



January 29, 2014

Sector Rating: OVERWEIGHT

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Key Data

Avg.14E P/E (x) 37.53
Avg.14E PEG (x) 1.50
Source(s): Company, Bloomberg, ABCI Securities

Sector performance (%)

	Absolute	Relative*
1-mth	23.40	28.66
3-mth	11.99	15.24
6-mth	60.49	60.22

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year Sector performance (HK\$)



Source(s): Bloomberg

China Internet & Media Sector Mobile Internet to drive growth in 2014

- ❖ We reiterate our **Overweight** rating on China's internet & media sector. Growing mobile internet (MI) usage will accelerate monetization and we expect profit from Mobile Games/Online advertising/e-commerce to surge
- ❖ China's internet penetration level (~45%) is still low and we expect huge room for PC and mobile internet business to grow in the next five years
- ❖ We recommend BUY for Tencent for its leading position in the industry and high monetization capacity; its huge user base will also form a solid barrier to entry for newcomers to the internet and media sector

China's internet penetration level is still low at ~45%(Hong Kong: 77.9%) - expect rapid catch-up in the next few years. Besides, internet economy accounted for a small proportion of China's GDP, while Mobile Internet (MI) economy took up an even smaller proportion of the internet economy. We expect China's MI users to expand in the next few years on more affordable MI services and cheaper smartphones.

MI business will generate promising profit in 2014. The MI monetization models are maturing, driven by innovations of internet companies, increasing ARPU, and more e-commerce transactions transiting from PC to mobile.

Factors favorable to the Chinese internet service providers include

1. China's broadband plan and urbanization reform will increase internet penetration in rural areas, promoting development of an internet economy;
2. Promising development of 3G/4G/Wi-Fi services; declining smartphones prices, and innovative MI apps;
3. China's growing per capita income;
4. Development of online financial business and open-up of industries to private enterprises help provide opportunities for dot-com companies.

Overweight sector outlook. We expect MI to drive growth in the internet and media sector by expanding the internet user base and deepening overall internet penetration. Moreover, MI has the potential to generate higher internet demand than PC internet due to the MI's convenience, increased penetration of mobile devices and growing use of mobile-based web functions (e.g. social networking). All these will drive revenue growth in the near future.

Recommend Tencent (700 HK; BUY; TP: HK\$610). We favor Tencent as it has the largest online community in China and dominant position in the country's internet market. With its huge user base in QQ/WeChat, Tencent is also becoming one of the top MI game distributors and we expect the Group to continue to be one of China's web oligarchs in 2014-15. We forecast that its e-commerce business would generate substantial profits in the next two years.

Risk factors: 1) Increased internet /e-commerce surveillance by government; 2) Intensified competition in mobile platform and e-commerce may slash profitability; 3) Slowdown in PC gaming.

Sector Valuation Summary (data as of Jan 28, 2014)

Company	Ticker	Rating	Price (HK\$)	TP (HK\$)	FY14E P/E(x)	FY15E P/E (x)	FY14E PEG (x)	FY15E PEG (x)	FY14E Yield (%)	FY15E Yield (%)
Tencent	0700 HK	BUY	503.00	610	32.54	21.94	0.76	0.45	0.44	0.65
HC intl	8292 HK	Unrated	14.80	-	51.73	32.96	1.09	0.70	-	-
IGG	8002 HK	Unrated	8.43	-	90.48	20.49	-	-	-	-
Kingdee int'l	0268 HK	Unrated	2.89	-	54.94	30.44	-	-	-	0.09
Kingsoft	3888 HK	Unrated	24.75	-	35.01	27.72	1.32	1.05	0.45	0.71

Source(s): Companies, Bloomberg, ABCI Securities



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China's internet market to enter a new era

- ❖ **Rapid growth in the mobile internet (MI) economy.** Currently MI still only accounts for a small proportion (~14.5%) of the network economy and even smaller of the national GDP. We expect MI to expand quickly in the next few years.
- ❖ **Monetization of MI services.** We expect profits of MI business to accelerate in 2014 as monetization matures.
- ❖ **Compare with developed economy such as Hong Kong (~78%), China's internet penetration (~45%) is still low, meaning the room for growth is large.** We expect MI market to demonstrate explosive growth in the next five years.
- ❖ **Government policies to support China's internet service providers:**
 - China's broadband plan and urbanization reform will increase internet penetration in rural areas
 - Issuance of 4G licences in Dec 2013 and will create large opportunities in MI market
 - Entry barriers are lowered for traditional industries (such as finance, telecommunication, broadcasting and cable TV services) where private firms were not able to enter before
 - Allowing more competition in the smartphone manufacturing industries, which will lower smartphone prices and boost demand for MI service
 - Efforts to double the per capita income (from 2010 to 2020) will enable more people to use MI services.
 - China "urbanization and development" policy will help expand internet consumption patterns

Stock Pick

- ❖ **Tencent (700 HK; BUY; TP: HK\$610).** We favor Tencent as it has the largest online community in China and dominant position in the country's internet market. With its huge user base in QQ/WeChat, Tencent is also becoming one of the top MI game distributors and will continue to be one of China's web oligarchs in 2014-15. We forecast its e-commerce business would generate substantial profits in the next two years.

Chinese Internet: A new era is coming

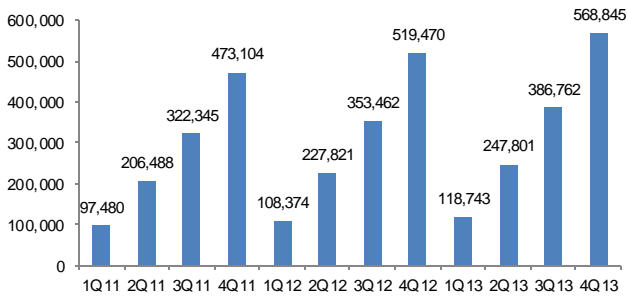
China's Technology, media and telecommunications (TMT) sector enjoyed a bullish run in 2013 with valuations of many internet companies touching record high. Focus of investors in 2014 will be on the sustainability of such growth momentum and identifying the bright spots of the internet industry.

We believe China's Internet industry is still in the ascendant, driven by the brisk development in the mobile Internet (MI), which we believe has a high growth potential.

1. Despite rapid growth in the mobile network economy, MI still accounts only for a small proportion of the overall network economy

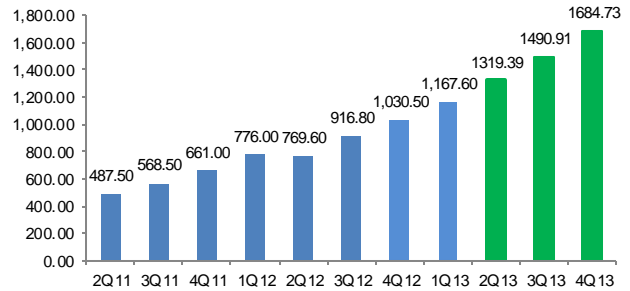
China issued the first 3G licenses back in 2009 and the country's internet industry has since experienced rapid changes. The switch from 2G to 3G resulted in significant rise in consumers' demand for intelligent terminal products and laid the foundation for China's mobile Internet development. Nevertheless, MI economy accounted only 14.5% of the overall network economy at the end of 2012.

Exhibit: China's GDP (YTQ, RMB 100mn)



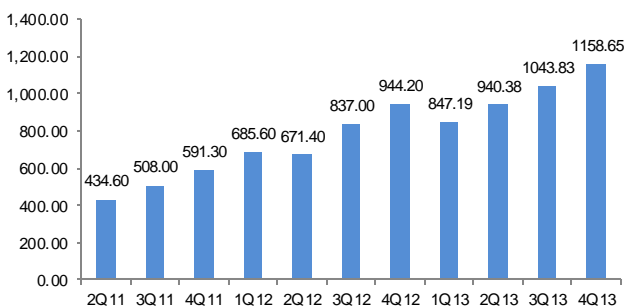
Source(s): WIND, ABCI Securities

Exhibit: China's dotcom economy (quarterly, RMB 100mn)



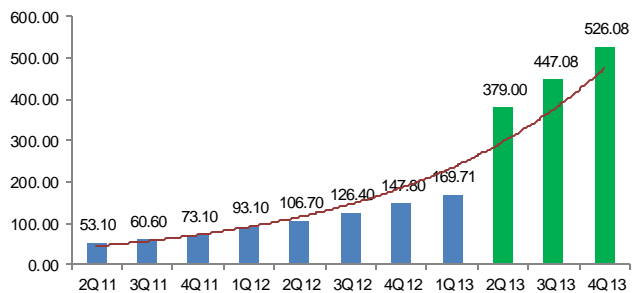
Source(s): WIND, ABCI Securities Estimate

Exhibit: China PC internet economy (quarterly, RMB 100mn)



Source(s): WIND, ABCI Securities

Exhibit: China mobile internet economy (quarterly, RMB 100mn)



Source(s): WIND, ABCI Securities Estimate

1. Monetization of mobile network services is maturing in 2014

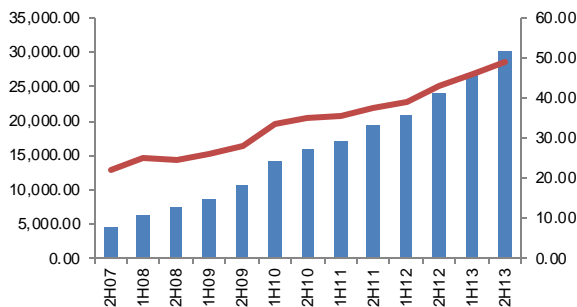
In 2013, with the growth outbreak of smartphones, tablet PCs and other mobile devices, software application for mobile internet services showed explosive growth, with the most obvious example being Tencent's WeChat.

