

26 November 2014

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

## Monopolistic advantage in the industry with the strong profit growth

### HONG KONG | FINANCIAL | COMPANY RESULTS

- China Cinda is a leading AMC in China, and initially aimed 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, meanwhile, its major shareholder is MOF, and owns the monopolistic advantages in the industry;
- China Cinda is the leader of China's distressed asset management industry in terms of income, profit, business scale and cash recovered, and its 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 June 2014, the proportion of the incomes of these three businesses to the Group's total income recorded 55.4%, 18.7% and 28.1%, and the EBTs of each part were 72.9%, 21.7% and 9.2% of the Group's total EBT respectively;
- In China Cinda's distressed debt assets, the major part came from non-financial enterprises (NFE) distressed assets. As at the end of June 2014, the proportion of net balance of financial institutions (FI) and NFE distressed assets were 39% and 61% respectively;
- China Cinda's FI Distressed Assets mainly 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 31.8% in 1H2014, and the portion of Small and middle-sized Commercial Banks increased from 12.6% in 1H2013 to 23.8% in 1H2014;
- 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 1H2014, China Cinda held 182 DES Companies with total book value of RMB34.78 billion, down 0.2% slightly compared with the end of 2013, and Listed DES Assets were 67 DES Companies, with total book value of RMB7.674 billion. It is worthy of noting that the exit multiple of DES Assets disposed of total equity was 2.6x, of which that of unlisted equity was 4.7x, up 0.5 and 2.6 respectively compared with the same period of last year, representing the huge opportunity of the profitability;
- According to investment and asset management, the incomes were 18.7% of the Group's total income, up 1ppts y-y to RMB4.824 billion. Cinda Investment was one of main entities, its total income increased by 35.8% y-y to RMB3.315 billion. Based on the type of investment, 52.8% of the Group's principle investment was equity investments, and 25.7% was fund investments, with 8.8% of real estate investments;
- According to financial service business, leasing and securities and futures were still main profit sources. By the end of June 2014, total income of Cinda Leasing amounted to RMB1.253 billion, with the EBT of RMB357 million, up strongly 401.69%. Securities and Futures recorded the total income of RMB1.26 billion, and the EBT increased by 47.35% y-y.

Rating:

**Buy**

Maintained at Buy

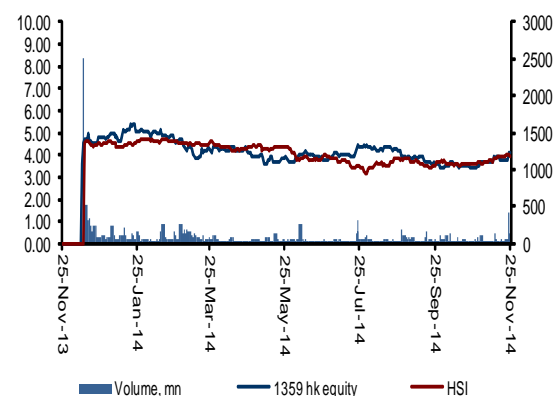
Target Price (HKD)	5.20
Forecast Dividend (HKD)	0.06
Closing Price (HKD)	4.10
Potential Upside	28.3%

#### Company Description

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%.

#### Company Data

Market Cap. (HKD bn)	148,652.42
Enterprise Value (HKD mn)	N/A
52 week range (HKD)	3.31 - 5.53
Closing Price in 52 week range	



#### Major Shareholders

1.MOF	67.84%
2.NSSF	8.04%
3.UBS*	13.18%

\*UBS's shares is the sum of its entities

#### Valuation Method

P/E, P/B

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### How we view this

In all, China Cinda's performance increases strongly due to the large market supply, and the profit maintains the large growth. Recently, the PBOC announced to cut the interest rates, and we estimate the interest rate will be decreased continually in future, with the positive impact on real estate industry, and therefore it's helpful to improve China Cinda's performance, with the increase of both assets and profits, we forecast the Group's net profit would increase by 23% y-y approximately in 2014.

### Investment Action

It has quite large uncertainty of the performance estimation for China Cinda due to its unique and complicated operating model, especially for its distressed asset management and PE investments, which is difficult to find the benchmark. However, considering China Cinda's strong governmental background, the monopolistic advantages in business and the large market demand, we have the confidence in China Cinda's future performance, and based on the current valuation of domestic listed banks and insurers in terms of P/B in valuation, we increase the 12-m target price of China Cinda to HK\$5.2, around 26.8% higher than the latest closing price, equivalent to 10.6xP/E and 1.5xP/B in 2015 respectively, maintain at Buy rating.

