

Weimob Inc. (2013 HK)

SaaS product upgrade to optimize functions, while the increase in price accelerates the company's growth

Hong Kong | TMT sector | Update Report

25 Jan 2021

Investment Summary

The functions of SaaS products are upgraded along with the price increase

Weimob announced on its official website on January 5, 2021 that in order to further effectively help merchants in their digital transformation, the functions of Weimob e-commerce and retail SaaS products will be upgraded. The followings are the detail of the upgrade.

Wei Mall:

- 1) The name and price of the basic version are maintained, while the page decoration, interactive marketing and other functions are upgraded.
- 2) The standard version is renamed as premium version and a variety of marketing plugins are added, including "Periodic Purchases" (週期購) (buyers place an order once, and merchants can deliver multiple shipments to buyers, in order to help merchants to increase their customers' value, increase GMV, and reduce marketing costs) and "One Code Multiple Use" (一碼多用) and etc. The price of the version was increased from RMB 9800/year to RMB 12800/year.
- 3) The premium version is renamed as deluxe version, while sales channels, memberships management, customer analysis, advanced marketing, store promotions and other function are upgraded. The price was increased from RMB 16800/year to RMB 19800/year.

Smart Retail:

The name of the standard version remains unchanged, but on the basis of the original functions, a new store management account has been added and the ability of limited snap-up purchases (限量搶購) and independent store creation functions (門店獨立創建) have been upgraded.

We believe that the above product iteration will not only enrich the functions of the company's SaaS products, but also effectively help businesses increase their GMV and digital transformation. Since the price increase of the products are based on the enhancement of functions and are mainly aimed at mid-to-high-end merchants, considering the price increase of China Youzan (one of the company's main competitor) at the same time period and the strong paying ability of the company's mid-to-high-end merchants, we believe the price increase will not have a huge impact of the company's merchant retention and acquisition ability, but is likely to further increase the company's future ARPU and accelerate the company's future growth.

Wei Mall and Smart Retail's access to WeChat's Channel Live-streaming (視頻號直播)

WeChat has made some huge upgrades to its short video function, Channels (視頻號), at the end of 2020. 1) For Channels live-streaming (視頻號直播), microphone, live filter (美顏功能) and donation functions have been added, and shopping cart function is shown on the live streaming. 2) Added two traffic entrance for Channels (視頻號) with the aim to divert more user traffic to Channels. Before the Channels (視頻號) went live, even though Wechat built its business ecosystem by launching Wechat mini-program, but it always lacked the tool to effectively divert its 14 million MAU user traffic to its business ecosystem. We believe now with the launching of Channels (視頻號) and the recent big function upgrade mentioned above, the previous shortcomings of lacking traffic diversion for its business ecosystem has been solved and allows huge user traffic be diverted into the Wechat's e-commerce business ecosystem in the form of short videos promotions and e-commerce live streaming.

Accumulate (Downgrade)

CMP HKD 24.60

(Closing price as of 21 Jan)

TARGET HKD 28.20 (+15%)

COMPANY DATA

O/S SHARES (MN) :	2,255
MARKET CAP (HKD MN) :	55,980
52 - WK HI/LO (HKD):	26.20/3.75

SHARE HOLDING PATTERN, %

Yomi.sun Holding Limited	14.22
Tencent	8.01
City-Scape Pte. Ltd	6.31
CP Wisdom Singapore Pte. Ltd	6.31

PRICE VS. HSI



Source: Wind, Phillip Securities

KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	1437	2327	3741	4928
P/S,x	29.4	20.0	12.5	9.5
Net income, Adj	77	150	274	404
EPS, Adj	0.04	0.07	0.12	0.18
P/E, Adj, x	546.9	309.9	169.9	115.4
ROE, Adj (%)	2.6	3.8	6.4	9.9
ROA, Adj (%)	2.3	4.3	5.4	7.7

Market closing price as of 21 Jan

Source: Company Data, Phillip Securities Est.

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On December 15, 2020, Weimob announced that its smart retail and Weimall solutions can be connected to channels live-streaming (視頻號直播) soon and this function is currently in the stage of internal testing. After the launch of this function, merchants can conduct e-commerce live streaming (直播帶貨) on WeChat channels (視頻號) and merchants can also insert a link to its Wechat Weimall on the short-video published by their corporate Channel account (企業視頻號). We believe that the launch of the Channels (視頻號) and the recent feature upgrade are expected to further accelerate the growth of Wechat's e-commerce ecosystem, while improving the efficiency of private traffic management. As the main partner of Wechat's e-commerce ecosystem and advertising business, Weimob definitely benefits from this.

