

# KINGDEE

## Initiation of Coverage

Rome was not built in a day, but enhanced cash flow heralds a reborn

### Frontrunner of cloud transition, initiate with Buy of HK\$15.5

The earliest digitalization pioneers are confronting a new wave of the digital revolution as mobile internet has changed the landscape of the traditional ERP software market. Due to the lack of agility, it is difficult for back-end ERP system to quickly and precisely respond to front-end requests from fast-changing customer demand, so transition to cloud becomes crucial. We like Kingdee because it has become one of the frontrunners in cloud transition. With a 27-year track record in ERP market, since 2016 Kingdee has maintained a leading position (14% of market share) in a high-growth China's ERM SaaS market (a CAGR of 38% in CY18-23, by IDC). We initiate Kingdee with Buy and PT of HK\$15.5.

### Enhanced cashflow has told benefits of cloud transition

Kingdee's operating cash flow has improved substantially since 2017, thanks to the growing contract liabilities generated by its cloud services. Operating cash flow grew by 12.0% YoY to RMB1.15bn with OCF margin of 34.6% in FY19. Enhanced OCF benefits capex and LT investment. Currently, its annual capex and LT-investment dollar value roughly equals to that of non-cash D&A, which is indeed detrimental to EBIT margin, however, we believe that is transient, as large amount of investment will drive business growth and EBIT margin will eventually be improved with the arrival of operating leverage.

### In the long run, we see the initiative of PaaS a secular growth driver

The successful launch of Cloud Cosmic, a (PaaS+SaaS) platform, is an important breakthrough of Kingdee's cloud services, in our view, because: 1) it helps Kingdee tap the market that cannot be served by its traditional ERP solutions; 2) it leverages third-party resources to further improve the efficiency of its services; 3) it could help reduce the integration costs & expenses of potential acquisitions in the future. In FY19, Kingdee successfully added 130 new customers on its Cloud Cosmic, with a total contract size of more than RMB200mn and an average contract size of RMB1.54mn, much higher than that of ERP and Galaxy Cloud. Cloud Cosmic has become a new growth driver for the company.

### Current trading levels underpriced the long-term FCF growth

Our price target of HK\$15.5 is derived from SOTP, which comprises: 1) HK\$15.0 for ERP & Cloud business; 2) HK\$0.5 for its investment properties. For ERP & Cloud business, we think EV/FCF is a better metric to value Kingdee's long-term FCF growth potential brought by cloud transition. We estimate a faster pace of growth at ~55% FCF CAGR over the next 3 years to reach RMB1.0bn by FY22E, which supports the multiple at 55.0x EV/FCF in FY22E. By discounting back at a 14.2% WACC, we derive FY20E ERP & Cloud business equity value at RMB46.5bn and HK\$15.0 per share, assuming HKDCNY of 0.91. Our 55.0x EV/FCF multiple implies 1.0x EV/FCF/Growth, which is at a discount to SaaS peers' 1.4x on average. Key risks to our PT include: 1) slower-than-expected cloud transition; 2) worse-than-expected economic downturn; 3) intensified competition.

Stock code: 268.HK

**Rating: Buy**

<b>Price target (HK\$)</b>	<b>15.5</b>
Current price (HK\$) (22 May 2020)	12.9
Upside/downside %	20%
Market cap (HK\$ m)	42,879
Market cap (US\$ m)	5,528
Avg daily turnover over 1 yr (HK\$ m)	178

Source: Bloomberg, AMTD research estimates

### Key forecasts

(RMB mn)	FY19	FY20e	FY21e	FY22e
Cloud Services	1,314	1,969	2,956	4,209
yoy %	55%	50%	50%	42%
Total revenue	3,326	3,676	4,333	5,328
yoy %	18%	11%	18%	23%
FCF (ERP & cloud)	270	332	524	1,007
yoy %	-22%	23%	58%	92%
Core net profit	352	334	400	572
yoy %	-2%	-5%	20%	43%
Core EPS (RMB)	0.11	0.10	0.12	0.17

Source: Company data, AMTD research estimates

### Valuation

	FY19	FY20e	FY21e	FY22e
P/S	11.7	10.6	9.0	7.3
P/E (adjusted)	110.6	119.4	100.3	70.6
EV/EBITDA	40.7	41.6	34.8	30.2
EV/FCFF	64.3	60.6	44.8	27.6
ROE	6.4%	4.1%	4.5%	6.2%

Source: Bloomberg, AMTD research estimates

### Share price performance (HK\$)



Source: Bloomberg

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## Key risks

### Difficulties of ERP cloud migration

Although cloud computing becomes the driving force of enterprises' business innovation, many of large-sized enterprises still plan to remain parts of traditional ERPs and other business software's local deployment models for a long period of time. Since some enterprises keep skeptical about the security and privacy of cloud ERP, and not acceptable about subscription models, the transition to cloud ERP may slow down.

### Worse-than-expected global economic downturn

COVID-19 has hit China's economy. Many companies, in particular, those SMBs, are struggling and have to close down in the macro headwinds. The companies who survived the economic downturn may disproportionately reduce their budget and re-allocate their IT spending, which may affect Kingdee's business and development. Although many companies have gradually resumed production amid the global lockdowns, there is still uncertainty that the IT expenses may be cut down, which certainly adversely affect Kingdee's business.

### Intensified competitions

In mid/large-sized enterprise sector, Kingdee will directly face the competition from ERP giants, such as SAP, Oracle, and local rival Yonyou. Given the traditional ERP is a relatively matured market and customers' switching cost is very high, it is difficult to seek high growth in this sector. In micro/small-sized enterprises sector, Kingdee would face stiff competition from those cloud-native companies that are more agile, much closer to the customers, and have deeper understanding of the business processes based on mobile internet. If Kingdee fails to effectively implement its strategies, its market share would be eroded, thereby affecting its future growth.

### Aggressive marketing spending and rising staff cost

China is a primarily channel-based reseller market. Given the weak demand caused by COVID-19, Kingdee would allocate more resources to direct sales, which could cause aggressive marketing spending. In particular, channels play a very important role in micro/small-sized enterprises sector, if Kingdee fails to improve sales & marketing efficiency in this sector, marketing spending would rise as well. On the other hand, given that software company is human-resources driven, any loss of talented employee may have negative impact on the productivity. In the meanwhile, as employee salary accounts for most of its expense, rising staff cost would have negative impact on profit as well.

### Expensive M&A deals and high integration costs

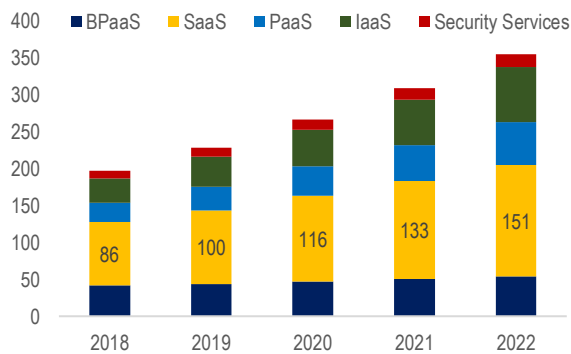
M&A is a very important strategy in SaaS business. The strategic acquisition and investments could expose the company to uncertainties and risks, including high acquisition and financing costs, unpredicted liabilities and failure to meet the intended objectives. The expensive M&A deals may expose the company to the risk of liquidity and company's business may be adversely affected.

## Fast growing ERP market driven by cloud

### Global SaaS market expected to grow at a CAGR of 15% in FY19-22E

According to Gartner, global SaaS market is expected to grow to US\$116bn in 2020 and reach US\$151bn in 2022 at a three-year CAGR of 15%. In the meanwhile, in terms of application, ERP was the largest market segment of SaaS market, accounting for 44% of the total SaaS market in 2018. We expect ERP SaaS segment will grow with the overall SaaS market. The growth we believe will be driven by the demand for modern applications and workloads in the new mobile internet environment, where the transition to digital services is accelerating.

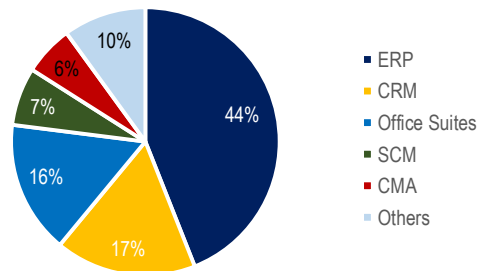
**Figure 1: Global public cloud market size (US\$ bn)**



Source: Gartner, AMTD Research

\*Note: BPaaS: Cloud Business Process Services

**Figure 2: Global SaaS market share in 2018, by type**



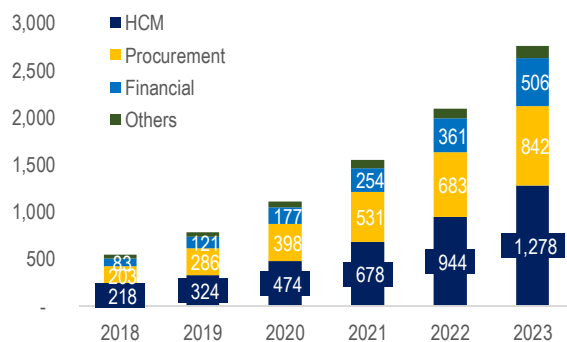
Source: Gartner, AMTD Research

### Kingdee leads in the higher-growth China's ERM SaaS market

China has emerged as a key cloud service market. According to IDC, total spending on public and private cloud infrastructure in China reached US\$12.1bn in 2018, up nearly 75% YoY, and accounting for 12% of the global market. The growth rate of the Chinese market will be twice that of the global growth rate and China cloud market is expected to account for 25% of the global market by 2023.

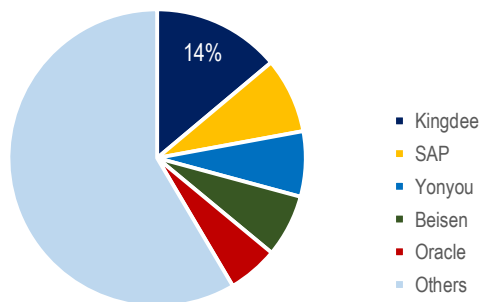
At the same time, China's ERM SaaS market is also growing rapidly. According to IDC, China's ERM SaaS market size was more than US\$500mn in 2018, and is expected to grow at a CAGR of 38% to exceed US\$2.6bn by 2023. Procurement and HCM are the two largest market segments in China's ERM SaaS market, accounting for 44% and 42% of the total, respectively. Kingdee has maintained the leading position in China's ERM SaaS market since 2016, claiming 13.9% of the total market in 1H19, according to IDC.

**Figure 3: China ERM SaaS market size (US\$ mn)**



Source: IDC, AMTD Research

**Figure 4: China SaaS ERP market landscape in 1H19**



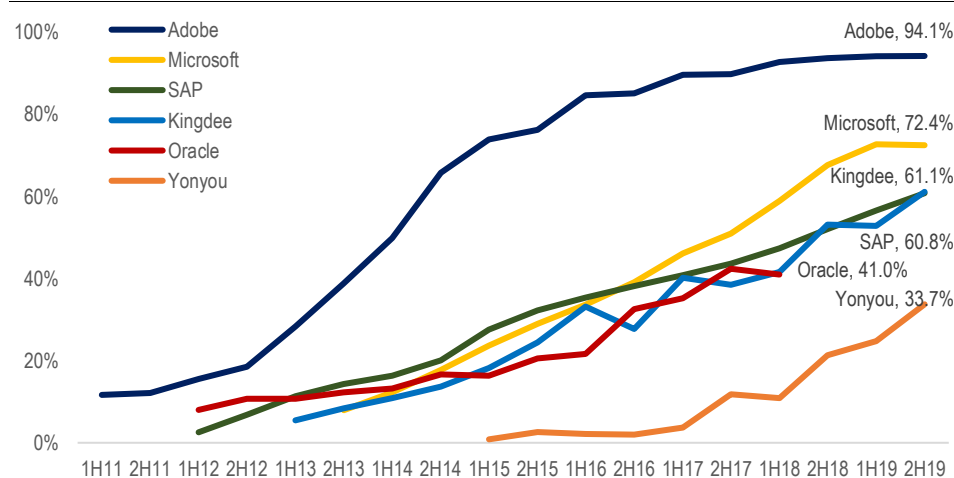
Source: IDC, AMTD Research

## Frontrunner in cloud transition

### ERP software company's cloud transition is slower due to complexity

In general, traditional ERP companies have slower cloud transition due to the relative independent runtime environment and complexity of ERP system, which links systems internally within an enterprise to streamline workflow, share information among different departments; and normally deals with many user accounts at the same time to realize collaboration between different departments. In contrast, application/Utility software faces end-users directly, normally requiring less collaboration. Thus, this kind of software companies is easier than those ERP/System software companies to implement cloud transition. We can see that Adobe, which sells graphic editing software, has perfect cloud transition path, followed by Microsoft, which sells Office and CRM software; however, ERP companies, such as Oracle, Kingdee, and Yonyou have relatively slower progress.

