

Kingdee Int'l (268 HK)

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Company Update

SELL

UNCHANGED

Close price: HK\$7.68

Target Price: HK\$6.22 (-19%)

Prior TP: HK\$6.50

Key Data

HKEx code	268
12 Months High (HK\$)	10.96
12 Month Low (HK\$)	5.50
3M Avg Daily Vol. (mn)	22.18
Issue Share (mn)	3,316.14
Market Cap (HK\$mn)	25,467.97
Fiscal Year	12/2018
Major shareholder (s)	Xu Shao Chun 22.26%

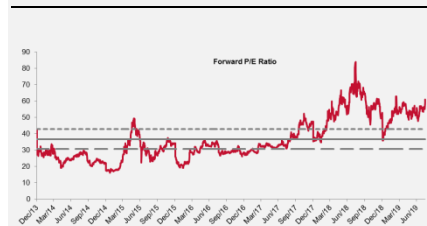
Source: Company data, Bloomberg, OP Research
Closing price are as of 15/08/2019

Price Chart



	1mth	3mth	6mth
Absolute %	5.8	-5.5	-1.4
Rel. MSCI CHINA %	14.1	1.3	6.0

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.

1H19 results in line with previous profit warnings

- Kingdee released its 1H19 results with sales up 16.1% yoy to RMB1.49bn, miss our estimate by 1.2%. Adjusted net profit down 29.2% yoy to RMB155mn, miss our estimate by 6.9%.
- We fine-tuned our FY19/20E adjusted net profits by -0.2%/-2.2% to RMB399mn/RMB452mn.
- Maintain SELL with TP cut to HK\$6.22 from HK\$6.50 based on same 15x FY20E PE on ERP business and 8x FY20E P/S on cloud business.

1H19 results in line with previous profit warnings. Kingdee released its 1H19 results with sales up 16.1% yoy to RMB1.49bn, miss our estimate by 1.4%, of which Traditional ERP revenue was up 1.2% yoy to RMB935mn, miss market expectation and we expect it to maintain low single digit growth in 2H19E. Cloud services business recorded a robust growth of 55% yoy to RMB550mn, management maintain its previous full year 50% yoy growth guidance for Cloud services business. However, Cloud services business operating loss was expanded by 84%/82% yoy/hoh to RMB124mn with OPM of -22.6% versus -19.0%/-13.9% in 1H18/2H18, we believe its Cloud service business will take longer than expected to reach breakeven which is likely in late FY20E or early FY21E.

We fine-tuned our FY19/20E adjusted net profit estimates by -0.2%/-2.2% to RMB399mn/RMB452mn. We revise down our FY19/20E revenue by 2.0%/1.9% to RMB3,256mn/RMB3,800mn to reflect slower traditional ERP business growth. We also revise down FY19/20E GPM by 0.9ppts/0.9ppts to 80%/80% to reflect rapid ramp up of cloud service business pressure on GPM in near term. As a result, we revised down our FY19/20E adjusted EPS by 1.6%/3.5% to HK\$0.132/HK\$0.150 respectively, mainly reflect change in RMB/HKD assumption.

Maintain SELL. We maintain our SELL rating on Kingdee with TP revised down to HK\$6.22 from HK\$6.50 based on same 15x FY20E P/E on traditional ERP business and 8x PS on cloud business, given (1) potential cannibalization of medium enterprises, (2) expanding operating loss for cloud services business.

Risks: (1) Traditional ERP business grow faster than expected, (2) cloud service business ramp up faster than expected, (3) cloud service business operating loss narrow faster than expected.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	2,303.5	2,808.7	3,255.8	3,800.3	4,375.9
Growth (%)	23.7	21.9	15.9	16.7	15.1
Adj. net profit	281.7	409.1	398.7	451.9	465.0
Growth (%)	18.7	45.2	(2.5)	13.3	2.9
Diluted EPS (HK\$)	0.110	0.138	0.132	0.150	0.154
EPS growth (%)	21.8	25.0	(4.2)	13.3	2.9
Change to previous EPS (%)			(1.6)	(3.5)	
Consensus EPS (HK\$)			0.128	0.153	0.192
ROE (%)	7.5	8.6	7.1	7.7	7.5
P/E (x)	69.6	55.7	58.1	51.3	49.8
P/B (x)	4.9	4.1	3.9	3.7	3.5
Yield (%)	0.2	0.1	0.1	0.2	0.2
DPS (HK\$)	0.016	0.011	0.011	0.012	0.013

