

19 June 2018

Technology | Software & Services

Chinasoft International

Buy (Maintained)

Target Price: HKD7.77

Price: HKD6.78

Market Cap: USD2,099m

Bloomberg Ticker: 354 HK

Enhancing Smart Manufacturing Solutions

Reiterate BUY, with unchanged HKD7.77 TP offering 15% upside and based on 22x 2018F P/E. Our TP also implies 2019F P/E of 16x and PEG of 0.8x. We talked to Chinasoft's vice president, Ms Lin Shanshan last week. Key updates include:

1. Chinasoft is working on partnerships with leading manufacturers on smart manufacturing products;
2. The company is on track to double its revenue from new businesses, and to achieve its full-year financial target.

With undemanding valuations, we believe the stock is a good long-term investment.

Momentum of new businesses continues, including big data, cloud, and JointForce (its crowd sourcing platform).

For cloud, it is partnering with leading manufacturers to enhance its HoneyComb platform, a cloud-based smart manufacturing platform. Partners that it recently signed with include Phoenix Contact (for Programmable Logic Controllers or PLC), China Fast Gear (for commercial vehicle spare parts). It is also in discussions with other large manufacturers of different verticals.

We believe this is the right strategy for Chinasoft, as it cooperates with leading manufacturers of respective verticals to have their input and knowhow to develop best-in-class smart manufacturing solutions. Recently, the company partnered with ESI Group to enhance its HoneyComb platform with virtual prototyping. We believe these efforts should lead to a more competitive and powerful smart manufacturing cloud product, and translate into high-quality revenue in the long run.

For big data, Chinasoft recently signed with Qiannan of Guizhou Province to develop big data ecosystems, demonstrating its industry impact and leadership. Furthermore, demand from financial institutions for big data analysis remains strong, and we believe there are still many areas that big data analysis can move into within the finance sector, in addition to many other sectors. All of these present good growth opportunities for Chinasoft's big data business going forward.

For JointForce, it has launched cloud-based platforms in 5-6 software parks so far this year. The company also targets to penetrate into 10-15 software parks for the full year. It is confident that JointForce could double its revenue in 2018, and anticipates profits to improve, compared to last year.

Management is maintaining its revenue growth target of 15-20% for the full year. Although the company is expecting less than 10% revenue growth from Huawei (due to a high base and lower demand), it is confident that new businesses can book 100% growth in 2018, given the current strong momentum, which is the major growth driver. In addition, other large customers such as HSBC and Baidu are also expected to contribute strong growth.

Reiterate BUY, with an unchanged HKD7.77 TP based on 2018F P/E of 22x, and implying 2019 P/E of 16x and PEG of 0.8x.

Forecasts and Valuations	Dec-16	Dec-17F	Dec-18F	Dec-19F	Dec-20F
Total turnover (CNYm)	6,783	9,244	11,277	13,474	15,806
Reported net profit (CNYm)	442	566	761	966	1,205
Recurring net profit (CNYm)	442	566	761	966	1,205
Recurring net profit growth (%)	57.9	27.9	34.5	26.9	24.7
Recurring EPS (CNY)	0.18	0.22	0.29	0.36	0.50
DPS (CNY)	na	na	na	na	na
Recurring P/E (x)	30.0	25.6	18.8	15.3	11.0
P/B (x)	2.81	2.56	2.25	1.94	1.66
P/CF (x)	47	427	na	42	25
Dividend Yield	na	na	na	na	na
EV/EBITDA (x)	18.6	16.1	13.0	11.0	8.0
Return on average equity (%)	11.8	12.0	13.8	15.2	16.3
Net debt to equity (%)	1.4	netcash	4.3	0.9	netcash
Our vs consensus EPS (adjusted) (%)		(1.9)	4.4	0.2	11.7

Source: Company data, RHB

Analyst

Yujie Li

+852 2103 5680

li.yu.jie@rhbgroup.com



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Jakarta	Shanghai	Bangkok
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