GLOBAL NETWORK FOR ADVANCED MANAGEMENT

Renmin University of China
School of Business

Top Investment Idea – Shanghai Wangsu Science and Technology Co.
(300017: Shenzhen)

网宿科技
ChinaNetCenter

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Table of Contents

Executive Summary

With stable profit growth over the last several years, Shanghai Wangsu Science and Technology Co. (hereafter referred to as "Wangsu" or "the Company") captured a 50% market share in a home Chinese market with high barriers to entry, secured strong partnerships to increase its strength in overseas markets, and established new investment and R&D capabilities to fuel expansion into growth areas.

These growth areas include the cloud computing market, which is expected to grow to well over USD 100B by 2020. With the Company's primary market in Content Delivery Network (CDN) services expected to grow to USD 15B over the same period, conservative predictions for Wangsu's future include continued stable growth while upside potential offers dramatic increases in the Company's value.

In light of the fact that stock prices are heavily influenced by future earnings expectations, the Company's price per earnings (P/E) value of more than twice the industry average (41.43 vs. 20.31) indicates the market expects big things from Wangsu in the coming months and years. Indeed, the greatest risk associated with investing in Wangsu is the possibility that the Company falls short of the expected growth upon which its current stock price hinges.

Through our analysis, we show that the pairing of Wangsu's strong current position with positive environmental factors indicates it will not only avoid this risk, but also successfully increase its value in the future, justifying investment. This assessment is confirmed with our discounted cash flow analysis which gives us a target price of 123 for an upside of 96% (on a current price of 63), as well as by our peer comparison based on P/E values and company revenue growth projections. Thus, we issue a BUY recommendation for Wangsu.

Company Overview

Wangsu is an USD 8.6B industry coverage leader in China's information technology services market with CNY 8.1B in total assets (3Q2016). In addition to its core Internet Data Center (IDC), CDN, acceleration, and server hosting services, Wangsu has developed growing businesses in traffic management and cloud computing. The Company has produced impression financial results in recent years with CNY 3.2B in revenues, and net profits of CNY 916M as of 3Q2016. Founded in 2000, the Company has been publicly traded on the Shenzhen Stock Exchange since 2009 and has received recognition from Forbes' magazine as both a Top 50 'Up-and-Coming' Chinese Enterprise and a member of their "Best Under a Billion" list. The CEO, Liu Chengyan, has also topped Forbes China Best CEOs list in 2015. Headquartered in Shanghai, the Company has domestic branch offices in Beijing, Guangzhou, and Shenzhen which serve major clients such as Tencent, Baidu, JD, and CCTV. In addition, Wangsu has established foreign subsidiaries in cities worldwide including an R&D facility in the United States.

Figure 1: Wangsu's Clients

Growing Control over the Chinese CDN Market

Historically, the Chinese CDN market has been dominated by two players, Wangsu and ChinaCache International Holdings Ltd ("ChinaCache"); with powerful partnerships, more competitive pricing, and advantages of scale and scope thanks to steady growth, Wangsu is poised to further its lead on ChinaCache and growing third party competitors. Wangsu's partnerships with Amazon Web Services and Akamai Technologies, Inc. ("Akamai Technologies") have allowed it to provide CDN service with consistently faster response times and higher throughput than ChinaCache, all at a lower price. This has enticed an impressive client list that covers 100% of China's telecom carrier market (China Unicom, China Mobile, and China Telecom), the world's second largest search engine (Baidu), national mobile phone leaders Huawei and ZTE, not to mention internationally recognized brands such as Dell, IBM, HP, Intel, Microsoft, and Audi. Even prior to these partnerships, Wangsu was recognized for the quality of its service, securing bids for major events including the 2008 Olympic Games, the FIFA World Cup, the Shanghai Expo, and English Premier League matches.

