



January 27, 2015
Company Report
Rating: BUY
TP: HK\$ 12.00

Share price (HK\$)	8.74
Est. share price return	37.3%
Est. dividend yield	2.1%
Est. total return	39.4%

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Key Data

52Wk H/L(HK\$)	11.5/4.22
Issued shares (mn)	7,537.3
Market cap (HK\$ mn)	65,876
3-mth avg daily turnover (HK\$ mn)	497
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	-4.48	-10.46
3-mth	49.91	41.55
6-mth	42.58	39.82

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

China Galaxy Securities (6881 HK)

Key beneficiary of A-share market revival

- Trading volume and market sentiment have been strong in the A-share market. 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 revised TP of HK\$ 12.00, which implies 2.0x 2015E P/B.

Proxy for A-share market trading volume. Trading volume was strong in the A-share market, with average daily turnover (ADT) in Dec 14 reaching RMB 784bn (vs. RMB 442bn in Nov 14). We expect ADT of the A-share market to reach ~RMB 386bn in 2015E due to recent monetary easing. Thus, CGS would be the key beneficiary of A-share market recovery since brokerage commission accounted for 53% of its total revenue in 2013 (CITICS: 34%, HTS: 37%).

Sound capital position. Net capital/net assets ratio was 82% in 2013 (CITICS: 49%, HTS: 65%), higher than CSRC's required standard of 40%. A strong capital position enables CGS to further develop its capital intensive businesses such as margin financing and securities lending (MFSL). The increasing contribution from flow-based business would reduce CGS's reliance on tradition brokerage business to develop a more well-balanced revenue mix.

Conservative investment portfolio. For 2013 and 1H14, CGS's investment portfolio accounted for 63% and 58% of total shareholders' equity, lower than that of CITICS (2013: 121%, 1H14: 168%) and HTS (2013: 100%, 1H14: 107%). For its portfolio mix in 1H14, equity investment accounted for only 7% of total investment (CITICS: 33%, HTS: 23%) while fixed income investment accounted for 85% of total investment (CITICS: 53%, HTS: 57%), rendering the Group less vulnerable to market volatility.

A-share listing to strengthen position. CSRC has already accepted the IPO application of CGS, successful listing in the A-share market could strengthen its capital position as well as its competitiveness in the market after the slew of M&A activities in the industry last year. Besides, CGS proposed to place no more than 2bn of H-shares in Jan 2015. Stronger capital position enables CGS to expand capital intensive businesses, such as margin financing and quasi-lending business, thus optimizing its revenue mix.

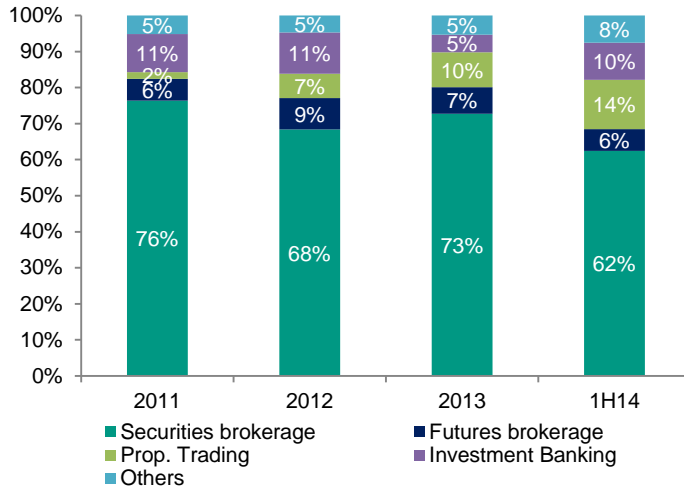
Maintain BUY with revised TP of HK\$ 12.00. CGS's annualized ROAE in 1H14 was 10.4%, the highest among peers (CITICS: 9.2%, HTS: 9.1%, CCS: 7.6%), yet the counter is trading at a discount to peers. CGS, a key beneficiary of A-share market revival, is our top pick for the sector. We maintain BUY with revised TP of HK\$12.00, which implies 2.0x 2015E P/B.

