

Yandex N.V. (YNDX)

\$63.63 (As of 08/20/20)

Price Target (6-12 Months): **\$54.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 08/03/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: D

Summary

Yandex reported weak second quarter results wherein both earnings and revenues declined year over year. The company suffered from coronavirus-led social distancing which did not bode well for its ride-hailing business. Also, coronavirus disruptions impacted advertising revenues. Additionally, weak performance of Search, Classifieds, and Other Bets and Experiments was a headwind. Further, the company's increasing expenses weighed on margin expansion. Notably, coronavirus induced uncertainties in the overall demand environment remain concerns. Nevertheless, strong momentum across the FoodTech business and Media Services remains positive. Additionally, the company's strengthening B2B logistics services are tailwinds. The stock has outperformed the industry over a year. However, rising competition from search giant Google is a risk.

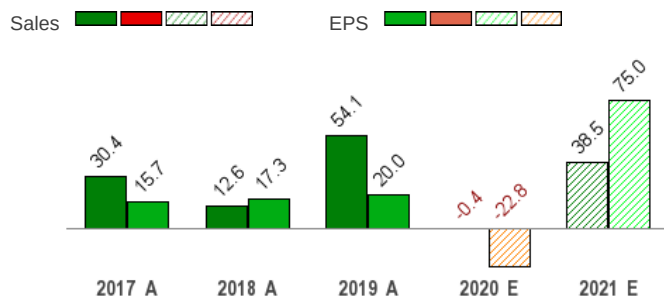
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.74 - \$27.93
20 Day Average Volume (sh)	2,855,432
Market Cap	\$20.7 B
YTD Price Change	46.3%
Beta	1.65
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Content
Zacks Industry Rank	Bottom 17% (210 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	80.0%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	-7.6%
Expected Report Date	10/23/2020
Earnings ESP	-49.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	965 E	943 E	1,088 E	1,298 E	3,907 E
2020	605 A	592 A	811 E	1,015 E	2,821 E
2019	576 A	656 A	699 A	835 A	2,833 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.29 E	\$0.24 E	\$0.35 E	\$0.43 E	\$1.54 E
2020	\$0.19 A	\$0.09 A	\$0.30 E	\$0.60 E	\$0.88 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.

P/E TTM	74.9
P/E F1	72.3
PEG F1	1.9
P/S TTM	7.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/20/2020. The reports text is as of 08/21/2020.

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.

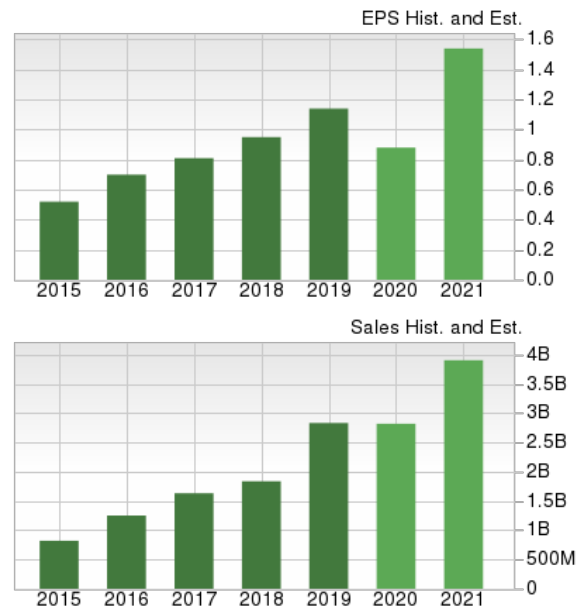
Taxi: Yandex generated 21.7% of its revenues from this segment. The segment is comprised of Ride-hailing and FoodTech businesses. It also includes Self-Driving Cars unit.

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 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 68.89, 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.

Risks

- 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 59.6% in the second-quarter 2020. Moreover, the company's search share on Android in Russia was 57.5% in the second 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.
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Last Earnings Report

Yandex's Q2 Earnings Beat, Revenues Miss Estimates

Yandex reported second-quarter 2020 adjusted earnings of 9 cents per share, beating the Zacks Consensus Estimate by 80%. However, the figure was down 66.6% year over year from 27 cents per share.

Revenues of \$591.9 million (RUB 41.4 billion) lagged the Zacks Consensus Estimate of \$594.7million. The figure remained flat on a year-over-year basis in ruble terms.

Sluggishness in the company's advertising and ride-hailing businesses owing to coronavirus-led disruptions were concerns during the reported quarter. Further, weak performance of Search, Classifieds, and Other Bets and Experiments segments was a headwind.

