

## Differ Group Holding Company Limited

HKSE: 6878 | OTC: DFFGF

Maintaining Rating & Target

BUY, HK\$6.50

April 22, 2022

### MARKET DATA

Share Price:	HK\$	2.05
Market Cap:	HK\$	14,777.20 M
52wk Range:	HK\$	0.70 - 3.84
Ave. Volume:		32,000,000
Basic S/O:		7,208.39 M
Fully Diluted S/O:		7,208.39 M
Float:		3,079.29 M
Board Lot:		2,000
Institutional (SDI) %:		N/A
Insider %:		57%

### FINANCIAL DATA (mrq)

Cash:	RMB	333.49 M
ST Debt:	RMB	704.57 M
LT Debt:	RMB	365.75 M
Book Value:	RMB	2,721.39 M
EBITDAS (ttm):	RMB	693.62 M
CFFO (ttm):	RMB	832.75 M

Auditor: BDO Limited

	RMB	2020A	2021A	2022e	2023e
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### Revenue (in Millions)

Jun	194.40	170.83	1,622.89	1,689.60
Dec	699.79	946.46	1,178.75	1,350.18
<b>REV</b>	<b>894.19</b>	<b>1,117.28</b>	<b>2,801.63</b>	<b>3,039.78</b>
<i>P/S</i>	<i>18.78</i>	<i>15.93</i>	<i>6.46</i>	<i>5.95</i>

### Diluted EPS (in cents per share)

Jun	0.34	0.67	6.00	11.87
Dec	4.63	5.60	5.43	12.24
<b>EPS</b>	<b>5.23</b>	<b>6.11</b>	<b>11.43</b>	<b>24.12</b>
<i>P/E</i>	<i>47.15</i>	<i>40.39</i>	<i>21.59</i>	<i>10.23</i>

### Dividend (in cents per share)

Dec	0.50	0.50	0.00	0.00
<i>Yield</i>	<i>0.2%</i>	<i>0.2%</i>	<i>0.0%</i>	<i>0.0%</i>

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## Management Changes Announced Ahead Of Auto Investments/Acquisitions

**Management Changes.** Yesterday, the Company announced a series of changes to the management team, highlighted by Hong Mingxian resigning as Chairman and Executive Director. Mr. Hong, who holds just over 3.0 billion shares of Differ, was named Honorary Chairman effective immediately. Current CEO Ng Chi Chung was appointed Chairman of the Board.

Non-Executive Directors Cai Huatan and Wu Qinghan both resigned from the Company as well, and were replaced by Kang Fuming and Xu Yiwei. Mr. Kang, 50, has over 26 years of experience in real estate and currently serves as General Manager of Guangzhou Jun Zhi Yuan Investment Management Limited. Mr. Xu Yiwei, 29, is a lawyer by trade and is currently the Deputy General Manager of Xiamen Dingge Asset Management Company Limited, a subsidiary of Differ. Each will receive payment of HK\$8,000 per month as a Non-Executive Director.

We also note that Dr. Feng Xiaogang was appointed as an Executive Director on December 9. Dr. Feng is an investment consultant to various companies in China, as well as Chairman and Executive Director of Courage Investment Group Limited [HK: 1145]. Dr. Feng will be paid HK\$50,000 per month.

We do not see any issues arising out of the changes, rather a recognition in the shift in direction of Differ as it has moved further away from the niche financial services businesses and into Real Estate and Auto O2O. It still remains to be seen what level of focus the legacy businesses and real estate will have as it invests further into the auto space.

**Auto O2O Update.** Since the initial flurry of announcements last summer, the acquisition of Gancheng Taifeng was completed on September 31. The plan remains in place for Cherries Car to focus on five distinct areas to cover the life of automobiles after initial production, which include:

- 1) **B2B Automobile Sales**—A platform to conduct B2B sales, thereby allowing industry provider an easier method of trade and move vehicles. Strategic agreements have been signed with Qilang (Suzhou) New Energy Automobile Company Limited (they distribute EVs)
- 2) **B2C Automobile Sales**—A platform to conduct automobile sales from the manufacturer, dealer, or other intermediary directly to consumers. Strategic agreements were signed with Sichuan Zhuzi Automobile Sales Company Limited (Differ has announced a LOI to purchase this company), Diandong Bang Technology (Beijing) Company Limited, and Guizhou Botianwen Travel Industry (Group) Company Limited.

