



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

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Expect More Synergy to Fuel Long Term Growth, Fair Valuation, Downgrade to 'Neutral'

期待更多协同效应提高长期增长, 估值合理, 下调到“中性”

- Youku Tudou (Youku)'s 1Q15 results were basically in line with our expectations.** Non GAAP revenue was RMB1,056.2mn, up 50.8% yoy, 3% above our expectations and market consensus. Consumer revenue reached RMB120.8mn, up 708% yoy. Non GAAP net income reached RMB-418.8mn, below expectations. 2Q15 non GAAP revenue guidance reached RMB1.52bn, up 58.5% yoy, above expectations.
- Key points: 1) Youku traffic growth slowed down.** Youku 1Q15 DVV only reached 900mn, up 12.5% qoq, perhaps mainly due to seasonality, more competition, and SARFT's new policy. Youku should work YunOS and Meizu to increase low income new mobile users. **2) Consumer revenue growth rate maintained at high level.** Youku consumer revenue mainly came from membership, mobile game joint operation, and interactive live videos. The biggest obstacle of membership growth is SARFT's new policy. **3) Youku might cooperate with Alibaba Pictures and Netflix.**
- Raise Target Price to USD26.00 and downgrade to 'Neutral' investment rating.** We think Youku could create more synergy with Alibaba Pictures and Netflix to fuel long term growth. In the short run, content cost pressure might increase further. Our FY15-17 earnings per ADR estimates are RMB-8.130, RMB-6.846 and RMB-6.010, respectively. Our TP is USD26.00, representing 3.2x 2016E PS. Fair Valuation. 'Neutral'.
- 优酷土豆 (优酷) 1Q15 业绩基本符合我们预期。** Non GAAP 收入为 RMB1,056.2 百万, 同比增 50.8%, 较我们和市场预期高 3%。其中消费者收入达到 RMB120.8 百万, 同比上涨 708%。Non-GAAP 净亏损达到 RMB418.8 百万, 低于我们和市场预期。2Q15 non GAAP 收入指引为 RMB15.2 亿, 同比增长 58.5%, 高于预期。
- 要点: 1) 优酷流量增长放缓。** 优酷 1Q15 的 DVV 仅为 900mn, 季环比仅增长 12.5%, 可能是由于季节性原因, 或由于竞争加剧, 或广电新政。优酷应该与 YunOS 和魅族合作提高低收入新手机用户人群中用户。2) **消费者收入持续高增长。** 优酷消费者收入主要来自会员收入, 视频直播, 以及游戏联合运营。会员费增长的阻力来自于广电新政。3) **优酷可能与阿里影业和 Netflix 进一步合作。**
- 目标价上调至 USD26.00, 投资评级下调为“中性”。** 我们认为优酷与阿里影业及 Netflix 可能创造更多协同效应提高长期增长。短期来看, 内容成本压力可能会继续加大。我们 FY15-17 年的每股 ADR 盈利预测是 RMB-8.130、RMB-6.846 和 RMB-6.010。目标价 26.00 美元, 相当于 3.2 倍的 2016 年预测市盈率。目前估值合理, “中性”。

Rating:

Neutral

Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

US\$26.00

Revised from 原目标价:

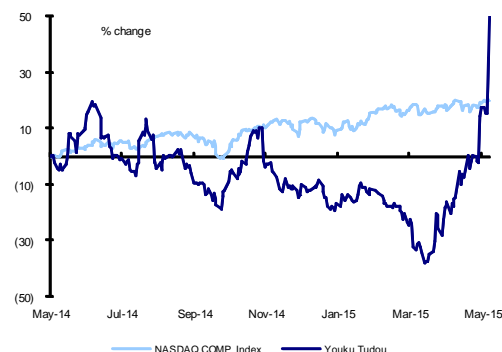
US\$22.00

Share price 股价:

US\$30.750

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 %	80.6	82.5	51.4
Rel. % to NASDAQ index 相对纳斯达克变动 %	80.2	81.9	39.5
Avg. ADR price(US\$) 平均 ADR 价 (美元)	20.8	17.1	18.6

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	3,069	(600)	(3.617)	13.0	n.a.	54.157	3.520	0.000	0.0	(6.5)
2014A	4,223	(838)	(4.436)	22.6	n.a.	74.649	2.554	0.000	0.0	(7.3)
2015F	6,539	(1,581)	(8.130)	83.3	n.a.	64.345	2.963	0.000	0.0	(11.9)
2016F	9,716	(1,371)	(6.846)	(15.8)	n.a.	55.625	3.427	0.000	0.0	(11.6)
2017F	13,603	(1,240)	(6.010)	(12.2)	n.a.	47.995	3.972	0.000	0.0	(11.8)

ADR in issue (m) 总股数 (m)

194.5

Market cap. (US\$ m) 市值 (US\$ m)

5,931.2

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

3,704.0

52 Weeks high/low (US\$) 52 周高/低

31.400 / 11.850

Major shareholder 大股东

Victor Koo 18.1%

Free float (%) 自由流通比率 (%)

17.5

FY15 Net gearing FY15 净负债/股东资金 (%)

Net cash

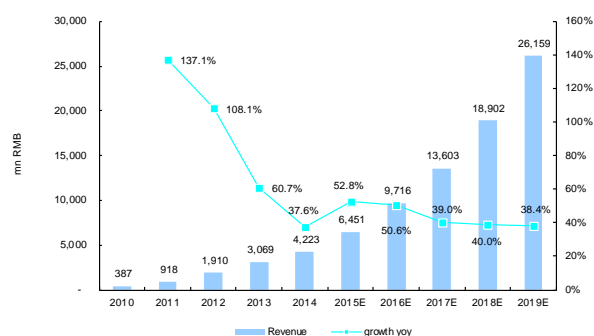
Source: the Company, Guotai Junan International.

