

# CUTC (600358.CH)

## Promising Business Portfolio Restructuring Initiated

China | Tourism | Company Initiation

8 March 2016

### • Company Profile

Founded in Nanjing in 1998, China United Travel Co., Ltd. (CUTC) was listed on the Shanghai Stock Exchange in September 2000. The Company had identified the main business of hot spring and leisure travel in 2006. By phasing out some non-hot spring assets, it is presently mainly engaged in hot spring resorts and high-end clubs, and forms two core brands, that is, "Easpring" and "Club China Chic & Resorts". Tangshan Easpring Hot Spring Resort run by the Company is a domestically renowned hot spring resort and leisure scenic spot.

The profitability of the Company's main businesses is poor. Worse still, in recent years, the growth of hot spring business is gradually plagued by no room for growth. Also, affected by the policy of restricting consumption by public funds, the business of high-end clubs is also subject to immense pressure. Losses were registered in 4 out of the past 13 fiscal years. The Company recorded the largest loss of RMB166 million due to reorganisation and provision of impairment of creditor's rights and investment impairment in 2014. However, the Company succeeded in turning from loss to gain and achieved profits of RMB12.7 million in 2015.

### • Controlling Shareholder Changed, Business Portfolio Restructuring Initiated

In 2014, the Company completed the change of control through the sale of majority shareholders' equity and private placement. And its controlling shareholder changed from CITS Group Corporation to Lead Holding Group who held 31.4% equities in the Company. Major industries of Lead Holding Group cover diversified fields such as real estate, finance and culture media. The future development strategic positioning of CUTC is reconstructed from the original single tourism business into multi-driven businesses including culture, sports, leisure and tourism.

We believe that the Company's clear control and introduction of new management will help improve its governance structure and enhance operational efficiency, while the strategic transformation new businesses will unlock the door for its future growth.

## Investment Thesis

### Projects in Infancy, No Rating Temporarily

In terms of the sports industry, the Company won the right to develop the 13th National Winter Games of the People's Republic of China, and arranged the layout of sports industry by investing Muay Thai project, setting up industry mergers and acquisitions investment funds and investing in new sports companies like Yingbo Xunca and Show1. Currently, the China's sports industry is in its infancy, and we expect the market will expand by at least ten fold in the future ten years compared with that of 2014. In the cultural industry, the Company entered into a cooperation agreement with the performance and cultural tourism development company Scenery Culture, and invested in the virtual reality hardware and content provider Rongzhi Xunda in a bid to break into the cultural and entertainment industry.

The cultural and sports industry is constantly booming thanks to the national policy support and market focus. We are optimistic about the Company's new strategic focuses and its development prospects are worth looking forward to. However, we temporarily do not rate the Company and keep tracking and paying attention to it given that 1) the Company's assets integration is still under way, and what kind of assets the majority shareholders will inject in the future remains unclear and that 2) the Company is still actively preparing new products and developing new projects, which cannot be quickly reflected on the performance in a short term.. (Closing price as at 4 March 2016)

## NA (Initiation)

CMP: CNY 10.41

(Closing price as at 4 March 2016)

Target: N/A

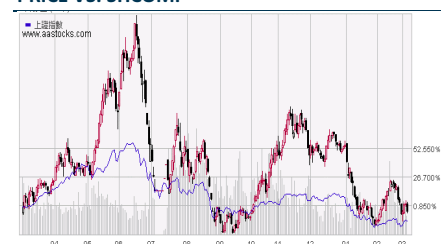
### COMPANY DATA

O/S SHARES (MN) :	432
MARKET CAP (CNY MN) :	5256
52 - WK HI/LO (CNY):	29.78/8.29

### SHARE HOLDING PATTERN, %

Lead holding (Group)	31.4
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### PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY12	FY13	FY14	FY15
Net Sales	142	110	84	83
Net Profit	-56	11	-166	13
EPS, CNY	-0.13	0.02	-0.38	0.03
P/E, x	(80.2)	428.3	(27.1)	354.1
BVPS, CNY	1.04	1.06	0.68	0.72
P/BV, x	10.0	9.8	15.4	14.4
DPS (CNY)	0.00	0.00	0.00	0.00
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%

Source: Company reports, Phillip Securities Est.

