

GF Securities (1776 HK)

FY20 brilliant AM weighed on by weak IB and prop-trading

GFS reported FY20 net profit of RMB 10.0bn, up 33% YoY, in-line with prelim results. Operating revenue grew 34% YoY, primarily boosted by robust brokerage, AM and net interest income, while the regulatory ban on its IB business halved IB income. Though the ban will expire in FY21E, we think the recent tightening IPO rules will likely make GFS's IB income recovery a mild and gradual one, esp. given its strength in small- to mid-sized corporate clients. We revise up GFS's FY21E-22E earnings forecast by avg. 20% on higher AM and NII projection, and lift TP to HK\$ 13.10. **Maintain HOLD.**

■ **Results positives:** 1) **AM income** was up impressively 69% YoY, mostly attributable to doubled fund mgmt. fee on a 52% YoY growth of GF Fund's total mutual fund AUM. Meanwhile, asset mgmt. fee and AUM was flat YoY on reduced "channel business". 2) **Brokerage income** +57% YoY, though brokerage market share dipped 0.2ppt, commission rate was more resilient than industry trend (-4% vs. -9% YoY) and agency sales income of financial products more than doubled. 3) **Net interest income** +34% YoY, mainly due to 34% YoY growth of margin financing interest income and lower interest rates of bond issuance amid easing monetary policy. The Company's leverage was up only 0.2x YoY to 3.6x ended FY20, the slowest growth among brokers we cover.

■ **Results negatives:** 1) **IB income** dropped 55% YoY, as the Company was banned from IPO sponsoring & bond underwriting for 6mths & 12mths, respectively, from Jul 2020. This trend should gradually reverse in FY21E as ban on IPO sponsoring ban expired in Jan 2021 and ban on bond underwriting will expire in Jul 2021. 2) **Prop-trading gains** +2% YoY, lagging behind peers and index performance. We noticed that GFS's financial investment only grew 2% YoY and % of equity investment decreased from 12% in FY19 to 8% in FY20, possibly making it miss out to gain from the A-share market rally. 3) **Impairment losses** +26% YoY, though already a low growth compared with large peers. Charges was mainly made for bond investment and leasing receivables.

■ **Lift TP to HK\$ 13.10; Maintain HOLD.** We revise up GFS's FY21E-22E earnings forecast by avg. 20% on higher AM and NII projection, and lift TP to HK\$ 13.10 after incorporating higher COE assumption (11.3% vs. prev. 10.1%). GFS now trades at 0.74x 1-year forward P/B (vs. post-2015 avg. of 0.86x) or two-year high. We think the expectation for GFS's IB recovery was largely priced in current valuation. We maintain HOLD rating on the name.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Adj. op. revenue (RMB mn)	20,486	27,369	26,680	28,648	30,767
Net profit (RMB mn)	7,539	10,038	10,234	11,245	12,163
EPS (RMB)	0.99	1.32	1.34	1.48	1.60
EPS CHG (%)	75	33	2	10	8
Consensus EPS (RMB)	N/A	N/A	1.41	1.58	N/A
P/E (x)	10.4	7.8	7.6	7.0	6.4
P/B (x)	0.86	0.80	0.74	0.69	0.64
Yield (%)	6.3	4.4	4.6	5.0	5.4
ROE (%)	8.6	10.6	10.1	10.3	10.4
Financial leverage (x)	3.4	3.6	3.6	3.5	3.5

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price **HK\$ 13.10**
 (Previous TP **HK\$ 11.60**)
 Up/Downside **+6.0%**
 Current Price **HK\$ 12.36**

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	132,153
Avg 3 mths t/o (HK\$ mn)	69.11
52w High/Low (HK\$)	13.36/7.36
Total Issued Shares (mn)	1,702 (H)
	5,919 (A)

Source: Wind

Shareholding Structure

Jilin Aodong	18.06%
Liaoning Cheng Da	17.77%
Zhongshan Public Utilities	10.34%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	11.8%	12.4%
3-mth	12.4%	7.5%
6-mth	20.9%	0.2%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Ernst & Young

Related Reports

1. "3Q20 results wrap: growth on robust fee incomes" – 2 Nov 2020
2. "Optimism & reform suggest more earnings upsides" – 9 Jul 2020
3. "Reform acceleration could drive further divergence" – 12 May 2020
4. "4Q19 slight beat on stronger investment banking" – 30 Mar 2020
5. "On an upward policy trajectory" – 19 Mar 2020

