

Initiate Coverage

Tian Ge Interactive Holdings

 1980 HK

Robust growth bodes well for the shining future

- *Tian Ge is the largest live social video platform in China in terms of total user spending, and it is also the pioneer and leader of the “many-to-many” model*
- *Total User base and user spending in China’s live social video community are expected to grow at a CAGR of 31.1% and 36.9% in the next 3 years. We expect Tian Ge to be a major beneficiary in the fast-growing online live social video community industry*
- *We initiate Tian Ge Interactive Holdings with a BUY rating at a target price of HKD6.05 per share, representing a prospective P/E of 20.7x for FY12/15E, and an upside potential of 25.3% to the current market price*

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Stock Data (1980 HK)

Rating	BUY
Price (HK\$)	4.83
Target Price (HK\$)	6.05
12m Price Range (HK\$)	3.93-6.31
Market cap. (HK\$m)	6,098.9
Daily t/o (HK\$m)	8.9
Free float (%)	22.6
Source: Bloomberg	

Robust growth has been observed in its 3Q FY12/14E: Last Friday, Tian Ge announced its quarter results for 3Q FY12/14E. During the period, the company recorded the revenue of RMB173.1m, a 23.9% YoY increase; gross profit of RMB153.1m, a 26.2% YoY increase; adjusted EBITDA of RMB80.7m, a 32.1% YoY increase; and turnaround profit attributable to shareholders of RMB20.6m, compared with the loss attributable to shareholders of RMB30.2m in the same period last year. Excluding listing expenses and non-cash items, the company would have recorded core net profit of RMB71.6m, a 44.4% YoY increase.

A major beneficiary in the fast-growing online live social video community industry: The live social video community industry in China has been growing rapidly in recent years, as a result of the advancement in internet technology, urbanization and a general lack of offline recreational and social interaction facilities. It is expected that the trend will continue and the user base in China’s live social video community will increase at a CAGR of 31.1% from 2013 to 2017E, and total user spending will increase at a CAGR of 36.9% during the same period. Tian Ge, as the largest player in the industry in terms of revenue, is going to be one of the biggest beneficiaries of the increase in popularity and acceptance of live social video in China.

A leading player with distinctive business model and strong R&D team lays strong grounds for user interaction : Tian Ge is the largest live social video platform in China in terms of total user spending. According to iResearch, the company ranked 1st in China’s live social video community in terms of user spending in 2013, commanding a market share of 33.9%. In comparison with YY, who sells their virtual currency directly to platform users, Tian Ge mainly sells their virtual currency through distributors and agents with an attractive discount. We prefer the business model of Tian Ge, as distributors and agents do not only sell the virtual currency on behalf of the company, but they also provide users with player information guidance, which is crucial in attracting and retaining long-term customers. In addition, Tian Ge has strong product development and engineering capabilities which allows it to continue releasing new virtual gifts and items that stimulate interaction among users.

Figure 1. Financials and valuation

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Total revenue (RMB m)	455.8	548.2	699.9	872.9	1,088.7
Revenue growth (YoY)	18.6%	20.3%	27.7%	24.7%	24.7%
Gross profit (RMB m)	403.5	480.1	604.5	748.8	927.4
Gross profit growth (YoY)	20.0%	19.0%	25.9%	23.9%	23.8%
Core net profit (RMB m)	158.4	206.3	253.3	311.7	414.0
Core net profit growth (YoY)	13.2%	30.2%	22.8%	23.1%	32.8%
EPS (RMB)	-	-	-	0.23	0.31
P/E (x)	-	-	-	15.4	11.6

Source: SBI China Capital, Company data

Investment thesis

Robust growth has been observed in 3Q FY12/14E: Last Friday, Tian Ge announced its quarter results for 3Q FY12/14E. During the period, the company recorded the revenue of RMB173.1m, a 23.9% YoY increase; gross profit of RMB153.1m, a 26.2% YoY increase; adjusted EBITDA of RMB80.7m, a 32.1% YoY increase; and turnaround profit attributable to shareholders of RMB20.6m, compared with the loss attributable to shareholders of RMB30.2m in the same period last year. Excluding listing expenses and non-cash items, the company would have recorded core net profit of RMB71.6m, a 44.4% YoY increase. As of 30 Sep 2014, the company has total MPUs of 335,000, which was up by 30.9% YoY or 0.9% QoQ. Monthly ARPU experienced a moderate QoQ growth during the 3-month period, up from RMB158.0 in 2Q FY12/14E to RMB161.0 in 3Q FY12/14E.

For 1Q-3Q FY12/14E, the company recorded the revenue of RMB517.3m, a 29.5% YoY increase; gross profit of RMB443.3m, a 26.3% YoY increase; adjusted EBITDA of RMB239.4m, a 30.9% YoY increase; and loss attributable to shareholders of RMB153.8m, compared with the loss attributable to shareholders of RMB122.1m in the same period last year. Excluding listing expenses and non-cash items, the company would have recorded core net profit of RMB203.3m, a 35.5% YoY increase. As Tian Ge's convertible preferred shares will be fully-converted into ordinary shares in FY12/14E, we do not expect the non-cash expenses to have any significant impact on its income statement from FY12/15E.

