



# China Securities & Brokerage Sector

## Holding up well

- A-share ADT has started to moderate recently amid weakened market sentiment
- Having said that, we believe the market fundamental is overall healthy and policy environment remains supportive
- We like **CSC (6066 HK)** and **SWHY (6806 HK)** for their high ROAE in recent years; we also favor **CRH (1911 HK)** given its unique positioning in the new-economy sector

**Momentum moderating.** Overall, A-share average ADT has increased by 38% YoY from RMB439bn in 1H18 to RMB606bn in 1H19. Margin financing and securities lending (MFSL) balance increased from ~RMB 0.76tr at end-2018 to ~RMB 0.91tr at end-June 2019. This is despite the fact that market momentum has moderated since May 2019 with monthly A-share ADT retracing from RMB898bn in April 2019 to RMB468bn in June 2019. In our view, market sentiment could continue to moderate in the near term, amid uncertainty on ongoing dispute between China and US.

**Overall healthy.** Having said that, we believe the current market condition is overall healthy. E.g., A-share total market cap/M1 ratio is at 0.7x currently, in line with the historical average of 0.8x and significantly lower than the peak level of 1.3x during the bull market in 2015. In addition, MFSL balance currently accounts for 2.3% of total A-share market cap, significantly lower than the peak 5% level in 2015, indicating that leverage level in A-share market is still under control.

**Policy support.** Government policy remains supportive for the industry. E.g., the introduction “technology innovation board” would bode well for brokers’ investment banking business over the next few years. In addition, to mitigate pledge share risk, 28 Chinese brokerages have committed RMB 41bn to an asset management scheme to support listed firms. In addition, the government has launched measures to encourage listed companies to buy back shares.

**Undemanding valuation.** Major H-listed securities companies are currently trading at average 0.8x 2019E P/B, still significantly below the levels (over 2x) during the last bull market during 2015 and the 1.2x historical average. In our view, sector valuation is undemanding.

**CSC, SWHY and CRH.** Among our covered brokerage stocks, we like CSC and SWHY for their high ROAE across the market cycle. We also like CRH given its unique market position that focuses on new-economy sector.

### Valuation and recommendation

Company	Ticker	Rating	TP	FY18 P/E(x)	FY19E P/E (x)	FY18 P/B (x)	FY19E P/B (x)
CSC	6066 HK	BUY	6.9	13.2	8.2	0.9	0.8
SWHY	6806 HK	BUY	3.65	12.0	8.6	0.7	0.7
CRH	1911 HK	BUY	23	NA	22.7	1.6	1.5
CMS	6099 HK	HOLD	9.4	14.8	10.3	0.8	0.8
GF	1776 HK	HOLD	9.4	13.9	9.6	0.7	0.7
DFZQ	3958 HK	HOLD	4.8	23.9	13.5	0.6	0.6

Source(s): Bloomberg, ABCI Securities estimates

## Sector Report

### July 12, 2019

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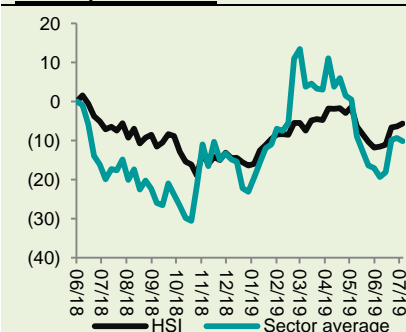
### Sector Performance (%)

	Absolute	Relative*
1-mth	1.6	-0.3
3-mth	-16.9	-10.2
6-mth	7.5	1.5

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Sector performance



Source(s): Bloomberg, ABCI Securities



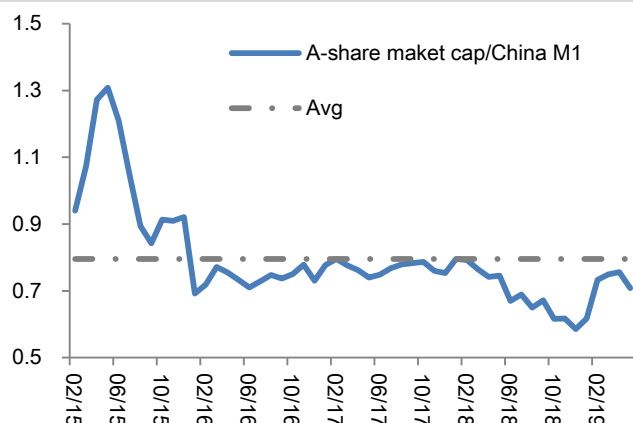
**Commitment on industry reform.** We believe the Chinese government is committed to industry reform over the long run. China will increase the contribution of direct financing in the economy through the development of a diverse, multi-layered capital market while promoting product innovations such as high-yield bonds, hybrid financing, and more. In our view, such developments will be supportive to the investment banking business. Overall, direct financing only accounted for 15% of the aggregate financing in the economy in 2018 vs. 50% in US (2015), implying ample headroom for growth.

**Industry outlook.** We expect average A-share ADT to increase by 50% YoY to RMB 555bn in 2019E. We also expect MFSL balance to rise to RMB 907bn at end-2019, implying 20% YoY growth.

**Risk factors:** 1) Market risk of financial assets; (2) Credit risk associated with bond investments and lending business; (3) Volatility in market turnover; (4) Penalties on misconduct or staff malpractice in securities firms; (5) Regulatory changes in direct financing; (6) Spill-over impact from deleveraging in the financial sector; (6) Intensifying competition after the relaxation of foreign ownership in the industry; (7) Intensifying competition between banks and securities companies in direct financing market.

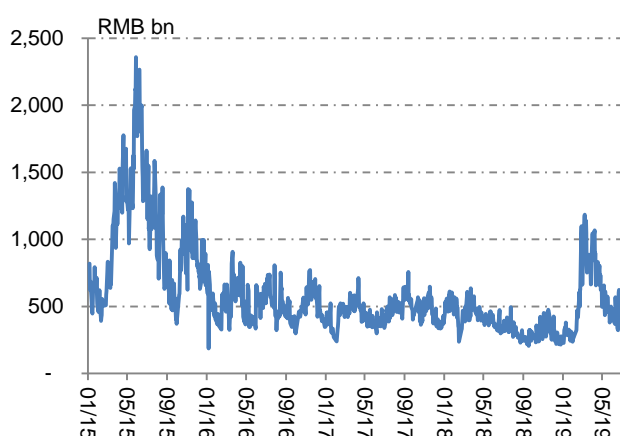


Exhibit 1: A-share market cap/China M1



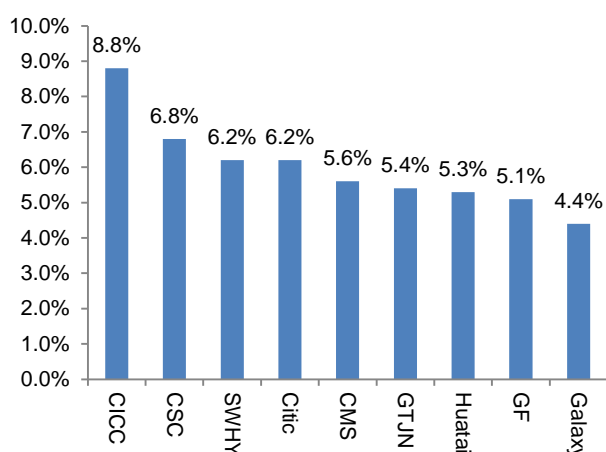
Source(s): Bloomberg, ABCI Securities

Exhibit 3: A-share ADT



Source(s): Bloomberg, ABCI Securities

Exhibit 5: ROAE (2018)



CICCC (3908 HK), CSC (6066 HK), SWHY (6806 HK), CITIC (6030 HK), CMS (6099 HK), GTJN (2611 HK), Huatai (6886 HK), GF (1776 HK), Galaxy (6881 HK)

