

COMPANY NOTE

Target | Estimate Change

China | Technology | Internet

28 May 2015

Jefferies

Tian Ge (1980 HK) 1Q15 Result Review

Key Takeaway

1Q15 revenue and earnings beat consensus. Lower blended ARPU due to higher mobile user mix. Mobile contributed to 15% of total MAU in 1Q15, up from 8% in 1Q14. New verticals, such as O2O KTV and healthcare, are still at early stage. We keep FY15 revenue est. largely unchanged, revised up FY15 adj. net profit by 1.6%. Maintain Hold; raise PT by 19% to HKD6.3, based on 21.6x FY15 P/E, representing 9% downside to current price.

1Q15 revenue and earnings beat consensus. 1Q15 revenue was RMB185.5mn, +8.1% YoY, 0.8% above consensus. Excluding the effect from VAT, total revenue in 1Q15 would have increased 14.1%YoY. Adj. net income reached RMB75.1mn, +19.1% YoY, 3.2% above consensus, with a net margin of 40.5%, up 3.9pct QoQ and 3.7pct YoY.

Lower blended ARPU driven by mobile transition. MAU reached 16.4mn in 1Q15, +34.9% YoY. Mobile contributed to 15% of total MAU in 1Q15, up from 8% in 1Q14. Quarterly ARPU decreased 18.8% YoY to RMB225, due to an increase in paying mobile users who have lower ARPU than PC users. Quarterly paying ratio improved sequentially to 4.4% in 1Q15, compared to management's guided long-term target of 6-8%. Revenue from games and others was RMB20.9mn in 1Q15, +66.7% YoY, with MAU of 961K, +218.2% YoY.

New verticals still at early stage. Tian Ge has diversified its business into O2O KTV, healthcare and finance, which are expected to account for 50% of revenue in the future, according to management. We believe revenue contribution will be limited in the near term. Recently Tian Ge cooperated with MS Capital to set up Tian Ge Japan, which will provide live social entertainment to Japanese users, leveraging on Tian Ge's business model and MS's strong Japanese star network. We kept our FY15 revenue est. largely unchanged and revise up our FY15 adj. net profit est. by 1.6%.

Valuation/Risks

Maintain Hold; Raise PT by 19% to HKD6.3, based on 21.6x FY15 P/E, a 40.3% discount to China Internet average of 36.3x and 13.7% premium to YY's FY15 P/E of 19x, representing 9% downside to current price. Key risks include competition, uncertainties in transition to mobile and game launch execution, failure to effectively identify inappropriate content given tightened government monitoring and significant reliance on third party distributor.

RMB	Prev.	2014A	Prev.	2015E	Prev.	2016E	Prev.	2017E
Rev. (MM)	--	692.2	--	830.8	1,043.8	1,025.8	1,256.2	1,233.0
Operating Profit	--	243.7	268.7	278.4	326.9	320.1	424.2	415.7
Net Profit Non-GAAP	--	267.2	306.7	311.6	368.8	362.5	467.7	459.8
EPS Growth	--	NA	(3.6)%	(18.7)%	20.3%	16.3%	--	26.8%
Dividend	--	0.00	--	0.00	--	0.00	--	0.00
BV/Share	--	2.25	2.17	1.80	2.50	2.08	2.92	2.42
P/B	--	2.5x	--	3.1x	--	2.7x	--	2.3x
EPS								
FY Dec	--	0.29	0.28	0.23	0.33	0.27	0.42	0.35
FY P/E	--	19.1x	--	24.1x	--	20.5x	--	15.8x

HOLD

Price target HK\$6.30
(from HK\$5.30)
Price HK\$6.93

Bloomberg: 1980 HK
Reuters: 1980.HK

Financial Summary

Book Value (MM):	Rmb2,088.5
Book Value/Share:	Rmb2.25
Net Debt (MM):	(Rmb1,205)
Return on Avg. Equity:	26.7%
Cash & ST Invest. (MM):	HK\$1,520.0

Market Data

52 Week Range:	HK\$7.29 - HK\$3.07
Total Entprs. Value (MM):	HK\$7,243.2
Market Cap. (MM):	HK\$8,750.5
Shares Out. (MM):	1,262.7
Float (MM):	276.0
Avg. Daily Vol.:	7,068,173

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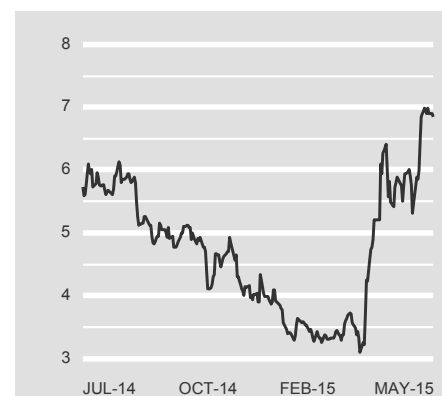
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Price Performance



Scenarios

Target Investment Thesis

- Organic revenue growth of 20%
- Slight adj. operating margin decline
- No acquisitions baked into projections
- Steady growth in MAU in 2014-16.
- Game pipeline accords with the guidance of management.
- 2015 Adj. EPS: RMB0.23; Target Multiple: 21.6x; Target Price HKD6.3

Upside Scenario

- Organic growth of at least 26% driven by robust demand for live social video platform revenue;
- Operating margin increases given higher operating leverage;
- Acquisitions to drive incremental earnings from 2014.
- Game pipeline remains robust with faster-than-expected monetisation.
- 2015 EPS: RMB0.25; Target Multiple: 23.6x; Target Price: HKD7.30

Downside Scenario

- Organic growth of 14%, largely lower than industry growth with market share loss
- Operating margin contraction due to higher selling and marketing cost
- Mobile game takes time to have meaningful earnings contribution given lower-than-expected user base
- 2015 EPS: RMB0.22; Target Multiple: 17.6x; Target Price: HKD4.80

Long Term Analysis

1 Year Forward P/E



Source: Bloomberg, Jefferies estimates

Long Term Financial Model Drivers

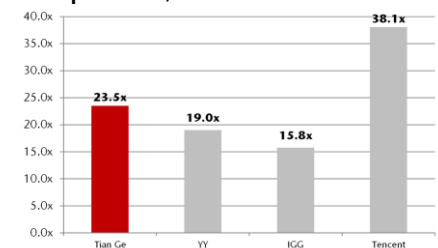
LT Earnings CAGR	19.8%
Organic Revenue Growth	21.2%
Acquisition Contribution	0%
Operating Margin Expansion	-1.5%

Other Considerations

20% of Tian Ge's IPO proceeds will be used for potential acquisition. We have not factored in its potential revenue and earnings contribution from M&As. Any M&As in the industry may boost Tian Ge's revenue and earnings, and provide upside to our earnings estimates.

