



Sep 1, 2014  
 Company Report  
 Rating: BUY  
 TP: HK\$ 5.40

H-share price (HK\$) 3.97  
 Est. share price return 36.0%  
 Est. dividend yield 2.1%  
 Est. total return 38.1%

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**Key Data**

52Wk H/L(HK\$)	3.48/5.53
Issued shares (mn)	
H share	11,659.7
Domestic share	24,596.9
H-share market cap (HK\$ mn)	46,289
3-mth avg daily turnover (HK\$ mn)	227
Major shareholder(s) (%):	
MOF	68

Source(s): Company, Bloomberg, ABCI Securities

**1H14 Revenue breakdown (%)**

Distressed Asset Management	55
Financial Investment and Asset Management	19
Financial Services	28

\* The percentage share may not equal to 100% due to internal elimination

Source(s): Company, ABCI Securities

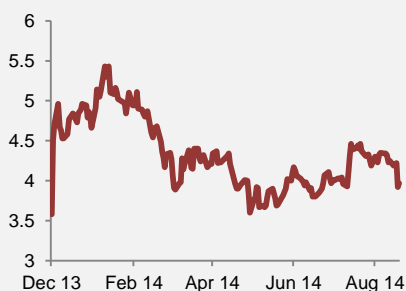
**Share performance (%)**

	Absolute	Relative*
1-mth	(9.8)	(9.8)
3-mth	7.3	0.1
6-mth	(15.2)	(21.7)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

China Cinda (1359 HK)  
 Strong balance sheet growth; maintain **BUY**

- 1H14 revenue grew 38.1% YoY to RMB 25,774mn; net profit increased 30.3% YoY to RMB 5,296mn.
- Total assets grew 25.6% HoH to RMB 482.2bn, mainly driven by RDA growth.
- Acquisition on RDA surged 92.9% YoY to RMB 78,193mn; the net balance of RDA grew 61% from end-2013 to RMB 157,765mn.
- Impaired RDA ratio increased from 1.00% as at Dec 30, 2013 to 1.08% as at June 30, 2014. Overdue ratio increased from 1.6% in 2H13 to 3.3% in 1H14.
- Income contribution from NFE distressed assets soared 85.2% YoY.
- Reiterate **BUY** with TP of HK\$ 5.40 to imply a 1.6x 2014E P/B.

**1H14 net profit rose 30.3% YoY to RMB 5,296mn.** Cinda's 1H14 revenue grew 38.1% YoY to RMB 25,774mn; net profit increased 30.3% YoY to RMB 5,296mn. By business segment, distressed asset management (DAM) remained as the core income contributor, accounting for 55.4% of the total income; financial investment and asset management (FIAM) and financial services (FS) contributed to 18.7% and 28.1% of the total income. Contribution from FS to the Group's profit before tax (PBT) increased to 9.2% (1H13: 5.5%). Annualized ROAA and ROAE were 13.3% and 2.5%, lower than the 13.8% and 2.9% in FY13.

**Strong balance sheet growth.** Total assets grew 25.6% HoH to RMB 482.2bn, mainly driven by the expanded RDA that contributed to ~61% of the growth in 1H14. Balance of interest-bearing liabilities grew 32.2% HoH to RMB 317.5bn; borrowings from banks and other financial institutions and bonds issued accounted for 73.6% and 13.2% of the total balance.

**Restructured Distressed Assets (RDA) business recorded impressive growth.** Acquisition on RDA surged 92.9% YoY to RMB 78,193mn. The net balance of RDA grew 61% from end-2013 to RMB 157,765mn. Income derived from the restructuring model increased 78.5% YoY to RMB 7,577mn in 1H14, accounting for 29.4% of the total income (vs 22.7% in 1H13). However, annualized return on monthly average balance of RDA edged down slightly from 13.8% in 1H13 to 12.2% in 1H14. Management attributed the decline to better client quality and expects the ratio to remain flat in 2H.

