



GNAM Investment Competition

Renmin University of China School of Business
Top Investment Idea- Shanghai Wangsu Science and
Technology Co. (300017:SZ)

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Wangsu – Key Points

- Exponential growth trajectory
 - Growing at a pace of about 60%/year
 - Net profits expected to grow 40-50%/year for at least 3-5 years
- Returns above the index
- Q3 results in line with estimates
- Growing domestic market
- Excellent market position in China
- Worldwide growth opportunities
- Strong management team
- Recommended by analysts

Analyst Recommendations and Revisions

	Current	1 Month Ago	3 Months Ago
BUY	10	10	10
OUTPERFORM	9	9	9
HOLD	1	1	0
UNDERPERFORM	0	0	0
SELL	0	0	0

Source: Reuters



Current Price (CNY)	63.0
Target Price (CNY)	123.4
Upside	+96%
BUY Recommendation	

Company Overview

- Founded in 2000 in Shanghai
- Shenzhen Stock Exchange since 2009
- 2000+ employees
- Market capitalization of CNY 49,953M
- #1 on Forbes China Best CEOs list (2015)
- Online business solutions
- Growing businesses in traffic management and cloud computing
- Top 50 'Up-and-Coming' Chinese Enterprise and a member of their "Best Under a Billion" list of the Forbes' magazine

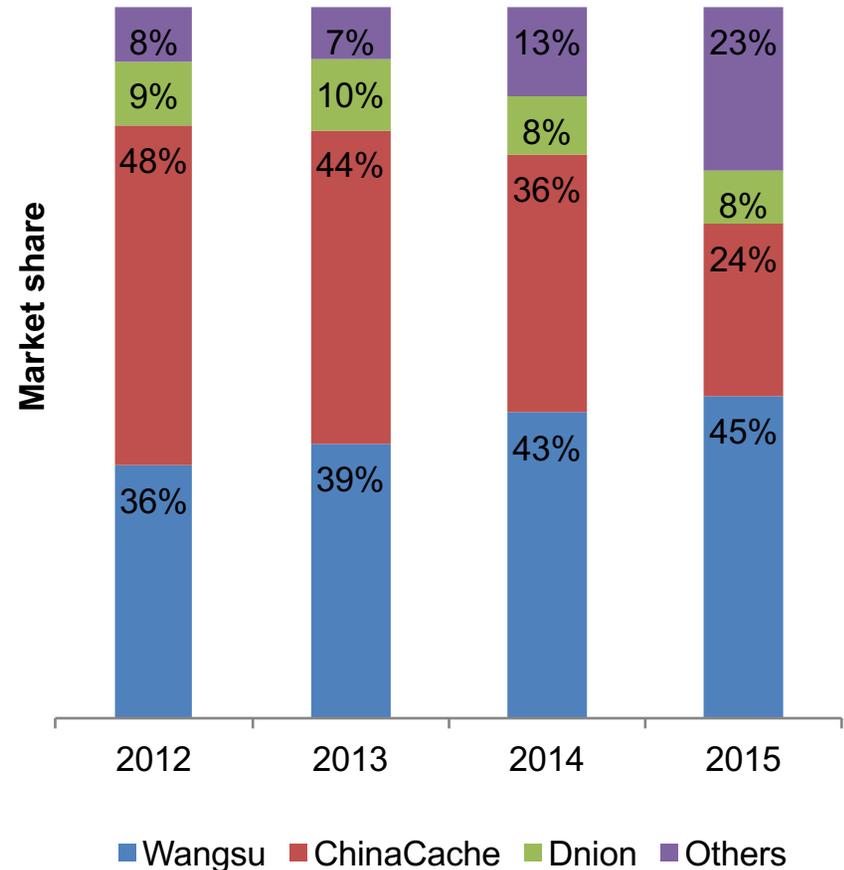


Control of Home Market

- Chinese CDN market dominated by two players: Wangsu and ChinaCache
- Faster and cheaper CDN service than ChinaCache
- Recognized for quality of service through successful bids for major events

