

China Cinda Asset Management Co., Ltd. (1359.HK)

Unique business model with obvious competitive advantages



Phillip Securities (Hong Kong) Ltd

Bloomberg | Reuters | POEMS

Phillip Securities Research

1359.HK | 1359.HK | 1359.HK

Industry: Financial

2013-11-29

Good operating performance

Rating: Buy CP: NA TP: HK\$4.5

Company introduction

After the approval of the State Council, China Cinda Asset Management Co., Ltd was established by the MOF in Beijing on 29th June 2010. The company is the leading AMC in China, and focuses on distressed asset management and provides customized financial solutions and differentiated asset management services to the clients through the synergistic operation of the diversified business platforms. The main businesses are: distressed asset management, investment and asset management and financial services. In 2012, China Cinda introduced four strategic investors such as NSSF, UBS and so on with the total shares of 16.54%.

Summary

- China Cinda (or the Group) announced that it would make the IPO application on 28th Nov 2013, and planed to listed in H Shares on 12th Dec 2013, which is the first domestic AMC listed in Hong Kong;
- China Cinda will issue 5,318.84 million shares in H shares with the offering price range between HK\$3 and HK\$3.58. The funds will be used for increase the capital, 60% for expanding the core businesses, 20% for developing financial investment and asset management, and the rest for the Group's financial affiliates and improving the operating efficiency;
- China Cinda is the leading AMC in China, and initially aims to manage the distressed assets of China's large-sized financial institutions, mainly for state-owned banks, and therefore it has the strong governmental background;
- China Cinda is the leader of China's distressed asset management industry in terms of income, profit, business scale and cash recovered. By the end of 2012, it had acquired distressed assets with an aggregate Original Value of RMB1.11 trillion, representing a market share of 35.5% among the 4 AMCs, and it also had cumulatively recovered cash in the amount of RMB276.9 billion from the disposal of distressed assets, around 38.3% among the Big-4;
- China Cinda's main businesses include: Distressed asset management, investment and asset management and financial service, and distressed asset management is the major part, by the end of 1H2013, the proportion of the incomes of these three businesses to the Group's total income recorded 53.8%, 17.7% and 29.5%, and the EBTs of each part were 72.3%, 22.3% and 5.5% of the Group's total EBT respectively;

Basic data	
Size of offer (HK\$ m)	16,000-19,000
Placing shares (m)	5,319
Offering price (HK\$)	3.00-3.58
IPO application	11/28-12/3
Listing date	12/12
Sponsor	Bank of America Merrill Lynch, Credit Suisse, Goldman Sachs, Morgan Stanley
Cornerstone investors	China Life, Och-Ziff Asset Management, Den Norske Bank, Shen Zhen Rongtong Capital Management, Pingan Asset Management, Shandong SASAC, Oak Capital, Guangdong Yudean Group
Major shareholders	MOF, NSSF, UBS, CITIC Capital, Standard Chartered
Board Lots	1,000
Fees (HK\$)	3,616