Youku Tudou (Youku)'s 1Q15 results were basically in line with our expectations. Non GAAP Revenue was RMB1,056.2mn, up 50.8% yoy, 3% above our expectations and market consensus. Consumer revenue reached RMB120.8mn, up 706% yoy. Non GAAP net income reached RMB517.3mn, below expectations. **Youku mobile video monetization accelerates.** 2Q15 non GAAP revenue guidance to reach around RMB1.52bn, up 58.5% yoy, above expectations.

Youku has changed the accounting principles. Certain adjustments were made to the Company's historical consolidated financial statements reflecting certain revisions to its accounting treatment for licensed copyrights and nonmonetary exchanges of licensed copyrights, as further described in the 2014 Annual Report. For GAAP revenue, in 1Q15 Youku has added RMB83.2 barter sublicensing revenues to non GAAP revenue. In balance sheet, Youku has set up new account of licensed copyrights. Compared to old accounting principles, Youku's revenue was boosted slightly.

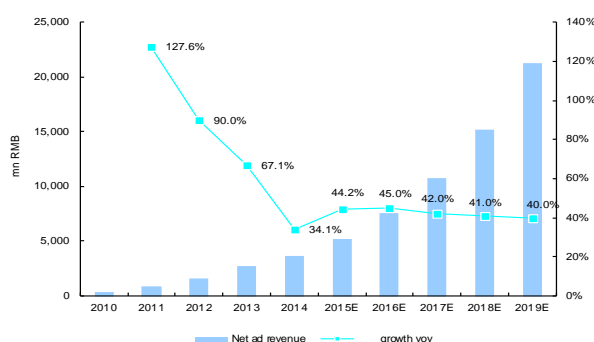
Consumer revenue grew fast. Youku's consumer revenue mainly includes subscription-based service, mobile game joint operation and interactive live entertainment. In 1Q15, Youku's consumer revenue reached RMB120.8mn, up 708% yoy, up 73.3% qoq, accounting for 11.4% of non GAAP revenue, above our expectations. According to Youku's guidance of 2Q15 revenue, Youku's consumer revenue might reach around RMB160mn. In last quarter, Youku's membership reached 1.0mn and we estimated that membership revenue reached around RMB60.0mn. Interactive live video, Laifeng Live (来疯直播), has contributed sharing revenues of RMB24.1mn in 1Q15, up 19.8% qoq. Revenue from Laifeng Live might reach around RMB30~50mn. We think the largest obstacle for membership growth comes from the SARFT's new policy in imported TV dramas. Youku's new US, Korea and TVB TV dramas are still in SARFT's Review process. We expect Youku's new US, Korea and TVB TV dramas could be streamed in 3Q15.

Figure 1: Youku's Revenue Projection



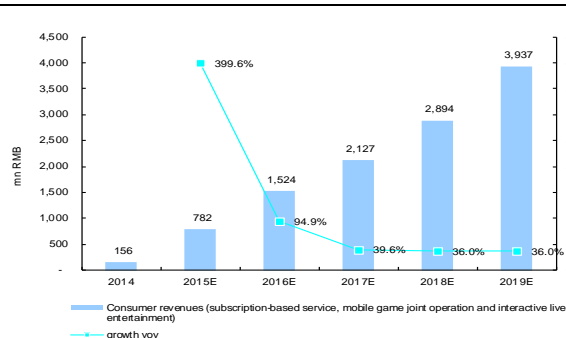
Source: the Company, Guotai Junan International.

Figure 2: Youku's Net Ad Revenue Projection



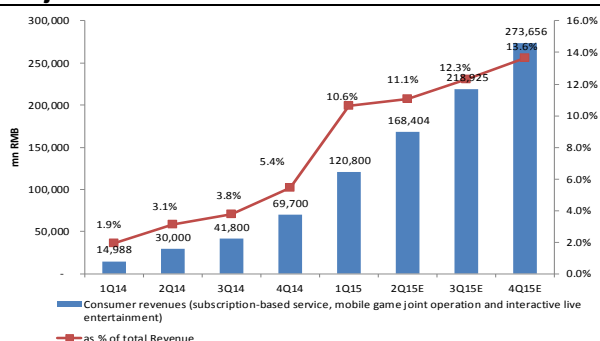
Source: the Company, Guotai Junan International.

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.

Alimama helped Youku to set up Real-time Bidding (RTB) system to monetize long tail short videos.

Alimama announced to provide RTB for video portals in 6M14, especially for display ads and pause ads. As video portals have robust PC and mobile traffic, their RTB might attract medium and small advertisers, such as mobile game producers, to bid display ads. Alimama's big data, Data Management Platform (DMP) could help the RTB to increase conversion rate. Youku management announced that in 1Q15 RTB has accounted for 5% of total revenue and its proportion was expected to increase further, with lower sales expense ratio. Currently, in 1Q15, PGC and UGC videos have accounted for 50% of total video views. RTB might be very helpful for Youku to monetize PGC and UGC short videos.

