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China SaaS Industry

Industrial Report — China SaaS Industry

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Key Data	
2021E PE (X)	71.5
2021E PB (X)	4.85
2021E EV/EBITDA (X)	38.4

Source: Bloomberg, CEBI

Sector performance (%)	
1-month	-8.7
3-month	28.8
Year-to-Date	106.3

Source: Bloomberg

Software as a Service (SaaS), is the service model in which the supplier put the standard application software on the server, and the customer orders and pays from the supplier on demand. The SaaS provider takes the role of the platform, connects PaaS, IaaS, and directly provides one-stop service for customers. Under the SaaS subscription model, vendors directly provide software to users through cloud services. In other words, the software provided is based on the Internet for customers.

SaaS application can help to reduce operating cost. By comparing traditional software building and SaaS model, SaaS adopts a subscription model and does not need to configure hardware. Secondly, it reduces hardware expenditure and operation and maintenance costs. Thirdly, enterprises can reduce the expenditure of hiring IT personnel for operation, management and maintenance of the software. Meanwhile, multi-tenant structure also helps in continuous unified update and running.

China SaaS market is still under development. China corporate's investment in IT spending is low compared to GDP level. In 2018, China's GDP accounted for 15.9% of total GDP in the world, but Chinese companies' IT spending only accounted for 3.7% of total IT spending in the world. SaaS market has the potential for rapid development in the future, especially after Covid-19 pandemic. Compared with the developed SaaS application market abroad, the Chinese SaaS market is still in its early stage. Meanwhile, thanks to the supportive policies and various incentives in China, the market size of SaaS market is increasing in the past few years. It is expected that market size of China SaaS industry to increase to RMB47.4 billion in 2020, and account for 9.3% of the total SaaS market in 2020.

SaaS sector performed well YTD. Serval SaaS related companies listed in Hong Kong, including Kingdee International (268 HK), Kingsoft (3888 HK), Weimob (2013 HK), Yeahka (9923 HK), Huifu (1806 HK), Duiba (1753 HK), Vobile (3738 HK). They performed well YTD. The sector is trading at 71.5x 2021E P/E and 38.4X 2021E EV/EBITDA.

I) Introduction to Cloud Computation

Three Typical Service Models of Cloud Computation

Cloud computing can be usually divided into: software as a service (SaaS), platform as a service (PaaS), and infrastructure as a service (IaaS).

IaaS (Infrastructure as a Service)

IaaS focuses on providing hardware services. Manufacturers mainly provide infrastructure such as storage space and servers, while consumers operate the OS, prepared applications and network components on the provided software and hardware.

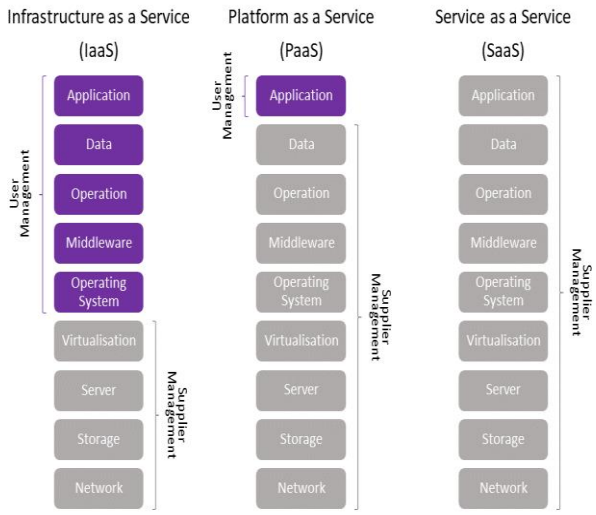
PaaS (Platform as a service)

Compared with IaaS, PaaS is more business-oriented and provides an already complete operating system. IaaS vendors deploy all the necessary databases, runtime libraries, and operating systems in the cloud. Customers need only to take charge for the operation of different functions in the application. The entire cloud computing is basically placed on the same production process.

SaaS (Software as a Service)

SaaS further includes program applications to the service. Under the SaaS subscription model, vendors directly provide software to users through cloud services. In other words, the software provided is based on the Internet for customers.

