



Aug 8, 2014
 Company Report
 Rating: BUY
 TP: HK\$ 5.40

Share price (HK\$) 4.27
 Est. share price return 26.5%
 Est. dividend yield 1.5%
 Est. total return 28.0%

Analyst : Pandora Leung
 Tel: (852) 2147 8809
 Email: pandoraleung@abci.com.hk

Key Data

52Wk H/L(HK\$)	3.48/5.53
Issued shares (mn)	
H share	11,659.7
Domestic share	24,596.9
Market cap (HK\$ mn)	154,816
3-mth avg daily turnover (HK\$ mn)	222
Major shareholder(s) (%):	
MOF	68.0

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Distressed Asset Management	52
Financial Investment and Asset Management	21
Financial Services	29

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

Source(s): Company, ABCI Securities

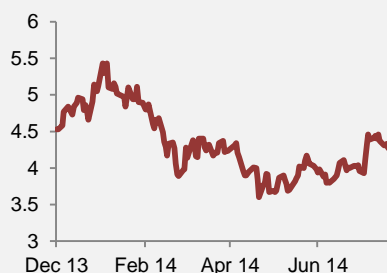
Share performance (%)

	Absolute	Relative*
1-mth	6.0	2.3
3-mth	18.6	6.3
6-mth	(14.3)	(24.7)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

China Cinda (1359 HK)
 Thrive on the dive - initiating with BUY

- According to NBSC, total account receivables from industrial enterprises increased from RMB 7.1tn at end-2011 to RMB 9.6tn at end-2013. We believe an increasing supply of distressed assets from NFE would enhance the prospect for Cinda's NFE distressed assets business.
- NPL ratio of commercial banks rose to 1.08% as at end-Jun 2014 from 1.00% as at end-2013; the increasing supply of NPLs would support the growth momentum of traditional distressed assets business.
- RDA business has grown exponentially since its launch, and we expect the net balance of RDA to grow at a CAGR of 33% from 2013-2016E.
- Initiate BUY with TP at HK\$5.40, equivalent to 1.6x 2014E P/B and 13.2x 2014E P/E.

Accelerating income contribution from NFE distressed assets. Net balance of NFE distressed assets in Cinda increased 110.8% yoy to RMB 62.4bn in 2013, representing 54.4% of total net balance of distressed debt assets (2012: 52.8%). Income from non-financial enterprises (NFE) distressed assets accounted for 42.7% of total income of distressed debt assets in 2013 (2012: 28.8%). We expect income contribution from NFE distressed assets would continue to increase.

Increasing supply of NPLs from banks. According to CBRC, NPL ratio of commercial banks rose to 1.08% as at end-Jun 2014 from 1.00% as at end-2013. With the continued economic structural transformation, asset quality deterioration may face rising pressure, thus we expect the NPL ratio of the entire banking system to rise.

Restructuring business would continue to expand. RDA business has grown exponentially since its launch, with the net balance surging by 9.1 times from RMB 9.68bn in 2011 to RMB 97.97bn in 2013, we expect the net balance of RDA to grow at a CAGR of 33% from 2013-16E and the interest income derived from the restructuring model to grow at a CAGR of 36% from 2013-16E.

Recent share price of its listed DES companies has rebounded. Share price of Cinda's top-20 listed DES companies has climbed 17.1% YTD. Since values of Cinda's listed DES assets are calculated based on their trading prices, the rebound may lower impairment losses.

Initiate Cinda with BUY on upbeat growth in distressed asset management business. Based on the sum-of-the-parts (SOTP) valuation, the value of Cinda arrives at HK\$ 5.40, equivalent to 1.6x 2014E P/B and 13.2x 2014E P/E. Given the increasing supply of NPLs and promising growth in distressed asset management business, we deem the current valuation of 1.4x 2014E P/B as attractive. We initiate our coverage on Cinda with a BUY rating. Cinda would release its 1H14 results in late Aug. We expect earnings growth to be 25%-30% yoy, mainly driven by traditional and restructured distressed assets businesses; credit risks relating to its real estate exposure would be one of the market focuses.

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

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	2.38	2.74	3.18
Chg (% YoY)	20.9	18.0	11.2	15.0	15.8
P/E (x)	13.5	11.7	10.6	8.3	6.9
P/B (x)	1.9	1.6	1.4	1.2	1.1
ROAE (%)	15.8	13.8	14.4	15.8	16.5
ROAA (%)	3.4	2.8	2.8	3.0	3.2
DPS(RMB)	0.05	0.03	0.06	0.08	0.10
Yield (%)	1.3	0.8	1.5	1.9	2.3

Source(s): Bloomberg, ABCI Securities estimates



Contents

China Cinda (1359 HK)	1
Contents.....	2
Company Profile.....	3
Business Overview	4
Financial Analysis and forecast	9
Distressed asset management business	9
Accelerating income contribution from NFE distressed assets	9
Increasing supply of NPLs from banks	10
Impaired-asset ratio would trend up.....	12
A high exit multiple is difficult to sustain	13
Financial investment and asset management business	17
Financial service business	20
Valuation	23
Sum-of-the-parts (SOTP) valuation methodology.....	23
Industry Overview	26
Risk factors.....	30
Financial snapshot.....	31
Financial forecasts.....	32
Disclosures.....	34

Company Profile

Established in 1999, Cinda is the leading asset management company (AMC) in China and is the first AMC approved for establishment by the State Council. Cinda is the first to meet the performance evaluation benchmarks set by Ministry of Finance (MOF) on the disposal of Policy Distressed Assets. MOF has been the sole shareholder of Cinda since its incorporation. In 2012, National Council for Social Security Fund (NSSF), UBS, CITIC Capital, and Standard Chartered became Cinda's strategic investors.

The Company has 9 wholly-owned or non-wholly-owned tier-1 subsidiaries providing asset management and financial services in China and Hong Kong (including Well Kent International, Zhongrun Development, Cinda Securities, Jingu Trust, Cinda Leasing, First State Cinda Fund, Cinda Property Insurance, Happy Life, and Cinda Investment). Cinda has 31 branches nationwide and ~18,000 employees as of end-2013.

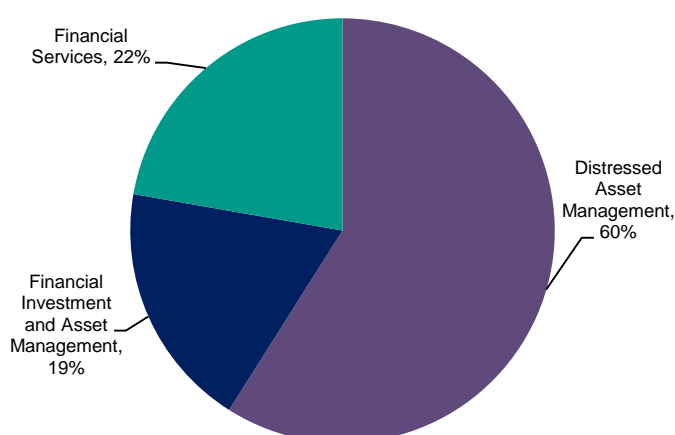
As at end-2013, the Group's total assets were RMB 384bn. Its principal businesses include: (1) distressed asset management (DAM); (2) financial investment and asset management (FIAM); (3) financial services (FS). DAM is the Company's core business, accounting for ~51.5% of total revenue and 59.6% of total assets in 2013.

Exhibit 1: Principal business segments

Distressed asset management	Financial investment and asset management	Financial services
<ul style="list-style-type: none"> Distressed debt asset management Management of DES Assets Custody, liquidation and restructuring services for distressed entities 	<ul style="list-style-type: none"> Principal investment Asset management (Private equity fund) 	<ul style="list-style-type: none"> Securities and futures Trust Financial leasing Fund management Insurance

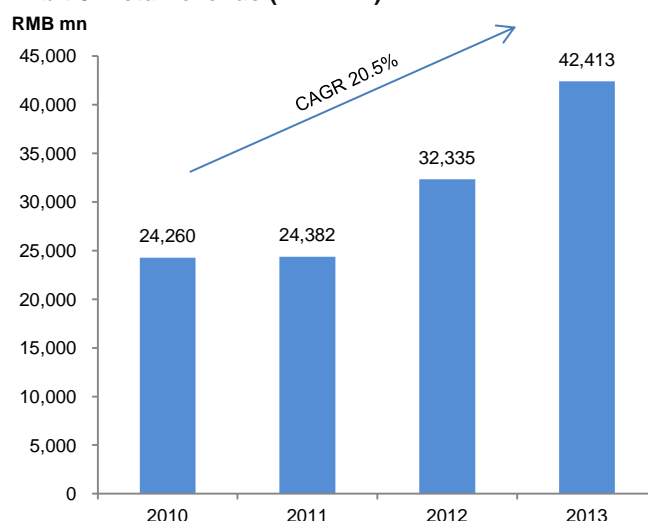
Source(s): Company, ABCI Securities

Exhibit 2: Asset mix as of end-2013



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

Exhibit 3: Total revenue (RMB mn)



Source(s): Company, ABCI Securities



Business Overview

Distressed asset management (DAM)

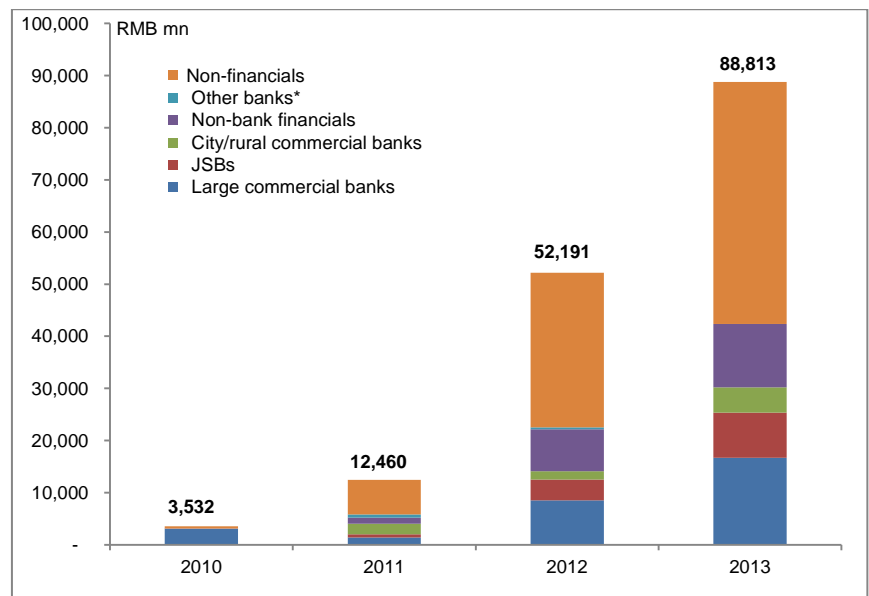
Distressed asset management (DAM) is Cinda's core business and its scope includes: (1) the management and disposal of distressed debt assets acquired from or entrusted by financial institutions and non-financial enterprises; (2) the management and disposal of Cinda's DES assets; (3) custody, liquidation, and restructuring of distressed entities.

Distressed debt assets (DDA)

Cinda acquires distressed debt assets from financial institutions and non-financial enterprises, and conducts management and disposal of such assets in order to realize value appreciation of the assets and maximize cash recovery. There are 2 primary models that Cinda employs to conduct the DAM business: (1) the traditional distressed asset management model and (2) the restructuring distressed asset management model.

The DDA acquired by the Group from financial institutions and non-financial enterprises primarily consist of: (1) non-performing loans (NPLs) sold by banks; (2) DDA sold by non-bank financial institutions; (3) and accounts receivable sold by non-financial enterprises. As at Dec 31, 2013, net balance of the Group's DDA acquired from various entities amounted to RMB 114,755mn, among which the balance of traditional distressed assets was RMB 16,784mn and that of restructuring distressed assets was RMB 97,971mn. In 2013, acquisition costs of DDA increased by 70.2% yoy to RMB 88.8bn while income from these assets totaled RMB 14.7bn, up 80.3% yoy.

Exhibit 3: DDA acquisition has grown strongly

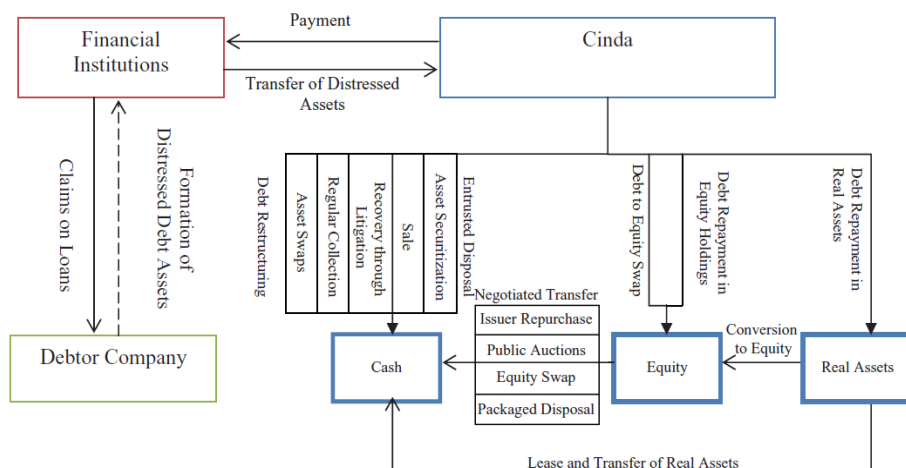


*Note: Other banks include policy banks, Postal Saving Bank of China, and foreign banks
Source(s): Company, ABCI Securities

Traditional Distressed Assets (TDA)

Cinda acquires traditional distressed assets mainly from banks, which typically include (1) distressed debt assets and (2) equity and real estate in satisfaction of debt. Under the traditional model, Cinda assumes the pre-existing rights and obligations between the banks and debtors upon acquiring the debts. Cinda usually acquires TDA at a discount to original value and disposes of these assets through various means for cash.

