

China Renaissance

Earnings Preview

2019 results preview: Growth despite a challenging environment

Reiterate Buy rating; 2020 improving capital market outlook to drive outperformance

2019 was a challenging year with high volatility in capital markets and limited number of mega deals from the new economy. Looking into 2020, an improved capital market outlook, a strong mega deal IPO pipeline could be the catalysts for China Renaissance. China Renaissance is the leading investment bank dedicated to China's new economy companies and entrepreneurs. We believe China Renaissance' unmatched ability to engage new economy entrepreneurs, its deep understanding of the new economy companies and expertise in international capital markets make China Renaissance a key beneficiary of the new economy companies' capital market activities. Leveraging on its current network, China Renaissance' asset/wealth management and principal investments business are highly scalable with investment banking serving as an entry point to engage early-stage entrepreneurs.

2019 results preview: revenue (incl. cash management income) US\$217mn (-2% yoy); core NPAT (ex. unrealized carried interest) at US\$50mn (+4% yoy)

We expect 2019 core NPAT to grow by 4% yoy despite a challenging year for investment banking with the absence of mega deals. 2019 is a strong year for asset management with management fees growing to US\$63mn, +34% yoy. New business segment (structured financing + WM) will contribute US\$13mn to revenue. We forecast 2019 unrealized carried interest (not booked in revenue) to be US\$16.8mn with better performance in 2H19 than 1H19. With operating cost flat yoy, 2019 operating profit will be US\$34mn.

Asset management and wealth management will be the key growth driver

The good track record of China Renaissance' private equity funds (AUM of US\$4.7bn as of Jun-19) provides a good basis for the companies to explore wealth management demand from high-net-worth individuals including entrepreneurs served by China Renaissance. The company successfully closed RMB6.5bn fund-raising for its Growth Capital RMB Fund III and exceeded the fund-raising target for its Growth Capital USD Fund III despite the difficult market environment. We forecast AUM to grow to US\$4.9bn by Dec-19. As a result, we expect management fees grew strongly in 2019 by 34% yoy to US\$63mn.

Catalysts: Mega IPOs in 2020 and recovered sentiment for capital markets

According to the company's disclosure, the largest holdings of its private equity funds include Lianjia (Beike). Beike is reported to be considering a potential IPO in 2020. A few other potential mega deals could also give a strong lift to China Renaissance' investment banking income.

Price target: HK\$26.3 (72% upside)

We derive our Dec-20 price target of HK\$26.3 per share using sum-of-the-part valuation method, using US boutique investment bank, global mutual funds, global alternative asset managers and Chinese brokers as comparables.

Stock code: 1911.HK
Rating: Buy
Price target (HK\$) 26.3

Current price (HK\$, 2 Jan 2020)	15.3
Upside/downside %	72%
Market cap (HK\$ m)	8,272
Market cap (US\$ m)	1,054
Avg daily turnover (HK\$ m)	3

Source: Bloomberg, AMTD Research

Key forecasts

(US\$ m)	2018	2019e	2020e
Core NPAT (before unrealized carried interest)	48.1	49.8	62.6
yoy %	40%	4%	26%
Revenue + treasury	220.4	216.5	231.1
yoy %	58%	-2%	7%
Revenue + invest. Income	244.8	224.3	255.0
yoy %	56%	-8%	14%
Cost-income ratio	85%	102%	85%
Operating profit	40.2	34.2	45.0
yoy %	na	-15%	32%

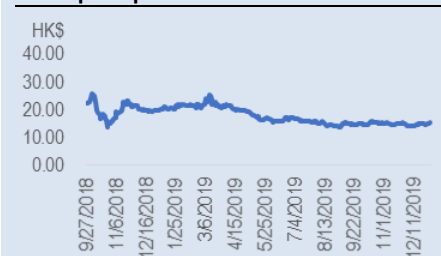
Source: Company data, AMTD Research

Valuation

	2018	2019e	2020e
P/E (core, diluted)	na	23.1	19.2
P/B	1.5	1.4	1.3
ROE	13%	7%	8%
ROA	5%	5%	6%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

Michelle Li
Analyst

+852 3163 3383

Michelle.Li@amtdgroup.com

Figure 1: China Renaissance' P&L forecast

US\$ '000	2017	2018	2019e	2020e
Transaction and advisory fees	106,770	152,431	106,333	142,647
Management fees	28,349	47,328	63,214	73,495
Interest income	4,295	11,104	4,000	4,000
Income from carried interest	-	-	5,000	5,000
Revenue	139,414	210,863	178,547	225,141
Treasury income	(275)	9,498	38,000	6,000
Revenue + treasury	139,139	220,361	216,547	231,141
Total operating expenses	(145,572)	(180,172)	(182,326)	(186,138)
Compensation and benefit expenses	(101,366)	(131,203)	(118,035)	(122,397)
Other operating expenses	(44,206)	(48,969)	(64,292)	(63,741)
Operating profit/(loss)	(6,433)	40,189	34,221	45,003
Investment income	18,182	24,426	7,797	23,816
Interest expense	(1,399)	(11,430)	-	-
Change in fair value of convertible redeemable preferred shares	(25,730)	(292,345)	-	-
Other gains/losses	(538)	4,931	10,000	-
Other income, gains or losses	808	837	10,000	-
Impairment losses on assets	(967)	(632)	-	-
Share of results of associates	125	336	-	-
Change in fair value of call option	-	14,100	-	-
Change in fair value of convertible notes	(504)	-	-	-
Listing expenses	-	(9,710)	-	-
Profit/(Loss) before income tax	(15,918)	(234,229)	52,018	68,820
Income tax (expenses)/benefits	2,412	(14,721)	(13,004)	(17,205)
Net profit/(loss)	(13,506)	(248,950)	39,013	51,615
Minority interest	(13,538)	(4,838)	-	-
Attributable NPAT	32	(244,112)	39,013	51,615
Core NPAT	34,469	48,090	49,813	62,615
Non-IFRS Measure				
Revenue	139,414	210,863	178,547	225,141
Unrealized income from carried interest	73,036	67,851	47,979	39,880
Adjusted revenue	212,450	278,714	226,526	265,022
Core NPAT before unrealized carried interest	34,469	48,090	49,813	62,615
Non-IFRS attributable NPAT (incl. unrealized carried interest)	58,103	67,301	66,606	76,573
Asset management AUM	3,272,616	4,123,441	4,907,138	5,592,114
Revenue + investment income	157,321	244,787	224,344	254,958
Attributable net profit	32	(244,112)	39,013	51,615
Adjustment				
Share-based compensation expenses	8,203	11,562	10,800	11,000
Interest expense for convertible notes	-	2,395	-	-
Change in fair value of call option	-	(14,100)	-	-
Change in fair value of convertible notes	504	-	-	-
Change in fair value of convertible redeemable preferred shares	25,730	292,345	-	-
Listing expense	-	-	-	-
Subtotal before adjustments relating to carried interest	34,469	48,090	49,813	62,615
Unrealized net carried interest	23,634	19,211	16,793	13,958
Non-IFRS attributable net profit	58,103	67,301	66,606	76,573

