

UJU HOLDING LIMITED

A Market Frontrunner in China's Online Marketing Solutions Industry.

UJU Holding Limited ("the Company") provides one-stop cross-media online marketing solutions, in particular online short video marketing solutions, through its media partners for its advertiser customers to market their products and services. According to iResearch, the Company was ranked the second largest online marketing service provider in China in terms of gross billing generated from both online short video advertisements placed on online media platforms in 2020 with market share of approximately 3.0% and advertisements placed on online short video platforms with market share of approximately 3.9% in 2020. In addition, the Company was ranked the largest online marketing service provider in China in terms of gross billing generated from advertisements placed by general e-commerce platform advertisers on online short video platforms in 2020.

Lucrative Business Growth Potential. Being a competent online marketing services provider with more premium media resources, stronger technical capabilities and efficient service capabilities, we believe the Company is in a prime position to seize the lucrative business opportunities ahead. Firstly, the online short video marketing market is expected to sustain a rapid CAGR of 32% during 2021-2023 and reach RMB477.3bn in 2023 as pursuant to iResearch. Secondly, the Company's galloping client base, increasing advertising spending by its clients and the high level of stickiness of its clientele lay the foundation for the Company to further excel in the industry. Last but not least, we believe the Company's foray to live streaming e-commerce business should help propel its business growth and enrich its profitability.

Solid Earnings Growth Outlook. The Company enjoyed a CAGR of 77% for its total gross billing generated from online marketing solutions business from RMB1.97bn in 2018 to RMB10.99bn in 2021. Thanks to the lowering operating cost amid the scale effect from its continuous business expansion that largely compensated for the manageable retreat in gross margin, the Company's net profit registered a CAGR of 72% during 2018-2021. We assume the Company to chalk up 31% CAGR in its revenue during FY21-23, which is backed by the expected 32% CAGR of the online short video marketing market during the same period as well as the new business initiatives planned by the Company. On the assumptions of a stabilized gross margin and lowering operating cost as a percentage of revenue on better economies of scale, we project a CAGR of 42% in the Company's net profit during FY21-23.

Initiate with a Buy Rating. We initiate our coverage on the Company with a Buy rating and a target price of HK\$7.60, which represents a reasonable forward FY22 P/E of 10x or an undemanding PEG of 0.2x.

CMBC Securities Company
 Limited – Research Department

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Earnings Summary

Year Ended Dec 31	2019	2020	2021	2022F	2023F		
Turnover (RMB mn)	3,450.9	6,360.7	7,841.4	10,779.3	13,499.4	Price (as of 12 May)	HK\$5.20
Change (%)	198	84	23	37	25	Target price	HK\$7.60
Net profit (RMB mn)	81.9	133.2	254.4	394.0	510.2	Market cap.	HK\$3,120mn
Change (%)	63	63	91	55	29	Major shareholder:	Mr.Ma Xiaohui (72.0%)
EPS (RMB cents)	19.0	30.8	52.0	65.7	85.0		
Change (%)	63	63	69	26	29		
P/E (X)	23.6	14.5	8.6	6.8	5.3		

Source: 2019-2021 data are from the Company; 2022-23F data are from CMBC Securities Research estimates

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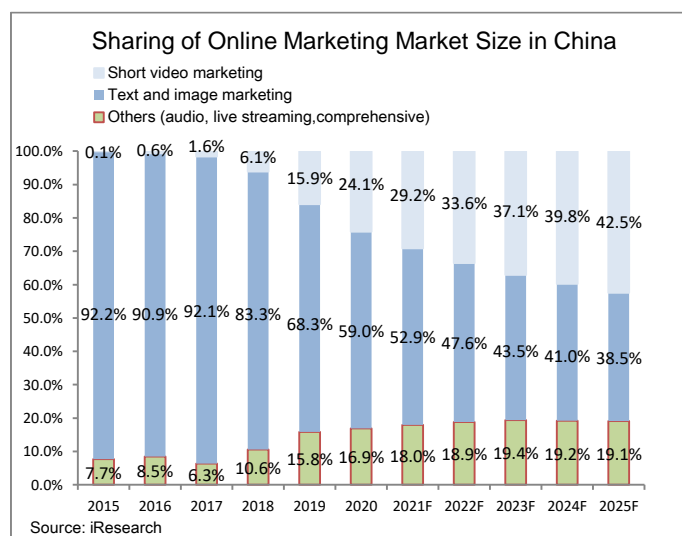
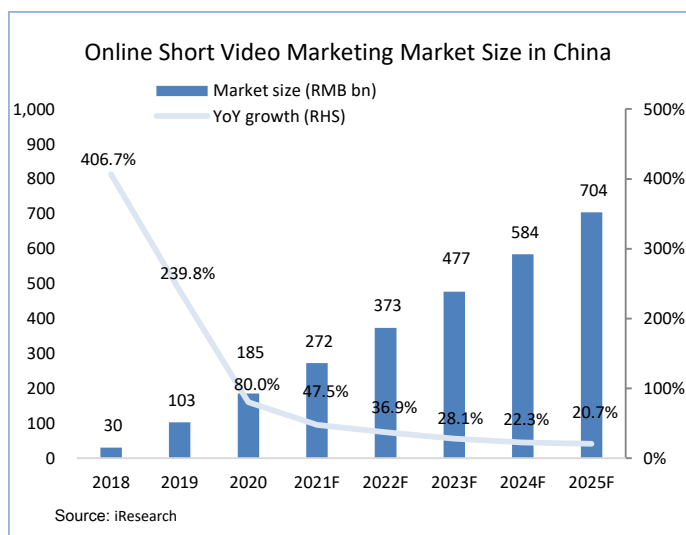
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Industry Overview

The Fast-growing Online Short Video Marketing Market in China

Driven by the fast growth of online short video platforms and increasing popularity of online short video contents amid the attractive, in-depth and immersive viewing experience brought by online short video content, China's online short video marketing market experienced a rapid growth with a CAGR of 147.3% from RMB30.2 bn in 2018 to RMB184.6 bn in 2020. Among the total revenue generated from online marketing industry, the market share of online short video marketing has grown significantly from 6.1% in 2018 to 24.1% in 2020.

