

Chinasoft International Ltd ----- Maintain OUTPERFORM

Finding more positives behind the FY16 beat; raise estimates and TP

EPS: ▲ TP: ▲

Sam Li / Research Analyst / 852 2101 6775 / sam.li@credit-suisse.com
 Kyna Wong / Research Analyst / 852 2101 6950 / kyna.wong@credit-suisse.com
 Suzie Xu / Research Analyst / 852 2101 6776 / suzie.xu@credit-suisse.com

- Chinasoft 2H16 revenue/net income of Rmb3.9 bn/Rmb206 mn (up 42%/47% YoY) were 20%/12% above CS estimates, mainly due to better revenue and minority interest, in our view. The company, for the first time in several years, proposed year-end dividends. We held a post-results conference call on 28 March, and will hold NDR meetings for Chinasoft on 29 March.
- We see there are a few more positive signals behind the earnings beat, including strong adjusted NI, solid guidance for 2017, confidence in Huawei business, and declining receivable days and debt amount. We see the business performance as stronger than the reported P&L numbers, and believe it takes time for the market to digest.
- We expect solid earnings, new big project wins and Huawei business mix optimisation to be the major share price catalysts.
- We raise 2017/18E EPS by 4%/7% for higher TPG revenues, and introduce 2019E EPS of Rmb0.36. New TP of HK\$5.5 (from HK\$4.8) is still based on 17.6x P/E but EPS base rolls over by half year.

above Bloomberg estimates, mainly due to better revenue and minority interest, in our view. The company, for the first time in several years proposed year-end dividends of Rmb25 mn (HK\$29 mn), or HK\$0.012 per share. We held a post-results conference call on 28 March, and will hold NDR meetings for Chinasoft on 29 March.

A few more underlying positives

We see there are a few more positive signals behind the earnings beat. Key takeaways: (1) The company calculated that adjusted profit grew 96% YoY to Rmb493 mn, which excluded one-time gains, option expense, forex loss (from loan in USD), and onetime restructure tax. Even excluding the impact of minorities, NI of Rmb461 mn was still higher than the reported Rmb442 mn, (2) The company guided a solid double-digit revenue growth for 2017, and targets Rmb10 bn scale by 2018. We estimate that this implies 20%-plus top-line growth for 2017 and 2018. The company also has guided OPM/NPM to slightly improve, (3) With this guidance, we believe the Rmb560 mn NI target disclosed in the previous backlisting plan is still achievable for Chinasoft in 2017. Considering the much higher option expense (guided ~Rmb160 mn for 2017 vs Rmb45 mn for 2016), adjusted NI could actually be much higher, (4) For investors inquiries on Huawei business, management stated it is expanding solution and overseas businesses with Huawei, and believes Huawei's pursuit for efficiency will still drive the outsourcing business to growth, (5) For Joint Force platform, management guided Rmb600 mn GMV (vs Rmb200 mn in 2016). We still see the platform as a cost saving vehicle rather than top-line driver in the mid-term, and (6) Receivable days declined to 95 days (vs 98 days in 2015), driven by shorter payment periods at both Huawei and other clients. Debt amount has also declined.

Catalysts

We expect solid earnings, new big project wins, and Huawei business mix optimisation to be the major share price catalysts.

Raise estimates and TP

We raise 2017/18E EPS by 4%/7% for higher TPG revenues, and introduce 2019E EPS of Rmb0.36. New TP of HK\$5.5 is still based on 17.6x P/E but EPS base rolls over by half year. Maintain OUTPERFORM.

Key downside risks: Weaker-than-expected demand for outsourcing/IT services, margin downsides from wage inflation or client concentration risk, and future EPS dilution from CB or equity placement.

Bbg/RIC	354 HK / 0354.HK	Price (28 Mar 17, HK\$)	4.37		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	5.50 (4.80)		
Shares outstanding (mn)	2,391.67	Est. pot. % chg. to TP	26		
Daily trad vol - 6m avg (mn)	15.5	52-wk range (HK\$)	4.52 - 2.70		
Daily trad val - 6m avg (US\$ mn)	7.8	Mkt cap (HK\$/US\$ mn)	10,451.6/ 1,345.5		
Free float (%)	81.8	Performance	1M	3M	12M
Major shareholders	Yuhong Chen	Absolute (%)	13.8	22.1	56.1
		Relative (%)	11.6	6.4	34.4
Year	12/15A	12/16A	12/17E	12/18E	12/19E
Revenue (Rmb mn)	5,129	6,783	8,321	9,862	11,482
EBITDA (Rmb mn)	573	701	840	1,026	1,207
Net profit (Rmb mn)	280.1	442.1	570.7	722.1	886.3
EPS (CS adj. Rmb)	0.13	0.18	0.23	0.29	0.36
- Change from prev. EPS (%)	n.a.	n.a.	3.6	7.1	13.8
- Consensus EPS (Rmb)	n.a.	n.a.	0.23	0.29	0.32
EPS growth (%)	25.2	39.6	26.4	26.5	22.7
P/E (x)	29.4	21.0	16.6	13.1	10.7
Dividend yield (%)	0	0.3	0.3	0.4	0.5
EV/EBITDA (x)	16.7	12.9	10.3	8.0	6.4
P/B (x)	2.5	2.2	2.0	1.7	1.5
ROE (%)	9.8	11.8	12.6	14.0	15.0
Net debt(cash)/equity (%)	8.5	(4.2)	(12.7)	(18.2)	(23.7)

Note 1: Incorporated in 2000, Chinasoft Intl is a comprehensive provider of end-to-end software and information services, ranging from consulting to solution, outsourcing and IT training.

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2H16 results beat

Chinasoft 2H16 revenue/net income of Rmb3.9 bn/Rmb206 mn (up 42%/47% YoY) were 20%/12% above CS estimates and 19%/21%

Valuation metrics

Company	Ticker	Rating (prev. rating)	Price		TP Chg (%)	Up/dn to TP (%)	Year	EPS Chg(%)		EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE (%)	P/B (x)
			Local	Target				T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+2			
Chinasofti	0354.HK	O (O)	4.37	5.50 (4.80)	15	26	12/17	3.6	7.1	0.23	0.29	26	27	16.6	13.1	0.3	12.6	2.0

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 28-Mar-2017)

Chinasoft International Ltd (0354.HK, HK\$4.37, OUTPERFORM, TP HK\$5.5)

Disclosure Appendix

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3-Year Price and Rating History for Chinasoft International Ltd (0354.HK)

0354.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
16-Mar-16	2.58	3.30	O *
24-Mar-16	2.80	3.60	
08-Aug-16	3.55	4.20	
13-Jan-17	3.65	4.80	

* Asterisk signifies initiation or assumption of coverage.



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Valuation Methodology and Risks: (12 months) for Chinasoft International Ltd (0354.HK)

Method: Our target price of HK\$5.50 for Chinasoft International is based on updated historical average NTM P/E of 17.9x. Our OUTPERFORM rating is based on Chinasoft International's strong growth in IT services for enterprise clients including Huawei and banks, together with stabilized and improving margins.

Risk: Risks to our target price of HK\$5.50 and OUTPERFORM rating for Chinasoft International include: weaker-than-expected demand in OSG/PSG, margin downsides from wage inflations or client concentration risk, higher-than-expected opex for investment in R&D or new businesses and EPS dilutions from CB or equity placement.

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This research report is authored by:

Credit Suisse (Hong Kong) Limited Sam Li ; Kyna Wong ; Suzie Xu

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