

Wins Finance Holdings Is Overvalued: 75% Downside

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Summary

- Stocks that go up 1,400 percent in a year without any fundamental reason tend to come crashing down.
- Wins Finance Holdings is managed by a CEO with a history of destroying shareholder value.
- At a very conservative valuation, WINS has 75 percent downside.



(Source: Thinkorswim)

Wins Finance Holdings (NASDAQ:[WINS](#)) has had a fairly good year so far, going up more than 1,400 percent. Just imagine piling into WINS at \$12 and selling at \$190 a few weeks later!

Well, at its current market cap and enterprise value \$3.7 billion and \$3.6 billion, respectively, I'm here to tell you to get out now!

Not only is WINS trading at absurd valuation metrics of every kind, the management team has a track record of shareholder destruction.

When applying the highest comparable book value multiple that the management team of WINS published in their PowerPoint pitch, downside is 75 percent! When applying the average multiple used in the PowerPoint pitch, downside is 90 percent!

Comparable valuation as published by WINS' management:

Company Name	Ticker	Market Cap	Net Book Value	P/B Ratio	P/E Ratio
<i>Hong Kong Listed Chinese Quasi-Financing Companies</i>					
Credit China Holding Ltd.	SEHK: 8207	5,406 Million	1,680 Million	3.04	32.8
China Huirong Financial Holding	SEHK: 1290	1,178 Million	1,745 Million	0.67	5.9
Hanhua Financial Holding	SEHK: 3903	6,066 Million	8,110 Million	0.75	9.0
China Success Finance Group	SEHK: 3623	1,071 Million	828 Million	1.29	52.1
China Financial Service Holding	SEHK: 0605	1,510 Million	1,884 Million	0.80	7.43
Differ Group Holding Co., Ltd.	SEHK: 8056	1,961 Million	507 Million	3.86	24.70
Far East Horizon Ltd.	SEHK: 3360	20,163 Million	14,716 Million	1.37	7.75
Simsen International Corp.	SEHK: 0993	2,157 Million	1,121 Million	1.92	171.07
Sino Credit Holding Ltd.	SEHK: 0628	782 Million	378 Million	2.07	N/A
Bohai Leasing Co., Ltd.	SZSE: 000415	24,254 Million	9,644 Million	2.51	17.90

Note: Bohai Leasing is listed Shenzhen Stock Exchange, China, Currency in RMB in mm, Except Bohai Leasing, Currency in HKD in mm
LTM as of Sep-30-2014 TEV and Market Cap are calculated using a close price as of Mar-13-2015

US Listed Credit-type Closed-end Fund

Hercules Technology Growth Capital, Inc.	HTGC	905 Million	646 Million	1.40	12.7
BlackRock Kelso Capital Corporation	BKCC	693 Million	782 Million	0.88	5.1
KCAP Financial, Inc.	KCAP	262 Million	259 Million	1.01	9.5
Saratoga Investment Corp.	SAR	84 Million	122 Million	0.69	7.0
Fifth Street Finance Corp.	FSC	1,076 Million	1,405 Million	0.76	22.4

Note: Currency in USD in mm, LTM as of Dec-31-2014 TEV and Market Cap are calculated using a close price as of Mar-13-2015

(Source: SEC filings)

Valuation using the highest book value multiple:

Valuation	
Book value	244.1
Aggressive Comparable multiple	3.9x
Market cap	942.1
S/O	20.01
Target price	\$ 47.07
Downside	-75%

Using the average book value multiple:

Valuation	
Book value	244.1
Average peer multiple	1.5x
Market cap	374.5
S/O	20.01
Target price	\$ 18.72
Downside	-90%

