

## Internet - China

## Key takeaways from Dongchedi expert call

## Industry Overview

**Auto ad trends: overall steady, but divergent**

We hosted a call with an expert from a leading auto vertical platform, Dongchedi, to discuss auto marketing spend and online platform trends. The expert's comments: 1) Overall auto ad market may have a steady growth, but there is notable divergence across categories: NEV brands have the fastest growth, and luxury ICEV brands have stable budget, while most mid-to-low end ICEV brands cut budget. 2) Ad budget trend of auto dealers and channels will be worse than that of the automakers. 3) Ad budget is structurally trending towards performance-based ads, impacting share of auto verticals. 4) Sales & marketing resource of NEV brands with direct sales model (e.g. Li Auto, NIO) is mainly centralized and carries a higher efficiency than traditional auto brands, which's resource allocation involves multi channels and various scenarios across online and offline. Therefore, expert believes the overall marketing spend of a direct sales model brand is generally lower than traditional model. 5) Regarding news that Huawei suspended cooperation with auto verticals, expert expects it to come back, considering better customer acquisition efficiency. 6) From automaker/dealer's perspective, customer acquisition cost, measured in terms of CPL, shows a steadily declining trend.

**Stable auto vertical competition, Dongchedi's strategies**

Our expert thinks competition landscape among the big three auto verticals is largely stable. Expert notes Dongchedi continues to set aggressive growth target this year. 1) For ad, Dongchedi will try to upgrade commercial products to reduce cost per lead (CPL) and boost lead to store visit/sales conversions. 2) For dealer products, Dongchedi refines its CPS model to include 3 parts – flat basic fee, tiered caps, extra fee. 3) For new initiatives, expert comments that used car and aftermarket have large addressable markets and company is still exploring. 4) Expert indicates that Dongchedi operates independently under ByteDance and it purchases traffic from ByteDance. 5) To gain NEV brands' budget, company has NEV specific content, team, and commercial product. Regarding NEV new retail store business model like Autohome's, expert thinks entry barrier is low for auto verticals, and he believes the value-add for automakers is less about sales volume, which is too small, but more about user and conversion data.

**Auto customers' preferences**

Based on the traffic and clues gathered on Dongchedi, expert commented that the key factors influencing customers decision-making are brand, price, and products, while customers are attaching greater importance to service nowadays. By price segment, expert observed that customers for <RMB200k price segment care more about price and functional configuration such as power performance, size, interior design and fuel efficiency, while customers for >RMB200k price segment emphasize brand, safety, entertainment system and autonomous driving.

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ICEV: Internal combustion engine vehicle

NEV: New energy vehicle

CPL: Cost per lead

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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## Price objective basis & risk

### Autohome (ATHM;C-2-8;\$24.89)

Our discounted cash flow (DCF)-based PO of US\$35 (HKD69) is based on 1) discount rate of 18%, 2) terminal growth rate of 1%, 3) 2021-26E FCF CAGR of -12%, 4) net cash per share of US\$26, and 5) RMBUSD rate of 7.4.

Upside risks to our PO are better auto market on stimulus policies, improvement in traffic to get more budget share, less competition pressure, success of new initiatives such as NEV retail sales, valuation re-rating due to better sentiment for China internet space or better auto market, more share repurchase, revenue upside from AI products.

Downside risks to our PO are weaker-than-expected auto ad market due to weaker ICEV sales, greater-than-expected competition pressure, margin drag from investments in S&M, regulation risks, and US delisting risk.