Exhibit 4: Traditional Distressed Assets model



Source(s): Company, ABCI Securities

Prior to 2012, Cinda's TDA mainly came from the distressed assets divested by large state-owned and joint-stock commercial banks before their public listings. In Feb 2012, the Ministry of Finance (MOF) and the China Banking Regulatory Commission (CBRC) approved the packaged sale of distressed assets by PRC financial institutions at a discount to original value, thus expanding the source of distressed assets for Cinda.

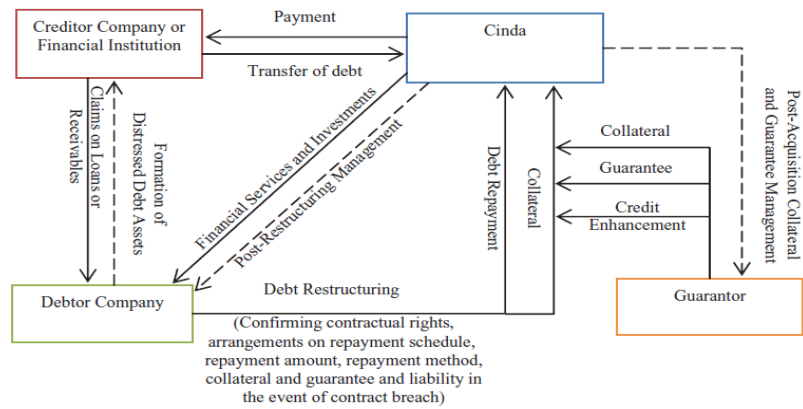
Net balance of TDA remained stable from 2010-12, but doubled to 16.8bn in 2013. Return on disposal of TDA was relatively high, ranging from 111.3%-145.5% between 2010-13.

Restructuring Distressed Assets (RDA)

Cinda acquires restructuring distressed assets from financial institutions (FI), such as banks and trust companies, and accounts receivables from non-financial enterprises (NFE). RDA is a quasi-loan business, in which Cinda determines the contractual rights and obligations between the creditor and debtor and enter into an agreement with the creditor to acquire the debt. Unlike the traditional model where Cinda disposes of the distressed assets by selling them to the purchasers, Cinda achieves the exit of RDA through repayment from the debtors. Debt repayment period following restructuring generally spans from 1-2 years.



Exhibit 5: Restructuring Distressed Assets model



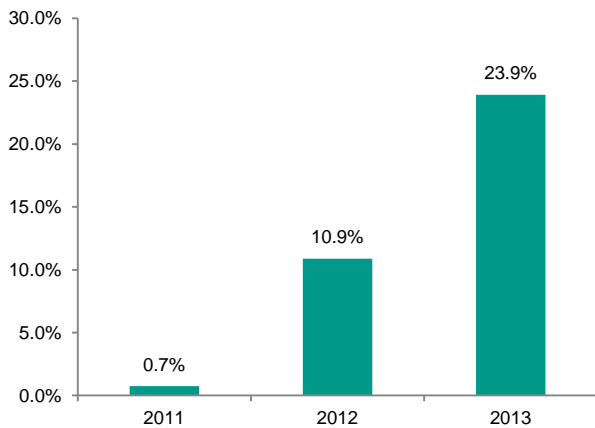
Source(s): Company, ABCI Securities

Exhibit 6: Breakdown of distressed debt assets

DDA breakdown	RMB mn				2010	% of total		
	2010	2011	2012	2013		2011	2012	2013
Net DDA balance								
TDA	8,030	7,919	8,022	16,784	100%	45%	14%	15%
RDA	-	9,681	48,068	97,971	0%	55%	86%	85%
Total	8,030	17,600	56,090	114,755	100%	100%	100%	100%
Acquisition costs of DDA								
TDA	3,532	2,867	2,942	12,279	100%	23%	6%	14%
RDA	-	9,593	49,250	76,534	0%	77%	94%	86%
Total	3,532	12,460	52,191	88,813	100%	100%	100%	100%
Income from DDA								
TDA	5,396	4,851	3,974	4,534	100%	96%	53%	31%
RDA	-	181	3,518	10,144	0%	4%	47%	69%
Total	5,396	5,032	7,492	14,679	100%	100%	100%	100%

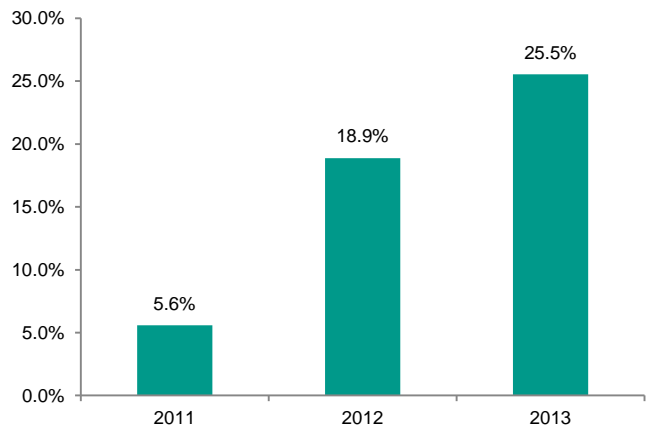
Source(s): Company, ABCI Securities

Exhibit 7: RDA revenue as a percentage of the Group's revenue



Source(s): Company, ABCI Securities

Exhibit 8: RDA assets as a percentage of the Group's total assets



Source(s): Company, ABCI Securities

Debt-to-equity swaps (DES) asset management

Cinda has obtained DES assets primarily through debt-to-equity swaps, receipt of equity in satisfaction of debt and other distressed asset-related transactions. As of end-2013, DES assets amounted to RMB 42.3bn, down 12.4% yoy and 3.2% HoH, representing 11% of total assets. DES assets can be classified into unlisted DES assets and listed DES assets. As at Dec 31, 2013, Cinda held: (1) unlisted DES assets in 187 DES Companies with a total book value of RMB 34.13bn; (2) listed DES assets in 26 DES Companies with a total book value of RMB 8.14bn.

Exhibit 9: Details of DES assets

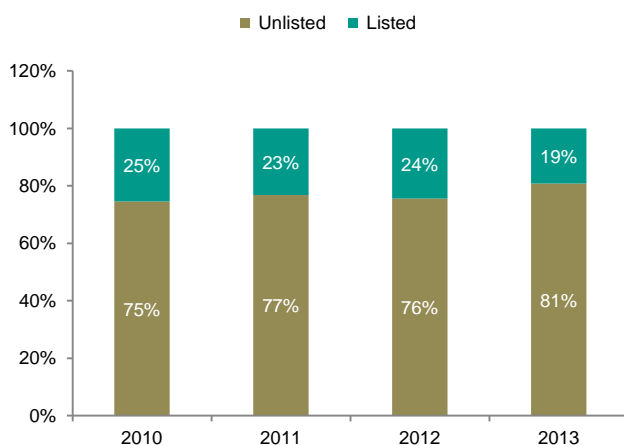
	2010	2011	2012	2013
No. of investee companies	240	274	255	213
Unlisted	215	204	186	187
Listed	25	70	69	26
Book value (RMB mn)	52,312	50,595	48,239	42,270
Unlisted	39,007	38,840	36,449	34,135
Listed	13,306	11,755	11,789	8,135

Source(s): Company

Cinda's DES assets are mainly concentrated on coal, chemicals and metals industries. As of 1H13, about 61.5% of DES assets came from the coal sector, followed by 16.2% and 9.1% from chemicals and metals sectors.

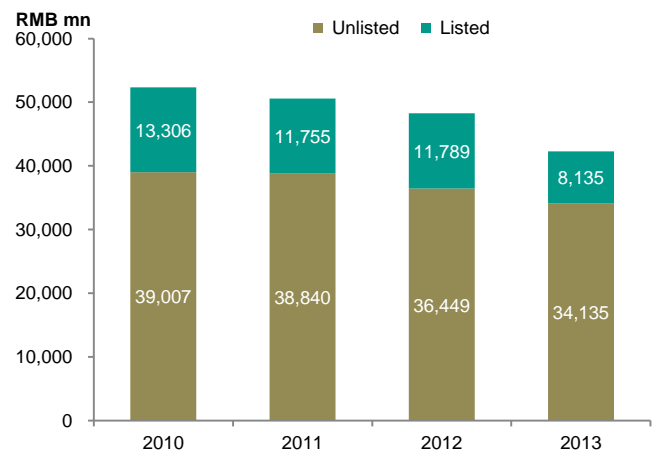
DES assets generate dividend income, disposal income, and restructuring income. Cinda also receives fee and commission incomes by providing financial services to DES companies.

Exhibit 10: Mix of DES assets by book value



Source(s): Company, ABCI Securities

Exhibit 11: Book value of DES assets by company type



Source(s): Company, ABCI Securities

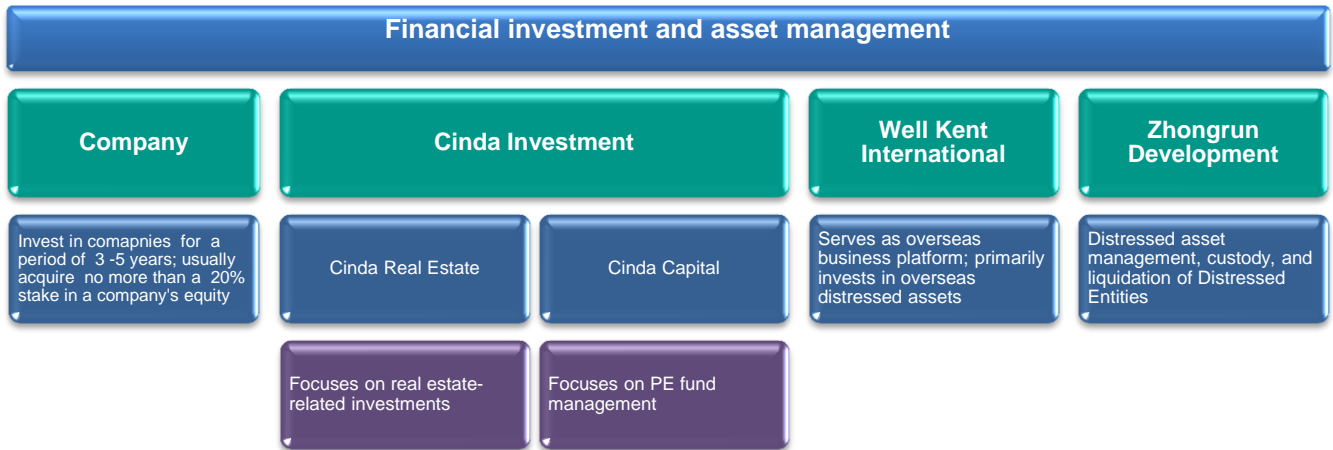
Custody, liquidation, and restructuring of distressed entities

Cinda is commissioned by government agencies and corporate clients to provide custody, liquidation and restructuring services for distressed financial institutions and non-financial enterprises. In 2012 and 2013, Cinda received fees and commissions amounting to RMB 10.3mn and RMB 5.5mn, which accounted for 0.03% and 0.01% of the Group's total revenue during the period.

Financial Investment and Asset Management (FIAM)

Cinda's financial investment and asset management (FIAM) business is a natural extension of its DAM business because FIAM helps maximize the value appreciation potential of the distressed assets. Cinda's FIAM business is conducted together by the Company, Cinda Investment, Well Kent International, Zhongrun Development, Cinda Capital and their subsidiaries.

Exhibit 12: Business segment - FIAM



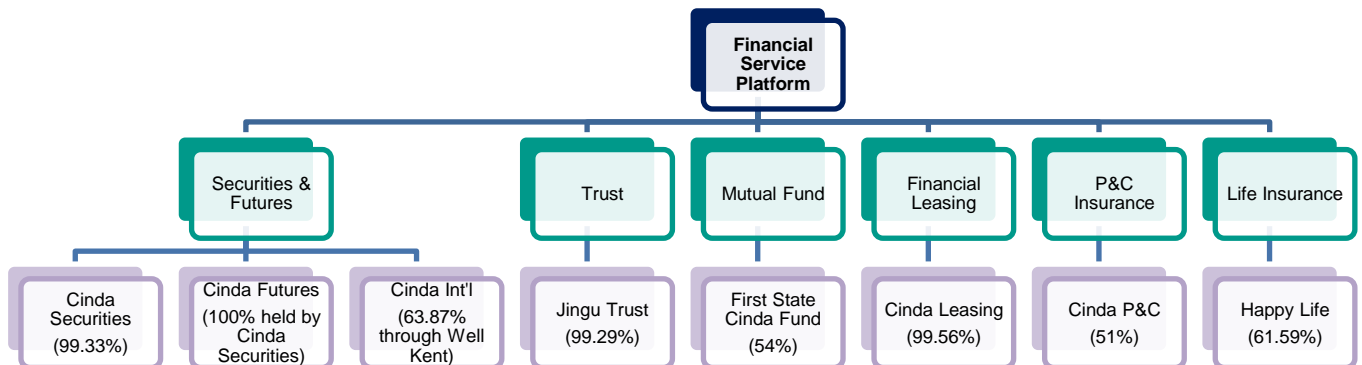
Source(s): Company

FIAM business primarily includes: (1) principal investment; (2) asset management (including private equity); (3) and other businesses. Cinda Investment currently controls more than 10 subsidiaries covering different business sectors, including two A-share listed companies - Cinda Real Estate (600657.CH) and Tongda Venture (600647.CH), the private equity subsidiary of Cinda Capital, and other subsidiaries.

Financial Services (FS)

Cinda has established a synergistic and diversified financial services platform including securities, futures, trusts, financial leasing, fund management and insurance. The majority of Cinda's financial service subsidiaries had been distressed financial institutions before being acquired and turned around.

