

8 August 2014

China Everbright Limited

(165.HK)

The restructuring plan of the parent company was approved with the great potential of the business development

HONG KONG | FINANCIAL | COMPANY RESULTS

Rating:

Buy

Maintain Buy

- As at the end of 2013, stable income of China Everbright Limited (CEL or the Group) including management fee, interest income and so on rose around 23% y-y to HK\$586 million with net profit of HK\$1,347 million, up 18% y-y, due to the large decrease of income tax, down 76% y-y to HK\$52 million. We believe CEL's profits would maintain the fast growth in 1H2014;
- Total assets maintained stable growth, total assets increased approximately by 15% to HK\$37.055 billion in 2013 compared with the end of 2012, and the BVPS was HK\$16.69, up slightly 2% mainly because of the large increase of the loans, which caused total liabilities to increase significantly by 131% y-y to HK\$5.326 billion;
- CEL continued to focus on macro asset management. As at the end of 2013, the number of managed funds grew to 16, and funds' invested projects increased largely by 45% y-y to 71, with the amount of fundraising of HK\$33.3 billion, representing a CAGR of 56.9% from 2009 to 2013. Profit attributable to the equity shareholders of the Company of asset management business (Hong Kong business) grew 50.3% y-y to HK\$1.09 billion. Additionally, number of aircraft in operation under the Aircraft Leasing business increased from 16 in 2012 to 25 in 2013;
- Due to the stable market demand and the comprehensive business structure, CEL's business developed steadily with the better-than-expected profit performance, and therefore we increase the 12-month target price to HK\$17.50, around 21% higher than the latest closing price, and equivalent to 13.8xP/E and 1.0xP/B in 2015 respectively. Maintain Buy rating.

The parent company of CEL, China Everbright Group announced that its restructuring reform plan was approved by the State Council, and according to the plan, the group will become a joint-stock company from the state-owned company, and rename as China Everbright Group Co., Ltd, controlled by the Ministry of Finance and Central Huijin Investment. Moreover, the subsidiary of CEL, Everbright Securities (ES) faced the civil suit of the fat-finger event last year in Shanghai, and according to the interim report of ES, the company received 89 civil litigations with the related compensation of RMB12.02 million approximately.

How we view this

Overall, CEL's performance increased stably. Recently the permission of the restructuring reform plan of China Everbright Group represents the group's complicated equity structure will be completely clear in future with closer collaboration between Beijing and Hong Kong, which would be helpful for the group's development in the long term, and the whole business platform of CEL will also expand further.

However, the civil suit of ES recently would have the negative impact for the Group's profit performance, and its profit contribution would go down continually in 2014.

Investment Action

Considering CEL's stable performance growth, especially for the rapid development of macro asset management, and meanwhile, the restructuring reform plan of the parent company would have the positive impact for CEL's business development in future, therefore we increase the

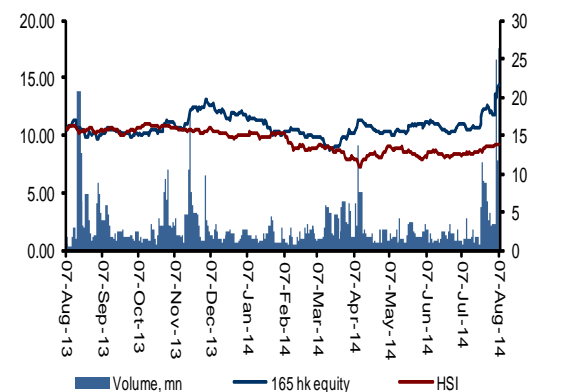
Target Price (HKD)	17.50
Forecast Dividend (HKD)	0.50
Closing Price (HKD)	14.42
Potential Upside	23.5%

Company Description

China Everbright Limited (CEL or the Company) was established in 1997, which was China's first licensed financial holding group, and its parent company is China Everbright Group, one of the largest financial conglomerates in China. The Company persistently pursues "Macro Asset Management" strategy, and focusing on direct investment, asset management and asset investments. Meanwhile, it also operates the businesses including investment banking and brokerage services. By the end of 2013, the Company's total assets recorded over HK\$37.055 billion. CEL is the second largest shareholder of the Mainland-based Everbright Securities (CES) and the third largest shareholder of China Everbright Bank (CEB).

Company Data

Market Cap. (HKD mn)	24,301
Enterprise Value (HKD mn)	22,329
52 week range (HKD)	8.89 - 14.78
Closing Price in 52 week range	



Major Shareholders

1. China Everbright Group	49.74%
---------------------------	--------

Valuation Method

P/E, P/B

Analyst

Xingyu Chen
chenxingyu@phillip.com.cn
 +86 21 51699400-105

12-month target price to HK\$17.50, around 21% higher than latest closing price, and equivalent to 13.8xP/E and 1.0xP/B in 2015 respectively. Maintain Buy rating.

Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Turnover (HK\$ 000)	4,050,657	8,157,205	12,643,668	18,333,318
Net Profit, adj. (HK\$ 000)	1,141,555	1,346,548	1,747,575	2,189,582
EPS, adj. (HK\$)	0.66	0.78	1.01	1.27
P/E (X)	21.8	18.4	14.2	11.4
BVPS (HK\$)	16.34	16.69	17.19	18.05
P/B (X)	0.9	0.9	0.8	0.8
DPS (HK\$)	0.26	0.31	0.40	0.50
Div. Yield	1.8%	2.1%	2.8%	3.4%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Year Dec (HK\$ 000)	2012	2013	Growth rate y-y	Note
Turnover	4,050,657	8,157,205	101.38%	More funds in operation
COGS	(3,160,867)	(6,995,333)	121.31%	
Gross profit	889,790	1,161,872	30.58%	
Operating profit	1,478,959	1,664,912	12.57%	
Finance costs	(66,101)	(108,460)	64.08%	Large growth of interest expense due to the sharp increase of the loans
Share of profits less losses of associates	414,590	121,581	-70.67%	Profit contribution from Everbright Securities declined obviously
Share of profits less losses of affiliates	39,510	93,522	136.70%	Large increase of incomes from affiliates
Adjustments to share of profits less losses	(285,399)	28,085	N/A	
Profit before taxation	1,581,559	1,799,640	13.79%	
Income tax	(213,837)	(51,742)	-75.80%	Overseas taxation dropped significantly
Tax rate	13.5%	2.9%	N/A	
Profit for the year	1,367,722	1,747,898	27.80%	
Minority interests	226,167	401,350	77.46%	
Net profit	1,141,555	1,346,548	17.96%	
Dividend	447,346	526,262	17.64%	

