China Software and IT Services

Near-term earnings strength; uncertain long term positioning

Equities

China

Software

Sara Wang
Analyst
sara.wang@ubs.com
+852-2971 7280

Jasmine Huang
Analyst
S1460523060001
jasmine-za.huang@ubs.com
+86-21-3866 8947

Kenneth Fong
Analyst
kenneth-kc.fong@ubs.com
+852-3712 3890

AI disruption concerns remain unanswered

We are less concerned about large LLM vendors directly entering the enterprise software business, as their cost structures and revenue expectations remain mismatched with enterprise software economics. However, as AI models become increasingly capable, we see rising risks from AI-native start-ups built around fundamentally different architectures. Incumbent software vendors face strategic trade-offs in their transformation paths - balancing incremental AI-enhanced SaaS upgrades against the more disruptive option of rebuilding fully AI-native products. This transition introduces execution risk and uncertainty around long-term competitive positioning. We change to DCF valuation to value software companies under coverage, to better capture changes in mid-term and terminal value assumptions amid rapid AI technology development.

Near-term growth and profitability should see improvement due to AI

China's software market differs structurally from the US, where mature vendors have scaled standardised products. In China, large enterprises are well funded but require customised solutions, while smaller clients accept standard products but face higher churn. As a result, competitive advantage has historically been driven by sales execution, consulting capability and client relationships rather than product-led scalability, in our view. Our industry checks suggest leading vendors can quickly identify client IT budgets and needs, and assemble solutions from existing product portfolios. AI has increased vendor - client engagement frequency and materially reduced delivery costs. Combined with rising focus on refined management among Chinese enterprises, this weakens the link between IT spending and the macro cycle, supporting an acceleration in software demand with improving margins over the next 3-5 years, based on our forecasts.

However, long-term competition landscape remains uncertain

However, longer-term visibility remains limited. As LLMs become more powerful and accessible, entry barriers may decline, enabling AI-native start-ups with structurally different cost bases. Incumbent vendors may need to re-architect products, introducing execution risk and uncertainty around the sustainability of existing business models. While we believe enterprise IT demand is not driven by technology itself but ultimately by vendors' ability to build trust and solve client-specific problems within budget constraints, failure to effectively embrace AI could increase the risk of competitive displacement. Moreover, AI not only reshapes software products but also raises internal management complexity across organisation, talent and decision-making, adding to operational and governance risks that may weigh on long-term competitiveness.

Valuation: lower price targets on uncertainties around long term positioning

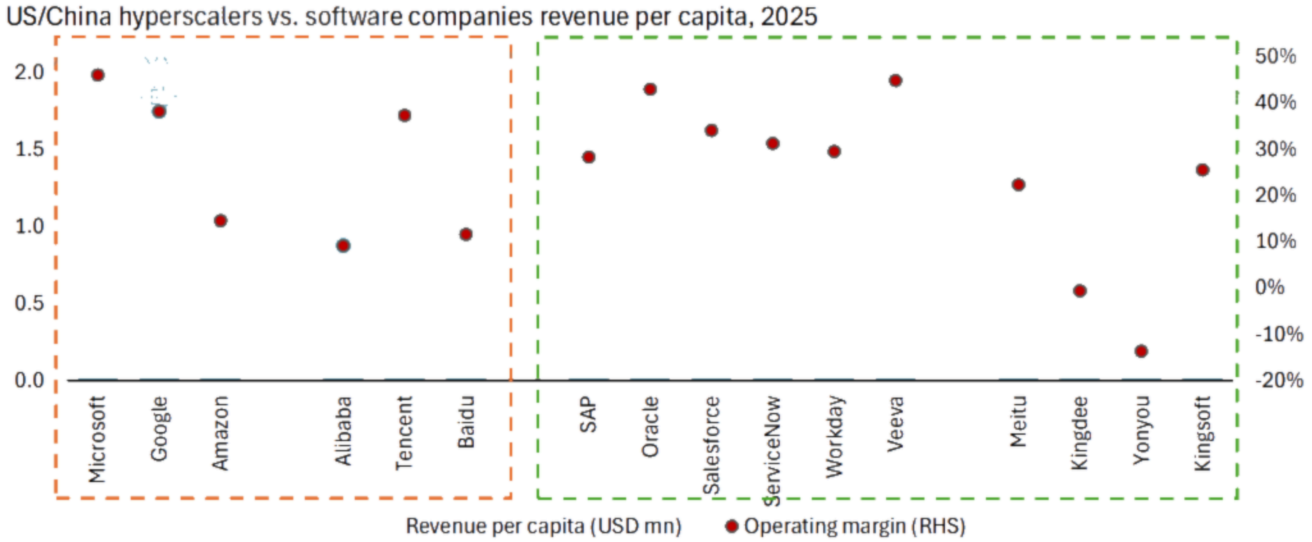
We keep 2026-28E earnings forecasts largely unchanged for companies we cover, namely Meitu, Kingdee, Kingsoft Office, and Yonyou. However, we lower price targets by 5-14%, assuming lower outer-year growth rates amid uncertainties around competition. Most of the software companies reported solid Q126 earnings, which do not help share prices as concerns about terminal value amid AI disruption narratives overrule near-term earnings. While such a narrative is difficult to overturn, we start to see valuation support in Meitu (Buy), which trades at <10x 2027 P/E. We remain Neutral on Kingdee and Kingsoft Office and Sell on Yonyou due to fair or rich valuation.

