



## Company Report: Youku Tudou (YOKU US)

公司报告: 优酷土豆 (YOKU US)

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# Mobile Video Traffic Monetization Will Take Time, 'BUY'

## 移动视频流量货币化需要时间, “买入”

- **Youku Tudou (Youku)'s 2Q14 results were slightly below our expectations.** Revenue was RMB959mn, up 27.2% yoy, 7.1% and 2.0% below our expectations and market consensus. Non GAAP net income reached RMB-76mn, below our estimates of RMB9mn and market consensus of RMB-19mn.
- **Key points: We think the market is over concerned about Youku's slow revenue growth. 1) Youku App's traffic growth and user time spent growth are very strong.** The management stated that DVV in 7M14 reached 600mn, over 60% from mobile devices. According to iResearch, in 6M14, Youku App monthly user time spent reached around 60bn minutes, ranking the 1<sup>st</sup> in mobile video apps, around 1/3 of total mobile video user time spent in China. **2) Low monetization ratio in mobile video traffic.** We estimate that the monetization ratio of mobile video traffic might be only around 1/4 of that in PC video traffic. **3) Youku has launched DSP.** Youku has launched DSP to monetize long tail short videos. Meanwhile, by the end of 6M14, Alibaba Group launched its new mobile and video TANX.
- **Maintain Target Price at USD32.00 and 'BUY' investment rating.** In 2014, we think Youku App's traffic growth and market share in mobile user time spent might be far more important than mobile video monetization. Our FY14-16 earnings per ADR estimates are RMB-3.124, RMB0.091 and RMB3.628, respectively. Our TP is USD32.00, representing 7.3x 2015E PS. Current stock price only represents 1.6x 2014E PB.
- **优酷土豆 (优酷) 2Q14 业绩略低于我们预期。** 收入为 RMB959 百万, 同比增 27.2%, 低于我们预期 7.1% 和市场预期 2.0%。Non-GAAP 净利润达到 RMB-76 百万, 而我们和市场预期分别是 RMB9mn 和 RMB-19mn。
- **要点: 我们认为市场过度担忧优酷收入增长放缓。1) 优酷 App 移动端流量和用户时长增长强劲。** 管理层透露 7M14 优酷日视频浏览量达到 6 亿次, 超过 60% 来自于移动端。6M14, 根据艾瑞统计, 优酷 App 月度用户时长达到约 600 亿分钟, 行业第一, 占移动视频行业约 1/3。 **2) 移动端视频货币化率低。** 根据我们推算, 目前移动视频的货币化率可能只有 PC 端视频的 1/4。 **3) 优酷发布 DSP 平台。** 优酷近期已经发布 DSP 平台, 货币化长尾短视频流量。同时阿里巴巴集团也在 6 月底发布新的移动和视频 TANX。
- **目标价维持 USD32.00, 投资评级维持“买入”。** 2014 年, 我们认为目前优酷 App 移动端的流量增长和移动用户时长的市场份额远比移动视频货币化重要。我们 FY14-16 年的每股 ADR 预测是 RMB-3.124、RMB0.091 和 RMB3.628。目标价 32.00 美元, 相当于 7.3 倍的 2015 年预测市盈率。目前股价只有 1.6 倍 2014 年 PB。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**US\$32.00**

Revised from 原目标价:

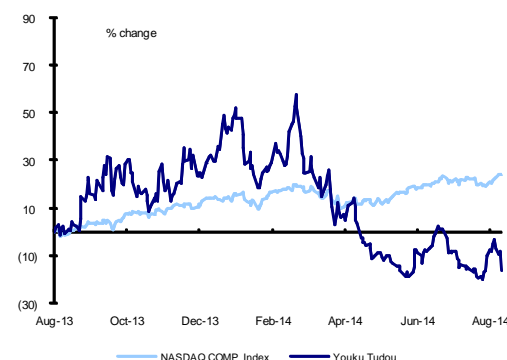
US\$32.00

Share price 股价:

US\$19.520

### Stock performance

股价表现



Change in ADR Price ADR 变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(2.7)	(7.1)	(13.7)
Rel. % to NASDAQ index 相对纳斯达克变动 %	(3.4)	(12.3)	(34.7)
Avg. ADR price(US\$) 平均 ADR 价 (美元)	20.2	20.8	26.2

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	Earnings /ADR 每 ADS 净利 (RMB)	Earnings /ADR 每 ADS 净利变动 (△%)	PER 市盈率 (x)	BV/ADR 每 ADS 净资产 (RMB)	PBR 市净率 (x)	DP/ADR 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2012A	1,796	(424)	(3.200)	106.5	n.a.	70.527	1.7	0.000	0.0	(6.3)
2013A	3,028	(581)	(3.501)	9.4	n.a.	54.147	2.2	0.000	0.0	(6.3)
2014F	4,069	(657)	(3.124)	(10.7)	n.a.	76.388	1.6	0.000	0.0	(5.2)
2015F	5,737	20	0.091	n.a.	1324.6	76.593	1.6	0.000	0.0	0.1
2016F	8,204	809	3.628	3871.1	33.4	80.322	1.5	0.000	0.0	4.7

ADR in issue (m) 总股数 (m)

210.2

Market cap. (US\$ m) 市值 (US\$ m)

4,102.5

3 month average vol. 3 个月平均成交量 (千股)

3,118.7

52 Weeks high/low (US\$) 52 周高/低

37.740 / 17.770

Major shareholder 大股东

Victor Koo 17.0%

Free float (%) 自由流通比率 (%)

17.5

FY14 Net gearing FY14 净负债/股东资金 (%)

Net cash

FY14-16 PEG FY14-16 市盈率相对盈利增长比率

n.a.

Source: the Company, Guotai Junan International.

**Youku Tudou (Youku)'s 2Q14 results are slightly below our expectations.** We think Youku's results are slightly. Revenue reached RMB959mn, up 7.1% below our expectations, 2% below market consensus. Youku explained around 40mn of revenue from 3<sup>rd</sup> party mobile operators was deferred in 2Q14. Non GAAP operating income reached RMB-89mn and Non GAAP net income reached RMB-76mn. Market consensus of Non GAAP net income reached RMB-19mn and our expectations reached RMB9mn. 30% of its revenue came from mobile devices. Its content costs were higher than expectations, reaching RMB418mn, up 38% yoy.

**Table 1: Youku's 2Q14 Results**

mn RMB	2Q14E	2Q14 Actual		
<b>Revenues</b>				
Net Revenues	1,032	959	-7.1%	40mn revenue from 3rd party mobile operator was deferred
Cost of Revenues	(707)	(750)	6.1%	Content costs above expectations, up 38% yoy
<b>Gross profit</b>	325	209	-35.8%	
Sales and Marketing	(248)	(213)	-14.1%	
General and Administrative	(72)	(74)	3.0%	
Product Development	(83)	(99)	20.0%	
<b>Operating Income</b>	(77)	(178)	129.4%	
net finance cost	12	10	-18.0%	
Other Income (Loss), Net	0	3		
<b>Earnings before Taxes</b>	(65)	(164)	151.5%	
Provision for Income Tax	0	(0)		
<b>Net Income (Loss)</b>	(65)	(164)	151.5%	
Net loss per ADS, basic and diluted RMB/ADS	(0.317)	(0.882)	178.1%	
Non-GAAP (net loss)/ Profit per ADS RMB/ADS	0.043	(0.407)	n.a.	
ADS used in computation, basic and diluted mn shares	206	186	-9.6%	
<b>cost of revenue breakdown</b>				
Value added, business taxes and surcharges	97	90	-7.3%	
Bandwidth costs	190	214	12.2%	
Depreciation of servers and other equipment	26	29	12.1%	
Content costs	394	418	6.0%	
<b>Non-GAAP results</b>				
Non-GAAP gross profit	341	224	-34.3%	
Non-GAAP operating profit	(3)	(89)	2725.0%	
Non-GAAP net profit	9	(76)	n.a.	Market consensus was RMB-19mn.
Stock-Based compensation	60	82	37.3%	
<b>Key growth rate YoY %</b>				
Net revenues	37.0%	27.2%	(9.8)	ppt
Cost of revenue	25.5%	33.2%	7.6	ppt
Value added, business taxes and surcharges	30.0%	20.5%	(9.5)	ppt
Bandwidth costs	16.0%	30.1%	14.1	ppt
Depreciation of servers and other equipment	20.0%	34.5%	14.5	ppt
Content costs	30.0%	37.8%	7.8	ppt
Sales and Marketing	24.0%	22.2%	(1.8)	ppt
General and Administrative	7.0%	7.8%	0.8	ppt
Product Development	8.0%	10.3%	2.3	ppt
<b>Margin %</b>				
Gross margin	31.5%	21.8%	(9.7)	ppt
Operating margin	-7.5%	-18.5%	(11.0)	ppt
Net margin	-6.3%	-17.2%	(10.8)	ppt
Non-GAAP gross margin	33.0%	23.4%	(9.7)	ppt
Non-GAAP operating margin	-0.3%	-9.3%	(9.0)	ppt
Non-GAAP net margin	0.9%	-7.9%	(8.8)	ppt