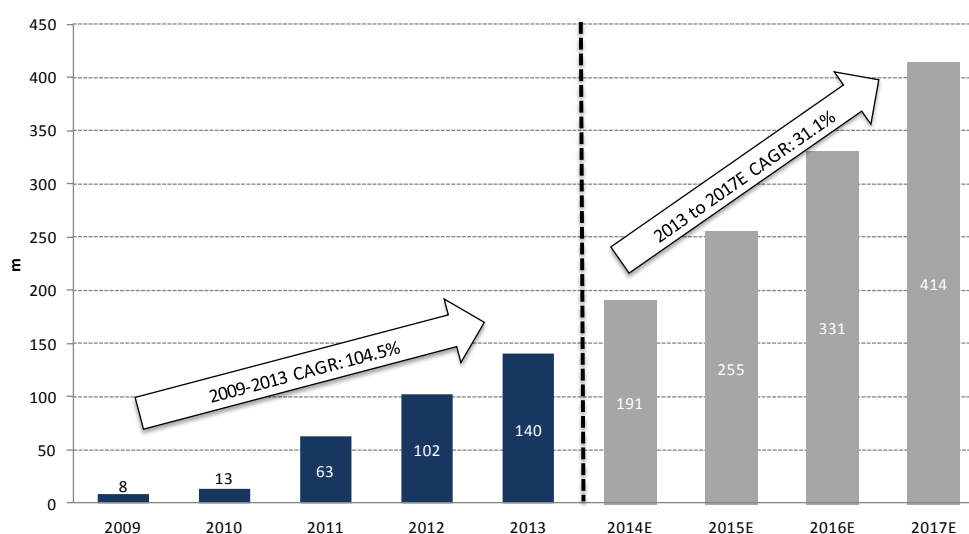
Figure 2: Snapshot of Tian Ge's quarter result in 3Q FY12/14E

	3Q FY12/14	YoY change	1Q-3Q FY12/14	YoY change
Revenue (RMB m)	173.1	23.9%	517.3	29.5%
– Live social video platform	161.5	16.8%	478.0	21.8%
– Games & Other	11.6	731.9%	39.4	448.9%
Gross margin	88.5%	1.7 ppts	85.7%	-2.1ppts
Adjusted net profit	71.6	44.4%	203.3	35.5%
Adjusted EBITDA	80.7	32.1%	239.4	30.9%
Monthly ARPU (RMB)	161.0	-10.6%	-	-
MAUs as of 30 Sep 2014 ('000)	14,352.0	23.1%	-	-
MPUs as of 30 Sep 2014 ('000)	335.0	30.9%	-	-

Source: Company data

A major beneficiary in the fast-growing online live social video community industry: The live social video community industry in China has been growing rapidly in recent years. This is due to the advancement of internet technology, urbanization and general lack of offline recreational and social interaction facilities (especially in tier 3 and tier 4 cities where Tian Ge's mainly focuses its business). This creates an incentive for internet users to seek social interaction activities online. According to iResearch, the number of users who use live social video communities has been increasing in recent years, growing from approximately 8.0m in 2009 to approximately 140.0m in 2013, representing a CAGR of 104.5% during the 4-year period. It is expected that the number of users will further increase to 191.0m in 2014, and reach 414.0m in 2017E, representing a CAGR of 31.1% from 2013 to 2017E (See Figure 3).

Figure 3: China Live Social Video Community User Base

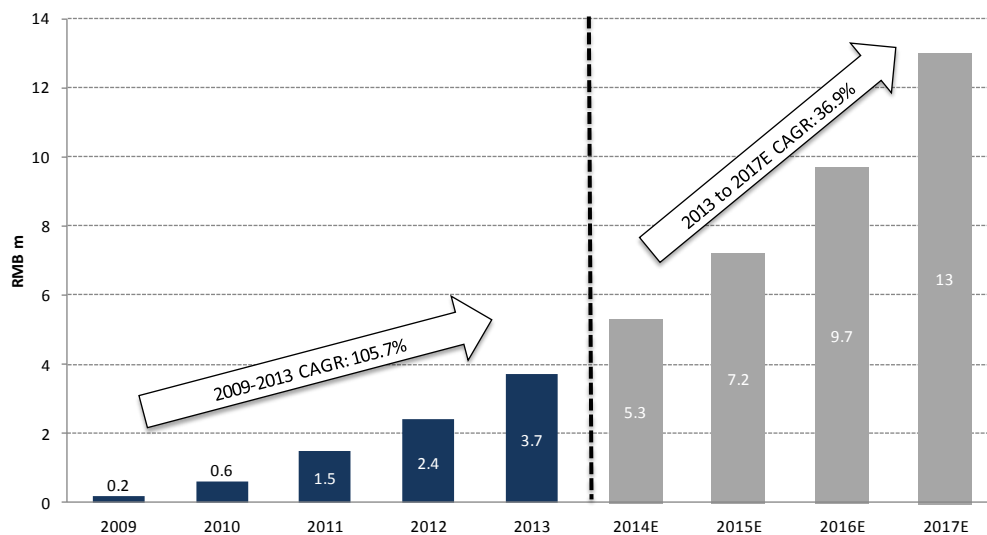


Source: Company data, iResearch

Total user spending of the live social video community market in China, which is a gauge of the market size of the industry, also experienced rapid growth over the past few years. As shown in figure 4, total spending in China's live social video community has increased from RMB0.2m in 2009 to RMB3.7m in 2013, representing a CAGR of 105.7% during the 4-year period. iResearch expects that total spending will continue to increase and reach RMB13.0m in 2017E, representing a CAGR of 36.9% from 2013 to 2017E.

Tian Ge, as the largest player in the industry in terms of revenue, is going to be one of the biggest beneficiaries of the increase in popularity and acceptance of live social video community in China.

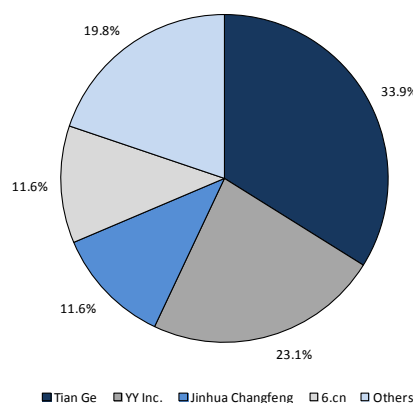
Figure 4: China Live Social Video Community Market Size



Source: Company data, iResearch

A leading player with a distinct business model and strong R&D team lays strong grounds for user interaction: Tian Ge is the largest live social video platform in China in terms of total user spending, and is also the pioneer and leader in the “many-to-many” model. According to iResearch, the company ranked 1st in China's live social video community in terms of user spending in 2013, commanding a market share of 33.9%, followed by YY Inc. which has a market share of 23.1% (See Figure 5) during the year. The leading position the company has in the market allows it to capture the largest share of the pie in the fast-growing industry.