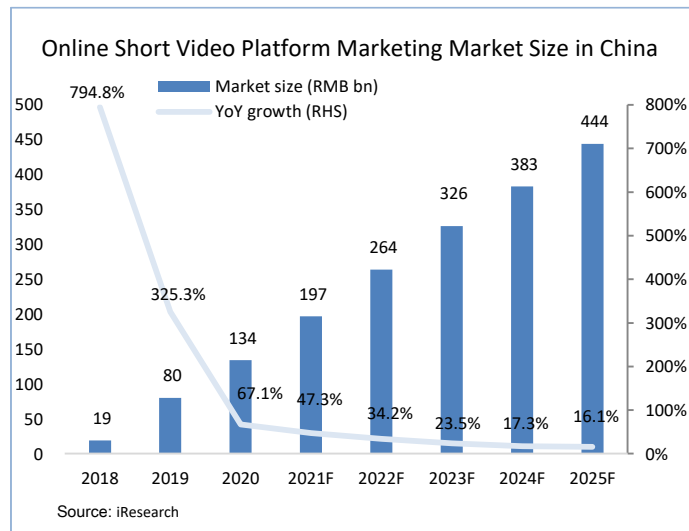
Due to the rapid development of online short video platforms, increasing popularity of online short video marketing solutions as well as the prevalence of internet mobile devices and upgraded information technology infrastructure, online short video marketing market is expected to sustain a CAGR of 30.7% from 2020 to 2025 and increase from RMB184.6 bn in 2020 to RMB704.3 bn in 2025, according to iResearch. The market share of online short video marketing of the total revenue generated from online marketing industry market is expected to increase from 24.1% in 2020 to 42.5% in 2025. Online short video marketing is expected to overtake text and image marketing to account for the largest proportion in China's online marketing industry by 2025.



Promising Online Short Video Platform Marketing Market in China

The rapid growth of online short video platform has significantly inspired the development of online short video marketing market. Thanks to the continued increase in the number of users and the duration of such users on online short video platforms, it lays solid foundation for the expansion of online marketing activities on the online short video platforms and attracts more advertiser customers placing investment budget thereon. As measured by total marketing gross billing, the size of online short video platform marketing market in China increased at a CAGR of 166.7% from RMB18.8 bn in 2018 to RMB133.6 bn in 2020 as pursuant to iResearch.

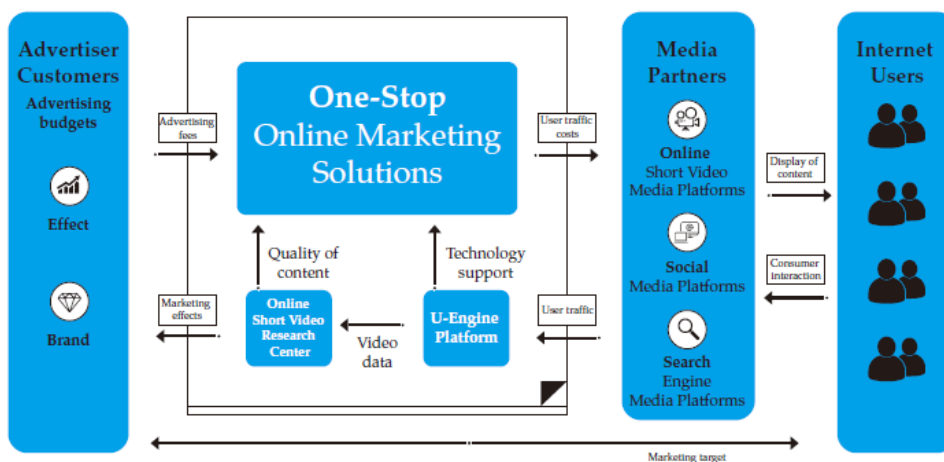
Thanks to the scale-up of the user base and commercialization progress of online short video platforms as well as the continued release and exploration of marketing resources by online short video platforms, online short video platform marketing market is expected to further grow at a CAGR of 27.2% from RMB133.6 bn in 2020 to RMB444.2 bn in 2025.



Company Overview

The Company provides one-stop cross-media online marketing solutions, in particular online short video marketing solutions, through its media partners for its advertiser customers to market their products and services. The Company has been dedicated to providing high-quality, attention-catching and effective online short video marketing solutions empowered by its robust content production capabilities.

Business model for the Company's online marketing solutions business



Source: The

Source: The Company

According to iResearch, the Company was ranked the second largest online marketing service provider in China in terms of gross billing generated from both online short video advertisements placed on online media platforms in 2020 with market share of approximately 3.0% and advertisements placed on online short video platforms with market share of approximately 3.9% in 2020. In addition, the Company was ranked the largest online marketing service provider in China in terms of gross billing generated from advertisements placed by general e-commerce platform advertisers on online short video platforms in 2020.

The Company's advertiser customers primarily include direct advertisers and to a lesser extent, advertising agencies on behalf of their advertisers. In particular, the Company mainly provides online marketing solutions to key account advertiser customers with larger overall marketing budget, or with greater potential to spend large amount of spending on marketing solutions coupled with higher requirements on marketing services.

For its diversified and fast-growing advertiser customers, the Company provides customized marketing solutions by planning, producing, placing and optimizing online advertisements, especially online short video advertisements, to help them acquire, convert and retain final consumers on various leading media platforms.

