Sun Hung Kai & Co. (00086.HK)

Stable Financing business, Strategic Transformation of Investment Business, Expecting Value Release

Rating	
Non-Rating	

Basic Information	
Name	Sun Hung Kai & Co.
Business	Finance
Date	1983-04-29
Employee numbers	2719
CEO	Lee Seng Huang

Shareholding Structure (until 2020-04-28)	
Allied Properties (H.K) limited	62.4%
CVC Capital Partners Finance Limited	9.86%
Dubai Group Limited	8.33%

Trading Data	
Last Close (HKD)	3.15
5D absolute gain	0.64
10D absolute gain	-0.28
5D MA	3.21
10D MA	3.25
10D daily trading volume	846.6

Report Date：2020-04-28

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Please read the disclaimer at the end of the report

Key Opinions:

Financing Business remains stable, providing cashflow for the company. UAF has operated for 26 years in Hong Kong, having a leading position in consumer finance market. It now operates 48 branches in Hong Kong. The China business has strategically restructured and moved online in order to increase capital efficiency. UAF China has obtained two online licenses, which breaking the capital restriction affiliated to each city's license. Besides, cost efficiency and credit quality have largely improved due to restructure. The recent regulation tightening on consumer finance sector will benefit balance sheet lender like UAF, who has over RMB5 billion capital in China. When the liquidity risk reduces and economy resumes normal, with its good risk control and improved capital deployment, the company is expected to generate excellent return.

The company extends its Investment Management into Fund Management business, launching three funds in 2020. The company will launch equity fund (APAC Alpha offshore equity fund), credit fund (Global unconstrained credit fund) and real estate direct lending fund (Sun Hung Kai Capital Partners I) in 2020. The company is a full-licensed and regulated fund manager for third party capital. The investment portfolio currently manages its own capital. After launching the funds, third party capital will increase, and this business is expected to be a driver for sustainable growth.

Capture good timing for fund raising. In 2019, the Company partly repurchased US dollar notes due in 2021 and 2022, respectively. It also issued new 5.75% US dollar notes due in 2024, capturing a good timing to raise funds. Considering the current liquidity short in funding market, SHK&Co. seized the good opportunity to extend its medium term notes, stablising its funding structure and interest spread.

Active share buybacks which implies the management believes its stock is undervalued. The Company completed HK$1 billion share repurchase from 2015 to 2018. It also repurchased 9.17 million shares in 2019, amounting to HK$32.93 million with average price of HK$3.59. From January to 16 April, 2020, the company repurchased 4.96 million shares, amounting to HK$16.82 million with average price of HK$3.39. The total share capital after cancellation of repurchased shares is now reduced to 1,993,924,493.

Considering the challenging economic environment, it is necessary to enlarge reserves to maintain healthy liquidity. Therefore, the company's total dividend for 2019 is HK 26 cents, representing 25% payout ratio. **However, the company's 30% payout ratio policy remains unchanged.**

Risks

Under the impact of coronavirus pandemic, the impact on bad debts of financing business is yet uncertain and the expansion of investment business is slower than expectation.

Financial KPIs	2016	2017	2018	2019
Total income (HK$ million)	3,690.2	4,045.7	4,584.6	4,231.3
YoY	-13%	10%	13%	-8%
Profit attributable to shareholders (HK$ million)	1,109.6	1,824.3	1,183.8	2,085.2
YoY	-72%	64%	-35%	76%
% of total income	30%	45%	26%	49%
EPS (HK$)	0.50	0.84	0.56	1.04
PE(as of spot price)	6.3	3.8	5.6	3.0

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1 The Business Portfolio and Business Review

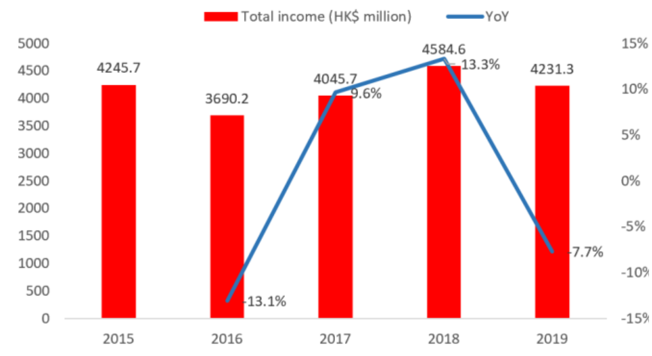
1.1 Business Portfolio

SHK&Co. was founded in 1969 and has leading market position in financial services sector. The company holds 63% equity interest in UA Finance, a major shareholder (30% stake) of EBSHK, and holds 40% stake in LSS Leasing. The company focuses on Financing and Investing businesses. The financing business includes consumer finance loans, mortgage loans and specialty finance. The Investing business includes investment management and strategic investment by leveraging the group's expertise, network and financial strength to seek risk adjusted returns through a portfolio consisting equity, credit and real assets investments. It also has strategic interests in financial services sector.

