



Rating
Buy

Asia
China

Banking / Finance
Other Financial Services

Company
China Cinda Alert

Reuters 1359.HK Bloomberg 1359 HK Exchange HSI Ticker 1359

Date
9 March 2015

Company Update

Price at 6 Mar 2015 (HKD)	3.81
Price target - 12mth (HKD)	5.20
52-week range (HKD)	4.46 - 3.39
HANG SENG INDEX	24,164

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Stock data	
Market cap (HKDm)	138,138
Market cap (USDm)	17,809
Shares outstanding (m)	35,857.8
Free float (%)	13.9

Source: Deutsche Bank

Selling NPLs through Taobao - A positive initiative

Successful online sale of NPLs: positive for Cinda's traditional NPL disposal

Reported by Xinhua News on 7 March 2014, Cinda has successfully sold two NPLs to third-party buyers through a bidding process in the Asset Disposal Platforms of Taobao, with a selling price of 42 and 51 cents on a dollar respectively. This is the first time that asset management companies have completed NPL transactions on the internet platform and Cinda has pledged to sell more NPLs through Taobao, according to the news. Despite the small transaction amount in this early stage, we believe this suggests that Cinda is committed to broaden the disposal channels in the secondary NPL market and affirms our view that its traditional distressed assets (TDA) business should deliver faster turnover to offset lower disposal return. We maintain our Buy rating, given attractive valuation and clear catalysts (FY14 results and loosening moves).

Expecting rising revenue contribution from traditional NPL disposal

As highlighted in our report [Limited impact from local AMCs](#) dated 25 Nov 2014, our proprietary study into 592 TDA cases suggests that Cinda has shifted its NPL disposal model from resolution to wholesaling (i.e. buying, repacking and selling NPLs to third parties), translating into faster turnover and stronger revenue generation (14-16% of total revenue in 2014E-16E vs. 11% in 2013), despite the lower disposal return. We believe the innovative disposal channels, such as Taobao, should potentially help the company accelerate NPL disposal.

Taobao: an innovative channel with better transparency & investor participation

Established in November 2014, the Asset Disposal Platform of Taobao facilitates transactions of NPLs, tangible or intangible assets. For NPLs, we think the platform offers better transparency than other channels, as it lays out detailed descriptions about the borrowers and guarantee/collateral and also posts pictures of the borrowers' factories. In addition, the platform helps Cinda to tap a larger group of potential buyers, as evidenced by more than 6,000 visits to the web pages of the two NPLs during the posting period of 15 days.

More details about the two NPL cases

These two NPLs had a combined original amount of Rmb56mn (including principal and interests), with guarantee provided by corporates and individuals and collateralized with land and factory. Cinda bought the two NPLs from ABC and INDB in 2014 respectively, with both underlying borrowers being manufacturers in Zhejiang province. We summarize the details below:

Name of borrower	Sector	NPL original amount (Rmb mn)	NPL selling amount (Rmb mn)	Selling price (cents in a dollar)	Guarantee	Collateral	NPL bought from
Zhejiang Zhongyi Special Steel	Steel manufacturing	47.32	20.05	42	Y	Land and factory	ABC in 2014
Ningbo Zhonghui Jieyi Industrial	Other manufacturing	8.67	4.41	51	Y	Land and factory	INDB in 2014
TOTAL		55.98	24.46	44			

Source: Deutsche Bank, Taobao

Deutsche Bank AG/Hong Kong

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