

29 August 2018

China

EQUITIES

AShare
Research

002739 CH Neutral
Price (at 08:12, 29 Aug 2018 GMT) Rmb52.04

Valuation	Rmb 49.00-50.00	
- PER		
12-month target	Rmb	49.50
Upside/Downside	%	-4.9
12-month TSR	%	-4.4
Volatility Index	Low	
GICS sector	Media	
Market cap	Rmbm	61,095
Market cap	US\$m	8,978
Number shares on issue	m	1,174

Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	13,229	14,953	16,977	19,092
EBIT	m	1,785	2,048	2,512	2,764
EBIT growth	%	5.0	14.7	22.7	10.0
Reported profit	m	1,516	1,701	2,100	2,301
Adjusted profit	m	1,516	1,701	2,100	2,301
EPS rep	Rmb	1.29	1.45	1.79	1.96
EPS rep growth	%	10.9	12.2	23.4	9.6
EPS adj	Rmb	1.29	1.45	1.79	1.96
EPS adj growth	%	10.9	12.2	23.4	9.6
PER rep	x	40.3	35.9	29.1	26.6
PER adj	x	40.3	35.9	29.1	26.6
Total DPS	Rmb	0.20	0.22	0.28	0.46
Total div yield	%	0.4	0.4	0.5	0.9
ROA	%	8.5	8.9	10.3	8.8
ROE	%	14.1	14.0	15.2	11.7
EV/EBITDA	x	27.8	24.0	19.7	18.2
Net debt/equity	%	29.9	21.4	11.1	-28.6
P/BV	x	5.4	4.7	4.2	2.5

002739 CH rel CSI 300 performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2018

(all figures in Rmb unless noted, TP in CNY)

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Wanda Film (A-Share) (002739 CH) 2Q18 results missed across the board

Key points

- ▶ 2Q earnings missed on weak box office and accordingly PSA and margins
- ▶ We trim 18/19E adj. earnings by 9%/5% with a lower TP of Rmb49.5
- ▶ The stock remains suspended on an acquisition deal, which could be EPS accretive

Event

- Wanda Film's 2Q18 adj. earnings dropped by 40% YoY to Rmb334m, 57% below MQ (no quarterly WIND estimate). The miss reflects the weak China box office in 2Q, and accordingly the weaker-than-expected margin performance on PSA (per screen average revenue) pressure. We cut 18-20E adj. earnings by 5-9%. Maintain Neutral. The stock trading remains suspended given the ongoing acquisition deal.

Impact

- **2Q18 missed across the board.** 2Q18 revenue dropped by 5% YoY (down 27% QoQ) to Rmb3.1bn, 14% below MQ. The miss was primarily driven by the soft China BO performance in 2Q (-5% YoY) on weaker Hollywood film performance this year, given the stable 14% market share for Wanda Film domestically. That put its theatre PSA and then GM continuingly under pressure (down 1.5ppts YoY to 14.5% in 1H), and largely offset the margin accretion from ads and merchandise businesses. Along with the still high opex%, EBIT (-31% YoY) missed MQ by 51%.
- **Box office recovering in 3Q.** Thanks to local films Dying To Survive 我不是药神 and Hello Mr. Billionaire 西虹市首富, China BO QTD resumed growth of 9% YoY even with hard comps built by Wolf Warrior 2 (launched on 27 July 2017). We still expect 3Q China BO to grow by 14% YoY. That echoes Wanda Film's 3Q earnings guidance of Rmb364-617m, with the midpoint +31% YoY. We expect 2H18 adj. earnings to grow by 28% YoY based on 15% sales growth, modest GM expansion and better opex control.
- **Proposed acquisition potentially EPS accretive.** Wanda Film proposed to acquire 96.83% of Wanda Media, the content provider of films, TV shows and online games on 26 June. In the reorganization proposal, the net profit of Wanda Media is promised to be no less than Rmb888m, Rmb1,069m, Rmb1,271m fin 2018, 2019 and 2020, respectively, which could be 30-32% EPS accretive for 19-20E. The deal is still under process and thus the stock remains under suspension.

Earnings and target price revision

- We reduce 18-19E adj. earnings by 9%/5% and lower our TP to Rmb49.5 (from 53.3 prior) based on a 32x target PER (18-19 average).

