

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	Net cash	Net cash	Net cash	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

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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%

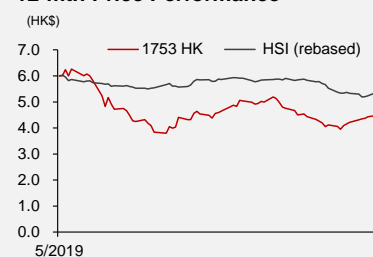
Source: HKEx

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

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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 value 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 value 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

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