

# China / Hong Kong Company Update

## SY Holdings

Bloomberg: 6069 HK Equity | Reuters: 6069.HK

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DBS Group Research . Equity

17 May 2022

### BUY

Last Traded Price (16 May 2022): HK\$5.88 (HSI : 19,950)  
Price Target 12-mth: HK\$10.00 (70% upside) (Prev HK\$11.20)

#### Analyst

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#### What's New

- Positive synergies from Wuxi Guojin Factoring acquisition, with factoring assets reaching Rmb8bn entering FY22
- Good progress in digital transformation with platform-based service revenue reaching a 62% CAGR in FY21-23F
- Securing further Rmb2bn credit line from CCB (939 HK, BUY) helps to strengthen business franchise and acceleration towards asset-light model
- Earnings unchanged, but lowered TP to HK\$10 on lower multiple. Maintain BUY.

### Synergy from strategic acquisition

#### Investment Thesis

Digital financing and industry technology transformation to fuel future growth. The transformation to becoming a digital financing, platform, and industry technology service provider will enable SY Holdings (SY) to become asset-light and fuel future growth.

Wuxi Guojin acquisition and loan facilitation to fuel growth. The consolidation of Wuxi Guojin enables SY to noticeably expand its factoring assets, which will fuel growth in its digital financing business. We also expect good progress in its loan facilitation business, with revenue growth at a 62% CAGR in FY21-23F to reach 13% of total revenue.

NIM to recover in FY22F on improving loan mix. SY's NIM landed at 6.4% in FY21, impacted by macro uncertainty, where it focused on higher quality clients with impacts from lower interest rates in China. We expect its NIM to recover to the 7% level in FY22F, driven mainly by an improving loan mix with stronger demand from the infrastructure sector.

#### Valuation:

Our TP is now based on a 2.0x (previously at 2.5x FY22F P/BV) FY22F P/BV, so as to factor in the recent impact from the H-share volatility. The multiple is at 1x standard deviation of its price-to-adjusted BV.

#### Where we differ:

We believe the market has yet to capture the positives from the acquisition of Wuxi Guojin and its fast progress in expanding its asset-light loan facilitation business. The former helps to generate better scale and explore new opportunities while the latter helps to diversify risk.

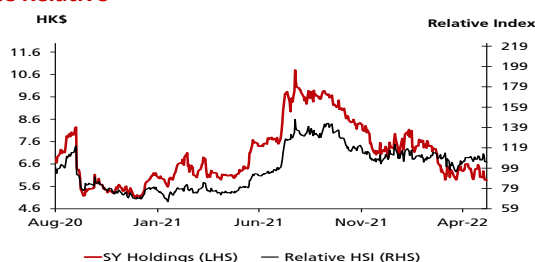
#### Key Risks to Our View:

1) Deterioration in asset quality, 2) deterioration in the relationships with core SOE buyers, 3) a significant economic slowdown in China, and 4) competition from traditional financial institutions and internet giants.

#### At A Glance

Issued Capital (m shrs)	1,004
Mkt Cap (HKm/US\$m)	5,904 / 752
Major Shareholders (%)	
Tung (Chi Fung)	55.7
Wuxi Communications Industry Group Co., Ltd.	6.1
Free Float (%)	38.2
3m Avg. Daily Val. (US\$m)	1.07
GICS Industry: Financials / Diversified Financials	

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMB m)	2020A	2021A	2022F	2023F
Pre-prov. Profit	388	463	543	657
Pre-prov. Profit Gth	4	19	17	21
Pretax Profit	387	462	524	634
Net Profit	329	411	466	563
EPS (RMB)	0.37	0.43	0.49	0.59
EPS (HK\$)	0.42	0.50	0.56	0.68
EPS Gth (%)	15	17	13	21
PE (X)	13.8	11.8	10.4	8.6
DPS (HK\$)	0.07	0.09	0.10	0.12
Div Yield (%)	1.2	1.5	1.6	2.0
BV Per Share (HK\$)	3.76	4.57	5.05	5.64
P/Book Value (x)	1.6	1.3	1.2	1.0
ROAE (%)	12.7	12.3	11.7	12.8
ROAE (ex-exceptional)	12.7	12.3	11.7	12.8
ROA (%)	7.11	6.05	4.84	4.94
Earnings Rev (%)			Nil	New
Consensus EPS (RMB)			0.52	0.72
Other Broker Recs:		B:5	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters



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## SY Holdings

### WHAT'S NEW

#### Synergy from strategic acquisition

In December 2021, SY strategically invested in Wuxi Guojin Factoring Limited by acquiring an additional 40% shareholding (total reached 80%) in the company. We believe this marks an important step for SY, with the acquisition to potentially create positive synergies in its existing supply chain finance business. At the same time, it is also engaged in strategic cooperation with the Wuxi Economic Development Zone and will explore new growth opportunities in industry technology.

Wuxi Guojin becoming a consolidated entity of SY from the beginning of FY22 while having a factoring asset balance of Rmb3bn implies SY's total factoring assets would reach nearly Rmb8bn, or +60%, from the beginning of FY22. The substantial expansion in factoring asset scale as well as the ability to leverage on the Wuxi Communication Industry Group, a prominent SOE in Wuxi and shareholder of the remaining shares (20%) in Wuxi Guojin, are expected to help SY generate better economies of scale and secure further funding, given the strengthened relationship with the local SOE.

