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## China Technology

Reuters 0354.HK  
Bloomberg 354 HK

**Priced on 28 March 2024**

HS CEI @ 5,810.8

**12M hi/lo** HK\$6.83/4.31

**12M price target** HK\$6.30  
**±% potential** +33%

**Shares in issue** 2,846.6m  
**Free float (est.)** 88.4%

**Market cap** US\$1.8bn

**3M ADV** US\$15.8m

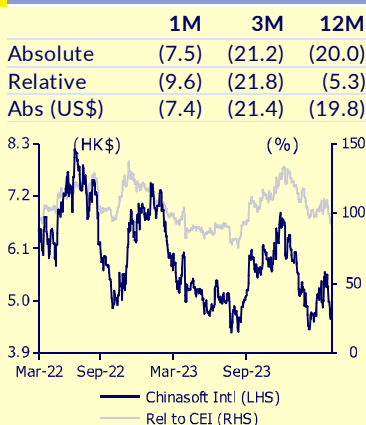
**Major shareholders**

Yuhong Chen 11.6%  
UBS Group 7.6%

**Blended ESG Score (%)\***

Overall 51.7  
Country average 52.9  
GEM sector average 60.4

\*Click to visit company page on cls.com for details

**Stock performance (%)**

Source: Bloomberg

## Efficiency improved

### Looking for more margin improvement amid sales uncertainty

Chinasoft Intl (CSI) reported its 2023 results with revenue and NP both declining. On the positive side its GPM and NPM expanded YoY with improving project delivery efficiency and as it cut staff numbers; we expect its margin to continue to improve in 2024. We see CSI's key strategies as maintaining a good relationship with Huawei and increasing its exposure to SOE companies. We revise our forecast, cutting our target price from HK\$7.70 to HK\$6.30, but maintain our BUY rating.

### Recap of 2023 revenue

2023 revenue declined by 14.4% YoY to Rmb17,117m, primarily due to softer demand from key clients (including Huawei/HSBC/Tencent down 21.3%/31.8%/31.1% YoY), but this was offset slightly by increased revenue from telecom companies and SOEs. By segment, revenue from its traditional IT outsourcing business (62.3% of sales) was down 24.5% YoY, while cloud intelligence group (37.7% of sales) was down slightly by 2.5% YoY.

### Profit down but margin improved

CSI's overall margin improved in 2023. Its GPM rose 40bps to 23.4% (beating consensus by 40bps but missing to our estimate by 80bps). NP of Rmb713m was down 6.1% YoY, and missed to consensus/our forecast by -23.2%/-14.3%; but its NPM increased from 3.8% to 4.2%. The major reasons for its margin improvement: (1) CSI has made strategic adjustments to focus on new business expansion with higher GPMs, and has ceased some low-GPM business; (2) improvement in project delivery efficiency; and (3) lowering its staff from 82,140 in 2022 to 69,976 in 2023 (-14.8% YoY). We expect CSI to continue to improve its margin in 2024.

### Keeping a good relationship with Huawei and expand SOE exposure

Amidst the uncertain economic recovery and external environment, partnering with Huawei should remain a key strategy. CSI has multiple relationships with Huawei, including the cross-selling of Huawei Cloud and Huawei's all-in-one AI server, the implementation of MetaERP, OpenHarmony and IoT projects, and it also leveraging Huawei's AI-related capabilities to launched an AI application platform to provide solutions for different industries. Apart from Huawei, more digitalisation projects with SOEs and telecom companies is another path to grow its revenue.

### Maintain BUY

We factor-in its 2023 results and revise our forecasts. We lower our target price from HK\$7.70 to HK\$6.30, based on a 14.5x PE 25CL (unchanged), largely in-line with CSI's average forward 12-month PE. We continue to like CSI as a proxy to Huawei in the H-share market and we expect it to be benefit with Huawei's continued expansion to its software ecosystem. We maintain our BUY recommendation.

### Financials

Year to 31 December	22A	23A	24CL	25CL	26CL
Revenue (Rmbm)	20,005	17,117	18,878	21,342	23,782
Rev forecast change (%)	-	-	(12.4)	(13.2)	(14.8)
Net profit (Rmbm)	759	713	884	1,104	1,384
NP forecast change (%)	-	-	(19.4)	(22.7)	(22.6)
EPS (Rmb)	0.25	0.25	0.31	0.39	0.49
CL/consensus (9) (EPS%)	-	-	82	82	82
EPS growth (% YoY)	(34.4)	(0.5)	24.0	24.9	25.3
PE (x)	16.1	17.4	14.0	11.2	9.0
Dividend yield (%)	0.7	1.2	1.5	1.8	2.3
ROE (%)	6.4	6.0	7.2	8.3	9.4
Net debt/equity (%)	(25.4)	(6.6)	(13.0)	(17.7)	(23.5)