Figure 1: China software comps table

Company	Ticker	Rating	Current price (LC)	Price Target (LC) Old	New	Up/downside	EV/FCF 2027E	P/E 2027E	Revenue CAGR 2025-27E
Meitu	1357.HK	Buy	4.27	9.40	8.40	97%	7.1	9.5	27%
Kingdee	0268.HK	Neutral	8.50	10.70	9.70	14%	19.5	36.2	14%
Kingsoft Office	688111.SS	Neutral	253.50	330.00	282.60	11%	28.9	37.0	21%
Yonyou	600588.SS	Sell	12.04	7.30	6.90	-43%	42.8	70.3	8%

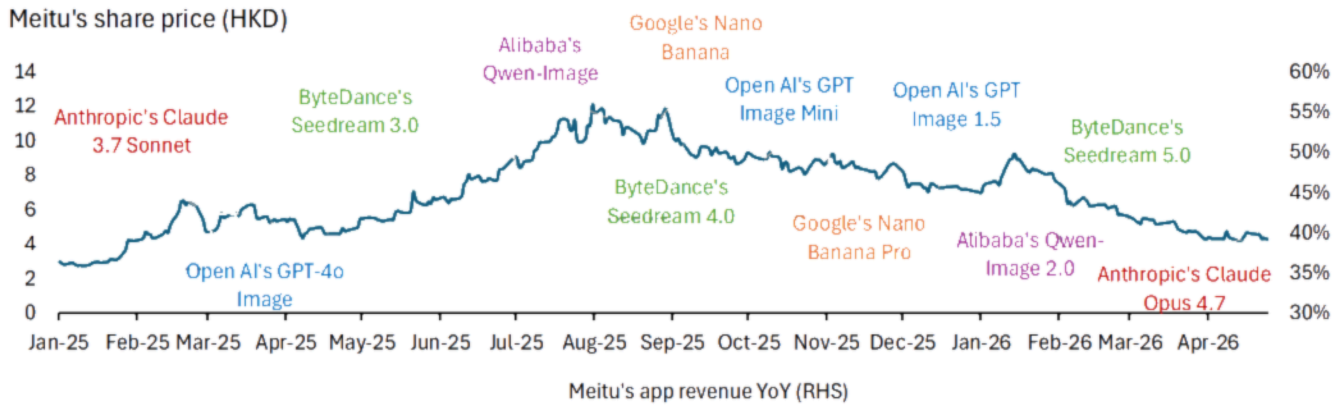
Source: UBS estimates; pricing as of 27 April 2026 close

Figure 2: Hyperscalers revenue per employee is much higher than software companies



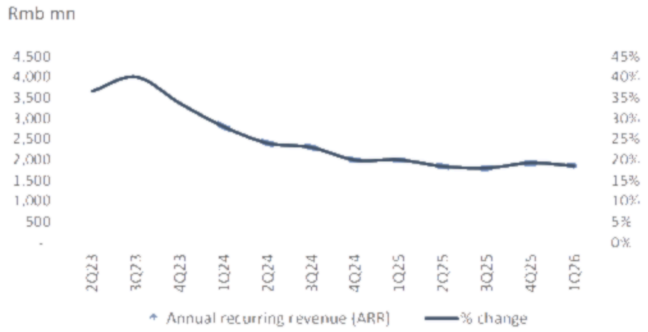
Source: Company data, UBS Research

Figure 3: Meitu: model releases after Google Nano Banana in Aug 2025 continues to weigh on share price; long term positioning concerns overrules near-term growth, which shows no sign of slowing down



Source: Refinitiv, UBS Evidence Lab

Figure 4: Kingdee: ARR sustains at high teens



Source: Company data, UBS estimates

Figure 5: Kingsoft Office: total revenue accelerates driven by enterprise and government customers

Source: Company data, UBS estimates

What's changed

Kingdee: we keep our 2026-28E net profit forecasts unchanged but lower outer-year growth of cloud subscription revenue from 10% to 6-8% to reflect increasing competition concerns. As a result, we lower our DCF-based price target by 9% from HK $10.70 to HK$9.70.

