

Analyst: Paul Sham
CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED (中信國際金融)

Sector	: Banking	Chairman	: Mr. Kong Dan
HKSE Code	: 0183	CEO	: Mr. Dou Jianzhong
Market Price	: HK\$3.62 (27/03/2008)		
Shares Issued	: 5,757.3m		
Mkt. Cap.	: HK\$20,841.5m		
52 weeks Hi/ Lo	: HK\$7.53 / HK\$3.19		
HSI	: 22,664.22 (27/03/2008)		
Main Business	: Banking and related financial services		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	HK\$ million	Vs FY2006 (%)	Vs 30/06/2007 (%)
• Net interest income	1,358.9	+27.1%	
• Non-interest income	(84.7)	-107.1%	
• Total operating income	1,274.1	-43.6%	
• Operating expenses	(1,233.7)	+7.7%	
• Operating profit before impairment losses	40.5	-96.4%	
• Impairment losses on loans and advances	(72.5)	+106.6%	
• Profit before taxation	1,852.7	+38.9%	
• Taxation	(0.2)	-99.9%	
• Attributable profit to shareholders	1,852.5	+64.5%	
• Total loans	65,833.4	+29.9%	+9.1%
• Total deposits	90,658.1	+24.7%	+10.1%
• Total assets	132,385.0	+29.6%	+6.8%
• Basic EPS (HK\$)	0.3286	-5.2%	
• Final DPS (HK\$)	0.0	-100.0%	
• Total DPS (HK\$)	0.0	-100.0%	
Selected Ratios	FY2007	FY2006	1H2007
• Net interest margin	1.86%	1.85%	1.86%
• Cost-income ratio	96.8%	50.7%	46.6%
• Return on average assets	1.60%	1.30%	2.52%
• Return on average equity	7.40%	11.28%	11.95%
• Impaired loan ratio	1.15%	1.67%	1.45%
• Impaired advances coverage	38.9%	38.9%	39.3%
• Loan-deposit ratio	72.6%	69.7%	73.3%
• Capital adequacy ratio	15.8%	16.7%	15.3%
• Average liquidity ratio (^)	40.8%	40.4%	40.8%

Remark: (^) for CITIC Ka Wah Bank

- **FY07 net profit beat market forecasts** CITIC International Financial (CIFH) reported net profit of HK\$1,853m, up 64.5% y-o-y, beating the market consensus of HK\$1,781m. Excluding the non-recurring items, especially the contributions from associates mainly from 15% owned China CITIC Bank (CNCB) of HK\$1,338m, CIFH reported an operating loss of HK\$24.9m in FY07 due to an HK\$1,311m SIV-related write-down.
- **No dividend in FY08** EPS dropped 5.2% y-o-y to HK\$0.3286 per share, but no dividend was proposed for FY07, since the bank wants to reserve capital for the proposed acquisition of BBVA's Asia wholesale banking business.

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- **Net interest Income backed by strong loan growth** Net interest income rose 27.1% y-o-y, on the back of 29.9% loan growth, which came mainly from overseas loans (+47.3%) manufacturing (+73.1%) and property investments (+42.5%). As total deposits rose by a slower rate of 24.7%, loan-to-deposit ratio edged up to 72.6% as of 31/12/2007 from 69.7% as of 31/12/2006. Net interest margin rose by 1bp to 1.86%.
- **Respectable fee income overshadowed by subprime write-off** Fees income was very strong at 46.8% y-o-y, driven by a 125% increase in investment and structured investment products. Insurance income also recorded stellar growth of 55%. However, the fee income was completely eliminated by the HK\$1,311m write-down on SIV investments, resulting in an overall negative contribution in non-interest income.
- **Cost growth contained** CIFH's staff costs increased by 11% during the period and led to a 7.7% increase in overall operating expenses. The group's cost-to-income ratio increased from 49.4% in 2006 to 90.6%, due primarily to the write-down from the SIVs.
- **Continued improvement in asset quality** Impaired loan ratio dropped to 1.15% as of 31/12/2007 from 1.67% as of 31/12/2006. Its loan loss coverage remained unchanged at 38.9% at end-2007.
- **Distorted profitability but financial position remains healthy** ROE declined sharply from 11.28% in FY06 to 7.40% in FY07, due to the written-downs from the SIVs, while ROA rose from 1.30% to 1.60% in the same period. Meanwhile, CIFH's CAR stood at 15.8% as of 31/12/2007.

