Initiation of Coverage

Cogobuy Group

Unique business model driving market share gains; IngDan.com provides optionality

Equities

China
Internet Services

12-month rating	**Buy**
	Prior: Not Rated
12m price target	**HK$14.46**
	Prior: -
Price	**HK$10.76**

RIC: 0400.HK **BBG:** 400 HK

Trading data and key metrics

52-wk range	HK$13.18-8.75
Market cap.	HK$16.0bn/US$2.06bn
Shares o/s	1,483m (ORD)
Free float	26%
Avg. daily volume ('000)	1,576
Avg. daily value (m)	HK$17.6
Common s/h equity (12/16E)	Rmb4.18bn
P/BV (12/16E)	3.5x
Net debt / EBITDA (12/16E)	NM

EPS (UBS, diluted) (Rmb)

	From	To	% ch	Cons.
12/16E	-	0.33	-	0.32
12/17E	-	0.41	-	0.43
12/18E	-	0.51	-	0.53

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Undervalued: sustainable growth potential and hidden value of IngDan.com

Cogobuy has grown into China's largest eCommerce platform for integrated circuit (IC) components by gross merchandise value (GMV). It has leveraged on its unique online business model to serve SME customers at an affordable customer acquisition cost, which is usually not feasible for major offline distributors. With robust growth in SME sales, Cogobuy's market share grew from 1.4% in 2014 to 2.5% in H116. We estimate 2016-18 GMV/revenue CAGRs of 41%/31% in a modest sector growth environment. We believe the market may have underestimated the sustainability of Cogobuy's growth from share gains in the SME segment and IngDan.com's value accretion, and think continued strong growth and steps to unlock the value of IngDan.com could propel a re-rating. We initiate coverage with a Buy rating.

Market share and margin expansion from serving SME customers

We believe Cogobuy's industry expertise and relationships with global suppliers set it apart from online competitors in China, while its online model enables it to serve SME customers better than traditional offline distributors. We expect SME sales to grow at a 46% CAGR in 2016-18E, driving GPM from 8.1% to 8.5%, as margins from SMEs are better than those from blue-chip customers due to price mark-ups and supplier rebates. Its IngDan.com platform is also helping it gain more SME customers.

IngDan.com: promising prospects from IoT growth, potential to unlock value

Cogobuy's IngDan.com is China's largest hardware innovation platform by number of registered projects. It connects supply chain resources with entrepreneurs. Gartner forecasts a 2016-18 global Internet of Things (IoT) shipment CAGR of 35% and we believe China's IoT market could grow even faster. IngDan.com is well positioned to benefit. Benchmarked to A and H-share IoT and eCommerce listcos, our analysis shows a potential valuation range of US$410-1,076m. Excluding IngDan.com, Cogobuy might be valued at only 11-18x 2017E PE, a notable discount to peers given its growth profile.

Valuation: initiate coverage with Buy rating, price target of HK$14.46

We derive our price target from a three-stage DCF model (WACC of 9.8%). Cogobuy is trading at 23x/19x 2017E/2018E PE, on 24% EPS growth in 2017E and 2018E, or at below 1x PEG. We expect Cogobuy to re-rate as investors gain more confidence in the sustainability of its growth and a better understanding of the hidden value of IngDan.com, while active stock buybacks could also limit downside potential.

Highlights (Rmbm)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	2,417	6,848	9,453	12,764	16,824	21,245	26,140	31,156
EBIT (UBS)	123	268	453	620	815	1,033	1,270	1,508
Net earnings (UBS)	82	267	386	501	628	781	962	1,144
EPS (UBS, diluted) (Rmb)	0.09	0.23	0.29	0.33	0.41	0.51	0.63	0.75
DPS (Rmb)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	(648)	(189)	(1,102)	759	741	855	1,085	1,487
Profitability/valuation	**12/13**	**12/14**	**12/15**	**12/16E**	**12/17E**	**12/18E**	**12/19E**	**12/20E**
EBIT margin %	5.1	3.9	4.8	4.9	4.8	4.9	4.9	4.8
ROIC (EBIT) %	17.3	19.3	18.5	18.7	21.0	22.6	23.9	24.7
EV/EBITDA (core) x	-	-	21.9	22.9	16.4	13.0	10.6	9.1
P/E (UBS, diluted) x	-	-	23.6	29.2	23.1	18.6	15.1	12.7
Equity FCF (UBS) yield %	-	-	3.6	0.8	0.1	1.1	1.9	3.1
Net dividend yield %	-	-	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK$10.76 on 07 Mar 2017 22:38 HKT

UBS-S Research THESIS MAP

a guide to our thinking and what's where in this report

OUR THESIS IN PICTURES→

PIVOTAL QUESTIONS

Q: Will growing online competition force Cogobuy to sacrifice margin for market share?

No. We expect Cogobuy to continue to gain market share while maintaining steady margin expansion, despite the competition from major offline distributors and new online competitors. We believe Cogobuy's unique focus on SMEs and its established SME ecosystem set it apart from competitors and will help it continue to capture this underserved but more profitable market segment.

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Q: Is IngDan.com value accretive to the overall business?

Yes. Though commonly viewed as a cost centre, we believe IngDan.com is value accretive to the overall business given its strong contribution to customer acquisition and long-term prospects from its leading position in China's growing IoT market. We estimate it could be worth US$410-1,0671m (20-51% of Cogobuy's market cap) considering its monetisation potential and peer valuations. This valuation is not included in our base case, highlighting the upside potential for Cogobuy's valuation.

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UBS-S VIEW

Cogobuy is well positioned to gain further market share in China's electronic components distribution market due to its unique business model. Its long-term strategic relations with major suppliers and blue-chip customers differentiate it from online peers, while its online platform helps it serve SME customers not usually reachable by offline competitors. We forecast 2016-18 GMV/revenue CAGRs of 41%/31%, amid potentially subdued sector growth. Faster growth from SME customers could also help drive margin expansion. We think IngDan.com, the leading IoT innovation platform in China, will not only help Cogobuy acquire SME customers, but also contribute to overall valuations once investors see progress on unlocking its hidden value.

EVIDENCE

In 2015/H116, Cogobuy's IC direct sales rose 38%/32% YoY, while sector sales grew merely 8%/-1%. Cogobuy's SME sales grew 63% in 2015 and 54% in H116, with the number of SME customers rising from 9,969 in 2015 to 14,773 in H116. Meanwhile, GPM expanded from 7.8% in 2014 to 8.2% in H116. Gartner forecasts a global 2016-18 IoT shipment CAGR of 38%. We believe IngDan.com, China's largest hardware innovation platform, is well positioned to benefit in the IoT era.

WHAT'S PRICED IN?

Cogobuy is trading at 23x 2017E PE (11-18x if we strip out IngDan.com's valuation), a notable discount to eCommerce and IoT peers, while offering a comparable growth profile. We do not think the market has priced in Cogobuy's sustainable growth potential in the next couple of years and the underlying value from IngDan.com, which has a leading position in China's rapidly growing IoT market.

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UPSIDE / DOWNSIDE SPECTRUM

Value drivers 2017E	SME customer growth	SME avg annual spending growth	Blue-chip customer growth	Blue-chip avg spending growth	Introduction of strategic investors to IngDan.com
HK$20.34 upside	40%	-6%	15%	-8%	Y
HK$14.46 base	35%	-8%	12%	-10%	N
HK$9.63 downside	30%	-10%	9%	-12%	N

Source: UBS-S estimates

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COMPANY DESCRIPTION

Cogobuy Group (Cogobuy) is the largest transaction-based eCommerce platform for integrated circuits (IC) and other electronic components in China by gross merchandise value (GMV)....

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OUR THESIS IN PICTURES

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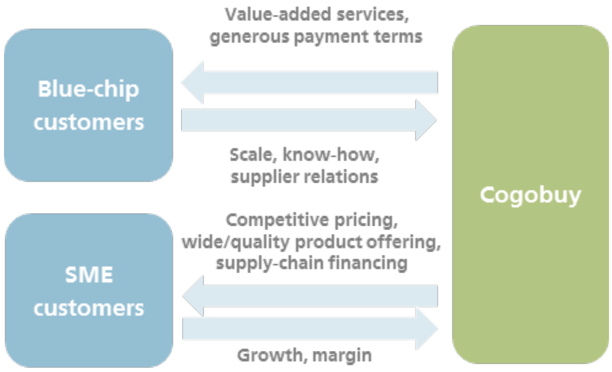
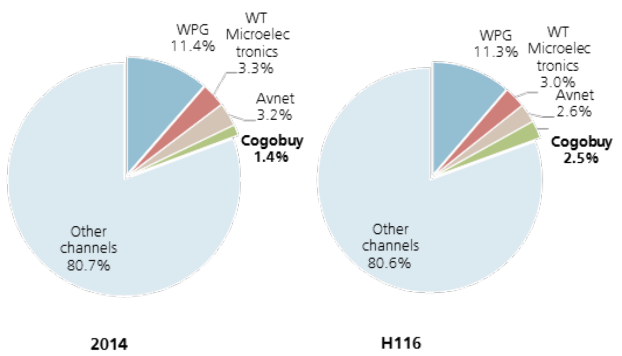
Cogobuy's business model



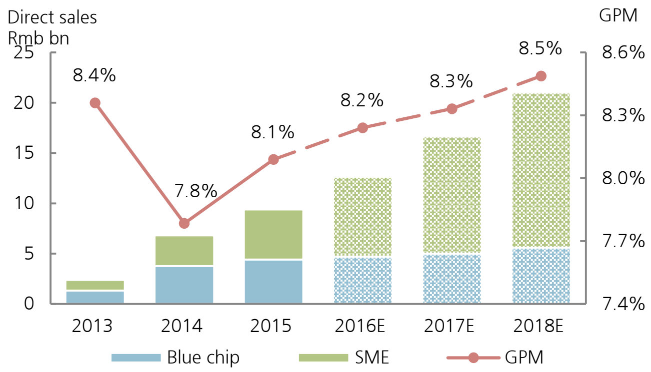
Cogobuy's unique business model serves both blue-chip and SME customers

China IC distribution market share



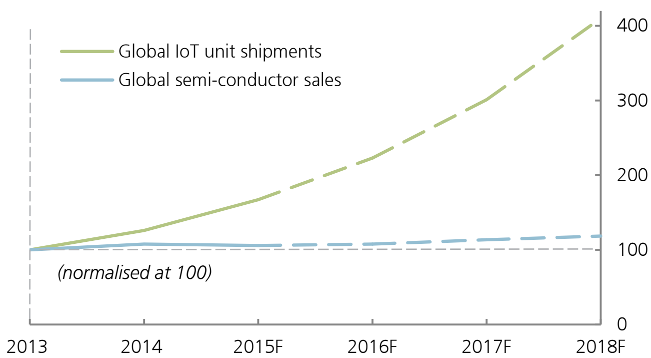
We expect rapid sales growth from the lucrative but under-served SME segment to continue to fuel Cogobuy's market share gains…

Improving revenue mix and margin expansion



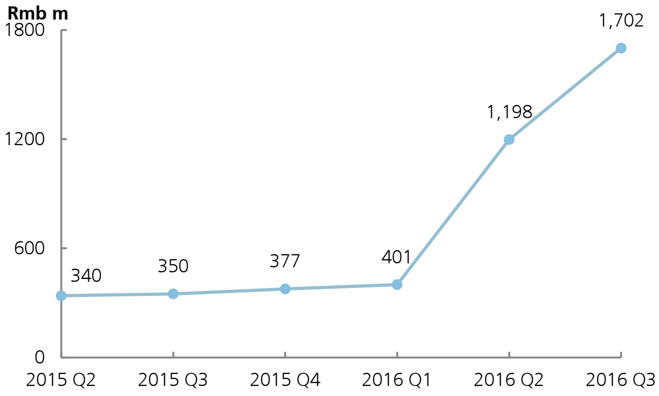
…and margin expansion

Relative growth: IoT vs. semiconductors



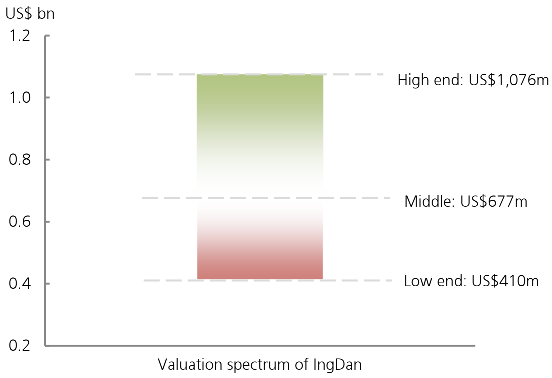
Promising IoT growth prospects

IngDan GMV



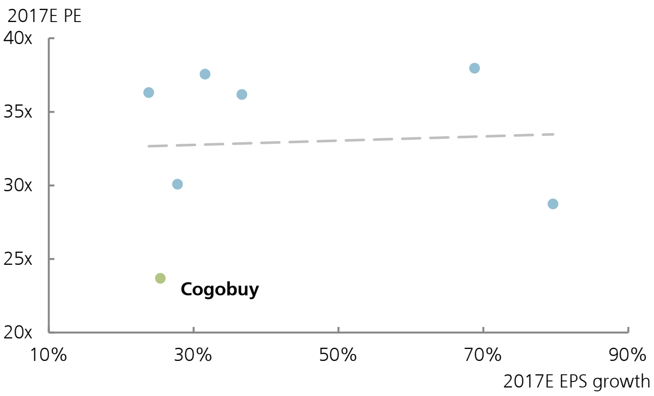
We expect secular growth from IngDan.com to fuel the growth in the SME segment

Valuation spectrum of IngDan



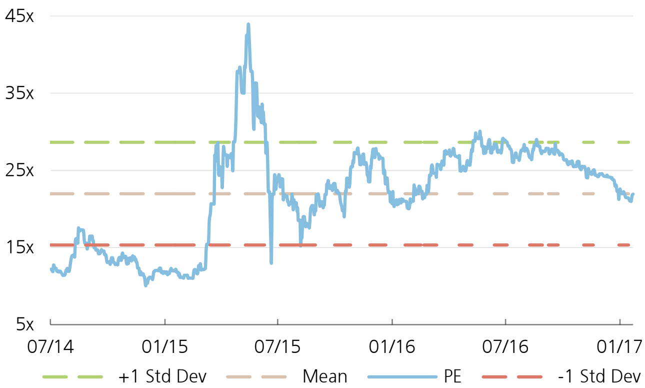
Valuation accretion from IngDan.com is potentially substantial

Peer valuations: PE vs EPS growth



Cogobuy undervalued against H- and A-share B2B ecommerce and IoT peers

Forward PE band



Trading at mean forward PE despite more visibility on Cogobuy's growth and progress on IngDan's monetisation

Sources for exhibits above: Wind, Gartner, Thomson Reuters, company data, UBS-S estimates

PIVOTAL QUESTIONS

return ↑

Q: Will growing online competition force Cogobuy to sacrifice margin for market share?

