



# Sun Hung Kai & Co

2017 Annual Results Announcement

---

# Important - Disclaimer

---

By attending or viewing this Presentation you are agreeing to be bound by the terms and restrictions set out below. The information contained in this presentation and the accompanying slides and materials (the "Presentation") is confidential. You must not re-distribute, reproduce or publish this Presentation in whole or in part whether in Hong Kong or otherwise. Any failure to comply with this prohibition may result in a breach of securities laws and regulations. This Presentation is not an offer or invitation to purchase or subscribe for any securities in Sun Hung Kai & Co ("Company") or any of its affiliated companies (referred to as the "Group").

The information contained in this Presentation has not been independently verified. Neither any Group member nor any of their directors, officers, employees and representatives makes any representation or warranty whatsoever, whether it is express or implied, and assumes no responsibility or liability whatsoever (in negligence or otherwise) in connection with the contents of this Presentation being fair, accurate, complete or reasonable. It is not intended that this Presentation be an exhaustive analysis of the Group's financial or trading position or prospects. This Presentation may not contain all the information which you may consider material. The information and the opinions contained in this Presentation are provided as at the date of this Presentation and may change without notice to you. Under no circumstances is any Group member or any of their directors, officers, employees and representatives liable for any direct, indirect or consequential loss or damage, howsoever caused (including in negligence or otherwise), that you or any other party may sustain from any use of the information in this Presentation or otherwise in connection with this Presentation.

The Group's past performance is not necessarily indicative of its future performance. This Presentation also contains certain forward looking statements regarding the Group's opinions of and expectation of the future. These statements are neither necessarily indicative of the Group's future performance nor are they guarantees of future performance. Forward looking statements, by their nature, are based on assumptions and factors that may be beyond the control of the Group. As such, actual future performance and results may materially and adversely differ from those expressed or implied in this Presentation. The Group assumes no obligation to update or correct any forward looking statement. The Group has not adopted any forward looking statements made by third parties and as such the Group will not be responsible for third party statements.

# 2017 Results Highlights

---

Attributable Profit  
HK\$1,824m

**+64%**

Basic EPS  
HK\$0.84

**+67%**

Return on Equity  
9.7%

**+360bp**

BVPS  
HK\$9.02

**+9%**

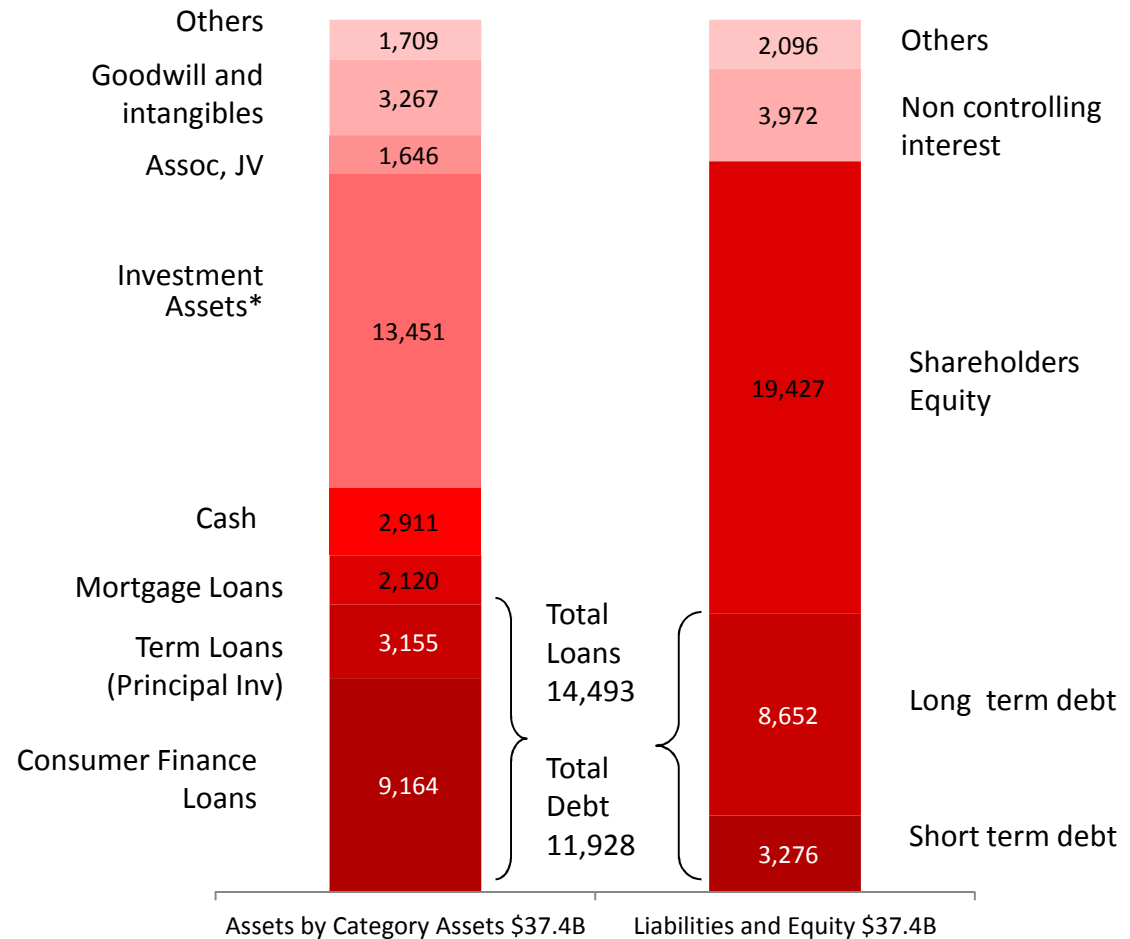
- ▶ Strong growth across various asset classes
- ▶ Continued improvement in UAF
- ▶ Increased investment returns

