

China Renaissance Holdings (1911 HK)

New economy to drive growth

- Investment banking and investment management businesses to benefit from the Science and Technology Innovation Board
- Wealth management business a potential new driver in the medium term
- Recently announced share repurchase plan should be supportive to near-term share price performance

Benefiting from the Science and Technology Innovation Board (STIB). Overall, we believe the introduction of STIB illustrates the government's support for the new-economy industries. In addition, the new board could provide another exit channel for the investment management business and fundraising channel for investment banking business.

Ramping up the wealth management business. In addition to its core investment banking and investment management businesses focusing on the new-economy sectors, the Group has been actively building up its wealth management business and has recently formed a strategic partnership with LGT Bank. We view the segment to be a medium-term growth driver.

Recent business update. In 2018, revenue grew 52% YoY to US\$ 211mn driven by 49%, 67%, and 32% YoY revenue growth in investment banking, investment management, and Huajing. Overall, investment banking continued to be the major contributor accounting for 70% of total revenue, followed by investment management (23%), and Huajing (7%). Adjusted net profit (before carried interest) rose 39% YoY to US\$ 48mn, in which adjusted net profit (after carried interest) rose 15% YoY to US\$ 67mn. Overall, the 2018 results are in line with our expectation. In addition, the company announced a HKD300m share repurchase plan in May 2019, which should be supportive to its share price performance, in our view.

Valuation. Our TP is HK\$ 23. Maintain **BUY** on long-term positive business outlook driven by growing demand of financial services from China's new-economy companies.

Risk factors: 1) Disclosure of investment banking deal pipeline and portfolio of private equity funds; 2) New-economy project risk; 3) Investment risk; 4) Market risk; 5) Policy risk.

Financial summary

FY ended Dec 31	2016A	2017A	2018A	2019E
Revenue (USD mn)	133	139	211	243
Revenue + investment income (USD mn)	142	157	235	253
Net profit (USD mn)	32	0	-244	50
Adjusted net profit before carried interest (USD mn)	52	34	48	63
Adjusted net profit after carried interest (USD mn)	55	58	67	85
EPS (USD)	0.12	(0.00)	(0.78)	0.09
Adjusted EPS (USD)*	0.20	0.21	0.21	0.16
P/E (x)	18.6	NA	NA	23.8
Adjusted P/E (x)*	10.7	10.2	10.3	14.0

*Based on adjusted profit after carried interest

Source(s): Bloomberg, ABCI Securities estimates (1 USD = 7.81 HKD)

Company Report

June 28, 2019

Rating: **BUY**
 TP: **HK\$ 23**

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Share price (HK\$)	17.2
Est. share price return	33.9%
Est. dividend yield	1.6%
Est. total return	35.5%
Previous Rating & TP	BUY/HK\$27
Previous Report Date	Dec 6, 2018

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L (HK\$)	13.7-31.8
Issued shares (mn)	542
Market cap (HK\$ mn)	9,322
Avg daily turnover (HK\$ mn)	0.6
Major shareholder(s)	
Mr. Bao Fan	53.2%

Source(s): Bloomberg, company, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	0.1	-3.8
3-mth	-17.9	-16.8
6-mth	-14.7	-26.3

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



We derive the company's fair valuation range based on SOTP approach, as shown in the table below.

The SOTP approach results in a fair valuation range of HK\$21.4-HK\$24.6. We set our TP to HK\$23, approximating the mid-point of the fair value range.

Overall, our latest TP is lower than the previous one mainly due to lower 2019E net profit assumption to reflect weakened market environment in recent months.

Exhibit 14: SOTP valuation range

	Valuation (HKD per share)	Remarks
Investment banking	8.2-9.9	15-18x 2019E adjusted segment net profit (USD 38m)*
Investment management	3.0-4.0	12-16x 2019E adjusted segment net profit (USD17m)*
Unrealized net carry	2.0-2.5	8-10x 2019E adjusted segment net profit (USD18m)*
Huajing	3.0	48.8% of book value
Net cash and investments	5.1	Book value
Total	21.4-24.6	

*Excluding share-based compensation

Source(s): Company, Bloomberg, ABCI Securities estimates



Risk factors

Disclosure of private equity (PE) portfolio and investment banking deal pipeline

Similar to other listed peers, there is limited disclosure on the details of its individual PE funds, such as composition of core holding and pipeline of investment banking deals.

Risk associated with new-economy projects

Dedicated to focus its business growth in the new-economy sector, CRH will be affected by rapid and unpredictable changes in the sector. Industries such as technology, media, entertainment, healthcare and new energy are experiencing exponential growth but are also exposed to high uncertainties. Success of these new-economy projects is highly dependent on management quality.

