



September 1, 2016
Company Report
Rating: HOLD
TP: HK\$ 4.37

Share price (HK\$)	4.13
Est. share price return	5.8%
Est. dividend yield	3.2%
Est. total return	9.0%

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Key Data

52Wk H/L(HK\$)	5.6/3.1
Issued shares (mn)	1,902
H shares (mn)	443
Unlisted shares (mn)	1,460
H-share market cap (HK\$ mn)	1,832
3-mth avg daily turnover (HK\$ mn)	6
Major shareholder(s) (%): Guolian Group	72.35

Source(s): Company, Bloomberg, ABCI Securities

1H16 Sales breakdown (%)

Brokerage	46.5
Investment banking	19.9
Credit	19.9
Trading	6.4
Investment Management	4.4
Others	2.9

Source(s): Company, ABCI Securities

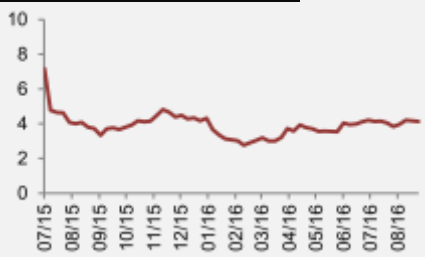
Share performance (%)

	Absolute	Relative*
1-mth	7.8	4.2
3-mth	4.5	10.9
6-mth	19.3	19.4

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Guolian Securities (1456 HK)
Not immune to industry downturn

- 1H16 profit dropped by 49% YoY to RMB 575mn on the back 34% revenue decline, largely in line with the industry trend.
- Brokerage and credit business, which accounted for 2/3 of revenues, were main drags although some of the impacts were mitigated by investment banking business
- Potentially less competition from major H-listed brokers after recent CSRC's rating downgrade

1H16 highlights. Revenue and net profit dropped by 47% and 65% to RMB 1.2bn and RMB 334mn given the high base in 1H15 and industry slowdown. Overall, its declined performance was largely in line with the industry. Operating margin dropped from 57.2% in 1H15 to 36.8% in 1H16 while net margin fell from 43.6% to 28.6% over the same period. ROE was 4.5% vs. 21.3% a year ago

Brokerage and credit businesses were main drags. In 1H16, brokerage and credit businesses accounted for 67% of total revenue. In our view, its dependence on the two businesses affected its overall performance in 1H16 given the weakened market turnover in recent months.

Investment banking- the bright spot. Investment banking revenue increased by 28% to RMB232mn. Despite its small size, the Company has been able to ride on the recent tailwind in the capital market, with net financing of corporate bonds and stock market equity financing by non-financial enterprises in China increasing by 83% and 53% YoY in 1H16.

Potential benefit from CSRC's rating action Most H-listed brokers including CITIC (6030 HK), Galaxy (6881 HK), GF (1776 HK), Haitong (6837 HK), Hautai (6886 HK), and CICC (3908 HK) have recently been downgraded from an "AA" rating by CSRC's. Guolian, on the other hand, managed to maintain its "A" rating. In our view, a lower regulatory rating could lead to more headwinds in business development, funding channel and cost, and capital requirement. As a result, Guolian could potentially face less competition from these large players in the near term, in our view.

HOLD with TP of HK\$ 4.37. We expect net profit to drop by 51% to RMB 727mn in 2016E before restoring to 19% and 21% growth in 2017E and 2018E. The counter has been trading at a discount to major listed national broker due to its smaller size as a regional broker, and we expect such gap to continue. We set our TP to HK\$4.37, equivalent to 0.85x 2017E P/B.

