

China Renaissance

Initiation of Coverage

A leading investment bank and asset manager dedicated to the new economy

Initiated with Buy rating; A leading investment bank, asset manager and investor dedicated to the new economy

China Renaissance is the leading investment bank dedicated to China's new economy companies and entrepreneurs. As of YE17, its clients include 15 of the top 20 Chinese new economy companies and 56% of new economy unicorns as measured by market cap/valuation. China Renaissance's funnel-shape business model gives it unmatched ability to engage new economy entrepreneurs which will drive the sustainable growth of income from investment banking, asset management and principal investments. The asset/wealth management and principal investments business are highly scalable with investment banking serving as an entry point to engage early-stage entrepreneurs.

2017-2019e core NPAT (ex. unrealized carried interest) to grow at a CAGR of 83% to US\$ 115.0m in 2019e

The growth will be driven by: 1) revenue to grow at a CAGR of 44% during 2017-2019e to US\$ 290.8m in 2019e; 2) cost-income ratio to drop to 73% in 2019e from 104% in 2017 as asset management is highly scalable and its contribution in revenue increases; 3) investment income to grow to US\$ 42.5m in 2019e from US\$ 17.9m in 2017; 4) carried interest will start to be realized in 2019/20.

New economy sectors define the future of China; China Renaissance enjoys a strong network effect arising from its long-term client relationship

We expect China Renaissance to continue riding on the fast growth of the new economy sector. From internet sector, AI, Robotics, semiconductors to biotech, the new economy companies are at the forefront of China's technological innovation and play an indispensable role in enabling technology upgrade and higher efficiency in traditional sectors. China Renaissance's experience in working with the leaders in these new economy industries across their lifecycle forms a strong network of entrepreneurs. This would give the company an unbeatable advantage in connecting resources across investment banking, asset management/wealth management and principal investments.

Asset management and wealth management will be the key growth driver

The good track record of China Renaissance's private equity funds (AUM of US\$ 4.0bn as of Jun-18) provides a good basis for the companies to explore wealth management demand from high-net-worth individuals include entrepreneurs served by China Renaissance's. We forecast AUM to grow to US\$ 7.2bn by 2019e.

Carried interest will start to be realized in 2019/20

The company has meaningful portion of unrealized carried interest from its private equity funds. There could be meaningful booking in 2019/20 when exits of investments materialize. According to company disclosure, the largest holding of its private equity funds include Didi Chuxing, Focus Media, Huitongda, Lexin, Lianjia, Niuguwang, Qihoo 360 etc.,

Price target: HK\$26.3 (34% upside)

We derive our Dec-19 price target of HK\$26.3 per share using sum-of-the-part valuation method, using US boutique investment bank, global mutual funds, global alternative asset managers and Chinese brokers as comparables.

Stock code: 1911.HK

Rating: Buy

Price target (HK\$)	26.3
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Current price (HK\$, 20 Dec 2018)	19.6
Upside/downside %	34%
Market cap (HK\$ m)	10,969
Market cap (US\$ m)	1,402
Avg daily turnover (HK\$ m)	24

Source: Bloomberg, AMTD Research

Key forecasts

(US\$ m)	2017	2018e	2019e
Revenue	139.4	198.7	290.8
yoy %	5%	43%	46%
Revenue+invest.			
Income	157.3	228.9	333.3
yoy %	11%	46%	46%
Cost-income ratio	104%	88%	73%
Operating profit	(6.2)	24.1	77.8
yoy %	na	na	223%

Core NPAT (before unrealized carried interest)

	34.5	54.7	115.0
yoy %	na	59%	110%
AUM (US\$ bn)	3.3	5.9	7.2

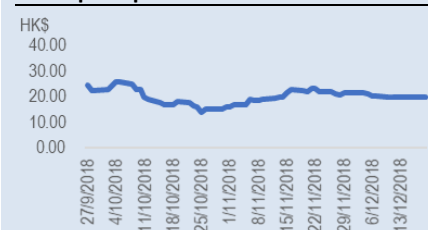
Source: Company data, AMTD Research

Valuation

	2017	2018e	2019e
P/E (core, diluted)	19.6	19.0	12.8
P/B	na	2.9	2.4
ROE	380%	23%	22%
ROA	6%	7%	13%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

Michelle Li
Analyst

+852 3163 3383

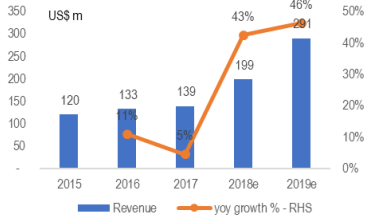
Michelle.Li@amtdgroup.com

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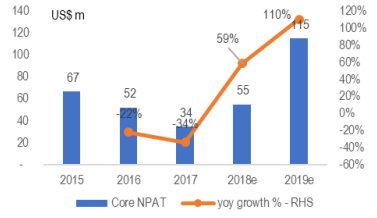
Focus charts

Figure 1: China Renaissance revenue forecast



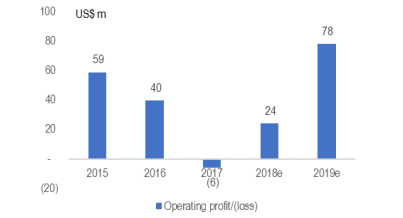
Source: Company data, AMTD estimates

Figure 2: China Renaissance core attributable NPAT forecast



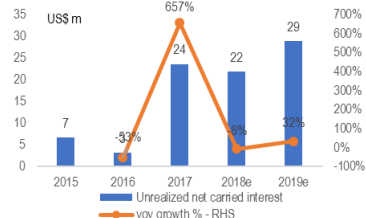
Source: Company data, AMTD estimates; Note: Core attributable NPAT excludes listing expenses.

