



# Shanda Int. Entertainment Ltd. (Neutral/Buy)

Date: 04/17/2005

Symbol: SNDA

Price: 29.51

**Michigan State University  
Student Investment  
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Symbol: SNDA  
Sector: Information  
Technology  
Industry: Computer  
Services  
Industry Outlook: Neutral  
(S&P)

Market Cap: 2.09B  
Shares Outstanding: 70.9M  
Avg. Daily Volume: 1.14M  
52-Wk Range: 10.58-45.40

Net Profit Margin: 47.4%  
Return on Equity: 42.35%  
Dividend Yield: NA  
Debt to Equity: 1.517  
Forward P/E: 17.57

**Growth Rates (5 yr.)**

	Company	Industry
Sales	383.58	23.15
EPS	292.85	30.51

**Company Efficiency/Profitability**

	Comp.	Ind.
ROE	42.35	17.1
ROA	26.04	10.8
Gross Margin	63.72	45.99
Rec Turnover	22.74	8.32

**Summary:** Shanda offers a portfolio of multiplayer and casual online games that users in China play over the Internet.

SHANDA INTERACTIVE ENTERTAIN  
as of 15-Apr-2005



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**Revenues (Million \$)**

	2005	2004	2003	2002	2001
1Q	--	27.5	--	--	--
2Q	--	34.7	--	--	--
3Q	--	42.7	--	--	--
4Q	--	52.1	22.2	--	--
Yr.	--	157	72.5	--	--

**Earnings Per Share (\$)**

	2005	2004	2003	2002	2001
1Q	--	.073	--	--	--
2Q	--	.13	--	--	--
3Q	--	.141	--	--	--
4Q	--	.201	.067	--	--
Yr.	--	.521	.259	--	--

**Company Highlights**

- Absolutely incredible growth.
- ROE and ROA impressive. Great Management.
- Tremendous potential in fast growing China.
- Well leveraged in the Chinese gaming market, both selling and producing video games.
- Largest operator of online games in China.
- Looking technically at the company, the Slow Stochastic looks good below 20, the volume has cooled off but may be moving upwards. SNDA is at a major technical resistance point at \$29. The 200-day moving average is another resistance which currently is at \$29.12.
- SNDA has seen significant correction, off over 30% from its 52-week high.

**Major Risks**

- SNDA is a newly issued Chinese stock; it carries inherent risks with regulatory and cultural misunderstandings. As well, China is continuing to expand at a rapid pace that may not be sustainable. Any hint of a slowdown may bring economic uncertainties to the Country and hugely profitable stocks like SNDA.
- SNDA has been spending a lot of money acquiring competitors and software companies instead of R&D. There is concern that the company may not be as able to bring new product to market as efficiently and quickly as its competitors.
- If SNDA it breaks the quadruple bottom and the 200-day moving average at 21.12, there could be significant downside.
- IPO less than a year ago, no track record, still a relatively new company.

**Analysts Opinion:** We believe that SNDA is neutral/cautious buy. We believe that the significant correction experienced by SNDA from January to April has made a possible entry purchase point. Good management and potential growth has been the main factor in our buy consideration. However, after taking in consideration current market sentiment, viewing current-pricing pressures on the stock, as well the overheated growth in China and SNDA's close proximity to its price resistance level, we are hesitant to fully endorse the stock.