



**Key Data**

Share price (HK\$)	10.30
Target price (HK\$)	NA
Upside potential (%)	NA
52Wk H/L(HK\$)	14.8 / 7.4
Issued shares (mn)	1,721
Market cap (HK\$m)	17,619
30-day avg vol (HK\$m)	19.9
Major shareholder (%):	
Honorich Holdings	50.4
Vanguard Group	2.0

Source: Company, Bloomberg, ABCI Securities

**Pretax profit composition in 2011 (%)**

Asset Management	(13.5)
Asset Investment	0.1
Direct Investment	34.2
Structure Investment & Treasury	18.3
Strategic Investment	10.6
Others	3.8
Corporate Expenses / Incentives	15.2
CES profit contribution	31.4

Source: Company

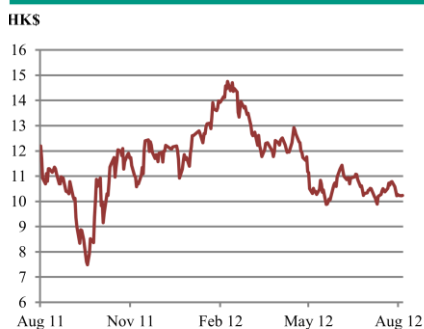
**Share performance (%)**

	Absolute	Relative*
1-mth	(2.5)	(4.1)
3-mth	(1.3)	(3.9)
6-mth	(27.5)	(18.5)

Source: Bloomberg

\*Relative to MSCI China

**1 year price performance**



Source: Bloomberg

**Analyst:**

Name: Francis Chan  
Tel: (852) 2147 8311  
Email: [francischan@abci.com.hk](mailto:francischan@abci.com.hk)

**China Everbright (165 HK) – Unrated**  
Diversified capital markets

**Growth achieved in a difficult half (1H12 result review)**

China Everbright Ltd. (CEL) just reported 1H12 earnings at HK\$766.6bn, down 51% YoY. We noted that such decline was mainly driven by a one-off disposal gain on Everbright Securities International (HK\$512mn) in 1H11, and an accounting adjustment on AFS reserves (HK\$190mn). In fact, revenue grew by 22% YoY and operating profits rose by 17.8% YoY. Total comprehensive income, including AFS unrealized gains, jumped 80.2% YoY to HK\$821.4mn.

**Better dividends from China Everbright Bank.** Dividends from CEB rose 43% YoY to HK\$267mn, in light of better NIM and lower credit cost. CEB is currently planning its H-share IPO, for raising about US\$1.5bn.

**Everbright Securities (EBS) dragging.** Equity-accounted profits from EBS declined by 24.5% YoY to HK\$339mn, on the back of weakening A-share turnover throughout 1H12.

**Bright prospects of Private Equity projects.** Currently, CEL has 40 primary investment projects, with an AUM of HK\$19.2bn, yielding good return historically. In 1H12, CEL reported disposal gains or unrealized gains amounting to HK\$575.6mn, up 3.3% YoY. Also, the newly acquired aircraft leasing company is expanding its fleet fast. We expect it to generate better profits for CEL in 2H12 and 2013.

**Appealing discount to Sum of the Parts (SOTP).** CEL's SOTP valuation remained stable at HK\$22.0 per share year to date. CEL's trading discount to SOTP was low at 53.5%, compared to the average discount of 45.2% since 2010. Per Bloomberg, the stock is trading at HK\$10.30, or 10.0x 2012E PER (2010-12 average at 11.1x) and 0.63x 2012E PBV (2010-12 average at 0.85x). We consider the stock trading at an attractive valuation.

**Risk factors:** Better/worse-than-expected operating performance of EBS, CEB, private equity holdings and aircraft leasing unit.

**Valuation**

FY ended Dec 31	2009	2010	2011
Revenue (HK\$ mn)	387	1,721	1,425
Chg (YoY %)	(71)	344	(17)
Net profit (HK\$ mn)	4,758	1,927	1,923
Chg (YoY %)	409	(59)	(0)
EPS (HK\$)	2.98	1.19	1.12
Chg (YoY %)	409	(60)	(6)
PER (x)	3.45	8.67	9.23
BVPS (HK\$)	13.18	17.35	15.36
PBV (x)	0.78	0.59	0.67
DPS (HK\$)	0.38	0.43	0.45
Yield (%)	3.7	4.2	4.4
ROE (%)	27.8	6.8	7.3

