

Oiwahpaw (1319.HK)

Positive outlook

Profit boosted by enlarged mortgage loan book. Oiwahpaw (1319 HK) reported a 17.6% YoY growth in net profit to HK\$53.8m for 1H FY17F ended August 2016, thanks to the increase in interest income from expanded loan book. On semi-annual basis, the group's net profit increased 17.9% over that for 2H FY16A. The board declared an interim dividend of HK\$0.0076 per share, representing a payout ratio of 30.2%.

Semi-annual figures

	2H FY13A HK\$m	1H FY14A HK\$m	2H FY14A HK\$m	1H FY15A HK\$m	2H FY15A HK\$m	1H FY16A HK\$m	2H FY16A HK\$m	1H FY17A HK\$m
Gross pawn loan receivables	117.3	119.9	124.4	125.8	124.2	141.4	141.8	147.8
Gross mortgage loan receivables	113.5	219.8	365.0	493.5	543.2	800.6	890.8	1,058.4
Gross unsecured loan receivable	0.0	0.5	0.6	2.8	2.8	0.3	0.3	0.8
Gross loan receivables	230.8	340.2	490.0	622.1	670.2	942.3	1,032.8	1,207.0
Interest earned on pawn loan receivables	27.4	28.1	28.7	28.7	28.9	30.9	30.9	31.5
Interest earned on mortgage loan receivables	5.0	13.0	24.4	37.8	47.7	57.0	68.6	72.8
Turnover	36.5	42.0	53.8	68.8	77.7	88.6	98.0	106.6
Net profit	11.0	15.1	26.0	36.8	43.3	45.8	45.6	53.8

Sources: Oiwahpaw

Robust growth in interest income. The group's interest income grew alongside with its loan receivables. During the period, the group's blended interest income increased 18.5% YoY to HK\$104.3m. Meanwhile, size of its loan book as of the end of August 2016 expanded by 28.1% YoY to HK\$1.2b. On semi-annual basis, the group's interest income for 1H FY17F increased 4.8% over that for 2H FY16A. Its loan book size as of the end of August 2016 was 16.8% larger than that as of the end of February 2016.

Net interest margin

	2H FY13A (%)	1H FY14A (%)	2H FY14A (%)	1H FY15A (%)	2H FY15A (%)	1H FY16A (%)	2H FY16A (%)	1H FY17A (%)
Net interest margin	37.5	26.3	23.8	22.8	18.3	18.5	17.5	14.9
-pawn loans	44.6	43.5	43.7	43.8	43.1	43.2	40.5	40.5
-mortgage loans	14.4	13.5	13.2	16.1	15.9	13.5	13.1	11.0

Sources: Oiwahpaw

Mortgage loan business continue to expand. Oiwahpaw's mortgage loan receivables as of the end of August 2016 stood at HK\$1,058.4m, representing a 18.8% and 32.2% growth, respectively, over the mortgage loan receivables as of the end of February 2016 and August 2015.

Credit policy became prudent. As per press report, management revealed that albeit local property market has been prosperous since June when Brexit advocate won the referendum, management adopts more prudent credit policy to ensure quality of its assets, with loan-to-value ratio of prime mortgage and subprime mortgage set at about 50.7% and 18.1%, respectively. Further, management revealed that they have adjusted the mix of prime mortgage and subprime mortgage in mortgage loan portfolio to 75:25.

Trade off NIM for better asset quality. Overall NIM for the period dropped to 14.9%, since 68.2% of the group's revenue was derived from mortgage loan division, which commanded substantial lower interest rate than 40.5% of pawn division. As management adopted more prudent credit policy and done more prime mortgage with interest rate in between 10.0% and 16.0%, substantial lower than 18.0% to 20.0% of subprime mortgage, NIM of mortgage division adjusted to 11.0% as of the end of August 2016 from more than 13.1% as of February 2016. Going forward, we expect the group's overall NIM would be more dependable on the NIM of its mortgage loan portfolio, as more interest income would derive from mortgage loan division.

Lower finance cost. The group has been replacing debt with higher interest rate to lower interest rate loans. Such move is expected to lower the group's overall cost of funding and improve NIM. As of the end of August 2016, Oiwapawn was in net debt position of HK\$562.5m, equivalent to 43.3% of the group's loan receivables. The group's bank loan and OD, which bore interest rate of about 7.0%, reduced by HK\$55.6m or 72.8% to HK\$20.8m as of the end of August 2016. On the other hand, shareholders' loan and other loan, which commanded interest rate of about 5.0% and 4.3%, respectively, increased by 27.0% and 94.1%, to HK\$117.5m and HK\$294.8m, respectively, as of the end of August 2016.

Positive outlook. We are positive toward the earnings outlook of Oiwapawn due to demand for short-term mortgage loan remain strong and; the austerity measures by HKMA on bank mortgage business remain effective, which in turn would boost demand for mortgage loan and limit the competition from licensed banks. The counter is trading at FY17F P/E of 10.9x (preliminary forecast).

Bellwether. In our view, Oiwapawn is the best picks among its peers HK Finance (1273 HK) and GIC (1669 HK). Management of Oiwapawn has been utilizing listing platform effectively to raise fund for loan book expansion. As results, Oiwapawn has the largest loan book and earning base, and outstanding track record. Further, Oiwapawn's pawn operation provides stable source of revenue to the group too.