UBS-S VIEW

No. We expect Cogobuy to continue to gain market share while maintaining steady margin expansion, despite the competitive nature of the electronic component distribution market. We believe Cogobuy's unique focus on small and medium enterprises (SMEs) and established SME ecosystem set it apart from its competitors and will help it continue to capture this underserved but more profitable market segment.

EVIDENCE

Cogobuy has been able to navigate the moderate overall sector growth and outperform the China semiconductor market during the past two years. According to Wind, semiconductor sales in China reached US$98.6bn in 2015, representing 8% YoY growth, while in H116, YoY growth decelerated to 1%. However, Cogobuy recorded YoY growth of 38% and 32% in direct IC sales in the two periods, respectively.

The SME segment played a major role in the strong growth. In 2015/H116, Cogobuy's sales to SME customers grew 63%/54% YoY, providing strong momentum to overall growth. The expanding SME customer base, which grew 101%/103% YoY during the same periods, fuelled the strong SME sales growth. Management credits IngDan.com for contributing a major portion of SME customer acquisitions, leveraging its strong presence among China's entrepreneur community.

Using China's overall semiconductor sales as the total market, we estimate Cogobuy's market share expanded from 1.4% in 2014 to 2.5% in H116, while its major competitors' were flat or contracted during the same periods.

The rising sales contribution from the more profitable SME segment has also driven Cogobuy's margin expansion. From 2014 to H116, Cogobuy's GPM expanded from 7.8% to 8.2% as the SME sales contribution rose from 45% to 58%.

WHAT'S PRICED IN?

Cogobuy's forward PE has contracted from 28x in mid-2016 to 23x, while we expect its EPS to grow 24% in 2017E and monetisation for IngDan.com is becoming clearer due to its growing scale and rising GMV contribution. Investors might be concerned about the sustainability of its growth given the subdued growth outlook for the sector. But we think its unique positioning will allow it to catch growth opportunities from SME customers and expand margins. We therefore expect a potential re-rating, driven by continued earnings growth and progress in monetisation and/or the introduction of strategic investors in IngDan.com (which the company has indicated it is seeking).

Cogobuy: a business model that benefits from both worlds

The client pool of the electronic component distributors can be largely divided into two segments: blue-chip manufacturers and SMEs. In our view, Cogobuy has a unique business model that differs from its competitors as it serves and benefits from both the blue-chip and SME segments.

While the blue-chip segment is competitive and has lower margins, it offers Cogobuy large order volumes and scale, which are important resources when negotiating better pricing terms with the upstream suppliers and can help lower logistics costs per order. Relationships with blue-chip customers can also provide industry know-how, which is valuable to Cogobuy's value-added services.

Since SME customers tend to have less bargaining power, Cogobuy can earn higher margins from this segment. SMEs are also more exposed to the rapid development in the IoT market and can offer Cogobuy growth opportunities faster than those in the overall sector.

Figure 1: Value chain of the electronics component sector

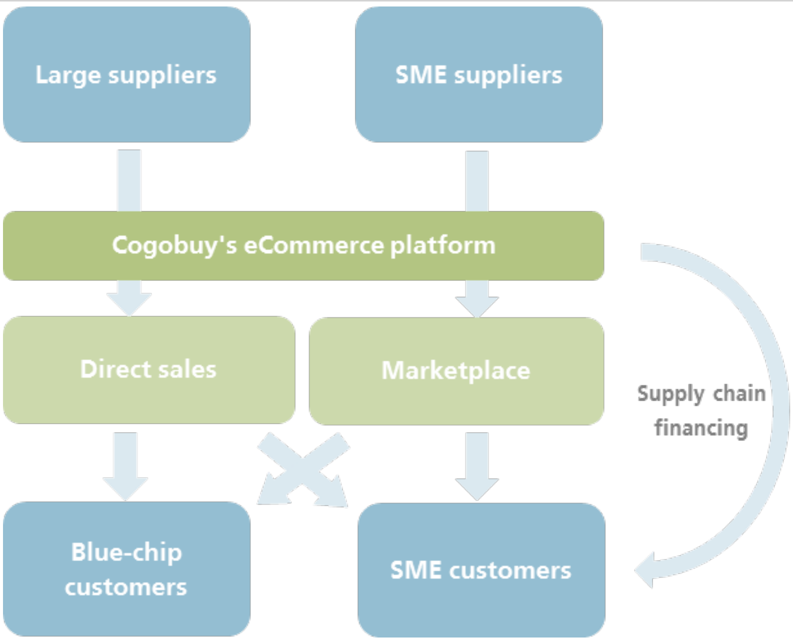
Upstream: suppliers	Midstream: distributors	Downstream: electronics manufacturers

• Blue-chip suppliers
  • Intel, Samsung, SanDisk etc
• SME suppliers
	• Traditional offline distributors: Avnet, Arrow Electronics, WPG etc
	• Online distributors: Cogobuy, Alibaba etc
	• Direct sales between large suppliers and manufacturers
	• Smaller distributors
		• Blue-chip manufacturers
		  • Apple, Haier, BYD etc
		• SME manufacturers, such as IoT entrepreneurs

Source: UBS-S

SMEs offer growth and margins, blue chips offer scale, know-how and supplier relations

Figure 2: Cogobuy's business model



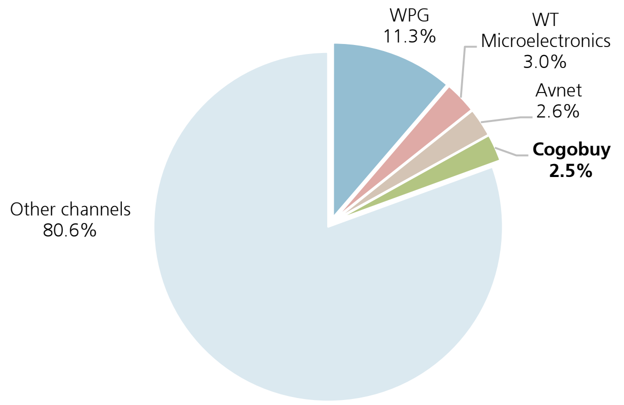
Source: Company data

Cogobuy and blue chips: gaining market share in a competitive segment

China's electronic component distribution sector is a relatively competitive market, especially in the blue-chip customer segment. Not only do leading distributors such as WPG, WT Microelectronics, Avnet and Cogobuy compete with one another for market share, but large upstream suppliers can also circumvent the midstream distributors and serve large downstream manufacturers directly.

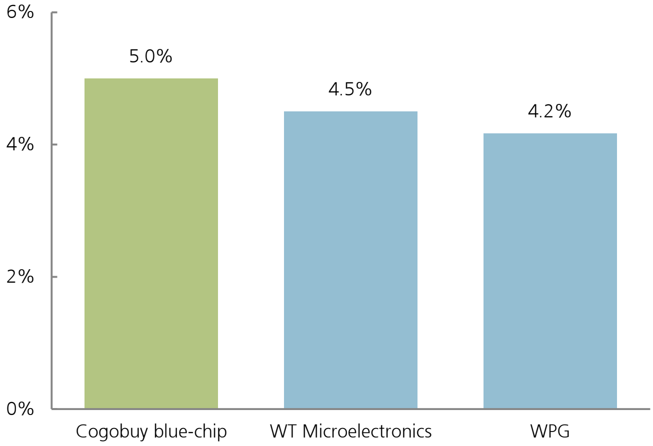
The intense competition is evidenced by the low gross margins of major Asia-Pacific (APAC) electronic component distributors (Figure 4).

Figure 3: Market shares of major distributors in China (H116)



Source: Wind, Company data, UBS-S estimates

Figure 4: Gross margins of major APAC electronic component distributors (Q316)



Source: Company data, UBS-S estimates

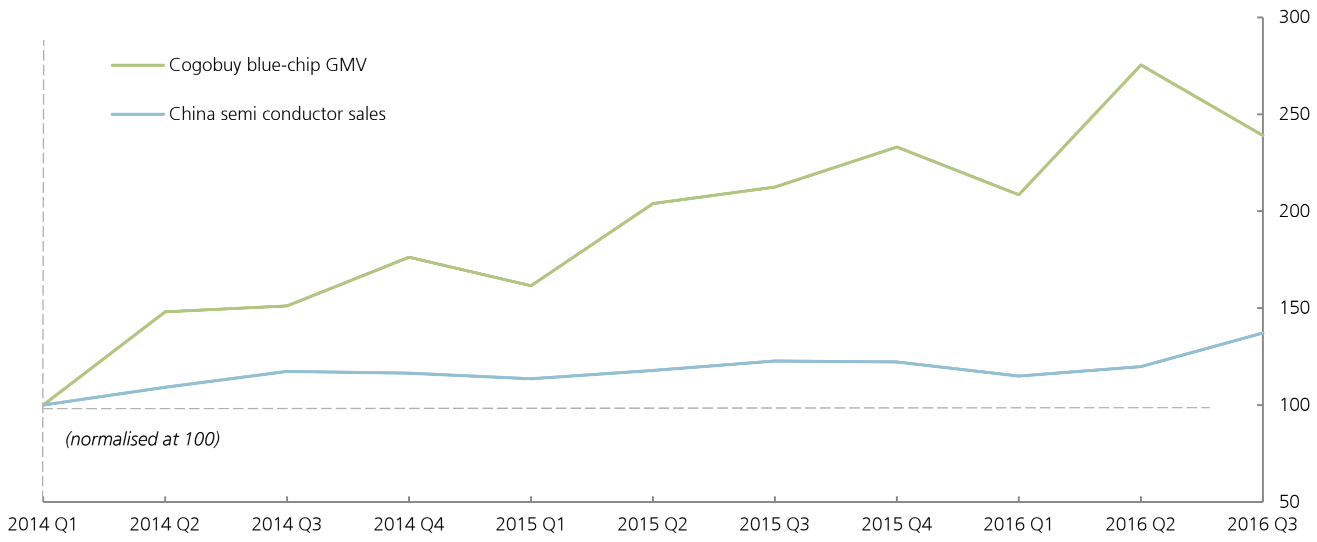
Despite the intense competition, we estimate Cogobuy's platform (direct sales and marketplace) is gaining market share in the blue-chip segment, as its blue-chip GMV has been outgrowing the overall sector.

Cogobuy's blue-chip segment has been able to outgrow the sector by offering more flexible payment terms (usually with longer credit lines) and prices similar to offline distributors. Cogobuy also provides free services including market updates on new products, online/mobile order management, post-sales support and supply-chain management.

Scale from blue-chip segment gives Cogobuy bargaining power for rebates from suppliers

While the blue-chip segment is not very profitable, it gives Cogobuy the scale and bargaining power to negotiate better pricing terms with suppliers. According to management, Cogobuy can usually obtain a 5% rebate from IC component manufacturers. This gives Cogobuy potential for mark-ups when selling to SME customers.

Figure 5: Cogobuy's blue-chip GMV vs. sector sales



Source: Wind, Company data

Advantages in the SME segment propelling market share gains and margin expansion

We believe SME manufacturers are a lucrative but underserved customer segment in China's competitive electronics component distribution sector. As a first-mover and leader in this online segment, we think Cogobuy is on track to continue to gain market share given its competitive advantages (volume leverage, established ecosystem and value-added services).

Figure 6: Market share estimates

	2014	2015	H116
WPG	11.4%	11.4%	11.3%
WT Microelectronics	3.3%	3.1%	3.0%
Avnet	3.2%	2.8%	2.6%
Cogobuy IC GMV	**1.4%**	**2.0%**	**2.5%**
Other channels	80.7%	80.7%	80.6%

Source: Wind, company data, UBS-S estimates

Cogobuy's competitive advantages in the underserved but lucrative SME segment

While conventional offline IC distributors dominate the IC distribution market and are heavily geared towards serving large customers, they devote little effort to servicing SME customers, which usually do not meet the thresholds for minimum purchase quantity. We believe SME customers are an underserved market segment in which Cogobuy is well positioned to gain further market share.

Volume leverage enables Cogobuy to achieve higher margins from sales to SME customers

We also believe SME customers represent a more lucrative market segment. While large manufacturers tend to purchase IC components in large quantities and therefore have more bargaining power on pricing, SME customers are usually price receivers.

Competition in the SME segment is intensifying as traditional offline distributors and eCommerce platforms (such as Alibaba) are establishing online IC distribution to serve SME customers. But we believe Cogobuy continues to hold competitive advantages in this segment.

Cogobuy is better positioned to serve Chinese SMEs due to its more localised and complete ecosystem

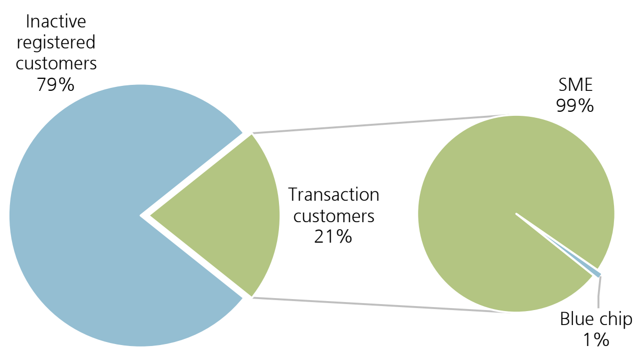
Its online platform is more localised and popular among Chinese SMEs than the online platforms of traditional offline distributors, in our view. We think this is largely due to the IngDan.com platform's leading position in China's hardware innovation community. Traditional offline distributors usually operate globally and their online platforms are geared towards serving global SMEs and are therefore less localised/tailored for the Chinese market.

The industry knowledge required could keep IC distribution a niche market dominated by dedicated suppliers

While China's leading eCommerce platforms such as Alibaba.com have established segments for IC components geared towards serving SMEs, we do not think they will pose a significant competitive threat to Cogobuy. The IC distribution market requires expertise in electronics manufacturing and the latest developments in technology to provide in-depth IC distribution services to customers. Clients that procure ICs also usually require dedicated field application engineering (FAE) support. We therefore expect the IC distribution segment to remain a niche market dominated by dedicated suppliers such as Cogobuy.