Total traffic growth began to slow down. According to the management, Youku average daily video views (DVV) in 1Q15 reached 900mn, with 75% of mobile video views. Mobile DVV reached 675mn in 1Q15, up 15.6% yoy, 75% of total DVV. We think there might be 3 reasons: **1) Seasonality.** Chinese might watch fewer videos during Spring Festivals as they united to watch TV programs. And many Chinese might travel abroad during Spring Festival vacation. **2) SARFT's new policy.** Youku's new US, Korea and TVB TV dramas are still in SARFT review process. New hot TV dramas are key drivers of video portal traffic growth. Although Youku bought lots of Chinese TV dramas, some audiences didn't like China TV dramas and they might visit Youku much less than ever. **3) More competition from Tencent.** Tencent has bought far more China TV dramas and introduced HBO TV dramas *Game of Thrones* to attract new audiences. WeChat, with MAU of around 400mn, might convert more traffic to Tencent videos. Tencent might continue to gain market shares until Youku could strengthen its unique Korea and TVB TV drama content. Currently, YunOS was working with China Telecom to provide RMB299 small brand smart phones to 3rd, 4th, & 5th tier city users and rural areas. Meizu, with strong low end Meizu Blue and MX4, are also promoting in these areas. We think Youku should promote with YunOS and Meizu in 3rd, 4th, & 5th tier city users and rural areas to acquire more low income new mobile users.

Figure 5: Youku's Daily Video View Growth

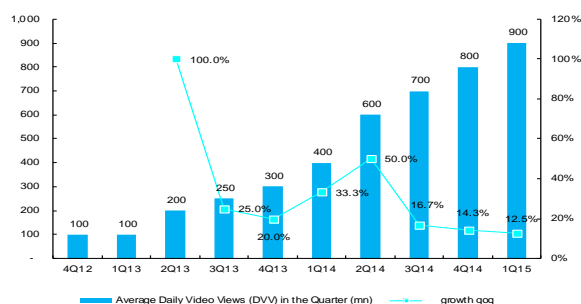
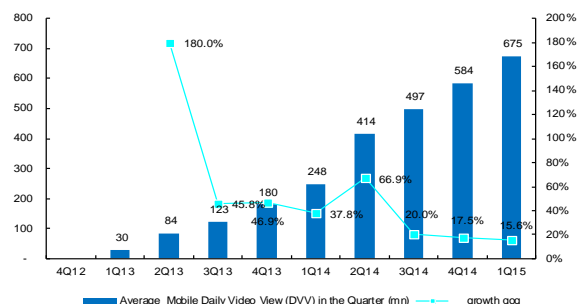


Figure 6: Youku's Mobile Daily Video View Growth



Source: the Company, Guotai Junan International.

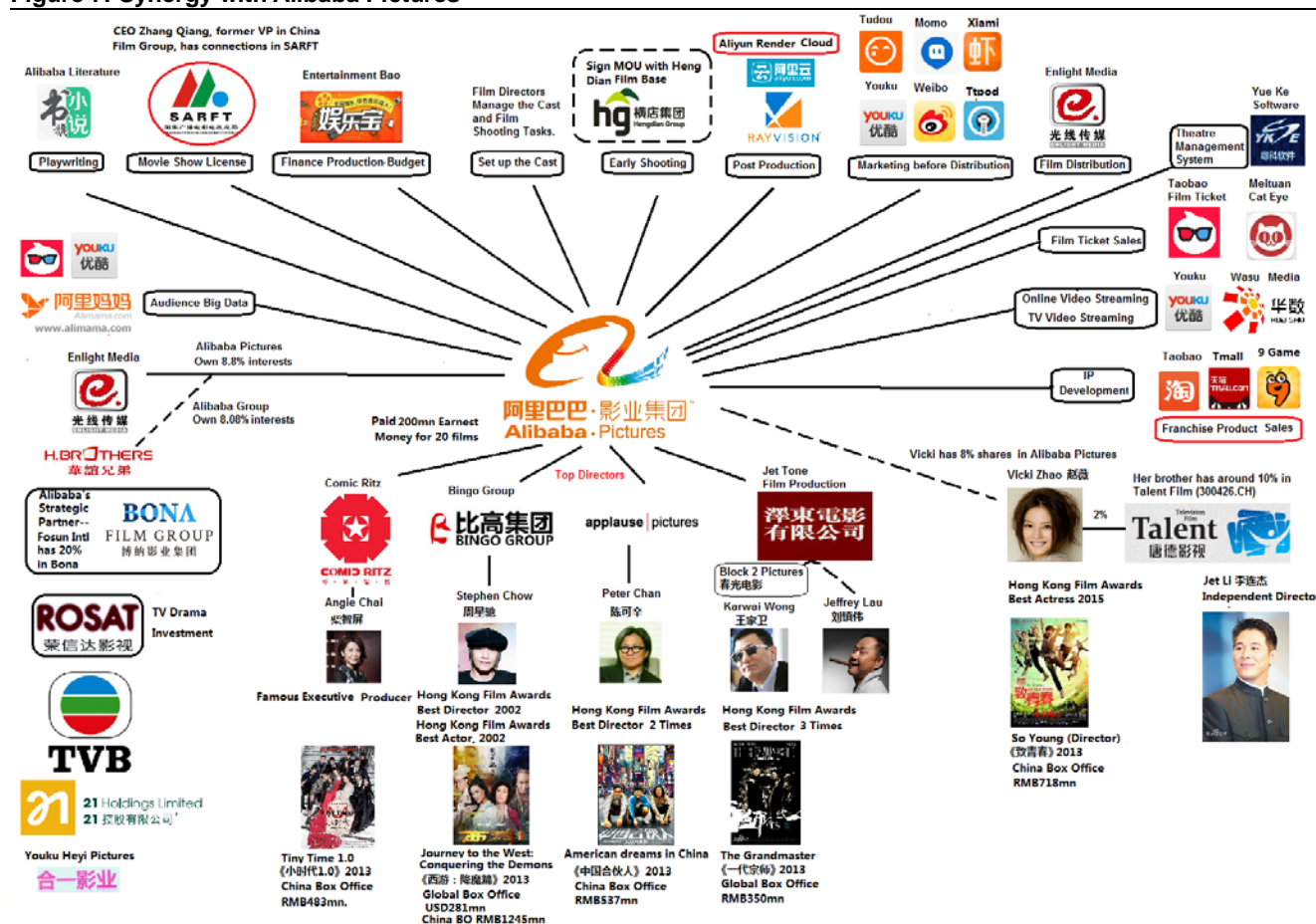
Source: the Company, Guotai Junan International.

