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2 March 2023

China

Technology

Reuters 0354.HK
Bloomberg 354 HK

Priced on 1 March 2023

HS CEI @ 6,914.3

12M hi/lo HK\$8.17/4.83

12M price target HK\$7.70
±% potential +29%

Shares in issue 3,090.8m
Free float (est.) 88.4%

Market cap US\$2.3bn

3M ADV US\$16.8m

Major shareholders

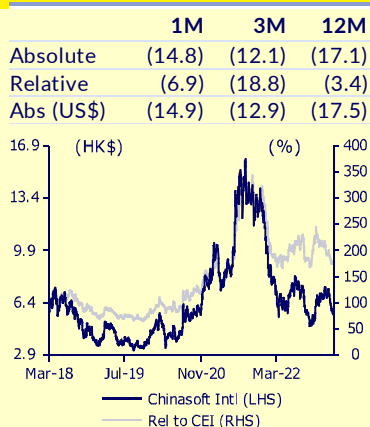
Yuhong Chen 11.6%
UBS Group 9.7%

Blended ESG Score (%)*

Overall 65.3
Country average 68.3
GEM sector average 74.7

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

Stock performance (%)



Source: Bloomberg

Need some time on recovery

Diversifying revenue sources, hope for margin improvement in 2023

We expect Chinasoft Intl (CSI)'s 2022 revenue should be weighed down by Huawei and the slowdown of R&D budgets at some other major customers. We also do not expect an immediate turnaround in R&D budgets in 2023. We expect to see some margin improvement in 2023, in view of some cost-cutting measures implemented in 2H22. Participating in 'Xinchuang' projects should provide some new sources of revenue for CSI going forward. Maintain BUY with lower TP of HK\$7.70.

We estimate low-teens revenue growth for 2022 and 2023

We expect the company's top line to be impacted by the slowdown of Huawei's end-consumer business and more-conservative R&D budgets from CSI's other large customers such as Tencent and Alibaba. Overall, we expect revenue growth in 2022 to be around +10% YoY, mainly from 1H22 sales growth of +20%. We expect 2H22's revenue to be around flat YoY. We estimate that sales growth in 2023 should still be around the low-teens level, as we believe it will take time for major customers to fully resume R&D budgets and spending, waiting until they see higher visibility on economic and business recovery.

Margin should be impacted in 2022; Looking for some improvement in 2023

The weak economy in 2022 should also impact CSI's margin as it hinders the company's ability to charge higher service or project fees to some of its major customers. That said, we expect CSI's margin to see some improvement in 2023 after implementing several cost-control measures in 2H22. We expect employment numbers to fall by 10-12% YoY to around 80,000 by the end of 2022. Thus far, we do not expect large-scale employment growth in 2023.

Engaged in some 'Xinchuang' projects

Following the government's 'Xinchuang', or application innovation, initiative, there is higher demand for state-owned enterprises (SOE) to digitalise their systems by upgrading hardware and software. CSI, as a third-party IT services company, has engaged in some digitalisation projects for SOE and large-sized enterprises. We expect this to continue for at least 2-3 years, becoming a new support for CSI's top line amid revenue growth slowdown from some other major customers.

Maintain BUY

We revise our forecast to factor in our lower expectations for CSI's top line and bottom line. We lower our TP to HK\$7.70 (from HK\$9.00) based on 15.0x PE (unchanged). The stock is trading at 11x PE 24CL, around 1 SD-below historical average PE; we see the valuation as undemanding. We also continue to view that the company is at a good position to be benefited by the digitalisation tailwinds in China; however, some time is needed to see a full recovery of business.

Financials

Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (Rmbm)	14,101	18,398	20,356	22,887	25,680
Rev forecast change (%)	-	-	(2.5)	(8.9)	(13.9)
Net profit (Rmbm)	955	1,137	880	1,115	1,385
NP forecast change (%)	-	-	(25.7)	(17.6)	(14.2)
EPS (Rmb)	0.34	0.38	0.28	0.36	0.45
CL/consensus (11) (EPS%)	-	-	69	71	76
EPS growth (% YoY)	20.6	12.5	(25.9)	26.8	24.2
PE (x)	15.6	12.9	17.5	13.8	11.1
Dividend yield (%)	0.6	0.5	0.4	0.5	0.6
ROE (%)	12.5	11.2	7.5	8.9	10.1
Net debt/equity (%)	(22.8)	(31.1)	(32.4)	(35.0)	(37.6)

