



September 19, 2016  
Company Report  
Rating: BUY  
TP: HK\$ 18.2

|                         |       |
|-------------------------|-------|
| Share price (HK\$)      | 16.82 |
| Est. share price return | 8.2%  |
| Est. dividend yield     | 2.4%  |
| Est. total return       | 10.6% |

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**Key Data**

|                                    |           |
|------------------------------------|-----------|
| 52Wk H/L(HK\$)                     | 20.3/13.4 |
| Issued shares (mn)                 | 7,621     |
| - H shares (mn)                    | 1,702     |
| - A shares (mn)                    | 5,919     |
| H-share market cap (HK\$ mn)       | 28,418    |
| 3-mth avg daily turnover (HK\$ mn) | 70        |
| Major shareholder(s) (%):          |           |
| Jilin Aodong Pharmaceutical        | 16.7%     |
| Liaoning Cheng Da                  | 16.4%     |
| Zhongshan Public Utilities         | 10.2%     |

Source(s): Company, Bloomberg, ABCI Securities

**1H16 Revenue Breakdown (%)**

|                       |    |
|-----------------------|----|
| Wealth management     | 45 |
| Trading               | 22 |
| Investment management | 20 |
| Investment banking    | 10 |
| Others                | 3  |

Source(s): Company, Bloomberg, ABCI Securities

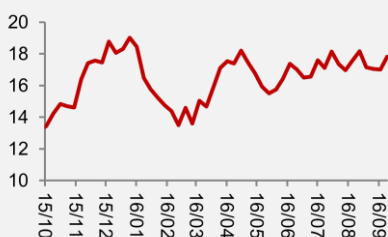
**Share performance (%)**

|       | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | (8.5)    | 1.8       |
| 3-mth | (4.8)    | 13.7      |
| 6-mth | 7.5      | 13.4      |

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

**GF Securities (1776 HK)**  
**Premium justified on superior ROE;**  
**recommend BUY**

- 1H16 profit dropped by 52% YoY to RMB 4.0bn, largely in line with the industry trend
- Well positioned to ride on the structural uptrend growth in asset management industry
- Robust growth in investment banking driven by SME focus
- Watch out for potential impact from recent CSRC's downgrade
- Valuation premium justified. Recommend BUY

**1H16 highlights.** Revenue and net profit dropped by 43% and 52% to RMB 13.7bn and RMB 4.0bn, largely in line with the industry trend. Operating margin dropped from 46.5% in 1H15 to 37.4% in 1H16 while net margin fell from 35.0% to 29.5% over the same period. ROE was 5.1% vs.16.2% a year ago.

**Superior ROE compared to peers.** In 1H16, its ROE of 5.1% is higher than the sector average of ~4%. We attribute it to its strong execution and management.

**Asset management as the bright spot.** Revenue contribution from asset management business increased from 11% in 1H15 to 20% in 1H16, which is higher than the average 10% level among its major peers. Its total AUM and collective schemes (CAM) AUM were ranked fourth and first in the industry. In our view, GF is well positioned to ride on the structural uptrend growth of asset management business in China.

**Strengthen position in investment banking.** Investment banking is another bright spot with a 74% revenue growth, driven by the general industry uptrend as well as GF's focus on SME investment banking despite its low contribution (10% of total revenue).

**Potential impact from CSRC's downgrade.** GF, together with most H-listed brokers including CITIC (6030 HK), Galaxy (6881 HK), Haitong (6837 HK), Huatai (6886 HK), and CICC (3908 HK), have recently been downgraded from their precious "AA" rating status by CSRC. In our view, a lower regulatory rating could adversely affect business development, funding channels, financing cost, and capital requirement.

**Premium justified on strong fundamentals.** The counter is currently trading at 1.3x forward P/B, higher than the average level of 1.1x. In our view, this reflects its strong business fundamentals as well as superior ROE versus peers. We set our TP at HK\$18.2, equivalent to 1.4x 2017E P/B. Recommend BUY.

**Risk factor:** (1) Market risk of financial assets; (2) Credit risk associated with bond investments and lending business; (3) Volatility in market turnover.

