

07 July 2015

BUY
Unchanged

曙光将现

中国信达 (1359 HK)

Market Data: Jul,6

Closing Price (HK\$)	3.89
Price Target (HK\$)	5.12
HSCEI	12,231
HSCCI	4,542
52-week High/Low (HK\$)	5.23/3.31
Market Cap (USD Mn)	19,456
Market Cap (HK\$ Mn)	150,828
Shares Outstanding (Mn)	36,257
Exchange Rate (RMB-HK\$)	1.27

Price Performance Chart:



Source: Bloomberg

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Related Reports

"CHINA CINDA ASSET MANAGEME-H (1359 HK) Dawn approaching" Mar 30, 2015

"CHINA CINDA ASSET MANAGEMENT (1359:HK)_Property beneficiary" Jan 8, 2015

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (Rmbm)	42,413	59,790	64,963	78,286	84,499
YoY (%)	31.17	40.97	8.65	20.51	7.94
Net income (Rmbm)	9,027	11,896	14,569	18,220	22,959
YoY (%)	23.56	31.78	22.47	25.06	26.01
EPS (Rmb)	0.30	0.33	0.40	0.50	0.63
Diluted EPS (Rmb)	0.30	0.33	0.40	0.50	0.63
BPS (Rmb)	2.50	2.60	2.92	3.39	3.93
ROE (%)	13.81	14.05	14.62	10.93	12.31
Asset/Equity	4.64	5.34	5.79	6.04	6.29
PE (x)	10.35	9.26	7.65	6.12	4.85
PB (x)	1.23	1.18	1.05	0.91	0.78

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

房地产市场前景改善。在公司重组类不良资产经营业务中，房地产行业占比接近60%，这使得公司资产质量和处置收益对房地产市场的变化较为敏感。但我们认为投资者无需过度担忧，首先，公司70%的地产相关资产都位于一二线城市，即便是三四线城市的相关资产，也是大中型开发商在三四线城市的项目，风险可控。其次，由于持续的流动性宽松（四次降息和两次全面降准）、更为有利的行业政策（首套按揭认定标准放宽和住房公积金首套贷款额度提升）和逐步复苏的基本面（六月20个大中城市新房销量同比增速超过50%，全国五月新房销量同比增长17%），房地产市场前景将逐步改善，而这将促使公司重组类不良资产经营业务的收益率和资产质量得以提升，资本市场估值也将实现重估。

贷存比监管取消对公司影响有限。在国务院常务会议批准将贷款余额与存款余额比例不得超过75%的规定将被取消之后，市场开始担忧随着银行放贷能力的提升，信达客户重组类不良资产经营业务的需求将被分流，但我们认为信达的客户定位是有资产重组需求的公司，与银行目标客户的定位存在差异，而且虽然贷存比放开，但是央行对信贷额度的指导、银监会对贷款投向地方政府融资平台和开发贷等的监管依然存在，因此贷存比的放开不会显著分流信达重组类不良资产业务需求。

曙光将现。市场担忧随着信达不良资产收购规模的快速增长，资本充足率有所下滑，资产处置收益率也持续承压。但是鉴于公司资本充足率和杠杆率仍然保持在18.1%和5.3倍的稳健水平，满足资本充足率高于12.5%和杠杆率低于8倍的监管要求，我们认为公司仍将保持资产收购规模的较快增长，而伴随着持续的财政刺激和货币宽松，处置收益和信贷成本的最坏时刻也正在过去，因此公司将成功实现以量补价。一旦经济企稳复苏，信达之前收购的大量资产的处置进度将加快，收益率也会稳步提升。

重申买入。我们维持公司2015/16/17年EPS预测为0.40/0.50/0.63元，对应同比增速21%/25%/26%。目前公司股价对应于1.03倍的2015年PB，接近历史最低水平。我们维持传统类不良资产板块1.2倍2015年目标PB、重组类不良资产板块5.2倍2015年目标PE和金融投资及服务板块1.1倍2015年目标PB。我们维持十二个月目标价5.12港币，对应32%的上行空间。我们认为公司能够成功以量补价实现较快的盈利增长，而流动性和地产市场前景改善也将促使其实现价值重估，建议投资者逢低吸纳。

Investment highlights :

Property beneficiary. Within Cinda's restructured distressed assets portfolio, property assets accounted for 60% in 2014 (of which, more than 70% is developers based in top-tier cities); as such, Cinda's asset quality and disposal returns are highly sensitive to changes in property prices, developer profitability and government policy. We remain optimistic towards the real estate market, given favourable monetary policy (in the form of interest rate and required reserve ratio cuts), supportive real estate policies (relaxation of mortgage application criteria, raised housing fund loan quota) and a recovery in the housing sales market – June new home sales in the 20 biggest city markets rose 50%-plus YoY as home buyers affordability and confidence improves amid continuous easing. As a result, we see improving asset quality and disposal returns for Cinda.