Price catalyst

- 12-month price target: Rmb49.50 based on a PER methodology.
- Catalyst: Box office performance, deal announcement, 3Q18 results

Action and recommendation

- Retain Neutral. We prefer midstream player China Film (A-Share) (600977 CH, Rmb13.36, Outperform, TP: Rmb17.80) over downstream player Wanda Film given cinema oversupply issues.

Fig 1 2Q18 results review

	2Q17	1Q18	2Q18	QoQ	YoY	MQ estimates	Diff
Revenue	3,283	4,250	3,117	-26.6%	-5.1%	3,638	-14.3%
Gross profit	1,073	1,378	1,036	-24.8%	-3.5%	1,447	-28.4%
GPM	33%	32%	33%	2.5%	1.7%	40%	-16.5%
OPEX	(422)	(672)	(584)	-13.1%	38.3%	(530)	10.3%
Operating profit (reported)							
EBIT	651	706	452	-36.0%	-30.6%	918	-50.8%
EBIT margin	20%	17%	14%	-2.1%	-5.3%	25%	-42.6%
PBT	667	655	421	-35.8%	-36.9%	908	-53.6%
Net income to parents	590	541	360	-33.5%	-39.1%	803	-55.2%
Adjusted net income to parents	560	515	334	-35.2%	-40.4%	783	-57.4%
EPS (RMB)	0.50	0.46	0.31	-33.5%	-39.1%	0.68	-55.2%

Source: Company data, Macquarie Research, August 2018

Fig 2 Earnings revision

New estimates	3Q18E	2018E	2019E	2020E
Revenue	3,999	14,953	16,977	19,092
COGS	(2,748)	(10,166)	(11,512)	(12,907)
Gross profit	1,251	4,787	5,465	6,185
GPM	31.3%	32.0%	32.2%	32.4%
EBIT	552	2,048	2,512	2,764
EBIT margin	13.8%	13.7%	14.8%	14.5%
Operating profit	546	1,890	2,410	2,677
OPM margin	13.7%	12.6%	14.2%	14.0%
Net income to parents	504	1,701	2,100	2,364
Net margin	12.6%	11.4%	12.4%	12.4%
Adjusted net income to parents	488	1,616	2,016	2,281
Adjusted net margin	12.2%	10.8%	11.9%	11.9%
EPS (RMB)	0.43	1.45	1.79	2.01
Adjusted EPS (RMB)	0.42	1.38	1.72	1.94
Old estimates	3Q18E	2018E	2019E	2020E
Revenue	3,999	15,473	17,818	20,068
COGS	(2,796)	(10,365)	(11,878)	(13,339)
Gross profit	1,203	5,108	5,940	6,729
GPM	30.1%	33.0%	33.3%	33.5%
EBIT	472	2,333	2,701	2,984
EBIT margin	11.8%	15.1%	15.2%	14.9%
Operating profit	418	2,114	2,549	2,852
OPM margin	10.4%	13.7%	14.3%	14.2%
Net income to parents	371	1,864	2,215	2,534
Net margin	9.3%	12.0%	12.4%	12.6%
Adjusted net income to parents	348	1,779	2,131	2,451
Adjusted net margin	8.7%	11.5%	12.0%	12.2%
EPS (RMB)	0.32	1.59	1.89	2.16
Adjusted EPS (RMB)	0.30	1.52	1.81	2.09
Estimate revision	3Q18E	2018E	2019E	2020E
Revenue	0%	-3%	-5%	-5%
COGS	-2%	-2%	-3%	-3%
Gross profit	4%	-6%	-8%	-8%
GPM	120 bps	(100 bps)	(115 bps)	(113 bps)
EBIT	17%	-12%	-7%	-7%
EBIT margin	200 bps	(139 bps)	(36 bps)	(39 bps)
Operating profit	31%	-11%	-5%	-6%
OPM margin	321 bps	(103 bps)	(11 bps)	(19 bps)
Net income to parents	36%	-9%	-5%	-7%
Net margin	334 bps	(67 bps)	(6 bps)	(24 bps)
Adjusted net income to parents	40.1%	-9.2%	-5.4%	-6.9%
Adjusted net margin	349 bps	(69 bps)	(9 bps)	(26 bps)
EPS (RMB)	36%	-9%	-5%	-7%
Adjusted EPS (RMB)	40.1%	-9.2%	-5.4%	-6.9%

Source: Macquarie Research, August 2018

Macquarie Quant View

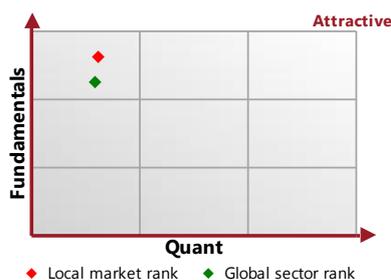
The Quant View page below has been derived from models that are developed and maintained by Sales and Trading personnel at Macquarie. The models are not a product of the Macquarie Research Department.

