

China Renaissance

All eyes on Science and Technology Innovation Board

Reiterate Buy rating; A key beneficiary of the Science and Technology Innovation Board (STIB)

China Renaissance is the leading investment bank dedicated to China's new economy companies and entrepreneurs. We believe China Renaissance's unmatched ability to engage new economy entrepreneurs, its deep understanding of the new economy companies and expertise in international capital markets will make China Renaissance a key beneficiary of the upcoming STIB. During the results presentation, management indicates a strong STIB pipeline as well as potential to act as a joint-bookrunner in other investment banks' projects. The company recently announced a strategic partnership with LGT Bank (a leading global private bank and asset manager) in wealth management. Leveraging on its current network, China Renaissance's asset/wealth management and principal investments business are highly scalable with investment banking serving as an entry point to engage early-stage entrepreneurs.

2018 revenue (incl. cash management income) reached US\$220m (+51% yoy); core NPAT (ex. unrealized carried interest) at US\$57.8m (+68% yoy)

2018 core NPAT beat our forecast by 6% on stronger revenue momentum. Revenue from investment banking, asset management and Huajing grew by 49%, 67%, 30% yoy, respectively. Unrealized carried interest (not booked in revenue) remained at a high level of US\$19m. Operating profit turned to positive for 2018 and was largely flat HoH. Cost-income ratio improved to 88% in 2018 from 104% in 2017. Apart from its existing expertise in consumer internet, the company also strengthened its resources in healthcare, modern logistics and fintech etc. This would give it an unbeatable advantage in connecting resources across investment banking, asset management/wealth management and principal investments.

Asset management and wealth management will be the key growth driver

The good track record of China Renaissance's private equity funds (AUM of US\$ 4.1bn as of Dec-18) provides a good basis for the companies to explore wealth management demand from high-net-worth individuals include entrepreneurs served by China Renaissance's. We forecast AUM to grow to US\$ 5.4bn by 2019e. During 2018, the company closed the fund raising of Huaxing Rmb Fund III and Huaxing Healthcare Rmb Fund I. As a result, management fees grew strongly by 67% yoy to US\$47.3m.

Carried interest will start to be realized in 2019/20

The company has meaningful portion of unrealized carried interest from its private equity funds. There could be meaningful booking in 2019/20 when exits of investments materialize. According to company disclosure, the largest holding of its private equity funds includes Didi Chuxing, Focus Media, Huitongda, Lexin, Lianjia, Niuguwang, Qihoo 360 etc.

Price target: HK\$26.3 (22% upside)

We derive our Dec-19 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
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Current price (HK\$, 20 Mar 2019)	21.6
Upside/downside %	22%
Market cap (HK\$ m)	11,715
Market cap (US\$ m)	1,492
Avg daily turnover (HK\$ m)	14

Source: Bloomberg, AMTD Research

Key forecasts

(US\$ m)	2017	2018	2019e
Revenue	139.4	220.4	249.1
yoy %	5%	51%	15%
Revenue+invest.			
Income	157.6	244.8	263.3
yoy %	11%	56%	8%
Cost-income ratio	104%	88%	83%
Operating profit	(6.4)	40.2	47.6
yoy %	na	na	18%

Core NPAT (before unrealized carried interest)	2017	2018	2019e
	34.5	57.8	61.8
yoy %	na	68%	7%

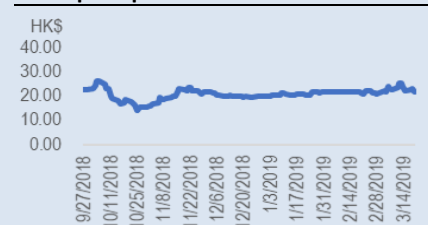
Source: Company data, AMTD Research

Valuation

	2017	2018	2019e
P/E (core, diluted)	21.5	19.8	26.2
P/B	na	2.1	1.9
ROE	380%	16%	8%
ROA	6%	6%	6%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

