

## Equities



## HONG KONG

354 HK Outperform

Price (at 13:50, 28 Mar 2017 GMT) HK\$4.37

Valuation HK\$ 5.60  
- PER

12-month target HK\$ 5.60

Upside/Downside % +28.1

12-month TSR % +28.6

Volatility Index High

GICS sector Software &amp; Services

Market cap HK\$m 10,452

Market cap US\$m 1,346

Free float % 86

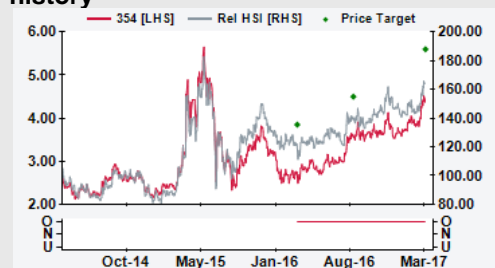
30-day avg turnover US\$m 14.1

Number shares on issue m 2,392

## Investment fundamentals

Year end 31 Dec		2016A	2017E	2018E	2019E
Revenue	m	6,783	8,667	9,985	11,545
EBIT	m	645	871	1,043	1,318
EBIT growth	%	23.5	35.0	19.8	26.3
Reported profit	m	442	520	628	869
Adjusted profit	m	442	520	628	869
EPS rep	Rmb	0.19	0.22	0.26	0.36
EPS rep growth	%	40.8	15.5	20.8	38.4
EPS adj	Rmb	0.19	0.22	0.26	0.36
EPS adj growth	%	40.5	16.0	20.8	38.4
PER rep	x	20.6	17.9	14.8	10.7
PER adj	x	20.7	17.9	14.8	10.7
Total DPS	Rmb	0.01	0.02	0.03	0.04
Total div yield	%	0.3	0.4	0.7	1.1
ROA	%	9.5	11.0	11.3	12.3
ROE	%	11.8	11.5	12.3	14.9
EV/EBITDA	x	10.7	8.0	6.8	5.5
Net debt/equity	%	1.4	6.4	6.7	4.3
P/BV	x	2.0	1.8	1.6	1.3

## 354 HK rel HSI performance, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2017

(all figures in Rmb unless noted, TP in HKD)

## Analyst(s)

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29 March 2017

Macquarie Capital Limited

# Chinasoft International

## X'ian to Embark on New Silk Road

### Conclusion

- Chinasoft held an analyst call on 3/28, highlighting its growth potential with JointForce and its earnings growth from key telco and financial customers. We remain positive on Chinasoft's long-term growth outlook, driven by its strong development in X'ian and broadened global presence.
- We forecast Chinasoft to achieve 25% 3-year earnings CAGR in 2016-19E, driven by higher utilization of its growing employee base, and on expansion of its solution offerings including big data and cloud analytics.

### Impact

- Chinasoft reported 32% YoY sales growth in FY16, to Rmb6.8bn, driven by 86% YoY order growth from Huawei, to Rmb3.6bn. NP was Rmb442m, +58% YoY and 7% above our forecast; adjusted NP (excluding disposal gains, share options and fair-value changes) rose 96% YoY to Rmb493m. It also declared a HK\$0.012 dividend (FY15: nil).
- Chinasoft added over 15k employees in 2016, as the company looks to develop new campuses in X'ian and Changsha, to meet Huawei's new projects for industrial parks. We expect Chinasoft to utilize its rising employee base to meet demand from IT outsourcing and remotely managed projects, as it expands customer coverage along the one road one belt countries.
- Chinasoft is also evaluating changes to JointForce's revenue model, to a membership driven, fee-based model, with fees charged to participating teams and contractors. This may help the company improve GMV and profitability in 2017, after recording Rmb90m revenue and ~Rmb10m loss in 2016.

### Earnings and target price revision

- We are revising our 2017/18E earnings by 3%/(2%). We see sustained sales and earnings growth from its key customers. We are raising our target price to HK\$5.60 (from HK\$4.50), as we roll forward our 12-month valuation to 18x 2018E PER (from 18x 2017E).

