

Chinlink International Holdings (997 HK)

SC Net: Profit Growth from SMEs and Tech Startups

Specialty Finance

9 Apr 2019

Not Rated

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 Exec Director

Visit Rationale: Sector Coverage

Basic Share Information

Market cap	HK\$1b/US\$0.2b
Daily volume (3mth)	US\$0.01m
Shares outstanding	1,462m
Free float	39%
Net debt-to-equity	95%
1 yr high	HK\$1.03
1 yr low	HK\$0.79
Major shareholding	61%
Visit Date	6 Mar 19

	Significant Shareholdings
Founder	61.0%
Management	0%
Employees	0%
Industry	0%

Source : Company

What Is The Business Story For This Stock?

Chinlink International Holdings (CIH) is a financial services firm 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). CIH also has property investments in Xi'an, Shaanxi province, and a logistics park and wholesale shopping center in Hanzhong, Shaanxi province. CIH reported revenue growth of 80.2% YoY in H1 FY3/19 on strong demand from its Shaanxi-based customers for international trade finance related mainly to electronic components used in smartphones, tablet devices, wearables, gaming devices and data storage products. CIH believes this growth was aided by its knowledge of this market and by its well-established supplier and customer relationships. However, gross margin in this business is low, so while gross profit jumped 77.3% YoY in H1 FY3/19, overall gross margin slipped from 12.6% in H1 FY3/18 to 12.4%. CIH anticipates OP and NP growth from new business lines in FY3/19–20. The company commenced factoring in September 2018 and it thinks demand should be strong due to the current tight capital markets in China. Although the Chinese government has been pushing banks to expand lending to SMEs, CIH notes that the banks are not doing so and it thus aims to fill the gap. CIH also projects an increased profit contribution from its investment property business. It owns a prime commercial and office building in the central business district of Xi'an (with total gross floor area of 55,491m²) from which it expects to book revenue starting in June 2019. In addition, CIH foresees an NP contribution from its financial advisory services in FY3/20 once all set-up costs have been completed. Finally, CIH operates an asset management business, with around US\$100mn under management, and an investment banking business through 51%-owned MCM Partners (unlisted) which has type 1, 2, 4 and 9 licenses from the Hong Kong's Securities and Futures Commission. MCM Partners is assisting the Shaanxi provincial government in helping to make Xi'an a technology hub. CIH claims Tencent Holdings (700 HK) has around 50,000 engineers working in Xi'an and that Xi'an has a rapidly growing pool of tech talent. According to CIH, MCM Partners can offer funding for tech start-ups and is assisting the provincial government with the establishment of a science park in Xi'an in conjunction with Xi'an Jiaotong University, a leading university in China.

How Does The Value Chain Look?

CIH operates in highly fragmented markets and thus 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 Xi'an	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 61% of the company's shares as of 4 March 2019. The remaining 39% forms the free float, according to Bloomberg.

How Does It Fit Into Our SCNet Index?

CIH is not a constituent of Haitong International's (HTI's) SC Net Index at present. The company's stock price has dropped 16.2% over the past year, outperforming the Hong Kong small cap index by 2.4ppts. CIH's OPM, revenue growth, and net debt-to-equity ratio would be near the top of the range for HTI's SC Net stock universe, based on our screening criteria, while its PBR, ROE, and gross margin would be at the low end of the range.

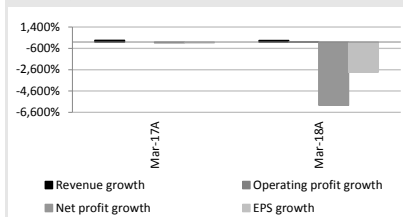


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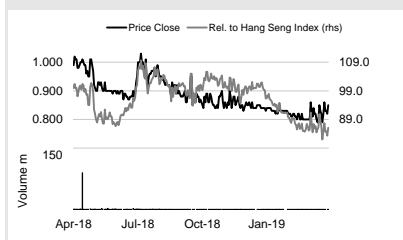