Source: www.cls.com

Change in target price

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## Financials at a glance

Year to 31 December	2022A	2023A	2024CL	(% YoY)	2025CL	2026CL
<b>Profit &amp; Loss (Rmbm)</b>						
Revenue	20,005	17,117	18,878	10.3	21,342	23,782
Cogs (ex-D&A)	(14,905)	(12,688)	(14,069)		(15,886)	(17,643)
<b>Gross Profit (ex-D&amp;A)</b>	<b>5,100</b>	<b>4,429</b>	<b>4,809</b>	<b>8.6</b>	<b>5,455</b>	<b>6,140</b>
SG&A and other expenses	(3,870)	(3,301)	(3,613)		(4,020)	(4,409)
<b>Op Ebitda</b>	<b>1,230</b>	<b>1,127</b>	<b>1,196</b>	<b>6.1</b>	<b>1,435</b>	<b>1,731</b>
Depreciation/amortisation	(500)	(426)	(300)		(251)	(221)
<b>Op Ebit</b>	<b>731</b>	<b>702</b>	<b>897</b>	<b>27.8</b>	<b>1,184</b>	<b>1,510</b>
Net interest inc/(exp)	(113)	(203)	(190)		(181)	(172)
Other non-Op items	212	235	245	4.2	185	151
<b>Profit before tax</b>	<b>830</b>	<b>734</b>	<b>952</b>	<b>29.7</b>	<b>1,189</b>	<b>1,490</b>
Taxation	(71)	(21)	(66)		(82)	(103)
<b>Profit after tax</b>	<b>759</b>	<b>713</b>	<b>886</b>	<b>24.3</b>	<b>1,107</b>	<b>1,387</b>
Minority interest	1	1	(2)		(2)	(3)
<b>Net profit</b>	<b>759</b>	<b>713</b>	<b>884</b>	<b>24</b>	<b>1,104</b>	<b>1,384</b>
<b>Adjusted profit</b>	<b>759</b>	<b>713</b>	<b>884</b>	<b>24</b>	<b>1,104</b>	<b>1,384</b>
<b>Cashflow (Rmbm)</b>						
<b>Operating profit</b>	<b>731</b>	<b>702</b>	<b>897</b>	<b>27.8</b>	<b>1,184</b>	<b>1,510</b>
Depreciation/amortisation	500	426	300	(29.6)	251	221
Working capital changes	(683)	(1,109)	(219)		(434)	(391)
Other items	218	370	179	(51.5)	103	49
<b>Net operating cashflow</b>	<b>765</b>	<b>388</b>	<b>1,157</b>	<b>198.4</b>	<b>1,104</b>	<b>1,389</b>
Capital expenditure	(204)	(394)	(193)		(221)	(166)
<b>Free cashflow</b>	<b>561</b>	<b>(6)</b>	<b>964</b>		<b>883</b>	<b>1,223</b>
M&A/Others	(446)	179	0		0	0
<b>Net investing cashflow</b>	<b>(650)</b>	<b>(214)</b>	<b>(193)</b>		<b>(221)</b>	<b>(166)</b>
Increase in loans	(101)	(31)	0		0	0
Dividends	(80)	0	0		0	0
Net equity raised/other	(601)	(1,474)	(190)		(181)	(172)
<b>Net financing cashflow</b>	<b>(781)</b>	<b>(1,505)</b>	<b>(190)</b>		<b>(181)</b>	<b>(172)</b>
Incr/(decr) in net cash	(666)	(1,332)	774		702	1,051
Exch rate movements	114	114	114	0	114	114
<b>Balance sheet (Rmbm)</b>						
Cash & equivalents	5,005	3,788	4,676	23.4	5,493	6,659
Accounts receivable	6,157	6,092	6,272	3	6,648	7,077
Other current assets	2,439	3,065	3,298	7.6	3,624	3,779
Fixed assets	1,119	1,151	1,149	(0.1)	1,105	1,018
Investments	485	429	429	0	429	429
Intangible assets	1,124	1,180	1,217	3.1	1,296	1,369
Other non-current assets	636	1,363	1,221	(10.4)	1,156	1,115
<b>Total assets</b>	<b>16,965</b>	<b>17,068</b>	<b>18,262</b>	<b>7</b>	<b>19,751</b>	<b>21,446</b>
Short-term debt	766	735	735	0	735	735
Accounts payable	2,043	1,663	1,822	9.6	2,046	2,195
Other current liabs	744	565	600	6.2	643	687
Long-term debt/CBs	1,162	2,282	2,282	0	2,282	2,282
Provisions/other LT liabs	114	57	57	0	57	57
Shareholder funds	12,110	11,742	12,741	8.5	13,960	15,459
Minorities/other equity	25	24	26	7.5	28	31
<b>Total liabs &amp; equity</b>	<b>16,965</b>	<b>17,068</b>	<b>18,263</b>	<b>7</b>	<b>19,751</b>	<b>21,446</b>
<b>Ratio analysis</b>						
Revenue growth (% YoY)	8.7	(14.4)	10.3		13.0	11.4
Ebitda margin (%)	6.2	6.6	6.3		6.7	7.3
Ebit margin (%)	3.7	4.1	4.7		5.5	6.3
Net profit growth (%)	(33.2)	(6.1)	24.0		24.9	25.3
Op cashflow growth (% YoY)	(20.5)	(49.3)	198.4		(4.6)	25.8
Capex/sales (%)	1.0	2.3	1.0		1.0	0.7
Net debt/equity (%)	(25.4)	(6.6)	(13.0)		(17.7)	(23.5)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	6.4	6.0	7.2		8.3	9.4
ROIC (%)	8.1	7.1	7.8		10.1	12.4

Source: www.clsa.com

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## Efficiency improved

### FY23 results summary

**Revenue:** FY23 Revenue down by -14.4% YoY to Rmb17,117m (Rmb20,005m in FY22). This missed consensus and our forecasts by -12.0%/-8.5%.

**Gross profit and GPM:** Gross profit was recorded at Rmb4,003m, representing a decline of -13.0% YoY from Rmb4,600m in FY22. However, GPM improved, increasing by 40bps to 23.4%, this beat consensus forecast of GPM at 23.0% (beat by 40bps), but a miss to our forecasts by 80bps. The improved GPM was mainly due to the company's continuous adjustments on business structure to focus on the new business expansion, while ceased some low-GPM business. Management also mentioned that they improved the efficiency on project delivery in FY23.

**Core operating profit (gross profit - S&M expenses - R&D expenses - admin expenses) and Core OPM:** Core operating profit decreased from Rmb731m in FY22 to Rmb702m in FY23, representing a decline of -4.0% YoY. Core OPM was up by +0.4% from 3.7% to 4.1%, as CSI conducted strict cost controls.

**Net profit and NPM:** Net profit attributable to the shareholders in FY23 recorded at Rmb713m, down by -6.1% YoY from Rmb759m in FY22. The NPM increased from 3.8% to 4.2%. CL forecasted FY23 net profit at Rmb833m; while consensus forecasted of Rmb929m. A miss to our and consensus forecasts by -14.3% and -23.2%, respectively.

**Dividend:** The Company declared the distribution of a final dividend of HK\$0.0811 per share for FY23, representing a payout of around 31.3% (21.7% for FY22).

