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Chinlink International Holdings (997 HK)

SC Net: Management Focusing on the SME Financing Market in China

Commercial Services

3 Feb 2016

Not Rated

Contacts: James W. Y. Siu
Executive Director

Visit Rationale: Sector Coverage

Basic Share Information

Market cap	HK\$1.68b / US\$0.22b
Daily volume (3mth)	US\$0.75m
Shares outstanding	2,792m
Free float	44%
Net debt-to-equity	219.3%
1 yr high	HK\$1.48
1 yr low	HK\$0.44
Major shareholding	56%
Visit date	27 Jan 16

Note: Share price and market data as of 2 February 2016

Price/Volume

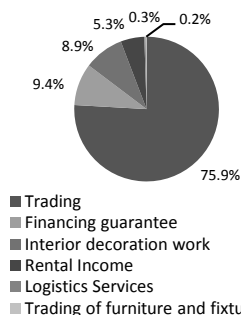


Source: Bloomberg

Company Snapshot

Chinlink International Holdings provides finance and logistics services in China. It also provides supply chain financing services that include procurement financing, inventory financing, receivable financing and delivery services. In 2014, Chinlink launched Daminggong Construction Material and Furniture City, a one-stop construction material and furniture trade center, in Shaanxi Province.

H1 FY3/16 Sales Breakdown



Source: Company data



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S-C Net



Why is the stock interesting now?

Chinlink International Holdings is a finance and logistics service provider for small and medium-sized enterprises (SMEs) in China. Management says that Chinlink's 'inventory as collateral' approach allows it to control risk through involvement in a borrower's inventory management and borrowing activities. The company says that its industrial expertise allows it to ascertain a fair value for the collateral and thus further minimize risk. Management says that it expects strong demand in the under-served SME market in China and believes that there is significant room for market penetration as local banks failed to channel sufficient credit to SMEs due to small loan sizes and low credit quality. Chinlink expects its logistics park facilities to create a synergy effect with its SME financing and logistics services and adds that these facilities should generate a stable rental cash flow. Chinlink is to launch phase two of 'Chinlink Worldport' in mid-2016, in which it intends to build a Chinese herbal medicine trading base.

Earnings Trend Outlook: Positive

The company's revenue increased 16.7% YoY to HK\$122.3mn in H1 FY3/16, which management says was due to expansion of the company's international trading business. Gross margin was 12.7% in H1 FY3/16 (down 14ppt YoY) diluted by the lower-margin international trading business, according to management. Chinlink recorded net profit of HK\$245.8mn in H1 FY3/16 versus a net loss of HK\$38.8mn in H1 FY3/15, which management says was due to a HK\$310mn gain recognized as a result of the acquisition of East DMG Group (unlisted).

Management expects its multiple finance services platform (including finance guarantees, finance leases, supply chain finance and microfinance) to be launched during 2016. Chinlink has a US\$30mn bank credit line with a guaranteed balance of around Rmb250mn, which allows 10x net asset value gearing for its financing guarantee business. The company receives an average fee of 3% per annum of the guaranteed amount, and a 1% set-up fee. It says that it expects its guarantee balance to grow to Rmb350mn by 2016. The company also has a HK\$250mn bank credit line for its supply chain finance business with an average gross margin of 3–3.5%. Following the Shaanxi government's approval in May 2015, Chinlink's finance leasing company commenced operation in January 2016. Management expects to complete its registration of a microfinance company in early 2016. The company also derives rental income from its Daminggong Construction Materials and Furniture City, a one-stop construction material and furniture trade center, and Chinlink Worldport logistics park.

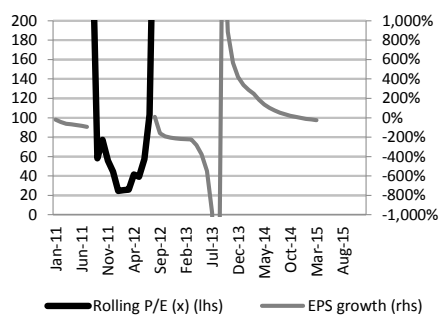
Valuation: Low

As of the last close, the company's trailing twelve-month (TTM) PER of 7.2x is lower than the average of 11.6x for peers Guangdong Investment (270 HK, HK\$9.63) and Zuoli Kechuang Micro-Finance (6866 HK, HK\$1.04). Chinlink's PBR and TTM ROA of 2.1x and 10.4% are higher than the respective peer averages of 1.4x and 9.1%.

