

China Brokerage Sector

Higher earnings visibility given favorable policy environment

We revised earnings forecasts for brokers under coverage and trimmed our TPs by 9% on average to reflect impact from macro uncertainty. Yet we remain constructive on the sector's performance given that 1) earnings visibility is clear in 2H19E (we estimate 49% YoY NP growth for covered brokers), and 2) favorable policy environment remains intact, on both liquidity front and capital market reforms. The sector still trades at 9% below historical avg. P/B minus 1 SD after recent rally. Maintain Outperform.

■ **1H19 results wrap: earnings powered by prop-trading gains; fee income trend diverged.** Seven China brokers we cover reported overall 30%/40% YoY growth of adj. op. revenue/net profit in 1H19. Top-line growth was mainly boosted by prop-trading gains on stock market recovery, partly offset by weak net interest income on contracted margin financing and SPL balance. Fee incomes were moderately up 7% YoY, with great divergence among peers in each business lines.

■ **Three reasons to stay constructive on the sector.** 1) On the macro front, government likely accelerates efforts to support economic growth, incl. further monetary easing, which will help rebuild investors' confidence on stock market. 2) Capital market reform was pushed forward gradually, with more favorable policies to boost market activity (see details in Figure 28). Leading players will benefit more and industry consolidation will likely intensify. 3) Low-base effect in 2H18 and policies protecting market sentiments will bring higher earnings visibility to brokers. Eight H-share listed large brokers reported 30%/31% YoY growth of revenue/net profit (parent company level) in 8M19, showing the earnings recovery still on track.

■ **Trimmed TPs by 9% on avg., and resumed coverage on HTS with BUY rating. Maintain Outperform on sector.** H-share China brokers now trade at 0.79x FY19E P/B, which is close to historical trough (0.73x) in Oct 2018, and 9% below historical avg. P/B minus 1 SD (0.87x). We still prefer market leaders with balanced revenue mix and strong franchise in investment banking and investment business. We believe they could stand out during China's capital market reform, as favorable policies will likely skew towards them to foster domestic competitiveness amid deepened opening-up. Maintain **CITICS and CICC as our top picks**. Given recent quick restore of market sentiment, we believe brokers with absolute low valuation, e.g. GFS and HTS, are likely to gain more in short-term.

Valuation Table

Name	Ticker	Price (HK\$)	TP (HK\$)	Rating	P/B (x) FY19E	P/E (x) FY19E	Yield FY19E	ROE FY19E
CITICS	6030 HK	15.42	18.70	BUY	1.04	14.6	2.7%	7.3%
CICC	3908 HK	14.56	17.20	BUY	1.23	14.6	1.2%	8.7%
HTSC	6886 HK	12.50	14.90	BUY	0.85	13.3	2.9%	6.5%
CSC	6066 HK	6.03	7.20	BUY	0.82	9.4	3.2%	8.9%
HTS	6837 HK	8.47	10.40	BUY	0.69	9.5	3.2%	7.5%
GFS	1776 HK	8.89	9.80	HOLD	0.66	8.4	3.6%	8.2%
CGS	6881 HK	4.13	4.50	HOLD	0.54	8.2	3.7%	6.8%
Average					0.83	11.1	2.9%	7.7%

Source: Bloomberg, CMBIS estimates

OUTPERFORM
(Maintain)

China Brokerage Sector

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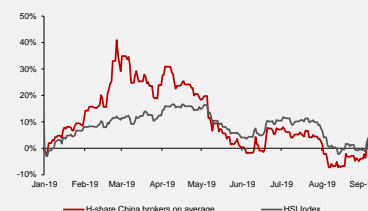
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Fwd rolling P/B of China brokers - H



Source: Bloomberg, CMBIS

2019YTD sector vs. HSI Index



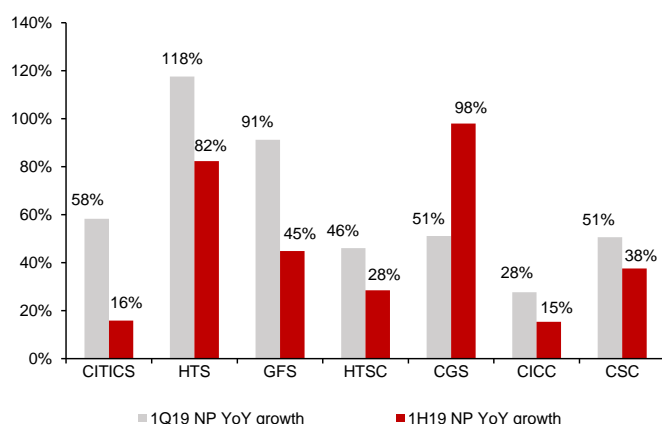
Source: Bloomberg, CMBIS

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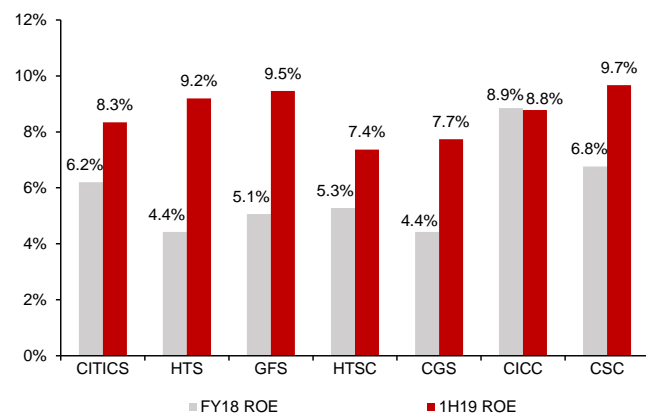
Comparison of key operating indicators in 1H19

Figure 1: 1H19 net profit YoY growth decelerated from 1Q19 as A-share market weakened



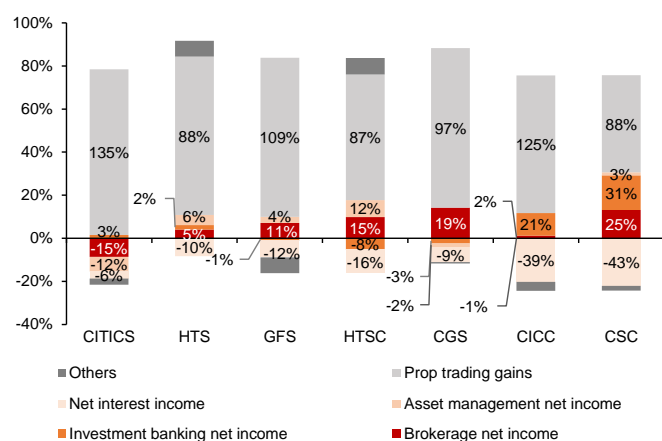
Source: Company data, CMBIS

Figure 2: Annualized ROE in 1H19 improved notably from FY18 on strong earnings rebound



Source: Company data, CMBIS

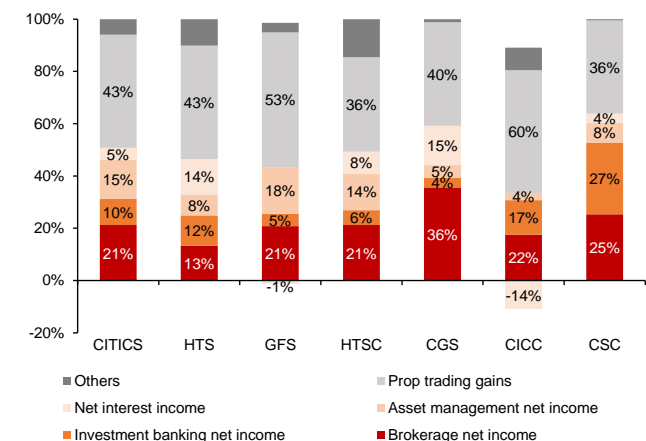
Figure 3: Prop-trading gains was the key driver of 1H19 op. revenue...



Source: Company data, CMBIS

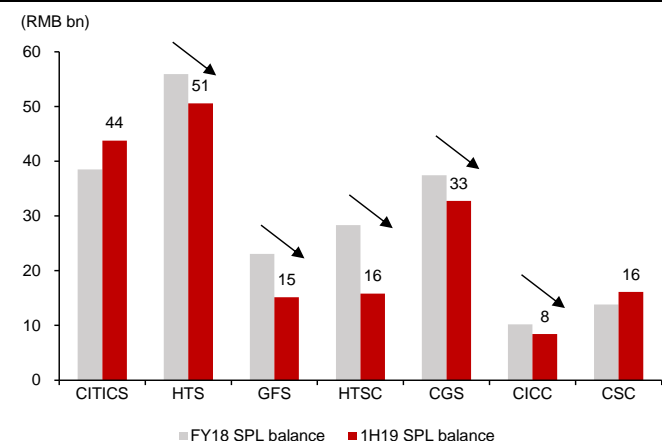
Note: measured by % of net YoY increase of business income/net YoY increase of op. revenue.

Figure 4: ...and remained the major contributor in op. revenue mix in 1H19



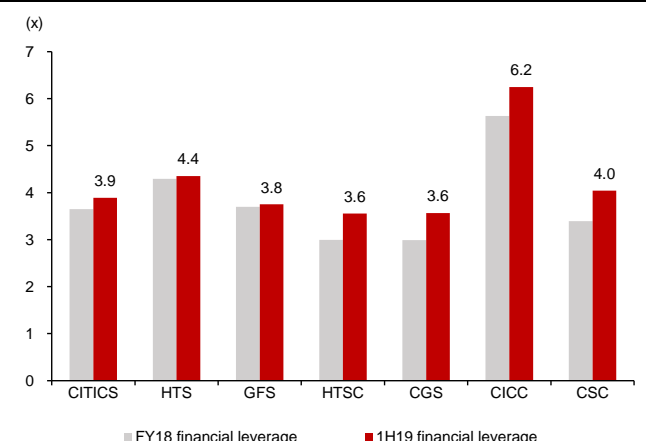
Source: Company data, CMBIS

Figure 5: Most brokers kept cutting down on their on-B/S SPL balances in 1H19



Source: Company data, CMBIS

Figure 6: Brokers raised their financial leverage to capture the recovering market trend



