

ChinaSoft Int'l (354 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$5.57

Target Price: HK\$8.80 (+58%)

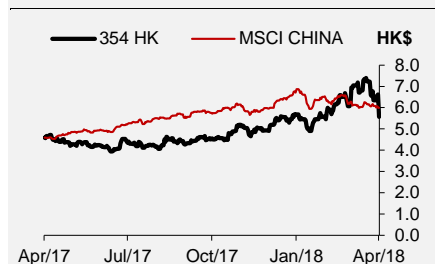
Prior TP: HK\$8.80

Key Data

HKEx code	354
12 Months High (HK\$)	7.72
12 Month Low (HK\$)	3.90
3M Avg Dail Vol. (mn)	20.74
Issue Share (mn)	2,403.77
Market Cap (HK\$mn)	13,389.02
Fiscal Year	12/2017
Major shareholder (s)	Dr. Chen Yu Hong (11.01%)

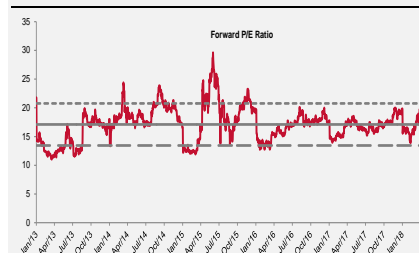
Source: Company data, Bloomberg, OP Research
Closing price are as of 26/04/2018

Price Chart



	1mth	3mth	6mth
Absolute %	-19.9	-1.9	23.8
Rel. MSCI CHINA %	-15.4	10.8	19.5

PE



Company Profile

ChinaSoft is a global leading IT outsourcing and solution service company

Over-concern about Huawei probe

- Chinasoft (CSI) expects limited impact from US investigation into Huawei as their co-operation is focused on public cloud business in domestic market.
- We believe the diversified client portfolio and order backlog provide good visibility of FY18E growth.
- Reiterate BUY with TP HK\$8.80 unchanged based on same 30x FY18E PE, at par to its HK peers.

Limited impact expected from Huawei probe. Chinasoft (CSI) issued a statement in response to sharp dive in stock price yesterday as Huawei, the largest customer of CSI who contributed ~55% of its FY17 revenue was said to be investigated by FBI for possible Iran violations. CSI emphasized that their cooperation with Huawei is limited to the public cloud business in China domestic market, and that the foreign-currency denoted revenue only took up ~5% of the total. We believe current Huawei probe will cast limited impact on CSI's business in the short-term.

Diversified client portfolio and order backlog provide good visibility of FY18E growth. Apart from Huawei, CSI has diversified its client portfolio with other IT/finance giants such as HSBC, Tencent, Microsoft and Baidu. We expect these clients to deliver 50%/30%/30%/80% growth respectively in FY18E. In addition, as CSI is proactively developing its non IT outsourcing business (Cloud services, big data and AI-integrated Jointforce platform) which typically have higher GPM (over 20ppts higher than traditional outsourcing services), we estimate the new Cloud and big data business to account for 8.2%/4.5% of FY18E sales. We are positive on CSI's FY18E growth.

BUY on dips. We reiterate our BUY rating on CSI with TP HK\$8.80 unchanged based on same 30x FY18E PE given 1) high margin service related business is ramping up on track, benefiting both revenue and overall GPM (2) solid order backlog from Tencent, HSBC and Microsoft Baidu and Ping' an. The stock price of CSI dropped 16% yesterday and we believe the market over-reaction has created an attractive mid-term investment opportunities for value investors.

Risks: (1) slower than expected revenue growth on cloud services; (2) higher than expected staff costs; (3) upgrade on trade war tension

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	6,783	9,244	11,005	12,591	14,414
Growth (%)	32	36	19	14	14
Adj. Net Profit	448	566	753	899	1,081
Growth (%)	88	26	33	20	20
Diluted Adj EPS (HK\$)	0.215	0.248	0.292	0.350	0.420
Adj EPS growth (%)	66	16	18	20	20
Change to previous EPS (%)			0	0	
Consensus EPS (HK\$)			0.340	0.427	
ROE (%)	11.9	12.0	13.6	14.2	14.9
P/E (x)	26.0	22.4	19.0	15.9	13.3
P/B (x)	2.6	2.3	2.0	1.7	1.5
Yield (%)	0.2	0.3	0.4	0.5	0.5
DPS (HK\$)	0.014	0.018	0.021	0.025	0.030

