

GF Securities (1776 HK)

Prop trading gains offset by weakness across other businesses

GFS reported 9M19 net profit of RMB 5.6bn, up 37% YoY, accounting for 77%/82% of CMBIS/consensus FY19 estimates. 3Q19 revenue recorded a moderate QoQ growth of 7%, where the strong growth of prop-trading gains was offset by relatively weak performance across other business lines. Thanks to a large decrease in impairment losses (-97% QoQ), net profit achieved a 21% QoQ growth to RMB 1.5bn. The investment gains driven growth was not of high quality. 4Q19E results will likely see remarkable YoY growth on low base, but we will maintain our HOLD rating as GFS is not a key beneficiary of STAR Market and regulatory constraints may still weigh on its valuation.

- **Results positives:** 1) Prop trading gains was the largest contributor to 3Q19 revenue, which grew 121% QoQ. Investment yield improved 1.4ppt QoQ to 2.5%, but was still below those of comparable peers (>4% in 3Q19). 2) 3Q19 investment banking fees rebounded 72% QoQ (but 9M19 -4% YoY even on low base), as IPO underwriting amount increased 6.9x QoQ. With seven STAR Market applicants on hand, GFS's investment banking business may see improvement in 4Q19, but we won't expect this to be significant enough to materially change its competitiveness in this business line. 3) Brokerage commission dropped 15% QoQ, though better than A-share ADT trend (-23% QoQ), but was a slightly deeper decline than peers. 4) Impairment losses was 97% lower QoQ, possibly due to less risks from financial investments.
- **Results negatives:** 1) Asset management fee decline 23% QoQ, as AUM may be still contracting under new asset management rules. 2) Net interest income decreased 11% QoQ, as the Company proactively reduced its SPL exposure, evidenced by a 36% QoQ decline in reverse repo balance in 3Q19. Financial leverage was lower at 3.5x from 3.7x ended 1H19.
- **Maintain HOLD.** GFS currently trades at 0.63x FY19E P/B, close to historical trough (0.55x). The absolute low valuation may provide higher short-term potential if market sentiment improves. We made no changes to our earnings forecast, and maintain HOLD rating on GFS with TP at HK\$ 9.80.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. op. revenue (RMB mn)	21,629	14,035	19,583	20,466	22,888
Net profit (RMB mn)	8,595	4,300	7,270	7,408	8,642
EPS (RMB)	1.13	0.56	0.95	0.97	1.13
EPS CHG (%)	7	(50)	69	2	17
P/E (x)	6.7	13.5	8.0	7.8	6.7
P/B (x)	0.68	0.68	0.63	0.60	0.56
Yield (%)	5.3	0.0	3.8	3.8	4.5
ROAE (%)	10.5	5.1	8.2	7.8	8.6
Financial leverage (x)	3.5	3.7	3.7	3.6	3.6

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$ 9.80
(Previous TP)	HK\$ 9.80)
Up/Downside	+15.6%
Current Price	HK\$ 8.48

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	105,177
Avg 3 mths t/o (HK\$ mn)	52.36
52w High/Low (HK\$)	14.28/7.44
Total Issued Shares (mn)	1,702 (H)
	5,919 (A)

Source: Bloomberg

Shareholding Structure

Jilin Aodong	16.43%
Liaoning Cheng Da	16.40%
Zhongshan Public Utilities	9.01%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	6.7%	3.0%
3-mth	-6.4%	-1.2%
6-mth	-20.8%	-12.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. "Higher earnings visibility given favorable policy environment" – 6 Sep 2019
2. "Valuation close to trough - attractive risk/reward" – 19 Jun 2019

Figure 1: GFS's 3Q19 results summary

(RMB mn)

I/S	4Q18	1Q19	2Q19	3Q19	QoQ	3Q18	YoY	9M18	9M19	YoY
Net fee and commission income	2,068	2,420	2,524	2,251	-11%	2,095	7%	6,551	7,195	10%
Brokerage	724	1,163	1,152	984	-15%	749	31%	2,729	3,299	21%
Investment banking	291	307	214	369	72%	359	3%	925	890	-4%
Asset Management	980	880	1,113	854	-23%	901	-5%	2,763	2,847	3%
Net interest income*	766	683	855	761	-11%	1,000	-24%	2,922	2,299	-21%
Prop trading gains*	(1)	3,495	537	1,190	121%	299	298%	573	5,222	N/A
Adj. op. revenue	2,700	6,704	4,099	4,390	7%	3,723	18%	11,335	15,192	34%
Adj. op. expenses	(1,960)	(2,554)	(2,136)	(2,270)	6%	(1,988)	14%	(5,768)	(6,960)	21%
PPoP	741	4,150	1,963	2,119	8%	1,735	22%	5,567	8,232	48%
Provision	(155)	(130)	(334)	(11)	-97%	(53)	-80%	(148)	(475)	221%
Pre-tax profit	586	4,019	1,629	2,109	29%	1,682	25%	5,419	7,757	43%
Income tax expense	(268)	(845)	(363)	(485)	34%	(376)	29%	(1,104)	(1,693)	53%
Net profit	186	2,919	1,221	1,476	21%	1,255	18%	4,114	5,616	37%
B/S	4Q18	1Q19	2Q19	3Q19	QoQ	3Q18	YoY	FY18	3Q19	YTD
Margin accounts	45,355	50,959	48,757	50,767	4%	50,144	1%	45,355	50,767	12%
Financial investment	185,492	189,400	191,517	190,893	0%	186,754	2%	185,492	190,893	3%
Reverse repos	36,813	27,043	28,859	18,585	-36%	33,346	-44%	36,813	18,585	-50%
Customer brokerage deposits	58,445	88,770	82,062	77,744	-5%	60,758	28%	58,445	77,744	33%
Total shareholder's equity	85,018	88,784	89,912	91,422	2%	85,891	6%	85,018	91,422	8%
Ratios	4Q18	1Q19	2Q19	3Q19	QoQ	3Q18	YoY	9M18	9M19	YoY
ROAE	0.9%	13.4%	5.5%	6.5%	1.0ppt	5.9%	0.6ppt	6.4%	8.8%	2.3ppt
ROAA	0.2%	2.9%	1.2%	1.5%	0.3ppt	1.3%	0.2ppt	1.5%	1.9%	0.5ppt
Leverage	3.9x	3.8x	3.7x	3.5x	-0.2x	3.9x	-0.4x	3.9x	3.5x	-0.4x
Investment yield	0.0%	7.5%	1.1%	2.5%	1.4ppt	0.7%	1.8ppt	0.4%	3.7%	3.3ppt
Cost-to-income ratio	72%	38%	51%	51%	0ppt	53%	-2ppt	50%	45%	-5ppt

Source: Company data, CMBIS

*: Adjusted for reclassification of interest income from other debt investments.

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
Shareholders' fund	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

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