

When the going gets tough, the tough gets going

In our Clash of the titans series (Part 1, Part 2, Part 3), we have been highlighting how India e-com is turning into a level-playing battleground for global titans like Amazon, Softbank, Alibaba and Naspers and how Amazon was racing ahead despite being late to enter Indian markets. We now see two things changing in the e-com sector.

**1. A stronger Flipkart means greater competition:** Amazon had a relatively easy ride in India with its Indian competitors struggling in terms of raising funds and strategic decisions in the past (like focusing on mobile-only etc.). With Flipkart recently raising US\$1.4bn and with strong backing from Tencent, eBay and potentially Softbank (in a scenario where it acquires Snapdeal), we would expect competition between Amazon and Flipkart to increase.

**2. It will be Amazon vs. "The rest":** We see the e-com market evolving largely into a two-player market between Amazon and other global names (as a group). Media articles are indicating Flipkart could merge with Softbank-backed Snapdeal. If true, it could lead to a stronger entity that would have widened its market-share gap with Amazon (52% GMV share for Flipkart/Snapdeal vs. 28% for Amazon in 2016).

BABA more active on payments...ambitions high on e-com

Alibaba's (BABA) exposure to the Indian market is via its 40%-owned digital-wallet PayTM (it claims to have 200mn wallets). In Feb-2017, BABA made a nearly US\$200mn investment in PayTM's online marketplace. Media articles suggest that BABA could enter the India e-com space via PayTM (after initially contemplating a standalone entry). PayTM has stated it plans to spin off its e-com business into a new platform named PayTM Mall (in line with BABA's T-mall). In the long term, it remains to be seen if Softbank competes with BABA in India (Softbank owns 28% of BABA) or whether we see further consolidation in this space.

Wallets: Tencent/Whatsapp to give PayTM competition?

We also expect competition in the digital wallets space to increase in the coming years with potentially Tencent and Whatsapp getting more competitive. Our China internet analyst expects Tencent to become aggressive in the payments space in the long term, and media articles are indicating Whatsapp could foray into the digital payments space as well. If true, this could pose greater competition for PayTM. Media reports (ET, Feb 17) suggest Softbank could sell Snapdeal's mobile-wallet Freecharge to PayTM as PayTM seeks to fortify its stronghold in the digital-wallets space.

Telco infra/GST rollout to help e-com; US\$188bn by 2025E

We consider the e-commerce growth in India to be at an inflexion point, led by (1) massive improvement in 4G infrastructure, cheaper tariffs/smartphones; (2) GST rollout ironing out logistical glitches; and (3) demonetization fueling an uptake in online transactions, which is gradually changing consumer habits to online/credit (from cash). We expect India's e-com market to reach US\$188bn by 2025E and the number of online shoppers to reach 977mn then. We rate Amazon, Softbank, Naspers and Alibaba as Buy, and note that, among these companies, Naspers has a relatively higher exposure to India e-com.

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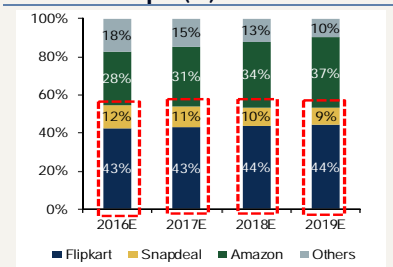
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Exhibit 1: India e-commerce GMV market share split (%)



Source: BofA Merrill Lynch Global Research estimates

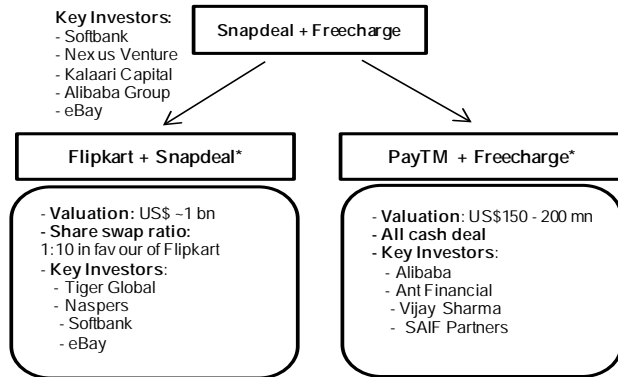
[eBay: Restructuring position in India 11 April 2017](#)

[Naspers: Flipkart back in the spotlight 11 April 2017](#)

# Flipkart may acquire Snapdeal, as per media

**Flipkart may be leading candidate to acquire Snapdeal?:** As reported by the media (e.g., Economic Times, April 5) (but unconfirmed by the companies), Snapdeal investors are holding advanced discussions on the sale of the business to Flipkart in exchange for shares of the merged entity. PayTM was also reported to be a potential acquirer, but media reports indicate the valuation it offered was much lower than Flipkart's. According to the media, Alibaba had also been in talks to acquire Snapdeal, but that a deal fell out due to valuation differences.

## Exhibit 2: India E-commerce M&A potential scenario



\*As per media articles

Source: Media articles (e.g., Economic Times), BofA Merrill Lynch Global Research

## Exhibit 3: Key financials: Flipkart, Amazon & Snapdeal

INR mn	Flipkart		Amazon		Snapdeal	
	FY15	FY16	FY15	FY16	FY15	FY16
Total Revenue	7,725	19,517	10,221	22,754	9,340	15,068
Advertising expense	(3,769)	(9,234)	(14,056)	(21,638)	(11,223)	(16,723)
EBITDA	(9,952)	(20,191)	(16,822)	(34,640)	(13,140)	(32,489)
Net Income	(10,964)	(23,057)	(17,237)	(35,720)	(13,280)	(33,154)
Revenue growth (%)	-	153%	-	123%	-	61%
EBITDA margin (%)	-129%	-103%	-165%	-152%	-141%	-216%
PAT margin (%)	-142%	-118%	-169%	-157%	-142%	-220%

Source: MCA, BofA Merrill Lynch Global Research

**Possible deal terms: one share of new entity for every ten owned:** As per the press, Snapdeal shareholders would reportedly get one share of the merged Flipkart-Snapdeal entity, for every 10 Snapdeal shares they own. Early investors in Snapdeal – Kalaari and Nexus – have said they want a payout of about US\$100mn each from the sale. As per the reported preliminary discussions, post the sale, Softbank, which currently holds 33% of Snapdeal, could pick up 20% of the merged Flipkart-Snapdeal entity for about US\$1.5bn, in the process buying out US\$500-1,000mn worth of Tiger Global's holding in Flipkart.

**Would strengthen Flipkart's position as a market leader:** The merger, if successful, would enhance Flipkart's market share in the Indian online ecommerce market to more than 50%. In our view, the main advantage Flipkart would derive out of the new entity is the warehousing and distribution logistical network. As per RedSeer, the acquisition would give Flipkart access to Snapdeal's stronger audience traction in North India. Flipkart also stands to benefit from the brand-exclusive partnerships globally.