No. of advertiser customers of online marketing solutions business by type

	2018	2019	2020	2021
Direct advertisers	362	578	792	830
Advertising agencies	122	179	236	384
Total	484	757	1,028	1,214

Source: Company data

Gross billing by type of advertiser customers

	2018		2019		2020		2021	
	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.
Direct advertisers	1,228,936	62.3%	3,512,816	68.2%	6,396,378	73.0%	8,023,131	73.0%
Advertising agencies	743,441	37.7%	1,639,384	31.8%	2,371,163	27.0%	2,964,420	27.0%
Total	1,972,377	100.0%	5,152,199	100.0%	8,767,541	100.0%	10,987,551	100.0%

Source: Company data

Various Types of Online Marketing Solutions

The Company generally places its online short video advertisements on leading online short video platforms in China. These advertisements are naturally integrated in attractive narrative forms, such as short stories, celebrity recommendation and daily life presentation well-tailored to the needs of the final consumers.

The advertisement campaigns are integrated seamlessly in the content of the online short videos, which can convey rich and in-depth marketing information to the final consumers in the short display period. Final customers would be redirected to the page designated by the Company's advertiser customers when they click on the links embedded in the online short video advertisements.

The Company also provides other forms of online marketing solutions to its advertiser customers in order to satisfy their diverse online advertisement needs. These solutions primarily include text and image creatives in various formats which are delivered to final consumers through social media platforms or major search engine media platforms.

Premium Media Partner and Advertiser Bases

The Company enjoys notable network effects in the online short video marketing solutions business, which is mainly thanks to the breath, size and quality of its premium media partner base and selected, diversified and fast-growing advertiser base.

The total number of media partners increased from 32 as at FY20-end to 51 as at FY21-end. Among them, the Company has entrenched cooperation with premium media partners for its online marketing solutions business and the number of premium media partners increased from 11 as at FY20-end to 14 as at FY21-end, covering short video platforms, social platforms, search engines and mobile application markets.

No. of media partners of online marketing solutions business by type

	2018	2019	2020	2021
Online platforms	7	8	8	14
Media agents	43	38	24	37
Total	50	46	32	51

Source: Company data

On the advertiser front, the Company served a variety of diversified and fast-growing advertiser customers who have strong needs for online marketing solutions. The Company's advertiser customers encompass a wide array of industry verticals, such as e-commerce, internet services, gaming, leisure & traveling, education, financial services and real estate & home furnishing industries.

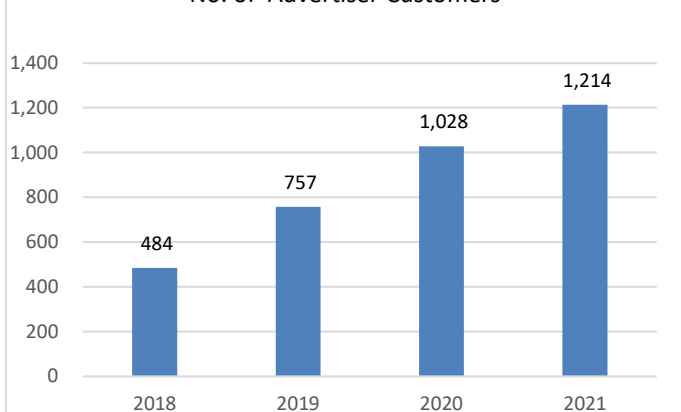
Leveraging its extensive coverage of top players in various industry verticals, the Company is able to accumulate in-depth understanding and knowledge in various industries. This in turns enables the Company create high-quality customized solutions precisely reaching target consumers and maximize its advertiser customers' return on marketing investment.

On the other side of the coin, the rapidly expanding advertiser customers empowers the Company to place more online short video advertisements and further improve the ad inventory monetization efficiency for its premium media partners. The close relationships with premium media partners and proven track record with diverse advertiser customers will continue to support the Company's business growth.

Galloping Client Base with Proven Stickiness

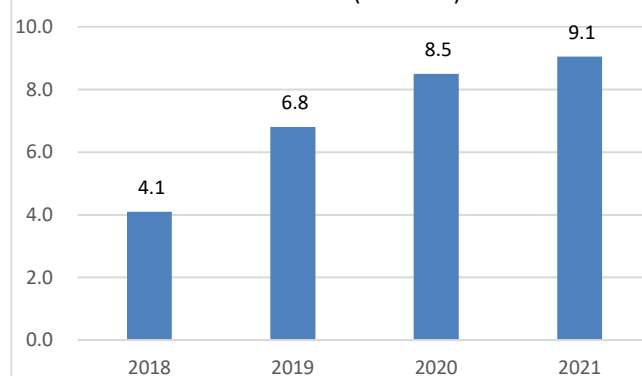
The Company's strong business growth is courtesy of its galloping client base, increasing spending by its clients with proven stickiness. The total number of the Company's advertiser customers increased from 484 in 2018 to 757 in 2019, 1,028 in 2020 and 1,214 in 2021. The average gross billing generated by each advertiser customer increased from RMB4.1 mn in 2018 to RMB6.8 mn in 2019, RMB8.5 mn in 2020 and RMB9.1 mn in 2021.

