



## Company Report: Alibaba Group (BABA US)

公司报告: 阿里巴巴集团 (BABA US)

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# Alibaba Group 3Q15 GMV Might Slow Down Further

阿里巴巴集团3Q15交易量增长可能进一步放缓

- **China's E-commerce growth was slowing down in 3Q15.** According to NBSC, China commodity and service E-commerce GMV in 3Q15 reached RMB946 bn, up 31.2% yoy. China commodity E-commerce GMV in 3Q15 reached RMB775 bn, only up 28.3% yoy, lower than 41.0% in 1Q15 and 36.6% in 2Q15. In 9M15, commodity E-commerce GMV reached RMB286 bn, up 29.1% yoy.
- **Key points: 1) Alibaba Group's GMV growth in 3Q15 might slow down further.** We revise down our Taobao and Tmall GMV forecasts in 3Q15 to RMB456 bn and RMB255 bn, only up 20.1% and 45.0% yoy, respectively. Due to the counterfeit trade impact in 4Q14, we expect GMV in Tmall Dual 11 to reach RMB70 bn to RMB75 bn, only up 22.6% to 31.6%. **2) Acquisition of Youku was a key strategic move.** Alibaba Group might take 1~2 years to deeply intergrate its mobile media assets, to enhance synergies and economies of scale. **3) The combination of Meituan and Dianping was neutral to Alibaba Group.** The new giant Meituan-Dianping will be the major competitor of Alibaba Group's Koubei. If Alibaba Group can not participate in the new financing of Meituan-Dianping, it would be very negative to Alibaba Group.
- **Cut TP to USD90.00 and maintain 'Buy' investment rating.** Alibaba Group still has lots of hidden assets not priced into its valuation. Our FY16-18 Non GAAP net profit estimates are RMB41.7bn, RMB49.9bn and RMB63.4bn. Our TP of USD90.00 represents 29.7x FY17 Non GAAP PE.
- **3Q15 中国电商增速放缓。**根据国家统计局数据, 3Q15 实物电商和服务电商交易量达到人民币 9,460 亿元, 同比增长 31.2%。其中实物电商交易量达到人民币 7,750 亿元, 同比增长 28.3%, 低于 1Q15 的 41.0%和 2Q15 的 36.6%。其中 9M15 的实物电商交易量为人民币 2,860 亿元, 同比增长 29.1%。
- **要点: 1) 阿里巴巴 3Q15 电商增速可能继续放缓。**我们下调 3Q15 淘宝和天猫的交易量至人民币 4,560 亿元和人民币 2,550 亿元, 分别同比增长 20.1%和 45.0%。受 4Q14 刷单的影响, 我们预期天猫双十一的交易量在人民币 700 亿元至 750 亿元, 同比仅增长 22.6%至 31.6%。**2) 收购优酷是重要的战略行动。**阿里巴巴可能需要花 1-2 年来深度整合旗下所有的移动媒体资产, 提升协同效应和规模效应。**3) 美团和大众点评合并对阿里巴巴偏中性。**美团和大众点评合并后将作为阿里巴巴口碑的首要竞争对手。如果阿里巴巴不能参与到合并后的公司的融资中, 将较为负面。
- **削减目标价至 90.00 美元, 维持投资评级为“买入”。**阿里巴巴仍然有较多隐藏资产没有进入估值。我们 2016-2018 财年非 GAAP 净利润预测是人民币 417 亿元, 人民币 499 亿元, 和人民币 634 亿元。目标价 90.00 美元, 相当于 29.7 倍的 2017 财年非 GAAP 市盈率。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

US\$90.00

Revised from 原目标价:

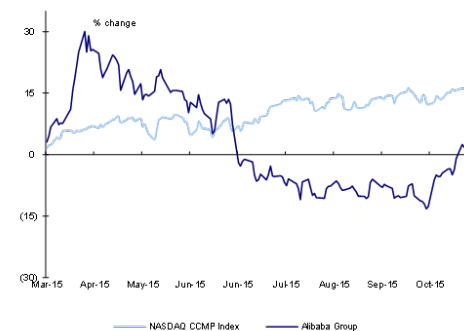
US\$100.00

ADS 价:

US\$71.790

## Stock performance

股价表现



Change in ADR Price ADR 变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	12.35	(13.02)	(21.02)
Rel. % to NASDAQ index 相对纳指变动 %	9.10	(8.85)	(25.63)
Avg. ADR price(US\$) 平均 ADR 价 (美元)	64.93	69.99	86.78

Source: Bloomberg, Guotai Junan International.

Mar End 年结 3/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	Earnings /ADS 每 ADS 净利 (RMB)	Earnings /ADS 每 ADS 净利变动 (△%)	PER 市盈率 (x)	BV/ADS 每 ADS 净资产 (RMB)	PBR 市净率 (x)	DP/ADS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2014A	52,504	23,076	10.610	189.9	42.0	13.985	31.8	0.000	0.0	149.2
2015A	76,204	24,149	10.330	(2.6)	43.1	67.335	6.6	0.000	0.0	25.7
2016F	99,628	50,350	19.511	88.9	22.8	80.538	5.5	0.000	0.0	27.6
2017F	131,466	32,628	12.275	(37.1)	36.3	90.531	4.9	0.000	0.0	14.6
2018F	176,961	42,482	15.517	26.4	28.7	103.491	4.3	0.000	0.0	24.8

Share in issue (m) 总股数 (m)	2,512.4	Major shareholder 大股东	SoftBank 31.9%
Market cap. (US\$ m) 市值 (US\$ m)	180,365.2	Free float (%) 自由流通比率 (%)	17.5
3 month average vol. 3 个月平均成交股数 ('000)	13,288.3	FY16 Net gearing FY16 净负债/股东资金 (%)	Net cash
52 Weeks high/low (US\$) 52 周高/低	120.00 / 57.200	FY15-17 PEG FY15-17 市盈率相对盈利增长比率	2.5

Source: the Company, Guotai Junan International.

## E-commerce

**Weaker than expected E-commerce GMV growth in 3Q15.** According to National Bureau of Statistics of China (NBSC), China commodity E-commerce GMV reached RMB286 billion in 9M15, only up 29.1% yoy, much lower than the 47.4% in 1-2M15, perhaps due to weaker than expected economic growth in 3Q15, but up 1.9ppt from the 27.2% in 8M15. In 3Q15, total commodity E-commerce GMV reached RMB775bn, up 28.3% yoy, and total commodity & service E-commerce GMV reached RMB946bn, up 31.2% yoy. We have observed that Taobao & Tmall GMV growth in 1Q15 and 2Q15 were 2~3ppt lower than that of total commodity & service E-commerce GMV released by NBSC. However, according to State Post Bureau of China, the packages delivered in 9M15 reached 1.9 billion, up 55.6% yoy. The strong results might suggest that online buyers were gradually cutting their spending per order despite maintaining the highly frequent online shopping habits, perhaps due to the weak economy, which would be a bad news to China ecommerce players. Other potential obstacles might include low penetration potential in traditional 3C& White Goods, apparel, and food categories and Taobao's severe crack down on counterfeit trading. We are concerned that both Alibaba Group and JD might deliver worse than expected 3Q15 results. Taobao GMV growth might be around 20% in 3Q15.

