Goldman Sachs Research

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Hundsun (600570.SS): Asia Financials Corporate Day Takeaways

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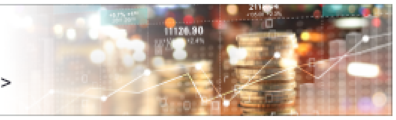

Bottom line:

We hosted **Hundsun**'s IR team at the Asia Financials Corporate Day and summarize the key takeaways as follows: According to the company, 1) Despite mixed 1Q results from revenue timing and strategic shifts, a significant increase in contract liabilities indicates a healthy order backlog, although future full-year revenue growth remains heavily dependent on Q4 performance. 2) The Xinchuang upgrade cycle is creating robust demand, while 2026-2027 are projected as peak implementation years, this will continue to lengthen revenue recognition cycles due to more stringent client acceptance criteria. 3) The market is trending towards a balance of in-house and outsourced IT development, which will sustain demand for third-party vendors as financial institutions re-engage them during critical and complex system upgrades. 4) Future growth is expected from the Hong Kong subsidiary, which is capitalizing on new cross-border regulations and virtual asset trading rules, and from corporate data services benefiting from rising AI-driven data demand. 5) The company aims to improve future gross margins by shifting its revenue mix toward a subscription model, while its R&D focus will pivot to AI-native products to boost internal efficiency ahead of wider client adoption.

Key Takeaways

1. 1Q Result Remarks

- First quarter revenue typically represents a small portion of the full-year total (~15%-16%) and therefore does not serve as a strong indicator for full-year performance. The company's business model, which is primarily based on products and subscriptions and recognizing revenue upon project completion, results in significant seasonality, where revenue from the first three quarters is comparatively low, while revenue from the fourth quarter alone can account for as much as 40% of the annual total.
- Segments with Declining Revenue: Wealth Technology (-26%), Operations and

Institutional Technology (-12.65%), Risk and Platform Technology (significant decline), and Corporate Finance & Insurance Core Systems (significant decline). The primary reasons for this decline include: 1) the impact from the timing of revenue recognition, 2) delayed payments from banking clients, 3) a strategic and proactive scaling back of non-core and loss-making business lines (such as the Data Middle Platform), 4) reduced market demand for bills/notes-related business, and 5) the implementation of stricter revenue recognition standards.

- Segments with Revenue Growth: Asset Management Technology (+3.23%) and Corporate Data Services (+29.45%). The growth in these areas was driven by distinct factors. For Asset Management Technology, it was due to improved delivery efficiency of the new O45 product for smaller clients. For Corporate Data Services, the growth of the Juyuan subsidiary's data subscription business was attributable to a low base effect from the previous year and an increase in data demand spurred by advancements in AI.

2. Order Demand

- Brokerage Clients: Benefiting from a recovery in the capital markets, brokers have demonstrated an increased willingness and capacity for IT expenditure. This has resulted in healthy growth in orders from this client segment.
- Asset Management Clients: This segment faces some pressure; for instance, growth in AUM is being driven more by the appreciation of net asset value rather than new client subscriptions, and there is also an impact from industry-wide fee reductions. However, the regulatory and policy environment is stabilizing, and the willingness to invest in IT persists. Consequently, orders from asset management clients have also shown year-over-year growth.
- Overall Orders: Contract liabilities experienced significant growth in 1Q26, which indicates that the company currently holds a substantial and healthy backlog of orders.

3. Client's In-house Development vs. Outsourcing

- In-house development presents several pain points, including high costs, a scarcity of interdisciplinary talent with combined finance and technology skills, and the high risk of institutional knowledge loss when employees leave. This is especially true during the upgrade and replacement cycles of Xinchuang (Information Technology Application Innovation) systems. During these upgrade cycles, clients often find it necessary to re-engage with third-party vendors.
- Over the long term, the market is expected to trend towards a balance between in-house development and external procurement.

4. Revenue Recognition Cycle

- The cycle time from order placement to final delivery and client acc been extended compared to the previous average of approximately
- The primary reason for this extension is that the acceptance proces systems, particularly core systems, has become more cautious and s

systems are required to operate stably for several months before the client will formally issue an acceptance report, which is the trigger for revenue recognition.

5. Progress on Xinchuang (Independent and Controllable)

- UF3.0: A cumulative total of nine clients have successfully gone live with the Xinchuang version of this product. It is anticipated that approximately 20 additional clients will enter the preparation and implementation phase within the current year.
- O45: This product is already being used by 12 asset management clients, spanning the fund, insurance, and brokerage asset management sectors. If clients from other industries, such as banking, are included, the total number of clients for this product is approximately 130.
- Outlook: The years 2026 and 2027 are projected to be a period of concentrated, large-scale implementation and deployment for Xinchuang systems across the financial industry. Client demand is well-defined and strong, indicating a robust and plentiful order pipeline for the foreseeable future.

6. Hong Kong Business and New Cross-Border Regulations

- Recently introduced new regulations governing cross-border investment are seen as beneficial for the long-term, sustainable development of the industry. These regulations also serve as a positive catalyst for the company's Hong Kong-based subsidiary, Hengyun Technology, which provides front-office systems on a subscription basis to over 250 brokers in Hong Kong. The subsidiary has also successfully capitalized on new business opportunities emerging from the regulatory upgrades for virtual asset trading licenses.
- As more Chinese brokers expand their operations overseas, it is anticipated that Hengyun Technology will see an increase in both its client base and the diversity of its business offerings.