Figure 1

Revenue summary, by customer							
(Rmbm)	FY20A	FY21A	FY22A	FY23A	FY24CL	FY25CL	FY26CL
<b>Huawei</b>	<b>8,030</b>	<b>9,882</b>	<b>9,827</b>	<b>7,731</b>	<b>7,885</b>	<b>8,280</b>	<b>8,611</b>
Growth (%)		23.1	(0.6)	(21.3)	2.0	5.0	4.0
Contribution (%)	56.9	53.7	49.1	45.2	41.8	38.8	36.2
<b>HSBC</b>	<b>830</b>	<b>1,181</b>	<b>1,159</b>	<b>790</b>	<b>750</b>	<b>713</b>	<b>699</b>
Growth (%)		42.2	(1.9)	(31.8)	(5.0)	(5.0)	(2.0)
Contribution (%)	5.9	6.4	5.8	4.6	4.0	3.3	2.9
<b>Tencent</b>	<b>500</b>	<b>706</b>	<b>697</b>	<b>480</b>	<b>480</b>	<b>490</b>	<b>500</b>
Growth (%)		41.2	(1.3)	(31.1)	-	2.0	2.0
Contribution (%)	3.5	3.8	3.5	2.8	2.5	2.3	2.1
<b>Alibaba</b>	<b>400</b>	<b>597</b>	<b>467</b>	<b>448</b>	<b>448</b>	<b>457</b>	<b>466</b>
Growth (%)		49.2	(21.7)	(4.2)	-	2.0	2.0
Contribution (%)	2.8	3.2	2.3	2.6	2.4	2.1	2.0
<b>Ping An</b>	<b>450</b>	<b>523</b>	<b>490</b>	<b>345</b>	<b>363</b>	<b>388</b>	<b>411</b>
Growth (%)		16.1	(6.3)	(29.4)	5.0	7.0	6.0
Contribution (%)	3.2	2.8	2.4	2.0	1.9	1.8	1.7
<b>Others</b>	<b>3,891</b>	<b>5,510</b>	<b>7,366</b>	<b>7,323</b>	<b>8,952</b>	<b>11,015</b>	<b>13,096</b>
Growth (%)		41.6	33.7	(0.6)	22.2	23.0	18.9
Contribution (%)	27.6	29.9	36.8	42.8	47.4	51.6	55.1
<b>Total revenue</b>	<b>14,101</b>	<b>18,398</b>	<b>20,005</b>	<b>17,117</b>	<b>18,878</b>	<b>21,342</b>	<b>23,782</b>
Growth (%)	17.1	30.5	8.7	(14.4)	10.3	13.0	11.4

Source: CLSA, Company

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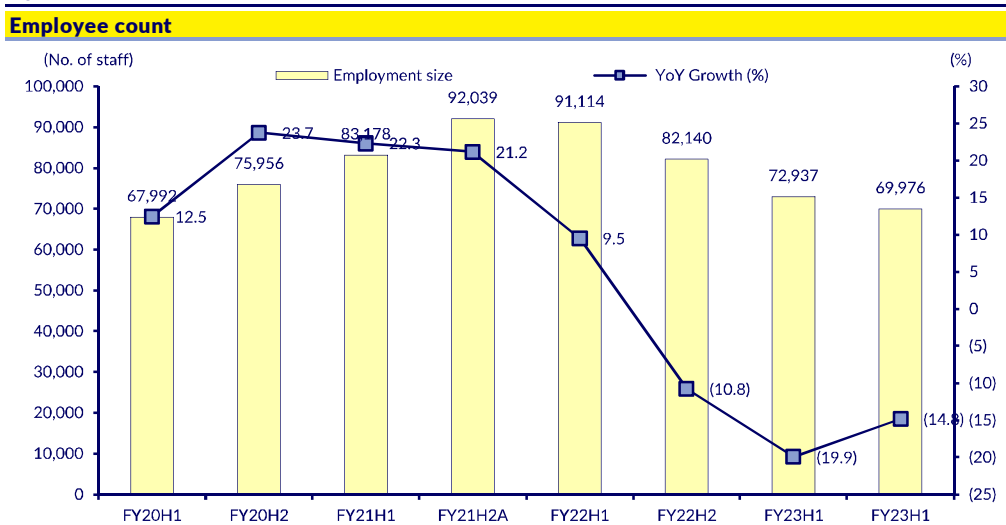


Figure 2

Revenue summary, by business group											
(Rmbm)	FY20A	FY21A	FY22H1	FY22H2	FY22A	FY23H1	FY23H2	FY23A	FY24CL	FY25CL	FY26CL
Cloud Intelligence Group - CIG	3,243	5,299	3,212	3,406	6,618	3,304	3,146	6,450	7,998	9,918	11,901
Growth (%)	58.4	63.4	50.8	7.5	24.9	2.9	(7.6)	(2.5)	24.0	24.0	20.0
Proportion (%)	23.0	28.8	32.0	34.1	33.1	39.1	36.3	37.7	42.4	46.5	50.0
Traditional business (IT outsourcing)	10,858	13,099	6,813	6,574	13,387	5,146	5,521	10,667	10,880	11,424	11,881
Growth (%)	8.6	20.6	9.7	(4.6)	2.2	(24.5)	(16.0)	(20.3)	2.0	5.0	4.0
Proportion (%)	77.0	71.2	68.0	65.9	66.9	60.9	63.7	62.3	57.6	53.5	50.0
Total revenue	14,101	18,398	10,025	9,980	20,005	8,450	8,667	17,117	18,878	21,342	23,782
Growth (%)	17.1	30.5	20.2	(0.8)	8.7	(15.7)	(13.2)	(14.4)	10.3	13.0	11.4

Source: CLSA, Company

Figure 3



Source: CLSA, Company

Figure 4

Financial summary							
(Rmbm)	FY20A	FY21A	FY22A	FY23CL	FY24CL	FY25CL	FY26CL
Revenue	14,101	18,398	20,005	17,117	18,878	21,342	23,782
Growth (%)	17.1	30.5	8.7	(14.4)	10.3	13.0	11.4
Gross profit	4,118	4,904	4,600	4,003	4,509	5,205	5,919
Growth (%)	14.9	19.1	(6.2)	(13.0)	12.6	15.4	13.7
Margin (%)	29.2	26.7	23.0	23.4	23.9	24.4	24.9
Core operating profit	1,157	956	731	702	897	1,184	1,510
Growth (%)	20.4	(17.4)	(23.6)	(4.0)	27.8	32.1	27.5
Margin (%)	8.2	5.2	3.7	4.1	4.7	5.5	6.3
Operating profit	1,113	908	675	596	791	1,079	1,404
Growth (%)	23.4	(18.4)	(25.6)	(11.8)	32.7	36.4	30.2
Margin (%)	7.9	4.9	3.4	3.5	4.2	5.1	5.9
Net profit	948	1,137	759	713	886	1,107	1,387
Growth (%)	25.3	19.9	(33.2)	(6.1)	24.3	24.9	25.3
Margin (%)	6.7	6.2	3.8	4.2	4.7	5.2	5.8
Net profit attributable to ordinary shareholders	955	1,137	759	713	884	1,104	1,384
Growth (%)	26.5	19.1	(33.2)	(6.1)	24.0	24.9	25.3
Margin (%)	6.8	6.2	3.8	4.2	4.7	5.2	5.8