**Has announced a funding round of US\$1.4bn at US\$11.6bn valuation:** Flipkart recently announced a capital raise of US\$1.4bn from Tencent, eBay and Microsoft. The US\$11.6bn valuation achieved (per the announcement) is substantially higher than the previously disclosed mark-downs (~US\$5.5bn) and the new shareholder list suggests a strategic focus on payments – Tenpay has a 31% market share in China – while eBay will also contribute its Indian business to Flipkart.

**Exhibit 4: Global companies backing India e-commerce market: We rate all of them as Buy**

Company	Rating	M.Cap USD mn	3 yr CAGR 2016-19E			EBITDA Margin 2017	Price / Sales (x)		EV / Sales (x)		EV / EBITDA (x)		P / E (x)		Div. Yield 2017	FCF Yield 2017
			Revenue	EBITDA	EPS		2017	2018	2017	2018	2017	2018	2017	2018		
Amazon.com	BUY	432,813	22%	27%	43%	11%	2.6	2.2	2.6	2.2	23.0	19.1	83.2	63.1	0.0%	2.3%
SoftBank Group	BUY	79,280	1%	7%	22%	31%	0.9	0.9	1.3	1.3	4.3	4.1	13.5	10.9	0.6%	2.2%
Alibaba	BUY	278,722	35%	34%	-2%	36%	9.5	7.7	9.3	7.6	25.9	21.4	36.9	29.6	0.0%	3.6%
Naspers	BUY	77,340	5%	11%	42%	5%	12.3	11.1	12.0	10.9	257.0	129.9	30.4	21.4	0.4%	0.5%
<b>Average</b>			<b>14%</b>	<b>19%</b>	<b>32%</b>	<b>21%</b>	<b>6.1</b>	<b>5.0</b>	<b>5.9</b>	<b>4.9</b>	<b>24.5</b>	<b>20.2</b>	<b>33.7</b>	<b>25.5</b>	<b>0.2%</b>	<b>2.2%</b>

Source: BofA Merrill Lynch Global Research estimates

# Rapid telco infra development in the last 6 months bodes well for e-com market

**What has changed in the last 6 months in telco infrastructure?** In September 2016, Jio launched its 4G telecom services in the Indian market, offering subscribers free internet and voice services in order to drive subscription. The service saw unprecedented traction, resulting in more than 100mn subscribers. The service has resulted in a sea of change in the market within a short span of time, leading to an increase in data consumption (~5x) and proliferation of 4G users (~38x). The added telco competition has also exerted pressure on incumbent data prices, which has seen more than 25% correction over the past few months.

**Exhibit 5: Rapid development of telco internet infra has led to increased data consumption**

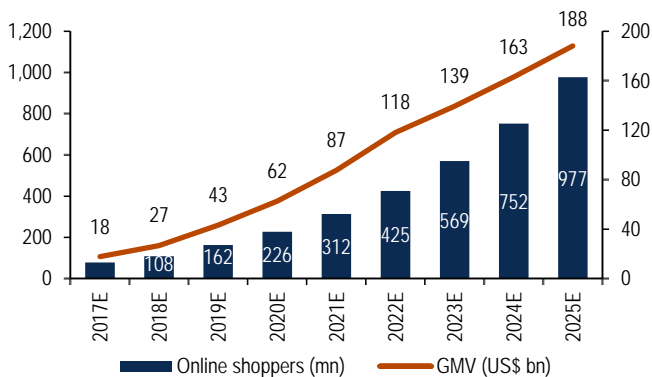
	6-9 months back	Current	Change (%)
Average internet speed (Mbps)	3.5 Mbps	5.6 Mbps	60%
Data Prices of incumbent telcos (Rs./ARMB)	0.23	0.17	-26%
Smartphone penetration as % of pop. (%)	19%	28%	45%
4G users (mn)	3	124	3797%
Data consumption - incl. Jio (GBmn/month)	200	1,200	500%
Data subscribers (mn)	322	421	31%

Source: BofA Merrill Lynch Global Research estimates, TRAI, Jio presentation, Akamai, Company Data

**E-commerce set to benefit with implementation of GST:** With the rollout of GST (expected in July'17), the e-commerce sector will benefit in terms of increased clarity on regulation, and savings in logistical costs. GST implementation will provide clarity on correct taxation of the different types of e-commerce models, apart from bringing the entire country into one-tax regime, contrary to the current practice of different tax rates being imposed by different states. It will also result in easing of supply chain issues, with shipments and returns being more efficiently managed, resulting in lower costs and quicker deliveries.

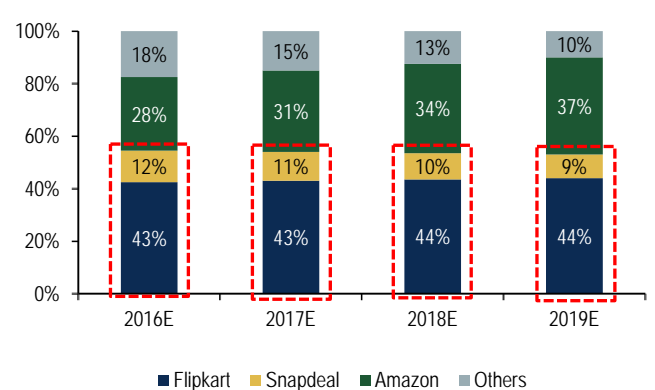
**Continue to expect India to be a US\$188bn e-com market by 2025E:** We maintain our estimate of the Indian e-commerce market reaching a size of US\$188bn by 2025E, witnessing a CAGR of 34% during FY'17-25E. We expect the number of ecommerce shoppers to increase to 226mn by FY'20E from close to 75mn in FY'17E, and the number of orders to rise to nearly 6.5 orders per customer per year. We see upside risk to our numbers, if the mobile internet ecosystem continues to improve at a faster pace than our expectations.

**Chart 1: India e-commerce GMV to reach US\$188 bn by 2025E**



Source: BofA Merrill Lynch Global Research estimates

**Chart 2: India e-commerce GMV market share split (%)**



Source: BofA Merrill Lynch Global Research estimates

## Amazon: Making the right moves...

**Continued investment in distribution:** Post committing a US\$2bn investment in 2014, Amazon announced a further US\$3bn investment in India in June'16. The investment is likely to go into enhancing the supply chain and deepening the logistical footprint in the country to enhance both user and seller experience on the platform. According to the company, already 65% of sales come from non-tier cities, and Amazon has committed to set up additional warehouses, fulfillment centers to further expand its footprint.

**Amazon Prime...getting aggressive on media front:** Amazon has brought its global playbook to India, and offering premium video content to drive subscriptions of its Prime service, which is priced aggressively at Rs.500 (US\$8) per year. According to media reports, Amazon currently has 9.5mn active subscribers signed up for the prime services since launch in December 2016, and has earmarked as much as Rs.20bn to acquire content to attract customers. Apart from buying digital rights of premium movie content, Amazon is also producing original content with a focus on Indian audience.

