

# WEIMOB

## Earnings Review

Solid FY19 results back on healthy operating metrics, softer outlook on FY20, Maintain buy

### Solid FY19 results, maintain Buy, HK\$6.2

Weimob reported solid FY19 results. Targeted marketing gross billings grew strongly by 112% YoY to RMB5.3bn, thanks to multiple platforms expansion. Meanwhile, Weimob has begun to move upmarket by serving KAs and larger enterprise customers in FY19; therefore, gross margin of gross billings came down slightly to 7.4% as expected, while ARPU rose substantially to RMB150k from RMB87k last year. For SaaS business, its revenue reached RMB507mn, up 46% YoY, driven by strong digitalization demand of SMEs. Adjusted net profit came in at RMB78mn, up 53% YoY, beating our estimate by 48%. We maintain Buy, as we see Weimob: 1) long-term growth intact in a booming sector; 2) healthy operating metrics with a defensive trait in a downturn. The stock is currently trading at 41x FY21E EV/EBITDA with a CAGR of 108% in FY18-21E, at a discount to US peers of 73x/61%.

### Improving operating leverage benefited from declining attrition rate

The highlight of SaaS business was that Weimob maintained a declining attrition rate over the past five years. In FY19, the attrition rate fell significantly to 22.2% compared to 26.8% and 27.2% in FY18 and FY17, respectively. Operating leverage has benefited from declining attrition rate as we found that S&M to SaaS revenue ratio has begun to fall in the second half of 2019. Regarding the recent database sabotage, the impact on attrition rate would be limited, on top of the timely compensation plan, customer stickiness of large customers and natural churn rate of small customers could offset the impact to some extent, in our view.

### Manageable cashflow back on a strong cash position

In order to boost its targeted marketing business, we saw the rising operating cash outflow in FY19 due to the increased in prepayment for purchasing advertising traffic. However, Weimob's cash flow was still quite healthy and manageable given that Weimob sat on a strong net cash of RMB570mn at the end of 2019. In addition, we expect that in the long run, prepayment ratio will decline as the scale of targeted marketing business expands.

### Softer outlook on FY20 but defensive trait could help

Targeted marketing achieved strong growth in FY19, thanks to its performance-based advertising. Looking ahead to 2020, performance-based ad will continue to be favored by advertisers who continue to tighten their budgets in the economic downturn, and besides, rising demand due to COVID-19 impact from certain sectors such as e-commerce and online education will boost the growth, in our view. For SaaS business, the COVID-19 became a driver for Smart Retail on its Commerce Cloud, as offline merchants were actively looking for growth opportunities online. Meanwhile, newly launched living streaming retail platform is also a new driver for SaaS business growth. Although uncertainties are still around and could weigh on FY20, we see Weimob's long-term growth theme is intact.

Stock code: 2013.HK

**Rating: Buy**

<b>Price target (HK\$)</b>	<b>6.2</b>
Current price (HK\$, 24 March 2020)	5.0
Upside/downside %	25%
Market cap (HK\$ m)	11,080
Market cap (US\$ m)	1,429
Avg daily turnover over 1 yr (HK\$ m)	107

Source: Bloomberg, AMTD estimates

### Key forecasts

(RMB mn)	FY18	FY19	FY20e	FY21e
Adj. net profit	51	78	77	209
yoy %	347%	53%	-2%	172%
Revenue	865	1,437	1,718	2,376
yoy %	62%	66%	20%	38%
Gross billings	2,493	5,281	7,455	10,701
yoy %	167%	112%	41%	44%
SaaS revenue	347	507	565	684
yoy %	32%	46%	12%	21%
Gross margin	59.8%	55.5%	57.6%	55.0%
Net margin	5.9%	5.4%	4.5%	8.8%
Adj. EPS (RMB)	0.03	0.04	0.04	0.10

Source: Company data, AMTD estimates

### Valuation

	FY18	FY19	FY20e	FY21e
P/S	10.8	6.5	5.5	3.9
P/E	60.0	120.2	122.1	44.9
EV/EBITDA	370.9	109.9	176.1	41.2
ROE	82.3%	n.a.	n.a.	9.8%

