

# Midlincoln Research

July - 30 2021

Company: Yandex NV  
Ticker: YNDX RM, YNDX US  
Rating: Overweight  
12 m TP 86.6\$  
Upside 26.7%  
Analyst: Ovanes Oganisian

## Yandex – Engine for Growing Revenues

Yandex – a leading Russian search provider - is an important player in the global software and services sector. Its current focus is on Russia and CIS audience as well as Russian speaking global market. Yet some Yandex services have significant presence beyond CIS and its exposure on international markets has significantly increased in the last 2 years. Yandex is somewhat of a trend setter in global technology space. It has been a pioneer in dark kitchen services and one of the pioneers in driverless vehicles developments. Its services modelled by other diversified internet companies. Its recent expansion in the rover food deliverers on US university campuses in partnership with Grubhub farther cements its presence in robotics and autonomous vehicles sector.

Yandex is fairly diversified and looks to further diversify its services far beyond search. Its current revenue lines include search, taxi and car sharing, food deliveries including dark kitchen food deliveries, set of e-commerce services, classifieds such as auto.ru, and subscription service to online music and video content. Yandex has even tested movie production and has sold the first rights to Netflix. Yandex recently acquired a bank to further diversify its products into fintech sector.

Yandex is currently 5th largest weight in the MSCI Russia index. Its weighting of 7.48% in MSCI Russia index is just a notch lower than that of Norilsk Nickel. But there is little doubt that fairly soon Yandex will overtake Norilsk (especially given the ESG developments) and will move to number 4 weight position which will prop its weighting in the MSCI 10-40 Russia and will stimulate additional action from trackers. But that's just an immediate event.. Yandex is likely to become the largest MSCI Russia weight eventually – just like Tencent, Alibaba, Baidu, Naspers and Amazon are all leading the respective MSCI country universes.

Yandex keeps delivering excellent growth numbers. Its revenue growth in USD terms has been 26% in 2018, 32% in 2019 and even in the year plagued by COVID its revenues grew 9% on the back of 15% depreciation of Russian currency. Management guidance for 2021 revenue growth in 2021FY was upgraded from lower bound of 315 RUB bn to at least 340 RUB bn implying 54% revenue growth in FY 2021 in USD terms. Management guidance is important yet there is little surprise among Yandex watchers to the upbeat numbers provided during q2 2021 results presentation.

Our DCF model for Yandex yields a fair value of 76.7\$/share and 12 month price target of 86.6\$ per share, implying 26.7% upside from the current price levels. Our SOTP valuation to comparable global companies yields a fair value of 101\$ per share.

Last Price

4990 RUB 68.33USD

EPS 2021E

58.8 RUB

EPS Decline 2021E y-o-y

17.0%

P/E 2021E

84.8

Market Capitalisation

1,620,402 RUB mn 22.1 Bn USD

Risk Free Rate

6.5%

Country Equity Risk Premium

7.0%

Cost of Debt

7.0%

Long Term Growth

6.0%

Beta Assumption

0.9

EV

1,909,227 Rub mn 26.0 Bn USD

Net Cash Rub mn

138,824

WACC Estimate

13.3%

Software and Services  
Russia

## Yandex Revenue Lines and Current Developments

### Yandex/Search

Historically the search accounted for over half of Yandex revenues e.g. 56% in FY2020. Yandex seeks to diversify its revenue mix and search revenues have been growing slower than other revenues sources amid the high base. Search revenues are 45% in Q2 and 6m of 2020 of total revenue mix. Search includes services such as Search, Geo, Mail 360, Weather, News, Travel, Alice voice assistant and a number of other services offered in Russia, Belarus and Kazakhstan. The revenue mostly consists of advertisement sales and the growth there was impressive 38% for the first two quarters of 2021 vs comparable period last year.

In its search services Yandex competes with likes of Google, Apple and Bing on the global scale and with Mail.ru domestically. The advertisement market landscape is even more competitive both on the global and local scale. But so far Yandex has maintained its strong leadership position accounting for 59.7% of Russia search market. The competition is likely to further increase on the search market and one of the risks for Yandex is to be able to maintain its market share and protect its margins. Meanwhile Yandex recorded a small increase in its search presence. Its market share increased by 0.1% in Q2 2021 y-o-y.

