

Value Partners Group Limited

Inflection in Performance Fees Drives Results

Value Partners recorded a strong year in FY14 with operating profit of HK\$750mn, up from HK\$468mn in FY13. That increase was driven by steady growth in mgmt fees (HK\$748mn, +24% Y/Y), a surge in performance fees (HK\$659mn, +108%), and stringent cost control (+21% Y/Y before bonus). VP also registered significant growth in net fair value gains of treasury operations (HK\$110mn, +362% Y/Y) which together led to EPS rising from HK\$0.22 to HK\$0.45 Y/Y. Indeed, most of the funds have exceeded their high-water mark (HWM) by the end of 2014, with the two largest own branded funds, Classic Fund and High-Dividend Stocks Funds, surpassing HWM by 16% and 11%, respectively. The group declared a final dividend of HK\$16 cents (10.7 cents FY13) and a special dividend of 6 cents (nil FY13). We remain OW the stock, and increase our estimates +35% for FY15E on higher performance fees and strong AUM growth, rolling over PT to HK\$7.90.

- AUM growth:** Average AUM increased +23% Y/Y to \$12.9bn, driven by net subscriptions of \$1.9bn and performance (+\$690mn). Momentum continued into January, as AUM rose another 3%, to \$13.3bn. The group launched its first RQFII fund (VP China-A-Share Select Fund) and first global fund (VP Global Contrarian Fund) in 2H14. The new products, together with new connections in expanded distribution network, contributed to particularly strong gross subscriptions in 2H14 at \$4.3bn (vs \$1.8bn 1H14), which in turn drove net sales to \$2.2bn in 2H14. Fund sales contribution from the China business increased from 4% to 13%.
- On the cost side,** total expenses rose +45% Y/Y to HK\$510mn, partially driven by increased management bonus as well as expansion into Singapore to cover clients in ASEAN. However, expenses before bonuses increased modestly by +21% Y/Y, far below revenue growth of +56%. That said, fixed cost coverage remained stable at 2.6x (FY13: 2.7x). Net management fees margin was stable at 61bps, as improvement in gross margin (+5bps Y/Y) was offset by higher rebates for distribution channels (+45% Y/Y).
- Small loan business:** The Group continues to grow its joint-venture personal & small lending business in Chengdu, Vision Credit, with loans growing from RMB181mm to 250mm Y/Y, and profit rising from HK\$2.3mm to HK\$16.6mm.

Value Partners Group Limited (Reuters: 0806.HK, Bloomberg: 806 HK)

	FY12A	FY13A	FY14A	FY15E	FY16E
Operating Profit (HK\$ mn)	254	468	750	851	1,069
Net Profit (HK\$ mn)	376	384	804	819	1,007
Cash EPS (HK\$)	0.21	0.22	0.45	0.46	0.57
EPS (HK\$)	0.21	0.22	0.45	0.46	0.57
DPS (HK\$)	0.16	0.11	0.22	0.22	0.27
EPS Growth	126.1%	2.0%	107.3%	1.8%	22.9%
ROE	16.4%	15.7%	27.0%	22.3%	23.5%
P/E (x)	32.3	31.6	15.3	15.0	12.2
BVPS (HK\$)	1.34	1.45	1.92	2.22	2.59
P/BV	5.2	4.7	3.6	3.1	2.7
Div. Yield	2.3%	1.5%	3.2%	3.2%	4.0%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Overweight

0806.HK, 806 HK

Price: HK\$6.91

▲ Price Target: HK\$7.90

Previous: HK\$7.00

Hong Kong

Asia Financials

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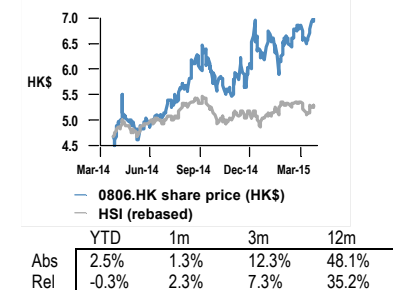
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J.P. Morgan Securities (Asia Pacific) Limited

Price Performance



Company Data

52-week Range (HK\$)	7.10-4.40
Market Cap (HK\$ mn)	12,691
Market Cap (\$ mn)	1,637
Shares O/S (mn)	1,837
Fiscal Year End	Dec
Price (HK\$)	6.91
Date Of Price	26-Mar-15
3M - Avg daily val (HK\$ mn)	16.95
3M - Avg daily val (\$ mn)	2.2
3M - Avg daily vol (mn)	2.59
HSI	24,528.23
Exchange Rate	7.75
Price Target End Date	31-Dec-15

See page 9 for analyst certification and important disclosures, including non-US analyst disclosures.