Source: CLSA, Company

Figure 5

Forecast changes									
Rmbm	NEW			OLD			% change or ppt change		
	FY24CL	FY25CL	FY26CL	FY24CL	FY25CL	FY26CL	FY24CL	FY25CL	FY26CL
Revenue	18,878	21,342	23,782	21,545	24,587	na	(12.4%)	(13.2%)	na
Growth (%)	10.3	13.0	11.4	15.1	14.1	na			
Gross profit	4,509	5,205	5,919	5,385	6,342	na	(16.3%)	(17.9%)	na
Growth (%)	12.6	15.4	13.7	18.9	17.8	na			
Margin (%)	23.9	24.4	24.9	25.0	25.8	na	(1.1)	(1.4)	na
Operating profit	791	1,079	1,404	1,203	1,600	na	(34.3%)	(32.6%)	na
Growth (%)	32.7	36.4	30.2	38.1	33.0	na			
Margin (%)	4.2	5.1	5.9	5.6	6.5	na	(1.4)	(1.5)	na
Net profit	886	1,107	1,387	1,099	1,432	na	(19.4%)	(22.7%)	na
Growth (%)	24.3	24.9	25.3	31.7	30.2	na			
Margin (%)	4.7	5.2	5.8	5.1	5.8	na	(0.4)	(0.6)	na
Net profit attributable to ordinary shareholders	884	1,104	1,384	1,097	1,429	na	(19.4%)	(22.7%)	na
Growth (%)	24.0	24.9	25.3	31.7	30.2	na			
Margin (%)	4.7	5.2	5.8	5.1	5.8	na	(0.4)	(0.6)	na

Source: CLSA, Company

Our net profit forecast changes are mainly due to (1) Slower revenue growth estimations due to prolonged uncertainties on macro economy; (2) Tad lower GPM expectations and (3) Lower expectations on operating leverage from the top-line.

Figure 6



Dated: 30 Mar 2024. Source: CLSA, Refinitiv

Figure 7

Chinasoft International: target price computation - new	
25CL	25CL
25CL Net profit attributable to equity shareholders (Rmbm)	1,104
Target PE multiple (x)	14.5
Equity value (Rmbm)	16,015
Number of shares - diluted (m)	2,847
Exchange ratio (Rmb/HK\$)	1.11
Target price (HK\$), rounding	6.30

Source: CLSA

Figure 8

**Chinasoft International: target price computation – old: 9 Jan 2024**

	25CL
25CL Net profit attributable to equity shareholders (Rmbm)	1,429
Target PE multiple (x)	14.5
Equity value (Rmbm)	20,717
Number of shares - diluted (m)	3,006
Exchange ratio (Rmb/HK\$)	1.11
<b>Target price (HK\$), rounding</b>	<b>7.70</b>

Source: CLSA

Figure 9

**Peer comp table for CSI**

Company	Ticker	Last price (local ccy)	Mkt Cap (US\$m)	3M ADTO (US\$m)	PE 24 (x)	PE 25 (x)	EV/Sales 24 (x)	EV/Sales 25 (x)	EV/EBITDA 24 (x)	EV/EBITDA 25 (x)
CSI	0354.HK	4.72	1,753	16.0	14.0	11.2	0.5	0.5	7.4	6.1
Digital China	000034.SZ	29.52	2,735	108.9	13.5	11.3	0.3	0.3	14.3	12.5
GIE Consulting	300687.SZ	18.40	1,044	25.8	20.1	15.3	2.2	1.7	17.9	13.9
AsiaInfo	1675.HK	7.17	857	1.4	6.6	6.0	0.4	0.4	3.1	2.7
iSoftstone	301236.SZ	46.48	6,134	406.3	29.9	22.6	1.7	1.4	20.8	15.9
Accenture	ACN.N	346.61	232,375	252.5	28.6	26.4	3.5	3.3	18.8	17.1
IBM	IBM	190.96	175,062	960.3	18.9	17.9	3.4	3.3	13.6	13.2
Infosys	INFY.NS	1,498.05	74,446	130.5	25.2	22.4	3.4	3.3	13.6	13.2
TATA Consultancy	TCS.NS	3,876.30	168,377	118.4	30.6	27.5	5.6	5.2	21.3	19.1
Average					20.8	17.8	2.3	2.1	14.5	12.6

Dated: 30 Mar 2024. Source: CLSA, Refinitiv

**Investment thesis**

Chinasoft Intl recently is experiencing an uneasy time amid a weak economy in China. The demand for traditional IT outsourcing business from key clients have been slowing down. This was, however, slightly offset by telecommunication companies and some SOE demand as well as the modest growth of cloud intelligence group (CIG) segment. That said, the company will control costs (by downsizing staff, etc.) in a stricter manner to account for this environment, and hence to improve margin. As the only few Huawei-related stocks in H-share, we expect it to be benefit with Huawei's continue expansion to its software ecosystem.

**Catalysts**

CSI has multiple relationships with Huawei, including cross-selling of Huawei Cloud and Huawei all-in-one AI server; and implementation of MetaERP, OpenHarmony IoT projects etc.; and it also leveraging Huawei's AI-related capabilities to launched an AI application platform to provide solutions for different industries. Any breakthrough or further investment from Huawei onto these areas could potentially benefit to Chinasoft Intl'.

**Valuation details**

Our target price is based on 14.5x 25CL PE, largely in line with the company's 10-year historical forward trading average PE. Our target PE multiple reflects the H-share investment sentiment and increasing investor interest in the Huawei-related theme.

**Investment risks**

We believe the primary investment risks come from 1) uncertainties on Huawei; 2) uncertainties from new products/services development; 3) risk of greater competition; 4) risk of economic downturn; and 5) risk from Covid-19 pandemic that delays delivery of services.