Source: Bloomberg, OP Research

Financial Summary

Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Income Statement (RMB mn)					
TPG	5,414	7,616	9,139	10,510	12,087
ITG	1,160	1,192	1,430	1,644	1,891
Sales of hardware	210	436	436	436	436
Turnover	6,783	9,244	11,005	12,591	14,414
YoY%	32	36	19	14	14
COGS	(4,768)	(6,493)	(7,615)	(8,698)	(9,938)
Gross profit	2,016	2,750	3,391	3,892	4,476
Gross margin	29.7%	29.8%	30.8%	30.9%	31.1%
Other income	44	96	18	18	18
Selling & distribution	(219)	(370)	(419)	(479)	(548)
Admin	(807)	(1,086)	(1,217)	(1,375)	(1,549)
R&D	(345)	(567)	(671)	(767)	(877)
Other opex	(88)	(82)	(99)	(113)	(130)
Total opex	(1,459)	(2,105)	(2,406)	(2,735)	(3,103)
Operating profit (EBIT)	601	742	1,003	1,176	1,391
Operating margin	8.9%	8.0%	9.1%	9.3%	9.6%
Provisions	20	(6)	0	0	0
Finance costs	(96)	(103)	(113)	(113)	(113)
Profit after financing costs	525	633	890	1,063	1,278
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	525	633	890	1,063	1,278
Tax	(115)	(71)	(133)	(160)	(192)
Minority interests	32	4	(4)	(5)	(5)
Adj. Net profit	448	566	753	899	1,081
YoY%	88	26	33	20	20
Net margin	6.6%	6.1%	6.8%	7.1%	7.5%
Reported Net profit	442	566	753	899	1,081
EBITDA	740	871	1,126	1,300	1,510
EBITDA margin	10.9%	9.4%	10.2%	10.3%	10.5%
EPS (RMB)	0.187	0.216	0.254	0.304	0.365
YoY%	66	16	18	20	20
DPS (HK\$)	0.014	0.018	0.021	0.025	0.030
Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Cash Flow (RMB mn)					
EBITDA	740	871	1,126	1,300	1,510
Chg in working cap	(418)	(698)	(103)	(75)	(88)
Others	44	0	0	0	0
Operating cash	366	173	1,023	1,225	1,422
Tax	(74)	(130)	(158)	(133)	(160)
Net cash from operations	292	43	866	1,092	1,263
Capex	(304)	(231)	(275)	(315)	(360)
Investments	(48)	(48)	(57)	(66)	(75)
Dividends received	2	0	0	0	0
Sales of assets	70	0	0	0	0
Interests received	5	0	0	0	0
Others	24	0	0	0	0
Investing cash	(251)	(279)	(333)	(381)	(436)
FCF	41	(237)	533	711	827
Issue of shares	716	133	0	0	0
Buy-back	0	0	0	0	0
Minority interests	(202)	0	0	0	0
Dividends paid	0	(24)	(33)	(44)	(53)
Net change in bank loans	(444)	299	0	0	0
Interests paid	(88)	(103)	(113)	(113)	(113)
Others	3	(3)	0	0	0
Financing cash	(14)	302	(146)	(157)	(166)
Net change in cash	27	65	387	554	661
Exchange rate or other Adj	6	421	0	0	0
Opening cash	1,266	1,299	1,785	2,173	2,727
Closing cash	1,299	1,785	2,173	2,727	3,388
CFPS (HK\$)	0.140	0.019	0.336	0.424	0.491

