

# China / Hong Kong Industry Focus

## China Consumer Sector (Internet)

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 January 2015

### The big boys' game

- We analyze the online leaders – Alibaba, Tencent, JD.com and Baidu – in terms of monetization potential of their business models, positioning in online payment, logistics set-up, as well as O2O initiatives
- Alibaba could stand out as the medium-term winner with its lead in e-commerce, payment strength (via Alipay), and efforts in smart logistics, in our view
- JD.com benefits from its e-commerce exposure and logistics capability, and Tencent would see better performance in mobile games as well as Weixin / Mobile QQ ads. We maintain BUY on both players

**Picking out China's online leaders.** The internet sector in China is expected to sustain sound growth of 28% CAGR over 2014-2017F, thanks to its advantages such as convenience, transparency, cost savings and early move into low-tier markets. Leading players including Alibaba Group, JD.com, Tencent and Baidu have increasingly established their presence in e-commerce, games, online ads and payments, and we believe their expansion strategies could differentiate their respective growth prospects over the medium-term.

**Positioning is the key.** In our view, winning players could focus on the right segment, and gain control over key functions of the ecosystem. Among all business models, we expect e-commerce to be well-poised to achieve better monetization, building on its transaction-based model that directly generates cash flows. Online shopper population could likely hit c.540m by 2020, and their average spending could also more than double, to reach c.RMB17,900. Coupled with better e-payment and logistics solutions, user stickiness towards the e-commerce ecosystem could continue to improve.

**The medium-term winners.** We believe **Alibaba Group** is well positioned to win in the online competition, through its lead in e-commerce (c.58% market share), synergies from multiple platforms including Taobao, Tmall and Juhuasuan, comprehensive payment service offerings via Alipay, and smart logistics through "Cainiao". Based on 1x consensus PEG, our potential target is US\$119. **JD.com** also ranks high on our list for decent direct sales growth, emerging contributions from online marketplace, and efforts to develop its own logistics capability. Investor confidence could also be enhanced by Tencent's recent share acquisition. We maintain BUY on JD.com with TP of US\$31.2, based on 1.5x 12-month rolling P/Sales ratio. We are also positive on **Tencent**, given rising contributions from mobile games, as well as ad initiatives on Weixin and Mobile QQ platforms. Maintain BUY on Tencent with TP of HK\$156, based on (0.9x core PEG, or 32x 12-month rolling core PE).

HSI: 24,850

NASDAQ: 4,758

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#### Recommendation & valuation

Company		Price Local\$	Target Price Local\$	Upside %	Recom	15F PE x	15F P/Sales x
Tencent* <sup>^</sup> (700 HK)	HKD	132.7	156	18	Buy	29.3	10.1
JD.Com* <sup>^</sup> (JD US)	USD	24.65	31.2	27	Buy	n.a.	1.2
Alibaba# <sup>^</sup> (BABA US)	USD	103.11	n.a.	n.a.	NR	34.9	14.9
Baidu (BIDU US)	USD	233.325	n.a.	n.a.	NR	27.1	5.8

# 2015: FY3/16

<sup>^</sup> Core PE

Note: We expect JD.com to turn profitable (based on non-GAAP core profit) in 2016F.

Source: Thomson Reuters, \*DBS Vickers

Based on closing prices as at 23 Jan 2015

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## Investment summary

**E-commerce is in a sweet spot.** China's internet sector has been delivering robust growth over the years, thanks to its convenience, transparency, cost savings and online players' early move into low-tier markets. iResearch expects total sector revenue to expand at 28% CAGR over 2014-2017F to reach RMB1,723bn. We believe e-commerce is in the best position to achieve monetization (i.e. register revenues and profits), riding on its transaction-based business model that directly generates cash flows. Besides, most brand operators are willing to partner with e-commerce players to enhance their online presence, and in turn improve the outlook of e-commerce operators.

**Large upside in online spending.** In addition to the rising number of online shoppers, we believe online spending per capita is far from reaching the ceiling. Based on our estimates, shoppers in China have an average of 3.5 years of online shopping experience. Studies by Aliresearch show that users with 5 years of online shopping experience would spend an average of RMB15,000 per annum, or at least more than a double of the current average spending (RMB7,153). As such, Aliresearch expects online spending per capita to post c.16% CAGR over 2014E-2020F to reach c.RMB17,900.

**Rural e-commerce could be the next driver.** Despite sound e-commerce development in the urban markets, online players have limited success in penetrating the rural markets, mainly due to less-developed infrastructure and weak user awareness there. We estimate rural customers spend an average of c.RMB2,600 on e-commerce per annum, or merely 1/3 the spending of their urban counterparts. Aided by rising incomes in the low-tier markets, we believe the spending gap will gradually narrow. Given huge potential in the rural markets, leading players including Alibaba Group and JD.com have been investing to improve their rural presence ahead.

**Payment capability is essential.** We are positive on the medium-term outlook of the online payment industry, given its importance in the monetization process. Riding on Alibaba's e-commerce lead, Alipay (a related entity to Alibaba Group) is now the leading online payment operator with c.50% market share. Alipay is expanding its payment services to other categories such as digital gaming, ticketing and bill payments, to capture more monetization opportunities. Tencent also leverages on its strength in social networks to promote its online payment solutions, especially "Weixin Payment" and "Mobile QQ Wallet". We believe "Baidu Wallet" could face a difficult battle with the leaders, while JD.com might fare better thanks to its strategic cooperation with Tencent.

**Logistics initiatives to bear fruit.** Online shoppers rank highly on timeliness and accuracy of product deliveries, suggesting strong growth potential for e-commerce logistics in China. Alibaba's China Smart Logistics ("Cainiao 菜鸟") has cooperated with logistics partners to develop a smart logistics IT system, which is able to coordinate product deliveries across China. In contrast, JD.com is pursuing its self-owned logistics model, and is constructing highly-automated "Asia No.1 (亞洲一號)" warehouses to beef up logistics capability. In our view, Alibaba and JD.com could both ride on their rapid development of e-commerce logistics to offer better delivery services to customers.

**O2O sees more applications ahead.** O2O could potentially change the medium-term landscape of the retail and e-commerce sectors, by creating a stronger bonding between offline store operators and online players. We believe group buying, mobile maps and online advertising solutions could play important roles in O2O. In our view, Baidu and Tencent fare better in their O2O positioning, building on their strong presence in mobile maps, as well as performance-based ads that better connect to their offline clients. In particular, Tencent's latest launch of "Moments (朋友圈)" ads in Weixin could enhance its online ads presence, and we expect its ad market share to reach 9% in 2016F (from 5% last year).

**Identify the medium-term winners.** We rank the leading online players – Alibaba, JD.com, Tencent and Baidu – based on the monetization potential of their business models, payment capability, logistics development and O2O initiatives. We believe Alibaba is best positioned to become the medium-term winner in China's internet space, followed by JD.com, Tencent and Baidu. Based on 1x consensus PEG, our potential target for Alibaba is US\$119. We also maintain BUY on JD.com with TP of US\$31.2 (based on 1.5x 12-month rolling P/Sales ratio), and a BUY on Tencent with TP of HK\$156 (based on 0.9x core PEG, or 32x 12-month rolling core PE).

**Key risks.** For Alibaba and JD.com, the major risks are tightening government policies, especially the potential taxation on marketplace merchants. Tencent could likely see downside from unsuccessful monetization of Weixin and Mobile QQ platforms as this could hurt user experience, and Baidu could be impacted by intensifying competition in the online ads segment.

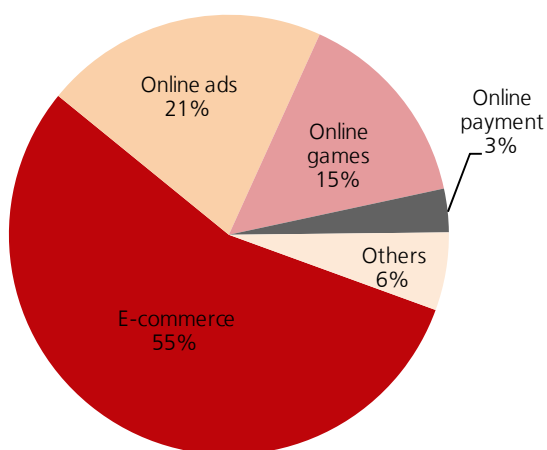
## Industry Focus

### China Consumer Sector (Internet)

#### It's all about monetization

**Rosy outlook.** Thanks to attributes such as convenience, transparency and cost savings, the internet is increasingly penetrating many sectors in China, including retail, marketing, digital gaming and financials. Market research firm iResearch expects China's internet sector revenue to register 28% CAGR over 2014-2017F, to reach RMB1,723bn. Particularly, e-commerce GMV (gross merchandise value) is expected to achieve 27% CAGR during the same period, amounting to RMB5,634bn. Hence, we are optimistic about the medium-term growth potential in China's internet sector.

#### Revenue breakdown for China internet sector (2013)



*Note: For e-commerce, we use revenue figures, instead of gross merchandise value (GMV).*

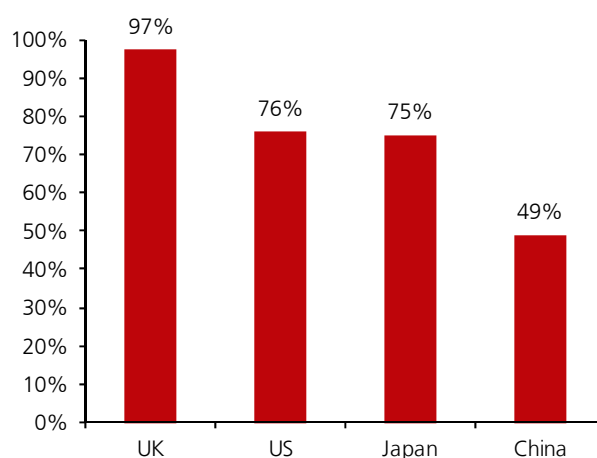
*Source: iResearch*

**E-commerce is best-positioned in monetization.** The major sub-segments of the internet sector include e-commerce, online ads and online games. Despite its relatively small size, online payment and internet financing could see better growth prospects over the medium-term. We believe e-commerce has the best potential to achieve monetization (i.e. generating revenue and profit), supported by its transaction-based business model that closely involves payments and cash flows. Besides, online shoppers normally have clear intentions when they surf the internet, which helps to improve conversion rate (i.e. browse-buy ratio).

Eager to enhance their online influence, most brand operators are willing to partner with e-commerce players to tap on their online expertise. In addition, the use of mobile devices has increased users' time spent surfing the internet (to >10 hours a day), while users are also spending more on mobile commerce. Of note, c.30% of online sales in China last year were transacted on mobile devices, versus c.15% in 2013 (source: iResearch).

**More netizens shopping online.** Thanks to the promotion of computers and mobile devices, improvements in telecom facilities, and cultivation of online buying habits, the number of e-commerce customers in China had reached 302m in 2013, and accounted for 49% of the total netizen population. This is still far below that in Japan (75%), the US (76%), and the UK (97%). According to Aliresearch, e-commerce customers in China could sustain decent growth to reach c.540m in 2020F, and >25m new customers would start to buy online each year.

#### Online shoppers as % of netizen population (2013)



*Source: CNNIC, UK Statistics Bureau, A.T.Kearney, Statista.com*

**Online spending to grow rapidly.** Based on iResearch data, we believe c.230m online shoppers had made their first online purchase since 2011. In other words, these customers have less than 4 years of online shopping experience, and they account for c.60% of total online shopper population in China. As such, we estimate that online shoppers in China have average 3.5 years of online shopping experience, and their average online spending was RMB7,153 last year (iResearch data).

#### Study on new online shoppers in China

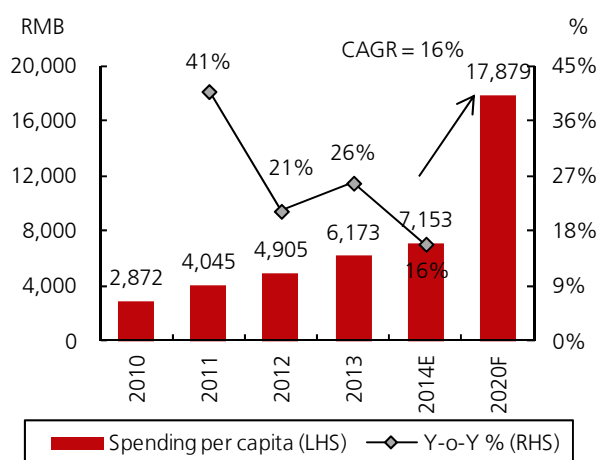
Year	Number of new online shoppers	Online shopping experience by now (no. of years)
2008 & before	74	7.5
2009	34	5.5
2010	53	4.5
2011	33	3.5
2012	48	2.5
2013	60	1.5
2014E	88	0.5
<b>Average</b>		<b>3.5</b>

*Note: A bracket groups the years 2011-2014E, indicating a total of c.230m new online shoppers.*

*Source: iResearch, DBS Vickers*

Studies by Aliresearch show that in the first year, online shoppers on average spend c.RMB1,000 per annum; by the fifth year, spending would rise to c.RMB15,000; by the tenth year, spending would reach c.RMB30,000. Since online shoppers in China on average have 3.5 years of online shopping experience, we believe there is plenty of upside potential for average online spending to grow. Aliresearch expects online spending per capita to reach c.RMB17,900 in 2020F, representing c.16% CAGR over 2014E-2020F.

**Spending per online shopper**



Source: iReserach, Aliresearch, DBS Vickers

**Rural e-commerce holds great potential.** Despite sound e-commerce developments over the years, online operators have mainly penetrated the urban markets so far, while rural areas have been largely untapped due to less-developed infrastructure and weak user awareness. In 2014, >35% of urban population in China had made online purchases, but only c.10% of rural population had used e-commerce (source: Aliresearch).

