

(Stock Code 86.HK)

Sun Hung Kai & Co

2018 Interim Results

16 August 2018

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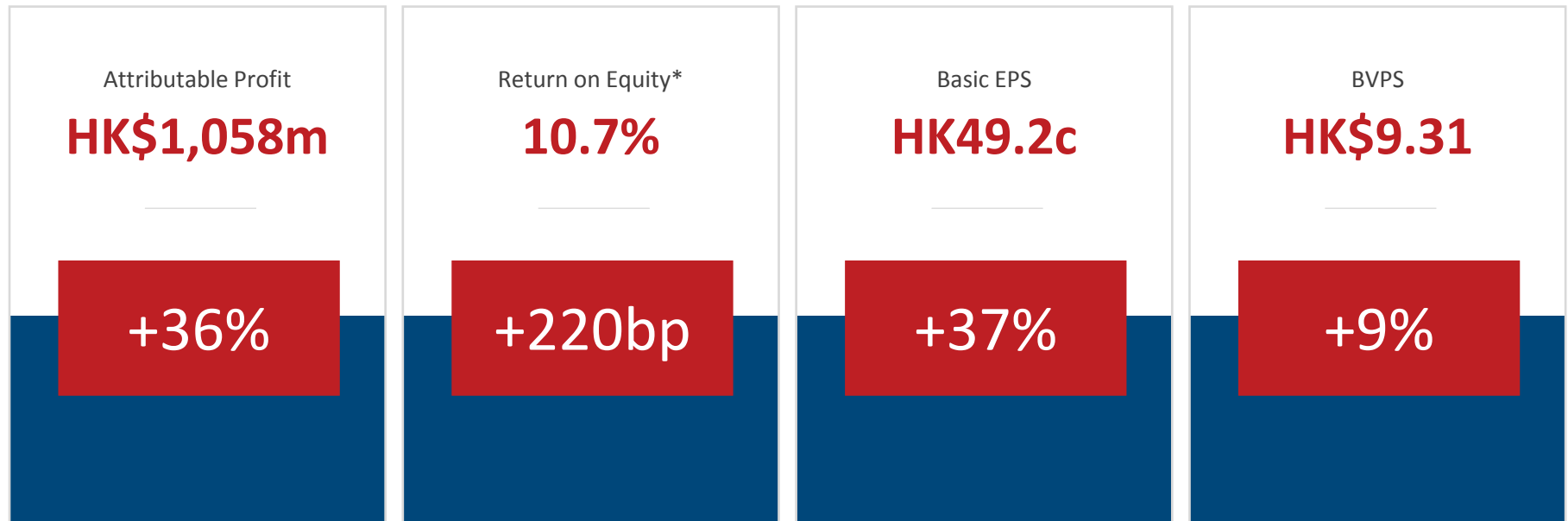
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2018 Interim Results Highlights

(Six months to 30 Jun, YoY comparisons)