Figure 3: China Renaissance operating profit forecasts



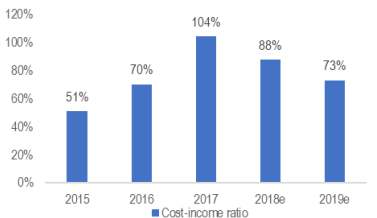
Source: Company data, AMTD estimates

Figure 4: China Renaissance unrealized carried interest forecast



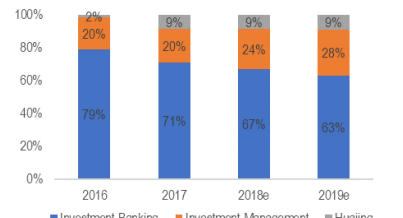
Source: Company data, AMTD estimates

Figure 5: China Renaissance cost-income ratio



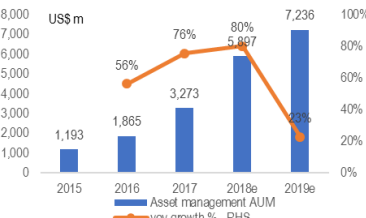
Source: Company data, AMTD estimates

Figure 6: China Renaissance revenue mix forecast



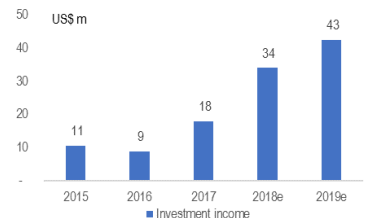
Source: Company data, AMTD estimates

Figure 7: China Renaissance asset management AUM forecast



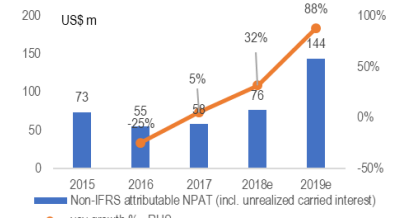
Source: Company data, AMTD estimates

Figure 8: China Renaissance investment income



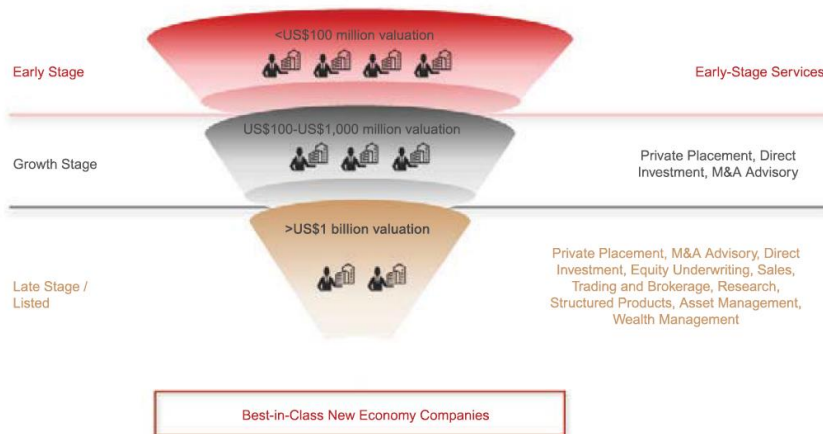
Source: Company data, AMTD estimates

Figure 9: China Renaissance non-IFRS attributable NPAT



Source: Company data, AMTD estimates

Figure 10: China Renaissance's funnel-shape business model



Source: Company data

Valuation

Sum-of-the-part valuation – HK\$ 26.3 per share (diluted)

We cross check our DCF valuation with sum-of-the-part (SOTP) valuation. We divide SOTP valuation into three segments:

- 1) Valuation on investment banking: We use target 2019e 14.0x P/E for this segment. US boutique investment banks are trading on an average of 13.0-14.0x 2019e P/E. We believe Moelis & Co, Houlihan and PJT Partners are directly comparable peers. Compared to peers, China Renaissance has better earnings growth potential as China's new economy sector continues to grow at a fast pace and its asset management business continues to scale up.
- 2) Valuation on asset management fees: We value the recurring management fees and performance fees separately. We first value the recurring management fees. We use the global mutual fund 5yr average P/E of 13.0x as the target multiple to smooth out the volatility in different years. The comparable companies would include leading global mutual fund managers such as Blackrock, Shroders, Invesco, Statestreet etc.
- 3) Valuation on unrealized performance fees: The global alternative asset managers should be an ideal comparable group to value China Renaissance's unrealized performance fees. We are using their average 2019e P/DE of 9.5x as the target multiple. The DE stands for distributable earnings which is a measure commonly used by the alternative asset managers; it excludes all unrealized gains or performance fees but include realized investment income and realized net performance fees.
- 4) Huajing Securities: We value Huajing using a target multiple of 1.0x P/B based on the average trading multiple of leading Chinese brokers.
- 5) Principal investment: As majority of China Renaissance's investment portfolio is marked-to-market valuation, we use their book value to offer a buffer to any potential downward adjustment on their valuation.

Figure 11: China Renaissance sum-of-the-part valuation

	Total valuation	Investment banking	Asset management fees	Unrealized performance fees	Huajing	Principal investment
Valuation Method		P/E	P/E	P/DE	P/B	Market value
Basis		2019e NPAT from investment bank	2019e NPAT from management fees	2019e net unrealized performance fees post tax	Book value	Balance sheet investment
US\$ mn		40.7	28.5	23.1	413	213
Target multiple		14.0	13.0	9.5	1.0	1.0
Target multiple basis		US boutique investment bank 5yr avg PE	Global mutual fund 5yr avg P/E	Global alternative asset manager 2019e P/DE	Chinese H-share brokers P/B	Current book value
Total valuation (US\$ mn)	1,785	569	370	219	413	213
% stake		100%	100%	100%	48.8%	100%
China Renaissance's share (US\$ mn)	1,573	569	370	219	202	213
Net cash/(net debt)	510					
YE19 fair valuation	2,083					
Per share (HK\$)	26.3					

Source: AMTD estimates; *Note: DE stands for distributable earnings which is a measure commonly used by the alternative asset managers; it excludes all unrealized gains or performance fees but include realized investment income and realized net performance fees