According to our estimates, online shoppers in rural areas on average spent c.RMB2,600 last year, or merely 1/3 of the amount spent by their urban counterparts. Given rising income in the low-tier markets, we believe the gap could narrow over the medium-term. Aliresearch estimated that online sales in the rural markets amounted to RMB180bn last year. With improvements in payment channels and logistics facilities, rural online sales are expected to reach RMB460bn in 2016F, implying c.60% CAGR.

**Large potential in rural e-commerce, given low spending per capita**

**2014E**

**Online shopper population:**

m	Urban	Rural	Total
Population	322	69	390

**Spending per online shopper:**

RMB	Urban	Rural	Average
Spending	8,118	2,628	7,153

**Key assumptions:**

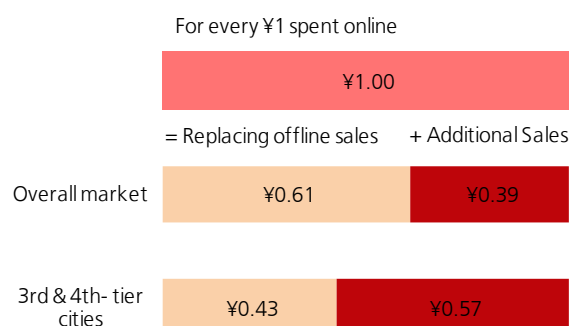
- 1) Rural e-commerce sales made c.7% contribution
- 2) c.10% of rural population shops online

Source: DBS Vickers, CEIC, Aliresearch

In view of strong e-commerce potential in the rural markets, Alibaba Group plans to invest a total of RMB10bn within 3-5 years to enhance its rural exposure. Specifically, it aims to open c.1,000 rural operating centers and c.100,000 service stations in villages. This would allow the e-commerce giant to penetrate 1/3 of the counties in China. JD.com has also been rolling out its rural service centers (“京東幫服務店”) since 2014, and aims to build c.2,000 service centers by 2017F. We believe expansion of the leading e-commerce operators could improve both infrastructure and customer awareness in the rural markets, helping to stimulate user demand ahead.

**Rural e-commerce drives retail sales.** Contrary to conventional belief, development of rural e-commerce in China has not been fully carried out at the expense of offline retail sales, in our view. Analysis by McKinsey shows that for every ¥1 spent online in the rural markets, ¥0.57 could be additional spending by the customers. This is mainly due to the lack of retail infrastructure in the rural areas, and online sales could actually encourage customers to spend more. Hence, with the evolution of rural e-commerce, we believe retail sales growth in China could be enhanced over the medium-term.

**Development of online sales lifts total consumption**



Note: E-commerce is more effective in stimulating retail sales in 3<sup>rd</sup> & 4<sup>th</sup> tier markets, as e-commerce offers greater convenience, promotion and social networking effects to rural users.

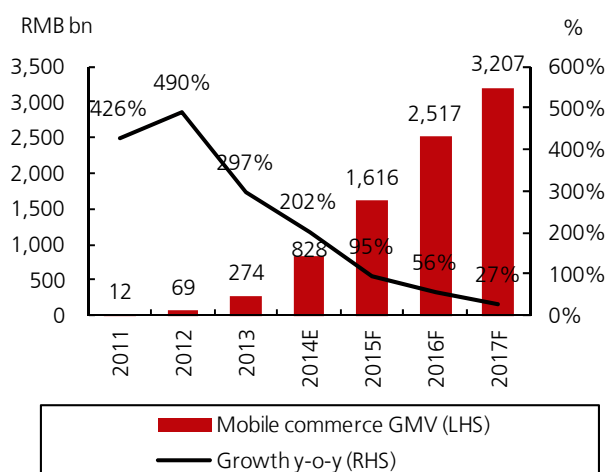
Source: McKinsey research (2013)

## Industry Focus

### China Consumer Sector (Internet)

**Mobile commerce on the way.** Online shoppers in China are increasingly buying via their mobile devices, given longer time spent on mobile internet (>10 hours a day), greater convenience of mobile commerce, and numerable O2O opportunities especially in group-buying and LBS (location-based services, such as mobile maps). Mobile commerce contributed c.30% to e-commerce last year, and the ratio is expected to reach 57% in 2017F (source: iResearch).

#### Market size of mobile commerce in China

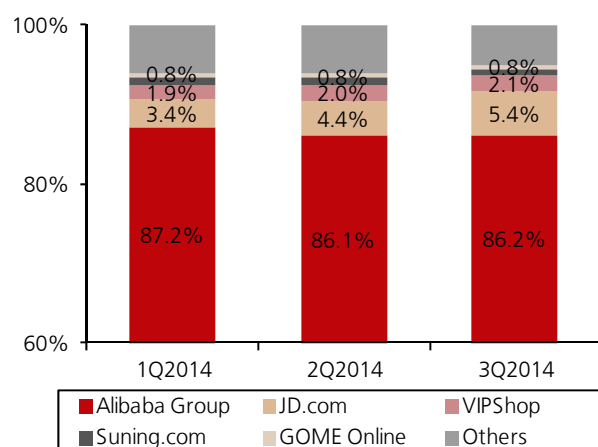


Source: iResearch

In view of huge potential for mobile commerce, Alibaba Group had launched its first app, "Mobile Taobao" back in 2010. Riding on the success of Taobao marketplace and its first-mover advantage, "Mobile Taobao" has been the most popular mobile commerce app in China by number of MAUs (monthly active users) since Aug 2012. Coupled with other apps such as Tmall, Juhuasuan (聚划算) and Taodiandian (淘点点), Alibaba had enjoyed the dominant position of c.86% mobile market share in 9M2014.

Despite its relatively small mobile market share, JD.com has increasingly gained traction in mobile commerce, thanks to the development of its online marketplace, improving payment channels, and user traffic support from Tencent following their strategic cooperations. Such initiatives lifted JD.com's mobile market share to 5.4% for 3Q14, as compared to merely 3.4% in 1Q14.

#### Mobile commerce market share



Source: iResearch

**Alibaba leads in monetization.** To sum up, we believe e-commerce is well-positioned to monetize on user activities, and Alibaba could be the major beneficiary of this trend, followed by JD.com. Baidu has limited e-commerce exposure except for its investment in LEHO.com (爱乐活), an online sales platform focusing on fashion products. Tencent has transferred most of its e-commerce operations to JD.com, following their strategic cooperation since Mar 2014. Hence, Alibaba and JD.com could have better monetization potential, in our view.

#### DBSV ranking in monetization potential

	Baidu	Alibaba	Tencent	JD.com	Remark
Monetization potential	★★★★	★★★★★★	★★★★	★★★★	E-commerce has best monetization potential in the China internet sector, and Alibaba leads with c.58% market share; JD.com comes second with c.22% share. Baidu and Tencent could be roughly at par in terms of monetization potential, given similar market sizes for online ads and online games.

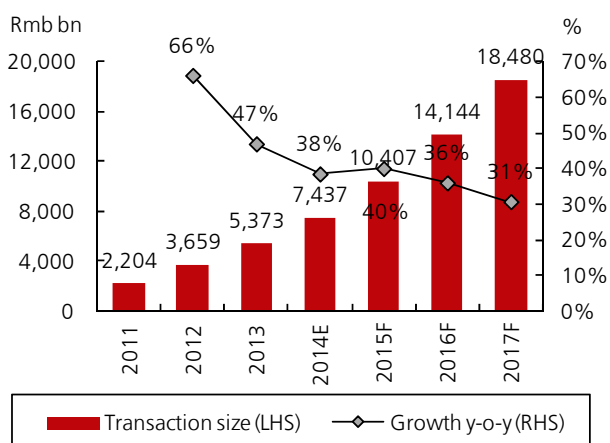
Source: DBS Vickers

Show me the money

**Online payment drives medium-term growth.** Despite only 3% revenue share in the internet sector, being a key section in the monetization process, we believe online payment has large upside in the longer run. According to iResearch, online payment transaction value in China could post 35% CAGR over 2014E-2017F, and reach RMB18,480bn.

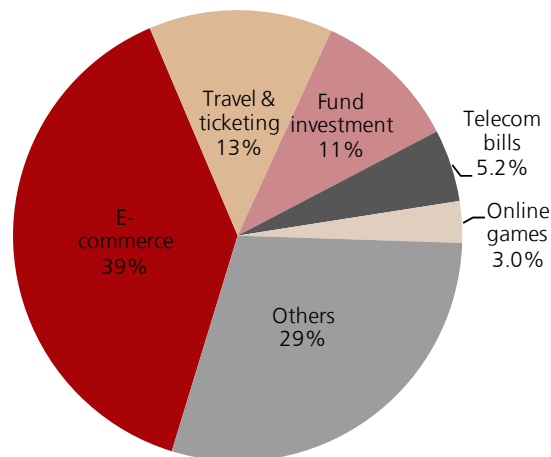
In the mobile era, users have increasingly embraced mobile payment for its convenience and efficiency. In a survey conducted by iResearch last year, >40% of respondents believe mobile payment is efficient and easy to use, and 15% think it could gradually become an alternative to bank cards and even cash. In our view, online payment operators could gain market share against traditional payment channels, thanks to the convenience and their close bonds with mobile commerce.

Online payment transaction value in China



Source: iResearch

E-commerce is the most important segment for online payment (2014E)

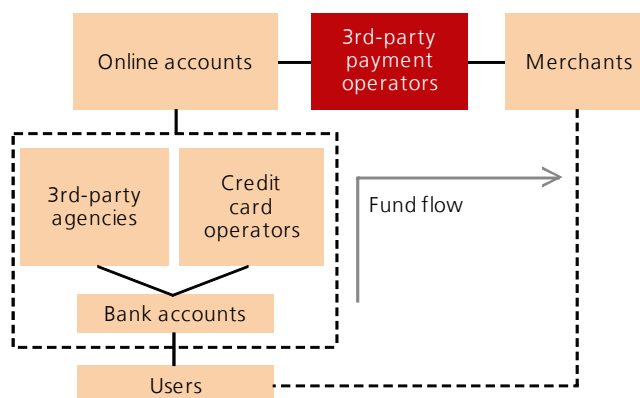


Note: Breakdown of user purpose by segments.

Source: iResearch

**Security is the focus.** Most online payment operators serve as intermediaries between banks, credit card organizations, merchants and users, helping to ensure users' payments are flowed to merchants in an accurate and timely manner. Particularly, players like Alipay (支付宝) are providing escrow services to its customers, and payments are released to merchants only after the products are delivered to the buyers. In a survey by iResearch, >60% of the respondents believe payment security needs to be enhanced. Hence, online payment could gain more popularity if users' safety concern is better addressed.

Business model of online payment operators in China



Source: China UnionPay

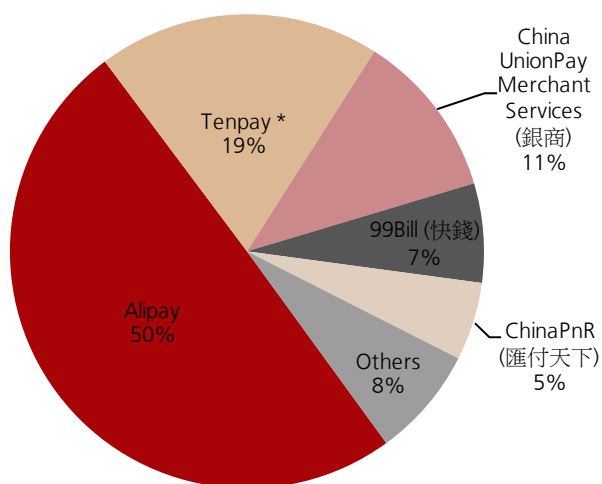


## Industry Focus

### China Consumer Sector (Internet)

**Alipay: the unparalleled leader.** Riding on Alibaba's strength in e-commerce, Alipay (a related entity to Alibaba Group) has provided online payment and escrow services for customers of Taobao, Tmall and Juhuasuan marketplaces. According to Alibaba, c.80% of its China retail GMV has been settled via Alipay, showing online shoppers' strong recognition to this payment channel. As of end-2014, Alipay has >300m active users, and c.200m have been actively using its mobile payment services. iResearch expects that Alipay captured c.50% online payment market share, well ahead of key competitors including Tencent and China UnionPay (中國銀聯). Alipay has actively expanded its service coverage to other segments, including digital gaming, ticketing, and telecom / utilities bills, helping to enhance its longer-term growth potential.

#### Online payment market share (9M2014)



\* Tenpay includes Tencent's other payment solutions such as "Weixin Payment" and "Mobile QQ Wallet".

Source: iResearch

**Tencent rides on its strength in social network.** Launched in 2005, Tenpay (財付通) is Tencent's own online payment channel. Over the years, Tenpay has evolved from a payment service provider for gamers and QQ users, to become a comprehensive online payment operator covering digital gaming, ticketing, e-commerce, insurance, fund products and bill payments, etc. In addition, Tenpay has launched "Weixin Payment (微信支付)" and "Mobile QQ Wallet (手機 QQ 錢包)" to offer mobile payment services to Weixin and Mobile QQ users, respectively. So far, Tenpay has serviced >200m users and >400,000 enterprise clients, and has become the 2<sup>nd</sup>-largest online payment service provider after Alipay.

Looking ahead, Tencent aims to promote the payment solutions to its >800m social network users via new functions like "Weixin Red Pocket (微信紅包)". There have been media reports that Tencent would use "Weixin Red Pocket" function to promote its ad clients during the 2015 Chinese New Year, which should stimulate the company's online ad performance. Besides, better mobile payment services could help to improve Tencent's mobile game ecosystem, so as to generate decent mobile game revenue growth ahead (note: we currently expect >50% mobile game revenue growth for FY15).

