

Company Report: 58.com Inc (WUBA US)

公司报告: 58 同城 (WUBA US)

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1Q18 Results Beat, "Accumulate"

2018年一季度业绩好于预期, “收集”

- **58.com Inc ("58.com" or the "Company") posted consensus-beating 1Q18 results.** During 1Q18, total revenue reached RMB 2,471.2 mn, up 24.3% yoy, beating consensus by 4.3% and exceeding the higher end of the Company's previous guidance. Gross margin hit 89.6%, a slight decrease of 0.4 ppts yoy. Non-GAAP net income attributable to ordinary shareholders reached RMB 305.8 mn, surging 189.2% yoy while non-GAAP net margin stood at 12.4%, improving 7.1 ppts yoy. 2Q18 revenue guidance was between RMB 3,100 mn and RMB 3,200 mn, representing growth rate of 19.6% to 23.4%.
- **Key points: 1) We expect that total subscription-based paying membership accounts will surpass 3 mn in 2018. 2) Job category continues driving overall growth.** Thanks to the effect of economies of scale, increase in coverage areas, and more differentiated products, 58.com might take advantage to cement its position in the online recruitment market. **3) Housing category is expected to be stable in 2018.** We expect that revenue from housing category will grow 11% yoy in FY18. **4.) The Company continues to invest in high potential new businesses.** Despite short-term margin fluctuations, we think the new investments could be a catalyst to boost valuation in the future.
- **Maintain Target Price at US\$ 90.00 with investment rating as "Accumulate".** Stable housing category and positive job category is expected to be sustained in 2018. The reduced loss from 58 Home offsets the negative impact of decline in margins. Our TP represents 6.8x 2018E PS and 38.5x 2018E non-GAAP PE.
- **58 同城("公司")2018 年第一季度业绩高于市场预期。**2018 年第一季度收入达到人民币 2,471.2 百万元, 同比增 24.3%, 超预期 4.3%及此前收入指引上限。毛利率达 89.6%, 同比轻微下滑 0.4 个百分点。非 GAAP 股东净利润达到人民币 305.8 百万元, 同比猛增 189.2%, 非 GAAP 净利率达 12.4%, 同比改善 7.1 个百分点。2018 年第二季度收入指引在人民币 3,100 百万元至人民币 3,200 百万元, 相当于 19.6%至 23.4%的增长率。
- **要点: 1) 我们预期 2018 年付费会员账户将会超过 3 百万个。2) 招聘类别继续推动整体增长。**受惠于规模效应, 覆盖范围增加及更多差异化产品, 58 同城将得以巩固其在线招聘市场的地位。**3) 房屋类别预计于 2018 年保持稳定。**我们预期房屋类收入将在 2018 年同比增长 11%。**4) 公司继续投资高潜力新业务。**尽管短期利润率波动, 我们认为新投资将是未来提升估值的催化剂。
- **维持目标价为 90.00 美元, 投资评级为“收集”。**稳定的房屋类别和正面的招聘类别预计在 2018 年仍会持续。58 到家所带来的亏损减少抵销利润率下跌的负面影响。目标价相当于 6.8 倍 2018 年预测市销率和 38.5 倍的 2018 年预测非 GAAP 市盈率。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

US\$90.00

Revised from 原目标价:

US\$90.00

ADS price ADS 价格:

US\$66.730

Stock performance

股价表现



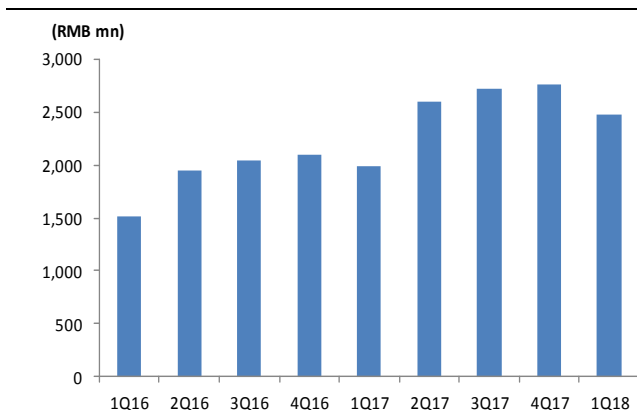
| Change in ADS Price | 1 M | 3 M | 1 Y |
|---------------------------------|---------|---------|-------|
| 股价变动 | 1 个月 | 3 个月 | 1 年 |
| Abs. % 绝对变动 % | (20.39) | (14.53) | 52.49 |
| Rel. % to NASDAQ Index 相对纳指变动 % | (19.02) | (21.07) | 29.70 |
| Avg. ADS price(US\$) 平均股价 (美元) | 85.94 | 82.00 | 68.16 |

Source: Bloomberg, Guotai Junan International.