Yandex costs attributed to search services are moderate and its EBITDA margin was recorded at 47.2% for the 6m of 2021 and its profitability was stronger improving by 1.3% y-o-y.

### Yandex/Taxi

This segment accounts for 32% of revenues of Yandex in H1 2020 up from 26% in FY2020. Taxi segment includes ride-hailing business (including Yandex.Go and Uber in Russia and 17 other countries across CIS and EMEA), logistics and ride-hailing B2B services, FoodTech business (including Yandex.Eats - ready-to-eat delivery service including deliveries from dark kitchens (pioneered by Yandex), Yandex.Lavka - hyperlocal grocery delivery service) and Yandex.Drive - car-sharing business.

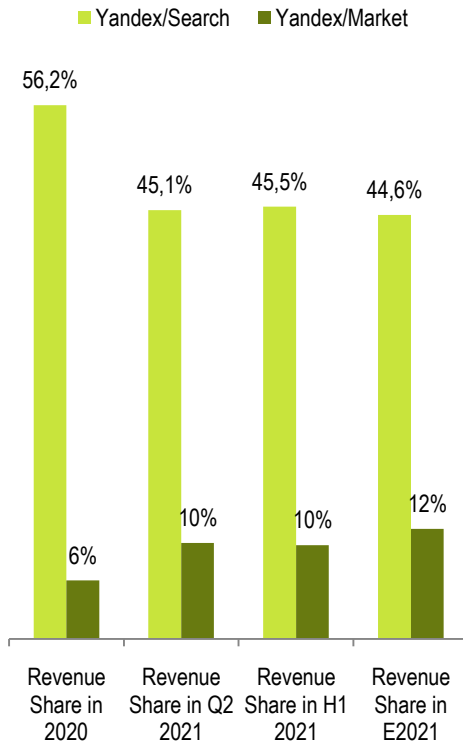
The taxi service and food delivery business provided by Yandex and other domestic and international players created a huge social change in Russia. The migrant workers which used to be mostly employed in Russian construction sector moved to the taxi, creating a shortage of labor in the construction sector which was exacerbated by Covid crisis.

It is not as profitable as search with EBITDA margins recorded at 9.9% in H1 2021 and improved slightly from 2020FY where it stood at 9% given a very strong first quarter result and developments in car sharing business which now recorded a profit in H1 this year vs. a loss last year.

### Yandex/Market

This area of Yandex business has been the focal point for investments and development for the management. It is also a segment which showed the strongest growth. It now accounts for 10% of revenues in H1 2020 up from 6% in the FY 2020, but the rapid growth of the segment is likely to further accelerate in H2 2021 and its share in total is likely to further increase in FY2021 results. This segment includes the price comparison service, marketplace and several small experiments.

### Yandex Revenues Split

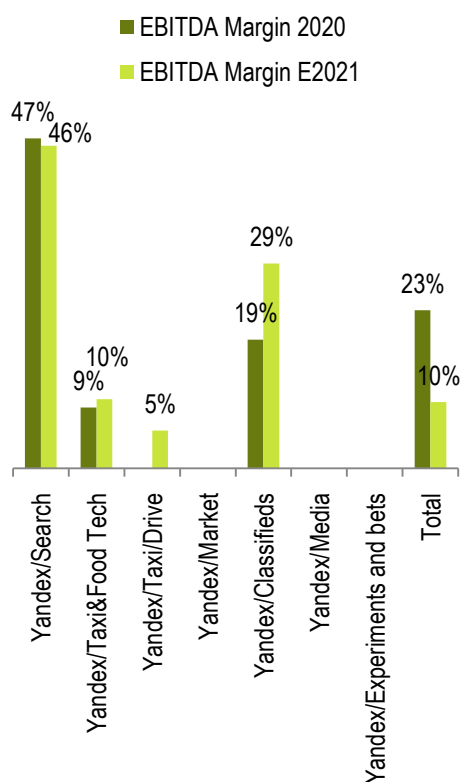


Source: Midlincoln Estimates, Company Data

The e-commerce sector exploded on the back of Covid quarantine and increased social distancing. The competition is fierce in this sector while all key players rushed to grab market share.