## Segments Assets and Contribution (HK\$m)

		Assets	Pre-tax Profit	Change
<b>Consumer Finance</b>	<ul style="list-style-type: none"> <li>• UA Finance (58%) - unsecured lending in HK, China, individual consumers</li> <li>• Market leader in HK</li> </ul>	16,032	1,445	+99%
<b>Principal Investments</b>	<ul style="list-style-type: none"> <li>• Leverage on our know-how and network</li> <li>• Equity, debt and real estate portfolio</li> <li>• Strategic and liquidity management portfolio</li> </ul>	15,937	1,082	+129%
<b>Financial Services</b>	<ul style="list-style-type: none"> <li>• EBSHK(30%) – Wealth Mgmt, HK</li> <li>• LSS Leasing (40%) – Car leasing in China</li> <li>• Other financial services firms</li> </ul>	2,483	119	-35%
<b>Mortgage Loans</b>	<ul style="list-style-type: none"> <li>• SHK Credit - mortgage and home equity loans in HK, home owners and buyers</li> </ul>	2,185	35	+1844%
<b>Group Management and Support</b>	<ul style="list-style-type: none"> <li>• Cost of funding charged to investments</li> <li>• Other unallocated assets and expenses</li> </ul>	785	(72)	
<b>Group Total</b>		<b>37,422</b>	<b>2,609</b>	<b>+74%</b>

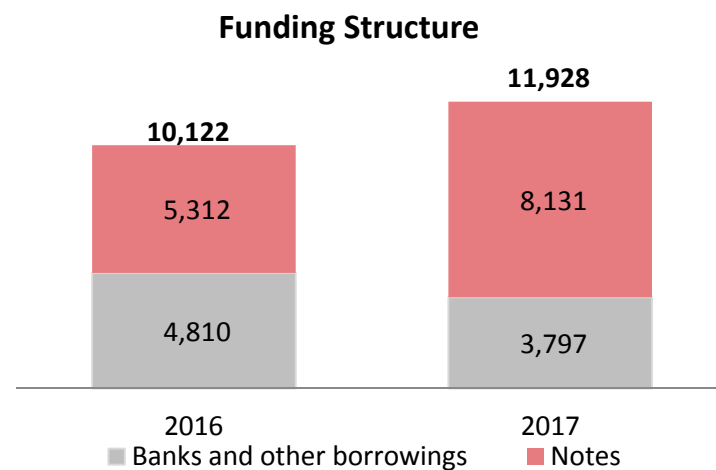
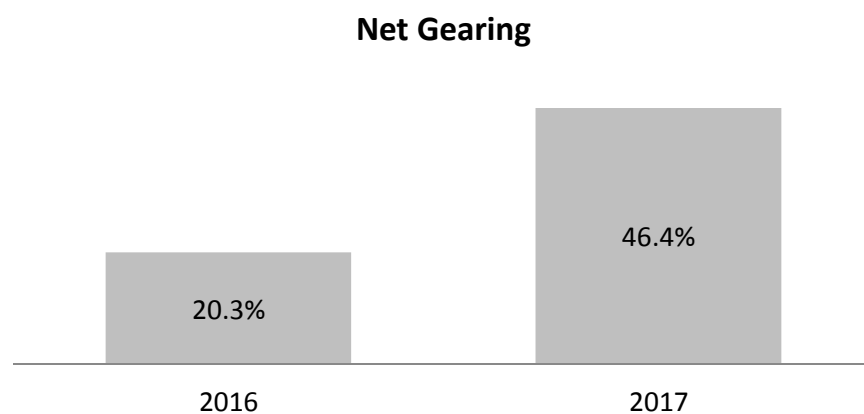
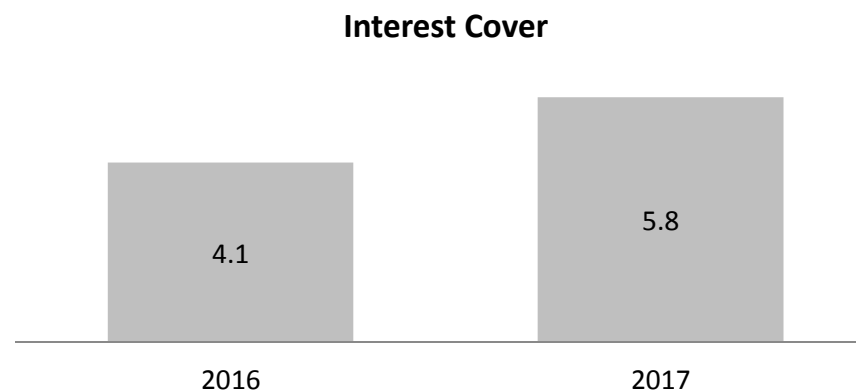
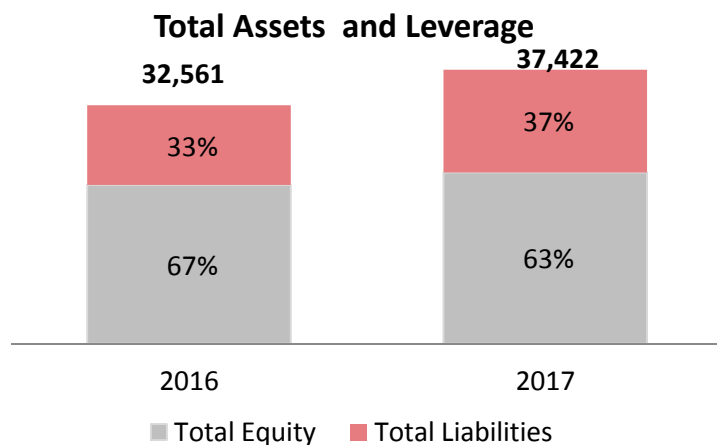
# Balance Sheet