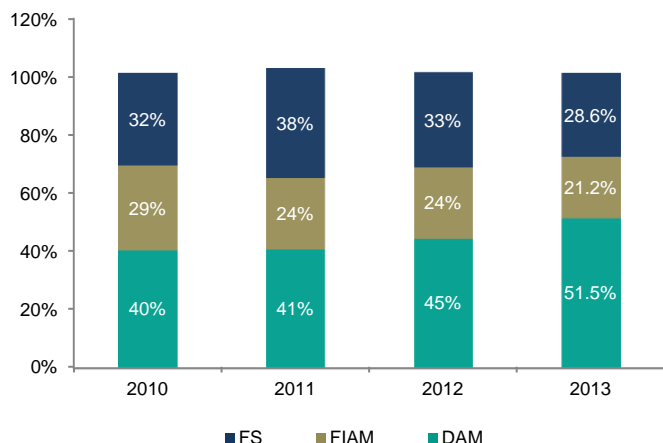
Exhibit 13: Cinda's financial service platform



Source(s): Company, ABCI Securities

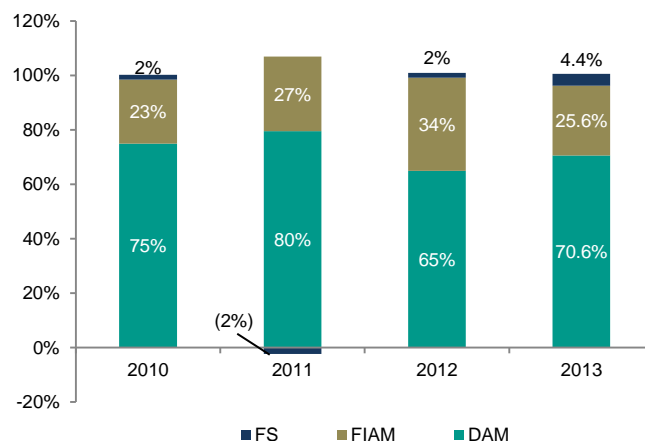
Financial Analysis and forecasts

Among the 3 business segments, DAM, FIAM and FS, DAM is Cinda's core business accounting for most of the income and profit. DAM accounted for 51.5% of the Group's total revenue in 2013, followed by 28.6% and 21.2% from FS and FIAM. In terms of pre-tax profit (PBT), DAM contributed to 70.6% of the Group's total while FIAM and FS accounted for 25.6% and 4.4% of total.

Exhibit 14: 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 15: 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

Distressed asset management business

Revenue of the DAM segment was generated by 3 business lines: TDA, RDA, and DES asset management. Revenue from TDA is driven by flows of NPL acquisition and disposal margins of distressed assets, while revenue from RDA is determined by the restructured asset balance and the annualized return (balance-driven). In addition, Cinda obtains substantial revenues from the disposal gains and dividend yields of DES assets.

Accelerating income contribution from NFE distressed assets

Cinda started the business in NFE distressed assets in 2011 after obtaining the qualification to acquire such assets in 2010. The NFE distressed assets acquired by the Company are primarily accounts receivables and other receivables of non-financial enterprises, including overdue receivables, receivables expected to be overdue, and receivables from borrowers with liquidity issues.

Net balance of NFE distressed assets increased 110.8% yoy to RMB 62.4bn in 2013, representing 54.4% of total net balance of DDA (2012: 52.8%). Income from NFE distressed assets accounted for 42.7% of total income of DDA, compared to 28.8% in 2012.

According to the National Bureau of Statistics of China (NBSC), total account receivables from industrial enterprises increased from RMB 7.1tn at end-2011 to RMB 9.6tn at end-2013, representing a CAGR of 16.5% from 2011-13. We expect an increasing supply of distressed assets from NFE would enhance the prospect for Cinda's NFE distressed assets business.



Increasing supply of NPLs from banks

According to CBRC, NPL ratio of commercial banks rose to 1.08% by end-Jun 2014 from 1.04% by end-Mar 2014 and 1.00% by end-2013. With the continued economic changes, asset quality may deteriorate, thus we expect the NPL ratio of the entire banking system to rise. According to the circular jointly issued by CBRC and MOF in June 2012, banks are encouraged to carve out NPLs. Besides, there is a growing demand for banks to free up more capital for working capital needs. As a result, we expect the percentage of NPLs sold by banks would increase gradually.

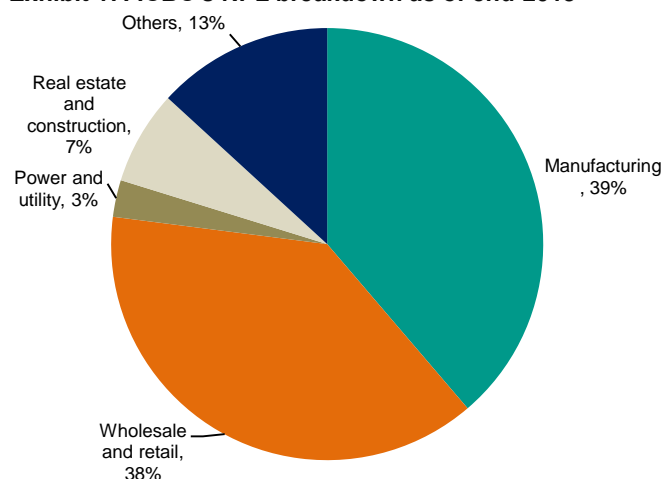
Exhibit 16: Forecasts on TDA business segment

RMB mn	2010	2011	2012	2013	2014E	2015E	2016E
Total system loan Balance (RMB + foreign currency)	50,922,595	58,189,250	67,287,461	76,632,664	86,594,910	97,852,249	110,573,041
Of which, Commercial banks	38,035,088	42,790,000	51,884,211	59,210,000	67,499,400	76,274,322	86,189,984
System NPL ratio	2.44%	1.81%	1.60%	1.68%	1.90%	2.10%	2.30%
Of which, Commercial banks	1.14%	1.00%	0.95%	1.00%	1.10%	1.15%	1.20%
System NPLs (mn)	1,242,511	1,053,225	1,076,599	1,287,429	1,645,303	2,054,897	2,543,180
% of NPL sold	2.00%	2.00%	2.50%	6.50%	7.00%	7.50%	8.00%
NPLs sold from banks	24,850	21,065	26,915	83,683	115,171	154,117	203,454
Pricing of sale (acquisition price)	28.00%	28.00%	30.00%	30.00%	30.00%	28.00%	26.00%
Sale proceeds	6,958	5,898	8,074	25,105	34,551	43,153	52,898
Market share of Cinda	50.76%	48.60%	36.43%	48.91%	45.00%	42.00%	38.00%
Acquisition costs	3,532	2,867	2,942	12,279	15,548	18,124	20,101

Source(s): CBRC, PBOC, ABCI Securities estimates

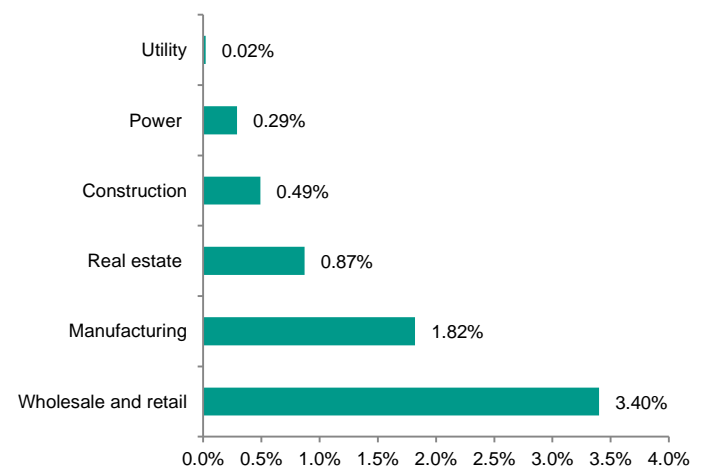
NPL formations and NPLs disposed from banks are mainly concentrated on over-capacitated sectors, including manufacturing, wholesale and retail trade and construction which generates lower NPL recovery rates. Banks tend to transfer NPLs whose residual values are hard to recover and those of lower qualities, thus the NPLs that AMCs acquired tend to be from sectors in down cycles.

Exhibit 17: ICBC's NPL breakdown as of end-2013



Source(s): Company, ABCI Securities

Exhibit 48: ICBC's NPL ratio (%) as of end-2013 by industry



Source(s): Company, ABCI Securities

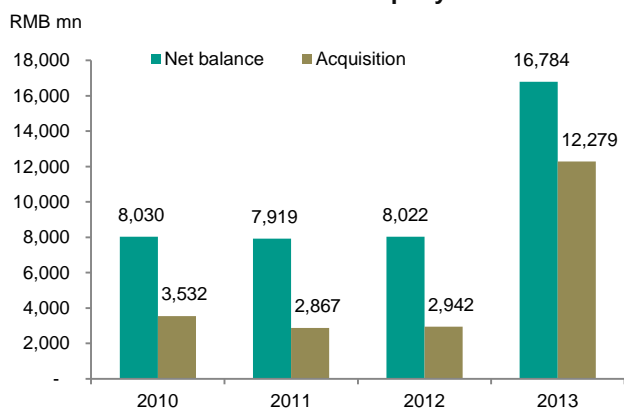
Moderating economic growth in China would provide more opportunities for Cinda to acquire distressed assets, although it would also add to the downside pressure on asset price and disposal gains. We expect disposal margins to trend down on the lower recovery rate.

The balance of NPL acquired by Cinda from banks more than doubled in 2013. With the increasing supply of NPLs, we expect the momentum to sustain in 2014. We expect Cinda to accelerate the turnover from NPL disposal so as to offset the declining disposal margins and support TDA business growth. We estimate the net balance of TDA to grow at a CAGR of 34.7% in 2013-2016E.

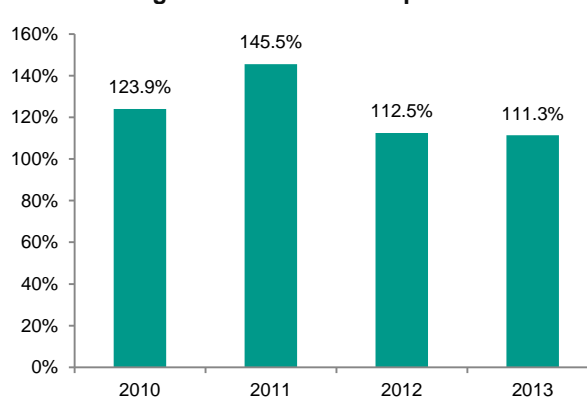
Exhibit 19: Revenue model of TDA

RMB mn	2010	2011	2012	2013	2014E	2015E	2016E
Beginning balance of TDA	8,643	8,030	7,919	8,022	16,784	26,490	35,014
Acquisition cost of TDA	3,532	2,867	2,942	12,279	15,548	18,124	20,101
Carrying amount of TDA disposed	4,261	3,189	3,206	3,810	6,477	10,363	15,026
Unrealised FV changes	116	211	368	293	635	762	914
Income from TDA	5,396	4,851	3,974	4,534	6,348	7,618	9,141
Net balance of TDA	8,030	7,919	8,022	16,784	26,490	35,014	41,003
Return on disposal	123.9%	145.5%	112.5%	111.3%	88.2%	66.2%	54.8%

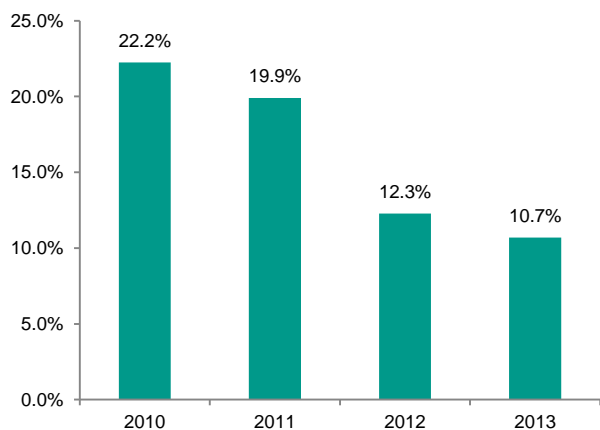
Source(s): Company, ABCI Securities estimates

Exhibit 20: TDA of Cinda at Company level


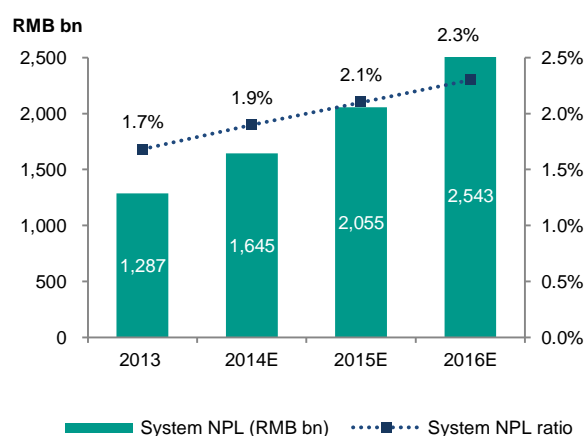
Source(s): Company, ABCI Securities

Exhibit 21: High returns on TDA disposal


Source(s): Company, ABCI Securities

Exhibit 22: TDA revenue as a percentage of the Group's revenue


Source(s): Company, ABCI Securities

Exhibit 23: NPL and NPL ratio of China's banking system


Source(s): Company, ABCI Securities estimates

Impaired asset ratio would trend up

The RDA business has grown exponentially since its launch, with the net balance of RDA surging by 9.1 times from RMB 9.68bn in 2011 to RMB 97.97bn in 2013. We expect the net balance of RDA to grow at a CAGR of 33% from 2013-16E and the interest income derived from the restructuring model to grow at a CAGR of 36% from 2013-2016E.

Cinda's RDA business has concentrated on the real estate sector, which accounted for 60.3% of its RDA net balance by end-2013. Despite RDA's heavy reliance on the real estate sector, impaired RDA ratio remained low at 1% as of 2013. Loans purchased under RDA rely on cash flows of borrowers for repayment. Prolonged implementation of tightening policies in China's property market could adversely affect the capability and willingness of obligors in the industry to repay debts, especially the small- and medium-sized developers in lower-tier cities. This could potentially drive up Cinda's impaired asset ratio.

