Here's how Bitauto (BITA) rises to $240

Company	Ticker	Sectors	Direction	Exp. Price
Bitauto	**BITA**	**China Tech ADR. China Autos. China AdTech.**	**LONG**	**>$250**

MARKET CAP:	$1.7 billion	**SHARES OUT:**	72 million
SHARE PRICE:	$23.90 (52w Hi/Lo: $54/18)	**TRADABLE FLOAT:**	14.2 million shares
AVG DAILY	1.2 million shares	**SHORT INTEREST:**	11.4 million shares (80.5% of float)
LTM REVENUE:	$1.41 billion	**BUYBACK AMT:**	$150 million (≈3-7 million shares)
TOTAL CASH:	$1.45 billion	**POST BUYBACK FLOAT:**	≈7-11 million shares

Not just a short squeeze

Bitauto (BITA) is a heavily shorted, low float stock but there is far more to the bull case than a simple short squeeze. As with my long report on RH in the $80s, this report will attract vocal critics. But by the time BITA hits $100 I expect these critics will have long since gone quiet or found more suitable employment. My view that "BITA rises to $240" is not overly optimistic. In fact, it may prove to be too conservative. Read this report first and then simply decide for yourself if BITA could comfortably exceed $17 billion in market cap in the near future. To me, the answer is a very obvious "yes".

Technical factors

Short interest in BITA has quietly risen to 11.4 million shares. But because the float numbers are not pulling into Bloomberg, most hedge funds are unaware that this now amounts to 80.5% of the tradable float. BITA recently announced a $150 million share buyback which could now reduce the float to well below 11 million shares. The short interest would suddenly exceed 100% of float. BITA has $1.4 billion of cash sitting on its balance sheet to execute a mere $150 million buyback. The buyback was stated to be within the next eight (8) months.

Partners with tech giants

BITA has deep backing from the biggest tech giants in China, including Tencent, Baidu and JD.com. Their familiar descriptors "The Facebook of China", "The Google of China and "The Amazon of China" are well worn clichés but they are both accurate and highly relevant to BITA. Their ownership and involvement in both BITA and its largest subsidiary Yixin (HK 2858) is far larger and far more involved than the the market realizes. More than 80% of BITA's tradable float is now gone and they already own roughly half of the Yixin subsidiary. The tech investors acted as a group, purchasing together via a large special purpose vehicle ("SPV"). They are insiders and their shares cannot be easily sold.

Chairman and founder

BITA's founder and chairman William Bin Li also happens to be chairman and founder of electric vehicle maker NIO Motors. NIO is slated to come public on the NYSE within months in a $2 billon IPO which would value NIO at $15 billion. By 2020, NIO has stated that it will be selling electric cars in the US in direct competition with Tesla. More recently, Mr. Li was also appointed as chairman of Dida Chuxing AKA "The Uber of China". Mr Li is currently owns over 10% of the outstanding shares of BITA. Mr. Li is very visibly employing the same tactics and technology approaches used by Apple and FB to conquer all market share in each of his multiple businesses.

Rationale for 10 bagger with BITA

With RH, it was "capital structure engineering" that took the stock from $20 in 2017 to $160 in recent weeks. RH was an "8 bagger" from its lows despite its visibly weak fundamentals*. The upside with BITA is vastly greater than what we saw with RH, for two reasons.* First, *the capital structure engineering is far more aggressive with BITA than it ever was with RH.* This includes the same sequenced tactics seen at RH: leverage, float reduction, equity/option grants and a share buyback, all coupled with an announced expansion plan. Second*, in contrast to RH's weak fundamentals, the business prospects and cash generation for BITA are extremely strong.* This can be clearly seen by comparing BITA to its competitor Autohome. BITA is now rapidly surpassing Autohome in revenues and growth. Yet Autohome is valued at over $12 billion. The only reason for BITA's bottom line weakness is that it continues to spend aggressively to secure even more growth. This expensive land grab tactic is exactly what Facebook was doing at the time of its IPO in 2012, and its shares were similarly pummeled down to $17. FB currently trades at around $200.

The auto market in China continues to be one of the largest, fasting growing and most profitable consumer segments in the world. This is why BITA continues to grow revenues at over 50% per year for the past five years, even while keeping gross margins steady at 60-80%. The partnerships with the Chinese tech giants goes both ways. Not only are they eager to secure a piece of BITA's fast growing penetration into this market, but they are also actively sharing their own mass targeted data with BITA to fuel BITA's growth even further.

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BITA to $240. The long thesis.

The transformation of BITA. Bitauto (BITA) is an AdTech company located in Beijing which focuses on advertising, financing and technology driven services within the auto sector in China. BITA trades on the NYSE and has a market cap of $1.7 billion. BITA's shares have recently fallen from $40 to around $25 as Wall Street has been concerned about rising expenses which have hit the bottom line. By contrast, BITA's competitor Autohome has minimized current expenses to maximize current profits and is currently valued at over $12 billion. But because of the low spending, Autohome's revenue growth has stagnated at just 4%. BITA continues to grow revenue at around 50% per year and its total revenues are now 52% greater than Autohome. (Link, Link)

What's about to happen with BITA. BITA is now being quietly transformed into a Facebook-style data aggregation platform using Big Data and AI for targeted monetization into the largest and most profitable auto market in the world. The profit potential is staggering. This is why tech giants Tencent, JD.com and Baidu have been aggressively pouring new money into BITA (and not ATHM) in multiple rounds of successive financings. More than 80% of the float of BITA is now locked up. In addition, these tech giants have also been aggressively investing in BITA's largest subsidiary, Yixin. They now also own roughly half of BITA's largest subsidiary.

China's digital gold rush. The digital gold rush in China is on a scale that has no true parallel in the West. In the US, there are now government enquiries into Facbook's collection and use of targeted personal data. But in China, the tech giants have a much closer relationship with the government. Their ability to collect precision targeted data on China's 1.5 billion people is actually highly encouraged rather than throttled . And there are far fewer limitations on monetizing this data. BITA is not the biggest player in the digital gold rush. But BITA and its chairman William Bin Li are now playing a critical role. The huge investments into BITA by Tencent, JD.com and Baidu are strategic investments being used to intertwine the volumes of data being aggregated by BITA (and *other William Bin Li companies*) into the mass collection by Tencent, JD and Baidu themselves.

BITA founder William Bin Li. Aside from founding BITA, Li is also the founder and Chairman of NIO Motors. (AKA "The Tesla of China"). NIO is slated to come public on the NYSE in a $2 billion IPO within a few months, which would value the company at $15 billion William Bin Li was also recently appointed Chairman of DiDa Chuxing (AKA "The Uber of China"). Mr. Li owns just over 10% of BITA.

Electric car start-up NIO prepares US$2b IPO in Tesla's home turf (South China Morning Post, Feb 2018)

Chinese EV Startup NIO's Founder Li Bin Joins Ride-Sharing Platform Dida Chuxing as Chairman (SCMP, Apr 2018)

Facebook. Big Data. AI. Facebook (FB) IPO'd in 2012 at $38. But Wall Street could only see that recent expenses were too high and current profits were too low. (Link). Wall Street failed to grasp the true value of Big Data and AI for collection and monetization of mass targeted data. They pummeled the stock straight down to $17. Facebook is now at nearly $200 and is one of the most valuable companies in the world. The commercial value of such micro targeted consumer data is now apparent to everyone. Zuckerberg knew it all along.

