

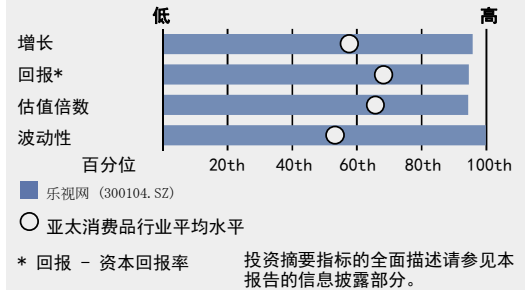


不仅是中国的 Netflix - 生态系统具优势；加入强力买入名单（摘要）

建议理由

我们预计未来三年乐视网的付费订阅会员规模将从 600 万升至 2,400 万，主要受益于公司丰富的内容储备和纵向整合硬件产品——2015 年超级手机和超级电视销量分别达到 300 万部。与市场观点不同的是，我们预计：1) 竞争将基于生态系统，而非价格；2) 从 2016 年开始，货币化将在会员注册、广告和附加值服务等方面为乐视网创造效益，推动利润率上升。我们因此重申对乐视网的买入评级并将其加入强力买入名单，调整后的 12 个月目标价格为人民币 70.22 元，隐含 52% 上行空间。

投资摘要



推动因素

(1) 会员增长强劲：受超级电视和超级手机等硬件产品销售加速的推动，我们预计乐视网在线视频付费订阅会员数将从 2015 年的 600 万年均复合增长 59% 至 2018 年的 2,400 万，占到视频服务行业付费用户数的 18% 左右。相应地，我们预计会员收入将从 2015 年的人民币 27 亿元升至 2018 年的 85 亿元，成为推动未来几年增长的关键因素。

(2) 利润率改善：随着超级电视销量规模继续扩大（我们预计从 2015 年的 300 万台升至 2018 年的 950 万台），该业务毛利率（包括会员费和硬件销售收入）于 2015 年转为正值，而且我们预计生产成本趋于下降将推动毛利率进一步扩张。因此，我们预计乐视网净利润率有望从 2016 年的 5% 升至 2018 年的 8%。

估值

我们将 2016-2020 年每股盈利预测调整了 -5% 至 +3%，以反映收入增长/利润率变化。我们将 12 个月目标价格上调 0.7% 至人民币 70.22 元，仍基于 39 倍的市盈率乘以 2020 年预期每股盈利人民币 2.45 元（原为 2.43 元），并以 8% 的股权成本贴现回 2016 年计算得出。

主要风险

超级电视/超级手机销售低于预期；硬件和内容成本高于预期。

*全文翻译将随后提供

所属投资名单

亚太买入名单
亚太强力买入名单

行业评级：中性

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主要数据

	12/15	12/16E	12/17E	12/18E
当前				
股价 (Rmb)				46.30
12个月目标价格 (Rmb)				70.22
市值 (Rmb mn / US\$ mn)				38,947.1 / 5,920.1
外资持股比例 (%)				--
每股盈利 (Rmb) 新	0.31	0.53	0.92	1.54
每股盈利调整幅度 (%)	0.0	(5.3)	(4.5)	0.1
每股盈利增长 (%)	(28.7)	71.8	74.0	66.7
每股摊薄盈利 (Rmb) 新	0.31	0.53	0.92	1.54
市盈率 (X)	153.2	87.3	50.2	30.1
市净率 (X)	22.4	17.4	13.1	9.3
EV/EBITDA (X)	44.9	25.7	15.8	10.6
股息收益率 (%)	0.1	0.1	0.2	0.3
净资产回报率 (%)	16.2	22.2	29.8	36.0
CROCI (%)	25.4	28.8	31.4	35.0

股价走势图



股价表现 (%)