Figure 1: GFS's quarterly results summary

(RMB mn)										
I/S	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Net fee and commission	2,566	3,178	3,100	4,252	3,585	-16%	40%	9,761	14,114	45%
Brokerage	900	1,604	1,249	2,161	1,557	-28%	73%	4,198	6,571	57%
Investment banking	548	270	151	173	55	-68%	-90%	1,438	649	-55%
Asset Management	1,063	1,243	1,613	1,848	1,893	2%	78%	3,911	6,598	69%
Net interest income	869	890	916	1,246	1,201	-4%	38%	3,168	4,254	34%
Prop trading gains	1,465	1,148	3,811	1,315	533	-59%	-64%	6,687	6,808	2%
Adj. op. revenue	5,294	5,257	8,766	7,155	6,191	-13%	17%	20,486	27,369	34%
Adj. op. expenses	(2,568)	(2,421)	(3,389)	(3,758)	(3,347)	-11%	30%	(9,528)	(12,914)	36%
PPoP	2,725	2,837	5,377	3,397	2,844	-16%	4%	10,957	14,455	32%
Provision	(206)	(90)	(269)	(168)	(328)	96%	60%	(681)	(856)	26%
Pre-tax profit	2,520	2,747	5,107	3,229	2,516	-22%	0%	10,276	13,599	32%
Income tax expense	(473)	(580)	(1,155)	(631)	(462)	-27%	-2%	(2,166)	(2,828)	31%
Net profit	1,923	2,071	3,681	2,389	1,898	-21%	-1%	7,539	10,038	33%
B/S	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Margin accounts	54,787	57,930	61,953	79,260	86,153	9%	57%	54,787	86,153	57%
Financial investment	20,689	18,650	16,265	15,363	16,794	9%	-19%	20,689	16,794	-19%
Reverse repos	193,368	216,208	197,758	186,750	200,012	7%	3%	193,368	200,012	3%
Borrowings and bonds	200,512	227,019	197,628	217,607	230,227	6%	15%	200,512	230,227	15%
Total shareholders' equity	91,234	93,122	93,951	96,153	98,162	2%	8%	91,234	98,162	8%
Ratios	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
ROE	8.4%	9.0%	15.7%	10.1%	7.8%	-2.2ppt	-0.6ppt	8.6%	10.6%	2.0ppt
ROA	2.0%	2.0%	3.4%	2.2%	1.7%	-0.5ppt	-0.3ppt	1.9%	2.4%	0.5ppt
Leverage	3.4x	3.7x	3.4x	3.5x	3.6x	0.1x	0.2x	3.4x	3.6x	0.2x
Investment yield*	3.0%	2.2%	7.4%	2.7%	1.1%	-1.6ppt	-1.9ppt	5.4%	5.3%	-0.1ppt
Cost-to-income ratio	48%	45%	38%	52%	53%	1ppt	5ppt	46%	47%	1ppt

Source: Company data, CMBIS

*: including interest income from debt/other debt investments when calculating full-year yield.

Figure 2: Earnings revision

(HK\$)	New		Old		New vs. Old	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Adj. operating income (mn)	26,680	28,648	22,044	24,406	21%	17%
Net profit (mn)	10,234	11,245	8,378	9,501	22%	18%
EPS	1.34	1.48	1.10	1.25	22%	18%
BVPS	13.79	14.81	13.46	14.40	2%	3%
ROE	10.1%	10.3%	8.4%	8.9%	1.7ppt	1.4ppt

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Brokerage commission	4,198	6,571	6,425	7,094	7,510
Investment banking fee	1,438	649	820	1,014	1,270
Asset management fee	3,911	6,598	5,760	6,492	7,430
Net interest income	3,168	4,254	4,119	4,272	4,192
Prop-trading gains	6,687	6,808	6,863	7,084	7,672
Others	1,084	2,489	2,693	2,693	2,693
Adj. op. revenue	20,486	27,369	26,680	28,648	30,767
Adj. op. expenses	(9,528)	(12,914)	(12,350)	(13,114)	(14,085)
PPoP	10,957	14,455	14,330	15,534	16,682
Provision	(681)	(856)	(720)	(576)	(481)
Pre-tax profit	10,276	13,599	13,610	14,958	16,201
Income tax expense	(2,166)	(2,828)	(2,589)	(2,846)	(3,082)
Minority interests	(571)	(733)	(786)	(867)	(956)
Net profit	7,539	10,038	10,234	11,245	12,163

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Deposit held on behalf of clients	58,366	80,470	83,760	93,867	99,272
Clearing reserves	19,548	20,515	24,430	27,378	28,954
Margin accounts	54,787	86,153	92,184	97,715	103,577
Reverse repos	20,689	16,794	17,634	18,515	19,441
Financial investments	193,368	200,012	216,013	228,974	242,713
Other assets	47,632	53,519	52,747	53,920	55,116
Total assets	394,391	457,464	486,768	520,370	549,074
Customer brokerage deposits	79,681	102,941	108,888	122,028	129,054
Short-term debts	114,299	138,294	146,085	151,839	157,821
Long-term debts	86,213	91,933	99,244	105,060	111,224
Other liabilities	20,062	22,022	23,156	24,047	24,991
Total liabilities	300,254	355,190	377,373	402,974	423,090
Shareholders' fund	91,234	98,162	105,078	112,863	121,224
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	2,903	4,111	4,317	4,533	4,759

Key Ratios

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating revenue mix					
Brokerage commission	20%	24%	24%	25%	24%
Investment banking fee	7%	2%	3%	4%	4%
Asset management fee	19%	24%	22%	23%	24%
Net interest income	15%	16%	15%	15%	14%
Prop-trading gains	33%	25%	26%	25%	25%
Others	5%	9%	10%	9%	9%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	22%	57%	-2%	10%	6%
Investment banking fee	18%	-55%	26%	24%	25%
Asset management fee	4%	69%	-13%	13%	14%
Net interest income	-14%	34%	-3%	4%	-2%
Prop-trading gains	1071%	2%	1%	3%	8%
Adj. op. revenue	46%	34%	-3%	7%	7%
PPoP	74%	32%	-1%	8%	7%
Net profit	75%	33%	2%	10%	8%
Total assets	1%	16%	6%	7%	6%
Efficiency					
Cost-to-income ratio	46%	47%	46%	45%	45%
Leverage					
Adj. financial leverage (x)	3.4	3.6	3.6	3.5	3.5
Investment/ equity	212%	204%	206%	203%	200%
Profitability					
ROE	8.6%	10.6%	10.1%	10.3%	10.4%
ROA	1.9%	2.4%	2.2%	2.2%	2.3%
Per share					
EPS (RMB)	0.99	1.32	1.34	1.48	1.60
DPS (RMB)	0.65	0.45	0.47	0.52	0.56
BVPS (RMB)	11.97	12.88	13.79	14.81	15.91

Source: Company data, CMBIS estimates

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