

CDB Financial Leasing (1606 HK)

Aircraft leasing goes global; infrastructure leasing boosted

- ❖ **2017 review.** Revenue increased 9% yoy to Rmb11.8bn, 6% below our estimate. Finance lease income increased 8% yoy to Rmb5.8bn; operating lease income increased 10% yoy to Rmb6.0bn. Net interest spread of finance lease business decreased 0.25ppt to 1.85%, due to both rising financing cost and increasing competition in domestic market. Net lease yield of operating lease business increased 0.39ppt to 9.13%, reflecting effective cost control of the Company by issuance of US-dollar denominated bonds. Because of disposal and resolving of non-performing assets, impairment losses decreased by 50%. As a result, total expenses remained flat, and net profit increased 36% yoy to Rmb2,131mn, 10%/2% above our/consensus estimate.
- ❖ **Overseas strategy of aircraft leasing mitigates concerns over potential trade war.** As of year-end 2017, the Company had a total of 93 committed Boeing aircrafts. According to management, if China retaliated with a 25% tariff on imported Boeing narrow-body aircrafts, the Company could avoid tax impact by leasing these aircrafts overseas. With rising competition and narrowing lease yield in the domestic market, the Company has already increased investments abroad. In 2017, it established a wholly-owned subsidiary, CDB Aviation, in Dublin, Ireland. During 2017, CDB Aviation delivered 38 new aircrafts to 15 airlines in 9 countries. Currently, overseas accounts for 45% of lease revenue. Management aims to increase percentage of lease revenue from abroad to ~70% in the future.
- ❖ **Infrastructure leasing boosted.** Segment asset increased 13% yoy to Rmb77bn. Segment revenue increased 18% yoy to Rmb4,164mn. However, segment profit margin and ROA decreased, to 24.56% and 1.33% respectively, from 43.74% and 2.33% in 2016. The shrink reflected rising financing cost. In 2018, the Company will keep promoting infrastructure leasing business, and increase medium and long-term project financing to control rising costs. We expect net interest spread to improve in 2018.
- ❖ **SCC leasing recovered.** In 2017, Ship, commercial vehicle and construction machinery leasing (SCC leasing) recovered. Segment finance lease income increased 2% yoy, ending the negative growth trend since 2015. Profit margin and ROA also turned positive, to 28.67% and 1.42% respectively, from -19.02% and -1.03% in 2016. The improvement evidenced active disposal of non-performing assets and recovery of global shipping market. In 2018, the Company will prudently push forward SCC leasing business.
- ❖ **Valuation.** Taking into account expanding business scale and improving cost control, we forecast net profit to grow by 20%, 11% and 3%, to Rmb2,562mn, Rmb2,855mn and Rmb2,944mn from 2018 to 2020, respectively. The Company is currently trading at 0.69x 2018E PB ratio. Our new target price HK\$2.09 is based on 0.85x 2018E PB ratio (peer average less one standard deviation). **Maintain BUY.**

Earnings summary

(YE Dec 31)	FY16A	FY17A	FY18E	FY19E	FY20E
Total revenue (Rmb mn)	11,441	12,315	13,478	14,702	16,058
Net profit (Rmb mn)	1,561	2,131	2,562	2,855	2,944
P/B (x)	0.78	0.74	0.69	0.64	0.60
P/E (x)	9.63	8.12	6.76	6.06	5.88
Yield (%)	4.67	5.54	6.66	7.42	7.65
ROAE (%)	8.37	9.30	10.51	10.92	10.54
NPA (%)	1.63	1.31	1.31	1.31	1.31
Allowance/ NPA (%)	150.70	197.85	192.54	192.54	192.54
Net gearing (%)	544.1	571.7	622.6	636.2	609.6

Source: Company, CMBIS estimates

BUY (Maintain)

Target Price	HK\$2.09
(Previous TP)	HK\$2.54)
Up/Downside	+23.7%
Current Price	HK\$1.69

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China Leasing Sector

Mkt. Cap. (HK\$m)	21,366
Avg. 3mths t/o (HK\$m)	0.15
52W High/Low (HK\$)	2.03/1.55
Total Issued Shares (mn)	12,642

Source: Bloomberg

Shareholding Structure (H-Share)

China Three Gorges Co.	37.80%
Guangdong Hengjian	15.14%
Central Huijin Investment	12.15%

Source: HKEx

Share performance

	Absolute	Relative
1-mth	-0.6%	1.7%
3-mth	-10.1%	-9.5%
6-mth	-10.1%	-17.4%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

