



Jan 27, 2015
Company Report
Rating: BUY
TP: HK\$ 9.10

Share price (HK\$) 7.06
Est. share price return 28.9%
Est. dividend yield 2.4%
Est. total return 31.3%

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Key Data

52Wk H/L(HK\$)	9.33/2.13
Issued shares (mn)	2,631.6
Market cap	18,579
3-mth avg daily turnover (HK\$ mn)	91
Major shareholder(s) (%): Henan Investment Group	33.1

Source(s): Company, Bloomberg, ABCI Securities

1H14 Revenue breakdown (%)

Brokerage	39
Trading	22
MFSL	18
Investment Banking	6
Others	15

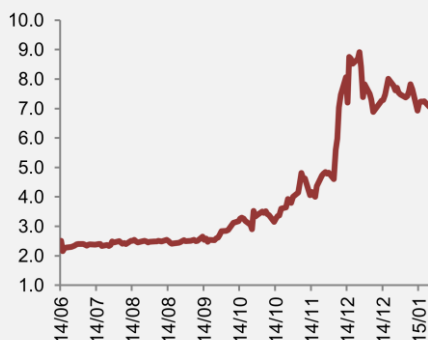
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	2.47	-3.95
3-mth	115.90	103.86
6-mth	182.40	176.94

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Central China Securities (1375 HK)

Regional leader in securities industry

- The only securities firm registered and headquartered in Henan province. Henan's 2013 GDP amounted to RMB 3.2tn and was ranked 5th nationally. The Group enjoys a strong local advantage and brand recognition in Henan
- It has the highest number of securities branches (26.1% of total securities branches in Henan) and was ranked 1st by trading volume of stocks and funds in the province
- Initiate coverage on CCS with **BUY**; our DDM-derived TP of HK\$ 9.1 implies 2.7x 2015E P/B

Henan securities industry has a strong growth potential. Located in central China, Henan has the highest GDP among 18 central and western provinces. It was ranked 5th nationally in terms of the provincial nominal GDP in 2013. As of Dec 31, 2013, the securitization ratio (total market capitalization of listed companies divided by nominal GDP) in Henan was 13.7%, far below the national average of 42.1%, revealing the province's strong potential in securities industry development.

Leveraging on the "Henan Advantage". As of Dec 31, 2013, CCS had 49 securities branches in Henan, representing 26.1% of all securities branches in the province. Its brokerage trading volume of stocks and funds was ranked 1st in Henan, accounting for 24.1% of total in 2013. CCS was also ranked 1st in the province by the amount of equity financing underwritten in 2012 and 2013. Aggregate proceeds of secondary offerings underwritten by CCS in 2012 and 2013 were RMB 11.6bn, representing ~ 46.5% of Henan's total equity financing.

Extensive branch network and customer base. CCS has the largest number of branches in Henan. As of Dec 31, 2013, it had 62 securities branches and 5 futures branches; among which, a total of 49 securities branches and 3 futures branches were located in Henan with a total client base of 1.34mn. We expect the Group's extensive branch network in Henan to support the development of brokerage business .

Margin financing & securities lending (MFSL) business grew rapidly. In 2012, 2013 and 1H14, CCS's revenues from MFSL business were RMB 6.1m, RMB 155.8mn and RMB 145.4mn; contribution the Group's total revenue increased from 10.9% in 2013 to 18.2% in 1H14. Given the deregulation in the financial industry, capital-based intermediary business is expected to become one of the future earnings drivers.

Initiate coverage on CCS with BUY rating. CCS would benefit from Henan's accelerating economic transformation and growth in the region. Apart from its primary businesses in brokerage and investment banking, capital-based intermediary business is expected to become a key revenue driver in the future. We initiate our coverage with a **BUY** rating. Our DDM-derived TP is HK\$ 9.10, implying 2.7x 2015E P/B.

Risk factors: 1) Weaker-than-expected A-share market; 2) Slowdown in Henan's economic growth; 3) Intensifying competition in commission rate; 4) Slower growth on capital intensive businesses.

Financial Summary

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	1,218	1,435	2,231	3,184	4,007
Chg (% YoY)	26.1	17.7	55.5	42.7	25.8
Net profit (RMB mn)	183	223	488	702	838
Chg (% YoY)	97.1	22.3	118.4	43.8	19.4
EPS (RMB)	0.09	0.11	0.21	0.27	0.32
Chg (% YoY)	97.1	22.3	90.4	27.5	19.4
BVPS (RMB)	1.88	2.01	2.39	2.61	2.86
Chg (% YoY)	5.7	6.9	18.6	9.2	9.8
P/E (x)	62.9	51.4	27.0	21.2	17.7
P/B (x)	3.0	2.8	2.4	2.2	2.0
ROAE (%)	4.9	5.6	9.3	10.5	11.5
ROAA (%)	1.6	1.8	2.8	3.1	3.2
DPS(RMB)	-	-	0.09	0.13	0.16
Yield (%)	-	-	1.6	2.4	2.8

Source(s): Bloomberg, ABCI Securities estimates

Company Profile

Central China Securities (CCS) is the leading securities firm in Henan with a full-service business platform and strategic presence in China. The Group's business lines include brokerage, investment banking, investment management, proprietary trading and other innovative businesses. CCS's key strength include its leading position in the securities, brokerage, and investment banking businesses in Henan; extensive branch network and customer base in the region, and its emerging innovative businesses.

Leverage on the "Henan Advantage"

CCS is the only securities firm registered and headquartered in Henan. The Group enjoyed strong local advantages and brand recognition in the province.