**Tie-up with offline entity Vkrangee going strong:** As part of the tie up with offline channel partner Vkrangee, Amazon plans to extend its reach to entire Vkrangee's stores. Per its announcement, Amazon has already integrated its services to more than 1k Vkrangee outlets. We expect Amazon to prioritize integration with nearly 10k Vkrangee outlets, which should be complete within a year, post which they will push integration with nearly 15k Vkrangee rural outlets. The tie-ups have been seeing traction for Amazon, with an average store recording nearly 20 orders a day on average with ticket sizes of Rs.450-500.

**Focus on expanding into new verticals:** Amazon India has diversified into new verticals, the latest being grocery and large furniture/appliances. As per reports, Amazon is aiming to enter the food retailing sector in India with investment plans of nearly US\$500mn over the next five years. In January, Amazon had filed its application with the Indian government, following the allowing of 100% FDI in multi-brand food retail by the government. For large appliances, Amazon has recently invested in setting up of nine fulfillment centers of matching capacity across nine states. Apart from this, as per the media reports, Amazon has also partnered with multiple third-party service partners, including HouseJoy, across 20 cities to offer installation services.

### eBay invests US\$500mn in Flipkart and sells eBay.in

Flipkart and eBay each issued press releases announcing eBay's US\$500mn cash investment in Flipkart and agreement to sell the eBay.in site to Flipkart (expected close later in 2017). eBay was one of the first Western eCommerce companies to enter India, with the US\$50mn acquisition of Baazee.com (largest India eCommerce player at the time) in 2004. eBay had been investing heavily in marketing in late-2015 to grow users, which was a key driver of eBay's overall active buyer growth in 2015. FY'16 financial details indicate that eBay India sales grew nearly 300% YoY to US\$60mn with US\$40mn in losses (vs. Amazon India at US\$350mn in revenue and US\$550mn in losses). Additionally, eBay had previously invested in Snapdeal in 2013 and 2014, though divested part of its position in 3Q'15. However, the managing director of eBay India, Latif Nathani, left the company in early March, while Ramkumar Narayanan, head of Monetization Products for eBay Marketplaces India, also left earlier this year. As part of the investment, eBay and Flipkart have entered into an exclusive agreement to pursue cross-border trade opportunities.

## Competition in wallets heating up?

**PayTM emerging as a lead contender for Freecharge:** We note that media articles are indicating that Softbank could sell Snapdeal's mobile-wallet Freecharge to PayTM as PayTM seeks to fortify its stronghold in the digital wallets space. Although Snapdeal had acquired Freecharge for US\$400mn a couple of years back, media reports indicate that Snapdeal is looking at a valuation of US\$150-200mn for the unit. In our view, PayTM is could be looking to purchase Freecharge as a defense mechanism to maintain its leadership position and prevent it from going into the hands of rivals like Whatsapp and WeChat.

**Alibaba is already active in this space with holding in PayTM:** Alibaba's core exposure in India market is via its digital-wallet PayTM, which is the largest wallet company in India with a claimed user base of 200mn wallets. PayTM's wallet business received a boost post demonetization announcement by the Indian government, which saw its overall transactions increase by 3x. Recently, PayTM has secured a payments bank license from the Indian government, and plans to venture into the payments bank space as its next leg of growth. In Feb-2017, BABA led a nearly US\$200mn investment into PayTM's online marketplace. Media articles are indicating that Alibaba could enter the Indian e-com space via PayTM (after initially contemplating a standalone entry). PayTM is expected to spin off its e-com business into a new platform named PayTM Mall (in line with BABA's T-mall).

**Tencent/Whatsapp to give PayTM competition?** We also expect competition in the digital-wallets space to increase in coming years with potentially Tencent and Whatsapp becoming competitive. Our China internet analyst expects Tencent to be aggressive in payments space in the long term, which will also help it in driving traction for its messaging app WeChat in India, which so far has not been as successful. Media articles also indicate an imminent entry into the space by Whatsapp, which has already started hiring executives for the digital-payments vertical. We note that Whatsapp has more than 200mn monthly users in India, and its foray into the digital space could potentially lead to higher competition with PayTM.

**Tencent in China has revolutionized the mobile payment ecosystem:** Tencent's WeChat has already managed to attract many users to its mobile-payment services in China, which, similar to India, has more than half of its ecommerce sales being carried out using mobile device. Tencent has registered a monthly active users base of more than 800mn. In order to gain traction, WeChat has encouraged users to link their wallets to the WeChat accounts, and has driven usage through innovations like Red Envelope and increasing popularity of physical QR code. WeChat has already launched its ecommerce platform in Europe, and may look to launch its services in India soon.

# 4Q India Internet preview: MMYT financials to reflect full impact of IBIBO acquisition

## 4Q: Outlook in focus for MMYT; Justdial, MMYT muted

For 4Q'16, we expect InfoEdge and Justdial to continue to post muted numbers, with InfoEdge affected by IT slowdown and continued impact of change in sales policy, and Justdial still looking to bring the core revenues back on track. For MMYT, we see the company reporting the first set of consolidated numbers, and the focus being on further strategy and guidance of the merged entity.

## InfoEdge: IT slowdown, sales policy impact to weigh

We expect InfoEdge to report revenue growth at 9.2% YoY (vs 5.8% in 3Q), with a slight improvement in EBITDA margins at 27.1% (+186bp over 3Q). We expect Naukri to grow at 8.7% in 4Q (vs 6.9% in 3Q), led by easing of the demonetization impact. However, we see the effects of slowdown in IT hiring and the impact of change in sales policy to continue to weigh in on the recruitment numbers. For 99 acres, we see it swinging back to growth at 4.7% YoY (vs -1.3% in 3Q), as the effect of demonetization eases off on the company. However, we see increased ad spends in the quarter to keep the margins under pressure for the vertical. We expect JeevanSaathi to continue to be stable and forecast 22.8% YoY growth for 4Q (3Q: 20.7%). We expect net income at Rs.558mn (3Q: Rs.471mn). Given that it is the last quarter of the financial year, we do not rule out Infoedge taking an impairment hit in relation to some of its portfolio companies.

## MMYT: Two months of Ibibo numbers in the quarter

Given the merger with Ibibo has been completed in February 2017, we have built in two months of combined MMYT and Ibibo numbers in 4Q. We estimate the volume growth to be strong, given continued focus on driving transactions. We forecast air-ticketing revenues to grow 41% YoY (24% YoY growth on comparative basis). We see H&P transactions growing by 72%, leading to 102% YoY growth in H&P revenues (46% on comparative basis), and 87% increase in overall revenues (37% on comparative basis). However, with the combination of Golbibo, we believe the margins will be under pressure, and see the EBITDA margins at -30%, leading to a net income loss of US\$39.5mn. We maintain our Buy rating.

## Justdial: Operations continue to be challenging

We expect Justdial's 4Q operations to continue to be challenging and forecast stable revenue growth at 8.9% YoY (similar to 8.5% growth registered in 3Q). We forecast adjusted EBITDA margins at 15.7% (an improvement of 139bp on the back of cost-cutting initiatives undertaken by the company, and net income at Rs.258mn (vs Rs.274mn in 3Q). Over the quarter, Justdial started its promotional campaigns, and we have built in a Rs.70mn expenditure for the same. We maintain our Underperform rating, as we await evidence of operational turnaround at the company.

