

China / Hong Kong Company Update

SY Holdings

Bloomberg: 6069 HK Equity | Reuters: 6069.HK

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DBS Group Research . Equity

27 Mar 2023

BUY

Last Traded Price (24 Mar 2023): HK\$5.77 (HSI : 19,916)
Price Target 12-mth: HK\$8.50 (47% upside) (Prev HK\$10.00)

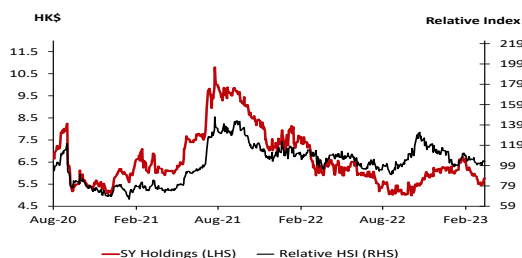
Analysts

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What's New

- FY22 adjusted earnings +10% y-o-y, reflecting steady digital financing and strong IIoT performance, despite lower-than-expected NIS due to higher allocation to low-risk products
- SOE cooperation model could solve the funding bottleneck and quintuple the loan facilitation scale to c.Rmb10b in FY23F
- Revised down FY23F earnings by 39% to Rmb375m to reflect lower NIS forecast, yet growth profile remained promising
- Cut TP to HK\$8.5 on lower multiple to reflect the increased market volatility since last forecast. Maintain BUY

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2021A	2022A	2023F	2024F
Pre-prov. Profit	463	308	446	490
Pre-prov. Profit Gth	19	(33)	45	10
Pretax Profit	462	286	446	513
Net Profit	411	219	342	393
EPS (RMB)	0.41	0.22	0.34	0.39
EPS (HK\$)	0.47	0.25	0.39	0.45
EPS Gth (%)	11	(47)	56	15
PE (X)	12.3	23.1	14.8	12.9
DPS (HK\$)	0.09	0.09	0.10	0.11
Div Yield (%)	1.5	1.5	1.7	1.9
BV Per Share (HK\$)	4.29	4.44	4.78	5.16
P/Book Value (x)	1.3	1.3	1.2	1.1
ROAE (%)	12.3	5.7	8.4	9.0
ROAE (ex-exceptional)	12.3	5.7	8.4	9.0
ROA (%)	6.05	2.17	2.74	2.62

Earnings Rev (%)			(39)	New
Consensus EPS (RMB)			0.33	0.39
Other Broker Recs:		B:5	S:0	H:0

Passing through the bottleneck

Investment Thesis

Dual-engine strategy for sustainable growth. Enabled by its digital technology, SY could offer more flexible factoring services and competitive rates to its SME clients than traditional banks. Its strong connection with SOE buyers, which have large supplier ecosystem, has also become a good source for client acquisition. We believe SY's industrial internet of things (IIoT) offerings, as its second engine, would (1) gradually become a sizeable revenue stream for SY, (2) enhance its client stickiness, and (3) contribute to risk management through the collection of more real-time data.

Spread narrowed, yet growth remained. We have lowered FY23F earnings by 39%, mainly on narrower net interest spread, due to the firm's strategy to offer more standardised but low-yield products. We think this makes sense to ramp up asset scale at an early stage with less credit risk taken at the same time, could eventually help in negotiating lower funding costs with banks, thus benefitting long-term profitability.

SOE collaboration to fuel loan growth. Replicating the success of its collaboration with Wuxi Guojin, SY has created four additional JVs with municipal SOEs that have a strong capital and credit standing, opening up Rmb10bn in funding capacity. SY could, therefore, focus on its strength of exporting its digital financing technology and rapidly ramp up its scale to achieve further economies of scale.

Cut TP to HK\$8.5, maintain BUY (vs. previous TP of HK\$10). We have rolled over the valuation base to FY23F and pegged the TP to 1.8x FY23F PB (previously 2.0x), which is in line with its past five-year mean. The downward revision of the multiple reflects the increased market volatility since our last forecast. The 47% upside can be broken down into (1) 9% ROE expected in FY23F and (2) a 35% re-rating to its past five-year mean, catalysed by the fulfilment of its stronger loan growth target.

Key Risks

1) Deterioration in asset quality, 2) deterioration in the relationships with core SOE buyers, 3) a significant economic slowdown in China, 4) competition from traditional financial institutions and internet giants, and 5) poorer-than-expected execution of the SOE collaboration model.

