

Duiba (1753 HK)

Solid 1H19; expecting better 2H19E

SUMMARY. Duiba delivered solid 1H19 results, with revenue/adj. net profit +64%/78% YoY. We keep positive on its strong growth despite ads headwinds. Expecting better 2H19E for strong seasonality of core advertisers (e.g. ecommerce, financials, and games). Maintain our TP of HK\$6.35 unchanged. Valuation at 12x FY19E P/E is attractive.

- Solid 1H19 despite ads headwind.** 2Q19 revenue grew 64% YoY, in line with our estimates. Adj. net profit surged 78% YoY, mainly on operating leverage and other income. Mgmt. guided 1H19 revenue to account for 40% of full-year revenue. We are impressed by this strong growth under existing ads industry headwinds, and keep positive on 2H19E growth momentum.
- Interactive ads strong momentum to continue.** Although ads industry faces challenges like macro headwinds, increasing ads inventory and regulation uncertainty, Duiba's ads recorded 67% YoY growth, largely higher than industry average. Such strong momentum was mainly driven by 1) strong demand from e-commerce (e.g. PDD, JD Pingou); and 2) games ads demand to recover after approvals relaunched. We think Duiba's interactive ads will be more macro-defensive, and expect 2H19E ads to accelerate, mainly on: 1) stronger seasonality for ecommerce and games; and 2) low base of financial segment ads demand in 2H18. Market concern might lie on its ads gross margin decline (higher sharing ratio with top media), but mgmt. expects its GPM to pick up in 2H19E for stronger seasonality and limited incentives to top media.
- SaaS monetization still at early stage.** 2Q19 SaaS revenue grew 225% YoY, accounting for 1% of total revenue. We are positive on its long-term growth potential, but revenue contribution could be minimal in short term. Mgmt guided SaaS revenue to reach about RMB50mn in FY19E, which is slightly lower than our previous estimate.
- Maintain BUY.** Given its solid results, we keep our financial estimates barely unchanged, and maintain our TP of HK\$6.35. Our TP is equivalent to 16.0x FY19E P/E. The stock is trading at 12x FY19E P/E, with attractive valuation.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	646	1,137	1,961	2,620	3,400
YoY growth (%)	1,163	76	73	34	30
Net income (RMB mn)	119	205	388	572	773
Adj. EPS (RMB)	NA	NA	0.35	0.51	0.70
YoY growth (%)	NA	NA	NA	47.4	35.2
P/E (x)	40.0	23.1	12.2	8.3	6.1
P/B (x)	7.3	4.2	2.4	1.8	1.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	NA	NA	67.9	30.9	30.9
Net gearing (%)	Net cash				

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$6.35
(Previous TP)	HK\$6.35)
Up/Downside	+41.7%
Current Price	HK\$4.48

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	4,978
Avg 3 mths t/o (HK\$ mn)	5.3
52w High/Low (HK\$)	6.8/3.6
Total Issued Shares (mn)	1,111

Source: Bloomberg

Shareholding Structure

Xiaoliang Holding	40.9%
Rising Union	12.0%
Liu Yang	6.6%

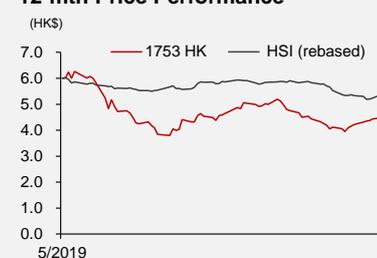
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.3%	2.5%
3-mth	-23.5%	-17.0%
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

Adtech boutique in the making – 14 Jun 2019

Figure 1: 2Q19 financial review

Rmb mn, Dec-YE	1H18	1H19	YoY
Revenue	474,420	780,294	64%
User management SaaS platform business	3,278	10,660	225%
Interactive advertising business	461,895	769,560	67%
Others	9,247	74	-99%
Cost of revenue	(299,339)	(535,998)	79%
Gross profit	175,081	244,296	40%
Gross margin	37%	31%	-15%
Selling and distribution expenses	(43,007)	(53,938)	25%
Administrative expenses	(85,800)	(118,221)	38%
Other income and gains	5,272	15,844	201%
Other expenses	(41)	(1,232)	2905%
Operating (loss)/profit	51,505	86,749	68%
Changes in fair vale of financial liabilities at fair value through profit or loss	(304,942)	(467,675)	53%
Finance costs	(5,772)	0	-100%
(Loss)/profit before income tax	(259,209)	(380,926)	47%
Income taxes (expense)/credit	2,958	(1,517)	-151%
(Loss)/profit for the year	(256,251)	(382,443)	49%
Other comprehensive loss	(19,988)	27,900	-240%
Net profit	(276,239)	(354,543)	28%
Net margin	-58%	-45%	-22%
Adjusted for:			
Share-based payment	5,752	8,983	56%
Listing expense	10,748	32,243	200%
Finance costs	5,772	0	-100%
Changes in fair vale of financial liabilities at fair value through profit or loss	304,942	467,675	53%
Adj. net profit	70,963	126,458	78%
Adj. net margin	15%	16%	8%