	3个月	6个月	12个月
绝对	(21.3)	(21.3)	(15.9)
相对于沪深300指数	(17.6)	(2.0)	25.6

资料来源：公司数据、高盛研究预测、FactSet（股价为6/21/2016收盘价）

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乐视网：财务数据概要

损益表 (Rmb mn)	12/15	12/16E	12/17E	12/18E	资产负债表 (Rmb mn)	12/15	12/16E	12/17E	12/18E
主营业务收入	13,016.7	21,548.1	28,586.7	34,656.1	现金及等价物	2,729.8	1,694.0	1,968.4	3,523.2
主营业务成本	(11,112.0)	(18,243.6)	(23,536.3)	(27,611.2)	应收账款	4,952.6	7,674.7	10,181.6	12,343.3
销售、一般及管理费用	(1,444.9)	(2,349.5)	(3,044.8)	(3,600.4)	存货	1,138.8	1,869.6	2,412.1	2,829.7
研发费用	(1,224.1)	(1,918.7)	(2,402.5)	(2,739.3)	其它流动资产	290.6	2.0	2.0	2.0
其它营业收入/(支出)	(120.2)	0.0	0.0	0.0	流动资产	9,111.8	11,240.3	14,564.0	18,698.1
EBITDA	1,980.3	3,418.9	5,539.7	8,170.0	固定资产净额	629.3	633.1	628.9	615.1
折旧及摊销	(1,640.6)	(2,463.9)	(3,534.1)	(4,725.5)	无形资产净额	6,051.6	6,504.8	7,048.8	7,619.9
EBIT	339.7	955.0	2,005.6	3,444.5	长期投资	169.6	171.1	172.6	174.1
利息收入	0.0	27.3	16.9	19.7	其它长期资产	1,019.9	1,118.6	1,192.3	1,247.3
财务费用	(370.4)	(249.7)	(251.0)	(252.4)	资产合计	16,982.2	19,668.0	23,606.5	28,354.5
联营公司	0.0	1.5	1.5	1.5	应付账款	5,618.5	7,497.4	9,672.4	11,347.1
其它	83.5	50.0	50.0	50.0	短期贷款	1,735.0	1,735.0	1,735.0	1,735.0
税前利润	74.2	784.1	1,823.0	3,263.3	其它流动负债	99.0	139.9	212.7	326.9
所得税	142.9	(31.3)	(72.9)	(130.5)	流动负债	7,452.5	9,372.3	11,620.2	13,409.0
少数股东损益	355.9	231.7	(37.4)	(278.2)	长期贷款	2,200.6	2,200.6	2,200.6	2,200.6
优先股股息前净利润	573.0	984.6	1,712.7	2,854.7	其它长期负债	3,513.9	3,513.9	3,513.9	3,513.9
优先股息	0.0	0.0	0.0	0.0	长期负债	5,714.5	5,714.5	5,714.5	5,714.5
非经常性项目前净利润	573.0	984.6	1,712.7	2,854.7	负债合计	13,167.0	15,086.8	17,334.7	19,123.5
税后非经常性损益	0.0	0.0	0.0	0.0	优先股	0.0	0.0	0.0	0.0
净利润	573.0	984.6	1,712.7	2,854.7	普通股权益	3,927.7	4,925.5	6,578.7	9,259.7
每股基本盈利 (非经常性项目前) (Rmb)	0.31	0.53	0.92	1.54	少数股东权益	(112.5)	(344.3)	(306.8)	(28.6)
每股基本盈利 (非经常性项目后) (Rmb)	0.31	0.53	0.92	1.54	负债及股东权益合计	16,982.2	19,668.0	23,606.5	28,354.5
每股摊薄盈利 (非经常性项目后) (Rmb)	0.31	0.53	0.92	1.54	每股净资产 (Rmb)	2.12	2.65	3.54	4.99
每股股息 (Rmb)	0.03	0.05	0.09	0.15					
股息支付率 (%)	10.0	10.0	10.0	10.0					
自由现金流收益率 (%)	(2.2)	(1.1)	0.4	2.0					
增长率和利润率 (%)	12/15	12/16E	12/17E	12/18E	比率	12/15	12/16E	12/17E	12/18E
主营业务收入增长率	90.9	65.5	32.7	21.2	GROCI (%)	25.4	28.8	31.4	35.0
EBITDA增长率	52.9	72.6	62.0	47.5	净资产回报率 (%)	16.2	22.2	29.8	36.0
EBIT增长率	57.4	181.2	110.0	71.7	总资产回报率 (%)	4.4	5.4	7.9	11.0
净利润增长率	57.4	71.8	74.0	66.7	平均运用资本回报率 (%)	12.2	16.3	26.2	37.5
每股盈利增长	(28.7)	71.8	74.0	66.7	存货周转天数	30.8	30.1	33.2	34.6
毛利率	14.6	15.3	17.7	20.3	应收账款周转天数	101.4	106.9	114.0	118.6
EBITDA利润率	15.2	15.9	19.4	23.6	应付账款周转天数	131.8	131.2	133.1	138.9
EBIT利润率	2.6	4.4	7.0	9.9	净负债/股东权益 (%)	31.6	48.9	31.4	4.5
					EBIT利息保障倍数 (X)	1.0	4.3	8.6	14.8
现金流量表 (Rmb mn)	12/15	12/16E	12/17E	12/18E	估值	12/15	12/16E	12/17E	12/18E
优先股股息前净利润	573.0	984.6	1,712.7	2,854.7	基本市盈率 (X)	153.2	87.3	50.2	30.1
折旧及摊销	1,640.6	2,463.9	3,534.1	4,725.5	市净率 (X)	22.4	17.4	13.1	9.3
少数股东权益	(355.9)	(231.7)	37.4	278.2	EV/EBITDA (X)	44.9	25.7	15.8	10.6
运营资本增减	(1,075.0)	(1,574.1)	(874.2)	(904.7)	企业价值/总投资现金 (X)	8.0	5.7	4.3	3.3
其它	93.0	398.9	110.2	110.2	股息收益率 (%)	0.1	0.1	0.2	0.3
经营活动产生的现金流	875.7	2,041.4	4,520.3	7,063.9					
资本开支	(2,809.3)	(3,019.7)	(4,147.5)	(5,337.8)					
收购	0.0	0.0	0.0	0.0					
剥离	0.0	0.0	0.0	0.0					
其它	(175.4)	0.0	0.0	0.0					
投资活动产生的现金流	(2,984.8)	(3,019.7)	(4,147.5)	(5,337.8)					
支付股息的现金 (普通股和优先股)	(38.7)	(57.5)	(98.5)	(171.3)					
借款增减	2,700.6	0.0	0.0	0.0					
普通股发行 (回购)	47.9	0.0	0.0	0.0					
其它	1,655.6	0.0	0.0	0.0					
筹资活动产生的现金流	4,365.3	(57.5)	(98.5)	(171.3)					
总现金流	2,256.3	(1,035.8)	274.3	1,554.8					