### Price catalyst

- 12-month price target: HK\$5.60 based on a PER methodology.
- Catalyst: 1) Better earnings growth from its key customers and new services introduction; 2) rising sales of big data to financials and government entities; 3) GMV momentum on its JointForce platform, after introduction of the membership structure.

### Action and recommendation

- We maintain our Outperform rating on Chinasoft. We expect Chinasoft to achieve 25% 3-year CAGR in 2016-19E, driven by both organic growth and expansion into new customers from its new delivery centers worldwide.
- We believe rising interest from Shenzhen-Hong Kong Connect may allow Chinasoft to benefit from higher share price liquidity; ADTV reached US\$13.8m over the past 30 days.

#### Path to 100% Upside

We view Chinasoft International as an Emerging Leader that can potentially generate a 100% return over three years. See inside for details

#### Macquarie Governance and Risk Score (MGRS)

On our proprietary [Governance and Risk Score](#) Chinasoft International scores in the third quartile of our current universe coverage.

## Financial Summary

**Fig 1 Chinasoft – P&L (Rmb m)**

<b>Profit And Loss</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
<b>Sales Revenue</b>	<b>6,783</b>	<b>8,667</b>	<b>9,985</b>	<b>11,545</b>
Gross Profit	2,016	2,515	2,821	3,252
COGS	4,768	6,152	7,164	8,292
<b>EBITDA</b>	<b>790</b>	<b>1,055</b>	<b>1,245</b>	<b>1,540</b>
Depreciation	56	72	83	96
Amortisation - Goodwill	0	0	0	0
Other Amortisation	89	113	120	127
<b>Total EBIT</b>	<b>645</b>	<b>871</b>	<b>1,043</b>	<b>1,318</b>
Net Interest Expense	96	66	78	90
Share of Associate P/L	0	0	0	0
Exceptions	0	0	0	0
Forex gains (loss)	0	0	0	0
Other pre-tax income	-25	-132	-143	-91
<b>Pre-Tax Profit</b>	<b>525</b>	<b>672</b>	<b>821</b>	<b>1,136</b>
Tax Expense	115	94	123	170
<b>Net Profit After Tax</b>	<b>410</b>	<b>578</b>	<b>698</b>	<b>966</b>
Minority Interest	-32	58	70	97
<b>Reported Earnings</b>	<b>442</b>	<b>520</b>	<b>628</b>	<b>869</b>
<b>Adjusted Earnings</b>	<b>442</b>	<b>520</b>	<b>628</b>	<b>869</b>

Source: Company data, Macquarie Research, March 2017

**Fig 2 Chinasoft – P&L ratios**

	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
Revenue Growth	32%	28%	15%	16%
EBITDA Growth	19%	34%	18%	24%
EBIT Growth	24%	35%	20%	26%
Gross Profit Margin	30%	29%	28%	28%
EBITDA Margin	12%	12%	12%	13%
EBIT Margin	10%	10%	10%	11%
Net Profit Margin	7%	6%	6%	8%

Source: Company data, Macquarie Research, March 2017

**Fig 3 Chinasoft – Balance sheet (Rmb m)**

<b>Balance Sheet</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
Cash	1,300	1,345	1,585	1,980
Receivables	2,093	2,581	3,029	3,502
Inventories	21	35	40	47
Investment	0	0	0	0
Fixed Assets	820	1,109	1,391	1,706
Goodwill	1,008	1,054	1,100	1,146
Other	1,988	2,464	2,767	3,164
<b>Total Assets</b>	<b>7,229</b>	<b>8,587</b>	<b>9,913</b>	<b>11,545</b>
Trade Payables	1,335	1,759	2,051	2,374
Short term Debt	922	1,578	1,863	2,148
Long Term Debt	439	83	98	113
Provisions	0	0	0	0
Other Liabilities	200	256	293	335
<b>Total Liabilities</b>	<b>2,897</b>	<b>3,677</b>	<b>4,305</b>	<b>4,971</b>
Shareholders Fund	4,264	4,784	5,412	6,282
Minority Interest	68	126	196	293
Other	0	0	0	0
<b>Total S/H Equity</b>	<b>4,333</b>	<b>4,910</b>	<b>5,608</b>	<b>6,574</b>
<b>Total Liab &amp; S/H Fund</b>	<b>7,229</b>	<b>8,587</b>	<b>9,913</b>	<b>11,545</b>