**Figure 5: cloud transition path (SaaS/PaaS revenue as % of total software revenue)**



Source: Company data, AMTD Research estimates

\*Note: Adobe data excludes "Service", 2H19 represents data at the end of Nov 2019; Microsoft data excludes "Windows & Azure", 2H19 represents data at the end of Dec 2019; Kingdee data excludes "Implementation, Maintenance, Others", 2H19 represents data at the end of Dec 2019; Oracle data only includes "SaaS and new software licenses", which discontinued updating at the end of Feb 2018; Yonyou data excludes "Finance services", 2H19 represents data at the end of Dec 2019

### Kingdee is one of the frontrunners of ERP cloud transition

In 2H19, Kingdee's cloud services revenue accounted for more than 61% of its total software revenue, higher than its major rival Yonyou's 34%. Founded in 1993, Kingdee International is one of the leading enterprise management software companies in China. It engages in the design and development of Enterprise Resource Planning (ERP) and cloud-based management software products. According to IDC, Kingdee maintained the leading position in China's enterprise SaaS market since 2016 and accounted for 13.9%/28.4% market share in China's SaaS ERM market and finance cloud market, respectively in 1H2019.

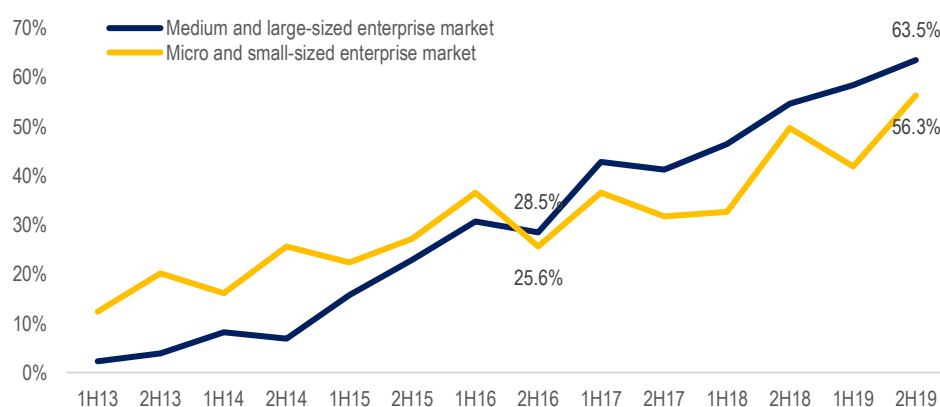
### Kingdee's has performed better in mid/large-sized enterprise segment

In general, large enterprises are prudent to review the viability of transition to public cloud, because: 1) they have relatively mature and cumbersome ERP system, which cannot 100% guarantee smooth switching current ERP system onto the cloud; 2) the current mature ERP system has a heavy upfront investment costs; 3) they are more forward to adopt customized ERP solutions out of data security risk concerns about public cloud. On the contrary, small businesses are willing to adopt cloud as they can save a lot of upfront costs and deploy their business with more flexibility to meet fast changing demand.

Before 2017, during the early stage of Kingdee's cloud transition, we found that the proportion of cloud services revenue in micro and small-sized enterprises market was

higher than that in medium and large-sized enterprise market. However, after 2017, when the proportions of cloud services revenue in both market segment reached more than 25%, the growth of proportion of cloud services revenue has slowed down in micro and small-sized enterprises market while the proportion of cloud services revenue continued to rise in medium and large-sized enterprise market. In 2H19, the proportion of cloud services revenue was 64% and 56% in micro/small-sized enterprises market and medium/large-sized enterprise market, respectively. After years of effort and customer education, Kingdee has brought cloud business on track in medium/large-sized enterprise market, while in micro/small-sized enterprise market segment, Kingdee is still facing stiff competition from cloud native players, in our view.

**Figure 6: Kingdee's cloud transition by segment**



Source: Company data, AMTD Research estimates

\*Note: Medium and large-sized enterprise market products include: K/3, EAS, and Cloud Cosmic & Galaxy; Micro and small-sized enterprises market products include: KIS, Jingdou Cloud, Guanyi Cloud and others

### Medium/large-sized enterprise market – new growth driver – Cloud Cosmic

Within medium/large-sized enterprise market segment, total software revenue growth was primarily driven by cloud services (Kingdee Cloud Galaxy) as its traditional ERP software revenue (K/3 & EAS) growth was flat for several years. The TTM cloud services growth stayed at around 60% YoY over the past two years. Strong cloud revenue growth came from expanding customer base and low attrition rate. By the end of second half of 2019, total number of paying customers of Kingdee's Cloud Galaxy has exceeded 13,800, more than 5 times of that by the end of 2016. Dollar retention rate was more than 90%.

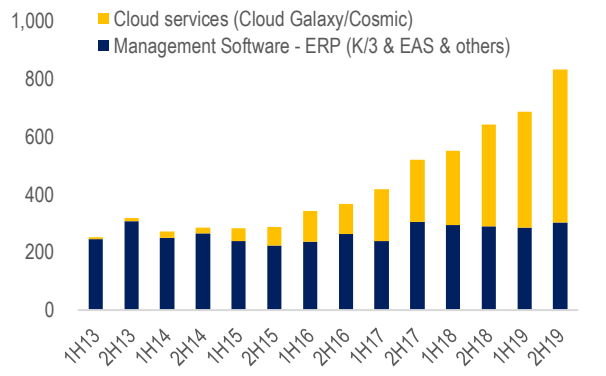
In addition, Kingdee successfully launched Cloud Cosmic in second half of 2018, which is an open-source cloud ERP (PaaS) aiming to compete with rivals, such as SAP, Oracle, etc., in mega enterprises market. Kingdee successfully added 130 new customers of Cloud Cosmic in 2019, with a total contract size of more than RMB200mn and average contract size of RMB1.54mn.

### Micro/small-sized enterprise market – facing stiff competition from cloud native players

In micro/small-sized enterprise market, Kingdee offers ERP software – KIS (accounting, procurement and inventory management ERP). Its corresponding cloud version is called Jingdou Cloud. In the meantime, Kingdee also offers Guanyi Cloud (Cloud services for E-commerce operators), and other vertical cloud products in this market segment. Because it is a relatively huge and fragmented market with quantities of small businesses playing in niche industries, Kingdee may not be able to meet all the demands with its relatively standard and limited product choices. On the other hand, for cloud products and services, Kingdee would be facing more challenges from those cloud native SaaS companies, which are normally proficient in specific vertical sectors and have rich knowledge of business processes on mobile internet.

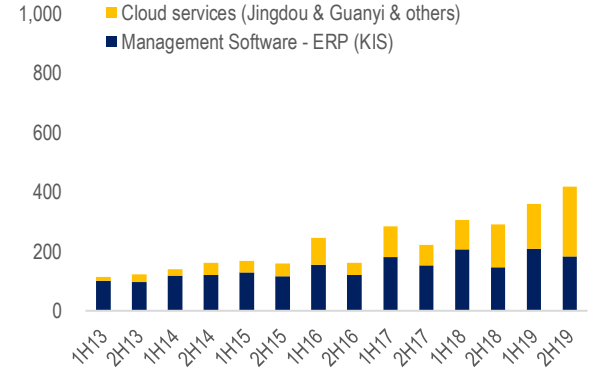
In FY19, the paying customers of Jingdou Cloud was up 45% YoY to 117k and revenue grew by 88% YoY. However, Guanyi Cloud revenue only rose by 14% YoY with only more than 5,400 paying customers, implying a stiff competition from those cloud native rivals.

**Figure 7: Kingdee's cloud/software revenue from medium/large-sized enterprise market segment (RMB mn)**



Source: Company data, AMTD Research

**Figure 8: Kingdee's cloud/software revenue from micro/small-sized enterprise market segment (RMB mn)**

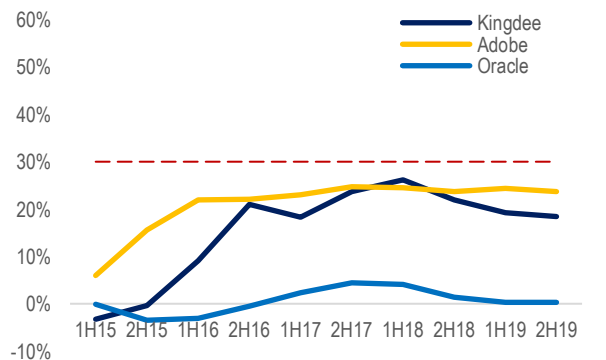


Source: Company data, AMTD Research

**Kingdee has maintained a healthy growth during transition to cloud**

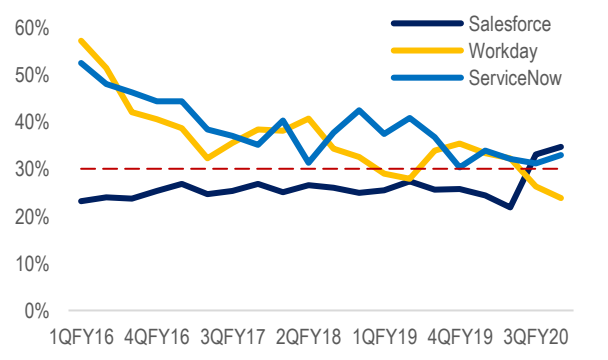
When a traditional software company begins transition to cloud, people always tend to worry about self-cannibalization because the cloud transition generally starts with the company's existing customers. For a company that gets as big as Oracle with little room for much more than organic growth, self-cannibalization would be inevitable challenge. As a result, its total revenue stagnates or even declines in the early stage of cloud transition, however, when the cloud transition goes smoothly, revenue growth could reaccelerate. We think, like Adobe, Kingdee has a healthy cloud transition. After going through the initial stages, Kingdee has maintained its topline growth around 20% since 2016, just slightly behind those of leading cloud native SaaS companies, including Salesforce, Workday, and ServiceNow.

**Figure 9: cloud transition companies' TTM total revenue growth, YoY**



Source: Company data, AMTD Research estimates  
 Note: Adobe's FY19 ended in 30 Nov 2019, Oracle's FY20 will end in 31 May 2020

**Figure 10: cloud native companies' total revenue growth, YoY**



Source: Company data, AMTD Research  
 Note: Salesforce and Workday's FY20 ended in 31 Jan 2020



## Benefits from transition to cloud

### PaaS platform fuels long-term growth of SaaS business

Platform as a service (PaaS) provides a lot of flexibility. It saves the expense and reduces complexity of buying, configuring, and managing all the hardware and software needed to run applications by leveraging third party resources. PaaS is a proven model for SaaS companies as it can help SaaS companies:

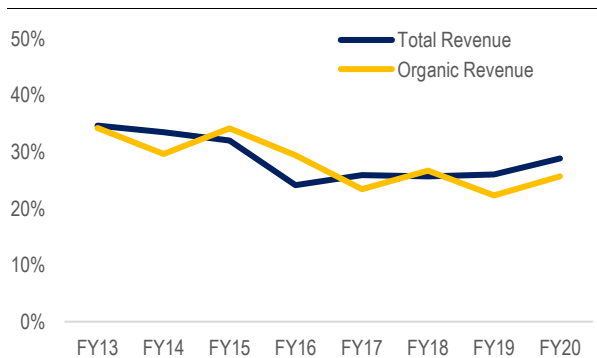
- offer customized SaaS services in an efficient manner;
- realize synergy effect between different front-end SaaS services;
- launch new SaaS services quickly;
- build a large and strong third-party services ecosystem.

All of these will improve customers loyalty and stickiness, and as a result, provide continuous growth driver for SaaS companies.

### Salesforce case study: growing with the evolving PaaS platform and acquisitions

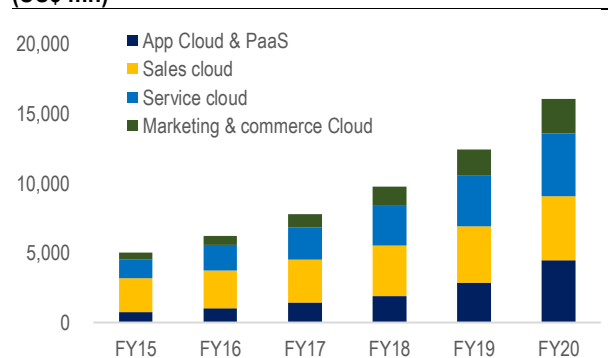
SaaS leader – Salesforce introduced its first PaaS platform - "Force.com" in 2007, which was renamed as "Lightning Platform" in 2015. This PaaS platform is capable of supporting all kinds of business applications and allows developers to create add-on applications that integrate into the main Salesforce.com applications. Apart from that, Salesforce has continued working on platform expansion to add new trending capabilities. Salesforce rolled out the Salesforce1 Platform in 2013 with the goal to target mobile market and introduced Einstein Platform in 2016 to beef up its AI capability in big data era. All of these efforts were paid off as Salesforce managed to achieve subscription revenue growth at a CAGR of 26.2% over the past six years despite its large revenue size.

**Figure 11: Salesforce revenue growth, YoY**



Source: Company data, AMTD Research estimates  
 Note: FY20 ended in 31 Jan 2020

**Figure 12: Salesforce subscription revenue by platform (US\$ mn)**



Source: Company data, AMTD Research  
 Note: FY20 ended in 31 Jan 2020

The latest development of Salesforce’s PaaS platform was Salesforce Customer 360, which was launched in Dreamforce 2018. Salesforce Customer 360 is a tool that combines the capabilities of MuleSoft to allow companies to connect any application, data source or device across any cloud service or on-premises server. Customer 360 goes beyond traditional Customer Data Platform (CDP) capabilities and extends CRM practices through consumer-scale data management and activation. Powerful back-end PaaS support brings huge synergy effects for front-end SaaS applications, such as Sales Cloud, Service Cloud, Marketing & Commerce Cloud, promoting higher efficiency and more business opportunities to its customers.



