

Duiba (1753 HK)

Expecting ads acceleration in 2H19E

Despite continued industry ads headwinds, we keep positive on Duiba's interactive ads trend. We expect its ads to accelerate in 2H19E, benefiting from upcoming "11.11" Ecommerce Festival. Maintain our TP of HK\$6.35. Valuation at 11x FY19E P/E is attractive.

- **Focus more on traffic quality.** Based on our cross-check, we expect Duiba to be more conservative on MAU expansion in 2H19E, for traffic quality control. We forecast its MAU to reach 420mn in 3Q19E. As advertisers prioritize ROI-driven marketing strategy, we think Duiba will put more efforts on efficiency improvement and algorithm optimization, rather than user expansion.
- **Ads to accelerate in 2H19E, benefiting from "11.11" Festival.** We forecast its ads revenue to accelerate to 70% YoY in 3Q19E, mainly driven by strong ecommerce and rising game ads demand after game approvals resumption. We expect its ads CTR to be stable in 3Q19E, while CPC to see sequential growth. 4Q19E would be strong season for Duiba, for large ads contribution from ecommerce advertisers. We expect it to benefit from upcoming "11.11" Ecommerce Festival, as ecommerce platforms still invested aggressively on low-tier cities penetration. Industrial ads headwinds were not yet over, but we think Duiba's interactive ads will be more macro-defensive, and expect ads revenue to accelerate and GPM to pick up in 2H19E.
- **SaaS trend on track.** We forecast 3Q19E SaaS revenue of RMB18mn, with net adds of 300 paying clients. Incremental clients might come from finance sector and Tencent & Xiaomi ecosystem. We restated our revenue estimate of ~RMB50mn in FY19E. We keep positive on its long-term growth potential, but revenue contribution could be minimal in short term.
- **Maintain BUY.** We keep our financial estimates barely changed, and maintain our TP of HK\$6.35. Our TP is equivalent to 16.0x FY19E P/E. The stock is trading at 11x FY19E P/E, which is attractive in our view.

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)	35.7	20.6	10.9	7.4	5.5
P/B (x)	6.6	3.7	2.2	1.6	1.2
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	+48.3%
Current Price	HK\$4.28

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	4,724
Avg 3 mths t/o (HK\$ mn)	6.4
52w High/Low (HK\$)	6.8/3.6
Total Issued Shares (mn)	1,104
Source: Bloomberg	

Shareholding Structure

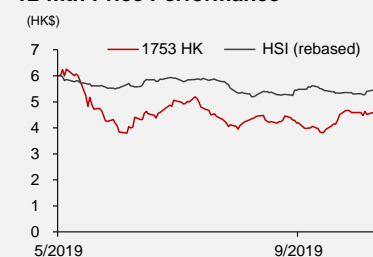
Xiaoliang Holding	40.9%
Rising Union	12.0%
Liu Yang	6.6%
Source: HKEx	

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. Solid 1H19, expecting better 2H19E – 20 Aug 2019
2. Adtech boutique in the making – 14 Jun 2019

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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