

Haitong Securities (6837 HK)

4Q19 strong invt. gains partly eroded by impairment

HTS reported FY19 net profit of RMB 9.5bn, up 83% YoY, arriving at the middle of its profit alert range. FY19 operating revenue increased 49% YoY to RMB 28.0bn, attributable to growth in almost every business line except NII with prop-trading gains and AM fees as the key highlights. 4Q19 net profit was up 15% QoQ on sequentially strong AM fees and invt. gains, though partly offset by surged impairment losses. HTS defers dividend distribution as it is proceeding with the A-share private placement. **Maintain BUY.**

■ **Results positives: 1) Prop-trading gains +39% QoQ in 4Q19**, which we think was largely contributed by overseas and investment subsidiaries. FY19 invt. yield rebounded 3.1ppt to YoY 5.3%. **2) Asset mgmt. fee +63% QoQ** partly due to seasonality though, the full-year growth was impressive at 24% YoY, vs. a flat industry trend. We believe the enhanced profitability was due to contraction in “channel business”, evidenced by a 31% YoY decline in TAM AUM at YE FY19, and 29% increase in actively managed AUM (accounting for 54% of total AUM at YE FY19, up 17ppt YoY). **3) Brokerage commission +12% QoQ**, where domestic commission trend was slightly better than market turnover trend (-5% vs. -8%) and overseas commission held up the growth. **4) Investment banking fees -3% QoQ**, also mixed with weaker domestic (-24% QoQ) and stronger overseas, most likely from Haitong Int'l (665 HK, NR)'s bond underwriting. Domestically, HTS is catching up in STAR Market sponsorship, with seven IPOs in progress, which could help support its equity financing underwriting performance in FY20E.

■ **Results negatives: 1) Impairment losses surged 55% QoQ**, which possibly came from its leasing subsidiary (impairment losses +25% HoH in 2H19 to RMB 717mn) and other debt investments. The coronavirus outbreak and slowing macro growth may continue to put pressure on leasing segment's asset quality in FY20E. **2) Net interest income -29% QoQ**, likely due to lower interest income from SPL business as reverse repo balance contracted another 3% (on B/S SPL balance -24% YoY at YE FY19) and debt balance slightly went up.

■ **Maintain BUY.** HTS currently trades at 0.55x 1-year forward P/B, 25% below its historical average minus 1SD (0.73x). The low valuation offers limited downside potential. We remain our earnings forecast unchanged, and maintain BUY rating with TP at HK\$ 9.40.

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-----------------------------|--------|--------|--------|--------|--------|
| Adj. op. revenue (RMB mn) | 18,772 | 27,968 | 27,886 | 30,459 | 32,837 |
| Net profit (RMB mn) | 5,211 | 9,523 | 10,041 | 11,198 | 12,286 |
| EPS (RMB) | 0.45 | 0.83 | 0.87 | 0.97 | 1.07 |
| EPS CHG (%) | (40) | 83 | 5 | 12 | 10 |
| Consensus EPS (RMB) | N/A | N/A | 0.89 | 0.99 | N/A |
| P/E (x) | 14.2 | 7.8 | 7.4 | 6.6 | 6.0 |
| P/B (x) | 0.63 | 0.59 | 0.55 | 0.52 | 0.49 |
| Yield (%) | 2.3 | 0.0 | 4.1 | 4.5 | 5.0 |
| ROAE (%) | 4.4 | 7.8 | 7.7 | 8.1 | 8.4 |
| Adj. financial leverage (x) | 4.3 | 4.4 | 4.6 | 4.6 | 4.5 |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$ 9.40
 (Previous TP) HK\$ 9.40
Up/Downside +31.3%
Current Price HK\$ 7.16

China Brokerage Sector

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Stock Data

| | |
|--------------------------|-------------------------------|
| Mkt Cap (HK\$ mn) | 138,175 |
| Avg 3 mths t/o (HK\$ mn) | 178.05 |
| 52w High/Low (HK\$) | 11.30/6.50 |
| 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% |

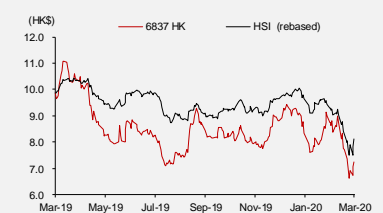
Source: Company data

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -17.1% | -5.2% |
| 3-mth | -17.8% | -2.7% |
| 6-mth | -13.4% | -4.5% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