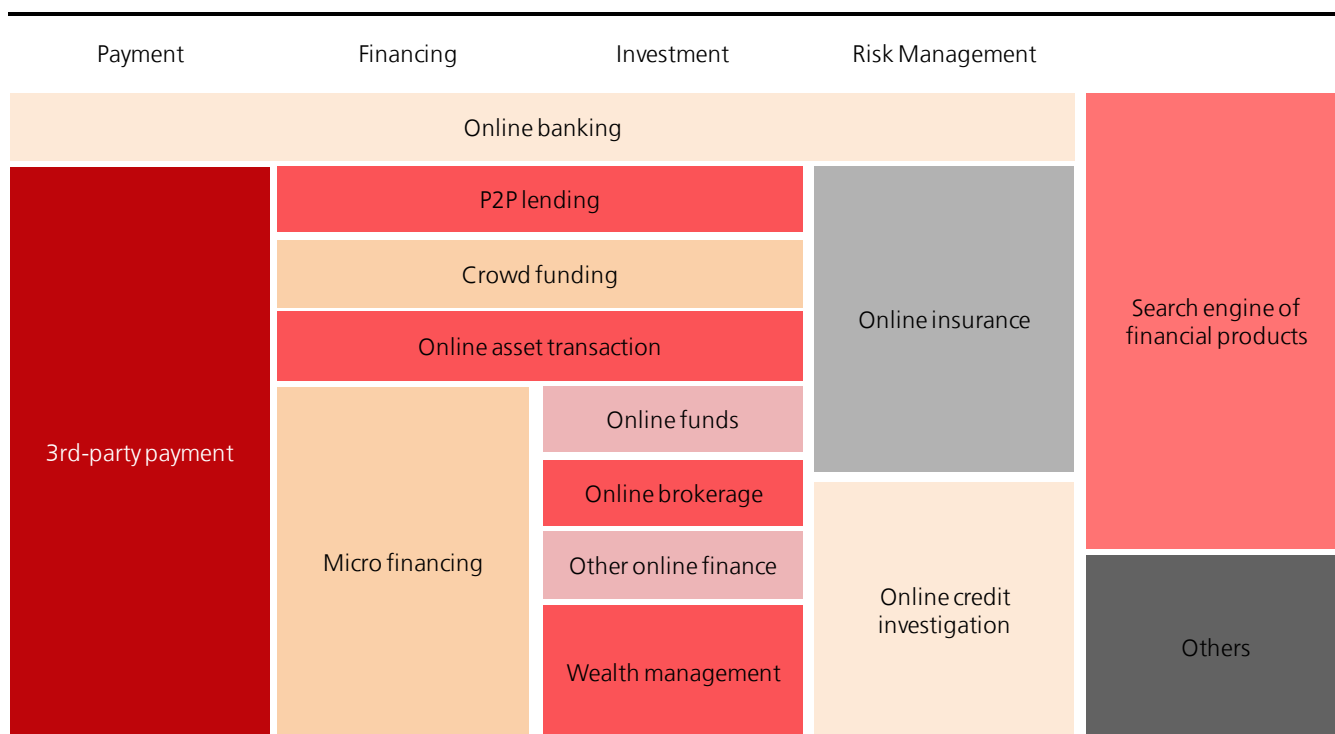
**JD.com: Ride on giant's shoulder.** Seeing the importance of online payment, JD.com acquired Chinabank Payment (網銀在線), an online payment service provider in 2012. Chinabank Payment has >50,000 enterprise clients, and offers payment services to buyers on JD.com. In addition, following its strategic cooperation with Tencent, JD.com has introduced "Weixin Payment" and "Mobile QQ Wallet" to its e-commerce platforms. These initiatives should encourage >200m Tenpay users to shop on JD.com, helping to broaden JD.com's customer base (note: JD.com had c.46m active customers as of Sep14).



**Positioning in internet finance.** In addition to online payments, there are other important internet finance services such as online fund investment, online brokerage, micro financing (小微贷款), crowd funding (众筹), and P2P (peer-to-peer) lending. Aided by online players' accessibility and analysis of large amounts of online data ("big data analysis"), internet finance could play active roles in SME and consumer financing. For instance, Alibaba's micro loan operation (阿里小贷) has lent out c.RMB15bn as of Oct14, and has serviced c.800,000 SMEs.

In view of the huge potential, online leaders have been positioning to establish their internet finance arms. Specifically, Tencent has developed Webank (微众银行), and Alibaba has applied to set up Zhejiang Internet Commerce Bank (浙江网商银行). Both banks have been approved by China Banking Regulatory Commission (CBRC), and Webank was launched in Jan 2015. 30% held by Tencent, Webank would focus on consumer financing / SME financing, riding on Tencent's >800m online users. We expect Tencent and Alibaba to enjoy first-mover advantage in internet finance, thanks to their solid financial positions and respective competitive strengths in user base / e-commerce exposure.

**Operating models of internet finance**



Note: 3<sup>rd</sup>-party payment: Non-bank online payments such as Alipay and Tenpay; P2P: Peer-to-peer.

Source: Government websites, companies

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### China Consumer Sector (Internet)

**Alibaba on a winning streak.** Thanks to Alibaba’s multiple e-commerce platforms that help to cultivate shoppers’ online payment habits, Alipay has enjoyed larger user base and higher user activities than its peers. Alipay aims to offer payment services in more categories such as healthcare and offline retailing. For instance, Alipay targets to provide mobile payment services in c.100 hospitals in China this year, and it has lined up c.20,000 stores to promote in-store mobile payment in Dec 2014. Looking ahead, we expect Alibaba to further ride on Alipay’s payment strengths to enhance its lead in e-commerce.

As for Tencent, its “Weixin Payment” and “Mobile QQ Wallet” could help to enhance the payment section in Weixin and Mobile QQ platforms. In particular, it would expand the “Red Pocket” function to Mobile QQ, and cooperate with ad clients to launch promotion campaigns using this function. “Weixin Payment” would also play an important role in Tencent’s emerging e-commerce operations on Weixin (e.g. “Weixin Xiaodian 微信小店”).

Baidu has developed “Baidu Wallet (百度錢包)” as its online payment solution, and JD.com has “Chinabank Payment” in addition to its strategic cooperation with Tencent. That said, we believe Alibaba / Alipay would continue to enjoy their lead, followed by Tencent.

### DBSV ranking in online payment capabilities

	Baidu	Alibaba	Tencent	JD.com	Remark
Payment capability	★★	★★★★★	★★★	★★	Alipay, related company of Alibaba, is the leading online payment service provider with c.50% market share; Tencent’s Tenpay has c.19% share; Baidu has developed Baidu Wallet, and JD.com acquired Chinabank Payments (網銀在線), both of which are still small at this stage.

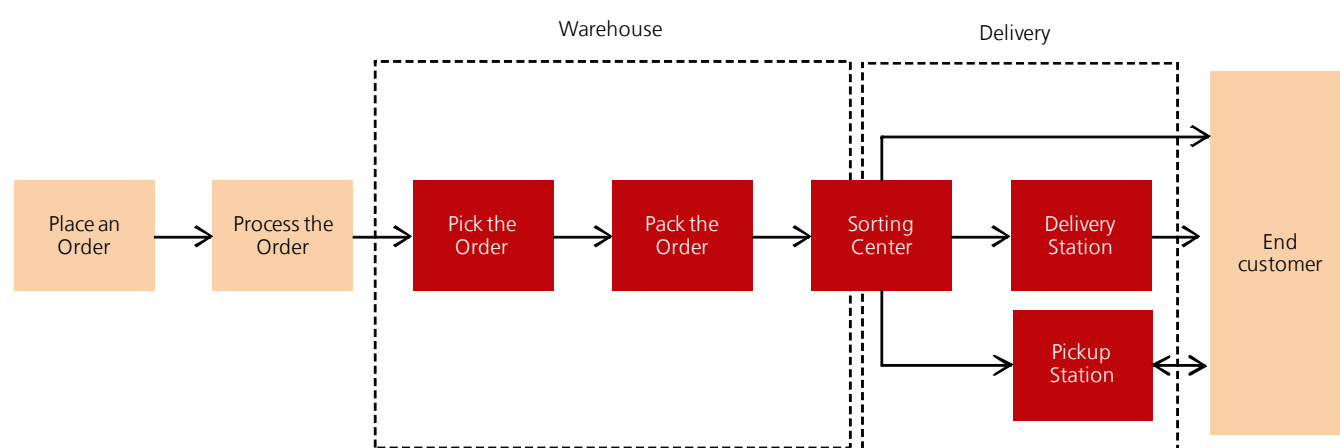
Source: DBS Vickers

The last mile of a marathon

**E-commerce logistics: Way to grow.** With e-commerce developing rapidly in China, product deliveries have achieved swift growth. China Post estimates that nearly 14bn parcels were delivered last year, representing c.40% growth over 2013. Based on our estimates, c.60% of these parcels could be

related to e-commerce. Given the busy order flow, online shoppers are increasingly focusing on timeliness and accuracy of product deliveries, creating opportunities and challenges for e-commerce logistics.

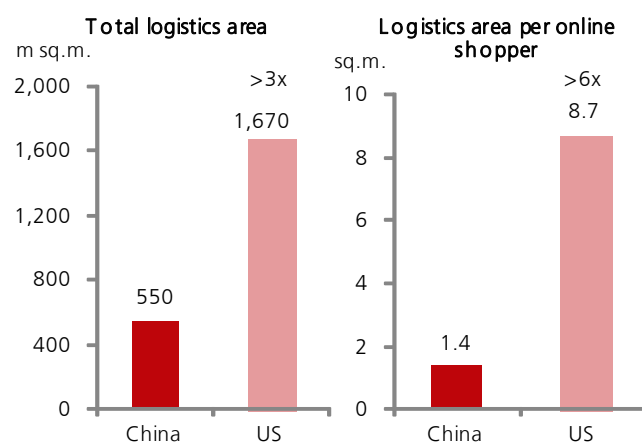
Logistics model for e-commerce operators



Source: Companies

According to government data and estimates by Global Logistics Properties (GLP), total GFA of logistics facilities in China amounts to c.550m sq.m., less than 1/3 of GFA for logistics facilities in the US. Particularly, the GFA of modern logistics facilities in China is only c.10m sq.m., and accounts for less than 2% of the portfolio. In terms of logistics area per capita, each online shopper shares a mere 1.4 sq.m., versus 8.7 sq.m. in the US. Hence, GLP expects decent growth in China's logistics sector, and total GFA of logistics facilities could reach 2.4bn sq.m. by 2029F (implying c.10% growth per annum).

Comparison of logistics sector development between China and the US (2014E)



Source: Government websites, GLP, CEIC

## Industry Focus

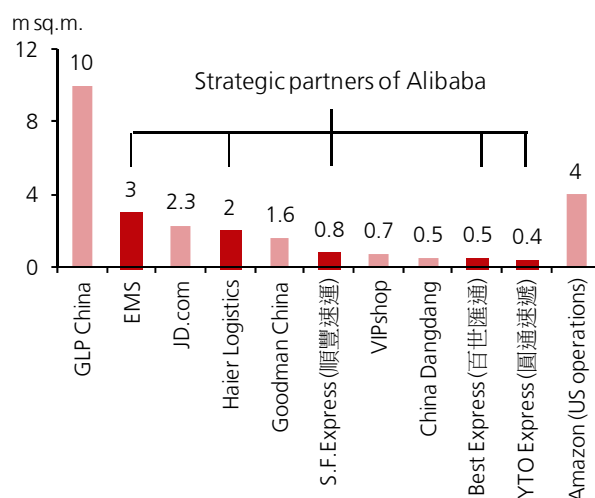
### China Consumer Sector (Internet)

**Alibaba adopts the asset-light approach.** China Smart Logistics (“Cainiao 菜鳥”, 48% held by Alibaba Group) has been developing a smart logistics IT system. In this system, China Smart Logistics utilizes its “big data” analytic capability to process customer orders to come up with optimized delivery routes, and logistics partners such as S.F. Express (順豐速運) and EMS provide the deliveries. China Smart Logistics also secured lands in key locations (e.g. Hangzhou, Guangzhou, Wuhan, Chengdu, Beijing and Tianjin), to develop logistics hubs for its network. As of June 2014, China Smart Logistics has the capability to deliver c.17m parcels per day; the ultimate goal is to deliver >100m parcels daily, which would reach the buyers within 24 hours of order placement.

**JD.com pursues own logistics model.** Aiming to offer timely and accurate deliveries to customers, JD.com has been operating own fulfillment infrastructure (i.e. warehousing and delivery facilities) since 2007. As of Sep 2014, JD.com operated 118 warehouses (total GFA of c.2.3m sq.m.), 2,045 delivery stations and 1,045 pickup stations across 1,855 counties and districts.

Besides, the company has been constructing highly-automated warehouses, “Asia No.1 (亞洲一號)”, in key locations. The first “Asia No.1” warehouse in Shanghai was launched in Oct 2014, with c.100,000 sq.m. of GFA (the 1<sup>st</sup> phase). It has also started to build “Asia No.1” warehouses in Guangzhou, Wuhan and Shenyang, to be launched this year. There are plans for more “Asia No.1” warehouses in Beijing, Chengdu and Xi’an, to improve JD.com’s logistics capability.

