# SY Holdings(6069.HK) Synergy from strategic acquisition

17 May 2022
**Rating: BUY**
**Price Target 12-mth: HK$10.00**

Key points:
**-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.

WHAT'S NEW
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.