Comparables

Figure 12: Valuation comparison table

Boutique investment bank						
	Stock code	Market cap	PE			PB
		(US\$ mn)	2018e	2019e	5yr avg	2018e
Moelis & Co	MC US EQUITY	2,193	11.8	11.4	18.9	6.1
Houlihan	HLI US EQUITY	2,322	15.3	12.4	23.9	2.8
PJT Partners	PJT US EQUITY	1,449	18.0	13.7	26.7	na
Average			15.0	12.5	23.2	4.4
US private equity						
		Market cap	P/Distributable earnings			PB
		(US\$ mn)	2018e	2019e	5yr avg	2018e
Blackstone	BX US EQUITY	34,003	9.4	8.5	10.2	3.5
KKR	KKR US EQUITY	16,165	10.2	10.3	9.7	1.2
Apollo	APO US EQUITY	9,759	19.8	7.6	12.5	7.3
Oaktree	OAK US EQUITY	6,449	14.5	12.7	13.1	2.8
Carlyle	CG US EQUITY	5,356	8.5	5.9	6.9	1.7
Average			12.5	9.0	10.5	3.3
Mutual fund						
		Market cap	PE			PB
		(US\$ mn)	2018e	2019e	5yr avg	2018e
Blackrock	BLK US EQUITY	59,059	13.4	13.4	16.7	1.8
Schroders	SDR LN EQUITY	8,298	10.9	10.8	16.1	1.8
INVESCO	IVZ US EQUITY	6,754	6.2	6.2	6.9	0.7
Statestreet	STT US EQUITY	22,727	8.2	8.1	9.4	1.1
T. Rowe Price	TROW US EQUITY	21,276	11.8	12.0	15.2	3.2
Affiliated Managers	AMG US EQUITY	4,856	6.2	5.9	9.0	1.4
Average			10.3	9.8	12.4	1.9
Chinese brokers						
		Market cap	PE			PB
		(US\$ mn)	2018e	2019e	5yr avg	2018e
CITIC Securities - H	6030 HK EQUITY	27,563	13.6	12.2	15.4	1.0
CICC - H	3908 HK EQUITY	7,519	14.9	12.5	23.5	1.3
Huatai Securities - H	6886 HK EQUITY	18,435	13.1	11.3	17.1	0.9
Average			13.9	12.0	18.7	1.0

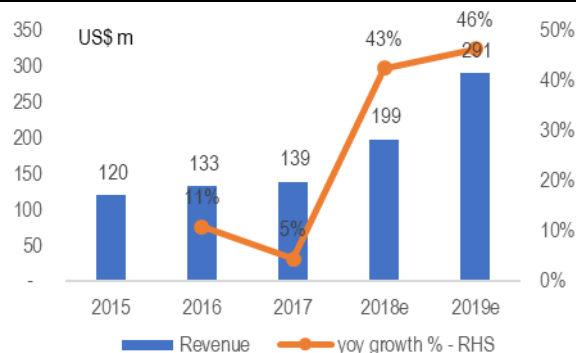
Priced as of 19 December 2018; Source: Bloomberg, company data, AMTD estimates

Financial forecast

We forecast China Renaissance's revenue to grow to US\$ 290.8m in 2019e from US\$ 139.4m in 2017; excluding unrealized carried interest, and one-off listing expenses, core NPAT to grow to US\$ 115.0m in 2019e from US\$ 34.5m in 2017. We expect its cost-income ratio to gradually improve to 73% in 2019e from 104% in 2017 as asset management, wealth management and principal investment business are highly scalable. Growth in these segments will be a key growth driver in the next a few years. China Renaissance's growth in profit will be driven by:

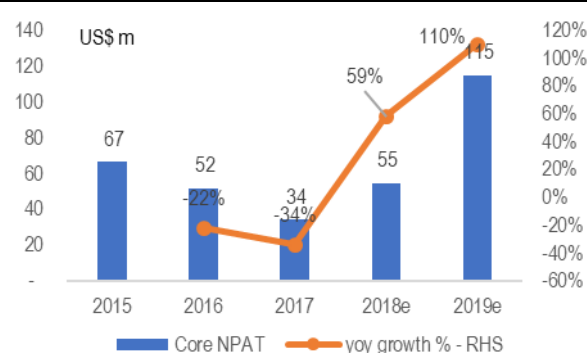
- 1) **Revenue to grow at a CAGR of 44% in 2017-2019e.** We forecast revenue from investment banking to grow at a CAGR of 33% driven by growth in number of deals as well as the increase in average size of deals. We forecast revenue asset management segment to grow at a CAGR of 70%. The financial advisory services serve as the entry point to engage early stage companies and the funnel-shape business model would allow China Renaissance's asset management and principal investment team to engage in later stage when the companies grow to a more matured stage. China Renaissance has built a strong network of entrepreneurs which gives it unmatched ability in connecting resources in the network.
- 2) **Asset management AUM to reach to US\$ 7.2bn by YE19e from US\$ 4.0bn as of Jun-18.** China Renaissance's good track record and strong entrepreneur network would allow its private equity AUM to maintain strong growth. The potential to launch credit funds, real estate funds and biotech funds could also provide a wider range of options for its asset management and wealth management clients. We expect management fee income including recurring management fees and realized performance fees will maintain fast growth upon 2018.
- 3) **Cost-income ratio to improve to 73% in 2019e from 104% in 2017; operating profit to turn to positive.** This would be mainly driven by the improvement in asset management and principal investment and increase in revenue contribution from these two segments. We forecast asset management's contribution to revenue to increase to 28% in 2019e from 20% in 2017. The asset management's cost-income ratio at 66% in 2017 is much lower than that of investment banking at 87%.
- 4) **Investment income to grow to US\$ 42.5m in 2019e from US\$ 17.9m in 2017.** The company's investment income primarily consists of fair value change in its principal investment and interest income from cash management products. In 1H18 it achieved US\$ 19.1m of investment income driven by a strong results of valuation gain of its portfolio companies and income from cash management products.
- 5) **Core NPAT before unrealized carried interest to grow to US\$ 115.0m in 2019e from US\$ 34.5m in 2017. This would exclude the one-off listing expenses.**
- 6) **Unrealized carried interest to grow to US\$ 28.9m in 2019e from US\$ 23.6m in 2017.** This would be driven by the increase in fair value of portfolio companies in the private equity funds managed by China Renaissance. We expect the carried interests will start to be realized in 2019/20 and booked under management fees as exits of the portfolio materialize.
- 7) **AUM to reach to US\$ 7.2bn in 2019e from US\$ 4.0bn as of 1H18.**