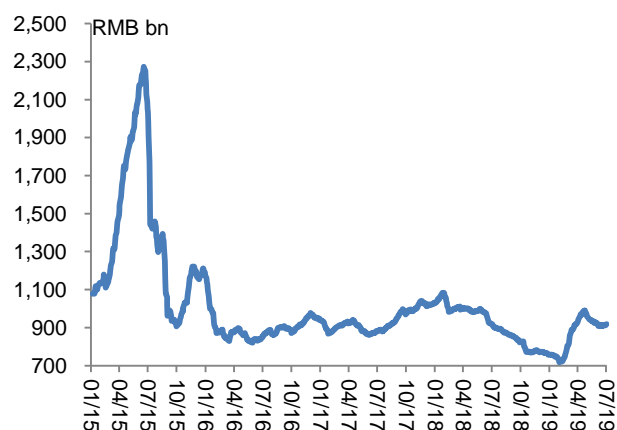
Source(s): Companies, ABCI Securities

Exhibit 2: MFSL balance/A-share market cap



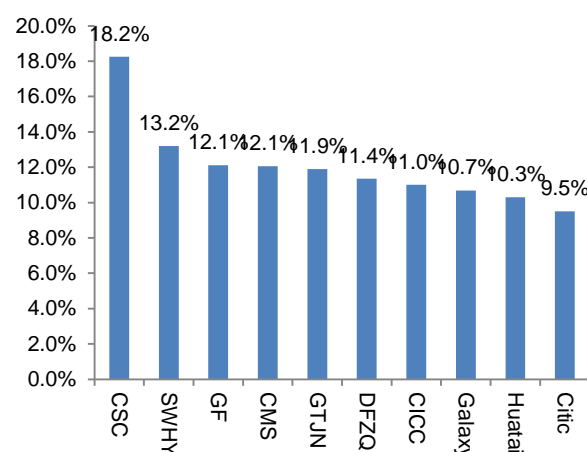
Source(s): Bloomberg, ABCI Securities

Exhibit 4: MFSL Balance



Source(s): Bloomberg, ABCI Securities

Exhibit 6: ROAE (2014-18 average)

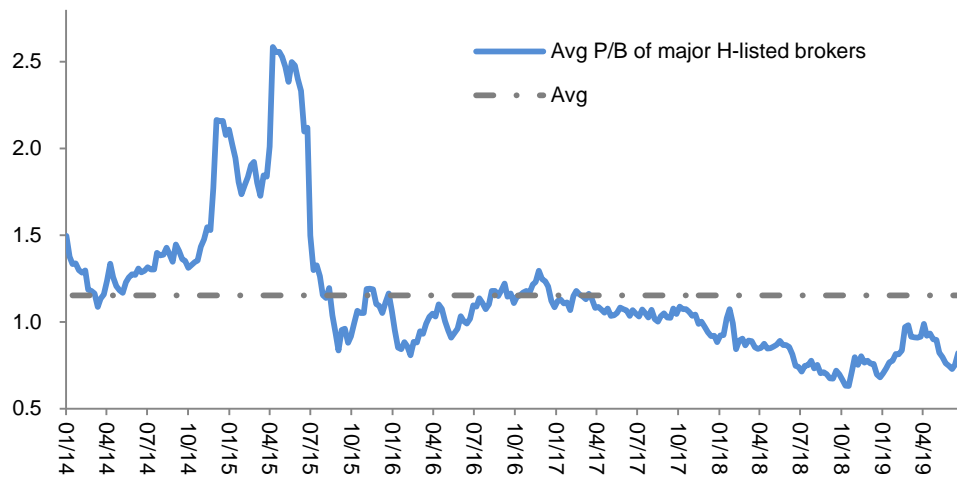


CICCC (3908 HK), CSC (6066 HK), SWHY (6806 HK), CITIC (6030 HK), CMS (6099 HK), GTJN (2611 HK), Huatai (6886 HK), GF (1776 HK), Galaxy (6881 HK)

Source(s): Companies, ABCI Securities



Exhibit 7: Average P/B of major H-listed brokers



Source(s): Bloomberg, ABCI Securities

Average of Citic, Galaxy, Haitong



## CSC Financial Co., Ltd (6066 HK) Rise in direct financing

- 1Q19 revenue and net profit rose by 13% and 50% YoY respectively amid improving operating environment.
- 2019E should stage a significant earning recovery amid improving operating environment
- We believe the company is well positioned for a long-term structural uptrend in direct financing in China

**2019E stages a significant earnings recovery.** We expect significant earnings rebound in 2019 amid industry recovery and the low-base in 2018. Overall, we expect net profit to ordinary shareholders to rise by 61% in 2019E, which translates into an ROAE of 10.2% vs. 6.8% in 2018.

**Investment banking to benefit from rise in direct financing.** In 2018, investment banking business accounted for 20% of total revenue and 45% of PBT. In our view, CSC possesses a scarcity value for investors looking for Chinese financial plays with investment banking exposure amid the structural uptrend in direct financing. In addition, it should also benefit from the introduction of the Science and Technology Innovation Board.

**Recent business update.** In 1Q19, revenue and net profit grew by 13% and 50% respectively amid improving operating environment. In 2018, revenue remained flat at RMB16.4bn, while net profit to ordinary shareholders fell 24.9% to RMB 2.8bn mainly dragged by RMB1.1bn credit impairment losses relating to margin financing business.

**Maintain BUY.** The counter is currently trading at 0.8x 2019E adjusted P/B (excl. RMB 5bn of perpetual bonds). We value the counter at HK\$6.2-7.6, which translates to 0.9-1.1x 2019E adjusted P/B. We set our TP to HK\$6.9, approximately at the mid-point of the valuation range.

**Risk factors:** 1) Decline in brokerage commission rates; 2) Decline in A-share market turnover; 3) Decline in capital market fundraising; 4) Penalties related to violation of regulatory requirements;

### Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E
Revenue (RMB mn)	16,421	16,492	18,983	20,832
Chg (% YoY)	(6.6)	0.4	15.1	9.7
Profit attributable to ordinary shareholders (RMB mn)	3,722	2,793	4,484	5,154
Chg (% YoY)	(25.0)	(24.9)	60.5	14.9
Underlying EPS (RMB)	0.51	0.37	0.59	0.67
Chg (% YoY)	(25.8)	(28.9)	60.5	14.9
BVPS (RMB)*	5.35	5.57	5.97	6.47
Chg (% YoY)	6.4	4.1	7.3	8.3
P/E (x)	9.4	13.2	8.2	7.2
P/B (x)*	0.9	0.9	0.8	0.7
ROAE (%)	9.9	6.8	10.2	10.8
ROAA (%)	1.9	1.4	2.2	2.4
DPS(RMB)	0.18	0.18	0.18	0.18
Dividend Yield (%)	3.7	3.7	3.7	3.7

\*Equity attributable to ordinary shareholders is used in the calculation

Source(s): Bloomberg, ABCI Securities estimates

Rating: BUY  
TP: HK\$ 6.9

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Share price (HK\$)	5.56
Est. share price return	24.1%
Est. dividend yield	3.7%
Est. total return	27.8%
Previous Rating & TP	BUY/HK\$7.6
Previous Report Date	July 6, 2018

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	8.5/3.9
Issued shares (mn)	7,011
Issued H shares (mn)	1,261
H-share market cap (HK\$ mn)	7,011
Avg daily turnover (HK\$ mn)	35.4
Major shareholder(s)	
BSCOMC	35.1%
Huijin	31.2%
Citic Sec	5.6%

Source(s): Company, ABCI Securities

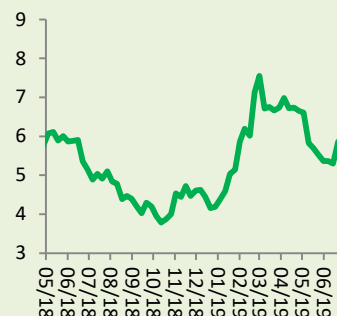
### Share Performance (%)