**Traditional Distressed Assets (TDA) continued to expand but newly acquired amount dropped.** Acquisition on TDA reached RMB 7,186mn, up 240.0% YoY but reduced 29.3% HoH. Net balance of TDA rose 36.2% YoY to RMB 22,855mn. Income from TDA increased 15.9% YoY to RMB 2,311mn. Return on disposal increased from 75.1% in 1H13 to 87.0%.

**Financial Summary**

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	32,335	42,413	53,346	64,307	75,975
Chg (% YoY)	32.6	31.2	25.8	20.5	18.1
Net profit (RMB mn)	7,306	9,027	11,715	14,837	17,886
Chg (% YoY)	8.0	23.5	29.8	26.6	20.6
EPS (RMB)	0.25	0.29	0.32	0.41	0.49
Chg (% YoY)	-5.9	15.1	11.1	26.6	20.6
BVPS (RMB)	1.82	2.14	2.41	2.77	3.20
Chg (% YoY)	20.9	18.0	12.2	14.9	15.7
P/E (x)	12.5	10.8	9.8	7.7	6.4
P/B (x)	1.7	1.5	1.3	1.1	1.0
ROAA (%)	3.4	2.8	2.7	2.9	3.1
ROAE (%)	15.8	13.8	14.4	15.8	16.5
DPS(RMB)	0.05	0.03	0.06	0.08	0.10
Yield (%)	1.7	1.1	2.1	2.6	3.1

Source(s): Company, ABCI Securities estimates



**Impaired RDA ratio trended up.** Rising credit risk associated with the Group's exposure to the real estate sector remains a major concern. Cinda's RDA business focuses mainly on the real estate sector, which accounted for 59.2% of its RDA net balance by 1H14. Impaired RDA ratio increased from 1.00% as at Dec 30, 2013 to 1.08% as at June 30, 2014. Overdue ratio increased from 1.6% in 2H13 to 3.3% in 1H14.

**Decelerating disposal of DES assets.** In 1H14, Cinda disposed 20 DES companies at a total acquisition cost of RMB 1,257mn, down 47.5% YoY. Net gains on disposal of DES assets dropped 22.3% YoY to RMB 2,066mn, slashing investment income from the available-for sale (AFS) financial assets by 21.9% YoY to RMB 2,785mn.

**Impairment losses decreased 22.7% YoY to RMB 2,686mn.** The decrease was primarily due to the lower provision for impairment losses on available-for-sale (AFS) financial assets. Since the stock price of the listed DES Companies remained relatively stable during 1H14 as compared with 1H13, impairment losses on AFS assets decreased 74.7% YoY to RMB 626.6mn.

**Pre-tax ROAE of financial services increased.** Pre-tax profit of financial services soared 136.8% YoY to RMB 672mn, primarily due to the 60.5% YoY decline in pre-tax loss of Happy Life Insurance. Pre-tax ROAE (Annualized) of financial services increased from 3.9% in 1H13 to 8.3% in 1H14.

**Reiterate BUY with TP at HK\$ 5.40.** Given the promising growth in distressed asset management business, we deem the current valuation of 1.3x 2014E P/B as attractive. Reiterate **BUY** for China Cinda, with the sum-of-the-parts valuation-derived TP of HK\$5.40 that implies 1.6x 2014E P/B and 13.2x 2014E P/E.

**Risk factors:** 1) Increasing credit risk related to real estate exposure; 2) Downturn in coal industry; 3) Slowdown in China's economic growth.



**Exhibit 1: Highlights of 1H14 results**

**Income Statement**

RMB mn	1H13	1H14	YoY(%)
Income from DDA classified as receivables	4,245	7,577	78.5
FV changes on DDA	1,968	2,302	17.0
FV changes on other financial instruments	322	376	17.0
Investment income	3,909	3,975	1.7
Net insurance premium earned	2,604	3,269	25.6
Fee and commission income	1,129	1,298	14.9
Sales of inventories	1,377	1,799	30.7
Interest income	1,934	3,807	96.8
Net gains on disposal of subsidiaries and associates	111	238	113.7
Others	1,072	1,133	5.8
<b>Total revenue</b>	<b>18,669</b>	<b>25,774</b>	<b>38.1</b>
<b>Total operating expenses</b>	<b>13,553</b>	<b>17,972</b>	<b>32.6</b>
Operating profits	5,116	7,802	52.5
<b>Profit before tax</b>	<b>5,137</b>	<b>7,266</b>	<b>41.4</b>
Income tax expenses	1,120	1,906	70.1
Minority interest	(48)	64	(233.7)
<b>Net profit</b>	<b>4,065</b>	<b>5,296</b>	<b>30.3</b>

