

Duiba (1753 HK)

Ads demand to bear short-term pressure

Duiba delivered strong FY19 results, with topline/ bottom line +45%/66% YoY. In the short run, Duiba's ads would bear pressure from ecommerce and finance segments in this epidemic. We cut its earnings by 25%/23% in FY20/21E, and trimmed its TP to HK\$3.5 with lower multiple. We think the epidemic impact has been partly priced in its weak stock price. Wait for gradual ads & SaaS recovery. Maintain BUY with low valuation.

- **Solid FY19 financials.** FY19 revenue/adj.net profit grew 45%/66% YoY, in line with our estimates. MAU reached 414mn (+46% YoY), with advertisers up 37% YoY. Market concern lies in COVID-19 impact. We expect Duiba to face a challenging year in FY20E, with soft ads demand.
- **Challenges from ecommerce and finance segments.** 1Q was typically a soft quarter. Revenue in Jan & Feb accounted for 13% of full-year revenue in FY19. We estimate Duiba's ads revenue to decline ~30% YoY in Jan & Feb 2020, dragged by: 1) soft ads in CNY (ecommerce players typically put little ads efforts in CNY period); and 2) epidemic to hit its ecommerce and finance advertisers. By segment, ecommerce advertisers tend to face bid lower ad price with strict ROI-driven strategy, and players with cash on delivery would be hit by logistics disruption. Duiba's finance advertisers also face challenges, with weak credit card ads but resilient online banking ads. Content distribution, game and online education advertisers still put solid ads efforts on Duiba. Mgmt guided finance/ecommerce to account for 40%/27% of total ads revenue in Jan & Feb 2020 (vs. ~44%/43% in 2019).
- **Expecting gradual recovery for both ads and SaaS.** We expect its ads to gradually recover from Mar, mainly on: 1) ads recovery from existing ecommerce platforms with logistics resumption; and 2) rising ads from short videos (e.g. Douyin, Kuaishou). SaaS would see short-term pressure for travel limitation of S&M team, but would long-term benefit from the epidemic. We expect ads to be flat in FY20E, and SaaS revenue at RMB74mn (vs. previous RMB100mn). Given COVID-19 impact, we cut its earnings by 25%/23% in FY20/21E, with stable margin.
- **Maintain BUY.** We cut our TP to HK\$3.5 from HK\$5.0, to reflect COVID-19 impact and macro uncertainty. Our TP is equivalent to 9.8x/7.4x FY20/21E P/E. Wait for gradual ads & SaaS recovery. Maintain BUY with low valuation.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,137	1,652	1,719	2,142	2,461
YoY growth (%)	76.1	45.3	4.1	24.6	14.9
Net income (RMB mn)	205	340	343	453	535
Adj. EPS (RMB)	NA	0.31	0.31	0.41	0.48
YoY growth (%)	NA	NA	0.8	32.1	18.2
Consensus (RMB)	NA	NA	0.47	0.68	NA
P/E (x)	11.9	7.2	7.1	5.4	4.6
P/B (x)	2.1	1.5	1.4	1.1	1.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	NA	73.5	23.4	24.6	22.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$3.5
(Previous TP	HK\$5.0)
Up/Downside	+37.8%
Current Price	HK\$2.54

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	2,736
Avg 3 mths t/o (HK\$ mn)	6.4
52w High/Low (HK\$)	6.8/2.4
Total Issued Shares (mn)	1,104
Source: Bloomberg	

Shareholding Structure

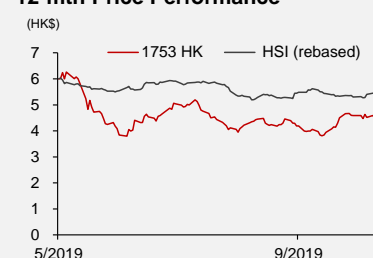
Xiaoliang Holding	40.9%
Rising Union	12.0%
Liu Yang	6.6%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	11.5%	10.4%
3-mth	-10.1%	-3.2%
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Expecting ads acceleration in 2H19E – 21 Oct 2020
2. Solid 1H19, expecting better 2H19E – 20 Aug 2019
3. Adtech boutique in the making – 14 Jun 2019

Figure 1: Earnings revision

RMB mn, Dec-YE	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	1,719	2,142	2,220	2,746	-22.6%	-22.0%
Gross Profit	597	773	793	1,006	-24.6%	-23.2%
Operating Profit	364	481	471	658	-22.7%	-26.8%
Net profit	343	453	455	589	-24.7%	-23.1%
EPS (RMB)	0.31	0.41	0.42	0.52	-26.1%	-22.0%
Gross Margin	34.8%	36.1%	35.7%	36.6%	-0.9ppts	-0.6ppts
Operating Margin	21.2%	22.5%	21.2%	24.0%	+0.0ppts	-1.5ppts
Net Margin	19.9%	21.1%	20.5%	21.4%	-0.6ppts	-0.3ppts

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,719	2,142	2,461	2,678	3,687	NA	-35.8%	-41.9%	NA
Gross Profit	597	773	895	945	1,346	NA	-36.7%	-42.6%	NA
Operating Profit	364	481	569	578	788	NA	-37.0%	-38.9%	NA
Net profit	343	453	535	552	766	NA	-37.9%	-40.9%	NA
EPS (RMB)	0.31	0.41	0.48	0.47	0.68	NA	-34.9%	-39.8%	NA
Gross Margin	34.8%	36.1%	36.4%	35.3%	36.5%	NA	-0.8ppts	-0.5ppts	NA
Operating Margin	21.2%	22.5%	23.1%	21.6%	21.4%	NA	+0.0ppts	+1.7ppts	NA
Net Margin	19.9%	21.1%	21.8%	20.6%	20.8%	NA	-0.3ppts	+0.9ppts	NA

