



Company Report: Youku Tudou (YOKU US)

公司报告: 优酷土豆 (YOKU US)

Ray Zhao 赵睿

+86 755 23976755

zhaorui@gtjas.com

23 March 2015

Mobile Video Monetization Accelerated but Competition Becomes More Intensified, Downgrade to 'Accumulate'

移动视频货币化加快, 但是竞争也加剧, 下调至“收集”

- **Youku Tudou (Youku)'s 4Q14 results were in line with our expectations.** Revenue was RMB1,264.4mn, up 40.3% yoy, above our expectations and market consensus. Consumer revenue reached RMB69.7mn, up 649% yoy, driven by members. Non GAAP net income reached RMB-228.7mn, below expectations.
- **Key points: 1) Youku mobile video monetization began to accelerate.** In line with our expectation, Youku guided its 1Q15 revenue to reach around RMB1.02bn, up 46% yoy. **We expect its FY15 revenue growth to reach 44.3%, up 11.3ppt yoy. 2) Membership might contribute more revenue.** We expect Youku membership might contribute around RMB100mn in 1Q15, 10% of its total revenue. In 4Q14, Youku only has 1.0mn membership, with great upside potential. **3) Video competition intensified.** We observed that Tencent has largely increased its video content investment and conducted more traffic into video from social, news, game, music, and search. Currently, we are disappointed about Youku and Alibaba Group's cooperation.
- **Cut Target Price to USD22.00 and downgrade to 'Accumulate' investment rating.** We think Youku and Alibaba Group should create more synergy. Our FY15-17 earnings per ADR estimates are RMB-3.799, RMB-1.748 and RMB-0.698, respectively. Our TP is USD22.00, representing 3.2x 2016E PS.
- **优酷土豆 (优酷) 4Q14 业绩符合我们预期。** 收入为 RMB1,264.4 百万, 同比增 40.3%, 略超我们和市场预期。其中消费者收入达到 RMB69.7 百万, 同比上涨 649%, 主要受会员费驱动。Non-GAAP 净亏损达到 RMB228.7 百万, 低于我们和市场预期。
- **要点: 1) 优酷移动视频货币化开始加速。** 如我们预期, 优酷 1Q15 指引收入达到 RMB10.2 亿, 同比增长达到 46%, 我们预期优酷 FY15 年的收入增速将提高到 44% 左右, 同比增加 12ppt。2) **会员和付费收入未来预期将贡献更多收入。** 我们预期优酷会员 1Q15 将贡献收入超过 RMB1 亿, 占总收入约 10%。4Q14 优酷会员才 100 万, 未来还有很大上涨空间。3) **视频竞争加剧。** 我们观察到腾讯视频的内容投入大幅增加, 并将社交, 新闻, 游戏, 音乐, 搜狗的流量导入到视频。目前我们对优酷和阿里的媒体板块合作感到失望。
- **目标价下调至 USD22.00, 投资评级下调为“收集”。** 我们认为优酷和阿里巴巴需要创造更多协同效应。我们 FY15-17 年的每股 ADR 预测是 RMB-3.799、RMB-1.748 和 RMB-0.698。目标价 22.00 美元, 相当于 3.2 倍的 2016 年预测市销率。

Rating:

Accumulate

Downgraded

评级:

收集 (下调)

6-18m TP 目标价:

US\$22.00

Revised from 原目标价:

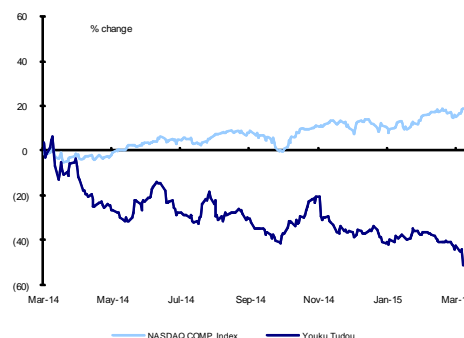
US\$32.00

Share price 股价:

US\$13.500

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 %	(21.3)	(22.9)	(53.1)
Rel. % to NASDAQ index			
相对纳指变动 %	(21.2)	(24.1)	(66.0)
Avg. ADR price(US\$)			
平均 ADR 价 (美元)	16.0	16.8	19.8

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 (%)
2013A	3,028	(581)	(3.501)	9.4	n.a.	54.147	1.5	0.000	0.0	(6.3)
2014A	4,030	(889)	(4.707)	34.5	n.a.	74.369	1.1	0.000	0.0	(7.7)
2015F	5,817	(739)	(3.799)	(19.3)	n.a.	68.347	1.2	0.000	0.0	(5.4)
2016F	8,319	(350)	(1.748)	(54.0)	n.a.	64.609	1.3	0.000	0.0	(2.7)
2017F	11,813	(144)	(0.698)	(60.1)	n.a.	62.029	1.3	0.000	0.0	(1.1)

ADR in issue (m) 总股数 (m)

194.5

Major shareholder 大股东

Victor Koo 17.0%

Market cap. (US\$ m) 市值 (US\$ m)

2,625.3

Free float (%) 自由流通比率 (%)

17.5

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

1,654.2

FY15 Net gearing FY15 净负债/股东资金 (%)

Net cash

52 Weeks high/low (US\$) 52 周高/低

30.950 / 13.311

Source: the Company, Guotai Junan International.

Youku Tudou (Youku)'s 4Q14 results were in line with our expectations. Revenue was RMB1,264.4mn, up 40.3% yoy, above our expectations and market consensus. Consumer revenue reached RMB69.7mn, up 649% yoy, driven by members. Non GAAP net income reached RMB-228.7mn, below expectations. **Youku mobile video monetization accelerates.** In line with our expectation, Youku guided its 1Q15 revenue to reach around RMB1.02bn, up 46% yoy.

