

Sina (SINA US)

Buy: Portal returns to growth and online finance surges

- Weibo, portal, and online finance drive a 3Q beat
- Online finance is emerging as the new growth driver
- We maintain our Buy rating and reduce our TP to USD144 (from USD170), based on a sum-of-the-parts valuation

Growing on its own. As the parent of Weibo (WB US, USD99.28, Buy, TP USD106), Sina has benefited from its subsidiary's fast revenue and profit growth (see [Weibo: Buy: Growing scale drives greater monetization](#), 8 November 2017) while transforming its core portal business and investing in other end markets for growth. Sina's 3Q results not only reflected Weibo's strong performance, they also highlighted two new growth drivers: First, the portal business grew for the first time in 12 quarters, as the mobile news app accounted for 63% of the total portal ad revenue. We now foresee modest growth as mobile offsets a declining PC business. Second, a 250% y-o-y increase in online finance revenue drove 89% y-o-y growth in other revenue, which amounted to 9% of the total net revenue. Weibo is monetising its B2B payment platform on a per transaction basis and through a monthly software fee. It also consolidated a small-loan service provider. We expect the market to begin to assign value to Sina's other businesses, given that the portal has returned to growth and online finance continues to surge. On a separate note, Sina's shareholders rejected an activist's proposal to appoint two new directors to its board. Following the annual general meeting, the new board has issued preferred shares to Chairman Charles Chao, effectively increasing his voting stake from 11.1% to 55.5%. Management continues to review options to return value to shareholders through dividends or buybacks. By end-September, Sina had reported USD1.3bn and Weibo had registered USD737m in net cash. In October, Weibo completed a convertible bond offering of USD900m.

3Q results ahead of expectations. Net revenue grew 62% y-o-y, to USD443m, 10% above consensus. Advertising revenue grew 47% y-o-y, driven by Weibo. Core portal increased 9% y-o-y, to USD87m, as revenue from its mobile news app accounted for 63% of total portal ad revenue. News app monthly active users grew 30% y-o-y, and frequency and time spent continued to expand year-to-date. Non-advertising revenue was USD40m, of which the online payment was USD16.5m, and service revenue from micro lending was USD12.8m. Adjusted EPS was USD0.77 vs consensus of USD0.74.

Maintain Buy and cut SOTP-based TP to USD144. We raise our revenue forecasts to reflect faster revenue growth in portal and others, but lower our core Sina margin forecasts (to account for higher S&M) and reduce our EPS forecasts to reflect the increased non-operating loss due to widening losses from the company's investment in Leju. We increase our revenue forecast by 6% for 2017e and 8% for 2018e, but we trim our EPS estimates by 10% and 14%, respectively. We project an EPS CAGR of 53% over 2017-20e. Mainly to factor in our lower earnings estimates, we cut our TP to USD144 from USD170. We continue to see Sina as undervalued, given the rising value from its subsidiary Weibo and the improving performance of its portal and finance businesses. Key downside risks include lower than expected monetisation of its news app and performance of Weibo.

EQUITIES INTERNET

China



MAINTAIN BUY

TARGET PRICE (USD)

144.00

PREVIOUS TARGET (USD)

170.00

SHARE PRICE (USD)

103.00

(as of 7 November 2017)

UPSIDE/DOWNSIDE

+39.8%

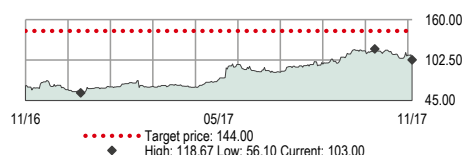
MARKET DATA

Market cap (USDm)	7,366	Free float	0%
Market cap (USDm)	7,366	BBG	SINA US
3m ADTV (USDm)	219	RIC	SINA.OQ

FINANCIALS AND RATIOS (USD)

Year to	12/2016a	12/2017e	12/2018e	12/2019e
HSBC EPS	1.44	2.94	4.76	7.10
HSBC EPS (prev)	-	3.29	5.56	8.40
Change (%)	-	-10.6	-14.4	-15.5
Consensus EPS	1.41	2.93	3.93	5.32
PE (x)	71.5	35.0	21.6	14.5
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	27.1	9.6	4.9	2.5
ROE (%)	3.7	7.2	10.5	12.2

52-WEEK PRICE (USD)