Short-term Catalyst/News: Unlikely

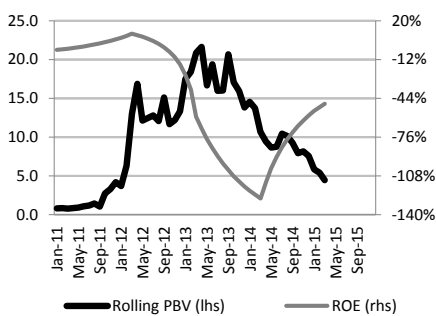
Management was unable to identify any factors that it believes would serve as a catalyst for the share price in the near term.

P/E (x) vs EPS Growth



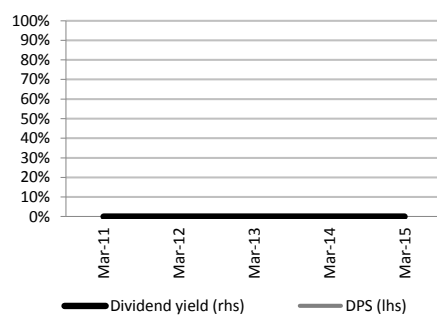
Source: Bloomberg

P/B (x) vs ROE



Source: Bloomberg

Dividend Payout and Yield

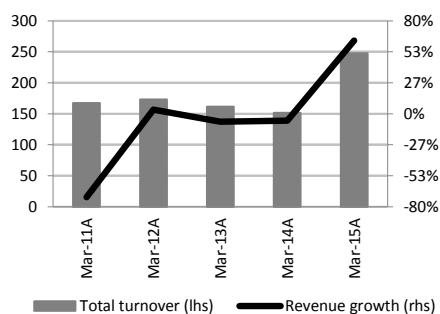


Source: Bloomberg

	Mar-11A	Mar-12A	Mar-13A	Mar-14A	Mar-15A	Trend
Total turnover (HK\$m)	167.2	173.2	161.4	151.7	247.5	■
Operating profit (HK\$m)	22.72	6.16	(15.16)	(20.80)	(18.78)	■
Pre-tax profit (HK\$m)	17.02	10.02	(22.69)	(93.06)	(76.16)	■
Net income to ord equity (HK\$m)	(11.20)	18.19	(22.45)	(90.34)	(80.19)	■
Net profit growth	(60.9%)	na	(223.4%)	302.5%	(11.2%)	■
P/E (x)	na	52.75	na	na	na	■
P/B (x)	2.71	26.44	24.08	11.25	6.00	■
ROE	(3.2%)	9.3%	(58.9%)	(126.6%)	(48.4%)	■
EPS (HK\$)	(0.01)	0.01	(0.01)	(0.05)	(0.04)	■

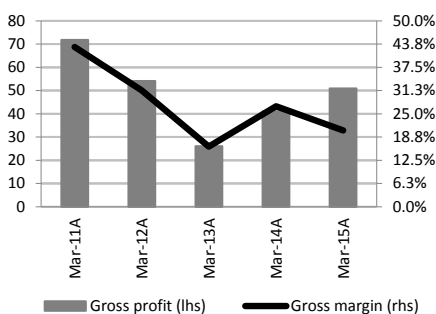
Note: Share price and market data as of 2 February 2016
Source: Bloomberg

Turnover and Growth (HK\$m)



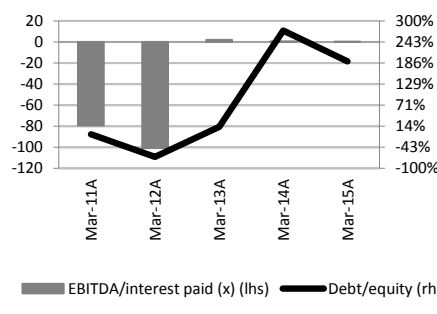
Source: Bloomberg

Gross Profit and Margin (HK\$m)