Source: the Company, Guotai Junan International.

**Table 2: Assumption Revision**

Mn RMB	2014 OLD	2014 NEW	Change%	2015 OLD	2015 NEW	Change %	2016 OLD	2016 NEW	Change%
Net Revenues	4,142	4,069	-1.8%	5,799	5,737	-1.1%	8,235	8,204	-0.4%
Cost of Revenues	(3,115)	(3,158)	1.4%	(3,864)	(3,916)	1.3%	(4,746)	(4,807)	1.3%
<b>Gross profit</b>	1,028	911	-11.3%	1,935	1,822	-5.9%	3,490	3,398	-2.6%
Sales and Marketing	(1,013)	(905)	-10.6%	(1,276)	(1,205)	-5.6%	(1,729)	(1,641)	-5.1%
General and Administrative	(288)	(308)	7.2%	(348)	(344)	-1.1%	(478)	(476)	-0.4%
Product Development	(356)	(429)	20.5%	(435)	(430)	-1.1%	(576)	(574)	-0.4%
<b>Operating Income</b>	(629)	(732)	16.4%	(124)	(158)	27.6%	706	707	0.1%
net finance cost	91	74	-19.1%	155	178	14.7%	167	192	14.8%
Other Income (Loss), Net	(2)	1	-152.3%	0			0	0	
<b>Earnings before Taxes</b>	(540)	(657)	21.6%	31	0	-36.5%	873	899	2.9%
Provision for Income Tax	0	(0)		(3)	0		(87)	(90)	2.9%
<b>Net Income (Loss)</b>	(540)	(657)	21.6%	28	20	-29.4%	786	809	2.9%
	(2,569)	(3,124)	21.6%	0.129	0.091	-29.4%	3.525	3.628	2.9%
Net loss per ADS, basic and diluted RMB/ADR									
Non-GAAP net loss (Profit) per ADS RMB/ADR	(1.114)	(1.289)	15.7%	1.891	1.698	-10.4%	5.807	5.727	-1.4%
ADS used in computation, basic and diluted mn shares	210	210	0.0%	216	216	0.0%	223	223	0.0%
EBITDA	79	(23)	-129.6%	619	585	-5.5%	1,485	1,486	0.0%
Non-GAAP net loss (Profit)	(234)	(271)	15.7%	409	368	-10.2%	1,295	1,277	-1.4%

Source: Guotai Junan International.

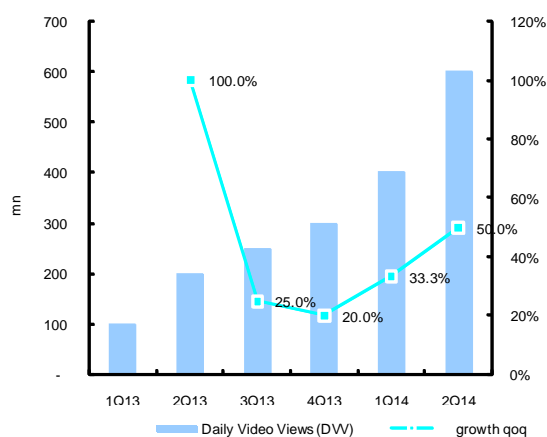
**Youku began to cooperate with Alibaba Group.** There are several cooperations: **1) Youku has completed cookie mapping with Alibaba's big data.** With this cooperation, Youku' ad system is able to de-duplicate overlapping users from different screens. This technology could reduce advertising wastage and could improve brand advertisers' ROI and Youku's CPM in the long run. **2) Youku has launched its Demand Side Platform (DSP) recently.** According to the management, Youku has launched its DSP, an automatic ad trading system, which could gradually monetize its long tail short video traffic. **We have noticed that Alimama has launched its new mobile and video Taobao Ad Network Exchange (TANX) by the end of Jun 2014.** This new video and mobile TANX could help all apps and video portals to monetize under the help of Taobao's powerful Data Management Platform (DMP) and Local Business System (LBS), to achieve more accurate advertising and increase their CPM or CPC. We think the ad prices would be cheap at the beginning as the new mobile and video TANX needs to accumulate the effect data of ads, such as the frequency of exposures, CPM, CPC, Click-through Rate (CTR), Cost per Action (Share, Like, or Download). We think Alibaba Group is establishing a new powerful mobile and video ad trading platform and it might take time to increase the accurate effectiveness of mobile and video ads gradually. **We think Youku could benefit a lot from the new mobile and video TANX.**

The management stated that 55% of its advertisers come from FMCG and 80% of its advertisers are international. Youku has acquired a TV ad sales team and tried to gain more local advertisers. **However, in 3Q14, we observed that the China ecommerce, including Vipshop (VIPS US) and Suning have both increased online marketing expenses in Youku. We think Youku will fix this problem in 1-2Q.**

**We think Youku's sluggish revenue growth is mainly due to weak monetization in China mobile video industry. We think the whole industry is over concerned about Youku's revenue growth. 1) We think the current video monetization in mobile devices is only around 1/4 of that in PC devices.** Youku's video view reached 600mn, in 7M14. Nearly 70% of Youku traffic came from mobile devices. And 70% traffic in mobile devices only contribute around 30% revenue, while 30% video traffic in PC contribute 70% revenue, which means the monetization ratio in mobile videos might be less than 1/4 of that in PC video traffic. We have other evidences from US video ad market and we will discuss this issue in the paragraph below. **2) Youku App's traffic grew robust in 2Q14.** In 6M14, according to iReeach, the monthly time spent of the whole mobile video industry

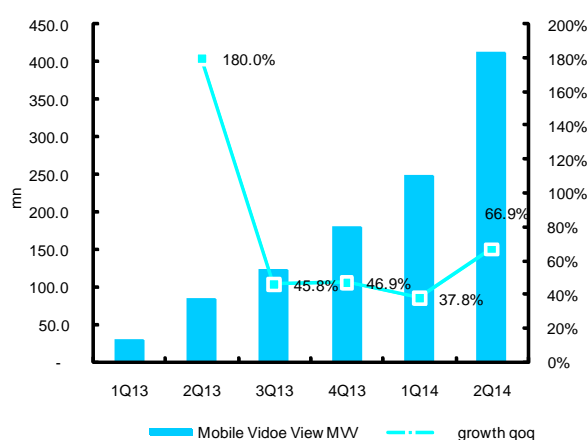
reached around 180bn minutes, up over 300% yoy, while Youku App's time spent reached 60bn minutes, around 1/3 of the industry. Daily Unique Visitors (DUV) reached 34.43mn, more than the sum of iQiyi and PPS, which have overlapped unique visitors. We think Youku has done very well in 2Q14 and has return to 1<sup>st</sup> in mobile video app. Youku has launched more than 20 short video in-house and PGC programs by the end of Jun 2014. **3) Youku App's high growth traffic means a lot to Alibaba Group.** According to iResearch, Youku App ranked the 3<sup>rd</sup> in 5M14 by user time spent, 10% less than QQ App. **Youku App might be only App in Alibaba Group that has chance to surpass QQ App by user time spent.** It's possible for Youku App to slow down its Youku App monetization to gain more traffic and user time spent, to enhance user watching experiences and fix viewers watching behaviors. **We think at current stage Youku App's traffic growth and mobile user time spent market share are much more important than mobile video monetization.**