Source: Bloomberg, AMTD estimates

### Share price performance (HK\$)



Source: Bloomberg

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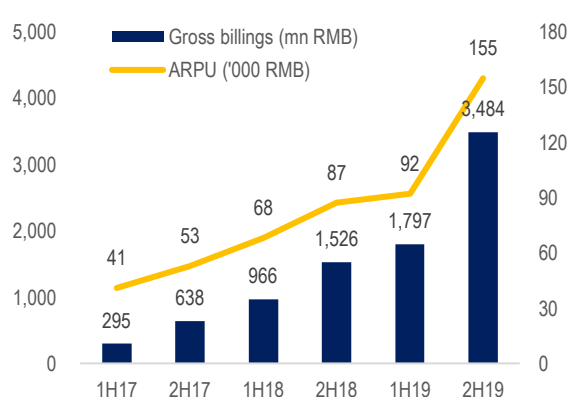
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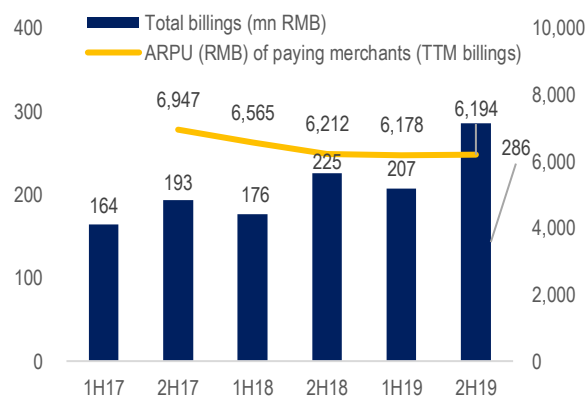
**Figure 1: Weimob's FY19 results vs AMTD's estimates**

	2017A	2018A	2019A	% growth	2019E	% diff
<b>Targeted marketing</b>						
- Gross billings	933.0	2,492.5	5,281.1	111.9%	4,829.6	9.3%
- Revenue	271.4	518.0	929.8	79.5%	1,026.3	-9.4%
- Gross profit	115.6	222.7	389.0	74.7%	397.5	-2.1%
<i>Gross margin of gross billings</i>	12.4%	8.9%	7.4%		8.2%	
<b>SaaS business</b>						
- Total billings	357.7	401.9	492.7	22.6%	523.6	-5.9%
- Revenue	262.6	347.1	506.9	46.0%	470.4	7.8%
- Gross profit	228.6	294.9	408.0	38.4%	379.6	7.5%
<i>Gross margin of revenue</i>	87.1%	85.0%	80.5%		80.7%	
<b>Total revenue</b>	<b>534.0</b>	<b>865.1</b>	<b>1,436.7</b>	<b>66.1%</b>	<b>1,496.7</b>	<b>-4.0%</b>
Cost of sales	(189.8)	(347.5)	(638.7)	83.8%	(719.6)	-11.2%
<b>Gross profit</b>	<b>344.2</b>	<b>517.6</b>	<b>798.0</b>	<b>54.2%</b>	<b>777.1</b>	<b>2.7%</b>
<i>Gross margin</i>	64.5%	59.8%	55.5%		51.9%	
S&M	(299.2)	(449.8)	(716.9)	59.4%	(670.6)	6.9%
G&A	(59.7)	(151.4)	(129.9)	-14.2%	(100.8)	28.9%
<b>Adj. OPEX</b>	<b>(347.0)</b>	<b>(515.9)</b>	<b>(799.6)</b>	<b>55.0%</b>	<b>(754.5)</b>	<b>6.0%</b>
<b>Adj. EBITDA</b>	<b>5.7</b>	<b>23.8</b>	<b>80.3</b>	<b>237.4%</b>	<b>59.6</b>	<b>34.6%</b>
<i>EBIT margin</i>	1.1%	2.8%	5.6%		4.0%	
<b>Profit before tax</b>	<b>2.8</b>	<b>(1,090.6)</b>	<b>328.4</b>	<i>n.a.</i>	<b>39.8</b>	<b>725.3%</b>
Income Tax Expense (Benefit)	(0.2)	(0.6)	(17.1)	2703.0%	(6.0)	186.4%
<b>Net profit</b>	<b>2.8</b>	<b>(1,089.2)</b>	<b>312.0</b>	<i>n.a.</i>	<b>35.8</b>	<b>771.7%</b>
<b>Adjusted net profit</b>	<b>11.4</b>	<b>50.8</b>	<b>78.0</b>	<b>53.4%</b>	<b>52.7</b>	<b>47.9%</b>
<i>Adj. net profit margin</i>	2.1%	5.9%	5.4%		3.5%	

