

# WEIMOB

## Earnings Review

Solid execution amidst headwinds, expect further upside from econ recovery, raising PT to HK\$13.7

### Solid execution amidst headwinds, raise est/PT to HK\$13.7

We reiterate Buy on Weimob, a LT growth story, following a solid half-year results including strong topline growth and improving operating leverage amid the headwinds of COVID-19, data sabotage, and M&A integration. We believe management's strategy and execution (KA of targeted marketing, and Smart Catering/Retail in SaaS) are being materialized and Weimob will continue to benefit from the shift of consumer spend from offline to online and merchant's embrace for digitalization. We raise Weimob's FY20/21E gross billing of targeted marketing and SaaS business revenue by 40%/50% and 4%/12% from previous forecasts, towards RMB13.0bn and 898mn in FY21E, respectively. Now, by assuming targeted marketing net profit margin of ~4%, and applying a 20x PE (in line with advertising peers), and a 19x PS (in line with US SaaS peers), we derive our new PT of HK\$13.7/sh (28% upside), comprising HK\$5.2/sh for targeted marketing and HK\$8.5/sh for SaaS.

### Strong topline growth with further upside from econ recovery

On targeted marketing side, gross billing grew strongly by 156.5% YoY to RMB4.6bn, driven by 1) strengthened direct sales by covering lower-tier cities; 2) obtained regional licenses in key areas including Beijing and Guangzhou; 3) expanded to different sectors and introduced short videos. Meanwhile, ARPU rose by 92.1% YoY to RMB177k in 1H20. On the SaaS side, contract liabilities reached RMB400mn and total billings (defined by rev + Δ contract liabilities) grew by 57.8% YoY. Revenue came in at RMB305mn, up 39.2% YoY, by adding back RMB92.9mn losses from sabotage. 7.3%/15.1% of revenue was from Smart Catering/Retail. ARPU of paying merchants in revenue TTM term rose by 14.2% YoY to RMB6,700 in 1H20. We expect the growth of SaaS billings will accelerate, led by demand for its Smart Retail/Catering within the economy recovery.

### Operating leverage continued to improve

S&M to SaaS revenue ratio and adj. total expense to gross profit ratio, which we believe are good metrics to gauge Weimob's operating efficiency, declined to 126.8% and 90.8% in 1H20, respectively, reflecting continuously improvement in operating leverage since 2019. Apart from the possible expenses savings from lockdowns, higher repurchase rate of targeted marketing helped save S&M expenses as well, which was improved to 67.2% in 1H20 compared to 56.7% in 1H19. Similarly, the implied annualized attrition rate of SaaS business was down slightly to 22.0% in 1H20 from 22.2% in 2H19. Meanwhile, as Yazuo integration is about to be completed, we expect further upside in operating leverage.

### Risks: customer acquisition, data security, and competitors

1) Despite the strong gross billings growth, targeted marketing reported new customers decline in 1H20; 2) database security is still a concern as sabotage caused RMB92.9mn losses in 1H; 3) WeChat stores might compete with Weimob for some long-tail customers. Still, we believe Weimob is well positioned in the competition as right strategy and strong execution can offset the headwinds impact to some extent.

Stock code: 2013.HK

**Rating: Buy**

<b>Price target (HK\$)</b>	<b>13.7</b>
Current price (HK\$, 17 Aug 2020)	10.7
Upside/downside %	28%
Market cap (HK\$ m)	24,206
Market cap (US\$ m)	3,123
Avg daily turnover over 1 yr (HK\$ m)	340

Source: Bloomberg, AMTD estimates

### Key forecasts

(RMB mn)	FY19	FY20e	FY21e	FY22e
Gross billings-TM	5,281	8,784	12,975	17,204
yoy %	112%	66%	48%	33%
SaaS revenue	507	645	898	1,197
yoy %	46%	27%	39%	33%
Gross profit	797	1,047	1,486	1,967
yoy %	54%	31%	42%	32%
Adj. EBIT	(3)	57	211	407
yoy %	n.a.	n.a.	272%	93%
Adj. net profit	78	138	277	464
Adj. EPS (RMB)	0.04	0.06	0.12	0.21

Source: Company data, AMTD estimates

### Valuation

	FY19	FY20e	FY21e	FY22e
P/S	15.0	9.6	6.6	5.0
P/E(adj.)	260.8	156.2	77.4	46.3
EV/EBITDA	261.5	141.0	62.8	36.9
ROE	n.a.	0.5%	12.6%	18.0%

