

Wanda Film (002739 CH)

Buy (maintained)

Extending commitment period for acquisition of Wanda Media

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What's new? Wanda Film has released a revised plan for its acquisition of Wanda Media, in which Wanda Film has adjusted its performance commitment for the target company based on its 7M18 results.

Performance commitment period extended to 2021, reflecting the company's confidence According to the latest plan, the committed net profit for Wanda Media in 2018/19/20/21 is no lower than Rmb763/888/1,069/1,274m (vs the prior 2018/19/20 committed net profit of no less than Rmb888/1,069/1,271m). Wanda has cut its performance commitment for Wanda Media in view of the reduction in transaction consideration, but it has extended the commitment period for one year to 2021. The extension shows that the company is upbeat on the asset's growth potential.

Earnings forecasts We estimate 2018/19/20 EPS of Rmb0.86/0.92/1.03, corresponding to P/Es of 25.00/23.33/20.88x, based on the Nov 26 closing price. Factoring in the profit accretion and shareholding dilution of this acquisition via share issue, we estimate 2018/19/20 EPS of Rmb1.10/1.21/1.39, based on P/Es of 19.66/17.84/15.54x. Wanda Film has strong capability in theater management. The success of the asset injection will help the company expand its presence to the whole industry chain along the movie entertainment sector. We maintain our Buy rating on the stock.

Risks: Falling box office growth; slow growth of non-box office's contribution to total revenue; continuous decline in per screen revenue; asset injection not being approved; policy risks in the game industry; policy risks in the TV drama industry.

Rating definitions

Benchmark: Hong Kong Hang Seng Index
Time horizon: 12 months

Company ratings

Buy	Stock expected to outperform benchmark by more than 15%
Accumulate	Stock expected to outperform benchmark by more than 5% but not more than 15%
Hold	Expected stock relative performance ranges between -5% and 5%
Underperform	Stock expected to underperform benchmark by more than 5%

Sector ratings

Positive	Sector expected to outperform benchmark by more than 10%
Neutral	Expected sector relative performance ranges between -10% and 10%
Cautious	Sector expected to underperform benchmark by more than 10%

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