## Analyst Certification

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	AiHuiShou	RERE	RERE US	Joyce Ju
	Alibaba Group	BABA	BABA US	Joyce Ju
	Alibaba Group	BABAF	9988 HK	Joyce Ju
	Alibaba Health	ALBHF	241 HK	Miranda Zhuang, CFA
	Baidu.com	BIDU	BIDU US	Miranda Zhuang, CFA
	Baidu.com	BAIDF	9888 HK	Miranda Zhuang, CFA
	Bilibili	BILI	BILI US	Lei Zhang
	Bilibili	BLBLF	9626 HK	Lei Zhang
	CAR Group	CRSLF	CAR AU	Sriharsh Singh
	Chinasoft International	CFTLF	354 HK	Daley Li, CFA
	Cloud Music	XVWJF	9899 HK	Lei Zhang
	Com2uS Corp	XOYAF	078340 KS	Jeehoon Jeong, CFA
	DBAPPSecurity	XDBAF	688023 CH	Daley Li, CFA
	Delhivery	XDVLF	DELHIVER IN	Sachin Salgaonkar
	Dingdong	DDL	DDL US	Joyce Ju
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	Grab Holdings	GRAB	GRAB US	Sachin Salgaonkar
	Hello Group	MOMO	MOMO US	Lei Zhang
	Hundsun Technologies	XYTGF	600570 CH	Daley Li, CFA
	HYBE	XBGOF	352820 KS	Susie Lee
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	JD.com	JDCMF	9618 HK	Joyce Ju
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	Kuaishou	KUASF	1024 HK	Lei Zhang
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	Meituan	MPNGF	3690 HK	Lei Zhang
	Naver Corporation	NHNCF	035420 KS	Susie Lee
	NetEase	NETTF	9999 HK	Lei Zhang
	NetEase, Inc	NTES	NTES US	Lei Zhang
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	PT Bukalapak.com	BKLPF	BUKA IJ	Sachin Salgaonkar
	PVR-Inox Ltd	PVRLF	PVRINOX IN	Sachin Salgaonkar
	REA Group	RPGRF	REA AU	Sriharsh Singh
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	Tencent Music	TME	TME US	Lei Zhang
	Tencent Music	XWFWF	1698 HK	Lei Zhang
	Tongcheng Travel	TNGCF	780 HK	Janet Yang
	Trip.com Group	TCOM	TCOM US	Joyce Ju
	Trip.com Group	TRPCF	9961 HK	Joyce Ju
	TUHU Car	XTCRF	9690 HK	Miranda Zhuang, CFA
	Venustech	XVCGF	002439 CH	Daley Li, CFA
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	Xero Limited	XROLF	XRO AU	Sriharsh Singh
	YG Entertainment	XYEIF	122870 KS	Susie Lee
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	Autohome	ATHM	ATHM US	Miranda Zhuang, CFA
	Autohome	XXYZF	2518 HK	Miranda Zhuang, CFA
	Baozun	BZUN	BZUN US	Joyce Ju
	Coupang	CPNG	CPNG US	Susie Lee
	Glodon Company	XGCOF	002410 CH	Daley Li, CFA
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	KE Holdings	XSQRF	2423 HK	Miranda Zhuang, CFA
	Kingsoft Cloud	KC	KC US	Daley Li, CFA
	Kingsoft Cloud	KCLHF	3896 HK	Daley Li, CFA
	Krafton	XKINF	259960 KS	Susie Lee
	NCSOFT	NCSCF	036570 KS	Susie Lee
	Nykaa	XQQGF	NYKAA IN	Sachin Salgaonkar
	PB Fintech	XPFXF	POLICYBZ IN	Sachin Salgaonkar
	PropertyGuru	PGRU	PGRU US	Sachin Salgaonkar
	Sea Limited	SE	SE US	Sachin Salgaonkar
	Seek Limited	SKLTF	SEK AU	Sriharsh Singh
	Seven West Media	WANHF	SWM AU	Alice Lei, CFA
	The ONE Enterprise	XUFCF	ONEE TB	Thititthep Nophaket
	VGI Public Company Limited	XZQHF	VGI TB	Thititthep Nophaket
	Weimob	WEMXF	2013 HK	Daley Li, CFA
	WiseTech Global Limited	WTCHF	WTC AU	Ware Kuo
	XD Inc.	XDNCF	2400 HK	Lei Zhang
	Yonyou Network	XYNIF	600588 CH	Daley Li, CFA

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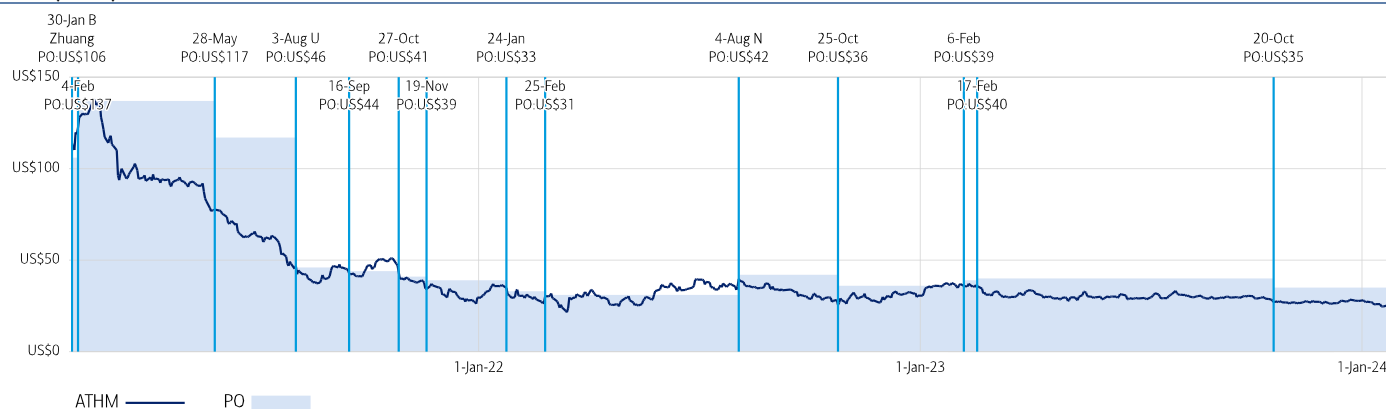
	Altium Limited	ALMFF	ALU AU	Ware Kuo
	Appen Ltd	APPEF	APX AU	Ware Kuo
	BEC World	XBJHF	BEC TB	Thititthep Nophaket
	CJ ENM	CJHOF	035760 KS	Susie Lee
	Douyu	DOYU	DOYU US	Lei Zhang
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	Pearl Abyss Corp	XEPAF	263750 KS	Susie Lee
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Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

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Sell	93	22.96%	Sell	24	25.81%

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