The sector was loss making for Yandex on the EBITDA level last year and continues to be in red this year on the back of heavy investments and the fight for the market share.

### Yandex EBITDA Margins



Source: Midlincoln Estimates, Company Data

### Yandex/Classifieds

Is a nice little segment of Yandex business with 2% revenue share in total. It operates a number of classifieds bulletin boards such as Auto.ru, Yandex.Realty and Yandex.Jobs. It is quite profitable generating just under 30% EBITDA margin in H1 2021 and profitability improved vs. Q1 and this year on last year.

### Yandex/Media

Is a business segment which was similar in size with classifieds last year but overtaken the classifieds business in H1 2021 with revenues reaching 5% of total as social distancing catalysed growth in the sector. It is another place where currently competition is extremely fierce. The segment includes KinoPoisk online movie theatre, Yandex.Music, Yandex.Afisha, Yandex.Studio and Yandex. Plus service. This is another area of heavy investments for Yandex currently and the fight for the market share and therefore yields negative margins.

### Yandex Other Business Units and Initiatives (formerly Yandex/Bets & Experiments)

This segment includes Yandex investment into SDG self driving vehicle venture, Yandex Zen, Cloud, Education, Devices and Services. Among recent developments is the announced in June this year a multi-year JV between Yandex SDG and Grubhub - the leading online and mobile food-ordering and delivery platform on college campuses in the US. Yandex will become Grubhub's robot delivery provider. Grubhub will provide campus partners the ability to deploy Yandex robots on-site for food deliveries. Marking its break into the U.S. market. For valuation purposes we value the SDG Yandex business at 150bn Rub based on consensus valuation figures for SDG.

### 2021 trends and valuation

This year Yandex is on path of increasing revenues at the expense of profitability.

It is eyeing 54% revenue growth on the back of EBITDA margin contraction from 23% in 2020 to circa 10% in 2021FY.

### Yandex revenues and revenues mix changes

	Revenue 2020 Rub mn	Revenue Share in 2020	Revenue Q1 2021 Rub mn	Revenue Share in Q2 2021	Revenue Q2 2021 Rub mn	Revenue Share in H1 2021	Revenue E2021 Rub mn	Revenue Share in E2021
Yandex/Search	126450	56.2%	35145	45.1%	39419	45.5%	149128	44.6%
Yandex/Taxi&Food Tech	59430	26%	24090	32%	28120	32%	104420	31%
Yandex/Taxi/Drive	8525	4%	2473	4%	3081	3%	11108	3%
Yandex/Market	13867	6%	7344	10%	8828	10%	38813	12%
Yandex/Classifieds	5778	3%	1783	2%	1995	2%	7556	2%
Yandex/Media	7807	3%	3496	5%	4094	5%	15180	5%
Yandex/Experiments and bets	11851	5%	4730	6%	4898	6%	19256	6%
Total	225183		76588		87354		334353	

Source: Midlincoln Estimates, Company Data

Yandex/market is the main source of EBITDA drain as well as bets and experiments segment. However the Yandex.market segment is also the key driver of revenue growth this year where GMV is expected to increase 3 fold. It's a risky and pragmatic strategy to focus on growth at the expense of profitability as the e-commerce market needs to be conquered and leadership needs to be established.

### Yandex EBITDA and EBITDA margin dynamics

	EBITDA		EBITDA		EBITDA		EBITDA	
	EBITDA 2020	Margin 2020	EBITDA Q1 2021	Margin Q1 2021	EBITDA Q2 2021	Margin Q2 2021	EBITDA E2021	Margin E2021
Yandex/Search	60020	47%	16364	47%	18226	46%	69180	46%
Yandex/Taxi&Food Tech	5214	9%	3633	15%	1568	6%	10402	10%
Yandex/Taxi/Drive	-1777		108	4%	195	6%	606	5%
Yandex/Market	-4113		-6488		-9918		-32812	
Yandex/Classifieds	1070	19%	385	22%	728	36%	2226	29%
Yandex/Media	-3735		-1257		-1732		-5978	
Yandex/Experiments and bets	-7259		-2410		-3169		-11158	
Total	51197	23%	10227	13%	5703	7%	31860	10%

Source: Midlincoln Estimates, Company Data

Yandex is also likely to record a negative free cash flow in 2021. On our estimates free cash flow will show an 18bn Rub of outflow in FY 2021. In our DCF model we assume that this trend is likely to be reversed in FY 2022 and Yandex will become FCF positive.

