



Company Report: Qihoo 360 Technology Co. Ltd (QIHU US)

公司报告: 奇虎 360 科技有限公司 (QIHU US)

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Received Privatization Proposal, "Neutral"

公司收到私有化的建议, "中性"

- The Company received a non-binding proposal letter for privatization with the target price of US\$77.00 per ADS. The proposed acquisition price was a 16.6% premium before the announcement and the stock surged by 6.2% after the announcement. The Company was trading at a valuation lower than its China market listed peers.
- We think Qihoo 360 has a possibility of re-listing in China's stock market, due to higher market valuation and also since recently the State Council of China has been encouraging Chinese firms with special share structure such as VIE structure to list in China's stock market.
- Downgrade the investment rating to "Neutral" and revise up the TP from US\$75.00 to US\$77.00. We downgrade the Company's investment rating to "Neutral". The new TP represents 17.8x FY15 PER, 12.4x FY16 PER, 10.4x FY17 PER and 0.45 FY14-17 PEG.
- 公司收到非约束性的私有化建议, 目标价格为每股 ADS\$77.00 美元。目标收购价相比消息公布前的价格有 16.6% 的溢价, 消息公布后股价上涨 6.2%。公司现在的估值较其他在中国市场上市的同业为低。
- 我们预计奇虎 360 有可能在中国股市重新上市, 因较高的市场估值和近期国务院亦鼓励中国特殊股权结构的企业如 VIE 结构在中国上市。
- 下调公司的投资评级至“中性”及目标价从 75.00 美元上调至 77.00 美元。我们下调公司的投资评级至“中性”。新目标价相当于 17.8 倍 15 年市盈率、12.4 倍 16 年市盈率、10.4 倍 17 年市盈率及 14-17 财年 PEG 为 0.45。

Rating:

Neutral

Downgraded

评级:

中性 (下调)

6-18M TP 目标价:

US\$77.00

US\$75.00

ADS price ADS 股价:

US\$70.150

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	20.5	50.0	(22.7)
Rel. % to NASDAQ index 相对纳指变动 %	20.8	48.4	(38.8)
Avg. ADS price (US\$) 平均 ADS 股价 (美元)	50.4	42.0	51.5

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (USD m)	Net Profit 股东净利 (USD m)	Earnings/ ADS 每份 ADS 净利 (USD)	Earnings/ ADS 每份 ADS 净利变动 (△%)	PER 市盈率 (x)	BPS 每股净资产 (USD)	PBR 市净率 (x)	DPS 每股股息 (USD)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2013A	671	100	1.246	109.0	56.3	6.141	11.4	0.000	0.0	16.4
2014A	1,391	223	2.695	116.3	26.0	8.295	8.5	0.000	0.0	25.2
2015F	2,068	374	4.314	60.1	16.3	10.808	6.5	0.000	0.0	30.7
2016F	2,762	566	6.197	43.6	11.3	14.891	4.7	0.000	0.0	32.9
2017F	3,457	713	7.379	19.1	9.5	19.982	3.5	0.000	0.0	28.9

ADS in issue (m) ADS 总股数 (m)	124.7	Major shareholder 大股东	Davis Selected Advisers	5.7%
Market cap. (US\$ m) 市值 (US\$ m)	8,747.7	Free float (%) 自由流通比率 (%)		94.3
3 month average vol. 3 个月平均成交股数 ('000)	3,281.4	FY15 Net gearing 15 年净负债/股东资金 (%)		40.8
52 Weeks high/low (US\$) 52 周高/低	104.260 / 45.160	FY14-17 PEG (x)		0.4

Source: The Company, Guotai Junan International.

The Company received a non-binding proposal letter for privatization with the target price of US\$77.00 per ADS.

Qihoo 360 received a preliminary non-binding proposal letter in June 17, 2015 from investors to acquire all of the outstanding shares. The investors include chairman and CEO of the Company Mr Hongyi Zhou, CITIC Securities Co. Ltd. or its affiliates, Golden Brick Capital Private Equity Fund I L.P., China Renaissance Holdings Limited or its affiliates and Sequoia Capital China I, L.P. and/or its affiliates. The target acquisition price is US\$77.00 per ADS which was 16.6% premium to the stock price before the announcement and the stock surged by 6.2% after the announcement. The Company's Board intends to form a special committee consisting of independent directors to consider the proposal. The acquisition deal is not confirmed but we think the chance of de-listing is high.