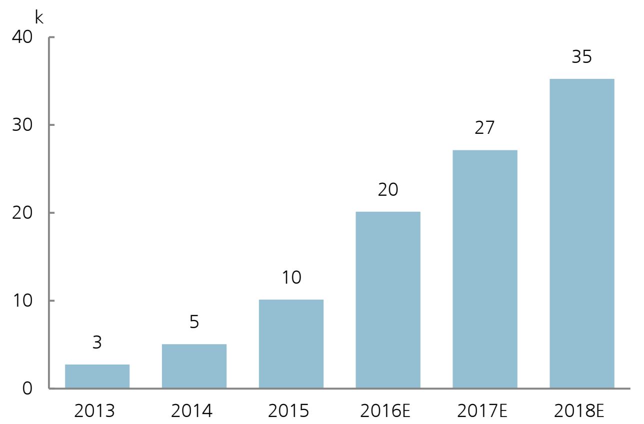
We believe Cogobuy's competitive advantages in this segment can help convert its large reserve of inactive customers into transaction customers. We expect its expanding transaction customer base to drive further growth in the SME segment.

Figure 7: Large pool of inactive users leaves room for penetration gains (Q316)



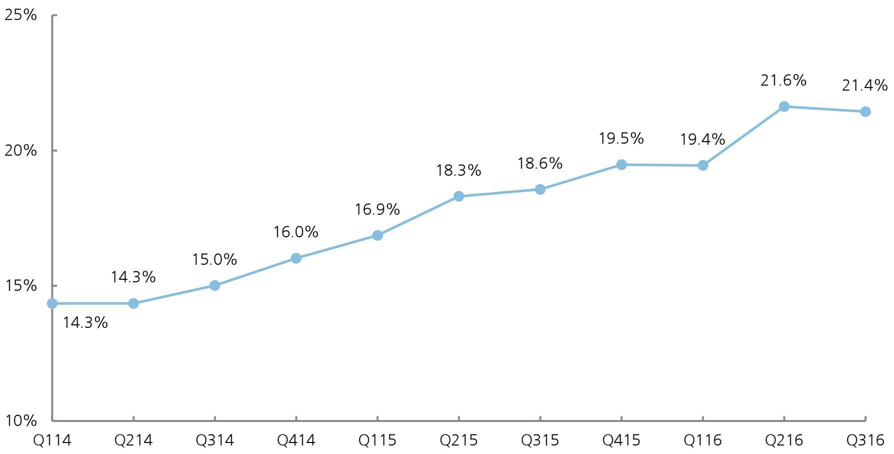
Note: Cogobuy classifies customers who had completed at least one online transaction during the current period and at least one other online transaction in the previous fiscal year as 'transaction customers', and customers whose annual revenue is Rmb400m or above as blue-chip customers.
Source: Company data

Figure 8: Cogobuy's transaction customer count



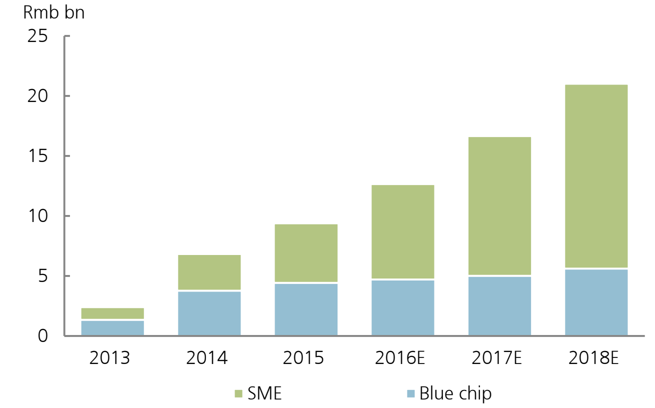
Source: Company data, UBS-S estimates

Figure 9: Conversion rate of registered customers is trending upward



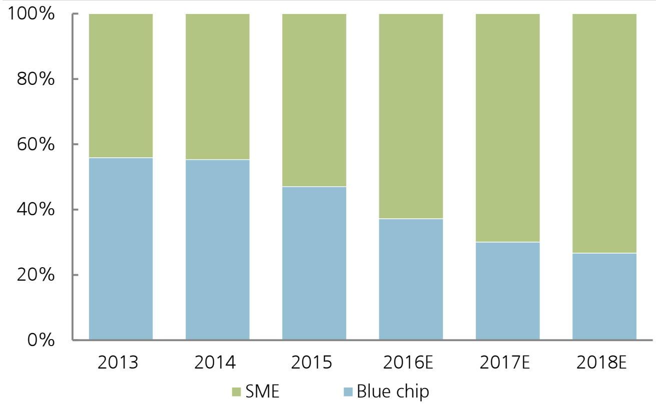
Source: Company data

Figure 10: Direct sales by segment



Source: Company data, UBS-S estimates

Figure 11: Direct sales breakdown

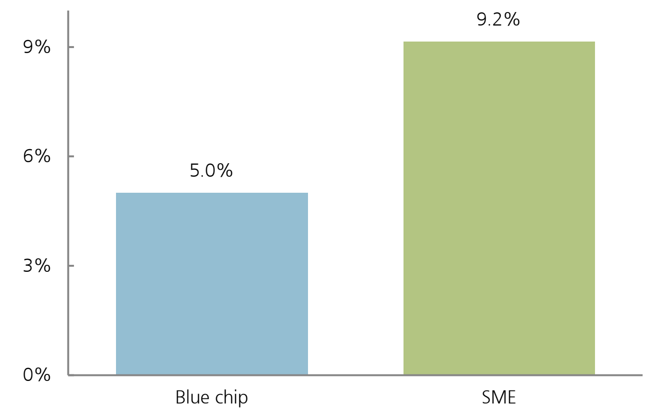


Source: Company data, UBS-S estimates

Improving margins from the rapidly growing SME segment

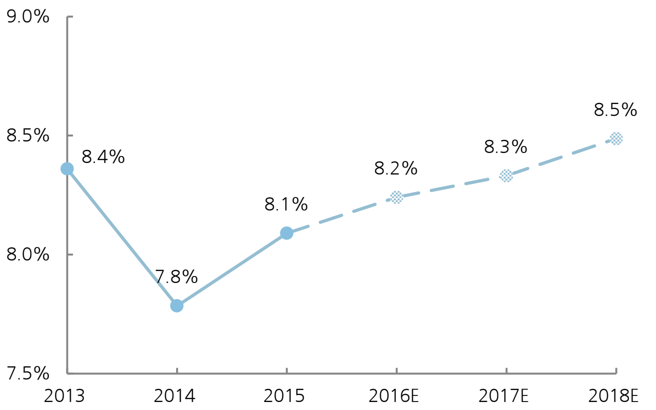
As the weight of the more profitable SME segment in Cogobuy's revenue mix increases further, we expect Cogobuy's GPM to continue to expand from the 2015 level.

Figure 12: Cogobuy direct sales gross profit by segment, Q1-Q316



Source: Company data, UBS-S estimates

Figure 13: Improving GPM from rising contribution from SME sales

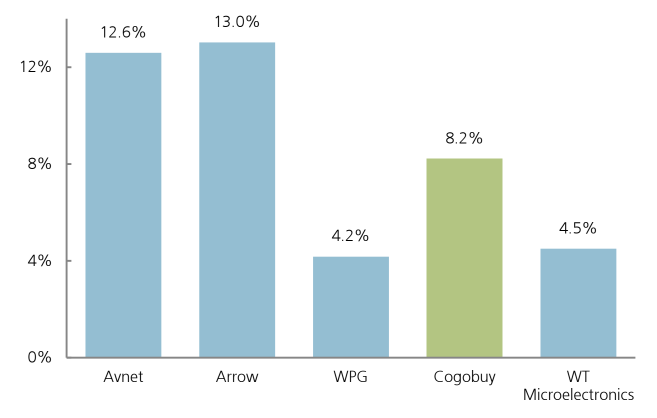


Source: Company data, UBS-S estimates

Online platform, big data and SME focus enable better operational efficiency and working capital management

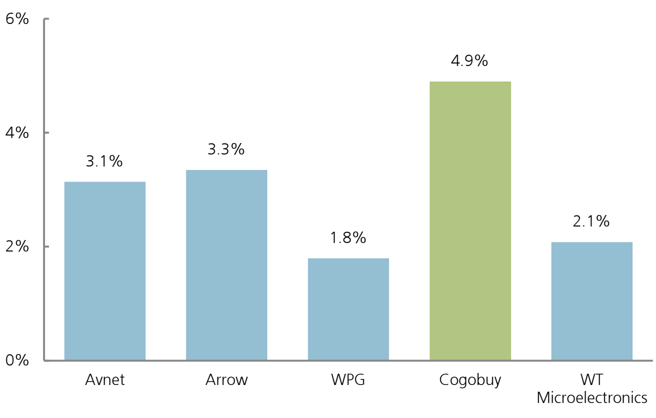
From our observation, Cogobuy's online platform and SME focus have enabled it to achieve better operational efficiency and cash flow management than its peers. Despite having a more modest gross margin than its global peers, Cogobuy achieved the highest EBIT margin among major listed IC distributors, evidence of better operational efficiency from the online business model.

Figure 14: Gross margin (Q316)



Source: Company data

Figure 15: EBIT margin (Q316)



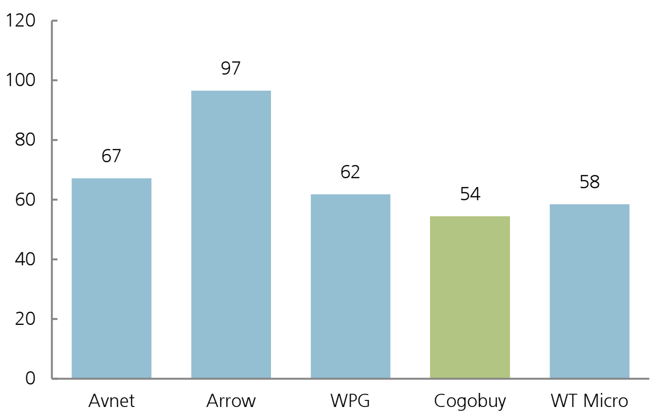
Source: Company data

Due to its SME focus and big data from the online platform, Cogobuy has been able to achieve better working capital management than its global peers. As SME customers usually have much smaller accounts receivable (AR) days (or pay on ordering) than blue-chip customers, Cogobuy can achieve high AR turnover and better cash generation than its peers who are more geared towards serving blue-chip customers.

Cogobuy has the lowest AR and inventory days, evidence of its operational efficiency

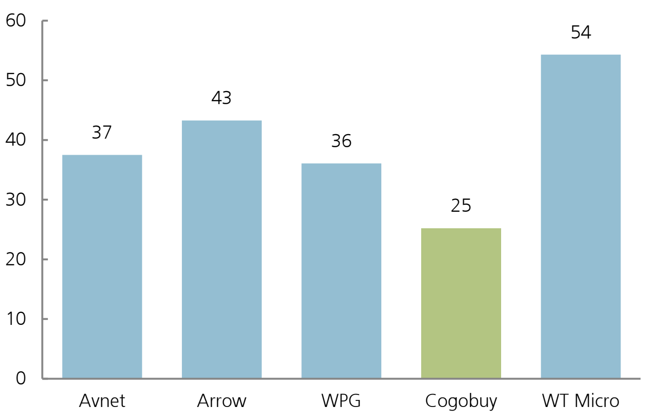
In addition, we think big data from Cogobuy's online platform has enabled it to more accurately capture shifts in technology trends and demand, and optimally manage its inventory. Given the fast replacement cycles in the electronics industry, we believe fast inventory turnover is crucial in avoiding exposure to inventory obsolescence and price erosion.

Figure 16: AR days, 2015



Source: Company data

Figure 17: Inventory days, 2015



Source: Company data

Marketplace: connecting SME suppliers and customers

In February 2013, Cogobuy launched a marketplace platform for third-party component suppliers, especially SME suppliers, to sell their products to Cogobuy's clients. China's SME IC suppliers generally find it difficult to reach out to a large number of clients due to their limited scale, and we believe Cogobuy's platform provides them with a relatively cost-efficient method of promoting their products. The platform also engages the SME suppliers and customers in Cogobuy's ecosystem, enabling Cogobuy to capture transaction data flowing through its systems for future analysis.

The rising scale of Cogobuy's marketplace platform has also helped Cogobuy expand its product offerings, which complements its direct sales platform in attracting more customers. During the six months from June to December 2015, Cogobuy's SKUs increased from 81,000 to 100,000 (23%), while its marketplace GMV expanded 96% HoH in H215.

Since the marketplace business is generally based on the existing Cogobuy platform, it incurs little additional expense for the overall business. The growing revenue from the marketplace business could therefore be margin accretive.

Figure 18: Key metrics of the marketplace business

	2013	2014	2015	2016E	2017E	2018E
Revenue (Rmb m)	25	27	46	92	144	191
YoY	0%	7%	69%	101%	56%	32%
GMV (Rmb m)	1,523	1,274	3,013	6,091	9,622	12,710
% of total GMV	38.9%	15.2%	21.7%	28.2%	31.8%	32.8%
Commission rate	1.7%	2.1%	1.5%	1.5%	1.5%	1.5%

Source: Company data, UBS-S estimates

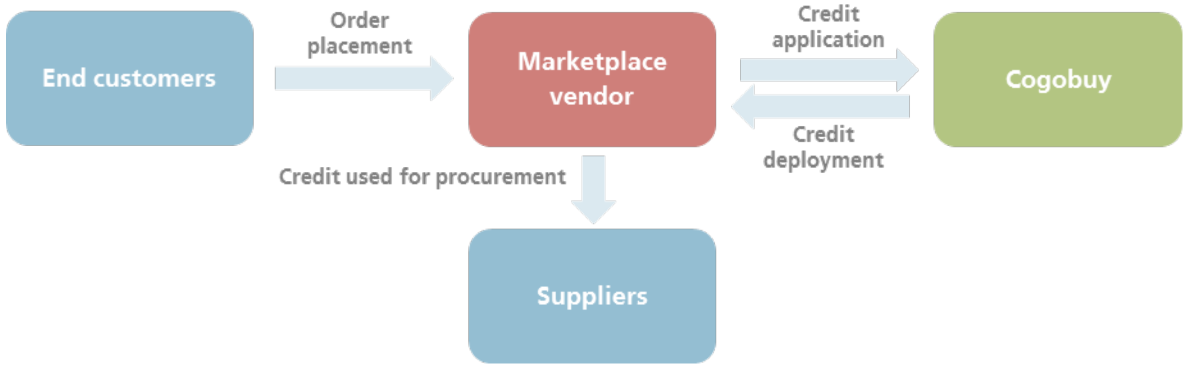
Supply-chain financing: increasing customer stickiness

By collecting more transaction data and customer profiles through its online and offline platforms, Cogobuy is able to offer products and services beyond IC distribution. Based on this transaction and customer data, Cogobuy launched new supply-chain financing services to selected customers starting in September 2014.