Yandex valuation needs to be approached from 2 perspectives: DCF valuation and SOTP valuation of Yandex business units where suitable multiples from international comparable universe can be used to value parts of Yandex business.

Our DCF valuation is somewhat skewed to the positive bias as it assumes that Yandex returns to targeting profitability starting 2022 and it will turn cash flow positive on the back of this switch. This however may not exactly coincide with the company strategy. The company has in our view started targeting goals that only show positive valuation effects in SOTP valuation. For example in SOTP valuation only a search and classifieds segments of Yandex are valued as a multiple of EBITDA for example we use a multiple of 14x (from Alphabet valuation) Yandex 2021E search EBITDA to arrive at search contribution to Yandex EV in SOTP exercise.

The rest of the business segments are valued on the revenue multiples or GMV multiples from the international peers as most of them run negative EBITDA like Uber or their EBITDA multiples are irrelevantly high as in the case of Alibaba or Amazon.

## Yandex Revenue Model

Revenue in Rub bn	2019	2020	2021	2022	2023	2024	2025	2026
Yandex prop ads	96.4	105.2	126.8	139.4	153.4	167.2	180.6	193.2
Growth		9%	21%	10%	10%	9%	8%	7%
Ad network	25.7	21.3	22.4	26.8	32.2	38.7	46.4	55.7
Growth		-17%	5%	3%	3%	3%	3%	3%
Total ad revenues	121.7	126.5	149.1	166.3	185.6	205.8	226.9	248.9
Taxi	45.4	66.9	104.4	114.9	126.3	139.0	152.9	168.2
Growth		47%	40%	10%	10%	10%	10%	10%
Market and other	8.1	24.9	80.8	177.8	302.2	453.3	634.6	825.0
Growth		207%	225%	120%	70%	50%	40%	30%
<b>Total revenue</b>	<b>175.2</b>	<b>218.3</b>	<b>334.4</b>	<b>458.9</b>	<b>614.1</b>	<b>798.1</b>	<b>1014.5</b>	<b>1242.1</b>
Growth		25%	53%	37%	34%	30%	27%	22%
<b>Opex Rub bn</b>	<b>160.2</b>	<b>193.1</b>	<b>302.5</b>	<b>415.2</b>	<b>549.4</b>	<b>705.7</b>	<b>886.4</b>	<b>1072.0</b>
Growth		25%	57%	37%	32%	28%	26%	21%
Gross margin	9%	12%	10%	10%	11%	12%	13%	14%

Source Midlincoln Estimates

## DCF Summary

WACC	13%	
Terminal Growth	6%	
Terminal Value	1275053.4	Rub mn
Sum of dcf	258159.1	Rub mn
EV	1533212.5	Rub mn
Net Debt	-138824.7	Rub mn
SDG Value	150000.0	Rub mn
TP Market Cap mn\$	1822037.2	Rub mn
Number of ords	324.7	mn
Fair Value Ord \$	76.7	
12 month TP	86.62	

Source Midlincoln Estimates

## SOTP Valuation

	Revenue		EBITDA		Implied EV	
	E2021	E2021	EV/EBITDA x	EV/Revenue x	Rub mn	
Yandex/Search	149128	69180	14		968520	Alphabet EV/EBITDA
Yandex/Taxi&Food Tech	104420	10402		8	835360	Uber EV/Revenues
Yandex/Taxi/Drive	11108	606				
Yandex/Market	38813	-32812		2	77626	Amazon(4.4) /Alibaba (0.5) EV/Revenues Average
Yandex/Classifieds	7556	2226	14		105784	Ebay EV/EBITDA
Yandex/Media	15180	-5978		8	121440	Netflix EV/Revenue
Yandex/Experiments and bets (SDG Valuation)	19256	-11158			150000	Midlincoln estimate
Net Cash					138825	
Total					2397554	
Per share USD					101	

Source Midlincoln Estimates

Our DCF model yields a fair value of 76.7\$ per share for Yandex. We use WACC of 13% and terminal growth of 6% to arrive at our DCF fair value. Our 12m TP for Yandex is therefore 86.2\$

SOTP fair value yields a higher estimate of 101\$ and as was explained earlier. In the future Yandex fair value could gravitate towards its SOTP valuation as management strategy or market competitive conditions could affect negatively Yandex profitability.