Figure 5: Market share of players in China's live social video community by spending in 2013

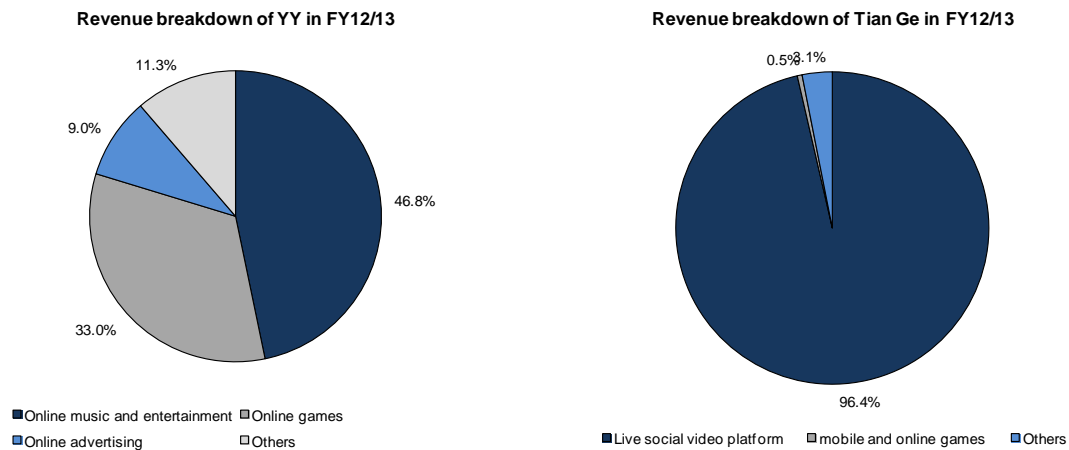


Source: Company data

It is worth noting that although YY Inc. has generally been viewed as the company's closest peer, the two companies still have some differences. First, YY Inc. mainly operates its platform under a “one-to-many” model, where multiple users can simultaneously stream to viewers in the same real-time video room. Second, YY sells its virtual currency directly to platform users, while Tian Ge sells their virtual currency through distributors and agents with an attractive discount. This is the reason why although Tian Ge has a much higher user spending than YY, its revenue derived from live social video platform is still

lower. That said, we prefer the business model of Tian Ge, as the distributors and agents do not only sell the virtual currency on behalf of the company, but will also provide users with player information guidance, which is crucial in attracting and retaining long-term customers. There is also a difference in revenue distribution. YY Inc. mainly generates a significant portion of its revenue from its mobile game business, while Tian Ge only generates a small proportion of its revenue from its mobile and online game business (See Figure 6). Therefore, we only consider YY's users spending on its online music and entertainment business when making comparisons with Tian Ge.

Figure 6: revenue breakdown of YY and Tian Ge in FY12/13



Source: Company data

Additionally, Tian Ge also has strong product development and engineering capabilities which allows it to keep releasing new virtual gifts and items that help stimulate interaction among users. Currently the company offers over 910 types of virtual gifts and items with various aesthetic and utility benefits and a wide range of prices catering to all types of users. In our view, the wide variety of its gifts will lead to long-term growth as it serves as a foundation of user interaction on its platform, which is a key determinant of ARPU. Also, it allows users to make purchases based on their needs and allows flexibility for their time and money spent on the company's platform. We expect more items to be developed in the future, as part of its IPO proceeds will be used to develop its R&D force.

Figure 7: Sample virtual gifts offered by the company



Source: Company data

Financial Forecasts

Revenue: We forecast the company's revenue to increase from RMB548.2m in FY12/13 to RMB1,088.7m in FY12/16E, representing a CAGR of 25.7% during the 3-year period. The increase in revenue will mainly be driven by: i) the increase of Monthly Active Users (MAUs) and Monthly Payment User (MPUs); and ii) the growing mobile games business. Specifically, we expect that the number of MAUs will expand from 10.8m in FY12/13 to approximately 22.0m in FY12/16E given its strategy to attract more users from tier 3 and tier 4 cities. Simultaneously, the number of MPUs will also grow at the same rate and it is expected to pick up from 270,000 in FY12/13 to 512,600 in FY12/16E. We also estimate that the ARPU of its video community business will move steadily from RMB163.0 in FY12/13 to RMB167.5 in FY12/16E. In addition, its revenue from the mobile game business will be expanded with 6 to 8 mobile games released in coming years, boosting revenue from RMB2.7m in FY12/13 to RMB52.5m in FY12/16E.

Gross margin: Historically, Tian Ge commanded GPM ranging from 87.0% to 88.0%. We expect its GPM to be stable as the ASP and operating costs will not be significantly altered. Under our estimation, we think the GMP will range between 85.0% and 87.0% from FY12/14E to FY12/16E.

SG&A: We expect the selling and marketing expenses, which include employee benefit expense, promotion & marketing expense and travelling expense, to grow at an annual rate of 10.0% under our estimation. However, given the RMB40.1m listing expenses incurred in FY12/14E, administration expenses will accelerate to around RMB132.6m in FY12/14E, compared with RMB53.3m in FY12/13. We also forecast the administration expense to keep its historical growing trend and increase at a rate of 20.0% in the following 3 years. Thus total SG&A will increase from RMB219.9m in FY12/13 to RMB355.0m in FY12/16E, representing a CAGR of 17.3%.