We believe supply-chain financing can help increase client stickiness, while still contributing to profit. Given that the financing revenue is booked at an annualised interest rate of 5-6% and Cogobuy's borrowing rate for related loans is around 2%, we estimate the supply-chain financing business generates a GPM of about 60%, accretive to overall margin.

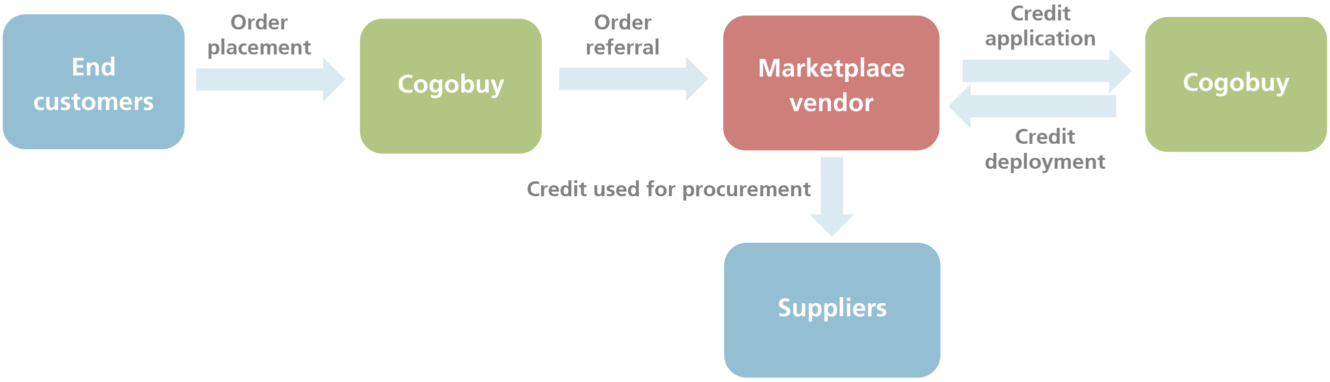
The supply-chain financing business has achieved initial success: its GMV (measured by loan values) more than quadrupled in 2015 and more than doubled in 9M16. We expect supply-chain financing to continue to gain penetration in Cogobuy's direct sales and marketplace platforms, and estimate it will finance 15% of Cogobuy's IC-related GMV by 2018E.

Figure 19: Supply-chain financing for order placement with marketplace vendors



Source: Company data

Figure 20: Supply-chain financing for orders placed on Cogobuy's direct sales platform



Source: Company data

PIVOTAL QUESTIONS

return ↑

Q: Is IngDan.com value accretive to the overall business?

UBS-S VIEW

Yes. Though commonly viewed as a cost centre we believe IngDan.com is value accretive to the overall business through its strong contribution to customer acquisition and long-term prospects from its leading position in China's growing IoT market. To address growing investor interest in IngDan.com, we have estimated its potential valuation range, taking into account its monetisation potential and current peer valuations. We think IngDan.com could be worth US$410-1,076m. This valuation is not included in our base case, highlighting the upside potential to Cogobuy's valuation.

EVIDENCE

According to management, IngDan.com became a major driver in Cogobuy's SME customer acquisition in 2016. In 9M16, Cogobuy added 7,263 transaction customers, mirrored by the approximately 6,300 new projects registered on IngDan.com during the same period.

IoT is a bright spot in China's, and the world's, slowing electronics manufacturing industry. And as China's largest intelligent hardware innovation business platform by the number of registered projects, IngDan.com is well-positioned to benefit, in our view.

According to Wind, China's IoT market size grew 32% YoY in 2015, well above the 10% annual growth for the overall China semi-conductor sector. Gartner estimates global IoT unit shipments increased 33% YoY in 2015, amid a 1.9% decline in overall semi-conductor sales.

In Q316, IngDan.com's GMV contribution to Cogobuy reached Rmb1.7bn, a 387% YoY increase. By September 2016, the number of projects on IngDan.com reached 16,000 and the number of followers reached 16.1m, up 119% and 374% YoY, respectively. We believe this is evidence that IngDan.com, the leading player in China's IoT market, has benefited significantly from the rapid growth in the market.

We derive our IngDan.com valuation range using a SOTP methodology. Its direct sales segment could be worth US$372-882m, applying the peer 2017E P/S range of 0.8-1.0x to the direct sales GMV (equates to revenue), while its marketplace segment could be worth US$38-194m, applying the peer 2017E P/S range of 4.1-11.0x to its estimated commission on transactions.

WHAT'S PRICED IN?

Given the lack of sufficient operational information and direct comparables we think IngDan.com's intrinsic value is not readily visible to investors and is thus often overlooked. Furthermore, since IngDan.com is still lossmaking, when investors value Cogobuy from a PE perspective, IngDan.com might even dilute the overall valuation. We think it is constructive to view IngDan.com in the context of B2B eCommerce platforms and IoT companies, given its exposure to both themes.

IngDan.com: positioned to benefit from rapid growth of IoT

We believe Cogobuy's IngDan.com platform is well-positioned to benefit from the potentially strong growth from the development of IoT, due to its unique business model and leading market position. With its strong supply-chain resource from Cogobuy and ability to provide one-stop services, we think IngDan.com could potentially become China's go-to platform for IoT and electronic hardware innovations.

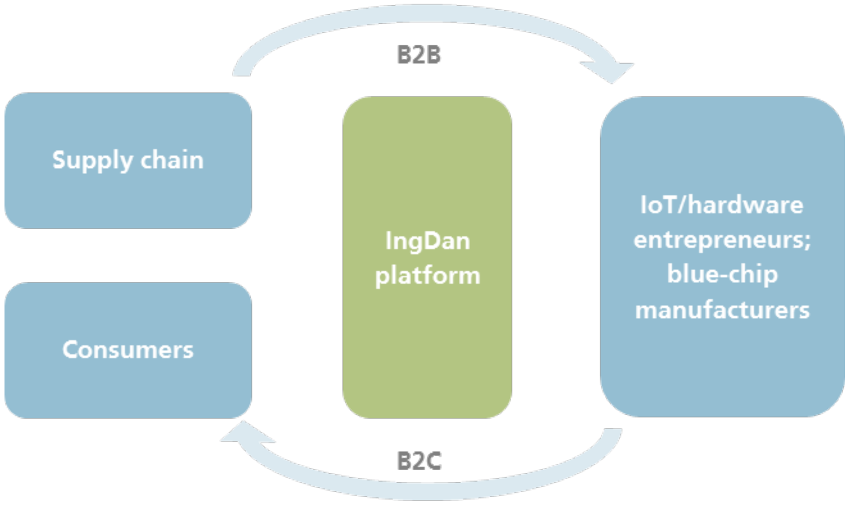
Unlike traditional crowdfunding platforms, where the focus is project funding, IngDan.com is more geared towards providing a platform for supply-chain services, especially leveraging the resources from the Cogobuy platform.

China's crowdfunding scene is becoming increasingly competitive (with numerous new entrants), but IngDan.com's unique market positioning and expertise in supply-chain services set it apart from traditional crowdfunding platforms and could help avoid direct competition.

According to management, the strategy for IngDan.com is to create a platform that connects various parties along the electronic manufacturing supply chain (upstream component suppliers, legal/financial consultants, downstream distributors, etc) to provide one-stop solutions for IoT and hardware entrepreneurs.

According to the company, Intel, Microsoft, ARM, JD.com and Baidu were among the 14,000 supply-chain services providers available on IngDan.com, as of November 2016.

Figure 21: IngDan.com's B2B2C business model



Source: Company data

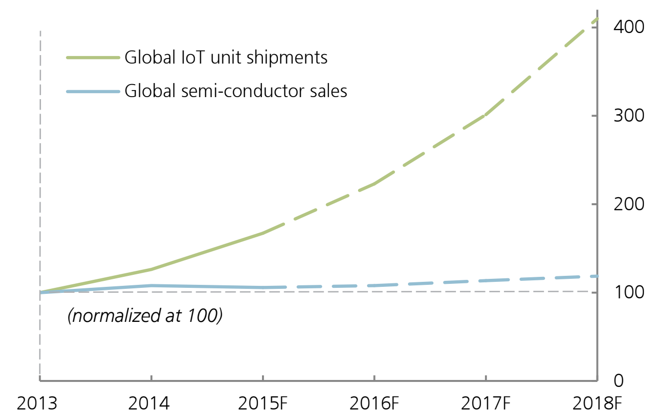
We expect IngDan.com to ride the promising IoT sector growth

Given its leading market position, lack of direct competitors due to its unique market positioning, and relatively developed ecosystem, we believe IngDan.com is well positioned to benefit from the rapid development of IoT projects.

In Q316, IngDan.com's GMV contribution to Cogobuy reached Rmb1.7bn, a 387% YoY increase. By September 2016, the number of projects on IngDan.com reached 16,000 and the number of followers reached 16.1m, up 119% and 374% YoY, respectively.

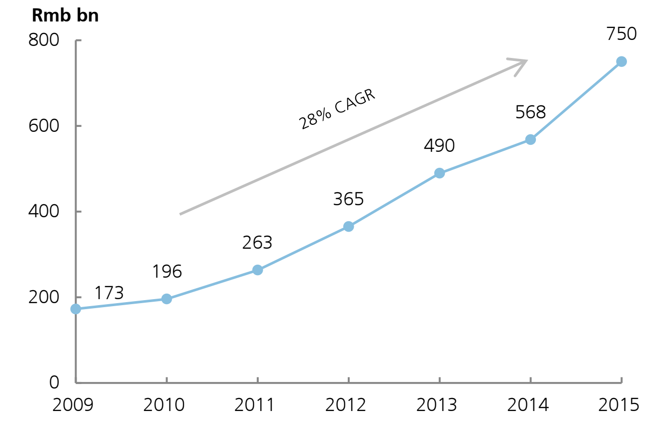
These growth figures are notably larger than the historical CAGR for China's IoT market size, suggesting IngDan.com has been gaining penetration in China's IoT sector. Considering the potential snowball effect as the ecosystem becomes more developed and popular, we believe IngDan.com is on track to maintain its momentum in the upcoming years.

Figure 22: Gartner expects IoT to be the bright spot in global electronics manufacturing



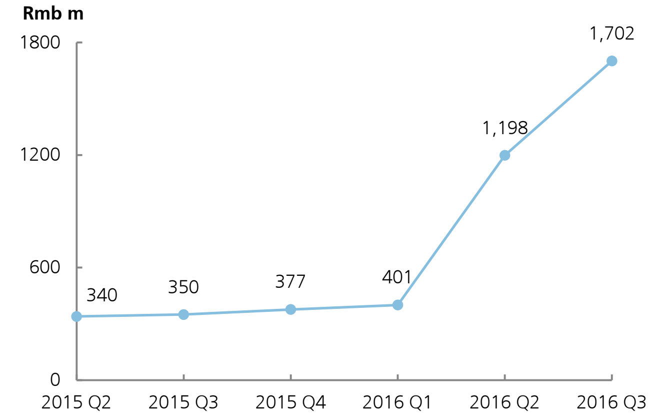
Source: Gartner

Figure 23: China IoT market size



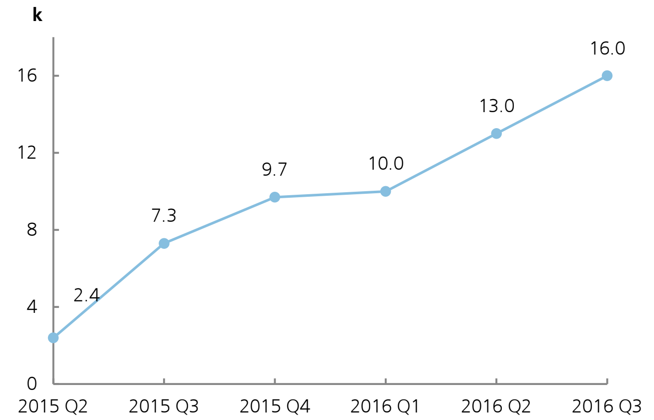
Source: Wind

Figure 24: IngDan.com quarterly GMV



Source: Company data

Figure 25: IngDan.com project count



Source: Company data

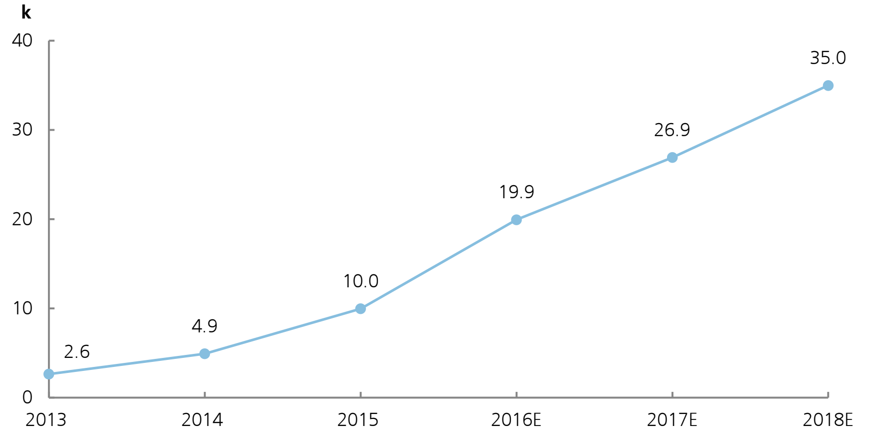
Synergies with Cogobuy platform in attracting more traffic

Given IngDan.com's strong presence in China's IoT entrepreneur community, we think it is a strong driver of customer traffic for Cogobuy's platform, as these IoT start-ups seek reliable suppliers of IC components.

Cogobuy's transaction SME customer count has been growing strongly since 2013, rising about 100% YoY in 2014 and 2015. And given the 17,000 SME transaction customers in Q316, we think the customer count was on track to double again in 2016.

Management attributes Cogobuy's strong SME customer growth to IngDan.com, which contributed the majority of SME customer acquisitions in 2016. In 9M16, Cogobuy added 7,263 transaction customers, mirrored by the approximately 6,300 new projects registered on IngDan.com during the same period.