Internationalization strategy is beginning to show off

Recently, Weimob announced the launch of an international strategy, dedicated to helping overseas brand merchants to build mini-program store that directly faces Chinese consumers. At present, the company has reached cooperation with a number of well-known overseas brands, including the well-known Japanese chain drugstore One's Life Japan (一生美) and the top Japanese department store Kintetsu Department Store (近鐵百貨). The company's Weimall solution can help overseas merchants simplify the shopping process. On the other hand, it also provides a number of marketing and private management methods that are in line with Chinese consumers' online shopping habits. We believe that for overseas brand merchants, the company's mature Weimall solution is one of the most cost-effective solutions for entering the Chinese market. Weimob stated that its internationalization strategy is one of its main long-term strategy and that it will increase investment in international business in the future. We believe that international business is expected to become a major growth driver for the company in the future.

The three major strategic directions in the future – high-end merchants, ecological and international strategies

The company's management launched investor day in Shanghai on 15th of Jan 2021 and has stated that they will focus on three major strategic directions in the future.

1) High-end merchants' strategy - The company's high-end merchants' strategy has achieved remarkable results in 2020. In 2020, the renewal rate of smart retail merchants reached 95%, and the proportion of merchants that upgraded their SaaS version was as high as 32%, which fully demonstrates the high stickiness of high-end merchants. On the other hand, the company's management expects that the number of high-end merchant can maintain a growth rate of about 200% in 2021, and the ARPU of high-end merchant can reach RMB 500,000 in 3-5 years (the ARPU of high-end merchant in 2019 was about RMB 200,000)

2) Ecological strategy - In the future, the company will focus on expanding the traffic ecology (including the expansion of multiple platforms), developer ecology and investment ecology.

3) International strategy - The company will speed up its international layout to create a complete one-stop cross-border e-commerce solution. At present, the company has reached cooperation with 34 international channel partners and has more than 300 international customers. In the future, the company intends to set up direct sales teams in key overseas countries to expand overseas customers.

Valuation

Considering 1) the price increase of the company's mid-to-high-end SaaS products 2) that the SaaS products can potentially attract more merchants because of the products' recent access to Wechat Channel (微信視頻號), QQ browser (QQ 瀏覽器) and Alipay, we increase the company's forecasted SaaS revenue for 2021E/2022E to RMB 1.29/1.75 billion (+33%/+28%) (including the consolidation of Heading Information's revenue), respectively, while maintaining the forecasted revenue of the targeted marketing business segment. We increase the 2021E/2022E forecasted adjusted profit attributable to parent to RMB 274/404 million (+16%/+11%).

We have rolled over the SOTP valuation to 2022. After considering that 1) the market attention to the sector has increased hugely recently 2) the new growth opportunities brought by the recent connection with multiple traffic platform 3) the effectiveness of the company's international strategy, we upgrade the target PS of SaaS segment to 23x and maintain target PE of targeted marketing at 18x. We raise the TP to HKD 28.20, with respective 2020E/2021E/2022E adjusted PE of 355.3x/194.8x/132.3x. Corresponding to the current stock price, we downgrade the rating to "Accumulate". (Market closing price as of 21 Jan) (exchange rate: RMB 0.84/HKD)

Figure 1: Comps Table

Company	Stock code	Closing Price	Market Cap	PE				PS			
				TTM	2020E	2021E	2022E	TTM	2020E	2021E	2022E
(listed currency)			(RMB mn)								
e-commerce SaaS companies											
Weimob	2013 hk equity	24.60	46,688	136.8x	-	244.2x	106.3x	29.2x	20.8x	13.8x	10.1x
Youzan	8083 hk equity	3.70	53,262	-	-	-	-	32.5x	28.3x	18.6x	12.7x
Shopify	SHOP US equity	1173.97	123,029	-	323.2x	320.3x	250.3x	-	51.9x	39.4x	29.4x
Square	SQ US equity	227.26	85,254	-	298.2x	197.6x	118.5x	13.0x	10.8x	7.8x	6.8x
Targeted marketing companies											
Joy Spreader	6988 hk equity	3.42	6,233	64.8x	28.5x	17.3x	11.9x	9.5x	7.4x	4.6x	3.2x
Hylink Digital Solution	603825 CH equity	15.77	3,605	15.7x	12.7x	9.6x	-	0.4x	-	-	-

