

Wisdom Holdings (1661 HK)

Moving towards a market leader of sport culture

Hong Kong | TMT | Company report

5 August 2015

The Chinese domestic sport events and competitions industry is entering the stage of accelerated growth; and the industry is undergoing a transition from spectacular-type to participative-type. The physical fitness training is being included as the strategy of the state by the Chinese authority. It has been planned to expand the output scale of sport industry up to 5 trillion by 2025, given that the figure in 2015 is only 700 billion. This indicates that the CAGR for the upcoming 10 years would reach as high as 21.7%. Wisdom Holdings, being the top organizer of sport events and competitions, is expected to be consistently benefitted from such development.

The enormous sport events and competitions gave the chance for Wisdom Group to build up core competitiveness and support the mid-to-long term growth of the Group. Currently, the weight of revenue from the segment of Wisdom Events has significantly increased from the previous level of around 10%, to more than 30%, with contribution to profit reaching 40%. Moreover, the segment is with 60% of the gross profit margin, which is higher than the segment of Wisdom Program & Branding. Looking forward, Wisdom Events would achieve an annualized growth of more than 50%, with contribution to revenue moving up to higher than 50%.

In long term, on the basis of organizing sport competitions, the Company would further connect the upstream and downstream business, establishing a comprehensive business chain covering various aspects of sport event organization, social sport events and sport training and etc.,. In other words, the Company would establish four business systems of "Sports+" operation, services, marketing and internet, aiming to move towards as the market leader of sport cultural events organizers in the domestic Chinese market.

Being undervalued during business transition

While the Chinese domestic sport industry is entering the stage of accelerated growth, Wisdom Group, having the enormous operation capacity and being the leading company specializing on sport business in China, successfully established both upstream and downstream business extension in the industry of sport events and competitions; and aimed to achieve as the market leader of the Chinese sport industry. The Group will be renamed as "Wisdom Sports Group", further indicated that the Company adopted the strategy of achieving a "sport specialist". The Company's business on holding sport events and competitions is keeping speedy growth and enjoying strong profitability. We grant it with a valuation of 28x corresponding to the 2015EPS and the target price can reach HKD 6.88 with "Buy" rating.

Peer Comparison

Ticker	Name	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd Yld
600158 CH Equity	CHINA SPORTS IND GROUP	-24.38%	206.78	7.37%	-
300005 CH Equity	TOREAD HOLDINGS GROUP	18.08%	45.88	25.29%	-
300162 CH Equity	LEDMAN OPTOELECTRONIC	46.15%	260.45	3.48%	0.20%
ADS GR Equity	ADIDAS AG	-27.45%	25.74	8.53%	-
NKE US Equity	NIKE INC -CL B	24.59%	31.04	27.82%	0.94%
MSG US Equity	MADISON SQUARE GARDEN	-20.32%	64.83	13.37%	-
Average		2.78%	105.79	14.31%	-
1661 HK Equity	WISDOM HOLDINGS GROUP	0.00%	19.35	24.50%	2.84%

Source: Bloomberg, Phillip Securities (HK) Research

Buy (Maintain)

CMP HKD4.19

(Closing price as at 4 Aug 2015)

TARGET HKD 6.88 (+64.2%)

COMPANY DATA

O/S SHARES (MN) :	1,609
MARKET CAP (HKDMN) :	6,742
52 - WK HI/LO (HKD):	8.82/ 2.64

SHARE HOLDING PATTERN , %

Queen Media Co., Ltd.	37.51
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PRICE PERFORMANCE , %

	1M	3M	1Y
Wisdom	-27.11	-45.25	3.38
HSI	-20.77	-32.05	4.14

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	694	804	958	1212
Net Profit	232	278	313	384
EPS, CNY	0.17	0.17	0.19	0.24
PER, x	19.35	19.35	17.02	13.85
BVPS, CNY	0.67	0.75	0.85	0.97
P/BV, x	4.94	4.41	3.90	3.42
ROE, %	34.22	24.50	24.48	26.46
Debt/Equity (%)	12.60	10.89	11.11	11.11

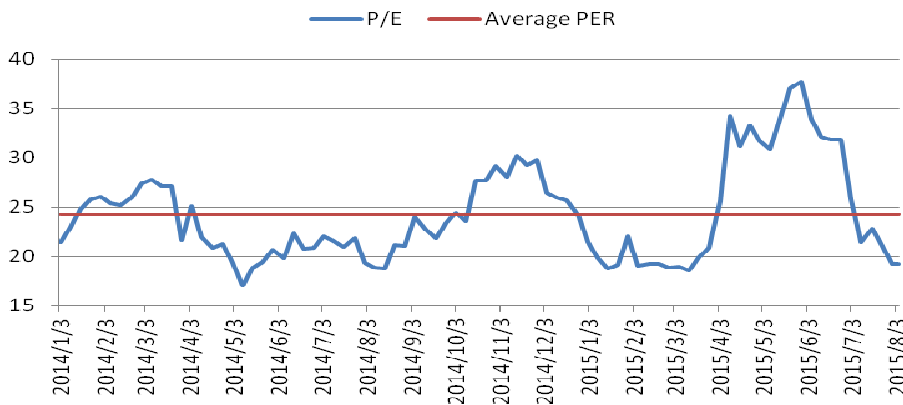
Source: Company reports, Phillip Securities Est.