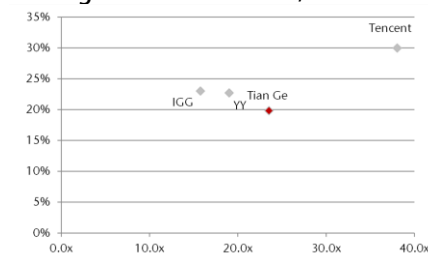
Peer Group

Group 2015 P/Es



Source: Bloomberg, Jefferies estimates

Earnings Growth vs 2015 P/E



Source: Bloomberg, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
Tian Ge	Hold	HKD6.30
Tencent	Buy	HKD185.00
YY	N.C.	N.C.
IGG	N.C.	N.C.

Catalysts

- Higher-than-expected ARPU achieved in its upcoming 2Q15 results;
- Six to eight new mobile game launches through 2015
- Potential M&As

Company Description

Tian Ge Interactive Holdings (Tian Ge) operates social-video platform in China. The company currently operates eight "many-to-many" live social video communities, including 9158 Video Community and Sina Show, its two primary communities, and one "one-to-many" community, Sina Show case. Tian Ge is also engaged in online mobile game through its Duoduo Game platform and its mobile game release of "Three Kingdoms".

1Q15 Results Review

Tian Ge reported 1Q15 results.

1Q15

1Q15 revenue was RMB185.5mn, +8.1% YoY.

- Revenue generated from live social video platform was RMB164.6mn in 1Q15, +3.8% YoY. Average MAU reached 16.4mn, 15% of which are mobile MAUs, and quarterly paying users reached 769K implying quarterly paying ratio of 4.4%.
- Revenue derived from mobile and online games was RMB20.9mn, +59.5% YoY with average MAU of 961K.

1Q15 gross profit reached RMB156.5mn, +8.4% YoY or 9% QoQ. Gross margin reached 84.3%, up 0.3pcpt YoY or 2.2pcpt QoQ.

Adj. operating profit (excl. other income) reached RMB76.2mn, up 13.2% YoY and 63.2% QoQ. Operating margin was 41.1% in 1Q15, +1.8pcpt YoY.

Adj. net profit reached RMB75.1mn in 1Q15, up 19.1% YoY.

Lower blended ARPU driven by mobile transition

MAU reached 16.4mn in 1Q15, +34.9% YoY. Mobile contributed to 15% of total MAU in 1Q15, up from 8% in 1Q14. Quarterly ARPU decreased 18.8% YoY to RMB225, due to increase in paying mobile users who have lower ARPU than PC users.

Its slower user migration from PC to mobile compared to YY was primarily due to the technological difficulty in displaying features of many-to-many platforms on mobile. Management indicated that mobile users have higher paying conversion ratio and paying frequency than PC users and will account for 50% of MAU in the long term.

Quarterly paying ratio improved sequentially to 4.4% in 1Q15, compared to management long-term target of 6-8%. Revenue from games and others was RMB20.9mn in 1Q15, +60% YoY, with MAU of 961K, +218.2% YoY. Tian Ge plans to launch one mobile game named "Warsong League" in 2Q15.

New verticals still at early stage

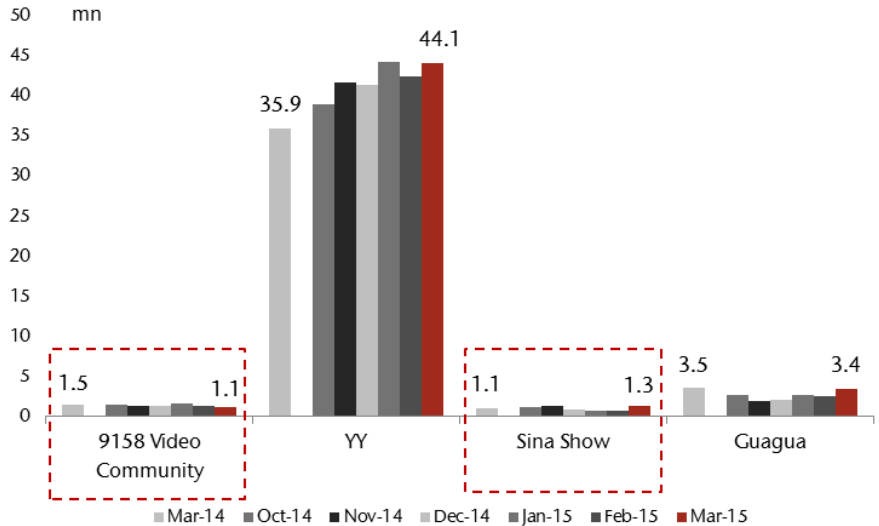
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Recently Tian Ge cooperated with MS Capital to set up Tian Ge Japan, which will provide live social entertainment to Japanese users, leveraging on Tian Ge's business model and MS's strong Japanese star network. We kept our FY15 revenue estimate largely unchanged and revised up FY15 adj. net profit est. by 1.6%.

Internet Operating Stats

Chart 1: Monthly Active Users of Major Live Video Community Software (PC Only)

According to iResearch data, MAUs of 9158 Video Community and Sina Show were 1.1mn and 1.3mn in Mar 2015, compared to 1.5mn and 1.1mn in Mar 2014, respectively.

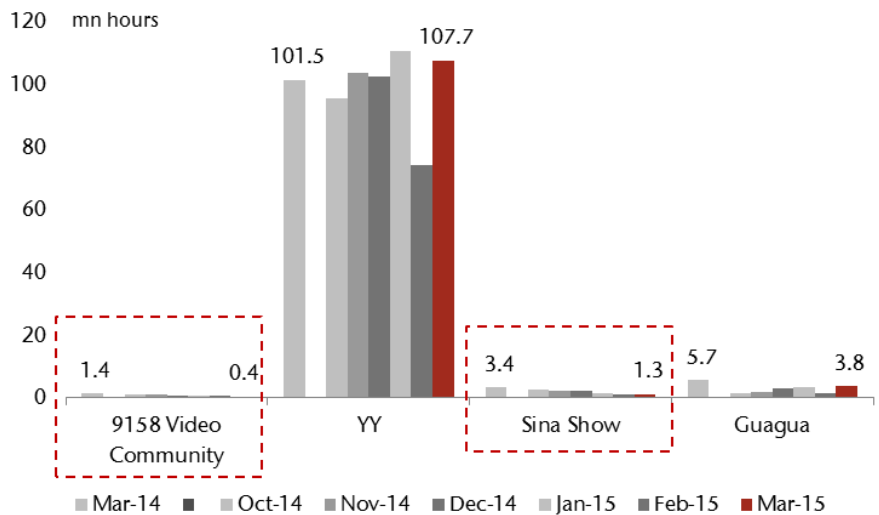


Source: iResearch as of Apr 2015, Jefferies.

