Zacks Small-Cap Research

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Chineseinvestors.com, Inc. (CIIX-OTCBB)

CIIX: Expanded Footprint Enables Greater Interaction With Target Market

Current Recommendation	**Hold**
Prior Recommendation	N/A
Date of Last Change	2/19/2015
Current Price (08/05/15)	$0.42
Six- Month Target Price	**$1.00**

OUTLOOK

Earlier this year, Chinese Investors opened two new offices in key U.S. markets, New York and Los Angeles, to extend its coverage and reporting on U.S. securities. These offices enable CIIX to interact with companies it covers and with its target market more easily. For example, this month the company launched a seminar series from its Los Angeles office and invited local investors to attend, while simultaneously airing the event in a radio broadcast on a local Chinese language station and webcast on chinesefn.com.

SUMMARY DATA

52-Week High	**$0.80**
52-Week Low	**$0.31**
One-Year Return (%)	**-26.3**
Beta	**0.98**
Average Daily Volume (sh)	**6,709**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$3.0**
Short Interest Ratio (days)	**0.3**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**15**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**-5.2**
P/E using 2015 Estimate	**-4.5**
P/E using 2016 Estimate	**-4.5**

Risk Level	**Above Average**
Type of Stock	**Small Growth**
Industry	**Internet-Services**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2013	0.4 A	0.5 A	0.3 A	0.4 A	1.6 A
2014	0.5 A	0.8 A	1.4 A	1.2 A	3.9 A
2015	0.6 A	0.5 A	0.8 A	0.9 E	2.9 E
2016					3.2 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2013	-$0.05 A	-$0.06 A	-$0.07 A	-$0.03 A	-$0.21 A
2014	$0.00 A	$0.04 A	$0.14 A	$0.01 A	$0.18 A
2015	-$0.02 A	-$0.01 A	-$0.06 A	-$0.01 E	-$0.09 E
2016					-$0.09 E

Disclosures begin on page 10

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KEY POINTS

- Chinese Investors (CIIX-OTCBB) opened two new U.S. offices earlier this year to extend its coverage and reporting on U.S. securities. The company opened a new office located on Wall Street in the New York City financial district and one in the important Los Angeles market.

- These offices enable CIIX to interact with companies it covers and with its target market more easily. For example, earlier this month, the company launched a seminar series, *Smart Money*, from its Los Angeles office and invited people to attend the live event, while it simultaneously aired a radio broadcast and webcast on chinesefn.com.

- In addition to its geographic expansion, Chineseinvestors.com has successfully launched a mobile App and management has indicated that it is gaining strong traction.

- In April 2015, CIIX IR client Medicine Man filed a registration statement to become a public company. CIIX received 2.8 million Medicine Man shares for its services. Depending on the performance of the shares following a prospective IPO, CIIX might be able to generate a profit from them at some point.

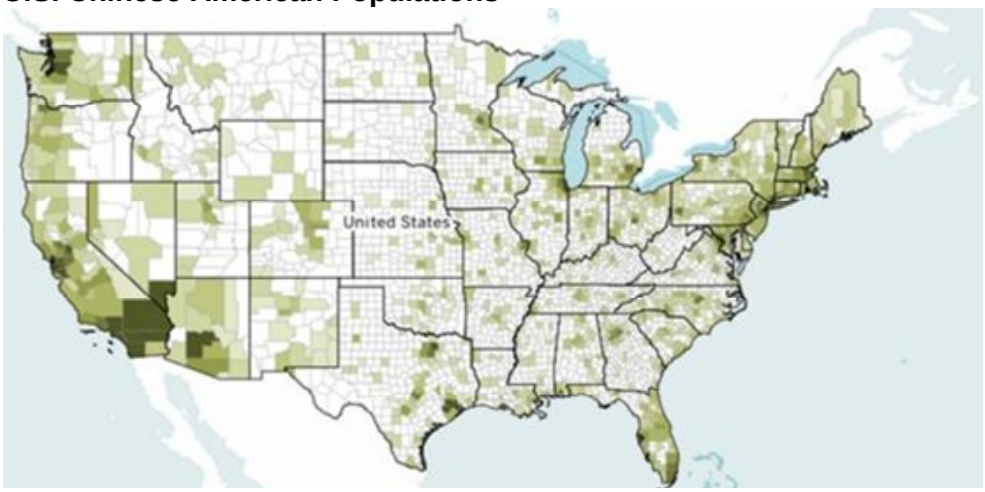
EXPANDING U.S. FOOTPRINT

Chinese Investors (CIIX-OTCBB), which provides investment news, market commentary and analysis in Chinese through its websites www.chineseinvestors.com and www.chinesefin.com, has expanded its footprint in the U.S. over the past several months. The company opened two new offices earlier this year to extend its coverage and reporting on U.S. securities. Chinese Investors focuses primarily on trends of U.S. securities markets and U.S. stocks and other asset classes.