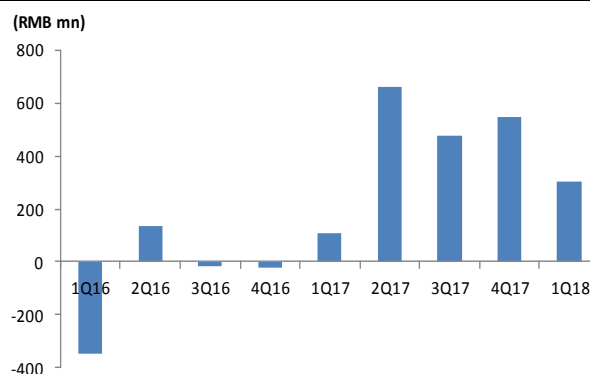
| Year End | Turnover | Net Profit | Earnings/ADS | Earnings/ADS | PER | BV/ADS | PBR | DP ADS | Yield | ROE |
|--------------------------|-------------------|------------|-----------------|--------------|--|---------|-----------|--------|----------|--------|
| 年结 | 收入 | 股东净利 | 每份 ADS 净利 | 每份 ADS 净利变 | 市盈率 | 每股 ADS | 市净率 | 每股 ADS | 股息率 | 净资产收益率 |
| 12/31 | (RMB m) | (RMB m) | (RMB) | (Δ %) | (x) | (RMB) | (x) | (RMB) | (%) | (%) |
| 2016A | 7,592 | (784) | (5.462) | n.a. | (84.8) | 123.344 | 3.8 | 0.000 | 0.0 | (4.4) |
| 2017A | 10,069 | 1,285 | 8.818 | n.a. | 47.9 | 134.443 | 3.1 | 0.000 | 0.0 | 6.9 |
| 2018F | 12,305 | 1,715 | 11.206 | 27.1 | 37.7 | 139.246 | 3.0 | 0.000 | 0.0 | 8.4 |
| 2019F | 14,668 | 2,257 | 14.044 | 25.3 | 30.1 | 146.658 | 2.9 | 0.000 | 0.0 | 10.1 |
| 2020F | 16,931 | 2,851 | 16.897 | 20.3 | 25.0 | 156.570 | 2.7 | 0.000 | 0.0 | 11.4 |
| ADS in issue (m) | 总 ADS 数 (m) | | 147.0 | | Major shareholder 大股东 | | JinBo Yao | | 10.5% | |
| Market cap. (US\$ m) | 市值 (US\$ m) | | 9,809.3 | | Free float (%) 自由流通比率 (%) | | | | 89.5 | |
| 3 month average vol. | 3 个月平均成交股数 ('000) | | 1,026.4 | | FY18 Net gearing (%) FY18 净负债/股东资金 (%) | | | | Net Cash | |
| 52 Weeks high/low (US\$) | 52 周高/低 (US\$) | | 89.900 / 42.920 | | FY18 PS FY18 市销率 | | | | 5.1 | |

Source: the Company, Guotai Junan International.

58.com Inc ("58.com" or the "Company") posted consensus-beating 1Q18 results. During 1Q18, total revenue reached RMB 2,471.2 mn, up 24.3% yoy, beating consensus by 4.3% and exceeding the higher end of the Company's previous guidance. Revenue was mainly generated from memberships and online marketing services, which contributed RMB 928.9 mn and RMB 1,492.0 mn, respectively. Gross margin hit 89.6%, a slight decrease of 0.4 ppts yoy. Non GAAP net income attributable to ordinary shareholders reached RMB 305.8 mn, surging 189.2% yoy, while non-GAAP net margin stood at 12.4%, improving by 7.1 ppts yoy. 2Q18 revenue guidance was between RMB 3,100 mn and RMB 3,200 mn, representing growth rate of 19.6% to 23.4%.