1.2 Results Review (yoy comparisons)

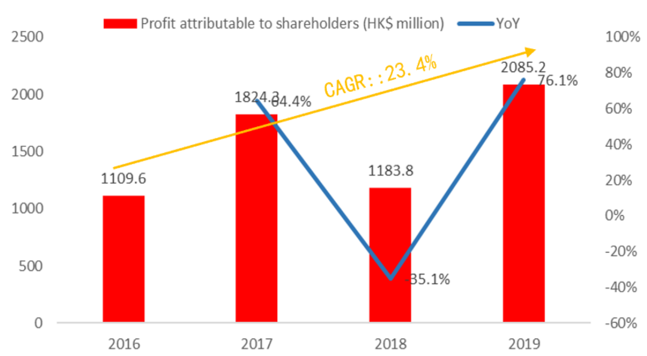
The company's total income dropped 7.7% to HK$4,230 million in 2019. The percentage of brokerage and commission expenses of revenue dropped 0.1 point to 1%. The ratio of direct cost and operating expenses of revenue increased 0.5 point to 2.5%. The percentage of administrative expenses of revenue increased 1.7 points to 27.2%. Net gain on financial assets and liabilities at fair value through profit or loss was HK$1,807 million, due to a large increase in the valuation of investment management portfolio. The profit attributable to shareholders increased by 76.1% to HK$2,009 million (with CAGR of 23.4% from 2016 to 2019). The gearing ratio increased 0.75 point to 44.61%, and ROE increased 4.4 points to 10.6%. DVPS was HK26 cent with payout ratio of 25%.

Figure 1: Historical total income and its growth rate



Source: Annual results announcement of the company, Valuable Capital Limited

Figure 2: Historical profit attributable to shareholders, growth rate and compound growth rate



Source: Annual results announcement of the company, Valuable Capital

2 Business Segments

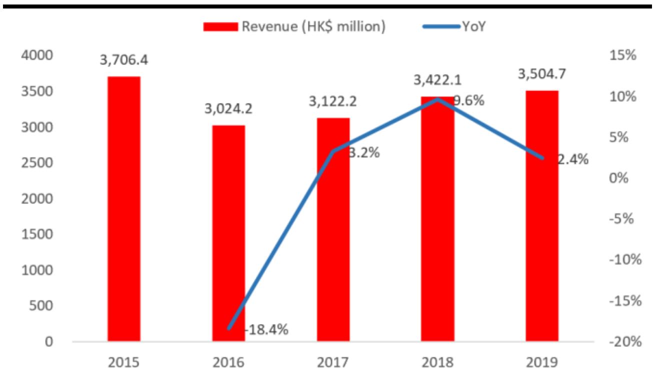
2.1 Financing Business

The company realigned business segments to Financing and Investing business. Financing business consists consumer finance, specialty finance and mortgage loans, which provide financing solutions to individuals, corporates, investment funds and high net worth individuals, as well as mortgage loans. In 2019, revenue from financing business increased by 0.4% year on year, to HK$4,140 million, representing 98.2% of total income. Pre-tax contribution dropped by 6.5% year on year, to HK$1,460 million, representing 53.3% of total pre-tax profit. Total loans and advances to customers (net of impairment allowance) under financing business dropped by 1.7% to HK$15,830 million. Net impairment losses of financing business increased by 8.2% to HK$980 million.

2.1.1 Consumer Finance

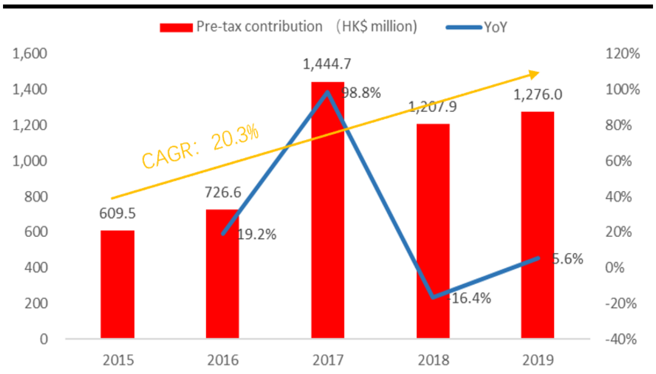
The consumer finance business is operated under the brand of UA Finance, providing unsecured loans to individuals and small business in Hong Kong and Mainland China. In order to improve the management and operational efficiency of UAF in implementing business decisions and developing strategies, UAF completed the repurchase of ordinary shares from ORIX Asia Capital Limited, which held 7.27% of the then issued ordinary shares of UAF, at a cash consideration of JPY 10 billion. After the repurchase, SHK&Co.'s equity interest in UAF increased from 58% to 63%. In 2019, revenue from consumer finance business increased by 2.4% to HK$3,505 million (with CAGR of -1.4% from 2019 to 2019), representing 83.1% of total income. Pre-tax contribution increased by 5.6% to HK$1,270 million (with CAGR of 20.3% from 2015 to 2019), representing 46.5% of pre-tax profit of the company.