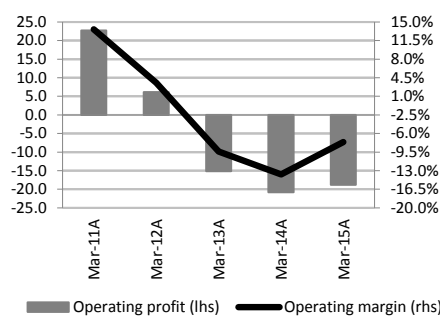
Source: Bloomberg

Net Debt To Equity and Interest Cover



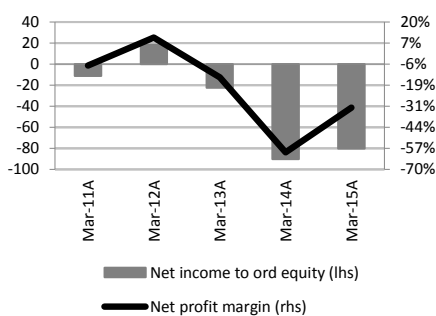
Source: Bloomberg

Operating Profit and Margin (HK\$m)



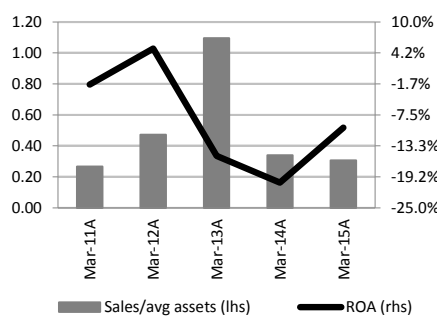
Source: Bloomberg

Net Profit and Margin (HK\$m)



Source: Bloomberg

ROA and Asset Turnover



Source: Bloomberg

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SELL> 15% absolute downside performance expected within the next 12 months

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- Sell: Target price below the current price

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Haitong International Equity Research Ratings Distribution, as of December 31, 2015

	BUY	Neutral (hold)	SELL
HTIRL Equity Research Coverage	68%	19%	13%
IB clients*	1%	4%	0%

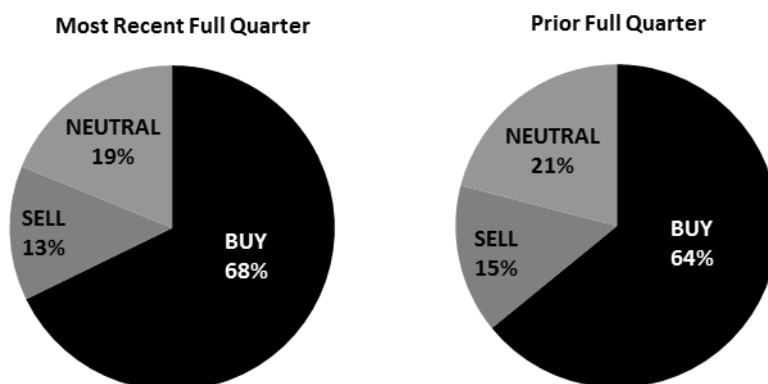
*Percentage of investment banking clients in each rating category.

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Haitong International Coverage as of 1 Feb 2016