Fig.1: Three Types of Cloud Computation



Source: iResearch, CEBI

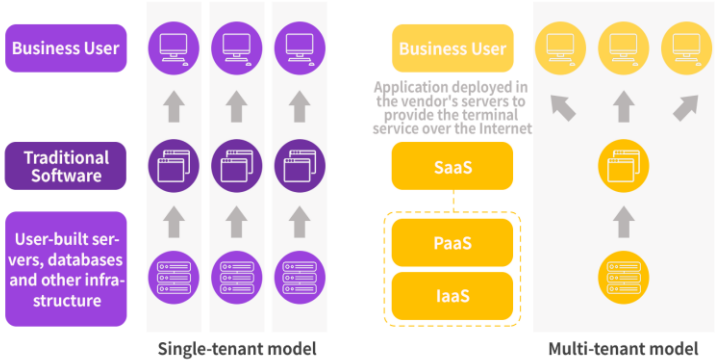
II) Advantages of SaaS

Enterprise-level SaaS model allowing multi-tenant model

SaaS (Software as a Service), is the service model in which the supplier puts the standard application software on the server, and the customer orders and pays from the supplier on demand. The SaaS provider takes the role of the platform, connects PaaS, IaaS, and directly provides one-stop service for customers.

By comparing traditional software building and SaaS model, SaaS adopts a subscription model and does not need to configure hardware. Secondly, it reduces hardware expenditure and operation and maintenance costs. Thirdly, enterprises can reduce the expenditure of hiring IT personnel for operation, management and maintenance of the software. Meanwhile, multi-tenant structure also helps in continuous unified update and running.

Fig.2: Comparison of the enterprise SaaS multi-tenant model and the traditional software single-tenant model



Source: iResearch, CEBI

The Light SaaS applications are easier be accepted

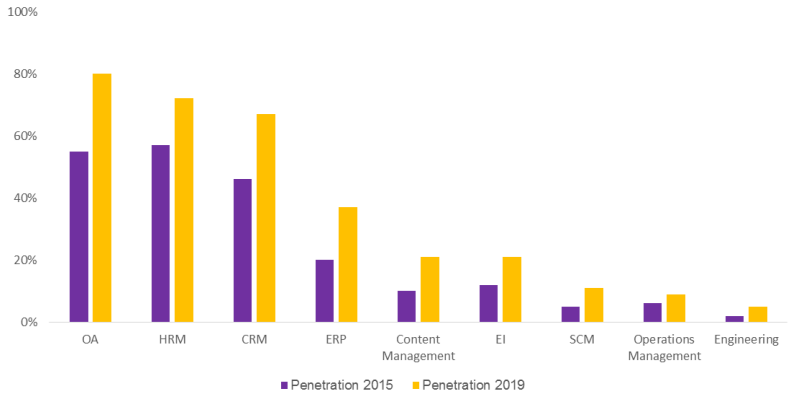
Generally speaking, enterprises are more willing to adopt small cloud-based software, such as office automation, human resource and customer resource management, etc. In contrast, the transformation of more comprehensive cloud application software is lagging behind.

From 2015 to 2019, OA, HRM, and CRM ranked the top three in the penetration rate of various SaaS applications worldwide. In 2019, the penetration rates of the three were 80%, 72%, and 67%, respectively. On the contrary, the

global penetration rate of ERP, which assists in the comprehensive integration of resources and affects the corporate model, is only 37%, but the increase is as high as 12%, and it is expected to further increase in the future.

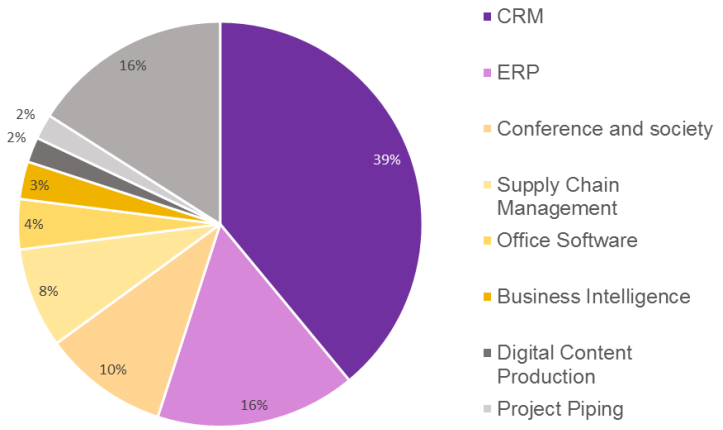
On the contrary, "heavy applications" are even more excluded from the Chinese SaaS market, and the penetration rate needs to be increased. When ERP has become the second largest detailed service in the global market, ERP is still out of the top three in the Chinese market. The first three largest sub-sectors are CRM, OA and IM.