Monetization at BITA is much narrower than FB…but also far more concentrated than FB. BITA is not trying to be Facebook. This is obvious. BITA is entirely concentrated within the automotive sector in China. But in dollar terms, this narrow niche of "selling cars in China" also happens to be one of the the *largest*, *fastest growing* and *most profitable consumer markets in the world*. (*See page 16*)

Much of FB's daily traffic consists of non-commercial personal activity which is not directly monetize-able . But with BITA, all of its traffic is inherently of much greater "*value density*". Any time someone visits or searches on a BITA site or ad, they are revealing a specific interest in buying a very specific big ticket item. On top of that, they indirectly reveal volumes of demographic data such as location (wealthy vs. non wealthy) and other personal demographic data. This information is collected, aggregated, shared and deployed amongst and between BITA and its tech-giant partners (Tencent, JD, Baidu). As with Facebook, the monetization value of such detailed and targeted data is astounding, especially in a booming consumer segment like China's auto market in China.

BITA is employing textbook tactics in capital structure engineering

The tactics that took RH up 8x since last year. The driving factor which took RH from $20 in 2017 to $160 in recent weeks was textbook capital structure engineering. My report from November 3rd, 2017 explained how the process would unfold. The CEOs posturing in 2017 was transparent and the initial move on RH occurred on the exact day I had predicted. Starting on November 16th, RH shot up by 30% to as high as $107. It bounced up and down for the next few months, but then more recently it shot above $160. As I explained in my report, the explicit target for the CEO was *precisely $150*. This can be clearly seen from the strike prices on his recent and very massive option grant. This $150 threshold is then re-confirmed by looking at the strike prices of the "call spreads" which RH purchased against its convertible bonds. The low strike was $117 and the high strike was $180. Anyone who found themselves surprised by the move to $160 (right in the middle of those strikes) should stop shorting stocks until they figure this out. *As I have said before, RH's CEO has all the tools he needs to manifest the $150 going forward so that he can realize his nine figure pay day.*

Long $RH – $RH Will Spike Much, Much Higher Very, Very Soon *(MoxReports, Nov 3, 2017)*

Increasing use of capital structure engineering. This wealth generation through capital structure engineering is a theme being copied by billionaires around the globe to generate staggering returns. But the cookie cutter formula being used by William Bin Li with BITA is *even more aggressive* than what we have seen from billionaires like Oprah Winfrey and Carl Icahn in the US.

Oprah's Weight Watchers Stake Worth Half a Billion (Investopedia, June 2018)

Carl Icahn Claims $1 Billion Profit From Reduced Herbalife Stake (24/7 Wall St, May 2018)

Once BITA's float was locked down, BITA began aggressively levering up, issuing debt to embark on an aggressive expansion strategy. Just as debt surged on the *balance sheet*, the *income statement* also saw a spike in SG&A expense. The resulting share price weakness should have been entirely predictable. Even as BITA's share price fell, the company then suddenly incurred a ***staggering*** $179 million in "*share based compensation*" (stock and options grants, including BITA and Yixin). In previous years the company had incurred less than $15 million of stock based compensation expense.

With the float rapidly disappearing, increasing short interest quietly ended up amounting to over 80% of the remaining float. But because float numbers are not pulling in to Bloomberg, many investors have been unaware of this 80% short vs. float.

BITA announces share buyback. With the stock testing multi year lows and with option grants now in place, BITA then announced a *$150 million share buyback.* In fact, even a fraction of this buyback would cause the short interest to rise above 100% of the remaining float. The press release states that the buyback is for the 12 months from March 2018, so there only are eight months left. *And even before any buyback, once the market figure outs that short interest is above 80%, there could be upside volatility just for this reason alone.*

Bitauto Board of Directors Approves $150 Million Share Repurchase Program (Press release)

Here is the kicker. We have now seen the same phenomenon repeatedly. With "engineered" stocks like RH and Weight Watchers (WTW), the only thing necessary to send the stock up by a quick 5-10x was the release of earnings (*or even mere "guidance"*) that was just "*slightly less awful than expected*". The same has been true for many other "billionaire stocks" such as Herbalife (HLF), Hertz (HTZ) and Dillard's (DDS).

But with BITA, there is actually vastly more upside than many of these earlier engineered stock plays. This is because the fundamental prospects for BITA's actual business are far stronger than what the market comprehends. BITA's newly emerging Big Data/AI/Aggregation/Targeting model is being entirely missed. When BITA announces strong numbers in a Facebook-like surprise, the upward move will be greatly amplified by the engineered combination of ***low float + high short + heavy upside leverage.***

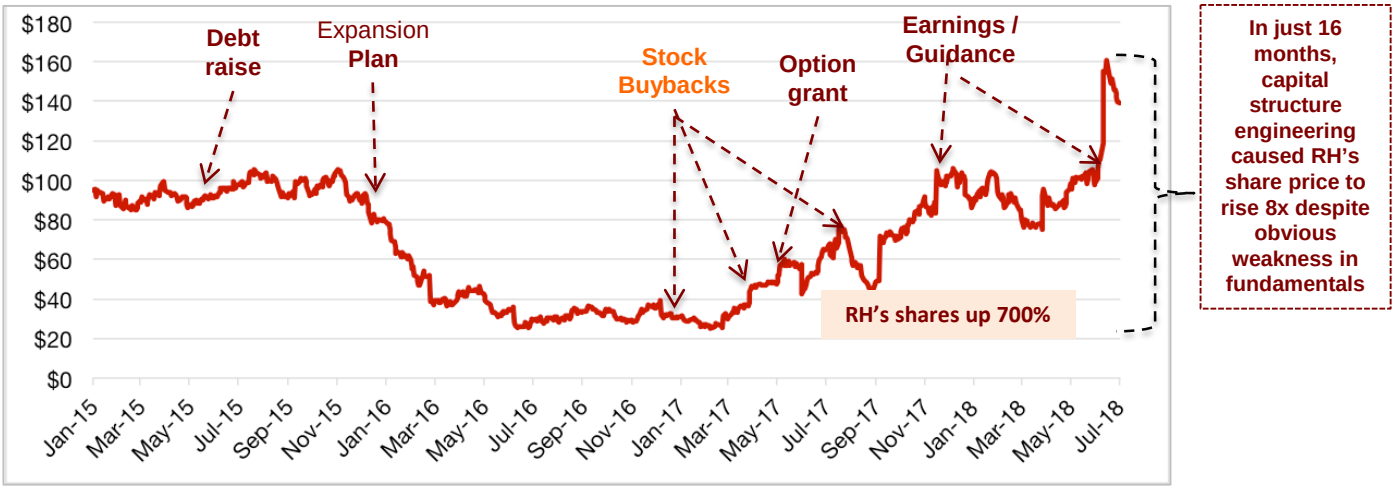
The capital structure engineering at BITA. Step by Step.

Low float BITA is using the same sequenced engineering tactics seen with RH. The two charts below show how the tactics at BITA mirror the same tactics used by RH (as well as several others). Not every trade will have all of the elements and they do not always occur in the same order. But the more of these we see, the better it works. As we saw with RH, predicting precise timing or the specific catalyst is always a guessing game.