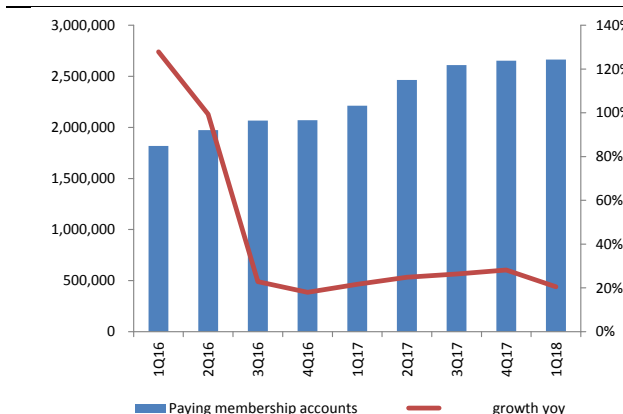
Figure-1: 58.com's Quarterly Revenue


Source: the Company, Guotai Junan International.

Figure-2: 58.com's Quarterly Non-GAAP Net Income


Source: the Company, Guotai Junan International.

We expect that total subscription-based paying membership accounts will surpass 3 mn in 2018; total membership accounts was 2,665,000 in 1Q18, up 20.5% yoy. Thanks to solid growth of subscription-based membership accounts, membership revenue grew 17.1% yoy to RMB 928.9 mn during the period of 1Q18. The growth rate was the lowest level since 1Q17 in terms of paying membership accounts and membership revenue. We maintain our view on total subscription-based paying membership accounts, which is likely to surpass 3 mn in 2018, mainly driven by increasing coverage area in China. However, the expanding schedule is slightly lagging behind our expectation. It might start in 2Q18, so that membership revenue might grow slower than we expected. Meanwhile, we think growth of subscription-based paying accounts might decelerate after the completion of expanding coverage area in FY18. To conclude, we trim down our expectations on the revenue growth from memberships for FY18-FY20 by 3.7 ppts / 5.9 ppts / 7.6 ppts to 17.8%, 14.1% and 10.9%, respectively.

Figure-3: Growth of Paying Membership Accounts


Source: the Company, Guotai Junan International.

Figure-4: 58.com's Quarterly Membership Revenue

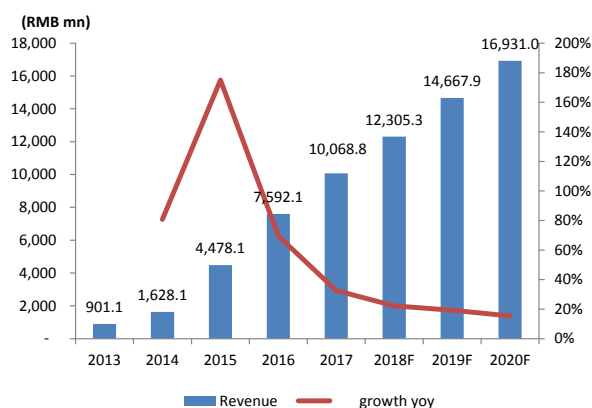

Source: the Company, Guotai Junan International.

Job category continues to drive overall growth. According to the Company's guidance, online recruitment business accounted for approximately 33% of total revenue during 1Q18. Based on our rough calculation, it reached approximately RMB 815.5 mn, up 36.7% yoy. The Company is striving to boost the revenue contribution of the online recruitment business and it is targeting to achieve 40% by the end of 2018, compared to 30% in 2017. According to a 1Q18 recruitment report published by 58.com on 20 Apr 2018, recruitment traffic volume on their App increased 40% yoy; job posting increased 30% yoy while the number of resumes uploaded increased 32% yoy during the period of 1Q18. This reflects that the online recruitment service

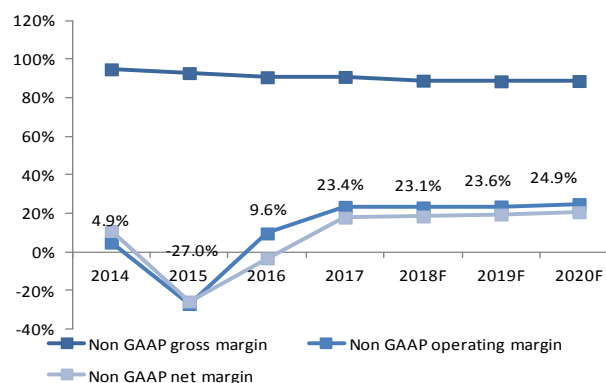
remains in high demand. Meanwhile, the Company is not only continuously expanding into lower-tier cities, but is also putting more effort into the development of more differentiated products in online recruitment business. From our point of view, the outlook on online recruitment business remains positive. Thanks to the effect of economies of scale, increasing coverage area, and more differentiated products, 58.com might take advantage to cement its position in the online recruitment market. We expect that the Company's online recruitment business could keep growing at a faster pace and it is expected to become the most profitable business of the Company by 2019. Overall, online recruitment business might achieve close to 50% of revenue growth in FY18.