Figure 3: Historical revenue of consumer finance and its growth rate



Source：Annual results announcement of the company, Valuable Capital Limited

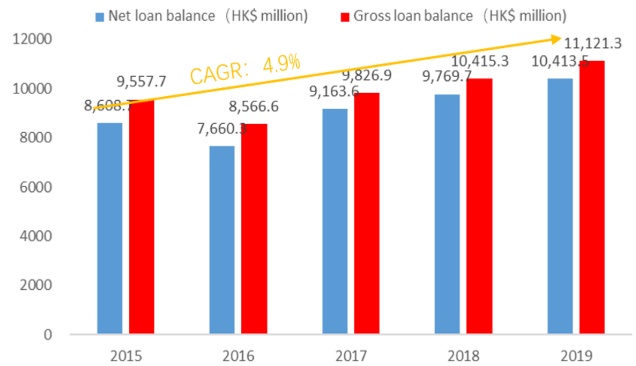
Figure 4: Historical pre-tax contribution of consumer finance and its growth rate



Source：Company documents, Valuable Capital Limited

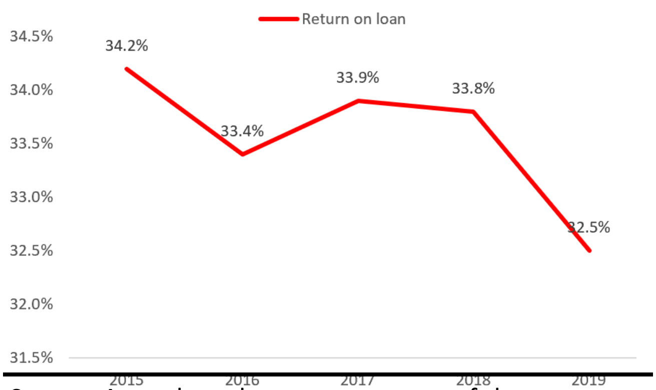
In 2019, net loan balance increased by 6.6% to HK$10,410 million (with CAGR of 4.9% from 2015 to 2019), whilst gross loan balance increased by 6.8% to HK$11,120 million. Return on loans dropped 1.3 points to 32.5%. Considering the volatile market and interruption on business due to coronavirus epidemic, we expect loan book and return on loans slightly decrease. As the company took conservative approach in provisions, we expect net impairment losses will slightly increase.

Figure 5: Historical net loan balances and gross loan balances of consumer finance loans



Source: Annual results announcement of the company, Valuable Capital Limited

Figure 6: Historical return on loans of consumer finance



Source: Annual results announcement of the company, Valuable Capital Limited

For UAF HK business, the company has operated in the market for 26 years and has reputable brand and leading market position. In 2019, gross loan balance increased by 9.9% to HK$8,580 million. However, its charge-off ratio increased 0.5 point to 4.9% and net impairment loss ratio increased 1.3 point to 6.0%, due to slowing economy arising from HK social unrest and Sino-US trade tension. In general, HK business remains stable and large market share with a lower net impairment loss ratio.

For China business, the regulation on consumer finance sector become tighten due to growing number of bankruptcies of P2P operators. Although UAF is a balance sheet lender (non P2P operator), the business was affected by worsen credit quality in the market. In response to declining credit quality and cost reduction, UAF reduced its physical branches from 85 branches in 2017 to 30 branches in 2019. The company developed its own online platform “Yi Rong Zhan” and WeChat mini program at the same time, and developed lending business with partnership with other platforms like China Union. In spite of closing 16 branches in 2019, loan origination number increased by 9.5% year on year to 104,716 while gross loan balance reduced by 2.6% to HK$2,550 million. UAF adopted a credit rating approach in the second half of 2018, striving to increase approval efficiency of its China business. The charge-off ratio of China business dropped 3 points to 13.2% year on year, and net impairment loss ratio dropped 4.8 points to 12.0%. In general, although the regulations on the sector are tighten, this policy will direct the market to a more organized one which will benefit licensed money lender with own capital, like UAF to occupy more market share.