Source: www.cls.com

Change in target price

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Financials at a glance

Year to 31 December	2020A	2021A	2022CL	(% YoY)	2023CL	2024CL
Profit & Loss (Rmbm)						
Revenue	14,101	18,398	20,356	10.6	22,887	25,680
Cogs (ex-D&A)	(9,654)	(13,050)	(14,919)		(16,636)	(18,530)
Gross Profit (ex-D&A)	4,448	5,348	5,436	1.6	6,251	7,150
SG&A and other expenses	(2,962)	(3,948)	(4,257)		(4,694)	(5,190)
Op Ebitda	1,486	1,400	1,180	(15.7)	1,557	1,960
Depreciation/amortisation	(329)	(444)	(499)		(585)	(664)
Op Ebit	1,157	956	681	(28.8)	972	1,296
Net interest inc/(exp)	(76)	(100)	(41)		(37)	(33)
Other non-Op items	(46)	396	315	(20.5)	276	241
Profit before tax	1,035	1,252	954	(23.8)	1,210	1,503
Taxation	(87)	(115)	(73)		(92)	(115)
Profit after tax	948	1,137	881	(22.5)	1,117	1,388
Minority interest	7	0	(2)		(2)	(3)
Net profit	955	1,137	880	(22.6)	1,115	1,385
Adjusted profit	955	1,137	880	(22.6)	1,115	1,385
Cashflow (Rmbm)						
Operating profit	1,157	956	681	(28.8)	972	1,296
Depreciation/amortisation	329	444	499	12.2	585	664
Working capital changes	(533)	(887)	204		(103)	(208)
Other items	200	449	242	(46.2)	176	110
Net operating cashflow	1,153	962	1,625	68.9	1,630	1,861
Capital expenditure	(163)	(449)	(818)		(879)	(946)
Free cashflow	990	513	807	57.3	750	915
M&A/Others	(29)	(81)	61		68	77
Net investing cashflow	(192)	(530)	(757)		(811)	(869)
Increase in loans	217	173	0		0	0
Dividends	(52)	(70)	0		0	0
Net equity raised/other	196	1,274	(548)		(98)	(95)
Net financing cashflow	362	1,377	(548)		(98)	(95)
Incr/(decr) in net cash	1,323	1,810	320	(82.3)	720	898
Exch rate movements	(62)	(40)	(40)		(40)	(40)
Balance sheet (Rmbm)						
Cash & equivalents	3,787	5,556	5,837	5	6,517	7,375
Accounts receivable	4,580	5,894	6,093	3.4	6,369	6,766
Other current assets	2,027	2,069	1,969	(4.8)	2,065	2,172
Fixed assets	858	1,220	1,389	13.9	1,539	1,657
Investments	247	385	385	0	385	385
Intangible assets	1,086	1,037	1,061	2.3	1,092	1,126
Other non-current assets	502	741	867	16.9	980	1,110
Total assets	13,087	16,902	17,601	4.1	18,947	20,592
Short-term debt	368	917	917	0	917	917
Accounts payable	1,753	2,252	2,490	10.6	2,673	2,868
Other current liabs	597	817	882	8	967	1,068
Long-term debt/CBs	1,421	1,021	1,021	0	1,021	1,021
Provisions/other LT liabs	171	269	269	0	269	269
Shareholder funds	8,753	11,604	11,998	3.4	13,074	14,419
Minorities/other equity	23	23	24	7.6	27	29
Total liabs & equity	13,087	16,902	17,601	4.1	18,947	20,592
Ratio analysis						
Revenue growth (% YoY)	17.1	30.5	10.6		12.4	12.2
Ebitda margin (%)	10.5	7.6	5.8		6.8	7.6
Ebit margin (%)	8.2	5.2	3.3		4.2	5.0
Net profit growth (%)	26.5	19.1	(22.6)		26.8	24.2
Op cashflow growth (% YoY)	52.8	(16.5)	68.9		0.3	14.2
Capex/sales (%)	1.2	2.4	4.0		3.8	3.7
Net debt/equity (%)	(22.8)	(31.1)	(32.4)		(35.0)	(37.6)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	12.5	11.2	7.5		8.9	10.1
ROIC (%)	16.2	11.9	7.9		10.9	13.8