Expect more synergy with Alibaba Pictures. Youku management revealed that Youku's Heyi Pictures is working with Alibaba Pictures to develop film IP.

Alibaba Pictures have already built up competitive edges in almost every link of film production: **1) Signed with famous directors.** Alibaba Group has paid RMB200mn to 3 famous directors: Stephen Chow (Hong Kong Film Awards (HKFA) Best Actor and Best Director in 2002), Peter Chan (2 Times HKFA Best Director), and Karwei Wang (3 Times HKFA Best Director), and 1 famous female executive producer: Angie Chai. Alibaba Pictures' shareholder Vicki Zhao, the new HKFA Best Actress, was also a director, with So Young box office of RMB718mn in 2013. Five films of the five directors have generated cumulative box office revenue of RMB3.2bn in 2013, over 10% market share. Famous movie star- Jet Li (李连杰) is Alibaba Pictures independent director. **2) Playwriting.** Alibaba Group has established Alibaba Literature, an open platform under UCWeb, to provide IP development opportunities with online literature writers, to create scripts with Alibaba Pictures. **3) Finance the budget.** Alibaba Group tried to inject Entertainment Bao into Alibaba Pictures. Entertainment Bao has financed over 10 films in 2014, with around RMB330 financing amount and related box office of RMB3.0bn. **4) Post production.** Aliyun has cooperated with Ray Vision to create a video cloud, called Render Cloud, especially for film post production, which could save 40% cost and 90% production time. Aliyun render cloud might become a key bargaining business for Alibaba Pictures to cooperate with famous directors. **5) Marketing before distribution.**

Alibaba Group has acquired lots of mobile media: Weibo, Youku Tudou, Xiami Music and Ttpod, which could help Alibaba Pictures to promote its new films before distribution. **6) Film distribution.** Alibaba Group has 8.8% interests in Enlighten Media, the largest film distributor in China, with 2014 box office of RMB3.2bn in China. **7) Film tickets sales.** In 2014 Taobao film ticket sales, along with Meituan Cat Eye, has 18.7% market shares of China film ticket sales and 40.9% of online market shares of China film tickets sales, according to eGuan Research. **9) IP development.** Tmall is the best place for franchised film product sales and 9 Game could help to create online games. In general, Alibaba Pictures might have lots of media assets to integrate before it could produce 8~10 high quality films annually. **10) Theatre Management System.** Alibaba Pictures has acquired Yueke Software (粤科软件), the largest Theatre Management System software provider in China, with 60% market share of large cinemas (Annual Box Office above RMB10mn). Alibaba Pictures might transform Yueke Software to cloud based SaaS platform in the future. **11) Online and TV video streaming.** Youku and Tudou are perfect platform for Alibaba Pictures' content library to stream in the net. Wasu Media might help its content library to come into TV. Currently, Youku is talking with Netflix, the largest video streaming portal, and Alibaba Pictures' content library might be streamed abroad through Youku and Netflix's operation in the future.

Figure 7: Synergy with Alibaba Pictures



Source: the Company, Guotai Junan International.

