

Wonderful Sky Financial Group

Initiation of Coverage

No.1 market leader stepping up the game

Initiated with Buy rating; #1 Financial PR/IR service firm in Hong Kong

Wonderful Sky is the No.1 financial PR/IR firm in Hong Kong, in terms of IPO funds raised by its clients. Through its integrated Five-in-One service platform, the company provides: 1) Financial public relations (PR); 2) Investor relations (IR); 3) International roadshow; 4) Financial printing and 5) Capital market branding services to companies from pre-IPO to post IPO stages. Since its listing in 2012, it has maintained the No.1 position in Hong Kong IPO market with 90% market share in 10M16, up from the average 70% since 2006.

Upgrade into Seven-in-One service to boost recurring revenue

Management plans to further enrich its product offering with 1) ESG reporting, and 2) Strategy consulting services in order to enhance recurring income, boost revenue per client and attract new clients. In addition, it will launch in 2H17 an O2O Wonderful Cloud service platform that aims to facilitate communication between senior management of listed companies and global institutional investors. Figure 1 illustrates the one-stop service Wonderful Sky provides to clients, throughout all listing stages. We estimate that Wonderful Sky has cumulated a long-term client base of c300 listed companies, and 65% of total revenue in FY16 is recurring and non-IPO, up from around 50% before FY11.

Near term growth driven by IPO printing & expansion in A-share market

We forecast core net profit to grow at a CAGR of 16% during FY16-FY19e. The near term earnings growth will be driven by the high margin IPO prospectus printing business and expansion in A-share market. Wonderful Sky entered into the currently fragmented IPO prospectus printing segment. We view the company as a potential consolidator in the IPO printing market given its established dominance in IPO PR/IR services. The company has launched A-share IPO PR/IR service with China Nuclear Engineering being the first client in 2016. The company has also been actively expanding its client base among the New Third Board listed companies, which is an under-penetrated market in terms of PR and IR services.

Strong financial position & high dividend yield adds to defensive value

The company has maintained strong profitability, strong operating cash flows with very limited capex due to asset-light nature of the business. Its gross margin has been stable at c50%, net margin at 30-40% and dividend payout ratio has been kept at 60% since listing. As a result, it has cumulated HK\$ 1.1bn in net cash which has been conservatively invested in fixed income assets. Better utilization of this liquidity could potentially provide revenue upside and better risk-reward of investment.

Catalysts: Potentially strong growth in IPO prospectus printing & A-share market; launch of Wonderful Cloud in 2H17

Price target: HK\$ 2.98 (43% upside); deep valuation discount

Our PT of HK\$2.98 is derived with DCF method, assuming 14.2% cost of equity, 3% long-term growth rate. This implies 12.3x FY17 PE, which is at a deep discount to global peers. The stock is currently trading at 8.6x FY17 PE with 7% dividend yield (Figure 2).

Stock code: 1260.HK
Rating: Buy

Price target (HK\$)	2.98
Current price (21 Dec 2016, HK\$)	2.08
Upside/downside %	43%
Market cap (HK\$ m)	2,483
Market cap (US\$ m)	320
Avg daily turnover (HK\$ m)	2.0

Source: Bloomberg, AMTD estimates

Key forecasts

(HK\$ m)	FY16	FY17e	FY18e	FY19e
Net profit	240	290	311	353
yoy %	21%	21%	7%	14%
Core net profit	224	268	311	353
yoy %	13%	20%	16%	14%
Revenue	619	700	809	926
yoy %	18%	13%	15%	15%
EBITDA	278	331	383	435
Net cash	1,096	1,171	1,254	1,350
EPS	0.20	0.24	0.26	0.30
BPS	1.02	1.12	1.22	1.34
DPS	0.12	0.15	0.16	0.18

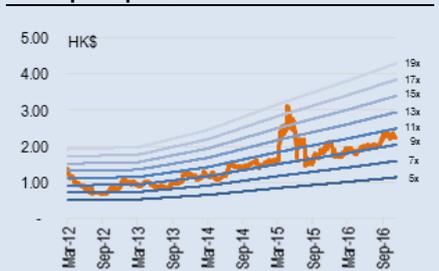
Source: Company data, AMTD estimates

Valuation

(HK\$m)	FY16	FY17e	FY18e	FY19e
P/E	10.2x	8.6x	8.0x	7.0x
P/BV	2.0x	1.9x	1.7x	1.5x
Div yield	5.8%	7.0%	7.5%	8.5%
ROE	25%	23%	22%	23%
ROA	18%	17%	17%	18%

Source: Bloomberg, AMTD estimates

Share price performance



Source: Bloomberg

Michelle Li
Analyst

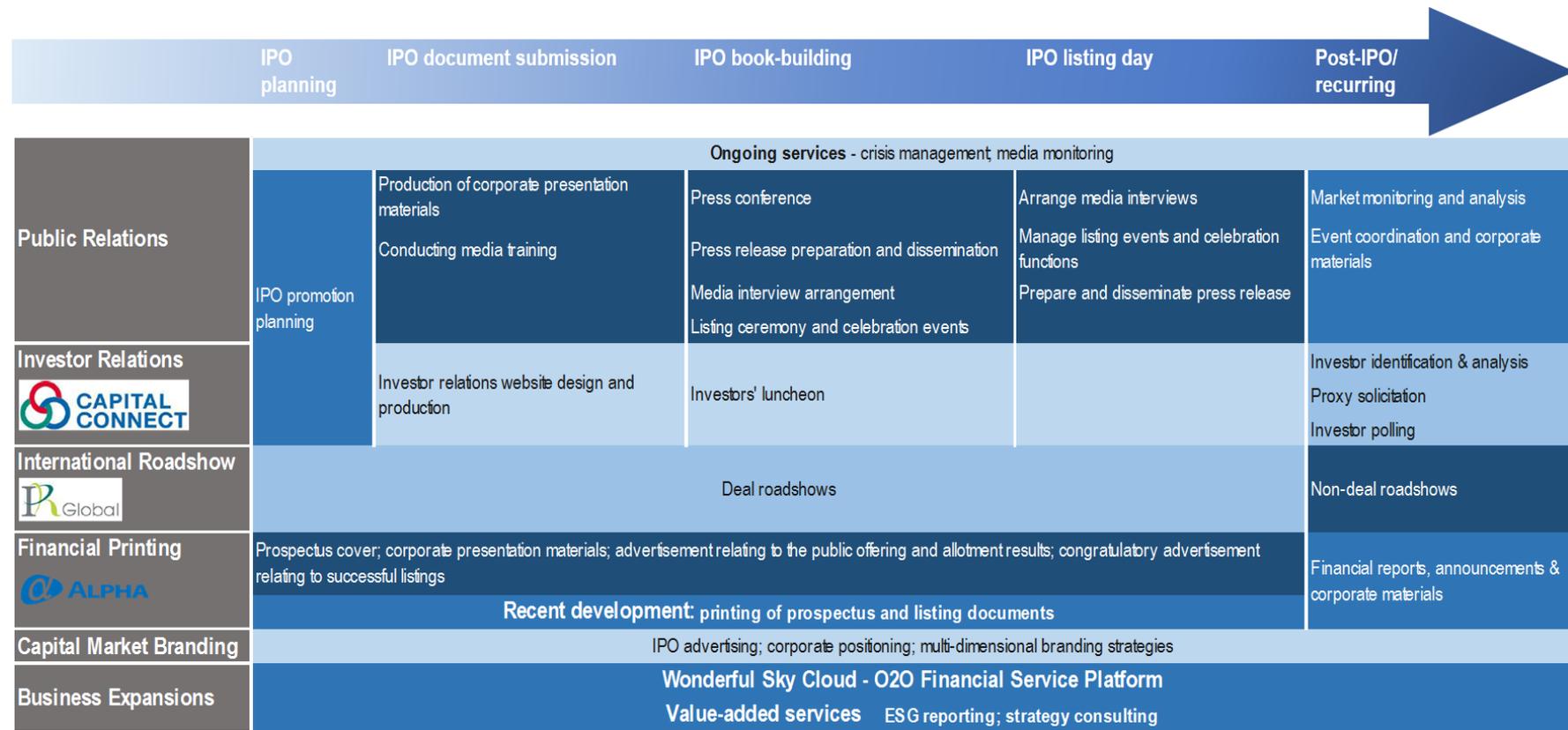
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Figure 1: A one-stop PR/IR service platform for companies throughout different listing stages