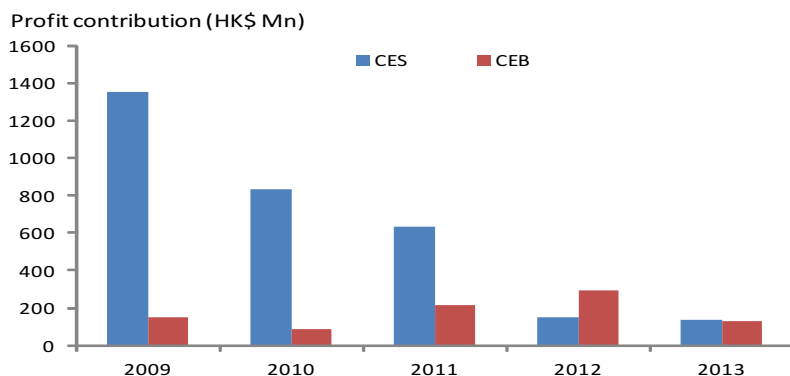
Source: PSR, Company report

Fig. 1. CEL's business structure



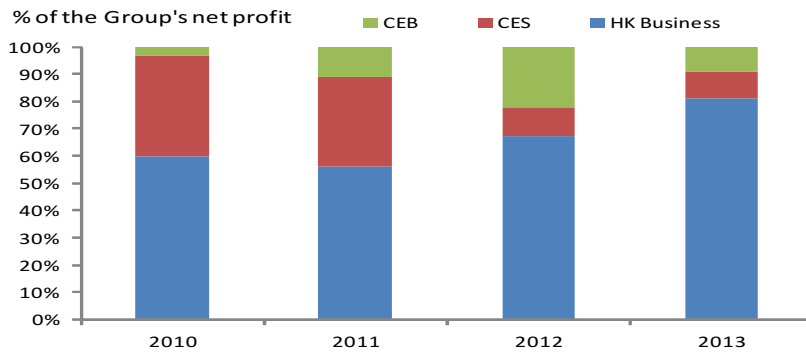
Source: Company report

Fig. 2. Profit contribution of CES and CEB for CEL



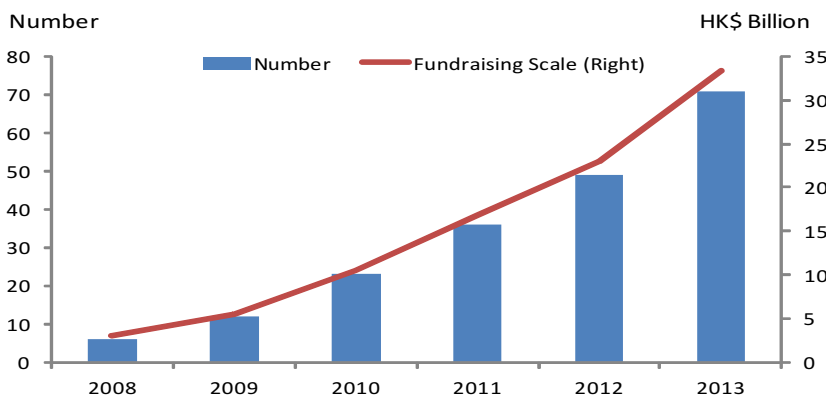
Source: PSR, Company report

Fig. 3. Proportion of profits of CEL's main businesses



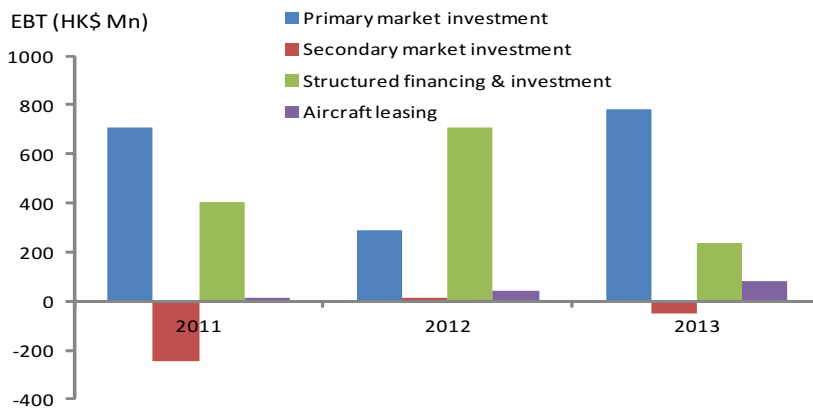
Source: PSR, Company report

Fig. 4. Total fundraising scale of CEL in primary market investment



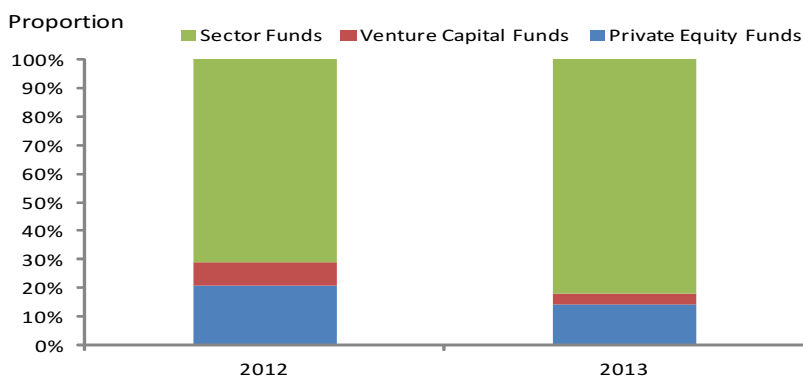
Source: PSR, Company report

Fig. 5. Profit before tax of CEL's main businesses in macro asset management



Source: PSR, Company report

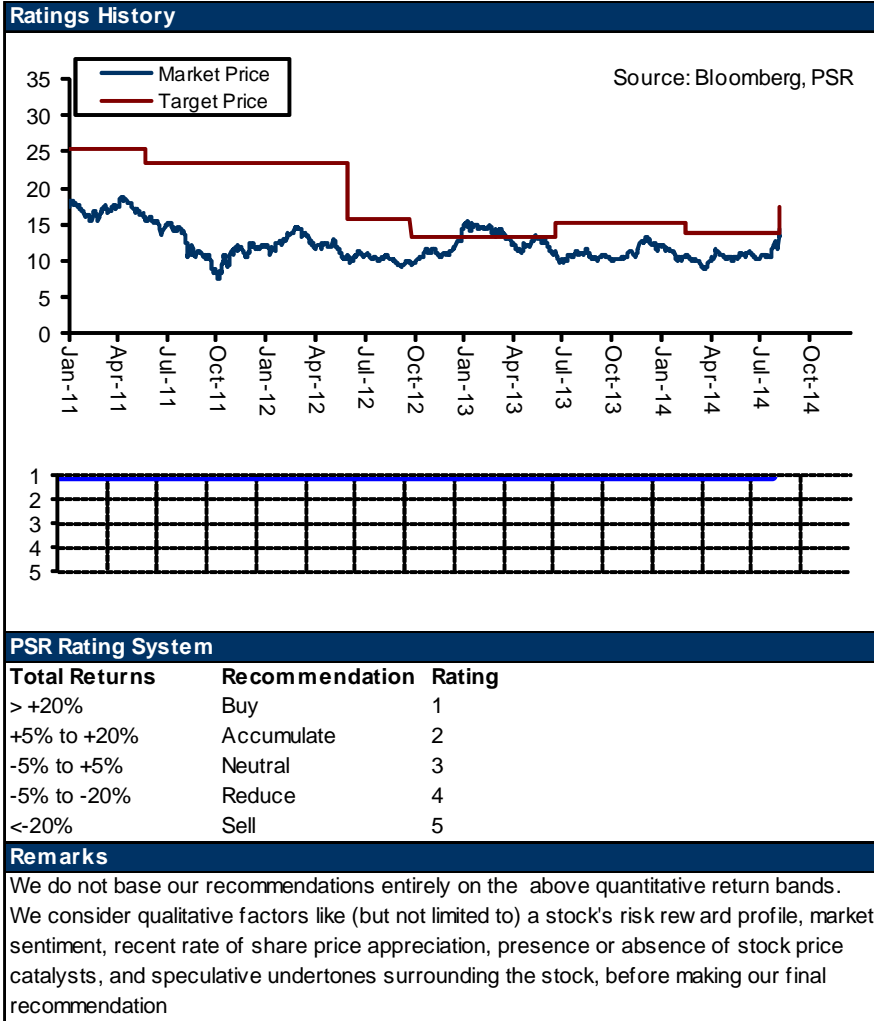
Fig. 6. Proportion of primary market investment fundraising scale by sector