Source: www.clsa.com

Find CLSA research on Bloomberg, Thomson Reuters, FactSet and CapitalIQ - and profit from our evalu@tor proprietary database at clsa.com

Need some time on recovery

Figure 1

Revenue breakdown and forecasts, by customer

	FY20A	FY21A	FY22CL	FY23CL	FY24CL
Huawei	8,030	9,800	10,094	10,397	10,917
Growth (%)		22.0	3.0	3.0	5.0
Contribution (%)	56.9	53.3	49.6	45.4	42.5
HSBC	830	1,180	1,298	1,402	1,514
Growth (%)		42.2	10.0	8.0	8.0
Contribution (%)	5.9	6.4	6.4	6.1	5.9
Tencent	500	706	777	839	906
Growth (%)		41.2	10.0	8.0	8.0
Contribution (%)	3.5	3.8	3.8	3.7	3.5
Alibaba	400	590	608	626	645
Growth (%)		47.5	3.0	3.0	3.0
Contribution (%)	2.8	3.2	3.0	2.7	2.5
Ping An	450	550	567	583	601
Growth (%)		22.2	3.0	3.0	3.0
Contribution (%)	3.2	3.0	2.8	2.5	2.3
Others	3,891	5,572	7,013	9,040	11,098
Growth (%)		43.2	25.9	28.9	22.8
Contribution (%)	27.6	30.3	34.5	39.5	43.2
Total revenue	14,101	18,398	20,356	22,887	25,680
Growth (%)	17.1	30.5	10.6	12.4	12.2

Source: CLSA, Company

Figure 2

Financial summary

Rmbm	FY20A	FY21A	FY22CL	FY23CL	FY24CL
Revenue	14,101	18,398	20,356	22,887	25,680
Growth (%)	17.1	30.5	10.6	12.4	12.2
Gross profit	4,118	4,904	4,938	5,666	6,486
Growth (%)	14.9	19.1	0.7	14.8	14.5
Margin (%)	29.2	26.7	24.3	24.8	25.3
Core operating profit	1,157	956	681	972	1,296
Growth (%)	20.4	(17.4)	(28.8)	42.7	33.4
Margin (%)	8.2	5.2	3.3	4.2	5.0
Operating profit	1,113	908	631	921	1,245
Growth (%)	23.4	(18.4)	(30.5)	46.1	35.2
Margin (%)	7.9	4.9	3.1	4.0	4.8
Net profit	948	1,137	881	1,117	1,388
Growth (%)	25.3	19.9	(22.5)	26.8	24.2
Margin (%)	6.7	6.2	4.3	4.9	5.4
Net profit attributable to ordinary shareholders	955	1,137	880	1,115	1,385
Growth (%)	26.5	19.1	(22.6)	26.8	24.2
Margin (%)	6.8	6.2	4.3	4.9	5.4

Source: CLSA, Company

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Figure 3

Forecast changes									
Rmbm	NEW			OLD			% change or ppt change		
	FY22CL	FY23CL	FY24CL	FY22CL	FY23CL	FY24CL	FY22CL	FY23CL	FY24CL
Revenue	20,356	22,887	25,680	20,880	25,134	29,833	(2.5%)	(8.9%)	(13.9%)
Growth (%)	10.6	12.4	12.2	13.5	20.4	18.7			
Gross profit	4,938	5,666	6,486	5,148	6,247	7,565	(4.1%)	(9.3%)	(14.3%)
Growth (%)	0.7	14.8	14.5	5.0	21.4	21.1			
Margin (%)	24.3	24.8	25.3	24.7	24.9	25.4	(0.4)	(0.1)	(0.1)
Operating profit	631	921	1,245	972	1,230	1,589	(35.1%)	(25.1%)	(21.6%)
Growth (%)	(30.5)	46.1	35.2	7.0	26.6	29.2			
Margin (%)	3.1	4.0	4.8	4.7	4.9	5.3	(1.6)	(0.9)	(0.5)
Net profit	881	1,117	1,388	1,186	1,356	1,617	(25.7%)	(17.6%)	(14.2%)
Growth (%)	(22.5)	26.8	24.2	4.3	14.3	19.3			
Margin (%)	4.3	4.9	5.4	5.7	5.4	5.4	(1.3)	(0.5)	(0.0)
Net profit attributable to shareholders	880	1,115	1,385	1,183	1,353	1,614	(25.7%)	(17.6%)	(14.2%)
Growth (%)	(22.6)	26.8	24.2	4.1	14.3	19.3			
Margin (%)	4.3	4.9	5.4	5.7	5.4	5.4	(1.3)	(0.5)	(0.0)