Source: Company data

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Executive summary

Initiated with Buy rating; #1 Financial PR/IR service firm in Hong Kong

Wonderful Sky is the No.1 financial PR/IR firm in Hong Kong, with 90% market share in terms of IPO fund raised by its clients in 2016. Through its integrated Five-in-One service platform, the company provides 1) Financial public relation; 2) Investor relation; 3) International roadshow; 4) Financial printing and 5) Capital market branding to companies from pre-IPO to post IPO stage.

Upgrade Five-in-One into Seven-in-One service platform

Management plans to further enhance its product offering to boost recurring income by increasing revenue per client and attract new clients. The potential new services are: 1) ESG reporting service, and 2) Strategy consulting. In addition, it will launch in 2H17 a Wonderful Cloud service that aims to facilitate communication between senior management of listed companies and global institutional investors in a more efficient way. This service could help Wonderful Sky tap into the fragmented post IPO PR/IR market in Hong Kong and China, thus boosting the company's recurring income.

Near term growth driven by IPO prospectus printing & growth in A-share market

We forecast core net profit to grow at a CAGR of 16% during FY16-FY19e. The near term earnings growth will be driven by the high margin IPO prospectus printing business and expansion in A-share market. Wonderful Sky entered into the currently fragmented IPO prospectus printing segment. We view the company as a potential consolidator in the IPO printing market given its established dominance in IPO PR/IR services. The company has launched A-share IPO PR/IR service with China Nuclear Engineering being the first client in 2016. The company has also been actively expanding its client base among the New Third Board listed companies, which is an under-penetrated market in terms of PR and IR services. By leveraging on its expertise in the Hong Kong market, with increasing cross-border investment/financing activities, growth in A-share market could further enhance Wonderful Sky's leading market position in servicing Chinese companies' offshore and onshore PR/IR needs.

Recurring income to smooth IPO business related volatility

Recurring income's contribution to revenue has increased to 65% in FY16 per our estimate, up from 50% in FY11. This was due to the growing number of long-term clients (non-IPO). In FY16, Hong Kong IPO market funds raised dropped by 31% yoy, but the company's revenue was able to grow by 18% yoy. While the industry appears to have low entry barrier, Wonderful Sky's reputation, integrated service platform and talent pool help to protect its market position and margins. In the non-IPO PR/IR segment, there is still big potential for the company to further penetrate thus boosting recurring income.

Strong financial position with high dividend yield adds to defensive value

The company has maintained a strong operating cash flow with very limited capex due to asset-light nature of the business. The gross margin has been stable at around 50% and dividend payout ratio has been kept at 60% since listing. As a result, it has cumulated HK\$ 1.1bn in cash which has been conservatively invested in fixed income assets. Better utilization of this liquidity in M&A or allocation to other asset classes could potentially provide revenue upside and better risk-reward of investment.

Catalysts: Wonderful Sky has gained momentum in IPO prospectus printing & A-share market. The growth in these two markets could help smooth the volatility related to Hong Kong IPO market. The company plans to launch a Wonderful Cloud service in 2H17 which could add a strong recurring income stream.

Risks analysis

IPO business related volatility

Wonderful Sky's revenue is substantially dependent on Hong Kong's IPO market and IPO funds raised. Global economic conditions, political environment and market liquidity could all impact Hong Kong's IPO market. The timing of IPO projects are also subject to many factors. As a result, revenue from IPO clients could fluctuate from period to period. To smooth out the IPO business related volatility, Wonderful Sky has been growing its non-IPO clients to boost recurring income. Also as 90% of IPO clients would be retained as long-term clients, the non-IPO client base will naturally grow. We estimate that recurring revenue from long-term clients contributes 65% of total revenue in FY16, up from around 40-50% before FY11.

Reliance on Hong Kong capital market

Currently, Wonderful Sky's business is mainly concentrated in Hong Kong market. Revenue contribution from markets outside of Hong Kong is small. To geographically diversify its revenue, it entered into A-share market (China onshore) and is especially looking to increase its presence in the New Third Board. It also entered into the Singapore market and served one IPO client there. We believe with the ever-growing cross-border investing/financing activities by Chinese companies, Wonderful Sky should be able to leverage on its expertise and further expand geographically. It could potentially consider M&A opportunities in order to expand the international network.

Increasing competition

The financial PR and IR industry appears to have low entry barrier due to low fixed cost. Increasing competition on pricing could pose threat to the company's revenue as well as margins. However, Wonderful Sky has maintained its No.1 market position and high margins in the past a few years. We believe this is attributable to its established reputation, integrated service platform and expertise in the industry, which would add to the clients switching costs. In addition, IPO PR/IR fees usually are only a fraction of total funds raised. Therefore, IPO clients should not be price sensitive. Service quality should be the key.

Strategy

To upgrade its integrated financial PR/IR ecosystem, Wonderful Sky will continue to expand its business by enriching its product offering and expanding its global network.

- **Consolidate the IPO prospectus printing market.** Wonderful Sky entered into the currently fragmented IPO prospectus printing segment. We see the company as a potential consolidator in the IPO printing market given its established dominance and reputation in the IPO PR/IR market. Its one-stop IPO PR service including prospectus printing could help the client significantly improve efficiency of the IPO process. The IPO prospectus printing business contains large ticket size of HK\$2-5 million per job. We think this could be the biggest growth driver in the next 2-3 years.
- **Enter into A-share market.** The company has launched A-share IPO PR/IR services with China Nuclear Engineering being the first client. It is engaged in another A-share landmark IPO deal. The company has also been actively expanding its client base among the New Third Board listed companies, which is an under-penetrated market in terms of PR and IR services. By leveraging on its expertise in the Hong Kong market, and with the opening up of China's onshore capital market, more active participation in the A-share market could further enhance Wonderful Sky's leading position in serving Chinese companies' offshore and onshore financial PR/IR needs. We expect growth in the A-share market will be the one of the biggest growth drivers in the next 2-3 years.
- **Upgrade the financial PR/IR service ecosystem.** Wonderful Sky's existing client base contains c300 listed companies, per our estimate. This number will continue to grow as IPO clients are converted into long-term clients. The expansion of non-IPO client base will further strengthen Wonderful Sky's recurring income. In addition, Wonderful Sky is looking to enrich its product offering to **increase revenue per client**. Its Five-in-One Financial PR/IR service will be extended to Seven-in-One, by adding product offering in 1) Environmental, Social and Governance (ESG) Reporting, and 2) Strategy consulting services.
- **Launch an online IR service platform – Wonderful Cloud.** Wonderful Cloud aims to seamlessly connect senior management of listed companies and global investment community. This service could potentially improve the efficiency of communications with investors and further enhance Wonderful Sky's relationship with listed companies as well as institutional investors. It could potentially help Wonderful Sky **attract new post-IPO clients** with improved PR/IR services. It could also be a new source of recurring income if an annual fee is charged. This platform is scheduled to be launched in 2H17.
- **Growth through M&A.** Wonderful Sky has been in a net cash position since its IPO in 2012. Going forward, the management plans to acquire smaller players in new media, IR service and other smaller PR service providers across different markets in order to expand its network and complement its existing services.
- **Better utilization of the HK\$1.6bn cash.** The company has allocated HK\$1.3 bn cash in bond investments. We estimate the bond investments are on average generating 3-4% yield annually with additional capital gains. While this provides recurring and stable investment income, allocation to other asset classes could potentially result in better risk-reward of the investment.

