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Equity Research

Fangdd Network Group Ltd.

A Mispriced SaaS company with Valuation Re-rating Potential

We believe that capital markets have mispriced FangDD as an online property agency business, while it is in fact an asset-light, highly scalable CRM SaaS business. Stock is trading at 14.1x 2020E EV/EBITDA, based on consensus estimates, significantly below the SaaS sector average of 65.1x EV/EBITDA.

Market mispriced FangDD as a property agency business

We believe capital markets is currently benchmarking FangDD with other online property broker peers, which may not be truly reflecting the core competencies of FangDD, in our view. We believe that the presentation of its revenues as “commission income” in its financial accounts is the reason behind this mispricing by capital markets. On the contrary, we believe the core competency of FangDD is in SaaS, rather than property broking. FangDD only has ~1,500 employees, of which around one-third are R&D-related staff such as software designers and engineers. Property agency business by definition connects homebuyers with property sellers, while FangDD’s core product is actually a CRM system specifically designed for real estate agencies. FangDD’s SaaS users, i.e. real estate agencies, are the ones who are in the broking business of the real estate supply chain. We thus believe that FangDD is mispriced by capital markets and presents a potential re-rating investment opportunity. Valuation benchmark should be compared to SaaS companies instead of real estate brokers, in our view.

Difference between SaaS vs Real Estate Agency business models

SaaS companies trade at a higher valuation multiple due to their high customer retention rate and asset-light scalability nature. Once businesses such as real estate agencies adopt a SaaS product, e.g. CRM System, for its day-to-day operations, it is unlikely to change to another system due to the high switching cost (time and effort). This is in sharp contrast to real estate agency business (regardless of online/offline), which is a business model with a high customer acquisition cost, low customer retention rate and human resource intensive.

2Q20 active agents grew 26% YoY to 265,900

FangDD has seen its no. of active agents on its software platform grew by 26% YoY to 265,900 active agents in 2Q20. This is compared to the 99,899 paying merchants of Youzan, 79,546 paying merchants of Weimob and 117,000 small-medium enterprises using Jingdou/Finance software of Kingdee. KingDee and Weimob are trading at 99x and 147x 2020E EV/EBITDA respectively.

Room for valuation re-rating, SaaS trading at 65.1x EV/EBITDA

FangDD is currently trading at a 14.1x 2020E EV/EBITDA based on Bloomberg Consensus Estimates, significantly undervalued when comparing to the average 65.1x EV/EBITDA of SaaS companies. We believe this represents a potential re-rating opportunity for investors, once capital markets better understand the SaaS nature of FangDD’s business.

Key Risks

Key risks for the stock include (1) Impairment risk of Trade Receivables; (2) Execution and monetization of SaaS CRM System weaker than expected; (3) Counterparty risk with Real Estate Developers and Agencies.

Stock code: DUO.US

Rating: Non-Rated

Current price (US\$, 14 Aug 2020)	8.32
Market cap (US\$ m)	664
3M Avg daily turnover (US\$ m)	8.75

Source: Bloomberg, AMTD Equity Research

Key financials

(RMB m)	2016	2017	2018	2019
Revenue	1,475	1,798	2,282	3,599
yoy %		22%	27%	58%
Gross Profit	228	382	477	757
yoy %		67%	25%	59%
Core NP	(332)	1	104	(510)
Gross margin	15%	21%	21%	21%
EPS	NA	NA	NA	NA
DPS	NA	NA	NA	NA
BPS	NA	NA	NA	NA

Source: Company data, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: Valuation Comparables