**Figure 13: Salesforce's PaaS platform**

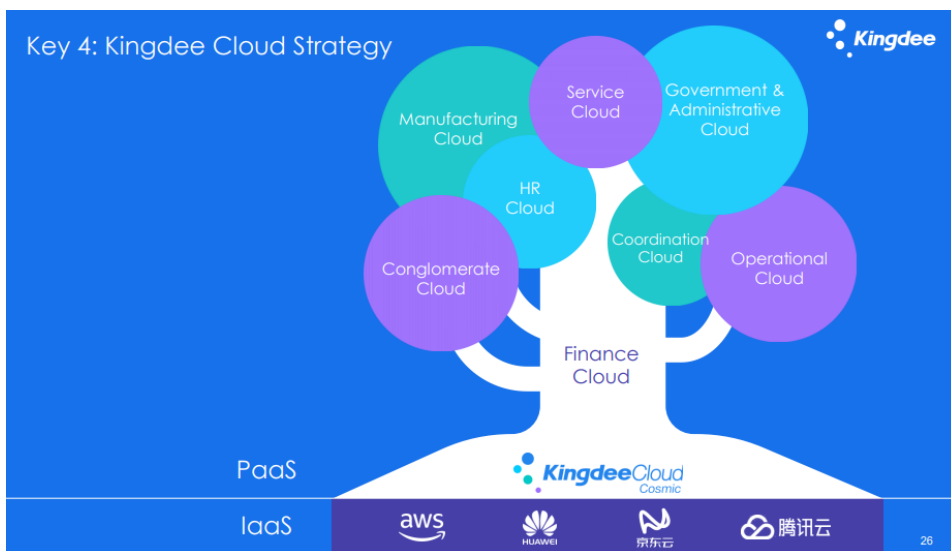


Source: Company data

**Cloud Cosmic (PaaS+SaaS) is an important strategic initiative for Kingdee**

In second half of 2018, Kingdee launched a ground-breaking cloud service platform (PaaS+SaaS) for large enterprises, Kingdee Cloud Cosmic. It uses distributed architecture to support Cloud-native infrastructure such as micro-services, container services, DevOps. Kingdee created the unique KDDM Cloud dynamic domain model to support personalized Cloud service, and integrated social networking, AI, Big Data and Blockchain technologies to provide scenario-based platform services for enterprise applications.

**Figure 14: Kingdee's PaaS strategy**



Source: Company data

This PaaS platform is very important to Kingdee, because: 1) it helps Kingdee tap the market that cannot be served by its traditional ERP solutions; 2) it leverages third-party resources to further improve the efficiency of its services; 3) it could help reduce the

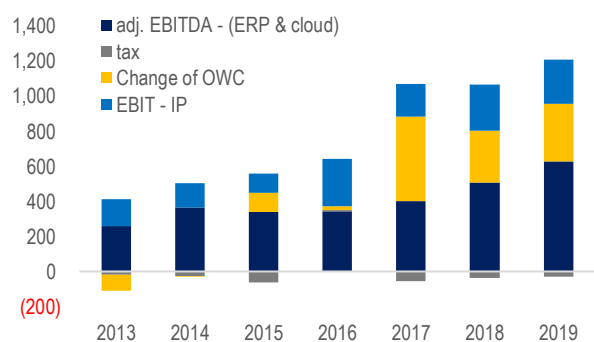
integration costs & expenses of potential acquisitions in the future. Kingdee not only can easily develop new SaaS services and customized SaaS services but also can integrate SaaS services through acquisitions. On Nov 2018, Kingdee made strategic investment in “Xinrenxinshi” to accelerate development of HR Cloud Service, and also another strategic investment in FXiaoKe, the top brand in China’s CRM market, in early 2018. We expect those strategic acquisitions, with integration into its PaaS platform, drives Kingdee stepping up the diversification into industrial internet market.

### Cash flow benefits first from cloud transition and boosts LT growth

#### Operating cash flow – improved significantly thanks to growing contract liabilities

In general, Kingdee has a very healthy operating cash flow over the past few years. The adjusted EBITDA, excluding non-cash items – SBC, of software business (ERP & Cloud) contributed the largest proportion; besides, rental income from investment properties also contributed stable cash inflow. In addition, Kingdee’s operating cash flow has risen significantly since 2017, and we found that this was mainly due to the increase in change of in contract liabilities from its cloud business. Apart from boosting cash flow, contract liabilities (or deferred revenue) is also can be thought as revenue that will hit the income statement once performance of obligations is completed; therefore, it provides certain revenue visibility for next reporting period as well.

**Figure 15: Kingdee’s operating cash flow breakdown (RMB mn)**



Source: Company data, AMTD Research

**Figure 16: Kingdee’s change of working capital breakdown (RMB mn)**

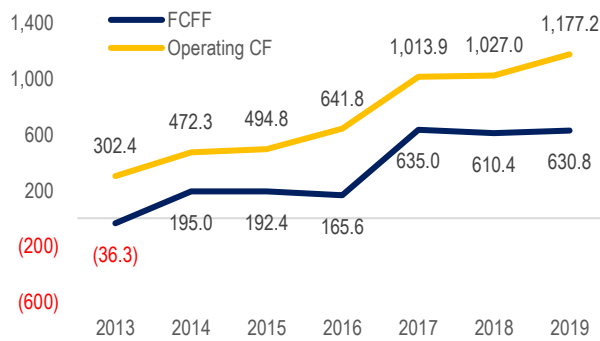


Source: Company data, AMTD Research

#### Free cash flow – enhanced OCF benefits capex and LT investment

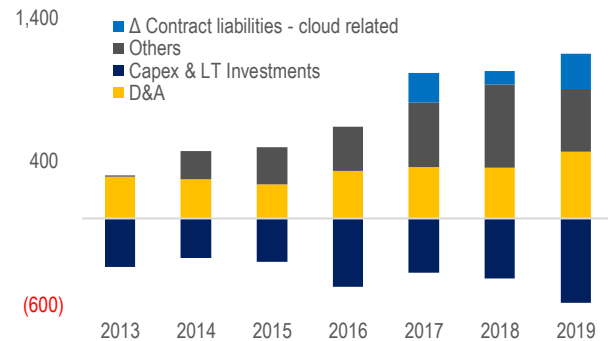
Free cash flow (FCF) is calculated by subtracting capital expenditures and LT investment from operating cash flow. Therefore, free cash flow is an important indicator of the sustainable growth of the company. Thanks to enhanced operating cash flow, Kingdee’s investment has also increased accordingly to support the development of its cloud business. Currently, its capital expenditure and long-term investment scale was comparable to that of non-cash D&A, which was indeed detrimental to EBIT margin of its software business. However, benefiting from cloud transition, Kingdee’s cash flow continued to increase and it will continue to increase investment to push the cloud transition. In such a virtuous circle, as the leverage effect gradually increases, the overall business profit level will eventually be improved.

**Figure 17: Kingdee's FCFF (free cash flow to the firm) vs operating cashflow (RMB mn)**



Source: Company data, AMTD Research

**Figure 18: Kingdee's FCFF (free cash flow to the firm) breakdown (RMB mn)**



Source: Company data, AMTD Research

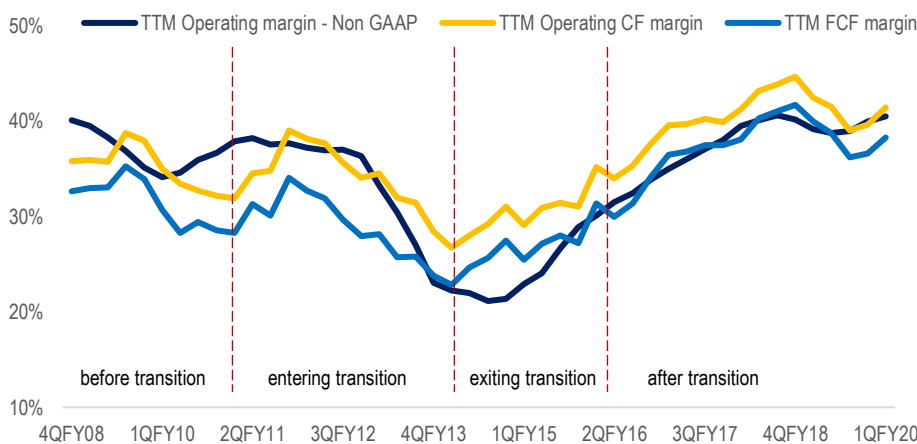
**Case study: Adobe – benchmark of cloud transition**

Adobe is one of the world largest software companies. It has historically focused upon the creation of multimedia and creativity software products. Over the past decade, Adobe has revived itself as cloud (SaaS) company. It no longer offers physical packed software, such as Creative Suite, under a perpetual license; rather, it now offers a lot of Apps in Desktop/Mobile versions, which can be subscribed through Creative Cloud. Given its dedicated software business and successful transformation to SaaS, Adobe is the benchmark of cloud transition. We here briefly discuss cash flow and operating margin of Adobe's full-scale business transformation as below:

- before cloud transition: weaker cash flow compared to operating margin;
- during cloud transition: both cash flow and operating margin was depressed at early stage, however, cash flow picked up earlier than operating margin when exiting transition;
- after cloud transition: both cash flow and operating margin improved to the same level.

With reference to Adobe's cloud transition path, we think Kingdee is currently at the middle of the transition where cash flow is stronger than its operating margin. Following Adobe's path, we expect Kingdee's operating margin will be gradually improved to the same level of its FCF margin in the future.

**Figure 19: comparison of Adobe's non-GAAP operating margin, operating cash flow margin, and free cash flow margin, TTM**



Source: Company data, AMTD Research  
 Note: 1QFY20 of Adobe ended 29 Feb 2020

## Operating leverage is on the horizon

For SaaS companies, the operating leverage comes primarily from sales & marketing. Costs are recognized up front while revenue is deferred over multiple periods. When business becomes matured, operating leverage is realized. Therefore, low attrition rate is key to operating leverage. A successful SaaS company with high customer retention rate and high subscription renewal rate will improve the margin steadily over the long run. Over the past three years, Kingdee's major cloud products have maintained high retention rates. In FY19, Cloud Galaxy had a dollar retention rate of more than 90%, and Jingdou and Guanyi had a customer retention rate of more than 80% and 82%, respectively.

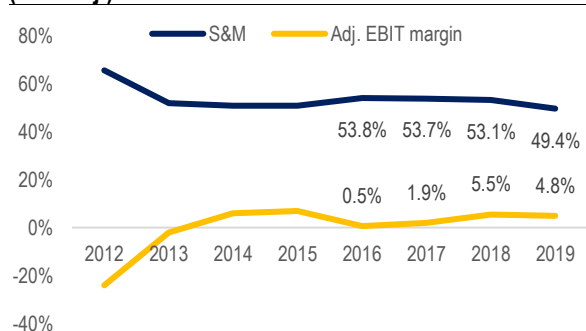
**Figure 20: Kingdee's cloud product customer retention rate**

	1H17	2017	1H18	2018	1H19	2019
Galaxy	90%+	90%+	80%+	80%+	80%+	76%+
- Dollar retention rate				95%+	90%+	90%+
Jingdou	70%+	70%+	70%+	70%+	80%+	80%+
Guanyi	70%+	70%+	70%+	70%+	80%+	82%+

Source: Company data, AMTD Research

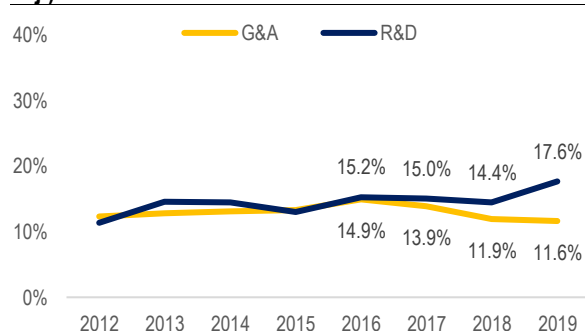
Kingdee started cloud business in 2012, which did not contribute meaningful revenue (about 30% of total software revenue) until 2016. The shift of business model from perpetual licensing model to subscription model had indeed put pressure on the margin. In 2016, S&M to revenue ratio was 53.8% and adj. EBIT margin was only 0.5%. However, thanks to maintaining a good retention rate, its S&M to revenue ratio fell significantly to 49.4% in FY19, which helped lift adj. EBIT margin to 4.8% accordingly. Besides, we saw operating leverage improved in G&A expenses as well. The significant improvement in expenses ratio gave more room for R&D. In FY19, R&D to revenue ratio rose to 17.6%. we believe it was due to the investment in its important strategic product – Cloud Cosmic. Looking forward, as Kingdee's SaaS business will become increasingly matured with a healthy retention rate we expect operating leverage will be gradually improved in a long run.

