

## Company Report: Sina (SINA US)

公司报告: 新浪 (SINA US)

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# Possible Effects from Slower Weibo User Growth, "Buy"

或受微博增速放缓的影响, "买入"

- **Sina's 1Q18 results were lower than our expectations, non-GAAP net profit lowered by 6.4% yoy** due to lower-than-expected Weibo contributions. Weibo's results were affected by higher expenses for channel marketing and content acquisitions to contend with slower user growth.
- **We cut Sina's FY18-FY20 advertising revenue forecasts by 4.6%/ 5.2%/ 5.8%, respectively, to reflect slower Weibo user growth and competition from social network applications.** Weibo MAU reached 411 million in Mar. 2018, up 20.7% yoy, and DAU reached 184 million, up 19.5% yoy. Weibo's MAU growth rate is slowing down due to large user base and fierce market competition.
- **Non-advertising revenue in FY18-FY20 is expected to grow by 47.8%/ 33.2%/ 22.8%, respectively,** thanks to Weibo membership fees, fintech business and e-payment services contribution. The tightening up of online micro-loan services regulations may affect growth in FY18.
- **Maintain the Company's investment rating of "Buy", but cut the TP from US\$142.00 to US\$125.00.** We cut FY18-FY20 non-GAAP EPS forecasts by 4.6%/ 5.4%/ 6.0%, respectively. The new TP represents 34.8x FY18 non-GAAP PER, 29.4x FY19 non-GAAP PER and 21.2x FY20 non-GAAP PER.
- **新浪 2018 财年 1 季度业绩差于我们的预期, 非 GAAP 净利润同比下降 6.4%,** 主要由于低于预期的微博业绩贡献。为抗衡用户增长放缓, 微博受到了渠道营销和内容获取费用增长的影响。
- **我们将新浪 2018 财年至 2020 财年的广告收入预测分别下调 4.6%/ 5.2%/ 5.8%, 以反映微博用户增长放缓以及来自社交网络应用的竞争。** 微博 2018 年三月的月活用户数达 4.11 亿, 同比增长 20.7%, 日活用户数达 1.84 亿, 同比增长 19.5%。微博月活用户数增速放缓, 原因在于较大的用户基数以及激烈的市场竞争。
- **2018 财年至 2020 财年的非广告收入预计将分别增长 47.8%/ 33.2%/ 22.8%,** 得益于微博会员费、金融科技业务以及电子支付服务的贡献。收紧的网络微贷服务监管可能会影响 2018 财年的增长。
- **维持公司的投资评级为“买入”及目标价从 142.00 美元下调至 125.00 美元。** 我们分别下调 2018 财年至 2020 财年的每股非 GAAP 盈利预测 4.6%/ 5.4%/ 6.0%。新目标价相当于 34.8 倍 2018 年非 GAAP 市盈率、29.4 倍 2019 年非 GAAP 市盈率及 21.2 倍 2020 年非 GAAP 市盈率。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**US\$125.00**

Revised from 原目标价:

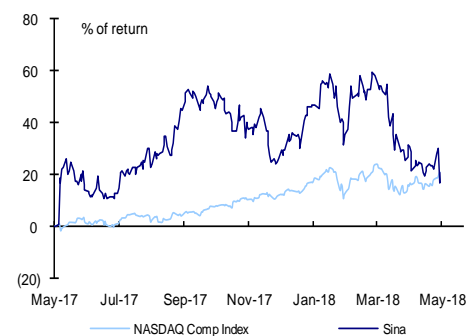
US\$142.00

Share price 股价:

US\$91.450

## Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(7.8)	(11.2)	20.2
Rel. % to NASDAQ Index 相对纳指变动 %	(12.5)	(18.9)	(0.9)
Avg. Share price(US\$) 平均股价 (美元)	96.1	107.7	103.5

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2016A	1,031	225	3.202	(94.7)	28.6	38.116	2.4	0.000	0.0	8.6
2017A	1,584	157	2.196	(31.4)	41.6	39.937	2.3	0.000	0.0	5.7
2018F	2,230	181	2.504	14.0	36.5	59.889	1.5	0.000	0.0	5.0
2019F	2,827	234	3.152	25.9	29.0	75.837	1.2	0.000	0.0	4.7
2020F	3,406	287	3.764	19.4	24.3	91.856	1.0	0.000	0.0	4.5
Shares in issue (m) 总股数 (m)				71.0	Major shareholder 大股东				Charles Chao 15.8%	
Market cap. (US\$ m) 市值 (US\$ m)				6,493.0	Free float (%) 自由流通比率 (%)				84.2	
3 month average vol. 3 个月平均成交股数 ('000)				1,062.0	FY18 Net gearing (%) FY18 净负债/股东资金 (%)				Net cash	
52 Weeks high/low (US\$) 52 周高/低 (US\$)				124.600 / 75.510						

Source: the Company, Guotai Junan International.