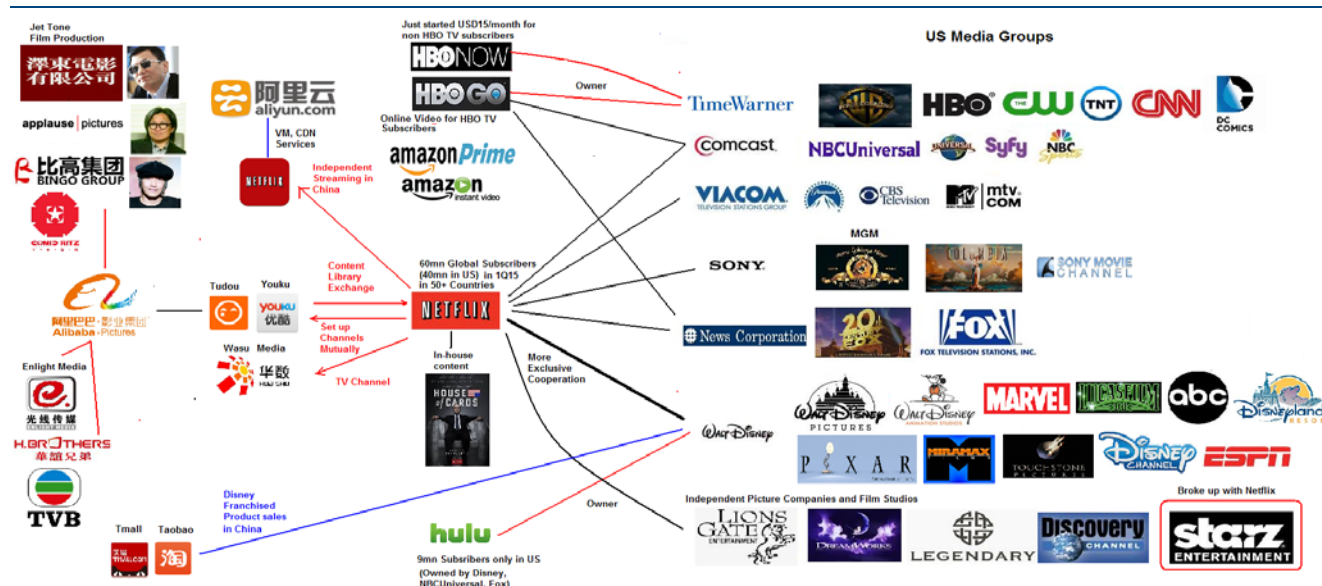
Netflix is the largest video streaming portal in the world. In 1Q15, Netflix's paid subscribers reached 60mn in the world, up 29.3% yoy, with 40mn in US, up 17.2% yoy, and 20mn in the regions outside US, up 63.6% yoy. Netflix announced to stream videos in over 50 countries and has just begun businesses in Japan and New Zealand. In 1Q15, Netflix announced to stream 10bn hours, or 1.9 hour per day per subscriber account, an amazing high level. Currently, its main competitors are Amazon Instant Video, HBO Now & HBO GO, and Hulu. Hulu are owned by Disney, NBCUniversal, and Fox, with 9mn subscribers only in US. HBO Now and HBO GO are big potential competitors with unique content library from Time Warner. HBO GO is an online video streaming service for HBO TV subscribers and HBO Now is a pure online video streaming business which was started recently. Currently, Netflix has started content library cooperation with most US media groups, except Time Warner and Starz.

Netflix has an excellent video recommendation engine. Netflix introduced a "Profiles" feature on August 1, 2013 that permits accounts to accommodate up to five unique user profiles, associated either with individuals or themes of their choosing. "Profiles" effectively segregates the viewing habits of each profile category so that each profile will receive individualized suggestions and the ability to add its own favorite titles. According to Todd Yellin, Netflix's vice president of product innovation, because, "About 75 percent to 80 percent of what people watch on Netflix comes from what Netflix recommends, not from what people search for". Moreover, profiles will give Netflix even more detailed information about its subscribers and their viewing habits, allowing the company to make better decisions about what movies and TV shows to offer.

Netflix and Disney are getting more exclusive. The two companies just announced a licensing deal that makes Netflix the only home for Lucasfilm's animated TV series Star Wars: The Clone Wars. But the pact isn't limited to just the five seasons that already aired on television: a sixth chapter will start streaming in March -- only on Netflix. Netflix and Disney are pushing the relationship to the next level. The deepening Netflix-Disney relationship isn't limited to just TV. Beginning in 2016, Netflix will be the exclusive streamer for first-run feature films across Disney's properties of Pixar, Marvel, Lucasfilm, and Disney Animation studios.

Youku and Netflix cooperation might work in 2 phases. Youku and Netflix cooperation should be approved by SARFT. It's very difficult for Netflix to operate directly in China but Netflix did have bargaining powers: Netflix could help Youku to stream Chinese TV drama and in-house TV drama around the world, which might satisfy Chinese government officials' wishes to broadcast Chinese culture in the world. **In Phase 1, Youku and Netflix might exchange their unique high quality content library and set up channels in each others' platform.** According to the management, Victor Koo mentioned that Youku's content library is almost Asia content but Netflix content library is almost US content. Netflix could begin to build up its brand in China first and Netflix needs more high quality Asian content library to explore its Asia market. There are around 100mn Ethnic Chinese living outside China, most of whom are living in Asia. Youku could provide air rights of Chinese TV dramas and in-house contents. Alibaba Pictures might also benefit from this cooperation to stream its content library in the world in the future. **In Phase 2, Netflix might seek independent operation in China, if SARFT could approve.** Netflix needs the IaaS and CDN services from Aliyun very much to operate in China. And Youku might become a unique window for all the Chinese TV dramas and in-house contents to stream outside China through cooperation with Netflix.

Figure 8: Youku and Netflix Synergy



Source: the Company, Guotai Junan International.