Henan, located in central China, has the highest GDP among the 18 central and western Chinese provinces, and was ranked 5th nationally in terms of provincial nominal GDP in 2013. Henan's 2013 nominal GDP amounted to RMB 3.2tn, accounting for 25.3% of the total among 6 provinces in central China.

Exhibit 1: Nominal GDP contribution by top ten provinces in China for 2013

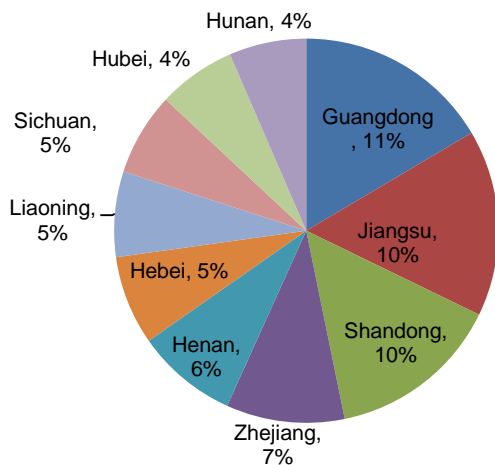
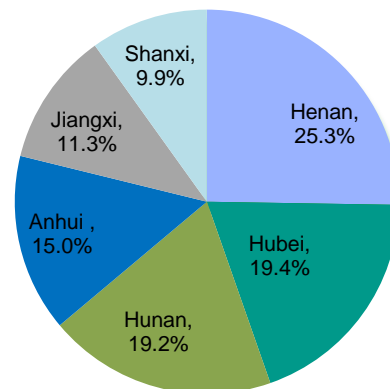


Exhibit 2: Nominal GDP contribution in Central China for 2013



Source(s): Company, NBS, ABCI Securities

Source(s): Company, NBS, ABCI Securities

Henan is the central hub connecting eastern and western parts of China. At end-2013, Henan's population was ~106mn with an urbanization rate of 43.8%, 10ppt lower than the national average, indicating a robust potential for further urban development. The Henan government is accelerating its urbanization process and intends to increase the provincial urbanization rate to exceed 52.0% by 2017. In 2012, 6 high-growth industries in Henan, namely, electronics, equipment manufacturing, automobile, food processing, light industry and new materials, contributed to 57.9% of the total added-value from enterprises in the province.

Henan has experienced a rapid economic growth since the implementation of the "Rise of Central China Plan" in 2006. We expect Henan's economy would continue to benefit from the economic development policies, including the PRC national strategic plans and financial industry policies listed below (see Exhibit 72).



Exhibit 3: PRC national strategies

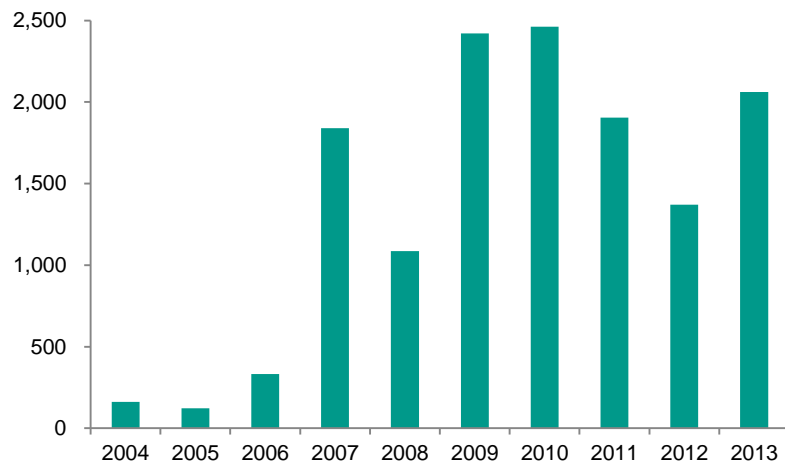
Strategic plan	Year
Zhengzhou Airport Economic Experimental Zone (鄭州航空港經濟綜合實驗區)	2013
Central Plains Economic Zone (中原經濟區)	2011
National Core Producing Area of Grains (國家糧食生產核心區)	2009

Source(s): Company, ABCI Securities

Apart from the National Strategic Plans, according to the “Opinions on further enhancing the financial work and accelerating the development of financial industry” issued by the Henan government (“河南省人民政府關於進一步加強金融工作加快金融業發展的意見”), the number of Henan-based publicly-listed companies would increase to over 150 by 2015. According to a government work report published by the 3rd session of the 12th Henan Provincial People’s Congress on Jan 16, 2014, Henan government plans to actively pursue (1) equity and debt financing in the private or public sector; (2) development of Regional OTC Board and local venture capital and private equity funds; (3) expansion of municipal bonds and SME private bonds; (4) trial development of perpetual debt; (5) accelerated reforms of local financial institutions.

Securities brokerage trading volume in Henan increased significantly in the past decade. According to Wind data, brokerage trading volume of stocks and funds increased from RMB 161.4bn in 2004 to RMB 2,060.8bn in 2013, representing a CAGR of 32.7%.