### Key Financial Summary

FYE	12/13	12/14F	12/15F	12/16F
Net interest income (RMB mn)	10,144	15,723	23,585	34,198
Net Profit, adj. (RMB mn)	9,027	11,079	14,080	17,999
EPS, adj. (RMB)	0.30	0.31	0.39	0.50
P/E (X)	10.9	10.6	8.4	6.5
BVPS (RMB)	2.14	2.51	2.75	2.99
P/B (X)	1.5	1.3	1.2	1.1
DPS (RMB)	0.03	0.04	0.05	0.06
Div. Yield	1.0%	1.2%	1.5%	1.8%

Source: Bloomberg, PSR est.

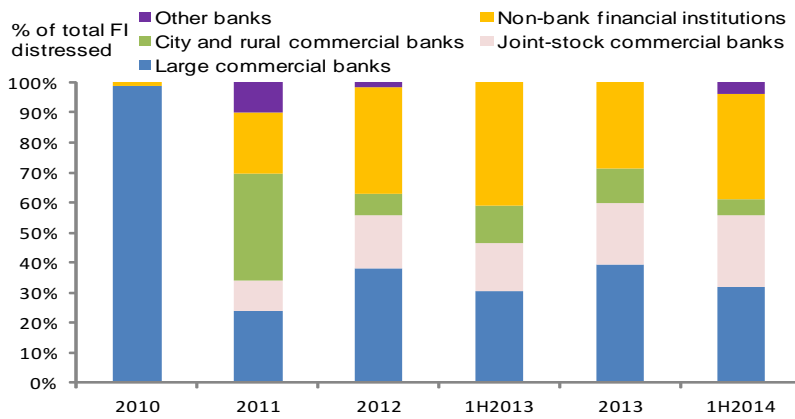
\*All multiples & yields based on current market price

RMB Million	2013H1	2014H1	Growth rate y-y	Note
Income from distressed debt assets classified as receivables	4,245	7,577	78.51%	Large increase of incomes from debt restructuring
Fair value changes on distressed debt assets	1,968	2,302	16.98%	
Investment income	3,909	3,975	1.70%	
Net insurance premiums earned	2,604	3,269	25.56%	
Interest income	1,934	3,807	96.83%	Strong growth of loans and deposits
<b>Total income</b>	<b>18,669</b>	<b>25,774</b>	<b>38.05%</b>	
<b>Total expense</b>	<b>(13,553)</b>	<b>(17,972)</b>	<b>32.60%</b>	Large increase of interest expense
Changes in net assets attribute to other holders of consolidated structured entities	(217)	(713)	229.33%	
Share of results of associate	238	177	-25.60%	
Profit before tax	5,137	7,266	41.43%	
Profit for the period	4,017	5,360	33.43%	
Profit attribute to shareholders	4,065	5,296	30.29%	