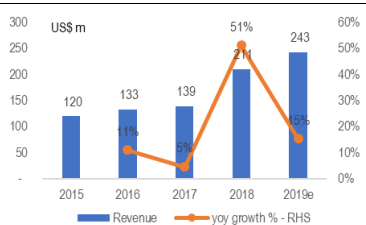
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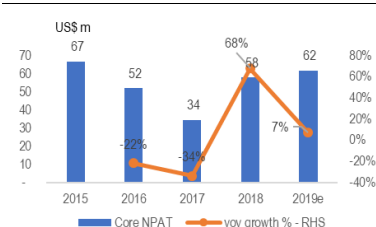
Focus charts

Figure 1: China Renaissance revenue forecast



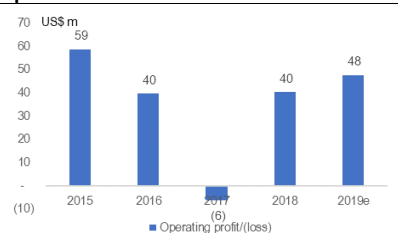
Source: Company data, AMTD estimates

Figure 2: China Renaissance core attributable NPAT forecast



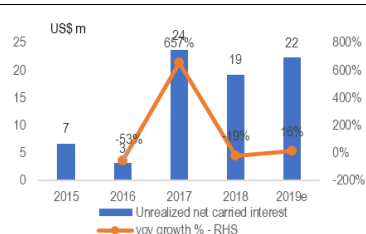
Source: Company data, AMTD estimates; Note: Core attributable NPAT excludes listing expenses.