	Absolute	Relative*
1-mth	-3.8	-6.1
3-mth	-18.1	-13.4
6-mth	18.1	11.4

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Consolidated income statement (2017A-2020E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E
Fee and commission income	8,781	7,232	8,724	9,741
Interest income	5,257	6,764	7,529	8,243
Investment income	2,414	2,417	2,650	2,758
<b>Total revenue</b>	<b>16,452</b>	<b>16,413</b>	<b>18,903</b>	<b>20,742</b>
Other income	-31	79	80	90
<b>Total revenue and other income</b>	<b>16,421</b>	<b>16,492</b>	<b>18,983</b>	<b>20,832</b>
<b>Total expenses</b>	<b>11,072</b>	<b>12,449</b>	<b>12,673</b>	<b>13,637</b>
<b>Operating Profits</b>	<b>5,349</b>	<b>4,043</b>	<b>6,310</b>	<b>7,195</b>
Share of profit of investments in associates	6	8	9	11
Profit before tax	<b>5,355</b>	<b>4,051</b>	<b>6,319</b>	<b>7,206</b>
Tax	1,294	948	1,517	1,729
<b>Profit after tax</b>	<b>4,062</b>	<b>3,103</b>	<b>4,803</b>	<b>5,476</b>
Minority interests	46	16	25	28
Profits attributable to perpetual bondholders	294	294	294	294
<b>Profits attributable to ordinary shareholders</b>	<b>3,722</b>	<b>2,793</b>	<b>4,484</b>	<b>5,154</b>
<b>Growth</b>				
Total revenue and other income (%)	(6.6)	0.4	15.1	9.7
Total expenses	5.2	12.4	1.8	7.6
Operating Profits (%)	-24.2	-24.4	56.1	14.0
Profits attributable to ordinary shareholders (%)	-25.0	-24.9	60.5	14.9
<b>Operating performance</b>				
Operating margin (%)	32.6	24.5	33.2	34.5
Net margin (%)	22.6	17.0	23.7	24.8
ROAE (%)*	9.9	6.8	10.2	10.8
ROAA (%)	1.9	1.4	2.2	2.4

\*Net profit attributable to ordinary shareholders/Average equity attributable to ordinary shareholders

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2017A-2020E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E
Property and equipment	565	499	524	550
Goodwill	170	187	196	206
Other intangible assets	574	-	-	-
Investment in associates and JV	206	163	171	180
Financial assets	5,327	6,049	6,351	6,669
Financial assets held under resale agreements	5,109	3,449	3,621	3,803
Other non-current assets	3,229	3,031	3,183	3,342
<b>Total non-current assets</b>	<b>15,179</b>	<b>13,378</b>	<b>14,047</b>	<b>14,749</b>
Cash & equivalents	11,228	17,056	16,591	18,523
Clearing settlement funds	39,741	33,698	32,013	30,412
Financial assets	34,562	82,433	86,555	90,882
Derivatives	120	1,239	1,301	1,366
Other current assets	2,559	341	358	376
Account receivables	1,370	1,440	1,512	1,588
Other receivables and prepayments	32,347	-	-	-
Margin accounts	47,821	25,148	31,435	36,150
Financial assets held under resale agreements	20,956	20,348	21,365	22,434
<b>Total current assets</b>	<b>190,704</b>	<b>181,703</b>	<b>191,130</b>	<b>201,731</b>
<b>Total assets</b>	<b>205,882</b>	<b>195,081</b>	<b>205,177</b>	<b>216,480</b>
Accounts payable	41,417	35,039	36,791	38,630
Borrowings	2,051	1,118	1,174	1,233
Placements from banks and other financial institutions	14,000	4,049	4,049	4,049
Other current liabilities	80,466	69,016	72,467	76,090
<b>Total current liabilities</b>	<b>137,933</b>	<b>109,222</b>	<b>114,481</b>	<b>120,002</b>
Loans and bonds payables	23,873	37,650	39,533	41,509
Other non-current liabilities	79	348	365	383
<b>Total non-current liabilities</b>	<b>23,951</b>	<b>37,998</b>	<b>39,898</b>	<b>41,892</b>
<b>Total liabilities</b>	<b>161,884</b>	<b>147,220</b>	<b>154,378</b>	<b>161,895</b>
<b>Net current assets</b>	<b>52,771</b>	<b>72,481</b>	<b>76,649</b>	<b>81,729</b>
Equity attributable to ordinary shareholders	38,754	42,577	45,684	49,462
Other equity instruments (perpetual subordinated bonds)	5,000	5,000	5,000	5,000
Non-controlling interests	245	286	114	124
<b>Total equity</b>	<b>43,999</b>	<b>47,863</b>	<b>50,799</b>	<b>54,586</b>

Source(s): Company, ABCI Securities estimates



## Shenwan Hongyuan Group (6806 HK) Top player in China securities industry

- A leading investment holding group focusing on securities business in China with a long track record, reputable brand and deep market insight,
- Leading positions across businesses with strong geographical presence in China
- Above-peer ROAE proves solid value creation capability
- Eight consecutive years of CSRC "AA" rating demonstrates sound risk management and corporate governance practices
- Maintain **BUY** with TP of HK\$ 3.65

**Rating: BUY**  
**TP: HK\$ 3.65**

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**Strong position in China securities sector.** With over 30 years of operating history, the Shenwan Hongyuan Group Co., Ltd (SWHY) has navigated through various market cycles and regulatory reforms to become a leading investment holding group focusing on securities business in China.

**Leading positions across businesses.** SWHY was ranked fourth in terms of the no. of branches and operated the most branches in Shanghai at end-2017. As of Dec 2018, total market value of clients' securities under custody was ranked top three, according to Wind data. In addition, the AUM of its securities firm asset management business was ranked fifth in the industry as of Dec 2018.

**Solid value creation capability.** SWHY's ROAE was 10.6%/ 8.6% in 2016/17, ranking second and sixth among the top ten securities firms by net asset in China. In 2018, its ROAE (6.2%) was ranked second among major listed peers. This demonstrated SWHY's ability to translate its core strength into operating performance, in our view.

**"AA" rating from CSRC reflects strong corporate governance practices.** SWHY was awarded the "AA" rating from CSRC for eight consecutive years from 2011-18 – a recognition for its high standard of corporate governance, in our view.

**Maintain BUY with a TP of HK\$3.65.** In view of SWHY's superior standing in the industry, high ROAE, and solid corporate governance, we maintain **BUY** with a TP of HK\$ 3.65.