**Figure 1: Youku's Daily Mobile Video Views**



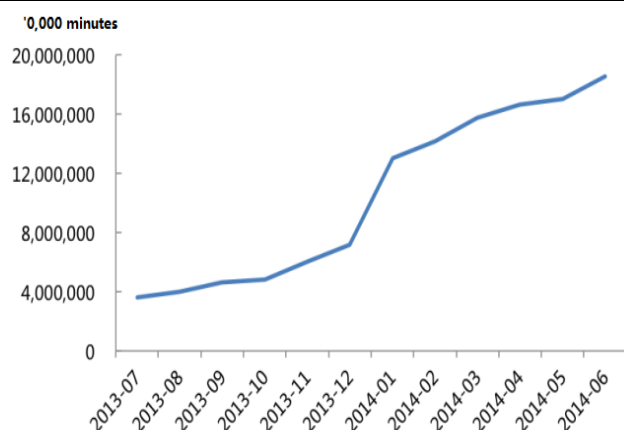
Source: the Company, Guotai Junan International.

**Figure 2: Youku's Daily Video Views**



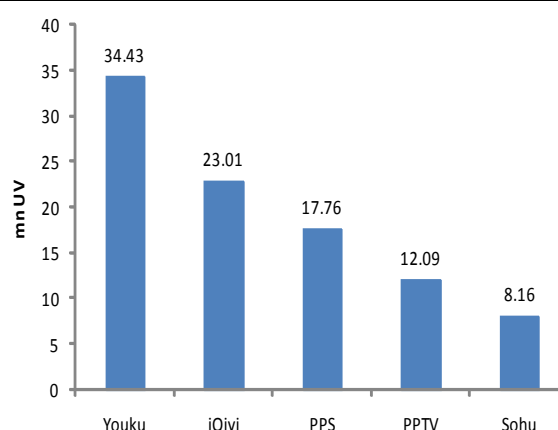
Source: the Company, Guotai Junan International.

**Figure 3: China Video Streaming App Monthly User Time Spent**

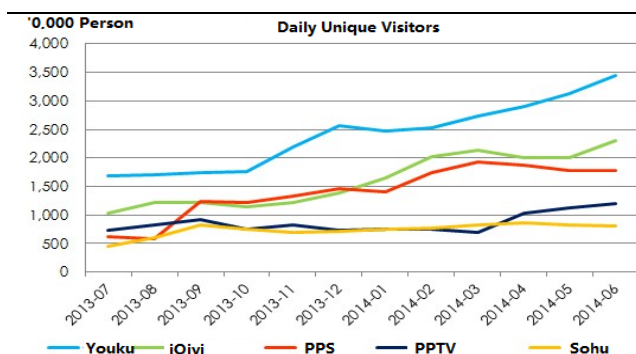


Source: iResearch 6M14, Guotai Junan International.

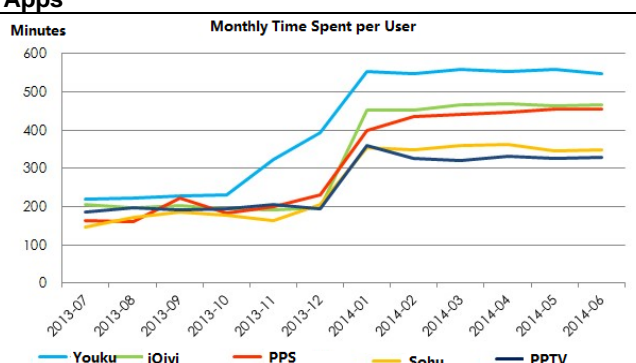
**Figure 4: Major Video App Daily Unique Visitors**



Source: iResearch 6M14, Guotai Junan International.

**Figure 5: Daily Unique Visitors of Major Video Apps**


Source: iResearch 6M14-7M14, Guotai Junan International.

**Figure 6: Monthly Time Spent per User of Major Video Apps**


Source: iResearch 6M14-7M14, Guotai Junan International.

**China mobile video monetization might be still at early stage.** As we talk above, Alibaba's new mobile and video TANX has to accumulate lots of ad effect data, including, CPM, Cost per Click, Cost per Action, Click Through Rate, to reasonably determine the ad price. In 2013, Alibaba Group's online ad revenue ranked the 2<sup>nd</sup> in China, only after Baidu (BADU US) and we think no other competitors could understanding ecommerce ads better than Alibaba Group. Alibaba Group has just launched its mobile and video ad network by the end of Jun 2014 and it might take time for Alibaba to establish an effective mobile and video ad trading platform.

**US video market has the same situation.** According to eMarketer data in 4M14, in 2013 US video time spent in mobile devices has equaled to video time spent in PC devices, reaching 22 minutes per day. **However, at the same time, US mobile video ad revenue only accounted for 1/4 of that in PC video ad market, which means the monetization rate of mobile video ad market was only around 1/4 in PC video ad market.** Furthermore, the eMarketer estimates that the market will begin to realize that mobile ad has more merits: precision marketing, LBS, and better exposure. The eMarketer thinks that the mobile video ad market could grow around 8 times from 2013 to 2018, from USD0.7bn in 2013 to USD5.4bn in 2018.

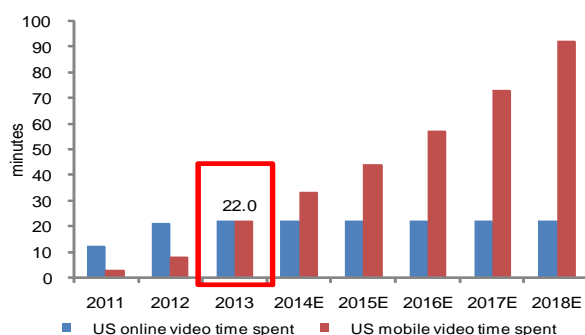
**There are still some differences between China mobile video market and US mobile video market.** In 2014, mobile video users spent 22 minutes in tablets and only 11 minutes in smartphones. However, in China, the time spent in tablets only accounted for around 1/6~1/7 of that in smartphones. For video streaming platform, it's easier to monetize video streaming in tablets as it has big screen and people use less time in instant message in tablets. However, in smartphone, the screen is too small and floating ads might be better than in-video ads to maintain viewers' watching experiences. We think video streaming portals could put short in-video ads in smartphone later. As a result, it might take more time for China mobile video app to increase mobile video monetization rate.