**Exhibit 6: InfoEdge: 4Q17E key estimates**

Rs mn	4Q16	3Q17	4Q17E	QoQ	YoY
Revenue	2,042	1,861	2,230	20%	9%
EBITDA	623	471	605	29%	-3%
Net Income	572	471	558	18%	-2%

Source: Company data, BofA Merrill Lynch Global Research estimates

**Exhibit 7: MMYT: 4Q17E key estimates**

US\$ mn	4Q16	3Q17	4Q17E	QoQ	YoY
Revenue	51	77	96	26%	87%
EBITDA	(30)	0.1	(29)	NA	NA
Net Income	(50)	17	(39)	NA	NA

Source: Company data, BofA Merrill Lynch Global Research estimates

**Exhibit 8: Justdial: 4Q17E key estimates**

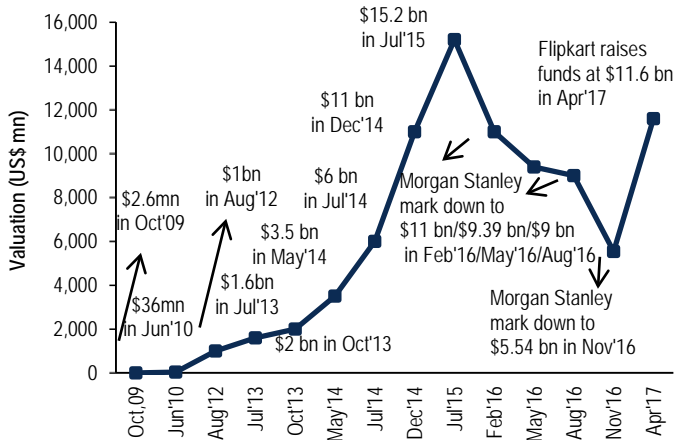
Rs mn	4Q16	3Q17	4Q17E	QoQ	YoY
Revenue	1,796	1,803	1,957	9%	9%
EBITDA	450	257	237	-8%	-47%
Net Income	353	274	258	-6%	-27%

Source: Company data, BofA Merrill Lynch Global Research estimates



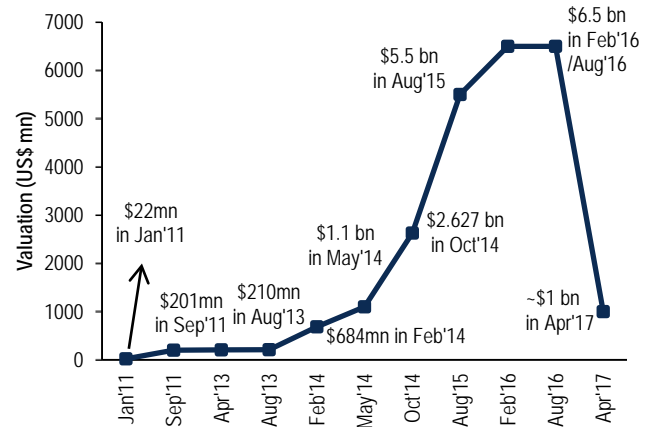
# Appendix: Comparison of e-comm players

**Chart 3: Flipkart valuation trajectory**



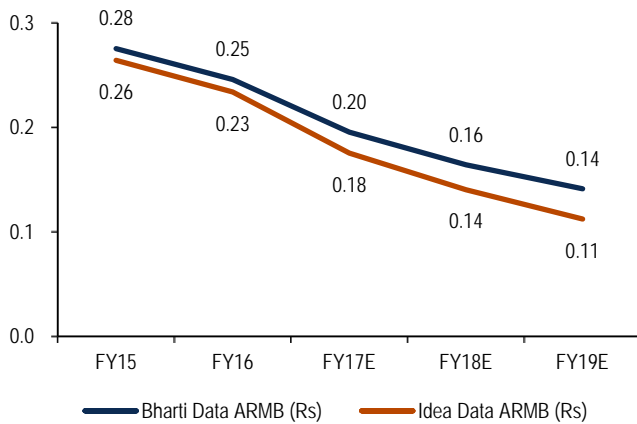
Source: Media reports

**Chart 4: Snapdeal valuation trajectory**



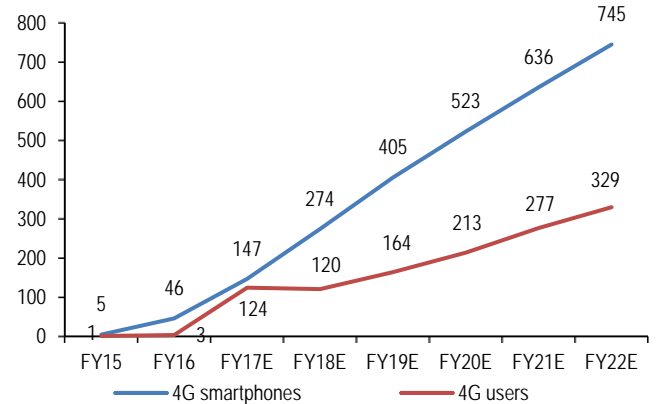
Source: Media reports

**Chart 5: Bharti/Idea Data ARMB (Rs)**



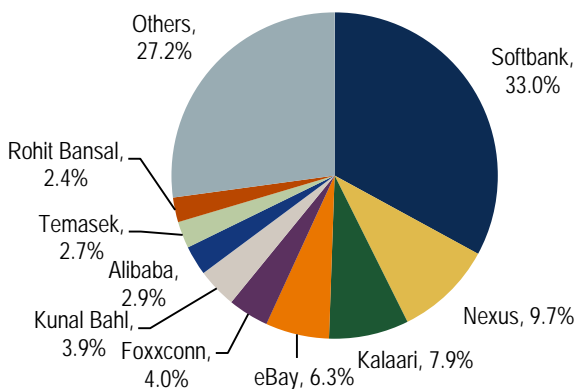
Source: Company report, BofA Merrill Lynch Global Research estimates

**Chart 6: India 4G Smartphones and 4G users**



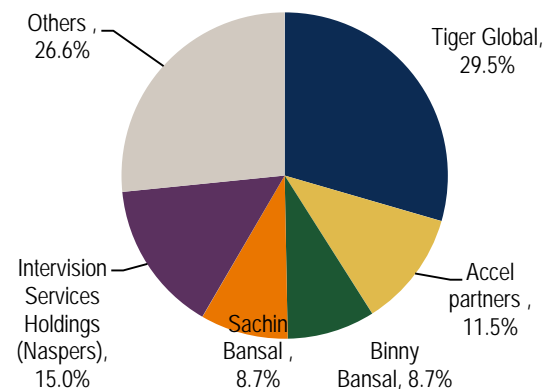
Source: BofA Merrill Lynch Global Research estimates