As of Aug 2013, the overall number of WeChat users exceeded 40mn. According to Tencent's official website, at the 3Q13, the monthly active users (MAU) of WeChat reached 272mn from 59mn in 1Q12. The rate of user expansion was much faster than that of Tencent's messenger app, QQ, whose MAU grew from 80mn in 4Q03 to 273mn in 2Q07.

Growth of WeChat's MAU reflects the rapid development of China's MI market. Despite the success of WeChat, monetization of the app is still in its preliminary stage. As of end-2013, the monetization platform is still under construction.

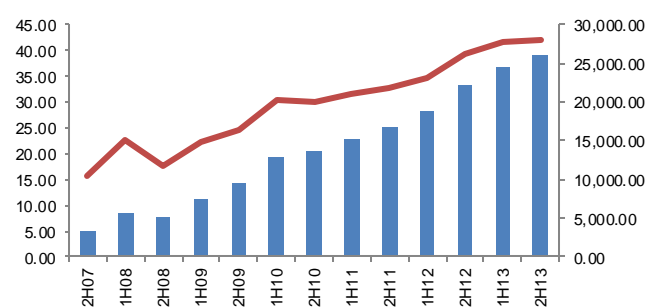
In 2014, with the swift development in mobile game market, expanding app sales and the evolvement of various types of mobile online payment systems, we expect China's mobile network products and services will begin to generate remarkable profits as monetization matures.

Exhibit : People purchasing online (left, 10k) and usage rate* (right, %)



*Usage rate is defined as proportion of online shoppers among internet users
 Source(s): WIND, ABCI Securities

Exhibit: Online payment user (right 10k) and the usage rate* (left, %)



*Usage rate is defined as proportion of online shoppers among internet users
 Source(s): WIND, ABCI Securities

Mobile network to show explosive growth

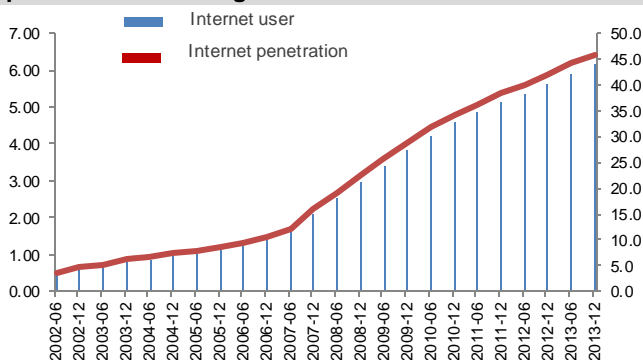
China's internet development base is still low, the room for growth is huge

1. Chinese Internet penetration is still low

According to China Internet Network Information Center (CNNIC), as of end-Dec 2013, Chinese netizens reached 618mn while internet penetration rate was 45.8%. Compared to mature markets such as Hong Kong where home network penetration rate hit 77.9%, China's Internet penetration is still relatively low and has much room for growth.

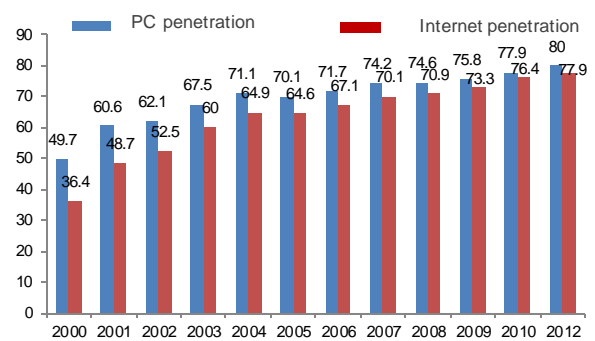
In Hong Kong, it takes almost 12 years for internet penetration to rise from 48.7% in 2001 to 77.9% in 2012. The period of 2001-2004 represented the fast-growth phase where penetration increased by more than 5 ppt per year on average. Given the enormous size of the country and its underdeveloped infrastructure, China may need more time to boost its internet penetration from its present level to one that is similar to Hong Kong's. We believe China's internet penetration will be on a high-growth trajectory in the next 5 years. Chinese government has established an ambitious target that in 2020, coverage of MI network will extend nationwide.

Exhibit: China's internet user (left, 100mn) and internet penetration rate (right, %)



Source(s): WIND, ABCI Securities

Exhibit: PC and internet penetration rate (%) in Hong Kong



Source(s): WIND, ABCI Securities

2. Huge MI demand in China's rural areas

By the end of 2013, China's rural internet penetration was only at a relatively low level of 27.5%. China would need to raise its penetration significantly to achieve its 2020 goal of nationwide coverage of MI network.

The main factor impeding internet penetration in rural area is that these regions rely mainly on PC to connect to the internet. Since rural areas are sparsely populated, home-wired broadband is costly for each household. Thus internet use is low.

Nonetheless, we believe rural MI demand will rise in the future because of the following favorable factors:

- i) Early national policies of "home appliances and information technology to the rural areas" have provided solid foundation to enhance the network infrastructure in rural areas.
- ii) Implementation of "Broadband China" program will further boost rural internet penetration.
- iii) With the popularity of smartphones, telecom operators are seeking to

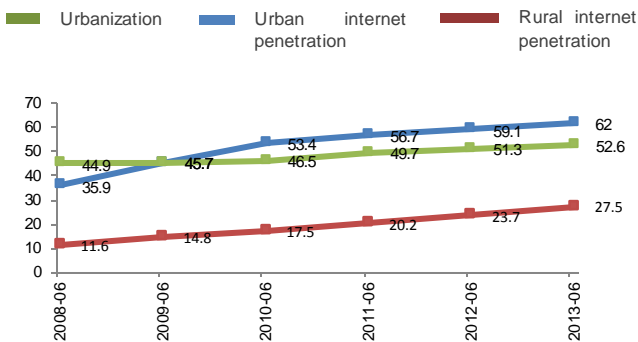
- expand the rural mobile market. Examples include China Mobile (0941 HK)'s "village-to-village connection projects" and China Unicom's "information application in rural areas" marketing initiative. The number of mobile phone users is expected to rise in rural areas.
- iv) We expect there will be more rural residents accessing the internet through the mobile internet. In fact, in 2013, the number of rural net-users grew ~13.5%, significantly higher than the 8% in urban regions. We expect the rural-urban difference in internet penetration will be narrowing going forward.

3. Soaring smartphone market share will drive MI demand

Market share of China's smartphone has risen to 73.8% by Nov 2013. However, CNNIC reported only a 45.5% internet penetration among the country's population. This implies that a large number of mobile phone users will join the MI market in the coming years.

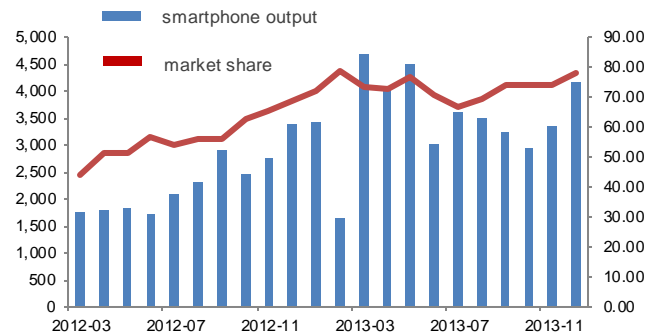
In fact, mobile users are becoming an important source of new internet users in China, especially in the domains of instant messaging, e-commerce and mobile games. As of 1H13, about 70.0% of China's new internet users access the internet through MI. We believe that the process will continue in 2014 and MI use will penetrate further.

