



Company Report: Youku Tudou (YOKU US)

公司报告: 优酷土豆 (YOKU US)

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SARFT Issued a New Content Regulation Policy

广电总局出台新的内容规管措施

- SARFT issued a new policy on Sep 5th 2014.** Under the new policy, online video portals need to obtain online airing permits for their overseas films and TV dramas starting from Apr 1st 2015, and total purchased volume should not be more than 30% of the number of Chinese films and TV dramas bought by the video portals over the previous year.
- Key points: 1) We think this policy's impact is very uncertain now.** We have made analysis of 4 scenarios. In Scenario 4, supposing China TV drama is counted by episode and TVB TV drama is counted as China TV dramas, this policy would have quite limited impact on Youku. Shanghai Media Group (SMG) and China Media Capital (CMC) already own 45% of TVB's TV drama copyrights in China. We think this scenario is most likely to happen. **2) Online video's competitive edge over traditional TV stations is still expanding.** Besides professional content, online video portals' key competitive edges include a) mobile video-on-demand mode, b) diversified content library, c) solid audience habit. **3) Youku App's DUV in 7M14 reached 37 mn, up 7.5% mom, and monthly total time spent reached around 65 bn minutes, up 8.5% mom. We expect Youku App's DVV could reach 1 bn by the end of 2014, up around 200% yoy.**
- Maintain Target Price at USD32.00 and 'Buy' investment rating.** Alibaba Group's listing is the short run catalyst. Our FY14-16 earnings per ADR estimates are RMB-3.436, RMB0.092 and RMB3.738. Our TP of USD32.00 represents 6.7x 2015 E PS. Current valuation is 1.7x 2014E PB.
- 广电总局 9 月 5 日推出新政策。**在新政策下，在 2015 年 4 月 1 日以后，要求视频网站购买的境外电视剧和电影都必须拿到播放许可证才能在网络播放，并且采购量不能超过前一年中国电视剧电影采购数量的 30%。
- 要点：1) 我们认为该政策影响目前非常不确定。**我们对该政策做了 4 种情景分析。在情景 4 中，如果电视剧数量以集数计算，同时 TVB 的电视剧算做中国电视剧，那么该政策对优酷影响非常有限。上海文广集团（SMG）和中国文化产业基金（CMC）拥有 TVB 电视剧国内版权的 45%。我们认为情景 4 最有可能发生。**2) 视频网站相对传统电视台的优势依然在扩大。**不考虑专业视频内容库，视频网站的竞争优势主要包括 a) 移动点播模式，b) 多样化的内容库，c) 稳固的用户习惯。**3) 优酷 App 的 7M14 的 DUV 为 37 百万，月环比增长 7.5%；月度用户时长约 650 亿分钟，月环比上升 8.5%。我们预期优酷 App 日视频浏览量到 2014 年底能够到 10 亿次，同比增长约 200%。**
- 目标价维持 USD32.00，投资评级维持“买入”。**阿里巴巴集团上市是短期催化剂。我们 FY14-16 年的每股 ADR 预测是 RMB-3.436、RMB0.092 和 RMB3.738。目标价 32.00 美元，相当于 6.7 倍的 2015 年预测市销率。目前股价只有 1.7 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:

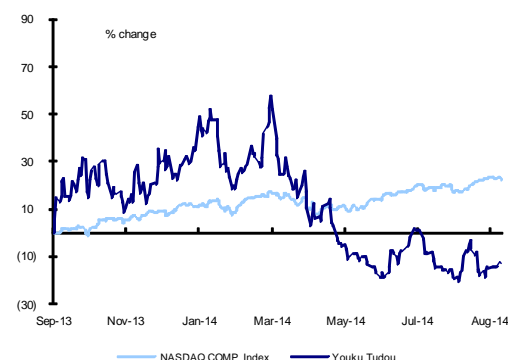
US\$32.00

Share price 股价:

US\$20.350

Stock performance

股价表现



Change in ADR Price	1 M	3 M	1 Y
ADR 变动	1 个月	3 个月	1 年
Abs. %			
绝对变动 %	(3.5)	1.7	(14.6)
Rel. % to NASDAQ index			
相对纳指变动 %	(6.5)	(0.2)	(32.7)
Avg. ADR price(US\$)			
平均 ADR 价 (美元)	20.5	20.8	26.0

