

Chinlink International Holdings (997 HK)

SC Net: Company Sees Business Growth from Investment Banking Business

Specialty Finance

7 Aug 2018

Not Rated

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Exec Director

Visit Rationale: Sector Coverage

Basic Share Information

Market cap	HK\$1.29b / US\$0.16b
Daily volume (3mth)	US\$0.06m
Shares outstanding	1,325m
Free float	25%
Net debt-to-equity	91.6%
1 yr high	HK\$1.29
1 yr low	HK\$0.87
Major shareholding	75%
Visit date	1 Aug 18

Note: Share price and market data as of 6 August 2018.

	Significant Shareholdings
Founder	74.8%
Management	0%
Employees	0%
Industry	0%

Source : Company



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S-C Net



What Is The Business Story For This Stock?

Chinlink International Holdings is a financial services company that provides investment banking services, finance leasing for equipment, guarantees for bank finance in Shaanxi province, and supply chain finance for trade in Xi'an, Shenzhen and Hong Kong for small and medium-sized enterprises (SMEs). Through its property investment business, Chinlink owns the Daminggong Construction Materials and Furniture Shopping Center (DSC) (a wholesale shopping center for home furnishing products) and the Chinlink International Centre (CIC) (grade A office space) in Xian, and the Chinlink Worldport (CWP) (a logistics park and wholesale shopping center) in Hanzhong. The company works with the firms leasing its investment properties by providing them with financial services. FY3/18 revenue jumped 142% YoY, which management attributes to growth in the supply chain finance business. During the past two years, property investment business has been the main contributor to Chinlink's profits due to revaluation gains. Chinlink has posted significant forex gains and losses in recent years as its finance business is funded largely with USD loans raised in Hong Kong which are loaned to businesses that conduct business in China in CNY. Management expects NP growth to be driven by the investment banking business going forward. In November 2017, Chinlink acquired a 51% interest in MCM Partners (unlisted) which has type 1, 2, 4 and 9 licenses from Hong Kong's Securities and Futures Commission. Chinlink aims to start venture capital and asset management businesses through MCM Partners to help its customers in Shaanxi raise capital and to provide them with wealth management services. The company is also awaiting approval from the Shaanxi Provincial Department of Commerce for a factoring business, which it expects to begin operations in Q2 FY3/19. With phase two of its DSC property scheduled to commence development in Q3 2019 and scheduled for completion in 2022, Chinlink anticipates a continued rise in the profit contribution from its investment property business.

How Does The Value Chain Look?

Given that it operates in highly fragmented markets, Chinlink does not provide market share information nor details about its principal competitors.

Segment	Market Share	Fundamentals	Major Clients	Major Suppliers	Competitors
International trade supply chain finance	n.a.	Strong	SMEs in China, mainly in Xian	n.a.	State-owned enterprises (SOEs), Chinese non-bank financial companies
Property investment	n.a.	Strong			China property investment companies
Financing guarantee services	n.a.	Medium			SOEs, Chinese non-bank financial companies

Source : Company

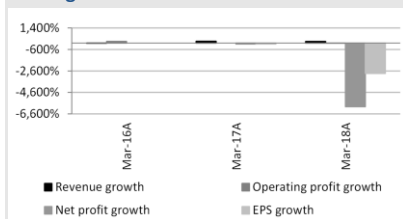
Who Currently Owns This Stock?

Chinlink's founder, chairman and managing director Li Weibin owned 74.8% of the shares in the company at end-July 2018. The remaining 25% forms the free float, according to Bloomberg.

How Does It Fit Into Our SCNet Index?

Chinlink is not a constituent of Haitong International's (HTI's) SC Net Index at present. Its stock price has increased 2.1% over the past three months, outperforming Hong Kong's small cap index by 16.2ppts. Chinlink's net debt-to-equity ratio and revenue growth are near the top of the range for HTI's SC Net stock universe, its PBR, ROE, ROA and gross margin are at the low end of the range and its OPM is in the middle of the range.

Earnings Trends



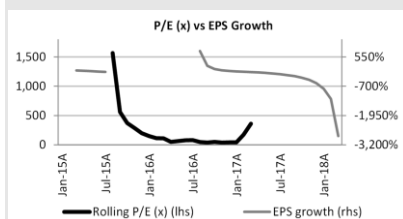
Source: Company data, Bloomberg

Price / Volume



Source: Bloomberg

Valuation



Source: Company data, Bloomberg

FY3/18 Revenue Breakdown



Source: Company data

Key Investment Metrics

Revenue Growth

Low 5-yr avg High

Chinlink's FY3/18 revenue jumped 142.4% YoY, above the company's revenue CAGR of 50.8% during FY3/14-18.