- ▶ \$9.02 BVPS (+9.5%)
- ▶ Net gearing 46.4%
- ▶ Refinanced USD notes and completed largest issuance since MTN set up
- ▶ 40m shares repurchased for \$196m



\* Financial Assets, Available for sale investments and investment properties

# Capital Structure and Funding (HK\$m)



## Business Segments

---



# Consumer Finance

## 2017 Segment Result Highlights

(HK\$m)	2017	2016	Change
Revenue	3,122	3,024	3%
Finance Costs	202	244	-17%
Total Bad Debts Expenses	297	929	-68%
Op Costs	1,146	1,169	-2%
Pre-tax Profit	1,445	727	99%
Return on Loans	33.9%	33.4%	
Charge-off	6.6%	10.0%	
Cost to Income	36.7%	38.7%	
Net Loans	9,164	7,660	+20%
HK/ China Breakdown*	67%/33%	74%/26%	
Avg bal per loan (HK\$)	44,938	45,202	-1%

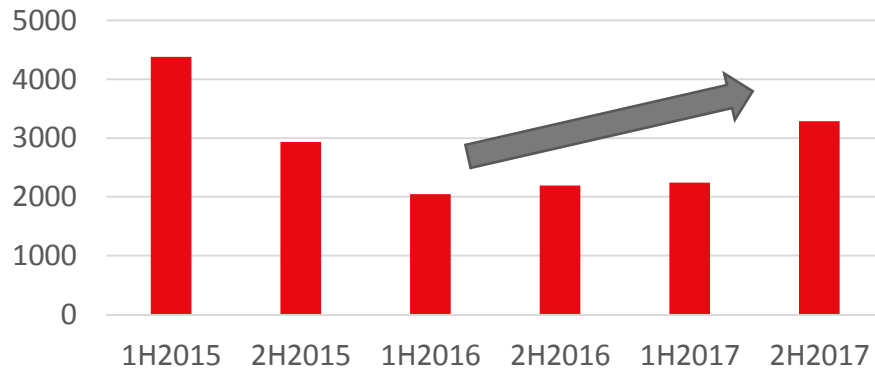
\*Based on gross loans

- ▶ Profit doubled
  - Successful China restructuring
  - Record profit in HK
  - Normalising charge off ratio with healthy trend towards year-end
- ▶ China resume strong organic growth after restructuring
- ▶ O2O strategy
- ▶ Drive capital efficiency