Research Analyst

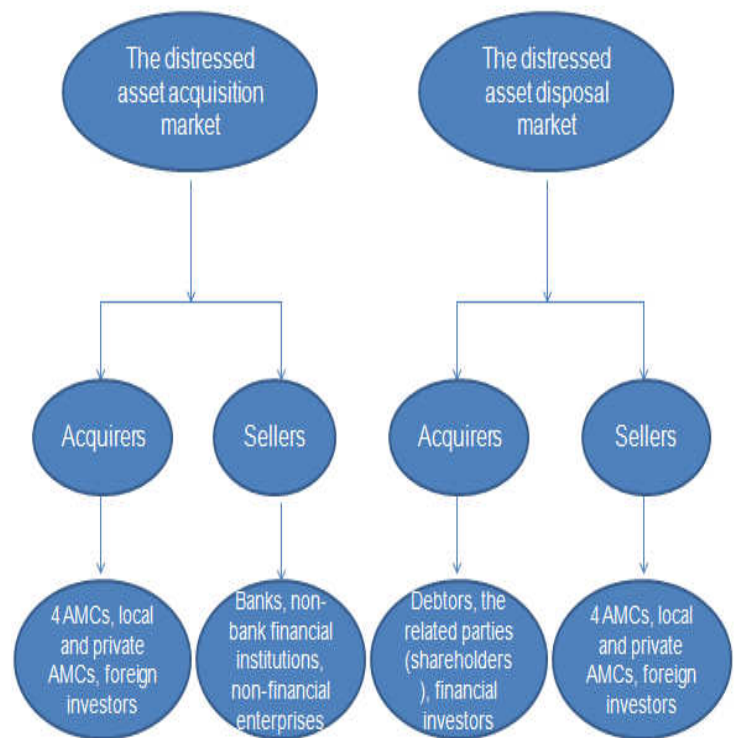
Xingyu Chen

chenxingyu@phillip.com.cn

+86 21 5169 9400 - 105

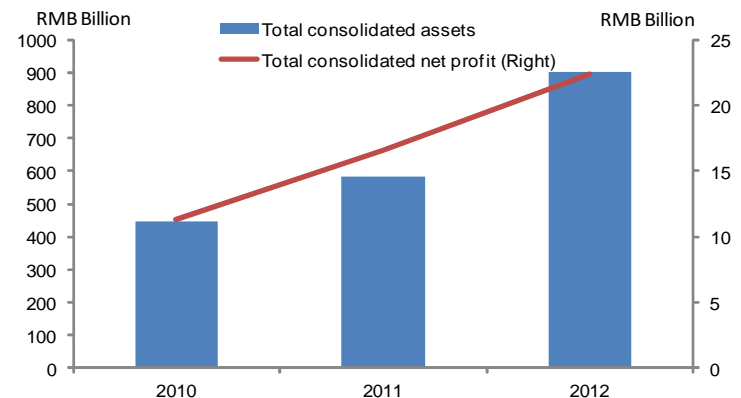
- From 2010 to 2012, the balance of the distressed debt assets, income from distressed debt assets, and investment gain from the DES Assets recorded a CAGR of 164.3%, 17.8% and 25.9% respectively;
- China Cinda's FI Distressed Assets primarily include NPLs and other distressed debt assets from banks, especially from Large-sized Commercial Banks, but the proportion dropped from 98.9% in 2010 to 30.3% in 1H2013, and the portions of Small and middle-sized Commercial Banks, and City and Rural Commercial Banks appeared increase, especially the portion of other Non-bank Financial Institutions increased significantly from 1.1% to 12.6%;
- Additionally, DES Asset Management also is one of the major businesses of China Cinda, and it gains a large amount of DES Assets primarily through D/E swap, receipt of equity in satisfaction of debt and other distressed assets related transactions, and owns diversified comprehensive income through dividend income, disposal income and restructuring income and so on;
- The Group's DES Assets are mainly unlisted shares of DES Companies, by the end of 1H, China Cinda held 182 DES Companies with total book value of RMB34.38 billion and Listed DES Assets in 67 DES Companies, with total book value of RMB9.28 billion. It is worthy of noting that the calculated value of China Cinda's top 20 Unlisted DES Asssets was RMB62.3 billion from the third-party valuation specialist, compared with acquisition costs of RMB27.7 billion, representing the huge opportunity of the profitability;
- Overall, the businesses of China Cinda increased significantly due to the rich supply in the market, and the profit maintains quite high growth rate. By the end of 1H2013, incomes of Distressed Asset Management increase strongly by 87.6% y-y to RMB10.049 billion, and the proportion up from 43.9% in 1H2012 to 53.8%. The EBT increased by 23.7% y-y approximately to RMB37.11 billion, and the proportion down to 72.3% slightly;
- We believe the performance of China Cinda will maintain stable improvement with quite high growth rate of profits, which may record the y-y growth rate of 40% approximately in net profit this year;
- It has quite large uncertainty of the performance estimation for China Cinda due to its unique and complicated operating model, which is difficult to find the benchmark, based on the current range of the offering price, equivalent to 1.1-1.3xP/B in 2013, and we think the valuation is quite reasonable considering the level of the P/Bs in current domestic listed banks and insurers. However, we have the confidence in China Cinda's future performance due to its strong shareholders' background, unique business model and obvious competitive advantages, give the 12-m target price of China Cinda to HK\$4.5, around 26% higher than its upper offering price, initially recommend Buy rating.