Profit Margins

Low 5-yr avg High

Chinlink's FY3/18 OPM of 11.1% was above the company's FY3/14-18 average of 0.8%.

Shareholder Returns

Low 5-yr avg High

FY3/18 ROE was -5.3%, which compares with the company's average of -29.2% during FY3/14-18. Chinlink has not paid a dividend since 2012 and has indicated it has no plans to resume dividend payments in the near term.

Balance Sheet Risks

High 5-yr avg Low

Chinlink's net debt-to-equity ratio was 91.6% at end-FY3/18, which compares with its average of 152.1% during FY3/14-18. The company funds its business operations with bank debt, but management believes it needs to lower gearing from the current levels.

Barriers to Entry

Low Medium High

Chinlink notes that the financial services sector in China is highly fragmented. Nevertheless, any new entrant into China's financial services markets would have to obtain the appropriate licenses and have access to capital.

International Exposure/Breakdown

High Medium Low

All of Chinlink's FY3/18 revenue and NP were generated in China.

FX Exposure

High Medium Low

Chinlink finances its activities mainly with USD borrowings, but it generates most of its income in CNY. The company recorded a significant forex gain in FY3/18 following a substantial forex loss in FY3/17. Management does use financial hedging instruments to lower its USD/CNY exposure

Corporate Governance

Low Medium High

Three of the eight members on Chinlink's main board are independent non-executive directors. Chinlink's audit committee is comprised entirely of independent directors, while its nomination and remuneration committees include a majority of independent directors.

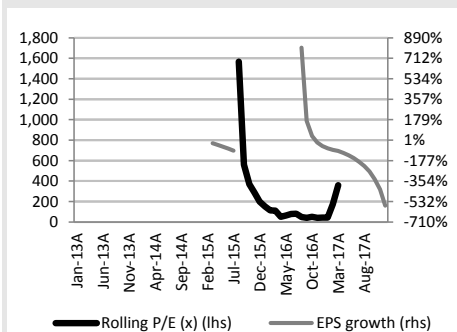
Company Snapshot and Industry Context

Chinlink is engaged in property investment, financing guarantees and international trade supply chain financing (e.g., procurement, inventory and receivables financing) in China. In its property investment, business Chinlink builds and operates large-scale logistics parks, trade and wholesale centers, and shopping malls. In November 2017, Chinlink acquired 51% of MCM Partners, a merchant bank based in Hong Kong. Chinlink was established through a back door listing in 2012 when founder, chairman and managing director Li Weibin acquired the shell company that was listed under the ticker 997 HK.

	Mar-14A	Mar-15A	Mar-16A	Mar-17A	Mar-18A	Trend
Total turnover (HK\$m)	152	252	201	519	1,258	█
Operating profit (HK\$m)	(20.8)	(13.9)	(34.1)	151.7	139.6	█
Pre-tax profit (HK\$m)	(93.1)	(76.2)	167.0	53.3	(5.5)	█
Net income to ord equity (HK\$m)	(90.3)	(80.2)	157.7	1.3	(77.9)	█
Net profit growth		(11.2%)		(99.2%)	(5924.8%)	█
P/E (x)	na	na	16.0	231.0	na	█
P/B (x)	18.18	9.70	3.88	0.56	0.37	█
ROE	(126.6%)	(48.4%)	34.0%	0.1%	(5.3%)	█
EPS (HK\$)	(0.05)	(0.04)	0.06	0.00	(0.11)	█

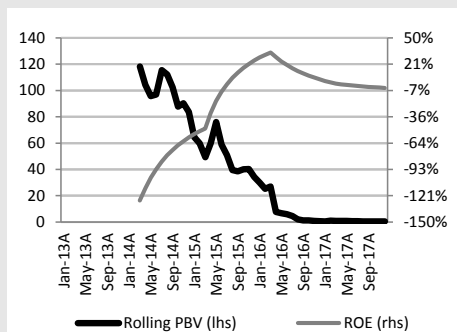
Source: Bloomberg
 Note: The data in the table above and the corresponding charts below is as of 6 August 2018.