Management believes Chineseinvestors.com is positioned to benefit from the expected increase in investing abroad by wealthy Chinese individuals. In a 2012 study, McKinsey reported that about 83% of wealthy individuals in China were found to invest offshore, with 40 to 50% of their assets physically located outside China. According to a study conducted by Bain, this group is increasingly investing abroad. The Bain study indicated real estate as the #1 asset class for investment by Chinese individuals. Over time we would expect to see greater investment in equities, credit securities and other asset classes, as well.

High net worth Chinese have more than $450 billion in offshore assets, according to Boston Consulting Group, which expects that metric to roughly double over the next three years. Moreover, a rising percentage of Chinese individuals are also emigrating from China, with the U.S. and Canada cited as top relocation destinations. The company's strategy had been to target primarily Chinese investors living abroad in the U.S. and Canada.

U.S. Chinese American Populations



Source: U.S. Census Bureau

Many wealthy Chinese relocate to the U.S. and settle in New York and Los Angeles. According to the U.S. Census Bureau, California and New York represent the states with the largest populations of Chinese Americans. Los Angeles and New York are the two largest DMAs (Designated Market Areas) in the country with households headed by Asian Americans, according to Nielsen rankings. With its expanded U.S. presence, the company hopes to better serve its target market. Having a location in the important Los Angeles market enables CIIX to interact with its target market more easily. For example, earlier this month, ChineseInvestors.com launched a seminar series from its Los Angeles office. The series, called *Smart Money*, is the first local event the company sponsored since it opened the Los Angeles office. In addition to inviting investors to attend the live event, the company also offered a simultaneous radio broadcast and webcast on chinesefn.com.

In the first half of 2015, the company also opened a new office on Wall Street in the New York City financial district that is located near the New York Stock Exchange. In addition to the New York and Los Angeles offices, CIIX continues to operate branches in Denver and Shanghai, as well. Chinese Investors has also increased its staff in order to order to broaden its financial reporting and coverage

EXPANDING REACH

Successful Launch of Mobile App

In addition to its geographic expansion, the company has also expanded its service to new platforms. Chineseinvestors.com has successfully launched a mobile App and management has indicated that it is achieving strong traction. According to chineseinvestors.com, its website averages more than 50 million visits each month, with mobile users accounting for roughly 30% of the traffic.

CIIX also leverages other streaming media including Phoenix TV, which according to management is the largest Chinese TV station operating abroad. Established in 1996, Phoenix TV has more than 200,000 paid subscribers in the U.S. and Canada. In addition, CIIX also advertises its services through radio and print publications that target Chinese audiences. As noted above, the company also provides a live radio broadcast of its *Smart Money* series on local radio station KAZN AM 1300, a channel that programs in Chinese to serve the local Chinese speaking community.