Exhibit: China's urban/rural internet penetration and China's urbanization rate



Source(s): CNNIC, ABCI Securities

Exhibit: Smartphone output (10k) and market share* (%)



* Market share is defined as proportion of smartphone output among the mobile phone output

Source(s): WIND, ABCI Securities



"Broadband China" program – key driver of internet infrastructure building

In Aug 2013, the Chinese government launched the "Broadband China" program, proposing the development of the major objectives as follows:

Exhibit: Goals of Broadband China

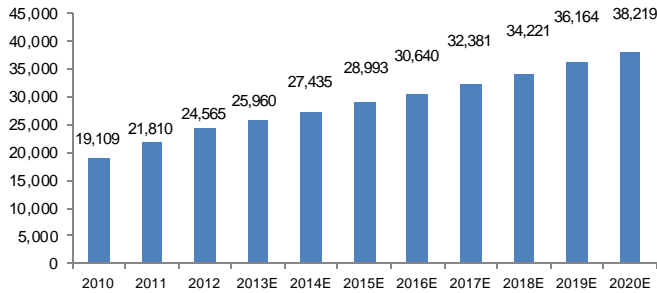
Target of Broadband China	Unit	2013	2015	2020
1. broadband subscribers				
Fixed broadband access users	100mn	2.1	2.7	4
--Fiber-to-home (FTTH) Users	100mn	0.3	0.7	—
--Urban Broadband Users	100mn	1.6	2	—
--Rural broadband users	100mn	0.5	0.7	—
--3G/LTE Users	100mn	3.3	4.5	12
2. Broadband penetration levels				
Fixed broadband household penetration	%	40	50	70
-- City household penetration	%	55	65	—
-- Rural household penetration	%	20	30	—
--3G/LTE user penetration	%	25	32.5	85
3. Broadband network capabilities				
City broadband access capabilities	Mbps	20 (80%users)	20	50
-- Developed Cities	Mbps	—	100 (partially)	1000 (partially)
--Rural broadband access	Mbps	4 (85%users)	4	12
--Large enterprises access bandwidth	Mbps	—	>100	>1000
--International Internet bandwidth	Gbps	2,500	6,500	—
----FTTH Family coverage	100mn	1.3	2	3
--3G/LTE base(s) scale	10k	95	120	—
--% of administrative villages with broadband coverage	%	90	95	>98
--National cable TV network interconnection platform coverage	%	60	80	>95
4. Broadband information application				
Internet users	100mn	7	8.5	11
--Where: rural users	100mn	1.8	2	—
Internet data (pages total bytes)	TB	7,800	15,000	—
E-commerce transactions	RMB tn	10	18	—

Source(s): CNNIC, ABCI Securities

China's "income-doubling" plan to enhance spending on the internet

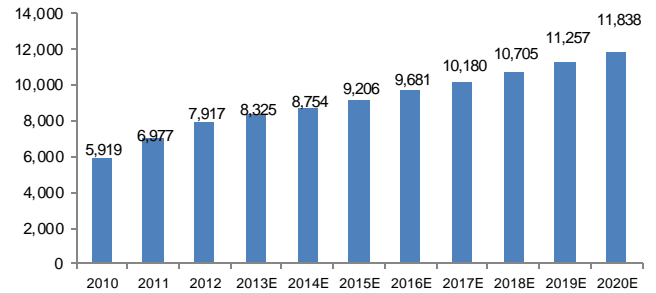
While China's per capita GDP and per capita income are still at low levels, the government has established the goal to double the per capita income from the level in 2010 by 2020. We believe increased spending power of consumers will boost e-commerce and other online purchases, benefiting the internet sector.

Exhibit: Per capita annual net income of urban household (RMB)



Source(s): WIND, ABCI Securities estimates

Exhibit: Per capita annual net income of rural household (RMB)



Source(s): WIND, ABCI Securities estimates

China's urbanization policy to help expand internet consumption patterns

We believe that the process of urbanization and the development of new urban centres in China will facilitate online consumption in the rural areas. With more and more rural population gathering and concentrating in new urban centres, the economies of scale of urban networks will also help boost internet economy, potentially creating huge demand via e-commerce, online games, online education, etc.

China's "Triple Play" policy create high growth potential for internet services

China's Triple Play, also known as the "integration of three networks", is an ambitious plan by the Chinese government to merge telecom networks, computer/Internet networks and cable TV networks into one platform.

China's State Council initiated the plan in 2010 by issuing an "official notice of pushing forward the overall planning of the triple play" (《关于印发推进三网融合总体方案的通知》) and "the official implementation of the Triple Play promotion program"(《推进三网融合的总体方案》). The Program stated that:

- **2010~2012 is a pilot phase with the tasks of :** 1) Promoting the merge of broadcasting and telecommunications services; 2) updating and improving the telecommunication networks, radio networks, and internet platforms; 3) facilitating formation of national cable TV networks, and creating competitive industrial structure;
- **2013-2015 is the promotion phase with the tasks of:** 1) summarizing the experiences of pilot experience; 2) promoting the Triple Play nationwide.

We believe that the integration of networks in China will play a positive role in the development of internet market. The integration will expand the scale of online video market. If the Chinese government further relaxes the regulation



to allow more private capital to invest in the traditional media industry, the network of VAS business of internet industry will expand further.

In addition, the issuance of 4G licenses is expected to bring forth a new stage for the mobile network, and MI video market will become a new focus in 2014. Companies in relevant business (such as online video production) will attract more attention from investors.



Opportunities in PCI/MI market

What are the major drivers for MI economy in 2014?

- The issuance of 4G licenses will drive faster and more product innovations
- Dotcom companies will increase investment in the MI business, accelerating the industry's monetization process
- Launch of new smartphones and technology will increase acceptance of MI lifestyle
- MI apps will become a global trend with more and more traditional businesses establishing their MI platforms, which will in turn accelerate monetization

Where are the opportunities for internet?

Though the MI economy will be expanding rapidly in our view, we believe that not all internet services would garner the same amount of attention from users.

Exhibit: Utilization of Chinese internet users on various internet applications

Application	2013		2012		YoY growth
	User base (10k)	Usage rate	User base (10k)	Usage rate	
IM	53,215	86.20%	46,775	82.90%	13.80%
News	49,132	79.60%	46,092	78.00%	6.60%
Search Engine	48,966	79.30%	45,110	80.00%	8.50%
Online music	45,312	73.40%	43,586	77.30%	4.00%
Blog / personal space	43,658	70.70%	37,299	66.10%	17.00%
Network Video	42,820	69.30%	37,183	65.90%	15.20%
Online games	33,803	54.70%	33,569	59.50%	0.70%
Online Shopping	30,189	48.90%	24,202	42.90%	24.70%
Micro-blog	28,078	45.50%	30,861	54.70%	-9.00%
Social networking sites	27,769	45.00%	27,505	48.80%	1.00%
Literature Network	27,441	44.40%	23,344	41.40%	17.60%
Online Payment	26,020	42.10%	22,065	39.10%	17.90%
E-mail	25,921	42.00%	25,080	44.50%	3.40%
Online Banking	25,006	40.50%	22,148	39.30%	12.90%
Travel Reservations	18,077	29.30%	11,167	19.80%	61.90%
Group Buying	14,067	22.80%	8,327	14.80%	68.90%
Forum / bbs	12,046	19.50%	14,925	26.50%	-19.30%

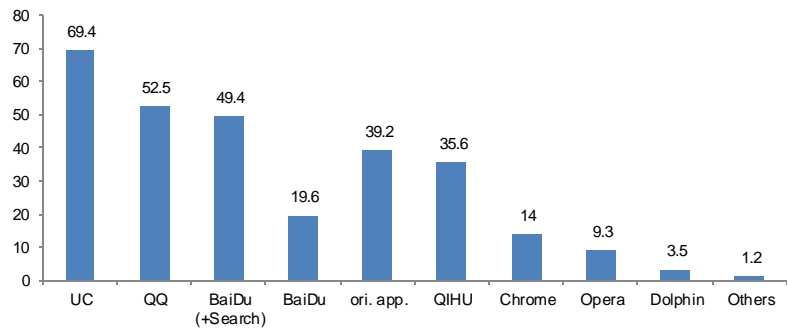
Source(s): CNNIC, ABCI Securities

1. Main mobile portal players

For PC internet, Internet Explorer (IE) and Google Chrome are the major web portals. For MI, the web portal varies E.g., mobile phone internet browsers, mobile application stores, instant message platforms (WeChat, WhatsApp, LINE etc.), and even the smartphone desktop can be set as the MI entrance. So far, there has been no clear winner.

In China, the MI segment is still relatively fragmented. While web portals such as UC, QQ, Baidu, and 360 are highly popular, none emerges as the dominant leader at this stage.

UC is an MI browser produced by UC Mobile Ltd. UC gained its high penetration rate due to its cooperation with China Mobile (0941 HK), which installs UC before selling the smartphone to users. However, users are freely to change to other MI browsers such as QQ and Baidu.

Exhibit: MI browsers brand and their market penetration in China (As of Oct 2013)


Source(s): CNNIC, ABCI Securities

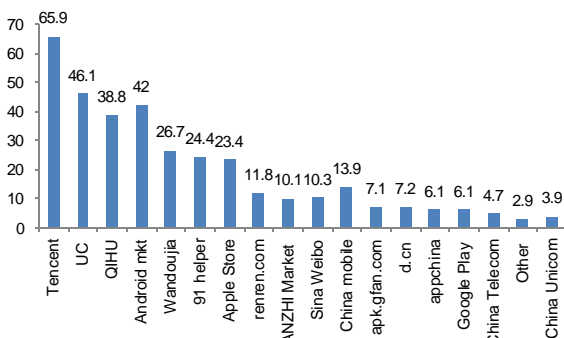
Compared with other MI web portals, WeChat is more promising because it integrates communications, news, games, graphic transfer, online payment and other functions into one platform. The most important is that it can transfer its huge user base to the MI business. Now Tencent is extending this advantage to e-commerce, online ad. and news to the MI sector. Tencent's WeChat V5.1, Tencent has outperformed major competitor such as WhatsApp, which is a pure IM platform. The latest WeChat is a comprehensive platform containing multiple distribution centers (micro-blog, instant messenger QQ, and Taobao (淘宝)), which will enhance its competitiveness as a web portal.