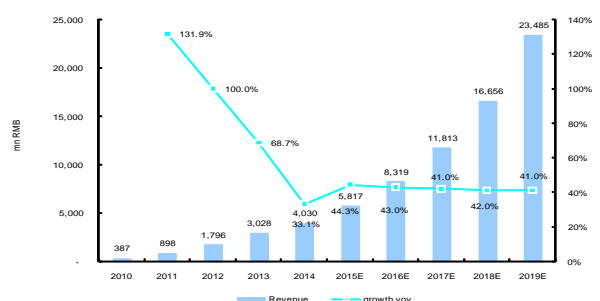
Table 1: Youku's 4Q14 Results

mn RMB	4Q14E	4Q14 Actual		
Revenues				
Net Revenues	1,235	1,264	2.4%	Revenue began to accelerate.
Cost of Revenues	(812)	(1,024)	26.1%	Content cost was higher than expected
Gross profit	422	240	-43.2%	
Sales and Marketing	(259)	(344)	32.9%	Youku's new sales team might increase sales expenses.
General and Administrative	(96)	(80)	-17.1%	
Product Development	(128)	(124)	-3.0%	
Operating Income	(60)	(308)	409.8%	Operating income was below expectations.
net finance cost	22	23	3.0%	
Other Income (Loss), Net	2	19		
Earnings before Taxes	(37)	(267)	623.6%	
Provision for Income Tax	0	(51)		
Net Income (Loss)	(37)	(318)	763.3%	Net profit was below expectations.
Net loss per ADS, basic and diluted RMB/ADS	(0.189)	(1.632)	763.3%	
Non-GAAP (net loss)/ Profit per ADS RMB/ADS	0.371	(1.174)	-416.0%	
ADS used in computation, basic and diluted mn shares	195	195	0.0%	
Cost of revenue breakdown				
Value added, business taxes and surcharges	101	115	14.3%	
Bandwidth costs	207	272	31.2%	
Depreciation of servers and other equipment	44	34	-23.3%	
Content costs	460	603	31.1%	
Non-GAAP results				
Non-GAAP gross profit	439	253	-42.3%	
Non-GAAP operating profit	49	(219)	-547.5%	
Non-GAAP net profit	72	(229)	-416.0%	
Stock-Based compensation	102	86	-15.8%	
Key growth rate YoY %				
Net revenues	37.0%	40.3%	3.3 ppt	
Cost of revenue	25.6%	58.3%	32.8 ppt	
Value added, business taxes and surcharges	30.0%	48.5%	18.5 ppt	
Bandwidth costs	16.0%	52.2%	36.2 ppt	
Depreciation of servers and other equipment	20.0%	-8.0%	(28.0) ppt	
Content costs	30.0%	70.5%	40.5 ppt	
Sales and Marketing	21.0%	27.2%	6.2 ppt	
General and Administrative	7.8%	6.3%	(1.5) ppt	
Product Development	10.3%	9.8%	(0.5) ppt	
Margin %				
Gross margin	34.2%	19.0%	(15.2) ppt	
Operating margin	-4.9%	-24.4%	(19.5) ppt	
Net margin	-3.0%	-25.2%	(22.2) ppt	
Non-GAAP gross margin	35.6%	20.0%	(15.5) ppt	
Non-GAAP operating margin	4.0%	-17.3%	(21.2) ppt	
Non-GAAP net margin	5.9%	-18.1%	(24.0) ppt	

Source: the Company, Guotai Junan International.

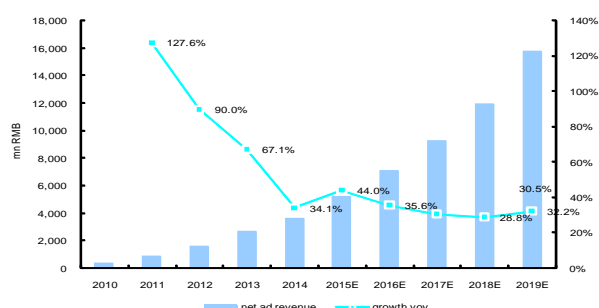
We expect its FY15 revenue growth to reach 44.3%, up 11.3ppt yoy. We expect Youku membership might contribute around RMB100mn in 1Q15, 10% of its total revenue. In 4Q14, Youku only has 1.0mn membership, with great upside potential. According to the management, Youku's consumer revenue began to accelerate in FY14. In 3Q14 and 4Q14, its consumer revenue, membership fees and pay-as-view services, began to soar to RMB41.8mn and RMB69.7mn, up 473% and 679% yoy. In 4Q14, there were 1.0 million members and each member paid around RMB69.7. It's a good sign that Youku might shift from ad revenue to membership fees, like Netflix in US. This shift might reflect that Youku's audiences who have more loyalty and higher income level are more willing to pay membership fees to avoid ad. This shift is driven by Youku's unique content library--- TV Korea Drama from SBS and TVB TV dramas, which are favored by Chinese female group and Guangdong audiences. We have admitted that State Administration of Radio Film and Television (SARFT)'s new policy has postponed new Korea TV drama and TVB TV dramas, which might have negative impact on this shift. In FY16-17, we expect its consumer revenue to contribute higher percentage of its total revenue.

Figure 1: Youku's Revenue Projection



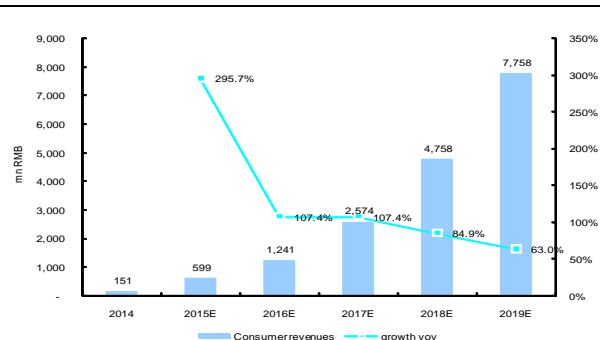
Source: the Company, Guotai Junan International.

Figure 2: Youku's Net Ad Revenue Projection



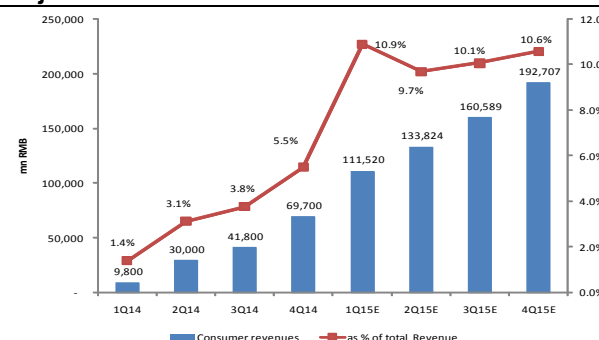
Source: the Company, Guotai Junan International.