#### Comparison of logistics areas (2014E)



*Note: Alibaba Group rides on logistics capability of its strategic delivery partners. Its China Smart Logistics (“Cainiao”) has secured several locations in China to develop key distribution centers.*

*Source: Companies, DBS Vickers*

**Cooperation with national plays makes better sense.**

Compared to regional players, we believe operators with nationwide store networks could create more synergies with e-commerce players, as they could provide extensive delivery services for their online partners. Coupled with competitive strength in after-sales services (e.g. repair and installation), we believe home appliance operators have good potential to cooperate with online players.

Among the major home appliance brand players and retailers, Haier Electronics has formed strategic cooperation with Alibaba, and Haier provides logistics services especially for large items transacted on Tmall. Midea Group has also lined up with JD.com and Xiaomi to pursue R&D of smart appliances, sharing of downstream channels, as well as e-commerce development. Suning and GOME have sizeable online divisions, hence are less likely to cooperate with online players given competition concerns. Hence, we believe online players could potentially cooperate with GREE, TCL Multimedia, Skyworth and Hisense to enhance their offline capability, especially in logistics.

**Selective operators of extensive store network**

Company	Ticker	Network coverage	POS number	Strategic online cooperator
<b>Home appliance brand players:</b>				
Haier Electronics	1169.HK	Nationwide	>30,000 Haier stores and >700 Gooddaymart stores	Alibaba
GREE	000651.CH	Nationwide	>30,000 sales points	n.a.
Midea Group	000333.CH	Nationwide	>15,000 sales points and c.1,000 flagship stores	JD.com and Xiaomi
TCL Multimedia	1070.HK	Nationwide	c.30,000 sales points	n.a.
Skyworth	751.HK	Nationwide	>20,000 sales points (>3,500 specialty stores)	n.a.
Hisense Electric	600060.CH	Nationwide	>23,000 sales points	n.a.
<b>Home appliance retailers:</b>				
GOME	493.HK	Mainly 1st & 2nd tier cities	>1,100 stores	Owns online sales division
Suning	002024.CH	Mainly 1st & 2nd tier cities	>1,600 stores	Owns online sales division

Note: Offline players' stores could provide last-mile logistics services for online players.

Source: Companies, DBS Vickers

**Time to take action.** The e-commerce logistics market in China has huge potential to grow over the medium-term, and the fragmented market means leading players could ride on first-mover advantage to gain market share. Hence, although Alibaba and JD.com are operating different logistics models

(asset-light vs. asset-heavy), we believe both players could benefit from their early decisions to invest in logistics, and the logistics operations could be a crucial contributor to their e-commerce performances.

**DBSV ranking: JD.com & Alibaba stand out in their active logistics initiatives**

	Baidu	Alibaba	Tencent	JD.com	Remark
<b>Logistics development</b>	-	★★★★★	★	★★★★★	JD.com has developed >2.3m sq.m. of distribution centers, riding on its self-owned model. Alibaba's affiliate, China Smart Logistics ("Cainiao"), is developing information system to coordinate its logistics partners. Tencent operates logistics facilities via Yixun.com, and it has benefited from the strategic cooperation with JD.com. Baidu does not own logistics operations.

Source: DBS Vickers

## Industry Focus

### China Consumer Sector (Internet)

#### Virtual world vs. real world

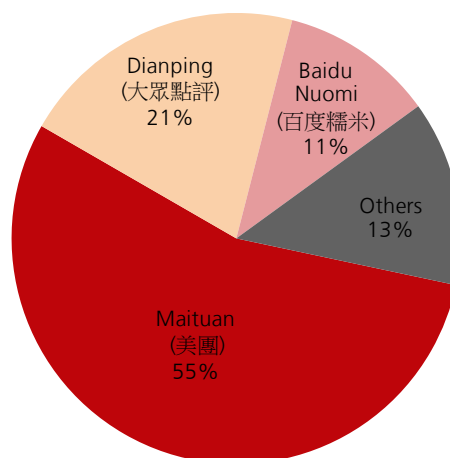
**O2O could be a medium-term game changer.** We believe O2O (online-to-offline) could potentially change the landscape of the retail and e-commerce sectors in the longer run, as offline retailers could extend their reach to more consumers via online promotions, and online players could enhance customer recognition by providing services in offline channels. Particularly, we believe functions that could play important roles in O2O include group buying (團購), mobile maps, and online advertising solutions.

**Group buying enhances O2O integration.** According to recent studies by the Ministry of Commerce, offline retail stores have limited coverage radius. For instance, a typical convenience store in China has coverage radius of up to 300m, a supermarket up to 5km, and a department store up to 20km. However, when stores cooperate with online group buying players to offer discounts, customers living across the region could be incentivized to participate. Hence, we believe online players could ride on their group buying operations to pursue O2O opportunities with offline partners.

Meituan (美團, invested by Alibaba) has been the leader in China's online group buying industry, thanks to its first-mover advantage in mobile operations, as well as its focus on key categories (e.g. group buying of movie tickets and hotel rooms) to improve customer stickiness. Meituan registered >RMB46bn of GMV in 2014 (+180%), and its active user number had exceeded 200m. Alibaba also operates Juhuasuan (聚划算) group buying website, a discount platform that rides on Taobao and Tmall marketplaces.

Seeing Alibaba's success in Meituan, other online leaders have followed suit. Baidu acquired Nuomi (糯米網) in Jan 2014, and Tencent became a strategic investor in Dianping (大眾點評) in Feb 2014. Hence, we expect fierce competition in the group buying market, on the back of leaders' supports.

#### Market share of group buying operators (9M2014)



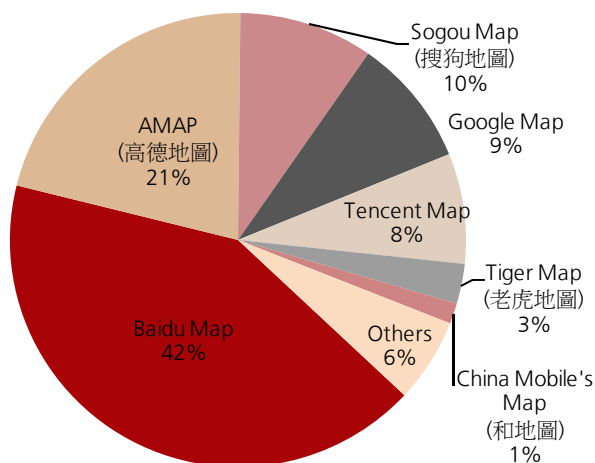
*Note: Alibaba's Juhuasuan (聚划算) is excluded as it is mainly a group discount platform that rides on Taobao and Tmall marketplaces.*

*Source: Enfodesk, Tuan800.com*

**The core of LBS lies in mobile maps.** In our view, mobile map could be one of the most important applications of LBS (location-based services), given offline users' keen demand for directions, and finding relevant locations in the vicinity (e.g. a nearby bank or restaurant). Hence, mobile maps could be major online entrances for offline users, and become a critical part of internet players' O2O strategies.

Among the mobile map operators, Baidu Map has taken the lead with 42% market share in 1H14, followed by AMAP (高德地圖, owned by Alibaba) with 21% share. Sogou Map and Tencent Map (both invested by Tencent) together had c.18% share. Hence, Baidu is best-positioned to pursue O2O opportunities in the mobile map segment, in our view.

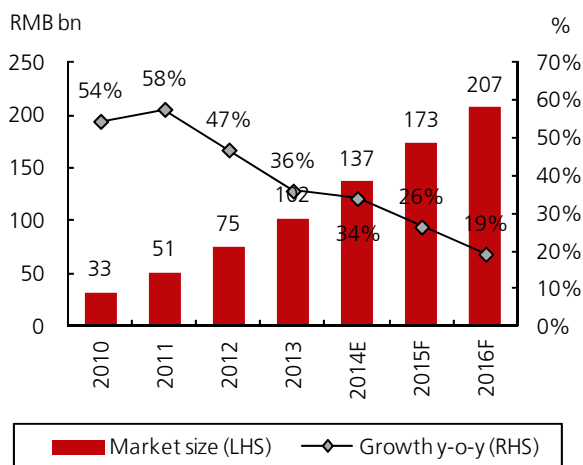
**Market share of mobile maps (1H2014)**



Source: iResearch

**Performance-based ads to drive online ad growth.** Given online promotion's advantages such as extensive reach to a large number of customers, offline store operators have increasingly allocated their ad budgets to online channels. iResearch expects online ad spend in China to post 27% CAGR over 2013-2016F to reach RMB207bn. Major online ad players include Baidu (c.30% market share), Alibaba (c.25%), Tencent (c.5%), Google China (c.4%) and Sohu (c.4%).

**Online ad spend in China**



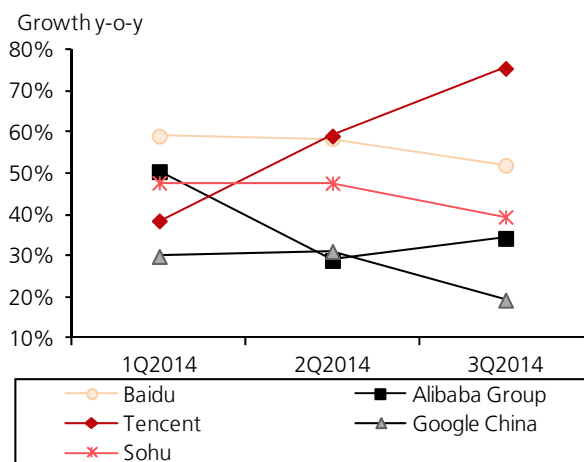
Source: iResearch

In particular, we believe performance-based ads could be the medium-term driver for online ads, riding on better transparency for ad clients and accurate targeting of audience. With performance-based ads, ad clients could specify their desired audience, based on age, gender, location, occupation and even habits. More importantly, performance-based ads make it possible for ad clients to interact with the audience (e.g. users could respond to the ads by clicking the "like" button, commenting, and sharing them with friends), enhancing the promotional impacts.

To create better interaction between users and ad clients, Baidu has launched "Baidu Connect (百度直達號)" to provide easy access to ad clients' websites. In this way, Baidu's user traffic could be directed more accurately to its ad clients. Since the launch in Sep 2014, "Baidu Connect" had accumulated >400,000 merchants within c.3 months, and Baidu aims to promote the service to its >500,000 SME clients to enhance their O2O capabilities.

To compete with leaders like Baidu and Alibaba, Tencent is leveraging on its large base of social network users on Weixin and Mobile QQ, and has launched several ad initiatives coordinated by the "Guangdiantong (廣點通)" ad system. It has introduced ads on Mobile QQ's Qzone (QQ空間) and Weixin's "Public Account (公眾帳號)". As such, Tencent's ad revenue growth accelerated to 76% y-o-y in 3Q14, versus 49% growth in 2013. Based on our channel checks, Tencent has just launched ads on Weixin's "Moments (朋友圈)", which could become another important growth driver. We expect Tencent's ad market share to reach 9% in 2016F, from 5% last year.

**Online ads revenue growth for key operators**



Source: Companies, iResearch



## Industry Focus

### China Consumer Sector (Internet)

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**Baidu and Tencent are faring better in O2O.** Comparing leading players' O2O positioning in terms of group buying, mobile maps and online advertising solutions, we believe Baidu and Tencent are leading in O2O development, thanks to their strong presence in mobile maps (Baidu Map and Tencent's Sogou Map / Tencent Map), as well as initiatives in

performance-based ads ("Baidu Connect" and Tencent's multiple ad formats in Weixin / Mobile QQ). Alibaba could also leverage on Meituan's lead in group buying, but it may face greater competition in online ads from Tencent and Baidu ahead.

#### DBSV ranking: Baidu & Tencent are leading in O2O development

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	Baidu	Alibaba	Tencent	JD.com	Remark
O2O potential	★★★★★	★★★	★★★★★	★★	Baidu rides on its Baidu Map and Baidu Nuomi operations to offer comprehensive O2O services to users, and it is well-positioned in the online ads segment. Merchants have increasingly utilized Tencent's Weixin Public Account ads, and there could be robust demand for Weixin Moments ads ahead.

Source: DBS Vickers

## Ranking of the leaders

**The medium-term winners.** In the previous sections, we have ranked major online players – Alibaba, Tencent, JD.com and Baidu – according to their capabilities in monetization, payments, logistics and O2O. In our view, Alibaba and JD.com score better in monetization potential thanks to their e-

commerce exposure; Alipay is well-poised to lead in the burgeoning online payment industry, followed by Tencent's social network-based payment solutions; Alibaba and JD.com stand out in logistics, thanks to Alibaba's development of smart logistics IT system and JD.com's self-operated logistics model; Baidu and Tencent could in O2O development, aided by their initiatives in mobile maps and performance-based advertising solutions for offline store operators.

## DBSV ranking system

	Baidu	Alibaba	Tencent	JD.com
Monetization potential	★★★	★★★★★	★★★	★★★★★
Payment capability	★★	★★★★★	★★★	★★
Logistics development	-	★★★★★	★	★★★★★
O2O potential	★★★★★	★★★	★★★★★	★★
<b>TOTAL</b>	★★★	★★★★★	★★★	★★★★

Source: DBS Vickers

Overall, **Alibaba** scores the best in our ranking system (4.5 stars), and we believe it is well-positioned to become the medium-term winner in China's online space. According to consensus estimates, Alibaba is trading at c.35x 12-month rolling core PE, with c.40% earnings CAGR for FY15F-FY17F. Should we value Alibaba using 1x PEG (note: Leading global and PRC internet players such as Google, Facebook, Ebay, Baidu and Tencent on average trade at 1x PEG), our potential target could be US\$119, offering 15% upside.

