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Jun 17, 2020

Yandex N.V. (YNDX)

$43.54 (As of 06/16/20)

Price Target (6-12 Months): **$46.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/18/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: C | Growth: C | Momentum: D	

Summary

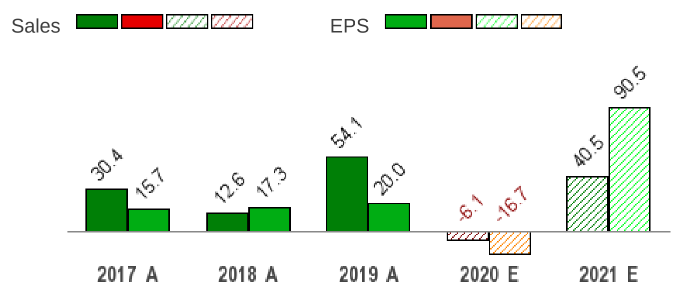
Yandex's core search business continues to be the key growth driver. Its increasing share in the Russian search market is a tailwind. Moreover, the company's top-line growth is driven by its increasing online advertising revenues. Further, the company's solid momentum across Taxi, Classifieds, Media Services and Experiments segments is expected to contribute well in the upcoming quarters. Moreover, strengthening ridesharing business will continue to aid growth in Taxi segment. Additionally, robust Yandex.Drive and Geolocational services are tailwinds. The stock has outperformed the industry it belongs to on a year-to-date basis. However, coronavirus induced uncertainties in the overall demand environment remain major concerns. Further, rising competition from search giant like Google remains a risk to its search market position.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$48.95 - $27.93**
20 Day Average Volume (sh)	**2,020,463**
Market Cap	**$14.1 B**
YTD Price Change	**0.1%**
Beta	**1.63**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Internet - Content**
Zacks Industry Rank	**Top 29% (74 out of 253)**
Last EPS Surprise	**-32.1%**
Last Sales Surprise	**NA**
EPS F1 Est- 4 week change	**-0.3%**
Expected Report Date	**07/24/2020**
Earnings ESP	**0.0%**
P/E TTM	**42.3**
P/E F1	**45.8**
PEG F1	**1.2**
P/S TTM	**5.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					3,738 E
2020	605 A				2,660 E
2019	576 A	656 A	699 A	835 A	2,833 A

EPS Estimates

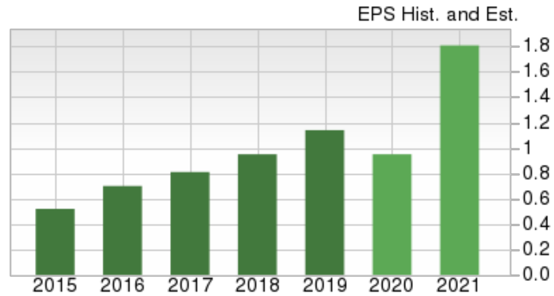
	Q1	Q2	Q3	Q4	Annual*
2021					$1.81 E
2020	$0.19 A	$0.15 E	$0.27 E	$0.33 E	$0.95 E
2019	$0.27 A	$0.27 A	$0.32 A	$0.25 A	$1.14 A

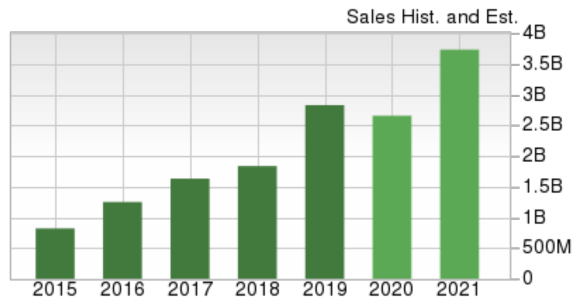
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/16/2020. The reports text is as of 06/17/2020.

Overview

Moscow-based Yandex N.V. is an internet-based company that develops technology products and services by leveraging the power of machine learning. It holds a leading position in the European market with its advanced and popular search engine that offers enhanced and relevant search results.





The company operates in five organized segments and generated RUB 175.4 billion of total revenues in 2019.