Figure 26: Cogobuy's transaction SME customer count



Source: Company data, UBS-S estimates

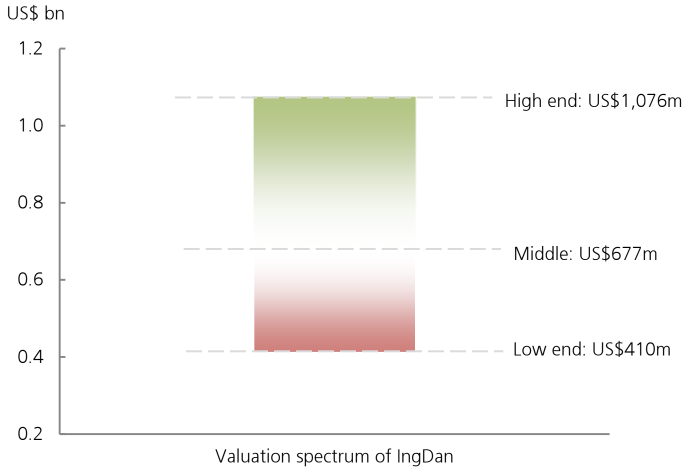
How much could a standalone IngDan.com be worth?

IngDan.com could be worth 20-51% of Cogobuy's current market cap

Since IngDan.com is still at a relatively early stage in terms of monetisation and operational disclosure is limited, we think it could be a hidden gem in Cogobuy's overall valuation. As a reference, we estimate IngDan.com could be worth US$410-1,076m.

According to the company's Q415 results announcement in March 2016, Cogobuy is considering seeking strategic investors for IngDan.com. We think any progress in that regard could alleviate the cost burden to Cogobuy and help investors anchor IngDan's potential value.

Figure 27: IngDan.com potential valuation range



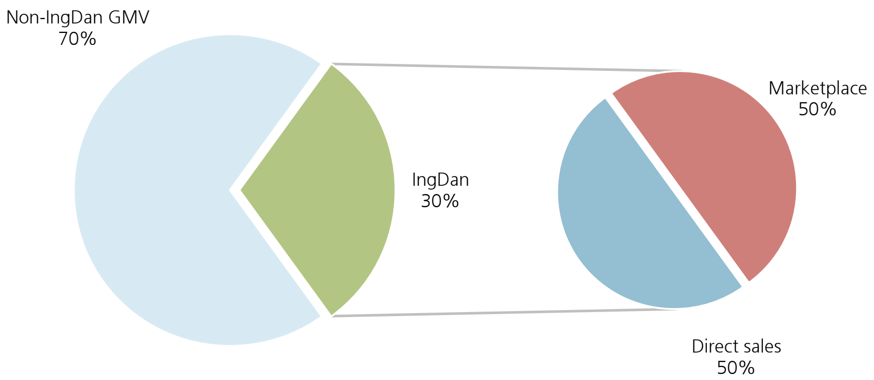
Source: UBS-S estimates

SOTP valuation: direct sales and marketplace

We value IngDan.com using a SOTP methodology for its direct sales and marketplace businesses, taking into consideration the distinct valuations the market assigns to comparables from the two segments. According to Cogobuy, about 50% of IngDan.com's GMV is from direct sales (purchase of IC components and modules) and about 50% is from marketplace transactions.

We estimate IngDan.com's GMV will reach Rmb9bn in 2017, contributing 30% of our estimated 2017 Cogobuy GMV of Rmb30bn, similar to IngDan.com's 29.5% GMV contribution in Q316.

Figure 28: Cogobuy/IngDan.com GMV breakdown, 2017E



Source: Company data, UBS-S estimates

Direct sales: revenue = GMV
Marketplace: revenue = GMV x take rate

We base our valuations on IngDan.com's potential revenue and the P/S ratios of listed comparable companies. We assume 100% of IngDan.com's direct sales GMV would translate to revenue, similar to Cogobuy's direct sales segment. We expect marketplace GMV to be monetised by charging a take rate on transaction volumes. The 2% take rate is higher than Cogobuy's marketplace take rate of 1.5%, as guided by management, but below eCommerce peers' like Alibaba (UBS estimates a take rate of about 3%).

Figure 29: IngDan.com SOTP valuation range

Range	Direct sales segment			Marketplace segment			Total (US$ m)
	17E revenue (Rmb m)	17E P/S	Valuation (US$ m)	17E revenue (Rmb m)	17E P/S	Valuation (US$ m)	
High-end	6,071	1.0x	882	121	11.0x	194	1,076
Mid-end	4,532	0.9x	592	91	6.4x	84	677
Low-end	3,204	0.8x	372	64	4.1x	38	410

Source: UBS-S estimates

Figure 30: IngDan.com direct sales revenue scenarios

		Direct sale as % of total IngDan GMV				
	(Rmb m)	40%	45%	**50%**	55%	60%
IngDan GMV Growth	52%	**3,204**	3,605	4,005	4,406	4,806
	62%	3,415	3,842	4,269	4,696	5,123
	72%	3,626	4,079	**4,532**	4,985	5,439
	82%	3,836	4,316	4,796	5,275	5,755
	92%	4,047	4,553	5,059	5,565	**6,071**

Note: Base case is in bold.
Source: UBS-S estimates

Figure 31: IngDan.com marketplace revenue scenarios

		Take rate of IngDan marketplace transactions				
	(Rmb m)	1.6%	1.8%	**2.0%**	2.2%	2.4%
IngDan GMV Growth	52%	**64**	72	80	88	96
	62%	68	77	85	94	102
	72%	73	82	**91**	100	109
	82%	77	86	96	106	115
	92%	81	91	101	111	**121**

Note: Base case is in bold.
Source: UBS-S estimates

Figure 32: IngDan.com valuation comparables

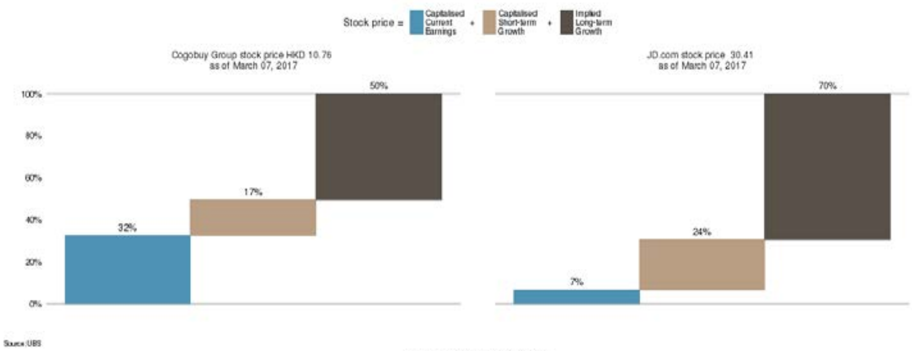
	Rating	Price (LC)	Market cap (US$ m)	PE (x) 2016E	PE (x) 2017E	PE (x) 2018E	P/Sales (x) 2016E	P/Sales (x) 2017E	P/Sales (x) 2018E	2016-18E CAGR Sales	2016-18E CAGR EPS
Market Place											
Ctrip	Buy	47.51	23,643	67.1x	67.1x	67.1x	8.5x	6.1x	4.5x	46.4%	10.0%
Autohome	Buy	32.81	3,718	21.0x	21.0x	21.0x	4.2x	4.5x	3.7x	26.3%	15.9%
Alibaba (CY)	Buy	102.31	253,108	28.0x	28.0x	28.0x	17.3x	11.2x	8.7x	38.3%	27.8%
HC 360	Not Rated	6.42	825	28.4x	19.0x	13.9x	2.7x	3.9x	3.4x	21.0%	76.2%
Average			70,323	36.1x	33.7x	32.5x	8.2x	6.4x	5.1x	33.0%	32.5%
Direct Sales											
Cogobuy	Buy	10.76	2,053	29.2x	23.1x	18.6x	1.1x	0.8x	0.7x	31.0%	21.8%
JD.com	Neutral	30.41	43,198	222.4x	150.8x	47.4x	1.1x	0.9x	0.7x	34.1%	(291.2%)
Average			22,625	125.1x	86.9x	33.0x	1.1x	0.8x	0.7x	32.5%	(134.7%)

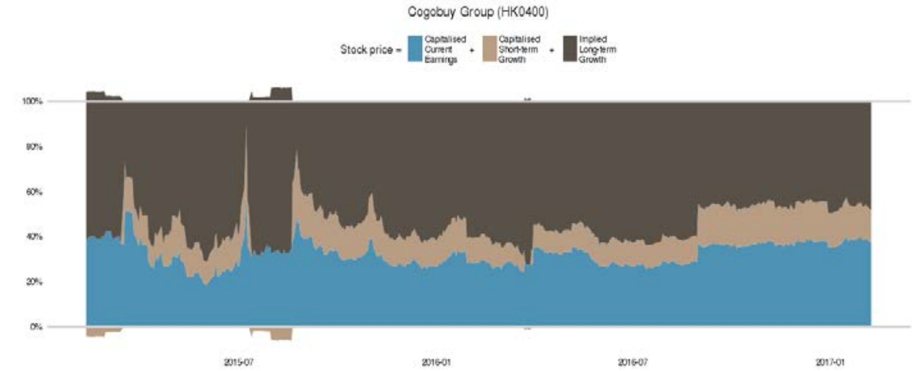
Above data as of 7 March 2017.
Source: Thomason Reuters, UBS, UBS-S estimates

WHAT'S PRICED IN?

return ↑

Market is pricing in less long-term growth than before, despite increasing visibility of growth prospects





Source: UBS-S estimates

Our residual income model indicates the market might be only pricing in a low contribution (50%) from long-term growth in Cogobuy's current valuation, below the historical average, despite Cogobuy and IngDan.com having solidified their market positions over the past few years and increasingly visible growth prospects.

Long-term growth undervalued compared to past and peers

Cogobuy's long-term growth potential can also seem undervalued when compared with eCommerce peers like JD.com. While JD.com is at a much more developed stage (over 20% market share in China's home appliance retail market) than Cogobuy (about a 2.5% market share in China's online IC component distribution market), the market is assigning notably more long-term growth to JD.com than Cogobuy, while Cogobuy has more room for market share expansion.

Although growth in the IC sector has decelerated over the past few years, Cogobuy has navigated faster-than-sector growth and has been gaining market share, due to its advantages in the SME segment. Given China's fragmented IC component distribution market, we expect Cogobuy to continue to gain market share, especially in the SME segment, due to its: 1) competitive pricing; 2) superior product and service quality (compared to smaller off-line distributors); and 3) synergies with IngDan.com in new customer acquisition, especially from the IoT segment.

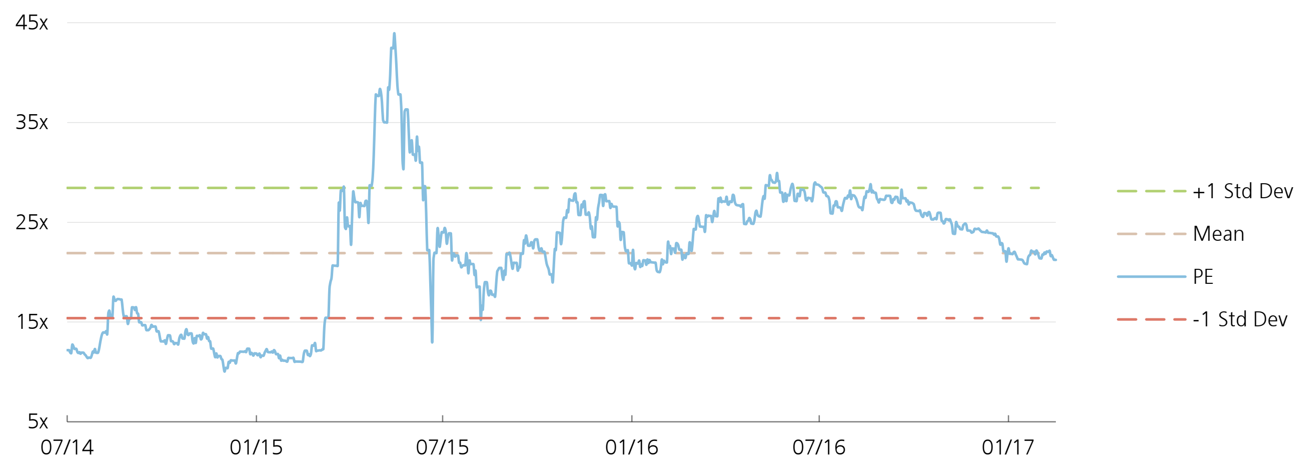
IngDan.com has passed the difficult initial stages of development and has experienced exponential growth in GMV, number of projects and followers. Given its leading position in China's hardware innovation community and lack of direct competition, we think the growth and monetisation prospects are increasingly visible.

Attractively valued compared to peers, with increasing growth visibility

We view the stock's valuation as attractive, given it is trading at 23x 2017E PE, close to its historical average, but with more visible growth prospects. This valuation is also at a notable discount to its A-share and Hong Kong-listed eCommerce and IoT peers, though we expect Cogobuy to offer comparable growth prospects (Figure 34). If we strip out our estimated valuation for IngDan.com (US$410-1076m) from Cogobuy's market cap, Cogobuy is only trading at about 11-18x 2017E PE, a wider gap to its already notable discount to peers.

Given its relatively cheaper valuation, we think Cogobuy's solid growth potential and IngDan.com's underlying value might not be priced in and a re-rating could lie ahead, driven by continued earnings growth, progress in monetisation and/or the introduction of strategic investors in IngDan.com. More participation from mainland institutional investors in the Hong Kong market could also be a factor.

Figure 33: Forward PE band



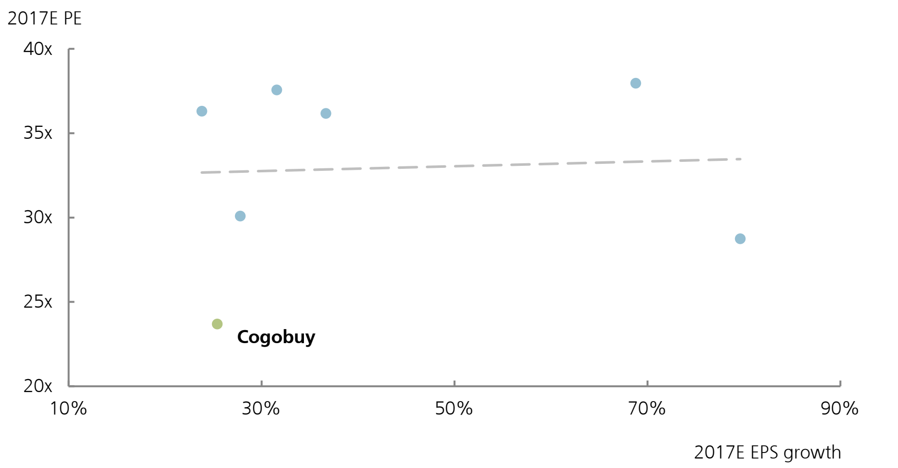
Source: UBS-S estimates

Peer valuations

Cogobuy is trading at a premium to its IC distributor peers, which we view is reasonable, given its better fundamental prospects (2016-18E sales CAGR of 31% vs peers at 3% and EPS CAGR of 21% vs peers at 6%).