**Balance Sheet**

RMB mn	Dec-13	Jun-14	HoH(%)
Cash and bank balances	57,059	66,998	17.4
Financial assets at fair value through profit or loss	25,178	30,747	22.1
Available-for-sale financial assets	72,747	65,497	(10.0)
Financial assets classified as receivables	116,663	185,046	58.6
Loans and advances to customers	48,636	62,655	28.8
<b>Total assets</b>	<b>383,785</b>	<b>482,156</b>	<b>25.6</b>
Borrowings	173,835	233,473	34.3
Bonds issued	13,285	41,996	216.1
<b>Total liabilities</b>	<b>301,023</b>	<b>391,377</b>	<b>30.0</b>
<b>Total equity</b>	<b>82,762</b>	<b>90,778</b>	<b>9.7</b>

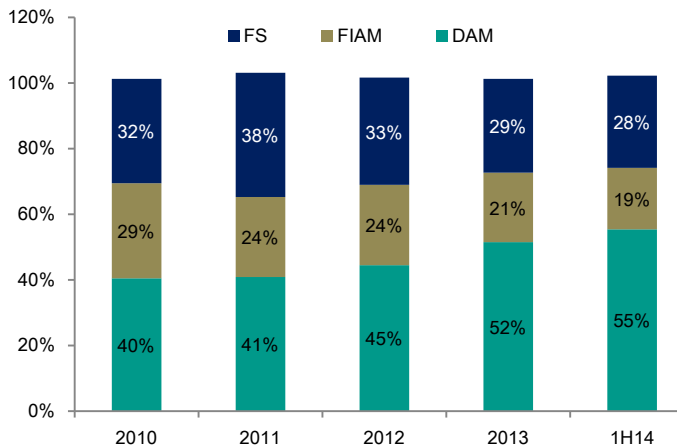
*Key ratios*

Total asset/equity(x)	4.6	5.3	0.7
Annualized ROAA(%)	2.8	2.5	(0.4)
Annualized ROAE(%)	13.8	13.3	(0.5)
Cost to income ratio(%)	26.2	22.1	(4.1)

Source(s): Company, ABCI Securities

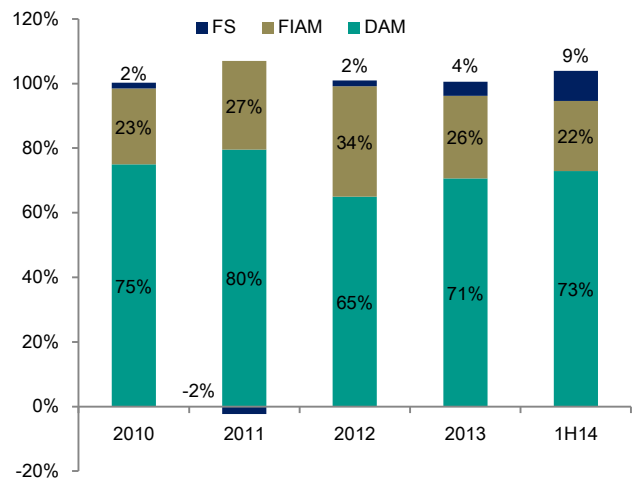


**Exhibit 2: Revenue breakdown by business segment**



Note: The share in percentage may not be equal to 100% due to internal elimination  
Source(s): Company, ABCI Securities