Search and Portal: This segment is Yandex's primary business and the primary catalyst for top-line growth. In 2019, it accounted for 69.5% of total revenues. Under this segment, the company offers its vast search engine, personal services, Yandex.Health and advertising services. These services are available in Russia, Belarus, Kazakhstan and Ukraine. The segment also includes Search and Portal in Turkey and Yandex Launcher.

Media Services: This segment accounted for 2.2% of total revenues in 2019. This segment was formed out of Experiments segment and offers KinoPoisk, Yandex.Music, Yandex.Afisha, Yandex.Studio, Yandex.Plus and Yandex.TV.

Taxi: Yandex generated 21.7% of its revenues from this segment. The segment is comprised of Ride-hailing and FoodTech businesses. It also includes Self-Driving Cars unit.

Classifieds: The company has generated 3.1% of revenues from this segment. The facilities offered include automobile, real estate, job search and online travel services via Auto.ru, Yandex.Realty and Yandex.Jobs.

Other Bets and Experiments: This segment is comprised of geolocational services, Zen, Yandex.Cloud and Yandex.Drive. The company generated 8.6% of total revenues in 2019.

Out of all these, Yandex generates most of its revenues through online advertising from which the revenues can be divided into two categories — revenues from Yandex Properties and Advertising Networks.

The company offers programmatic advertising as well as mobile advertising. Yandex also faces stiff competition from Google and Mail.ru in the Russian search market.

Reasons To Buy:

> Yandex's improving search market share, robust Taxi segment and rising advertising revenues remain major positives.

- Yandex Search remains the most significant business unit of the company and has been witnessing steady growth since its inception. The search engine market continues to gain traction due to increasing penetration of internet and mobile. In 2019, the company accounted for 56.3% share of overall Russian search traffic while Google and Mail.ru was 39.6% and 3.4%, respectively. Yandex's share further reached 58.1% in the first-quarter 2020. Moreover, the company's search share on Android in Russia was 55.5% in the first quarter. The company is well-poised to capitalize on benefits from an increased penetration in the Russian search engine market with the introduction of new apps such as — Turbo pages and Alice — which are aimed at enhancing its search results.

- The online advertising services remain the key driver of Yandex's top-line growth. In 2019, it accounted for 69.4% of total revenues. The digital advertising market holds immense potential as the global spending on advertisement is increasing at a rapid pace. Per the reports from a media agency, Magna, the global digital ad spending is expected to reach $291 billion and account for 50% of the total ad spending in 2020. For the past few years, mobile advertising has been playing an important role driving the overall growth of online advertising market. Per Zenith's report, mobile advertising spend is expected to hit $180 billion by 2020. Further, mobile is anticipated to generate 35% of total revenues in this particular market of Russia by 2022. Consequently, Yandex is well poised to reap benefits from this high growth market on the back of its vast ad network, various kinds of ad formats and robust Yandex.Direct, an advertising placement platform.

- The company's efforts toward expanding business beyond the search engine world are major positives. The company has made significant amount of investments to diversify business. The company operates in the e-commerce market and has entered ride sharing business with Yandex.Taxi; auto dealer market with Auto.ru; real estate sector with Yandex.Realty; job search market with Yandex.Jobs, travel sector with Yandex.Travel and video streaming market with its robust media services. It also recently launched a car rental service called Yandex.Drive. Apart from these, the company also managed to foray into the cloud industry with the launch of Yandex.Cloud. The company has rolled out its voice assistant, Alice and smart speaker, Yandex.Station. These have reinforced its competitive position against other players, especially Google in Russia. Consequently, we note that Yandex's business is well diversified which will help it to overcome the loss from any sector if any with the profit from another sector.

- Yandex has a solid balance sheet. As of Mar 31, 2020, the company's net cash amounted to $1.3 billion compared with $982 million as of Dec 31, 2019. The strong net cash balance will not only help it pursue strategic acquisitions but will also enable it repurchase shares aggressively in the long haul.

Reasons To Sell:

- The company derives revenues majorly from online advertising which reflects the concentration of its revenues. The company operates primarily in emerging markets where overall online advertising spending and internet use penetration is comparatively lower than the developed countries. Moreover, traditional modes of advertising such as television and radio are still preferable than the online internet advertising in most of the developing countries. This remains a headwind. Notably, any customer or group of customers of the company have not even accounted for more than 10% of its revenues since 2015.