In December 2015, GIC (1669 HK) subscribed a three-year, 10.0% per annum convertible note in principle amount of RMB200.0m issued by Quark. The conversion right attached to the note allows GIC to convert the note into at least 20.0% but up to 40.0% interests in Quark, which is engaged in peer-to-peer (P2P) financing and trust-to-peer (T2P) financing. Executive Director Ms Jin Xiaoqin, who is mother of the group's Chairlady Wang Yao and owns 75.0% interest in GIC, has been one of the major shareholders of Quark prior the transaction. Thus, the transaction was considerate as connected one. The major shareholders had provided the listco shareholder loan of RMB200.0m with annualized interest rate of 3.0% to finance the group's subscription of Quark convertible note. In 1H FY16A, GIC recorded loss HK\$6.8m regarding change in fair value of derivative financial instrument of Quark note. The loss was counterbalanced by the interest income generated from the note.

We are negative on GIC's move to expand into China P2P market via the subscription of Quark convertible note. Risks for GIC to expand into China P2P and T2P markets are high, due to the uncertainties of the legal environment and insufficient market intelligent. Higher return would have yielded, if the shareholders' loan for note subscription had used for expansion in HK mortgage business.

HK mortgage loan providers.

Company	Code	Four-year Earnings CAGR (%)	Loan book size (HK\$m)	Latest NIM (%)	Historical P/E (X)	Rolling dividend yield (%)	P/B (X)	Mkt-cap (HK\$m)
GIC	1669 HK	27.1%	918.1	11.0%	11.3	4.8%	0.8	532.0
HK Finance GP	1273 HK	9.2%	674.1	14.1%	7.3	4.1%	0.8	352.8
Oiwahpawn	1319 HK	28.6%	1,207.0	14.9%	12.3	3.2%	1.6	1,154.3

Sources: Oiwahpawn, GIC and HK Finance GP

Risk factors: Deterioration loan book quality, drop in collateral valuation, a downturn in local economy and property market, fluctuation in interest rates, lacking of funding.

About the company. Founded in 1975 by Executive Director Chan Chart Man, Oiwhapawn is engaged in the provision of financial services including pawn loan and real estate backed mortgage loan in Hong Kong.

Largest pawn loan provider in HK. Oiwhapawn is among the largest pawn loan services provider in Hong Kong in terms of both loan amount granted and number of pawnshops in 2011. The aggregate amount of pawn loans granted by her accounted for about 9.4% of the total value of loans and advances granted by the whole industry in Hong Kong in 2011. Oiwhapawn is operating 12 pawnshops in various locations in Hong Kong. Its Customer Service Centre in Central is providing private and customized pawn loan services to customers.

The group is one of the few financiers operating in Hong Kong under both the Pawnbrokers Licenses and the Money Lenders License, allowing her to structure loan product with different interest rates, loan amounts and tenor to cater to the various needs of customers. Between FY12A and FY16A, interest yield from the group's pawn loan portfolio increased at a four-year CAGR of 4.3%. Oiwhapawn generated HK\$61.9m interest income from its pawn operation, which was equivalent to 33.1% of group's total revenue for FY16A.

Emerging mortgage loan provider in HK. Oiwhapawn also offers both first mortgage loans, which are secured by the first mortgage on the real estate, and subordinated mortgage loans, which are secured by mortgages subordinated to the first or higher ranking mortgages. The collateral accepted by the group includes residential real estates such as apartments, village houses and commercial real estates such as parking lots and offices.

Mortgage loan division has been the growth driver of Oiwhapawn. Between FY12A and FY16A, interest earned from Oiwhapawn's mortgage loan portfolio increased at a four-year CAGR of 150.4%, from HK\$3.2m for FY12A to HK\$125.6m for FY16A. Meanwhile, size of her loan portfolio grew at a four-year CAGR of 128.6%, from HK\$32.6m as of the end of February 2012 to HK\$890.8m as of the end of February 2016.

Proven track record. Oiwhapawn's net profit increased at four-year CAGR of 28.6%, from HK\$33.4m for FY12A to HK\$91.4m for FY16A. Meanwhile, revenue increased at a four-year CAGR of 29.5%, from HK\$66.4m for FY12A to HK\$186.7m for FY16A. Oiwhapawn's equity inflated about five-fold from HK\$134.9m as of the end of February 2012 to HK\$666.6m at the corresponding date of 2016. Total return of the company's share since IPO, which is calculated as the capital gain plus dividend yield of the share, is estimated to be 148.0%.

Shareholding structure. Chan's Family is the major shareholder of Oiwhapawn, owning about 61.5% of the listco. Value Partner owns about 150.7m shares or 7.1% of the listco. Balance of the financier's shares are in public hand.

Historical annualized figures

		FY12A	FY13A	FY14A	FY15A	FY16A	Four year CAGR
Interest earned from pawn loans	(HK\$m)	52.4	56.7	56.8	57.7	61.9	4.3%
Interest earned from mortgage loans	(HK\$m)	3.2	8.0	37.5	85.5	125.6	150.4%
Pawn loan portfolio size	(HK\$m)	118.0	117.3	124.4	124.2	141.8	4.7%
Mortgage loan portfolio size	(HK\$m)	32.6	113.5	365.0	543.2	890.8	128.6%
Revenue	(HK\$m)	66.4	71.7	95.8	146.5	186.7	29.5%
Net profit	(HK\$m)	33.4	22.7	41.1	80.1	91.4	28.6%
Equity	(HK\$m)	134.9	193.8	324.4	451.9	666.6	49.1%
Net margin	(%)	50.3	31.7	42.9	54.7	48.9	N.A.
Net Interest Margain (NIM)	(%)	37.2	34.0	23.8	18.3	17.5	N.A.
Pawn loans NIM	(%)	42.1	43.5	43.7	43.1	40.5	N.A.
Mortgage loan NIM	(%)	12.7	12.5	13.2	15.9	13.1	N.A.
ROA	(%)	17.9	8.3	7.8	10.6	8.1	N.A.
ROE	(%)	24.7	11.7	12.7	17.7	13.7	N.A.

Sources: Oiwhapawn

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