Source: Company data, Macquarie Research, March 2017

**Fig 4 Chinasoft – Working capital days**

	2016A	2017E	2018E	2019E
Inventory days	2	2	2	2
A/R days	113	106	108	108
AP days	102	102	102	102
Total WC days	12	6	8	8

Source: Company data, Macquarie Research, March 2017

**Fig 5 Chinasoft – Cash flow statement (Rmb m)**

Cashflow Analysis	2016E	2017E	2018E	2019E
<b>EBITDA</b>	<b>790</b>	<b>1,055</b>	<b>1,245</b>	<b>1,540</b>
Tax Paid	115	94	123	170
Change in Working Cap	310	564	487	541
Net Interest Paid	0	0	0	0
Others	36	-103	-108	-51
<b>Operating Cash Flow</b>	<b>400</b>	<b>294</b>	<b>527</b>	<b>778</b>
Acquisitions	0	0	0	0
Capex	243	452	456	501
Asset Sales	0	0	0	0
Others	-296	4	4	5
<b>Investing Cash flow</b>	<b>-539</b>	<b>-448</b>	<b>-452</b>	<b>-496</b>
Dividend (ordinary)	0	0	0	0
Equity Raised	0	0	0	0
Debt Movements	172	199	166	113
Others	0	0	0	0
<b>Financing Cash flow</b>	<b>172</b>	<b>199</b>	<b>166</b>	<b>113</b>
<b>Net Chg in Cash/debt</b>	<b>33</b>	<b>45</b>	<b>240</b>	<b>395</b>
FCF	157	-158	71	277

Source: Company data, Macquarie Research, March 2017

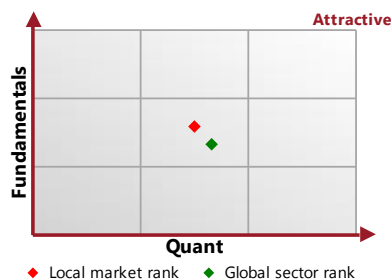
## Macquarie Quant View

The quant model currently holds a neutral view on Chinasoft International. The strongest style exposure is Price Momentum, indicating this stock has had strong medium to long term returns which often persist into the future. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

**351/783**

Global rank in  
Software & Services

% of BUY recommendations 100% (5/5)  
Number of Price Target downgrades 0  
Number of Price Target upgrades 0

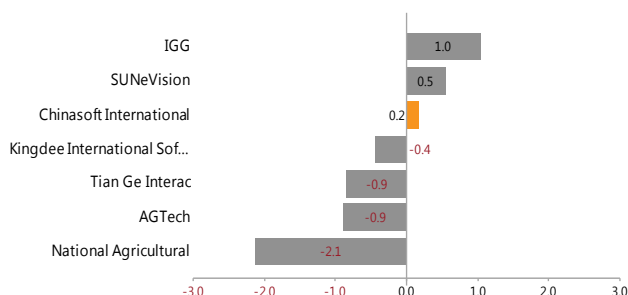


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Hong Kong) and Global sector (Software & Services)

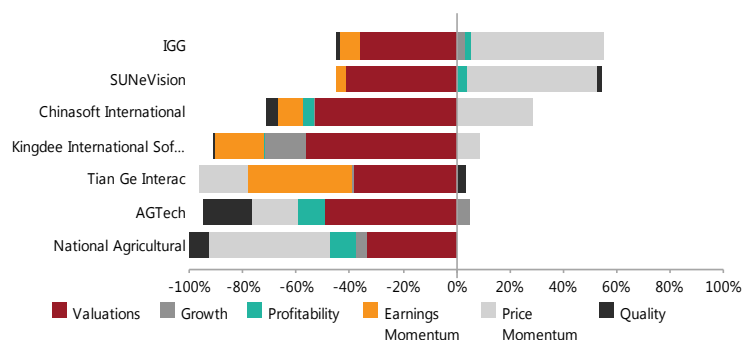
## Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



