



Rating
Hold

Asia
China

Technology
Software & Services

Company
WUBA

Reuters
WUBA.N

Bloomberg
WUBA US

Exchange
NYS

Ticker
WUBA

Date
26 May 2017

Forecast Change

Price at 25 May 2017 (USD)	45.90
Price target - 12mth (USD)	41.00
52-week range (USD)	54.70 - 27.94
HANG SENG INDEX	25,631

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Good job done in 1H, but market will be tougher in 2H

Results beat estimates, thanks to strong execution in the property vertical

1Q17 revenue was RMB1,988mn (reporting currency changed to RMB), +32% YoY, 10% above our expectation as the property vertical beat estimates by 33%. Non GAAP OPM of 11% strongly beat DBE/consensus, thanks to advertising expense savings. Management guides 2Q revenue growth of +16-21% YoY in RMB, with the mid-point 7% higher than DBE/street estimates, mainly because strong execution in property partly offsets policy headwinds. The job vertical increased ~50% YoY on both wider coverage and price increases. Other verticals, including yellow pages/autos, were up 18% YoY. Including Anjuke/Ganji, total paying members came to 2,212k, +22% YoY.

More property headwinds in 2H17; bright spots are jobs and margin recovery

In 1Q17, revenue from property vertical was higher than expected. We remain conservative on full-year growth in the property vertical, where we expect slower growth in 2Q-4Q due to a high base last year. In addition, restrictive policies should continue to expand to more cities. We expect FY17 revenue in RMB to grow 22% YoY, mainly on 50% YoY growth in the job vertical, 5% in the property vertical and 23% in other verticals. We maintain our view of a margin recovery this year and estimate a non GAAP operating margin of 15%+ for FY17E.

Maintaining Hold and raising our target price to USD41

We reiterate our Hold rating on WUBA, based on our bearish view of the property market in 2H17, which still contributes ~40% of total revenue. We raise our target price to USD41, based on PEG valuation methodology. We apply a PEG ratio of 1x to FY17E non-GAAP EPS of USD0.46 or RMB3.2 (+9% from previous USD0.42) against a non-GAAP EPS CAGR of 86% (previously 84%) over FY17-FY20E. We raise revenue forecasts for FY17/18/19 by 2%/6%/11%, respectively, and largely maintain our margin estimates for FY17E-19E. Upside risks: a favorable property policy and the solid ramp-up of new business initiatives. Downside risks: slow progress in building user stickiness and unsuccessful investment.

Key changes

Price target	36.00 to 41.00	↑	13.9%
Sales (FYE)	9,040 to 9,255	↑	2.4%
DB EBIT	1,382 to 1,386	↑	0.3%
Net profit (FYE)	430 to 465	↑	8.3%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	16.3	43.6	-11.5
HANG SENG INDEX	4.8	6.9	25.8

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	4,478.1	7,592.1	9,254.9	11,225.6	13,962.7
EBITDA (CNYm)	-1,732.2	239.4	1,021.8	2,010.7	2,436.6
Reported NPAT (CNYm)	-1,999.7	-774.5	126.4	1,045.4	1,478.9
Reported EPS FD(CNY)	-17.06	-5.37	0.87	7.01	9.73
DB EPS FD(CNY)	-11.15	-1.35	3.40	9.65	13.12
DB EPS growth (%)	-	87.9	-	183.9	36.0
PER (x)	-	-	92.7	32.7	24.0
EV/EBITDA (x)	-	185.8	43.4	21.5	17.0

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

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Model updated: 25 May 2017

Running the numbers

Asia
China
Software & Services

WUBA

Reuters: WUBA.N Bloomberg: WUBA US

Hold

Price (25 May 17) USD 45.90
Target Price USD 41.00
52 Week range USD 27.94 - 54.70
Market Cap (m) EURm 5,980
USDm 6,705

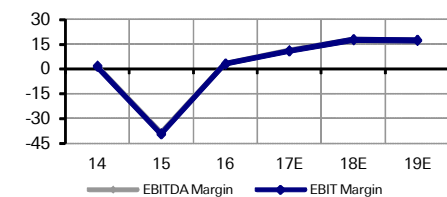
Company Profile

58.com Inc. (WUBA) operates an online marketplace serving local merchants and consumers in China. 58.com Inc. started operations in 2005 in China. 58.com Inc. is listed in New York Stock Exchange in November 2013. The Company's online marketplace contains local information in approximately 395 cities, across the content categories, including housing, jobs, used goods, automotive, pets, tickets, yellow pages and other local services.

