

# Weimob Inc. (2013 HK)

## SaaS business beat expectation, continuing to implement the three core strategies

Hong Kong | TMT sector | Update Report

### Investment Summary

**The company has made adjustments on its revenue breakdown structure and classified the net method part of the targeted marketing business as merchant solution within the digital commerce segment**

In the 2020 annual report, the company has made adjustment on the revenue breakdown structure. The main segments are now renamed as digital commerce segment and digital media segment (previously named as the SaaS business and the targeted marketing business). More specifically, the original SaaS business has now been classified as the subscription solution sub-segment within the digital commerce segment, while the targeted marketing part with revenue recognized by net method is now classified as the merchant solution sub-segment within the digital commerce segment. On the other hand, the targeted marketing part with revenue recognized by gross method is now classified as the digital media segment. After the adjustment, a major part of the targeted marketing business is expressed as the value-adding services of the SaaS business, so as to better show the synergy between these two major businesses.

**The 2020 adjusted revenue of subscription solution and the 2020 gross revenue of targeted marketing business beat our expectation, but the GPM is slightly below our previous forecast**

The company's 2020 revenue was RMB 1.97 billion (+37.0% yoy), of which the revenue of the subscription solution was RMB 622 million (+22.8% yoy) and the adjusted revenue of the subscription solution (excluding the impact of the SaaS sabotage event) was RMB 718 million. The adjusted revenue beat our previous expectation. On the other hand, the 2020 revenue of the targeted marketing business (merchant solution + digital media) was RMB 1.35 billion (+44.8% yoy), which was slightly lower than our previous forecast. However, we believe that compared with the revenue, the gross revenue can more reflect the growth of the targeted marketing business. The 2020 gross revenue of targeted marketing business was RMB 10.68 billion (+102.2% yoy), which beat our previous forecast.

In terms of the GPM, the 2020 adjusted GPM/ GPM of subscription solutions was 74.5%/70.6% (-6.0ppts yoy / -9.9ppts yoy), both of which were lower than our previous expectation. The divergence between the actual GPM and our forecasted one was mainly due to the fact that the higher-than expected R&D investment caused higher amortization of intangible assets, which was recorded in the COGS. On the other hand, the 2020 GPM (comparing to the gross revenue) of the targeted marketing was 5.3% (-2.1ppts yoy), which is also lower than our previous expectation, since the lower rebate from the KAs (key accounts) customer has a greater downward impact to the GPM (comparing to the gross revenue) than we previously thought.

In terms of the operating expenses, the company's 2020 S&M expenses / admin expenses was RMB 919 million/RMB 261 million (+28.2% yoy / +100.7% yoy), respectively. The 2020 net loss attributable to parent was RMB 1.16 billion (RMB 311 million in 2019), and the 2020 adjusted net profit was RMB 108 million (+39.0% yoy).

30 March 2021

### Buy (Upgrade)

CMP HKD 17.80

(Closing price as of 26 March)

TARGET HKD 26.70 (+67%)

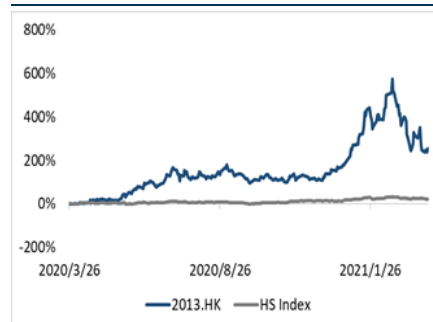
#### COMPANY DATA

O/S SHARES (MN) :	2,276
MARKET CAP (HKD MN) :	40,506
52 - WK HI/LO (HKD):	33.50/4.66

#### SHARE HOLDING PATTERN, %

Yomi.sun Holding Limited	14.35
Credit Suisse Group AG	10.20
Tencent	8.08
Blackrock Inc.	5.26
JP Morgan Chase&Co.	5.25

#### PRICE VS. HSI



Source: Wind, Phillip Securities

#### KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	1969	3111	4017	5182
P/S,x	17.2	11.1	8.6	6.6
Net income, Adj	108	184	347	766
EPS, Adj	0.05	0.08	0.15	0.34
P/E, Adj, x	314.5	186.7	99.1	44.9
ROE, Adj (%)	6.2	7.4	10.2	13.3
ROA, Adj (%)	1.8	3.0	5.3	9.0

Market closing price as of 26 March

Source: Company Data, Phillip Securities Est.