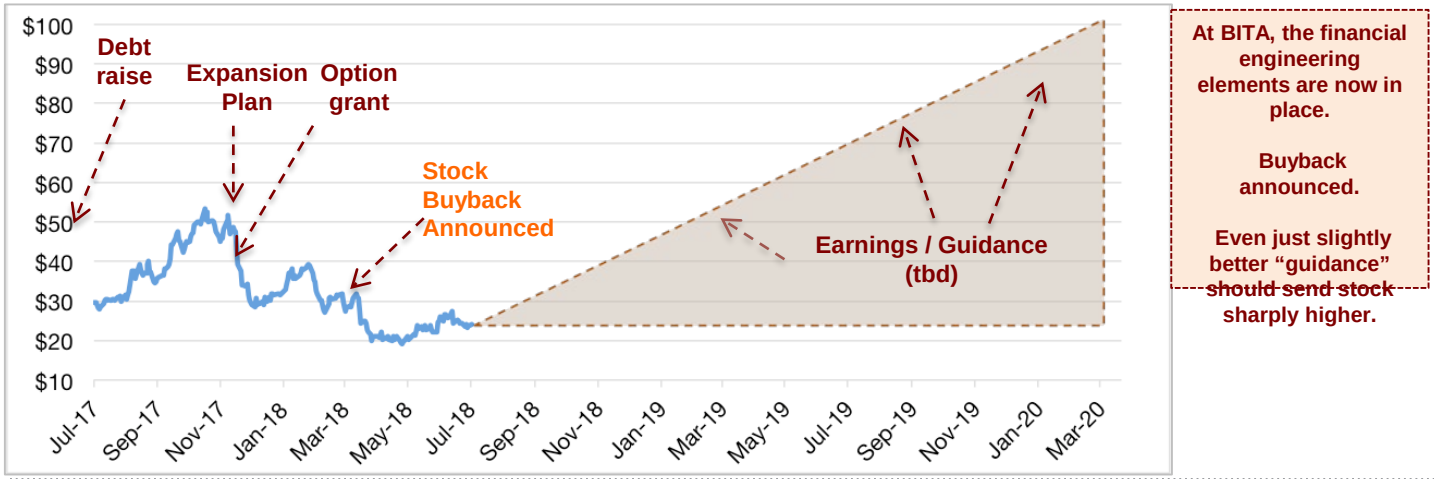
Step one. Significant float reduction through several means. ***Step two***. Take on a heavy debt load to maximize upside leverage. ***Step three***. Embark on an aggressive (expensive) expansion strategy. Expenses are front end loaded. Most of financial burden comes now, but payoff comes 12-24 months later. This combo of balance sheet debt plus income statement expenses quite predictably pressures share price. ***Step four***. With the share price comfortably weak, the company awards massive stock option packages to executives and insiders. The additional expense associated with "*stock based compensation*" also hits bottom line. ***Step five***. The already low float stock then may become heavily shorted as well. ***Step six***. Share buybacks amplify the per share benefits of the expansion strategy. They also substantially tighten the float, exacerbating any short squeeze on the increasingly shorted stock. ***Hint***: *Price spikes often happen soon after buybacks are announced.*

Predictable outcome. Even if the ballyhooed expansion plan yields just *mediocre results*, the combination of low float + high leverage + huge short interest means that the share price will skyrocket upwards even upon results or guidance which is merely "*less awful than had been expected*". This is why RH surprised many shorts.

RH soared 8x due to financial engineering



Low float BITA is now employing nearly identical tactics as RH



Beyond financial engineering. BITA fundamentals now overtaking Autohome.

Financial engineering. BITA vs. RH. The biggest limitation for RH was that it was a pure play on financial engineering. RH's business faces multiple obvious headwinds which by now are well known to the market. As a result, the primary driver of spikes in the share price had to be more due to shrinking float and less due to genuine outperformance of the business. Other financial engineering plays, such as Dillard's also faced fundamental headwinds but still doubled due to financial engineering. *By contrast to these "struggling" longs, BITA's near term business prospects are actually very, very strong.*

LONG $DDS Long Dillard's on potential "infinity squeeze" (Moxreports.com, Jul 2017)

BITA. Exceptionally strong business fundamentals. Autohome is the main competitor to Bitauto and describes itself as the leading online destination for auto buyers in China via its sites autohome.com.cn and che168.com. Like BITA, Autohome trades via ADR's on the NYSE. Authome and BITA both have a comparable number of active daily users of their websites and apps. But BITA has slightly more total dealerships at 28,000 vs. Autohome's 26,000. Bitauto's Yixin provides financing itself while Autohome works with third party institutions to provide financing. In other words, these two are visibly quite similar. (Link, Link)

Compared to Autohome, BITA boasts larger revenues and much higher growth. Autohome has visibly chosen to maximize current profits and cash flow by minimizing expenses. Not surprisingly, Autohome's investor base is dominated by one large insurance company (Ping An) and by mutual funds. They are not concerned with Autohome's stagnant growth at just 4%. Aside from Ping An, there are no other 10% holders. Kayne Anderson is the largest outside holder with 7.3%. There is a conspicuous absence of any strategic tech players from China.

Look at the table below. BITA boasts greater revenues and far greater growth. *But sleepy Autohome has a market cap that is 7x higher than BITA.* The biggest reason for this is simply that BITA has levered up to conduct a land grab expansion into this market. This is nearly identical to what RH did. Except with BITA we can see that the profit potential in the business is truly massive. Autohome demonstrates this clearly.

Financial performance BITA vs. ATHM (LTM results)

($000)	BITA	ATHM	BITA over ATHM	ATHM over BITA
LTM Revenue	*$1,417,200*	$929,500	+52.5%	
YoY Growth*	*51.6%*	4.2%	12.3x	
LTM Gross Profit	*$882,600*	$769,200	+14.7%	
LTM Gross Margin	*62.3%*	82.8%	0.8x	
Market Cap	$1,712,160	*$12,035,564*		7.0x
Enterprise Value	$2,812,063	*$10,765,976*		3.8x
2019E P/E (Bloomberg)	12.5	*24.0*		1.9x
2019E P/S (Bloomberg)	0.9	*9.2*		10.8x
SG&A	$1,005,900	$305,700	3.3x	
Net Income	-$251,100	$326,000	NM	
Adj. Diluted EPS	-$3.56	$2.75	NM	
Debt	$2,508,013	$0	NM	
Cash	$1,408,110	$1,269,588		
FD Shares Outstanding	72,000	117,400		
Float shares	14,218	55,530		
% Float	19.7%	47%		

** YoY for past two 20F filings*

BITA already has 52% higher revenues and is growing sharply faster than stagnant ATHM…but….

…but ATHM's equity market cap is valued 7x above BITA due to a drastically higher multiple….

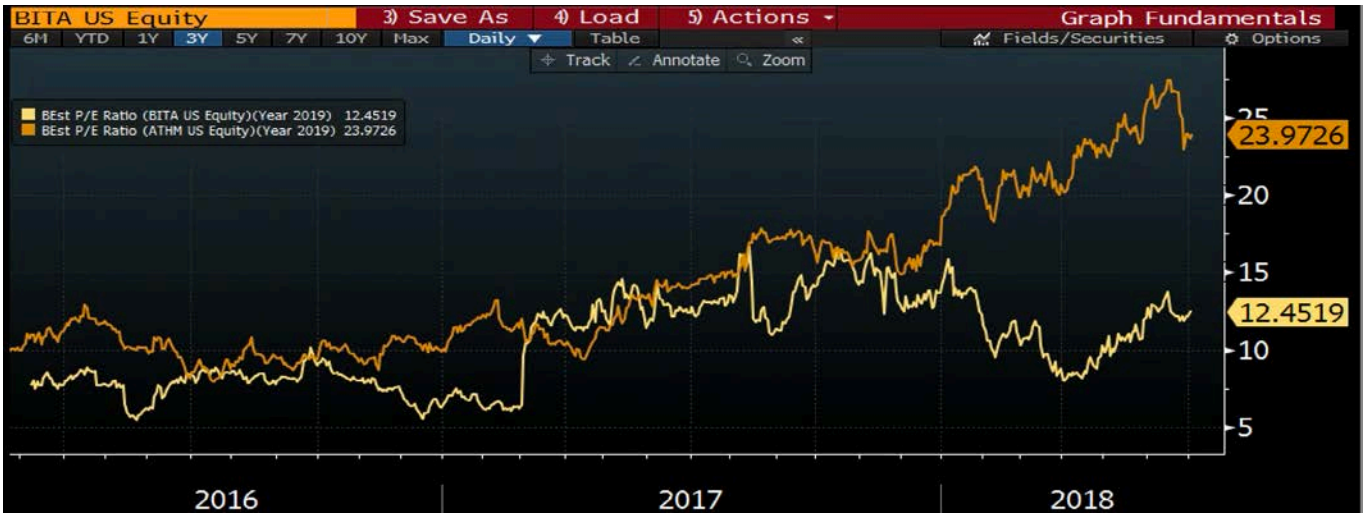
…the obvious reason is that BITA is spending more than triple the amount on SG&A including product development and marketing and share based comp

