

Company Report: Weibo Corporation (WB US)

Ricky Lai 黎柏坚

(852) 2509 2603

ricky.lai@gjas.com.hk

21 December 2017

Best Social Media Platform for Entertainment in China

中国最好的娱乐社交媒体

- **Weibo is the best entertainment social media platform in China.** In 3Q17, Weibo's revenue reached USD320.0 mn, up 80.9% yoy, above market expectation. Ad revenue reached USD276.8 mn, up 76.7% yoy. MAU reached 376 mn, up 27.0% yoy. ARPU reached USD0.9, up 42.1% yoy.
- **Key points: 1) currently, Weibo has the best entertainment news flow in China.** Weibo's entertainment flows have formed a large network which is attractive to young users. Fast increasing mobile video views have also driven more topics including film, TV drama and variety shows. Media companies have conducted CRM in Weibo. **2) Mutual interaction between users, Orange V and Blue V has formed valuable commercial relation chains.** The triangle relation chain among brands, Big V, and fans is strengthening. Weibo and Taobao have just established a new e-commerce fashion icon platform. **3) Short video streaming and live shows have been new drivers of Weibo's mobile traffic.** Short video flows could increase user time spent and could also insert high value video ad flows.
- **Initiate TP at USD138.0 and investment rating of "Buy".** However, Weibo has to face more competition from Toutiao.com. Our TP represents 49.9x 2018E non GAAP PE and 38.0x 2019E non GAAP PE, with PEG (16-19) of 1.1x.
- **微博是中国最大的娱乐社交媒体。**2017 第 3 季度，微博的收入达到了 320.0 百万美元，同比增长 80.9%，好于市场预期。广告收入达到 276.8 百万美元，同比增长 76.7%。月度活跃用户数达到 376 百万，同比增长 27.0%。ARPU 值达到了 0.9 美元，同比增长 42.1%。
- **要点：1) 目前微博拥有中国最好的娱乐新闻流。**微博的娱乐新闻流形成了一个大型的网络吸引年轻用户。移动视频的快速增长也直接拉动了微博的影视和综艺话题讨论量。媒体公司都在微博上进行产品宣传和客户关系管理。**2) 用户，橙 V，和蓝 V 之间的互动不断强化，形成了有价值的商业关系链。**品牌，大 V，粉丝的三角关系链正在不断强化。微博和淘宝也刚刚建立了新的网红电商平台。**3) 短视频流和直播是微博移动流量增长新动力。**短视频流能够增加用户时长，更能够容纳高价值的短视频广告。
- **目标价 138.0 美元，投资评级为“买入”。**然而，微博要面对来自今日头条的竞争。目标价分别相当于 49.9 倍和 38.0 倍非 GAAP 2018-19 年预测市盈率，和 1.1 倍 2016-19 财年的市盈率增长率。

Rating:

Buy
Initial

评级:

买入 (首次覆盖)

6-18m TP 目标价:

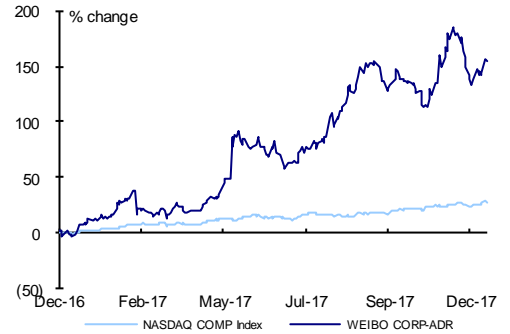
US\$138.00

Share price 价格:

US\$105.530

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(11.7)	5.7	147.2
Rel. % to NASDAQ Index 相对纳指变动 %	(10.3)	1.2	112.5
Avg. share price (US\$) 平均价 (美元)	106.9	102.7	74.7

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2015A	478	35	0.170	n.a.	620.8	3.017	35.0	0.000	0.0	5.9
2016A	656	108	0.503	195.9	209.8	3.527	29.9	0.000	0.0	15.7
2017F	1,141	331	1.468	191.8	71.9	4.835	21.8	0.000	0.0	36.0
2018F	1,943	573	2.418	64.7	43.6	7.037	15.0	0.000	0.0	41.8
2019F	2,612	792	3.187	31.8	33.1	9.906	10.7	0.000	0.0	38.6
Shares in issue (m) 总股数 (m)			218.6		Maior shareholder 大股东					Sina Corportion 49.8%
Market cap. (US\$ m) 市值 (US\$ m)			23,068.9		Free float (%) 自由流通比率 (%)					50.2
3 month average vol. 3 个月平均成交股数 ('000)			1,928.1		FY17 Net gearing (%) FY17 净负债/股东资金 (%)					Net cash
52 Weeks high/low (US\$) 52 周高/低 (US\$)			123.000 / 40.120		FY16-19 PEG (x)					0.9

Source: the Company, Guotai Junan International.

TABLE OF CONTENTS

Company Profile	3
Milestones	3
Shareholders	3
Business Model	4
Information Flow	4
Relation Chain	6
Monetization	9
Industry Analysis	11
China Online Ad Market	11
Live Show	12
Financial Analysis	13
Revenue	13
Gross Profit	14
Operating Profit	14
Net Profit	15
Valuation	15
Financial Statements and Ratios	20

Company Profile

Weibo Corporation (“Weibo” or “the Company”) is the best entertainment social media platform in China. Weibo combines a means of public self-expression in real time with a powerful platform for social interaction, as well as content aggregation and distribution. User relationships on Weibo may be asymmetric; any users can follow any other users and add comments to a feed while reposting. The simple, asymmetric and distributed nature of Weibo allows an original feed to become a live conversation stream. Weibo allows people to be heard publicly and exposes them to rich ideas, cultures and experiences of the broader world. Media outlets use Weibo as a source of news and a distribution channel for their headline news. Government agencies and officials use Weibo as an official communication channel for disseminating timely information and gauging public opinion to improve public services. Individuals and charities use Weibo to make the world a better place by launching charitable projects, seeking donations and volunteers and leveraging celebrities and organizations on Weibo to amplify social influence.

Milestones

Weibo announced Alibaba Group as the Company’s most important shareholder. In 4M13, Alibaba Group invested USD585.8 mn in ordinary and preferred shares through Ali-WB Investment Holding Limited, representing approximately 18% of total outstanding shares on a fully diluted basis. Ali-WB was granted an option to increase its ownership in Weibo to up to 30% on a fully diluted basis. In 3M14, Ali-WB fully exercised the option upon the completion of this offering. Upon the completion of this offering, Ali-WB held 31.0% of Weibo’s shares. Weibo and Taobao are focusing more on building up their e-commerce fashion icon platform, which might be a key player in China’s fashion apparel industry.

Table 1: The Company’s Milestones

Date	Event
Aug-2009	Weibo was established.
Oct-2010	Weibo has over 50mn users who posted 25mn articles every day.
Apr-2013	Weibo and Alibaba Group signed strategic cooperation. Alibaba Group invested USD586mn in Weibo for 18% shares.
Aug-2013	Weibo began to cooperate with Yixia Technology in short video streaming.
Oct-2013	Weibo issued subscription platform.
Apr-2014	Weibo Corporation went public in NASDAQ. Alibaba Group increased its shares in Weibo from 18% to 32%.
Jun-2015	Weibo began to cooperate with over 100 variety shows in TV stations.
Sep-2015	Weibo began to explore vertical contents, such as auto and finance. Ad loads reached 2.3% of total information flows.
Dec-2015	Weibo has shared RMB250mn to we-media. Ad loads reached 2.7% of total information flows.
May-2016	Weibo and Yixia Technology jointly published One Live to provide star live shows.
Sep-2016	Weibo's video ads have contributed around 10% ad revenues. Ad loads reached 4% of total information flows.
Nov-2016	Weibo cancelled 140 words limits.
Mar-2017	Weibo and Taobao established Fashion Icon E-commerce platform to serve fashion icons and small e-commerce players.

Source: the Company, Guotai Junan International.

Shareholders

Sina Corporation is the largest shareholder of Weibo. By the end of 2016, Sina Corporation had 108.9 mn B shares in Weibo, or 49.9% of Weibo's total shares, with 74.9% voting rights. Alibaba Group was the second largest strategic shareholder of Weibo. By the end of 2016, Alibaba Group had 68 mn A shares, with 15.6% voting rights. Total shares reaches 218.6 mn shares.

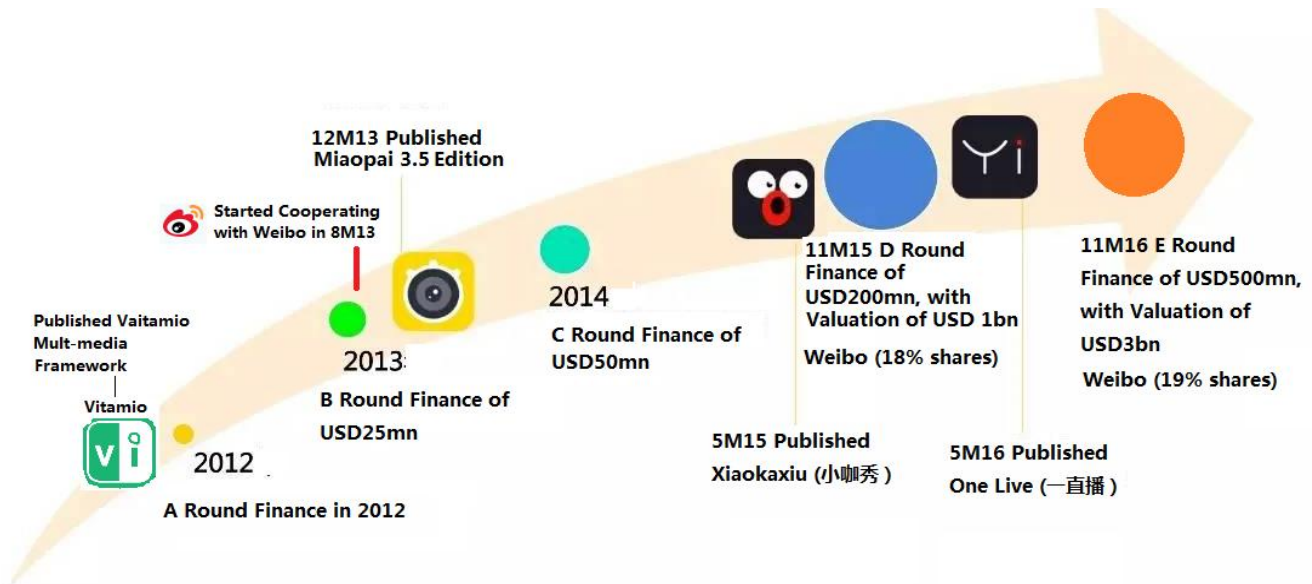
Table 2: Shareholder Structure of the Company

Key shareholders	A Share	B Share	A+B Share	Share percentage	Voting rights
Sina Corporation		108,921,106		49.8%	74.9%
Alibaba Group	67,883,086			31.0%	15.6%
The Management Group	5,035,234			2.3%	1.2%
Others	36,798,810			16.9%	8.3%
Total	109,717,130	108,921,106	218,638,236	100%	100%

Source: the Companies.