As of 21 Jan Closing Price, US Stocks closing price as of 20 Jan

Source: Bloomberg

Risk

1) The expansion of SaaS customers is worse than expected 2) The increased industry competition 3) Advertising demand is less than expected 4) Targeted marketing business mainly relies on the cooperation with Tencent

Financial Statements

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	865	1437	2327	3741	4928
Gross Profit	518	797	1158	1951	2569
S&M expense	-450	-717	-907	-1309	-1676
Admin expense	-151	-130	-186	-337	-444
R&D expense	0	0	0	0	0
Other operating gain/(loss)	42	87	19	19	19
Operating Profit	-42	38	83	324	470
Net finance income	-5	-12	-14	-15	-16
Other non-operating gain/(loss)	-1044	302	0	0	0
Profit before tax	-1091	328	69	309	454
Tax	-1	-17	-4	-20	-29
NCI	-2	-1	3	14	21
Profit for the year	-1089	312	62	274	404
Adjusted profit for the year	51	77	150	274	404
EPS (RMB)		0.15	0.03	0.12	0.18
Adj. EPS (RMB)		0.04	0.07	0.12	0.18

Key Financial Data

Dec Y/E	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio, x	N/A	135.6	749.2	169.9	115.4
Adjusted P/E ratio, x	N/A	546.9	309.9	169.9	115.4
P/S ratio, x	N/A	29.4	20.0	12.5	9.5
Per share data (RMB)					
EPS	N/A	0.15	0.03	0.12	0.18
Adjusted EPS	N/A	0.04	0.07	0.12	0.18
Revenue per Share	N/A	0.70	1.03	1.66	2.19

Growth & Margin

Revenue Growth	62.0%	66.1%	62.0%	60.8%	31.7%
Operating income growth	N/A	N/A	120.9%	288.4%	44.9%
Net income Growth	N/A	N/A	-80.1%	340.9%	47.3%
Adjusted Net income Growth	355.3%	52.1%	94.4%	82.4%	47.3%
Gross Profit Margin	59.8%	55.5%	49.8%	52.1%	52.1%
Operating profit Margin	-4.8%	2.6%	3.6%	8.7%	9.5%
Net Profit Margin	-125.9%	21.7%	2.7%	7.3%	8.2%
Adjusted Net Profit Margin	5.9%	5.4%	6.5%	7.3%	8.2%

Key Ratios

ROE, Adj	N/A	2.6%	3.8%	6.4%	9.9%
ROA, Adj	4.7%	2.3%	4.3%	5.4%	7.7%

Source: Company, PSHK Estimate

Market closing price as of 21 Jan

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Non Current Asset					
PPE	17	21	27	35	46
ROU assets	0	61	61	61	61
Intangible assets	57	139	177	206	229
Development costs	28	17	38	44	45
Others	132	211	779	782	835
Total Non Current Assets	234	449	1083	1128	1216
Current Asset					
T/R	79	156	135	334	284
Inventories	0	0	0	0	0
Prepayments	509	1227	1415	2691	3222
Cash and cash equivalents	128	870	615	683	304
Others	130	602	209	209	209
Total Current Assets	846	2855	2374	3917	4018
Total Assets	1081	3304	3457	5045	5234
Non Current Liabilities					
Short term loan	0	0	0	0	0
Contract liabilities	130	85	123	265	259
Others	2770	55	55	55	55
Total Non Current Liabilities	2900	140	178	320	314
Current Liabilities					
Long term loan	80	300	390	390	390
T/P	270	563	415	1082	890
Contract Liabilities	263	293	401	892	854
Others	0	18	18	18	18
Total Current Liabilities	613	1174	1224	2382	2151
Equity					
Share capital	0	2	2	2	2
Reserve	-2431	1989	2051	2325	2729
Non controlling interest	-1	0	3	17	39
Total Equity	-2433	1990	2055	2344	2769
Total Liabilities and Equity	1081	3304	3457	5045	5234

Cashflow Statement

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Profit (loss) before tax	-1091	328	69	309	454
Depreciation and amortization	22	83	72	100	113
change in working capital	-272	-538	-228	-178	-770
Others	1077	-325	11	-5	-13
CFO	-264	-451	-76	226	-216
Capex	-51	-128	-138	-143	-148
Others	-60	-539	-117	0	0
CFI	-111	-668	-255	-142	-148
Proceeds from share issuance	1	1770	0	0	0
Others	454	87	76	-15	-16
CFF	455	1856	76	-15	-16
Net Change in Cash	81	737	-256	68	-379
Foreign exchange	25	6	0	0	0
Cash and CE at Y/E	128	870	615	683	304

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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