Financial Success Relative to Competitors in CDN Market

In its 2Q16 results, ChinaCache noted slow-down in top-line growth as well as signs of margin pressures, leading analysts to suggest this was the consequence of new CDN players are offering lower prices. Wangsu, however, seems to still be on the track to meet the 3Q2016 and FY16 forecasts. Indeed, the Company's net profit rose 84.50% in 1Q16, and 81.78% in 1H16, higher than the median of 60%-90% guided by its preannouncement. The Company also reached its 3Q16's forecast, which implies a net profit growth of 7%-73% with the mid-point of 40% broadly in line with the 2H16 net profit growth forecast of 44% YoY, which seems realistic since the Company has historically exceeded guidance by 4-5% on average, given the typical slowdown in 4Q. With its revenue, profit, and asset base all growing at rates consistently around 50% and its market share also breaking 50%, Wangsu has shown that success breeds success. Wangsu's domestic mobile traffic has seen rapid growth in scale fueled by continued growth in its customer base, a trend the Company expects to continue. By 2018, Wangsu predicts its revenue will reach CNY 10.4B, of which income from the CDN business will account for about CNY 10.1B. During this same period, the Company expects net income will increase from CNY 830M in 2015 to 3B CNY (see Figure 3) for a CAGR of about 65%, which represents a net profit growth of approximately 53%. More immediately, over 2016, Wangsu expects its market share to rise to about 59% for a year-on-year increase of 13.6% from 2015. These figures are especially promising when compared to Wangsu's top domestic competitor, ChinaCache, which has seen both market share and gross profit decline in recent years.

Figure 2: China's CDN Market Shares

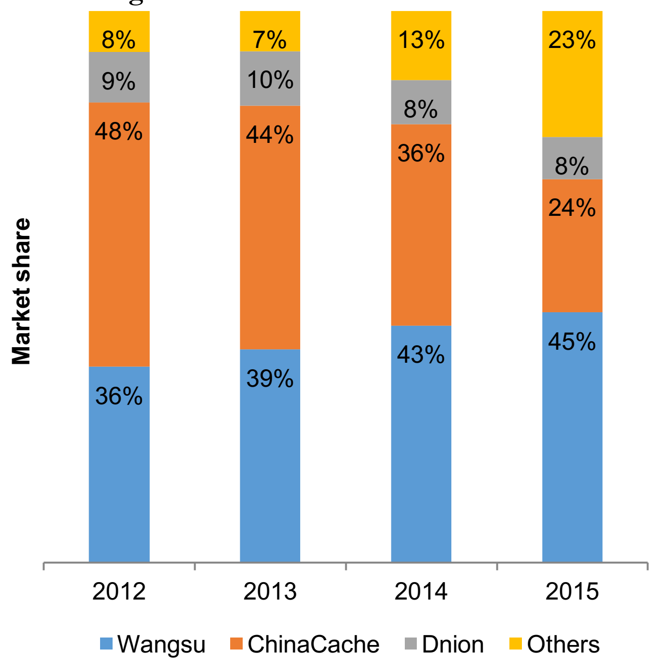
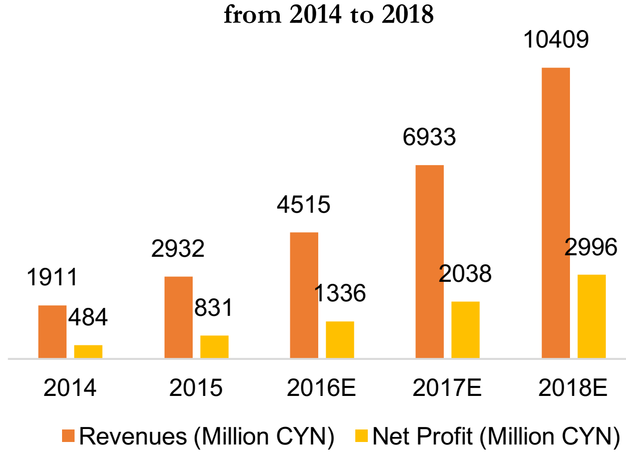