Source: Company data, CMBIS

Figure 7: 1H19 results summary of covered H-share China brokers

1H19	CITICS	HTS	GFS	HTSC	CGS	CICC	CSC
Earnings							
Adj. op. revenue	17,891	14,231	10,802	10,562	6,849	6,949	5,911
Net profit	6,446	5,527	4,140	4,057	2,595	1,880	2,330
YoY growth							
Adj. op. revenue	13%	52%	42%	33%	59%	17%	12%
Net profit	16%	82%	45%	28%	98%	15%	38%
Key ratios							
ROE	8.3%	9.2%	9.5%	7.4%	7.7%	8.8%	9.7%
ROA	1.9%	1.8%	2.1%	1.9%	1.8%	1.3%	2.1%
Financial leverage	3.9x	4.4x	3.8x	3.6x	3.6x	6.2x	4.0x
Investment yield	5.0%	5.6%	6.1%	4.0%	5.5%	5.1%	4.3%
Cost-to-income ratio	45%	36%	48%	48%	49%	65%	51%
YoY growth							
ROE	0.9ppt	4.0ppt	2.7ppt	0.3ppt	3.7ppt	0.3ppt	2.3ppt
ROA	0.1ppt	0.8ppt	0.6ppt	0.3ppt	0.8ppt	0.0ppt	0.5ppt
Financial leverage	0.2x	0.3x	0.1x	-0.1x	0.5x	0.8x	0.1x
Investment yield	0.9ppt	3.5ppt	3.3ppt	1.7ppt	4.8ppt	0.3ppt	0.4ppt
Cost-to-income ratio	-3ppt	-8ppt	-1ppt	0ppt	-5ppt	1ppt	-1ppt
2Q19							
I/S - QoQ growth							
Net fee and commission income	-3%	39%	4%	8%	14%	36%	24%
Brokerage	-5%	-2%	-1%	-1%	13%	0%	7%
Investment banking	-18%	82%	-30%	44%	48%	203%	47%
Asset management	6%	82%	26%	8%	0%	-10%	84%
Net interest income*	-44%	11%	-224%	-25%	-61%	334%	-145%
Prop trading gains*	-43%	-72%	-36%	-27%	-10%	27%	-13%
Adj. op. revenue	-20%	-29%	-39%	-26%	-10%	15%	-10%
Net profit	-49%	-53%	-58%	-54%	-31%	7%	-44%
B/S - QoQ growth							
Margin accounts	1%	-5%	-4%	-2%	4%	-1%	-8%
Reverse repos	20%	-8%	7%	-39%	-15%	-21%	51%
Financial investment	11%	1%	1%	31%	-4%	17%	5%
Customer brokerage deposits	-15%	-7%	-8%	-8%	-1%	28%	-2%
Total shareholder's equity	-1%	0%	1%	10%	0%	3%	-1%

Source: Company data, CMBIS

*: Due to change in accounting policy, 2Q19 net interest income and prop-trading gains are not comparable with that of 2Q18 and 1Q19.

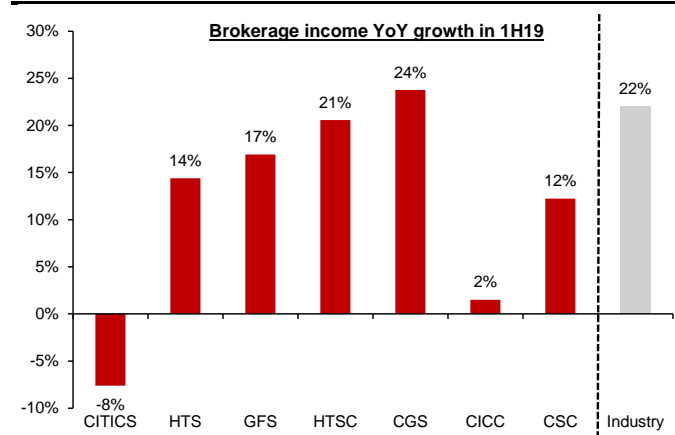
1H19 results wrap

Brokerage: retail-focused model played the lead

Brokers under our coverage recorded a 9% YoY growth of brokerage commission in 1H19, much lower than A-share market ADT growth of 30% YoY. This resulted from lower commission rates (though declining at a moderate pace) and market share loss amid intensifying competition, in our view.

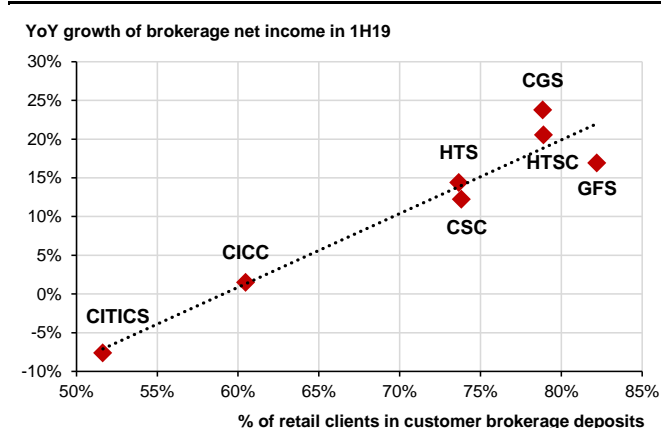
Performance of covered brokers varied. We believe it was the client mix that made the difference, as the market recovery in 1H19 was largely powered by retail investors' participation (Figure 9). CGS and HTSC, with strong retail franchise, posted highest commission growth that was similar to the industry's average. CITICS and CICC, on the other hand, lagged behind peers due to lower trading activity of institutional clients and lower ADT in overseas markets.

Figure 8: Brokerage commission of covered brokers posted an overall 9% YoY growth



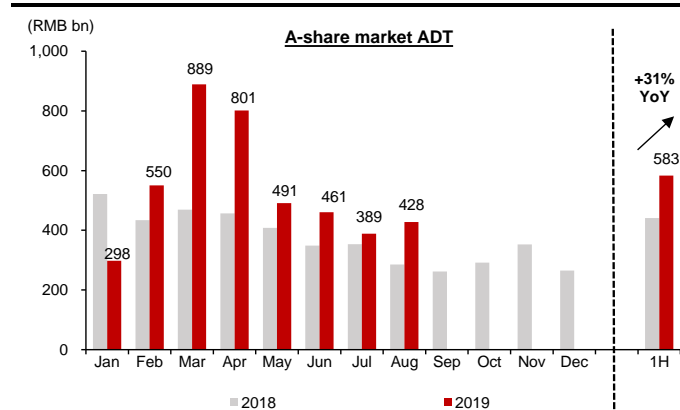
Source: Company data, SAC, CMBIS

Figure 9: Brokers with higher % of retail clients delivered higher growth of brokerage income 1H19



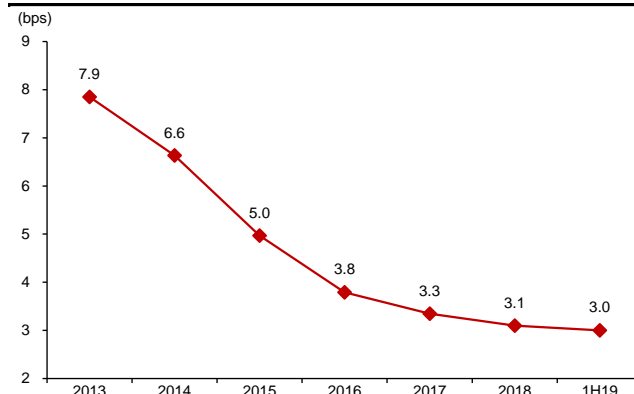
Source: Company data, CMBIS

Figure 10: A-share ADT grew 31% YoY in 1H19 though cooled down since May



Source: Wind, CMBIS

Figure 11: Decline of industry brokerage commission rate moderated



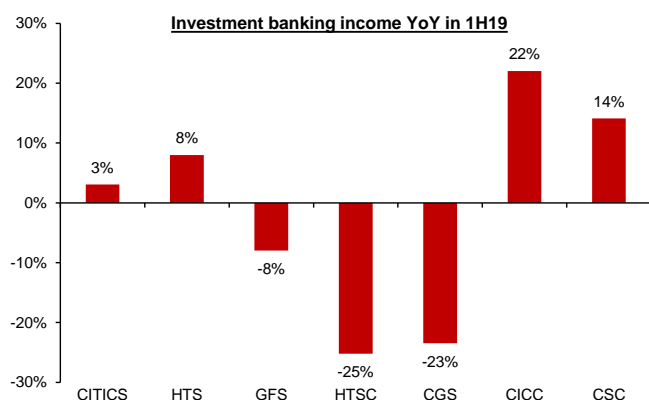
Source: SAC, CMBIS

Investment banking: industry consolidation persists

Covered brokers' investment banking income grew moderately 4% YoY amid a mixed financing market in 1H19, with equity underwriting amount down 13% YoY (in particular, IPO underwriting amount shrank 34% YoY) but debt underwriting amount up 61% YoY.

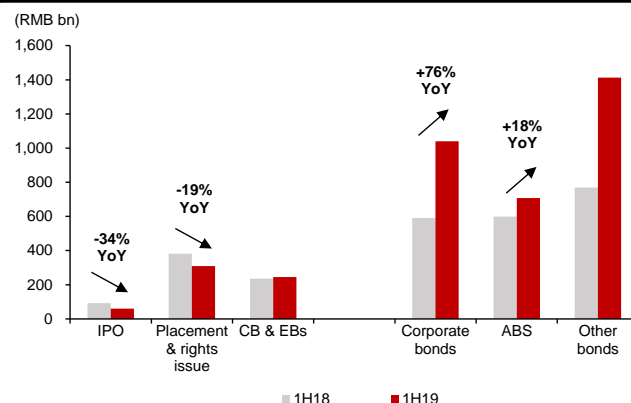
Leaders in investment banking business maintained their strength with resilient market shares. CICC stood out with the highest YoY growth thanks to its overseas equity financing business. HTSC posted a disappointing 25% YoY decline mainly due to muted domestic IPO underwriting. With the launch of STAR Market in Jul, we believe the industry consolidation may further intensify.