**Chart 7: Snapdeal shareholding structure**



Source: Press reports

**Chart 8: Flipkart's shareholding structure (pre-recent funding round)**



Source: Press reports



**Table 1: Desktop and mobile engagement data (Mar-2017)**

	Total Visits (m)	Avg. visit duration	Page per visit	Bounce rate
Amazon India	191.8	00:07:07	8.86	32.61%
Flipkart	109.3	00:06:35	7.61	30.63%
Snapdeal	30.3	00:05:39	5.08	35.56%
Jabong.com	31.9	00:05:58	3.08	64.25%
Myntra	13.4	00:08:18	11.52	26.66%

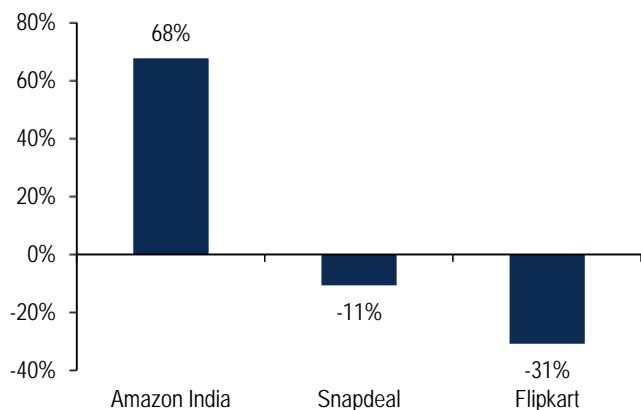
Source: Similarweb, BofA Merrill Lynch Global Research

**Table 2: Inventory in each e-commerce website**

	Flipkart	Snapdeal	Amazon India
Sports shoes			
Mens	15,524	11,200	20,031
Womens	1,679	1,005	8,744
Nike Sports shoes			
Mens	271	589	2,911
Womens	13	32	2,238
T-shirt			
Mens	170,143	87,415	119,358
Womens	25,748	13,995	35,526
Jeans			
Mens	19,970	19,392	13,123
Womens	6,742	6,431	7,523
Shirts			
Mens	58,468	39,396	48,215
Womens	10,277	7,754	14,215
Television			
All	647	618	1,398
32 inch	143	190	387
Laptops	522	543	2,158
Washing Machines	372	312	633
Mobile Phone	7,375	1,498	5,311
Watches			
Mens	61,971	34,617	99,734
Womens	58,450	25,887	74,290
Cameras			
All	134	87	992
DSLR	76	13	261