Industry outlook

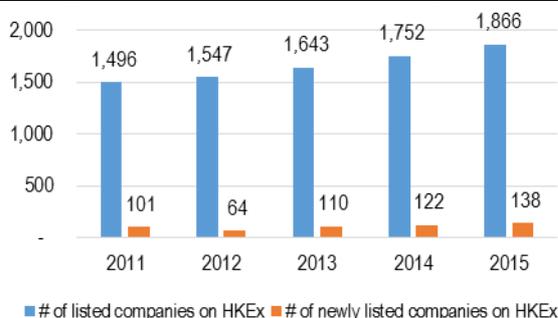
Financial public relations/investor relations specializes in the communication for a corporate client seeking listing or already listed, with its shareholders, the professional investor community, the media, and other parties.

Depending on the listing stage of the corporate clients, financial public relations/investor relations can be categorized into 1) IPO PR/IR, and 2) post-IPO PR/IR. Wonderful Sky operates in both areas, mainly serving Chinese corporates listed in Hong Kong.

A growing market

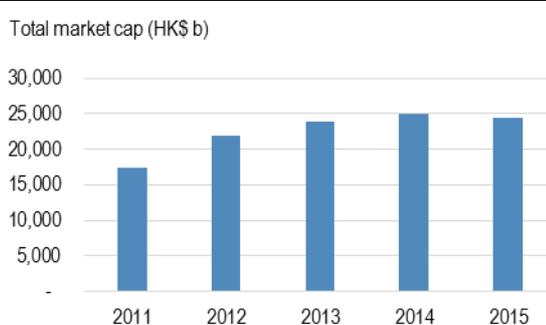
The Hong Kong financial PR/IR industry has benefited from the development of the local capital markets during 2011-2015, with a consistent growth in the number of listed companies (Figure 3 & Figure 4).

Figure 3: Increasing number of listed companies indicates growing client base for financial PR/IR industry



Source: HKEx

Figure 4: Overall market capitalization of the HKEx have been growing in the 2011-2015 period

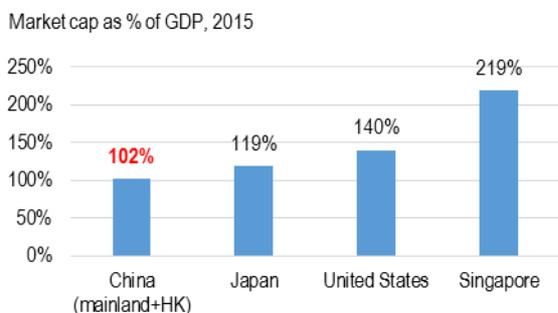


Source: HKEx

HK/Mainland China IPO market still has tremendous growth potential

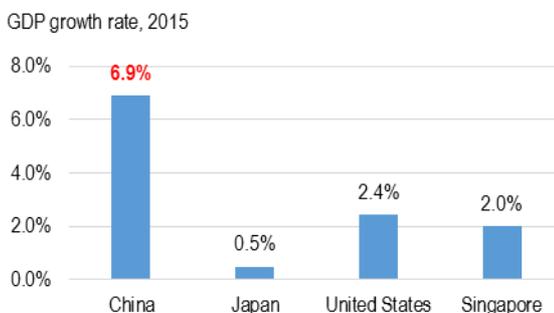
We are positive on the outlook of Hong Kong/Mainland China IPO market in the long term. When looking at the total market capitalization of listed domestic companies as % of GDP, China still has a relatively small public equity market compared with Japan, the US and Singapore (Figure 5). The need for Chinese companies to get listed will continue in the foreseeable future, especially given that the Chinese economy is developing more rapidly while a lower market-cap-to-GDP ratio (Figure 6).

Figure 5: China (mainland + HK) still has low total market capitalization to GDP ratio compared with Japan, the US and Singapore...



Source: World bank

Figure 6: ...whereas China registered the highest GDP growth rate, indicating strong potential of its capital markets



Source: World bank

Hong Kong is a favored listing location of Chinese companies

Hong Kong is the natural choice when it comes to capital market access for Chinese companies. In contrast to the high volatility that Mainland China exchanges experienced in terms of IPO funds raised due to regulatory changes, Hong Kong has enjoyed a more stable IPO environment (Figure 7). This is attributable to looser listing requirements, a better educated investor base and a well-established legal system in Hong Kong. In addition, listing in Hong Kong could give a company access to different types of FX funding as well. The fact that Hong Kong has consistently been home to more IPO funds raised than Shanghai/Shenzhen since 2013 proves that the HKEx is still favored by Chinese corporates.

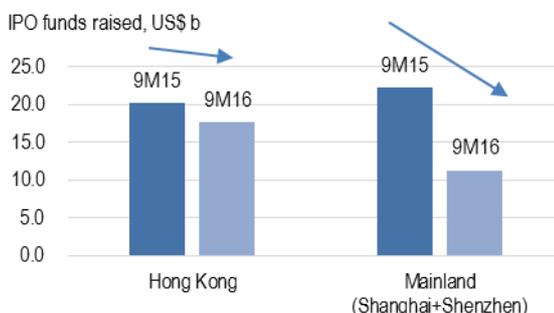
As a result of the recent economic slowdown in China, 2016 has seen a temporary drop in IPO funds raised across Hong Kong/China. Comparatively, Hong Kong has shown better resilience in the wake of the equity market short-term fluctuation too (Figure 8).

Figure 7: Hong Kong demonstrates better stability in IPO capability and has outperformed mainland China exchanges in terms of IPO funds raised since 2013



Source: HKEx, Deloitte, Shanghai Stock Exchange, Shenzhen Stock Exchange

Figure 8: Mainland China exchanges have seen a sharper drop in IPO funds raised than Hong Kong in 9M16



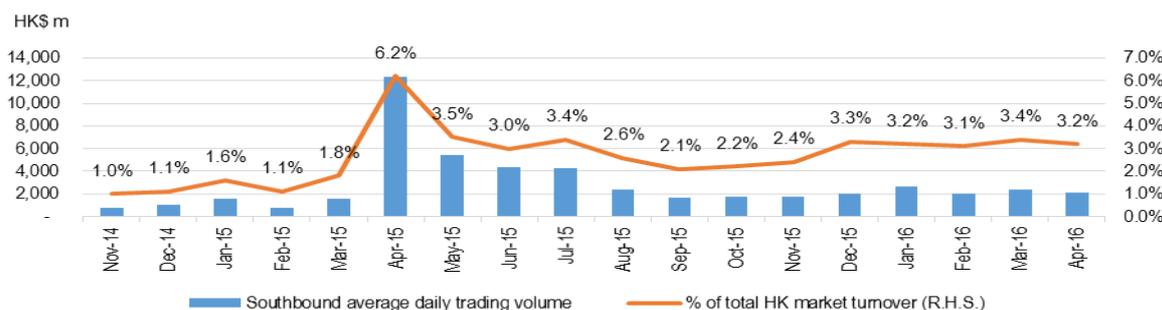
Source: HKEx, Deloitte, Shanghai Stock Exchange, Shenzhen Stock Exchange

SH/SZ Stock Connects provide diversified investor base for Hong Kong market

The stock connect programs have further strengthened Hong Kong’s competitiveness, by enhancing liquidity and broadening the investor base. The HKEx’s trading volume has been consistently improved by the southbound flow since the launch of the Shanghai-HK stock connect (Figure 9).

