

Results Update

Oi Wah Pawnshop Credit Holdings 1319 HK

Delivered satisfactory FY02/14 results

- Oi Wah delivered satisfactory FY02/14 results by posting a 33.6% YoY increase in revenue and a 32.2% YoY increase in profit excluding its one-off listing expenses.
- A bond issue in FY02/15 is expected to broaden its capital base which will translate into more pawn loans and mortgage loans in the future.
- We revised up our profit forecast of the company by 1.1% and 12.1% for FY02/15 and FY02/16, respectively, to reflect a better-than-expected mortgage loan business and a larger capital base after its bond issue.
- We revised up our TP from HKD3.0 to HKD3.1 and maintained the rating at BUY

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Stock Data (1319 HK)

Rating	BUY
Price (HK\$)	1.44
Target Price (HK\$)	3.1
12m Price Range (HK\$)	0.84-1.7
Market cap. (HK\$m)	648.0
Daily t/o (HK\$m)	1.8
Free float (%)	33.3
<i>Source: Bloomberg</i>	

What's new: Oi Wah, a company engaged in granting pawn loans and mortgage loans in HK, announced its annual result for FY02/14 last Friday.

During the period, the company's revenue was up 33.6% to HKD95.8m (4.7% higher than our estimate), mainly driven by the increase in interest income from mortgage loans, which was up 370.7% YoY to HKD37.5m. Other revenue, which includes rental income, interest income, credit related fee income, etc., also saw a substantial YoY gain (See Figure 2).

The company recorded net profit attributable to shareholders of HKD41.1m (0.9% higher than our estimate), representing a 80.9% YoY increase and implying a net profit margin of 42.9% (FY02/13: 31.7%). Stripping out its one-off listing expenses, the company would have recorded a profit attributable to shareholders of HKD54.8m, representing a 32.2% YoY increase and implying a net profit margin of 57.2% (FY02/13: 57.8%). The board declared a final dividend of HK2.7 cents per share for FY02/14, representing a 30.0% payout ratio (FY02/13: Nil).

Overall, the results were satisfactory and slightly surpassed our previous estimates, mainly due to a better-than-expected increase in interest earned on mortgage loans and lower-than-expected finance costs. In this regard, we revised up our earnings forecast for the company in FY02/15 and FY02/16, to reflect i) a rapid growth of its mortgage business, and ii) a larger capital base driven by the aforementioned bond issuance in FY02/15, which is expected to translate into more pawn and mortgages loans in the future (See Figure 3).

We accordingly revised up our TP from HKD3.0 to HKD3.1, which represents a PEG of 0.3x and an upside potential of 115.3%. We maintain our BUY rating on the stock.

Figure 1: Financials and valuation

	FY02/13	FY02/14	FY02/15E	FY02/16E	FY02/17E
Turnover (HKD m)	71.7	95.8	154.4	219.0	243.0
Turnover growth (YoY)	8.1%	33.6%	61.2%	41.8%	11.0%
Operating profit (HKD m)	31.1	55.2	127.1	191.5	196.9
Operating profit growth (YoY)	9.0%	36.5%	56.2%	41.4%	10.9%
Net profit (HKD m)	22.7	41.1	91.6	139.2	142.0
Net profit growth (YoY)	-32.0%	80.9%	123.0%	51.9%	2.1%
EPS (HKD)	0.1	0.1	0.2	0.3	0.3
DPS (HKD)	0.0	0.0	0.1	0.1	0.1
P/E (x)	18.9	13.9	7.1	4.7	4.6
Dividend Yield	-	2.2%	4.2%	6.4%	6.6%

Source: SBI China Capital, Company data

Figure 2: Revenue breakdown

	FY02/14 HKD m	FY02/13 HKD m	YoY Change %
Interest earned on loan receivables			
- Pawn loans	56.8	56.7	0.2%
- Mortgages	37.5	8.0	370.7%
Gain on disposal of repossessed assets	1.5	7.1	-78.2%
Total turnover	95.8	71.7	33.6%

Source: Company data

Issue of bonds expected to enlarge the capital base: The company announced earlier this month that it will issue bonds with an aggregate principal amount of up to HKD100.0m. The bond has a coupon rate of 6.0% and its maturity date will be 7 years after the issue of the bond. Net proceeds from the bond issuance are expected to be HKD99.0m, 80.0% of which will be used for expanding its loan portfolio, and the remainder of which will be used for general working capital.

We expect the bond issue to be positive for the company, as the proceeds obtained will go toward enlarging its capital base, which will translate into more interest income via the granting of more pawn and mortgage loans. Profit is expected to increase as well, as the company can earn greater interest spread from borrowing money at a coupon rate of 6.0% and granting loans at a much higher interest rate (net interest margins for pawn loans and mortgage loans were 43.7% and 13.2% in FY02/14).

