

Kingdee Int'l (268 HK)

Yuji Fung

+852 2135 0236

yuji.fung@oriental-patron.com.hk

Company Update

BUY
UNCHANGED
Close price: HK\$3.12
Target Price: HK\$3.90 (+25%)
Prior TP: HK\$3.80

Key Data

HKEx code	268
12 Months High (HK\$)	3.56
12 Month Low (HK\$)	2.71
3M Avg Dail Vol. (mn)	11.91
Issue Share (mn)	2,913.00
Market Cap (HK\$m)	9,088.56
Fiscal Year	12/2016
Major shareholder (s)	Xu Shao Chun 26.46%

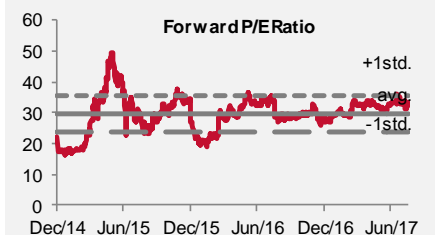
Source: Company data, Bloomberg, OP Research
Closing price are as of 17/08/2017

Price Chart



	1mth	3mth	6mth
Absolute %	-4.0	-0.6	1.0
Rel. MSCI CHINA %	-8.4	-13.5	-21.3

PE



Company Profile

Kingdee is a provider of management information products and cloud management products. The Company is the market leader in SME software market in China.

1H17 results up to expectations

- Kingdee released its 1H17 results with sales up 15% yoy to RMB1.1bn and net profit down 21% yoy to RMB106mn, in-line with our expectations.
- We revised up our FY17/18E earnings estimate by 16%/10.5% to RMB285mn/RMB350mn to reflect better operating leverage and stringent opex control.
- Reiterate BUY with TP revised up to HK\$3.90 based on same 20x FY18E PE.

1H17 results in-line. Kingdee released its 1H17 results with sales up 15% yoy to RMB1.1bn, of which traditional ERP business up 7% yoy to RMB772mn and cloud services business up 45% yoy to RMB283mn, accounting for 27% of 1H17 revenue. Mgmt target to rapidly ramp up its cloud service business from 27% now to 60% by 2020, representing a revenue CAGR of 58%-68%. Mgmt also expect to achieve RMB3.5bn to RMB4.5bn total revenue by 2020 with cloud service business breakeven in FY19E with RMB200mn operating profit as compared to RMB100mn – RMB150mn operating net loss in FY17E. Net profit was down by 21% yoy to RMB106mn, mainly due to tax credit in 1H16. GPM also improved by 0.8ppt to 80.1%.

We revised up our FY17/18E earnings estimate by 16.0%/10.5% to RMB285mn/RMB350mn. We revised down our FY17/18E revenue estimate by 0.3%/1.1% to reflect latest operating figures while we revised down our opex estimate by 3.4%/3.7% or 1.7ppt/2.5ppt improvement on SG&A/Sales to 66%/65.2%. As a result, we revised up our FY17/18E earnings estimate by 16.0%/10.5% to RMB285mn/RMB350mn. We also revised up our FY17/18E EPS by 6.7%/1.7% to HK\$0.106/0.129, mainly to reflect change in RMB/HKD assumption.

Reiterate BUY. We reiterate our BUY rating on Kingdee with TP revised up to HK\$3.90 from HK\$3.80 based on same 30x FY18E PE given (1) 1H17 results in-line, (2) ramp up of ERP cloud business to boost revenue growth, and (3) operating leverage.

Risks: (1) ERP cloud subscriber growth may be slower than we expected, (2) ERP cloud business ASP may decline faster than we expected, (3) slowdown of China's economy to affect sales growth

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	1,516.8	1,862.2	2,212.0	2,523.0	2,915.9
Growth (%)	(1.9)	22.8	18.8	14.1	15.6
Adj. net Profit	215.0	211.8	285.4	350.0	467.3
Growth (%)	9.1	(1.5)	34.8	22.6	33.5
Diluted EPS (HK\$)	0.084	0.082	0.106	0.129	0.173
EPS growth (%)	(0.6)	(2.2)	28.3	22.6	33.5
Change to previous EPS (%)			6.7	1.7	
Consensus EPS (HK\$)			0.097	0.125	0.158
ROE (%)	8.2	6.3	7.9	8.9	10.8
P/E (x)	37.1	37.9	29.6	24.1	18.1
P/B (x)	2.5	2.3	2.1	1.9	1.7
Yield (%)	0.0	0.0	0.0	0.0	0.0
DPS (HK\$)	0.000	0.000	0.000	0.000	0.000