Source: PSR, the Company's report

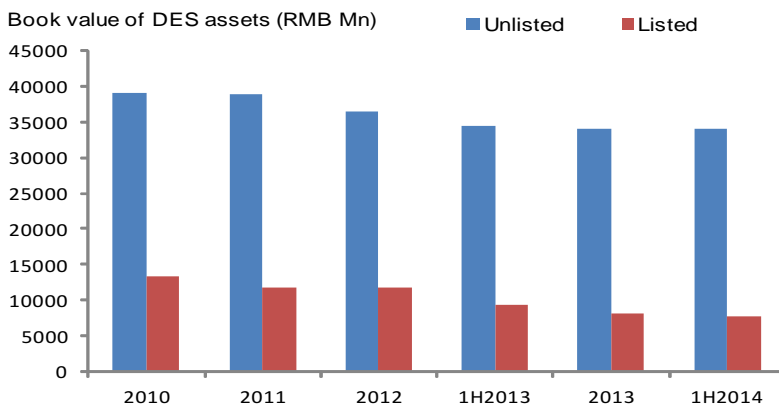


Figure 4. Proportion of China Cinda's FI distressed assets



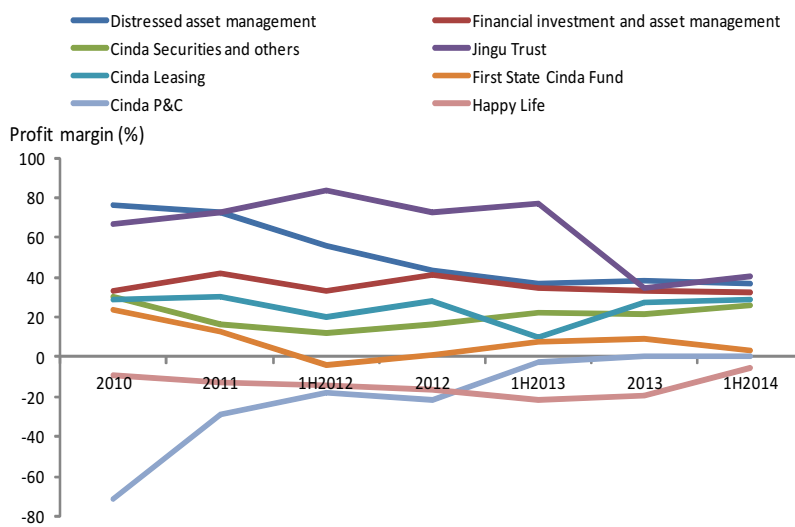
Source: PSR, Company report

Figure 5. Book value of China Cinda's DES assets



Source: PSR, Company report

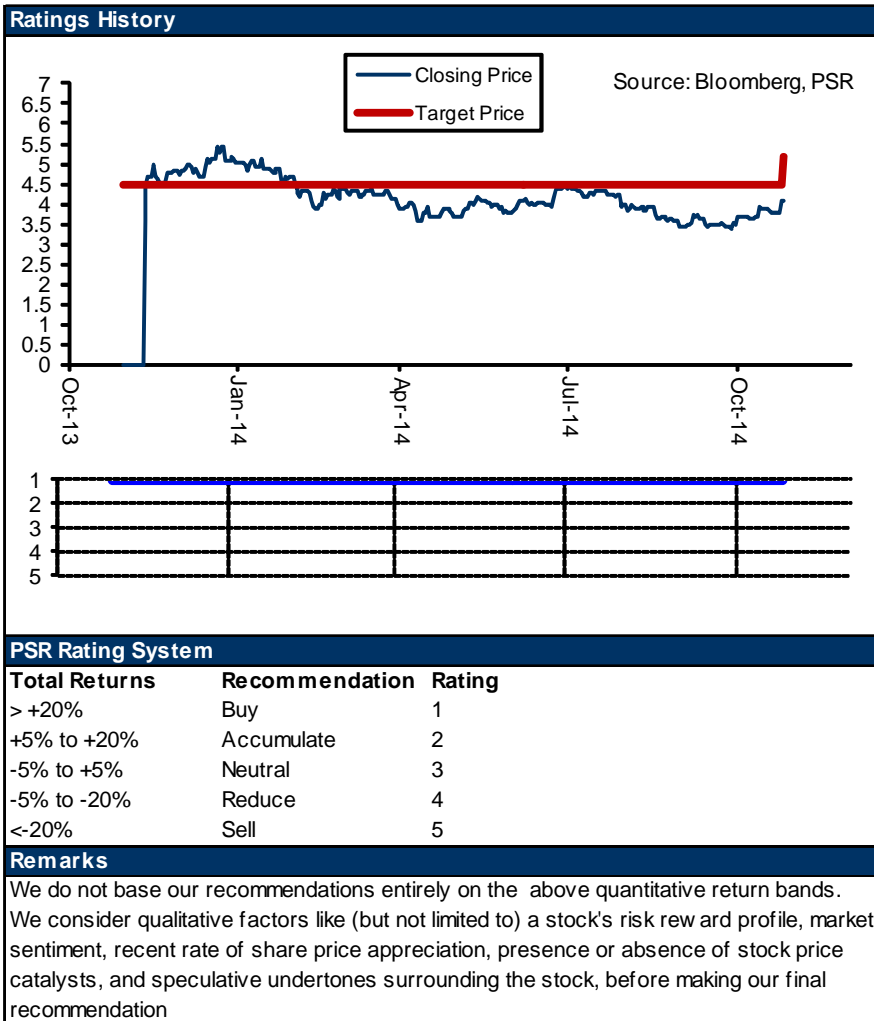
Figure 6. Profit margin of China Cinda's businesses