## Detailed financials

### Profit & Loss (Rmbm)

Year to 31 December	2020A	2021A	2022A	2023A	2024CL	2025CL	2026CL
Revenue	14,101	18,398	20,005	17,117	18,878	21,342	23,782
Cogs (ex-D&A)	(9,654)	(13,050)	(14,905)	(12,688)	(14,069)	(15,886)	(17,643)
Gross Profit (ex-D&A)	4,448	5,348	5,100	4,429	4,809	5,455	6,140
Research & development costs	(930)	(1,249)	(1,238)	(1,078)	(1,180)	(1,312)	(1,439)
Selling & marketing expenses	(729)	(943)	(949)	(868)	(948)	(1,051)	(1,147)
Other SG&A	(1,302)	(1,756)	(1,683)	(1,355)	(1,485)	(1,657)	(1,823)
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	1,486	1,400	1,230	1,127	1,196	1,435	1,731
Depreciation/amortisation	(329)	(444)	(500)	(426)	(300)	(251)	(221)
Op Ebit	1,157	956	731	702	897	1,184	1,510
Interest income	76	0	0	0	0	0	0
Interest expense	(151)	(100)	(113)	(203)	(190)	(181)	(172)
Net interest inc/(exp)	(76)	(100)	(113)	(203)	(190)	(181)	(172)
Associates/investments	-	-	-	-	-	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	237	419	348	429	399	339	305
Provisions/other non-cash items	(283)	(23)	(135)	(194)	(154)	(154)	(154)
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	1,035	1,252	830	734	952	1,189	1,490
Taxation	(87)	(115)	(71)	(21)	(66)	(82)	(103)
Profit after tax	948	1,137	759	713	886	1,107	1,387
Preference dividends	-	-	-	-	-	-	-
Profit for period	948	1,137	759	713	886	1,107	1,387
Minority interest	7	0	1	1	(2)	(2)	(3)
Net profit	955	1,137	759	713	884	1,104	1,384
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	955	1,137	759	713	884	1,104	1,384
Dividends	(52)	(70)	(80)	(138)	(177)	(221)	(277)
Retained profit	903	1,067	680	575	707	884	1,107
Adjusted profit	955	1,137	759	713	884	1,104	1,384
EPS (Rmb)	0.3	0.4	0.3	0.3	0.3	0.4	0.5
Adj EPS [pre excep] (Rmb)	0.3	0.4	0.3	0.3	0.3	0.4	0.5
Core EPS (Rmb)	0.3	0.4	0.3	0.3	0.3	0.4	0.5
DPS (Rmb)	0.0	0.0	0.0	0.1	0.1	0.1	0.1

### Profit & loss ratios

Year to 31 December	2020A	2021A	2022A	2023A	2024CL	2025CL	2026CL
<b>Growth (%)</b>							
Revenue growth (% YoY)	17.1	30.5	8.7	(14.4)	10.3	13.0	11.4
Ebitda growth (% YoY)	17.6	(5.8)	(12.1)	(8.4)	6.1	20.0	20.6
Ebit growth (% YoY)	20.4	(17.4)	(23.6)	(4.0)	27.8	32.1	27.5
Net profit growth (%)	26.5	19.1	(33.2)	(6.1)	24.0	24.9	25.3
EPS growth (% YoY)	20.6	12.5	(34.4)	(0.5)	24.0	24.9	25.3
Adj EPS growth (% YoY)	20.6	12.5	(34.4)	(0.5)	24.0	24.9	25.3
DPS growth (% YoY)	32.4	(22.0)	8.5	83.5	27.8	24.9	25.3
Core EPS growth (% YoY)	20.6	12.5	(34.4)	(0.5)	24.0	24.9	25.3
<b>Margins (%)</b>							
Gross margin (%)	31.5	29.1	25.5	25.9	25.5	25.6	25.8
Ebitda margin (%)	10.5	7.6	6.2	6.6	6.3	6.7	7.3
Ebit margin (%)	8.2	5.2	3.7	4.1	4.7	5.5	6.3
Net profit margin (%)	6.8	6.2	3.8	4.2	4.7	5.2	5.8
Core profit margin	6.8	6.2	3.8	4.2	4.7	5.2	5.8
Op cashflow margin	8.2	5.2	3.8	2.3	6.1	5.2	5.8
<b>Returns (%)</b>							
ROE (%)	12.5	11.2	6.4	6.0	7.2	8.3	9.4
ROA (%)	8.9	5.8	3.9	4.0	4.7	5.8	6.8
ROIC (%)	16.2	11.9	8.1	7.1	7.8	10.1	12.4
ROCE (%)	17.5	12.9	8.6	7.0	8.1	10.5	12.9
<b>Other key ratios (%)</b>							
Effective tax rate (%)	8.4	9.2	8.6	2.9	6.9	6.9	6.9
Ebitda/net int exp (x)	19.6	14.1	10.9	5.6	6.3	7.9	10.1
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	9.5	6.6	10.9	20.0	20.7	20.7	20.7

Source: www.clsa.com



## Balance sheet (Rmbm)

Year to 31 December	2020A	2021A	2022A	2023A	2024CL	2025CL	2026CL
Cash & equivalents	3,787	5,556	5,005	3,788	4,676	5,493	6,659
Accounts receivable	4,580	5,894	6,157	6,092	6,272	6,648	7,077
Inventories	51	163	99	96	106	120	134
Other current assets	1,976	1,906	2,339	2,969	3,192	3,504	3,645
<b>Current assets</b>	<b>10,394</b>	<b>13,520</b>	<b>13,601</b>	<b>12,945</b>	<b>14,246</b>	<b>15,765</b>	<b>17,515</b>
Fixed assets	858	1,220	1,119	1,151	1,149	1,105	1,018
Investments	247	385	485	429	429	429	429
Goodwill	941	844	844	844	844	844	844
Other intangible assets	145	193	281	336	373	453	526
Other non-current assets	502	741	636	1,363	1,221	1,156	1,115
<b>Total assets</b>	<b>13,087</b>	<b>16,902</b>	<b>16,965</b>	<b>17,068</b>	<b>18,262</b>	<b>19,751</b>	<b>21,446</b>
Short term loans/OD	368	917	766	735	735	735	735
Accounts payable	1,753	2,252	2,043	1,663	1,822	2,046	2,195
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	83	181	154	163	163	163	163
Other current liabs	514	636	590	402	437	480	525
<b>Current liabilities</b>	<b>2,718</b>	<b>3,986</b>	<b>3,553</b>	<b>2,962</b>	<b>3,156</b>	<b>3,424</b>	<b>3,617</b>
Long-term debt/leases/other	1,421	1,021	1,162	2,282	2,282	2,282	2,282
Convertible bonds	0	0	0	0	0	0	0
Provisions/other LT liabs	171	269	114	57	57	57	57
<b>Total liabilities</b>	<b>4,311</b>	<b>5,276</b>	<b>4,830</b>	<b>5,301</b>	<b>5,495</b>	<b>5,763</b>	<b>5,956</b>
Share capital	4,867	6,432	6,151	5,608	5,608	5,608	5,608
Retained earnings	4,492	5,760	6,498	7,249	8,248	9,467	10,965
Reserves/others	(605)	(589)	(539)	(1,114)	(1,114)	(1,114)	(1,114)
<b>Shareholder funds</b>	<b>8,753</b>	<b>11,604</b>	<b>12,110</b>	<b>11,742</b>	<b>12,741</b>	<b>13,960</b>	<b>15,459</b>
Minorities/other equity	23	23	25	24	26	28	31
<b>Total equity</b>	<b>8,776</b>	<b>11,627</b>	<b>12,135</b>	<b>11,767</b>	<b>12,767</b>	<b>13,989</b>	<b>15,490</b>
<b>Total liabs &amp; equity</b>	<b>13,087</b>	<b>16,902</b>	<b>16,965</b>	<b>17,068</b>	<b>18,263</b>	<b>19,751</b>	<b>21,446</b>
Total debt	1,790	1,938	1,929	3,017	3,017	3,017	3,017
Net debt	(1,997)	(3,618)	(3,077)	(771)	(1,659)	(2,476)	(3,642)
Adjusted EV	9,520	7,611	8,723	11,227	10,340	9,526	8,363
BVPS (Rmb)	3.1	3.9	4.0	4.1	4.5	4.9	5.4