Source: Thomson Reuters IBES, HSBC estimates

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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	1,579	2,205	2,918
EBITDA	205	525	885	1,327
Depreciation & amortisation	-28	-38	-47	-62
Operating profit/EBIT	73	404	710	1,091
Net interest	26	43	56	73
PBT	305	436	738	1,137
HSBC PBT	305	436	738	1,137
Taxation	-27	-86	-140	-216
Net profit	225	164	255	383
HSBC net profit	109	220	353	527

Cash flow summary (USDm)

Cash flow from operations	444	481	783	1,171
Capex	-37	-35	-88	-116
Cash flow from investment	845	-35	-88	-116
Dividends	0	0	0	0
Change in net debt	413	-502	-695	-1,055
FCF equity	168	447	713	1,068

Balance sheet summary (USDm)

Intangible fixed assets	12	102	102	102
Tangible fixed assets	1,617	1,334	1,377	1,433
Current assets	2,656	3,248	4,322	5,808
Cash & others	1,797	2,299	2,994	4,048
Total assets	4,285	4,684	5,801	7,343
Operating liabilities	1,041	1,533	1,891	2,301
Gross debt	0	0	0	0
Net debt	-1,797	-2,299	-2,994	-4,048
Shareholders' funds	3,091	2,998	3,757	4,890
Invested capital	1,447	853	916	994

Ratio, growth and per share analysis

Year to	12/2016a	12/2017e	12/2018e	12/2019e
Y-o-y % change				
Revenue	17.1	53.2	39.6	32.3
EBITDA	116.8	155.9	68.5	49.9
Operating profit	499.5	451.0	75.9	53.7
PBT	560.0	43.2	69.3	54.0
HSBC EPS	61.8	104.4	61.7	49.2

Ratios (%)

Revenue/IC (x)	1.0	1.4	2.5	3.1
ROIC	15.4	34.4	77.0	107.5
ROE	3.7	7.2	10.5	12.2
ROA	6.4	7.8	11.4	14.0
EBITDA margin	19.9	33.3	40.2	45.5
Operating profit margin	7.1	25.6	32.2	37.4
Net debt/equity	-58.1	-76.7	-79.7	-82.8
Net debt/EBITDA (x)	-8.8	-4.4	-3.4	-3.1

Per share data (USD)

EPS Rep (diluted)	2.90	2.21	3.44	5.16
HSBC EPS (diluted)	1.44	2.94	4.76	7.10
DPS	0.00	0.00	0.00	0.00
Book value	43.97	41.95	52.56	68.42

Source: Company data, HSBC estimates

Valuation data

Year to	12/2016a	12/2017e	12/2018e	12/2019e
EV/sales	5.4	3.2	2.0	1.1
EV/EBITDA	27.1	9.6	4.9	2.5
EV/IC	3.8	5.9	4.8	3.3
PE*	71.5	35.0	21.6	14.5
PB	2.3	2.5	2.0	1.5
FCF yield (%)	2.3	6.1	9.7	14.5
Dividend yield (%)	0.0	0.0	0.0	0.0

*Based on HSBC EPS (diluted)

Source: Company data, HSBC estimates

Issuer information

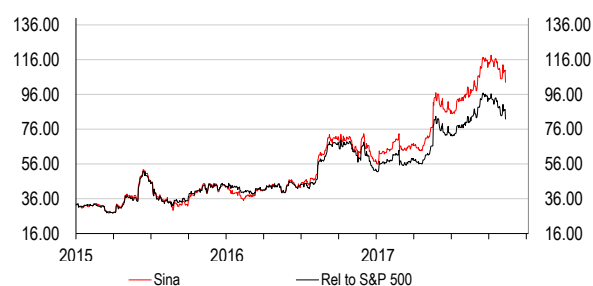
Share price (USD)	103.00	Free float	0%
Target price (USD)	144.00	Sector	Internet
Reuters (Equity)	SINA.OQ	Country	China
Bloomberg (Equity)	SINA US	Analyst	Chi Tsang, CFA
Market cap (USDm)	7,366	Contact	+852 2822 2590

ESG metrics

Environmental Indicators		Governance Indicators	
GHG Intensity (kg/USD)	n/a	No. of board members	5
Energy Intensity (kWh/USD)	n/a	Average board experience (years)	14
CO2 reduction policy	Yes	Female board members (%)	0
Social Indicators		Board members Independence (%)	80
Employee costs as % of sales	n/a		
Employee turnover (%)	n/a		
Diversity policy	Yes		

