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CAPITAL SECURITIES LIMITED

鴻鵬資本證券有限公司

A Wholly-owned subsidiary of UKF (Holdings) Limited (HKEX stock code 1468)
英婁(控股)有限公司之全資附屬公司 (香港交易所上市編號1468)

Oi Wah Pawnshop Credit Holdings Ltd (1319.HK)

Research Note

1 June 2017

Company	Oi Wah Pawnshop Credit Holdings Ltd	
Stock code	1319 HK	
# of shares	(m)	2,137.6
Closing price	(HK\$)	0.465
Market capitalisation	(HK\$m)	994.0
Fully diluted FY17A EPS	(HK\$)	0.0483
Fully diluted FY18A EPS	(HK\$)	0.0561
BVPS as at the end of February 2017	(HK\$)	0.3454
Projected BVPS as at the end of 2018	(HK\$)	0.3899

- ❖ Net profit for FY17A increased by 13.0% YoY to HK\$103.2m, below our previous estimation of HK\$109.3m
- ❖ FY18F earning forecast remain at HK\$120.0m, representing an annualise growth rate of 16.3%
- ❖ Projection for equity as of the end of February 2018 is HK\$833.5 representing an annualise growth rate of 12.9%
- ❖ FY17A and FY18F PER are trading at 9.6x and 10.3x respectively
- ❖ Austerities measures introduced by HKSAR Government to contain local property market created favourable operating environment for Oi Wah
- ❖ The new credit facility of HK\$50.0m with interest rate of 4.5% p.a. acquired in 3Q16 not just only expanded the group's loan book but lowered finance costs

Result Highlights

	FY16A (HK\$m)	FY17A (HK\$m)	YoY Growth (%)
Interest earned on pawn loan receivables	61.9	61.8	(0.1)
Disposal of repossessed assets	(0.8)	4.8	-
Interest earned on mortgage loan receivables	125.6	148.5	18.3
Revenue	186.7	215.2	15.3
Profit before taxation	109.4	123.5	12.9
Net profit	91.4	103.2	13.0
Total assets	1,125.1	1,364.5	21.3
Total liability	458.6	626.1	36.5
Equity	666.6	738.4	10.8

Pre-share Data

	FY16A (HK\$m)	FY17A (HK\$m)	YoY Growth (%)
Average EPS	0.0440	0.0490	11.4
Interim DPS	0.0065	0.0076	-
Final DPS	0.0065	0.0069	-
Special DPS	0.0043	-	-
DPS	0.0173	0.0145	-
Average BVPS	0.3179	0.3469	9.1

Financial ratio

	FY16A	FY17A
Current ratio	3.0x	3.0x
Gearing ratio	66.9%	80.8%
ROA	8.1%	7.6%
ROE	13.7%	14.0%

Loan receivables

	FY16A (HK\$m)	FY17A (HK\$m)	YoY Growth (%)
Pawn loan receivables	141.8	143.1	1.0%
Mortgage loan receivables	890.8	1,151.1	29.2%
Unsecured loans	0.3	-	-
Gross loan receivables	1,032.8	1,294.2	25.3%

Source: The Company

Growth in loan book The group's mortgage loan book expanded robustly during the period under review on strong demand and expanded sources of funding with outstanding debt increased by 33.8% YoY to HK\$596.8m and equity increased by 10.8% YoY to HK\$738.4m. Even though the group closed one pawn shop during the period under review, pawn loan receivable still registered growth.

NIM overview The NIM refers to interest income generated on pawn loans and mortgage loans less finance costs, divided by the average of month-end gross loan receivables balances of the corresponding loans during the year. Thus the change in the proportion of pawn and mortgage loan in its loan book, effective financial costs, and NIM of mortgage loan and pawn loan are all factors which affect Oi Wah's overall NIM. A 3.0ppts drop in NIM for FY17A was attributable to:

- 1) Proportion of pawn loan receivable, which commanded NIM of 40.0%+, to the group's loan books dropped to 11.1% YoY as of the end of February 2017.
- 2) Proportion of interest income earned by pawn loan to total revenue dropped to 28.7% for FY17A from 33.1% for FY16A.
- 3) During the period under review, the group has been focusing on lower risk but lower yield first mortgage loan, and the yield of its mortgage loan book dropped accordingly.
- 4) Surge in finance costs outpaced growth in interest income. Even though interest income for FY17A increased 25.3% YoY, finance costs increased 50.6% YoY.
- 5) The increase in finance costs was partially due to the 0.6ppts increase in effective interest rate, as the composition

6) Among the group's outstanding debt as of the end of February 2017, effective finance costs for "other loans" (refer to an uncommitted secured revolving loan facilities from an I3P with limit of HK\$400.0m) was the highest at 6.2%, vs overall finance costs of 5.7% for the period. Since the proportion of other loan to total outstanding loan increased to 51.7% as of the end of February 2017 from 34.1% as of the end of February 2016, the group's effective finance cost increased.