**Risk factors:** 1) Further decline in brokerage commission rates; 2) Sharp decline in A-share market turnover; 3) Severe downturn in China's economy; 4) Penalties related to violation of regulatory requirements.' 5) Low daily turnover

### Financial summary

FY ended Dec 31	FY17A	FY18A	FY19E	FY20E
Revenue (RMB mn)	20,925	24,110	29,640	34,273
Chg (% YoY)	(3.7)	15.2	22.9	15.6
Profit attributable to shareholders	4,600	4,160	6,560	7,942
Chg (% YoY)	(15.0)	(9.6)	57.7	21.1
EPS (RMB)	0.23	0.19	0.26	0.32
Chg (% YoY)	-14.9	-18.5	40.2	21.1
BVPS (RMB)	2.8	3.1	3.3	3.6
Chg (% YoY)	5.5	13.3	5.9	7.6
P/E (x)	9.8	12.0	8.6	7.1
P/B (x)	0.8	0.7	0.7	0.6
ROAE (%)	8.6	6.2	8.1	9.3
DPS(RMB)	1.6	1.3	1.8	2.0
Dividend Yield (%)	0.05	0.05	0.07	0.08

Source(s): Company, ABCI Securities estimates

Share price (HK\$)	2.56
Est. share price return	42.6%
Est. dividend yield	2.9%
Est. total return	45.5%
Previous Rating & TP	BUY/HK\$3.65
Previous Report Date	June 4, 2019

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	3.64/2.56
Issued shares (mn)	25,040
Issued H shares (mn)	2,504
H-share market cap (HK\$ mn)	6,410
Avg daily turnover (HK\$ mn)	11.6
Major shareholder(s)	
JIC	26.3%
Central Huijin	20.1%
Shanghai Jiushi	4.8%

Source(s): Company, ABCI Securities

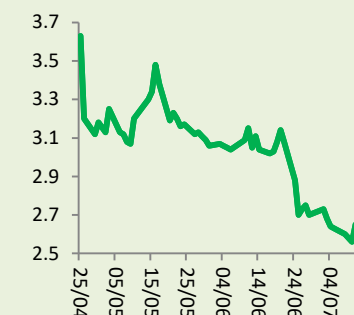
### Share Performance (%)

	Absolute	Relative*
1-mth	-17.1	-19.5
3-mth	NA	NA
6-mth	NA	NA

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share Performance in 2019 (HK\$)



Source(s): Bloomberg, ABCI Securities





Consolidated income statement (FY17A-FY20E)

FY Ended Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E
Fee and commission income	8,748	6,419	7,992	9,146
Interest income	8,139	9,451	10,469	13,089
Investment income	3,750	5,645	8,066	8,457
<b>Total revenue</b>	<b>20,637</b>	<b>21,515</b>	<b>26,527</b>	<b>30,692</b>
Other income	287	2,595	3,114	3,581
<b>Total revenue and other income</b>	<b>20,925</b>	<b>24,110</b>	<b>29,640</b>	<b>34,273</b>
<b>Total expenses</b>	<b>15,220</b>	<b>19,134</b>	<b>21,726</b>	<b>24,563</b>
<b>Operating Profits</b>	<b>5,704</b>	<b>4,976</b>	<b>7,914</b>	<b>9,709</b>
Share of profit of associates and JVs	223	212	254	305
<b>Profit before tax</b>	<b>5,928</b>	<b>5,187</b>	<b>8,168</b>	<b>10,014</b>
Tax	1,202	940	1,470	1,903
<b>Profit after tax</b>	<b>4,726</b>	<b>4,248</b>	<b>6,698</b>	<b>8,111</b>
Minority interests	126	88	138	169
<b>Profits attributable to shareholders</b>	<b>4,600</b>	<b>4,160</b>	<b>6,560</b>	<b>7,942</b>
<b>Growth</b>				
Total revenue and other income	-4%	15%	23%	16%
Total expenses	-2%	26%	14%	13%
Operating Profits	-8%	-13%	59%	23%
Net profit	-15%	-10%	58%	21%
<b>Operating performance</b>				
Operating margin (%)	27.3	20.6	26.7	28.3
Net margin (%)	22.6	19.3	24.7	25.9
ROAE (%)	8.6	6.2	8.1	9.3
ROAA (%)	1.6	1.3	1.8	2.0

Notes: Individual items may not sum to total due to rounding differences

Individual items may vary from reported figures due to rounding differences/ definition differences

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (FY17A-FY20E)

As of Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E
Fixed assets	1,481	1,441	1,513	1,543
Other intangible assets	142	149	156	159
Investment in associates	1,871	2,399	2,519	2,569
Financial assets	17,865	18,246	20,071	22,078
Financial assets held under resale agreements	10,483	20,993	24,142	26,556
Other non-current assets	7,853	7,808	8,199	8,363
<b>Total non-current assets</b>	<b>39,695</b>	<b>51,036</b>	<b>56,599</b>	<b>61,268</b>
Cash & equivalents	22,375	25,286	21,533	18,299
Clearing settlement funds	2,590	3,091	3,246	3,408
Cash on behalf of brokerage clients	62,007	57,522	60,398	63,418
Financial assets	78,485	116,336	123,475	131,103
Derivatives	7	454	477	500
Account receivables	1,525	1,238	1,299	1,325
Other receivables and prepayments	3,950	4,569	4,797	4,893
Margin accounts receivables	55,739	43,107	51,728	61,039
Financial assets held under resale agreements	33,571	45,087	51,850	57,035
<b>Total current assets</b>	<b>260,248</b>	<b>296,689</b>	<b>318,803</b>	<b>341,021</b>
<b>Total assets</b>	<b>299,943</b>	<b>347,725</b>	<b>375,402</b>	<b>402,289</b>
Accounts payable	63,629	60,271	63,284	66,448
Loans and bonds	33,874	36,269	38,082	41,853
Placements from banks and other financial institutions	7,900	11,619	12,200	13,420
Other current liabilities	76,497	96,058	100,857	105,895
<b>Total current liabilities</b>	<b>181,900</b>	<b>204,216</b>	<b>214,423</b>	<b>227,616</b>
Loans and bonds	49,796	66,219	69,530	76,483
Other non-current liabilities	11,241	6,095	6,333	6,583
<b>Total non-current liabilities</b>	<b>61,037</b>	<b>72,314</b>	<b>75,863</b>	<b>83,066</b>
<b>Total liabilities</b>	<b>242,937</b>	<b>276,531</b>	<b>290,286</b>	<b>310,682</b>
<b>Net current assets</b>	<b>78,348</b>	<b>92,472</b>	<b>104,380</b>	<b>113,405</b>
Equity attributable to shareholders	55,197	69,399	82,637	88,939
Non-controlling interests	1,809	1,797	2,479	2,668
<b>Total equity</b>	<b>57,006</b>	<b>71,196</b>	<b>85,116</b>	<b>91,607</b>

Notes: Individual items may not sum to total due to rounding differences

Individual items may vary from reported figures due to rounding differences/definition differences

Source(s): Company, ABCI Securities estimates



## China Renaissance Holdings (1911 HK)

### New economy to drive growth

- Investment banking and investment management businesses to benefit from the Science and Technology Innovation Board
- Wealth management business a potential new driver in the medium term
- Recently announced share repurchase plan should be supportive to near-term share price performance

**Benefiting from the Science and Technology Innovation Board (STIB).** Overall, we believe the introduction of STIB illustrates the government's support for the new-economy industries. In addition, the new board could provide another exit channel for the investment management business and fundraising channel for investment banking business.

**Ramping up the wealth management business.** In addition to its core investment banking and investment management businesses focusing on the new-economy sectors, the Group has been actively building up its wealth management business and has recently formed a strategic partnership with LGT Bank. We view the segment to be a medium-term growth driver.

**Recent business update.** In 2018, revenue grew 52% YoY to US\$ 211mn driven by 49%, 67%, and 32% YoY revenue growth in investment banking, investment management, and Huajing. Overall, investment banking continued to be the major contributor accounting for 70% of total revenue, followed by investment management (23%), and Huajing (7%). Adjusted net profit (before carried interest) rose 39% YoY to US\$ 48mn, in which adjusted net profit (after carried interest) rose 15% YoY to US\$ 67mn. Overall, the 2018 results are in line with our expectation. In addition, the company announced a HKD300m share repurchase plan in May 2019, which should be supportive to its share price performance, in our view.

**Valuation.** Our TP is HK\$ 23. Maintain BUY on long-term positive business outlook driven by growing demand of financial services from China's new-economy companies.