Concentration of revenues and operations are serious concerns. Intensifying competition also remains a headwind for Yandex.

- Yandex operates primarily in Russia; consequently, its financial and operating activities are exposed to economic conditions of the country. Hence, any unfavorable economic situation is bound to impact the company's fundamentals significantly. Russia's high dependency on oil and gas exports makes its economy prone to the fluctuations in the world oil and gas prices. The economy witnessed a severe downturn in 2014 and 2015 due to a sharp fall in oil prices and this led to a substantial decline in the country's stock market and depreciation of ruble. Additionally, strict tax laws in Russia remain major concerns as the company has recorded $5 million of unrecognized tax benefits as liabilities. Now if the company plans to enter the global market, it will face a tough competition from Google which already poses a stiff challenge in Russia.

- Notably, the company is trading at premium in terms of Price/Earnings. Currently, Yandex has a trailing 12-month P/E ratio of 30.65, which compares unfavorably with what the industry witnessed over the last year. Consequently, valuation looks stretched from P/E perspective.

Last Earnings Report

Yandex's Q1 Earnings & Revenues Miss Estimates

Quarter Ending	03/2020
Report Date	Apr 28, 2020
Sales Surprise	NA
EPS Surprise	-32.14%
Quarterly EPS	0.19
Annual EPS (TTM)	1.03

Yandex reported first-quarter 2020 adjusted earnings of 19 cents per share, missing the Zacks Consensus Estimate by 32.1%. In ruble terms, the company's earnings came in at RUB 17.33 per share, which surged 63.6% from the year-ago quarter.

Revenues of $604.7 million (RUB 47 billion) lagged the Zacks Consensus Estimate of $747 million. The figure reflected year-over-year growth of 26.1% in ruble terms.

The company's growing advertising revenues and solid momentum in the Russian search market drove the top line during the reported quarter. Additionally, it witnessed year-over-year growth of 23% in paid clicks during the reported quarter.

Well-performing Search, Classifieds, Media Services and Experiments segments of the company significantly contributed to the results.

Although coronavirus-induced social distancing did not bode well for the company's ride-hailing services, the Taxi segment delivered strong year-over-year growth during the reported quarter.

However, increasing expenses hurt margin expansion during the reported quarter.

Nevertheless, Yandex's strong momentum across the Taxi and ride sharing business remains a major positive. Moreover, the company's strengthening presence in the self-driving car space and growing mobile search share remain tailwinds. All these factors are likely to instil investor optimism.

However, the company has withdrawn its guidance for full-year 2020 due to uncertainties related to the coronavirus pandemic.

Nevertheless, Yandex has taken initiatives like salary cut and curtailing non-essential expenses in a bid to minimize the impacts of coronavirus, which is noteworthy.

Top-Line Details

Total online advertising revenues amounted to RUB 30.1 billion (64.1% of total revenues), reflecting growth of 11% on a year-over-year basis.

This can primarily be attributed to robust performance of Yandex properties, which accounted for 80.5% of total advertising revenues and exhibited 16% year-over-year growth.

However, Advertising network revenues, which contributed 19.5% to total advertising revenues, declined 4% from the year-ago quarter.

Taxi revenues of RUB 11.4 billion (24.2% of total revenues) surged 50% on a year-over-year basis, driven by increasing number of rides.

Other revenues of RUB 5.5 billion (11.7% of total revenues) soared 111% from the prior-year quarter. This was primarily driven by well performing Yandex.Drive and Media Services. Strong IoT initiatives remain a positive.

Segments in Detail

Search and Portal: The segment generated RUB 30.1 billion revenues (64.1% of total revenues), up 11% year over year. The company's strong position in the Russian search market remains a key catalyst. Notably, its market share was 58.1% during the reported quarter, up 110 basis points (bps) year over year. This can be attributed to expanding Yandex's mobile search share. Notably, mobile revenues accounted for 50.4% of the company's search revenues. Further, mobile search traffic accounted for 59% of total search traffic. This was driven by Yandex's search share on Android, which came in at 55.5%, expanding 430 bps from the year-ago quarter.

