

Ongoing healthy business development

Quick Note

Over the past two weeks, we have continued to observe solid business development from Chinasoft: 1) Chinasoft, together with SZ Kai Hong (unlisted), have reached agreements with the Tianjin government on strategic cooperation, with a focus on developing the industrial digital economy with OpenHarmony; 2) Chinasoft has established a strategic partnership with SZ Kai Hong and Qingdao Guochuang (unlisted) to promote intelligence evolution for the smart household appliance industry through OpenHarmony; and 3) Chinasoft has signed an agreement with BYD Auto Industry Co (unlisted, a subsidiary of BYD, 1211 HK) for collaboration in promoting the development of intelligent connected vehicle system. Meanwhile, Chinasoft has been selected as one of initial members of Software Supply Chain Security Lab (3S-LAB) established by CAICT (China Academy of Information and Communications Technology) to work together to establish security guidelines for China's software supply chain.

As a leading IT services provider in China, we believe these developments will further underpin a solid long-term growth story for the company. Chairman and CEO Dr Chen's 20mn shares (0.65% of total shares in issue) increase on 16 June 22 also demonstrates confidence in the management team, in our view. However, we highlight that given the latest macro situation in China (especially some lockdowns in 2Q22) and the situation of Huawei (unlisted), we are relatively cautious on the company's 1H22 results, mainly on its GPM (we expect some further pressure vs 2H21's 26%). A recovering macro environment and Huawei's potential recovery should enable Chinasoft to witness a gradual improvement in financials into 2H22F, underpinned further by its active business development. We maintain our TP of HKD9.9, based on 16x 2023F EPS of CNY0.53. The stock currently trades at 13x 2022F EPS, closing in to its historical median level. The share price has recovered 16.9% over the past six weeks vs the HSI's gain of 5.5% during the same period. Any concern/share weakness from 1H22 results would be a buying opportunity, in our view, as we see upside potential considering the company's strong growth prospects in the long term.

Partnerships/agreements with Tianjin Government, Qingdao Guochuang and BYD indicate a solid business development trend

Regarding the cooperation with the Tianjin government, Chinasoft and SZ Kai Hong will help to popularize and implement OpenHarmony system solutions in areas of smart city, smart government affairs and smart communities, among others. Chinasoft will also set up a software factory in Tianjin, focusing on OpenHarmony products, solutions and eco-enterprises.

On the partnership with Qingdao Guochuang (an operator of national high-end intelligent household appliance innovation center) and SZ Kai Hong, the company will co-build "Innovation Center of Intelligent Household Appliance Software" with the two partners to form a kit of solutions for household products, gradually intellectualizing the products for the future.

We are not surprised that Chinasoft has partnered with SZ Kai Kong and focusing on OpenHarmony related business in both projects. As detailed in our initiation report (see [report](#)), Chinasoft reduced its stake in SZ Kai Hong in Dec-2021, and we believed it was to pave the way for both companies to participate in more business in China, especially in areas with demand related to the independent and controllable technology trend. Meanwhile, we see continuous positive cornerstone business development for Chinasoft, considering the cooperation with BYD in the auto industry. We expect such to sustain the company's long-term growth.

Rating Remains	Buy
Target price Remains	HKD 9.90
Closing price 30 June 2022	HKD 8.03

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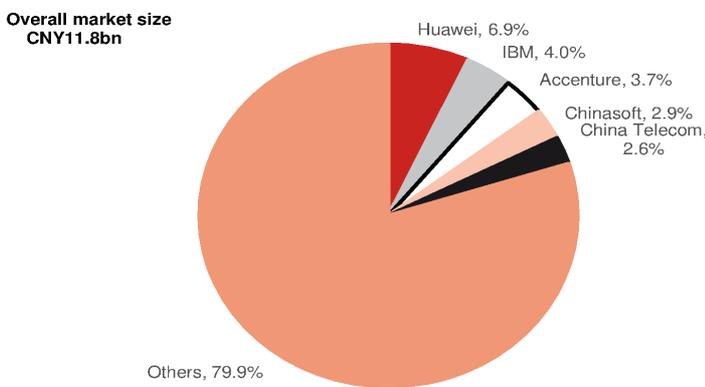
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Ranked No.4 in China cloud professional service market and selected as one of initial members of Software Supply Chain Security Lab (3S-LAB) established by CAICT

According to IDC, Chinasoft was the overall No.4 player in China cloud professional service market in 2H21 (Fig. 1). And within the four sub-categories (i.e., cloud consulting, cloud construction, cloud migration and cloud development), Chinasoft was the No.1 player in cloud migration and development market in 2H21. (Fig. 2 & Fig. 3). The ongoing cloud migration process in China, from Internet/cloud companies and gradually moving to enterprises, alongside Chinasoft’s strong market position and continuous efforts in cloud intelligent business, should enable Chinasoft to enjoy strong growth ahead, in our view.