**Results and Valuation**

| FY ended Dec 31      | 2014A  | 2015A  | 2016E  | 2017E  | 2018E  |
|----------------------|--------|--------|--------|--------|--------|
| Revenue (RMB mn)     | 16,163 | 42,733 | 28,765 | 32,541 | 36,773 |
| Chg (% YoY)          | 73.2   | 164.4  | (32.7) | 13.1   | 13.0   |
| Net profit (RMB mn)  | 5,023  | 13,201 | 8,618  | 10,140 | 11,979 |
| Chg (% YoY)          | 78.5   | 162.8  | (34.7) | 17.7   | 18.1   |
| Underlying EPS (RMB) | 0.9    | 1.9    | 1.1    | 1.3    | 1.6    |
| Chg (% YoY)          | NA     | 117.6  | (38.9) | 17.7   | 18.1   |
| BVPS (RMB)           | 6.7    | 10.2   | 10.2   | 11.1   | 12.2   |
| Chg (% YoY)          | NA     | 52.0   | 0.0    | 9.2    | 9.9    |
| Underlying PE (x)    | 16.8   | 7.7    | 12.6   | 10.7   | 9.1    |
| P/B (x)              | 2.1    | 1.4    | 1.4    | 1.3    | 1.2    |
| ROE (%)              | 25.4   | 22.5   | 11.1   | 12.5   | 13.5   |
| ROA (%)              | 2.8    | 4.0    | 2.2    | 2.8    | 3.1    |
| DPS(HK\$)            | 0.2    | 0.9    | 0.4    | 0.5    | 0.6    |
| Yield (%)            | 1.4    | 5.6    | 2.4    | 2.8    | 3.3    |

Source(s): Company, ABCI Securities estimates



### 1H16 performances by business segment

**Investment banking.** Driven by general uptrend in capital market fundraising activities, investment banking revenue increased by 74% to RMB 1.4bn in 1H16 and accounted for 10% of total revenue.

In 1H16, its equity lead underwriting amount was RMB 31.8bn (1H15: RMB 10.6bn), ranking sixth in the industry. It was the lead underwriter for seven IPOs and was ranked first in the industry in terms of the number of underwriting projects.

In addition, its bond lead underwritten increased from RMB 15.4bn in 1H15 to RMB 75.4bn in 1H16.

**Wealth management.** Wealth management revenue dropped by 55% YoY to RMB 6.1bn amid lower turnover and weak market sentiment. Still, brokerage remained the largest contributor, accounting for 45% of total revenue in 1H16.

Its stock and fund turnover dropped by 58% to RMB 6.0tr in 1H16, ranking fifth in the industry with a market share of ~4.6%.

Margin finance and securities lending balance was RMB48.2bn in end-June 2016, 28% lower than end-2015. Market share was 5.6%, ranking fifth in the industry.

**Trading and institutional client services.** Segment revenue fell 50% to RMB 3bn in 1H16 on less favorable investment environment. Overall, it reported a small investment loss of RMB 84m from equity trading, cushioned by the RMB 2.5bn investment gains from fixed income.

**Investment management.** Segment revenue increased by 2% to RMB 2.8bn in 1H16 and accounted for 20% of total revenue. Overall, total AUM under GF Asset Management was RMB 679bn in June 2016 vs. RMB 346bn in June 2015, ranking fourth in the industry. In addition, AUM of collective schemes was ranked first and the active management size was ranked second.

