



58.com Inc.

November 9, 2017

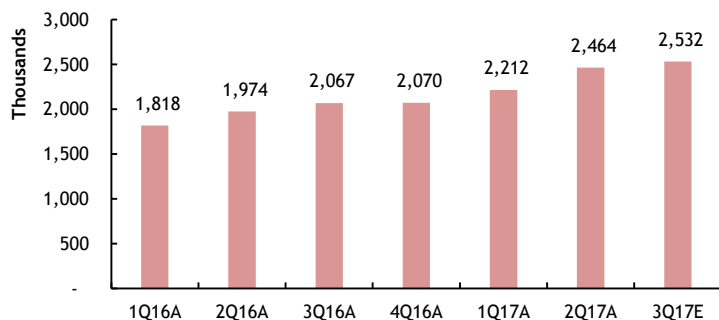
3Q17 Data Suggest Performance Likely to Beat Consensus; Downward Trend in Housing Sector is Worrisome; Maintain BUY

WUBA will report 3Q17 results on Monday, November 13, 2017 before the market opens with an 8am ET conference call. Based on our data and calculations, we believe WUBA's 3Q17 revenue is likely to outperform consensus at \$387.7M (RMB2,569.6M) and our model at \$394.2M driven by the growth in total paying merchants. In China's housing market, the data showed some slowdown in transactions, which we believe can be a negative growth factor for the company's housing business. However, as WUBA is innovating new ways of doing business, including big data driven business and monetization as well as more rentals in the housing sector, we believe the company has the capability to weather the weakness in the housing market. We maintain our BUY rating.

- **Total number of paying merchants up Y/Y** – In 3Q17E, we believe 58 Group is likely to have about 2,067K paying merchants (Figure 1), up 22.5% Y/Y and 2.8% Q/Q. The Q/Q change was mainly driven by upside in Jobs and Yellow page offset by the Q/Q decline in housing. Job paying members were up on a Q/Q basis. 58 Group had 186K paying employers in 3Q17E, up 19% Q/Q from 156K in 2Q17 (Figure 2). 58 Group had 11.2M newly published listings, up 13% Q/Q (Figure 3).
- **Secondary housing was down Q/Q, in line with the market** – In 3Q17E, 58 Group's paying agents were down 3% Q/Q, indicating that the restrictive housing policy is making a difference in China's housing market. The market is finally showing the effectiveness of the policies. For the primary housing, the transaction volume was down 32% Y/Y and down 11% Q/Q (Figure 4). For the secondary housing market, the transaction volume was down 48% Y/Y and 25% Q/Q (Figure 5). We believe the downward trend in real estate transaction volumes may last for a while.
- Please see page 2 for valuation and risks.

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Figure 1: Number of Paying Merchants, 1Q16 – 3Q17



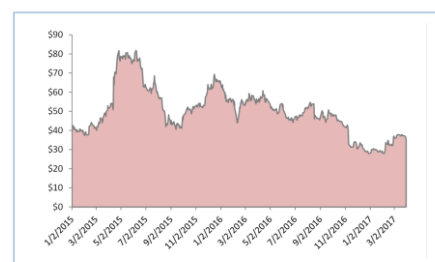
Source: T. H. Data (www.thdata.com)

WUBA: Buy
Price: \$67.40
Target Price: \$78.00

52 Week Range:	\$27.58 - \$69.80
Market Cap:	\$9.8B
Avg. Daily Vol. (100 day):	1,458,072
Net cash per share:	~\$3.00

FY (Dec)	2016A	2017E	2018E
Q1	\$231.3A	\$289.6A	\$372.0E
Q2	\$297.8A	\$382.8A	\$464.8E
Q3	\$306.5A	\$394.2E	\$496.7E
Q4	<u>\$306.6A</u>	<u>\$394.6E</u>	<u>\$495.5E</u>
Revenue	\$1,142.2A	\$1,459.9E	\$1,829.0E
Q1	(\$0.36)A	(\$0.02)A	\$0.26E
Q2	\$0.15A	\$0.54A	\$0.54E
Q3	(\$0.00)A	\$0.31E	\$0.48E
Q4	<u>(\$0.00)A</u>	<u>\$0.29E</u>	<u>\$0.44E</u>
EPS*	(\$0.21)A	\$1.12E	\$1.72E
P/E	N/A	60.2x	39.2x

*Non-GAAP EPS
All figures in millions unless otherwise noted



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- **Valuation and price target** – WUBA is a market consolidator in China’s online classified information services area, and we believe it has already passed the uncertain period post the acquisitions of Ganji, Anjuke and ChinaHR. The company is working to utilize its traffic as well as data generated from its platform to provide more value added services to its customers and users. As such, they are likely to realize more monetization potentials. We maintain our Buy rating and our price target of \$78.00, which is based on a 25.8X PE multiple to consensus 2019E non-GAAP EPS of \$3.02.
- **Risks** - In addition to the risks mentioned in WUBA’s annual filings, we believe that if the management cannot resist pursuing the vast business opportunities in China and focus on its core business, they may stretch themselves too thin, which may hamper growth of the existing business. Also, as the business is exposed to the underlying economic development in China, the current housing policy may have some negative impact in the second half of 2017 and 2018.