注：最后一个实际年度数据可能包括已公布和预测数据。

资料来源：公司数据、高盛研究预测

对此报告有贡献的人员

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Growth in terminal sales, membership fees to boost margins

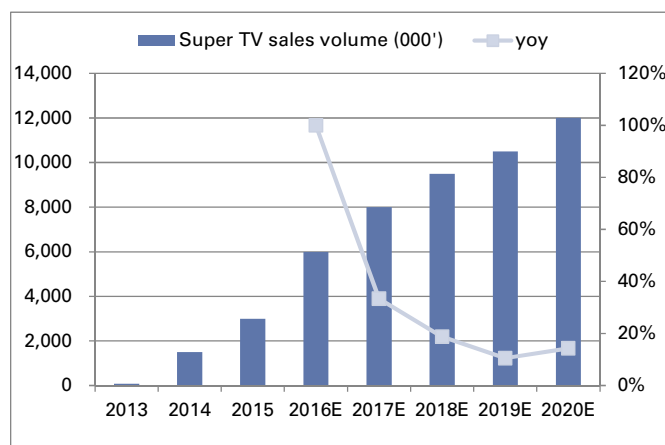
Higher hardware sales to drive membership revenue

One of LeTV's key strategies is to acquire users/subscribers/members through low-priced hardware including smart TVs and mobile phones. Launched in July 2013, smart TV sales have reached more than 7mn units to date. In April 2016, SuperTV (the smart TV brand under LeTV) sold 710k units, grabbing a 19% market share in China and became the market leader for the first time, according to avc-mr.com, a TV industry monitoring website.

We raise our 2016 full year sales volume forecast of SuperTV from 5.5mn to 6mn, and expect it to reach 9.5mn in 2018, with market share in China expanding from 7% in 2015 to 20%+ in 2020 (the current market leader Skyworth has a 20% share in China).

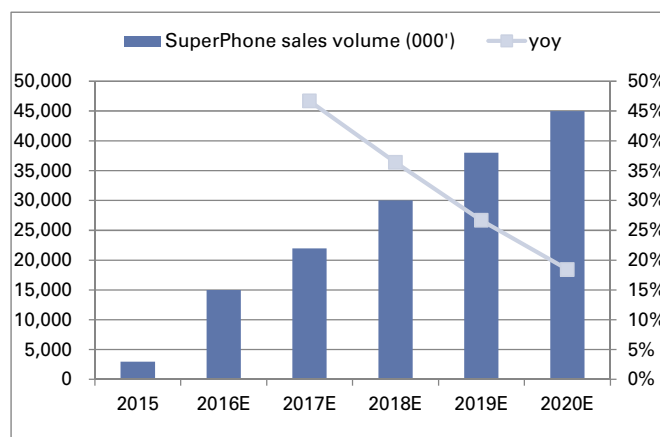
LeTV also launched its self-branded SuperPhone in April 2015, which sold more than 3mn units in 2015 and more than 6mn YTD. We raise our SuperPhone sales forecast from 10mn units in 2016 to 15mn units, and expect this number to hit 30mn in 2018E, with market share up to 7%, driven by attractive pricing and strong ecosystem advantages.

图表1: We forecast 6mn SuperTV sales volume...
SuperTV sales volume and yoy growth



资料来源: Company data, Gao Hua Securities Research.

图表2: ...and 15mn for SuperPhone in 2016
SuperPhone sales volume and yoy growth



资料来源: Company data, Gao Hua Securities Research.

We believe the sharp rise in hardware sales will accelerate subscriber growth and expect LeTV's total subscribers to reach c.24mn in 2018 from 6mn in 2015, representing a CAGR of 59% in 2015-18E.

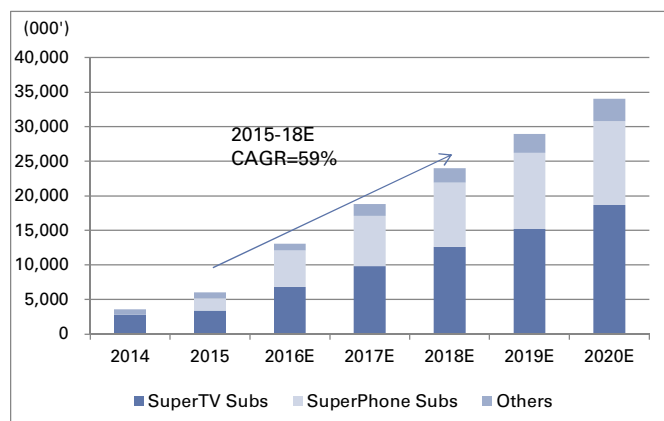
- SuperTV subscribers:** We forecast 6mn/8mn/9.5mn sales volume in 2016/17/18, and the accumulated SuperTV sales volume to reach 28mn in 2018. However, as the company books all subscription fees bundling with hardware when it's sold in the first year, we only count the current year's payment from consumers for the video service as subscription fees and count the consumers as subscribers. For those who renew the video service contract after its expiry one or two years later, we also count them as subscribers. Given that current competition remains very tough on the smart TV content platforms, we only assume 12%-14% renewal rate for 2016E-18E. Accordingly, we forecast the subscribers of SuperTV to reach 12.5mn in 2018.