Figure 12: Overall investment banking income of covered brokers increased 4% YoY



Source: Company data, CMBIS

Figure 13: Equity financing market shrank while debt underwriting amount surged



Source: Wind, CMBIS

Figure 14: Market share ranking by domestic equity underwriting amount

Rank(#)	Name	Equity underwriting		IPO underwriting	
		1H19	FY18	1H19	FY18
1	CITICS	19.9%	15.3%	25.0%	9.3%
2	CSC	10.4%	12.6%	8.0%	9.6%
4	HTSC	9.0%	11.6%	0.7%	14.2%
5	CICC	7.6%	9.9%	9.8%	26.8%
6	GFS	4.5%	1.8%	1.7%	2.8%
10	HTS	2.4%	3.9%	1.8%	1.8%
17	CGS	1.2%	0.8%	0.0%	1.4%
Top 5		57%	58%	56%	66%
Top 10		73%	73%	74%	78%

Source: Wind, CMBIS

Figure 15: Market share ranking by domestic debt underwriting amount

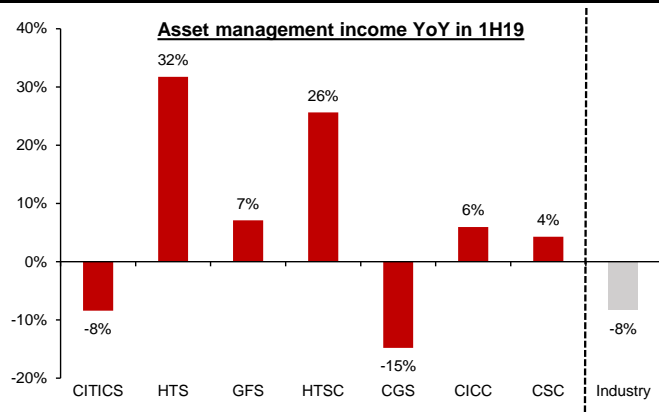
Rank(#)	Name	Debt underwriting		Corp. bond underwriting	
		1H19	FY18	1H19	FY18
1	CITICS	12.3%	13.6%	6.9%	8.5%
2	CSC	12.2%	10.6%	16.4%	13.2%
3	CICC	7.7%	6.7%	4.3%	3.6%
5	HTS	5.6%	4.7%	4.0%	5.1%
8	HTSC	4.5%	3.5%	2.0%	2.5%
9	GFS	3.3%	2.8%	2.0%	3.5%
23	CGS	0.9%	1.6%	0.9%	1.5%
Top 5		43%	44%	39%	38%
Top 10		66%	63%	55%	56%

Source: Wind, CMBIS

Asset management: Enhanced active management capabilities to offset contracting AUM

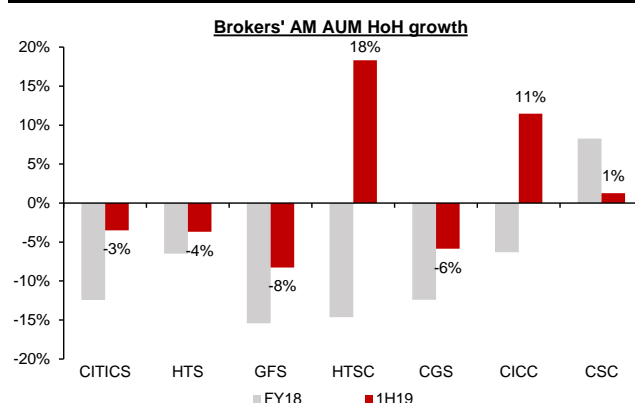
Asset management income of our covered brokers increased moderately 6% YoY against an 8% YoY decline of the industry. The different trend could be explained by 1) more moderate decline of AUM of asset mgmt. business (even a positive growth for HTSC and CICC) as brokers optimized their AUM structure according to the new asset mgmt. rules, 2) enhanced active management capabilities that led to higher fee rates (e.g. HTS/HTSC/GFS), and 3) robust growth from fund mgmt. business (e.g. PE fund mgmt. for CICC).

Figure 16: Covered brokers reported an overall 6% YoY growth in AM income



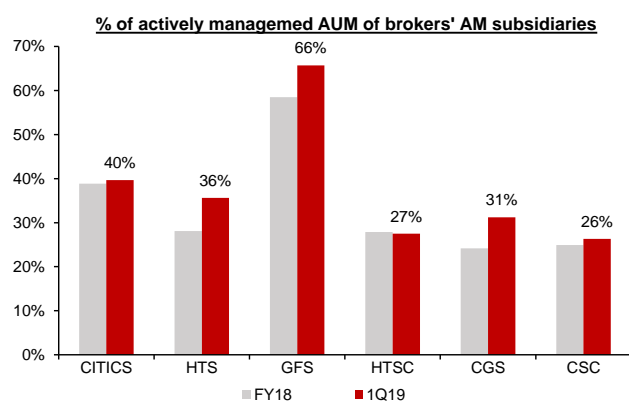
Source: Company data, CMBIS

Figure 17: Brokers' AM AUM contraction became milder or back to positive growth in 1H19



Source: Company data, CMBIS

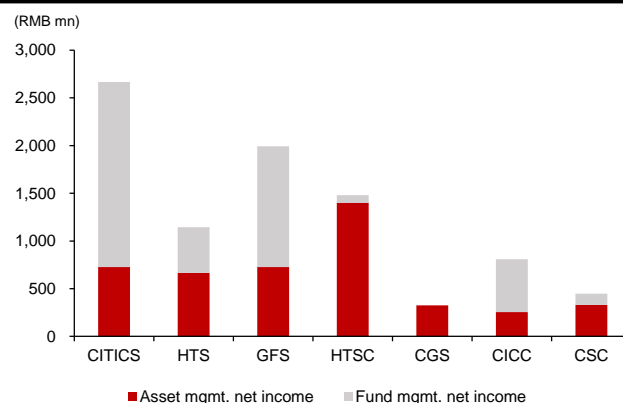
Figure 18: Brokers were enhancing their active management capability



Source: AMAC, CMBIS

Note: measured by monthly avg. balance; CICC's data is not available.

Figure 19: AM net income structure of covered brokers in 1H19



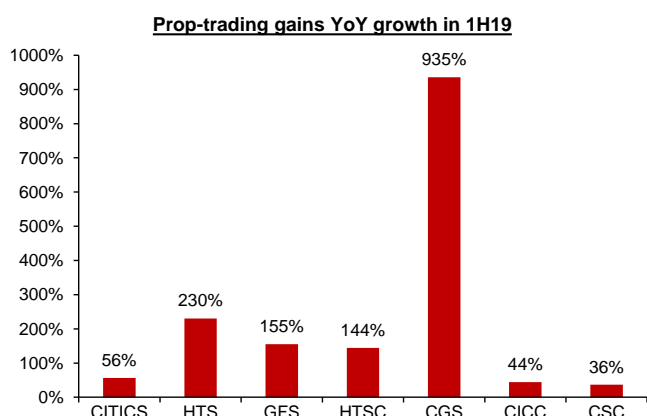
Source: Company data, CMBIS

Prop trading: Marked growth on stock market recovery; QoQ outlook may be volatile

All brokers recorded a significant growth in prop-trading gains in 1H19. The average investment yield of covered brokers improved from 3.2% in FY18 to 4.0% in 1H19, though lower than average of 6.2% in 1Q19 as the market fever cooled down since 2Q19. Most brokers added position in fixed income, while CITICS/HTSC/CICC/CSC increased equities in trading financial assets HoH, which we believe was due to hedging demands for customer-driven derivatives.

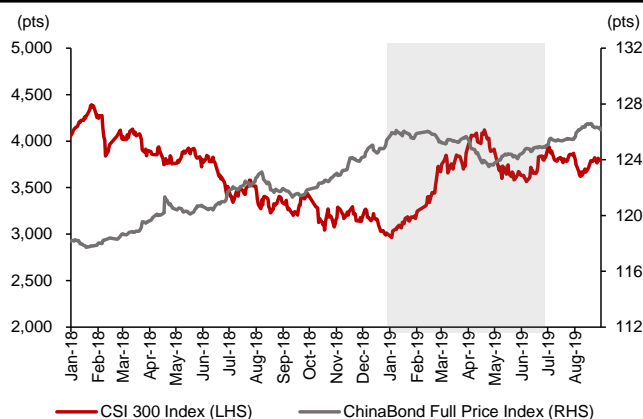
As stock market volatility increased, QoQ prop-trading gains may be more volatile. CICC and CSC delivered relatively stable investment yields across FY18 and 1H19. Those with higher exposure to fixed income and stronger capabilities in derivative business should have more stable prop-trading gains going forward, in our view.

Figure 20: Covered brokers reported dramatic growth of prop-trading gains in 1H19...



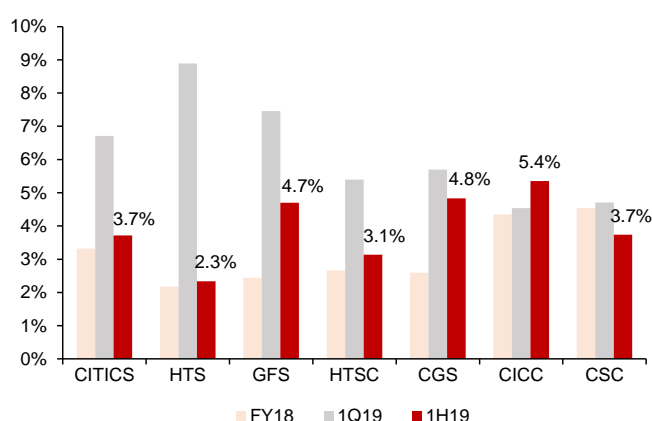
Source: Company data, CMBIS

Figure 21: ... when China's stock market outperformed the bond market



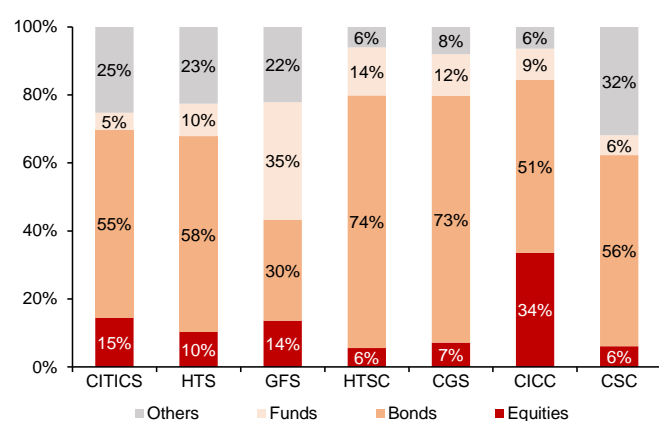
Source: Wind, CMBIS

Figure 22: 1H19 invt. yield retreated from 1Q19 when stock market went down in 2Q19



Source: Company data, CMBIS

Figure 23: Trading invt. asset breakdown for covered brokers in 1H19



Source: Company data, CMBIS

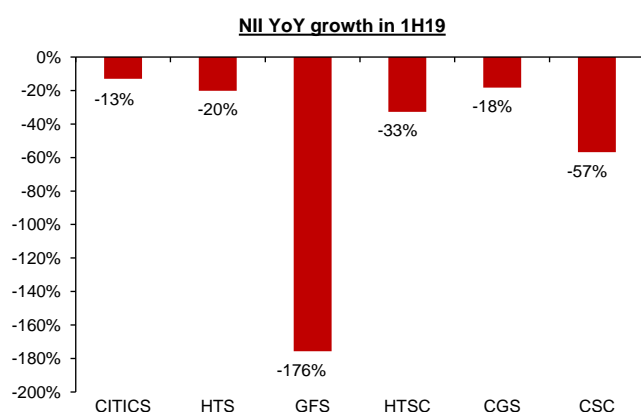
Credit business: lower financing costs to help improve profitability; SPL risks controllable

The NII of covered brokers saw YoY decline in 1H19, mainly due to YoY contraction of margin financing (though expanded HoH) and SPL business more than offsetting lower funding costs (-0.4ppt YoY on avg. for covered brokers). As the demand for margin financing picked up gradually and more measures were rolled out to replenish liquidity of leading brokers (e.g. raising quota of short-term financing instruments, allowing leading players to issue financial bonds, etc.), the NII should see better trend in 2H19E.