Fig.3: Changes in Global SaaS Penetration of Software Applications by Category



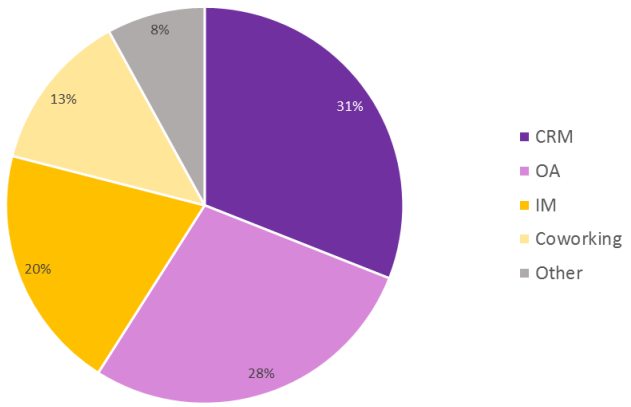
Source: Gartner, Bloomberg, CEBI

Fig.4: Global SaaS Services Segmentation



Source: Gartner, Bloomberg, CEBI

Fig.5: China's SaaS Services Segmentation



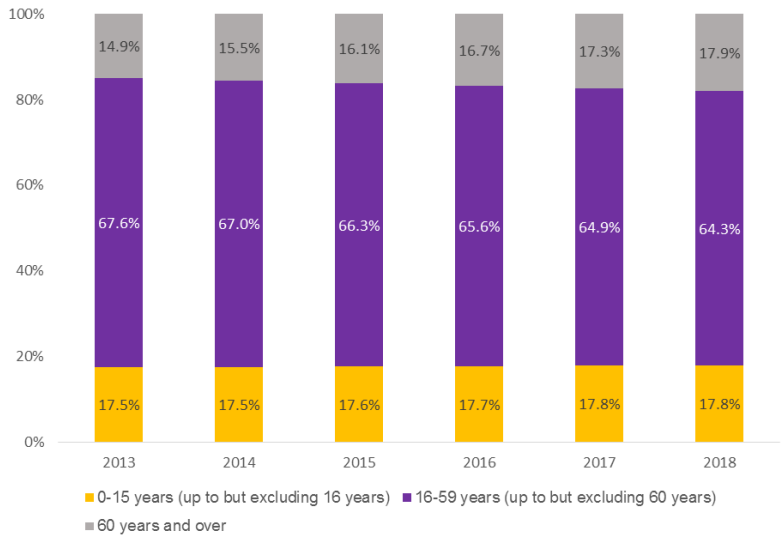
Source: Gartner, Bloomberg, CEBI

Labor costs surged to drive the incentives for digitalization.

Since the 1980s, the cheap labor cost and increasing consumption power has led to the rapid development of China's economy. However, the increasing labor cost has driven the incentives to digitization.

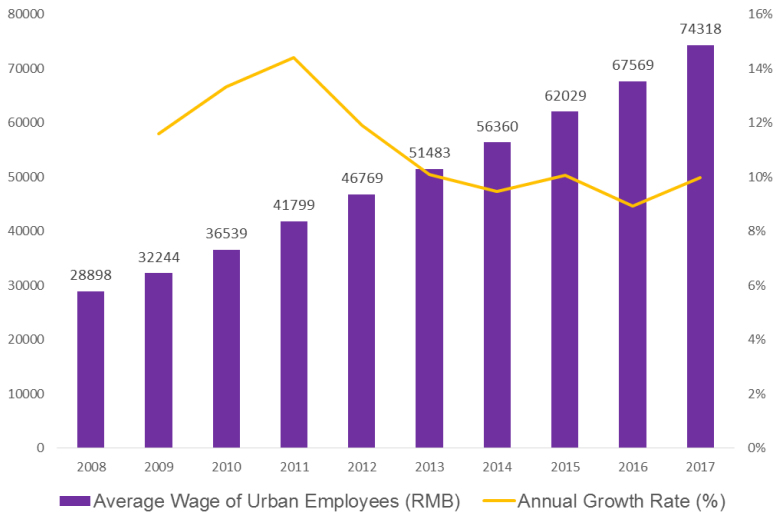
The 16-59-year-old working population declined gradually from 67.6% in 2013 to 64.3% in 2018. At the same time, the average annual salary of urban workers in China has risen to 74,000 yuan in 2017, reflecting the increase in labor cost.