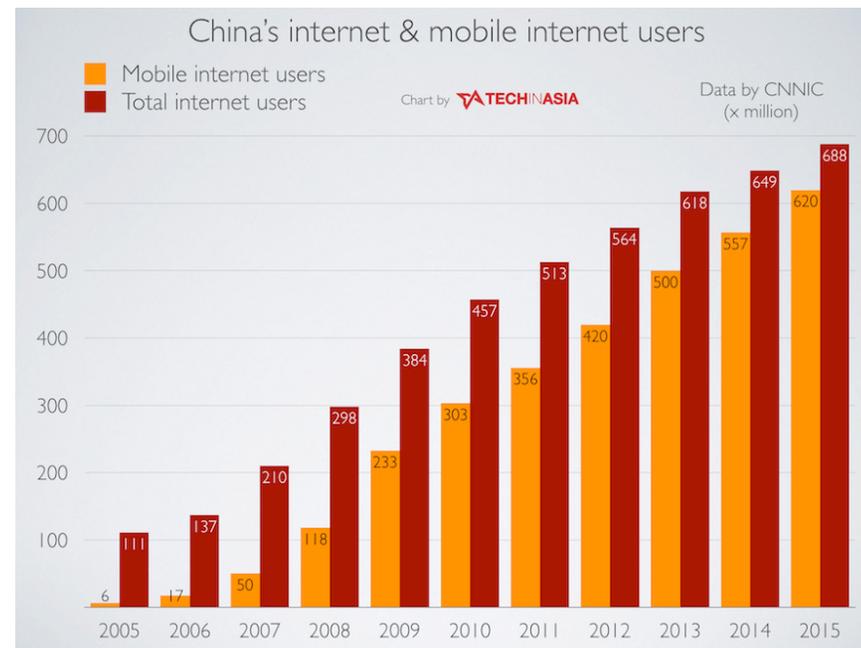
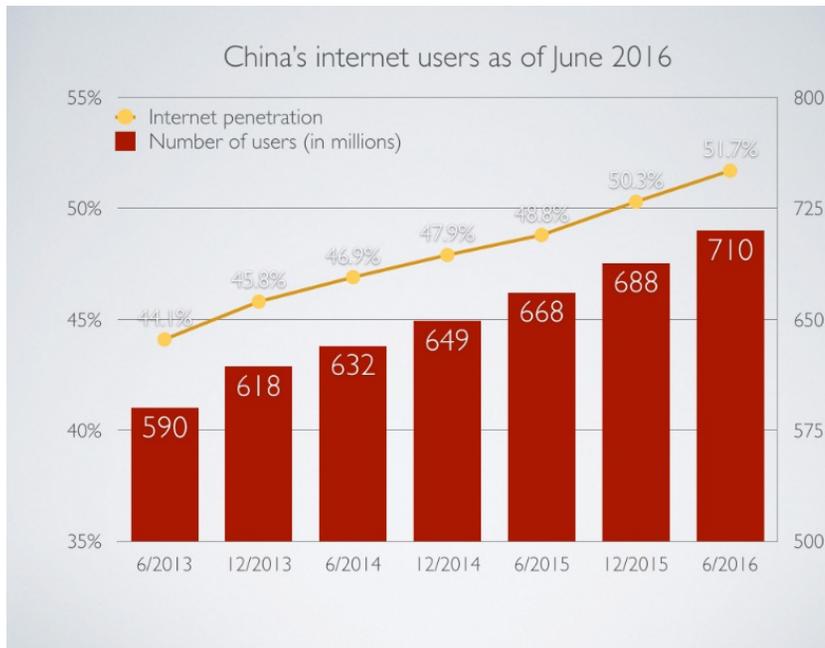


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Growth Prospects – China

- Rapid growth in scale of domestic mobile traffic
- Government support:
 - Mitigates the risk of foreign entry
 - Lowers the cost of innovation needed to break into overseas markets
- Strategic partnerships with Amazon Web Services and Akamai Technologies



Growth Prospects – Worldwide

- CDN market predicted to grow by more than USD 10B over the next 5 years (CAGR 26%)
- Heavy recent investment in subsidiaries worldwide to capture global market growth (Asia, Latin America, and Africa)
- Strong partnerships to gain access to customer bases, technological advantages and develop its reputation
 - Potential to cover 80% of the global population



Wangsu:



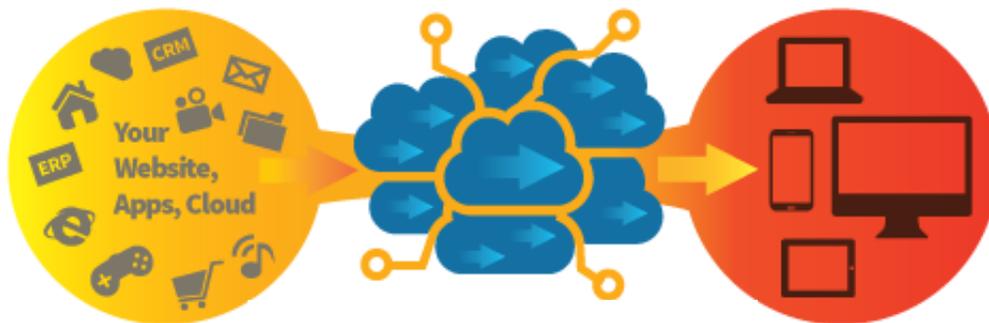
ChinaCache:





Growth Prospects – Diversification

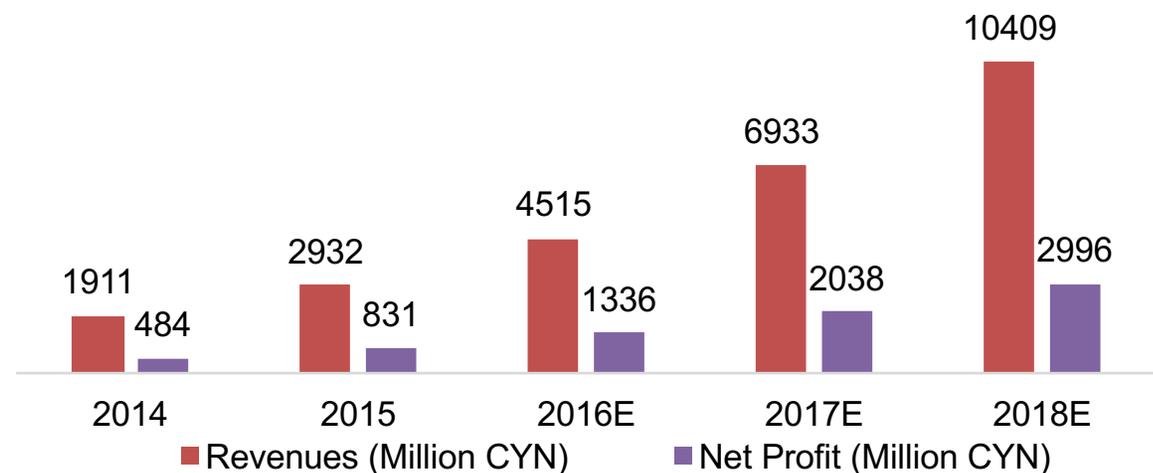
- Major growth for cloud computing market
 - Penetration rate of 2% of this USD 100B market in 2016
 - Major partnership with Shanghai Oriental Pearl Media
 - Can rely on its existing customer base from CDN services
- Content and traffic management and network security
- 30% stake in Beijing Wangsu Kuaixian Technology
- Shanghai Wangsu Investment Management Limited



Strong Financial Performance

- Company's net profit rose 84.50% in 1Q16, and 81.78% in 1H16
- Reached 3Q16's forecast
- Likely to reach its 2016 forecast, even given the typical slowdown in 4Q
- Growing at a pace of about 60% a year
- Net profits are expected to grow at a pace of 40-50% annually for at least another three to five years
- Constant gross margin

Wangsu Actual and Forecasted Financial Performance (Major Indicators)					
Item/Year	2014	2015	2016E	2017E	2018E
Revenues (M CNY)	1,911	2,932	4,416	6,380	8,960
Revenues Growth Rate (YoY, %)	58.57	53.43	50.64	44.47	40.44
Net Profit (M CNY)	484	831	1,284	1,878	2,638
Net Profit Growth Rate (YoY, %)	104	71.87	54.45	46.27	40.45
Gross Margin (%)	43.58	44.76	44.10	43.45	42.76
Net Margin (%)	25.3	28.4	29.6	29.4	28.8
Total Assets (M CYN)	1978	3506	8522	10698	13841
P/E (x)	123	71	44	28	20
EPS (CYN)	0.61	1.05	1.63	2.38	3.34
ROE (%)	29.57	33.07	17.43	20.9	23.46
Dividend payout ratio (%)	3.8	3.2	20.0	20.0	20.0



Valuation

DCF Model

- Terminal growth rate of :
 - 0% (conservative): CNY 109.5 (upside: 74%)
 - 4% (approximately the inflation rate): CNY 123.4 (upside: 96%)
 - 8% (optimistic): CYN 140.5 (upside: 123%)
- Limit: Earnings growth rate not constant

Peer Comparison

- Price-to-earnings > Industry and Sector
 - Wangsu: 39.75; industry: 20.41; sector: 17.75
- Price-to-sales > Close competitors and industry
 - Wangsu: 13.54; Industry: 3.36; 21Vianet: 1.09; ChinaCache: 0.59
- Constant dividend policy
- ROI > Close competitors and industry
 - Wangsu: 13.54; Industry: 3.36; 21Vianet: -5.99 ; ChinaCache: -41.77
- ROE > Close competitors and industry
 - Wangsu: 25.89; Industry: 24.70; 21Vianet: -7.98 ; ChinaCache: -46.83

DCF Model : Values	
Risk-free Rate	2.73%
Beta	0.2
Market Risk Premium	7.68%
Cost of Debt	4.85%
MV Firm's Equity	2.514M Rmb
MV Firm's Debt	992M Rmb
MV Firm's Financing	3.506M Rmb
Corporate Tax Rate	5.60%
WACC	16.01%
Operating Cash Flow	718M Rmb
CAPEX	380M Rmb
Free Cash Flow	338M Rmb
Perpetuity Growth Rate	0-4-8%



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Conclusion

- History of high growth, and still a high growth potential for the future
- Strong existing market position in China
- Worldwide expansion in progress
- Intelligent and promising diversification strategy
- Strategic partnerships
- Performant management team
- Strong financial performance
 - Reached its 2016 Q3 targets
 - Likely to reach its 2016 targets
- Reasonably valued



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Thank you!