

China Youzan (8083 HK)

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Company Update

BUY

UNCHANGED
Close price: HK\$0.57

Target Price: HK\$0.85 (+49%)

Prior TP: HK\$0.95

Key Data

HKEx code	8083 HK
12 Months High (HK\$)	1.25
12 Month Low (HK\$)	0.45
3M Avg Dail Vol. (mn)	48.73
Issue Share (mn)	15,465.81
Market Cap (HK\$m)	8,815.51
Fiscal Year	12/2018
Major shareholders	Director Zhu Ning and its asso.13.42%

Source: Company data, Bloomberg, OP Research
Closing price are as of 09/05/2019

Price Chart


	1mth	3mth	6mth
Absolute %	-17.4	3.6	16.3
Rel. MSCI CHINA %	-11.6	-0.6	2.3

Company Profile

China Youzan is a leading e-commerce SaaS service provider in China targeting small-to-mid sized online/offline merchants who seek to exploit the influence of mainstream mobile social platforms such as Tencent Wechat for their O2O operations.

E-commerce revenue doubled QoQ in 1Q19

- Youzan reported HK\$293.6mn sales and HK\$117.3mn loss in 1Q19, of which Qima merchant service business takes up 84% of total revenue.
- Updates from MENLO Press Conference held in Shenzhen suggest on-track ramp up of store SaaS products and reveals more synergetic applications with its payment license.
- Maintain BUY with new TP HK\$0.85 based on same 12x FY19E P/S on SaaS business and same 10x FY19E P/E on third party payment business.

E-commerce revenue doubled QoQ in 1Q19. Youzan announced 1Q19 results with total revenue of HK\$293.6mn, of which SaaS business/advertising services/transaction services each contributed HK\$135.2mn/HK\$32.6mn/HK\$91.1mn respectively, representing 46%/11%/31% of total revenue. Since the acquisition of Qima Group was completed in 2Q18, we believe QoQ comparisons with 4Q18 rather than 1Q18 figures are more meaningful. Revenue from e-commerce business doubled to HK\$245.6mn from HK\$127.5mn in 4Q18, better than OP expectations given 4Q is traditionally the strongest season seeing GMV peak of a whole year. The company reported loss to shareholders of HK\$117.3mn, including HK\$49.0mn share-based payments, excluding such item, 1Q19 adjusted loss was HK\$68.3mn, representing adjusted loss margin of 23.3%, slightly ahead of OP full-year target of 27.6%.

Operation update from MENLO 2019: (1) Youzan Retail ramping up on track. The company has held over 800 training seminars to retailers in 31 provinces since the launch of Youzan Retail. We believe a more clear contribution from store SaaS products can be spotted by interim announcement. **(2) More synergetic applications with payment license:** the company coined the system of Youzan Cross-border, which provides a complete set of integrated solutions (including processing the clearance, bill of lading and cross-border payments) to cross-order merchants.

Maintain BUY. We updated the FY18 actual cash flow and factor in the dilution effect from the new share placement to its strategic investors including Tencent which completed on 23th Apr to arrive at our new TP of HK\$0.85 based on same 12x FY19E P/S on SaaS business and 10x FY19E P/E for third party payment business.

Risks: (1) slower than expected ramp-up of Youzan's paid merchant base (2) faster than expected growth of opex (3) deceleration in China's economic growth.

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY17R	FY18	FY19E	FY20E	FY21E
Revenue	207.9	684.5	1,491.4	2,146.0	2,785.5
Growth (%)	159.2	229.3	117.9	43.9	29.8
Adj. Net Profit	(97.0)	(83.1)	(62.6)	(40.5)	9.9
Growth (%)	(53.9)	(14.3)	(24.6)	(35.3)	(124.5)
Diluted EPS (HK\$)	(0.014)	(0.007)	(0.004)	(0.003)	0.001
EPS growth (%)	(58.3)	(48.5)	(47.8)	(35.3)	(124.5)
Change to previous EPS (%)			(15.6)	(24.4)	
Consensus EPS (HK\$)			(0.016)	(0.013)	
ROE (%)	(8.8)	(4.0)	(1.6)	(1.0)	0.2
P/E (x)	(39.5)	(76.8)	(147.0)	(227.2)	928.1
P/B (x)	3.2	2.0	2.1	2.1	2.2
Yield (%)	0.0	0.0	0.0	0.0	0.0
DPS (HK\$)	0.000	0.000	0.000	0.000	0.000