Fig.6: Changes in the Age Structure of the Chinese Population, 2013-2018



Source: National Bureau of Statistics of China, CEBI

Fig.7: Average Wages and Growth of Urban Employees in China, 2008-2017



Source: National Bureau of Statistics of China, CEBI

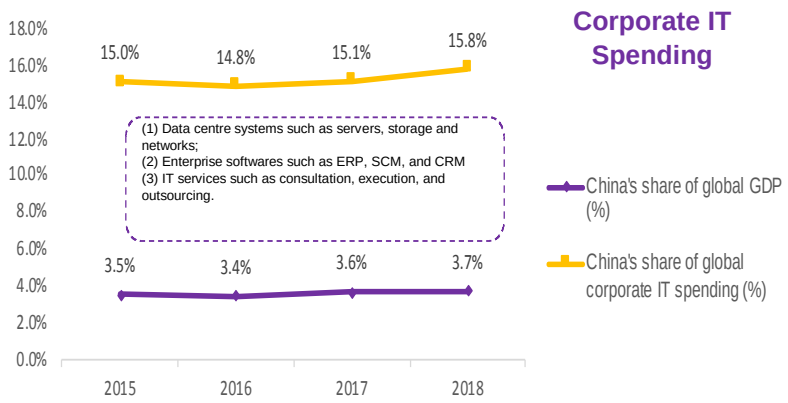
III) Potentials for SaaS Development in China Market

The percentage of Chinese companies' IT spending is much lower than that of global companies

China corporate's investment in IT spending is low compared to GDP level. In 2018, China's GDP accounted for 15.9% of total GDP in the world, but Chinese companies' IT spending only accounted for 3.7% of total IT spending in the world, it clearly fell short of global standards.

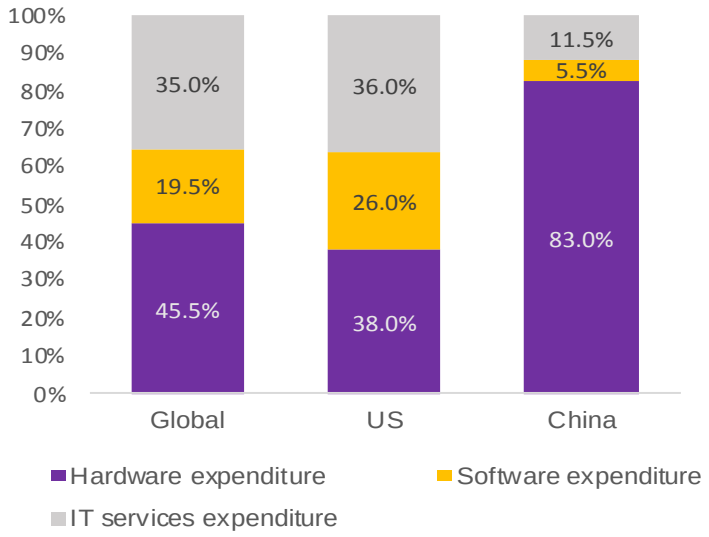
Covid-19 pandemic cause lifestyles changes. We believe China's enterprise-level SaaS market has the potential for rapid development in the future.

Fig.8: China's share of global GDP (%) & China's share of global corporate IT spending (%)



Source: IMF, Gartner, IDC, CEBI

Fig.9: IT Expenditure



Source: IMF, Gartner, IDC, CEBI

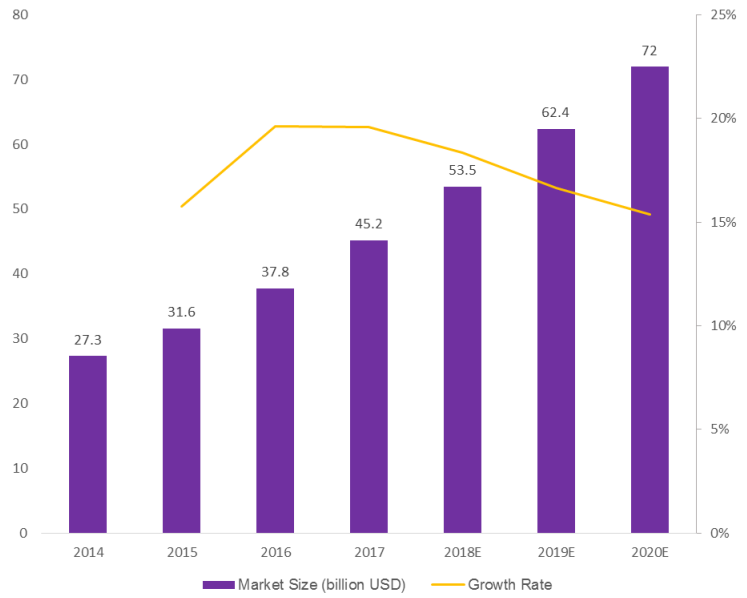
The Chinese SaaS market is immature, and it is expected to catch up with the global SaaS train in the future

According to Gartner's 2015 data, the SaaS market totaled US$31.6 billion, accounting for most of the global public cloud market, far exceeding the sum of IaaS and PaaS. With the continued popularity of SaaS, the global SaaS scale will further expand. CAICT predicts that the SaaS market will grow at a compound growth rate of 18%, and the global scale will reach USD 72 billion in 2020.