- SuperPhone subscribers:** We forecast 15mn/22mn/30mn sales volume in 2016/17/18. For mobile members, more than 50% of SuperPhone users have chosen bundled membership and the membership fee is Rmb490 (and could include a Rmb300 deduction off the cost of hardware), according to the company's research institute. However, we conservatively assume these mobile users will not extend their subscription following the two-year period, and we only assume 31%-35% bundled membership for SuperPhone in 2016-18 considering the large and growing user base may drag down the bundling ratio. For each subscriber who pay Rmb490 for a one year contract, Rmb300 would be deducted off the hardware price, and LeTV (the listco) could share about Rmb95 in the first year as membership revenue. As such, we forecast 525k/726k/930k SuperPhone subscribers in 2016E-18E, and Rmb515mn/Rmb711mn/Rmb911mn membership revenue from SuperPhone subscription. Given that the incremental cost from LeTV (the listco) is very low (mainly the content delivery network (CDN) cost), this service could improve LeTV's margins remarkably.

Besides, we believe two recent deals will also help to strengthen the ecosystem for its video service by bringing in more potential smartTV/smartphone users.

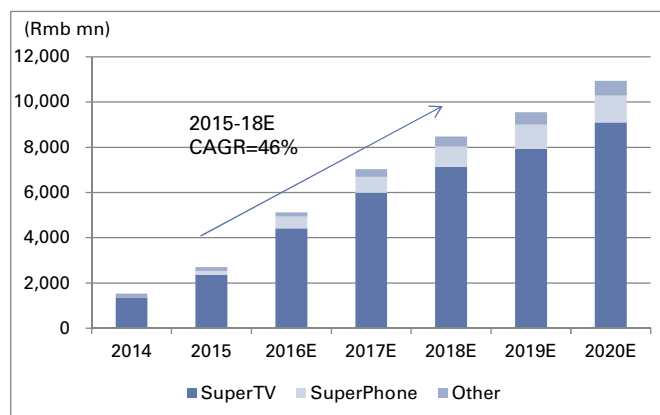
- On December 11, 2015, LeTV announced it would invest HK\$2.27bn in TCL Multimedia (1070.HK, Not Covered), accounting for 20.1% of TCL post deal and becoming its second-largest shareholder. TCL is one of the world's largest TV producers and distributors, with 5.7%/14.9% market shares in the worldwide/domestic TV markets (1H15, according to IHS). Through this deal, LeTV could gain access to the huge user base of TCL (9.1mn activated smart TV users as of 1H15), and improve its user experience by offering a comprehensive content platform. In the future, this huge user base could provide enormous opportunity for monetization, in terms of advertising, membership fees and other value-added services.
- On July 17, 2016, LeEco (the parent co of LeTV) announced it has increased its equity stake in Coolpad (2369.HK, Not Covered) from 17.9% to 28.9% at a price of HK\$1bn, becoming the biggest shareholder of Coolpad. According to LeEco, this deal could make it the fourth largest smartphone maker in China, reaching 50-60mn sales volume if combining Coolpad and SuperPhone.

图表3: We forecast 24mn total subscribers...
Number of members by segment



Source: Company data, Gao Hua Securities Research.

图表4: ...and Rmb8.4bn subscription revenue in 2018E
Membership revenue by segment



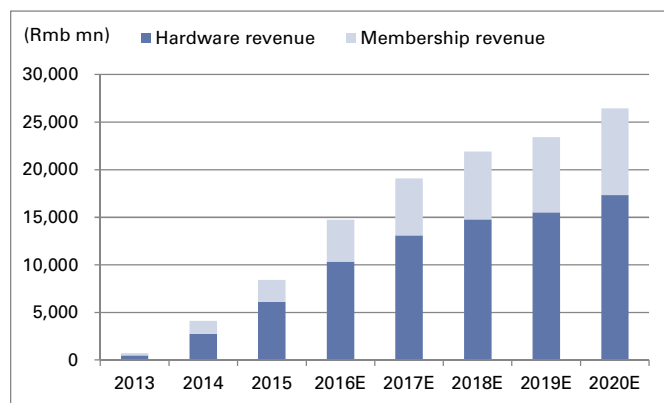
Source: Company data, Gao Hua Securities Research.

SuperTV business to turn profitable at GP level

As the product cost continues to drop significantly, and the percentage of non-hardware revenue (membership revenue) increases, the SuperTV business as a whole (combining hardware revenue and membership revenue) turned profitable at the gross profit level in 2015 for the first time, and we expect it to further turn profitable at the net profit level in 2016.