**Table 3: US Mobile Video Market**

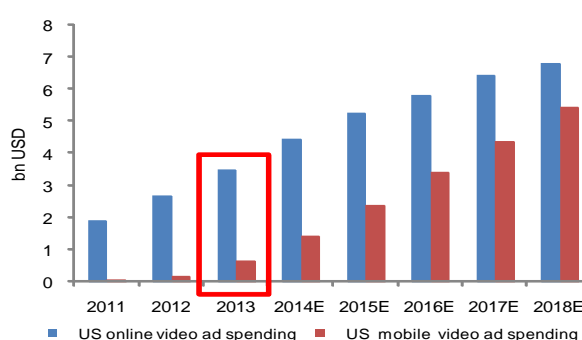
Bn USD	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
US digital time spent (minutes)	15.0	29.0	44.0	55.0	66.0	79.2	95.0	114.0
growth yoy		93.3%	51.7%	25.0%	20.0%	20.0%	20.0%	20.0%
US online video time spent (minutes)	12.0	21.0	22.0	22.0	22.0	22.0	22.0	22.0
growth yoy		75.0%	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%
US mobile video time spent (minutes)	3.0	8.0	22.0	33.0	44.0	57.2	73.0	92.0
growth yoy		166.7%	175.0%	50.0%	33.3%	30.0%	27.7%	26.0%
US digital video Ad Spending (bn USD)	2.0	2.9	4.2	5.9	7.6	9.3	10.8	12.3
growth yoy		45.0%	44.1%	40.9%	29.7%	21.1%	17.2%	13.2%
US online video ad spending (bn USD)	1.9	2.7	3.5	4.5	5.3	5.8	6.5	6.8
growth yoy		39.8%	30.4%	26.4%	18.2%	10.8%	10.8%	5.7%
US mobile video ad spending (bn USD)	0.1	0.2	0.7	1.4	2.4	3.4	4.4	5.4
growth yoy		194.1%	230.0%	118.2%	65.3%	43.7%	28.1%	24.2%
US digital video users million	171.5	186.3	194.5	200.3	204.9	209.0	212.6	214.7
growth yoy		8.6%	4.4%	3.0%	2.3%	2.0%	1.7%	1.0%

Source: eMarketer 4M14.



**Figure 7: US Mobile and PC Video Time Spent**


Source: the Company, Guotai Junan International.

**Figure 8: US Mobile and PC Video Ad Market**


Source: the Company, Guotai Junan International.

**Youku female audiences might be a key driver for Youku's mobile video leadership.** We have made some analysis in last report and had a conclusion that Youku's female audiences were more than male audiences, which is probably a key driver, for Youku's leadership in mobile platform. In China TV drama, 52.5% of the traffic is contributed by female group. We have made analysis in Youku's China TV drama traffic in 1H14. We conclude that female audiences contribute 10% more traffic and 12% more mobile traffic than male audiences.

**Table 4: Youku China TV Drama Traffic Statistics on Jul 10th 2014**

China TV Drama		VVs mn	Episode	VVs per Episode	First Air Date	Score	Mobile VVs	mobile	PC	Female	Male
1 一代枭雄	Generation of Dignity	510	44	11.6	2014/1/2	8.6	327	64.1%	35.9%	38.3%	61.7%
2 与狼共舞 2	Dance With Wolves 2	116	42	2.8	2014/1/17	7.6	76	65.8%	34.2%	40.9%	59.1%
3 天龙八部	The Demi-Gods And Semi-Devils	122	38	3.2	2014/1/25	8.0	50	40.8%	59.2%	23.3%	75.7%
4 美丽的契约	Beautiful Contract	158	41	3.9	2014/2/2	8.0	88	55.7%	44.3%	62.2%	37.8%
5 乡村爱情圆舞曲	Country Love	635	66	9.6	2014/2/4	8.4	320	50.4%	49.6%	41.8%	58.2%
6 十月围城	The Stand-in	93	60	1.5	2014/2/16	9.4	63	68.2%	31.8%	42.4%	57.6%
7 大丈夫	May-December Love	531	48	11.1	2014/2/17	8.1	350	66.0%	34.0%	57.1%	42.9%
8 老兵	A Veteran	311	66	4.7	2014/2/28	8.0	188	60.6%	39.4%	33.6%	66.4%
9 江南四大才子	The Four Scholars In JIANGNAN	118	42	2.8	2014/3/6	7.9	89	75.7%	24.3%	45.6%	54.4%
10 妻子的秘密	Wife's Secret	538	54	10.0	2014/3/18	7.5	421	78.3%	21.7%	59.8%	40.2%
11 一仆二主	Servant Of Two Masters	458	43	10.7	2014/3/20	8.9	331	72.3%	27.7%	48.7%	51.3%
12 隋唐英雄 4	Hero Sui And Tang Dynasties	129	40	3.2	2014/3/24	8.0	100	77.6%	22.4%	32.0%	68.0%
13 我爱男闺蜜	Honey Bee Man	429	34	12.6	2014/4/5	9.0	315	73.5%	26.5%	50.9%	49.1%
14 宫锁连城	The Place: The Lost Daughter	648	40	16.2	2014/4/9	8.7	438	67.6%	32.4%	62.1%	37.9%
15 步步惊情	Step by Step Surprise	462	41	11.3	2014/4/22	9.1	271	58.6%	41.4%	70.7%	29.3%
16 金玉良缘	Perfect Couple	560	40	14.0	2014/4/22	9.3	404	72.1%	27.9%	64.5%	35.5%
17 大漠枪神	Sniper in Desert	88	32	2.8	2014/4/23	7.8	66	74.8%	25.2%	74.6%	25.4%
18 妇产科男主任	Maternity Department Male Doctor	517	40	12.9	2014/5/8	8.7	382	73.9%	26.1%	58.3%	41.7%
19 刀客家族的女人	Women in a Family of Daoke	349	44	7.8	2014/5/19	8.9	261	74.7%	25.3%	50.7%	49.3%
20 加油爱人	Happy Lover	276	90	3.1	2014/5/19	8.5	196	71.0%	29.0%	60.7%	39.3%
21 如果我爱你	If I Love You	263	34	7.7	2014/5/5	8.4	153	58.0%	42.0%	51.2%	48.8%
22 勇士之城	Warriors of The City	101	40	2.5	2014/5/31	8.9	76	75.5%	24.5%	32.6%	67.4%
23 犀利任师	Incisive Great Teacher	473	44	10.3	2014/6/4	9.6	367	77.6%	22.4%	50.4%	49.6%
24 涛女郎	Lady Tao	80	52	1.5	2014/6/5	8.7	60	75.2%	24.8%	52.5%	47.5%
25 幸福两部曲	Happiness Drop from the Clouds	255	60	4.3	2014/6/6	9.2	203	79.6%	20.4%	58.7%	41.3%
26 冒牌英雄	The Fake Hero	114	36	3.2	2014/6/16	8.9	82	72.3%	27.7%	33.3%	66.3%
27 相爱十年	Ten years of love	165	35	4.7	2014/6/23	9.2	122	73.9%	26.1%	51.1%	48.2%
28 一又二分之一的夏天	One and A Half Summer	185	27	6.9	2014/6/23	9.7	150	81.0%	19.0%	63.0%	48.2%
29 古剑奇谭	Old Sward Talk	120	41/50	30.0	2014/7/2	9.6	84	69.9%	30.1%	47.5%	52.5%
Subtotal		8,805	1,277	6.9		8.6			10.7%	50.3%	50.0%
Total Traffic								6,035	2,769	4,636	4,186
Total Traffic Contribution								68.5%	31.5%	52.7%	47.6%
Mobile Traffic										3,203	2,847
Mobile Traffic Contribution										52.9%	47.1%

Source: the Company, Guotai Junan International.

**Exclusive online air right of TVB TV Drama is crucial to Youku's leadership.** TVB is a solid partner which could produce 20~30 TV dramas each year and has loyal audiences in South China. According to the management, Youku has renewed its exclusive online air rights of TVB TV drama for the next 3 years to 2018 and still own its entire content library. According to our statistics, You TVB has contributed around 2.0bn traffic in 1H14 and expected to contribute around 4.0bn in 2014. This traffic volume is comparable to Hunan TV's variety show traffic in video portal.