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

(RMB mn)	FY19E			FY20E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	3,256	3,324	(2.0)	3,800	3,876	(1.9)	On slower growth of traditional ERP
ERP business	2,020	2,046	(1.3)	2,077	2,112	(1.7)	
Cloud services	1,236	1,278	(3.3)	1,724	1,764	(2.3)	
Gross profit	2,605	2,682	(2.9)	3,040	3,128	(2.8)	To reflect margin pressure due to rapid ramp up of cloud business
Gross margin	80.0%	80.7%	(0.9)	80.0%	80.7%	(0.9)	
Opex	(2,566)	(2,697)	(4.8)	(2,994)	(3,126)	(4.2)	
EBIT	357	305	17.3	398	354	12.3	
Adj. net Profit	399	399	(0.2)	452	462	(2.2)	
Diluted adj. EPS (HK\$)	0.132	0.134	(1.6)	0.150	0.155	(3.5)	

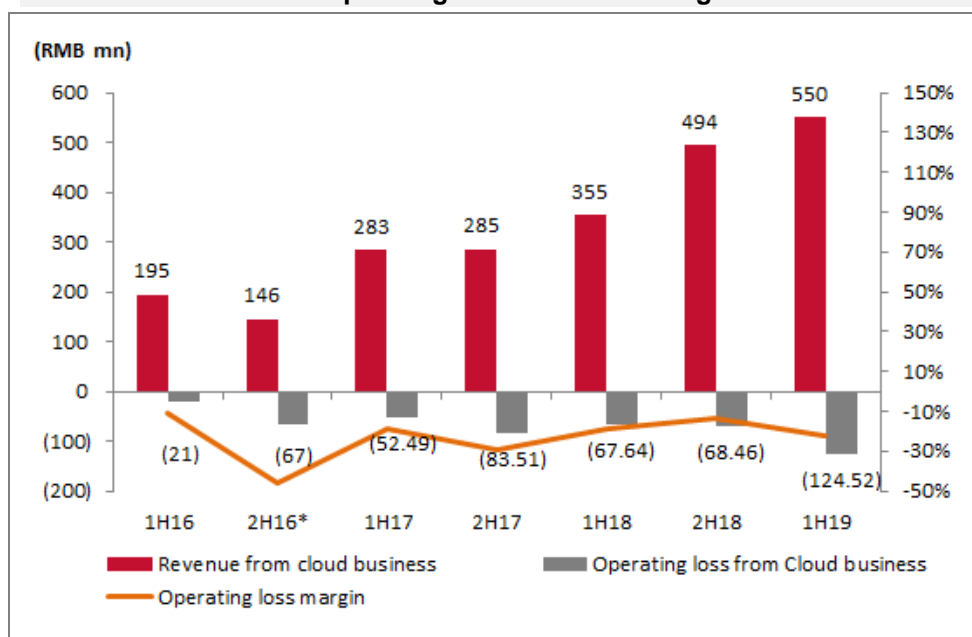
Source: OP Research

Exhibit 3: 1H19E results review

RMB mn	1H18	2H18	1H19A	1H19E	Act./Est. (%)	FY18A	FY19E
Revenue	1,279	1,530	1,485	1,503	-1.2%	2,809	3,256
COGS	(253)	(261)	(305)	(301)	1.4%	(514)	(651)
Gross profit	1,026	1,268	1,180	1,202	-1.8%	2,294	2,605
Other income & gains	152	191	142	130	9.2%	343	319
FV gains on investment properties	0	95	0	0	n.a.	95	0
Selling exp	(646)	(846)	(763)	(827)	-7.7%	(1,491)	(1,692)
Admin exp	(165)	(169)	(183)	(180)	1.4%	(334)	(369)
R&D exp	(199)	(206)	(252)	(210)	20.2%	(405)	(505)
Other opex	0	(48)	0	0	n.a.	(48)	0
Operating profit (EBIT)	167	286	125	116	7.7%	453	357
Provisions or other items		0		0	n.a.	0	0
Interest income	13	16	14	30	-54.4%	29	55
Finance costs	(10)	(20)	(8)	(23)	-64.1%	(30)	(46)
Profit after financing costs	170	282	130	123	6.0%	452	366
Associated cos	(1)	(4)	(10)	(1)	922.9%	(4)	(21)
Jointly controlled cos	0	0	0	0	n.a.	0	0
Pre-tax profit	170	279	120	122	-1.5%	448	345
Tax	(11)	(28)	(8)	(16)	-48.5%	(39)	(37)
Minority interests	11	(9)	(1)	1	-224.7%	3	2
Discontinued operations	0	0	0	0	n.a.		
Reported net profit	170	242	110	107	3.4%	412	310
Revaluation gains on properties	0	95	0	0	n.a.	95	0
Stock-based compensation	(49)	(42)	(45)	(60)	-25.2%	(92)	(88)
Adjusted net profit	219	190	155	167	-6.9%	409	399
HoH%							
Revenue	2%	20%	-3%	-2%	n.a.		
Gross profit	-1%	24%	-7%	-5%	n.a.		
Net profit	-17%	43%	-54%	-56%	n.a.		
Adjusted net profit	47%	-13%	-18%	-12%	n.a.		
YoY%							
Revenue	21.3%	22.5%	16.1%	17.5%	n.a.	22%	16%
Gross profit	21.4%	23.0%	15.1%	17.2%	n.a.	22%	14%
Reported net profit	59.5%	19.0%	-35.0%	-37.1%	n.a.	33%	-25%
Adjusted net profit	65.0%	27.6%	-29.2%	-23.9%	n.a.	45%	-3%
Key ratios							
					(in ppts)		
GPM	80.2%	82.9%	79.5%	80.0%	(0.52)	81.7%	80.0%
Selling exp	50.5%	55.3%	51.4%	55.0%	(3.65)	53.1%	52.0%
Admin exp	12.9%	11.1%	12.3%	12.0%	0.32	11.9%	11.3%
EIT	6.5%	9.8%	6.3%	13.0%	(6.70)	8.6%	10.0%
Net margin	13.3%	15.8%	7.4%	7.1%	0.33	14.7%	9.5%
Adj. net margin	17.1%	12.4%	10.5%	11.1%	(0.64)	14.6%	12.2%