**JD.com** is ranked second (3.25 stars), thanks to its steady growth of direct sales (we forecast 46% CAGR over 2014E-2016F), and emerging contributions from its online marketplace. Besides, its delivery capability could be further improved by the ramp-up of logistics facilities, especially the "Asia No.1" automated warehouses. In Dec 2014, Tencent raised its investment in JD.com by US\$150m at US\$23.8 per ADS, which we believe could lift investor confidence towards JD.com. At 21% discount to our TP of US\$31.2 (based on 1.5x 12-month rolling P/Sales ratio), we maintain BUY on JD.com.

Despite relatively smaller potential from the monetization of online games, **Tencent** (3 stars) could leverage on a large base of >540m mobile users on its Mobile QQ and Weixin platforms, and create greater synergies in the social network ecosystem. Growth could be driven by better utilization of performance-based ads, including ads on Qzone and Weixin "Public Account", as well as its latest launch of Weixin "Moments" ads. Its payment channels could also increase medium-term contributions to the ecosystem. At 15% discount to our TP of HK\$156 (based on 0.9x core PEG, or 32x 12-month rolling core PE), we maintain BUY on Tencent.

As for **Baidu** (2.5 stars), we believe its monetization of online ads could face greater challenge from Tencent's performance-based ads. Baidu Wallet could also lag behind Alipay and Tenpay in payment applications, which could affect Baidu's medium-term growth prospects. Hence, although consensus valuation of c.27x 12-month rolling PE does not look stretched, we remain relatively cautious of Baidu's business outlook.

## Industry Focus

### China Consumer Sector (Internet)

#### Peers comparison

Company Name	Currency Code	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE 15F x	PE 16F x	PEG 15F x	PEG 16F x	P/Sales 15F x	P/Sales 16F x	ROE 15F %	ROE 16F %	
<b>HK-listed peers</b>													
Tencent Holdings*^	700 HK	HKD	132.7	160,405	Dec	29.3	22.7	0.8	0.8	10.1	7.9	32.5	31.2
Hc International	2280 HK	HKD	5.71	491	Dec	8.9	6.2	0.2	0.1	2.3	1.8	25.9	28.8
Cogobuy Group	400 HK	HKD	4.18	738	Dec	13.3	9.8	0.2	0.3	0.5	0.4	17.0	19.2
Boyaa Interactive Intl.	434 HK	HKD	5.32	520	Dec	7.8	6.0	0.2	0.2	2.6	2.0	25.7	26.6
Forgegame Holdings	484 HK	HKD	13.54	222	Dec	16.9	10.0	n.a.	0.1	1.5	1.3	4.6	7.4
Netdragon Websoft	777 HK	HKD	13.8	881	Dec	15.9	14.2	2.3	1.2	5.0	4.4	6.8	7.1
IGG	8002 HK	HKD	2.78	491	Dec	5.4	4.1	0.2	0.1	1.9	1.7	33.5	30.2
Haier Electronics*	1169 HK	HKD	19.98	6,925	Dec	13.3	11.2	0.7	0.6	0.6	0.5	25.7	24.2
Gome*	493 HK	HKD	1.1	2,406	Dec	11.0	10.0	1.7	1.0	0.2	0.2	8.0	8.4
<b>Average</b>						<b>13.5</b>	<b>10.5</b>	<b>0.8</b>	<b>0.5</b>	<b>2.8</b>	<b>2.2</b>	<b>20.0</b>	<b>20.3</b>
<b>US-listed peers</b>													
Alibaba#^	BABA US	USD	103.11	256,299	Mar	34.9	26.0	0.9	0.8	14.9	11.4	22.8	28.9
JD.Com*	JD US	USD	24.65	34,063	Dec	n.a.	n.a.	n.a.	n.a.	1.2	0.9	n.a.	n.a.
Baidu	BIDU US	USD	233.325	64,265	Dec	27.1	20.6	0.7	0.6	5.8	4.4	30.4	30.1
VIPShop	VIPS US	USD	22.89	12,985	Dec	44.2	27.7	0.6	0.5	2.1	1.5	51.7	48.8
Dangdang	DANG US	USD	9.1	734	Dec	17.7	13.0	0.1	0.4	0.4	0.4	34.1	38.9
Jumei Int'l	JMEI US	USD	13.97	2,022	Dec	18.3	12.6	0.5	0.3	2.1	1.6	17.7	21.9
<b>Average</b>						<b>28.4</b>	<b>20.0</b>	<b>0.6</b>	<b>0.5</b>	<b>3.7</b>	<b>2.8</b>	<b>31.4</b>	<b>33.7</b>
<b>Global players</b>													
Amazon.Com	AMZN US	USD	312.39	144,638	Dec	460.8	108.3	n.a.	0.3	1.4	1.2	n.a.	n.a.
EBay	EBAY US	USD	56.76	70,517	Dec	18.2	16.6	n.a.	1.7	3.7	3.3	15.8	15.3
Facebook	FB US	USD	77.83	218,620	Dec	40.8	30.4	n.a.	0.9	12.8	9.7	16.6	21.6
Google 'A'	GOOGL US	USD	541.95	368,502	Dec	18.2	15.6	1.1	1.0	4.8	4.1	17.0	17.6
<b>Average</b>						<b>25.7</b>	<b>20.9</b>	<b>1.1</b>	<b>1.0</b>	<b>5.7</b>	<b>4.6</b>	<b>16.5</b>	<b>18.2</b>

# FY15: FY16; FY16: FY17

^ Core EPS

Based on closing prices as at 23 Jan 2015

Note: We exclude JD.com and Amazon in calculating average PE, as they mainly operate the direct sales model with low earnings.

Source: Thomson Reuters, \*DBS Vickers

## Stock profiles

## Alibaba Group (BABA US Equity, US\$103.11, Not Rated)

## Forecast &amp; Valuation

FY Mar (RMB m)	2013A	2014A	2015F	2016F
Turnover	34,517	52,504	78,555	107,506
EBITDA	17,666	32,768	37,428	57,322
Pre-tax Profit	10,106	26,599	37,758	45,869
Net Profit	8,404	23,076	29,605	36,328
Core Profit (non-GAAP)	13,496	27,044	32,161	45,350
Core EPS (RMB)	N/A	N/A	13.05	18.40
Core EPS (US\$)	N/A	N/A	2.09	2.95
Core EPS Gth (%)	N/A	N/A	N/A	41.0
DPS (US\$)	0.00	0.00	0.00	0.00
BV Per Share (US\$)	N/A	N/A	9.18	11.58
Core PE (X)	N/A	N/A	49.2	34.9
P/Cash Flow (X)	N/A	N/A	45.5	27.9
P/Free CF (X)	N/A	N/A	95.9	39.3
EV/EBITDA (X)	N/A	N/A	40.6	25.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	N/A	N/A	11.2	8.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	N/A	N/A	34.7	22.8

Other Broker Recs: B: 37 S: 2 H: 3

## Income Statement (RMB m)

FY Mar	2013A	2014A	2015F	2016F
<b>Turnover</b>	<b>34,517</b>	<b>52,504</b>	<b>78,555</b>	<b>107,506</b>
Cost of Goods Sold	(9,719)	(13,369)	(24,716)	(33,287)
<b>Gross Profit</b>	<b>24,798</b>	<b>39,135</b>	<b>53,839</b>	<b>74,219</b>
Other Opg (Exp)/Inc	(8,955)	(10,247)	(23,924)	(26,937)
<b>Operating Profit</b>	<b>15,843</b>	<b>28,888</b>	<b>29,916</b>	<b>47,283</b>
Other Non Opg (Exp)/Inc	894	2,429	6,073	7,894
Associates & JV Inc	(6)	(203)	(102)	(51)
Net Interest (Exp)/Inc	(1,533)	(547)	4,428	(236)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	(5,092)	(3,968)	(2,556)	(9,022)
<b>Pre-tax Profit</b>	<b>10,106</b>	<b>26,599</b>	<b>37,758</b>	<b>45,869</b>
Tax	(1,457)	(3,196)	(7,929)	(9,403)
Minority Interest	(117)	(88)	(112)	(137)
Preference Dividend	(128)	(239)	(112)	0
<b>Net Profit</b>	<b>8,404</b>	<b>23,076</b>	<b>29,605</b>	<b>36,328</b>
<b>Core Profit (non-GAAP)</b>	<b>13,496</b>	<b>27,044</b>	<b>32,161</b>	<b>45,350</b>
EBITDA	17,666	32,768	37,428	57,322
Sales Gth (%)	72.4	52.1	49.6	36.9
EBITDA Gth (%)	121.5	85.5	14.2	53.2
Opg Profit Gth (%)	132.9	82.3	3.6	58.1
Effective Tax Rate (%)	14.4	12.0	21.0	20.5

## Cash Flow Statement (RMB m)

FY Mar	2013A	2014A	2015F	2016F
Pre-Tax Profit	(1,723)	(50)	(5,177)	(2,266)
Dep. & Amort.	935	1,654	1,541	2,196
Tax Paid	0	0	0	0
Assoc. & JV Inc/(loss)	6	203	102	51
(Pft)/ Loss on disposal of FAS	0	0	0	0
Chg in Wkg.Cap.	3,136	(4,493)	(3,629)	8,968
Other Operating CF	12,122	29,065	41,940	47,868
<b>Net Operating CF</b>	<b>14,476</b>	<b>26,379</b>	<b>34,776</b>	<b>56,817</b>
Capital Exp.(net)	(2,155)	(22,022)	(18,261)	(16,569)
Other Invts.(net)	2,877	(10,852)	(11,235)	(6,547)
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(177)	(123)	(162)	(38)
<b>Net Investing CF</b>	<b>545</b>	<b>(32,997)</b>	<b>(29,658)</b>	<b>(23,153)</b>
Div Paid	0	0	0	0
Chg in Gross Debt	26,932	12,789	26,101	12,323
Capital Issues	(23,319)	1,923	51,899	0
Other Financing CF	(4,943)	(5,251)	(4,025)	(3,947)
<b>Net Financing CF</b>	<b>(1,330)</b>	<b>9,461</b>	<b>73,974</b>	<b>8,376</b>
Currency Adjustments	(76)	(97)	0	0
Chg in Cash	13,615	2,746	79,093	42,040

Note: Estimates are based on Bloomberg consensus.

Source: Company, Bloomberg Finance L.P., DBS Vickers

## General Data

## At A Glance

Issued Capital (m shrs)	2,486
Mkt. Cap (US\$m)	256,299
Major Shareholders	
SoftBank (%)	32.4
Yahoo (%)	16.3
Jack Yun MA (%)	7.8
Joseph C. TSAI (%)	3.2
CIC (%)	2.1
Free Float (%)	38.2
Avg. Daily Vol.('000)	24,349

## Balance Sheet (RMB m)

FY Mar	2013A	2014A	2015F	2016F
Net Fixed Assets	3,808	5,581	8,661	11,725
Invts in Assocs & JVs	1,555	17,666	26,499	31,799
Other LT Assets	15,261	20,469	51,327	52,690
Cash & ST Invts	33,315	45,074	135,979	184,969
Inventory	0	0	0	0
Debtors	8,113	18,080	22,445	26,934
Other Current Assets	1,734	4,679	8,422	6,519
<b>Total Assets</b>	<b>63,786</b>	<b>111,549</b>	<b>253,333</b>	<b>314,635</b>
ST Debt	5,448	10,364	14,967	16,848
Other Current Liab	18,547	27,020	34,213	44,681
LT Debt	22,462	30,711	52,209	62,650
Other LT Liabilities	6,283	2,636	6,050	6,823
Shareholder's Equity	10,509	39,739	141,039	177,805
Minority Interests	537	1,079	4,856	5,827
<b>Total Cap. &amp; Liab.</b>	<b>63,786</b>	<b>111,549</b>	<b>253,333</b>	<b>314,635</b>
Non-Cash Wkg. Cap	(8,700)	(4,261)	(3,345)	(11,229)
Net Cash/(Debt)	5,405	3,999	68,803	105,470

## Segmental Breakdown (RMB m)

FY Mar	2013A	2014A	2015F	2016F
<b>Revenues (RMB m)</b>				
China commerce	29,167	45,132	66,578	92,963
International commerce	4,160	4,851	6,525	8,000
Cloud computing & Internet infrastructure	650	773	1,082	1,299
Others	540	1,748	4,370	5,244
<b>Total</b>	<b>34,517</b>	<b>52,504</b>	<b>78,555</b>	<b>107,506</b>

## Industry Focus

### China Consumer Sector (Internet)

#### JD.com Inc (JD US Equity, US\$24.65, Buy, Target Price US\$ 31.2)

##### Forecast & Valuation

FY Dec (RMB m)	2013A	2014F	2015F	2016F
Turnover	69,340	112,437	170,845	245,566
EBITDA	182	1,366	1,545	3,126
Pre-tax Loss	(2,485)	(13,135)	(2,266)	(1,242)
Net Loss	(2,485)	(13,139)	(2,266)	(1,242)
Core Profit (non-GAAP)	224	(223)	(173)	1,280
Core EPS (RMB)	0.16	(0.16)	(0.13)	0.93
Core EPS (US\$)	0.03	(0.03)	(0.02)	0.15
Diluted EPS (US\$)	(0.29)	(1.53)	(0.26)	(0.14)
DPS (US\$)	0.00	0.00	0.00	0.00
BV Per Share (US\$)	1.07	3.37	3.09	2.94
P/Cash Flow (X)	59.5	314.3	42.1	27.1
P/Free CF (X)	90.0	nm	54.5	33.2
EV/EBITDA (X)	N/A	137.9	121.4	59.1
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	23.0	7.3	8.0	8.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB):		0.00	0.03	0.28
Other Broker Recs:		B: 15	S: 1	H: 10