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

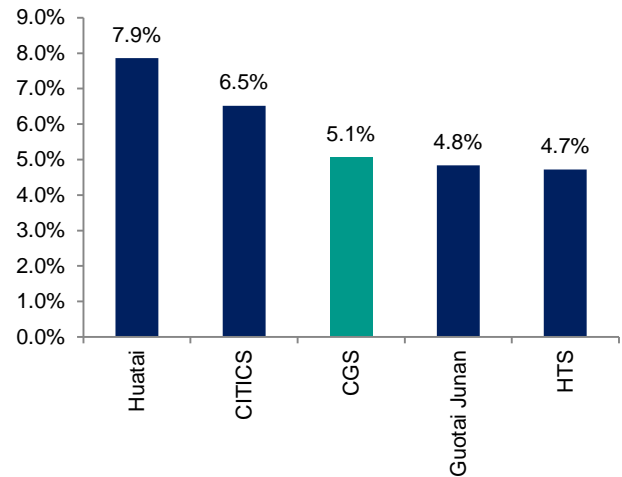
Financial Summary

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)	29.2	22.5	13.8	12.4	11.6
P/B (x)	2.4	2.1	1.8	1.4	1.3
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 (%)	-	0.9	2.2	2.2	2.6

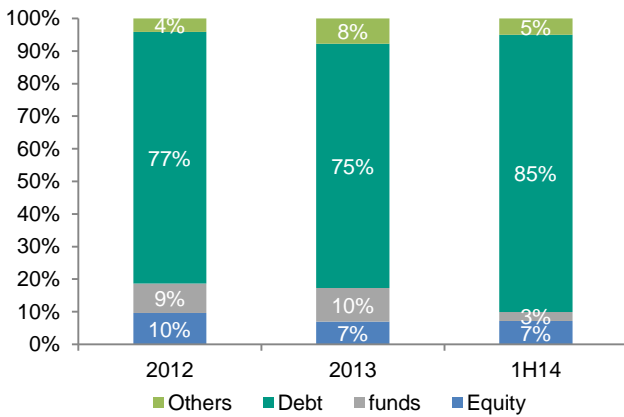
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1 : CGS's revenue mix


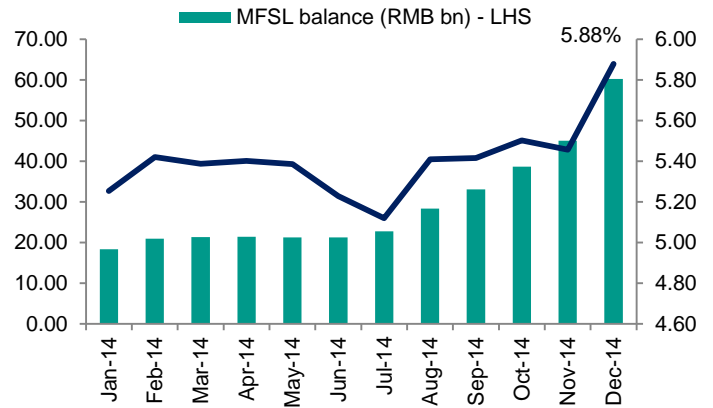
Note: Others include asset management, PE investment and overseas business
 Source(s): WIND, ABCI Securities

Exhibit 2: Market share by trading volume (stocks + funds) in 2014


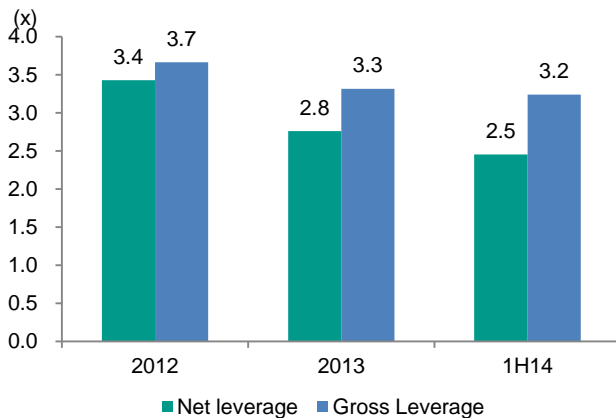
Source(s): Company, ABCI Securities

Exhibit 3: CGS's investment assets mix by securities category


Source(s): WIND, ABCI Securities

Exhibit 4: CGS's MFSL balance


Source(s): WIND, ABCI Securities

Exhibit 5: CGS's gross and net leverage ratios


Source(s): WIND, ABCI Securities

Exhibit 6: Total equity underwriting amount among brokers in 2014

Ranking	Brokers	Total underwriting amount (RMB bn)	Market share (%)
2	CITICS	39	7.5%
3	HTS	35	6.7%
9	CGS	17	3.4%

Source(s): WIND, ABCI Securities



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

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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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