Source: PSR, Company report

FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X)	12.9	21.8	18.4	14.2	11.4
P/B (X)	0.9	0.9	0.9	0.8	0.8
Dividend Payout ratio	40.37%	39.26%	39.08%	39.23%	39.14%
Dividend Yield	3.1%	1.8%	2.1%	2.8%	3.4%
Per share data (HK\$)					
EPS, adj.	1.12	0.66	0.78	1.01	1.27
DPS	0.45	0.26	0.31	0.40	0.50
BVPS	15.38	16.34	16.69	17.19	18.05
Growth					
Turnover	39.6%	31.1%	101.4%	55.0%	45.0%
Operating profit	-30.7%	55.0%	12.6%	24.9%	21.5%
Profit before taxation	-30.1%	4.1%	13.8%	25.4%	22.4%
Net profit, adj.	-0.2%	-40.6%	18.0%	29.8%	25.3%
Key Ratios					
Gross profit margin	21.94%	21.97%	14.24%	13.14%	12.54%
Net profit margin	62.22%	28.18%	16.51%	13.82%	11.94%
ROE	7.04%	4.18%	4.74%	5.99%	7.21%
Income Statement (HK\$'000)					
Turnover	3,089,975	4,050,657	8,157,205	12,643,668	18,333,318
COGS	(2,412,012)	(3,210,714)	(6,995,333)	(10,982,673)	(16,034,702)
Gross profit	677,963	839,943	1,161,872	1,660,995	2,298,616
Other net income	747,256	1,131,771	1,137,504	1,205,754	1,326,330
Staff costs	(222,354)	(249,183)	(281,188)	(323,366)	(378,338)
Depreciation and amortization expenses	(22,183)	(19,426)	(20,625)	(22,275)	(24,503)
Impairment loss on available-for-sale securities	(69,357)	(61,739)	(21,150)	(23,265)	(26,755)
Impairment loss on amount due from investee company	(53,564)	(12,786)	(2,016)	(2,117)	(2,328)
Other operating expenses	(103,671)	(149,621)	(252,485)	(416,600)	(666,560)
Operating profit	954,090	1,478,959	1,664,912	2,079,126	2,526,461
Finance costs	(59,354)	(66,101)	(108,460)	(146,421)	(190,347)
Share of profits less losses of associates	643,143	414,590	121,581	133,739	160,487
Share of profits less losses of affiliates	(18,913)	39,510	93,522	158,987	230,532
Adjustments to share of profits less losses	0	(285,399)	28,085	30,894	35,528
Profit before taxation	1,518,966	1,581,559	1,799,640	2,256,325	2,762,660
Income tax	(184,964)	(213,837)	(51,742)	(67,265)	(87,444)
Tax rate	12.18%	13.52%	2.88%	2.98%	3.17%
Profit from discontinued operations	522,447	0	0	0	0
Profit for the year	1,856,449	1,367,722	1,747,898	2,189,060	2,675,216
Minority interests	(66,256)	226,167	401,350	441,485	485,634
Net profit	1,922,705	1,141,555	1,346,548	1,747,575	2,189,582
Dividend	774,791	447,346	526,262	684,141	855,176

Source: 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

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>.

© 2014 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