2. Companies with good products for internet applications

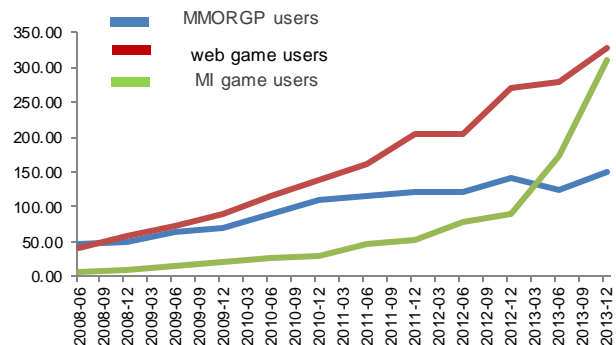
Promising mobile games distribution centers and developers. Compared to massively multiplayer online role-playing games (MMORPG) and web games, mobile games, which are usually of short durations and can be immediately accessed, allow players the convenience to play at almost anytime and anywhere. Mobile games also enable more in-depth contact among different players.

Thanks to the growing popularity of smartphones and fast-developing high-speed mobile networks, mobile games can reach the regions/clients where a traditional PC games cannot reach. Although the MI game players are still at their initial stage with relatively few users compared with MMORPG and web games, the speed of growth has been astounding (see the following exhibit).

We believe powerful MI game centers, developers with strong relationship with powerful MI game centers and strong developing skills will attract more game players in the coming years.

Exhibit: download rate (% of online games platform)


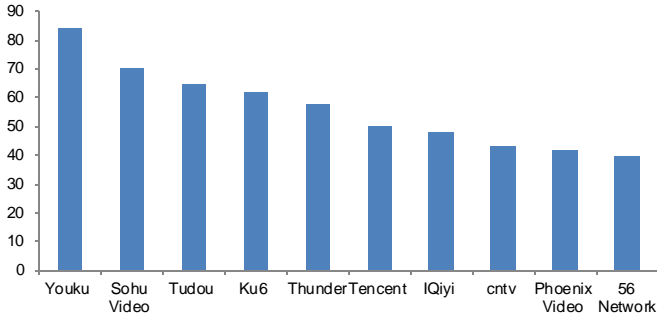
Source(s): WIND, ABCI securities

Exhibit: User base of MMORPG (mn) and web games (mn) compared with MI game users (10k)


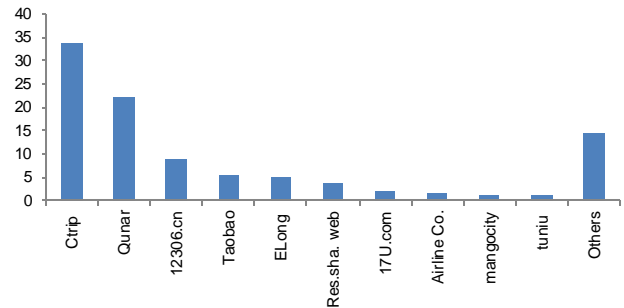
Source(s): WIND, ABCI securities

Online media / tourism / search engines

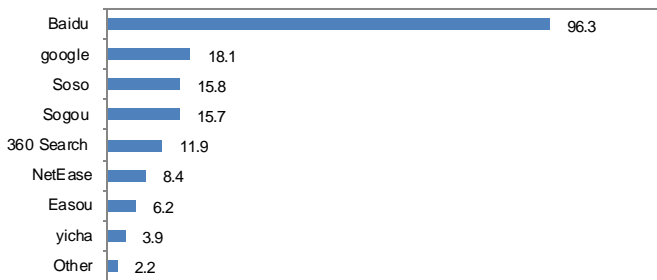
We believe an increasing number of people would utilize MI to search for online media products and tourism services, and use MI search engines as these products are essential to compensate for the weakness of PC internet.

Exhibit: Rank mark of major online media platforms (3Q13)


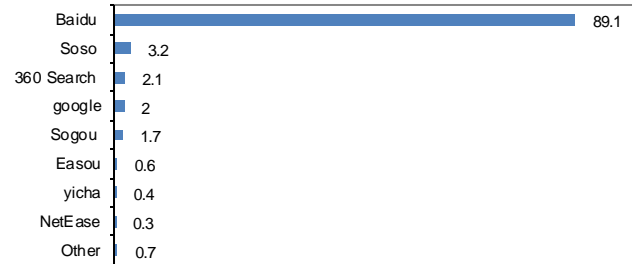
Source(s): ISC, ABCI Securities

Exhibit: Rank mark of major online tourism platforms (3Q13)


Source(s): ISC, ABCI Securities

Exhibit: Penetration rate (%) of MI search engines (3Q13)


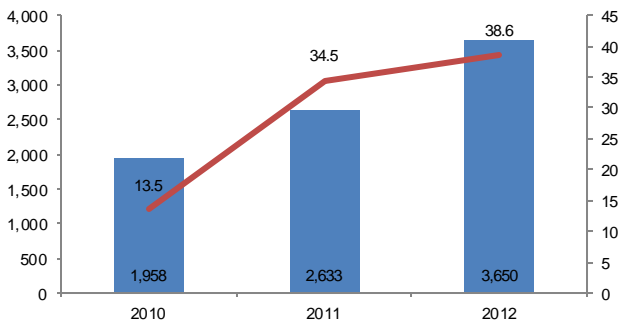
Source(s): ISC, ABCI Securities

Exhibit: Preference value of MI search engines (3Q13)


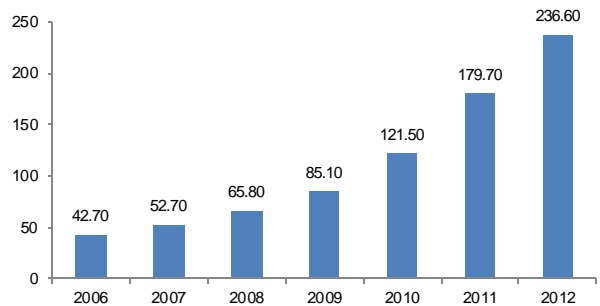
Source(s): ISC, ABCI Securities

Internet of Things (IoT) service companies

With the development of broadband and 4G services, data transfer over the network has become much easier. Accordingly, IoT companies will get more business opportunities for product innovation and service promotion. We believe development of related industry, such as Radio-frequency identification (RFID, defined as wireless non-contact use of radio-frequency electromagnetic fields to transfer data, for the purposes of automatically identifying and tracking tags attached to objects), will also be prompted.

Exhibit: IoT market value (RMB,100mn) and growth rate (%)


Source(s): WIND, ABCI securities

Exhibit: China's RFID market value (RMB, 100mn)


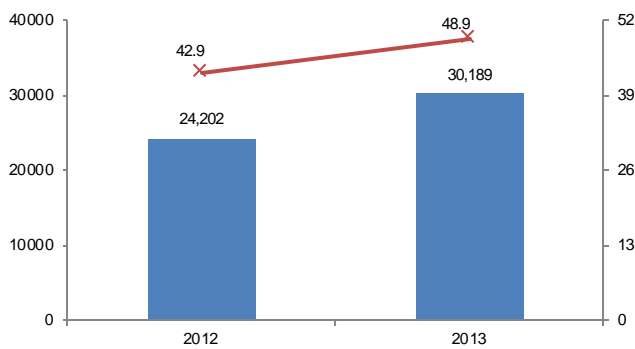
Source(s): WIND, ABCI securities

3. E-commerce companies with strong MI potential

O2O and C2B gained more attention in 2013. More people (+22.5ppts YoY) are using the internet to search for commodities and purchased goods offline. Meanwhile, the proportion of cases in which no purchase was made after searching online dropped significantly from 8.3% in 2012 to 1.6% in 2013.

According to CNNIC, e-commerce users increase from 242.02mn in 2012 to 301.89mn in 2013, and the usage rate of e-commerce services rose from 42.9% to 48.9% during the same period. Though e-commerce has witnessed significant growth in China, it only accounts for a small proportion of total retail sales. We expect the segment to expand in the coming years.