## 1Q18 Results Review

**Sina's 1Q18 results were weaker than our expectations, non-GAAP net profit lowered by 6.4% yoy due to lower-than-expected Weibo contributions.** Weibo was affected by higher expenses for channel marketing and content acquisitions to contend with slower user growth. Weibo's non-GAAP net profit grew 94.8% yoy in 1Q18 thanks to gross margin improvement and advertising revenue growth. Sina's advertising revenue grew 61.0% yoy driven by Weibo advertising. Non-advertising revenue grew 47.1% yoy driven by fintech business, Weibo membership fees and revenue share from live broadcasting business. Weibo MAU reached 411 million in Mar. 2018, up 20.7% yoy. Weibo user growth rate is slowing down due to large user base and competition from social network platforms with similar short video applications. Gross margin in 1Q18 was 75.3%, up 6.5 ppt yoy, thanks to Weibo platform margin improvement. Sina is expected to face headwinds from stricter regulations for micro loan business in China, which should affect fintech business revenue growth.

**Table-1: Sina's Consolidated Income Statement Analysis**

USD (Million)	1Q18	1Q17	YoY	Comments
Revenue	440.8	278.1	58.5%	
-Advertising	367.1	228.0	61.0%	Driven by 78.9% yoy growth in Weibo advertising and 7.3% growth in portal advertising revenue
-Non-advertising	73.7	50.1	47.1%	Driven by 56.9% yoy growth in Weibo VAS and 32.8% growth in portal non-advertising revenue
Gross profit	332.0	191.5	73.4%	
S&M expenses	(139.7)	(68.1)	105.1%	
Product development	(85.1)	(54.4)	56.4%	
G&A expenses	(33.9)	(24.0)	41.3%	
Operating income	73.3	45.0	62.9%	
Non-GAAP operating profit	94.6	63.7	48.5%	
Non-operating income	22.6	30.3	(25.4%)	
Income before tax	95.8	75.2	27.4%	
Taxes	(18.8)	(13.8)	36.2%	
GAAP Net profit	28.7	38.5	(25.5%)	
Non-GAAP Net profit	35.2	37.6	(6.4%)	
EPS (USD)	0.40	0.54	(25.9%)	
Gross profit margin	75.3%	68.9%	6.5ppt	Margin improvement thanks to lower user acquisition costs
Non-GAAP operating margin	21.5%	22.9%	(1.4ppt)	
Non-GAAP net profit margin	8.0%	13.5%	(5.5ppt)	

Source: the Company, Guotai Junan International.

**We cut Sina's FY18-FY20 advertising revenue forecasts by 4.6%/ 5.2%/ 5.8%, respectively.** 1Q18 advertising revenue grew 61.0% yoy, driven by 78.9% yoy growth in Weibo advertising and 7.3% growth in portal advertising revenue. Weibo's 1Q18 advertising and marketing revenue grew 78.9% yoy, in-line with expectations, driven by subsidies for red envelope distribution during Chinese New Year. Weibo MAU reached 411 million in Mar. 2018, up 20.7% yoy, and DAU reached 184 million, up 19.5% yoy. Weibo's MAU growth rate is slowing down due to large user base and fierce market competition. Over 93% of Weibo's MAU was contributed from the mobile platform. In 2018, Weibo is going to increase investment in content and channel marketing to improve user growth and user engagement. Weibo has subsidized user growth through the distribution of red envelopes and launched a series of marketing activities during the Chinese New Year period. Partnerships with smartphone makers for pre-installed Weibo apps may not be as efficient as in the past due to the slowing down of smartphone shipments growth. We expect that Weibo may need to co-operate with more smartphone makers to pre-install Weibo apps on more smartphone models to offset smartphone shipment decline influence. Weibo is being used by many celebrities to share their views and interests with fans and audiences. Weibo is going to reinforce the ecosystem of celebrity pages by cooperating with celebrities to create video programs to generate related advertisements. Weibo will co-operate with more video content

providers to launch short videos and live broadcasts to improve content. We cut Weibo's FY18-FY20 advertising and marketing revenue by 5.1%/ 6.8%/ 7.1%, respectively, to reflect slower user growth and competition from other social network applications.