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<p>Key catalysts for the stock price:</p> <ul style="list-style-type: none"> • Improved management fee margin • Expanded footprint, building franchise • Growing AUM 	<p>Upside risks to our view:</p> <ul style="list-style-type: none"> • Better fund performance • Distribution expansion 	<p>Downside risks to our view:</p> <ul style="list-style-type: none"> • Market downturn • Potential departure of team members • Keen competition from US and Europe asset management companies
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Key financial metrics	FY13A	FY14A	FY15E	FY16E
Revenues (LC)	1,073	1,629	1,883	2,293
Revenue growth (%)	52.0%	51.9%	15.6%	21.7%
EBITDA (LC)	468	750	851	1,069
EBITDA margin (%)	43.6%	46.0%	45.2%	46.6%
Tax rate (%)	17%	14%	14%	14%
Net profit (LC)	384	804	819	1,007
EPS (LC)	0.22	0.45	0.46	0.57
EPS growth (%)	2.0%	107.3%	1.8%	22.9%
DPS (LC)	0.11	0.23	0.23	0.28
BVPS (LC)	1.45	1.92	2.22	2.59
Operating cash flow (LC mn)	(87)	378	484	668
Free cash flow (LC mn)	(87)	378	484	668
Interest cover (x)	n.a.	n.a.	n.a.	n.a.
Net margin (%)	35.8%	49.4%	43.5%	43.9%
Sales/assets (X)	0.35	0.44	0.40	0.42
Net debt/equity (%)	26.2%	-51.7%	-52.7%	-54.5%
ROA (%)	13%	22%	17%	19%
ROE (%)	16%	27%	22%	24%
Key model assumptions	FY13A	FY14E	FY15E	FY16E
Performance assumption	8%	6%	6%	6%
Net fund flows assumption	16%	18%	15%	15%
Performance fees assumption	6%	12%	10%	10%

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	Operating profit		EPS	
	FY15E	FY16E	FY15E	FY16E
Sensitivity to				
Impact of each 5 percentage point increase	54%	54%	49%	49%
Impact of each 5 percentage points increase	4%	4%	4%	4%
Impact of each percentage point increase	6%	6%	6%	6%
Impact of each 10bps increase	10%	10%	9%	9%

Source: J.P. Morgan estimates.

Valuation and price target basis

Our PT (Dec-15, P/AUM-derived) of HK\$7.9 implies a P/AUM of 11.3% and P/E of 17.1x (FY15E).

PT Derivation

Risk-free rate	4%
Equity premium	5%
Beta	1.6
COE	12%
Growth	4%
RoAUM	1.14%
AUM leverage (AE/AUM)	3.0%
Fair P/AUM	12.6%

Fair value per share (FY15E) **7.9**

Source: Bloomberg, Company and J.P. Morgan estimates.

JPM vs. consensus, change in estimates

EPS (LC)	FY15E	FY16E
JPM old	0.35	n.a.
JPM new	0.46	0.57
% chg	32%	n.a.
Consensus	0.39	0.44

Source: Bloomberg, J.P. Morgan estimates.

Table 1: Peer valuation

25-Mar-2015	Bloomberg Ticker	Price (LC)	Mkt Cap US\$ m	PE 15E	PE 16E	Div 15E	Div 16E	PB 15E	PB 16E	ROE 15E	ROE 16E
Value Partners	806 HK	6.94	1,644	15.0	12.2	3%	4%	3.1	2.7	22%	24%
Och-Ziff Capital Mgt	OZM US	12.5	5,985	8.4	7.3	11%	13%	n.m.	n.m.	105%	n.m.
Blackstone Group LP	BX US	38.3	43,620	10.3	10.2	7%	7%	5.5	5.1	49%	59%
Partners Group Holding	PGHN SW	293.5	8,189	22.4	19.5	3%	3%	6.9	6.4	33%	37%
Azimut Holding SpA	AZM IM	26.2	4,121	18.7	17.6	4%	4%	4.7	4.1	28%	26%
Man Group PLC	EMG LN	209.6	5,452	10.6	9.7	0%	0%	1.5	1.5	14%	15%
Fortress Investment	FIG US	7.8	3,396	8.1	6.2	9%	12%	2.5	n.m.	42%	n.m.

