

Poly Culture (3636.HK)

Recovery of the Auction Business

China | Multi-media | Company Updates

24 August 2016

2016H1 Profit expected to grow by 60%-80%

Poly Culture recently made a positive announcement and estimated that as of the end of June, the company is expected to see a 60% to 80% YoY increase in net profit in 2016H1. As the net profit recorded for 2015H1 was approximately RMB 71 million and the one for 2014H1 was RMB 123 million, the profit for 2016H1 is estimated to be between RMB 100 million to RMB 130 million, close to that in 2014H1. This significant increase is mainly attributable to the fact that the settlement progress of artworks auction business is on the turn compared to the same period of the previous year. Affected by the settlement progress, the company's performance in 2015 presented a from-down-to-up trend, with the EPS for the first and latter halves of the year being RMB 0.29 and RMB 0.68, respectively. Fluctuations were also seen in gross profit margin because of the changes in business structure. For the first and latter halves of the year, it was 33.8% and 41.4%, respectively.

Recovery of the Auction Business

One of the company's major businesses, auction, is seeing recovery in recent days. Total sales on the 2016 Poly spring auction achieved good results, with the sales on Poly spring auction in Beijing and Hong Kong reaching RMB 2.85 billion and RMB 1.27 billion, respectively. Further increase was also seen in the company's share in the domestic market. Fu Baoshi's 'God of Cloud and Great Lord of Fate', among them, set a new record with a winning bid of RMB 230 million, showing a strong demand on the high-end market. We believe that this recovery in the auction, with its high gross profits, will help enhance the company's performance and profitability.

Active Promotion of New Businesses

On the basis of the three major culture & media businesses, the company is working actively to explore and develop new business models in such service sectors as education, finance and tourism, which is worth noting in the future.

As for art education, the company established Beijing Poly Music Art in 2015 and officially launched the Poly Music Education Project with a strategic cooperation with Central Conservatory of Music. Its first school has started the student enrolment work. Poly Music Education Project represents the first attempt of the company to combine culture with education, and for the next step, the company plans to expand such integrative development to performance art, visual art, artwork appreciation and practice to consolidate and establish a unified brand of "Poly Culture and Art Academy", aiming to become the most influential comprehensive art education platform in China.

As for cultural finance, the company's artworks financial services business will officially begin operating shortly. In 2015, Poly Culture's subsidiary in Hong Kong was granted the Money Lenders Licence. Meanwhile, in order to facilitate the company to leap forward in cultural financing, the company is duly studying the issue of establishing Poly Cultural Industry Fund, and intending to collaborate with relative professional institutes to bring in capital from the society, absorb art industry resources, and carry out project investment as well as entrepreneur mergers and acquisitions cross various cultural areas.

Apart from the aforesaid, riding on its own brand advantages, the company will actively explore the development of innovation and integration of culture industry into tourism and other industries. We believe that these active efforts to integrate supporting industries on the basis of its brand advantages could create new business models and stimulate business profit growth points in the future.

Investment Thesis

For the latest financial estimate, we accordingly gave the target price to HK\$23.5, respectively 1.3/1.2x P/B for 2016/2017. "Accumulate" rating.

Accumulate (Maintain)

CMP HKD: 19.84

(Closing price as at 22 Aug., 2016)

TARGET HKD: 23.50 (+18%)

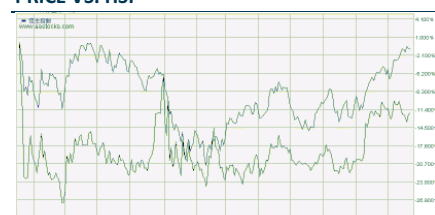
COMPANY DATA

O/S SHARES (MN) :	246
MARKET CAP (CNY MN) :	1766
52 - WK HI/LO (CNY):	21.3/ 16.26

SHARE HOLDING PATTERN, %

Poly group	84
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	2,243	2,505	2,787	3,245
Net Profit	251	238	289	336
EPS, CNY	1.09	0.97	1.18	1.37
P/E, x	17.1	20.4	16.9	14.6
BVPS, CNY	14.97	14.85	15.92	16.73
P/BV, x	1.2	1.3	1.3	1.2
DPS (CNY)	0.23	0.26	0.15	1.15
Div. Yield (%)	1.2%	1.3%	0.8%	5.8%

Source: Company reports, Phillip Securities Est.