A Bit of History

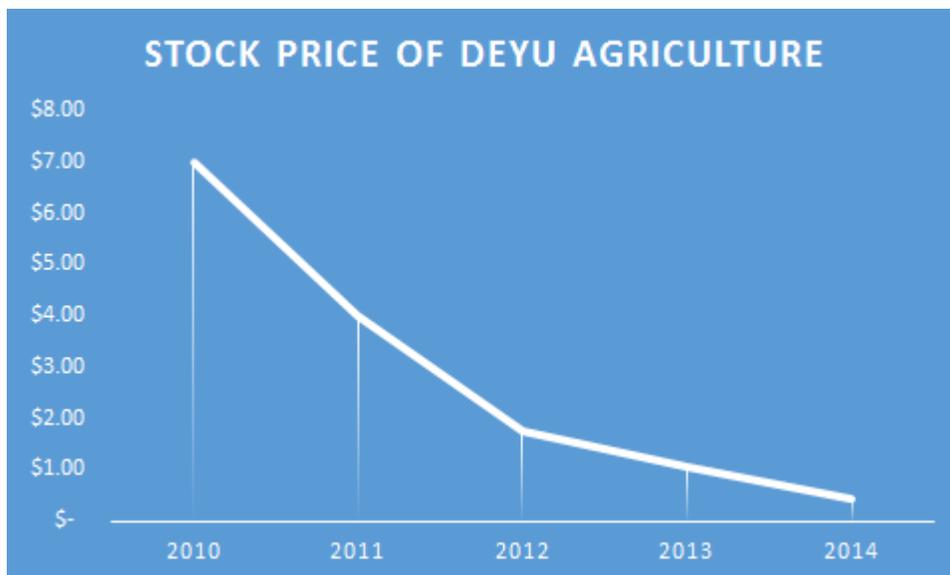
WINS was taken public through a special purpose acquisition vehicle (SPAC) called Sino Mercury Acquisition Corp. in April of 2015. [The valuation](#) of the merger was done at 0.76x book value, or a \$168 million value - 95 percent lower than the company's current enterprise value.

The SPAC was headed by a man named Jianming (Jimmy) Hao who became the CEO of WINS after the merger. Per the company's Form 4 filings, Mr. Hao, along with the rest of the management team has a large amount of stock options exercisable at \$12 per share in 3 annual installments which began last year. Needless to say, if WINS stays at these levels, the management team will be seeing some pretty good returns!

If History is an indicator, WINS will end up like Mr. Hao's previous venture, Deyu Agriculture Corp., a now defunct reverse merger.

Between 2010 and 2013, Mr. Hao served as the CEO of Deyu Agriculture Corp., a vertically integrated producer, processor, marketer and distributor of organic and other agricultural products made from corn and grains. Like many companies with Chinese operations, Deyu went public via a [reverse merger](#) with a company called Eco Building International.

Like many Chinese reverse mergers, Deyu went ker-splat! Below is my attempt at charting Deyu's stock price through its public filings:



(Source: SEC filings, author estimates)

Further digging illuminated the fact that Deyu was being promoted by a third-party stock promotion company called Lebed Biz LLC, who was being compensated \$20,000 by another firm called Wall Street Grand for a one month Deyu investor relations contract. Look at the disclosure below:

My firm Lebed Biz LLC has been compensated by a third-party Wall Street Grand LLC \$20,000 cash for a one-month DEYU investor relations contract. My firm Lebed Biz LLC was compensated by a third-party Wall Street Grand LLC \$20,000 cash for a one-month SIAF investor relations contract which has since expired. I was also compensated 100,000 shares of restricted SIAF stock by the company and I intend to sell these shares. Never invest into a stock we discuss unless you can afford to lose your entire investment. For our full disclaimer go to

Jonathan Lebed

So, what does WINS do?

Per the company's 20-F:

[O]ur company is an integrated financing solution provider with operations located primarily in Jinzhong City, Shanxi Province and Beijing, China. Our goal is to assist Chinese SMEs, which have limited access to financing, to improve their overall fund-raising capability and enable them to obtain funding for business development."

The management of WINS believes the opportunity to finance and aid small and medium-sized businesses in China presents a great growth thesis. [According](#) to the management, the arena of SME financing is a fragmented opportunity...

With over 8,500 guarantee companies, 7,000 micro-lending companies and 1,200 financing leasing companies...Wins will provide a solid platform for future strategic acquisitions at attractive prices in order to expand our capacity to provide lending solutions."

So, not only are you investing in a management team that has a history of destroying shareholder value, you are also investing in a company that will attempt to grow through inorganic means in a niche where traditional banks aren't willing to operate, given the risks associated with SMEs!

[According](#) to WINS' management, a couple of reasons why traditional banks aren't willing to lend to SME are as follows:

1. Bank loans usually require borrowers to provide a full set of credit and asset ownership records, which SMEs generally lack.
2. SMEs usually have limited operating history and credit profiles, are vulnerable to economic downturns, and have a higher percentage of defaults compared with large, state-owned companies; it is therefore difficult for banks to justify the risk when lending to SMEs.

In Conclusion

Selling, or even shorting (if you can find shares to borrow), is simply a no-brainer at WINS' current valuation.

Are you really willing to pay 15x book value, 679x net sales, or 307x net income for a business that operates in a sub-prime section of the financing industry and is being run by a management team that has a history of destroying shareholder value?

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.