The risks of SPL business are largely controllable, in our view, due to 1) brokers' actively cutting-down on balances, and 2) market recovery that lifts maintenance coverage ratio. CITICS and HTSC have set aside more sufficient provisions for SPLs (measure by provision for reverse repos vs. on-B/S SPLs), while CGS, with the highest SPL/equity ratio, had the lowest provision level (Figure 27).

Most covered brokers no longer aim to aggressively expand their exposure in SPLs. They now focus more on adjusting client mix and seek business opportunities from synergies with other business (e.g. investment banking, WM, etc.). HTSC even mentioned during results briefing that it would continue to reduce SPL balance, because it believed that the business was risky for brokers as they could not track the fund flows of borrowers.

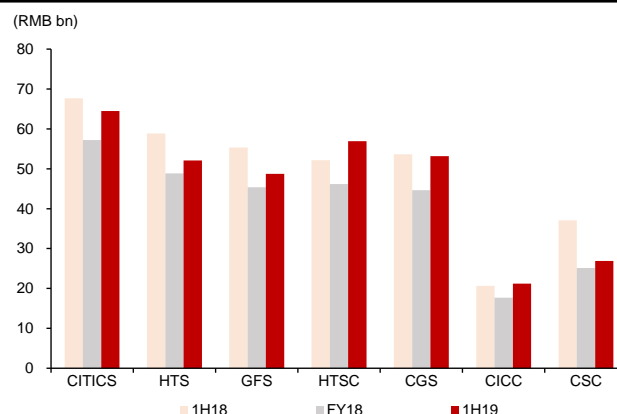
Figure 24: Total NII of covered brokers declined 38% YoY in 1H19



Source: Company data, CMBIS

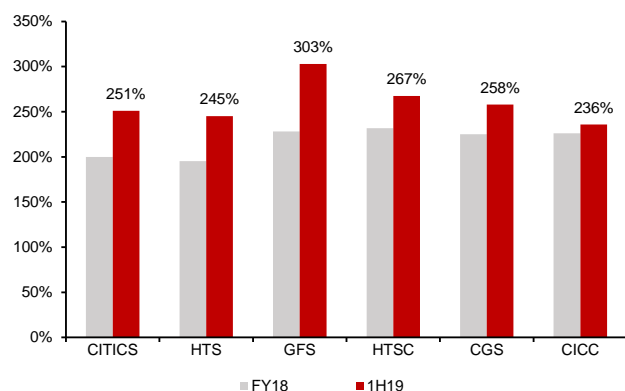
Note: CICC recorded a 70% YoY increase of net interest loss in 1H19.

Figure 25: Margin accounts balance increased HoH but decreased YoY



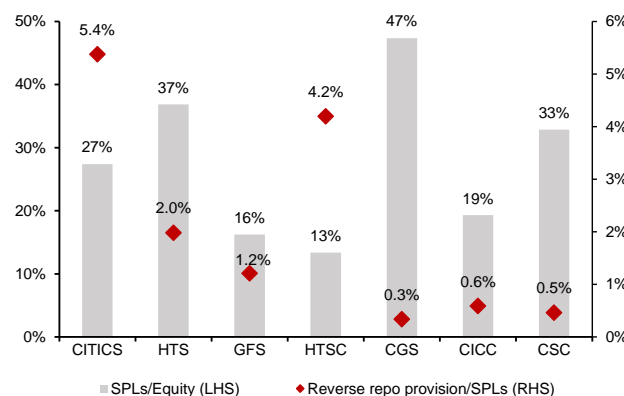
Source: Company data, CMBIS

Figure 26: Maintenance coverage ratio of SPLs improved significantly in 1H19



Source: Company data, CMBIS; Note: CSC's data is not available.

Figure 27: SPL exposure and provision for SPLs of covered brokers



Source: Company data, CMBIS

Favorable policy environment remains intact; further market reforms likely drive up divergence

Policy environment remains favourable regarding both the macro front and the industry itself. The domestic stock market geared up after the recent State Council meeting signalled roll-out of further stimulus. Though macro uncertainty still exists and China-US trade tension may face continuing capricious changes, we believe government's policy tools will provide a "floor" for market sentiment.

Figure 28 showed some initiatives rolled out recently by regulators that benefit the broker sector, including boosting margin financing business and direct financing. Meanwhile, regulators marginally tightened requirement for high-risks business (e.g. SPLs). For new and innovative businesses, regulators prefer to allow few leading players to first conduct through pilot schemes (Figure 29), which we believe will gradually lead to heavier industry consolidation. Going forward, we would expect more policies regarding direct financing and mid- to long-term funds' participation in stock market.

Figure 28: Recent policies that benefit the capital market and brokers

Date	Measures	Key contents
8 Aug	CSF lowered the refinancing rate	Lower the refinancing rate by 80bps.
9 Aug	SSE and SZSE revised rules on margin financing and securities lending	1) Expand the scope of stock eligible for margin financing and securities lending from 950 to 1,600, covering ~80% of total market cap. 2) Remove the min. requirement for maintenance coverage ratio of 130% and allow brokers to set the required level based on each client's specific credit condition. 3) Accept other securities assets acknowledged by brokers as collaterals in addition to cash, stocks and bonds.
9 Aug	CSRC issued a consultation paper on revision of the calculation of brokers' risk management indicators	1) Lower the risk capital requirement for brokers' investment in blue chips and stock index fund. 2) Lower the weighting in calculating risk capital for brokers which were rated AA or above for three consecutive years from 0.7 to 0.5 3) Raise the risk capital requirement for SPL business, both on- and off-B/S 4) Set capital requirement for innovative businesses, e.g. credit derivatives, options, ABS, investment in STAR Market, etc.
23 Aug	CSRC issued a consultation paper on listed companies' spinning-off and domestic IPO of subsidiaries	Allow listed companies that meet certain requirements (e.g. listed time, net profit, the dependency of subsidiary, etc.) to spin off subsidiary and go public in domestic stock market.

Source: CSF, CSRC, CMBIS

Figure 29: Covered brokers' qualification for certain pilot products or businesses

	Securities lending for STAR Market stocks	OTC options primary dealer	Cross-border business	Forex settlement and sales
CITICS	✓	✓	✓	✓
HTS	✓		✓	
GFS		✓*	✓	
HTSC	✓	✓	✓	✓
CGS	✓		✓	
CICC		✓	✓	
CSC	✓	✓	✓	

Source: CSF, CSRC, CMBIS

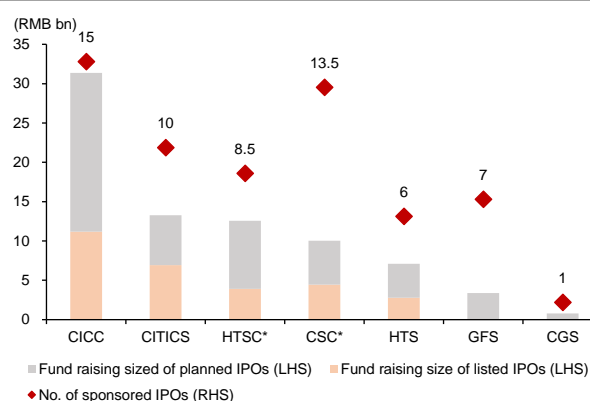
*: GFS was banned from expanding the scale its OTC options business for six months by CSRC.

Operating environment of brokers remains largely healthy, though cooled down after 1Q19. 2HTD A-share ADT was still 38% higher than that in 2H18, with margin financing and securities lending demands gradually climbing up. On 5 Sep, eight H-share listed large brokers reported revenue/ net profit (parent company level) growth of 30%/31% YoY in 8M19, showing on track earnings recovery. Given low base in 2H18, the earnings visibility was relatively high.

We see STAR Market as a major highlight in 2H19E and as a short-term factor that could drive the divergence of listed brokers' performance, as it could bring incremental business opportunities in several business lines: 1) investment banking business, with higher fee rate (8% on avg. for STAR Market listed stocks vs. 5% in 1H19 for other boards); 2) securities lending, as shown in Figure 33, the securities lending demands for STAR Market stocks surged and accounted for ~30% of total market securities lending balance. The interest rate could be as high as 14-18%; 3) investment gains, as sponsors are required for mandatory investment in the IPO. Currently, listed stocks gained 165% on average since listing. The sponsors could partly hedge the investment risks through securities lending.

Currently, among 29 listed stocks on the STAR Market, 5.5/4/3.5/2 were sponsored by CSC/CITICS/HTSC/CICC, with a total market share of 52%. The four brokers also lead the market in total no. of sponsored IPOs, total fund raising size and est. mandatory investment size, therefore should be major beneficiaries from the new board in 2H19E.

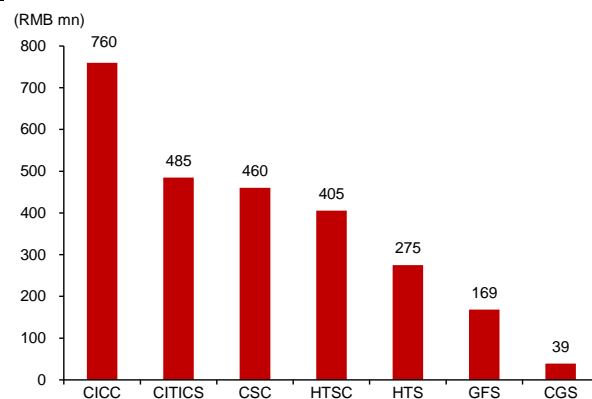
Figure 30: H-share listed China brokers' sponsored IPO applications on Tech Board



Source: SSE, Wind, CMBIS

*: 0.5 indicates two joint-sponsors in one IPO. Note: data as of 31 Aug.