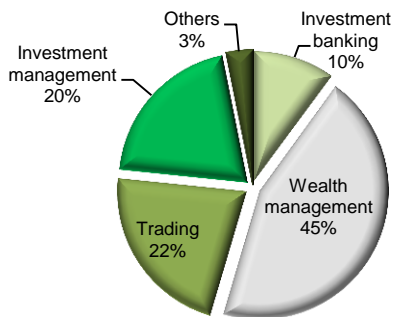


Exhibit 1: 1H16 highlight

|                                       | 1H15          | 1H16          | YoY          | Comment                              |
|---------------------------------------|---------------|---------------|--------------|--------------------------------------|
| Fee and commission income             | 10,603        | 6,531         | (38%)        |                                      |
| Interest income                       | 6,565         | 3,946         | (40%)        |                                      |
| Investment income                     | 6,676         | 3,358         | (50%)        |                                      |
| Other income                          | 149           | -181          | (221%)       |                                      |
| <b>Total revenue and other income</b> | <b>23,993</b> | <b>13,654</b> | <b>(43%)</b> |                                      |
| Total expenses                        | 12,827        | 8,551         | (33%)        |                                      |
| <b>Operating Profits</b>              | <b>11,166</b> | <b>5,103</b>  | <b>(54%)</b> |                                      |
| Share of profit of associates         | 173           | 202           | 17%          |                                      |
| Profit before tax                     | 11,339        | 5,305         | (53%)        |                                      |
| Tax                                   | 2,701         | 1,102         | (59%)        |                                      |
| Profit after tax                      | 8,638         | 4,203         | (51%)        |                                      |
| Minority interests                    | 232           | 172           | (26%)        |                                      |
| <b>Net Profits</b>                    | <b>8,406</b>  | <b>4,030</b>  | <b>(52%)</b> |                                      |
| <b>Revenue by segment</b>             |               |               |              |                                      |
| Investment banking                    | 787           | 1,365         | 74%          | Increased capital market fundraising |
| Wealth management                     | 13,560        | 6,086         | (55%)        | Falling market turnover              |
| Trading                               | 6,002         | 3,009         | (50%)        | Lower investment return              |
| Investment management                 | 2,705         | 2,761         | 2%           |                                      |
| Others                                | 939           | 432           | (54%)        |                                      |
| <b>Total revenue and other income</b> | <b>23,993</b> | <b>13,654</b> | <b>74%</b>   |                                      |
| <b>Ratios</b>                         |               |               |              |                                      |
| Operating margin                      | 46.5%         | 37.4%         |              |                                      |
| Net margin                            | 35.0%         | 29.5%         |              |                                      |
| ROAE                                  | 16.2%         | 5.1%          |              |                                      |

Source(s): Company, ABCI Securities

Exhibit 1: 1H16 sales breakdown



Source(s): Company, ABCI Securities

Exhibit 2: CSRC rating among major brokers

| Company             | 2015 rating | 2016 rating |
|---------------------|-------------|-------------|
| DFZQ (3958 HK)      | AA          | AA          |
| CICC (3908 HK)      | AA          | A           |
| Galaxy (6881 HK)    | AA          | A           |
| Guolian (1456 HK)   | A           | A           |
| CITIC (6030 HK)     | AA          | BBB         |
| <b>GF (1776 HK)</b> | <b>AA</b>   | <b>BBB</b>  |
| Haitong (6837 HK)   | AA          | BBB         |
| Huatai (6886 HK)    | AA          | BBB         |

Source(s): CSRC, ABCI Securities



## Financial Summary

### Consolidated income statement (2014A-2018E)

| FY Ended Dec 31 (RMB mn)                     | 2014A         | 2015A         | 2016E         | 2017E         | 2018E         |
|--|---------------|---------------|---------------|---------------|---------------|
| Fee and commission income                    | 8,217         | 20,046        | 13,981        | 16,257        | 18,989        |
| Interest income                              | 4,325         | 12,336        | 8,784         | 9,784         | 10,784        |
| Investment income                            | 3,605         | 10,396        | 6,000         | 6,500         | 7,000         |
| <b>Total revenue</b>                         | <b>16,147</b> | <b>42,779</b> | <b>28,765</b> | <b>32,541</b> | <b>36,773</b> |
| Other income                                 | 17            | (46)          | 0             | 0             | 0             |
| <b>Total revenue and other income</b>        | <b>16,163</b> | <b>42,733</b> | <b>28,765</b> | <b>32,541</b> | <b>36,773</b> |
| <b>Total expenses</b>                        | <b>9,852</b>  | <b>25,217</b> | <b>17,933</b> | <b>19,805</b> | <b>21,738</b> |
| <b>Operating Profits</b>                     | <b>6,312</b>  | <b>17,516</b> | <b>10,832</b> | <b>12,736</b> | <b>15,035</b> |
| Share of profit of investments in associates | 337           | 290           | 406           | 487           | 584           |
| <b>Profit before tax</b>                     | <b>6,649</b>  | <b>17,806</b> | <b>11,238</b> | <b>13,223</b> | <b>15,620</b> |
| Tax  | 1,503         | 4,193         | 2,360         | 2,777         | 3,280         |
| <b>Profit after tax</b>                      | <b>2,137</b>  | <b>13,613</b> | <b>8,878</b>  | <b>10,446</b> | <b>12,339</b> |
| Minority interests                           | 123           | 411           | 260           | 305           | 361           |
| <b>Profits attributable to shareholders</b>  | <b>2,014</b>  | <b>13,201</b> | <b>8,618</b>  | <b>10,140</b> | <b>11,979</b> |
| <b>Growth</b>                                |               |               |               |               |               |
| Total revenue and other income (%)           | 73.2          | 164.4         | (32.7)        | 13.1          | 13.0          |
| Total expenses                               | 57.7          | 156.0         | (28.9)        | 10.4          | 9.8           |
| Operating Profits (%)                        | 104.6         | 177.5         | (38.2)        | 17.6          | 18.1          |
| Net profit (%)                               | 78.5          | 162.8         | (34.7)        | 17.7          | 18.1          |
| <b>Operating performance</b>                 |               |               |               |               |               |
| Operating margin (%)                         | 39.0          | 41.0          | 37.7          | 39.1          | 40.9          |
| Net margin (%)                               | 12.5          | 30.9          | 30.0          | 31.2          | 32.6          |
| ROAE (%)                                     | 25.4          | 22.5          | 11.1          | 12.5          | 13.5          |
| ROAA (%)                                     | 2.8           | 4.0           | 2.2           | 2.8           | 3.1           |