Net profit: Although the company recorded net loss over the past few years, it was mainly attributable to non-cash expenses including share-based compensation and fair value loss of convertible redeemable preferred shares. Stripping out those non-cash items, the company actually would have recorded core net profit of RMB206.3m in FY12/13. Driven by the continuous growth of its live social platform and mobile game business, we expect the company's core profit will increase from RMB206.3m in FY12/13 to RMB 414.0m in FY12/16, representing a CAGR of 26.1% during the 3 year period. It is worth noting that the company's convertible preferred shares will be fully-converted into ordinary shares in FY12/14E, and therefore non-cash expenses will not have significant impact on its P/L since FY12/15.

Capex: We expect the company will record a capex of around RMB144.0m in FY12/14E because of the office building and office equipment it purchased this year. Apart from that, we expect the company to have minimal capex in the following 3 years due to the asset-light nature of its business.

Net cash position: Tian Ge recorded a net cash position of RMB174.9, RMB136.6 and RMB182.2 in the past 3 years. Its net cash position was significantly enhanced this year as a result of IPO, which the company raised net proceeds of HKD1,502.5m. We forecast its net cash position to be approximately RMB1,365.0m, RMB1,656.0m and RMB2,060.6m for FY12/14E, FY12/15E and FY12/16E, respectively. It is worth noting that the company has total borrowings of RMB109.7m in FY12/13 due to the offshore loan with domestic guarantee. These borrowings will be paid off in FY12/14E.

Dividend policy: The company currently does not have a concrete dividend policy. We conservatively assume in our model that the company will not pay any dividend in coming years.

Figure 8. Key assumptions to its future operation

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Growth in video community business	18.0%	21.1%	24.9%	25.0%	25.0%
Growth in mobile game and other business	31.6%	3.0%	100.0%	20.0%	20.0%
GPM	88.5%	87.6%	86.4%	85.8%	85.2%
Average MAUs (in million)	8.0	10.8	14.1	17.6	22.0
Average MPUs (in million)	0.2	0.3	0.3	0.4	0.5
Average monthly ARPU (RMB)	174.0	163.0	167.5	167.5	167.5
Average MPUs/ Average MAUs	2.6%	2.5%	2.3%	2.3%	2.3%

Source: SBI China Capital

Valuation

We initiate Tian Ge with a BUY rating and a target price of HKD6.05 per share, representing a prospective P/E of 20.7x and 15.4x for FY12/15E and 12/16E, respectively, and an upside potential of 25.3% to the current market price of HKD4.83. Our target price is derived from the average of our 2-stage DCF valuation method and price-multiple method.

DCF approach: Using a risk free rate of 1.8%, market risk premium of 10.3%, beta of 1.8, and a 5.0% terminal growth rate after FY12/23E, we derived a fair value of equity of HKD6.05 per share, which is equivalent to a prospective P/E of 20.7x for FY12/15E.

Figure 9. DCF valuation

	FY12/14E	FY12/15E	FY12/16E	FY12/17E	FY12/18E	FY12/19E	FY12/20E	FY12/21E	FY12/22E	FY12/23E
WACC @20.8%										
FCFF (RMB m)	194.0	291.2	404.3	518.0	680.0	884.3	1,140.0	1,460.6	1,861.5	2,361.9
Discount Factor	0.8	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.2
Discounted FCFF (RMB m)	160.6	199.5	229.3	243.1	264.2	284.4	303.5	321.8	339.5	356.5
PV of estimated FCFF (RMB m)	2,702.4									
PV of terminal FCFF (RMB m)	2,367.3									
Value of Firm (RMB m)	5,069.7									
Minus: debt (RMB m)	-									
Plus: cash and cash equivalent (RMB m)	1,365.0									
Value of Equity (RMB m)	6,434.8									
No. of share (m)-fully diluted	1,350.6									
Intrinsic value of share (HKD)	6.05									

Source: SBI China Capital

Price-multiple approach: We have identified 10 companies, including Forgame Holdings Ltd. (0484 HK), Boyaa Interactive International Holdings Ltd. (0434 HK), IGG (8002 HK) and YY International Holdings Ltd. (YY US), with similar operating businesses to Tian Ge. As shown in Figure 10, these companies are on average trading at a prospective P/E of 27.4x for FY2014E, and prospective P/E of 20.7x for FY2015E. Based on similar business model and the industry, we believe the company deserves a similar valuation to its peers. Based on the financial forecast of the company, the fair value derived from a prospective P/E of 20.7x for FY12/15E would be HKD6.05 per share.

Figure 10. Peers comparison

Company	Ticker	Mkt Cap (HK\$ m)	3M avg turnover (HK\$ m)	2013 P/E (x)	2014E P/E (x)	2015E P/E (x)	P/book (x)	Net profit (RMB m)	ROIC (%)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
Tiange International Holdings Ltd.	1980 HK	6,098.9	8.9	-	-	15.4	1.4	(92.6)	-	-	(12.5)	0.0	-
Peers in HK													
Tencent	700 HK	1,163,421.4	2,315.4	41.3	38.3	29.2	12.3	15,502.0	22.1	34.2	17.1	0.2	(42.4)
Forgame Holdings Ltd.	484 HK	1,997.1	5.5	-	-	18.3	1.1	(475.4)	-	-	(45.0)	0.0	(90.6)
Boyaa Interactive International Holdings Ltd.	434 HK	5,176.5	12.6	12.4	13.5	9.9	3.3	135.5	19.0	17.9	14.4	1.6	(106.7)
IGG	8002 HK	4,710.2	40.0	56.9	9.9	8.1	4.4	6.9	47.0	-	8.0	0.5	(99.8)
Kingsoft Corp Ltd.	3888 HK	22,149.9	173.0	24.8	25.8	20.5	3.8	670.7	7.3	18.6	9.8	0.6	(90.9)
NetDragon Websoft	777 HK	6,556.7	11.9	-	15.9	14.4	1.1	6,140.8	-	182.0	155.4	3.1	(92.4)
Average*		200,668.6	426.4	33.9	20.7	16.7	4.3	3,663.4	23.8	63.2	26.6	1.0	(87.1)
Peers in US													
QIHU	QIHU US	65,975.5	1,970.9	91.9	27.4	16.9	9.6	99.7	11.0	20.7	11.1	0.0	(54.8)
YY	YY US	32,742.3	1,021.4	31.1	27.2	19.4	9.7	77.7	23.1	40.5	21.4	0.0	(114.6)
BAIDU	BIDU US	648,260.5	6,193.1	40.3	36.6	26.5	10.6	10,519.0	16.6	30.5	16.4	0.0	(51.1)
SINA	SINA US	19,495.0	526.1	36.8	52.2	43.9	1.1	45.1	(0.5)	9.3	5.5	0.0	(63.8)
Average*		191,618.3	2,427.9	50.0	35.9	26.7	7.7	2,685.4	12.5	25.2	13.6	0.0	(71.0)
Average of all*		197,048.5	1,227.0	41.9	27.4	20.7	5.7	3,272.2	18.2	44.2	21.4	0.6	(80.7)