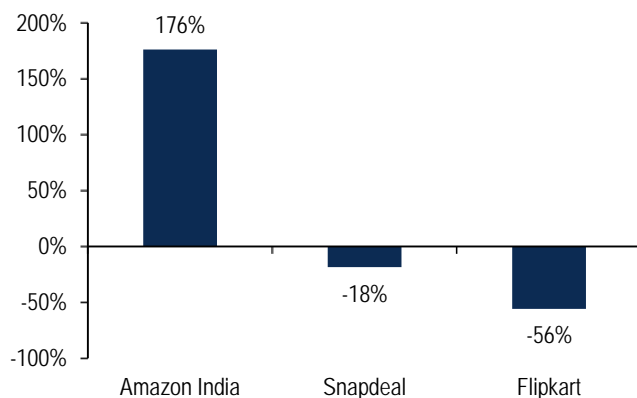
Source: Company websites

**Chart 9: Sports shoes (men) - change in listings vs. Mar -16**



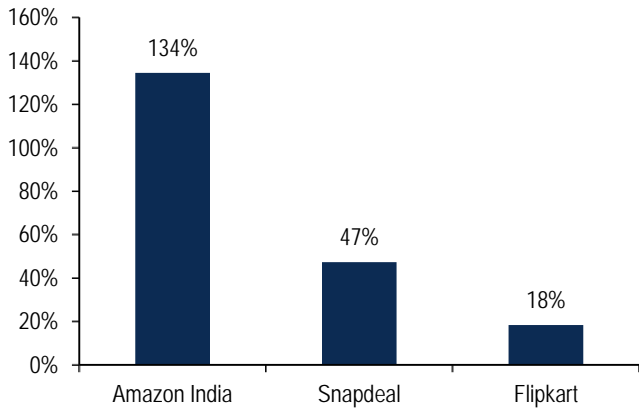
Source: Company websites

**Chart 10: Nike sports shoes (men) - change in listings vs. Mar-16**



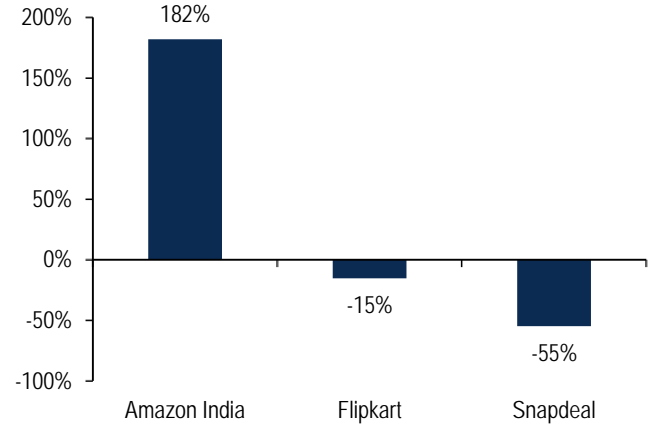
Source: Company websites

**Chart 11: T-Shirt (men) - change in listings vs. Mar-16**



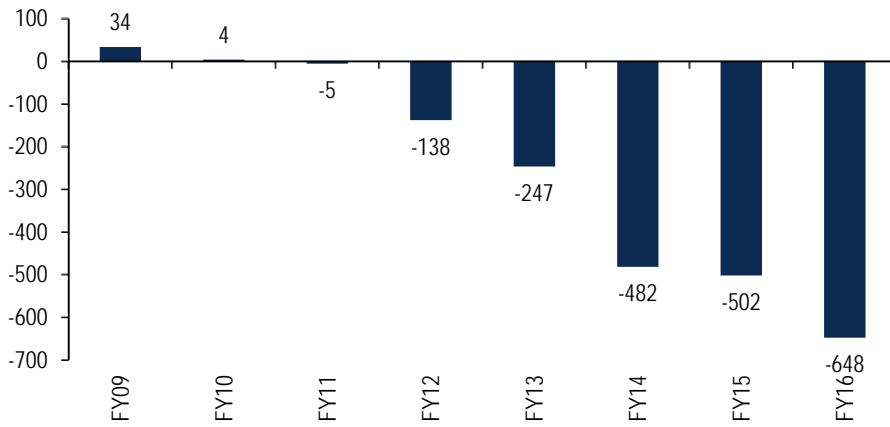
Source: Company websites

**Chart 12: Mobile phone - change in listings vs. Mar -16**



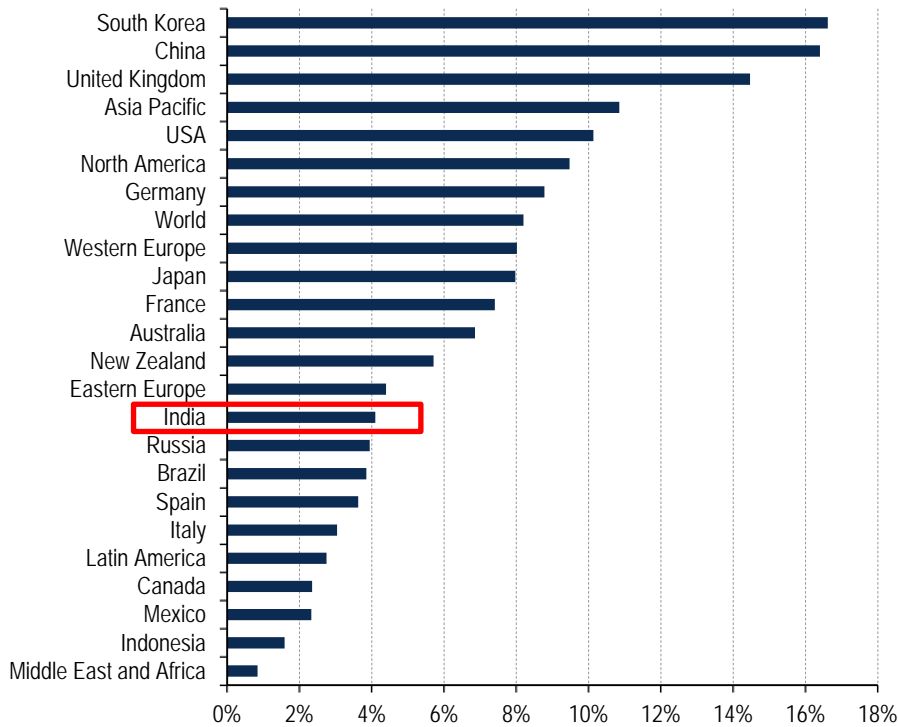
Source: Company websites

**Chart 13: E-commerce EBITDA (US\$m)**



Source: Naspers

**Chart 14: eCommerce penetration by country (as percentage of total B2C retail sales) in 2016**



Source: Euromonitor, BofA Merrill Lynch Global Research

**Table 3: Stocks mentioned**

BofAML Ticker	Bloomberg ticker	Company name	Price	Rating
BABA	BABA US	Alibaba	US\$ 111.7	C-1-9
AMZN	AMZN US	Amazon.com	US\$ 907.04	B-1-9
EBAY	EBAY US	eBay	US\$ 34.06	B-1-9
INFOEF	INFOEF IN	Info Edge	Rs 854.9	C-2-8
XJHUF	JUST IN	Justdial	Rs 530.9	C-3-7
MMYT	MMYT US	Makemytrip Limited	US\$ 36.45	C-1-9
NAPRF	NPN SJ	Naspers	ZAR 2452.45	B-1-7
SFTBF	9984 JP	SoftBank Group	¥ 8005	B-1-7
TCTZF	700 HK	Tencent Holdings	HK\$ 225	B-1-7

Source: BofA Merrill Lynch Global Research

## Price objective basis & risk

### SoftBank Group (9984 / SFTBF)

We base our PO of ¥9,950 on SOTP analysis. We value Yahoo Japan at market value and Sprint at 7.4x (a premium to its past three-year average multiple of 5.5x) FY16E EV/EBITDA. We add the net contribution of equity method affiliate Alibaba using DCF based valuation (discount rate 10%, terminal growth 4%). We assume USD/JPY of ¥115 at end-2017. We reflect ARM's market value immediately prior to the acquisition being announced. For SoftBank's domestic telecom, distribution and other business segments, we apply an EV/EBITDA multiple of 5.1x to FY3/18 consolidated EBITDA after deducting Yahoo, Sprint and ARM, in line with KDDI's PO.

Downside risks to our PO: unexpectedly heavy rise in data volume driving higher-than expected capex, missteps in tech choices, M&A failure, aggressive pricing by rivals, changes in handset sales strategies, disadvantageous regulatory changes, excessive market concerns about competition, and share prices fall of consolidated subsidiaries and equity-method affiliates. Upside risks: launch of attractive value-added services that can mitigate price competition, successful M&A, profit growth on unexpected efficiencies, advantageous regulatory changes, realization of investments, and rise in share prices of consolidated subsidiaries and equity-method affiliates. Developments regarding Masayoshi Son should also be monitored as he has substantial impact on management decision making.

#### **Alibaba (BABA)**

We use a multi-year DCF to capture the impact from the long-term growth profile of the eCommerce business, capex, and investments of the company. Our PO is US\$125, including US\$106 from our DCF valuation of the Alibaba operations (10% WACC, mid-term FCF FY18-25E CAGR of 19%, 4% terminal growth), US\$10 from its investments based on the reported value on the balance sheet, US\$9 from Ali's discounted option value of Ant Financial, which we value at about US\$70b based on FY18E PE comparison with domestic online finance peers.

Downside risks to our PO are: 1) value-destructive acquisitions and investments, incl. repeat funding needs and impairment, 2) expenses from geographical expansion, 3) regulation and policies such as VAT and audit inspections by PCAOB, 4) reputational risk related to IP protection, and disclosure and information transparency, 5) increasing service demand from customers, such as delivery and returns, 6) industry competition in O2O or video to result in coupon wars or large marketing or content costs, 7) industry deceleration off a large base, 8) dilution from more capital raising or equity incentive, 9) overhang of stakes of pre-IPO strategic investors. Upside risk to our PO: 1) a higher than expected valuation of Ant Financial in the VC market, 2) mobile monetization catching up faster-than-expected, 3) revenue contribution from cloud computing ramps up faster-than-expected

#### **Amazon.com (AMZN)**

Our PO of \$1,100 is based on our SOP that values AWS at \$127bn or \$259 per share and the retail business at \$413bn or \$841 per share. Our 5.5x AWS multiple is a modest premium to the software/SaaS comp group at 5.0x on 2018 sales, and 0.9x multiple is a premium to a retail general merchandise comp group at 0.7x. We think the premiums are warranted given share gains and superior growth. Our \$1,100 price objective implies 2.8x 2018E Price/Sales, a multiple above the high end of Amazon's historical range of 1.0-2.5x. We argue the historical P/S multiple should increase given positive 3rd party sales (3P) that is reported on a net basis, a higher AWS revenue contribution, and record gross profit margins.

Downside risks to our price objective are a consumer spending slowdown, rich P/E multiple, margin or growth pressure from the digitization of media, more aggressive offline competition, hardware strategy, AWS investments and/or price cuts, Prime Instant Video content costs, and decelerating growth. The stock has been subject to heavy volatility in the past, based on margin trends, and this volatility could increase due to economic uncertainty.

#### **eBay (EBAY)**

Our \$38 price objective is based on 17x our 2018E EPS. Our 17x P/E multiple is slightly ahead of the retail comp group average of about 16x, reflecting eBay's potential for a Marketplace growth acceleration in 2017.

Risks to our price objective are: 1) competition from Amazon and other new Marketplaces in the U.S., competition from Amazon, Alibaba and local incumbents in

International markets, and competition from multi-channel retailers that are aggressively investing in the online channel, 2) vulnerability to future Google algorithm changes, 3) decelerating user growth, resulting in eCommerce market share losses, and 4) currency risk including FX volatility impact on cross border trade. The stock has been subject to heavy volatility in the past based on GMV growth and market share trends and this volatility could increase due to economic uncertainty.