Non-IFRS financial measures

The Group has disclosed non-IFRS financial metrics such as adjusted net profit to supplement its IFRS financial measures. In our view, these non-IFRS financial measures are not standardized.

Investment risk

Investment decisions of PE funds are highly dependent on CRH's management/investment team. Ability to choose quality projects and perform due diligence therefore are critical to risk exposure and investment risk. Unsatisfactory performance from investment performance or poor track record could affect the sustainability of IM business.

Market risk

As a financial service provider, CRH's business would be highly sensitive to changes in global financial markets. As a result, unfavorable market conditions and asset prices could have significant impacts on CRH's financials and profitability.

Policy risk

Financial performance of CRH can be affected by the policy changes. Financial services are a highly regulated business subjected to numerous laws and regulations. New and emerging businesses could be at risk of radical changes in policy environment since they are likely to be under-regulated in the first place. In addition, overseas business development would subject CRH to global policy risk.



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Renaissance Holdings Limited (1911 HK)

Financial services

June 28, 2019

Macroeconomic risk

As majority business contribution and investment projects of CRH come from China, slowdown in the country's economy would affect operation.

Redemption risk

Given the growing importance and business contribution from CRH's investment management segment, CRH is exposed to redemption risk from investors.

Currency risk

With a global business franchise and PE funds denominated in foreign currencies, the Group is subjected to foreign currency risk. Offshore expansion will inevitably increase currency risk

Risk associated with key personnel

Continuity of CRH's business model is highly dependent on CRH's core management team. Failure to retain talents could lead to disruption of CRH's operation.

Dividend track record to ordinary shareholders remains an uncertainty

Dividend payout ratio of CRH remains uncertain due to its short listing record.

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Renaissance Holdings Limited (1911 HK)

Financial services

June 28, 2019

Consolidated income statement (2016A-2019E)

FY Ended Dec 31 (USD mn)	2016A	2017A	2018A	2019E
Investment banking	105	99	148	150
Investment management	26	28	47	65
Huajing	2	12	16	28
Total revenue	133	139	211	243
Net investment gain			9	6
Total operating expenses	-94	-146	-180	-200
Operating Profits	40	-6	40	49
Other income/expenses	-12	-27	-287	1
Interest expense	0	-1	-11	-1
Investment income	9	18	24	10
Profit before tax	37	-16	-234	59
Tax	-8	2	-15	-12
Profit after tax	29	-14	-249	46
Minority interests	-3	-14	-5	-4
Profits attributable to shareholders	32	-0	-244	50
Share based compensation	4	8	12	13
Fair value changes of CB/preferred shares	17	27	280	0
Adjusted net profit before carried interest	52	34	48	63
Unrealized net carried interest	3	24	19	22
Adjusted net profit after carried interest	55	58	67	85
Growth				
Total revenue (%)	10.8	4.4	51.5	15.3
Total expenses (%)	52.4	55.3	23.7	11.1
Operating Profits (%)	NA	NA	NA	21.9
Net profit (%)	9.2	NA	NA	NA
Adjusted net profit before carried interest (%)	(22.2)	(34.0)	38.8	32.3
Adjusted net profit after carried interest (%)	(25.0)	5.3	15.0	27.2
Operating performance				
Operating margin (%)	29.7	(4.6)	19.1	20.2
Net margin (%)	23.9	(0.3)	(115.7)	20.6
Adjusted net margin (%)	41.4	41.8	31.7	35.0
ROAE (%)	18.1	9.9	(65.9)	6.7
ROAA (%)	9.7	(0.1)	(27.0)	4.5

Notes: Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/ definition differences

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2016A-2019E)

As of Dec 31 (USD mn)	2016A	2017A	2018A	2019E
Property and equipment	9	10	8	8
Intangible assets	2	4	4	5
Investment in associates	31	44	77	81
Financial assets	41	90	145	152
Other non-current assets	5	19	29	30
Total non-current assets	89	167	263	276
Cash & equivalents	203	450	354	409
Financial assets	47	65	345	363
Other current assets	5	7	9	10
Account receivables	25	52	94	91
Total current assets	280	575	802	873
Total assets	369	741	1,065	1,149
Accounts payable	55	81	118	142
Borrowings	23	-	-	-
Other current liabilities	10	8	13	13
Total current liabilities	88	89	130	155
Loans and bonds payables	-	150	-	-
Other non-current liabilities	205	264	4	4
Total non-current liabilities	205	414	4	4
Total liabilities	292	503	134	159
Net current assets	193	486	672	717
Equity attributable to shareholders	3	15	725	772
Non-controlling interests	74	224	207	217
Total equity	77	239	932	989

Notes: Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/definition differences

Source(s): Company, ABCI Securities estimates



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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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