

China Galaxy Securities (6881 HK)

Another brokerage-driven quarter

CGS reported 1Q20 net profit of RMB 1.8bn, up 15% YoY, accounting for 31% of our FY20E estimates. Operating revenue increased 27% YoY to RMB 4.6bn, primarily boosted by brokerage commissions and prop-trading gains, though higher impairment losses partly eroded profitability. Given that A-share ADT was moderating (-26% in Apr from 1Q20 to ~RMB 600mn) and market uncertainty is likely to remain, growth momentum of CGS may weaken in coming quarters, and the thriving direct financing market could only marginally help with its top-line growth due to its weak franchise in investment banking. **Maintain HOLD.**

■ **Results positives:** **1) Brokerage commissions growth outpacing industry** (+47% YoY vs. +33% YoY), contributing 55% of CGS's 1Q20 op. revenue growth, showing the Company's strong retail franchise in brokerage business. **2) Prop-trading gains +14% YoY** (vs. industry -48% YoY), mainly attributable to its expanded investment balance (+36% YoY/+22% QoQ), while investment yield dropped 0.8ppt YoY/0.5 QoQ to 4.9% based on our estimates. **3) Investment banking fees +28% YoY**, as debt financing underwriting amount increased 49% YoY along with the market (+43% YoY), but equity financing underwriting remained subdued (nil IPO in 1Q20). **4) Net interest income +30% YoY**, on higher interest incomes from debt investment as well as robustly growing margin balance (+14% YoY).

■ **Results negatives:** **1) Impairment losses was recorded at RMB 145mn** (vs. a reversal of RMB 54mn in 1Q19), most of which (~RMB 120mn) was caused by commodity business of its subsidiary. **2) Asset management fee -6% YoY**, suggesting possible AUM contraction still in progress.

■ **Maintain HOLD.** CGS currently trades at 0.45x 1-year forward P/B, close to historical trough of 0.41x. Considering current softening market trading activity and its disadvantage in capital market reforms, we see limited upside potential ahead for both its earnings and valuation. **Maintain HOLD.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	9,239	14,320	14,869	16,540	17,980
Net profit (RMB mn)	2,887	5,228	5,563	6,198	6,780
EPS (RMB)	0.28	0.52	0.55	0.61	0.67
EPS CHG (%)	(28)	81	6	11	9
Consensus EPS (RMB)	N/A	N/A	0.51	0.54	0.55
P/E (x)	11.8	6.5	6.1	5.5	5.0
P/B (x)	0.52	0.48	0.45	0.43	0.40
Yield (%)	2.7	4.8	4.9	5.5	6.0
ROE (%)	4.4	7.6	7.6	8.0	8.3
Adj. financial leverage (x)	3.0	3.3	3.6	3.6	3.8

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price HK\$ 4.20
 (Previous TP) HK\$ 4.20
Up/Downside +12.3%
Current Price HK\$ 3.74

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	78,492
Avg 3 mths t/o (HK\$ mn)	79.54
52w High/Low (HK\$)	5.30/3.36
Total Issued Shares (mn)	3,691 (H) 6,446 (A)

Source: Wind

Shareholding Structure

China Galaxy Financial Holdings Limited	51.16%
BlackRock, Inc.	2.30%
Wenze Int'l Investment Ltd.	2.17%

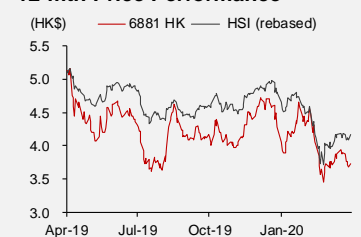
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-1.3%	-3.3%
3-mth	-13.8%	1.1%
6-mth	-10.4%	0.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. "Resilient Mar set for better-than-expected 1Q20E results" – 14 Apr 2020
2. "Fee incomes weaker than expected in 4Q19" – 30 Mar 2020
3. "On an upward policy trajectory" – 19 Mar 2020
4. "COVID-19 unlikely to derail industry upswing" – 12 Feb 2020