7. AI Application

- Monetization: Clients' willingness to pay for AI-powered solutions is currently in an exploratory phase. There remains a degree of ambiguity and confusion among clients regarding quantifiable metrics for efficiency improvements and the specific business use cases where AI can deliver tangible value. As a result, the speed of adoption and implementation in the B2B financial sector is slower than in the B2C consumer domain.
- Internal Efficiency Improvements: The company's current internal AI focus is heavily on AI Coding. The objective is to leverage AI tools to enhance the efficiency of its own software development lifecycle, which in turn improves product delivery speed and overall client satisfaction.
- R&D Investment: The company plans to shift its R&D expenditures away from traditional software toward AI-native products. However, the overall R&D expense ratio is not expected to increase significantly, because the company can benefit from the low token costs associated with domestic open-source AI models.

8. Earnings Outlook and Shareholder Returns

- Whether the company can achieve full-year revenue growth remains uncertain, as the outcome is heavily dependent on the performance and timing of revenue recognition in the fourth quarter. The primary internal management goal is to maintain stability in key productivity metrics, specifically revenue per employee and profit per employee.
- The current gross margin stands at approximately 70%. There is potential for the gross margin to improve further in the future, driven by increasing proportion of subscription-based revenue (with a target to exceed 50% of total revenue) and higher degree of product standardization, which reduces customization and delivery costs.
- The company is committed to maintaining a total shareholder return (dividends+share buybacks) of 30%. Management is willing to actively consider measures to further enhance shareholder returns while concurrently prioritizing the financial security and operational liquidity.

Price Target Risks and Methodology - Hundsun

Valuation methodology: We are Buy rated on Hundsun with a 12-month price target of Rmb 34.77. Our TP is based on an equal mix of two valuation methods: 1) EV/Sales, which we believe better reflects the highly scalable nature of the software product with minimum marginal cost as well as market sentiment toward the highly volatile software sector; and 2) 2-stage DCF, which we believe better reflects the value of long-term positive cash flow from Hundsun's solid market presence and sustainable customer relationships as well as the near-term pressure on free cash flow.

Downside risks: 1) Capital market recovery falls short of expectations; 2) Client IT spending or budget execution below expectations; 3) Decline in gross profit margin due to declining product competitiveness and market share loss; 4) Investment losses.

600570.SS	12m Price Target: **Rmb34.77**	Price: **Rmb22.59**	Upside: **53.9%**

Buy

Market cap: Rmb42.8bn / $6.3bn
Enterprise value: Rmb42.2bn / $6.2bn
3m ADTV: Rmb708.0mn / $104.0mn
China
China Brokers & AM
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (Rmb mn)	5,782.9	6,449.8	7,248.4	8,152.4
EBITDA (Rmb mn)	810.7	959.6	1,148.0	1,363.5
EPS (Rmb)	0.65	0.75	0.88	1.04
P/E (X)	47.0	30.3	25.6	21.8
P/B (X)	5.9	4.0	3.6	3.2
Dividend yield (%)	0.7	1.0	1.2	1.4
N debt/EBITDA (ex lease,X)	(1.2)	(1.6)	(2.4)	(2.9)
CROCI (%)	15.7	20.6	20.7	20.8
FCF yield (%)	1.4	2.6	4.1	4.0

	3/26	6/26E	9/26E	12/26E
EPS (Rmb)	0.07	0.16	0.10	0.42

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 24 Jun 2026 close.

Disclosure Appendix

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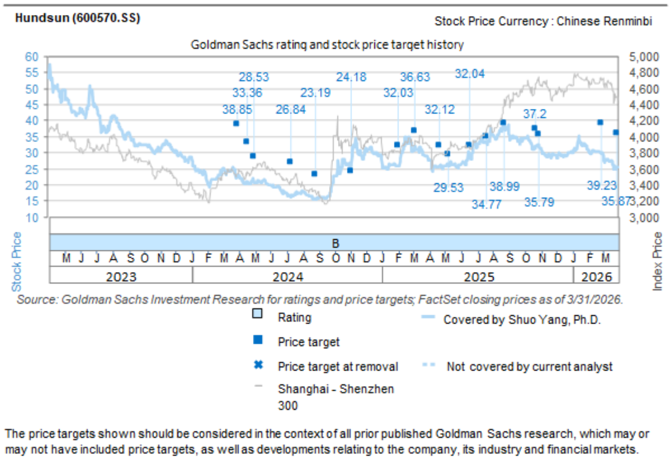

Target price history table(s)

Hundsun (600570.SS)

Date of report	Target price (Rmb)	Closing price (Rmb)
30-Apr-26	34.77	26.79
29-Mar-26	35.87	25.43
27-Feb-26	39.23	30.02
30-Oct-25	35.79	31.97
22-Oct-25	37.20	31.56
24-Aug-25	38.99	38.46
21-Jul-25	34.77	33.10
19-Jun-25	32.04	28.80
09-May-25	29.53	26.08
22-Apr-25	32.12	25.90
06-Mar-25	36.63	32.33
02-Feb-25	32.03	25.94
04-Nov-24	24.18	26.50
27-Aug-24	23.19	15.34
10-Jul-24	26.84	16.34
30-Apr-24	28.53	20.61
18-Apr-24	33.36	20.99
29-Mar-24	38.85	22.56

Price targets shown in table(s) are unadjusted for corporate actions.

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