Figure 3: Youku's Consumer Revenue Projection



Source: the Company, Guotai Junan International.

Figure 4: Youku's Quarter Consumer Revenue Projection



Source: the Company, Guotai Junan International.

China online video industry is in high growth track. The iResearch has largely increased its expectation in China online video industry. According to iResearch's report in 1M15, China online video market in FY15-17 might reach RMB36.3mn, RMB51.7mn, and RMB69.5mn, up 51.5%, 42.3%, and 34.6% yoy. Furthermore, it seemed that other revenue beside ad revenue might play a more important part in online video industry. We think membership revenue should be a strong and solid driver behind online video industry in the future. It seemed that Youku's net ad market share is declining from 27.6% in 2013 to 23.8% in 2014. We think it's because video traffic is shifting from desktop devices to mobile devices, and mobile video monetization rate is much lower than PC video monetization rate. For Youku, mobile traffic contributed around 70% of total traffic but only contributed around 30% of total revenue, which means mobile video monetization rate might be only 1/4 of that in PC video. We think it might take 1-2 years for Youku to increase mobile video monetization rate.

Table 2: China Online Video Market

China Online Video Market		2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Online ad market	mn RMB	32,550	51,300	77,310	110,000	154,000	209,300	272,400	332,700	393,000
growth YoY	%		57.6%	50.7%	42.3%	40.0%	35.9%	30.1%	22.1%	18.1%
Online Video ad as % of total online ad market	%	6.6%	8.3%	8.6%	8.9%	9.9%	10.9%	11.8%	12.8%	13.8%
Online Video market	mn RMB	3,140	6,270	9,180	13,590	23,970	36,310	51,660	69,530	89,980
growth YoY			99.7%	46.4%	48.0%	76.4%	51.5%	42.3%	34.6%	29.4%
Breakdown%										
Ad revenue	%	68.4%	67.8%	72.5%	72.1%	63.4%	62.9%	62.4%	61.4%	60.1%
Copyrights distribution	%	6.4%	13.1%	11.0%	8.6%	5.7%	4.6%	3.9%	3.5%	3.3%
Video VAS	%	3.8%	3.4%	4.3%	5.1%	5.1%	5.4%	5.6%	5.9%	6.2%
Others	%	21.4%	15.7%	12.1%	14.2%	25.8%	27.1%	28.1%	29.2%	30.4%
Online Video ad market	mn RMB	2,148	4,251	6,656	9,798	15,197	22,839	32,236	42,691	54,078
Breakdown			97.9%	56.6%	47.2%	55.1%	50.3%	41.1%	32.4%	26.7%
Online in-video ad	%	48.5%	56.7%	72.0%	80.8%	81.1%	78.8%	77.7%	75.6%	74.1%
Sponsor Ads, Banner Ads and other	%	51.5%	43.3%	28.0%	19.2%	18.9%	21.2%	22.3%	24.4%	25.9%
Mobile video ad	%			2.9%	4.9%	21.1%	31.7%	41.8%	51.3%	58.8%
PC video ad	%			97.1%	95.1%	78.9%	68.3%	58.2%	48.7%	41.2%
Online in-video ad	mn RMB	1,042	2,411	4,793	7,920	12,320	18,000	25,061	32,272	40,086
growth YoY	%		131.5%	98.8%	65.2%	55.6%	46.1%	39.2%	28.8%	24.2%
Mobile video ad	mn RMB			190	480	3,210	7,250	13,470	21,920	31,810
growth YoY	%				152.6%	568.8%	125.9%	85.8%	62.7%	45.1%
PC video ad	mn RMB			6,466	9,318	11,987	15,589	18,766	20,771	22,268
growth YoY	%				44.1%	28.6%	30.0%	20.4%	10.7%	7.2%
Youku net ad revenue	mn RMB	374	851	1,617	2,702	3,624	5,219	7,077	9,239	11,898
growth YoY	%		127.6%	90.0%	67.1%	34.1%	44.0%	35.6%	30.5%	28.8%
market shares%	%	17.4%	20.0%	24.3%	27.6%	23.8%	22.8%	22.0%	21.6%	22.0%
iQiyi net ad revenue	mn RMB			680	1,500	3,070				
growth YoY	%				120.6%	104.7%				
market shares%	%			10.2%	15.3%	20.2%				

Source: iResearch 1M15, Guotai Junan International.

Video competition intensified. We observed that online video industry competition has intensified. There are several reasons:

1) Tencent has largely increased its video content investment and conducted more traffic into video from social, news, game, music, and search. Tencent has created many new types of videos across different channels. Tencent has created high quality game live channel and music concert channels, to attract more fans. Tencent has combined short news videos into its news app and also created convenient functions for users to take short videos in WeChat and mobile QQ to share in their friend circle. We have observed that Tencent mobile video Monthly Active User (MAU) has reached 43.4mn in 2M15, up 143% yoy, with user time spent of 825mn hours in 2M15, 17% of total video industry, up 8ppt yoy. Furthermore, Tencent has largely increased content investment in FY15. Tencent announced to buy all the online air rights of China TV dramas and NBA exclusive operation rights in China in next 5 years with USD700mn. Youku only bought 50%~60% of China TV dramas every year.

2) SARFT new policy indeed created great trouble to Youku. Youku Korea TV drama and TVB TV drama traffic are important gateway traffic to Youku. In 1Q15, we think Youku TV drama traffic might be weaker than that of iQiyi and Tencent video, as Youku might buy fewer China TV drama than iQiyi and Tencent video. If Youku could broadcast new TVB or Korea TV dramas in 2Q15, we think its traffic growth might recover. According to eGuan, Youku and Tudou app mobile traffic – user time spent has reached 32.8% of total market shares, flat yoy, but 3ppt lower than that in FY15. iQiyi + PPS user time spent has reached 26.2% in 2M15, 4.6ppt higher than that

in FY15. Moreover, Tencent user time spent market share has reached 17.0% in 2M14, up 3.6ppt yoy. In short run, Youku might lose more market share until it could broadcast new Korea and TVB TV dramas in 2Q15.