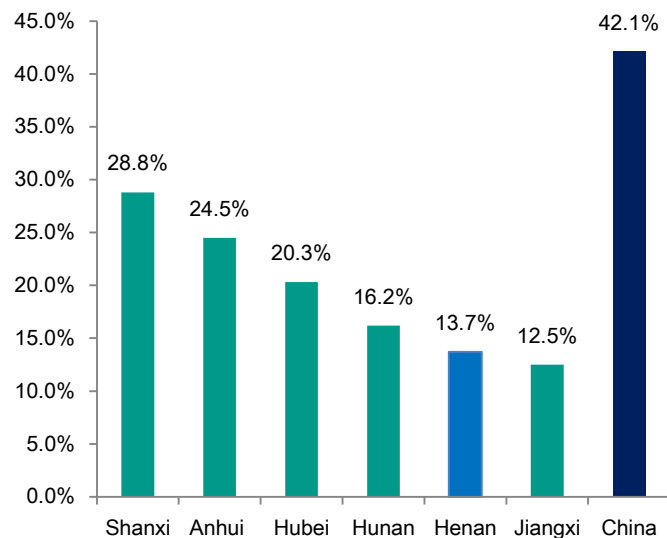
Exhibit 4: Brokerage trading volume of stocks and funds in Henan (RMB bn)



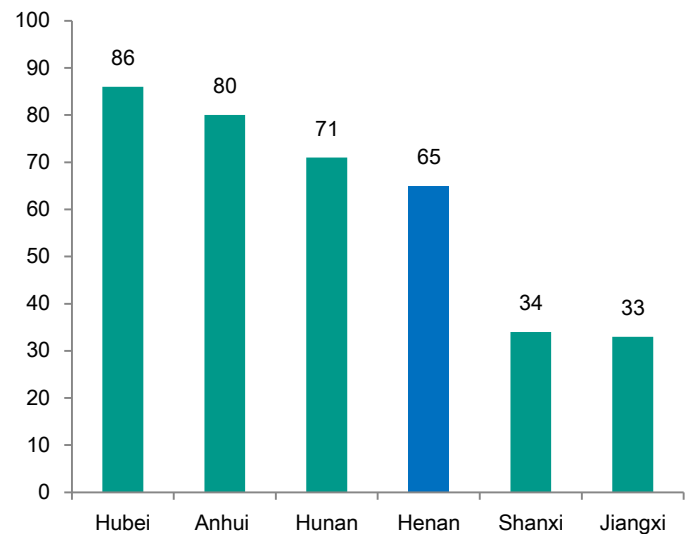
Source(s): Wind, ABCI Securities

The securities brokerage market in Henan has a relatively small scale. The brokerage trading volume of stocks and funds in Henan only accounted for 64.0% of Henan’s GDP in 2013, compared to the national average of 169.8% and was lower than the 5 remaining provinces in central China (ranging from 64.6% to 114.6%). In addition, the brokerage trading volume of stocks and funds per capita in Henan was RMB 21,894 in 2013, lower than the national average of RMB 70,970 and was the least among the 6 provinces in central China. Accelerating urbanization and increasing disposable income per capita are expected to drive up securities brokerage demand steadily, however.

As of Dec 31, 2013, Henan had 65 A-share listed companies, the 4th highest among the 6 provinces in central China and representing 2.6% of all listed companies in China. As of Dec 31, 2013, the securitization ratio (total market capitalization of listed companies divided by nominal GDP) in Henan was 13.7%, lower than the national average of 42.1%. Henan government authorities intend to facilitate corporate financing by qualified corporations through IPOs, secondary offerings and bond offerings. It also aims to establish a Regional OTC Board to promote a multi-tiered capital market system. With the support of favorable economic policies, we believe Henan's securitization ratio will further increase, providing new market opportunities for local securities firms.

Exhibit 5: Securitization ratio among the six provinces in Central China as of Dec 31, 2013


Source(s): Wind, ABCI Securities

Exhibit 6: Number of domestically listed companies as of Dec 31, 2013


Source(s): Wind, ABCI Securities

Leading position in Henan's securities market

Exhibit 7: Market ranking of CCS in Henan

Criteria	Ranking or market share in Henan Province
Brokerage trading volume of stocks and funds	No.1 (2011-2013)
Revenue from securities branches	No.1 in 2013 with 28.9% market share
Balance of margin loans and securities lent	No.1 as at 31/12/2013 with 24.2% market share
Amount of equity financing underwritten	No.1 in 2012 and 2013
Amount of debt financing underwritten	No.2 in 2013; No.1 in 2012
No. of private companies recommended for share quotation and transfer on the NEEQ*	No.9 in 2013; No.1 in 2012

*National Equities Exchange and Quotation, (also known as the "New Third Board")
 Source(s): Company, ABCI Securities

CCS is a regional play in China's securities industry. Its strong business positioning in Henan differentiates itself from other large players in Henan.

According to SAC, in 2013, CCS was ranked 44th and 51st among all 115 PRC securities firms by total assets and net assets. In 2013, its revenue and net profit were ranked 40th and 43rd among PRC securities firms, representing 0.68% and 0.60% of the market share in China.

At end-2013, there were 52 securities firms with business presences in Henan. The top 10 securities firms commanded 83.1% of market share, as measured by revenue generated by securities branches in the province. In 2013, CCS had the highest local market share of 28.9%. We believe the Group's relatively larger branch network in Henan differentiates itself from larger, national counterparts. CCS's provincial market



share was higher than many reputable national players such as Guotai Junan, Galaxy, and Haitong in 2013.