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**Peer Comparison**

Name	Ticker	Mkt Cap (HKD)	Best P/B	Best P/E:2FY	Best P/E:1FY	Best P/E:2FY	Best Curr EV/Best	P/B	ROA LF	ROE	Divd Yld	OPM LF	GM LF	PM LF	ARD Ref Research	RO Exp T12M	Net Sales T12M
<b>■ CNY (5 securities)</b>																	
Average		11.01B	7.37	6.63	153.79	80.75	91.98	8.79	3.62%	6.30%	0.00%	-7.99%	31.88%	0.07%	0.00	31.99H	1.78B
CHINA UNITED TRAVEL	600358	6.26B	8.13	7.44	160.15	92.12	168.22	14.42	1.74%	4.21%	0.00%	-28.20%	85.63%	-26.14%	--	--	102.96H
CHINA SPORTS IND GRO	600158	16.19B	9.19	8.18	107.40	64.44	70.88	8.91	2.36%	5.81%	--	-9.60%	22.60%	28.13%	--	--	899.04H
LEIDIAN OPTOELECTRON	300162	7.50B	6.35	6.27	98.43	72.31	104.46	6.17	1.88%	2.23%	0.00%	0.78%	35.02%	0.17%	--	31.99H	466.80H
TOPEAK HOLDINGS GROU	300005	9.66B	5.80	4.66	25.72	24.00	24.15	6.26	12.83%	21.50%	--	1.38%	14.35%	1.78%	--	--	3.28B
LANDER SPORTS DEVELO	000958	15.45B	--	--	377.25	190.90	--	8.18	-0.69%	-2.24%	--	-4.32%	1.81%	-3.58%	--	--	4.13B
<b>■ HKD (4 securities)</b>																	
Average		5.52B	2.37	2.12	19.41	15.80	11.78	2.76	7.73%	15.72%	1.28%	29.85%	57.70%	11.96%	12.23H	39.53H	1.13B
COURGATE INTERNATIONAL	6899	2.91B	2.44	1.97	14.79	10.28	11.70	2.63	12.38%	14.60%	2.06%	17.68%	54.16%	19.24%	12.23H	49.62H	743.80H
HONG HANG OCEAN PARK	2255	7.16B	1.51	1.45	25.47	22.43	11.62	1.68	2.31%	7.72%	0.00%	33.64%	43.99%	12.54%	--	0.00	1.95B
TIAN GE INTERACTIVE H	1980	6.17B	2.07	1.99	20.77	18.32	12.06	2.44	-6.92%	--	0.00%	26.00%	84.79%	-15.53%	--	108.30H	871.20H
WISDOM SPORTS GROUP	1661	5.82B	3.48	3.06	16.61	12.16	11.75	4.28	23.15%	24.84%	3.06%	42.08%	47.87%	31.99%	--	0.00	974.75H
<b>■ USD (3 securities)</b>																	
Average		14.39B	1.28	1.27	76.02	57.96	15.98	1.22	-20.41%	3.56%	1.88%	2.02%	63.86%	-1.12%	0.00	300.98H	2.70B
WILSON LTD	WIX	6.09B	--	--	--	--	22.86	--	-38.33%	--	0.00%	-17.88%	83.10%	-19.89%	--	601.96H	1.58B
SPEEDWAY MOTORSPORT	TRX	6.07B	1.04	1.00	19.09	16.49	7.38	1.00	-2.49%	3.56%	3.16%	12.01%	44.63%	5.93%	--	0.00	3.82B

Source: Bloomberg, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15
<b>Valuation Ratios</b>					
P/E (X), adj.	(71.3)	(80.2)	428.3	(27.1)	354.1
P/B (X)	8.9	10.0	9.8	15.4	14.4
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Per share data (RMB)</b>					
EPS, (Basic)	-0.15	-0.13	0.02	-0.38	0.03
EPS, (Diluted)	-0.15	-0.13	0.02	-0.38	0.03
DPS	0.00	0.00	0.00	0.00	0.00
BVPS	1.17	1.04	1.06	0.68	0.72
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-5.2%	-16.0%	-22.8%	-23.9%	-0.4%
EBIT	NA	123.1%	135.5%	57.4%	-63.2%
Net Income, adj.	-37.2%	-11.1%	-118.7%	-1680.0%	-107.7%
<b>Margins</b>					
Gross margin	74.6%	83.1%	82.0%	82.0%	86.0%
EBIT margin	-7.7%	-20.4%	-62.1%	-128.4%	-47.5%
Net Profit Margin	-37.2%	-39.4%	9.5%	-198.2%	15.2%
<b>Key Ratios</b>					
ROE	-11.6%	-11.8%	2.3%	-44.2%	4.2%
<b>Income Statement (RMB mn)</b>					
Revenue	170	142	110	84	83
Gross profit	127	118	90	69	72
EBIT	-13	-29	-68	-108	-40
Profit before tax	-55	-63	37	-165	33
Tax	6	-7	26	0	20
Profit for the period	-62	-56	11	-166	13
Minority interests	1	0	0	0	0
Total capital share	432	432	432	432	432
<b>Net profit</b>	<b>-63</b>	<b>-56</b>	<b>11</b>	<b>-166</b>	<b>13</b>

Source: PSR

	FY11	FY12	FY13	FY14	FY15
<b>Balance sheet</b>					
<b>Total Assets</b>	1105	1160	1054	731	732
Cash & cash equivalent	168	32	135	39	63
Total Liabilities	573	709	592	435	417
Non-controlling interest	28	3	3	3	3
Total Equity	532	451	462	296	315
<b>Shareholder Equity</b>	<b>504</b>	<b>448</b>	<b>459</b>	<b>293</b>	<b>312</b>

Source: PSR

(Financial figures as at 4 March 2016)

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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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