



## Kina Securities Limited (KSL)

### Technology to drive growth

#### Event

Full year profit was up from K4.9m in FY15 to K49m in FY16

#### Impact

##### Solid operating performance for FY16

Total operating income was K116m up 68% from previous corresponding period. Strong growth was recorded in the Net Interest Income with a 48% growth in the last 12 months. The other parts of the company continued to host progress with the only exception being share brokerage with revenues halved in the same period.

##### FX correspondent partner impacts revenue

Kina has advised that the FX corresponding partner withdrew from the FX market in December 2016. The issue is high on the KSL's agenda and should announce to the market shortly. We expect the 1H17 FX revenues to remain flat similar to 2H16 numbers.

##### Wealth division lands big win...

During the year FUM increased to K6.2 billion while FUA saw a 16% growth to K5.8 billion in Funds under Administration. Nasfund signed up with KSL in 2016 this should increase its portfolio to ~K10 billion under Administration. Wealth management revenue represents ~15% of FY16 Total Income for KSL.

##### NIM remains strong at 8.3% but could decline subject to increased competition

The Net Interest Margin remained at 8.3% through KSL having access to low cost deposit after the acquisition of Maybank. We expect this to persist during FY17 and ease to 8.1% in FY18 with competitive pressure in the banking space to pick up tracking economic activity.

##### Technology to drive improved services

The emphasis on KSL is to drive results by investing into its banking systems and technology. These include upgrading and modernising the Core Banking systems, which will enable the addition and introduction of new products including expanding online services, and realise new synergies between the banking and wealth businesses

##### Earnings & Valuation

Based on the FY16 results we have reviewed our earnings with a modest upgrade of ~8% on the FY17 and FY18 EPS. Incorporating increased non-interest income revenue due from FX and steady growth in Net Interest Income. However, there are risks to our forecasts with a continued subdued economy, difficulty finding an FX corresponding partner and increasing business competition when the economy starts to pick up in early 2019.

We value KSL at K2.29 (~A\$0.94) per share using a Dividend Discount model, with the following assumptions Cost of Equity at 14.6% and dividend payout ratio of 65%.

##### Recommendation

Our target price for Kina Securities is K2.26 per share or A\$0.94 per share. We are of the view that Kina is currently trading at a premium and have recommended a **Hold** rating on the stock with a total shareholder return of -4.92%

### Recommendation

Hold (Stable)

### Price

K2.60<sub>POMSOX</sub>

### Target (12 months)

K2.29 (previously K1.91)

### Expected Return

|                       |         |
|-----------------------|---------|
| Capital growth        | -11.92% |
| Dividend Yield        | 7.00%   |
| Total Expected Return | -4.92%  |

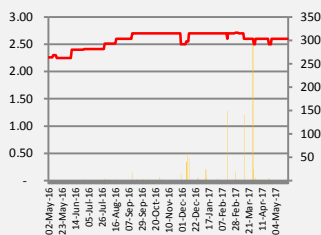
### Company Data & Ratios

|                      |                     |
|----------------------|---------------------|
| Market cap (K)       | K426.4m             |
| Issued capital       | 164.0m              |
| Avg. daily val.      | K9,380.15           |
| 12 month price range | K2.26- K2.60        |
| Sector               | Diversified Finance |

### Price Performance

|              | 1m   | 6m    | 12m   |
|--------------|------|-------|-------|
| Price (K)    | 2.25 | 2.60  | 2.60  |
| Absolute (%) | 0.44 | 15.55 | 15.55 |

### Share price (K)



## Financial Summary

| Kina Securities             | K2.60   |         |          |          |
|-----------------------------|---------|---------|----------|----------|
| Year Ending Dec 30          | 2015    | 2016    | 2017     | 2018     |
| PER SHARE DATA              | Actual  | Actual  | Estimate | Estimate |
| Price to Earnings           | 85.9 x  | 10.4 x  | 9.5 x    | 8.8 x    |
| Reported EPS (toea)         | 0.03    | 0.25    | 0.27     | 0.29     |
| Reported EPS growth (%)     | -64.70% | 729.06% | 9.24%    | 7.49%    |
| Dividend per share (kina)   | 0.02    | 0.18    | 0.19     | 0.21     |
| Book Value Per share (Kina) | 1.49    | 1.57    | 1.73     | 1.92     |
| Shares on Issue (m)         | 163,793 | 163,793 | 163,793  | 163,793  |

## VALUATION METRICS

|                     |          |        |        |        |
|---------------------|----------|--------|--------|--------|
| P/E (Cash)          | 2,840.21 | 41.32  | 34.63  | 29.97  |
| P/BV Stated         | 1.74     | 1.65   | 1.50   | 1.35   |
| RoAE (%)            | 2.88%    | 16.36% | 16.58% | 16.12% |
| RoAA (%)            | 0.75%    | 3.65%  | 3.50%  | 3.67%  |
| Dividend Yield (%)  | 0.29%    | 2.37%  | 2.59%  | 2.79%  |
| Dividend Payout (%) | 70.00%   | 70.00% | 70.00% | 70.00% |

## PROFIT & LOSS (PGK)

|                                       |                |                |                |                |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Net Interest Income                   | 42,860         | 65,128         | 69,035         | 73,178         |
| Net Non-interest Income               | 17,447         | 28,764         | 30,203         | 31,411         |
| Foreign exchange Income               | 6,903          | 20,579         | 22,637         | 23,768         |
| Dividend income                       | 189            | 111            | 113            | 116            |
| Other                                 | 2,766          | 1,916          | 1,916          | 1,916          |
| <b>Total Operating Income</b>         | <b>70,166</b>  | <b>116,498</b> | <b>123,904</b> | <b>130,388</b> |
| <b>Total Operating Costs</b>          | <b>-55,320</b> | <b>-55,030</b> | <b>-56,663</b> | <b>-58,344</b> |
| Net loss/gain from financial assets   | -499           | 587            | 622            | 660            |
| other operating costs                 | -54,820        | -55,617        | -57,285        | -59,004        |
| <b>Pre-Provision Operating Profit</b> | <b>14,846</b>  | <b>61,468</b>  | <b>67,240</b>  | <b>72,044</b>  |
| Impairment charge                     | -2,962         | -2,787         | -3,121         | -3,121         |
| <b>Profit Before Tax</b>              | <b>11,884</b>  | <b>58,681</b>  | <b>64,119</b>  | <b>68,922</b>  |
| Tax Expense                           | -6,928         | -17,595        | -19,236        | -20,677        |

## Minority shareholders

|                                   |              |               |               |               |
|-----------------------------------|--------------|---------------|---------------|---------------|
| Other post tax items              |              |               |               |               |
| <b>Reported Net profit</b>        | <b>4,956</b> | <b>41,086</b> | <b>44,883</b> | <b>48,245</b> |
| Extraordinary Items & other items |              |               |               |               |
| Goodwill                          |              |               |               |               |
| Preference shares                 |              |               |               |               |
| <b>Cash Profit</b>                | <b>4,956</b> | <b>41,086</b> | <b>44,883</b> | <b>48,245</b> |

## BALANCE SHEET & CAP AD (PGKm)

|                               |         |           |           |           |
|-------------------------------|---------|-----------|-----------|-----------|
| Loans, advances & acceptances | 374,059 | 605,112   | 620,240   | 635,746   |
| Total Deposits                | 658,609 | 958,609   | 977,781   | 997,337   |
| Total Assets                  | 986,180 | 1,265,747 | 1,297,391 | 1,329,826 |
| Shareholders' Equity          | 244,466 | 257,870   | 283,657   | 314,859   |
| RWA                           | 506,646 | 678,994   | 733,313   | 791,978   |
| Tier 1 capital                | 170,074 | 166,996   | 168,666   | 170,690   |
| Tier 1 + 2 capital            | 190,038 | 206,914   | 208,983   | 211,073   |
| Tier 1 ratio (%)              | 33.6%   | 24.6%     | 23.0%     | 21.6%     |
| Tier 1 + 2 Capital ratio (%)  | 37.5%   | 30.5%     | 28.5%     | 26.7%     |

## KEY RATIOS & GROWTH

|                                    |       |       |       |       |
|------------------------------------|-------|-------|-------|-------|
| Net Interest Income growth (%)     | 8.4%  | 54.7% | 6.1%  | 5.8%  |
| Net Non-interest income growth (%) | 1.7%  | 64.9% | 5.0%  | 4.0%  |
| Total revenue growth (%)           | 21.6% | 66.0% | 6.4%  | 5.2%  |
| Cost growth (%)                    | 58.6% | -0.5% | 3.0%  | 3.0%  |
| Deposit growth (%)                 | n/a   | 45.6% | 2.0%  | 2.0%  |
| Net Interest margin (%)            | 8.3%  | 7.0%  | 7.0%  | 7.0%  |
| Cost/income ratio (%)              | 78.8% | 47.2% | 45.7% | 44.7% |

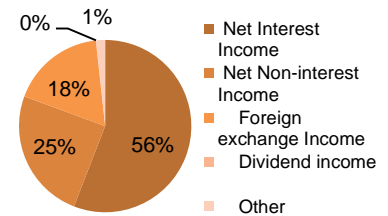
## Board

|                 |                 |
|-----------------|-----------------|
| Isikeli Taureka | Chairman        |
| Jim Yap         | Non-Executive   |
| David Foster    | Non-Executive   |
| K Smith-Pomeroy | Non-Executive   |
| Don Manoa       | Non-Executive   |
| Peter N C Joo   | Non-Executive   |
| Hilary Wong     | Non-Executive   |
| Syd Yates       | Chief Executive |

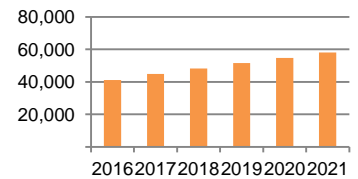
## Shareholders

|              |      |       |
|--------------|------|-------|
| Fu Shan      | 57.2 | 34.9% |
| HSBC Custody | 26.3 | 16.1% |
| USB Nominees | 8.1  | 4.9%  |
| Nasfund      | 8.0  | 4.8%  |
| RBC Investor | 6.1  | 3.7%  |

## Revenue Mix 2016



## Reported Net profit K'm



## Recommendation definitions

**Buy** - expect >15% total return on a 12 month period. For a stock regarded as speculative an expected return of > 30pc

**Hold** - expected total return between -5% and 15% in a 12 month period

**Sell** - expect < -5% in total return in a 12 month period.

## BSP Capital Limited Contacts

### Client Advisory

|                     |                          |         |  |
|---------------------|--------------------------|---------|--|
| Richard Borysiewicz | General Manager          | 3098504 |  |
| Gheno Minia         | Head of Equities/Dealing | 3098521 |  |
| Phoebe Endose       | Client Adviser           | 3098521 |  |
| Ruth Roandi         | Research Analyst         | 3057608 |  |

**+675...**

**email:**

|  |  |  |                         |
|--|--|--|-------------------------|
|  |  |  | rborysiewicz@bsp.com.pg |
|  |  |  | gminia@bsp.com.pg       |
|  |  |  | pendose@bsp.com.pg      |
|  |  |  | rroandi@bsp.com.pg      |

### Settlements & Nominees

|                 |                                  |         |  |
|-----------------|----------------------------------|---------|--|
| Salaniet Mathew | Manager – Settlements & Nominees | 3098531 |  |
| Lucy Rita       | ASX Settlements                  | 3098506 |  |
| Kuan Kafui      | POMSoX Settlements               | 3098545 |  |
| George Ilau     | Capital Nominees                 | 3098510 |  |

|  |                    |
|--|--------------------|
|  | smathew@bsp.com.pg |
|  | lrita@bsp.com.pg   |
|  | kkafui@bsp.com.pg  |
|  | gilau@bsp.com.pg   |

### Funds Management

|                   |                            |         |  |
|-------------------|----------------------------|---------|--|
| Willie Konga      | Manager – Funds management | 3098513 |  |
| Marie Sourimant   | Portfolio Administrator    | 3098530 |  |
| Michelle Koredong | Dealer – Money markets     | 3057804 |  |

|  |                       |
|--|-----------------------|
|  | wkonga@bsp.com.pg     |
|  | msourimant@bsp.com.pg |
|  | mkoredong@bsp.com.pg  |

## Disclaimer –

This Research comprises general market information and does not take account of your objectives, financial situation or needs. Before acting on this general advice, you should consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision. This information has been prepared for the use of the clients of the BSP Capital Limited (BSPCL) and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient, you must not use or disclose this research in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person. Nothing in this report shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. This report is based on information obtained from sources believed to be reliable, but BSPCL does not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. The BSPCL accepts no liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. BSP Capital Limited produces a variety of research products, recommendations contained in one type of research product may differ from recommendations contained in other types of research. BSPCL has established and implemented a conflicts policy at group level, which may be revised and updated from time to time, pursuant to regulatory requirements; which sets out how we must seek to identify and manage all material conflicts of interest. BSP Capital Limited, its officers and employees may have conflicting roles in the financial products referred to in this research and, as such, may effect transactions which are not consistent with the recommendations (if any) in this research. BSP Capital Limited may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case. BSP Capital Limited employees or officers may provide oral or written opinions to its clients which are contrary to the opinions expressed in this report.