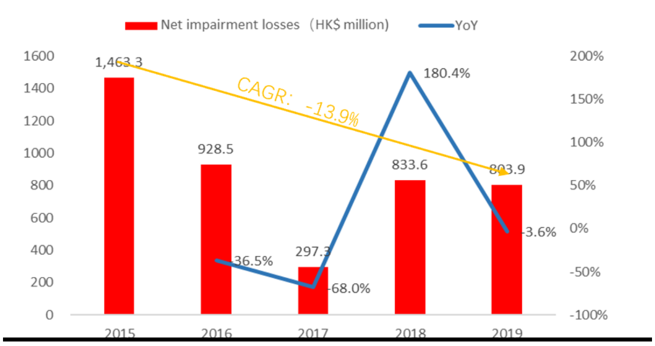
Figure 7: Breakdown of UAF HK and UAF China business

	Hong Kong Business		Mainland China Business	
	2018	**2019**	**2018**	**2019**
Number of branches	49	48	46	30
Gross loan balance(HK$ million)	7,803	8,576	2,612	2,545
yoy	*19.2%*	*9.9%*	*-20.4%*	*-2.6%*
Loan originated for the year (HK$ million)	10,136	12,499	5,161	4,522
yoy	*19.0%*	*23.3%*	*5.2%*	*-12.4%*
Number of loans originated	165,459	183,354	95,635	104,716
yoy	*7.4%*	*10.8%*	*-25.7%*	*9.5%*
Average gross balance per loan (RMB)	59,132	60,174	34,147	31,937
yoy	*11.3%*	*1.8%*	*19.3%*	*-6.5%*
Total return on loans	*31.5%*	*32.1%*	*39.5%*	*33.9%*
Charge-off loans	*4.4%*	*4.9%*	*16.2%*	*13.2%*
Net impairment losses ratio	*4.7%*	*6.0%*	*16.8%*	*12.0%*
Impairment allowance ratio	*5.0%*	*5.7%*	*9.7%*	*8.6%*

Source: annual results announcement of the company, Valuable Capital Limited

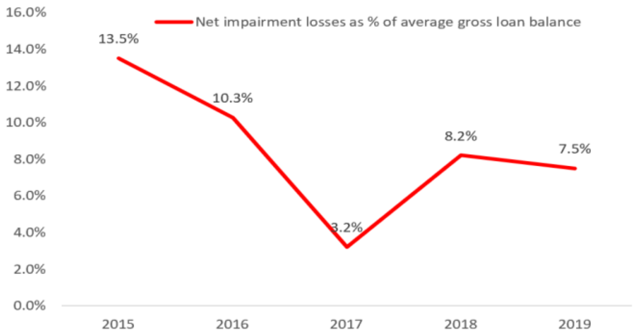
In 2019, the net impairment losses dropped by 3.6% to HK$800 million, representing 7.5% of average gross loan balance with a drop of 0.7 point year on year. The compound growth rate of net impairment losses dropped to 13.9% between 2015 and 2019. Net impairment losses increased in 2018, due to deterioration of credit quality arising from a disordered market in China which impacted the whole lending sector.

Figure 8: Historical net impairment losses and its growth rate



Source: Annual results announcement of the company, Valuable Capital Limited

Figure 9: Historical net impairment losses ratio



Source: Annual results announcement of the company, Valuable Capital Limited

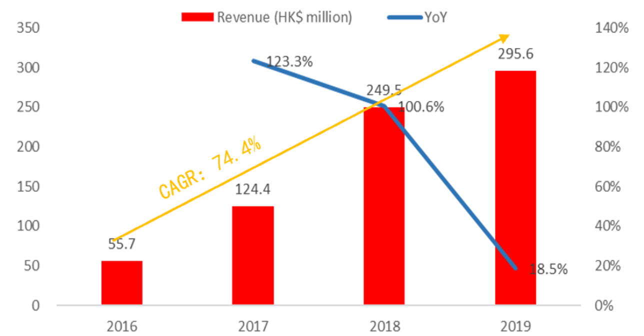
2.1.2 Specialty Finance

Specialty Finance provides financing solutions to corporate, investment fund and high net worth individuals. As the portfolio focused mainly on Greater China market and the company concerns the double effect on economy from HK social unrest and Sino-US trade tension, loan origination dropped in 2019. Plus the effect of loan repayment, revenue from specialty finance dropped along reducing loan book. In 2019, revenue from specialty finance dropped by 24.7% year on year to HK$340 million, presenting 8.1% of total income. Pre-tax contribution dropped by 73.2% to HK$65 million, representing 2.4% of pre-tax profit of the company. net loan balance dropped by 28% to HK$1,790 million while gross loan balance dropped by 20% to HK$2,010 million. Return on loans dropped 1 point to 14.4%. In light of a challenging environment, the company, in general, remains conservative on the business with less loan origination and more provisions. We expect net loan balance and return on loans from this business will remain flat. However, we remain positive on its prospect as slowing lending business from banks and large institutions will benefit SHK&Co.'s specialty finance business.