Earnings Trends



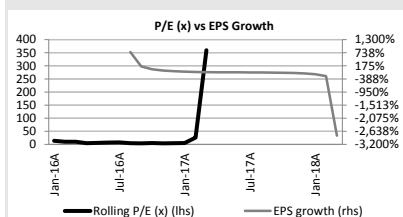
Source: Company data, Bloomberg

Price / Volume



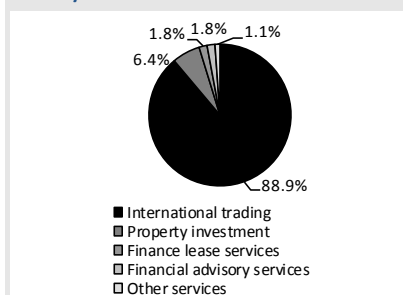
Source: Bloomberg

Valuation



Source: Company data, Bloomberg

H1 FY3/19 Revenue Breakdown



Source: Company data

Key Investment Metrics

Revenue Growth

Low 5-yr avg High

CIH's H1 FY3/19 revenue jumped 80.2% YoY, above the company's CAGR for revenue of 50.8% during FY3/14–18.

Profit Margins

Low 5-yr avg High

CIH's H1 FY3/19 OPM of 19.8% was above the company's FY3/14–18 average OPM of 0.8%.

Shareholder Returns

Low 5-yr avg High

ROE was 2.2% in H1 FY3/19, which compares with the company's average ROE of -29.2% during FY3/14–18. CIH 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

The net debt-to-equity ratio was 94.6% at end-September FY3/19, which compares with CIH's average ratio of 152.1% during FY3/14–18. The company funds its business operations with bank debt, but management believes it needs to lower its gearing from current levels.

Barriers to Entry

Low Medium High

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

International Exposure/Breakdown

High Medium Low

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

FX Exposure

High Medium Low

CIH 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 uses financial hedging instruments to lower its USD/CNY exposure.

Corporate Governance

Low Medium High

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

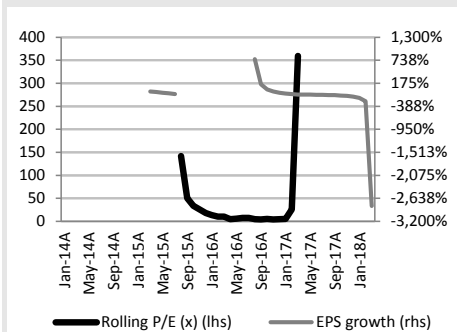
Company Snapshot and Industry Context

CIH 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 CIH builds and operates large-scale logistics parks, trade and wholesale centers, and shopping malls. In November 2017, the company acquired 51% of MCM Partners, a merchant bank based in Hong Kong. CIH 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	1.3	202.4	na	■
P/B (x)	1.44	0.77	0.31	0.49	0.33	■
ROE	(126.6%)	(48.4%)	34.0%	0.1%	(5.3%)	■
EPS (HK\$)	(0.54)	(0.40)	0.67	0.00	(0.11)	■