Minimal impact from bank liberalisation. We noted market concerns after the government announced it would remove its caps on commercial banks' loan-to-deposit ratios at 75% that banks' increased lending capacity would eat into financing demand for Cinda's restructured distressed assets business. However, we see this as unlikely, as Cinda targets a different customer base from commercial banks, and the government continues to control bank lending, particularly to property developers and local government financing vehicles.

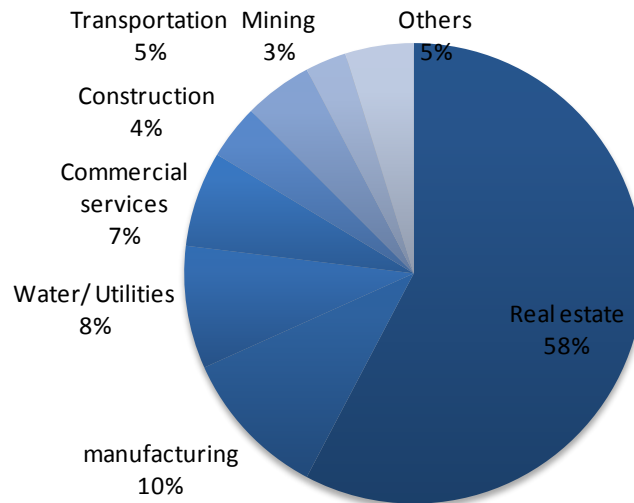
Dawn approaching. We have also found investors are concerned about Cinda's declining capital adequacy ratio and decreasing asset disposal yield. While these are trends, we expect volume growth will allow it to offset the effects of margin erosion. Given its CAR and leverage ratio remain at comfortable levels (CAR is at 18.1% vs regulatory minimum of 12.5% and it is 5.3x levered, compared with an 8x regulatory cap), we believe the company can maintain a high level of distressed assets acquisition, particularly as deteriorating economic conditions offer more opportunities to acquire assets at a discount. Our macroeconomist team expects an intensification of fiscal stimulus in coming months, alongside a continued loose monetary policy stance, in response to a continued gradual slowdown in economic growth, which we see as likely to generate favourable conditions for Cinda with both a supply of distressed assets and manageable credit costs. When the macro economy finally bottom out, which our macro team believe would happen in 3Q15, Cinda would see accelerating asset disposal and improving asset yield.

Maintain BUY. We maintain our EPS forecast at Rmb0.40 in 15E (+21% YoY), Rmb0.50 in 16E (+25% YoY) and Rmb0.63 in 17E (26% YoY). The company is currently trading at just 1.03x 15E PB, close to its all-time low. We maintain our target valuation for its traditional distressed debt business at 1.2x 15E PB, restructured distressed debt business at 5.2x 15E PE, financial service and investment business at 1.1x 15E PB. We maintain our target price at HK\$5.12. With 32% upside, we maintain our BUY rating. We believe with distressed assets rising and liquidity outlook improving, Cinda's is well positioned to grow earnings. We maintain our BUY recommendation for the company.

Property beneficiary

Within Cinda's restructured distressed assets portfolio, property assets accounted for 60% in 2014 (of which, more than 70% is developers based in top-tier cities); as such, Cinda's asset quality and disposal returns are highly sensitive to changes in property prices, developer profitability and government policy. We remain optimistic towards the real estate market, given favourable monetary policy (in the form of interest rate and required reserve ratio cuts), supportive real estate policies (relaxation of mortgage application criteria, raised housing fund loan quota) and a recovery in the housing sales market – June new home sales in the 20 biggest city markets rose 50%-plus YoY as domestic stock markets slumped. As a result, we see improving asset quality and disposal returns for Cinda.