2.1.3 Mortgage Loans

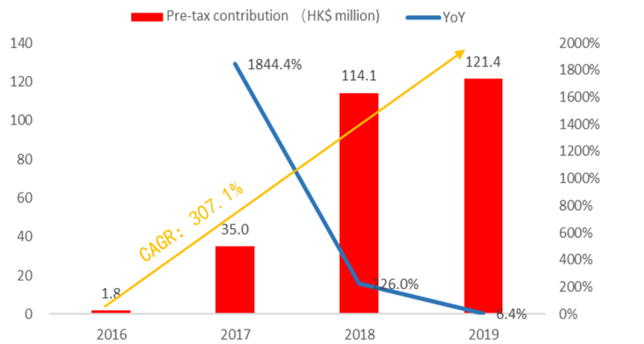
The company started its mortgage loan business, through the operation by SHK Credit limited, to provide mortgage loans and financing solutions to property owners and investors. It has a remarkable market share in the non-bank mortgage loan market. In 2019, revenue from mortgage loan business increased by 18.5% year on year to HK$296 million (with CAGR of 74.4% between 2016 and 2019), representing 7.0% of total income. Pre-tax contribution increased by 6.4% year on year to HK$121 million (with a CAGR of 307.1% between 2016 to 2019), representing 4.4% of pre-tax profit of the company.

Figure 10: Historical revenue from mortgage loans and its growth rate



Source: Annual results announcement of the company, Valuable Capital Limited

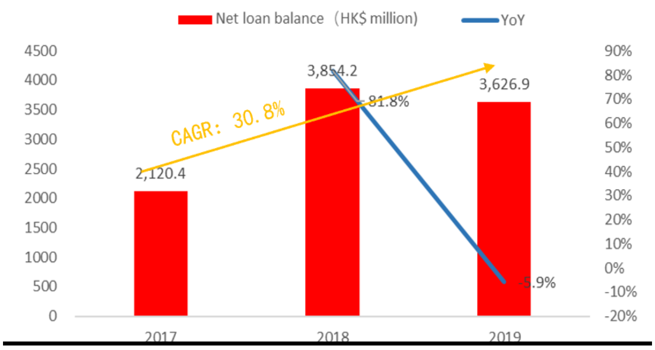
Figure 11: Historical pre-tax profit from mortgage loans and its growth rate



Source: Annual results announcement of the company, Valuable Capital Limited

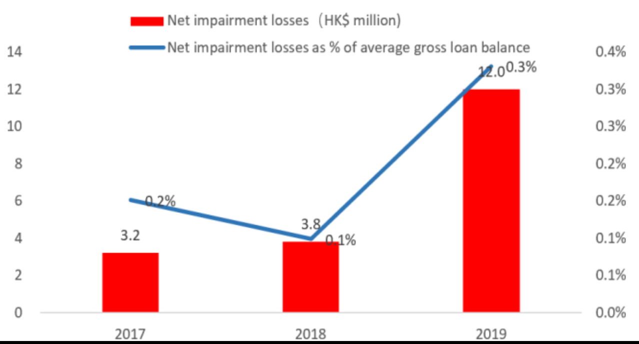
In 2019, net loan balance dropped by 5.9% year on year to HK$3,630 million (with a CAGR of 30.8% between 2017 and 2019). Return on loans dropped 0.5 point to 7.9%. this business has reached its scale and has a strong market position. The company will remain the similar loan book but focus on improving return on loans. In 2019, net impairment losses was HK$12 million, representing 0.3% of loan book with an increase of 0.2 point. The credit quality of this business remains excellent. The company believes this business has reached its scale and will focus on improving loan yield and probably adjust price to increase profit. Facing the environment of downward economy growth in 2020, we expect the net loan balance and its return on loans will remain flat compared to 2019.