Source: Bloomberg, AMTD estimates

### Share price performance (HK\$)



Source: Bloomberg

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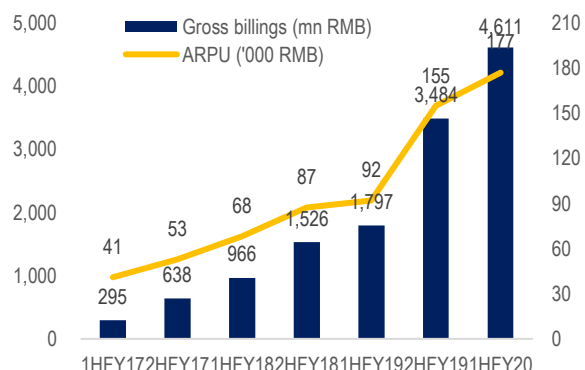
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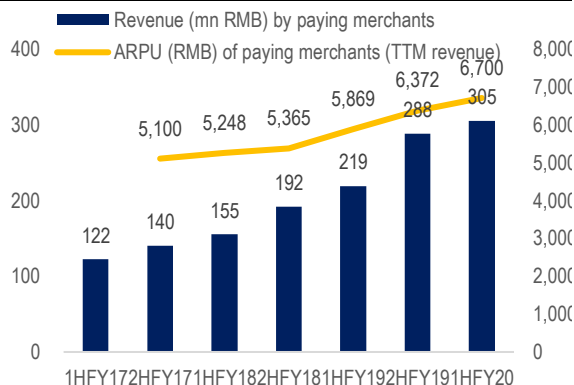
Gross billings & SaaS revenue

Figure 1: Targeted marketing growth



Source: Company data, AMTD Research

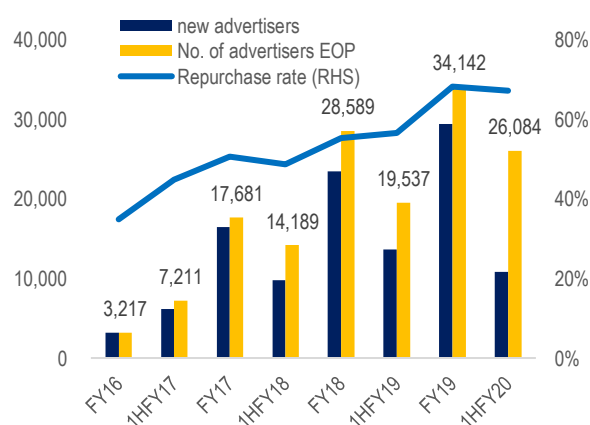
Figure 2: SaaS business growth



Source: Company data, AMTD Research

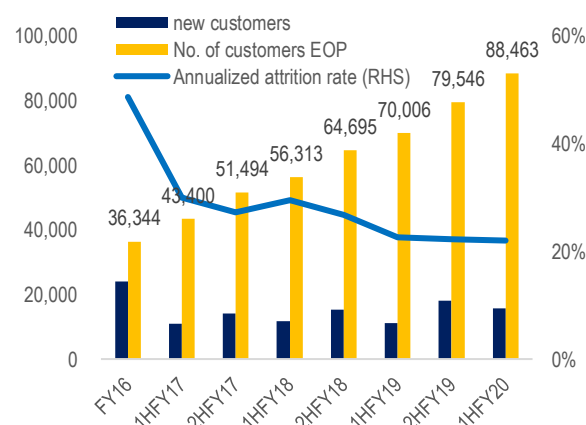
Targeted marketing advertisers & SaaS business customers

Figure 3: Change of No. of targeted marketing advertisers & repurchase rate



Source: Company data, AMTD Research

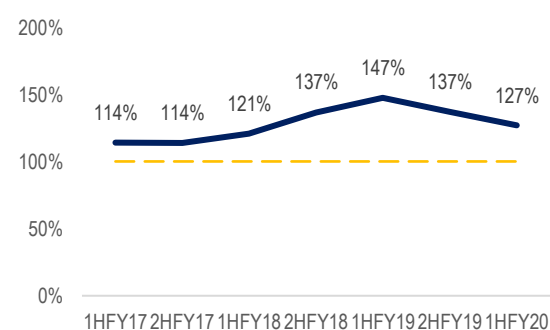
Figure 4: Change of No. of SaaS business customers & attrition rate



