

HTSC (6886 HK)

2Q20 strong on investment banking and invt. gains

HTSC reported 1H20 net profit of RMB 6.4bn, up 58% YoY, accounting for 59% of consensus FY20E estimates. 2Q20 operating income increased 25% QoQ, mainly driven by a jump in investment banking fees (+1.3x QoQ) and investment gains (+37% QoQ). We like the Company's leading position in WM transformation and believe its strength in AM and investment banking could support a high earnings visibility going forward. **Maintain BUY.**

■ **Results positives: 1) Investment banking fees +130% QoQ in 2Q20**, as four IPOs were completed in 2Q20 (vs. nil in 1Q20) and the Company achieved continuous progress in debt financing market (underwriting amount +30% QoQ). HTSC now has the 3rd/5th largest pipeline on STAR Market/ChiNext, and could well support its IB income ahead. **2) Gains from associates/JVs (+1x QoQ) boosted overall investment gains**, mostly from its M&A fund, while **prop-trading also improved 16% QoQ**, on uptick in investment yield (+0.5ppt QoQ to 3.9% by our est.) while financial investment balance slightly decreased 4% QoQ. **3) Brokerage commissions -16% QoQ, beating industry trend (-22% QoQ)**, as the Company further gained market share (est. at 7.7% in 1H20, up 0.2ppt YoY) through its industry-leading capability of leveraging mobile APP in WM transformation, while at the same time maintaining a similar commission rate decline to industry average (~10%). **4) AM fees flat QoQ in 2Q20/+16% YoY in 1H20**, despite AUM contraction (-3% HoH), as we estimate higher fee rate from enhanced active management capability.

■ **Results negatives: Net interest income though +25% QoQ in 2Q20 but -19% YoY in 1H20**, which we think was due to possible lower asset yield as SPL balance shrank (flat QoQ/-64% YoY) and margin financing faced intensifying competition, and that was partly offset by lower financing cost.

■ **Maintain BUY.** HTSC now trades at 0.83x 1-year forward P/B, 9% lower than its historical average of 0.92x. We maintain our earnings forecast unchanged and maintain BUY rating. Our TP of HK\$ 18.80 implies 1.18x FY20E P/B.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	15,624	23,822	26,049	29,465	32,730
Net profit (RMB mn)	5,033	9,002	10,405	12,004	13,500
EPS (RMB)	0.66	1.04	1.15	1.32	1.49
EPS CHG (%)	(49)	57	11	15	12
Consensus EPS (RMB)	N/A	N/A	1.25	1.37	1.52
P/E (x)	18.5	11.8	10.7	9.2	8.2
P/B (x)	0.98	0.90	0.85	0.80	0.75
Yield (%)	2.7	2.5	3.8	4.3	4.9
ROE (%)	5.3	8.0	8.2	8.9	9.5
Financial leverage (x)	3.0	3.9	4.0	3.9	3.9

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 18.80
(Previous TP	HK\$ 18.80)
Up/Downside	+38.0%
Current Price	HK\$ 13.62

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	193,953
Avg 3 mths t/o (HK\$ mn)	136.04
52w High/Low (HK\$)	16.52/ 10.32
Total Issued Shares (mn)	1,719 (H)
	7,358 (A)

Source: Bloomberg

Shareholding Structure

Jiangsu Guoxin	14.86%
Jiangsu Communications	
Holding Company Limited	5.39%

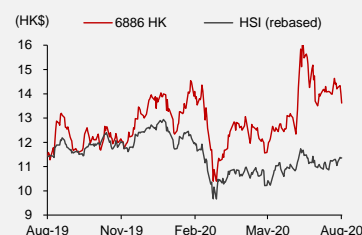
Source: Company data

Share Performance

	Absolute	Relative
1-mth	2.0%	-1.1%
3-mth	20.7%	8.7%
6-mth	-0.9%	4.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

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5. "Investment gains boosted 4Q19 results" – 31 Mar 2020