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Historical Valuation

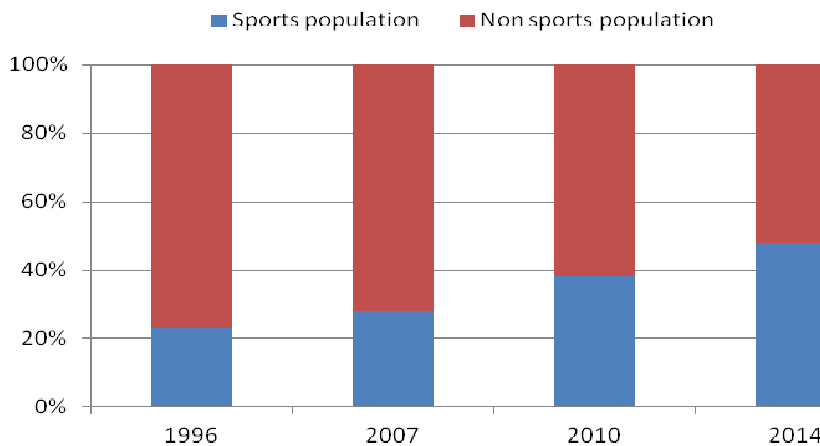


Source: Bloomberg, Phillip Securities (HK) Research

Benefitted from the growth of sport business

The Chinese domestic sport events and competitions industry is entering the stage of accelerated growth; and the industry is undergoing a transition from spectacular-type to participative-type. Based on the data from international markets, when the GDP per capita reaches more than USD5000, people’s expenditure on culture and entertainment would gradually transit from spectacular-type to participative-type. During such transition, the industry of mass public sport events and competitions is expected to be benefitted initially. Domestic Chinese market is already in such stage. In 2013, the GDP per capita of China recorded USD6767, with 26 provinces and cities having GDP per capita exceeding USD5000.

Increased sports population in China



Source: Phillip Securities (HK) Research

Moreover, in comparison to other countries, the sport events and competitions industry of China has huge room for development. In 2012, sport industry of China recorded a value added of RMB313.595 billion, only weighted 0.6% of the GDP of that year, far lower than the general level of 1% to 3% of most developed countries. Meanwhile, the American annual value in 2012 recorded USD435 billion, weighted 2.7% of the GDP of that year.

It is worth to note that physical fitness training is being included as the strategy of the state by the Chinese authority. It has been planned to expand the output scale of sport industry up to 5 trillion by 2025, given that the figure in 2015 is only 700 billion. This indicates that the CAGR for the upcoming 10 years would reach as high as 21.7%. Wisdom Holdings, being the top organizer of sport events and competitions, is expected to be consistently benefitted from such development.

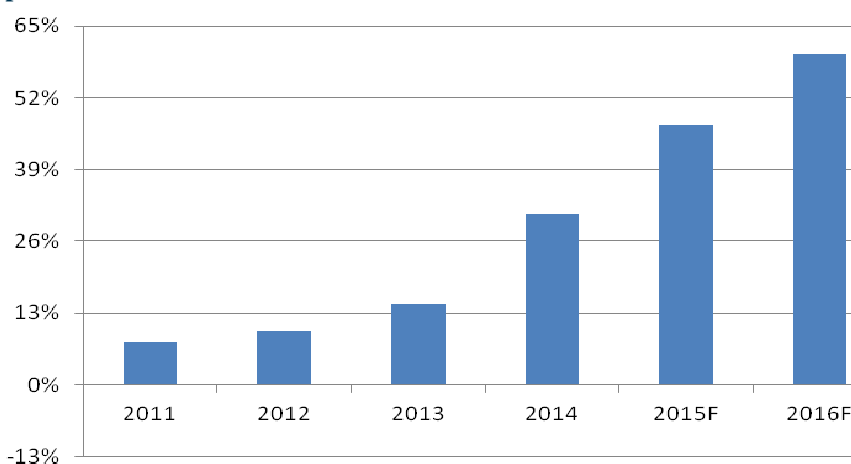
Enormous sport competitions built core competitiveness

Since the Group being listed in 2013, the Company strategically enhanced the segment of Wisdom Events and the operation scale of sport events expanded speedily afterwards. Wisdom Group was not only granted the long-term exclusive right of organizing the “Chinese Dragon Boat Competition” and “Dragon Boat World Cup”, with about 8 events throughout the year; but also entered into an exclusive co-operation agreement to organize 10 check-points Marathon in 2014-2018. The Company was also granted the long-term exclusive business development right on mass public sport events and competitions by 13 provinces and municipalities.

