

Duiba (1753 HK)

Looking into 2H20E recovery

Duiba delivered soft 1H20 results, with topline -40% YoY and bottom line at -RMB23mn. We believe soft 1H20 was priced in given recent weak stock price, and suggest investors to move into 2H20E recovery. In the short run, Duiba's ads would bear pressure from ecommerce and finance segments in this epidemic, but SaaS momentum would continue in 2H20E, in our view. We cut its earnings by 62%/7%/4% in FY20/21/22E, but slightly lifted its TP to HK\$4.1 by rolling over to FY21E P/E multiple. Wait for gradual ads & SaaS recovery. Maintain BUY with low valuation.

- Soft 1H20 priced in.** 1H20 revenue declined 40% YoY, and bottom line at -RMB23mn, soft on outbreak of COVID-19, which has put pressure on ads budgets and the platform's offline traffic, leading to a significant adverse impact on its interactive advertising business. By segment, ads declined 43% YoY, while SaaS surged 166% YoY. We expect Duiba to face a challenging year in FY20E, with soft ads demand.
- Moving into 2H20E recovery.** As we stated in our previous report in Apr, we remind that Duiba's ads demand to bear short-term pressure under COVID-19, and ads recovery would take more time. By ads category, 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. Looking ahead, we expect ads in Jul to recover to 2019 level, with solid ecommerce momentum. We forecast its 2H20E ads rev at RMB726mn in post COVID-19 period. SaaS business trend well, with rev estimate at RMB42mn in 2H20E (vs. RMB23mn in 2H19). Given macro uncertainty and ads peers performance, we think market has well anticipated the slower-than-expected ads recovery, and more eyes on its SaaS strategy. We cut its earnings by 62%/7%/4% in FY20/21/22E, to reflect ads challenges.
- Maintain BUY.** We slightly lifted our TP to HK\$4.1 from HK\$3.5, by rolling over to FY21E multiple. Our TP is equivalent to 11x FY21E 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	1,238	1,579	1,919
YoY growth (%)	76.1	45.3	-25.0	27.6	21.5
Net income (RMB mn)	205	340	130	338	437
Adj. EPS (RMB)	NA	0.31	0.12	0.30	0.39
YoY growth (%)	NA	NA	-61.6	159.1	29.4
Consensus (RMB)	NA	NA	0.36	0.50	0.5
P/E (x)	16.1	9.7	25.3	9.8	7.5
P/B (x)	2.9	2.0	2.7	2.1	1.7
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	NA	73.5	9.2	20.5	21.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$4.1**
 (Previous TP **HK\$3.5**)
 Up/Downside **+16.1%**
 Current Price **HK\$3.53**

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	3,836
Avg 3 mths t/o (HK\$ mn)	47.4
52w High/Low (HK\$)	5.5/1.5
Total Issued Shares (mn)	1,077

Source: Bloomberg

Shareholding Structure

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

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.7%	6.7%
3-mth	21.0%	11.6%
6-mth	-7.6%	-2.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Ads demand to bear short-term pressure – 1 Apr 2020
- Expecting ads acceleration in 2H19E – 21 Oct 2019

Figure 1: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,238	1,579	1,919	1,719	1,714	2,092	-28.0%	-7.8%	-8.2%
Gross Profit	293	559	704	597	618	761	-50.9%	-9.6%	-7.4%
Operating Profit	138	359	465	364	385	484	-62.1%	-6.6%	-3.8%
Net profit	130	338	437	343	362	455	-62.0%	-6.8%	-3.8%
EPS (RMB)	0.12	0.30	0.39	0.31	0.33	0.41	-62.1%	-7.3%	-3.6%
Gross Margin	23.7%	35.4%	36.7%	34.8%	36.1%	36.4%	-11.1ppts	-0.7ppts	+0.3ppts
Operating Margin	11.1%	22.7%	24.2%	21.2%	22.5%	23.1%	-10.1ppts	+0.2ppts	+1.1ppts
Net Margin	10.5%	21.4%	22.8%	19.9%	21.1%	21.8%	-9.4ppts	+0.3ppts	+1.0ppts

Source: 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	1,238	1,579	1,919	1,965	2,538	2,546	-37.0%	-37.8%	-24.6%
Gross Profit	293	559	704	673	895	908	-56.4%	-37.6%	-22.4%
Operating Profit	138	359	465	324	451	563	-57.4%	-20.4%	-17.4%
Net profit	130	338	437	370	513	535	-64.8%	-34.2%	-18.3%
EPS (RMB)	0.12	0.30	0.39	0.36	0.50	0.49	-67.7%	-38.8%	-19.7%
Gross Margin	23.7%	35.4%	36.7%	34.3%	35.3%	35.7%	-10.6ppts	+0.1ppts	+1.0ppts
Operating Margin	11.1%	22.7%	24.2%	16.5%	17.8%	22.1%	-5.3ppts	+5.0ppts	+2.1ppts
Net Margin	10.5%	21.4%	22.8%	18.8%	20.2%	21.0%	-8.3ppts	+1.2ppts	+1.8ppts

