

Key Data

Share price (HK\$)	109.9
Target price (HK\$)	NA
Upside potential (%)	NA
52Wk H/L(HK\$)	148.9/ 99.2
Issued shares:	1,077
Market cap (HK\$m)	129,592
30-day avg vol (HK\$m)	455
Major shareholder (%):	
Hong Kong SAR	5.64
Thornberg Investments	2.61

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

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	12.7	7.3
3-mth	10.3	(1.9)
6-mth	(8.9)	(11.1)

Source: Bloomberg

*Relative to MSCI Hong Kong

1 year price performance



Source: Bloomberg

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HKEx (388 HK) – Unrated Diversified Financial Services

Reviving on better turnover outlook

HKEx has been underperforming HSI by 15.7% since early 2012, in light of a weakening trend of average daily turnover (ADT) and prospective dilutive acquisition of London Metals Exchange (LME). Nevertheless, we witness a strong recovery of HKEx, up 16.5% and outperforming HSI by 10.1%, since early Sep. We believe the negative impact from LME acquisition should have been fully priced in. In our opinion, the stock is recovering in share price and valuation on the back of a better turnover outlook, indirectly induced by QE3.

Average daily turnover regaining grounds in Sep. ADT came down from the average of HK\$69.1bn in 2011 and HK\$63.2bn in 1Q12, to the low of HK\$44.2bn from Jun to Aug. ADT hit the monthly low at HK\$43.4bn in Jul. Such turnover represents a 30% decline from the average of HK\$69.3bn during 2010-11. Nevertheless, ADT started to pick up quickly since early Sep, in light of the restart of fixed asset investments by NDRC in China, and QE3 announced by Federal Reserve of USA. ADT month to date rose to HK\$55.0bn in Sep. We view this as an inflection point for HKEx.

LME impact is fading. LME transaction has been haunting HKEx since early 2012. However, with all the transaction details revealed in Jun, we believe most negatives should have been priced in. Per our analysis, assuming the bridge loan financing (GBP1.1bn) stays till end-2013E, the merger with LME will likely result in EPS dilution of 0.5% in 2012E and 0.8% in 2013E for HKEx. We consider such a dilution mild and immaterial.

Trading below historical average valuation. The stock traded at an average of 28.0x forward PER from 2010 to 2011. At present, excluding the impact from LME acquisition, the stock is trading at merely 24.3x forward PER, which is 0.5 standard deviation lower 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

Valuation

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)	25.2	27.5	25.7	25.4
BPS (HK\$)	6.76	7.44	8.04	8.48
P/B (x)	17.7	16.1	14.9	14.1
DPS (HK\$)	4.27	3.92	4.19	4.24
Div. yield (%)	3.6	3.3	3.5	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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