Pan Asia Resources

Core Coverage Universe	Non-Coverage Universe
Sam Thawley (Team Leader)	CGN New Energy Holdings (1811 HK)
Angang Steel (347 HK)	Dowa Holdings (5714 JP)
China Shenhua Energy (1088 HK)	GCL New Energy Holdings (451 HK)
CNOOC (883 HK)	Iino Kaiun Kaisha (9119 JP)
Daido Steel (5471 JP)	Maruichi Steel Tube (5463 JP)
Dalkin Industries (6367 JP)	Mie Holdings (1555 HK)
Fuji Seal International (7864 JP)	Nippon Coke & Engineering (3315 JP)
Fujitsu General (6755 JP)	NS United Kaiun Kaisha (9110 JP)
Glory (6457 JP)	Osaka Steel (5449 JP)
Hanwa (8078 JP)	Sino Oil and Gas Holdings (702 HK)
Hitachi Construction Machinery (6305 JP)	
IHI (7013 JP)	
Kawasaki Heavy Industries (7012 JP)	
Kawasaki Kisen (9107 JP)	
Komatsu (6301 JP)	
Kubota (6326 JP)	
KVB (7242 JP)	
Kyoei Steel (5440 JP)	
Makita (6586 JP)	
Mitsubishi Heavy Industries (7011 JP)	
Mitsui O.S.K. Lines (9104 JP)	
Nippon Steel & Sumikin Bussan (9810 JP)	
PetroChina (857 HK)	
Riso Kagaku (6413 JP)	
Sanyo Special Steel (5481 JP)	
SMC (6273 JP)	
THK (6481 JP)	
Tokyo Steel Mfg. (5423 JP)	
Fook Tat Cho	
Anton Oilfield Services (3337 HK)	
China Datang (1798 HK)	
China Longyuan Power (916 HK)	
China Singyes (750 HK)	
China Suntien (956 HK)	
CIMC Enric (3899 HK)	
CLP Holdings (2 HK)	
GCL-Poly (3800 HK)	
Hilong (1623 HK)	
Honghua Group (196 HK)	
Huadian Fuxin Energy (816 HK)	
Huaneng Renewables (958 HK)	
Xinjiang Goldwind (2208 HK)	

Pan Asia TMT

Core Coverage Universe	Non-Coverage Universe
Neil Juggins (Team Leader)	China Fiber Optic Network System (3777 HK)
Alibaba Group Holdings (BABA US)	ChipMOS Technologies (8150 TT)
China Mobile (941 HK)	DTS (9682 JP)
China Telecom (728 HK)	Eva Precision Industrial Holdings (838 HK)
China Unicom Hong Kong (762 HK)	Ferrotec (6890 JP)
Chunghwa Telecom (2412 TT)	GMO Internet (9449 JP)
Ctrip.com International (CTRP US)	Hikari Tsushin (9435 JP)
Far EastTone Telecommunications (4904 TT)	Internet Initiative Japan (3774 JP)
KDDI (9433 JP)	Itochu Techno-Solutions (4739 JP)
NetEase (NTES US)	Megachips (6875 JP)
Nippon Telegraph & Telephone (9432 JP)	Micro-Star International (2377 TT)
NTT DoCoMo (9437 JP)	Monotaro (3064 JP)
Softbank (9984 JP)	Shindengen Electric Mfg. (6844 JP)
Taiwan Mobile (3045 TT)	Taiwan Chelic (4555 TT)
Tencent Holdings (700 HK)	Trigiant Group (1300 HK)
Yahoo Japan (4689 JP)	Truly International Holdings (732 HK)
Steve Myers	Unity Opto Technology (2499 TT)
Canon (7751 JP)	Yangtze Optical Fibre & Cable (6869 HK)
Fujitsu (6702 JP)	
Hon Hai Precision Industry (2317 TT)	
Keyence (6861 JP)	
Konica Minolta Holdings (4902 JP)	
LG Electronics (066570 KS)	
Mediatek (2454 TT)	
Nikon (7731 JP)	
Samsung Electronics (005930 KS)	
Taiwan Semiconductor Mfg. Co. (2330 TT)	
Toshiba (6502 JP)	
Jones Ku	
AAC Technologies (2018 HK)	
BYD Electronic (285 HK)	
China Communications (552 HK)	
Coolpad Group (2369 HK)	
Sunny Optical (2382 HK)	
TCL Communication (2618 HK)	
Tongda Group (698 HK)	
ZTE (763 HK)	
Jean-Louis Lafayeedney	
Advanced Semiconductor Engineering (2311 TT)	
ASM Pacific Technology (522 HK)	
Asustek Computer (2357 TT)	
Casetek Holdings (5264 TT)	
Largan Precision (3008 TT)	
Lenovo (992 HK)	
Nidec (6594 JP)	
Siliconware Precision Industries (2325 TT)	
Skyworth Digital Holdings (751 HK)	