Source: Company, OP Research

Exhibit 4: Revenue and operating loss from Cloud segment



Source: OP Research

Financial Summary

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E	Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Income Stat. (RMB mn)						Ratios					
ERP business	1,735	1,959	2,020	2,077	2,125	Gross margin (%)	81.5	81.7	80.0	80.0	80.0
Cloud services business	568	849	1,236	1,724	2,251	Operating margin (%)	18.3	16.1	11.0	10.5	8.8
Turnover	2,303	2,809	3,256	3,800	4,376	Net margin (%)	12.2	14.6	12.2	11.9	10.6
YoY%	24	22	16	17	15	Selling & dist'n exp/Sales (%)	53.7	53.1	52.0	52.9	54.4
COGS	(427)	(514)	(651)	(760)	(875)	Admin exp/Sales (%)	13.9	11.9	11.3	10.9	10.9
Gross profit	1,876	2,294	2,605	3,040	3,501	Payout ratio (%)	14.5	8.2	8.2	8.2	8.2
Gross margin	81.5%	81.7%	80.0%	80.0%	80.0%	Effective tax (%)	13.9	8.6	10.0	10.0	10.0
Other income	349	343	319	352	386	Total debt/equity (%)	33.8	21.0	20.0	18.9	18.0
FV gains on investment properties	96	95	0	0	0	Net debt/equity (%)	7.3	Net cash	1.5	Net cash	Net cash
Selling & distribution	(1,236)	(1,491)	(1,692)	(2,009)	(2,381)	Current ratio (x)	2.5	1.7	1.7	1.8	1.9
Admin	(320)	(334)	(369)	(414)	(479)	Quick ratio (x)	2.5	1.7	1.7	1.8	1.8
R&D	(345)	(405)	(505)	(571)	(642)	Inventory T/O (days)	12	6	6	6	6
Other opex	0	(48)	0	0	0	AR T/O (days)	51	37	37	37	37
Total opex	(1,901)	(2,278)	(2,566)	(2,994)	(3,502)	AP T/O (days)	580	412	412	412	412
Operating profit (EBIT)	421	453	357	398	385	Cash conversion cycle (days)	(517)	(369)	(369)	(369)	(369)
Operating margin	18.3%	16.1%	11.0%	10.5%	8.8%	Asset turnover (x)	0.4	0.4	0.4	0.5	0.5
Provisions	0	0	0	0	0	Financial leverage (x)	1.7	1.5	1.4	1.4	1.4
Interest income	40	29	55	54	58	EBIT margin (%)	18.3	16.1	11.0	10.5	8.8
Finance costs	(67)	(30)	(46)	(46)	(46)	Interest burden (x)	0.9	1.0	1.0	1.0	1.0
Profit after financing costs	394	452	366	406	397	Tax burden (x)	0.7	0.9	1.2	1.2	1.2
Associated companies & JVs	(15)	(4)	(21)	(21)	(21)	Return on equity (%)	7.5	8.6	7.1	7.7	7.5
Pre-tax profit	378	448	345	385	376	ROIC (%)	9.0	8.6	5.7	5.9	5.6
Tax	(55)	(39)	(37)	(41)	(40)						
Minority interests	(14)	3	2	2	2						
Share based compensation	68	92	88	106	127						
Adj. net profit	282	409	399	452	465						
YoY%	19	45	(3)	13	3						
Adj. net margin	12.2%	14.6%	12.2%	11.9%	10.6%						
Disc. Operation	0.0	0.0	0.0	0.0	0.0						
Reported net profit	310	412	310	346	338						
EBITDA	783	806	787	870	906						
