



March 31, 2014
Equity Focus
Rating: NR

H-Share price (HK\$) 4.4

Analyst : Johannes Au
Tel: (852) 2147 8802
Email: johannesau@abci.com.hk

Key Data

52Wk H/L(HK\$)	5.53/3.58
Issued shares (mn)	36,257
H-Shares (mn)	11,660
Domestic (mn)	24,597
Market cap	
H-shares (HK\$ mn)	51,303
Domestic (HK\$ mn)	108,227
3-mth avg daily turnover (HK\$ mn)	462.79
Major shareholder(s) (%):	
MOF	67.84
NSSF	8.19
UBS	4.15
CITIC Capital	1.69
Stanchart	1.26

Source(s): Company, Bloomberg, ABCI Securities

2013 revenue breakdown (%)

NPL operation	51.5
Investment and AM	21.2
Financial services	28.6
Others	(1.3)

Source(s): Company, ABCI Securities

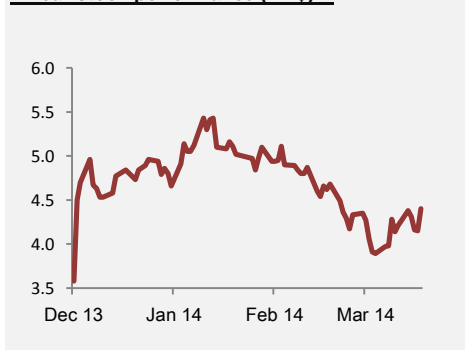
Share performance (%)

	Absolute	Relative*
1-mth	(5.6)	(4.0)
3-mth	(9.1)	(4.2)
6-mth	na	na

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Cinda (1359 HK)

Key takeaways from analyst briefing

- Cinda's FY13 net profit was 4% above consensus, up 23.6% YoY; DA segment continued to be the major profit contributor
- Acquisition cost of traditional DA remained stable while return rate improved in 2H13. Return rate of restructured DA edged down slightly in 2H13 on risk adjustment
- Disposal of DES portfolio accelerated in 2013, mainly from the listed portfolio
- The Group increased its reliance on borrowings to reduce funding from repo /payables from MOF & central bank. Funding cost remained stable in 2013
- Cinda is trading at 1.48x 14E consensus P/B with ROAE at 13.8% after IPO dilution

FY13 net profit was above consensus. Cinda's 2013 net profit was reported at RMB 9,027mn, up 23.6% YoY and 4% above consensus. Distressed asset (DA) segment continued to be the core business driver, with its segmental total asset and PBT accounting for 58.9% and 70.3% of total, compared to 54.2% and 64.4% last year. Based on its first-mover advantage, Cinda's income from non-financial DA portfolio increased significantly by 190.5% YoY and aggregated to 42.7% of DA income.

Sustainable return rate in DA portfolio. Traditional DA income grew by 14.1% YoY to RMB 4,534mn, with a stable return at 111.3% (2012: 112.5%). In particular, return rate in 2H13 improved. Management indicated that traditional NPL acquisition price is stable at an average of 70% discount. Given regulators are encouraging banks to clean up their NPL portfolio; pricing pressure should be limited with solid demand. Meanwhile, return rate of restructured type NPL slightly reduced in 2H13, reflecting Cinda's effort in risk adjustment. Sector-wise, the Group reduced its focus on real estate from 68.5% in 2012 to 60.3% in 2013; geographically, more focus was placed in tier 1/2 cities. Consequently, its impaired asset ratio improved by 20bps YoY to 1% in 2013 with a lower return rate.

Increasing pace to dispose debt-equity swap (DES) assets. Cinda increased its pace to dispose DES assets whose total balance reduced from RMB 48.2bn in 2012 to RMB 42.3bn. Assets sold were mainly from its listed portfolio, in which the number of listed DES companies decreased from 69 in 2012 to 26 in 2013. Listed equities accounted for 19.3% of total DES book in 2013 from 24.4% in 2012. Management indicated that future disposal will depend on both the return rate and disposal pace.

