

Haitong UniTrust (1905 HK)

Efforts to develop MSE & Retail customers paid off

1H19 revenue +44.2%; net profit +11.1%. Efforts to develop MSE & Retail customers paid off. Average yield of IEA increased 0.64ppt YoY to 7.32%. NIS increased 0.70ppt YoY to 2.71%. NIM decreased 0.03ppt YoY to 3.24%. NPA ratio only slightly increased 0.02ppt from YE18 to 0.96%. We adjust 2019E revenue down 4.3%, net profit down 15.6%, and trim TP to HK\$ 1.91. Maintain BUY.

- 1H19 revenue +44.2%; net profit +11.1%.** The Company announced 1H19 results. Total revenue increased 44.2% YoY to RMB 3,539mn, of which finance lease income increased 39.6% YoY to RMB 2,360mn, representing 67% of total revenue. Net profit increased 11.1% YoY to RMB 675mn, representing 42% of our original full-year estimates. NIM decreased 0.03ppt YoY to 3.24%. NPA ratio slightly increased 0.02ppt from YE18 to 0.96%.
- Efforts to develop MSE & Retail customers paid off.** Balance of interest earning assets (IEA) increased 10.9% from YE18 to RMB 78.3bn. Average yield of IEA increased 0.64ppt YoY to 7.32%, driven by the efforts of the Company to expand its asset toward transportation & logistics, as well as to develop micro- and small-sized enterprise (MSE) and retail customers. Interest income increased 35.3% YoY to RMB 2,724mn. Though average cost of IBL decreased 0.05ppt YoY to 4.61%, balance of interest bearing liabilities (IBL) increased 7.6% from YE18 to RMB 62.9bn, driving interest expenses to increase 22.1% YoY to RMB 1,206mn. NIS increased 0.70ppt YoY to 2.71%. NIM decreased 0.03ppt YoY to 3.24%. Despite increasing MSE and retail customers, NPA ratio only slightly increased 0.02ppt from YE18 to 0.96%.
- Catalysts.** (1) Increasing efforts of the Company to expand its asset toward transportation & logistics, as well as to develop micro- and small-sized enterprise (MSE), and retail customers drive average yield of IEA up. (2) Stable average cost of IBL outlook in 2H19.
- Valuation.** We adjust 2019E revenue down 4.3%, net profit down 15.6%, and trim TP to HK\$ 1.91. Our TP corresponds to 1.0x 2019E P/B. The Company currently trades at 0.8x 2019E P/B. Upside potential 15.0%, maintain BUY.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	4,037	5,332	6,889	7,751	8,278
YoY growth (%)	27.6	32.1	29.2	12.5	6.8
Net income (RMB mn)	1,167	1,215	1,358	1,379	1,492
EPS (RMB)	0.17	0.17	0.16	0.17	0.18
YoY growth (%)	4.2	4.2	(5.0)	1.6	8.1
P/E (x)	8.9	8.6	9.0	8.9	8.2
P/B (x)	1.0	0.9	0.8	0.8	0.7
Yield (%)	0.0	0.0	3.3	3.4	3.6
ROE (%)	11.2	10.7	10.6	9.2	9.2
NPA ratio (%)	0.9	0.9	1.0	1.0	1.0

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$1.91
(Previous TP)	HK\$1.94)
Up/Downside	+15.0%
Current Price	HK\$1.66

Financial Leasing Sector

Hanbo Xu

Tel: (852) 3761 8725

Email: xuhanbo@cmbi.com.hk

Wenjie Ding, PhD

Tel: (852) 3900 0856

Email: dingwenjie@cmbi.com.hk

Karen Sui

Tel: (852) 3761 8775

Email: suixiaomeng@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	13,671
Avg 3 mths t/o (HK\$ mn)	5.36
52w High/Low (HK\$)	1.95/ 1.42
Total Issued Shares (mn)	5,794