We expect Qihoo 360 has a possibility of re-listing in China stock market. The target acquisition price represents 17.8x FY15 PER (with a valuation of US\$9.6 billion) which is lower than the valuation of its peer companies listed in China market. We expect Qihoo 360 may re-list in the China market due to higher market valuation (with over 190x FY15 PER) and recently the State Council of China encouraged Chinese firms with special share structure such as VIE structure to be listed in the China stock market. Recently, there were a number of Chinese firms de-listed from the US stock exchange and some firms were re-listed in China A share market.

Table-1: Peer Companies Listed in China Stock Market:

Company	Ticker	Currency	Price	Market Cap	PER (x)			PBR (x)			ROE(%)		ROA(%)
					15F	16F	17F	15F	16F	17F	15F	15F	
Beijing Supermap Software -A	300036 CH	CNY	51.530	10,094	n.a.	114.0	85.5	16.1	14.7	13.5	9.9	7.7	
Shenzhen Xinguodu Technolo-A	300130 CH	CNY	49.400	11,293	123.5	98.8	78.4	n.a.	n.a.	n.a.	7.8	n.a.	
Everyday Network Co Ltd-A	300295 CH	CNY	157.790	15,153	75.1	53.8	40.8	12.4	10.1	8.8	19.0	16.4	
Shenzhen Infogem Technolog-A	300085 CH	CNY	97.000	50,968	538.9	373.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Beijing Shiji Information -A	002153 CH	CNY	161.890	50,043	109.0	76.8	69.8	15.0	13.0	10.3	15.3	12.8	
Digiwin Software Co Ltd-A	300378 CH	CNY	87.780	17,621	140.4	114.0	103.3	17.2	15.4	11.8	12.2	n.a.	
Simple Average					197.4	138.4	75.6	15.2	13.3	11.1	12.8	12.3	
Weighted Average					261.4	180.1	73.7	15.1	13.2	10.7	14.0	12.8	

Source: Bloomberg.

Valuation

Downgrade the Company's investment rating to "Neutral" and raise the TP from US\$75.00 to US\$77.00. We downgrade the Company's investment rating to "Neutral". There is an upside of 9.8% to our new TP at the present stock price and the new TP represents 17.8x FY15 PER, 12.4x FY16 PER, 10.4x FY17 PER and 0.45 FY14-17 PEG.

Figure-1: Qihoo 360's Historical PE Chart



Source: Bloomberg.

Table-2: Peer Comparisons for HK and US Markets:

