



Jan 28, 2015
Company Report
Rating: BUY
TP: HK\$ 3.27

H-Share price (HK\$) 2.42
Est. share price return 35.12%
Est. dividend yield 0.00%
Est. total return 35.12%

Previous Rating & TP BUY, HK\$3.27
Previous Report Date Sep 1, 2014

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Key Data

52Wk H/L(HK\$)	3.22/2.09
Issued shares (mn)	1,875
Market cap (HK\$ mn)	4,538
3-mth avg daily turnover (HK\$ mn)	13.4
Major shareholder(s) (%):	
Hony Capital Fund 2008 GP Ltd.	17.92
Chen Yuhong	15.18

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Software & hardware products	4.31
Professional services	48.56
Outsourcing services	44.20
Training	2.94
Sum	100.00

Source(s): Company, ABCI Securities

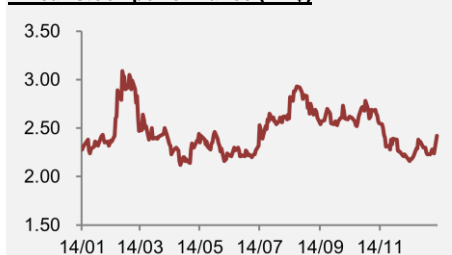
Share performance (%)

	Absolute	Relative*
1-mth	8.52	2.28
3-mth	(7.28)	(12.75)
6-mth	4.31	2.76

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

ChinaSoft Int'l (354 HK)
Reiterate **BUY** on positive business development

- Registered users of JointForce, CSI's cloud-based crowdsourcing platform, have been growing rapidly. We believe the platform would help boost profitability by reducing costs
- As Tencent's largest services provider (operations, testing, and maintenance) in the gaming sector, the Group will benefit from the fast-growing mobile game market in the coming years
- The Group's cloud services will benefit from its partner Ali-Cloud, who recently have established contracts with the Tianjin government to provide cloud services
- We believe the positives have not been fully factored in. Its current valuation is still attractive and we reiterate **BUY** with TP at HK\$3.27, reflecting 13x FY15E P/E

JointForce to reduce cost. The Group successfully launched JointForce, a cloud-based crowdsourcing platform that allows all registered IT programmers to bid for the outsourcing contracts by CSI and its partners. The crowdsourcing model will reduce cost by efficiently distributing its tasks while increasing exposure to more talents and flexible human resources. The Group targets to have 80,000 registered users. As per our channel check, JointForce has attracted great interest from young programmers and the number of registered users has almost tripled to 20,000 since its official launch in Dec 2014. We expect the platform to be supportive to the development of the Group's professional services.

Benefit from China's mobile internet development. We expect China's mobile game market to achieve a double-digital growth over the next few years, as driven by active M&A activities since 2014 and robust demand in the global game markets. As Tencent's largest services provider (operations, testing, and maintenance) in the gaming sector, the Group will benefit from the fast-growing mobile game market in the coming years.

More opportunities from rapid expansion of Ali-Cloud After signing the cloud services contract with the Tianjin government, Ali-Cloud engaged with over 12 provincial governments in China to provide related services. As the largest and the sole all-round services provider of the Ali-Cloud ecosystem, the Group will benefit from the rapid expansion of Ali-Cloud business.

China's "New Silk Road" to foster government cloud services. Besides, China's central government has initiated ambitious plans to deepen its cooperation with countries through the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" programs that were put forward by President Xi Jinping in 2013. The local governments are conducting development plans supportive of the "One Belt and One Road" initiative, which in turn engender huge demand for government cloud services, esp. in the e-commerce and big data areas. We believe this will benefit the Group in the coming years.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Turnover (RMB '000)	2,768,171	3,205,985	4,262,425	5,789,621	7,759,819
Chg (%.yoy)	23.37	15.82	32.95	35.83	34.03
Net Income (RMB '000)	133,189	148,301	196,665	355,120	563,510
Chg (%.YoY)	20.43	11.35	32.61	80.57	58.68
EPS (RMB)	0.077	0.082	0.109	0.197	0.313
Chg (%.YoY)	2.38	6.46	32.67	80.57	58.68
BVPS (RMB)	1.12	1.26	1.52	1.74	2.07
Chg (%.yoy)	-5.05	12.59	20.67	14.33	19.18
DPS,RMB	-	-	-	-	-
P/E (x)	-	23.64	17.82	9.87	6.22
P/B (x)	-	1.54	1.28	1.12	0.94
Yield (%)	-	-	-	-	-
ROE (%)	7.29	7.07	7.86	12.11	16.43
ROA (%)	3.87	3.17	3.55	5.54	7.41