Source: Company data, AMTD Research

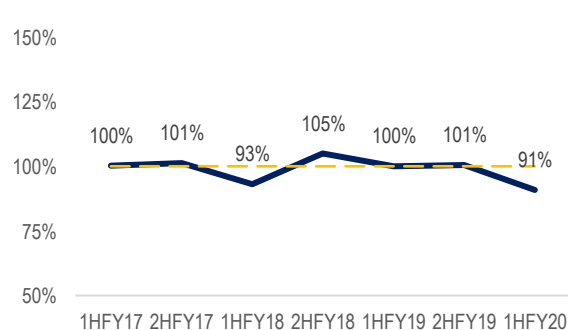
Operating expenses ratio

Figure 5: S&M to SaaS revenue ratio



Source: Company data, AMTD Research

Figure 6: operating expenses to gross profit ratio



Source: Company data, AMTD Research

**Figure 7: Weimob's key financials & forecasts**

	FY17	FY18	FY19	FY20E	FY21E	FY22E	1H17	1H18	1H19	1H20
<b>Targeted marketing</b>										
- Gross billings	933.0	2,492.5	5,281.1	8,784.1	12,974.7	17,203.7	295.1	966.0	1,797.4	4,610.9
- Revenue	271.4	518.0	929.8	1,581.8	2,354.3	3,065.9	89.6	176.8	437.6	745.0
- Gross profit	115.6	222.7	389.0	555.3	803.6	1,044.6	58.8	99.9	188.4	281.8
<i>Gross margin of gross billings</i>	12.4%	8.9%	7.4%	6.3%	6.2%	6.1%	19.9%	10.3%	10.5%	6.1%
<b>SaaS business</b>										
- Total billings	357.7	401.9	492.7	805.8	1,148.5	1,586.4	164.4	176.4	207.0	326.6
- Revenue	262.6	347.1	506.9	645.2	897.9	1,197.4	122.4	155.3	219.1	304.9
- Gross profit	228.6	294.9	408.0	491.4	682.7	922.5	107.5	131.0	177.0	232.6
<i>Gross margin of revenue</i>	87.1%	85.0%	80.5%	76.2%	76.0%	77.0%	87.8%	84.4%	80.8%	76.3%
Targeted marketing	271.4	518.0	929.8	1,581.8	2,354.3	3,065.9	89.6	176.8	437.6	745.0
SaaS products	262.6	347.1	506.9	645.2	897.9	1,197.4	122.4	155.3	219.1	304.9
<b>Total Revenue</b>	<b>534.0</b>	<b>865.0</b>	<b>1,436.7</b>	<b>2,227.0</b>	<b>3,252.2</b>	<b>4,263.3</b>	<b>212.0</b>	<b>332.1</b>	<b>656.7</b>	<b>1,049.9</b>
<b>Cost of sales</b>	<b>(189.8)</b>	<b>(347.4)</b>	<b>(639.7)</b>	<b>(1,180.3)</b>	<b>(1,765.8)</b>	<b>(2,296.2)</b>	<b>(45.6)</b>	<b>(101.1)</b>	<b>(291.3)</b>	<b>(535.5)</b>
<b>Gross profit</b>	<b>344.2</b>	<b>517.6</b>	<b>797.1</b>	<b>1,046.7</b>	<b>1,486.4</b>	<b>1,967.1</b>	<b>166.4</b>	<b>231.0</b>	<b>365.4</b>	<b>514.4</b>
S&M	(299.2)	(449.8)	(716.9)	(855.4)	(1,165.3)	(1,443.6)	(139.6)	(187.8)	(322.9)	(386.7)
G&A	(47.8)	(66.1)	(82.7)	(134.5)	(110.2)	(116.5)	(27.2)	(27.2)	(42.7)	(80.6)
<b>Adj. OPEX</b>	<b>(347.0)</b>	<b>(515.9)</b>	<b>(799.6)</b>	<b>(990.0)</b>	<b>(1,275.5)</b>	<b>(1,560.1)</b>	<b>(166.9)</b>	<b>(215.0)</b>	<b>(365.6)</b>	<b>(467.3)</b>
<b>Adj. EBIT</b>	<b>(2.8)</b>	<b>1.8</b>	<b>(2.5)</b>	<b>56.7</b>	<b>210.9</b>	<b>407.0</b>	<b>(0.5)</b>	<b>16.0</b>	<b>(0.2)</b>	<b>47.1</b>
<b>Adj. EBITDA</b>	<b>5.7</b>	<b>23.8</b>	<b>80.3</b>	<b>148.9</b>	<b>334.3</b>	<b>568.4</b>	<b>3.1</b>	<b>25.2</b>	<b>24.5</b>	<b>95.4</b>
Total financial costs	0.0	(5.4)	(13.2)	(15.0)	(15.0)	(15.0)	0.0	(0.6)	(4.4)	(13.2)
<b>Profit before tax</b>	<b>2.8</b>	<b>(1,090.6)</b>	<b>328.4</b>	<b>10.2</b>	<b>291.5</b>	<b>487.7</b>	<b>(2.1)</b>	<b>(620.5)</b>	<b>291.7</b>	<b>(557.5)</b>
Income Tax Expense (Benefit)	(0.2)	(0.6)	(17.1)	(0.5)	(15.2)	(25.4)	2.1	0.9	(3.6)	11.8
<b>Net profit</b>	<b>2.8</b>	<b>(1,089.2)</b>	<b>312.0</b>	<b>10.3</b>	<b>277.4</b>	<b>463.6</b>	<b>0.1</b>	<b>(617.0)</b>	<b>289.0</b>	<b>(543.7)</b>
<b>Adjusted net profit</b>	<b>11.4</b>	<b>50.8</b>	<b>78.0</b>	<b>137.5</b>	<b>277.4</b>	<b>463.6</b>	<b>0.0</b>	<b>(617.0)</b>	<b>29.5</b>	<b>52.3</b>
<b>Gross margin</b>	<b>64.5%</b>	<b>59.8%</b>	<b>55.5%</b>	<b>47.0%</b>	<b>45.7%</b>	<b>46.1%</b>	<b>78.5%</b>	<b>69.5%</b>	<b>55.6%</b>	<b>49.0%</b>
<b>Adj. EBIT margin</b>	<b>-0.5%</b>	<b>0.2%</b>	<b>-0.2%</b>	<b>2.5%</b>	<b>6.5%</b>	<b>9.5%</b>	<b>-0.2%</b>	<b>4.8%</b>	<b>0.0%</b>	<b>4.5%</b>
<b>Adj. net profit margin</b>	<b>2.1%</b>	<b>5.9%</b>	<b>5.4%</b>	<b>6.2%</b>	<b>8.5%</b>	<b>10.9%</b>	<b>0.0%</b>	<b>-185.8%</b>	<b>4.5%</b>	<b>5.0%</b>