Table 1: Netflix Operation Matrix

mn USD	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
Domestic Streaming													
Total members at end of period (mn)	23.4	23.9	25.1	27.1	29.2	29.8	31.1	33.4	35.7	36.2	37.2	39.1	41.4
Paid members at end of period (mn)	22.0	22.7	23.8	25.5	27.9	28.6	29.9	31.7	34.4	35.1	36.3	37.7	40.3
Revenues	507	533	556	589	639	671	701	741	799	838	877	917	985
Cost of revenues	361	379	399	420	437	449	471	493	517	546	565	573	583
Marketing*	507	533	556	589	639	671	701	741	799	838	877	917	985
Contribution profit	361	379	399	420	437	449	471	493	517	546	565	573	583
Contribution margin	71.2%	71.1%	71.8%	71.3%	68.3%	67.0%	67.1%	66.5%	64.7%	65.2%	64.4%	62.5%	59.2%
International Streaming													
Total members at end of period (mn)	3.1	3.6	4.3	6.1	7.1	7.7	9.2	10.9	12.7	13.8	15.8	18.3	20.9
Paid members at end of period (mn)	2.4	3.0	3.7	4.9	6.3	7.0	8.1	9.7	11.8	12.9	14.4	16.8	19.3
Revenues	43	65	78	101	142	166	183	221	267	307	346	388	415
Cost of revenues	91	109	124	151	165	183	208	219	245	267	292	350	375
Marketing*	55	46	46	55	54	49	49	60	57	56	85	116	105
Contribution profit (loss)	(103)	(89)	(92)	(105)	(77)	(66)	(74)	(57)	(35)	(15)	(31)	(79)	(65)
Contribution margin	-236.5%	-137.6%	-118.8%	-103.2%	-54.2%	-39.7%	-40.6%	-25.9%	-13.1%	-5.0%	-8.9%	-20.3%	-15.6%
Domestic DVD													
Total members at end of period	10.1	9.2	8.6	8.2	8.0	7.5	7.1	6.9	6.7	6.3	6.0	5.8	5.6
Paid members at end of period	10.0	9.1	8.5	8.0	7.8	7.4	7.0	6.8	6.5	6.2	5.9	5.7	5.5
Revenues	320	291	271	254	243	232	222	213	204	195	187	179	173
Cost of revenues	172	156	139	124	125	121	112	100	107	102	97	91	89
Marketing*	2	1	2	3	4	3	3	3	0	0	0	0	0
Contribution profit (loss)	146	134	131	128	113	109	107	110	98	93	89	89	85
Contribution margin	45.7%	45.9%	48.2%	50.1%	46.6%	46.7%	48.1%	51.7%	47.7%	47.7%	47.9%	49.3%	48.8%
Total Streaming													
Total members at end of period	26.5	27.6	29.4	33.3	36.3	37.6	40.3	44.4	48.4	50.0	53.1	57.4	62.3
Paid members at end of period	24.4	25.7	27.5	30.4	34.2	35.6	38.0	41.4	46.1	48.0	50.7	54.5	59.6
Revenue	550	598	634	691	781	837	884	962	1,066	1,146	1,223	1,305	1,400
Cost of revenues	452	487	524	572	602	632	679	711	762	813	857	923	958
Marketing*	561	579	602	644	693	720	750	800	855	894	962	1,034	1,090
Contribution profit (loss)	258	289	307	316	360	384	396	435	482	531	534	495	518
Contribution margin	46.9%	48.4%	48.4%	45.7%	46.1%	45.8%	44.8%	45.2%	45.2%	46.3%	43.7%	37.9%	37.0%
Consolidated													
Revenues	870	889	905	945	1,024	1,069	1,106	1,175	1,270	1,340	1,409	1,485	1,573
Net Income (loss)	(5)	6	8	8	3	29	32	48	53	71	59	83	24
Net margin	-0.5%	0.7%	0.8%	0.8%	0.3%	2.8%	2.9%	4.1%	4.2%	5.3%	4.2%	5.6%	1.5%

Source: iResearch 1M15, Guotai Junan International.

Youku is working with DJI in unmanned aerial vehicle (UAV) UGC Videos. Recently, Youku has signed exclusively with DJI, the largest UAV producers in the world, to provide UGC videos. Alipay, Alitrip, Qtravel (穷游网), and Youku has jointly announced special offer of New Zealand trips, for Chinese travelers to provide excellent UGC videos about New Zealand views.

Alibaba Group and Yunfeng Fund have become the largest shareholders of Youku. Alibaba Group and Yunfeng Fund hold 20.7% of Youku shares, more than the previous 18.5% interests. Alibaba Group Director Lu Zhaoxi (陆兆禧), the former CEO of Alibaba Group, has come into the board of directors of Youku. **Youku and Alibaba Group might begin to work more closely to create more synergy.**

Raise Target Price to USD26.00 and downgrade to 'Neutral' investment rating. We think Youku could create more synergy with Alibaba Pictures and Netflix to fuel long term growth. In short run, content cost pressure might increase further. Our FY15-17 earnings per ADR estimates are RMB-8.130, RMB-6.846 and RMB-6.010, respectively. Our TP is USD26.00, representing 3.2x 2016E PS. Fair Valuation. 'Neutral'.

Table 2: 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	621.87	292,271.3	319.3	173.8	136.9	243.7	120.6		23,918.1	340.6	181.8	379.7	173.0
Leshi Internet Information-A	300104 CH	CNY	80.39	185,670.0	n.a.	n.a.	n.a.	n.a.	n.a.		730.5	515.3	402.0	243.6	154.0
Youku Tudou Inc-Adr	Yoku US	USD	30.75	46,088.7	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	66.66	29,289.7	50.5	37.6	22.6	19.0	13.8		136.0	58.9	25.4	20.2	14.9
Phoenix New Media Ltd -Adr	FENG US	USD	7.36	4,395.5	17.1	16.2	11.4	13.4	10.3		38.9	14.1	13.8	20.5	11.2
Simple Average					129.0	75.9	57.0	92.0	48.3		6,205.9	232.2	155.7	166.0	88.3
Weighted Average					170.1	93.2	73.0	128.8	64.0		12,784.9	353.2	230.5	281.3	142.8