Don't forget…BITA has $1.4 billion in cash - - more than enough to execute a buyback against its already tight float

What Autohome tells us about BITA

Automotive advertising in China continues to boom. The recent performance of Autohome shows us just how quickly BITA's share price can rise. Investor sentiment towards the booming China automotive space continues to surge. Shares of Autohome have quadrupled since early 2017, even though its revenue growth has already begun to visibly stall. Investors are rewarding Autohome with a sharply higher multiple largely because of its focus on short term profits and cash flow.

The point is this: as soon as BITA flips to monetization mode, its share price should react even faster than what we saw with Autohome. And as we saw with RH in November, the first legs of this spike could easily be caused simply by very slight optimism in mere "guidance".



Buyback vs. float. How the 80% short interest can exceed 100%

Major strategic holders. In contrast to Autohome, BITA is overwhelming held by the biggest tech giants in China. But the extent of their true holdings in BITA is not accurately reflected on Bloomberg or in the 20F holders table and must be calculated by hand out of the 20F text disclaimer. (Link)

The tradable float is largely gone. Major shareholders (including founder William Bin Li) now own 80.8% of BITA's outstanding shares, leaving only 14.2 million available in the tradable free float. Against that, there are currently 11.4 million shares sold short, such that 80.5% of the tradable float is now sold short.

The buyback. On March 19th, BITA announced a $150 million share buyback for within 12 months of the announcement (within just 8 months from now) (Link). Even if the buyback were conducted as high as $50, it would reduce the float by more than 3 million more shares. The short interest would then exceed 100% of the available float. Lower share prices would make this potential float reduction even more extreme. BITA has $1.4 billion of cash on its balance sheet to conduct this $150 million buyback.

Investors have missed the 80% short interest. The standard "short vs. float %" number does not appear on Bloomberg. It just shows "N/A". (*See page 17*). Making an accurate float calculation for BITA is difficult. But it is clear that BITA, Tencent, JD and Baidu acted together as a "group" They jointly invested into BITA via a shared Special Purpose Vehicle ("Morespark") and collectively own more than 35% of BITA. (Link)

Aside from their direct ownership of BITA shares, Tencent, JD and Baidu also collectively own 47.1% of BITA's largest subsidiary, HK listed Yixin (HK 2858). And it goes further. Filings show that Tencent *directly* owns 7.7% of BITA, but its *true ownership* is much larger. Tencent itself also owns 20% of JD.com, which in turn also owns 25.4% of BITA. Other holdings also require more digging. From the 20F Baidu's stake is 3.2%. But because this is below 5%, it does not appear on Bloomberg and is not explicitly spelled out in the 20F holders table. (Link)

IMPORTANT: *Major holders such as JD.com, Tencent, Baidu and Autotrader are **NOT** looking to trade the share price of BITA. These are strategic investments into BITA's business for the purpose of benefitting their own massive consumer platforms. Like Facebook, Tencent is currently valued at half a trillion dollars. Even when BITA hits $20 billion in market cap, there would be no rationale for them to sell.*

IMPORTANT: *Even if BITA conducts its buyback as high as $50 per share, short interest would spike to over 100% of the remaining float. And at lower prices, this effect is even more pronounced.*

Restoration Hardware Shorts Annihilated After Company Announces 50% Of Stock Repurchased (Sep 2017)

Principal Shareholders:	Shares beneficially owned Number	%
JD.com Global Investment Limited	18,161,020	25.4%
ATG Global Management L.P. (***Autotrader***)	9,000,000	12.6%
Proudview Limited (***Bin Li***)	7,755,863	9.7%
Entities affiliated with PAG Holdings Limited	5,323,205	7.5%
Entities affiliated with Tencent Holdings Limited	5,482,683	7.7%
William von Mueffling (Cantillion Capital)	4,673,512	6.5%
Citic	4,648,000	6.5%
Baidu (not disclosed because less than 5%, see 20F)	2,307,904	3.2%
Other directors and officers at BITA	428,839	0.6%
Major shareholders	***57,781,026.00***	***79.7%***
Shares remaining in float	14,218,974.00	20.3%
Shares sold short (as of 15-Jun-2018)	***11,439,478***	
Percentage of short vs. total shares in float	***80.5%***	

Total shares outstanding of 72,000,000 as per most recent 6K

Shares out	72.0m
Shares in float	14.2m
Current shares short	11.4m
Buyback amt	$150.0m

Stock price	Shares buyable	Float post buyback	Short int % of float
$20	7.50	6.7	170.3%
$25	6.00	8.2	139.2%
$30	5.00	9.2	124.1%
$35	4.29	9.9	115.2%
$40	3.75	10.5	109.3%
$45	3.33	10.9	105.1%
$50	3.00	11.2	102.0%

BITA's subsidiary Yixin (HK 2858) may be set for a sharp rise

BITA's Yixin subsidiary. BITA's "transaction services" segment provides financing for auto purchases and is currently its fastest growing segment. BITA listed Yixin on the HKSE in 2017. Just under 50% of Yixin is now owned by the same tech giants that invested in BITA (*Tencent, Baidu and JD.com*) while BITA holds 46.9%. The results of Yixin are consolidated into BITAs results. Because of the *very low float on Yixin*, it has been falling on very low volume of just a few million US dollars per day. BITA has a market cap of $1.7 billion, but it falls almost in lock step with numerical changes in Yixin based which occur on negligible volume.

Yixin's drop is not surprising. Founder Bin Li and the major tech shareholders have no near term interest in selling their stakes BITA or the Yixin subsidiary, so the smart move was to overprice the IPO as aggressively as possible, maximizing cash proceeds while giving away a minimal stake. Any weakness in aftermarket is not relevant to them. The retail portion of Yixin's Hong Kong IPO was more than 500 times oversubscribed, allowing BITA to raise US$867 million in cash while giving up very little in terms of dilution to ownership. When BITA reported earnings on June 13th, its share price jumped to as high as $30.72. But when Yixin reported results shortly thereafter, its share price quickly began dragging down BITA. Earnings were not actually that bad. But they were simply not strong enough to support the share price which was still lingering at overvalued levels post IPO.