Source: Company data, HSBC

Price relative



Note: Priced at close of 7 November 2017

Source: HSBC

3Q17 results

USDm	3Q17			Delta	
	Actual	HSBC	Consensus	HSBC	Consensus
Portal	87	79		11%	
Weibo	320	286		12%	
Others	40	32		26%	
Total net revenue	443	396	403	12%	10%
Adjusted gross profit	335	293	303	14%	11%
Gross margin	76%	74%	75%	154	82
Sales and marketing	114	95		20%	
Product development	71	62		14%	
General & administrative	29	31		-6%	
Adjusted income (loss) from operations	142	127		11%	
Memo: adjusted operating margin	32%	32%		(15)	
Adjusted net income	58	68		-15%	
Adjusted EPS (USD)	0.77	0.92	0.74	-16%	4%

Source: Company data, Bloomberg, HSBC estimates

Earnings estimate changes

USDm	4Q17e	2017e	2018e	2019e
Current				
Total net revenue	499	1,579	2,205	2,918
Portal	86	312	339	376
Total Weibo revenue	374	1,147	1,690	2,314
Others	43	131	196	255
Gross profit	377	1,169	1,666	2,218
Gross margins	76%	74%	76%	76%
Adjusted operating profit	171	492	840	1,267
Adjusted operating margins	34.5%	31.4%	38.3%	43.6%
Non-GAAP EPS	USD 0.97	USD 2.94	USD 4.76	USD 7.10
Previous				
Total net revenue	462	1,495	2,034	2,749
Portal	84	301	325	345
Total Weibo revenue	349	1,088	1,583	2,260
Others	28	109	125	144
Gross profit	347	1,100	1,529	2,092
Gross margins	75%	74%	75%	76%
Adjusted operating profit	165	472	807	1,285
Adjusted operating margins	35.9%	31.8%	39.9%	46.9%
Non-GAAP EPS	USD 1.17	USD 3.29	USD 5.56	USD 8.40
Delta				
Total net revenue	8%	6%	8%	6%
Portal	3%	3%	4%	9%
Total Weibo revenue	7%	5%	7%	2%
Others	50%	21%	56%	77%
Gross profit	9%	6%	9%	6%
Gross margins (bps)	45	47	39	(8)
Adjusted operating profit	4%	4%	4%	-1%
Adjusted operating margins (bps)	(144)	(38)	(161)	(332)
Non-GAAP EPS	-17%	-10%	-14%	-15%

Source: Company data, Bloomberg, HSBC estimates

Maintain Buy and cut SOTP-based target price to USD144. We raise our revenue forecasts to reflect faster revenue growth in portal and others, but lower our core Sina margin forecasts to account for higher sales and marketing expenses, and we reduce our EPS forecasts to reflect the increased non-operating loss due to widening losses from the company's investment in Leju. On 30 December 2016, Sina held approximately 31.1% of the total outstanding ordinary shares in Leju. Sina reported its holdings in Leju using the equity method, and Sina's net income is impacted by Leju's performance. Leju has not reported its 3Q results yet. (Leju is an online-to-offline (O2O) real estate services provider in China that offers real estate e-commerce, online advertising and online listing services through an online platform. In addition to its own websites, Leju operates some of Sina's real estate and home furnishing websites.)

We increase our revenue forecast by 6% for 2017e and 8% for 2018e, but we trim our EPS estimates by 10% and 14%, respectively. Mainly to factor in our lower earnings estimates, we cut our target price to USD144 (from USD170). Our sum-of-the-parts valuation methodology is unchanged with respect to (1) Weibo, (2) core Sina, (3) net cash, and (4) investments (see table below for details). We now use a 46% (earlier 50%) equity interest in the Weibo target price of USD106 (previously USD97) to derive a value of USD148 per share (was USD136) for Sina's stake in Weibo. We now assign a 20% parent-co discount (versus 0% earlier) to reflect the change in management's voting stake, which is now 55% (previously 11%). Given these voting rights, we believe it is unlikely that any investor could change the board by selling assets. We value Sina's portal at 1x revenue given its low growth profile (2017-20e revenue CAGR of 10%). We continue to see Sina as undervalued given the rising value of its subsidiary Weibo and the improving performance of its portal and finance businesses. The current Sina share price (at close of 7 November) is USD103; if we back out the market price for Weibo, net cash and investments, the remaining value implied for the core business is USD63 per share.