**Table- 1: China E-commerce GMV in 9M15**

Monthl y data (RMB bn)	China Retail	Growth yoy	Commodity E-commerce GMV	Growth yoy	Service E-commerce GMV	Growth yoy	Commodity+Service E-commerce GMV	Growth yoy	Express Industry Revenue	Growth yoy	Package Delivered	Growth yoy
	bn RMB	%	bn RMB	%	bn RMB	%	bn RMB	%	bn RMB	%	bn Units	%
1-2M15	4,799	10.7%	399	47.4%	76	31.4%	475	44.6%	35	35.0%	2.3	43.4%
3M15	2,272	10.2%	232	31.2%	54	63.4%	286	36.2%	20	26.0%	1.4	39.0%
4M15	2,239	10.0%	238	38.5%	45	46.6%	283	39.7%	21	35.6%	1.5	43.7%
5M15	2,420	10.1%	246	32.5%	46	42.0%	292	33.9%	21	29.2%	1.6	44.2%
6M15	2,428	10.6%	261	39.0%	49	35.1%	310	38.4%	23	39.3%	1.6	45.7%
7M15	2,434	10.5%	238	28.4%	52	36.5%	290	29.8%	22	35.5%	1.6	47.4%
8M15	2,489	10.8%	251	27.2%	53	41.7%	304	29.5%	22	30.8%	1.7	48.2%
9M15	2,522	10.9%	286	29.1%	66	59.8%	351	33.9%	19	33.2%	1.9	55.6%
1Q15	7,072	10.6%	631	41.0%	130	43.0%	761	41.3%	54	31.6%	3.7	41.7%
2Q15	7,086	10.2%	745	36.6%	140	40.9%	885	37.3%	65	34.7%	4.8	44.6%
3Q15	7,445	10.6%	775	28.3%	170	46.4%	946	31.2%	63	33.1%	5.2	50.6%
	Tmall&Taobao GMV bn RMB	Growth yoy %	Taobao GMV bn RMB	Growth yoy %	Tmall GMV bn RMB	Growth yoy %	JD GMV bn RMB	Growth yoy %				
1Q15	600	39.5%	381	29.2%	219	62.2%	87.8	99.0%				
2Q15	673	34.3%	427	24.9%	245	54.7%	114.5	81.7%				

Source: China Statistic Bureau, China State Post Bureau, Guotai Junan International.

**We have revised down our estimates for Alibaba Group in the next several quarters.** We have revised down Taobao GMV in 3Q15 by 3.3% to RMB456bn, only up 20.1% yoy. We also revised down Tmall GMV estimates in 3Q15 by 5.1% to RMB255bn, only up 45.0% yoy. Total GMV estimates in 3Q15 reached RMB711bn, only 28.0% yoy, much lower than the 48.7% in 3Q14. However, we expect 4Q15 GMV growth might be higher than that in 3Q15 due to Tmall Dual 11 Promotion. Our 4Q15 Taobao & Tmall GMV estimates reached RMB1,023bn, up 30.0% yoy. The acquisition of Youku might boost Alibaba Group's revenue but might lower its profit margins, as Youku might make losses of RMB1.5bn~RMB2.0bn annually.

**Table- 2: Key Assumption Revision**

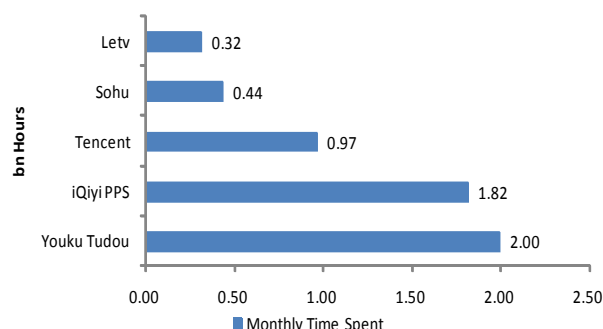
		2QFY16 3Q15E	3QFY16 4Q15E	4QFY16 1Q16E	1QFY17 2Q16E	2QFY17 3Q16E	3QFY17 4Q16E
<b>NEW</b>							
China Retail GMV	bn RMB	711	1,023	768	848	882	1,248
Taobao marketplace	bn RMB	456	592	450	496	522	649
Tmall	bn RMB	255	431	318	352	359	599
Revenue	mn RMB	21,531	34,636	23,216	27,233	28,491	45,155
Operating profit	mn RMB	5,630	11,686	5,819	8,792	8,866	16,099
Net profit	mn RMB	5,071	9,806	4,630	6,902	6,964	12,580
<b>OLD</b>							
China Retail GMV	bn RMB	735	1,038	779	860	925	1,285
Taobao marketplace	bn RMB	467	593	451	497	534	646
Tmall	bn RMB	269	445	328	363	391	639
Revenue	mn RMB	22,052	35,017	23,457	27,534	29,449	46,148
Operating profit	mn RMB	5,783	11,823	5,891	8,898	9,196	16,476
Net profit	mn RMB	5,190	9,913	4,690	6,977	7,212	12,865
<b>Change</b>							
China Retail GMV	%	-3.3%	-1.4%	-1.4%	-1.4%	-4.7%	-2.8%
Taobao marketplace	%	-2.2%	-0.1%	-0.1%	-0.1%	-2.2%	0.6%
Tmall	%	-5.1%	-3.1%	-3.2%	-3.2%	-8.1%	-6.3%
Revenue	%	-2.4%	-1.1%	-1.0%	-1.1%	-3.3%	-2.2%
Operating profit	%	-2.7%	-1.2%	-1.2%	-1.2%	-3.6%	-2.3%
Net profit	%	-2.3%	-1.1%	-1.3%	-1.1%	-3.4%	-2.2%

Source: the Company, Guotai Junan International.

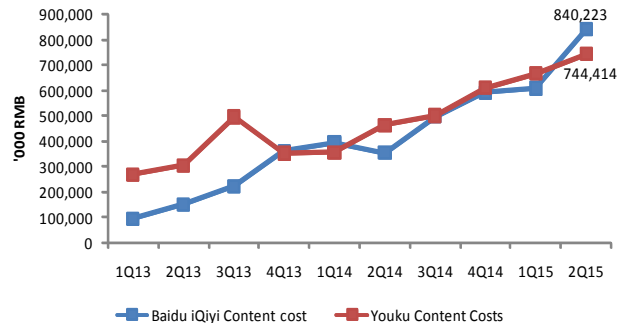
**Tmall Dual 11 Promotion growth might be moderate.** In 4Q15, we believe Tmall Dual 11 Promotion might be a catalyst to its stock price but we are very cautious about the GMV growth, as Alibaba Group has begun to crack down on counterfeit traders in 1Q15, which means there might be a large number of counterfeit traders in last year's Tmall Dual 11 Promotion in 4Q14. However, Alibaba Group is still upgrading its Tmall Dual 11 Promotion: 1) Make Tmall Dual 11 a global online purchase holiday by inviting more global branded sellers. 2) Invite offline retailers Suning and Yintai to join its Tmall Dual 11 Promotion. 3) Cooperate with Hunan TV to hold a Tmall Dual 11 Evening Party in China Water Cubic Centre. In 2014 Tmall Dual 11 has created GMV of RMB57.1bn, up 63.1% yoy, 7.3% of its GMV in 4Q14. In 2015, we expect Tmall Dual 11 to create GMV of RMB70.0bn~RMB75.0bn, up 22.6%~31.6% yoy, 6.8% ~ 7.3% of our estimated GMV in 4Q15.

## Acquisition of Youku

**Alibaba Group announced that it will acquire the remaining shares of Youku at total consideration of USD4.5bn, or USD26.6 per ADS.** In 2Q15, Alibaba Group has owned 18.7% of Youku's shares, or 639mn shares. In 2Q15, Youku's cash, restricted cash, and short term investment reached USD1.34bn in total. If we exclude Youku's cash related assets, total consideration reached USD3.16bn. According to the terms, Victor Koo will still be CEO of Youku in next 2 years. Markets rumours told that all the founders of Youku Tudou have already agreed this acquisition. We expect Youku to get revenue of RMB6.582bn in 2015 and might increase to RMB9.634bn in 2016, up 46.4% yoy. We also expect Youku to make losses of RMB1.584bn in 2015 (non GAAP net losses of RMB1.116bn) and net losses of RMB1.316bn (Non GAAP net losses of RMB0.769bn) in 2016. After the acquisition, Youku will boost Alibaba Group's revenue by RMB10.0bn after 2016 but might cause net losses of around RMB1.5bn to RMB2.0bn annually.

**Figure- 1: China Video Industry Monthly Time Spent**


Source: the Company, Guotai Junan International. .

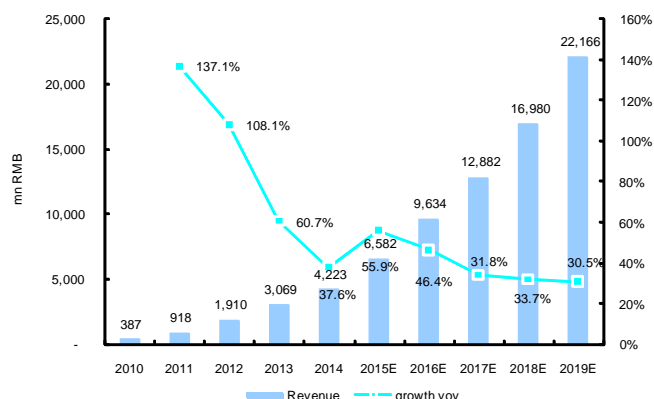
**Figure- 2: Content Cost Comparison of Youku and iQiyi**


Source: the Company, Guotai Junan International.

