



March 31, 2015
Company Report
Rating: BUY
TP: HK\$ 12.00

Share price (HK\$) 9.07
Est. share price return 32.3%
Est. dividend yield 2.3%
Est. total return 34.6%

Previous Rating and TP(HK\$) BUY: HK\$ 12.00
Previous Report Date Jan 27, 2015

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Key Data

52Wk H/L(HK\$)	11.5/4.43
Issued shares (mn)	7,537.3
Market cap (HK\$ mn)	68,363
3-mth avg daily turnover (HK\$ mn)	278
Major shareholder(s) (%): Huijin	69.2

Source(s): Company, Bloomberg, ABCI Securities

2014 Revenue breakdown (%)

Brokerage	76
Proprietary Trading	11
Investment Banking	8
Asset management	2
Others	3

Source(s): Company, ABCI Securities

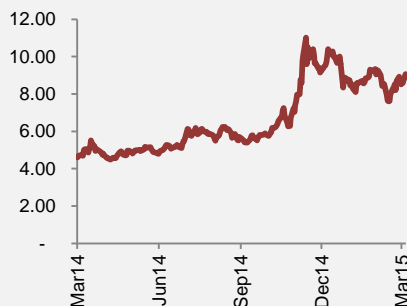
Share performance (%)

	Absolute	Relative*
1-mth	-1.95	-2.07
3-mth	-5.03	-10.20
6-mth	64.61	53.84

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

China Galaxy Securities (6881 HK)
Solid FY14 results; highest ROE among peers

- CGS's 2014 net profit was up 77% yoy to RMB 3.8bn, in line with the preliminary figures released in Jan this year. Revenue grew 55% yoy to RMB 13.0bn
- A-share market was strong - brokerage commission and fee income rose 32% yoy to RMB 5.9bn
- Interest income from MFSL increased 127% yoy to RMB 2.5bn, driving up total interest by 41.5% yoy to RMB 4.2bn
- Investment banking business rebounded sharply, with the segment's revenue soaring by 150% yoy to RMB 1.0bn
- CGS, with its sound capital position and the highest ROAE among peers, will benefit much from revival in the A-share market. Maintain **BUY** with TP of HK\$ 12.00, implying 1.85x 2015E P/B

CGS announced FY14 results. Net profit grew 77% yoy to RMB 3.8bn, in line with preliminary figures announced in Jan this year. Revenue increased 55% yoy to RMB 13.0bn. Total assets grew 130% yoy to RMB 180bn; net leverage ratio (excluding client deposits) increased to 3.3x, from 2.8x in 2013. ROAE increased by 4.22ppts to 13.91%, higher than CITICS (6030 HK)'s 12.18% and HTS (6837 HK)'s 11.88%.

Key beneficiary of A-share market revival. Strong FY14 results can be attributed to strong A-share market trading volume in 2014, CGS was ranked 3rd by brokerage trading volume in 2014 with a market share of 5.08%, brokerage fee income rose 32% yoy to RMB 5.9bn while the number of clients increased by 7.6% yoy to reach 5.93mn. CGS would be the key beneficiary of A-share market recovery since brokerage segment accounted for 76% of its total revenue in 2014, the largest contributor by business segment.

Increasing revenue contribution from margin financing business. Margin business extended its growth momentum with the balance of margin financing and securities lending (MFSL) surging by 239% yoy to RMB 60.3bn as at Dec 31, 2014, representing a market share of 5.9% and was ranked 4th in the market. Market share of newly opened margin accounts was 7.57%, ranking 1st in the industry. As such, interest income from these businesses jumped 127% yoy to RMB 2.5bn, representing 19% of the Group's total revenue in FY14 and driving up CGS's net interest income by 41.5% yoy.