Source: Company, Bloomberg, ABCI Securities



**China Everbright: 1H12 profit & loss**

HK\$ '000	1H12	1H11	YoY Chg (%)	HK\$ '000	1H12	1H11	YoY Chg (%)
Operating income	532,716	428,905	24.2	<b>Operating income</b>			
Other net income	587,161	488,903	20.1	Consultancy & Mgt fees	41,267	36,354	13.5
<b>Total revenue</b>	<b>1,119,877</b>	<b>917,808</b>	<b>22.0</b>	Interest income	165,505	143,356	15.5
Staff costs	(131,289)	(103,376)	27.0	Dividend income	324,914	247,616	31.2
Depreciation & amortisation	(15,074)	(7,579)	98.9	Gross rental income	1,030	1,579	(34.8)
Impairment loss on AFS	(32,695)	(9,480)	244.9	<b>Total</b>	<b>532,716</b>	<b>428,905</b>	<b>24.2</b>
Other operating expenses	(55,515)	(45,549)	21.9	<b>Other net income</b>			
<b>Profit from operations</b>	<b>885,304</b>	<b>751,824</b>	<b>17.8</b>	Net realised gain/(loss) - trading	(6,103)	(48,936)	(87.5)
Finance costs	(42,532)	(28,557)	48.9	Net unrealised gain/(loss) - trading	14,526	(30,860)	(147.1)
Disposal gain (loss)		511,576	(100.0)	Net disposal gain on AFS	375,165	433,071	(13.4)
<b>Associates profits (losses)</b>	<b>330,270</b>	<b>446,188</b>	<b>(26.0)</b>	Realised gain (asset) on P&L		0	(100.0)
JV profits (losses)	39,823	(10,219)	(489.7)	Unrealised gain (asset) on P&L	200,396	124,085	61.5
Profit from discontinued operations		10,871	NA	Unrealised gain (liability) on P&L	14,573	8,268	(100.0)
Accounting adj. to reserve	(189,967)		NA	Unrealised loss on notes payable	(14,222)	(8,329)	70.8
<b>Profit before tax</b>	<b>1,022,898</b>	<b>1,681,683</b>	<b>(39.2)</b>	Exchange gain/(loss), net	(9,330)	5,146	(281.3)
Income tax	(135,573)	(127,405)	6.4	Others	12,156	6,458	88.2
<b>Profit after tax</b>	<b>887,325</b>	<b>1,554,278</b>	<b>(42.9)</b>	<b>Total</b>	<b>587,161</b>	<b>488,903</b>	<b>20.1</b>
Minority interest	(120,770)	9,514	(1,369.4)				
<b>Profit attributable to Shareholders</b>	<b>766,555</b>	<b>1,563,792</b>	<b>(51.0)</b>				
<b>Other comprehensive income</b>	<b>(65,904)</b>	<b>(1,098,344)</b>	<b>(94.0)</b>				
<b>Total comprehensive income</b>	<b>821,421</b>	<b>455,934</b>	<b>80.2</b>				

Source: Company, ABCI Securities

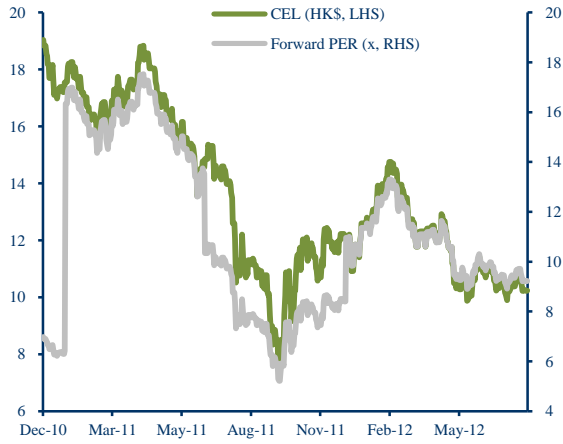
**China Everbright: Sum of the Parts (SOTP) Valuation**

