

Results Update

Oi Wah Pawnshop Credit

 1319 HK

Mortgage business has become another pillar of strength

- Oi Wah delivered satisfactory 1H FY02/15 results by posting a 63.8% YoY increase in revenue and 84.5% YoY increase in profit excluding one-off listing expenses
- Interest income from its mortgage loan business increased significantly by 190.2% to HKD37.8m. It is expected that its mortgage business will continue to lead growth in the future.
- We revised up our TP from HKD3.1 to 3.4 and maintain the rating at BUY.

Research Team

(852) 2533 3700

research@sbichinacapital.com

Stock Data (1319 HK)

Rating	BUY
Price (HK\$)	1.59
Target Price (HK\$)	3.4
12m Price Range (HK\$)	0.88-1.83
Market cap. (HK\$m)	715.5
Daily t/o (HK\$m)	2.4
Free float (%)	31.0

Source: Bloomberg

Profit soared on the back of significant growth in mortgage loans: In 1H FY02/15, the company recorded revenue of HKD68.8m, a 63.8% YoY increase. Interest income from mortgage loans become the largest revenue source for the 1st time, and increased by 190.2% YoY to HKD37.8m. Interest income from pawn loan, on the other hand, increased slightly by 2.2% YoY to HKD28.7m. Net profit attributable to shareholders was up 143.8% YoY (or 84.5% if excluding the HKD4.9m listed expenses recognized in 1H FY02/14) to HKD36.8m, which represents 40.2% of our fully-year forecast of the company. The company did not declare any interim dividend for the period (1H FY02/14: nil). The outstanding interim result of the company was hinted by its positive profit alert issued in late August.

Mortgage loan business expected to lead future growth. Interest income from the company's mortgage loan business saw a rapid growth in 1H FY02/14 and took over pawn loans to become the largest revenue contributor. The improvement in the segment performance was mainly attributable to the continued expansion of their mortgage loan portfolio, which was partly driven by the HKD100m 6.0% corporate bonds issued in May this year. We are positive to the company's mortgage loan business and believe the segment will lead growth in the future, especially under the current situation where credit tightening policies are still imposed on licensed banks and other authorized institutions. Relatively, loan application process of money lenders such as Oi Wah is much more simple and flexible. We believe this provides a good opportunity for the company to capture more high net worth clients who cannot obtain loans from authorized institutions.

Earnings forecast for FY02/15 and FY02/16 revised up. We revised up our revenue forecast of the company for FY02/15 and FY02/16 by 2.4% and 1.8% respectively in order to reflect a better-than-expected performance in its mortgage loans business. Our profit forecast in FY02/15 and FY02/16 is tuned up by 3.4% and 2.3% respectively.

Reiterate BUY rating with TP revised up to HKD3.4 per share. We accordingly revised our TP from HKD3.1 up to HKD3.4 per share, which represents a PEG of 0.3x and an upside potential of 113.8%. 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	158.1	223.0	253.8
Turnover growth (YoY)	8.1%	33.6%	65.0%	41.0%	13.8%
Operating profit (HKD m)	31.1	55.2	130.8	195.6	205.8
Operating profit growth (YoY)	9.0%	36.5%	59.9%	40.6%	13.7%
Net profit (HKD m)	22.7	41.1	94.7	142.6	149.4
Net profit growth (YoY)	-32.0%	80.9%	130.5%	50.6%	4.8%
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	6.8	4.5	4.3
Dividend Yield	-	2.2%	4.4%	6.6%	6.9%

Source: The company, SBI China Capital

Figure 2: 1H FY03/15 result snapshot

	1H FY02/15 HKD m	1H FY02/14 HKD m	YoY Change %
Turnover	68.8	42.0	63.8%
- Interest earned on pawn loans	28.7	28.1	2.2%
- Interest earned on mortgage loans	37.8	13.0	190.2%
- Gain on disposal of repossessed assets	2.3	0.9	165.6%
Gross loan receivables	622.1	490.0	27.0%
Profit before tax	44.1	18.8	134.6%
Profit attributable to shareholders (including listing exp.)	36.8	15.1	143.8%
Profit attributable to shareholders (excluding listing exp.)	36.8	20.0	84.5%

	1H FY02/15 %	1H FY02/14 %	YoY Change PPT
Net interest margin			
- Pawn loan business	43.8%	43.5%	0.3
- Mortgage loan services	16.1%	13.5%	2.6
Net profit margin (including listing exp.)	53.5%	35.9%	17.6
Net profit margin (excluding listing exp.)	53.5%	47.5%	6.0

Source: The company

Earnings forecast for FY02/15 and FY02/16 revised up to reflect better-than-expected mortgage loan business:

We revised up our revenue forecast of the company in FY02/15 and FY02/16 by 2.4% and 1.8% respectively in order to reflect a better-than-expected performance in its mortgage loans business. It is worth noting that we also re-assigned a more conservative growth rate to its pawn loans business for both the period. Our profit forecast for FY02/15 and FY02/16 is tuned up by 3.4% and 2.5% respectively.