Source: CMBIS estimates, Bloomberg

Figure 3: Duiba's 1H20 review

RMB ('000), Dec-YE	1H19	1H20	YoY
Revenue	780,294	468,404	-40%
User management SaaS platform business	10,660	28,353	166%
Interactive advertising business	769,560	440,028	-43%
Others	74	23	-69%
Cost of revenue	(535,998)	(400,981)	-25%
Gross profit	244,296	67,423	-72%
Gross margin	31%	14%	-17ppts
Selling and distribution expenses	(53,938)	(42,645)	-21%
Administrative expenses	(118,221)	(103,669)	-12%
Other income and gains	15,844	27,509	74%
Other expenses	(1,232)	(5,998)	387%
Operation (loss)/profit	86,749	(57,380)	-166%
Changes in fair value of financial liabilities at fair value through profit or loss	(467,675)	0	-100%
Finance costs	0	0	NA
(Loss)/profit before income tax	(380,926)	(57,380)	-85%
Income taxes (expense)/credit	(1,517)	9,541	-729%
(Loss)/profit for the year	(382,443)	(47,839)	-87%
Other comprehensive loss	27,900	10,441	-63%
Net profit	(354,543)	(37,398)	-89%
Net margin	-45%	-8%	+37ppts
Adjusted for:			
Share-based payment	8,983	24,563	173%
Listing expense	32,243	0	NA
Finance costs	0	0	NA
Changes in fair value of financial liabilities at fair value through profit or loss	467,675	0	NA
Adj. net profit	126,458	(23,276)	-118%
Adj. net margin	16%	-5%	-21ppts

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1,137	1,652	1,238	1,579	1,919
SaaS	14	34	70	120	183
Interactive ads	1,110	1,618	1,166	1,458	1,735
Others	13	0	2	2	2
COGS	(708)	(1,084)	(945)	(1,021)	(1,215)
Gross profit	429	567	293	559	704
S&M	(107)	(105)	(78)	(100)	(121)
Admin.Exp.	(174)	(222)	(103)	(131)	(160)
Other income	13	32	26	31	42
Other expenses	(1)	(6)	-	-	-
Operating profit	160	267	138	359	465
Changes in fair value	(454)	(476)	-	-	-
Finance costs	(6)	(0)	-	-	-
Pre-tax Income	(299)	(209)	138	359	465
Income Tax	7	10	(9)	(23)	(30)
Other comprehensive loss	-	-	-	-	-
Net profit	(292)	(200)	129	336	435
Adj. net profit	205	340	130	338	437

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax Income	(299)	(209)	138	359	465
D&A	3	5	3	4	5
Change in WC	(174)	(50)	245	50	54
Others	462	495	(16)	(32)	(41)
Operating CF	(7)	241	369	381	483
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)	366	377	478
Cash (beginning of yr)	91	282	221	587	963
FX	26	20	-	-	-
Cash (end of yr)	282	221	587	963	1,441

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	1,719	2,105	2,598
Cash	282	221	587	963	1,441
Trade receivables	115	147	25	32	38
Prepayments	47	124	35	38	45
Financial assets at fair value change	426	1,073	1,073	1,073	1,073
Due from a director	-	-	-	-	-
Current liabilities	172	235	264	324	392
Trade payables	63	102	66	71	85
Advances from customers	88	109	173	221	269
Contract liabilities	-	66	50	63	77
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	1,487	1,814	2,243
Total Equity	(432)	1,357	1,487	1,814	2,243

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
SaaS	1.2	2.0	5.7	7.6	9.5
Interactive ads	97.6	98.0	94.2	92.3	90.4
Others	1.2	0.0	0.1	0.1	0.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	76.1	45.3	(25.0)	27.6	21.5
Gross profit	77.2	32.3	(48.3)	90.5	26.1
EBIT	37.0	66.4	(48.3)	160.3	0.0
Net profit	72.9	65.7	(61.6)	159.1	0.0
P&L ratios (%)					
Gross Margin	37.7	34.4	23.7	35.4	36.7
Pre-tax margin	(26.3)	(12.7)	11.1	22.7	24.2
Adj. net margin	18.0	20.6	10.5	21.4	22.8
Effective tax rate	2.5	(2.5)	6.4	6.4	6.4
Returns (%)					
ROE	NA	73.5	9.2	20.5	21.6
ROA	32.7	27.4	7.8	17.4	18.3
Per share					
EPS (RMB)	NA	0.31	0.12	0.30	0.39
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	NA	1.22	1.34	1.63	2.02

Source: Company data, CMBIS estimates

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