##### Income Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
<b>Turnover</b>	<b>69,340</b>	<b>112,437</b>	<b>170,845</b>	<b>245,566</b>
Cost of Goods Sold	(62,496)	(99,784)	(149,597)	(212,848)
<b>Gross Profit</b>	<b>6,844</b>	<b>12,653</b>	<b>21,248</b>	<b>32,718</b>
Other Opg (Exp)/Inc	(7,149)	(13,436)	(21,920)	(31,993)
<b>Operating Loss</b>	<b>(305)</b>	<b>(783)</b>	<b>(672)</b>	<b>724</b>
Other Non Opg (Exp)/Inc	194	80	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	335	483	498	556
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	(2,709)	(12,916)	(2,093)	(2,522)
<b>Pre-tax Loss</b>	<b>(2,485)</b>	<b>(13,135)</b>	<b>(2,266)</b>	<b>(1,242)</b>
Tax	0	(4)	0	0
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
<b>Net Loss</b>	<b>(2,485)</b>	<b>(13,139)</b>	<b>(2,266)</b>	<b>(1,242)</b>
Core Profit (non-GAAP)	224	(223)	(173)	1,280
EBITDA	182	1,366	1,545	3,126
Sales Gth (%)	67.6	62.2	51.9	43.7
EBITDA Gth (%)	N/A	651.5	13.1	102.3

##### Cash Flow Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Pre-Tax Profit	(50)	(5,177)	(2,266)	(1,242)
Dep. & Amort.	293	2,069	2,217	2,402
Tax Paid	0	(4)	0	0
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	3,111	3,461	4,681	6,152
Other Operating CF	216	326	408	510
<b>Net Operating CF</b>	<b>3,570</b>	<b>675</b>	<b>5,040</b>	<b>7,822</b>
Capital Exp.(net)	(1,211)	(2,312)	(1,143)	(1,429)
Other Invt.(net)	(800)	(2,045)	(987)	(1,234)
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(660)	(9,039)	(821)	(1,026)
<b>Net Investing CF</b>	<b>(2,671)</b>	<b>(13,395)</b>	<b>(2,951)</b>	<b>(3,689)</b>
Div Paid	0	0	0	0
Chg in Gross Debt	75	233	292	364
Capital Issues	2,720	32,963	0	0
Other Financing CF	0	(12,061)	(2,288)	(2,486)
<b>Net Financing CF</b>	<b>2,795</b>	<b>21,136</b>	<b>(1,996)</b>	<b>(2,122)</b>
Currency Adjustments	(59)	0	0	0
Chg in Cash	3,635	8,415	92	2,012

Source: Company, DBS Vickers

##### General Data

###### At A Glance

Issued Capital (m shrs)	1,382
Mkt. Cap (US\$m)	34,063
Major Shareholders	
Mr. Richard Qiangdong Liu (%)	20.1
Tencent (%)	18.0
Tiger Global Management (%)	15.8
Hillhouse Capital Management (%)	11.0
DST Global (%)	6.5
Free Float (%)	28.6
Avg. Daily Vol.('000)	6,641

##### Balance Sheet (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	2,262	4,574	5,717	7,146
Invt in Assocs & JVs	0	0	0	0
Other LT Assets	1,268	11,948	12,347	12,841
Cash & ST Invt	14,603	25,063	26,143	29,388
Inventory	6,386	8,893	12,923	17,512
Debtors	502	1,104	1,443	1,939
Other Current Assets	989	1,231	1,575	2,000
<b>Total Assets</b>	<b>26,010</b>	<b>52,812</b>	<b>60,148</b>	<b>70,828</b>
ST Debt	933	1,166	1,458	1,822
Other Current Liab	15,837	22,649	32,043	43,706
LT Debt	0	0	0	0
Other LT Liabilities	0	0	0	0
Shareholder's Equity	9,240	28,997	26,647	25,300
Minority Interests	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>26,010</b>	<b>52,812</b>	<b>60,148</b>	<b>70,828</b>
Non-Cash Wkg. Cap	(7,960)	(11,421)	(16,103)	(22,254)
Net Cash/(Debt)	13,670	23,897	24,685	27,567

##### Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014F	2015F	2016F
<b>Revenues (RMB m)</b>				
Online direct sales	67,018	106,378	159,482	227,155
Services & other incomes	2,322	6,060	11,363	18,411
<b>Total</b>	<b>69,340</b>	<b>112,437</b>	<b>170,845</b>	<b>245,566</b>
<b>Gross profit (RMB m)</b>				
Online direct sales	4,522	6,593	9,885	14,306
Services & other incomes	2,322	6,060	11,363	18,411
<b>Total</b>	<b>6,844</b>	<b>12,653</b>	<b>21,248</b>	<b>32,718</b>
<b>Gross profit Margins (%)</b>				
Online direct sales	6.7	6.2	6.2	6.3
Services & other incomes	100.0	100.0	100.0	100.0
<b>Total</b>	<b>9.9</b>	<b>11.3</b>	<b>12.4</b>	<b>13.3</b>
<b>Key Assumptions (RMB bn)</b>				
GMV - online direct sales	93.7	148.7	223.0	317.6
GMV - online	31.8	89.8	163.6	257.7
<b>Total GMV</b>	<b>125.5</b>	<b>238.6</b>	<b>386.6</b>	<b>575.3</b>

## Tencent (700 HK Equity, HK\$132.70, Buy, Target Price HK\$ 156)

## Forecast &amp; Valuation

FY Dec (RMB m)	2013A	2014F	2015F	2016F
Turnover	60,437	78,494	98,911	127,323
EBITDA	23,218	32,419	42,526	54,101
Pre-tax Profit	19,281	29,622	37,967	49,071
Net Profit	15,502	24,138	30,714	39,697
Core Profit (non-GAAP)	17,063	24,516	33,401	42,958
Core EPS (RMB)	1.86	2.68	3.65	4.69
Core EPS (HK\$)	2.31	3.32	4.53	5.83
EPS Gth (%)	21.5	55.7	27.2	29.2
Diluted EPS (HK\$)	2.03	3.16	4.02	5.20
DPS (HK\$)	0.20	0.31	0.39	0.50
BV Per Share (HK\$)	7.73	10.72	14.53	19.43
Core PE (X)	57.3	39.9	29.3	22.7
P/Cash Flow (X)	40.1	33.8	27.2	21.4
P/Free CF (X)	49.3	41.8	33.0	25.4
EV/EBITDA (X)	40.5	28.7	21.4	16.4
Net Div Yield (%)	0.1	0.2	0.3	0.4
P/Book Value (X)	17.1	12.4	9.1	6.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	31.2	34.9	32.5	31.2

Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB):		2.57	3.34	4.26
Other Broker Recs:		B: 36	S: 0	H: 2

## Income Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
<b>Turnover</b>	<b>60,437</b>	<b>78,494</b>	<b>98,911</b>	<b>127,323</b>
Cost of Goods Sold	(27,778)	(29,227)	(33,652)	(43,401)
<b>Gross Profit</b>	<b>32,659</b>	<b>49,266</b>	<b>65,259</b>	<b>83,922</b>
Other Opg (Exp)/Inc	(13,727)	(19,809)	(26,565)	(34,358)
<b>Operating Profit</b>	<b>18,932</b>	<b>29,457</b>	<b>38,694</b>	<b>49,564</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	171	(95)	(76)	(61)
Net Interest (Exp)/Inc	1,230	562	1,705	2,524
Dividend Income	509	76	331	305
Exceptional Gain/(Loss)	(1,561)	(378)	(2,687)	(3,261)
<b>Pre-tax Profit</b>	<b>19,281</b>	<b>29,622</b>	<b>37,967</b>	<b>49,071</b>
Tax	(3,718)	(5,480)	(7,214)	(9,323)
Minority Interest	(61)	(4)	(39)	(51)
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>15,502</b>	<b>24,138</b>	<b>30,714</b>	<b>39,697</b>
<b>Core Profit (non-GAAP)</b>	<b>17,063</b>	<b>24,516</b>	<b>33,401</b>	<b>42,958</b>
EBITDA	23,218	32,419	42,526	54,101
Sales Gth (%)	37.7	29.9	26.0	28.7
EBITDA Gth (%)	23.9	39.6	31.2	27.2
Opg Profit Gth (%)	19.9	55.6	31.4	28.1
Effective Tax Rate (%)	19.3	18.5	19.0	19.0

## Cash Flow Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Pre-Tax Profit	19,281	29,622	37,967	49,071
Dep. & Amort.	3,606	2,981	3,577	4,292
Tax Paid	(3,118)	(5,480)	(7,214)	(9,323)
Assoc. & JV Inc/(loss)	(171)	95	76	61
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	5,915	1,979	2,392	2,772
Other Operating CF	(1,139)	(292)	(848)	(1,165)
<b>Net Operating CF</b>	<b>24,374</b>	<b>28,905</b>	<b>35,951</b>	<b>45,708</b>
Capital Exp.(net)	(4,564)	(5,506)	(6,332)	(7,282)
Other Invt.(net)	(9,841)	0	0	0
Invt in Assoc. & JV	(4,465)	(5,124)	(5,893)	(6,777)
Div from Assoc & JV	0	0	0	0
Other Investing CF	(264)	(1,380)	(1,587)	(1,825)
<b>Net Investing CF</b>	<b>(19,134)</b>	<b>(12,011)</b>	<b>(13,812)</b>	<b>(15,884)</b>
Div Paid	(1,468)	(2,286)	(2,909)	(3,760)
Chg in Gross Debt	4,699	591	650	715
Capital Issues	(1,295)	0	0	0
Other Financing CF	(228)	(6,947)	(3,106)	(4,907)
<b>Net Financing CF</b>	<b>1,708</b>	<b>(8,642)</b>	<b>(5,365)</b>	<b>(7,951)</b>
Currency Adjustments	(103)	0	0	0
Chg in Cash	6,845	8,252	16,774	21,873

## General Data

## At A Glance

Issued Capital (m shrs)	9,371
Mkt. Cap (HK\$/US\$m)	1,243,489 / 160,405
Major Shareholders	
Naspers Limited (%)	33.6
Ma Huateng (%)	9.9
JPMorgan Chase & Co. (%)	6.3
Zhang Zhidong (%)	6.2
Free Float (%)	44.0
Avg. Daily Vol.('000)	22,813

## Balance Sheet (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	10,734	12,881	15,457	18,548
Invt in Assocs & JVs	12,179	42,744	51,352	61,717
Other LT Assets	30,636	31,532	32,512	33,588
Cash & ST Invt	43,982	52,647	73,800	100,882
Inventory	1,384	692	0	0
Debtors	2,955	3,663	4,886	6,290
Other Current Assets	5,365	6,217	8,106	10,783
<b>Total Assets</b>	<b>107,235</b>	<b>150,376</b>	<b>186,113</b>	<b>231,808</b>
ST Debt	2,589	2,848	3,133	3,446
Other Current Liab	30,678	33,414	37,019	41,940
LT Debt	3,323	3,655	4,021	4,423
Other LT Liabilities	12,182	29,465	32,328	35,472
Shareholder's Equity	57,945	80,372	108,867	145,632
Minority Interests	518	622	746	895
<b>Total Cap. &amp; Liab.</b>	<b>107,235</b>	<b>150,376</b>	<b>186,113</b>	<b>231,808</b>
Non-Cash Wkg. Cap	(20,974)	(22,842)	(24,027)	(24,867)
Net Cash/(Debt)	38,070	46,144	66,647	93,014

## Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014F	2015F	2016F
<b>Revenues (RMB m)</b>				
Value added services (VAS)	44,985	62,726	81,191	101,507
Online advertising	5,034	8,280	12,818	18,086
E-commerce transactions	9,796	4,800	0	0
Others	622	2,688	4,902	7,730
<b>Total</b>	<b>60,437</b>	<b>78,494</b>	<b>98,911</b>	<b>127,323</b>
<b>Gross profit (RMB m)</b>				
Value added services (VAS)	29,601	43,908	56,834	71,562
Online advertising	2,257	3,961	6,131	8,742
E-commerce transactions	557	0	0	0
Others	244	1,398	2,294	3,618
<b>Total</b>	<b>32,659</b>	<b>49,266</b>	<b>65,259</b>	<b>83,922</b>
<b>Gross profit Margins (%)</b>				
Value added services (VAS)	65.8	70.0	70.0	70.5
Online advertising	44.8	47.8	47.8	48.3
E-commerce transactions	5.7	0.0	N/A	N/A
Others	39.2	52.0	46.8	46.8
<b>Total</b>	<b>54.0</b>	<b>62.8</b>	<b>66.0</b>	<b>65.9</b>
<b>Key Assumptions (m)</b>				
MAU of QQ	808.0	818.7	828.4	837.2
Smart device MAU of QQ	426.0	599.0	720.6	779.2
Combined MAU of Weixin & Wechat	355.0	547.1	754.2	897.1

Source: Company, DBS Vickers

## Industry Focus

### China Consumer Sector (Internet)

#### Baidu Inc (BIDU US EQUITY, US\$233.325, Not Rated)

##### Forecast & Valuation

FY Dec (RMB m)	2012A	2013A	2014E	2015F
Turnover	22,306	31,944	48,982	69,367
EBITDA	12,934	14,491	18,131	25,578
Pre-tax Profit	11,965	12,185	15,133	21,454
Net Profit	10,456	10,519	13,510	18,737
Core Profit (non-GAAP)	10,668	11,034	14,172	19,654
EPS (RMB)	29.93	30.07	38.62	53.55
EPS (US\$)	4.80	4.83	6.20	8.59
EPS Gth (%)	N/A	0.5	28.4	38.7
Diluted EPS (US\$)	4.80	4.82	6.19	8.58
DPS (US\$)	0.00	0.00	0.00	0.00
BV Per Share (US\$)	11.97	17.63	23.90	32.59
PE (X)	48.6	48.4	37.6	27.1
P/Cash Flow (X)	42.3	36.9	28.2	20.7
P/Free CF (X)	58.7	nm	nm	207.0
EV/EBITDA (X)	37.0	32.8	25.3	17.2
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	19.5	13.2	9.8	7.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	80.3	32.6	29.8	30.4
Other Broker Recs:		B: 31	S: 1	H: 4