Source: Company, OP Research

Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Ratios					
Gross margin (%)	29.7	29.8	30.8	30.9	31.1
Operating margin (%)	8.9	8.0	9.1	9.3	9.6
Adj. Net margin (%)	6.6	6.1	6.8	7.1	7.5
Selling & dist'n exp/Sales (%)	3.2	4.0	3.8	3.8	3.8
Admin exp/Sales (%)	11.9	11.8	11.1	10.9	10.7
R&D exp/Sales (%)	5.1	6.1	6.1	6.1	6.1
Payout ratio (%)	6.4	7.3	7.3	7.3	7.3
Effective tax (%)	21.9	11.3	15.0	15.0	15.0
Total debt/equity (%)	32.8	32.9	28.9	25.2	21.9
Net debt/equity (%)	2.4	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.02	2.53	2.57	2.62	2.67
Quick ratio (x)	2.01	2.52	2.56	2.61	2.66
Inventory T/O (days)	2	1	1	1	1
AR T/O (days)	114	78	78	78	78
AP T/O (days)	92	89	89	89	89
Cash conversion cycle (days)	23	(10)	(10)	(10)	(10)
Asset turnover (x)	1.00	1.16	1.19	1.22	1.25
Financial leverage (x)	1.81	1.69	1.67	1.63	1.59
EBIT margin (%)	8.9	8.0	9.1	9.3	9.6
Interest burden (x)	0.87	0.85	0.89	0.90	0.92
Tax burden (x)	0.85	0.89	0.85	0.85	0.85
Return on equity (%)	11.9	12.0	13.6	14.2	14.9
ROIC (%)	11.1	13.8	16.0	17.8	19.8
Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Balance Sheet (RMB mn)					
Fixed assets	820	853	1,065	1,313	1,602
Intangible assets & goodwill	1,240	1,176	1,173	1,182	1,209
Associated companies & JVs	104	133	133	133	133
Long-term investments	0	0	0	0	0
Other non-current assets	138	141	141	141	141
Non-current assets	2,302	2,303	2,512	2,768	3,085
Inventories	21	26	31	35	40
AR	2,116	1,972	2,348	2,686	3,075
Prepayments & deposits	1	1	1	1	1
Other current assets	1,491	2,665	2,665	2,665	2,665
Cash	1,299	1,785	2,173	2,727	3,388
Current assets	4,927	6,449	7,217	8,114	9,169
AP	1,204	1,584	1,858	2,122	2,425
Tax	130	158	133	160	192
Accruals & other payables	1	20	24	28	32
Bank loans & leases	922	686	686	686	686
CB & othe debts	38	59	59	59	59
Other current liabilities	143	45	45	45	45
Current liabilities	2,439	2,552	2,805	3,099	3,438
Bank loans & leases	194	0	0	0	0
CB & othe debts	244	954	954	954	954
Deferred tax & others	19	16	16	16	16
MI	68	64	68	72	78
Non-current liabilities	526	1,034	1,037	1,042	1,047
Total net assets	4,264	5,166	5,886	6,741	7,768
Shareholder's equity	4,264	5,166	5,886	6,741	7,768
Share capital	106	110	110	110	110
Reserves	4,158	5,056	5,775	6,630	7,658
BVPS (HK\$)	2.12	2.47	2.82	3.23	3.72
Total debts	1,399	1,699	1,699	1,699	1,699
Net cash/(debts)	(100)	87	474	1,028	1,690