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	1.789	0.000	0.0	(6.3)
2013A	3,028	(581)	(3.501)	9.4	n.a.	54.147	2.330	0.000	0.0	(6.3)
2014F	4,069	(670)	(3.436)	(1.8)	n.a.	72.753	1.734	0.000	0.0	(5.8)
2015F	5,737	(19)	(0.092)	(97.3)	n.a.	72.814	1.733	0.000	0.0	(0.1)
2016F	8,204	773	3.738	n.a.	33.8	76.695	1.645	0.000	0.0	5.1

ADR in issue (m) 总股数 (m)

194.9

Major shareholder 大股东

Victor Koo 18.3%

Market cap. (US\$ m) 市值 (US\$ m)

3,966.7

Free float (%) 自由流通比率 (%)

17.5

3 month average vol. 3 个月平均成交股数 ('000)

3,099.6

FY14 Net gearing FY14 净负债/股东资金 (%)

Net cash

52 Weeks high/low (US\$) 52 周高/低

37.740 / 17.770

FY14-16 PEG FY14-16 市盈率相对盈利增长比率

n.a.

Source: the Company, Guotai Junan International.

Recently, the State Administration of Press and Publication, Radio and Television (SARFT) issued a new policy: **1) Require online video portals to obtain overseas Film Distribution License 《电影片公映许可证》 and TV Drama Distribution License 《电影片公映许可证》 for their overseas films and TV dramas before airing on the Internet.** 2) Online video portal should register all overseas film and TV drama content information on SARFT's website as at March 31, 2015. Since April 1, 2015, online video portals could not air overseas films and TV dramas without **Film Distribution License (《电影片公映许可证》) and TV Drama Distribution License (《电影片公映许可证》)** on the Internet. 3) Total number of overseas films and TV dramas purchased by online video portals should not exceed 30% of the numbers of total domestic films and TV dramas purchased over the previous year.

Currently, we think the impact of this new policy is very uncertain. We expect more details or explanation of this policy to come out later. Currently questions include: **1) whether the number of TV dramas is calculated by series or episode, 2) whether TVB and Taiwan TV dramas are counted as China TV dramas or foreign TV dramas.** TVB TV dramas' distribution rights in China are already in Chinese Company. However, besides professional contents, online video portals still have great competitive edges over traditional TV stations, mainly including a) mobile video-on-demand mode, 2) diversified content library, 3) solid audience habit.

We think the new policy will only slightly reduce video portals' competitive edges over TV stations. Currently, China video portals have 3 key competitive edges: **1) Mobile Video-on-demand (VOD) mode.** China's young audience could watch videos anytime and anywhere. **2) Diversified content library.** There are 3 main content sources: a) Purchased professional content. b) In-house content & PGC. c) Uploaded UGC. Indeed, SARFT has tightend the policy for purchasing overseas professional TV drama and film content. However, other 2 sources still grow robustly. As for in-house & PGC, Youku has built strategic relationship with Korea SBS TV station. Youku has already built the variety show *Searching the Diva (男神女神)* and tried to build another show *Guest House*, which invited Chinese fans to Korea to spend several days with Korea stars. Currently, many large TV stations have cooperated with Korea or Taiwan teams to make variety shows. In terms of UGC, Youku has already issued its revenue sharing policy with UGC producers. Although UGC short videos contribute limited traffic and revenue to Youku, the upside potential of uploaded UGC videos are unlimited theoretically. **In mobile devices, short UGC videos could be easily watched in fragmented time and shared on social media.** Youku has cooperated with Youtube and Maker Studio, one of the largest channel management companies, to bring more fresh short videos to young audience in China. **We think online video portals' content library competitive edges in in-house & PGC and UGC are expanding fast.** **3) Solid audience habit.** Currently, China's online video audiences have already reached 420mn and have formed the habit of watching videos in the leading video portals such as Youku, iQiyi, Sohu, and PPTV. It's almost impossible for traditional TV stations to enter the market, except Hunan TV station and CCTV. Other TV stations don't have the unique content library or fund capability to build another online video portal, especially in mobile devices. We think China's young audience will continue to shift from TV stations to online video portals.