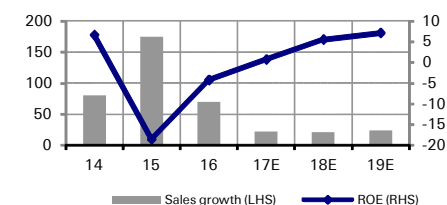
Price Performance



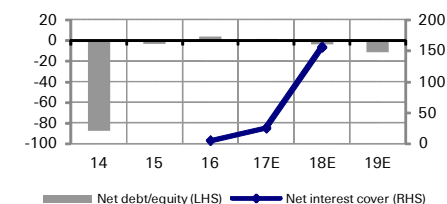
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	2.12	-11.15	-1.35	3.40	9.65	13.12
Reported EPS (CNY)	1.68	-17.06	-5.37	0.87	7.01	9.73
DPS (CNY)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (CNY)	37.2	156.5	124.0	125.2	132.9	143.8
Weighted average shares (m)	84	117	143	146	149	152
Average market cap (CNYm)	22,351	41,152	45,876	46,062	46,062	46,062
Enterprise value (CNYm)	19,465	38,157	44,486	44,325	43,244	41,462

Valuation Metrics

P/E (DB) (x)	125.0	nm	nm	92.7	32.7	24.0
P/E (Reported) (x)	157.5	nm	nm	364.3	44.9	32.4
P/BV (x)	6.87	2.65	1.50	2.52	2.37	2.19
FCF Yield (%)	1.8	nm	3.7	2.7	4.2	6.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	12.0	8.5	5.9	4.8	3.9	3.0
EV/EBITDA (x)	610.4	nm	185.8	43.4	21.5	17.0
EV/EBIT (x)	740.7	nm	190.4	43.7	21.6	17.1

Income Statement (CNYm)

Sales revenue	1,628	4,478	7,592	9,255	11,226	13,963
Gross profit	1,549	4,189	6,891	8,410	10,167	12,645
EBITDA	32	-1,732	239	1,022	2,011	2,437
Depreciation	6	33	6	7	8	9
Amortisation	0	0	0	0	0	0
EBIT	26	-1,765	234	1,015	2,003	2,428
Net interest income/(expense)	53	-24	-49	-40	-13	26
Associates/affiliates	0	-6	-16	-18	-18	-18
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	107	-348	-1,000	-817	-808	-788
Profit before tax	186	-2,137	-815	158	1,182	1,666
Income tax expense	38	-52	-51	13	119	169
Minorities	0	-92	-5	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	148	-2,000	-775	126	1,045	1,479
DB adjustments (including dilution)	38	693	580	370	393	516
DB Net profit	186	-1,307	-195	497	1,439	1,995

Cash Flow (CNYm)

Cash flow from operations	607	199	1,888	1,499	2,279	3,631
Net Capex	-199	-1,254	-212	-259	-314	-391
Free cash flow	407	-1,056	1,676	1,240	1,965	3,240
Equity raised/(bought back)	4,964	2,452	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	2,457	9	0	0	0
Other investing/financing cash flows	-5,058	-1,397	-3,623	0	0	0
Net cash flow	313	2,457	-1,938	1,240	1,965	3,240
Change in working capital	393	1,161	825	956	713	766

Balance Sheet (CNYm)

Cash and other liquid assets	3,777	3,437	3,186	4,426	6,391	9,631
Tangible fixed assets	111	799	1,481	1,694	1,952	2,273
Goodwill/intangible assets	3	17,745	17,436	17,436	17,436	17,436
Associates/investments	148	2,510	2,118	2,118	2,118	2,118
Other assets	319	1,889	1,105	1,357	1,609	1,960
Total assets	4,358	26,380	25,326	27,031	29,505	33,418
Interest bearing debt	1,039	2,906	3,848	4,749	5,633	7,091
Other liabilities	181	5,083	3,626	3,933	4,013	4,401
Total liabilities	1,220	7,989	7,474	8,682	9,646	11,492
Shareholders' equity	3,138	18,345	17,785	18,290	19,800	21,868
Minorities	0	46	67	59	59	59
Total shareholders' equity	3,138	18,391	17,852	18,349	19,859	21,926
Net debt	-2,738	-531	662	323	-758	-2,540