The quant model currently holds a reasonably negative view on Wanda Film (A-Share). The strongest style exposure is Price Momentum, indicating this stock has had strong medium to long term returns which often persist into the future. The weakest style exposure is Quality, indicating this stock is likely to have a weaker and less stable underlying earnings stream.

271/336

Global rank in Media

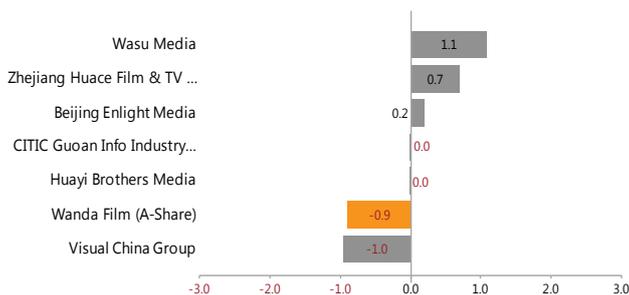
% of BUY recommendations: 80% (4/5)
 Number of Price Target downgrades: 0
 Number of Price Target upgrades: 0



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model. Two rankings: Local market (China A) and Global sector (Media)

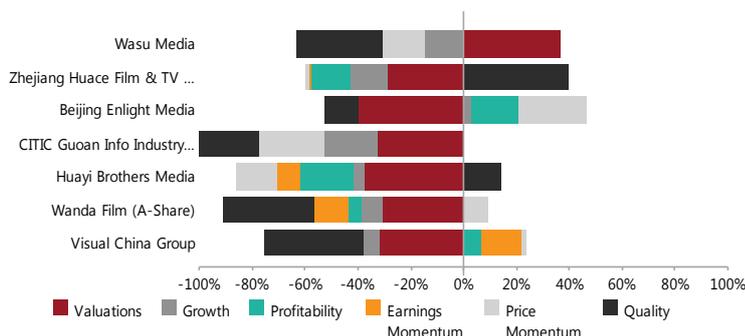
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



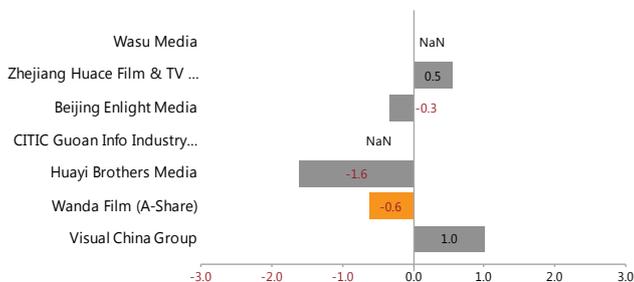
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



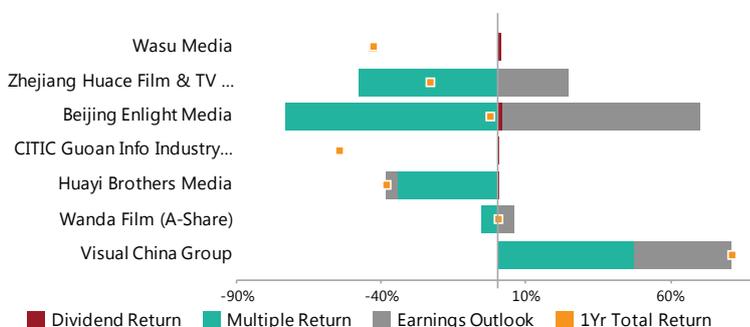
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



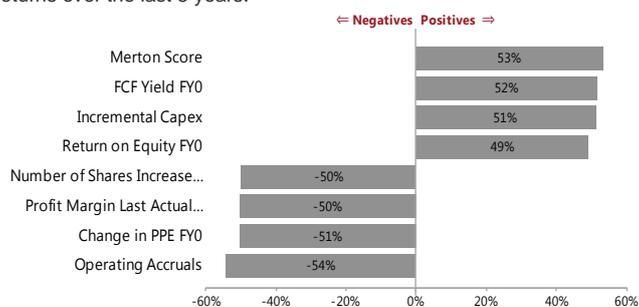
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