TVB's content distribution rights in Mainland China have already been owned by a Chinese Company. In 8M12, Television Broadcasts Limited (511.HK) (TVB) established a joint venture under the name of TVBC (上海翡翠東方傳播有限公司) between TVB, Shanghai Media Group (SMG) and China Media Capital (CMC), with a shareholding of only 55% by TVB and 45% by SMG and CMC, to manage the distribution of all TVB TV drama's content copyrights in Mainland China. SMG is the 2nd largest Media Group under SARFT, only smaller than CCTV. SMG owns Shanghai Dongfang TV Station (上海东方卫视), BesTV (600637.CH), and Oriental Pearl (600832.CH). By the end of 2013, SMG had total assets of RMB44.5bn and revenue of RMB21bn. CMC, established in 4M09, was the first Culture fund authorized by NDRC, and its fund shareholders included China Development Bank, SMG, and the fund under China Merchants Group. CMC and News Corporation jointly established Canxing Production (灿星制作), the largest variety show content producer in China. Both SMG and CMC have great influences in the China film and TV drama industry. If SARFT takes TVB's airing rights in China as the foreign TV drama rights, it will hurt its own subsidiary SMG and related fund CMC. For SARFT, TVB TV drama and China TV drama share the same goal in bringing China Culture to the world.

We have made a 4-scenario analysis. We think scenario 4 has the highest possibility to occur and scenario 1 would be the worst scenario. According to the new policy of SARFT: Total number of overseas films and TV dramas purchased by online video portals should not exceed 30% of the total domestic films and TV dramas purchased over the previous year. As a result, the proportion of total domestic TV dramas should be around 76.9%. We assume that the 4 scenarios include: 1) In Scenario 1,

the number of TV dramas is counted by series and TVB TV drama is not counted as China TV drama. 2) In Senario 2, the number of TV dramas is counted by series and TVB TV drama is counted as China TV drama. 3) In Senario 3, the number of TV dramas is counted by episode and TVB TV drama is not counted as China TV drama. 4) In Senario 4, the number of TV dramas is counted by episode and TVB TV drama is counted as China TV drama series. For Scenario 1, in 2013 and 1-9 M14, Youku's China TV drama accounted for only 49.0% and 44.4% of total TV drama content library, which means that Youku has to significantly adjust its content library in the future. We think a higher proportion of Chinese TV drama series would not influence Youku's traffic in the short run, but might jeopardize Youku's content library ecosystem in the long run. We will discuss this later. For scenario 4, in 2013 and 1-9M14, Youku's China TV drama has accounted for 75.1% and 72.5% of total TV drama content library, very close to the 76.9% stipulated by SARFT. According to our statistics in 1H14, 1 Chinese TV Drama series had 44 episodes in average; Korea and US TV drama had 18 episodes in average; TVB TV drama had 24 episodes in average. However, in China's TV drama industry, the production of TV dramas, including the salary of actors, and the sales of TV dramas are all calculated by episode. So we think that it's more likely that the number of TV dramas is counted by episode in the new policy of SARFT. As SARFT's subsidiary SMG and related fund CMC has already owned 45% shares of TVB TV drama's domestic copyrights, we think that it's more likely to count TVB as China TV dramas.

Table 1: Youku's TV Drama Content Library Senario Analysis

No. of TV Drama by Series	US	China	TVB	Korea	Taiwan	Total	Senario 1: China TV Drama's Proportion by No. of Series	Senario 2: China TV Drama (incl. TVB) 's Proportion by No. of Series
2012	43	120	17	45	16	241	49.8%	56.8%
2013	49	120	21	39	16	245	49.0%	57.6%
1-9M14	18	59	14	35	7	133	44.4%	54.9%
No. of TV Drama by Episode							Senario 3: China TV Drama's Proportion by No. of Episodes	Senario 4: China TV Drama (incl. TVB) 's Proportion by No. of Episodes
2012	774	5,280	306	810	288	7,458	70.8%	74.9%
2013	882	5,280	378	702	288	7,530	70.1%	75.1%
1-9M14	324	2,596	252	630	126	3,928	66.1%	72.5%

Source: Youku.com, Guotai Junan International. Note: Assumed China TV drama has 44 episodes per series, US, Korea, Taiwan TV drama have 18 episodes per series, and TVB has 24 episodes per series.