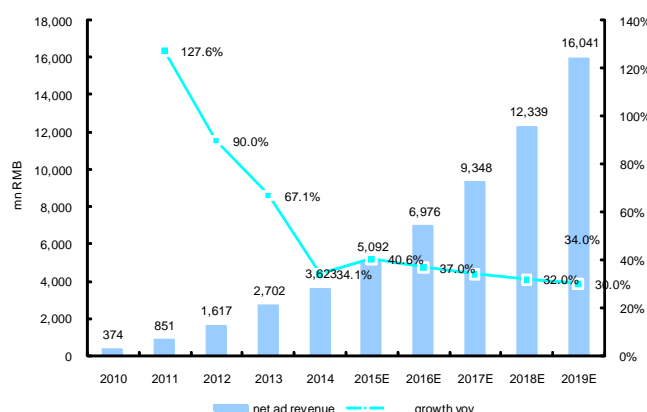
**Table- 3: China Online Ad Market**

RMB mn		1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
China Online Ad	mn RMB	20,131	25,430	28,640	35,800	27,720	36,260	40,520	49,490	37,870	48,226
Growth yoy	%	36.0%	36.7%	34.9%	55.4%	37.7%	42.6%	41.5%	38.2%	36.6%	33.0%
Baidu	mn RMB	5,953	7,539	8,848	9,462	9,378	11,837	13,427	13,845	12,519	16,227
Alibaba Group ecosystem	mn RMB	5,727	7,614	7,481	12,499	7,274	10,072	10,405	15,868	9,937	13,077
Taobao ad	mn RMB	5,070	6,514	6,228	11,015	5,972	8,400	8,276	13,186	7,740	10,469
Alibaba Media (UCWeb, Alimama, AutoNavi)	mn RMB	112	188	237	335	358	388	739	1,036	813	783
Weibo ad	mn RMB	116	186	271	347	321	369	405	545	491	545
Yoku ad	mn RMB	429	727	745	801	623	915	985	1,100	893	1,280
Tencent ecosystem	mn RMB	1,252	1,871	2,032	2,302	1,908	3,109	3,619	4,057	4,032	5,951
Tencent Ad	mn RMB	850	1,297	1,390	1,497	1,177	2,064	2,440	2,627	2,724	4,073
Sogou	mn RMB	242	310	353	434	433	563	657	738	719	911
58 ad	mn RMB	52	88	106	117	127	182	216	250	275	553
Bilauto ad	mn RMB	110	177	182	254	171	301	306	443	314	413
Independent medium ad players	mn RMB	2,183	2,820	3,493	3,788	3,077	3,994	4,496	4,879	4,049	5,070
360 ad	mn RMB	393	562	749	883	868	1,062	1,252	1,508	1,521	1,822
Sina ad excl. Weibo	mn RMB	468	563	669	642	520	597	629	582	442	548
Sohu brand ad	mn RMB	496	620	775	763	692	828	924	918	831	936
Netease ad	mn RMB	166	272	299	358	245	389	478	440	333	478
iFeng ad	mn RMB	166	210	224	264	235	291	326	339	268	312
Sofun ad	mn RMB	345	365	536	602	291	461	502	572	252	376
Autohome ad	mn RMB	149	228	241	277	226	366	386	522	403	597
Growth%											
Baidu	%	39.7%	38.3%	41.7%	50.5%	57.5%	57.0%	51.8%	46.3%	33.5%	37.1%
Alibaba Group ecosystem	%					27.0%	32.3%	39.1%	27.0%	36.6%	29.8%
Tencent ecosystem	%	60.4%	52.0%	42.7%	62.4%	52.4%	66.1%	78.1%	76.3%	111.3%	91.4%
Independent medium ad players	%					41.0%	41.6%	28.7%	28.8%	31.6%	26.9%
Other small ad players	%					27.2%	33.8%	27.1%	36.3%	24.3%	18.6%
Market shares%											
Baidu	mn RMB	29.6%	29.6%	30.9%	26.4%	33.8%	32.6%	33.1%	28.0%	33.1%	33.4%
Alibaba Group ecosystem	mn RMB	28.4%	29.9%	26.1%	34.9%	26.2%	27.8%	25.7%	32.1%	26.2%	26.9%
Tencent ecosystem	mn RMB	6.2%	7.4%	7.1%	6.4%	6.9%	8.6%	8.9%	8.2%	10.6%	12.2%
Independent medium ad players	mn RMB	10.8%	11.1%	12.2%	10.6%	11.1%	11.0%	11.1%	9.9%	10.7%	10.4%
Other small ad players	mn RMB	35.8%	33.1%	35.9%	32.2%	33.0%	31.0%	32.3%	31.8%	30.1%	27.4%

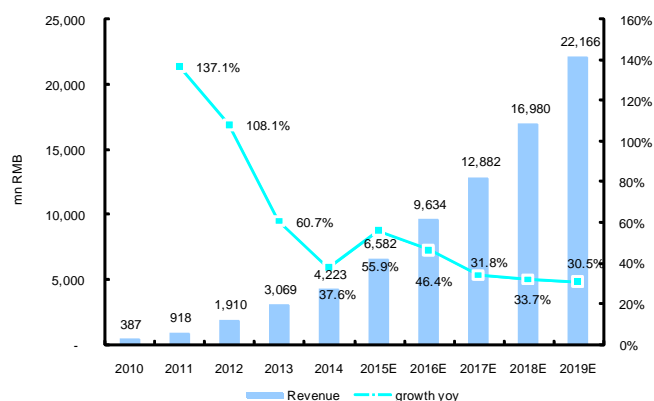
Source: the Companies' Financial Reports, Guotai Junan International.

**Figure- 3: Youku's Total Revenue Projection**


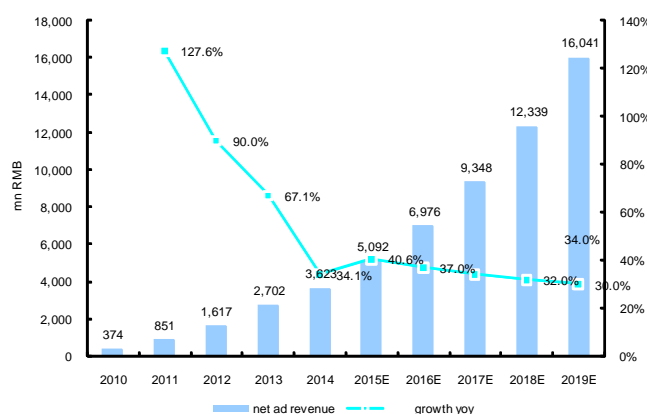
Source: the Company, Guotai Junan International.

**Figure- 4: Youku's Total Net Revenue Projection**


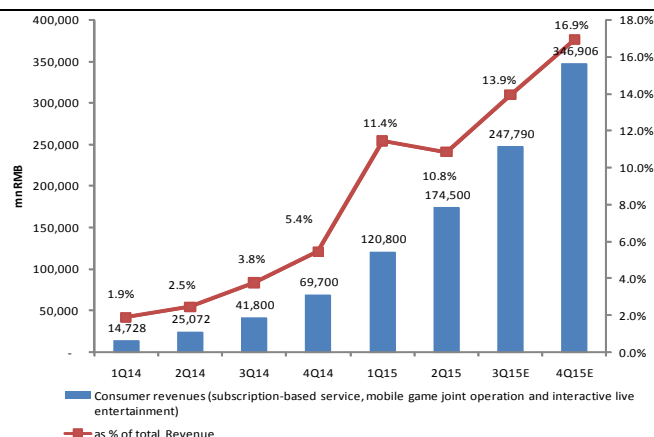
Source: the Company, Guotai Junan International.