Compared with the developed SaaS application market abroad, the Chinese SaaS market is still in its early stage. In 2016, due to the general unfamiliarity and rejection of SaaS by domestic companies, the market growth rate was slow.

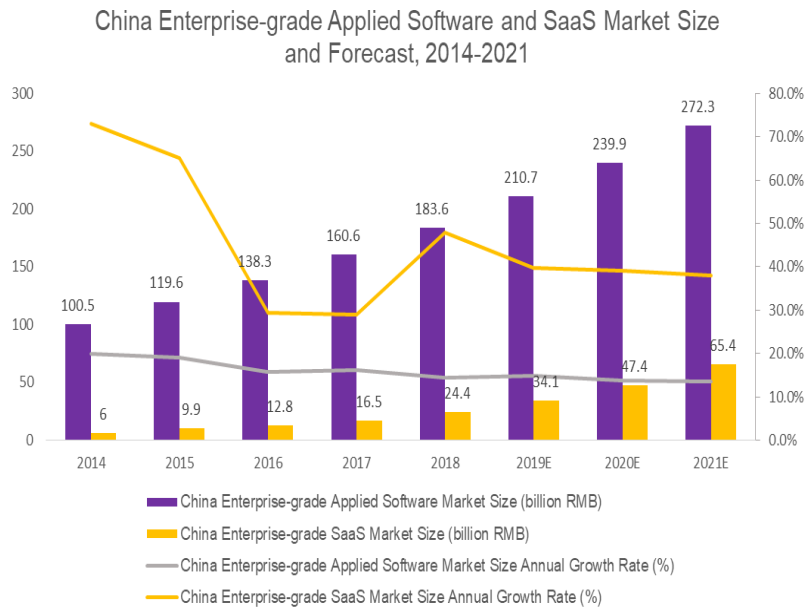
Thanks to the supportive policies and various incentives in China, the market size of SaaS market is increasing in the past few years. It is expected that market size of China SaaS industry to increase to RMB47.4 billion in 2020, and account for 9.3% of the total SaaS market in 2020.

Fig.10: Expected Size of SaaS Market and its Growth Rate (Billion USD)



Source: Gartner, CAICT, CEBI

Fig.11: China Enterprise-grade Applied Software and SaaS Market Size and Forecast, 2014-2021



Source: iResearch, CEBI

SME market remains as a blue ocean

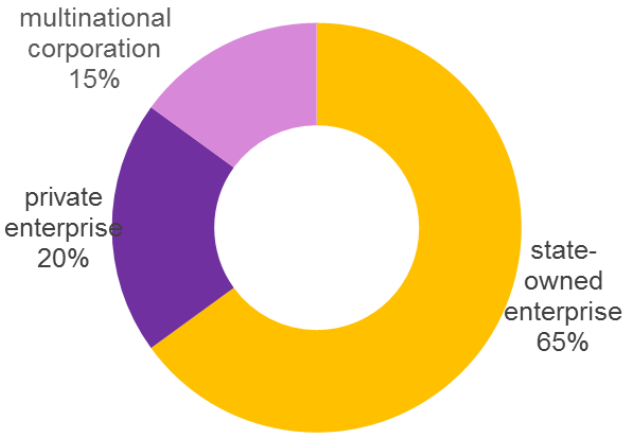
Regarding to the enterprise management software market, large-sized enterprises occupied over half of the market.

On the other hand, there are many SMEs in China. Compared with substantial enterprises, SMEs have different access channels and different business models, resulting in different costs of digitalization and cloudification, making it difficult for operators to monopolize the market. In the future, SMEs will enter a period of digitization. When the manipulation and analysis required for operations increase, the market is expected to expand further.

Fig.12: Enterprise Management Software Market Segments (by business size)

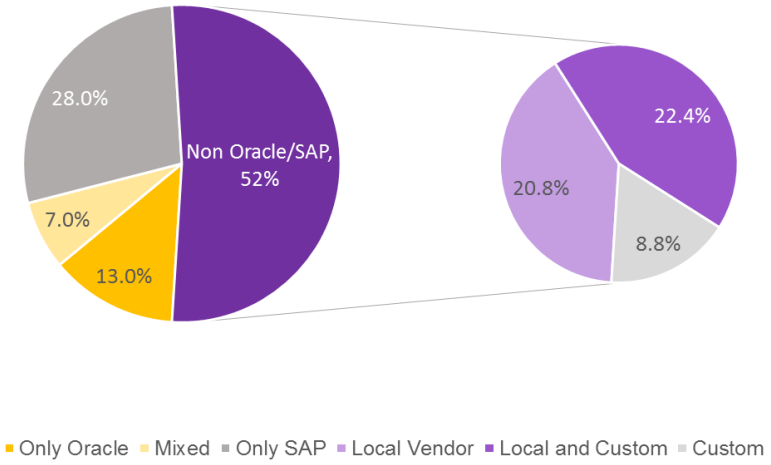
Source: IDC, CEBI

Fig.13: Enterprise Management Software Market Segments (by business ownership)



