

ASIAN GEMS CORPORATE HIGHLIGHTS

**SenseTime Group Inc (20 HK)**

Key Takeaways From 2024 Asian Gems Conference

SenseTime is a leading AI software company focusing on computer vision technologies, serving a broad range of industries. It recorded full-year revenue of Rmb3.4b in 2023, making it the largest computer vision software provider in China with an over 20% market share, according to IDC. The company achieved solid revenue growth of 29% in 1H24, driven by rapid growth in the GenAI business and the smart auto business.

WHAT'S NEW

- **SenseTime Group Inc (SenseTime) attended the 2024 Asian Gems Virtual Conference on 18 October.** Here are the key takeaways.

STOCK IMPACT

- **SenseTime's strategic shift towards GenAI and smart auto.** In 1H24, SenseTime's revenue grew 29% yoy. This strong growth was primarily driven by the expansion of its generative AI business, which saw a 256% yoy surge and accounted for 60% of total revenue. The SenseNova large language model (LLM), powered by the SenseCore foundation model, is delivering comprehensive enterprise solutions across cloud, data centres, and edge devices. Overseas revenue rose 40% yoy in 1H24, accounting for 18% of total revenue. Meanwhile, SenseTime has proactively reduced its exposure to traditional AI, from 74% in 2023 to 30% in 1H24. By end-23, according to International Data Corporation (IDC), SenseTime holds the second-largest market share in China for large-scale model platforms and applications, and ranks third in the intelligent computing services market.
- **Ramping up efforts to improve profitability remains a key priority.** In 1H24, SenseTime's losses declined by 26% yoy while net loss narrowed by 21% yoy. However, achieving breakeven and reaching profitability remain a top priority. To achieve this, SenseTime is working on several initiatives, including enhancing revenue quality, proactively reducing operational costs, and implementing more cautious cost restructuring. In addition, the company has a significant amount of outstanding account receivables from local governments in China, which have been written down. If the central government initiates support measures such as loans or bond issuances to help local governments address their outstanding debts, this could support SenseTime's collection of receivables, particularly from local authorities.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021	2022	2023
Net turnover	3,027	3,446	4,700	3,809	3,406
EBITDA	1,719	2,432	3,278	2,542	1,501
Operating profit	(1,594)	(2,219)	(3,862)	(6,075)	(6,579)
Net profit (rep./act.)	(4,963)	(12,158)	(17,140)	(6,045)	(6,440)
Net profit (adj.)	(4,963)	(12,158)	(17,140)	(6,045)	(6,440)
EPS (sen)	(56.0)	(133.0)	(174.0)	(19.0)	(20.0)
PE (x)	(2.4)	(1.0)	(0.8)	(7.1)	(6.7)
P/B (x)	(1.3)	(0.7)	1.4	1.6	1.9
EV/EBITDA (x)	(41.8)	(30.8)	(15.9)	(10.0)	(9.5)
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(164.0)	(352.8)	(364.7)	(158.7)	(189.1)
Net debt/(cash) to equity (%)	-	-	(62.5)	(35.0)	(21.5)
Interest cover (x)	(10.6)	(19.7)	(117.9)	(93.6)	(44.1)
ROE (%)	-	46.0	-	(20.9)	(20.9)
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: SenseTime, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	HK\$1.53
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

SenseTime Group Inc develops AI software products, computer vision software products and other products in China.

STOCK DATA

GICS sector	Software
Bloomberg ticker:	20 HK
Shares issued (m):	34,527.8
Market cap (HK\$m):	53,767.9
Market cap (US\$m):	6,989.6
3-mth avg daily t'over (US\$m):	112.5

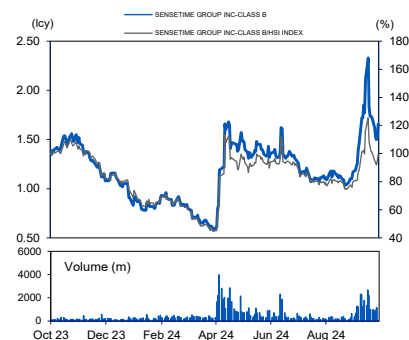
Price Performance (%)

52-week high/low	HK\$1.77/HK\$0.58			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
13.6	(8.8)	60.3	(12.0)	7.8

Major Shareholders

	%
Lin Jiemin	6.3
SVF Sense Pte Ltd	3.6
-	-
FY24 NAV/Share (Rmb)	1.12
FY24 Net Cash/Share (Rmb)	-0.37