Weibo holds around 19% share in Yixia Technology, a key strategic partner to Weibo. Since 8M13, Yixia Technology has cooperated with Weibo to provide short video streaming through Miaopai. Yixia and Weibo’s cooperation has improved Weibo’s content quality. In 5M15 and 6M16, Yixia published Xiaokaxiu (小咖秀), introducing live grass roots anchor shows and One Live (一直播), star live shows. Before E round finance, Weibo invested around USD70 mn in Yixia. In 11M16, Yixia financed about USD500 mn, with valuation of USD3.0 bn. Weibo invested another USD120 mn in Yixia. After E round financing, Weibo held around 19% share of Yixia. However, currently, Yixia’s 3 apps have very low MAU. It’s possible that Weibo might acquire more shares in Yixia.

Figure 1: Yixia Technology



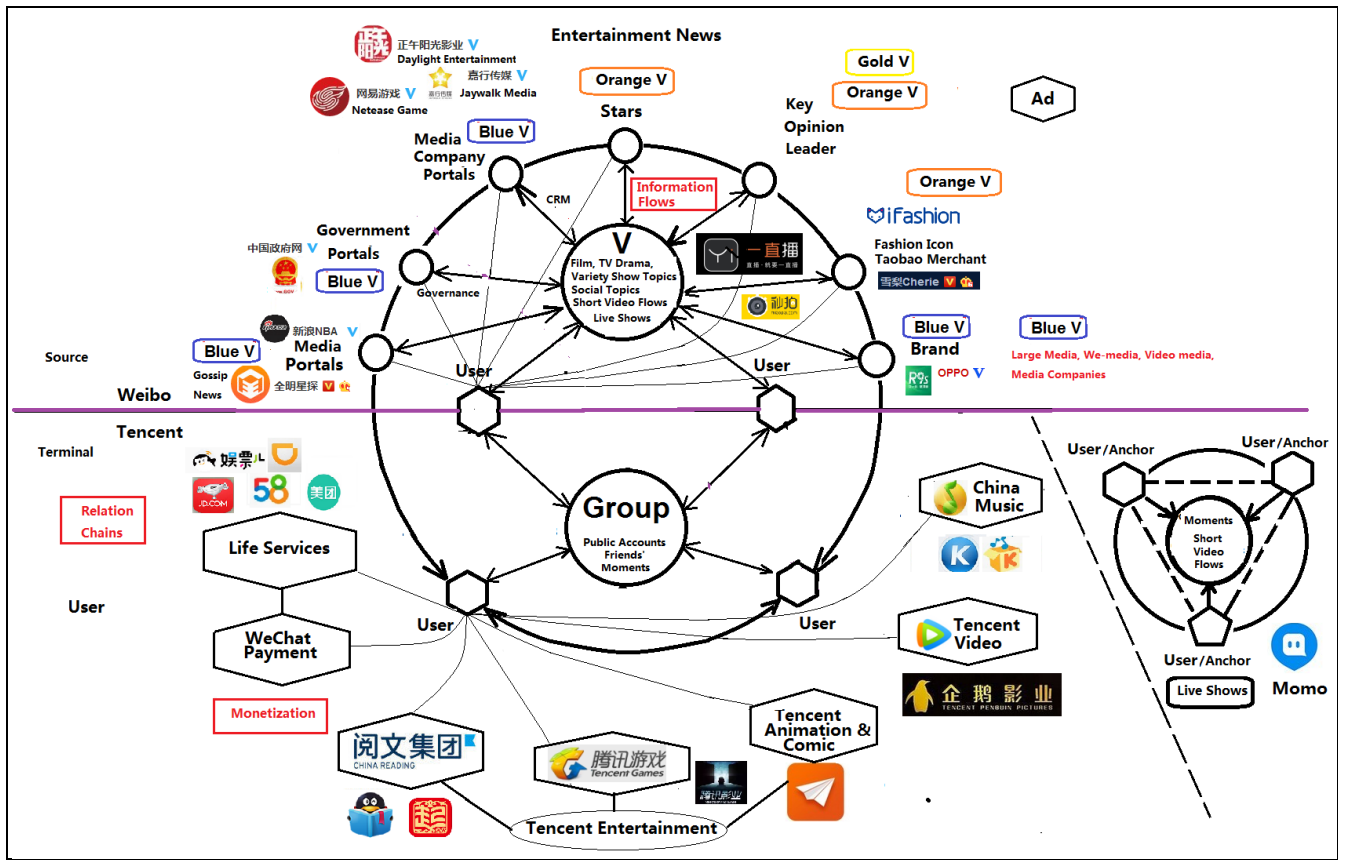
Source: the Company, Guotai Junan International.

Business Model

Information Flow

Information flow, relation chain, and monetization are the 3 key pillars of the social media ecosystem. When the 3 key pillars strengthen each other, social media could grow bigger and bigger. Information flows when users choose to follow certain media categories or interesting people keep users using social media. Relation chains begin to form when more and more users become followers, and followers can get personalized information flows generated by those who are followed. Differentiated personalized information flows will become entry barriers for competitors. When information flows become strong and MAU increases to over 10 mn, information flows bring value from ads. Other monetization methods include casual games, live shows, virtual gifts, paid stickers, and online payments. These monetization methods could increase more interactions among followers and those who are followed. When social media becomes more profitable, companies tend to create and purchase more expensive and high quality content to generate high quality traffic. When positive loops begin, social media will grow bigger and bigger. The relation chain is key to social media.

Figure 2: Weibo and its Competitors' Ecosystem



Source: the Company, Guotai Junan International.

Half of Weibo's users are fans of stars. In 3Q17, Weibo had MAU of 376 mn, up 25% yoy. According to Weibo Star White Book in 2016, 51.5% of Weibo's users were fans of stars. Weibo has around 280,000 star accounts. Every Weibo star posted 2 articles in Weibo per day on average. Every Weibo star's articles were viewed 28.8 mn times per day, and were also liked, shared, or commented 12,400 times per day. In 7M15 to 7M16, Weibo created 85,000 topics of stars, with total topic views of 689.8 bn times and 1.4 bn topic discussions. In 2016, Weibo stars were mentioned around 6.0 bn times, up 50% yoy. Original articles posted by Weibo stars, the most valuable parts of Weibo's entertainment news flows, increased by over 400% compared to that in 2014, accounting for 67.6% of total articles they posted, up 5.6 ppt yoy. Total videos posted by Weibo stars tripled in 2016 compared to that in 2013. Weibo has become the main interaction place for stars and fans in China.

Big V, topics, and short video streams are the 3 main drivers of Weibo's information flows. 1) Big V is actually the core driver of Weibo's information followers. Big V mainly includes Blue V accounts and Orange V accounts. Blue V accounts are verified company users, mainly including large media, we-media, video media, government portals, and brands, all verified by Weibo. Orange V accounts are verified active individual users, mainly including key opinion leaders (KOL), fashion icons and film & TV drama stars. The Big V usually has millions of followers. For example, the hottest actress Yang Mi (杨幂) has over 70 mn fans. The Big V can deliver news to millions of people in the first seconds of posting, which can also be shared by other Big V to millions of followers in another second. As a result, Weibo can generate original content from stars or gossip news from we-media to attract young users constantly. Other social media platforms can not generate such kinds of content. As a result, Weibo has the best entertainment news flow in China. **2) Film & TV drama topics are the key drivers of Weibo's mobile traffic.** According a Weibo report, over half of Weibo users are fans of film & TV drama stars and 7 of the 10 hottest topics are about films, TV dramas, and variety shows, the core part of China's mainstream culture. Usually, TV drama with 10 bn video views can generate 4 bn topic views in Weibo and bring millions of fans to stars of TV dramas. In the topics, actors and actresses can constantly interact with their fans. In 2016, the 3 largest mobile video portals' total user time spent reached 283 bn minutes, up 46.5% yoy. **3) Short video streaming is a new growth driver.** Short videos could deliver factors that pictures and words can not, such as funny actions, facial expressions, emotions, film & TV drama highlights, and grass root talent shows. Short video streams are becoming more and more popular to readers. As a result, the short video media ecosystem is becoming more and more important to social media.