No. of Advertiser Customers



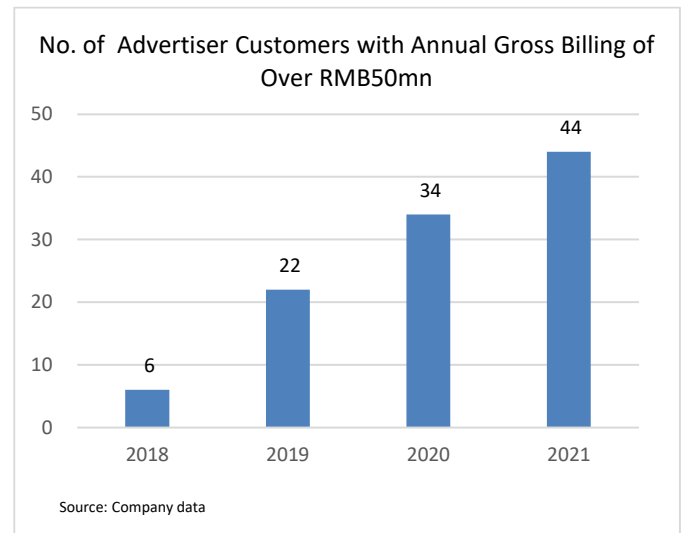
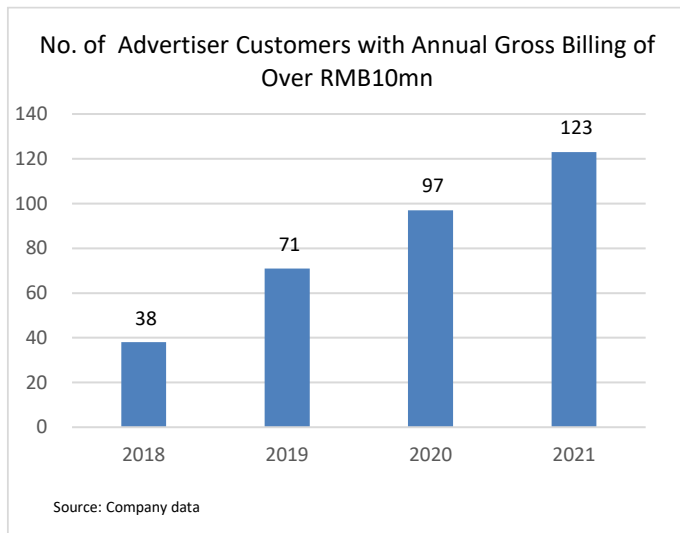
Source: Company data

Average Gross Billing Generated by Each Advertiser Customer (RMB mn)



Source: Company data

The total number of advertiser customers with gross billing of over RMB10mn on online marketing solutions were 38, 71, 97 and 123 in 2018, 2019, 2020 and 2021, respectively. The retention rates of such advertiser customers were 92% in 2019, 90% in 2020 and 94% in 2021. Retention rate represents the percentage of the advertiser customers in a given financial year that is retained in the following year. The total number of advertiser customers with gross billing of over RMB50mn on online marketing solutions were 6, 22, 34 and 44 in 2018, 2019, 2020 and 2021, respectively. The retention rates of such customers were 100% in 2019, 95% in 2020 and 100% in 2021.



The net dollar extension rates for advertiser customers with gross billing of over RMB10mn on online marketing solutions were 50.7% in 2019, 34.7% in 2020 and 29.3% in 2021. The net dollar extension rates for advertiser customers with gross billing of over RMB50mn on online marketing solutions were 64.7% in 2019, 34.1% in 2020 and 23.9% in 2021.

Net dollar expansion rate is an indicator for the long term value of business relationship with its advertiser customers and the Company's ability to retain and grow revenue from such advertiser customers. Net dollar expansion rate is calculated by putting the revenue contribution from such advertiser customers in one given year as the denominator and the contribution from the same group of advertiser customers in the following year as numerator.

Robust and Efficient Content Production Capabilities

The Company's robust creative content production capability is one of its core competences that allows the Company to differentiate from and outperform its competitors. Compared to its competitors, the Company is more capable of formulating insightful and creative marketing initiatives, precisely identify final consumers and deliver attractive and tailor-made marketing solutions to maximize the marketing returns for its advertiser customers.

The Company boasted a content production team of 291 persons as at the end of 2021, including editors, scriptwriters, directors and photographers and other supporting staff with the capacity to produce over 26,000 pieces of online short videos and marketing creatives each month.

The Company has built online short video shooting base each in Beijing, Chongqing and Wuhan, and all of them are equipped with advanced professional equipment. In particular, the shooting bases in Beijing have a total area of over 5,000 square meters with over 30 different shooting scenarios, enabling the Company to cater to diverse short video demands and preferences of its advertiser customers from various industry verticals.

After integrating years of online marketing experiences, the Company launched its proprietary technology-based online marketing solutions services platform, which is called the U-engine platform. Featuring with routing, labeling and digitization, the U-engine platform manages the contents with structured digital labels throughout the whole life cycle of each piece of short-video advertising. The system deploys a variety of algorithm-driven technologies such as image recognition, face recognition and big data to carry out the advertising performance attribution analysis for the purpose of intelligent content production.

Variant Pricing Models

The Company charges its direct advertiser customers or advertising agencies who represent their respective advertisers for its online marketing solutions based on CPC (Cost-Per-Click) or CPT (Cost-Per-Time) mechanism. The Company recognizes revenue when specified action (click-throughs or display of one thousand impressions) is performed. Most of its direct advertiser customers are charged based on CPC mechanism. Generally, the Company charges advertiser customers based on the same pricing model as media partners charge the Company for traffic acquisition cost.

The CPC mechanism is a performance-based metric whereby the Company will charge its customers when an audience clicks the online marketing solutions placed the Company. Under the CPT mechanism, the Company will charge its customers for placing a piece of online short video for a specific period of time contractually agreed by the advertiser customers and the Company.

Based on the Company's role under each particular contract with advertiser customers, the Company recognizes revenue from online marketing solutions business either on a gross or net basis. For contracts whereby the Company acts as a principal and provide all-in-one online marketing solution service, the Company will recognize related revenue on a gross basis. Meanwhile, the Company will recognize revenue on a net basis for contracts where it acts as an agent and only involve for the advertisement distribution services.

In determining whether the Company is acting as a principal or an agent in the provision of online marketing solutions, the Company's management will consider the following circumstances. If the Company is the primary obligor in a transaction, or has control in determining prices or selecting online publishers, the Company is deemed as a principal and will record revenue on a gross basis. Otherwise, the Company is deemed as an agent and record the net amount earned as commission from the service it provides.

For all-in-one online marketing solutions services, the typical situation is that the Company will act as the primary obligor and responsible for (i) identifying and contracting with third-party advertisers and delivering the specified integrated services to the advertisers; (ii) bearing certain risks of loss as the cost incurred for producing contents, formulating advertisement campaign and acquiring user traffic from media platforms cannot be compensated by the total consideration received from the advertisers, which is similar to inventory risk; and (iii) performing all the billing and collection activities, including retaining credit risk.

For advertisement distribution services, the advertisements are published on the targeted media platforms as determined by the customers and online publisher, rather than the Company, is primarily responsible for providing the media publishing service. Therefore, the Company is not the principal in executing these transactions.