**Figure 21: Kingdee's S&M to revenue ratio vs EBIT margin (SBC adj.)**



Source: Company data, AMTD Research

**Figure 22: Kingdee's G&A and R&D to revenue ratio (SBC adj.)**

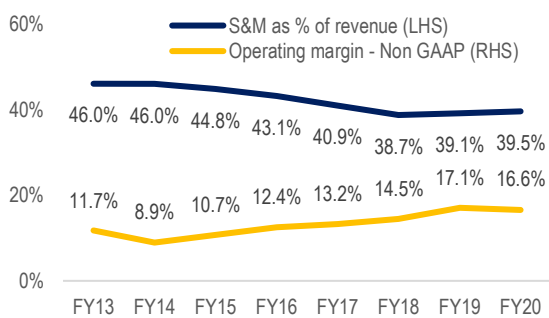


Source: Company data, AMTD Research

## Case study: Salesforce & Workday

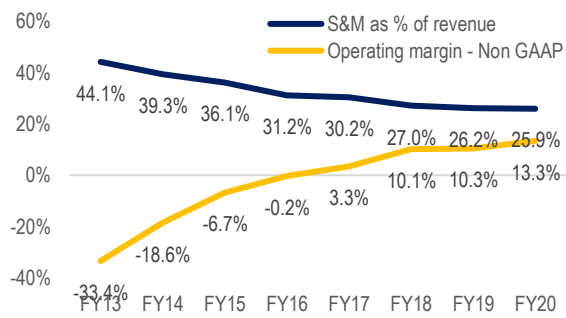
For Salesforce and Workday, their recurring subscription revenues accounted for more than 85% and 90% of their total revenue, respectively. Over the past few years, their operating margins (Non-GAAP) have been expanding along with the declining ratios of S&M to total revenue. In particular, Workday's Non-GAAP operating income turned a profit in FY16. In the meanwhile, Salesforce maintained dollar attrition rate below 10% while Workday's net retention was once again over 100% in latest quarter. Operating leverage has become increasingly visible in these two SaaS companies.

**Figure 23: Salesforce's S&M as % of total revenue and operating margin (Non-GAAP)**



Source: Company data, AMTD Research  
 Note: FY20 ended in 31 Jan 2020

**Figure 24: Workday's S&M as % of total revenue and operating margin (Non-GAAP)**

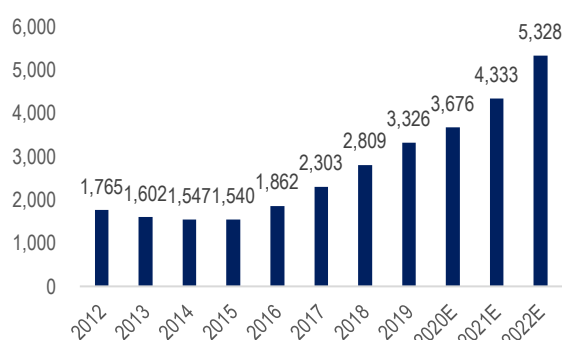


Source: Company data, AMTD Research  
 Note: FY20 ended in 31 Jan 2020

## Financial overview

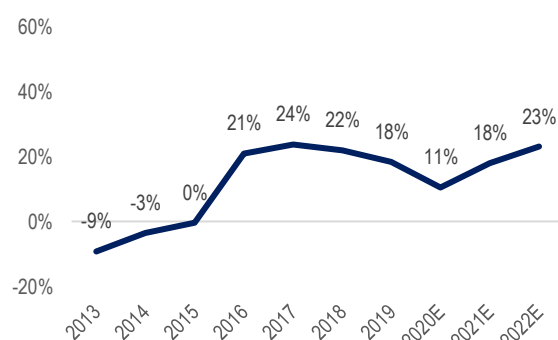
We estimate Kingdee's total revenue will grow by 11%/18% to RMB3.7bn/RMB4.3bn in FY20E/21E, which will be mainly led by its cloud services. However, we have conservative forecast for 2020 due to acceleration of KIS & K/3 transition to cloud and economic uncertainties caused by COVID-19.

**Figure 25: Kingdee's total revenue (RMB mn)**



Source: Company data, AMTD Research estimates

**Figure 26: Kingdee's total revenue growth, YoY**

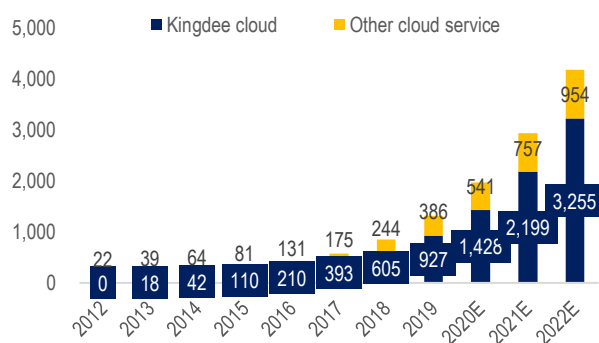


Source: Company data, AMTD Research estimates

### Cloud services – we expect healthy growth and mid/large-sized enterprise sector will continue to outperform

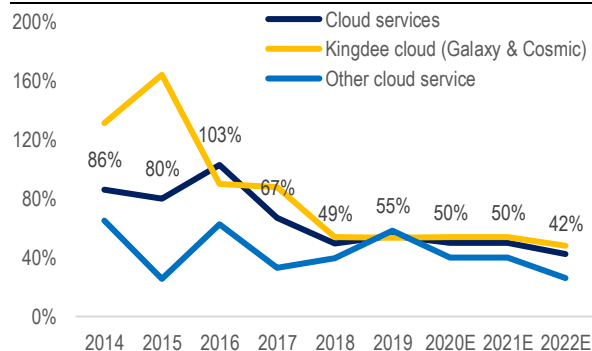
We project Kingdee's cloud services revenue will grow by 50%/50% in FY20E/21E to RMB2.0bn/RMB3.0bn. Driven by newly launched Cloud Cosmic, we expect Kingdee's enterprise cloud, including Cloud Galaxy, will maintain its decent growth of 54% YoY/54% YoY in FY20E/21E, and its revenue will reach RMB1.4bn/RMB2.2bn in FY20E/21E, accounting for 73% and 74% of total cloud services revenue, respectively. While other cloud services, which targets micro/small-sized enterprise market, would have a lower growth rate of 40% YoY in both FY20E/21E.

**Figure 27: Kingdee's cloud services revenue (RMB mn)**



Source: Company data, AMTD Research estimates

**Figure 28: Kingdee's cloud services revenue growth, YoY**

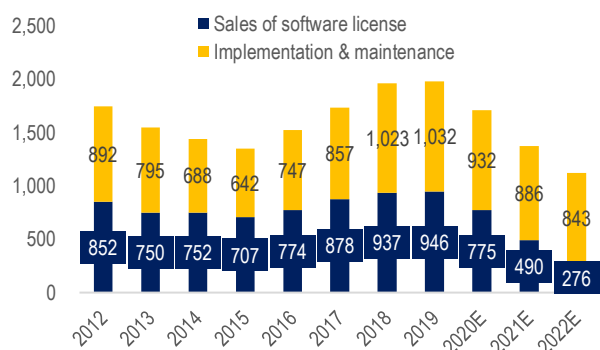


Source: Company data, AMTD Research estimates

### ERP business – we expect modest revenue decline in coming years

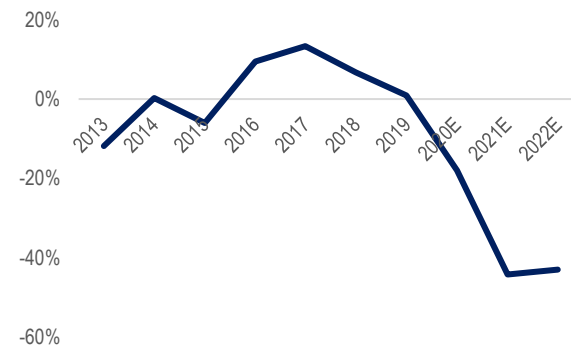
Although ERP is a relatively matured business, we still expect its revenue will decline in the next few years, mainly because ERP revenue will be cannibalized by its cloud offerings. For specific product lines, we believe that the decline in EAS's revenue could be relatively smaller because some large enterprises will stick with on-premise ERP solution given its nature of business, while K/3 and KIS could have a bigger decline because most of its customers would migrate to Cloud Galaxy. In addition, the revenue from implementation and maintenance of its management ERP business will decline accordingly. By taking into account impact from COVID-19, we expect Kingdee's management ERP business will decline by 15%/19% to RMB1.7bn and RMB1.4bn in FY20E/21E, respectively.

**Figure 29: Kingdee's management ERP revenue (RMB mn)**



Source: Company data, AMTD Research estimates

**Figure 30: Kingdee's ERP software revenue growth, YoY**

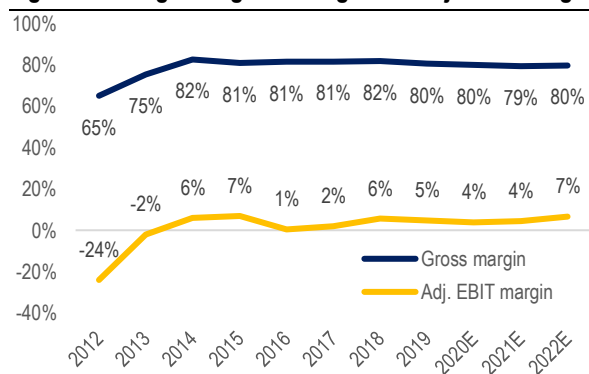


Source: Company data, AMTD Research estimates

**Margins & expenses – we expect stable margins given its heavy investment in R&D**

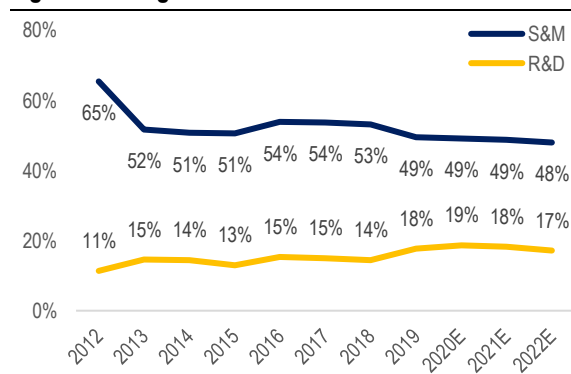
We expect Kingdee's gross margin and EBIT will stay around at current level of 80% and 4%-7%, respectively, in coming years. Operating leverage achieved in S&M would be offset by heavy investment in R&D. Kingdee's management indicated that it will invest more than RMB300mn on Cosmic Cloud each year going forward; therefore, its R&D to revenue ratio is more likely to climb slightly to more than 18% in next two to three years, in our view.

**Figure 31: Kingdee's gross margin and adj. EBIT margin**



Source: Company data, AMTD Research estimates

**Figure 32: Kingdee's S&M and R&D to revenue ratios**



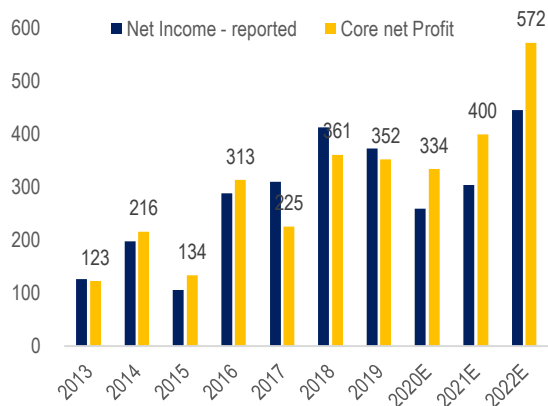
Source: Company data, AMTD Research estimates

**Net profits and dividends – we expect steady growing core net profit and stable dividend payout ratio**

We calculate Kingdee's core net profit by deducting any fair value changes of its financial investments and investment properties and adding back SBC from its reported net profit. We expect Kingdee's core net profit will reach RMB334mn and RMB400mn in FY20E/21E, -6%/+20% YoY, respectively. In the meanwhile, given the improving cash flow over the past few years, Kingdee has started to pay dividend. In FY18/19, management announced final dividend per share of RMB0.010 and RMB0.011, respectively, implying a dividend payout ratio around 10% based on our core EPS. We expect Kingdee will maintain its dividend payout ratio in the following years.

