



PRC IPOs AND FIN TECH TAKEOVER OF BANKS

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Ed 90



- **ALIBABA (BUY); LUFAX (SUBSCRIBE); CICC (SUBSCRIBE).**

- **BANKS ARE SURROUNDED; WE ARE WAY PAST TALK ON THE HOSTILE TAKEOVER OF BANKS BY FIN TECH. IT IS HAPPENING BEFORE OUR EYES.**

- **AVOID PRC SECURITIES COMPANY SECONDARY OFFERINGS. STICK TO CITIC SEC AND WAIT FOR CICC IPO.**

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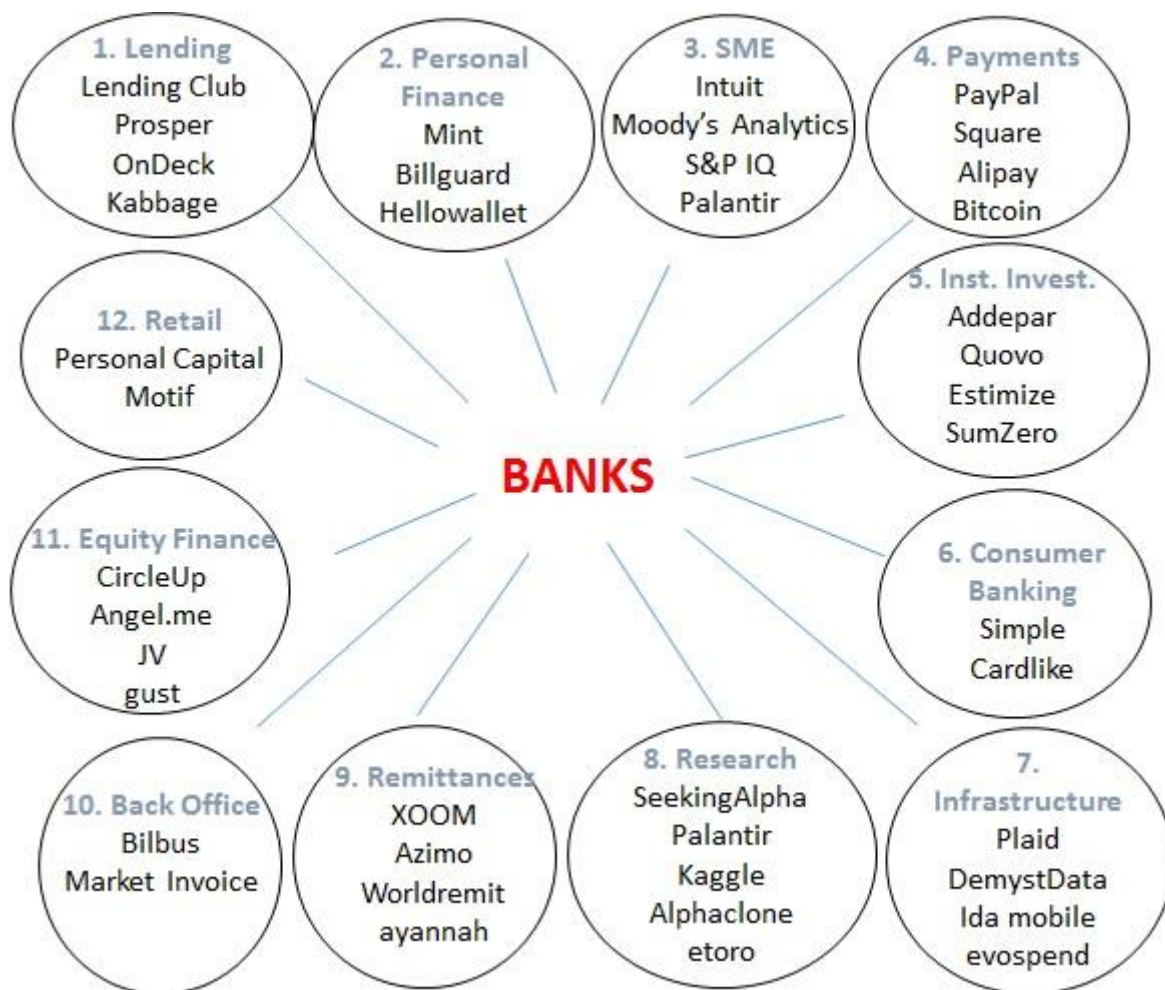
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1. Past and present IPOs. Alibaba's stock price is holding up despite the expiration of the six month lockup. It bounced as high as 85 and is settling at 84. Feedback is that the stock is creating a 6% cash yield which equivalent to about \$7 bn in free cash flow -- one of the most profitable internet companies globally. There are just not as many sellers of the stock as the bears have anticipated. (BUY). And Alibaba, Baidu and others are moving into the MSCI, index huggers will be forced to buy. There is so much bearishness on China and yet it is one of the best performing markets globally on a 12 month and 6 month basis. The bears need to be run out of town before this rally is finished. Also, we are working on Lufax, which is 49% owned by Ping An. This is the second largest P2P lender

(same model as Lending Club only bigger). The road show will start next week. This needs a look and our recommendation is based on valuations. Lending Club (and OnDeck) were flops because the issuers were too greedy. Let's hope Lufax has sane valuations. Stand by for guidance on valuation in the next 2-3 weeks.

2. Banks are surrounded. I spoke on financial technology at the Annual Conference of the Australia Securities and Investments Commission (ASIC) last week. Australia is open for business on fin tech and CBA as well as ANZ are in the lead regionally. Watch for CBA. These guys are way ahead of the pack. We are accelerating our research into fin tech -- this is the new sector for global financial PMs. Banks who do not get into the middle of this traffic will die off. I fear it may be too late for Stan C and HSBC to catch up to what banks like CBA, WFC, GS, ANZ, BBVA, and others are doing in this space. I think there will be a frenzy of activity in this space in 2H 2015 as some desperate banks are panicked into buying fin tech start up technology. The number has gone from about 100 three years ago to more than 900 in 2015. I also spoke at the Intl. Org of Securities Commissions (IOSCO) last month and the regulators are now on the front foot on this issue for the first time. (ASIC gets it and is a leader in the region). China and the US are further along than any other countries. India is catching up. Hong Kong and Singapore, until now, have been asleep at the switch. Alibaba is in the lead and people are afraid of it in a big way. This is a jobs issue. There is much agreement in private that the employment in investment banks and commercial banks will suffer and governments had better get with the program to welcome fin tech investment to replace jobs that will be lost as investment banks continue to shrink. I wonder how family-owned banks will cope in this world of fast moving technology. Wing Hang sold out. There is talk of Dah Sing selling out. Will they sell at 1.5x book? What will Bangkok Bank do? Public Bank?



3. Too much equity issuance from securities cos. While too many got China wrong and are now chasing the rally, I do think there is too much paper being issued by the securities companies. Secondary offerings by several securities companies are likely to cause indigestion as they are all happening at the same time. They should be offering debt paper -- not more equity paper. These securities companies have the lowest leverage globally by a mile with tangible leverage of about 4x. This is compared to the West at about 16x. On a leverage/ROC model, they are far better investments than any western bank with the exception of Goldman Sachs. But, I would watch and wait on these securities companies for the simple reason that the supply of paper coming out is simply too much. CICC in 1H looks very interesting. The numbers are enticing. But the Jewel in the Crown is CDBS in 2H. This is one of the most profitable securities companies globally and also has among the lowest leverage globally at 2x. I think companies like China Development Bank Securities will become the largest securities companies globally

within 10 years. Investors should be in the center of the securities companies, but the paper issuance is a bit much. Stick to CITIC Securities and wait for CICC. But the real prize will be CDB Securities, probably in Q3.

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