Market is concerned about the rising credit risk associated with the Group's exposure to the real estate sector. Although we expect the impaired ratio would trend up amid the property down-cycle, the risk would be manageable. Assets under credit risk secured by guarantee, mortgage and pledge represented 98.3% of total assets under credit risk as at Dec 31, 2013. Besides, according to Company's guideline, the collateral ratios for land, properties in progress, and properties for sale were 30%, 50% and 60%, respectively, providing a strong buffer against potential risks that may arise from significant downward correction in property prices.

We expect the impaired asset ratio to rise to 2.0% at end-2016, while gross RDA coverage ratio would increase from 3.0% in 2013 to 5.0% in 2016E. Average monthly yield of RDA was 17.2%, 16.0% and 13.5% for 2011-13, respectively, and we expect the yield to gradually decline to 12.2% in 2016E given the intensifying competition. Given the slower economic growth and increasing downward pressure on asset price, we expect the net balance of RDA to grow at a CAGR of 33% from 2013-16E. Revenue is expected to grow at a CAGR of 36% from RMB 10.1bn in 2013 to RMB 25.7bn in 2016E.

Exhibit 24: Net balance of RDA has grown rapidly

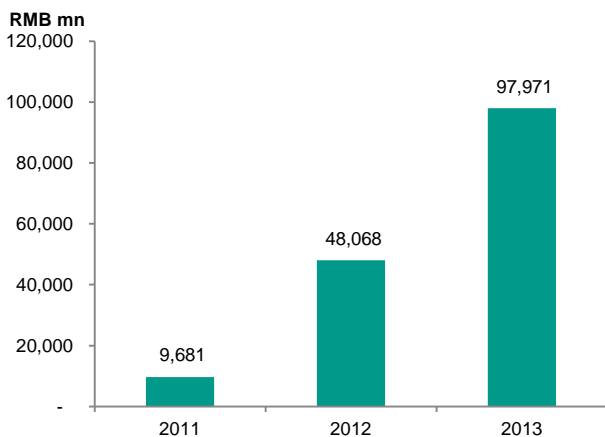
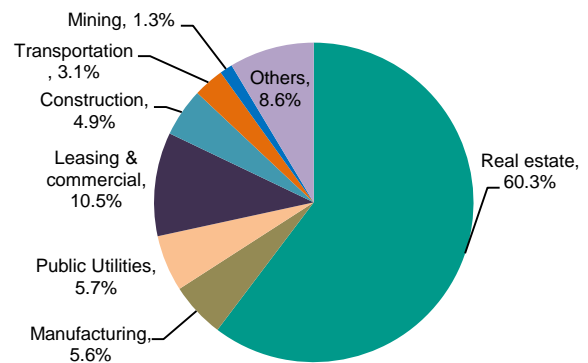
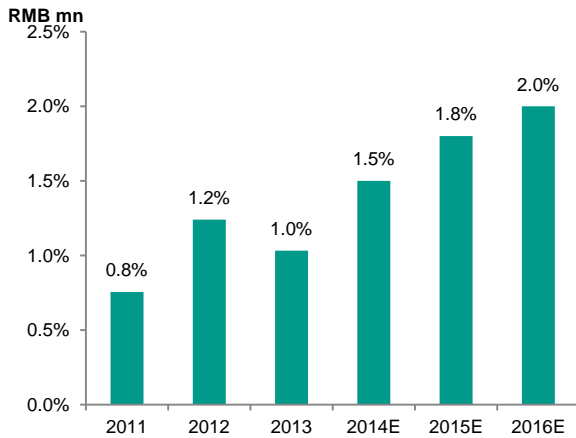


Exhibit 25: 60% of RDA net balance came from real estate sector

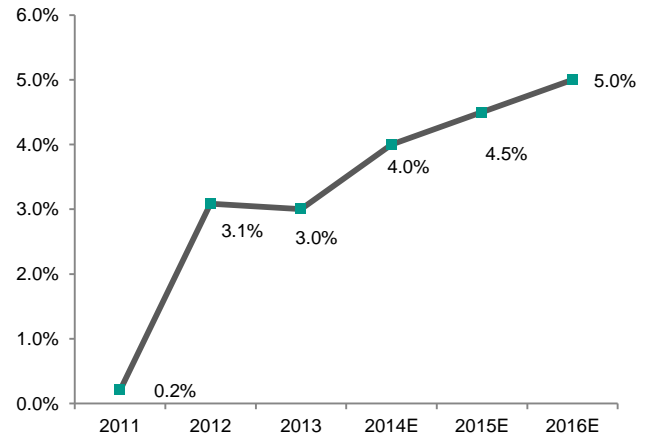


Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities

Exhibit 26: Impaired-asset ratio would trend up


Source(s): Company, ABCI Securities estimates

Exhibit 27: RDA coverage ratio would increase to 5% in 2016E


Source(s): Company, ABCI Securities estimates

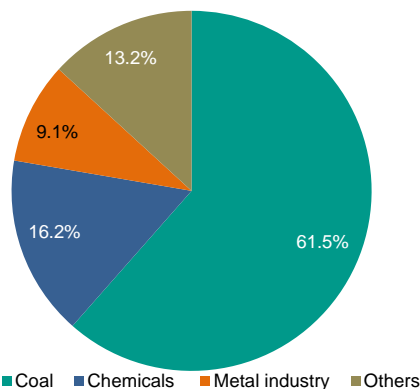
Exhibit 28: Revenue model of RDA

RMB mn	2011	2012	2013	2014E	2015E	2016E
Net amount	9,681	48,068	97,971	146,113	191,520	230,447
Acquisition cost	9,593	49,250	76,534	89,046	104,614	123,890
Revenue	181	3,518	10,144	15,216	20,542	25,678
Annualized monthly return	17.2%	16.0%	13.5%	12.5%	12.2%	12.2%
Impaired amount	73.1	596.8	1,010.7	2,283.0	3,609.8	4,851.5
Impaired ratio	0.8%	1.2%	1.0%	1.5%	1.8%	2.0%
Allowance for impairment losses	20.0	1,482.3	2,942.6	6,088.0	9,024.5	12,128.8
Impaired RDA coverage ratio	27.4%	248.4%	291.1%	266.7%	250.0%	250.0%
Gross RDA coverage ratio	0.2%	3.1%	3.0%	4.0%	4.5%	5.0%

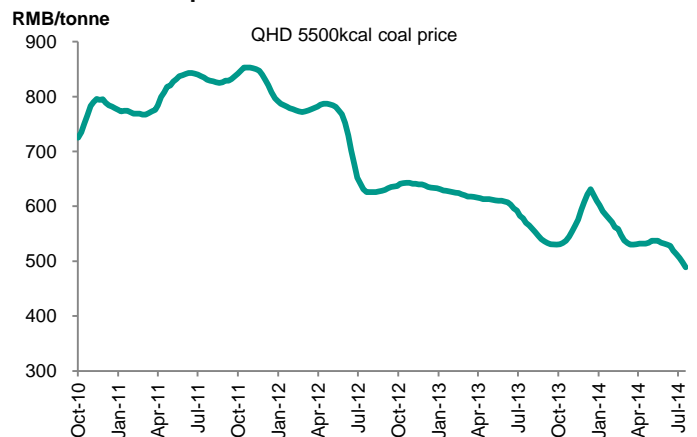
Source(s): Company, ABCI Securities estimates

A high exit multiple is difficult to sustain

DES asset is heavily concentrated on coal sector, since over 61% of the DES portfolio consists of coal companies. The portfolio value is sensitive to the movement in stock prices of coal companies and the physical prices of coal, which we expect to trend lower given the overcapacity concern.

Exhibit 29: Sector allocation of DES assets as of 1H13


Source(s): Company, ABCI Securities

Exhibit 30: Coal price continues to trend lower


Source(s): Wind, ABCI Securities

By end-2013, the top-20 unlisted DES assets had a book value of RMB 27.7bn, accounting for 81.1% of total book value of unlisted DES assets. Among the top-20 unlisted investee companies, 13 are coal companies. For listed DES



assets, the top-20 made up over 95% of book value of listed DES assets by end-2013.

An independent valuation specialist, American Appraisal China Limited (AACL) valued Cinda's top-20 unlisted DES companies at RMB 55.9bn as at Dec 31, 2013, down 10.3% HoH from RMB 62.3bn as of 1H13. Compared with the book value of RMB 27,689mn, it is equivalent to 2 times the acquisition cost, lower than 2.3 times as of 1H13. The share price of the 14 listed coal comparables to Cinda's top unlisted coal companies declined by 5.0% YTD, thus we expect the appraised value to further decline.

Exhibit 31: Share prices of the 14 listed coal enterprises comparables

Investee Company	Ticker	Market capitalization as of Dec 31, 2013	Market capitalization as of Aug 7, 2014	YTD chg
China Shenhua Energy Co Ltd.	1088 HK	325,750	316,641	-2.8%
China Coal Energy Co., Ltd.	1898 HK	57,618	56,448	-2.0%
Yanzhou Coal Mining Co., Ltd.	1171 HK	37,100	33,092	-10.8%
Shanxi Lu'An Environmental Energy Development Co., Ltd.	601699 CH	24,552	20,595	-16.1%
Shanxi Xishan Coal and Electricity Power Co., Ltd.	000983 CH	22,373	19,191	-14.2%
Yangquan Coal Industry (Group) Co., Ltd.	600348 CH	16,979	15,224	-10.3%
Jizhong Energy Resources Co., Ltd.	000937 CH	17,161	18,347	6.9%
Guizhou Panjiang Refined Coal Co., Ltd.	600395 CH	12,015	12,280	2.2%
DaTong Coal Industry Co., Ltd.	601001 CH	9,673	10,444	8.0%
Huolinhe Opencut Coal Industry Corp Ltd.	002128 CH	10,640	10,242	-3.7%
Shougang Fushan Resources Group Limited	639 HK	11,257	9,356	-16.9%
Mongolian Mining Corporation	975 HK	2,979	2,032	-31.8%
Hidili Industrial International Development Ltd.	1393 HK	1,884	1,724	-8.5%
Inner Mongolian Yitai Coal Co., Ltd.	3948 HK	34,708	29,932	-13.8%
Subtotal		584,689	555,548	-5.0%

Source(s): Company, ABCI Securities

Exhibit 32: Top 20 unlisted DES assets ranked by book value as of end-2013

Investee Company	Sector	Shareholding %
Shenhua Group Zhungeer Energy Co., Ltd.	Coal	42.24%
Datong Coal Mine Group Co., Ltd.	Coal	30.12%
Huainan Mining Industry (Group) Co., Ltd.	Coal	24.84%
Xishan Coal Electricity Group Co., Ltd.	Coal	35.47%
Yangquan Coal Industry (Group) Co., Ltd.	Coal	40.42%
Wengfu (Group) Co., Ltd.	Chemicals	47.16%
Shanxi Jincheng Anthracite Mining Group Co., Ltd.	Coal	16.45%
Tiefa Coal Industry (Group) Co., Ltd.	Coal	30.46%
Huozhou Coal Electricity Group Co., Ltd.	Coal	36.97%
Shanxi Fenxi Mining Industry (Group) Co., Ltd.	Coal	36.02%
China National Materials Co., Ltd.	Manufacturing	8.96%
Shandong Zhongxing Energy Co., Ltd.	Coal	20.74%
Ningxia Ningdong Railway Corporation Limited	Transportation	25.90%
Baiyin Nonferrous Metal Group Co., Ltd.	Metals	5.97%
Ningxia Lingxin Coal Industry Co., Ltd.	Coal	52.46%
Tianjin Pipe (Group) Corporation	Manufacturing	6.11%
Shanghai Coking & Chemical Corporation	Chemicals	26.58%
China Nuclear Engineering Corporation Limited	Construction	14.85%
Guizhou Shuicheng Coal Mining (Group) Co., Ltd.	Coal	20.23%
Huaibei Mining Co., Ltd.	Coal	6.79%

Source(s): Company, ABCI Securities



The values of listed DES assets are calculated based on their trading prices, and the mark-to-market losses are reflected in impairment losses on assets. Share price of Cinda's top-20 listed DES companies, has climbed 17.1% YTD; recent stock market rally and share price rebound of its listed DES companies may lead to lower impairment losses

Exhibit 33: Top 20 listed DES assets ranked by book value as of 1H13

Investee Company	Ticker	Sector	Shareholdings	Market capitalization as of Dec 31, 2013 (RMB mn)	Market capitalization as of Aug 7, 2014 (RMB mn)	YTD change
Qinghai Salt Lake Industry Co., Ltd.	000792 CH	Chemicals	7.27%	26,492	26,546	0.2%
Aluminum Corporation of China Limited	601600 CH	Metals	5.92%	45,983	50,251	9.3%
Henan Dayou Energy Co., Ltd.	600403 CH	Coal	4.01%	16,554	14,082	-14.9%
Jizhong Energy Resources Co., Ltd.	000937 CH	Coal	2.82%	16,866	18,347	8.8%
Yangmei Chemical Co., Ltd.	600691 CH	Chemicals	2.48%	9,101	6,429	-29.4%
Yunnan Yuntianhua Co., Ltd.	600096 CH	Chemicals	2.29%	10,049	10,297	2.5%
Yunnan Copper Co., Ltd.	000878 CH	Metals	2.20%	12,337	13,413	8.7%
Zhengzhou Coal Industry & Electric Power Co., Ltd.	600121 CH	Coal	4.81%	5,117	5,148	0.6%
Guizhou Panjiang Refined Coal Co., Ltd.	600395 CH	Coal	1.44%	11,484	12,280	6.9%
Jiangsu Lianyungang Port Co., Ltd.	601008 CH	Transportation	5.75%	3,791	4,254	12.2%
China Erzhong Group (Deyang) Heavy Industry	601268 CH	Transportation	1.24%	5,825	5,390	-7.5%
Bank of Communications Co., Ltd.	601328 CH	Finance	0.04%	266,159	332,835	25.1%
Fujian Qingshan Paper Industry Co., Ltd.	600103 CH	Manufacturing	5.02%	2,453	2,835	15.6%
Kailuan Energy Chemical Co., Ltd.	600997 CH	Chemicals	1.61%	6,777	6,087	-10.2%
China Gezhoubu Group Co., Ltd.	600068 CH	Construction	0.80%	13,430	18,741	39.5%
CITIC Heavy Industries Co., Ltd.	601608 CH	Manufacturing	0.73%	9,061	9,069	0.1%
Shandong Inspur Software Co., Ltd.	600756 CH	IT	1.36%	3,660	7,172	95.9%
FAWER Automotive Parts Limited Company	200030 CH	Manufacturing	1.79%	6,843	9,105	33.1%
Anyuan Coal Industry Group Co., Ltd.	600397 CH	Coal	0.64%	3,707	5,138	38.6%
China National Software & Service Co., Ltd.	600536 CH	IT	1.08%	9,289	10,272	10.6%
Subtotal				484,978	567,693	17.1%