##### Income Statement (RMB m)

FY Dec	2012A	2013A	2014E	2015F
<b>Turnover</b>	<b>22,306</b>	<b>31,944</b>	<b>48,982</b>	<b>69,367</b>
Cost of Goods Sold	(6,449)	(11,472)	(18,907)	(27,261)
<b>Gross Profit</b>	<b>15,857</b>	<b>20,472</b>	<b>30,075</b>	<b>42,106</b>
Other Opg (Exp)/Inc	(4,594)	(8,765)	(15,846)	(21,755)
<b>Operating Profit</b>	<b>11,263</b>	<b>11,707</b>	<b>14,229</b>	<b>20,350</b>
Other Non Opg (Exp)/Inc	450	138	496	504
Associates & JV Inc	(294)	(6)	0	0
Net Interest (Exp)/Inc	759	861	1,070	1,517
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	(212)	(515)	(662)	(917)
<b>Pre-tax Profit</b>	<b>11,965</b>	<b>12,185</b>	<b>15,133</b>	<b>21,454</b>
Tax	(1,574)	(1,829)	(1,832)	(3,008)
Minority Interest	65	163	209	290
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>10,456</b>	<b>10,519</b>	<b>13,510</b>	<b>18,737</b>
<b>Core Profit (non-GAAP)</b>	<b>10,668</b>	<b>11,034</b>	<b>14,172</b>	<b>19,654</b>
EBITDA	12,934	14,491	18,131	25,578
Sales Gth (%)	N/A	43.2	53.3	41.6
EBITDA Gth (%)	N/A	12.0	25.1	41.1
Opg Profit Gth (%)	N/A	3.9	21.5	43.0
Effective Tax Rate (%)	13.2	15.0	12.1	14.0

##### Cash Flow Statement (RMB m)

FY Dec	2012A	2013A	2014E	2015F
Pre-Tax Profit	11,965	12,185	15,133	21,454
Dep. & Amort.	1,515	2,652	3,406	4,724
Tax Paid	(1,574)	(1,829)	(1,832)	(3,008)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	(26)	14	0	(504)
Chg in Wkg.Cap.	781	967	1,354	1,896
Other Operating CF	(666)	(196)	0	0
<b>Net Operating CF</b>	<b>11,996</b>	<b>13,793</b>	<b>18,062</b>	<b>24,562</b>
Capital Exp.(net)	(3,344)	(16,861)	(19,441)	(22,105)
Other Invts.(net)	(10,372)	(6,203)	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	3	4	0	0
Other Investing CF	(37)	(262)	0	0
<b>Net Investing CF</b>	<b>(13,750)</b>	<b>(23,323)</b>	<b>(19,441)</b>	<b>(22,105)</b>
Div Paid	0	0	0	0
Chg in Gross Debt	91	(47)	246	270
Capital Issues	0	0	0	0
Other Financing CF	9,428	7,589	12,010	10,780
<b>Net Financing CF</b>	<b>9,519</b>	<b>7,542</b>	<b>12,256</b>	<b>11,050</b>
Currency Adjustments	(12)	(201)	0	0
Chg in Cash	7,753	(2,189)	10,877	13,507

Note: Estimates are based on Bloomberg consensus

Source: Company, Bloomberg Finance L.P., DBS Vickers

##### General Data

###### At A Glance

Issued Capital (m shrs)	275
Mkt. Cap (US\$m)	64,265
Major Shareholders	
Mr. Robin Yanhong Li	15.9
Capital Group (%)	10.0
Baillie Gifford and Company (%)	8.2
T Rowe Price Group (%)	7.2
Free Float (%)	58.7
Avg. Daily Vol.('000)	3,151

##### Balance Sheet (RMB m)

FY Dec	2012A	2013A	2014E	2015F
Net Fixed Assets	3,888	5,370	6,444	7,733
Invts in Assocs & JVs	0	0	0	0
Other LT Assets	7,107	22,586	25,357	28,525
Cash & ST Invts	32,485	38,427	55,051	75,454
Inventory	0	0	0	0
Debtors	1,253	2,221	3,331	4,664
Other Current Assets	936	2,382	656	787
<b>Total Assets</b>	<b>45,669</b>	<b>70,986</b>	<b>90,839</b>	<b>117,163</b>
ST Debt	2,171	344	378	416
Other Current Liab	6,066	10,689	12,818	15,372
LT Debt	357	2,112	2,324	2,556
Other LT Liabilities	10,894	17,175	20,528	24,550
Shareholder's Equity	26,055	38,425	52,104	71,043
Minority Interests	127	2,240	2,688	3,226
<b>Total Cap. &amp; Liab.</b>	<b>45,669</b>	<b>70,986</b>	<b>90,839</b>	<b>117,163</b>
Non-Cash Wkg. Cap	(3,876)	(6,087)	(8,831)	(9,922)
Net Cash/(Debt)	29,957	35,971	52,349	72,482

##### Segmental Breakdown (RMB m)

FY Dec	2012A	2013A	2014E	2015F
<b>Revenues (RMB m)</b>				
Online marketing services	22,246	31,802	48,765	69,059
Other services	60	142	217	308
<b>Total</b>	<b>22,306</b>	<b>31,944</b>	<b>48,982</b>	<b>69,367</b>



## Appendix

## Comparison of logistics operations (2014E)

	Number of distribution centers	Total area	Remark
<b>E-commerce operators:</b>			
Alibaba Group	>1,800 (operated by logistics partners)	n.a.	Alibaba Group rides on delivery capability of its 14 strategic delivery partners in China, coordinated by its China Smart Logistics network
JD.com	118 (as of Sep 2014)	>2.3m sq.m.	JD.com's fulfillment arm could deliver >90% of its orders for direct sales, and >30% of orders for its online marketplace
VIPshop	c.5	c.0.7m sq.m.	VIPShop has invested in last-mile logistics and courier companies, and these companies could deliver c.50% of its orders in 2014
China Dangdang	c.23	c.0.5m sq.m.	n.a.
Yihaodian	c.15	c.0.3m sq.m.	Cooperates with 3rd-party logistics providers to enjoy the flexibility
<b>Express service companies:</b>			
S.F. Express (順豐速運)	>100	>0.8m sq.m.	One of the leading express service companies in China
EMS	>200	>3m sq.m.	EMS is the subsidiary of China Post that engages in express delivery services
YTO Express (圓通速遞)	>70	c.0.4m sq.m.	One of the leading express service companies in China
Best Express (百世匯通)	n.a.	c.0.5m sq.m.	One of the leading express service companies in China
<b>Other logistics operators:</b>			
Haier Logistics	c.100	>2m sq.m.	Strategic cooperator of Alibaba Group
Global Logistics Properties (GLP) China	c.150	c.10m sq.m.	GLP is the leading logistics properties operator in China
Goodman China	c.30	c.1.6m sq.m.	Goodman is among the leading logistics properties operators in China
<b>Overseas operators:</b>			
Amazon (US operations)	96	c.4m sq.m.	n.a.
FedEx (US operations)	c.25 (no. of locations)	n.a.	n.a.
DHL (US operations)	19	n.a.	n.a.

Source: Companies, DBS Vickers

## Industry Focus

### China Consumer Sector (Internet)

#### O2O-related initiatives by Baidu, Alibaba, Tencent & JD.com

Date	Cooperator	Details
<b>Baidu:</b>		
Dec 2014	Uber	Invested US\$600m in Uber, the leading online cab booking operator based in the US.
Aug 2014	Wanda Group & Tencent	Baidu invested RMB750m for 15% stake of the e-commerce JV (Wanda owns 70%, Tencent owns 15%), which aims to focus on O2O services.
Jan 2014	Nuomi.com (糯米網)	Increased its stake in Nuomi.com from 59% to 100% in Jan14, and renamed it to Baidu Nuomi. Nuomi.com is one of the leading group-buying service providers in China. Baidu acquired 59% stake for US\$160m in Aug13.
Jun 2011	Qunar (NASDAQ: QUNR)	Invested US\$306m for 60% stake in Qunar in Jun11. Qunar is one of the leading online travel platforms in China, and it was listed in Nov 13.
<b>Alibaba Group:</b>		
Sep 2014	Shiji Information (石基信息, 002153.CH)	Invested RMB2.8bn for 15% stake of Shiji Information, one of the leading hotel IT system providers in China.
Jul 2014	Intime (1833.HK)	Invested HK\$5.4bn for 10% stake of Intime, as well as convertible bonds that could increase stakes to 26%. Established a JV with Intime to develop O2O businesses relating to shopping malls, department stores and supermarkets.
Jul 2014	Singapore Post (SGX: SPOST)	Invested S\$313m for 10% stake of Singapore Post, the leading provider of logistics solutions in Southeast Asia.
May 2014	Meituan (美團)	Alibaba participated in several rounds of fundraising of Meituan, the leading group-buying service provider in China.
Apr 2014	AutoNavi (高德地圖)	Privatized AutoNavi (NASDAQ: AMAP) for c.US\$1bn in July 14. AutoNavi is one of the leading digital map content, navigation and location services providers in China.
Apr 2014	Ddmap.com (丁丁網)	Alibaba participated in several rounds of fundraising of Ddmap.com, an online discount coupon service provider in China.
Mar 2014	Baicheng.com (百程旅行網)	Baicheng.com is one of the leading outbound tourism websites in China.
Dec 2013	Haier Electronics (1169.HK)	Invested HK\$2.8bn to purchase 2% stake of Haier Electronics, and 10% stake in Haier Logistics. It also subscribed a convertible & exchangeable bonds that could acquire another 3% of Haier Electronics, or 24% of Haier Logistics.
Nov 2013	Kuaidadi.com (快的打車)	Alibaba participated in several rounds of fundraising of Kuaidadi.com, one of the leading online taxi booking service providers in China.
<b>Tencent:</b>		
Dec 2014	Breadtrip.com (麵包旅行)	Participated in the fundraising. Breadtrip.com is an online travel service provider, standing out on user-generated contents.
Aug 2014	Wanda Group & Baidu	Tencent invested RMB750m for 15% stake of the e-commerce JV (Wanda owns 70%, Baidu owns 15%), which aims to focus on O2O services.
Jun 2014	58.com (58同城; NYSE: WUBA)	Invested >US\$830m for 24% stake in 58.com, the leading online marketplace in China serving local merchants.
May 2014	NavInfo (四維圖新; 002405.CH)	Invested c.RMB1.2bn for 11% stake in NavInfo, one of the leading providers of digital map, telematics, dynamic traffic information service and big data vertical application services in China.
Mar 2014	Leju (樂居, NYSE: LEJU)	Invested c.US\$180m for 15% stake in Leju, one of the leading providers of real estate online services including advertising, listings and product launch information, and O2O e-commerce services. Leju was listed on NYSE in Apr 2014.
Feb 2014	Dianping (大眾點評網)	Invested c.US\$400m for c.20% stake in Dianping.com, one of China's leading online providers of group-buying and other O2O services. Should Dianping have IPO, Tencent could raise another 5% stake.
Feb 2014	LY.com (同程網)	Raised its stake in LY.com to c.20%. LY.com is one of China's leading online providers of travel services, with an edge in ticketing of tourist attractions. Tencent invested in LY.com in May 12.
Jan 2014	China South City (華南城; 1668.HK)	Invested c.HK\$2.3bn for c.12% stake in China South City, one of the leading developers and operators of large-scale integrated logistics and trade centers in China.
Jan 2014	Didi Taxi (滴滴打車)	Invested c.US\$45m in Didi Taxi, one of the leading taxi-booking apps in China.

Source: Companies, DBS Vickers

## O2O-related initiatives by Baidu, Alibaba, Tencent &amp; JD.com (continue)

Date	Cooperator	Details
<b>JD.com:</b>		
Dec 2014	Midea Group (000333.CH)	Formed strategic cooperation with Midea Group in smart household business and sales channel expansion, with sales target of RMB10bn for 2015.
Dec 2014	Tuniu (NASDAQ: TOUR)	Invested US\$50m for 6.5% stake in Tuniu. Tuniu's wide offerings of packaged tours, especially for overseas destinations, could create greater synergies with JD.com's travel platform (launched in Jun 2014).
Sep 2014	China Post	JD.com supplies products such as 3C products, household products and cosmetics to China Post's Ule.com (郵樂網); China Post would promote this cooperation at its >100,000 POS in 13 provinces, especially in the rural areas. >300,000 members have registered within 2 months.
Sep 2014	Daojia.com (到家美食會)	JD.com increased its strategic investment on Daojia.com (first round of investment was completed in July 2013), which is a last-mile food delivery platform. This investment could enhance JD.com's presence in location-based services (LBS) segment.
Aug 2014	Xiguomao Auto Parts Center (XAPC, 西國貿汽配基地)	XAPC is one of the leading auto parts sales / services centers based in Beijing. JD.com would be responsible for online sales of auto parts, and XAPC would provide offline services to the customers.
Jun 2014	Hardware operators in smart household products and healthcare segments	JD.com announced its "Smart Cloud" platform in June 2014, providing hardware connecting solutions to cooperators' hardware products. In this way, JD.com's app could remote-control different kinds of hardware products.
May 2014	Wanda Group	Customers could become shared members of Wanda and JD.com, and they could receive discount coupons offered by both parties (movie tickets and shopping coupons at Wanda Plaza).
Apr 2014	ZONECO (簞子島集團, 002069.CH)	JD.com launched its fresh food platform in May 2014, offering seafood products from ZONECO. ZONECO's cold chain logistics system would also integrate with logistics operations of JD.com and its convenience store cooperators.
Mar 2014	Convenience stores operators including Quik (快客), Good Neighbors (好鄰居), Buddies (良友) and Meiyijia (美宜佳), etc.	These convenience store operators together have >10,000 stores in c.15 major cities in China. Customers could make purchases at JD.com, and received the products delivered by nearby convenience store operators. JD.com would also share Membership and ERP systems with its store cooperators.
Jan 2014	Acquired HotelVP (今夜酒店特價)	HotelVP is a last-minute hotel discount online provider in China.
Nov 2013	Tangjiu Convenience Store (唐久便利)	Tangjiu is the leading convenience store operator in Shanxi Province, operating >600 stores. Under the Strategic Cooperation, JD.com helps launch "Tangjiu Online Store" at JD.com, offering c.30,000 SKUs (vs. c.3,000 SKUs offered by Tangjiu). Tangjiu would promote JD.com in its stores, and provides last-mile delivery for the online customers.
Apr 2013	Lenovo Group (992.HK)	JD.com formed Strategic Cooperation with Lenovo Group, in terms of mobile phone product development, online promotion, logistics and after-sales services.