China TV dramas have extremely poor quality in total. In 2013, SARFT has issued distribution permits to 441 China TV Dramas, with 15,770 episodes, No.1 in the world. According to EntGroup, a third party consulting company, only 209 of these China TV dramas were aired!! EntGroup told that the oversupply risk in China TV drama industry was still increasing and the number of China Classic TV dramas (中国精品剧) was still limited. It's very difficult for normal people to understand such a twisted and wasteful market. According to our statistics, in 2013 Youku has bought around 120 China TV dramas, accounting for 27.2% of total China TV dramas, 57.4% of total China TV dramas aired. Only 3 China TV dramas has scored over 9.0 and 50% were lower than 7.0. In 2013, Youku has bought 39 Korea TV dramas, accounting for 35.3% of total Korea TV drama aired, in which 6 TV dramas got scores over 9.0. Compared to 2013, Korea TV dramas created less traffic mainly due to less traffic from 9.0 score TV dramas, but traffic from the Korea TV dramas with scores between 7.0~9.0 have grew robustly. US TV dramas have the highest quality but less traffic due to culture differences. In 2014, Youku has increased Korea TV drama content and reduced US TV drama content. Due to extremely poor quality of China TV dramas, we think it would be a waste of money to buy new China TV dramas with low quality. **Facing SARFT's new policy, Youku and other video portals might consider buying exclusive online airing rights of old and cheap China TV dramas for more quotas and could exchange its content library with other video portals in the next several years.**

Table 2: China TV Drama Industry

	No. of China TV Drama Permission by Series	Growth YoY	No. of China TV Drama Permissions by Episode	Growth YoY	No. of Korea TV Drama Permissions by Series	Growth YoY
2007	529		14,670			
2008	502	-5.1%	14,498	-1.2%		
2009	402	-19.9%	12,910	-11.0%	54	
2010	436	8.5%	14,685	13.7%	69	27.8%
2011	469	7.6%	14,942	1.8%	92	33.3%
2012	506	7.9%	17,703	18.5%	109	18.5%
2013	441	-12.8%	15,770	-10.9%	111	1.8%

Source: Youku.com, Guotai Junan International.

Table 3: Youku TV Drama Scores

	2013	US	China	TVB	Korea	Taiwan
10-9		23	3	2	6	0
9-8		23	21	8	19	7
8-7		1	35	10	12	8
Below 7		2	61	1	2	1
10-9		46.9%	2.5%	9.5%	15.4%	0.0%
9-8		46.9%	17.5%	38.1%	48.7%	43.8%
8-7		2.0%	29.2%	47.6%	30.8%	50.0%
Below 7		4.1%	<u>50.8%</u>	4.8%	5.1%	6.3%

Source: Youku.com, Guotai Junan International.