Source: SBI China Capital, Company data, Bloomberg

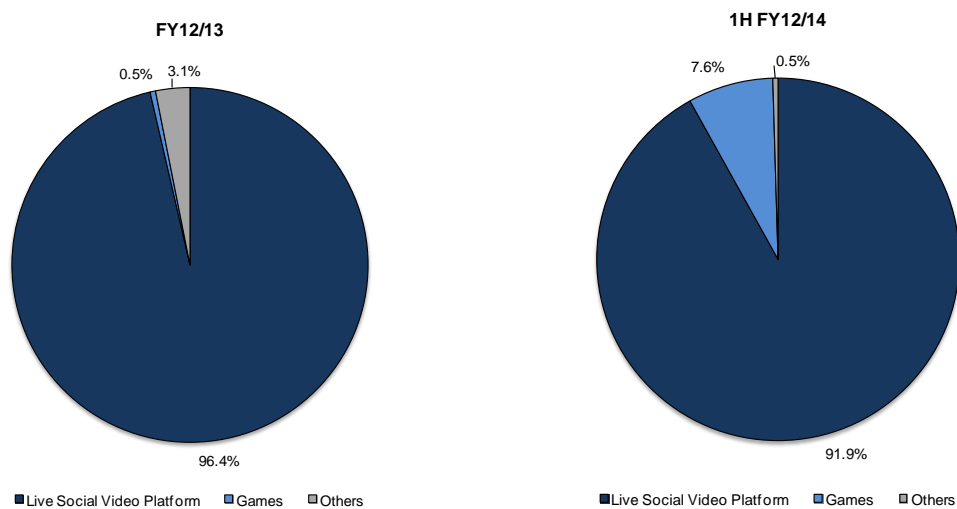
*Tiange is not included in the average figures.

Business Background

Overview: Tian Ge Interactive Holdings is an owner and operator of live social video platforms in China. According to iResearch, the company is the largest player in the live social video community market in China, in terms of total user spending in 2013, commanding a market share of 33.9%. In comparison, YY, its closest competitor, commanded a market share of 23.1% during the year.

Tian Ge derives most of its income from the sale of its virtual currency, which platform users use to purchase virtual gifts to hosts and other users. The virtual gifts provided by the company ranges from lower-priced items, such as a simple red rose or a lollipop, to higher-priced items, such as private planes, yachts or even marriage proposals. The company also derives part of their income from online games and advertisement. However, those businesses only account for a small proportion of its total revenue. In FY12/13 and 1H FY12/14, revenue derived from the sale of virtual currency on its live social video platform accounted from 96.4% and 91.9% of its total revenue respectively, while the remainder was generated from games and advertising services.

Figure 11. Revenue breakdown



Source: Company data

Live Social Video Platform: Tian Ge's core business is the operation of live social video platforms, which includes "many-to-many" and "one-to-many" communities. While the "many-to-many" model allows for interaction between users and hosts, the "one-to-many" model mainly puts the focus on the host. Currently, the company operates 9 communities, including 8 "many-to-many" communities and 1 "one-to-many" community (See Figure 12). These communities have approximately 26,000 real-time video rooms with user-generated contents broadcasted to viewers, including singing, musical performances, talk shows, educational services, etc.

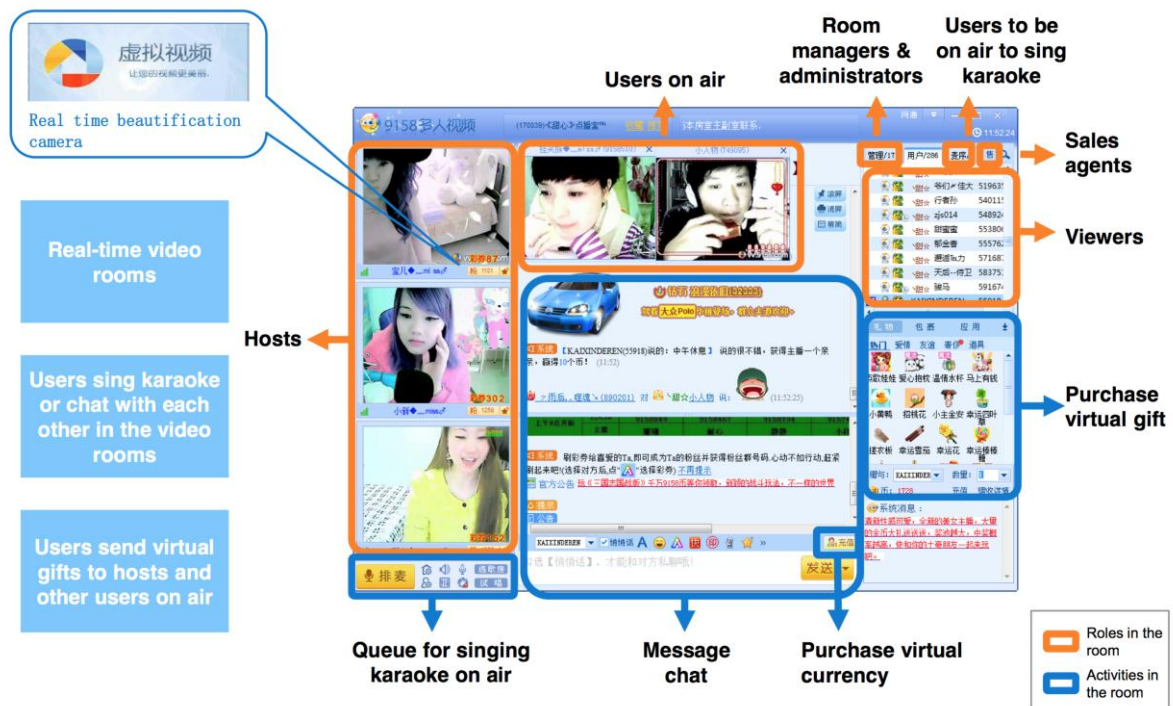
As of 30 Sep 2014, the company has Monthly Active Users (MAU) of 14.4m, Monthly Paying Users (MPU) of 335 thousands, Monthly Average Revenue Per User (ARPU) of RMB161. Please refer back to the "Financial Forecast" section for more details.