Figure 1. Participators in China's distressed asset management industry



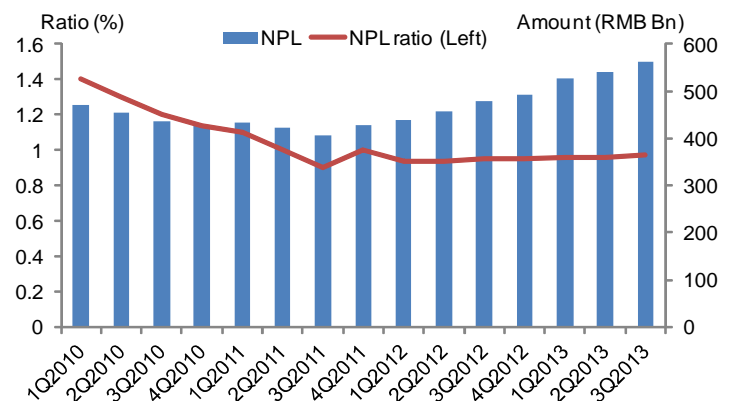
Source: PSR, Company report

Figure 2. Total assets and net profits of 4 AMCs in China



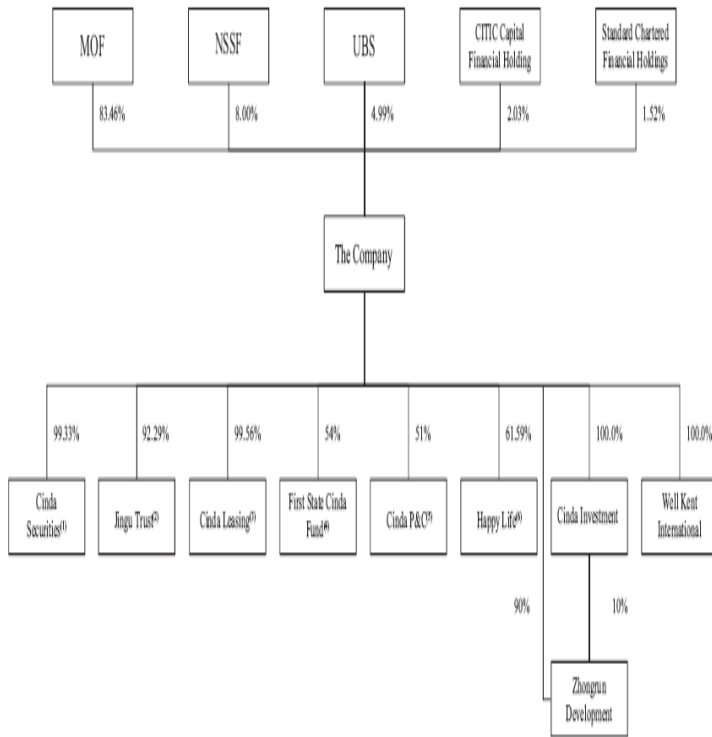
Source: PSR, Company report

Figure 3. The amount and ratio of NPLs in China's banking industry



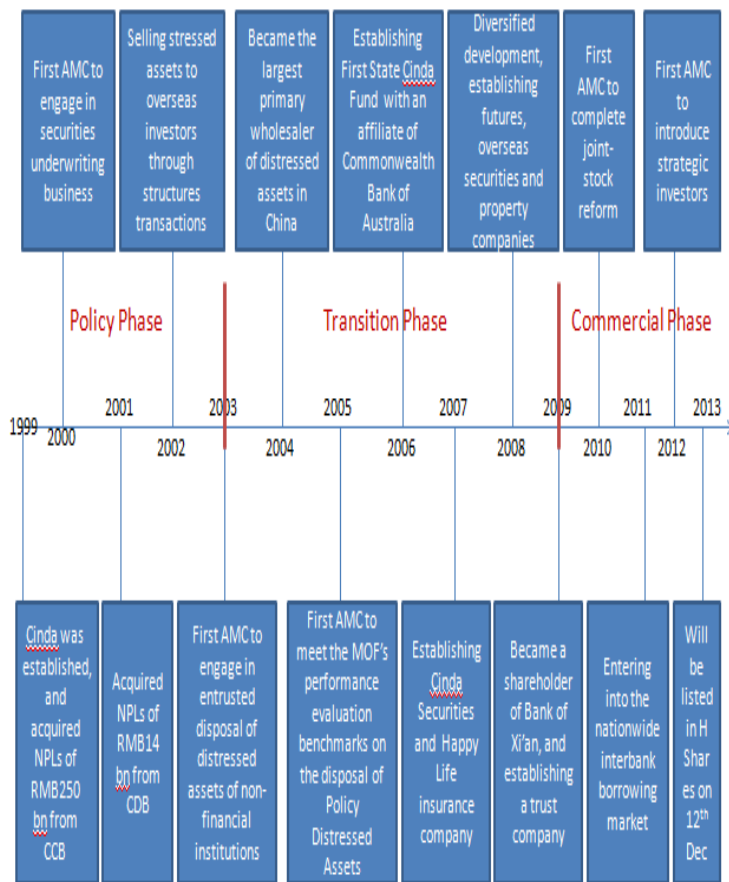
Source: PSR, Company report

Figure 4. Corporate structure of China Cinda



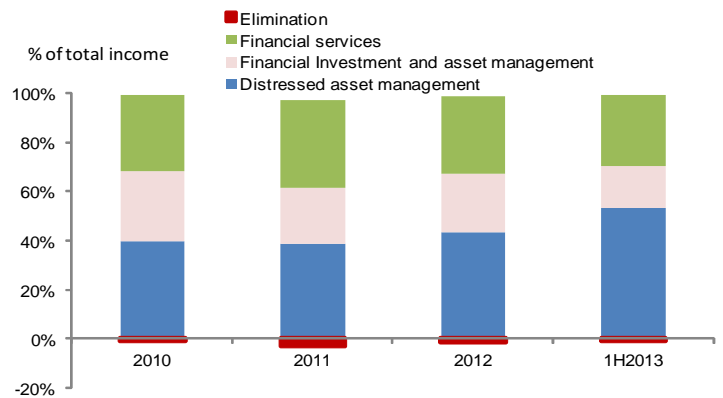
Source: Company report

Figure 5. Time line of China Cinda



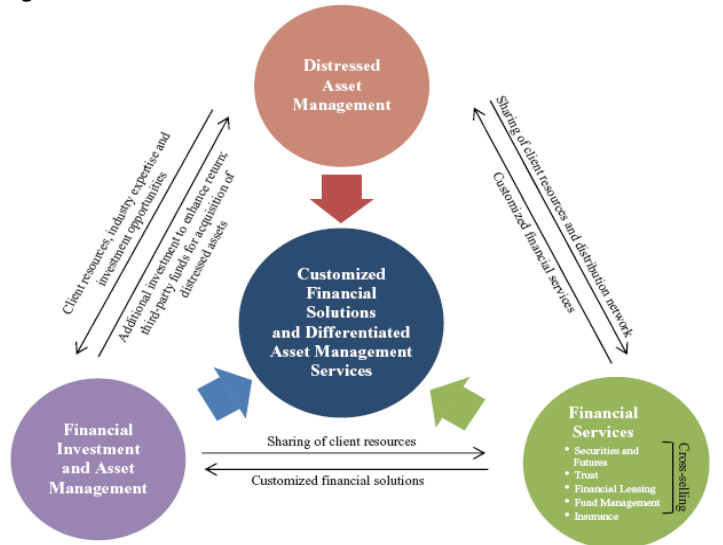
Source: PSR, Company report

Figure 6. Profit structure of China Cinda's main businesses



Source: PSR, Company report

Figure 7. Business structure of China Cinda



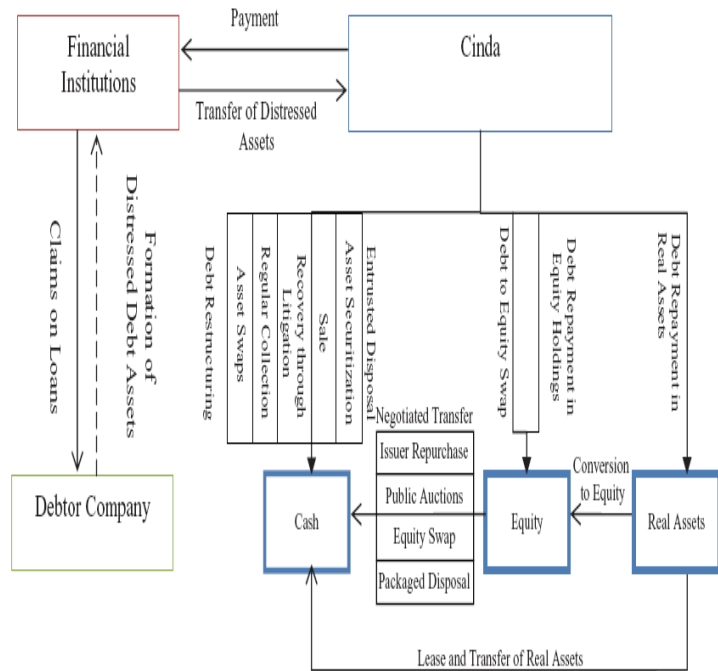
Source: Company report

Figure 8. Acquisition and management of Distressed debt assets of China Cinda

Distressed Assets by Source ⁽¹⁾	Distressed Assets by Business Model	Corresponding Consolidated Statements of Financial Position Item	Corresponding Consolidated Income Statements Item
FI Distressed Assets	Traditional Distressed Assets	Distressed debt assets designated as at fair value through profit or loss	Fair value changes on distressed debt assets
	Restructured Distressed Assets	Distressed debt assets classified as receivables	Income from distressed debt assets classified as receivables
NFE Distressed Assets	Traditional Distressed Assets	Distressed debt assets designated as at fair value through profit or loss	Fair value changes on distressed debt assets
	Restructured Distressed Assets	Distressed debt assets classified as receivables	Income from distressed debt assets classified as receivables