**Risk factors:** 1) Disclosure of investment banking deal pipeline and portfolio of private equity funds; 2) New-economy project risk; 3) Investment risk; 4) Market risk; 5) Policy risk; 6) Low daily turnover

#### Financial summary

FY ended Dec 31	2016A	2017A	2018A	2019E
Revenue (USD mn)	133	139	211	243
Revenue + investment income (USD mn)	142	157	235	253
Net profit (USD mn)	32	0	-244	50
Adjusted net profit before carried interest (USD mn)	52	34	48	63
Adjusted net profit after carried interest (USD mn)	55	58	67	85
EPS (USD)	0.12	(0.00)	(0.78)	0.09
Adjusted EPS (USD)*	0.20	0.21	0.12	0.16
P/E (x)	17.7	NA	NA	22.7
Adjusted P/E (x)*	10.2	9.7	16.9	13.3

\*Based on adjusted profit after carried interest

Source(s): Bloomberg, ABCI Securities estimates (1 USD = 7.85 HKD)

Rating: BUY  
TP: HK\$ 23

Analyst : Steve Chow

Tel: (852) 2147 8809

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Share price (HK\$)	16.36
Est. share price return	40.6%
Est. dividend yield	0%
Est. total return	40.6%
Previous Rating & TP	BUY/HK\$23
Previous Report Date	June 28, 2019

Source(s): Bloomberg, ABCI Securities

#### Key Data

52Wk H/L(HK\$)	31.8/13.7
Issued shares (mn)	544
Market cap (HK\$ mn)	12,512
Avg daily turnover (HK\$ mn)	2.0
Major shareholder(s)	
Mr. Bao Fan	53.2%

Source(s): Bloomberg, company, ABCI Securities

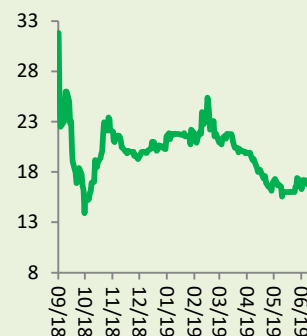
#### Share Performance (%)

	Absolute	Relative*
1-mth	0.8	-1.6
3-mth	-21.9	-17.2
6-mth	-23.1	-29.7

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

#### Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

We derive the company's fair valuation range based on SOTP approach, as shown in the table below.

The SOTP approach results in a fair valuation range of HK\$21.4-HK\$24.6. We set our TP to HK\$23, approximating the mid-point of the fair value range.

**Exhibit 14: SOTP valuation range**

	Valuation (HKD per share)	Remarks
Investment banking	8.2-9.9	15-18x 2019E adjusted segment net profit (USD 38m)*
Investment management	3.0-4.0	12-16x 2019E adjusted segment net profit (USD17m)*
Unrealized net carry	2.0-2.5	8-10x 2019E adjusted segment net profit (USD18m)*
Huajing	3.0	48.8% of book value
Net cash and investments	5.1	Book value
<b>Total</b>	<b>21.4-24.6</b>	

\*Excluding share-based compensation

Source(s): Company, Bloomberg, ABCI Securities estimates



Consolidated income statement (2016A-2019E)

FY Ended Dec 31 (USD mn)	2016A	2017A	2018A	2019E
Investment banking	105	99	148	150
Investment management	26	28	47	65
Huajing	2	12	16	28
<b>Total revenue</b>	<b>133</b>	<b>139</b>	<b>211</b>	<b>243</b>
Net investment gain			9	6
<b>Total operating expenses</b>	<b>-94</b>	<b>-146</b>	<b>-180</b>	<b>-200</b>
<b>Operating Profits</b>	<b>40</b>	<b>-6</b>	<b>40</b>	<b>49</b>
Other income/expenses	-12	-27	-287	1
Interest expense	0	-1	-11	-1
Investment income	9	18	24	10
<b>Profit before tax</b>	<b>37</b>	<b>-16</b>	<b>-234</b>	<b>59</b>
Tax	-8	2	-15	-12
<b>Profit after tax</b>	<b>29</b>	<b>-14</b>	<b>-249</b>	<b>46</b>
Minority interests	-3	-14	-5	-4
<b>Profits attributable to shareholders</b>	<b>32</b>	<b>-0</b>	<b>-244</b>	<b>50</b>
Share based compensation	4	8	12	13
Fair value changes of CB/preferred shares	17	27	280	0
<b>Adjusted net profit before carried interest</b>	<b>52</b>	<b>34</b>	<b>48</b>	<b>63</b>
Unrealized net carried interest	3	24	19	22
<b>Adjusted net profit after carried interest</b>	<b>55</b>	<b>58</b>	<b>67</b>	<b>85</b>
<b>Growth</b>				
Total revenue (%)	10.8	4.4	51.5	15.3
Total expenses (%)	52.4	55.3	23.7	11.1
Operating Profits (%)	NA	NA	NA	21.9
Net profit (%)	9.2	NA	NA	NA
Adjusted net profit before carried interest (%)	(22.2)	(34.0)	38.8	32.3
Adjusted net profit after carried interest (%)	(25.0)	5.3	15.0	27.2
<b>Operating performance</b>				
Operating margin (%)	29.7	(4.6)	19.1	20.2
Net margin (%)	23.9	(0.3)	(115.7)	20.6
Adjusted net margin (%)	41.4	41.8	31.7	35.0
ROAE (%)	18.1	9.9	(65.9)	6.7

Source(s): Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/ definition differences



Consolidated balance sheet (2016A-2019E)

As of Dec 31 (USD mn)	2016A	2017A	2018A	2019E
Property and equipment	9	10	8	8
Intangible assets	2	4	4	5
Investment in associates	31	44	77	81
Financial assets	41	90	145	152
Other non-current assets	5	19	29	30
<b>Total non-current assets</b>	<b>89</b>	<b>167</b>	<b>263</b>	<b>276</b>
Cash & equivalents	203	450	354	409
Financial assets	47	65	345	363
Other current assets	5	7	9	10
Account receivables	25	52	94	91
<b>Total current assets</b>	<b>280</b>	<b>575</b>	<b>802</b>	<b>873</b>
<b>Total assets</b>	<b>369</b>	<b>741</b>	<b>1,065</b>	<b>1,149</b>
Accounts payable	55	81	118	142
Borrowings	23	-	-	-
Other current liabilities	10	8	13	13
<b>Total current liabilities</b>	<b>88</b>	<b>89</b>	<b>130</b>	<b>155</b>
Loans and bonds payables	-	150	-	-
Other non-current liabilities	205	264	4	4
<b>Total non-current liabilities</b>	<b>205</b>	<b>414</b>	<b>4</b>	<b>4</b>
<b>Total liabilities</b>	<b>292</b>	<b>503</b>	<b>134</b>	<b>159</b>
<b>Net current assets</b>	<b>193</b>	<b>486</b>	<b>672</b>	<b>717</b>
Equity attributable to shareholders	3	15	725	772
Non-controlling interests	74	224	207	217
<b>Total equity</b>	<b>77</b>	<b>239</b>	<b>932</b>	<b>989</b>

Source(s): Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/definition differences



## China Merchants Securities (6099 HK) Exposure to brokerage business

- High exposure to brokerage business might hinder near-term share price performance given the moderating A-share ADT and MFSL in recent months
- 1Q19 net profit rose 95% YoY thanks to improving operating environment
- Maintain HOLD with a TP of HK\$9.4

Rating: HOLD  
TP: HK\$ 9.4

Analyst : Steve Chow

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**Exposure to brokerage business.** The Group is highly reliant on secondary trading commission and interest income from margin financing and securities lending (MFSL) as a revenue source. For example, in 2018, brokerage segment revenue accounted for 63% of total revenue. As a result, we believe the recent moderation of A-share ADT and MFSL might hinder near-term share price performance in the near term.

**A recovery in 2019E.** Having said that, we still expect revenue and net profit to ordinary shareholders to rise by 18% and 43% in 2019E due to low base, translating into a 7.7% ROAE in 2019E versus 5.6% in 2018.

**Recent business update.** In 1Q19, revenue and net profit to shareholders rose 77% and 95% YoY thanks to improving operating environment. In 2018, revenue and net profit to ordinary shareholders dropped 6.2% and 30.2% to RMB 18.1bn and RMB3.6bn amid unfavorable operating environment.

