

## Company Flash

# Value Partners Group Limited

 806 HK  
 Expanding in small loan business sector

- *We met with Value Partners Group Limited last month to get more updated information on the company's recent operation and future plans.*
- *The company is one of the famous fund managers in Asia and an expert in Absolute Return Long-biased strategy.*
- *The higher fund inflows since 4Q FY12/13 drives the company's average Assets Under Management ("AUM") over 10b USD for the first time at the end of June 2014*
- *Chengdu Vision Credit Limited is regarded as a new growth element of the company in the small loan business sector.*

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**Stock Data (806 HK)**

	Not Rated
Rating	Not Rated
Price (HK\$)	6.54
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	4.4-6.99
Market cap. (HK\$m)	12,011.8
Daily t/o (HK\$m)	18.6
Free float (%)	43.0

Source: Bloomberg

**A famous fund manager in Asia.** Last month, we met with the management of Value Partners Group Limited to get more updated information regarding its recent business operation and future plans. Value Partners Group Limited is one of Asia's largest asset management firms with a focus on the Greater China region. In November 2007, the company became the first asset management firm listed on the Hong Kong Stock Exchange.

**AUM rises to record high and stimulates fee income.** Value Partners Group Limited announced that the amount of assets under management (AUM) has reached a new high at USD11.4b as of the end of September 2014 (unaudited Group AUM). The rise in AUM stimulates the fee income of the group, with gross management fees increasing by 17.1% YoY and gross performance fees increasing by 42.2% YoY in 1H FY12/14. To further increase the AUM, the company is focusing on fostering strategic relationships with major local banks and securities houses in China. According to research from the Securities and Futures Commission, the combined fund management business in Hong Kong grew from HKD5,850b in 2008 to HKD16,007b in 2013, representing a CAGR of 22.3% during the 5-year period. We believe the company can still benefit on the growing trend.

**Strengthen investment capabilities and expand Chengdu loan business.** The company is contributing more resources to broaden its coverage in the fixed income sector in recent years, as high-yielding fixed income products will benefit in an expected inflationary environment. Moreover, the company also secured a new growth element emerging from the small loan business unit Chengdu Vision Credit Limited ("Vision Credit"). The contributed revenue from the small loan business unit rose over 400% to HKD26.0m in 1H FY12/14 from HKD4.9m in 1H FY12/13. The management plans to expand its business in Chengdu and increase the size of its loan portfolio.

**Figure 1: Financials and valuation**

	FY12/11	FY12/12	FY12/13	1H FY12/14
<b>Total revenue (HKD m)</b>	<b>688.9</b>	<b>651.6</b>	<b>1,027.6</b>	<b>443.6</b>
Revenue growth (YoY)	-35.9%	-5.4%	57.7%	23.7%
<b>PBT (HKD m)</b>	<b>207.1</b>	<b>415.1</b>	<b>459.7</b>	<b>161.9</b>
PBT growth (YoY)	-72.6%	100.5%	10.7%	684.6%
<b>Net profit (HKD m)</b>	<b>167.3</b>	<b>376.4</b>	<b>384.3</b>	<b>140.6</b>
Net profit growth (YoY)	-74.4%	125.0%	2.1%	4160.6%
P/E (x)	68.8	30.6	29.9	22.0
P/B (x)	4.9	4.4	4.2	4.3

Source: Company data

Please refer to important disclosures at the end of this report

## Company Background

Value Partners Group Limited is one of Asia's largest asset management firms, with 20 years experience focusing on the Greater China region. The company manages absolute return long-biased funds, long-short hedge funds, exchange-traded funds, quantitative funds, and the fixed-income products for its institutional and individual clients over the world.

### **Asset Management – Investment Strategies and Funds**

Breaking down the company's AUM by strategy, as at 30 September 2014, Absolute Return Long-biased Funds continued to represent the majority of the AUM (88%), followed by the Fixed Income Funds (9%), in which the Greater China High Yield Income Fund took the largest share, the Long-short Hedge Funds (2%) and the ETF & Quantitative Funds (1%).