Meanwhile, Cogobuy is at a noticeable discount to its eCommerce and IoT peers, especially those listed in A-share, while offering comparable sales/EPS growth potentials (Figure 34). Given mainland investors' increasing participation in Hong Kong market, we think Cogobuy is well-positioned for a re-rating, for its visible growth prospect and reasonable valuation.

Figure 34: PE/growth scatter plot of A- and H-share eCommerce and IoT peers



Source: Thomson Reuters, UBS-S estimates

Figure 35: Valuation comparables

	Reuters	Price	Mkt cap	3-mo ADV	PE			P/BV	EV/EBITDA			ROE	16-18E CAGR		Div yld
Company name	code	(LP)	(US$ m)	(US$ m)	2016E	2017E	2018E	2016E	2016E	2017E	2018E	2016E	Sales	EPS	2016E
Cogobuy Group	0400.HK	10.76	2,053	2.3	29.2x	23.1x	18.6x	3.5x	22.9x	16.3x	12.9x	16%	31%	22%	0.0%
IC distributor peers															
Avnet Inc	AVT.N	46.03	5,933	14.3	10.9x	14.0x	11.5x	1.1x	6.3x	7.4x	6.2x	9%	-13%	-3%	1.4%
WPG Holdings	3702.TW	38.80	2,160	7.1	10.0x	9.3x	8.7x	1.2x	NA	NA	NA	14%	6%	10%	6.9%
Arrow Electronics	ARW.N	73.77	6,560	14.0	11.1x	10.5x	9.8x	1.3x	6.7x	7.5x	6.8x	13%	3%	7%	0.0%
WT Microelectronics	3036.TW	45.50	693	3.7	10.2x	9.3x	8.2x	1.1x	NA	NA	NA	13%	17%	11%	6.3%
Average			3,837	9.8	10.5x	10.8x	9.5x	1.2x	6.5x	7.5x	6.5x	12%	3%	6%	3.7%
E-commerce peers															
JD.com Inc	JD.O	30.41	43,198	217.2	222.4x	150.8x	47.4x	7.0x	NA	120.0x	33.8x	3%	34%	NA	0.0%
Alibaba Group	BABA.N	102.31	253,108	192.5	28.0x	28.8x	23.3x	4.9x	19.5x	23.6x	18.7x	21%	38%	26%	0.0%
Shanghai Ganglian	300226.SZ	42.69	987	16.5	127.9x	57.7x	36.8x	63.6x	NA	NA	NA	28%	79%	NA	0.1%
Focus Technology	002315.SZ	62.29	1,061	7.7	100.6x	56.5x	32.2x	3.3x	174.5x	54.0x	NA	6%	NA	NA	0.2%
Zhejiang Netsun	002095.SZ	41.19	1,510	12.2	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Timeless Software	8028.HK	0.10	37	0.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
HC International	2280.HK	6.42	825	1.4	28.4x	19.0x	13.9x	1.9x	9.0x	10.7x	NA	7%	21%	76%	NA
Average			42,961	63.9	101.5x	62.5x	30.7x	16.1x	67.7x	52.1x	26.3x	13%	43%	51%	0.1%
IoT peers															
United Electronics	002642.SZ	21.71	2,002	22.5	39.9x	32.1x	29.1x	2.7x	NA	NA	NA	9%	18%	25%	0.9%
Newland Computer	000997.SZ	18.74	2,550	23.8	38.9x	30.3x	24.1x	6.8x	27.9x	21.6x	NA	18%	33%	21%	0.6%
Inesa Intelligent Tech	600602.SH	9.39	1,631	-	49.5x	37.6x	30.3x	3.4x	NA	NA	NA	7%	NA	NA	0.6%
Tatwah Smartech	002512.SZ	15.86	2,519	19.0	45.2x	33.0x	NA	5.9x	NA	NA	NA	NA	NA	NA	0.7%
Average			2,176	16.3	43.4x	33.2x	27.8x	4.7x	27.9x	21.6x	NA	11%	25%	23%	0.7%

Above data as of 7 March 2017.
Source: Thomason Reuters, UBS, UBS-S estimates

UBS-S versus consensus

We are more positive on the top line and gross margin in 2017 and 2018 than sell-side consensus estimates, indicating the market may be underestimating the strong growth potential of Cogobuy's SME segment. Meanwhile, we are more conservative on EPS forecasts, acknowledging the potential higher SG&A expenses from IngDan.com. If efforts to introduce strategic investors to IngDan.com are successful, it would likely reduce the marketing burden for Cogobuy.

We highlight that Cogobuy is not well covered on the sell side, and therefore consensus estimates might not be fully representative.

Figure 36: UBS-S estimates versus consensus

	2016E			2017E			2018E		
Rmb m	UBS-S	Consensus	vs consensus	UBS-S	Consensus	vs consensus	UBS-S	Consensus	vs consensus
Revenue	12,761	12,694	0.5%	16,697	16,404	1.8%	21,078	20,238	4.2%
Gross Profit	1,052	1,048	0.3%	1,390	1,362	2.1%	1,788	1,683	6.2%
GPM	8.2%	8.3%	-2 bps	8.3%	8.3%	3 bps	8.5%	8.3%	17 bps
EBIT	620	601	3.1%	808	803	0.6%	1,024	1,024	0.0%
EBIT margin	4.9%	4.7%	12 bps	4.8%	4.9%	-5 bps	4.9%	5.1%	-20 bps
Net profit	501	475	5.3%	623	650	-4.2%	774	812	-4.7%
Net margin	3.9%	3.7%	18 bps	3.7%	4.0%	-23 bps	3.7%	4.0%	-34 bps
EPS (Rmb)	0.33	0.33	-0.4%	0.41	0.44	-6.0%	0.52	0.54	-5.4%
DPS (Rmb)	-	-	NA	-	-	NA	-	-	NA

Above data as of 7 March 2017.
Source: Thomson Reuters, UBS-S estimates

UPSIDE / DOWNSIDE SPECTRUM

return ↑

Cogobuy is trading at HK$10.76 (as of 7 March).

Value drivers 2017E	SME customer growth	SME avg annual spending growth	Blue-chip customer growth	Blue-chip avg spending growth	Introduction of strategic investors to IngDan.com
HK$20.34 upside	40%	-6%	15%	-8%	Y
HK$14.46 base	35%	-8%	12%	-10%	N
HK$9.63 downside	30%	-10%	9%	-12%	N

Source: UBS-S estimates

Risk to the current share price is heavily skewed (8:1) to the upside

Cogobuy is trading at **HK$10.76** (as of 7 March).

Upside (HK$20.34): In our upside scenario, we assume 40% growth in the number of SME customers, from faster-than-expected growth from IngDan.com that results in more customer referrals to Cogobuy. We assume the number of blue-chip customers grows 15% YoY, as more blue-chip customers start to value Cogobuy's expertise and experience in IoT. We expect the decline in average spending by SME and blue-chip customers to slow to 6% and 8%, respectively, as Cogobuy gains more wallet share through its value-added services and supply-chain financing. We also assume Cogobuy successfully introduces strategic investors to IngDan.com and spins off a 30% stake, anchoring IngDan.com's potential value and diluting cost burdens. Our upside 2017 EPS estimate is HK$0.48. Assigning a 2017E PE of 38x, a slight premium to Cogobuy's A- and H-share peers, we derive an upside valuation of HK$20.34/share.

Base (HK$14.46): In our base case, we assume 35% growth in the number of SME customers, due to Cogobuy's competitive advantages in the segment and synergies with IngDan.com. We assume the number of blue-chip customers grows 12% YoY, attracted by Cogobuy's extensive value-added services and access to China's IoT scene. We expect the average spending of SME and blue-chip customers to decline 8% and 10%, respectively, as it will take time for new customers to ramp up their spending on Cogobuy. In our base case, we expect no progress in terms of introducing strategic investors to IngDan.com. Our base case 2017 EPS estimate is HK$0.41. Our three-stage DCF model results in a price target of HK$14.46, which implies 31.2x 2017E PE.

Downside (HK$9.63): In our downside scenario, we assume 30% growth in the number of SME customers, due to slower-than-expected growth at IngDan.com and increased competition. We assume the number of blue-chip customers grows 9% YoY, as competitors offer more value-added services and generous payment terms. We expect the decline in average spending by SME and blue-chip customers to widen to 10% and 12%, respectively, due to weaker growth from IoT and traditional sectors like smartphones. We expect no progress on introducing strategic investors to IngDan.com and higher marketing costs from IngDan.com (leading to slightly lower OPM). Our downside 2017 EPS estimate is HK$0.36. Assigning a 2017E PE of 24x, near the historical mean, we derive a downside valuation of HK$9.63/share.

Basis for price target

We derive our price target of HK$14.46 using a three-stage DCF methodology, assuming a WACC of 9.8%. We believe Cogobuy's competitive advantages in the SME segment and greater exposure to the rapidly expanding IoT market will help it enlarge its customer base, grow in a potentially subdued sector growth environment and maintain strong improvement in its top line. We expect profitability to steadily improve with more revenue contribution from SMEs and further monetisation of the IngDan.com platform.

We believe IngDan.com is value accretive to the overall business through its contribution of new customers to Cogobuy and exposure to the promising IoT market. A potential introduction of strategic investors could also provide upside potential for the share price.

Our price target implies 35x PE on 2017E EPS, in line with Hong Kong and A-share eCommerce and IoT peers. But it is worth highlighting that our DCF valuation incorporates the costs from the IngDan.com platform, but not its potential value, indicating potential upside to our base case valuation, if IngDan.com's potential value becomes more visible to investors.

Figure 37: Inputs for DCF valuation

Inputs for DCF valuation	
Medium-term growth period	10 years
Reinvestment rate	60.0%
Medium-term ROIC	20.0%
Medium-term growth rate	12.0%
Terminal growth rate	5.0%
Terminal ROIC	15.0%
WACC derivation	
Risk-free rate	4.1%
Equity risk premium	5.0%
Beta	1.5
Cost of equity	11.4%
Cost of debt	4.5%
Marginal tax rate	20.0%
After tax cost of debt	3.6%
Debt/total capital	20.0%
WACC	9.8%

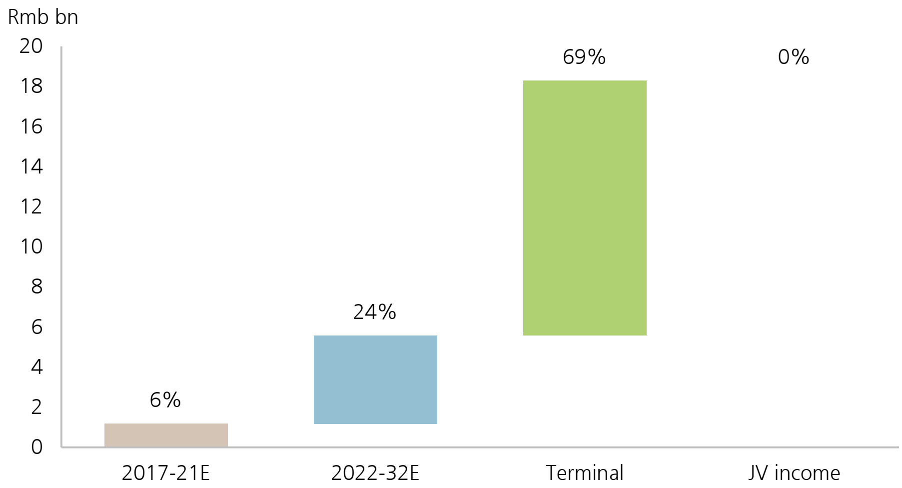
Source: UBS-S estimates

Figure 38: Valuation summary

Valuation summary	(Rmb)
Stage 1 DCF	1,186
Stage 2 DCF	4,394
Stage 3 Terminal value	12,714
Non-core operations	-
Total enterprise value	**18,293**
Less:	
Net debt	741
Minority interests	(156)
NPV (Rmb m)	**18,879**
NPV (HK$)	21,711
Shares outstanding	1,501
Price target	**14.46**
Currency	
Reporting	Rmb
Trading	HK$
Spot rate: HK$ per Rmb	1.15

Source: UBS-S estimates

Figure 39: Contributions to DCF-based enterprise value



Source: UBS-S estimates

Cogobuy's businesses

Cogobuy is an eCommerce company that specialises in serving China's electronics manufacturing industry. Its eCommerce platform distributes ICs and other electronic components through direct sales and marketplace businesses. In addition to distributing IC components, Cogobuy also provides supply-chain financing and pre- and after-sale services.

Cogobuy also runs IngDan.com, which is China's largest hardware innovation platform by the number of registered projects, according to the company. IngDan.com is a platform that connects hardware innovators with various parties along the supply chain and seeks to provide one-stop supply chain services to innovators.

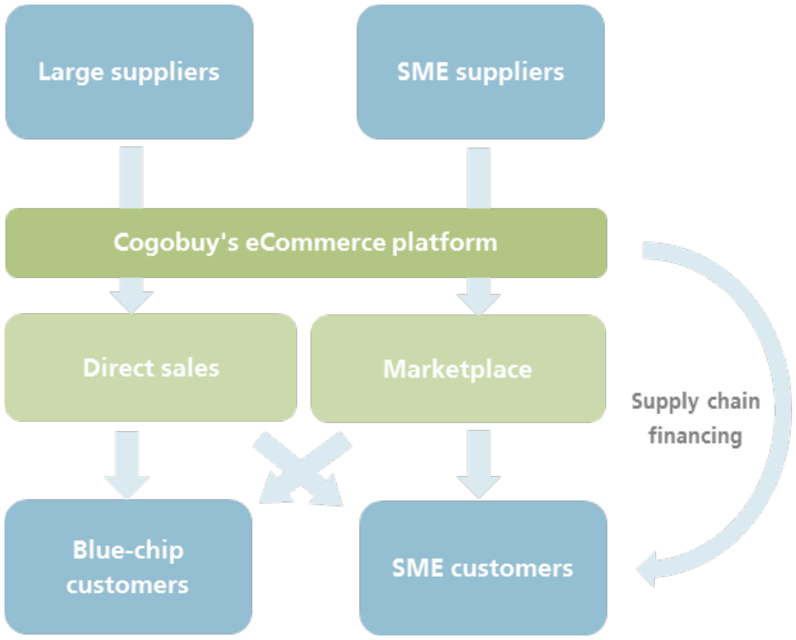
Figure 40: Value chain of the electronics component sector

Upstream: suppliers	Midstream: distributors	Downstream: electronics manufacturers

• Blue-chip suppliers
  • Intel, Samsung, SanDisk etc
• SME suppliers
	• Traditional offline distributors: Avnet, Arrow Electronics, WPG etc
	• Online distributors: Cogobuy, Alibaba etc
	• Direct sales between large supplies and manufacturers
	• Smaller distributors
		• Blue chip manufacturers
		  • Apple, Haier, BYD etc
		• SME manufacturers, such as IoT entrepreneurs

Source: UBS-S

Figure 41: Cogobuy's business model



Source: Company data

Direct sales

In the direct sales segment of the Cogobuy platform Cogobuy acts as an IC component distributor: it purchases inventory from IC manufacturers and then distributes the products to downstream electronics manufacturers with mark-ups. In 9M16, direct sales contributed about 99% of Cogobuy's revenue.