Source: Company, AMTD Research estimates

**Figure 8: growth, YoY**

	FY17	FY18	FY19	FY20E	FY21E	FY22E	1H17	1H18	1H19	1H20
<b>Targeted marketing</b>										
- Gross billings	167.2%	111.9%	66.3%	47.7%	32.6%		227.3%	86.1%	156.5%	
- Revenue	90.9%	79.5%	70.1%	48.8%	30.2%		97.4%	147.5%	70.2%	
- Gross profit	92.6%	74.7%	42.8%	44.7%	30.0%		69.8%	88.5%	49.6%	
<b>SaaS business</b>										
- Total billings	12.4%	22.6%	63.6%	42.5%	38.1%		7.3%	17.3%	57.8%	
- Revenue	32.2%	46.0%	27.3%	39.2%	33.4%		26.9%	41.1%	39.2%	
- Gross profit	29.0%	38.4%	20.4%	38.9%	35.1%		21.9%	35.1%	31.4%	
<b>Total Revenue</b>	<b>62.0%</b>	<b>66.1%</b>	<b>55.0%</b>	<b>46.0%</b>	<b>31.1%</b>		<b>56.7%</b>	<b>97.8%</b>	<b>59.9%</b>	
Cost of sales	83.0%	84.1%	84.5%	49.6%	30.0%		121.7%	188.1%	83.8%	
<b>Gross profit</b>	<b>50.4%</b>	<b>54.0%</b>	<b>31.3%</b>	<b>42.0%</b>	<b>32.3%</b>		<b>38.8%</b>	<b>58.2%</b>	<b>40.8%</b>	
S&M	50.3%	59.4%	19.3%	36.2%	23.9%		34.5%	72.0%	19.8%	
Adj. G&A	38.1%	25.2%	62.6%	-18.1%	5.7%		-0.1%	57.1%	88.6%	
<b>Adj. OPEX</b>	<b>48.7%</b>	<b>55.0%</b>	<b>23.8%</b>	<b>28.8%</b>	<b>22.3%</b>		<b>28.8%</b>	<b>70.1%</b>	<b>27.8%</b>	
<b>Adj. EBIT</b>	<b>-162.9%</b>	<b>-241.9%</b>	<b>-2356.4%</b>	<b>271.9%</b>	<b>93.0%</b>		<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	
<b>Adj. EBITDA</b>	<b>316.0%</b>	<b>237.4%</b>	<b>85.4%</b>	<b>124.5%</b>	<b>70.0%</b>		<b>719.5%</b>	<b>-2.8%</b>	<b>289.3%</b>	
<b>Profit before tax</b>	<i>n.a.</i>	<i>n.a.</i>	<b>-96.9%</b>	<b>2763.5%</b>	<b>67.3%</b>		<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	
<b>Net profit</b>	<i>n.a.</i>	<i>n.a.</i>	<b>-96.7%</b>	<b>2580.3%</b>	<b>67.1%</b>		<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	
<b>Adjusted net profit</b>	<b>347.4%</b>	<b>53.4%</b>	<b>76.3%</b>	<b>101.7%</b>	<b>67.1%</b>		<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	