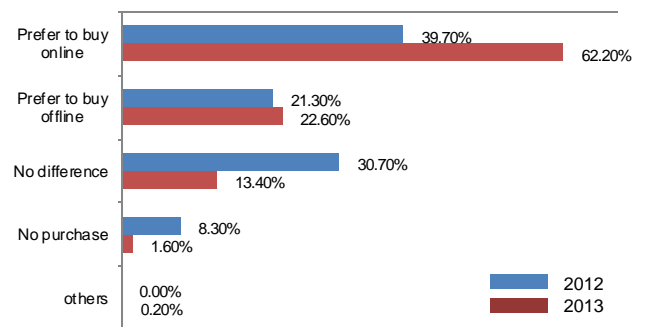
Exhibit: E-commerce users (10K) and the usage rate* (%)



*Usage rate is defined as the proportion of e-commerce users among internet

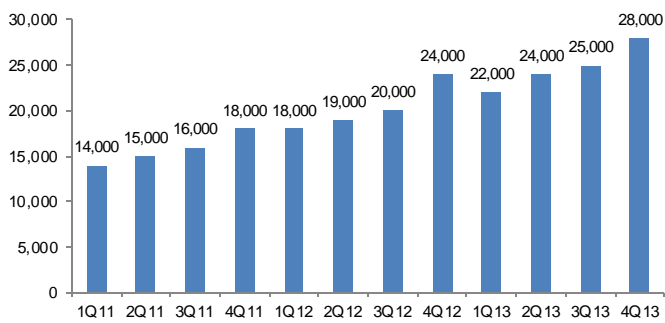
Source(s): CNNIC, ABCI Securities

Exhibit: Preference of online purchase (2012 vs. 2013)



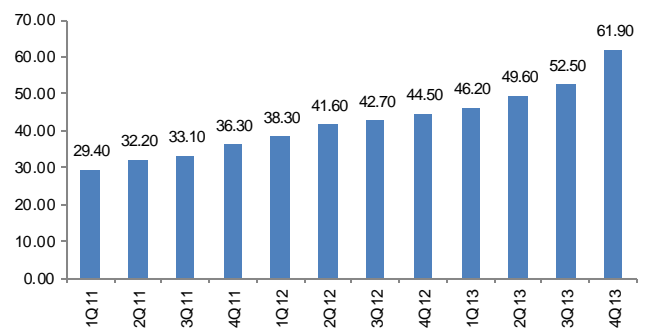
Source(s): CNNIC, ABCI Securities

Exhibit: E-commerce market value (Quarterly, RMB mn)



Source(s): WIND, ABCI Securities

Exhibit: B2B market turnover (Quarterly, RMB mn)



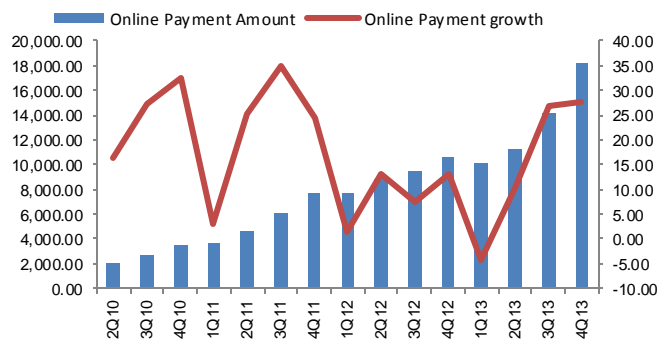
Source(s): WIND, ABCI Securities

4. Mobile payment and online financial services

Driven by huge e-commerce demand and technological advancement, mobile payment will become the bright spot in the coming years. Using Hong Kong as an example, from 2001 to 2012, the proportion of internet users conducting financial transactions and shopping online jumped from 14.5% to 44.5% - a significant increase of 30 ppts. Currently, Tencent and Alibaba are the two key mobile payment service providers in China. However, we predict more competitors will enter the field in the future.

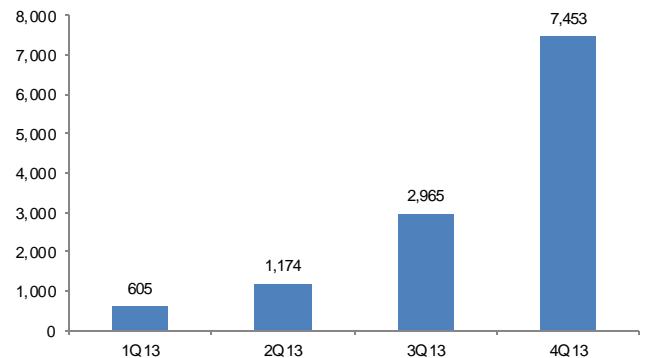
In addition, we also predict more competition may occur in the online financial services. In 2013, Alibaba, Tencent and Baidu have entered the online financial services sector. However, policy uncertainty will be a major concern for its development. Though government has expressed a more relaxed attitude by allowing private firms to enter the banking business and lowering the entry barriers for the traditionally SOE-controlled markets, policy risks still exist, especially when the government is taking measures to rein in the shadow banking system. However, we believe internet giants with strong cash-generating capability will be less affected should relevant regulations on the sector tighten.

Exhibit: Third-party online payment amount (quarterly, RMB mn) and growth (QoQ, %)



Source(s): WIND, ABCI securities

Exhibit: Third-party MI payment amount (quarterly, RMB mn) in 2013



Source(s): WIND, ABCI securities



Sector Weight and Stock Pick

Overweight sector outlook

We expect MI to drive growth in the internet and media sector by expanding the internet user base and deepening overall internet penetration. Moreover, MI has the potential to generate higher internet demand than PC internet due to its convenience, increased penetration of mobile devices and growing use of mobile-based web functions (e.g. social networking). All these will drive the sector's revenue growth in the near future.

Stock Picks

Recommend Tencent (700 HK; BUY; TP: HK\$610). We favor Tencent as it has the largest online community in China and its dominant position in the China's internet market. With its huge user base in QQ/WeChat, Tencent is also becoming one of the top MI game distributors and will continue to be one of China's web oligarchs in 2014-15. Besides, we expected its e-commerce business to generate substantial profits in the next two years.



Peer Comparison (As of Jan. 28, 2014)

Ticker	Name Ini.	Price	Mkt_Cap	14E P/E	15E P/E	14E PEG	15E PEG	14E EPS	15E EPS
HK Internet, HK\$									
700 HK Equity-ABCI	Tencent	503.00	936,642	32.54	21.94	0.76	0.45	11.98	17.77
700 HK Equity	Tencent	503.00	936,642	43.78	34.23	1.66	1.30	8.96	11.46
3888 HK Equity	Kingsoft	24.75	29,255	35.01	27.72	1.32	1.05	0.55	0.70
268 HK Equity	Kingdee	2.89	7,345	54.94	30.44	NA	NA	0.04	0.07
1149 HK Equity	Anxin-China	2.08	6,261	8.60	6.54	NA	NA	0.24	0.32
8002 HK Equity	IGG	8.43	11,455	90.48	20.49	NA	NA	0.01	0.05
777 HK Equity	Netdragon	15.78	8,026	13.88	14.84	1.94	2.08	0.89	0.83
434 HK Equity	Boyaa	12.08	8,910	33.63	26.15	NA	NA	0.28	0.36
484 HK Equity	Forgame	55.95	7,046	N/A	12.78	NA	NA	(0.19)	3.41
3777 HK Equity	C FIBER OPTIC	1.73	2,521	5.74	4.73	NA	NA	0.24	0.29
8292 HK Equity	HC INTL	14.80	9,793	51.73	32.96	1.09	0.70	0.22	0.35
2383 HK Equity	Tom Group	2.70	10,512	N/A	NA	NA	NA	NA	NA
Average		-	-	37.53	21.09	1.50	1.28	-	-

Ticker		Price	Mkt Cap	14E P/E	15E P/E	14E PEG	15E PEG	14E EPS	15E EPS
China Internet listed in US, US\$									
SINA US Equity	Sina	71.84	4,787	76.75	34.99	2.04	0.93	0.94	2.05
SOHU US Equity	Sohu	73.73	2,822	60.68	39.20	3.98	2.57	1.22	1.88
NTES US Equity	Netease	76.26	9,966	13.44	12.02	1.01	0.90	5.67	6.34
BIDU US Equity	Baidu	164.24	57,474	31.90	24.85	1.47	1.15	31.15	39.99
QIHU US Equity	Qihoo 360 Tec	94.38	11,587	70.80	44.79	1.46	0.92	1.33	2.11
CTRP US Equity	Ctrip	40.26	5,210	28.02	24.43	1.31	1.15	1.44	1.65
JOBS US Equity	51Job Inc	75.06	2,169	26.09	22.63	1.30	1.13	2.88	3.32
PWRD US Equity	Perfect World	19.41	955	12.13	9.69	1.08	0.86	9.69	12.12
YY US Equity	YY Inc	65.28	3,604	46.17	31.43	NA	NA	1.41	2.08
NQ US Equity	NQ Mobile	16.19	842	15.42	11.46	0.39	0.29	1.05	1.41
Average		-	-	38.14	25.55	1.56	1.10	-	-

Ticker		Price	Mkt Cap	14E P/E	15E P/E	14E PEG	15E PEG	14E EPS	15E EPS
Global Internet, US\$									
GOOG US Equity	Google	1123.01	375,184	25.45	21.50	1.38	1.17	44.13	52.24
FB US Equity	Face Book	55.14	140,067	66.12	49.10	2.25	1.67	0.83	1.12
YHOO US Equity	Yahoo	38.22	38,772	23.08	20.19	NA	NA	1.66	1.89
Amzn US Equity	Amazon	394.43	180,544	140.37	82.62	3.78	2.22	2.81	4.77
Ebay US Equity	Ebay	53.16	68,821	17.80	15.74	1.21	1.07	2.99	3.38
AOL US Equity	American Online	48.80	3,829	24.21	20.55	1.70	1.44	2.02	2.38
LNKD US Equity	LinkedIn	212.69	25,396	131.94	95.42	2.57	1.86	1.61	2.23
GRPN US Equity	Groupon	10.52	7,170	114.35	42.42	3.05	1.13	0.09	0.25
YNDX US Equity	Yandex	37.68	12,278	33.81	26.88	NA	NA	38.78	48.76
Average		-	-	64.12	41.60	2.28	1.51	-	-

Source(s): Bloomberg, ABCI Securities



Appendix I: Chinese internet and media companies

Numerous Chinese internet and media companies are listed in Hong Kong and US. The following is an overview of their corporate information and business scope:

1. Tencent (0700 HK)

Company Information: Tencent Holdings Limited is an investment holding company. The Company and its subsidiaries are principally engaged in the provision of Internet value-added services (VAS), mobile and telecommunications value added services and online advertising services to users in the People's Republic of China (PRC).