Table 3: Video and Social Apps User Time Spent and Growth in 2016

Video bn minutes	12M15	1M16	2M16	3M16	4M16	5M16	6M16	7M16	8M16	9M16	12M16
Tencent video	83	78	58	75	80	90	92	100	113	103	114
iQiyi	63	64	53	65	73	78	80	96	100	95	101
Youku	48	43	35	49	53	55	58	63	75	79	67
Total video	193	184	145	189	205	223	230	259	288	277	283
Taobao	85	78	48	80	85	108	118	123	124	126	128
UC	158	140	120	155	148	148	138	145	150	145	151
Mobile Baidu	73	70	60	80	85	100	98	103	108	103	106
QQ browser	90	78	68	80	85	96	93	90	93	91	98
Toutiao	45	48	45	63	65	75	80	96	118	130	161
Total search	450	413	340	458	468	526	526	557	592	595	645
Weibo	43	45	38	60	63	70	64	70	95	93	104
WeChat	1,100	1,050	1,000	1,300	1,225	1,375	1,239	1,450	1,475	1,550	1,685
Mobile QQ	510	420	350	375	360	400	380	420	420	375	567
Total social	1,653	1,515	1,388	1,735	1,648	1,845	1,683	1,940	1,990	2,018	2,356
Android	2,315	2,149	1,880	2,456	2,389	2,652	2,692	2,927	3,098	3,109	3,615
IOS	1,078	1,081	874	1,131	1,114	1,331	1,275	1,284	1,318	1,299	1,426
Total	3,393	3,230	2,754	3,587	3,503	3,983	3,967	4,211	4,416	4,407	5,041

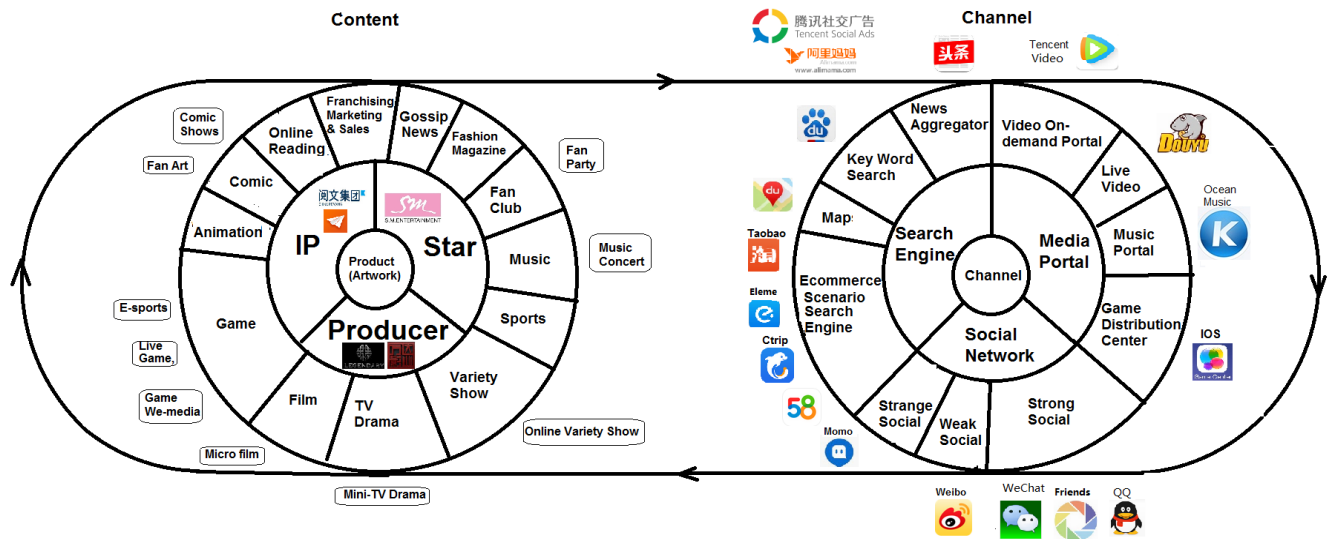
Source: Questmobile, Guotai Junan International.

Generally speaking, Weibo has become a source of entertainment news and social news, compared to WeChat. According to the Tipping Point, written by Malcolm Gladwell, the fast spread of certain information or things needs 3 key factors: the law of the few (very sociable people with lots of friends), Stickiness factor (Impressive information that can be remembered and shared), power of context (Favorable environment -- Relation chains). Weibo's ecosystem has all the 3 factors but WeChat doesn't have all. WeChat groups have limited members in one group to no more than 500 and usually the number of people's normal active friends is limited to within 150. WeChat's ecosystem lacks the role of KOL or Big V's relation chain. However, WeChat and QQ's total user time spent reached 2,251 bn minutes in 12M16, almost 10 times that of Weibo, which means users stay in WeChat much longer than Weibo. As a result, WeChat/QQ has become a terminal of certain information. For example, some gossip news might first come from professional paparazzis in Weibo, which could deliver sensational gossip news to over 10mn fans in the first second. Some followers might get the gossip news in the first second and share them in WeChat groups and WeChat moments immediately. Moreover, some small re-edit gossip news and republish it on Toutiao.com or other aggregate news portals, and more readers begin to share gossip news on WeChat groups and WeChat moments again. As a result, normally, we could say that Weibo has played the role of generating entertainment news and social news, while WeChat/QQ has become places where most people receive news.

Relation Chain

There are 3 major types of relation chains in social media: Media-audience, People-people (Friend-friend, star-fan, KOL-fan, fashion icon-fan), Brand-customer (CRM). 1) Media audiences mainly create entertainment news flows and social news flows. There are many types of media in Weibo, including: large media (Hexun, Cainjing, Renmin, and Sina NBA), government portals, small we-media, video media, game companies, talent companies, film & TV drama production companies, etc. Game companies, talent companies and film & TV drama production companies conduct CRM in Weibo. 2) People-people are the most valuable relation chain in social media. People-people relation chain not only delivers information but also delivers various emotions and other complex concepts, such as ego-projections, moral views, life views, world views and value views. 3) Brand-customer relation chain is the key to monetization through ads. Brand-customer relation chain could provide brands to conduct CRM for its customers, which we will discuss in the following paragraph. For Weibo, the important 3 types of relation chains are star-fan, fashion icon-buyer, and brand-customer.

Figure 3: China Media Industry Production and Distribution Ecosystem



Source: Guotai Junan International.

Weibo is becoming a core part of China’s entertainment industry. 1) Intellectual Property (IP), Stars, and Producers are 3 key factors in media products. IP is the "story" of media products, which can be exhibited in many different forms: Online novels, comics, animations, games, films, and TV dramas. The largest 3 types of media products, films, TV dramas, and games, need to create play-scripts at the preparation stage. The number of old fans is determined by the IP and stars. Some famous producers have their fans too. Producers are responsible for completing entire products and put them into media distribution channels. **2) Media products have to gain as many fans as possible in the distribution phase due to limited life cycle.** Compared to other types of products, media products usually have a very limited life cycle. For example, films will be released in cinemas for only one month while online TV Drama video traffic over 2-3 months account for 80% of its total traffic. Online games have a 1-2 year life cycle as game producers constantly issue new editions of games. The short life cycle means that media products need to accumulate a big audience in its life cycle. There are a number of ways to attract bigger audiences: a) old fans who have known the products from the IPs or stars, b) new audiences acquired from marketing campaigns, and c) recommendations from audiences who are familiar with the product. The number of recommendations made to their friends is named as “(media) viral coefficient”, which is calculated as follows: Media Product Value = (Old fans + New audience) X Average virus coefficient X Value per consumption. Apparently, the viral coefficient is related to the product quality or producers, and old fans are followers of IP and stars' original fans. Obviously, Weibo is becoming the best place for media product marketing. **3) Film companies, TV drama companies, and game media companies have to conducted CRM in Weibo.** From the production and business procedure of TV dramas and Films, the warm-up marketing phrase before the media products' release is scheduled is the most important thing. It's necessary to create as many related topics (with the help of Weibo) and interactions to gather as many old fans as possible. For game companies, they have to get as many responses from the players as possible to debug and modify unreasonable designs, especially when new editions of games arrive. This is an important part in daily game management.

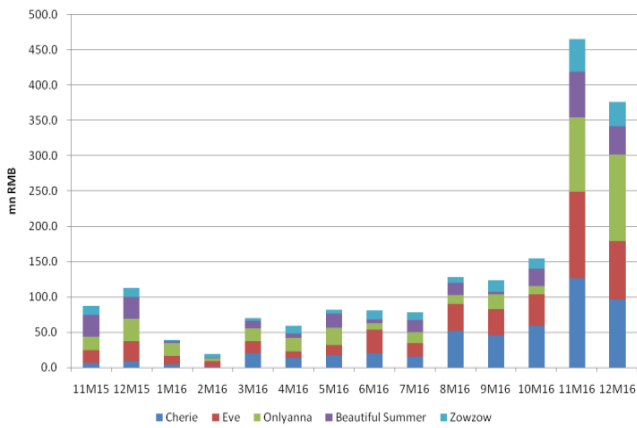
Weibo announced the establishment of their fashion icon e-commerce platform in 3M17. 1) In 3M17, Weibo and Taobao announced the fashion icon e-commerce platform in Hangzhou. Currently, there are 15,000 fashion icons and 2,000 e-commerce players in Weibo. Weibo built up this platform to attract fashion icons who have over 50,000 fans. For institutional strategic partners, they must have at least 20 Weibo accounts, which have total fans of at least 10 mn, article views of at least 300 mn per month, and total Taobao revenue of at least RMB250 mn. Weibo will provide 24 hour service to these strategic partners and give more traffic to them. **2) Alibaba Group provides online sales and supply chain to support fashion icons. Fashion icons are small brands by themselves.** As social media becomes more and more popular, fashion icons have become the group who deliver fashion news and ideas into the world. Taobao has created a unique sales channel for these fashion icons through the iFashion channel in the Taobao app. Taobao factories in 1688.com could provide apparel production for fashion icons who can make fashion designs. It's relatively easy for the Weibo fashion icons to turn their Weibo fans into buyers in Taobao. **3) Weibo Fashion icons have made great sales in Taobao. On the other hand, the success of Weibo fashion icons proved that brands could directly turn followers into buyers.**

Figure 4: Taobao and Weibo Fashion Icon E-commerce Ecosystem



Source: the Companies, Guotai Junan International.

Figure 5: Sales Boom in Taobao Fashion Icon Shop



Source: the Company, Guotai Junan International.

Figure 6: Taobao's Front Page iFashion Entrance



Source: the Company, Guotai Junan International.