图表5: Subscription and hardware revenues from SuperTV are both increasing

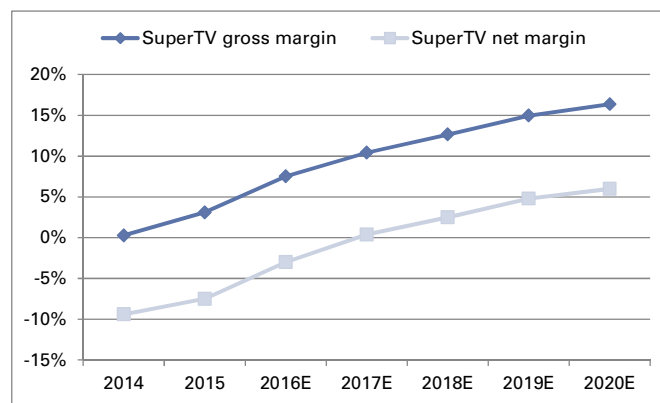
Revenue structure of SuperTV



资料来源: Company data, Gao Hua Securities Research.

图表6: SuperTV gross margin turned positive in 2015

SuperTV gross and net margins



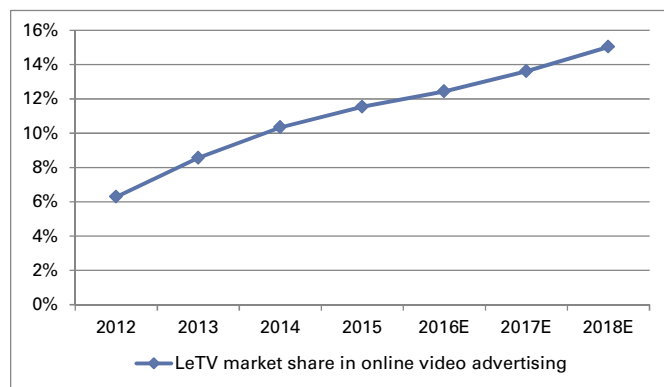
资料来源: Company data, Gao Hua Securities Research.

Growing user base to boost advertising revenue

Underpinned by the fast-growing user base, we expect LeTV's advertising revenue to continue to outpace industry growth, with a CAGR of 45% in 2015-18E to reach Rmb8,126mn, compared with the industry average of 33%. In line with this, we expect LeTV's market share in online video advertising to rise from 12% to 15% over the same period.

图表7: We expect LeTV to gain share in online video advertising...

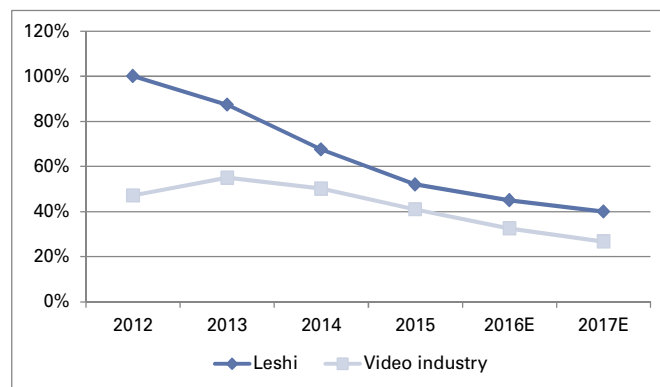
LeTV's market share in online video advertising



资料来源: Company data, Gao Hua Securities Research.

图表8: ...as ad revenue growth outpaces industry

Growth of online video advertising revenue, yoy



资料来源: Company data, Gao Hua Securities Research.

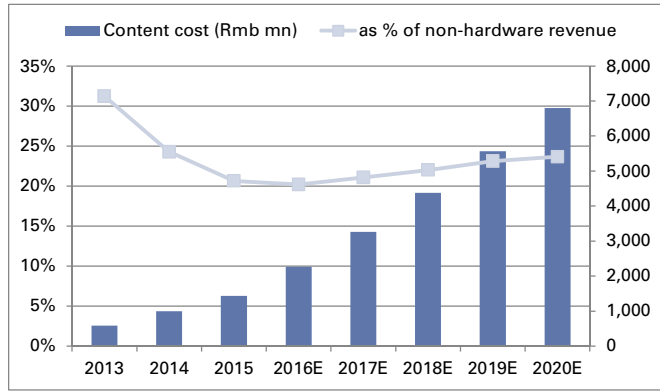
Expanding content library to lock in members

We expect LeTV to maintain its high investment in content at 20%-22% of non-hardware revenue, from Rmb1.8bn in 2015 to Rmb4.9bn in 2018E. If we were to combine with LeSports' (LeTV owns about 9% stake) content cost, it would be more than Rmb4bn in 2016E, comparable to other

leading peers such as iQiyi and Tencent Video. The steady investment in content enables the company to provide members with a comprehensive and updated content library to maximize members' satisfaction and attract more members.

图表9: We expect content cost to rise steadily over the next few years...