**Exhibit 3: PBT breakdown by business segment**



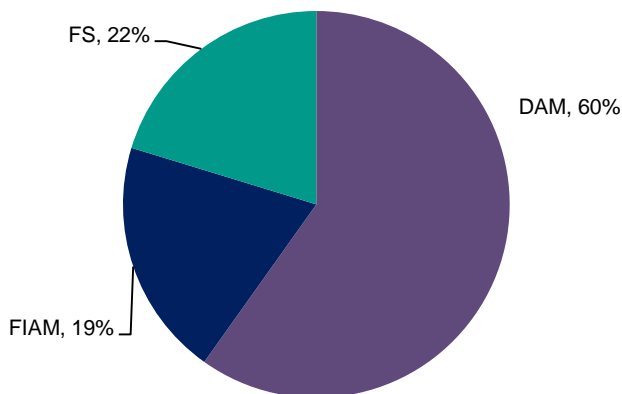
Note: The share in percentage may not be equal to 100% due to internal elimination  
Source(s): Company, ABCI Securities

**Exhibit 4: Breakdown of distressed debt assets**

DDA breakdown	RMB mn		% of total	
	2013	1H14	2013	1H14
<b>Net DDA balance</b>				
TDA	16,784	22,855	15%	13%
RDA	97,971	157,765	85%	87%
<b>Total</b>	<b>114,755</b>	<b>180,620</b>	<b>100%</b>	<b>100%</b>
	<b>1H13</b>	<b>1H14</b>	<b>1H13</b>	<b>1H14</b>
<b>Acquisition costs of DDA</b>				
TDA	2,113	7,186	5%	8%
RDA	40,535	78,193	95%	92%
<b>Total</b>	<b>42,648</b>	<b>85,378</b>	<b>100%</b>	<b>100%</b>
<b>Income from DDA</b>				
TDA	1,994	2,311	32%	23%
RDA	4,245	7,577	68%	77%
<b>Total</b>	<b>6,239</b>	<b>9,887</b>	<b>100%</b>	<b>100%</b>

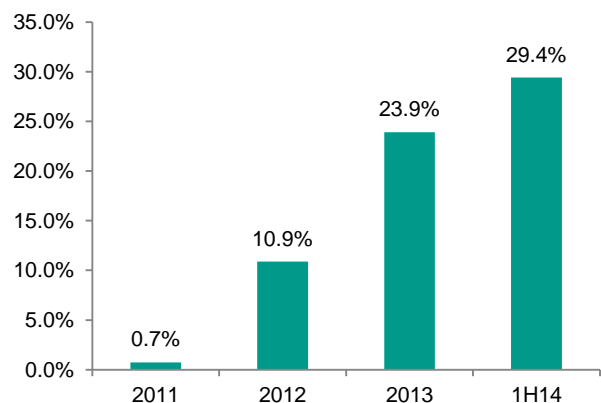
Source(s): Company, ABCI Securities

**Exhibit 5: Asset mix as of 1H14**



Note: Share in percentage may not be equal to 100% due to internal elimination  
Source(s): Company, ABCI Securities

