



Apr 1, 2015
Company Report
Rating: BUY
TP: HK\$ 5.40

H-share price (HK\$)	3.84
Est. share price return	40.6%
Est. dividend yield	4.2%
Est. total return	44.8%

Previous Rating and TP (HK\$)	BUY: HK\$5.40
Previous Report Date	Sep 1, 2014

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Key Data

52Wk H/L(HK\$)	4.54/3.31
Issued shares (mn)	
H share	11,659.7
Domestic share	24,596.9
H-share market cap (HK\$ mn)	44,773
3-mth avg daily turnover (HK\$ mn)	186
Major shareholder(s) (%):	
MOF	67.8

Source(s): Company, Bloomberg, ABCI Securities

2014 Revenue breakdown (%)

Distressed Asset Management	53
Financial Investment and Asset Management	20
Financial Services	29

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

Source(s): Company, ABCI Securities

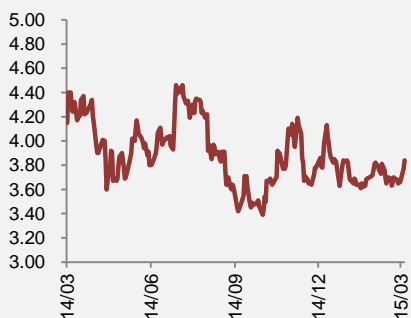
Share performance (%)

	Absolute	Relative*
1-mth	0.52	0.21
3-mth	1.59	-3.70
6-mth	12.28	3.41

*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

- FY14 net profit was reported at RMB 11,896mn, up 32% yoy and is 2% above our estimates
- Acquisition of Distressed Debt Assets (DDA) jumped 68% yoy to RMB 149.5bn; the net balance of DDA rose 80% yoy to RMB 206.8bn; income from DDA was up 52% yoy to RMB 22.3bn
- Pre-tax ROAE of financial services increased from 3.6% in FY13 to 10.1% in FY14
- Reiterate **BUY** with TP of HK\$ 5.40 to imply a 1.5x 2015E P/B

FY14 net profit rose 32% yoy to RMB 11,896mn. Cinda's FY14 revenue grew 41% yoy to RMB 59,790mn; net profit increased 32% yoy to RMB 11,896mn, 2% above our estimates. By business segment, distressed asset management (DAM) remained as the core income contributor, accounting for 52.7% of total income, whereas financial investment and asset management (FIAM) and financial services (FS) contributed to 20.3% and 29.3% of total income. ROAA and ROAE were 14.0% and 2.62% as compared with 13.8% and 2.85% in FY13.

Strong balance sheet growth. Total assets grew 42% yoy and 13% hoh to RMB 544.4bn. Balance of interest-bearing liabilities grew 46% yoy to RMB 351bn; borrowings from banks and other financial institutions and bonds issuance accounted for 75.0% and 12.4% of the total balance.

Return on Restructured Distressed Assets (RDA) remained stable. Acquisition of RDA surged 55% yoy to RMB 118,703mn. The net balance of RDA grew 68% yoy to RMB 164,635mn. Annualized return on monthly average balance of RDA remained stable at 12.2% hoh, lower than the 13.5% in 2013 on strengthened risk management.

Acquisition on Traditional Distressed Assets (TDA) increased significantly. Acquisition of traditional distressed assets (TDA) surged 151% yoy to RMB 30,796mn. Hence, the net balance rose 151% yoy to RMB 42,169mn on accelerated disposals of NPLs from banks. Internal rate of return remained stable at 18.6% (2013: 19.3%).

Pre-tax ROAE of financial services increased. Pre-tax profit of financial services soared 261% yoy to RMB 1,857mn, primarily due to the 49.6% yoy decline in pre-tax loss of Happy Life Insurance. Pre-tax ROAE of financial services increased from 3.6% in FY13 to 10.1% in FY14. Contribution of financial services to the Group's profit before tax increased to 11.4% (2013: 4.4%).

Maintain BUY with TP at HK\$ 5.40. Given the promising growth in distressed asset management business, we maintain **BUY** for Cinda with TP of HK\$ 5.40, which implies a 1.5x 2015E P/B.

Risk factors: 1) Increasing credit risk related to real estate exposure; 2) Rising funding costs; 3) Prolonged deceleration of China's economic growth.

Financial Summary

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Revenue (RMB mn)	32,335	42,413	59,790	71,880	85,500
Chg (% YoY)	32.6	31.2	41.0	20.2	18.9
Net profit (RMB mn)	7,306	9,027	11,896	15,301	18,481
Chg (% YoY)	8.0	23.5	31.8	28.6	20.8
EPS (RMB)	0.25	0.29	0.33	0.42	0.51
Chg (% YoY)	-5.9	15.1	12.8	28.6	20.8
BVPS (RMB)	1.82	2.14	2.58	2.91	3.32
Chg (% YoY)	20.9	18.0	20.1	13.0	14.0
P/E (x)	12.1	10.5	9.3	7.2	6.0
P/B (x)	1.7	1.4	1.2	1.0	0.9
ROAA (%)	3.4	2.8	2.6	2.5	2.5
ROAE (%)	15.8	13.8	14.0	15.4	16.4
DPS(RMB)	0.05	0.03	0.10	0.13	0.15
Yield (%)	1.8	1.1	3.2	4.2	5.0