Brand-customer commercial relation chain is extremely important to social media ad business. We have discovered that there are strong interactions among Orange V, Blue V, and users. Both media Blue V and KOL orange V's main functions are creating news flows. The non-media Blue V consists of brands which have many interactions with both stars and fashion icons in Orange V. **1) Stars help brands to deliver new product information and boost brand exposures.** In figure 4, we have illustrated our view of commercial relation chain: the relationship among brands, stars, and customers. For some medium and big brands, they will usually determine a star as the spokesman to their brands. The stars, who have millions of fans, help brands to deliver new product information to their fans. All types of media create news flows to help stars to strengthen their connections to fans, such as gossip news. Weibo could also help to create some online topics for stars and fans, such as online birthday parties. **2) Brands could attract more and more followers or online customers with each marketing campaign.** With more exposure, brands could get more exposure and attract customers to their own accounts. For example, OPPO's official account has over 16 mn followers. In the future, the commercial relation chains on Weibo will be one of the most important marketing resources for brands. **3) Brands could conduct precision marketing in social media.** Moreover, the brands could conduct precision marketing in Weibo by sorting out target groups. The brands could create different video story ads to different target customers to improve acceptability. Facebook has a rule that if brands' video contents are very popular and acceptable, which are more actively liked, shared or commented on by users, the ad prices will be much cheaper. However, currently, the problem is that Weibo's MAU is still relatively small and can not cover the entire 600 mn urban population in China. In other words, brands have to find the other 300 mn people through other types of media, such as TV and video portals. **In conclusion, compared to other types of media, such as TV, videos and news aggregators, only social media can help brands to build up online commercial relation chains with customers.**

Monetization

Weibo has 3 product types: promoted feeds, promoted accounts, and promoted trends. Usually, Weibo will insert clients' ads into users' information flows (3%) to get more exposure and fans. Moreover, Weibo could create more topics related to the brands to get more exposure. News feed ads accounted for over 50% of Weibo's ad revenue in the last several quarters.

Promoted Feeds. Promoted feeds appear in the user's information feed alongside organic feeds. Weibo encourages customers to produce feeds that have relevant information value similar to that of the user's organic feeds. Customers may use SIG recommendation engine to better target their audience and improve the relevancy of ads to users. As with other feeds, users can repost, comment on and Like promoted feeds, amplifying visibility and reach of original promoted feeds and generate new flows to customers. a) FST is a customizable and self-service marketing solution under a bidding system. Customers are able to target users based on gender, age, geographic location, interests and device type. They can also target users by their social interaction on platforms. For example, they may target all the followers of a given user. Customers can place FST ads either through authorized distributors, who have expertise in social media marketing, or directly by themselves using a self-service advertising system; b) fans' headlines are promoted which guarantees a certain feed from a customer will appear at the top of information feeds of the customer's followers; c) Weibo Select is a highly customizable version of promoted feeds. Weibo works directly with the customer or the customer's ad agency to define the parameters of the targeted marketing. For example, in addition to targeting users based on demographics and social relationships, customers can target users who are engaged with feeds using a specific keyword during a specified time period. d) Weibo Express is a promoted service offered to key accounts for them to reach and engage in with a broad range of Weibo users.

Promoted Accounts. Promoted accounts appear either in a column next to the information feed on PCs or directly in the information feed on both PCs and mobile devices. Promoted accounts are labeled but otherwise appear in the same format as other accounts that Weibo recommends to users. Promoted accounts provide customers a way to grow their followers, with whom they can then drive engagement using their Weibo pages.

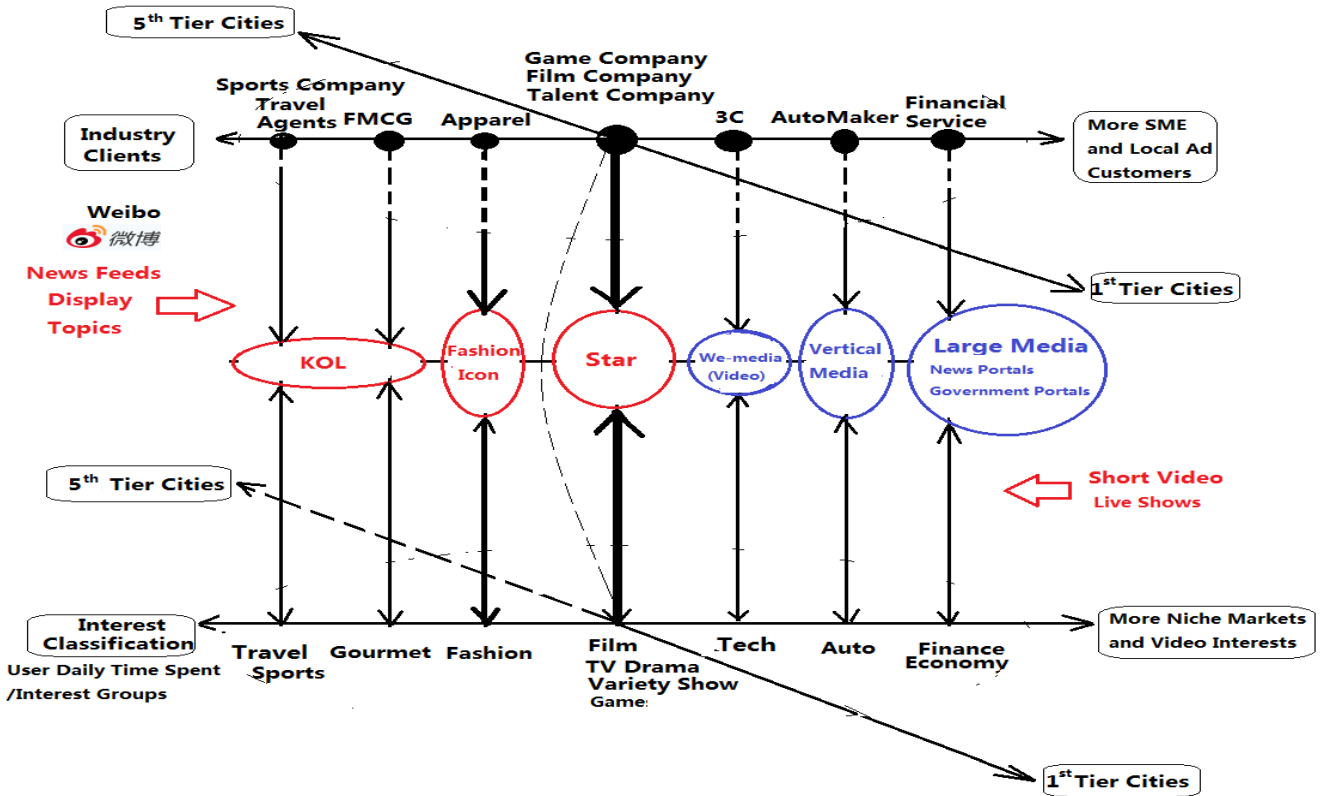
Promoted Trends. Promoted trends, which are labeled as "promoted" appear at the top of the list of trending topics. When a user clicks on a promoted trend, they will be redirected to the sponsor's landing page.

VIP Membership. Weibo VIP membership offers users certain services and functions that are not available to regular users. With these additional functions, VIP members can follow more users, have more ways to personalize their pages, can send voice feeds, enjoy more cloud storage, receive additional options to manage information flow and followers, receive SMS notifications of Weibo account activity and have access to premium games. VIP membership is available through monthly or annual subscriptions.

Weibo's ad monetization depends on 3 key things: MAU, vertical content expansion, and short video streaming. 1) Weibo has expanded to lower-tier cities. Currently, Weibo has more than 1.3 mn ad clients, in which 43.5% of them live in tier-1 cities. In 2016, accounts posted from brands reached 114 mn articles, was viewed 672 bn times. Currently, only 30% of Weibo's users come from tier-3 to tier-5 cities. For big brands, they could spend on ad budgets for Weibo's 313 mn active users but they have to find other media channels to reach the 300 mn urban population, such as TV, outdoor, and video media. Weibo's competitive edge is its commercial relation chain but is constrained by its MAU. As Weibo's MAU expands into lower-tier cities, it will get more ad spending from big brands and more ad clients in lower-tier cities. Moreover, the higher density of MAU in local areas could attract more offline SME ad customers, such as life services and catering services. **2) Vertical content expansion is determined by Weibo's interest classification.** There are 2 ways of understanding interest classifications: a) for a single person, if he could find more interesting people or media in different interest regions to follow, he might spend more time on Weibo. Higher user time spent would mean more information flows per person and ad loads per person. b) For groups, high quality classified interesting content might attract different groups and form online social districts. Currently, Weibo has formed over 50 types of different interest fields. Moreover, the problem is that the interests of people are often changing, such as fashion interests. All types of media, KOL, and fashion icons inside Weibo could help to build up interest classification and deliver the latest news flows constantly to followers. Interest classification is the inner structure of Weibo's commercial relation chains. We have shown that it's more convenient for ad clients to find related targeted customers through interest classification. **3) Short video streaming has great potential for inserting video ads.** Compared to TV video ads, ad clients could insert video ads to targeted groups far more precisely through interest classification. Ad clients could create different video ads to tell different stories to affect different targeted groups. Moreover, brands could get more interaction through likes, shares, and comments with its fans. The TV video market amounts to over RMB100 bn. Currently some star TV stations have more coverage than that of Weibo, but some ground TV

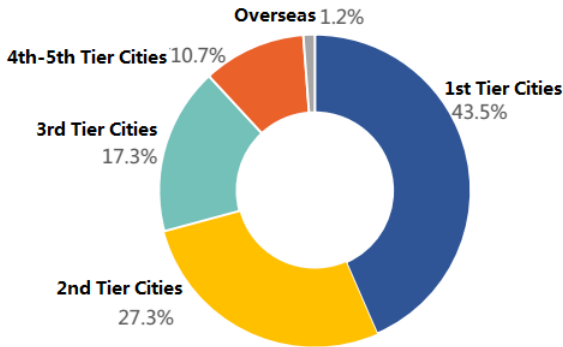
stations have very limited user coverage. It's very likely for Weibo's short video streaming to seize more market share in the video ads market.