Figure 13: China Renaissance revenue forecast



Source: Company data, AMTD estimates

Figure 14: China Renaissance core NPAT forecast



Source: Company data, AMTD estimates

Figure 15: China Renaissance's P&L forecast

USD '000	2015	2016	2017	2018e	2019e
Revenue	120,171	133,363	139,414	198,675	290,808
Transaction and advisory fees	112,318	106,239	106,770	135,905	187,493
Management fees	7,853	26,119	28,349	48,142	82,081
Interest income	-	1,005	4,295	14,628	21,234
Total operating expenses	(61,577)	(93,839)	(145,572)	(174,612)	(213,044)
Compensation and benefit expenses	(43,569)	(64,730)	(101,366)	(123,434)	(154,690)
Other operating expenses	(18,008)	(29,109)	(44,206)	(51,178)	(58,354)
Operating profit/(loss)	58,594	39,524	(6,158)	24,063	77,764
Investment income	10,621	8,837	17,907	30,243	42,529
Interest expense	-	(19)	(1,399)	(10,000)	-
Change in fair value of convertible redeemable preferred shares	(34,039)	(13,978)	(25,730)	(187,830)	-
Other gains/losses	311	2,370	(538)	(3,144)	(600)
Profit/(Loss) before income tax	35,487	36,734	(15,918)	(146,668)	119,693
Income tax (expenses)/benefits	(5,896)	(8,175)	2,412	(8,232)	(26,332)
Net profit/(loss)	29,591	28,559	(13,506)	(154,900)	93,361
Minority interest	747	(3,274)	(13,538)	(5,500)	(1,600)
Attributable NPAT	28,844	31,833	32	(149,400)	94,961
Core NPAT	66,651	52,056	34,469	54,673	114,961
Non-IFRS Measure					
Revenue	120,171	133,363	139,414	198,675	290,808
Unrealized income from carried interest	22,870	10,560	73,036	62,298	82,432
Adjusted revenue	143,041	143,923	212,450	260,973	373,240
Core NPAT before unrealized carried interest	66,651	52,056	34,469	54,673	114,961
Non-IFRS attributable NPAT (incl. unrealized carried interest)	73,353	55,179	58,103	76,478	143,812
Asset management AUM	1,192,957	1,864,733	3,272,616	5,897,336	7,235,559
Dividend declared	4,000	77,500	4,150	8,201	11,496
Dividend payout ratio	14%	243%	12969%	na	12%
Dividend to cash profit	6%	149%	12%	15%	10%
Revenue + investment income	130,792	142,200	157,321	228,918	333,337

Source: Company data; AMTD estimates

Figure 16: China Renaissance key operating matrix and per share data

Growth rate and key ratios	2015	2016	2017	2018e	2019e
Revenue		11%	5%	43%	46%
Revenue + investment income		9%	11%	46%	46%
Non-IFRS revenue		1%	48%	23%	43%
Operating profit		-33%	-116%	na	223%
Investment income		-17%	103%	69%	41%
Attributable net profit (headline)		10%	-100%	na	na
Unrealized net carried interest		-53%	657%	-8%	32%
Core net profit before unrealised carried interest		-22%	-34%	59%	110%
Non-IFRS attributable net profit (incl. unrealized carried interest)		-25%	5%	32%	88%
Cost-income ratio	51%	70%	104%	88%	73%
Asset management AUM		56%	76%	80%	23%
ROA		16%	6%	7%	13%
ROE		203%	380%	23%	22%
Per share	2015	2016	2017	2018e	2019e
Basic EPS (headline)		0.13	0.00	(0.38)	0.17
Diluted EPS (headline)		0.08	0.00	(0.36)	0.16
BPS	0.20	0.01	0.06	0.86	1.05
Basic EPS (core NPAT before unrealized carried interest)	0.28	0.22	0.14	0.14	0.21
Diluted EPS (core NPAT before unrealized carried interest)	0.26	0.13	0.13	0.13	0.19
DPS	na	na	na	0.015	0.021

Source: Company data; AMTD estimates

Figure 17: China Renaissance's segmentation breakdowns

Segmentation	2015	2016	2017	2018e	2019e
Revenue	120,171	133,363	139,414	198,675	290,808
Investment Banking	112,318	105,179	98,864	133,005	182,493
Investment Management	7,853	26,119	28,349	48,142	82,081
Huajing	-	2,065	12,201	17,528	26,234
Revenue contribution %					
Investment Banking	93%	79%	71%	67%	63%
Investment Management	7%	20%	20%	24%	28%
Huajing	0%	2%	9%	9%	9%
Operating profit	58,594	39,524	(6,158)	24,063	77,764
Investment Banking	56,161	46,230	13,287	25,714	52,141
Investment Management	2,433	9,423	9,508	15,756	35,568
Huajing	-	(16,129)	(28,953)	(17,407)	(9,945)
Cost-income ratio					
Overall	51%	70%	104%	88%	73%
Investment Banking	50%	56%	87%	81%	71%
Investment Management	69%	64%	66%	67%	57%
Huajing		881%	337%	199%	138%

Source: Company data; AMTD estimates

Figure 18: China Renaissance's balance sheet forecast

Balance sheet	2015	2016	2017	2018e	2019e
Total non-current assets	64,130	88,734	167,045	251,518	317,684
Furniture and equipment	1,725	8,709	10,104	10,609	11,140
Intangible assets	1,413	2,023	4,403	4,623	4,854
Deferred tax assets	1,675	5,418	14,336	15,053	15,805
Investments in associates	21,219	31,360	43,532	47,885	52,674
Loans to third parties	-	-	5,050	-	-
Available-for-sale financial assets	5,935	4,950	36,596	-	-
Financial assets at fair value through profit or loss	31,271	36,274	53,024	88,569	139,955
Financial assets at fair value through other comprehensive income	-	-	-	84,778	93,256
Pledged bank deposits	892	-	-	-	-
Total current assets	223,197	280,269	574,866	569,179	607,045
Accounts and other receivables	48,893	25,123	52,225	84,682	84,682
Loans to third parties	500	721	-	-	-
Loans to related parties	-	-	2,219	-	-
Amounts due from related parties	2,611	4,232	4,979	4,979	4,979
Financial assets at fair value through profit or loss	13,737	47,365	65,111	287,986	287,986
Term deposits	29,037	15,373	7,363	7,363	7,363
Pledged bank deposits	-	835	-	-	-
Cash and cash equivalents	128,419	186,620	442,969	184,169	222,035
Asset classified as held for sale	-	-	-	-	-
Total Assets	287,327	369,003	741,911	820,697	924,729
Total non-current liabilities	189,975	204,315	413,668	1,017	1,017
Bank borrowing	-	-	150,000	-	-
Accounts and other payables	-	-	367	367	367
Deferred tax liabilities	136	498	650	650	650
Convertible notes	-	-	-	-	-
Convertible redeemable preferred shares	189,839	203,817	262,651	-	-
Total current liabilities	47,945	87,632	89,208	125,360	125,927
Accounts and other payables	46,057	54,978	81,397	119,519	119,519
Amounts due to related parties	33	872	2,652	166	166
Convertible notes	-	22,600	-	-	-
Bank borrowing	-	-	-	-	-
Contract liabilities	-	-	-	-	-
Income tax payables	1,855	9,182	5,159	5,675	6,242
Total liabilities	237,920	291,947	502,876	126,377	126,944
Equity (deficiency in assets) attributable to owners of the Company	48,498	2,852	15,279	470,564	574,029
Non-controlling interests	909	74,204	223,756	223,756	223,756
Total equity	49,407	77,056	239,035	694,320	797,785

Source: Company data; AMTD estimates

Risks

Potential volatility in general market and macro economy

Financial service industry is a typical cyclical sector whose performance are heavily dependent on the performance of the macro economy and the overall financial market. A substantial portion of China Renaissance's revenue is derived from serving and investing in businesses that operate in China. During periods of unfavorable or uncertain market or economic conditions in China, the volume and value of investment banking business may decrease, thereby reducing the demand for the investment banking service and increasing price competition among financial services companies seeking such engagements. The investment management business could also be adversely affected in unfavorable market conditions as market valuation could be revised downwards and exits of portfolio could be delayed, as a result affecting the company's performance fees as well as AUM growth. Principal investment business could be affected by market volatility in a similar manner. As a result, unfavorable economic and market conditions in China can adversely affect its business, financial condition, and results of operations.