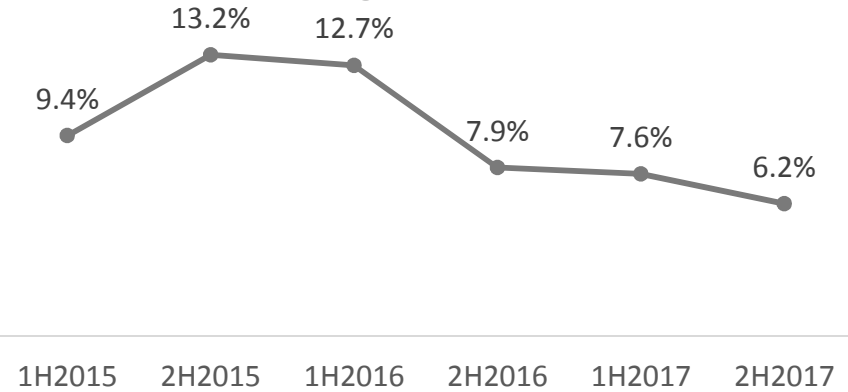


# Performance since 2015

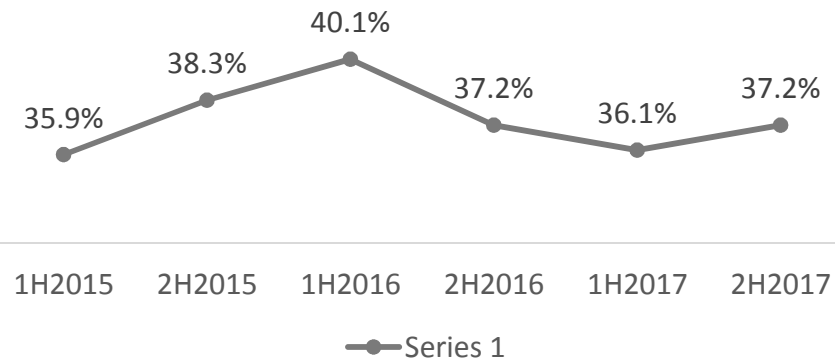
### Gross Loans – China (HK\$m)



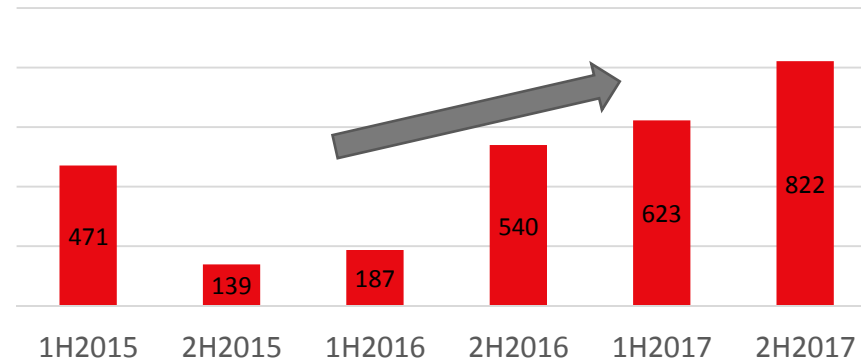
### Charge-off Ratio



### Cost-to-income Ratio

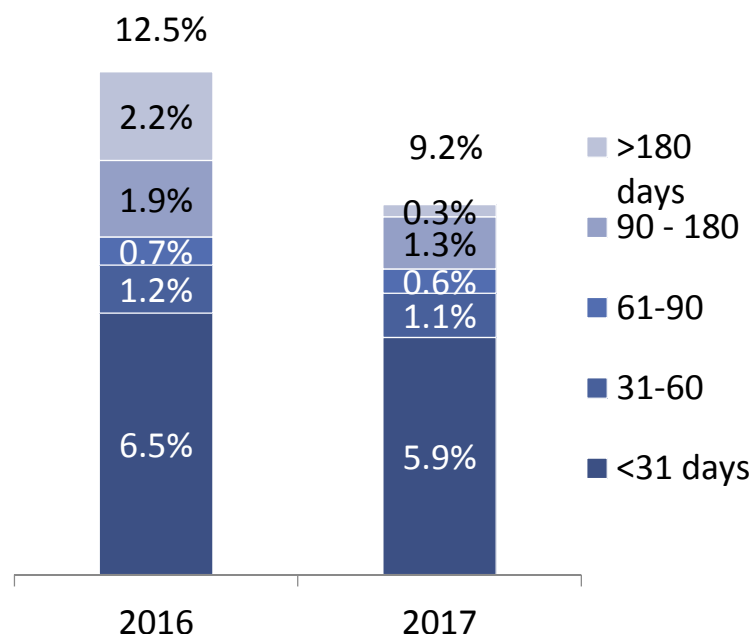


### Pre-tax contribution (HK\$m)



# Stabilising Credit Quality

Ageing analysis for loans past due but not impaired, as % gross loans



- ▶ HKFRS9 from 2018
- ▶ Forward looking methodology based on expected credit loss model

Composition of Total Bad Debts Expenses

(HK\$ Million)	2017	2016
Amounts written off	(772)	(1,066)
Recoveries	163	160
Charge Off	(609)	(906)
<i>As annualised % of avg gross loans</i>	6.6%	10.0%
Write back (Charges) of impairment allowance	312	(23)
<b>Total bad and doubtful debts</b>	<b>(297)</b>	<b>(929)</b>
Impairment allowance at period end	663	906
<i>As % of period end gross loans</i>	6.7%	10.6%