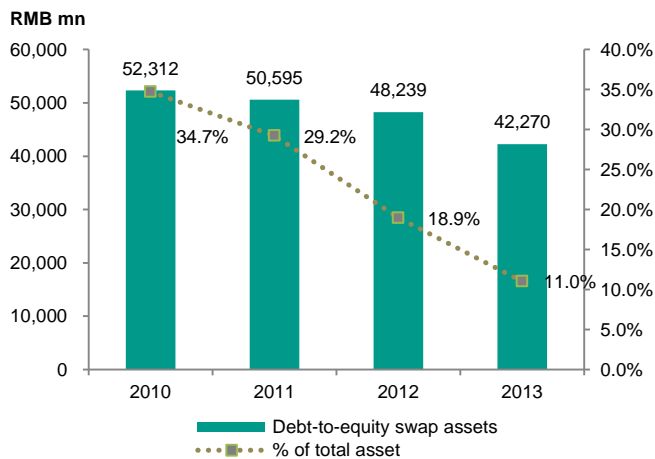
Source(s): Company, ABCI Securities

Revenue of DES assets management comprises the dividend income and net gains from DES assets disposal. For FY13, the dividend income and net disposal gains from DES assets amounted to RMB 3.6bn and RMB 1.35bn, accounting for 8.6% and 3.2% of total revenue. Historically, the dividend income of DES assets was largely stable while the net disposal gain of DES assets varied, with the exit multiple ranging from 1.9x-2.7x on average (listed: 1.1x-3.4x; unlisted: 2.1x-2.9x).

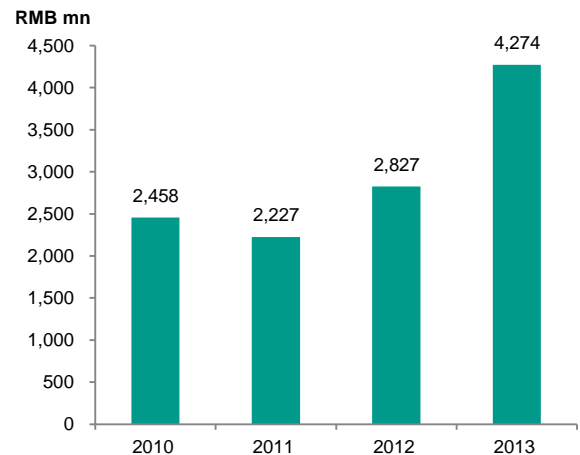
Cinda disposed of its DES assets through public listing, exchanging the unlisted DES assets for shares of publicly listed companies, and mergers and acquisitions. China has resumed its A-share IPO market in 1Q14. As at July 30, 2014, a total of 70 companies have executed their IPOs, raising around RMB 29.3bn. By sector, however, only one coal-mining company has been listed in the Main board since China's resumption of IPO.

China Securities Regulatory Commission (CSRC) has set its IPO target and plans to approve 100 IPOs in 2H14. Given the limited IPO quota and dwindling market appetite for coal-mining companies, we believe it would be quite difficult for Cinda to dispose of its unlisted DES assets through IPOs; if Cinda chooses to exit through IPO, valuation discounts will be required.

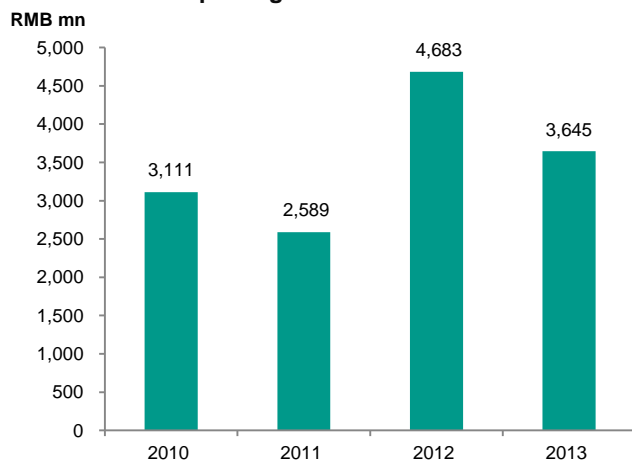
Exit multiple for DES declined from 2.7x in 2012 to 1.9x in 2013. We expect the exit multiple to further decline to 1.7x, 1.6x, and 1.5x for 2014E-16E given the opaque outlook for coal industry. We expect the dividend yield of DES assets to remain stable at 2.6%-2.9% for the next 3 years. We estimate the book value of DES would further decline from RMB 42.3bn in 2013 to RMB 16.0bn in 2016E.

Exhibit 34: Declining book value of DES assets


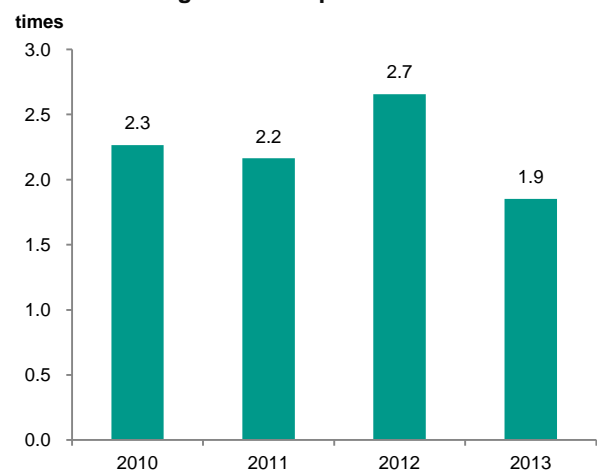
Source(s): Company, ABCI Securities

Exhibit 35: Acquisition costs of DES assets disposed


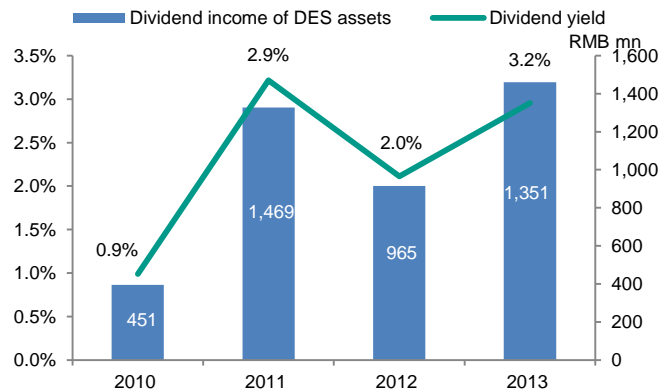
Source(s): Company, ABCI Securities

Exhibit 36: Net disposal gains from DES assets


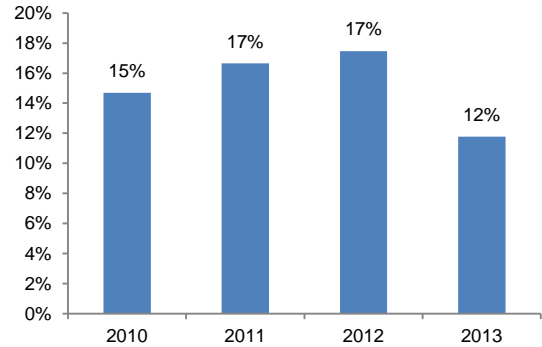
Source(s): Company, ABCI Securities

Exhibit 37: A high exit multiple is difficult to sustain


Source(s): Company, ABCI Securities

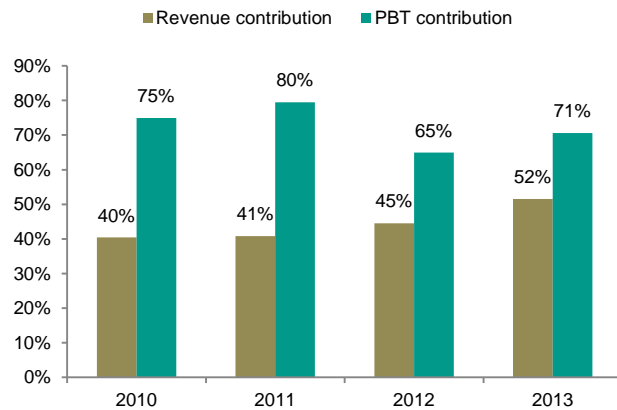
Exhibit 38: Dividend yield is expected to remain stable


Source(s): Company, ABCI Securities

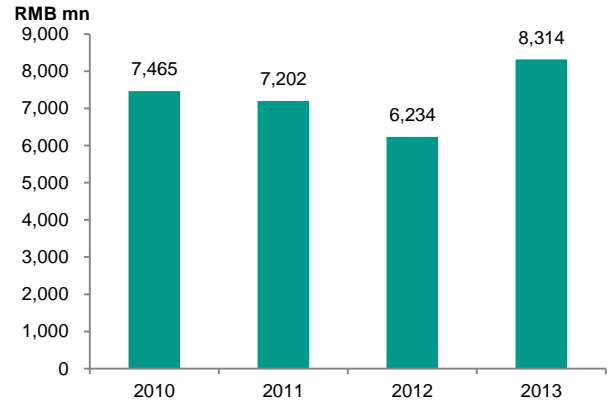
Exhibit 39: Contribution of DES assets to Cinda's total revenue


Source(s): Company, ABCI Securities

Overall, we expect revenue of DAM business to grow at a CAGR of 36.3% and PBT to grow at a CAGR of 24.1% during 2013-2016E. We estimate DAM business to contribute PBT of RMB 10.7bn, RMB 13.0bn and RMB 15.9bn in 2014E-16E, accounting for 70%, 67% and 68% of total PBT in 2013-16E, respectively.

Exhibit 39: DAM is the core revenue and PBT contributor


Source(s): Company, ABCI Securities

Exhibit 40: PBT of Cinda's DAM business


Source(s): Company, ABCI Securities

Financial investment and asset management business

FIAM business primarily includes: (1) principal investment; (2) asset management (including private equity); (3) and other businesses. FIAM contributed to 21% and 26% of total revenue and PBT in 2013.

Principal investment

Principal investment primarily includes: (1) equity investments related to its DAM business, (2) real estate investment and development related to its DAM business, and (3) other investments, including investments in fund products, debt securities, trust products, and wealth management products. Cinda's real estate investment and development business is primarily handled by Cinda Investment and Cinda Real Estate; the Group, Well Kent International, and Zhongrun Development, primarily engage in equity investment.

The balance of principal investment increased from RMB 10.2bn as of 2010 to RMB 19.7bn as of 2013. Equity investments, real estate investments, fund investments, and other investments accounted for 55%, 9%, 18% and 17% of total balance as of 2013, respectively.



Exhibit 41: Private investment by asset class

RMB mn	2010	2011	2012	2013
Equity	6,792	7,339	8,691	10,798
Real estate	2,364	2,339	2,100	1,858
Fund investment	-	-	1,582	3,585
Other investments	1,016	1,499	1,498	3,430
Total	10,173	11,178	13,871	19,670
% to total				
Equity	66.8%	65.7%	62.7%	54.9%
Real estate	23.2%	20.9%	15.1%	9.4%
Fund investments	-	-	11.4%	18.2%
Others investments	10.0%	13.4%	10.8%	17.4%
Total	100.0%	100.0%	100.0%	100.0%

Source(s): Company, ABCI Securities

Equity investment

The Group, Cinda Investment, Well Kent International, and Zhongrun Development all engage in equity investments related to distressed assets, with each having a different separate focus. The Group primarily focuses on minority financial investments of the subject company, and mainly invests in industries that it has substantial experiences with such as the mining, energy, construction, and environmental protection industries. Cinda Investment invests primarily in projects related to the company's distressed asset management business. Well Kent International mainly handles equity investments outside of the PRC in relation to the company's distressed asset management business. Zhongrun Development's equity investments are closely related to its custody, liquidation and restructuring business. Cindy would usually acquire a 20% stake in a company.

Real estate investment and development

There are two parts to Cinda's real estate business: (1) real estate investment and (2) real estate development. Cinda Investment, together with its 17 subsidiaries, serves as the Group's primary platform for real estate investment and development. Cinda Investment collaborates with the Group's distressed asset management business and promotes the value appreciation of investment projects by providing additional equity or debt investments, which helps the disposal of distressed assets. Cinda's investment mainly focuses on commercial and hotel properties. Cinda Real Estate, an A-share listed subsidiary controlled by Cinda Investment, is responsible for carrying out the real estate development business.

As at Dec 31, 2013, the value of the Group's investment properties amounted to RMB 1.86bn. In 2013, the real estate development business generated a sales revenue of RMB 4.13bn.

Others investments

Other principal investments include investments in fund products, debt securities, trust products, and wealth management products (WMPs) through Cinda Investment, Well Kent International and Zhongrun Development. The fund investment is primarily made as seed capital in funds managed by Cinda, in order to attract third-party funds and to support the development of the asset management business. The balance of investment in all types of funds was RMB 3.58bn (2012: RMB 1.58bn). Investments in debt securities, WMPs and trust products were RMB 528mn, RMB 980.5mn and RMB 2,207.7mn, respectively, as of 2013.

Asset management (Private Equity Fund)

By end-2013, a total of 25 private equity funds were established. Private equity business is primarily handled by Cinda Capital, a subsidiary of Cinda Investment. Total AUM increased 4.32 times to RMB 61.17bn from 2012 to 2013. We do not expect any substantial contributions from asset management business in the near future, as it usually takes longer period for private equity investment to reap returns.