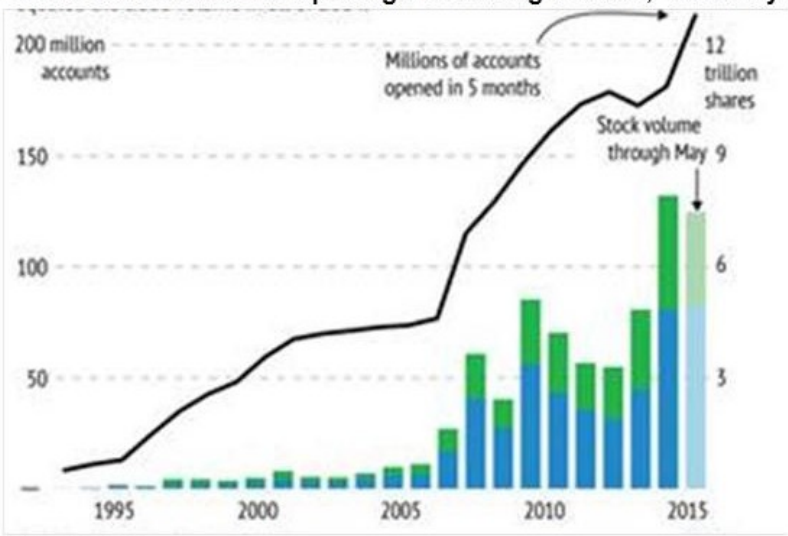
TARGETING CHINA'S GROWING MIDDLE CLASS

Historically the company's strategy has been focused primarily Chinese investors living abroad in the U.S. and Canada, as noted. Over time, CIIX intends to increase its focus on investors residing in China, as well. The company intends to leverage the growth of the Chinese middle class and rising interest in investing. Management believes that it has early mover advantage in providing information and commentary to Chinese investors in Chinese on general market trends of a broad range of U.S. financial markets and company specific coverage. The company also covers Chinese A shares, the FX market and other securities in Chinese.

Management believes China's growing middle class is underserved in this arena. The company offers subscription services to provide education about investing and news and analysis on the stock market, as well as news about particular stocks that it tracks.

Within China's securities markets, individual retail investors account for roughly 80% to 85% of trading, according to sources such as *The Economist* and CNBC. In fact, *The Economist* believes the 2014 year-end rally was driven primarily by individuals. China's middle class has shown a growing appetite for investing, we believe, as evidenced in the chart below, which illustrates the historical trends in opening new trading accounts and trading volumes on the Shanghai and Shenzhen markets. CNBC cites data from the China Securities Depository and Clearing Corp. that indicates that China opened more than 30 million new trading accounts in the first five months of 2015, while trading volume on the Shanghai and Shenzhen markets during that period nearly equaled the trading volume registered throughout all of 2014.

China: Stock Market Account Openings & Trading Volume, 1995-May 9, 2015



Source: CNBC

Qualified Domestic Individual Investor Program

The company expects interest from Chinese investors in U.S. equities to expand, as China's middle class continues to grow. McKinsey estimates that the upper middle class in China will increase 22.4% from 2012-22. McKinsey defines this group as people with $16,000 to $34,000.

China has imposed fairly rigid regulatory restrictions on individuals investing abroad. However, recent moves by the government could portend some liberalization of these restrictions. For instance, in March, 2012, the government approved certain financial reforms in the city of Wenzhou that included, among other things, allowing private citizens to invest up to $3 million directly in offshore instruments.

More recently, trade publications have reported that China intends to introduce a new program to allow individuals in six cities to invest abroad directly. This program, QDII2 or the Qualified Domestic Individual Investor program, is slated to launch in Shanghai, Tianjin, Chongqing, Wuhan, Shenzhen and Wenzhou. It will enable individuals with at least one million yuan ($160,000) to invest directly in foreign assets, including shares listed on securities exchanges in New York, London and Paris. A $50,000 ceiling on exchanging yuan for foreign currency that was imposed in 2007 apparently will not apply on QDII2 transactions, according to trade publications. An earlier QDII program allowed investors to purchase foreign stocks through funds.

Other steps by China to relax restrictions on investing abroad include the Shanghai- Hong Kong Stock Connect program, which China introduced in November 2014. It gave China's investors the opportunity to acquire stocks listed in Hong Kong, allowing investors residing in China to buy shares in certain Hong Kong and Chinese companies listed on the Hong Kong exchange. It also enables foreigners to purchase Shanghai listed Chinese A shares more easily. We believe at this point, the program has not met initial expectations.

INVESTOR RELATIONS SERVICES

Chineseinvestors.com also offers Investor Relations services to companies seeking to drive awareness among Chinese investors. The Investor Relations operating segment accounts for over 70% of the company's revenue. The service is targeted primarily to U.S. and Canadian companies seeking to boost their profiles among Chinese investors.

Because it is often not always easy for CIIX's subscribers to listen to English-language conference calls, the company's Shanghai editorial employees are fluent in English, according to management. They listen to management conference calls of IR clients and of companies that CIIX tracks and provide translations for their Chinese speaking subscribers. In addition, the editorial staff also monitors U.S. financial news sources such as CNBC and Bloomberg, among others, and translate news and developments for the company's subscriber base.