Figure 3: Wangsu's Revenues and Net Profit, from 2014 to 2018

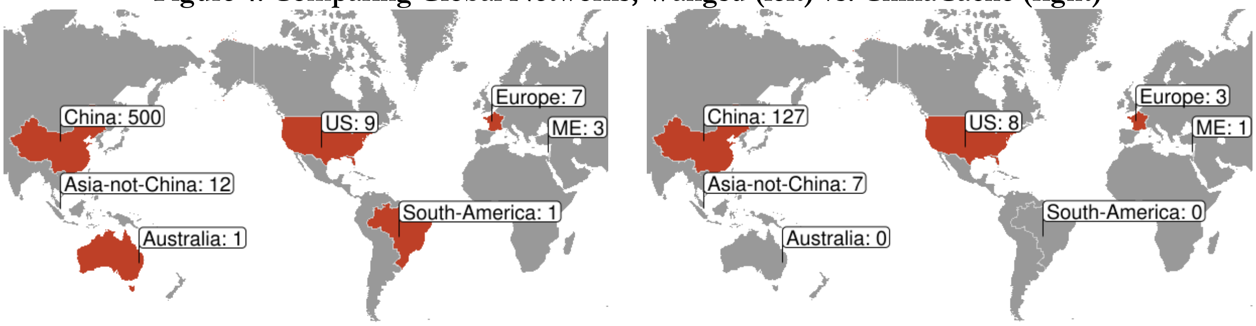


Competitive Advantages in Technology and Service

This increasing size has led to advantages of both scale and scope for Wangsu. The Company's number of points of presence (PoPs) as well as its network bandwidth far exceed its competitors, its range of products is more abundant, and it is able to provide more customized and semi-customized services to users. With its impressive profit growth, the Company has been able to construct an R&D facility in Xiamen which will help to maintain its technological advantages in the future. Further, this facility will allow Wangsu's newer projects in traffic management and cloud computing to develop more quickly, securing first mover advantages.

Moreover, Wangsu's large, established client base in CDN services will provide an easy channel for growth in these developing businesses.

Figure 4: Comparing Global Networks, Wangsu (left) vs. ChinaCache (right)



Support of the Chinese Government

The Chinese government pays great attention to the development of CDN and has issued several policies regarding CDN development and strategic planning. Introduced in 2013 by the State Council, the Broadband China Strategy and Implementation Plan serves as an official national strategy and formally acknowledges CDN as an important part of national infrastructure. The policy was reinvigorated with a 2015 Special Action from the Ministry of Industry and Information Technology; by bundling the deployment of CDN with the development of optical fiber access and deployment of 4G networks, the Special Action aimed to improve the capacity of broadband networks, an essential step in improving user experience. This more earnest effort on the part of the Chinese government to foment the deployment of CDNs directly benefited Wangsu on March 31st, when it received a CNY 28.3M subsidy from the Chinese government.

Looking to future, the government has also released a cloud computing strategy that includes an action outline for the development of large and dense data capabilities in China by 2025. In addition to indirectly speeding up industrial development of CDN in China, this government strategy plan promises a positive macro policy environment in which Wangsu can pursue technological innovation of its cloud services. This government support mitigates the risk of foreign entry into Wangsu's home market while lowering the cost of innovation needed to break into overseas markets.

Low Threat of Entry from Foreign Firms

Finally, the nature of the Chinese CDN market protects Wangsu from having to compete domestically with global market leaders like Akamai. For foreign service providers there are two common obstacles in China, both of which Wangsu has already overcome. The first is lack of infrastructure. Most foreign websites are slow or unavailable in mainland China because they lack or choose not to use data centers in China. Wangsu, however, has already heavily developed its infrastructure in China and boasts the highest number of PoPs. Even if foreign firms are able to establish the necessary infrastructure, they are likely to get tangled up in complicated restrictions set by the Chinese government to support national companies. Wangsu, on the other hand, has cultivated a positive relationship with the government and so can navigate these restrictions with ease. Thus, the odds are stacked in favor of Chinese firms within their home market, encouraging global CDN providers seeking to add China-related offerings to strike up partnerships with Chinese national firms. This situation in turn magnifies the positive impact of Wangsu's status as China's market share leader with a reputation for broader and higher quality service by giving it greater bargaining power with global suitors.

Growth Prospects

Wangsu's impressive growth prospects rely heavily on its ability to successfully expand. Should the Company encounter unforeseen obstacles that result in slower than expected growth in areas such as cloud computing, Wangsu's results may fall below projections. While this represents an important risk, the wide range of growth opportunities along with the positive indicators in these growth areas indicate that Wangsu has done well in hedging against this risk.

Exponential Growth of Internet Traffic

Internet operators are confident in traffic growth predictions, expecting an explosive 30% annual growth rate over the next three years. Predictions for global internet traffic per capita by 2020 range from 7 to 21GB, for a 100% increase in monthly traffic. With the increase in network bandwidth and mobile technology, video services in particular represent a new growth point for internet traffic. In 2015, IP video traffic accounted for 82% of all internet traffic and in the future, video traffic is anticipated to account for 70-80% of total flow. For CDN service providers like Wangsu, which are essential in providing internet data to end users, this substantial rise promises excellent future sales prospects.