Exhibit 8: The top ten securities firms with business presences in Henan in 2013

Ranking	Firm	Market share* (%)
1	Central China Securities	28.9
2	Minsheng Securities Co., Ltd.	15.3
3	Donghai Securities Co., Ltd.	8.9
4	Guotai Junan Securities Co., Ltd.	7.0
5	New Times Securities Co., Ltd.	5.4
	Top 5	65.5
6	China Investment Securities Co., Ltd.	5.0
7	China Galaxy Securities Co., Ltd.	4.9
8	Haitong Securities Co., Ltd.	3.6
9	Founder Securities Co., Ltd.	2.1
10	Zhong Cheng Securities Brokerage Co., Ltd.	2.0
	Top 10	83.1

* Market share is calculated based revenue generated by securities branches in Henan
Source(s): The Securities and Futures Association of Henan, ABCI Securities

Extensive branch network and customer base in Henan

The securities market in Henan is highly centralized and concentrated in Zhengzhou, the capital city of Henan. As of Dec 31, 2013, there were 77 securities branches in Zhengzhou, accounting for ~43.8% of total branches in Henan. The Group has the largest number of branches in Henan. As of Dec 31, 2013, CCS had 46 securities branches in Henan, representing 26.1% of total in the province.

About 92.0%, 91.3% and 89.3% of the Group's revenue and other income from securities brokerage business in 2011-13 were originated from Henan, respectively. The Group strategically located its branch network across major cities in China such as Beijing, Shanghai and Shenzhen. As of Dec 31, 2013, it had 62 securities branches and 5 futures branches. CCS had over 1.34mn securities brokerage clients and over 10,800 futures brokerage clients. In terms of customer loyalty, about 67.9% CCS's clients have retained a relationship with the Group for over 5 years. The Group's extensive branch networks in Henan will benefit from the development of regional brokerage business.

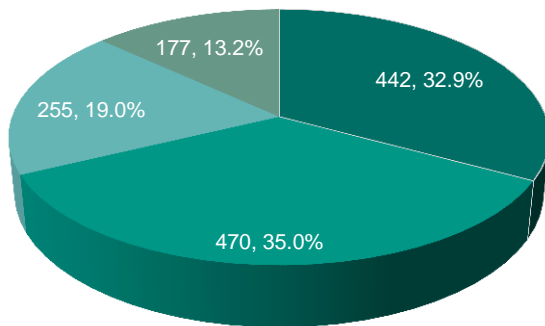


Exhibit 9: CCS's branch network in China as of Dec 31, 2013



Source(s): Company, ABCI Securities

Exhibit 10: Customers' account-holding period in 2013
 (Thousand clients, %)



- ≥10 years
- <10 years and ≥ 5 years
- < 5 years and ≥ 3 years
- < 3 years

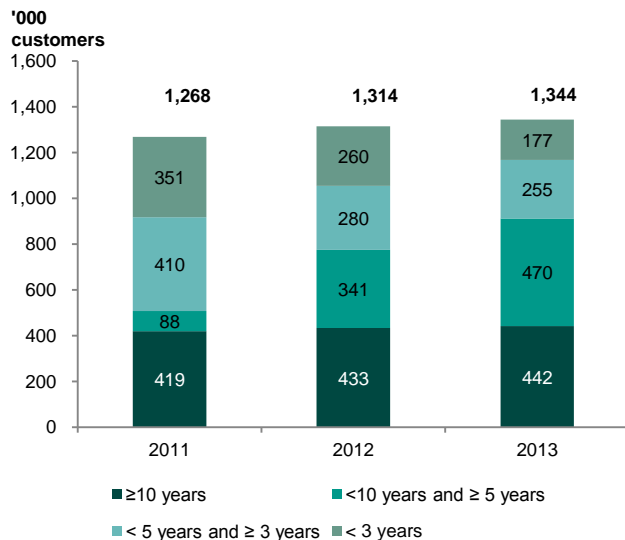
Source(s): Company, ABCI Securities

Exhibit 11: CCS's client mix

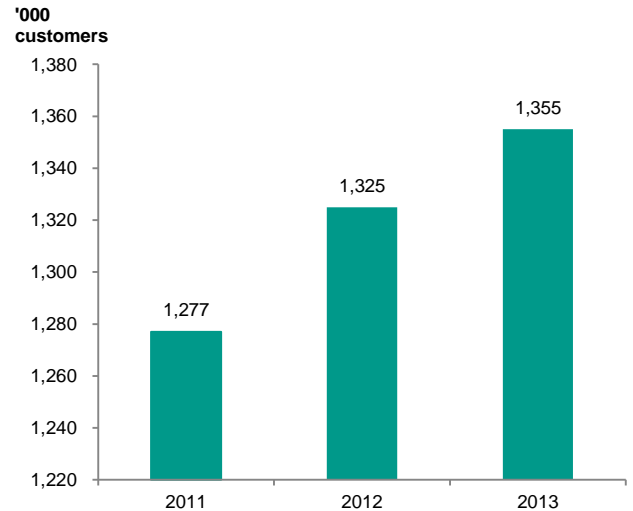
(As of Dec. 31)

(In thousand)	2013	2012	2011
Securities brokerage clients			
-Retail clients	1,343	1,314	1,268
-Institutional clients	1	1	1
Total securities brokerage clients	1,344	1,315	1,269
-Futures brokerage clients	11	10	8
Total clients	1,355	1,325	1,277
Of which:			
% Clients based in Henan	94.8%	95.2%	95.5%

Source(s): Company, ABCI Securities

Exhibit 12: Customers' account-holding period


Source(s): Company, ABCI Securities

Exhibit 13: CCS's client base growth


Source(s): Company, ABCI Securities

Brokerage business continues to be a key driver

Contribution of CCS's segment revenue and other income from securities brokerage business to total revenue decreased from 73.1% in 2011 to 47.3% in 2013 and 36.1% in 1H14. Due to the intense competition, average securities brokerage commission rates have decreased in recent years though the decline has slowed since 2012. With the rise of online discount brokerage providers, however, the competition may rise again and drive down commission rate. In response, securities firms strive to provide more value-added services to mitigate the impacts of decreasing rate. The Group's MFSL business has grown rapidly since its inception, which helps stabilize brokerage commission rates and increase brokerage trading volume. We believe that the business would continue to be a key driver of revenue and profit growth for CCS.