## Balance sheet ratios

Year to 31 December	2020A	2021A	2022A	2023A	2024CL	2025CL	2026CL
<b>Key ratios</b>							
Current ratio (x)	3.8	3.4	3.8	4.4	4.5	4.6	4.8
Growth in total assets (% YoY)	21.8	29.2	0.4	0.6	7.0	8.2	8.6
Growth in capital employed (% YoY)	5.0	18.1	13.1	21.4	1.0	3.6	2.9
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to operating cashflow (x)	1.6	2.0	2.5	7.8	2.6	2.7	2.2
Gross debt to Ebitda (x)	1.2	1.4	1.6	2.7	2.5	2.1	1.7
Net debt/Ebitda (x)	-	-	-	-	-	-	-
<b>Gearing</b>							
Net debt/equity (%)	(22.8)	(31.1)	(25.4)	(6.6)	(13.0)	(17.7)	(23.5)
Gross debt/equity (%)	20.4	16.7	15.9	25.6	23.6	21.6	19.5
Interest cover (x)	8.1	9.6	6.5	3.5	4.7	6.6	8.8
Debt cover (x)	0.6	0.5	0.4	0.1	0.4	0.4	0.5
Net cash per share (Rmb)	0.7	1.2	1.0	0.3	0.6	0.9	1.3
<b>Working capital analysis</b>							
Inventory days	1.9	2.9	3.1	2.7	2.6	2.6	2.6
Debtor days	102.0	103.9	109.9	130.6	119.5	110.5	105.3
Creditor days	54.5	54.2	50.9	51.6	44.3	43.7	43.3
Working capital/Sales (%)	30.2	26.6	29.0	40.5	37.9	35.5	33.5
<b>Capital employed analysis</b>							
Sales/Capital employed (%)	208.0	229.7	220.9	155.7	170.0	185.4	200.7
EV/Capital employed (%)	140.4	95.0	96.3	102.1	93.1	82.7	70.6
Working capital/Capital employed (%)	62.8	61.1	64.1	63.0	64.4	65.9	67.3
Fixed capital/Capital employed (%)	12.7	15.2	12.4	10.5	10.3	9.6	8.6
<b>Other ratios (%)</b>							
PB (x)	1.3	1.0	1.0	1.1	1.0	0.9	0.8
EV/Ebitda (x)	6.4	5.4	7.1	10.0	8.6	6.6	4.8
EV/OCF (x)	8.3	7.9	11.4	29.0	8.9	8.6	6.0
EV/FCF (x)	9.6	14.8	15.6	(1,933.0)	10.7	10.8	6.8
EV/Sales (x)	0.7	0.4	0.4	0.7	0.5	0.4	0.4
Capex/depreciation (%)	57.0	113.2	45.9	123.0	81.9	121.2	112.2

Source: www.clsa.com

## Cashflow (Rmbm)

Year to 31 December	2020A	2021A	2022A	2023A	2024CL	2025CL	2026CL
Operating profit	1,157	956	731	702	897	1,184	1,510
Operating adjustments	(122)	296	99	32	55	4	(20)
Depreciation/amortisation	329	444	500	426	300	251	221
Working capital changes	(533)	(887)	(683)	(1,109)	(219)	(434)	(391)
Interest paid / other financial expenses	-	-	-	-	-	-	-
Tax paid	(83)	(20)	(97)	(15)	(66)	(82)	(103)
Other non-cash operating items	405	173	216	353	190	181	172
<b>Net operating cashflow</b>	<b>1,153</b>	<b>962</b>	<b>765</b>	<b>388</b>	<b>1,157</b>	<b>1,104</b>	<b>1,389</b>
Capital expenditure	(163)	(449)	(204)	(394)	(193)	(221)	(166)
<b>Free cashflow</b>	<b>990</b>	<b>513</b>	<b>561</b>	<b>(6)</b>	<b>964</b>	<b>883</b>	<b>1,223</b>
Acq/inv/disposals	(98)	(50)	(165)	(327)	179	-	-
Int, invt & associate div	69	(30)	(281)	507	(179)	-	-
<b>Net investing cashflow</b>	<b>(192)</b>	<b>(530)</b>	<b>(650)</b>	<b>(214)</b>	<b>(193)</b>	<b>(221)</b>	<b>(166)</b>
Increase in loans	217	173	(101)	(31)	0	0	0
Dividends	(52)	(70)	(80)	0	0	0	0
Net equity raised/others	196	1,274	(601)	(1,474)	(190)	(181)	(172)
<b>Net financing cashflow</b>	<b>362</b>	<b>1,377</b>	<b>(781)</b>	<b>(1,505)</b>	<b>(190)</b>	<b>(181)</b>	<b>(172)</b>
Incr/(decr) in net cash	1,323	1,810	(666)	(1,332)	774	702	1,051
Exch rate movements	(62)	(40)	114	114	114	114	114
<b>Opening cash</b>	<b>2,526</b>	<b>3,787</b>	<b>5,556</b>	<b>5,005</b>	<b>3,788</b>	<b>4,676</b>	<b>5,493</b>
<b>Closing cash</b>	<b>3,787</b>	<b>5,556</b>	<b>5,005</b>	<b>3,788</b>	<b>4,676</b>	<b>5,493</b>	<b>6,659</b>
OCF PS (Rmb)	0.4	0.3	0.3	0.1	0.4	0.4	0.5
FCF PS (Rmb)	0.4	0.2	0.2	0.0	0.3	0.3	0.4