Pan Asia Autos, Machinery & Industrial

Core Coverage Universe	Non-Coverage Universe
Ole Hui (Team Leader)	BeijingWest Industries International (2339 HK)
China Communications Construction (1800 HK)	Calsonic Kasei (7248 JP)
China Railway Construction (1186 HK)	China Harmony New Energy Auto (3836 HK)
China Railway Group (390 HK)	China Yongda Automobiles Services (2558 HK)
China Railway Signal & Communication (3969 HK)	DMG Mori (6141 JP)
CRRC (1766 HK)	Eagle Industry (6486 JP)
Dongfeng Motor (489 HK)	Frontier Services Group (500 HK)
Guangzhou Automobile (2238 HK)	Kato Works (6390 JP)
Shenzhen International (152 HK)	Keihin (7251 JP)
Zhuzhou CSR Times Electric (3898 HK)	Makino Milling Maching (6135 JP)
Tony Moyer	Mitsui Engineering & Shipbuilding (7003 JP)
Amada (6113 JP)	Nachi-Fujikoshi (6474 JP)
Azbil (6845 JP)	Nishio Rent All (9699 JP)
Chiyoda (6366 JP)	Press Kogyo (7246 JP)
Daifuku (6383 JP)	Shanghai Prime Machinery (2345 HK)
Fanuc (6954 JP)	Takeuchi Mfg. (6432 JP)
JGC (1963 JP)	TPR (6463 JP)
Nabtesco (6268 JP)	TS Tech (7313 JP)
Tsugami (6101 JP)	West China Cement (2233 HK)
Yaskawa Electric (6506 JP)	Xingda International Holdings (1899 HK)
Yokogawa Electric (6841 JP)	
Steve Usher	
Brilliance China (1114 HK)	
BYD (1211 HK)	
Geely Automobile (175 HK)	
Great Wall Motor (2333 HK)	
Honda Motor (7267 JP)	
Hyundai Mobis (012330 KS)	
Hyundai Motor (005380 KS)	
Kia Motors (000270 KS)	
Nissan Motor (7201 JP)	
Toyota Motor (7203 JP)	
Yamaha Motor (7272 JP)	
Gary Chung	
Advantech (2395 TT)	
Airtac International Group (1590 TT)	
Delta Electronics (2308 TT)	
First Tractor (38 HK)	
Giant Manufacturing (9921 TT)	
Hiwin Technologies (2049 TT)	
Merida (9914 TT)	
Technronic Industries (669 HK)	
Teco Electric and Machinery (1504 TT)	
Weichai Power (2338 HK)	
Kosuke Matsuda	
Bridgestone (5108 JP)	
Denso (6902 JP) — Kosuke Matsuda	
Fuji Heavy Industries (7270 HK)	
Isuzu Motors (7202 JP)	
Mazda (7261 JP)	
Mitsubishi Motors (7211 JP)	
Nexteer (1316 HK)	
Suzuki Motor (7269 JP)	
Lily Li	
Mintih (425 HK)	

Japan Real Estate

Core Coverage Universe	Non-Coverage Universe
Mark Brown (Team Leader)	Daibiru (8806 JP)
Daito Trust Construction (1878 JP)	Daikyo (8840 JP)
Daiwa House Industry (1925 JP)	Haseko (1808 JP)
Lixil Group (5938 JP)	Hulic (3003 JP)
Mitsubishi Estate (8802 JP)	Kenedix (4321 JP)
Mitsui Fudosan (8801 JP)	Leopapacc21 (8848 JP)
Noritz (5943 JP)	Sanwa Holdings (5929 JP)
Obayashi (1802 JP)	Sumitomo Real Estate Sales (8870 JP)
Sekisui House (1928 JP)	
Sumitomo Realty & Development (8830 JP)	
Taisei (1801 JP)	
Tokyo Tatemono (8804 JP)	

