

China Youzan (8083 HK)

GMV of 2020 meets expectations, Price increase drives ARPU upward

Hong Kong | TMT sector | Company Initiation

3 Feb 2021

Investment Summary

The GMV of 2020 reached RMB 103.7 billion, with target to reach Trillion by 2025

On January 8, 2020, the company announced that its total merchandise transactions (GMV) for 2020 is RMB 103.7 billion, which is in line with our previous forecast of RMB 103.2 billion. The company's management aims to reach RMB 1 trillion in GMV by 2025, with a CAGR of 57.5%.

Price increase in the company's mid-to-high end SaaS products, from 2021 onward

The company announced on its official website at the beginning of the year that starting from 2021, the annual price of the Youzan Weimall professional and flagship versions will increase. The annual price of the professional version will increase from RMB 12,800 per year to RMB 14,800 per year, while the annual price of the flagship version will increase from RMB 26,800 per year to RMB 28,800 per year. The price of the basic version Youzan Weimall will remain unchanged. On the other hand, the price of Youzan Retail professional version will increase from RMB 12,800/year to RMB 14,800/year, and the price of the basic version will remain unchanged.

The main reason for this price increase is that the company has added "new store setup service" (新店上線服務) to its professional and flagship products. The "new store setup service" (新店上線服務) used to be a service package that required additional charge. However, the company has realized that merchants tend to be less active and have low SaaS product renewal rate if they have encountered problems in the stage of store initiation and set-up. Therefore, the company has included the "new store setup service" (新店上線服務) to the professional and flagship version with the aim to assist merchants in completing store decoration and online store opening. We believe that this product upgrade and price increase are logical. The product upgrade is expected to enhance the product experience of merchants and is expected to increase the merchant renewal rate. On the other hand, the price increase of the product is carried out on the basis of the improvement of function. Considering the price increase of its peer Weimob almost at the same time period and the higher paying ability of mid-to-high-end merchants, we believe that the price increase of products will not have a great impact on the company's ability to acquire merchants in the future, and it is expected to accelerate the company's ARPU growth.

Youzan AllValue has reached strategic cooperation with Chukou1 to create a comprehensive cross-border independent e-commerce system in China

Chukou1 is a professional international warehousing and distribution logistics service operator and the first logistics service provider in China focusing on overseas warehousing and distribution services. According to public information, Chukou1 currently has a leading position in China's cross-border logistics field, and currently has 16 storage centers in the United States, Europe, Canada and other global regions. In addition, the direct delivery logistics service developed by Chukou1 has the characteristics of high timeliness and high delivery rate, which greatly improves the consumption experience of overseas online shoppers. Chukou1 is highly recognized by cross-border e-commerce platforms. According to the official website of Chukou1, Chukou1 has become the official recommended strategic partner of Amazon, Alibaba, JD.com, Shopee and other well-known platforms.

Buy (Maintain)

CMP HKD 3.45

(Closing price as of 1 Feb)

TARGET HKD 4.23 (+23%)

COMPANY DATA

O/S SHARES (MN) :	17,249
MARKET CAP (HKD MN) :	59,547
52 - WK HI/LO (HKD):	4.17/0.54

SHARE HOLDING PATTERN, %

Whitcrow Investment Ltd.	11.66%
Tencent	6.70%

PRICE VS. HSI



Source: Wind, Phillip Securities

KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	1171	1822	2998	4349
P/S,x (51.9% of NS)	71.9	53.5	32.5	22.4
Net income	-592	-331	-274	-148
EPS	-0.040	-0.019	-0.016	-0.009
P/E, x	N/A	N/A	N/A	N/A
ROE, Adj (%)	-15.2%	-8.0%	-7.5%	-4.3%
ROA, Adj (%)	-5.6%	-3.0%	-2.4%	-1.3%

Market closing price as of 1 Feb

Source: Company Data, Phillip Securities Est.

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Recently, Youzan AllValue has reached a strategic cooperation with Chukou1, and they are committed to building a comprehensive cross-border independent e-commerce system in China and optimizing the online shopping experience of overseas consumers, Youzan and E-export perform their respective duties. Youzan provides Chinese merchants with a powerful e-commerce transaction and operation system, while E-export provides efficient China direct-line logistics services, which greatly reduces the threshold for Chinese merchants to go abroad. We believe that cross-border logistics is one of the most important pieces in the cross-border e-commerce system, so we are very optimistic about the strategic cooperation between the two parties.

