

## Yandex N.V. (YNDX)

**\$46.67** (As of 02/20/20)

Price Target (6-12 Months): **\$49.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 09/13/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

### Summary

Yandex reported mixed fourth quarter results wherein earnings missed the estimates but revenues topped the same. The company's core search business and increasing online advertising revenues were the key growth drivers. Also, Yandex continued to experience increase in its share in the Russian search market. The company's solid momentum across Taxi, Classifieds, Media Services and Experiments segments remained positive and are expected to contribute well in the upcoming quarters. Moreover, strengthening ridesharing business will continue to aid growth in Taxi segment. The stock has outperformed the industry over a year. However, mounting investments across all the segments pose a serious threat to its margin expansion. Further, rising competition from search giant like Google remains a risk to its search market position.

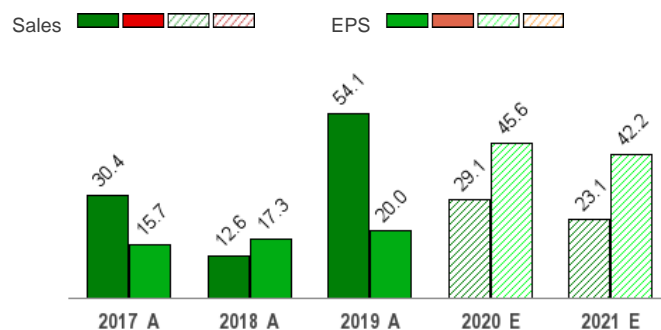
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$48.95 - \$28.91
20 Day Average Volume (sh)	2,598,300
Market Cap	\$15.2 B
YTD Price Change	7.3%
Beta	1.96
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Internet - Content</a>
Zacks Industry Rank	Bottom 20% (205 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-35.9%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	-10.3%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	42.0
P/E F1	28.1
PEG F1	0.8
P/S TTM	5.5

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,502 E
2020	747 E	818 E	905 E	1,056 E	3,656 E
2019	576 A	656 A	699 A	835 A	2,833 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.36 E
2020	\$0.36 E	\$0.32 E	\$0.45 E	\$0.57 E	\$1.66 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 02/20/2020. The reports text is as of 02/21/2020.

## 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.

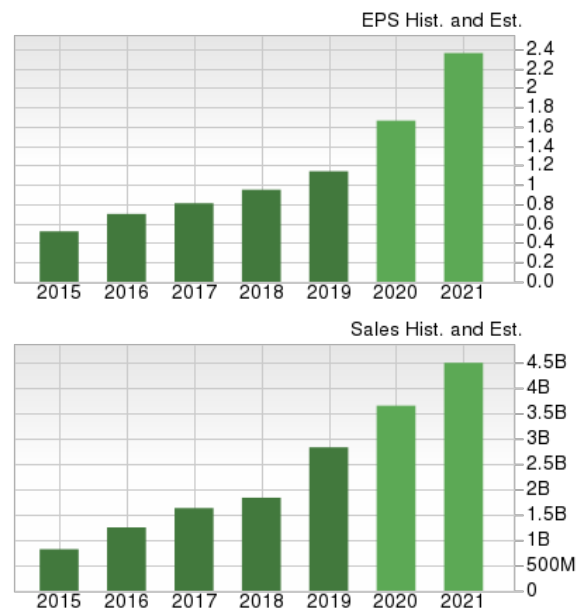
**Taxi:** Yandex generated 21.7% of its revenues from this segment. The segment is comprised of Ride-hailing and FoodTech businesses. It also includes Self-Driving Cars unit.

**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 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 2018, 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 57.5% in the fourth-quarter 2019. Moreover, the company's search share on Android in Russia was 54.3% in the fourth 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's improving search market share, robust Taxi segment and rising advertising revenues remain major positives.

---

## 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.
- ▼ 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 42.05, which compares unfavorably with what the industry witnessed over the last year. Consequently, valuation looks stretched from P/E perspective.

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

## Last Earnings Report

### Yandex's Q4 Earnings Miss, Revenues Beat

Yandex reported fourth-quarter 2019 adjusted earnings of 25 cents per share, missing the Zacks Consensus Estimate by 35.9%. In ruble terms, the company delivered earnings of RUB 2.78 per share, which declined 83.4% from the year-ago quarter.

Revenues of \$835.1 million (RUB 51.7 billion) surpassed the Zacks Consensus Estimate of \$817 million. The figure reflected year-over-year growth of 33.1% in ruble terms.

The company's growing advertising revenues, solid momentum in the Russian search market and robust performance by Taxi segment drove the top line during the reported quarter. Additionally, the company witnessed year-over-year growth of 20% in paid clicks during the reported quarter.

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

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

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

### Top-Line Details

Total online advertising revenues amounted to RUB 34.3 billion (66.4% of total revenues), reflecting growth of 16.4% on a year-over-year basis.