Source: Bloomberg

Shareholding Structure

Haitong Securities	78.68%
Free float	21.32%

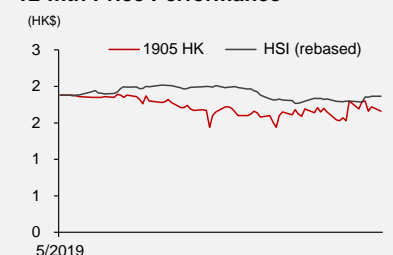
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.5%	5.2%
3-mth	-7.5%	-6.6%
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

"Fast growing on balanced customer base" – 18 Jul 2019

Earnings revision

Figure 1: 1H19 results

RMB mn	1H19	1H18	YoY
Revenue			
Finance lease income	2,360	1,690	39.6%
Income from PLB arrangements	156	0	NA
Operating lease income	212	74	187.4%
Service fee income	603	367	64.4%
Factoring income	163	289	-43.4%
Entrusted loan and other loan income	44	35	28.7%
Total revenue	3,539	2,454	44.2%
Net investment gains			
Share of results of a joint venture	3	7	-62.6%
Other income, gains or losses	140	73	91.3%
Total revenue and other income	3,653	2,574	41.9%
Total expenses			
Depreciation and amortisation	(117)	(40)	193.9%
Staff costs	(276)	(195)	41.4%
Interest expenses	(1,597)	(1,052)	51.9%
Other operating expenses	(82)	(76)	8.0%
IPO expense	(32)	(6)	448.2%
Impairment losses	(571)	(329)	73.8%
Total expenses	(2,676)	(1,698)	57.6%
Profit before income tax	977	876	11.5%
Income tax expenses	(249)	(225)	10.5%
Profit for the year	729	651	11.9%
Attributable to other equity instrument holders	(25)	(25)	0.6%
Non-controlling interests	(29)	(19)	52.1%
Net profit	675	607	11.1%

Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Finance lease income	4,944	5,449	5,640	5,439	6,677	6,905	-9.1%	-18.4%	-18.3%
Total revenue	6,889	7,751	8,278	7,196	8,728	9,282	-4.3%	-11.2%	-10.8%
Pre-tax profit	1,968	1,998	2,161	2,310	2,703	2,892	-14.8%	-26.1%	-25.3%
Net profit	1,358	1,379	1,492	1,609	1,882	2,014	-15.6%	-26.7%	-25.9%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue	4,037	5,332	6,889	7,751	8,278
Finance lease income	2,676	3,698	4,944	5,449	5,640
Income from PLB arrangements	0	0	164	172	181
Operating lease income	86	174	354	557	797
Service fee income	853	912	975	1,042	1,113
Factoring income	360	474	353	408	419
Entrusted loan income	62	74	100	123	128
Operating expenses	(2,638)	(3,810)	(5,152)	(5,860)	(6,231)
Depreciation and amortisation	(46)	(86)	(214)	(314)	(432)
Interest expenses	(1,524)	(2,316)	(3,304)	(3,634)	(3,827)
Impairment losses	(593)	(765)	(887)	(1,121)	(1,125)
Other operating expenses	(476)	(642)	(747)	(791)	(847)
Other revenue	251	233	230	107	113
Profit before income tax	1,649	1,755	1,968	1,998	2,161
Income tax expenses	(398)	(444)	(501)	(509)	(550)
Other equity instrument holders	(45)	(50)	(50)	(51)	(55)
Non-controlling interests	(40)	(46)	(58)	(59)	(64)
Net profit	1,167	1,215	1,358	1,379	1,492

