

THE WEEKLY BUZZ

27th May 2011
Issue No: 12

	Market Cap	Net Profit	P/E
	(\$ billion)	(\$ billion)	(times)
Stalwarts			
Yahoo (US)	20.87	1.144	18.24
Google (US)	167.86	8.350	20.10
Challengers			
Yandex (Russia)	10.47	0.145	72.21
Baidu (China)	46.72	0.633	73.81
LinkedIn (US)	8.35	0.015	556.67
Qihoo 360 (China)	2.98	0.003	1087.59
Renren (China)	5.10	-0.073	NA
SINA Corp. (China)	7.30	-0.028	NA
Youku.com (China)	4.48	-0.200	NA

A TECH BUBBLE IN THE MAKING?

On May 19, **LinkedIn**, the popular networking site for professionals, went public and how! Its share price, offered at \$45, closed at \$94.25 on the first day of trading on the New York Stock Exchange, a gain of 109%! The share price has since 'moderated' to \$88.32. Yet, a company with annual revenues of \$292 million and net profit of just \$15 million is valued at \$8.35 billion (556 times!). Exactly a week later, on May 26, the Russian internet search engine, **Yandex's** IPO saw its shares surge 55% on listing day (on Nasdaq), from \$25 to \$38.84. Yandex, with sales of \$494.62 million and net profit of \$145 million is valued at \$10.47 billion (72 times) currently.

Yandex's co-founder, Ilya Segalovich, was moved so much by this crackerjack debut, that he said, "*Google is a great company, but we are better.*" Famous last words, in our opinion. **Google** posted revenues of \$31.12 billion and net profit of \$8.35 billion in 2010. Google's profits are equivalent to around 80% of Yandex's market valuation (and 57.6 times its net profit!)

Anything that can fit into the Social Network/Internet box now looks like a hot ticket. Irrespective of their financials. **Renren**, another of China's biggest social networking website by page views is valued at \$5.10 billion on the NYSE. It posted revenues of just \$76.54 million in 2010 and a net loss of \$73.42 million. A bubble may well be in the making in the Internet IPO space. At this point, investors are mostly focused on a few big firms, and compared to the height of the tech bubble in 1999, the number of tech IPOs in the past year has been fairly low.

However, with tiny companies getting gigantic valuations, the trickle that we are witnessing now may well turn to a flood in the coming months. **Zynga**, the largest maker of games for **Facebook** (with an unofficial valuation of \$8.2 billion) is planning an IPO in June. As is **Clouday**, a Chinese Internet firm doing online literature business. **Groupon**, **Living Social**, **Gilt Group**, **Yelp**, **eHarmony**, **Etsy**, **Zoosk**, **Twitter** are all lining up to issue shares to a public that just can't seem to get enough of Internet firms. And then there is Facebook, privately valued at around \$83 billion.

We have to mention here however, that many of the companies going public this time around have real business models and are actually posting revenues, as opposed to all the penniless start-ups that foamed up the market in 1999, during the dotcom boom. However, that doesn't mean that a bubble is not building up. When market valuations go sky-high, with no relation to the underlying value of businesses, you can be certain that things are not normal.

The bubble may not yet burst as there is still a tremendous amount of pent-up demand for Internet stocks. The Internet bubble of 1995-99 took around 4 years to build up and go bust. But when bubbles burst, they don't do so with a gentle pop. They go out with a big bang.

9 MILLION USERS CONNECT TO 3G

3G services were launched in India in January 2011 and since then, 9 million subscribers have taken a 3G mobile connection. This number assumes significance when one considers that there are only 11 million wire-line broadband customers till date. The leader of the 3G pack is Bharti Airtel with 3 million subscribers followed by Tata DoCoMo with 1.5 million users. Idea Cellular, Vodafone and BSNL have over a million 3G customers each and Reliance Communications close to a million 3G connections.

However, what is worrying is the poor quality of service being experienced by subscribers. Complaints of frequent call dropping, poor speeds and erratic connectivity are rampant. But operators say that these are only teething troubles and they are well on their way to meet the target of 100 million 3G connections by 2015 as projected by analysts. According to Shireesh Joshi, Chief Marketing Officer -Mobile Services, Bharti Airtel, "The initial response from customers has been overwhelming - but we believe the revolution has just begun. The game changing differentiator for 3G in India will be content and services and not price points."

Whether content or price will eventually be the differentiator remains to be seen. After all, the only way that mobile operators have been able to ramp up fresh mobile connections in recent years has been through drastic reduction in call rates, not by the plethora of value-added services that they have offered.

