



FUNG BUSINESS INTELLIGENCE

Asia Distribution and Retail

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Highlights

On 29 January, 2018, Tencent, together with investors including JD.com, Suning and Sunac signed strategic investment agreements with Dalian Wanda Commercial in Beijing. The investor group plans to invest an aggregate amount of approximately 34 billion yuan (US\$5.4 billion) to acquire Wanda Commercial's approximately 14% equity interest held by investors who purchased the stake upon the company's delisting from the Hong Kong Stock Exchange. Tencent's investment of 10 billion yuan will give it a 4.12% stake, while Suning and Sunac's outlay of 9.5 billion yuan respectively will give them a 3.91% stake each, and JD.com's 5 billion yuan investment will fetch a 2% stake in Wanda Commercial.

After the introduction of strategic investors, Wanda Commercial will be renamed as Wanda Commercial Management Group. Wanda Commercial Management aims to sell off its existing for-sale properties in the next one to two years. Going forward, it will stop engaging in property development and will transform into a company solely focused on commercial management. The relevant parties will strive to take the company public as soon as possible.

Comments and implications

This strategic investment represents one of the world's largest single strategic investments between Internet companies and brick-and-mortar commercial giants.

According to Wanda, Wanda Commercial Management Group will utilize the online resources owned by Tencent, Suning, and JD.com, and its own offline commercial assets to carry out various collaborations, jointly building a “new consumption” model in China that will integrate both online and offline services. The company aims to provide Chinese consumers with a more convenient shopping experience, and generate a win-win situation for both brick-and-mortar businesses and Internet companies.

Fung Business Intelligence believes the cooperation between these leading companies would be a significant move in China's online and offline (O2O) development. Wanda first forayed into e-commerce by launching its Feifan app in 2015, but it has been plagued by problems because of its weak functionality and unpleasant user experience. E-commerce remains a small part of Wanda's business. It would be a positive move into e-commerce business for Wanda by leveraging the huge customer base of Tencent, Suning and JD.com. According to Wanda, Tencent will pursue a strategic cooperation with Wanda Group's Internet Technology Group. Meanwhile, Wanda Group will have primary responsibility for the online-offline integration.

We think the investment in Wanda will allow Tencent and JD.com to strengthen their competitiveness in offline retail, in order to better compete with Alibaba. Alibaba has made intensive offline investments in recent years, particularly in 2016 and 2017 – the company invested in Suning Commerce in 2015 and Sanjiang Shopping Club in 2016, privatized Intime Retail Group in 2017, and invested in Bailian Group, Lianhua Supermarket and Sun Art Retail in 2017. Wanda Commercial Properties is one of the largest commercial property businesses in China. The investments into Wanda will put Tencent and JD.com in a better position among other Internet giants that have been investing much into offline retail and sought synergy between online and offline shopping. Tencent and JD.com will cooperate with Wanda in terms of e-commerce operation, customer data analysis, mobile payment, consumer finance, warehousing and logistics, as well as cloud computing services.

Box 1:

Tencent's efforts in deepening online and offline cooperation

Tencent has stepped up efforts to expand its offline presence following all the strategic offline investments made by Alibaba in recent years. On 15 December, 2017, Tencent announced to acquire a 5% stake in Yonghui Superstores for about 4.22 billion yuan (US\$639 million) to build a more holistic online and offline operation. On 23 January, 2018, Tencent, together with Yonghui Superstores, signed a letter of intent with Carrefour to invest in Carrefour China.

Tencent is strong in social media and mobile payment. We believe the unique strength of Tencent is the data and information generated from its 980 million users. This allows the company to better understand and predict users' shopping behaviour. Tencent's foray into physical retail is an attempt to further integrate into users' daily lives via offline retailing, as well as generate more opportunities for its payment system.

Additionally, the new investment is set to accelerate Wanda's growth and help the company to achieve its goal of building 1,000 Wanda Plazas in China. Previously, Alibaba has announced to tap the shopping mall sector by opening a new shopping mall "More Mall" with a gross floor area of 40,000 sqm in Hangzhou in April 2018. Wanda should keep a close watch on this as it will compete directly with Wanda in the shopping mall sector.

Interestingly, it is worth noting about the participation of Suning in this investment. Suning is a close partner of Alibaba – Alibaba holds a 19.99% stake in Suning. Suning said that the investment into Wanda will provide tremendous opportunities for the company to roll out its retail strategy – Wanda will provide commercial property space for Suning and facilitate the opening of its offline stores for home electronics, baby and maternity products, as well as supermarkets. Moreover, Suning will also cooperate with Wanda in terms of customer data, financial services, warehousing and logistics, and sourcing. In return, Wanda can secure a stable source of rental income from Suning.

Indeed, for Wanda, the deal also provides an important source of financing for the company's undertaking to list in Shanghai for higher valuation, after delisted from the Hong Kong Stock Exchange in September 2016.

Going forward, we believe large-scale Internet players will continue to expand offline for better online and offline integration in the "New Retail" regime. One of the key challenges for the companies is to work collaboratively with their integration partners and make the most out from the partnerships.

The press release can be accessed at the website below:

https://www.wanda-group.com/2018/latest_0129/1807.html

Company snapshots

About Wanda Commerce

- Wanda Commercial is the flagship company of Dalian Wanda Group, and is the world's biggest commercial property company. As of the end of 2017, the company held 31.51 million sqm of operating commercial property spaces.
- Wanda Commercial operated 235 Wanda Plazas in China, which received 3.19 billion visitors last year.
- Wanda Group also owns cultural tourism parks, hotels, cinemas, children's entertainment and other offline commercial businesses catering to various consumer needs.

About Tencent

- Tencent was founded in Shenzhen in 1998. Tencent was listed on the Main Board of the Hong Kong Stock Exchange in 2004.
- Tencent provides social platforms and digital content services to users. Tencent has several leading Internet platforms in China – QQ, WeChat, QQ.com, QQ Games, Qzone, and Tenpay (including WeChat Pay).
- As of 30 September, 2017, the monthly active user accounts (MAU) of QQ was 843 million. Combined MAU of Weixin and WeChat was 980 million.

About Suning Commerce

- Founded in 1990, Suning is China's leading O2O retailer with business areas covering home electronics, household appliances, maternal and infant products, fresh produce, etc. The company aims to build new models for smart retailing using logistics, finance and technology innovation, and form omni-channel retailing capabilities.
- Suning was the top retail chain operators ranked by retail sales in China in 2016 according to China Chain Store and Franchise Association.

About Sunac

- Sunac, a Hong Kong-listed company, is one of the leading real estate developers in China, focusing on high-end real estate and commercial property development.
- Sunac bought Wanda's leisure businesses and the Wanda studios in Qingdao in 2017.

About JD.com

- Founded in 2004, JD.com is China's leading B2C retailer by transaction volume, covering everything from fresh food and apparel to electronics and cosmetics. It was the first Chinese internet company to make the Fortune Global 500 List.
- JD.com has extensive businesses ranging from e-commerce, logistics, Internet finance, cloud computing and smart technology.
- JD.com is also the world's leading company in R&D in advanced technologies such as AI delivery through drones, autonomous technology and robots. It possesses the largest drone delivery system, infrastructure and capability in the world.
- JD.com's annual active customer accounts reached 266.3 million as of 30 September, 2017.

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