Key Company Metrics

Sales growth (%)	80.7	175.0	69.5	21.9	21.3	24.4
DB EPS growth (%)	-19.1	na	87.9	na	183.9	36.0
EBITDA Margin (%)	2.0	-38.7	3.2	11.0	17.9	17.5
EBIT Margin (%)	1.6	-39.4	3.1	11.0	17.8	17.4
Payout ratio (%)	0.0	nm	nm	0.0	0.0	0.0
ROE (%)	6.6	-18.6	-4.3	0.7	5.5	7.1
Capex/sales (%)	12.3	28.0	2.8	2.8	2.8	2.8
Capex/depreciation (x)	35.6	37.9	37.2	39.7	41.3	43.2
Net debt/equity (%)	-87.3	-2.9	3.7	1.8	-3.8	-11.6
Net interest cover (x)	nm	nm	4.8	25.2	155.4	nm

Source: Company data, Deutsche Bank estimates

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Conference call takeaways

- Revenue breakdown by vertical: property increased 30% YoY to RMB815mn, while full-year growth could be in the range of 0-5%, according to the company. Jobs increased 50% to RMB606mn, and management is confident of similar growth in the remaining quarters of 2017. Other verticals increased 18% to RMB568mn in 1Q, and could show similar growth in 2017. As for a growth slowdown in these smaller verticals, management is not worried, because these traditional business platforms, like yellow pages and used cars, are directing traffic to invested companies Guazi, 58 Home and Zhuanzhuan, which are delivering healthy revenue growth.
- Paying membership: as of 31 March, the company has 1.3mn paying members in the property vertical (including Anjue and Ganji), 600k paying members in the jobs vertical (including Ganji), and 300k paying members in other verticals (including Ganji).
- Revenue by service line: membership services revenue recorded RMB793mn, up by +31% YoY while online marketing services delivered revenue of RMB1,137mn, up 34% YoY, much slower than previously. We believe the company is paying more attention to feedback on a monetization level. WUBA is trying to figure out a better way to encourage more advertising spending from customers above the current OMS model.
- Zhuanzhuan recently received USD200mn cash investment from Tencent. The deal was closed at end April and Tencent holds over 20% in the preferred shares of Zhuanzhuan. It is likely that WUBA will deconsolidate Zhuanzhuan and follow the same financial reporting approach as 58 Home. We expect 58 Home will have an RMB700mn loss and WUBA will pick up 88% of the loss in FY17E. But Zhuanzhuan's spending plan is still uncertain given the cash they have just received from Tencent.
- The company expects to maintain the headcount number in FY17 and to utilize the mix of direct sales and call center employees to improve efficiency. Total headcount as of 1Q17 was 23,200 vs 23,100 as of 4Q16.



Revenue by vertical: strong property, jobs; others soft

Property vertical: strong execution partly offset policy headwinds

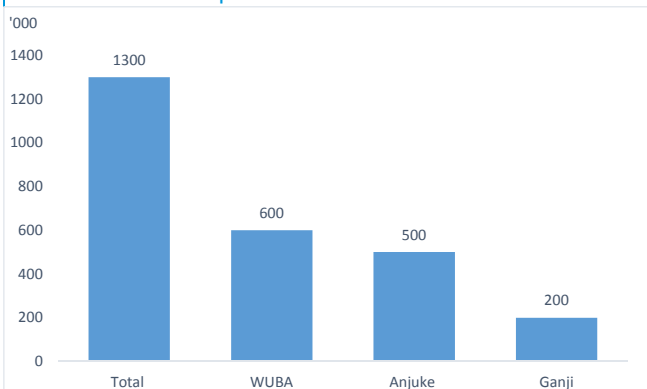
The property market in 1Q remained weak as we had expected, especially in the secondary property market. Transactions in the secondary property market had continued to decline since December 2016.

WUBA's property vertical revenue grew 30% YoY (accounting for 41% of total revenue), mainly driven by an increasing number of paying members to 1.3mn as of 1Q17. We do not expect the momentum to continue in the later quarters, in light of continuous government tightening measures and the high base last year. In our view, revenue growth in the property vertical will be around 5% YoY in 2017E.

WUBA plans to enter more low-tier cities to cover over 100 cities nationwide, where the company, especially WUBA's own platform, has wider sales coverage than other competitors. It is also seeking opportunities in the rental market.