Source(s): Bloomberg, ABCI Securities estimates



Raise FY15E EPS Although promotion of the JointForce platform will increase its ad. & marketing costs, we predict the platform will boost the Group's GPM and NPM. We revise up its FY14E/ FY15E GPM from 31.5%/28.5% to 32%/31.5% (1H14 GPM: 30%); thus, its revised FY14E/15E EPS rise from RMB0.102/RMB0.137 to RMB0.109/RMB0.197, indicating a 6.8%/43.8% increase from our previous estimates. The Group is trading at 9.87x FY15E P/E and we believe the positives have not been fully factored in. Its current valuation is still attractive and we reiterate **BUY** with TP at HK\$ 3.27, reflecting 13x FY15E P/E.

Risk factors: 1) Lower-than-expected development in cloud service and big data businesses; 2) Failure of JointForce to attract talents; 3) Intensifying competition with domestic peers; (4) Post-merger risks with Catapult; (5) No dividend record in 2012 and 2013.



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB '000)	2012A	2013A	2014E	2015E	2016E
Sale of software and hardware products	216,776	138,058	151,864	167,050	183,755
Professional services	1,236,006	1,556,669	2,101,503	2,942,104	4,118,946
Outsourcing services	1,221,800	1,416,895	1,912,808	2,582,291	3,356,978
Training	93,589	94,363	96,250	98,175	100,139
Revenues	2,768,171	3,205,985	4,262,425	5,789,621	7,759,819
Cost of revenues	(1,852,830)	(2,200,799)	(2,898,449)	(3,965,890)	(5,315,476)
Gross profit	915,341	1,005,186	1,363,976	1,823,731	2,444,343
SG&A	(615,453)	(687,592)	(834,157)	(1,011,663)	(1,239,846)
Other income and gains	112,172	112,676	214,031	248,556	310,308
Pre-tax profit	187,716	204,918	315,788	563,511	894,189
Income tax	(37,574)	(4,890)	(50,526)	(84,527)	(134,128)
Net profit	150,142	200,028	265,262	478,985	760,060
Profit attributable to:					
Minority interests	16,953	51,727	68,596	123,865	196,551
Equity holders of the Company	133,189	148,301	196,665	355,120	563,510
EPS (Basic), RMB	0.080	0.084	0.111	0.200	0.318
EPS, Diluted, RMB	0.077	0.082	0.109	0.197	0.313
DPS, RMB	-	-	-	-	-

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB'000)	2012A	2013A	2014E	2015E	2016E
PP&E	132,853	174,186	210,000	192,093	201,047
Intangible assets	159,330	280,649	329,150	304,900	317,025
Interests in associates	27,616	13,519	16,454	11,989	11,377
Other non-current assets	707,067	1,029,358	1,021,396	504,465	750,223
Total non-current assets	1,026,866	1,497,712	1,577,000	1,013,447	1,279,671
Inventories	23,989	19,883	21,312	28,948	38,799
Accounts receivable	1,039,396	1,146,646	1,491,849	2,026,367	2,715,937
Prepayments, deposits and other assets	1,038	1,009	1,024	1,016	1,020
Cash and cash equivalents	774,847	940,823	1,025,275	1,419,728	1,003,337
Other current assets	576,214	1,066,884	1,417,035	1,918,800	2,570,070
Current Assets	2,415,484	3,175,245	3,956,495	5,394,860	6,329,163
Total assets	3,442,350	4,672,957	5,533,495	6,408,307	7,608,834
Amounts due to customers for contract work	110,506	217,410	289,845	393,155	527,306
Trade and other payables	668,918	741,528	852,485	1,248,517	1,612,674
Bills payable	7,071	3,387	2,131	2,895	3,880
Taxation payable	39,312	28,303	33,808	31,055	32,431
Borrowings	309,300	471,328	390,314	430,821	410,568
Other short-term liabilities	208,358	9,269	13,267	17,337	23,652
Total current liabilities	1,343,465	1,471,225	1,581,850	2,123,780	2,610,512
Deferred tax liabilities	17,602	17,589	17,596	17,592	17,594
Borrowings	19,000	518,268	763,550	640,909	702,230
Other Non-current liabilities	0	224,674	224,674	224,674	224,674
Total non-current liabilities	36,602	760,531	1,005,820	883,175	944,497
Total liabilities	1,380,067	2,231,756	2,587,669	3,006,956	3,555,009
Total equity	2,062,283	2,441,201	2,945,826	3,401,351	4,053,825
Non-controlling interests	134,659	172,978	208,734	272,108	324,306
Equity of the firm	1,927,624	2,268,223	2,737,091	3,129,243	3,729,519
BVPS, Diluted	1.12	1.26	1.52	1.74	2.07