Taxi: The segment generated RUB 11.4 billion revenues (24.3% of revenues), surging 50% from the year-ago quarter. The impressive year-over-year growth was driven by increasing number of rides that advanced 40% from the prior-year quarter on the back of strengthening ride sharing business. Further, robust performance of corporate Taxi and food delivery business aided the segment's results. Also, positive contributions from Yandex.Lavka and Yandex.Eats remained positives.

Classifieds: The segment generated revenues of RUB 1.5 billion (3.2% of revenues), reflecting an improvement of 35% year over year. Accelerating revenues from listing fees and value added service drove the segment's top line.

Media Services: The segment generated revenues of RUB 1.4 billion (3% of revenues), climbing 95% from the year-ago quarter. This can primarily be attributed to solid momentum across KinoPoisk and Yandex.Music, which generated strong subscription revenues.

Other Bets and Experiments: The segment yielded RUB 4.9 billion revenues (10.4% of total revenues), up 98% from the prior-year quarter. This was driven by robust performance of Yandex's Zen, Yandex.Drive and Geo services.

Operating Details

In first-quarter 2019, adjusted net income margin was 11%, contracting 360 bps from the year-ago quarter.

Its operating margin came in at 11.3% in the reported quarter, contracting 310 bps on a year-over-year basis.

Further, adjusted EBITDA margin was 25.8%, which contracted 310 bps year over year.

Operating expenses — as a percentage of revenues — was 88.7%, expanding 310 bps from the year-ago quarter.

The company's total traffic acquisition cost came in at RUB 5.4 billion, climbing 2% on a year-over-year basis. As a percentage of revenues, the figure contracted 270 bps year over year to 11.6% in the reported quarter.

Balance Sheet & Cash Flows

As of Mar 31, 2020, cash and cash equivalents were $1.6 billion, up from $911.3 million on Dec 31, 2019.

Accounts Receivables totaled $216.7 million, decreasing from $288.1million in the previous quarter.

In the first quarter, cash flow from operations was $99 million, which declined from the prior-quarter figure of $139.3 million.

Recent News

On **Apr 16, 2020**, Yandex introduced home testing for COVID-19 as a part of its new project called Helping Hand.

On **Mar 26, 2020**, Yandex rolled out a project namely Helping Hand which focuses on transportation, medicinal deliveries, and food and other essential commodity supplies, to combat coronavirus pandemic.

On **Jan 5, 2020**, Yandex revealed its growing initiatives in the autonomous driving space. The company mentioned about providing rides in its self-driving cars with no driver on public roads of Las Vegas at CES 2020. Further, it will offer autonomous taxi service in Detroit for visitors of the June 2020 North American International Auto Show. Notably, the service will offer wide range of self-driving vehicles.

Valuation

Yandex shares are up 0.1% in the year-to-date preiod and 12.3% over the trailing 12-month period. While stocks in the Zacks sub-industry are down 6.5%, the same in the Zacks Computer & Technology sector are up 8.9% in the year-to-date period. Over the past year, the Zacks sub-industry is down 6.2% and the sector is up 22.8%.

The S&P 500 index is down 4.8% in the year-to-date period but up 5.1% in the past year.

The stock is currently trading at 31.22X forward 12-month earnings, which compares to 22.02X for the Zacks sub-industry, 25.31X for the Zacks sector and 22.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 59.42X and as low as 1.71X, with a 5-year median of 24.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $46 price target reflects 32.98X forward 12-month earnings.

The table below shows summary valuation data for YNDX

Valuation Multiples - YNDX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	31.22	22.02	25.31	22.51
	5-Year High	59.42	33.33	25.31	22.51
	5-Year Low	1.71	12.15	16.72	15.23
	5-Year Median	24.66	25.94	19.28	17.49
P/S F12M	Current	4.48	7.74	3.85	3.51
	5-Year High	7.2	15.43	3.85	3.51
	5-Year Low	2.6	1.86	2.32	2.53
	5-Year Median	4.63	7.4	3.11	3.02
EV/Sales TTM	Current	5.15	9.32	4.36	3.06
	5-Year High	8.36	30.43	4.43	3.46
	5-Year Low	3.54	7.61	2.55	2.13
	5-Year Median	5.5	18.48	3.61	2.83