**Maintain HOLD with a TP of HK\$9.4.** We value the counter at HK\$8.2-10.6, which translates to 0.7x-0.9x 2019E P/B\*. We set our TP to HK\$9.4, approximately at the mid-point of the valuation range. Maintain HOLD.

**Risk factors:** 1) Decline in brokerage commission rates; 2) Decline in A-share market turnover; 3) Decline in capital market fundraising; 4) Penalties related to violation of regulatory requirements; 5) Low daily turnover

### Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E
Revenue (RMB mn)	19,259	18,070	21,357	24,412
Chg (% YoY)	3.8	(6.2)	18.2	14.3
Net profit to ordinary shareholders (RMB mn)	5,194	3,624	5,193	6,544
Chg (% YoY)	(3.9)	(30.2)	43.3	26.0
EPS (RMB)	0.8	0.5	0.8	1.0
Chg (% YoY)	-14.3	-30.7	43.3	26.0
BVPS (RMB)*	9.6	9.8	10.2	10.7
Chg (% YoY)	7.4	2.3	4.0	4.9
P/E (x)	10.2	14.8	10.3	8.2
P/B (x)*	0.8	0.8	0.8	0.7
ROAE (%)	8.4	5.6	7.7	9.3
ROAA (%)	2.0	1.2	1.7	2.0
DPS(HK\$)	0.4	0.3	0.4	0.6
Yield (%)	4.3	3.3	4.8	6.0

\*Equity attributable to ordinary shareholders is used in the calculation of book value

Source(s): Bloomberg, ABCI Securities estimates

Share price (HK\$)	9.19
Est. share price return	2.3%
Est. dividend yield	4.8%
Est. total return	7.1%
Previous Rating & TP	HOLD/HK\$9.9
Previous Report Date	July 6, 2018

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	13.2/7.8
Issued shares (mn)	6,699
Issued H shares (mn)	980
H-share market cap (HK\$ mn)	9,006
Avg daily turnover (HK\$ mn)	4.7
Major shareholder(s)	
China Merchant Finance	20.9%
Shenzhen Jiheng	19.6%

Source(s): Company, ABCI Securities

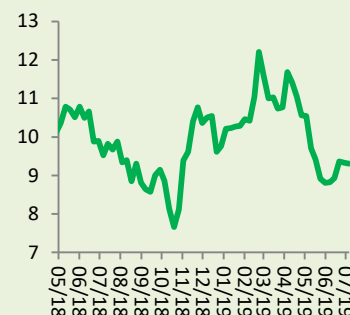
### Share Performance (%)

	Absolute	Relative*
1-mth	-2.2	-4.6
3-mth	-20.8	-16.1
6-mth	-132	-19.8

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Consolidated income statement (2017A-2020E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E
Fee and commission income	9,750	7,754	10,433	12,243
Interest income	6,718	8,187	8,370	9,228
Investment income	2,877	2,120	2,544	2,926
<b>Total revenue</b>	<b>19,346</b>	<b>18,061</b>	<b>21,347</b>	<b>24,397</b>
Other income	-87	9	10	15
<b>Total revenue and other income</b>	<b>19,259</b>	<b>18,070</b>	<b>21,357</b>	<b>24,412</b>
<b>Total expenses</b>	<b>12,998</b>	<b>13,539</b>	<b>14,930</b>	<b>16,409</b>
<b>Operating Profits</b>	<b>6,261</b>	<b>4,531</b>	<b>6,427</b>	<b>8,003</b>
Share of profit of investments in associates	846	918	1,009	1,110
<b>Profit before tax</b>	<b>7,107</b>	<b>5,448</b>	<b>7,436</b>	<b>9,113</b>
Tax	1,302	1,001	1,413	1,732
<b>Profit after tax</b>	<b>5,805</b>	<b>4,447</b>	<b>6,023</b>	<b>7,382</b>
Minority interests	19	21	29	35
Profits attributable to perpetual bondholders	592	802	802	802
<b>Profits attributable to ordinary shareholders</b>	<b>5,194</b>	<b>3,624</b>	<b>5,193</b>	<b>6,544</b>
<b>Growth</b>				
Total revenue and other income (%)	3.8	(6.2)	18.2	14.3
Total expenses	2.1	4.2	10.3	9.9
Operating Profits (%)	7.5	-27.6	41.9	24.5
Net profit (%)	-3.9	-30.2	43.3	26.0
<b>Operating performance</b>				
Operating margin (%)	32.5	25.1	30.1	32.8
Net margin (%)	26.8	20.1	24.3	26.8
ROAE (%)*	8.4	5.6	7.7	9.3
ROAA (%)	2.0	1.2	1.7	2.0

Source(s): Company, ABCI Securities estimates

\*Net profit attributable to ordinary shareholders/Average equity attributable to ordinary shareholders





Consolidated balance sheet (2017A-2020E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E
Property and equipment	1,832	2,061	2,164	2,272
Goodwill	10	10	10	11
Other intangible assets	22	19	20	21
Investment in associates and JV	7,490	8,288	8,702	9,138
Financial assets	7,793	10,723	11,259	11,822
Financial assets held under resale agreements	8,802	5,277	5,541	5,818
Other non-current assets	1,101	1,090	1,145	1,202
<b>Total non-current assets</b>	<b>27,049</b>	<b>27,467</b>	<b>28,841</b>	<b>30,283</b>
Cash & equivalents	52,657	47,434	39,848	34,057
Clearing settlement funds	14,011	13,796	14,486	15,210
Financial assets	98,553	139,564	146,542	153,869
Derivatives	1,022	1,150	1,208	1,268
Other current assets	1,225	1,431	1,503	1,578
Account receivables	4,082	3,298	3,463	3,636
Other receivables and prepayments	514	48	50	53
Advances to customers	59,235	42,976	53,720	63,390
Financial assets held under resale agreements	27,298	27,766	29,154	30,612
<b>Total current assets</b>	<b>258,595</b>	<b>277,463</b>	<b>289,974</b>	<b>303,672</b>
<b>Total assets</b>	<b>285,643</b>	<b>304,930</b>	<b>318,814</b>	<b>333,955</b>
Accounts payable	51,095	48,912	51,358	53,925
Loans and debt	75,006	57,806	60,696	63,731
Other current liabilities	50,265	77,010	80,861	84,904
<b>Total current liabilities</b>	<b>176,366</b>	<b>183,728</b>	<b>192,914</b>	<b>202,560</b>
Loans and bonds payables	28,795	39,348	41,315	43,381
Other non-current liabilities	1,149	1,062	1,115	1,170
<b>Total non-current liabilities</b>	<b>29,944</b>	<b>40,410</b>	<b>42,430</b>	<b>44,551</b>
<b>Total liabilities</b>	<b>206,310</b>	<b>224,138</b>	<b>235,344</b>	<b>247,112</b>
<b>Net current assets</b>	<b>82,229</b>	<b>93,735</b>	<b>97,060</b>	<b>101,112</b>
Equity attributable to ordinary shareholders	64,230	65,723	68,371	71,709
Other equity instruments (perpetual subordinated bonds)	15,000	15,000	15,000	15,000
Minority interest	104	70	99	134
<b>Total equity</b>	<b>79,334</b>	<b>80,793</b>	<b>83,470</b>	<b>86,843</b>

Source(s): Company, ABCI Securities estimates



## GF Securities (1776 HK) Vulnerability in risk management

- We believe the FX losses of US\$ 139mn in 2018 exposes weakness in risk management with potential liabilities ahead
- This is despite 77% and 92% YoY increase in revenue and net profit in 1Q19 driven by improving operating environment
- We see limited catalyst in the near term due to ongoing concerns on risk management;

Downgrade to **HOLD**

**FX loss exposes weakness in risk management.** In 2018, one of GF's funds, GTEC Pandion Multi-Strategy Fund, suffered investment losses of US\$ 139mn on the FX market, leading to a net value of -US\$ 44mn at end-2018. Such investment loss has reduced GF's net profit by RMB 919mn in 2018. According to media report, the losses could be related to trades in the Turkish lira, which experienced significant fluctuation in Aug 2018. In addition, the Pandion Fund received a top-up margin call of US\$ 129mn, leading to potential liabilities in the future.

