



Rating Sell

Asia
China

Technology
Software & Services

Company Wangsu Technology Alert

Reuters
300017.SZ

Bloomberg
300017 CS

Exchange
SHZ

Ticker
300017

Date

29 January 2018

Company Update

Price at 26 Jan 2018 (CNY)	13.36
Price target - 12mth (CNY)	8.90
52-week range (CNY)	18.00 - 8.64
Shenzhen Index	2,039

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False alarm

No white knight, expect speculators to retreat

In response to recent news articles suggesting Tencent taking a 10% stake in Wangsu (Sina 26th Jan), Wangsu announced on 28 January that the company has not had any discussions with Tencent around this topic nor has the company received any such offers from Tencent. While we see some rationale that Tencent may be interested in a strategic stake in Wangsu, given the strong wording from Wangsu, such possibilities may be slimmer than what the market may be hoping for (as reflected by the recent rally in its share price). Without a white knight and with competition in the CDN market continuing to be intense and the stock trading on FY17 PE of 40x, we retain our SELL.

Tencent would be a useful ally

Notwithstanding the news, we think Tencent would be a useful ally to Wangsu due the following: 1) the two can cross-sell into each other's client base and improve their product offerings, 2) the two combined would have stronger purchasing power when negotiating bandwidth pricing with the telecom operators, 3) industry competitive dynamics may be improved if the two industry heavyweights were to join forces, and 4) the ability to leverage off each other's resources, particularly in security software and the overseas network PoPs.

What could deter the deal from happening?

We also see a few deterrents for such deal from happening which make us shunning away from the stock despite the appeal of potential M&A: 1) Wangsu does not yet have a strong cloud offering and hence would not directly bolster Tencent's cloud capabilities, 2) earnings visibility in the CDN market remains low and current valuation of Wangsu is not cheap, 3) Wangsu may want to remain independent given a significant portion of their customers are internet companies and siding with one internet giant could result in customer attrition of those from the other camps, 4) potential difference in personalities and strategic directions between founders of the two businesses.

Stock data

Market cap (CNYm)	32,260
Market cap (USDm)	5,105
Shares outstanding (m)	2,414.7
Major shareholders	Baozhen Chen and Chengyan Liu (31.44%)
Free float (%)	71
Avg daily value traded (USDm)	97.8

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	39.8	39.7
Yield (net) (%)	1.2	0.4	0.4

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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