The housing category is expected to be stable in 2018. Undoubtedly, property curbs are expected to be sustained in the housing market in order to prevent big price fluctuations, especially the top-tier cities. Unlike the top-tier cities, housing markets in the lower-tier cities might be relatively healthy due to lower housing prices and fewer property curbs. Against this backdrop, the Company would further penetrate into lower-tier cities and the housing rental market. The Company announced that they would pay approximately RMB 1.068 bn in cash in exchange for a minority stake of 8.28% of 515J Holding Group Co., Ltd. ("515J", 000560.SZ), a major secondary and rental brokerage company in China. In addition, the Company also announced that it will launch an investment fund with potential funding from both 58.com and other investors and partners, in order to explore potential investment opportunities in the brokerage industry. We think that the Company is seeking more traffic volume from the offline brokerage industry, which might help the Company further expand its coverage area and housing related services. Meanwhile, more diversified services and product offerings is a way to better control and diversify the risk. In our opinion, the housing market is going to be stable as everyone is expecting property curbs to be continuously implemented in FY18. We expect that the revenue of housing category will grow 11% yoy in FY18, which accounts for over 35% of total revenue.

The Company continues to invest in high potential new businesses, such as Zhuan Zhuan and 58 Town. As we discussed above, the expanding schedule is somehow lagging behind our expectation. During 1Q18 earnings conference call, the management said that they increased the market budget of Zhuan Zhuan from late March, and they would continue raising Zhuan Zhuan's market budget in the period of 2Q18-3Q18. What's more, the loss incurred in Zhuan Zhuan is expected to be more than that of 2017. Furthermore, 58 Town is targeting to cover 30,000 towns by the end of 2018, compared to 8,000 towns currently. From our point of view, the new businesses development will fuel the Company's long-term growth, which could create long-term values for the Company. However, the short-term margins must be relinquished. We revise down our gross margin forecasts for FY18-FY20 by 1.7 pts / 2.0 pts / 1.5 pts to 88.9%, 88.5% and 88.7%, respectively. Furthermore, based on the expectation of increasing market budget and the loss incurred by Zhuan Zhuan, we adjust down our non-GAAP operating margin forecast for FY18-FY20 by 0.7 pts / 0.6 pts / 0.4 pts to 23.1%, 23.6% and 24.9%, respectively. Despite short-term margin fluctuations, we think the new investments could be a catalyst that boosts valuation in the future.

Figure-5: 58.com's Revenue Growth


Source: the Company, Guotai Junan International.

Figure-6: 58.com's Profit Margin Estimates


Source: the Company, Guotai Junan International.

Maintain Target Price at US\$ 90.00 with investment rating as "Accumulate". Although 58.com posted consensus-beating 1Q18 results, we think this was due to the postponed expansion schedule. Looking ahead, increase in spending and increasing loss incurred by Zhuan Zhuan could hurt margins. Besides, the Company might only book RMB 100 mn in equity loss from 58 Home in FY18, according to the management. That's good news for the Company and is less than our previous expectation. This offsets the negative impact of decline in margin. A stable housing category and positive job category is expected to be sustained in 2018. We adjust non-GAAP net income attributable to ordinary shareholders estimates for FY18-FY20 by 3.0% / 1.5% / -2.6% to RMB 2,268.0 mn, RMB 2,849.4 mn and RMB 3,493.6 mn, respectively. Our TP represents 6.8x 2018E PS and

38.5x 2018E non-GAAP PE. Risk factors: further policy tightening in the property market; lower-than-expected growth in online recruitment business; failure in incubating new businesses or unsuccessful development of business in lower-tier cities.

