



THE SMALL, THE BIG, THE BIGGER

With the annual growth of 46% in 2013, the market size of online advertising industry in China has doubled itself in merely 2 years.

Not long ago, the targeted advertising strategy, including the Real Time Bidding (RTB), has changed the landscape of the online advertising industry.

The idea is straightforward. In the old days, advertisement is a one way street that you could neither choose your particular audiences nor have a reliable measure on the effectiveness of the money you spent on advertising. As technology advanced, advertising agents such as DoubleClick by Google and Right Media by Yahoo have developed some sophisticated systems to match the advertisers with the most suitable audiences and also collect feedbacks from them. Therefore, advertising itself is transforming from a passive strategy (focus on mass media) to an active one (actively targeting potential customers).

Unsurprisingly, those systems require a huge database to support their matching jobs. The larger the database, the more powerful the systems are in terms of accuracy and coverage. That triggers the creation of Big Data which is basically a collective data set comprised of almost everything about an individual internet user.

Although Big Data for advertisement is an old topic, it has developed so fast that goes beyond most people's expectations. Thanks to the internet, companies nowadays collect almost every single bit of input, from web surfing records to what your mouse is actually pointing at. Things are getting more interesting with mobile network as they are now collecting extra information such as your physical location and daily usage pattern.

Contact Us

Email: Info@avaval.com

Website: www.avaval.com

Hong Kong Tel: +852 3907 0680

Shanghai Tel: +86 21 5306 7311

Beijing Tel: +86 10 6410 6230



In China, however, there is no dominating advertising agent in the market. Tencent's Wechat, probably a combination of Whatsapp and Facebook which offers both instant messaging and social networking services, is almost invisible in PC market. Weibo (a micro-blogging platform by Sina) is a social media website for users to share micro-posts mainly on PC platform but has little coverage on mobile platform. Baidu offers search engine and mapping services but is absent from instant messaging market. Xiaomi is one of the brightest stars of China handset manufacturer but their phones rely on Google's operating system.

The dispersed data is a major obstacle to form a successful advertising agent since the accuracy of identifying the right customers is eventually all down to the volume of the database.

To solve the data segmentation problem, companies always come up with two solutions. Direct but hard, bringing up new services is always a struggle to succeed even for the biggest name in the industry. Tencent has recently announced that it will drop its weibo service and focus on its core business.

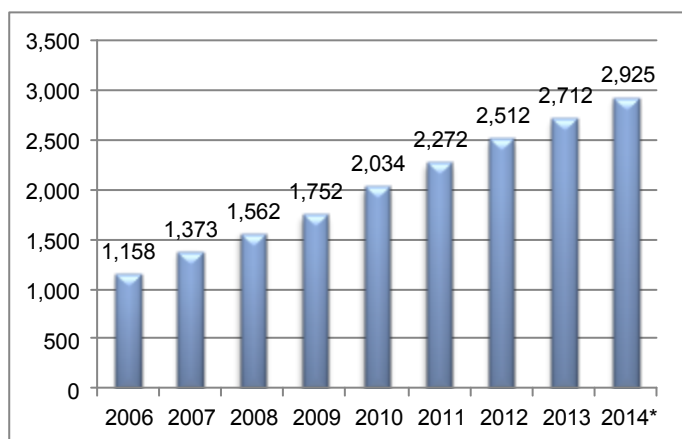
An easier way is to acquire an existing dataset. Facebook in early 2014 proposed to acquire Whatsapp for US\$19 billion. The deal aims at expanding the data collection channel as Whatsapp occupies the biggest share of instant messaging market in the world.

Big Data has uncountable usages (which we would cover the topic in the next issue), but advertising business is definitely one of the most important ones as it sources the major income to most of the internet companies.

The size of the database determines the effectiveness of the advertisement placed and hence the companies' shares among the advertising industry. That is why acquisitions among the industry are so common. Emerging new companies with large amount of users are most attractive in the M&A market (See Table 1) as they could provide not only personal data, but also new contents shared and purchasing power from the users.

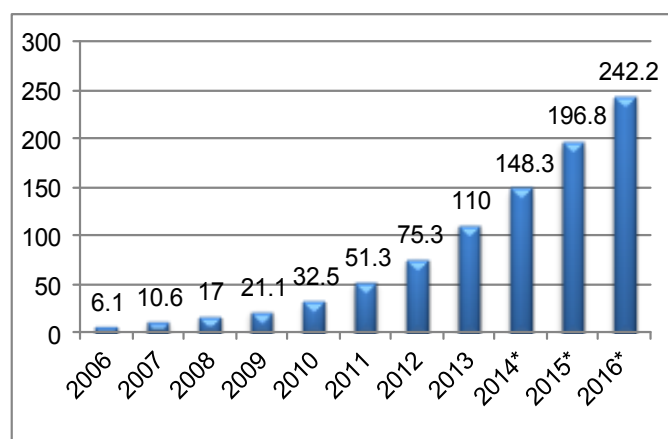
As consolidation continues, size of the database of the internet giants as well as their market capitalisations are getting big and even bigger.