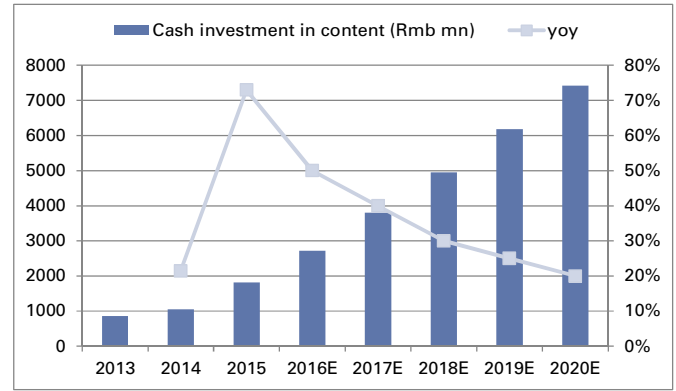
Content cost and as a % of non-hardware revenue



资料来源: Company data, Gao Hua Securities Research.

图表10: ...and the same goes for cash investment in content

Cash investment in content and yoy growth



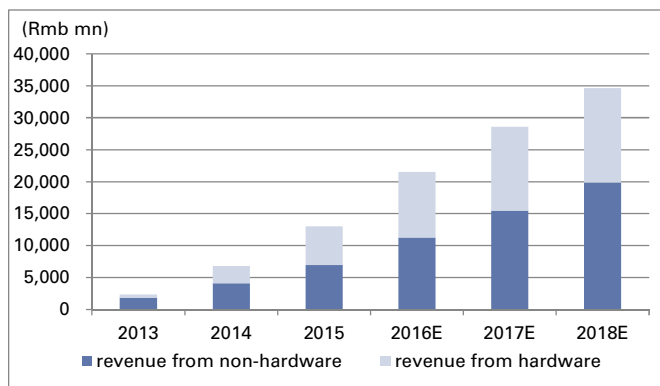
资料来源: Company data, Gao Hua Securities Research.

Margins to be boosted by non-hardware revenue

With growth in non-hardware revenue potentially accelerating, we expect LeTV's GP margin to gradually pick up from 2016E, leading to faster bottom-line growth (59% yoy) than top-line growth (30% yoy) in 2018E. As a result, we expect its NP margin to expand from 5% in 2015 to 10% in 2018E.

图表11: Non-hardware revenues accelerating...

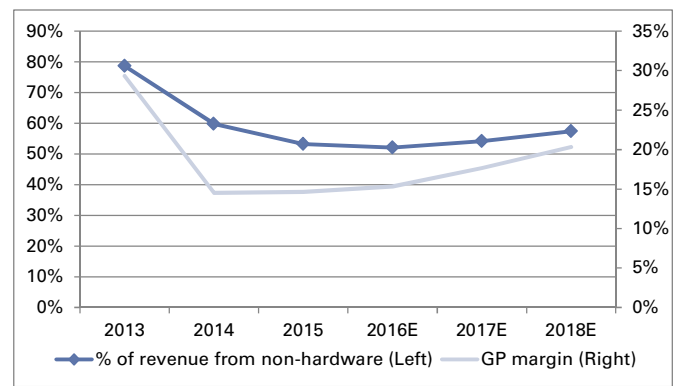
LeTV's revenue from hardware and non-hardware



资料来源: Company data, Gao Hua Securities Research.

图表12: ...thereby boosting GP margins

GP margin and % of revenue from non-hardware

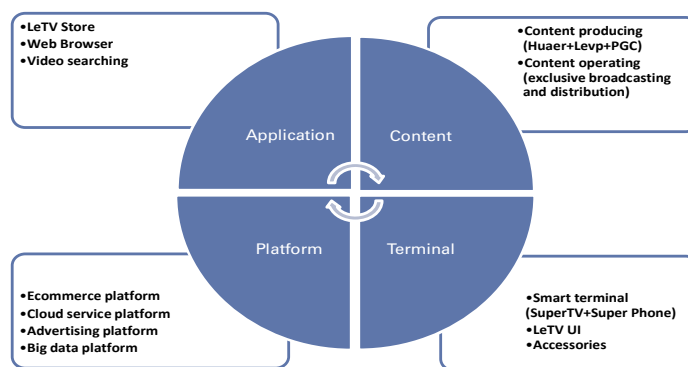


资料来源: Company data, Gao Hua Securities Research.

Vertically integrated ecosystem to shield LeTV from price competition

We believe the monetization of internet TV will become a key driver of growth for LeTV over the next three years. The market consensus is that other players – including smart TV makers, online video companies and IT manufacturers – will make it difficult for LeTV to gain users through low-priced hardware. However, we believe smart TVs will compete on ecosystem instead of price, with LeTV benefiting from its leading vertically integrated model of “platform + content + terminal + application”. Furthermore, we believe internet TV will start to see deeper monetization through advertising, online games, etc., from 2016, and LeTV is well positioned to benefit from this trend through the rise in subscription growth, advertising revenue, and value-added services. We expect subscription and advertising revenue to grow 89%/52% in 2016E, and revenue from non-hardware will account for 52%+ of total revenue.