Source: PSR, Company report

FYE	FY12	FY13	FY14F	FY15F	FY16F
<b>Valuation Ratios</b>					
P/E (X)	12.8	10.9	10.6	8.4	6.5
P/B (X)	1.8	1.5	1.3	1.2	1.1
Dividend Payout ratio	21.14%	11.43%	13.03%	12.30%	11.55%
Dividend Yield	1.65%	1.05%	1.23%	1.47%	1.77%
<b>Per share data (RMB)</b>					
EPS, reported	0.25	0.30	0.31	0.39	0.50
EPS, adj.	0.25	0.30	0.31	0.39	0.50
DPS	0.05	0.03	0.04	0.05	0.06
BVPS	1.82	2.14	2.51	2.75	2.99
<b>Growth</b>					
Income from distressed debt assets classifi	1844.9%	188.3%	55.0%	50.0%	45.0%
Total incomes	32.6%	31.2%	25.6%	28.3%	30.0%
Profit before tax	5.9%	22.7%	22.2%	27.8%	27.3%
Profit attributable to shareholders	8.0%	23.6%	22.7%	27.1%	27.8%
<b>Key Ratios</b>					
Net profit margin	22.60%	21.28%	20.81%	20.61%	20.27%
ROAE	15.80%	13.81%	13.28%	14.78%	17.30%
ROAA	3.40%	2.90%	2.35%	2.17%	2.16%
<b>Income Statement (RMB mn)</b>					
Income from distressed debt assets classifi	3,518	10,144	15,723	23,585	34,198
Fair value changes on distressed debt ass	3,878	4,618	5,773	7,504	10,131
Investment income	6,529	7,044	7,185	7,472	7,846
Net insurance premiums earned	5,325	5,772	6,638	7,965	9,957
Interest income	2,493	5,059	7,336	9,903	12,874
<b>Total incomes</b>	<b>32,335</b>	<b>42,413</b>	<b>53,252</b>	<b>68,326</b>	<b>88,796</b>
<b>Total expenses</b>	<b>(23,200)</b>	<b>(30,601)</b>	<b>(38,246)</b>	<b>(48,949)</b>	<b>(64,097)</b>
Changes in net assets attribute to other ho	(152)	(540)	(972)	(1,500)	(1,800)
Share of results of associate	612	500	350	500	500
Profit before tax	9,596	11,772	14,385	18,377	23,399
Income tax expenses	(2,379)	(2,671)	(3,205)	(4,167)	(5,250)
Income tax rate	24.79%	22.69%	22.28%	22.67%	22.44%
Profit for the period	7,217	9,101	11,179	14,210	18,149
<b>Profit attributable to shareholders</b>	<b>7,306</b>	<b>9,027</b>	<b>11,079</b>	<b>14,080</b>	<b>17,999</b>
minority interest	(89)	74	100	130	150
<b>Balance Sheet (RMB mn)</b>					
Cash and bank balances	42,726	57,059	74,177	92,721	111,265
Financial assets at fair value through profit	16,923	25,178	31,473	39,655	51,552
Available-for-sale financial assets	64,377	72,747	80,022	92,025	110,430
Financial assets classified as receivables	51,195	116,663	227,493	329,865	428,824
Loans and advances to customers	25,042	48,636	72,954	102,136	132,776
Properties held for sale	13,815	17,790	24,017	27,619	33,143
Other assets	7,281	8,928	12,946	14,887	17,865
<b>Total assets</b>	<b>254,614</b>	<b>383,785</b>	<b>561,003</b>	<b>739,281</b>	<b>929,657</b>
Borrowings	76,099	173,835	272,921	401,194	553,647
Other liabilities	16,539	33,249	46,549	60,513	72,616
<b>Total liabilities</b>	<b>193,730</b>	<b>301,023</b>	<b>462,778</b>	<b>629,238</b>	<b>819,176</b>
Share capital	30,140	35,459	36,257	36,257	36,257
Shareholders' equity	54,774	75,998	90,840	99,623	108,469
Minority interest	6,111	6,764	7,385	10,421	2,012
<b>Total equity</b>	<b>60,885</b>	<b>82,762</b>	<b>98,225</b>	<b>110,043</b>	<b>110,481</b>
Total equity and liabilities	254,615	383,785	561,003	739,281	929,657

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

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