Source: CLSA, Company

Average trading PE of 14.1x

Figure 4



Dated: 1 Mar 2023. Source: CLSA, Refinitiv

Figure 5

Target price computation - New	
24CL	24CL
24CL Net profit attributable to equity shareholders (Rmbm)	1,385
Targeted PE multiple (x)	15.0
Equity value (Rmbm)	20,780
Number of shares - diluted (m)	3,091
Exchange rate (US\$/Rmb)	6.80
Exchange ratio (HK\$/Rmb)	0.87
Target price (HK\$)	7.70

Source: CLSA

Details of target price computation

Figure 6

Target price computation – Old: 6 Jan 2023	
	24CL
24CL Net profit attributable to equity shareholders (Rmbm)	1,614
Targeted PE multiple (x)	15.0
Equity value (Rmbm)	24,210
Number of shares - diluted (m)	3,095
Exchange rate (US\$/Rmb)	6.80
Exchange ratio (HK\$/Rmb)	0.87
Target price (HK\$)	9.00

Source: CLSA

Valuation details

Our new TP is based on 15.0x 24CL PE, largely in-line to the company's 10-year historical average PE.

Investment risks

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

Detailed financials

Profit & Loss (Rmbm)

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Revenue	10,585	12,042	14,101	18,398	20,356	22,887	25,680
Cogs (ex-D&A)	(7,149)	(8,156)	(9,654)	(13,050)	(14,919)	(16,636)	(18,530)
Gross Profit (ex-D&A)	3,436	3,886	4,448	5,348	5,436	6,251	7,150
Research & development costs	(739)	(809)	(930)	(1,249)	(1,342)	(1,463)	(1,603)
Selling & marketing expenses	(496)	(618)	(729)	(943)	(1,023)	(1,151)	(1,278)
Other SG&A	(1,091)	(1,196)	(1,302)	(1,756)	(1,892)	(2,081)	(2,309)
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	1,110	1,264	1,486	1,400	1,180	1,557	1,960
Depreciation/amortisation	(192)	(303)	(329)	(444)	(499)	(585)	(664)
Op Ebit	919	961	1,157	956	681	972	1,296
Interest income	12	29	76	0	61	61	61
Interest expense	(118)	(166)	(151)	(100)	(102)	(98)	(95)
Net interest inc/(exp)	(106)	(137)	(76)	(100)	(41)	(37)	(33)
Associates/investments	-	-	-	-	-	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	52	149	237	419	389	350	315
Provisions/other non-cash items	(104)	(174)	(283)	(23)	(75)	(75)	(75)
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	760	799	1,035	1,252	954	1,210	1,503
Taxation	(44)	(42)	(87)	(115)	(73)	(92)	(115)
Profit after tax	716	757	948	1,137	881	1,117	1,388
Preference dividends	-	-	-	-	-	-	-
Profit for period	716	757	948	1,137	881	1,117	1,388
Minority interest	0	(2)	7	0	(2)	(2)	(3)
Net profit	716	755	955	1,137	880	1,115	1,385
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	716	755	955	1,137	880	1,115	1,385
Dividends	(37)	(48)	(52)	(70)	(54)	(69)	(85)
Retained profit	679	707	903	1,067	825	1,047	1,300
Adjusted profit	716	755	955	1,137	880	1,115	1,385
EPS (Rmb)	0.3	0.3	0.3	0.4	0.3	0.4	0.4
Adj EPS [pre excep] (Rmb)	0.3	0.3	0.3	0.4	0.3	0.4	0.4
Core EPS (Rmb)	0.3	0.3	0.3	0.4	0.3	0.4	0.4
DPS (Rmb)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Profit & loss ratios