China Real Estate

Core Coverage Universe	Non-Coverage Universe
Andy So (Team Leader)	Times Property Holdings (1233 HK)
Agile Property (3383 HK)	Yuzhou Properties (1628 HK)
China Overseas Land & Investment (688 HK)	
China Resources Land (1109 HK)	
Country Garden Holdings (2007 HK)	
Dalian Wanda Commercial Properties (3699 HK)	
Greentown China Holdings (3900 HK)	
Guangzhou R&F Properties (2777 HK)	
KWG Property Holding (1813 HK)	
Nanjing Gaoko (600064 CH)	
Shimao Property Holdings (813 HK)	
Longfor Properties (960 HK)	
Peter Yang	
Shenzhen Investment (604 HK)	

Haitong International Coverage as of 1 Feb 2016

China Consumer

Core Coverage Universe

Nicolas Wang (Team Leader)
 China Medical System (867 HK)
 China Mengniu Dairy (2319 HK)
 China Resources Enterprise (291 HK)
 China Traditional Chinese Medicine (570 HK)
 CSPC Pharmaceutical Group (1093 HK)
 Hengan International (1044 HK)
 Kweichow Moutai (600519 CH)
 Shanghai Pharmaceuticals (2607 HK)
 Sinopharm Group (1099 HK)
 Tingyi Cayman Islands Holding (322 HK)
 Tsingtao Brewery (168 HK)
 Uni-President China (220 HK)
 Want Want China Holdings (151 HK)
 Zhejiang Huahai Pharmaceutical (600521 CH)
Donald Cheng
 Galaxy Entertainment (27 HK)
 Macau Legend Development (1680 HK)
 MGM China (2282 HK)
 Sands China (1928 HK)
 SJM Holdings (880 HK)
 Wynn Macau (1128 HK)

Non-Coverage Universe

China Huiyuan Juice Group (1886 HK)
 China LotSynergy Holdings (1371 HK)
 China Shineway Pharmaceutical Group (2877 HK)
 Dynam Japan Holdings (6889 HK)
 Shanghai Fudan-Zhangjiang Bio-Pharm (1349 HK)
 Tenwow International (1219 HK)

Japan Consumer

Core Coverage Universe

James Moon (Team Leader)
 Aoyama Trading (8219 JP)
 Asics (7936 JP)
 FamilyMart (8028 JP)
 Fast Retailing (9983 JP)
 Japan Tobacco (2914 JP)
 Laxo (8202 JP)
 Rakuten (4755 JP)
 Seven & I Holdings (3382 JP)
 Start Today (3092 JP)
 Unicharm (8113 JP)

Non-Coverage Universe

Aeon Mall (8905 JP)
 Avex Group Holdings (7860 JP)
 DCM Holdings (3050 JP)
 H2O Retailing (8242 JP)
 Honeys (2792 JP)
 Parco (8251 JP)

Latest Additions to Coverage

Advantech (2395 TT) — Gary Cheung
 China Railway Signal & Communication (3969 HK) — Ole Hui
 CLP Holdings (2 HK) — Fook Tat Cho
 Denso (6902 JP) — Kosuke Matsuda
 Li Ning (2331 HK) — Jessica Ye
 Mandom (4917 JP) — Hiroyuki Terada
 Mediatek (2454 TT) — Steve Myers
 Nanjing Gaoke (600064 CH) — Andy So
 Zhejiang Huahai Pharmaceutical (600521 CH) — Nicolas Wang

Latest Drops from Coverage

Sung Kwang Bend (014620 KS)
 TK Corp. (023160 KS)

Latest Transfers of Coverage

China Communications Construction (1800 HK) — to Ole Hui
 China Railway Construction (1186 HK) — to Ole Hui
 China Railway Group (390 HK) — to Ole Hui
 Fuji Heavy Industries (7270 JP) — to Kosuke Matsuda
 Shenzhen International Holdings (152 HK) — to Ole Hui
 Suzuki Motor (7269 JP) — to Kosuke Matsuda
 Zuozhou CSR Times Electric (3898 HK) — to Ole Hui