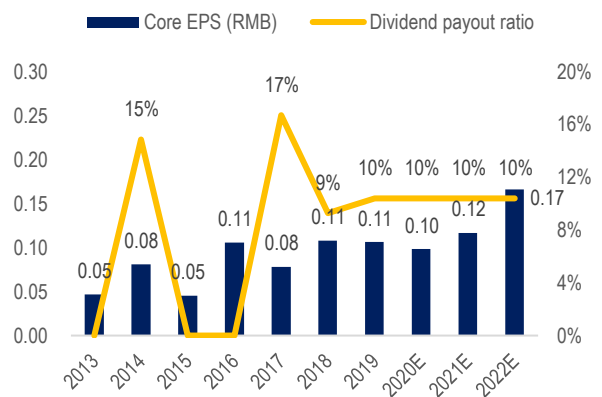


**Figure 33: Kingdee's reported & core net profit (RMB mn)**



Source: Company data, AMTD Research estimates

**Figure 34: Kingdee's core EPS (RMB) and dividend payout ratio (based on core EPS)**



Source: Company data, AMTD Research estimates

## Key financials

Figure 35: Kingdee's P&amp;L (RMB mn)

	2016	2017	2018	2019	2020E	2021E	2022E	CAGR FY19-22E
Management Software - ERP	1,521.4	1,735.3	1,959.4	2,012.0	1,707.1	1,376.2	1,119.1	-17.8%
Cloud Services	340.8	568.2	849.3	1,313.6	1,968.9	2,956.4	4,208.9	47.4%
<b>Total Revenue</b>	<b>1,862.2</b>	<b>2,303.5</b>	<b>2,808.7</b>	<b>3,325.6</b>	<b>3,675.9</b>	<b>4,332.5</b>	<b>5,328.0</b>	<b>17.0%</b>
Cost of Goods Sold	(348.0)	(427.0)	(514.3)	(652.0)	(739.1)	(892.7)	(1,087.2)	18.6%
<b>Gross Profit</b>	<b>1,514.2</b>	<b>1,876.5</b>	<b>2,294.3</b>	<b>2,673.6</b>	<b>2,936.9</b>	<b>3,439.8</b>	<b>4,240.8</b>	<b>16.6%</b>
<i>Gross margin</i>	81.3%	81.5%	81.7%	80.4%	79.9%	79.4%	79.6%	
S&M	(1,002.4)	(1,235.9)	(1,491.3)	(1,644.4)	(1,806.5)	(2,109.9)	(2,553.9)	15.8%
G&A	(277.6)	(320.2)	(334.3)	(386.3)	(419.7)	(486.0)	(587.0)	15.0%
R&D	(283.6)	(345.3)	(405.2)	(586.8)	(684.6)	(788.2)	(909.7)	15.7%
<b>Operating expenses</b>	<b>(1,563.6)</b>	<b>(1,901.4)</b>	<b>(2,230.8)</b>	<b>(2,617.5)</b>	<b>(2,910.8)</b>	<b>(3,384.1)</b>	<b>(4,050.6)</b>	<b>15.7%</b>
(+) SBC	59.3	68.1	91.5	103.9	114.9	135.4	166.5	17.0%
<b>Operating expenses adj.</b>	<b>(1,504.3)</b>	<b>(1,833.3)</b>	<b>(2,139.3)</b>	<b>(2,513.6)</b>	<b>(2,795.9)</b>	<b>(3,248.6)</b>	<b>(3,884.0)</b>	<b>15.6%</b>
<i>Opex ratio</i>	80.8%	79.6%	76.2%	75.6%	76.1%	75.0%	72.9%	
<b>Adj. EBIT (excl. IP)</b>	<b>9.9</b>	<b>43.2</b>	<b>155.0</b>	<b>160.0</b>	<b>141.0</b>	<b>191.1</b>	<b>356.7</b>	<b>30.6%</b>
<i>Adj. EBIT margin</i>	0.5%	1.9%	5.5%	4.8%	3.8%	4.4%	6.7%	
<b>Adj. EBITDA (excl. IP)</b>	<b>342.7</b>	<b>401.6</b>	<b>507.0</b>	<b>626.5</b>	<b>698.3</b>	<b>826.1</b>	<b>1,078.1</b>	<b>19.8%</b>
<b>EBIT - Investment Properties</b>	<b>104.5</b>	<b>164.7</b>	<b>167.5</b>	<b>113.2</b>	<b>114.7</b>	<b>116.2</b>	<b>117.7</b>	<b>1.3%</b>
Total Financial Costs	(57.6)	(67.1)	(30.5)	(14.4)	(11.5)	(11.5)	(11.5)	
Financial Income	35.6	40.0	29.4	19.8	19.8	19.8	19.8	
Share Profits From JV/Ass	(17.6)	(15.2)	(4.2)	(33.0)	(33.0)	(33.0)	(33.0)	
<b>Income Before Income Taxes</b>	<b>209.3</b>	<b>378.4</b>	<b>448.0</b>	<b>396.1</b>	<b>277.0</b>	<b>326.9</b>	<b>481.5</b>	<b>6.7%</b>
Income Tax Expense (Benefit)	5.9	(54.8)	(38.8)	(30.3)	(24.9)	(29.4)	(43.3)	
<b>Net Income</b>	<b>288.2</b>	<b>310.0</b>	<b>412.1</b>	<b>372.6</b>	<b>258.9</b>	<b>304.3</b>	<b>445.0</b>	<b>6.1%</b>
<b>Core net profit</b>	<b>312.9</b>	<b>224.8</b>	<b>360.9</b>	<b>352.0</b>	<b>333.8</b>	<b>399.7</b>	<b>571.5</b>	<b>17.5%</b>
Core EPS (RMB)	0.106	0.078	0.108	0.106	0.098	0.117	0.166	16.1%
Diluted - reported EPS (RMB)	0.097	0.107	0.123	0.112	0.076	0.089	0.129	4.8%
Final Dividend Per Share (RMB)	-	0.013	0.010	0.011	0.008	0.009	0.013	6.8%

Source: Company data, AMTD Research estimates

**Figure 36: Kingdee's P&L growth, YoY**

	2016	2017	2018	2019	2020E	2021E	2022E
Management Software - ERP	12.8%	14.1%	12.9%	2.7%	-15.2%	-19.4%	-18.7%
Cloud Services	102.8%	66.7%	49.5%	54.7%	49.9%	50.2%	42.4%
<b>Total Revenue</b>	<b>22.8%</b>	<b>23.7%</b>	<b>21.9%</b>	<b>18.4%</b>	<b>10.5%</b>	<b>17.9%</b>	<b>23.0%</b>
<b>Cost of Goods Sold</b>	<b>19.9%</b>	<b>22.7%</b>	<b>20.5%</b>	<b>26.8%</b>	<b>13.4%</b>	<b>20.8%</b>	<b>21.8%</b>
<b>Gross Profit</b>	<b>23.4%</b>	<b>23.9%</b>	<b>22.3%</b>	<b>16.5%</b>	<b>9.8%</b>	<b>17.1%</b>	<b>23.3%</b>
S&M	30.8%	23.3%	20.7%	10.3%	9.9%	16.8%	21.0%
G&A	37.5%	15.3%	4.4%	15.5%	8.6%	15.8%	20.8%
R&D	44.4%	21.8%	17.3%	44.8%	16.7%	15.1%	15.4%
<b>Operating expenses</b>	<b>34.3%</b>	<b>21.6%</b>	<b>17.3%</b>	<b>17.3%</b>	<b>11.2%</b>	<b>16.3%</b>	<b>19.7%</b>
(+) SBC	39.5%	14.8%	34.4%	13.6%	10.5%	17.9%	23.0%
<b>Adj. operating expenses</b>	<b>34.1%</b>	<b>21.9%</b>	<b>16.7%</b>	<b>17.5%</b>	<b>11.2%</b>	<b>16.2%</b>	<b>19.6%</b>
<b>Adj. EBIT (excl. IP)</b>	<b>-90.5%</b>	<b>335.0%</b>	<b>259.0%</b>	<b>3.2%</b>	<b>-11.9%</b>	<b>35.6%</b>	<b>86.6%</b>
<b>Adj. EBITDA (excl. IP)</b>	<b>0.7%</b>	<b>17.2%</b>	<b>26.3%</b>	<b>23.6%</b>	<b>11.5%</b>	<b>18.3%</b>	<b>30.5%</b>
<b>EBIT - Investment Properties</b>	<b>21.9%</b>	<b>57.6%</b>	<b>1.7%</b>	<b>-32.4%</b>	<b>1.3%</b>	<b>1.3%</b>	<b>1.3%</b>
Total Financial Costs	-38.9%	16.5%	-54.6%	-52.8%	-20.3%	0.0%	0.0%
Financial Income	2.6%	12.4%	-26.4%	-32.9%	0.0%	0.0%	0.0%
Share Profits From JV/Ass	695.2%	-13.5%	-72.2%	678.9%	0.0%	0.0%	0.0%
<b>Income Before Income Taxes</b>	<b>-25.2%</b>	<b>80.8%</b>	<b>18.4%</b>	<b>-11.6%</b>	<b>-30.1%</b>	<b>18.0%</b>	<b>47.3%</b>
Income Tax Expense (Benefit)	-109.5%	-1021.9%	-29.3%	-21.7%	-17.8%	18.0%	47.3%
<b>Net Income - reported</b>	<b>172.5%</b>	<b>7.6%</b>	<b>32.9%</b>	<b>-9.6%</b>	<b>-30.5%</b>	<b>17.5%</b>	<b>46.2%</b>
<b>Core net Profit</b>	<b>133.9%</b>	<b>-28.1%</b>	<b>60.5%</b>	<b>-2.5%</b>	<b>-5.2%</b>	<b>19.8%</b>	<b>43.0%</b>
Core EPS (RMB)	132.3%	-26.3%	38.2%	-1.6%	-7.4%	19.0%	42.1%

Source: Company data, AMTD Research estimates

**Figure 37: Kingdee's Balance Sheet (RMB mn)**

	2016	2017	2018	2019	2020E	2021E	2022E
Cash and Equivalents	1,464.8	1,056.7	1,452.8	1,898.8	2,417.3	3,152.0	4,377.3
Accounts Receivable And Other Receivables	315.2	319.6	286.6	308.2	328.7	387.4	476.4
Contracts In Process	395.7	432.8	494.7	512.4	566.3	667.5	820.9
Short-Term Loans	19.8	215.6	345.7	230.9	230.9	230.9	230.9
Financial Assets At Fair Value	12.9	-	211.4	596.2	596.2	596.2	596.2
<b>Current assets</b>	<b>2,956.7</b>	<b>3,533.6</b>	<b>3,159.5</b>	<b>4,241.4</b>	<b>4,836.1</b>	<b>5,732.6</b>	<b>7,202.6</b>
Property Plant & Equipment - Net	796.3	510.2	490.2	546.5	627.1	723.2	828.9
Prepaid Lease Payments	125.4	69.4	67.5	106.9	106.9	106.9	106.9
Investment Property	882.6	1,721.7	1,816.2	1,856.2	1,896.2	1,936.2	1,976.2
Total Intangible Assets - Net	775.2	817.3	899.7	923.3	915.3	904.9	879.6
Equity Investments In Associates/Affiliates	25.8	31.4	234.4	282.6	282.6	282.6	282.6
Long-Term Loans	208.2	62.1	483.5	12.4	12.4	12.4	12.4
Financial Assets At Fair Value	10.3	6.3	427.5	428.8	428.8	428.8	428.8
<b>Non-current assets</b>	<b>3,020.6</b>	<b>3,268.5</b>	<b>4,419.0</b>	<b>4,178.7</b>	<b>4,291.2</b>	<b>4,416.9</b>	<b>4,537.4</b>
<b>Total assets</b>	<b>5,977.3</b>	<b>6,802.1</b>	<b>7,578.6</b>	<b>8,420.2</b>	<b>9,127.4</b>	<b>10,149.5</b>	<b>11,740.0</b>
Short-Term Borrowings	80.7	155.0	301.1	199.6	199.6	199.6	199.6
Trade Payables And Others	398.4	586.7	473.5	607.4	728.9	880.5	1,072.3
Amounts Due To Contract Work	220.2	323.9	846.8	997.0	1,240.1	1,698.0	2,524.6
Income Taxes Accrued/Payable	42.7	50.0	35.9	60.4	60.4	60.4	60.4
Deferred/Unearned Revenue (Short-Term)	125.4	197.8	102.1	125.5	125.5	125.5	125.5
<b>Current liabilities</b>	<b>922.7</b>	<b>1,404.9</b>	<b>1,866.6</b>	<b>1,998.1</b>	<b>2,354.5</b>	<b>2,964.0</b>	<b>3,982.4</b>
Long Term Debt	1,415.6	1,193.5	-	-	-	-	-
Trade and other payables	-	-	-	69.0	69.0	69.0	69.0
Deferred Income Taxes (Liabilities)	102.8	160.6	179.3	187.1	187.1	187.1	187.1
<b>Non-current liabilities</b>	<b>1,518.4</b>	<b>1,354.1</b>	<b>179.3</b>	<b>276.4</b>	<b>276.4</b>	<b>276.4</b>	<b>276.4</b>
Total Share Capital	72.6	71.6	79.6	80.0	80.0	80.0	80.0
Additional Paid In Capital	1,765.3	1,681.3	2,903.5	2,963.1	3,078.0	3,213.4	3,380.0
Retained Earnings (Accumulated Deficit)	1,237.8	1,547.8	1,917.8	2,257.3	2,493.1	2,770.4	3,175.9
Other reserves	400.2	694.7	565.3	686.5	686.5	686.5	686.5
<b>Attributable shareholders' equity</b>	<b>3,475.8</b>	<b>3,995.3</b>	<b>5,466.1</b>	<b>5,986.9</b>	<b>6,337.7</b>	<b>6,750.4</b>	<b>7,322.4</b>
Minority/Non Controlling Int (Stckhldrs Eqty)	60.4	47.7	66.6	158.7	158.7	158.7	158.7
<b>Total Shareholders Equity</b>	<b>3,536.2</b>	<b>4,043.1</b>	<b>5,532.7</b>	<b>6,145.7</b>	<b>6,496.5</b>	<b>6,909.1</b>	<b>7,481.2</b>

