6	3.0	2.2	17.0	4.0	5.4	10.7	10.1	30.0
<b>China Mean</b>							<b>12.7</b>	<b>8.8</b>	<b>19.3</b>	<b>14.6</b>	<b>1.9</b>	<b>2.9</b>	<b>10.7</b>	<b>11.4</b>	<b>11.6</b>	<b>25.3</b>	<b>14.3</b>	<b>23.9</b>
<b>Global Mean</b>							<b>17.0</b>	<b>13.3</b>	<b>26.6</b>	<b>20.2</b>	<b>1.9</b>	<b>4.7</b>	<b>19.8</b>	<b>13.1</b>	<b>15.4</b>	<b>14.5</b>	<b>12.1</b>	<b>29.6</b>
<b>E-commerce</b>																		
JD.com	JD US	USD	BUY	58.9	73.0	92.0	18.2	12.8	27.6	19.1	0.8	0.6	23.0	3.5	8.9	18.6	36.4	46.9
Alibaba	BABA US	USD	BUY	98.5	140.0	267.1	8.1	8.0	12.0	13.8	n.a.	2.0	12.6	6.6	9.2	12.9	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	188.2	234.0	148.3	n.a.	n.a.	n.a.	n.a.	n.a.	4.6	n.a.	n.a.	n.a.	23.8	n.a.	n.a.
Pinduoduo	PDD US	USD	NR	54.4	n.a.	68.8	22.7	15.6	26.2	18.7	1.1	4.2	25.1	16.6	19.1	20.6	24.8	66.6
Beike	BEKE US	USD	NR	14.4	n.a.	18.2	n.a.	10.5	n.a.	27.3	n.a.	1.9	n.a.	0.1	5.7	1.0	38.2	13.6
Vipshop	VIPS US	USD	NR	10.0	n.a.	6.5	4.6	4.1	8.2	7.3	n.a.	0.4	7.7	12.7	12.8	n.a.	n.a.	n.a.
Baozun	BZUN US	USD	NR	9.5	n.a.	0.6	14.8	8.3	18.0	9.1	0.3	0.4	11.5	2.3	6.0	8.9	59.5	10.8
Amazon	AMZN US	USD	NR	103.7	n.a.	1,054.8	15.8	11.9	46.0	25.2	n.a.	2.0	15.8	7.2	16.1	16.7	9.0	21.6
eBay	EBAY US	USD	NR	42.9	n.a.	24.0	8.0	7.6	10.6	10.5	1.7	2.5	8.9	6.6	32.7	0.4	6.1	0.4
<b>China Mean</b>							<b>14.5</b>	<b>10.4</b>	<b>20.2</b>	<b>16.5</b>	<b>0.7</b>	<b>1.8</b>	<b>17.3</b>	<b>6.5</b>	<b>10.1</b>	<b>14.9</b>	<b>39.1</b>	<b>36.9</b>
<b>Global Mean</b>							<b>11.9</b>	<b>9.8</b>	<b>28.3</b>	<b>17.8</b>	<b>1.7</b>	<b>2.3</b>	<b>12.4</b>	<b>6.9</b>	<b>24.4</b>	<b>8.5</b>	<b>7.6</b>	<b>11.0</b>
<b>Vertical</b>																		
trip.com	TCOM US	USD	NR	20.5	n.a.	13.2	n.a.	17.7	n.a.	16.7	n.a.	4.4	28.2	0.3	3.8	24.4	n.a.	n.a.
Autohome	ATHM US	USD	NR	33.0	n.a.	4.1	3.9	3.2	14.6	12.5	n.a.	4.0	11.7	7.8	8.8	1.0	n.a.	n.a.
Tongcheng-Elong	780 HK	HKD	NR	15.3	n.a.	4.3	19.9	11.4	30.8	18.4	0.8	4.2	27.0	4.6	8.3	12.7	40.9	20.5
Expedia	EXPE US	USD	NR	106.3	n.a.	16.7	8.4	6.8	15.3	10.8	n.a.	1.4	5.1	37.6	39.4	28.2	n.a.	69.3
<b>China Mean</b>							<b>10.7</b>	<b>9.8</b>	<b>20.2</b>	<b>14.6</b>	<b>0.8</b>	<b>3.5</b>	<b>18.0</b>	<b>12.6</b>	<b>15.1</b>	<b>16.6</b>	<b>40.9</b>	<b>44.9</b>

Note: Closing prices as of June 13, 2022; For future estimates of NR Co.s, BBG consensus used; Sources: BBG, Company, CMS (HK) estimate

## Financial Summary

### Balance Sheet

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
PPE	858	1,220	1,242	1,299	1,395
Intangible Assets	145	193	222	247	268
Goodwill	941	844	844	844	844
Other non-current assets	749	1,126	1,172	1,260	1,390
<b>Non-current assets</b>	<b>2,693</b>	<b>3,383</b>	<b>3,480</b>	<b>3,650</b>	<b>3,896</b>
Trade and Other Receivables	4,580	5,894	7,441	9,392	11,706
Amounts Due from Customers for Contract Work	1,904	1,741	1,915	2,106	2,317
Bank Balances and Cash	3,787	5,556	5,843	6,155	6,578
Others current assets	123	328	328	328	328
<b>Current assets</b>	<b>10,394</b>	<b>13,520</b>	<b>15,527</b>	<b>17,981</b>	<b>20,929</b>
<b>Total assets</b>	<b>13,087</b>	<b>16,902</b>	<b>19,007</b>	<b>21,631</b>	<b>24,825</b>
Trade and Other Payables	1,753	2,252	2,812	3,536	4,399
Contract liability	329	411	519	655	816
ST Borrowing	368	917	1,074	1,260	1,483
Other current liabilities	268	406	410	414	419
<b>Current liabilities</b>	<b>2,718</b>	<b>3,986</b>	<b>4,814</b>	<b>5,865</b>	<b>7,117</b>
LT Borrowing	1,421	1,021	1,021	1,021	1,021
Other non-current liabilities	171	269	274	279	284
<b>Current liabilities</b>	<b>1,592</b>	<b>1,290</b>	<b>1,295</b>	<b>1,300</b>	<b>1,305</b>
<b>Total Liabilities</b>	<b>4,311</b>	<b>5,276</b>	<b>6,109</b>	<b>7,165</b>	<b>8,421</b>
Total Shareholders' Equity	8,753	11,604	12,873	14,439	16,375
Minority Interest	23	23	25	27	29
<b>Total Equity</b>	<b>8,776</b>	<b>11,627</b>	<b>12,898</b>	<b>14,466</b>	<b>16,404</b>