Source: Bloomberg, J.P. Morgan estimates.

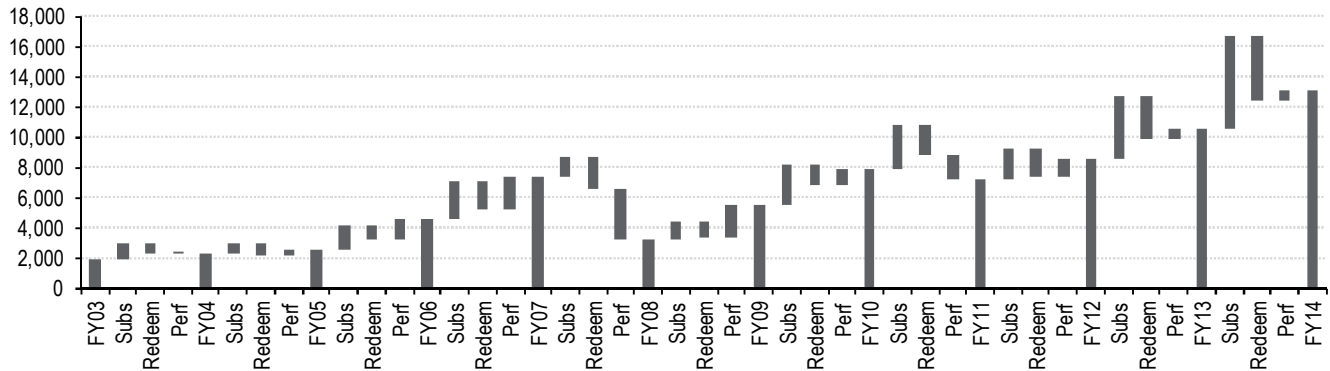
Table 2: VP: AUM breakdown (US\$ mn)

	1H12	2H12	1H13	2H13	1H14	2H14	H/H	Y/Y	1H14 mix	2H14 mix
Brand: Own brand	3,933	4,680	5,067	6,503	6,347	8,898	40%	37%	63%	69%
Brand: White Label	3,218	3,829	3,521	3,986	3,728	3,997	7%	0%	37%	31%
Brand: Co-Branded	0	0	0	0	0	0	n.a.	n.a.	0%	0%
Strategy: Abs ret long-biased	6,507	7,658	7,643	9,335	8,866	11,348	28%	22%	88%	88%
Strategy: Hedge	286	255	258	315	302	258	-15%	-18%	3%	2%
Strategy: Quant/ others	358	170	172	210	202	129	-36%	-39%	2%	1%
Regulation: Authorized	5,506	6,382	6,870	8,496	8,060	10,445	30%	23%	80%	81%
Regulation: Non-authorized	1,001	1,276	945	944	1,008	1,032	2%	9%	10%	8%
Regulation: Managed Accounts	644	851	773	1,049	1,008	1,418	41%	35%	10%	11%
Source: HK	4,862	5,871	6,097	7,552	7,153	9,542	33%	26%	71%	74%
Source: US	787	936	773	1,154	1,008	1,032	2%	-11%	10%	8%
Source: Europe	787	936	859	734	907	774	-15%	5%	9%	6%
Source: Australia	286	340	258	315	302	258	-15%	-18%	3%	2%
Source: Japan	0	0	0	0	0	0	n.a.	n.a.	0%	0%
Source: Rest	429	425	601	734	705	1,290	83%	76%	7%	10%
Client: Institutions	2,431	2,553	2,405	2,727	2,620	3,095	18%	13%	26%	24%
Client: Inst: Pension	1,931	2,468	2,319	2,727	2,620	2,837	8%	4%	26%	22%
Client: Inst: Endowments	358	425	344	420	403	387	-4%	-8%	4%	3%
Client: Inst: Funds of funds	215	170	172	210	101	129	28%	-39%	1%	1%
Client: HNW	572	936	1,116	1,259	1,209	1,676	39%	33%	12%	13%
Client: Retail	1,573	1,872	2,061	3,042	3,023	4,642	54%	53%	30%	36%
Client: Rest	72	85	172	105	101	129	28%	23%	1%	1%

Source: Company reports.