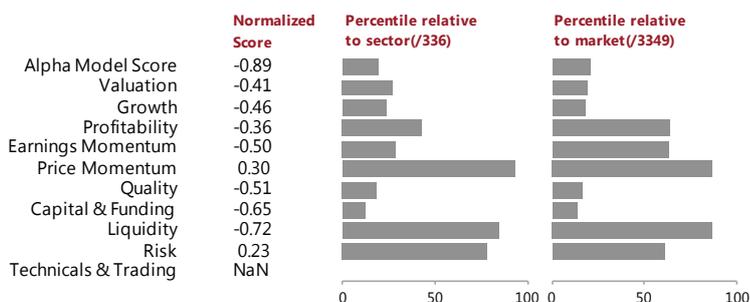
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

Wanda Film (A-Share) (002739 CH, Neutral, Target Price: Rmb49.50)

Quarterly Results					Profit & Loss						
		2Q/18A	3Q/18E	4Q/18E	1Q/19E		2017A	2018E	2019E	2020E	
Revenue	m	3,117	3,999	3,587	4,887	Revenue	m	13,229	14,953	16,977	19,092
Gross Profit	m	1,036	1,251	1,123	1,625	Gross Profit	m	4,246	4,787	5,465	6,185
Cost of Goods Sold	m	2,082	2,748	2,465	3,262	Cost of Goods Sold	m	8,983	10,166	11,512	12,907
EBITDA	m	607	707	493	1,079	EBITDA	m	2,299	2,668	3,245	3,507
Depreciation	m	155	155	155	183	Depreciation	m	514	620	732	743
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	452	552	338	896	EBIT	m	1,785	2,048	2,512	2,764
Net Interest Income	m	-66	-68	-68	-57	Net Interest Income	m	-247	-284	-229	-213
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	36	117	144	56	Other Pre-Tax Income	m	338	327	290	227
Pre-Tax Profit	m	421	601	414	895	Pre-Tax Profit	m	1,877	2,091	2,574	2,779
Tax Expense	m	-62	-96	-119	-156	Tax Expense	m	-361	-390	-474	-477
Net Profit	m	359	506	295	739	Net Profit	m	1,516	1,701	2,100	2,301
Minority Interests	m	0	-1	1	-1	Minority Interests	m	0	-0	-0	-0
Reported Earnings	m	360	504	296	739	Reported Earnings	m	1,516	1,701	2,100	2,301
Adjusted Earnings	m	360	504	296	739	Adjusted Earnings	m	1,516	1,701	2,100	2,301
EPS (rep)		0.31	0.43	0.25	0.63	EPS (rep)		1.29	1.45	1.79	1.96
EPS (adj)		0.31	0.43	0.25	0.63	EPS (adj)		1.29	1.45	1.79	1.96
EPS Growth yoy (adj)	%	-39.1	34.7	16.7	36.6	EPS Growth (adj)	%	10.9	12.2	23.4	9.6
						PE (rep)	x	40.3	35.9	29.1	26.6
						PE (adj)	x	40.3	35.9	29.1	26.6
EBITDA Margin	%	19.5	17.7	13.7	22.1	Total DPS		0.20	0.22	0.28	0.46
EBIT Margin	%	14.5	13.8	9.4	18.3	Total Div Yield	%	0.4	0.4	0.5	0.9
Earnings Split	%	21.1	29.6	17.4	35.2	Basic Shares Outstanding	m	1,174	1,174	1,174	1,174
Revenue Growth	%	-5.1	12.0	17.8	15.0	Diluted Shares Outstanding	m	1,174	1,174	1,174	1,174
EBIT Growth	%	-30.6	56.2	0.9	27.0						
Profit and Loss Ratios					Cashflow Analysis						
		2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E	
Revenue Growth	%	18.0	13.0	13.5	12.5	EBITDA	m	2,299	2,668	3,245	3,507
EBITDA Growth	%	12.4	16.0	21.6	8.1	Tax Paid	m	0	0	0	0
EBIT Growth	%	5.0	14.7	22.7	10.0	Chgs in Working Cap	m	-672	335	339	419
Gross Profit Margin	%	32.1	32.0	32.2	32.4	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	17.4	17.8	19.1	18.4	Other	m	361	-823	-920	13
EBIT Margin	%	13.5	13.7	14.8	14.5	Operating Cashflow	m	1,988	2,180	2,664	3,399
Net Profit Margin	%	11.5	11.4	12.4	12.1	Acquisitions	m	0	0	0	0
Payout Ratio	%	15.5	15.5	15.5	23.3	Capex	m	-1,747	-1,270	-1,237	-693
EV/EBITDA	x	27.8	24.0	19.7	18.2	Asset Sales	m	0	0	0	0
EV/EBIT	x	35.8	31.2	25.4	23.1	Other	m	-1,986	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	-3,733	-1,270	-1,237	-693
ROE	%	14.1	14.0	15.2	11.7	Dividend (Ordinary)	m	-235	-235	-264	-459
ROA	%	8.5	8.9	10.3	8.8	Equity Raised	m	0	0	0	0
ROIC	%	12.7	11.0	12.8	13.7	Debt Movements	m	2,872	-2,069	0	-400
Net Debt/Equity	%	29.9	21.4	11.1	-28.6	Other	m	-1,464	0	0	0
Interest Cover	x	7.2	7.2	11.0	13.0	Financing Cashflow	m	1,173	-2,304	-264	-859
Price/Book	x	5.4	4.7	4.2	2.5	Net Chg in Cash/Debt	m	-574	-1,395	1,163	2,386
Book Value per Share		9.7	11.0	12.5	20.9	Free Cashflow	m	241	910	1,427	3,245
						Balance Sheet		2017A	2018E	2019E	2020E
						Cash	m	2,851	1,457	2,620	10,195
						Receivables	m	1,422	1,607	1,824	2,728
						Inventories	m	172	199	238	408
						Investments	m	498	498	498	498
						Fixed Assets	m	2,695	3,331	3,822	4,046
						Intangibles	m	10,904	10,918	10,931	10,981
						Other Assets	m	4,601	5,111	5,657	8,088
						Total Assets	m	23,142	23,120	25,591	36,942
						Payables	m	3,785	4,272	4,799	7,101
						Short Term Debt	m	4,269	2,200	2,400	2,600
						Long Term Debt	m	2,080	2,080	1,880	480
						Provisions	m	953	1,048	1,155	1,524
						Other Liabilities	m	345	345	345	345
						Total Liabilities	m	11,433	9,945	10,580	12,051
						Shareholders' Funds	m	11,373	12,839	14,675	24,555
						Minority Interests	m	298	298	298	298
						Other	m	39	39	39	39
						Total S/H Equity	m	11,709	13,175	15,011	24,891
						Total Liab & S/H Funds	m	23,142	23,120	25,591	36,942