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (2014A-2018E)**

| <b>As of Dec 31 (RMB mn)</b>                      | <b>2014A</b>   | <b>2015A</b>   | <b>2016E</b>   | <b>2017E</b>   | <b>2018E</b>   |
|---|----------------|----------------|----------------|----------------|----------------|
| Property and equipment                            | 1,642          | 1,923          | 2,019          | 2,120          | 2,226          |
| Other intangible assets                           | 155            | 216            | 227            | 238            | 250            |
| Investment in associates and JV                   | 1,584          | 3,348          | 3,515          | 3,691          | 3,875          |
| AFS   | 2,110          | 17,850         | 16,065         | 16,868         | 17,712         |
| Financial assets held under resale agreements     | 432            | 1,835          | 1,468          | 1,542          | 1,619          |
| Other non-current assets                          | 516            | 1,070          | 1,223          | 1,284          | 1,348          |
| <b>Total non-current assets</b>                   | <b>6,438</b>   | <b>26,241</b>  | <b>24,516</b>  | <b>25,742</b>  | <b>27,029</b>  |
| Cash & equivalents                                | 70,229         | 111,528        | 83,924         | 91,124         | 99,657         |
| Clearing settlement funds                         | 22,625         | 31,222         | 21,855         | 22,948         | 24,096         |
| AFS   | 32,300         | 78,733         | 70,859         | 74,402         | 78,122         |
| Financial assets at FVTPL                         | 26,937         | 83,912         | 79,717         | 83,702         | 87,888         |
| Derivatives                                       | 91             | 271            | 284            | 298            | 313            |
| Other current assets                              | 1,419          | 264            | 216            | 227            | 239            |
| Other receivables and prepayments                 | 3,563          | 6,046          | 4,267          | 4,480          | 4,704          |
| Advances to customers                             | 64,696         | 68,970         | 55,176         | 57,935         | 60,831         |
| Financial assets held under resale agreements     | 11,801         | 11,911         | 12,506         | 13,131         | 13,788         |
| <b>Total current assets</b>                       | <b>233,661</b> | <b>392,855</b> | <b>328,804</b> | <b>348,249</b> | <b>369,638</b> |
| <b>Total assets</b>                               | <b>240,099</b> | <b>419,096</b> | <b>353,321</b> | <b>373,991</b> | <b>396,667</b> |
| Accounts payable                                  | 71,466         | 118,487        | 100,714        | 105,750        | 111,037        |
| Loans and debt                                    | 31,946         | 31,266         | 28,927         | 29,980         | 31,085         |
| Other current liabilities                         | 62,118         | 113,505        | 97,831         | 102,722        | 107,858        |
| <b>Total current liabilities</b>                  | <b>165,530</b> | <b>263,258</b> | <b>227,472</b> | <b>238,452</b> | <b>249,981</b> |
| Financial assets sold under repurchase agreements | 4,050          | -              | -              | -              | -              |
| Loans and bonds payables                          | 29,031         | 75,739         | 45,443         | 47,716         | 50,101         |
| Other non-current liabilities                     | 112            | 278            | 292            | 307            | 322            |
| <b>Total non-current liabilities</b>              | <b>33,192</b>  | <b>76,017</b>  | <b>45,736</b>  | <b>48,023</b>  | <b>50,424</b>  |
| <b>Total liabilities</b>                          | <b>198,722</b> | <b>339,275</b> | <b>273,207</b> | <b>286,474</b> | <b>300,404</b> |
| <b>Net current assets</b>                         | <b>68,132</b>  | <b>129,597</b> | <b>101,332</b> | <b>109,797</b> | <b>119,657</b> |
| Equity attributable to owners of the parent       | 39,611         | 77,519         | 77,552         | 84,650         | 93,035         |
| Minority interest                                 | 1,767          | 2,302          | 2,561          | 2,867          | 3,227          |
| <b>Total equity</b>                               | <b>41,377</b>  | <b>79,821</b>  | <b>80,113</b>  | <b>87,517</b>  | <b>96,263</b>  |

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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