Earnings forecast revised up for FY02/15 and FY02/16: We revised up our revenue forecasts for the company in FY02/15 and FY02/16 by 3.4% and 14.2%, respectively, to reflect i) a better-than-expected performance in its mortgage loans business, and ii) a higher capital base after the issuance of the bond. We also tuned up the profit forecast in FY02/15 and FY02/16 by 1.1% and 12.1% respectively, after factoring in the increase in revenue and financial costs. It is worth noting that our model assumes the company will obtain the proceeds from the bond issue in 2H FY02/15 (4 months from the date of the placing agreement). Therefore, the upward adjustment on revenue and profit in FY02/15 is less robust than that in FY02/16.

Figure 3: Forecast changes

	FY02/15			FY02/16		
	New	Old	Change (%)	New	Old	Change (%)
Turnover	154.4	149.4	3.4%	219.0	191.8	14.2%
Other revenue	1.9	1.9	-0.1%	2.0	2.0	-0.2%
Other net income	0.0	0.0	0.0%	0.0	0.0	0.0%
Operating income	156.4	151.3	3.3%	221.0	193.9	14.0%
Operating expenses	(29.7)	(32.7)	-9.2%	(30.0)	(33.0)	-9.1%
Credit to impairment loss on loans receivables	0.4	0.3	15.3%	0.4	0.4	13.4%
Profit from operation	127.1	119.0	6.8%	191.5	161.3	18.7%
Finance costs	(17.4)	(10.5)	65.0%	(24.8)	(12.5)	98.1%
Pre-tax profit	109.7	108.5	1.1%	166.7	148.7	12.1%
Income tax	(18.1)	(17.9)	1.1%	(27.5)	(24.5)	12.1%
Net profit	91.6	90.6	1.1%	139.2	124.2	12.1%

Source: SBI China Capital, Company data

A new TP of HKD3.1 with the BUY rating maintained: At HKD1.44, the company is trading at a 1-yr historical P/E of 14.7x and 1-yr prospective P/E of 7.5x, while the global average is trading at 18.1x and 12.5x. We believe the company is undervalued given its outperformance relative to its peers in terms of its profitability indicated by its ROIC, ROE, and ROA (See Figure 4).

Given our financial forecasts, we estimate the profit of the company will grow at a CAGR of 51.2% from FY02/14 to FY02/17, which translates to a PEG of 0.15x for FY02/15E. As the company has a higher-than-average profitability as well as clear earnings visibility, we believe the company deserves a much higher valuation. Assuming an FY02/15 PEG of 0.3x, we arrive at our new TP of HKD3.1 per share, representing an upside potential of 115.3%.

Figure 4: Peer comparison

Company	Ticker	Mkt Cap (HK\$ m)	3M avg turnover (HK\$ m)	2013E P/E (x)	2014E P/E (x)	2013 P/B (x)	ROIC (%)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
Peers (HK)											
Oi Wah Pawnshop Credit Holdings	1319 HK	657.0	2.0	14.7	7.5	1.9	15.5	13.8	9.9	0.0	25.3
HK Finance Group	1273 HK	344.5	0.4	n.a.	9.2	n.a.	n.a.	16.9	8.0	0.0	73.9
Hong Kong Building & Loan	145 HK	503.5	4.3	n.a.	n.a.	0.9	3.3	11.1	9.9	0.0	(0.8)
First Credit	8215 HK	142.6	1.4	7.6	n.a.	0.4	n.a.	(11.4)	(10.2)	0.0	13.9
Average		411.9	2.0	11.2	8.3	1.0	9.4	7.6	4.4	0.0	28.1
Peers (China)											
China Financial Services	605 HK	2,228.9	7.9	8.4	6.5	1.1	12.1	16.4	13.4	1.5	1.1
China Huirong Financial Holdings	1290 HK	1,250.8	0.7	5.5	n.a.	n.a.	n.a.	20.1	12.0	0.0	26.8
Flying Financial Service Holdings	8030 HK	428.6	0.3	33.8	n.a.	1.0	n.a.	15.4	13.7	8.9	(39.9)
China Assurance Finance Group	8090 HK	2,124.4	2.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	(2.0)
Credit China Holdings	8207 HK	5,912.1	45.2	25.9	27.2	3.7	6.7	14.6	7.8	1.0	33.2
Aeon Credit	900 HK	2,596.3	0.3	11.7	n.a.	1.1	9.5	12.7	4.9	5.6	133.8
Average		2,423.5	9.4	17.0	16.8	1.7	9.4	15.8	10.4	2.9	25.5
Peers (Japan)											
ACOM Co. Ltd	8572 JP	49,421.6	203.4	59.9	14.7	2.2	1.3	3.7	0.9	n.a.	160.1
Aiful Corporation	8515 JP	15,505.3	1,053.2	10.0	10.8	1.6	2.1	17.0	3.4	n.a.	235.7
Asax Co. Ltd	8772 JP	994.3	1.6	6.4	n.a.	0.5	3.6	8.6	3.5	n.a.	121.1
Average		21,973.8	419.4	25.4	12.8	1.4	2.3	9.8	2.6	n.a.	172.3
Peers (Taiwan)											
Chailease Holding	5871 TT	18,805.3	99.8	n.a.	10.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Taiwan Acceptance	9941 TT	5,012.1	15.0	15.8	13.3	3.0	n.a.	20.5	4.2	n.a.	340.0
Average		11,908.7	57.4	15.8	12.0	3.0	n.a.	20.5	4.2	n.a.	340.0
Average of all		7,061.8	95.8	18.1	12.5	1.6	6.8	12.3	6.3	1.7	80.2