**Table 5: Youku TVB, Korea, and US TV Drama Traffic Statistics on Jul 10th 2014**

TV Drama		VVs mn	Episode	VVs per Episode	First Air Date	Score	Mobile VVs	mobile	PC	Female	Male
1 需要浪漫 3	Need Romance S3	100	16	6.3	2014/1/14	9.0	77	77.1%	22.9%	81.1%	18.9%
2 急诊男女	Emergency Boy & Girl	227	21	10.8	2014/1/25	9.4	167	73.4%	26.6%	78.2%	21.8%
3 危情三日	Three Days	157	16	9.8	2014/3/5	9.6	103	65.3%	34.7%	65.5%	34.5%
4 神的礼物	God's Gift	52	16	3.2	2014/3/3	9.3	42	80.3%	19.7%	76.3%	23.7%
5 天使之眼	Angel's Eye	78	20	3.9	2014/4/6	9.4	59	75.1%	24.9%	74.3%	25.7%
6 岬童夷	YI Tongjia	35	20	1.8	2014/4/11	9.4	27	77.4%	22.6%	68.5%	31.5%
7 魔女的恋爱	Magic Girl's Love	64	16	4.0	2014/4/14	9.2	53	82.7%	17.3%	73.7%	26.3%
8 Doctor 异乡人	Doctor in Foreign Land	339	20	17.0	2014/5/6	9.8	204	60.1%	39.9%	72.3%	27.7%
Subtotal		1052	145	7.3		9.4	730				
TVB											
1 新抱喜相逢	Queen Divas	83	15	5.2	2014/1/20	8.5	60	72.8%	27.2%	72.4%	27.6%
2 单恋双城	Outbound Love	97	22	6.1	2014/1/20	8.8	71	72.9%	27.1%	65.4%	34.6%
3 守业者	Storm In a Cocoon	147	32	9.2	2014/2/17	8.9	104	70.8%	29.2%	65.9%	34.1%
4 食为奴	Gilded Chopsticks	331	25	20.7	2014/2/10	8.9	214	64.8%	35.2%	55.4%	44.6%
5 叛逃	Ruse Of Engagement	596	25	37.3	2014/3/17	9.3	404	67.8%	32.2%	49.7%	50.3%
6 爱我请留言	Swipe Tap Love	86	20	5.4	2014/4/1	9.2	61	71.3%	28.7%	66.6%	33.4%
7 女人俱乐部	M Club	269	32	16.8	2014/4/21	9.3	180	66.9%	33.1%	69.2%	30.8%
8 点金胜手	The Ultimate Addiction	315	16/30	19.7	2014/6/2	9.7	218	69.2%	30.8%	57.7%	42.3%
Subtotal		1924	194	10.2		9.1	1,313				
US TV Drama											
1 超脑特工	Intelligence	22	13	1.7	2014/1/8	9.0	14	62.0%	38.0%	35.1%	64.9%
2 地球百子	The Hundred Season 1	69	22	4.3	2014/3/20	9.5	32	47.0%	53.0%	35.8%	64.2%
3 蛇蝎女佣	Devious Maids Season 2	12	12/13	1.0	2014/4/21	9.2	8	70.0%	30.0%	84.3%	15.7%
4 24 小时：再活一天	24 Hours: Live Another Day	69	10/12	6.9	2014/5/6	9.3	27	39.2%	60.8%	29.4%	70.6%
5 24 小时 (1-8, excl. 6)	24 Hours	61	168	0.4	2014/5/6	9.0	n.a.				
Subtotal		233	225	1.0		9.2	82				
Total		3209	564	5.7		8.9	2,125				

Source: the Company, Guotai Junan International.

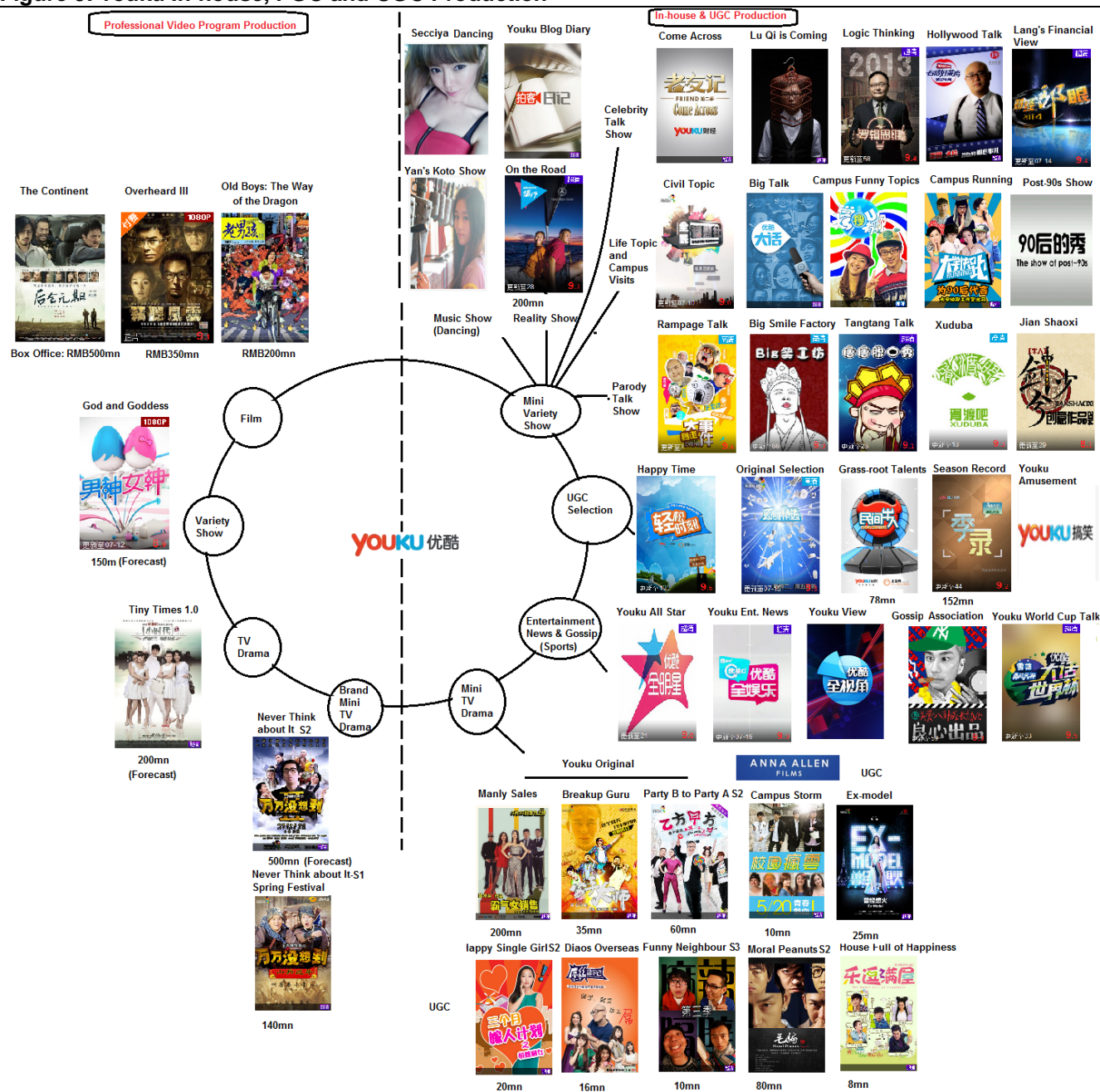
**Table 6: In-house PGC & UGC Statistics on Aug 10<sup>th</sup> 2014**

Mini TV Drama		NO. of Episodes	First Air Date	VV mn
万万没想到之小兵过年	Unbelievable Spring Festival	6	2014/1/4	148
小时代 1.0 折纸时代	Tiny Times 1.0	32	2014/7/10	302
麻辣隔壁 S3	MLGB S3		2014/5/26	16
分手大师	The Breakup Guru	7/8	2014/6/27	24
我该怎么办	How Could I Do	5	2014/6/20	4
万万没想到 第二季	Unbelievable S2	7/15	2014/7/1	268
校园疯云	Campus Storm	11	2014/5/20	11
乐逗满屋	The house full of happiness	18	2014/4/13	8
微笑江湖	Just Laugh	16/50	2014/4/28	5
你这在逗我么	Are U Kidding Me	9/10		2
霸气女销售	Newbie Sales	12/52	2014/5/25	21
三个月嫁人计划之快感剩女	Happy Lady	10	2014/4/25	17
曾经想火	Ex-MoDel	10	2014/4/1	23
乙方甲方 第二季	The party B and party A	10	2014/2/14	53
泡芙小姐 第五季 TV 版	Miss Puff S5	4	2014/7/18	15
Sub total				917
Variety Show				
侣行 第二季	On the Road S2		2013/10/1	219
男神女神 第一季	Searching the Diva S1		2014/6/1	151
Sub total				370

Source: the Company, Guotai Junan International.