**Figure- 5: Youku's Total Revenue Projection**


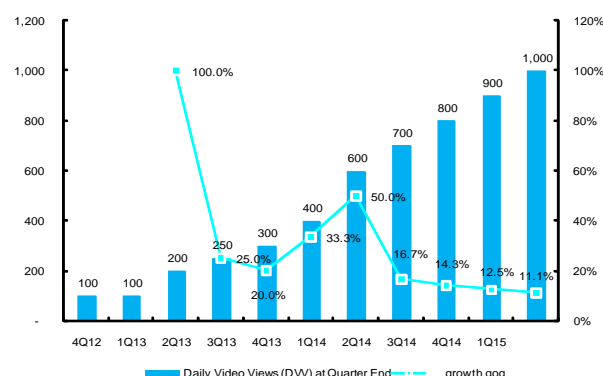
Source: the Company, Guotai Junan International.

**Figure- 6: Youku's Total Net Revenue Projection**


Source: the Company, Guotai Junan International.

**Figure- 7: Youku's Consumer Revenue Projection**


Source: the Company, Guotai Junan International.

**Figure- 8: Youku's Daily Video Views at Quarter End**


Source: the Company, Guotai Junan International.

**Table- 4: China Video Industry**

		2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E
Online ad market	mn RMB	32,550	51,300	77,310	110,000	154,000	209,300	272,400	332,700	393,000
growth YoY	%		57.6%	50.7%	42.3%	40.0%	35.9%	30.1%	22.1%	18.1%
Online Video ad as % of total online ad market	%	6.6%	8.3%	8.6%	8.9%	9.9%	10.9%	11.8%	12.8%	13.8%
Online Video market	mn RMB	3,140	6,270	9,180	13,590	23,970	36,310	51,660	69,530	89,980
growth YoY			99.7%	46.4%	48.0%	76.4%	51.5%	42.3%	34.6%	29.4%
Breakdown%										
Ad revenue	%	68.4%	67.8%	72.5%	72.1%	63.4%	62.9%	62.4%	61.4%	60.1%
Copyrights distribution	%	6.4%	13.1%	11.0%	8.6%	5.7%	4.6%	3.9%	3.5%	3.3%
Video VAS	%	3.8%	3.4%	4.3%	5.1%	5.1%	5.4%	5.6%	5.9%	6.2%
Others	%	21.4%	15.7%	12.1%	14.2%	25.8%	27.1%	28.1%	29.2%	30.4%
Online Video ad market	mn RMB	2,148	4,251	6,656	9,798	15,197	22,839	32,236	42,691	54,078
Breakdown			97.9%	56.6%	47.2%	55.1%	50.3%	41.1%	32.4%	26.7%
Online in-video ad	%	48.5%	56.7%	72.0%	80.8%	81.1%	78.8%	77.7%	75.6%	74.1%
Sponsor Ads, Banner Ads and other	%	51.5%	43.3%	28.0%	19.2%	18.9%	21.2%	22.3%	24.4%	25.9%
Mobile video ad	%			2.9%	4.9%	21.1%	31.7%	41.8%	51.3%	58.8%
PC video ad	%			97.1%	95.1%	78.9%	68.3%	58.2%	48.7%	41.2%
Online in-video ad	mn RMB	1,042	2,411	4,793	7,920	12,320	18,000	25,061	32,272	40,086
growth YoY	%		131.5%	98.8%	65.2%	55.6%	46.1%	39.2%	28.8%	24.2%
Mobile video ad	mn RMB			190	480	3,210	7,250	13,470	21,920	31,810
growth YoY	%				152.6%	568.8%	125.9%	85.8%	62.7%	45.1%
PC video ad	mn RMB			6,466	9,318	11,987	15,589	18,766	20,771	22,268
growth YoY	%				44.1%	28.6%	30.0%	20.4%	10.7%	7.2%

Source: iResearch, Guotai Junan International.

## Media Asset Integration

**Alibaba Group has to integrate its media assets as soon as possible to achieve 3 new strategic targets: 1) Help Youku to fix its current problems; 2) Upgrade its IP (Intellectual property) operation to a higher level; 3) Enhance traffic exchange in different media assets.** After integration, Alibaba Group could increase their bargaining powers to both upstream content producers and downstream ad clients. **Moreover, to complete its media ecosystem, Alibaba Group has to reposition Alibaba Pictures, control Weibo, and acquire a China mobile game company.**

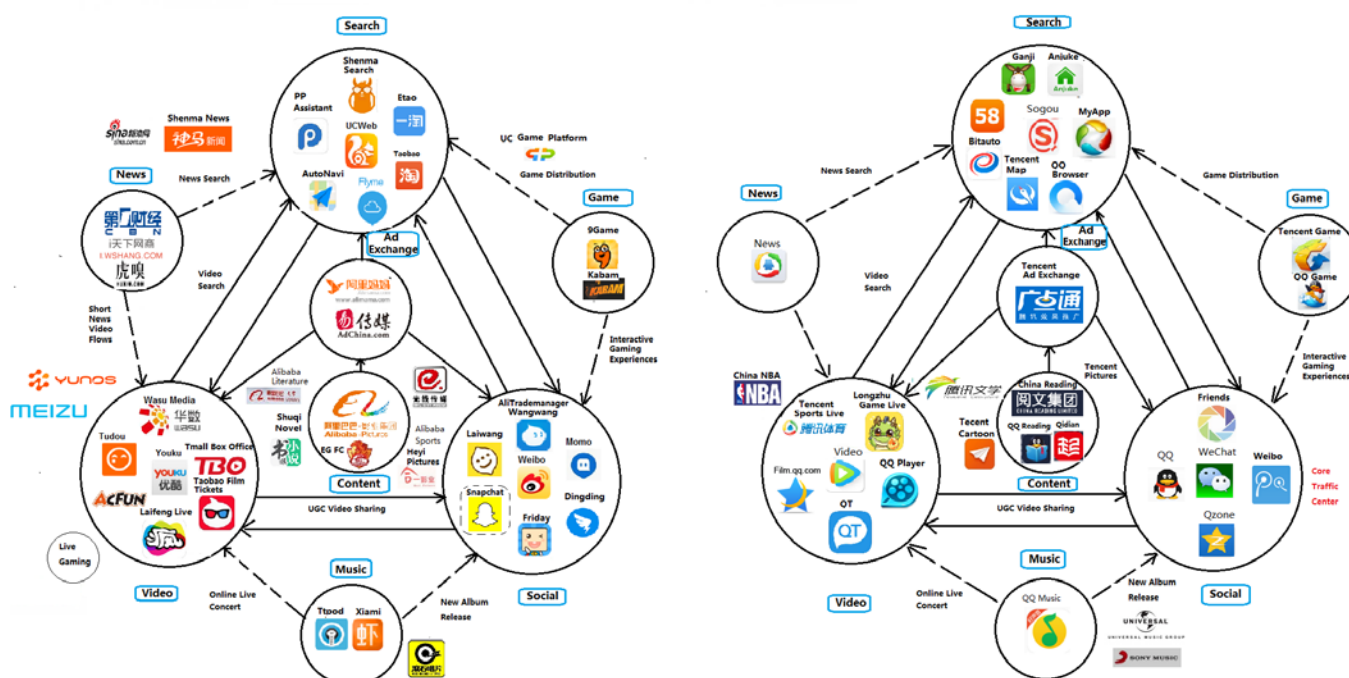
**Alibaba Group needs to integrate its media assets as soon as possible.** Since 2013, Alibaba Group has spent around RMB50bn to acquire mobile media assets, such as Weibo, Youku, Momo, Xiami Music, Ttpod Music, and UC 9 Game. Alibaba Group also established Alibaba Pictures (1060 HK), Alibaba Literature, Alibaba Sports, and Tmall Home Box Office, to enhance its content production. Alimama has played a key role in improving traffic conversion rate in its media assets. But the synergies in its media assets were far less than the synergies in Tencent's media assets.

## Alibaba Group is in urgent need of a new leader to manage its Film & TV media content creation.

Before acquisition, Alibaba Group has established Tmall Box Office to build up TV content library, to support Tmall TV Box and Tmall TV OS. Recently, Tmall Box Office has created original documentary video content with NBA Star Kobe Bryant. Alibaba Pictures also focuses on film content production. Alibaba Music also has tight connection to Film & TV media as many popular songs come from films. Newly established Alibaba Literature is positioned to be a connection between online literature portals, Shuqi Novel and UC e-Book Store, under UCWeb and Alibaba Pictures, to find more high quality IPs. Alibaba Sports, in which Alibaba Group has around 50% shares, is positioned to create more sport content in people's daily life. We think

Victor Koo and his team have proved themselves in producing mini-TV dramas-Surprise series (万万没想到), the first successful grass-root online mini-TV drama brand shared by Youku and Uni-Media (万合天宜). Youku's team has been the producers of this series since the beginning. Alibaba Group indeed needs Victor and his team to manage its media content creation, especially in Tmall Box Office and Alibaba Literature, and to coordinate with Alibaba Pictures, Alibaba Sports and Alibaba Music. Victor and his team will have much more budgets and larger platforms to create more high quality contents. It's possible that Victor might lead Alibaba Pictures in the future.