## COMPANY UPDATE

- 3) Smart Car City—A platform offering storage, exhibition, sales, and marketing activities, including group purchasing and flash sales. Strategic agreements have been signed with Weiwo Intelligent Technology (Tianjin) Company Limited and Shenzhen City Yunlai Information Technology Company Limited.
- 4) Automobile Master—A platform providing after-sales services, including parts, maintenance and repairs. Strategic agreements have been signed with Maipa (Shanghai) Network Technology Company Limited, Guangdong Chemayuan Trading Company Limited, and Wuhan Zhonghe Dingli Industrial Development Company Limited.
- 5) Automobile Financing—A platform to provide supply chain financing for dealers as well as financing for retail car purchasers. Strategic agreements have been signed with Dongguan Oukai Supply Chain Technology Company Limited, Shanghai Zhizheng Financial Leasing Company Limited, Beijing Lixiang Shengton Technology Company Limited, Detong Financial Leasing Company Limited, and Beijing Gaoshihaoye Investment Management Company Limited.

Despite the volatile auto market and supply chain issues since the start of Covid, management remains confident the integration and cross selling of services will enable Cherries Car to grow faster under this rollup model by squeezing more services out of each car supply and purchase transaction, rather than capturing just one source of revenue as the above companies are individually now. We expect to hear in the near future the structure and method of financing for these transactions, which may include use the RMB 1.5 billion facility Gancheng Taifeng has. We also note the majority of the strategic agreements may stay in partnership form and not result in investment or acquisition.

**H2:21 Profit Beats Estimate.** Differ reported second half results for 2021, which saw total Revenue at RMB 946.5 million, well below our estimate due to less sales from its Real Estate projects, notably She People, which took an accounting write-down of RMB 29.1 million. The Money Lending segment brought in RMB 75.0 million and made up the bulk of the Financial Related Service income, RMB 95.5 million, in the period. The Money Lending business should continue to perform well given the government push to help SMEs grow, which are targeted by this business. The new Auto O2O business, which started in the fourth quarter, posted Revenue of RMB 21.5 million, and Gross Profit of RMB 3.0 million. Other key line items included RMB 123.0 million in gain on sale of Differ Digital, which held the Differ Fortune Plaza project, and RMB 121.8 million in increases in the fair value of investment properties. Net Profit for the period was RMB 403.9 million, or RMB 5.60 cents per share. The Board declared a dividend of HK\$0.5 cents per share for the 2021 fiscal year, with a record date of July 15 and a payment date of July 28, 2022.

**Stock Index Additions.** In February, Differ's stock was added to seven Hang Seng indexes, including the Hang Seng Composite Index, Small Cap (Investable) Index, Stock Connect Hong Kong Index, Stock Connect Hong Kong MidCap & SmallCap Index, Stock Connect Hong Kong SmallCap Index, SCHK Mainland China Companies Index, and SCHK ex-AH Companies Index. These additions followed its inclusion on the FTSE Global Equity Index Series - China Regional Index in September.

**Model Update.** Other than updating for the divestitures and adjusting for the sale of properties we had modelled in 2021, we made few changes to the model. We expect the Company to make announcements in the near future regarding its plans to acquire/invest in other auto businesses and what its intentions are for its real estate portfolio and future development plans.

**Maintaining Rating & Target.** We maintain our optimism towards Differ's move into the Auto O2O space, and believe the need for such services is even more amplified in a challenging market. As such, we reiterating our Buy rating and HK\$6.50 target price on Differ Group. Our target price is based on a P/E multiple of roughly 25 times our 2023 earnings estimate of RMB 24.12 cents per share, discounted one year at 12%.

## RISKS

### Entrance Into The Auto O2O Business

Differ is entering the Auto O2O sector with a rollup strategy. There are no assurances it will be able to acquire companies on shareholder friendly terms or integrate as planned.