**Youku did make great progress in in-house, PGC and UGC content production.** In variety show, Youku has cooperated with Korea SBS TVstation to carry out Searching the Diva S1 (男神女神) and gain around 200mn traffic till now. All the participants in Searching the Diva were voted by internet fans. Youku also deeply participate in film marketing of the Continent (后会无期) and Old Boy: The Way of the Dragon (老男孩猛龙过江). Youku has created lots short videos in the film marketing: Film Music Videos, Film Clips, Film Star Talk Shows, and Films Featurettes. Many fans have imitated the music video of Little Apple (小苹果), the theme song of Old Boy: The Way of the Dragon (老男孩猛龙过江). Youku's film marketing did create lots of video sharing traffic in social network. In the end of 6M14, Youku has launched nearly 20 in-house and PGC programs, including celebrity talk show, mini-TV dramas, and reality shows. Youku did exhibit more talents in creating both long video professional contents and short video PGC, UGC, and in-house contents.

**Figure 9: Youku In-house, PGC and UGC Production**

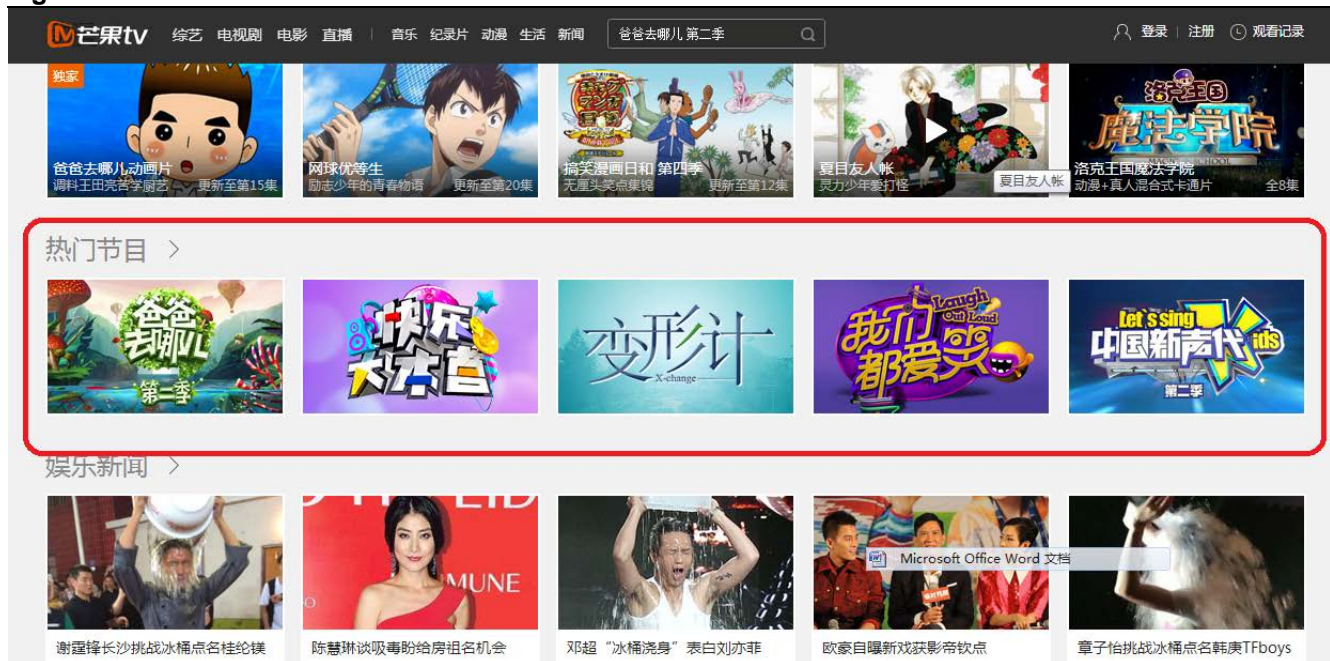


Source: the Company, Guotai Junan International.



State Administration of Radio, Film and Television (SARFT) has banned TV stations to sell exclusive online air rights of variety shows and urged Hunan TV Station, Jiangsu TV station and Jiangsu TV stations to build their own online video streaming platform. In the beginning of 2014, Hunan TV stations sold the exclusive online air rights of 5 top variety shows to iQiyi, including Where Fathers Go (爸爸去哪儿). In 6M14, Hunan TV began to air this hot reality show in its own Hunantv.com and Mangguo TV App. Furthermore, Hunan TV cooperated with Qihu360 to convert video search traffic to Hunantv.com. Zhejiang TV stations sold the exclusive online air rights of Vocie of China (中国好声音) to Tencent (700.HK) and also began to air this variety show in its own website. For Where Fathers Go (爸爸去哪儿), iQiyi has gained around 900mn traffic while Hunantv.com also gained 600mn traffic. We think after 2014 the online video portals could not buy any exclusive online air rights from Hunan TV stations, Zhejiang TV stations, and Jiangsu TV stations, except the variety shows co-produced by Canxing Production (灿星制作).

Figure 10: Hunantv.com



Source: Guotai Junan International.

Figure 11: Hunantv.com Gained Traffic From 360 Search



Source: Guotai Junan International.

However, we think Youku still need to buy top variety show and sports videos. Both Letv.com and PPTV.com has bought NBA and English Premier League to differentiate content library. Both iQiyi and Tencent could still buy exclusive online variety show air rights from Canxing Production (灿星制作). We think Youku should enhance its content library further. Youku should consider cooperating Sina in sport channel in mobile devices.