Figure 12. Tian Ge's social video communities

Name of community	Streaming Model	Devices Supported	Maximum Streams
9158 Video Community	Many-to-many	Web, PC, iOS, Android	10
Sina Show	Many-to-many	Web, PC, iOS, Android	10
Duoduo Games	Many-to-many	PC	10
Happy88.com	Many-to-many	PC, iOS, Android	10
99cu.com	Many-to-many	PC, iOS, Android	10
Tiao58.com	Many-to-many	PC, Android	10
Paopao8.cn	Many-to-many	PC, iOS, Android	10
Tangguo100.com	Many-to-many	PC	10
Sina Showcase	One-to-many	Web, Android	1

Source: Company data

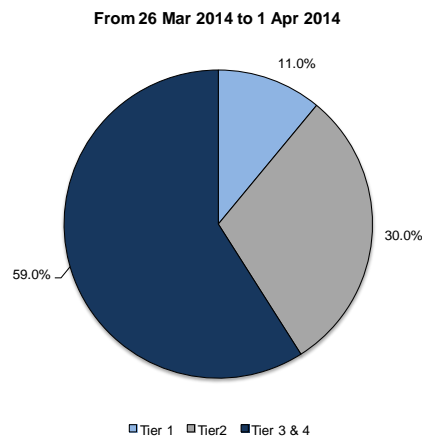
Figure 13. A snapshot of Tian Ge's social video platform



Source: Company data

The users in its live social ecosystem are mainly from tier 2 to tier 4 cities, where offline social interaction facilities are relatively less developed than tier 1 cities. From 26 Mar 2014 to 1 Apr 2014, approximately 59.0% of its users were from tier 3 and tier 4 cities, 30.0% were from tier 2 cities and 11.0% were from tier 1 cities.

Figure 14. Customer breakdown by type of cities (from 26 Mar 2014 to 1 Apr 2014)



Source: Company data

The company's annual paying users (defined as users who have paid at least twice for their products in a year) are mainly comprised of users who pay less than RMB1,200 per year. As show in figure 15, approximately 90.0% of its annual paying users are those who paid less than 1,200 in a year, while those who paid between RMB1,200 and RMB6,000 and greater than RMB6,000 make up approximately 8.0% and 3.0% of its total annual paying users.

Figure 15. Customer breakdown by type of cities (from 26 Mar 2014 to 1 Apr 2014)

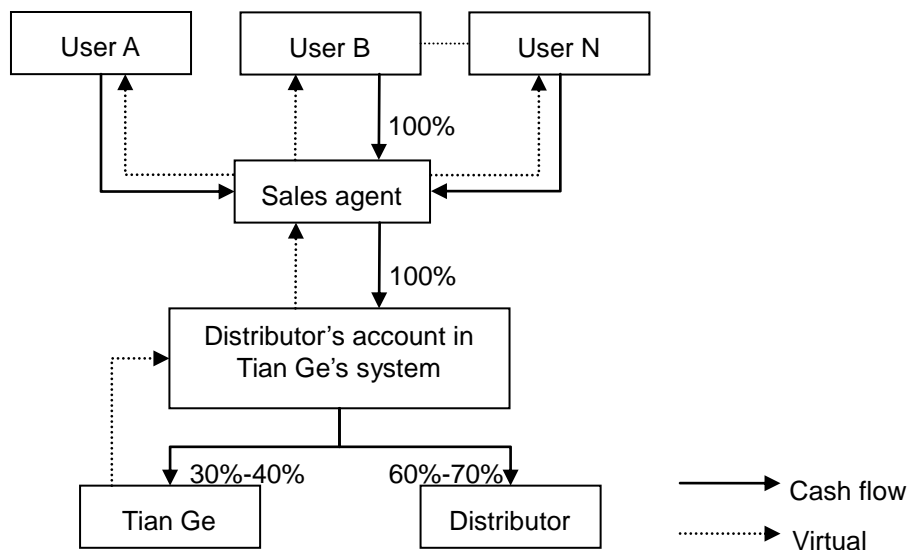
Revenue generated from users	Percentage of total annual paying users			Average revenues generated per annual paying users (RMB)		
	FY12/11	FY12/12	FY12/13	FY12/11	FY12/12	FY12/13
<RMB 1,200	90.8%	89.3%	88.5%	119.0	127.0	178.0
Between RMB1,200 and RMB6,000	6.4%	7.8%	8.4%	2,668.0	2,685.0	2,771.0
>RMB6,000	2.8%	2.9%	3.1%	25,955.0	26,276.0	26,199.0
Total	100.0%	100.0%	100.0%	1,013	1,092	1,203

Source: Company data

As for its sales channel, the company mainly sells its virtual currency in two ways: i) through distributors, and ii) direct sale to users through third-party platforms. Selling through distributors is the major sales channel of the company, representing ~56.0% of its total sales in FY12/13.

