Deutsche Bank
Markets Research

Rating
Buy

Asia
China

Banking / Finance
Other Financial Services

Company
China Cinda Alert

Reuters	Bloomberg	Exchange	Ticker
1359.HK	1359 HK	HSI	1359

Date
1 March 2015

Forecast Change

Price at 27 Feb 2015 (HKD)	3.82
Price target - 12mth (HKD)	5.20
52-week range (HKD)	4.68 - 3.39
HANG SENG INDEX	24,823

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Key changes

Price target	4.60 to 5.20	↑	13.0%

Source: Deutsche Bank

Stock data

Market cap (HKDm)	138,501
Market cap (USDm)	17,859
Shares outstanding (m)	35,857.8
Free float (%)	13.9

Source: Deutsche Bank

An overlooked beneficiary of monetary easing; Reiterating Buy

Reiterating Buy rating with TP lifted by 13% to HK$5.20
We continue to believe Cinda is a key beneficiary of monetary easing policies with lower asset quality risks of its restructuring lending book and falling funding cost. The recent underperformance of its share price was due to lingering concerns over its property and coal exposure, which we believe are overdone and have been reflected in current valuation of 1.07x 2015E P/B. We maintain Buy rating and raise our target price by 13% to HK$5.20 (1.45x 2015E P/B) on rollover of book value estimates to 2015E, with catalysts being further loosening moves, earnings release in late March and stabilizing property sales.

A key beneficiary of monetary easing with lower credit risks and funding cost
Following the second rate cut in this cycle on 28 Feb 2015 and continued loosening moves (e.g. RRR cut on 4 Feb 2015), we expect Cinda to benefit from the lower interest rates and ample system liquidity in multiple aspects: 1) lessened asset quality risk of its subprime lending portfolio (33% of total assets), with a 10bps decline in impairment ratio leading to 2.4% gain in 2015E earnings; 2) lower funding cost, as a 25bps drop would boost 2015E earnings by 4.4%; 3) stronger return from its DES assets and traditional NPL disposal.

Expecting above-consensus FY14 results with robust 3-yr NPAT growth & ROE
We forecast Cinda to record 2H14 NPAT at Rmb6.7bn, up 35% yoy, leading to FY14 NPAT of Rmb12bn (up 33% yoy), 2.5% higher than consensus. The earnings surprise may come from 1) stronger DES exit income, given the significant appreciation by Rmb3.7bn in its listed DES portfolio in 2014, or 24% of total PBT, and 21% appreciation of listed comparables to its unlisted DES assets; 2) robust earnings growth in Cinda Securities, with an estimated NPAT growth of 100% yoy to boost group earnings by 3%. Over the longer term, we expect Cinda's NPAT to grow by 33%/27%/18% yoy in 2014E/15E/16E with a higher ROAE of 16.1% in 2016E (2013: 13.8%).

Concerns on its property and coal exposure seem overdone
Some investors remain concerned over Cinda's property and coal exposure, which made up 40% and 8% of total assets, respectively. As DB Property team expects a cyclical recovery in the physical residential market in 2015 and Cinda has been tightening risk control and improving asset allocation, we expect eased pressure on impairment losses from its property portfolio. In addition, its low acquisition cost of coal DES companies should buffer against risks, as our proprietary study into the financials of 32 unlisted DES companies suggests Cinda's entry cost made up only 62% of the net assets of these companies.

Low valuation to buffer risks, with multiple catalysts leading to re-rating
Trading at 1.07x 2015E P/B and 7.2x P/E, its valuation looks attractive given strong NPAT growth with rising ROAE. More specifically, its distressed asset management segment (60% of total assets), which generated decent ROE of 22% in 2014E, seems undervalued with market-implied P/B of merely 1.1x.