Source: Bloomberg, OP Research

Exhibit 2: Earnings revisions

(HK\$ mn)	FY19E			FY20E			FY21E		
	New	Old	% Chg	New	Old	% Chg	New	Old	% Chg
Operation data									
No. of paid merchants as of Y.E.	94,400	94,400	0.0	122,720	122,720	0.0	147,264	147,264	0.0
Blended ARPU (RMB)	8,991	8,991	0.0	9,564	9,564	0.0	9,630	9,630	0.0
Total Staff	2,500	2,500	0.0	2800	2800	0.0	3100	3100	0.0
Turnover									
	1,491	1,491	0.0	2,146	2,146	0.0	2,786	2,786	0.0
Third Party Payment services	367	367	0.0	414	414	0.0	558	558	0.0
Software services	1,124	1,124	0.0	1,732	1,732	0.0	2,228	2,228	0.0
Gross profit									
	716	716	0.0	1,108	1,108	0.0	1,444	1,444	0.0
Gross margin									
	48.0%	48.0%	0.0	51.6%	51.6%	0.0	51.8%	51.8%	0.0
Opex	(1,441)	(1,441)	0.0	(1,433)	(1,433)	0.0	(1,720)	(1,720)	0.0
EBIT	(711)	(711)	0.0	(312)	(312)	0.0	(263)	(263)	0.0
Adjust net profit to shareholders	(63)	(66)	(5.5)	(41)	(48)	(15.4)	10	3	200.4
Adj. diluted EPS (HK\$)	(0.004)	(0.005)	(15.6)	(0.003)	(0.003)	(24.4)	0.001	0.000	168.4

Source: OP Research

Exhibit 3: Quarterly financial results review

(HK\$ mn)	1Q18*	2Q18*	3Q18*	4Q18A^	1Q19E	OP Comments
Turnover	59	215	211	200	294	
Cost of Sales	(51)	(98)	(112)	(192)	(175)	
Gross Profit	8	116	99	8	119	
Other income	0	26	8	(9)	9	
Selling expenses	(5)	(74)	(103)	(30)	(82)	
Admin. Expenses	(33)	(128)	(140)	80	(95)	
Other opex			(232)	(272)	(123)	
Profit/(Loss) from operations	(30)	(60)	(369)	(224)	(173)	
Amort of intangible assets	0	(54)	(68)	(37)	(57)	
Impairment loss of goodwill	0	(57)	0	5	0	
Gain/(Loss) from associated companies	0	0	0	(1)	5	
Finance cost	0	0	0	0	0	
Profit/(Loss) before taxation	(30)	(170)	(436)	(257)	(225)	
Taxation	0	0	0	54	20	
(Profit)/Loss to non-controlling interests	1	53	92	191	88	
Profit / (Loss) attributable to shareholders	(29)	(118)	(345)	(12)	(117)	
Adjusting items	0	(66)	(232)	(122)	(49)	We made adjustments for equity-settled share-based payments
Adj net profit / (Loss) attribute to shareholders	(29)	(52)	(112)	110	(68)	
Key ratios						
GPM	13.5%	54.1%	47.0%	3.9%	40.4%	
Selling exp	8.9%	34.5%	48.8%	15.2%	28.0%	
Admin exp	55.4%	59.8%	66.7%	-39.8%	32.2%	
EIT	n.a.	n.a.	n.a.	21.0%	8.9%	
Adjusted net margin	-49.2%	-24.2%	-53.3%	55.2%	-23.3%	
Revenue by segment						
E-commerce	0.00	104.87	132.17	127.51	245.56	
Third parties Payment Services	49.37	98.31	74.56	54.11	44.50	
Others	9.74	11.47	3.93	18.43	46.14	

*Based on unaudited quarterly report

^Backward calculation based on audited FY18 full year report. The company reclassified technical staff costs from admin costs to COGS in annual audited report and caused some discrepancy among unaudited quarterly results breakdown, hence results in positive HK\$80mn admin expenses in 4Q18.