Source: Company, AMTD Research estimates

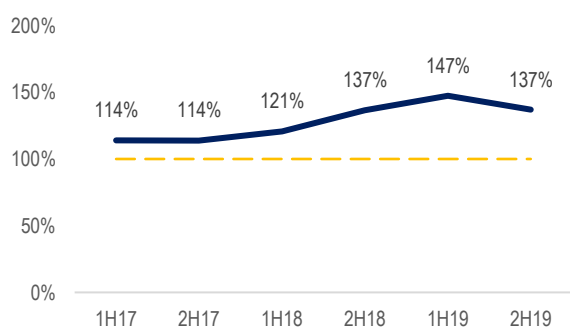
**Figure 2: Targeted marketing growth**

Source: Company data, AMTD Research

**Figure 3: SaaS business growth**

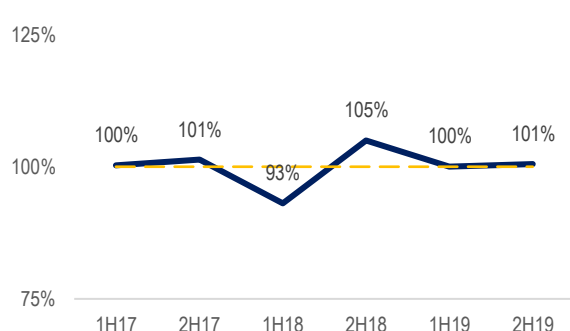
Source: Company data, AMTD Research

Figure 4: S&amp;M to SaaS revenue ratio



Source: Company data, AMTD Research

Figure 5: operating expenses to gross profit ratio



Source: Company data, AMTD Research

## Comparables

Figure 6: Comparables

Date	24/3/2020	Price (LC)	Mkt cap (USD mn)	Sales				P/E				EBITDA			
				CY19E	CY20E	CY21E	'18-21	CY19E	CY20E	CY21E	'20-21	CY19E	CY20E	CY21E	'18-21
<b>SaaS - HK &amp; China listed</b>															
2013 HK	Weimob	4.95	1,429	6.5x	5.5x	3.9x	40%	120.2x	122.1x	44.9x	0.3x	109.9x	176.1x	41.2x	108.1%
600588 CH	Yonyou	40.25	14,272	10.9x	9.6x	8.1x	15%	103.2x	90.7x	73.9x	3.2x	75.08	53.02	40.4x	29.9%
268 HK	Kindgee	10.32	4,425	9.4x	8.4x	6.9x	15%	96.4x	95.6x	78.8x	3.7x	41.4x	39.8x	34.8x	0.2%
8083 HK	China Youzan	0.71	1,416	8.1x	5.0x	3.3x	70%	n.a.	n.a.	n.a.	1.6x	n.a.	n.a.	n.a.	n.a.
1588 HK	Chanjet	8.22	230	3.5x	3.0x	n.a.	n.a.	32.1x	19.3x	11.2x	0.2x	3.0x	n.a.	n.a.	n.a.
<b>Mean (exc. Weimob):</b>				<b>8.0x</b>	<b>6.5x</b>	<b>6.1x</b>	<b>33%</b>	<b>77.3x</b>	<b>68.5x</b>	<b>54.6x</b>	<b>2.2x</b>	<b>39.8x</b>	<b>46.4x</b>	<b>37.6x</b>	<b>15%</b>
<b>Median (ecl. Weimob):</b>				<b>8.8x</b>	<b>6.7x</b>	<b>6.9x</b>	<b>15%</b>	<b>96.4x</b>	<b>90.7x</b>	<b>73.9x</b>	<b>2.4x</b>	<b>41.4x</b>	<b>46.4x</b>	<b>37.6x</b>	<b>15%</b>
<b>SaaS -US listed</b>															
SHOP US	Shopify	430.00	50,462	32.4x	23.4x	17.4x	39%	2500.0x	1928.3x	543.6x	2.1x	734.7x	1188.5x	372.1x	n.a.
MSFT US	Microsoft	148.34	1,128,281	7.1x	6.4x	6.0x	14%	27.5x	23.6x	20.7x	1.5x	17.4x	15.2x	13.5x	12.3%
<b>SaaS - US listed (recurring revenue ratio more than 90%)</b>															
CRM US	Salesforce	153.64	137,508	8.1x	6.5x	5.5x	24%	53.0x	48.5x	38.9x	1.6x	27.7x	21.9x	18.3x	70.4%
WDAY US	Workday	132.39	30,714	8.5x	7.0x	5.9x	22%	73.7x	59.5x	47.9x	2.0x	40.6x	32.0x	25.1x	n.a.
NOW US	Service	272.00	51,626	15.0x	11.6x	9.2x	29%	83.9x	64.5x	49.4x	1.6x	52.5x	40.3x	31.4x	147.5%
VEEV US	Veeva	144.93	21,535	19.8x	15.4x	12.9x	34%	66.7x	57.9x	47.8x	2.3x	47.8x	39.3x	32.2x	39.0%
ADBE US	Adobe	310.00	149,813	11.4x	9.9x	8.6x	24%	31.6x	27.6x	23.4x	1.3x	24.7x	20.8x	18.0x	37.9%