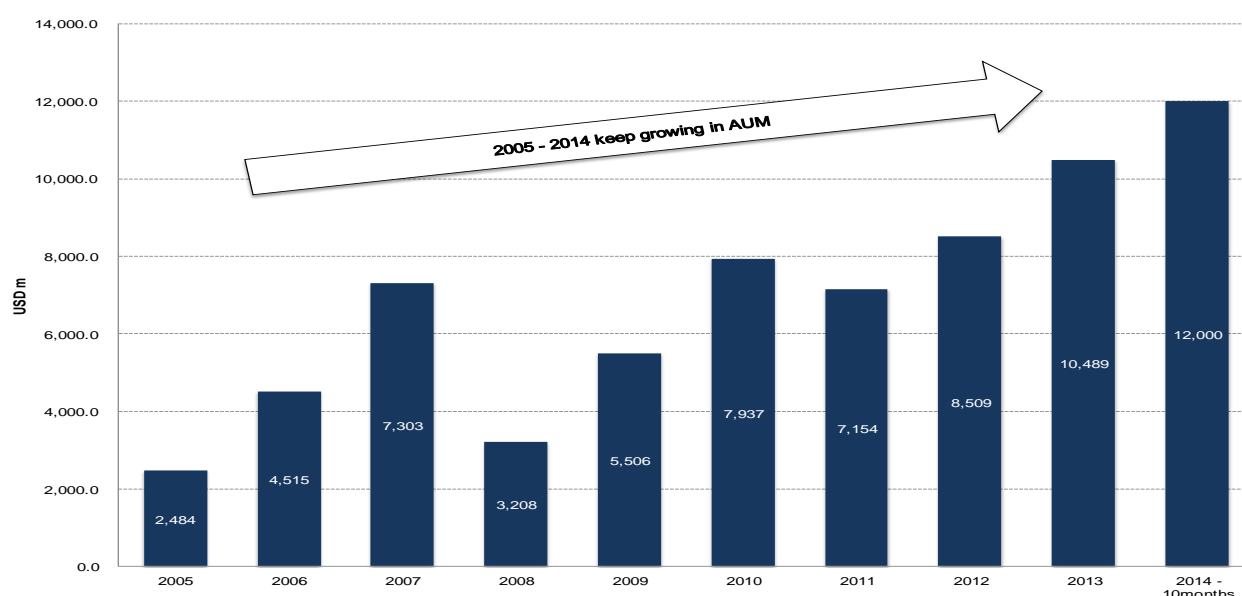
With proven strengths in Long-biased equity investment strategy, the company has also continued to place more resources to broaden their coverage in the fixed income space in recent years. The company's Greater China High Yield Income Fund (AUM: USD0.8b) is Hong Kong's first public fund focusing on offshore Greater China high yield bonds. Since the launch of the fund in 2012, it has been drawing strong interests from investors hunting for yields.

### **Asset Management – AUM and Client base**

The company's AUM recorded a new high of USD12.0b (See Figure 1) at the end of October 2014 as the net subscription was over the management's expectations during the second half of 2014. For the nine months ended 30 September 2014, the company's AUM net inflow was USD0.9b, a result of subscriptions of USD4.1b and redemptions of USD3.2b.

According to its interim result for 1H FY12/14, 70% of the company's AUM arises from institutional clients – including institutions, pension funds, high-net-worth individuals (HNWs), endowments and foundations, funds of funds, together with family offices and trusts. The proportion of funds coming from retail investors increased to 30% of the AUM because of the higher fund inflow from Hong Kong retail investors through their expanded distribution network which includes retail banks. By geographical region, Hong Kong clients accounted for 71% of the company's AUM, while 19% of the AUM was contributed by clients in the United States and Europe.