Media partners may grant rebates to the Company in various forms: (i) prepayments for future traffic acquisition; (ii) net off the trade payables owed by the Company; or (iii) cash payment based on the gross spending of the advertisers. The Company will record such rebates as reduction of cost of services under gross basis, or as revenue under net basis.

Making a Foray to Live Streaming E-commerce Business

The Company made its foray for the live streaming e-commerce business and established live streaming e-commerce bases in Beijing, Hangzhou, and Guangzhou, which were officially put into operation in August 2021. The Company served 22 brand stores in various product categories including fashion, beauty, food, 3C digital, and household items, and contributed to a gross merchandise volume of RMB43 million for FY21. The Company helped its clients promote their in-store services and products through live streaming platforms and has been actively exploring innovative local lifestyle marketing models such as arranging key opinion leaders (“KOL”) to visit the stores.

The Company will be entitled to a certain percentage (we estimate a take rate of around 10-15%) of the gross merchandise volume for its clients. It is estimated that the market size of China’s live streaming e-commerce will exceed RMB4.9 trillion in 2023.

We believe the new business will provide an increasing earnings contribution to the Company in the next 2-3 years. For FY22, we forecast live streaming e-commerce business to account for 2-3% of its top line and around 5-10% of its bottom line.

Business Strategies and Future Plans

The Company plans to implement the following strategies in order to further develop its business:

(i) upgrade U-engine platform with AI capabilities and promote U-engine platform to a content production platform. The Company plans to continue to develop, upgrade and utilize AI, algorithm-driven and machine-learning technologies to realize automatic, customized and massive placement of online marketing solutions. On the other hand, the Company also plans to develop and enhance its online short videos content production capacity by upgrading U-engine platform to a content production platform, with a vision of empowering the whole ecosystem with digital production capacities, in order to enhance the performance and reduce the costs of short video marketing solutions through streamlining the content production process.

(ii) further optimize the service portfolios of its e-commerce business. Leveraging the experience in the e-commerce industry, the Company aims to design and operate live streaming studios for more well-known brands. The Company will analyze performance data on brand exposure, conversion and sales volume in order to empower e-commerce with technologies. Moreover, the Company targets to leverage its competitive advantages to provide branding, effectiveness and sales (品效銷) integrated solutions for e-commerce customers, including event planning, advertising content production and placement, official account operation, live studio operation, KOL engagement, consumer behavioral data analysis and marketing technology toolkit.

(iii) expand online media partners and reinforce the network effect of its online marketing business. The Company will expand China’s emerging online media partners and to assist the new media platforms to develop close and stable relationships with key account advertisers.

Financial Analysis

Resilient Revenue Jump during FY18-21

The Company enjoyed rapid growth as its total gross billing generated from online marketing solutions business increased significantly by a CAGR of 77% during 2018-2021 from RMB1.97bn in 2018 to RMB5.15bn in 2019, RMB8.77bn in 2020 and RMB10.99bn in 2021.

Gross billing by type of advertiser customers

	2018		2019		2020		2021	
	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.
Direct advertisers	1,228,936	62.3%	3,512,816	68.2%	6,396,378	73.0%	8,023,131	73.0%
Advertising agencies	743,441	37.7%	1,639,384	31.8%	2,371,163	27.0%	2,964,420	27.0%
Total	1,972,377	100.0%	5,152,199	100.0%	8,767,541	100.0%	10,987,551	100.0%

Source: Company data

This led to the promising leap in revenue generated from online marketing solutions business from RMB1.16 bn in 2018 to RMB3.45 bn in 2019, RMB6.36 bn in 2020 and RMB7.84bn in FY21, or a CAGR of 89% during 2018-2021.

The Company attributed the pleasing revenue growth to (i) its diversified media partner strategy, which enabled itself to establish in-depth partnerships with major media partners and advertiser customers, leading to a continuous increase in revenue; (ii) the boost of the production capacity of advertising materials after the commencement of online short video shooting bases in Beijing, Chongqing and Wuhan; and (iii) the increasing recognition and popularity of online short video marketing by both final consumers and advertiser customers.

Revenue by revenue recognition methods

	2018		2019		2020		2021	
	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.
All-in-one-services (gross method)	1,108,806	95.9%	3,367,848	97.6%	6,280,808	98.7%	7,706,284	98.3%
Advertising distribution services (net method)	47,472	4.1%	83,008	2.4%	79,916	1.3%	129,155	1.6%
Others	-	-	-	-	-	-	5,978	0.1%
Total	1,156,278	100.0%	3,450,856	100.0%	6,360,724	100.0%	7,841,417	100.0%

Source: Company data

Revenue from online marketing solutions business by type of advertiser customers

	2018		2019		2020		2021	
	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.
Direct advertisers	1,115,466	96.5%	3,375,541	97.8%	6,294,906	99.0%	7,708,327	98.4%
Advertising agencies	40,812	3.5%	75,315	2.2%	65,818	1.0%	127,112	1.6%
Total	1,156,278	100.0%	3,450,856	100.0%	6,360,724	100.0%	7,835,439	100.0%

Source: Company data

The advertiser customers covered a wide array of industry verticals, which primarily include e-commerce, internet services, gaming, leisure & traveling, education, financial services and real estate & home furnishing etc.

The e-commerce industry was the largest group of advertising customers during FY18-21. Revenue generated from the e-commerce industry increased by a CAGR of 105%, from RMB461 mn in FY18 to RMB3,947 mn in FY21, primarily due to rapid growth of e-commerce industry. Revenue generated from the internet services industry, which was the second largest group of advertising customers during FY21, increased by 39% YoY to RMB1,274 mn in FY21 amid the additional contribution from the newly acquired internet services customers. Revenue generated from the gaming industry, which was the third largest group of advertising customers during FY21, increased by 27% YoY to RMB1,226 mn in FY21 as a result of the growth in billing from recurring customers.