Sum-of-the-parts valuation

	Methodology	Value/share	Valuation and risks
Weibo	46% equity interest in Weibo target price	USD148	We reduce our target price to USD144 from USD170, mainly due to lower earnings estimates. Our target price implies 40% upside, we retain our Buy rating. Key downside risks to our estimates and rating include worse-than-expected declines in the portal business as well as weaker-than-expected monetisation or lower-than-expected margins for Weibo.
Core Sina	1x 2017e portal revenue	USD4	
Net cash	2017 estimated	USD16	
Investments	Last reported book value	USD11	
Subtotal		USD180	
Discount		20%	Valuation and risks for Weibo (WB US, USD99.28, Buy, TP USD106): Our DCF-based target price uses Weibo's latest two-year beta of 1.26, a 2.5% risk-free rate, an equity risk premium of 6%, and a terminal growth rate of 5%, which leads to a WACC of 10.1%. Our target price implies 7% upside from the current share price. We rate Weibo Buy as we expect its leadership in social, mobile and video products to enable steady user growth and engagement. Also, a large user base should drive further monetisation potential. Key downside risks to our view include a failure to retain popular key opinion leaders (KOLs) and generate interesting content, more regulatory scrutiny over online advertising, time spent eroded by other forms of entertainment and social media, weaker advertising sentiment, and weaker-than-expected execution.
Target price		USD144	

Source: Company data, HSBC estimates

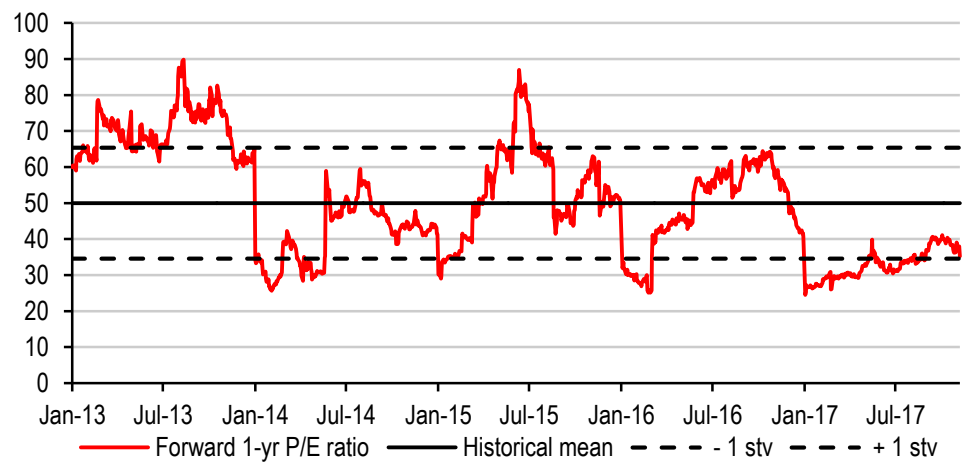
The stock is now trading at a 2017e PE of 35x and a 2018e PE of 22x compared with its peers' average of 36x 2017e and 31x 2018e PE. According to Bloomberg, Sina shares are now trading at a 35x forward PE versus an average of 50x since 2013. We project an EPS CAGR of 53% over 2017-20e.

Valuation comparison

Company	Ticker	Rating	Currency	Market cap (USDbn)	Share price 7-Nov-17	Target price	Implied upside	2017e PE (x)	2018e PE (x)
Alibaba	BABA US	BUY	USD	481	188.51	209	11%	38.4	25.5
Baidu	BIDU US	BUY	USD	85	243.47	295	21%	30.6	21.3
JD.com	JD US	BUY	USD	56	39.79	49	23%	72.8	38.9
Ctrip	CTRP US	BUY	USD	31	45.90	54	18%	61.2	51.2
Weibo	WB US	BUY	USD	23	99.28	106	7%	56.3	32.5
Sina	SINA US	BUY	USD	8	103.00	144	40%	35.0	21.6
Momo	MOMO US	BUY	USD	6	28.26	46	63%	17.0	12.8
YY	YY US	BUY	USD	6	91.36	100	9%	14.5	12.7
Autohome	ATHM US	BUY	USD	10	64.88	76	17%	26.6	20.4
Sohu	SOHU US	HOLD	USD	2	58.78	65	11%	n.m.	96.5
Changyou	CYOU US	HOLD	USD	2	37.16	40	8%	11.3	11.6
Average								36.4	31.4

Source: Bloomberg, HSBC estimates

Forward PE band



Source: Bloomberg, HSBC

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Chi Tsang and Wayne Wang

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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.