Figure 1: HTSC's 2Q20 results summary

(RMB mn)										
I/S	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY	1H19	1H20	YoY
Net fee and commission income	2,322	2,404	2,421	2,792	3,008	8%	30%	4,463	5,800	30%
Brokerage	1,118	975	891	1,515	1,277	-16%	14%	2,243	2,792	24%
Investment banking	356	596	747	382	880	130%	147%	604	1,261	109%
Asset Management	769	789	682	847	850	0%	11%	1,481	1,697	15%
Net interest income	765	387	466	446	576	29%	-25%	1,268	1,022	-19%
Prop trading gains	1,227	2,521	3,227	2,500	2,895	16%	136%	3,431	5,395	57%
Adj. op. revenue	4,508	6,404	6,856	6,705	8,381	25%	86%	10,562	15,086	43%
Adj. op. expenses	(2,600)	(2,924)	(3,596)	(2,915)	(3,652)	25%	40%	(4,999)	(6,566)	31%
PPoP	1,908	3,480	3,260	3,790	4,729	25%	148%	5,563	8,519	53%
Provision	(141)	(450)	(122)	(17)	(196)	1058%	39%	(145)	(213)	47%
Pre-tax profit	1,766	3,030	3,138	3,773	4,533	20%	157%	5,418	8,306	53%
Income tax expense	(471)	(642)	(569)	(863)	(1,000)	16%	112%	(1,318)	(1,863)	41%
Net profit	1,277	2,384	2,561	2,888	3,517	22%	175%	4,057	6,405	58%
B/S	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY	FY19	1H20	HoH
Margin accounts	56,931	60,649	69,006	70,658	78,312	11%	38%	69,006	78,312	13%
Financial investment	233,295	250,266	284,893	301,508	288,295	-4%	24%	284,893	288,295	1%
Reverse repos	26,712	17,685	18,466	21,325	17,257	-19%	-35%	18,466	17,257	-7%
Borrowings and bonds	103,464	119,372	128,979	131,638	117,936	-10%	14%	128,979	117,936	-9%
Total shareholders' equity	116,824	119,946	122,538	125,152	125,056	0%	7%	122,538	125,056	2%
Ratios	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY	1H19	1H20	YoY
ROE	4.6%	8.1%	8.4%	9.3%	11.2%	1.9ppt	6.7ppt	7.4%	10.3%	3.0ppt
ROA	1.1%	1.9%	1.9%	2.0%	2.4%	0.4ppt	1.3ppt	1.9%	2.2%	0.3ppt
Leverage	3.5x	3.6x	3.9x	3.9x	3.8x	-0.1x	0.3x	3.5x	3.8x	0.3x
Investment yield*	2.4%	4.2%	4.8%	3.4%	3.9%	0.5ppt	1.5ppt	4.0%	4.4%	0.4ppt
Cost-to-income ratio	57%	45%	52%	43%	43%	0ppt	-14ppt	47%	43%	-4ppt

Source: Company data, CMBIS

*: including interest income from debt/other debt investments when calculating semi-annual investment yield.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Brokerage commission	3,386	4,108	5,284	5,824	6,482
Investment banking fee	1,949	1,947	2,432	2,779	3,219
Asset management fee	2,624	2,952	3,069	3,229	3,587
Net interest income	3,015	2,122	2,065	2,419	2,542
Prop-trading gains	3,250	9,180	9,907	11,839	13,289
Others	1,400	3,513	3,293	3,376	3,610
Adj. op. revenue	15,624	23,822	26,049	29,465	32,730
Adj. op. expenses	(8,307)	(11,519)	(12,324)	(14,032)	(15,471)
PPoP	7,317	12,303	13,725	15,433	17,259
Provision	(868)	(717)	(602)	(534)	(336)
Pre-tax profit	6,449	11,586	13,123	14,899	16,922
Income tax expense	(1,288)	(2,529)	(2,689)	(3,056)	(3,384)
Minority interests	(128)	(56)	(29)	(34)	(38)
Net profit	5,033	9,002	10,405	12,004	13,500

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Deposit held on behalf of clients	42,902	67,245	93,740	102,387	109,715
Clearing reserves	19,068	22,471	32,223	33,028	34,743
Margin accounts	46,189	69,006	75,907	83,498	90,177
Reverse repos	43,557	18,466	20,313	21,329	22,608
Financial investments	148,975	284,893	316,232	338,368	362,054
Other assets	67,975	100,099	103,727	104,252	106,842
Total assets	368,666	562,181	642,142	682,860	726,139
Customer brokerage deposits	59,492	89,818	126,549	138,222	149,212
Short-term debts	70,048	173,231	195,010	206,711	217,066
Long-term debts	64,589	65,467	73,221	77,564	82,933
Other liabilities	69,786	108,010	113,673	118,450	126,115
Total liabilities	263,916	436,526	508,454	540,946	575,326
Total shareholders' equity	103,394	122,538	130,259	138,142	146,928
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	1,356	3,117	3,429	3,772	3,885

Key Ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue mix					
Brokerage commission	22%	17%	20%	20%	20%
Investment banking fee	12%	8%	9%	9%	10%
Asset management fee	17%	12%	12%	11%	11%
Net interest income	19%	9%	8%	8%	8%
Prop-trading gains	21%	39%	38%	40%	41%
Others	9%	15%	13%	11%	11%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-20%	21%	29%	10%	11%
Investment banking fee	-4%	0%	25%	14%	16%
Asset management fee	14%	12%	4%	5%	11%
Net interest income	-16%	-30%	-3%	17%	5%
Prop-trading gains	-60%	182%	8%	20%	12%
Adj. op. revenue	-28%	52%	9%	13%	11%
PPoP	-38%	68%	12%	12%	12%
Net profit	-46%	79%	16%	15%	12%
Total assets	-3%	52%	14%	6%	6%
Efficiency					
Cost-to-income ratio	52%	48%	47%	47%	47%
Leverage					
Adj. financial leverage (x)	3.0	3.9	4.0	3.9	3.9
Investment/ equity	144%	232%	243%	245%	246%
Profitability					
ROE	5.3%	8.0%	8.2%	8.9%	9.5%
ROA	1.3%	1.9%	1.7%	1.8%	1.9%
Per share					
EPS (RMB)	0.66	1.04	1.15	1.32	1.49
DPS (RMB)	0.33	0.30	0.46	0.53	0.59
BVPS (RMB)	12.53	13.50	14.35	15.22	16.19

Source: Company data, CMBIS estimates

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