Under the third-party distribution model, distributors sell the virtual currency to sales agents at face value, and after the sales agents transfer the payment to distributors through third-party platforms such as IPS, the account will automatically send a certain percentage of the total proceeds to the company's account. Normally the percentage ranges from 30.0% to 40.0%, which represents the after-discount price of the virtual currency that the company sell to distributors (See Figure 16). The distributors will pay the sales agent commission equal to a certain percentage of their sales during the period, typically ranging from 10.0% to 20.0%. It is also worth noting that the company only recognizes its revenue after users purchase the virtual gifts using the currency.

Figure 16. Typical economics under the third-party distribution model



Source: Company data

Under direct purchases of its virtual currency, the company offer users payment options through third-party payment platforms such as China UnionPay, Internet banking, IPS and Alipay. Payments made by users are collected by these platforms and sent to the company, net of commission charges.

Mobile and online games: The company mainly derives income from this segment through the in-app sale of virtual items. In August 2013, the company launched its first mobile game, Three Kingdoms, which was licensed from a third-party developer and has total MAU and MPU of approximately 238,000 and 23,000 in Jan 2014, respectively. The company has also initiated the beta-testing soft launch of its new live-social-video-embedded game in 1H FY12/14E. Going forward, the company will develop its mobile games in 3 ways: i) self-development; ii) outsource game development to third parties; and iii) license games from third-party developers. It is expected that the company will realease an additional 6 to 8 mobile games over the next 12 months.

Other products and services: The company also provides other products and services to its customers, including virtual video, online-to-offline (O2O) Entertainment, and Voice of Sina Show. Virtual video is a live video software that contains camera beautification, online multimedia sharing, desktop window real time broadcasts and recording functions compatible with many software products and chat rooms that support webcams, including QQ, MSN Messenger, Sina's UC and the company's multi-and single user video streams.

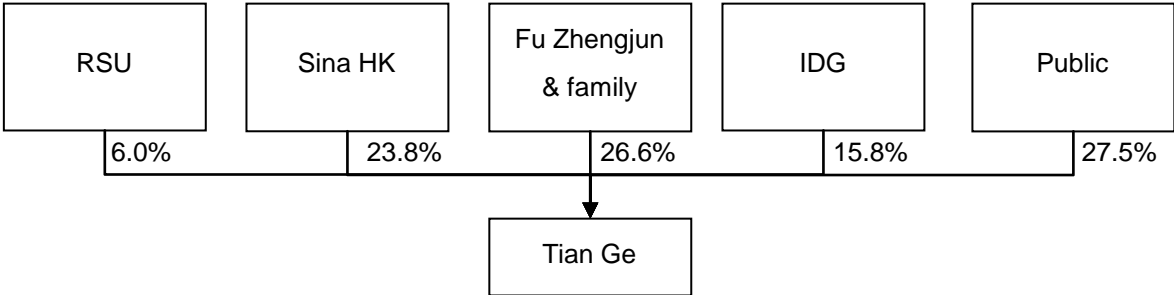
O2O Entertainment allows real-time interaction between both real world friends and online users at physical entertainment venues on smart TVs. The company is implementing this technology through a 49% joint venture interest with a third-party operator of real world karaoke rooms. This joint venture currently operates two entertainment venues in Hangzhou.

Voice of Sina Show is a mobile karaoke application available for iOS and Android systems. This application allows users to practice their singing on their mobile devices and share their performances with other users. Currently, Voice of Sina had over 4.9m registered users.

Shareholder structure

Mr. Fu Zhengjun is the company’s founder and also largest shareholder, currently holding 26.9% of total equity interest. Sina Hong Kong Limited is the second largest shareholders, holding 23.8% equity interest in the company. Other shareholders include IDG (15.8%), and RSU Trustee (6.0%). Public shareholders are holding 27.5% of the company.

Figure 17. Shareholding structure



Source: Company data

Figure 18. Per share items

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
EPS (RMB)					
- diluted	(0.02)	(0.07)	(0.06)	0.23	0.31
DPS (RMB)	-	-	-	-	-
BVPS (RMB)					
- diluted	0.1	(0.1)	1.4	1.6	1.9

Source: SBI China Capital, Company data

Figure 19. Ratio analysis

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Growth (YoY)					
Revenue	18.6%	20.3%	27.7%	24.7%	24.7%
Net profit	-66.2%	240.1%	-16.8%	-	32.8%
Adjusted net profit	13.2%	30.2%	22.8%	23.1%	32.8%
Margins					
Gross profit margin	88.5%	87.6%	86.4%	85.8%	85.2%
Operating profit margin	35.8%	41.3%	35.7%	44.9%	47.9%
Adjusted net profit margin	34.7%	37.6%	36.2%	35.7%	38.0%
Other ratios					
Adjusted return of average assets	30.7%	27.8%	17.5%	14.0%	16.0%
Adjusted return on average equity	44.5%	46.2%	21.8%	15.5%	17.4%
Valuation measures					
P/E (x)	-	-	-	15.4	11.6
P/B (x)	66.3	(57.4)	2.6	2.2	1.9
Dividend yield	-	-	-	-	-

Source: SBI China Capital, Company data

Figure 20. Income statement (RMB m)