Meitu: we keep our 2026-28E net profit forecasts unchanged. We change valuation methodology from target P/E to DCF, assuming a WACC of 12.3% and terminal growth rate of 1.5%. Our DCF-derived price target is HK$8.40, 11% lower than previous price target of HK$9.40, due to a slower outer-year paying user growth of productivity and lifestyle businesses, reflecting uncertainties around competition. However, we remain Buy due to attractive valuation - Meitu is trading at <10x 2027E P/E, despite a 29% 2026-28E net profit CAGR.

Kingsoft Office: we keep our 2026-28E net profit forecasts unchanged. We change valuation methodology from target P/E to DCF, assuming a WACC of 7.2% and terminal growth rate of 1.5%. Our DCF-derived price target is Rmb282.60, 14% lower than previous price target of Rmb330.00, due to lower outer-year enterprise business growth assumptions, reflecting uncertainties around competition. We remain Neutral on fair valuation. Kingsoft Office is trading at 37x 2027E P/E, lower than domestic peers at 50x but higher than global SaaS peers average at 18-19x.

Yonyou: we keep our 2026-28E net profit forecasts largely unchanged. We change valuation methodology from target P/E to DCF, assuming a WACC of 7.2% and terminal growth rate of 1.0%. Our DCF-derived price target is Rmb6.90, 5% lower than previous price target of Rmb7.30, due to lower outer-year operating margin assumptions, reflecting uncertainties around corporate management amid organisation restructure amid AI development. We remain Sell on rich valuation. Yonyou is trading at 42x 2027E EV/FCF, higher than peers average at c.35x.