Yixin Group (02858) retail IPO 560x over-subscribed (Etnet.com, Nov 2017)

Two reasons why I expect a near term pop in Yixin. *First*. Some investors don't understand the purpose of Yixin. The best analogy is Paypal (PYPL) with Ebay (EBAY). Ebay acquired Paypal in 2002, just after Paypal went public in an IPO. In 2002, *Ebay paid a mere $1.5 billion for Paypal, but even that was 77% above its recent IPO price.* The purpose of buying Paypal was twofold. Anything that helped make transactions easier for Ebay customers was worth doing. But also, given the billions of dollars of transactions that were going through Ebay, the company just wanted a piece of that action too. In July of 2015, Ebay finally split off Paypal and took it public via a second IPO. On the first day, Paypal was already worth $50 billion. The current market cap of Paypal is now over $100 billion. *Second*, some investors have worried about exposure to credit risk from Chinese consumers within the auto market. However, Yixin (ie. BITA and its tech partners) has already created and funded a separate Special Purpose Vehicle which will hold credit assets and liabilities and which appears to shield them from or cap any meaningful credit losses. No one should be surprised by this.

PayPal Shares Pop 8.3 Pct Following eBay Split Valuing PayPal At More Than $50 Billion (TechCrunch, Jul 2015)

Illiquid trading of Yixin (HK 2858) has visibly been dragging down BITA. (Yixin = Red, BITA=White)

Past China shorts gone wrong (Qihoo 360 and YRD)

The best way to understand the China's tech ADRs is to simplify them. Regardless any namesake product, they are all in the same general business: *mass aggregation, storage, sharing and deployment of consumer data in China which is then cross monetized across multiple consumer platforms. That's it.* The economic opportunity is therefore always vastly greater than it appears. The cooperation amongst the tech giants themselves (as well as the cooperation with China's government) has no parallel in the US. This is why these tech ADRs keep surprising to the upside. Now that these ADRs are very visibly employing ***capital structure engineering*** to boost their share prices, the risk / return becomes even more lopsided to the upside.

Qihoo 360. Back in 2011-2012 I had been a vocal skeptic of Qihoo 360. At one point the company was publicly threatening to sue me. Just like BITA, Qihoo was a technology stock that was deriving most of its revenues from advertising. Qihoo was heavily shorted and hard to borrow. I was repeatedly squeezed out of my position. The core of my short thesis was that the revenues at Qihoo were simply not feasible under its business model. At times I had publicly warned that Qihoo was unlikely to pass its upcoming audit. At the time, Qihoo's market cap had been around $2-4 billion. I had been short the stock as low as $14. A short time later Qihoo did pass its audit and a big short squeeze ensued. About a week later I received an email from Qihoo's billionaire CEO. He offered to sit down and have a chat the next time I was in Beijing. Three weeks later we sat down in his office for more than two hours. We both knew that the core of my thesis was an audit failure and that this did had not come to pass. So instead of rehashing that debate he laid out his thoughts on the future of monetizing the internet in China. In China there is a big emphasis on "Subsequent Mover Advantage". You emulate all the successes of earlier "First Movers", improving on them while avoiding their expensive mistakes. On the way out, I thanked him for his time and he left with a very cordial "不打不相识". It loosely means understandings are often reached only after confrontation. At that time, Qihoo was trading at $25. Within a year it had risen to $125. But this 5x return was just the beginning. Qihoo subsequently went private and relisted on China's A share market, where its market cap rose to as high as US$60 billion, up 20-30x from where I had been short a few years ago.

This Tech Mogul Got $12 Billion Richer Just By Relocating His Company (Bloomberg/Fortune, Feb 2018)

Yirendai (YRD). Consumer credit lender YRD came public in December 2015 at $10 via Morgan Stanley. The stock quickly fell to as low as $3.35 in early 2016 on concerns over weak consumer credit. But just like BITA, YRD was a heavily shorted, low float stock. The company had every ability to shield itself from actual credit exposure to focus on origination. When I expressed my concerns about YRD in 2017, the stock was already at around $20. It subsequently rose above $50. Even with recent regulatory headwinds, the stock still remains in the $20's and is collecting ever larger volumes of mass consumer data.

A test…who was "the worst performer among all large IPO's on record"

Facebook's plunge should now feel familiar. Facebook came public in 2012 at $38. But it quickly traded down to a low of $17.55 as investors failed to grasp billionaire Zuckerberg's plan. Bloomberg called FB "the worst performer among all large IPO's on record". Morgan Stanley received a $5 million fine over the post-IPO plunge.

Morgan Stanley Hit With $5 Million Fine Over Facebook IPO (Forbes, Dec 2017)

Metrics. BITA vs. FB. BITA is tightly concentrated within the auto space, but its data driven model of "collect and deploy" is the same. The pattern of metrics at BITA in 2018 is nearly identical to what we saw with FB at its bottom in 2012. FB showed strong and steady revenue growth at over 50%. Like BITA, this torrid revenue growth continued with barely a dip in gross margins, so gross profits marched upwards. Aggressive spending on SG&A, saw FB's net income plunge dramatically from the year before. This is what caused the share price weakness. But once its foothold was secured, FB was able to scale back aggressive spending without much dent in revenue growth. Exponential growth to the bottom line then propelled Facebook up by more than 1,000%.

A *FB's "troubling" metrics at the time of the IPO caused investors to dump the stock. Huge SG&A causing losses.*

B *We can see that BITA's current (2018) revenue growth, margins and SG&A are nearly identical to FB in 2012.*

C *Once SG&A was slashed, continued revenue growth flowed straight to bottom line. Exponential profit growth.*

D *Facebook's share price hit higher highs every year since 2012.(FB now trades for around $200).*

E *HINT: Just like FB in 2012, BITA already generates strong operating cash flow and has over $1 billion in cash*

Facebook (FB)	Lead up to FB IPO				Post FB IPO					
MM USD	2010	2011	2012	CAGR (A)	2013	2014	2015	2016	2017	CAGR (C)
Income statement										
Revenue	1,974.0	3,711.0	5,089.0	61%	7,872.0	12,466.0	17,928.0	27,638.0	40,653.0	51%
Gross Margin	75.03	76.83	73.20	-1%	76.18	82.73	84.01	86.29	86.58	3%
Gross Profit	1,481.0	2,851.0	3,725.0	59%	5,997.0	10,313.0	15,061.0	23,849.0	35,199.0	56%
SG&A	305.0	707.0	1,788.0	142%	1,778.0	2,653.0	4,020.0	5,503.0	7,242.0	42%
Net Inc/(Net Loss)	372.0	668.0	32.0	-71%	1,491.0	2,925.0	3,669.0	10,188.0	15,920.0	81%
Balance Sheet										
S/T and L/T Debt	473.0	677.0	2,356.0		476.0	233.0	114.0	0.0	0.0	
Cash + Cash Equiv	1,785.0	1,512.0	2,384.0		3,323.0	4,315.0	4,907.0	8,903.0	8,079.0	
Cash Flow										
Cash From Ops	698.0	1,549.0	1,612.0		4,222.0	7,326.0	10,320.0	16,108.0	24,216.0	
Share price high					$58.58	$82.17	$110.65	$133.50	$184.25	(D)
Share price low					$22.67	$51.85	$72.00	$89.37	$115.51	

Bitauto (BITA)						
MM USD	2013	2014	2015	2016	2017	CAGR (B)
Income statement						
Revenue	234.1	399.1	677.1	869.3	1,296.5	53%
Gross Margin	76.71	75.72	65.90	64.00	63.04	-5%
Gross Profit	179.6	302.2	446.2	556.4	817.3	46%
SG&A	121.8	190.8	479.7	514.7	897.6	65%
Net Inc/(Net Loss)	39.2	78.8	-80.7	-81.5	-238.7	
Balance Sheet						
S/T and L/T Debt	0.0	0.0	55.7	1,816.9	3,965.6	
Cash + Cash Equiv	182.0	196.8	453.3	291.4	1,468.5	
Cash Flow						(E)
Cash From Ops	53.8	67.1	95.8	79.4	137.5	

Depth of collaboration between China's tech giants has no parallel in US

Tencent, JD.com and Baidu alone already own more than a third of BITA itself. And this does not include the additional 10% stake owned by founder Bin Li or the 12.6% stake held by US based Autotrader (Link) Even if BITA goes up by a few hundred percent, none of these owners has an incentive to sell. The motivation for strategic holders is to apply BITA's penetration of the auto sales market into their own giant consumer platforms. For example, even if BITA rises by 10x from current levels to $250, it would still have a market cap of less than $20 billion. That is only 2-3% of Tencent's market cap, such that Tencent would not sell based on price.