**Figure 2. The Group's AUM growth from 2005 to 2014 ( USD m)**



Source: Company data

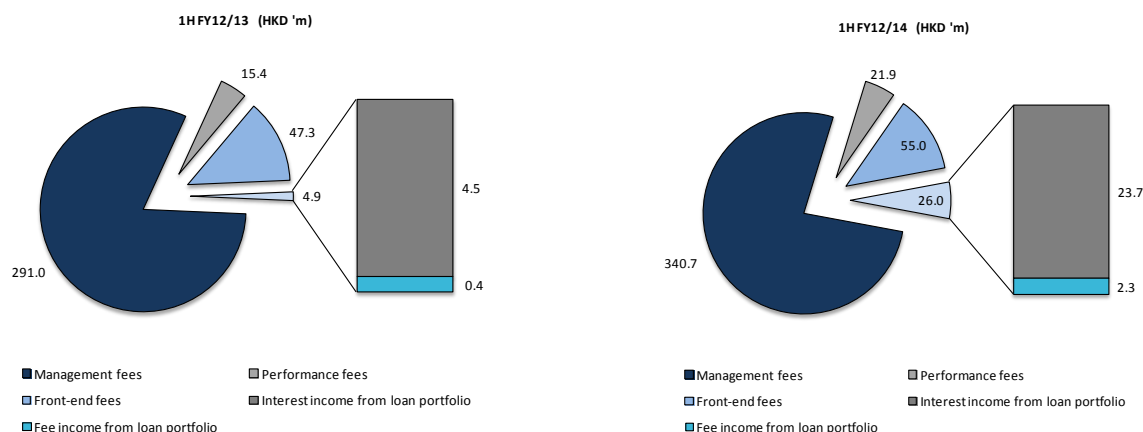
### **Asset Management – Revenue**

The company's total revenue rose by 23.7% YoY to HKD443.6m in 1H FY12/14. Gross management fees contributed a majority of the company's revenue, which increased to HKD340.7m as the company's average AUM increased by 12.0% YoY to USD10.2b. Gross performance fees, another source of revenue, amounted to HKD21.9m, representing a HKD6.5m increase in 1H FY12/14. During 1H FY12/14, performance fees were generated but not realized when funds

reported performances that exceed the benchmark returns for their respective end period or high-water-marks. Since the dates of performance fee realized for most of the major own branded funds are at the end of the year, the performance of the funds in the second half of the year would determine whether the company could collect further performance fees in 2014.

Other revenue mainly includes front-end load, of which a substantial amount was rebated to distribution channels, and such rebate is a usual market practice, increased by 16.3% YoY to HKD55m in 1H FY12/14. Other revenue also includes interest and fee income generated from the loan portfolio of their majority-owned subsidiary that operates and develops small loan business in Chengdu, which rose over 400% YoY to HKD26.0m in 1H FY12/14 (1H FY12/13: HKD4.9m) (See Figure 3).

**Figure 3. Revenue breakdown by segment in 1H FY12/13 & 1H FY12/14**



Source: Company data

**Chengdu Vision Credit Limited**

The company sees a new growth element emerging from its small loan business unit Chengdu Vision Credit Limited (“Vision Credit”). In 1H FY12/14, the Chinese subsidiary accounted for approximately 6% of revenue (1H FY12/13: 1%) (See Figure 3). Vision Credit is a unit focusing on lending to the white collared, small-business entrepreneurs, as well as small and medium-sized enterprises in Chengdu. Since commencing operations in 2012, Vision Credit has built a full-fledged business in the city. It contributed HKD11m of profit to the Group during 1H FY12/14, compared with HKD0.2m in 1H FY12/13. Outstanding loan balance of Vision Credit saw a rapid growth to RMB248m in 1H FY12/14, and the loan portfolio remained in good quality generating an attractive loan yield of about 17%. In the second half of 2014, the company plans to further penetrate into the Chengdu market and expand its loan book.

**Asian Fund House in 2014**

Value Partners has been strictly adhering to the value investment philosophy despite short-term volatilities in the market. Investment performance and fund management capabilities have brought them acknowledgment and appreciation from the industry. In 2014, the company added two house awards to its list of accolades. In Asian Investor’s Investment Performance Awards 2014, Value Partners won the Asian Fund House of the Year title. The company was also named Asset Management Company of the Year for Hong Kong in The Asset Triple A Investor and Fund Management Awards 2014.