Figure 1: CGS's 1Q20 results summary

(RMB mn)							
	2Q19	3Q19	4Q19	1Q20	QoQ	1Q19	YoY
I/S							
Net fee and commissions	1,631	1,471	1,242	1,988	60%	1,429	39%
Brokerage	1,296	1,150	960	1,682	75%	1,145	47%
Investment banking	152	147	78	131	69%	103	28%
Asset Management	163	163	145	154	6%	163	-6%
Net interest income	888	912	950	963	1%	742	30%
Prop trading gains	686	1,236	1,545	1,635	6%	1,430	14%
Adj. op. revenue	3,247	3,649	3,823	4,582	20%	3,602	27%
Adj. op. expenses	(1,765)	(1,904)	(1,756)	(2,153)	23%	(1,654)	30%
PPoP	1,482	1,744	2,067	2,428	18%	1,948	25%
Provision	(87)	(21)	(356)	(145)	-59%	54	-370%
Pre-tax profit	1,395	1,723	1,711	2,284	33%	2,001	14%
Income tax expense	(332)	(449)	(340)	(503)	48%	(459)	10%
Net profit	1,062	1,265	1,368	1,754	28%	1,533	14%
B/S							
Margin accounts	53,148	53,806	58,721	58,260	-1%	51,060	14%
Financial investment	104,005	108,061	121,437	147,640	22%	108,275	36%
Reverse repos	33,140	34,816	30,438	28,650	-6%	38,982	-27%
Customer deposits	82,959	79,496	80,509	90,489	12%	83,594	8%
Total shareholder's equity	68,137	69,494	70,896	72,772	3%	67,966	7%
Ratios							
ROE	6.2%	7.4%	7.8%	9.8%	2.0ppt	9.2%	0.6ppt
ROA	1.4%	1.6%	1.8%	2.1%	0.3ppt	2.2%	-0.2ppt
Leverage	3.3x	3.2x	3.3x	3.8x	0.5x	3.3x	0.5x
Investment yield	2.6%	4.7%	5.4%	4.9%	-0.5ppt	5.7%	-0.8ppt
Cost-to-income ratio	53%	51%	45%	46%	1ppt	45%	1ppt

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Brokerage commission	3,464	4,551	6,342	7,090	7,712
Investment banking fee	531	480	519	546	568
Asset management fee	747	634	610	627	659
Net interest income	3,445	3,492	3,679	4,037	4,392
Prop-trading gains	946	4,897	3,612	4,164	4,573
Others	107	266	107	77	77
Adj. op. revenue	9,239	14,320	14,869	16,540	17,980
Adj. op. expenses	(5,149)	(7,079)	(7,644)	(8,477)	(9,170)
PPoP	4,090	7,241	7,225	8,063	8,810
Provision	(408)	(410)	(58)	(52)	(47)
Pre-tax profit	3,682	6,830	7,167	8,011	8,764
Income tax expense	(750)	(1,580)	(1,570)	(1,762)	(1,928)
Minority interests	(45)	(22)	(34)	(50)	(55)
Net profit	2,887	5,228	5,563	6,198	6,780

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Deposit held on behalf of clients	42,529	60,282	82,728	91,692	100,929
Clearing reserves	12,687	11,276	20,682	22,923	25,232
Margin accounts	44,632	58,721	64,158	69,933	74,129
Reverse repos	39,967	30,438	37,985	40,264	41,874
Financial investments	92,477	121,437	129,190	139,525	146,501
Other assets	19,072	33,511	31,196	29,586	42,112
Total assets	251,363	315,666	365,939	393,922	430,777
Customer brokerage deposits	56,695	80,509	105,065	115,532	137,263
Short-term debts	39,833	86,468	73,068	78,913	83,329
Long-term debts	79,501	64,023	90,155	96,465	101,289
Other liabilities	8,996	12,744	21,602	22,333	23,174
Total liabilities	185,025	243,744	289,889	313,244	345,054
Total shareholders' equity	65,982	70,896	74,930	79,502	84,511
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	356	1,026	1,121	1,177	1,212

Key Ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue mix					
Brokerage commission	37%	32%	43%	43%	43%
Investment banking fee	6%	3%	3%	3%	3%
Asset management fee	8%	4%	4%	4%	4%
Net interest income	37%	24%	25%	24%	24%
Prop-trading gains	10%	34%	24%	25%	25%
Others	1%	2%	1%	0%	0%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-27%	31%	39%	12%	9%
Investment banking fee	-5%	-10%	8%	5%	4%
Asset management fee	7%	-15%	-4%	3%	5%
Net interest income	15%	1%	5%	10%	9%
Prop-trading gains	-58%	418%	-26%	15%	10%
Adj. op. revenue	-18%	55%	4%	11%	9%
PPoP	-26%	77%	0%	12%	9%
Net profit	-27%	81%	6%	11%	9%
Total assets	-1%	26%	16%	8%	9%
Efficiency					
Cost-to-income ratio	55%	49%	50%	50%	50%
Leverage					
Adj. financial leverage (x)	3.0	3.5	3.6	3.6	3.8
Investment/ equity	140%	171%	172%	175%	173%
Profitability					
ROE	4.4%	7.6%	7.6%	8.0%	8.3%
ROA	1.1%	1.8%	1.6%	1.6%	1.6%
Per share					
EPS (RMB)	0.28	0.52	0.55	0.61	0.67
DPS (RMB)	0.09	0.16	0.16	0.18	0.20
BVPS (RMB)	6.51	6.99	7.39	7.84	8.34

Source: Company data, CMBIS estimates

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