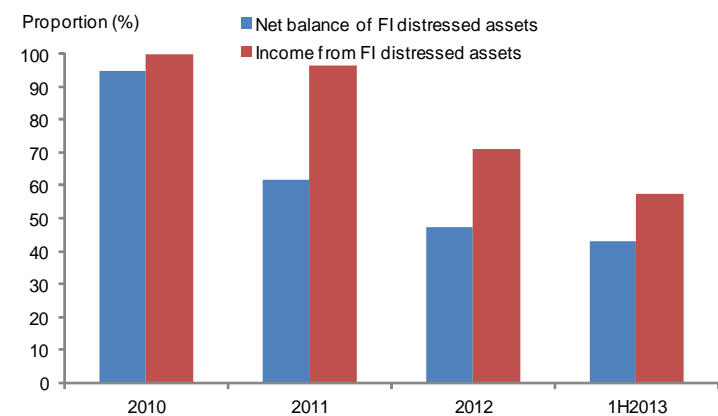
Source: Company report

Figure 9. Traditional distressed asset operating model of China Cinda



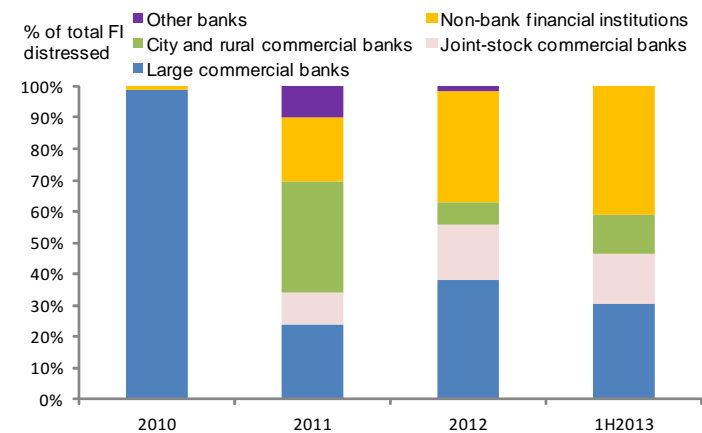
Source: Company report

Figure 10. The size and income proportion of China Cinda's distressed assets



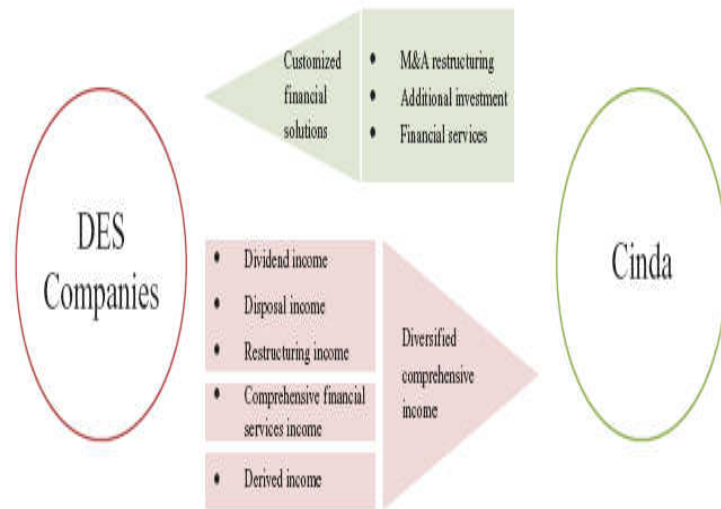
Source: PSR, Company report

Figure 11. Proportion of China Cinda's FI distressed assets



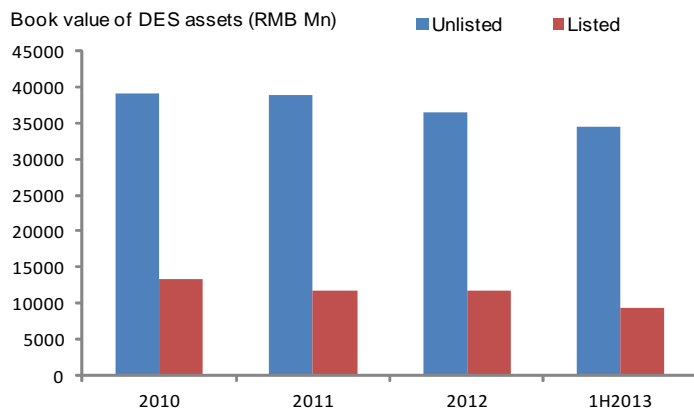
Source: PSR, Company report

Figure 12. The business model of DES assets of China Cinda



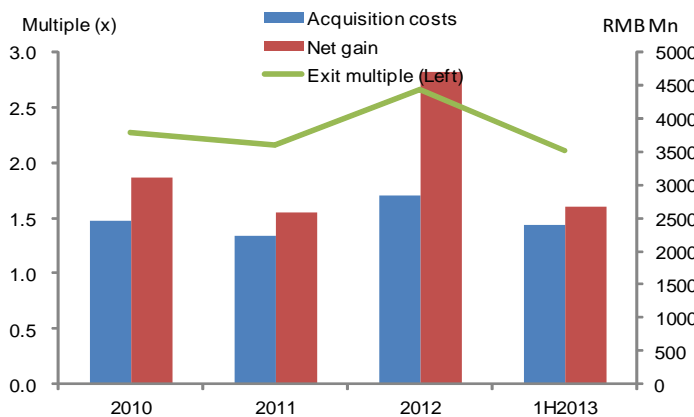
Source: Company report

Figure 13. Book value of China Cinda's DES assets



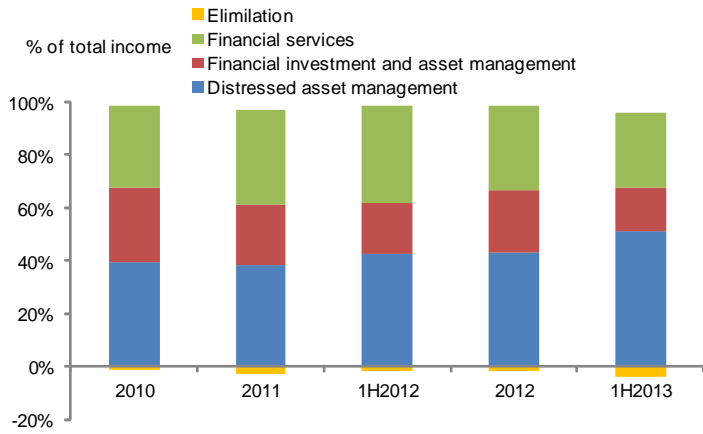
Source: PSR, Company report

Figure 14. Acquisition costs and net gains of China Cinda's DES assets



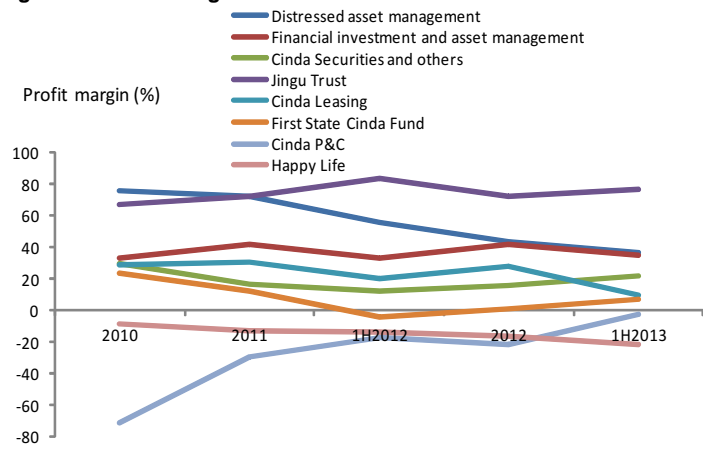
Source: PSR, Company report

Figure 15. Proportion of incomes of major businesses of China Cinda



Source: PSR, Company report