Exhibit 42: Details of private equity business

	2012	2013
No. of funds	9	25
Total committed capital (AUM) (RMB bn)	11.50	61.17
Total pain-in capital (RMB bn)	4.78	23.07
Paid-in capital from third parties (RMB bn)	3.89	20.08
Fund management income (RMB mn)	18	85
Accumulated number of projects invested	20	59
No. of third-party investors	79	102

Source(s): Company, ABCI Securities

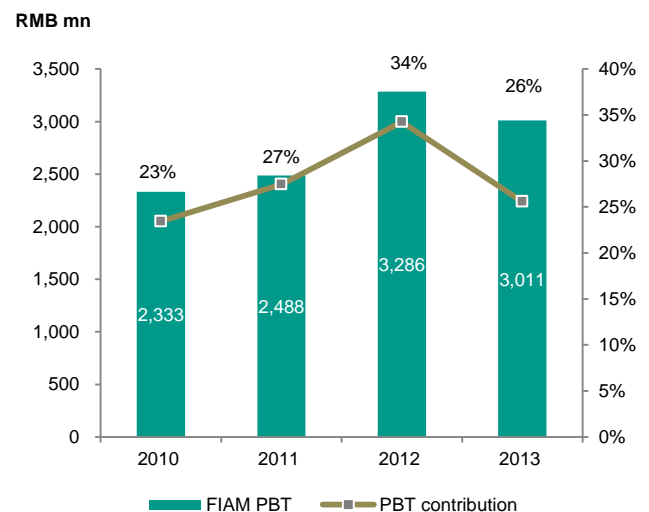
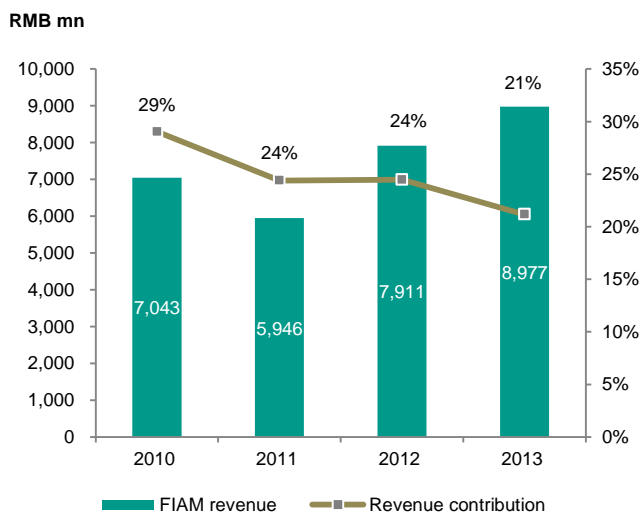
Other businesses

Others businesses largely refer to the consulting and advisory business. Aggregate fee and commission income from consulting and advisory services by the Company, Cinda Investment and Well Kent Int' totaled RMB 317mn in 2012 and RMB 229mn in 2013.

In aggregate, we expect PBT of FIAM business segment to grow at a CAGR of 32.4% during 2013-16E, accounting for 25%, 28%, and 30% of total PBT in 2014E-16E, respectively.

Exhibit 43: FIAM contributed 21% of total revenue in 2013

Exhibit 44: FIAM contributed 26% of total PBT in 2013

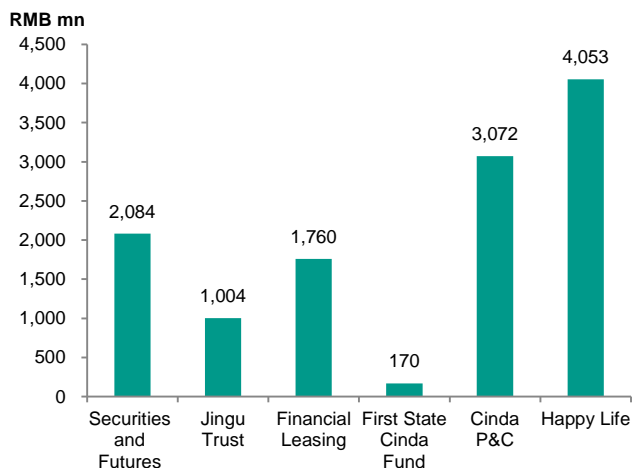


Source(s): Company, ABCI Securities

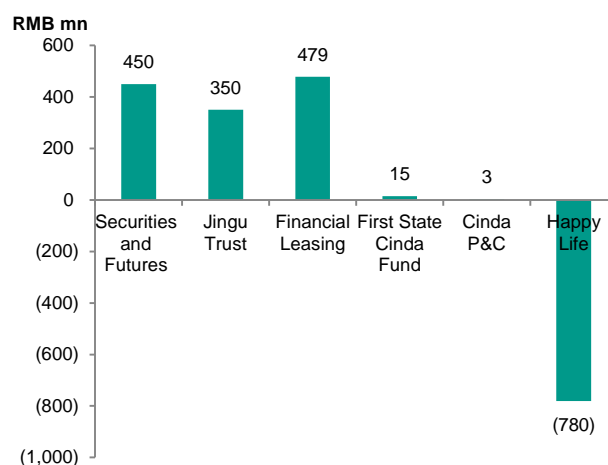
Source(s): Company, ABCI Securities

Financial service business

Earning potential of financial service business (FS) segment has not been fully realized. Revenue contribution of FS was 28.6% in 2013, while its PBT contribution was 4.4% only. Loss incurring from the insurance subsidiaries, which are in their preliminary stages of development, may have dragged down the segment's profit. In 2013, Cinda P&C recorded a pre-tax profit of RMB 2.9mn while Happy Life recorded a pre-tax loss of RMB 780.4mn.

Exhibit 45: Revenue of FS in 2013


Source(s): Company, ABCI Securities

Exhibit 46: PBT of FS in 2013


Source(s): Company, ABCI Securities

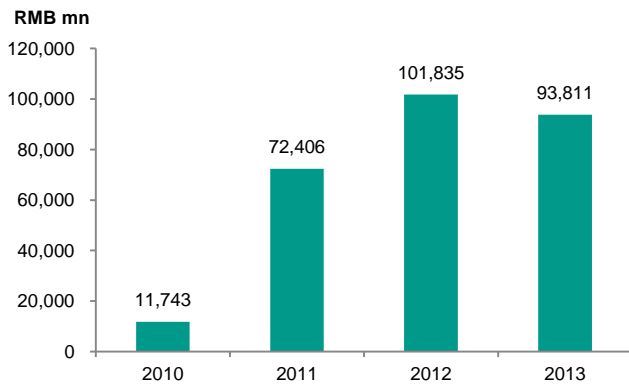
Securities & Futures

Cinda conducts securities brokerage and investment banking businesses in the PRC through Cinda Securities and Cinda Futures, a wholly-owned subsidiary of Cinda Securities. Cinda also conducts securities, futures and investment banking businesses in Hong Kong through Cinda International (111.HK). Cinda International is an integrated financial service company listed on the Hong Kong Stock Exchange and its businesses include corporate finance, securities brokerage, asset management and other financial services.

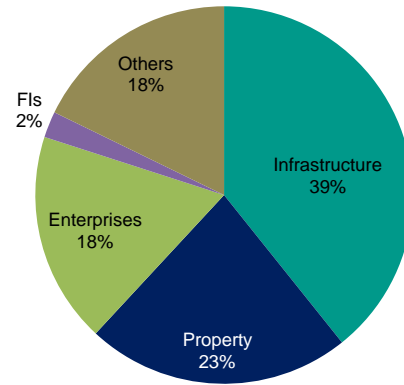
We believe market reform will bring opportunities to China's capital markets through higher market efficiency and further internationalization of China's capital markets. China's capital market is still in its early stage of development and has a huge growth potential. China's securitization ratio was only at 42.1% as of Dec 2013, much lower than 143.1% in the U.S., 165.0% in the U.K., and 100.0% in Japan. Trading volume of stocks and funds has increased from RMB 8.6tn in 2004 to RMB 96.6tn in 2013, representing a 2004-13 CAGR of 30.9%. For the investment banking business, with the resumption of the A-share IPO market in Jan 2014, the scale of equity financing is expected to grow rapidly. Besides, the introduction of more favorable government policies and a more balanced financing structure are expected to expedite growth in the PRC bond market, which in turn would propel growth in the investment banking business.

Trust

The trust business is conducted through Jingu Trust. As of Dec 31, 2013, the outstanding trust AUM totaled RMB 93.8bn. In 2013, Jingu Trust managed a total of 192 existing trust projects. Fees and commission income generated from trust business was RMB 880mn, accounting for 80.6% of Jingu Trust's total revenue.

Exhibit 47: AUM of Jingu Trust amounted to RMB 93.8bn at end-2013


Source(s): Company, ABCI Securities

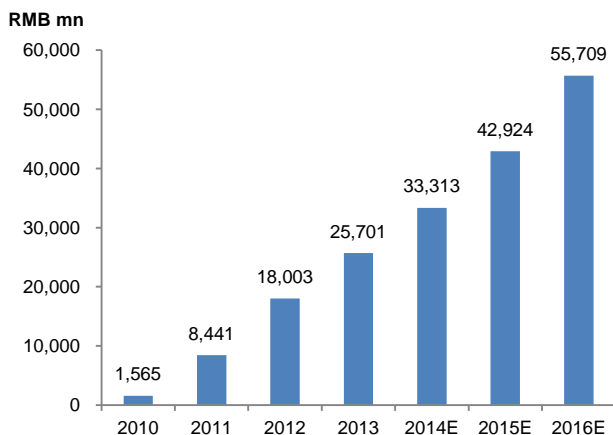
Exhibit 48: Breakdown of trust products by industry in 2013


Source(s): Company, ABCI Securities

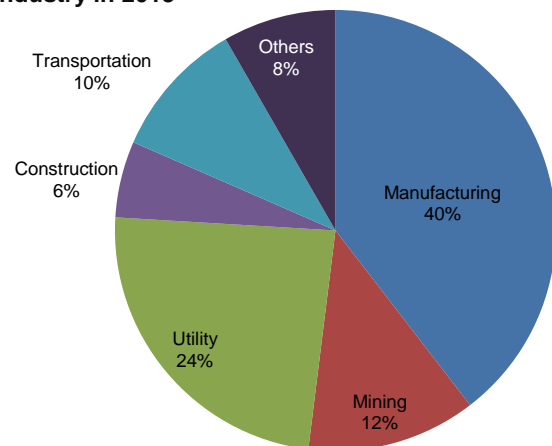
Financial leasing

The financial leasing business is conducted through Cinda Leasing, a company which provides clients with customized financial solutions including direct financial leasing and sale-leaseback. Cinda Leasing's products can be divided into specialized and non-specialized products based on the nature of the leased objects. Specialized products include aircraft leasing, vessel leasing, and equipment leasing in collaboration with machinery manufacturers. Non-specialized products include leases of fixed assets of industrial enterprises, including equipment for industrial production, mining, environmental protection, as well as urban water and gas supplies.

Net lease receivables of the Company were RMB 17.56bn in 2012 and RMB 25.16bn in 2013. Cinda is currently focusing on non-specialized products. Total incomes from specialized products and non-specialized products were RMB 57mn and RMB 720mn, representing 7.3% and 92.7% of Cinda Leasing's total revenue in 2013.

Exhibit 49: Outstanding finance lease receivables is expected to expand continuously


Source(s): Company, ABCI Securities estimates

Exhibit 50: Outstanding finance lease receivables by industry in 2013


Source(s): Company, ABCI Securities

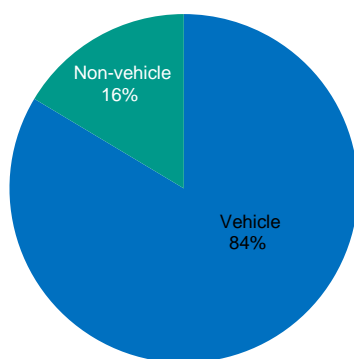
Fund management

Cinda conducts fund management and other asset management businesses through First State Cinda Fund. As of end-2013, Cinda managed 9 public securities investment funds with a total AUM of RMB 5.31bn. Cinda's fund products had ~RMB 1.15mn individual clients and 986 institutional clients.

Insurance

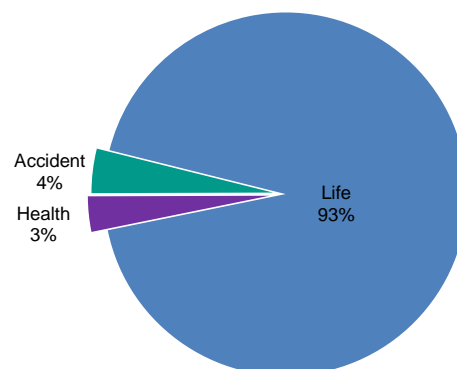
Cinda engages in the P&C insurance business through Cinda P&C, while the life and health insurance is conducted through Happy Life. Cinda P&C primarily offers motor vehicle insurance and all kinds of property insurance, liability insurance, credit insurance, guarantee insurance, short-term health insurance, accidental injury insurance and re-insurance. Motor vehicle insurance accounted 83.6% of original premium income of Cinda P&C business. Happy Life primarily offers all types of life and health insurance, accident insurance and re-insurance. Life, health and accident insurances accounted for 92.9%, 3.1% and 3.9% of total life original premium income in 2013. Cinda P&C was established in Aug 2009 and became profitable in 2Q13. Happy Life is still a loss-maker due to the relatively long investment phase required for life insurance company.

Exhibit 51: PBT of P&C insurance segment for 2013



Source(s): Company, ABCI Securities

Exhibit 52: Premium income breakdown of life insurance by product type for 2013



Source(s): Company, ABCI Securities

In our view, given the loss incurring from Happy Life, we expect PBT contribution from FS business to remain low, accounting for 5%, 5% and 6% of total PBT for 2014E-2016E, respectively.



