



July 10, 2015
Sector Report
Rating: POSITIVE

Analyst : Pandora Leung
Tel: (852) 2147 8809
Email: pandoraleung@abci.com.hk

China brokers Sector

Solid 1H15 results; Positive on long-term outlook

Stellar 1H15 results. According to the Securities Association of China (SAC), total operating income for the 22 listed brokers in the A-share market reached RMB 166.924bn, up 265.21% yoy; net profit surged 336.85% yoy to RMB 80.774bn. As at end-June 2015, net asset of these A-share securities companies totaled RMB 766.049bn, up 45.47% yoy.

Strong trading volume in the A-share market. SHCOMP index reached 5,166 in mid-June, surging by 59.7% from end-2014 on improving liquidity and optimistic market sentiment spurred by the Shanghai-Hong Kong stock connect program and monetary easing in China. Average daily turnover (ADT) in June remained robust at RMB 1,738bn, representing a 12.2% and 122.0% increase from RMB 1,549bn in May and RMB 783bn in Dec 14.

Capital-based intermediary business is expected to be an earnings driver. Margin business extended its strength, with the balance of margin financing and securities lending (MFSL) surging by 99.7% from RMB 1,026bn at end-Dec 14 to RMB 2,049bn at end-June 2015. MFSL business contributed 4%, 12% and 17% to the industry's total revenue in 2012-14, respectively. We expect MFSL's contribution to increase to 20%-25% in 2015E. With the progressive deregulation of the financial industry, capital-based intermediary business would boost earnings of the securities companies in China.

Robust growth in investment banking business. IPO market has been accelerating in 2015, as evidenced by a strong pipeline with 193 companies completing IPOs in 1H15. Total funds raised reached RMB 146.6bn, compared with the RMB 66.9bn raised by 125 companies in 2014. Besides, the shift toward the registration-based new share listing system from the approval-based one will be positive to development of A-share market by accelerating the approval process. Fee income from investment banking rebounded sharply in 2014, and we expect such momentum to extend into 2015.

Stronger capital position. CITICS (6030 HK), HTS (6837 HK), CGS (6881 HK) and CCS (1375 HK) have announced their H-share placement plans this year; Guangfa (1776 HK), Huatai (6886 HK) also completed the IPO listing in HKEx in 1H15. This will strengthen the capital position and support the future development of various capital-intensive businesses of these players.

Measures to stabilize market. SAC announced in July 6 that 21 brokers will invest 15% of their net assets as at June 30, 2015 (no less than RMB 120bn) in the market-stabilization fund. Besides, brokers have agreed their proprietary desks would not sell stocks when SHCOMP is below 4,500. If the market stabilization measures are successful, it would be positive to brokers in the near term.

Positive on China's brokerage sector. We remain positive on the sector's long term prospect and believe the recent downturn has provided a good entry point for investors. Share price has plunged by over 40% from the 52-week high for most brokers (e.g. CITICS, HTS, CGS and CCS). The sector is currently trading at 1.29x 2015E P/B and has a 2015E ROAE of 12.5%, and we believe such valuation is undemanding.

Key Data

Avg.15E P/E (x)	8.89
Avg.15E P/B (x)	1.29
Avg.15E Dividend Yield (%)	2.15
Source(s): Company, Bloomberg, ABCI Securities estimates	

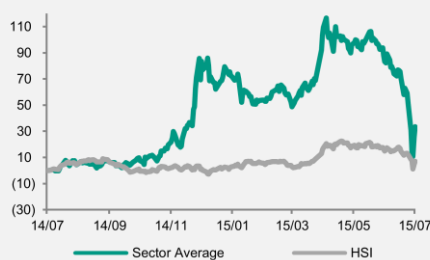
Sector performance (%)

	Absolute	Relative*
1-mth	-27.13	-20.44
3-mth	-36.18	-27.49
6-mth	-22.30	-26.40

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities



Risk factors: 1) Further decline in brokerage commission rates; 2) High volatility of A-share market turnover; 3) Slowdown in China's economic growth; 4) EPS dilution risk on share placement; 5) Increased competition if broker licenses are granted to banks. 4) Prolonged suspension on IPO approvals by CSRC; 7) Income from proprietary trading could be volatile.