Exhibit 4: Peer Group Comparison

		Mkt	3-mth	PER				EPS	EPS					P/B	P/B	EV/	EV/	Net	Gross	Net				Sh px	
		cap	avg t/o	Hist	PER	PER		FY1	FY2	3-Yr	EPS	PEG	Div yld	Div yld	Hist	FY1	Ebitda	Ebitda	gearing	margin	margin	ROE	ROE	Sh px	3-mth
Company	Ticker	Price (US\$m)	(US\$m)	(x)	FY1 (x)	FY2 (x)	YoY%	YoY%	Cagr (%)	(x)	Hist (%)	FY1 (%)	(x)	(x)	Hist	Cur Yr	Hist (%)	Hist (%)	Hist (%)	Hist (%)	FY1 (%)	1-mth %	%		
Chinasoft Intl	354 HK	5.57	1,706	16.8	28.0	23.8	19.9	17.8	19.5	19.2	1.24	0.3	0.3	2.81	2.47	19.1	14.4	Net cash	29.8	6.1	12.0	13.6	(10.6)	(1.9)	
HSI		30,007.68			12.6	11.6	10.5	8.6	10.7	10.3	1.12	3.5	3.6	1.39	1.27						11.0	10.9	(1.8)	(9.5)	
HSCEI		11,949.38			9.5	7.8	7.1	21.0	10.5	14.4	0.55	3.5	4.2	1.07	0.94						11.3	12.0	(2.0)	(12.9)	
CSI300		3,755.49			14.6	12.5	10.8	17.1	15.4	5.5	2.29	1.9	2.4	1.86	1.64						12.7	13.1	(3.2)	(14.3)	
Adjusted sector avg*					23.4	21.6	19.1	(1.2)	12.7	13.3	1.69	0.9	1.2	3.67	3.37	14.9	12.9	0.0	35.3	16.2	15.1	17.3	4.4	1.3	
Infosys Ltd	INFO IN	1,179.80	38,568	89.0	16.6	17.0	15.5	(2.1)	9.2	6.0	2.85	2.4	3.9	3.95	3.77	12.2	11.5	0.0	36.0	22.7	23.9	22.8	2.1	0.4	
Tata Consultancy	TCS IN	3,523.95	100,966	123.0	26.3	23.4	21.2	12.3	10.4	11.2	2.08	1.4	1.8	7.73	6.67	19.5	17.3	0.0	42.1	21.0	29.4	30.4	25.1	12.9	
Cognizant Tech-A	CTSH US	80.91	47,405	289.9	31.9	17.8	15.7	79.2	13.1	30.4	0.59	0.8	0.9	4.46	3.90	14.8	11.2	0.0	38.2	10.2	14.1	20.4	(0.9)	3.2	
Wipro Ltd-Adr	WIT US	4.88	22,077	7.9	N/A	17.7	16.4	N/A	8.1	N/A	N/A	0.3	1.9	N/A	N/A	12.7	11.9	0.0	29.2	14.7	16.0	17.2	(6.5)	(13.5)	
Travelsky Tech-H	696 HK	22.15	8,260	9.8	23.2	19.4	16.5	19.4	17.6	16.1	1.21	1.2	1.8	3.39	2.99	15.3	12.8	0.0	N/A	33.4	15.4	16.3	(6.3)	(13.0)	
Kingdee Intl Sft	268 HK	7.33	3,057	40.9	53.5	49.2	36.5	8.7	35.0	28.1	1.75	N/A	0.2	4.30	3.92	23.7	22.3	0.0	81.5	13.5	8.3	8.2	(11.0)	39.4	
Neusoft Corp-A	600718 CH	16.39	3,220	44.1	19.1	34.4	29.1	(44.5)	18.0	(12.0)	N/A	0.6	0.5	2.28	2.24			0.0	31.0	15.0	12.7	6.2	28.1	17.9	