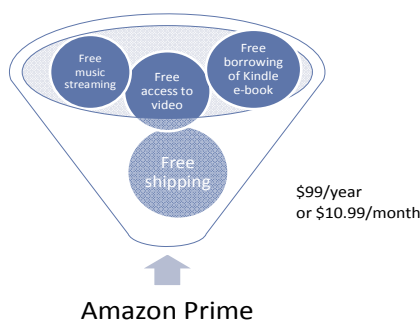
图表13: LeTV’s ecosystem



资料来源: Company data.

We believe LeTV’s ecosystem strategy is different from Netflix’s strategy, which relies primarily on a rich content library, and resembles more of Amazon’s ecosystem strategy. Amazon’s membership Amazon Prime costs US\$99/year, and provides subscribers the rights to enjoy free shipping of products purchased on Amazon.com, free access to video content and online music, and free borrowing of a Kindle e-book every month. According to Consumer Intelligence Research Partners (CIRP) estimates, Amazon Prime subscribers reached 54mn in early 2016, or about 40% penetration of the total US households.

图表14: Amazon’s membership ecosystem



资料来源: Company data.

Financial forecasts and valuation

We revise our 2016E-2020E EPS by -5.3% to +3.3% to reflect mixed revenue growth and margin changes. As a result, our 12-month target price inches up 0.7% to Rmb70.22 (still based on 39X P/E applied to 2020E EPS, and discounted to 2016E using a COE of 8%).

图表15: Income statement of LeTV

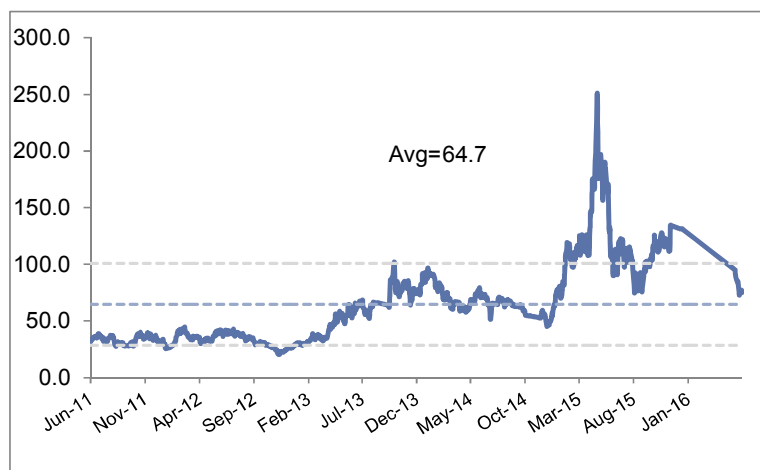
Rmb mn		2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Total revenue		2,361	6,819	13,017	21,548	28,587	34,656	39,593	46,091
	yoy	102%	189%	91%	66%	33%	21%	14%	16%
Membership & distribution		1,018	2,422	3,782	6,216	8,176	9,664	10,804	12,268
Membership revenue		393	1,526	2,710	5,128	7,041	8,475	9,553	10,946
Online video distribution		625	705	776	776	776	776	776	776
Movie & TV drama distribution			191	296	312	359	413	475	546
Advertising Revenue		839	1,572	2,634	4,003	5,805	8,126	10,564	13,206
Other		0	85	512	1,000	1,500	2,100	2,730	3,276
Hardware Revenue		504	2,740	6,089	10,329	13,106	14,766	15,494	17,341
Total COGS		1,669	5,828	11,112	18,244	23,536	27,611	30,709	35,552
Depreciation		39	47	114	196	244	302	371	454
Amortization of content cost		580	990	1,430	2,266	3,264	4,379	5,568	6,806
Hardware cost		688	4,092	8,186	13,634	17,103	19,122	19,910	22,110
TV Drama Studio			95	95	125	144	165	190	218
Other		361	604	1,287	2,022	2,782	3,644	4,670	5,963
Gross profit		693	991	1,905	3,305	5,050	7,045	8,883	10,539
	yoy	43%	43%	92%	73%	53%	39%	26%	19%
	Gross margin	29.3%	14.5%	14.6%	15.3%	17.7%	20.3%	22.4%	22.9%
Sales tax and add-on		26	57	95	120	149	187	233	292
	as % of revenue	1.1%	0.8%	0.7%	0.6%	0.5%	0.5%	0.6%	0.6%
Sales expense		195	489	1,041	1,730	2,152	2,461	2,732	3,088
	as % of revenue	8.2%	7.2%	8.0%	8.0%	7.5%	7.1%	6.9%	6.7%
Administrative expense		90	175	309	500	743	953	1,168	1,452
	as % of revenue	3.8%	2.6%	2.4%	2.3%	2.6%	2.8%	3.0%	3.2%
Net financial expenses		116	168	349	222	234	233	219	192
Impairment losses on PP&E		28	54	120	-	-	-	-	-
Investment gains/loss		(1)	0	79	2	2	2	2	2
Other non-operating income		11	28	45	50	50	50	50	50
Other non-operating expense		(1)	(3)	(40)	-	-	-	-	-
Pre-tax profit (income before tax)		246	73	74	784	1,823	3,263	4,583	5,566
Income taxes		14	(56)	(143)	31	73	130	183	223
Net income		232	129	217	753	1,750	3,133	4,400	5,344
Minority interests		(23)	(235)	(356)	(232)	37	278	566	797
Net income attributable to parent		255	364	573	985	1,713	2,855	3,834	4,546
	yoy	31%	43%	57%	72%	74%	67%	34%	19%
	Net margin	11%	5%	4%	5%	6%	8%	10%	10%
EPS - basic (Rmb)		0.32	0.43	0.31	0.53	0.92	1.54	2.07	2.45

资料来源: Company data, Gao Hua Securities Research.