Exhibit 1: Peer comparison table

	Market cap	Price	P/B (x)			P/E (x)			ROE (%)			Div yield (%)			
			(USDmn)	Local ccy	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E
H-share Securities															
CITIC SECURITIES CO LTD-H	6030 HK	50,888	23.70	1.77	1.59	1.36	12.72	10.92	9.95	13.40	13.16	14.36	2.07	2.42	2.80
HAITONG SECURITIES CO LTD-H	6837 HK	35,664	15.04	1.41	1.26	1.09	9.69	8.67	7.58	14.91	14.88	14.83	2.95	3.37	3.93
CHINA GALAXY SECURITIES CO-H	6881 HK	10,089	8.20	1.25	1.11	0.98	8.43	7.89	6.95	16.70	14.91	14.40	3.19	3.72	4.41
CENTRAL CHINA SECURITIES C-H	1375 HK	1,748	5.15	1.71	1.54	1.50	10.93	9.30	7.77	13.87	15.27	17.30	3.76	4.56	6.67
GF SECURITIES CO LTD-H	1776 HK	24,770	16.82	1.40	1.25	1.12	8.98	8.59	7.94	18.37	15.15	14.37	2.82	3.19	3.08
HUATAI SECURITIES CO LTD-H	6886 HK	25,241	17.08	1.25	1.14	1.03	10.24	9.26	8.13	14.85	13.43	14.08	3.15	3.51	3.84
Average				1.29	1.15	1.00	8.89	7.91	7.12	12.54	9.28	9.67	2.15	2.48	2.80
A-share Securities															
SHENWAN HONGYUAN GROUP CO-A	000166 CH	37,517	15.68	n.a.	n.a.	n.a.	16.68	11.88	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NORTHEAST SECURITIES CO LT-A	000686 CH	5,746	18.23	n.a.	n.a.	n.a.	17.70	14.94	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
GUOYUAN SECURITIES CO LTD-A	000728 CH	8,250	26.08	2.24	2.06	n.a.	22.60	18.82	14.63	10.87	11.33	n.a.	1.92	3.63	n.a.
SEALAND SECURITIES CO LTD -A	000750 CH	5,797	15.58	3.12	2.78	n.a.	28.85	24.34	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
GF SECURITIES CO LTD-A	000776 CH	24,770	22.11	2.41	2.10	1.81	15.68	13.52	12.40	17.49	16.47	16.20	1.68	1.99	1.96
CHANGJIANG SECURITIES CO L-A	000783 CH	10,074	13.19	3.74	3.29	2.73	18.79	16.20	13.88	20.63	21.36	21.07	1.33	1.93	2.20
SHANXI SECURITIES CO LTD-A	002500 CH	6,275	15.47	3.23	2.91	n.a.	32.57	26.44	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
WESTERN SECURITIES CO LTD-A	002673 CH	14,722	32.70	3.68	3.27	n.a.	47.05	40.37	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CITIC SECURITIES CO-A	600030 CH	50,888	27.72	2.57	2.27	1.93	17.53	15.01	13.04	15.06	15.51	15.66	1.49	1.73	1.93
SINOLINK SECURITIES CO LTD-A	600109 CH	8,076	16.58	3.89	3.27	2.82	28.34	23.55	19.74	15.31	15.35	13.47	0.93	1.18	0.97
HAITONG SECURITIES CO LTD-A	600837 CH	35,664	22.29	2.61	2.31	2.01	17.20	14.74	13.10	15.57	16.57	16.90	1.66	1.89	2.23
CHINA MERCHANTS SECURITIES-A	600999 CH	24,975	26.70	3.17	2.60	2.43	18.03	16.34	16.01	16.68	16.86	16.47	1.81	1.89	2.05
PACIFIC SECURITIES CO/THE-A	601099 CH	6,544	11.51	3.86	3.62	n.a.	45.49	37.13	n.a.	10.20	11.00	n.a.	0.52	0.61	n.a.
INDUSTRIAL SECURITIES CO-A	601377 CH	10,904	13.02	3.21	2.56	2.81	23.29	17.34	14.63	16.48	17.33	21.54	1.21	1.61	2.15
SOOCHOW SECURITIES CO LTD-A	601555 CH	8,371	19.25	2.78	2.48	2.57	22.28	17.34	16.81	14.84	16.71	16.98	1.30	1.66	1.87
HUATAI SECURITIES CO LTD-A	601688 CH	25,241	24.47	2.53	2.19	1.99	17.80	14.43	13.52	15.72	16.15	16.96	1.94	2.29	2.43
EVERBRIGHT SECURITIE CO -A	601788 CH	13,376	24.30	2.63	2.14	1.67	19.46	16.84	13.89	14.43	16.97	12.54	1.25	1.67	1.55
FOUNDER SECURITIES CO LTD-A	601901 CH	15,525	11.71	2.91	2.61	n.a.	24.00	18.59	n.a.	13.90	n.a.	n.a.	1.71	n.a.	n.a.
Average				3.03	2.65	2.28	23.92	19.75	14.46	15.10	16.00	16.65	1.42	1.84	1.93

Source(s): Bloomberg, 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 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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183