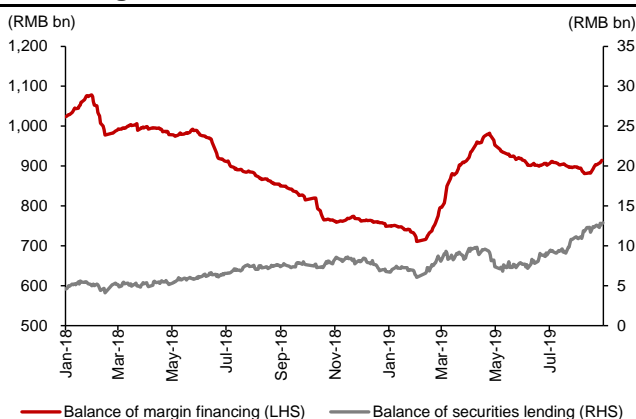
Figure 31: Estimated investment into STAR Market IPOs by sponsors



Source: SSE, Wind, CMBIS

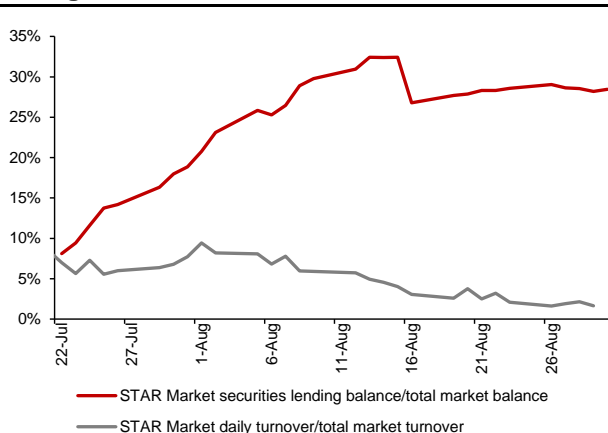
Note: Assume that joint sponsors will equally share the investments.

Figure 32: Margin financing and securities lending outstanding balance of the market



Source: Wind, CMBIS

Figure 33: % STAR Market daily turnover/securities lending to total market size



Source: Wind, CMBIS

Earnings revision and TP changes

We revised our key assumptions for market indicators in 2019E-21E, mainly to reflect 1H19 actual market data and our expectation on 1) weaker A-share ADT; 2) stronger demand for margin financing and securities lending; 3) higher IPO underwriting amount primarily boosted by the STAR Market in 2H19E.

Figure 34: Revision of major market indicator assumptions

(RMB bn)	2018	1H19	2H19E	2019E			2020E		2021E	
				New	Old	Change	New	Old	New	Old
Stock and fund trading ADT	414	626	445	532	559	-5%	612	643	704	739
Incl. A-share ADT	371	583	400	489	514	-5%	563	591	648	680
Commission rate (bps)	3.1	3.0	2.9	3.0	3.0	-1%	2.8	2.9	2.7	2.9
Margin financing and securities lending	756	911	975	975	914	7%	1,101	1,061	1,222	1,209
Equity financing underwriting	1,197	612	808	1,420	1,344	6%	1,599	1,520	1,800	1,720
IPO	138	60	145	205	179	15%	238	215	276	257
Follow-on offering	1,060	552	663	1,215	1,166	4%	1,360	1,305	1,524	1,462
Debt financing underwriting	5,610	3,160	3,291	6,630	6,451	3%	7,491	7,290	8,316	8,092

Source: Wind, CMBIS estimates

Based on our new market assumptions and after adjusted for 1H19 results, we revised covered brokers FY19E/FY20E/FY21E net profit forecasts by 4%/-2%/-3% on average. The upward revision for some brokers was mainly due to a higher assumption for investment yields.

Figure 35: Net profit forecast revision

Name	Ticker	New (RMB mn)			Old (RMB mn)			Diff (%)		
		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
CITICS	6030 HK	11,465	13,663	15,639	12,329	14,689	16,699	-7%	-7%	-6%
CICC	3908 HK	3,805	4,391	5,033	3,989	4,831	5,579	-5%	-9%	-10%
HTSC	6886 HK	7,294	8,875	9,939	8,098	9,430	10,776	-10%	-6%	-8%
CSC	6066 HK	4,388	4,888	5,561	4,179	4,908	5,690	5%	0%	-2%
HTS	6837 HK	9,180	9,063	10,888	N/A	N/A	N/A	N/A	N/A	N/A
GFS	1776 HK	7,270	7,408	8,642	6,410	7,747	9,232	13%	-4%	-6%
CGS	6881 HK	4,606	4,998	5,704	3,701	4,368	4,988	24%	14%	14%

Source: CMBIS estimates

We apply higher COE assumptions for covered brokers to reflect impact from increased macro uncertainties on the stock market, and higher HK\$/RMB assumption (from previously 0.880 to 0.897). As a result, we cut TP for covered China brokers by 9% on average.

Figure 36: Target price and rating changes

Name	Ticker	TP (HK\$)			Rating		COE assumption		
		New	Old	Change	New	Old	New	Old	Change
CITICS	6030 HK	18.70	21.30	-12%	BUY	BUY	9.8%	9.3%	6%
CICC	3908 HK	17.20	18.60	-8%	BUY	BUY	9.8%	9.3%	6%
HTSC	6886 HK	14.90	18.20	-18%	BUY	BUY	9.8%	9.3%	5%
CSC	6066 HK	7.20	8.00	-10%	BUY	BUY	10.2%	9.6%	6%
HTS	6837 HK	10.60	N/A	N/A	BUY	N/A	10.2%	N/A	N/A
GFS	1776 HK	9.80	10.00	-2%	HOLD	HOLD	10.9%	11.3%	-4%
CGS	6881 HK	4.50	4.70	-4%	HOLD	HOLD	10.5%	9.6%	9%

Source: CMBIS estimates

Valuation of China brokers

Figure 37: CITICS's forward rolling P/B



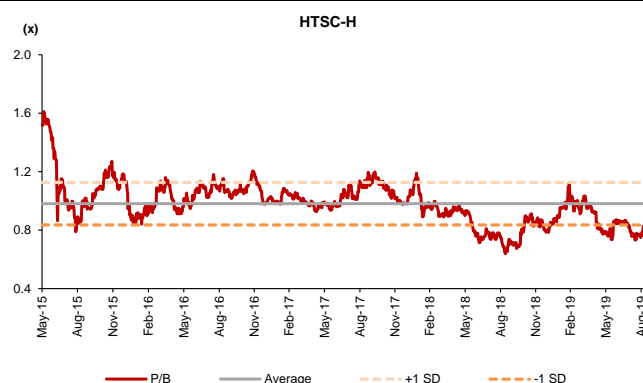
Source: Bloomberg, CMBIS estimates

Figure 38: CICC's forward rolling P/B



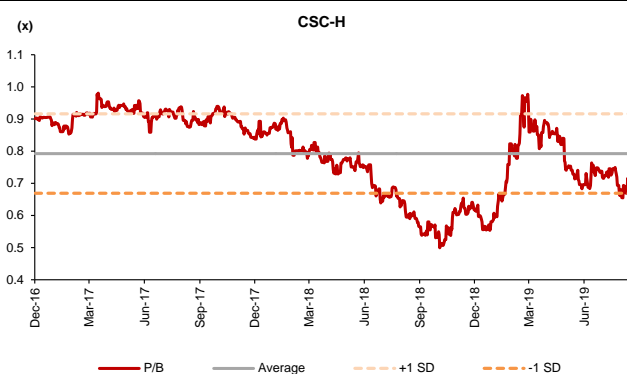
Source: Bloomberg, CMBIS estimates

Figure 39: HTSC's forward rolling P/B



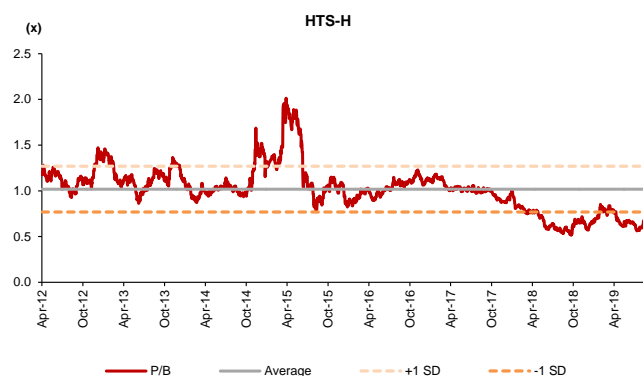
Source: Bloomberg, CMBIS estimates

Figure 40: CSC's forward rolling P/B



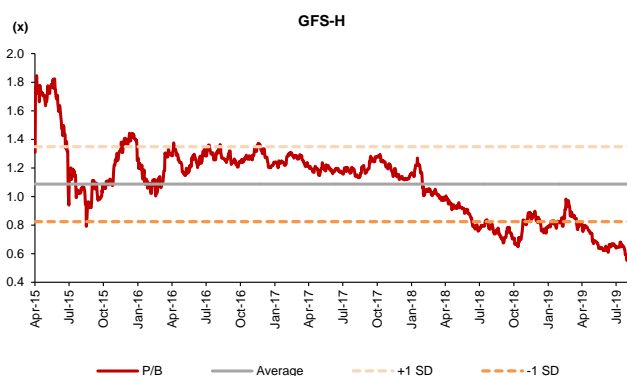
Source: Bloomberg, CMBIS estimates

Figure 41: HTS's forward rolling P/B

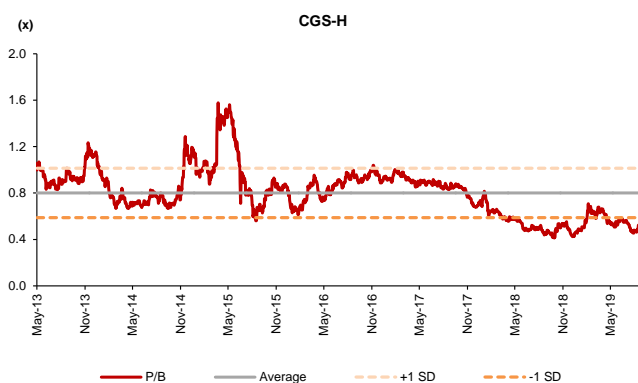


Source: Bloomberg, CMBIS estimates

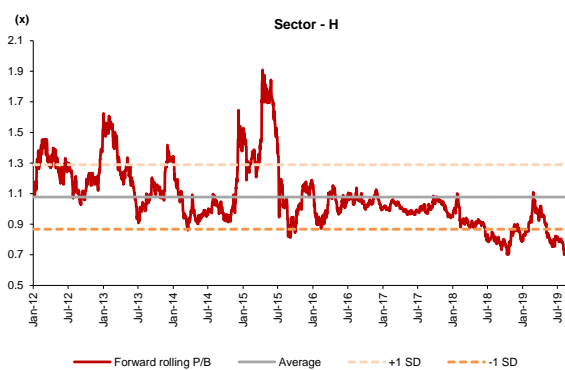
Figure 42: GFS's forward rolling P/B



Source: Bloomberg, CMBIS estimates

Figure 43: CGS's forward rolling P/B

Source: Bloomberg, CMBIS

Figure 44: Sector's forward rolling P/B

Source: Bloomberg, CMBIS

Haitong Securities (6837 HK)

Diversified revenue streams with undemanding valuation

We resume coverage on HTS with a BUY rating. We like the Company's strong overseas franchise (i.e. Haitong Int'l) and more diversified revenue streams (incl. Haitong Bank and Haitong Unitrust Leasing). These, together with mitigated SPL risks and strong earnings rebound expectation in FY19E have yet to be reflected in its current valuation, in our view.