Figure 3: China Renaissance operating profit forecasts



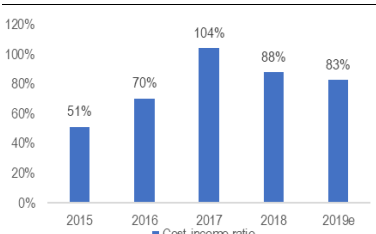
Source: Company data, AMTD estimates

Figure 4: China Renaissance unrealized carried interest forecast



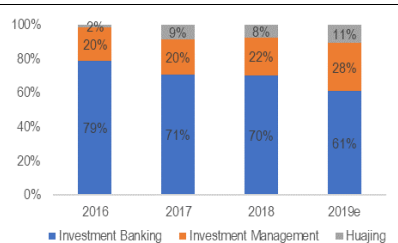
Source: Company data, AMTD estimates

Figure 5: China Renaissance cost-income ratio



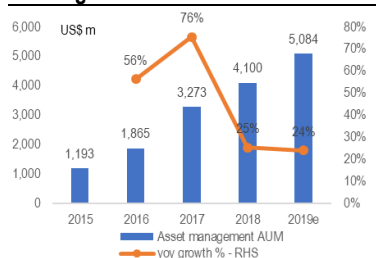
Source: Company data, AMTD estimates

Figure 6: China Renaissance revenue mix forecast



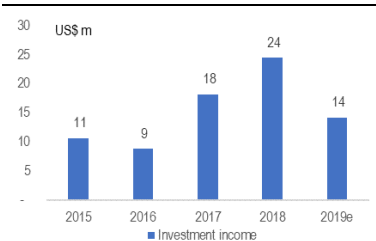
Source: Company data, AMTD estimates

Figure 7: China Renaissance asset management AUM forecast



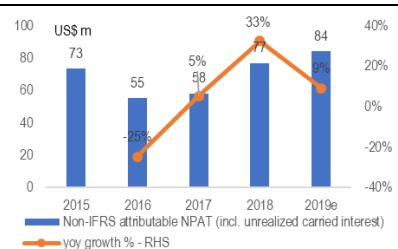
Source: Company data, AMTD estimates

Figure 8: China Renaissance investment income



Source: Company data, AMTD estimates

Figure 9: China Renaissance non-IFRS attributable NPAT



Source: Company data, AMTD estimates

Figure 10: China Renaissance's reported profit vs AMTD forecast

	2015	2016	2017	Forecast 2018e	Actual 2018	Actual vs forecast
USD '000						
Transaction and advisory fees	112,318	106,239	106,770	135,905	152,431	12%
Management fees	7,853	26,119	28,349	48,142	47,328	-2%
Interest income	-	1,005	4,295	14,628	11,104	-24%
Revenue	120,171	133,363	139,414	198,675	210,863	6%
Treasury income			(275)		9,498	
Revenue + treasury			139,139	198,675	220,361	11%
Total operating expenses	(61,577)	(93,839)	(145,572)	(174,612)	(180,172)	3%
Compensation and benefit expenses	(43,569)	(64,730)	(101,366)	(123,434)	(131,203)	6%
Other operating expenses	(18,008)	(29,109)	(44,206)	(51,178)	(48,969)	-4%
Operating profit/(loss)	58,594	39,524	(6,433)	24,063	40,189	67%
Investment income	10,621	8,837	18,182	30,243	24,426	-19%
Interest expense	-	(19)	(1,399)	(10,000)	(11,430)	14%
Change in fair value of convertible redeemable preferred shares	(34,039)	(13,978)	(25,730)	(187,830)	(292,345)	56%
Other gains/losses	311	2,370	(538)	(3,144)	4,931	-257%
Profit/(Loss) before income tax	35,487	36,734	(15,918)	(146,668)	(234,229)	60%
Income tax (expenses)/benefits	(5,896)	(8,175)	2,412	(8,232)	(14,721)	79%
Net profit/(loss)	29,591	28,559	(13,506)	(154,900)	(248,950)	61%
Minority interest	747	(3,274)	(13,538)	(5,500)	(4,838)	-12%
Attributable NPAT	28,844	31,833	32	(149,400)	(244,112)	63%
Core NPAT	66,651	52,056	34,469	54,673	57,800	6%
				45,430	48090	6%
Non-IFRS Measure						
Revenue	120,171	133,363	139,414	198,675	210,863	6%
Unrealized income from carried interest	22,870	10,560	73,036	62,298	67,851	9%
Adjusted revenue	143,041	143,923	212,450	260,973	278,714	7%
Core NPAT before unrealized carried interest	66,651	52,056	34,469	54,673	57,800	6%
Non-IFRS attributable NPAT (incl. unrealized carried interest)	73,353	55,179	58,103	76,478	77,011	1%
Asset management AUM	1,192,957	1,864,733	3,272,616	5,897,336	4,100,000	-30%
					0	
Revenue + investment income	130,792	142,200	157,321	228,918	244,787	7%
Attributable net profit	28,844	31,833	32	(149,400)	(244,112)	63%
Adjustment					0	
Share-based compensation expenses	3,768	3,645	8,203	11,000	11,562	
Interest expense for convertible notes				3,000	2,395	
Change in fair value of call option				-7,000	-14,100	
Change in fair value of convertible notes	0	2,600	504	-	0	
Change in fair value of convertible redeemable preferred shares	34,039	13,978	25,730	187,830	292,345	
Listing expense	0	0	0	9,244	9,710	
Subtotal before adjustments relating to carried interest	66,651	52,056	34,469	54,673	57,800	6%
Unrealized net carried interest	6,702	3,123	23,634	21,804	19,211	-12%
Non-IFRS attributable net profit	73,353	55,179	58,103	76,478	77,011	1%