This can primarily be attributed to robust performance of Yandex properties, which accounted for 80.4% of the total advertising revenues and exhibited year-over-year growth of 23%.

However, Advertising network revenues, which contributed 19.6% to total advertising revenues, declined 5% from the year-ago quarter.

Taxi revenues of RUB 11.9 billion (23% of total revenues) surged 72% on a year-over-year basis, driven by increasing number of rides.

Other revenues of RUB 5.5 billion (10.6% of total revenues) soared 127% from the prior-year quarter. This was primarily driven by well-performing Yandex.Drive and Media Services. Further, strong IoT initiatives remain a positive.

### Segments in Detail

**Search and Portal:** The segment generated RUB 34.5 billion revenues (66.6% of total revenues), up 16% year over year. The company's strong position in the Russian search market remains a key catalyst. Notably, its market share reached 57.5% during the reported quarter, which went up 100 basis points (bps) year over year. This can be attributed to expanding Yandex's mobile search share, which stood at 51.9% in the fourth quarter. Notably, mobile revenues accounted for 49.3% of the company's search revenues. Further, mobile search traffic accounted for 57.5% of the total search traffic. This was driven by Yandex's search share on Android, which came in 54.3%, expanding 480 bps from the year-ago quarter.

**Taxi:** The segment generated RUB 11.9 billion revenues (23.1% of revenues), surging 72% from the year-ago quarter. Impressive year-over-year growth was driven by increasing number of rides that advanced 49% from the prior-year quarter, on the back of strengthening ridesharing business. Further, robust performance by corporate Taxi and food delivery business contributed to the segment's results.

**Classifieds:** The segment generated revenues of RUB 1.6 billion (3.1% of revenues), reflecting an improvement of 45% year over year. Revenues from listing fees and value added service (VAS), which surged 68% year over year, drove the segment's top line.

**Media Services:** The segment generated revenues of RUB 1.3 billion (2.5% of revenues), climbing 96% from the year-ago quarter. This can primarily be attributed to improving subscription services and video advertising revenues on the back of KinoPoisk. Further, well-performing Yandex.Music contributed to the segment's revenues.

**Other Bets and Experiments:** The segment yielded RUB 5.1 billion revenues (9.8% of total revenues), up 128% from the prior-year quarter. This was driven by robust performance of Yandex's Zen, Yandex.Drive and Geo services.

### Operating Details

In fourth-quarter 2019, adjusted net income margin was 10.4%, contracting 750 bps from the year-ago quarter.

Per the company, its operating margin came in 9.5% in the reported quarter, contracting 970 bps on a year-over-year basis.

Further, adjusted EBITDA margin was 25.6%, which contracted 610 bps year over year.

Operating expenses as a percentage of revenues was 90.5%, expanding 970 bps from the year-ago quarter.

The company's total traffic acquisition cost (TAC) came in RUB 6.6 billion, climbing 7.6% on a year-over-year basis. As a percentage of revenues, the figure contracted 310 bps year over year to 12.8% in the reported quarter.

### Balance Sheet & Cash Flows

Quarter Ending **12/2019**

Report Date	Feb 14, 2020
Sales Surprise	2.26%
EPS Surprise	-35.90%
Quarterly EPS	0.25
Annual EPS (TTM)	1.11

---

As of Dec 31, 2019, cash and cash equivalents were \$911.3 million, up from \$675.7 million as of Sep 30, 2019.

Accounts Receivables totaled \$288.1 million, increasing from \$246.8 million in the previous quarter.

For the fourth quarter, cash flow from operations was \$139.3 million, which declined from the prior-quarter figure of \$228 million.

**Guidance**

For 2020, management expects revenues between RUB 214 and RUB 221, reflecting growth of 22-26% from 2019.

Further, the company expects revenue growth in Search and Portal in the range of 14-17% from 2019 in ruble terms.

---

---

## Recent News

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.

On **Oct 14, 2019**, Yandex unveiled an app called Sloy which is a short video app for fashion and style. This is likely to aid Yandex's momentum in the video making app market.

On **Oct 9, 2019**, Yandex rolled out Yandex.Station Mini, its new smart speaker device. This is likely to aid the company's presence in the booming smart speaker market.

---

## Valuation

Yandex shares are up 22.7% in the past six-month period and 38.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 8.6% and 22.1% in the past six-month period, respectively. Over the past year, the Zacks sub-industry is down 5.7% and the sector is up 27.8%.

The S&P 500 index is up 16% in the past six-month period and 20% in the past year.