Table 1: Quarterly Results of 58 Group

| (RMB Million) | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 1Q18 yoy | 2Q18F | 3Q18F |
|---|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|
| Total revenues | 1,988.3 | 2,593.3 | 2,722.5 | 2,764.7 | 2,471.2 | 24.3% | 3,158.0 | 3,315.3 |
| Cost of revenues | (199.6) | (235.3) | (227.8) | (262.9) | (257.9) | n.a. | (353.7) | (381.3) |
| Gross profit | 1,788.7 | 2,358.0 | 2,494.8 | 2,501.8 | 2,213.2 | 23.7% | 2,804.3 | 2,934.0 |
| Sales and marketing expenses | (1,246.0) | (1,281.6) | (1,346.2) | (1,338.6) | (1,439.2) | n.a. | (1,610.6) | (1,657.6) |
| Research and development expenses | (314.5) | (323.2) | (372.9) | (357.9) | (346.4) | n.a. | (416.9) | (457.5) |
| General and administrative expenses | (150.3) | (170.9) | (253.3) | (191.6) | (160.8) | n.a. | (186.0) | (265.3) |
| Income/(loss) from operations | 77.9 | 582.4 | 522.4 | 613.7 | 266.8 | 242.4% | 590.9 | 553.6 |
| Interest income | (5.8) | (5.0) | 1.7 | 7.5 | 1.2 | n.a. | 1.1 | 1.0 |
| Investment income/(loss), net | 7.6 | 251.1 | 56.0 | 27.5 | 41.1 | 438.8% | 39.0 | 37.1 |
| Foreign currency exchange income/(loss), net | (0.0) | 0.2 | 0.3 | 0.3 | 0.9 | n.a. | 0.1 | 0.1 |
| Share of results of equity investees | (99.1) | (207.9) | (182.1) | (198.3) | (37.3) | n.a. | (26.0) | (26.0) |
| Others, net | 0.5 | 3.1 | 42.7 | 39.2 | 3.0 | 535.0% | 3.1 | 3.3 |
| Income/(loss) before tax | (18.9) | 623.9 | 441.0 | 489.9 | 275.6 | n.a. | 608.3 | 569.0 |
| Income tax benefits/(expenses) | 2.0 | (55.4) | (51.2) | (42.1) | (70.1) | n.a. | (109.5) | (102.4) |
| Net income/(loss) | (16.9) | 568.6 | 389.9 | 447.7 | 205.5 | n.a. | 498.8 | 466.6 |
| Add: Net loss attributable to non controlling interests | (0.1) | (2.0) | (1.8) | (0.8) | 0.8 | n.a. | (1.7) | (1.6) |
| Deemed dividend to mezzanine classified non controlling interests | (4.5) | (27.3) | (34.8) | (32.9) | (31.8) | n.a. | (32.4) | (33.0) |
| Net income/(loss) attributable to 58.com Inc. | (21.5) | 539.3 | 353.3 | 414.1 | 174.6 | n.a. | 464.6 | 431.9 |
| Basic ADS | (0.148) | 3.709 | 2.421 | 2.823 | 1.187 | n.a. | 3.149 | 2.919 |
| Diluted ADS | (0.148) | 3.669 | 2.383 | 2.782 | 1.168 | n.a. | 3.149 | 2.919 |
| Non GAAP operating profit | 217.2 | 716.1 | 663.4 | 762.5 | 411.6 | 89.5% | 731.5 | 708.4 |
| Non GAAP net income | 105.7 | 661.6 | 478.7 | 549.0 | 305.8 | 189.2% | 591.4 | 572.9 |

Source: the Company, Guotai Junan International.