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Figure 1: HTS's 4Q19 results summary

| (RMB mn) | | | | | | | | | | | vs. |
|----------------------------|--------------|--------------|--------------|--------------|------------|--------------|------------|---------------|---------------|------------|-------------------|
| I/S | 1Q19 | 2Q19 | 3Q19 | 4Q19 | QoQ | 4Q18 | YoY | FY18 | FY19 | YoY | CMBIS est. |
| Net fees and commissions | 2,032 | 2,830 | 2,241 | 2,826 | 26% | 2,657 | 6% | 8,514 | 9,929 | 17% | 6% |
| Brokerage | 960 | 936 | 791 | 885 | 12% | 616 | 44% | 3,006 | 3,571 | 19% | 3% |
| Investment banking | 585 | 1,062 | 920 | 890 | -3% | 1,319 | -33% | 3,217 | 3,457 | 7% | 0% |
| Asset Management | 406 | 738 | 476 | 775 | 63% | 521 | 49% | 1,925 | 2,395 | 24% | 5% |
| Net interest income | 915 | 1,338 | 1,111 | 784 | -29% | 1,119 | -30% | 4,820 | 4,148 | -14% | -6% |
| Prop trading gains | 4,835 | 1,011 | 2,342 | 3,261 | 39% | 1,337 | 144% | 3,484 | 11,450 | 229% | 9% |
| Adj. op. revenue | 8,298 | 5,932 | 6,038 | 7,699 | 28% | 5,378 | 43% | 18,772 | 27,968 | 49% | 6% |
| Adj. op. expenses | (2,715) | (2,462) | (2,686) | (3,394) | 26% | (3,104) | 9% | (9,555) | (11,257) | 18% | 6% |
| PPoP | 5,584 | 3,470 | 3,352 | 4,305 | 28% | 2,274 | 89% | 9,218 | 16,711 | 81% | 7% |
| Provision | (265) | (785) | (701) | (1,089) | 55% | 8 | N/A | (1,647) | (2,839) | 72% | 36% |
| Pre-tax profit | 5,318 | 2,685 | 2,652 | 3,216 | 21% | 1,886 | 71% | 7,570 | 13,872 | 83% | 2% |
| Income tax expense | (1,219) | (716) | (645) | (751) | 16% | 887 | -185% | (1,800) | (3,331) | 85% | 1% |
| Net profit | 3,770 | 1,756 | 1,859 | 2,138 | 15% | 1,391 | 54% | 5,211 | 9,523 | 83% | -1% |
| B/S | 1Q19 | 2Q19 | 3Q19 | 4Q19 | QoQ | 4Q18 | YoY | FY18 | FY19 | YoY | |
| Margin accounts | 54,870 | 52,096 | 51,622 | 52,798 | 2% | 48,861 | 8% | 48,861 | 52,798 | 8% | |
| Financial investment | 227,011 | 228,963 | 255,513 | 249,155 | -2% | 208,248 | 20% | 208,248 | 249,155 | 20% | |
| Reverse repos | 71,274 | 65,831 | 59,485 | 57,485 | -3% | 82,679 | -30% | 82,679 | 57,485 | -30% | |
| Customer deposits | 96,780 | 90,371 | 84,829 | 87,464 | 3% | 71,894 | 22% | 71,894 | 87,464 | 22% | |
| Total shareholder's equity | 122,649 | 122,395 | 124,039 | 126,091 | 2% | 117,859 | 7% | 117,859 | 126,091 | 7% | |
| Ratios | 1Q19 | 2Q19 | 3Q19 | 4Q19 | QoQ | 4Q18 | YoY | FY18 | FY19 | YoY | |
| ROE | 12.5% | 5.7% | 6.0% | 6.8% | 0.8ppt | 4.7% | 2.1ppt | 4.4% | 7.8% | 3.4ppt | |
| ROA | 2.5% | 1.1% | 1.2% | 1.3% | 0.2ppt | 1.0% | 0.4ppt | 0.9% | 1.6% | 0.6ppt | |
| Leverage | 4.2x | 4.4x | 4.5x | 4.4x | -0.1x | 4.3x | 0.1x | 4.3x | 4.4x | 0.1x | |
| Investment yield | 8.9% | 1.8% | 3.9% | 5.2% | 1.3ppt | 2.7% | 2.4ppt | 2.2% | 5.3% | 3.1ppt | |
| Cost-to-income ratio | 32% | 41% | 44% | 44% | 0ppt | 57% | -13ppt | 50% | 40% | -10ppt | |

Source: Company data, CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Brokerage commission | 3,006 | 3,571 | 4,133 | 4,474 | 4,773 |
| Investment banking fee | 3,217 | 3,457 | 3,699 | 3,902 | 4,150 |
| Asset management fee | 1,925 | 2,395 | 2,205 | 2,355 | 2,501 |
| Net interest income | 4,820 | 4,148 | 4,707 | 5,108 | 5,614 |
| Prop-trading gains | 3,484 | 11,450 | 10,780 | 12,178 | 13,356 |
| Others | 2,321 | 2,947 | 2,362 | 2,443 | 2,443 |
| Adj. op. revenue | 18,772 | 27,968 | 27,886 | 30,459 | 32,837 |
| Adj. op. expenses | (9,555) | (11,257) | (11,795) | (12,914) | (13,759) |
| PPoP | 9,218 | 16,711 | 16,091 | 17,545 | 19,078 |
| Provision | (1,647) | (2,839) | (1,886) | (1,719) | (1,652) |
| Pre-tax profit | 7,570 | 13,872 | 14,205 | 15,826 | 17,427 |
| Income tax expense | (1,800) | (3,331) | (3,409) | (3,798) | (4,227) |
| Minority interests | (560) | (1,017) | (755) | (830) | (913) |
| Net profit | 5,211 | 9,523 | 10,041 | 11,198 | 12,286 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Deposit held on behalf of clients | 62,319 | 76,179 | 87,542 | 96,561 | 107,607 |
| Clearing reserves | 7,647 | 8,611 | 9,948 | 11,142 | 12,416 |
| Margin accounts | 48,861 | 52,798 | 64,619 | 69,788 | 73,975 |
| Reverse repos | 82,679 | 57,485 | 62,505 | 65,630 | 68,912 |
| Financial investments | 208,248 | 249,155 | 296,212 | 325,834 | 345,384 |
| Other assets | 164,870 | 192,566 | 189,101 | 189,427 | 194,345 |
| Total assets | 574,624 | 636,794 | 709,927 | 758,382 | 802,639 |
| Customer brokerage deposits | 71,894 | 87,464 | 100,990 | 111,045 | 123,748 |
| Short-term debts | 134,552 | 163,499 | 195,222 | 212,217 | 225,013 |
| Long-term debts | 183,434 | 179,075 | 191,945 | 200,151 | 206,266 |
| Other liabilities | 54,559 | 65,636 | 69,769 | 72,982 | 76,091 |
| Total liabilities | 444,438 | 495,675 | 557,926 | 596,395 | 631,117 |
| Total shareholders' equity | 117,859 | 126,091 | 134,175 | 142,378 | 151,325 |
| Incl. Perpetual bonds | 0 | 0 | 0 | 0 | 0 |
| Minority interest | 12,327 | 15,028 | 17,826 | 19,609 | 20,197 |

Key Ratios

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|------------------------------|-------------|------------|-----------|------------|------------|
| Operating revenue mix | | | | | |
| Brokerage commission | 16% | 13% | 15% | 15% | 15% |
| Investment banking fee | 17% | 12% | 13% | 13% | 13% |
| Asset management fee | 10% | 9% | 8% | 8% | 8% |
| Net interest income | 26% | 15% | 17% | 17% | 17% |
| Prop-trading gains | 19% | 41% | 39% | 40% | 41% |
| Others | 12% | 11% | 8% | 8% | 7% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Growth, YoY | | | | | |
| Brokerage commission | -24% | 19% | 16% | 8% | 7% |
| Investment banking fee | -3% | 7% | 7% | 5% | 6% |
| Asset management fee | -8% | 24% | -8% | 7% | 6% |
| Net interest income | 31% | -14% | 13% | 9% | 10% |
| Prop-trading gains | -63% | 229% | -6% | 13% | 10% |
| Adj. op. revenue | -23% | 49% | 0% | 9% | 8% |
| PPoP | -37% | 81% | -4% | 9% | 9% |
| Net profit | -40% | 83% | 5% | 12% | 10% |
| Total assets | 7% | 11% | 11% | 7% | 6% |
| Efficiency | | | | | |
| Cost-to-income ratio | 50% | 40% | 41% | 41% | 41% |
| Leverage | | | | | |
| Adj. financial leverage (x) | 4.3 | 4.4 | 4.6 | 4.6 | 4.5 |
| Investment/ equity | 177% | 198% | 221% | 229% | 228% |
| Profitability | | | | | |
| ROE | 4.4% | 7.8% | 7.7% | 8.1% | 8.4% |
| ROA | 0.9% | 1.6% | 1.5% | 1.5% | 1.6% |
| Per share | | | | | |
| EPS (RMB) | 0.45 | 0.83 | 0.87 | 0.97 | 1.07 |
| DPS (RMB) | 0.15 | 0.00 | 0.26 | 0.29 | 0.32 |
| BVPS (RMB) | 10.25 | 10.96 | 11.67 | 12.38 | 13.16 |

Source: Company data, CMBIS estimates

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