Source: IDC, CEBI

Fig.14: Top 100 Enterprise Management Software Vendors in China



Source: IDC, CEBI

IV) Hong Kong listed SaaS enterprise brief description

Kingdee International (268 HK)

Kingdee International Software Group Company Limited was established in 1993 and headquartered in Shenzhen, the PRC. Through persistent efforts to explore China's Cloud enterprise service market, Kingdee has retained the largest share in the enterprise application software sector for fast-growing enterprises for 15 consecutive years, and has grasped the biggest share in the enterprise-grade SaaS Cloud services industry for the second year， held the largest market share in SaaS ERM (Cloud ERP) for three consecutive years. Kingdee is currently the only SaaS cloud service provider of Chinese enterprises selected into Gartner's market guide，and was selected into Gartner's Global High-Productivity PaaS vendor list and HCM (Human Capital Management) Market guide.

In 1H2020, Kingdee International recorded total revenue of RMB1,387.4 million, down by 6.6% YoY, compare with a loss of RMB224 million in 1H2019. Thanks to the development of the stragety of cloud transformation, revenue from the cloud business grew by 45.1% YoY during the reporting period, accounted for 57.5% of the total revenue.

Kingsoft (3888 HK)

Kingsoft is an of the leading Chinese software and Internet services companies listed on the stock exchange of Hong Kong. It has four subsidiaries including Seasun, Cheetah Mobile, Kingsoft Cloud and WPS. Kingsoft has completed the comprehensive transformation of its overall business and management models and formed a strategic platform with interactive entertainment, Internet security and office software as the pillars and cloud computing as the new growth driver and source. The Company has approximately 7,000 staff around the world. It has set up R&D centers and offices in Beijing, Zhuhai, Chengdu, Dalian, Guangzhou and Hong Kong and enjoys a large market share overseas in North America, Europe, Japan and Malaysia.

In 1H2020, Kingsoft recorded total revenue of RMB 1,420.1 million, grew by 48.6% YoY, benefiting from the net gain on deemed disposal from Kingsoft Cloud, the Company recorded a gain of RMB9.1 billion, while the Company

recorded a net loss of RMB1,482.9 million in 1H2019. If we exclude the one-off item, the Company recorded a profit of RMB633.6 million from continuing operations segment, compare with RMB1,035.5 million loss in 1H2019.

China Youzan (8083 HK):

China Youzan Limited is principally engaged in retail science and technology services. Merchants get a quick-start and are able to easily sell on social network and manage their own omni-channel retail by our SaaS solutions, including Youzan WeiMall, Youzan Retail, Youzan Beauty and Youzan Mini Programs. Youzan College helps them to train their operation staff and upgrade their business. "Youzan Cloud" PaaS services for developers; Youzan promotion and Youzan distribution for brand owners; Youzan Choice Selection, Youzan Mini Store for consumers, and so on.At the same time, Youzan conducts national wide online payment license and issuance and acceptance of prepaid cards in some geographical areas, and the virtual card in China countrywide on a pilot basis and the cross-border goods and services trading business.

In 1H2020, China Youzan recorded total revenue of RMB 824.6 million, grew by 62.7% YoY. The company a net loss of RMB119 million, representing a decrease of 29.0% YoY.

The revenue from SaaS and Extended Services was RMB596.9 million, representing an increase of 89.7% YoY. The revenue from Transaction fees was RMB203.3 million, representing an increase of 41.5% YoY. It is due to the coronavirus pandemic accelerated the process of digital transformation of merchants.

Weimob (2013 HK):

Weimob was founded in April 2013 and currently has over 3,200 employees, 1,600 channel partners, and 3.0 million registered merchants. Weimob is the leading provider of cloud-based commerce and marketing solutions and targeted marketing services on Tencent's social networking service platforms for SMBs in China. Weimob empowers digital transformation for SMBs through decentralized, intelligent business solutions. Through our Commerce Cloud, Marketing Cloud and Sales Cloud offerings, Weimob has established a cloud-based ecosystem to provide comprehensive intelligent business services.

Currently, Weimob's SaaS products include: Wei Mall, Smart

Retail, Smart Restaurant, Ke Lai Dian, Smart Hotel, Smart Leisure, Smart Beauty, Sales Pusher, Wei Station, and Marketing Assistant. Weimob is helping its merchants improve operational efficiency and profitability in the new retail era through these solutions.