Overall, we see the strategic acquisition as accretive to earnings and it may potentially lead to an acceleration in SY's industrial technology service business, which is currently still at an early stage.

**Platform-based services progressing well.** The adoption of the asset-light business model and expansion of the company's loan facilitation platform-based services are progressing well. In FY21, the loan facilitation balance increased to Rmb1.6bn, up 83% y-o-y, with platform-based service revenue reaching Rmb48m, up 38% y-o-y, and accounting for 10% of total revenue. Total funding partners for loan facilitation services also expanded to 86, up from 46 in FY20. With the loan facilitation business gaining further track and becoming more matured, along with the consistent policy to promote inclusive financing among the banking community in China, we see good potential for the future growth of SY's platform-based services.

In particular, SY has cooperated with CCB (939 HK, BUY) and successfully secured a further Rmb2bn credit facility quota (up from Rmb1bn previously) on 11 May to further develop the loan facilitation business. We believe this will help strengthen SY's franchise among the banking community and, in turn, help it secure more funding partners to fuel further growth in its loan facilitation

business. Overall, we expect SY's platform-based services revenue to grow by a 62% CAGR during FY21-23F, with such revenue reaching 13% of total revenue by FY23F.

**Improving outlook with NIM to recover in FY22F.** Impacted by macro uncertainties in China, the lowering of interest rates, and the company's proactive risk control measures to focus more on high-quality clients, we saw a noticeable decline in SY's NIM in FY21, which landed at 6.4% compared to 8.4% in FY20. In return, its overall NPL ratio and overdue loan ratio improved and reached 0.29% each, down by 31bps and 26bps, respectively. On the other hand, its daily average balance of factoring assets retained its growth trajectory, suggesting healthy demand. Overall, we expect NIM to rebound to the 7% level in FY22F, driven mainly by the improving product mix due to stronger demand in the infrastructure sector, with the segment generating higher loan yield.

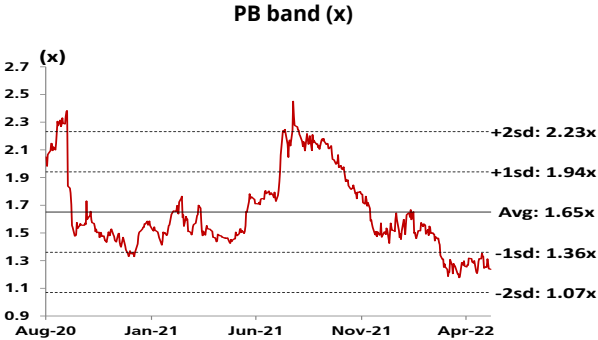
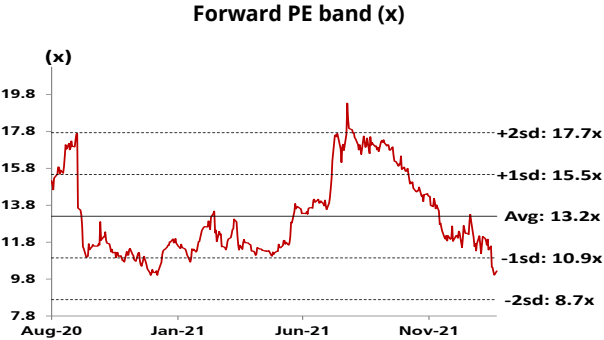
**Lower TP to HK\$10 on lower multiple. BUY with positive outlook ahead.** After factoring in FY21's actual numbers, our FY22F earnings forecast remains unchanged, and we introduce our FY23F forecast. We lower SY's TP to HK\$10 (from HK\$11.2) on a lower target multiple of 2x FY22F P/B (previously 2.5x), so as to factor in the recent H-share market volatility. With the positive outlook remaining, we maintain BUY on SY Holdings.

#### Company Background

SY Holdings is a data-driven supply chain financial service provider and is China's first commercial factoring company to be listed on the Main Board of the HKEX. SYC focuses on providing data-driven financial services to enterprises along supply chains. As of FY21, SY Holdings managed Rmb6.7bn of factoring assets and had total assets/total liabilities of Rmb8.8bn/Rmb4.8bn.

