

Software - China

Expert call takeaways: soft demand on financial industry software; XC to be rev driver

Industry Overview

We hosted an expert call with Mr. Ling, who has 15+ years of work experience in financial IT software industry in China, at our Asia II Software Call series. We summarize our key takeaways of his presentation as: 1) cautious on the downstream IT budget on financial industry software in 2024, but unlikely a large cut; 2) policy or business driven demand will largely be intact; 3) industry competition may get intensified for systems with low barriers, and 4) Xinchuang could be a potential demand booster in 2024-25E while AI is still early to have meaningful revenue contribution.

Downstream budget to be soft, but won't be a large cut

Mr. Ling saw declining budget for financial industry software in China in 2023, with an estimated 10% YoY decline of total contract value. Looking into 2024E, Mr. Ling was still cautious on the total budget from downstream customers (i.e. mutual funds, asset mgmt companies), while further software budget cut could be limited. Besides, the trend could be diverged among asset management firms / brokers in different scale, per Mr. Ling. The budget for large and mid-sized institutions is expected to be largely stable, or even higher for some large institutions, while small-sized customers are likely to cut more of their software spending budget, per Mr. Ling.

Policy or business driven budget unlikely to be affected

Despite a cautious view on clients' budget, Mr. Ling believed that policy or business driven software demand could still be intact and unlikely to be reduced. System construction or upgrade driven by policy reform is unavoidable, such as implementation of registration-based IPO system. Business driven IT investment focuses on existing business expansion or developing new businesses (e.g., securities margin trading). Mr. Ling estimated that spending on core systems (e.g., investment trading, TA and valuation systems) could account for 60-80% of total financial IT software budget of downstream customers, which are unlikely to be affected by macro environment.

Competition may intensify for systems with low barriers

Mr. Ling acknowledged Hundsun's leading position in investment system (i.e., O32 system), leveraging on its well-established technology and business know-how, while there could be intensified competition in systems with low barrier, such as valuation system and TA system. Mr. Ling also shared that the operating environment is still challenging for small vendors amid unfavorable macro, and there could be further market consolidation which could benefit leading players, in our view.

Xinchuang a potential driver; while AI still at early stage

Xinchuang could be a potential demand booster for financial industry software in 2024-25E, as government is encouraging software import substitution in financial industry. In terms of AI, despite the launch of financial LLMs and AIGC functions by some companies in financial industry, Mr. Ling thought it is still too early for financial institutions to adopt AIGC functions in their business.

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TA: transfer agent

LLM: large language model

AIGC: AI generated contents.

XC: Xinchuang

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