Major customers

Cogobuy divides its customers into two categories: blue-chip customers and SMEs. Customers with annual revenue of Rmb400m or above are blue-chip customers, and the rest are SME customers.

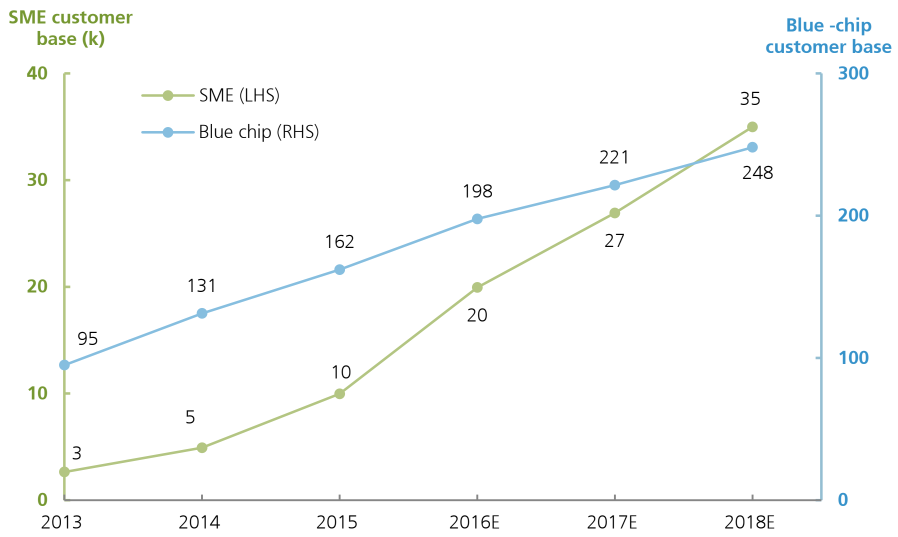
Mark-up of about 5% for blue-chip customers

Cogobuy's blue-chip customers include BYD, TCL and Hikvision. Blue-chip customers tend to have stronger bargaining power. According to the company, Cogobuy offers competitive pricing (about a 5% mark-up) to blue-chip customers, similar to that offered by traditional offline distributors, but with longer payment terms (about 90 days) and additional value-added services (supply-chain services, market updates, etc).

Mark-up of about 10% for SME customers

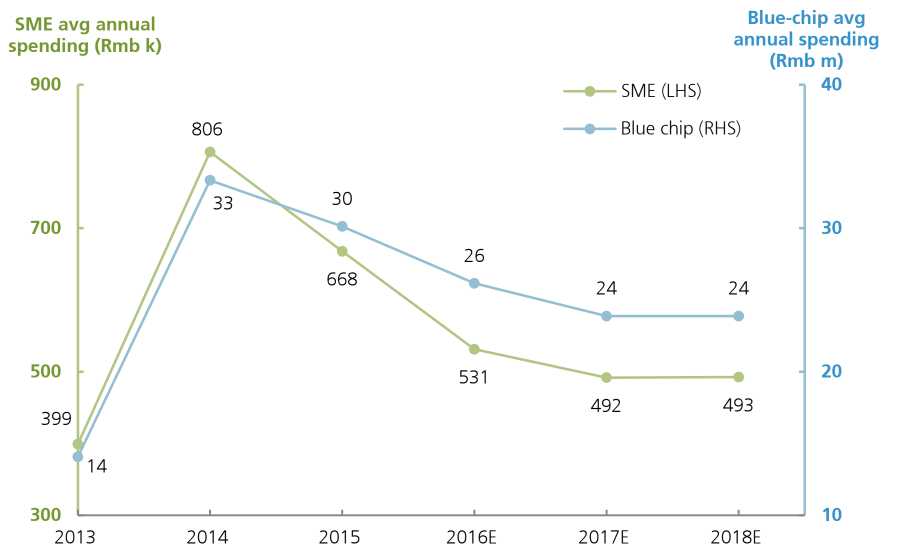
Cogobuy's SME customers mainly consist of electronic hardware entrepreneurs and smaller ODMs and OEMs. According to Cogobuy, it can usually charge SME customers a mark-up of about 10%.

Figure 42: Cogobuy's customer base



Source: Company data, UBS-S estimates

Figure 43: Customer's average annual spending trend



Source: Company data, UBS-S estimates

Competitive landscape

The competition in the blue-chip segment is relatively intense. Major competitors include leading global offline IC distributors such as WPG, WT Microelectronics and Avnet as well as IC component manufacturers with in-house sales forces. The margin in this segment is relatively subdued—major players in APAC (including Cogobuy) have GPMs of about 5%.

Cogobuy has been gaining market share in the blue-chip segment by offering competitive payment terms and value-added services in areas such as supply-chain management and updates on market trends.

Competition in the SME segment is less intense for Cogobuy. Major competitors in the segment include the online operations of traditional leading offline distributors and eCommerce platforms like Alibaba. The former are more geared towards serving global SMEs, while Cogobuy is more localised to the Chinese SME market, especially with IngDan.com's strong presence in China's electronic hardware entrepreneur community.

Less competition for Cogobuy in the SME segment

Regarding competition with traditional eCommerce platforms, we believe the required expertise in electronics manufacturing and FAE support are natural entry barriers. We therefore expect the IC distribution segment to remain a niche market dominated by dedicated suppliers such as Cogobuy. In addition, Cogobuy's "no-fake" promise is an attractive feature to SMEs seeking quality IC components.

Marketplace

In addition to its self-run direct sales business, Cogobuy opens its eCommerce platform to IC component manufacturers and vendors (similar to taobao.com). Cogobuy generally charges a take rate of about 1.5% on the GMV of marketplace transactions.

Take rate of about 1.5% on marketplace transactions

Supply-chain financing

Cogobuy also provides supply-chain financing to its SME customers, which can only be used for procurement on Cogobuy's platform (the credit deployed cannot be used outside Cogobuy's platform, for example, it cannot be used for payroll purposes). The credit terms are usually 90 days at a 6-12% annualised interest rate. According to the company, this is similar to the usual SME borrowing rate at commercial banks, but the credit approval process is much faster at Cogobuy. Cogobuy indicates it borrows from banks at interest rates of 2-3% to finance the supply-chain financing business.

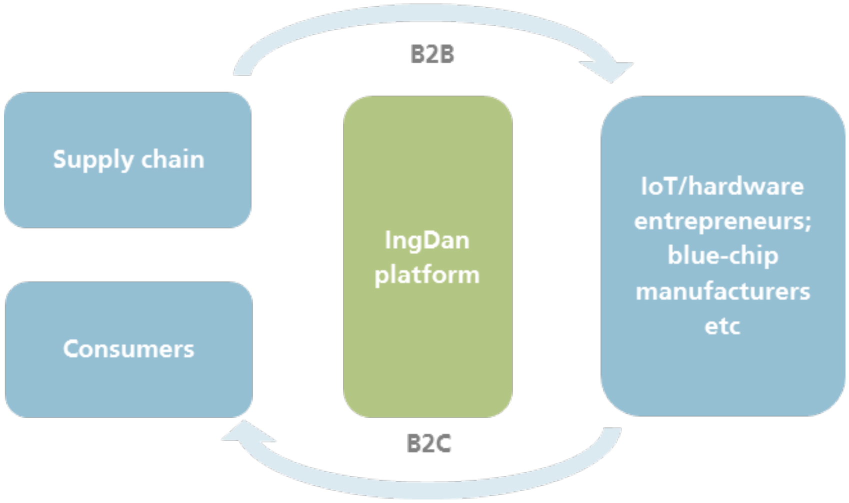
Cogobuy profits from the 4-9ppt interest spread in its supply-chain financing business

IngDan.com

Launched by Cogobuy in September 2013, IngDan.com is a platform that connects hardware entrepreneurs and China-based supply-chain resources (component manufacturers and distributors, accounting service providers, etc). IngDan.com generates revenue by charging a commission on the transactions on its platform. IngDan.com also offers B2C channels to hardware entrepreneurs, mainly by referring their products to eCommerce platforms such as JD.com.

As of September 2016, IngDan.com had over 16,000 registered IoT intelligent hardware innovative projects (up about 119% YoY), making it China's largest IoT innovation platform, according to management. In Q316, IngDan.com contributed 29.5% of Cogobuy's total GMV

Figure 44: IngDan.com's B2B2C business model



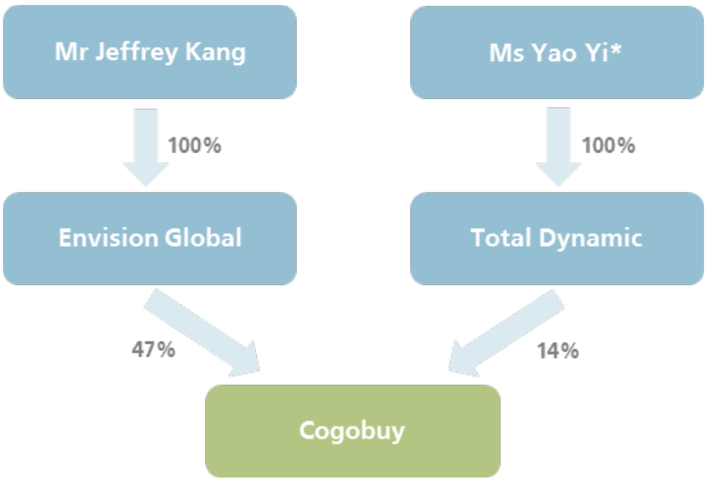
Source: Company data

Competitive landscape

We believe IngDan.com has no direct competitors in China due to its unique business model. Its focus on connecting supply-chain resources on the B2B side differentiates it from entrepreneur platforms established by the likes of Alibaba and JD.com, which are more geared towards crowdfunding and providing B2C channels.

Company ownership

Figure 45: Shareholding structure, as of 7 March 2017



*Ms Yao Yi is the wife of Mr Feng Li and the sole shareholder of Shenzhen Cogobuy Information Technologies, a subsidiary of Cogobuy, by contractual arrangements.
Source: Bloomberg, company data

Key executives

- **Founder/Chairman/CEO:** Cogobuy's founder, Mr Jeffrey Jingwei Kang, has extensive experience in China's internet industry and the electronic components market. He has worked in China's electronics manufacturing supply chain for more than 18 years. Prior to founding Cogobuy in 2002, Mr Kang founded the predecessor of NASDAQ-listed company Viewtran and the Comtech Group, to act as a distribution channel for the sale of electronic components in China. Mr Kang received his bachelor's degree in engineering from South China Technology University in Guangzhou, China.

- **Senior Vice-president/Director of eCommerce platform:** Mr Feng Li is the senior vice president of the company and is primarily responsible for development of Cogobuy.com. Mr Li was the COO of Viewtran from 2002 to 2006. Prior to that, he was a project director for Shanghai Siemens and Informix Software. Mr Li has a Bachelor of Science degree from Tsinghua University, China and a Master of Science degree from Marquette University in the United States.

- **CIO:** Ms Hope Hong Ni is the Chief Investment Officer and an Executive Director of Cogobuy, responsible for heading the company's capital market activities and investment initiatives. She previously served as the CFO and Director of Viewtran from 2004 to 2008 and subsequently served as its vice chairman until early 2009. Prior to that, Ms Ni worked at Skadden, Arps, Slate, Meagher & Flom LLP in New York and Hong Kong, and at Merrill Lynch's investment banking division in New York. Ms Ni obtained her Juris Doctor degree from the University of Pennsylvania Law School and her bachelor's degree in applied economics and business management from Cornell University.

- **CFO:** Mr Allen Lun Cheung Wu is the CFO and company secretary. He is also in charge of investor relations communications. A certified public accountant (Hong Kong and the US), Mr Wu has more than 15 years' experience in commercial consulting and auditing. He was the vice president of finance of Viewtran from 2003 to 2013. Prior to that, Mr Wu worked at PricewaterhouseCoopers from 1997 to 2003. He graduated from The Hong Kong University of Science & Technology with a bachelor of business administration degree.

COMPANY DESCRIPTION

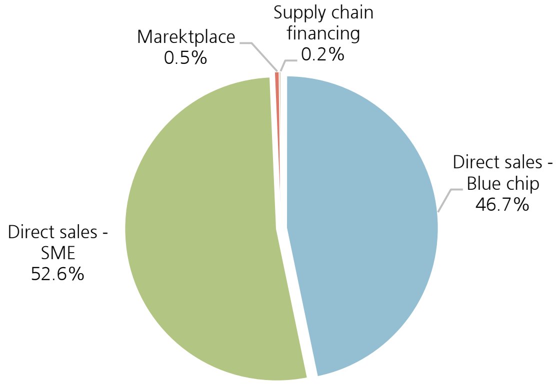
return ↑

Cogobuy Group (Cogobuy) is the largest transaction-based eCommerce platform for integrated circuits (IC) and other electronic components in China by gross merchandise value (GMV). It provides online and offline services to blue-chip and small/medium enterprise customers in China through its online direct sales platform, online marketplace and a dedicated offline team. Its customers are electronic manufacturers of mainly mobile devices, consumer electronics, medical devices, automotive components, telecommunication, and industrial control systems.