- **1H19 results wrap:** HTS reported 1H19 adj. op. revenue of RMB 14.2bn, up 52%/82% YoY, mainly driven by soaring prop-trading gains (+2.3x YoY) and decent growth of AM fees (+32% YoY) thanks to its enhanced active management capabilities. Lower cost-to-income ratio (-8ppt to 36% in 1H19) more than offsetting the surged provision (+51% YoY), leading to higher bottom-line YoY growth of 82%. 2Q19 net profit declined 53% QoQ as market retreat reduced prop-trading gains and increased impairment losses for margin financing and SPLs.
- **Strong international business franchise with diversified revenue streams.** In 1H19, overseas business/finance leasing contributed 26%/10% to HTS's op. revenue, respectively. We think these businesses are less correlated to domestic stock market. Haitong Int'l (665 HK, NR), HTS's overseas platform, has strong franchise in FICC and institutional services. The turnaround of Haitong Bank will also help with the profitability of overseas business. In addition, HTS has completed the spin-off IPO of Haitong Unitrust (1905 HK, BUY). The expansion of finance leasing will generate more stable revenue than brokerage business.
- **Mitigated SPL-related risks should alleviate market concern.** HTS's valuation has been under pressure due to its large size of SPL business (highest among listed peers by outstanding balance ended 1H19), in our view. But we see the risks largely manageable going forward, as 1) the Company continued to reduce on-B/S SPL scale (-10% HoH), and 2) maintenance coverage ratio improved notably (+50ppt HoH to 245%) from market recovery.
- **Resume coverage with BUY rating and TP at HK\$ 10.40.** We forecast HTS's net profit will grow 76% YoY in FY19E. HTS now trades at 0.69x FY19E P/B, 10% below its historical average P/B minus 1 SD (0.77x) and 13% below sector's average (0.79x). Our TP of HK\$ 10.40 is derived from 3-stage DDM, implying 0.85x FY19E P/B and 23% upside potential. **Downside risks:** 1) weaker-than-expected overseas (esp. HK) stock market ADT; 2) rising bad loan risks from leasing business due to macro downturn.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. op. revenue (RMB mn)	24,497	18,772	24,960	25,385	28,960
Net profit (RMB mn)	8,618	5,211	9,180	9,063	10,888
EPS (RMB)	0.75	0.45	0.80	0.79	0.95
EPS CHG (%)	7	(40)	76	(1)	20
P/E (x)	10.1	16.8	9.5	9.6	8.0
P/B (x)	0.74	0.74	0.69	0.66	0.62
Yield (%)	3.0	2.0	3.2	3.1	3.7
ROAE (%)	7.6	4.4	7.5	7.0	7.9
Financial leverage (x)	3.9	4.3	4.4	4.4	4.4

Source: Company data, Bloomberg, CMBIS estimates

BUY (Resume)

Target Price	HK\$ 10.40
Up/Downside	+22.8%
Current Price	HK\$ 8.47

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	162,022
Avg 3 mths t/o (HK\$ mn)	105.31
52w High/Low (HK\$)	11.50/ 6.31
Total Issued Shares (mn)	3,410 (H)
	8,092 (A)

Source: Bloomberg

Shareholding Structure

Bright Food	3.05%
Shanghai Haiyan	3.48%
CSF	2.99%

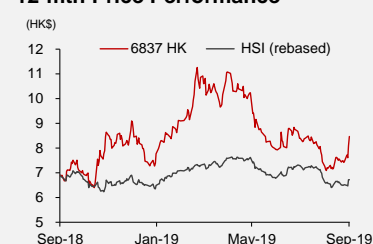
Source: Company data

Share Performance

	Absolute	Relative
1-mth	8.6%	10.2%
3-mth	1.9%	2.8%
6-mth	-25.9%	-19.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Figure: HTS's quarterly results summary

(RMB mn)										
I/S	3Q18	4Q18	1Q19	2Q19	QoQ	2Q18	YoY	1H18	1H19	YoY
Net fee and commission income	1,675	2,657	2,032	2,830	39%	2,234	27%	4,183	4,863	16%
Brokerage	733	616	960	936	-2%	758	23%	1,657	1,896	14%
Investment banking	374	1,319	585	1,062	82%	949	12%	1,525	1,647	8%
Asset Management	536	521	406	738	82%	421	75%	868	1,144	32%
Net interest income*	1,049	843	915	1,019	11%	1,201	-15%	2,420	1,934	-20%
Prop trading gains*	510	1,614	4,835	1,330	-72%	606	120%	1,869	6,166	230%
Adj. op. revenue	3,806	5,611	8,298	5,932	-29%	4,394	35%	9,356	14,231	52%
Adj. op. expenses	(2,294)	(3,104)	(2,715)	(2,462)	-9%	(1,977)	25%	(4,156)	(5,177)	25%
PPoP	1,512	2,506	5,584	3,470	-38%	2,417	44%	5,199	9,054	74%
Provision	(561)	8	(265)	(785)	196%	(517)	52%	(698)	(1,050)	51%
Pre-tax profit	951	2,118	5,318	2,685	-50%	1,900	41%	4,501	8,004	78%
Income tax expense	(317)	887	(1,219)	(716)	-41%	(432)	66%	(1,042)	(1,936)	86%
Net profit	557	1,623	3,770	1,756	-53%	1,299	35%	3,031	5,527	82%
B/S	3Q18	4Q18	1Q19	2Q19	QoQ	2Q18	YoY	FY18	1H19	HoH
Margin accounts	51,235	48,861	54,870	52,096	-5%	58,869	-12%	48,861	52,096	7%
Financial investment	182,402	208,248	227,011	228,963	1%	190,678	20%	208,248	228,963	10%
Reverse repos	83,224	82,679	71,274	65,831	-8%	98,081	-33%	82,679	65,831	-20%
Customer brokerage deposits	72,134	71,894	96,780	90,371	-7%	83,032	9%	71,894	90,371	26%
Total shareholder's equity	117,742	117,859	122,649	122,395	0%	116,999	5%	117,859	122,395	4%
Ratios	3Q18	4Q18	1Q19	2Q19	QoQ	2Q18	YoY	1H18	1H19	YoY
ROAE	1.9%	5.5%	12.5%	5.7%	-6.8ppt	4.4%	1.3ppt	5.2%	9.2%	4.0ppt
ROAA	0.4%	1.1%	2.5%	1.1%	-1.4ppt	0.9%	0.2ppt	1.1%	1.8%	0.8ppt
Leverage	4.2x	4.2x	4.3x	4.3x	0.1x	4.2x	12.4x	4.1x	4.4x	0.3x
Investment yield	1.1%	3.3%	8.9%	2.3%	-6.6ppt	1.4%	1.0ppt	2.1%	5.6%	3.5ppt
Cost-to-income ratio	59%	55%	32%	41%	8ppt	44%	-3ppt	44%	36%	-8ppt

Source: Company data, CMBIS

*: Due to change in accounting policy, 2Q19 net interest income and prop-trading gains are not comparable with that of 2Q18 and 1Q19.

Individual broker's financial summary

CITICS (6030 HK, BUY, TP: HK\$ 18.70)

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	8,045	7,429	6,720	7,527	8,524
Investment banking fee	4,406	3,639	3,867	5,328	5,849
Asset management fee	5,715	5,834	5,370	5,830	6,508
Net interest income	2,405	1,568	1,602	1,408	1,741
Prop-trading gains	12,713	8,901	13,819	15,949	17,765
Others	1,860	2,869	2,080	2,107	2,165
Adj. op. revenue	35,143	30,239	33,458	38,149	42,552
Adj. op. expenses	(17,249)	(15,563)	(15,885)	(18,403)	(20,319)
PPoP	17,895	14,676	17,573	19,747	22,233
Provision	(1,721)	(2,211)	(1,571)	(1,311)	(1,150)
Pre-tax profit	16,174	12,466	16,003	18,436	21,083
Income tax expense	(4,196)	(2,589)	(4,079)	(4,255)	(4,874)
Minority interests	(544)	(487)	(459)	(517)	(570)
Net profit	11,433	9,390	11,465	13,663	15,639

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	69,478	74,291	89,533	91,659	99,821
Clearing reserves	27,873	24,922	28,882	32,735	37,668
Margin accounts	73,983	57,198	68,637	76,874	86,099
Reverse repos	114,592	67,370	70,739	74,276	78,732
Financial investments	237,380	299,297	365,143	394,354	421,959
Other assets	102,269	130,054	141,674	139,112	140,350
Total assets	625,575	653,133	764,607	809,010	864,630
Customer brokerage deposits	99,855	97,774	118,183	120,990	132,762
Short-term debts	160,984	164,700	232,494	251,094	270,538
Long-term debts	107,342	118,082	127,383	136,279	145,798
Other liabilities	104,251	115,746	121,762	126,518	130,946
Total liabilities	472,432	496,301	599,822	634,881	680,043
Total shareholders' equity	149,799	153,141	160,910	170,060	180,314
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	3,344	3,691	3,875	4,069	4,272

Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue mix					
Brokerage commission	23%	25%	20%	20%	20%
Investment banking fee	13%	12%	12%	14%	14%
Asset management fee	16%	19%	16%	15%	15%
Net interest income	7%	5%	5%	4%	4%
Prop-trading gains	36%	29%	41%	42%	42%
Others	5%	9%	6%	6%	5%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-15%	-8%	-10%	12%	13%
Investment banking fee	-18%	-17%	6%	38%	10%
Asset management fee	-10%	2%	-8%	9%	12%
Net interest income	2%	-35%	2%	-12%	24%
Prop-trading gains	54%	-30%	55%	15%	11%
Adj. op. revenue	3%	-14%	11%	14%	12%
PPoP	10%	-18%	20%	12%	13%
Net profit	10%	-18%	22%	19%	14%
Total assets	5%	4%	17%	6%	7%
Efficiency					
Cost-to-income ratio	48%	51%	47%	47%	47%
Leverage					
Adj. financial leverage (x)	3.6	3.7	4.0	4.1	4.1
Investment/ equity	158%	195%	227%	232%	234%
Profitability					
ROE	7.8%	6.2%	7.3%	8.3%	8.9%
ROA	1.9%	1.5%	1.6%	1.7%	1.9%
Per share					
EPS (RMB)	0.94	0.77	0.95	1.13	1.29
DPS (RMB)	0.40	0.35	0.38	0.45	0.52
BVPS (RMB)	12.36	12.64	13.28	14.03	14.88