We believe the Shenzhen-HK Stock Connect will have a similar positive impact on Hong Kong’s stock market, especially bring in liquidity for the small/mid-cap stocks in Hong Kong. Hong Kong continues to benefit from the unique positioning as the global choice for Mainland investors and the Chinese companies’ choice for international investors.

Figure 9: Stock connect southbound flow enhances HKEx’s liquidity with broadened investor base



Source: HKEx

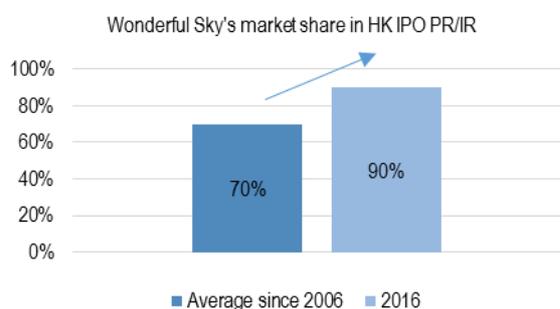
Competitive landscape of Hong Kong’s financial PR/IR market

Since its establishment in 1996, Wonderful Sky has been a market leader in both the IPO and post-IPO sub-sectors in Hong Kong.

Dominance in IPO public relations/investor relations service

For the IPO PR/IR service, Wonderful Sky has consolidated the market in recent years (Figure 10). During 10M16, Wonderful Sky was the largest financial PR/IR service provider with 90% market share in Hong Kong’s IPO deals by total funds raised by its clients. Wonderful Sky achieved an average market share of 70% in Hong Kong’s IPO PR/IR sector in the 2006-2016 period.

Figure 10: Wonderful Sky has consolidated the Hong Kong IPO PR/IR market in the past decade



Source: Company data, AMTD estimates

Figure 11: The post-IPO PR/IR sector is less concentrated, with Wonderful Sky being a market leader

Post-IPO PR/IR market - list of big players	
Wonderful Sky	Leading with c300 clients, with dominance in large-cap names in recent years
Strategic Public Relations Group	Over 100 clients
Porda Havas International	Over 100 clients
Others	scattered

Source: Company data, HKEx

Leading player in post-IPO public relations/investor relations service

In the post-IPO PR/IR category, Wonderful Sky has been able to retain the majority of its IPO clients to continue using its services after listing. We estimate that Wonderful Sky has a client base of c300 listed companies, indicating a market share of at least 15% by number of clients (there are in total c1950 companies listed on the HKEx). If calculated by value/market cap, we believe Wonderful Sky has a much bigger market share, given that it has covered the majority of HK IPO deals by funds raised since 2006, and retains over 90% of IPO clients for post-IPO PR/IR services.

The two largest competitors are Strategic Public Relations Group and Porda Havas International Finance Communications Group, who have over 100 clients respectively. The post-IPO PR/IR market is more fragmented than the IPO market, with Wonderful Sky being a clear leading player (Figure 11).

With the upgrade of its Five-in-One service into Seven-in-One packages, and with the upcoming launch of its secret weapon Wonderful Cloud, we think Wonderful Sky has the potential to further consolidate the post-IPO IR/PR market, which could further boost its recurring income.

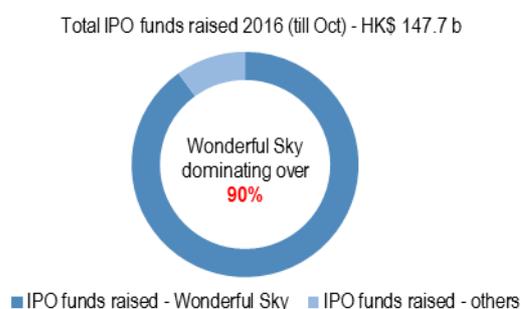
Business overview

Wonderful Sky has built an integrated Five-in-One service platform with offering of 1) financial public relations, 2) investor relations, 3) international roadshow, 4) financial printing and 5) capital market branding services. The company aims to provide one-stop financial PR/IR services for corporates that are seeking listing or are already listed, throughout pre-IPO to post-IPO stages.

Market dominance – over 90% market share in Hong Kong IPO market

Over the past 20 years, Wonderful Sky has established absolute dominance in Hong Kong's IPO PR/IR market. In terms of total funds raised, Wonderful Sky was the largest financial PR/IR service provider with 90% market share in Hong Kong's IPO deals in 10M16, Figure 12). All of the top 10 Hong Kong IPO companies by funds raised are Wonderful Sky's customers. These include Postal Savings Bank of China, China Zheshang Bank, China Merchants Securities, etc (Figure 13).

Figure 12: Wonderful Sky dominated over 90% of 2016 HK IPO market



Source: Company data, HKEx

Figure 13: Wonderful Sky covered all of the top 10 HK IPO deals by funds raised in 2016

Company name	Funds raised (HK\$ b)
Postal Savings Bank of China	576
China Zheshang Bank	150
China Merchants Securities	107
Everbright Securities	89
BOC Aviation Ltd	87
Orient Securities	84
Bank of Tianjin	77
China Development Bank Financial Leasing Company Ltd	63
China Logistics Property Holdings	36
Virscend Education Company Ltd	20

Source: Company data, HKEx

Five-in-One financial PR/IR service platform

We illustrate the detailed services Wonderful Sky provides throughout the life stages of pre-IPO and listed companies in Figure 1 at the beginning of this report. Going forward, the company plans to expand its Five-in-One service platform into Seven-in-One in order to provide more value-added services and further reinforce its market position.

1) Financial public relations service

- (i) IPO clients: corporate positioning, media relations management, listing events and celebration functions management; press release and speech writing; IPO advertising plan; design and production of corporate marketing materials; crisis management;
- (ii) Non-IPO clients: maintenance and development of public relations; events coordination; media monitoring; crisis management.

2) Investor relations service

- (i) IPO clients: corporate positioning; international roadshow support; events coordination; design and arrange for production of investor relations websites;
- (ii) Non-IPO clients: maintenance and development of public relations and investor relations; conferences and interviews; financial printing services; public relations activities for information disclosure and shareholders' general meetings; shareholder identification; investor targeting; investor polling; incidental services provided to certain parties.

3) International roadshow service

This involves the organization and coordination of international roadshow services, including project management, logistics arrangement, and roadshow desk supporting functions.

4) Financial printing service

- (i) IPO clients: designing of prospectus cover, typesetting of congratulatory advertisement, translation of documents (excluding printing, translation or typesetting services of prospectuses or listing documents);
- (ii) Non-IPO clients: printing services; designing the front and back cover and layout of financial reports; translation of documents; typesetting services.