Its main business segments: PC internet VAS; mobile and telecommunications VAS; online advertising, and others. Other segments of the Company primarily comprise provision of online payments and trademark licensing. Its subsidiaries include Tencent Computer, Tencent Technology, Shiji Kaixuan, Tencent Cyber (Tianjin) Company Limited, Tencent Asset Management Limited, Tencent Technology (Beijing) Company Limited, Shenzhen Tenpay Technology Limited and Nanjing Wang Dian Technology Company.

Business Scope: The group is principally engaged in the provision of Internet value-added services, mobile and telecommunications value-added services, online advertising services and e-Commerce transactions services to users in the PRC.

Financial Summary:

	2010-12-31	2011-12-31	2012-12-31
EPS- Basic, RMB	4.43	5.61	6.97
YoY, %	54.86	26.56	24.18
BVPS, RMB	11.85	15.47	22.28
YoY, %	77.01	30.54	44.03
ROE, %	47.46	40.63	36.50
ROA, %	30.20	22.03	19.28
Revenue, RMB mn	19,675	28,531	43,894
YoY, %	58.16	45.10	53.85
Operating Profit RMB mn	9,838	12,254	15,479
YoY, %	63.41	24.55	26.33
Profit Before Tax RMB mn	9,913	12,099	15,051
YoY, %	64.10	22.05	24.40
Net Income RMB mn	8,054	10,203	12,732
YoY, %	56.21	26.69	24.78
Total Assets RMB mn	35,830	56,804	75,256
YoY, %	104.68	58.54	32.48
Total Liabilities RMB mn	13,989	27,716	33,108
YoY, %	168.66	98.12	19.45
Equity of the firm RMB mn	21,757	28,464	41,298
YoY, %	78.65	30.83	45.09
Total Equity RMB mn	21,841	29,088	42,148
YoY, %	77.59	33.18	44.90

Source(s): WIND, Company



2. Kingsoft (3888 HK)

Company Information: Kingsoft Corporation Limited, as one of best-known software companies, is a leading software developer and Internet service provider in China. The Company and its subsidiaries is engaged in the business of research, development, operation and distribution of online games, mobile games and casual game services, and research, development, operation and distribution of Internet security, dictionary and office application software products. The Company operates in two business segments: Entertainment software segment and Application software segment. The Company's subsidiaries include Beijing Kingsoft Digital Entertainment Co., Ltd., Zhuhai Xishanju Software Co., Ltd., Dalian Kingsoft Interactive Entertainment Co., Ltd, Chengdu Kingsoft Digital Entertainment Co., Ltd., Chengdu Kingsoft Interactive Entertainment Co., Ltd. and Beijing Kingsoft Qijian Digital Technology Co., Ltd.

Business Scope: The group's main businesses include research, development, operation and distribution of online game, mobile game and casual game services; and internet security software, dictionary software and office application software products.

Financial Summary

	2010-12-31	2011-12-31	2012-12-31
EPS- Basic, RMB	0.34	0.29	0.38
YoY, %	(6.10)	(15.52)	31.15
BVPS	1.70	1.82	2.15
YoY, %	17.32	6.58	18.24
ROE, %	21.29	16.12	18.67
ROA, %	16.61	11.90	13.00
Revenue, RMB mn	973	1,025	1,416
YoY, %	(5.06)	5.39	38.15
Profit Before Tax RMB mn	440	385	528
YoY, %	(1.92)	(12.39)	37.02
Net Income RMB mn	372	325	433
YoY, %	(3.81)	(12.82)	33.22
Total Assets RMB mn	2,445	3,015	3,641
YoY, %	19.79	23.30	20.79
Total Liabilities RMB mn	511	801	966
YoY, %	16.99	56.91	20.58
Equity of the firm RMB mn	1,910	2,120	2,515
YoY, %	20.22	10.99	18.63
Total Equity RMB mn	1,934	2,213	2,675
YoY, %	20.55	14.43	20.87

Source(s): WIND, Company



3. IGG (8002 HK)

Company Information: The company is a fast-growing global online games developer and operator with headquarters in Singapore and regional offices in the United States, China and the Philippines. The company offers multi-language browser games, client-based games and mobile games to players around the world. The company targets its games to mid-core and hard-core players who usually spend not less than one hour per day for game playing. In addition to its international presence, the company places most of its development personnel in China, which allows it to leverage its cost advantage and develop its games in a cost-effective manner.

Business Scope: The Group is principally engaged in development and operation of online games, especially the mobile games.

Financial Summary

	2011-12-31	2012-12-31
EPS- Basic, US\$	(0.02)	(0.03)
YoY, %	--	(52.12)
BVPS	--	--
YoY, %	--	--
ROE, %	--	(a)
ROA, %	--	(79.94)
Revenue, USD,000	31	43
YoY, %	--	39.26
Operating Profit, USD,mn	3	7
YoY, %	--	165.00
Profit Before Tax, USD,mn	(8)	(13)
YoY, %	--	(55.17)
Net Income, USD,mn	(9)	(13)
YoY, %	--	(54.60)
Total Assets,USD,mn	12	22
YoY, %	--	78.12
Total Liabilities,USD,mn	55	77
YoY, %	--	41.69
Equity of the firm,USD,mn	(43)	(56)
YoY, %	--	(31.33)
Total Equity ,USD,mn	(43)	(56)
YoY, %	--	(31.33)

Note (a): Negative equity in FY'11 & FY12 and net loss in FY11 & FY12.

Source(s): WIND , Company



4: Boyaa (0434 HK)

Company Information: Boyaa is an online card and board game developer and operator with a strong strategic focus on mobile games. We have established a leading position in the mobile card and board game segment in our largest target markets, namely, China, Hong Kong, Taiwan and Thailand since it launched its first mobile game, Texas Hold'em, on the iOS platform in September 2010. Currently, the company offers a total of 16 online games, 13 of which are card and board games based on long-lifespan classic card and board games.

Business Scope: The group is principally engaged in the development and operation of online card and board game.

Financial Summary

	2010-12-31	2011-12-31	2012-12-31
EPS- Basic, RMB	0.18	0.52	0.66
YoY, %	--	183.42	27.85
BVPS	--	--	--
YoY, %	--	--	--
ROE, %	--	80.80	62.58
ROA, %	--	51.79	39.20
Revenue, RMB mn	156	318	518
YoY, %	--	103.59	62.88
Operating Profit RMB mn	74	117	184
YoY, %	--	58.07	57.15
Profit Before Tax RMB mn	73	111	187
YoY, %	--	53.65	68.16
Net Income RMB mn	73	88	143
YoY, %	--	20.41	62.15
Total Assets RMB mn	86	254	475
YoY, %	--	193.68	87.16
Total Liabilities RMB mn	22	100	172
YoY, %	--	347.16	72.74
Equity of the firm RMB mn	64	154	302
YoY, %	--	140.21	96.52
Total Equity RMB mn	64	154	302
YoY, %	--	140.21	96.52

Source(s): WIND, Company



4. FORGAME (0484 HK) FORGAME

Company Information: Forgame is a leading developer and publisher of webgames in China with a fast-growing mobile game business. Established in 2009, Forgame has successfully developed and launched over 30 easy-to-access, highly engaging and popular games. Forgame's publishing platform, 91wan, published 79 self-developed and licensed webgames, and had attracted over 179 million registered players as of June 30, 2013. The games can be played on both 91wan, and through an extensive network of more than 350 publishing partners, including popular websites operated by Tencent, Qihoo360, YY and 4399. This integrated business model creates synergies that improve its overall performance. All games developed or published by the Group adopt an item-based revenue model, in which players have free access to games and can purchase virtual items that improve their in-game experience.

Business Scope: The group is engaged in the development and publishing of games.

Financial Summary

	2010-12-31	2011-12-31	2012-12-31
EPS- Basic, RMB	(0.40)	0.18	4.02
YoY, %	--	145	2133.33
BVPS	--	--	--
YoY, %	--	--	--
ROE, %	--	(a)	(a)
ROA, %	--	9.84	56.03
Revenue, RMB, RMB mn	95	384	777
YoY, %	--	303.89	102.25
Operating Profit, RMB mn	(40)	40	282
YoY, %	--	199.35	601.34
Profit Before Tax, RMB mn	(40)	41	261
YoY, %	--	200.25	544.67
Net Income, RMB mn	(40)	18	218
YoY, %	--	144.20	1119.21
Total Assets, RMB mn	108	255	522
YoY, %	--	135.68	104.86
Total Liabilities, RMB mn	128	159	659
YoY, %	--	24.83	313.37
Equity of the firm, RMB mn	(20)	95	(137)
YoY, %	--	588.79	(243.15)
Total Equity, RMB mn	(20)	95	(137)
YoY, %	--	588.79	(243.15)

Note (a): Negative equity in FY' 10 & FY12.