*Annualised ratio



3-year investment track record



Commendable results in a challenging market



Consistent value creation for shareholders

Comprehensive Investment Platform

HK\$40B total assets

Committed to generate long term capital growth for shareholders

01

Up to 2006

- › Stock Broker

02

2007 – 2015

- › Consumer Finance
- › Leading independent WM platform

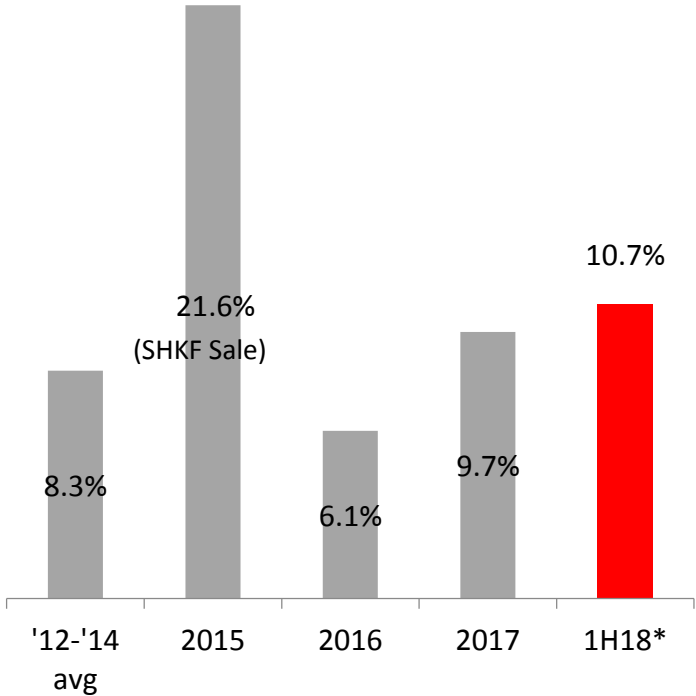
03

From 2015

- › Asset platform that combines our heritage, network and financial strength
- › Financials as core + global investments