Breakdown of revenue by type of the industry verticals of direct advertiser customers

	2018		2019		2020		2021	
	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.
E-commerce	460,593	41.3%	1,610,687	47.7%	3,362,947	53.4%	3,946,457	51.2%
Internet Services	181,241	16.2%	739,141	21.9%	918,933	14.6%	1,274,204	16.5%
Gaming	98,326	8.8%	325,755	9.7%	961,931	15.3%	1,226,098	15.9%
Leisure & Travelling	205,337	18.4%	301,790	8.9%	255,995	4.1%	339,131	4.4%
Education	78,266	7.0%	210,404	6.2%	646,436	10.3%	478,988	6.2%
Financial Services	40,499	3.6%	117,791	3.5%	82,820	1.3%	356,050	4.6%
Real Estate & Home Furnishing	15,663	1.4%	50,769	1.5%	39,365	0.6%	45,066	0.6%
Others*	35,541	3.3%	19,203	0.6%	26,478	0.4%	42,333	0.5%
Total	1,115,466	100.0%	3,375,541	100.0%	6,294,906	100.0%	7,708,327	100.0%

Source: Company data

*Others mainly include automobile sales and fast-moving consumer goods industries.

Cost of Sales Analysis

During FY18-21, traffic acquisition and monitoring costs constituted the largest portion of cost of services, and employee benefit expenses constituted the second largest portion of cost of services. In line with its business expansion, traffic acquisition and monitoring costs amounted to RMB1,020 mn, RMB3,172 mn, RMB5,936 mn, and RMB7,248 mn during FY18, FY19, FY20, FY21, respectively, representing approximately 88.2%, 91.9%, 93.3% and 92.4% of its total revenue for the respective years.

Breakdown of cost of services and as a percentage of total revenue

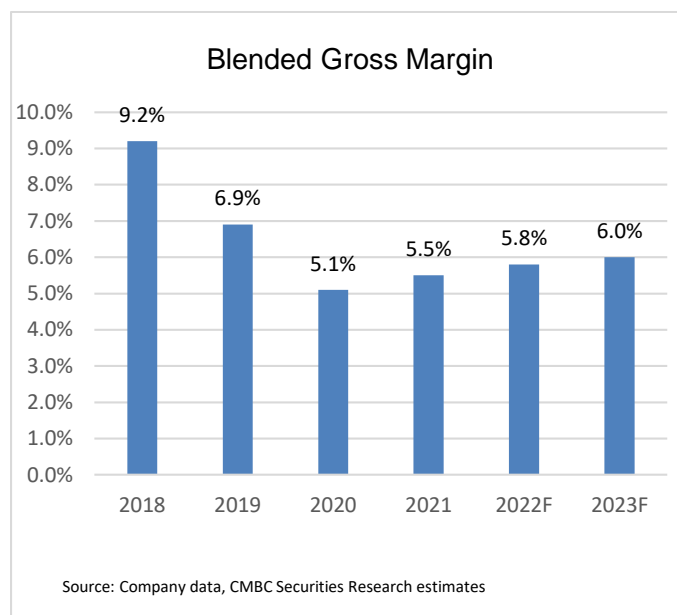
	2018		2019		2020		2021	
	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.	RMB'000	% of Rev.
Traffic acquisition and monitoring costs	1,020,215	88.2%	3,172,187	91.9%	5,936,274	93.3%	7,248,283	92.4%
Outsourcing video production costs	132	0.0%	2,083	0.1%	13,475	0.2%	18,617	0.2%
Employee benefit expenses	11,990	1.0%	28,997	0.8%	71,565	1.1%	119,015	1.5%
Depreciation and amortization expenses	1,051	0.1%	1,874	0.1%	4,484	0.1%	11,344	0.1%
Taxes and surcharges	13,361	1.2%	2,604	0.1%	5,496	0.1%	7,189	0.1%
Office expenses	259	0.0%	373	0.0%	1,164	0.0%	1,297	0.0%
Travelling expenses	157	0.0%	396	0.0%	408	0.0%	873	0.0%
Others	2,458	0.2%	3,086	0.1%	2,477	0.0%	5,433	0.1%
Total	1,049,623	90.8%	3,211,600	93.1%	6,035,343	94.9%	7,412,051	94.5%

Source: Company data

GPM Analysis

The Company's blended gross profit margin decreased from 9.2% in 2018 to 6.9% in 2019 and 5.1% in 2020, which was primarily due to : (i) the inferior change in revenue mix given an increasing proportion of revenue recognized under all-in-one service, which enjoyed a lower gross profit margin as compared to that of advertisement distribution service that are recorded on a net basis. As a result of the rapid business development with direct advertisers, the revenue contribution from all-in-one service grew from 95.9% in FY18 to 97.6% in FY19 and 98.7% in FY20; (ii) the decreases in gross profit margin of services provided under all-in-one service from 5.3% in 2018 to 4.6% in 2019 and 3.9% in 2020. The decrease was primarily because of increased traffic acquisition and monitoring costs from top online media platforms, which was in line with industry norm and market trend; and (b) additional costs (including staff costs) for short video production in order to satisfy its advertiser customers' demand.

The Company's blended gross profit margin rebounded from 5.1% in FY20 to 5.5% in FY21, which was mainly due to (i) the scale effect amid its continuous business expansion that stimulated the profitability of its operations; (ii) the efficient operation empowered by its U-engine platform which resulted in more effective and efficient content production and storage, advertisement placement, performance analysis and optimization and operation management of the content production teams; and (iii) the decrease in average traffic acquisition costs amid its in-depth partnership with advertiser customers and media platforms.



Analysis of Other Cost / Income Items

General and administrative expenses primarily consist of (i) employee benefit expenses; (ii) listing expenses; (iii) professional and consulting service fees; (iv) depreciation and amortization expenses; and (v) office expenses. General and administrative expenses increased significantly by 46.3% YoY from RMB44.7 mn for FY20 to RMB65.4 mn for FY21, which was mainly attributable to the increase in listing expenses of RMB14.1 million and the increase in professional and consulting service fees of RMB7.0 million. General and administrative expenses as a percentage of total revenue dropped from 1.7% in 2018 to 0.7% in 2020 and it mildly increased to 0.8% in 2021, which mainly reflected the increases in listing expenses and professional and consulting service fees.