Source: Company data, AMTD Research estimates

**Figure 38: Kingdee's Cash flow (RMB mn)**

	2016	2017	2018	2019	2020E	2021E	2022E	CAGR FY19-22E
<b>Net Loss/Profit</b>	<b>288.2</b>	<b>310.0</b>	<b>412.1</b>	<b>372.6</b>	<b>258.9</b>	<b>304.3</b>	<b>445.0</b>	<b>6.1%</b>
Depreciation	21.2	(7.7)	17.0	27.6	31.4	35.8	40.8	
Amortization of Intangibles	286.3	313.8	304.3	461.5	525.9	599.1	680.6	
SBC	59.3	68.1	91.5	103.9	114.9	135.4	166.5	
Other non-cash items	(34.7)	(153.3)	(95.0)	(76.1)	8.4	8.4	8.4	
Change of OWC	21.5	483.0	297.1	260.6	288.5	447.7	773.7	43.7%
<b>Operating cash flow</b>	<b>641.8</b>	<b>1,013.9</b>	<b>1,027.0</b>	<b>1,150.2</b>	<b>1,228.0</b>	<b>1,530.8</b>	<b>2,115.1</b>	<b>22.5%</b>
capex	(85.7)	293.8	3.0	(83.9)	(111.9)	(131.9)	(146.5)	
Purchase of Intangibles	(460.3)	(355.9)	(386.7)	(485.2)	(517.9)	(588.8)	(655.3)	
<b>Investing cash flow</b>	<b>(785.9)</b>	<b>(1,404.1)</b>	<b>(571.5)</b>	<b>(739.3)</b>	<b>(686.4)</b>	<b>(769.1)</b>	<b>(850.3)</b>	
<b>Financing cash flow</b>	<b>(18.4)</b>	<b>(18.9)</b>	<b>(61.4)</b>	<b>35.0</b>	<b>(23.0)</b>	<b>(27.0)</b>	<b>(39.5)</b>	
<b>Net cash flow</b>	<b>(162.4)</b>	<b>(409.1)</b>	<b>394.1</b>	<b>445.9</b>	<b>518.6</b>	<b>734.7</b>	<b>1,225.3</b>	<b>40.1%</b>
<b>OCF - operating cash flow</b>	<b>641.8</b>	<b>1,013.9</b>	<b>1,027.0</b>	<b>1,150.2</b>	<b>1,228.0</b>	<b>1,530.8</b>	<b>2,115.1</b>	<b>22.5%</b>
(-) Capex & LT Investments	(460.3)	(355.9)	(386.7)	(485.2)	(517.9)	(588.8)	(655.3)	10.5%
<b>FCFF - free cash flow to the firm</b>	<b>181.5</b>	<b>658.0</b>	<b>640.3</b>	<b>665.0</b>	<b>710.1</b>	<b>942.1</b>	<b>1,459.7</b>	<b>30.0%</b>
- FCF from ERP & cloud	(106.1)	450.9	348.8	270.3	332.0	523.7	1,006.7	55.0%
- FCF from IP & others	287.6	207.2	291.6	394.7	378.1	418.4	453.1	4.7%
<i>OCF margin</i>	34.5%	44.0%	36.6%	34.6%	33.4%	35.3%	39.7%	
<i>FCFF margin</i>	9.7%	28.6%	22.8%	20.0%	19.3%	21.7%	27.4%	

Source: Company data, AMTD Research estimates

## Valuation

### Sum of the parts (SOTP)

Although Kingdee's topline is all coming from ERP software and cloud business, its investment properties contribute meaningful operating income to the company. Therefore, we derive our PT of HK\$15.5 from SOTP, which comprises: 1) HK\$15.0 for software related (incl. ERP & Cloud); 2) HK\$0.5 for its investment properties.

**Figure 39: SOTP summary**

<b>Software (ERP &amp; Cloud) - EV/FCF</b>	
FY22E Free Cash Flow (RMB mn)	1,007
FCF CAGR in FY19-22E	55.0%
EV/FCF/Growth	1.0x
FY22E EV/FCF	55.0x
FY22E Enterprise Value (RMB mn)	55,366
Discount rate	14.2%
<b>FY20E Enterprise Value (RMB mn)</b>	<b>42,467</b>
(+) Cash and short-term investments (RMB mn)	4,361
(-) Noncontrolling interests (RMB mn)	159
(-) Total debt (RMB mn)	200
<b>FY20E Equity value (RMB mn)</b>	<b>46,469</b>
No. of shares (mn)	3,401
Valuation per share in RMB	13.7
<b>Valuation per share in HKD</b>	<b>15.0</b>
<b>Investment properties - NAV</b>	
FY20E Net Rental Income (RMB mn)	75
Cap rate	3.0%
FY20E NAV (RMB mn)	2,490
Discount rate	40.0%
<b>FY20E Equity value (RMB mn)</b>	<b>1,494</b>
No. of shares (mn)	3,401
Valuation per share in RMB	0.4
<b>Valuation per share in HKD</b>	<b>0.5</b>
<b>Total valuation per share in HKD</b>	<b>15.5</b>

Source: Company data, AMTD Research estimates

### Software (ERP & Cloud) – EV/FCF

As we discussed above, major traditional ERP software companies are shifting to offer cloud services. Kingdee is one of the cloud transition frontrunners. In FY19, Kingdee's cloud services revenue accounted of 39% of its total revenue, however, Kingdee is still in the process of cloud transition, where EBIT is meager despite strengthening cash flow. In this case, to better value its growth potential, we think EV/FCF would be a better metric. We estimate a faster pace of growth at ~55% FCF CAGR over the next 3 years to reach RMB1.0bn by FY22E, which supports the multiple at 55.0x EV/FCF in FY22E. By discounting back at a 14.2% WACC, we derive FY20E ERP & Cloud business equity value at RMB46.5bn and HK\$15.0 per share, assuming HKDCNY of 0.91. Our 55.0x EV/FCF multiple implies 1.0x EV/FCF/Growth, which is at a discount to SaaS peers' 1.4x on average.

### Investment properties – NAV

Kingdee has a few of investment properties, some of which are for company operating use and others are for lease, contributing around RMB75mn net rental income per year. We apply 3.0% of cap rate, in line with that of China investment properties, and derive the NAV of its IP at RMB2.5bn, and then apply 40% of NAV discount, we get the value of its investment properties at RMB1.5bn/HK\$0.5 per share.

## Comparables

Figure 40: Comparables

Date	22/5/2020	Price (LC)	Mkt cap (USD mn)	P/S				P/E				EV/FCFF				EV/FCFF/ Growth FY19-22E
				FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	
<b>SaaS - HK &amp; China listed</b>																
268 HK	Kingdee	12.88	5,528	11.7x	10.6x	9.0x	7.3x	110.6x	119.4x	100.3x	70.6x	64.3x	60.6x	44.8x	27.6x	0.92
600588 CH	Yonyou	36.30	17,324	14.1x	12.3x	10.1x	8.1x	98.3x	112.7x	87.1x	66.0x	95.9x	135.9x	80.7x	73.3x	7.80
2013 HK	Weimob	6.44	1,859	8.9x	7.7x	5.6x	4.2x	156.4x	160.6x	59.0x	41.1x	n.a.	78.0x	n.a.	87.2x	n.a.
8083 HK	China Youzan	0.70	1,508	8.9x	5.3x	3.3x	2.2x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1588 HK	Chanjet Info	8.97	251	3.7x	3.3x	3.1x	n.a.	20.8x	18.3x	16.2x	n.a.	3.5x	n.a.	n.a.	n.a.	n.a.
<b>Mean</b>				<b>8.9x</b>	<b>7.2x</b>	<b>5.5x</b>	<b>4.9x</b>	<b>91.8x</b>	<b>97.2x</b>	<b>54.1x</b>	<b>53.6x</b>	<b>49.7x</b>	<b>107.0x</b>	<b>80.7x</b>	<b>80.2x</b>	<b>7.80</b>
<b>Median</b>				<b>8.9x</b>	<b>6.5x</b>	<b>4.4x</b>	<b>4.2x</b>	<b>98.3x</b>	<b>112.7x</b>	<b>59.0x</b>	<b>53.6x</b>	<b>49.7x</b>	<b>107.0x</b>	<b>80.7x</b>	<b>80.2x</b>	<b>7.80</b>
<b>SaaS - Cloud transition</b>																
ORCL US	Oracle	52.62	165,059	4.1x	4.1x	4.1x	4.0x	1.9x	12.7x	12.0x	12.0x	15.9x	15.9x	14.9x	13.5x	2.43
SAP GR	SAP	106.36	143,854	4.7x	4.6x	4.3x	4.0x	20.8x	21.2x	18.7x	16.5x	52.3x	35.1x	25.5x	22.4x	0.68
MSFT US	Microsoft	183.51	1,392,547	9.9x	8.9x	8.0x	7.3x	4.9x	29.5x	25.8x	23.2x	33.0x	28.2x	26.1x	23.0x	1.80
ADBE US	Adobe	385.26	179,326	16.1x	12.0x	10.5x	9.4x	65.1x	34.8x	29.7x	25.0x	46.2x	32.0x	27.7x	22.0x	0.78
<b>Mean:</b>				<b>8.7x</b>	<b>7.4x</b>	<b>6.7x</b>	<b>6.2x</b>	<b>23.2x</b>	<b>24.6x</b>	<b>21.6x</b>	<b>19.2x</b>	<b>36.9x</b>	<b>27.8x</b>	<b>23.6x</b>	<b>20.2x</b>	<b>1.42</b>
<b>Median:</b>				<b>7.3x</b>	<b>6.8x</b>	<b>6.2x</b>	<b>5.7x</b>	<b>12.8x</b>	<b>25.4x</b>	<b>22.3x</b>	<b>19.9x</b>	<b>39.6x</b>	<b>30.1x</b>	<b>25.8x</b>	<b>22.2x</b>	<b>1.29</b>
<b>SaaS - Cloud native</b>																
CRM US	Salesforce	177.85	158,240	9.3x	7.6x	6.4x	5.5x	n.a.	56.6x	46.4x	36.8x	42.9x	38.3x	32.0x	28.9x	2.07
WDAY US	Workday	168.15	36,722	10.1x	8.7x	7.4x	6.4x	n.a.	81.7x	63.0x	48.4x	62.6x	64.3x	45.0x	38.4x	2.17
NOW US	Service	387.96	73,017	21.1x	16.8x	13.5x	10.9x	122.0x	91.8x	72.6x	55.7x	75.5x	58.1x	45.3x	35.3x	1.23
VEEV US	Veeva	202.96	29,412	26.6x	21.2x	17.7x	14.7x	106.7x	82.4x	67.9x	56.2x	67.7x	61.7x	49.6x	37.3x	1.69
SHOP US	Shopify	825.17	89,975	57.0x	41.7x	31.0x	22.6x	n.a.	1817.6x	1240.9x	520.3x	6928.8x	n.a.	8719.8x	271.6x	1.40
ZEN US	Zendesk	81.93	8,895	10.9x	8.8x	7.0x	5.6x	n.a.	186.2x	117.5x	64.2x	215.7x	716.1x	95.5x	42.4x	0.59
<b>Mean:</b>				<b>22.5x</b>	<b>17.5x</b>	<b>13.8x</b>	<b>10.9x</b>	<b>114.3x</b>	<b>386.1x</b>	<b>268.0x</b>	<b>130.3x</b>	<b>1232.2x</b>	<b>187.7x</b>	<b>1497.8x</b>	<b>75.7x</b>	<b>1.52</b>
<b>Median:</b>				<b>16.0x</b>	<b>12.8x</b>	<b>10.4x</b>	<b>8.6x</b>	<b>114.3x</b>	<b>87.1x</b>	<b>70.2x</b>	<b>56.0x</b>	<b>71.6x</b>	<b>61.7x</b>	<b>47.4x</b>	<b>37.8x</b>	<b>1.54</b>
<b>US listed Mean:</b>				<b>17.0x</b>	<b>13.4x</b>	<b>11.0x</b>	<b>9.0x</b>	<b>53.6x</b>	<b>241.5x</b>	<b>169.4x</b>	<b>85.8x</b>	<b>754.1x</b>	<b>116.6x</b>	<b>908.1x</b>	<b>53.5x</b>	<b>1.48</b>
<b>US listed Median:</b>				<b>10.5x</b>	<b>8.8x</b>	<b>7.7x</b>	<b>6.9x</b>	<b>42.9x</b>	<b>69.2x</b>	<b>54.7x</b>	<b>42.6x</b>	<b>57.5x</b>	<b>38.3x</b>	<b>38.5x</b>	<b>32.1x</b>	<b>1.54</b>

Source: Bloomberg, price as close of 22 May 2020, AMTD Research estimates



## DCF – Software (ERP & Cloud) business

We cross check with 10-year DCF to value Kingdee. We think DCF is appropriate as it takes into account the cash flow, which is an important metric for SaaS business.