We believe from 1Q19E onwards, all unaudited quarterly report will follow the classification in the FY18 audited report. Therefore we have revised our GPM/Admin expenses estimates accordingly (Exhibit 2)

The 4Q18A^ figures were only for illustration purpose here.

Source: Company, OP Research

Financial Summary

Year to Dec	FY17R	FY18	FY19E	FY20E	FY21E	Year to Dec	FY17R	FY18	FY19E	FY20E	FY21E
Income Statement (HK\$ mn)						Ratios					
3rd party payment services	135	276	367	414	558	Gross margin (%)	12.6	33.7	48.0	51.6	51.8
E-Commerce business	0	365	1,124	1,732	2,228	Operating margin (%)	(74.2)	(124.1)	(47.7)	(14.5)	(9.4)
Other business	73	44	0	0	0	Net margin (%)	(46.7)	(12.1)	(4.2)	(1.9)	0.4
Turnover	208	684	1,491	2,146	2,786	Selling & dist'n exp/Sales (%)	11.5	31.0	26.9	20.9	19.6
YoY%	159	229	118	44	30	Admin exp/Sales (%)	56.2	32.4	18.4	16.3	15.3
COGS	(182)	(453)	(775)	(1,038)	(1,341)	Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Gross profit	26	231	716	1,108	1,444	Effective tax (%)	0.3	6.0	0.0	0.0	7.0
Gross margin	12.6%	33.7%	48.0%	51.6%	51.8%	Total debt/equity (%)	0.0	0.0	0.0	0.0	0.0
Other income	26	16	13	13	13	Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Selling & distribution	(24)	(212)	(402)	(449)	(545)	Current ratio (x)	3.0	1.0	1.1	1.1	1.1
Admin	(117)	(222)	(274)	(350)	(425)	Quick ratio (x)	3.0	1.0	1.1	1.1	1.1
Amortization of intangible assets	(2)	(159)	(245)	(245)	(245)	Inventory T/O (days)	5	2	2	2	2
Other opex	(37)	(16)	(30)	(43)	(56)	AR T/O (days)	47	0	0	0	0
Total opex	(179)	(609)	(951)	(1,087)	(1,271)	AP T/O (days)	10	6	6	6	6
Operating profit (EBIT)	(127)	(362)	(221)	34	187	Cash conversion cycle (days)	42	(4)	(4)	(4)	(4)
Operating margin	-61.3%	-52.8%	-14.8%	1.6%	6.7%	Asset turnover (x)	0.2	0.2	0.2	0.3	0.3
Provisions	19	(52)	0	0	0	Financial leverage (x)	1.2	1.7	2.0	2.0	2.2
Interest Income	1	8	14	22	25	EBIT margin (%)	(74.2)	(124.1)	(47.7)	(14.5)	(9.4)
Finance costs	0	0	0	0	0	Interest burden (x)	0.9	1.1	1.0	0.9	0.9
Profit after financing costs	(107)	(405)	(208)	56	212	Tax burden (x)	0.7	0.1	0.1	0.1	(0.0)
Associated companies & JVs	(2)	(0)	(0)	(0)	(0)	Return on equity (%)	(8.8)	(4.0)	(1.6)	(1.0)	0.2
Pre-tax profit	(109)	(405)	(208)	56	212	ROIC (%)	(18.3)	(44.8)	(23.5)	(13.3)	(13.1)
Tax	0	54	0	0	17	Year to Dec	FY17R	FY18	FY19E	FY20E	FY21E
Minority interests	23	336	286	124	106	Bal. Sheet (HK\$ mn)					
Adj net profit	(97)	(83)	(63)	(41)	10	Fixed assets	13	43	68	99	142
YoY%	(54)	(14)	(25)	(35)	(124)	Intangible assets & goodwill	701	4,534	4,289	4,044	3,799