PRICE CHART



Source: Bloomberg

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- Integration of SenseTime's LLM with industry's auto partners.** Smart auto revenue doubled yoy in 1H24, contributing 10% of total revenue. This was bolstered by unit shipments soaring by more than 100% yoy in 1H24. SenseTime offers an automotive agent based on a pilot cabin cloud, which has been adopted by several multinational OEMs, including BYD, Xiaomi, Audi, Nissan, Nexus, Toyota, and Honda. SenseTime's end-to-end solution is comparable to Tesla's full self-driving (FSD) in China and anticipates that Tesla's FSD entry into the Chinese market will significantly boost demand for SenseTime's AI-driven autonomous driving solutions. For instance, SenseTime's latest models that incorporate its large model products in the cabin include Xiaomi's first electric vehicle, the SU-7, featuring an AI assistant with multimodal capabilities. In addition, Shanghai Auto's models, such as IM L6, L7, LS6 and LS7, have integrated SenseTime's products, including SenseChat, children's stories and AI diagnosis.
- SenseTime's development of a native multimodal large model for vehicles has achieved an initial response time of 60 milliseconds and an inference speed of 40 tokens per second, making it compatible with mainstream automotive chips.**
- Synergy between SenseCore and SenseNova to boost overseas expansion.** Overseas revenue rose 40% yoy in 1H24, accounting for 80% of total revenue. Currently, SenseTime is working with over 3,000 leading enterprises across various industries, providing enterprise-grade generative AI solutions spanning cloud, on-premise, data centres, and edge devices. SenseTime believes its core competitive advantage lies in the synergy between its SenseCore foundation model and large language models, which enables rapid model iteration and reduces inference costs. The company continues to operate one of the largest artificial intelligence data centres (AIDC) in China and across the Asia-Pacific region, and is among the first to receive 5A certification by national standards for its AIDC environment. Currently, it manages over 50,000 GPUs and more than 20,000 petaflops of compute power. By end-24, SenseTime expects its managed compute power to exceed 25,000 petaflops.
- For GPU procurement and capex, SenseTime's strategic direction is to transition towards a light-asset model, focusing on leasing and rentals.** It has several industry partners supporting its GPU supply, particularly in overseas markets, including AIDC. Moving forward, SenseTime will likely prioritise this light-asset, lease-and-rental model to maintain operational expenses at a healthy level. The company anticipates overall capex to remain stable at Rmb700m per reporting period.
- Strategic plan and monetisation model for To-C still in early stage.** SenseMirage is a relatively new product line for SenseTime, launched only in Aug 24. SenseTime has a strong history of targeting large markets, and its approach to the consumer (To-C) market has typically been through expanding its portfolio via investment partnerships and strategic investments in fund-managed portfolio companies. Historically, SenseTime has allocated around 10% of the company's fundraising proceeds towards ecosystem investments and partnerships, including those related to the To-C strategy. Over time, it has raised more than US\$6.2b in funding, and invested US\$600m into equity investments and portfolio companies.
- However, revenue from the To-C market for SenseTime remains significantly smaller compared with business-to-business (To-B) operations.** This is primarily due to the large scale of To-B revenue, particularly from enterprises and SOEs. In terms of building out compute power AIDC and related infrastructure, SenseTime has been collaborating with several leading industry players to further expand its infrastructure capabilities. Many of these projects are based in China, where the company has been invited by local partners and SOEs to serve as their technology and R&D provider which facilitates SenseTime's market share and infrastructure expansion.

**EARNINGS REVISION/RISK**

- a) Intensified competition in the AI industry, b) lower-than-expected progress in commercialisation, and c) domestic and international policy risks.

**SHARE PRICE CATALYST**

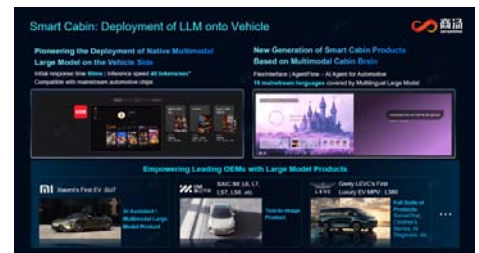
- a) Faster-than-expected implementation of C-end applications, and b) strong performance of the smart auto business.