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

(RMB mn)	FY17E			FY18E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	2,212	2,219	(0.3)	2,523	2,552	(1.1)	
Gross profit	1,799	1,804	(0.3)	2,065	2,091	(1.3)	
Gross margin	81.3%	81.3%	0.0	81.8%	81.9%	(0.1)	
Opex	(1,741)	(1,802)	(3.4)	(1,960)	(2,035)	(3.7)	Thanks to operating leverage
EBIT	361	307	17.9	431	384	12.4	
Adj. net Profit	285	246	16.0	350	317	10.5	
Diluted EPS (HK\$)	0.106	0.099	6.7	0.129	0.127	1.7	Mainly due to change in internal RMB/HKD assumption

Source: Company, OP Research

Exhibit 3: Interim Results Summary

RMB mn	1H15	2H15	1H16	2H16	1H17	1H17 YoY	2H17E
Revenue	758	759	913	949	1,055	15%	1,157
COGS	(158)	(132)	(189)	(159)	(210)	11%	(203)
Gross profit	599	627	725	790	845	17%	954
Other income & gains	105	157	132	132	127	-4%	143
FV gains on investment properties	0	18	0	34	0	na	34
Selling exp	(398)	(369)	(472)	(531)	(523)	11%	(631)
Admin exp	(70)	(132)	(136)	(142)	(144)	6%	(160)
R&D exp	(107)	(90)	(147)	(137)	(179)	22%	(104)
Other opex	0	0	0	0	0	na	0
Operating profit (EBIT)	130	211	103	146	126	22%	236
Provisions or other items	0	0	0	0		na	0
Interest income	15	19	15	20	18	16%	37
Finance costs	(47)	(47)	(33)	(25)	(32)	-3%	(27)
Profit after financing costs	98	184	85	142	111	31%	247
Associated cos	(0)	(2)	(2)	(16)	(2)	-2%	(13)
Jointly controlled cos	0	0	0	0	0	na	0
Pre-tax profit	98	182	84	126	110	32%	234
Tax	(8)	(55)	42	(36)	(5)	-113%	(49)
Minority interests	1	(4)	10	(13)	2	-82%	(7)
Adj. net profit	92	123	135	77	106	-21%	179
Discontinued operations							
Reported net profit	92	14	135	153	106	-21%	
HoH%							
Revenue	-5%	0%	20%	4%	11%		10%
Gross profit	-10%	5%	16%	9%	7%		13%
Net profit	-21%	35%	9%	-43%	38%		68%
YoY%							
Revenue	1%	-5%	20%	25%	15%		22%
Gross profit	-1%	-6%	21%	26%	17%		21%
Net profit	12%	7%	47%	-38%	-21%		133%
Key ratios							
GPM	79.1%	82.6%	79.3%	83.2%	80.1%		82.4%
Selling exp	52.5%	48.6%	51.6%	55.9%	49.6%		54.5%
Admin exp	9.2%	17.4%	14.9%	14.9%	13.7%		13.8%
EIT	7.8%	29.7%	-48.9%	25.2%	4.7%		19.7%
Net margin	12.1%	16.3%	14.8%	8.1%	10.1%		15.5%
Revenue by segment							
ERP business	676	673	718	803	772		910
Cloud services business	82	86	195	146	283		248
HoH%							
ERP business	-8%	-1%	7%	12%	-4%		18%
Cloud services business	34%	5%	126%	-25%	94%		-12%
YoY%							
ERP business	-4%	-9%	6%	19%	7%		13%
Cloud services business	82%	41%	138%	69%	45%		70%