We think buying too many Chinese TV dramas will harm Youku's content library ecosystem in the long run. 1) China TV dramas have limited genres. China TV dramas mainly concentrated in War, Marriage, and History genres. Korea TV dramas have strong competitive edges in Campus, Fashion Modern, and Crime genres. US TV dramas have absolute competitive edges in Magic and Science Fiction genres. We think it's almost impossible for China TV dramas to catch up Korea and US TV dramas in other genres in 5 years. If the TV dramas content genres were too concentrated, the audience might reduce their time spent in the video portal. **2) Korean and US TV drama have different audience groups than Chinese TV dramas. Although Korea and US TV dramas contributed smaller traffic compared to China TV dramas, their audiences consist of more females, younger people and more highly educated people.** According to our statistics, 74% of Korea TV dramas audience are female, who are more likely to watch videos in mobile devices, according to our previous analysis. For higher educated group, more than 50% and 45% of the Korea and US TV drama audiences have bachelor degree and higher education, far more than the 32% of the China TV dramas. We believe that the higher educated group is more sensitive about the quality of the TV dramas. If the video portals reduce the number of Korea and US TV dramas, they are more likely to find pirated video resources, other than watching low quality China TV dramas. According to the ministry of China Education Department and our estimate, only around 340 million people in China have senior secondary school education or higher education. This figure is expected to grow to around 600 million by the end of 2025, which means that US and Korea TV drama traffic growth might accelerate in the future. For younger group, 60% and 75% of Korea TV dramas and in-house drama group were under 29 years old, much higher than China TV dramas. In the long run, people under the age of 29 will become the mainstream population of video viewers in 10 years and Korea TV dramas and in-house TV dramas might be good content to attract them in advance. **3) Cost pressures might rise.** If online video portals collectively buy a growing number of new China TV dramas, the online airing copyright costs of China TV drama might rise. Youku's TV drama ecosystem definitely needs to make sure the three premises: **1) Complete and diversified genre distribution. 2) High quality of TV dramas in each genre. 3) Further inclined to the female group, the younger group, and the higher educated group.** If these factors are damaged, its overall traffic growth might slow down in the long run.

Table 4: Youku Audience Group Analysis

Table 4: Korea Audience Group Analysis												
Jan 1 st -Jul 10 th 2014	No.of Series	Video	Views	Score	Watching Device		Sex		Age			
					mobile	PC	Female	Male	Below 21	22-29	30-39	40+
China TV Drama	29		8,805	8.6	68.5%	31.5%	52.6%	47.5%	24.7%	35.6%	22.2%	17.5%
TVB	8		1,924	9.1	68.2%	31.8%	58.5%	41.5%	25.2%	42.0%	22.4%	10.4%
US TV Drama	4		172	8.9	47.4%	52.6%	36.5%	<u>63.5%</u>	21.6%	31.5%	27.1%	19.8%
Korea TV Drama	8		1,052	9.4	69.4%	30.6%	<u>73.7%</u>	26.3%	<u>31.5%</u>	<u>29.9%</u>	19.7%	19.0%
In-house & PGC	10		581	9.1	57.2%	42.8%	46.5%	51.0%	34.0%	41.0%	14.3%	10.7%
Occupation					Education							
	Student	White Collar	Part time	Government Officer	Master above	Bachelor	College	Senior Secondary School	Below Junior Secondary School			
China TV Drama	20.7%	30.6%	16.4%	32.3%	7.0%	25.0%	21.9%	28.8%	17.3%			
TVB	20.5%	31.4%	16.4%	30.6%	7.1%	<u>29.3%</u>	25.0%	25.6%	13.0%			
US TV Drama	21.1%	<u>35.5%</u>	16.9%	26.5%	10.0%	<u>39.4%</u>	21.7%	19.3%	9.6%			
Korea TV Drama	33.8%	23.8%	17.2%	25.1%	6.8%	<u>36.7%</u>	23.4%	23.3%	9.8%			
In-house & PGC	36.9%	27.5%	14.0%	21.5%	8.7%	<u>37.6%</u>	20.0%	22.0%	11.6%			

Source: Youku.com Jan 1st -Jul 10th 2014, Guotai Junan International.

Table 5: China Population by Education

Population by Education Group mn	No Schooling	Primary School	Junior Secondary School	Senior Secondary School	College and Higher Level	Population age above 5
2005	107	407	467	151	68	1,200
2006	98	380	458	150	70	1,157
2007	89	355	449	150	73	1,116
2008	83	342	452	150	76	1,104
2009	78	329	455	151	80	1,092
2010	68	311	448	158	92	1,079
2011	59	294	442	165	107	1,067
2012	51	278	435	173	134	1,072
2013E	44	263	429	<u>181</u>	<u>159</u>	1,077
2014E	39	249	423	189	183	1,083
2015E	34	235	417	198	206	1,090
2016E	29	223	411	207	223	1,093
2017E	25	211	405	217	239	1,096
2018E	22	199	399	227	253	1,100
2019E	19	188	393	238	267	1,105
2020E	17	178	387	249	279	1,110
2021E	14	168	382	261	285	1,111
2022E	13	159	376	273	291	1,112
2023E	11	151	371	285	296	1,114
2024E	10	143	365	299	301	1,117
2025E	8	135	360	<u>313</u>	<u>305</u>	1,121

Source: China Education Department, Guotai Junan International.

