

Sohu.com Inc. (NASDAQ: SOHU)

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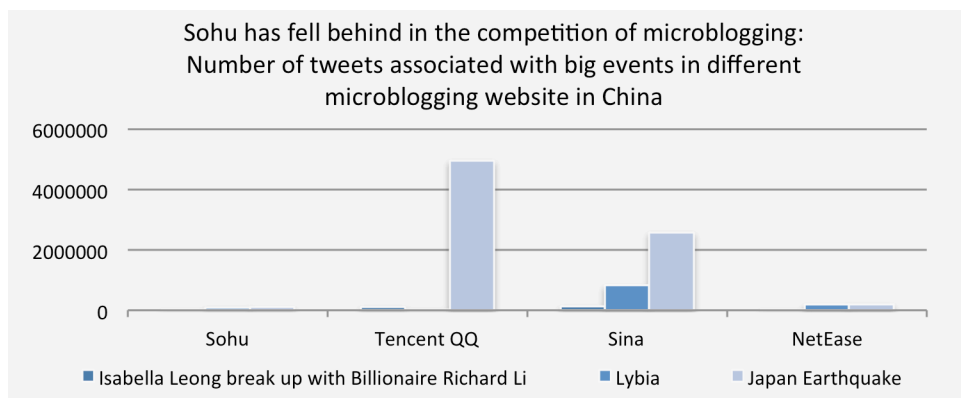
INVESTMENT THESIS

Due to lack of activities in mobile network that is widespread in the city area of China, Sohu has been gradually failing to keep up a pace with other competitors in the area of mobile network and client-oriented applications. So I make a sell recommendation for Sohu.com Inc.

WHY OVERVALUED

PEG performance: Sohu has a PEG performance of 1.85 (5Yr. Expected), which means that the stock could be slightly overpriced.

Failure to keep up with rapid technology changes: Sohu has fell behind in the evolution of Web 2.0. In Web 2.0, Internet users shift to new modes of information sharing, such as social networking series and client-end software. Sohu's competitors, like Sina and Tencent, have developed their own peer-to-peer streaming technology to surpass Sohu in terms of microblogging and information sharing. With the booming popularity of mobile device starting from 2010 in China, Sohu fails to anticipate innovative technologies and products in mobile sector and thus Sohu loses its market acceptance built from the 2008 Olympic Game (Sohu was the official internet sponsor for Beijing Olympic Games).



Why not priced in: Every year, over 30% of revenue of Sohu comes from advertisement. Even if Sohu has fell behind in the competition of mobile internet, they can still survive because of its strong background in traditional web service. However, as time goes by, Sohu will lose its market acceptance since the focus of internet in city area of PRC has shifted to mobile network.

RISK ANALYSIS

Growth services in Chinese Input Software: Sogou Pinyin, a Chinese character input method software, can be a major source to drive up the market. In 2012, Sogou Pinyin beating other Chinese character input software developed by other competitors companies like Baidu or Google, ranks the 1st input software in terms of its powerful features, popularity and customer rating. The software is able to record keywords that users type frequently in a certain period. This is a great feature that will provide Sohu a unique prospective to know what users are thinking, such that Sohu can continue to develop corresponding service or products to increase their market acceptance.

Steady growth in gross profit: Sohu has kept an average growth in gross profit of 26% since 2009.

COMPANY PROFILE

Sohu.com Inc. provides Chinese online media, search, gaming, community, and mobile services in the Peoples Republic of China. The company has four main business sectors including: brand advertising, proprietary searching, online game and wireless business. In addition, the company provides content for various channels, which cover news, entertainment, business and finance, automobile, information technology, and sports. The company was formerly known as Internet Technologies China Incorporated and changed its name to Sohu.com Inc. in September 1999.

FINANCIALS

- Price: 40.10
- Shares (M): 38.01
- Market Cap (B): 1.54
- Net Cash: 894.25M
- Enterprise Value (M): 850.12
- Beta: 1.37
- PEG Ratio (5Yr.): 1.85
- 12M Forward P/E: 13.02
- 52Week High: 65.42
- 52Week Low: 33.75
- EPS: 2.09
- Institutional Ownership: 71%

VALUATION

Our target value of \$26-30 is based off comparable companies analysis, with a P/E multiple of 13.02-13.40 for 2013.

Year	High Target	Low Target
Earning	89	77
EPS	2.34	2.03
P/E	13.40	13.02
Share Price	30.49	26.43