Source: Company, OP Research

Financial Summary

Year to Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Income Statement (RMB mn)					
ERP business	1,349	1,521	1,681	1,853	2,052
Cloud services business	168	341	530	670	864
Turnover	1,517	1,862	2,212	2,523	2,916
YoY%	(2)	23	19	14	16
COGS	(290)	(348)	(413)	(458)	(510)
Gross profit	1,227	1,514	1,799	2,065	2,406
Gross margin	80.9%	81.3%	81.3%	81.8%	82.5%
	262	264	270	292	319
Other income					
FV gains on investment properties	18	34	34	34	34
Selling & distribution	(766)	(1,002)	(1,154)	(1,300)	(1,467)
Admin	(202)	(278)	(304)	(347)	(394)
R&D	(196)	(284)	(283)	(313)	(335)
Other opex	0	0	0	0	0
Total opex	(1,165)	(1,564)	(1,741)	(1,960)	(2,196)
Operating profit (EBIT)	341	249	361	431	563
Operating margin	22.5%	13.4%	16.3%	17.1%	19.3%
Provisions	0	0	0	0	0
Interest income	35	36	55	60	65
Finance costs	(94)	(58)	(58)	(58)	(58)
Profit after financing costs	282	227	358	432	570
Associated companies & JVs	(2)	(18)	(14)	(11)	(9)
Pre-tax profit	280	209	344	421	561
Tax	(62)	6	(54)	(65)	(85)
Minority interests	(2)	(3)	(5)	(6)	(8)
Adj. net profit	215	212	285	350	467
YoY%	9	(2)	35	23	34
Adj. net margin	14.2%	11.4%	12.9%	13.9%	16.0%
Discontinued operations	(109)	76	0	0	0
Reported net profit	106	288	285	350	467
EBITDA	616	613	724	841	1,011
EBITDA margin	40.6%	32.9%	32.7%	33.3%	34.7%
EPS (RMB)	0.073	0.072	0.092	0.113	0.150
YoY%	(1)	(2)	28	23	34
DPS (HK\$)	0.000	0.000	0.000	0.000	0.000
Cash Flow (RMB mn)					
EBITDA	616	613	724	841	1,011
Chg in working cap	143	216	(9)	(24)	(37)
Others	(97)	(131)	0	0	0
Operating cash	662	697	715	817	975
Interest paid	(94)	(69)	(58)	(58)	(58)
Tax	(11)	(16)	(43)	(54)	(65)
Net cash from operations	556	612	614	705	851
Capex	(44)	(154)	(183)	(208)	(241)
Investments	(526)	(361)	(322)	(356)	(381)
Dividends received	0	0	0	0	0
Sales of assets	2	86	0	0	0
Interests received	29	24	55	60	65
Others	(384)	(156)	0	0	0
Investing cash	(924)	(561)	(449)	(505)	(556)
FCF	(368)	51	165	200	295
Issue of shares	1,051	0	0	0	0
Buy-back	(25)	(111)	0	0	0
Minority interests	0	(0)	0	0	0
Dividends paid	(30)	0	0	0	0
Net change in bank loans	(447)	(37)	0	0	0
Others	94	24	0	0	0
Financing cash	644	(125)	0	0	0
Net change in cash	276	(74)	165	200	295
Exchange rate or other Adj	(10)	11	0	0	0
Opening cash	1,262	1,528	1,465	1,630	1,830
Closing cash	1,528	1,465	1,630	1,830	2,125
CFPS (HK\$)	0.218	0.238	0.227	0.261	0.315

Source: Company, OP Research

Year to Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Ratios					
Gross margin (%)	80.9	81.3	81.3	81.8	82.5
Operating margin (%)	22.5	13.4	16.3	17.1	19.3
Net margin (%)	14.2	11.4	12.9	13.9	16.0
Selling & dist'n exp/Sales (%)	50.5	53.8	52.2	51.5	50.3
Admin exp/Sales (%)	13.3	14.9	13.8	13.7	13.5
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Effective tax (%)	22.1	(2.6)	15.0	15.0	15.0
Total debt/equity (%)	45.3	43.0	39.8	36.4	32.7
Net debt/equity (%)	Net	0.9	Net	Net	Net
	cash		cash	cash	cash
	3.3	3.2	3.1	3.1	3.1
Current ratio (x)					
Quick ratio (x)	3.3	3.2	3.1	3.1	3.1
Inventory T/O (days)	5	7	7	7	7
AR T/O (days)	67	62	62	62	62
AP T/O (days)	450	476	476	476	476
Cash conversion cycle (days)	(378)	(408)	(408)	(408)	(408)
Asset turnover (x)	0.3	0.3	0.4	0.4	0.4
Financial leverage (x)	1.9	1.7	1.7	1.7	1.7
EBIT margin (%)	22.5	13.4	16.3	17.1	19.3
Interest burden (x)	0.8	0.8	1.0	1.0	1.0
Tax burden (x)	0.8	1.0	0.8	0.8	0.8
Return on equity (%)	8.2	6.3	7.9	8.9	10.8
ROIC (%)	0.0	7.6	8.2	9.5	11.9
Balance Sheet (RMB mn)					
Fixed assets	1,581	1,679	1,812	1,955	2,112
Intangible assets & goodwill	730	901	909	921	938
Associated companies & JVs	24	26	12	0	(9)
Long-term investments	19	4	4	4	4
Other non-current assets	76	411	411	411	411
Non-current assets	2,429	3,021	3,148	3,292	3,456
Inventories	4	6	7	8	9
AR	278	315	374	427	494
Prepayments & deposits	391	396	470	536	620
Other current assets	873	775	775	775	775
Cash	1,528	1,465	1,630	1,830	2,125
Current assets	3,074	2,957	3,256	3,576	4,022
AP	357	454	539	598	665
Tax	37	43	54	65	85
Accruals & other payables	184	220	262	298	345
Bank loans & leases	244	81	81	81	81
CB & othe debts	0	0	0	0	0
Other current liabilities	97	125	125	125	125
Current liabilities	919	923	1,060	1,167	1,302
Bank loans & leases	1,213	1,416	1,416	1,416	1,416
CB & othe debts	0	0	0	0	0
Deferred tax & others	125	103	103	103	103
MI	30	60	65	71	79
Non-current liabilities	1,368	1,579	1,584	1,590	1,598
Total net assets	3,217	3,476	3,761	4,111	4,579
Shareholder's equity	3,217	3,476	3,761	4,111	4,579
Share capital	72	73	73	73	73
Reserves	3,145	3,403	3,689	4,039	4,506
BVPS (HK\$)	1.80	2.03	2.33	2.61	2.98
Total debts	1,496	1,496	1,496	1,496	1,496
Net cash/(debts)	71	(32)	134	334	629