Despite its huge existing population of internet users, which numbered 688 million as of December 2015, the internet penetration rate in China remains low at 50.3%. With more developed markets like the US achieving penetration rates around 89%, this means there is still incredible room for growth in the Chinese CDN industry.

This has been further confirmed by reports from the China Academy of Information and Communications Technology (CAICT) which has released figures showing that between 2010 and 2014 the world CDN market generated a CAGR of 26.3%, building to a total market value of USD 3.71B. One year later in 2015, the size of the market was calculated to be USD 4.95B, up 33.4%. In China, this growth was even more dramatic, with a CAGR of 50.5% over the same 2010-2014 period, culminating in a CNY 3.8B total market valuation. This rapid growth continued in 2015 as the market size climbed to CNY 5.6B, up 47.4% from a year earlier. This evidence vividly demonstrates that China's CDN growth is sharply ahead of the global average.

Given these results, we anticipate that the CDN industry will register a 40% CAGR in the next three years as growing demand for data traffic arising from live streaming of videos continues to support strong industry-wide growth. In China, the CAGR is expected to be even higher.

Well-Positioned for Development in Growing Overseas Markets

With the global CDN market predicted to grow by more than USD 10B over the next five years (CAGR 26%), the potential benefit for Wangsu's development of its overseas markets is clear. Moreover, with many competitors eyeing the lucrative Chinese market, Wangsu must expand geographically to remain competitive. By establishing strategic partnerships with dominant global players and investing in subsidiaries worldwide, the Company has positioned itself to seize a share in the tremendous global market growth.

Wangsu's approach to foreign markets has been a combination of competition and cooperation. The Company primarily targets Asia, Latin America, and Africa for competition and has invested a total of CNY 1.068B in its global CDN platform to compete in these areas. Most recently, this has included CNY 618M for construction of necessary facilities and increased working capital for overseas subsidiaries such as those in Ireland and India, newly established in 2016.

In the larger and more competitive US market, Wangsu has partnered with Amazon Web Services and Akamai Technologies. By cooperating with these giants, whose combined platforms dominate just under 60% of the US market, Wangsu has the potential to cover 80% of the global population. Trends in the US market indicate future consolidation and reduction of the number of CDN providers. These partnerships allow Wangsu to ride out this storm by outcompeting the remaining small players in the US market, instead of going head to head with these market leaders. They also represent an increase of sales and a way for the Company to develop a positive reputation outside China. To provide a channel into the US market for Wangsu's advanced technology, the Company will rely on Quantil, its North American subsidiary, and a smaller-scale partnership with Equinix. As a Company with a 16-year history in a 20-year-old market and a substantial resource base in China, Wangsu has the competitive edge to assert itself among the smaller players in the US market.

Cloud Computing

Private cloud services targeting corporate and government clients represents a strategic growth driver for the Company which estimates it will achieve a penetration rate of 2% of this USD 100B market in 2016. One threat to Wangsu as it moves into this new area is the change in its competitive environment. While the Chinese CDN market is relatively protected, entry into cloud computing means competing directly with giants like Amazon and Tencent. In addition to these market leaders, smaller players that have signed pre-existing agreements may also offer a challenge to Wangsu. 21Vianet, for example, has agreements with both IBM and Microsoft extending out to 2018 under which they will provide the data centers needed for these larger firms to provide their cloud distribution and management services in China. Earlier this year, Wangsu countered this threat with a cooperative agreement of its own, partnering with Shanghai Oriental Pearl Media, a large multichannel video-programming distributor in China. The distributor has a large number of content copyrights, as well as a vast client base of 7.2 million activated internet TV users, 22.5 million paid IPTV users, and 22 million mobile TV users. Through this agreement, Wangsu will contribute CDN, community cloud services, and network resources. The two companies will cooperate in the development of the internet TV business to provide integrated solutions, and it should accelerate Wangsu's development of its B2B2C community cloud business model. In developing its cloud computing business, Wangsu can also rely on its existing customer base from CDN services, a business model that has served Amazon and Akamai well.