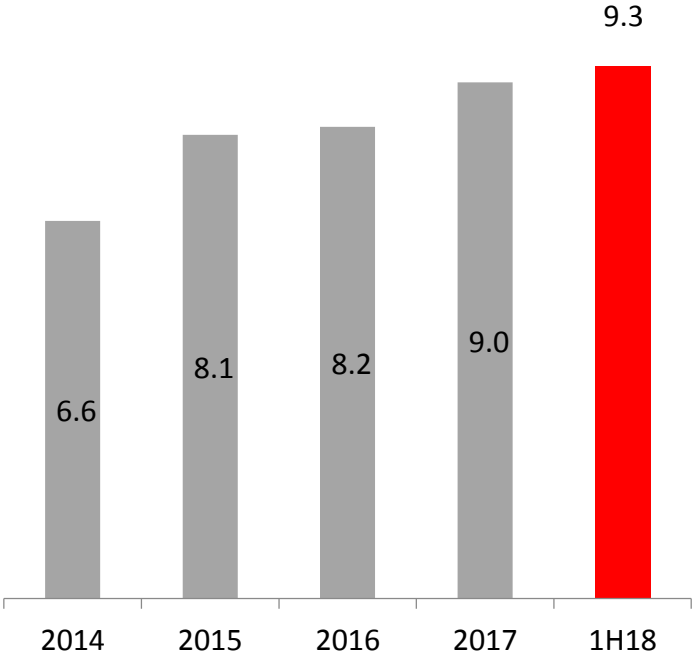
Creating Shareholder Value

ROE %



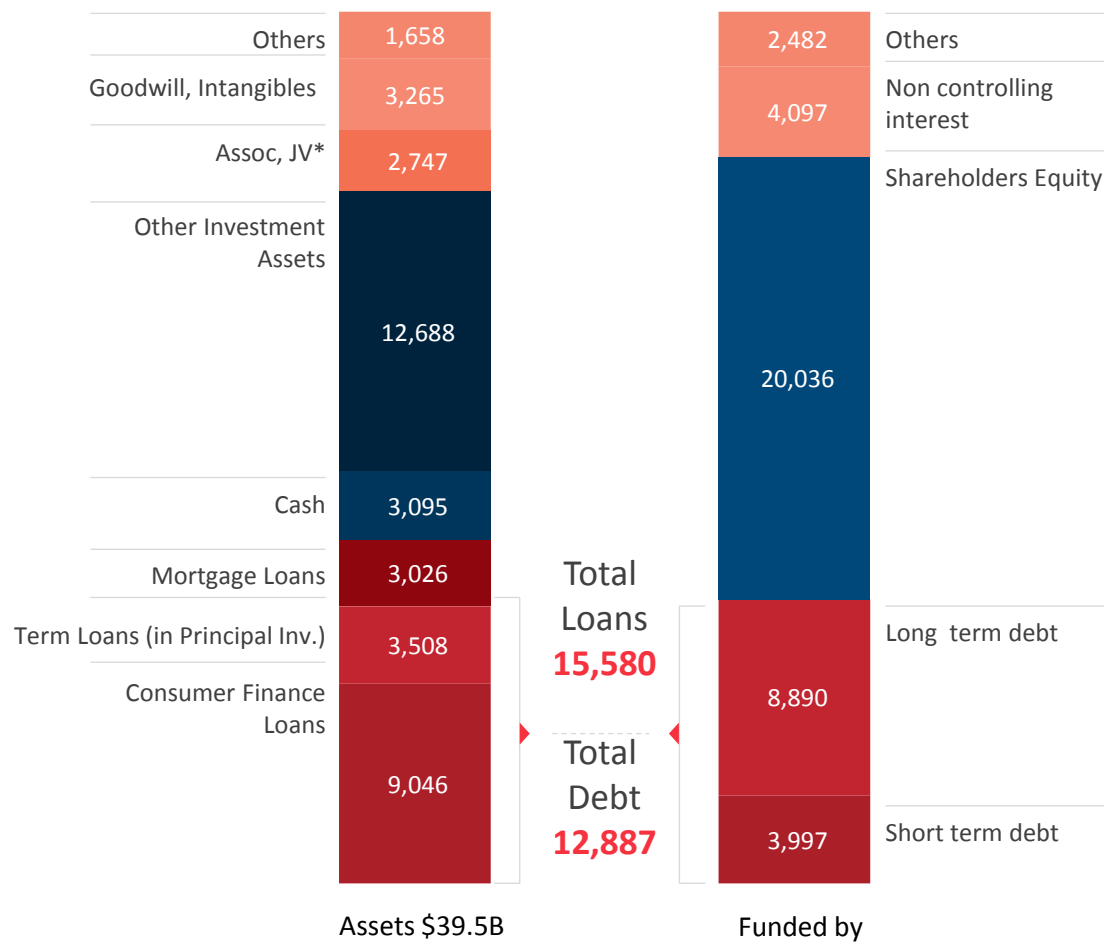
*Annualised

BVPS (\$)



Balance Sheet (HK\$m)

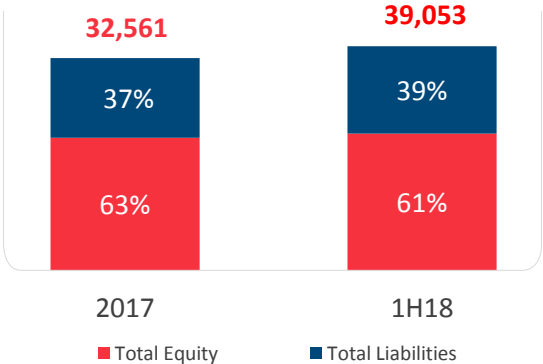
- \$9.31 BVPS (+9%)
- Net gearing 48.9%
- Interest cover 5.7x
- 145m share buyback to be completed on 17 Sept



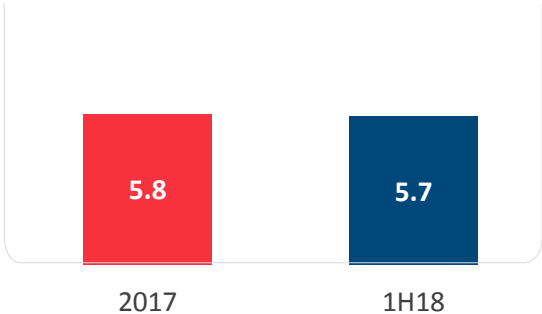
*Include EBSHK put

Capital Structure and Funding (HK\$m)

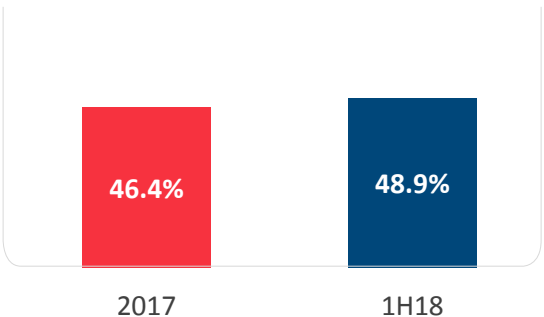
Total Assets and Leverage



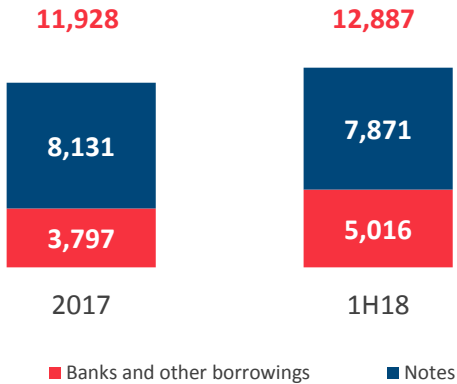
Interest Cover



Net Gearing



Funding Structure



Earnings Drivers and Segment Assets (HK\$m)