Risk factor: Market risk of financial assets; credit risk to bond investments and lending business; market turnover volatility.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	2,132	3,833	2,219	2,419	2,768
Chg (% YoY)	NA	79.8	(42.1)	9.0	14.4
Net profit (RMB mn)	715	1,471	727	867	1,048
Chg (% YoY)	NA	105.8	(50.6)	19.3	20.8
Underlying EPS (RMB)	0.48	0.88	0.38	0.46	0.55
Chg (% YoY)	NA	83.3	(56.6)	19.3	20.8
BVPS (RMB)	2.7	4.1	4.1	4.4	4.8
Chg (% YoY)	NA	49.4	0.1	7.8	8.8
Underlying PE (x)	7.4	4.0	9.3	7.8	6.4
P/B (x)	1.3	0.9	0.9	0.8	0.7
ROE (%)	35.0	24.9	9.4	10.8	12.0
ROA (%)	7.0	5.7	2.5	3.1	3.6
DPS(HK\$)	0.1	0.5	0.1	0.2	0.2
Yield (%)	2.0	11.3	3.2	3.9	4.7

Source(s): Company, ABCI Securities estimates



1H16 performance by business segment

Brokerage and credit. Brokerage and credit revenues dropped 54% and 20% to RMB 543mn and RMB 233mn on the back of lower turnover and weak market sentiment compared to last year. Overall, brokerage and credit businesses remained the largest contributors, jointly accounting for 67% of total revenue in 1H16.

Its stock and fund turnover was RMB 932bn in 1H16 and was ranked 38th in the industry. As at June 2016, the Company had 59 securities branches.

Margin finance and securities lending balance was RMB 4.2bn in June 2016, representing a 47.8% YoY decline.

Investment banking Investment banking revenue increased by 28% to RMB 232mn and accounted for 20% of total revenue in 1H16. Overall, the Company has been able to ride on the upturn in China's capital market despite its small size.

In 1H16, it completed 2 follow-on financing projects with an aggregate underwriting amount of RMB 489mn. Currently, it has 3 IPO projects and 4 follow-on financing projects under regulatory review. For debt financing, it completed 15 bonds lead-underwriting projects in 1H16 with an aggregate underwriting amount of RMB 15.2bn. It has corporate bond projects and 3 enterprise bonds projects under regulatory review.

Asset management. Segment revenue fell 37% to RMB 51mn in 1H16 on less favorable investment environment compared to 2015. Overall, total AUM increased by 6.6% to RMB 22.5mn in June 2016. Nonetheless, the business's contribution was still small at about 4% of total revenue.

Proprietary trading. Segment revenue fell 83% to RMB 75mn in 1H16 on less favorable investment environment. As a result, the segment only accounted for 6% of total revenue in 1H16, compared with 20% in 2015.

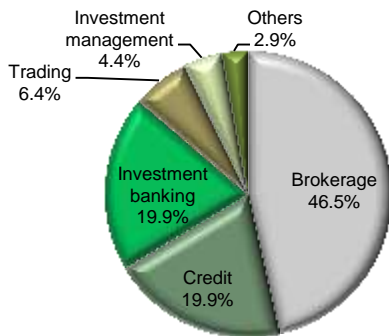


Exhibit 1: 1H16 results highlight

	1H15	1H16	YoY	Comments
Fee and commission income	1,225	654	-47%	Dragged by brokerage and credit businesses
Interest income	443	410	-8%	
Investment income	523	101	-81%	Unfavorable market environment
Other income	2	4	100%	
Total revenue and other income	2,193	1,168	-47%	
Total expenses	938	738	-21%	
Operating Profits	1,255	430	-66%	
Share of profit of associates	28	16	-44%	
Other gains	0	23	NA	
Profit before tax	1,283	469	-63%	
Tax	317	120	-62%	
Minority interests	9	14	54%	
Net Profits	957	334	-65%	
Revenue by segment				
Brokerage	1,185	543	-54%	
Credit	292	233	-20%	
Investment banking	182	232	28%	
Trading	440	75	-83%	
Investment management	81	51	-37%	
Others	13	34	162%	
	2,193	1,168	-47%	
Ratios				
Operating margin	57.2%	36.8%		
Net margin	43.6%	28.6%		
ROAE	21.3%	4.5%		

Source(s): Company, ABCI Securities

Exhibit 2: 1H16 sales breakdown



Source(s): Company, ABCI Securities

Exhibit 3: CSRC rating among major brokers

Company	2015 rating	2016 rating
Orient (3958 HK)	AA	AA
CICC (3908 HK)	AA	A
Galaxy (6881 HK)	AA	A
Guolian (1456 HK)	A	A
CITIC (6030 HK)	AA	BBB
GF (1776 HK)	AA	BBB
Haitong (6837 HK)	AA	BBB
Huatai (6886 HK)	AA	BBB

Source(s): CSRC, ABCI Securities

Some H-share brokers are not included



Financial Summary

Consolidated income statement (2014A-2018E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Fee and commission income	1,080	2,236	1,187	1,337	1,486
Interest income	375	925	733	733	833
Investment income	666	666	300	350	450
Total revenue	2,121	3,826	2,219	2,419	2,768
Other income	11	7	0	0	0
Total revenue and other income	2,132	3,833	2,219	2,419	2,768
Total expenses	1,185	1,991	1,319	1,345	1,470
Operating Profits	947	1,842	901	1,074	1,298
Share of profit of investments in associates	16	30	36	43	51
Profit before tax	963	1,871	936	1,117	1,349
Tax	233	492	197	235	283
Profit after tax	2,137	1,379	740	883	1,066
Minority interests	15	27	13	15	18
Profits attributable to shareholders	2,121	1,353	727	867	1,048
Growth					
Total revenue and other income (%)	NA	79.8	(42.1)	9.0	14.4
Total expenses	NA	68.1	(33.8)	2.0	9.3
Operating Profits (%)	NA	94.5	(51.1)	19.3	20.8
Net profit (%)	NA	105.8	(50.6)	19.3	20.8
Operating performance					
Operating margin (%)	44.4	48.1	40.6	44.4	46.9
Net margin (%)	25.0	35.3	32.8	35.9	37.8
ROAE (%)	35.0	24.9	9.4	10.8	12.0
ROAA (%)	7.0	5.0	2.5	3.1	3.6

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2018E)

As of Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Property and equipment	105	104	109	114	120
Other intangible assets	24	19	20	21	22
Investment in associates and JV	195	204	214	224	236
AFS	80	753	791	830	872
Financial assets held under resale agreements	88	128	135	141	148
Other non-current assets	34	29	30	31	33
Total non-current assets	526	1,236	1,297	1,362	1,430
Cash & equivalents	950	3,961	3,561	3,772	4,092
Clearing settlement funds	2,776	4,360	2,180	2,289	2,403
AFS	809	819	656	688	723
Financial assets at FVTPL	4,280	2,594	2,853	2,996	3,146
Other current assets	5,719	10,333	10,333	10,850	11,392
Other receivables and prepayments	3,738	6,085	4,260	4,473	4,696
Advances to customers	190	239	251	264	277
Financial assets held under resale agreements	1,461	1,546	1,624	1,705	1,790
Total current assets	19,923	29,937	25,717	27,036	28,520
Total assets	20,449	31,173	27,014	28,398	29,950
Accounts payable	7,769	13,557	11,524	12,100	12,705
Loans and debt	850	3,850	1,925	1,925	1,925
Other current liabilities	5,216	3,907	3,683	3,868	4,061
Total current liabilities	13,835	21,315	17,132	17,893	18,691
Loans and bonds payables	2,150	1,800	1,800	1,800	1,800
Other non-current liabilities	115	30	32	33	35
Total non-current liabilities	2,265	1,830	1,832	1,833	1,835
Total liabilities	16,100	23,145	18,964	19,726	20,526
Net current assets	6,088	8,623	8,585	9,144	9,829
Equity attributable to owners of the parent	4,082	7,735	7,744	8,351	9,085
Minority interest	267	294	306	321	339
Total equity	4,349	8,029	8,050	8,673	9,424

Source(s): Company, ABCI Securities estimates



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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

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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