Source: Company data; AMTD estimates

Figure 11: China Renaissance's P&L forecast

USD '000	2015	2016	2017	2018	2019e	2020e
Transaction and advisory fees	112,318	106,239	106,770	152,431	155,133	167,397
Management fees	7,853	26,119	28,349	47,328	68,878	84,194
Interest income	-	1,005	4,295	11,104	19,082	20,143
Revenue	120,171	133,363	139,414	210,863	243,093	271,733
Treasury income			(275)	9,498	6,000	6,000
Revenue + treasury	120,171	133,363	139,139	220,361	249,093	277,733
Total operating expenses	(61,577)	(93,839)	(145,572)	(180,172)	(201,515)	(203,364)
Compensation and benefit expenses	(43,569)	(64,730)	(101,366)	(131,203)	(130,717)	(136,911)
Other operating expenses	(18,008)	(29,109)	(44,206)	(48,969)	(70,798)	(66,453)
Operating profit/(loss)	58,594	39,524	(6,433)	40,189	47,579	74,370
Investment income	10,621	8,837	18,182	24,426	14,176	23,816
Interest expense	-	(19)	(1,399)	(11,430)	-	-
Change in fair value of convertible redeemable preferred shares	(34,039)	(13,978)	(25,730)	(292,345)	-	-
Other gains/losses	311	2,370	(538)	4,931	(500)	(500)
Other income, gains or losses	670	6,582	808	837	-	-
Impairment losses on assets	(359)	(1,358)	(967)	(632)	(500)	(500)
Share of results of associates	-	(254)	125	336	-	-
Change in fair value of call option	0	0	0	14,100	-	-
Change in fair value of convertible notes	-	(2,600)	(504)	-	-	-
Listing expenses	-	-	-	(9,710)	-	-
Profit/(Loss) before income tax	35,487	36,734	(15,918)	(234,229)	61,255	97,686
Income tax (expenses)/benefits	(5,896)	(8,175)	2,412	(14,721)	(13,476)	(20,514)
Net profit/(loss)	29,591	28,559	(13,506)	(248,950)	47,779	77,172
Minority interest	747	(3,274)	(13,538)	(4,838)	(1,000)	-
Attributable NPAT	28,844	31,833	32	(244,112)	48,779	77,172
Core NPAT	66,651	52,056	34,469	57,800	61,779	90,172
Non-IFRS Measure						
Revenue	120,171	133,363	139,414	210,863	243,093	271,733
Unrealized income from carried interest	22,870	10,560	73,036	67,851	63,641	77,202
Adjusted revenue	143,041	143,923	212,450	278,714	306,734	348,935
Core NPAT before unrealized carried interest	66,651	52,056	34,469	57,800	61,779	90,172
Non-IFRS attributable NPAT (incl. unrealized carried interest)	73,353	55,179	58,103	77,011	84,053	117,192
Asset management AUM	1,192,957	1,864,733	3,272,616	4,100,000	5,083,765	6,142,042
Revenue + investment income	130,792	142,200	157,321	244,787	263,270	301,550
Attributable net profit	28,844	31,833	32	(244,112)	48,779	77,172
Adjustment						
Share-based compensation expenses	3,768	3,645	8,203	11,562	13,000	13,000
Interest expense for convertible notes				2,395	0	0
Change in fair value of call option				(-14,100)	0	0
Change in fair value of convertible notes	0	2,600	504	0	-	-
Change in fair value of convertible redeemable preferred shares	34,039	13,978	25,730	292,345	0	0
Listing expense	0	0	0	9,710	0	0
Subtotal before adjustments relating to carried interest	66,651	52,056	34,469	57,800	61,779	90,172
Unrealized net carried interest	6,702	3,123	23,634	19,211	22,274	27,021
Non-IFRS attributable net profit	73,353	55,179	58,103	77,011	84,053	117,192