Valuation

Sum-of-the-parts (SOTP) valuation methodology

Given its unique business model, the Group has no direct peers. We employ the sum-of-the-parts (SOTP) valuation and assess Cinda's 3 business segments, DAM, FIAM, and FS individually. We apply the Gordon growth model (GGM) for its DAM business and PB comparables to derive the ratio for its FIAM and FS segments.

We estimate Cinda's aggregate value at RMB 154.5bn or HK\$ 5.4/share, equivalent to 1.6x 2014E P/B and 13.2x 2014E P/E.

Exhibit 53: Cinda's value arrives at RMB 154.5bn by SOTP valuation

Business segments	Methodology	Valuation (RMB mn)
DAM	Gordon growth model	106,931
FIAM	P/B Comparables	29,623
FS	P/B Comparables	17,961
Total Group		154,515
Target Price (HK\$)		5.4
Fair P/B		1.6
Fair P/E		13.2

Source(s): ABCI Securities estimates

Distressed asset management

We expect ROAE for the distressed asset management segment to gradually stabilize at 20%. Based on the cost of equity at 12.6% and a long-term growth of 7%, the value of its distressed asset management business arrives at RMB 106,931mn, corresponding to 2.3x 2014E P/B.

Exhibit 54: Valuation of DAM business segment by GGM

DAM	
Sustainable ROE	20.0%
Cost of equity	12.6%
Long term growth rate	7%
Fair P/B	2.3
2014E Book value (RMB mn)	46,062
Valuation (RMB mn)	106,931

Source(s): ABCI Securities estimates

FIAM

For the listed companies under Cinda's FIAM business, i.e. Cinda Real Estate (600657.CH) and Tongda Venture (600647.CH), we use their current market capitalizations and their contributions to Cinda to value the business. The rest of the FIAM business is valued at 1.1x 2014E P/B. As a result, the aggregate value of FIAM business is RMB 29.6bn, equivalent to 0.9x 2014E P/B.



Exhibit 55: Valuation of FIAM business segment

FIAM						
	2014E Net assets (RMB mn)*	Market Capitalization**	2014E P/B	% of shareholding	Value attributable to Cinda	
Cinda Real Estate (600657.CH)	7,611	5,381	0.7	54.8%	2,946	
Tongda Venture (600647.CH)	268	1,765	6.6	40.7%	718	
Other FIAM assets	23,599	25,959	1.1	100.0%	25,959	
Total value of the FIAM segment	31,478		0.9		29,623	

*Based on 2013 net assets

**For Tongda Venture, based on trading price before suspension on 16/5/14

Note: Closing price as at Aug 7, 2014

Source(s): Bloomberg, ABCI Securities estimates

FS

We value the subsidiaries of Cinda's FS business, including Cinda Securities, Jingu Trust, Cinda Leasing, Cinda P&C, and Happy Life by P/B comparables. We refer to Cinda's listed peers to value its financial services subsidiaries and apply a discount to reflect the weaker market position of Cinda's subsidiaries. Cinda Securities, Jingu Trust, Cinda Leasing, First State China Fund, Cinda P&C and Happy Life are valued at 1.3x, 1.0x, 1.0x, 1.0x, 1.4x and 1.3x 2014E P/B, respectively.

Exhibit 56: Valuation of FS business segment

FS						
	2014E Net assets (RMB mn)	Total valuation	2014E P/B	% of shareholding	Value attributable to Cinda	
Securities and Futures	6,618	8,603	1.3	99.3%	8,543	
Jingu Trust	3,440	3,440	1.0	92.3%	3,176	
Cinda Leasing	3,273	3,273	1.0	99.6%	3,260	
First State Cinda Fund	205	205	1.0	54.0%	111	
Cinda P&C	2,682	3,754	1.4	51.0%	1,915	
Happy Life	1,195	1,554	1.3	61.6%	957	
Total value of the FS subsidiaries	17,413	20,830	1.2	86.2%	17,961	

Source(s): Bloomberg, ABCI Securities estimates



Exhibit 57: Peer comparison table

	Market cap (USDmn)	Price (HKD)	P/B (x)		P/E (x)		ROE (%)		Div. yield (%)	
			2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
Securities										
CITICS-H	23,830	19.36	1.83	1.73	24.74	21.45	7.90	8.69	1.42	1.65
Haitong Securities-H	15,514	12.70	1.48	1.39	19.13	16.31	7.83	8.64	1.71	2.03
Galaxy Securities	5,805	5.97	1.32	1.21	14.52	12.70	9.58	10.05	1.84	2.35
Central China	845	2.49	0.90	0.89	14.23	11.38	7.00	8.00	1.00	1.26
Average			1.63	1.53	21.37	18.43	8.07	8.83	1.56	1.86
Insurance										
China Pacific	30,284	29.35	1.97	1.80	18.43	15.53	10.91	11.86	1.79	2.04
Ping An Insurance	59,543	64.75	1.91	1.65	12.02	10.48	15.89	15.61	1.32	1.56
PICC Group	17,898	3.27	1.35	1.15	11.13	9.34	12.29	13.04	0.34	0.38
China Taiping	4,966	15.84	1.31	1.14	13.06	11.09	10.44	11.10	-	-
New China Life	11,759	27.35	1.52	1.33	12.16	10.28	12.91	13.00	0.96	1.13
China Life	72,388	22.70	2.05	1.83	16.32	13.98	13.36	14.19	2.00	2.27
PICC P&C	21,413	12.20	2.02	1.75	11.10	9.92	18.95	18.77	2.92	3.28
Average			1.89	1.67	14.20	12.20	14.08	14.48	1.64	1.88
Trust										
Shaanxi Int'l-A	1,370	6.95	n/a	n/a	13.40	10.11	n/a	n/a	n/a	n/a
Anxin Trust-A	1,280	17.36	n/a	n/a	10.74	8.37	n/a	n/a	n/a	n/a
Shanghai Corporation-A	1,771	9.87	n/a	n/a	12.74	9.29	n/a	n/a	n/a	n/a
Average			n/a	n/a	12.36	9.28	n/a	n/a	n/a	n/a
Leasing										
Chailease Holding	2,890	79.20	n/a	1.86	n/a	8.78	n/a	22.17	n/a	4.13
Far East Horizon	2,527	5.95	0.98	0.85	6.57	5.11	15.60	16.90	4.79	5.84
Bohai Leasing	2,327	8.08	n/a	n/a	8.39	6.91	12.70	13.10	n/a	n/a
Average			0.98	1.39	7.45	7.02	14.21	17.72	4.79	4.93
Global asset management										
Blackstone	36,914	32.62	2.29	2.04	6.78	7.19	43.23	34.15	7.96	9.05
KKR	18,441	22.80	1.42	1.31	7.14	6.99	19.61	17.85	10.45	9.41
Apollo	9,542	25.25	2.98	2.70	7.78	7.53	41.82	58.70	12.30	11.73
Carlyle	10,114	31.00	1.07	0.85	8.36	7.79	44.79	32.40	8.72	9.15
Oaktree	7,730	49.02	3.23	3.40	10.15	8.56	27.50	39.80	7.62	8.98
Fortress	3,278	7.55	1.87	1.91	6.81	6.09	35.35	42.35	12.22	12.65
OCH-ZIFF	6,290	13.28	2.28	2.33	8.76	6.46	49.72	64.70	10.62	14.48
Average			2.12	1.96	7.55	7.27	37.38	36.09	9.29	9.90

Note: Closing price as at Aug 7, 2014
Source(s): Bloomberg, ABCI Securities

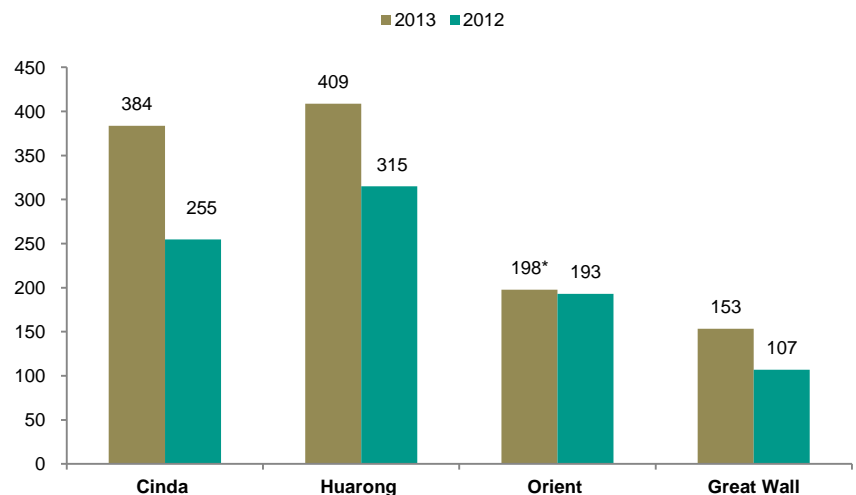
Industry Overview

Despite the continued economic growth of China in the 1990s, most banks and SOEs had weak risk management and internal controls. As limited progresses were made on carving out NPLs, banks accumulated significant amounts of NPLs after the Asian financial crisis in 1997. In 1999, four AMCs, namely Cinda, Great Wall, Orient, and Huarong were established for the purpose of mitigating the impact of Asian financial crisis on China mainly by: (1) safeguarding state-owned assets; (2) preventing and eliminating risks to the PRC financial system; (3) promoting the reform of SOEs; (4) and facilitating the reform and development of state-owned banks and SOEs.

Among the 4 AMCs, Cinda was the first to (1) convert into a joint-stock company as approved by the State Council; (2) meet the performance evaluation benchmarks of MOF on the disposal of Policy Distressed Assets; (3) introduce strategic investors to diversify equity capital sources; (4) acquire NFE (non-financial enterprises) assets.

Among the 4 AMCs in China, Huarong is the only one that acquires a banking license. Huarong conducts its banking business through the Company's subsidiary, Huarong Xiangjiang Bank (HRXJ Bank). HRXJ Bank's principal businesses include corporate banking, retail banking, and SME financing. Huarong, however, does not own any insurance businesses.

Exhibit 58: Total assets of the big-four AMCs

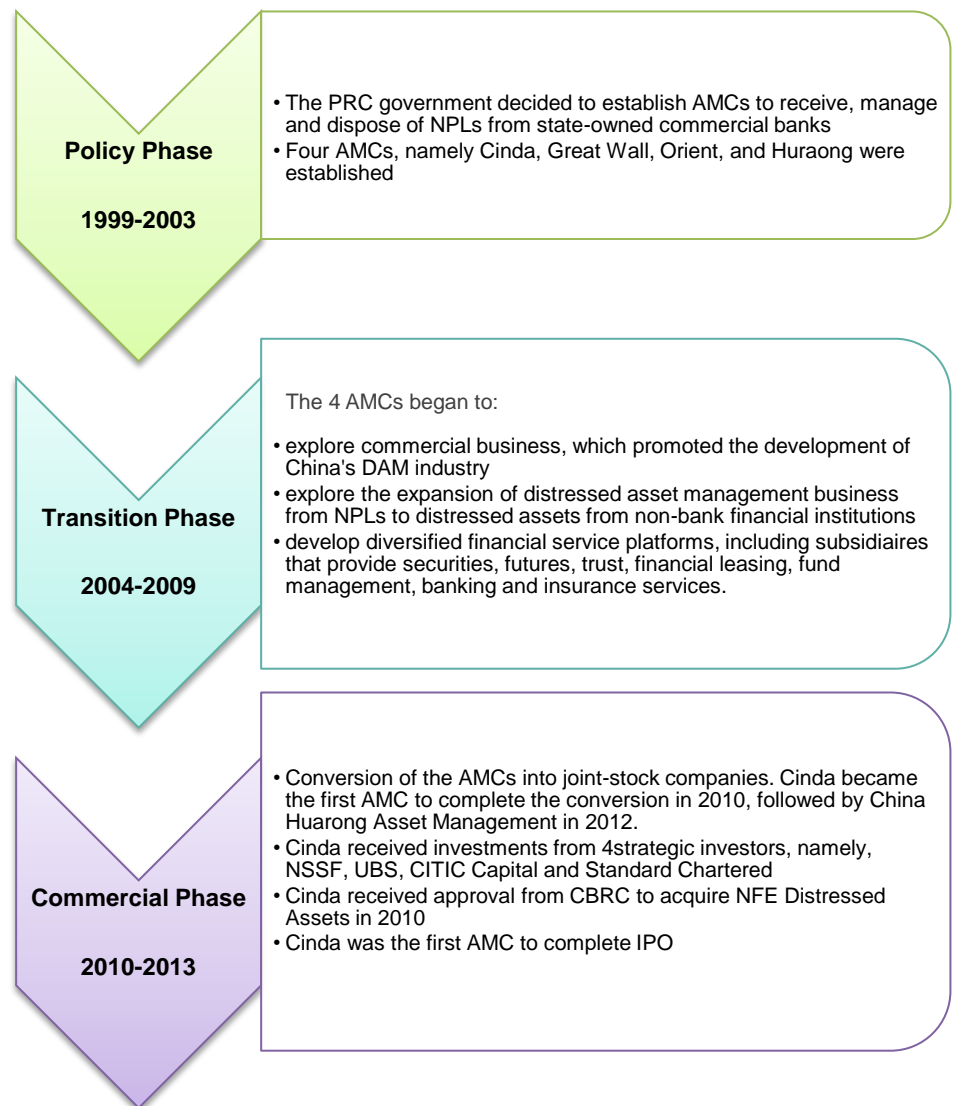


* 1Q13 data

Source(s): Company, ABCI Securities



Exhibit 59: Development of China's AMC industry



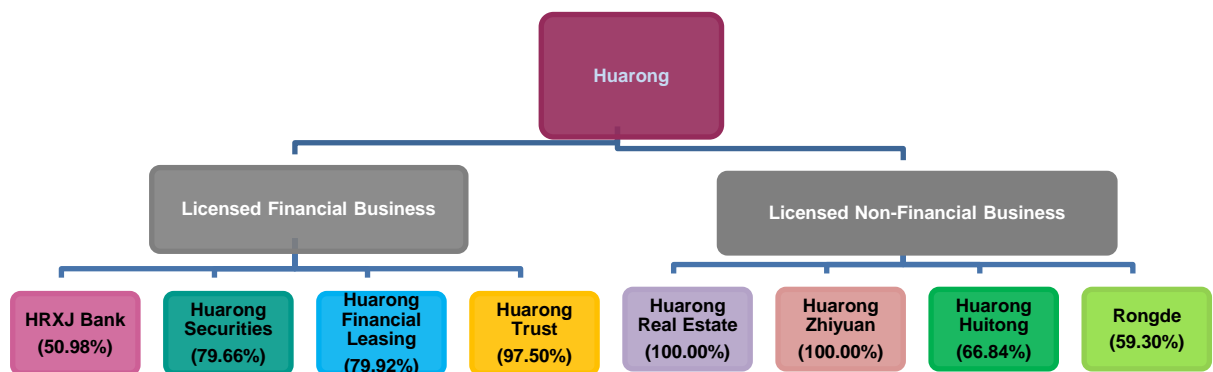
Source(s): ABCI Securities

China Huarong Asset Management (Huarong)

In addition to its policy role of acquiring and disposing of NPLs of SOEs, Huarong Corporation began to explore the commercialization of its business in 2006. In 2008, in accordance with applicable regulations, Huarong Corporation established separate financial accounts for its policy-oriented business and commercial business in order to manage the two independently. In Sep 2012, with the approval of the State Council, Huarong Corporation was restructured and established as a joint-stock company. The company was renamed as “China Huarong Asset Management Co., Ltd.”.