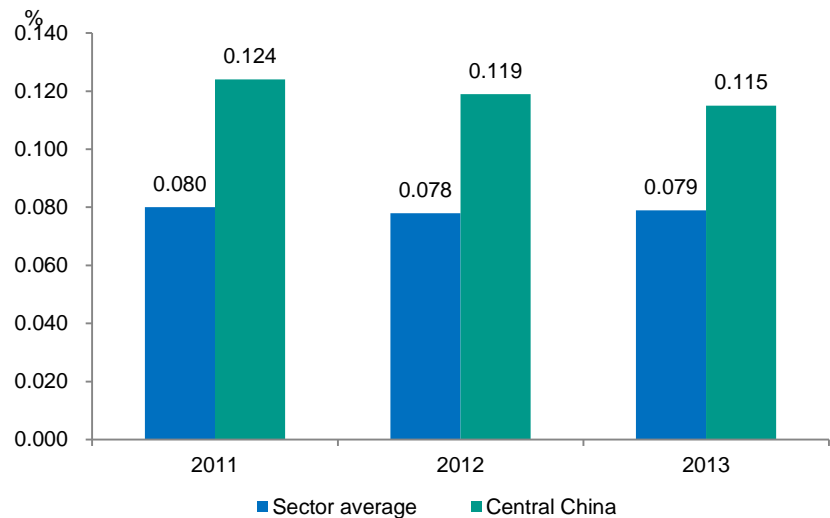
Brokerage commission rate under pressure

Henan's brokerage sector is relatively fragmented. There are a total of 52 securities brokerage firms with business presences in the province as of 2013. Intense price competition in recent years has led to lower commission rates in CCS's securities brokerage business. Overall, the sector's average commission rate declined from 0.095% in 2010 to 0.079% in 2013.

Sinolink Securities and Tencent jointly introduced Yong Jin Bao, an internet-based financial product that provides online brokerage, brokerage fund management, and investment advisory services, in Feb 2014. The product offers a flat commission rate of 2bps (vs. current sector average of 7.9bps); hence, the sector's commission rate will be pressured in the medium term. CCS's average securities brokerage commission rates were 0.124%, 0.119% and 0.115% in 2011-13, respectively, higher than the sector average during the period.



Exhibit 14: Brokerage commission rate (%)



Source(s): Wind, ABCI Securities

We expect the emergence of online discount brokerage firms, which offer lower commission rates than the conventional brokers, would drive down commission rate in the medium term. In our view, securities firms would continue to accelerate development in innovative business and seek for more product differentiation. To mitigate the adverse impacts, CCS also plans to implement several strategies as follows:

1. Diversify revenue sources and improve average securities brokerage commission rates by developing value-added wealth management business;
2. Provide comprehensive investment and financing services by transiting traditional brokerage branches to comprehensive securities and financial services platforms;
3. Increase cross-selling among different business lines and attract more high-end individual customers

Accelerating the transition of brokerage business

As of Mar 31, 2014, CCS has completed the transition of 36 key securities branches to comprehensive securities and financial services platforms that provide integrated brokerage, investment banking and investment management services.

CCS also seeks to enhance operational efficiency and cost reduction opportunities. The Group started to establish "light branches", which are small-sized branches of less than 200sq.m with fewer on-site staff, in. These light branches enable CCS to expand network coverage and capture local markets in locations outside Henan more swiftly at lower costs.

In addition, CCS encourages the use of alternative trading platform that integrates middle and back office functions. In 2013, 83% of CCS's securities brokerages were completed through their online platform. In early 2014, CCS launched the electronic securities platform, which enables the Group to expand customer reach and reduce operating costs. Going forward, we expect CCS to improve this online platform by enhancing customer experience and offering more diverse wealth management products.

CCS's also plans to develop more high-net-worth clients. According to the 2013 Hurun Wealth Report, there were 18,700 high-net-worth individuals in Henan as of Dec 31, 2012. CCS's also plans to develop more high-net-worth clients.by enhancing the company's wealth management functions in branches, as well as utilizing the cross-selling synergy from its investment bank division and asset management division.