Adj. net margin	-46.7%	-12.1%	-4.2%	-1.9%	0.4%	Associated companies & JVs	15	5	5	4	4
Reported net profit	(112)	(503)	(411)	(165)	(115)	Long-term investments	3	13	13	13	13
YoY%	-47.7%	348.6%	-18.3%	-59.8%	-30.5%	Capitalized contract cost	0	24	24	24	24
EBITDA	(149)	(687)	(461)	(55)	(5)	Other non-current assets	181	253	253	253	253
EBITDA margin	-71.6%	-100.4%	-30.9%	-2.6%	-0.2%	Non-current assets	913	4,872	4,652	4,438	4,236
Adj. EPS (HK\$)	(0.014)	(0.007)	(0.004)	(0.003)	0.001	Inventories	3	2	4	5	7
YoY%	(58)	(49)	(48)	(35)	(124)	AR	27	0	0	0	0
DPS (HK\$)	0.000	0.000	0.000	0.000	0.000	Prepayments & deposits	134	465	447	644	836
Year to Dec	FY17R	FY18	FY19E	FY20E	FY21E	Balances with central bank	0	981	981	981	981
Cash Flow (HK\$ mn)						Capitalized contract cost	0	80	80	80	80
EBITDA	(149)	(687)	(461)	(55)	(5)	Other current assets	11	756	756	756	756
Chg in working cap	(98)	(1,001)	682	247	294	Cash	305	456	1,568	1,739	1,997
Others	40	381	0	0	0	Current assets	479	2,739	3,836	4,204	4,656
Operating cash	(207)	(1,306)	221	192	289	AP	5	7	12	16	21
Interest received	1	8	14	22	25	Tax	3	3	0	0	(17)
Tax	0	(0)	(3)	0	0	Accruals & other payables	152	2,262	2,237	2,146	2,228
Net cash from operations	(205)	(1,298)	232	214	314	Bank loans & leases	0	0	0	0	0
Capex	(4)	(34)	(30)	(43)	(56)	CB & othe debts	0	0	0	0	0
Investments	(38)	1,147	0	0	0	Deferred revenue	0	295	860	1,297	1,626
Dividends received	0	1	0	0	0	Other current liabilities	0	230	230	230	230
Sales of assets	(35)	64	0	0	0	Current liabilities	160	2,797	3,339	3,689	4,089
Interests paid	0	0	0	0	0	Bank loans & leases	0	64	186	280	351
Others	4	0	0	0	0	CB & othe debts	0	0	0	0	0
Investing cash	(73)	1,179	(30)	(43)	(56)	Deferred tax & others	0	327	327	327	327
FCF	(278)	(119)	202	171	258	MI	(8)	637	350	226	120
Issue of shares	396	195	910	0	0	Non-current liabilities	(8)	1,027	863	833	798
Buy-back	0	0	0	0	0	Total net assets	1,240	3,786	4,285	4,120	4,005
Minority interests	0	79	0	0	0	Shareholder's equity	1,240	3,786	4,285	4,120	4,005
Dividends paid	0	0	0	0	0	Share capital	70	134	134	134	134
Net change in bank loans	0	0	0	0	0	Reserves	1,170	3,652	4,151	3,985	3,870
Others	0	0	0	0	0	Adjustment from acquisition	0	0	0	0	0
Financing cash	396	274	910	0	0	BVPS (HK\$)	0.18	0.28	0.28	0.27	0.26
Net change in cash	118	154	1,112	171	258	Total debts	0	0	0	0	0
Exchange rate or other Adj	11	22	0	0	0	Net cash/(debts)	306	946	2,058	2,229	2,487
Adjustment from acquisition	(10)	(35)	(35)	(35)	(35)						
Opening cash	185	314	456	1,568	1,739						
Closing cash	305	456	1,568	1,739	1,997						
CFPS (HK\$)	(0.031)	(0.116)	0.014	0.013	0.019						