**We expect FY18-FY20 advertising revenue from portals to grow 7.0%/ 5.0%/ 3.5%, respectively.** Portal advertising grew 7.3% in 1Q18, contributed by mobile platform transition of news apps and portal platforms. The revenue growth rate was slower compared to previous quarters due to fierce competition from other news apps (such as Toutiao, Tencent news app). Toutiao ranked the top position in China's news app thanks to the introduction of AI technology with the launch of customized news to readers. We expect information feed advertising for Sina news app to maintain stable revenue contribution. The DAU of Sina news app and Sina finance app increased 31% and 40%, respectively. We expect more sports related services and information to be launched in 2018 to improve advertising needs related to the Fifa World Cup event. Sina will launch more information feed advertising inventory to monetize news apps.

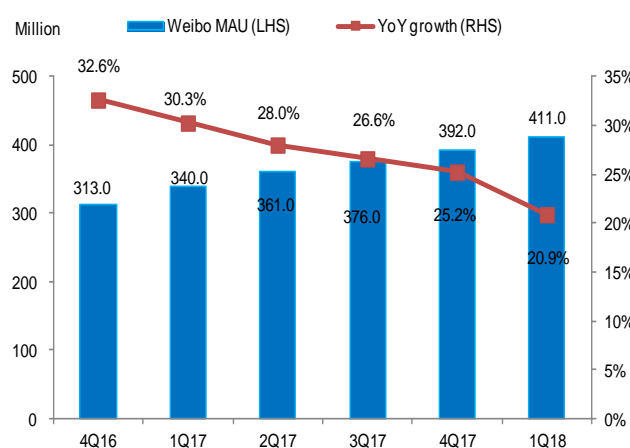
**Non-advertising revenue grew 47.1% yoy in 1Q18 due to 56.9% yoy growth in Weibo VAS and 32.8% growth in non-advertising portal revenue.** Weibo VAS was driven by membership fees and gaming revenue contributions. 1Q18 Weibo VAS revenue grew 56.9% yoy. We expect that a slowing down in Weibo user growth will impact weibo VAS revenue and we forecast Weibo VAS revenue to grow 60.0%/ 43.0%/ 28.0%, respectively. Non-advertising portal revenue improved by 32.8% yoy in 1Q18, with slower growth rate attributable to headwinds from tightening of micro-loan regulations. Sina has diversified its fintech business with the grant of licenses in online insurance and online wealth management businesses. We forecast non-advertising portal revenue to grow 28.0%/ 18.0%/ 13.0% in FY18-FY20, respectively.

**Table-2: Sina's and Weibo's Quarterly Advertising Revenue Analysis**

US\$ (Million)	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
Weibo advertising	127.2	156.7	187.9	169.3	218.3	276.8	332.5	302.9
YoY	44.7%	48.0%	45.0%	70.6%	71.7%	76.7%	76.9%	78.9%
Weibo VAS	19.7	20.2	24.9	29.9	35.0	43.2	45.1	46.9
YoY	(1.3%)	6.9%	25.2%	49.2%	77.7%	114.2%	81.4%	56.9%
Portal advertising	78.7	76.8	81.7	59.8	77.9	87.4	95.3	64.1
YoY	(11.0%)	(12.3%)	(12.8%)	(6.2%)	(1.0%)	13.8%	16.7%	7.3%
Sina non-advertising	19.2	21.2	19.0	20.2	28.7	39.8	33.8	26.8
YoY	12.9%	51.5%	40.3%	28.7%	49.6%	88.0%	78.2%	32.7%

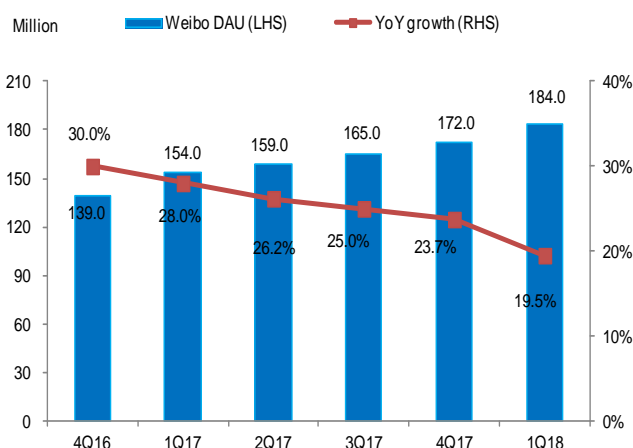
Source: the Company.