In the targeted marketing segment, Weimob provides one-stop marketing solutions combining technologies such as big data, intelligent algorithms, and marketing automation with premium media resources. Meanwhile, Weimob Cloud Platform has attracted third-party developers and established a cloud ecosystem to provide more application choices and better services to merchants by sharing the technical capabilities of Weimob's core products.

In 1H2020, Weimob recorded total revenue of RMB 957.1 million, grew by 45.7% YoY. The Company recorded a net loss of RMB545 million in 1H2020, compare with a profits of RMB288.1 million in 1H2019.

As of 1H2020, the number of paying merchants of Weimob's SaaS products increased by 26.4% YoY to 88,463, and the ARPU (the average revenue per user) of SaaS products increased by 10.2% YoY to RMB3,447.

Yeahka (9923 HK):

Yeahka is a leading payment-based technology platform in China providing payment and business services to merchants and consumers. Payment is at the heart of commerce and the foundation of Yeahka's technology. Yeahka acquires customers via the provision of payment services and offer technology-enabled business services to them. Yeahka's value proposition is a cohesive ecosystem that enables seamless, convenient and reliable payment transactions between merchants and consumers, complemented with a rich variety of value-added services.

Yeahka's platform provides merchants with one-stop access to a wide variety of payment methods and channels, allowing consumers to pay with their preferred methods and channels, thus enhancing the transaction experience. Currently, Yeahka's QR code payment services support payments from over 500 issuer's mobile apps, including WeChat Pay, Alipay or Mobile QuickPass covering most of the e-wallets in China.

Leveraging Yeahka's vast customer base and data assets accumulated from payment services, The Group further offer a rich variety of technology-enabled business services, including (i) merchant SaaS products, which help customers improve their operational efficiency, (ii) marketing services, allowing customers to effectively reach their target markets, and (iii) fintech services, which cater to customers' financial needs.

In 1H2020, Yeahka recorded total revenue of RMB 1,077.1 million, grew by 5.1% YoY. Yeahka recorded a net profit of RMB222.6 million in 1H2020, as compared with a net loss of RMB18.6 million in 1H2019.

Huifu (1806 HK):

Huifu was established in June 2006 and listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1806.HK) in June 2018. Through leading technology and excellent operations, Huifu aims to provide payment processing and account settlement services in the digital era, protect customer data assets, and continue to create more value for customers.

Huifu upholds its mission and positions itself as a digitalized solution service provider of omni-channel payment services, relying on the "payment + SaaS" dual engine to fully upgrade its business deployment. Facing the opportunity of industrial upgrading of digitalized transformation, Huifu has put forward and implemented a digitalized transformation strategy, and gained remarkable results: in the year of 2019, the transaction volume exceeded RMB 2 trillion, achieving revenue of RMB 3.68 billion and net profit of RMB 243 million.

Huifu provides omni-channel payment services, account services, marketing services, data services, and financial value-added services to nearly 10 million minor and micro merchants, as well as nearly 10,000 clients in various industries such as airline and travel, healthcare, education, logistics, retailing, funds, value chain, cross-border and international business, etc., which can meet the full range of merchants' needs in payment, account, marketing, digitalized operations, etc.

Huifu has fully applied cloud native technology, and took the lead in the industry to build a digitalized operation platform. Based on AI, data technology, blockchain and other cutting-

edge technologies, Huifu has established and developed core trading capabilities, operating capabilities and risk control capabilities. As of the end of 2019, the company's total R&D personnel accounted for 54%.

In 1H2020, Huifu recorded total revenue of RMB 1,709.7 million, down by 8.5% YoY. In 1H2020, the company recorded a loss of RMB110.3 million, while the company recorded a profits of RMB144.7 million in 1H2019.

Duiba (1753 HK):

Duiba is principally involved in user management Software-as-a-Service ("SaaS") platform business and interactive advertising business.

Duiba's user management SaaS platform is designed to help businesses attract and retain online users in a cost-effective manner, by offering various fun and engaging user management tools including reward points operation tools, marketing campaign tools and check-in tools to boost mobile app user activity and participation on apps. Having initially launched Duiba 's user management SaaS platform on a free-of-charge model in order to expand the customer base, Duiba began charging for the user management SaaS solutions on a pilot basis in April 2018. Meanwhile, the Group has been extending user management SaaS solutions to serve offline enterprises.

In 2015, Duiba pioneered and launched its interactive advertising business, which aggregated the traffic of different app scenarios, systematically managed content activities, and achieved large-scale monetization through advertisements, thereby achieving a win-win situation for each of the advertisers, media partners and users. Advanced big data analytics and AI technology also provides robust support to the innovation and operations of the interactive advertising platform. Duiba generally charges the interactive advertising customers based on the performance of advertisements.