Source: Company, OP Research

Exhibit 4: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B	P/B	EV/	EV/	Net	Gross	Net	ROE	Sh px	Sh px
															Hist (x)	FY1 (x)	Ebitda Hist	Ebitda Cur Yr	gearing Hist (%)	margin Hist (%)	margin Hist (%)	ROE Hist (%)	FY1 (%)	1-mth (%)
China Youzan Ltd	8083 HK	0.57	1,123.25	4.02	(76.8)	(147.0)	(227.2)	(47.8)	(35.3)	NM	NM	0.0	0.0	2.0	2.1	(9.8)	(14.6)	Net cash	33.7	(8306.7)	(4.0)	(1.6)	(17.4)	3.6
HSI		28,311.07			10.8	11.0	10.2	(1.5)	8.0	5.1	2.2	3.4	3.5	1.4	1.3						11.6	11.0	(6.1)	1.3
HSCEI		10,845.06			8.7	8.3	7.7	5.0	8.2	7.2	1.2	3.3	4.0	1.1	1.0						12.0	11.8	(8.2)	(1.0)
CSI300		3,599.70			13.3	11.5	10.2	15.6	12.5	13.7	0.8	1.9	2.3	1.9	1.7						12.3	13.0	(11.7)	10.8
Adjusted sector avg*					70.4	51.9	34.5	44.9	50.8	(74.5)	1.8	N/A	0.0	8.0	7.9	(86.4)	115.2	0.0	63.4	(8.8)	5.2	10.6	(2.1)	10.5
Weimob Inc	2013 HK	5.78	1,481.31	5.41	N/A	66.9	34.6	N/A	93.3	N/A	N/A	0.2	0.2	5.0	4.5	28.0	26.1	N/A	59.8	(125.9)	N/A	20.1	8.6	78.4
Duiba Group Ltd	1753 HK	6.00	849.45	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.0	9.8	9.0	91.9	30.7	N/A	37.7	(25.6)	N/A	N/A	N/A	N/A
Kingdee Intl Sft	268 HK	8.56	3,606.77	31.32	56.4	52.4	42.7	7.7	22.5	17.5	3.0	N/A	0.0	N/A	10.2	(535.6)	370.1	0.0	81.7	14.7	8.7	8.4	(7.9)	5.7
Pinduoduo Inc	PDD US	23.19	26,955.06	237.27	N/A	N/A	28.7	N/A	N/A	(185.9)	N/A	N/A	0.0	8.8	6.8	37.0	22.3	0.0	77.9	(77.9)	N/A	(24.2)	3.8	(10.6)
Salesforce.Com	CRM US	156.86	121,530.93	799.62	106.0	58.3	45.7	81.8	27.6	43.0	1.4	N/A	0.0	9.8	9.0	91.9	30.7	0.0	74.0	8.4	8.5	14.6	(0.1)	0.1
Shopify Inc - A	SHOP US	261.51	29,128.27	372.91	N/A	464.5	279.4	N/A	66.3	N/A	N/A	N/A	0.0	N/A	10.2	(535.6)	370.1	0.0	55.6	(6.0)	(3.9)	2.3	28.2	48.6
Alibaba Grp-Adr	BABA US	179.59	464,333.86	2,256.88	48.8	33.6	27.2	45.2	23.9	33.0	1.0	N/A	0.0	8.8	6.8	37.0	22.3	0.0	57.2	25.6	17.1	17.3	(4.1)	7.3
Jd.Com Inc-Adr	JD US	26.89	39,097.24	496.45	N/A	48.0	28.1	N/A	71.0	(280.2)	N/A	N/A	0.0	6.0	6.2	94.5	49.1	0.0	14.3	(0.5)	(4.5)	1.0	(13.0)	12.1