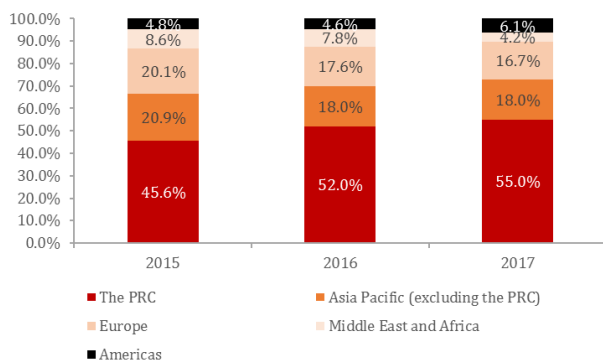
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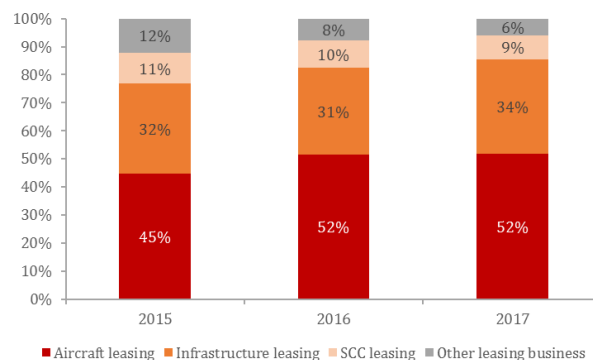
Figure 1: 2017 results review

(Rmb mn)	2017A	2016A	Yoy	2017E	Dev.
P&L					
Revenue	11,800	10,817	9%	12,587	-6%
Finance lease income	5,784	5,364	8%	5,923	-2%
Operating lease income	6,016	5,453	10%	6,664	-10%
Total revenue and other income	12,315	11,441	8%	12,968	-5%
Depreciation and amortization	(2,702)	(2,477)	9%	(3,087)	-12%
Interest expenses	(4,984)	(4,400)	13%	(5,130)	-3%
Impairment losses	(913)	(1,826)	-50%	(1,139)	-20%
Total expenses	(9,507)	(9,373)	1%	(10,510)	-10%
Profit for the year attributable to owners	2,131	1,561	36%	1,929	10%
B/S					
Accounts receivable	6,610	6,842	-3%	6,726	-2%
Finance lease receivables	98,881	88,464	12%	98,097	1%
Property and equipment	49,532	47,344	5%	54,686	-9%
Total assets	187,099	166,512	12%	182,080	3%
Borrowings	116,245	106,198	9%	115,756	0%
Notes payable	32,327	17,794	82%	21,709	49%
Total liabilities	161,560	137,074	18%	158,545	2%
Total shareholders' equity	23,509	22,302	5%	23,535	0%
Financial ratios					
Net interest spread of finance lease business	1.85%	2.10%	-0.25ppt	2.00%	-0.15ppt
Net lease yield of operating lease business	9.13%	8.74%	0.39ppt	9.15%	-0.02ppt
Non-performing asset ratio of finance lease business	1.31%	1.63%	-0.32ppt	1.84%	-0.53ppt

Source: the Company, CMBIS

Figure 2: Aircraft Leasing by region of lessee

Source: the Company, CMBIS

Figure 3: Revenue and other income by segment

Source: the Company, CMBIS

Financial statements

Income statement

Year ended: 31 Dec (Rmb mn)	2016A	2017A	2018E	2019E	2020E
Revenue	10,817	11,800	12,858	13,924	14,866
Finance lease income	5,364	5,784	6,246	6,671	7,027
Operating lease income	5,453	6,016	6,612	7,254	7,839
Other income	624	514	620	778	1,192
Total revenue and other income	11,441	12,315	13,478	14,702	16,058
Depreciation and amortization	(2,477)	(2,702)	(3,044)	(2,987)	(3,452)
Interest expenses	(4,400)	(4,984)	(5,239)	(5,999)	(6,683)
Impairment losses	(1,826)	(913)	(922)	(975)	(975)
Total expenses	(9,373)	(9,507)	(10,096)	(10,933)	(12,172)
Profit before income tax	2,068	2,808	3,382	3,769	3,887
Income tax expense	(506)	(677)	(820)	(914)	(942)
Profit for the year	1,561	2,131	2,562	2,855	2,944
Minority interest	0	0	0	0	0
Profit for the year attributable to owners of the Company	1,561	2,131	2,562	2,855	2,944