**Below-peer ROAE.** As a result of sluggish performance, ROAE dropped significantly to 5.1% in 2018 vs.10.5% in 2017, below many of its listed peers, including CICC (8.8%), CSC (6.8%), Citic (6.2%), CMS (5.6%), GTJN (5.4%), and Huatai (5.1%).

**Recent business update.** In 1Q19, revenue and net profit rose by 77% and 92% YoY amid improving operating environment. 2018 revenue and net profit dropped 20% and 50% YoY to RMB 21.0bn and RMB 4.3bn. Among major business segments, investment banking and investment management businesses were major drags with respective segment revenues dropping by 56% and 43% YoY.

**Downgrade to HOLD.** Overall, we see limited catalyst in the near term, given the potential liabilities related to the Pandion Multi-Strategy Fund and overall risk management concern. We value the counter at HK\$8.1-10.8, which translates to 0.6-0.8x 2019E P/B. We set our TP to HK\$9.4, approximately at the mid-point of the valuation range.

**Risk factors:** 1) Decline in brokerage commission rates; 2) Decline in A-share market turnover; 3) Decline in capital market fundraising; 4) Penalties related to violation of regulatory requirements;

### Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E
Revenue (RMB mn)	28,614	22,817	28,580	31,358
Chg (% YoY)	4.1	(20.3)	25.3	9.7
Net profit (RMB mn)	8,595	4,300	6,248	7,239
Chg (% YoY)	7.0	(50.0)	45.3	15.9
EPS (RMB)	1.13	0.56	0.82	0.95
Chg (% YoY)	7.0	(50.0)	45.3	15.9
BVPS (RMB)	11.1	11.2	11.7	12.3
Chg (% YoY)	8.1	0.2	4.8	5.3
P/E (x)	7.0	13.9	9.6	8.3
P/B (x)	0.7	0.7	0.7	0.6
ROAE (%)	10.5	5.1	7.2	7.9
ROAA (%)	2.4	1.2	1.6	1.8
DPS(HK\$)	0.46	-	0.33	0.38
Yield (%)	5.1	-	3.7	4.2

Source(s): Bloomberg, ABCI Securities estimates

Rating: **HOLD**  
TP: HK\$ 9.4

Analyst : Steve Chow

Tel: (852) 2147 8809

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Share price (HK\$)	9.04
Est. share price return	4.0%
Est. dividend yield	3.7%
Est. total return	7.7%
Previous Rating & TP	BUY/HK\$14.9
Previous Report Date	July 6, 2018

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	14.3/8.5
Issued shares (mn)	7,621
Issued H shares (mn)	1,702
H-share market cap (HK\$ mn)	15,386
Avg daily turnover (HK\$ mn)	47.7
Major shareholder(s)	
Jilin Aodong	16.7%
Pharmaceutical	
Liaoning Cheng Da Co	16.4%
Zhongshan Public	10.2%
Utilities	

Source(s): Company, ABCI Securities

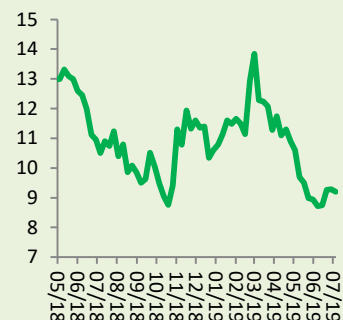
### Share Performance (%)

	Absolute	Relative*
1-mth	0.2	-2.1
3-mth	-14.9	-10.2
6-mth	-17.7	-24.3

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Consolidated income statement (2017A-2020E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E
Fee and commission income	11,565	8,912	10,875	12,244
Interest income	8,018	11,939	11,906	12,789
Investment income	8,734	182	4,000	4,500
<b>Total revenue</b>	<b>28,316</b>	<b>21,033</b>	<b>26,780</b>	<b>29,533</b>
Other income	298	1,784	1,800	1,825
<b>Total revenue and other income</b>	<b>28,614</b>	<b>22,817</b>	<b>28,580</b>	<b>31,358</b>
<b>Total expenses</b>	<b>17,431</b>	<b>17,435</b>	<b>20,704</b>	<b>22,191</b>
<b>Operating Profits</b>	<b>11,183</b>	<b>5,382</b>	<b>7,877</b>	<b>9,166</b>
Share of profit of investments in associates	461	623	685	754
<b>Profit before tax</b>	<b>11,644</b>	<b>6,005</b>	<b>8,562</b>	<b>9,920</b>
Tax	2,561	1,373	1,841	2,133
<b>Profit after tax</b>	<b>9,083</b>	<b>4,632</b>	<b>6,721</b>	<b>7,787</b>
Minority interests	488	332	473	548
<b>Profits attributable to shareholders</b>	<b>8,595</b>	<b>4,300</b>	<b>6,248</b>	<b>7,239</b>
<b>Growth</b>				
Total revenue and other income (%)	4.1	(20.3)	25.3	9.7
Total expenses	1.4	0.0	18.7	7.2
Operating Profits (%)	8.5	-51.9	46.4	16.4
Net profit (%)	7.0	-50.0	45.3	15.9
<b>Operating performance</b>				
Operating margin (%)	39.1	23.6	27.6	29.2
Net margin (%)	30.4	20.4	23.3	24.5
ROAE (%)	10.5	5.1	7.2	7.9
ROAA (%)	2.4	1.2	1.6	1.8

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2017A-2020E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E
Fixed asset	2,449	2,738	2,875	3,019
Other intangible assets	287	264	277	291
Investment in associates and JV	4,376	5,420	5,691	5,976
Financial assets	19,419	19,616	20,275	20,967
Financial assets held under resale agreements	8,846	6,556	6,884	7,228
Other non-current assets	3,702	4,158	4,366	4,584
<b>Total non-current assets</b>	<b>39,079</b>	<b>38,752</b>	<b>40,368</b>	<b>42,064</b>
Cash & equivalents	61,447	66,720	57,340	50,041
Clearing settlement funds	17,653	17,900	18,795	19,735
Financial assets	136,374	165,732	174,019	182,720
Derivatives	5,451	17,537	18,414	19,335
Other current assets	192	43	45	47
Other receivables and prepayments	10,493	6,978	7,327	7,693
Advances to customers	61,396	45,185	56,481	66,648
Financial assets held under resale agreements	24,821	30,257	31,770	33,358
<b>Total current assets</b>	<b>317,826</b>	<b>350,352</b>	<b>364,190</b>	<b>379,576</b>
<b>Total assets</b>	<b>356,905</b>	<b>389,104</b>	<b>404,558</b>	<b>421,641</b>
Accounts payable	65,080	58,445	61,367	64,436
Loans and debt	48,677	69,092	68,441	68,122
Other current liabilities	85,106	123,180	129,339	135,806
<b>Total current liabilities</b>	<b>198,863</b>	<b>250,717</b>	<b>259,147</b>	<b>268,364</b>
Financial assets and other liabilities	3,401	3,322	3,488	3,662
Loans and bonds payables	65,926	46,300	48,615	51,046
Deferred tax liabilities	88	138	145	152
<b>Total non-current liabilities</b>	<b>69,416</b>	<b>49,760</b>	<b>52,248</b>	<b>54,860</b>
<b>Total liabilities</b>	<b>268,279</b>	<b>300,477</b>	<b>311,394</b>	<b>323,224</b>
<b>Net current assets</b>	<b>118,963</b>	<b>99,635</b>	<b>105,043</b>	<b>111,213</b>
Equity attributable to shareholders	84,854	85,018	89,079	93,784
Minority interest	3,771	3,611	4,084	4,633
<b>Total equity</b>	<b>88,626</b>	<b>88,629</b>	<b>93,163</b>	<b>98,417</b>

Source(s): Company, ABCI Securities estimates



## DFZQ (3958 HK) High earnings volatility

- 1Q19 net profit rose by 191% after dropping 65.4% in 2018
- Reliance on trading income leads to high earnings volatility
- Current low valuation reflects investors' concern on the Group's excessive reliance on trading income and volatile earnings trend

**Highly sensitive to A-share performance.** DFZQ has historically been highly sensitive to A-share performance due to its sizable investment and trading business. For example, its net investment gain once accounted for 40% of revenue in 2017, the highest among major H-listed brokers in the year. As sentiment reversed in 2018 in the A-share market with CSI 300 Index losing 25% during the year, earnings suffered significant decline.