Source: Company data, Bloomberg

Figure 3: Duiba's FY19 review

Rmb mn, Dec-YE	FY18	FY19	YoY
Revenue	1,137	1,652	45%
Cost of revenue	(708)	(1,084)	53%
Gross profit	429	567	32%
Selling and distribution expenses	(107)	(105)	-2%
Administrative expenses	(174)	(222)	28%
Other income and gains	13	32	142%
Other expenses	(1)	(6)	
Operations (loss)/profit	160	267	66%
Changes in fair value of financial liabilities at fair value through profit or loss	(454)	(476)	
Finance costs	(6)	(0)	
(Loss)/profit before income tax	(299)	(209)	-30%
Income taxes (expense)/credit	7	10	
(Loss)/profit for the year	(292)	(200)	-31%
Other comprehensive loss	0	0	
Net profit	(292)	(200)	-31%
Adjusted for:			
Share-based payment	12	29	
Listing expense	25	35	
Finance costs	6	0	
Changes in fair value of financial liabilities at fair value through profit or loss	454	476	
Adj. net profit	205	340	66%
Margin Analysis			
Gross margin	38%	34%	-4ppts
Operating margin	13%	14%	+1ppts
Net profit margin	-26%	-12%	-14ppts
Adj. net margin	18%	21%	+3ppts

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1,137	1,652	1,719	2,142	2,461
SaaS	14	34	74	106	131
Interactive ads	1,110	1,618	1,626	2,013	2,302
Others	13	0	19	23	28
COGS	(708)	(1,084)	(1,122)	(1,369)	(1,566)
Gross profit	429	567	597	773	895
S&M	(107)	(105)	(108)	(135)	(155)
Admin. Exp.	(174)	(222)	(154)	(192)	(216)
Other income	13	32	29	35	46
Other expenses	(1)	(6)	-	-	-
Operating profit	160	267	364	481	569
Changes in fair value	(454)	(476)	-	-	-
Finance costs	(6)	(0)	-	-	-
Pre-tax Income	(299)	(209)	364	481	569
Income Tax	7	10	(23)	(31)	(36)
Other comprehensive loss	-	-	-	-	-
Net profit	(292)	(200)	341	450	533
Adj. net profit	205	340	343	453	535

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax Income	(299)	(209)	364	481	569
D&A	3	5	3	4	5
Change in WC	(174)	(50)	318	67	51
Others	462	495	(34)	(44)	(51)
Operating CF	(7)	241	652	509	575
Capex	(10)	(3)	(4)	(4)	(5)
Fair value change	(191)	(624)	-	-	-
Others	(30)	1	-	-	-
Investing CF	(231)	(626)	(4)	(4)	(5)
Equity raised	36	575	-	-	-
Proceeds from financial liabilities	712	-	-	-	-
Others	(344)	(270)	-	-	-
Financing CF	404	304	-	-	-
Net change in cash	165	(80)	648	504	570
Cash (beg of yr)	91	282	221	869	1,373
FX	26	20	-	-	-
Cash (end of yr)	282	221	869	1,373	1,943

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	23	28	32	33	38
Fixed asset	9	5	10	11	16
Deferred tax assets	11	21	21	21	21
Intangible assets	1	1	1	1	1
Others	2	2	1	1	1
Current assets	869	1,564	2,017	2,539	3,123
Cash	282	221	869	1,373	1,943
Trade receivables	115	147	34	43	49
Prepayments	47	124	42	51	58
Financial assets at fair value change	426	1,073	1,073	1,073	1,073
Due from a director	-	-	-	-	-
Current liabilities	172	235	354	438	503
Trade payables	63	102	79	96	110
Advances from customers	88	109	241	300	345
Contract liabilities	-	66	69	86	98
Non-current liabilities	1,152	1	1	1	1
Deferred tax liabilities	0	1	1	1	1
Financial liabilities at fair value change	1,151	-	-	-	-
S/H' equity	(432)	1,357	1,696	2,133	2,657
Total Equity	(432)	1,357	1,696	2,133	2,657

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
SaaS	1.2	2.0	4.3	4.9	5.3
Interactive ads	97.6	98.0	94.6	94.0	93.6
Others	1.2	0.0	1.1	1.1	1.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	76.1	45.3	4.1	24.6	14.9
Gross profit	77.2	32.3	5.3	29.3	15.8
EBIT	37.0	66.4	36.6	32.1	0.0
Net profit	72.9	65.7	0.8	32.1	0.0
P&L ratios (%)					
Gross Margin	37.7	34.4	34.8	36.1	36.4
Pre-tax margin	(26.3)	(12.7)	21.2	22.5	23.1
Adj. net margin	18.0	20.6	19.9	21.1	21.8
Effective tax rate	2.5	(2.5)	6.4	6.4	6.4
Returns (%)					
ROE	NA	73.5	22.4	23.6	22.4
ROA	32.7	27.4	18.8	19.6	18.7
Per share					
EPS (RMB)	NA	0.31	0.31	0.41	0.48
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	NA	1.22	1.53	1.92	2.39

Source: Company data, CMBIS estimates

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