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Growth (%)							
Revenue growth (% YoY)	14.5	13.8	17.1	30.5	10.6	12.4	12.2
Ebitda growth (% YoY)	22.7	13.8	17.6	(5.8)	(15.7)	32.0	25.9
Ebit growth (% YoY)	26.3	4.6	20.4	(17.4)	(28.8)	42.7	33.4
Net profit growth (%)	26.6	5.5	26.5	19.1	(22.6)	26.8	24.2
EPS growth (% YoY)	19.4	9.9	20.6	12.5	(25.9)	26.8	24.2
Adj EPS growth (% YoY)	19.4	9.9	20.6	12.5	(25.9)	26.8	24.2
DPS growth (% YoY)	19.4	1.9	32.4	(24.2)	(28.9)	26.8	24.2
Core EPS growth (% YoY)	19.4	9.9	20.6	12.5	(25.9)	26.8	24.2
Margins (%)							
Gross margin (%)	32.5	32.3	31.5	29.1	26.7	27.3	27.8
Ebitda margin (%)	10.5	10.5	10.5	7.6	5.8	6.8	7.6
Ebit margin (%)	8.7	8.0	8.2	5.2	3.3	4.2	5.0
Net profit margin (%)	6.8	6.3	6.8	6.2	4.3	4.9	5.4
Core profit margin	6.8	6.3	6.8	6.2	4.3	4.9	5.4
Op cashflow margin	1.5	6.3	8.2	5.2	8.0	7.1	7.2
Returns (%)							
ROE (%)	12.9	12.1	12.5	11.2	7.5	8.9	10.1
ROA (%)	9.0	8.6	8.9	5.8	3.6	4.9	6.1
ROIC (%)	16.3	15.1	16.2	11.9	7.9	10.9	13.8
ROCE (%)	16.9	15.7	17.5	12.9	8.4	11.7	14.8
Other key ratios (%)							
Effective tax rate (%)	5.8	5.3	8.4	9.2	7.6	7.6	7.6
Ebitda/net int exp (x)	10.5	9.2	19.6	14.1	28.6	41.7	58.5
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	9.6	8.9	9.7	6.6	6.3	6.3	6.3

Source: www.clsa.com

Balance sheet (Rmbm)

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Cash & equivalents	2,646	2,526	3,787	5,556	5,837	6,517	7,375
Accounts receivable	2,585	3,297	4,580	5,894	6,093	6,369	6,766
Inventories	64	54	51	163	180	202	227
Other current assets	2,929	2,321	1,976	1,906	1,789	1,862	1,945
Current assets	8,225	8,198	10,394	13,520	13,900	14,951	16,313
Fixed assets	838	802	858	1,220	1,389	1,539	1,657
Investments	144	228	247	385	385	385	385
Goodwill	1,006	974	941	844	844	844	844
Other intangible assets	148	127	145	193	217	249	283
Other non-current assets	127	416	502	741	867	980	1,110
Total assets	10,488	10,745	13,087	16,902	17,601	18,947	20,592
Short term loans/OD	1,676	1,523	368	917	917	917	917
Accounts payable	1,497	1,229	1,753	2,252	2,490	2,673	2,868
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	125	84	83	181	181	181	181
Other current liabs	428	314	514	636	700	786	887
Current liabilities	3,726	3,150	2,718	3,986	4,289	4,557	4,853
Long-term debt/leases/other	-	200	1,421	1,021	1,021	1,021	1,021
Convertible bonds	720	728	0	0	0	0	0
Provisions/other LT liabs	11	134	171	269	269	269	269
Total liabilities	4,457	4,211	4,311	5,276	5,579	5,847	6,143
Share capital	3,095	3,262	4,867	6,432	5,987	5,987	5,987
Retained earnings	2,948	3,677	4,492	5,760	6,600	7,675	9,021
Reserves/others	(76)	(471)	(605)	(589)	(589)	(589)	(589)
Shareholder funds	5,967	6,468	8,753	11,604	11,998	13,074	14,419
Minorities/other equity	65	66	23	23	24	27	29
Total equity	6,032	6,534	8,776	11,627	12,023	13,100	14,448
Total liabs & equity	10,488	10,745	13,087	16,902	17,601	18,947	20,592
Total debt	2,396	2,451	1,790	1,938	1,938	1,938	1,938
Net debt	(251)	(75)	(1,997)	(3,618)	(3,899)	(4,579)	(5,437)
Adjusted EV	13,617	13,805	12,630	10,681	11,118	10,440	9,585
BVPS (Rmb)	2.1	2.4	3.1	3.9	3.9	4.2	4.7