Figure 6: Software industry comps table

Company	Ticker	Price Currency	Share price	Market Cap (USD mn)	Trading Volume (USD mn)	EV/Sales 2026E	EV/Sales 2027E	EV/FCF 2026E	EV/FCF 2027E	FCF CAGR 2025-27E	P/E 2026E	P/E 2027E	Net profit CAGR 2025-27E	PEG 2026E
China Software														
Productivity														
Meitu	1357.HK	HKD	4.28	2,487	80.8	2.4	1.8	8.6	7.1	50%	12.6	9.5	29%	0.4
Kingsoft Office	688111.SS	Rmb	253.50	17,184	278.8	13.8	11.1	38.4	28.9	25%	47.6	37.0	32%	1.5
Wondershare	300624.SZ	Rmb	69.53	1,966	143.7	6.7	5.7	97.3	84.9	83%	134.2	86.4	67%	2.0
ERP/HCM														
Kingdee	0268.HK	HKD	8.49	3,846	63.6	2.5	2.0	42.6	19.5	78%	63.9	36.2	179%	0.4
Yonyou	600588.SS	Rmb	12.04	6,018	150.5	4.1	3.7	-5195.5	42.8	NA	3294.7	70.3	NA	NA
Beisen*	9669.HK	HKD	3.23	301	0.7	0.5	0.4	NA	NA	NA	61.7	12.9	NA	NA
Cybersecurity														
Sangfor*	300454.SZ	Rmb	119.16	7,523	155.6	4.8	4.2	NA	51.5	-64%	87.5	63.3	45%	2.0
Venustech*	002439.SZ	Rmb	15.25	2,702	47.3	5.7	5.8	NA	NA	NA	164.5	95.4	NA	NA
360*	601360.SS	Rmb	11.12	11,386	283.9	6.2	5.8	NA	NA	NA	520.5	290.6	88%	5.9
Infrastructure														
Oriental Nations*	300166.SZ	Rmb	15.96	2,659	128.9	5.9	4.8	NA	NA	NA	128.8	64.0	NA	NA
Runjian*	002929.SZ	Rmb	55.35	2,300	94.1	1.8	1.5	NA	NA	NA	40.1	22.7	71%	0.6
AI platform														
4Paradigm*	6682.HK	HKD	37.92	2,510	41.3	1.6	1.2	NA	NA	NA	66.2	32.0	1620%	0.0
SenseTime*	0020.HK	HKD	2.03	10,938	165.6	10.7	8.5	NA	NA	-65%	NA	NA	NA	NA
Median				**2,702**	**128.9**	**4.8**	**4.2**	**38.4**	**35.8**	**37%**	**76.8**	**50.1**	**69%**	**1.0**
Global Software														
Productivity														
Microsoft	MSFT.O	USD	424.62	3,153,071	11,785.2	9.4	8.0	38.2	42.0	-10%	25.1	22.1	16%	1.5
Adobe	ADBE.O	USD	245.44	99,207	1,458.7	3.8	3.5	9.9	9.0	8%	10.5	9.7	7%	1.6
Wix.com	WIX.O	USD	75.67	4,165	200.8	0.8	0.6	4.0	2.4	-9%	12.1	9.4	0%	96.9
Zoom	ZM.O	USD	92.03	27,118	271.3	3.6	4.0	12.8	16.4	-5%	14.9	15.0	1%	10.3
DocuSign	DOCU.O	USD	46.22	8,980	222.7	4.7	2.3	26.5	12.6	13%	11.2	10.0	9%	1.2
ERP/CRM/HCM/IT														
SAP	SAPG.DE	EUR	147.28	212,055	471.4	3.9	3.4	17.9	15.5	14%	20.8	17.8	19%	1.1
Oracle	ORCL.N	USD	173.28	498,361	827.9	8.8	6.9	-27.2	-21.5	NA	22.8	20.9	18%	1.3
Salesforce	CRM.N	USD	178.16	145,744	511.4	5.8	3.5	18.2	11.3	17%	12.2	11.7	12%	1.0
Veeva	VEEV.N	USD	161.13	26,318	94.1	12.7	6.7	39.3	19.2	18%	19.5	17.5	18%	1.1
Workday	WDAY.O	USD	119.76	30,778	674.1	6.7	3.1	30.5	12.7	28%	12.5	11.0	20%	0.6
ServiceNow	NOW.N	USD	90.17	92,965	369.9	5.4	4.3	20.0	15.9	28%	21.0	17.3	21%	1.0
Developer tool														
Atlassian	TEAM.O	USD	71.55	18,871	490.7	2.7	2.1	14.6	11.1	10%	14.3	12.4	25%	0.6
GitLab	GTLB.O	USD	21.51	3,659	188.7	8.1	3.0	59.1	29.5	21%	22.1	24.7	9%	2.5
Jfrog	FROG.O	USD	45.25	5,482	92.8	8.4	6.7	34.7	25.6	38%	46.3	34.2	27%	1.7
Cloud/database														
DigitalOcean	DOCN.N	USD	95.21	9,935	32.6	9.6	6.9	51.4	33.3	47%	81.4	42.5	4%	22.1
MongoDB	MDB.O	USD	253.59	20,381	616.9	8.7	6.4	56.3	57.8	296%	47.3	35.3	37%	1.3
Palantir	PLTR.OQ	USD	143.09	343,009	1,982.1	47.3	31.1	95.6	59.7	98%	93.1	61.3	71%	1.3
Snowflake	SNOW.N	USD	140.32	48,509	201.8	15.8	8.2	84.9	32.8	44%	104.1	69.3	53%	2.0
Dynatrace	DT.N	USD	35.29	10,525	47.4	4.7	3.8	19.0	15.3	18%	20.2	16.6	23%	0.9
Datadog	DDOG.O	USD	129.48	45,817	737.8	9.4	7.4	38.0	28.2	39%	39.8	30.6	27%	1.5
AI application														
AppLovin	APP.O	USD	448.29	150,757	2,875.1	18.7	13.7	30.1	21.0	41%	26.9	19.2	55%	0.5
Duolingo	DUOL.O	USD	103.45	4,840	415.4	2.8	2.2	16.0	11.8	-26%	43.2	36.3	-43%	-1.0
Median				**28,948**	**443.4**	**7.4**	**4.1**	**28.3**	**16.1**	**18%**	**21.6**	**18.5**	**18%**	**1.3**
China Internet														
Media and entertainment														
NetEase	NTES.O	USD	110.58	70,019	101.3	2.8	2.2	9.0	6.3	9%	12.0	9.9	14%	0.9
Kuaishou Technology	1024.HK	HKD	43.70	24,248	339.9	1.1	1.0	77.5	7.8	12%	9.6	8.7	-4%	-2.4
Tencent Music Entertainment	TME.N	USD	9.34	14,571	30.6	1.9	1.6	9.0	6.4	26%	9.6	8.6	10%	1.0
Bilibili	BILI.O	USD	22.25	7,497	71.7	1.3	1.1	13.9	10.5	-11%	16.7	12.4	26%	0.6
iQIYI	IQ.O	USD	1.17	1,129	29.8	0.6	0.5	1.2	1.1	1%	18.2	9.3	72%	0.3
China Literature	0772.HK	HKD	25.86	3,372	28.1	2.5	2.2	22.1	12.5	NA	16.3	14.3	37%	0.4
Weibo Corp	WB.O	USD	8.41	2,040	11.4	0.0	-0.2	-0.2	-0.9	-14%	4.8	4.6	1%	7.7
Hello Group	MOMO.O	USD	6.15	933	6.7	0.0	0.0	-0.1	-0.6	8%	5.9	5.7	6%	1.0
Travel and transactional platforms														
Kanzhun Limited	BZ.O	USD	13.62	6,585	66.6	1.8	1.1	6.2	2.3	11%	11.3	10.0	12%	1.0
Trip.com	TCOM.O	USD	53.11	34,598	178.8	1.3	0.9	5.7	2.9	19%	11.0	9.6	-12%	-0.9
Tongcheng Travel	0780.HK	HKD	18.25	5,484	28.0	1.1	0.8	6.2	4.6	12%	9.6	8.5	14%	0.7
Median				**6,585**	**30.6**	**1.3**	**1.0**	**6.2**	**4.6**	**10%**	**11.0**	**9.3**	**12%**	**0.7**