Source: Company data; AMTD estimates

Figure 12: China Renaissance key operating matrix and per share data

Growth rate and key ratios	2015	2016	2017	2018	2019e	2020e	
Revenue		11%	5%	51%	15%	12%	
Revenue + investment income		9%	11%	56%	8%	15%	
Non-IFRS revenue		1%	48%	31%	10%	14%	
Operating profit		-33%	-116%	na	18%	56%	
Investment income		-17%	106%	34%	-42%	68%	
Attributable net profit (headline)		10%	-100%	na	na	58%	
Unrealized net carried interest		-53%	657%	-19%	16%	21%	
Core net profit before unrealised carried interest		-22%	-34%	68%	7%	46%	
Non-IFRS attributable net profit (incl. unrealized carried interest)			-25%	5%	33%	9%	39%
Cost-income ratio	51%	70%	104%	88%	83%	75%	
Asset management AUM		56%	76%	25%	24%	21%	
ROA		16%	6%	6%	6%	8%	
ROE		203%	380%	16%	8%	11%	
Per share	2015	2016	2017	2018	2019e	2020e	
Basic EPS (headline)		0.13	0.00	(0.62)	0.09	0.14	
Diluted EPS (headline)		0.08	0.00	(0.59)	0.08	0.13	
BPS	0.20	0.01	0.06	1.32	1.42	1.57	
Basic EPS (core NPAT before unrealized carried interest)	0.28	0.22	0.14	0.15	0.11	0.16	
Diluted EPS (core NPAT before unrealized carried interest)	0.26	0.13	0.13	0.14	0.10	0.15	
DPS	0.017	0.323	0.017	0.028	0.011	0.016	
Number of shares outstanding (basic) ('000)	240,000	240,000	240,000	548,440	548,440	548,440	
Weighted average number of shares (diluted)('000)	240,000	240,000	240,000	394,220	548,440	548,440	
Dilutions ('000)	16,974	150,077	30,234	15,000	15,000	15,000	
Share options	16,974	24,859	30,234	15,000	15,000	15,000	
Convertible redeemable preferred shares		125,217	-	-	-	-	
Diluted shares outstanding	256,974	390,077	270,234	563,440	617,000	617,000	
Weighted average number of shares (diluted)('000)	256,974	390,077	270,234	416,837	590,220	617,000	

Source: Company data; AMTD estimates

Comparables

Figure 13: Valuation comparison table

Boutique investment bank						
Stock code		Market cap	PE			PB
		(US\$ mn)	2019E	2020E	5yr avg	2019E
Moelis & Co	MC US EQUITY	2,711	14.2	13.3	23.4	7.5
Houlihan	HLI US EQUITY	2,993	16.2	14.8	30.9	3.6
PJT Partners	PJT US EQUITY	2,540	16.0	13.4	28.7	31.8
Average			15.5	13.9	27.7	14.3
US private equity						
		Market cap	P/Distributable earnings			PB
		(US\$ mn)	2019E	2020E	5yr avg	2019E
Blackstone	BX US EQUITY	43,065	13.7	11.3	13.4	4.3
KKR	KKR US EQUITY	20,156	13.9	12.3	12.2	1.4
Apollo	APO US EQUITY	12,226	10.0	9.1	17.9	7.8
Oaktree	OAK US EQUITY	7,773	14.7	13.6	16.1	3.2
Carlyle	CG US EQUITY	6,679	9.9	7.5	9.2	1.0
Average			12.4	10.8	13.8	3.5
Mutual fund						
		Market cap	PE			PB
		(US\$ mn)	2019E	2020E	5yr avg	2019E
Blackrock	BLK US EQUITY	69,096	16.4	14.8	18.2	2.0
Schroders	SDR LN EQUITY	9,783	13.6	12.7	19.0	2.6
INVESCO	IVZ US EQUITY	7,916	9.2	7.9	8.1	0.7
Statestreet	STT US EQUITY	26,567	10.4	9.3	11.0	1.2
T. Rowe Price	TROW US EQUITY	24,295	15.4	14.4	17.3	3.8
Affiliated Managers	AMG US EQUITY	5,741	7.8	7.1	10.7	1.7
Average			13.5	12.2	14.3	2.1
Chinese brokers						
		Market cap	PE			PB
		(US\$ mn)	2019E	2020E	5yr avg	2019E
CITIC Securities - H	6030 HK EQUITY	41,258	15.3	13.8	23.2	1.1
CICC - H	3908 HK EQUITY	9,710	15.9	13.2	30.5	1.5
Huatai Securities - H	6886 HK EQUITY	25,924	13.7	12.4	27.0	1.0
Average			15.0	13.1	26.9	1.2
China Renaissance	1911 HK EQUITY	1,492	6.2	4.2	46.4	1.4

Priced as of 20 March 2019; Source: Bloomberg, company data, AMTD estimates

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AMTD Investment Ratings

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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