## Cashflow ratio analysis

Year to 31 December	2020A	2021A	2022A	2023A	2024CL	2025CL	2026CL
<b>Growth (%)</b>							
Op cashflow growth (% YoY)	52.8	(16.5)	(20.5)	(49.3)	198.4	(4.6)	25.8
FCF growth (% YoY)	52.9	(48.1)	9.3	(101.0)	-	(8.4)	38.5
Capex growth (%)	52.2	175.7	(54.6)	92.9	(50.9)	14.5	(25.1)
<b>Other key ratios (%)</b>							
Capex/sales (%)	1.2	2.4	1.0	2.3	1.0	1.0	0.7
Capex/op cashflow (%)	14.1	46.7	26.7	101.5	16.7	20.0	11.9
Operating cashflow payout ratio (%)	7.8	7.8	10.8	36.8	15.8	20.7	20.6
Cashflow payout ratio (%)	4.5	7.3	10.4	35.7	15.3	20.0	19.9
Free cashflow payout ratio (%)	5.2	13.7	14.2	-	18.4	25.0	22.6

## DuPont analysis

Year to 31 December	2020A	2021A	2022A	2023A	2024CL	2025CL	2026CL
Ebit margin (%)	8.2	5.2	3.7	4.1	4.7	5.5	6.3
Asset turnover (x)	1.2	1.2	1.2	1.0	1.1	1.1	1.2
Interest burden (x)	0.9	1.3	1.1	1.0	1.1	1.0	1.0
Tax burden (x)	0.9	0.9	0.9	1.0	0.9	0.9	0.9
Return on assets (%)	8.9	5.8	3.9	4.0	4.7	5.8	6.8
Leverage (x)	1.6	1.5	1.4	1.4	1.4	1.4	1.4
ROE (%)	12.5	11.2	6.4	6.0	7.2	8.3	9.4

## EVA® analysis

Year to 31 December	2020A	2021A	2022A	2023A	2024CL	2025CL	2026CL
Ebit adj for tax	1,060	868	668	681	835	1,103	1,406
Average invested capital	6,534	7,298	8,290	9,655	10,679	10,938	11,308
ROIC (%)	16.2	11.9	8.1	7.1	7.8	10.1	12.4
Cost of equity (%)	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Cost of debt (adj for tax)	3.7	3.6	3.7	3.9	3.7	3.7	3.7
Weighted average cost of capital (%)	11.6	11.6	11.6	11.6	11.6	11.6	11.6
EVA/IC (%)	4.6	0.3	(3.5)	(4.6)	(3.8)	(1.5)	0.8
EVA (Rmbm)	302	21	(294)	(441)	(405)	(167)	93

Source: www.clsa.com



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## Companies mentioned

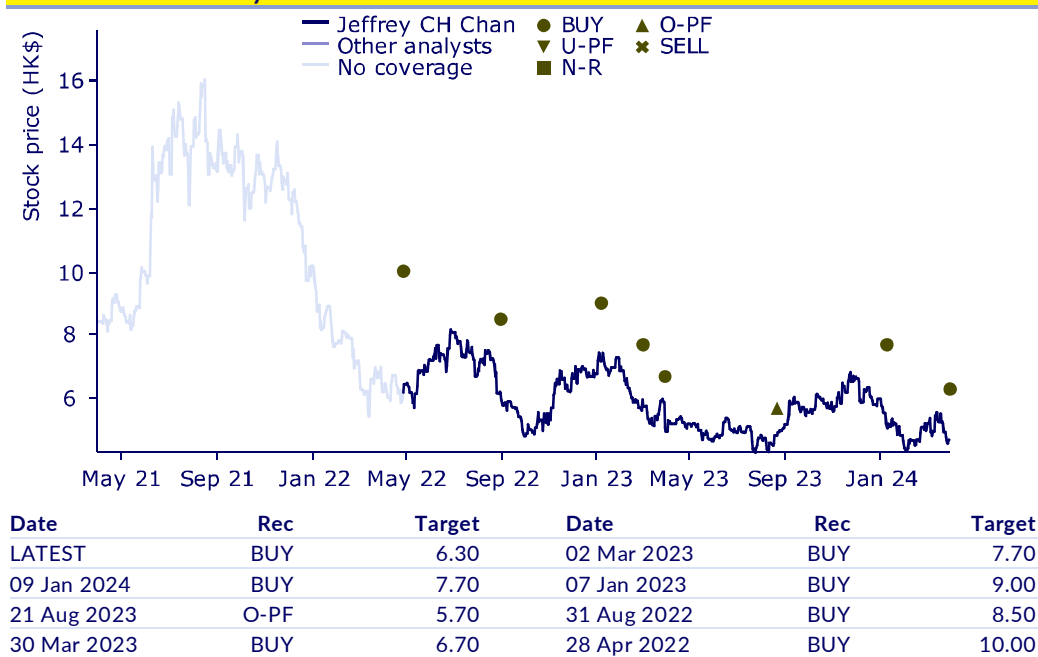
Chinasoft Intl (354 HK - HK\$4.72 - BUY)  
 Accenture (N-R)  
 Accenture (N-R)  
 AsialInfo (N-R)  
 Digital China (N-R)  
 GIE Consulting (N-R)  
 HSBC (N-R)  
 Huawei Tech (N-R)  
 IBM (N-R)  
 Infosys (INFO IB - RS1,498.8 - O-PF)  
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## Important disclosures