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB'000)	2012A	2013A	2014E	2015E	2016E
Profit before taxation	187,716	204,918	315,788	563,511	894,189
Adjustments for:					
Depreciation of property, plant and equipment	46,577	52,562	64,440	76,052	91,320
Amortization of intangible assets and prepaid lease payments	42,967	49,803	46,385	48,094	47,240
Finance costs	31,111	47,296	47,296	47,296	47,296
Interest income	(3,326)	(1,958)	(2,642)	(2,300)	(2,471)
Loss on disposal of property, plant and equipment	137	1,114	626	870	748
Impairment loss recognized in respect of goodwill	28,054	0	14,027	7,014	10,520
Other adjusted items	19,764	30,629	43,047	55,779	77,836
Operating cash flows before movements in working capital	353,000	384,364	528,966	796,315	1,166,677
Working Capital Changes					
Increase in trade and other receivables	(294,161)	(78,908)	(172,601)	(267,259)	(344,785)
Increase in amounts due to customers for contract work	54,364	106,904	72,435	103,310	134,151
Increase in amounts due from customers for contract work	(197,676)	(490,881)	(345,731)	(503,975)	(650,165)
Increase in trade and other payables	55,769	36,886	110,957	396,032	364,157
Decrease in inventories	416	4,106	(1,429)	(7,636)	(9,851)
Decrease in bills payable	(14,454)	(3,684)	(1,256)	764	985
Cash used in operations	(42,742)	(41,213)	191,340	517,551	661,170
Other adjusted items	(35,624)	(19,825)	(27,725)	(23,775)	(25,750)
Net cash generated from operating activities	(78,366)	(61,038)	163,616	493,776	635,420
Investing activities					
Acquisition of a subsidiary	0	(226,887)	(113,444)	(170,165)	(141,804)
Purchases of property, plant and equipment	(50,145)	(80,663)	(65,404)	(73,034)	(69,219)
Development costs paid	(41,619)	(59,689)	(50,654)	(55,172)	(52,913)
Purchase of software	(3,351)	(17,356)	(10,354)	(13,855)	(12,104)
Proceeds from disposal of property, plant and equipment	1,950	2,466	2,208	2,337	2,273
Interest received	3,326	1,958	2,642	2,300	2,471
Other adjusted items	(39,483)	(82,557)	(39,509)	(61,033)	(50,271)
Net cash used in investing activities	(129,322)	(462,728)	(274,514)	(368,621)	(321,567)
Cash flows from financing activities					
New bank loans raised	284,300	1,059,558	578,680	685,594	247,842
Repayment of borrowings	(151,200)	(413,504)	(423,528)	(460,368)	(1,104,870)
Other adjusted items	77,054	(361,988)	44,397	50,084	131,889
Net cash flows (used in)/generated from financing activities	210,154	697,570	199,549	275,310	(725,138)
Net increase in cash and cash equivalents	2,466	173,804	88,651	400,466	(411,285)
Cash and cash equivalents at beginning of the year	772,950	774,847	940,823	1,025,275	1,419,728
Exchange losses on cash and cash equivalents	(569)	(7,828)	(4,199)	(6,013)	(5,106)
Cash and cash equivalents at end of the year	774,847	940,823	1,025,275	1,419,728	1,003,337

Source(s): Company, ABCI Securities estimates

Financial ratio table (2012A-2016E)

FY Ended Dec 31	2012A	2013A	2014E	2015E	2016E
Gross margin, %	33.07	31.35	32.00	31.50	31.50
Operating margin, %	6.78	6.39	7.41	9.73	11.52
Net margin, %	5.42	6.24	6.22	8.27	9.79
ROE, %	7.29	7.07	7.86	12.11	16.43
ROA, %	3.87	3.17	3.55	5.54	7.41
Total Liability/Total Equity,%	66.92	91.42	87.84	88.40	87.70

Source(s): Company, ABCI Securities estimates

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2010-2014

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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