At A Glance

Issued Capital (m shrs)	1,004
Mkt Cap (HKm/US\$m)	5,791 / 738
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)	1.2
GICS Industry: Financials / Diversified Financials	

SY Holdings

WHAT'S NEW

FY22 adjusted earnings grew 10% y-o-y

Despite a 45% y-o-y decline in FY22 net earnings, after adjusting for one-off items such as gains from the acquisition of Wuxi Guojin (WXGJ) in FY21 and share-based compensation, core net earnings would have gone up by +10% y-o-y. The earnings were below our previous expectation, primarily due to a lower-than-expected net interest spread of 3.0%, vs. 3.5% in our previous forecast. The miss was largely due to that SY tactically chose to sell more standardised but low-risk products during FY22. However, this proved useful to asset quality, as the metrics improved, with the NPL ratio down to 0% (FY21: 0.29%) and overdue ratio down to 0.05% (FY21: 0.29%). The stronger-than-expected year-end FY22 loan balance of Rmb8,422m also hinted at the fading shadow of the pandemic, pointing to a brighter outlook from FY23F onwards.

Industrial Internet of Things (IIoT) has finally become a meaningful revenue contributor, bringing in Rmb32m in FY22, substantially higher than the Rmb2m in FY21. SY has been exploring strategic investment opportunities to leverage on industrial technology from other companies, with its proprietary data collection technology integrated in the overall solution. We think the synergy from the offerings is even more encouraging than the direct revenue, as it can enhance client stickiness and credit risk management. With Zero to One completed, we are hopeful to see SY further scale up its IIoT offerings in the next few years.

SOE collaboration to break through the funding bottleneck.

Management stressed that securing sufficient funding has been a more difficult issue than soliciting clients' loan demand, and that its SOE collaboration model could be the inflection point. By replicating the successful experience of the Wuxi Guojin JV with municipal SOEs, SY has formed four new JVs so far with SOE partners in different regions. We see it as an effective way to leverage the capital and credit of the partners to rapidly scale up its operation, while SY could focus on exporting its strength in digital financing technology. Management suggested c.Rmb10bn in loan capacity will be available from these JVs and that they are confident about fully utilising it in FY23F. The loans disbursed by these JV entities will be counted as loans facilitated by SY, and it could earn both facilitation fees and share the spread earned by

the associates. Management also guided there could be two more new JVs with SOE partners and more capital injections into existing JVs in the future.

FY23F earnings revised down by 39% to Rmb342m, mainly due to lower NIS forecast, but the long-term growth profile has remained intact. FY23F NIS was lowered from 3.8% to 2.8% to reflect SY's strategy to offer a higher volume of standardised loan product, while the loan balance (including loan facilitation) was revised up by 44% to Rmb18.8bn. Management suggests the spread is going to stabilise, as (1) the yield is already competitive enough in the market and (2) offshore borrowing, which is more expensive than onshore borrowing, will be repaid soon. We think it makes sense for the company to strategically opt for low-yield yet standardised products to ramp up its scale, which will offer greater bargaining power for it to negotiate better borrowing terms with banks, thus benefiting long-term profitability.

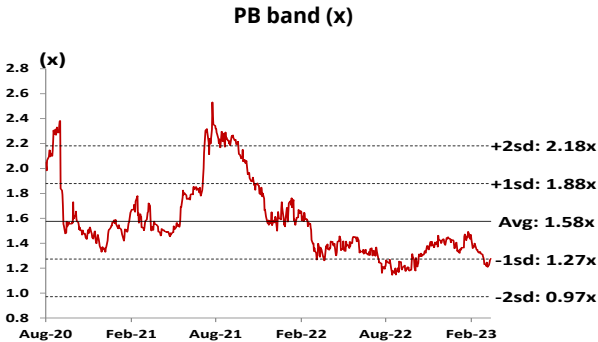
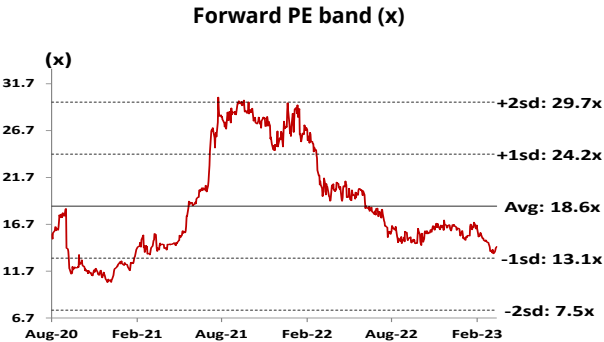
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Company Background

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 FY22, SY Holdings managed Rmb10.4bn in factoring assets and had total assets/total liabilities of Rmb11.4bn/Rmb7.3bn.

