

Sina (SINA US)

Buy: Takeaways from HSBC Internet, Media and Education Day

EQUITIES INTERNET

China

- SINA focused on shareholder returns
- Weibo positioning itself as key video distribution platform
- Maintain Buy on SINA (USD119 TP) and Weibo (USD59 TP)

Sina attended our Internet Media and Education Day in Beijing on 9 March. The main takeaways include the following:

SINA. Creating shareholder value remains a key strategy for management. It distributed USD376m in Weibo stock to SINA shareholders, repurchased USD800m in convertible bonds and has a USD500m stock buy-back in place through mid-2017. With USD1.2bn of net cash (excluding that of Weibo), management has further options, including special dividends. In addition, since it has super voting shares of Weibo (50% equity stake and ~75% voting power), it can sell down Weibo stock while maintaining control. Separately, it expects its portal business to growth this year (we have 5% growth), as the mobile revenue mix (HTML 5 and mobile news app) reached a tipping point in 4Q (46% of portal revenue). Its news app grew daily active users by 3x in 2016, to ~15m. Weibo's news app does not publish self-media and does not do revenue share with content creators.

Weibo (WB US, USD49.95, Buy, TP USD59). SINA issued guidance for 2017, which implied Weibo revenue of USD950m-1bn. We note that figure excludes any potential revenue share from the gross merchandise value (GMV) created from its self-media video creators. 2.4bn videos were watched daily on Weibo in 4Q and we believe key opinion leaders generate material GMV on from these videos. We note video advertising accounted for 13% of Weibo's ad revenue in 4Q, up from 10% in 3Q. Weibo is an important distributor of professional video content. In 1Q, Weibo live-streamed the Super Bowl. It recently bought the rights for NBA highlights for a 5-year term. Weibo users typically spend over 30 minutes per day on the app, 50% on the main news feed, 25% on the interest feed and the balance on hot topics and other features. While the main news feed has limited ad load (given its social aspect), the interest feed can support a higher ad load.

We maintain our Buy ratings on SINA and Weibo. We continued to see SINA as undervalued given the rising value from its subsidiary Weibo, the improving performance of its portal and cash and investment portfolio. SINA is currently trading at USD70.71; when we back out the market price for Weibo, net cash and investments, the core business would trade at -USD31/share. We acknowledge its portal traffic and revenue are declining, but we expect revenue to return to growth in 2017, driven by mobile ads. Our thesis on Weibo rests on two points. First, we believe Weibo will continue to thrive as a public social media platform, and user growth and rising engagement will to higher monetization. Second, we expect margins to expand rapidly over the next few years, driven by rising scale.



MAINTAIN BUY

TARGET PRICE (USD)

119.00

PREVIOUS TARGET (USD)

119.00

SHARE PRICE (USD)

70.71

(as of 08 Mar 2017)

UPSIDE/DOWNSIDE

+68.3%

MARKET DATA

Market cap (USDm)	5,012	Free float	100%
Market cap (USDm)	5,012	BBG	SINA US
3m ADTV (USDm)	112	RIC	SINA.OQ

FINANCIALS AND RATIOS (USD)

Year to	12/2016a	12/2017e	12/2018e	12/2019e
HSBC EPS	1.41	3.28	4.77	6.25
HSBC EPS (prev)	-	-	-	-
Change (%)	-	-	-	-
Consensus EPS	1.41	2.40	3.47	5.06
PE (x)	50.3	21.6	14.8	11.3
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	15.5	7.0	3.9	2.0
ROE (%)	3.7	7.9	10.5	11.5

52-WEEK PRICE (USD)



Source: Thomson Reuters IBES, HSBC estimates

Chi Tsang*, CFA

Head of Internet Research, Asia Pacific
The Hongkong and Shanghai Banking Corporation Limited
chitsang@hsbc.com.hk
+852 2822 2590

Qin Wang*

Associate
The Hongkong and Shanghai Banking Corporation Limited
qin1.wang@hsbc.com.hk
+852 2822 4393

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Financials & valuation: Sina

Buy

Financial statements

Year to	12/2016a	12/2017e	12/2018e	12/2019e
Profit & loss summary (USDm)				
Revenue	1,031	1,412	1,798	2,215
EBITDA	207	403	596	795
Depreciation & amortisation	-44	-37	-47	-58
Operating profit/EBIT	73	274	429	585
Net interest	26	24	28	34
PBT	305	334	493	655
HSBC PBT	305	334	493	655
Taxation	-27	-63	-94	-124
Net profit	225	181	262	340
HSBC net profit	109	243	353	463

Cash flow summary (USDm)