## Midlincoln DCF model for Yandex

Rub/USD	58.3	62.5	64.6	73.7	2020	2021	2022	2023	2024	2025	2026
Yandex											
Software and services	USD	USD	USD	USD	73.2	74.0	74.0	74.0	74.0	74.0	74.0
RUSSIA	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	11.0
Fields mm\$, % and mm rub (after 2020)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	
Revenue	1612.8	2041.7	2712.0	2961.6	334352.8	458910.3	614147.9	798134.1	1014463.8	1242060.1	
Opex	1392.6	1708.4	2480.1	2620.7	317377.8	430066.4	564284.0	720631.7	901334.0	1086913.3	
Operating Profit	220.2	333.3	231.9	340.9	16975.0	28843.9	49864.0	77502.5	113129.7	155146.8	
Operating Margin	14%	16%	9%	12%	5%	6%	8%	10%	11%	12%	
Interest, FX and other	-21.5	-505.7	-121.5	-93.9	-6895.1	-6970.4	-6970.4	-6970.4	-6970.4	-6970.4	
PTP	241.7	839.0	363.4	434.8	23870.1	35814.3	56834.4	84472.9	120100.2	162117.2	
Pretax Margin	15%	41%	13%	15%	7%	8%	9%	11%	12%	13%	
Tax Rate	33%	63%	37%	20%	20%	20%	20%	20%	20%	20%	
Net Income	160.8	310.1	222.5	320.9	19096.1	28651.5	45467.5	67578.3	96080.1	129693.8	
Net Margin	10%	15%	8%	11%	6%	6%	7%	8%	9%	10%	
EPS	0.5	0.9	0.7	1.0	58.8	88.2	140.0	208.1	295.9	399.4	
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Payout Ratio Common	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Payout vs. Free Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Dividends total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
EBITDA	483.8	614.9	752.6	663.1	31860.0	43728.9	64749.0	92387.5	128014.7	170031.8	
Ebitda Margin	30%	30%	28%	22%	28%	27%	26%	26%	27%	26%	
Op. Cash	407.6	451.2	686.2	577.1	9916.0	55284.0	80508.2	113674.3	156427.0	206847.5	
Op. Cash to Revenue	0.3	0.2	0.3	0.2	0.0	0.1	0.1	0.1	0.2	0.2	
Capex	-212.4	-453.0	-317.6	-405.3	-27972.0	-26573.4	-25244.7	-23982.5	-22783.4	-21644.2	
Capex/Revenue	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	
FCF	195.2	-1.8	368.6	171.8	-18056.0	28710.6	55263.4	89691.8	133643.7	185203.3	
FCF to Revenue	0.1	0.0	0.1	0.1	-0.1	0.1	0.1	0.1	0.1	0.1	
EV TO T12M EBIT	46.7	29.4	35.5	35.5	48.1	35.1	23.7	16.6	12.0	9.0	
EV/EBITDA	21.3	15.9	18.0	38.0	48.1	35.1	23.7	16.6	12.0	9.0	
CUR RATIO	2.3	3.1	2.6	2.6	2.6	2.6	0.9	0.9	0.9	0.9	
EV	10294.9	9782.9	13561.6	25204.3	1533212.5	1533212.5	1533212.5	1533212.5	1533212.5	1533212.5	
EBIT	220.3	333.2	381.8	709.6	31860.0	43728.9	64749.0	92387.5	128014.7	170031.8	
D&A	263.5	281.7	370.8	-46.5	14885.0	14885.0	14885.0	14885.0	14885.0	14885.0	
WC Req	16.7	140.5	-93.0	-302.7	-4392.3	-4392.3	-4392.3	-4392.3	-4392.3	-4392.3	
			Period		1.0	2.0	3.0	4.0	5.0	6.0	
			Discounted FCF Rub mm		-15938.6	22371.8	38012.4	54459.1	71630.0	87624.3	



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