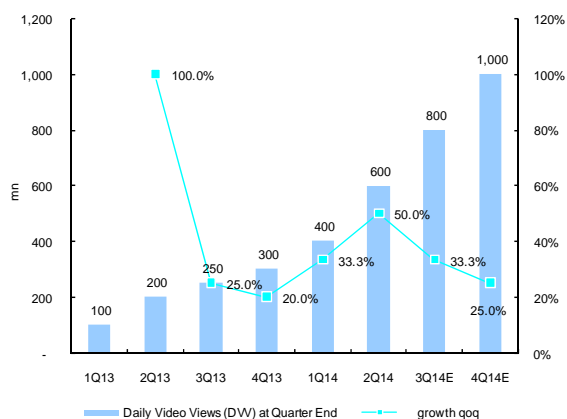
Possible solutions: 1) Buy old and cheap exclusive online airing rights of China TV dramas. There are a large number of China TV dramas which were not aired each year. In 2013, this figure might reach around 8k episodes. Now, these China TV dramas have quota value. In the future, Youku could exchange the old content library with other video portals. We think Youku will maintain its strategic relationship with Korea SBS TV stations to buy more TV dramas from SBS but will reduce the purchasing of US TV dramas. **2) Buy more Korea and Japan variety shows.** Youku might spend more to buy exclusive online airing rights of Korea and Japan variety shows and cooperate with them to build Youku's own variety show brands. **3) Youku could increase more in-house content.**

New moves of Youku: 1) Buy back USD300mn shares. 2) Announce to establish Heyi Film Picture Company (合一电影制片公司). 3) Prepare to issue Youku Pad in 11M14. 4) More game app download ads. We think Youku's management is very positive to Youku's future outlook and its mobile traffic growth is very optimistic. We think Youku will be cautious in film investment and the new picture company would be a platform to exhibit Youku's outstanding PGC and UGC producers and their media productions, to professional film investors and their fans. This platform will help the grass-root video producers to achieve their movie director dream. We expect Youku to obtain more film marketing business, which could increase Youku's impact in social media. We are cautious about Youku's move in hardwares and too much investment might be negative. Youku has release more game app download ads, which means Youku has entered app distribution market. We think Youku's video ads have competitive edges in distributing media related apps because the audiences of Youku like media products and Youku have their preferences data.

Strong traffic growth. Youku App's DUV in 7M14 reached 37mn, up 7.5% mom, and monthly total time spent reached around 65bn minutes, up 8.5% mom. We expect Youku's DVV could reach 1.0bn by the end of 2014, up around 200% yoy. In 2011, Youtube's DVV has reached around 2.0bn.

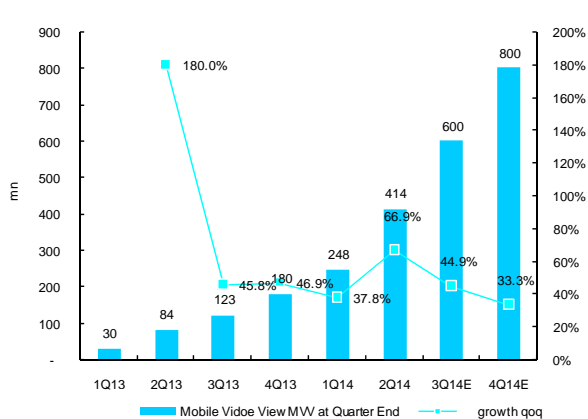
Maintain Target Price at USD32.00 and 'Buy' investment rating. Alibaba Group's listing is the short run catalyst. Our FY14-16 earnings per ADR estimates are RMB-3.436, RMB0.092 and RMB3.738, respectively. Our TP is USD32.00, representing 6.7x 2015E PS. Current stock price only represents 1.7x 2014E PB.