New banking facility The group acquired a new facility of HK\$50.0m with interest rate of 4.5% p.a. in 3Q 2016. The new facility not just only expanded the group's loan book but also lowered the group's finance costs.

Prudential credit policy During the period under review, about 75.0% of the mortgage loan lent out by the group was first mortgage with loan-to-value ratio of about 51.3%, and the balance was subordinate mortgage with LTV of 18.8%. The overall LTV for sub-mortgage was 56.0%. The group has been trading-off a slight interest margin for security, given the uncertainties in local property market, interest rate hike as well as global and local economy. So far, such prudent credit policy has been very successful with interest income from mortgage increased, and the group did not report a bad-debt for the period under review. Further, thanks to the prudential LTV policy, the group were able to sell the repossessed properties easily to recover past due loans readily.

Recovered pas due loan As at the end of February 2017, Oi Wah had HK\$31.0m outstanding loan receivables past due more than 6 months. Among those past due loan, HK\$26.0m was recovered from the auction of collateral, according to the management and HK\$5.0m is expected to be recovered in August, following the repossession and auction of the collateral.

Focusing on high-net-worth customers Just as usual, the group has been focusing on high net worth customer who are defined as individual/corporate with stable income stream with premium properties serve as collaterals. Currently, many non-bank mortgage loan provider have been aggressively providing subordinate mortgage loan with high LTV ratio for capturing market share and brand building. Some of them have been charging their customer low interest rate say below 10.0% and their NIM of their asset were inevitably thin. In the short term, such mortgage loan providers may seize small slice of the group's business. Nevertheless, given their low NIM which is not justifiable the risks inherited in the mortgage loan they provided, many of such mortgage providers would not survive for long, and ultimately, they would be forced out of the market and interest rate for sub-mortgage would be normalised.

Operating environment remains favourable to the group HKSAR Government, or to be precise, HKMA and Inland Revenue Department has launched and implemented a series of measures to rein skyrocketing property prices and contain risk in the banking system. In our view, the measures and policies introduced by HKSAR Government created a favourable operating environment for mortgage loan provider with strong balance sheet, high brand awareness and multiple-sources of funding (equity/debt) like Oi Wah. The high stamp duty has been discouraging proprietor to cash in by selling their property, but encouraging them to pledge their real estate for mortgage loan. Nevertheless, guided by HKMA, threshold for applying mortgage loan from banks has been elevated substantially. Thus, proprietors are turning to non-bank mortgage loan provider for loan. The following is the summary of austerity measures over local property market launched by HKSAR Government:

June 2009

- ❖ Maximum LTV ratio for residential properties with a value of HK\$20.0m or above would be 50.0%.

May 2010

- ❖ LTV ratio for non-owner-occupied residential properties with value HK\$10.0m or above lowered to 50.0%.
- ❖ LTV ratio for residential property with value at HK\$10.0m or above lowered further to 40.0% if HK is not the major source of income of owner of the property/applicant of mortgage
- ❖ Debt serving ratio (DSR) should not exceed 50.0%.
- ❖ Stress tests are required to conducted on mortgage applicants.