Source: Company data; AMTD estimates

Figure 2: China Renaissance key operating matrix and per share data

Growth rate and key ratios	2017	2018	2019e	2020e
Revenue + treasury	4%	58%	-2%	7%
Revenue + investment income	11%	56%	-8%	14%
Non-IFRS revenue	48%	31%	-19%	17%
Operating profit	-116%	na	-15%	32%
Investment income	106%	34%	-68%	205%
Attributable net profit (headline)	-100%	na	na	32%
Unrealized net carried interest	657%	-19%	-13%	-17%
Core net profit before unrealised carried interest	-34%	40%	4%	26%
Non-IFRS attributable net profit (incl. unrealized carried interest)	5%	16%	-1%	15%
Cost-income ratio	104%	85%	102%	85%
Asset management AUM	76%	26%	19%	14%
ROA	6%	5%	5%	6%
ROE	380%	13%	7%	8%
Per share (US\$)	2017	2018	2019e	2020e
Basic EPS (headline)	0.00	(0.62)	0.07	0.09
Diluted EPS (headline)	0.00	(0.59)	0.07	0.08
BPS	0.06	1.32	1.40	1.51
Basic EPS (core NPAT before unrealized carried interest)	0.14	0.12	0.09	0.11
Diluted EPS (core NPAT before unrealized carried interest)	0.13	0.12	0.08	0.10
DPS	0.017	0.028	0.009	0.011

Source: Company data; AMTD estimates

Comparables

Figure 3: Valuation comparison table

Boutique investment bank						
Stock code		Market cap	PE			PB
		(US\$ mn)	2019E	2020E	5yr avg	2019E
Moelis & Co	MC US EQUITY	2,019	14.6	12.4	17.8	5.6
Houlihan	HLI US EQUITY	3,244	18.3	15.8	33.4	3.9
PJT Partners	PJT US EQUITY	1,726	18.9	14.6	30.7	19.2
Average			17.3	14.3	27.3	9.6
US private equity						
		Market cap	P/Distributable earnings			PB
		(US\$ mn)	2019E	2020E	5yr avg	2019E
Blackstone	BX US EQUITY	66,903	24.7	18.3	21.4	6.3
KKR	KKR US EQUITY	24,853	17.2	14.4	14.8	1.6
Apollo	APO US EQUITY	20,871	20.6	16.5	29.1	10.2
Carlyle	CG US EQUITY	11,499	19.3	13.8	15.5	1.5
Average			20.4	15.7	20.2	4.9
Mutual fund						
		Market cap	PE			PB
		(US\$ mn)	2019E	2020E	5yr avg	2019E
Blackrock	BLK US EQUITY	79,064	18.4	16.7	20.8	2.4
Schroders	SDR LN EQUITY	11,976	17.4	16.1	23.3	2.5
INVESCO	IVZ US EQUITY	8,166	7.0	6.8	8.4	0.7
Statestreet	STT US EQUITY	29,366	13.9	12.3	12.1	1.4
T. Rowe Price	TROW US EQUITY	29,247	15.6	15.1	20.9	4.3
Affiliated Managers	AMG US EQUITY	4,138	6.0	5.9	7.7	1.4
Average			13.0	12.2	15.5	2.1
Chinese brokers						
		Market cap	PE			PB
		(US\$ mn)	2019E	2020E	5yr avg	2019E
CITIC Securities - H	6030 HK EQUITY	41,363	14.8	13.6	23.5	1.2
CICC - H	3908 HK EQUITY	8,749	14.0	11.9	27.4	1.3
Huatai Securities - H	6886 HK EQUITY	24,580	13.4	11.8	23.0	0.9
Average			14.1	12.4	24.6	1.1

Priced as of 2 January 2020; Source: Bloomberg, company data, AMTD estimates

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Industry Rating	
Overweight	Industry sector expected to outperform the market over the next 12 months
Neutral	Industry sector expected to perform in-line with the market over the next 12 months
Underweight	Industry sector expected to underperform the market over the next 12 months
Stock Rating	
Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

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AMTD Global Markets Limited

Address: 23/F - 25/F, Nexxus Building, 41 Connaught Road Central, Hong Kong
Tel: (852) 3163-3288 **Fax:** (852) 3163-3289

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