China Life contributed RMB 500mn and acquired a 1.94% equity stake in Huarong as a strategic investor, with the MOF holding the remaining stakes as the largest shareholder. The Company was the second state-owned AMC after China Cinda to complete its restructuring to become a joint-stock company.

Exhibit 60: Huarong’s interests in its principal subsidiaries



Source(s): Company, ABCI Securities

Huarong is a leading AMC and one of the 4 largest state-owned AMCs in the PRC. As at Dec 31, 2013, the Group was ranked first among the 4 AMCs by net profit and total assets owned on a consolidated basis. The Group had total assets of RMB 408,661mn as at Dec 31, 2013 and achieved a net profit of RMB 10,093mn. In addition, Huarong has strong support from the PRC government and was approved to set up HRXJ Bank by participating in the restructuring led by the PRC government. Huarong is the only AMC in the PRC with a controlling interest in a bank.

The principal businesses of the Group are distressed asset management, financial intermediary services, principal investments, banking, financial leasing, securities, trust and special asset management. Distressed asset management is the Group’s core business. Operation of the Group’s distressed asset management involves the acquisition, disposal, management and investment of non-performing assets (NPAs) stripped from financial institutions and other enterprises in the PRC through public bidding or private contractual arrangements. The principal operations of the Group’s asset management business are distressed asset disposals, restructuring, and DES.



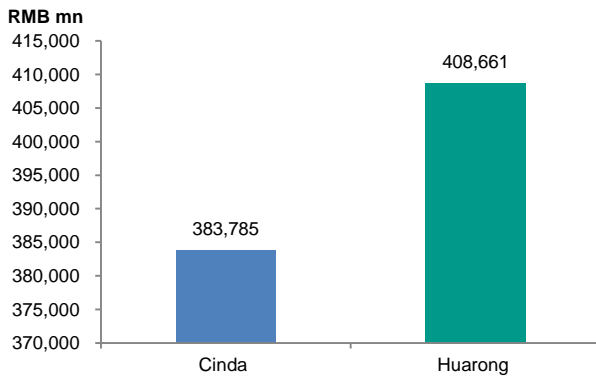
Exhibit 61: Financial platforms of Cinda and Huarong

	Cinda	Huarong
Bank	N.A.	Huarong Xiangjiang Bank
Insurance	Cinda P&C, Happy Life	N.A.
Securities	Cinda Securities	Huarong Securities
Trust	Jingu Trust	Huarong Trust
Leasing	Cinda Leasing	Huarong Financial Leasing
Fund Management	First State Cinda Fund	Huarong Huitong
Real estate	Cinda Real Estate, Tongda Venture	Huarong Real Estate, Huarong Zhiyuan Investment & Management
Special asset management (Private equity)	Cinda Capital	Huarong Rongde Asset Management

Source(s): Company, ABCI Securities

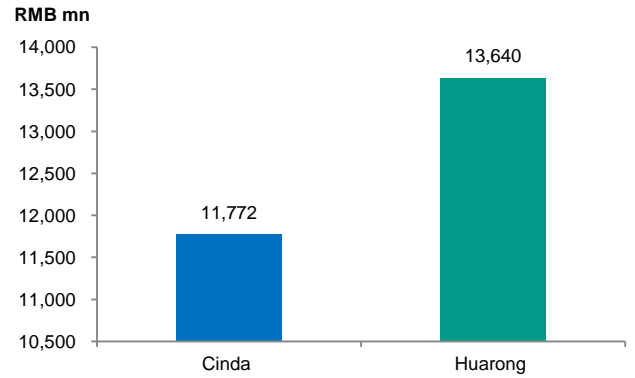
Comparison between Cinda and Huarong

Exhibit 62: Total assets as at end-2013



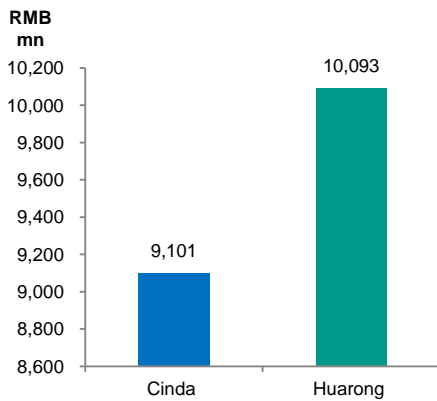
Source(s): Company, ABCI Securities

Exhibit 63: PBT for FY2013



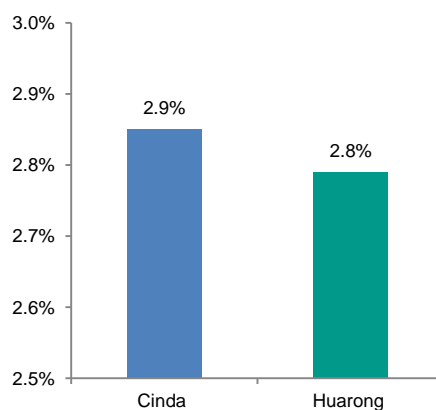
Source(s): Company, ABCI Securities

Exhibit 64: Net profits for FY2013



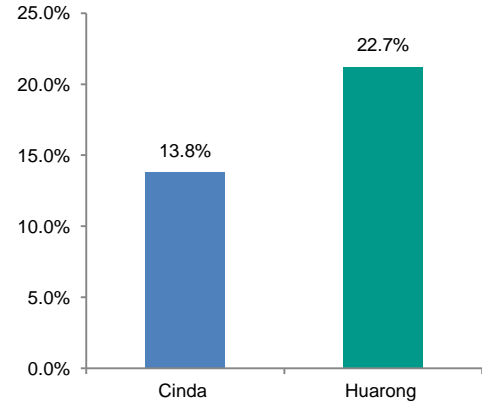
Source(s): Company, ABCI Securities

Exhibit 65: ROAA for FY2013



Source(s): Company, ABCI Securities

Exhibit 66: ROAE for FY2013



Source(s): Company, ABCI Securities



Risk factors

Cinda may be unable to maintain the growth of its DDA portfolio

The supply of DDA is affected by a number of factors, including changes in macroeconomic conditions, asset quality, and business conditions of financial institutions and non-financial enterprises. Besides, the amount of DDA the Group is able to acquire depends on a number of factors beyond its control, including the policies of the China's central government or local governments, willingness of banks and enterprises to sell their DDA, and the Group's competition with other AMCs. The Group may fail to acquire DDA at acceptable prices, or maintain a stable growth of its DDA portfolio.

Increasing credit risk related to its real estate exposure

Concentration risk arises from Cinda's exposure to China's property sector, which accounted for a meaningful portion of its distressed receivable portfolio at end-2013. Risk on decelerated economy and potential property price correction may tighten cash flows of Cinda's borrowers and adversely affect their repayment capabilities.

Downturn in coal industry

DES assets are primarily concentrated in the coal industry. A downturn in the industry may lead to deterioration of the operating results of enterprises in the coal industry, which may in turn affect their equity values or dividend distributions.

Value of the collateral securing the Group's debt assets may significantly fluctuate or decline

A significant portion of the Group's DDA are secured by collateral or guarantees. Mortgages securing the Group's DDA primarily include real properties and other assets in PRC. A downturn in China's real estate market may shrink values of the real properties underlying the Group's debt assets to a level significantly below the outstanding balance of principal and interests of such debt assets. Any declines in the value of such collaterals may reduce the amounts the Group can recover from such collaterals and increase its impairment losses.



Financial snapshot

Key financials - Segmental breakdown

	RMB mn						Share (%) *					
	2011	2012	2013	2014E	2015E	2016E	2011	2012	2013	2014E	2015E	2016E
Revenue												
DAM	9,957	14,392	21,850	29,168	36,149	43,144	41%	45%	52%	55%	56%	57%
FIAM	5,946	7,911	8,977	11,014	13,086	16,021	24%	24%	21%	21%	20%	21%
FS	9,231	10,553	12,134	13,793	15,795	17,642	38%	33%	29%	26%	25%	23%
Group	24,382	32,335	42,413	53,346	64,307	75,975	100%	100%	100%	100%	100%	100%
PBT												
DAM	7,202	6,234	8,314	10,665	12,951	15,894	80%	65%	71%	70%	67%	68%
FIAM	2,488	3,286	3,011	3,875	5,349	6,989	27%	34%	26%	25%	28%	30%
FS	(207)	164	515	752	1,021	1,307	-2%	2%	4%	5%	5%	6%
Group	9,058	9,596	11,772	15,255	19,297	23,247	100%	100%	100%	100%	100%	100%
Net Profit**												
DAM	5,396	4,689	6,427	7,999	9,714	11,920	80%	64%	71%	68%	65%	67%
FIAM	1,864	2,471	2,328	2,907	4,011	5,242	28%	34%	26%	25%	27%	29%
FS	(155)	124	398	564	766	980	-2%	2%	4%	5%	5%	5%
Group	6,763	7,306	9,027	11,715	14,837	17,886	100%	100%	100%	100%	100%	100%
Assets												
DAM	91,551	140,328	228,604	281,262	327,742	372,904	53%	55%	60%	62%	62%	62%
FIAM	35,388	49,027	72,776	81,657	91,010	104,052	20%	19%	19%	18%	17%	17%
FS	49,786	69,352	86,248	95,266	111,527	128,111	29%	27%	22%	21%	21%	21%
Group	173,124	254,614	383,785	453,649	526,071	601,458	100%	100%	100%	100%	100%	100%
Equity												
DAM	14,990	24,778	39,237	46,062	54,351	64,523	35%	41%	47%	48%	50%	51%
FIAM	17,493	21,662	28,998	31,478	34,901	39,375	41%	36%	35%	33%	32%	31%
FS	9,635	13,802	14,555	15,036	15,690	16,526	22%	23%	18%	16%	14%	13%
Group	42,843	60,885	82,762	95,017	109,181	126,324	100%	100%	100%	100%	100%	100%
ROAA(%)												
DAM	6.1	4.0	3.5	3.1	3.2	3.4						
FIAM	5.5	5.9	3.8	3.8	4.6	5.4						
FS	-0.4	0.2	0.5	0.6	0.7	0.8						
Group	4.2	3.4	2.8	2.8	3.0	3.2						
Gearing(x)***												
DAM	6.1	5.7	5.8	6.1	6.0	5.8						
FIAM	2.5	2.8	3.0	3.1	3.2	3.2						
FS	6.1	5.8	6.9	7.5	8.6	9.5						
Group	4.6	4.6	5.0	5.2	5.2	5.2						
ROAE(%)												
DAM	33.4	23.6	20.1	18.8	19.3	20.1						
FIAM	11.4	12.6	9.2	9.6	12.1	14.1						
FS	-1.7	1.1	2.8	3.8	5.0	6.1						
Group	18.1	15.8	13.8	14.4	15.8	16.5						

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

** Net profit (2014E-16E) is calculated by assuming a 25% tax rate on PBT reported by the Group

***Gearing=Asset/Equity

Source(s): Company, ABCI Securities estimates



Financial forecasts

Consolidated income statement (2011A-2016E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E	2016E
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
Total revenue	24,382	32,335	42,413	53,346	64,307	75,975
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
Total operating expenses	16,027	23,200	30,601	38,049	45,005	52,762
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
Net Profit	6,763	7,306	9,027	11,715	14,837	17,886
Growth (%)						
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
Key ratios						
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	2.8	3.0	3.2
Segmental revenue (RMB mn)						
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
Segmental PBT (RMB mn)						
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	51,353	46,218	41,596
Settlement funds	1,286	1,526	1,708	1,913	2,104	2,314
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	62,254	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	18,679	19,427	20,009
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
Total assets	173,124	254,614	383,785	453,649	526,071	601,458
Borrowing from central bank	11,311	7,053	4,913	5,159	5,417	5,687
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	217,293	260,752	299,865
Payables	47,995	39,539	22,814	23,955	25,153	26,410
Insurance funds	3,618	3,213	3,244	3,439	3,680	3,937
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	15,278	17,569	20,205
Deferred tax liabilities	349	357	451	473	497	522
Other liabilities	10,638	16,539	33,249	46,299	47,459	51,012
Total liabilities	130,281	193,730	301,023	358,632	416,889	475,134
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
Total equity	42,843	60,885	82,762	95,017	109,181	126,324
Growth (%)						
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	5.0	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	18.2	16.0	14.3
Borrowings	221.7	202.2	128.4	25.0	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	6.0	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	15.0	15.0	15.0
Total liabilities	20.4	48.7	55.4	19.1	16.2	14.0
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



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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183**