Source: Companies, DBS Vickers

## Industry Focus

### China Consumer Sector (Internet)

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#### JD.com's "Asia No.1" Warehouse in Shanghai

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Source: Company

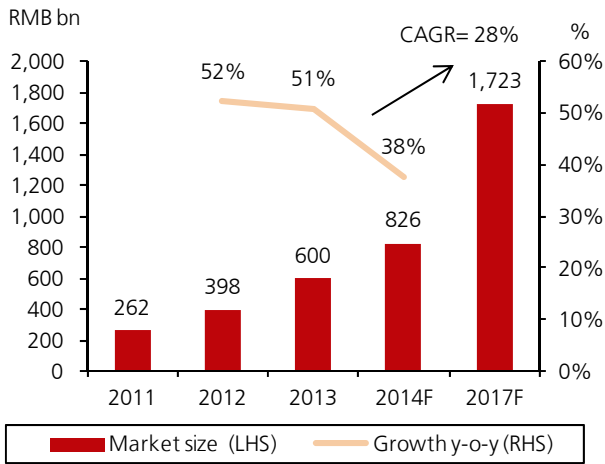
#### Amazon's fulfilment center in Phoenix, Arizona, US

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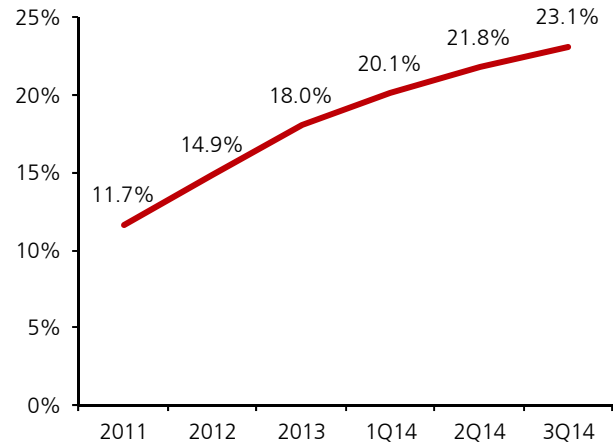
Source: Company

China internet sector – Total revenue size



Source: iResearch

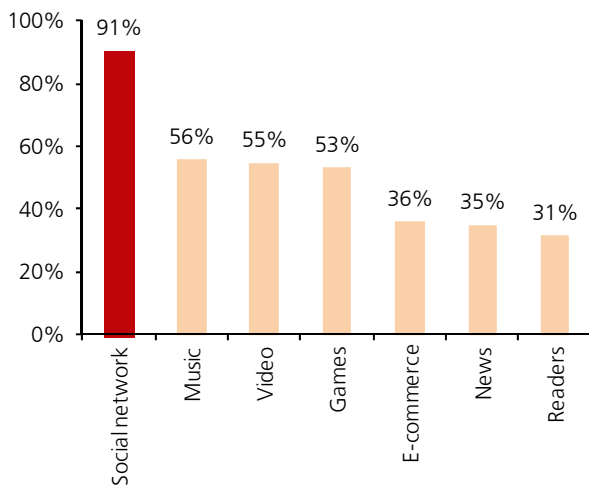
Mobile penetration rate



Note: Penetration = mobile revenue / total revenue for China internet sector.

Source: iResearch

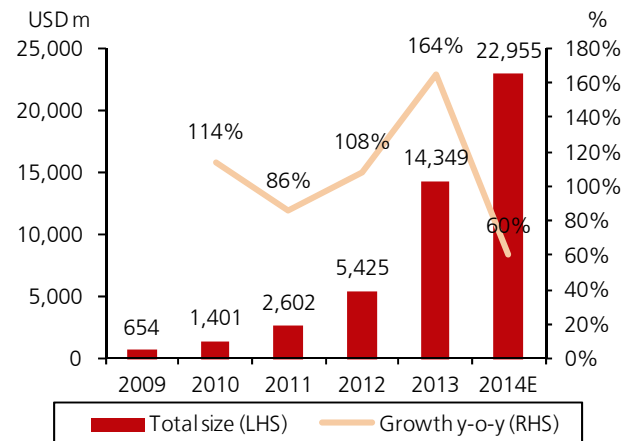
Mobile internet – Penetration by category (1H14)



Note: Penetration is defined by number of users that have used the relevant app, divided by mobile internet user population in China.

Source: EnfoDesk

China internet sector – Total M&A size

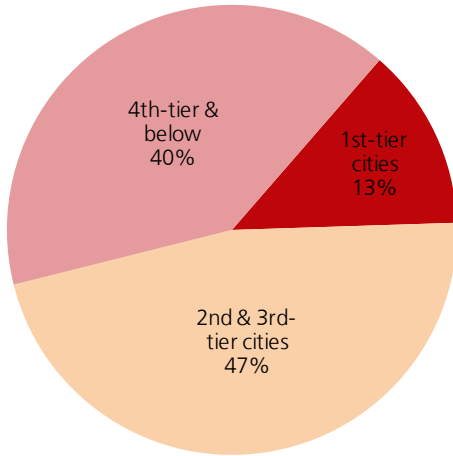


Source: PEdata.cn, ChinaVenture, DBS Vickers

## Industry Focus

### China Consumer Sector (Internet)

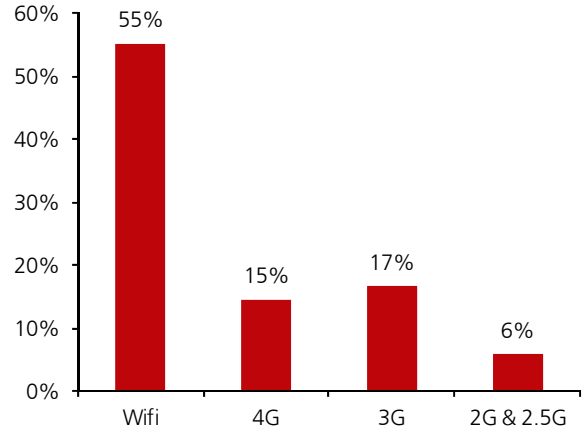
#### Breakdown of mobile internet users in China (1H14)



Note: In terms of user number.

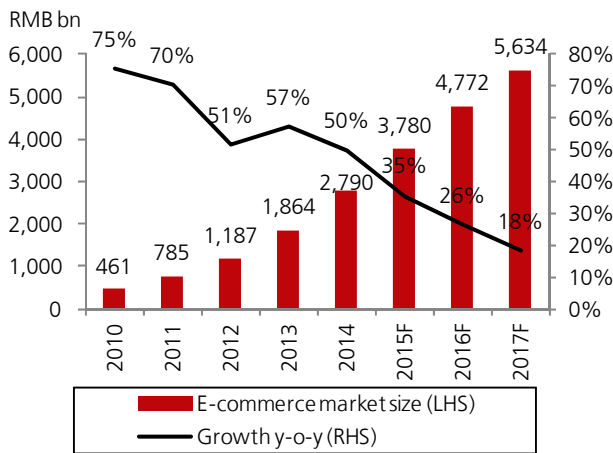
Source: Enfodesk, DBS Vickers

#### Preferred mobile internet connections in China (1H14)



Source: CNNIC survey (sample size = 30,000)

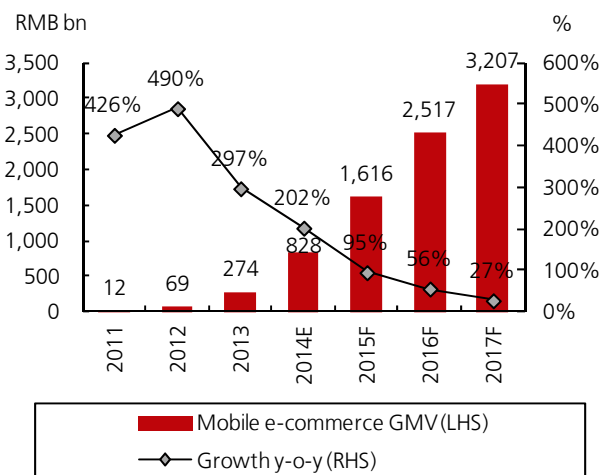
#### E-commerce market size in China



Note: In terms of gross merchandise value (GMV).

Source: iResearch, National Bureau of Statistics

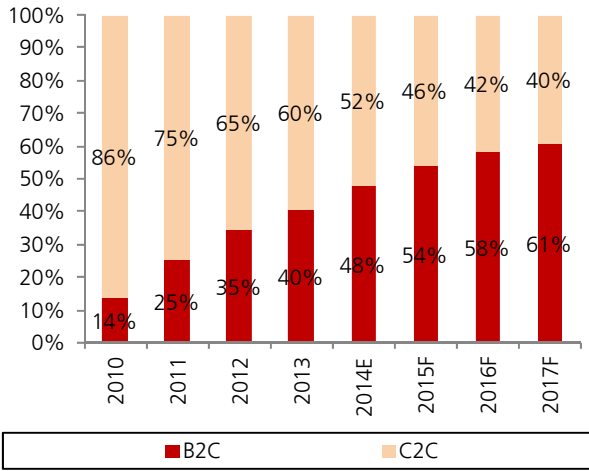
#### Mobile commerce market size in China



Note: In terms of gross merchandise value (GMV).

Source: iResearch

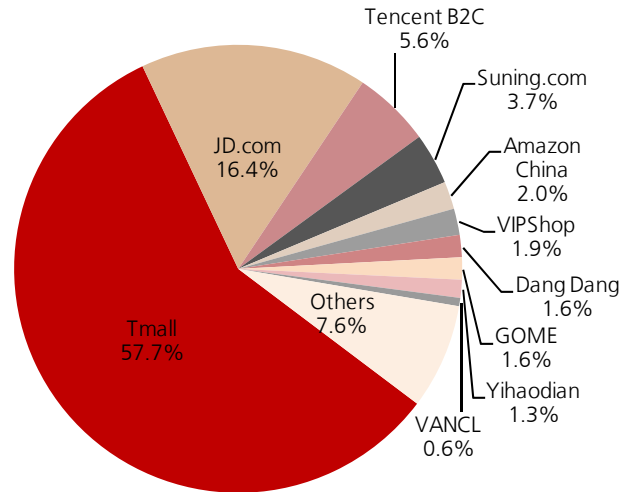
Breakdown of China e-commerce market



Note: B2C – Business to consumers; C2C – Consumers to consumers.

Source: iResearch

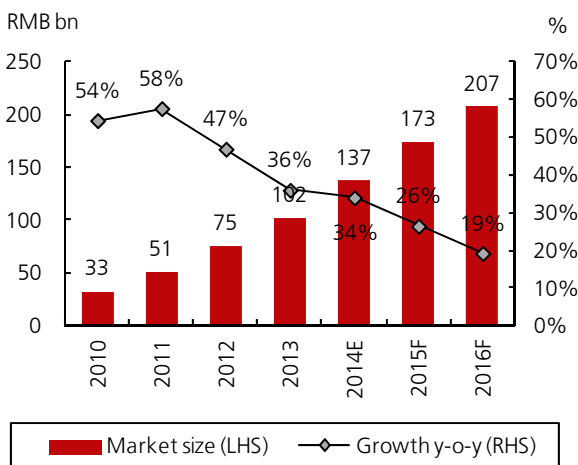
B2C market share breakdown (2013)



Note: In terms of gross merchandise value (GMV).

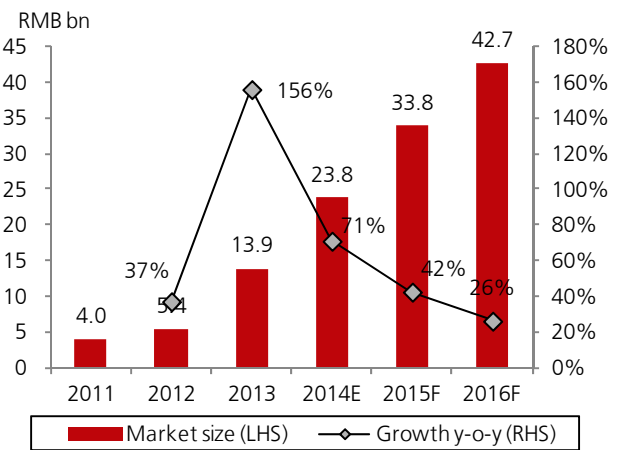
Source: iResearch

Online ad spend in China



Source: iResearch

Mobile game market size in China



Source: Enfodesk



## Industry Focus

### China Consumer Sector (Internet)

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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