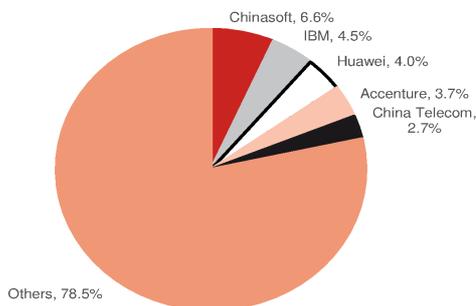
As well, according to recent news (Link in Chinese), Chinasoft has been selected as one of the initial members of Software Supply Chain Security Lab (3S-LAB) established by CAICT. To be selected as a member involving guideline developments for security of national software supply chain underlines Chinasoft’s market position, in our view, allowing Chinasoft to deepen its industry’s regulatory know-how and standards for future business development.

Fig. 1: 2H21 market share of cloud professional service in China



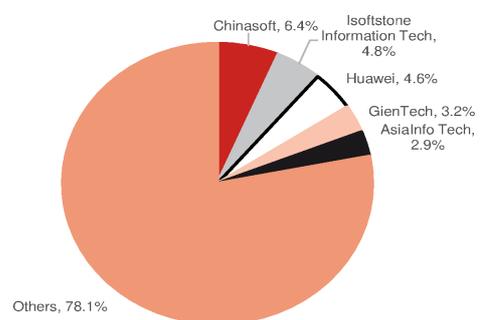
Source: IDC, Nomura research

Fig. 2: 2H21 market share of cloud migration service in China



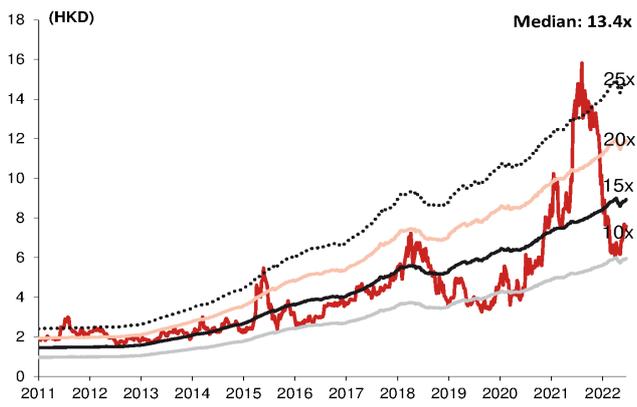
Source: IDC, Nomura research

Fig. 3: 2H21 market share of cloud development service in China



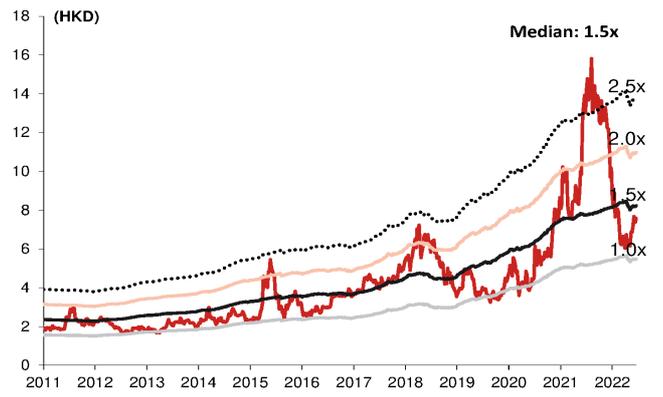
Source: IDC, Nomura research

Fig. 4: Chinasoft: 12-month-forward P/E band



Source: Company data, Bloomberg Finance L.P., Nomura estimates

Fig. 5: Chinasoft: 12-month-forward P/B band



Source: Company data, Bloomberg Finance L.P., Nomura estimates

Appendix A-1

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Chinasoft International	354 HK	HKD 8.03	30-Jun-2022	Buy	N/A	

Chinasoft International (354 HK)

HKD 8.03 (30-Jun-2022) Buy (Sector rating: N/A)

Rating and target price chart (three year history)

Chinasoft International



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of HKD9.90 is based on 16x 2023F EPS of CNY0.53. The target multiple we use is above its historical average, which is below our 2021-24F earnings CAGR of 21% for Chinasoft. The benchmark index for this stock is HSI Index.

Risks that may impede the achievement of the target price Downside risks include: 1) slower-than-expected cornerstone business expansion with key customers due to the loss of wallet share or slower growth rate from key customers; 2) slower-than-expected development of cloud intelligent business due to market competition or self-development issue; and 3) lower-than-expected operating efficiency which has a negative impact on the company's profitability.

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As at 30 June 2022.

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