The full depth and scope of these investments into BITA is still not readily apparent to most investors. Giant Tencent appears to only own 7.7% of BITA. But in fact its stake is much larger because Tencent also owns 20% of JD.com. And JD owns another 24.9% of BITA. Likewise, Baidu's ownership of BITA has also been missed by many because it is below the 5% threshold. This extra 2.3 million *unavailable shares* is another reason why investors have failed to understand how tight the float is or how high the short interest is. These tech investors are clearly acting as a group. Their investment was made via a large joint Special Purpose Vehicle such that they collectively comprise *one gigantic insider*. (Link).

In addition, these tech giants also then heavily invested together into BITA's largest subsidiary Yixin. In November 2017 BITA listed the Yixin sub on the Hong Kong Stock Exchange raising US$867 million. Tencent, JD and Baidu invested heavily and now own roughly half of this sub. This is in addition to their large holding of BITA at the NYSE listed parent level. (Link) Their commitment and collaboration with BITAs founder goes even further. Effectively the tech giants are overtly relying on Mr. Li as their go-to-guy for all of automotive aspects in their technology franchises. This now includes the automotive buying, ride hailing and now electric vehicles.

Each of Tencent, JD and Baidu have also invested heavily into NIO Motors, the electric car startup that was also founded by William Bin Li. Most recently Mr. Li was also named chairman of DiDa Chuxing, which is one the two ride hailing apps in China - "the Uber of China". Mr. Li is now receiving very positive attention in the media for the upcoming IPO of NIO and for the apparent advantages of his electric ES8 compared to Tesla's model X.

Article: Tesla Vs. Nio: Some Thoughts On Doing Business In China (Cleantechnica.com, April 2018)

> *"Uber got its head handed to it by Didi Chuxing when it sailed blithely into China a few years ago, expecting to takeover ride-hailing in the country without a whimper of protest from the locals. China has four successful smartphone manufacturers — none of them named Apple. And Amazon, which is devouring the world of retail market everywhere else, has a paltry 1% share of the market in China.*
>
> *NIO displayed its own high performance electric SUV, the ES8, which costs half as much as a Model X after China's 25% import duty is applied. The ES8 comes with a driver-assistance system featuring highway pilot, traffic jam pilot, and automatic emergency braking. It also has an in-car artificial intelligence system called NOMI that can help regulate the temperature, take photos, and play music based on voice commands.*

Article: How Tesla's Model X Stacks Up Against China's New NIO (Bloomberg, December 2017)

> "When it comes to taking on the the might of Elon Musk's Model X, the *NIO's new ES8 is no shrinking violet. It accelerates from 0-100 Kmph in 4.4 seconds, compared to the Tesla model's 5.2 seconds. On a speed charge, it also fills the battery with juice in a little over an hour, compared to anywhere between an hour and an hour and 20 minutes for Tesla*…. Owners of the ES8 can charge their car by swapping batteries at power-swap stations in three minutes or recharge with the help of "Power Mobile" service vehicles that travel to motorists….Founded by William Li and a group of internet entrepreneurs in 2014, NIO has raised more than $1 billion from investors led by Tencent Holdings Ltd. is also backed by investors including Baillie Gifford & Co., the second-biggest institutional investor in Tesla, Lone Pine Capital LLC, CITIC Capital Holdings Ltd. and China Asset Management Co.

BITA's founder Bin Li now creating a cult like following (just don't call him "Elon")

China startup NIO hires eight banks for up to $2 billion U.S. IPO (Reuters, Feb 2018)

At the top end of the potential offering size, NIO's IPO would become the biggest Chinese listing in America since the $25 billion public float of e-commerce giant Alibaba Group Holding Ltd (BABA.N) in 2014. In October 2016, Chinese logistics company ZTO Express raised $1.41 billion from an IPO in New York… It launched sales of its first mass production car - the ES8 pure-electric, seven-seat sport-utility vehicle in December, at about half the price of American peer Tesla's Model X. It has also vowed to bring an autonomous electric car to the U.S. market by 2020.

SoftBank in Talks to Buy IPO Shares of Chinese Electric-Car Maker NIO (WSJ, Apr 2018)

Japan's SoftBank Group Corp. is in talks to purchase a large chunk of shares in the upcoming initial public offering of Chinese electric-vehicle maker NIO, according to people familiar with the matter, a move that could help bolster a multibillion-dollar valuation for the startup.

Nio plans to speed into China's electric car market (FT, Oct 2017)

Though only three years old, the company has 19 offices and just over 3,000 staff … The company ***believes it can sell 1m vehicles by late 2021 or early 2022 in China alone****.*

China's NextEV Launches NIO Brand And World's Fastest Electric Car (Fortune, Nov 2016)

The company said the NIO EP9 set a lap record at the famous Nurburgring circuit in Germany of 7 minutes 5.12 seconds, making it the fastest electric car in the world.

NextEV Founder talks about future cars after the fastest EV "Nio EP9" debut (AllTechAsia, Dec 2016)

Li himself, and many of startup's founding investors, are from the internet industry. The all-star list of investing internet tycoons include Liu Qiangdong of JD.com, Lei Jun of Xiaomi, and Tencent's Pony Ma. … [Li] believes that the experience of owning and using a car in the future will be fundamentally different from what it is now. … NextEV in December last year announced the appointment of Padmasree Warrior, the former CTO of Cisco, as the startup's Chief Development Officer and US CEO.

NIO electric vehicle startup to challenge Tesla with USD 2 billion IPO (CIFNews, Feb 2018)

NIO is planning an IPO before the end of the year on the American exchanges. Shanghai-based NIO is seeking investors to inject an additional USD 2 billion this year, bringing its valuation to USD 15 billion. The company's current investors include Tencent, Baidu, and Xiaomi. … Founded in 2014 by internet entrepreneur William Li Bin, NIO had a valuation of USD 5 billion after its last round of funding in November. The leap from USD 5 billion to USD 15 billion may prove difficult, but the growing popularity of electric vehicles should help things along. Mainland China purchased about 777,000 clean-energy vehicles last year for a 43% increase in sales, according to the China Association of Automobile Manufacturers.