Figure 12: Historical revenue from mortgage loans and its growth rate



Source: Annual results announcement of the company, Valuable Capital Limited

Figure 13: Historical pre-tax profit and its growth rate



Source: Annual results announcement of the company, Valuable Capital Limited

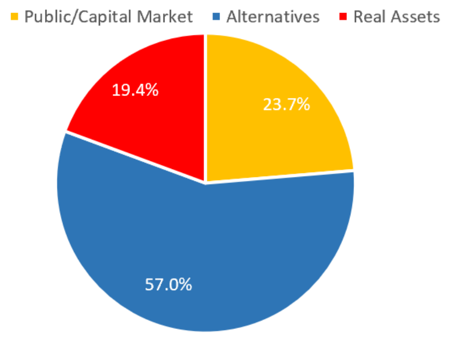
2.2 Investing Business

Investing business includes investment management and strategic investment, leveraging the group's expertise, network and its capital to invest. It also holds equity interest in EBSHK and LSS Leasing. In 2019, revenue from investment dropped by 8.1% year on year to HK$31.6 million, representing 0.7% of total income. The pre-tax contribution largely increased by 351.7% to HK$1,300 million, representing 47.1% of total pre-tax profit of the company.

2.2.1 Investment Management

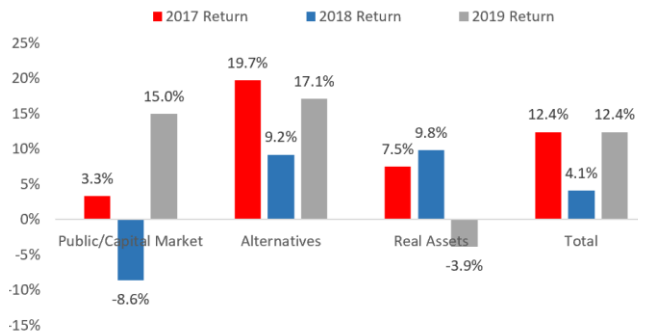
The investment portfolio includes Public/Capital Markets, Alternatives investment and Real Assets. The annual return of 2019 increased 8.3 points year on year to 12.4%, with a year-end value of HK$13,110 million. The company has received HK$750 million distribution during the year and is expected to receive another HK$1,250 million distribution in 2020, representing 16.7% of the alternatives' assets.

Figure 14: Breakdown of Investment Management



Source: Annual results announcement of the company, Valuable Capital Limited

Figure 15: Return of Investment Management



Source: Annual results announcement of the company, Valuable Capital Limited

Public/Capital Markets represented 24% of the IM portfolio value with annual return of 15.0% in 2019. It includes equity portfolio (18.5% return, represented 51.2% of Public/Capital market's year-end value), Credit portfolio (23.5% return, represented 21.9% of Public/Capital market's year-end value), direct equity holdings (14.3% return, represented 2.6% of Public/Capital markets year end value) and cash (represented 24.4% of Public/Capital markets year-end value). Public equity strategy adopted actively managed long/short approach with a focus on companies in APAC or companies where APAC was their key business driver. Credit investment has a net long notional bias at the portfolio level. The company bought bonds of European banks in late 2018 as it felt a good opportunity when asset value dropped due to Brexit and the company took profit by selling those assets when market rebounded in Q1 2019. The company was also positive on Oman sovereign debt in early 2019 and took profit by selling them when Oman's financial reforms succeeded.

Alternatives portfolio represented 57% of IM portfolio value with an annual return of 17.1% in 2019. It includes investment in external hedge funds (9.4% return, represented 14.4% of alternatives year-end value), investment in external private equity funds (14.1% annual return, represented 31.2% of alternatives year-end value) and direct and co-investments (21.0% annual return, represented 54.4% of alternatives year-end value). The key investments included a series of companies within Wuxi Group, and fin-tech companies such as Fairstone Inc. (Canadian consumer finance) and Jefferson Capital Systems, LLC (American debt collector) where the company has expertise in. The company made investment in Wuxi Pharmaceutical Group in December 2015, with a total capital less than US$50 million and indirectly holding 1.56% stake on Wuxi Pharmaceutical. SHK&Co. won a good access from the time when Wuxi delisted from NASDAQ by leveraging its financing expertise. In 2019, SHK&Co. exist from such equity holdings, gaining 7x to 8x return on this investment. In March 2020, the company exited from Fairstone Inc., a Canadian consumer finance company, achieving 2x to 3x return. The company received HK$750 million distributions in 2019 and is expected to receive another HK$1,250 million distributions in 2020. This performance validates that the company's financing and investing business are complimentary, bringing strong return to its investments.

The real assets portfolio represented 19% of its IM value with an annual return of -3.9%. Leveraging on the company's own network and the strength of its associated sister companies, the company invested in commercial properties and hospitality in Hong Kong, UK and Europe by direct ownership of properties and equity holdings on co-investments.