Asia ex Small Cap

Core Coverage Universe

Yuanquan Ji (Team Leader)
 Best Pacific International (2111 HK)
 Century Sage Scientific (1450 HK)
 China Aircraft Leasing Group (1848 HK)
 Pacific Textiles Holdings (1382 HK)
 Pax Global Technology (327 HK)
 Sa Sa International Holdings (178 HK)
 Shanghai Fudan Microelectronics (1385 HK)
 Shenzhou International Group (2313 HK)
 SITC International Holdings (1308 HK)
 Wasion Group Holdings (3393 HK)
Walden Shing
 APT Satellite (1045 HK)
 Fu Shou Yuan International (1448 HK)
 Man Wah Holdings (1999 HK)
Justin Kim
 Aerospace Technology of Korea (067390 KS)
 Cuckoo Electronics (192400 KS)
 Duzonbizon (012510 KS) — Justin Kim
 Fila Korea (081660 KS)
 Kepco Plant Service (051600 KS)

Jaesong Woo

Hansae (105630 KS)
 Hy-Lok (013030 KS)
 Inbody 041830 KS)

Korea Kolmar (161890 KS)
 Osstem Implant (048260 KS)
 Youngone (111770 KS)
Jessica Ye
 Anta Sports Products (2020 HK)
 Li Ning (2331 HK)

Non-Coverage Universe

Bonjour Holdings (653 HK)
 C.banner International Holdings (1028 HK)
 China Maple Leaf Educational Systems (1317 HK)
 Cuchen (225650 KS)
 Goldpac Group (3315 HK)
 Hotel Shilla (008770 KS)
 Maoye International Holdings (848 HK)
 Modetour Network (080160 KS)
 Orange Sky Golden Harvest (1132 HK)
 Orbitech (046120 KS)
 Pou Sheng International Holdings (3813 HK)
 PS TEC (002230 KS)
 Samchully Bicycle (024950 KS)
 Sinosoft Technology Group (1297 HK)
 Texhong Textile Group (2678 HK)
 TK Group Holdings (2283 HK)
 Tsui Wah Holdings (1314 HK)
 Value Added Technologies (043150 KS)
 VST Holdings (856 HK)
 Xia Nan Guo Restaurants Holdings (3666 HK)

Japan Small Cap

Core Coverage Universe

Hiroyuki Terada (Team Leader)
 Accordia Golf (2131 JP)
 Accretive (8423 JP)
 Dentsu (4324 JP)
 Gulliver International (7599 JP)
 Kameda Seika (2220 JP)
 Mandom (4917 JP)
 Pigeon (7956 JP)
 Pola Orbis (4927 JP)
 Recruit Holdings (6098 JP)
 Sanrio (8136 JP)
 Shiseido (4911 JP)
 Sohgo Security Services (2331 JP)
 Technopro Holdings (6028 JP)
 Yamato Holdings (9064 JP)
 Yumeshin Holdings (2362 JP)
Yusuke Suzuki
 Ain Pharmacie (9627 JP)
 Doutor Nichires Holdings (3087 JP)
 FF (7947 JP)
 Nihon Nohyaku (4997 JP)
 Nihon Parkerizing (4095 JP)
 Optex (6914 JP)
 Sky Perfect JSAT Holdings (9412 JP)
 Sun Frontier Fudousan (8934 JP)
 Takara Leben (8897 JP)
 Tosei (8923 JP)
 Wowow (4839 JP)
Tony Tanaka
 China Galaxy Securities (6881 HK)
 GCA Sawian (2174 JP)
 GF Securities (1776 HK)
 Hong Kong Exchanges and Clearing (388 HK)
 Huatau Securities (6886 HK)
 Nihon M&A Center (2127 JP)
 Zenkoku Hoshu (7164 JP)

Non-Coverage Universe

Autobacs Seven (9832 JP)
 China Financial International Investments (721 HK)
 Fanc1 (4921 JP)
 HIS (9603 JP)
 Istyle (3660 JP)
 Luzheng Futures (1461 HK)
 Meitec (9744 JP)
 Nichii Gakkan (9792 JP)
 Tohokushinsha Film (2329 JP)
 VT Holdings (7593 JP)