The stock is currently trading at 23.56X forward 12-month earnings, which compares to 25.4X for the Zacks sub-industry, 23.08X for the Zacks sector and 19.31X 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 24.54X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$49 price target reflects 24.75X 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	23.56	25.4	23.08	19.31
	5-Year High	59.42	31.89	23.08	19.34
	5-Year Low	1.71	12.84	16.87	15.18
	5-Year Median	24.54	25.68	19.32	17.47
P/S F12M	Current	4.02	8.69	3.78	3.56
	5-Year High	7.2	15.07	3.78	3.56
	5-Year Low	2.91	1.79	2.3	2.54
	5-Year Median	4.74	6.59	3.02	3
EV/Sales TTM	Current	4.98	11.35	4.5	3.32
	5-Year High	8.36	27.9	4.5	3.32
	5-Year Low	3.55	9.75	2.56	2.16
	5-Year Median	5.52	18.32	3.47	2.79

As of 02/20/2020

---

## Industry Analysis Zacks Industry Rank: Bottom 20% (205 out of 255)



## Top Peers

Changyou.com Limited (CYOU)	Neutral
Global Eagle Entertainment Inc. (ENT)	Neutral
Alphabet Inc. (GOOGL)	Neutral
Sina Corporation (SINA)	Neutral
Shutterstock, Inc. (SSTK)	Neutral
Tencent Music Entertainment Group Sponsored ADR (TME)	Neutral
Yelp Inc. (YELP)	Neutral
Weibo Corporation (WB)	Underperform

Industry Comparison Industry: Internet - Content				Industry Peers		
	YNDX Neutral	X Industry	S&P 500	SINA Neutral	WB Underperform	YELP Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>F</b>	<b>F</b>	<b>B</b>
Market Cap	15.15 B	201.42 M	24.34 B	2.71 B	9.84 B	2.43 B
# of Analysts	4	2	13	3	2	10
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.00%
<b>Value Score</b>	<b>C</b>	-	-	<b>B</b>	<b>D</b>	<b>C</b>
Cash/Price	0.09	0.21	0.04	1.08	0.24	0.17
EV/EBITDA	14.20	3.83	14.18	2.34	13.29	26.50
PEG Ratio	0.74	1.20	2.09	NA	NA	1.71
Price/Book (P/B)	4.36	2.87	3.30	0.67	4.63	3.22
Price/Cash Flow (P/CF)	19.75	15.86	13.49	15.86	16.62	26.95
P/E (F1)	27.42	16.44	19.28	14.57	17.22	35.97
Price/Sales (P/S)	5.48	1.37	2.68	1.27	5.53	2.40
Earnings Yield	3.56%	4.91%	5.17%	6.85%	5.81%	2.77%
Debt/Equity	0.05	0.00	0.70	0.42	0.79	0.23
Cash Flow (\$/share)	2.36	0.46	7.03	2.39	2.63	1.29
<b>Growth Score</b>	<b>B</b>	-	-	<b>F</b>	<b>F</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	13.84%	13.84%	10.84%	66.25%	130.05%	44.24%
Proj. EPS Growth (F1/F0)	45.83%	9.83%	7.09%	-8.66%	-6.79%	85.19%
Curr. Cash Flow Growth	52.31%	18.35%	6.72%	-10.25%	60.82%	8.96%
Hist. Cash Flow Growth (3-5 yrs)	-0.83%	10.88%	8.25%	21.00%	75.38%	25.79%
Current Ratio	2.58	1.19	1.22	2.92	4.51	3.98
Debt/Capital	10.44%	8.17%	42.37%	29.51%	44.18%	18.80%
Net Margin	7.26%	5.30%	11.56%	5.66%	31.79%	4.03%
Return on Equity	11.32%	8.19%	16.80%	3.08%	28.88%	5.11%
Sales/Assets	0.63	0.73	0.55	0.33	0.47	0.90
Proj. Sales Growth (F1/F0)	30.01%	8.29%	3.90%	4.97%	2.91%	10.88%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>F</b>	<b>D</b>	<b>F</b>
Daily Price Chg	1.13%	0.00%	0.01%	-0.50%	1.82%	1.76%
1 Week Price Chg	-3.96%	-1.53%	1.65%	-2.78%	-3.84%	3.44%
4 Week Price Chg	3.94%	-1.29%	0.36%	-7.19%	-1.29%	-3.59%
12 Week Price Chg	11.62%	0.00%	4.39%	8.03%	0.78%	-1.62%
52 Week Price Chg	46.81%	-24.76%	15.29%	-39.77%	-33.29%	-8.82%
20 Day Average Volume	2,598,300	83,988	1,992,841	511,666	1,662,374	981,046
(F1) EPS Est 1 week change	-11.69%	0.00%	0.00%	-12.61%	-7.40%	-2.73%
(F1) EPS Est 4 week change	-10.26%	0.00%	-0.02%	-12.61%	-7.40%	-3.80%
(F1) EPS Est 12 week change	-10.86%	-0.89%	-0.17%	-30.21%	-19.83%	-4.57%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.48%	NA	0.00%	-121.92%



## 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	B
Momentum Score	B
VGM Score	B

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.

## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.