Figure 7: Interest Classification and Monetization -- Inner Structure of Commercial Relation Chain



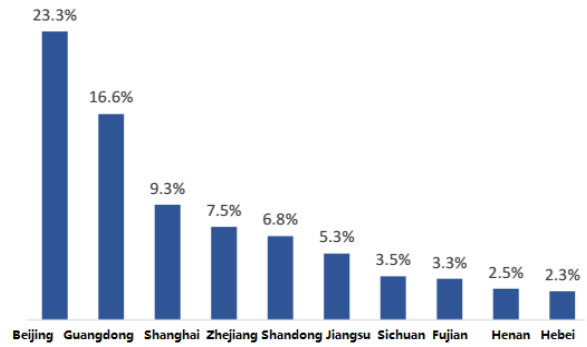
Source: the Companies, Guotai Junan International.

Figure 8: Weibo's Brands' Accounts Distribution in China



Source: Weibo.com, Guotai Junan International.

Figure 9: Weibo's Brands' Accounts Distribution in China



Source: Weibo.com, Guotai Junan International.

Figure 10: Weibo Provides Marketing Campaigns for Brands - Topics, Prizes for sharing



Source: Weibo.com, Guotai Junan International.

Figure 11: Weibo Shop window for Fashion Icons and Brands



Source: Weibo.com, Guotai Junan International.

Other potential monetization opportunities for Weibo. 1) Compared to WeChat/QQ, Weibo is relatively weak in monetization. WeChat has achieved great results in monetization in games, ads, mobile payment, and memberships (video, online reading, music). Currently, Weibo's monetization mainly focuses on ads. 2) Weibo has potential in developing live shows with Yixia Tech. Currently, Weibo has invested in Yixia Tech (一下科技), which has 2 key products -Miaopai (秒拍) and One Live (一直播). Miaopai has provided interesting short video flows for Weibo users. One Live has jointly invited Weibo Fashion Icon to make live shows in both Weibo and One Live. Weibo and One Live will share the live revenue together.

Industry Analysis

China Online Ad Market

Social ads might gain more market share in the US. According to eMarketer's latest research in 3M17, US total digital markets reach around USD83.0 bn, up 15.9% yoy, in which search ads and display ads accounted for 44.0% and 50.4% of total share. In display ads, Facebook, Twitter, and Snapchat accounted for around 46% of total display ads, which means social ads might account for 23% of total ad shares. As social ads are growing much faster than search ads, social ads might account for 30% of total US digital ads in the next 2-3 years. Social media could create relation chains between companies and customers, which is convenient for companies to conduct CRM for their core customers in the future. The relation chains could help companies to deliver new product information to its customers.

Social ads still accounted for a very small share in China. In 4Q16, Tencent ads, Weibo ads, and Momo ads reached RMB8.2 bn, up 53.1% yoy, accounting for only 11.9% of the total online ad market. Currently, Weibo and Momo's MAU only reach 361 mn and 91 mn in 2Q17. Their ad potential might grow fast as their MAU could grow bigger and bigger. Compared to other types of online media, social media could create relation chains, which could create more CRM and interactions between brands and potential customers. Social media will also have more accurate customer profiles and could deliver ads more efficiently than normal online media. In the long run, we expect social media to account for around 20% of the total online ad market by 2020 and 30% in 2025.

Table 4: China Online Ad Market Projection

China ad market (Thousand)	2012	2013	2014	2015	2016	2017E	2018E	2019E
TV	104.6	111.9	117.3	108.5	105.0	103.1	103.4	102.3
Radio	13.6	14.0	14.3	14.5	14.8	15.1	15.3	15.5
Internet	77.3	110.5	154.6	218.5	290.3	388.4	502.2	632.0
News paper	55.6	51.2	50.3	23.3	13.7	9.6	7.4	5.0
Magazine	8.3	7.8	7.7	4.1	2.9	2.3	1.9	1.7
Outdoor	68.7	78.4	100.0	110.6	117.4	123.3	127.0	130.8
Total	328.2	373.8	444.2	479.4	544.1	641.7	757.2	887.2
Growth yoy%								
TV	12.0%	7.0%	4.8%	(7.5%)	(3.2%)	(1.8%)	0.3%	(1.1%)
Radio	10.5%	2.7%	2.2%	1.7%	1.5%	2.1%	1.6%	0.9%
Internet	50.7%	42.9%	39.9%	41.3%	32.9%	33.8%	29.3%	25.8%
News paper	18.3%	(7.8%)	(1.7%)	(53.8%)	(41.0%)	(30.1%)	(22.7%)	(32.3%)
Magazine	59.9%	(6.2%)	(1.2%)	(47.3%)	(28.5%)	(22.3%)	(17.3%)	(9.6%)
Outdoor	14.7%	14.1%	27.6%	10.6%	6.1%	5.0%	3.0%	3.0%
Total	21.9%	13.9%	18.8%	7.9%	13.5%	17.9%	18.0%	17.2%
Internet Ad market								
Internet Ad market	77.3	110.5	154.6	218.5	290.3	388.4	502.2	632.0
growth yoy %	50.7%	42.9%	39.9%	41.3%	32.9%	33.8%	29.3%	25.8%
Mobile ad	5.3	13.4	37.5	99.8	175.0	264.9	369.8	484.3
PC ad	72.0	97.1	117.1	118.7	115.3	123.5	132.4	147.7
Mobile ad as % of total internet ad market	6.9%	12.1%	24.3%	45.7%	60.3%	68.2%	73.6%	76.6%
PC ad as % of total internet ad market	93.1%	87.9%	75.7%	54.3%	39.7%	31.8%	26.4%	23.4%
Internet Ad market by type								
Search	33.0%	31.2%	33.4%	31.2%	26.4%	24.1%	22.6%	21.3%
E-commerce	23.3%	27.0%	25.9%	26.9%	30.0%	31.7%	31.8%	30.9%
Brand graph	26.2%	21.0%	17.7%	14.7%	13.4%	12.1%	11.2%	10.3%
Rich media	4.0%	4.2%	3.2%	3.6%	3.6%	3.4%	3.2%	3.1%
In-video	6.2%	7.1%	8.0%	8.3%	8.3%	8.2%	7.7%	7.2%
News flow (Social, aggregate news)	0.0%	2.2%	3.6%	7.9%	11.2%	14.3%	18.2%	22.5%
Others	7.3%	7.3%	8.2%	7.4%	7.1%	6.2%	5.3%	4.7%

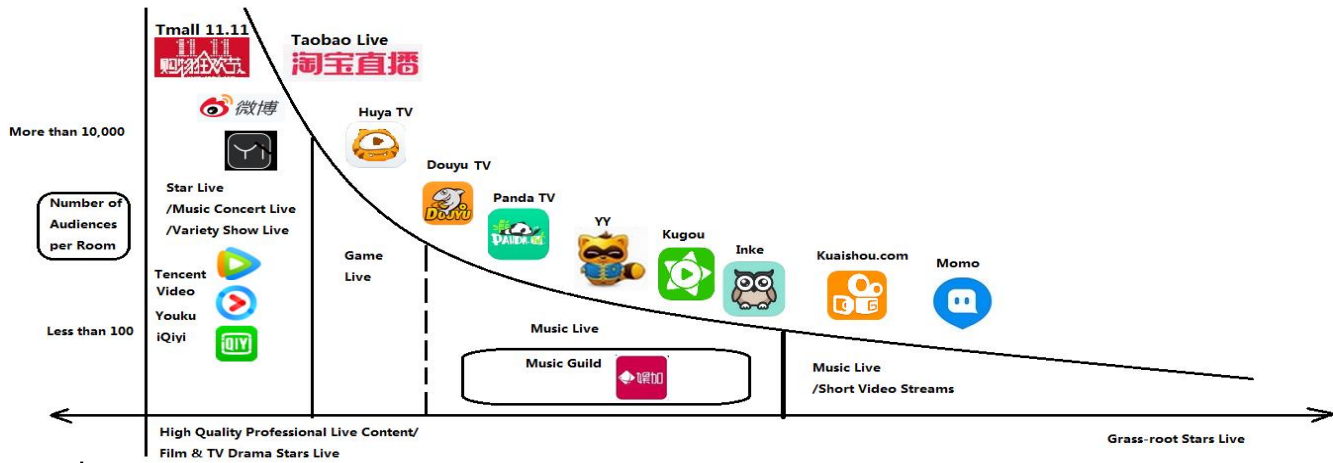
Source: the Companies, iResearch, Guotai Junan International.

Live Shows

Live shows have become a very important part in the monetization of social media. 1) Live shows seem to have much more monetization potential than ads in China. In 4Q16, Momo and YY's ARPU in live shows reached USD2.4 and USD3.0, respectively, much higher than Weibo's USD0.6 in ads. **2) Short video flows became a key driver to live shows.** As we have discussed above, short video flows passed emotion and complex concepts to audiences. Currently, there are 2 types of short video flows in China: a) we-media short video flows, which are good places to insert commercial video ads, b) talent shows of grass root stars, which could create relationships between grass-root stars and fans quickly. Momo has used short video flows of grass-root stars' talent shows to expand its live show business. In 4Q16, Momo had 0.54 mn grass-root anchors, an amazing number. Weibo and Yixia Tech jointly published Xiaokaxiu and One Live to start grass-root anchors live shows and film & live shows of TV drama stars. It might take 1-2 years to explore this market.

Kuaishou.com has become one of the largest short video streaming portals and live show portals. Currently, many grass-root stars in Weibo and YY have chosen kuaishou.com to show their talents on short videos. Kuaishou.com's MAU and DAU increased to 100 mn and 40 mn in 12M16, an amazing level. At the beginning of 1Q16, daily video views in Snapchat increased to 10 bn, up over 400% yoy. Currently, Tencent has invested 10%-15% in Kuaishou.com, which was evaluated at USD3.0 bn in the latest round of financing.

Figure 12: Live Show Competition in China



Source: the Companies, Guotai Junan International.