### Dependence on Real Estate Values

With greater investment in real estate development projects Differ is increasingly exposed to the risk of falling real estate prices, restrictions on selling prices, and other government policies, including being able to pre-sell projects in the early stages of construction.

### Capital Intensive Business

Differ operates in capital intensive businesses as it develops distressed and special situation real estate projects, self-finances its entrusted loan business, purchases assets from its customers for its finance lease business, and is required to keep 10% to 20% of the amounts guaranteed on its outstanding financing guarantees. Given these requirements, the Company may be unable to grow in the future without raising funds, which could result in dilution to existing shareholders.

### Dependence on Banks

The Company is dependent on having enough positive working relationships with banks to provide access to capital to fund some of its businesses. The loss of banking partners or inability to find new capital providers could hamper the Company's growth. Similarly, any increases in required security deposits by banks for lending by Differ could slow growth.

### Government Regulation

As a financial service provider the Company is subject to various license requirements and regulations, which may change over time.

### Controlled by Hong Mingxian and Ng Chi Chung

Honorary Chairman Hong Mingxian and his wife, Shi Hongjiao, together 42% of Differ Group. Together, the management team owns 57% of the shares outstanding, thus giving these individuals control over the future of the Company.

### COVID-19

Additional restrictions or shutdowns from COVID-19, or any other reason, could result in Differ's project timelines being pushed back.

### Guarantee Payouts

A negative event that impacts its customers businesses or the Chinese market in general could result in a string of defaults that would force the Company to cover the guarantees it made on its guarantee business.

### Large Potential Liabilities Kept Off-Balance Sheet

Due to the nature of the Guarantee business, Differ has large potential liabilities should its customers default on their loans. While the Company does collect collateral valued at two times the amount of the guaranteed loan, there are no assurances the collateral could be monetized at prices to cover the defaulted loans.

### Concentration of Real Estate Developer and Fujian-Based Clients

A large percentage of Differ's Financial Related Services customers are comprised of real estate developers and Fujian-based businesses. A downturn in the Chinese property market or Fujian economy could bring a wave of defaults to the Company and reduce future income potential.