Outlook & Prospects

- **Integration of wholesale-banking business with BBVA** CIFH formed a strategic partnership with BBVA, the second-largest bank in Spain at the end of March 2006, with BBVA holding a 15% stake in CIFH. BBVA is considering injecting its wholesale banking and treasury business in Asia into CIFH. Management guided that the negotiation was in progress and details of the agreement would be announced in May 08. We believe the business expansion plan could give short-term support to the share prices.
- **Substantial written-off not yet over** CIFH had invested about US\$340 million in 4 different SIVs, namely "Whistlejacket", "Beta", "Five" and "Victoria Finance". The write-down of HK\$1,311m for these SIVs in FY07 represents approximately 50% of the total investment. Further write-off may be required in FY08 if the credit market further deteriorates. Another issue is that apart from SIVs, CIFH still owns HK\$1.6b potentially risky investments – alternative investments and portable alpha funds. The group may have to take losses on these investments in FY08.
- **Expecting stronger profit contribution from associates** Profits from associates, especially CNCB, contributed HK\$1,601m pre-tax profit to CIFH in FY07, successfully covering up the damage incurred from the losses in SIVs. Given the fact that China banks are still at the growing phase, we believe the earnings contribution from CNCB is likely to remain good in the coming 2-3 years.
- **Cheap valuation reflected risk** Trading at 0.79x FY2007E P/B and 11.0x FY2007 P/E, the current price multiples of CIFH are the cheapest among the local lenders. We see valuation today as low but broadly reflective of the challenges of further asset write-off rather than a value opportunity. We therefore remain "Neutral" on the counter.

Recommendation: Neutral

I. Impairment allowances, overdue and rescheduled advances of CIFH

As % of total customer advances	Individual allowance	Portfolio Non-performing allowance	Non-performing loans	Overdue and rescheduled advances
As of 31/12/2007	0.11%	0.34%	1.15%	1.14%
As of 30/06/2007	0.14%	0.43%	1.45%	1.70%
As of 31/12/2006	0.15%	0.50%	1.67%	1.73%