As of 06/16/2020

Industry Analysis **Zacks Industry Rank:** Top 29% (74 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Sina Corporation **(SINA)**	Outperform	2
Global Eagle Entertainment Inc. **(ENT)**	Neutral	3
Alphabet Inc. **(GOOGL)**	Neutral	3
Shutterstock, Inc. **(SSTK)**	Neutral	3
Tencent Music Entertainment Group Sponsored ADR **(TME)**	Neutral	3
Weibo Corporation **(WB)**	Neutral	3
Yelp Inc. **(YELP)**	Neutral	3
Baidu, Inc. **(BIDU)**	Underperform	4

Industry Comparison Industry: Internet - Content

Industry Peers

	YNDX	X Industry	S&P 500	SINA	WB	YELP
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	D	-	-	D	F	C
Market Cap	14.14 B	142.83 M	22.00 B	2.41 B	7.75 B	1.76 B
# of Analysts	5	2	14	4	3	8
Dividend Yield	0.00%	0.00%	1.92%	0.00%	0.00%	0.00%
Value Score	C	-	-	C	D	C
Cash/Price	0.19	0.28	0.06	1.24	0.32	0.29
EV/EBITDA	25.97	6.43	12.79	3.83	11.29	14.66
PEG Ratio	1.24	1.99	3.00	NA	NA	NA
Price/Book (P/B)	4.75	3.33	3.04	0.62	3.35	2.31
Price/Cash Flow (P/CF)	24.27	14.44	11.81	NA	14.90	19.37
P/E (F1)	46.19	29.90	21.70	17.46	15.29	NA
Price/Sales (P/S)	5.06	1.61	2.34	1.13	4.58	1.72
Earnings Yield	2.18%	2.20%	4.33%	5.72%	6.53%	-3.30%
Debt/Equity	0.40	0.03	0.77	0.45	0.73	0.23
Cash Flow ($/share)	1.79	0.42	7.01	-0.14	2.31	1.27
Growth Score	C	-	-	D	F	B
Hist. EPS Growth (3-5 yrs)	18.26%	23.00%	10.87%	28.54%	99.92%	64.33%
Proj. EPS Growth (F1/F0)	-16.67%	-12.94%	-10.58%	-38.27%	-18.95%	-256.01%
Curr. Cash Flow Growth	15.59%	6.14%	5.46%	-105.14%	-12.04%	8.96%
Hist. Cash Flow Growth (3-5 yrs)	7.26%	10.15%	8.55%	NA	133.19%	25.79%
Current Ratio	4.78	1.57	1.29	2.62	4.69	4.23
Debt/Capital	31.80%	18.67%	45.06%	31.02%	42.14%	18.67%
Net Margin	7.93%	2.94%	10.53%	-1.00%	23.44%	2.34%
Return on Equity	11.39%	8.04%	16.06%	-0.54%	18.14%	3.24%
Sales/Assets	0.64	0.72	0.55	0.29	0.38	0.96
Proj. Sales Growth (F1/F0)	-3.83%	0.00%	-2.59%	-3.52%	-5.37%	-17.51%
Momentum Score	D	-	-	C	D	C
Daily Price Chg	1.54%	0.00%	1.81%	1.41%	3.05%	0.61%
1 Week Price Chg	-0.33%	-0.17%	-7.25%	0.52%	-5.61%	-13.16%
4 Week Price Chg	7.00%	6.95%	8.30%	2.15%	-4.01%	17.58%
12 Week Price Chg	36.53%	25.34%	28.43%	10.30%	-2.79%	18.94%
52 Week Price Chg	12.30%	-18.27%	-3.34%	-17.24%	-20.33%	-25.40%
20 Day Average Volume	2,020,463	111,899	2,618,631	846,659	2,392,160	1,182,899
(F1) EPS Est 1 week change	-0.26%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.26%	0.00%	0.00%	56.77%	-5.14%	0.00%
(F1) EPS Est 12 week change	-37.31%	-21.42%	-14.98%	-19.42%	-4.51%	-218.78%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-75.00%	-3.33%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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