Note: data does not include user activities on mobile devices.

Chart 2: Monthly Time Spent of Major Live Social Video Community Software (PC Only)

In Mar 2015, 9158 Video Community and Sina Show declined to 0.4mn and 1.3mn hours, down from 1.4mn and 3.4mn hours in Mar 2014.



Source: iResearch as of Apr 2015, Jefferies.

Note: data does not include user activities on mobile devices.

Quarterly and Full Year Forecast

2Q15

We forecast 2Q15 revenue of RMB199.1mn, +15.3% YoY and +7.3% QoQ.

We expect gross margin to be flattish QoQ or decline 0.2pcpt YoY to 84.3% in 2Q15. We expect adjusted operating margin to decline 8.2%pcpt QoQ to 32.8%, due to increased operating expenses to revenue ratio.

2Q15 adj. net profit is expected to reach RMB77.7mn, up 13.1% YoY and 3.4% QoQ.

FY15

We estimate FY15 total revenue of RMB830.8bn, up 20% YoY, 6% below consensus.

We expect gross margin to decline 0.3pcpt YoY to 84.5%, 1.8pcpt above consensus.

We expect adjusted operating margin to decrease 1.7pcpt YoY to 33.5%.

FY15 adj. net profit is expected to reach RMB311.6mn, up 16.6% YoY, based on our estimates, 0.8% below consensus.

Chart 3: Our Estimates vs. Consensus

						2Q15E			FY15E		
	1Q15E	2Q15E	3Q15E	4Q15E	2015E	Jefferies Estimate	Consensus May 21	Jefferies vs. Consensus	JEF Estimate	Consensus May 21	JEF vs. Consensus
Total Revenue (in RMB mn)	185.5	199.1	216.8	229.3	830.8	199.1	196.5	1.3%	830.8	884.0	-6.0%
QoQ % Change	6.1%	7.3%	8.9%	5.8%							
YoY % Change	8.1%	15.3%	25.3%	31.2%	20.0%						
Cost of revenue	29.1	31.2	33.3	35.1	128.7						
Gross profit	156.5	167.9	183.5	194.2	702.1	167.9	165.1	1.7%	702.1	730.9	-3.9%
QoQ % Change	9.0%	7.3%	9.3%	5.8%							
YoY % Change	8.4%	15.1%	19.9%	35.3%	19.6%						
Gross margin	84.3%	84.3%	84.6%	84.7%	84.5%	84.3%	84.0%	0.3%	84.5%	82.7%	1.8%
Selling and Marketing Expenses	48.9	63.7	69.4	73.4	255.3						
Administrative Expenses	27.5	32.9	34.7	34.4	129.4						
Research and Development Expenses	20.5	23.9	26.0	27.5	98.0						
Reported operating Profit	74.9	68.0	73.9	79.5	296.3	68.0	64.7	5.2%	296.3	276.0	7.4%
QoQ % Change	32.0%	-9.1%	8.7%	7.5%							
YoY % Change	23.3%	50.7%	52.5%	40.1%	40.4%						
Reported operating margin	40.4%	34.2%	34.1%	34.7%	35.7%	34.2%	32.9%	1.2%	35.7%	31.2%	4.4%
Adjusted operating Profit	76.2	65.4	67.5	69.2	278.4						
QoQ % Change	63.2%	-14.2%	3.2%	2.6%							
YoY % Change	13.2%	-6.3%	12.8%	48.1%	14.2%						
Adjusted operating margin	41.1%	32.8%	31.1%	30.2%	33.5%						
Net income before income tax	72.6	70.3	76.2	81.7	301.1						
Income Tax	(14.2)	(10.5)	(11.4)	(12.3)	(48.4)						
effective tax rate	19.5%	15.0%	15.0%	15.0%	16.1%						
Attributable Net Income	57.9	59.7	64.8	70.0	252.7	59.7			252.7		
QoQ % Change	25.2%	3.1%	8.4%	8.1%							
YoY % Change	109.4%	n.a.	214.7%	51.3%	n.a.						
Adj. Net Income	75.1	77.7	78.9	79.8	311.6	77.7	73.8	5.2%	311.6	314.0	-0.8%
QoQ % Change	17.6%	3.4%	1.5%	1.2%							
YoY % Change	19.1%	13.1%	10.1%	24.9%	16.6%						
Adjusted net margin	40.5%	39.0%	36.4%	34.8%	37.5%	39.0%	37.6%	1.4%	30.4%	35.5%	-5.1%
Adjusted EPS, diluted (RMB)	0.056	0.1	0.1	0.1	0.23	0.06	0.08	-27.1%	0.23	0.25	-7.8%
QoQ % Change	-2.4%	3.4%	1.5%	1.2%							
YoY % Change	-19.4%	-16.6%	9.7%	3.7%	-18.7%						