Risks arising from the rapid evolving new economy sectors

As an investment banking and investment management firm dedicated to serving the new economy sectors, China Renaissance is subject to risks associated with operating in rapidly evolving industries. The company serves clients across different new economy sectors, including but not limited to technology, media, entertainment, healthcare, and new energy. The new economy sectors have experienced periods of rapid expansion, transformed China's economy with innovative business models, and significantly contributed to China's economic growth. However, there are significant uncertainties with respect to the growth and sustained profitability of these markets. The short-term growth of the new economy businesses may not maintain the growth momentum, while the long-term viability and prospects of the new business models remain relatively untested. China Renaissance's future business, financial conditions, and results of operations will depend on the performance of the new economy clients.

Risks arising from competition for the leading entrepreneurs in the new economy sectors

The financial service industry in China is subject to fierce competition. As the demand for financial services from the traditional industry slows down, the competition in the new economy sectors may further intensify. This could affect China Renaissance's business volume as well as its fee rate. China Renaissance need to maintain its advantage and network effect in engaging the entrepreneurs. It may not be able to maintain the competitive advantage in newly emerging industries.

"Key man" risks

The success of China Renaissance's business is dependent, to a large extent, on the continued services of its senior management, including Mr. Bao, Mr. Xie Yi Jing, Mr. Du Yongbo, and Mr. Wang Xinwei. If China Renaissance loses the services of its core management members, it may not be able to execute its existing business strategy effectively, or it may have to change current business direction. Such disruptions to its business may take up significant energy and resources of the company, and materially and adversely affect its future prospects.

Competitive advantages

China Renaissance is a boutique investment bank specialized in China’s new economy sectors. Established in 2005, the firm strategized to target niche market at a time when China’s new industries and start-ups were largely overlooked by global financial institutions. Therefore, China Renaissance makes most of first mover advantage and thrives with the booming new economy businesses in China. The firm emphasizes three major business lines: investment banking, investment management, and Huajing Securities, providing diversified financial services, such as financial advisory, equity underwriting, asset management, trading and brokerage and wealth management, etc.

Figure 19: Three major business lines offer a wide range of financial services

China Renaissance		
100%	100%	49%
Investment Banking	Investment Management	Huajing Securities
▪ Early-Stage Services	▪ Private Equity	▪ Underwriting
▪ Advisory Services		▪ Asset Management
▪ Equity Underwriting		▪ Research
▪ Sales, Trading, and Brokerage		▪ Sales, Trading, and Brokerage
▪ Research		▪ Wealth Management

Source: Company data

Unique funnel-shape business model

China Renaissance’s funnel-shape business model gives it unmatched ability to engage the entrepreneurs which will drive the sustainable growth of income from investment banking, asset management and principal investments. The asset/wealth management and principal investments business are highly scalable with investment banking serving as an entry point to engage early-stage entrepreneurs.

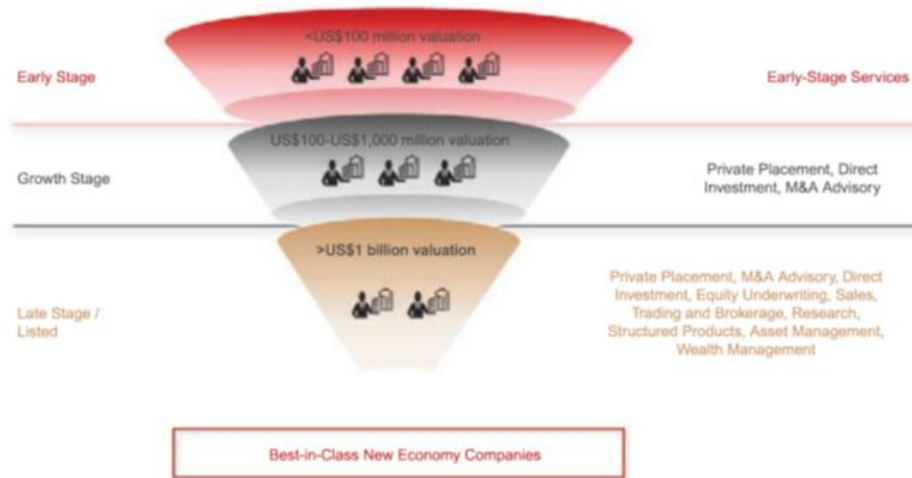
Funnel-shape business model would identify and engage early-stage entrepreneurs and businesses and serve them throughout their lifecycle. China Renaissance’s coverage and focus narrow as its clients grow and require a broader suite of products.

Strong network effect connecting new economy businesses with global capital

With a clear focus on China’s new economy sectors, China Renaissance has gained in-depth understanding of the industry from more than a decade of first-hand experience. The company has fostered deep relationships with entrepreneurs and investors and cultivated an effective network over the years. Therefore, the company is exposed to unique offerings to monetize and invest in the growth of the sector. These investment opportunities successively attract investors looking to build exposure in the sector. The depth and quality of its investor networks create another draw for entrepreneurs, which leads to a self-perpetuating virtuous cycle. Moreover, successful entrepreneurs later would become investors themselves by investing directly or channeling capital.

The company has built a network of over 3,000 institutional investors, including sovereign wealth funds, venture capital funds, private equity funds, and strategic institutional investors.