Figure 6: Earnings Model (in \$ Ms, except per share)

	FY16A	1Q17A	2Q17A	3Q17E	4Q17E	FY17E	1Q18E	2Q18E	3Q18E	4Q18E	FY18E	1Q19E	2Q19E	3Q19E	4Q19E	FY19E
	12/31/16	3/31/17	6/30/17	9/30/17	12/31/17	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18	12/31/17	3/31/19	6/30/19	9/30/19	12/31/19	12/31/17
Income Statement (USD, 000s)																
Membership	444,036	114,929	142,253	145,919	151,110	554,211	146,787	177,019	190,661	191,895	706,363	179,080	210,653	228,794	245,626	864,153
Online marketing services	655,536	164,805	226,804	234,650	226,370	852,630	214,247	272,165	288,620	282,963	1,057,994	272,094	340,206	355,002	363,704	1,321,005
E-commerce services	25,112	2,234	3,889	3,818	7,288	17,239	2,234	3,382	4,772	8,964	19,362	1,787	3,732	6,061	8,068	19,647
Other services	16,491	6,217	9,854	9,854	9,854	35,778	8,703	12,219	12,613	11,726	45,260	11,140	15,884	16,901	14,775	58,700
Total Revenues	1,142,175	288,184	382,810	394,241	394,622	1,459,858	371,971	464,795	496,666	495,548	1,828,980	464,101	570,475	606,757	622,172	2,263,505
Cost of revenues	106,286	28,929	34,732	41,395	40,646	145,703	35,337	42,761	47,183	48,564	173,845	44,554	54,195	58,249	61,595	218,593
Gross profit	1,035,889	259,255	348,077	352,846	353,976	1,314,155	336,634	422,034	449,483	446,984	1,655,135	419,547	516,280	548,509	560,577	2,044,912
Selling and marketing sales people (member relative) rental and others	744,400	180,601	189,176	211,707	215,464	796,948	209,792	237,046	262,240	264,127	973,204	255,256	272,117	290,637	301,753	1,119,762
Research and development expenses	166,545	45,581	47,708	61,107	63,140	217,536	57,655	59,029	68,043	71,854	256,582	71,472	74,162	84,339	90,837	320,810
General and administrative expenses	90,574	21,781	25,221	31,145	30,386	108,533	27,898	31,606	34,270	33,897	127,471	34,343	39,933	42,473	43,552	160,302
Total operating expenses	1,001,519	247,963	262,105	303,960	308,989	1,123,017	295,345	327,681	364,553	369,679	1,357,257	361,071	386,211	417,449	436,142	1,600,874
(Loss)/Income from operations	34,370	11,293	85,972	48,886	44,987	191,138	41,289	84,353	84,930	77,305	291,878	58,477	130,068	131,060	124,434	444,039
Non-GAAP operating (loss)/income	109,176	31,478	105,708	69,477	65,784	272,595	61,052	114,314	105,090	97,668	378,124	79,854	151,659	152,867	146,460	530,840
Interest income	(7,309)	(838)	(741)	(741)	(741)	(3,062)	(741)	(741)	(741)	(741)	(2,965)	(741)	(741)	(741)	(741)	(2,965)
Investment and other income/(loss), net	(160,226)	1,105	37,069	10,000	10,000	58,174	9,500	9,500	9,500	9,500	38,000	10,500	10,500	10,500	10,500	42,000
Gain on disposal of a business	12,081	(14,360)	(30,690)			(45,050)					-					-
Foreign currency exchange loss, net	(653)	(6)	33	33	33	93	83	83	83	83	332	1,083	1,083	1,083	1,083	4,332
Others, net	(2,055)	68	458	458	458	1,441	458	458	458	458	1,830	458	458	458	458	1,830
Other income/(expenses), net	(158,092)	(14,029)	6,128	9,749	9,749	11,597	9,299	9,299	9,299	9,299	37,197	11,299	11,299	11,299	11,299	45,197
(Loss)/Income before tax	(123,722)	(2,737)	92,101	58,335	54,736	202,735	50,588	103,633	94,229	86,605	335,074	69,776	141,367	142,359	135,734	489,236
Income tax expense/(benefits)/(expenses)	7,500	285	(8,172)	(12,900)	(12,042)	(32,829)	(11,129)	(22,804)	(20,730)	(19,053)	(73,716)	(15,351)	(31,101)	(31,319)	(29,861)	(107,632)
Net (loss)/income	(116,222)	(2,452)	83,929	45,735	42,694	169,906	39,459	80,849	73,499	67,552	261,358	54,425	110,267	111,040	105,872	381,604
Net (loss)/income attributable to ordinary shareholders	(117,829)	(3,119)	79,604	45,735	42,694	164,915	39,459	80,849	73,499	67,552	261,358	54,425	110,267	111,040	105,872	381,604
Non-GAAP net (loss)/income attributable to 58.com Inc.	(30,999)	17,384	99,821	66,677	63,859	247,741	59,608	101,215	94,085	88,361	343,268	76,272	132,350	133,364	128,440	470,427
Share-based compensation expenses	40,196	11,950	11,565	12,190	12,312	48,017	11,702	11,819	11,937	12,057	47,515	12,657	12,783	12,911	13,040	51,932
GAAP EPADS	(0.83)	(0.02)	0.54	0.31	0.29	1.12	0.26	0.54	0.48	0.44	1.72	0.35	0.71	0.71	0.67	2.45
Non-GAAP EPADS	(0.21)	0.11	0.66	0.45	0.43	1.65	0.40	0.67	0.62	0.58	2.26	0.50	0.85	0.85	0.82	3.02
Diluted ADS outstanding	144,164	144,996	146,998	147,998	148,998	147,248	149,998	150,998	151,998	152,998	151,498	153,998	154,998	155,998	156,998	155,498
Diluted ordinary shares outstanding	288,329	289,993	293,997	295,997	297,997	294,496	299,997	301,997	303,997	305,997	302,997	307,997	309,997	311,997	313,997	310,997