Source: Company data, Bloomberg, Jefferies

Chart 4: Quarterly Summary

	1Q14A	2Q14A	3Q14A	4Q14A	1Q15A	2Q15E	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
Total Revenue (in RMB mn)	171.6	172.6	173.1	174.8	185.5	199.1	216.8	229.3	231.4	244.3	266.5	283.7
QoQ % Change		0.6%	0.3%	1.0%	6.1%	7.3%	8.9%	5.8%	0.9%	5.6%	9.1%	6.5%
YoY % Change					8.1%	15.3%	25.3%	31.2%	24.7%	22.7%	22.9%	23.7%
Cost of revenue	27.3	26.7	20.0	31.3	29.1	31.2	33.3	35.1	36.1	39.0	43.6	46.4
Gross profit	144.3	145.9	153.1	143.5	156.5	167.9	183.5	194.2	195.3	205.2	222.9	237.3
QoQ % Change		1.1%	4.9%	-6.2%	9.0%	7.3%	9.3%	5.8%	0.6%	5.1%	8.6%	6.4%
YoY % Change					8.4%	15.1%	19.9%	35.3%	24.8%	22.2%	21.5%	22.2%
Gross margin	84.1%	84.5%	88.5%	82.1%	84.3%	84.3%	84.6%	84.7%	84.4%		83.6%	83.6%
Selling and Marketing Expenses	50.0	44.8	61.2	56.3	48.9	63.7	69.4	73.4	74.0	78.2	83.9	87.9
Administrative Expenses	24.4	45.2	36.8	29.6	27.5	32.9	34.7	34.4	33.5	34.2	36.0	36.9
Research and Development Expenses	15.1	18.8	23.0	29.1	20.5	23.9	26.0	27.5	25.5	26.9	29.3	31.2
Reported operating Profit	60.7	45.1	48.5	56.7	74.9	68.0	73.9	79.5	85.5	89.3	96.9	104.5
QoQ % Change		-25.7%	7.5%	17.0%	32.0%	-9.1%	8.7%	7.5%	7.6%	4.4%	8.6%	7.8%
YoY % Change					23.3%	50.7%	52.5%	40.1%	14.2%	31.2%	31.1%	31.5%
Reported operating margin	35.4%	26.1%	28.0%	32.5%	40.4%	34.2%	34.1%	34.7%	37.0%	36.5%	36.4%	36.8%
Adjusted operating Profit	67.4	69.8	59.8	46.7	76.2	65.4	67.5	69.2	70.6	74.8	83.3	91.4
QoQ % Change		3.6%	-14.2%	-21.9%	63.2%	-14.2%	3.2%	2.6%	2.0%	6.0%	11.3%	9.8%
YoY % Change					13.2%	-6.3%	12.8%	48.1%	-7.4%	14.4%	23.4%	32.1%
Adjusted operating margin	39.3%	40.4%	34.6%	26.7%	41.1%	32.8%	31.1%	30.2%	30.5%	30.6%	31.2%	32.2%
Net income before income tax	38.3	(191.7)	28.0	54.0	72.6	70.3	76.2	81.7	87.2	91.0	98.6	106.2
Income Tax	(10.8)	(9.9)	(7.2)	(8.3)	(14.2)	(10.5)	(11.4)	(12.3)	(13.1)	(13.6)	(14.8)	(15.9)
effective tax rate	28.3%	n.a.	25.6%	15.3%	19.5%	15.0%	15.0%	15.0%			15.0%	15.0%
Attributable Net Income	27.7	(202.0)	20.6	46.3	57.9	59.7	64.8	70.0	74.1	77.3	83.8	90.3
QoQ % Change		n.a.	n.a.	124.8%	25.2%	3.1%	8.4%	8.1%	5.9%	4.3%	8.4%	7.7%
YoY % Change					109.4%	n.a.	214.7%	51.3%	28.0%	29.4%	29.4%	28.9%
Adj. Net Income	63.1	68.6	71.6	63.9	75.1	77.7	78.9	79.8	82.5	86.1	93.4	100.5
QoQ % Change		8.9%	4.4%	-10.8%	17.6%	3.4%	1.5%	1.2%	3.4%	4.4%	8.5%	7.5%
YoY % Change					19.1%	13.1%	10.1%	24.9%	9.8%	10.9%	18.5%	25.9%
Adjusted net margin	36.7%	39.8%	41.4%	36.5%	40.5%	39.0%	36.4%	34.8%	35.6%	35.3%	35.1%	35.4%
Adjusted EPS, diluted (RMB)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
QoQ % Change		0.0%	-22.9%	7.0%	-2.4%	3.4%	1.5%	1.2%	3.4%	4.4%	8.5%	7.5%
YoY % Change					-19.4%	-16.6%	9.7%	3.7%	9.8%	10.9%	18.5%	25.9%

Source: Company data, Jefferies

Model Revision

2Q15

We slightly revised down our 2Q15 revenue estimate by 0.6% at RMB199.1mn, +15.3% YoY, with live social video platform revenue growing at 11% YoY and games/other revenue growing at 61.9% YoY.

We tweaked down gross margin estimate by 1.4pcpt to 84.3%, assuming 91.5% gross margin of live social video platform and 31.5% gross margin of game business. Adj. operating profit was lowered by 1.1% to RMB65.4mn, as we revised down gross margin, partially offset by a lower selling and marketing expense to sales ratio.

We revised up FY15 adjusted net profit by 1.8% to RMB77.7mn, +13.1% YoY.

FY15

We kept FY15 revenue estimate unchanged at RMB830.8mn and revised down game/other revenue by 5%, with 16% YoY growth in live social video platform revenue and 61.4% YoY growth in game other revenue.

We revised down gross margin by 1.1pcpt to 84.5%. And we revised down FY15 selling and marketing expense to sales ratio to 30.7%, +0.1pcpt YoY, and tweaked down R&D cost to sales ratio by 0.1pcpt to 11.8%, -0.6pcpt YoY.

We slightly raised our FY16 adjusted net profit estimate by 1.6% to RMB311.6mn, +16.6% YoY.

Chart 5: Model Revisions

	2Q15E	3Q15E	4Q15E	2015E	2016E
Revenue (in RMB mn)					
Old	200.3	217.2	230.8	830.8	1,043.8
YoY % change	16.1%	25.5%	32.0%	20.0%	25.6%
New	199.1	216.8	229.3	830.8	1,025.8
YoY % change	15.3%	25.3%	31.2%	20.0%	23.5%
Revision % Change	-0.6%	-0.2%	-0.6%	0.0%	-1.7%
Total live social video platform					
Old	175.4	190.2	201.4	726.3	887.3
New	175.4	190.2	201.4	731.6	887.4
YoY % change	11.0%	17.8%	31.8%	16.0%	21.3%
Revision % Change	0.0%	0.0%	0.0%	0.7%	0.0%
Games and others					
Old	25.0	27.1	29.4	104.4	156.4
New	23.7	26.7	27.9	99.2	138.4
YoY % change	61.9%	129.5%	26.5%	61.4%	39.5%
Revision % Change	-5.0%	-1.5%	-5.1%	-5.0%	-11.5%
Gross margin					
Old	85.5%	85.5%	85.4%	85.5%	84.0%
New	84.3%	84.6%	84.7%	84.5%	83.9%
YoY % change	-0.2%	-3.8%	2.6%	-0.3%	-0.7%
Revision % Change	-1.4%	-1.1%	-0.8%	-1.1%	-0.1%
Adjusted Operating profit (in RMB mn)					
Old	66.2	67.4	68.9	268.7	326.9
New	65.4	67.5	69.2	278.4	320.1
YoY % change	-6.3%	12.8%	48.1%	14.2%	15.0%
Revision % Change	-1.1%	0.1%	0.5%	3.6%	-2.1%
Selling and marketing expense to sales ratio					
Old	33.0%	33.0%	33.0%	32.5%	31.6%
New	32.0%	32.0%	32.0%	30.7%	31.6%
YoY % change	6.0%	-3.4%	-0.2%	0.1%	0.9%
Revision % Change	-1.0%	-1.0%	-1.0%	-1.7%	0.0%
Research and development expense to sales ratio					
Old	12.0%	12.0%	12.0%	11.9%	11.0%
New	12.0%	12.0%	12.0%	11.8%	11.0%
YoY % change	1.1%	-1.3%	-4.6%	-0.6%	-0.8%
Revision % Change	0.0%	0.0%	0.0%	-0.1%	0.0%
Net profit (in RMB mn)					
Old	58.3	62.6	67.1	247.7	331.2
YoY % change	n.m.	204.3%	45.0%	n.m.	33.7%
New	59.7	64.8	70.0	252.7	325.5
YoY % change	n.m.	214.7%	51.3%	n.m.	28.8%
Revision % Change	2.5%	3.4%	4.4%	2.0%	-1.7%
Earnings per share diluted (in RMB)					
Old	0.05	0.06	0.06	0.22	0.30
New	0.04	0.05	0.05	0.19	0.24
YoY % change	n.m.	204.1%	25.7%	n.m.	28.8%
Revision % Change	-14.8%	-14.1%	-13.3%	-15.3%	-18.4%
Adjusted net profit (in RMB mn)					
Old	76.3	76.8	77.5	306.7	368.8
YoY % Change	11.1%	7.1%	21.3%	14.8%	20.3%
New	77.7	78.9	79.8	311.6	362.5
YoY % change	13.1%	10.1%	24.9%	16.6%	16.3%
Revision % Change	1.8%	2.7%	3.0%	1.6%	-1.7%
Adjusted EPS, diluted (in RMB)					
Old	0.07	0.07	0.07	0.28	0.33
YoY % Change	-1.4%	28.6%	21.3%	-3.6%	20.3%
New	0.06	0.06	0.06	0.23	0.27
YoY % change	-16.6%	9.7%	3.7%	-18.7%	16.3%
Revision % Change	-15.5%	-14.7%	-14.5%	-15.6%	-18.4%