Moving into 2015, the Company has upgrading in terms of both types and quantity of sport events and competitions in compare to 2014. In respect of running competitions, the number of Marathon events organized by Wisdom Group increased from 2 in Hangzhou and Guangzhou respectively, to 5-6 events. The “Four Season Run” was also enhanced to an annual competition with 10 check-points. In the meantime, the Company launched inter-province league of mass public sport events and competitions. “City Walk” was kicked off in April, which involved 10 provinces with 35 cities. Furthermore, Wisdom Group would organize CBL basketball leagues in 16 points throughout the whole country of China and established the “Football Federation for Chinese Youth” with the Ministry of Education, organizing football competitions.

In our view, enormous sport events and competitions gave the chance for Wisdom Group to build up core competitiveness and support the mid-to-long term growth of the Group. Currently, the weight of revenue from the segment of Wisdom Events has significantly increased from the previous level of around 10%, to more than 30%, with contribution to profit reaching 40%. Moreover, the segment is with 60% of the gross profit margin, which is higher than the segment of Wisdom Program & Branding. Looking forward, Wisdom Events would achieve an annualized growth of more than 50%, with contribution to revenue moving up to higher than 50%.

Sports event business will contribute more



Source: Company reports, Phillip Securities (HK) Research

Developing upstream and downstream business extension and moving towards a market leader of sport culture

Currently, Wisdom Group’s business development focus lies on the enormous number of sport events and competitions. In long term, on the basis of organizing sport competitions, the Company would further connect the upstream and downstream business, establishing a comprehensive business chain covering various aspects of sport event organization, social sport events and sport training and etc.. In other words, the Company would establish four business systems of “Sports+” operation, services, marketing and internet, aiming to move

towards as the market leader of sport cultural events organizers in the domestic Chinese market.

Recently, the Company has entered into a strategical co-operation agreement with eight companies including Xtep, aiming to establish the business platform for running competitions in the Chinese market. Among this, Wisdom Group and Xtep collaborated to operate a sport competition organizer and this is an important part of the “Sports+” strategy. Entering into innovative sportswear business can help Wisdom Group seize more client groups, and generate synergy effect on sports competition organization and branding services.

What’s worth to note is the Company has already launched the operation mode of “Sports+ entertainment”. The Company has started an operation with Hunan Economic TV Channel (eTV) in the areas of sports entertainment programmes and sports programmes on new media. The eTV has a wide range of successful experience on producing entertainment programmes and enjoys a high loyalty of viewers. Their creative programmes, for example “Kuai Le Da Ben Ying” and “Tian Tian Xiang Shang”, are very popular among the variety shows in China. They have rich experience on programme production. Such co-operation aimed at making full use of the strength of both parties, adding the elements of entertainment into Wisdom Group’s sport events such as “Four Season Run”, so as to enhance the popularity of the events. The Company also aimed at making full use of the new media to establish copyright as well as exchange platform of sport entertainment programmes.

Catalyst

More supportive policies;
Better-than-expected profit.

Risk

Worse-than-expected progress on organizing sports competitions;
Change of broadcast right with CCTV;
Downside risk from advertising business.

Financials

Periodicity:	2013	2014	2015F	2016F
Valuation Ratios				
Price Earnings	19.35	19.35	17.02	13.85
Price to Book	4.94	4.41	3.90	3.42
Dividend Yield	2.72%	2.84%	2.94%	3.61%
Per share data(CNY)				
EPS Adjusted	0.17	0.17	0.19	0.24
Book Value Per Share	0.67	0.75	0.85	0.97
Dividends Per Share	0.09	0.09	0.10	0.12
Growth & Margin				
Revenue growth	24.60%	15.84%	19.06%	26.52%
Gross profit growth	58.06%	9.12%	15.19%	25.11%
Net profit growth	75.76%	20.08%	12.48%	22.84%
Gross Margin	49.38%	46.51%	45.00%	44.50%
Operating Margin	44.36%	44.30%	42.28%	41.20%
Net Profit Margin	33.34%	34.56%	32.65%	31.70%
Dividend Payout Ratio %	64.60%	53.80%	50.00%	50.00%
Key ratios				
Return on Assets	29.38%	21.93%	22.05%	23.82%
Return on Equity	34.22%	24.50%	24.48%	26.46%
Liability ratio	11.19%	9.82%	10.00%	10.00%
Effective Tax Rate	25.61%	25.00%	25.00%	25.00%
Income Statement(CNY: mn)				
Revenue	694	804	958	1,212
- Cost of Goods Sold	-351	-430	-527	-672
Gross Income	343	374	431	539
- Selling, General & Admin Expenses	62	76	89	108
Operating Income	308	356	405	499
Pretax Income	311	371	417	512
- Income Tax Expense	-80	-93	-104	-128
Income Before XO Items	232	278	313	384
Net Profit	232	278	313	384

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 4 Aug 2015)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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