5) Capital markets branding

This involves message and image design, developing multi-dimensional branding strategies and financial market branding actions for pre-IPO and listed companies.

Competitive strengths

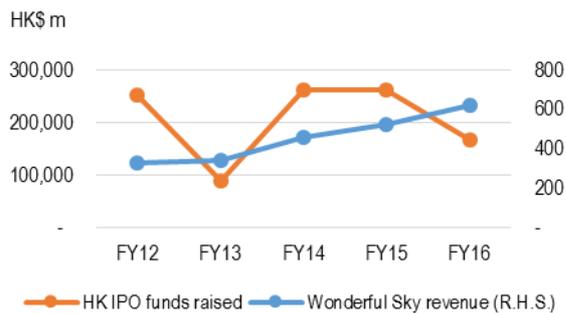
While the industry appears to have low entry barrier, Wonderful Sky was able to expand its market share in IPO PR/IR market to 90% in 2016 from 70% during 2006-2016. We also think it has great potential to consolidate the IPO prospectus printing market, and attract new clients in post-IPO PR/IR market. We believe Wonderful Sky's key strengths are:

1. **Comprehensive PR/IR services:** Wonderful Sky's one-stop financial PR/IR solution for pre-IPO and listed companies provide seamless service catering to various client needs. Synergies are generated across different business units through knowledge sharing and better client relationship maintenance. This leads to differentiated service quality and thus customer experience.
2. **Established reputation:** Wonderful Sky has a proven track record in serving PRC related companies in IPO and non-IPO projects. It has been in the industry for 20 years with successful completion of landmark deals and projects. This makes Wonderful Sky the top choice for financial PR/IR service.
3. **Experienced management and professional team:** The management team has led the company with substantial revenue and market share growth in the past 20 years. The majority of the management has extensive business experience in the financial PR sector. The company's long-established expertise and well-maintained database also better equip its professional staff to work under IPO projects' tight timeline, driving out smaller competitors.
4. **A strong financial position:** Over the years, Wonderful Sky has built a strong financial position with HK\$ 1.1bn net cash as of Sep-16. The PR/IR companies, due to competition in the industry and relatively slow payment cycle of some of the PRC companies, may experience delayed bill settlement. A strong financial position has helped Wonderful Sky to weather fluctuations of the Hong Kong capital market and invest in the business with talent sourcing and technology upgrading.
5. **Economies of scale:** Being the No.1 in Hong Kong's IPO market enables Wonderful Sky to source better pricing from the media, hotels, and travel agents etc. Advertising and lodging costs are the two key costs for PR/IR firms.

Recurring income to smooth out IPO market related volatility

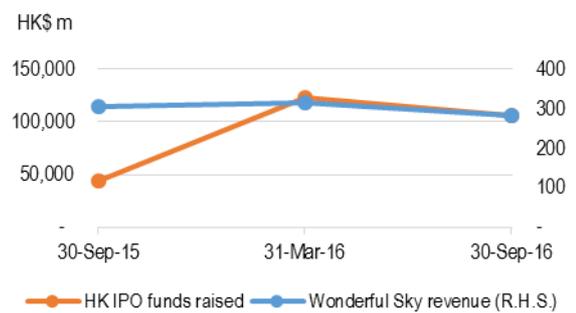
During the 6 months ended in Sep 2016, we estimate post-IPO recurring income contributes 65% of Wonderful Sky’s total revenue, up from c49% in the year ended 31 March 2012. According to the company, 90% of their IPO clients are retained as long-term customers. We estimate that Wonderful Sky has a client base of c300 listed companies. The post-IPO business helps smooth out the volatility of the IPO market and provides a stable income stream. Thus, Wonderful Sky managed to grow its total revenue despite the market turbulence in FY2012-2016 (Figure 14). Overall, we believe Wonderful Sky’s revenue should have less and less correlation with the HK IPO market, representing good downside protection (Figure 15).

Figure 14: Wonderful Sky managed to grow its total revenue despite the HK IPO market volatility



Source: Company data, HKEx

Figure 15: Revenue from 6m ended 30 Sep 2016 also showed less correlation with the HK IPO market



Source: Company data, HKEx

New growth engine

A potential market consolidator for IPO prospectus printing business

In 2015, Wonderful Sky launched new IPO prospectus printing business, under its fully-owned subsidiary Alpha Financial Press Limited. Since then, it completed 7 prospectus printing jobs (e.g. Everbright Securities, 6178.HK; CSC Financial Co Ltd, 6066.HK), and has the ambition to further capture market share with more on-going projects in the pipeline.

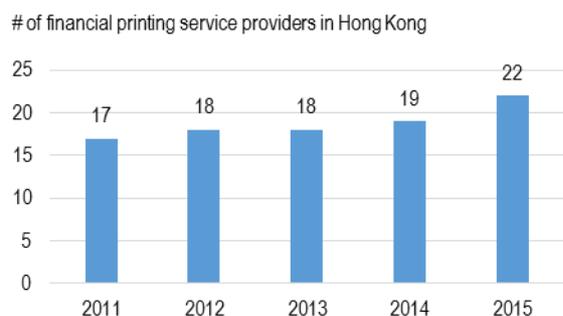
We believe there is a big chance that Wonderful Sky could consolidate the IPO prospectus printing market in Hong Kong. Its key advantages in this market are 1) Established reputation in the financial PR market among the Chinese companies; 2) Comprehensive financial PR/IR service that aims to provide high quality high efficiency IPO PR/IR service; 3) Seamless team work across different units. Given its dominance in IPO PR/IR, Wonderful Sky enjoys the advantage of client engagement at early stage of the pre-IPO process and can potentially offer its IPO prospectus printing service to its IPO client as a service package. Should Wonderful Sky be able to scale up the IPO prospectus printing business, there could be significant upside to our forecast revenue.

IPO prospectus printing is a more fragmented market

Compared to IPO PR/IR market, the Hong Kong financial printing sector is more fragmented, with many small players entering into the business in recent years (Figure 17). The market leaders as of 2015 were international players such as Toppan Printing, and other local companies like iOne, Equity Group, HM International, EDICO Financial Press, REF Financial, GenNex Financial, etc. The largest 10 providers printed the prospectus for 85% of Hong Kong's IPOs in 2015 (Figure 17).

As Wonderful Sky puts more resources to further develop the prospectus printing business, we believe it has the potential to acquire market shares and gradually consolidate this IPO-related market.

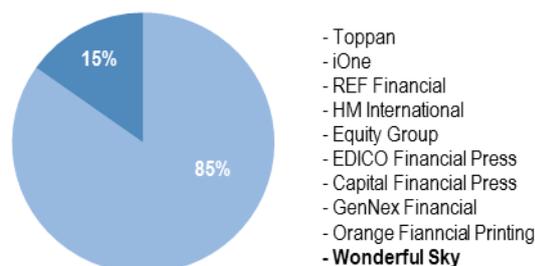
Figure 16: HK financial printing market is competitive with many small players



Source: GenNex prospectus (HKEx)

Figure 17: Top 10 providers had 85% market share in HK's IPO prospectus printing business in 2015

IPO prospectus printing - Top 10 providers had 85% mkt share in 2015



Source: GenNex prospectus , HKEx, Company data, AMTD estimates

Prospectus printing is a lucrative business

Across the industry, IPO prospectus printing is typically priced at HK\$ 2-5 mn per project, depending on the complexity of each job, with 30-40% gross margin. Traditionally Wonderful Sky's financial printing business did not include the printing of prospectus and listing documents, but only covered designing and printing prospectus cover, corporate presentation materials, financial reports, and project-related advertisements.