Table-2: Peers Comparison

| Table 2: PEGs Comparison | | | | | | | | | | | |
|-------------------------------------|------------|----------|------------|-------------|-------------|--------|--------|-------------|-------|-------|-----------|
| Company | Stock Code | Currency | Last price | Market Cap | Adjusted PE | | | Price/Sales | | | PEG |
| | | | | mn HKD | FY18F | FY19F | FY20F | FY18F | FY19F | FY20F | FY18-FY20 |
| Global Large Ecommerce Conglomerate | | | | | | | | | | | |
| Alibaba Group Holding-Sp Adr | BABA US | USD | 184.75 | 3,711,523.4 | 30.7* | 23.6* | 17.6 * | 8.2 * | 6.1* | 4.6 * | 1.0 # |
| Ebay Inc | EBAY US | USD | 36.64 | 285,669.8 | 16.0 | 13.9 | 11.8 | 3.3 | 3.1 | 2.8 | 1.0 |
| Amazon.Com Inc | AMZN US | USD | 1693.96 | 6,447,332.7 | 81.0 | 59.1 | 40.8 | 3.5 | 2.8 | 2.4 | 2.0 |
| Yahoo Japan Corp | 4689 JT | JPY | 352 | 142,554.4 | 15.3* | 17.9 * | 15.6 * | 2.2 * | 2.1 * | 2.0* | 1.3 # |
| Rakuten Inc | 4755 JT | JPY | 712.2 | 72,631.3 | 13.2 | 13.0 | 13.1 | 0.9 | 0.8 | 0.7 | 29.7 |
| Simple Average | | | | | 31.2 | 25.5 | 19.8 | 3.6 | 3.0 | 2.5 | 7.0 |
| Weighted Average | | | | | 60.4 | 44.7 | 31.4 | 5.1 | 3.9 | 3.1 | 1.8 |
| China Vertical Ecommerce | | | | | | | | | | | |
| Jd.Com Inc-Adr | JD US | USD | 38.38 | 431,795.4 | 64.4 | 39.1 | 27.5 | 0.8 | 0.6 | 0.5 | 1.2 |
| Vipshop Holdings Ltd - Adr | VIPS US | USD | 10.82 | 55,931.6 | 15.4 | 11.4 | 8.4 | 0.5 | 0.4 | 0.4 | 0.4 |
| 58.Com Inc-Adr | WUBA US | USD | 66.73 | 77,137.7 | 27.8 | 20.3 | 16.6 | 5.3 | 4.4 | 3.7 | 0.9 |
| Ctrip.Com International-Adr | CTRP US | USD | 46.45 | 198,649.8 | 37.9 | 28.0 | 20.2 | 5.3 | 4.2 | 3.6 | 1.0 |
| Simple Average | | | | | 36.4 | 24.7 | 18.2 | 3.0 | 2.4 | 2.0 | 0.9 |
| Weighted Average | | | | | 50.2 | 32.3 | 23.1 | 2.4 | 1.9 | 1.6 | 1.1 |
| China Internet Conglomerate | | | | | | | | | | | |
| Tencent Holdings Ltd | 700 HK | HKD | 384.6 | 3,655,274.5 | 36.8 | 27.7 | 21.6 | 9.2 | 6.8 | 5.3 | 1.2 |
| Baidu Inc - Spon Adr | BIDU US | USD | 246.43 | 674,084.7 | 25.5 | 21.4 | 17.8 | 5.6 | 4.6 | 4.0 | 1.3 |
| Simple Average | | | | | 31.1 | 24.6 | 19.7 | 7.4 | 5.7 | 4.7 | 1.2 |
| Weighted Average | | | | | 35.0 | 26.8 | 21.0 | 8.6 | 6.5 | 5.1 | 1.2 |
| Global HR Companies | | | | | | | | | | | |
| Recruit Holdings Co Ltd | 6098 JT | JPY | 2979.5 | 359,218.0 | 33.2* | 30.8 * | 26.3 * | 2.3 * | 2.2 * | 2.0 * | 1.4 # |
| Manpowergroup Inc | MAN US | USD | 85.25 | 44,019.6 | 9.7 | 9.5 | 8.4 | 0.2 | 0.2 | 0.2 | 1.3 |
| Randstad Holding Nv | RAND NA | EUR | 50.18 | 84,197.7 | 11.1 | 10.6 | 10.2 | 0.4 | 0.4 | 0.4 | 2.4 |
| 51Job Inc-Adr | JOBS US | USD | 95.78 | 46,808.4 | 33.1 | 26.3 | 20.9 | 10.6 | 8.7 | 7.2 | 1.3 |
| Simple Average | | | | | 21.8 | 19.3 | 16.4 | 3.4 | 2.9 | 2.4 | 1.6 |
| Weighted Average | | | | | 27.8 | 25.5 | 21.8 | 2.6 | 2.3 | 2.1 | 1.5 |
| Simple Average | | | | | 30.1 | 23.5 | 18.4 | 3.9 | 3.2 | 2.6 | 3.2 |
| Weighted Average | | | | | 52.1 | 38.7 | 27.9 | 5.8 | 4.5 | 3.6 | 1.6 |

Source: Bloomberg, Guotai Junan International.