Source: Company data, Jefferies

Chart 6: Key Assumptions

	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Revenue (In RMB mn)							
Live social video platform	370.5	437.1	528.4	630.7	731.6	887.4	1,053.6
YoY % change		18.0%	20.9%	19.4%	16.0%	21.3%	18.7%
As % of total revenue	96.4%	95.9%	96.4%	91.1%	88.1%	86.5%	85.4%
Many-to-many communities	366.7	424.5	510.5	610.6	709.7	860.6	478.6
YoY % change		15.8%	20.3%	19.6%	16.2%	21.3%	-44.4%
As % of live social video community revenue	99.0%	97.1%	96.6%	96.8%	97.0%	97.0%	94.6%
9158 Video Community	152.2	166.4	193.8	242.4	285.3	345.3	185.9
YoY % change		9.3%	16.4%	25.1%	17.7%	21.0%	-46.2%
As % of live social video community revenue	41.1%	38.1%	36.7%	38.4%	39.0%	38.9%	36.3%
Sina Show	115.2	190.6	232.2	265.2	287.0	333.2	184.5
YoY % change		65.4%	21.8%	14.2%	8.2%	16.1%	-44.6%
As % of live social video community revenue	31.1%	43.6%	43.9%	42.0%	39.2%	37.5%	36.6%
Others many-to-many communities	99.2	67.5	84.6	103.0	137.4	182.1	108.1
YoY % change		-32.0%	25.4%	21.8%	33.3%	32.5%	-40.6%
As % of live social video community revenue	26.8%	15.4%	16.0%	16.3%	18.8%	20.5%	21.7%
One-to-many: Sina Showcase	3.8	12.6	17.9	103.4	21.8	26.8	19.1
YoY % change		232.5%	41.7%	478.1%	-78.9%	23.0%	-29.0%
As % of live social video community revenue	1.0%	2.9%	3.4%	16.4%	3.0%	3.0%	5.4%
Mobile and others	14.0	18.6	19.8	61.5	99.2	138.4	179.4
YoY % change		33.6%	6.3%	210.2%	61.4%	39.5%	29.6%
As % of total revenue	3.6%	4.1%	3.6%	8.9%	11.9%	13.5%	14.6%
Total Revenue (in RMB mn)	384.4	455.8	548.2	692.2	830.8	1,025.8	1,233.0
YoY % change		18.6%	20.3%	26.3%	20.0%	23.5%	20.2%
Costs (As % of sales)							
Cost of revenue as % of sales	12.5%	11.5%	12.4%	15.2%	15.5%	16.1%	16.7%
Selling and marketing expenses as % of sales	32.6%	37.2%	30.4%	30.7%	30.7%	31.6%	30.0%
Administrative expenses as % of sales	9.9%	9.7%	9.7%	19.6%	15.6%	13.7%	12.2%
Research and development expenses as % of sales	10.3%	12.4%	12.6%	12.4%	11.8%	11.0%	10.2%
Share-based compensation expenses	3.9	5.5	5.6	51.2	59.0	36.9	35.8
Gross profit	336.3	403.5	480.1	586.9	702.1	860.7	1,026.7
YoY % change		20.0%	19.0%	22.2%	19.6%	22.6%	19.3%
Adj. Operating profit (excl. other income, finan	137.3	138.3	203.6	243.7	278.4	320.1	415.7
YoY % change		0.7%	47.2%	19.7%	14.2%	15.0%	29.9%
Net Profit attributable to shareholders	(80.6)	(27.2)	(92.6)	(107.5)	252.7	325.5	424.0
YoY % change		n.a.	n.a.	n.a.	-335.1%	28.8%	30.2%
Earnings per Share, diluted (in RMB)	(2.37)	(0.43)	(0.14)	(0.12)	0.19	0.24	0.32
YoY % change		-82.0%	-66.2%	-19.9%	-263.9%	28.8%	30.2%
Adj. Net Profit	139.9	158.4	206.3	267.2	311.6	362.5	459.8
YoY % change		13.2%	30.2%	29.6%	16.6%	16.3%	26.8%
Adj. earnings per share, diluted (in RMB)	4.11	2.49	0.32	0.29	0.23	0.27	0.35
YoY % change		-39.6%	-87.0%	-10.6%	-18.7%	16.3%	26.8%
Adj. earnings per share, diluted (in HKD)	5.16	3.22	0.41	0.36	0.29	0.34	0.43
YoY % change		-37.7%	-87.4%	-10.7%	-19.8%	16.3%	26.8%
Net Cash (Net Debt)	306.6	433.4	395.2	1,205.0	1,556.9	1,920.4	2,356.9
Gross Margin	87.5%	88.5%	87.6%	84.8%	84.5%	83.9%	83.3%
Adj. Operating Margin (excl. other income, fina	35.7%	30.3%	37.1%	35.2%	33.5%	31.2%	33.7%
Net Profit Margin	-21.0%	-6.0%	-16.9%	-15.5%	30.4%	31.7%	34.4%
Adj. Net Profit Margin	36.4%	34.7%	37.6%	38.6%	37.5%	35.3%	37.3%

Source: Company data, Jefferies

Valuation

Maintain Hold. We raise our PT by 19% to HKD6.3, based on 21.6x FY15 P/E, a 40.3% discount to China Internet average of 36.3x and 13.7% premium to YY's FY15 P/E of 19x, representing 9% downside to current price. Key risks include competition, uncertainties in transition to mobile and game launch execution, failure to effectively identify inappropriate content given tightened government monitoring and significant reliance on third party distributor.