Figure 1: VP: P/AUM

US\$ in millions



Source: Company reports.

Table 3: VP: Results review (HK\$ mn)

	1H13	2H13	1H14	2H14	H/H	Y/Y
Income statement						
Management fees	291	313	341	407	20%	30%
Performance fees	15	302	22	637	2816%	111%
Other income	26	19	18	12	-34%	-38%
Total income	384	688	462	1,168	153%	70%
Distribution fees	120	132	153	218	43%	65%
Staff cost	96	171	105	297	181%	73%
Total expenses	258	346	302	577	91%	67%
Operating profit	126	342	159	591	271%	73%
Profit before tax	21	439	162	769	375%	75%
Attributable profit	1	383	139	665	378%	74%
Consolidated balance sheet						
Cash	823	692	1,218	1,801	48%	160%
Total assets	2,549	3,080	2,952	4,363	48%	42%
Total liabilities	121	440	184	880	378%	100%
Shareholders fund	2,347	2,559	2,689	3,406	27%	33%
Ratios						
					%pt	%pt
Mgt fee / AUM	0.82%	0.84%	0.86%	0.89%	0.04%	0.06%
Perf fee / perf amt	-0.4%	3.3%	-5.4%	11.0%	16.4%	7.8%
Fund expense ratio (FER)	0.86%	1.64%	0.91%	2.29%	1.39%	0.65%
Revenue/Assets	27.8%	48.9%	30.6%	63.9%	33.3%	15.0%
Dist fee / Subscription	0.78%	0.78%	1.07%	0.65%	-0.41%	-0.12%
CIR	67.2%	50.3%	65.5%	49.4%	-16.1%	-0.9%
ROA	0.1%	27.2%	9.2%	36.4%	27.2%	9.2%
RoAUM	0.00%	1.02%	0.35%	1.46%	1.11%	0.44%
ROE	0.1%	31.2%	10.6%	43.7%	33.1%	12.5%
Leverage (AE/AA)	85%	87%	87%	83%	-4%	-4%
Leverage (AE/AAUM)	3%	3%	3%	3%	0%	0%
Other key information						
AUM - Net sales (HK\$m)	4,313	6,092	-2,395	16,903	n.a.	177%
AUM - Total returns (HK\$m)	-3,697	9,251	-406	5,788	n.a.	-37%
AUM (HK\$m)	66,986	81,814	78,585	100,581	28%	23%
AUM (US\$m)	8,588	10,489	10,075	12,895	28%	23%
Net sales %	6%	8%	-3%	19%		
Total return %	-5%	12%	-1%	6%		

Source: Company reports and J.P. Morgan estimates.

Table 4: VP: Estimate revision (HK\$ mn)

	New	FY15E Old	chg	FY16E New
Income statement				
Management fees	957	814	18%	1,185
Performance fees	710	541	31%	879
Other income	58	52	12%	54
Total income	1,883	1,519	24%	2,293
Distribution fees	481	285	69%	596
Staff cost	421	391	8%	465
Total expenses	1,032	804	28%	1,224
Operating profit	851	715	19%	1,069
Profit before tax	951	715	33%	1,169
Attributable profit	819	608	35%	1,007
Consolidated balance sheet				
Cash	2,122	1,237	71%	2,551
Total assets	5,003	3,909	28%	5,821
Total liabilities	976	686	42%	1,140
Shareholders fund	3,951	3,141	26%	4,604
Ratios				
Mgt fee / AUM	0.85%	0.80%	0.05%pt	0.85%
Perf fee / perf amt	10.0%	7.0%	3.0%	10.0%
Fund expense ratio (FER)	1.48%	1.33%	0.15%	1.48%
Revenue/Assets	40.2%	40.8%	-0.6%	42.4%
Dist fee / Subscription	0.78%	0.70%	0.08%	0.78%
CIR	54.8%	52.9%	1.9%	53.4%
ROA	17.5%	16.3%	1.1%	18.6%
RoAUM	0.73%	0.60%	0.13%	0.72%
ROE	22.3%	20.3%	1.9%	23.5%
Leverage (AE/AA)	79%	80%	-2%	79%
Leverage (AE/AAUM)	3%	3%	0%	3%
Other key information				
AUM - Net sales (HK\$m)	16,886	6,814	148%	20,912
AUM - Total returns (HK\$m)	7,097	7,735	-8%	8,789
AUM (HK\$m)	124,564	108,969	14%	154,265
AUM (US\$m)	15,970	13,970	14%	19,778
Net sales %	15%	7%		15%
Total return %	6%	8%		6%