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pre-tax profit	1,649	1,755	1,968	1,998	2,161
Interest expense	1,524	2,316	3,304	3,634	3,827
Other adjustments	560	763	1,108	1,441	1,564
Changes in working capital	(11,348)	(14,448)	(9,769)	(7,115)	(4,796)
Others	(1,646)	(2,471)	(3,805)	(4,143)	(4,377)
Operating activities	(9,262)	(12,084)	(7,194)	(4,184)	(1,622)
Capital expenditure	(1,243)	(2,673)	(1,918)	(2,289)	(2,103)
Other investing activities	988	(941)	6	6	6
Investing activities	(255)	(3,614)	(1,911)	(2,283)	(2,097)
Changes in debt	11,027	17,445	8,844	6,729	3,701
Dividends paid	(92)	(50)	(407)	(414)	(447)
IPO net proceeds	-	-	1,901	-	-
Other financing activities	(99)	3	-	(0)	-
Financing activities	10,836	17,398	10,337	6,316	3,254
Net change in cash	1,319	1,699	1,231	(151)	(465)
Cash at the beginning of the year	651	1,970	3,663	4,894	4,743
Exchange difference	(0)	(6)	-	-	-
Cash at the end of the year	1,970	3,663	4,894	4,743	4,278

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	28,527	38,639	45,453	49,470	53,288
Finance lease receivables	22,213	30,825	27,514	28,994	30,561
Loans and receivables	3,948	2,424	2,995	3,061	3,136
Property and equipment	1,578	4,217	5,828	7,901	9,661
Other non-current assets	789	1,172	9,116	9,513	9,931
Current assets	32,162	43,473	54,018	55,856	57,503
Cash and bank balances	2,597	4,284	4,894	4,743	4,278
Finance lease receivables	21,324	30,828	34,440	36,074	37,804
Loans and receivables	7,574	4,276	6,312	6,452	6,610
Other current assets	667	4,084	8,372	8,587	8,812
Total assets	60,689	82,111	99,471	105,326	110,791
Current liabilities	24,339	35,083	42,431	44,887	47,101
Borrowings	15,116	18,162	16,808	18,489	19,414
Bonds payable	6,074	12,857	18,366	20,203	21,213
Other current liabilities	3,148	4,064	7,256	6,196	6,474
Non-current liabilities	24,479	34,109	40,767	43,127	45,254
Borrowings	9,692	12,837	17,047	18,752	19,690
Bonds payable	9,970	14,595	15,072	16,579	17,408
Other non-current liabilities	4,817	6,677	8,647	7,796	8,155
Total liabilities	48,817	69,192	83,197	88,014	92,354
Share capital	7,000	7,000	8,235	8,235	8,235
Reserves	3,191	4,188	6,307	7,345	8,470
Shareholders' Equity	10,191	11,188	14,542	15,580	16,705
Perpetual note	1,235	1,237	1,237	1,237	1,237
Non-controlling interests	445	495	495	495	495
Total equity	11,871	12,920	16,274	17,312	18,437

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Growth rates (%)					
Finance lease income	16.2	38.2	33.7	10.2	3.5
Operating lease income	1,085.8	102.7	102.9	57.5	43.1
Service fee income	17.9	6.9	6.9	6.9	6.9
Factoring income	312.3	31.6	-25.4	15.5	2.7
Entrusted loan income	47.3	19.7	34.8	23.5	3.8
Operating revenue	27.6	32.1	29.2	12.5	6.8
Returns (%)					
ROE	11.16	10.71	10.56	9.16	9.24
ROA	2.35	1.84	1.50	1.35	1.38
Average yield of IEA	6.42	6.66	6.89	6.79	6.69
Average cost of IBL	4.41	4.66	4.61	4.60	4.59
Net interest spread	2.02	2.01	2.29	2.18	2.09
Net interest margin	3.31	3.16	3.13	2.96	2.91
B/S ratios (%)					
Total debt / Total equity	354.5	452.4	421.1	434.7	428.3
Net debt / Total equity	332.6	428.8	391.0	407.3	405.1
Asset quality (%)					
NPA ratio	0.9	0.9	1.0	1.0	1.0
Allowance coverage ratio	335.3	381.8	394.4	484.6	564.6
Per share (RMB)					
EPS	0.17	0.17	0.16	0.17	0.18
DPS	0.00	0.00	0.05	0.05	0.05
BVPS	1.46	1.60	1.77	1.89	2.03

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc."), of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.

CMB International Securities Limited or more of its affiliates performed investment banking services to Haitong UniTrust (1905 HK) over the past 12 months.