Chart 7: Tian Ge Forward PE Band



Source: Company data, Bloomberg, Jefferies

Chart 8: Valuation Comparison

Ticker	Company	FX	Last Close	Market Cap USD mn	PE			EV/Sales			Price to Sales			PEG			ROE			Rating	
					FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17		
BABA US	Alibaba	USD	93.3	229,911	33.6	26.5	21.5	14.5	10.7	8.3	14.9	11.4	9.4	1.4	1.0	0.9	14.9%	19.7%	20.1%	Buy	
JD US	JD.com	USD	34.9	48,214	n.a.	113.4	51.3	1.5	1.1	0.8	1.7	1.2	0.9	n.a.	n.a.	0.1	n.a.	1.5%	9.0%	Buy	
VIPS US	Vipshop	USD	25.4	14,709	43.7	28.2	20.7	2.1	1.4	1.0	2.2	1.5	1.2	0.6	0.5	0.6	58.6%	53.4%	45.4%	Buy	
JMEI US	Jumei	USD	25.4	3,635	52.8	31.3	20.0	2.9	2.0	1.3	3.4	2.5	1.7	1.2	0.7	0.5	14.3%	21.7%	25.4%	NC	
DANG US	Dangdang	USD	10.7	865	67.3	21.7	11.8	0.4	0.3	0.2	0.5	0.4	0.4	n.a.	n.a.	n.a.	13.8%	41.7%	47.7%	NC	
2280 HK	HC International	HKD	12.0	1,032	41.1	15.5	13.1	5.7	3.7	3.1	6.1	3.6	3.4	n.a.	0.1	0.7	8.8%	18.7%	18.3%	Hold	
China e-Commerce Average					47.7	39.4	23.1	4.5	3.2	2.5	4.8	3.4	2.8	1.1	0.6	0.6	22.1%	26.1%	27.7%		
700 HK	Tencent	HKD	158.8	192,037	38.1	28.5	22.5	11.5	8.9	6.9	12.1	9.4	7.3	1.4	0.8	0.9	26.5%	26.7%	25.0%	Buy	
3888 HK	Kingsoft	HKD	31.6	4,869	36.6	21.8	15.5	5.1	3.1	2.4	5.7	3.8	2.8	n.a.	n.a.	n.a.	13.6%	19.9%	25.2%	NC	
NTES US	Netease	USD	146.2	19,105	20.8	17.1	14.1	6.2	4.7	3.8	7.1	5.7	4.9	1.2	1.0	0.8	22.9%	22.4%	23.1%	NC	
PWRD US	Perfect world	USD	19.8	985	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	NC	
CYOU US	Changyou	USD	33.5	1,764	11.1	10.2	10.5	1.9	1.6	1.3	2.1	1.9	1.8	0.4	0.4	0.4	n.a.	14.8%	11.8%	NC	
777 HK	NetDragon	HKD	39.0	2,487	54.0	47.9	43.6	n.a.	n.a.	n.a.	14.1	11.8	9.7	n.a.	n.a.	n.a.	3.9%	4.3%	4.6%	NC	
434 HK	Boyaa	HKD	8.2	807	13.4	10.6	8.5	3.0	2.1	1.6	4.2	3.3	2.6	n.a.	n.a.	n.a.	20.2%	21.6%	21.8%	NC	
8002 HK	IGG	HKD	6.6	1,185	15.8	12.7	8.8	3.4	2.6	n.a.	4.4	3.7	3.0	0.3	0.2	0.2	33.9%	31.7%	37.9%	NC	
6899 HK	Ourgame	HKD	9.00	909	27.9	19.2	13.6	6.1	4.0	2.7	7.4	5.1	3.8	0.8	0.4	0.3	18.0%	20.9%	23.1%	Buy	
China Game Average					27.2	21.0	17.2	5.3	3.8	3.1	6.5	5.6	4.5	0.8	0.6	0.5	19.8%	20.3%	21.6%		
BABA US	Alibaba	USD	93.3	229,911	33.6	26.5	21.5	14.5	10.7	8.3	14.9	11.4	9.4	1.4	1.0	0.9	14.9%	19.7%	20.1%	Buy	
700 HK	Tencent	HKD	158.8	192,037	38.1	28.5	22.5	11.5	8.9	6.9	12.1	9.4	7.3	1.4	0.8	0.9	26.5%	26.7%	25.0%	Buy	
NTES US	Netease	USD	146.2	19,105	20.8	17.1	14.1	6.2	4.7	3.8	7.1	5.7	4.9	1.2	1.0	0.8	22.9%	22.4%	23.1%	NC	
SINA US	Sina	USD	43.7	2,550	76.2	26.5	18.2	1.4	1.2	1.0	3.2	2.9	2.7	n.a.	0.1	0.4	1.4%	3.8%	5.2%	Hold	
BIDU US	Baidu	USD	203.8	71,480	26.6	20.6	14.8	6.0	4.4	3.3	6.6	5.1	4.1	1.4	0.7	0.4	25.4%	25.6%	26.9%	Hold	
SOHU US	Sohu	USD	66.4	2,560	n.a.	65.5	19.9	1.0	0.8	0.6	1.3	1.1	0.9	n.a.	2.8	0.9	n.a.	n.a.	7.0%	NC	
RENN US	Renren	USD	3.7	2,018	n.a.	n.a.	154.2	17.4	12.0	15.6	27.2	18.9	24.8	n.a.	n.a.	7.7	-9.0%	-9.7%	-0.4%	NC	
YOKU US	Youku	USD	30.8	5,945	n.a.	n.a.	n.a.	5.6	4.2	3.4	6.1	4.5	3.5	n.a.	n.a.	n.a.	n.a.	-4.0%	-3.1%	NC	
QIHU US	Qihoo 360	USD	55.3	6,959	15.8	11.9	9.4	3.5	2.4	1.8	4.1	3.1	2.5	0.3	0.3	0.3	31.2%	29.8%	27.6%	Hold	
SFUN US	Soufun	USD	8.0	3,315	25.0	15.6	10.9	3.9	2.8	2.2	4.1	3.2	2.5	n.a.	n.a.	n.a.	18.7%	30.2%	30.0%	NC	
ATHM US	Autohome	USD	48.9	5,370	30.8	22.7	16.9	9.2	6.5	4.8	9.9	7.3	5.8	0.9	0.7	0.5	25.4%	27.5%	26.5%	NC	
BITA US	BitAuto	USD	65.0	3,907	68.0	25.3	15.5	4.3	3.0	2.3	6.0	4.3	3.5	4.0	1.5	0.9	9.9%	12.5%	16.8%	NC	
AMCN US	Air media	USD	6.1	370	n.a.	n.a.	25.3	1.3	1.2	1.0	1.6	1.5	1.3	n.a.	n.a.	n.a.	n.a.	-5.2%	5.3%	NC	
WUBA US	58.com	USD	79.1	9,140	n.a.	161.1	38.8	18.2	11.8	8.3	18.9	12.3	8.9	n.a.	n.a.	n.a.	-34.0%	17.9%	28.8%	NC	
CMCM US	Cheetah Mobile	USD	33.5	4,682	326.8	29.5	14.8	7.7	3.9	n.a.	8.2	4.4	3.0	2.9	0.3	0.1	21.6%	48.1%	38.2%	NC	
CTRP US	Ctrip	USD	84.6	11,452	93.0	41.4	27.0	6.9	4.9	3.4	6.7	4.9	3.8	2.0	0.9	0.6	5.2%	13.0%	20.2%	NC	
QUNR US	Qunar	USD	52.3	6,258	n.a.	n.a.	95.4	12.7	8.1	5.4	12.7	8.1	5.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	NC	
LONG US	Elong	USD	22.4	807	n.a.	n.a.	26.7	n.a.	n.a.	n.a.	4.5	3.3	3.5	n.a.	n.a.	0.6	-58.2%	n.a.	n.a.	NC	
2280 HK	HC International	HKD	12.0	1,032	41.1	15.5	13.1	5.7	3.7	3.1	6.1	3.6	3.4	n.a.	0.1	0.7	8.8%	18.7%	18.3%	Hold	
DANG US	Dangdang	USD	10.7	865	67.3	21.7	11.8	0.4	0.3	0.2	0.5	0.4	0.4	n.a.	n.a.	n.a.	13.8%	41.7%	47.7%	NC	
JD US	JD.com	USD	34.9	48,214	n.a.	113.4	51.3	1.5	1.1	0.8	1.7	1.2	0.9	n.a.	n.a.	0.1	n.a.	1.5%	9.0%	Buy	
VIPS US	Vipshop	USD	25.4	14,709	43.7	28.2	20.7	2.1	1.4	1.0	2.2	1.5	1.2	0.6	0.5	0.6	58.6%	53.4%	45.4%	Buy	
JMEI US	Jumei	USD	25.4	3,635	52.8	31.3	20.0	2.9	2.0	1.3	3.4	2.5	1.7	1.2	0.7	0.5	14.3%	21.7%	25.4%	NC	
VISN US	Vision China	USD	12.9	65	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	NC	
CCIH US	ChinaCache	USD	13.7	348	33.4	16.1	n.a.	n.a.	n.a.	n.a.	1.2	0.9	n.a.	n.a.	n.a.	n.a.	7.3%	13.2%	n.a.	NC	
EDU US	New oriental	USD	24.5	3,865	18.5	15.6	13.4	2.3	2.0	1.8	3.1	2.7	2.4	n.a.	0.9	0.8	19.6%	20.0%	19.2%	Hold	
1980 HK	Tian Ge	HKD	6.850	1,108	23.5	20.2	15.9	7.0	5.3	4.0	8.8	7.1	5.9	1.6	1.2	0.6	13.9%	14.0%	15.4%	Hold	
YY US	YY	USD	66.7	3,778	19.0	13.8	11.1	4.0	2.7	1.9	4.3	3.2	2.6	0.3	0.2	0.2	33.3%	33.4%	29.8%	NC	
JOBS US	S1job	USD	32.4	1,926	18.5	15.7	13.5	5.1	4.2	3.4	5.7	4.9	4.3	0.8	0.7	0.6	16.0%	16.5%	17.0%	NC	
Internet/New Media Avg (excl. P/E ratio >80, EV/S and P/S >15)					36.3	24.3	19.5	5.3	4.4	3.1	5.6	4.5	3.7	1.4	0.8	0.9	13.5%	20.9%	21.9%		
Internet overall (excl. P/E ratio >80, EV/S and P/S >15)					46.9	21.6	20.6	5.6	3.9	3.1	6.4	4.8	4.2	1.3	0.8	0.6		14.6%	20.6%	21.7%	