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	6,776	6.9	16.5	28.8	33.5	37.9	1.4	4.9	6.8	5.6	4.5
Leshi Internet Information-A	1,122	2,233	6,019	14,078	6.3	1.0	n.a.	2.6	3.1	7.0	66.6	24.7	10.6	7.2
Youku Tudou Inc-Adr	1,796	3,069	4,011	6,007	2.0	3.4	0.7	0.5	0.3	8.4	9.9	9.2	6.1	4.5
Yy Inc-Adr	806	1,839	3,617	5,469	3.7	8.9	8.2	11.4	16.1	3.3	9.4	6.5	4.3	3.2
Phoenix New Media Ltd -Adr	1,111	1,424	1,653	1,865	2.6	2.1	2.0	2.7	2.3	1.6	3.1	2.1	1.9	1.6
Simple Average					4.3	6.4	9.9	10.1	12.0	4.3	18.8	9.9	5.7	4.2
Weighted Average					6.1	9.7	15.6	19.1	21.8	4.0	26.1	12.9	7.2	5.3

Source: Bloomberg, Guotai Junan International, May 25th 2015.

Table 3: 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
			97.9%	56.6%	47.2%	55.1%	50.3%	41.1%	32.4%	26.7%
Breakdown										
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	3,623	5,225	7,576	10,758	15,168
growth YoY	%		127.6%	90.0%	67.1%	34.1%	44.2%	45.0%	42.0%	41.0%
market shares%	%	17.4%	20.0%	24.3%	27.6%	23.8%	22.9%	23.5%	25.2%	28.0%
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.

Table 4: Youku Quarter Result Projection

mn RMB	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15E	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
Revenues												
Net Revenues	775	959	1,107	1,282	1,139	1,520	1,783	2,009	1,768	2,410	2,626	2,913
Cost of Revenues	(643)	(750)	(860)	(1,048)	(1,138)	(1,307)	(1,515)	(1,708)	(1,485)	(2,024)	(2,206)	(2,447)
Gross profit	132	209	247	235	1	213	267	301	283	386	420	466
Sales and Marketing	(186)	(213)	(287)	(344)	(320)	(365)	(410)	(442)	(354)	(458)	(473)	(524)
General and Administrative	(46)	(74)	(53)	(79)	(84)	(91)	(107)	(121)	(103)	(140)	(152)	(169)
Product Development	(80)	(99)	(112)	(123)	(140)	(114)	(134)	(151)	(124)	(169)	(184)	(189)
Operating Income	(180)	(178)	(206)	(311)	(543)	(357)	(383)	(412)	(297)	(381)	(389)	(417)
net finance cost	6	10	23	23	19	31	33	26	19	20	21	26
Other Income (Loss), Net	(2)	3	2	19	6	6	6	6	6	7	7	7
Earnings before Taxes	(176)	(164)	(181)	(270)	(517)	(320)	(344)	(379)	(271)	(354)	(361)	(384)
Provision for Income Tax	0	(0)	0	(52)	(0)	0	0	0	0	0	0	0
Net Income (Loss)	(176)	(164)	(181)	(322)	(517)	(320)	(344)	(379)	(271)	(354)	(361)	(384)
Net loss per ADS, basic and diluted RMB/ADS	(1.049)	(0.882)	(0.877)	(1.650)	(2.672)	(1.726)	(1.674)	(1.957)	(1.361)	(1.856)	(1.704)	(1.925)
Non-GAAP (net loss)/ Profit per ADS RMB/ADS	(0.936)	(0.407)	(0.496)	(1.128)	(2.488)	(1.257)	(1.188)	(1.387)	(0.823)	(1.099)	(0.970)	(1.071)
ADS used in computation, basic and diluted mn shares	168	186	207	195	194	185	206	194	199	191	212	199
cost of revenue breakdown												
value added, business taxes and surcharges	63	90	98	115	98	112	128	143	122	165	177	194
bandwidth costs	202	214	230	272	307	350	403	450	389	526	568	625
depreciation of servers and other equipment	20	29	30	29	34	37	40	41	34	45	47	49
content costs	357	418	502	611	669	771	897	1,014	884	1,206	1,316	1,463
Non-GAAP results												
non-GAAP gross profit	90	224	261	261	(33)	227	284	320	308	419	457	507
non-GAAP operating profit	(159)	(89)	(127)	(209)	(507)	(270)	(283)	(301)	(190)	(236)	(233)	(246)
non-GAAP net profit	(157)	(76)	(103)	(220)	(482)	(233)	(244)	(269)	(164)	(210)	(205)	(214)
Stock-Based compensation	70	82	72	86	80	84	97	107	99	133	143	156
Key growth rate YoY %												
net revenues	50.1%	27.2%	29.0%	42.3%	47.1%	58.5%	61.1%	56.7%	55.2%	58.5%	47.3%	45.0%
cost of revenue	28.1%	33.2%	10.9%	62.0%	77.1%	74.3%	76.3%	63.0%	30.5%	54.8%	45.5%	43.3%
value added, business taxes and surcharges	28.7%	20.5%	29.5%	48.5%	56.3%	24.7%	30.9%	23.4%	24.5%	47.6%	38.6%	36.4%
bandwidth costs	25.4%	30.1%	26.4%	52.2%	52.0%	63.8%	75.2%	65.4%	26.7%	50.2%	41.2%	38.9%
depreciation of servers and other equipment	-10.3%	34.5%	39.6%	-21.1%	70.3%	28.1%	30.2%	42.7%	0.3%	21.9%	17.7%	19.6%
content costs	32.4%	37.8%	1.1%	72.8%	87.6%	84.4%	78.7%	66.0%	32.1%	56.4%	46.8%	44.2%
Sales and Marketing	24.0%	22.2%	25.9%	26.8%	28.1%	24.0%	23.0%	22.0%	20.0%	19.0%	18.0%	18.0%
General and Administrative	6.0%	7.8%	4.8%	6.1%	7.4%	6.0%	6.0%	6.0%	5.8%	5.8%	5.8%	5.8%
Product Development	10.3%	10.3%	10.2%	9.6%	12.2%	7.5%	7.5%	7.5%	7.0%	7.0%	7.0%	6.5%
Margin %												
gross margin	17.1%	21.8%	22.3%	18.3%	0.1%	14.0%	15.0%	15.0%	16.0%	16.0%	16.0%	16.0%
operating margin	-23.2%	-18.5%	-18.6%	-24.3%	-47.6%	-23.5%	-21.5%	-20.5%	-16.8%	-15.8%	-14.8%	-14.3%
net margin	-22.7%	-17.2%	-16.4%	-25.1%	-45.4%	-21.0%	-19.3%	-18.9%	-15.4%	-14.7%	-13.7%	-13.2%
Non-GAAP gross margin	11.7%	23.4%	23.5%	20.4%	-2.9%	14.9%	15.9%	15.9%	17.4%	17.4%	17.4%	17.4%
Non-GAAP operating margin	-20.5%	-9.3%	-11.5%	-16.3%	-44.5%	-17.8%	-15.9%	-15.0%	-10.7%	-9.8%	-8.9%	-8.4%
Non-GAAP net margin	-20.3%	-7.9%	-9.3%	-17.1%	-42.3%	-15.3%	-13.7%	-13.4%	-9.3%	-8.7%	-7.8%	-7.3%