Exhibit 4: Peer Group Comparison

Company	Ticker	Price	3-mth			EPS		EPS		3-Yr EPS Cagr (%)	PEG (x)	Div yld (%)	Div yld (%)	P/B	P/B FY1 (x)	EV/		Net gearing	Gross margin	Net margin	ROE (%)	ROE (%)	Sh px	
			Mkt cap (US\$m)	avg t/o (US\$m)	PER	PER	PER	FY1 YoY%	FY2 YoY%							Ebitda Hist	Ebitda Cur Yr						Hist (%)	Hist (%)
Kingdee Intl Sft	268 HK	3.12	1,162	4.9	37.9	29.6	24.1	28.3	22.6	28.1	1.05	0.0	0.0	2.30	2.12	15.1	12.5	0.9	81.3	11.4	6.3	7.9	(5.5)	(3.7)
HSI		27,344.22			14.2	12.9	11.9	9.9	8.8	9.4	1.37	3.3	3.3	1.35	1.30						9.5	10.1	3.3	8.1
HSCEI		10,801.42			8.9	8.5	7.8	5.6	8.6	8.1	1.04	3.7	3.6	1.05	0.96						11.7	11.3	0.2	4.0
CSI300		3,721.28			16.3	14.4	12.7	13.5	13.1	13.0	1.1	2.0	2.0	1.9	1.8						11.9	12.4	1.6	9.1
Adjusted sector avg*					138.3	45.5	42.0	142.3	22.4	46.8	1.1	1.1	1.0	4.8	4.5	66.2	31.3	0.0	75.1	3.8	5.1	10.4	(0.8)	4.3
Chanjet Info-H	1588 HK	10.50	291	0.1	N/A	N/A	68.9	N/A	N/A	(218.4)	N/A	N/A	N/A	2.19	2.33	(11.2)	46.1	0.0	83.3	(28.5)	(13.9)	(7.2)	(3.0)	5.0
Yonyou Network-A	600588 CH	20.58	4,513	23.3	147.0	73.0	51.2	101.4	42.6	51.1	1.43	0.6	1.1	5.44	5.20	219.4	56.4	0.0	68.2	3.9	4.5	6.4	31.2	35.4
Sap Se	SAP GY	90.04	129,364	165.0	29.6	21.7	19.8	36.5	9.7	18.7	1.16	1.4	1.5	4.51	3.91	17.6	15.1	12.3	70.2	16.5	14.5	16.4	(1.0)	(4.2)
Salesforce.Com	CRM US	92.24	65,693	399.6	354.8	70.8	54.8	400.8	29.2	102.8	0.69	N/A	0.0	8.28	7.62	92.3	28.4	0.0	73.4	2.1	1.9	13.5	3.3	5.0
Oracle Corp	ORCL US	49.25	203,732	633.5	21.7	16.6	15.3	30.6	8.3	14.4	1.15	1.4	1.4	3.78	3.43	12.9	10.6	0.0	80.2	24.7	18.5	23.1	(2.4)	11.3