**ESTIMATED INCOME STATEMENT**

	(In '000s of RMB)											
	H1:20A	H2:20A	2020A	H1:21A	H2:21A	2021A	H1:22e	H2:22e	2022e	H1:23e	H2:23e	2023e
Financial Related Services Income	71,642	113,435	185,077	103,836	95,542	199,378	146,652	137,650	284,302	161,843	151,913	313,756
Asset Management Services	122,759	586,356	709,115	66,990	850,916	917,906	1,476,237	1,041,095	2,517,332	1,527,758	1,198,265	2,726,022
Other Income	25,244	53,878	79,122	22,757	43,885	66,642	51,708	102,681	154,389	520,405	653,528	1,173,933
Cost of Property Development	(85,818)	(351,928)	(437,746)	(44,388)	(540,167)	(584,555)	(1,034,435)	(721,931)	(1,756,367)	(1,087,874)	(832,559)	(1,920,434)
Gain on Disposal of Subsidiaries	-	109,241	109,241	-	140,683	140,683	-	-	-	-	-	-
Employee Benefit Expenses	(25,133)	(44,632)	(69,765)	(25,604)	(34,559)	(60,163)	(30,381)	(31,305)	(61,687)	(32,258)	(33,240)	(65,498)
Depreciation & Amortization	(8,942)	(10,839)	(19,781)	(8,297)	(12,449)	(20,746)	(14,939)	(17,927)	(32,865)	(21,512)	(25,814)	(47,326)
Short-Term Lease Expenses	(306)	152	(154)	-	(975)	(975)	(500)	(500)	(1,000)	(500)	(500)	(1,000)
Share-Based Payments	(354)	19	(335)	-	-	-	(2,500)	(2,500)	(5,000)	(2,500)	(2,500)	(5,000)
Other Expenses	(28,224)	(85,423)	(113,647)	(34,279)	(116,130)	(150,409)	(45,541)	(46,685)	(92,226)	(47,544)	(48,623)	(96,167)
Share of Result in Associate	(7,863)	136,283	128,420	(13,448)	(7,665)	(21,113)	3,703	3,725	7,428	3,748	3,773	7,521
Share of Results in JV	(1,251)	(12,368)	(13,619)	-	-	-	(2,449)	41,216	38,767	86,939	90,559	177,498
Gain on Sale of Investment Properties	(120)	3,108	2,988	-	-	-	-	-	-	-	-	-
Gain on Disposal of Subsidiaries	-	-	-	19,499	-	-	-	-	-	-	-	-
FV Gain on Investment Properties	32,383	(9,039)	23,344	37,133	84,661	121,794	43,515	33,302	76,817	41,339	31,637	72,976
FV Gain on Other Financial Assets	(1,925)	4,942	3,017	(6,088)	67,164	61,076	-	-	-	-	-	-
Finance Costs	(48,311)	(40,299)	(88,610)	(38,100)	(9,951)	(48,051)	(23,602)	(24,791)	(48,393)	(26,186)	(27,828)	(54,015)
<b>Profit Before Income Tax</b>	<b>46,620</b>	<b>456,151</b>	<b>502,771</b>	<b>80,132</b>	<b>560,955</b>	<b>624,565</b>	<b>567,468</b>	<b>514,031</b>	<b>1,081,499</b>	<b>1,123,656</b>	<b>1,158,610</b>	<b>2,282,267</b>
Income Tax Expense	(23,508)	(125,933)	(149,441)	(24,651)	(161,588)	(186,239)	(127,680)	(115,657)	(243,337)	(252,823)	(260,687)	(513,510)
<b>Profit Before Minority Interest</b>	<b>23,112</b>	<b>330,218</b>	<b>353,330</b>	<b>55,481</b>	<b>399,367</b>	<b>438,326</b>	<b>439,788</b>	<b>398,374</b>	<b>838,161</b>	<b>870,834</b>	<b>897,923</b>	<b>1,768,757</b>
Minority Interest	(1,077)	3,862	2,785	(7,030)	4,597	(2,433)	-	-	-	-	-	-
<b>Net Profit</b>	<b>22,035</b>	<b>334,080</b>	<b>356,115</b>	<b>48,451</b>	<b>403,964</b>	<b>440,759</b>	<b>439,788</b>	<b>398,374</b>	<b>838,161</b>	<b>870,834</b>	<b>897,923</b>	<b>1,768,757</b>
<b>Basic EPS</b>	<b>0.34</b>	<b>4.63</b>	<b>5.23</b>	<b>0.67</b>	<b>5.60</b>	<b>6.11</b>	<b>6.00</b>	<b>5.43</b>	<b>11.43</b>	<b>11.87</b>	<b>12.24</b>	<b>24.12</b>
Basic S/O	6,391,053	7,208,388	6,806,287	7,208,388	7,208,388	7,208,388	7,333,388	7,333,388	7,333,388	7,333,388	7,333,388	7,333,388
<b>Diluted EPS</b>	<b>0.34</b>	<b>4.63</b>	<b>5.23</b>	<b>0.67</b>	<b>5.60</b>	<b>6.11</b>	<b>6.00</b>	<b>5.43</b>	<b>11.43</b>	<b>11.87</b>	<b>12.24</b>	<b>24.12</b>
Diluted S/O	6,391,053	7,216,353	6,806,287	7,221,992	7,208,388	7,215,190	7,333,388	7,333,388	7,333,388	7,333,388	7,333,388	7,333,388
<b>EBITDA</b>	<b>104,227</b>	<b>507,270</b>	<b>611,497</b>	<b>126,529</b>	<b>583,355</b>	<b>693,362</b>	<b>608,509</b>	<b>559,248</b>	<b>1,167,757</b>	<b>1,173,855</b>	<b>1,214,733</b>	<b>2,388,608</b>

Source: 6878 documents filed with the HKEX and Greenridge Global estimates

**DISCLOSURES****Distribution of Ratings**

Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	9	100%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	0	0%
NO RATING	0	0%	0	0%

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- SELL:** Describes overvalued stocks we expect to provide a total negative return (capital depreciation + yield) of 15% or more in the next twelve month period.
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<u>Company</u>	<u>Disclosures</u>
Differ Group Holding Company Limited	8

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