Figure 16. Profit margin of China Cinda's businesses



Source: PSR, Company report

Financial Status

Income statement (RMB Million)	2010	2011	2012	2013E
Income from distressed debt assets classified as receivables	0	181	3,518	10,611
Fair value changes on distressed debt assets	5,851	4,463	3,878	3,936
Fair value changes on other financial assets	426	41	399	450
Investment income	4,835	5,779	6,529	8,990
Net insurance premiums earned	4,584	5,698	5,325	6,509
Interest income	849	1,479	2,493	5,609
Revenue from sales of inventories	4,148	3,237	3,924	4,130
Commission and fee income	2,083	1,902	2,226	2,597
Net gains on disposal of subsidiaries and associates	12	174	2,585	2,788
Other income and other gains or losses	1,473	1,427	1,457	2,786
Total	24,260	24,382	32,335	48,406
Interest expense	(1,366)	(1,807)	(3,698)	(6,941)
Insurance cost	(4,434)	(5,337)	(4,690)	(5,877)
Employee benefit	(2,367)	(2,672)	(3,418)	(3,909)
Purchases and changes in inventories	(2,655)	(1,844)	(2,392)	(2,554)
Commission and fee expense	(697)	(804)	(901)	(959)
Business tax and surcharges	(504)	(562)	(786)	(1,255)
Depreciation and amortization expenses	(500)	(429)	(449)	(422)
Other expenses	(1,784)	(2,035)	(2,267)	(2,825)
Impairment losses on assets	(496)	(537)	(4,601)	(10,080)
Total	(14,803)	(16,027)	(23,200)	(34,822)
Changes in net assets attribute to other holders of consolidated structured entities	(6)	50	(152)	(650)
Share of results of associate	505	653	612	523
Profit before tax	9,956	9,058	9,596	13,458
Income tax expenses	(2,454)	(2,272)	(2,379)	(3,305)
Income tax rate	24.65%	25.08%	24.79%	24.56%
Profit for the period	7,503	6,786	7,217	10,152
Profit attribute to shareholders	7,399	6,763	7,306	10,302
minority interest	104	24	(89)	(150)
Financial ratio				
Net profit margin	30.50%	27.74%	22.60%	21.28%

Source: Company, PSR

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2013 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005