Fig 1: Cinda credit assets, by Industry



Source: SWS Research

Minimal impact from LDR regulation removal

We noted market concerns after the government announced it would remove its caps on commercial banks' loan-to-deposit ratios at 75% that banks' increased lending capacity would eat into financing demand for Cinda's restructured distressed assets business. However, we see this as unlikely, as Cinda targets a different customer base from commercial banks, and the government continues to control bank lending, particularly to property developers and local government financing vehicles.

Dawn approaching

We have also found investors are concerned about Cinda's declining capital adequacy ratio (CAR) and decreasing asset disposal yield. While these are trends, we expect volume growth will allow the company to offset the effects of margin erosion. Given its CAR and leverage ratio remain at comfortable levels (CAR is at 18.1% vs regulatory minimum of 12.5% and it is 5.3x levered, compared with an 8x regulatory cap), we believe the company can maintain a high level of distressed assets acquisition, particularly as deteriorating economic conditions offer more opportunities to acquire assets at a discount. Our macroeconomist team expects an intensification of fiscal stimulus in coming months, alongside a continued loose monetary policy stance, in response to a continued gradual slowdown in economic growth, which we see as likely to generate favourable conditions for Cinda with both a supply of distressed assets and manageable credit costs.

Maintain Buy

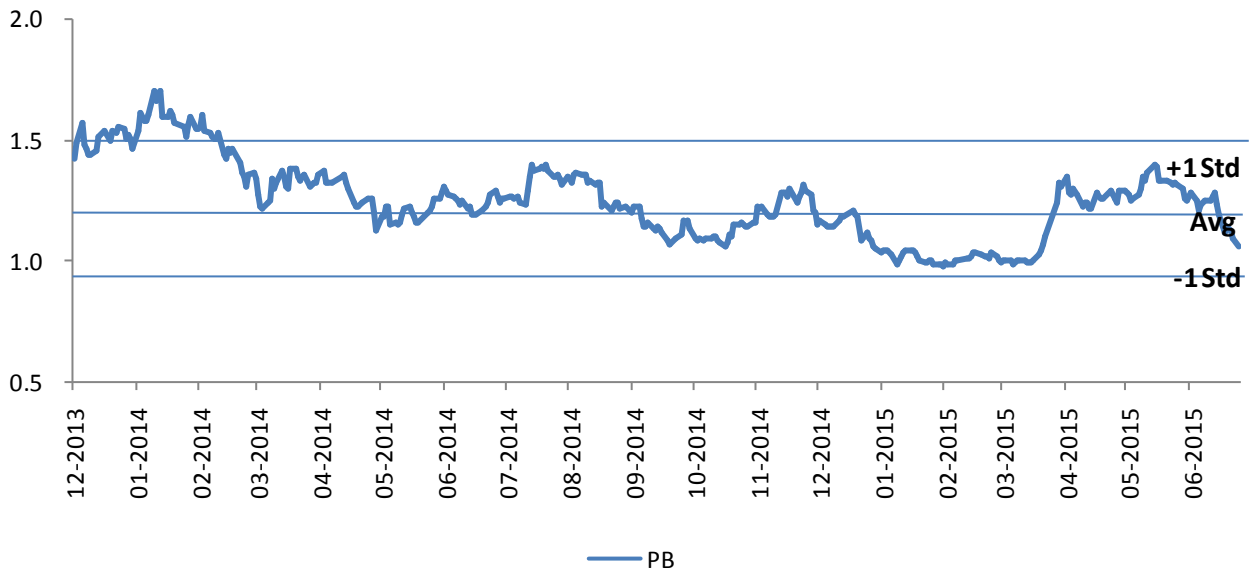
We maintain our EPS forecast at Rmb0.40 in 15E (+21% YoY), Rmb0.50 in 16E (+25% YoY) and Rmb0.63 in 17E (26% YoY). The company is currently trading at just 0.99x 15E PB, less than one standard deviation below its historical average. We maintain our target valuation for its traditional distressed debt business at 1.2x 15E PB, restructured distressed debt business at 5.2x 15E PE, financial service and investment business at 1.1x 15E PB. We maintain our target price at HK\$5.12. With 40% upside, we maintain our BUY rating. We believe with distressed assets rising and liquidity outlook improving, Cinda's earnings will enhance and valuation should recover. So we recommend investors to buy on dip.

