21 November 2014

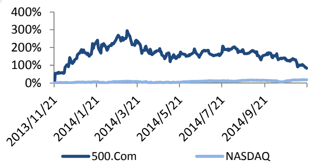
Outperform

Downgrade

Market Data: Nov, 20

Closing Price (US$)	23.89
Price Target (US$)	27.5
NASDAQ	4,676
52-week High/Low (US$)	54.0/18.1
Market Cap (US$bn)	0.8
Shares Outstanding (m)	32.87
Exchange Rate (Rmb-US$)	6.2

Price Performance Chart:



Source: Bloomberg

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Related reports:

"500.com (WBAI US) – Football Fever, initiate with Buy"; May 19, 2014

"500.com (WBAI US) – Set to score"; July 31, 2014

"500.com (WBAI US) -- Gaming the World Cup"; Aug 12, 2014

四季度指引低于预期

500 彩票网 (WBAI:US)

Financial summary and valuation

	2012	2013	2014E	2015E	2016E
Revenue (Rmbm)	171.53	259.53	573.73	772.41	1,016.52
YoY (%)	(26.17)	51.31	121.06	34.63	31.60
Adj. Net Income (Rmbm)	29.87	55.56	244.44	314.91	408.60
YoY (%)	(64.94)	86.03	339.94	28.83	29.75
Adj. EPS/ADS (Rmb)	0.91	1.69	7.44	9.58	12.43
Adj. Diluted EPS/ADS (Rmb)	0.86	1.61	7.08	9.12	11.84
ROE (%)	-	13.10	17.93	21.87	22.28
Debt/asset (%)	-	1.34	1.74	1.58	1.59
Dividend Yield (%)	-	-	-	-	-
PE (x)	161.99	87.08	19.76	15.34	11.82
PB (x)	-	5.98	4.83	3.71	2.85
EV/Ebitda (x)	284.93	103.59	37.70	20.55	14.97

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

Investment Highlights:

500 彩票网（WBAI US）公布三季度业绩。三季度购彩流水达人民币 22.45 亿（+7.2% QoQ，+205.1% YoY）；总收入达人民币 1.8 亿（+20.2% QoQ，+171.1% YoY），经营利润达人民币 3,960 万（-47.5% QoQ，+216.8% YoY），主要由于公司股权激励费用高达人民币 3,997 万，高于预期。Non-GAAP 利润达人民币 7,960 万（-4.3% QoQ，+ 485.3% YoY），环比下降主要由于二季度高达人民币 1,100 万元的一次性税收收益。移动端继续保持强劲增长，移动应用用户和移动网站用户达 322 万（+47.4 % QoQ），占总购彩流水的 47.7%。

四季度指引低于预期。管理层指引四季度总购彩流水达人民币 16.5-17.5 亿（-22.0%~26.5% QoQ，+54.1%~63.4% YoY），环比下降主要由于世界杯推动用户活跃度提升，导致三季度基数较高。指引低于我们此前人民币 20 亿的预测；因此，我们把全年总购彩流水从人民币 76 亿下调至人民币 71.5 亿（+134.6% YoY）。

反奖率提升短期有佣金率下降的风险，但长期有利扩大市场规模。经财政部批准，2014 年 10 月 21 日起，竞彩游戏返奖率从 69%整体提高至 73%，同时推出固定彩。我们认为返奖率提升对线上、线下的彩票销售企业来说，佣金率有下降的风险；但是长期看，返奖率提升和固定彩的推出将吸引更多的彩民，做大整个彩票市场的规模。

下调评级至增持。下调盈利预测以反映全年总购彩流水和佣金率的下降，我们把 2014 年 non-GAAP 利润从人民币 2.45 亿下调至人民币 2.44 亿（+399% YoY），2015 年从人民币 3.56 亿下调至人民币 3.15 亿（+29% YoY），2016 年从人民币 4.74 亿下调至人民币 4.08 亿（+30% YoY）。基于 0.75 倍 PEG 和 2015-2017 年利润 25%的复合增长，我们下调目标价至美金 27.5 元，对应 24.2 倍 14 年的 PE 和 18.8 倍 15 年的 PE，以反映我们对佣金率进一步下调的预期。我们把公司评级从买入下调至增持。

催化剂：业绩超预期；移动端进展好于预期

风险：营销费用超预期；竞争激烈；政策风险；佣金率进一步下调

Investment Highlights:

500.com releases in-line results. In 3Q14, due to larger-than-expected stock-based compensation expenses of Rmb39.97m, 500.com reported total sales of Rmb2.25bn (+7.2% QoQ, +205.1% YoY), net revenue of Rmb187.6m (+20.2% QoQ, +171.1% YoY) and net income of Rmb39.6m (-47.5% QoQ, +216.8% YoY). Non-GAAP net income was Rmb79.6m (-4.3% QoQ, +485.3% YoY). The sequential decrease was primarily due to a one-off tax benefit of Rmb11.0m in 2Q14. Mobile usage continued to grow, with active mobile app and mobile web users of 3.22m (+47.4% QoQ) contributing 47.7% of total sales.

