



February 10, 2015
Company Report
Rating: BUY
TP: HK\$ 12.00

Share price (HK\$)	8.70
Est. share price return	37.9%
Est. dividend yield	2.2%
Est. total return	40.1%

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Key Data

52Wk H/L(HK\$)	11.5/4.22
Issued shares (mn)	7,537.3
Market cap (HK\$ mn)	65,574
3-mth avg daily turnover (HK\$ mn)	518
Major shareholder(s) (%):	
Huijin	68.2

Source(s): Company, Bloomberg, ABCI Securities

1H14 Revenue breakdown (%)

Brokerage	69
Trading	14
Investment Banking	10
Asset management	2
Others	5

Source(s): Company, ABCI Securities

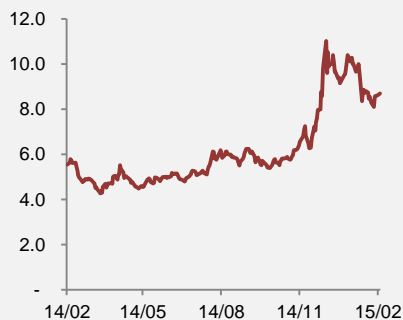
Share performance (%)

	Absolute	Relative*
1-mth	-13.00	-15.13
3-mth	32.62	27.37
6-mth	48.97	47.82

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

China Galaxy Securities (6881 HK) Preliminary FY14 results beat market consensus

- Based on CGS's preliminary FY14 results announcement, the Group's revenue grew 53% YoY to RMB 11.41bn while net profits rose 77% YoY to RMB 3.77bn, beating market consensus
- CGS, with its sound capital position, conservative investment portfolio and highest ROAE among peers, will benefit much from the A-share market revival and is our top pick for the sector. Maintain **BUY** with TP of HK\$ 12.00, which implies 2.0x 2015E

CGS announced preliminary FY14 results. Net profits grew 77% YoY to RMB 3.77bn, 0.4% below our estimates but is 13% above Bloomberg consensus. Revenue increased 53% YoY to RMB 11.41bn. Total assets grew 130% YoY to RMB 180bn; gross leverage (average total assets/average total equity) increased to 4.7x, from 3.2x in 1H14.

Key beneficiary of A-share market revival. Strong FY14 preliminary results can be attributed to strong A-share market trading volume in 2014, especially in 4Q14. Average daily turnover (ADT) in Nov and Dec reached RMB 442bn and RMB 784bn, lifting the ADT in 4Q14 to RMB 528bn, up 80% QoQ (3Q14 ADT: RMB 293bn). According to Wind, CGS was ranked 3rd by brokerage trading volume in 2014 with a market share of 5.1%. Besides, margin financing and securities lending (MFSL) balance soared 239% from end-Dec 2013 and 164% from end-June 2014 to reach RMB 60.3bn by end-Dec 2014, ranking 5th in the market.

Robust growth in investment banking business. Driven by A-share IPO resumption, robust growth in secondary offerings and an active bond market, CGS was ranked 11th by total fundraising size and issuing scale through equity and bonds in 2014. CGS's equity underwriting and debt underwriting accounted for 3.5% and 2.8% of total underwriting amount in 2014, ranking 9th and 11th in the market.

Maintain BUY with TP at HK\$ 12.00. CGS's ROAE in 2014 was 13.91%, the highest among peers (CITICS: 12.14%, HTS: 11.76%), yet the counter is trading at a discount to peers. CGS, with its sound capital position, conservative investment portfolio and highest ROAE among peers, will benefit much from the A-share market revival and is our top pick for the sector. Maintain **BUY** with TP of HK\$ 12.00, which implies 2.0x 2015E P/B. (Please refer to recent research "China Brokers Sector—Rising opportunities from capital market reform" dated Jan 27, 2015, for more details.)

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.

Financial Summary

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	5,962	8,426	12,201	15,053	17,775
Chg (% YoY)	(7.3)	41.3	44.8	23.4	18.1
Net profit (RMB mn)	1,420	2,135	3,785	4,754	5,661
Chg (% YoY)	(10.0)	50.4	77.3	25.6	19.1
EPS (RMB)	0.24	0.31	0.50	0.56	0.59
Chg (% YoY)	(10.0)	30.0	63.2	10.9	6.6
BVPS (RMB)	2.90	3.34	3.77	5.10	5.51
Chg (% YoY)	8.9	15.0	12.8	35.3	8.1
P/E (x)	29.1	22.4	13.7	12.3	11.6
P/B (x)	2.4	2.1	1.8	1.3	1.2
ROAE (%)	8.5	9.9	14.0	12.2	11.1
ROAA (%)	2.3	3.0	3.7	3.4	3.6
DPS(RMB)	-	0.06	0.15	0.15	0.18
Yield (%)	0.0	0.9	2.2	2.2	2.6