**Figure-1: Weibo's MAU and YoY Growth**

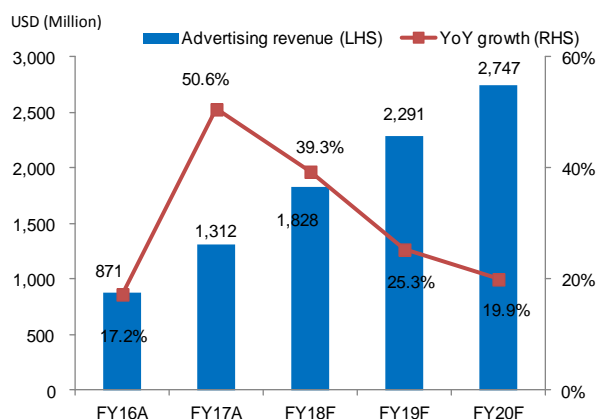


Source: the Company.

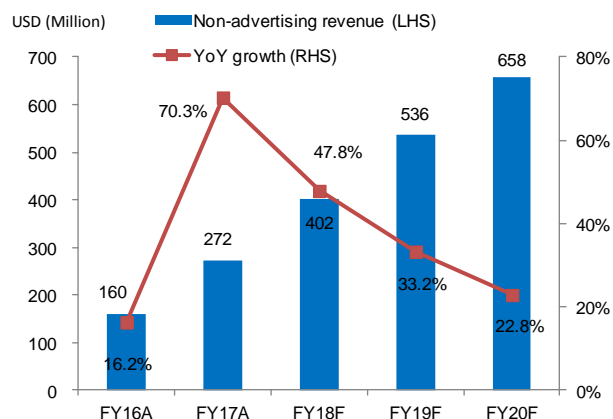
**Figure-2: Weibo's DAU and YoY Growth**



Source: the Company.

**Figure-3: Sina's Advertising Revenue and YoY Growth**


Source: the Company, Guotai Junan International.

**Figure-4: Sina's Non-advertising Revenue and YoY Growth**


Source: the Company, Guotai Junan International.

## Profit Revision

We trim Sina's FY18-FY20 non-GAAP EPS by 4.6%/ 5.4%/ 6.0%, respectively. Due to the slower growth in Weibo users, we expect Sina's revenue to be impacted. We cut Sina's FY18-FY20 revenue by 4.1%/ 4.9%/ 5.3%, respectively.

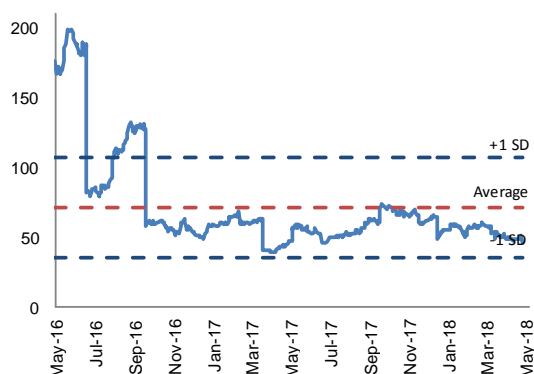
**Table-3: Sina's Financial Estimations Revisions**

US\$ (Million)	OLD			NEW			CHANGE		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Total revenue	2,325	2,973	3,597	2,230	2,827	3,406	(4.1%)	(4.9%)	(5.3%)
Advertising revenue	1,916	2,417	2,916	1,828	2,291	2,747	(4.6%)	(5.2%)	(5.8%)
Non-advertising revenue	408	548	677	402	536	658	(1.5%)	(2.2%)	(2.8%)
Non-GAAP net profit	271	346	422	259	327	397	(4.6%)	(5.4%)	(6.0%)
Non-GAAP EPS (US\$)	3.762	4.660	5.541	3.589	4.408	5.209	(4.6%)	(5.4%)	(6.0%)

Source: Guotai Junan International.