Figure 20: Funnel-shape business model



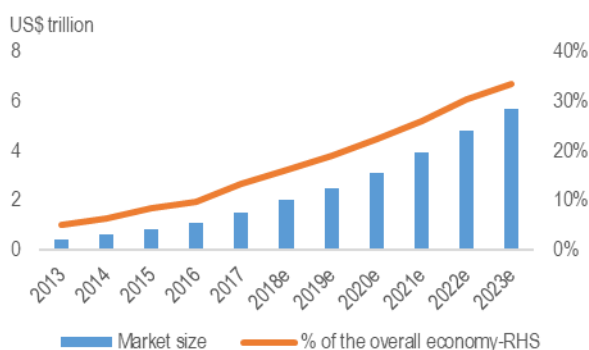
Source: Company data

Dedication to China’s new economy sectors

China’s new economy sectors have experienced rapid expansion, transformed traditional industries through entrepreneurship, technological advancement, and innovative business models, and significantly contributed to China’s economic growth. Seeing the potential in new economy businesses and innovation, China Renaissance was founded to serve unmet needs for strategic advice and financing of a new generation of entrepreneurs. The company has provided tailored financial solutions catering to this rapid evolving sector since its inception.

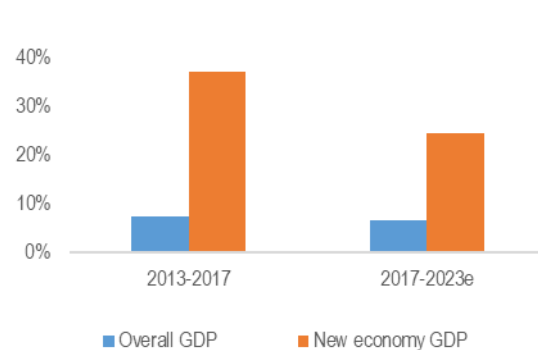
Currently, China Renaissance offers coverage across all new economy sectors, such as technology, media, entertainment, healthcare, and new energy. It has built into one of the leading brands within the new economy, offering a comprehensive suite of products and services and fulfilling evolving financial needs of new economy companies. As the new economy continues to represent most of economic growth in China, China Renaissance is well positioned to identify the best opportunities.

Figure 21: New economy market size by GDP in China



Source: CIC Report

Figure 22: CAGR of overall/ new economy GDP in China



Source: CIC Report

Full lifecycle coverage

China Renaissance provides a wide range of financial services to new economy companies throughout their lifecycle, covering from seed financing through post-IPO advisory support.

By following the full development lifecycle of a new economy company, China Renaissance would have access to unique offerings compared to other financial advisors focusing on early stage investment or investment banks focusing on growth/late stage. Their full lifecycle coverage helps establish deep client relationships and provides multiple points of monetization for years.

Figure 23: Take JD.com as an example of full lifecycle coverage model

Date	Role	China Renaissance's engagement in major events
Feb-18	Sole financial advisor	JD Logistics—private placement
Mar-17	Financial advisor	JD Finance—spin-off from JD.com
Apr-16	Sole financial advisor to Dada	Dada Nexus—merger with JD Daojia
Jan-16	Sole financial advisor	JD Finance—private placement
Dec-14	Joint bookrunner	JD.com—U.S. follow-on offering
May-14	Joint bookrunner	JD.com—U.S. IPO and listing on Nasdaq
Mar-14	Financial advisor	JD.com—strategic cooperation of JD.com and Tencent
Mar-11	Sole financial advisor	JD.com—private placement

Source: Company data

Special focus on healthcare sector

China Renaissance formed a healthcare and life sciences advisory team in 2015 to seize abundant opportunities in the industry as more and more overseas Chinese life scientists return to China to found their own companies. China's enormous healthcare market is expanding rapidly, driven by an aging population, ongoing healthcare regulatory reform and economic growth. Also, healthcare industry is experiencing a rapid pace of innovation globally. Therefore, China Renaissance places strong emphasis on the sector to capture emerging opportunities. As of March 31, 2018, the company covered more than ten niche industries, including cell therapy, genomics, and biological drugs, with an aggregate of more than 300 companies. They have also advised over 50 healthcare transactions and have accumulated deep relationships with more than 200 healthcare focused investors.

Figure 24: Major private placement transactions in healthcare sector

Date	Business Name	Financing Size
Feb-18	Innocare	US\$ 55million
Jan-18	Genetron	RMB 400million
Dec-17	Genova	US\$ 50million
Sep-17	Wuxi NextCode	US\$ 240million
Dec-16	Ascentage	RMB 500million

Source: Company data

Valuable licenses

Capital markets in China are still in development and licenses and permits can be the most valuable assets to each firm due to strict licensing requirements. China Renaissance has obtained all requisite licenses, permits, and approvals from the relevant government authorities that are material for its business operations in China, Hong Kong and the United States during the Track Record Period and up to the Latest Practicable Date. In addition, Huajing Securities expects to acquire additional licenses for asset management services and develop internet-based sales, trading, and brokerage services.

Figure 25: China Renaissance's material licenses and permits

License/Permit	Holder	Issuing Authority
Permit for Operating Securities and Futures Business (經營證券業務許可證) (covering securities brokerage, securities investment consultancy, securities underwriting and sponsorship, and securities asset management)	Huajing Securities	CSRC
NEEQ (National Equities Exchange and Quotations) Recommendation Business	Huajing Securities	NEEQ
Shenzhen-Hong Kong Connect Trading	Huajing Securities	Shenzhen Stock Exchange
NAFMII (National Association of Financial Market Institutional Investors) membership	Huajing Securities	NAFMII
Private Equity Fund Manager Registration	Shanghai Huasheng	Asset Management Association of China
Private Equity Fund Manager Registration	Huasheng Youge	Asset Management Association of China
Private Equity Fund Manager Registration	Ningbo Huajie	Asset Management Association of China
Type 1 License—Dealing Securities	CRS (Hong Kong)	SFC
Type 4 License—Advising in Securities	CRS (Hong Kong)	SFC
Type 6 License—Advising on Corporate Finance	CRS (Hong Kong)	SFC
Type 9 License—Asset Management	CR Asset	SFC
Type 1 License—Dealing Securities	Management Maxson Securities Limited	SFC
SEC Broker-Dealer Registration	CRS (US)	SEC
FINRA Membership	CRS (US)	FINRA

Source: Company data

Investment banking

In 2017, the new economy investment banking revenue represented approximately 16.5% of the total investment banking revenue in China, and the AUM of the new economy investment management business represented approximately 24.1% of the AUM of the total investment management business in China, according to the CIC Report.

China Renaissance’s investment banking business is currently supported by three major segments, including early-stage services, advisory services and equity underwriting and related services.