Chinese electric carmakers might not be ready, but the money is (TechNode, Dec 2017)

In 2014, China surpassed the US to become the world's largest net importer of petroleum and other liquid fuels with imports accounting for 60% of oil supply in 2015. The electrification push is, in fact, part of Beijing's ambitious "Made In China 2025" policy, which seeks to transform the nation from a low-cost world factory to a high-tech global power. As such, Beijing has shelled out massive subsidies and made favorable rules for the sector. … ***This reverence for conventional automakers is echoed by Nio's founder William Li Bin, who was founder of New York-listed BitAuto (and Chairman of Mobike). "We don't think a new startup can replace an established company with decades of experience in hardware manufacturing," Li said in an interview with local media. "A lot of things operate according to fundamental rules, and we need to respect these rules instead of trying to disrupt them." - A big reason they will quickly surpass Tesla***

BITA's founder Bin Li now creating a cult like following (just don't call him "Elon")

Five Chinese Electric Vehicle Start-Ups That Could Rival Tesla (China Money Network, Mar 2017)

NIO, formerly known as NextEV, is perhaps the most high profile Chinese EV start-up with an ultra modern brand image. Certainly the best-funded with a rumored nearly US$2 billion in capital raised, the Shanghai-based company has built EV race cars and won the Drivers Title in the first Formula E Championship last year. The car went on to set new records at two race tracks in Europe.

The Fast and the Financed: China's Well-Funded Auto Startups Race to Overtake Tesla (WSJ, Dec 2017)

During the launch event, the ES8, which responds to voice commands and has limited self-driving capability, reverse-parked itself into a battery-swapping facility which can switch the car's battery pack in under three minutes, enabling it to match gasoline cars for convenience, claimed Mr. Li. The battery can also be fully charged in one hour, and gives the car a 220-mile range.

This Chinese-Backed Startup Will Start Selling Self-Driving Electric Cars By 2020 (Fortune, Mar 2017)

NIO, the Chinese-backed startup formerly known as NextEV, is bringing an autonomous electric car to the U.S. by 2020, the company's U.S CEO Padmasree Warrior announced Friday at an event during SXSW in Austin, Texas.

The CEO of an electric vehicle startup said she's making the iPhone of cars — here's her plan (Business Insider, May 2017)

Warrior said Nio plans to disrupt the auto industry the same way Apple disrupted mobile phones by focusing on the connected car experience. … Not only will it compete against the likes of Ford and General Motors when it comes to self-driving tech, but it will look to take on Tesla in the electric space. … The startup's autonomous driving team is led by Jamie Carlson, a former engineer for Tesla Autopilot who also worked on Apple's Special Projects team — the division generally understood to be working on Apple's secretive car project. … "We want to be the first company that builds the next-generation mobile space."

Tesla challenger NIO and car giant SAIC given green light to road test autonomous driving in Shanghai (SCMP, Mar 2018)

Electric vehicle start-up NIO – already being considered by some as a potentially serious challenger to market leader Tesla – and state-owned auto major SAIC Motor, have become the first two Chinese firms to be given green lights to road test autonomous driving of their "intelligent connected vehicles", in Shanghai.

Parallel Domain wants to train self-driving cars in virtual worlds (Techcrunch, May 2018)

Kevin McNamara, a former Apple and Pixar employee, is bringing his virtual world creation expertise to the domain of self-driving cars. … Using real-world map data, procedural growth algorithms and generative models, the platform can teach cars how to drive and make sure the car's software is learning how to drive properly … Parallel Domain's first customer is NIO, an autonomous vehicle startup focused on the Chinese market.

CES 2018: China's internet giants are making bets on the future of driving (Quartz, Jan 2018)

China's three most important internet companies, Baidu, Tencent, and Alibaba—known collectively as BAT—are pushing into high-tech mobility, moving in tandem with policies from China's government. Beijing has offered various incentives to boost its domestic EV sector in order to battle deadly air pollution, helping the country surpass the US as the world's largest EV market. In EVs, Baidu has invested at least $100 million (paywall) in NIO, an electric vehicle startup once known (paywall) as NextEV, through its Baidu Capital investment fund. In December, NIO began selling its first mass-produced model, the ES8, a seven-seat EV priced at about half the cost of a Tesla Model X in China.

Appendix

Supplemental Information

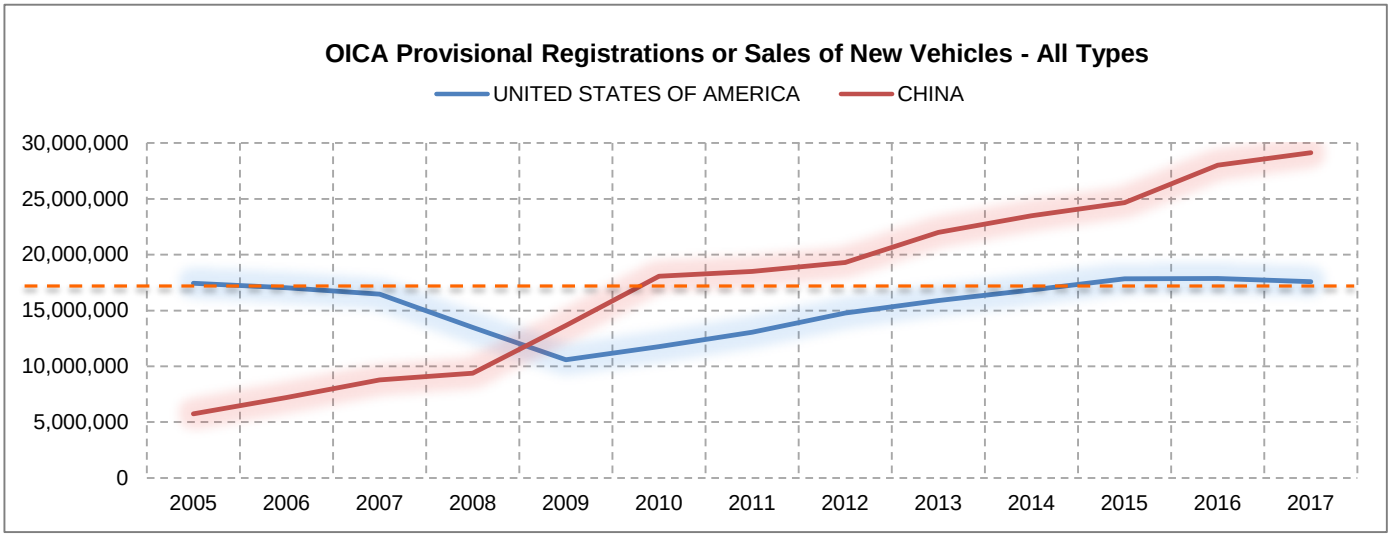
China's booming auto market provides strong macro tailwind

Macro tailwinds behind BITA. China has been the world's largest automobile market since 2008. Despite its tremendous size, it continues to be one of the fastest growing markets as well. On top of all of that, the auto market in China is vastly more profitable than the "mature markets" of the US and Europe. And that is where BITA is seeing its growth. And finally, the cars that are purchased in China are overwhelmingly bought with cash as opposed to financing. This is why Tencent, JD and Baidu have also been aggressively investing in BITA's subsidiary Yixin which handles "*transaction services*" including financing.

Market stats on China automotive market. In 2017 worldwide passenger car and truck sales surpassed 90 million units for the first time. 25% of all cars globally were sold in China. While the US market was off slightly from a peak of 17.5 million units in 2016, China sold 27.5 million vehicles. China is expected to *sustain* at least 30 million units by 2020, nearly doubling the US market. For General Motors, China is now a larger market than the US. In 2017 GM sold 4.04 million vehicles in China vs. 3.002 million in the US. Brands that long ago stagnated in the US like Buick or Cadillac are seeing strong growth in China. Cadillac saw growth of 50.8% in China in 2017. While the US market is near full saturation, China is one of the few remaining major economies with a low vehicle penetration per capita. The overall market is projected to grow in the mid to high single digits. In the US there are roughly *910 vehicles per 1,000 individuals*. In China there are approximately *154 vehicles per 1,000 individuals*. This statistic becomes even more staggering when you realize that there are already 295 million motor vehicles in China. The market isn't only large, it's highly profitable for automakers. Margins on premium vehicles like an S Class Mercedes or 7 Series BMW can see profitability more than double. Currently, only 5% of automobile transactions are done online in China, but fully one quarter of transactions by people under 24 were done online. Online retail in general is a much bigger deal in China than the US. Similar to the overall and online markets, the electric car market in China is both the largest in the world and growing much more quickly than other large markets.