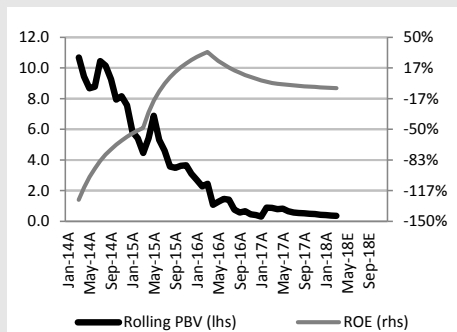
Source: Bloomberg

P/E (x) vs EPS Growth



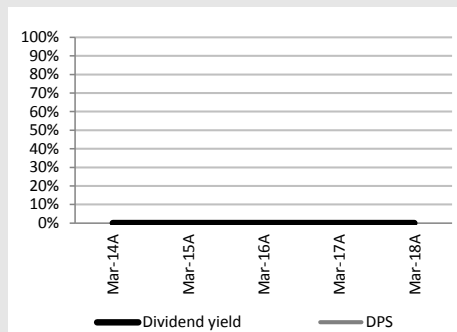
Source: Bloomberg

P/B (x) vs ROE



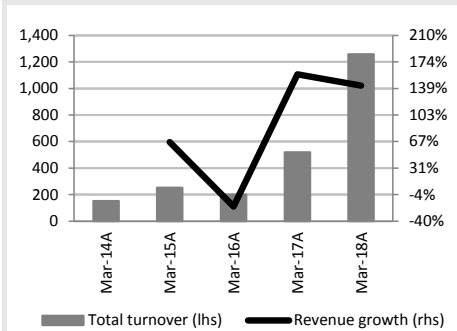
Source: Bloomberg

Dividend Payout and Yield



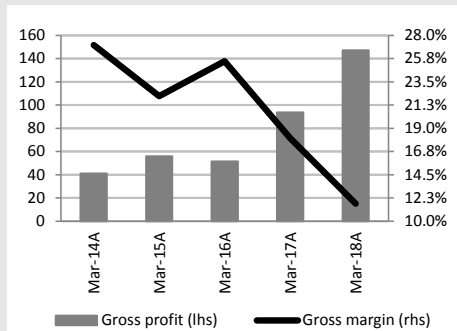
Source: Bloomberg

Turnover and Growth (HK\$m)



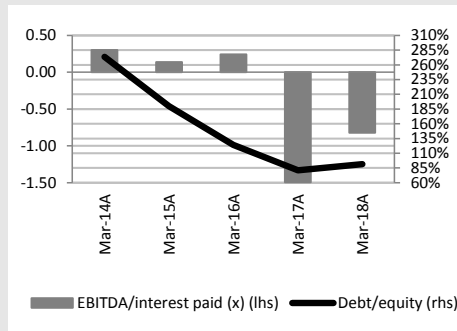
Source: Bloomberg

Gross Profit and Margin (HK\$m)



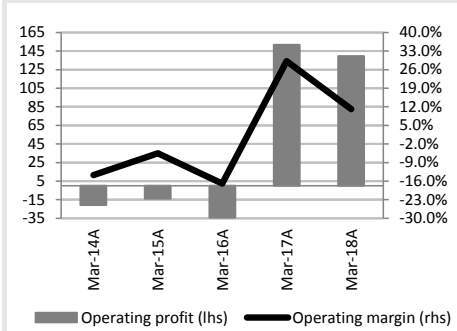
Source: Bloomberg

Net Debt To Equity and Interest Cover



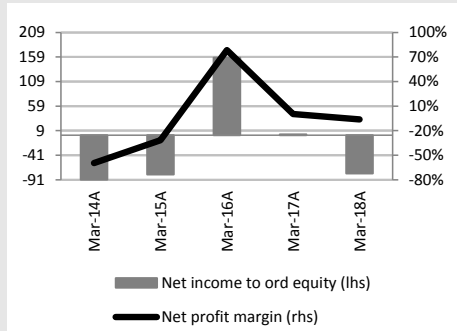
Source: Bloomberg

Operating Profit and Margin (HK\$m)



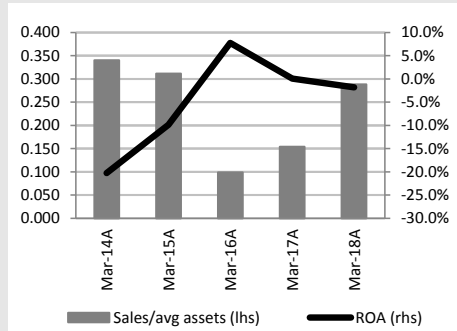
Source: Bloomberg

Net Profit and Margin (HK\$m)



Source: Bloomberg

ROA and Asset Turnover



Source: Bloomberg

APPENDIX

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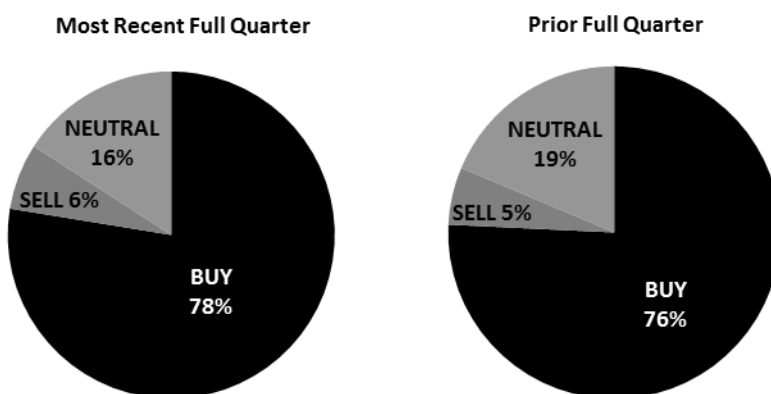
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