SY Holdings

Historical PE and PB band



Source: Thomson Reuters, DBS HK

SY Holdings

Key Assumptions

FY Dec	2020A	2021A	2022A	2023F	2024F
Net interest margin (%)	8.06	6.32	4.82	4.84	4.07
Factoring loan growth (%)	(1)	76	26	0	30
Interest rate from borrowing (%)	7	6	6	6	6
Yld. On Earnings Assets (%)	11.61	7.83	7.90	8.89	8.73
Avg Cost Of Funds (%)	7.58	4.77	5.43	5.17	5.06

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Interest Income	317	281	328	409	446
Non-Interest Income	260	417	238	376	443
Operating Income	577	699	566	784	889
Operating Expenses	(190)	(236)	(258)	(339)	(399)
Pre-provision Profit	388	463	308	446	490
Provisions	(15)	(17)	(21)	(23)	(31)
Associates	15	17	(1)	22	54
Exceptionals	0	0	0	0	0
Pre-tax Profit	387	462	286	446	513
Taxation	(50)	(41)	(42)	(66)	(76)
Minority Interests	(8)	(10)	(24)	(38)	(43)
Preference Dividend	0	0	0	0	0
Net Profit	329	411	219	342	393
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Growth (%)

Net Interest Income Gth	(0.56)	(11.22)	16.74	24.48	9.08
Net Profit Gth	17.45	24.84	(46.62)	55.89	15.02

Margins, Costs & Efficiency (%)

Spread	3.87	2.76	3.00	2.80	2.80
Net Interest Margin	8.29	5.37	4.29	4.73	4.50
Cost-to-Income Ratio	32.9	33.8	45.6	43.2	44.9

Business Mix (%)

Net Int. Inc / Opg Inc.	54.9	40.3	58.0	52.1	50.2
Non-Int. Inc / Opg inc.	45.1	59.7	42.0	47.9	49.8
Fee Inc / Opg Income	7.4	9.3	21.7	39.3	41.7
Oth Non-Int Inc/Opg Inc	37.7	50.5	20.3	8.6	8.1

Profitability (%)

ROAE Pre Ex.	12.7	12.3	5.7	8.4	9.0
ROAE	12.7	12.3	5.7	8.4	9.0
ROA Pre Ex.	7.3	6.2	2.4	3.0	2.9
ROA	7.1	6.0	2.2	2.7	2.6

Source: Company, DBS HK

SY Holdings

Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Cash/Bank Balance	349	800	577	600	624
Government Securities	0	0	0	0	0
Inter Bank Assets	0	0	0	0	0
Total Net Loans & Adv.	3,804	6,678	8,621	8,645	11,151
Investment	0	0	0	0	0
Associates	151	11	209	449	539
Fixed Assets	8	8	17	17	17
Goodwill	22	148	156	156	156
Other Assets	452	1,156	1,798	3,708	4,007
Total Assets	4,786	8,803	11,378	13,575	16,494
Customer Deposits	0	0	0	0	0
Inter Bank Deposits	0	0	0	0	0
Debts/Borrowings	1,476	3,941	6,240	7,633	8,904
Others	283	908	1,014	1,485	2,751
Minorities	111	183	207	246	290
Shareholders' Funds	2,916	3,771	3,916	4,210	4,549
Total Liab& S/H's Funds	4,786	8,803	11,378	13,575	16,494

Source: Company, DBS HK

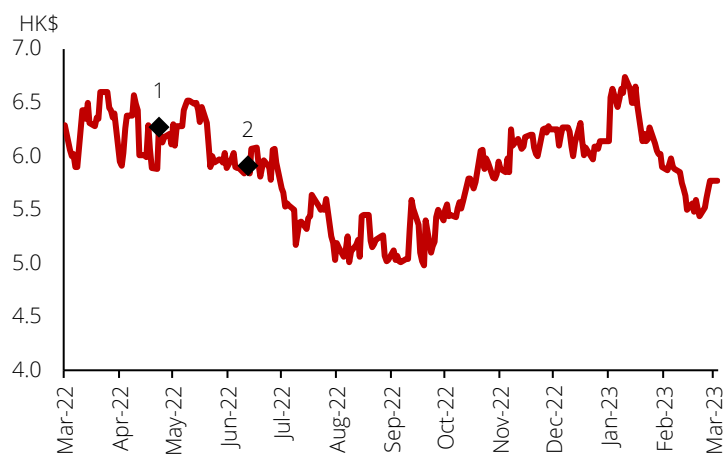
Financial Stability Measures (%)

FY Dec	2020A	2021A	2022A	2023F	2024F
Balance Sheet Structure					
Loan-to-Deposit Ratio	0.0	0.0	0.0	0.0	0.0
Net Loans / Total Assets	79.5	75.9	75.8	63.7	67.6
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
Asset Quality					
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	0.3	0.2	0.3	0.3
Capital Strength					
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 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	17-May-22	HK\$5.88	HK\$10.00	BUY
2	6-Jul-22	HK\$5.94	HK\$10.00	BUY

Source: DBS HK

Analyst: Ken Shih

Edmond Fok

SY Holdings

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

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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SY Holdings

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