

Key Data

Share price (HK\$)	115.8
Target price (HK\$)	NA
Upside potential (%)	NA
52Wk H/L(HK\$)	148.9/ 99.2
Issued shares:	1,077
Market cap (HK\$m)	123,474
30-day avg vol (HK\$m)	466
Major shareholder (%):	
Hong Kong SAR	5.64
Thornberg Investments	2.61

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 2011 (%)

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	7.4	2.3
3-mth	6.5	(5.3)
6-mth	(14.5)	(15.0)

Source: Bloomberg

*Relative to MSCI Hong Kong

1 year price performance



Source: Bloomberg

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HKEx (388 HK) – Unrated Diversified Financial Services

Refinancing with US\$500mn CB, yielding minimal dilution

HKEx announced the issuance of US\$500 mn of convertible bonds. The CB will mature in 2017 and bear an annual coupon of 0.50%. They are convertible into shares of HKEx at an initial Conversion Price of HK\$160.00 per Share. We view it as a positive for HKEx.

Lower financing cost for LME acquisition. The original bridge loan of GBP1.1 bn (US\$1.7bn) will be partially refinanced with the CB funding. The CB bears only 0.5% coupon, instead of over 2% interest rate we estimated for the bridge loan. We expect the finance cost saving to reach HK\$75-80mn, or 1.3% of 2013E net profits of HK\$5.1bn (Bbg cons.).

Minimal dilution from CB. Excluding any unexpected integration expenses, EPS dilution may be minimal at 0.5% for 2013E. BVPS dilution could reach 1.1%. Until now, the LME transaction has been fully financed through debt. Despite the CB issuance, the exercise price is set at HK\$160.00, 38.2% higher than the current trading price of HK\$115.8. That said, the dilution from new shares will not kick in anytime soon. Even if the CB turns ‘in-the-money’, i.e., share price exceeding exercise price, the number of new shares convertible is only 24.2mn, or 2.2% of the existing number of shares (1,077mn).

Pending FSA approval. The LME transaction is still pending for the FSA approval. Should FSA reject the transaction, HKEx may redeem the convertible bonds, as mentioned in the announcement.

Trading below historical average valuation. The stock traded at an average of 28.0x forward PER from 2008 to 2011. Currently, excluding the impact from LME acquisition, the stock is trading at merely 24.4x 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)	24.4	26.6	24.8	24.5
BPS (HK\$)	6.76	7.44	8.04	8.48
P/B (x)	17.1	15.6	14.4	13.6
DPS (HK\$)	4.27	3.92	4.19	4.24
Div. yield (%)	3.7	3.4	3.6	3.7

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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