**High earnings volatility.** High reliance on trading income has led to volatile earnings in the past. Net profit dropped 68%/65% YoY in 2016/2018 and increased 213%/54% YoY in 2015/2017.

**Recent business update.** In 1Q19, revenue and net profit rose 109% and 191% YoY to RMB 4.1bn and RMB 1.3bn respectively thanks to the low base and improved market condition. In 2018, revenue and net profit dropped 5.6% and 65.4% to RMB 11.8bn and RMB 1.2bn. The drop was largely due to reduced gains from its sizable investment portfolio.

**Lack of positive catalyst.** The counter is currently trading at 0.6x 2019E P/B, with limited scope for re-rating given its high earnings volatility. We value the counter at HK\$ 4.3-5.2, based on 0.5-0.6x 2019E P/B. We set our TP to HK\$4.8, approximately at the mid-point of the valuation range.

**Risk factors:** 1) Decline in brokerage commission rates; 2) Decline in A-share market turnover; 3) Decline in capital market fundraising; 4) Penalties related to violation of regulatory requirements; 5) Low daily turnover.

### Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E
Revenue (RMB mn)	16,679	15,701	19,232	20,480
Chg (% YoY)	36.2	(5.9)	22.5	6.5
Net profit (RMB mn)	3,554	1,231	2,183	2,643
Chg (% YoY)	53.6	(65.4)	77.3	21.1
EPS (RMB)	0.57	0.18	0.31	0.38
Chg (% YoY)	39.0	(69.1)	77.3	21.1
BVPS (RMB)	7.6	7.4	7.5	7.7
Chg (% YoY)	15.1	(2.4)	1.8	2.2
P/E (x)	7.4	23.9	13.5	11.1
P/B (x)	0.6	0.6	0.6	0.5
ROAE (%)	7.6	2.4	4.2	5.0
ROAA (%)	1.6	0.5	0.9	1.1
DPS(HK\$)	0.23	0.12	0.20	0.25
Yield (%)	4.8	2.4	4.2	5.1

Source(s): Bloomberg, ABCI Securities estimates

Rating: HOLD  
TP: HK\$ 4.8

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Share price (HK\$)	4.83
Est. share price return	-0.1%
Est. dividend yield	4.2%
Est. total return	4.1%
Previous Rating & TP	HOLD/HK\$5.7
Previous Report Date	July 6, 2018

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	7.9/4.4
Issued shares (mn)	6,994
Issued H shares (mn)	1,027
H-share market cap (HK\$ mn)	4,960
Avg daily turnover (HK\$ mn)	6.8
Major shareholder(s)	
Shenergy	25.3%

Source(s): Company, ABCI Securities

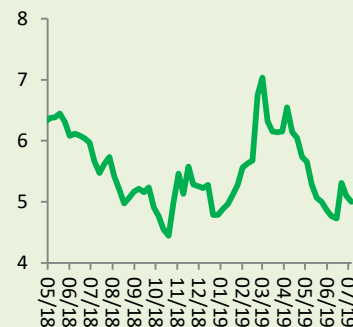
### Share Performance (%)

	Absolute	Relative*
1-mth	-4.6	-6.9
3-mth	-22.9	-18.2
6-mth	-5.3	-12.0

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Consolidated income statement (2017A-2020E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E
Fee and commission income	5,378	5,418	6,086	6,616
Interest income	3,931	6,374	6,635	6,814
Investment income	6,739	-2	2,500	3,000
<b>Total revenue</b>	<b>16,047</b>	<b>11,790</b>	<b>15,222</b>	<b>16,430</b>
Other income	632	3,911	4,010	4,050
<b>Total revenue and other income</b>	<b>16,679</b>	<b>15,701</b>	<b>19,232</b>	<b>20,480</b>
<b>Total expenses</b>	<b>12,768</b>	<b>15,034</b>	<b>17,206</b>	<b>18,017</b>
<b>Operating Profits</b>	<b>3,912</b>	<b>667</b>	<b>2,026</b>	<b>2,463</b>
Share of profit of investments in associates	477	664	797	956
<b>Profit before tax</b>	<b>4,389</b>	<b>1,331</b>	<b>2,823</b>	<b>3,419</b>
Tax	786	51	536	650
<b>Profit after tax</b>	<b>3,603</b>	<b>1,280</b>	<b>2,287</b>	<b>2,769</b>
Minority interests	49	49	104	126
<b>Profits attributable to shareholders</b>	<b>3,554</b>	<b>1,231</b>	<b>2,183</b>	<b>2,643</b>
<b>Growth</b>				
Total revenue and other income (%)	36.2	(5.9)	22.5	6.5
Total expenses	29.9	17.8	14.4	4.7
Operating Profits (%)	62.1	-82.9	203.8	21.6
Net profit (%)	53.6	-65.4	77.3	21.1
<b>Operating performance</b>				
Operating margin (%)	23.5	4.2	10.5	12.0
Net margin (%)	22.1	10.4	14.3	16.1
ROAE (%)	7.6	2.4	4.2	5.0
ROAA (%)	1.6	0.5	0.9	1.1

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2017A-2020E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E
Financial assets sold under repurchase agreements	2,034	2,238	2,350	2,467
Goodwill	32	32	32	32
Other intangible assets	128	132	139	146
Investment in associates and JV	4,006	4,015	4,216	4,427
Cash & equivalents	42,346	36,765	34,900	33,496
Clearing settlement funds	9,349	9,354	9,822	10,313
Financial assets	120,264	131,472	138,046	144,948
Derivatives	169	319	335	352
Other assets	1,213	3,427	3,598	3,778
Other receivables and prepayments	4,762	668	701	736
Advances to customers	12,940	10,277	12,846	15,159
Financial assets held under resale agreements	34,618	28,169	29,577	31,056
<b>Total assets</b>	<b>231,860</b>	<b>226,868</b>	<b>236,562</b>	<b>246,909</b>
Accounts payable	28,220	32,059	33,662	35,345
Loans and debt	25,167	12,680	13,231	13,810
Financial liabilities at FV through P/L	6,060	6,834	7,176	7,534
Financing instrument payables	1,893	12,412	13,033	13,684
Financial assets sold under repurchase agreements	2,940	-	-	-
Other liabilities	114,079	110,611	116,142	121,949
<b>Total liabilities</b>	<b>178,358</b>	<b>174,596</b>	<b>183,243</b>	<b>192,323</b>
<b>Net current assets</b>	<b>83,933</b>	<b>100,502</b>	<b>103,962</b>	<b>107,763</b>
Equity attributable to owners of the parent	52,986	51,739	52,682	53,824
Minority interest	516	533	637	763
<b>Total equity</b>	<b>53,501</b>	<b>52,272</b>	<b>53,319</b>	<b>54,586</b>

Source(s): Company, ABCI Securities estimates



## Disclosures

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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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