**Figure- 9: Alibaba Group and Tencent's Media Ecosystem**



Source: the Companies' Financial Reports, Guotai Junan International.

**Currently, video competition has become more intensified.** In 7M15, Youku's monthly time spent reached a record high level of 2.0 billion hours and 668 minutes per user per month (22 minutes per user per day). We think Youku's user time spent per day might reach at least 1 hour in the long run. However, iQiyi and Tencent are narrowing down the gap with Youku by increasing content spending. Tencent video has spent USD500 million in NBA air rights in China in next 5 years, while iQiyi's content costs in 2Q15 have reached RMB840 million, more than Youku's content cost of RMB744 million. In the near future, 2 factors are important: 1) China auto industry might cut ad spending in 2H15 and 2016. China auto industry was in very tough environment in 1H15 as China auto sales growth has slowed down to low single digit. 2) Tencent began to monetize its WeChat and video through ads. Tencent might gain more market share in China internet ad market in the future.

**Youku has many problems to fix to regain its competitive edges. First, Youku has to increase its content spending to buy all the hot Chinese TV dramas to compete with Tencent video and Baidu iQiyi.** As SARFT has banned most of new imported TV dramas from Korea and US, China TV dramas have become the largest traffic source in video. Currently, Youku only purchased 60%~70% China TV dramas, far less than its two key competitors. And Youku should learn from iQiyi to increase its spending in in-house production of variety shows and professional TV dramas. **Second, Youku needs to fuel up its live video streaming as soon as possible.** Twitch, with DAU of 100mn in 2Q15, acquired by Amazon, has become the 3<sup>rd</sup> largest video streaming portal after Netflix and Youtube. Amazon has made a great move in video

industry. Last year, Youku has established its live brand- Laifeng Video (来疯直播) to target at live concert, live variety show, live music show and live gaming show. However, its traffic was far less than YY Live and Douyu Live. Moreover, Wang Sicong, the heir of Wanda Group, has newly established Panda Live TV to gain market shares. Live video streaming might be a key competitor to video-on-demand (VOD) in the future. If Youku missed the trend, the results might be catastrophic. **Third, Youku should restructure its small new business.** After acquisition, it would be unnecessary for Youku to develop its hardware business and film tickets sales. Youku could sell its hardware business to Meizu and cooperate with Taobao film ticket sales. In the medium term, Heyi Pictures might be independent to develop IPs inside Youku's PGC and UGC content library. In the long run, it's possible to combine Heyi Pictures and Alibaba Pictures.

**Upgrade IP operation to a new level.** High quality IPs will become more and more expensive and the media companies are finding more and more ways to monetize the IP. Currently, many high quality IPs in China are monetized through TV dramas, Films, and mobile games at the same time, in which TV drama are the nature ads for its mobile games, such as the hot TV drama- Journey of Flowers(花千骨). Alibaba Group should acquire IP in group level and then monetize IP through different types of media. In this respect, Alibaba Group needs to acquire a mobile game developer. The economies of scale in China media industry will strengthen in the future. Both the ability to monetize IP in different media types and economies of scale will enhance bargaining powers to upstream content producer and downstream ad customers. Only if the media group has more bargaining powers, could it operate more expensive and higher quality IPs. The industry entry barrier will become much higher in the future.

**Alibaba Group needs to create strong traffic exchange in media assets to increase its MAU.** Alibaba Group's media ecosystem is very complicated, mainly including the key value chain: Social –Video – Search- Ad Exchange – Content Creation, or Weibo- Youku- UCWeb- Alimama – Alibaba Pictures. Unlike Tencent's media ecosystem in which WeChat and QQ have played as fast growing traffic centres and drivers, Alibaba Group's media ecosystem is in loose structure and there are many overlapped business units in this ecosystem, resulting in low efficiency and low synergies. **1) Youku, Weibo and UCWeb are the 3 most important mobile traffic pillars.** In the past, as Youku missed many hot China TV dramas due to tight budgets, UCWeb had to sell its front video page exhibition of hot China TV dramas to other video portals, such as Letv, Sohu video, and PPS, to enhance user experiences. In the future, UCWeb should conduct more traffic to Youku, if Youku bought the same China TV dramas. Moreover, Weibo has very hot Star-Fan social ecosystem, connecting to Youku's users, but Weibo's video has been far behind market leaders. Weibo and Youku should work out in both professional videos (TV drama trailers, Film trailers) and short UGC videos to increase their mutual traffics. **2) Integrate the membership among these media assets.** Alibaba Group should consider "Amazon Prime" as a successful way to enhance user experiences in diversified services. If Alibaba Group's media segments are confident that their media products could deliver top user experiences, it could try to combine their membership, even with Tmall membership, to create more stickiness and loyalties among online users. **3) Alibaba Group should build up its own game developer teams.** Alibaba Group's game segment is UC 9 game, a leading game distribution platform. Alibaba Group needs to establish its own game developer team to serve the IP development.

**Alibaba Group should reposition Alibaba Pictures.** Alibaba Pictures CEO Zhang Qiang has set up targets to serve China film producers through big data, new technologies, and investment. **1) We think Alibaba Pictures' position is too conservative.** First, the film and TV drama technology market is very small, far smaller than Box Office. The value created by film technologies, such as post production, is a small part of Box Office. **2) Alibaba Group should build up its own film & TV drama production teams.** The hot film IPs could attract plenty of funds in China and they don't need participants who could only

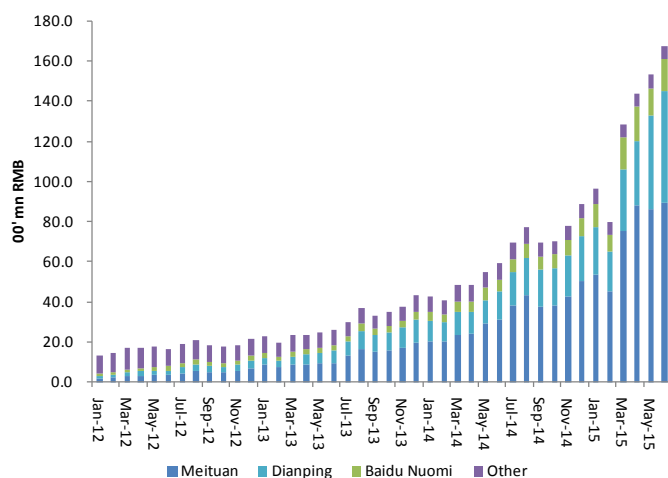


**A new internet giant, Meituan-Dianping, came out.** Meituan and Dianping announced to merge in 10M15. Market rumours told that the new internet giant's valuation reach USD15bn~ USD17bn. The merger will have around 85% market shares in O2O group purchase market in 1H15, 70% of the online film ticket sales market, and more than 50% of catering E-commerce take-away market. The new O2O ecommerce giant, Meituan-Dianping, might be a very strong competitor to Koubei and JD Home. In 2Q15, Alibaba Group and Ant Financial have set up Koubei (口碑网), an O2O E-commerce business in Alipay, which mainly focuses on O2O catering and entertainment E-commerce. The E-commerce penetration rate in catering industry is still less than 10% and they expect Koubei to create GMV of RMB300 billion by the end of year. In 3Q15, Alipay has encouraged local small businesses to open shops in Alipay. JD also launched JD Home (京东到家), an O2O E-commerce entrances which focuses on fast delivery supermarket and take-away. Alibaba Group also confirmed to invest in 58 home, an E-commerce business unit under 58 Group. We think the reason Meituan chose to merge with Dianping instead of Koubei is to increase its potential in consumer finance in the future. It's possible that Meituan-Dianping will start its own online payment and consumer credit services. We think the competition in O2O ecommerce will become far more intensified in next 3 years.