Date	8/14/2020 Price (LC)	Mkt cap (USD mn)	P/S		CAGR		P/E			PEG	EV/EBITDA			
			FY19	FY20E	FY21E	FY18-21	FY19	FY20E	FY21E	'20-21	FY19	FY20E	FY21E	
SaaS														
DUO US	FANGDD NETWO-ADR	8.32	664	1.3x	1.0x	0.7x	43%	n.a.	11.6x	6.2x	0.1	n.a.	14.1x	7.2x
268 HK	KINGDEE INTL SFT	19.46	8,365	17.4x	15.9x	13.1x	14%	181.9x	234.5x	156.9x	3.2	62.2x	99.3x	79.5x
8083 HK	CHINA YOUZAN LTD	1.65	3,671	21.7x	13.2x	8.1x	72%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2013 HK	WEIMOB INC	10.98	3,193	15.2x	10.8x	7.7x	47%	103.6x	366.0x	109.8x	0.5	170.9x	147.2x	64.5x
SHOP US	SHOPIFY INC - A	987.90	118,601	75.2x	46.7x	35.7x	46%	5743.6x	489.8x	490.8x	n.a.	n.a.	496.0x	424.7x
CRM US	SALESFORCE.COM	193.46	174,307	10.2x	8.6x	7.4x	21%	66.8x	64.8x	54.1x	2.8x	50.9x	29.2x	24.8x
WDAY US	WORKDAY INC-A	181.58	42,671	11.8x	10.1x	8.6x	21%	101.1x	79.9x	65.9x	3.1x	n.a.	44.1x	37.5x
NOW US	SERVICENOW INC	435.73	83,573	24.2x	19.0x	15.3x	28%	134.4x	99.1x	79.9x	3.3x	230.0x	59.8x	48.4x
VEEV US	VEEVA SYSTEMS-A	258.34	38,789	35.1x	27.9x	23.3x	34%	118.8x	101.4x	85.3x	4.5x	119.3x	70.4x	58.6x
ADBE US	ADOBE INC	447.60	214,698	19.2x	14.6x	12.7x	23%	45.6x	40.4x	34.6x	2.0x	53.7x	30.0x	25.7x
Mean:				25.5x	18.5x	14.7x	34%	812.0x	184.5x	134.7x	2.8x	114.5x	122.0x	95.5x
Median:				19.2x	14.6x	12.7x	28%	111.2x	100.2x	82.6x	3.1x	90.8x	65.1x	53.5x
Total Mean:				13.0x	10.0x	7.9x	24%	438.3x	112.4x	77.1x	2.0	58.6x	137.7x	69.0x
Total Median:				6.0x	5.5x	3.8x	21%	45.6x	64.8x	44.4x	1.8	14.8x	37.1x	31.6x

Source: Company data, Bloomberg estimates, AMTD Equity Research

1H20 Results Review

Figure 2: Fangdd Income Statement

RMB'000	2016	2017	2018	2019	1H20
Income Statement					
Base commission from transactions	1,425,955	1,652,032	2,034,115	3,454,957	
Innovation initiatives and other value-added services	49,803	146,489	248,101	144,479	
Revenue	1,475,758	1,798,521	2,282,216	3,599,436	1,009,798
Cost of revenue	(1,247,356)	(1,416,933)	(1,805,588)	(2,842,394)	(839,452)
Gross profit	228,402	381,588	476,628	757,042	170,346
Operating expenses:					
Sales and marketing expenses	(98,327)	(38,461)	(59,099)	(48,395)	(4,282)
Product development expenses	(182,625)	(191,662)	(202,877)	(724,983)	(165,474)
General and administrative expenses	(311,303)	(156,329)	(145,277)	(520,421)	(173,580)
Total operating expenses	(592,255)	(386,452)	(407,253)	(1,293,799)	(343,336)
(Loss) Income from operations	(363,853)	(4,864)	69,375	(536,757)	(172,990)
Other income (expenses):					
Interest income (expense), net	4,716	(13,034)	(1,118)	(8,719)	
Foreign currency exchange gain (loss), net	1,070	(787)	684	237	
Gain on short-term investments	12,076	3,255	5,512	2,771	
Impairment loss for long-term investment	-	-	-	(16,000)	
Government grants	13,853	12,402	8,792	22,351	
Other income, net	1,785	3,141	5,648	7,724	
Share of (losses) profit from equity method investees, net of income tax	(596)	2,902	19,566	21,772	
(Loss) income before income tax	(330,949)	3,015	108,459	(506,621)	(150,432)
Income tax expense	(1,117)	(2,366)	(4,433)	(3,766)	-
Net (loss) income	(332,066)	649	104,026	(510,387)	(150,432)

