

Huatai Securities (6886 HK)

IB, prop trading & AM propped up 3Q19 earnings

HTSC reported 9M19 net profit of RMB 6.4bn, up 44% YoY, accounting for 88%/81% of CMBIS/consensus FY19 estimates. 3Q19 operating revenue increased 42% QoQ to RMB 6.4bn, mainly boosted by investment banking fees, prop trading gains and asset management fees, while net interest income was the major drag. Lower cost-to-income ratio (-12ppt QoQ) drove up bottom line growth to 87% QoQ, despite surged impairment losses. The results was quite solid and we would expect the Company's leading position in STAR Market pipelines and wealth management to support its earnings growth going forward. **Maintain BUY.**

- **Results positives:** 1) **Prop-trading gains doubled QoQ**, with a 7% QoQ growth in investment balance and decent investment yield at 4.2% (+1.8ppt QoQ). 2) **Investment banking fees saw sequential improvement** (+68% QoQ), fueled by 81% QoQ growth from equity underwriting amount, including 3.5 STAR Market IPOs, and 20% QoQ growth from debt underwriting amount. HTSC is now ranked second place by no. of STAR Market active applications, and we expect it to benefit from the acceleration of registration pace. 3) **AM fees continued to grow** +3% QoQ in 3Q19 and 23% YoY in 9M19, when many peers were still experiencing decline. The strong resilience of AM business could provide a stable support to top-line growth. 4) **Brokerage commission was down 13% QoQ** (vs. A-share ADT -23% QoQ), in-line with peers' trend.
- **Results negatives:** 1) **Net interest income dropped 17% YoY in 9M19** (quarterly data not comparable), weighed by sharply contracted reverse repo balance (-59% in 9M19), as the Company sees SPL business risky and the scale-down will likely to continue in coming quarters. Margin account, on the other hand, expanded 31% in 9M19 and 7% QoQ (vs. market +4% QoQ) in 3Q19, which could partly alleviate the pressure on NII. 2) **Impairment losses rose another 2.2x QoQ**, which could be from rising SPL-related write-offs.
- **Maintain BUY.** HTSC now trades at 0.82x FY19E P/B, close to its historical average minus 1SD (0.83x). Our earnings forecast remains unchanged, and we maintain BUY rating on HTSC with TP at HK\$ 14.90.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. op. revenue (RMB mn)	21,746	15,624	19,618	22,244	24,644
Net profit (RMB mn)	9,277	5,033	7,294	8,875	9,939
EPS (RMB)	1.30	0.66	0.84	0.98	1.10
EPS CHG (%)	48	(49)	27	16	12
P/E (x)	8.4	16.4	12.8	11.1	9.9
P/B (x)	0.89	0.86	0.82	0.78	0.74
Yield (%)	0.0	2.8	3.0	3.6	4.0
ROAE (%)	10.8	5.3	6.5	7.2	7.7
Financial leverage (x)	3.6	3.0	3.3	3.4	3.5

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price HK\$14.9
(Previous TP) HK\$14.9
Up/Downside +23.5%
Current Price HK\$12.06

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	163,663
Avg 3 mths t/o (HK\$ mn)	116.83
52w High/Low (HK\$)	18.54/ 11.00
Total Issued Shares (mn)	1,719 (H) 7,358 (A)

Source: Bloomberg

Shareholding Structure

Jiangsu Guoxin	13.35%
Citibank, National Association	9.09%
Jiangsu Communications	
Holding Company Limited	5.18%

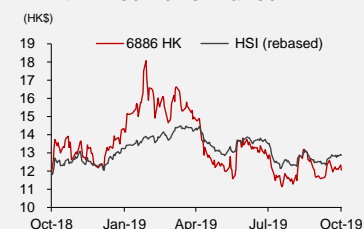
Source: Company data

Share Performance

	Absolute	Relative
1-mth	5.8%	2.1%
3-mth	-5.2%	0.1%
6-mth	-17.6%	-9.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. "Higher earnings visibility given favorable policy environment" – 6 Sep 2019
2. "Outstanding AM offset by weak NII and invt. gains" – 30 Aug 2019
3. "Valuation close to trough - attractive risk/reward" – 19 Jun 2019

Figure 1: HTSC's 3Q19 results summary

(RMB mn)

I/S	4Q18	1Q19	2Q19	3Q19	QoQ	3Q18	YoY	9M18	9M19	YoY
Net fee and commission income	2,260	2,141	2,322	2,404	4%	1,905	26%	5,802	6,867	18%
Brokerage	746	1,124	1,118	975	-13%	780	25%	2,640	3,217	22%
Investment banking	693	248	356	596	68%	448	33%	1,255	1,200	-4%
Asset Management	783	712	769	789	3%	663	19%	1,842	2,270	23%
Net interest income*	571	503	765	387	-49%	687	-44%	1,997	1,655	-17%
Prop trading gains*	782	2,204	1,227	2,521	105%	1,354	86%	2,916	5,953	104%
Adj. op. revenue	3,440	6,054	4,508	6,404	42%	4,225	52%	12,184	16,966	39%
Adj. op. expenses	(2,156)	(2,399)	(2,600)	(2,924)	12%	(2,275)	29%	(6,151)	(7,923)	29%
PPoP	1,283	3,655	1,908	3,480	82%	1,950	78%	6,033	9,043	50%
Provision	(372)	(3)	(141)	(450)	219%	(167)	170%	(496)	(595)	20%
Pre-tax profit	645	3,652	1,766	3,030	72%	1,784	70%	5,804	8,448	46%
Income tax expense	631	(847)	(471)	(642)	36%	(397)	62%	(1,919)	(1,960)	2%
Net profit	553	2,780	1,277	2,384	87%	1,321	80%	4,480	6,441	44%
B/S	4Q18	1Q19	2Q19	3Q19	QoQ	3Q18	YoY	FY18	3Q19	YTD
Margin accounts	46,189	57,934	56,931	60,649	7%	46,865	29%	46,189	60,649	31%
Financial investment	148,975	178,000	233,295	250,266	7%	146,293	71%	148,975	250,266	68%
Reverse repos	43,557	43,535	26,712	17,685	-34%	48,458	-64%	43,557	17,685	-59%
Customer brokerage deposits	59,492	90,210	83,209	82,932	0%	60,417	37%	59,492	82,932	39%
Total shareholder's equity	103,394	106,626	116,824	119,946	3%	106,244	13%	103,394	119,946	16%
Ratios	4Q18	1Q19	2Q19	3Q19	QoQ	3Q18	YoY	9M18	9M19	YoY
ROAE	2.1%	10.6%	4.6%	8.1%	3.5ppt	5.4%	2.7ppt	6.2%	8.9%	2.8ppt
ROAA	0.6%	2.7%	1.1%	1.9%	0.8ppt	1.4%	0.5ppt	1.6%	2.2%	0.7ppt
Leverage	3.0x	3.4x	3.6x	3.6x	0.0x	3.0x	0.6x	3.0x	3.6x	0.6x
Investment yield	2.1%	5.4%	2.4%	4.2%	1.8ppt	3.7%	0.5ppt	2.8%	4.0%	1.2ppt
Cost-to-income ratio	62%	39%	57%	45%	-12ppt	53%	-8ppt	50%	46%	-4ppt

Source: Company data, CMBIS

*: Due to change in accounting policy, quarterly net interest income and prop-trading gains may not be comparable.

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
Shareholders' fund	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

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NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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