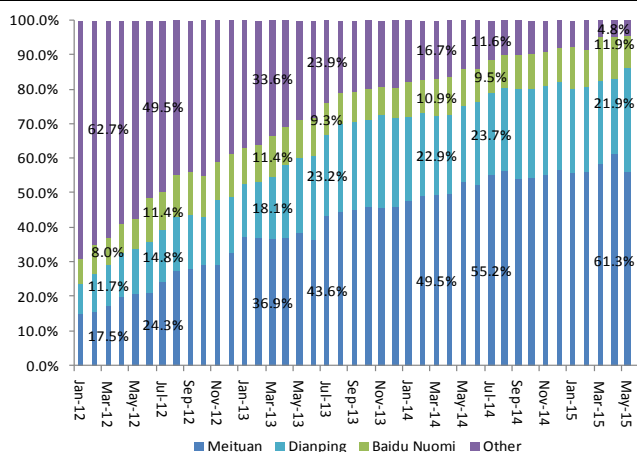
**Table- 5: China O2O E-commerce Projection**

		2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
<b>Target Market</b>											
Catering	bn RMB	2,054	2,328	2,539	2,786	3,092	3,413	3,748	4,098	4,460	4,831
growth yoy	%		13.3%	9.1%	9.7%	11.0%	10.4%	9.8%	9.3%	8.8%	8.3%
Supermarket		599	714	762	800	832	857	883	910	937	965
growth yoy			19.1%	6.8%	5.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%
China Travel industry revenue		2,244	2,587	2,950	3,380	3,879	4,460	5,129	5,848	6,608	7,401
growth yoy			15.3%	14.0%	14.6%	14.8%	15.0%	15.0%	14.0%	13.0%	12.0%
Bank Credit Card	bn RMB	813	1,137	1,846	2,340	2,919	3,583	4,327	5,138	5,999	6,883
growth yoy	%		39.9%	62.3%	26.8%	24.8%	22.8%	20.8%	18.8%	16.8%	14.8%
<b>O2O Ecommerce</b>											
O2O Group Buy	bn RMB	11.1	21.4	35.9	74.8	209.3	334.9	468.8	632.9	822.8	1028.5
growth yoy	%		93.1%	67.7%	108.3%	180.0%	60.0%	40.0%	35.0%	30.0%	25.0%
Catering	bn RMB	4.1	9.6	18.8	44.1	132.0	221.2	319.1	443.4	592.9	761.7
Entertainment	bn RMB	2.1	4.8	8.6	15.1	36.0	50.8	61.8	73.9	87.9	99.6
Travel and Hotel	bn RMB	0.5	1.8	3.6	7.8	22.5	32.7	48.1	65.0	77.9	88.1
Life service	bn RMB	1.5	2.6	3.2	6.1	15.7	25.1	35.2	47.5	61.7	77.1
Commodity other	bn RMB	2.9	2.2	1.7	1.6	3.1	5.0	4.7	3.2	2.5	2.1
<b>O2O Take-out</b>											
growth yoy	%		213.0%	193.8%	124.8%	283.8%	100.0%	80.0%	60.0%	50.0%	40.0%
<b>OTA excluding flight tickets</b>			61.0	79.7	108.1	148.1	196.2	252.7	317.3	425.3	524.6
growth yoy	%			30.6%	35.7%	36.9%	32.5%	28.8%	25.6%	34.0%	23.4%
Hotel	bn RMB		39.8	49.4	63.3	85.0	109.0	135.0	162.0	194.4	229.4
Package Tour	bn RMB		21.2	30.3	44.9	63.1	87.2	117.7	155.3	230.9	295.3
<b>Online Box Office</b>											
growth yoy	%		251.9%	157.2%	180.1%	76.7%	52.5%	41.7%	36.1%	30.6%	19.9%
<b>Total O2O Ecommerce GMV</b>			85.7	124.7	205.9	417.8	640.6	904.6	1,230.9	1,655.5	2,105.0
growth yoy	%			157.2%	180.1%	76.7%	52.5%	41.7%	36.1%	30.6%	19.9%

Source: iResearch, eGuan, Guotai Junan International.

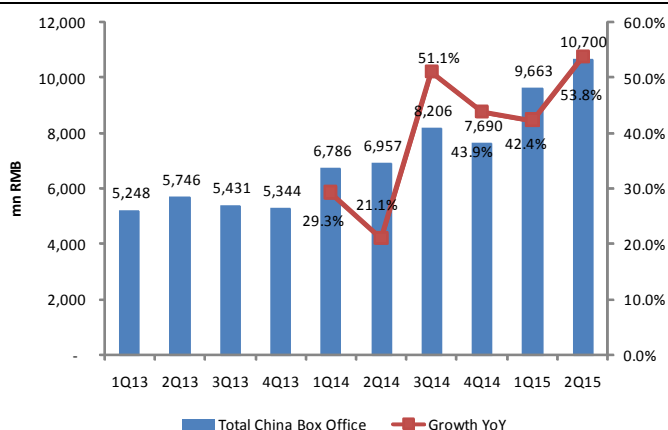
**Figure-10: China O2O Group Buy Market**


Source: the Company, Guotai Junan International.

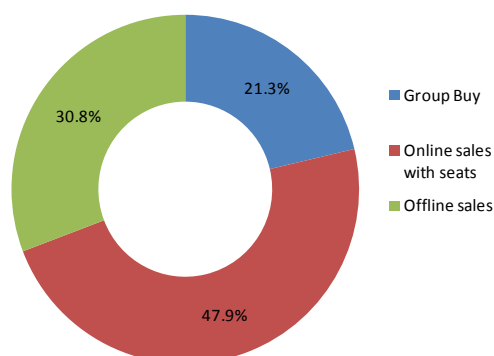
**Figure-11: China O2O Group Buy Market Share**


Source: the Company, Guotai Junan International.

**Meituan-Dianping could strengthen its leading position in online tickets sales.** According to eGuan and SARFT, China Box Office surged to a record high level of RMB12.6bn in 3Q15, up 54.1% yoy, faster than last several quarters. Moreover, online film ticket sales, including sales with seats and group buy, accounted for around 70% of total film tickets sales, an amazing high level. However, in 3Q15, both SMI holdings (198.HK) and Wanda Cinema announced to cease its operation with Meituan's Cat Eye (美团猫眼) film ticket sales platform and Dianping also launched its own online ticket sales platform. SMI holdings chose to work with Baidu film tickets and Wanda has acquired 20% of mtime.com's shares and also invested in WeChat ticket sales. Wanda and Mtime online ticket sales together have around 5% of total ticket sales market shares. If Meituan and Dianping could work together in the film ticket sales market, we expect Meituan could maintain its online film ticket sales market sales at around 50%. Meituan-Dianping might be a new force in China film distribution.

**Figure- 11: China Box Office in 2015**


Source: the Company, Guotai Junan International.

**Figure- 12: China Online and Offline Film Tickets Sales**


Source: the Company, Guotai Junan International.

**However, It would be bad news if Alibaba Group loses its influence in the new Meituan-Dianping.** Market rumors told that before this combination, Alibaba Group has 10%~15% shares in Meituan, while Tencent has 20% shares in Dianping. And recently, Meituan-Dianping has begun another round of financing of USD20bn~30bn. Tencent has intended to invest and increase its stake in the new Meituan-Dianping. However, as Koubei is one of the largest competitors against Meituan-Dianping in O2O E-commerce, it's

possible that Meituan-Dianping might exclude Alibaba Group in the new round of financing, which means Alibaba Group might lose its influence in the new giant. If this is true, it would be very bad news for Alibaba Group. Alibaba Group's leaders should focus on alleviating the tension with Meituan-Dianping and maintaining its influence in Meituan-Dianping by increasing more stakes.

**Cut Target Price to USD90.00 with 'Buy' investment rating.** We think both video and E-commerce industry growth were slowing down in 3Q15 due to weaker than expected economy and more intensified competition. We think it's not a good option to bet before their 3Q15 results. However, there are lots of underlying assets for Alibaba Group, such as Ant Financial, Aliyun, Koubei, and Alibaba Pictures (1060.HK). The Duel 11 Promotion might be a short run catalyst for Alibaba Group. Our investment grade for Alibaba Group (BABA US) is "BUY". We cut TP to USD90.0, representing 29.7x and 24.1x non GAAP FY16 PE and FY17 PE.