Source: Bloomberg, closing price as of May 26, 2015, Company data, Jefferies

Chart 9: Income Statement

RMB mn	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Total Revenue (in RMB mn)	384.4	455.8	548.2	692.2	830.8	1,025.8	1,233.0
<i>YoY % change</i>		18.6%	20.3%	26.3%	20.0%	23.5%	20.2%
Cost of revenue (in RMB mn)	48.2	52.3	68.1	105.3	128.7	165.1	206.3
Gross profit (in RMB mn)	336.3	403.5	480.1	586.9	702.1	860.7	1,026.7
<i>Gross margin</i>	87.5%	88.5%	87.6%	84.8%	84.5%	83.9%	83.3%
Selling and Marketing expenses	125.4	169.5	166.7	212.4	255.3	324.1	369.9
Administrative expenses	38.0	44.4	53.3	136.0	129.4	140.6	150.6
Research and Development expenses	39.4	56.7	69.1	86.0	98.0	112.8	126.2
Adj. Operating Profit (in RMB mn) - excl. other income	137.3	138.3	203.6	243.7	278.4	320.1	415.7
<i>YoY % change</i>		0.7%	47.2%	19.7%	14.2%	15.0%	29.9%
<i>Adj. Operating margin</i>	35.7%	30.3%	37.1%	35.2%	33.5%	31.2%	33.7%
Net Profit (in RMB mn)	(80.6)	(27.2)	(92.6)	(107.6)	252.7	325.5	424.0
<i>YoY % change</i>		n.a.	n.a.	n.a.	-334.8%	28.8%	30.2%
<i>Net profit margin</i>	-21.0%	-6.0%	-16.9%	-15.5%	30.4%	31.7%	34.4%
Non-controlling interest (in RMB mn)	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Net profit attributable to shareholders (in RMB mn)	-80.6	-27.2	-92.6	-107.5	252.7	325.5	424.0
<i>YoY % change</i>		n.a.	n.a.	n.a.	-335.1%	28.8%	30.2%
Adj. net profit (in RMB mn)	139.9	158.4	206.3	267.2	311.6	362.5	459.8
<i>YoY % change</i>		13.2%	30.2%	29.6%	16.6%	16.3%	26.8%
<i>Adj. net margin</i>	36.4%	34.7%	37.6%	38.6%	37.5%	35.3%	37.3%
EPS, basic (in RMB)	(2.37)	(0.43)	(0.14)	(0.12)	0.21	0.26	0.34
EPS, diluted (in RMB)	(2.37)	(0.43)	(0.14)	(0.12)	0.19	0.24	0.32
Non-GAAP EPS, basic (in RMB)	4.11	2.49	0.32	0.29	0.25	0.29	0.37
Non-GAAP EPS, diluted (in RMB)	4.11	2.49	0.32	0.29	0.23	0.27	0.35
Non-GAAP EPS, basic (in HKD)	5.16	3.22	0.41	0.36	0.31	0.37	0.46
Non-GAAP EPS, diluted (in HKD)	5.16	3.22	0.41	0.36	0.29	0.34	0.43
<i>YoY % change</i>		-37.69%	-87.37%	-10.66%	-19.83%	16.31%	26.84%
WA shares basic (mn)	34	64	640	928	1,232	1,232	1,232
WA shares diluted (mn)	34	64	640	928	1,331	1,331	1,331