3) Currently we are disappointed about the cooperation between Youku and Alibaba Group's media segment. Alibaba Group has acquired lots of mobile media companies in 2014. Alibaba Group's media segment includes Weibo, Alibaba Pictures, Xiami Music, Ttpot Music, UCWeb, UC 9 Games, AutoNavi, and Alimama. Youku only built big data with Alimama and create more social video traffic in Weibo. However, Weibo's MAU in 4Q14 only reached 175.7mn, up only 5.1% QoQ. We think Weibo's slow growth might be another bad news for Youku to increase its long tail short video traffic. According to our observation, the mobile media companies in Alibaba Group's media segment were almost operated independently and didn't built very strong traffic exchange with each other. Furthermore, as Amazon has combined its Amazon Prime with instant video membership to increase buyers' time spent in Amazon websites, Alibaba Group should also build relationship between Tmall VIP and Youku membership to create more synergy.

Table 3: Mobile Video Traffic

MAU (mn Users)	1M14	2M14	3M14	4M14	5M14	6M14	7M14	8M14	9M14	10M14	11M14	12M14	1M15	2M15
Mobile Video App	133.4	138.5	153.7	135.6	130.9	143.8	136.6	141.5	131.9	123.8	117.5	122.2	122.3	128.2
Youku	61.0	57.1	59.4	56.4	51.9	55.8	56.7	59.7	60.2	56.3	48.8	52.2	53.5	59.3
Tencent	17.2	17.8	20.1	20.9	19.1	21.4	24.1	26.2	27.2	25.4	24.4	35.4	37.5	43.4
iQiyi	33.0	34.5	33.2	31.5	28.1	30.9	33.2	34.0	34.4	32.8	31.8	33.4	32.7	36.2
Sohu	38.4	41.3	38.3	35.5	34.7	37.6	39.7	42.4	41.8	39.1	34.3	32.7	30.2	31.2
PPS	32.8	32.5	31.6	29.1	26.0	28.6	25.8	24.7	22.6	21.5	19.2	18.7	19.6	22.5
PPTV	22.6	18.5	19.2	16.6	15.4	15.8	18.4	18.5	19.2	18.1	16.1	15.0	15.4	17.4
Tudou	7.3	7.2	7.2	6.5	7.0	8.1	7.1	7.7	8.5	8.7	9.8	12.5	13.2	14.9
Letv	7.7	7.5	8.0	7.7	6.6	7.7	6.8	7.6	8.6	7.4	9.9	14.0	11.5	13.0
Use Frequency (mn times)	1M14	2M14	3M14	4M14	5M14	6M14	7M14	8M14	9M14	10M14	11M14	12M14	1M15	2M15
Mobile Video App	4,659	4,481	4,243	4,398	3,810	4,283	4,501	4,576	4,287	4,546	4,922	5,410	5,658	4,899
Youku	1,505	1,375	1,282	1,422	1,279	1,331	1,464	1,429	1,362	1,371	1,413	1,586	1,638	1,338
Tencent	374	360	407	480	417	506	594	767	696	732	704	1,042	1,120	825
iQiyi	504	532	446	454	400	450	501	483	430	491	702	687	779	762
Sohu	581	609	543	547	502	562	590	620	558	608	644	662	622	659
PPS	767	717	650	618	453	530	480	429	369	444	440	399	428	385
PPTV	473	453	466	491	395	445	460	443	439	439	502	454	465	397
Tudou	100	86	102	95	114	150	136	146	155	174	225	272	274	233
Letv	85	87	96	82	68	77	75	80	80	97	148	186	207	165
User Time Spent (mn hours)	1M14	2M14	3M14	4M14	5M14	6M14	7M14	8M14	9M14	10M14	11M14	12M14	1M15	2M15
Mobile Video App	446.9	764.6	782.0	742.3	715.6	859.6	740.1	774.8	791.3	850.7	852.1	896.0	986.6	836.1
Youku	155.1	239.9	252.1	270.0	244.9	290.5	238.9	266.9	258.4	273.2	255.4	277.9	309.2	239.2
Tencent	46.4	68.5	75.0	75.3	79.5	94.8	93.9	130.4	135.5	136.1	124.3	171.5	192.5	141.8
iQiyi	42.3	91.3	76.2	72.0	73.3	82.0	76.9	69.2	70.0	88.8	121.2	120.6	145.9	140.6
Sohu	30.6	70.6	84.0	86.6	94.0	107.4	101.5	94.3	90.9	92.1	84.6	83.6	89.5	95.2
PPS	85.4	134.2	132.6	101.4	87.9	116.5	86.8	72.9	75.7	93.3	86.3	72.6	78.6	78.1
PPTV	48.0	85.0	91.2	92.1	78.2	89.2	82.9	84.5	90.6	91.2	99.0	83.4	89.3	78.5
Tudou	7.8	12.0	15.5	12.5	20.1	28.3	20.8	22.5	28.1	30.3	38.7	43.8	40.3	35.1
Letv	4.1	10.0	13.3	7.2	10.1	12.4	9.5	11.4	11.5	15.1	19.8	23.7	27.8	21.7
User Time Spent %	1M14	2M14	3M14	4M14	5M14	6M14	7M14	8M14	9M14	10M14	11M14	12M14	1M15	2M15
Youku	34.7%	31.4%	32.2%	36.4%	34.2%	33.8%	32.3%	34.4%	32.7%	32.1%	30.0%	31.0%	31.3%	28.6%
Tencent	10.4%	9.0%	9.6%	10.1%	11.1%	11.0%	12.7%	16.8%	17.1%	16.0%	14.6%	19.1%	19.5%	17.0%
iQiyi	9.5%	11.9%	9.8%	9.7%	10.2%	9.5%	10.4%	8.9%	8.8%	10.4%	14.2%	13.5%	14.8%	16.8%
Sohu	6.9%	9.2%	10.7%	11.7%	13.1%	12.5%	13.7%	12.2%	11.5%	10.8%	9.9%	9.3%	9.1%	11.4%
PPS	19.1%	17.6%	17.0%	13.7%	12.3%	13.6%	11.7%	9.4%	9.6%	11.0%	10.1%	8.1%	8.0%	9.3%
PPTV	10.7%	11.1%	11.7%	12.4%	10.9%	10.4%	11.2%	10.9%	11.5%	10.7%	11.6%	9.3%	9.1%	9.4%
Tudou	1.7%	1.6%	2.0%	1.7%	2.8%	3.3%	2.8%	2.9%	3.6%	3.6%	4.5%	4.9%	4.1%	4.2%
Letv	0.9%	1.3%	1.7%	1.0%	1.4%	1.4%	1.3%	1.5%	1.5%	1.8%	2.3%	2.6%	2.8%	2.6%
Youku + Tudou	36.5%	32.9%	34.2%	38.1%	37.0%	37.1%	35.1%	37.3%	36.2%	35.7%	34.5%	35.9%	35.4%	32.8%
Tencent	10.4%	9.0%	9.6%	10.1%	11.1%	11.0%	12.7%	16.8%	17.1%	16.0%	14.6%	19.1%	19.5%	17.0%
iQiyi+PPS	28.6%	29.5%	26.7%	23.4%	22.5%	23.1%	22.1%	18.3%	18.4%	21.4%	24.4%	21.6%	22.8%	26.2%