**Exhibit 6: RDA revenue as a percentage of the Company's revenue**



Source(s): Company, ABCI Securities



**Consolidated income statement (2011A-2016E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
Income from DDA classified as receivables	181	3,518	10,144	15,216	20,542	25,678
FV changes on DDA	4,463	3,878	4,618	6,465	7,758	9,309
FV changes on other financial instruments	41	399	539	701	876	1,095
Investment income	5,779	6,529	7,044	7,062	6,768	6,708
Net insurance premium earned	5,698	5,325	5,772	6,561	7,513	8,449
Fee and commission income	1,902	2,226	2,520	3,039	3,502	3,945
Sales of inventories	3,237	3,924	4,322	4,754	5,229	5,752
Interest income	1,479	2,493	5,059	7,083	9,562	12,430
Net gains on disposal of subsidiaries and associates	174	2,585	201	160	136	116
Others	1,427	1,457	2,195	2,305	2,420	2,492
<b>Total revenue</b>	<b>24,382</b>	<b>32,335</b>	<b>42,413</b>	<b>53,346</b>	<b>64,307</b>	<b>75,975</b>
Insurance expenses	5,337	4,690	5,019	5,626	6,373	7,442
Fee and commission expenses	804	901	869	1,094	1,261	1,420
Purchases and changes in inventories	1,844	2,392	2,720	2,995	3,347	3,624
Finance cost	1,807	3,698	7,804	12,486	16,232	20,290
Staff costs	2,672	3,418	3,797	4,747	5,886	7,240
Depreciation	429	449	444	466	489	514
Business tax and surcharge	562	786	1,234	1,876	2,626	3,413
Other operating expenses	2,035	2,267	2,560	2,944	3,298	3,627
Impairment losses	537	4,601	6,153	5,816	5,494	5,191
<b>Total operating expenses</b>	<b>16,027</b>	<b>23,200</b>	<b>30,601</b>	<b>38,049</b>	<b>45,005</b>	<b>52,762</b>
Operating profits	8,355	9,135	11,812	15,297	19,302	23,213
Share of results of Associates	653	612	500	525	552	579
Other income/expenses	50	(152)	(541)	(568)	(556)	(545)
Profit before tax	9,058	9,596	11,772	15,255	19,297	23,247
Income tax expenses	2,272	2,379	2,672	3,462	4,380	5,276
Minority interest	24	(89)	74	77	81	85
<b>Net Profit</b>	<b>6,763</b>	<b>7,306</b>	<b>9,027</b>	<b>11,715</b>	<b>14,837</b>	<b>17,886</b>
<b>Growth (%)</b>						
Total revenue	0.5	32.6	31.2	25.8	20.5	18.1
Total operating expenses	8.3	44.8	31.9	24.3	18.3	17.2
Operating profits	(11.7)	9.3	29.3	29.5	26.2	20.3
Profit before tax	(9.0)	5.9	22.7	29.6	26.5	20.5
Net Profit	(8.6)	8.0	23.5	29.8	26.6	20.6
<b>Key ratios</b>						
Operating profit margin	34.3	28.3	27.9	28.7	30.0	30.6
Net profit margin	27.7	22.6	21.3	22.0	23.1	23.5
Cost to income	35.2	29.7	26.2	26.2	26.1	26.3
Effective tax rate	25.1	24.8	22.7	22.7	22.7	22.7
Dividend payout	22.3	21.4	11.7	20.0	20.0	20.0
ROAE	18.1	15.8	13.8	14.4	15.8	16.5
ROAA	4.2	3.4	2.8	2.7	2.9	3.1
<b>Segmental revenue (RMB mn)</b>						
DAM	9,957	14,392	21,850	29,168	36,149	43,144
Investment and AM	5,946	7,911	8,977	11,014	13,086	16,021
Financial services	9,231	10,553	12,134	13,793	15,795	18,562
Elimination	(751)	(521)	(547)	(629)	(724)	(832)
Total	24,382	32,335	42,413	53,346	64,307	75,975
<b>Segmental PBT (RMB mn)</b>						
DAM	7,202	6,234	8,314	10,665	12,951	15,894
Investment and AM	2,488	3,285	3,011	3,875	5,349	6,989
Financial services	(207)	164	515	752	1,021	1,307
Elimination	(425)	(87)	(69)	(38)	(24)	(22)
Total	9,058	9,596	11,772	15,255	19,297	23,247