Nevertheless, Yandex's strong momentum across the FoodTech business and Media Services benefited the second-quarter results. Additionally, the company's strengthening B2B logistics services were tailwinds.

Top-Line Details

Total online advertising revenues were RUB 24.8 billion (60% of total revenues), reflecting a decline of 15% on a year-over-year basis.

This decline can primarily be attributed to declining advertising spending due to coronavirus pandemic. This, in turn, resulted in weak performance of Yandex properties that generated RUB 20.4 billion (82.5% of total advertising revenues), declining 11% year over year.

Further, softness in the advertising network, which generated RUB 4.3 billion (17.5% of the total advertising revenues), was a negative. The figure slumped 31% from the year-ago quarter.

Taxi revenues of RUB 12.5 billion (30% of total revenues) surged 42% on a year-over-year basis, driven by strength FoodTech services, which negated adverse impacts of coronavirus on the ride hailing business.

Other revenues of RUB 4.2 billion (10% of total revenues) surged 21% from the prior-year quarter. This was primarily driven by well-performing Media Services, expanding cloud business and strong IoT initiatives, which offset sluggishness in Yandex.Drive.

Segments in Detail

Search and Portal: The segment generated RUB 25.5 billion revenues (61.5% of total revenues), down 12% year over year. This was primarily due to softness in the advertising business on account of the coronavirus pandemic.

Nevertheless, the company sustained a strong position in the Russian search market. Notably, its market share was 59.6% during the reported quarter, up 270 basis points (bps) year over year. This can be attributed to expanding Yandex's mobile search share. Notably, mobile revenues accounted for 51.3% of the company's search revenues. Further, mobile search traffic accounted for 56.6% of total search traffic. This was driven by Yandex's search share on Android, which came in at 57.5%, expanding 520 bps from the year-ago quarter.

Taxi: The segment generated RUB 12.5 billion revenues (30% of revenues), surging 42% from the year-ago quarter. The impressive year-over-year growth was driven by positive contributions from Yandex.Lavka and Yandex.Eats, which benefited its FoodTech services during the quarter under review. This weighed on the negative impacts of coronavirus on ride hailing business. The number of rides declined 6% from the prior-year quarter. Nevertheless, Yandex witnessed strong performance by its corporate Taxi business.

Classifieds: The segment generated revenues of RUB 886 million (2.1% of revenues), reflecting a decline of 32% year over year. This was due to sluggish real estate demand and closure of auto dealerships on account of the ongoing pandemic.

Media Services: The segment generated revenues of RUB 1.7 billion (4.1% of revenues), soaring 94% 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 accounted for revenues worth RUB 2.8 billion (6.8% of total revenues), down 18% from the prior-year quarter. This was due to suspension of car-sharing services, which led to weak performance of Yandex.Drive in the reported quarter.

Operating Details

In second-quarter 2020, adjusted net income margin was 4.6%, contracting 950 bps from the year-ago quarter.

Its operating margin came in at 0.5% in the reported quarter, contracting from 17.2% in the year-ago quarter. This was owing to declining advertising revenues and increasing investments.

Further, adjusted EBITDA margin was 20.5%, which contracted from 31.6% in the prior-year quarter.

Operating expenses — as a percentage of revenues — was 99.5%, expanding from 82.8% in the year-ago quarter.

The company's total traffic acquisition cost amounted to RUB 4.2 billion, declining 25% on a year-over-year basis. As a percentage of revenues, the figure contracted 340 bps year over year to 10% in the reported quarter.

Balance Sheet & Cash Flows

As of Jun 30, 2020, cash and cash equivalents were \$2.6 billion, up from \$1.6 billion on Mar 31, 2020.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	-0.48%
EPS Surprise	80.00%
Quarterly EPS	0.09
Annual EPS (TTM)	0.85

Accounts Receivables totaled \$230.7million, decreasing from \$216.7 million in the previous quarter.

In the second quarter, cash used in operations was \$1.9 million compared with \$99 million of cash generated from operation in the prior quarter.

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.

Valuation

Yandex shares are up 46.3% in the year-to-date period and 74.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 2.6% and 23% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 6% and 37.7%, respectively.

The S&P 500 index is up 5.1% in the year-to-date period and 16.1% in the past year.