EBITDA margin	34.0%	28.7%	24.2%	22.9%	20.7%						
EPS (RMB)	0.098	0.122	0.117	0.133	0.136						
YoY%	22	25	(4)	13	3						
DPS (HK\$)	0.016	0.011	0.011	0.012	0.013						
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E	Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Cash Flow (RMB mn)						Bal. Sheet (RMB mn)					
EBITDA	783	806	787	870	906	Fixed assets	2,232	2,306	2,301	2,301	2,304
Chg in working cap	(585)	253	(617)	(32)	(34)	Intangible assets & goodwill	887	967	1,047	1,146	1,265
Others	713	(94)	0	0	0	Associated companies & JVs	31	234	213	192	171
Operating cash	911	966	170	838	872	Long-term investments	0	0	0	0	0
Interest paid	(63)	(26)	(46)	(46)	(46)	Other non-current assets	118	911	911	911	911
Tax	(24)	(34)	(36)	(37)	(41)	Non-current assets	3,268	4,419	4,472	4,549	4,651
Net cash from operations	824	906	88	756	785	Inventories	14	8	11	12	14
Capex	(23)	(35)	(40)	(47)	(54)	AR	320	287	332	388	447
Investments	(533)	(495)	(464)	(525)	(590)	Prepayments & deposits	433	0	586	684	788
Dividends received	0	0	0	0	0	Other current assets	1,710	1,412	1,549	1,549	1,549
Sales of assets	2	1	0	0	0	Cash	1,057	1,453	1,059	1,266	1,429
Interests received	40	43	55	54	58	Current assets	3,534	3,160	3,537	3,899	4,227
Others	(457)	99	0	0	0	AP	678	581	735	858	988
Investing cash	(971)	(386)	(449)	(517)	(586)	Tax	50	36	37	41	40
FCF	(147)	520	(361)	238	200	Accruals & other payables	324	0	0	0	0
Issue of shares	0	0	0	0	0	Bank loans & leases	155	301	301	301	301
Buy-back	(174)	(224)	0	0	0	Contract liabilities	0	847	847	847	847
Minority interests	0	35	0	0	0	Other current liabilities	198	102	102	102	102
Dividends paid	0	(42)	(33)	(32)	(36)	Current liabilities	1,405	1,867	2,022	2,149	2,278
Net change in bank loans	(80)	70	0	0	0	Bank loans & leases	1,194	0	0	0	0
Others	18	22	0	0	0	CB & othe debts	0	0	0	0	0
Financing cash	(236)	(140)	(33)	(32)	(36)	Deferred tax & others	161	179	179	179	179
Net change in cash	(383)	380	(394)	207	163	MI	48	67	65	62	60
Exchange rate or other Adj	(25)	16	0	0	0	Non-current liabilities	1,402	246	244	242	239
Opening cash	1,465	1,057	1,453	1,059	1,266	Total net assets	3,995	5,466	5,744	6,058	6,361
Closing cash	1,057	1,453	1,059	1,266	1,429	Shareholder's equity	3,995	5,466	5,744	6,058	6,361
CFPS (HK\$)	0.323	0.305	0.029	0.250	0.260	Share capital	72	80	80	80	80
						Reserves	3,924	5,386	5,664	5,979	6,281
						BVPS (HK\$)	2.17	2.25	2.29	0.00	0.00
						Total debts	1,148	1,148	1,148	0	0
						Net cash/(debts)	(292)	305	(89)	118	281