Note: * represents the figures of FY19/FY20/FY21, and # represents the figures of FY19-FY21

Financial Statements and Ratios

| Income Statement | | | | | |
|--|---------|---------|---------|---------|---------|
| Year end 31 Dec (RMB mn) | 2016A | 2017A | 2018F | 2019F | 2020F |
| Total Revenue | 7,592 | 10,069 | 12,305 | 14,668 | 16,931 |
| Cost of revenues | (707) | (925) | (1,369) | (1,683) | (1,917) |
| Gross profit | 6,885 | 9,143 | 10,936 | 12,985 | 15,014 |
| Sales and marketing expenses | (4,941) | (5,212) | (6,186) | (7,234) | (8,189) |
| Research and development expenses | (1,108) | (1,368) | (1,674) | (1,960) | (2,220) |
| General and administrative expenses | (602) | (766) | (838) | (973) | (1,088) |
| Operating Profit | 234 | 1,796 | 2,237 | 2,819 | 3,517 |
| Interest income | (49) | (2) | (8) | (5) | (5) |
| Investment income/(loss), net | (145) | 342 | 152 | 168 | 173 |
| Foreign currency exchange income/(loss), net | (4) | 1 | 1 | 0 | 0 |
| Share of results of equity investees | (927) | (687) | (113) | (102) | (92) |
| Gain on deconsolidation and disposal of businesses | 80 | 0 | 0 | 0 | 0 |
| Others, net | (13) | 85 | 13 | 13 | 16 |
| Profit Before Tax | (824) | 1,536 | 2,282 | 2,894 | 3,610 |
| Income Tax | 51 | (147) | (431) | (494) | (614) |
| profit After Tax | (773) | 1,389 | 1,851 | 2,400 | 2,996 |
| Add: Net loss attributable to noncontrolling interests | 5 | (5) | (5) | (8) | (10) |
| Deemed dividend to mezzanine classified noncontrolling interests | (16) | (100) | (131) | (135) | (135) |
| Shareholders' Profit / Loss | (784) | 1,285 | 1,715 | 2,257 | 2,851 |
| Basic EPADS | (2,731) | 4,409 | 5,603 | 7,021 | 8,448 |
| Basic Earnings per ADS | (5.462) | 8.818 | 11.206 | 14.044 | 16.897 |
| Weighted average shares outstanding | | | | | |
| Basic mn shares | 287 | 291 | 306 | 321 | 337 |
| ADS Basic mn shares | 143 | 146 | 153 | 161 | 169 |
| Non GAAP gross profit | 6,885 | 9,147 | 10,940 | 12,989 | 15,019 |
| Non GAAP operating profit | 730 | 2,359 | 2,843 | 3,465 | 4,211 |
| Non GAAP net income attributable to 58.com Inc. | (254) | 1,795 | 2,266 | 2,848 | 3,492 |

| Cash Flow Statement | | | | | |
|--|---------|---------|---------|---------|---------|
| Year end 31 Dec (RMB mn) | 2016A | 2017A | 2018F | 2019F | 2020F |
| Net income/(loss) | (773) | 1,389 | 1,851 | 2,400 | 2,996 |
| Share-based compensation | 267 | 351 | 390 | 429 | 487 |
| DD&A | 407 | 436 | 453 | 478 | 505 |
| Other non cash gains or loss | 1,163 | 325 | (246) | (278) | (306) |
| Working capital change | 825 | 197 | 416 | 18 | (371) |
| Cash from Operating Activities | 1,888 | 2,697 | 2,864 | 3,045 | 3,311 |
| Investing activities | | | | | |
| Capital expenditure | (213) | (121) | (338) | (365) | (394) |
| Investment | (2,581) | (2,759) | (1,059) | (832) | (1,042) |
| Other cash proceeds related to investing activities. | (1,155) | 18 | (396) | (476) | (571) |
| Cash from Investing Activities | (3,948) | (2,862) | (1,793) | (1,672) | (2,007) |
| Financing activities | | | | | |
| New share issuance | 21 | 1,474 | 111 | 122 | 134 |
| Net borrowings | 9 | (1,064) | (800) | (640) | (560) |
| Others | 28 | 161 | 489 | (261) | (154) |
| Cash from Financing Activities | 59 | 571 | (200) | (779) | (580) |
| Effect of exchange rate changes on cash and cash equivalents | 64 | (82) | (95) | (109) | (125) |
| Net Changes in Cash | (1,940) | 325 | 776 | 486 | 599 |
| Cash at Beg of Year | 3,138 | 1,200 | 1,525 | 2,301 | 2,787 |
| Cash at End of Year | 1,200 | 1,525 | 2,301 | 2,787 | 3,386 |