### Cashflow Statement

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
<b>Operating cash flow</b>	<b>1,153</b>	<b>962</b>	<b>859</b>	<b>975</b>	<b>1,223</b>
PBT	1,035	1,252	1,323	1,625	2,049
Depreciation & Amortization	170	221	261	291	329
Share Option Expense	144	217	150	161	162
Working Capital chg	(533)	2,898	(1,053)	(1,282)	(1,500)
Others	336	(3,626)	178	179	183
<b>Investing cash flow</b>	<b>(192)</b>	<b>(530)</b>	<b>(545)</b>	<b>(666)</b>	<b>(811)</b>
CAPEX	(220)	(287)	(232)	(293)	(365)
Others	28	(242)	(312)	(373)	(445)
<b>Financing cash flow</b>	<b>362</b>	<b>1,377</b>	<b>(28)</b>	<b>3</b>	<b>12</b>
Dividends	(52)	(70)	(82)	(72)	(89)
Net borrowing	217	173	156	187	223
Others	196	1,274	(102)	(111)	(122)
<b>Net cash flow</b>	<b>1,323</b>	<b>1,810</b>	<b>286</b>	<b>312</b>	<b>424</b>
Foreign Exchange	(62)	(40)	0	0	0
<b>Beginning cash</b>	<b>2,526</b>	<b>3,787</b>	<b>5,556</b>	<b>5,843</b>	<b>6,155</b>
<b>Ending cash</b>	<b>3,787</b>	<b>5,556</b>	<b>5,843</b>	<b>6,155</b>	<b>6,578</b>

### Profit & Loss Statement

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	14,101	18,398	23,226	29,314	36,538
Cost of revenues	(9,983)	(13,494)	(17,104)	(21,511)	(26,762)
<b>Gross profit</b>	<b>4,118</b>	<b>4,904</b>	<b>6,122</b>	<b>7,804</b>	<b>9,776</b>
Selling and marketing	(729)	(943)	(1,218)	(1,537)	(1,900)
G&A expenses	(1,302)	(1,756)	(2,124)	(2,653)	(3,250)
R&D expenses	(930)	(1,249)	(1,626)	(2,052)	(2,558)
Other income/expenses	108	260	280	184	112
<b>Operating profit</b>	<b>1,470</b>	<b>1,375</b>	<b>1,618</b>	<b>1,969</b>	<b>2,450</b>
Other gains/losses	(54)	146	0	0	0
Net financial income	(151)	(100)	(111)	(120)	(132)
Share of Associates/JV	(24)	(10)	0	0	0
<b>Income before tax</b>	<b>1,035</b>	<b>1,252</b>	<b>1,323</b>	<b>1,625</b>	<b>2,049</b>
Income tax	(87)	(115)	(119)	(146)	(184)
Minority interest	(7)	(0)	2	2	2
<b>Net income</b>	<b>955</b>	<b>1,137</b>	<b>1,202</b>	<b>1,477</b>	<b>1,862</b>
<b>Adj. net income</b>	<b>1,153</b>	<b>1,207</b>	<b>1,352</b>	<b>1,638</b>	<b>2,025</b>

### Financial ratios (%)

	FY20	FY21	FY22E	FY23E	FY24E
<b>yoy growth (%)</b>					
Revenue	17	30	26	26	25
Gross profit	15	19	25	27	25
Operating profit	29	(6)	18	22	24
Net profit	26	19	6	23	26
Adj. net profit	43	5	12	21	24
Diluted EPS	21	12	3	22	25
<b>Key ratio (%)</b>					
ROE	12.5	11.2	9.8	10.8	12.1
Gross margin	29.2	26.7	26.4	26.6	26.8
Operating margin	10.4	7.5	7.0	6.7	6.7
Net margin	6.8	6.2	5.2	5.0	5.1
Adjusted net margin	8.2	6.6	5.8	5.6	5.5
Payout ratio	7.4	7.2	6.0	6.0	6.0
<b>Per share (RMB)</b>					
Basic EPS	0.38	0.41	0.42	0.50	0.63
Diluted adjusted EPS	0.41	0.41	0.45	0.54	0.66
Diluted adjusted EPS (HKD)	0.48	0.49	0.53	0.64	0.77
BVPS	3.01	3.78	4.15	4.61	5.18
DPS	0.02	0.03	0.02	0.03	0.04
<b>Valuation</b>					
P/E (x)	15.4	15.0	13.7	11.5	9.4
P/B (x)	2.0	1.6	1.5	1.3	1.2
Dividend yield (%)	0.40	0.44	0.38	0.46	0.57

Note: Closing price as of June 13, 2022; Sources: Company, CMS (HK) estimates

## Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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