

Chinasoft International Ltd ----- Maintain OUTPERFORM**2H16 results beat: Continued to deliver strong earnings**

EPS: ◀▶ TP: ◀▶

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- Chinasoft's 2H16 revenue/net income of Rmb3.9 bn/Rmb206 mn (up 42%/47% YoY) were 20%/12% above our estimates and 19%/21% 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 are hosting a post-results conference call and an NDR for Chinasoft in HK.
- As we expected, Chinasoft continued its strong earnings momentum, and kept delivering the earning targets of the previous A-share backlisting plan. We view Huawei as a major driver of the TPG business, while IIG revenue declined due to a restructuring. The company-adjusted profit grew 96% YoY, receivable days declined three days, and OCF grew 12% YoY.
- We expect solid earnings, new big project wins, and Huawei business mix optimisation to be the major share price catalysts.
- We await more details from management at Chinasoft's analyst briefing on 28 March.

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Continued delivery of strong earnings

As we expected, Chinasoft continued its strong earnings momentum, and kept delivering the earning targets of the previous A-share backlisting plan. Key takeaways: (1) Huawei is a still major top-line driver. FY16 revenue from Huawei grew 86% YoY to Rmb3.6 bn, and accounted for 54% of total revenue (vs 52% in 1H16 and 38% in FY15). Therefore, FY16 TPG revenue grew 45% YoY to Rmb5.5 bn. (2) IIG revenue declined 4% YoY to Rmb1.3 bn, due to the spin-off of the education business and revenue re-classification between TPG and IIG. (3) GP beat our estimate by 24%, but was mostly offset by higher opex, as headcount increased 50% YoY. EBIT only beat by 5% and PBT actually was 2% below our estimate. But the bottom line was helped by an Rmb15 mn minority interest in 2H16 (vs our zero estimate). (4) Chinasoft also provided an adjusted profit analysis, showing excluding non-recurring items; NI grew 96% YoY to Rmb493 mn. (5) Receivable days declined three days YoY to 95 days. And OCF increased 12% YoY to Rmb292 mn.

Catalysts

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

Maintain OUTPERFORM

We await more details from management at Chinasoft's analyst briefing on 28 March. **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.

Figure 1: 2H16 results summary

(Rmb mn)	2H15	2H16	YoY	2H16E	Diff(%)
Sales	2,740	3,898	42.3%	3,255	19.8%
GP	846	1,213	43.4%	977	24.1%
EBIT	249	299	19.8%	283	5.4%
PBT	266	258	-2.7%	262	-1.5%
NI	140	206	46.6%	184	12.1%
GPM	30.9%	31.1%	0.2%	30.0%	1.1%
OPM	9.1%	7.7%	-1.4%	8.7%	-1.0%
NPM	5.1%	5.3%	0.2%	5.6%	-0.4%

Source: Company data, Credit Suisse estimates

Bbg/RIC	354 HK / 0354.HK	Price (27 Mar 17, HK\$)	4.44		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	4.80 (4.80)		
Shares outstanding (mn)	2,391.67	Est. pot. % chg. to TP	8		
Daily trad vol - 6m avg (mn)	15.25	52-wk range (HK\$)	4.52 - 2.70		
Daily trad val - 6m avg (US\$ mn)	7.7	Mkt cap (HK\$/US\$ mn)	10,619.0/	1,367.2	
Free float (%)	81.8	Performance	1M	3M	12M
Major shareholders	Yuhong Chen	Absolute (%)	15.6	24.0	58.6
		Relative (%)	14.0	9.0	37.6
Year	12/15A	12/16A	12/17E	12/18E	12/19E
Revenue (Rmb mn)	5,129	6,140	7,277	8,474	9,684
EBITDA (Rmb mn)	573	703	842	991	1,099
Net profit (Rmb mn)	280.1	419.8	537.0	657.4	759.2
EPS (CS adj. Rmb)	0.13	0.18	0.22	0.28	0.32
- Change from prev. EPS (%)	n.a.	n.a.	0	0	
- Consensus EPS (Rmb)	n.a.	n.a.	0.23	0.29	
EPS growth (%)	25.2	36.0	25.2	22.4	15.5
P/E (x)	29.8	21.9	17.5	14.3	12.4
Dividend yield (%)	0	0	0	0	0
EV/EBITDA (x)	16.9	13.2	10.7	8.6	7.3
P/B (x)	2.6	2.4	2.1	1.8	1.6
ROE (%)	9.8	11.7	12.9	13.8	13.9
Net debt(cash)/equity (%)	8.5	(2.4)	(9.1)	(16.4)	(23.1)

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.

[Click here](#) for detailed financials

2H16 results beat expectations

Chinasoft reported 2H16 results on 27 March after market close. 2H16 revenue/net income of Rmb3.9 bn/Rmb206 mn (up 42%/47% YoY) were 20%/12% above our estimates and 19%/21% above Bloomberg

Valuation metrics

Validation Metrics																		
Company	Ticker	Rating (prev. rating)	Price		TP chg (%)	Up/dn to TP (%)	Year T	EPS chg (%)		EPS		EPS grth (%)		P/E (x)		Div. yld (%) T+1	ROE (%) T+1	P/B (x) T+1
			Local	Target				T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+2			
Chinasoft	0354.HK	O (O)	4.44	4.80 (4.80)	0	8	12/17	0	0	0.22	0.28	25	22	17.5	14.3	—	12.9	2.1

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

Source: Company data, Credit Suisse estimates

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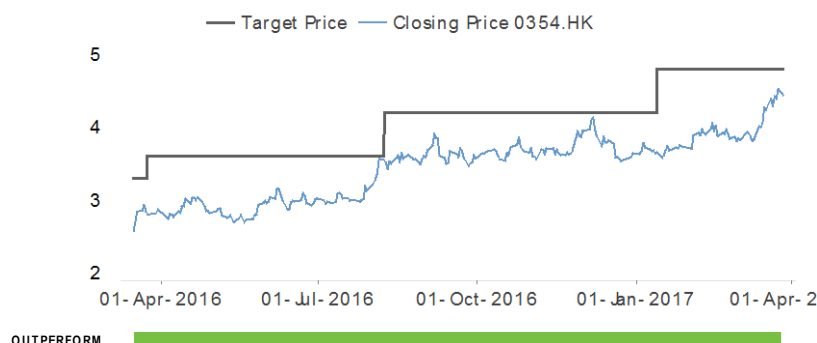
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3-Year Price and Rating History for Chinasoft International Ltd (0354.HK)

0354.HK Date	Closing Price (HK\$)	Target Price (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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Target Price and Rating

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

Method: Our target price of HK\$4.80 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\$4.80 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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