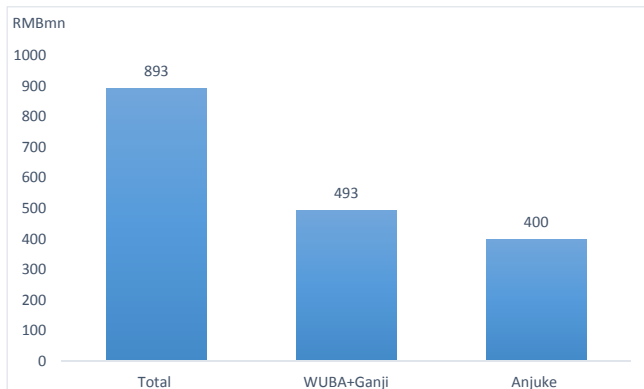
WUBA is rolling out several new initiatives, such as Fangyuan Dictionary (a database covering 120mn properties nationwide), An Xuan (providing property-related insurances products with Ping An) and 58 Ai Fang (a comprehensive property transaction platform). WUBA and Tencent continue to deepen their cooperation in property, which allows WUBA to access Tencent's property inventory.

Figure 1: WUBA contributes more traffic in the property vertical than other platforms...



Source: Deutsche Bank, company data

Figure 2: ...as well as revenue



Source: Deutsche Bank, company data

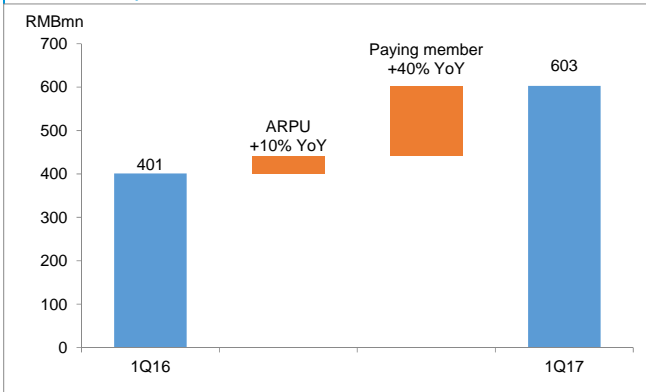
Job vertical: solid as expected

Revenue from the job vertical remained strong with growth of 50% YoY in 1Q17, which drove job's revenue contribution up to 30%. The 50% revenue



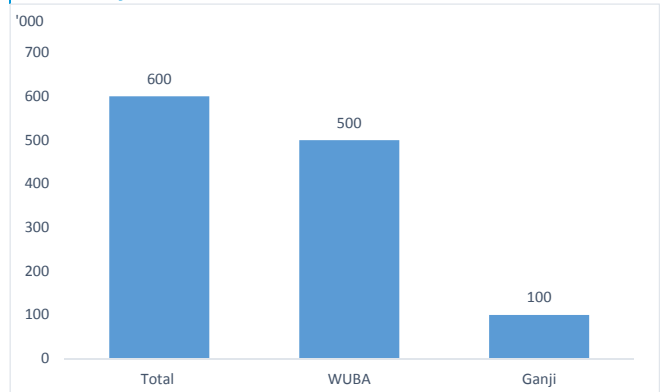
growth was driven by a 10% pricing hike as well as a ~40% increase in membership numbers. We expect the job vertical to continuously benefit from positive feedback from price increases in the remaining quarters in FY17 and deliver 50% YoY growth for the FY17E full year.

Figure 3: Job revenue growth was mostly driven by membership increase



Source: Deutsche Bank, company data

Figure 4: WUBA job internally takes more market share from Ganji



Source: Deutsche Bank, company data



Revision of estimates

To incorporate the solid growth of the job vertical, we raise revenue for FY17E/18E/19E by 2%/6%/11%, respectively. We adjust our forecasts of the non-GAAP operating margin for FY17E/18E/19E to 15%/21%/21%, respectively.