Figure 3: Forecast changes

	FY02/15E			FY02/16E		
	New	Old	Change (%)	New	Old	Change (%)
Turnover	158.1	154.4	2.4%	223.0	219.0	1.8%
- Interest earned on pawn loans	66.0	92.4	-28.6%	94.6	111.0	-14.8%
- Interest earned on mortgage loans	86.4	53.4	61.8%	120.2	98.3	22.3%
- Gain on disposal of repossessed assets	5.7	8.6	-33.3%	8.2	9.6	-14.8%
Other revenue	1.9	1.9	0.0%	2.0	2.0	0.0%
Other net income	0.0	0.0	0.0%	0.0	0.0	0.0%
Operating income	160.0	156.4	2.4%	225.0	221.0	1.8%
Operating expenses	(29.7)	(29.7)	0.0%	(30.0)	(30.0)	0.0%
Credit to impairment lossess on loans receivables	0.4	0.4	0.0%	0.6	0.4	27.7%
Profit from operation	130.8	127.1	2.9%	195.6	191.5	2.1%
Finance costs	(17.4)	(17.4)	0.0%	(24.8)	(24.8)	0.0%
Pre-tax profit	113.4	109.7	3.4%	170.8	166.7	2.5%
Income tax	(18.7)	(18.1)	3.4%	(28.2)	(27.5)	2.5%
Net profit	94.7	91.6	3.4%	142.6	139.2	2.5%

Source: The company, SBI China Capital

A new TP of HKD3.4 with BUY rating maintained: At HKD1.59, the company is trading at a 1-yr historical P/E of 13.9x and 1-yr prospective P/E of 6.8x, while its peers are on average trading at 17.1x and 11.6x. We believe the company deserves a much higher valuation given its outperformance in terms of profitability indicated by both ROIC, ROE and ROA (See Figure 4).

Given our financial forecast, we estimate the profit of the company will grow at a CAGR of 53.8% from FY02/14 to FY02/17, which translates into a PEG of 0.14x for FY02/15E. Since the company has a higher-than-average profitability and earnings visibility, we believe the company deserves a much higher valuation. Assuming a FY02/15 PEG of 0.3x, we arrive at our new TP of HKD3.4 per share, representing an upside potential of 113.8%.

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	715.50	2.38	15.29	7.95	1.96	11.63	15.85	10.24	1.70	56.09
HK Finance Group	1273 HK	361.05	0.67	7.63	n.a.	0.92	n.a.	12.68	7.48	3.22	45.28
Hong Kong Building & Loan	145 HK	564.16	2.23	n.a.	n.a.	0.92	n.a.	-25.18	-21.41	0.00	0.32
First Credit	8215 HK	89.28	1.89	4.70	n.a.	0.25	n.a.	5.33	4.38	8.06	15.26
Average		432.5	1.8	9.2	8.0	1.0	11.6	2.2	0.2	3.2	29.2
Peers (China)											
China Financial Services	605 HK	1629.29	2.64	5.95	4.75	0.69	11.83	11.94	9.41	2.11	19.30
China Huirong Financial Holdings	1290 HK	1394.32	0.49	5.96	n.a.	0.83	n.a.	13.11	8.62	0.00	28.51
Flying Financial Service Holdings	8030 HK	443.94	0.28	36.11	n.a.	1.03	n.a.	2.80	2.27	0.00	-9.43
China Assurance Finance Group	8090 HK	1918.80	1.65	n.a.	n.a.	7.46	n.a.	-6.30	-4.29	0.00	6.82
Credit China Holdings	8207 HK	5733.66	14.90	30.39	51.99	3.30	5.35	10.85	6.34	1.10	33.22
Aeon Credit	900 HK	2659.16	0.27	11.88	n.a.	1.13	8.64	9.70	3.74	5.51	122.48
Average		2,688.9	4.3	26.1	52.0	3.2	7.0	4.3	2.0	1.7	38.3
Peers (Japan)											
Acom Co. Ltd	8572 JP	35590.63	113.37	46.26	11.85	1.57	1.32	3.46	0.94	n.a.	160.06
Aiful Corporation	8515 JP	12692.59	1252.07	9.65	25.45	1.27	4.64	17.31	3.83	n.a.	140.09
Asax Co. Ltd	8772 JP	985.20	1.45	6.90	n.a.	0.55	3.54	8.29	3.45	n.a.	121.07
Average		16,422.8	455.6	20.9	18.7	1.1	3.2	9.7	2.7	n.a.	140.4
Peers (Taiwan)											
Chailease Holding	5871 TT	20408.01	128.24	13.16	11.66	2.72	n.a.	22.91	3.17	n.a.	412.00
Taiwan Acceptance	9941 TT	4684.35	12.40	12.04	11.67	2.38	n.a.	20.75	2.04	n.a.	573.67
Average		12,546.2	70.3	12.6	11.7	2.6	N.A	21.8	2.6	N.A	492.8
Average of all		7,991.0	151.5	17.1	11.6	2.1	8.2	10.4	3.6	1.2	141.6