Wonderful Cloud to attract new clients and boost recurring income

In an effort to upgrade its post-IPO PR/IR service, Wonderful Sky plans to launch an innovative O2O financial service platform Wonderful Cloud (皓天云) in 2H17 (Figure 18). We believe Wonderful Cloud would significantly reduce manual work and streamline the everyday PR/IR communications for listed companies if executed well. With no or minimal increase in manpower, Wonderful Cloud could potentially serve considerably more listed companies for their post-IPO PR/IR needs. It could also bring additional recurring income if an annual fee is charged for access to the Wonderful Cloud platform.

Investor relation service is an underpenetrated market with low efficiency

Wonderful Cloud aims to seamlessly connect senior management of listed companies and the global investment community. Currently, only relatively large size listed companies can have the assistance from investment banks to set up meetings with their investors across the globe. Many smaller companies are struggling to market their strategies and development to target investors. On the other hand, investor relations work is time consuming with low efficiency, involving back-and-forth manual coordination and faced with the challenge of different time zones.

An internet/mobile based service

As an internet/mobile based service, Wonderful Cloud has the potential to attract all the listed Chinese companies, and global investors and better connect them in a more efficient way. This service is especially valuable for smaller companies with limited investment / IR service coverage. Wonderful Sky could charge a small annual fee to these listed companies and give them the access to a much bigger pool of investors.

Figure 18: Wonderful Cloud set to boost post-IPO client base and revenue with upgraded PR/IR service



Source: Company data

Geographical expansions

China A-share IPO market

To better diversify its revenue geographically, Wonderful Sky plans to further develop into Mainland China and overseas markets. Wonderful Sky targets to build a cross-border business platform with seamless collaboration between its Hong Kong and Mainland China working teams. This makes sense as Wonderful Sky's established relationship and expertise with H share listed companies have laid sound foundation for A+H expansion and integration. In June 2016, the company's mainland China team successfully completed the listing of China Nuclear Engineering Co., Ltd. on the Shanghai Stock Exchange.

New Third Board is an untapped market

Wonderful Sky is also developing pre-and-post-IPO business with companies seeking listing/listed on the NEEQ/New Third Board, which is still an untapped market at large. Wonderful Sky differentiates itself as the professional PR/IR service leader in a mature

capital market. We think increasing presence of institutional investors and better educated investor base will trigger stronger demand for professional IPO PR/IR service. This is where Wonderful Sky truly stands out, compared with existing Mainland China service providers.

Overseas expansion

Wonderful Sky's Singapore team completed the landmark listing of China Jinjiang Environmental Holdings Limited on the Singapore Stock Exchange in July 2016. Wonderful Sky may consider expanding its global network through M&A.

New business lines – upgrade to Seven-in-One service offering

The management plans to further enrich Wonderful Sky's product offering with two more value-added services:

- 1) **ESG reporting:** Environmental, Social and Governance (ESG) report preparation; and
- 2) **Strategy consulting:** helping corporate clients with ad-hoc consultancy projects.

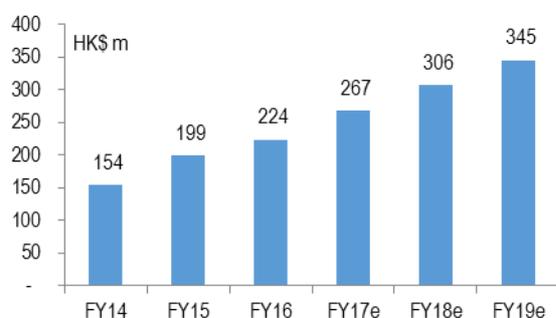
Financial forecast

We forecast core net profit to grow at a CAGR of 16% in FY16-19e. This core earnings would exclude the disposal/fair value gains of financial investments.

This will be driven by:

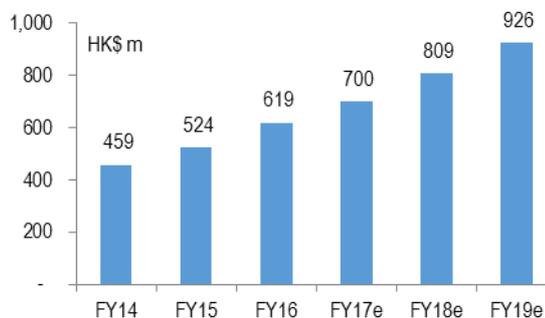
- 1) **Revenue to grow at a CAGR of 14% in FY16-FY19e.** This will be driven by a natural growth in Hong Kong's IPO market, and an increasing non-IPO client base as 90% of IPO clients will be retained as long-term clients. We also expect Wonderful Sky to gradually acquire more non-IPO clients from the market. We have not factored in the potentially growth that could be brought about from the new services including the Wonderful Could, ESG reporting service. We have not factored in any M&A related revenue boost therefore there could be upside surprise to our conservative forecast.
- 2) **Gross margin to remain high in FY16-FY19e.** We forecast overall gross margin to remain high at c50% in FY16-FY19. We expect Wonderful Sky to maintain its No. 1 position in the IPO market as its upgrade Seven-in-One service platform should help reinforce its market position.
- 3) **No revaluation gains of financial investment.** We have not factored in any fair value gain/ gain on disposal of financial investment as we normally would not view such income as recurring. However, we have included the disposal gains reported in 1HFY17 in our FY17 forecast as it is realized already. Having said that, Wonderful Sky has demonstrated its strong investment skills thus capital gains on investment in the past a couple of years. Thus future fair value gain/ gain on disposal of financial investment could pose potential upside on earnings.
- 4) **Net margin to remain high.** We forecast its net profit margin to remain high at 35-40%. We have not factored in any improvement in efficiency as we think entering new market such as IPO prospectus printing and A-share market could temporarily involve more upfront cost. However, as new businesses reach a more matured stage, synergy could be generated across business units and across different markets. This could also imply potential upside to our forecasts.
- 5) **60% Dividend payout ratio.** Our understanding is that management intend to maintain the 60% dividend payout ratio in the foreseeable future. We continue to expect the company to remain in a net cash position without any significant capex. Therefore, its cash position could continue build up. However, potential M&A activities could change this.

