

Internet	Last Close	Target Price	Upside	25 May 2018
	US\$84.55	US\$100.00↑	+19%	

58.com (WUBA US)

Bottom-line beat by 48%; housing better-than-expected

⊕ **1Q18 results beat:** Total revenue was RMB2.47bn, up 24% YoY, and 4% higher than consensus, on rapid growth of the job listings business and better-than-expected housing business. Non-GAAP EPS was RMB2.05, up 181% YoY, and 48% higher than consensus of RMB1.38. Non-GAAP operating margin was 17%, up 6ppts YoY, on lower sales and marketing spending as a percentage of total revenue. Online marketing service revenue was RMB1.5bn, up 31% YoY, thanks to wider adoption of real-time bidding services, priority listing and other online marketing services.

⊕ **Job listings continued to lead growth, driven by rising online penetration and price hike.** As 58.com remains the market leader in blue-collar online recruitment business, we expect 40%+ revenue growth for job listings in 2018 to contribute ~40% revenue by end-2018 (vs ~30% in 2017). As the number of paying members is ~850k at present, compared with over 20m SMEs in China, we are confident in the job listings' long-term growth potential.

⊕ **Housing better than our expectation in 1Q18; management expects ~10% revenue growth in 2018.** Impact of the boycott from real estate agents is temporary, in our view, as 58 is still their first option for improving commission revenue. Given the regulatory environment on the housing market, we expect temporary growth pressure for 58's housing business. However, in the long term, as real estate agents' spending on 58's platform is only a small portion of their total marketing spending (3-5% vs 10-20% in overseas market), we believe 58 will benefit from its leadership when the market recovers.

⊕ **Valuation.** We fine-tune 2018/19 revenue estimates, and lift 2018/19E bottom-line by 2%/1% on better-than-expected 1Q18 results. 58.com will continue to invest in Zhuanzhuan and 58 Town. Although the businesses are still in early stage, we are positive on their LT growth given the potential from rural areas and second-hand market. We lift TP from US\$94.00 to US\$100.00, implying 40x/33x 2018/19E P/E. Maintain **Buy**.

Financial highlights

Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMB m)	7,592	10,069	12,420	14,801	17,574
YoY growth (%)	67	33	23	19	19
Net profit (RMB m) [^]	-247.0	1,529	2,304	2,827	3,431
EPS (RMB) [^]	-1.72	10.36	15.59	18.99	22.90
YoY growth (%)	NA	NA	51%	22%	21%
Previous EPS (RMB)			15.25	18.74	22.59
Change (%)			2.2	1.4	1.4
P/E (x)	NA	55	34	28	24
BVPS (RMB)	124	134	109	104	102
P/B (x)	4.6	4.2	5.1	5.3	5.4

Source: Company data, BOCOM Int'l estimates [^]non-GAAP basis

Stock Rating

BUY

1-year stock performance



Source: Bloomberg

Stock data

52w high (US\$)	89.90
52w low (US\$)	40.02
Market cap (US\$ m)	12,460
Avg daily vol (m)	0.84
YTD change (%)	18.14
200d MA (US\$)	73.54

Source: Bloomberg

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Figure 1: 1Q18 results summary

(RMB m) Year end Dec31	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)	BOCOM Estimates	Difference	Comments
Revenue								
Membership	793	1,039	929	-11	17	907	2	Number of paying members increased by 20% YoY
Online marketing services	1,137	1,644	1,492	-9	31	1,405	6	Driven by improvement in ad effectiveness
E-commerce services	15	17	8	-55	-49	18	-55	
Other services	43	64	42	-34	-1	56	-24	
Total revenues	1,988	2,765	2,471	-11	24	2,385	4	
Cost of revenues	200	263	258	-2	29	240	8	
Gross profit	1,789	2,502	2,213	-12	24	2,145	3	
Operating expenses								
Sales and marketing expenses	1,246	1,339	1,439	8	16	1,523	-5	Related to promotion of 58.com and Zhuanzhuan
Research and development expenses	314	358	346	-3	10	374	-7	Increased investment in technology
General and administrative expenses	150	192	161	-16	7	164	-2	
Total operating expenses	1,711	1,888	1,946	3	14	2,061	-6	
Income/(loss) from operations	78	614	267	-57	242	84	216	
Other income/(expenses),net	-97	-124	9	-107	-109	-17	-152	
Income/(loss) before tax	-19	490	276	-44	-1,560	67	309	
Income tax benefits	2	-42	-70	66	-3,671	-11	551	
Net income/loss	-17	448	206	-54	-1,315	57	263	
Net income/loss attributable to 58.com	-22	414	175	-58	-911	26	583	
<i>Gross margin</i>	<i>90</i>	<i>90</i>	<i>90</i>			<i>90</i>		
<i>Operating margin</i>	<i>4</i>	<i>22</i>	<i>11</i>			<i>4</i>		
<i>Net margin</i>	<i>-1</i>	<i>15</i>	<i>7</i>			<i>1</i>		
Non-GAAP operating profit	217	762	412	-46	90	246	67	
Non-GAAP net income attributable to 58	106	549	306	-44	189	173	76	
<i>Non-GAAP operating margin (%)</i>	<i>11</i>	<i>28</i>	<i>17</i>			<i>10</i>		
<i>Non-GAAP net margin (%)</i>	<i>5</i>	<i>20</i>	<i>12</i>			<i>7</i>		
Basic EPS (RMB)	-0.15	2.82	1.19	-58	-900	0.17	582	
Diluted EPS (RMB)	-0.15	2.78	1.17	-58	-887	0.17	571	
Non-GAAP dil. EPS (RMB)	0.73	3.69	2.05	-45	181	1.18	73	