Source: Company data, CMBIS estimates

CICC (3908 HK, BUY, HK\$ 17.20)

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	2,779	2,617	2,761	3,225	3,701
Investment banking fee	2,791	3,171	2,984	3,392	3,911
Asset management fee	609	618	619	832	921
Net interest income	(288)	(1,199)	(2,035)	(2,178)	(2,230)
Prop-trading gains	4,008	5,786	7,792	8,395	9,185
Others	1,313	1,883	1,839	2,073	2,342
Adj. op. revenue	11,213	12,876	13,961	15,739	17,830
Adj. op. expenses	(7,671)	(8,415)	(9,070)	(10,084)	(11,334)
PPoP	3,542	4,462	4,891	5,654	6,495
Provision	59	(74)	(33)	(30)	(28)
Pre-tax profit	3,601	4,387	4,858	5,624	6,467
Income tax expense	(790)	(853)	(1,011)	(1,181)	(1,373)
Minority interests	(45)	(42)	(41)	(52)	(61)
Net profit	2,766	3,492	3,805	4,391	5,033

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	34,096	31,267	38,222	44,536	51,615
Clearing reserves	12,139	8,885	11,891	13,856	16,058
Margin accounts	21,883	17,716	21,791	23,970	25,888
Reverse repos	14,438	19,553	17,989	18,888	20,211
Financial investments	115,909	150,485	177,572	195,329	212,909
Other assets	39,346	47,514	59,601	59,964	61,375
Total assets	237,812	275,421	327,066	356,543	388,055
Customer brokerage deposits	47,347	41,318	50,071	57,896	67,100
Short-term debts	51,561	71,246	80,198	88,570	97,003
Long-term debts	49,934	61,993	73,151	79,003	84,534
Other liabilities	52,077	58,487	78,056	81,805	85,841
Total liabilities	200,919	233,044	281,476	307,275	334,477
Total shareholders' equity	36,707	42,184	45,377	49,034	53,332
Incl. Perpetual bonds	1,000	1,000	1,000	1,000	1,000
Minority interest	186	193	213	234	245

Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue mix					
Brokerage commission	25%	20%	20%	20%	21%
Investment banking fee	25%	25%	21%	22%	22%
Asset management fee	5%	5%	4%	5%	5%
Net interest income	-3%	-9%	-15%	-14%	-13%
Prop-trading gains	36%	45%	56%	53%	52%
Others	12%	15%	13%	13%	13%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	83%	-6%	6%	17%	15%
Investment banking fee	-14%	14%	-6%	14%	15%
Asset management fee	40%	1%	0%	35%	11%
Net interest income	-6%	317%	70%	7%	2%
Prop-trading gains	135%	44%	35%	8%	9%
Adj. op. revenue	52%	15%	8%	13%	13%
PPoP	49%	26%	10%	16%	15%
Net profit	52%	26%	9%	15%	15%
Total assets	133%	16%	19%	9%	9%
Efficiency					
Cost-to-income ratio	68%	65%	64%	63%	63%
Leverage					
Adj. financial leverage (x)	5.3	5.6	6.2	6.2	6.1
Investment/ equity	316%	357%	391%	398%	399%
Profitability					
ROE	10.0%	8.9%	8.7%	9.3%	9.8%
ROA	1.6%	1.4%	1.3%	1.3%	1.4%
Per share					
EPS (RMB)	0.76	0.83	0.89	1.03	1.19
DPS (RMB)	0.17	0.16	0.16	0.16	0.16
BVPS (RMB)	8.96	9.82	10.58	11.46	12.48

Source: Company data, CMBIS estimates

HTSC (6886 HK, BUY, HK\$ 14.90)

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	4,210	3,386	3,958	4,548	5,186
Investment banking fee	2,039	1,949	1,689	2,323	2,467
Asset management fee	2,306	2,624	3,282	3,660	4,091
Net interest income	3,600	2,567	1,662	1,789	1,924
Prop-trading gains	8,028	3,698	7,471	8,265	9,235
Others	1,564	1,400	1,556	1,658	1,741
Adj. op. revenue	21,746	15,624	19,618	22,244	24,644
Adj. op. expenses	(9,902)	(8,307)	(9,506)	(10,667)	(11,820)
PPoP	11,844	7,317	10,112	11,577	12,824
Provision	(259)	(868)	(547)	(346)	(245)
Pre-tax profit	11,585	6,449	9,564	11,231	12,579
Income tax expense	(2,177)	(1,288)	(2,179)	(2,246)	(2,516)
Minority interests	(131)	(128)	(91)	(110)	(124)
Net profit	9,277	5,033	7,294	8,875	9,939

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	49,872	42,902	58,217	62,847	72,274
Clearing reserves	16,579	19,068	19,406	22,445	25,812
Margin accounts	59,991	46,189	58,660	65,699	69,641
Reverse repos	61,805	43,557	23,956	22,040	21,599
Financial investments	129,134	148,975	245,809	270,390	289,317
Other assets	64,101	67,975	71,665	73,351	74,029
Total assets	381,483	368,666	477,712	516,772	552,672
Customer brokerage deposits	67,336	59,492	78,593	84,843	97,570
Short-term debts	58,608	70,048	110,685	127,058	135,188
Long-term debts	77,198	64,589	72,765	77,740	82,302
Other liabilities	89,751	69,786	93,818	99,129	103,010
Total liabilities	292,893	263,916	355,861	388,770	418,070
Total shareholders' equity	87,336	103,394	120,359	126,361	132,797
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	1,254	1,356	1,492	1,641	1,805

Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue mix					
Brokerage commission	19%	22%	20%	20%	21%
Investment banking fee	9%	12%	9%	10%	10%
Asset management fee	11%	17%	17%	16%	17%
Net interest income	17%	16%	8%	8%	8%
Prop-trading gains	37%	24%	38%	37%	37%
Others	7%	9%	8%	7%	7%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-22%	-20%	17%	15%	14%
Investment banking fee	-3%	-4%	-13%	38%	6%
Asset management fee	122%	14%	25%	12%	12%
Net interest income	3%	-29%	-35%	8%	8%
Prop-trading gains	102%	-54%	102%	11%	12%
Adj. op. revenue	28%	-28%	26%	13%	11%
PPoP	38%	-38%	38%	14%	11%
Net profit	48%	-46%	45%	22%	12%
Total assets	-5%	-3%	30%	8%	7%
Efficiency					
Cost-to-income ratio	45%	52%	48%	47%	47%
Leverage					
Adj. financial leverage (x)	3.6	3.0	3.3	3.4	3.5
Investment/ equity	148%	144%	204%	214%	218%
Profitability					
ROE	10.8%	5.3%	6.5%	7.2%	7.7%
ROA	2.4%	1.3%	1.7%	1.8%	1.9%
Per share					
EPS (RMB)	1.30	0.66	0.84	0.98	1.10
DPS (RMB)	0.00	0.30	0.32	0.39	0.44
BVPS (RMB)	12.19	12.53	13.26	13.92	14.63

Source: Company data, CMBIS estimates

CSC (6066 HK, BUY, TP: HK\$ 7.20)

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	3,046	2,291	2,597	2,905	3,342
Investment banking fee	3,348	3,135	3,672	3,846	4,333
Asset management fee	1,179	961	907	984	1,078
Net interest income	1,325	751	529	622	691
Prop-trading gains	2,414	3,659	4,309	4,947	5,456
Others	(20)	114	67	80	80
Adj. op. revenue	11,292	10,911	12,080	13,384	14,980
Adj. op. expenses	(5,860)	(5,706)	(6,138)	(6,786)	(7,519)
PPoP	5,432	5,205	5,942	6,598	7,461
Provision	(76)	(1,154)	(169)	(176)	(155)
Pre-tax profit	5,355	4,051	5,772	6,422	7,306
Income tax expense	(1,294)	(948)	(1,358)	(1,503)	(1,710)
Minority interests	(46)	(16)	(26)	(32)	(36)
Net profit	4,015	3,087	4,388	4,888	5,561

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	33,746	29,288	39,123	44,121	50,394
Clearing reserves	9,247	7,628	9,129	10,469	11,730
Margin accounts	47,821	25,148	28,417	30,691	33,146
Reverse repos	26,065	23,797	29,985	32,983	35,951
Financial investments	72,809	88,482	113,257	122,318	130,880
Other assets	16,194	20,739	27,101	27,099	28,515
Total assets	205,883	195,082	247,012	267,681	290,616
Customer brokerage deposits	41,417	35,039	47,339	52,946	60,977
Short-term debts	72,840	51,453	71,665	77,078	81,863
Long-term debts	23,873	44,853	55,617	61,179	66,685
Other liabilities	23,756	15,875	21,533	22,276	23,050
Total liabilities	161,885	147,219	196,154	213,478	232,574
Total shareholders' equity	43,754	47,577	50,543	53,857	57,679
Incl. Perpetual bonds	5,000	5,000	5,000	5,000	5,000
Minority interest	245	286	315	346	364

Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue mix					
Brokerage commission	27%	21%	21%	22%	22%
Investment banking fee	30%	29%	30%	29%	29%
Asset management fee	10%	9%	8%	7%	7%
Net interest income	12%	7%	4%	5%	5%
Prop-trading gains	21%	34%	36%	37%	36%
Others	0%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-22%	-25%	13%	12%	15%
Investment banking fee	-20%	-6%	17%	5%	13%
Asset management fee	7%	-19%	-6%	9%	10%
Net interest income	-17%	-43%	-30%	18%	11%
Prop-trading gains	0%	52%	18%	15%	10%
Adj. op. revenue	-15%	-3%	11%	11%	12%
PPoP	-23%	-4%	14%	11%	13%
Net profit	-24%	-23%	42%	11%	14%
Total assets	13%	-5%	27%	8%	9%
Efficiency					
Cost-to-income ratio	51%	52%	50%	50%	49%
Leverage					
Adj. financial leverage (x)	3.8	3.4	4.0	4.0	4.0
Investment/ equity	166%	186%	224%	227%	227%
Profitability					
ROE	9.5%	6.8%	8.9%	9.4%	10.0%
ROA	2.1%	1.5%	2.0%	1.9%	2.0%
Per share					
EPS (RMB)	0.55	0.41	0.57	0.64	0.73
DPS (RMB)	0.19	0.18	0.17	0.19	0.22
BVPS (RMB)	6.04	6.22	6.61	7.04	7.54