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### **The growth momentum of the subscription solution was strong while the moving-up market strategy of the company is gradually paying off**

The 2020 adjusted revenue of subscription solution was RMB 718 million (+41.6% yoy). As of the end of 2020, the number of paying merchants was 98,002 (+23.2% yoy) and the ARPU was RMB 7,326 (+15.0% yoy). Both of which figures beat our expectation. On the other hand, the customer churn rate for subscription solution in 2020 was 26.1% (+3.9ppts yoy). The yoy increase in churn rate was mainly due to 1) The 2020 pandemic was a huge blow to the SME merchants, which directly affect their paying willingness and ability 2) the SaaS sabotage event in early 2020 directly led to loss in merchants. In terms of the breakdown in subscription solution, the smart retail sub-segment showed the strongest growth momentum. The 2020 revenue of the smart retail sub-segment was RMB 145 million (+224.5% yoy) and accounted for 20.2% (+11.4ppts yoy) of the total revenue from subscription solution. As of the end of 2020, the number of smart retail merchants was 3,682 (+234% yoy) and the number of brand merchants was 618 (+185% yoy). The brand merchants ACV was RMB 282 thousand (+31.2% yoy). On the other hand, the revenue of smart dining in 2020 was RMB 44.82 million (+13.0% yoy). The growth of smart dining was slower than that of smart retail as the 2020 pandemic had a greater impact to the food and beverage sector in China and the recovery momentum of it was also slower. As of the end of 2020, the number of smart dining merchant was 6,996 (+52.0% yoy) and the ACV was RMB 19 thousand (+46.2 % yoy).

### **The company will continue to implement its 3 core strategies, namely the moving-up market strategy, globalization strategy and the ecosystem build-up strategy**

**1) Moving up—market strategy** - In the past, the company had a leading position in the fashion industry and household industry. It will continue to explore the KAs in these industries to further consolidate its leading position in these industries. On the other hand, in view of the company's acquisition of Heading Information in 2020, the company will explore vertical industries such as shopping malls and supermarket convenience through continuous integration with Heading Information to further explore the KAs in these sectors. In addition, the KAs in vertical industries like maternal and child chain, food and beverage, medical and health care are also the future acquisition target of the company. The company's management expects that in the smart retail sub-segment, the revenue proportion of the KAs will reach 30% by the end of 2021 and 50% by the end of 2025.

**2) Ecosystem build-up strategy** - The company will continue to expand its traffic ecosystem, developer ecosystem and investment ecosystem in the future. In terms of the traffic ecosystem, the company's products will be connected to traffic platforms other than the ones within Tencent's ecosystem to assist merchants in omni-channel smart operation. At present, the company's products have already been connected to non-Tencent ecosystem such as Tiktok, Kuaishou, Baidu, and Alipay, as well as many offline long-tail traffic. In the future, it is expected that the company's products will be connected to more diversified traffic and platforms. Regarding the developer ecosystem, Weimob Cloud PaaS 2.0 is expected to be launched in 2021-year mid. Through Weimob Cloud PaaS 2.0, the company and third party developers will work together to serve the company's merchants and provide merchants with a series of personalized, industrial and customized solution. The company is currently working with developers such as Baison to develop solutions for different vertical industries. In terms of the investment ecosystem, the company will continue to invest through mergers and acquisitions, direct investment and industrial funds in the future to expand the company's territory in different vertical industries.