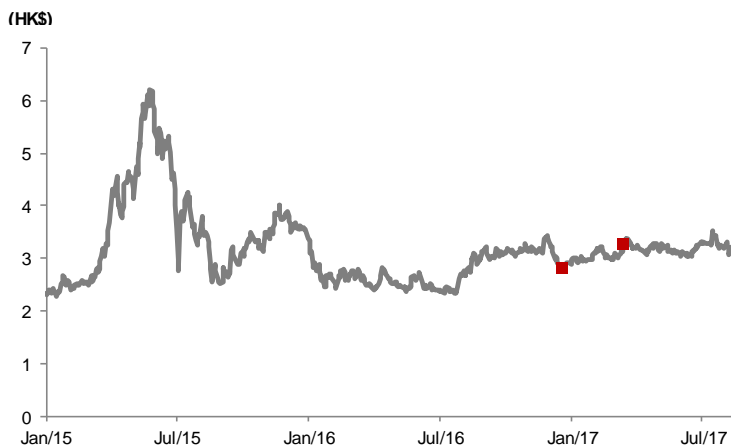
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
14/08/2017	Q Tech	1478	1H17 up on GPM and ASP	BUY	Yuji Fung
09/08/2017	TCL Multimedia	1070	1H17 results in line	BUY	Yuji Fung
08/08/2017	CH Display OPT	334	1H17 Results beat expectations	BUY	Yuji Fung
07/08/2017	Dynagreen Environmental	1330	Tongzhou Phase Two off launch-pad	BUY	Bruce Yeung
27/07/2017	China Securities Sector	-	Preliminary 1H17 results	BUY	Bruce Yeung/Daisy Wang
20/07/2017	Canvest	1381	Fast and Fabulous	BUY	Bruce Yeung/Daisy Wang
11/07/2017	Dynagreen Environmental	1330	Positive catalyst ahead	BUY	Bruce Yeung/Daisy Wang
30/06/2017	GTJA	2611	Catching the momentum	BUY	Bruce Yeung/Daisy Wang
28/06/2017	Chinasoft Intl	354	1H17E result preview	BUY	Yuji Fung
13/06/2017	Q Tech	1478	Product mix continues to improve in May	BUY	Yuji Fung
12/06/2017	CH Display OPT	334	Promising prospects from share deal	BUY	Yuji Fung
12/06/2017	Sunny Optical	2382	Momentum in May pushes shipment	BUY	Yuji Fung
31/05/2017	Truly Intl	732	1Q17 results up to expectations	BUY	Yuji Fung
26/05/2017	C Cheng	1486	Le Mariage	BUY	Bruce Yeung
11/05/2017	Q Tech	1478	CCM shipment growth accelerated in April	BUY	Chloe Liu/Yuji Fung
11/05/2017	China Securities Sector	-	1Q17 review looking rosy	BUY	Bruce Yeung/Daisy Wang
10/05/2017	Sunny Optical	2382	Strong growth in April HLS shipments	BUY	Chloe Liu/Yuji Fung
09/05/2017	Kingdom Holdings	528	Heilongjiang plant kicks off in 3Q17E	HOLD	Bruce Yeung
08/05/2017	HNA Holding	521	Transforming story for OBOR	NR	Bruce Yeung/Daisy Wang
08/05/2017	Truly Intl	732	April sales in line	BUY	Chloe Liu/Yuji Fung
28/04/2017	TCL Multimedia	1070	Solid 1Q17 results	BUY	Chloe Liu/Yuji Fung
27/04/2017	China Securities Sector	-	Geared for 2017	BUY	Bruce Yeung/Daisy Wang
12/04/2017	Chunli Medical	1858	Transition on the way	BUY	Chloe Liu/Yuji Fung
11/04/2017	Sunny Optical	2382	Robust growth continues in Mar17	HOLD	Chloe Liu/Yuji Fung
11/04/2017	Q Tech	1478	1Q17 shipments beat on product mix upgrade	BUY	Chloe Liu/Yuji Fung
11/04/2017	CH Display OPT	334	Strong Mar17 sales	BUY	Chloe Liu/Yuji Fung
03/04/2017	Sinosoft Tech	1297	Solid FY16 results	BUY	Chloe Liu/Yuji Fung

Historical recommendations and target price: Kingdee Int'l (268 HK)

(as of 17/8/2017)



Date	Rating	TP	Close
1 22 Dec 2016	BUY	3.35	2.83
2 17 Mar 2017	BUY	3.80	3.27

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CONTACT

27/F, Two Exchange Square,

8 Connaught Place, Central, Hong Kong

www.oriental-patron.com.hkyuji.fung@oriental-patron.com.hk

Tel: (852) 2135 0236

Fax: (852) 2135 0295