Source: Company, OP Research

Exhibit 5: Peer Group Comparison

			3-mth				EPS		EPS																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												</
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Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
15/08/2019	Ausnutria Dairy	1717	Inventory surge on one-off events	BUY	Dallas Cai/Megan Jin
15/08/2019	Li Ning	2331	Higher visibility for wholesale channel optimization	BUY	Dallas Cai/Megan Jin
13/08/2019	Q Tech	1478	Comeback with upbeat margin	BUY	Yuji Fung/Dallas Cai
13/08/2019	China Youzan	8083	Sign of net loss narrowing	BUY	Yuji Fung/Dallas Cai
31/07/2019	Ausnutria Dairy	1717	1H19E preview: investment thesis intact	BUY	Dallas Cai/Megan Jin
24/07/2019	Xtep Intl	1368	Upgrade on improved investor confidence	BUY	Dallas Cai/Megan Jin
23/07/2019	Anta Sports	2020	Upgrade on 1H19E profits surprise	BUY	Dallas Cai/Megan Jin
17/07/2019	361 Degrees Intl	1361	2Q19E online sales slowed on product mix shift	BUY	Megan Jin
15/07/2019	Xtep Intl	1368	2Q19E keeps up robust growth momentum	BUY	Dallas Cai/Megan Jin
12/07/2019	Anta Sports	2020	2Q19E operations on track	BUY	Dallas Cai/Megan Jin
10/07/2019	Anta Sports	2020	Clearing up Muddy Waters	BUY	Dallas Cai/Megan Jin
08/07/2019	Kingdee Intl	268	Downgrade on unexpected profit warning	SELL	Yuji Fung/Dallas Cai
01/07/2019	Q Tech	1478	Upgrade on better downstream demand outlook	BUY	Yuji Fung/Dallas Cai
25/06/2019	Li Ning	2331	Upgrade on surprise in revenue growth	BUY	Dallas Cai/Megan Jin
24/06/2019	361 Degrees Intl	1361	Rebranding starts from building basketball half-courts	BUY	Megan Jin
21/06/2019	Q Tech	1478	Kunshan reverse road show takeaways	SELL	Yuji Fung/Dallas Cai
19/06/2019	Sunny Optical	2382	Conference call takeaways	BUY	Yuji Fung/Dallas Cai
18/06/2019	TCL Electronics	1070	Overseas shipments keep steam	BUY	Yuji Fung/Dallas Cai
12/06/2019	Sunny Optical	2382	May shipments on track	BUY	Yuji Fung/Dallas Cai
11/06/2019	361 Degrees Intl	1361	President ups stakes in light of rebranding strategy	BUY	Megan Jin
11/06/2019	Ausnutria Dairy	1717	Penetrating into probiotics business	BUY	Dallas Cai/Megan Jin
11/06/2019	Q Tech	1478	May camera module shipments down MoM	SELL	Yuji Fung/Dallas Cai
04/06/2019	Truly Int'l	732	Introduction of new investor to Truly Opto	BUY	Yuji Fung/Dallas Cai
04/06/2019	Zhongyu Gas	3633	Takeaways from Henan site visit	NR	Megan Jin
24/05/2019	Truly Int'l	732	1Q19 saw margin pressure amidst sales recovery	BUY	Yuji Fung/Dallas Cai
15/05/2019	Ausnutria Dairy	1717	1Q19E saw a solid start	BUY	Dallas Cai/Megan Jin
10/05/2019	China Youzan	8083	E-commerce revenue doubled QoQ in 1Q19	BUY	Yuji Fung/Dallas Cai

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

(as of 15/08/2019)



Date	Rating	TP (HK\$)	Close (HK\$)	Date	Rating	TP (HK\$)	Close (HK\$)
1 22 Dec 2016	BUY	3.35	2.83	5 05 Jul 2018	BUY	8.34	7.37
2 17 Mar 2017	BUY	3.80	3.27	6 17 Aug 2018	HOLD	7.50	8.28
3 18 Aug 2017	BUY	3.90	3.12	7 15 Mar 2019	HOLD	10.4	9.98
4 21 Mar 2018	HOLD	8.20	7.92	8 08 Jul 2019	SELL	6.50	6.90

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Buy (B)	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
Sell (S)	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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