### **Info Edge (IFOEF)**

We set our PO for Info Edge at Rs 900, using a SOTP. We value its recruitment business, other core businesses (real estate, Matrimony and education) and subsidiary Applect using a DCF-based methodology. We use a WACC of 11.8% and a TGR of 5%. We value Zomato/Policy Bazaar on the latest market value, based on the stock sale deals, and we value associates at Book Value. We use a holding company discount of 15% on subsidiaries and associates.

Upside risks: 1) The IT market recovers faster than our expectations, leading to substantial growth for Naukri 2) The slowdown in the real estate market is temporary, and recovers once there is more cash in the system 3) There is consolidation in the matrimonial classifieds market leading to higher profitability for JeevanSaathi

Downside risks: 1) The policy risk in US materializes/automation gathers pace resulting in more acute IT slowdown 2) Demonetization impact on real estate persists over the longer term leading to a structural downturn in the sector 3) Zomato raises funding at a lower valuation than last achieved round valuation of \$1bn

### **Justdial (XJHUF)**

We value Justdial using DCF-based methodology, as it captures the company's improving outlook with the search mix moving toward the high-margin mobile business. Our 12-month DCF-based PO of Rs.359 is derived using a WACC of 12.1% and a TGR of 5.0%.

Downside risks: (1) Higher investments by management into the business without generating revenue growth, (2) Risks of increased competition from verticals/other horizontals moving into the space.

Upside risk: (1) Potential takeover target, (2) Further crunch in internet funding, (3) Faster-than-expected pickup of Omni.

### **Makemytrip Limited (MMYT)**

Our price objective is US\$36.7. We value MMYT using a 10-year DCF model. We use a WACC of 12.2% and a TGR of 5%.

The risks to our price objective are the following 1) Proposed merger not going through if approvals (particularly of competition commission of India) do not come through 2) Integration issues in MMYT and IBIBO leading to impact on execution 3) Further equity dilution risks for MMYT if market growth does not pick up.

### **Naspers (NAPRF)**

Our PO of ZAR 3,050 is based on an SOTP valuation, applying a 20% holding company discount to Naspers' listed associates.

Our SOTP valuation is based on a combination of DCF method for the pay-TV and print businesses, our analysts' valuations for Naspers' share of listed businesses. South Africa pay TV: valued using a 10-year DCF. WACC assumptions: risk free rate (RFR) 8.5%, equity risk premium (ERP) 5%, Beta 1. Terminal growth rate 3.5%. Sub-Saharan Africa pay TV: valued using a 10-year DCF. WACC assumptions: RFR 10%, ERP 5%, Beta 1. Terminal growth rate 4% Tencent: valued using a 10-year DCF with 9% discount rate, mid-term 15-20E FCF CAGR of 18% and 5% terminal growth. Mail.ru: valued using a 10-

year DCF. WACC assumptions: RFR 5.5%, ERP 6.0%, Beta 1.3 Terminal growth rate 3%. Flipkart: latest funding round. OLX India: valued based on Quikr last funding round. Avito: transaction value. South Africa print business: valued using a 10-year DCF. WACC assumptions: RFR 8%, ERP 5%, Beta 1. Terminal growth rate 0%.

Risks to our PO are a) regulatory action in China, b) sharp FX movements in emerging markets currencies, especially ZAR, c) Tencent share price performance, and d) execution of Naspers' internet strategy.

### **Tencent Holdings (TCTZF)**

Our PO of HK\$259 is based on 1) DCF valuation of HK\$250 with 9% discount rate, mid-term 15-20E FCF CAGR of 21% and 5% terminal growth, 2) HK\$1 from its stake in Sogou, which is valued at 16x 17E income (PEG 1.0x and 16% YoY), 3) HK\$6 from its stake in JD.com, which is valued at market value of approximately US\$43b, 4) HK\$1 from its stake in 58.com, which is valued at market value of about US\$5b, 5) HK\$1 from its smaller stakes in other listed companies including Cheetah, Kingsoft, Huayi Brothers, and Bitauto, based on their market value.

Downside risks to our PO are 1) Competition on payment and O2O, 2) Mobile game developers shifting away from Tencent platforms or asking for higher revenue cut, 3) Regulation on online finance, online games, instant messaging, wireless services, as well as website content, particularly video and blog, would hurt usage and, therefore, reduce monetization. Intervention or ownership by the authority could also introduce uncertainty in business decisions. 4) Faster than expected deterioration in PC games such as DNF, 5) Destructive applications, including any foreign entrant, video broadcasting apps, and virtual reality, 6) Expenses for developing initiatives including payment but high market expectation on margins, 7) Product lives of popular mobile games, 8) lack of user growth, 9) payment costs affected by new clearing system.

## **Analyst Certification**

We, Sachin Salgaonkar, Cesar Tiron, Eddie Leung, Justin Post and Yoshiyuki Kinoshita, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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BofA Merrill Lynch is currently acting as financial advisor to eBay Inc in connection with the extension of a dual branded retail credit card with General Electric and committing to purchase the loan portfolio in 2016. Deal announced along with Second Quarter Earnings on July 16, 2014.



**Japan - Telecom/Media/Internet/Game Coverage Cluster**

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Capcom	CCOEF	9697 JP	Hiroyasu Eguchi
	CyberAgent	CYAGF	4751 JP	Hiroyasu Eguchi
	DeNA	DNACF	2432 JP	Hiroyasu Eguchi
	Dentsu	DNTUF	4324 JP	Yoshiyuki Kinoshita
	Hakuhodo DY Holdings	HKUOF	2433 JP	Yoshiyuki Kinoshita
	KDDI	KDDIF	9433 JP	Yoshiyuki Kinoshita
	LINE	XLIRF	3938 JP	Hiroyasu Eguchi
	LINE	LN	LN US	Hiroyasu Eguchi
	Nintendo	NTDOF	7974 JP	Hiroyasu Eguchi
	Nintendo	NTDOY	NTDOY US	Hiroyasu Eguchi
	NTT	NTTY	NTTY US	Yoshiyuki Kinoshita
	NTT	NPPXF	9432 JP	Yoshiyuki Kinoshita
	NTT DATA	NTTDF	9613 JP	Hiroyasu Eguchi
	Otsuka Corporation	OSUKF	4768 JP	Hiroyasu Eguchi
	Recruit Holdings	XIHF	6098 JP	Yoshiyuki Kinoshita
	SoftBank Group	SFTBF	9984 JP	Yoshiyuki Kinoshita
	SQUARE ENIX	SONXF	9684 JP	Hiroyasu Eguchi
	Trend Micro	TMICF	4704 JP	Hiroyasu Eguchi
	Trend Micro	TMICY	TMICY US	Hiroyasu Eguchi
<b>NEUTRAL</b>				
	Nippon Television Holdings	NPTVF	9404 JP	Yoshiyuki Kinoshita
	NTT DoCoMo	DCM	DCM US	Yoshiyuki Kinoshita
	NTT DOCOMO	NTDMF	9437 JP	Yoshiyuki Kinoshita
	SCSK	XNJGF	9719 JP	Hiroyasu Eguchi
<b>UNDERPERFORM</b>				
	Asatsu DK	AASUF	9747 JP	Yoshiyuki Kinoshita
	Fuji Media Holdings	FJTNF	4676 JP	Yoshiyuki Kinoshita
	KONAMI Holdings	KNAMF	9766 JP	Hiroyasu Eguchi
	KONAMI Holdings	KNMXY	KNMXY US	Hiroyasu Eguchi
	NRI	NURAF	4307 JP	Hiroyasu Eguchi
	TBS Holdings	TKOBF	9401 JP	Yoshiyuki Kinoshita
	TV Asahi Holdings	TVAHF	9409 JP	Yoshiyuki Kinoshita