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%	65.0%	41.0%	13.8%
Operating profit	9.0%	36.5%	59.9%	40.6%	13.7%
Net profit	-32.0%	80.9%	130.5%	50.6%	4.8%
Margins					
EBIT margin	43.4%	57.7%	82.7%	87.7%	81.1%
Net profit margin	31.7%	42.9%	59.9%	63.9%	58.9%
Other Ratios					
Return on average assets	9.9%	10.2%	14.3%	14.8%	11.7%
Return on average equity	43.6%	37.0%	43.2%	48.1%	44.2%
dividend payout ratio	-	30.0%	30.0%	30.0%	30.0%
Valuation Measures					
P/E (x)	18.9	13.9	6.8	4.5	4.3
P/B (x)	3.0	1.8	1.4	1.1	0.9
Dividend yield	-	2.2%	4.4%	6.6%	6.9%

Source: The company, SBI China Capital

Figure 6: Income statement (HKD m)

	FY02/13	FY02/14	FY02/15E	FY02/16E	FY02/17E
Turnover	71.7	95.8	158.1	223.0	253.8
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	160.0	225.0	255.9
Operating expenses	(42.2)	(44.5)	(29.7)	(30.0)	(50.8)
(Charge for)/ credit to impairment losses on loans receivables	(0.0)	(0.4)	0.4	0.6	0.7
Profit from operation	31.1	55.2	130.8	195.6	205.8
Finance costs	(0.8)	(5.3)	(17.4)	(24.8)	(26.8)
Pre-tax profit	30.3	50.0	113.4	170.8	179.0
Income tax	(7.6)	(8.9)	(18.7)	(28.2)	(29.5)
Net profit	22.7	41.1	94.7	142.6	149.4

Source: The company, SBI China Capital

Figure 7: Balance sheet (HKD m)

	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	181.2	235.6
Deferred tax assets	0.2	0.3	0.3	0.3	0.3
Total	31.7	84.2	128.9	183.9	238.8
Current assets					
Repossessed assets	5.2	7.9	9.6	13.7	17.8
Loan receivables	200.8	406.8	622.5	892.5	1,160.8
Trade and other receivables	16.7	17.3	4.0	4.7	5.4
Trading securities	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	19.8	11.7	27.4	35.2	7.1
Total	242.5	443.7	663.6	946.1	1,191.1
Current liabilities					
Accruals and other payables	(5.6)	(5.0)	(10.3)	(14.3)	(16.1)
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)	(18.7)	(28.2)	(29.5)
Total	(80.1)	(203.5)	(285.6)	(359.1)	(402.3)
Non-current liabilities					
Obligations under finance lease	(0.2)	(0.01)	(0.02)	(0.02)	(0.03)
Amounts due to shareholders	0.0	0.0	0.0	0.0	0.0
Other long-term loans	0.0	0.0	(100.0)	(250.0)	(400.0)
Total	(0.2)	(0.0)	(100.0)	(250.0)	(400.0)
Capital reserves	0.1	4.0	4.0	4.0	4.0
Retained earnings	193.7	320.4	402.8	517.0	623.6
Total equity	193.8	324.4	406.8	521.0	627.6
Net assets	193.8	324.4	406.8	521.0	627.6

Source: The company, SBI China Capital

Figure 8: Cash flow statement (HKD m)

	FY02/13	FY02/14	FY02/15E	FY02/16E	FY02/17E
Net cash in operating activities	(51.3)	(217.5)	(116.2)	(148.3)	(147.8)
Net cash in investing activities	(0.7)	(0.2)	(1.3)	(0.7)	(0.7)
Net cash in financing activities	56.4	208.9	133.3	156.8	120.4
Net increase/ (decrease) in cash and cash equivalent	4.5	(8.7)	15.7	7.7	(28.1)
Opening cash balance	9.6	14.0	11.7	27.4	35.2
Closing cash balance	14.0	5.3	27.4	35.2	7.1
Bank overdraft	5.8	6.4	0.0	0.0	0.0
Cash and cash equivalent	19.8	11.7	27.4	35.2	7.1

Source: The company, SBI China Capital

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

SBI China Capital stock ratings:

STRONG BUY	: absolute upside of >50% over the next three months
BUY	: absolute upside of >10% over the next six months
HOLD	: absolute return of -10% to +10% over the next six months
SELL	: absolute downside of >10% over the next six months

Investors should assume that SBI China Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer:

This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI China Capital Financial Services Limited ("SBI China Capital") from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI China Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI China Capital as of the date of this report only and are subject to change without notice. Neither SBI China Capital nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI China Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI China Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI China Capital located in such recipient's home jurisdiction.

Copyright© SBI China Capital Financial Services Limited. All rights reserved.