P/E (x) vs EPS Growth



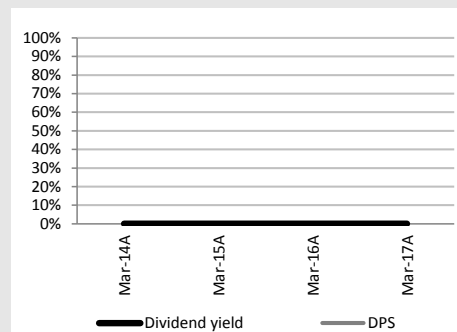
Source: Bloomberg

P/B (x) vs ROE



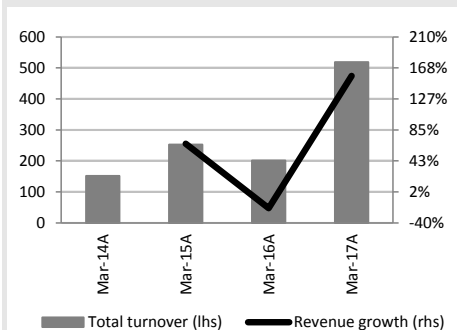
Source: Bloomberg

Dividend Payout and Yield



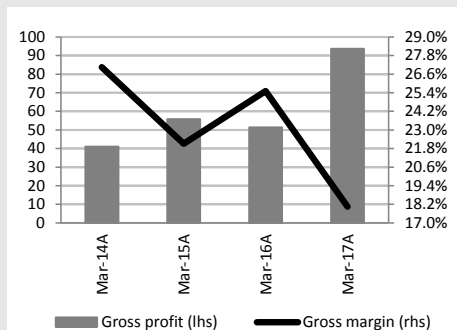
Source: Bloomberg

Turnover and Growth (HK\$m)



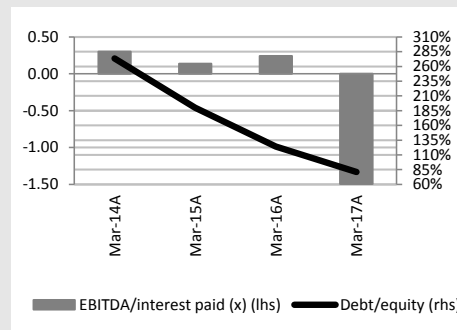
Source: Bloomberg

Gross Profit and Margin (HK\$m)



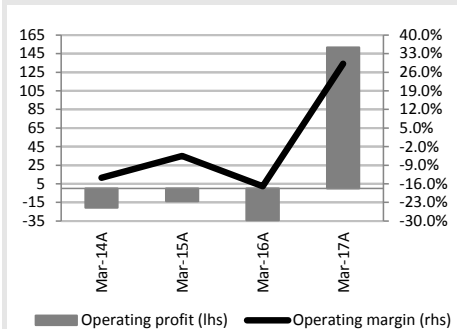
Source: Bloomberg

Net Debt To Equity and Interest Cover



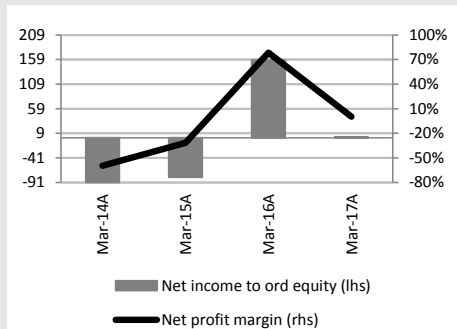
Source: Bloomberg

Operating Profit and Margin (HK\$m)



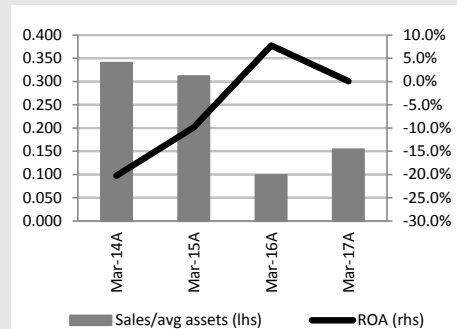
Source: Bloomberg

Net Profit and Margin (HK\$m)



Source: Bloomberg

ROA and Asset Turnover



Source: Bloomberg

APPENDIX

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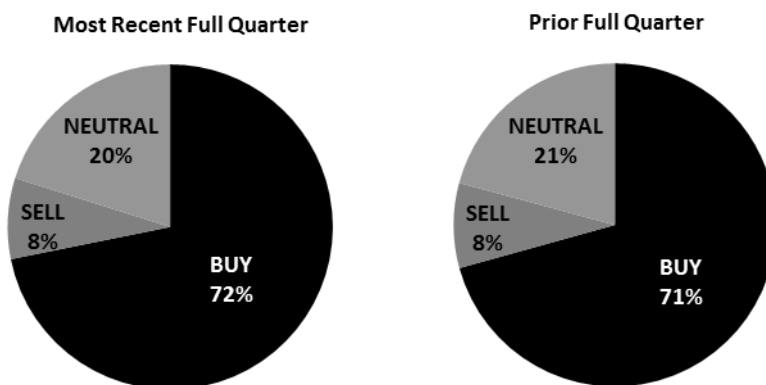
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