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Income from DDA classified as receivables	3,518	10,144	18,114	24,628	31,524
FV changes on DDA	3,878	4,618	4,078	4,311	4,526
FV changes on other financial instruments	399	539	2,181	3,489	4,535
Investment income	6,529	7,044	9,117	9,144	9,249
Net insurance premium earned	5,325	5,772	7,443	7,513	8,449
Fee and commission income	2,226	2,520	3,008	3,421	3,813
Sales of inventories	3,924	4,322	4,341	4,775	5,252
Interest income	2,493	5,059	8,811	11,894	15,462
Net gains on disposal of subsidiaries and associates	2,585	201	643	546	464
Others	1,457	2,195	2,057	2,160	2,225
Total revenue	32,335	42,413	59,790	71,880	85,500
Insurance expenses	4,690	5,019	6,865	6,373	7,442
Fee and commission expenses	901	869	1,034	1,232	1,373
Purchases and changes in inventories	2,392	2,720	2,824	3,056	3,309
Finance cost	3,698	7,804	15,961	21,547	26,934
Staff costs	3,418	3,797	4,601	5,705	7,017
Depreciation	449	444	456	479	503
Business tax and surcharge	786	1,234	1,981	2,774	3,606
Other operating expenses	2,267	2,560	2,873	3,217	3,539
Impairment losses	4,601	6,153	5,438	5,363	5,447
Total operating expenses	23,200	30,601	42,034	49,746	59,169
Operating profits	9,135	11,812	17,757	22,135	26,330
Share of results of Associates	612	500	460	483	507
Other income/expenses	(152)	(541)	(1,910)	(1,872)	(1,834)
Profit before tax	9,596	11,772	16,307	20,746	25,003
Income tax expenses	2,379	2,672	4,164	5,187	6,251
Minority interest	(89)	74	247	259	272
Net Profit	7,306	9,027	11,896	15,301	18,481
Growth (%)					
Total revenue	32.6	31.2	41.0	20.2	18.9
Total operating expenses	44.8	31.9	37.4	18.3	18.9
Operating profits	9.3	29.3	50.3	24.7	19.0
Profit before tax	5.9	22.7	38.5	27.2	20.5
Net Profit	8.0	23.5	31.8	28.6	20.8
Key ratios					
Operating profit margin	28.3	27.9	29.7	30.8	30.8
Net profit margin	22.6	21.3	19.9	21.3	21.6
Cost to income	29.7	26.2	24.0	23.7	23.8
Effective tax rate	24.8	22.7	25.5	25.0	25.0
Dividend payout	21.4	11.7	30.0	30.0	30.0
ROAE	15.8	13.8	14.0	15.4	16.4
ROAA	3.4	2.8	2.6	2.5	2.5

Source(s): Company, ABCI Securities estimates



Consolidated Balance Sheet (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Cash and banks	42,726	57,059	43,891	39,502	35,552
Settlement funds	1,526	1,708	5,145	7,718	8,490
Guarantee deposits	907	831	918	992	1,071
Placements	2,000	290	3,000	6,000	6,600
FVTPL	16,923	25,178	57,221	79,893	106,629
Repo financial assets	57	1,054	11,454	22,908	29,781
AFS	64,377	72,747	85,795	104,074	129,117
L&R	51,195	116,663	180,913	228,910	274,606
Loans to customers	25,042	48,636	80,225	112,315	134,778
Receivables	5,257	6,449	7,022	7,584	8,191
HTM	7,343	7,592	7,043	7,262	7,452
AFS properties	13,815	17,790	29,933	32,926	36,219
Investment properties	2,100	1,858	1,606	1,381	1,188
Investment in Associates	7,476	8,962	10,080	10,987	11,866
Property and equipment	3,467	3,620	3,688	3,761	3,837
Goodwill	362	324	324	324	324
Other intangibles	137	160	184	212	243
Deferred tax assets	2,623	3,937	3,443	3,098	2,789
Other assets	7,281	8,928	12,544	13,798	15,178
Total assets	254,614	383,785	544,427	683,646	813,909
Borrowing from central bank	7,053	4,913	986	1,035	1,087
Brokerage client money	6,630	6,481	11,663	13,413	15,425
FVTPL	53	49	37	59	95
Repo financial liabilities	11,994	9,443	9,940	13,419	18,115
Borrowings	76,099	173,835	263,452	316,143	363,564
Payables	39,539	22,814	13,891	14,586	15,315
Insurance funds	3,213	3,244	6,251	6,689	7,157
Tax payable	2,132	2,061	1,743	2,091	2,510
Insurance contract reserve	17,586	20,723	25,219	29,002	32,482
Bonds payable	12,535	13,285	43,695	50,249	57,786
Deferred tax liabilities	357	451	664	698	733
Other liabilities	16,539	33,249	53,195	121,147	168,434
Total liabilities	193,730	301,023	442,564	568,530	682,703
Issued share cap	30,140	35,459	36,257	36,257	36,257
Reserves	9,207	21,665	28,746	30,183	31,994
Retained profits	15,427	18,875	28,366	39,077	52,014
Total shareholders' fund	54,774	75,998	93,369	105,517	120,264
Minority interests	6,111	6,764	8,494	9,600	10,941
Total equity	60,885	82,762	101,863	115,116	131,206

Source(s): Company, ABCI Securities estimates



Disclosures

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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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