



## Structural adjustments

Due to the macroeconomic impact, Chinasoft's valuation remains low at 10x 19E PE. Nonetheless, the company foresees no decline in total revenue generated from its largest client - than-expected growth of its emerging businesses. We lower our diluted EPS forecasts from Rmb0.36 to Rmb0.28 in 19E (flat YoY) and from Rmb0.46 to Rmb0.30 in 20E (+7.1% YoY), and forecast Rmb0.34 in 21E (+13.3% YoY). We cut our target price from HK\$8.64 to HK\$4.50, representing 12x 19E PE. With 19% upside, we downgrade our rating from BUY to Outperform.

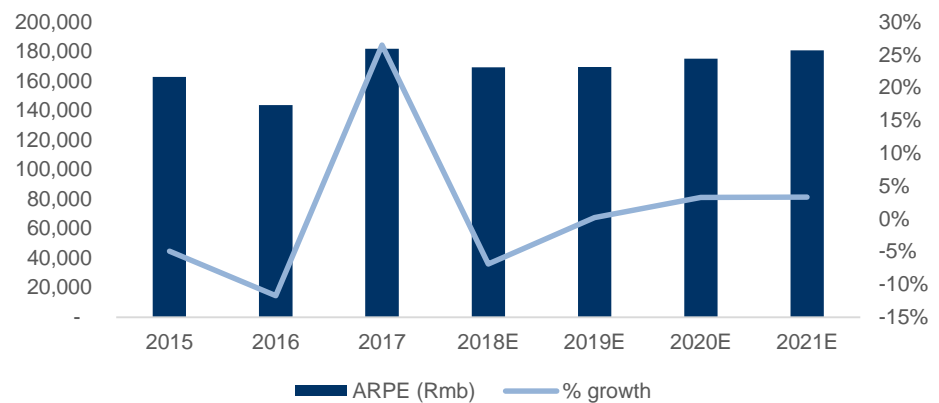
Overhang. Top client does not expect revenue generated from top client to decline in 2019. We note clients' business structure is being adjusted due to the current macroeconomic environment, with a number of departments expanding while others shrink. We believe these structural revenue source from top client.

Margin expansion coming to a standstill. In the past few years, thanks to the rapid development of emerging businesses, such as cloud, big data, and the JF platform. However, we note the growth of emerging businesses has slowed down term. Chinasoft is transforming to focus more on the cloud business in the next few years with more research and development (R&D) expenses. Over margin to remain flat in the short term.

Cloud business. The company set up Cloud & Intelligence Group as a separate department to support the development of its cloud business. We expect the firm to focus more on cloud solutions for large companies than on cloud migration services. The transition from a one-time solution payment to a software-as-a-service (SAAS) recurring payment model takes time. We expect financials for the cloud business segment to be listed separately in the financial statements.

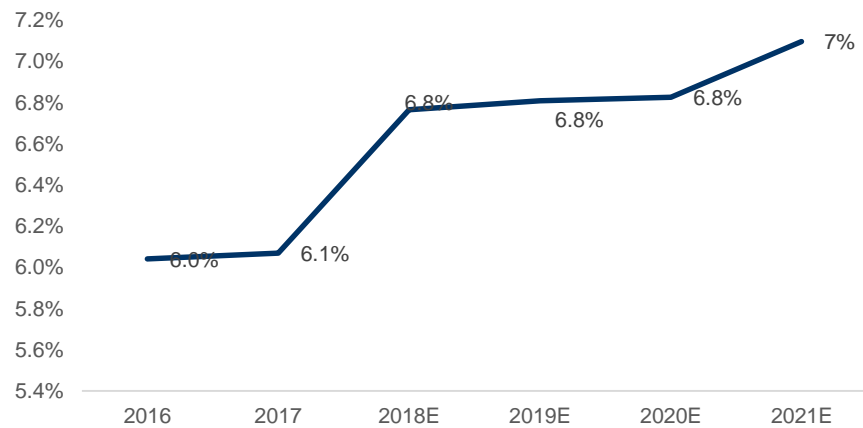
Downgrade to Outperform. We lower our diluted EPS forecasts from Rmb0.36 to Rmb0.28 in 19E (flat YoY) and from Rmb0.46 to Rmb0.30 in 20E (+7.1% YoY), and forecast Rmb0.34 in 21E (+13.3% YoY). The stock is currently trading at 10x 19E basic PE and 11x 19E diluted PE. We cut our target price from HK\$8.64 to HK\$4.50, representing 12x 19E PE. With 19% upside, we downgrade our rating from BUY to Outperform.