Selling expenses primarily consists of employee benefit expenses and travelling expenses. Selling expenses increased by 46.5% YoY to RMB27.5 mn in FY21, which was mainly attributable to the increase in the headcounts and average remuneration of sales and marketing staff. Selling expenses as a percentage of total revenue declined from 1.2% in 2018 to 0.3% in 2020 and mildly increased to 0.4% in 2021.

Net impairment losses on financial assets comprised of provision for impairment losses on accounts receivables and other receivables. The increase in net impairment loss on financial assets from RMB0.9 mn in 2018 to RMB53.7-77.5mn in 2019-2020 was primarily due to the increased balance of account receivables and significant specific provision for individual customers.

In spite of the increase in the balance of account receivable amid the continued business expansion, the Company's net impairment losses on financial assets decreased by 47.1% YoY to RMB28.4 mn in FY21, which was mainly attributable to the continuous enhancement of the Company's credit control system and working capital management capability which led to a decrease in expected credit losses.

The Company's other income massively jumped from RMB3.5mn in FY20 to RMB43.8mn in FY21 as it recorded a value-added tax additional deduction of RMB36.5mn in FY21. It was mainly attributable to the additional 10% deduction of value added tax from April 1, 2019 to December 31, 2021 enjoyed by its subsidiary Uju Interactive (Beijing) Technology Co., Ltd* (優矩互動(北京)科技有限公司) amid its status as a modern service company. The management guided that the relevant income may come in at about RMB20mn in FY22.

The Company's operations in the PRC was subject to statutory tax rate of 25% on the assessable profits for the Track Record Period, except for Qingdao Uju, which enjoys a corporate income tax rate of 20% as a small and low-profit enterprise, and Hainan Uju, which enjoys the preferential corporate income tax rate of 15%. The Company's effective income tax rate came in at 27.2%, 25.7%, 25.3% and 23.5% for 2018, 2019, 2020 and 2021, respectively.

Resilient Net Profit Upsurges

Thanks to the rapid business growth, the Company's net profit increased rapidly from RMB50.1 mn in 2018 to RMB81.9 mn in 2019, RMB133.2 mn in 2020 and RMB254.4 mn in 2021, respectively, or a strong CAGR of 72% during 2018-2021.

Financial Forecasts

We Expect Sustainable Solid NP Growth during Our Forecast Period

Being a competent online marketing services provider with more premium media resources, stronger technical capabilities and efficient service capabilities, we believe the Company is a prime position to seize the lucrative business opportunities ahead.

Firstly, the online short video marketing market is expected to continue sustain a rapid CAGR of 32% during 2021—2023 and reach RMB477.3bn in 2023 as pursuant to iResearch. Secondly, the Company's galloping client base, increasing advertising spending by its clients and the high level of stickiness of its clientele lay the foundation for the Company to further excel in the industry. Last but not least, we believe the Company's foray to live streaming e-commerce business should help propel its business growth and enrich its profitability.

The Company enjoyed a CAGR of 77% for its total gross billing generated from online marketing solutions business from RMB1.97bn in 2018 to RMB10.99bn in 2021. We assume the Company to chalk up 31% CAGR in its revenue during FY21-23, which is backed by the expected 32% CAGR of the online short video marketing market during the same period as well as the new business initiatives planned by the Company.

After the rebound in blended gross margin from 5.1% in FY20 to 5.5% in FY21, we expect the blended gross margin to stabilize at around 5.8-6.0% during FY22-23, as we believe the three positive factors that led to the rebound in blended gross margin in FY21 to sustain in FY22-23, which include: (i) the scale effect amid its continuous business expansion that stimulated the profitability of its operations; (ii) the efficient operation empowered by its U-engine platform which resulted in more effective and efficient content production and storage, advertisement placement, performance analysis and optimization and operation management of the content production teams; and (iii) the decrease in average traffic acquisition costs amid its in-depth partnership with advertiser customers and media platforms. Moreover, we believe the additional contribution of live streaming e-commerce business will also boost its overall gross margin, given the premier gross margin enjoyed by the operation.

We expect net impairment losses on financial assets, which comprised of provision for impairment losses on accounts receivables and other receivables, would mildly grow amid galloping revenue growth but would decline as a percentage of accounts receivable balance in FY22-23. This is mainly thanks to the Company's intention to place more stringent scrutinization of clients' background before it provides service to the clients as well as more frequent review of accounts receivable by the management.

Excluding listing expense, we expect general and administrative expenses as a percentage of total revenue to continue trend down on better economies of scale. Meanwhile, we forecast selling expenses as a percentage of total revenue to stabilise after the slight rebound in 2021 from the low level in 2020.

All in all, we project a CAGR of 42% in the Company's net profit during FY21-23 and we forecast its bottom line to come in at RMB394mn and RMB510mn in FY22 and FY23, up 55% and 29% YoY, respectively.

Valuation

We view **Netjoy Holdings (2131 HK)** and **Joy Spreader Interactive Technology (6988 HK)** as close peers for the Company. Netjoy Holdings is a leading short video marketing solutions provider and an online content services provider focusing on pan-entertainment in China. Joy Spreader Interactive Technology is a leading marketing technology company that engaged in mobile new media performance-based marketing and marketing SaaS services in China.

Given the lack of consensus estimate for Netjoy Holdings for FY22 and FY23, we can only gauge the valuation of both peers with their historical earnings for FY21, whereby they are trading at an average historical FY21 P/E of 15.7x. Meanwhile, the Company is trading at a historical FY21 P/E of 8.6x, which is at a sizeable discount to the average of its two peers.

We initiate our coverage on the Company with a Buy rating and a target price of HK\$7.60, which represents a reasonable forward FY22 P/E of 10x or an undemanding PEG of 0.2x.

