

China Huarong Asset Management (2799 HK)

FUNDAMENTAL VIEW ¹

As of 23 May 2024

- Huarong AMC (HRINTH) has credit ratings of Ba1(neg)/BBB-/BBB(neg). A large impairment loss in FY20 brought HRINTH to the brink of insolvency, but a state-led rescue plan provided HRINTH with liquidity support and brought its capital back above minimum requirements. We are more comfortable with longer duration exposure to HRINTH now following its closer relationship with the CITIC Group via a name change to CITIC Financial AMC, a stake in CITIC Ltd and management changes.
- HRINTH has been heeding top-down guidance to divest its non-core business units.
- We expect HRINTH's operational performance to remain weak until China's economy is back on the upswing, residents regain confidence in the property market, and improved capital markets lead to better valuations on their securities books.

RISKS & CATALYSTS

As of 23 May 2024

- HRINTH's operating performance will remain weak in the near term, and capital ratios will likely be maintained above the minimum requirements via the sale of subsidiaries and a contraction in high-risk restructuring-type DDAs. As such, there could be continued volatility in the name given the weak standalone.
- AMCs may find it harder to dispose acquired assets at good valuations amid a growth deceleration in the Chinese economy. Longer holding periods and lower fair values of acquired distressed assets could dampen return yields and increase the NPL ratio of restructuring-type DDAs.
- CITIC has replaced the MoF as HRINTH's largest shareholder, while the MOF's stake has decreased from 27.76% to 24.76% at end-Dec 2023. This doesn't change our expectation of support from the authorities for this name, at least in the near term.

KEY METRICS

As of 23 May 2024

CNY MN	FY19	FY20	FY21	FY22	FY23
ROA	0.10%	(6.40%)	0.10%	(2.20%)	0.02%
ROE	1.2%	(147.6%)	1.0%	(49.8%)	3.6%
Impairments/Credit-Related Income	58%	722%	61%	(413%)	(645%)
Cost-To-Income Ratio	52%	(16%)	63%	(22%)	81%
Total Capital Ratio	15.3%	4.2%	13.0%	15.1%	15.1%
Leverage Ratio	9.2x	1,330.0x	14.2x	16.1x	11.5x
Equity/Assets	7.1%	1.1%	3.8%	5.2%	5.0%

BUSINESS DESCRIPTION

As of 23 May 2024

- China Huarong Asset Management Company is one of the four large state-owned asset management companies in China. It was first set up in 1999 to takeover the bad debts of ICBC.
- The AMCs were originally due to be wound up after dealing with these "policy loans" that had come onto the books of the banks under government direction before their commercialisation, but the AMCs found a new role as commercial bad debt managers.
- HRINTH was commercialised in 2012 and completed its IPO on the Hong Kong Stock Exchange in 2015. Since its commercialisation, HRINTH has expanded its financial services to banking (Huarong Xiangjiang Bank), financial leasing (Huarong Financial Leasing), securities & futures (Huarong Securities, Huarong Rongde), trust (Huarong Trust), as well as consumer finance (Huarong Consumer Finance). However, after a near blowup in FY20 due to heavy losses, HRINTH divested much of its non-core business as directed by the government.
- Following the CITIC-led rescue plan of HRINTH and the planned equity transfer from the Ministry of Finance (MOF) to CITIC, CITIC has become HRINTH's largest shareholder (26.46%). Other significant shareholders include MOF (24.76%), Zhongbaorongxin (18.08%), Cinda AMC (4.89%), China Life Insurance (4.50%), National Social Security Fund (3.08%), Warburg Pincus (2.57%), and ICBC Financial Asset Investment (2.44%) at end-Dec 2023.

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