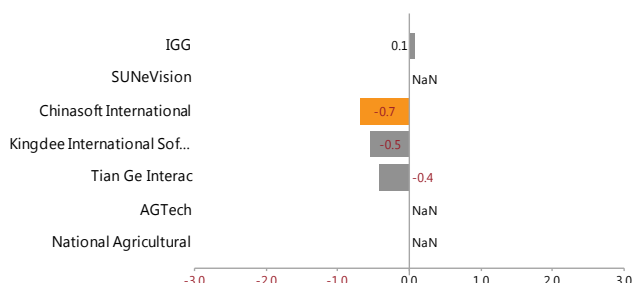
## Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



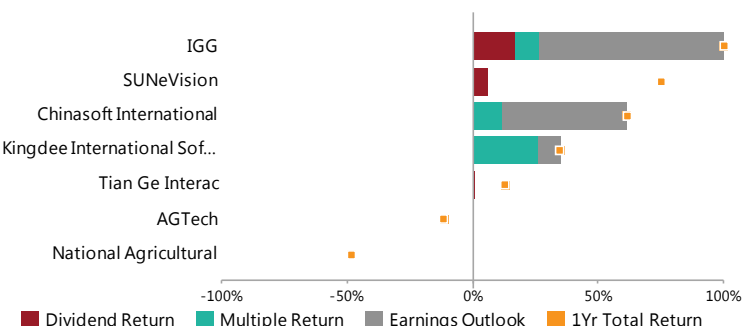
## Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



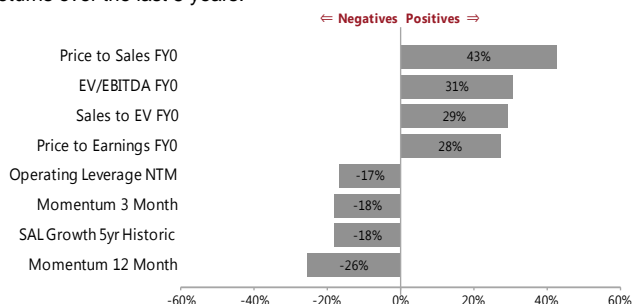
## Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



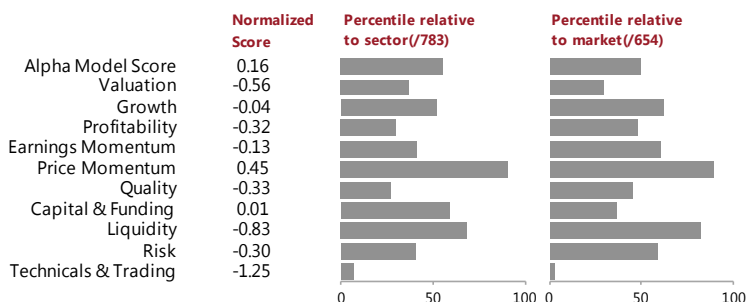
## What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