Nova Lifestyle

Nova Lifestyle (NVFY-not rated) is a furniture company that was founded in China in 1992. It operates manufacturing plants in China and the U.S. and generated $22.0 million in revenue in the first three months of 2015. In June 2012, CIIX formed an agreement to provide certain advertising and other services to Nova Lifestyle. Chineseinvestors.com also received 100,000 restricted shares of NVFY stock. In June of 2015, Nova Lifestyle announced that its board had formed a special committee to consider strategic alternatives, including potential investments from investors that have indicated an interest in Nova Lifestyle.

Medicine Man

CIIX and Denver based, privately-held Medicine Man Technologies announced an agreement in February, 2014 to form a new company to create licensing opportunities for Medicine Man, leveraging its expertise and IP. According to CIIX, Medicine Man of Denver was one of the first Colorado companies to receive a state license for recreational use of marijuana. The two companies also announced that they had signed their first licensee, McGraw Holdings, LLC of Illinois. In addition, Medicine Man Technologies has had advanced discussions and agreements with additional clients, according to CIIX management.

In April 2015, Medicine Man filed a registration statement to become a public company. CIIX management has indicated that it will assist Medicine Man with its planned IPO. CIIX received 2.8 million shares for its services. Depending on the performance of Medicine Man shares following a prospective IPO, CIIX might be able to generate a profit from the shares at some point down the road. Brett Roper, Medicine Man's Director of Licensing Services, is also a director on CIIX's board.

FINANCIAL UPDATE

The company's revenue for its fiscal third quarter ended February 28, 2015 came in at $779,825 compared to $1,366,552 recorded in the third quarter of fiscal 2014. That represents a 43% year-over-year decline. Chineseinvestors.com reported a loss / share of ($0.06) compared to positive $0.22 recognized in the fiscal 2014 third quarter. With revenue for the first half of FY 2015 down 13% compared to the same period of FY 2014, revenue through the first nine months of fiscal 2015 fell 28%.

However, comparisons between the two years are not entirely apples-to-apples, according to management. Revenue in FY 2014 was positively impacted by non-cash stock compensation from IR clients. Management has indicted that CIIX's strategy regarding accepting stock compensation in lieu of cash payment has become more conservative. Year-to-date in FY 2015, management has reduced the level of IR engagement it has accepted on a stock for services basis. According to its recent 10-Q, CIIX recognized non-cash revenue of $86,009 during the first nine months of FY 2015, down from $1,695,721 recorded during the same period of FY 2014.

During the first nine months of FY 2015, the company raised about $1.4 million through the issuance of preferred shares and used roughly $440,000 to repay short-term debt. At the end of 3Q of FY 2015, CIIX's cash balance was $687,649, up from $429,199 at the end of FY 2014.

RECENT NEWS

In July 2015, ChineseInvestors.com announced the launch of the *Smart Money* bi-weekly investment series.

The company also announced its participation in the San Francisco MoneyShow in July of 2015, as well as at the 2015 FreedomFest event.

RISKS

- One of the biggest risks to CIIX, we believe, is that its strategy to drive traffic and subscriber growth fails to materialize in the near-term.
- CIIX is under-capitalized and will likely need to seek additional short-term funding until it reaches a certain revenue level, which could dilute existing shareholders.
- We believe CIIX could face competitive risk if a better capitalized company decides to launch a portal that provides services that are similar to those that CIIX provides.
- We believe CIIX faces investment risk if its investment portfolio depreciates in value. While the company can continue to hold shares if it expects an upward revaluation, there is the risk that the shares remain under pressure and CIIX either continues to write down their value or at some point to sell and realize a loss.
- The level of investment interest in the financial markets by Chinese individuals could stall or diminish, in turn impacting the company's ability to sell subscriptions.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Chineseinvestors.com, Inc. Income Statement and Projections ($)