Financial Analysis

Revenue

3-Year revenue CAGR in FY17-FY19 is expected to reach 58.5%. The 2 key drivers of Weibo's revenue are MAU and ARPU. **1) Increasing MAU will strengthen economies of scale effects.** Actually, DAU is more active in measuring social media channels than that of MAU. In 3Q17, Weibo's MAU was 376 mn, up 26.6% yoy, while DAU/MAU reached around 0.4, much less than 0.6 of Facebook, which means Weibo should improve its DAU further. We expect Weibo's MAU could grow to 392.8 mn, 471.3 mn, and 546.7 mn in 4Q17, 4Q18, and 4Q19, up yoy by 25.0%, 20.0%, and 16.0%, respectively. As we had discussed above, Weibo needs to expand its MAU to lower-tier cities to cover all urban people. Weibo has its commercial relation chain, whereas TV and outdoor media do not. If Weibo could expand its MAU to 600 mn, Weibo could seize more market share from other media categories and its ad ARPU will increase largely. **2) Short video streaming will increase video ads.** Short video streaming is a good place for key account (KA) ad customers to insert video ads, similar to TV video ads with far more precision in locating target groups. In 3Q17, video ads accounted for over 10% of Weibo's revenue. More video ads will increase Weibo's ad ARPU. **3) Other types of monetization.** We expect its ARPU (Revenue/ Avg. MAU) in FY17-FY19 to reach USD3.2, USD4.5, and USD5.1, up yoy by 35.4%, 39.0%, and 14.1%, respectively. Its ARPU also depends on monetization of live shows or games. Although revenue direct from Alibaba Group is expected to reduce by 50% yoy in 2017-2019, Alibaba Group and Weibo will establish a fashion icon e-commerce platform to directly serve fashion icons and small e-commerce players. From 2017 to 2019, we expect Weibo's revenue to reach USD1,141.3 mn, USD1,942.9 mn, and USD2,612.1 mn, up 74.0%, 70.2%, and 34.4%, respectively.

Table 5: Revenue Projection of Weibo

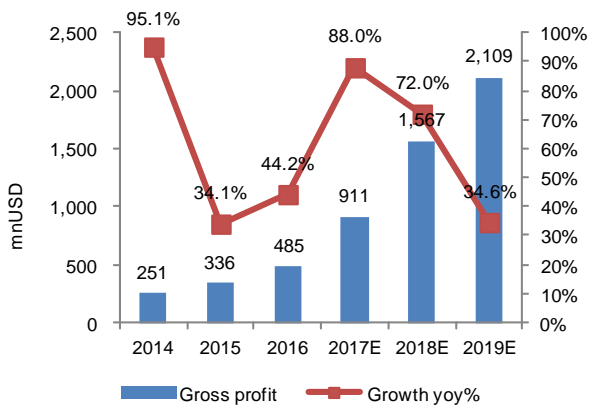
		2012	2013	2014	2015	2016	2017E	2018E	2019E
MAU at 4Q	mn USD	96.7	129.0	175.7	236.0	313.0	392.8	471.3	546.7
	growth yoy		33.4%	36.2%	34.3%	32.6%	25.5%	20.0%	16.0%
DAU at 4Q	mn USD	45.1	61.4	80.6	106.0	139.0	172.4	206.8	239.9
	growth yoy		36.1%	31.3%	31.5%	31.1%	24.0%	20.0%	16.0%
Revenue	mn USD	65.9	188.3	306.6	426.8	655.8	1,141.3	1,942.9	2,612.1
	growth yoy		185.6%	62.8%	39.2%	53.7%	74.0%	70.2%	34.4%
Ad revenue	mn USD	51.0	148.4	264.8	402.4	571.0	979.6	1,625.5	2,061.6
	growth yoy		190.8%	78.4%	52.0%	41.9%	71.6%	65.9%	26.8%
Key accounts and small & medium-sized	mn USD	51.0	99.3	129.6	207.7	513.1	903.7	1,538.5	2,017.9
	growth yoy		94.5%	30.6%	60.2%	147.1%	76.1%	70.2%	31.2%
Alibaba Group	mn USD		49.1	107.6	143.7	57.9	76.0	87.3	43.7
	growth yoy			119.0%	33.5%	-59.7%	31.2%	15.0%	-50.0%
Other revenue	mn USD	14.9	39.9	69.4	75.5	84.8	161.7	317.4	550.5
	growth yoy		168.1%	74.0%	8.8%	12.4%	71.8%	82.4%	86.4%
ARPU (Avg. MAU)	USD	0.8	1.7	2.2	2.3	2.4	3.2	4.5	5.1
	growth yoy		114.6%	31.4%	5.8%	2.9%	35.4%	39.0%	14.1%

Source: the Company, Guotai Junan International.

Gross Profit

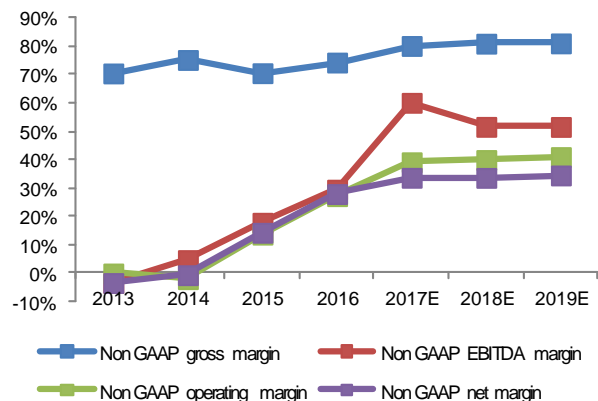
3-Year gross profit CAGR in FY17-FY19 is expected to reach 63.3%. Cost of revenue consists mainly of costs associated with the maintenance of Weibo's platform, which mainly includes bandwidth and other infrastructure costs, labour costs and turnover tax. We think that bandwidth costs to revenue will decline due to economies of scale and technology advances as Aliyun CDN services will cut prices every year. Weibo didn't share much revenue to guilds and we-media as YY and Toutiao.com did. Weibo conducted cautious revenue sharing policies for we-media. In the future, more video ads will have higher value and higher band costs. As a result, we believe gross margin will improve constantly amid growing revenue. From 2017 to 2019, we expect Weibo's gross profit to reach USD911 mn, USD1,567 mn, and USD2,109 mn, up yoy by 88.0%, 72.0%, and 34.6%, respectively.

Figure 13: The Company's Gross Profit Estimates



Source: the Company, Guotai Junan International.

Figure 14: The Company's Margin Estimates



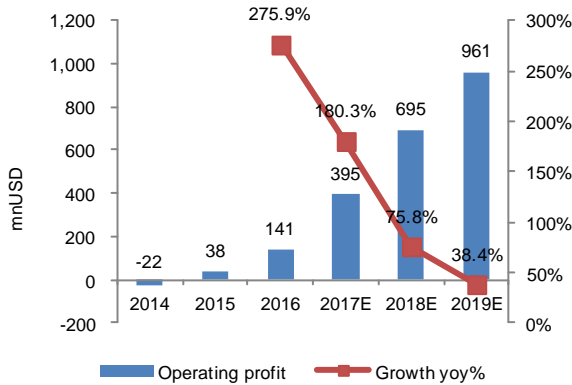
Source: the Company, Guotai Junan International.

Operating Profit

Operating profit could improve gradually due to economies of scale with 3 Year CAGR of 89.6%. Sales and marketing expenses consist primarily of marketing and promotional expenses, personnel-related expenses and commission. Product development expenses consist of personnel-related expenses and infrastructure costs incurred for new product development and product enhancements. General and administrative expenses consist of personnel-related expenses and professional service fees. We think Weibo's operating margins will improve to a very high level, which is similar to Facebook's case because of the effect of economies of scale. From 2017 to 2019, we expect Weibo's operating profit to reach USD395 mn, USD695 mn, and USD961 mn, up yoy by 180.3%, 75.8%, and 38.4%, respectively. From 2017 to 2019, we expect Weibo's non GAAP operating

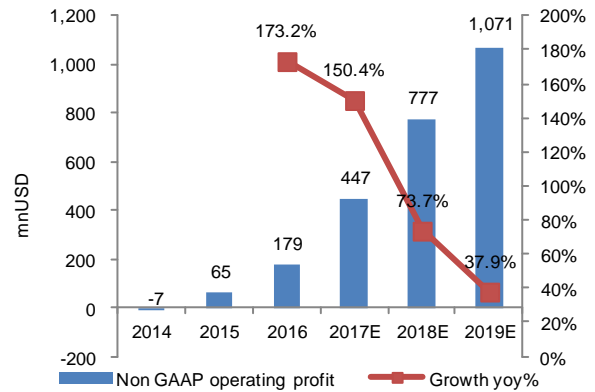
profit to reach USD447 mn, USD777 mn, and USD1,071 mn, up yoy by 150.4%, 73.7%, and 37.9%, respectively.

Figure 15: The Company's Operating Profit Estimates



Source: the Company, Guotai Junan International.

Figure 16: The Company's Non GAAP Operating Profit Estimates

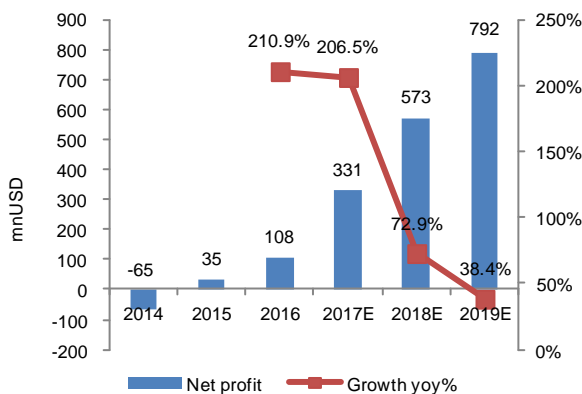


Source: the Company, Guotai Junan International.