		Assets	Pre-tax Profit	YoY Change
 Consumer Finance	<ul style="list-style-type: none"> › UA Finance (58%) - unsecured lending in HK, China, individual consumers › Market leader in HK 	16,201	609	-2%
 Principal Investments	<ul style="list-style-type: none"> › Leverage on our know-how and network › Equity, debt and real estate portfolio › Strategic and liquidity management portfolio 	17,056	680	+57%
 Financial Services	<ul style="list-style-type: none"> › EBSHK(30%) – Wealth Mgmt, HK › LSS Leasing (40%) – Car leasing in China › Other financial services firms 	2,528	102	+65%
 Mortgage Loans	<ul style="list-style-type: none"> › SHK Credit - mortgage and home equity loans in HK, home owners and buyers 	3,066	49	3x
 Group Management and Support	<ul style="list-style-type: none"> › Overhead costs and unallocated finance costs 	652	(55)	2.9x
Group Total		39,503	1,385	+24%

Business Segments



Consumer Finance

(HK\$m)	1H17	1H18	Change
Revenue	1,475	1,738	18%
Op Cost	538	570	6%
Total Bad Debts Expenses	197	452	130%
Finance Costs	105	97	-8%
Pre-tax Profit	623	609	-2%
Operating Metrics			
Return on Loans ¹	34.5%	35.6%	
Charge-off ¹	7.6%	8.3%	
Cost to Income	36.5%	32.8%	
Loan Book Metrics			
Loan Origination (HK\$m)	5,778	7,367	+27%
Net Loans (HK\$m)	7,726	9,046	+17%
HK/ China Breakdown ²	74%/26%	70%/30%	
Avg Loan Size (HK\$)	42,429	49,767	+17%

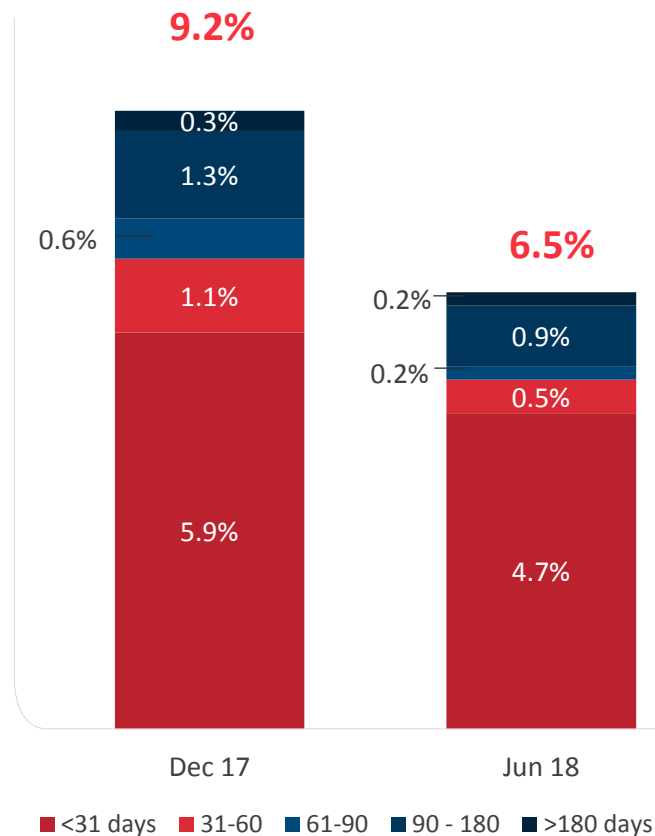
¹ Annualised

² based on gross loans

- ▶ Steady growth in HK and solid leadership
- ▶ Lack of write-back of collective impairment allowance
- ▶ Turned more prudent in China
- ▶ O2O strategy gaining traction
- ▶ Improving efficiencies