Cash flow from operations	397	431	608	793
Capex	-37	-56	-72	-88
Cash flow from investment	-37	-56	-72	-88
Dividends	0	0	0	0
Change in net debt	553	-375	-537	-705
FCF equity	170	307	459	616

Balance sheet summary (USDm)

Intangible fixed assets	12	12	12	12
Tangible fixed assets	1,617	1,437	1,465	1,497
Current assets	2,656	3,021	3,791	4,748
Cash & others	1,797	2,172	2,709	3,414
Total assets	4,285	4,470	5,268	6,257
Operating liabilities	1,041	1,255	1,472	1,707
Gross debt	0	0	0	0
Net debt	-1,797	-2,172	-2,709	-3,414
Shareholders' funds	3,091	3,062	3,642	4,397
Invested capital	1,447	1,043	1,087	1,136

Ratio, growth and per share analysis

Year to	12/2016a	12/2017e	12/2018e	12/2019e
Y-o-y % change				
Revenue	17.1	37.0	27.3	23.2
EBITDA	23.6	94.6	47.8	33.4
Operating profit	499.5	274.1	56.4	36.4
PBT	560.0	9.5	47.7	32.9
HSBC EPS	51.8	133.0	45.4	31.2

Ratios (%)

Revenue/IC (x)	1.0	1.1	1.7	2.0
ROIC	16.5	24.0	42.0	53.9
ROE	3.7	7.9	10.5	11.5
ROA	6.4	6.2	8.2	9.2
EBITDA margin	20.1	28.6	33.1	35.9
Operating profit margin	7.1	19.4	23.8	26.4
EBITDA/net interest (x)				
Net debt/equity	-58.1	-70.9	-74.4	-77.6
Net debt/EBITDA (x)	-8.7	-5.4	-4.5	-4.3
CF from operations/net debt				

Per share data (USD)

EPS Rep (diluted)	2.90	2.44	3.54	4.60
HSBC EPS (diluted)	1.41	3.28	4.77	6.25
DPS	0.00	0.00	0.00	0.00
Book value	43.97	43.55	51.81	62.54

Valuation data

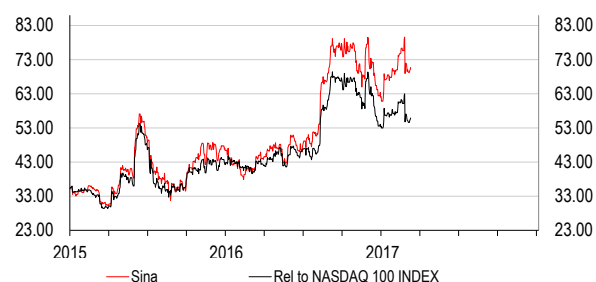
Year to	12/2016a	12/2017e	12/2018e	12/2019e
EV/sales	3.1	2.0	1.3	0.7
EV/EBITDA	15.5	7.0	3.9	2.0
EV/IC	2.2	2.7	2.1	1.4
PE*	50.3	21.6	14.8	11.3
PB	1.6	1.6	1.4	1.1
FCF yield (%)	3.4	6.1	9.2	12.3
Dividend yield (%)	0.0	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

Issuer information

Share price (USD)	70.71	Free float	
Target price (USD)	119.00	Sector	Internet
Reuters (Equity)	SINA.OQ	Country	China
Bloomberg (Equity)	SINA US	Analyst	Chi Tsang, CFA
Market cap (USDm)	5,012	Contact	+852 2822 2590

Price relative



Source: HSBC

Note: Priced at close of 08 Mar 2017

Sum-of-parts valuation

	Methodology	Value/share	Valuation and risks for Sina: We maintain our target price of USD119 on Sina based on USD86/share for its 50% stake in Weibo, USD4/share for portal, USD15/share for net cash and USD15/share for its investments. Our target price implies 68.3% upside from current levels, and we retain our Buy rating. Key downside risks for our rating include worse-than-expected declines in the portal, as well as weaker monetization and lower margins.
Weibo	50% equity interest of Weibo target value	USD86	Valuation and risks for Weibo (WB US, Buy, USD49.95, TP USD59): Our DCF-based TP uses Weibo's latest two-year beta of 1.334, 2.5% risk-free rate, an equity risk premium of 6% and a terminal growth rate of 5%, which yield a WACC of 10.5%. Our target price implies 18.1% upside and we rate the stock Buy as we believe Weibo will continue to thrive as a public social media platform, and user growth and rising engagement will to higher monetization. We also expect margins to expand rapidly over the next few years, driven by rising scale. Key downside risks include failure to retain popular KOLs and generate interesting content, more scrutiny regulations on online advertising, time spent eroded by other forms of entertainment and social media, weaker advertising sentiment and weaker-than-expected execution
Core SINA	1x 2017e portal revs	USD4	
Net cash	2017 estimated	USD15	
Investments	Last reported book value	USD15	
Subtotal		USD119	
Discount		0%	
Total value		USD119	