Research Analyst

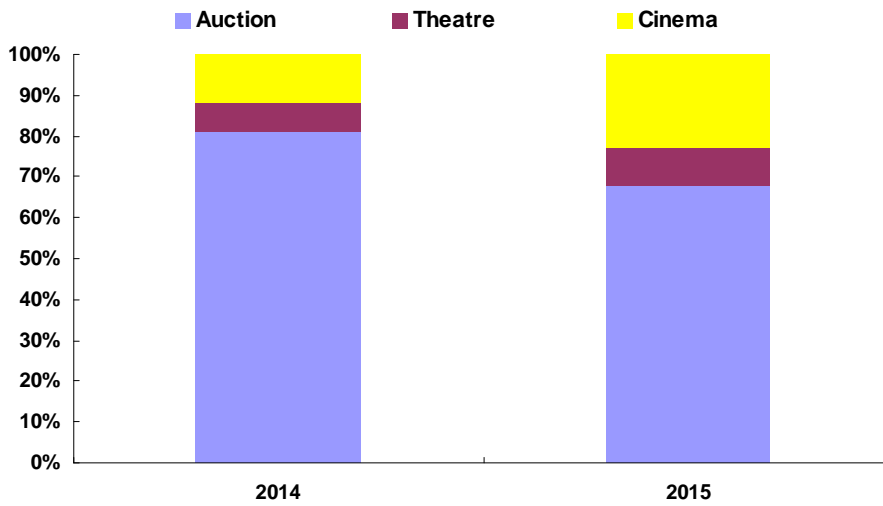
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Risk

Artwork has the qualities of luxury and may be affected by economic downturn and fight against corruption. Due to the relatively intense competition of domestic theatres and cinemas business, the popularity of the products launched is greatly affected by contingency factors.

Main profit breakdown



Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15	FY16F	FY17F
Valuation Ratios							
P/E (X), adj.	NA	NA	11.1	17.1	20.4	16.9	14.6
P/B (X)	NA	NA	2.6	1.2	1.3	1.3	1.2
Dividend Yield (%)	NA	NA	NA	1.2%	1.3%	0.8%	5.8%
Dividend payout ratio (%)	NA	NA	NA	20.9%	27.3%	12.7%	84.1%
Per share data (RMB)							
EPS, reported	NA	NA	1.67	1.09	0.97	1.18	1.37
EPS, adj.	NA	NA	1.67	1.09	0.97	1.18	1.37
DPS(HKD)	NA	NA	NA	0.23	0.26	0.15	1.15
BVPS	NA	NA	7.01	14.97	14.85	15.92	16.73
Growth & Margins (%)							
Growth							
Revenue	44.6%	-6.2%	21.4%	12.0%	11.7%	11.3%	16.4%
EBIT	54.9%	-34.0%	13.1%	-7.6%	-19.6%	16.9%	13.5%
Net Income, adj.	54.2%	-29.7%	13.6%	-8.6%	-5.4%	21.7%	16.2%
Margins							
Gross margin	59.3%	49.2%	49.4%	44.3%	38.2%	39.8%	40.0%
EBIT margin	46.7%	32.8%	30.6%	25.3%	18.2%	19.1%	18.6%
Net Profit Margin	19.6%	14.7%	13.7%	11.2%	9.5%	10.4%	10.4%
Key Ratios							
ROE (%)	54.6%	26.2%	24.99%	10.87%	6.68%	7.65%	8.38%
Income Statement (RMB mn)							
Revenue	1,758	1,650	2,003	2,243	2,505	2,787	3,245
Gross profit	1,043	812	990	993	956	1,109	1,297
Operating profit	786	518	585	479	389	457	534
EBIT	821	542	613	566	455	532	604
Profit before tax	782	515	592	544	450	524	595
Tax	199	129	143	131	118	136	152
Profit for the period	583	386	450	413	333	388	443
Minority interests	239	144	174	162	95	99	107
Total capital share	—	—	165	232	246	246	246
Net profit	345	242	275	251	238	289	336

Source: PSR

(Financial figures as at 22 August, 2016)

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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