Source: eGuan, Guotai Junan International.

SARFT new policy might make Youku to change its content library structure in the long run. According to our statistics, Youku has bought 4337 episodes of China TV dramas, 360 episodes of Inhouse-UGC & PGC mini TV Drama, 1694 episodes of Korea TV dramas, 501 episodes of TVB TV dramas, and episodes of 1129 US TV dramas in FY15. China TV dramas only accounted for 54% of total TV dramas, which means Youku has to buy more China TV dramas to meet the 70% requirement. However, we find that the top 10 TV dramas in each category have contributed more than 50% of total traffic. Mobile TV drama traffic has accounted for 70% of total TV drama traffic in FY14, in line with Youku's guidance.

Table 4: Youku TV Drama Traffic Statistics

Category	Traffic (mn)	Mobile Traffic (mn)	Mobile Traffic%	Episode	Traffic per Episode (mn)	Mobile Traffic per Episode (mn)
China TV Drama	22,153	16,238	73.3%	4,337	5.1	3.7
Inhouse-UGC & PGC mini TV Drama	2,352	1,282	54.5%	360	6.5	3.6
Korea TV Drama	4,621	3,216	69.6%	1,694	2.7	1.9
TVB TV Drama	8,040	5,419	67.4%	501	16.0	10.8
US TV Drama	1,476	797	54.0%	1,129	1.3	0.7
Total TV Drama	38,641	26,951	69.7%	8,021	4.8	3.4
Top 10 TV Drama Traffic	Traffic (mn)	Mobile Traffic (mn)	Mobile Traffic%	Episode	Traffic per Episode (mn)	Mobile Traffic per Episode (mn)
China TV Drama	9,064	6,626	73.1%	555	16.3	11.9
Inhouse-UGC & PGC mini TV Drama	2,112	1,133	53.6%	180	11.7	6.3
Korea TV Drama	3,835	2,635	68.7%	175	21.9	15.1
TVB TV Drama	6,210	4,190	67.5%	257	24.2	16.3
US TV Drama	824	394	47.8%	168	4.9	2.3
Total	22,044	14,978	67.9%	1,335	16.5	11.2
Top 10 Traffic%						
China TV Drama	40.9%	40.8%		12.8%		
Inhouse-UGC & PGC mini TV Drama	89.8%	88.4%		50.0%		
Korea TV Drama	83.0%	81.9%		10.3%		
TVB TV Drama	77.2%	77.3%		51.3%		
US TV Drama	55.8%	49.5%		14.9%		
Total	57.0%	55.6%		16.6%		

Source: the Company, Guotai Junan International.

Table 5: Quarterly Results Estimates of Youku

	1Q14	2Q14	3Q14	4Q14	1Q15E	2Q15E	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
Revenues												
Net Revenues	700	959	1,107	1,264	1,023	1,381	1,594	1,821	1,462	1,974	2,279	2,604
Cost of Revenues	(615)	(750)	(860)	(1,024)	(818)	(1,091)	(1,243)	(1,402)	(1,112)	(1,481)	(1,687)	(1,901)
Gross profit	86	209	247	240	204	290	350	418	351	493	592	702
Sales and Marketing	(187)	(213)	(287)	(344)	(256)	(331)	(367)	(401)	(292)	(375)	(410)	(469)
General and Administrative	(47)	(74)	(53)	(80)	(61)	(83)	(96)	(109)	(85)	(115)	(132)	(151)
Product Development	(81)	(99)	(112)	(124)	(77)	(104)	(120)	(137)	(102)	(138)	(160)	(182)
Operating Income	(228)	(178)	(206)	(308)	(189)	(228)	(231)	(228)	(129)	(135)	(110)	(99)
Net finance cost	6	10	23	23	14	14	15	19	10	10	11	13
Other Income (Loss), Net	(2)	3	2	19	19	19	19	19	20	20	20	20
Earnings before Taxes	(225)	(164)	(181)	(267)	(157)	(195)	(197)	(190)	(100)	(105)	(79)	(66)
Provision for Income Tax	0	(0)	0	(51)	0	0	0	0	0	0	0	0
Net Income (Loss)	(225)	(164)	(181)	(318)	(157)	(195)	(197)	(190)	(100)	(105)	(79)	(66)
Net loss per ADS, basic and diluted RMB/ADS	(1.338)	(0.882)	(0.877)	(1.632)	(0.907)	(1.014)	(0.925)	(0.947)	(0.560)	(0.530)	(0.361)	(0.321)
Non-GAAP (net loss)/ Profit per ADS RMB/ADS	(0.883)	(0.407)	(0.496)	(1.174)	(0.521)	(0.551)	(0.449)	(0.378)	(0.071)	0.057	0.240	0.407
ADS used in computation, basic and diluted mn shares	168	186	207	195	173	192	213	201	178	198	220	207
Cost of revenue breakdown												
Value added, business taxes and surcharges	63	90	98	115	91	121	136	152	120	158	178	199
Bandwidth costs	202	214	230	272	216	286	323	361	284	376	425	475
Depreciation of servers and other equipment	24	29	30	34	25	32	34	35	27	34	37	40
Content costs	326	418	502	603	486	653	750	853	681	913	1,047	1,187