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Revenue	455.8	548.2	699.9	872.9	1,088.7
Cost of revenue	(52.3)	(68.1)	(95.4)	(124.0)	(161.2)
Gross profit	403.5	480.1	604.5	748.8	927.4
Selling and marketing expenses	(169.5)	(166.7)	(183.3)	(201.7)	(221.8)
Administrative expenses	(44.4)	(53.3)	(132.6)	(111.0)	(133.2)
Research and development expenses	(56.7)	(69.1)	(75.3)	(82.1)	(89.5)
Other gains, net	30.4	35.4	36.5	37.6	38.7
Operating profit	163.3	226.5	249.8	391.6	521.6
Finance income	1.5	37.1	7.0	8.0	9.2
Finance costs	(7.2)	(36.7)	(2.8)	0.0	0.0
Fair value loss of convertible redeemable preferred shares and ordinary preferred shares	(172.9)	(283.3)	(290.3)	0.0	0.0
Profit before income tax	(15.3)	(56.4)	(36.4)	399.7	530.8
Income tax expense	(11.9)	(36.2)	(40.7)	(87.9)	(116.8)
Profit for the year	(27.2)	(92.6)	(77.1)	311.7	414.0
Adjusted net profit for the year	158.4	206.3	253.3	311.7	414.0
Profit attributable to the owners	(27.2)	(92.6)	(77.3)	311.6	413.9
profit attributable to non-controlling interests	-	(0.0)	0.2	0.2	0.2

Source: SBI China Capital, Company data

Figure 21. Balance sheet (RMB m)

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Non-current assets					
Property and equipment	20.3	16.7	140.6	138.8	130.2
Intangible assets	7.2	5.9	53.4	60.0	66.6
Investment in associates	-	4.9	3.3	3.3	3.4
Available-for-sale financial assets	2.0	2.3	2.3	2.4	2.4
Prepayments and other receivables	72.8	110.7	24.9	26.1	27.4
Deferred income tax assets	33.2	24.3	8.9	19.3	25.6
Restricted cash	-	87.0	0.0	0.0	0.0
Total non-current assets	135.4	251.9	233.3	249.9	255.7
Current assets					
Trade receivables	10.5	20.8	22.8	24.6	26.6
Prepayments and other receivables	62.0	66.8	43.3	45.5	47.7
Available-for-sale financial assets	144.4	278.1	394.0	405.8	418.0
Term deposits with initial term of over 3 months	152.3	21.9	0.0	0.0	0.0
Cash and cash equivalents	136.6	171.9	1,365.0	1,656.3	2,060.6
Restricted cash	-	33.0	0.0	0.0	0.0
Total current assets	505.9	592.5	1,825.2	2,132.2	2,553.0
Total assets	641.3	844.4	2,058.5	2,382.1	2,808.6
Non-current liability					
Borrowings	-	(79.3)	0.0	0.0	0.0
Convertible redeemable preferred shares	(355.2)	(548.5)	0.0	0.0	0.0
Redeemable ordinary shares	0.0	0.0	0.0	0.0	0.0
Deferred income tax liabilities	(0.9)	(0.6)	(0.5)	(0.5)	(0.5)
Total non-current liability	(356.0)	(628.3)	(0.5)	(0.5)	(0.5)
Current liabilities					
Trade payable	(21.3)	(13.9)	(30.2)	(32.0)	(33.9)
Other payables and accrual	(125.8)	(114.6)	(84.7)	(89.8)	(95.2)
Income tax liabilities	(34.9)	(42.5)	(45.1)	(47.8)	(50.7)
Dividend payable	-	(74.2)	0.0	0.0	0.0
Borrowings	-	(30.5)	0.0	0.0	0.0
Customer advance and deferred revenue	(30.8)	(24.0)	(36.9)	(39.1)	(41.5)
Total current liabilities	(212.8)	(299.7)	(196.9)	(208.7)	(221.3)
Total liability	(568.9)	(928.0)	(197.4)	(209.2)	(221.8)
Net assets	72.4	(83.7)	1,861.1	2,172.8	2,586.9
Equity					
Total equity	72.4	(83.7)	1,861.1	2,172.8	2,586.9
Adjusted equity	427.6	464.8	1,861.1	2,172.8	2,586.9

Source: SBI China Capital, Company data

Figure 22. Cash flow statement (RMB m)

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Cash generated from operations	222.9	198.3	269.0	416.8	549.6
Income tax paid	(7.2)	(22.0)	(22.9)	(95.6)	(120.2)
Net cash generated from operating activities	215.7	176.3	246.1	321.2	429.3
Investing activities					
Purchase of and prepayment for property and equipment	(82.2)	(43.4)	(144.0)	(20.0)	(15.0)
Purchase of intangible assets	(0.2)	(0.5)	(50.0)	(10.0)	(10.0)
Payment of term deposits	(1,190.3)	(2,296.4)	-	-	-
Repayment of term deposits	1,025.7	2,291.9	21.9	-	-
Pledged deposits for borrowings	-	(120.0)	-	-	-
Repayment of pledged deposits for bank borrowings	-	-	120.0	-	-
Others	(13.1)	9.9	0.0	-	-
Net cash used in investing activities	(260.2)	(158.4)	(52.1)	(30.0)	(25.0)
Financing activities					
Proceeds from borrowings from related parties	22.0	-	-	-	-
Payments for repurchase of Series A Preferred Shares	(15.8)	(44.2)	-	-	-
Proceeds from bank borrowings	-	109.7	-	-	-
Repayment of bank borrowings	-	-	(109.7)	-	-
IPO proceeds	-	-	1,183.1	-	-
Others	-	(50.0)	(74.2)	0.0	0.0
Net cash used in financing activities	6.2	15.6	999.2	0.0	0.0
Net increase/ (decrease) in cash and cash equivalent	(38.3)	33.6	1,193.2	291.2	404.3
Cash and cash equivalents at 1 January	174.9	136.6	171.9	1,365.0	1,656.3
Exchange losses on cash and cash equivalents	0.0	1.7	-	-	-
Cash and cash equivalents at 31 December	136.6	171.9	1,365.0	1,656.3	2,060.6

Source: SBI China Capital, Company data

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