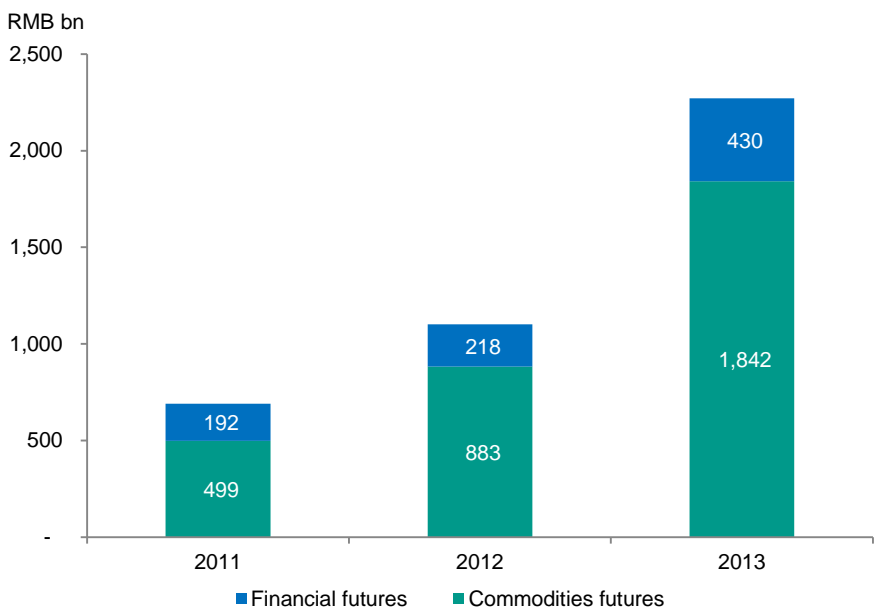


Futures brokerage

CCS provides futures brokerage services through its subsidiary, Central China Futures, which is a member of the Shanghai Futures Exchange, the Zhengzhou Commodity Exchange, the Dalian Commodity Exchange and the China Financial Futures Exchange. As of Dec 31, 2013, CCS offers all of the futures products available in China, including 38 commodity futures (such as agricultural products, bullion, chemical products and metals etc.) and 2 financial futures, namely (i.e. stock index futures and treasury-bond futures).

As of Dec 31, 2013, CCS had 10,800 futures customers, representing a 17.3% CAGR over 2011-13. Futures brokerage revenue grew 31.8% CAGR over the same period. As we expect regulators to include more futures types in the future, we expect increasing contribution from this segment to contribute to 5-6% of total revenue in 2015E-16E.

Exhibit 15: CCS's futures mix



Source(s): Company, ABCI Securities

According to CCS, the Group's total brokerage trading volume of stocks and funds was ranked 1st in Henan from 2011-2013, accounting for ~ 24.6%, 24.3% and 24.1% of total in Henan in 2011-13, respectively.

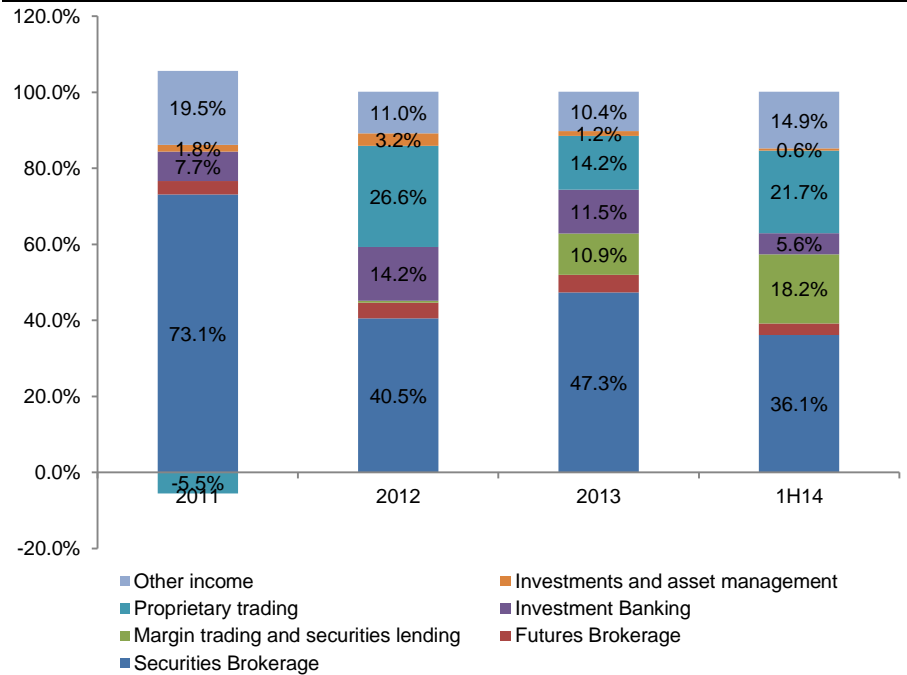
New earnings driver from innovative businesses

The Group is actively developing various types of capital-based intermediary businesses, including MFSL, securities-backed lending, and securities repurchase. Balance of MFSL in China surged from RMB 38.2bn in 2011 to RMB 1,502.1bn in 2013, representing a CAGR growth of 199.4%. The Group obtained the qualification for the MFSL business from CSRC in June 2012 and launched the business subsequently in July 2012.

MFSL business has grown rapidly since its launch in July 2012, and the balance of the Group's margin loans and securities lending increased from RMB 2,267mn as of Dec 31, 2013 to RMB 7,407mn as of Dec 31, 2014, up 227% YoY. Separately, securities repurchase business and securities-backed lending business were launched in Oct 2012 and Aug 2013.