Non-GAAP results												
Non-GAAP gross profit	103	224	261	253	218	308	371	442	370	519	621	736
Non-GAAP operating profit	(152)	(89)	(127)	(219)	(123)	(139)	(130)	(114)	(42)	(19)	22	51
Non-GAAP net profit	(148)	(76)	(103)	(229)	(90)	(106)	(96)	(76)	(13)	11	53	84
Stock-Based compensation	70	82	72	86	62	82	94	106	81	107	122	139
Key growth rate YoY %												
Net revenues	36%	27%	29%	40%	46%	44%	44%	44%	43%	43%	43%	43%
Cost of revenue	23%	33%	11%	58%	33%	45%	45%	37%	36%	36%	36%	36%
Value added, business taxes and surcharges	29%	20%	30%	49%	45%	35%	40%	32%	31%	31%	31%	31%
Bandwidth costs	25%	30%	26%	52%	7%	34%	41%	33%	32%	32%	31%	31%
Depreciation of servers and other equipment	8%	34%	40%	-8%	4%	10%	10%	4%	5%	8%	11%	14%
Content costs	21%	38%	1%	70%	49%	56%	50%	42%	40%	40%	39%	39%
Sales and Marketing	27%	22%	26%	27%	25%	24%	23%	22%	20%	19%	18%	18%
General and Administrative	7%	8%	5%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Product Development	12%	10%	10%	10%	8%	8%	8%	8%	7%	7%	7%	7%
Margin %												
Gross margin	12%	22%	22%	19%	20%	21%	22%	23%	24%	25%	26%	27%
Operating margin	-33%	-19%	-19%	-24%	-19%	-17%	-15%	-13%	-9%	-7%	-5%	-4%
Net margin	-32%	-17%	-16%	-25%	-15%	-14%	-12%	-10%	-7%	-5%	-3%	-3%
Non-GAAP gross margin												
Non-GAAP operating margin	15%	23%	24%	20%	21%	22%	23%	24%	25%	26%	27%	28%
Non-GAAP net margin	-22%	-9%	-11%	-17%	-12%	-10%	-8%	-6%	-3%	-1%	1%	2%
Non-GAAP net margin	-21%	-8%	-9%	-18%	-9%	-8%	-6%	-4%	-1%	1%	2%	3%

Source: the Company, Guotai Junan International.

Cut Target Price to USD22.00 and downgrade to 'Accumulate' investment rating. We think Youku and Alibaba Group should create more synergy. Our FY15-17 earnings per ADR estimates are RMB-3.799, RMB-1.748 and RMB-0.698, respectively. Our TP is USD22.00, representing 3.2x 2016E PS.

Table 6: 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	428.30	200,953.0	319.3	173.8	94.3	100.2	64.9	16,472.9	234.6	125.2	131.7	80.4
Leshi Internet Information-A	300104 CH	CNY	90.72	95,262.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	260.7	207.6	130.9	81.5
Youku Tudou Inc-Adr	Yoku US	USD	13.50	20,726.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yy Inc-Adr	YY US	USD	56.20	24,700.7	50.5	37.6	19.0	14.7	10.8	114.7	49.6	21.4	16.1	11.8
Phoenix New Media Ltd -Adr	FENG US	USD	5.80	3,465.1	17.1	16.2	9.0	10.4	7.4	30.7	11.1	10.8	11.0	8.1
Simple Average					129.0	75.9	40.8	41.8	27.7	5,539.4	139.0	91.3	72.4	45.4
Weighted Average					189.7	104.0	56.3	59.5	38.7	9,600.5	212.2	131.9	114.1	70.3

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	5,505	6,757	6.9	16.5	28.8	34.9	41.5	1.4	4.9	4.7	3.8	3.2
Leshi Internet Information-A	n.a.	2,233	6,019	8,050	n.a.	2.2	n.a.	n.a.	n.a.	n.a.	34.2	12.7	9.5	6.9
Youku Tudou Inc-Adr	1,796	3,028	4,011	5,660	2.0	3.4	0.7	0.5	0.3	8.4	10.0	4.1	2.9	2.2
Yy Inc-Adr	806	1,839	3,617	5,341	3.7	8.9	8.2	11.8	16.8	3.3	9.4	5.5	3.7	2.7
Phoenix New Media Ltd -Adr	1,111	1,424	1,653	1,956	2.1	1.7	1.6	1.6	1.4	1.6	3.1	1.7	1.4	1.2
Simple Average					3.7	6.5	9.8	12.2	15.0	3.7	12.3	5.7	4.3	3.2
Weighted Average					4.4	11.1	17.4	21.2	25.4	1.6	13.6	6.9	5.3	4.1

Source: Bloomberg, Guotai Junan International, Mar 23rd 2015.