Net Profit

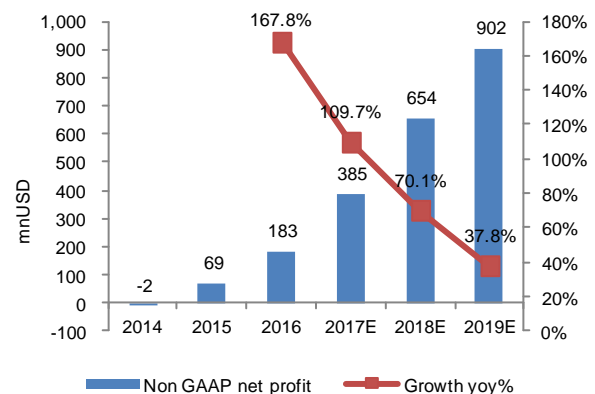
3-Year non GAAP net profit CAGR in FY17-FY19 expected to reach 70.0%. Driven by improving economies of scale, we think Weibo's non GAAP net profit margin will improve to a very high level, which is similar to Facebook's net profit margin. Weibo's operating margin has been improved largely and Weibo will witness plenty of cash inflow. It's possible that Weibo might start new monetization efforts or invest more in Yixia Technology to complete its ecosystem. From 2017 to 2019, we expect Weibo's net profit to reach USD331 mn, USD573 mn, and USD792 mn, up yoy by 206.5%, 72.9%, and 38.4%, respectively. From 2017 to 2019, we expect Weibo's non GAAP net profit to reach USD385 mn, USD654 mn, and USD902 mn, up yoy by 109.7%, 70.1%, and 37.8%, respectively.

Figure 17: The Company's Net Profit Estimates



Source: the Company, Guotai Junan International.

Figure 18: The Company's Non GAAP Net Profit Estimates



Source: the Company, Guotai Junan International.

Valuation

MAU, user time spent and ARPU are the most important factors in evaluating the value of social media. 1) Weibo's MAU ranked 2nd after Tencent and 4th after Facebook, Tencent, and Twitter and by product, Weibo's MAU ranked the 4th in China after Tencent's WeChat, QQ, and Qzone; 2) Weibo's daily user time spent is significantly less than that of Tencent and Facebook. According to Questmobile, Weibo's daily user time spent only reached around 10 minutes, far less than 60 minutes of WeChat and 35 minutes of Facebook. Both WeChat and Whatsapp are communication tools that will be used more frequently. 3) Weibo should expand its ARPU by expanding into other fields in the long run. According to our analysis, the global social media companies have at least 5 ways of monetization: games, ads, live shows, VAS/membership, and others. Others include mobile payments and data licensing. Currently, Weibo's ARPU mainly focuses on ads (85%), games (9%), and memberships (3%). 98% of Facebook's ARPU

came from ads in 3Q17 and Tencent has more diversified ARPU structure: ads (14%), games (46%), VAS/membership (25%), and others (15%). Twitter's ARPU mainly came from ads (89%). Currently, Weibo's ARPU only reached USD0.9, far less than USD5.1 of Facebook and USD7.2 of Tencent. In China, Momo's ARPU reached USD3.4 in 3Q17, most of which came from live shows. We expect Weibo and Yixia Tech gain more revenue from live shows.

Differentiated information determined differentiated relation chains. We think different types of information flows have determined different relation chains and ecosystems. Weibo's core information flows mainly focus on entertainment news and social news. WeChat's and QQ's information flows mainly focus on Group information and communication. Momo's information flows mainly include short video flows of grass-root anchors. According to our analysis in the business model, the differentiated information flows are like city moats that shield attacks from its competitors. Moreover, the differentiated information flows have gathered certain types of people in Weibo, such as film & TV drama fans, or the times those people will spend every day (A film & TV drama fan will spend 1 hour per day). What's more, the differentiated information flows have formed differentiated relation chains and monetization methods. However, the differentiated information flows are not eternal city moats because its competitors will try to imitate the flows or a new type of information flows that attract more new audiences and their time, such as short video flows. As a result, we think Weibo's ecosystem is more like that of the Facebook App, very different from WeChat/QQ. If Weibo could strengthen its entertainment news flow and social news flows, Weibo will survive from the competition of Tencent and gain market share in the online ad market.

Table 6: Weibo's Revenue Breakdown

Weibo (mn USD)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Total revenue	96.3	107.8	124.7	149.0	119.3	146.9	176.9	212.7	199.2	253.4	320.0
Ads	79.2	87.9	105.9	129.5	99.2	127.2	156.7	187.9	169.3	218.3	276.8
Others	17.1	20.0	18.9	19.5	20.0	19.7	20.2	24.9	29.9	35.0	43.2
MAU (mn)	198	212	222	236	261	282	297	313	340	361	376
ARPU (USD)	0.52	0.53	0.63	0.65	0.55	0.54	0.75	0.70	0.61	0.70	0.87
Non GAAP net margin	2.9%	10.1%	17.7%	21.9%	13.7%	24.2%	30.9%	36.2%	29.0%	34.2%	36.0%
Non GAAP net Profit	2.8	10.9	22.1	32.7	16.4	35.5	54.6	77.0	57.8	86.7	115.2

Source: the Company, Guotai Junan International.

Table 7: Momo's Key Ratio Matrix

Momo (mn USD)	mn USD	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Total revenue	mn USD	26.3	30.7	37.5	39.5	50.9	99.0	157.0	246.1	265.2	312.2
Live	mn USD	0.0	0.0	0.0	0.0	15.6	57.9	108.6	194.8	212.6	259.4
Ads	mn USD	6.0	6.7	10.8	7.8	14.9	16.6	18.1	19.1	17.9	24.6
VAS	mn USD	13.0	14.8	16.0	14.6	12.4	15.6	17.7	19.7	22.9	19.0
Game	mn USD	6.1	7.7	9.5	15.3	7.4	7.4	9.3	11.3	11.6	9.1
Other services	mn USD	1.1	1.5	1.2	1.8	0.7	1.5	3.4	1.2	0.3	0.0
MAU	mn	78	78	73	70	72	75	77	81	81	91
ARPU (USD)	USD	0.4	0.4	0.5	0.6	0.7	1.3	2.1	3.1	3.3	3.4
Live	USD	0.0	0.0	0.0	0.0	0.2	0.8	1.4	2.5	2.6	2.9
Ads	USD	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3
VAS	USD	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2
Game	USD	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other services	USD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non GAAP net margin		35.9%	19.4%	10.3%	29.9%	24.9%	23.5%	31.5%	37.2%	32.7%	23.6%
Non GAAP net Profit	mn USD	9.4	6.0	3.9	11.8	12.7	23.2	49.5	91.5	86.8	73.8

Source: the Company, Guotai Junan International.

Table 8: Facebook's Key Ratio Matrix

Facebook		1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Monthly active users (MAUs)	mn	1,441	1,490	1,545	1,519	1,654	1,712	1,788	1,860	1,936	2,006	2,072
US & Canada	mn	210	213	217	219	222	226	229	231	234	236	239
Europe	mn	307	311	315	323	333	338	342	349	354	360	364
Asia-Pacific	mn	471	496	522	540	566	592	629	673	716	756	794
Rest of World	mn	453	471	492	509	533	556	587	606	632	654	675
Revenue	mn USD	3,543	4,042	4,501	5,841	5,382	6,436	7,011	8,809	7,955	9,164	10,142
US & Canada	%	44.9%	45.2%	47.1%	48.7%	48.6%	47.8%	48.9%	50.3%	50.1%	48.6%	48.4%
Europe	%	24.1%	24.4%	23.1%	24.2%	23.6%	24.0%	22.3%	23.0%	23.9%	24.1%	24.0%
Asia-Pacific	%	14.8%	15.0%	15.4%	14.3%	15.8%	15.7%	16.2%	15.2%	17.3%	17.0%	17.2%
Rest of World	%	16.1%	15.4%	14.4%	12.8%	12.0%	12.5%	12.6%	11.5%	9.9%	10.3%	10.3%
ARPU (Revenue/Avg.MAU)	USD	2.5	2.8	3.0	3.7	3.3	3.8	4.0	4.8	4.2	4.7	5.1
US & Canada	USD	7.6	8.6	10.5	13.7	12.4	14.3	15.7	19.8	17.1	19.4	21.2
Europe	USD	2.8	3.2	3.5	4.6	4.0	4.7	4.7	6.0	5.4	6.3	6.9
Asia-Pacific	USD	1.1	1.3	1.4	1.6	1.5	1.7	1.9	2.1	2.0	2.1	2.3
Rest of World	USD	1.3	1.4	1.3	1.5	1.2	1.5	1.5	1.7	1.3	1.5	1.6
Non GAAP Operating margin	%	51.9%	55.1%	53.5%	60.3%	55.3%	58.5%	59.3%	63.5%	n.a.	n.a.	n.a.
Non GAAP net margin	%	33.6%	35.6%	36.2%	38.8%	41.4%	43.8%	45.2%	47.1%	n.a.	n.a.	n.a.

Source: the Company, Guotai Junan International.

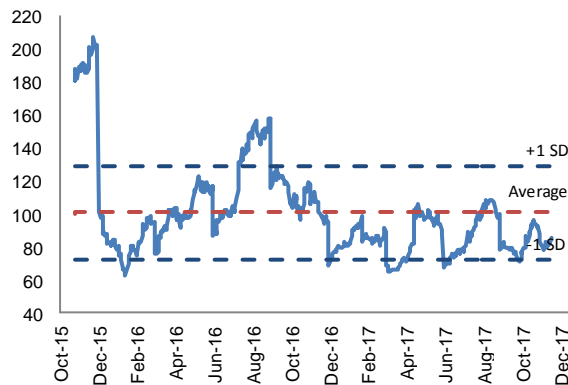
Table 9: Twitter's Key Ratio Matrix

Twitter		1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
MAU	mn	308	316	320	306	310	313	317	319	328	328	330
US	mn	66	66	66	65	65	66	67	67	70	68	69
Other	mn	242	250	254	241	245	247	250	252	259	260	261
Total Revenue		436	502	569	711	595	602	616	717	548	574	590
Ads revenue	mn USD	388	452	513	641	531	535	545	638	474	489	503
US	%	65%	63%	64%	64%	65%	59%	59%	60%	62%	58%	56%
Other	%	35%	37%	36%	36%	35%	41%	41%	40%	38%	42%	44%
Data Licensing & Other revenue		48	50	56	70	64	67	71	79	74	85	87
Ad ARPU (Revenue/Avg.MAU)	USD	1.3	1.4	1.6	2.1	1.7	1.7	1.7	2.0	1.7	1.8	1.8
US	USD	3.8	4.3	5.0	6.3	5.3	4.7	4.8	5.7	4.9	5.2	4.8
Other	USD	0.6	0.7	0.7	1.0	0.8	0.9	0.9	1.0	0.8	0.9	1.0
Non GAAP Operating margin	%	26.2%	24.8%	26.1%	28.4%	32.2%	30.9%	31.3%	33.2%	37.5%	38.0%	35.1%
Non GAAP net margin	%	10.7%	9.7%	11.8%	16.1%	17.3%	15.4%	14.9%	16.5%	18.7%	17.2%	13.2%

Source: the Company, Guotai Junan International.