Early-stage services

China Renaissance’s early-stage services connect young startups with interested investors. Early-stage serves as the entry point of its funnel and plays a critical part in capturing emerging new economy industry trends. China Renaissance relies on this segment to foster relationships with promising and leading startups at their earliest stage of development, therefore standing out as the forerunner of the sector.

China Renaissance has a broad coverage of early-stage startups and institutional investors. The company visited approximately 6,300 startups, launched approximately 200 financing transactions, and completed over 100 financing transactions in 2017.

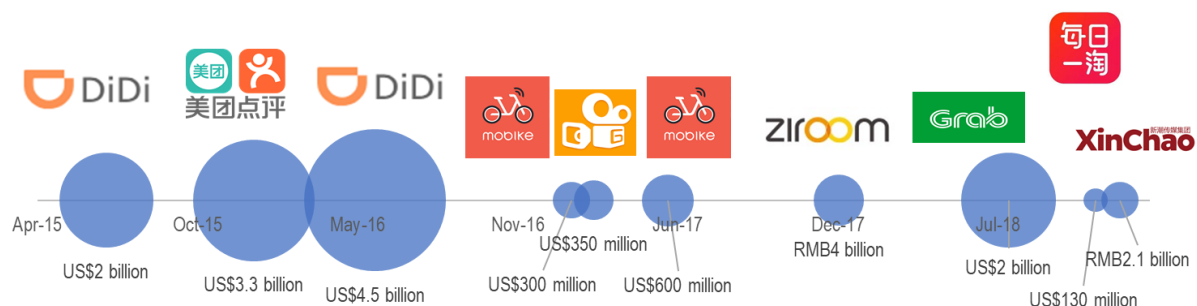
Advisory services

For advisory services, China Renaissance offers private placement and M&A advisory. China Renaissance’s private placement business helps growth-stage companies in raising private capital and assists in long-term capital planning. The company usually uses private equity services as the base from which to grow M&A, underwriting or other businesses. China Renaissance’s M&A advisory services facilitate access to onshore and offshore targets by domestic acquirers, and connect global capital with onshore new economy opportunities.

China Renaissance primarily focused on financial advisory for companies at a growth or later stage when the company was first founded. The company has built close relationships with the leaders in China’s new economy sector by using advisory services as entry point with the clients. Therefore, China Renaissance managed to capitalize on first-mover advantage at the dawn of China’s new economy.

In 2018, China Renaissance has advised on and invested in a number of high-profile M&A deals in China new economy sectors, including those between Meituan and Dazhong Dianping and between Didi and Kuaidi, as well as the acquisition of Mobike by Meituan. The company has been consistently ranked no. 1 in providing private placement and M&A advisory services in terms of transaction value on a cumulative basis from 2013 through 2017 in China’s new economy sectors, according to the CIC Report.

Figure 26: Major private placement transactions



Source: Company data, Wind, AMTD Research; Note: Bubble size represents financing size

Figure 27: Major high-profile M&A transactions

Date	Strategic M&A	Significance
2018	Acquisition of mobike by Meituan Dianping	Entering the transportation sharing market
2017	Merger of Maoyan and Weying	Ending a three-way race and resulting in the largest Internet entertainment platform
2016	Spinoff and strategic restructuring of Maoyan	Creating a comprehensive Internet entertainment platform
2015	Strategic transaction of Ganji.com and 58.com	Resulting in a new market leader with reduced marketing expenses
2015	Strategic transaction of Meituan and Dianping	Resulting in a new market leader
2015	Merger of Didi Chuxing and Kuaidi Dache	Resulting in the largest transport sharing platform in China
2014	Strategic cooperation of JD.com and Tencent	Shaping the landscape of e-commerce

Source: Company data

Equity underwriting and related services

As one of the few onshore financial institutions that is licensed to offer underwriting services in Hong Kong, United States, and China, China Renaissance started underwriting services in 2012. The company provides IPO, post-IPO and other equity related services to late-stage clients. In addition, China Renaissance's subsidiary Huajing Securities deals with broker-dealer businesses.

As of March 31, 2018, China Renaissance has acted as an underwriter for 28 equity offerings in Hong Kong and the United States, which raised capital in an aggregate amount of US\$ 14.1billion. According to the CIC Report, among all domestic and foreign investment banks in China, China Renaissance ranked third in underwriting overseas IPOs of China-based new economy companies from 2013 through 2017 in terms of number of transactions, and ranked first among Chinese investment banks.

In 2018, China Renaissance's IPO underwritings for China's new economy sectors has grown robustly. The company participated in several high-profile IPOs in Hong Kong and the United States, such as Meituan Dianping, iQiyi, Tencent Music and Pinduoduo etc.

Figure 28: Major equity underwriting deals

Date	Issuer	Offering Type	Offering Size
2018	Tencent Music	U.S. IPO	US\$ 1.1billion
2018	Yaoming Kangde	Hong Kong IPO	US\$ 1billion
2018	Mogujie	U.S. IPO	US\$ 200million
2018	Meituan Dianping	Hong Kong IPO	US\$ 4billion
2018	Pinduoduo	U.S. IPO	US\$ 1.6billion
2018	Uxin	U.S. IPO	US\$ 225million
2018	iQiyi	U.S. IPO	US\$ 2.4billion
2018	Huami	U.S. IPO	US\$ 126.5million
2017	Lexin Fintech	U.S. IPO	US\$ 124.2million
2017	Jianpu Technology	U.S. IPO	US\$ 213.7million
2017	China Literature	Hong Kong IPO	US\$ 1.2billion
2017	YY	U.S. follow-on Offering	US\$ 462.9million
2016	GDS	U.S. IPO	US\$ 200.7million
2016	ZTO Express	U.S. IPO	US\$ 1.4billion
2014	CAR	Hong Kong IPO	US\$ 537.7million
2014	Momo	U.S. IPO	US\$ 308.4million

Source: Company data, Bloomberg

Asset management

Asset management is one of China Renaissance's core businesses and the most lucrative growth engine for the next decade. The company ranked among the top ten Chinese private equity funds that invest in the new economy as of in 2017, with AUM of approximately US\$ 4.0bn as of June 30, 2018. The company raises capital from both domestic and global institutional investors and high-net-worth individuals.