Figure 19: Net profit to grow at CAGR of 16% in FY16-FY19e



Source: Company data, AMTD estimates

Figure 20: Revenue to grow at CAGR of 14% in FY16-FY19e



Source: Company data, AMTD estimates

Figure 21: Wonderful Sky profit and loss

HK\$'000	FY14	FY15	FY16	FY17e	FY18e	FY19e	FY15	FY16	FY17e	FY18e	FY19e
P&L							YoY growth %				
Revenue	458,543	523,580	619,122	700,189	808,699	926,309	14%	18%	13%	15%	15%
Direct costs	(231,599)	(239,983)	(292,762)	(343,093)	(396,262)	(453,891)	4%	22%	17%	15%	15%
Gross profit	226,944	283,597	326,360	357,097	412,436	472,417	25%	15%	9%	15%	15%
Operating expenses	(56,976)	(65,329)	(90,170)	(86,123)	(99,470)	(113,936)	15%	38%	-4%	15%	15%
Other income	13,980	21,886	37,957	55,095	64,400	70,015	57%	73%	45%	17%	9%
EBITDA	185,193	242,135	277,701	331,110	382,912	434,597	31%	15%	19%	16%	13%
EBIT	183,948	240,154	274,147	326,068	377,366	428,497	31%	14%	19%	16%	14%
Finance costs		(196)	(1,999)	(2,829)	(3,143)	(3,457)		920%	42%	11%	10%
PBT	183,948	239,958	291,657	349,173	374,223	425,039	30%	22%	20%	7%	14%
Tax	(30,127)	(41,001)	(51,765)	(59,359)	(63,618)	(72,257)	36%	26%	15%	7%	14%
Net profit	153,821	198,957	239,892	289,814	310,605	352,783	29%	21%	21%	7%	14%
Attributable profit	153,821	198,957	239,892	289,814	310,605	352,783	29%	21%	21%	7%	14%
Core net profit	153,821	198,957	223,846	268,288	310,605	352,783	29%	13%	20%	16%	14%
Interim dividend	38,000	48,000	65,000				26%	35%			
Final dividend	54,000	72,000	78,600				33%	9%			
Cash dividend declared	92,000	120,000	143,600	173,888	186,363	211,670	30%	20%	21%	7%	14%
Dividend payout ratio	60%	60%	60%	60%	60%	60%					
Per share data							YoY growth %				
EPS	0.15	0.20	0.20	0.24	0.26	0.30	29%	3%	19%	7%	14%
Diluted EPS	0.15	0.20	0.20	0.24	0.26	0.30	29%	3%	20%	7%	14%
DPS	0.09	0.11	0.12	0.15	0.16	0.18	17%	12%	21%	7%	14%
BVPS	0.62	0.72	1.02	1.12	1.22	1.34	17%	41%	10%	9%	10%
Key ratios											
Gross margin	49%	54%	53%	51%	51%	51%					
EBITDA margin	40%	46%	45%	47%	47%	47%					
EBIT margin	40%	46%	44%	47%	47%	46%					
Net profit margin	34%	38%	39%	41%	38%	38%					
ROAE	27%	30%	25%	23%	22%	23%					
ROAA	23%	22%	18%	17%	17%	18%					

Source: Company data; Bloomberg, AMTD estimates

Figure 22: Wonderful Sky balance sheet

Balance Sheet, HK\$'000	FY14	FY15	FY16	FY17	FY18	FY19
Non-current assets	89,539	24,271	53,833	57,194	60,892	64,959
Property, plant and equipment	2,711	6,927	33,613	36,974	40,672	44,739
Club debenture	-	12,200	12,200	12,200	12,200	12,200
AFS investments	86,828	-	-	-	-	-
Rental deposits	-	5,144	5,126	5,126	5,126	5,126
Deposits for acquisition of property, plant and equipment	-	-	2,894	2,894	2,894	2,894
Current assets	644,598	1,020,312	1,618,017	1,730,581	1,851,126	1,988,172
Work in progress	12,231	22,883	17,613	20,255	23,293	26,787
Accrued revenue	5,848	2,814	-	-	-	-
Trade and other receivables	138,379	214,943	187,222	222,526	257,011	294,389
Amounts due from related parties	2,220	4,370	2,797	2,797	2,797	2,797
AFS investments	-	451,369	864,479	864,479	864,479	864,479
Other financial assets	-	38,100	394,410	394,410	394,410	394,410
Bank balances and cash	485,920	285,833	151,496	226,114	309,135	405,310
Total assets	734,137	1,044,583	1,671,850	1,787,776	1,912,018	2,053,131
Current liabilities	116,733	320,411	452,355	452,355	452,355	452,355
Trade and other payables	104,546	150,178	117,899	117,899	117,899	117,899
Taxation payable	12,187	10,902	20,146	20,146	20,146	20,146
Bank borrowings - due within one year	-	159,331	314,310	314,310	314,310	314,310
Non-current liability	101	262	441	441	441	441
Deferred tax liability	101	262	441	441	441	441
Total liabilities	116,834	320,673	452,796	452,796	452,796	452,796
Share capital	10,000	10,000	11,915	11,915	11,915	11,915
Reserves	607,303	713,910	1,207,139	1,323,065	1,447,307	1,588,420
Total equity	617,303	723,910	1,219,054	1,334,980	1,459,222	1,600,335
Investment & financing				FY17	FY18	FY19
Financial investment	572,748	775,302	1,410,385	1,485,003	1,568,024	1,664,199
AFS investments	86,828	451,369	864,479	864,479	864,479	864,479
Other financial assets	-	38,100	394,410	394,410	394,410	394,410
Bank balances and cash	485,920	285,833	151,496	226,114	309,135	405,310
Average invested assets	463,351	674,025	1,092,844	1,447,694	1,526,514	1,616,112
Interest income	10,427	13,296	33,774	55,095	64,400	70,015
Average yield	2.3%	2.0%	3.1%	3.8%	4.2%	4.3%
Interest income from bond	5,270	8,051	30,520			
Avg balance of bond investment	43,414	288,149	874,179			
Average yield	12.1%	2.8%	3.5%			
Key ratios						
Receivable turnover days	98	120	116	116	116	116
Payable turnover days	59	87	77	60	52	45
Gross debt	-	159,331	314,310	314,310	314,310	314,310
Net cash (incl. financial investment)	572,748	615,971	1,096,075	1,170,693	1,253,714	1,349,889
Net cash (net debt)	485,920	126,502	(162,814)	(88,196)	(5,175)	91,000

Source: Company data; Bloomberg, AMTD estimates

Figure 23: Wonderful Sky cash flow

Adjusted cash flows, HK\$'000	FY14	FY15	FY16	FY17e	FY18e	FY19e
PBT	183,948	239,958	291,657	349,173	374,223	425,039
Adjustment						
Investment income from financial investment	(8,962)	(16,371)	(34,323)	(55,095)	(64,400)	(70,015)
Gain on disposal of AFS investments	-	-	(19,509)	(25,934)	-	-
Income tax paid	(20,583)	(42,125)	(42,342)	(59,359)	(63,618)	(72,257)
Finance costs	-	196	1,999	2,829	3,143	3,457
Depreciation	1,245	1,981	3,554	5,042	5,546	6,101
Others	1,023	3,837	(6,291)	-	-	-
FFO before movement of working capital	156,671	187,476	194,745	216,656	254,895	292,326
Change in working capital	22,750	(47,922)	4,251	(37,946)	(37,523)	(40,871)
CFFO	179,421	139,554	198,996	178,710	217,371	251,454
Capex	(1,589)	(6,197)	(33,134)	(8,403)	(9,244)	(10,168)
Financial investment	14,707	(403,875)	(754,280)	-	-	-
Gain on disposal of AFS investments				25,934		
Investment income from financial investment	10,427	13,296	33,774	55,095	64,400	70,015
FOCF	202,966	(257,222)	(554,644)	251,336	272,527	311,301
Interest paid	(71,000)	(196)	(1,823)	(2,829)	(3,143)	(3,457)
Dividend	-	(102,000)	(137,530)	(173,888)	(186,363)	(211,670)
FCF	131,966	(359,418)	(693,997)	74,618	83,021	96,174
Exercise of share options	-	-	1,919	-	-	-
Proceeds from placing of shares	-	-	430,000	-	-	-
Expenses incurred for placing shares	-	-	(6,006)	-	-	-
New bank borrowings raised	-	159,331	1,069,298			
Change in cash position	131,966	(200,087)	(134,337)	74,618	83,021	96,174
Cash balance - beginning of period	353,954	485,920	285,833	151,496	226,114	309,135
Cash balance - end of period	485,920	285,833	151,496	226,114	309,135	405,310