Source(s): WIND, Company



5. HC Intl (8292 HK)

Company Information: HC Intl is one of the leading e-commerce operators in the People's Republic of China. With its professional information services and advanced internet technologies, it has established a reliable demand and supply platform for small to medium enterprises (“SMEs”), and has been providing them with complete business solutions. With its professional experience and skills acquired from various industries over the past 20 years, the Group not only offers complete marketing solutions for SMEs through Mai-Mai-Tong, an internet technology based product, it also offers customers with multi-channel, all-dimensional online and off-line supplementary services through the Group's traditional marketing products, namely, “HC Trade Catalogues” and “HC Yellow Page Directory”. The Group successfully hosted Top 10 Enterprises Awards for around 50 industry sectors through the Group's strong media resources and customer base, which help SMEs to build up their brand names and enhance transactions. Such a complementary and multi-dimensional structure allows the Group to create a unique development path amid the rapid expansion of the B2B industry in China.

Business Scope: The group is mainly participated in the operation of on-line market place and provides industrial search result prioritising services through its business-to-business website hc360.com, publishes trade catalogues and yellow page directories.

Financial Summary

	2010-12-31	2011-12-31	2012-12-31
EPS- Basic, RMB	0.01	0.08	0.12
YoY, %	222.73	459.86	51.45
BVPS	0.37	0.50	0.62
YoY, %	(15.93)	35.16	23.33
ROE, %	3.51	18.20	21.58
ROA, %	1.68	7.68	9.03
Revenue, RMB, RMB mn	318	438	549
YoY, %	22.72	38.00	25.14
Operating Profit, RMB mn	(4)	33	64
YoY, %	(191.10)	964.46	94.51
Profit Before Tax, RMB mn	2	42	78
YoY, %	(93.81)	1745.26	86.17
Net Income, RMB mn	7	41	67
YoY, %	225.59	494.16	61.93
Total Assets, RMB mn	450	623	855
YoY, %	20.41	38.50	37.29
Total Liabilities, RMB mn	267	350	413
YoY, %	77.44	31.47	17.73
Equity of the firm, RMB mn	180	272	346
YoY, %	(15.81)	51.02	26.90
Total Equity, RMB mn	183	273	443
YoY, %	(17.95)	48.73	62.45

Source(s): WIND, Company



6. ANXIN-CHINA (1149 HK)

Company Information Anxin is one of the first enterprises in China to apply “Internet of Things” technology on security area. “Internet of Things” is combining information-sensing equipments, such as radio frequency identification, infrared sensor and global positioning system etc with internet, so that an object can be endowed with intelligence, of which can then help to realize the communication and dialogue between object and human as well as between object and object. Finally, the “Internet of Things” will be established to cover everything. Initial framework of standard system of “Internet of Things” in China has already been erected, according to 《National Mid-Term and Long-Term Science and Technology Development Plan(2006-2020)》, “Internet of Things” is already listed as the key research area. In the future, “Internet of Things” will cover many fields such as intelligent traffic system, environmental protection, government works, public and home safety, intelligent fire prevention system, industrial monitoring system and so on.

Business Scope The group is engaged in the research and development, installation and operation of Intelligent Surveillance, Disaster Alert & Rescue Coordination System (ISD) business in the PRC.

Financial Summary

	2010-12-31	2011-12-31	2012-12-31
EPS- Basic, RMB	0.16	0.16	0.20
YoY, %	115.08	-0.43	22.17
BVPS	0.72	0.96	1.21
YoY, %	109.60	32.59	25.70
ROE, %	26.44	19.82	18.31
ROA, %	16.26	18.32	16.28
Revenue, RMB, RMB mn	305	598	854
YoY, %	601.84	96.14	42.73
Operating Profit, RMB mn	194	365	482
YoY, %	649.07	87.71	32.04
Profit Before Tax, RMB mn	183	402	615
YoY, %	1204.64	119.82	52.82
Net Income, RMB mn	245	404	548
YoY, %	142.96	65.05	35.54
Total Assets, RMB mn	1,763	2,650	4,082
YoY, %	8.09	50.37	54.03
Total Liabilities, RMB mn	257	75	672
YoY, %	(67.38)	(70.95)	800.22
Equity of the firm, RMB mn	1,505	2,573	3,410
YoY, %	78.68	70.92	32.52
Total Equity, RMB mn	1,505	2,576	3,410
YoY, %	78.68	71.08	32.39

Source(s): WIND, Company



7. Baidu (BIDU US Equity)

Company Information Baidu.com, Inc. (Baidu), incorporated on January 2000, is a Chinese-language Internet search provider. The Company conducts its operations principally through Baidu Online Network Technology (Beijing) Co., Ltd. (Baidu Online), its wholly owned subsidiary in Beijing, the People's Republic of China. In addition, it conducts part of its operations through Baidu Netcom Science Technology Co., Ltd. (Baidu Netcom), which holds the licenses and approvals necessary to operate Baidu's Websites and provide online advertising services. In November 2007, Baidu established Baidu (Hong Kong) Limited (Baidu Hong Kong), a wholly owned subsidiary in Hong Kong, which became the sole shareholder of Baidu (China) Co., Ltd. (Baidu China) and Baidu.com Times Technology (Beijing) Co., Ltd. (Baidu Times). In February 2008, it assisted in establishing Beijing BaiduPay Science and Technology Co., Ltd. (BaiduPay), jointly owned by Baidu Netcom. BaiduPay will operate an online payment platform. The Company has a British Virgin Islands intermediate holding company, Baidu Holdings, which does not own any assets or conduct any operations other than holding the equity interests in Baidu Online, Baidu, Inc. (Baidu Japan) and Baidu Hong Kong.

Business Scope The group offers a Chinese-language search platform, which consists of its Websites and certain online application software, as well as Baidu Union, which is its network of third-party Websites and software applications. It provides Chinese language Internet search services to enable users to find information online, including Web pages, news, images and multimedia files, through links provided on its Websites. It also offers online community-based products and entertainment platforms, such as Baidu Post Bar, Baidu Knows and Baidu Space.

Financial Summary

	2010-12-31	2011-12-31	2012-12-31
EPS-Basic, RMB	101.28	190.27	298.62
YoY, %	135.75	87.87	56.95
BVPS	241.20	437.98	745.17
YoY, %	76.36	81.59	70.14
ROE, %	53.58	56.03	50.58
ROA, %	40.98	38.61	30.30
Revenue, RMB, RMB mn	7,915	14,501	22,306
YoY, %	77.96	83.20	53.83
Operating Profit, RMB mn	3,959	7,577	11,051
YoY, %	146.66	91.39	45.86
Profit Before Tax, RMB mn	4,061	7,809	11,965
YoY, %	141.29	92.29	53.22
Net Income, RMB mn	3,525	6,639	10,456
YoY, %	137.37	88.32	57.50
Total Assets, RMB mn	11,048	23,341	45,669
YoY, %	79.45	111.26	95.66
Total Liabilities, RMB mn	2,643	7,015	18,454
YoY, %	88.25	165.43	163.06
Equity of the firm, RMB mn	8,406	15,292	26,055
YoY, %	76.84	81.92	70.39
Total Equity, RMB mn	8,406	16,326	27,215
YoY, %	76.84	94.22	66.70

Source(s): WIND, Company



January 29, 2014
Company Report
Rating: BUY
TP: HK\$ 610

H-Share price (HK\$)	503
Est. share price return	21.27%
Est. dividend yield	0.44%
Est. total return	21.71%

Previous Rating & TP	BUY; 479
Previous Report Date	Oct. 15, 2013

Analyst: Mark Chen
Tel: (852) 2147 8819
Email: markchen@abci.com.hk

Key Data

52Wk H/L(HK\$)	536/237
Issued shares (mn)	1,862
Market cap (HK\$ mn)	936,586
3-mth avg daily turnover (HK\$ mn)	1916
Major shareholder(s) (%):	
Naspers Limited	34.02
Ma Huateng	10.2

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

VAS	76.68
Online advertising	7.69
e-Commerce transactions	14.72
Others	0.91
Total	100.00

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	4.10	9.62
3-mth	20.22	24.10
6-mth	43.88	43.37

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Tencent (0700 HK)
Market leader with e-commerce accelerated

- Aside from the increased fee-charging functions included in the latest version of WeChat, aggressive promotional campaigns in the U.S. and the launch of more MI games will accelerate monetization of Tencent's platform
- Strategic cooperation with logistics partners such as SF Express and investment in South China City will be beneficial to its e-commerce business
- We deem its present valuation of ~0.7x FY14E PEG as attractive and maintain BUY with revised TP at HK\$ 610, reflecting 0.9x FY14E PEG

MI platform (WeChat) promotion and monetization procedure accelerated. The Group initiated many fee-charging services in its MI (Mobile Internet) platform WeChat, i.e., sales of gaming tools and cartoon icons. Also, according to our sources, more game developers will be launching games through WeChat, which we expect will accelerate monetization. Tencent has also begun its strategic development in the U.S. market. E.g., WeChat users who log in through their Google accounts would receive a 25-dollar restaurant coupon after inviting 5 friends to join WeChat service. We believe these promotions would increase WeChat's penetration and brand exposure in U.S. market, enhancing WeChat's monetization potential in the near future.