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

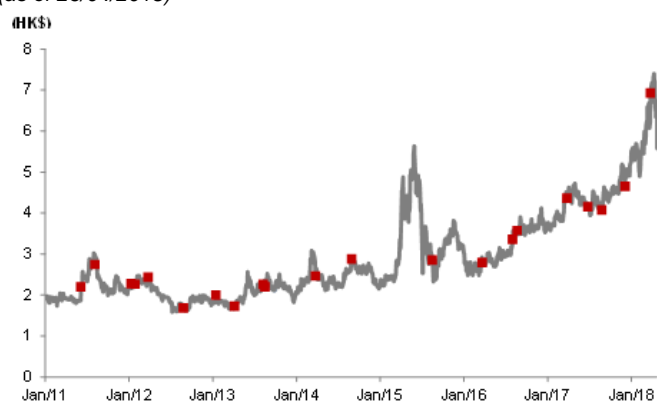
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
26/04/2018	Ju Teng Intl	3336	Waiting for the next growth driver	BUY	Yuji Fung/Dallas Cai
25/04/2018	CH Display OPT	334	1Q18 sales drop on weak demand	BUY	Yuji Fung/Dallas Cai
19/04/2018	361 Degrees International	1361	1Q18 operating data on track	BUY	Yuji Fung/Dallas Cai
17/04/2018	China Innovationpay	8083	Upgrade on completion of acquisition conditions	BUY	Yuji Fung/Dallas Cai
13/04/2018	China Innovationpay	8083	Proposed new company name - China Youzan Limited (“中國有贊”)	BUY	Yuji Fung/Dallas Cai
13/04/2018	TCL Multimedia	1070	1Q18 shipments ahead of expectations	BUY	Yuji Fung/Dallas Cai
11/04/2018	Sunny Optical	2382	March saw robust HLS shipments growth	BUY	Yuji Fung/Dallas Cai
10/04/2018	Q Tech	1478	March shipments on track	BUY	Yuji Fung/Dallas Cai
10/04/2018	Truly Intl	732	FY17 results miss on weak smartphone products	BUY	Yuji Fung/Dallas Cai
10/04/2018	China Innovationpay	8083	FY17 results in-line with expectations	BUY	Yuji Fung/Dallas Cai
09/04/2018	Sinosoft Tech	1297	Low-carbon product collaborates with Huawei	BUY	Yuji Fung/Dallas Cai
06/04/2018	TCL Multimedia	1070	FY17 results beat expectations	BUY	Yuji Fung/Dallas Cai
28/03/2018	Tongda	698	Buy on the dips	BUY	Yuji Fung/Dallas Cai
28/03/2018	Q Tech	1478	Ample room for FY18E growth	BUY	Yuji Fung/Dallas Cai
28/03/2018	Sunny Optical	2382	Better margin is in focus	BUY	Yuji Fung/Dallas Cai
28/03/2018	CH Display OPT	334	2H17 results miss on higher equity based employee expenses	BUY	Yuji Fung/Dallas Cai
28/03/2018	Sinosoft Tech	1297	FY17 results in line with expectation	BUY	Yuji Fung/Dallas Cai
28/03/2018	Chinasoft Intl	354	Upgrade on the soaring FY17 results	BUY	Yuji Fung/Dallas Cai
21/03/2018	361 Degrees International	1361	eSports targets young, goes global	BUY	Yuji Fung/Dallas Cai
21/03/2018	Kingdee Intl	268	Downgrade on fair valued	HOLD	Yuji Fung/Dallas Cai
14/03/2018	361 Degrees International	1361	Runner-up deserves a medal	BUY	Yuji Fung/Dallas Cai
23/02/2018	Sunny Optical	2382	FY17E net profits beat expectations	BUY	Yuji Fung/Dallas Cai
22/02/2018	Taste Gourmet	8371	Value for money in multi-brand play	Not Rated	Yuji Fung/Dallas Cai
09/02/2018	CWT International	521	New name, new era from New Year	BUY	Yuji Fung
06/02/2018	China Innovationpay	8083	Reborn as leading cloud-based e-commerce solution provider	BUY	Yuji Fung/Dallas Cai
11/01/2018	Q Tech	1478	December shipments on track	BUY	Yuji Fung
04/01/2018	China Innovationpay	8083	An undervalued unicorn	Not Rated	Yuji Fung

Historical recommendations and target price: Chinasoft Intl (354 HK)

(as of 26/04/2018)



	DATE	RATING	TP	CLOSE		DATE	RATING	TP	CLOSE
1	29 Aug 2012	HOLD	2.1	1.69	9	24 Mar 2016	HOLD	3.04	2.79
2	17 Jan 2013	HOLD	2.3	1.99	10	04 Aug 2016	HOLD	4.50	3.36
3	09 Apr 2013	HOLD	2.2	1.73	11	24 Aug 2016	BUY	5.80	3.57
4	12 Aug 2013	HOLD	2.2	2.25	12	29 Mar 2017	BUY	6.67	4.36
5	20 Aug 2013	HOLD	1.9	2.19	13	28 Jun 2017	BUY	6.20	4.15
6	28 Mar 2014	HOLD	2.70	2.46	14	28 Aug 2017	BUY	6.30	4.07
7	02 Sep 2014	HOLD	3.40	2.87	15	07 Dec 2017	BUY	7.50	4.65
8	20 Aug 2015	BUY	3.30	2.85	16	28 Mar 2018	BUY	8.80	6.93

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Buy (B)	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
Sell (S)	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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