# UAF - Hong Kong



*“Let go of your worries. Yes, UA”*

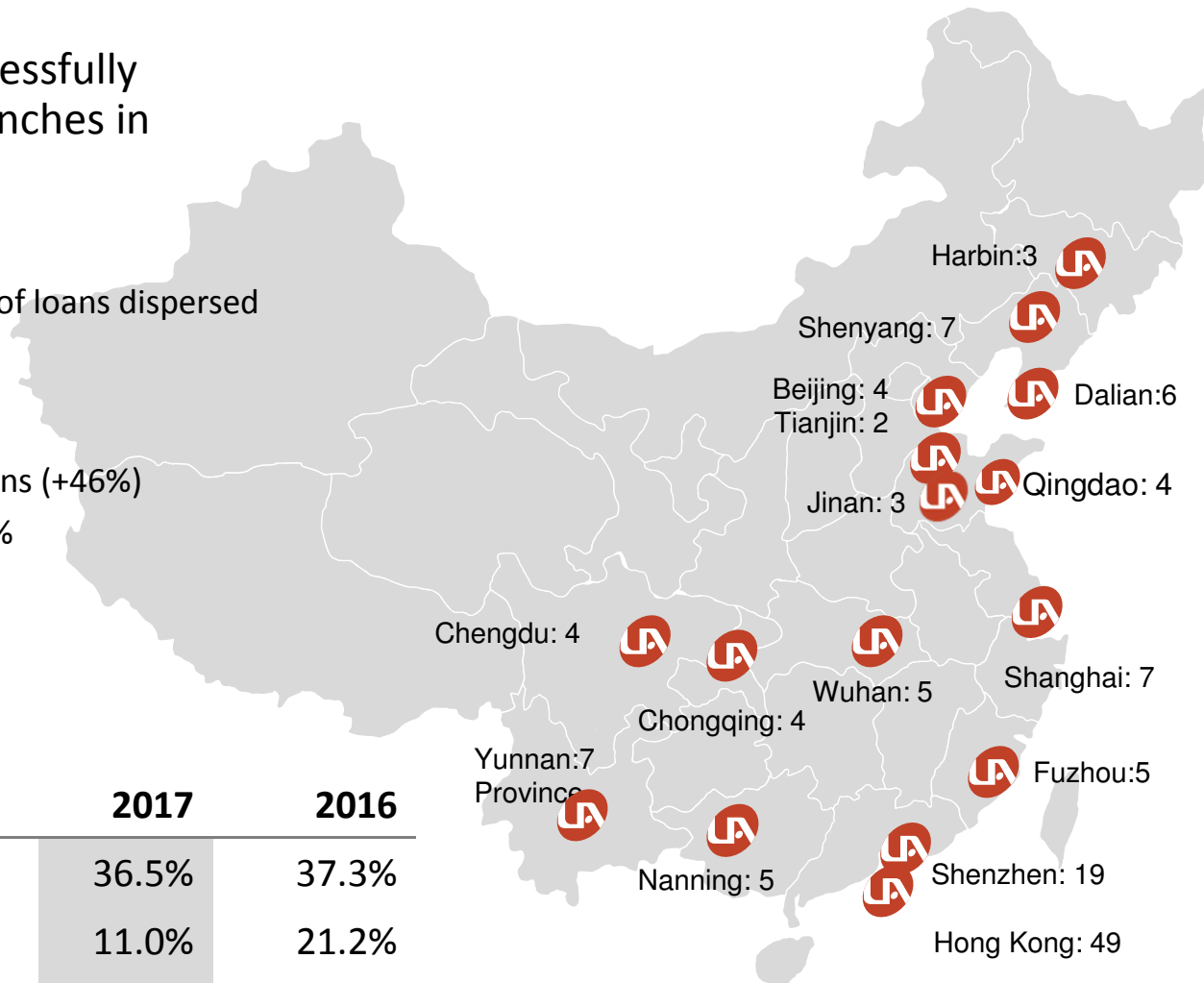
- ▶ Continued improvement in market share both by value and customer share
- ▶ Still very benign market with low unemployment
- ▶ Gross loans + 3%
- ▶ Record profit

## Operation Highlights

	2017	2016
Return on Loans	32.9%	31.8%
Charge-off	4.8%	5.6%
Gross Loans (HK\$m)	6,544	6,374
Avg balance per loan(HK\$)	53,126	54,654

# UAF – Mainland China

- ▶ Restructuring successfully completed, 85 branches in operation
- ▶ 2017 vs 2014:
  - ↑75% number of loans dispersed
  - ↓28% costs
- ▶ 2017:
  - 128,744 new loans (+46%)
  - Gross loans +50%
- ▶ O2O approach



## Operation Highlights

	2017	2016
Return on Loans	36.5%	37.3%
Charge-off	11.0%	21.2%
Gross Loans (HK\$m)	3,283	2,193
Avg balance per loan(RMB)	28,628	26,941

# O2O Approach

Online Reach + "last mile" personalised service:

## Partnerships



- ▶ May 2017
- ▶ RMB 500m + originated



- ▶ Started Feb 2018

## Own platform

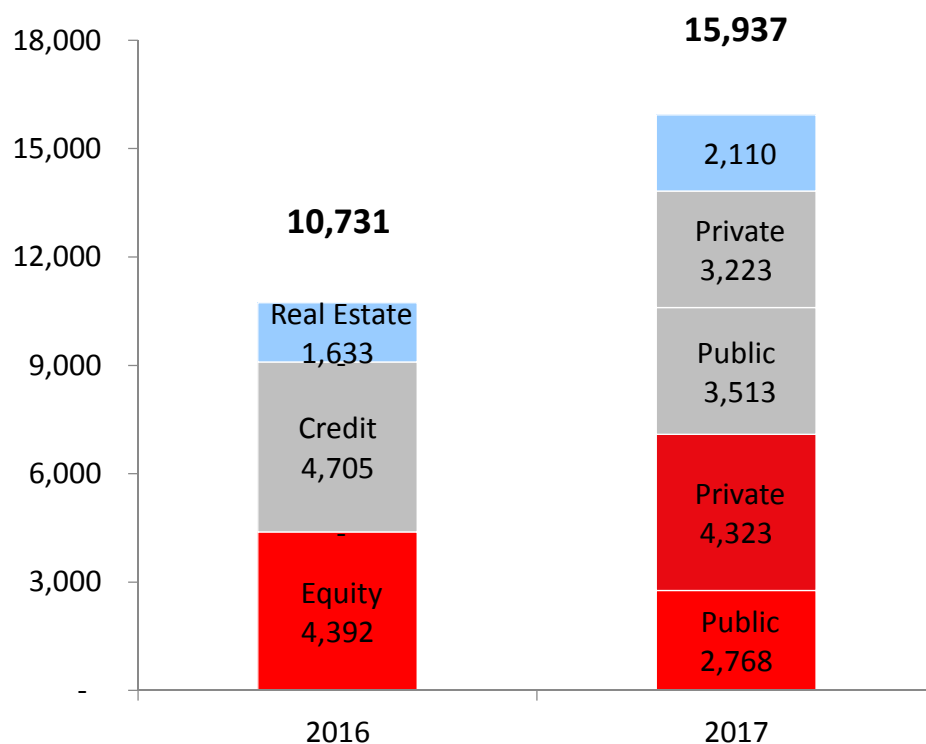


## Branch Network



# Principal Investments

## Principal Investments Portfolio



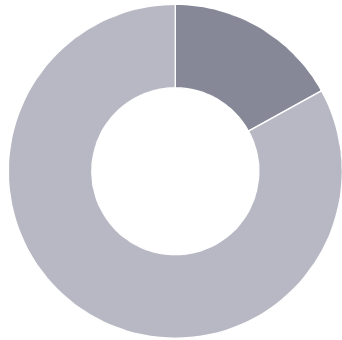
### ▶ 2017 Investment return:

- Public Equity 7.8% (blended<sup>^</sup>)
- Private Equity 19.8%
- Public Debt 3.8% (blended<sup>^</sup>)
- Private Debt 13.4%
- Real Estate 7.5%

### ▶ HK\$1,082m (+129%) after operation and capital cost allocation

<sup>^</sup>including strategic investment impairment in public equities, liquidity management products in public debt

## Public Equities



**17%** of total portfolio, **HK\$2,768m**

- ▶ 16.6% return excluding PPDai strategic investment portion
- ▶ Focused strategy on global medium and large cap positions
- ▶ Emphasis on Greater China, Australia, North America
- ▶ Satisfactory YTD trend
  
- ▶ PPDai Strategic Investment:
  - Classified as Available for Sale Investment
  - Impairment reflects market reaction to sudden tightening of online lending regulation
  - Fairly regulated market a plus for the Group and PPDai

拍拍贷  
ppdai.com

## Private Equity

---

**27%** of total portfolio, **HK\$4,323m**



- ▶ 19.8% investment return
- ▶ Successful co-investment strategy
- ▶ Focused on increasing exposures to our strategic competencies: financials, fintech, health care, tech etc
- ▶ 2017 new investments in financials and fintech in North America
- ▶ Using our consumer finance expertise and expanded globally with Fairstone investment
- ▶ Geography:
  - Greater China 38%
  - North America 18%



## Public Credit

**22%** of total portfolio, **HK\$3,513m**



- ▶ 5.5% return excluding liquidity management products
- ▶ Multi strategy long/short approach
- ▶ Identify mispriced/ undervalued fixed income opportunities
- ▶ Global portfolio for corporate and sovereign bonds
- ▶ Sectors: property, financials, oil and gas, metals and mining
- ▶ Since 2017 included Group liquidity management products

## Private Credit

**20%** of total, **HK\$3,223m**

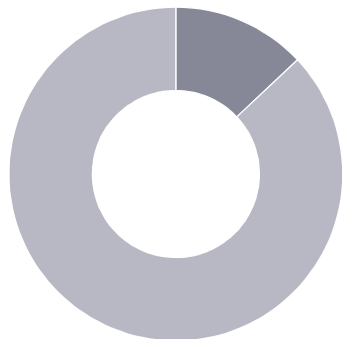


- ▶ 13.4% return
- ▶ 11% growth in term loans
- ▶ Interest income +26% to HK\$425m
- ▶ Provision ~2.8% of portfolio
  - Likelihood of future recovery; helping one of the borrowers on business restructuring
- ▶ To focus on fee income via collaboration with affiliates and partners

## Real Estate

---

**13%** of total, **HK\$2,110m**



- ▶ 7.5% return
- ▶ Focus:
  - Legacy Hong Kong commercial real estate
  - Minority interest in two residential development projects (HK, Australia)
  - Global special situation investments (prime commercial, hospitality)
- ▶ Strong metrics and underlying performance of assets
- ▶ Forex hedging reduced short term return performance but to be reversed upon future asset sale
- ▶ New for 2017: contemporary hostel chain and prime London asset
- ▶ Open to explore future interests through credit structures if risk/reward justifies