Table 7: Financial Statements of Youku

Income statement (Dec Year End mn RMB)	2013	2014	2015E	2016E	2017E
Net Revenues	3,028	4,030	5,817	8,319	11,813
Cost of Revenues	(2,487)	(3,249)	(4,555)	(6,181)	(8,433)
Gross profit	541	781	1,263	2,138	3,380
Sales and Marketing	(681)	(1,031)	(1,354)	(1,546)	(2,126)
General and Administrative	(262)	(254)	(349)	(482)	(685)
Product Development	(278)	(416)	(436)	(582)	(827)
Operating Income	(680)	(920)	(877)	(473)	(258)
net finance cost	29	61	62	44	32
Other Income (Loss), Net	71	21	76	79	83
Earnings before Taxes	(580)	(837)	(739)	(350)	(144)
Provision for Income Tax	(1)	(51)	0	0	0
Net Income (Loss)	(581)	(889)	(739)	(350)	(144)
Net loss per ADS, basic and diluted	(3.501)	(4.707)	(3.799)	(1.748)	(0.698)
Non-GAAP net loss (Profit) per ADS	(2.062)	(2.943)	(1.890)	0.676	2.853
ADS used in computation, basic and diluted mn shares	166	189	194	200	206
EBITDA	320	339	31	524	844
Non-GAAP net loss (Profit)	(342)	(556)	(370)	130	582

Balance Sheet (Dec Year End mn RMB)	2013	2014	2015E	2016E	2017E
Current Assets					
Cash and Cash Equivalents	1,764	3,821	2,359	1,994	1,176
Short-term Investments	1,409	4,021	4,021	4,021	4,021
Accounts Receivables	1,370	1,720	2,743	3,639	5,423
Amounts Due from Related Party	0	125	0	0	-
Deferred Tax Assets	8	3	3	2	2
Prepayments and Other Assets	82	90	103	174	220
Restricted Cash	3	618	648	681	715
Intangible Assets, Net	52	166	174	183	192
Total Current Assets	4,688	10,564	10,052	10,693	11,749
Non Current Assets					
Property and Equipment, net	222	307	389	491	621
Long-term Investment in Related Party	0	67	0	0	-
Amounts Due from Related Party	0	0	0	0	-
Goodwill	4,263	4,263	4,263	4,263	4,263
Intangible Assets, Net	1,198	1,397	1,641	1,723	1,809
Capitalized Content Production Costs	1	2	0	0	-
Prepayments and Other Assets	198	430	492	826	1,046
Total Non- Current Assets	5,882	6,465	6,784	7,303	7,739
Total Assets	10,570	17,029	16,836	17,996	19,488
Current Liabilities					
Accounts Payable	214	563	526	952	1,064
Accrued Expenses and Other Liabilities	1,124	1,668	2,250	3,067	4,188
Advances from Customers	0	500	500	750	1,125
Amounts Due to Related Party	25	36	52	74	105
others	0	0	0	0	-
Total Current Liabilities	1,363	2,767	3,328	4,843	6,482
Non Current Liabilities					
Long-term Debt	0	0	0	0	-
Deferred tax liability	220	214	210	206	202
Other Liabilities	4	7	7	7	7

total Non-current Liabilities	224	221	217	213	209
Total Liabilities	1,587	2,988	3,545	5,055	6,691
Total Shareholders' Equity	8,983	14,041	13,291	12,941	12,797
Total Liabilities & Shareholders' Equity	10,570	17,029	16,836	17,996	19,488
BVP ADS	54.1	74.4	68.3	64.6	62.0

Cash Flow Statements (Dec Year End mn RMB)	2013	2014	2015E	2016E	2017E
Operating Activities					
Net Income	(581)	(889)	(739)	(350)	(144)
Depreciation	132	148	205	259	327
Amortization of Intangible Assets and Self Produced Content	868	1,111	703	738	775
Share Based Compensation	188	310	344	448	630
Bad Debt Expenses	63	(8)	55	73	108
other	(33)	7	0	0	0
working capital change					
Accounts Receivable	(500)	(335)	(1,023)	(896)	(1,784)
Accounts Payable	(14)	51	(37)	426	113
Restricted Cash	6	(615)	(31)	(32)	(34)
Accrued Expense and Other Liabilities	142	540	582	817	1,121
Advances from Customers	3	11	16	22	31
Amounts Due from Related Party	0	(125)	0	0	0
Prepayments and Other Assets	1	(35)	(76)	(404)	(266)
Capitalized Content Production Costs	(7)	(49)	(13)	(18)	(23)
Cash Flow from Operating Activities	269	122	(14)	1,082	854
Investing Activities					
Acquisition of Property and Equipment	(144)	(207)	(286)	(361)	(457)
Proceeds from Disposal of Property and Equipment	0	0	0	0	0
Cash Paid for Acquired Subsidiaries, Net of Cash Received	(7)	0	0	0	0
Acquisition of Intangible Assets	(741)	(1,235)	(781)	(820)	(861)
Others	636	(2,652)	(412)	(307)	(411)
Cash Flow from Investing Activities	(255)	(4,093)	(1,480)	(1,489)	(1,730)
Financing Activities					
Principal Repayment on Long-term Debt	(8)	0	0	0	0
Drawdown of Long-term Debt	0	0	0	0	0
Principal Repayments on Short-term Loan	0	500	0	0	0
Proceeds from IPO and Secondary Offering, net of issuance costs	0	7,380	0	0	0
Exercise of Employee Stock Option	0	(1,846)	0	0	0
Others	101	28	31	41	58
Cash Flow from Financing Activities	(0)	0	0	0	0
	94	6,062	31	41	58
Other Adjustments					
Foreign Exchange Rate Effect on Cash	(70)	(35)	0	0	1
Cash Flow Net Changes in Cash	108	2,057	(1,462)	(365)	(818)
BB	1,656	1,764	3,821	2,359	1,994
EB	1,764	3,821	2,359	1,994	1,176

key ratios (Dec Year End mn RMB, %)	2013	2014	2015E	2016E	2017E
GAAP					
Growth YoY					
Revenue	69%	33%	44%	43%	42%
Operating profit	42%	35%	-5%	-46%	-45%
EBITDA	1554%	6%	-91%	1589%	61%
Net profit	37%	53%	-17%	-53%	-59%
Margins					
Gross margin	18%	19%	22%	26%	29%
Operating margin	-22%	-23%	-15%	-6%	-2%
EBITDA margin	11%	8%	1%	6%	7%
Net margin	-19%	-22%	-13%	-4%	-1%
Non-GAAP					
Non-GAAP gross profit	601	841	1,339	2,245	3,530
Non-GAAP operating profit	(441)	(587)	(506)	12	423
Non-GAAP EBITDA (Loss) Profit	(581)	(889)	(739)	(350)	(176)
Non-GAAP net profit	(342)	(556)	(367)	135	589
Stock-Based compensation	188	310	344	448	630
Growth YoY					
Revenue	79%	40%	59%	68%	57%
Operating profit	47%	33%	-14%	-102%	3307%
EBITDA	37%	53%	-17%	-53%	-50%
Net profit	40%	62%	-34%	-137%	335%
Margins					
Gross margin	20%	21%	23%	27%	30%
Operating margin	-15%	-15%	-9%	0%	4%
EBITDA margin	18%	17%	7%	12%	13%
Net margin	-11%	-14%	-6%	2%	5%
ROE					
Average net margin (operating leverage)	-19%	-22%	-13%	-4%	-1%
Asset turnover (operating leverage)	33%	35%	43%	63%	92%
Asset/equity (financial leverage)	116%	54%	48%	54%	58%
ROA					
IC	8,983	14,041	13,291	12,941	12,797
ROIC	-6%	-8%	-5%	-3%	-1%
FCF					
Net debt	(1,764)	(3,321)	(1,859)	(1,244)	(51)
Net gearing ratio excl. minority	-17%	-24%	-11%	-7%	0%