JAPAN SLIDES INTO RECESSION

Economists typically define a recession as two consecutive quarters of contraction of GDP. By this definition, Japan has now fallen into a recession. Its GDP had contracted 3% in the Oct-Dec 2010 quarter and hit by the March 11 earthquake and tsunami which badly disrupted production and prompted consumers to cut back spending, the GDP contracted a further 3.7% in the Jan-Mar 2011 quarter. This is the 3rd recession in a decade in Japan and its economy, now at its smallest size since 1991 (unadjusted for price changes), may shrink further in the Apr-Jun 2011 quarter before rebounding later in 2011 as reconstruction kicks in.

Japan's GDP shrank for four straight quarters during the global financial crisis, and contracted for three straight quarters in 2001. Consumer prices, excluding fresh food costs, have dropped every month since March 2009, underscoring the deflationary pressure that has sapped consumer demand. Weakness in Japan's economy is in contrast to many other countries, which are moving toward ending stimulus policies adopted during the global financial crisis as their economies recover. In the Jan-Mar 2011, GDP in the 17-member euro bloc rose an annualized 3.3%, while that of the U.S. grew an annualized 1.8%.

That the world order has changed is very evident from the fact that the global markets, be it equity or debt, ignored Japan's slide into recession. This, despite Japan being the 3rd largest economy in the world. Of course, it could also be the fact that Japan has always pulled itself up without plunging the global financial markets into a crisis, unlike, say, Portugal, Ireland, Greece or Spain.

FOREIGN INSTITUTIONS TURN RISK-AVERSE

Foreign institutional investors (FIIs) are selling equities in both developed and emerging markets in favour of bonds. According to EPFR Global, which tracks global FII flows, equity funds posted collective outflows of \$7.1 billion during the third week of May with emerging market equity funds accounting for \$1.6 billion of that total, while bond funds saw a net inflow of \$4.6 billion. The \$1.6 billion outflow from emerging markets' equities has resulted in the first net withdrawal by FIIs in 8 weeks.

The restructuring of Greece's debt, the end of US Federal Reserve's Quantitative Easing (QE-2) program and the tightening measures undertaken by China to curb inflation are making global investors take lesser risk at this point in time. A strengthening US dollar and weak commodity prices have further sapped demand for 'riskier' assets.

According to data available on SEBI's website, in India, FIIs have sold (on a net basis) \$1.56 billion of equities and bought (on a net basis) \$0.60 billion of debt in May (till May 27th) this year. A constant stream of sell orders from FIIs will, most certainly, negatively impact the Indian equity market but therein lies the opportunity to buy good companies at reasonable prices. In our opinion, a long-term rational individual investor, should use every reversal of a bullish trend to invest into equities.

Did You Know?

According to convention, the President of the World Bank is always from the United States and the Managing Director of the International Monetary Fund is always from Europe. Since the founding of these two institutions in the 1940s, this convention has never changed, not even once.

Weekly Spotlight

	May 20	May 27	% chg
Sensex	18,326.09	18,266.10	↓ (0.33)
Nifty	5,486.35	5,476.10	↓ (0.19)
US	12,512.04	12,441.58	↓ (0.56)
China	2,858.38	2,709.62	↓ (5.20)
Japan	9,607.08	9,521.94	↓ (0.89)
Hong Kong	23,199.39	23,118.07	↓ (0.35)
Germany	7,256.48	7,163.47	↓ (1.28)
UK	5,947.71	5,938.87	↓ (0.15)
Brazil	62,596.52	64,294.96	↑ 2.71
NYMEX Crude (\$ per barrel)	100.10	100.60	↑ 0.50
Gold (\$ per oz)	1,490.75	1,533.00	↑ 2.83
Weekly DII Inflow (Rs.cr)	(20.42)	1,028.34	
Weekly FII Inflow (\$ mn)	(1,133.99)	138.28	
Cumulative DII Inflow - YTD (Rs.cr)	13,869.58	14,897.92	
Cumulative FII Inflow - YTD (\$ mn)	(603.16)	(464.88)	
Food Inflation (%)	7.47	8.55	

Sometimes your best investments are the ones you don't make.
- Donald Trump

Research Analyst: K. Sanjay Karanth | Email: research@sunshinefinancials.com | For archives: www.sunshinefinancials.com

Disclaimer: This report is for the personal information of the authorized recipient(s) only, and does not construe to be an advice for any investment. Sunshine Financials is not soliciting any investments based upon this report. This report has been prepared using information that we consider reliable, but we do not represent that it is accurate or complete. You are recommended to seek professional advice before taking any action on your investments.