Figure 2: Valuation

Item	Value (Rmbm)	Proportion (%)
Intrinsic value of distressed assets	88,376	59.94%
Traditional	47,336	32.11%
Restructuring	23,734	16.10%
DES	17,306	11.74%
Financial Investment and asset management	39,286	26.65%
Financial services	19,770	13.41%
Total	147,435	100.00%
Share capital	36257	
Intrinsic value of each share(HK\$)	5.12	
Implied target PB	1.39	
Upside	31.71%	

Source: SWS Research

Figure 3: PB band



Source: SWS Research

Figure 4: PE band



Source: SWS Research

APPENDIX

Fig 1: Forecast Income Statement

RMB Mn	2010	2011	2012	2013	2014	2015E	2016E	2017E
Income from distressed debt assets classified as receivables		181	3,518	10,144	18,113	20,353	22,909	27,491
Fair value changes on distressed debt assets	5,851	4,463	3,878	4,618	4,077	8,093	17,668	17,590
Fair value changes on other financial assets	426	41	399	539	2,180	2,180	2,180	2,180
Investment income	4,835	5,779	6,529	7,044	9,116	8,500	9,500	9,600
Net Insurance premiums earned	4,584	5,698	5,325	5,772	7,443	7,443	7,443	8,000
Interest income	849	1,479	2,493	5,059	8,810	8,810	8,810	9,000
Revenue from sales of inventories	4,148	3,237	3,924	4,322	4,340	4,340	4,340	5,000
Commission and fee income	2,083	1,902	2,226	2,520	3,008	3,188	3,380	3,583
Net gains on disposal of subsidiaries and associates	12	174	2,585	201	647			
Other income and other net gains or losses	1,473	1,427	1,456	2,195	2,056	2,056	2,056	2,056
Total Income	24,260	24,382	32,335	42,413	59,790	64,963	78,286	84,499
Interest expense	(1,366)	(1,807)	(3,698)	(7,804)	(15,961)	(10,925)	(11,528)	(12,033)
Insurance costs	(4,434)	(5,337)	(4,690)	(5,019)	(6,865)	(6,865)	(6,865)	(6,865)
Employee benefits	(2,367)	(2,672)	(3,418)	(3,797)	(4,601)	(4,999)	(6,024)	(6,502)
Purchases and changes in inventories	(2,655)	(1,844)	(2,392)	(2,720)	(2,824)	(2,824)	(2,824)	(2,824)
Commission and fee expense	(697)	(803)	(901)	(869)	(1,034)	(1,096)	(1,162)	(1,232)
Business tax and surcharges	(504)	(562)	(786)	(1,234)	(1,981)	(1,522)	(1,649)	(1,879)
Depreciation and amortization expenses	(500)	(429)	(449)	(444)	(456)	(456)	(456)	(456)
Other expenses	(1,784)	(2,035)	(2,267)	(2,560)	(2,872)	(2,872)	(2,872)	(2,872)
Impairment losses on assets	(496)	(536)	(4,601)	(6,153)	(5,439)	(13,979)	(20,612)	(19,224)
Total expense	(14,803)	(16,027)	(23,200)	(30,601)	(42,033)	(45,538)	(53,992)	(53,887)
Change in net assets attributable to other holders of consolidated structured entities	(6)	50	(152)	(540)	(1,910)			
Profit before share of results of associates and tax	9,452	8,405	8,984	11,272	15,847			
Share of results of associates	505	653	612	500	460	460	460	460
Profit before tax	9,956	9,058	9,596	11,772	16,306	19,425	24,294	30,612
Income tax expense	(2,454)	(2,272)	(2,379)	(2,671)	(4,163)	(4,856)	(6,073)	(7,653)
Profit for the year/period	7,503	6,786	7,217	9,101	12,143	14,569	18,220	22,959
Profit attributable to:								
Net Profit attributable to shareholders	7,399	6,763	7,306	9,027	11,896	14,569	18,220	22,959