Stable funding cost. Funding sources of Cinda has been modifying over time. Borrowings increased from 49.9% of IBL in 2012 to 72.5% in 2013; funding through repo/AP with MOF & central bank reduced from 12.3%/29.6% in 2012 to 10.9%/11.1% in 2013. However, the Group borrowing cost was stable with an interest rate of 4.75% -6.9% in 2013, versus 4.8% -6.9% in 2012.

Valuation. Cinda is current trading at 1.48x 14E consensus P/B. ROAE was reported at 13.8% in 2013 after IPO dilution. Excluding the IPO impact, ROAE in 2013 was flat yoy at 15.6%.

Risk factors: 1) Sharp deterioration in asset quality reduces recovery rate of distressed asset portfolio; 2) Sustainability of asset acquisition pricing; 3) Increasing competition with provincial AMCs.

Results and Valuation

FY ended Dec 31	2010A	2011A	2012A	2013A
Revenue (RMB mn)	24,260	24,382	32,335	42,413
Chg (% YoY)	-	0.5	32.6	31.2
Net profit (RMB mn)	7,399	6,763	7,306	9,027
Chg (% YoY)	-	(8.6)	8.0	23.6
EPS (RMB)	0.32	0.27	0.25	0.30
Chg (% YoY)	-	(15.6)	(7.4)	20.0
BVPS (RMB)	1.47	1.50	1.90	2.50
Chg (% YoY)	-	2.0	26.7	31.6
P/E (x)	11.00	13.04	14.08	11.73
P/B (x)	2.39	2.35	1.85	1.41
ROE (%)	25.5	18.1	15.8	13.8
ROA (%)	6.3	4.2	3.4	2.9

Source(s): Bloomberg, ABCI Securities



Consolidated income statement (2010A-2013A)

FY Ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013A
Revenue from loan and receivable NPLs	0	181	3,518	10,144
FV changes	6,277	4,504	4,278	5,157
Investment income	4,835	5,779	6,529	7,044
Net insurance premium	4,584	5,698	5,325	5,772
Sales of inventories	4,148	3,237	3,924	4,322
Other income	4,416	4,984	8,761	9,975
Total revenue	24,260	24,382	32,335	42,413
Insurance expenses	4,434	5,337	4,690	5,019
Fee and commission expenses	697	804	901	869
Cost of good sold	2,655	1,844	2,392	2,720
Finance cost	1,366	1,807	3,698	7,804
Staff costs	2,367	2,672	3,418	3,797
Depreciation	500	429	449	434
Business tax and surcharge	504	562	786	1,234
Other operating expenses	1,784	2,035	2,266	2,570
Impairment losses	496	537	4,601	6,153
Total operating expenses	14,803	16,027	23,200	30,601
Operating profits	9,458	8,355	9,135	11,812
Share of results of Associates	505	653	612	500
Other income/expenses	(6)	50	(152)	(540)
Profit before tax	9,956	9,058	9,596	11,772
Income tax expenses	2,454	2,272	2,379	2,671
Minority interest	104	24	(89)	74
Net profit	7,399	6,763	7,306	9,027
Growth (%)				
Total revenue	na	0.5	32.6	31.2
Total operating expenses	na	8.3	44.8	31.9
Operating profits	na	(11.7)	9.3	29.3
Profit before tax	na	(9.0)	5.9	22.7
Net profit	na	(8.6)	8.0	23.6
Key ratios (%)				
Operating profit margin	39.0	34.3	28.3	27.9
Net profit margin	30.5	27.7	22.6	21.3
Cost to income	30.8	35.2	29.7	26.2
Effective tax rate	24.6	25.1	24.8	22.7
Dividend payout	27.7	26.7	21.3	
ROAE	25.5	18.1	15.8	13.8
ROAA	6.3	4.2	3.4	2.9
Segmental revenue (RMBmn)				
NPLs operation	-	9,957	14,392	21,850
Investment and AM	9,957	5,946	7,911	8,977
Financial services	5,946	9,231	10,553	12,134
Elimination	9,231	(751)	(521)	(547)
Total	25,134	24,382	32,335	42,413
Segmental PBT (RMBmn)				
NPLs operation	-	7,202	6,234	8,314
Investment and AM	7,202	2,488	3,285	3,012
Financial services	2,488	(207)	164	515
Elimination	(207)	(425)	(87)	(47)
Total	9,483	9,058	9,596	11,794