Source: Company data, CMBIS estimates

HTS (6837 HK, BUY, TP: HK\$ 10.40)

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	3,941	3,006	3,317	3,814	4,406
Investment banking fee	3,330	3,217	3,275	3,379	3,639
Asset management fee	2,098	1,925	2,055	2,186	2,335
Net interest income	3,666	4,312	3,828	4,500	5,870
Prop-trading gains	9,328	3,992	10,112	9,065	10,190
Others	2,135	2,321	2,373	2,440	2,521
Adj. op. revenue	24,497	18,772	24,960	25,385	28,960
Adj. op. expenses	(9,921)	(9,555)	(10,025)	(10,990)	(12,278)
PPoP	14,576	9,218	14,935	14,395	16,682
Provision	(1,687)	(1,647)	(1,905)	(1,478)	(1,264)
Pre-tax profit	12,889	7,570	13,030	12,917	15,418
Income tax expense	(3,014)	(1,800)	(3,164)	(3,100)	(3,700)
Minority interests	(1,257)	(560)	(686)	(755)	(830)
Net profit	8,618	5,211	9,180	9,063	10,888

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	70,214	62,319	66,220	77,156	88,427
Clearing reserves	7,983	7,647	8,150	8,309	9,672
Margin accounts	61,561	48,861	54,236	58,575	62,675
Reverse repos	96,550	82,679	70,277	71,683	73,833
Financial investments	158,728	208,248	235,321	261,206	282,102
Other assets	139,671	164,870	181,927	184,361	193,485
Total assets	534,706	574,624	616,131	661,289	710,194
Customer brokerage deposits	83,774	71,894	76,393	89,009	101,691
Short-term debts	104,997	134,552	150,747	164,255	178,457
Long-term debts	160,767	183,434	190,132	198,209	207,624
Other liabilities	55,473	54,559	56,601	59,087	61,724
Total liabilities	405,012	444,438	473,874	510,561	549,497
Total shareholders' equity	117,755	117,859	126,051	132,902	141,089
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	11,939	12,327	16,205	17,826	19,609

Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue mix					
Brokerage commission	16%	16%	13%	15%	15%
Investment banking fee	14%	17%	13%	13%	13%
Asset management fee	9%	10%	8%	9%	8%
Net interest income	15%	23%	15%	18%	20%
Prop-trading gains	38%	21%	41%	36%	35%
Others	9%	12%	10%	10%	9%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-26%	-24%	10%	15%	16%
Investment banking fee	-1%	-3%	2%	3%	8%
Asset management fee	28%	-8%	7%	6%	7%
Net interest income	-5%	18%	-11%	18%	30%
Prop-trading gains	53%	-57%	153%	-10%	12%
Adj. op. revenue	8%	-23%	33%	2%	14%
PPoP	16%	-37%	62%	-4%	16%
Net profit	7%	-40%	76%	-1%	20%
Total assets	-5%	7%	7%	7%	7%
Efficiency					
Cost-to-income ratio	40%	50%	39%	42%	41%
Leverage					
Adj. financial leverage (x)	3.9	4.3	4.4	4.4	4.4
Investment/ equity	135%	177%	187%	197%	200%
Profitability					
ROE	7.6%	4.4%	7.5%	7.0%	7.9%
ROA	1.6%	0.9%	1.5%	1.4%	1.6%
Per share					
EPS (RMB)	0.75	0.45	0.80	0.79	0.95
DPS (RMB)	0.23	0.15	0.24	0.24	0.28
BVPS (RMB)	10.24	10.25	10.96	11.55	12.27

Source: Company data, CMBIS estimates

GFS (1776 HK, HOLD, TP: HK\$ 9.80)
Financial Summary
Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	4,336	3,453	4,003	4,469	5,162
Investment banking fee	2,755	1,216	1,129	1,593	1,787
Asset management fee	3,982	3,743	3,933	4,153	4,444
Net interest income	470	103	(44)	182	237
Prop-trading gains	8,997	4,156	9,846	9,269	10,364
Others	1,090	1,363	717	799	894
Adj. op. revenue	21,629	14,035	19,583	20,466	22,888
Adj. op. expenses	(9,587)	(7,727)	(8,906)	(9,676)	(10,591)
PPoP	12,042	6,308	10,677	10,790	12,296
Provision	(398)	(303)	(610)	(381)	(190)
Pre-tax profit	11,644	6,004	10,067	10,409	12,106
Income tax expense	(2,561)	(1,372)	(2,167)	(2,240)	(2,605)
Minority interests	(488)	(332)	(629)	(762)	(859)
Net profit	8,595	4,300	7,270	7,408	8,642

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	48,356	39,515	51,515	58,614	66,084
Clearing reserves	17,653	17,900	16,098	19,954	23,496
Margin accounts	61,750	45,355	51,705	55,841	58,634
Reverse repos	33,667	36,813	32,027	34,269	35,640
Financial investments	155,833	185,492	200,332	216,358	229,340
Other assets	39,644	64,030	41,828	40,634	41,764
Total assets	356,905	389,106	393,506	425,671	454,957
Customer brokerage deposits	65,026	58,445	68,515	76,784	86,569
Short-term debts	92,921	127,216	105,978	112,874	118,518
Long-term debts	77,198	74,170	100,967	111,023	116,619
Other liabilities	33,134	40,646	22,257	23,427	24,666
Total liabilities	268,279	300,477	297,718	324,108	346,373
Total shareholders' equity	84,854	85,018	91,816	97,193	103,778
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	3,771	3,611	3,972	4,370	4,806

Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue mix					
Brokerage commission	20%	25%	20%	22%	23%
Investment banking fee	13%	9%	6%	8%	8%
Asset management fee	18%	27%	20%	20%	19%
Net interest income	2%	1%	0%	1%	1%
Prop-trading gains	42%	30%	50%	45%	45%
Others	5%	10%	4%	4%	4%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-19%	-20%	16%	12%	16%
Investment banking fee	-16%	-56%	-7%	41%	12%
Asset management fee	-4%	-6%	5%	6%	7%
Net interest income	-35%	-78%	-143%	N/A	30%
Prop-trading gains	38%	-54%	137%	-6%	12%
Adj. op. revenue	4%	-35%	40%	5%	12%
PPoP	8%	-48%	69%	1%	14%
Net profit	7%	-50%	69%	2%	17%
Total assets	-1%	9%	1%	8%	7%
Efficiency					
Cost-to-income ratio	44%	54%	45%	46%	45%
Leverage					
Adj. financial leverage (x)	3.5	3.7	3.7	3.6	3.6
Investment/ equity	184%	218%	218%	223%	221%
Profitability					
ROE	10.5%	5.1%	8.2%	7.8%	8.6%
ROA	2.4%	1.2%	1.9%	1.8%	2.0%
Per share					
EPS (RMB)	1.13	0.56	0.95	0.97	1.13
DPS (RMB)	0.40	0.00	0.29	0.29	0.34
BVPS (RMB)	11.13	11.16	12.05	12.75	13.62

Source: Company data, CMBIS estimates

CGS (6881 HK, HOLD, TP: HK\$ 4.50)
Financial Summary
Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	4,757	3,464	4,242	4,623	5,211
Investment banking fee	557	531	459	530	623
Asset management fee	700	747	632	616	663
Net interest income	2,986	2,267	1,985	2,267	2,529
Prop-trading gains	2,256	2,123	4,868	5,115	5,702
Others	48	107	111	107	77
Adj. op. revenue	11,304	9,239	12,298	13,257	14,805
Adj. op. expenses	(5,813)	(5,149)	(6,245)	(6,878)	(7,550)
PPoP	5,491	4,090	6,053	6,379	7,254
Provision	(682)	(408)	(150)	(97)	(62)
Pre-tax profit	4,809	3,682	5,903	6,282	7,193
Income tax expense	(790)	(750)	(1,265)	(1,250)	(1,439)
Minority interests	(38)	(45)	(32)	(34)	(50)
Net profit	3,981	2,887	4,606	4,998	5,704

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	50,777	42,529	58,010	61,383	68,241
Clearing reserves	12,538	12,687	12,960	15,005	17,060
Margin accounts	60,064	44,632	54,451	59,896	64,688
Reverse repos	38,256	39,967	35,171	37,281	39,518
Financial investments	71,250	92,477	106,348	115,920	124,034
Other assets	21,929	19,072	36,467	34,351	35,295
Total assets	254,815	251,363	303,407	323,835	348,836
Customer brokerage deposits	64,787	56,695	73,673	77,956	85,983
Short-term debts	50,095	39,833	59,602	65,100	70,308
Long-term debts	62,881	79,501	77,911	84,144	90,876
Other liabilities	12,166	8,996	20,896	21,602	22,333
Total liabilities	189,929	185,025	232,083	248,802	269,501
Total shareholders' equity	64,513	65,982	70,168	73,819	78,060
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	373	356	1,156	1,214	1,275

Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue mix					
Brokerage commission	42%	37%	34%	35%	35%
Investment banking fee	5%	6%	4%	4%	4%
Asset management fee	6%	8%	5%	5%	4%
Net interest income	26%	25%	16%	17%	17%
Prop-trading gains	20%	23%	40%	39%	39%
Others	0%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-22%	-27%	22%	9%	13%
Investment banking fee	-46%	-5%	-14%	16%	17%
Asset management fee	54%	7%	-15%	-3%	8%
Net interest income	21%	-24%	-12%	14%	12%
Prop-trading gains	-25%	-6%	129%	5%	11%
Adj. op. revenue	-15%	-18%	33%	8%	12%
PPoP	-20%	-26%	48%	5%	14%
Net profit	-23%	-27%	60%	9%	14%
Total assets	4%	-1%	21%	7%	8%
Efficiency					
Cost-to-income ratio	51%	55%	50%	51%	50%
Leverage					
Adj. financial leverage (x)	3.0	3.0	3.3	3.4	3.4
Investment/ equity	110%	140%	152%	157%	159%
Profitability					
ROE	6.5%	4.4%	6.8%	6.9%	7.5%
ROA	1.6%	1.1%	1.7%	1.6%	1.7%
Per share					
EPS (RMB)	0.39	0.28	0.45	0.49	0.56
DPS (RMB)	0.12	0.09	0.14	0.15	0.17
BVPS (RMB)	6.36	6.51	6.92	7.28	7.70

Source: Company data, CMBIS estimates

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