Balance sheet ratios

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Key ratios							
Current ratio (x)	2.2	2.6	3.8	3.4	3.2	3.3	3.4
Growth in total assets (% YoY)	19.8	2.5	21.8	29.2	4.1	7.6	8.7
Growth in capital employed (% YoY)	13.7	11.7	5.0	18.1	1.4	4.9	5.8
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to operating cashflow (x)	14.9	3.2	1.6	2.0	1.2	1.2	1.0
Gross debt to Ebitda (x)	2.2	1.9	1.2	1.4	1.6	1.2	1.0
Net debt/Ebitda (x)	-	-	-	-	-	-	-
Gearing							
Net debt/equity (%)	(4.2)	(1.1)	(22.8)	(31.1)	(32.4)	(35.0)	(37.6)
Gross debt/equity (%)	39.7	37.5	20.4	16.7	16.1	14.8	13.4
Interest cover (x)	7.9	6.0	8.1	9.6	7.3	10.5	14.3
Debt cover (x)	0.1	0.3	0.6	0.5	0.8	0.8	1.0
Net cash per share (Rmb)	0.1	0.0	0.7	1.2	1.3	1.5	1.8
Working capital analysis							
Inventory days	2.2	2.5	1.9	2.9	4.1	4.1	4.1
Debtor days	78.4	89.2	102.0	103.9	107.5	99.4	93.4
Creditor days	76.6	58.8	54.5	54.2	56.1	54.7	52.7
Working capital/Sales (%)	33.3	33.6	30.2	26.6	23.0	20.9	19.5
Capital employed analysis							
Sales/Capital employed (%)	183.1	186.4	208.0	229.7	250.6	268.6	285.0
EV/Capital employed (%)	235.6	213.7	186.3	133.4	136.9	122.5	106.4
Working capital/Capital employed (%)	61.0	62.6	62.8	61.1	57.7	56.3	55.5
Fixed capital/Capital employed (%)	14.5	12.4	12.7	15.2	17.1	18.1	18.4
Other ratios (%)							
PB (x)	2.3	2.2	1.7	1.3	1.3	1.2	1.1
EV/Ebitda (x)	12.3	10.9	8.5	7.6	9.4	6.7	4.9
EV/OCF (x)	84.5	18.3	11.0	11.1	6.8	6.4	5.1
EV/FCF (x)	1,269.1	21.3	12.8	20.8	13.8	13.9	10.5
EV/Sales (x)	1.3	1.1	0.9	0.6	0.5	0.5	0.4
Capex/depreciation (%)	123.0	43.8	57.0	113.2	177.1	161.0	151.8

Source: www.clsa.com

Cashflow (Rmbm)

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Operating profit	919	961	1,157	956	681	972	1,296
Operating adjustments	(158)	(162)	(122)	296	273	238	207
Depreciation/amortisation	192	303	329	444	499	585	664
Working capital changes	(894)	(516)	(533)	(887)	204	(103)	(208)
Interest paid / other financial expenses	-	-	-	-	-	-	-
Tax paid	(82)	(84)	(83)	(20)	(73)	(92)	(115)
Other non-cash operating items	185	252	405	173	41	30	17
Net operating cashflow	161	754	1,153	962	1,625	1,630	1,861
Capital expenditure	(151)	(107)	(163)	(449)	(818)	(879)	(946)
Free cashflow	11	647	990	513	807	750	915
Acq/inv/disposals	0	5	(98)	(50)	(160)	-	-
Int, invt & associate div	(17)	(122)	69	(30)	221	68	77
Net investing cashflow	(167)	(224)	(192)	(530)	(757)	(811)	(869)
Increase in loans	984	52	217	173	0	0	0
Dividends	(37)	(48)	(52)	(70)	0	0	0
Net equity raised/others	(94)	(653)	196	1,274	(548)	(98)	(95)
Net financing cashflow	853	(650)	362	1,377	(548)	(98)	(95)
Incr/(decr) in net cash	847	(119)	1,323	1,810	320	720	898
Exch rate movements	14	(1)	(62)	(40)	(40)	(40)	(40)
Opening cash	1,785	2,646	2,526	3,787	5,556	5,837	6,517
Closing cash	2,646	2,526	3,787	5,556	5,837	6,517	7,375
OCF PS (Rmb)	0.1	0.3	0.4	0.3	0.5	0.5	0.6
FCF PS (Rmb)	0.0	0.2	0.4	0.2	0.3	0.2	0.3