# Mortgage Loans

## Results Summary

<i>(HK\$m)</i>	2017	2016
Revenue	124.4	55.7
Operating Costs	(43.9)	(38.6)
<i>Cost to Income (% Rev)</i>	35.3%	69.3%
Finance costs	(42.3)	(12.3)
Bad and doubtful debts	(3.2)	(3.0)
<b>Pre-tax Contribution</b>	<b>35.0</b>	<b>1.8</b>
Net Loans	2,120	613



- ▶ Passed \$2B mark in 2<sup>nd</sup> full year of operation
- ▶ Top ranked non-bank 1<sup>st</sup> mortgage provider (no. of new loans)
- ▶ Partnerships with mid-tier HK developers and real estate agents working well
- ▶ To focus on driving greater scale and improving efficiency

# Financial Services

---

- ▶ Segment PBT HK\$118.6m (-35%), on lower SHKF stake accounting gains
- ▶ Underlying performance of the two major businesses improved



- ▶ AUM surpassed HK\$100b
  - ▶ Expect synergy gains to accelerate after re-brand
  - ▶ Inaugural Moody's rating Baa3/P-3
  - ▶ Accounting gain HK\$108.6m (2016: HK\$203.5m)
    - HK\$107.6m impairment reversal (2016: \$141.5m charged)
    - HK\$1.0m gain from put option (2016: \$345m)
- ▶ In second full year of operation
  - ▶ Expanded from corporate customers segment to consumers
  - ▶ Strong shareholder partners
  - ▶ Formed various collaborative to connect financing to new transport models (eg electric vehicles, on demand transport)

## Strategy and Outlook

---



# Full Fledged Investment Platform

---

**HK\$37.4B** total assets

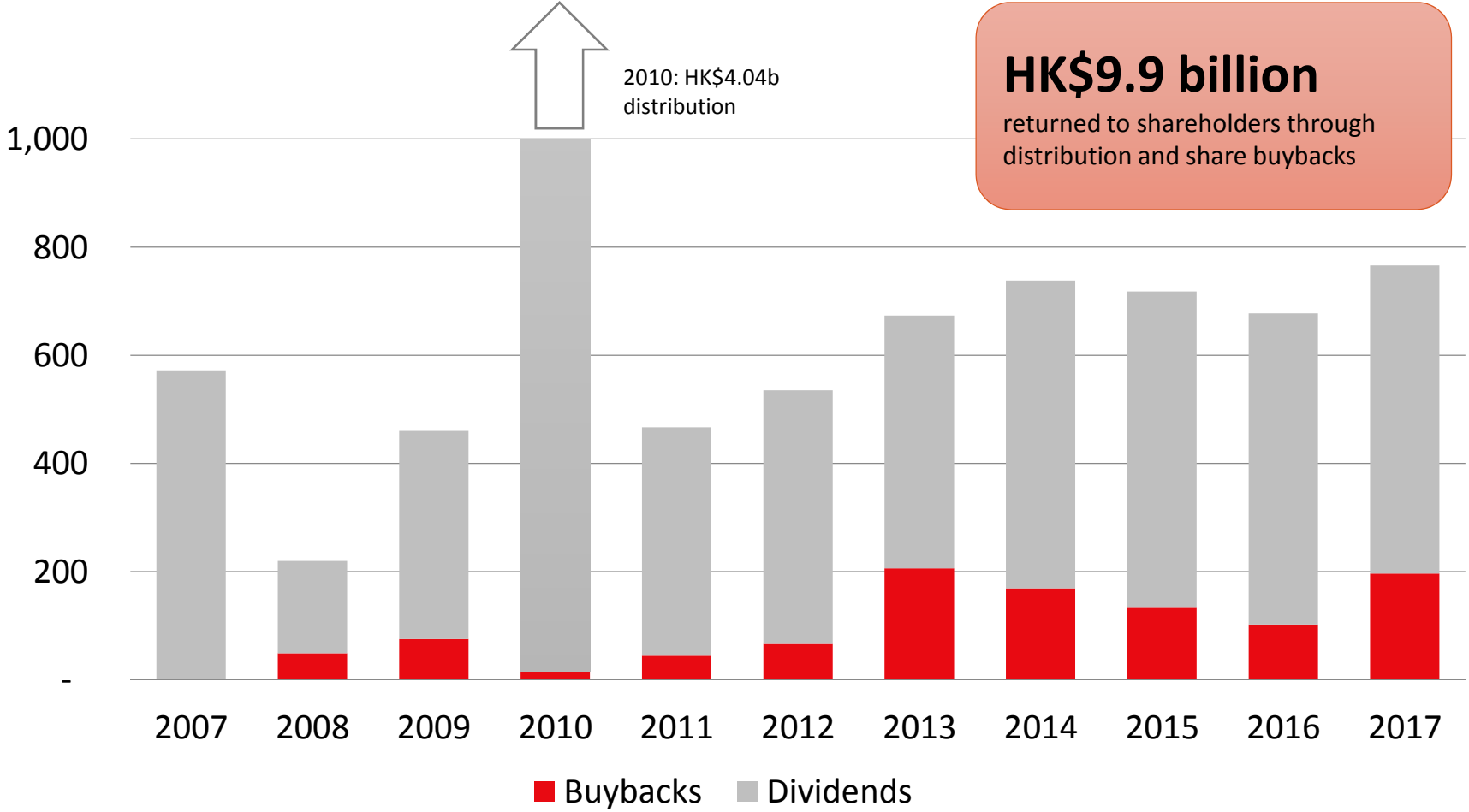
Committed to generate long term capital growth for shareholders