Other Technological Growth Areas

Using its technological strengths, Wangsu has built a network security system that is ready for rapid commercialization. From internal (i.e. customer website, local DNS, etc.) to external, Wangsu can provide various services including protecting data from data changing, superlink distorting, access restraining, DNS attacks, and more. With regard to its budding traffic management business, Wangsu is leveraging its existing CDN business with provincial branches of telecom operators to expand its customer base for traffic management services. If this process is successful in developing rapid expansion, Wangsu has the potential to secure first mover advantages in the Chinese market. Both these areas have the potential to make contributions to Wangsu's 2016 earnings. For example, if Wangsu can attain even 1% of the earnings achieved by Chinese network security industry leader Venus Tech., this would generate an additional CNY 2.4M for the Company.

New Investment and Financing Arm

In the first half of 2016, Wangsu established Shanghai Wangsu Investment Management Limited which will serve to finance the Company's efforts at inorganic growth through M&A and value chain consolidation. Given industry trends of consolidation, this additional function will be critical to maintaining Wangsu's position as market leader in China. The financing arm has been provided with CNY 10M initial capital which is expected to be utilized in the Company's overseas expansion efforts as well as its ventures in cloud computing and traffic management.

Wangsu has already taken steps towards such inorganic growth by investing CNY 15M in the purchase of a 30% stake in Beijing Wangsu Kuaixian Technology. Working with Beijing Hiyou Movie Technology Company, this joint venture will provide domestic cinemas with IT-based solutions such as online movie transmission. With the establishment of a formal investment and financing practice, the Company can expect to take greater advantage of such opportunities in the future.

Incentive Plan to Spur Growth

As a show of its intent to seize these opportunities, Wangsu released a new equity based incentive plan in 2016 that ties rewards for senior management to the success of initiatives in expanding business areas. Using 2014 as the base, the Company must achieve net profit growth of at least 70%, 100%, 130%, and 160% respectively for 2016-2019 in order for employees to exercise their options. By aligning employee motivations with value-adding growth objectives, the firm is prepared to maintain the strong growth that has generated its already potent market position. Further, the Company demonstrates its high targets with these impressive growth rates.

Valuation

Wangsu has been growing at a pace of about 60% a year, and its net profits are expected to grow at a pace of 40-50% annually for at least another three to five years. This is especially interesting for a company traded at approximately 40 times forward earnings (2016E). Wangsu intends to increase its net margin from 20% in 2013 to 31% in 2017, as well as its EPS, respectively, from 0.30 to 2.77 (see Figure 5). In its Q3 results, the Company proved it is capable of achieving its target by announcing Q1-3 revenues of CYN 3.2B and a Q1-3 net income of CYN 916B. Furthermore, since the firm's entry on the stock exchange, the stock price has followed a consistent pattern of growth, as illustrated by the Figure 6.

Figure 5: Wangsu Actual and Forecasted Financial Performance (Major Indicators)

Item/Year	2014	2015	2016E	2017E	2018E
Revenues (M CNY)	1,911	2,932	4,416	6,380	8,960
Revenues Growth Rate (YoY, %)	58.57	53.43	50.64	44.47	40.44
Net Profit (M CNY)	484	831	1,284	1,878	2,638
Net Profit Growth Rate (YoY, %)	104	71.87	54.45	46.27	40.45
Gross Margin (%)	43.58	44.76	44.10	43.45	42.76
Net Margin (%)	25.3	28.4	29.6	29.4	28.8
Total Assets (M CYN)	1978	3506	8522	10698	13841
P/E (x)	123	71	44	28	20
EPS (CYN)	0.61	1.05	1.63	2.38	3.34
ROE (%)	29.57	33.07	17.43	20.9	23.46
Dividend payout ratio (%)	3.8	3.2	20.0	20.0	20.0

Discounted Cash Flow Analysis

In order to assess the value of the target price of the Company's stock, we used a discounted cash flow model (DCF) and applied the weighted average cost of capital (WACC) as the discount rate for future cash flows. The firm's cost of capital, calculated with the WACC, is 16.01%. In calculating the cost of equity, we use the capital asset pricing model (CAPM). We took a risk-free rate of 2.73%, equivalent to a 10-year Chinese Government bond, and a predicted equity beta of 0.2. We set the market risk premium at 7.68%, based on the default spread of the Chinese Government Bond. We considered in the calculation of the WACC a cost of debt equivalent to the current commercial interest rate in China of 4.85%. The EPS growth rate of the company on 1 year, 3 year and 5 year is respectively 73.33%, 97.24% and 83.49%, and we used the last one for the purpose of the present calculation. The actual EPS is estimated at 1.5, and the year to terminal growth is 10 years. With a terminal growth rate of 0% (conservative), 4% (approximately the inflation rate) and 8% (optimistic), we estimate the fair share value at CNY 109.5, CNY 123.4 and CYN 140.5. At an actual trading price of approximately CNY 63, these estimated values represent an upside of respectively 74%, 96% and 123%.

