

Best Global Private Bank in Asia 2016

Thank you for your interest in competing for FinanceAsia's award for best global private bank in Asia. This award is solely based on our editorial team's selection of the most compelling pitch to a fictional client. The written pitch should be in the form of a Word document of no more than 2,500 words (preferably fewer). Please be economical with charts or other visuals: you will have a chance to flesh out the presentation if you are invited to an off-the-record meeting in person with FinanceAsia. Do remember to include your contact details with the submission.

Please submit written pitches to silvia.barbiero@haymarket.asia by October 28. Pitch meetings will take place in Hong Kong in early November. The winner will be announced online at the end of November. Given the tight timeframe, we cannot accept written submissions after October 28.

Scenario

History

Ren Huandu, born 1967 in Zhejiang province, is a Chinese billionaire, investor and philanthropist. He is chairman of Guohua Rongyao Limited (GR). The Hurun Report cited him as the 51st richest person in China (2014); Forbes said he was 47th (2015), with a net worth of \$6.2 billion. Ren received an MBA from Fudan University in 1989.

Ren established GR in 1994 with Fudan classmates, initially as a business manufacturing hospital beds. From there he invested in insurance, pharmaceuticals, healthcare, property, steel, mining, retail, services, asset management and other financial services, creating one of the largest privately owned enterprises in China.

In 2007, GR International (GRI) was listed on HKEx, with the proceeds going to acquiring a number of international businesses, including Assicurazione di Alto Adige (Italy) and Asfalisi Hellenica (Greece). GR has established private-equity and venture-capital vehicles in China, in partnership with local insurance companies, state-tied investment agencies and foreign PE firms' RMB-denominated funds; GRI is in the process of speaking with global SWFs, insurance companies and PE firms to set up a global alternative investment platform, including Reits, private equity and infrastructure funds, to be listed in Hong Kong.

Ren has given numerous media interviews praising Warren Buffet's concept of "permanent capital". He has also stated his interest in

acquiring infrastructure and related assets in Europe and the Middle East, to help facilitate China's One-Belt One-Road push; and in investing in future technology 'unicorns'.

He is an avid practitioner of *wu shu*. As chairman of Better World Foundation, over the past five years he has steered Rmb500 billion to charitable causes, notably children's health.

Guohua Rongyao

The company's latest annual report from its Shanghai headquarters, for year-end 2015:

GR total assets: Rmb364.5 billion (end of 2015)

Assets of financial services: Rmb212.2 billion

Assets of industrial operations: Rmb162.7 billion

Eliminations (inter-group financial dealings): (-Rmb10.4 billion)

Revenue: Rmb72 billion

Revenue from financial services: Rmb14.9 billion

Revenue from industrial operations: Rmb57.1 billion

Profits: Rmb7.2 billion

Profits from financial services: Rmb5.2 billion

Profits from industrial services: Rmb3.2 billion

Unallocated expenses: (-Rmb1.2 billion)

Market capitalization (H-share): HKD380.4 billion

EPS: HKD1.09

Dividend per share for GRI: HKD 0.17

P/E ratio: 8.95x

Notable milestones:

- * investable insurance assets reach Rmb144 billion;
- * total AUM of GR-owned insurance businesses reach Rmb162 billion;
- * profit attributed to insurance segment reach Rmb2.7 billion;
- * the European life insurers' average guaranteed interest rate is 2.4%;
- * net gearing of the Group increasing from 70% in 2013, to 75% in 2015;
- * Group conducted 8 IPOs in A- or H-shares in 2015 to enhance liquidity;
- * Extending loan tenures, but taking on debt: total sum of outstanding medium to long-term bond risen to Rmb54 billion

Financial Services

Insurance: the Group's insurance segment includes two European life insurers as well as domestic life, non-life and reinsurance assets. 2015 revenue totaled Rmb13.2 billion (Rmb1.96 billion in profit).

Investment: the Group's investment activities include PE, VC, and strategic deals, including secondary markets. Revenue: Rmb460 million

(down -36% YoY), profits Rmb2.6 billion. Note: revenues fell YoY by (-37%) due to the declining rental income in Shenzhen properties, while the profits reflect gains booked on the disposal of other property subsidiaries to a foreign private-equity group.

Wealth Management: includes asset management, internet finance.

Revenue: Rmb1.24 billion, profits Rmb640 million

Industrial Operations

Real Estate: Revenue Rmb15.2 billion, profit Rmb2.7 billion

Healthcare and Pharmaceutical: Most of this activity involves around distribution and manufacturing of GR Pharma in China, as well as hospice care, nutrition, and international nursery and healthcare companies. Revenues Rmb20.7 billion, profits Rmb1.6 billion

Other: Includes steel, mining, resources, and various retail related services (e.g., jewelry stores). Revenue Rmb21.2 billion, loss (Rmb1.1 billion).

Net interest expenditure, 2015: increased YoY by 11% to Rmb7.2 billion, in line with expanded borrowing.

Tax: Group tax increased to Rmb5.4 billion in line with increased taxable profits.

Capital commitment for 2016: Rmb27 billion to invest in pharma, overseas insurance and other financial assets, and tech companies

Debt: Total group debt Rmb180 billion, due to increased borrowings; 50% of debt is in RMB, 35% is in USD, 5% in HKD, 10% in euros.

About 50% of debt is floating rate, and have fixed. 65% of the debt is due to mature within one year, and only 5% is due over five or more years.

Cash: Cash and bank term deposits fell YoY by 16% to Rmb27 billion; 20% of cash/deposits is in RMB; 5% is in USD, 5% is in HKD; 70% is in euros.

Total debt/total capitalization: 55% to the H share, increasing steadily over the past 3 years

Available facilities: The Group has unutilized banking facilities of Rmb117 billion in mainland China, with facilities established with several major Chinese banks.

Cash flow: Net cash flow used in operating activities was Rmb3.1 billion but decreased YoY by 15% due to rising debt, increased payments to operations and investment in new properties, notably overseas insurance.

Convertible bonds: In 2013, an indirect wholly-owned subsidiary of GR, Missing Piece Limited, issued HK3.48 billion of guaranteed convertible bonds maturing in 2018, bearing an interest rate of 1.6% per annum. The bonds may convert to a maximum of 348 million shares at the initial

conversion price of HK10.0 per share. During the 2015 reporting period, only 30% of the bonds' principal had been converted.

Family

Ren Huandu was married twice. His first spouse is Tan Meili, born 1968, who is a pediatrician. They divorced in 1998 but remain on good terms. In 2003, Ren married Yuan Pengfa, a CCTV news anchor.

Ren has one child from each marriage, plus an adopted child. His daughter Tan Meihua is 19 years old and is attending Stanford. His son Ren Guanhua is 17 and his adopted son Ren Guancheng is 15.

The family's wealth is almost entirely tied up in GRI H-shares, all under Ren's name. He owns 5.5 billion shares, out of a total of 7.75 billion GRI shares outstanding, or 71%. In 2014, Ren established a holding company, RH Enterprises, in Hong Kong, under its recently revised discretionary trust laws, but has yet to transfer assets to it.

The problem

Ren Huandu is a success story and a popular businessman. His initial family trust arrangements, all conducted domestically, initially focused on providing for his parents, who passed away in 2014. He is looking to optimize his wealth to achieve the following goals:

- * Provide security and investment funds to his three children, in the hope and expectation that they will either become entrepreneurs or assume senior roles in Guohua Rongyao;
- * Provide a sustainable base for charity;
- * Serve as his personal investment vehicle in areas of interest (that is, outside of GR), notably healthcare and technology;
- * Ensure he is seen by authorities as a good citizen.

Although GR has enjoyed record profits, record revenues and record investments into overseas businesses, it has also assumed record debts, seen its debt profile shorten, and seen its debt-to-capitalization ratio increase. Moreover, the Italian and Greek insurance acquisitions are proving harder to manage than Ren expected, and analysts believe these may become drains on cashflow. Another crisis in the eurozone could see these investments turn sour, causing widespread damage to GRI.

Some parts of the conglomerate are suffering losses, and domestically the company is struggling to align itself more effectively to China's shift toward domestic consumption and away from fixed-asset investments. A growing number of buy-side analysts are moving their recommendations from 'buy' to 'hold', over concerns that the stock is less attractive than peers. Foreign credit-rating agencies have changed their outlook from positive to stable, with one of the 'big three' putting GR on its negative watch list. Any problems in China could put downward pressure on the share price, complicating efforts to maintain cashflow and meet debts by listing Group vehicles.

Ren has come to your bank to seek a solution that will enable him to ensure stability in his business and his family: to make sure his capital is truly 'permanent' so that he can assure a 'permanent' sustainable future for his family wealth.

He welcomes your best ideas.