Source: Refinitiv, UBS estimates. *Refinitiv consensus

***UBS Evidence Lab** is a sell-side team of experts that work across numerous specialized labs creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. Since 2014, UBS Research analysts have utilized the expertise of UBS Evidence Lab for insight-ready datasets on companies, sectors, and themes, resulting in the production of thousands of differentiated UBS Research reports. UBS Evidence Lab does not provide investment recommendations or advice but provides insight-ready datasets for further analysis by UBS Research and by clients. All published UBS Evidence Lab content is available via UBS Neo. The amount and type of content available may vary. Please contact your UBS sales representative if you wish to discuss access.*

Valuation Method and Risk Statement

We value Chinese software companies using DCF.
Upside risks for the sector:
1). Faster-than-expected LLM evolvement in China; 2). AI solutions verified for scaleable commercial launch; and 3). enterprises increase IT budget due to macro turnaround or government policy.
Downside risks for the sector:
1). Enterprises cut IT budget amid macro headwinds despite strong AI adoption intent; 2). further restriction on GPUs slows down LLM evolvement in China; and 3). cloud migration is slower-than-expected.

We value Meitu using DCF methodology.
Key upside risks: 1). faster-than-expected globalization; 2). breakthrough in product capabilities of DesignKit which accelerates paying user and ARPU growth; and 3). faster-than-expected evolvement of proprietary GenAI model MiracleVision leveraging user data on hand.
Key downside risks: 1). slower-than-expected globalization; 2). hyperscalers or other AI startups launched competing products which show stronger product strength; and 3). intensified competition given lower AI inference costs of LLMs.

We value Kingsoft Office using DCF methodology.
Key upside risks: 1). faster-than-expected WPS365 ramp-up; 2). break-through in AI capabilities which drive ARPU growth; and 3). higher IT budget from government customers amid supporting policies.
Key downside risks: 1). intensified competition from other vendors resulting in slower WPS365 growth; 2). customer churns amid macro headwinds; and 3). AI product capability is not sufficient.

We value Yonyou using DCF methodology.
Key upside risks: 1) faster-than-expected cloud migration in China; 2) breakthrough in AI solutions that clients are willing to pay; and 3) higher IT budget from enterprise customers given strong AI adoption intent.
Key downside risks: 1) intensified competition from Inspur in large enterprise or government customer segment; 2) customer churns amid macro headwinds; and 3) weaker-than-expected execution in cost control.

We value Kingdee using DCF methodology.
Key upside risks: 1). faster-than-expected cloud migration in China; 2). break-through in AI solutions which clients are willing to pay; and 3). higher IT budget from enterprise customers given strong AI adoption intent.
Key downside risks: 1). slower-than-expected cloud migration in China; 2). customer churns amid macro headwinds; and 3). lower net dollar retention of existing customers amid macro and competition risks.