	FY16A	1Q17A	2Q17A	3Q17E	4Q17E	FY17E	1Q18E	2Q18E	3Q18E	4Q18E	FY18E	1Q19E	2Q19E	3Q19E	4Q19E	FY19E
Margin																
Cost of revenues	9.3%	10.0%	9.1%	10.5%	10.3%	10.0%	9.5%	9.2%	9.5%	9.8%	9.5%	9.6%	9.5%	9.6%	9.9%	9.7%
Gross profit	90.7%	90.0%	90.9%	89.5%	89.7%	90.0%	90.5%	90.8%	90.5%	90.2%	90.5%	90.4%	90.5%	90.4%	90.1%	90.3%
Selling and marketing	65.2%	62.7%	49.4%	53.7%	54.6%	54.6%	56.4%	51.0%	52.8%	53.3%	53.2%	55.0%	47.7%	47.9%	48.5%	49.5%
Research and development expenses	14.6%	15.8%	12.5%	15.5%	16.0%	14.9%	15.5%	12.7%	13.7%	14.5%	14.0%	15.4%	13.0%	13.9%	14.6%	14.2%
General and administrative expenses	7.9%	7.6%	6.6%	7.9%	7.7%	7.4%	7.5%	6.8%	6.9%	6.8%	7.0%	7.4%	7.0%	7.0%	7.0%	7.1%
Total operating expenses	87.7%	86.0%	68.5%	77.1%	78.3%	76.9%	79.4%	70.5%	73.4%	74.6%	74.2%	77.8%	67.7%	68.8%	70.1%	70.7%
(Loss)/Income from operations	3.0%	3.9%	22.9%	12.4%	11.4%	13.1%	11.1%	20.3%	17.1%	15.6%	16.3%	12.6%	22.8%	21.6%	20.0%	19.6%
Other income/(expenses), net	-13.8%	-4.9%	1.6%	2.5%	2.5%	0.8%	2.5%	2.0%	1.9%	1.9%	2.0%	2.4%	2.0%	1.9%	1.8%	2.0%
(Loss)/Income before tax	-10.8%	-0.9%	24.1%	14.9%	13.9%	13.9%	13.6%	22.3%	19.0%	17.5%	18.3%	15.0%	24.8%	23.5%	21.8%	21.6%
Income tax expense/(benefits)/(expenses)	-6.1%	-10.4%	-2.1%	-22.0%	-22.0%	-16.2%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%
Net (loss)/income	-10.2%	-1.1%	21.9%	11.6%	10.8%	11.6%	10.6%	17.4%	14.8%	13.6%	14.3%	11.7%	19.3%	18.3%	17.0%	16.9%
Non-GAAP net (loss)/income attributable to 58.com Inc.	-2.7%	6.0%	26.1%	16.9%	16.2%	17.0%	16.0%	21.8%	18.9%	17.8%	18.8%	16.4%	23.2%	22.0%	20.6%	20.8%