Source: Company, AMTD Research estimates

## Valuation

**Figure 9: sum of the parts summary**

	Valuation (HKD mn)	Per share (HKD)
Targeted marketing	11,557	5.2
SaaS products	18,956	8.5
<b>Price target</b>	<b>30,513</b>	<b>13.7</b>

Source: Company, AMTD Research estimates

**Figure 10: targeted marketing valuation**

(RMB mn)	FY18	FY19	FY20E	FY21E
Gross billing	2,493	5,281	8,784	12,975
% YoY	167.2%	111.9%	66.3%	47.7%
Gross profit	223	389	555	804
% YoY	92.6%	74.7%	42.8%	44.7%
Gross margin	8.9%	7.4%	6.3%	6.2%
EBIT	142	276	453	693
tax	(35)	(69)	(113)	(173)
Net profit	106	207	340	520
% YoY	153.3%	95.0%	64.2%	53.0%
Net profit margin	4.3%	3.9%	3.9%	4.0%
x P/E				20.0x
<b>Weimob's targeted marketing in Rmb mn</b>				<b>10,402</b>
<b>Weimob's targeted marketing in HKD mn</b>				<b>11,557</b>

Source: AMTD Research estimates

**Figure 11: SaaS business valuation**

(RMB mn)	FY18	FY19	FY20E	FY21E
revenue	347	507	645	898
% YoY	32.2%	46.0%	27.3%	39.2%
x P/S Multiple				19.0x
<b>Weimob's SaaS business in Rmb mn</b>				<b>17,060</b>
<b>Weimob's SaaS business in HKD mn</b>				<b>18,956</b>