					PER (x)			PBR (x)			ROE(%)	ROA(%)
Company	Ticker	Currency	Price	Market Cap	15F	16F	17F	15F	16F	17F	15F	15F
US Online Game Companies												
Changyou	CYOU US	USD	31.140	1,642	10.2	9.4	9.4	1.5	1.3	1.1	16.4	8.8
Electronic Arts Inc	EA US	USD	64.480	20,286	n.a.	22.8	19.9	6.5	5.9	4.9	31.9	14.8
Taomee Holdings	TAOM US	USD	3.560	128	n.a.	59.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Activision Blizzard Inc	ATVI US	USD	24.870	18,060	20.1	16.7	14.5	2.4	2.2	1.9	12.1	7.4
Netease	NTES US	USD	151.270	19,768	19.9	16.4	14.4	4.4	3.6	3.1	23.1	17.4
Simple Average					16.8	24.9	14.5	3.7	3.2	2.8	20.9	12.1
Weighted Average					19.6	18.5	16.1	4.4	3.9	3.3	22.6	13.2
HK Online Game Companies												
Tencent	700 HK	HKD	154.300	1,446,694	36.7	28.1	27.7	10.6	7.9	7.6	31.5	17.1
Boyaa Interactive Int.	434 HK	HKD	7.000	5,344	11.5	9.0	9.1	2.3	1.9	2.0	20.2	17.3
Forgame Holdings	484 HK	HKD	23.000	3,366	55.8	23.0	28.7	1.7	1.5	n.a.	1.4	2.3
IGG	8002 HK	HKD	5.620	7,828	13.4	10.8	83.9	4.0	3.2	18.7	33.9	28.4
Netdragon	777 HK	HKD	36.750	18,258	64.2	53.3	66.7	3.2	3.1	3.7	3.4	3.5
Simple Average					36.3	24.9	43.2	4.4	3.5	8.0	18.1	13.7
Weighted Average					36.9	28.2	28.4	10.5	7.8	7.5	31.1	17.0
Advertising Companies												
Sohu.Com Inc	SOHU US	USD	69.470	2,680	n.a.	58.6	20.9	2.4	2.0	1.8	n.a.	n.a.
Youku Tudou Inc-Adr	YOKU US	USD	29.640	5,730	n.a.	n.a.	n.a.	2.6	2.8	0.5	n.a.	n.a.
Sina Corp	SINA US	USD	60.030	3,503	89.1	41.9	26.3	1.6	1.5	1.3	1.8	1.4
Facebook Inc-A	FB US	USD	81.790	229,686	41.1	31.2	23.7	5.1	4.3	3.6	11.2	11.6
Qihoo 360 Technology Co-	QIHU US	USD	70.150	9,045	20.4	14.7	11.6	6.7	4.6	3.3	33.9	13.2
Simple Average					50.2	36.6	20.6	3.7	3.1	2.1	15.6	8.7
Weighted Average					41.1	31.0	23.3	5.1	4.3	3.4	11.9	11.5
E-commerce Companies												
Alibaba	BABA US	USD	86.800	213,963	52.1	32.0	3.9	9.2	7.5	0.9	27.6	13.2
VIPSHOP	VIPS US	USD	25.930	14,998	46.7	30.2	21.6	20.4	12.2	7.8	51.8	9.4
E-commerce China-Spon	DANG US	USD	11.480	927	n.a.	40.4	3.0	7.8	5.7	0.5	5.0	5.5
Ebay Inc	EBAY US	USD	60.550	73,557	19.5	17.9	16.0	3.1	2.7	2.2	17.2	7.6
JD.com	JD US	USD	35.450	48,988	n.a.	n.a.	10.3	9.9	9.7	1.4	n.a.	n.a.
AMAZON	MZN US	USD	427.810	199,223	n.a.	68.9	41.3	17.0	13.7	10.9	5.3	1.4
Gome Electrical Appliances	493 HK	HKD	1.890	32,057	18.7	16.4	18.3	1.5	1.4	1.6	8.2	3.0
Simple Average					34.2	34.3	16.3	9.8	7.5	3.6	19.2	6.7
Weighted Average					43.5	44.3	20.0	11.5	9.3	4.9	17.9	7.5
Search Engine Companies												
Google	GOOG US	USD	546.600	366,625	19.3	16.8	14.6	2.9	2.5	2.3	15.7	13.0
Qihoo 360	QIHU US	USD	70.150	9,045	20.4	14.7	11.6	6.7	4.6	3.3	33.9	13.2
Yahoo	YHOO US	USD	40.960	38,439	51.6	50.9	43.5	1.1	1.1	1.2	2.3	1.4
Baidu Inc - Spon Adr	BIDU US	USD	209.510	73,483	28.6	21.1	2.5	6.7	5.0	0.6	26.3	13.5
Simple Average					30.0	25.9	18.1	4.3	3.3	1.8	19.5	10.3
Weighted Average					23.2	20.1	15.0	3.4	2.8	1.9	16.5	12.2
Overall Average					33.5	29.3	22.6	5.2	4.1	3.7	18.7	10.3
Overall Weighted Average					32.9	28.4	20.6	7.0	5.6	4.2	20.0	12.3

Source: Bloomberg.