## Valuation

Maintain the Company's investment rating of "Buy", but cut the TP from US\$142.00 to US\$125.00. We expect Sina's advertising business to show moderate growth in 2018 due to the cooperation with content providers to improve user adoption. Operating margin will be affected by the squeeze in Weibo's margin. The new TP represents 34.8x FY18 non-GAAP PER, 28.4x FY19 non-GAAP PER and 24.0x FY20 non-GAAP PER.

**Figure 5: Sina's PE Graph**


Source: Bloomberg.

**Table-4: Peers Comparison**

				PER (x)			PBR (x)			ROE(%)	ROA(%)
Company	Ticker	Currency	Price	18F	19F	20F	18F	19F	20F	18F	18F
US Online Game Companies											
Changyou	CYOU US	USD	19.360	13.8	10.5	n.a.	1.4	1.2	1.2	11.0	12.9
Electronic Arts Inc	EA US	USD	130.110	38.4	26.0	22.8	8.7	7.5	6.2	24.1	12.8
Activision Blizzard Inc	ATVI US	USD	70.170	27.0	23.4	21.3	4.8	4.0	3.5	18.3	10.4
Netease	NTES US	USD	266.350	18.2	15.2	13.7	3.9	3.3	2.7	22.3	14.9
Simple Average				24.3	18.8	19.3	4.7	4.0	3.4	18.9	12.7
Weighted Average				28.0	21.9	19.7	5.8	4.9	4.1	21.1	12.4
HK Online Game Companies											
Tencent	00700 HK	HKD	398.000	36.3	27.5	21.8	9.3	7.2	5.8	27.6	13.6
Boyya Interactive Int.	00434 HK	HKD	2.960	6.0	5.8	4.8	0.6	0.5	0.5	10.7	8.7
IGG	00799 HK	HKD	12.460	9.6	8.8	8.9	5.4	4.1	3.2	66.2	50.5
Netdragon	00777 HK	HKD	19.880	n.a.	37.4	30.0	1.8	1.7	1.6	3.0	2.1
Simple Average				17.3	19.9	16.4	4.3	3.4	2.8	26.9	18.7
Weighted Average				36.2	27.4	21.8	9.2	7.2	5.7	27.7	13.7
Advertising Companies											
Sohu.Com Inc	SOHU US	USD	36.540	n.a.	n.a.	n.a.	2.1	2.3	1.1	(52.5)	(10.3)
Weibo	WB US	USD	104.550	37.4	25.8	17.3	13.0	8.7	5.9	40.7	23.4
Bitauto	BITA US	USD	22.670	14.5	10.3	7.1	0.6	0.6	0.6	2.2	1.3
Cheetah Mobile	CMCM US	USD	11.780	19.5	17.6	14.1	2.1	1.8	1.5	10.4	8.5
58.com	WUBA US	USD	85.780	36.5	26.8	21.4	3.8	3.5	3.1	10.3	7.9
Soufun	SFUN US	USD	5.580	22.7	16.6	13.8	3.0	2.5	2.1	15.0	5.7
Phoenix New Media	FENG US	USD	4.870	40.9	21.9	18.3	0.9	0.9	0.8	2.3	1.5
Sina	SINA US	USD	91.450	29.3	17.9	13.0	2.0	1.8	1.5	7.4	5.6
Facebook	FB US	USD	184.320	21.5	17.8	14.7	5.8	4.3	3.3	24.8	21.7
Simple Average				27.8	19.3	15.0	3.7	2.9	2.2	6.7	7.2
Weighted Average				22.5	18.3	14.9	5.9	4.4	3.3	24.5	21.0
E-commerce Companies											
Alibaba	BABA US	USD	196.610	51.9	30.7	23.0	8.7	6.8	5.4	19.9	10.5
VIPSHOP	VIPS US	USD	12.080	14.8	11.3	8.7	3.2	2.4	1.9	18.1	5.9
EBay	EBAY US	USD	38.080	16.6	14.4	12.3	5.2	4.7	2.9	29.2	9.4
JD.com	JD US	USD	36.120	52.3	35.4	23.9	6.2	5.5	4.7	3.3	0.6
AMAZON	MZN US	USD	1576.120	77.0	55.6	38.3	19.7	14.2	10.9	16.3	3.8
Simple Average				42.5	29.5	21.2	8.6	6.7	5.2	17.3	6.1
Weighted Average				64.8	44.2	31.2	14.6	10.8	8.4	17.5	6.3
Search Engine Companies											
Alphabet Inc	GOOG US	USD	1084.870	21.0	18.7	15.7	4.1	3.4	2.8	18.0	14.7
Baidu	BIDU US	USD	271.920	26.3	22.4	18.5	4.4	3.7	2.9	16.1	7.8
Simple Average				23.7	20.5	17.1	4.3	3.6	2.9	17.0	11.2
Weighted Average				21.6	19.1	16.1	4.2	3.4	2.8	17.8	13.9
Overall Average				27.1	21.6	17.8	5.1	4.1	3.3	17.4	11.2
Overall Weighted Average				34.6	26.2	20.7	7.9	6.1	4.9	21.7	13.5