The stock is currently trading at 49.31X forward 12-month earnings, which compares to 23.09X for the Zacks sub-industry, 26.71X for the Zacks sector and 22.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 59.42X and as low as 13.85X, with a 5-year median of 25.5X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$54 price target reflects 41.85X 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 F12M	Current	49.31	23.09	26.71	22.83
	5-Year High	59.42	32.9	26.71	22.83
	5-Year Low	13.85	11.23	16.72	15.25
	5-Year Median	25.5	24.88	19.61	17.58
P/S F12M	Current	5.88	8.25	4.15	3.71
	5-Year High	7.2	15.4	4.15	3.71
	5-Year Low	2.6	1.83	2.32	2.53
	5-Year Median	4.7	7.7	3.14	3.05
EV/Sales TTM	Current	7.86	10.26	4.83	3.31
	5-Year High	8.36	26.69	4.83	3.46
	5-Year Low	3.54	7.62	2.59	2.14
	5-Year Median	5.52	17.66	3.63	2.87

As of 08/20/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (210 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Alphabet Inc. (GOOGL)	Neutral	3
Opera Limited Sponsored ADR (OPRA)	Neutral	3
Sina Corporation (SINA)	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	4
Baidu, Inc. (BIDU)	Underperform	5

Industry Comparison Industry: Internet - Content				Industry Peers		
	YNDX	X Industry	S&P 500	SINA	WB	YELP
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	4
VGM Score	F	-	-	C	D	C
Market Cap	20.66 B	160.20 M	23.46 B	2.73 B	7.57 B	1.66 B
# of Analysts	3	2	14	3	2	7
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	C	B
Cash/Price	0.18	0.24	0.07	1.08	0.32	0.32
EV/EBITDA	37.37	6.20	13.34	4.85	10.99	13.11
PEG Ratio	1.94	2.14	3.00	NA	2.37	NA
Price/Book (P/B)	4.85	3.27	3.12	0.71	3.27	2.13
Price/Cash Flow (P/CF)	35.47	14.54	12.60	NA	14.54	17.92
P/E (F1)	72.31	30.62	21.61	19.05	15.46	NA
Price/Sales (P/S)	7.57	2.04	2.44	1.28	4.47	1.75
Earnings Yield	1.38%	2.56%	4.43%	5.25%	6.45%	-4.01%
Debt/Equity	0.29	0.08	0.76	0.45	0.73	0.21
Cash Flow (\$/share)	1.79	0.42	6.93	-0.14	2.31	1.27
Growth Score	D	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	20.74%	23.13%	10.44%	28.54%	99.92%	110.12%
Proj. EPS Growth (F1/F0)	-22.81%	-29.78%	-5.53%	-35.89%	-21.76%	-275.28%
Curr. Cash Flow Growth	15.59%	2.49%	5.20%	-105.14%	-12.04%	8.96%
Hist. Cash Flow Growth (3-5 yrs)	7.26%	11.11%	8.52%	NA	133.19%	25.79%
Current Ratio	6.68	1.23	1.33	2.62	4.69	5.12
Debt/Capital	25.21%	16.88%	44.50%	31.02%	42.14%	17.40%
Net Margin	4.24%	2.56%	10.13%	-1.00%	23.44%	-1.29%
Return on Equity	8.62%	7.40%	14.67%	-0.54%	18.14%	-1.64%
Sales/Assets	0.56	0.72	0.51	0.29	0.38	0.89
Proj. Sales Growth (F1/F0)	1.96%	0.00%	-1.54%	-3.52%	-5.82%	-16.91%
Momentum Score	D	-	-	C	D	F
Daily Price Chg	1.87%	0.00%	-0.59%	0.61%	1.08%	-0.13%
1 Week Price Chg	1.50%	0.00%	1.09%	-1.05%	-4.92%	3.92%
4 Week Price Chg	13.20%	6.87%	1.91%	0.20%	0.87%	-4.74%
12 Week Price Chg	56.57%	32.10%	6.82%	29.16%	12.10%	4.51%
52 Week Price Chg	74.09%	-4.14%	1.47%	-4.14%	-16.35%	-30.95%
20 Day Average Volume	2,855,432	121,629	1,873,576	665,969	1,018,520	1,331,472
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.61%	0.00%	1.79%	0.00%	0.00%	-17.50%
(F1) EPS Est 12 week change	-11.23%	1.10%	3.35%	131.32%	-2.27%	-17.50%
(Q1) EPS Est Mthly Chg	-26.25%	0.00%	0.42%	0.00%	0.00%	-97.08%

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	D
Growth Score	D
Momentum Score	D
VGM Score	F

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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