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Asia Pacific Equity Research

30 March 2015

China Cinda Asset Management Co Ltd (1359 HK)

Overweight

Price: HK\$3.68

23 Mar 2015

Key takeaways from 2014 results analyst briefing

We attended Cinda FY14 results briefing. Key takeaways including improving assets turnover, increasing portion of traditional business in DAM platform, and return on restructuring business is expected to be stable.

- **Improving asset turnover:** this is mainly due to: a) Cinda actively reducing holding period due to fast growth of traditional DAM business; b) rate cut may drive up economic activities; c) Cinda exploring new sales channel, ie. Internet channel by selling assets on Taobao. (JPM view: we believe this is positive both capital, ROA/ROE and reduce credit risks for Cinda).
- **Mix of DAM continues to shift to traditional business:** as banks continue to dispose of NPLs, the business opportunity continues to increase. Growth on traditional business will continue to be fast, while on restructuring business will be more stable. (JPM view: as traditional business has higher annual return than restructuring business, the change in mix will be positive to overall return of Cinda).
- **Return on restructuring business expected to be stable despite interest rate cut:** Cinda mentioned that some industries, ie real estate, are still seeing pressure on obtaining funding. (JPM view: Cinda is more exposed to deep cyclical sectors which banks try to reduce exposure. For example, 58% of Cinda's credit assets are exposed to real estate. Therefore, Cinda will have bargaining power against their borrowers even amid rate cut).

Detailed briefing notes:

Q: Restructuring business

- Growth will be stable: this was new business since 2011, so growth was fast in previous year. But now the size has reached RMB160bn at 2H14, it is logical for growth rate to slow down. This is partly due to higher base, and that Cinda will be more selective.
- Supply for such business still abundant: as there are still lot of corporates running into liquidity issues and need to borrow money.
- Asset quality: there is no loss case yet.

Q: Traditional business

- Market share and growth opportunity: Cinda accounts for 50% of market share in acquiring banks' NPL package. The growth in 2015 will be fast as the supply for banks' NPLs package is still abundant. Bank's NPL ratio is going up despite increase in NPL disposal in 2014.
- Profitability: The internal rate of return (IRR) for traditional DAM business was 18.6% in 2014, stable vs 19.3% in 2013. The drop in overall return from 111% in 2013 to 62% in 2014 was mainly because Cinda actively reduced holding period.
- Speeding up of disposal process: as the growth on traditional business is fast, Cinda has to speed up disposal process. For example, for assets acquired in 2013, 20% has been disposed; for those acquired in 2014, 6-7% has been disposed.

Q: Debt-equity-swap business

- PB on the DES is 0.5x, roughly;

- For listed companies in DES portfolio, the market value went up as A-share was performing well. Cinda will use this market window to speed up disposal efforts.
- Impairments on DES: mainly on unlisted companies in the DES portfolio. There is one DES portfolio company, which is listed overseas with low liquidity, Cinda made some provision on it.

Q: impacts of rate cut

- Cinda's funding costs remain stable;
- Impacts on return of restructuring business: management expects return to be stable in 2015 (12.2% in 2014). They believe the effectiveness on rate cut is in doubt on both interbank market rate or corporate funding costs. Some sectors, such as real estate, still seeing pressure on funding costs.
- Positive impacts of rate cut is more on speeding up of economic activities, this will drive up economic activities; this is positive to asset turnover and potentially drive up business volume for Cinda.

Q: full-platform financial services

- Having a full-platform financial services is a global trend, only timing may be different;
- Cinda won't rule out M&A potential;

Q: Asset disposal

- Cinda mainly disposed DAM assets through traditional ways, ie. Asset sales for companies with structural problem, restructuring, etc.
- Exploring online platform for assets sale: Cinda sold two DAM assets on Taobao in March this year. This is a trial program. And internet may be a good platform, but now is still at initial stage.
- Cinda is considering to sell other financial assets online.

Banks & Financial Services

AC

Katherine Lei

(852) 2800-8552

katherine.lei@jpmorgan.com

Bloomberg JPMA LEI <GO>

Lu Lu

(852) 2800-8592

lu.lu@jpmorgan.com

Josh Klaczek

(852) 2800-8534

josh.klaczek@jpmorgan.com

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www.jpmorganmarkets.com

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