November 2010

- ❖ LTV ratio for non-owner occupied residential property with value more than HK\$12.0m lowered to 50.0%, between HK\$8.0m and HK\$12.0m to 60.0%.
- ❖ LTV ratio for non-owner-occupied residential property owned by corporation, as well as non-residential commercial/industrial property was limited within 50.0%.
- ❖ With effect from November 20th 2010, any residential property acquired by either individuals or corporation within the period from November 20th 2010 to October 27th 2012, and resold within 24 months or acquired after October 27th 2012 and resold with 24 months would be subject to Special Stamp Duty.
- ❖ For the property acquired within the period between November 20th 2010 and October 27th 2012, special stamp duty is payable on the resale of such residential property with holding period less than or equal to 6 months, more than 6 months but less than 12 months, more than 12 month but less than 24 months and more than 24 months but less than 36 months would be 15.0%, 10.0%, 5.0% and none, respectively, calculated by reference to the stated consideration or the market value of the property, whichever is higher.
- ❖ For the property acquired on or after October 27th 2017, special stamp duty is payable on the resale of such residential property with holding period less than or equal to 6 months, more than 6 months but less than 12 months, more than 12 month but less than 24 months and more than 24 months but less than 36 months would be 20.0%, 15.0%, 10.0% and 10.0%, respectively, calculated by reference to the stated consideration or the market value of the property, whichever is higher.
- ❖ Deferred payment of stamp duty is prohibited.

June 2011

- ❖ Maximum LTV ratio for property with value at HK\$10.0m or above lowered to 50.0%.
- ❖ Maximum LTV of property was lower further to 40.0% for borrower whose income does not derived place other than HK.

September 2012

- ❖ Maximum DSR adjusted from 50.0% to 40.0%.
- ❖ The maximum DSR assumption in stress tests conducted by banks on mortgage applicants adjusted downward from 60.0% to 50.0%.
- ❖ LTV ratio for property would be lowered further by 20.0%, instead of 10.0%, from applicable rate for borrower whose income does not derived from HK.
- ❖ Maximum mortgage repayment period cannot exceed 30 years.

October 2012

- ❖ With effective from 27th October 2012 onward, unless specifically exempted, Buyer's Stamp Duty (BSD) is payable on an agreement for sale or a conveyance on sale executed for the acquisition of any residential property. BSD is charged at 15.0% on the stated consideration or the market value of the property (whichever is the higher).
- ❖ HK Inland Revenue Department extended the applicable period for SSD from 2 years to 3 years. SSD on resales within 6 months increased from 15.0% to 20.0%, between 6 months to 12 months from 10.0% to 15.0%, 1 year to 3 years from 5.0% to 10.0%.
- ❖ BSD of 15.0% is applicable to property transaction by non-Hong Kong residents and HK or overseas registered corporation.

February 2013

- ❖ Stamp duty on property transaction hiked from 4.25% to 8.5% of the value of the property being transacted. Nevertheless, first-time buyers or buyers who had sold their only properties beforehand are exempt from the new stamp duty rate.
- ❖ Stamp duty also cover the transaction of non-residential real estate, and buyer and/or seller are required to pay stamp duty following the sales and purchase agreement signed by both parties.
- ❖ Interest rate assumption in stress tests conducted by bank on mortgage applicant raised from 2.0% to 3.0%.
- ❖ LTV ratio for all commercial and industrial real estates lowered by 10.0% from applicable rates.
- ❖ LTV ratio for parking space should not be exceeded 40.0%.
- ❖ LTV ratio of 90.0% could only be applied to residential property with value capped by HK\$4.0m.

February 2015

- ❖ LTV ratio for self-occupied residential property with value of HK\$7.0m was capped by 60.0%.
- ❖ DSR for non-first time property buyers lowered to 40.0% from 50.0%.
- ❖ DSR for mortgage of properties not for self-occupied lowered to 40.0% from 50.0%.
- ❖ The LTV ratio of mortgage ratio lowered to 80.0% from 90.0%, with the exemption of first-time buyers with stable income stream and strong debt serving capability.

November 2016

- ❖ Stamp duty on residential property transaction was fixed at 15.0% of the value of the property, with the exemptions of first-time buyers and buyers who had sold their only properties previously.

April 2017

- ❖ A stamp duty of 15.0% is applicable to the properties transaction on "one contract for multiple flats".

May 2017

- ❖ Raising the risk-weight floor from 15.0% by 10.0 ppts to 25.0% for new residential mortgage loans granted after 19th May 2017 by banks using Internal Ratings-Based Approach to calculate capital charges for credit risk.
- ❖ Lowering the applicable LTV ratio cap by 10.0 ppts for property mortgage loans extended to borrowers with one or more pre-existing mortgages, in addition to observing the existing requirement of lowering the applicable DSR limit by 10.0 ppts;
- ❖ Lowering the applicable DSR limit by 10.0 ppts for property mortgage loans extended to borrowers whose income is mainly derived from outside of Hong Kong, in addition to observing the existing requirement of lowering the applicable LTV cap by 10.0 ppts.

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