Fig 1: Average revenue per employee (Rmb)



Source: Company, SWS Research

Fig 2: Net margin forecast



Source: Company, SWS Research

# Appendix

## Consolidated Income Statement

Rmbm	2017
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## Consolidated Cash Flow Statement

Rmbm	2017	2018	2019E	2020E	2021E
Profit before taxation	633	760	879	1,034	1,186
Plus Depr. and amortisation	178	162	173	156	0
Finance cost	103	118	154	140	112
Losses from investments	0	0	0	0	0
Change in working capital	-687	1,816	-2,777	-435	4,408
Others	106	-44	-88	-155	-178
CF from operating activities	332	2,812	-1,659	740	5,528
CAPEX	-160	-129	-129	-129	0
Other CF from investing activities	-74	0	0	0	0
CF from investing activities	-234	-129	-129	-129	0
Equity financing	0	0	0	0	0
Net change in liabilities	-431	800	0	-466	0
Dividend and interest paid	-100	-147	-191	-179	-156
Other CF from financing activities	964	0	0	0	0
CF from financing activities	432	653	-191	-645	-156
Net cash flow	530	3,336	-1,978	-34	5,373

SOURCE: Research

## Consolidated Balance Sheet

Rmbm	2017	2018	2019E	2020E	2021E
Current Assets	7,425	8,836	10,464	10,464	10,464
Bank balances and cash	2,207	2,498	2,858	2,858	2,858
Trade and other receivables	5,110	6,226	7,489	7,489	7,489
Inventories	47	51	56	56	56
Other current assets	61	61	61	61	61
Long-term investment	30	30	30	30	30
PP&E	1,093	1,349	1,585	1,585	1,585
Intangible and other assets	1,380	1,331	1,297	1,297	1,297
Total Assets	9,929	11,546	13,376	13,376	13,376
Current Liabilities	3,581	4,047	4,727	4,727	4,727
Borrowings	1,536	1,595	1,838	1,838	1,838
Trade and other payables	1,855	2,262	2,699	2,699	2,699
Other current liabilities	190	190	190	190	190
Long-term liabilities	922	1,327	1,489	1,489	1,489
Total Liabilities	4,503	5,374	6,215	6,215	6,215
Minority Interests	68	68	68	68	68
Shareholder Equity	5,357	6,104	7,092	7,092	7,092
Share Capital	115	115	115	115	115
Reserves	2,041	2,787	3,776	3,776	3,776
Equity attributable	5,357	6,104	7,092	7,092	7,092
Total Liabilities and equity	9,929	11,546	13,376	13,376	13,376

Source: SWS Research

## Key Financial Ratios

	2017	2018	2019E	2020E	2021E
Ratios per share (Rmb)					
Earnings per share	0.24	0.30	0.31	0.33	0.38
Diluted earnings per share	0.23	0.28	0.28	0.30	0.34
Operating CF per share	0.14	1.16	(0.65)	0.28	2.09
Dividend per share	0.01	0.02	0.02	0.02	0.02
Net assets per share	2.16	2.46	2.67	2.88	3.25
Key Operating Ratios (%)					
ROIC	11.11	11.98	11.51	11.70	9.46
ROE	11.74	12.72	12.74	12.91	9.72
Gross profit margin	29.76	30.65	30.64	30.91	30.97
Ebitda margin	9.62	9.71	10.27	10.21	9.02
Ebit margin	7.70	8.18	8.77	9.00	9.02
Growth rate of Revenue(YoY)	36.27	14.51	9.80	10.78	10.35
Growth rate of Profit(YoY)	27.93	26.56	10.56	11.06	14.73
Debt-to-asset ratio	40.24	42.49	44.73	40.59	25.92
Turnover rate of net assets	1.77	1.75	1.82	1.78	1.05
Turnover rate of total assets	1.06	1.01	1.01	1.06	0.78
Effective tax rate (%)	11.30	5.82	10.00	15.00	15.00
Dividend yield (%)	0.27	0.43	0.35	0.37	0.43
Valuation Ratios (x)					
P/E	13.54	10.82	10.29	9.63	8.40
P/B	1.48	1.30	1.20	1.11	0.98
EV/Sale	0.75	0.66	0.58	0.49	0.03
EV/Ebitda	7.74	6.82	5.60	4.76	0.32

Source: SWS Research

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