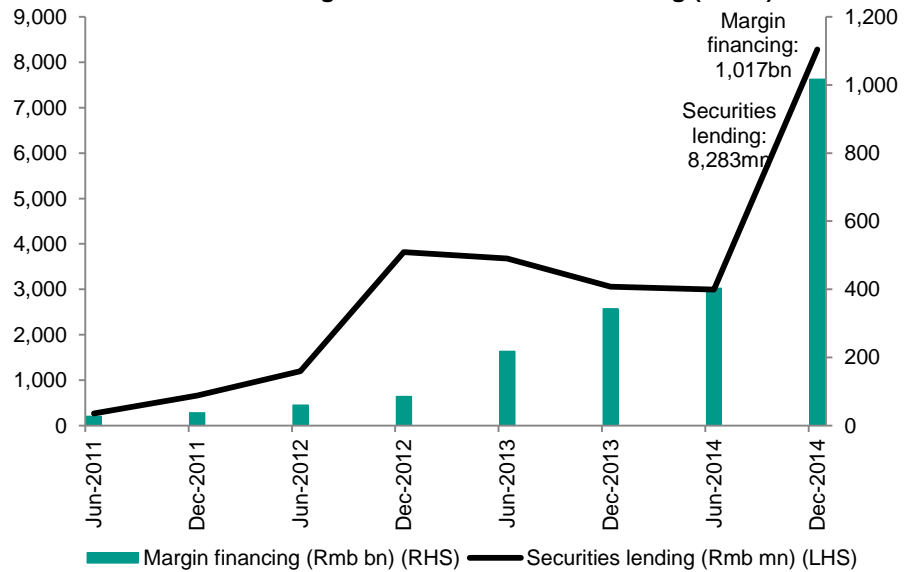


Exhibit 16: CCS's revenue mix



Source(s): Company, ABCI Securities

Exhibit 17: Balance of margin loans and securities lending (MFSL) in China



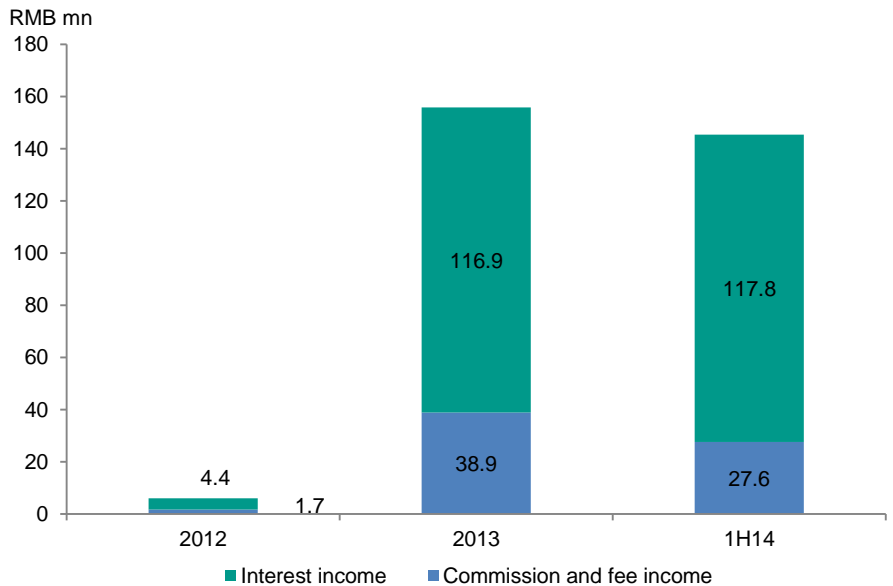
Source(s): Wind, ABCI Securities



Currently, the interest rates for CCS's margin financing and securities lending are 3.0% and 5.0% above the PBOC benchmark interest rate for 6-month loans. MFSL clients are allowed to provide securities quoted on the Shenzhen Stock Exchange (SZSE) and the Shanghai Stock Exchange (SSE) as collaterals.

MFSL business generates both interest income and brokerage commission income from customers' margin trade. In 2012, 2013 and 1H14, CCS's segment revenues from MFSL business were RMB 6.1mn, RMB 155.8mn and RMB 145.4mn, respectively.

Exhibit 18: Income from CCS's margin financing and securities lending business (RMB mn)



Source(s): Company, ABCI Securities

CCS was ranked 1st in Henan in MFSL balance as of Dec 31, 2013, representing ~24.2% of the local market share. Nationally, the Group's market share increased from 0.24% in 2012 to 0.65% and 0.72% in Dec 31, 2013 and 2014. Despite its strong growth, MFSL balance only accounted for 4.0% of tradable A-share market cap. Nonetheless, we believe strong growth in the brokerage business and extensive customer base will help CCS's to capture new business opportunities going forward.



Considering CCS's core strength in client base, we expect its market share in MFSL to increase to 0.75%-0.8% in 2015E. As of Dec 31, 2013, a total of 88,874 of CCS's customers were eligible for a margin account; only 12,607 customers, representing 0.93% of total customers or 14.18% of eligible individuals had a margin account with CCS. Thus, we believe the room for growth is ample in coming years. In 1H14, segment revenue and other income MFSL business was RMB 145.4mn, representing 18.2% of total revenue (2013: 10.9%). With the deregulation in the financial industry, we expect capital-based intermediary business to become one of the Group's earning drivers.

Innovative business

Securities-backed lending and stock repurchase: In a stock repurchase transaction, investors obtain financing from brokers by transferring ownership of stock and agreeing to buy the shares back in the future (in no more than 1 year). Securities-backed lending was introduced in May 2013. For such lending, investors obtain funds from brokers by offering shares as collaterals to the stock exchange and agreeing to repay the amount in no more than 3 years. Compared with stock repurchase, securities-backed lending has longer tenors and allows the controlling shareholders to receive financing via their untradeable shares.

CCS launched its securities repurchase business in Oct 2012 and securities-backed lending business in Aug 2013. As of Dec 31, 2013, the balances of securities-backed lending and securities repurchase amounted to RMB 254.6mn and RMB 72.1mn. The interest rate charged for these services is generally comparable to that of the Group's margin financing service.

Individual stock option: An individual stock option refers to a standardized contract designed by the stock exchange in which a counterparty has the right to purchase, or sell, the underlying securities at a pre-determined price on a specified date. CCS is among the first batch of PRC securities firms involved in the pilot testing of individual stock options.

NEEQ market-making: NEEQ market-making refers to a service offered by a securities firm such that it continuously releases two-way quotations and transacts with investors in the NEEQ system. CCS can earn the bid-ask spread and commission fee rebates from such service to expand enhance its income source as well as investment banking capability.

