



Rating Sell

Asia
China

Technology
Software & Services

Company Wangsu Technology Alert

Reuters 300017.SZ Bloomberg 300017 CS Exchange SHZ Ticker 300017

Date
18 January 2018

Company Update

Price at 17 Jan 2018 (CNY)	11.15
Price target - 12mth (CNY)	8.90
52-week range (CNY)	18.00 - 8.64
Shenzhen Index	2,038

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FY17 profit guidance inline but some positives emerging

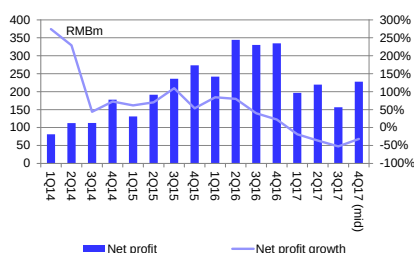
Profit guidance inline with DB forecast

Wangsu's profit guidance of a 32-40% decline in FY17 net profit (midpoint - 36%) was broadly inline with our forecast of a 35% reduction. Both revenue and net profit saw improvement QoQ. While seasonally 4Q is a stronger quarter due to timing of iPhone upgrades etc, company also indicated that gross margin has improved QoQ due to improving product mix (from growth in higher value security and web acceleration services).

Some easing in industry competition

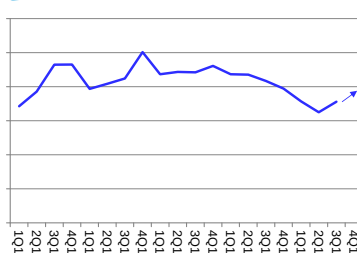
Our recent channel checks suggest that most CDN providers are barely breaking even and have limited room for further price declines. As a result competitive intensity has eased somewhat in 2H17 with the rate of price reduction not as severe as the first half. Wangsu continues to charge premium pricing vs peers however given their better service quality and more stable network. It is uncertain what premium customers would be willing to place on service quality and hence there is still risk that Wangsu's pricing will converge closer to that of its peers. As such despite these positive signs, given the stock is still trading on 33x FY17 PE and still limited earnings visibility, we retain the SELL.

Figure 1: Quarterly net profit trends



Source: Deutsche Bank, Company Data

Figure 2: Gross margin improved QoQ



Source: Deutsche Bank, Company Data

Stock data

Market cap (CNYm)	26,924
Market cap (USDm)	4,184
Shares outstanding (m)	2,414.7
Major shareholders	Baozhen Chen and Chengyan Liu (31.44%)
Free float (%)	71
Avg daily value traded (USDm)	81.1

Source: Deutsche Bank

Key data

FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	4,446	5,201	6,215
Net Profit (CNYm)	1,249.9	812.8	815.6
DB EPS (CNY)	1.60	0.34	0.34
PER (x)	12.9	33.2	33.1
Yield (net) (%)	1.2	0.5	0.5

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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