Figure 5: Revision of estimates

YE31 Dec Figures in RMBm except for per share data	FY2016	2017E					2018E					2019E				
		DB old	DB new	% change	Consensus	% delta	DB old	DB new	% change	Consensus	% delta	DB old	DB new	% change	Consensus	% delta
Net Revenue	7,592	9,040	9,255	2%	8,925	4%	10,554	11,226	6%	11,031	2%	12,553	13,963	11%	13,031	7%
Gross profit	6,885	8,231	8,404	2%	8,044	4%	9,551	10,159	6%	9,944	2%	11,360	12,636	11%	11,634	9%
EBIT (GAAP)	234	1,037	1,015	-2%	1,004	1%	1,894	2,003	6%	1,906	5%	2,167	2,428	12%	2,670	-9%
EBIT (non GAAP)	813	1,382	1,386	0%	1,122	23%	2,293	2,396	5%	2,085	15%	2,640	2,944	12%	2,684	10%
PBT (GAAP)	(824)	120	127	5%	256	-50%	1,135	1,142	1%	1,396	-18%	1,573	1,626	3%	2,493	-35%
Net income (GAAP)	(784)	85	95	12%	102	-7%	948	1,005	6%	1,010	0%	1,320	1,439	9%	1,751	-18%
Net income (Non-GAAP)	(204)	430	465.3	8%	500	-7%	1,347	1,399	4%	1,488	-6%	1,792	1,955	9%	2,304	-15%
EPADS (GAAP)																
Diluted	-\$5.44	\$0.58	\$0.65	12%	\$0.25	157%	\$6.34	\$6.75	6%	\$6.81	-1%	\$8.65	\$9.46	9%	\$14.50	-35%
EPADS (Non GAAP)																
Diluted	-\$1.42	\$2.93	\$3.19	9%	\$3.54	-10%	\$9.01	\$9.38	4%	\$10.14	-7%	\$11.75	\$12.86	9%	\$13.89	-7%
Margin analysis (%)																
GP margin	91%	91%	91%	0%	90%	1%	91%	91%	0%	90%	0%	91%	91%	0%	89%	1%
EBIT margin (GAAP)	3%	11%	11%	-1%	11%	0%	18%	18%	0%	17%	1%	17%	17%	0%	20%	-3%
EBIT margin (non-GAAP)	11%	15%	15%	0%	13%	2%	22%	21%	0%	19%	2%	21%	21%	0%	21%	0%
Net margin (GAAP)	-10%	1%	1%	0%	1%	0%	9%	9%	0%	9%	0%	11%	10%	0%	13%	-3%
Net margin (non GAAP)	-3%	5%	5%	0%	6%	-1%	13%	12%	0%	13%	-1%	14%	14%	0%	18%	-4%

Source: Deutsche Bank estimates, Company data, Bloomberg Finance LP

Valuation

We maintain Hold on WUBA with a new target price of USD41 on a margin improvement. We base our target price on an unchanged target PEG of 1x and FY17E non-GAAP EPADS of USD0.46 (RMB3.2) against a non-GAAP EPS CAGR of 86% over FY17-FY20E.

Risks

Upside risks:

- Favorable property policy
- Solid ramp-up of new business initiatives
- Faster-than-expected recovery in real estate market
- Better-than-expected synergies from Tencent cooperation

Downside risks:

- Competition from news feed apps
- Slow progress in building user stickiness
- Unsuccessful investment



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
WUBA	WUBA.N	45.90 (USD) 25 May 17	NA

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Historical recommendations and target price: WUBA (WUBA.N)

(as of 5/25/2017)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

**Analyst is no longer at Deutsche Bank

1. 05/10/2016:	Upgrade to Buy, Target Price Change USD65.00 Alvin Jiang	3. 14/12/2016:	Downgrade to Hold, Target Price Change USD36.00 Alvin Jiang
2. 11/11/2016:	Buy, Target Price Change USD56.00 Alvin Jiang		



Equity rating key

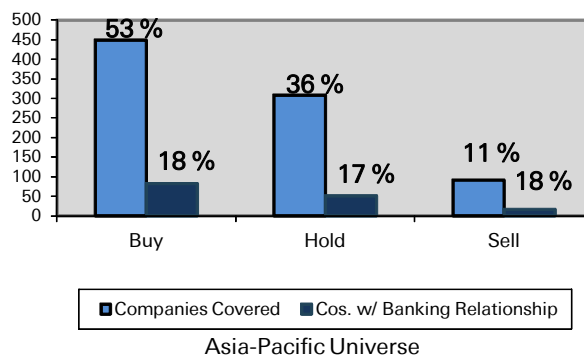
Buy: Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships





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Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor who is long fixed rate instruments (thus receiving these cash



flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. It is important to note that the index fixings may – by construction – lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.

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