Source: Company data, AMTD Equity Research

Figure 3: Fangdd Balance Sheet

<i>RMB'000</i>	2016	2017	2018	2019	1H20
Balance Sheet					
Assets					
Current assets					
Cash and cash equivalents	1,022,750	573,690	443,586	1,103,747	833,688
Restricted cash	80,092	689,933	350,632	230,125	95,315
Short-term investments	291,500	32,500	71,483	11,500	21,202
Accounts receivable, net	194,292	827,796	1,352,596	2,189,980	2,082,899
Deposits with real estate developers	3,370	397,868	-	-	-
Prepayments and other current assets	158,200	194,087	210,996	194,668	413,888
Total current assets	1,750,204	2,715,874	2,429,293	3,730,020	3,446,992
Non-current assets					
Property, equipment and software, net	48,631	22,120	15,450	8,298	
Equity method investments	48,904	94,527	346,159	579,263	
Long-term equity investments	-	-	56,000	40,000	
Deferred tax assets	6,107	7,115	8,467	7,289	
Other non-current assets	27,766	4,308	23,915	7,255	
Total non-current assets	131,408	128,070	449,991	642,105	
Total assets	1,881,612	2,843,944	2,879,284	4,372,125	4,040,332
Liabilities					
Current liabilities					
Short-term bank borrowings (including short-term bank borrowings of consolidated VIE without recourse to the Company)	-	663,100	395,000	490,000	361,944
Accounts payable (including accounts payable of consolidated VIE without recourse to the Company)	255,105	593,469	1,128,248	1,897,611	1,842,511
Customers' refundable fees (including customers' refundable fees of consolidated VIE without recourse to the Company)	76,625	58,878	41,697	44,916	37,333
Accrued expenses and other payables (including accrued expenses and other payables of consolidated VIE without recourse to the Company)	756,829	769,964	425,470	338,626	284,844
Taxes payables (including taxes payables of consolidated VIE without recourse to the Company)	28	645	369	7	-
Total current liabilities	1,088,587	2,086,056	1,990,784	2,771,160	2,526,632
Non-current liabilities					
Taxes payables (including taxes payables of consolidated VIE without recourse to the Company)	812	3,697	12,646	11,910	
Deferred tax liabilities (including deferred tax liabilities of consolidated VIE without recourse to the Company)	658	755	-	-	
Total non-current liabilities	1,470	4,452	12,646	11,910	
Total liabilities	1,090,057	2,090,508	2,003,430	2,783,070	2,539,581
Commitments and contingencies (Note 20)					
Mezzanine equity					
Series A-2 Redeemable Convertible Preferred Shares (US\$ 0.0000001 par value, 148,147,900 shares authorized and outstanding as of December 31, 2019)	88,300	89,814	102,743	-	
Series B Redeemable Convertible Preferred Shares (US\$ 0.0000001 par value, 177,834,496 shares authorized and outstanding as of December 31, 2019)	384,068	390,651	446,889	-	
Series C Redeemable Convertible Preferred Shares (US\$ 0.0000001 par value, 286,959,017 shares authorized and outstanding as of December 31, 2019)	1,805,678	1,876,614	2,193,512	-	
Total mezzanine equity	2,278,046	2,357,079	2,743,144	-	
Deficit:					
Ordinary shares (US\$0.0000001 par value, 2,275,948,587 shares authorized as of December 31, 2019)	-	-	-	-	
Class A Ordinary shares (US\$0.0000001 par value, 5,000,000,000 shares authorized including Class A and Class B ordinary shares, 1,203,322,178 shares issued and outstanding as of December 31, 2019)	-	-	-	-	1
Class B Ordinary shares (US\$0.0000001 par value, 5,000,000,000 shares authorized including Class A and Class B ordinary shares, 619,938,058 shares issued and outstanding as of December 31, 2019)	-	-	-	-	
Series A-1 Convertible Preferred Shares (US\$ 0.0000001 par value, 102,102,318 shares authorized and outstanding as of December 31, 2019)	5,513	5,513	5,513	-	
Additional paid-in capital	55,052	55,052	55,052	4,880,135	
Accumulated other comprehensive loss	(265,720)	(155,053)	(274,540)	(368,897)	
Accumulated deficit	(1,281,336)	(1,509,155)	(1,653,315)	(2,922,184)	
Total deficit	(1,486,491)	(1,603,643)	(1,867,290)	1,589,055	1,500,751
Total liabilities, mezzanine equity and deficit	1,881,612	2,843,944	2,879,284	4,372,125	4,040,332

Source: Company data, AMTD Equity Research

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