Figure 29: Top ten players in private equity investment market in China (2017)

Rank	Company	Market share	AUM (US\$ bn)
1	Hillhouse Capital Group	11.0%	13.9
2	CDH Investments	7.6%	9.6
3	Hony Capital	6.5%	8.2
4	Fountain Vest	3.5%	4.4
5	Primavera Capital Group	3.3%	4.2
6	Yunfeng Capital	3.1%	3.9
7	GGV Capital	3.0%	3.8
8	China Renaissance	2.6%	3.3
9	Sequoia Capital	2.4%	3.1
10	ZZ Capital	2.3%	2.9

Source: CIC Report

Leadership in advisory creating huge opportunities in asset management

China Renaissance has established its leadership in financial advisory services for deals in China's new economy sectors, which has created synergetic business opportunities for asset management. Given its deal sourcing capabilities, in-depth industrial knowledge and strong band, China Renaissance has expanded beyond its role as a mere financial advisor. We expect the company to provide their clients with diversified asset management and wealth management services to manage and grow their newfound wealth.

China Renaissance obtains financial returns in investment management business primarily through three channels: (i) managements fees, which are recognized as revenue; (ii) income from investment in its capacity as a general partner and in its capacity as a limited partner, which is recognized as investment income, and (iii) income from carried interest, which is calculated at the end of each reporting period. The committed capital and AUM of private equity funds increased by 59.5% and 77.3% from US\$ 1.9billion and US\$ 2.3billion as of June 30, 2017 to US\$ 3.0billion and US\$ 4.0billion as of June 30, 2018, respectively. The management fees increased by 96.9% from US\$ 12.3million for the six months ended June 30, 2017 to US\$ 24.2million for the six months ended June 30, 2018. The unrealized net carried interest, increased by 94.8% from US\$ 10.1million for the six months ended June 30, 2017 to US\$ 19.6million for the six months ended June 30, 2018.

High scalability

Asset management products and services are generally highly scalable. Also, China Renaissance has built a scalable and cost-effective business model to maximize revenue potential. The cost-income ratio of the company's asset management business including Investment Management segment and Huajing has declined modestly in 1H18 from 2017. We expect a further decline in cost-income ratio in this segment as asset management and wealth management business continues to scale up.

Figure 30: Cost-income ratio

	2015	2016	2017	1H17	1H18
Cost-income ratio					
Overall	51%	70%	104%	106%	81%
Investment Management	69%	64%	66%	86%	62%
Huajing	-	881%	337%	311%	184%
Staff cost-income ratio					
Overall	36%	49%	73%	72%	59%
Investment Management	36%	26%	35%	48%	34%
Huajing	-	588%	243%	229%	131%

Source: Company data

A more diverse and complex suite of asset management products

China Renaissance has established a private equity platform focusing on the formation, management, and investment of private equity funds. The company will launch additional asset management products, including buyout funds, real estate funds, credit funds and, over time, public market securities funds. This will act as additional distribution channel for these alternative assets, mutually reinforcing each other.

In addition, Huajing Securities' asset management services design and offer asset management plans and fixed income products. It provides collective asset management plans, targeted asset management plans, and special asset management plans, covering equity, quantitative hedging, fixed income, and NEEQ investment products. As of March 31, 2018, China Renaissance had launched eight collective asset management plans covering equity, debt, quantitative, and cash management products, and one targeted asset management plan, and had issued ABSs in an aggregate amount of US\$ 936.7million.

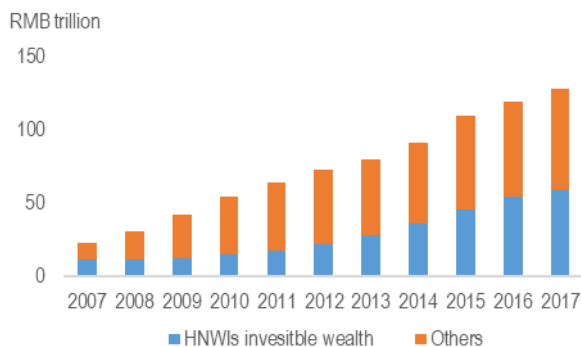
Wealth management

An abundance of high-net-worth individuals rising from the new economy wave

The rapid growth of the new economy and the IPO of leading new economy companies have created significant amount of individual wealth and increased the number of high-net-worth individuals. Participants in the new economy, such as owners, investors, and employees, are generating massive demand for wealth management and asset management products and services, especially for high-end wealth management services. China Renaissance as one of the leading new economy-focused financial service providers has huge first-mover advantages on such opportunities and is well-positioned to capture these high-net-worth individuals by providing tailored wealth management services and products.

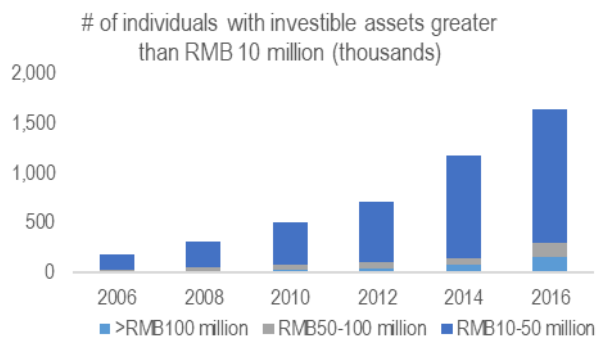
According to the CIC Report, estimated investable assets of founders and senior management at top 100 Chinese unicorns and all listed Chinese new economy companies in Hong Kong, the United States, and China amounted to approximately US\$ 204.5billion in 2017, and such number is expected to reach US\$ 498.1billion by 2023, representing a CAGR of 16.0%.

Figure 31: High net worth individuals contributing almost half of investable assets in China



Source: Wind; Note: HNWIs refer to individuals with investible assets of more than RMB10 million

Figure 32: The number of high net worth individuals is growing fast in China



Source: Bain & Company 2017 China Private Wealth Report

Cross-sell into wealth management leveraging on investment banking network

With its comprehensive private equity and asset management infrastructure, China Renaissance plans to expand into wealth management, initially targeting its investment banking network and other new economy entrepreneurs and eventually expand to serving other high-net-worth individuals. In turn, the company's wealth management platform could provide an additional channel to distribute its asset management products, benefiting the investment management platform as a whole. We believe China Renaissance has huge potential and abundant opportunities in wealth management business, given its deep network of innovative entrepreneurs and successful investors.

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Overweight	Industry sector expected to outperform the market over the next 12 months
Neutral	Industry sector expected to perform in-line with the market over the next 12 months
Underweight	Industry sector expected to underperform the market over the next 12 months
Stock Rating	
Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
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AMTD Global Markets Limited

Address: 23/F - 25/F, Nexxus Building, 41 Connaught Road Central, Hong Kong
Tel: (852) 3163-3288 **Fax:** (852) 3163-3289

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