**SY Holdings**

**Historical PE and PB band**



Source: Thomson Reuters, DBS HK

## SY Holdings

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Net interest margin (%)	8.30	8.33	4.21	6.91	7.15
Factoring loan growth (%)	36	(1)	76	12	14
Interest rate from borrowing (%)	7	7	6	6	6
Yld. On Earnings Assets (%)	12.90	11.61	7.83	9.54	9.83
Avg Cost Of Funds (%)	7.96	7.58	4.77	3.72	3.64

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Interest Income	319	317	281	516	610
Non-Interest Income	215	260	417	340	425
<b>Operating Income</b>	<b>534</b>	<b>577</b>	<b>699</b>	<b>856</b>	<b>1,035</b>
Operating Expenses	(160)	(190)	(236)	(314)	(378)
<b>Pre-provision Profit</b>	<b>374</b>	<b>388</b>	<b>463</b>	<b>543</b>	<b>657</b>
Provisions	(17)	(15)	(17)	(22)	(27)
Associates	6	15	17	3	3
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>362</b>	<b>387</b>	<b>462</b>	<b>524</b>	<b>634</b>
Taxation	(67)	(50)	(41)	(46)	(56)
Minority Interests	(15)	(8)	(10)	(12)	(14)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>280</b>	<b>329</b>	<b>411</b>	<b>466</b>	<b>563</b>
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### Growth (%)

Net Interest Income Gth	46.60	(0.56)	(11.22)	83.50	18.17
Net Profit Gth	34.51	17.45	24.84	13.36	20.92

### Margins, Costs & Efficiency (%)

Spread	4.83	3.87	2.76	3.51	3.83
Net Interest Margin	9.57	8.29	5.37	7.30	7.62
Cost-to-Income Ratio	30.0	32.9	33.8	36.6	36.5

### Business Mix (%)

Net Int. Inc / Opg Inc.	59.7	54.9	40.3	60.3	58.9
Non-Int. Inc / Opg inc.	40.3	45.1	59.7	39.7	41.1
Fee Inc / Opg Income	3.4	7.4	9.3	13.3	17.1
Oth Non-Int Inc/Opg Inc	36.9	37.7	50.5	26.4	24.0

### Profitability (%)

ROAE Pre Ex.	13.0	12.7	12.3	11.7	12.8
ROAE	13.0	12.7	12.3	11.7	12.8
ROA Pre Ex.	7.7	7.3	6.2	5.0	5.1
ROA	7.3	7.1	6.0	4.8	4.9

Source: Company, DBS HK

## 5Y Holdings

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Cash/Bank Balance	377	349	800	1,275	1,773
Government Securities	0	0	0	0	0
Inter Bank Assets	0	0	0	0	0
Total Net Loans & Adv.	3,837	3,804	6,678	7,469	8,535
Investment	0	0	0	0	0
Associates	68	151	11	11	11
Fixed Assets	6	8	8	8	8
Goodwill	20	22	148	148	148
Other Assets	171	452	1,156	1,520	1,896
<b>Total Assets</b>	<b>4,479</b>	<b>4,786</b>	<b>8,803</b>	<b>10,432</b>	<b>12,371</b>
Customer Deposits	0	0	0	0	0
Inter Bank Deposits	0	0	0	0	0
Debts/Borrowings	1,867	1,476	3,941	4,594	5,123
Others	194	283	908	1,405	2,235
Minorities	129	111	183	264	362
Shareholders' Funds	2,289	2,916	3,771	4,169	4,651
<b>Total Liab&amp; S/H's Funds</b>	<b>4,479</b>	<b>4,786</b>	<b>8,803</b>	<b>10,432</b>	<b>12,371</b>

Source: Company, DBS HK

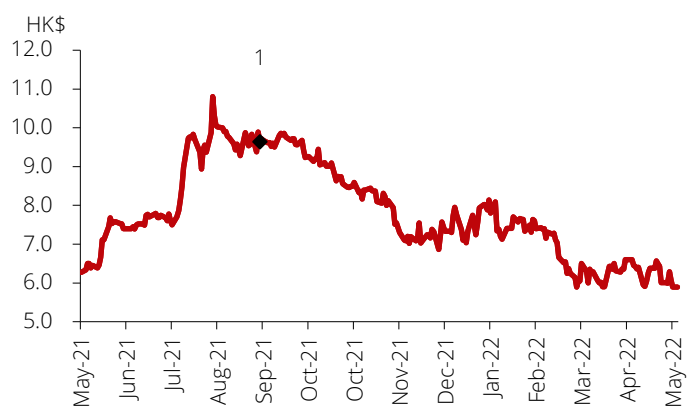
### Financial Stability Measures (%)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	0.0	0.0	0.0	0.0	0.0
Net Loans / Total Assets	85.7	79.5	75.9	71.6	69.0
Investment / Total Assets	0.0	0.0	0.0	0.0	0.0
Cust. Dep./Int. Bear. Liab.	0.0	0.0	0.0	0.0	0.0
Interbank Dep / Int. Bear.	0.0	0.0	0.0	0.0	0.0
<b>Asset Quality</b>					
NPL / Total Gross Loans	0.0	0.0	0.0	0.0	0.0
NPL / Total Assets	N/A	N/A	N/A	N/A	N/A
Loan Loss Reserve Coverage	N/A	N/A	N/A	N/A	N/A
Provision Charge-Off Rate	0.4	0.4	0.3	0.3	0.3
<b>Capital Strength</b>					
Total CAR	0.0	0.0	0.0	0.0	0.0
Tier-1 CAR	0.0	0.0	0.0	0.0	0.0

Source: Company, DBS HK

**SY Holdings**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Sep-21	HK\$9.89	HK\$11.20	Buy

Source: DBS HK

Analyst: Ken Shih  
 Sam Lu  
 Manyi Lu

## SY Holdings

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

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**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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