**Up to 2006**  
Stock Broker

**2007 – 2015**  
Consumer Finance  
Leading independent WM platform

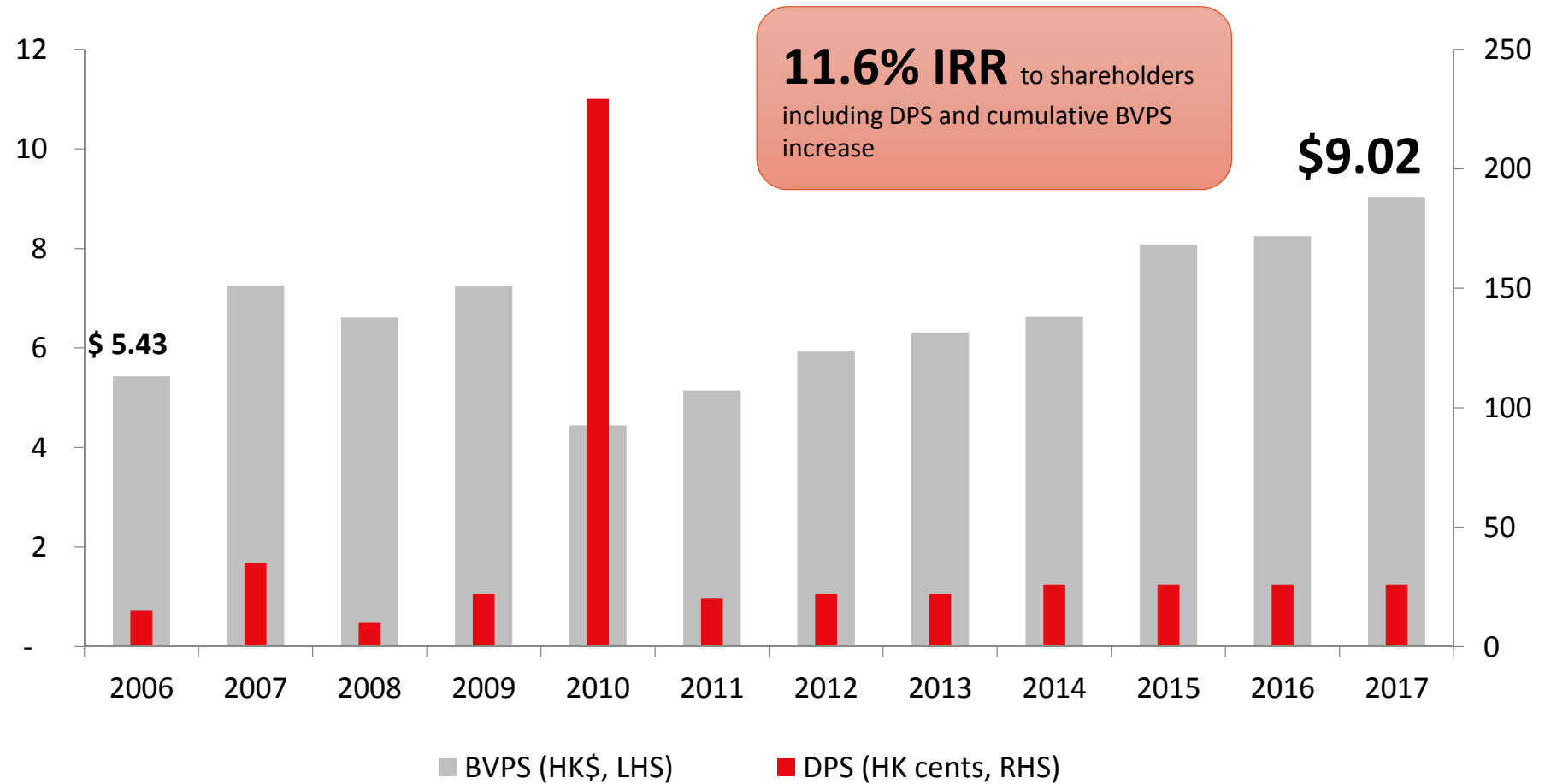
**From 2015**  
Asset platform that combines our heritage, network and financial strength  
Financials as core + global investments

# Track Record of Capital Return (HK\$m)





# Value Accretion



# Outlook

---

- ▶ Loan businesses (consumer finance, mortgage loans) positive barring any disruptive market developments. Growth in loan balances toward year end strengthens revenue base
- ▶ Investments well positioned with sufficient liquidity
- ▶ Continue to improve capital efficiency

---

Contact:

Nancy Chen, CFA

Head of Investor Relations

+852 3748 2823

[nancy.chen@shkco.com](mailto:nancy.chen@shkco.com)