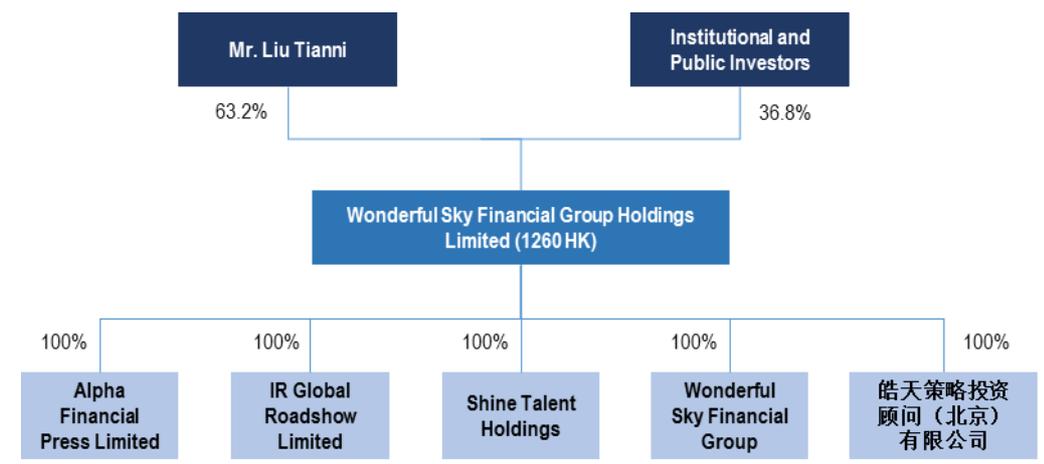
Source: Company data; Bloomberg, AMTD estimates

Appendix

Company background

Wonderful Sky commenced Financial PR/IR services in Hong Kong in 1996. Over 20 years of development, Wonderful Sky has become the largest financial PR/IR firm serving Chinese corporates in Hong Kong. Figure 25 summarizes its corporate milestones since establishment.

Figure 24: Shareholding structure



Source: Company data; Bloomberg

Figure 25: Corporate milestones

<ul style="list-style-type: none"> Commenced Financial PR First IPO project: Sichuan Expressway 	<p>The first H-shares airport company listed on the SEHK</p>	<p>The second largest IPO deal listed on the SEHK in 2005</p>	<p>Wonderful Sky Financial Group was incorporated in Hong Kong</p>	<p>The second largest Banking IPO globally to date</p>	<p>Commenced roadshow business under IR Global Roadshow Ltd.</p>	<p>First rural commercial bank listed from China</p>	<p>The first dual-listed insurance company (A+H)</p>
1996	2000	2005	2006	July 2010	2010	Dec 2010	Dec 2011
Mar 2012	Apr 2012	Dec 2012	2013	Dec 2013	2014	2015	2016
<p>Provide services to Chinese funds</p> <p>Wonderful Sky Financial Group (1260.HK) successfully listed</p>	<p>Haitong and PICC are the largest two IPOs in Hong Kong for 2012</p>		<ul style="list-style-type: none"> WSFG Beijing office started to operate A+H IPO and retainer clients Started Serving US IPO clients Launched cross-market roadshow/IR business international clients in HK and PRC 	<p>The largest IPO deal for 2013</p> <p>2013 "King of Frozen Funds"</p>	<ul style="list-style-type: none"> A+H share M&A services value-added IR services under CapitalConnect <p>2014 Largest IPO</p>	<p>Largest IPO in 2015</p>	<p>First nuclear construction A-share IPO: China Nuclear Engineering Corporation Limited</p> <p>SGX listed IPO: China Jinjiang Environment Holding Company Limited</p> <p>The largest IPO in global capital market in 2016: Postal Saving Bank of China</p>

Source: Company data

Board of directors and management team profile

Figure 26: Board of directors and management team profile

Name	Position	Age	Experience
Mr. Liu Tianni (劉天倪)	Chairman and Chief Executive Officer	52	Mr. Liu has over 15 years of experience in the financial investment sector as well as the financial public relations sector. Mr. Liu has extensive experiences in capital markets, post-listing corporate financings, and mergers and acquisitions. Currently, Mr. Liu is an executive director of Silver Grant International Industries Limited (stock code: 171) and, an independent non-executive director of Qingling Motors Company Limited (stock code: 1122) and Luoyang Glass Company Limited (stock code: 1108), shares of which are all listed on the Main Board of the Stock Exchange. In addition, Mr. Liu is the sole director of and holds 51% of the entire issued share capital in Sapphire Star Investments Limited, a substantial shareholder of the Company.
Ms. Liu Lin (劉琳)	Executive Director	41	Ms. Liu is currently the Chief Risk Officer and Member of the investment committee of Jiangxi Copper (Beijing) International Investment Company in Peoples' Republic of China. Before joining Jiangxi Copper (Beijing) International Investment Company, she had worked for PricewaterhouseCoopers. She is a specialist in the design in the risk management system for private equity investment, debt investment and stock market investment. She has participated in a number of projects in advisory work for state-owned commercial banks and state-owned policy banks, including building up its risk management system from risk identification and risk evaluation to risk mitigation according to the Basel Compliance requirement from China Banking Regulatory Commission.
Ms. Li Ling Xiu (李靈修)	Independent Non-executive Director	53	Ms. Li was the group deputy general manager of China Strategic Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 235). She has been serving as the chief executive officer and a director of Chip Lian Investments (HK) Limited since January 2001. Ms. Li has been an non-executive director of IPC Corporation Limited since May 2009 and was non-executive director of Metech International Limited (formerly known as Centillion Environment & Recycling Limited) from September 2006 to March 2013, the shares of both companies are listed on the Singapore Stock Exchange.
Ms. Lam Ling (林玲)	Independent Non-executive Director	43	Ms. Lam has more than 15 years of experience in the corporate finance industry. She worked in G.T. Investment Limited as an executive assistant from February 1999 to January 2000. During the period from January 2000 to May 2001, Ms. Lam worked at Core Pacific Yamaichi International (H.K.) Limited and was an assistant manager of its corporate and private banking department when she left. She then worked at CSC Securities (HK) Limited as an associate director in its sales/dealing department from May 2001 to March 2003. She worked as an associate director in the equity capital markets department of China Merchants Securities (HK) Company Limited from May 2003 to January 2007. She has been working as an associate director in Wag Worldsec Corporate Finance Limited since January 2007.
Ms. Lee Wing Sze Rosa (李詠思)	Independent Non-executive Director	41	Ms. Lee has almost twenty years of experience in accounting, financing and auditing. She is the vice president and company secretary of China Yurun Food Group Limited (Stock Code: 01068), a company whose shares are listed on the Main Board of the Stock Exchange. Ms. Lee had been a chief financial officer of ZZNode Holdings Company Limited (now known as China Chuanglian Education Group Limited) (Stock Code: 2371) and Superdata Software Holdings Limited (Stock Code: 8263, delisted in May 2006).

Source: Company data

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Overweight	Industry sector expected to outperform the market over the next 12 months
Neutral	Industry sector expected to perform in-line with the market over the next 12 months
Underweight	Industry sector expected to underperform the market over the next 12 months

Stock Rating

Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

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