Industry outlook

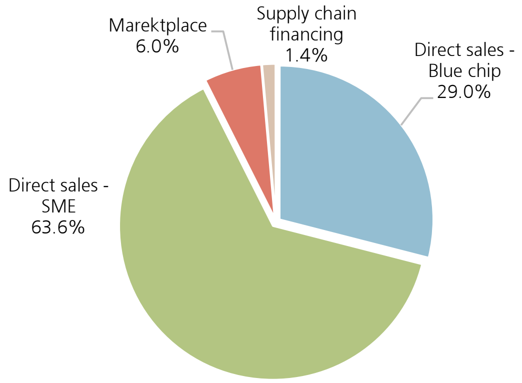
While overall semi-conductor sales growth could be subdued in the next few years, we believe transitions within the sector will create new opportunities. Gartner forecasts a 2016-18 global IoT shipment CAGR of about 35%, against the backdrop of a forecast CAGR of about 4% in total semi-conductor sales. In addition, development of auto-piloting and electric vehicles, as well as smart devices could also present new sector demands. This could lead to increasing demand from SMEs, which are usually major participants in innovations. This in turn would be likely to benefit distributors like Cogobuy that are more geared towards serving this segment.

Revenue by segment, 2015



Source: Company data, UBS-S estimates

Gross profit by segment, 2015



Source: Company data, UBS-S estimates

Cogobuy Group (0400.HK)

Income statement (Rmbm)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Revenues	**2,417**	**6,848**	**9,453**	**12,764**	*35.0*	**16,824**	*31.8*	**21,245**	**26,140**	**31,156**
Gross profit	202	533	765	1,052	*37.5*	1,402	*33.3*	1,803	2,250	2,711
EBITDA (UBS)	**132**	**276**	**468**	**635**	*35.7*	**831**	*30.7*	**1,049**	**1,287**	**1,512**
Depreciation & amortisation	(9)	(8)	(15)	(15)	*1.8*	(16)	*6.1*	(17)	(17)	(4)
EBIT (UBS)	**123**	**268**	**453**	**620**	*36.8*	**815**	*31.3*	**1,033**	**1,270**	**1,508**
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(20)	(31)	(30)	(53)	*-76.7*	(64)	*-20.0*	(64)	(64)	(64)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**102**	**237**	**423**	**567**	*33.9*	**751**	*32.4*	**969**	**1,206**	**1,445**
Tax	(16)	(27)	(57)	(85)	*-49.6*	(120)	*-41.2*	(174)	(217)	(260)
Profit after tax	**87**	**210**	**366**	**482**	*31.5*	**631**	*30.8*	**794**	**989**	**1,185**
Preference dividends and Minorities	(4)	(16)	(24)	(33)	*-38.4*	(43)	*-30.8*	(54)	(67)	(80)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**82**	**194**	**343**	**449**	*31.0*	**588**	*30.8*	**741**	**922**	**1,104**
Net earnings (UBS)	**82**	**267**	**386**	**501**	*29.7*	**628**	*25.4*	**781**	**962**	**1,144**
Tax rate (%)	15.5	11.4	13.4	15.0	*11.7*	16.0	*6.7*	18.0	18.0	18.0

Per share (Rmb)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
EPS (UBS, diluted)	0.09	0.23	0.29	0.33	*15.8*	0.41	*25.4*	0.51	0.63	0.75
EPS (local GAAP, diluted)	0.09	0.17	0.25	0.30	*17.1*	0.39	*30.8*	0.49	0.61	0.73
EPS (UBS, basic)	0.09	0.23	0.29	0.33	*15.2*	0.42	*25.4*	0.52	0.64	0.76
Net DPS (Rmb)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Book value per share	0.35	1.37	1.40	2.79	*99.0*	3.20	*14.7*	3.71	4.34	5.10
Average shares (diluted)	917.50	1,170.51	1,355.24	1,516.87	*11.9*	1,516.87	*0.0*	1,516.87	1,516.87	1,516.87

Balance sheet (Rmbm)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Cash and equivalents	282	1,223	1,024	2,885	*181.6*	2,867	*-0.6*	2,981	3,210	3,613
Other current assets	1,239	2,212	3,574	4,266	*19.4*	5,267	*23.5*	6,327	7,504	8,713
Total current assets	**1,521**	**3,434**	**4,598**	**7,151**	*55.5*	**8,134**	*13.8*	**9,309**	**10,715**	**12,326**
Net tangible fixed assets	1	2	6	9	*66.0*	12	*29.9*	14	16	17
Net intangible fixed assets	185	178	248	234	*-5.6*	220	*-5.9*	206	193	193
Investments / other assets	1	15	115	115	*0.0*	115	*0.0*	115	115	115
Total assets	**1,708**	**3,629**	**4,967**	**7,509**	*51.2*	**8,482**	*13.0*	**9,645**	**11,038**	**12,651**
Trade payables & other ST liabilities	449	604	839	1,086	*29.4*	1,402	*29.1*	1,744	2,123	2,510
Short term debt	0	0	0	0	-	0	-	0	0	0
Total current liabilities	**449**	**604**	**839**	**1,086**	*29.4*	**1,402**	*29.1*	**1,744**	**2,123**	**2,510**
Long term debt	929	1,411	2,126	2,126	*0.0*	2,126	*0.0*	2,126	2,126	2,126
Other long term liabilities	0	0	0	0	-	0	-	0	0	0
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**1,379**	**2,015**	**2,965**	**3,212**	*8.3*	**3,528**	*9.8*	**3,870**	**4,248**	**4,636**
Common s/h equity	325	1,592	1,921	4,184	*117.8*	4,798	*14.7*	5,565	6,513	7,658
Minority interests	4	22	80	113	*40.7*	156	*37.8*	210	277	357
Total liabilities & equity	**1,708**	**3,629**	**4,967**	**7,509**	*51.2*	**8,482**	*13.0*	**9,645**	**11,038**	**12,651**

Cash flow (Rmbm)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Net income (before pref divs)	82	194	343	449	*31.0*	588	*30.8*	741	922	1,104
Depreciation & amortisation	9	8	15	15	*1.8*	16	*6.1*	17	17	4
Net change in working capital	(144)	(78)	(127)	(494)	*-288.1*	(752)	*-52.2*	(803)	(903)	(946)
Other operating	26	107	119	150	*26.0*	171	*13.7*	200	232	277
Operating cash flow	**(26)**	**232**	**350**	**120**	*-65.6*	**23**	*-81.3*	**154**	**268**	**440**
Tangible capital expenditure	0	(1)	(5)	(5)	*0.0*	(5)	*0.0*	(5)	(5)	(5)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	1	(14)	(6)	0	-	0	-	0	0	0
Other investing	(184)	(503)	(574)	23	-	29	-	29	30	32
Investing cash flow	**(184)**	**(518)**	**(585)**	**17**	-	**24**	*35.6*	**24**	**25**	**27**
Equity dividends paid	0	0	0	0	-	0	-	0	0	0
Share issues / (buybacks)	0	1,046	(89)	1,776	-	0	-	0	0	0
Other financing	441	173	94	(53)	-	(64)	*-20.00*	(64)	(64)	(64)
Change in debt & pref shares	0	0	0	0	-	0	-	0	0	0
Financing cash flow	**441**	**1,219**	**5**	**1,723**	*NM*	**(64)**	-	**(64)**	**(64)**	**(64)**
Cash flow inc/(dec) in cash	**232**	**933**	**(230)**	**1,861**	-	**(18)**	-	**114**	**229**	**403**
FX / non cash items	(3)	8	31	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**229**	**941**	**(198)**	**1,861**	-	**(18)**	-	**114**	**229**	**403**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Cogobuy Group (0400.HK)

Valuation (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
P/E (local GAAP, diluted)	-	-	26.6	32.5	24.7	19.6	15.7	13.1
P/E (UBS, diluted)	-	-	23.6	29.2	23.1	18.6	15.1	12.7
P/CEPS	-	-	22.4	28.0	22.3	18.0	14.7	12.5
Equity FCF (UBS) yield %	-	-	3.6	0.8	0.1	1.1	1.9	3.1
Net dividend yield (%)	-	-	0.0	0.0	0.0	0.0	0.0	0.0
P/BV x	-	-	4.8	3.5	3.0	2.6	2.2	1.9
EV/revenues (core)	-	-	1.1	1.1	0.8	0.6	0.5	0.4
EV/EBITDA (core)	-	-	21.9	22.9	16.4	13.0	10.6	9.1
EV/EBIT (core)	-	-	22.6	23.5	16.7	13.2	10.8	9.1
EV/OpFCF (core)	-	-	26.3	NM	NM	21.5	16.7	13.3
EV/op. invested capital	-	-	4.2	4.4	3.5	3.0	2.6	2.2

Enterprise value (Rmbm)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Market cap.	-	-	9,540	14,289	14,180	14,180	14,180	14,180
Net debt (cash)	520	418	645	171	(750)	(798)	(798)	(798)
Buy out of minorities	4	22	80	113	156	210	277	357
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	**-**	**-**	**10,265**	**14,573**	**13,586**	**13,592**	**13,659**	**13,739**
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	**-**	**-**	**10,265**	**14,573**	**13,586**	**13,592**	**13,659**	**13,739**

Growth (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenue	54.1	183.3	38.0	35.0	31.8	26.3	23.0	19.2
EBITDA (UBS)	155.0	109.1	69.6	35.7	30.7	26.3	22.7	17.5
EBIT (UBS)	138.2	118.7	69.1	36.8	31.3	26.8	23.0	18.8
EPS (UBS, diluted)	-97.4	154.9	24.9	15.8	25.4	24.3	23.3	18.9
Net DPS	-	-	-	-	-	-	-	-

Margins & Profitability (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Gross profit margin	8.4	7.8	8.1	8.2	8.3	8.5	8.6	8.7
EBITDA margin	5.5	4.0	5.0	5.0	4.9	4.9	4.9	4.9
EBIT margin	5.1	3.9	4.8	4.9	4.8	4.9	4.9	4.8
Net earnings (UBS) margin	3.4	3.9	4.1	3.9	3.7	3.7	3.7	3.7
ROIC (EBIT)	17.3	19.3	18.5	18.7	21.0	22.6	23.9	24.7
ROIC post tax	14.6	17.1	16.0	15.9	17.7	18.5	19.6	20.2
ROE (UBS)	44.0	27.9	22.0	16.4	14.0	15.1	15.9	16.2

Capital structure & Coverage (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Net debt / EBITDA	4.9	0.7	2.4	(1.2)	(0.9)	(0.8)	(0.8)	(1.0)
Net debt / total equity %	196.8	11.7	55.0	(17.7)	(15.0)	(14.8)	(16.0)	(18.6)
Net debt / (net debt + total equity) %	66.3	10.5	35.5	(21.4)	(17.6)	(17.4)	(19.0)	(22.8)
Net debt/EV %	-	-	10.7	(5.2)	(5.5)	(6.3)	(7.9)	(10.8)
Capex / depreciation %	3.1	10.8	34.6	33.9	32.0	30.6	29.7	129.8
Capex / revenue %	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
EBIT / net interest	6.1	8.6	15.1	11.7	12.8	16.2	19.9	23.7
Dividend cover (UBS)	-	-	-	-	-	-	-	-
Div. payout ratio (UBS) %	-	-	-	-	-	-	-	-

Revenues by division (Rmbm)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Direct sales - SME	1,055	3,048	4,971	7,946	11,647	15,414	19,631	24,025
Direct sales - Blue chip	1,337	3,771	4,419	4,707	5,005	5,605	6,221	6,781
Marketplace	25	27	46	92	144	191	242	296
Supply chain financing	0	2	18	19	28	36	45	54
Others	0	0	0	0	0	0	0	0
Total	**2,417**	**6,848**	**9,453**	**12,764**	**16,824**	**21,245**	**26,140**	**31,156**

EBIT (UBS) by division (Rmbm)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	123	268	453	620	815	1,033	1,270	1,508
Total	**123**	**268**	**453**	**620**	**815**	**1,033**	**1,270**	**1,508**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+34.4%
Forecast dividend yield	0.0%
Forecast stock return	+34.4%
Market return assumption	9.4%
Forecast excess return	+25.0%

Valuation Method and Risk Statement

We derive our price target using a three-stage DCF model.

We believe Cogobuy faces risks including inventory and accounts receivable risks; competition from offline IC distributors and other e-commerce peers; slower-than expected monetisation progress of IngDan.com; potential risk related to its M&A activities (mentioned in announcements); and a possible slowdown in global demand for technology products.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	45%	29%
Neutral	FSR is between -6% and 6% of the MRA.	39%	27%
Sell	FSR is > 6% below the MRA.	15%	16%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2016.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
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UBS Securities Co. Limited: Edwin Chen, CFA; Felix Liu.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Cogobuy Group	0400.HK	Not Rated	N/A	HK$10.76	07 Mar 2017

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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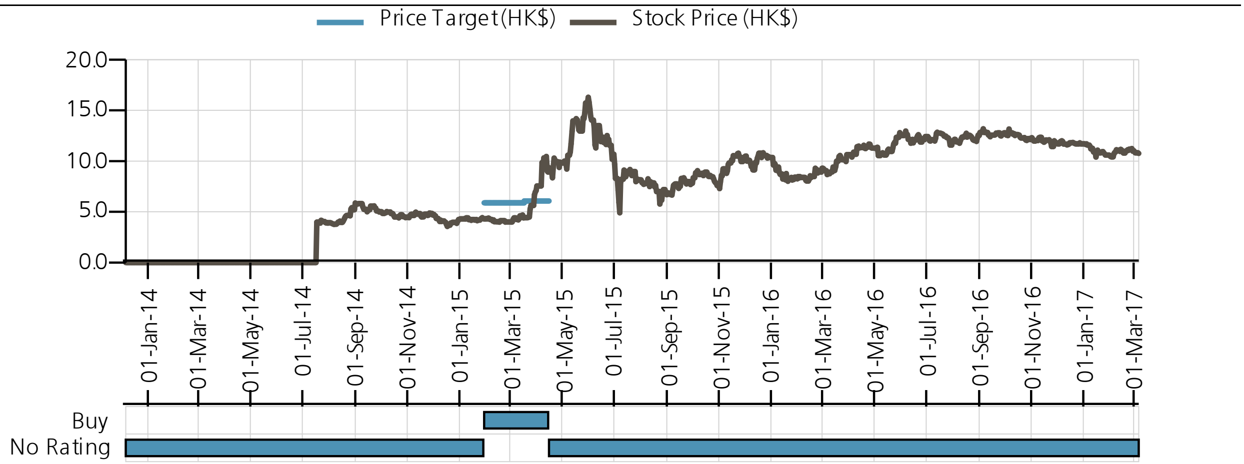
Cogobuy Group (HK$)



Date	Stock Price (HK$)	Price Target (HK$)	Rating
2013-12-06	0.0	-	No Rating
2015-01-30	4.31	5.88	Buy
2015-03-18	4.42	6.06	Buy
2015-04-16	9.35	-	No Rating

Source: UBS; as of 07 Mar 2017

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