	Stock code	Stake	Status	# of shares (mn)	Share Price (1'cy)	Value (L'cy mn)	Exch Rate	Value (HKD mn)	HK\$ per share	MIX (%)	Bal. Sheet	HK\$ per share	MIX (%)
EBS	601788 CH	33.30%	listed	3,418	11.13	12,668	1.22	15,454	8.98	40.8%			
EBS International			unlisted					1,652	0.96	4.4%			
Other associates			unlisted					500	0.29	1.3%			
<b>Total Associates</b>								<b>17,606</b>	<b>10.2</b>	<b>46.4%</b>	<b>10,153</b>	<b>5.9</b>	<b>33.5%</b>
CEB	601818 CH	4.51%	listed	40,435	2.76	5,033	1.22	6,140	3.57	16.2%			
Being Mate	002570 CH	3.31%	listed	427	22.39	316	1.22	386	0.22	1.0%			
Sunshine	2002 HK	8.90%	listed	803	0.77			55	0.03	0.1%			
Beijing Jing Neng	579 HK	2.25%	listed	6,150	1.80			249	0.14	0.7%			
China Outfitter	1146 HK	3.39%	listed	3,452	1.51			177	0.10	0.5%			
iSoft Stone	ISS US	1.24%	listed	55	4.70	3	7.76	25	0.01	0.1%			
Other listed AFS			listed					1,505	0.87	4.0%			
Others unlisted AFS			unlisted					3,094	1.80	8.2%			
<b>Total AFS</b>								<b>11,630</b>	<b>6.8</b>	<b>30.7%</b>	<b>11,548</b>	<b>6.7</b>	<b>38.1%</b>
Trading Securities + Financial Assets								1,487	0.9	3.9%			
Cash & Equivalents								4,597	2.7	12.1%			
Advances to customers								2,702	1.6	7.1%			
Misc Assets								2,406	1.4	6.4%			
<b>Total Other Assets</b>								<b>11,192</b>	<b>6.5</b>	<b>29.6%</b>	<b>11,192</b>	<b>6.5</b>	<b>36.9%</b>
(-) Total Liabilities excluding deferred tax or provisions								(2,563)	(1.5)	-6.8%	(2,563)	(1.5)	-8.4%
<b>Sum of the parts valuation</b>								<b>37,866</b>	<b>22.0</b>	<b>100%</b>	<b>30,330</b>	<b>17.6</b>	<b>100%</b>
<b>CEL (HK\$)</b>									<b>10.30</b>			<b>10.30</b>	
<b>% Discount</b>									<b>(53.5)</b>			<b>(41.8)</b>	

Source: Company, Bloomberg, ABCI Securities

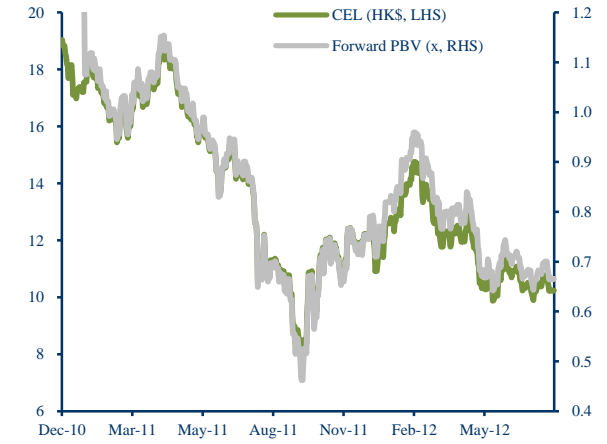


CEL: Forward PER (2010 - present)



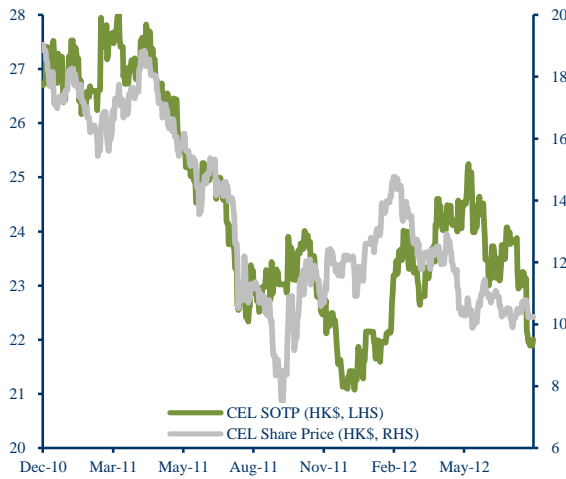
Source: Bloomberg, ABCI securities

CEL: Forward PBV (2010 - present)



Source: Bloomberg, ABCI securities

CEL: Sum of the Parts (SOTP) versus share price 2010 - present



Source: Bloomberg, ABCI securities

CEL: Trading discount to SOTP (2010 - present) [Average Discount at 45.2%]



Source: Bloomberg, ABCI securities



---

## Disclosures

### Analyst Certification

I, Chan Wing Fu, 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

ABC Securities Company Limited and/or its member companies ("ABC") may pursue financial interests to the companies mentioned in the report.

### 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. ABC Securities Company Limited is under no obligation to update or keep current the information contained herein. ABC Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABC Securities Company Limited, into other areas, units, groups or affiliates of ABC 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 ABC 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 ABC 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 2012 ABC 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 ABC Securities Company Limited.

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

**Tel: (852) 2868 2183**