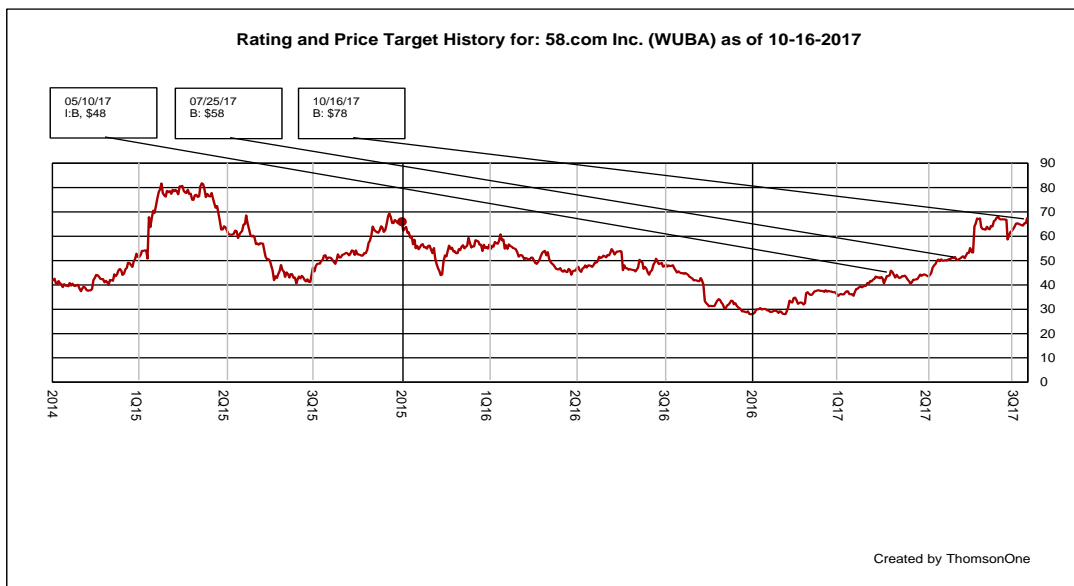
	FY16A	1Q17A	2Q17A	3Q17E	4Q17E	FY17E	1Q18E	2Q18E	3Q18E	4Q18E	FY18E	1Q19E	2Q19E	3Q19E	4Q19E	FY19E
Growth Y/Y																
Membership	49.4%	24.5%	23.6%	24.0%	27.1%	24.8%	27.7%	24.4%	30.7%	27.0%	27.5%	22.0%	19.0%	20.0%	28.0%	22.3%
Online marketing services	70.3%	27.0%	31.7%	30.0%	30.0%	29.9%	30.0%	20.0%	23.0%	25.0%	24.1%	27.0%	25.0%	23.0%	25.0%	24.9%
E-commerce services	9.0%	-60.4%	-48.1%	-30.0%	12.0%	-31.4%	0.0%	-13.0%	25.0%	23.0%	12.3%	-20.0%	10.0%	27.0%	-10.0%	1.5%
Other services	80.3%	73.8%	229.2%	249.3%	38.8%	117.0%	40.0%	24.0%	28.0%	19.0%	26.5%	28.0%	30.0%	34.0%	26.0%	29.7%
Total Revenues	59.8%	24.6%	28.9%	28.6%	28.7%	27.8%	29.1%	21.4%	26.0%	25.6%	25.3%	24.8%	22.7%	22.2%	25.6%	23.8%
Cost of revenues	106.8%	18.7%	42.4%	56.3%	31.0%	37.1%	22.2%	23.1%	14.0%	19.5%	19.3%	26.1%	26.7%	23.5%	26.8%	25.7%
Gross profit	56.1%	25.3%	27.3%	26.0%	28.4%	26.9%	29.8%	21.2%	27.4%	26.3%	25.9%	24.6%	22.3%	22.0%	25.4%	23.5%
Selling and marketing	6.7%	-10.5%	8.0%	12.5%	20.2%	7.1%	16.2%	25.3%	23.9%	22.6%	22.1%	21.7%	14.8%	10.8%	14.2%	15.1%
Research and development expenses	35.2%	28.2%	21.3%	33.3%	37.7%	30.6%	26.5%	23.7%	11.4%	13.8%	17.9%	24.0%	25.6%	23.9%	26.4%	25.0%
General and administrative expenses	-3.1%	5.4%	7.8%	27.3%	37.8%	19.8%	28.1%	25.3%	10.0%	10.9%	17.4%	23.1%	26.3%	23.9%	29.2%	25.8%
Total operating expenses	9.6%	-3.9%	10.1%	17.6%	25.1%	12.1%	19.1%	25.0%	19.9%	19.6%						

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