## How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group ([cpq@macquarie.com](mailto:cpq@macquarie.com))

**Chinasoft International (354 HK, Outperform, Target Price: HK\$5.60)**

Interim Results						Profit & Loss					
		2H/16A	1H/17E	2H/17E	1H/18E			2016A	2017E	2018E	2019E
Revenue	m	3,898	3,900	4,767	4,493	Revenue	m	6,783	8,667	9,985	11,545
Gross Profit	m	1,213	1,132	1,383	1,269	Gross Profit	m	2,016	2,515	2,821	3,252
Cost of Goods Sold	m	2,685	2,768	3,384	3,224	Cost of Goods Sold	m	4,768	6,152	7,164	8,292
EBITDA	m	572	475	580	560	EBITDA	m	790	1,055	1,245	1,540
Depreciation	m	33	32	39	37	Depreciation	m	56	72	83	96
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	47	51	62	54	Other Amortisation	m	89	113	120	127
EBIT	m	492	392	479	469	EBIT	m	645	871	1,043	1,318
Net Interest Income	m	-57	-30	-37	-35	Net Interest Income	m	-96	-66	-78	-90
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	-30	-34	-98	-38	Other Pre-Tax Income	m	-25	-132	-143	-91
Pre-Tax Profit	m	405	328	344	396	Pre-Tax Profit	m	525	672	821	1,136
Tax Expense	m	-67	-42	-52	-55	Tax Expense	m	-115	-94	-123	-170
Net Profit	m	338	286	292	341	Net Profit	m	410	578	698	966
Minority Interests	m	15	-26	-32	-31	Minority Interests	m	32	-58	-70	-97
Reported Earnings	m	353	260	260	310	Reported Earnings	m	442	520	628	869
Adjusted Earnings	m	353	260	260	310	Adjusted Earnings	m	442	520	628	869
EPS (rep)	fen	14.9	10.8	10.8	12.9	EPS (rep)	fen	18.8	21.7	26.2	36.2
EPS (adj)	fen	14.9	10.8	10.8	12.9	EPS (adj)	fen	18.7	21.7	26.2	36.2
EPS Growth yoy (adj)	%	78.5	183.2	-27.0	19.2	EPS Growth (adj)	%	40.5	16.0	20.8	38.4
						PE (rep)	x	20.6	17.9	14.8	10.7
						PE (adj)	x	20.7	17.9	14.8	10.7
EBITDA Margin	%	14.7	12.2	12.2	12.5	Total DPS	fen	1.1	1.6	2.6	4.4
EBIT Margin	%	12.6	10.0	10.0	10.4	Total Div Yield	%	0.3	0.4	0.7	1.1
Earnings Split	%	79.8	49.9	50.1	49.3	Basic Shares Outstanding	m	2,173	2,173	2,173	2,173
Revenue Growth	%	42.3	35.2	22.3	15.2	Diluted Shares Outstanding	m	2,357	2,400	2,400	2,400
EBIT Growth	%	48.5	156.2	-2.7	19.8						
Profit and Loss Ratios						Cashflow Analysis					
		2016A	2017E	2018E	2019E			2016A	2017E	2018E	2019E
Revenue Growth	%	32.3	27.8	15.2	15.6	EBITDA	m	790	1,055	1,245	1,540
EBITDA Growth	%	18.7	33.6	18.0	23.7	Tax Paid	m	-115	-94	-123	-170
EBIT Growth	%	23.5	35.0	19.8	26.3	Chgs in Working Cap	m	-310	-564	-487	-541
Gross Profit Margin	%	29.7	29.0	28.3	28.2	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	11.6	12.2	12.5	13.3	Other	m	36	-103	-108	-51
EBIT Margin	%	9.5	10.0	10.4	11.4	Operating Cashflow	m	400	294	527	778
Net Profit Margin	%	6.5	6.0	6.3	7.5	Acquisitions	m	0	0	0	0
Payout Ratio	%	5.8	7.4	9.8	12.3	Capex	m	-243	-452	-456	-501
EV/EBITDA	x	10.7	8.0	6.8	5.5	Asset Sales	m	0	0	0	0
EV/EBIT	x	13.1	9.7	8.1	6.4	Other	m	-296	4	4	5
Balance Sheet Ratios						Investing Cashflow	m	-539	-448	-452	-496
ROE	%	11.8	11.5	12.3	14.9	Dividend (Ordinary)	m	0	0	0	0
ROA	%	9.5	11.0	11.3	12.3	Equity Raised	m	0	0	0	0
ROIC	%	13.2	17.0	17.0	18.7	Debt Movements	m	172	199	166	113
Net Debt/Equity	%	1.4	6.4	6.7	4.3	Other	m	0	0	0	0
Interest Cover	x	6.7	13.1	13.3	14.6	Financing Cashflow	m	172	199	166	113
Price/Book	x	2.0	1.8	1.6	1.3	Net Chg in Cash/Debt	m	33	45	240	395
Book Value per Share		2.0	2.2	2.5	2.9	Free Cashflow	m	157	-158	71	277
						Balance Sheet					
		2016A	2017E	2018E	2019E			2016A	2017E	2018E	2019E
Cash	m	1,300	1,345	1,585	1,980	Cash	m	1,300	1,345	1,585	1,980
Receivables	m	2,093	2,581	3,029	3,502	Receivables	m	2,093	2,581	3,029	3,502
Inventories	m	21	35	40	47	Inventories	m	21	35	40	47
Investments	m	0	0	0	0	Investments	m	0	0	0	0
Fixed Assets	m	820	1,109	1,391	1,706	Fixed Assets	m	820	1,109	1,391	1,706
Intangibles	m	1,008	1,054	1,100	1,146	Intangibles	m	1,008	1,054	1,100	1,146
Other Assets	m	1,988	2,464	2,767	3,164	Other Assets	m	1,988	2,464	2,767	3,164
Total Assets	m	7,229	8,587	9,913	11,545	Total Assets	m	7,229	8,587	9,913	11,545
Payables	m	1,335	1,759	2,051	2,374	Payables	m	1,335	1,759	2,051	2,374
Short Term Debt	m	922	1,578	1,863	2,148	Short Term Debt	m	922	1,578	1,863	2,148
Long Term Debt	m	194	83	98	113	Long Term Debt	m	194	83	98	113
Provisions	m	0	0	0	0	Provisions	m	0	0	0	0
Other Liabilities	m	445	256	293	335	Other Liabilities	m	445	256	293	335
Total Liabilities	m	2,897	3,677	4,305	4,971	Total Liabilities	m	2,897	3,677	4,305	4,971
Shareholders' Funds	m	4,264	4,784	5,412	6,282	Shareholders' Funds	m	4,264	4,784	5,412	6,282
Minority Interests	m	68	126	196	293	Minority Interests	m	68	126	196	293
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	4,333	4,910	5,608	6,574	Total S/H Equity	m	4,333	4,910	5,608	6,574
Total Liab & S/H Funds	m	7,229	8,587	9,913	11,545	Total Liab & S/H Funds	m	7,229	8,587	9,913	11,545

