

# China CITIC Financial Asset Management (Huarong) (2799 HK)

## FUNDAMENTAL VIEW <sup>1</sup>

As of 02 Oct 2024

- 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. CITIC has replaced the MoF as HRINTH's largest shareholder. HRINTH remains as one of the Big 5 state-owned AMCs in China and will continue to perform national services.
- On the guidance of the authorities, HRINTH has divested almost all of its non-core subsidiaries.
- 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 02 Oct 2024

- CITIC's support is strong (name change, investment in CEB and CITIC Ltd, subsidiary disposal, new management team, etc.) and more meaningful to the company compared to direct ownership by the government.
- Derisking continues with lower property exposure, non-core businesses have largely been disposed of and the company is able to focus on its main DDA business per the guidance of the authorities.
- While HRINTH was able to deliver profit growth on the back of CITIC support and its associate interest holdings in CEB and Citic Ltd, core performance remains weak, and there could be continued volatility in the name.
- AMCs may find it harder to dispose DDAs at good valuations amid a deceleration economic cycle. Longer holding periods and lower fair values of acquired DDAs could dampen return yields and increase the NPL ratio of restructuring-type DDAs.

## KEY METRICS

As of 02 Oct 2024

CNY MN	FY20	FY21	FY22	FY23	1H24
ROA	(6.40%)	0.10%	(2.20%)	0.02%	1.00%
ROE	(147.6%)	1.0%	(49.8%)	3.6%	21.2%
Total Capital Ratio	4.2%	13.0%	15.1%	15.1%	16.1%
Leverage Ratio	1,330.0x	14.2x	16.1x	11.5x	10.1x
Equity/Assets	1.1%	3.8%	5.2%	5.0%	5.0%

## BUSINESS DESCRIPTION

As of 02 Oct 2024

- China CITIC Financial Asset Management (formerly Huarong) is one of the five major state-owned asset management companies in China. It was first set up in 1999 to take over 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 HK stock exchange in 2015. Since then, HRINTH expanded its financial services to banking, financial leasing, securities & futures, trust, as well as consumer finance. However, after heavy losses in FY20, HRINTH divested much of its non-core business as directed by the authorities.
- 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 AM (2.44%). HRINTH was renamed to share the "CITIC" brand in Nov-23.

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