Hong Kong Company Update

23 January 2019

Software & Internet | IT Services

Chinasoft International (354 HK)

Buy (Maintained)

New Businesses Face Challenges; Keep BUY

Target Price

Figure 1: Forecast changes

	FY18F			FY19F		
(CNY '000)	**Original**	**New**	**Change**	**Original**	**New**	**Change**
Internet IT services business	1,595,561	1,466,753	(8.1%)	1,846,065	1,548,891	(16.1%)
Technical professional services busi	9,681,854	9,139,608	(5.6%)	11,627,907	10,702,481	(8.0%)
Total revenue	**11,277,416**	**10,606,361**	**(6.0%)**	**13,473,972**	**12,251,372**	**(9.1%)**
Cost of sales and services	(7,858,103)	(7,390,512)	(6.0%)	(9,365,758)	(8,576,573)	(8.4%)
Gross profit	**3,419,312**	**3,215,849**	**(6.0%)**	**4,108,214**	**3,674,799**	**(10.5%)**
Gross profit margin	*30.3%*	*30.3%*		*30.5%*	*30.0%*	
Selling & Marketing expenses	(448,841)	(422,133)	(6.0%)	(525,485)	(504,757)	(3.9%)
G&A expenses	(1,277,731)	(1,201,701)	(6.0%)	(1,525,254)	(1,359,902)	(10.8%)
R&D expenses	(690,178)	(649,109)	(6.0%)	(824,607)	(747,334)	(9.4%)
Other income / (expenses)	(68,095)	(69,437)	2.0%	(80,476)	(81,698)	1.5%
Operating profit	**934,467**	**873,469**	(6.5%)	**1,152,393**	**981,108**	(14.9%)
Operating profit margin	*8.3%*	*8.2%*		*8.6%*	*8.0%*	
Interest income	6,360	6,751	**6.2%**	5,973	6,810	**14.0%**
Interest expense	(115,256)	(115,256)	**-**	(115,755)	(105,756)	**(8.6%)**
Share of profits of associates	29,645	29,645	**-**	42,985	42,985	**-**
Profit / Loss before income tax e	**855,215**	**794,608**	**(7.1%)**	**1,085,595**	**925,146**	**(14.8%)**
Income tax benefit / (expense)	(94,074)	(87,407)	(7.1%)	(119,415)	(101,766)	(14.8%)
Non-controlling interests	250	250	-	360	360	-
Net profit - Reported	**760,891**	**706,951**	**(7.1%)**	**965,820**	**823,020**	**(14.8%)**
NPM	*6.7%*	*6.7%*		*7.2%*	*6.7%*	
Net profit - Recurring	**760,891**	**706,951**	**(7.1%)**	**965,820**	**823,020**	**(14.8%)**
NPM - adjusted	*6.7%*	*6.7%*		*7.2%*	*6.7%*	

Source: Company data, RHB

Figure 2: Chinasoft s annual P&L

FYE Dec 31								
CNY '000	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18F**	**FY19F**	**FY20F**
Internet IT services	**n.a**	**1,191,372**	**1,348,419**	**1,301,446**	**1,385,036**	**1,466,753**	**1,548,891**	**1,768,834**
Growth%	*n.a*	*n.a*	*0*	*(3.5%)*	*6.4%*	*5.9%*	*5.6%*	*14.2%*
Technical professional services	**n.a**	**3,237,830**	**3,780,692**	**5,481,921**	**7,858,648**	**9,139,608**	**10,702,481**	**12,468,390**
Growth%	*n.a*	*n.a*	*16.8%*	*45.0%*	*43.4%*	*16.3%*	*17.1%*	*16.5%*
Total Revenue	**3,205,985**	**4,429,202**	**5,129,111**	**6,783,367**	**9,243,684**	**10,606,361**	**12,251,372**	**14,237,224**
Growth%	*15.8%*	*38.2%*	*15.8%*	*32.3%*	*36.3%*	*14.7%*	*15.5%*	*16.2%*
Cost of sales and services	(2,200,799)	(3,080,046)	(3,605,903)	(4,767,529)	(6,493,218)	(7,390,512)	(8,576,573)	(9,980,294)
Gross profit	**1,005,186**	**1,349,156**	**1,523,208**	**2,015,838**	**2,750,466**	**3,215,849**	**3,674,799**	**4,256,930**
Margin%	*31.4%*	*30.5%*	*29.7%*	*29.7%*	*29.8%*	*30.3%*	*30.0%*	*29.9%*
Selling and distribution costs	(175,369)	(219,789)	(178,581)	(219,022)	(369,729)	(422,133)	(504,757)	(587,997)
Administrative expenses	(512,223)	(664,752)	(627,264)	(806,614)	(1,086,325)	(1,201,701)	(1,359,902)	(1,566,095)
Research and development expenses	(52,156)	(64,161)	(195,318)	(345,269)	(567,313)	(649,109)	(747,334)	(854,233)

Source: RHB

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