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Value Partners Group Limited (*Overweight; Price Target: HK\$7.90*)

Investment Thesis

AUM reached US\$13.3bn in Jan 2015. We think higher management fee margin and strong product distribution channel will drive stock performance in the long term.

Valuation

Our price target is based upon P/AUM methodology (a variation of DDM method). We use a fair P/AUM based multiple of 12.6%, derived from a COE of 12%, growth of 4%, and RoAUM of 1.14%. Our PT (Dec-15, P/AUM-derived) of HK\$7.90 implies a P/AUM of 11.3% and P/E of 17x (FY15E).

Risks to Rating and Price Target

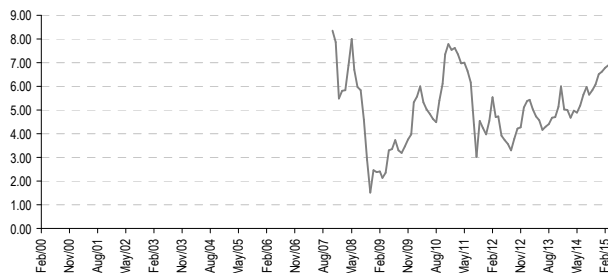
Key downside risks to our rating and price target include a market downturn, potential departure of team members, and keen competition from US and Europe asset management companies. Upside risks include better fund performance and distribution expansion.

JPM Q-Profile
Value Partners Group Limited (HONG KONG / Financials)
 As Of: 23-Mar-2015

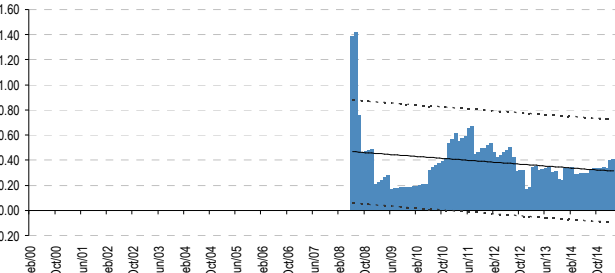
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