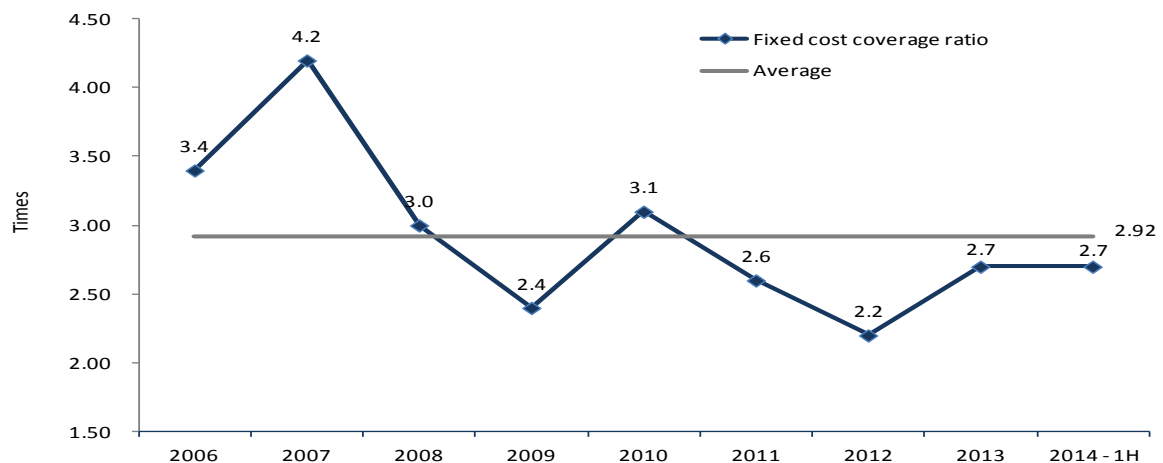
**Our view**

**Bright Outlook on the earnings with growing AUM and expanding market share.** By capturing investment opportunities in the midst of China policy reforms, the company has introduced a new thematic fund in March 2014. The company also launched its first Renminbi Qualified Foreign Institutional Investor (“RQFII”) equity fund on 16 October 2014. In addition, the company had just received its second batch of Qualified Foreign Institutional Investor (“QFII”) quota of USD100m in July 2014. The company is now has six A-share and crossborder advisory mandates from leading mainland financial institutions and is expecting to extend the list further. Its Singapore office is expected to be opened in the 2H 2014, broadening its presence in Southeast Asia. The Singapore office will be a path to participate

in Asian funds passport schemes, which will be launched in coming years. We believe the strategic development of the company will spur the future revenue and the AUM.

**Appreciate Value Partner’s consistent management and stringent cost discipline.** The investment team managers have an average of 14 years of industry experience and are serving over 10 years at Value Partners. Long services of investment managers may help Value Partners to keep the consistency of their investment style. The company continues to exercise stringent cost management and strictly follows the average fixed cost coverage at 2.92 times, limiting the increase of total expenses to 9% in 1H FY12/14. Fixed costs are covered by net management fees (a relatively stable source of income) alone, excluding other revenue sources such as performance fees. We have positive view on that, and the management is confident on keeping the fixed cost coverage at 2.7 in the FY12/14 (See Figure 3).