**Figure 41: DCF valuation**

('000 RMB)	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Management Software - ERP	1,959	2,012	1,707	1,376	1,119	888	703	556	440	347	274
Cloud Services	849	1,314	1,969	2,956	4,209	5,866	7,999	10,668	13,907	17,853	22,560
<b>Total revenue</b>	<b>2,809</b>	<b>3,326</b>	<b>3,676</b>	<b>4,333</b>	<b>5,328</b>	<b>6,753</b>	<b>8,702</b>	<b>11,224</b>	<b>14,347</b>	<b>18,200</b>	<b>22,833</b>
YoY %	21.9%	18.4%	10.5%	17.9%	23.0%	26.8%	28.9%	29.0%	27.8%	26.9%	25.5%
Cloud as % of total	30.2%	39.5%	53.6%	68.2%	79.0%	86.9%	91.9%	95.0%	96.9%	98.1%	98.8%
<b>Gross profit</b>	<b>2,294</b>	<b>2,674</b>	<b>2,937</b>	<b>3,440</b>	<b>4,241</b>	<b>5,382</b>	<b>6,935</b>	<b>8,945</b>	<b>11,448</b>	<b>14,540</b>	<b>18,265</b>
margin	81.7%	80.4%	79.9%	79.4%	79.6%	79.7%	79.7%	79.7%	79.8%	79.9%	80.0%
Operating expenses excl. D&A	(1,787)	(2,047)	(2,239)	(2,614)	(3,163)	(3,795)	(4,517)	(5,330)	(6,209)	(7,110)	(7,999)
<b>Adj. EBITDA</b>	<b>507</b>	<b>626</b>	<b>698</b>	<b>826</b>	<b>1,078</b>	<b>1,587</b>	<b>2,419</b>	<b>3,615</b>	<b>5,239</b>	<b>7,430</b>	<b>10,266</b>
YoY %	26.3%	23.6%	11.5%	18.3%	30.5%	47.2%	52.4%	49.5%	44.9%	41.8%	38.2%
(-) tax	(39)	(30)	(25)	(29)	(43)	(111)	(169)	(253)	(367)	(520)	(719)
Change of OWC	297	261	288	448	774	967	1,180	1,416	1,699	2,039	2,447
(-) Capex & LT Investments	(417)	(586)	(630)	(721)	(802)	(898)	(988)	(1,067)	(1,120)	(1,154)	(1,188)
<b>Free cash flow</b>	<b>349</b>	<b>270</b>	<b>332</b>	<b>524</b>	<b>1,007</b>	<b>1,545</b>	<b>2,441</b>	<b>3,711</b>	<b>5,451</b>	<b>7,795</b>	<b>10,806</b>
YoY %			23%	58%	92%	53%	58%	52%	47%	43%	39%

Source: AMTD Research estimates

Based on the major assumptions: 1) software (ERP & Cloud) business FCF will grow at a CAGR of 50.7% in FY19-28E; 2) long-term growth rate of 4.0%; 3) WACC of 14.2%, we derive Kingdee's equity value of HK\$14.9 per share, largely in line with our PT for software (ERP & Cloud) business from that in SOTP.

**Figure 42: DCF**

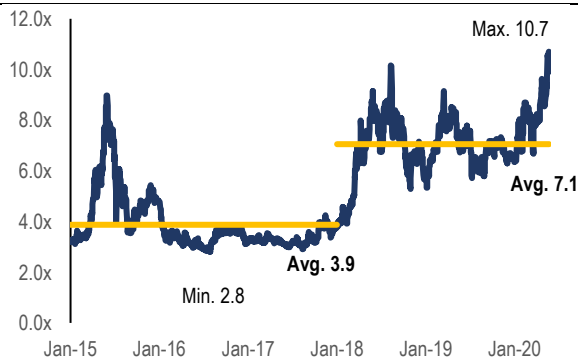
Long-term growth rate	4.0%
WACC	14.2%
Total present value of free cash flows	10,062
Present value of terminal value	32,168
<b>Enterprise value</b>	<b>42,230</b>
(+) Cash and short-term investments	4,361
(-) Noncontrolling interests	159
(-) Total debt	200
<b>Implied equity value- Dec 2020(RMB)</b>	<b>46,233</b>
<b>Implied equity value - Dec 2020 (HKD)</b>	<b>50,805</b>
<b>No. of shares</b>	<b>3,401</b>
<b>Price target (HKD)</b>	<b>14.9</b>

Source: AMTD Research estimates

### Historical one-year forward valuations

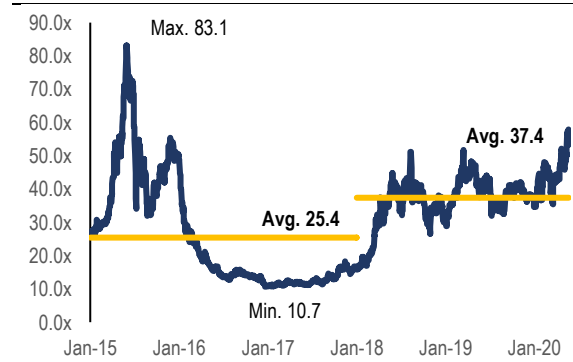
In general, valuation is vulnerable to financial fluctuations and business uncertainties during transition to cloud. We found that Kingdee’s valuation was relatively low during the early stage of its cloud transition in FY15-17. However, when cloud transition brings positive changes to Kingdee – improved cash flow in 2017, Kingdee’s valuation has improved significantly. Currently, Kingdee’s stock is trading around 7.1x one-year forward P/S and 37.4x one-year forward EV/FCFF, a bit ahead of avg. of FY18-19 and substantially higher than avg. of FY15-17. However, we see current trading level underpriced its long-term FCF growth potential.

**Figure 43: Kingdee’s 5-year historical one-year forward P/S**



Source: Bloomberg, AMTD Research estimates

**Figure 44: Kingdee’s 5-year historical one-year forward EV/FCFF**



Source: Bloomberg, AMTD Research estimates

## Appendix

### Business overview

Kingdee, as one of the earliest to venture into cloud business from traditional ERP, has provided Cloud Cosmic and Cloud Galaxy for medium and large-sized enterprise, Jingdou Cloud, Guanyi Cloud for micro and small-sized enterprises. Besides, Kingdee also launched diverse cloud solutions in a wide range of business niche, such as Guanyi Cloud for E-commerce operators, Cargeer for auto dealers, etc., to establish the cloud ecosystem.

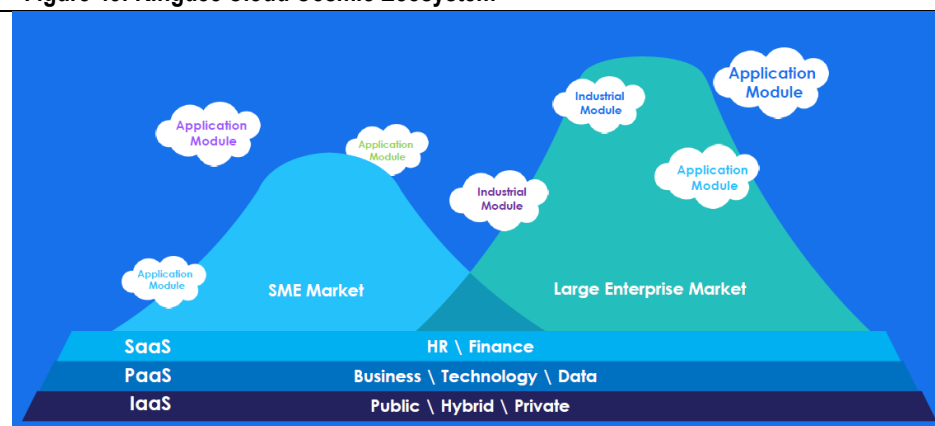
### Kingdee Cloud Cosmic

Kingdee launched an epochal Cloud service platform for large enterprises, Kingdee Cloud Cosmic in 2018, the first domestically-developed controllable enterprise Cloud service platform in China based on Cloud-native architecture.

It was noteworthy that Cosmic achieved cooperation with Huawei Cloud, Amazon AWS, Alibaba Cloud, Tencent Cloud as its IaaS service providers to establish an ecosystem for its business, and further integrated Dev&Ops, social networking, Big Data, AI and IoT technologies as PaaS services to provide cloud platform solutions. On top of it, Cosmic offered a variety of SaaS services such as platform Cloud, employee service Cloud, finance Cloud, etc.

Cloud Cosmic was selected in global high productivity SaaS supplier director and PaaS vendor list by Gartner, thanks to its low-code development, which helped decline coding amount by 90% and improve development efficiency by 500%. Cosmic's localization support also helped rejuvenate the enterprises, powered by open source and full-stack, full-scenario AI solutions, with seamless system integration with Tai Chi, Inspur, Chinasoft, etc. Besides, Cosmic had 73 invention patents and 3 design patents, while core patent on Cosmic's cloud native architecture won the National Patent Award.

Figure 45: Kingdee Cloud Cosmic Ecosystem

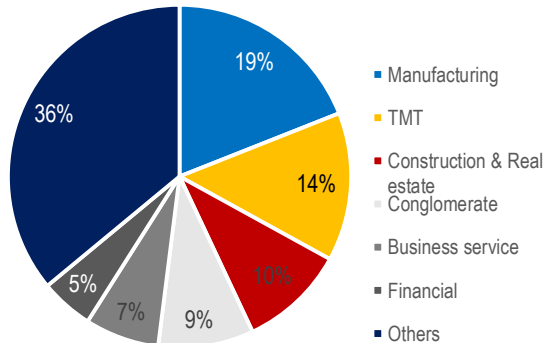


Source: Company data

In FY19, the number of total customers surged to 145, while the new clients reached 130. Among the customers, manufacturing industry contributed most clients to Cloud Cosmic with 19%, followed by 14% customers from TMT sectors, 10% customers from construction & real estate industry, 10% customers from conglomerate, respectively.

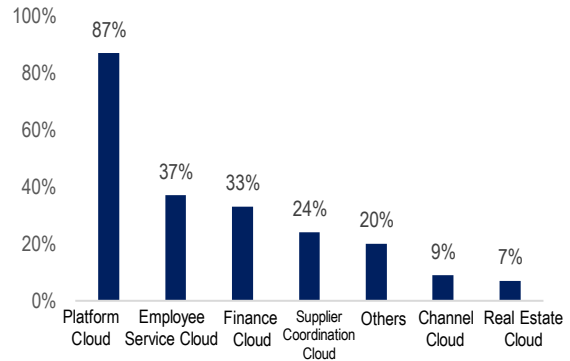
Moreover, 87% of customers adopting platform cloud implied the customers' confidence in Cosmic, and customers generally chose more than one solution. More specially, 27% of customers had 1-2 solutions, 26% of customers had 3 solutions and 47% of customers had more than 3 solutions. In FY19, Cosmic offered more than 100 SaaS applications to boost enterprises' digital transformation, and received total contracts worth more than RMB 200mn, and average contract size is around RMB 1.54mn.

**Figure 46: Manufacturing and TMT sector provided most customers for Cloud Cosmic in FY19**



Source: Company data; AMTD Research

**Figure 47: 87% of customers adopted Platform Cloud**



Source: Company data; AMTD Research

Kingdee continues to benefit from cloud transition. For now, Cosmic gained revenue mostly from conglomerates and large-sized enterprises, whose revenue is generally more than RMB 2bn. Cosmic delivers group-level management solution to upgrade their IT system. However, more than 20mn micro-/small-sized enterprises and 70mn individual households have imperative desire to adopt operation and finance cloud and build single operating center as well. Driven by the digitalization investment from those customers, Cosmic’s total addressable market keeps rapidly expanding.

**Kingdee Cloud Galaxy**

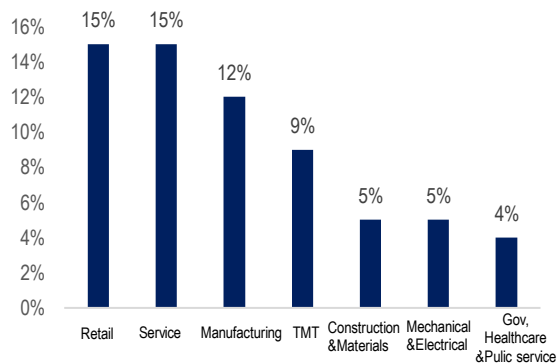
Galaxy provides cloud-based ERP software to medium-/large-sized enterprises and fast-growing enterprises, empowering the migration of infrastructure, platform system and business application to the cloud. Galaxy accelerates cloud transformation mainly through: 1) business accounting and financial sharing to smooth multi-organization business collaboration; 2) real-time demand data sharing to efficiently manage operation of purchase, sales and inventory management; 3) rapid and flexible capacity expansion and rapid functionality upgrade.

In FY19, Galaxy recorded more than 13,800 clients, +45%yoy. Retail and service industry contributed 15%, 15% of clients to Cloud Galaxy, suggesting that these industry verticals were more likely to deploy cloud ERP models due to its lower system complexity and higher business agility demand.

On the other hand, 98% of clients carried out services, such as smart bookkeeping, integrated issuance/receipt of financial and tax bills, business accounting and financial sharing on finance cloud to support multi-organization business collaboration. 51% of clients implemented supply chain cloud to digitalize the information, material and capital flows in production, supply, and sales. Besides, 32% of customers adopted more than 2 solutions, 17% of customers even adopted more than 3 solutions.

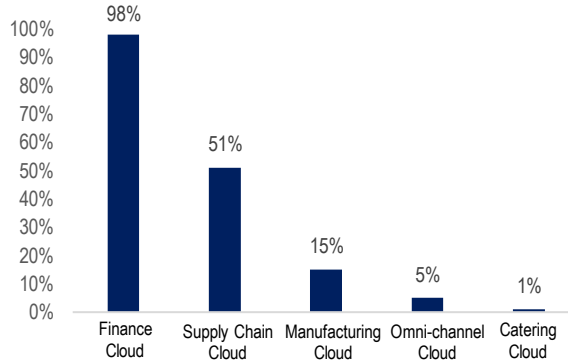
Overall, in FY19, Galaxy maintained robust growth with 43% revenue growth, 76% customer retention rate and 90% dollar retention rate. More importantly, Galaxy achieved breakeven in 2019. Given that 77% of clients still being first time to adopt ERP, there is still enough room for Galaxy to explore.