**Table 7: Quarterly Results Estimates of Youku**

	1Q14	2Q14	3Q14E	4Q14E	1Q15E	2Q15E	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
<b>Revenues</b>												
Net Revenues	700	959	1,175	1,235	988	1,352	1,657	1,741	1,412	1,933	2,369	2,490
Cost of Revenues	(615)	(750)	(980)	(812)	(756)	(928)	(1,225)	(1,007)	(920)	(1,135)	(1,517)	(1,234)
Gross profit	86	209	195	422	231	424	431	735	492	798	852	1,255
Sales and Marketing	(187)	(213)	(247)	(259)	(207)	(284)	(348)	(366)	(282)	(387)	(474)	(498)
General and Administrative	(47)	(74)	(91)	(96)	(59)	(81)	(99)	(104)	(82)	(112)	(137)	(144)
Product Development	(81)	(99)	(121)	(128)	(74)	(101)	(124)	(131)	(99)	(135)	(166)	(174)
Operating Income	(228)	(178)	(265)	(60)	(109)	(42)	(140)	134	29	164	75	439
Net finance cost	6	10	20	38	36	41	47	54	38	44	51	59
Other Income (Loss), Net	(2)	3	0	0	0	0	0	0	0	0	0	0
Earnings before Taxes	(225)	(164)	(245)	(23)	(74)	(1)	(93)	188	67	208	126	498
Provision for Income Tax	0	(0)	0	0	0	0	0	0	(7)	(21)	(13)	(50)
Net Income (Loss)	(225)	(164)	(245)	(23)	(74)	(1)	(93)	188	61	187	113	448
<b>Net loss per ADS, basic and diluted RMB/ADS</b>	(1.338)	(0.882)	(1.217)	(0.107)	(0.427)	(0.007)	(0.449)	0.869	0.341	0.946	0.531	2.008
<b>Non-GAAP (net loss)/ Profit per ADS RMB/ADS</b>	(0.883)	(0.407)	(0.663)	0.413	(0.079)	0.416	0.054	1.340	0.795	1.500	1.188	2.624
<b>ADS used in computation, basic and diluted mn shares</b>	168	186	201	210	173	192	207	216	178	198	214	223
<b>Cost of revenue breakdown</b>												
Value added, business taxes and surcharges	63	90	98	101	80	114	125	128	100	142	156	160
Bandwidth costs	202	214	211	207	228	241	238	234	251	265	262	258
Depreciation of servers and other equipment	24	29	26	44	28	33	30	51	31	37	34	57
Content costs	326	418	645	460	420	540	833	593	538	691	1,066	759
<b>Non-GAAP results</b>												
Non-GAAP gross profit	103	224	218	439	243	439	455	751	507	817	882	1,277
Non-GAAP operating profit	(152)	(89)	(153)	49	(49)	39	(36)	236	110	273	215	576
Non-GAAP net profit	(148)	(76)	(133)	87	(14)	80	11	290	142	297	254	585
Stock-Based compensation	70	82	103	102	56	76	97	96	76	103	131	129
<b>Key growth rate YoY %</b>												
Net revenues	36%	27%	37%	37%	41%	41%	41%	41%	43%	43%	43%	43%
Cost of revenue	23%	33%	26%	26%	23%	24%	25%	24%	22%	22%	24%	23%
Value added, business taxes and surcharges	29%	20%	30%	30%	27%	27%	27%	27%	25%	25%	25%	25%
Bandwidth costs	25%	30%	16%	16%	13%	13%	13%	13%	10%	10%	10%	10%
Depreciation of servers and other equipment	8%	34%	20%	20%	15%	15%	15%	15%	12%	12%	12%	12%
Content costs	21%	38%	30%	30%	29%	29%	29%	29%	28%	28%	28%	28%
Sales and Marketing	27%	22%	21%	21%	21%	21%	21%	21%	20%	20%	20%	20%
General and Administrative	7%	8%	8%	8%	6%	6%	6%	6%	6%	6%	6%	6%
Product Development	12%	10%	10%	10%	8%	8%	8%	8%	7%	7%	7%	7%
<b>Margin %</b>												
Gross margin	12%	22%	17%	34%	23%	31%	26%	42%	35%	41%	36%	50%
Operating margin	-33%	-19%	-23%	-5%	-11%	-3%	-8%	8%	2%	8%	3%	18%
Net margin	-32%	-17%	-21%	-2%	-7%	0%	-6%	11%	4%	10%	5%	18%
<b>Non-GAAP gross margin</b>	15%	23%	19%	36%	25%	32%	27%	43%	36%	42%	37%	51%
<b>Non-GAAP operating margin</b>	-22%	-9%	-13%	4%	-5%	3%	-2%	14%	8%	14%	9%	23%
<b>Non-GAAP net margin</b>	-21%	-8%	-11%	7%	-1%	6%	1%	17%	10%	15%	11%	24%

Source: the Company, Guotai Junan International.

**Maintain Target Price at USD32.00 and 'BUY' investment rating. In 2014, we think Youku App's traffic growth and market share in mobile user time spent might be far more important than mobile video monetization.** Our FY14-16 earnings per ADR estimates are RMB-3.124, RMB0.091 and RMB3.628, respectively. Our TP is USD32.00, representing 7.3x 2015E PS. Currently stock price only represents 1.6x 2014E PB.

**Table 8: Peers Comparison**

	Stock Code	Currency	Last price	Market Cap	Adjusted PE					GAAP PE				
				mn RMB	12A	13A	14F	15F	16F	12A	13A	14F	15F	16F
Netflix Inc	NFLX US	USD	472.19	219,904.3	319.3	173.8	103.5	63.7	43.3	18,161.2	258.9	122.7	73.0	46.6
Leshi Internet Information-A	300104 CH	CNY	39.65	42,000.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	113.6	81.1	53.0	38.7
Youku Tudou Inc-Adr	Yoku US	USD	19.52	25,473.5	n.a.	n.a.	n.a.	78.9	24.1	n.a.	n.a.	n.a.	274.3	38.1
Yy Inc-Adr	YY US	USD	86.31	37,266.8	50.5	37.6	31.3	21.9	15.7	176.1	76.2	37.7	26.1	17.3
Phoenix New Media Ltd -Adr	FENG US	USD	10.56	6,304.4	17.1	16.2	15.3	12.2	9.4	54.9	19.9	17.2	13.8	11.2
Simple Average					129.0	75.9	50.0	44.2	23.1	6,130.7	117.2	64.7	88.0	30.4
Weighted Average					218.2	120.0	72.6	51.1	32.5	12,088.3	195.4	96.4	79.5	41.0

Company	Revenue (mn RMB)				PB					PS (Price to Sales)				
	13A	14F	15F	16F	12A	13A	14F	15F	16F	12A	13A	14F	15F	16F
Netflix Inc	3,609	4,375	5,512	6,869	6.9	16.5	27.2	33.8	44.6	1.4	4.9	5.1	4.1	3.4
Leshi Internet Information-A	n.a.	2,165	5,703	8,527	n.a.	2.2	2.9	3.6	4.3	n.a.	15.4	5.8	3.9	3.1
Youku Tudou Inc-Adr	1,796	3,028	4,016	5,538	2.0	3.4	6.2	4.4	3.1	8.4	10.0	5.0	3.7	2.7
Yy Inc-Adr	806	1,839	3,424	5,010	3.7	8.9	8.1	12.1	18.0	3.3	9.4	8.7	6.0	4.2
Phoenix New Media Ltd -Adr	1,111	1,424	1,666	2,043	3.8	3.1	3.5	2.9	2.5	1.6	3.1	3.0	2.5	2.0
Simple Average					4.1	6.8	9.6	11.4	14.5	3.7	8.6	5.5	4.0	3.1
Weighted Average					5.2	12.5	19.9	24.7	32.5	2.0	7.1	5.6	4.2	3.4

Source: Bloomberg, Guotai Junan International, Aug 21<sup>st</sup> 2014.

**Table 9: Financial Statements of Youku**

income statement (Dec Year End mn RMB)	2012	2013	2014E	2015E	2016E
Net Revenues	1,796	3,028	4,069	5,737	8,204
Cost of Revenues	(1,500)	(2,487)	(3,158)	(3,916)	(4,807)
<b>Gross profit</b>	<b>296</b>	<b>541</b>	<b>911</b>	<b>1,822</b>	<b>3,398</b>
Sales and Marketing	(364)	(681)	(905)	(1,205)	(1,641)
General and Administrative	(238)	(262)	(308)	(344)	(476)
Product Development	(173)	(278)	(429)	(430)	(574)
<b>Operating Income</b>	<b>(479)</b>	<b>(680)</b>	<b>(732)</b>	<b>(158)</b>	<b>707</b>
net finance cost	41	29	74	178	192
Other Income (Loss), Net	10	71	1	0	0
<b>Earnings before Taxes</b>	<b>(427)</b>	<b>(580)</b>	<b>(657)</b>	<b>20</b>	<b>899</b>
Provision for Income Tax	3	(1)	(0)	0	(90)
<b>Net Income (Loss)</b>	<b>(424)</b>	<b>(581)</b>	<b>(657)</b>	<b>20</b>	<b>809</b>
Net loss per ADS, basic and diluted	(3.200)	(3.501)	(3.124)	0.091	3.628
Non-GAAP net loss (Profit) per ADS	(1.844)	(2.062)	(1.289)	1.694	5.726
ADS used in computation, basic and diluted mn shares	133	166	210	216	223
EBITDA	19	320	(23)	585	1,486
Non-GAAP net loss (Profit)	(245)	(342)	(271)	368	1,277