| Balance Sheet | | | | | |
|--|---------|---------|---------|---------|---------|
| Year end 31 Dec (RMB mn) | 2016A | 2017A | 2018F | 2019F | 2020F |
| Property and equipment, net | 1,481 | 1,352 | 1,460 | 1,577 | 1,703 |
| Restricted cash-non-current | 0 | 792 | 816 | 840 | 899 |
| Intangible assets, net | 1,532 | 1,310 | 1,351 | 1,391 | 1,433 |
| Land use rights, net | 4 | 4 | 4 | 4 | 5 |
| Goodwill | 15,904 | 15,865 | 16,023 | 16,184 | 16,993 |
| Long-term investments | 2,118 | 1,809 | 1,859 | 1,952 | 2,050 |
| Long-term prepayments | 224 | 755 | 816 | 856 | 899 |
| Total Non-current Assets | 21,263 | 21,885 | 22,328 | 22,805 | 23,982 |
| Cash & Cash Equivalents | 1,200 | 1,525 | 2,301 | 2,787 | 3,386 |
| Restricted cash | 1,152 | 93 | 98 | 103 | 118 |
| Term deposits | 26 | 0 | 0 | 0 | 0 |
| Short-term investments | 833 | 3,438 | 4,297 | 4,942 | 5,831 |
| Accounts receivable, net | 425 | 668 | 748 | 899 | 984 |
| Prepayments and other current assets | 426 | 657 | 826 | 862 | 901 |
| Total Current Assets | 4,063 | 6,381 | 8,271 | 9,593 | 11,221 |
| Total Assets | 25,326 | 28,267 | 30,599 | 32,397 | 35,202 |
| Short-term loan | 1,843 | 75 | 76 | 18 | 18 |
| Accounts payable | 612 | 624 | 752 | 728 | 784 |
| Deferred revenues | 1,846 | 2,124 | 2,461 | 2,522 | 2,302 |
| Customer advances and deposits | 1,236 | 1,365 | 1,399 | 1,494 | 1,567 |
| Taxes payable | 62 | 186 | 196 | 206 | 216 |
| Salary and welfare payable | 554 | 537 | 589 | 632 | 648 |
| Accrued expenses and other current liabilities | 728 | 689 | 794 | 813 | 857 |
| Total Current Liabilities | 6,880 | 5,801 | 6,268 | 6,414 | 6,392 |
| Long term loans | 150 | 777 | 764 | 185 | 182 |
| Deferred tax liabilities | 374 | 319 | 319 | 287 | 259 |
| Other non-current liabilities | 70 | 17 | 12 | 10 | 8 |
| Total Non-current Liabilities | 594 | 1,114 | 1,095 | 482 | 448 |
| Total Liabilities | 7,474 | 6,715 | 7,363 | 6,896 | 6,840 |
| Mezzanine equity | | | | | |
| Mezzanine equity -non controlling interests | 86 | 1,736 | 1,702 | 1,702 | 1,702 |
| Total mezzanine equity | 86 | 1,736 | 1,702 | 1,702 | 1,702 |
| Total Shareholders' Equity | 17,698 | 19,593 | 21,308 | 23,564 | 26,415 |
| Minority Interest | 67 | 222 | 227 | 235 | 246 |
| Total Equity | 17,766 | 19,815 | 21,535 | 23,800 | 26,660 |
| BVPS | 123.344 | 134.443 | 139.246 | 146.658 | 156.570 |

| Financial Ratios | | | | | |
|---------------------------|-------|--------|-------|-------|-------|
| | 2016A | 2017A | 2018F | 2019F | 2020F |
| Growth % | | | | | |
| Non GAAP gross profit | 65.6% | 32.8% | 19.6% | 18.7% | 15.6% |
| Non GAAP operating profit | n.a. | 223.2% | 20.5% | 21.9% | 21.5% |
| Non GAAP net income | n.a. | n.a. | 26.2% | 25.7% | 22.6% |
| Margin % | | | | | |
| Non GAAP gross margin | 90.7% | 90.8% | 88.9% | 88.6% | 88.7% |
| Non GAAP operating margin | 9.6% | 23.4% | 23.1% | 23.6% | 24.9% |
| Non GAAP Net margin | -3.3% | 17.8% | 18.4% | 19.4% | 20.6% |

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

| Rating | | Definition |
|------------|----|---|
| Buy | 买入 | Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable. |
| Accumulate | 收集 | Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable. |
| Neutral | 中性 | Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral. |
| Reduce | 减持 | Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable. |
| Sell | 卖出 | Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable. |

Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

| Rating | | Definition |
|--------------|------|--|
| Outperform | 跑赢大市 | Relative Performance > 5%; or the fundamental outlook of the sector is favorable. |
| Neutral | 中性 | Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral. |
| Underperform | 跑输大市 | Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable. |

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