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, August 2018

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Mazi Macquarie – South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

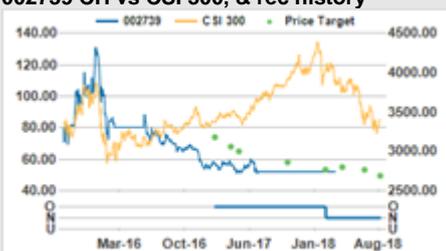
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.87%	61.26%	48.86%	47.54%	69.86%	46.61%	(for global coverage by Macquarie, 3.51% of stocks followed are investment banking clients)
Neutral	34.10%	27.25%	36.36%	46.72%	21.92%	43.22%	(for global coverage by Macquarie, 2.10% of stocks followed are investment banking clients)
Underperform	13.03%	11.49%	14.77%	5.74%	8.22%	10.17%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

002739 CH vs CSI 300, & rec history



(all figures in CNY currency unless noted)

600977 CH vs HSI, & rec history



(all figures in CNY currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2018

12-month target price methodology

002739 CH: Rmb49.50 based on a PER methodology

600977 CH: Rmb17.80 based on a PER methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
29-Aug-2018	002739 CH	Neutral	Rmb33.00
06-Jul-2018	002739 CH	Neutral	Rmb53.30
20-Apr-2018	002739 CH	Neutral	Rmb55.00
21-Feb-2018	002739 CH	Neutral	Rmb53.40
13-Oct-2017	002739 CH	Outperform	Rmb58.00
28-Apr-2017	002739 CH	Outperform	Rmb65.00
31-Mar-2017	002739 CH	Outperform	Rmb68.00
04-Feb-2017	002739 CH	Outperform	Rmb74.00

Target price risk disclosures:

002739 CH: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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