**Figure 48: Retail, services industry clients have strongest demand on cloud transition in FY19**



Source: Company data; AMTD Research

**Figure 49: Almost every customer from Cloud Galaxy adopts finance cloud in FY19**



Source: Company data; AMTD Research

**Kingdee Jingdou Cloud**

Cloud Jingdou, previously as Youshang.com, is one-stop cloud services platform for micro-/small-sized enterprises, leveraging data intelligence and open ecology model. It successively launched various business management products, such as Cloud Accounting, Cloud Housekeeper, Invoicing, POS, E-commerce, etc. Its integrated online to offline services accelerates the clients from KIS to migrate into cloud, addressing the core needs of micro-/small-sized enterprises, including low expenditures, easy use, free from maintenance.

With stronger brand power and enhanced services, the total customers of Jingdou reached more than 117,000, while its revenue surged by 88% in FY19. The growth and retention rate of paid customers stayed 45%, 80%, respectively.

**Kingdee Guanyi Cloud**

Guanyi Cloud provides Guanyi Cloud C-ERP, Guanyi Cloud OMS, Guanyi Cloud WMS products for e-commerce operators, to build an integrated new retail system. Among them, Guanyi Cloud C-ERP carries out one-stop e-commerce management solutions, covering the entire e-commerce process. Guanyi Cloud OMS allows omni-channel order management system for large-/medium-sized e-commerce companies to process millions of orders. Guanyi Cloud WMS helps large-/medium-sized e-commerce companies to deploy intelligent three-dimensional management system.

The successful deployment of Guanyi cloud integrated solutions drove the 14% revenue growth in FY19. Paying customers was recorded to be more than 5,400, with 35% customer growth. Dollar retention rate remained above 80% as well.

**Kingdee EAS**

EAS, the Kingdee’s core traditional solutions, helps group companies achieve data sharing and integrated business efficiency. Focusing on “Cloud + Terminal” dual-model IT, which is traditional IT and Agile IT, Kingdee EAS utilizes 8 growth engines, i.e., intelligent sharing, global treasurer, tax management, s-HR, smart manufacturing, digital marketing, digital sourcing and large enterprise hybrid Cloud, to enhance direct access to customers and support large-sized corporate digital transformation. In FY19, EAS business recorded flat revenue, -2.7%yoy.

**Kingdee K-3 WISE**

Designed for growth companies, Kingdee K-3 WISE system integrates cloud services, ERP and IoT technologies to help enterprises from informatization to industrial internet and digital management platform construction. K-3 WISE focuses on smart finance and taxation, smart supply chain and smart factory business areas, and offers such as advanced planning and scheduling (APS) solutions, planning and material control(PMC)

solutions, MES+equipment networking solutions support to enterprises' management upgradation.

**Kingdee KIS**

KIS helps small-/micro- business to achieve one-stop management of their finance, supply chain and new retail operation. It supports enterprises customers to connect with upstream and downstream suppliers, and link up with financial institutions for financial solutions, thereby helping them reduce costs. KIS accounting system has been deployed by more than 15 million small and micro enterprises, many of which are gradually migrating their business to Jingdou Cloud.

## Company background

Kingdee International Software Group Company Limited was established by Xu Shaochun in 1993, and is listed on the Main Board of the Stock Exchange of Hong Kong (stock code: 0268). The company has gradually built its cloud ecosystem, and has been No.1 SaaS ERP vendor in China, with a 13.9% market share in 1H19. Kingdee has maintained leading position in the Chinese growth enterprise management application market for 14 consecutive years according to IDC.

### - Key milestones in the company's business

- 1993
  - Establishment of Kingdee
- 1996
  - Released China's first Windows-based financial software
- 1998
  - Received an investment of RMB20 million from IDG as venture capital and officially announce its entry into the enterprise management software market
- 1999
  - Launch of Kingdee K/3, China's first Internet-based ERP with a three-tier structure
- 2005
  - Listed on the Main Board of the Stock Exchange of Hong Kong
- 2007
  - Launch of Youshang.com (Kingdee Jingdou Cloud)
- 2011
  - Launched Kingdee Weibo (Cloud-Hub) and adopted a "cloud management" strategy
- 2012
  - Launch of the K/3 Cloud
- 2014
  - Launch of the Cloud-Hub mobile work platform
- 2015
  - Developed its "Internet+" business and cooperated with Kingsoft, Amazon and JD.com, etc. in the cloud service field
- 2018
  - Launched first PaaS platform Cloud Comics to target large enterprises



## - Board of directors and management team profile

Figure 50: Board of directors and management team profile

Name	Age	Position	Experience
Mr. XU Shaochun (徐少春)	57	Founder, Chief Executive Officer and Chairman of the Board	Mr. XU has been awarded the Government Special Expert Allowance by the State Council. Mr. XU graduated from Southeast University in Computer Science and obtained Master of Accounting from Institute of Ministry of Finance and the Executive Master of Business Administration (EMBA) from China Europe International Business School. At present, Mr. XU is a member of the Ninth Central Committee of China Democratic National Construction Association, Director of China Siyuan Foundation for Poverty Alleviation, Vice President of China Software Industry Association and a member of the Accounting and Information Technology Commission of the Ministry of Finance. By virtue of the profound understanding of the corporate strategy and operation management, the forward-looking technology sensitivity and keen insight on the development trend of the global software industry, Mr. XU has been actively promoting the objective of "Enable the Chinese management model to rise in the world", and is committed to leading the Group to become the world leading service provider of management and IT integrated solutions. Mr. XU has been awarded "World Indigenous Entrepreneur Award of the United Nations", "10 Outstanding Youths of China's Software", "10 Outstanding Entrepreneur Award", "Outstanding Leader of China's Information Industry", "30 Effective People who Contributed to the Success of Shenzhen's 3 Decades of Reform and Opening" and "Shenzhen Science and Technology Innovation Mayor's Award".
Mr. LIN Bo (林波)	47	Executive Director and Chief Financial Officer	Mr. LIN obtained a bachelor's degree of Computer Science from University of Xiamen. He is currently the Chief Financial Officer of the Company. After joining the Company in 1997, Mr. LIN has served as the General Manager of the Company in Fujian Province Region, the General Manager of Operation Management Department and the Director of Strategic Development Department of the Group. Mr. LIN has extensive experience in strategic planning, marketing management and financial management.
Mr. DONG Mingzhu (董明珠)	65	Non- executive Director	Ms. DONG obtained a Master Degree of Business Administration from Zhongnan University of Economics and Law. She is now the chairman of the board ("COB") of Zhuhai Gree Group Co. Ltd., the COB and President of Gree Electric Appliances, Inc. of Zhuhai Co., Ltd. (the subsidiary of Zhuhai Gree Group Corp.) Ms. DONG had been awarded the "National May Day Labor Prize", and had been elected as a Member of the 10th and 11th National People's Congress, a Member of the Standing Committee of the China National Democratic Construction Association and a Member of the 10th Executive Committee of All-China Women's Federation. Ms. DONG has solid experience in marketing and management of household appliances, and the Regional Sales Model that she developed has been commended as an "Excellent Achievement of Modernizing Enterprises' Management of Guangdong Province". Ms. DONG has been dedicated to creating local Chinese brands and was granted the "Innovation Award of CCTV's China's Economic Figures of the Year 2010".
Mr. SHEN Yuan Ching (申元慶)	55	Non- executive Director	Mr. SHEN obtained a Master's Degree in Computer Science from the University of California, Santa Barbara. Mr. SHEN is the president of JD Cloud. Mr. SHEN formerly held various senior positions at Microsoft, including chairman of the Microsoft Asia-Pacific Technology Company, COO of the Microsoft Asia-Pacific R&D Group and general manager of Microsoft Cloud and Enterprise China. Mr. SHEN had been the independent director of Insigma Technology Co., and the non-executive director of Inspur International Limited.
Mr. Gary Clark Biddle (白國禮)	68	Independent non- executive Director	Mr. Biddle is the Accounting Chair and PCCW Chair Professor at the University of Hong Kong. He received his MBA and PhD degrees at University of Chicago and has served as professor at University of Chicago, University of Washington and Dean of the Faculty of Business and Economics at the University of Hong Kong and Associate Dean of the School of Business and Management of Hong Kong University of Science and Technology, where he was a member of the Council, Court, Senate and held the title of Synergis-Geoffrey Yeh Chair Professor. He has served or is serving as visiting professor at leading business schools globally, including Columbia University Business School (USA), London Business School (UK), IMD (Switzerland) and CEIBS (China). Mr. Biddle is a member of the American Accounting Association, American Institute of Certified Public Accountants, Hong Kong Business and Professionals Federation, Hong Kong Institute of Certified Public Accountants, Hong Kong Institute of Directors and he is the past President and co-founding Council Member of the Hong Kong Academic Accounting Association. He is a leading expert in financial accounting, financial markets, valuation, value creation, corporate management and performance metrics, including EVAR. Mr. Biddle is also an independent non-executive director of Shui On Land Limited (#272), a company listed on the Stock Exchange and a remuneration committee member at closely-held Chinachem Group.
Mr. CAO Yangfeng (曹仰鋒)	47	Independent non- executive Director	Mr. CAO is the director of Institute of Global Entrepreneurship & Innovation (Hong Kong) and the management practice Professor of Guanghua School of Management, Peking University. Mr. CAO obtained a Doctoral degree in International Entrepreneurship and Strategic Management from Copenhagen Business School, obtained a Doctoral degree in Human Resource Management from Renmin University of China. Mr. CAO previously engaged postdoctoral research in Department of Strategic Management from Guanghua School of Management, Peking University. Mr. CAO is the member of Academy of Management, the member of The Academy of International Business and the member of The International Association for Chinese Management Research, and Mr. CAO has previously provided strategy counseling services and training services for some large enterprises. Mr. CAO has published many enterprise management articles in the academic field with profound insight view and won a number of awards.
Mr. LIU Chia Yung (劉家雍)	61	Independent non- executive Director	Mr. LIU obtained a Master Degree of Business Administration from University of Missouri in the United States. Mr. LIU joined Trend Micro in 2002, and served as the president of the Asia Pacific region and then the general manager of global services business group, being responsible for the overall business operation in Asia Pacific region, R&D and Trend Micro's global enterprises cyber security outsourcing service planning. Mr. LIU joined Green and Associates in 2007 and has served as the general manager, focusing on strategic human resources consulting since then. Mr. LIU has rich experience in Hi-Tech marketing, business strategy planning and global corporation management. Mr. LIU used to act as adjunct professors at Soochow University in Taiwan and Peter F. Drucker Academy in Beijing.

(Cont'd) Name	Age	Position	Experience
Mr. CHOW Chan lum (鄒燦林)	68		Mr. CHOW has been a member of the Institute of Chartered Accountants of Scotland since 1979 and is a member of the Hong Kong Institute of Certified Public Accountants. Mr. CHOW is the precedent partner of Wong Brothers & Co, Certified Public Accountants, and a member of the Foreign Experts Consultative Committee on China Independent Auditing Standards of the PRC Ministry of Finance. Mr. CHOW is currently an independent non-executive director of China Electronics Huada Technology Company Limited (#85) and Maoye International Holdings Limited (#848), and was an independent non-executive director of China Aerospace International Holdings Limited (#31) from 2000 to 2012 and Pak Tak International Limited (#2668) from 2002 to 2014, all of them are companies listed on the Stock Exchange.
Mr. SUN Yanfei (孫雁飛)	46	President of Kingdee China	Mr. SUN is mainly in charge of the management software business in the Company. Mr. SUN graduated from Macao University of Science and Technology and gained MBA degree of General Business Management. After joining the Company in 1997, Mr. SUN has been appointed as General Manager of Nanjing Branch and Southern District of China and played an important role in the Company's marketing and sales. Mr. SUN is committed to using information technology to promote the establishment of modern enterprise management system. He has a wealth of experience in marketing and management in the field of Chinese business management software.
Mr. LI Guangxue (李光學)	52	President of Kingdee Deeking	Mr. LI is mainly responsible for the Company's cloud services for micro and small-sized enterprises business. Mr. LI graduated from Ocean University of China. He joined the Group in 1995. He has engaged in the research and development management, service management, marketing management, human resources and information management, and has held important positions.
Mr. ZHANG Yong (章勇)	45	Senior Vice President of Kingdee China	Mr. ZHANG is in charge of the Company's business operation and management in Eastern Region of China. Mr. ZHANG graduated from China Europe International Business School. After joining the Company in 1995, Mr. ZHANG has been appointed as the General Manager of Shanghai Branch and Eastern Region of China and played an important role in the Company's marketing and sales. He has extensive experience in marketing, sales and team work management.

Source: Company data, AMTD Research

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<b>Overweight</b>	Industry sector expected to outperform the market over the next 12 months
<b>Neutral</b>	Industry sector expected to perform in-line with the market over the next 12 months
<b>Underweight</b>	Industry sector expected to underperform the market over the next 12 months

Stock Rating	
<b>Buy</b>	Stock with potential return of over 20% over the next 12 months
<b>Hold</b>	Stock with potential return of -20% to +20% over the next 12 months
<b>Sell</b>	Stock with potential loss of over 20% over the next 12 months

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