Figure 1: Youku's Daily Video Views



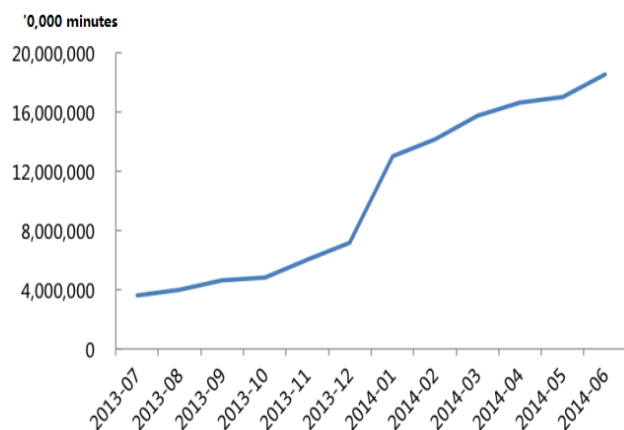
Source: the Company, Guotai Junan International.

Figure 2: Youku's Mobile Daily Video Views



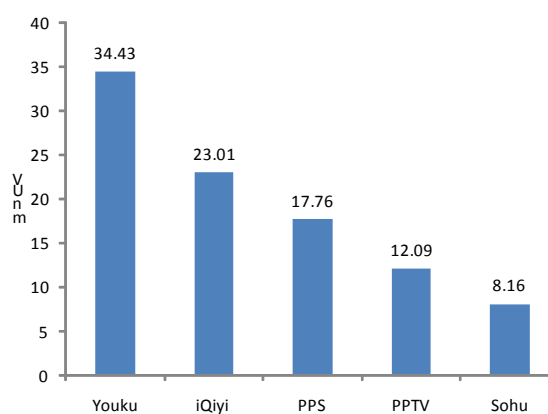
Source: the Company, Guotai Junan International.

Figure 3: China Video Streaming App Monthly User Time Spent



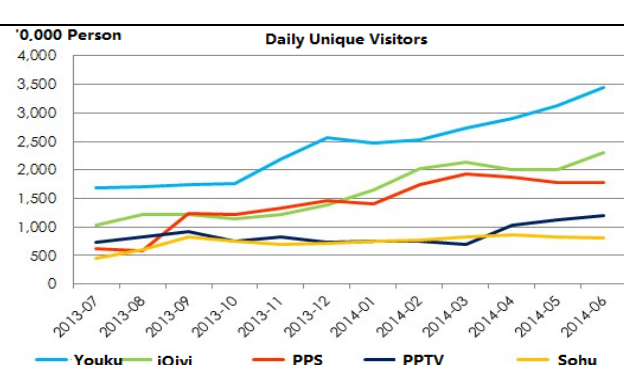
Source: iResearch 6M14, Guotai Junan International.

Figure 4: Major Video App Daily Unique Visitors in 6M14



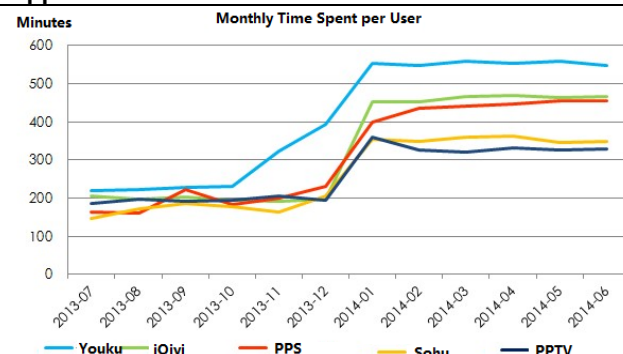
Source: iResearch 6M14, Guotai Junan International.

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.