Source(s): Company, ABCI Securities



Consolidated balance sheet (2010A-2013A)

As of Dec 31 (RMB mn)	2010A	2011A	2012A	2013A
Cash and banks	33,773	27,187	42,726	57,059
Settlement funds	1,416	1,286	1,526	1,708
Guarantee deposits	877	779	907	831
Placements	-	-	2,000	290
FVTPL	10,102	13,402	16,923	25,178
Repo financial assets	369	561	57	1,054
AFS	62,156	64,382	64,377	72,747
L&R	-	12,150	51,195	116,663
Loans to customers	2,508	9,448	25,042	48,636
Receivables	6,418	4,063	5,257	6,449
HTM	3,776	6,262	7,343	7,592
AFS properties	11,537	13,092	13,815	17,790
Investment properties	2,364	2,339	2,100	1,858
Investment in Asso	5,971	6,713	7,476	8,962
Property and equipment	3,734	3,732	3,467	3,620
Goodwill	368	362	362	324
Other intangibles	91	103	137	160
Deferred tax assets	334	1,400	2,623	3,937
Other assets	4,908	5,863	7,281	8,928
Total assets	150,701	173,124	254,614	383,785
Borrowing from central bank	16,465	11,311	7,053	4,913
Brokerage client money	13,678	8,151	6,630	6,481
FVTPL	-	1	53	48
Repo financial liabilities	880	6,921	11,994	9,443
Placement with FIs	-	-	-	10,477
Borrowings	7,826	25,179	76,099	173,835
Payables	47,220	47,995	39,539	22,814
Insurance funds	2,697	3,618	3,213	3,244
Tax payable	2,860	3,325	2,132	2,061
Insurance contract reserve	7,633	12,301	17,586	20,722
Bonds payable	-	495	12,535	13,285
Deferred tax liabilities	678	349	357	451
Other liabilities	8,265	10,638	16,539	33,249
Total liabilities	108,200	130,281	193,730	301,023
Issued share cap	25,155	25,155	30,140	35,459
Reserves	4,942	1,783	9,207	21,665
Retained profits	6,928	10,875	15,427	18,875
Total shareholders' fund	37,025	37,813	54,774	75,998
Minority interests	5,476	5,030	6,111	6,764
Total equity	42,502	42,843	60,885	82,762
Growth (%)				
Cash and banks	na	(19.5)	57.2	33.5
FVTPL	na	32.7	26.3	48.8
AFS	na	3.6	(0.0)	13.0
L&R	na	na	321.4	127.9
Loans to customers	na	276.7	165.0	94.2
Receivables	na	(36.7)	29.4	22.7
HTM	na	65.9	17.3	3.4
AFS properties	na	13.5	5.5	28.8
Total assets	na	14.9	47.1	50.7
Brokerage client money	na	(40.4)	(18.7)	(2.2)
Repo financial liabilities	na	686.9	73.3	(21.3)
Placement with FIs	na	na	na	na
Borrowings	na	221.7	202.2	128.4
Payables	na	1.6	(17.6)	(42.3)
Insurance contract reserve	na	61.2	43.0	17.8
Bonds payable	na	na	2,432.2	6.0
Total liabilities	na	20.4	48.7	55.4
Issued share cap	na	-	19.8	17.6
Reserves	na	(63.9)	416.4	135.3
Retained profits	na	57.0	41.9	22.4
Total equity	na	0.8	42.1	35.9

Source(s): Company, ABCI Securities



Disclosures

Analyst Certification

I, Johannes Au, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is



determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2014 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183