**Figure 4. Fixed cost coverage ratio of the Group (2006 – 1H 2014)**



Source: Company data

### Valuation

At the share price of HKD6.54 per share, the company is trading at a historical P/E of 29.86x for FY12/13, which is approximate to the average P/E of its HK-listed peers and global peers of 29.60x. We believe the company will have a decent future growth driven by the rising earnings from asset management division. We expect the high return rate will also support the share price as the company has an higher-than-average ROA of 18.96% (See figure 5)

**Figure 5. Peer comparison**

Company	Ticker	Mkt Cap (HK\$ m)	3M avg turnover (HK\$ m)	2013 P/E (x)	2014E P/E (x)	P/book (x)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
<b>Value Partners</b>	<b>806.HK</b>	<b>12,011.8</b>	<b>18.56</b>	<b>29.86</b>	<b>21.66</b>	<b>4.27</b>	<b>20.72</b>	<b>18.96</b>	<b>1.64</b>	<b>net cash</b>
China Everbright	165.HK	31,682.8	111.09	18.16	17.31	1.13	6.20	4.85	1.86	1.5
Blackstone Group LP	BX.US	299,657.9	1204.76	8.82	10.76	5.79	26.74	5.65	5.66	69.7
Partners Group Holding	PGHN.SW	58,679.9	82.41	20.13	21.55	8.31	45.04	32.21	n.a.	0.2
Och-Ziff Capital Mgt	OZM.US	43,405.6	88.58	16.62	12.60	n.a.	n.a.	4.23	14.99	19.7
Azmut Holding SpA	AZM.IM	24,317.9	202.63	13.96	20.30	3.48	26.34	4.25	n.a.	382.3
Fortress Investment	FIG.US	26,464.7	75.48	12.08	8.68	5.35	34.49	8.51	3.82	net cash
Man Group PLC	EMG.LN	31,762.9	109.10	117.46	16.78	1.81	2.11	1.60	4.36	net cash
<b>Average*</b>		<b>73,710.3</b>	<b>267.72</b>	<b>29.60</b>	<b>15.43</b>	<b>4.31</b>	<b>23.49</b>	<b>8.76</b>	<b>6.14</b>	<b>94.70</b>

Source: Company data

\*Average figure does not include Value Partners

**Figure 6. Per share items**

	FY12/11	FY12/12	FY12/13	1H FY12/14
EPS (HK cents)				
- Basic (HK cents)	9.5	21.4	21.9	8.0
BVPS (HKD)	1.3	1.5	1.6	1.5

Source: Company data

**Figure 7. Ratio analysis**

	FY12/11	FY12/12	FY12/13	1H FY12/14
<b>Growth (YoY)</b>				
Revenue	-35.9%	-5.4%	57.7%	23.7%
Profit before tax	-72.6%	100.5%	10.7%	684.6%
Net profit	-74.4%	125.0%	2.1%	4160.6%
<b>Margins</b>				
PBT margin	30.1%	63.7%	44.7%	36.5%
Net profit margin	24.3%	57.8%	37.4%	31.7%
<b>Other ratios</b>				
Fixed cost coverage (times)	2.2	2.7	2.7	2.7
Return on average assets	6.6%	13.6%	19.0%	19.0%
Return on average equity	6.9%	14.6%	20.7%	20.7%
<b>Valuation measures</b>				
P/E (x)	68.8	30.6	29.9	22.0
P/B (x)	4.9	4.4	4.2	4.3

Source: Company data

**Figure 8. Income statement (HKD m)**

	FY12/11	FY12/12	FY12/13	1H FY12/14
Fee income and other revenue	688.9	651.6	1,027.6	443.6
Distribution and advisory fee expenses	(166.9)	(179.0)	(252.6)	(152.6)
Other income	24.8	54.1	45.2	18.1
<b>Total net income</b>	<b>546.8</b>	<b>526.7</b>	<b>820.2</b>	<b>309.1</b>
Share-based compensation	(8.5)	(3.4)	(8.2)	(2.3)
Other compensation and benefit expenses	(173.5)	(193.7)	(259.5)	(103.2)
Operating lease rentals	(12.0)	(12.9)	(13.5)	(9.1)
Other expenses	(59.2)	(62.4)	(70.9)	(35.4)
Other net losses / gains	(84.0)	176.9	(9.7)	(6.8)
Share of gain / loss of an associate	(2.5)	(16.2)	1.2	9.5
<b>Profit before income tax expense</b>	<b>207.1</b>	<b>415.1</b>	<b>459.7</b>	<b>161.9</b>
Income tax expense	(42.3)	(45.7)	(78.4)	(22.8)
Profit for the period	164.8	369.5	381.2	139.1
Other comprehensive income / loss	(4.9)	26.5	2.4	(14.3)
Total comprehensive income for the year	159.9	396.0	383.7	124.8
<b>Profit attributable to equity holders of the company</b>	<b>167.3</b>	<b>376.4</b>	<b>384.3</b>	<b>140.6</b>