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2016E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E	2016E
Cash and banks	27,187	42,726	57,059	68,471	61,624	55,461
Settlement funds	1,286	1,526	1,708	2,015	2,217	2,438
Guarantee deposits	779	907	831	939	1,042	1,157
Placements	-	2,000	290	319	351	386
FVTPL	13,402	16,923	25,178	36,111	50,224	66,888
Repo financial assets	561	57	1,054	1,580	2,212	2,876
AFS	64,382	64,377	72,747	73,579	75,079	77,551
L&R	12,150	51,195	116,663	159,186	201,485	241,804
Loans to customers	9,448	25,042	48,636	62,255	74,705	88,152
Receivables	4,063	5,257	6,449	7,674	8,979	10,326
HTM	6,262	7,343	7,592	7,873	8,128	8,352
AFS properties	13,092	13,815	17,790	19,569	20,352	20,962
Investment properties	2,339	2,100	1,858	1,951	2,048	2,151
Investment in Associates	6,713	7,476	8,962	9,858	10,745	11,605
Property and equipment	3,732	3,467	3,620	3,801	3,991	4,191
Goodwill	362	362	324	340	357	375
Other intangibles	103	137	160	192	220	253
Deferred tax assets	1,400	2,623	3,937	5,512	7,166	8,958
Other assets	5,863	7,281	8,928	10,534	11,588	12,515
<b>Total assets</b>	<b>173,124</b>	<b>254,614</b>	<b>383,785</b>	<b>471,759</b>	<b>542,515</b>	<b>616,401</b>
Borrowing from central bank	11,311	7,053	4,913	3,930	4,127	4,333
Brokerage client money	8,151	6,630	6,481	7,453	8,571	9,856
FVTPL	1	53	49	82	132	211
Repo financial liabilities	6,921	11,994	9,443	12,276	16,572	22,372
Borrowings	25,179	76,099	173,835	234,677	281,612	323,854
Payables	47,995	39,539	22,814	23,955	25,153	26,410
Insurance funds	3,618	3,213	3,244	4,542	4,860	5,200
Tax payable	3,325	2,132	2,061	2,473	2,967	3,561
Insurance contract reserve	12,301	17,586	20,723	24,453	28,120	31,495
Bonds payable	495	12,535	13,285	42,512	48,889	56,222
Deferred tax liabilities	349	357	451	473	497	522
Other liabilities	10,638	16,539	33,249	19,916	11,833	6,040
<b>Total liabilities</b>	<b>130,281</b>	<b>193,730</b>	<b>301,023</b>	<b>376,742</b>	<b>433,334</b>	<b>490,077</b>
Issued share cap	25,155	30,140	35,459	36,257	36,257	36,257
Reserves	1,783	9,207	21,665	22,748	23,885	25,319
Retained profits	10,875	15,427	18,875	28,247	40,116	54,425
Total shareholders' fund	37,813	54,774	75,998	87,251	100,258	116,000
Minority interests	5,030	6,111	6,764	7,765	8,923	10,324
<b>Total equity</b>	<b>42,843</b>	<b>60,885</b>	<b>82,762</b>	<b>95,017</b>	<b>109,181</b>	<b>126,324</b>
<b>Growth (%)</b>						
FVTPL	32.7	26.3	48.8	43.4	39.1	33.2
AFS	3.6	(0.0)	13.0	1.1	2.0	3.3
L&R	na	321.4	127.9	36.5	26.6	20.0
Loans to customers	276.7	165.0	94.2	28.0	20.0	18.0
HTM	65.9	17.3	3.4	3.7	3.2	2.7
AFS properties	13.5	5.5	28.8	10.0	4.0	3.0
Investment properties	(1.1)	(10.2)	(11.5)	5.0	5.0	5.0
Total assets	14.9	47.1	50.7	22.9	15.0	13.6
Borrowings	221.7	202.2	128.4	35.0	20.0	15.0
Payables	1.6	(17.6)	(42.3)	5.0	5.0	5.0
Insurance funds	34.1	(11.2)	1.0	40.0	7.0	7.0
Insurance contract reserve	61.2	43.0	17.8	18.0	15.0	12.0
Bonds payable	na	2,432.2	6.0	220.0	15.0	15.0
Total liabilities	20.4	48.7	55.4	25.2	15.0	13.1
Issued share cap	-	19.8	17.6	2.2	-	-
Reserves	(63.9)	416.4	135.3	5.0	5.0	6.0
Retained profits	57.0	41.9	22.4	49.7	42.0	35.7
Total equity	0.8	42.1	35.9	14.8	14.9	15.7

Source(s): Company, ABCI Securities estimates



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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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