Source: Bloomberg.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (USD m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (USD m)	2016A	2017A	2018F	2019F	2020F
Advertising revenue	871	1,312	1,828	2,291	2,747	Fixed assets, net	242	263	292	319	279
Non-advertising revenue	160	272	402	536	658	Long term investments	1,318	1,289	1,872	2,330	1,694
Total Revenue	1,031	1,584	2,230	2,827	3,406	Other non-current assets	69	161	171	182	194
Cost of revenue	355	414	553	694	824	Total Non-current Assets	1,629	1,713	2,335	2,831	2,167
Gross profit	676	1,170	1,677	2,133	2,581	Short-term investments	389	1,382	1,451	1,524	1,600
Sales & Marketing expenses	(247)	(409)	(669)	(839)	(1,008)	Account receivables	210	286	257	231	208
Product development expenses	(216)	(267)	(424)	(546)	(664)	Cash & Cash Equivalents	1,408	1,991	2,921	3,972	6,334
G&A expenses	(99)	(105)	(167)	(209)	(252)	Others	649	444	517	595	680
Others	(40)	0	0	0	0	Total Current Assets	2,656	4,103	5,146	6,322	8,822
Operating profit	113	389	417	539	657	Total Assets	4,285	5,815	7,481	9,153	10,989
Others	165	(7)	3	4	5	Accounts payable	108	130	137	144	151
Interest & other income, net	26	43	67	87	110	Accrued liabilities	453	447	505	570	645
Profit Before Tax	305	424	487	630	772	Income taxes payable	40	102	67	85	102
Income Tax	(27)	(75)	(83)	(107)	(131)	Others	370	593	695	828	982
Profit After Tax	277	350	404	523	641	Total Current Liabilities	971	1,273	1,404	1,627	1,880
Non-controlling Interest	(52)	(193)	(223)	(289)	(354)	Deferred revenue	65	54	49	44	40
Shareholders' Profit / Loss	225	157	181	234	287	Convertible debt	153	880	880	880	880
Basic EPS (USD)	3.202	2.196	2.504	3.152	3.764	Other long-term liabilities	4	9	10	11	13
Non-GAAP shareholders' Profit	109	208	259	327	397	Total Non-current Liabilities	223	943	939	935	933
Non-GAAP EPS (USD)	1.551	2.916	3.589	4.408	5.209	Total Liabilities	1,194	2,216	2,342	2,562	2,812
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (USD m)	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Profit before taxation	277	350	404	523	641	Margins:					
Investment impairment (gain)	44	(9)	(11)	(11)	(12)	Gross margin (%)	65.6	73.9	75.2	75.5	75.8
Stock-based compensation	74	91	103	111	119	non-GAAP Operating margin (%)	17.3	29.9	24.5	24.0	23.4
Changes in WP	215	321	(16)	53	53	non-GAAP Net margin	10.6	13.1	11.6	11.6	11.7
Others	(167)	836	739	700	2,897	ROE	8.6	5.7	5.0	4.7	4.5
Cash from Operating Activities	444	1,589	1,220	1,374	3,698	ROA	5.2	3.1	2.7	2.8	2.9
CAPEX	(38)	(34)	(31)	(27)	(25)						
Others	883	(1,880)	(251)	(296)	(1,320)						
Cash from Investing Activities	845	(1,914)	(282)	(323)	(1,344)						
Proceeds from issuance of shares	36	32	29	26	24						
Proceeds from bank loans	104	56	18	24	29						
Others	(743)	856	(21)	(19)	(17)						
Cash from Financing Activities	(603)	945	26	31	35						
Net Changes in Cash	685	620	964	1,082	2,389						
Cash at Beg of Year	763	1,408	1,991	2,921	3,972						
FX change	(41)	(37)	(33)	(30)	(27)						
Cash at End of Year	1,408	1,991	2,921	3,972	6,334						

Source: the Company, Guotai Junan International.



### Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	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	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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