Source: the Company, Guotai Junan International.

Table 8: PC Video Traffic (not include Traffic in PC software's)

MAU (mn users)	1M14	2M14	3M14	4M14	5M14	6M14	7M14	8M14	9M14	10M14	11M14	12M14	1M15	2M15
PC Video	502	496	508	506	507	523	519	535	539	528	526	537	512	474
Youku		155	150	134	131	139	129	154	146	112	130	145	148	127
Tencent		74	84	78	71	76	68	93	84	54	56	65	69	58
iQiyi		107	102	94	91	103	91	109	105	78	93	103	111	100
Sohu		135	154	151	131	134	118	144	135	95	109	120	131	103
PPS		70	56	48	36	36	30	38	40	23	25	23	26	21
PPTV		53	53	57	52	51	54	53	55	52	64	73	69	66
Tudou		101	84	82	80	80	69	92	88	57	68	77	82	66
Letv		86	81	76	69	69	59	72	66	47	60	59	62	56
Total Visits (mn times)		6,234	6,781	5,399	4,213	4,043	3,890	4,976	4,666	3,778	3,613	4,488	5,621	3,908
Youku		1,173	1,273	987	820	819	807	1,097	996	790	773	1,055	1,158	763
Tencent		295	415	335	263	268	253	453	364	225	189	239	287	208
iQiyi		689	714	536	424	459	459	608	539	432	434	561	825	608
Sohu		700	923	879	663	650	670	863	790	568	512	688	830	512
PPS		190	164	117	71	68	62	76	77	51	40	37	46	34
PPTV		431	460	445	337	363	344	276	310	294	275	429	897	728
Tudou		379	362	317	259	259	236	309	288	219	204	241	299	229
Letv		416	416	332	274	245	220	274	250	196	207	200	243	191
Total Time Spent (mn hours)		21,780	24,462	20,069	16,398	15,869	14,423	19,189	19,959	15,869	13,413	18,891	26,264	12,998
Youku		4,528	5,393	4,623	3,576	3,583	3,551	4,566	4,180	3,227	3,037	4,297	5,334	2,473
Tencent		1,355	1,957	1,416	1,255	1,426	1,087	2,003	1,832	1,089	720	899	1,081	532
iQiyi		2,361	2,466	1,652	1,401	1,514	1,517	2,395	2,059	1,856	1,585	1,895	3,213	1,677
Sohu		2,186	3,049	2,938	2,499	2,560	2,532	3,567	3,542	2,575	1,841	2,398	3,306	1,499
PPS		517	430	299	201	179	172	207	259	166	143	115	134	69
PPTV		2,080	2,341	3,210	2,338	2,146	1,904	1,620	3,011	2,539	1,697	2,655	8,051	3,985
Tudou		1,087	1,052	831	859	864	713	981	893	687	687	816	1,182	674
Letv		1,219	1,462	725	548	545	430	644	808	659	651	615	885	494
User Time Spent %														
Youku		20.8%	22.0%	23.0%	21.8%	22.6%	24.6%	23.8%	20.9%	20.3%	22.6%	22.7%	20.3%	19.0%
Tencent		6.2%	8.0%	7.1%	7.7%	9.0%	7.5%	10.4%	9.2%	6.9%	5.4%	4.8%	4.1%	4.1%
iQiyi		10.8%	10.1%	8.2%	8.5%	9.5%	10.5%	12.5%	10.3%	11.7%	11.8%	10.0%	12.2%	12.9%
Sohu		10.0%	12.5%	14.6%	15.2%	16.1%	17.6%	18.6%	17.7%	16.2%	13.7%	12.7%	12.6%	11.5%
PPS		2.4%	1.8%	1.5%	1.2%	1.1%	1.2%	1.1%	1.3%	1.0%	1.1%	0.6%	0.5%	0.5%
PPTV		9.6%	9.6%	16.0%	14.3%	13.5%	13.2%	8.4%	15.1%	16.0%	12.7%	14.1%	30.7%	30.7%
Tudou		5.0%	4.3%	4.1%	5.2%	5.4%	4.9%	5.1%	4.5%	4.3%	5.1%	4.3%	4.5%	5.2%
Letv		5.6%	6.0%	3.6%	3.3%	3.4%	3.0%	3.4%	4.0%	4.2%	4.9%	3.3%	3.4%	3.8%
Youku +Tudou		25.8%	26.3%	27.2%	27.0%	28.0%	29.6%	28.9%	25.4%	24.7%	27.8%	27.1%	24.8%	24.2%
Tencent		6.2%	8.0%	7.1%	7.7%	9.0%	7.5%	10.4%	9.2%	6.9%	5.4%	4.8%	4.1%	4.1%
iQiyi+PPS		13.2%	11.8%	9.7%	9.8%	10.7%	11.7%	13.6%	11.6%	12.7%	12.9%	10.6%	12.7%	13.4%

Source: eGuan, 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.

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for Shandong Chenming Paper Holdings Limited-H shares (01812), China All Access (Holdings) Limited (00633), Guangshen Railway Company Limited-H share (00525), Guotai Junan International Holdings Limited (01788) and Binhai Investment Company Limited (02886), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services and etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2015 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk