

Oi Wah Pawnshop Credit Holdings Ltd. (1319.HK)

Set to benefit from the stamp duty hike

Sound asset quality. In our view, the stamp duty hike would not have immediate effect on the quality of Oi Wah's mortgage loan portfolio, as the group has been adopting prudent credit policies, with loan-to-value ratios for its first mortgage and subordinated mortgage have been set at 50.8% and 18.1%, respectively, since FY16A. Such prudent LTV ratio should provides enough buffers for the drop in value of collateral. Further, management of the group has adjusted the mix of prime mortgage and subordinated mortgage in loan portfolio to 75:25.

Strict loan approval criteria. The stamp duty hike is aimed to tame the surge in prices of residential properties, especially, the small size units, and the new stamp duty is not applicable to the commercial properties transactions. Since many of collaterals pledged to Oi Wah for loans are commercial properties, effect of the stamp duty hike on quality of its collaterals is expected to be minimal. Further, the management of the group also considers borrower's solvency, cash flow and usage of fund beside value of the collateral prior granting loan.

Set to benefit from the SD hike. Over the weekend, market consensuses expect a 5.0% to 15.0% drop in residential property value and 20.0% to 30.0% drop in property transactions within this year. Should it be the case, Oi Wah's mortgage loan businesses are expected to be buoyant, in our view. Since many proprietors could not cash out from their properties by pledging them to banks for subordinated mortgage loan or sell them at desirable prices in short term, they turn to money lenders such as Oi Wah for their short term cash need.

Further, the stamp duty hike would trigger the consolidation in HK money lending industry and help Oi Wah to gain market share thereafter, in our view. Number of money lenders in Hong Kong surged about 88.0 % from 959 in 2012 to approximate 1,803 as of the end of September 2016. Many money lenders have been founded recently with limited source of funding, relatively short operating history and less profound industrial experience. Assets quality of many money lenders are likely to be deteriorated following the stamp duty hike which lead to the drop in value of collaterals. Many of them who don't have strong capital bases would be forced out of the market eventually, in our view.

Background

HKSAR Government has raised the property stamp duty for the second time in three years to contain the soaring real estate prices in town. Effective on November 5th, the stamp duty on property transactions for individual and corporate buyers who own more than one property would be raised to 15.0%. However, for "one-for-one transaction" (a single property owner who sell his/her only property and uses the proceeds to buy another residential property), buyers would still enjoy tax return.

The HKSAR government had made several amendments to the stamp duty regime, and tightened mortgage lending, including the imposition of a double stamp duty in February 2013 for non-first time buyers. These second-home purchasers of properties valued at more than HK\$2.0m would pay 8.5% stamp duty, compared to the previous 4.25%.

Besides, the Hong Kong Monetary Authority (HKMA) had issued supervisory measures guidelines to banks on property mortgage. Major measures included:

- 1.) The maximum loan-to-value (LTV) ratio for self-use residential properties with value below HK\$7.0m was lowered by a maximum of 10 pts. For example, the maximum LTV ratio applicable to properties with value at HK\$6.0m or below and subject to the LTV cap of 70.0% were lowered to 60.0%.
- 2.) The maximum debt-servicing ratio (DSR) for borrowers who buy a second residential property for self-use was lowered to 40.0% from 50.0%, and the stressed-DSR cap was lowered to 50.0% from 60.0%.
- 3.) The maximum DSR of mortgage loans for all non-self use properties, including residential properties, commercial and industrial properties and car park spaces, was lowered to 40.0% from 50.0%, and the stressed-DSR cap was lowered to 50% from 60%.

Cooling moves

Centa-City Leading Index



Non first-time residential property buyer on new purchase

Case	1	2	3 (non-HK permanent resident)
Property price	HK\$5m	HK\$30m	HK\$30m
Before Nov 5	Double stamp duty 6% or HK\$300,000	Double stamp duty 8.5% or HK\$2.55m	Double stamp duty 8.5% or HK\$2.55m; plus buyer's stamp duty 15% or HK\$4.5m
On or after Nov 5	15% or HK\$750,000	15% or HK\$4.5m	Double stamp duty 15% or HK\$4.5m; plus buyer's stamp duty 15% or HK\$4.5m

Sources: Bloomberg, JLL

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CUSTOMER SERVICE HOTLINE

TEL : (852) 3423 0000 FAX : (852) 3423 0099

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Great Roc Capital Securities Limited

Address : Suite 3712, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong

Tel : (852) 3423 0000 Fax : (852) 3423 0099 Email : info@greatroc.com.hk