**3) Globalization strategy** - The primary goal of the company's globalization strategy is to assist the Chinese merchants to operate in overseas market by providing overseas independent e-commerce SaaS tools and advertising services. After completing the primary goal, the company will select 1-2 overseas regions and to provide SaaS tools

and advertising services to local merchants in these regions. Up to now, the company has begun the negotiation of advertisement agencies with leading overseas advertisers (such as Google, Facebook, Tiktok).

### Valuation

We continue to be optimistic about the company's 1) the KA customer expansion in various vertical industries 2) three core strategies, 3) TSO (Traffic + SaaS + Operation) operation model. We believe that the TSO model is expected to further increase the ARPU of the KA customers, thereby uplifting the ceiling of the company's future growth.

After considering that 1) the growth of the gross revenue of targeted marketing is higher than expected 2) The lower advertising rebate from the KAs and Tiktok platform have greater impact to the GPM (comparing to gross revenue) of targeted marketing segment, we lift our 2021/2022 targeted marketing gross revenue to RMB 15.15/19.86 billion and introduce our 2023 targeted marketing gross revenue forecast of RMB 25.67 billion. We maintain our previous 2021/2022 revenue forecast of subscription solution and introduce our 2023 subscription solution revenue forecast of RMB 2.36 billion. We lower our 2021/2022 adjusted NP to RMB 184/347 million from RMB 274/404 million and introduce 2023 adjusted NP of RMB 766 million. We maintain our 2022 subscription solution target PS of 23x and 2022 targeted marketing target PE of 18x, we cut our TP to HKD 26.70 (-5.3%) and upgrade the rating to Buy. (Market closing price as of 26 March) (exchange rate: RMB 0.85/HKD)

### 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 5) Valuation of the SaaS sector drops

## Financial Statements

### Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1437	1969	3111	4017	5182
Gross Profit	797	1003	1868	2489	3297
S&M expense	-717	-919	-1307	-1647	-1969
Admin expense	-130	-261	-342	-442	-466
Other operating gain/(loss)	87	186	33	33	33
<b>Operating Profit</b>	<b>38</b>	<b>9</b>	<b>251</b>	<b>432</b>	<b>894</b>
Net finance income	-12	-43	-47	-46	-43
Other non-operating gain/(loss)	302	-23	0	0	0
<b>Profit before tax</b>	<b>328</b>	<b>-58</b>	<b>205</b>	<b>386</b>	<b>851</b>
Tax	-17	-22	-11	-20	-44
NCI	-1	-10	10	18	40
<b>Profit for the year</b>	<b>312</b>	<b>-1157</b>	<b>184</b>	<b>347</b>	<b>766</b>
<b>Adjusted profit for the year</b>	<b>77</b>	<b>108</b>	<b>184</b>	<b>347</b>	<b>766</b>
<b>EPS (RMB)</b>	<b>0.15</b>	<b>-0.52</b>	<b>0.08</b>	<b>0.15</b>	<b>0.34</b>
<b>Adj. EPS (RMB)</b>	<b>0.04</b>	<b>0.05</b>	<b>0.08</b>	<b>0.15</b>	<b>0.34</b>

### Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
<b>Valuation Ratio</b>					
P/E ratio, x	99.3	-29.2	186.7	99.1	44.9
Adjusted P/E ratio, x	400.4	314.5	186.7	99.1	44.9
P/S ratio, x	21.6	17.2	11.1	8.6	6.6

### Per share data (RMB)

EPS	0.15	-0.52	0.08	0.15	0.34
Adjusted EPS	0.04	0.05	0.08	0.15	0.34
Revenue per Share	0.70	0.88	1.37	1.77	2.28