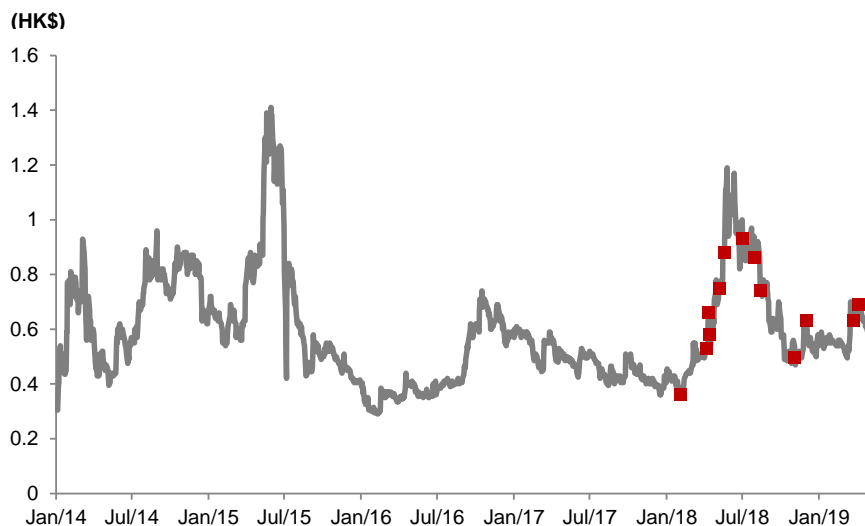
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
09/05/2019	Q Tech	1478	CCM shipments growth implies market share gain	SELL	Yuji Fung/Dallas Cai
03/05/2019	Xtep Intl	1368	Xtep sets about the inception of its own FILA	BUY	Dallas Cai/Megan Jin
03/05/2019	361 Degrees Intl	1361	1Q19E saw lukewarm sales growth	BUY	Megan Jin
25/04/2019	TCL Electronics	1070	1Q19E business update on track	BUY	Yuji Fung/Dallas Cai
24/04/2019	CH Display OPT	334	1Q19E operations in line with expectations	BUY	Yuji Fung/Dallas Cai
23/04/2019	Zhongyu Gas	3633	Comeback with dollar margin improvement	NR	Megan Jin
18/04/2019	Li Ning	2331	Upbeat 1Q19E sales performance	HOLD	Dallas Cai/Megan Jin
15/04/2019	Anta Sports	2020	1Q19E retail performance in line	BUY	Dallas Cai/Megan Jin
10/04/2019	Q Tech	1478	March saw improving product mix	SELL	Yuji Fung/Dallas Cai
09/04/2019	Xtep Intl	1368	1Q19 operations on track	BUY	Dallas Cai/Megan Jin
09/04/2019	China Youzan	8083	Introducing Tencent as strategic investor	BUY	Yuji Fung/Dallas Cai
04/04/2019	Regal Intl Airport	357	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
02/04/2019	Tianlun Gas	1600	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
01/04/2019	Truly Int'l	732	FY18 earnings miss on GPM and loss from associate	BUY	Yuji Fung/Dallas Cai
28/03/2019	China Youzan	8083	FY18 saw narrower loss than expected	BUY	Yuji Fung/Dallas Cai
27/03/2019	Sinosoft Tech	1297	FY18 results in line	BUY	Yuji Fung/Dallas Cai
26/03/2019	Q Tech	1478	Downgrade to SELL as margin recovery was priced in	SELL	Yuji Fung/Dallas Cai
25/03/2019	Li Ning	2331	FY18 saw sustainable high-quality growth	HOLD	Dallas Cai/Megan Jin
22/03/2019	Chinasoft Intl	354	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
21/03/2019	Sunny Optical	2382	Downgrade on fair value	HOLD	Yuji Fung/Dallas Cai
21/03/2019	Tongda	698	GPM likely bottom out	BUY	Yuji Fung/Dallas Cai
21/03/2019	Ju Teng Intl	3336	On secular trend of metal casing adoption	BUY	Yuji Fung/Dallas Cai
20/03/2019	CH Display OPT	334	FY18 revenue beat, earnings in line	BUY	Yuji Fung/Dallas Cai
20/03/2019	Ausnutria Dairy	1717	Margin expansion story continues	BUY	Dallas Cai
20/03/2019	TCL Electronics	1070	Promising FY19E ahead	BUY	Yuji Fung/Dallas Cai
18/03/2019	361 Degrees Intl	1361	Rebranding strategies to bear fruit in 2020E	BUY	Yuji Fung/Dallas Cai
15/03/2019	Kingdee Intl	268	FY18 results up to expectations	HOLD	Yuji Fung/Dallas Cai

Historical recommendations and target price: China Innovationpay (8083 HK)

(as of 09/05/2019)



Date	Rating	TP (HK\$)	Close(HK\$)	Date	Rating	TP(HK\$)	Close(HK\$)
1 17 Apr 2018	BUY	0.88	0.60	6 16 Aug 2018	BUY	1.32	0.74
2 09 May 2018	BUY	0.88	0.75	7 06 Nov 2018	BUY	1.29	0.495
3 21 May 2018	BUY	1.12	0.88	8 03 Dec 2018	BUY	1.29	0.61
4 04 Jul 2018	BUY	1.20	1.00	9 27 Mar 2019	BUY	1.29	0.63
5 04 Aug 2018	BUY	1.20	0.88	10 08 Apr 2019	BUY	1.29	0.69

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