Source: AMTD Research estimates

## Comparables

Figure 12: Comparables

Date	17/8/2020	Price (LC)	Mkt cap (USD mn)	Sales				P/E	PEG	EBITDA					
				FY19	FY20E	FY21E	'19-21			FY19	FY20E	FY21E	'19-21		
<b>SaaS - HK &amp; China listed</b>															
2013 HK	Weimob	10.74	3,123	15.0x	10.2x	7.2x	44%	62.4x	282.6x	98.5x	0.5	189.0x	156.0x	66.9x	68.0%
268 HK	Kindgee	19.02	8,176	17.0x	15.5x	12.8x	15%	134.3x	229.2x	152.2x	3.0	62.98	100.48	80.4x	-11.5%
600588 CH	Yonyou	44.92	21,049	17.1x	15.1x	12.2x	18%	121.7x	137.8x	113.4x	5.3	96.1x	120.2x	94.4x	0.9%
8083 HK	China Youzan	1.59	3,538	20.9x	12.7x	7.8x	63%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1588 HK	Chanjet	13.54	379	5.7x	5.1x	4.6x	0.1x	27.6x	28.6x	25.9x	2.6	14.6x	28.1x	23.9x	-21.9%
<b>Mean (exc. Weimob):</b>				<b>15.1x</b>	<b>12.1x</b>	<b>9.4x</b>	<b>27%</b>	<b>94.5x</b>	<b>131.8x</b>	<b>97.2x</b>	<b>3.6</b>	<b>57.9x</b>	<b>82.9x</b>	<b>66.2x</b>	<b>-11%</b>
<b>Median (ecl. Weimob):</b>				<b>17.0x</b>	<b>13.9x</b>	<b>10.0x</b>	<b>17%</b>	<b>121.7x</b>	<b>137.8x</b>	<b>113.4x</b>	<b>3.0</b>	<b>63.0x</b>	<b>100.5x</b>	<b>80.4x</b>	<b>-11%</b>
<b>SaaS -US listed</b>															
CRM US	Salesforce*	196.74	177,263	13.3x	10.4x	8.7x	18%	223.6x	67.9x	65.9x	0.1	92.1x	35.3x	29.7x	18.4%
WDAY US	Workday*	185.24	43,531	15.4x	12.0x	10.3x	17%	n.a.	103.1x	81.5x	0.0	n.a.	57.3x	45.0x	22.3%
VEEV US	Veeva*	261.24	39,224	45.5x	36.0x	28.2x	23%	177.2x	120.2x	102.5x	0.0	159.9x	88.0x	71.2x	21.8%
ADBE US	Adobe*	451.58	216,607	19.4x	16.5x	14.8x	15%	76.3x	46.0x	40.8x	3.2	54.2x	35.6x	30.3x	33.7%
SHOP US	Shopify	1,012.96	121,531	77.0x	47.8x	36.6x	45%	3376.5x	502.2x	503.2x	n.a.	n.a.	510.0x	436.7x	n.a.
NOW US	Service	442.37	84,847	24.5x	19.3x	15.6x	26%	139.1x	100.6x	81.1x	3.4	233.5x	60.7x	49.2x	117.9%
TTD US	Trade desk	474.85	22,198	33.6x	30.5x	22.6x	22%	209.6x	170.8x	134.1x	4.9	137.0x	132.2x	79.7x	31.1%
<b>Mean:</b>				<b>30.4x</b>	<b>23.1x</b>	<b>18.5x</b>	<b>24%</b>	<b>584.7x</b>	<b>152.8x</b>	<b>138.2x</b>	<b>1.9</b>	<b>100.9x</b>	<b>126.3x</b>	<b>102.7x</b>	<b>41%</b>
<b>Median:</b>				<b>24.5x</b>	<b>19.3x</b>	<b>15.6x</b>	<b>22%</b>	<b>120.2x</b>	<b>100.6x</b>	<b>81.1x</b>	<b>1.6</b>	<b>72.6x</b>	<b>60.7x</b>	<b>49.2x</b>	<b>27%</b>
<b>Advertising (3P)</b>															
QNST US	Quinstreet*	13.42	697	1.5x	1.5x	1.3x	9%	25.0x	26.8x	32.1x	0.1	30.4x	18.7x	14.1x	28.2%
ICLK US	iClick	8.53	629	3.2x	2.5x	2.0x	24%	n.a.	656.2x	42.0x	0.0	n.a.	70.1x	26.2x	n.a.
1860 HK	Mobvista	4.73	936	1.9x	1.6x	1.3x	21%	40.3x	16.7x	12.6x	0.4	31.5x	14.9x	11.0x	69.3%
1753 HK	Duiba	3.48	484	2.0x	1.7x	1.3x	24%	n.a.	8.6x	6.3x	0.2	n.a.	5.6x	3.9x	n.a.
<b>Mean:</b>				<b>2.1x</b>	<b>1.8x</b>	<b>1.5x</b>	<b>20%</b>	<b>33.5x</b>	<b>178.4x</b>	<b>21.7x</b>	<b>0.2</b>	<b>25.1x</b>	<b>26.2x</b>	<b>13.1x</b>	<b>49%</b>
<b>Median:</b>				<b>1.9x</b>	<b>1.6x</b>	<b>1.3x</b>	<b>23%</b>	<b>33.5x</b>	<b>24.4x</b>	<b>19.2x</b>	<b>0.1</b>	<b>25.1x</b>	<b>14.5x</b>	<b>11.2x</b>	<b>49%</b>
<b>Total Mean</b>				<b>18.8x</b>	<b>14.5x</b>	<b>11.5x</b>	<b>23%</b>	<b>370.3x</b>	<b>155.6x</b>	<b>96.1x</b>	<b>1.8</b>	<b>75.4x</b>	<b>88.4x</b>	<b>69.3x</b>	<b>28%</b>
<b>Total Median</b>				<b>17.0x</b>	<b>12.7x</b>	<b>8.8x</b>	<b>21%</b>	<b>111.7x</b>	<b>91.0x</b>	<b>61.2x</b>	<b>0.4</b>	<b>57.3x</b>	<b>52.9x</b>	<b>34.3x</b>	<b>22%</b>

Source: Bloomberg, share prices as of 17 August 2020, AMTD Research estimates

\*Note: Salesforce, Workday, Veeva, and Quinstreet's FY20 ended 31 January 2020; Adobe's FY19 ended 29 November 2019

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## IMPORTANT DISCLOSURES

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<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
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