Figure 1: Global Internet Users (Mil)



Source: Internet Live Stat, AVISTA Research

Figure 2: China Online Advertising Market (CNY Mil)



Source: iResearch, AVISTA Research

Table 1: Recent Market Transactions

Acquirer	Acquiree	Date	Transaction Size (US\$)	Number of Users	Cost per User (US\$)
Facebook	Whatsapp	February 2014	19 billion	500 million	38.00
Yahoo	Tumblr	June 2013	1.1 Billion	197.3 million	5.58
Amazon	Goodread	March 2013	140-150 million	16 million	9.06
Apple	Spotsetter	June 2014	NA	5 million	NA
Microsoft	Yammer	June 2012	1.2 billion	9 million	133.33
Alibaba	Weibo	April 2013	586 million(10%)	143.8 million	40.75

Source: Bloomberg, AVISTA Research

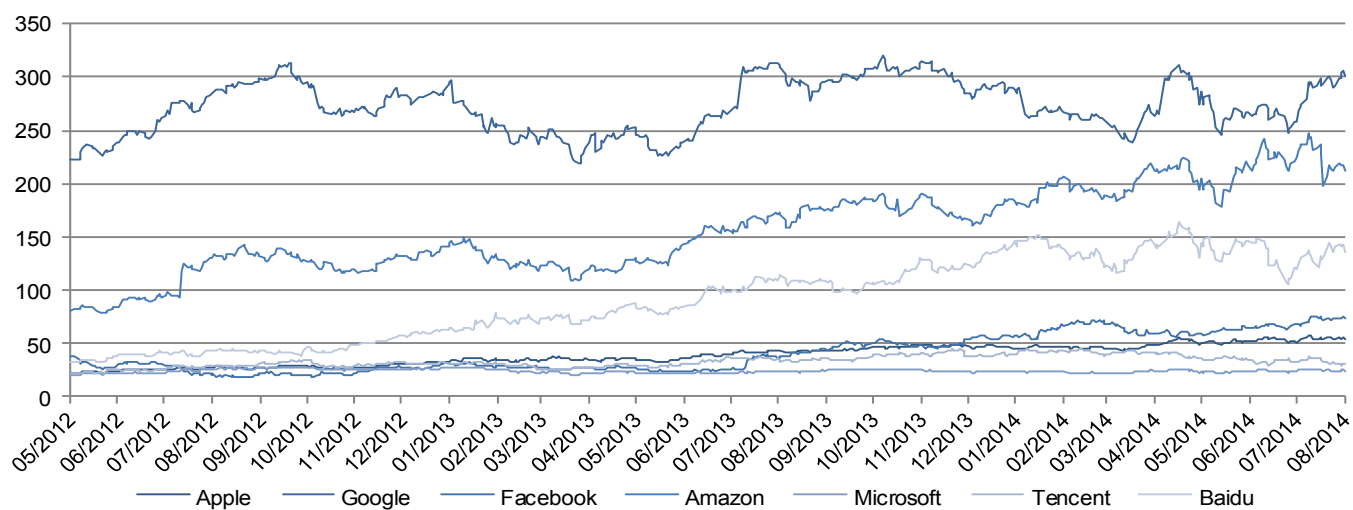
Table 2: Peer Companies Evaluation

Company	Ticker	Ccy	Close Price	Mkt Cap (Mil)	Net Margin			PE		
			15 Aug 2014	15 Aug 2014	2013	2014E	2015E	2013	2014E	2015E
Apple Inc	AAPL US	USD	101.32	586,691	22%	22%	21%	15.8x	15.1x	14.2x
Google Inc	GOOGL US	USD	592.54	391,076	22%	28%	29%	30.3x	26.0x	21.2x
Facebook Inc	FB US	USD	74.57	190,530	19%	26%	27%	127.8x	59.0x	43.0x
Amazon.com Inc	AMZN US	USD	331.59	154,149	0%	0%	1%	562.6x	NA	143.1x
Microsoft Corp	MSFT US	USD	45.15	369,063	28%	25%	23%	16.9x	16.7x	16.0x
Tencent Holdings Ltd	700 HK	USD	17.31	155,807	26%	30%	31%	62.5x	40.6x	31.4x
Baidu Inc	BIDU US	USD	214.19	76,646	33%	25%	25%	44.9x	37.5x	26.6x
Average					21%	22%	23%	123x	14.9x	42.2x

Company	Ticker	Ccy	PB	ROE	EV/EBITDA			EV/Sales		
			2013	2014E	2013	2014E	2015E	2013	2014E	2015E
Apple Inc	AAPL US	USD	4.7x	30.6%	10.5x	9.8x	9.1x	3.4x	3.3x	3.0x
Google Inc	GOOGL US	USD	4.5x	15.4%	21.8x	14.9x	12.5x	6.5x	7.4x	6.2x
Facebook Inc	FB US	USD	12.3x	11.0%	49.9x	24.0x	18.0x	24.2x	15.6x	11.6x
Amazon.com Inc	AMZN US	USD	15.8x	3.1%	38.6x	25.1x	18.7x	2.1x	1.7x	1.4x
Microsoft Corp	MSFT US	USD	4.7x	26.2%	12.1x	11.2x	10.8x	4.7x	4.3x	3.7x
Tencent Holdings Ltd	700 HK	USD	16.6x	31.2%	46.4x	28.9x	22.6x	16.0x	12.2x	9.9x
Baidu Inc	BIDU US	USD	11.6x	32.5%	34.1x	29.2x	20.3x	14.8x	9.5x	6.7x
Average			10.0x	21.4%	30.5x	20.4x	16.0x	10.3x	7.7x	6.1x

Source: Bloomberg, AVISTA Research

Chart 1: Peer Companies Stock Price



Source: Bloomberg, AVISTA Research