Financial Statements and Ratios

INCOME STATEMENT						BALANCE SHEET					
Year end Dec, USD m	2013A	2014A	2015F	2016F	2017F	Year end Dec, USD m	2013A	2014A	2015F	2016F	2017F
Total revenue	671	1,391	2,068	2,762	3,457	Cash and equivalents	1,013	1,645	1,666	2,044	2,504
Online advertising	417	756	1,127	1,499	1,859	AR	55	154	193	231	278
IVAS	253	611	917	1,238	1,572	Prepaid expense and other current assets	90	297	552	696	885
Others	1	23	24	25	27	Total current assets	1,158	2,096	2,411	2,971	3,667
Cost of revenue	(88)	(305)	(463)	(627)	(830)	Property & equipment, net	164	272	492	590	772
Gross profit	583	1,085	1,605	2,135	2,628	Land use rights	76	139	146	149	152
Subsidy income	1	9	14	18	22	Long term investments	84	315	741	763	786
Selling and marketing expense	(110)	(334)	(449)	(580)	(702)	Other non-current assets	87	509	586	805	940
General and administrative	(116)	(94)	(126)	(157)	(187)	Total non-current assets	411	1,235	1,965	2,307	2,650
Product development	(255)	(406)	(540)	(691)	(847)	Accrued expenses & other current liabilities	121	300	309	318	328
Income from operations	103	259	504	725	914	Deferred revenue-current	47	73	77	80	84
Interest income, net	5	0	(45)	(22)	(21)	Income tax payable	15	46	43	64	81
Others	1	(13)	(13)	(11)	(9)	Others	26	121	126	131	137
Gain on disposal of long-term investments & subsidiary	15	40	32	25	20	Total current liabilities	209	540	554	594	630
Income before tax	124	286	477	717	904	Deferred revenue, non-current	4	2	2	3	3
Income tax expense	(23)	(51)	(86)	(129)	(162)	CB	600	1635	2289	2518	2669
Loss from equity method investments	(3)	(19)	(20)	(20)	(21)	Others	3	12	9	10	11
Non-controlling interest	(2)	(7)	(2)	2	7	Total non-current liabilities	606	1,649	2,301	2,531	2,683
GAAP Net income	100	223	374	566	713	Total liabilities	815	2,189	2,855	3,125	3,313
EPADS (USD)	1,246	2,695	4,314	6,197	7,379	Additional paid-in capital	569	670	702	737	778
CASH FLOW						Statutory reserves	28	40	54	68	84
Year end Dec, USD m	2013A	2014A	2015F	2016F	2017F	Accumulated other comprehensive income	20	(12)	(14)	(16)	(18)
Net income	98	216	372	568	720	(Accumulated deficit) retained earnings	120	321	654	1,241	2,044
Adjustments						Total shareholders' equity	737	1,029	1,405	2,040	2,897
Share-based compensation	121	95	103	111	120	Non-controlling interest	17	114	116	114	107
D&A	43	83	90	98	107	Total equity	754	1,142	1,521	2,154	3,004
Loss on equity method investment	3	19	20	20	21	BPADS (USD)	6,141	8,295	10,808	14,891	19,982
Others	(7)	(33)	4	5	6	FINANCIAL RATIOS					
Change in assets and liabilities	(47)	1	22	25	32	Year end Dec	2013A	2014A	2015F	2016F	2017F
Cash flow from operating activities	210	380	610	827	1,006	Profitability					
Purchase of PPE and intangible assets	(118)	(170)	(177)	(184)	(191)	Gross margin (%)	86.9	78.0	77.6	77.3	76.0
Payment for short-term & long-term investments	(81)	(325)	(748)	(374)	(385)	Operating margin (%)	15.4	18.7	24.4	26.2	26.4
Cash collected from sale of long-term investments & a subsidiary	19	23	24	25	27	Net margin (%)	14.8	16.0	18.1	20.5	20.6
Net cash acquired in connection with business acquisition	(10)	(149)	(153)	(158)	(163)	ROE (%)	16.4	25.2	30.7	32.9	28.9
Others	(7)	(40)	(0)	(0)	1	ROA (%)	8.8	9.1	9.7	11.7	12.3
Cash flow from investing activities	(197)	(661)	(1055)	(691)	(712)	Net gearing (%)	Net cash	Net cash	40.8	21.9	5.4
Proceeds from exercise of share options	24	16	17	19	21						
Proceeds from CB	588	1016	654	229	151						
Others	2	(113)	(198)	2	2						
Cash flow from financing activities	613	920	473	249	173						
Effect of exchange rate	6	(7)	(7)	(7)	(8)						
Net income in cash and cash equivalents	633	632	21	378	460						
Cash and cash equivalent at the beginning of year	381	1,013	1,645	1,666	2,044						
Cash and cash equivalent at the end of year	1,013	1,645	1,666	2,044	2,504						

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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