Source(s): Bloomberg, ABCI Securities estimates



Exhibit 1: CGS's attributable profits for 2014 was in line with ABCI's estimate

	2013	2014	2014 YoY	2014E	Actual vs ABCI's estimate
Profit before tax	2,893	5,004	73%	5,108	-2%
Attributable net profits	2,135	3,769	77%	3,785	0%
EPS	0.31	0.50	61%	0.50	0%
Total assets	78,284	180,026	130%	125,266	44%
Shareholders' equity	25,175	29,022	15%	28,401	2%
ROAE (%)	9.69	13.91	+4.22pp	13.99	-0.08pp

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Fee and commission income	3,831	5,039	5,896	6,317	6,504
Interest income	1,699	2,666	4,804	6,909	9,097
Investment income	395	697	1,475	1,801	2,147
Other income	38	23	25	26	28
Revenue	5,962	8,426	12,201	15,053	17,775
Operating costs	(4,075)	(5,533)	(7,093)	(8,645)	(10,149)
Operating profits	1,886	2,893	5,108	6,409	7,626
Associates & JCEs	0	0	0	(0)	(0)
Profit before tax	1,886	2,893	5,108	6,408	7,626
Tax	(454)	(738)	(1,302)	(1,634)	(1,945)
Profit after tax	1,433	2,155	3,805	4,774	5,681
Minority interests	(13)	(20)	(20)	(20)	(21)
Net profits	1,420	2,136	3,785	4,754	5,661
Growth (%)					
Fee and commission income (%)	(17.9)	31.6	17.0	7.1	2.9
Interest income (%)	4.3	57.0	80.2	43.8	31.7
Investment income (%)	278.1	76.6	111.6	22.1	19.2
Other income (%)	13.2	(39.1)	9.4	5.9	5.9
Total Revenue (%)	(7.3)	41.3	44.8	23.4	18.1
Total Operating costs (%)	(2.3)	35.8	28.2	21.9	17.4
Operating profit (%)	(16.6)	53.4	76.5	25.5	19.0
Net profit (%)	(10.0)	50.4	77.3	25.6	19.1
Operating performance (%)					
Operating margin (%)	31.6	34.3	41.9	42.6	42.9
Net margin (%)	23.8	25.3	31.0	31.6	31.8
Effective tax rate (%)	24.1	25.5	25.5	25.5	25.5
Dividend payout (%)	-	20.2	30.0	30.0	30.0
ROAE (%)	8.5	9.9	14.0	12.2	11.1
ROAA (%)	2.3	3.0	3.7	3.4	3.6
Segmental revenue (RMB mn)					
Securities brokerage	4,081	6,174	8,181	9,799	11,021
Futures brokerage	521	623	773	991	1,275
Proprietary trading	401	824	1,220	1,529	1,701
Investment bank	685	411	1,435	1,573	1,845
Asset management	45	137	171	245	336
Private equity investment	25	10	27	32	35
Overseas	33	203	248	638	1,106
Other income	169	46	146	245	520

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Fixed assets	516	394	409	426	434
Goodwill	223	223	223	223	223
Other intangible assets	363	349	367	378	389
Investment securities	743	495	520	546	573
Other non-current assets	174	328	266	217	178
Total non-current assets	2,019	1,789	1,786	1,790	1,797
Cash & equivalents	36,607	33,084	40,362	45,206	48,822
Advances to customers	5,439	18,393	52,520	68,520	75,372
Trading securities	4,622	5,027	5,476	5,802	6,145
Investment securities	6,739	10,238	12,756	15,478	17,555
Other current assets	8,870	9,754	12,366	14,351	16,874
Total current assets	62,277	76,495	123,480	149,357	164,769
Total assets	64,296	78,284	125,266	151,146	166,566
Accounts payable	39,746	36,451	38,274	41,336	44,643
Other liabilities	6,991	16,411	58,307	60,695	68,806
Current liabilities	46,737	52,863	96,581	102,031	113,448
Net current assets	15,540	23,632	26,899	47,326	51,320
Total assets less current liabilities	17,559	25,422	28,685	49,115	53,118
Issued bonds	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-
Net assets	17,559	25,422	28,685	49,115	53,118
Equity attributable to owners of the parent	17,430	25,175	28,401	48,629	52,592
Minority interest	129	247	284	486	526
Total equity	17,559	25,421	28,685	49,115	53,118

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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