**Table 1: Peers Comparison**

Company	Stock Code	Curr ency	Last price	Market Cap	Non GAAP PE				GAAP PE				EV/EBITDA			Non GAAP PEG
				mn HKD	FY14F	FY15F	FY16F	FY17F	FY14F	FY15F	FY16F	FY17F	FY15F	FY16F	FY17F	FY15-17
Global Large Ecommerce Conglomerate																
Alibaba Group Holding-Sp Adr	BABA US	USD	71.79	1,397,863.6	41.4	32.9	28.0	21.7	n.a.	44.6	23.0	31.5	26.7	21.4	16.3	1.2
Ebay Inc	EBAY US	USD	24.42	230,558.7	8.3	13.7	12.7	11.6	(473.0)	17.2	15.0	13.8	9.0	6.7	n.a.	1.4
Amazon.Com Inc	AMZN US	USD	560.88	2,033,078.4	259.7	105.3	65.5	41.2	(728.1)	354.6	112.4	55.7	24.7	19.0	13.3	1.1
Yahoo Japan Corp	4689 JT	JPY	501	184,476.0	22.3	21.8	19.6	19.4	22.8	21.8	19.9	19.4	10.9	9.9	9.1	3.2
Rakuten Inc	4755 JT	JPY	1706	157,742.2	259.7	33.3	25.4	21.4	41.7	34.4	25.6	21.7	16.0	12.7	10.5	1.0
Simple Average					118.3	41.4	30.2	23.1	(284.2)	94.5	39.2	28.4	17.5	13.9	12.3	1.6
Weighted Average					158.0	68.1	45.7	30.9	(394.3)	199.0	67.9	41.8	23.5	18.4	13.3	1.2
China Vertical Ecommerce																
Jd.Com Inc-Adr	JD US	USD	26.53	284,396.8	2,947.8	n.a.	132.7	56.9	n.a.	(110.0)	4,265.9	73.4	n.a.	111.0	34.5	n.a.
Vipshop Holdings Ltd - Ads	VIPS US	USD	18.79	84,452.0	61.2	32.9	22.5	16.2	14.9	6.3	4.0	n.a.	27.1	16.0	10.4	0.5
Jumei International-Adr	JMEI US	USD	10.22	11,336.6	18.6	23.1	15.3	10.7	n.a.	24.4	15.3	n.a.	19.5	9.5	5.8	0.3
Dangdang Ecommerce	Dang US	USD	6.77	4,237.5	33.0	n.a.	n.a.	8.0	6.1	(26.6)	31.3	n.a.	n.a.	10.1	4.3	n.a.
Ctrip.Com International-Adr	CTRP US	USD	73.31	79,876.4	107.3	92.2	39.4	23.4	364.9	361.6	57.8	28.2	83.6	29.6	15.1	0.4
Simple Average					633.6	49.4	52.4	23.1	128.6	51.1	874.9	50.8	43.4	35.2	14.0	0.4
Weighted Average					1,836.0	22.4	92.5	42.2	65.6	164.4	2,624.3	49.8	19.8	76.3	25.8	0.2
China Internet Conglomerate																
Tencent Holdings Ltd	700 HK	HKD	146.9	1,381,078.7	46.1	36.1	27.9	22.0	57.6	36.6	28.3	22.0	25.1	19.3	14.8	1.0
Baidu Inc - Spon ADR	BIDU US	USD	153.21	417,375.1	23.6	27.9	22.4	15.9	24.6	30.3	23.3	15.8	21.7	16.2	10.6	0.7
Simple Average					34.9	32.0	25.1	15.9	41.1	33.4	25.8	18.9	23.4	17.8	12.7	0.8
Weighted Average					40.9	34.2	26.6	15.9	50.0	35.1	27.1	20.6	24.3	18.6	13.9	0.9
Global Internet Conglomerate																
Apple Inc	AAPL US	USD	113.77	5,028,254.8	17.5	12.5	11.7	10.6	16.4	12.2	11.9	11.1	6.2	5.7	5.2	1.4
Google Inc-CI C	GOOG US	USD	650.28	3,538,699.0	25.3	22.5	19.3	16.7	32.9	28.5	23.5	20.2	13.4	10.9	8.8	1.2
Microsoft Corp	MSFT US	USD	47.77	2,956,843.2	17.8	18.4	17.7	15.5	17.0	31.4	23.6	18.2	9.2	9.2	8.2	2.0
Face book Inc-A	FB US	USD	97	2,119,268.0	57.4	46.8	35.4	27.5	94.2	90.3	56.2	38.2	23.9	17.2	12.9	1.2
SoftBank Corp.	9984 JT	JPY	6443	500,155.6	14.6	11.1	12.7	13.1	15.1	11.1	12.7	13.2	7.7	7.3	6.9	(1.6)
Samsung Electronics Co Ltd	005930 KS	KWR	1268000	1,281,555.9	9.1	9.1	9.0	8.3	8.6	8.7	8.5	7.9	2.8	2.4	2.1	1.9
Simple Average					23.6	20.1	17.6	15.3	30.7	30.4	22.7	18.1	10.5	8.8	7.4	1.0
Weighted Average					24.1	20.3	17.6	15.1	30.3	30.0	22.6	18.1	10.6	8.9	7.5	1.4
Simple Average					220.6	33.7	30.4	20.0	(32.3)	54.3	264.3	26.0	20.5	18.6	11.1	1.1
Weighted Average					89.0	30.3	25.2	19.1	(45.7)	60.9	87.1	23.3	14.3	12.9	9.5	1.3

Source: Bloomberg, Guotai Junan International, 2015 Oct 21<sup>st</sup>.