### Growth & Margin

Revenue Growth	66.1%	37.0%	58.0%	29.1%	29.0%
Operating income growth	N/A	-76.0%	2668.7%	71.8%	106.9%
Net income Growth	N/A	N/A	-115.9%	88.4%	120.6%
Adjusted Net income Growth	52.1%	39.0%	71.5%	88.4%	120.6%
Gross Profit Margin	55.5%	50.9%	60.0%	61.9%	63.6%
Operating profit Margin	2.6%	0.5%	8.1%	10.8%	17.3%
Net Profit Margin	21.7%	-58.7%	5.9%	8.6%	14.8%
Adjusted Net Profit Margin	5.4%	5.5%	5.9%	8.6%	14.8%

### Key Ratios

ROE, Adj	2.6%	6.2%	7.4%	10.2%	13.3%
ROA, Adj	2.3%	1.8%	3.0%	5.3%	9.0%

Source: Company, PSHK Estimate

Market closing price as of 26 March

### Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>Non Current Asset</b>					
PPE	21	64	83	107	140
ROU assets	61	114	114	114	114
Intangible as sets	139	1016	687	494	388
Development costs	17	39	18	16	16
Others	211	401	517	452	566
<b>Total Non Current Assets</b>	<b>449</b>	<b>1633</b>	<b>1419</b>	<b>1183</b>	<b>1223</b>
<b>Current Asset</b>					
T/R	156	239	150	353	296
Inventories	0	0	0	0	0
Prepayments	1227	1758	1618	2606	2439
Cash and cash equivalents	870	1824	2515	1986	4137
Others	602	399	399	399	399
<b>Total Current Assets</b>	<b>2855</b>	<b>4221</b>	<b>4682</b>	<b>5344</b>	<b>7272</b>
<b>Total Assets</b>	<b>3304</b>	<b>5854</b>	<b>6102</b>	<b>6528</b>	<b>8495</b>
<b>Non Current Liabilities</b>					
Long term loan	0	40	40	40	40
Contract liabilities	85	105	283	241	466
Others	55	2087	2087	2087	2087
<b>Total Non Current Liabilities</b>	<b>140</b>	<b>2232</b>	<b>2409</b>	<b>2367</b>	<b>2593</b>
<b>Current Liabilities</b>					
Short term loan	300	425	425	425	425
T/P	563	1490	826	1016	1253
Contract Liabilities	293	376	917	829	1527
Others	18	78	78	78	78
<b>Total Current Liabilities</b>	<b>1174</b>	<b>2370</b>	<b>2246</b>	<b>2348</b>	<b>3283</b>
<b>Equity</b>					
Share capital	2	2	2	2	2
Reserve	1989	1046	1231	1578	2345
Non controlling interest	0	204	214	232	273
<b>Total Equity</b>	<b>1990</b>	<b>1252</b>	<b>1447</b>	<b>1812</b>	<b>2619</b>
<b>Total Liabilities and Equity</b>	<b>3304</b>	<b>5854</b>	<b>6102</b>	<b>6528</b>	<b>8495</b>

### Cashflow Statement

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>Profit (loss) before tax</b>	<b>328</b>	<b>-1144</b>	<b>205</b>	<b>386</b>	<b>851</b>
<b>CFO</b>	<b>-451</b>	<b>-48</b>	<b>906</b>	<b>-303</b>	<b>2389</b>
Capex	-128	-171	-170	-181	-196
Others	-539	64	1	1	1
<b>CFI</b>	<b>-668</b>	<b>-107</b>	<b>-169</b>	<b>-179</b>	<b>-194</b>
Proceeds from share issuance	1770	0	0	0	0
Others	87	100	-47	-46	-43
<b>CFF</b>	<b>1856</b>	<b>100</b>	<b>-47</b>	<b>-46</b>	<b>-43</b>
<b>Net Change in Cash</b>	<b>737</b>	<b>-55</b>	<b>691</b>	<b>-529</b>	<b>2152</b>
Foreign exchange	6	-55	0	0	0
<b>Cash and CE at Y/E</b>	<b>870</b>	<b>1824</b>	<b>2515</b>	<b>1986</b>	<b>4137</b>

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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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