Balance Sheet (Dec Year End mn RMB)	2012	2013	2014E	2015E	2016E
<b>Current Assets</b>					
Cash and Cash Equivalents	1,656	1,764	8,767	8,996	10,218
Short-term Investments	2,110	1,409	1,409	1,409	1,409
Accounts Receivables	933	1,370	1,528	1,898	2,238
Amounts Due from Related Party	0	0	0	0	0
Deferred Tax Assets	10	8	7	6	6
Prepayments and Other Assets	65	82	95	155	202
Restricted Cash	9	3	3	3	3
Intangible Assets, Net	20	52	55	57	60
<b>Total Current Assets</b>	<b>4,803</b>	<b>4,688</b>	<b>11,864</b>	<b>12,525</b>	<b>14,136</b>
<b>Non Current Assets</b>					
Property and Equipment, net	201	222	232	242	253
Long-term Investment in Related Party	0	0	0	0	0
Amounts Due from Related Party	0	0	0	0	0
Goodwill	4,256	4,263	4,263	4,263	4,263
Intangible Assets, Net	1,305	1,198	1,312	1,378	1,447
Capitalized Content Production Costs	0	1	0	0	0
Prepayments and Other Assets	229	198	227	372	485
<b>Total Non- Current Assets</b>	<b>5,990</b>	<b>5,882</b>	<b>6,034</b>	<b>6,255</b>	<b>6,447</b>
<b>Total Assets</b>	<b>10,793</b>	<b>10,570</b>	<b>17,898</b>	<b>18,779</b>	<b>20,583</b>
<b>Current Liabilities</b>					
Accounts Payable	182	214	289	334	430
Accrued Expenses and Other Liabilities	981	1,124	1,298	1,599	1,957
Advances from Customers	7	0	0	0	0
Amounts Due to Related Party	22	25	38	51	76
others	0	0	0	0	0
<b>Total Current Liabilities</b>	<b>1,192</b>	<b>1,363</b>	<b>1,624</b>	<b>1,984</b>	<b>2,463</b>
<b>Non Current Liabilities</b>					
Long-term Debt	0	0	0	0	0
Deferred tax liability	224	220	215	211	207

Other Liabilities	20	4	4	4	4
total Non-current Liabilities	244	224	219	215	211
<b>Total Liabilities</b>	<b>1,436</b>	<b>1,587</b>	<b>1,843</b>	<b>2,199</b>	<b>2,674</b>
<b>Total Shareholders Equity</b>	<b>9,357</b>	<b>8,983</b>	<b>16,054</b>	<b>16,580</b>	<b>17,909</b>
<b>Total Liabilities &amp; Shareholders Equity</b>	<b>10,793</b>	<b>10,570</b>	<b>17,898</b>	<b>18,779</b>	<b>20,583</b>
BVP ADS	70.5	54.1	76.4	76.6	80.3

Cash Flow Statements (Dec Year End mn RMB)	2012	2013	2014E	2015E	2016E
<b>Operating Activities</b>					
Net Income	(424)	(581)	(657)	20	809
Depreciation	82	132	146	152	159
Amortization of Intangible Assets and Self Produced Content	416	868	562	590	620
Share Based Compensation	118	188	357	326	439
Bad Debt Expenses	10	63	70	87	102
other	(11)	(33)	0	0	0
<b>working capital change</b>					
Accounts Receivable	(224)	(500)	(158)	(370)	(339)
Accounts Payable	(39)	(14)	75	46	96
Restricted Cash	(9)	6	(0)	(0)	(0)
Accrued Expense and Other Liabilities	215	142	174	301	358
Advances from Customers	(7)	3	13	13	25
Amounts Due from Related Party	0	0	0	0	0
Prepayments and Other Assets	20	1	(42)	(205)	(160)
Capitalized Content Production Costs	(10)	(7)	(9)	(11)	(14)
<b>Cash Flow from Operating Activities</b>	<b>137</b>	<b>269</b>	<b>530</b>	<b>948</b>	<b>2,095</b>
<b>Investing Activities</b>					
Acquisition of Property and Equipment	(90)	(144)	(156)	(162)	(170)
Proceeds from Disposal of Property and Equipment	0	0	0	0	0
Cash Paid for Acquired Subsidiaries, Net of Cash Received	379	(7)	0	0	0
Acquisition of Intangible Assets	(362)	(741)	(625)	(656)	(689)
others	(711)	636	(369)	(76)	(250)
<b>Cash Flow from Investing Activities</b>	<b>(784)</b>	<b>(255)</b>	<b>(1,150)</b>	<b>(895)</b>	<b>(1,109)</b>
<b>Financing Activities</b>					
Principal Repayment on Long-term Debt	(11)	(8)	0	0	0
Drawdown of Long-term Debt	0	0	0	0	0
Principal Repayments on Short-term Loan	(32)	0	0	0	0
Proceeds from IPO and Secondary Offering, net of issuance costs	0	0	7,430	0	0
Exercise of Employee Stock Option	22	101	192	176	237
others	38	(0)	0	(0)	(0)
<b>Cash Flow from Financing Activities</b>	<b>18</b>	<b>94</b>	<b>7,622</b>	<b>176</b>	<b>237</b>
<b>Other Adjustments</b>					
Foreign Exchange Rate Effect on Cash	(8)	0	0	0	0
<b>Cash Flow Net Changes in Cash</b>	<b>(637)</b>	<b>108</b>	<b>7,003</b>	<b>228</b>	<b>1,222</b>
BB	2,293	1,656	1,764	8,767	8,996
EB	1,656	1,764	8,767	8,996	10,218

key ratios (Dec Year End mn RMB, %)	2012	2013	2014E	2015E	2016E
<b>GAAP</b>					
Growth YoY					
Revenue	48%	83%	68%	100%	87%
Operating profit	161%	42%	8%	-78%	-548%
EBITDA	-33%	1554%	-107%	-2590%	154%
Net profit	146%	37%	13%	-103%	3990%



Margins					
Gross margin	16%	18%	22%	32%	41%
Operating margin	-27%	-22%	-18%	-3%	9%
EBITDA margin	1%	11%	-1%	10%	18%
Net margin	-24%	-19%	-16%	0%	10%
<b>Non-GAAP</b>					
Non-GAAP gross profit	335	601	985	1,888	3,483
Non-GAAP operating profit	(299)	(441)	(346)	189	1,174
Non-GAAP EBITDA (Loss) Profit	(424)	(581)	(657)	20	809
Non-GAAP net profit	(245)	(342)	(271)	367	1,277
Stock-Based compensation	118	188	357	326	439
<b>Growth YoY</b>					
Revenue	64%	79%	64%	92%	84%
Operating profit	120%	47%	-22%	-155%	521%
EBITDA	146%	37%	13%	-103%	3990%
Net profit	96%	40%	-21%	-235%	248%
<b>Margins</b>					
Gross margin	19%	20%	24%	33%	42%
Operating margin	-17%	-15%	-8%	3%	14%
EBITDA margin	11%	18%	9%	16%	24%
Net margin	-14%	-11%	-7%	6%	16%
<b>ROE</b>	-6%	-6%	-5%	0%	5%
Average net margin (operating leverage)	-24%	-19%	-16%	0%	10%
Asset turnover (operating leverage)	26%	33%	33%	35%	48%
Asset/equity (financial leverage)	114%	116%	48%	38%	37%
<b>ROA</b>	-5%	-5%	-11%	0%	13%
<b>IC</b>	9,364	8,983	16,054	16,580	17,909
<b>ROIC</b>	-6%	-6%	-5%	0%	5%
<b>FCF</b>	64	(622)	(250)	130	1,236
Net det	(1,648)	(1,764)	(8,767)	(8,996)	(10,218)
Net gearing ratio excl. minority	-21%	-17%	-62%	-49%	-52%

Source: the Company, Guotai Junan International.

## Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

## Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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