

Chinasoft Intl. (0354.HK): JointForce Huawei Harmony Joint Innovation camp expansion: Suzhou, Zhengzhou, Wuzhen in 2 months

Chinasoft Intl. announced on Nov 26 ([link](#)) JointForce Huawei Harmony Joint Innovation camp's further expansion to Suzhou, following Zhengzhou and Wuzhen in Sep 2020. The announcement shows the camp expanding to 3 regions in 2 months and expanding from IoT to IoV, supporting the Huawei Harmony OS ecosystem establishment. It also echoes our positive view of the company's transition from traditional IT services to internet-based IT services, supporting revenue growth and GM expansion. Nevertheless, the revenue concentration to Huawei and lower entry barrier in IT services remain our key concerns. Maintain Neutral.

1. What is the JointForce Huawei Harmony Joint Innovation camp? *Integrate enterprises into the Huawei Harmony ecosystem*

The camp set up by Chinasoft Intl. is to integrate enterprises into the Huawei Harmony ecosystem, which is mainly in IoT or IoV. Chinasoft Intl. helps entities, such as sensor makers, IoT / IoV vendors, to access Huawei Harmony OS, and offers services across training, channels, development, certification. Through the camp, Huawei, Chinasoft Intl's largest customer, could better expand Harmony OS users and accelerate Harmony ecosystem build up.

2. Progress and vision of the camp? *Covered 3 cities currently, and targets to be nation-wide*

The camp launched its first strategic layout in Wuzhen in Sep 2020, and extended to the Zhengzhou High-tech Zone and Suzhou High-speed Rail New City in Nov 2020:

Wuzhen

- Aims at AIoT and IT application innovation industry, enabling entities to do intelligent upgrades, based on Huawei's Harmony OS.
- Chinasoft Intl. to provide IoT enabling services, including (1) **Honglian Cloud Platform**, connecting Harmony, HiLink, HiCar and other Huawei ecosystems on the cloud, along with a package of services across training, access, channels, development, certification, etc., (2) **innovative scenario application platform**, enabling developers to develop IoT solutions via standardized methods and processes, (3) **smart scene exhibition center**, which is an experience hall to display the smart scene via AR / VR, (4) **technical training & collaborative**

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innovation center to help local vendors to innovate IoT solutions, and (5) **testing and certification center** to introduce institutions providing inspection and testing services in electromagnetic, compatibility, wireless communication, system security, etc.

- The development services are mainly to help IoT / IoV vendors to develop IoT / IoV solutions and smart scenario solutions for local companies to realize IT upgrades.

Zhengzhou High-tech Zone

- Same as Wuzhen, aiming on enabling IoT / IoV services in the region based on Huawei Harmony OS.
- Also aims at enabling collaborative innovation, and broaden and deepen the cooperation within the region.

Suzhou High-speed Rail New City

- Focus on IoV; target to develop IoV solutions and promote them nation-wide, enabling Suzhou to be the lead of IoV.
- Similar to Wuzhen and Zhengzhou, Chinasoft Intl. to provide IoV enabling services, including the 2 platforms (Honglian cloud platform and innovative scenario application platform) and 3 centers (smart scene exhibition center, technical training & collaborative innovation center and testing and certification center).
- Chinasoft Intl. also has existing resources in IoV. For example, a research institute focusing on intelligent networked vehicle collaborative innovation. The research institute includes FAW, BAIC, China National Heavy Duty Truck, etc. together offering personnel training, scientific research and commercialized the research achievements.

Chinasoft Intl. expands the camp to three regions within 2 months, and targets to continue expanding the camp nation-wide, accelerating Huawei Harmony ecosystem establishment, and the development of IoT, IoV, Smart Home, Smart Healthcare, etc.

Valuation and risks

Valuation: We have a Neutral rating on Chinasoft Intl. with target price at HK\$5.1. Our target PE multiple is at 8.2x, which is based on the IT Services sector's correlation between PE and EPS growth, and we apply a 55% discount on this multiple to take into consideration Chinasoft's customer concentration risk. We adopt the multiple to 2025E EPS and discount it back to 2021E via an COE (9.0%). Our target price implies a 10.2x 2021E P/E.

Upside risks: 1) Customers expanding IT expenditure to accelerate technology upgrades; 2) faster-than-expected product mix upgrade.

Downside risks: 1) Slower-than-expected diversification of customer base; 2) slower-than-expected GM expansion; 3) modest growth in the number of engineers.

Disclosure Appendix

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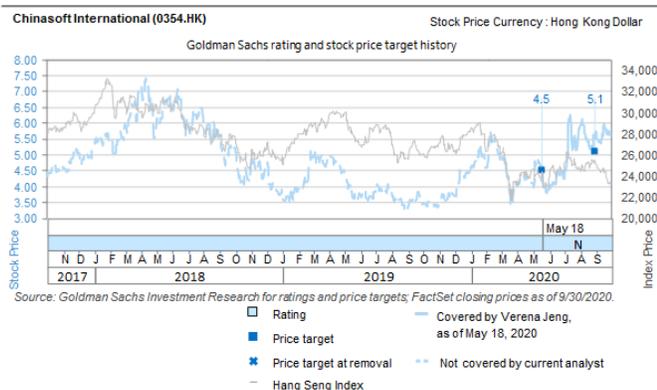
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