**SMART AUTO**



Source: SenseTime, UOB Kay Hian

**SMART CABIN**



Source: SenseTime, UOB Kay Hian

**SENSECORE: THE COREWEAVE**



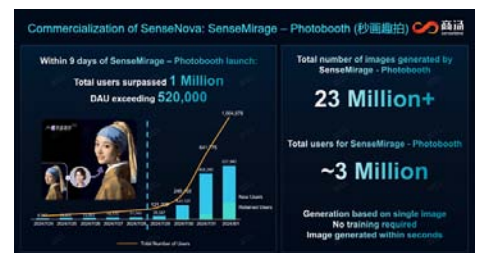
Source: SenseTime, UOB Kay Hian

**COMMERCIALISATION OF SENSENOVA**



Source: SenseTime, UOB Kay Hian

**COMMERCIALISATION OF SENSE MIRAGE**



Source: SenseTime, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021	2022	2023
Net turnover	3,446	4,700	3,809	3,406
EBITDA	(1,650)	(3,204)	(5,107)	(5,329)
Deprec. & amort.	(570)	(658)	(968)	(1,250)
EBIT	(2,219)	(3,862)	(6,075)	(6,579)
Total other non-operating income	10,153	13,381	440	80
Associate contributions	6	40	2	21
Net interest income/(expense)	(59)	(141)	(184)	(176)
<b>Pre-tax profit</b>	<b>(12,319)</b>	<b>(17,142)</b>	<b>(6,333)</b>	<b>(6,504)</b>
Tax	(161)	36	(240)	(9)
Minorities	(0)	(37)	(48)	(55)
<b>Net profit</b>	<b>(12,158)</b>	<b>(17,140)</b>	<b>(6,045)</b>	<b>(6,440)</b>
Net profit (adj.)	(12,158)	(17,140)	(6,045)	(6,440)

### CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021	2022	2023
<b>Operating</b>	<b>(1,135)</b>	<b>(2,382)</b>	<b>(2,925)</b>	<b>(3,010)</b>
Pre-tax profit	(12,319)	(17,142)	(6,333)	(6,504)
Tax	161	(36)	240	9
Deprec. & amort.	(570)	(658)	(968)	(1,250)
Working capital changes	10,528	3,385	(7,088)	(4,548)
Other operating cashflows	11,743	16,126	2,433	2,870
<b>Investing</b>	<b>(10,684)</b>	<b>(4,099)</b>	<b>8,788</b>	<b>6,392</b>
Capex (growth)	(7,305)	(1,685)	(9,517)	3,090
Capex (maintenance)	(1,277)	(1,073)	(4,890)	(1,356)
Investments	-	-	-	-
Proceeds from sale of assets	2	8	5	12
Others	(6,028)	(612)	(4,627)	4,446
<b>Financing</b>	<b>13,195</b>	<b>9,169</b>	<b>3,876</b>	<b>1,381</b>
Dividend payments	-	-	-	-
Issue of shares	-	-	86	31
Proceeds from borrowings	4,920	856	3,078	1,648
Others/interest paid	1,352	(310)	2,843	1,064
<b>Net cash inflow (outflow)</b>	<b>6,923</b>	<b>3,936</b>	<b>(2,131)</b>	<b>(1,361)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>4,755</b>	<b>5,102</b>	<b>(8,567)</b>	<b>1,461</b>
Changes due to forex impact	6,673	11,428	16,530	7,963
<b>Ending cash &amp; cash equivalent</b>	<b>(131)</b>	<b>(243)</b>	<b>487</b>	<b>153</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021	2022	2023
Fixed assets	2,242	3,341	7,314	7,728
Other LT assets	772	1,208	1,912	1,692
Cash/ST investment	5,044	11,538	14,447	10,887
Other current assets	26,682	16,546	7,077	6,053
<b>Total assets</b>	<b>38,479</b>	<b>36,944</b>	<b>37,427</b>	<b>32,888</b>
ST debt	594	0	321	194
Other current liabilities	9,229	2,795	3,002	3,093
LT debt	9,822	2,795	3,323	3,287
Other LT liabilities	48,895	1,641	4,408	6,099
Shareholders' equity	694	521	682	346
Minority interest	49,589	2,162	5,090	6,445
<b>Total liabilities &amp; equity</b>	<b>(21,068)</b>	<b>31,893</b>	<b>28,970</b>	<b>23,159</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021	2022	2023
<b>Profitability</b>				
EBITDA margin	(357.5)	(364.7)	(166.3)	(191.0)
Pre-tax margin	(357.5)	(364.7)	(166.3)	(191.0)
Net margin	(352.8)	(364.7)	(158.7)	(189.1)
ROA	(39.0)	(45.5)	(16.2)	(19.6)
ROE	-	-	(20.9)	(27.8)
<b>Growth</b>				
Turnover	13.9	36.4	(19.0)	(10.6)
EBITDA	35.7	94.2	59.4	4.3
Pre-tax profit	50.9	15.5	47.1	29.2
Net profit	39.3	74.0	57.3	8.3
Net profit (adj.)	175.0	31.8	(96.7)	(81.7)
EPS	100.4	564.4	(94.1)	783.0
<b>Leverage</b>				
Debt to total capital	168.5	5.3	14.5	21.8
Debt to equity	-	5.6	16.9	27.8
Net debt/(cash) to equity	-	(62.5)	(35.0)	(21.5)
Interest cover (x)	(19.7)	(117.9)	(93.6)	(44.1)

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