We cross-check with P/E. LeTV's average forward P/E was 65X over the past three years. Our 12-month target price of Rmb70.22 implies a 2017E P/E of 76X while the stock is trading at a 2017E P/E of 52X. We believe this high multiple is justified by the company's better growth potential (71% 2015-18E EPS CAGR vs. our coverage average of 33%; LeTV's EPS CAGR is the highest in our coverage).

图表16: Historical forward P/E average level is 65X

LeTV historical rolling 12-month forward P/E



资料来源: Bloomberg.

We also cross-check with sum-of-the-parts (SOTP) given that LeTV has a diversified business model and various strategic investments. **Based on the SOTP method, we derive an implied total valuation of Rmb120bn; this is in line with our primary long-term P/E discount methodology (Rmb129bn).**

图表17: The SOTP method suggests an implied total equity value of Rmb120bn

SOTP theoretical valuation table

Valuation_SOTP	Valuation (Rmb bn)	Note	Benchmark
Subscription	80	34mn subscribers in 2020, USD500 per subs, discount back to 2016 with 8% COE	Netflix
Non-subscription business	30	85% of Youku	Youku
Other business and investments	10		
LeCloud	3	50% stake of the total valuation of LeCloud at Rmb6bn	Round A financing
Hua'er	5	100% stake, Rmb5bn	Huace (300133.SZ)
LeSports	2	9% stake of its recent financing valuation at Rmb21.5bn	Round B financing
Sum of the parts valuation	120		

资料来源: Gao Hua Securities Research.

Paying membership: Rmb80bn

We believe the most comparable company for LeTV's paying membership business is Netflix, which only applies the single business model of monthly subscription fees ranging from US\$7.99-US\$9.99 per month. As of end 2015, Netflix had 79.6mn subscribers and an annual ARPU of US\$94. Over the past three months, Netflix was trading at an average market cap of US\$40bn, implying US\$500 value per subscriber. Currently, Netflix's subscribers/revenue is growing at 25%-30% yoy. In 2015, Netflix's EBITDA margin and reported NP margin was 5.4% and 1.8% respectively.

According to our estimate, by the end of 2018/20, the number of paying subscribers for LeTV will reach 24mn and 34mn respectively, with an annual ARPU of about Rmb320 (US\$50). Although LeTV's ARPU is lower than Netflix, given that we do not consider the potential new revenue from other monetization (which is very different from Netflix's single business model) such as games, education, e-commerce, application download revenue sharing, we believe the value per subscriber could be closer to the level of Netflix. Hence, we apply a US\$500 value per subscriber to LeTV's paying subscribers, and yield an implied valuation of Rmb110bn in 2020. Discounting it to 2016E using a COE of 8% (in line with our primary valuation methodology), we derive an implied valuation of Rmb80bn for the paying membership business.

Non-paying users: Rmb30bn

We believe the most comparable company is Youku. Before its privatization, Youku's market cap was c.US\$5.4bn. In 2015, LeTV's advertising revenue was Rmb2.7bn, and we expect it to grow to Rmb4bn in 2016, which is equal to 85% of Youku's advertising revenue in 2015 (c.Rmb4.8bn). Hence, we apply 85% of Youku's market cap before privatization to value LeTV's non-paying business, and arrive at an implied valuation of c.Rmb30bn.

Other business and investments: Rmb10bn

Other business and investments include three main parts, which if combined, could have an implied value of Rmb10bn.

(1) Lecloud. On March 3, 2016, LeTV announced that its Lecloud subsidiary completed its round-A financing, valuing the company at Rmb6bn. Post financing, LeTV's stake in Lecloud dropped to 50% from 60%. In 2015, Lecloud realized c.Rmb565mn revenue and grew at 330% yoy. We value the cloud business to LeTV according to the recent round-A financing, at Rmb3bn.

(2) Hua'er Entertainment. Hua'er is one of the top quality drama makers in China and is 100% owned by LeTV. In 2015, Hua'er realized Rmb511mn revenue and Rmn103mn net profit. Compared to the leading TV drama company Huace (300133.SS, Neutral, June 21 close Rmb14.60), with a market cap of Rmb25bn+ and revenue/net profit of Rmb2.6bn/Rmb475mn in 2015, Hua'er's size is about 20% of Huace. As such, we apply 20% of Huace's market cap to value Hua'er, which would imply Rmb5bn.

(3) LeSports. On April 20, 2016, LeSports announced the completion of its round-B financing, valuing the company at Rmb21.5bn. Post financing, we calculate that LeTV's stake in LeSports dropped to about 9%. Hence, we apply 9% of Rmb21.5bn to arrive at an implied valuation of c.Rmb2bn for LeTV's stake in LeSports.

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