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, March 2017

## Important disclosures:

## Recommendation definitions

## Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return  
Neutral – return within 3% of benchmark return  
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

## Macquarie – Asia/Europe

Outperform – expected return >+10%  
Neutral – expected return from -10% to +10%  
Underperform – expected return <-10%

## Macquarie – South Africa

Outperform – expected return >+10%  
Neutral – expected return from -10% to +10%  
Underperform – expected return <-10%

## Macquarie - Canada

Outperform – return >5% in excess of benchmark return  
Neutral – return within 5% of benchmark return  
Underperform – return >5% below benchmark return

## Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
Neutral (Hold) – return within 5% of Russell 3000 index return  
Underperform (Sell) – return >5% below Russell 3000 index return

## Volatility index definition\*

This is calculated from the volatility of historical price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Asia/Australian/NZ/Canada stocks only

## Recommendations – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

## Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

## Recommendation proportions – For quarter ending 31 December 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	57.53%	50.72%	45.57%	42.28%	60.58%	52.79%	(for global coverage by Macquarie, 8.71% of stocks followed are investment banking clients)
Neutral	33.90%	33.97%	43.04%	50.11%	37.23%	35.62%	(for global coverage by Macquarie, 8.05% of stocks followed are investment banking clients)
Underperform	8.56%	15.30%	11.39%	7.61%	2.19%	11.59%	(for global coverage by Macquarie, 4.63% of stocks followed are investment banking clients)

## 354 HK vs HSI, &amp; rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2017

## 12-month target price methodology

354 HK: HK\$5.60 based on a PER methodology

## Company-specific disclosures:

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Date	Stock Code (BBG code)	Recommendation	Target Price
24-Aug-2016	354 HK	Outperform	HK\$4.50
08-Mar-2016	354 HK	Outperform	HK\$3.85

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