Figure 6: Wangsu's Stock Price and Trading Volume (October 2015 to 2016)

Peer Comparison

Finding comparable companies with identical or at least similar revenue drivers remains a difficult task. Indeed, Wangsu has a limited market capitalization compared to its competitors for many of whom CDN and cloud computing do not represent core businesses. Furthermore, Wangsu's closer competitors in terms of market share are private companies, limiting access to their financial information. As illustrated in Figure 7, Wangsu is relatively small among other major diversified firms, including Chinese giants. Thus, we base our comparison on the two most similar companies: ChinaCache and 21Vianet Group Inc. ("21Vianet"). Our peer comparison considers six variables: P/E, price-to-cash flow (P/CF), price-to-sales (P/S), dividends, ROI and ROE.

The Company's P/E ratio is above its closest peers as well as both its competitors and the industry average (Wangsu: 39.75, industry: 20.41, sector: 17.75). As mentioned earlier, this high P/E ratio suggests that investors are expecting higher earnings, especially relative to the rest of the industry. Next, we consider price to free cash flow since a firm's cash flow generated from operating activities is a great indicator of its ability to generate additional revenues, which represents a crucial element in stock pricing. This measure is also useful since it excludes the effects of depreciation, and provides a more accurate value of the strength and sustainability of a particular business model, since it is more difficult to manipulate cash flow. While calculating the P/CF ratio, we took the cash flow per share from the last twelve months and the average stock price of the previous 50 days. Wangsu's ratio is 0.22, very low compared to 22.80 for 21Vianet, and 323.28 for ChinaCache. The average ratio in the industry is 14.84, and in the sector, 22.35. Such a low P/CF ratio compared to similar competitors and the industry average means that Wangsu can generate ample cash flow that is not yet properly considered in the current share price.

Figure 7: Comparison with Wangsu's Main Competitors

Name	Country	Market Cap (M USD)	1YR %	EPS (TTM)	P/E (TTM)	ROE	Dividend
Wangsu Science & Technology Co Ltd (300017.SZ)	China	7,544*	4.00%	1.50	42.68	25.89	0.20
21Vianet Group Inc. (VNET.OQ)	China	780.44	-66.13%	-0.71	-8.93	-5.99	-
ChinaCache International Holdings Ltd (CCIH.OQ)	China	10,153	-53.11%	-1.92	-1.93	-46.82	-
Akamai Technologies, Inc. (AKAM)	US	9,550	-22.96%	1.82	0.90	10.49	-
Level 3 Communications (LVLT)	US	16,590	-2.60%	9.79	4.64	41.54	-
Limelight Networks Inc. (LLNW.OQ)	US	192,602	-15.21%	-0.73	-	-43.86	-
Tencent Holdings Inc. (0700.HK)	China	255,007**	42.99%	4.19	49.93	28.91	0.47
Alibaba Group Holding Ltd (BABA.N) (Ali Cloud CDN)	China	251,970	41.48%	2.80	36.41	23.60	-
Amazon.com Inc. (AMZN.N) (Amazon CloudFront)	US	390,144	44.19%	4.01	205.21	13.64	-

Private companies: Incapsula, Inc. (U.S.), CD Networks Co Ltd (South Korea), Jetstream Communications, Inc. (U.S.), CloudFare, Inc. (U.S.), Global Peopleline Telecom, Inc. (Xin Net Technology Corp.) (China), Shanghai Dnion Technology Co., Ltd.
Source: Reuters, Bloomberg Markets, Yahoo Finance
* Exchange Rate: 1 Chinese Yuan equals 0.15 USD
** Exchange Rate: 1 Hong Kong Dollar equals 0.13 USD

Looking at the P/S, we find 21Vianet has a value of 1.09, ChinaCache's is 0.59, and Wangsu's 13.54, with the industry average at 3.36. Wangsu's higher ratio means that every dollar of the Company's sales is valued more highly by investors than for its competitors. We acknowledge that this may represent the risk that Wangsu is overpriced. However, over its history Wangsu has maintained a similarly high P/S, indicating that this high ratio is not the consequence of overvaluation, but rather an idiosyncrasy of the stock itself.