2.2.2 Strategic Investment

The company holds 30% equity interest in EBSHK and 40% stake in LSS Leasing. The segment's pre-tax contribution increased by 3.2% year on year to HK$209 million, representing 7.6% of pre-tax profit of the company.

3 Financing business provides stable cashflow while fund management business generates additional revenue

3.1 Financing business provides stable cashflow to the company

Leading market position in HK consumer finance market, providing stable cashflow to the company. UA finance has operated in HK for 26 years with a leading market position and operates 48 branches in Hong Kong. In spite of the double effect on economy from Sino-US tensions and HK social unrest in 2019, the business remained stable. In 2019, gross loan balance increased by 9.9% to HK$8,570 million, with loan origination increased by 23.3% to HK$12,500 million. Net impairment losses ratio slightly increased 1.3 point to 6%.

China business strategically restructured and moved online, optimizing capital efficiency. The consumer finance market in China has large scale. It is expected that the total market size will reach HK$136,700 billion by 2022, of which, the percentage of unsecured loan of total consumer finance loans will further increased to 48.8%, amounted to HK$66,700 billion. With series of regulations on consumer finance including "The Notice to regulating 'cash loans' business (2017)", entry level of lending business was upgraded. As a licenced money lender with own capital, which has over RMB 5 billion capital in China, UAF faces a good opportunity to increase its market share. UAF entered China market by obtaining money lender licences in a number of cities in China. As the licences restricts remaining capital to be deployed in a second place, the company has ongoing efforts to moving business online by obtaining two online licences which optimises its capital deployment, largely reduces operating cost and improves its credit quality. The company continue to improve its risk controls by adopting conservative approach in credit approvals and implementing automatic credit rating system. When liquidity risk is reduced and economy resumes stable, the company's capital deployment will improve, generating excellent return.

3.2 Fund management business brings additional revenue and growth

The company expands into fund management business, launching three funds in 2020 as a full-licenced fund manager. The company has built an institutional grade, multi-strategy asset management platform, by levering the company's expertise, network and capital. It will launch equity fund (APAC Alpha Offshore equity fund), credit fund (Global unconstrained credit fund) and real estate direct lending fund (Sun Hung Kai Capital Partners I) in 2020. The company is a full-licensed and regulated fund manager for third party capital. The investment portfolio currently manages its own capital. After launching the funds, third party capital will increase, and this business is expected to be a driver for sustainable growth.

The equity strategy will focus on long/short investment, credit strategy will have net long notional bias at the portfolio level and real estate fund will focus on direct lending. The equity fund and credit fund will have similar strategies with the current portfolios under investment management. Public equity strategy will focus on companies in APAC or, companies where APAC is a key driver for their business. The core long holdings are high-quality companies with strong cashflow and has actively managed short positions to generate additional return with opportunistic tactical and event driven trades. The company will selectively use derivatives and hedging for risk management.

The Credit portfolio will exploit opportunities from short-term price dislocation or credit dispersion. It will be actively managed with a focus on corporate, sovereign/quasi-sovereign bonds, and credit derivatives with good market liquidity. The portfolio is expected net long notional bias.

The real estate direct lending fund will lend to real estate developers for land acquisition, construction, redevelopment or repositioning. The fund will have both whole loan and mezzanine financing secured by real assets, with a geographic spreading HK, China, Australia, New Zealand, UK, Ireland, Korea and Singapore.

Figure 16: Infrastructure of fund management business

Infrastructure at Institution Level	
Fund Manager	MorganStanley
Fund Manager	AlterDomus
Main Broker	Morganstanley, Goldman Sachs, Nomura, Credit Suisse
System	Enfusion
Auditor	Ernst&Young
Legal Consultant	DLAPiper
Regulation Consultant	ComplianceAsia

Source: Company documents, Valuable Capital Limited

3.3 Seizing good opportunity for fund raising

In 2019, the Company partly repurchased US dollar notes due in 2021 and 2022, respectively. It also issued new 5.75% US dollar notes due in 2024, capturing a good timing to raise funds. Considering the current liquidity short in funding market, SHK&Co. seized the good opportunity to extend its medium term notes, stablising its funding structure and interest spread.

3.4 Active share repurchase and stable dividend payment

The Company completed HK$1 billion share repurchase from 2015 to 2018. It also repurchased 9.17 million shares in 2019, amounting to HK$32.93 million with average price of HK$3.59. From January to 16 April, 2020, the company repurchased 4.96 million shares, amounting to HK$16.82 million with average price of HK$3.39. The total share capital after cancellation of repurchased shares is now reduced to 1,993,924,493. The company's management believes the stock is undervalued and expects investment business will reveal its real value by launching fund management business.