Credit Cost Analysis

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



➔ Composition of Total Bad Debts Expenses

(HK\$ Million)	1H17	1H18
Amounts written off	(400)	(503)
Recoveries	75	98
Charge Off	(325)	(405)
As annualised % of avg gross loans	7.6%	8.3%
Write back (Charges) of impairment allowance	128	(47)
Total bad and doubtful debts	(197)	(452)
Impairment allowance at period end	805	658
As % of period end gross loans	9.4%	6.8%

- HKFRS 9 adopted in 2018
- Expected Credit Loss Model
- “Bad and doubtful debts” renamed “Net impairment losses on financial instruments
- \$78m downward adjustment in loan book on 1 Jan 18, against reserves
- Write-off after 90 days past-due (vs 180 days) in most categories

UAF - Hong Kong



“Let go of your worries. Yes, UA”

- ➔ Solid market position
- ➔ Benign market with low unemployment
- ➔ Gross loans + 7% YoY
Origination +16% YoY
- ➔ Steady Increase in contribution

	1H17	1H18
Return on Loans*	32.8%	33.1%
Charge-off*	5.3%	4.4%
Gross Loans (HK\$m)	6,290	6,746
Loan Origination (HK\$m)	3,990	4,619
Avg Loan Size (HK\$)	47,532	49,941

*Annualised

UAF – Mainland China



➔ More cautious approach

- P2P consolidation brought an abrupt reduction in liquidity
- Worse than expected credit conditions
- Prudent on approvals to maintain quality

➔ O2O Strategy

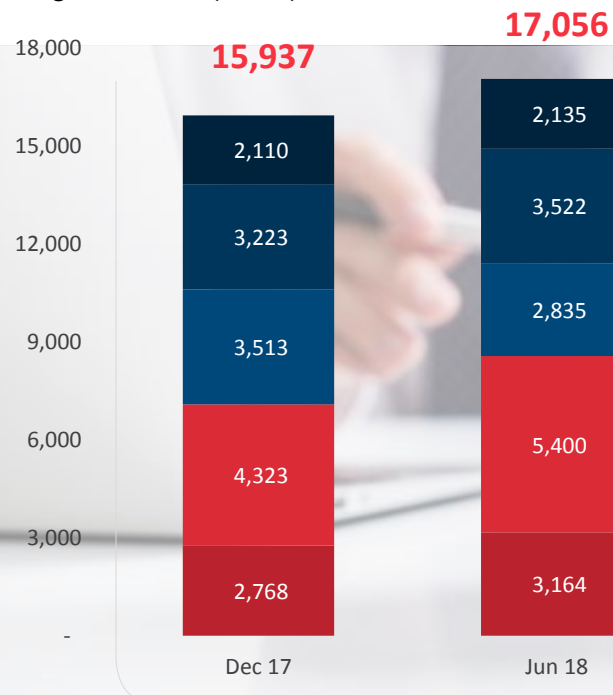
- Union Pay -> All In pay
- 2.0 mobile app launched
- Online loans surpassed offline for the first time
- Further branch consolidation from 85 -> 73 branches

	1H17	1H18
Return on Loans*	39.3%	40.9%
Charge-off*	14.3%	16.6%
Gross Loans (HK\$m)	2,241	2,958
Loan Origination (HK\$m)	1,789	2,748
Avg Loan Size (HK\$)	34,441	49,477

*Annualised

Principal Investments

Segment Assets (HK\$m)



■ Public Equity ■ Private Equity ■ Public Debt ■ Private Debt ■ Real Estate

6.1% Investment Return* (6 months):

Public Equity -----4.2%

Private Equity -----11.5%

Public Debt-----(-0.4%)