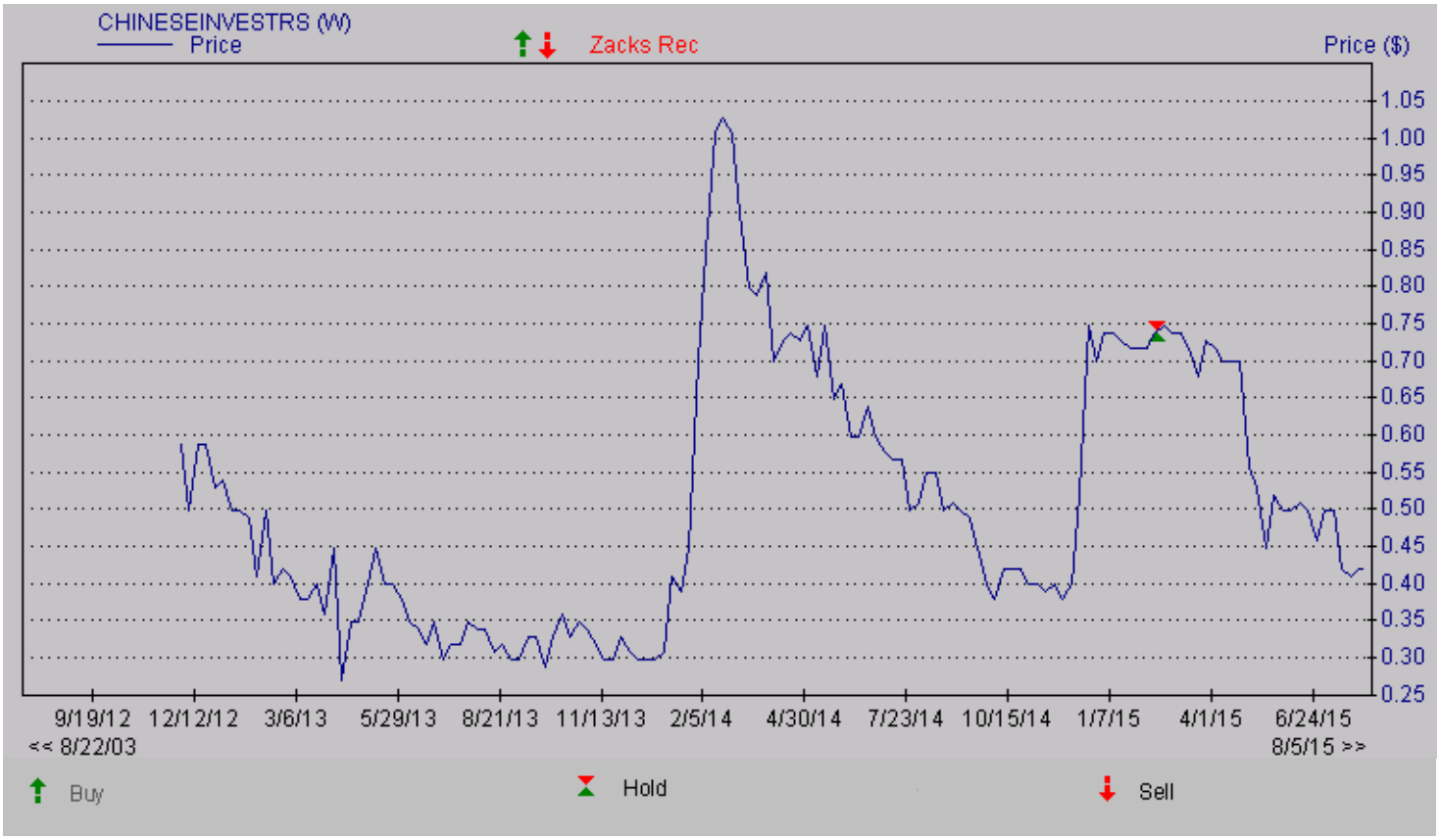
	Aug-13 1Q14	Nov-13 2Q14	Feb-14 3Q14	May-14 4Q14	FY14	Aug-14 1Q15	Nov-14 2Q15	Feb-15 3Q15A	May-15 4Q15E	FY15E	FY16E
Binary Option Services	-	-	-	-	-	-	-	-	-	-	
Investor relations	346,814	644,680	1,174,105	1,000,917	3,166,516	480,372	339,840	596,190	700,642	2,117,044	2,328,748
Subscription	172,352	172,073	189,391	189,071	722,887	163,357	178,251	178,158	217,432	737,198	810,917
Other	5,845	3,224	2,056	1,875	13,000	1,058	1,315	5,477	3,375	11,225	12,348
Total revenue	$525,011	$819,977	$1,365,552	$1,191,863	$3,902,403	$644,787	$519,406	$779,825	921,449	2,865,467	3,152,013
Cost of services	172,176	217,023	232,905	199,144	821,248	221,826	205,806	290,952	350,150	1,068,734	1,197,765
Gross profit	$352,835	$602,954	$1,132,647	$992,719	$3,081,155	$422,961	$313,600	$488,873	$571,298	$1,796,732	$1,954,248
G&A	287,467	269,719	399,495	727,486	1,684,167	380,585	334,116	350,246	506,797	1,571,744	1,733,607
Advertising	33,544	57,196	52,940	51,451	195,131	59,125	79,351	125,069	115,181	378,726	394,002
Total op'g expenses	321,011	326,915	452,435	778,937	1,879,298	439,710	413,467	475,315	621,978	1,950,470	2,127,609
Operating profit/(loss)	$31,824	$276,039	$680,212	$213,782	$1,201,857	($16,749)	($99,867)	$13,558	($50,680)	($153,738)	($173,361)
Interest expense	(30,057)	(43,153)	(29,916)	(8,281)	(111,407)	(6,452)	(8,153)	(18,109)	(8,200)	(40,914)	(42,551)
Realized (loss)/gain securiti	-	-	207,404	(148,264)	59,140	(91,807)	29,265	(444,014)	20,000	(486,556)	(506,018)
Net to common shareholder	$1,767	$232,886	$857,700	$57,237	$1,149,590	($115,008)	($78,755)	($448,565)	($38,880)	($681,208)	($721,930)
LPS	$0.00	$0.04	$0.14	$0.01	$0.18	($0.02)	($0.01)	($0.06)	($0.01)	($0.09)	($0.09)
Avg. shares out (FD)	5,270,436	5,969,585	6,268,820	7,569,227	6,269,517	7,249,305	7,240,835	7,249,305	7,304,305	7,260,938	8,000,000