Peers comparison

	Stock code	Mkt Cap (HK\$ mn)	Price (HK\$)	P/E (x)		
				FY21	FY22F	FY23F
NETJOY HOLDINGS	2131 HK	1,400	1.76	9.9	n/a	n/a
JOY SPREADER GROUP	6988 HK	6,082	2.79	21.4	21.1	15.1
Average				15.7	21.1	15.1

Source: Bloomberg, CMBC Securities Research

Based on closing prices as of 12 May 2022

Risks

We believe the key risk to our rating is the Company's failure to retain its existing advertiser customers and media partners or attract new advertiser customers and media partners.

8. Appendix

Appendix 1. Financials

Income Statement

Year Ended December 31	2018	2019	2020	2021	2022F	2023F
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
All-in-one-services (gross method)	1,108,806	3,367,848	6,280,808	7,706,284	10,403,483	13,004,354
Advertising distribution services (net method)	47,472	83,008	79,916	129,155	180,817	235,062
Others	-	-	-	5,978	195,000	260,000
Turnover	1,156,278	3,450,856	6,360,724	7,841,417	10,779,300	13,499,416
Cost of sales	(1,049,623)	(3,211,600)	(6,035,343)	(7,412,051)	(10,149,848)	(12,692,184)
All-in-one-services (gross method)	59,183	156,248	245,465	300,211	405,736	507,170
Advertising distribution services (net method)	47,472	83,008	79,916	129,155	180,817	235,062
Others	-	-	-	-	42,900	65,000
Total gross profit	106,655	239,256	325,381	429,366	629,453	807,232
Selling expenses	(13,588)	(18,259)	(18,797)	(27,532)	(32,338)	(37,798)
General and administrative expenses	(19,416)	(28,409)	(44,678)	(65,365)	(53,897)	(67,497)
Research and development expenses	-	-	(4,399)	(13,728)	(16,169)	(20,249)
Net impairment losses on financial assets	(926)	(77,493)	(53,744)	(28,441)	(32,707)	(37,613)
Other income	535	6,919	3,516	43,835	28,069	30,875
Other losses, net	(221)	(681)	(1,650)	18,786	-	-
Operating profit / (loss)	73,039	121,333	205,629	356,921	522,411	674,949
Net finance costs	(4,135)	(11,131)	(27,431)	(24,409)	(7,323)	(8,055)
Profit before taxation	68,904	110,202	178,198	332,512	515,088	666,895
Income tax expense	(18,760)	(28,288)	(45,019)	(78,161)	(121,046)	(156,720)
Net profit	50,144	81,914	133,179	254,351	394,042	510,174
Key ratios						
Revenue growth	n/a	198.4%	84.3%	23.3%	37.5%	25.2%
Gross margin - gross method	5.3%	4.6%	3.9%	3.9%	3.9%	3.9%
Gross margin - net method	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross margin - Others	-	-	-	-	22.0%	25.0%
Gross margin - blended	9.2%	6.9%	5.1%	5.5%	5.8%	6.0%
Selling expenses / Turnover	1.2%	0.5%	0.3%	0.4%	0.3%	0.3%
Administration expenses / Turnover	1.7%	0.8%	0.7%	0.8%	0.5%	0.5%
R&D expenses / Turnover	0.0%	0.0%	0.1%	0.2%	0.2%	0.2%
Operating margin	6.3%	3.5%	3.2%	4.6%	4.8%	5.0%
Tax rate	27.2%	25.7%	25.3%	23.5%	23.5%	23.5%
Net margin	4.3%	2.4%	2.1%	3.2%	3.7%	3.8%
Net profit growth	n/a	63.4%	62.6%	91.0%	54.9%	29.5%

Source: 2018-2021 data are from the Company; 2022-23F data are from CMBC Securities Research estimates

Balance Sheet

Year Ended December 31	2018	2019	2020	2021	2022F	2023F
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Cash and cash equivalents	9,810	59,168	130,155	499,943	604,589	758,195
Restricted cash	-	1,105	87,746	55,016	55,016	55,016
Accounts receivables	535,385	1,158,041	1,808,817	2,262,400	2,895,872	3,619,840
Financial assets at fair value through other comprehensive income	69,319	99,903	66,944	17,576	17,576	17,576
Financial assets at fair value through profit or loss	38,306	-	-	-	-	-
Prepayments, deposits and other assets	132,740	223,993	289,014	523,243	549,405	576,875
Total current assets	785,560	1,542,210	2,382,676	3,358,178	4,122,458	5,027,502
Property, plant and equipment	997	3,616	9,521	12,086	10,920	13,254
Right-of-use assets	2,913	11,571	7,550	15,395	15,395	15,395
Deferred tax assets	1,209	21,561	41,632	27,998	30,798	33,878
Prepayments, deposits and other assets	799	1,692	1,910	1,941	2,096	2,264
Total assets	791,478	1,580,650	2,443,289	3,415,598	4,181,667	5,092,293
Liabilities						
Accounts payables	444,266	887,099	1,475,505	1,275,045	1,632,058	2,040,072
Other payables and accruals	151,302	187,756	353,579	378,162	408,415	441,088
Borrowings	94,413	290,646	225,417	299,900	299,900	299,900
Other current liabilities	37,642	86,456	153,640	223,609	257,150	295,723
Total current liabilities	727,623	1,451,957	2,208,141	2,176,716	2,597,523	3,076,783
Lease liabilities	280	7,564	3,176	5,398	5,398	5,398
Total non-current liabilities	280	7,564	3,176	5,398	5,398	5,398
Total liabilities	727,903	1,459,521	2,211,317	2,182,114	2,602,921	3,082,181
Common shareholders' equity	63,575	121,129	231,972	1,233,484	1,578,746	2,010,112
Total liabilities and equity	791,478	1,580,650	2,443,289	3,415,598	4,181,667	5,092,293

Source: 2018-2021 data are from the Company; 2022-23F data are from CMBC Securities Research estimates

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