Interest-rate swap: 2 counter-parties, usually based on a specified nominal amount, agree to exchange interest cash flows from a fixed rate to a floating rate (or vice versa) during a period to manage their interest risk exposure. The introduction of interest-rate swaps will diversify the Group's proprietary trading business and manage finance cost. Revenue will be mainly generated from interest-rate spreads and services fees.

CCS was qualified in May 2010 to provide recommendation services to help private companies enter into the NEEQ for share quotation and transfer. In 2012, CCS recommended 9 private companies for share quotation and transfer on the NEEQ, ranking first among all PRC securities firms. In 2011, financial advisory business ranked 1st among all PRC securities firms in terms of revenue growth.

Led by the Henan government, CCS also intends to assist in the establishment of the "Regional OTC Board" in the province that will enable local SMEs to obtain financing and transfer shares with greater flexibility.



Valuation

In view of the improved market efficiency and accelerated internationalization of China's capital market, we expect the Group's future earnings will be supported by increased balance sheet leverage as well as its businesses in brokerage, capital-based intermediary, and investment banking. Potential risks to the counter include downturn in A-share market, slowdown in China's economy, intensifying commission price war, and the group's failure to expand financing channels.

We value CCS with the three-stage dividend discount model (DDM), which we believe to be an appropriate and commonly used valuation method for brokerage firms. Besides, DDM can also reflect the high growth in near term driven by China's economic growth, further monetary easing, and CCS's leading position in Henan's securities industry supportive to future dividend payments. Our derived TP of HK\$ 9.10 is based on the 2015E BVPS. We assume a cost of equity at 14.0%, a long-term growth rate of 7.9% and a sustainable ROAE of 17.5%.

Relative valuation

According to the Bloomberg consensus, A-share brokerage sector on average is trading at 3.5x 2015E P/B; the H-share brokers, including CCS, CITICS(6030 HK), CGS (6881 HK) and HTS (6837 HK), are trading at a weighted average of 2.0x 2015E P/B. The higher valuation in the A-share market may reflect different investor structure between A/H share markets. A-share market is retail investors-oriented, whereas H-share market is institutional investors-oriented.

CCS is currently trading at 2.5x 2015E P/B, higher than the 2.1x, 1.8x and 1.7x for CITICS, HTS and CGS, respectively. We believe the Group deserves a premium valuation based on its leading position in brokerage, margin financing, and investment banking businesses in Henan province. Transforming into a full-service provider, the Group will continue to strengthen its regional advantage in brokerage and investment banking business while expanding its capital-based intermediary businesses. Positive on its business prospects, we initiate our coverage with a **BUY** rating.



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Fee and commission income	737	953	1,461	2,119	2,653
Interest income	143	287	440	642	847
Investment income	321	159	280	367	438
Other income	17	36	50	57	69
Total Revenue	1,218	1,435	2,231	3,184	4,007
Operating costs	(961)	(1,096)	(1,513)	(2,161)	(2,788)
Operating Profits	257	338	718	1,024	1,218
Associates & JCEs	0	0	0	0	0
Profit before tax	257	338	718	1,024	1,218
Tax	(74)	(100)	(216)	(307)	(365)
Profit after tax	183	238	503	717	853
Minority interests	(0)	(15)	(15)	(15)	(15)
Net Profits	183	223	488	702	838
Growth (%)					
Revenue	26.1	17.7	55.5	42.7	25.8
Operating EBITDA	15.9	14.0	38.0	42.8	29.0
Operating EBIT	87.6	31.6	112.4	42.5	19.0
Net profit	97.1	22.3	118.4	43.8	19.4
Operating performance (%)					
Operating margin (%)	21.1	23.6	32.2	32.1	30.4
Net margin (%)	15.0	15.6	21.9	22.0	20.9
Effective tax rate	28.7	29.5	30.0	30.0	30.0
Dividend payout (%)	0.0	0.0	50.0	50.0	50.0
ROAE (%)	4.9	5.6	9.3	10.5	11.5
ROAA (%)	1.6	1.8	2.8	3.1	3.2
Segmental revenue (RMB mn)					
Securities Brokerage	494	679	762	886	901
Futures Brokerage	50	67	107	132	160
Margin trading and securities lending	6	156	536	1,031	1,434
Investment Banking	173	165	291	425	617
Proprietary trading	324	204	321	393	470
Investments and asset management	39	17	43	80	94
Other income	132	147	171	238	331

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Fixed assets	272	257	276	296	315
Goodwill	7	7	7	7	7
Other intangible assets	32	47	61	79	103
Investment securities	89	40	32	26	26
Other non-current assets	382	522	546	572	598
Total non-current assets	783	873	922	979	1,049
Cash & equivalents	998	570	1,281	704	402
Cash held for clients	4,370	3,963	4,280	4,708	5,179
Trading securities	3,400	3,439	4,196	4,830	5,371
Investment securities	83	391	450	472	496
Other current assets	1,570	4,312	9,547	12,627	15,720
Total current assets	10,420	12,675	19,753	23,341	27,168
Total assets	11,203	13,548	20,675	24,320	28,217
Accounts payable	5,209	4,994	5,219	4,958	4,710
Other current liabilities	2,154	4,480	9,092	12,420	15,894
Total current liabilities	7,362	9,474	14,311	17,378	20,604
Issued bonds	-	-	-	-	-
Other non-current liabilities	3	0	0	0	0
Total non-current liabilities	3	0	0	0	0
Total liabilities	7,365	9,474	14,311	17,378	20,604
Net current assets	3,058	3,201	5,442	5,964	6,564
Equity attributable to owners of the parent	3,826	4,091	6,280	6,859	7,529
Minority interest	13	84	84	84	84
Total equity	3,839	4,175	6,364	6,943	7,613

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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