## Financial Statement

Income Statement (Mar End Fiscal Year mn RMB)	FY14A	FY15A	FY16E	FY17E	FY18E	Balance Sheet	FY14A	FY15A	FY16E	FY17E	FY18E
Revenues	52,504	76,204	99,628	131,466	176,961	Current Assets					
Cost of Revenues	(13,369)	(23,834)	(32,797)	(45,755)	(62,529)	Cash and Cash Equivalents	33,045	108,193	109,591	131,466	176,961
Gross Profit	39,135	52,370	66,831	85,710	114,432	Investment Securities	1,442	3,658	4,024	4,426	4,869
Sales and Marketing Expenses	(4,545)	(9,764)	(10,876)	(14,010)	(18,281)	Short-term Investments	10,587	14,148	15,563	17,119	18,831
General and Administrative Expenses	(4,218)	(7,854)	(11,208)	(13,307)	(18,849)	Loans Receivable, net	13,159	835	0	0	0
Product Development Expenses	(5,093)	(9,353)	(13,164)	(12,868)	(18,865)	Prepayments, Receivables and Other Assets	4,679	12,978	15,257	18,713	25,537
Amortization of Intangible Assets	(315)	(2,089)	(3,288)	(3,943)	(3,942)	Restricted Cash and Escrow Receivables	4,921	2,297	2,527	2,779	3,057
Impairment of Goodwill, Intangible Assets	(44)	(175)	0	0	0	<b>Total Current Assets</b>	<b>67,833</b>	<b>142,109</b>	<b>146,961</b>	<b>174,504</b>	<b>229,255</b>
<b>Operating Profit</b>	<b>24,920</b>	<b>23,135</b>	<b>28,295</b>	<b>41,583</b>	<b>54,495</b>	<b>Non Current Assets</b>					
Interest Expense	(2,195)	(2,750)	(2,879)	(3,162)	(4,914)	Property and Equipment, net	5,581	9,139	15,536	23,304	30,296
Interest and Investment Income/(Loss), Net	1,648	9,455	30,046	208	259	Investment Securities	3,023	14,611	17,533	21,040	25,248
Other Income, Net	2,429	2,486	2,293	3,417	4,904	Investment in Equity Investee	17,666	33,877	62,927	88,504	111,847
<b>Earnings before Taxes</b>	<b>26,802</b>	<b>32,326</b>	<b>57,755</b>	<b>42,046</b>	<b>54,745</b>	Goodwill	11,793	41,933	42,352	42,776	43,204
Provision for Income Tax	(3,196)	(6,416)	(6,422)	(8,409)	(10,949)	Land Use Rights	1,660	3,105	3,833	4,544	5,238
Share of Results of Equity Investees	(203)	(1,590)	(910)	(841)	(1,095)	Intangible Assets	1,906	6,575	9,857	13,141	17,148
Minority Interest (After Tax)	(88)	(59)	(74)	(168)	(219)	Prepayments, Receivables and Other Assets	2,087	4,085	4,802	5,890	8,038
<b>Net income attributable to Alibaba Group</b>	<b>23,315</b>	<b>24,261</b>	<b>50,350</b>	<b>32,628</b>	<b>42,482</b>	<b>Total Non Current Assets</b>	<b>43,716</b>	<b>113,325</b>	<b>156,841</b>	<b>199,199</b>	<b>241,019</b>
Dividends on Preferred Stock	(208)	(97)	0	0	0	<b>Total Assets</b>	<b>111,549</b>	<b>255,434</b>	<b>303,802</b>	<b>373,703</b>	<b>470,274</b>
Preferred Stock Adjustments	(31)	(15)	0	0	0	<b>Current Liabilities</b>					
<b>Net Income Available to Common Shareholders</b>	<b>23,076</b>	<b>24,149</b>	<b>50,350</b>	<b>32,628</b>	<b>42,482</b>	Accrued Expenses, Accounts Payable, and Other liabilities	11,887	19,834	28,211	31,369	46,660
Non GAAP net income	27,610	34,981	41,735	49,885	63,454	Secured Borrowings	9,264	0	0	0	0
Basic EPS	10.610	10.330	19.511	12.275	15.517	Current Bank Borrowings	1,100	1,990	1,354	2,318	3,388
Diluted EPS	10.000	9.700	18.321	11.527	14.571	Income Tax Payable	1,267	2,733	3,280	3,936	4,723
Non GAAP Diluted EPS	11.840	14.051	15.186	17.623	21.764	Deferred Revenue-customer Advances	6,496	7,914	10,176	11,649	14,974
Numbers of Basic Shares mn	2,175	2,338	2,581	2,658	2,738	Merchant Deposits	4,711	7,201	9,191	13,677	17,574
Numbers of Diluted Shares mn	2,332	2,490	2,748	2,831	2,916	Escrow Money Payable	2,659	0	0	0	0
						<b>Total Current Liabilities</b>	<b>37,384</b>	<b>39,672</b>	<b>52,210</b>	<b>62,948</b>	<b>87,320</b>
<b>Cash Flow Statement (Mar End Fiscal Year mn RMB)</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	<b>Non Current Liabilities</b>					
<b>Operating Activities</b>						Non-current Bank Borrowings	30,711	50,603	34,421	58,953	86,162
Net Income	23,403	24,320	50,424	32,796	42,701	Deferred Revenue	428	445	572	655	842
Depreciation and Amortization	1,654	4,415	7,929	11,800	15,700	Deferred Tax Liabilities	2,136	4,493	5,392	6,470	7,764
Share-based Compensation Expense	2,844	13,028	3,541	4,673	6,290	Other Liabilities	1,079	11,974	12,048	12,216	12,435
Share of Results of Equity Investees	203	1,590	910	841	1,095	<b>Total Non Current Liabilities</b>	<b>34,354</b>	<b>67,515</b>	<b>52,433</b>	<b>78,294</b>	<b>107,203</b>
Income Tax Payable	1,008	1,410	547	656	787	<b>Total mezzanine equity</b>	<b>10,401</b>	<b>658</b>	<b>790</b>	<b>948</b>	<b>1,137</b>
Deferred Income Taxes	1,466	1,659	1,605	2,102	2,737	<b>Noncontrolling Interest</b>	<b>1,079</b>	<b>11,974</b>	<b>12,048</b>	<b>12,216</b>	<b>12,435</b>
Loan Receivable	(9,175)	(11,674)	0	0	0	<b>Total Alibaba Group Holding Limited shareholders' equity</b>	<b>29,338</b>	<b>145,439</b>	<b>195,789</b>	<b>228,417</b>	<b>270,899</b>
Other non cash gains or loss	1,302	(5,649)	(26,582)	0	(0)	<b>Total Shareholders' Equity</b>	<b>30,417</b>	<b>157,413</b>	<b>207,837</b>	<b>240,633</b>	<b>283,334</b>
<b>Working Capital Change</b>	<b>3,674</b>	<b>12,118</b>	<b>9,613</b>	<b>4,434</b>	<b>13,603</b>	<b>Total Liabilities, mezzanine &amp; Shareholders' Equity</b>	<b>111,549</b>	<b>255,434</b>	<b>303,802</b>	<b>373,703</b>	<b>470,274</b>
Deferred Revenue and Customer Advances	1,606	1,317	2,389	1,556	3,512						
Merchant Deposits	1,628	2,490	1,990	4,486	3,897	<b>Key Indicators</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
Prepayments, Receivables and Other Assets	(3,567)	(2,253)	(2,996)	(4,545)	(8,972)	Non-GAAP gross profit	40,289	56,546	69,906	88,340	117,086
Accrued Expenses, Accounts Payable and Other Liabilities	3,992	10,578	8,460	3,189	15,444	Non-GAAP operating profit	28,167	37,040	45,568	58,673	75,248
Restricted Cash and Escrow Receivables	(1,329)	(851)	(230)	(253)	(278)	Non-GAAP EBITDA	30,731	40,699	49,960	66,530	87,006
Escrow Money Payable	1,344	837	0	0	0	Non-GAAP net profit	27,610	34,981	41,735	49,885	63,454
<b>Cash Flow from Operating Activities</b>	<b>26,379</b>	<b>41,217</b>	<b>47,987</b>	<b>57,302</b>	<b>82,913</b>	Stock-Based compensation	2,844	5,543	3,541	4,673	6,290
<b>Investing Activities</b>						<b>Growth YoY</b>					
Capital Expenditure	(4,776)	(7,705)	(17,536)	(22,763)	(26,593)	Revenue	52.1%	45.1%	30.7%	32.0%	34.6%
Investment	(27,692)	(35,221)	(50,430)	(54,591)	(59,192)	Non-GAAP Gross Profit	60.0%	40.4%	23.6%	26.4%	32.5%
Disposals of PPE, intangible assets and investment	415	(233)	500	550	605	Non-GAAP Operating profit	76.3%	31.5%	23.0%	28.8%	28.3%
Others	(944)	(10,295)	11,064	402	(1,803)	Non-GAAP EBITDA	85.0%	32.4%	22.8%	33.2%	30.8%
<b>Cash Flow from Investing Activities</b>	<b>(32,997)</b>	<b>(53,454)</b>	<b>(56,403)</b>	<b>(76,403)</b>	<b>(86,983)</b>	Non-GAAP Net profit	99.1%	26.7%	19.3%	19.5%	27.2%
<b>Financing Activities</b>						<b>Margin% (GAAP)</b>					
Net Bank Borrowings	5,623	19,891	(16,818)	25,497	28,279	Non-GAAP Gross margin	76.7%	74.2%	70.2%	67.2%	66.2%
Net Secured Borrowings	7,166	6,153	0	0	0	Non-GAAP Operating margin	53.6%	48.6%	45.7%	44.6%	42.5%
Share issuance or repurchase	(3,297)	61,453	0	0	0	Non-GAAP EBITDA margin	58.5%	53.4%	50.1%	50.6%	49.2%
Others	(128)	0	26,632	15,478	21,287	Non-GAAP Net margin	52.6%	45.9%	41.9%	37.9%	35.9%
<b>Cash Flow from Financing Activities</b>	<b>9,364</b>	<b>87,497</b>	<b>9,814</b>	<b>40,975</b>	<b>49,566</b>	<b>Monetization Rate</b>					
<b>Other Adjustments</b>						monetization rate in Desktop Retail GMV	2.94%	2.89%	2.58%	2.28%	2.13%
Foreign Exchange Rate Effect	(97)	(112)	0	0	0	monetization rate in Mobile Retail GMV	0.91%	1.79%	2.22%	2.51%	2.81%
Cash Flow Net Changes in Cash	2,649	75,148	1,398	21,875	45,495	Ad monetization rate in Retail GMV	1.77%	1.54%	1.53%	1.53%	1.69%
BB	30,396	33,045	108,193	109,591	131,466	Commission monetization rate in Retail GMV	0.72%	0.87%	0.80%	0.89%	0.97%
EB	33,045	108,193	109,591	131,466	176,961						

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	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	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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