E-commerce to benefit from cooperation with logistics partners. In Nov 2013, Tencent's e-commerce fleet Yixun announced a cooperation with SF Express (顺丰速递), one of China's premium express delivery solution providers. Our sources indicated that after the partnership, Yixun's service would increase from less than 100 cities in 15 provinces to over 300 cities in all provinces, covering an area with over 90% of China's GDP. Besides, about 80%-90% of orders handled by SF will be second-day deliveries; deliveries to remote regions (more than 1,000 km away from merchandise location) will arrive on the third day after transaction. In fact, Yixun is currently applying for an express business license that would allow the company to provide logistics and distribution services to other enterprises in the country.

In addition, Tencent has strategically invested in China South City (1668 HK), a leading developer and operator of large-scale, integrated logistics and trade centers in China in Jan 2014. We expect these steps would help expand Tencent's e-commerce business.

Maintain BUY with TP at HK\$ 610. We revise up Tencent's e-commerce revenue in FY14E to reflect the latest development. Considering its leading position, high ROE and fast-growing e-commerce business, we believe the counter's current valuation is still attractive. Maintain BUY with TP at HK\$ 610, reflecting 0.9x FY14E PEG.

Risk factors: 1) Regulatory risks concerning e-commerce; 2) Disappointing monetization from WeChat and increasing marketing cost; 3) Intensifying competition with domestic e-commerce companies; (4) Slowdown in PC gaming sector; (5) Declines in 2H13 profit growth on HoH basis; (6) High stock volatility in an overheating internet sector.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	28,496	43,894	64,742	102,376	147,730
Chg (% YoY)	45.05	54.03	47.50	58.13	44.30
Net Profit (RMB mn)	10,203	12,732	15,691	22,534	33,574
Chg (% YoY)	26.69	24.78	23.24	43.61	49.00
EPS (RMB)	5.49	6.83	8.40	11.98	17.77
Chg (% YoY)	26.85	24.46	22.88	42.72	48.32
BVPS (RMB)	15.32	22.16	28.92	39.11	54.00
Chg (% YoY)	29.22	44.72	30.50	35.23	38.06
P/E (x)	0.75	1.00	1.19	1.72	2.54
P/B (x)	-	57.06	46.44	32.54	21.94
DPS(RMB)	-	17.59	13.48	9.97	7.22
Yield (%)	-	0.26	0.30	0.44	0.65
ROE (%)	40.63	36.50	32.91	35.32	38.25
ROA (%)	17.96	16.92	17.24	19.15	22.11

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
IVAS	23,043	31,995	49,254	72,953	97,574
MVAS	3,271	3,723	0	0	0
Online advertising	1,992	3,382	5,919	10,358	17,609
e-Commerce transactions	0	4,428	8,856	17,711	30,109
Others	190	365	713	1,354	2,437
Revenues	28,496	43,894	64,742	102,376	147,730
Cost of revenues	(9,928)	(18,207)	(29,134)	(46,069)	(66,478)
Gross profit	18,568	25,686	35,608	56,307	81,251
SG&A	(7,204)	(10,759)	(17,480)	(30,109)	(41,907)
Other income and gains	(735)	(123)	(409)	(423)	(318)
Pre-tax profit	12,099	15,051	18,537	26,620	39,663
Income tax	(1,874)	(2,266)	(2,781)	(3,993)	(5,949)
Net profit	10,225	12,785	15,756	22,627	33,714
Profit attributable to:					
Minority interests	22	53	65	94	140
Equity holders of the Company	10,203	12,732	15,691	22,534	33,574
EPS (Basic), RMB	5.61	6.97	8.42	12.06	17.85
EPS, Diluted, RMB	5.49	6.83	8.40	11.98	17.77
DPS, RMB	0.75	1.00	1.19	1.72	2.54

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Fixed assets	5,885	7,403	10,703	13,830	17,043
Intangible assets	3,780	4,719	5,548	6,397	7,235
Interests in associates	4,433	7,310	5,872	6,591	6,231
Other non-current assets	7,203	19,315	19,898	22,737	20,532
Total non-current assets	21,301	38,747	42,020	49,555	51,042
Inventories		568	1,240	2,657	4,516
Accounts receivable	2,021	2,354	3,237	6,143	10,341
Prepayments, deposits and other assets	2,212	3,878	3,045	3,461	3,253
Cash and cash equivalents	12,612	13,383	23,957	38,941	65,496
Other current assets	18,659	16,326	17,492	16,909	17,201
Current Assets	35,503	36,509	48,971	68,111	100,807
Total assets	56,804	75,256	90,991	117,666	151,849
Accounts payable	2,244	4,212	6,474	10,238	13,296
Other payables and accruals	5,014	6,301	9,711	13,309	17,728
Borrowings	7,999	1,077	3,648	2,554	3,474
Current income tax liabilities	709	420	564	492	528
Deferred revenue	5,016	8,115	6,566	7,340	6,953
Other short-term liabilities	200	540	381	471	426
Total current liabilities	21,183	20,665	27,344	34,404	42,404
Borrowings		2,106	2,011	1,917	1,341
Long-term notes payable	3,733	7,517	4,035	4,186	2,520
Deferred income tax liabilities	940	1,312	1,126	1,219	1,172
Long-term payables	1,860	1,509	1,684	1,596	1,640
Total non-current liabilities	6,533	12,443	8,856	8,918	6,674
Total liabilities	27,716	33,108	36,200	43,322	49,078
Total equity	29,088	42,148	54,790	74,344	102,771
Non-controlling interests	625	851	738	794	766
Equity of the firm	28,464	41,298	54,053	73,549	102,005
BVPS, RMB	15.32	22.16	28.92	39.11	54.00

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit for the year	10,225	12,785	15,756	22,627	33,714
Adjustments for:					
Income tax expense	1,874	2,266	2,781	3,993	5,949
Dividend income	–	(407)	(407)	(407)	(407)
Depreciation of fixed assets and investment properties	1,208	1,880	1,544	1,712	1,628
Amortization of intangible assets	726	733	729	731	730
Interest income	(469)	(836)	(520)	(608)	(655)
Equity-settled share-based compensation expenses	733	905	1,500	2,241	3,328
Changes in working capital:					
Accounts receivable	(251)	(267)	(883)	(2,905)	(4,199)
Inventories	–	(301)	(672)	(1,417)	(1,860)
Prepayments, deposits and other receivables	(2,630)	(2,255)	833	(416)	208
Accounts payable	828	1,689	2,262	3,763	3,058
Other adjusted items	2,951	5,461	5,286	6,373	6,744
Net Cash generated from operating activities	15,194	21,654	28,209	35,687	48,240
Income tax paid	(1,836)	(2,225)	(2,730)	(3,920)	(5,841)
Net cash flows generated from operating activities	13,358	19,429	25,479	31,767	42,399
Cash flows from investing activities					
Payments for business combinations, net of cash acquired	(1,444)	(435)	(940)	(687)	(813)
Purchase fixed assets, construction in progress & investment properties	(4,060)	(3,657)	(3,858)	(3,758)	(3,808)
Payments for interests in associates	(3,529)	(3,668)	(3,598)	(3,633)	(3,616)
Purchase/prepayment of intangible assets	(788)	(869)	(829)	(849)	(839)
Receipt from maturity of term deposits with initial term of over 3 months	5,989	18,532	12,261	15,396	13,828
Interest received	415	626	520	573	547
Dividends received	20	440	230	335	282
Other adjusted items	(11,958)	(27,239)	(19,598)	(23,419)	(21,509)
Net cash flows used in investing activities	(15,355)	(16,270)	(15,812)	(16,041)	(15,927)
Cash flows from financing activities					
Proceeds from short-term borrowings	6,683	983	3,833	2,408	3,120
Proceed from long-term borrowings	0	2,215	1,108	1,661	1,385
Net proceed from issuance of long-term notes	3,761	3,768	3,764	3,766	3,765
Proceeds from issuance of ordinary shares	160	238	199	219	209
Dividends paid to the Company's shareholders	(838)	(1,108)	(973)	(1,040)	(1,007)
Other adjusted items	(5,392)	(8,483)	(6,937)	(7,710)	(7,324)
Net cash flows (used in)/generated from financing activities	4,373	(2,386)	994	(696)	149
Net increase in cash and cash equivalents	2,376	773	10,660	15,029	26,621
Cash and cash equivalents at beginning of the year	10,408	12,612	13,383	23,957	38,941
Exchange losses on cash and cash equivalents	(172)	(2)	(87)	(45)	(66)
Cash and cash equivalents at end of the year	12,612	13,383	23,957	38,941	65,496

Source(s): Company, ABCI Securities estimates

Financial ratio table (2011A-2015E)

FY Ended Dec 31	2011A	2012A	2013E	2014E	2015E
Gross Profit Margin, %	58.52	55.00	55.00	55.00	55.00
Operating Margin, %	43.00	35.27	28.89	26.25	27.04
Net Margin, %	35.81	29.01	24.24	22.01	22.73
ROE, %	40.63	36.50	32.91	35.32	38.25
ROA, %	17.96	16.92	17.24	19.15	22.11
Total Liability/Total Asset, %	48.79	43.99	39.78	36.82	32.32

Source(s): Company, ABCI Securities estimates



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Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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