Source: Company data, HSBC estimates

Disclosure appendix

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

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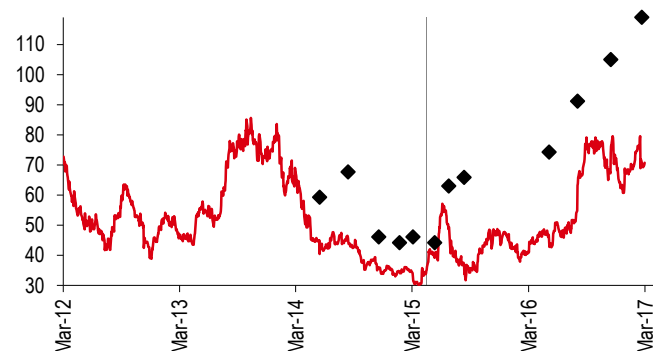
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Hold	40%	(26% of these provided with Investment Banking Services)
Sell	15%	(18% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

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Share price and rating changes for long-term investment opportunities

Sina (SINA.OQ) share price performance USD Vs HSBC rating history



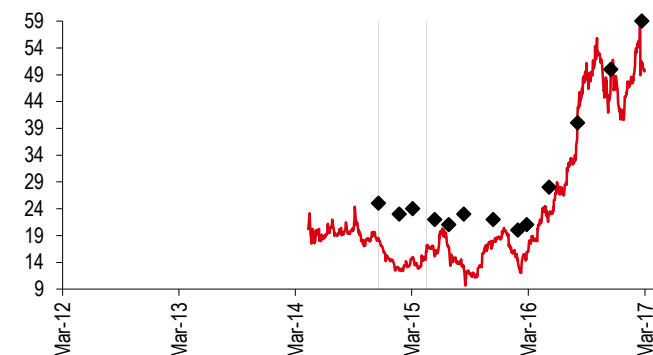
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Overweight (V)	Buy	24 Apr 2015	Chi Tsang
Target price	Value	Date	Analyst
Price 1	59.23	22 May 2014	Chi Tsang
Price 2	67.69	20 Aug 2014	Chi Tsang
Price 3	46.07	24 Nov 2014	Chi Tsang
Price 4	44.19	28 Jan 2015	Chi Tsang
Price 5	46.07	11 Mar 2015	Chi Tsang
Price 6	44.19	19 May 2015	Chi Tsang
Price 7	62.99	02 Jul 2015	Chi Tsang
Price 8	65.81	19 Aug 2015	Chi Tsang
Price 9	74.27	12 May 2016	Chi Tsang
Price 10	91.19	09 Aug 2016	Chi Tsang
Price 11	105.00	22 Nov 2016	Chi Tsang
Price 12	119.00	27 Feb 2017	Chi Tsang

Source: HSBC

Weibo Corp (WB.O) share price performance USD Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
N/A	Overweight (V)	24 Nov 2014	Chi Tsang
Overweight (V)	Buy	24 Apr 2015	Chi Tsang
Target price	Value	Date	Analyst
Price 1	25.00	24 Nov 2014	Chi Tsang
Price 2	23.00	28 Jan 2015	Chi Tsang
Price 3	24.00	11 Mar 2015	Chi Tsang
Price 4	22.00	19 May 2015	Chi Tsang
Price 5	21.00	02 Jul 2015	Chi Tsang
Price 6	23.00	19 Aug 2015	Chi Tsang
Price 7	22.00	19 Nov 2015	Chi Tsang
Price 8	20.00	04 Feb 2016	Chi Tsang
Price 9	21.00	03 Mar 2016	Chi Tsang
Price 10	28.00	12 May 2016	Chi Tsang
Price 11	40.00	09 Aug 2016	Chi Tsang
Price 12	50.00	22 Nov 2016	Chi Tsang
Price 13	59.00	27 Feb 2017	Chi Tsang

Source: HSBC

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SINA	SINA.OQ	70.71	08 Mar 2017	4, 6, 7

Source: HSBC

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Issuer of report

The Hongkong and Shanghai Banking Corporation Limited

Level 19, 1 Queen's Road Central

Hong Kong SAR

Telephone: +852 2843 9111

Fax: +852 2596 0200

Website: www.research.hsbc.com

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