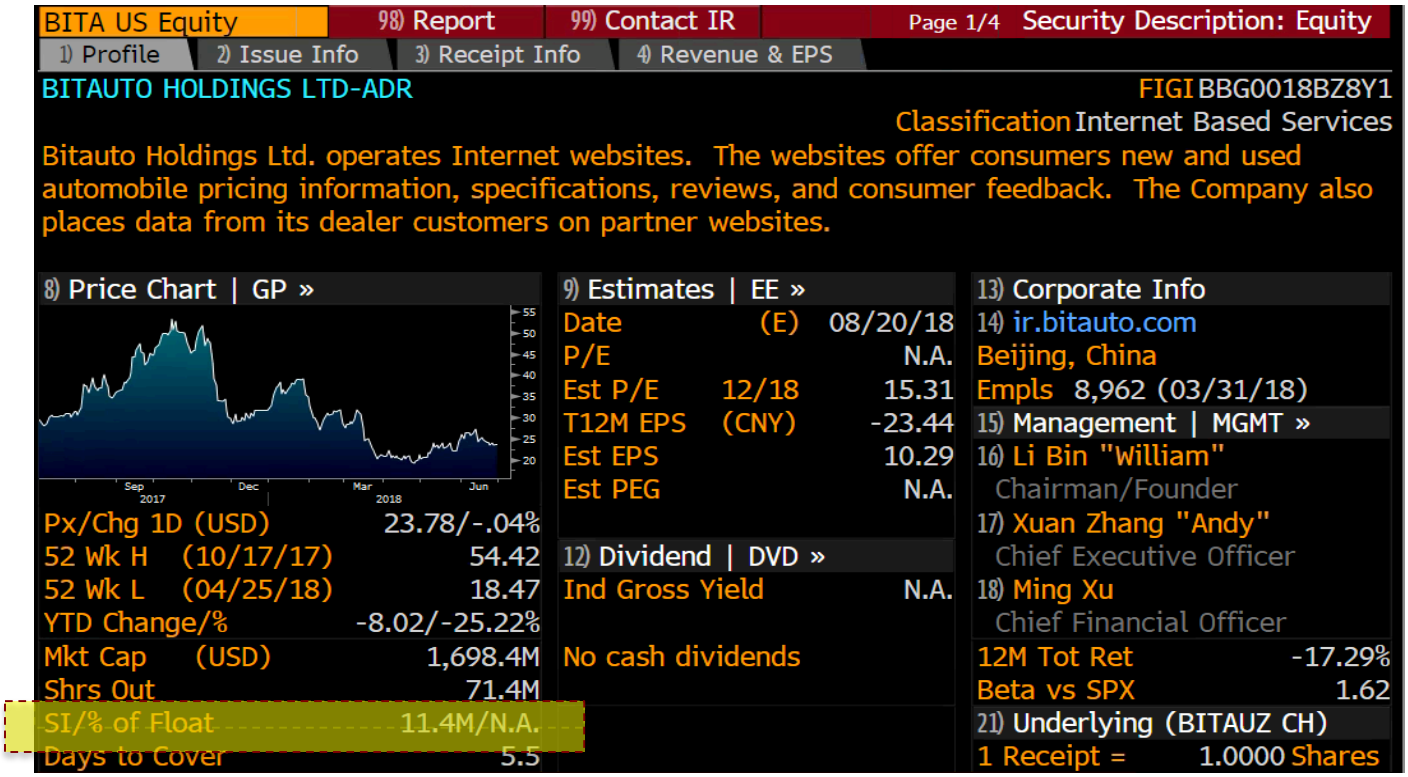
Electric cars. The rise of electric cars may contribute to the growth of online car transactions as electric cars tend to have fewer differences within the same model, reducing the need to inspect them in person. This is in a sense part of the broader process of the auto market becoming more similar to the smartphone market as cars become personalized data intensive electronic devices like smartphones. In fact the EV market in China is growing twice as fast as the electric car market in the US. It grew 53% between 2016 and 2017 and is forecast to continue similarly strong growth.

Vehicle registrations in China rose from 5.8 million in 2005 to over 29 million in 2018. US flat at ≈18 million.



BITA'S float data is missing from Bloomberg.

The top two screenshots below show that Bloomberg is not showing any calculation for the free float of BITA. The highlighted yellow boxes were added by me. On the *Securities Description* ("DES") page, Bloomberg just shows "N.A.". On the *Short Interest* ("SI") page, Bloomberg shows the 11.4 million shares short but shows nothing for Short vs. Float. This number is usually shown as short interest as a percentage of float. A screenshot of the SI page for RH is shown for comparison purposes at the very bottom. With RH, investors can see that the short interest spiked to over 38%, which should have alerted them to the potential for a squeeze. By contrast, with BITA they are unaware that the short interest is now over 80%.



Tencent, JD.com and Baidu are large joint insiders in BITA

The disclosure below comes from BITA's most recent 20F filings under "Major share holders and related party transactions". (Link) There should be no doubt that the shares held by Tencent, JD and Baiu were purchased jointly and that they are all large insiders. Any shares purchased by them including before or after that subscription agreement are therefore not part of the tradable float.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

B. Related Party Transactions

Transactions with JD.com, Tencent and Baidu

Share Subscription Agreement

We entered into a share subscription agreement with JD.com Global Investment Limited, or JD Global, a wholly owned subsidiary by JD.com, together with Morespark Limited, or Morespark, a special purpose vehicle of Tencent, and Baidu Holdings Limited, or Baidu Holdings, a wholly owned subsidiary by Baidu, on June 6, 2016. Pursuant to this share subscription agreement, we issued to each of JD Global, Morespark and Baidu Holdings 2,471,577 ordinary shares, representing approximately 3.20% of our then outstanding ordinary shares on a fully diluted basis, in consideration for US$50 million in cash.

We entered into a share subscription agreement with JD.com, JD.com Global Investment Limited, or JD Global, a wholly owned subsidiary by JD.com, together with Dongting Lake Investment Limited, or Dongting, a special purpose vehicle of Tencent on January 9, 2015. Pursuant to this share subscription agreement, we issued to JD Global 15,689,443 ordinary shares, representing approximately 25% of our then outstanding ordinary shares on a fully diluted basis, in consideration for US$400 million in cash and certain resources material to the JD.com's finished automobile business on February 16, 2015. On the same closing date, we also issued 2,046,106 ordinary shares to Dongting for a total purchase price of US$150 million in cash.

Business Cooperation Agreement with JD.com

We entered into a business cooperation agreement with JD.com on January 9, 2015. Pursuant to the business cooperation agreement, JD.com has granted us an exclusive right to operate JD.com's finished automobile business, which includes the sale of finished automobiles (including new and used cars) on JD Mall, Paipai, their respective mobile sites and JD.com's mobile apps, as well as the provision of advertising services on JD.com's finished car channels, in mainland China. JD.com has also agreed to provide supports in areas such as traffic support, big data capabilities and technology infrastructure. The term of the business cooperation is five years from April 9, 2015.

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