Target Price is set at USD138.00 with investment rating of "Buy". Our TP represents 49.9x 2018E non GAAP PE and 38.0x 2019E non GAAP PE, with PEG (16-19) of 1.1x. Given that Weibo's margins might improve largely and its revenue grows much faster than its peers, we think that Weibo deserves a higher valuation. Weibo has become the leader in entertainment news social media in China, but will still face more competition from Toutiao.com and Kuaishou.com. In the long run (2019-2020), unless Weibo can improve its ARPU in games and live shows, its valuation should be traded at a discount to Facebook and Tencent.

Figure 19: Weibo's PE Graph



Source: Bloomberg.

Table 10: Peers Comparison

Company	Ticker	Currency	Price	PER (x)			PBR (x)			ROE(%)	ROA(%)
				17F	18F	19F	17F	18F	19F	18F	18F
US Online Game Companies											
Changyou	CYOU US	USD	36.670	14.2	10.6	10.3	1.7	1.5	1.4	13.8	16.7
Electronic Arts Inc	EA US	USD	108.450	33.5	25.1	21.4	8.1	7.0	5.7	25.9	13.1
Activision Blizzard Inc	ATVI US	USD	64.380	28.9	25.3	21.8	4.8	4.2	3.6	14.8	9.3
NetEase	NTES US	USD	362.430	23.6	20.1	16.9	6.5	5.2	4.1	29.3	19.8
Simple Average				25.1	20.3	17.6	5.3	4.5	3.7	21.0	14.7
Weighted Average				27.9	23.2	19.8	6.2	5.2	4.3	22.8	14.1
HK Online Game Companies											
Tencent	00259 HK	HKD	400.800	49.0	37.5	29.2	13.6	10.1	7.6	31.2	14.4
Boyaa Interactive Int.	00434 HK	HKD	3.240	7.4	7.0	6.2	0.7	0.7	0.6	12.2	10.8
IGG	00799 HK	HKD	8.470	8.0	6.5	5.9	4.6	3.4	2.7	64.3	49.7
Netdragon	00777 HK	HKD	20.000	138.6	38.9	31.9	2.1	2.0	1.9	2.0	1.0
Simple Average				50.8	22.5	18.3	5.3	4.0	3.2	27.4	19.0
Weighted Average				49.1	37.4	29.2	13.5	10.0	7.6	31.2	14.4
Advertising Companies											
Sohu.Com Inc	SOHU US	USD	44.050	n.a.	n.a.	n.a.	2.4	2.8	1.5	n.a.	(10.6)
Weibo	WB US	USD	105.530	63.3	39.2	27.2	20.9	13.8	9.2	37.0	28.9
Bitauto Holdings	BITA US	USD	31.780	40.1	14.7	11.6	1.2	1.1	1.0	4.5	1.5
Cheetah Mobile	CMCM US	USD	11.060	20.2	15.6	12.6	2.7	2.2	1.8	n.a.	1.9
58.com	WUBA US	USD	70.900	46.3	30.8	22.2	3.9	3.5	3.0	n.a.	6.2
Soufun	SFUN US	USD	4.570	89.2	21.0	14.9	3.4	2.9	2.4	n.a.	1.7
Phoenix New Media	FENG US	USD	6.960	54.6	45.4	35.4	1.4	1.4	1.4	2.7	1.6
Sina	SINA US	USD	102.830	35.7	24.5	18.7	2.4	2.2	1.9	6.4	5.5
Facebook	FB US	USD	177.890	27.4	25.3	18.9	6.9	5.5	4.4	24.3	23.1
Simple Average				47.1	27.0	20.2	5.0	3.9	3.0	15.0	6.7
Weighted Average				29.6	25.9	19.2	7.3	5.7	4.5	24.5	22.5
E-commerce Companies											
Alibaba	BABA US	USD	172.640	n.a.	33.0	25.6	10.7	7.8	6.1	17.6	10.0
VIPSHOP	VIPS US	USD	12.020	n.a.	15.7	13.5	5.8	4.3	3.3	27.9	7.1
Jumei	JUMEI US	USD	3.040	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBay	EBAY US	USD	37.930	n.a.	16.9	15.2	3.8	3.3	2.9	19.4	9.0
JD.com	JD US	USD	42.160	15.7	50.4	30.8	9.2	8.1	6.5	1.8	0.1
AMAZON	MZN US	USD	1,177.620	12.7	75.1	49.3	21.8	16.0	11.8	9.6	2.1
Gome Electrical Appliances	00493 HK	HKD	0.930	n.a.	27.9	21.9	0.8	0.7	0.7	1.9	0.7
Simple Average				14.2	36.5	26.0	8.7	6.7	5.2	13.0	4.8
Weighted Average				12.9	54.8	37.5	16.0	11.8	8.9	12.7	5.4
Search Engine Companies											
Alphabet Inc	GOOG US	USD	1,073.560	25.0	21.9	18.2	4.6	3.9	3.2	15.3	14.9
Baidu Inc - Spon Adr	BIDU US	USD	233.370	28.0	25.6	20.1	4.8	4.1	3.5	17.3	9.1
Simple Average				26.5	23.7	19.2	4.7	4.0	3.3	16.3	12.0
Weighted Average				25.3	22.3	18.4	4.7	3.9	3.3	15.5	14.4
Overall Average				32.7	26.0	20.3	5.8	4.6	3.7	18.5	11.4
Overall Weighted Average				29.0	32.7	24.8	9.5	7.3	5.7	21.4	14.2

Source: Bloomberg.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (USD m)	2015A	2016A	2017F	2018F	2019F
Total revenue	478	656	1,141	1,943	2,612
Cost of revenue	(142)	(171)	(230)	(376)	(503)
Gross profit	336	485	911	1,567	2,109
Sales and marketing	(126)	(148)	(271)	(460)	(606)
Product development	(143)	(154)	(194)	(324)	(424)
General and administrative	(29)	(41)	(51)	(87)	(118)
Operating profit	38	141	395	695	961
Gain on sale of and impairment on investments, net	(7)	(40)	(2)	0	0
Interest and other income (expenses), net	6	9	10	0	0
Profit before tax	37	110	403	695	961
Income tax	(3)	(4)	(74)	(125)	(173)
Profit after tax	34	106	329	570	789
Non-controlling interest	1	2	2	2	3
Shareholders' profit / loss	35	108	331	573	792
Basic EPS (USD)	0.170	0.503	1.468	2.418	3.187
Non GAAP shareholders' Profit	69	183	385	654	902
Non GAAP EPS (USD)	0.329	0.854	1.706	2.764	3.628

Cash Flow Statement					
Year end 31 Dec (USD m)	2015A	2016A	2017F	2018F	2019F
Profit after tax	34	106	329	570	789
Depreciation and amortization	21	14	14	11	9
Stock-based compensation	26	37	51	81	109
Other non cash gain and losses	6	43	0	0	0
Working capital change	94	36	(43)	8	(38)
Cash from operating activities	182	236	351	671	869
Investing activities					
Capital expenditure	(33)	(13)	(9)	(7)	(6)
Investment	(202)	(96)	(37)	(41)	(46)
Disposals	6	12	0	0	0
Cash from investing activities	(228)	(97)	(46)	(48)	(52)
Financing activities					
Stock issuance	8	4	5	5	6
Others	(3)	(1)	96	25	(29)
Cash from financing activities	5	3	101	30	(24)
Net changes in cash	(41)	143	406	652	794
Cash at beg of year	285	237	365	754	1,406
FX change	(6)	(15)	(16)	(18)	(19)
Cash at end of year	237	365	754	1,406	2,200

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (USD m)	2015A	2016A	2017F	2018F	2019F
Property and equipment, net	23	23	18	15	12
Intangible assets and goodwill, net	13	11	11	10	10
Long-term investments	295	400	440	484	532
Other assets	10	6	6	7	7
Total non-current assets	341	440	475	516	561
Short-term investments	98	31	28	25	23
Accounts receivable, net	120	116	259	380	479
Prepaid expenses and other current assets	42	67	123	200	234
Amount due from SINA	0	19	0	0	0
Cash & cash equivalents	237	365	754	1,406	2,200
Total current assets	498	597	1,165	2,011	2,936
Total assets	839	1,037	1,640	2,527	3,497
Accounts payable	40	49	107	158	198
Accrued liabilities	117	180	337	543	640
Deferred revenues	39	49	104	157	194
Amount due to SINA	12	0	0	0	0
Total current liabilities	209	278	548	858	1,032
Long-term deferred revenues	1	1	1	1	1
Other long-term liabilities	1	1	1	1	1
Total non-current liabilities	2	1	2	2	2
Total liabilities	211	280	550	861	1,035
Total shareholders' equity	621	753	1,084	1,657	2,449
Minority interest	7	4	6	9	13
Total equity	628	757	1,090	1,666	2,463

Financial Ratios					
	2015A	2016A	2017F	2018F	2019F
Non GAAP gross margin	70.5%	74.3%	80.1%	80.9%	81.0%
Non GAAP EBITDA margin	17.9%	29.5%	60.1%	51.7%	51.6%
Non GAAP operating margin	13.7%	27.2%	39.2%	40.0%	41.0%
Non GAAP net margin	14.3%	28.0%	33.7%	33.7%	34.5%

Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

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

Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for GREENLAND BROAD (01253 HK), GUOTAI JUNAN INTERNATIONAL (01788 HK), BINHAI INVESTMENT (02886 HK), GFI MSCI A I (03156 HK), CAM SCSMALLCAP (03157 HK), LINK HOLDINGS (08237 HK), GFI MSCI A I-R (CNY) (83156 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2017 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk