



Key Data

| | |
|------------------------|--------------|
| Share price (HK\$) | 122.7 |
| Target price (HK\$) | NA |
| Upside potential (%) | NA |
| 52Wk H/L(HK\$) | 148.9/ 100.0 |
| Issued shares: | 1,142.7 |
| Market cap (HK\$m) | 132,905 |
| 30-day avg vol (HK\$m) | 629 |
| Major shareholder (%): | |
| Hong Kong SAR | 5.64 |
| Thornberg Investments | 2.61 |

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 2011 (%)

| | |
|------------------------------|------|
| Turnover related revenue | 70.6 |
| Non-turnover related revenue | 16.8 |
| Investment income | 4.9 |
| Other income | 7.6 |

Source: Company

Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | (6.8) | (6.7) |
| 3-mth | 20.2 | 6.6 |
| 6-mth | 18.0 | (3.7) |

Source: Bloomberg

*Relative to MSCI Hong Kong

1 year price performance



Source: Bloomberg

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**HKEx (388 HK) – Unrated
Diversified Financial Services**

Positive stance reiterated post LME transaction

HKEx announced the issuance of 65.7mn new shares at HK\$118 per share on 29 Nov, after the FSA approval on LME transaction. The newly-raised funds reached HK\$7.7bn, on top of the HK\$3.9bn raised through convertible bonds earlier. HKEx will proceed to the integration with LME from early 2013 onwards. We reiterate our positive stance on HKEx, due to the completion of LME transaction, and recovering average daily turnover (ADT) since early Sep.

Minimal EPS dilution from new shares. According to our computation, the EPS dilution will be limited to 1-2% for 2012E and 2013E EPS (Bbg cons.). The issuance price of HK\$118 represents 28.5x 2013E PER (EPS at HK\$4.13) and 8.9x 2013E PBV (BVPS at HK\$13.3). We consider such valuation rich and hence yielded minimal dilution to existing shareholders.

LME to contribute 14.4% of revenue. Per our analysis, LME may achieve operating revenue of HK\$1.3bn and pretax profits of HK\$500mn in 2013E. Based on Bloomberg consensus, this represents approximately 14.4% of HKEx's revenue and 8.6% of pretax profits post integration. We consider such contribution adequate in the early stage of merger.

Beneficiary of Quantitative Easing 3 (QE3). ADT went up significantly from an average of HK\$44bn from Jun to Aug, to HK\$53bn since early Sep. Meanwhile, the aggregate banking balances rose from HK\$140bn in early Sep to HK\$180bn for now in Hong Kong. HKEx has benefitted significantly from the flooding liquidity since the implementation of QE3 in early Sep. As such, the market turns more positive towards HKEx. Its share price jumped 20.2%, outperforming MSCI HK by 7.4ppt, during the period.

Trading close to historical average valuation. The stock traded at an average of 28.0x forward PER from 2008 to 2011. Currently, including the impact from LME acquisition, the stock is trading at 29.7x forward PER, which is 0.5 standard deviation higher than historical average. With better liquidity outlook globally, we consider the stock attractive at present.

Risk factors: Better/worse-than-expected average daily turnover and trading velocity, better /worse-than-expected development with LME

Financial Summary

| FY ended Dec 31 | 2008 | 2009 | 2010 | 2011 |
|----------------------|---------|---------|---------|---------|
| Revenue (HK\$ mn) | 7,549 | 7,035 | 7,566 | 7,855 |
| Chg (YoY) | | (6.81) | 7.55 | 3.82 |
| Net profit (HK\$ mn) | 5,129 | 4,704 | 5,037 | 5,093 |
| Chg (YoY) | | (8.28) | 7.08 | 1.11 |
| ADT (HK\$ mn) | 72,052 | 62,310 | 69,117 | 69,503 |
| AD Dev Vol (#) | 428,599 | 395,736 | 496,091 | 604,159 |
| EPS (HK\$) | 4.75 | 4.36 | 4.67 | 4.72 |
| PER (x) | 25.8 | 28.1 | 26.3 | 26.0 |
| BPS (HK\$) | 6.76 | 7.44 | 8.04 | 8.48 |
| P/B (x) | 18.1 | 16.5 | 15.3 | 14.5 |
| DPS (HK\$) | 4.27 | 3.92 | 4.19 | 4.24 |
| Div. yield (%) | 3.5 | 3.2 | 3.4 | 3.5 |

Source: Company, Bloomberg, ABCI Securities

Disclosures

Analyst Certification

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Definition of equity rating

| Rating | Definition |
|--------|--|
| Buy | Stock return \geq Market return rate |
| Hold | Market return $- 6\% \leq$ Stock return $<$ Market return rate |
| Sell | Stock return $<$ Market return $- 6\%$ |

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

| Rating | Definition |
|-----------|--|
| Very high | $2.6 \leq$ 180 day volatility/180 day benchmark index volatility |
| High | $1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6 |
| Medium | $1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5 |
| Low | 180 day volatility/180 day benchmark index volatility $<$ 1.0 |

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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