### Recommendation history of Chinasoft International Ltd. 354 HK

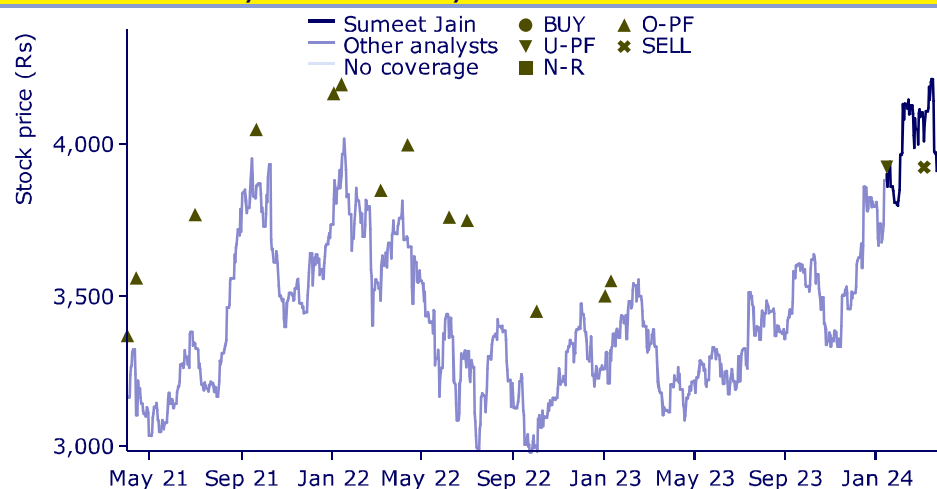


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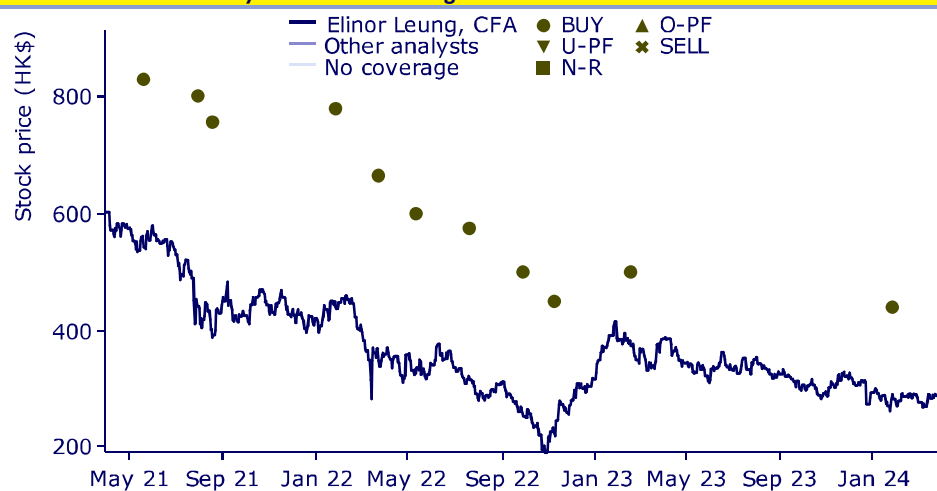
## Recommendation history of Tata Consultancy Services Ltd TCS IB



Date	Rec	Target	Date	Rec	Target
05 Mar 2024	SELL	3,925.00	07 Mar 2022	O-PF	3,850.00
15 Jan 2024	U-PF	3,925.00	13 Jan 2022	O-PF	4,200.00
10 Jan 2023	O-PF	3,550.00	03 Jan 2022	O-PF	4,170.00
02 Jan 2023	O-PF	3,500.00	21 Sep 2021	O-PF	4,050.00
02 Oct 2022	O-PF	3,450.00	01 Jul 2021	O-PF	3,770.00
01 Jul 2022	O-PF	3,750.00	13 Apr 2021	O-PF	3,560.00
07 Jun 2022	O-PF	3,760.00	01 Apr 2021	O-PF	3,370.00
12 Apr 2022	O-PF	4,000.00			

Source: CLSA

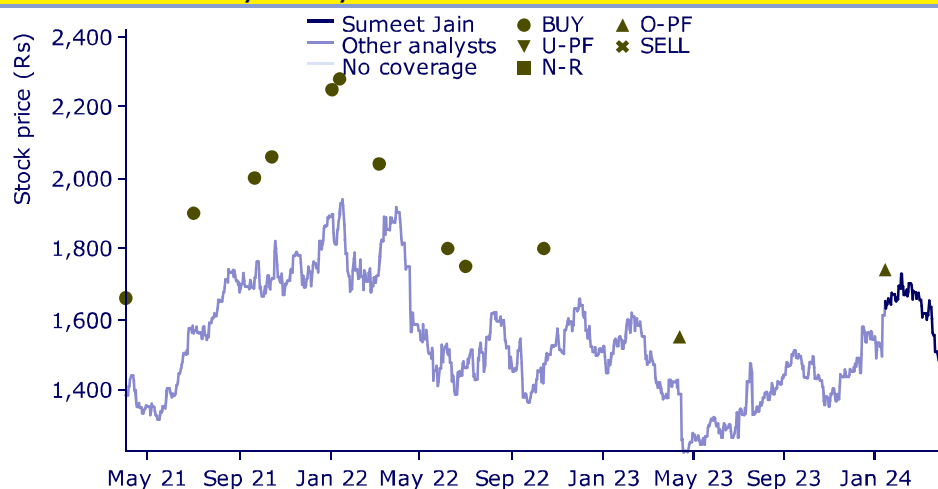
## Recommendation history of Tencent Holdings Ltd 700 HK



Date	Rec	Target	Date	Rec	Target
25 Jan 2024	BUY	440.00	24 Mar 2022	BUY	665.00*
17 Feb 2023	BUY	500.00	27 Jan 2022	BUY	780.00*
09 Nov 2022	BUY	450.00*	19 Aug 2021	BUY	757.07*
29 Sep 2022	BUY	500.00*	31 Jul 2021	BUY	801.72*
21 Jul 2022	BUY	575.00*	21 May 2021	BUY	829.86*
12 May 2022	BUY	600.00*			

Source: CLSA; \* Adjusted for corporate action

## Recommendation history of Infosys Ltd INFO IB



Date	Rec	Target	Date	Rec	Target
15 Jan 2024	O-PF	1,741.00	13 Jan 2022	BUY	2,280.00
14 Apr 2023	O-PF	1,550.00	03 Jan 2022	BUY	2,250.00
14 Oct 2022	BUY	1,800.00	14 Oct 2021	BUY	2,060.00
01 Jul 2022	BUY	1,750.00	21 Sep 2021	BUY	2,000.00
07 Jun 2022	BUY	1,800.00	01 Jul 2021	BUY	1,900.00
07 Mar 2022	BUY	2,040.00	01 Apr 2021	BUY	1,660.00

Source: CLSA

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