Stellar growth in investment banking business. Driven by A-share IPO resumption, robust growth was seen in secondary offerings and bond market has turned active. According to Wind, CGS's equity underwriting and debt underwriting accounted for 3.4% and 2.8% of total underwriting amount in 2014, ranking 9th and 11th in the market. Underwriting and sponsorship fee income soared 192% yoy to RMB 974mn. (Continue next page)

Financial Summary

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Revenue (RMB mn)	5,962	8,426	13,017	17,253	20,735
Chg (% YoY)	(7.3)	41.3	54.5	32.5	20.2
Net profit (RMB mn)	1,420	2,135	3,770	5,285	6,596
Chg (% YoY)	(10.0)	50.4	76.6	40.2	24.8
EPS (RMB)	0.24	0.31	0.50	0.62	0.69
Chg (% YoY)	(10.0)	30.0	62.6	23.8	11.7
BVPS (RMB)	2.90	3.34	3.85	5.20	5.83
Chg (% YoY)	8.9	15.0	15.3	35.1	12.1
P/E (x)	30.3	23.3	14.3	11.6	10.4
P/B (x)	2.5	2.1	1.9	1.4	1.2
ROAE (%)	8.5	9.9	13.8	13.3	12.4
ROAA (%)	2.3	3.0	2.9	2.2	1.8
DPS(RMB)	-	0.06	0.16	0.17	0.21
Yield (%)	0.0	0.9	2.2	2.3	2.9

Source(s): Bloomberg, ABCI Securities estimates

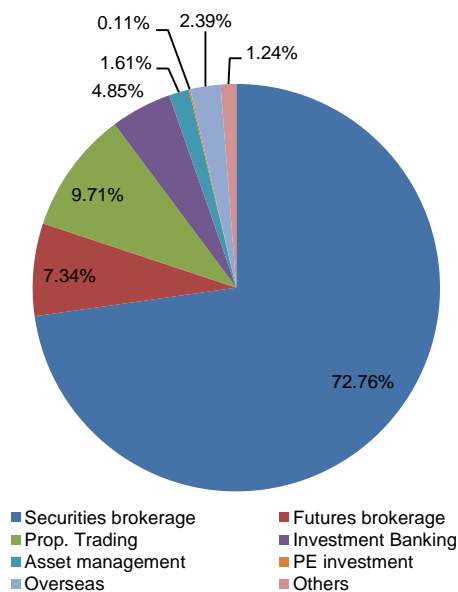
Sound capital position. Net capital-to-net assets ratio was 88% in 2014 (CITICS: 56%, HTS: 57%), higher than CSRC's required standard of 40%. A strong capital position enables CGS to further develop its capital-intensive businesses such as margin financing and securities lending (MFSL). Rising contribution from flow-based business would reduce CGS's reliance on tradition brokerage business to develop a more balanced revenue mix.

A-share listing to strengthen position. CSRC has accepted the IPO application of CGS to issue around 1.7bn of A shares. Successful listing in the A-share market could strengthen its capital position and enable CGS to expand capital-intensive businesses, such as margin financing and quasi-lending business, to optimize revenue mix and increase competitiveness in the market.

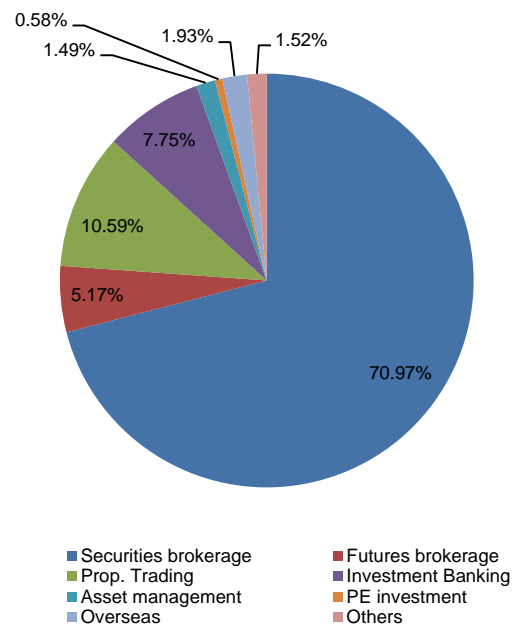
Maintain BUY with TP at HK\$ 12.00. CGS's ROAE in 2014 was 13.91%, the highest among peers (CITICS: 12.18%, HTS: 11.88%), yet the counter is trading at a discount to peers. CGS is a proxy to A-share market turnover as income from brokerage segment typically accounts for over 70% of its total revenue. Given the reviving A-share market with rising turnover and CGS's solid capital position, we maintain **BUY** for CGS with TP of HK\$ 12.00, which implies 1.85x 2015E P/B.