Valuation

We continue to favor e-commerce SaaS and store SaaS businesses. Based on the company's price increase for mid-to-high-end SaaS products in early 2021 and the fact that the company's 2020 GMV slightly beat our previous expectations, we have raised the company's 2020/2021/2022 revenue to RMB 1.82/3.00/4.35 billion (+0.2%/+3.1%/+3.2%). We maintain the previous 2022 target PS and raise the company's Dec-22 target price to HKD 4.23, with corresponding 2020/2021/2022 PS of 65.6x/39.9x/27.5x (51.9% of revenue). We maintain BUY rating. (Market closing price as of 1 Feb) (exchange rate: RMB 0.85/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)								
China Youzan	8083 hk equity	3.45	49,642	-	-	-	-	30.3x	26.3x	17.3x	11.9x
Weimob	2013 hk equity	23.50	44,581	130.6x	-	225.2x	99.4x	27.9x	19.9x	13.1x	9.6x
Shopify	SHOP US equity	1120.57	864,355	-	298.0x	300.5x	229.0x	-	47.1x	35.7x	26.7x
Square	SQ US equity	219.91	629,434	-	287.2x	189.8x	117.9x	12.4x	10.2x	7.3x	6.4x

Source: Bloomberg, PSHK

Market closing price as of 1 Feb, US stocks closing price as of 29 Jan

Risk

1) The company is listed on HKEX GEM board, which may have higher risk and volatility comparing to stocks on HKEX main board 2) The expansion of SaaS customers is worse than expected 3) The increased industry competition 4) GMV increase less than expected 5) Merchants renewal rate less than expected

Financial Statements

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	586	1171	1822	2998	4349
Gross Profit	198	608	1060	1846	2781
S&M expense	-182	-532	-782	-1065	-1416
Admin expense	-190	-237	-327	-444	-558
R&D expense	-301	-405	-546	-829	-1073
Other expense	-275	-266	0	0	0
Other operating gain/(loss)	-36	-174	0	0	0
Operating Profit	-787	-1006	-595	-492	-266
Net finance income	15	-12	-3	-3	-1
Other non-operating gain/(loss)	0	5	0	0	0
Profit before tax	-772	-1012	-598	-495	-267
Tax	46	97	46	38	21
NCI	294	324	221	183	98
Profit for the year	-431	-592	-331	-274	-148
EPS (RMB)	-0.039	-0.040	-0.019	-0.016	-0.009

Key Financial Data

Dec Y/E	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio, x	N/A	N/A	N/A	N/A	N/A
P/S ratio, x	107.8	71.9	53.5	32.5	22.4

Per share data (RMB)

EPS	-0.04	-0.04	-0.02	-0.02	-0.01
Revenue per Share (51.9%)	0.03	0.04	0.05	0.09	0.13

Growth & Margin

Revenue Growth	N/A	99.7%	55.6%	64.6%	45.0%
Operating income growth	N/A	N/A	N/A	N/A	N/A
Net income Growth	N/A	N/A	N/A	N/A	N/A
Gross Profit Margin	33.8%	51.9%	58.2%	61.6%	63.9%
Operating profit Margin	-134.2%	-85.9%	-32.7%	-16.4%	-6.1%
Net Profit Margin	-73.6%	-50.6%	-18.2%	-9.1%	-3.4%

Key Ratios

ROE, Adj	-11.1%	-15.2%	-8.0%	-7.5%	-4.3%
ROA, Adj	-6.5%	-5.6%	-3.0%	-2.4%	-1.3%

Source: Company, PSHK Estimate

Market closing price as of 1 Feb

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Non Current Asset					
PPE	38	61	90	132	194
ROU assets	0	205	202	200	197
Intangible assets	1825	1632	1450	1288	1144
Capitalised contract costs	21	10	35	26	56
Others	2394	2253	2253	2253	2253
Total Non Current Assets	4278	4161	4031	3899	3845
Current Asset					
Capitalised contract costs	70	119	159	219	283
Inventories	2	2	2	2	2
Prepayments	408	924	1062	1221	1405
Cash and cash equivalents	400	746	1383	1404	1518
Others	1525	4547	4548	4548	4548
Total Current Assets	2406	6337	7154	7395	7756
Total Assets	6684	10499	11184	11294	11600
Non Current Liabilities					
Contract liabilities	56	48	135	184	285
Lease liabilities	0	184	182	179	176
Others	287	261	261	261	261
Total Non Current Liabilities	343	493	578	625	723
Current Liabilities					
Trade payables	6	4	10	11	17
Settlement obligations	1757	5070	5070	5070	5070
Contract liabilities	259	407	769	1287	1735
Others	434	627	627	627	627
Total Current Liabilities	2456	6107	6475	6995	7449
Equity					
Share capital	111	129	129	129	129
Reserve	3217	3530	3983	3709	3561
Non controlling interest	556	241	20	-163	-261
Total Equity	3884	3899	4131	3674	3428
Total Liabilities and Equity	6684	10499	11184	11294	11600

Cashflow Statement

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Profit (loss) before tax	-772	-1012	-598	-495	-267
Depreciation and amortization	210	419	249	238	234
change in working capital	-759	-354	252	358	278
Others	307	331	50	42	22
CFO	-1014	-616	-48	142	267
Capex	-27	-43	-53	-78	-115
Others	966	-9	4	5	8
CFI	939	-52	-50	-73	-107
CFF	224	954	735	-48	-46
Net Change in Cash	149	285	637	21	114
Foreign exchange	19	31	0	0	0
Recognised in FVTPL	-31	0	0	0	0
Cash and CE at Y/E	400	746	1383	1404	1518

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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