

Chinasoft Intl (0354.HK): Growing Information Innovation business across industrial, government, energy, finance industries; Buy

We believe Chinasoft Intl. is making progress on Information Innovation (pronounced “XinChuang” in Mandarin) for businesses and penetrating customers across multiple industries (industrial, government, energy, finance etc.). The company’s new project wins echo our positive view on its product mix upgrade and diversification of its customer base, with intelligent cloud services contributing over 50% of revenues from 2024E. We have revised up earnings by 1% in 2023-26E, mainly on higher revenues, and update our target multiple accordingly with a new TP of HK\$8.5 (HK\$7.5 previously). Maintain Buy.

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Acceleration of Information Innovation project: Chinasoft Intl. is expanding its Information Innovation industry across government, finance, energy, port, mining projects. SZ KaiHong mainly focuses on OS development, and Chinasoft Intl. provides modules to make devices intelligent, SaaS applications, and implementation services. After setting up SZ KaiHong in Aug 2021 and AIoT business group (ABG) in Sep 2021, SZ KaiHong released a commercial version for finance customers, and recently we have seen accelerated new projects across multiple industries supporting the company’s revenue growth going forward.

- **China Railway Construction Heavy Industry Group project, Dec 2022:** The company recently signed a cooperation agreement with CRCC to upgrade the system of heavy industry equipment based on KaiHong OS, enabling smart operation and management of devices under multiple business scenarios.
- **Wuxi government project, Dec 2022:** Chinasoft Intl. signed an agreement with Wuxi Municipal People’s government to build a KaiHong Innovation Technology Center and set up a Honglian JV to develop projects across smart city, smart transportation, smart healthcare, smart manufacturing, etc.
- **Hebei Social Security Fund project, Nov 2022:** Chinasoft Intl. announced an agreement with Henan Provincial Department of HR and Social Security to build a next-generation social security fund supervision system that meets Information Innovation requirements.

Automotive business in expansion: In Jan 2023, Chinasoft Intl. announced it was partnering with MCC BaoSteel to develop a L4 intelligent autonomous driving system, remote control, and V2X technology for commercial vehicles. The company started automotive business along with Huawei’s expansion to the automotive

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market for OS, software development, and domain controllers, and also provides marketing management systems for car OEMs. We see a growing revenue contribution from the Chinasoft Intl. automotive business, and the company is entering into the commercial vehicle segment first for high level autonomous driving.

Earnings revisions: We raise net income by 1%, mainly on higher revenues to reflect growing Information Innovation projects, supporting growth of both cloud intelligent and IT services business, meanwhile raising the R&D ratio for higher spending on product/solution development.

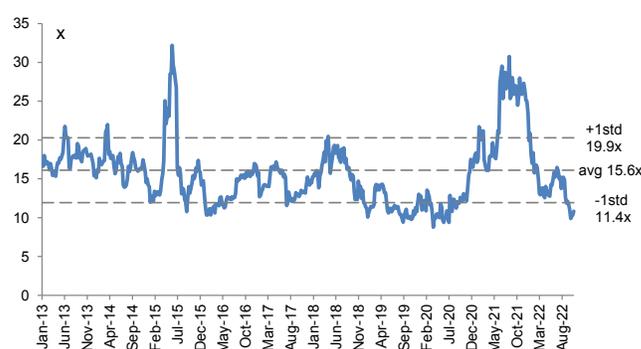
Exhibit 1: Chinasoft Intl. earnings revision

Rmb m	2022E			2023E			2024E			2025E		
	Old	New	Chg									
Revenues	22,509	22,509	0%	26,739	27,455	3%	30,962	31,936	3%	36,211	37,140	3%
GP	5,847	5,847	0%	7,046	7,298	4%	8,417	8,737	4%	10,093	10,360	3%
OP	1,048	1,048	0%	1,484	1,499	1%	2,056	2,076	1%	2,822	2,843	1%
Net income	1,217	1,217	0%	1,457	1,470	1%	1,842	1,858	1%	2,452	2,469	1%
EPS	0.40	0.40	0%	0.48	0.48	1%	0.60	0.61	1%	0.80	0.81	1%
Margins												
GM	26.3%	26.0%		27.4%	26.6%		28.3%	27.4%		28.8%	27.9%	
OPM	4.9%	4.7%		6.1%	5.5%		7.2%	6.5%		8.2%	7.7%	
NM	5.5%	5.4%		6.0%	5.4%		6.6%	5.8%		7.3%	6.6%	