Source: Company data, Bloomberg

Figure 2: CMBI earnings revision

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	1,961	2,620	3,400	1,966	2,705	3,495	-0.2%	-3.1%	-2.7%
Gross Profit	674	993	1,324	748	1,077	1,418	-10.0%	-7.8%	-6.6%
Operating Profit	356	608	822	380	621	833	-6.3%	-2.1%	-1.3%
Net profit	388	572	773	392	584	783	-1.1%	-2.1%	-1.3%
Adj. EPS (RMB)	0.35	0.51	0.70	0.35	0.53	0.70	-1.1%	-2.1%	-1.3%
Gross Margin	34.3%	37.9%	38.9%	38.1%	39.8%	40.6%	-3.7ppts	-1.9ppts	-1.6ppts
Operating Margin	18.2%	23.2%	24.2%	19.3%	23.0%	23.8%	-1.2ppts	+0.2ppts	+0.3ppts
Net Margin	19.8%	21.8%	22.7%	19.9%	21.6%	22.4%	-0.2ppts	+0.2ppts	+0.3ppts

Source: Company data, CMBIS estimates

Figure 3: CMBI estimates vs consensus

Rmb mn, Mar-YE	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	1,961	2,620	3,400	1,980	2,766	3,651	-0.9%	-5.3%	-6.9%
Gross Profit	674	993	1,324	737	1,066	1,460	-8.6%	-6.9%	-9.3%
Operating Profit	356	608	822	358	586	814	-0.3%	3.8%	1.0%
Net profit	388	572	773	391	574	785	-0.7%	-0.4%	-1.6%
Adj. EPS (RMB)	0.35	0.51	0.70	0.35	0.52	0.71	-0.3%	-1.1%	-1.4%
Gross Margin	34.3%	37.9%	38.9%	37.3%	38.6%	40.0%	-2.9ppts	-0.7ppts	-1.1ppts
Operating Margin	18.2%	23.2%	24.2%	18.1%	21.2%	22.3%	+0.1ppts	+2.0ppts	+1.9ppts
Net Margin	19.8%	21.8%	22.7%	19.7%	20.8%	21.5%	+0.0ppts	+1.1ppts	+1.2ppts

Source: Company data, Bloomberg

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	646	1,137	1,961	2,620	3,400
SaaS	6	14	51	135	280
Interactive ads	607	1,110	1,895	2,466	3,097
Others	32	13	16	19	23
COGS	(404)	(708)	(1,288)	(1,627)	(2,076)
Gross profit	242	429	674	993	1,324
S&M	(46)	(107)	(135)	(181)	(235)
Admin.Exp.	(82)	(174)	(219)	(239)	(312)
Other income	3	13	37	36	44
Other expenses	(0)	(1)	-	-	-
Operating profit	117	160	356	608	822
Changes in fair value	(19)	(454)	(468)	-	-
Finance costs	-	(6)	-	-	-
Pre-tax Income	98	(299)	(111)	608	822
Income Tax	(0)	7	(3)	(39)	(53)
Other comprehensive loss	-	-	-	-	-
Net profit	98	(292)	(114)	569	769
Adj. net profit	119	205	388	572	773

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pre-tax Income	98	(299)	(111)	608	822
D&A	1	3	4	6	9
Change in WC	153	(174)	308	103	124
Others	18	462	447	(55)	(73)
Operating CF	270	(7)	648	663	882
Capex	(3)	(10)	(14)	(16)	(20)
Fair value change	(198)	(191)	-	-	-
Others	1	(30)	-	-	-
Investing CF	(200)	(231)	(14)	(16)	(20)
Equity raised	-	36	518	-	-
Proceeds from financial liabilities	-	712	-	-	-
Others	-	(344)	-	-	-
Financing CF	-	404	518	-	-
Net change in cash	70	165	1,152	647	862
Cash (beg of yr)	21	91	282	1,433	2,080
FX	-	26	-	-	-
Cash (end of yr)	91	282	1,433	2,080	2,942

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	7	23	31	41	52
Fixed asset	4	9	19	29	39
Deferred tax assets	3	11	11	11	11
Intangible assets	0	1	1	1	1
Others	0	2	1	1	1
Current assets	356	869	1,946	2,619	3,513
Cash	91	282	1,433	2,080	2,942
Trade receivables	14	115	39	52	68
Prepayments	14	47	48	60	77
Financial assets at fair value change	225	426	426	426	426
Due from a director	12	-	-	-	-
Current liabilities	211	172	404	533	689
Trade payables	93	63	90	114	145
Advances from customers	90	88	275	367	476
Contract liabilities	27	-	78	105	136
Non-current liabilities	145	1,152	-	-	-
Deferred tax liabilities	-	0	-	-	-
Financial liabilities at fair value change	145	1,151	-	-	-
S/H' equity	8	(432)	1,574	2,127	2,876
Total Equity	8	(432)	1,574	2,127	2,876

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
SaaS	1.0	1.2	2.6	5.2	8.2
Interactive ads	94.0	97.6	96.6	94.1	91.1
Others	5.0	1.2	0.8	0.7	0.7
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	1162.8	76.1	72.5	33.6	29.8
Gross profit	504.5	77.2	57.1	47.3	33.4
EBIT	NA	37.0	122.3	70.6	35.2
Net profit	NA	72.9	89.0	47.4	35.2
P&L ratios (%)					
Gross Margin	37.5	37.7	34.3	37.9	38.9
Pre-tax margin	15.2	(26.3)	(5.7)	23.2	24.2
Adj. net margin	18.4	18.0	19.8	21.8	22.7
Effective tax rate	0.3	2.5	(2.5)	6.4	6.4
Returns (%)					
ROE	NA	NA	67.9	30.9	30.9
ROA	54.6	32.7	27.0	24.7	24.8
Per share					
EPS (RMB)	NA	NA	0.35	0.51	0.70
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	NA	NA	1.42	1.91	2.59

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.