Chineseinvestors.com, Inc. Balance Sheet ($)

	Nov-13	Feb-14	May-14	Aug-14	Nov-14	Feb-15
Cash & equivalents	$111,643	$511,242	$429,199	$152,317	$245,047	$687,649
Accounts receivable	17,141	3,344	17,422	4,297	9,969	1,774
Note receivable - affiliate		-	17,648	-	-	
Investments available for sale	1,404,604	2,686,733	2,331,139	2,817,194	1,321,008	746,822
Prepaid taxes		-	58,963	64,044	64,044	64,044
Other	49,856	19,381	26,404	27,839	24,767	33,041
Total current assets	1,583,244	3,220,700	2,880,775	3,065,691	1,664,835	1,533,330
Property and equipment	24,153	19,868	22,960	20,216	15,832	14,247
Website development	68,441	69,198	94,278	105,198	106,983	110,868
Total non-current assets	92,594	89,066	117,238	125,414	122,815	125,115
Total assets	**$1,675,838**	**$3,309,766**	**$2,998,013**	**$3,191,105**	**$1,787,650**	**$1,658,445**
Accounts payable	11,111	7,223	53,986	52,574	60,183	34,004
Accounts payable due in stock		-	99,702	99,702	99,702	99,702
Accrued liabilities	68,542	77,479	78,545	77,138	44,946	109,100
Accrued interest	74,902	62,872	11,068	19,310	27,462	9,711
Deferred revenue	303,546	371,219	342,742	308,155	265,252	203,028
Unearned revenue paid in cash		-	120,208	40,656	79,483	32,776
Unearned revenue paid in stock	387,625	466,351	545,491	686,264	817,496	278,804
Short-term debt	460,000	440,000	440,000	440,000	440,000	-
Commissions payable due in stock		99,702	-	-	-	-
Total current liabilities	1,305,726	1,524,846	1,691,742	1,723,799	1,834,524	767,125
Long-term deferred revenue	24,235	42,791	80,777	69,311	68,167	53,438
Total liabilities	**1,329,961**	**1,567,637**	**1,772,519**	**1,793,110**	**1,902,691**	**820,563**
Shareholders' equity /(deficit)	345,877	1,742,129	1,225,494	1,397,995	(115,041)	837,883
Liabs & stockholders' equity	**$1,675,838**	**$3,309,766**	**$2,998,013**	**$3,191,105**	**$1,787,650**	**$1,658,445**

Source: Company reports, Zacks

HISTORICAL ZACKS RECOMMENDATIONS



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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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