II. Comparison of CIFH's loan book: 31/12/2007 vs 31/12/2006

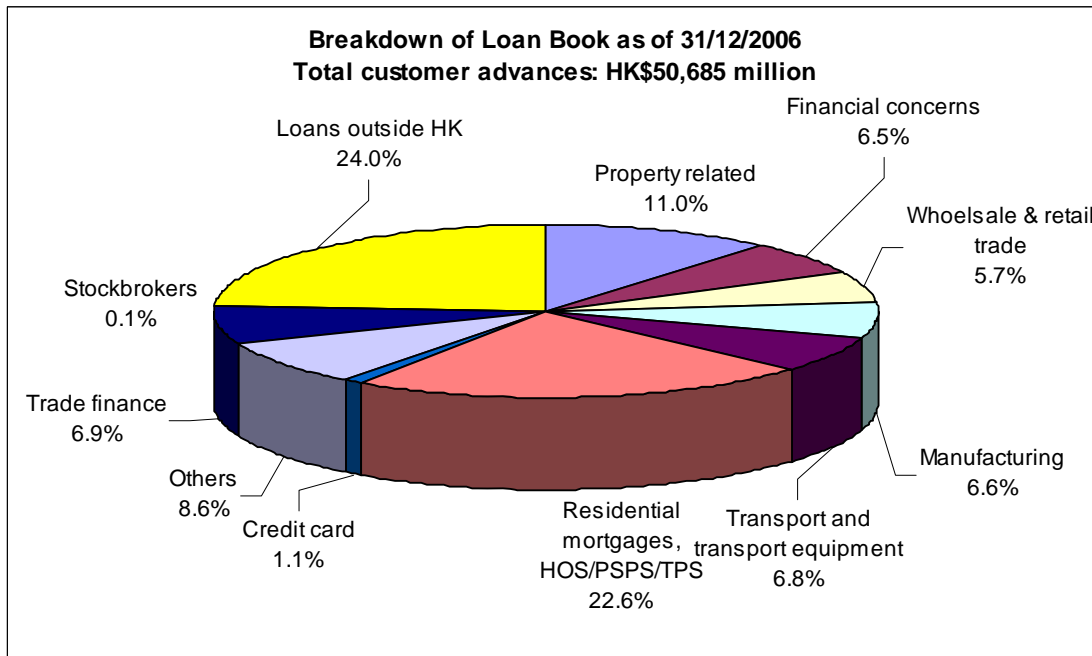
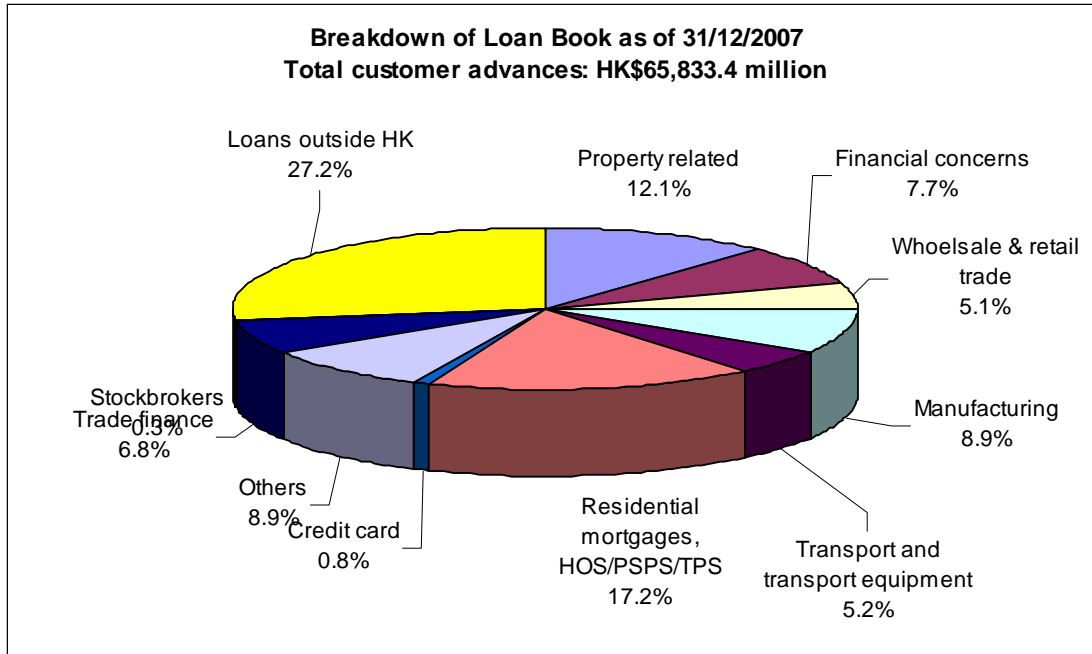
Loans-by industry	31 st Dec, 2007	Up/(down)	31 st Dec, 2006
	HK\$ million		HK\$ million
Property related	7,947.7	+42.5%	5,575.8
Financial concerns	5,061.0	+52.7%	3,315.1
Wholesale & retail trade	3,383.9	+17.3%	2,885.0
Manufacturing	5,834.0	+73.1%	3,370.3
Transport & transport equipment	3,394.2	-2.1%	3,467.3
Residential mortgages, HOS/PSPS	11,319.5	-1.2%	11,462.8
Credit card	506.8	-5.3%	535.3
Others	5,835.4	+33.9%	4,357.8
Trade finance	4,467.5	+27.3%	3,508.2
Stockbrokers	181.0	+262.0%	50.0
Loans outside HK	17,902.5	+47.3%	12,157.8
	<u>65,833.4</u>	<u>+29.9%</u>	<u>50,685.4</u>

III. Comparison of CIFH's loan book: 31/12/2007 vs 30/06/2007

Loans-by industry	31 st Dec, 2007	Up/(down)	30 th June, 2007
	HK\$ million		HK\$ million
Property related	7,947.7	+28.4%	6,189.4
Financial concerns	5,061.0	+83.0%	2,765.4
Wholesale & retail trade	3,383.9	+9.4%	3,093.6
Manufacturing	5,834.0	+34.2%	4,347.1
Transport & transport equipment	3,394.2	+8.5%	3,127.8
Residential mortgages, HOS/PSPS	11,319.5	-0.1%	11,334.9
Credit card	506.8	+12.9%	448.8
Others	5,835.4	+25.0%	4,668.7
Trade finance	4,467.5	+4.2%	4,285.8
Stockbrokers	181.0	-96.3%	4,885.7
Loans outside HK	17,902.5	+18.0%	15,173.6
	<u>65,833.4</u>	<u>+9.1%</u>	<u>60,320.8</u>



Breakdown of loan book of CIFH





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