Source : Company data, SWS Research

Fig 2: Balance sheet forecast

RMB Mn	2010	2011	2012	2013	2014	2015E	2016E	2017E
Assets								
Cash and bank balances	33,773	27,187	42,726	57,059	43,891	50,475	55,522	61,074
Clearing settlement funds	1,415	1,286	1,526	1,708	5,145	5,145	5,145	5,145
Deposits with exchanges and a financial institution	877	779	907	831	918	900	900	900
Placements with banks	0	0	2,000	290	3,000	500	500	500
Financial assets at fair value through profit or loss	10,102	13,402	16,923	25,178	57,220	91,617	85,863	84,077
Financial assets held under resale agreements	369	561	57	1,054	11,454	500	500	501
Available-for-sale financial assets	62,156	64,382	64,377	72,747	85,794	85,794	85,794	85,794
Financial assets classified as receivables	0	12,150	51,195	116,663	180,913	195,729	234,863	281,836
Loans and advances to customers	2,508	9,448	25,042	48,636	80,225	92,259	101,485	111,633
Accounts receivable	6,418	4,063	5,257	6,449	7,022	7,022	7,022	7,022
Held-to-maturity investments	3,776	6,262	7,343	7,592	7,042	7,042	7,042	7,042
Properties held for sale	11,537	13,092	13,815	17,790	29,932	84,459	167,467	263,375
Investment properties	2,364	2,339	2,100	1,858	1,606	1,606	1,606	1,606
Interests in associates	5,971	6,713	7,476	8,962	10,079	10,079	10,079	10,079
Property and equipment	3,734	3,732	3,467	3,620	3,687	3,687	3,687	3,687
Goodwill	368	362	362	324	324	324	324	324
Other intangible assets	91	103	137	160	183	183	183	183
Deferred tax assets	334	1,400	2,623	3,937	3,442	3,442	3,442	3,442
Other assets	4,907	5,864	7,281	8,928	12,550	12,550	12,550	12,550
Total assets	150,701	173,124	254,614	383,785	544,427	653,312	783,975	940,770
				37%				
Liabilities								
Borrowings from central bank	16,465	11,311	7,053	4,913	986	2,500	2,000	2,001
Accounts payable to brokerage clients	13,677	8,150	6,630	6,481	11,663	11,663	11,663	11,663
Financial liabilities at fair value through profit or loss	0	1	53	48	37	50	50	50
Financial assets sold under repurchase agreements	880	6,921	11,994	9,443	9,939	10,000	10,000	10,000
Placements from a bank and a financial institution	0	0	0	10,477	11,827	20,000	20,000	20,000
Borrowings	7,826	25,179	76,099	173,835	263,452	200,779	210,818	221,359
Accounts payable	47,220	47,995	39,539	22,814	13,891	10,000	10,000	10,001
Investment contract liabilities for policyholders	2,697	3,618	3,213	3,244	6,251	6,251	6,251	6,251
Tax payable	2,860	3,325	2,132	2,061	1,742	1,742	1,742	1,742
Insurance contract liabilities	7,633	12,301	17,586	20,722	25,219	25,219	25,219	25,219
Bonds issued	0	495	12,535	13,285	43,694	13,285	13,285	13,285
Deferred tax liabilities	678	349	357	451	666	666	666	666
Other liabilities	8,264	10,638	16,539	33,249	53,197	238,267	342,448	469,047
Total liabilities	108,200	130,281	193,730	301,023	442,564	540,422	654,142	791,284
Equity								
Share capital	25,155	25,155	30,140	35,459	36,256	36,257	36,257	36,257
Capital reserve	1,229	1,192	6,521	15,904	17,328	20,000	20,000	20,000
Investment revaluation reserve	3,402	(739)	406	731	3,971	700	700	700

Surplus reserve	620	1,222	1,760	2,483	3,396	2,500	2,500	2,500
General reserve	0	502	912	2,968	4,461	5,200	6200	6200
Retained earnings	6,928	10,875	15,427	18,875	28,366	39,293	52,958	70,177
Foreign currency translation reserve	(309)	(395)	(392)	(420)	(409)	1,940	4,218	6,652
Equity attributable to equity holders of the Company	37,025	37,813	54,774	75,998	93,369	105,890	122,833	142,486
Non-controlling interests	5,476	5,030	6,111	6,764	8,494	13%	16%	16%
Total equity	42,502	42,843	60,885	82,762	101,863	112,890	129,833	149,486
Total equity and liabilities	150,701	173,124	254,614	383,785	544,427	653,312	783,975	940,770

Source : Company data, SWS Research

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Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

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HSCEI is the benchmark employed in this report.

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