<b>Mean:</b>				<b>12.5x</b>	<b>10.1x</b>	<b>8.4x</b>	<b>27%</b>	<b>61.8x</b>	<b>51.6x</b>	<b>41.5x</b>	<b>1.8x</b>	<b>38.7x</b>	<b>30.9x</b>	<b>25.0x</b>	<b>74%</b>
<b>Median:</b>				<b>11.4x</b>	<b>9.9x</b>	<b>8.6x</b>	<b>24%</b>	<b>66.7x</b>	<b>57.9x</b>	<b>47.8x</b>	<b>1.6x</b>	<b>40.6x</b>	<b>32.0x</b>	<b>25.1x</b>	<b>55%</b>
<b>SaaS - US listed Mean:</b>				<b>14.6x</b>	<b>11.5x</b>	<b>9.4x</b>	<b>27%</b>	<b>405.2x</b>	<b>315.7x</b>	<b>110.2x</b>	<b>1.8x</b>	<b>135.1x</b>	<b>194.0x</b>	<b>73.0x</b>	<b>61%</b>
<b>SaaS - US listed Median:</b>				<b>11.4x</b>	<b>9.9x</b>	<b>8.6x</b>	<b>24%</b>	<b>66.7x</b>	<b>57.9x</b>	<b>47.8x</b>	<b>1.6x</b>	<b>40.6x</b>	<b>32.0x</b>	<b>25.1x</b>	<b>39%</b>
<b>Advertising (3P)</b>															
TTD US	Trade Desk	194.00	8,841	13.4x	10.2x	8.1x	32%	57.9x	52.7x	43.5x	2.0x	41.8x	33.6x	26.1x	41.4%
QNST US	Quinstreet	7.33	379	0.7x	0.7x	0.6x	16%	10.7x	8.9x	6.3x	0.1x	6.1x	4.9x	3.3x	68.9%
ICLK US	iClick	4.25	177	0.9x	0.7x	0.6x	24%	n.a.	141.7x	16.5x	0.0x	70.1x	29.3x	9.2x	n.a.
1860 HK	Mobvista	3.52	696	1.3x	1.0x	0.8x	25%	16.3x	9.9x	6.9x	0.2x	15.9x	8.3x	5.7x	60.2%
1753 HK	Duiba	2.68	372	1.4x	1.0x	0.7x	45%	6.7x	5.1x	3.6x	0.1x	6.1x	2.0x	1.3x	n.a.
<b>Mean:</b>				<b>3.5x</b>	<b>2.7x</b>	<b>2.2x</b>	<b>28%</b>	<b>22.9x</b>	<b>43.7x</b>	<b>15.4x</b>	<b>0.5x</b>	<b>28.0x</b>	<b>15.6x</b>	<b>9.1x</b>	<b>57%</b>
<b>Median:</b>				<b>1.3x</b>	<b>1.0x</b>	<b>0.7x</b>	<b>25%</b>	<b>13.5x</b>	<b>9.9x</b>	<b>6.9x</b>	<b>0.1x</b>	<b>15.9x</b>	<b>8.3x</b>	<b>5.7x</b>	<b>60%</b>

Source: Bloomberg, share prices as of 24 March 2020, AMTD Research estimates;

\*Note: FY19 of Salesforce and Workday ended 31 Jan 2019, FY19 of Microsoft ended 30 Jun 2019, FY19 of Adobe ended 30 Nov 2019

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<b>Overweight</b>	Industry sector expected to outperform the market over the next 12 months
<b>Neutral</b>	Industry sector expected to perform in-line with the market over the next 12 months
<b>Underweight</b>	Industry sector expected to underperform the market over the next 12 months

#### Stock Rating

<b>Buy</b>	Stock with potential return of over 20% over the next 12 months
<b>Hold</b>	Stock with potential return of -20% to +20% over the next 12 months
<b>Sell</b>	Stock with potential loss of over 20% over the next 12 months

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