In 1H2020, Duiba recorded total revenue of RMB 468.4 million, down by 40% YoY. The company recorded a net loss of RMB47.8 million, declined by 87.5%. Revenue generated from user management SaaS business increased by 166.0% to RMB28.4 million YoY. As at 30 June 2020, paying customers which used Duiba's charged user management SaaS services increased to 727, grew by 28% YoY

Vobile (3738 HK):

Vobile is the provider for protecting, measuring and monetizing online video content. Vobile creates cutting-edge technology solutions for content owners and distributors through its best-in-class SaaS platform. Vobile's leading patented VDNA technology provides video content protection to major film studios and other Fortune 500 content providers. Vobile's platform enables content owners to reduce infringement-related revenue loss and increase new revenues in online video distribution.

In 2019, Vobile made substantial investment in aggregating a large number of films and television episodes to enable the Group's digital Pay Per Transaction ("PPT") business, namely transactional video on demand ("TVOD") business. Vobile has entered into agreements as content supplier to major video platforms in China, such as Alibaba, iQiyi and Wasu. These platforms provide a path to deliver the library of transactional video on demand titles to millions of consumers in China.

In 1H2020, Vobile recorded total revenue of HKD167.2 million, grew by 167.3% YoY. The profits was HKD73.6 million, in 1H2020, while the company recorded HKD8.6 million loss in 1H2019. The profit was mainly attributed by the integration of the Rights ID and Channel ID businesses and improved operation productivity of the combined operation of the company.

V) Risk Factors

1) The demand for SaaS decrease due to the economic downturn
2) Intensified competition
3) The risk of Information security and privacy
4) The turnover risk of core technology and staff

VI) Peers Comparison table

Fig.14: Peers comparison table (As at 21-Sept-2020)

			P/E ratio			P/B ratio			EV/EBITDA			P/S ratio			
Ticker	Company Name	Price (HKD)	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	Market Cap (HKD m)
HK listed SaaS companies															
268 hk equity	KINGDEE INTERNATIONAL SFTWR	19.1	1357.44	1390.13	234.95	9.61	8.51	8.28	62.29	132.36	93.46	16.81	16.42	13.32	66,191.9
3888 hk equity	KINGSOFT CORP LTD	39.05	133.54	11.29	35.38	1.93	2.31	0.04	60.90	15.01	12.31	6.79	7.91	6.53	53,605.1
2013 hk equity	WEIMOB INC	10.48	61.02	366.12	114.41	10.39	12.20	11.24	162.20	243.99	57.27	13.04	9.31	6.33	23,677.3
8083 hk equity	CHINA YOUZAN LTD	1.51	-	-	-	4.94	-	-	-	-	-	13.89	11.79	7.24	26,038.7
9923 hk equity	YEAHKA LTD	49.6	-	32.09	31.69	-	8.73	8.38	-	35.66	23.09	-	6.73	4.98	21,139.8
1806 hk equity	HUIFU PAYMENT LTD	2.36	-	10.31	7.08	1.27	1.01	0.89	2.52	-	-	0.70	0.69	0.54	3,072.9
1753 hk equity	DUIBA GROUP LTD	2.75	-	8.58	5.48	1.95	0.30	0.26	-	8.71	5.64	1.33	1.48	1.12	2,962.6
3738 hk equity	VOBILE GROUP LTD	5.25	65.36	677.42	42.34	6.24	4.84	4.23	-	-	-	8.92	4.89	3.58	2,258.0
Average			404.34	356.56	67.33	5.19	5.41	4.76	71.98	87.14	38.35	8.78	7.40	5.45	28,098.3

Source: Bloomberg, CEBI

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Definition of equity rating

Buy	**Expected return 10 % over the next twelve month**
Hold	**Expected return between -10% and 10% over the next twelve month**
Sell	**Expected return -10 % over the next twelve month**

Explanation of Stock Ratings: (i) Buy: A return potential of 10% or more relative to overall market within 6 – 12 months; (ii) Neutral: A return potential ranging from -10% to 10% relative to overall market within 6 – 12 months; and (iii) Sell: A negative return of 10% or more relative to overall market within 6 –12 months.

Explanation of Sector Ratings: (i) Overweight: The sector will outperform the overall market by 10% or higher within 6 –12 months; (ii) Neutral: The sector performance will range from -10% to 10% relative to overall market within 6 –12 months; and (iii) Underweight: The sector will underperform the overall market by 10% or lower within 6 – 12 months.(iv) Not Rated: No sector rating is given to the sector

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