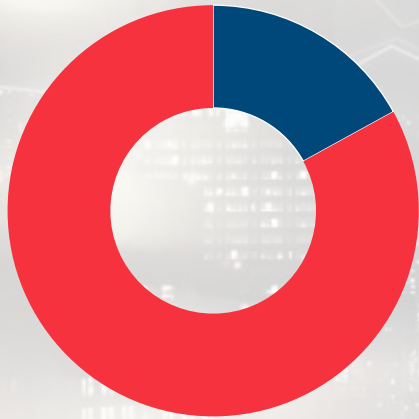
Private Debt -----6.4%

Real Estate-----6.0%

*Return on average value

**Pre-tax contribution HK\$680m (+57%)
after operation and capital cost allocation**

Public Equities



—
19%
of total portfolio,
HK\$3,164m

▼
4.2% six-month
return

▼
Dual strategy
of internal +
external
managers

▼
Emphasis on
Greater China,
Australia,
North America

▼
Sector focus
consumer,
financials,
technology

Private Equity



—
32%

of total portfolio,
HK\$5,400m

▼
11.5% six-
month return

▼
Early
positioning in
high growth
sectors

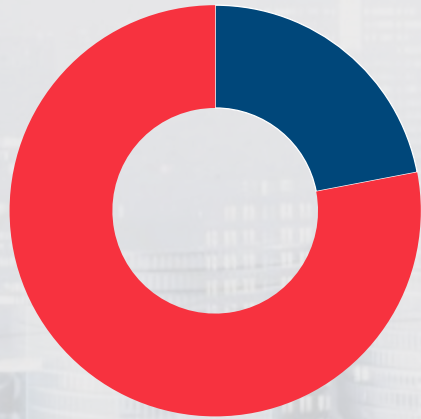
▼
Focused on
healthcare,
technology,
financials

▼
Increase focus
on portfolio
liquidity and
hedging as we
enter the 4th
year

▼
Rebalancing
China -> Global

Focus on
investments
that bring
synergy

Public Credit



17%
of total portfolio,
HK\$2,835m

▼
0.4% negative
six-month
return

▼
Market prices
reacted to rate
hikes

▼
Conservative in
the near term –
shorter
duration and
move up the
credit curve

▼
Rebalance
away from
sectors/
markets facing
structural
headwinds

Private Credit



21%
of total portfolio,
HK\$3,522m

▼
Structured
finance
business

▼
Interest income
\$189m, or 12.8%
annualised yield

▼
Lower average yield
reflecting pricing for a
lower risk level and
shorter tenor

▼
Almost all loans
secured by assets or
covered by guarantees

Real Estate



12%

of total portfolio,
HK\$2,135m

Assets

- › Legacy Hong Kong commercial real estate
- › Minority interest in two residential development projects (HK, Australia)
- › Global special situation investments (prime commercial, hospitality)



6% six-month return



Increase in valuation of HK commercial real estate



Received partial liquidity for Australian real estate project



Underlying assets in hospitality sector performed well operationally

Mortgage Loans

(HK\$m)	1H17	1H18
Revenue	48.3	107.7
Operating Costs	(20.1)	(23.5)
Cost to Income (% Rev)	41.6%	21.8%
Finance Costs	(15.5)	(37.7)
Bad and Doubtful Debts	(0.4)	2.1
Other Gains	-	0.2
Pre-tax Contribution	12.3	48.8
Net Loans	1,120	3,026

▼
Loan book surpassed HK\$3 b in 3rd year of operation

▼
Good momentum from partnerships with agents and developers

▼
Achieving operating leverage and scale

▼
Expand into other client segments

Financial Services

—
Segment PBT
HK\$102m (+65%)

Strong Performance
of the underlying
businesses



- › 30% owned
- › AUM reached new high of HK\$143b
- › Synergy accelerated after re-brand
- › Good growth from both commissions and interest income
- › Accounting gain HK\$67.4m (1H2017:HK67.3m)



- › 40% owned
- › Strong shareholders as our partners
- › Evolution from simple leasing -> one-stop financing solutions provider to the car supply chain
- › Platform established for more substantial future contribution
- › Inventory > equipment > car leasing > financing provider for new transport models

Outlook



China market uncertainties in consumer finance segment
Prudent approach in short term



O2O strategy bring additional revenue and efficiency gain opportunities



Satisfactory returns from strategic position of investments assets and business.
Short term exposure to mark to market volatility
Long term on track

Contact:

Nancy Chen, CFA
Head of Investor Relations
+852 3748 2823
nancy.chen@shkco.com