Source: Company data, Jefferies

Chart 10: Balance Sheet

RMB mn	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Cash and cash equivalents	174.9	136.6	171.9	289.1	441.0	604.5	840.9
Available-for-sale financial assets	0.0	144.4	278.1	313.0	513.0	713.0	913.0
Restricted cash	0.0	0.0	33.0	0.0	0.0	0.0	0.0
Prepayments and other receivables	27.0	62.0	66.8	159.0	85.6	105.7	127.0
Trade receivables	10.4	10.5	20.8	14.0	16.9	20.8	25.0
Term deposits with initial term over 3 months	131.7	152.3	21.9	602.9	602.9	602.9	602.9
Total current asset	344.0	505.9	592.5	1,487.6	1,768.8	2,156.4	2,618.4
Property, plant and equipment, net	18.6	20.3	16.7	142.3	166.6	187.3	207.3
Intangible assets	8.6	7.2	5.9	49.0	10.6	3.2	1.9
Available-for-sale financial assets	2.0	2.0	2.3	26.8	26.8	26.8	26.8
Interest in an associate	0.0	0.0	4.9	3.9	3.9	3.9	3.9
Prepayments and other receivables	2.3	72.8	110.7	40.7	98.7	98.2	118.0
Deferred income tax assets	13.5	33.2	24.3	32.5	39.0	48.1	57.8
Restricted cash	0.0	0.0	87.0	0.0	0.0	0.0	0.0
Total non current asset	44.9	135.4	251.9	775.0	825.4	847.2	895.5
Total asset	389.0	641.3	844.4	2,262.6	2,594.2	3,003.6	3,513.9
Trade and payables	12.9	21.3	13.9	24.3	29.7	38.1	47.6
Other payables and accruals	63.4	125.8	114.6	52.5	63.0	77.9	93.6
Deferred revenue	16.4	30.8	24.0	44.0	37.4	46.2	55.5
Income tax liabilities	10.3	34.9	42.5	51.5	61.8	76.4	91.8
Total current-liabilities	103.0	212.8	299.7	172.4	191.9	238.4	288.4
Total non-current liabilities	421.3	356.0	628.3	1.8	2.1	2.6	3.1
Total Liabilities	524.3	568.9	928.0	174.1	194.0	241.0	291.5
Retained earnings	(172.3)	(200.3)	(294.0)	(421.1)	(109.4)	253.0	712.8
Reserves	37.0	272.7	205.4	2,504.0	2,504.0	2,504.0	2,504.0
Noncontrolling interests	0.0	0.0	4.9	4.8	4.8	4.8	4.8
Total shareholder's equity	(135.4)	72.4	(83.7)	2,088.5	2,400.1	2,762.6	3,222.3

Source: Company data, Jefferies

Chart 11: Cash Flow Statement

RMB mn	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Operating cash flow	182.1	222.9	198.3	270.7	392.0	412.9	501.5
Investing cash flow	(171.5)	(260.2)	(158.4)	(1,298.4)	(185.6)	(183.3)	(181.0)
Financing cash flow	50.8	6.2	15.6	1,179.8	0.0	0.0	0.0
Exchange effect	(0.1)	0.0	1.7	0.7	0.0	0.0	0.0
Change in cash	56.5	(38.3)	33.6	116.5	151.9	163.5	236.4
Cash beginning balance	118.6	174.9	136.6	171.9	289.1	441.0	604.5
Cash ending balance	174.9	136.6	171.9	289.1	441.0	604.5	840.9

Source: Company data, Jefferies

Company Description

Tian Ge Interactive Holdings Ltd. operates real-time video technologies that empower users to engage and interact with each other through video, voice, text and exchange of virtual items.

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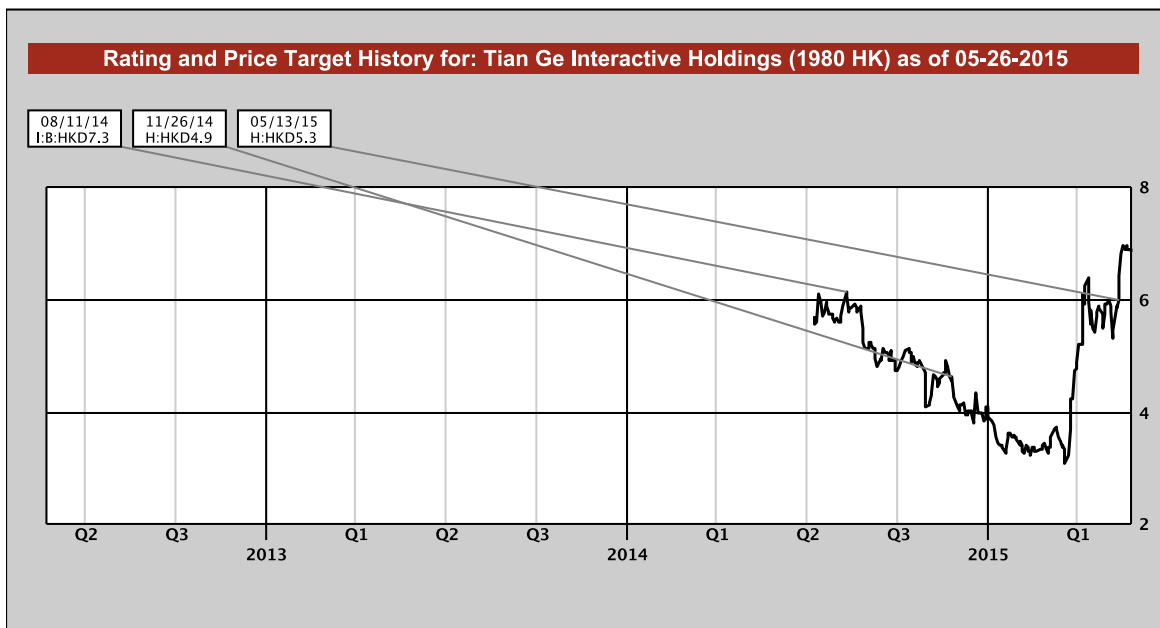
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- Qihoo 360 (QIHU: \$54.74, HOLD)
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- Tencent Holdings Ltd. (700 HK: HK\$157.90, BUY)
- Vipshop Holdings Limited (VIPS: \$26.54, BUY)



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			Count	Percent
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