**US - Internet Coverage Cluster**

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	Bankrate	RATE	RATE US	Nat Schindler
	eBay	EBAY	EBAY US	Justin Post
	Expedia	EXPE	EXPE US	Justin Post
	Facebook	FB	FB US	Justin Post
	GrubHub	GRUB	GRUB US	Nat Schindler
	IAC InterActive	IAC	IAC US	Nat Schindler
	LendingTree	TREE	TREE US	Nat Schindler
	Match Group	MTCH	MTCH US	Nat Schindler
	Netflix, Inc.	NFLX	NFLX US	Nat Schindler
	OnDeck Capital	ONDK	ONDK US	Nat Schindler
	priceline.com	PCLN	PCLN US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Justin Post
	Trivago NV	TRVG	TRVG US	Nat Schindler
	Wix.com	WIX	WIX US	Nat Schindler
	Yahoo!	YHOO	YHOO US	Justin Post
	Zillow	ZG	ZG US	Nat Schindler
	Zillow	Z	Z US	Nat Schindler
<b>NEUTRAL</b>				
	Activision	ATVI	ATVI US	Justin Post
	Electronic Arts	EA	EA US	Justin Post
	Quotient Technology Inc	QUOT	QUOT US	Nat Schindler
	Snap	SNAP	SNAP US	Justin Post
	Wayfair	W	W US	Justin Post
	Yelp	YELP	YELP US	Justin Post
<b>UNDERPERFORM</b>				
	Care.com	CRCM	CRCM US	Justin Post
	Fitbit	FIT	FIT US	Jason Mitchell
	GoPro	GPRO	GPRO US	Jason Mitchell
	Pandora Media, Inc.	P	P US	Nat Schindler
	TripAdvisor	TRIP	TRIP US	Nat Schindler
	Twitter	TWTR	TWTR US	Justin Post
	ZYNGA	ZNGA	ZNGA US	Justin Post
<b>RVW</b>				
	Chegg	CHGG	CHGG US	Nat Schindler

**APR - Online media Coverage Cluster**

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alibaba	BABA	BABA US	Eddie Leung
	Baidu.com	BIDU	BIDU US	Eddie Leung
	Baozun	BZUN	BZUN US	Binnie Wong
	Bitauto	BITA	BITA US	Nora Zhang
	Ctrip.Com-ADR	CTRP	CTRP US	Binnie Wong
	East Money	XEQTF	300059 CH	Nora Zhang
	JD.com	JD	JD US	Eddie Leung
	Makemytrip Limited	MMYT	MMYT US	Sachin Salgaonkar
	Naver Corporation	NHNCF	035420 KS	Susie Lee
	NCSOFT	NCSCF	036570 KS	Susie Lee
	NetEase, Inc	NTES	NTES US	Eddie Leung
	PChome Online Inc.	PNHFF	8044 TT	Ming Hsun Lee, CFA
	Sina Corp	SINA	SINA US	Eddie Leung
	Sohu.com Inc	SOHU	SOHU US	Eddie Leung
	Soufun	SFUN	SFUN US	Nora Zhang
	Tencent Holdings	TCTZF	700 HK	Eddie Leung
	Vipshop Holdings	VIPS	VIPS US	Binnie Wong
	YY	YY	YY US	Binnie Wong
<b>NEUTRAL</b>				
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar
	Leju	LEJU	LEJU US	Nora Zhang
	WUBA	WUBA	WUBA US	Nora Zhang
<b>UNDERPERFORM</b>				
	Changyou.com Limited	CYOU	CYOU US	Eddie Leung
	Feiyu Technology	XFYIF	1022 HK	Nora Zhang
	Justdial	XJHUF	JUST IN	Sachin Salgaonkar
	Kakao Corp.	DAUCF	035720 KS	Susie Lee
	Renren Inc.	RENN	RENN US	Eddie Leung

**EEMEA - Telecoms & Media Coverage Cluster**

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Bezeq	BZOIF	BEZO IT	Haim Israel
	Mail.ru	MLRYY	MAIL LI	Cesar Tiron
	MegaFon	XCNTF	MFON RM	Haim Israel
	MegaFon	MFOYY	MFON LI	Haim Israel
	MTS	MBT	MBT US	Haim Israel
	MTS	XKIFF	MTSS RM	Haim Israel
	Naspers	NAPRF	NPN SJ	Cesar Tiron
	OTE	HLTOF	HTO GA	Haim Israel
	Turkcell	XOFTF	TCELL TI	Haim Israel
	Turkcell	TKC	TKC US	Haim Israel
	VEON Ltd	VEON	VEON US	Haim Israel
	Yandex	YNDX	YNDX US	Cesar Tiron
<b>NEUTRAL</b>				
	Saudi Telecom Company (STC)	XUTUF	STC AB	Cesar Tiron
	Turk Telekom	TRKNF	TTKOM TI	Haim Israel
	Zain KSA	XOCTF	ZAINKSA AB	Cesar Tiron
<b>UNDERPERFORM</b>				
	Etihad Etisalat	XEHTF	EEC AB	Cesar Tiron
	Etisalat	XDICF	ETISALAT UH	Cesar Tiron
	MTN Group	MTNOF	MTN SJ	Cesar Tiron
	Rostelecom	ROSMF	RTKM RM	Haim Israel
	Telkom SA	TKMJF	TKG SJ	Cesar Tiron
	Vodacom	VODAF	VOD SJ	Cesar Tiron

# Disclosures

## Important Disclosures

### Equity Investment Rating Distribution: Technology Group (as of 31 Mar 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	126	59.43%	Buy	70	55.56%
Hold	35	16.51%	Hold	17	48.57%
Sell	51	24.06%	Sell	17	33.33%

### Equity Investment Rating Distribution: Telecommunications Group (as of 31 Mar 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	78	52.00%	Buy	53	67.95%
Hold	30	20.00%	Hold	20	66.67%
Sell	42	28.00%	Sell	14	33.33%

### Equity Investment Rating Distribution: Global Group (as of 31 Mar 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1578	51.33%	Buy	979	62.04%
Hold	690	22.45%	Hold	434	62.90%
Sell	806	26.22%	Sell	381	47.27%

\* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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