Furthermore, unlike its competitors who retain the majority of their available funds and future earnings to operate and expand their business, Wangsu has a constant dividend policy which provides a constant cash flow. This also engenders loyalty from its stockholders and limits speculation on its share price, providing more certainty for investors in the face of temporary earnings fluctuations.

Also, Wangsu published an ROE of 25.89 in the past 12 months, compared to 24.70 for the industry, as well as a ROI higher than the industry in 2015 of, respectively 24.88 and 23.39. Over the last 12 months, ChinaCache and 21Vianet's ROEs were -46.83 and -7.98 respectively, while their ROIs were -41.77 and -5.99 respectively. These indicators show that the Company has great returns compared to its peers, and performs above its industry and sector average, as well as the Shenzhen Stock Market composite index (see Figure 8), adding justification for the high price-to-sales and P/E ratios seen earlier.

Putting the six values above together in context, Wangsu's high values for P/E and price-to-sales are justified by the Company's efficient use of investment capital to generate earnings (high ROE and ROI) and cash flow (low P/FC) the benefits of which it then passes on to shareholders through dividend payments.

Figure 8: Comparison Between Returns of Wangsu and the Shenzhen Stock Exchange Composite Index (October 2015 to October 2016)

Macro-Environment Outlook

World events that increase uncertainty in Western markets such as the presidential election in the US and Brexit are likely to push investors to look for look to investment alternatives in foreign markets such as China. Investors in the US in particular, may start to invest in China given the bull market they have experienced for the last seven years is expected to finally cool off. Entry into the Chinese market will be easier than ever for investors will the new link Hong Kong-Shenzhen-Shanghai stock exchange linkage. The conditions mentioned above will disproportionately support stocks like Wangsu that offer consistent growth and dividend payments and are seen as classic value stocks.

Within the context of the Shenzhen exchange, Wangsu has two additional advantages. As the stock exchange with the second highest trading volume (behind only the NYSE), Wangsu has more potential to increase its value quickly. Moreover, even as the Chinese exchanges faltered in 2015, Wangsu has stayed on track with its earnings projections through 3Q2016.

Finally, Wangsu is subject to some degree of foreign exchange risk should this cause capital flight, but as a relatively stable growth company, Wangsu will likely not suffer as much. Perhaps more importantly, risk levels appear to have settled in the time that has passed since China's last currency devaluation notice.

Final Recommendation

Wangsu possesses is reasonably valued and we issue a BUY recommendation. The firm has a strong intrinsic value and its value will continue to grow over the next years, mainly because it has secured strong partnerships and is in good position to expand into growing market such as cloud computing and network security systems.

Chongqing Zaisheng Technology Development Co., Ltd.（603601）

Zaisheng is a global and domestic leading enterprise in the research, development, production, and sales of micro fiber glass cotton for appliance air filter insulation material. The clean and energy-saving insulation industry in which it operates is favored by the Chinese government's national strategic emerging industry and air pollution control planning. In the next few years, the global market, and especially the Chinese market, will see demand in this area continue to maintain rapid growth.

For the first three quarters of 2016, Zaisheng's revenues reached CNY 230M, a 33.8% increase YoY, while their net profit hit CNY 48.53M, (up 50.6% YoY). By using funds generated in 2015 by its IPO and private placement in September 2016, the company plan on to double production capacity for filter paper and core material. Zaisheng anticipates with high certainty rapid development in the rest of 2016, particularly given market demand for air purification and energy-saving environmental protection. Further, Zaisheng intends to complete a partial acquisition of a German liquid filtration business and complete purchase of the Chongqing Paper Industry Research Institute to expand its production capabilities. Zaisheng has also cooperated with a global home appliance company to integrate their supply chain and establish products which are now officially in production.

From 2016 to 2018, net profit is expected to reach CNY 4.30B, 10.36B, and 18.48B, corresponding to EPS values of CNY 0.26, 0.59, and 1.26 (P/E values of 77, 34, and 16). These indicators provide the ultimate foundation for our BUY recommendation.