Source: Company data, Goldman Sachs Global Investment Research

Valuation: We are Buy-rated on Chinasoft Intl. with a 12-month target price of HK\$8.5 (vs. previously at HK\$7.5) based on updated 2023E P/E multiple at 15.6x (vs. previously at 14x) which is derived from Chinasoft Intl's historical average trading P/E at 15.6x since 2013 when the company was posting a higher average revenue growth rate of 25% YoY to reflect our positive outlook on the company's revenue growth at 23% YoY in 2023 (vs. previously at 19% YoY).

Exhibit 2: Chinasoft Intl. average trading P/E at 15.6x since 2013



Source: Bloomberg

Downside risks: (1) slower-than-expected diversification of its customer base, (2) stronger-than-expected competition, (3) slower-than-expected investments in R&D, and (4) slower-than-expected product mix upgrade.

We are positive on Chinasoft Intl. given its product mix upgrade and diversifying customer base. We model the revenue contribution of intelligent cloud services and solutions to increase from 36% in 2022E to 55% in 2025E, and revenue growth is mainly driven by growth in consulting total solution and Cloud mgmt. services. The

company's valuation is based on a 15.6x 2023E P/E, in line with company's historical trading range, and we believe the company's current valuation in the lower range is attractive. Risks include (1) slower-than-expected diversification of its customer base, (2) stronger-than-expected competition, (3) slower-than-expected investments in R&D, and (4) slower-than-expected product mix upgrade.

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12m Price Target: **HK\$8.50**Price: **HK\$7.30**Upside: **16.4%****Buy****GS Forecast**

	12/21	12/22E	12/23E	12/24E
Market cap: HK\$21.3bn / \$2.7bn				
Enterprise value:				
HK\$17.3bn / \$2.2bn				
3m ADTV:				
HK\$127.3mn / \$16.3mn				
China				
Greater China Technology				
M&A Rank: 3				
Leases incl. in net debt & EV?:				
No				
Revenue (Rmb mn) New	18,398.1	22,509.3	27,695.9	32,108.3
Revenue (Rmb mn) Old	18,398.1	22,509.3	26,738.9	30,962.5
EBITDA (Rmb mn)	1,177.1	1,528.9	1,950.1	2,521.9
EPS (Rmb) New	0.41	0.42	0.51	0.64
EPS (Rmb) Old	0.41	0.42	0.50	0.63
P/E (X)	23.0	15.1	12.5	9.9
P/B (X)	2.2	1.4	1.3	1.2
Dividend yield (%)	0.3	0.4	0.5	0.6
CROCI (%)	18.9	13.5	13.5	14.2
	6/22	12/22E	6/23E	12/23E
EPS (Rmb)	0.20	0.22	0.27	0.24

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 27 Jan 2023 close.

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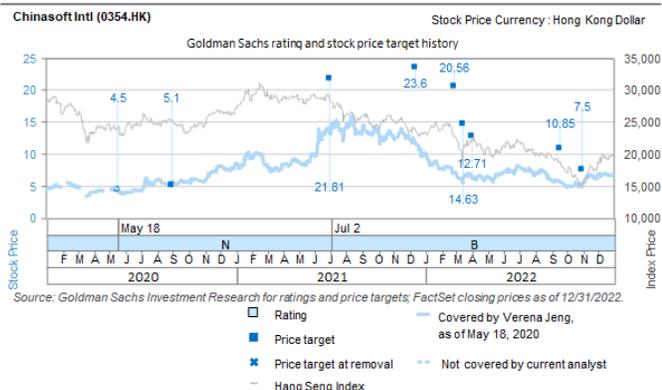
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