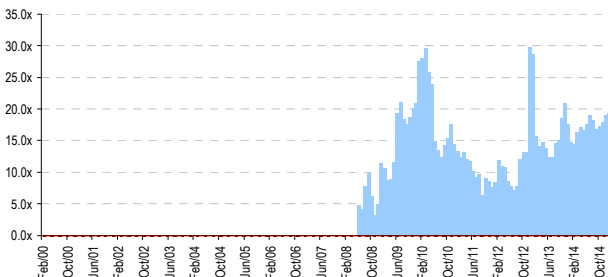
Local Share Price **Current: 6.90**



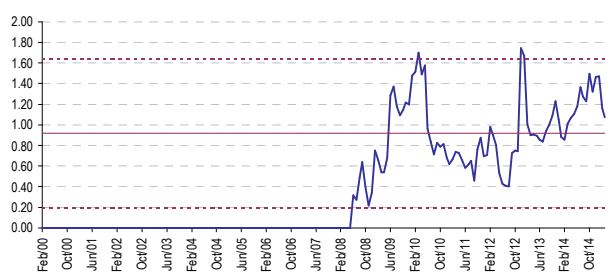
12 Mth Forward EPS **Current: 0.41**



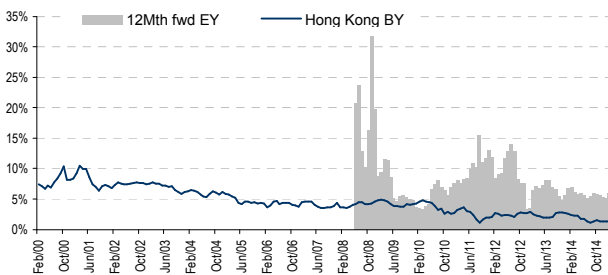
PE (1Yr Forward) **Current: 16.8x**



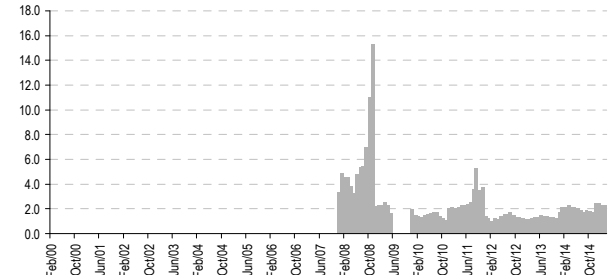
P/E Relative to Hong Kong Index **Current: 1.07**



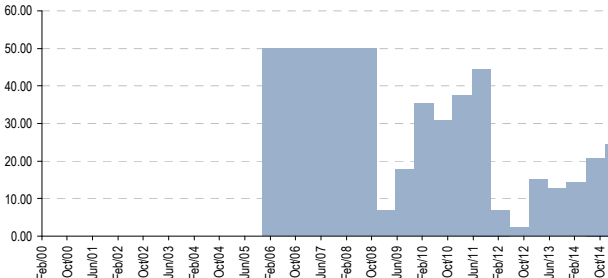
Earnings Yield (& Local Bond Yield) **Current: 6%**



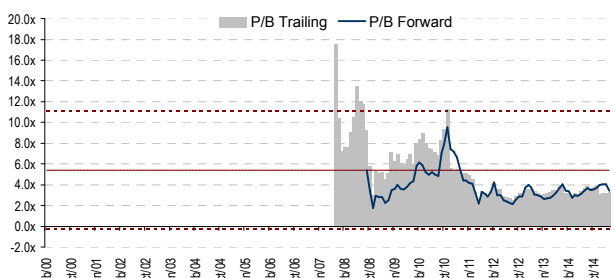
Dividend Yield (Trailing) **Current: 2.36**



ROE (Trailing) **Current: 24.53**



Price/Book (Value) **Current: 3.3x**



Summary

Value Partners Group Limited		TICKER		806 HK		As Of:		23-Mar-15			
HONG KONG						Local Price:		6.90			
Financials						EPS:		0.41			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	16.82x										
P/BV (Trailing)	3.33	2.26	17.55	4.19	5.41	11.11	-0.29	-32%	428%	26%	63%
Dividend Yield (Trailing)	2.36x	0.00	15.31	1.78	2.31	6.56	-1.94	-100%	550%	-24%	-2%
ROE (Trailing)	24.53	2.42	50.00	30.86	30.06	64.70	-4.57	-90%	104%	26%	23%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