Source: the Company, Guotai Junan International.

Table 5: Financial Statements of Youku

Income Statement (DEC Fiscal Year mn RMB)	2013A	2014A	2015E	2016E	2017E	Balance Sheet (DEC Fiscal Year mn RMB)	2013A	2014A	2015E	2016E	2017E
Net Revenues	3,069	4,223	6,539	9,716	13,603	Current Assets					
Cost of Revenues	(2,525)	(3,400)	(5,743)	(8,162)	(11,154)	Cash and Cash Equivalents	1,764	3,821	3,041	1,840	1,140
Gross profit	544	824	795	1,555	2,448	Short-term Investments	1,409	4,021	3,217	2,252	1,576
Sales and Marketing	(691)	(1,028)	(1,558)	(1,808)	(2,176)	Accounts Receivables	1,370	1,720	2,938	3,983	5,706
General and Administrative	(285)	(251)	(408)	(564)	(707)	Amounts Due from Related Party	0	125	138	151	167
Product Development	(268)	(414)	(545)	(666)	(884)	Deferred Tax Assets	6	2	2	2	2
Operating Income	(699)	(868)	(1,715)	(1,483)	(1,319)	Prepayments and Other Assets	91	118	159	252	323
net finance cost	29	61	109	85	52	Restricted Cash	3	618	648	681	715
Other Income (Loss), Net	71	21	25	26	27	Intangible Assets, Net	0	0	0	0	0
Earnings before Taxes	(599)	(786)	(1,581)	(1,371)	(1,240)	Licensed copyrights, net	108	220	355	517	713
Provision for Income Tax	(1)	(52)	(0)	0	0	Total Current Assets	4,751	10,645	10,143	9,162	9,629
Net Income (Loss)	(600)	(838)	(1,581)	(1,371)	(1,240)	Non Current Assets					
						Property and Equipment, net	185	293	423	611	882
Net loss per ADS, basic and diluted	(3.617)	(4.436)	(8.130)	(6.846)	(6.010)	Long-term Investment in Related Party	0	67	74	81	90
Non-GAAP net loss (Profit) per ADS	(2.179)	(2.943)	(6.393)	(3.998)	(2.582)	Goodwill	4,263	4,263	4,263	4,263	4,263
ADS used in computation, basic and diluted mn shares	166	189	194	200	206	Intangible Assets, Net	891	876	832	792	753
EBITDA	265	519	98	887	1,788	Capitalized Content Production Costs	1	2	2	2	2
Non-GAAP net loss (Profit)	(362)	(556)	(1,243)	(793)	(524)	Prepayments and Other Assets	207	431	582	924	1,184
						Licensed copyrights, net	259	505	814	1,186	1,636
						Total Non- Current Assets	5,806	6,437	6,990	7,858	8,809
						Total Assets	10,557	17,081	17,133	17,020	18,438
						Current Liabilities					
						Accounts Payable	214	563	790	1,178	1,573
						Accrued Expenses and Other Liabilities	1,111	1,668	3,052	3,656	5,512
						Short Term Borrowings	0	500	500	750	1,125
						Advances from Customers	27	36	61	84	119
						Total Current Liabilities	1,351	2,767	4,404	5,667	8,329
						Non Current Liabilities					
						Deferred tax liability	217	214	209	205	201
						Other Liabilities	4	7	7	7	7
						total Non-current Liabilities	221	220	216	212	208
						Total Liabilities	1,572	2,988	4,620	5,879	8,531
						Total Shareholders' Equity	8,985	14,094	12,513	11,142	9,902
						Total Liabilities & Shareholders' Equity	10,557	17,081	17,133	17,020	18,438
						BVP ADS	54.157	74.649	64.345	55.625	47.995

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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 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