Cashflow ratio analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Growth (%)							
Op cashflow growth (% YoY)	(51.4)	367.9	52.8	(16.5)	68.9	0.3	14.2
FCF growth (% YoY)	(93.8)	5,934.9	52.9	(48.1)	57.3	(7.0)	21.9
Capex growth (%)	(6.0)	(28.9)	52.2	175.7	82.1	7.6	7.6
Other key ratios (%)							
Capex/sales (%)	1.4	0.9	1.2	2.4	4.0	3.8	3.7
Capex/op cashflow (%)	93.3	14.2	14.1	46.7	50.3	54.0	50.8
Operating cashflow payout ratio (%)	42.5	8.9	8.1	7.8	3.4	4.3	4.7
Cashflow payout ratio (%)	22.9	6.4	4.5	7.3	3.3	4.2	4.6
Free cashflow payout ratio (%)	343.7	7.4	5.2	13.7	6.7	9.2	9.3

DuPont analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Ebit margin (%)	8.7	8.0	8.2	5.2	3.3	4.2	5.0
Asset turnover (x)	1.1	1.1	1.2	1.2	1.2	1.3	1.3
Interest burden (x)	0.8	0.8	0.9	1.3	1.4	1.2	1.2
Tax burden (x)	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Return on assets (%)	9.0	8.6	8.9	5.8	3.6	4.9	6.1
Leverage (x)	1.7	1.7	1.6	1.5	1.5	1.5	1.4
ROE (%)	12.9	12.1	12.5	11.2	7.5	8.9	10.1

EVA® analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Ebit adj for tax	865	910	1,060	868	629	897	1,197
Average invested capital	5,307	6,006	6,534	7,298	7,951	8,207	8,651
ROIC (%)	16.3	15.1	16.2	11.9	7.9	10.9	13.8
Cost of equity (%)	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Cost of debt (adj for tax)	3.8	3.8	3.7	3.6	3.7	3.7	3.7
Weighted average cost of capital (%)	11.6	11.6	11.6	11.6	11.6	11.6	11.6
EVA/IC (%)	4.7	3.5	4.6	0.3	(3.7)	(0.7)	2.2
EVA (Rmbm)	249	212	302	21	(294)	(55)	192

Source: www.clsa.com



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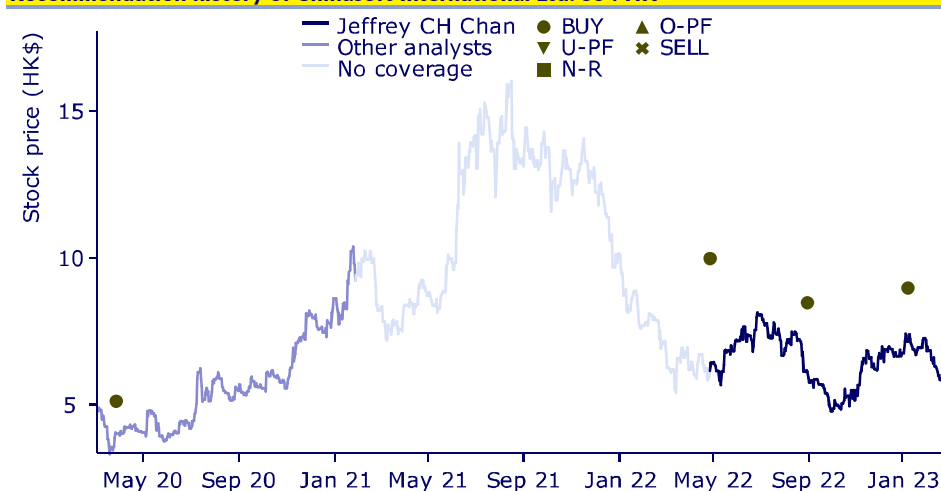
Tencent (700 HK - HK\$368.80 - BUY)