Source: the Company, CMBIS estimates

Balance statement

Year ended: 31 Dec (Rmb mn)	2016A	2017A	2018E	2019E	2020E
Cash and bank balances	9,336	16,207	23,030	38,521	51,730
Accounts receivable	6,842	6,610	7,656	8,095	8,498
Finance lease receivables	88,464	98,881	106,234	112,318	117,915
Property and equipment	47,344	49,532	59,384	58,228	67,384
Total assets	166,512	187,099	215,032	241,932	264,778
Borrowings	106,198	116,245	118,749	121,375	121,847
Notes payable	17,794	32,327	53,627	73,777	92,437
Total liabilities	144,210	163,590	189,800	214,879	235,945
Share capital	12,642	12,642	12,642	12,642	12,642
Reserves and retained profits	9,659	10,867	12,589	14,411	16,191
Total shareholders' equity	22,302	23,509	25,231	27,054	28,833
Minority interest	0	0	0	0	0
Total equity	22,302	23,509	25,231	27,054	28,833

Source: the Company, CMBIS estimates

Cash flow statement

Year ended: 31 Dec (Rmb mn)	2016A	2017A	2018E	2019E	2020E
OPERATING ACTIVITIES					
Profit before income tax	2,068	2,808	3,382	3,769	3,887
Depreciation and amortization	2,477	2,702	3,044	2,987	3,452
Change in working capital	(2,259)	(6,682)	(632)	3,294	44
Income tax paid	(383)	(329)	(820)	(914)	(942)
Net cash from operating activities	4,085	104	2,706	8,929	7,546
INVESTING ACTIVITIES					
Purchase of property and equipment	(10,761)	(12,562)	(14,000)	(10,870)	(10,000)
Net cash used in investing activities	(8,909)	(8,733)	(14,000)	(10,870)	(10,000)
FINANCING ACTIVITIES					
Proceeds from issuance of ordinary shares	5,286	0	0	0	0
Proceeds from issue of notes payable	3,000	18,959	24,800	24,800	24,800
Repayment of notes payable	0	(3,302)	(3,500)	(4,650)	(6,140)
Notes issuance cost	(9)	(50)	(72)	(72)	(72)
Notes interest paid	(480)	(816)	(1,220)	(1,493)	(1,640)
Dividends paid	0	(703)	(959)	(1,153)	(1,285)
Net cash generated from financing activities	7,797	14,089	19,050	17,432	15,663
Net increase in cash and cash equivalents	2,973	5,460	7,756	15,491	13,209
Cash and cash equivalents at the beginning of the year	6,816	9,789	15,274	23,030	38,521
Effects of exchange rate changes on cash and cash equivalents	0	25	0	0	0
Cash and cash equivalents at the end of the year	9,789	15,274	23,030	38,521	51,730

Source: the Company, CMBIS estimates

Key ratios

Year ended: 31 Dec (Rmb mn)	2015A	2016A	2017A	2018E	2019E	2020E
Total revenue and other income mix						
Finance lease income	54.6%	46.9%	47.0%	46.3%	45.4%	43.8%
Operating lease income	42.3%	47.7%	48.9%	49.1%	49.3%	48.8%
Other income	3.1%	5.5%	4.2%	4.6%	5.3%	7.4%
Growth						
Finance lease income		-10.5%	7.8%	8.0%	6.8%	5.3%
Operating lease income		17.4%	10.3%	9.9%	9.7%	8.1%
Revenue		1.7%	9.1%	9.0%	8.3%	6.8%
Total revenue and other income		4.2%	7.6%	9.4%	9.1%	9.2%
Profit before income tax		59.1%	35.8%	20.4%	11.5%	3.1%
Profit for the year attributable to owners of the Company		48.3%	36.5%	20%	11%	3%
Balance sheet ratios						
Total debt/shareholders' equity	775.9%	556.0%	632.0%	683.2%	721.3%	743.2%
NPL of finance leased assets	2.21%	1.63%	1.31%	1.31%	1.31%	1.31%
Allowance coverage ratio	150.5%	150.7%	197.8%	192.5%	192.5%	192.5%
Returns						
ROAE	7.26%	8.37%	9.30%	10.51%	10.92%	10.54%
ROAA	0.71%	0.97%	1.21%	1.27%	1.25%	1.16%
Per share						
EPS (Rmb)	0.11	0.14	0.17	0.20	0.23	0.23
DPS (Rmb)	0.016	0.064	0.076	0.091	0.102	0.105
BVPS (Rmb)	1.58	1.76	1.86	2.00	2.14	2.28

Source: the Company, CMBIS estimates

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