Source: Bloomberg, SBI China Capital

Figure 5: Ratio analysis

	FY02/13	FY02/14	FY02/15E	FY02/16E	FY02/17E
Growth (YoY)					
revenue	8.1%	33.6%	61.2%	41.8%	11.0%
Operating profit	9.0%	36.5%	56.2%	41.4%	10.9%
Net profit	-32.0%	80.9%	123.0%	51.9%	2.1%
Margins					
EBIT margin	43.4%	57.7%	82.3%	87.4%	81.0%
Net profit margin	31.7%	42.9%	59.3%	63.5%	58.4%
Other Ratios					
Return on average assets	9.9%	10.2%	13.9%	15.8%	13.6%
Return on average equity	43.6%	37.0%	42.4%	47.7%	43.0%
dividend payout ratio	-	30.0%	30.0%	30.0%	30.0%
Valuation Measures					
P/E (x)	18.9	13.9	7.1	4.7	4.6
P/B (x)	3.0	1.8	1.4	1.1	0.9
Dividend yield	-	2.2%	4.2%	6.4%	6.6%

Source: SBI China Capital, Company data

Figure 6: Income statement (HKDm)

	FY02/13	FY02/14	FY02/15E	FY02/16E	FY02/17E
Turnover	71.7	95.8	154.4	219.0	243.0
Other revenue	1.6	4.3	1.9	2.0	2.0
Other net income	0.0	0.0	0.0	0.0	0.0
Operating income	73.4	100.1	156.4	221.0	245.1
Operating expenses	(42.2)	(44.5)	(29.7)	(30.0)	(48.6)
(Charge for)/ credit to impairment losses on loans receivables	(0.0)	(0.4)	0.4	0.4	0.5
Profit from operation	31.1	55.2	127.1	191.5	196.9
Finance costs	(0.8)	(5.3)	(17.4)	(24.8)	(26.8)
Pre-tax profit	30.3	50.0	109.7	166.7	170.1
Income tax	(7.6)	(8.9)	(18.1)	(27.5)	(28.1)
Net profit	22.7	41.1	91.6	139.2	142.0

Source: SBI China Capital, Company data

Figure 7: Balance sheet (HKDm)

	FY02/13	FY02/14	FY02/15E	FY02/16E	FY02/17E
Non-current assets					
Fixed assets	1.7	1.3	2.2	2.4	2.9
Loan receivables	29.8	82.6	126.4	141.8	156.1
Deferred tax assets	0.2	0.3	0.3	0.3	0.3
Total	31.7	84.2	128.9	144.6	159.3
Current assets					
Repossessed assets	5.2	7.9	14.3	16.1	17.7
Loan receivables	200.8	406.8	622.5	698.6	768.9
Trade and other receivables	16.7	17.3	4.8	5.1	5.4
Trading securities	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	19.8	11.7	17.9	109.1	164.6
Total	242.5	443.7	659.6	829.0	956.6
Current liabilities					
Accruals and other payables	5.6	5.0	10.1	14.0	15.5
Bank loans and overdrafts	68.5	113.0	176.0	236.0	276.0
Obligation under finance leases	0.2	0.2	0.2	0.2	0.2
Current taxation	5.9	4.8	18.1	27.5	28.1
Total	80.1	203.5	284.8	358.2	400.2
Non-current liabilities					
Obligations under finance lease	0.2	0.0	0.0	0.0	0.0
Amounts due to shareholders	0.0	0.0	0.0	0.0	0.0
Total	0.2	0.0	100.0	100.0	100.0
Capital reserves	0.1	4.0	4.0	4.0	4.0
Retained earnings	193.7	320.4	399.7	511.4	611.6
Total equity	193.8	324.4	403.7	515.4	615.6
Net assets	193.8	324.4	403.7	515.4	615.6

Source: SBI China Capital, Company data

Figure 8: Cash flow statement (HKDm)

	FY02/13	FY02/14	FY02/15E	FY02/16E	FY02/17E
Net cash in operating activities	(51.3)	(217.5)	(125.7)	84.2	84.8
Net cash in investing activities	(0.7)	(0.2)	(1.3)	(0.7)	(0.7)
Net cash in financing activities	56.4	208.9	133.2	7.7	(28.6)
Net increase/ (decrease) in cash and cash equivalent	4.5	(8.7)	6.2	91.2	55.5
opening cash balance	9.6	14.0	11.7	17.9	109.1
closing cash balance	14.0	5.3	17.9	109.1	164.6
Bank overdraft	5.8	6.4	0.0	0.0	0.0
Cash and cash equivalent	19.8	11.7	17.9	109.1	164.6

Source: SBI China Capital, Company data

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