Table 6: 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)
Gross profit	296	541	911	1,822	3,398
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)
Operating Income	(479)	(680)	(732)	(158)	707
net finance cost	41	29	61	139	152
Other Income (Loss), Net	10	71	1	0	0
Earnings before Taxes	(427)	(580)	(670)	(19)	859
Provision for Income Tax	3	(1)	(0)	0	(86)
Net Income (Loss)	(424)	(581)	(670)	(19)	773
Net loss per ADS, basic and diluted	(3.200)	(3.501)	(3.436)	(0.092)	3.738
Non-GAAP net loss (Profit) per ADS	(1.844)	(2.062)	(1.457)	1.640	6.001
ADS used in computation, basic and diluted mn shares	133	166	195	201	207
EBITDA	19	320	(23)	585	1,486
Non-GAAP net loss (Profit)	(245)	(342)	(284)	328	1,241

Balance Sheet (Dec Year End mn RMB)	2012	2013	2014E	2015E	2016E
Current Assets					
Cash and Cash Equivalents	1,656	1,764	6,894	7,034	8,169
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
Total Current Assets	4,803	4,688	9,991	10,563	12,087
Non Current Assets					
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
Total Non- Current Assets	5,990	5,882	6,034	6,255	6,447
Total Assets	10,793	10,570	16,025	16,818	18,534
Current Liabilities					
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
Total Current Liabilities	1,192	1,363	1,624	1,984	2,463
Non Current Liabilities					
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
Total Liabilities	1,436	1,587	1,843	2,199	2,674
Total Shareholders Equity	9,357	8,983	14,181	14,619	15,860
Total Liabilities & Shareholders Equity	10,793	10,570	16,025	16,818	18,534
BVP ADS	70.5	54.1	72.8	72.8	76.7

Cash Flow Statements (Dec Year End mn RMB)	2012	2013	2014E	2015E	2016E
Operating Activities					
Net Income	(424)	(581)	(670)	(19)	773
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	325	439
Bad Debt Expenses	10	63	70	87	102
other	(11)	(33)	0	0	0
working capital change					
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)
Cash Flow from Operating Activities	137	269	517	909	2,058
Investing Activities					
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)	(127)	(302)
Cash Flow from Investing Activities	(784)	(255)	(1,150)	(945)	(1,160)
Financing Activities					
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
Share repurchase	0	0	(1,860)	0	0
Exercise of Employee Stock Option	22	101	192	175	236
others	38	(0)	0	0	0
Cash Flow from Financing Activities	18	94	5,762	175	236
Other Adjustments					
Foreign Exchange Rate Effect on Cash	(8)	0	0	0	0
Cash Flow Net Changes in Cash	(637)	108	5,130	140	1,135
BB	2,293	1,656	1,764	6,894	7,034
EB	1,656	1,764	6,894	7,034	8,169

key ratios (Dec Year End mn RMB, %)	2012	2013	2014E	2015E	2016E
GAAP					
Growth YoY					
Revenue	48%	83%	68%	100%	87%
Operating profit	161%	42%	8%	-78%	-548%
EBITDA	-33%	1554%	-107%	n.a.	154%
Net profit	146%	37%	15%	-97%	n.a.

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%	9%
Non-GAAP					
Non-GAAP gross profit	335	601	985	1,888	3,483
Non-GAAP operating profit	(299)	(441)	(346)	190	1,175
Non-GAAP EBITDA (Loss) Profit	(424)	(581)	(670)	(19)	773
Non-GAAP net profit	(245)	(342)	(284)	329	1,241
Stock-Based compensation	118	188	357	325	439
Growth YoY					
Revenue	64%	79%	64%	92%	84%
Operating profit	120%	47%	-22%	-155%	519%
EBITDA	146%	37%	15%	-97%	n.a.
Net profit	96%	40%	-17%	-216%	277%
Margins					
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%	15%
ROE	-6%	-6%	-6%	0%	5%
Average net margin (operating leverage)	-24%	-19%	-16%	0%	9%
Asset turnover (operating leverage)	26%	33%	35%	40%	54%
Asset/equity (financial leverage)	114%	116%	51%	43%	42%
ROA	-5%	-5%	-11%	0%	12%
IC	9,364	8,983	14,181	14,619	15,860
ROIC	-6%	-6%	-6%	0%	5%
FCF	64	(622)	(263)	91	1,200
Net det	(1,648)	(1,764)	(6,894)	(7,034)	(8,169)
Net gearing ratio excl. minority	-21%	-17%	-52%	-43%	-46%

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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