Risk factors: 1) Further decline in brokerage commission rates; 2) Sharp decline in A-market turnover; 3) Slowdown in China's economic growth; 4) Sharp decline in MFSL growth; 5) EPS dilution risk on share placement; 6) Increased competition if broker licenses are granted to banks.

Exhibit 1: Revenue mix in 2013 (LHS) and 2014 (RHS)



Source(s): Company, ABCI Securities



Source(s): Company, ABCI Securities



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Fee and commission income	3,831	5,039	7,135	7,490	7,808
Interest income	1,699	2,666	4,182	7,280	9,733
Investment income	395	697	1,653	2,413	3,120
Other income	38	23	47	70	74
Revenue	5,962	8,426	13,017	17,253	20,735
Operating costs	(4,075)	(5,533)	(8,014)	(10,132)	(11,853)
Operating profits	1,886	2,893	5,003	7,121	8,882
Associates & JCEs	0	0	0	(0)	(0)
Profit before tax	1,886	2,893	5,003	7,121	8,882
Tax	(454)	(738)	(1,213)	(1,816)	(2,265)
Profit after tax	1,433	2,155	3,790	5,305	6,617
Minority interests	(13)	(20)	(20)	(20)	(21)
Net profits	1,420	2,136	3,770	5,285	6,596
Growth (%)					
Total Revenue (%)	(7.3)	41.3	54.5	32.5	20.2
Total Operating costs (%)	(2.3)	35.8	44.8	26.4	17.0
Operating profit (%)	(16.6)	53.4	72.9	42.3	24.7
Net profit (%)	(10.0)	50.4	76.6	40.2	24.8
Operating performance (%)					
Operating margin (%)	31.6	34.3	38.4	41.3	42.8
Net margin (%)	23.8	25.3	29.0	30.6	31.8
Effective tax rate (%)	24.1	25.5	24.2	25.5	25.5
Dividend payout (%)	-	20.2	32.0	30.0	30.0
ROAE (%)	8.5	9.9	13.8	13.3	12.4
ROAA (%)	2.3	3.0	2.9	2.2	1.8
Segmental revenue (RMB mn)					
Securities brokerage	4,081	6,174	9,392	12,811	15,168
Futures brokerage	521	623	684	1,004	1,289
Proprietary trading	401	824	1,402	1,495	1,661
Investment bank	685	411	1,026	1,229	1,448
Asset management	45	137	197	245	336
Private equity investment	25	10	76	32	35
Overseas	33	203	256	332	598
Other income	176	105	201	231	329

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Fixed assets	516	394	380	387	395
Goodwill	223	223	223	223	223
Other intangible assets	363	349	355	366	377
Investment securities	743	495	512	546	573
Other non-current assets	174	328	707	759	815
Total non-current assets	2,019	1,789	2,177	2,281	2,383
Cash & equivalents	36,607	33,084	51,812	62,174	69,635
Advances to customers	5,439	18,393	61,443	135,174	229,796
Trading securities	4,622	5,027	5,961	5,802	6,145
Investment securities	6,739	10,238	12,433	14,982	16,984
Other current assets	8,870	9,754	46,200	78,936	109,658
Total current assets	62,277	76,495	177,849	297,068	432,218
Total assets	64,296	78,284	180,026	299,349	434,601
Accounts payable	39,746	36,451	78,408	141,134	225,814
Other liabilities	6,991	16,411	63,308	108,096	152,584
Current liabilities	46,737	52,863	141,715	249,229	378,397
Net current assets	15,540	23,632	36,133	47,838	53,821
Total assets less current liabilities	17,559	25,422	38,310	59,543	66,098
Bonds payable	-	-	6,200	6,510	6,836
Other non-current liabilities	-	-	2,775	2,914	3,059
Total non-current liabilities	-	-	8,975	9,424	9,895
Equity attributable to owners of the parent	17,430	25,175	29,024	49,623	55,647
Minority interest	129	247	312	496	556
Total equity	17,559	25,421	29,336	50,119	56,204

Source(s): Company, ABCI Securities estimates



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 2010-2014

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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