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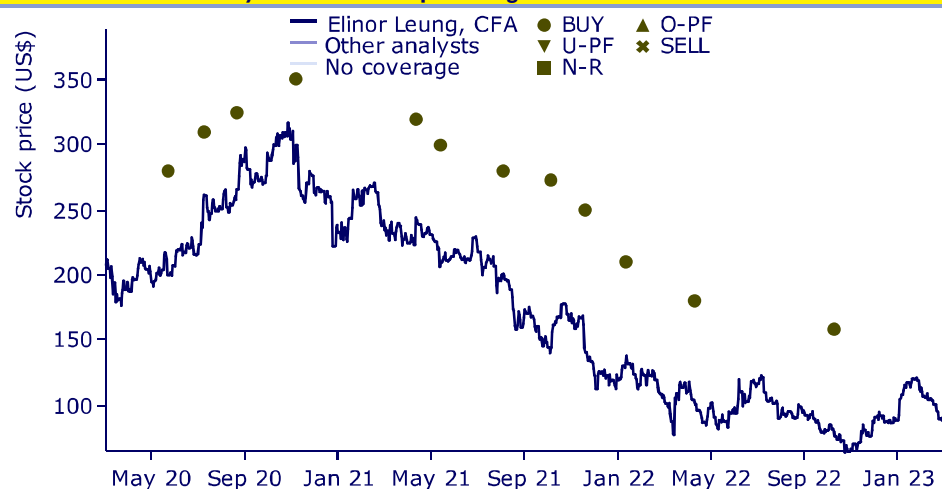
Date	Rec	Target	Date	Rec	Target
LATEST	BUY	7.70	28 Apr 2022	BUY	10.00
07 Jan 2023	BUY	9.00	28 Jan 2021	Dropped Coverage	
31 Aug 2022	BUY	8.50	27 Mar 2020	BUY	5.17

Source: CLSA

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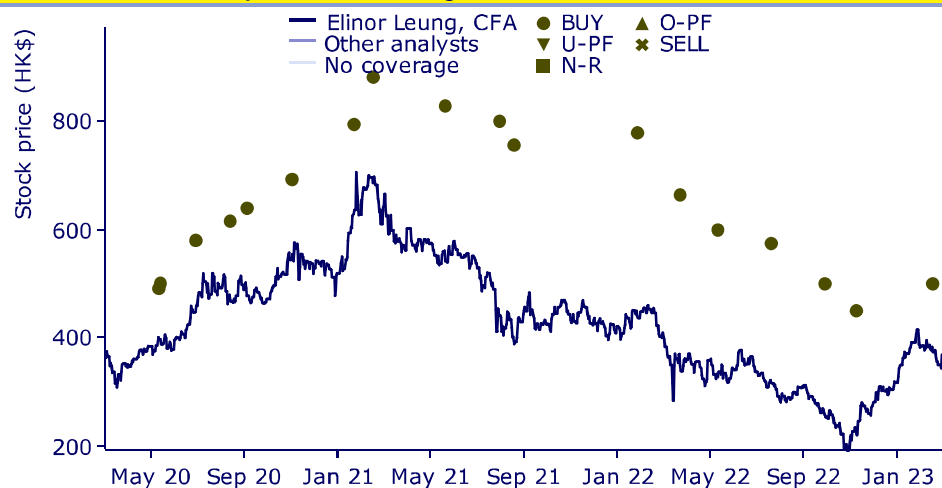
Recommendation history of Alibaba Group Holding Ltd BABA US



Date	Rec	Target	Date	Rec	Target
10 Oct 2022	BUY	158.00	14 May 2021	BUY	300.00
11 Apr 2022	BUY	180.00	12 Apr 2021	BUY	320.00
11 Jan 2022	BUY	210.00	06 Nov 2020	BUY	351.00
19 Nov 2021	BUY	250.00	21 Aug 2020	BUY	325.00
05 Oct 2021	BUY	273.00	09 Jul 2020	BUY	310.00
04 Aug 2021	BUY	280.00	23 May 2020	BUY	280.00

Source: CLSA

Recommendation history of Tencent Holdings Ltd 700 HK



Date	Rec	Target	Date	Rec	Target
17 Feb 2023	BUY	500.00	21 May 2021	BUY	829.86*
09 Nov 2022	BUY	450.00*	16 Feb 2021	BUY	883.25*
29 Sep 2022	BUY	500.00*	22 Jan 2021	BUY	795.89*
21 Jul 2022	BUY	575.00*	02 Nov 2020	BUY	693.98*
12 May 2022	BUY	600.00*	04 Sep 2020	BUY	640.60*
24 Mar 2022	BUY	665.00*	13 Aug 2020	BUY	616.33*
27 Jan 2022	BUY	780.00*	29 Jun 2020	BUY	580.42*
19 Aug 2021	BUY	757.07*	14 May 2020	BUY	500.83*
31 Jul 2021	BUY	801.72*	12 May 2020	BUY	491.12*

Source: CLSA; * Adjusted for corporate action

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