KINGSIGNAL TECHNOLOGY CO., LTD. (300252)

Kingsignal is a high-end radio frequency coaxial cable manufacturing enterprise with strong brand influence. Providing the most complete variety of coaxial cables in China, its products are widely used in mobile, microwave, radio, television, and tunnel communications as well as in other fields such as military electronics and aerospace. Kingsignal achieved revenues of CNY 985.49M as of 2016H1, up 46.27% from a year earlier. Propelled by a net profit of CNY 111.85M, up 46.03% from a year earlier, the weighted average ROE reached 12.62%.

Following leading enterprise Amphenol, Kingsignal is gradually shifting from a binary model (cable and connector) to a solar system in which they cover seven to eight different fields (cable, connector, PCB, components and others). Last year this strategy generated more than CNY $5B for Amphenol. In addition, during a recent private placement completed in October 2016, company executives invested on a grand scale, generating CNY 550M and highlighting the leadership team's confidence in the development of the company. In terms of Kingsignal's core technological advances, product applications will come from the defense industry, consumer wireless networks, industrial, aviation, and broader areas. Their underwater defense system is progressing and receives large synergistic benefits from their other developments. We expect that net profit in 2016-2018, will reach CNY 230M, 346M, and 446M (corresponding EPS CNY 1.09, 0.56, and 0.85). Considering these indicators and the underwater defense system's faster than expected implementation, we issue a BUY recommendation with CNY 48 yuan as our target on a current price of CNY 36.

Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (600196)

Fosunpharma is China's leading pharmaceutical company. It has an advanced pharmaceutical industry chain, efficient international R&D teams in Shanghai, Chongqing, Taiwan, and United states, and an innovative

Chinese medicine research and development platform. Additionally, with the Chinese government it jointly established Sinopharm, China's largest pharmaceutical and health care products distributor and the leading supply chain service provider which also features the largest pharmacy retail system in China. These factors combine for diversified innovation and enhanced R&D capabilities.

This innovation has helped Fosunpharma Group become the global leader of anti-malarial drugs with its other main products occupying leading positions in their respective market segments. Further, these areas have shown steady growth; last year, Fosunpharma prepared 19 new products and product series for sales of CNY 100M RMB.

With the rapid growth of China's economy and growing awareness of public health care, the future market for medical services, especially high-end specialist services, will grow rapidly. Fosunpharma's current selling network is China's large-scale internet medical platform, covering 1,420 hospitals, 150,000 experts, more than 82 million patients, and in 2015 a total of 200 million appointment requests.

From 2012 to 2015, revenue increased 70.06% from CNY 17.87B to CNY 30.39B, meanwhile profit increased 64.15% from CNY 5.16B to CNY 8.47B. In the past five years, the stock price has ranged from CNY 8.23 to CNY 23.35 with the peak price at CNY 38.88, with an overall trend of strong gains. Thus, we issue a BUY recommendation.

Hebei Sailhero Environmental Protection High-tech Co., Ltd. (300137)

Hebei Sailhero is the leader in high-end environmental monitoring instruments and a key high-tech enterprise under the national Torch Plan for innovation-orientation, trustworthiness, research, and environmental protection. It relies on joint research with established enterprises such as research universities for the foundation of its innovation.

The company's executives also serve in the China Environmental Protection Industry Association unit, Chinese Environmental Protection Industry Association, Specialized Committee monitoring unit in Hebei province, and the "Giant" innovation and entrepreneurial team.

Hebei Sailhero's main business features monitoring and warning technology and equipment for atmospheric conditions, water quality, drinking water acid rain pollution, as well as environmental decision-making system and operation services. Company products are sold all over the country in addition to Hong Kong, Macao, and Taiwan, with leading products claiming market share of more than 30%.

Concentrating on future competition in the field, Hebei Sailhero is using its advantages in capital markets and its M&A precedent to actively promote its work and accelerate product technology. With regard to international standards, it has made efforts to promote the integration of globalization and diversified its expansion in the industry.

From 2012 to 2015, revenue increased 226.19%, from CNY 0.42B to CNY 1.37B and profit increased 158% from CNY 9.70M to CNY 24.54M. The five-year range for the stock has been CNY 4.90 to CNY 30.59. With a current price around CNY 16, we believe the stock has a great upside and issue a BUY recommendation.