Prior to this date, HSBC's rating structure was applied on the following basis:

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. 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.

Rating distribution for long-term investment opportunities

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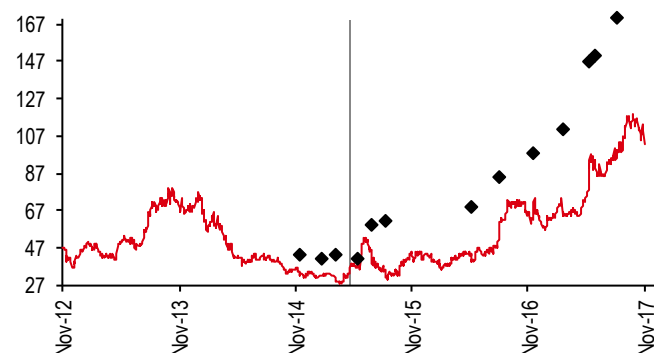
Buy	45%	(28% of these provided with Investment Banking Services)
Hold	41%	(25% of these provided with Investment Banking Services)
Sell	14%	(18% of these provided with Investment Banking Services)

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



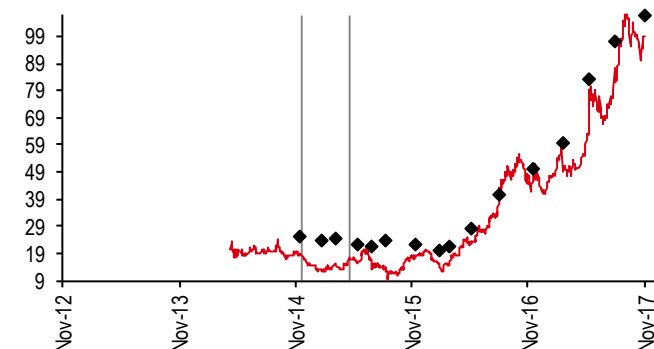
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Overweight (V)	Buy	24 Apr 2015	Chi Tsang
Target price	Value	Date	Analyst
Price 1	42.51	24 Nov 2014	Chi Tsang
Price 2	40.77	28 Jan 2015	Chi Tsang
Price 3	42.51	11 Mar 2015	Chi Tsang
Price 4	40.77	19 May 2015	Chi Tsang
Price 5	58.13	2 Jul 2015	Chi Tsang
Price 6	60.73	19 Aug 2015	Chi Tsang
Price 7	68.54	12 May 2016	Chi Tsang
Price 8	84.15	9 Aug 2016	Chi Tsang
Price 9	96.89	22 Nov 2016	Chi Tsang
Price 10	109.81	27 Feb 2017	Chi Tsang
Price 11	146.72	16 May 2017	Chi Tsang
Price 12	150.00	5 Jun 2017	Chi Tsang
Price 13	170.00	11 Aug 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	2 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	4 Feb 2016	Chi Tsang
Price 9	21.00	3 Mar 2016	Chi Tsang
Price 10	28.00	12 May 2016	Chi Tsang
Price 11	40.00	9 Aug 2016	Chi Tsang
Price 12	50.00	22 Nov 2016	Chi Tsang
Price 13	59.00	27 Feb 2017	Chi Tsang
Price 14	83.00	16 May 2017	Chi Tsang
Price 15	97.00	9 Aug 2017	Chi Tsang
Price 16	106.00	7 Nov 2017	Chi Tsang

Source: HSBC

To view a list of all the independent fundamental ratings disseminated by HSBC during the preceding 12-month period, please use the following links to access the disclosure page:

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HSBC & Analyst disclosures**Disclosure checklist**

Company	Ticker	Recent price	Price date	Disclosure
SINA	SINA.OQ	103.00	7 Nov 2017	7

Source: HSBC

- 1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- 4 As of 30 September 2017 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 As of 30 September 2017, this company was a client of HSBC or had during the preceding 12-month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- 6 As of 30 September 2017, this company was a client of HSBC or had during the preceding 12-month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.
- 7 As of 30 September 2017, this company was a client of HSBC or had during the preceding 12-month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company
- 12 As of 3 November 2017, HSBC beneficially held a net long position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.
- 13 As of 3 November 2017, HSBC beneficially held a net short position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.

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