Source: Company data, BOCOM Int'l

Figure 2: P&L forecasts

(RMB m)	2Q17	3Q17	4Q17	1Q18	2Q18E	QoQ	YoY	2017	2018	2019	2020
Revenue											
Membership	964	994	1,039	929	1,180	27	22	3,790	4,603	5,703	6,673
Online marketing services	1,536	1,661	1,644	1,492	1,933	30	26	5,978	7,624	8,921	10,739
E-commerce services	26	15	17	8	8	1	-70	74	32	33	35
Other services	67	53	64	42	38	-10	-43	227	161	143	128
Total revenues	2,593	2,723	2,765	2,471	3,159	28	22	10,069	12,420	14,801	17,574
Cost of revenues	235	228	263	258	318	23	35	925	1,257	1,487	1,765
Gross profit	2,358	2,495	2,502	2,213	2,841	28	20	9,143	11,163	13,314	15,808
Operating expenses											
Sales and marketing expenses	1,282	1,346	1,339	1,439	1,575	9	23	5,212	6,481	7,482	8,843
Research and development expenses	323	373	358	346	435	26	35	1,368	1,677	2,084	2,451
General and administrative expenses	171	253	192	161	230	43	35	766	860	1,027	1,219
Total operating expenses	1,776	1,972	1,888	1,946	2,240	15	26	7,347	9,019	10,593	12,514
Income/(loss) from operations	582	522	614	267	601	125	3	1,796	2,144	2,721	3,294
Other income/(expenses),net	42	-81	-124	9	-25	-387	-161	-261	93	-13	19
Income/(loss) before tax	624	441	490	276	576	109	-8	1,536	2,237	2,709	3,313
Income tax benefits	-55	-51	-42	-70	-98	40	77	-147	-403	-460	-563
Net income/loss	569	390	448	206	478	133	-16	1,389	1,833	2,248	2,750
Net income/loss attributable to 58.com	539	353	414	175	446	156	-17	1,285	1,704	2,116	2,618
<i>Gross margin (%)</i>	<i>91</i>	<i>92</i>	<i>90</i>	<i>90</i>	<i>90</i>			<i>91</i>	<i>90</i>	<i>90</i>	<i>90</i>
<i>Operating margin (%)</i>	<i>22</i>	<i>19</i>	<i>22</i>	<i>11</i>	<i>19</i>			<i>18</i>	<i>17</i>	<i>18</i>	<i>19</i>
<i>Net margin (%)</i>	<i>21</i>	<i>13</i>	<i>15</i>	<i>7</i>	<i>14</i>			<i>13</i>	<i>14</i>	<i>14</i>	<i>15</i>
Non-GAAP operating profit	716	663	762	412	798	94	11	2,359	2,799	3,488	4,163
Non-GAAP net income attributable to 58	396	479	549	306	628	106	59	1,529	2,304	2,827	3,431
<i>Non-GAAP operating margin (%)</i>	<i>28</i>	<i>24</i>	<i>28</i>	<i>17</i>	<i>25</i>			<i>23</i>	<i>23</i>	<i>24</i>	<i>24</i>
<i>Non-GAAP net margin (%)</i>	<i>15</i>	<i>18</i>	<i>20</i>	<i>12</i>	<i>20</i>			<i>15</i>	<i>19</i>	<i>19</i>	<i>20</i>
Basic EPS (RMB)	3.71	2.42	2.82	1.19	3.03	155	-18	8.82	11.55	14.25	17.51
Diluted EPS (RMB)	3.67	2.38	2.78	1.17	3.03	159	-17	8.70	11.53	14.25	17.51
Non-GAAP dil. EPS (RMB)	2.69	3.23	3.69	2.05	4.27	109	58	10.36	15.59	18.99	22.90

Source: Company data, BOCOM Int'l estimates

25 May 2018

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Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is **the Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

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