Figure 17: Share repurchase announcement of the company

During the year ended 31 December 2019, the Company repurchased a total of 9,177,000 Shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$32,930,180. All the repurchased Shares were subsequently cancelled. The Directors believe that the repurchases of shares would lead to an enhancement of the net assets value per Share and/or earnings per Share of the Company.

Particulars of the repurchases are as follows:

Month	Number of Shares repurchased	Purchase price Highest (HK$)	Purchase price Lowest (HK$)	Aggregate consideration (before expenses) (HK$)
January	–	–	–	–
February	–	–	–	–
March	2,100,000	3.85	3.81	8,045,480
April	–	–	–	–
May	1,028,000	3.70	3.67	3,798,760
June	2,288,000	3.65	3.50	8,213,220
July	–	–	–	–
August	730,000	3.35	3.30	2,433,070
September	1,270,000	3.39	3.28	4,282,010
October	145,000	3.37	3.33	485,480
November	855,000	3.45	3.40	2,943,360
December	761,000	3.72	3.39	2,728,800
	9,177,000			32,930,180

Source: Company documents, Valuable Capital Limited

Figure 18: Share buybacks record

Date	Repurchase Share Volume	Repurchase Money Amount	Average Price	As % of trading volum
20200416	93,000	300,170	3.23	6.56
20200415	289,000	928,680	3.21	28.28
20200414	10,000	31,400	3.14	1.21
20200409	120,000	372,920	3.1	10.39
20200408	128,000	395,050	3.08	10.91
20200406	95,000	279,060	2.93	12.47
20200403	215,000	629,900	2.92	26.51
20200402	190,000	549,370	2.89	9.78
20200401	430,000	1,252,370	2.91	20.94
20200331	380,000	1,111,940	2.92	19.95
20200131	304,000	1,065,800	3.5	50.58
20200130	188,000	654,640	3.48	31.87
20200129	277,000	974,900	3.51	24.94
20200123	120,000	436,910	3.64	32.78
20200122	124,000	460,800	3.71	43.62
20200121	165,000	604,050	3.66	37.41
20200120	162,000	605,000	3.73	45.41
20200117	289,000	1,078,850	3.73	40.87
20200116	140,000	516,090	3.68	32.71
20200114	80,000	295,020	3.68	39.08
20200113	34,000	125,460	3.69	31.44
20200110	131,000	482,060	3.67	28.81
20200109	50,000	181,900	3.63	17.42
20200108	150,000	545,320	3.63	27.87
20200107	10,000	36,500	3.65	2.19
20200106	520,000	1,923,230	3.69	47.1
20200103	47,000	174,400	3.71	25.54
20200102	217,000	804,860	3.7	30.69

Source: Valuable Capital Limited

Considering the challenging economic environment, it is necessary to enlarge reserves to maintain healthy liquidity. Therefore, the company's total dividend for 2019 is HK 26 cents, representing 25% payout ratio. However, the company's 30% payout ratio policy remains unchanged.

3.5 Risks

Under the impact of coronavirus pandemic, the impact on bad debts of financing business is yet uncertain and the expansion of investment business is slower than expectation.

4 Outlook and Valuation

We expect loan book and return of loan of consumer finance business will slightly decrease and net impairment losses ratio will slightly grow. The mortgage loans and specialty finance are expected flat and stable.

The fund management validates the company's strategic transformation. Its public/capital market portfolio will be mainly transferred to the new funds to be launched. The investment management originally managed its own capital. The fund management business will strengthen its investment framework from aspects of structure, compliance, investment strategy and risk management, helping investors to understand its real value which has been undervalued in the past. Besides, having third party capital will drive the growth of assets under management, generating substantial fee income as an additional income stream to the company.

2019 EPS 1.04HKD, and book value per share 10.2HKD corresponds to 3x PE and 0.31x PB. The current median PE and PB of similar companies are 10.7x PE and 0.79x PB. Compared with peers, valuation doesn’t reflect the intrinsic value of the investment business, SHK&Co. is undervalued.

Figure 19: Valuation of comparable companies

Stock Code	Company Name	Stock Price(HKD)	Market Cap(HK$ million)	2019 PB	2019 PE
165	China EB LTD	11.38	19178	0.46	8.6
806	Value Partners	3.34	6196	1.41	12.1
1140	OP Financial	1.08	3133	0.54	12.6
2003	Vcredit	5.37	2681	0.87	43.0
335	Upbest Group	0.88	2360	0.90	9.3
900	AEON Credit	5.6	2345	0.71	8.2
	Median			0.79	10.7

Source: Bloomberg, Valuable Capital Limited

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