Weaker-than-expected 4Q14 guidance. Management guided 4Q14 sales of Rmb1.65-1.75bn (-22.0-26.5% QoQ, +54.1-63.4% YoY). The sequential decline is mainly due to a high base in 3Q with positive one-time effects from the 2014 FIFA World Cup. The guidance was lower than our previous forecasts of Rmb2.0bn. We therefore lower our full-year purchase amount from Rmb7.6bn to Rmb7.15bn (+134.6% YoY).

Short-term pressure from rising lottery payout ratio; long-term benefits. The Ministry of Finance stated that the sports lottery payout ratio rose from 69% to 73% as of 21 October and that new fixed-odds betting on individual matches would be rolled out on a trial basis. The pay-out ratio increases will depress commission rates for both online and offline lottery distributors. We factored in our conservative view on 500.com's commission rates. Meanwhile, we expect the new payout ratio policy and fixed-odds options to attract more users to the sports lottery in the long-term.

Downgrade to Outperform. Considering the lower purchase amount outlook and commission rate cuts, we reduce our earnings forecast. We lower our non-GAAP net income forecasts from Rmb245m to Rmb244 (+339% YoY) in 14E, from Rmb356 to Rmb315m (+29% YoY) in 15E and from Rmb474 to Rmb408 (+30% YoY) in 16E. In addition, we revise down our target price from US$54 to US$27.5, based on 0.75x PE/G and 2015-17 earnings Cagr of 25%. The new target price implies 24.2x 14E PE and 18.8x 15E PE. The lowered valuation factored in our more conservative view over potential commission rate cuts. With just 12% upside, we downgrade our rating from BUY to Outperform.

Catalysts. Upbeat quarterly results; positive developments in user migration to mobile formats. **Risks.** Higher-than-expected adspend; intensified competition; regulatory uncertainty and potential commission rate cuts.

APPENDIX

Fig 1: Consolidated income statement

Rmbm	2012	2013	2014E	2015E	2016E
Revenue	172	260	574	772	1,017
Cost of Sales	(18)	(28)	(52)	(70)	(89)
Gross Profit	153	232	522	702	927
Other Income	6	17	17	18	23
Distribution expenses	(46)	(85)	(171)	(180)	(236)
Administrative expenses	(58)	(73)	(137)	(150)	(197)
Ebitda	27	68	185	331	438
EBIT	21	60	176	322	428
Finance Costs	1	(3)	10	14	18
Profit before tax	22	30	186	335	445
Income tax expense	(18)	76	(7)	(50)	(67)
Minority interests	-	-	-	-	-
Profit for the year	4	106	179	285	379
Adjusted net profit	30	56	244	315	409

Source: Company reports, SWS Research

Fig 2: Consolidated cash flow statement

Rmbm	2012	2013	2014E	2015E	2016E
Profit before taxation	22	30	186	335	445
Plus：Depr. and amortization	6	9	9	9	10
Finance cost	(1)	3	(10)	(14)	(18)
Losses from investments	1	1	1	1	1
Change in working capital	55	(27)	(32)	(2)	(17)
Others	10	14	151	11	8
CF from operating activities	92	29	304	341	429
CAPEX	(32)	(11)	(9)	(15)	(18)
Other CF from investing activities	(93)	63	(121)	(126)	(127)
CF from investing activities	(125)	52	(130)	(141)	(145)
Equity financing	4	552	0	0	0
Net change in liabilities	0	123	0	0	0
CF from financing activities	(0)	436	(35)	(30)	(20)
Net cash flow	(32)	513	134	167	262
FCFF	67	(46)	150	364	470
FCFE	68	73	160	378	487

Source: Company reports, SWS Research

Fig 3: Consolidated balance sheet

Rmbm	2012	2013	2014E	2015E	2016E
Current Assets	330	910	1,434	1,911	2,516
Bank balances and cash	32	544	679	845	1,107
Trade and other receivables	23	63	141	193	254
Inventories	0	0	0	0	0
Other current assets	275	303	615	873	1,154
Long-term investment	5	6	6	7	7
PP&E	38	36	30	27	22
Intangible and other assets	2	3	4	5	6
Total Assets	379	958	1,482	1,959	2,564
Current Liabilities	281	119	255	352	463
Borrowings	0	13	26	31	41
Trade and other payables	206	18	57	89	118
Other current liabilities	75	88	172	232	305
Long-term liabilities	101	30	227	305	402
Total Liabilities	382	149	481	657	865
Minority Interests	0	0	0	0	0
Share Capital	0.084	0.114	0.114	0.114	0.114
Reserves	20	21	21	20	21
Equity attributable	(274)	(168)	11	296	675
Total Liabilities and equity	379	958	1,482	1,959	2,564

Source: Company reports, SWS Research

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