Value Partners Group Limited: Summary of Financials

Income Statement					AUM flows				
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E
Management fees	604	748	957	1,185	Beginning AUM	66,370	81,814	100,581	124,564
Performance fees	317	659	710	879	Subscription	32,526	47,635	61,915	76,678
Other income	152	222	217	229	Redemption	(22,121)	(33,127)	(45,029)	(55,766)
Total income	1,073	1,629	1,883	2,293	Net flows	10,405	14,508	16,886	20,912
Distribution fees	(253)	(370)	(481)	(596)	Performance	5,554	5,382	7,097	8,789
Staff cost	(268)	(402)	(421)	(465)	Ending AUM	81,814	100,581	124,564	154,265
Other expenses	(84)	(107)	(130)	(162)	Average AUM	73,016	85,371	112,572	139,414
Operating profit	468	750	851	1,069	DuPont analysis				
Other gains	(10)	160	100	100	Management fee margin	0.83%	0.88%	0.85%	0.85%
Profit before tax	460	931	951	1,169	Performance fee margin	0.43%	0.77%	0.63%	0.63%
Tax	(78)	(129)	(132)	(162)	Total revenue to AUM	1.47%	1.91%	1.67%	1.64%
Minority interest	3	3	0	0	Effective tax rate	17.1%	13.9%	13.9%	13.9%
Attributable profit	384	804	819	1,007	Payout ratio	49.0%	48.6%	48.3%	48.3%
Dividends	(188)	(404)	(409)	(503)	ROA	12.7%	21.6%	17.5%	18.6%
Balance sheet					Leverage - Equity/Assets	-	-	-	-
Cash	692	1,801	2,122	2,551	ROE	15.7%	27.0%	22.3%	23.5%
Fees receivables	386	694	887	1,099	Growth rates				
Current assets	1,922	3,171	3,745	4,451	Total income	52.0%	51.9%	15.6%	21.7%
Non-current assets	1,159	1,192	1,259	1,370	Operating profit	84.1%	60.2%	13.5%	25.6%
Total assets	3,080	4,363	5,003	5,821	Attributable profit	2.1%	109.3%	1.8%	22.9%
Accrued bonus	125	236	225	231	EPS	10.7%	102.5%	2.1%	22.9%
Distribution fees payable	55	77	100	124	Total assets	3.3%	41.6%	14.7%	16.3%
Total liabilities	440	880	976	1,140	Shareholders fund	8.8%	33.1%	16.0%	16.5%
Shareholder Equity	2,559	3,406	3,951	4,604	Average AUM	22.5%	16.9%	31.9%	23.8%
Minority Interests	82	77	77	77					
Total Equity	2,641	3,482	4,027	4,681					
Cash flow statements									
Profit before tax	460	931	951	1,169					
Cash flow from op. act.	(87)	378	484	668					
Cash flow from investing act.	(14)	471	107	23					
Cash flow from financing act.	(281)	260	(270)	(262)					
Net increase in cash	(382)	1,109	321	429					
Cash ending balance	507	1,801	2,122	2,551					

Source: Company data and J.P. Morgan estimates

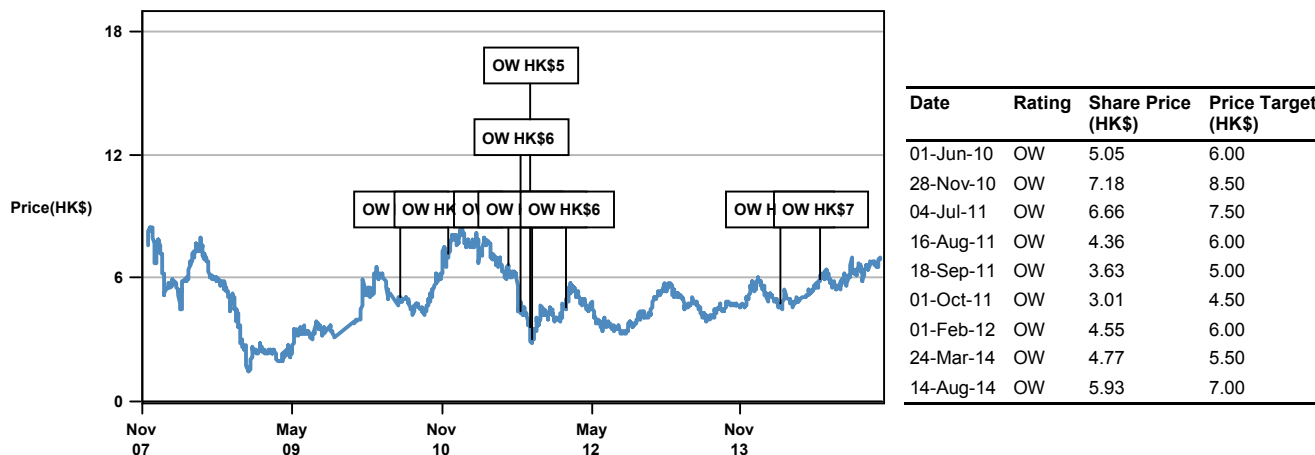
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Value Partners Group Limited (0806.HK, 806 HK) Price Chart



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