Source: Company data

**Figure 9. Balance sheet (HKD m)**

	FY12/11	FY12/12	FY12/13	1H FY12/14
<b>Non-current assets</b>				
Property, plant and equipment	8.1	7.7	4.3	6.8
Intangible assets	52.7	54.4	55.6	56.9
Investment properties	78.0	102.0	-	-
Investment in an associate	-	90.9	92.1	101.6
Deferred tax assets	0.3	0.4	0.6	1.1
Investments	959.6	953.1	898.0	796.0
Other assets	2.0	14.0	9.0	10.3
Loan portfolio, net	-	8.0	98.8	139.7
Restricted bank balances	11.6	-	-	-
<b>Total non-current assets</b>	<b>1,112.2</b>	<b>1,230.6</b>	<b>1,158.5</b>	<b>1,112.4</b>
<b>Current assets</b>				
Investments	21.1	240.9	441.6	91.1
Investments held-for-sale	-	245.9	226.8	221.3
Fees receivable	61.4	179.1	386.4	109.7
Loan portfolio, net	-	0.3	132.9	168.6
Amounts receivable on sale of investments	-	164.2	13.4	8.2
Prepayments and other receivables	37.4	33.5	28.7	22.5
Time deposits	-	-	-	74.5
Cash and cash equivalents	1,315.3	888.1	692.1	1,143.6
<b>Total current assets</b>	<b>1,435.2</b>	<b>1,752.0</b>	<b>1,921.9</b>	<b>1,839.5</b>
<b>Current liabilities</b>				
Accrued bonus	(69.5)	(68.2)	(125.1)	(30.9)
Distribution fee expenses payable	(23.9)	(28.9)	(54.8)	(48.0)
Amounts payable on purchase of investments	-	(135.0)	-	-
Other payables and accrued expenses	(21.2)	(17.9)	(18.9)	(45.6)
Current tax liabilities	(8.8)	(15.4)	(53.0)	(59.5)
<b>Total current liabilities</b>	<b>(123.4)</b>	<b>(265.4)</b>	<b>(251.8)</b>	<b>(184.0)</b>
<b>Net assets</b>	<b>2,424.0</b>	<b>2,717.2</b>	<b>2,828.7</b>	<b>2,767.9</b>
<b>Total equity</b>	<b>2,424.0</b>	<b>2,717.2</b>	<b>2,828.7</b>	<b>2,767.9</b>

Source: Company data

**Figure 10. Cash flow statement (HKD m)**

	FY12/11	FY12/12	FY12/13	1H FY12/14
Net cash from operating activities	642.0	41.7	71.4	187.9
Net cash used in investing activities	(345.1)	(374.9)	8.1	457.4
Net cash used in financing activities	(199.9)	(101.8)	(280.8)	(187.8)
<b>Net increase in cash and cash equivalents</b>	<b>97.0</b>	<b>(435.1)</b>	<b>(201.4)</b>	<b>457.5</b>
Cash and cash equivalents at beginning of year	1,218.6	1,315.3	888.1	692.1
Effect of exchange rate changes on cash and cash equivalents	(0.2)	7.8	5.4	(6.1)
<b>Cash and cash equivalents at end of year</b>	<b>1,315.3</b>	<b>888.1</b>	<b>692.1</b>	<b>1,143.6</b>

Source: Company data

*SBI China Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: [research@sbichinacapital.com](mailto:research@sbichinacapital.com), [thomsononeanalytics.com](http://thomsononeanalytics.com), [factset.com](http://factset.com) and [multex.com](http://multex.com)*

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