

# HTSC (6886 HK)

## Investment gains boosted 4Q19 results

HTSC reported FY19 net profit of RMB 9.0bn, up 79% YoY, 7%/9% higher than CMBIS/consensus estimates. FY19 operating revenue increased 52% YoY to RMB 23.8bn, mainly driven by surged prop-trading gains and investment gains on associates/JVs, while lower net interest income dented the growth due to cutting-down on SPL business. HTSC announced an A-share repurchase plan for share incentives. We still like HTSC's leading position in IPO underwriting and strength in wealth management transformation. **Maintain BUY.**

■ **Results positives: 1) Prop-trading gains and profit from associate/JVs was strong in 4Q19**, together pushed up investment gains by 12% QoQ. Gains from associates/JVs recorded a total of RMB 2.7bn in FY19 vs. RMB 0.9bn in FY18, largely from PE investments. **2) Brokerage commission -9% QoQ** (vs. domestic market total turnover -8% QoQ). We estimated a stable market share in 2H19 but further declining commission rate. **3) Impairment losses -73% QoQ in 4Q19/-17% YoY in FY19**, seeing increase in 2H19 mainly from reverse repos. Given contracting SPL balances, the risks should be manageable going forward.

■ **Results negatives: 1) Investment banking fees +25% QoQ though**, equity/debt financing underwriting amount -7%/-10% QoQ. HTSC now owns the most active STAR Market IPO sponsorship in pipeline, and we expect better performance from its investment banking in FY20E. **2) AM fees -13% QoQ in 4Q19/+12% YoY in FY19**, likely from lower fund mgmt. fees while we estimate enhanced AM fee rate against lower AUM (-24% HoH/-10% YoY at YE FY19). **3) Net interest income +20% QoQ in 4Q19/-30% YoY in FY19**, primarily due to lowered interest income on significant contraction of SPL balance (-64% HoH/-80% YoY at YE FY19).

■ **HTSC announced A-share repurchase for share incentive plan**, which allows it to repurchase 0.5%-1.0% of its total share base through secondary market. The max. repurchase price should not exceed 150% of its A-shares' avg. 30-day prices before the Board approves the plan or RMB 28.81 (167.5% of its last A-share closing price). Potential positive reaction of its A-share price may also help lift its near-trough H-share valuation. HTSC now trades at 0.71x 1-year forward P/B, 12% lower than historical avg. minus 1SD (0.81x). Our earnings forecast remains unchanged, and we **maintain BUY** rating on HTSC with TP at HK\$ 14.60.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	15,624	23,822	24,149	26,761	29,137
Net profit (RMB mn)	5,033	9,002	9,379	10,746	11,785
EPS (RMB)	0.66	1.04	1.03	1.18	1.30
EPS CHG (%)	(49)	57	(0)	15	10
Consensus EPS (RMB)	N/A	N/A	1.07	1.16	2.14
P/E (x)	15.3	9.7	9.8	8.5	7.8
P/B (x)	0.80	0.75	0.71	0.68	0.64
Yield (%)	3.3	3.0	4.1	4.7	5.2
ROAE (%)	5.3	8.0	7.5	8.1	8.5
Financial leverage (x)	3.0	3.9	3.7	3.7	3.7

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$ 14.60
(Previous TP)	HK\$ 14.60)
Up/Downside	+29.2%
Current Price	HK\$ 11.30

### China Brokerage Sector

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### Stock Data

Mkt Cap (HK\$ mn)	158,709
Avg 3 mths t/o (HK\$ mn)	110.69
52w High/Low (HK\$)	16.56/ 10.32
Total Issued Shares (mn)	<b>1,719 (H)</b> 7,358 (A)

Source: Bloomberg

### Shareholding Structure

Jiangsu Guoxin	13.35%
Citibank, National Association	9.09%
Jiangsu Communications	
Holding Company Limited	5.18%

Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-16.5%	-10.5%
3-mth	-17.8%	-8.6%
6-mth	-3.7%	-0.1%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. "On an upward policy trajectory" – 19 Mar 2020
2. "COVID-19 unlikely to derail industry upswing" – 12 Feb 2020
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4. "IB, prop trading & AM propped up 3Q19 earnings" - 30 Oct 2019
5. "Higher earnings visibility given favorable policy environment" – 6 Sep 2019

**Figure 1: HTSC's 4Q19 results summary**

(RMB mn)											vs.
<b>I/S</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>QoQ</b>	<b>4Q18</b>	<b>YoY</b>	<b>FY18</b>	<b>FY19</b>	<b>YoY</b>	<b>CMBIS est.</b>
Net fee and commissions	2,141	2,322	2,404	2,421	1%	2,260	7%	8,062	9,288	15%	-1%
Brokerage	1,124	1,118	975	891	-9%	746	19%	3,386	4,108	21%	-3%
Investment banking	248	356	596	747	25%	693	8%	1,949	1,947	0%	1%
Asset Management	712	769	789	682	-13%	783	-13%	2,624	2,952	12%	-7%
Net interest income	503	765	387	466	20%	1,019	-54%	3,015	2,122	-30%	-17%
Prop trading gains	2,204	1,227	2,521	3,227	28%	334	866%	3,250	9,180	182%	-3%
<b>Adj. op. revenue</b>	<b>6,054</b>	<b>4,508</b>	<b>6,404</b>	<b>6,856</b>	<b>7%</b>	<b>3,440</b>	<b>99%</b>	<b>15,624</b>	<b>23,822</b>	<b>52%</b>	<b>4%</b>
Adj. op. expenses	(2,399)	(2,600)	(2,924)	(3,596)	23%	(2,156)	67%	(8,307)	(11,519)	39%	4%
<b>PPoP</b>	<b>3,655</b>	<b>1,908</b>	<b>3,480</b>	<b>3,260</b>	<b>-6%</b>	<b>1,283</b>	<b>154%</b>	<b>7,317</b>	<b>12,303</b>	<b>68%</b>	<b>3%</b>
Provision	(3)	(141)	(450)	(122)	-73%	(372)	-67%	(868)	(717)	-17%	1%
<b>Pre-tax profit</b>	<b>3,652</b>	<b>1,766</b>	<b>3,030</b>	<b>3,138</b>	<b>4%</b>	<b>645</b>	<b>387%</b>	<b>6,449</b>	<b>11,586</b>	<b>80%</b>	<b>3%</b>
Income tax expense	(847)	(471)	(642)	(569)	-11%	631	-190%	(1,288)	(2,529)	96%	0%
<b>Net profit</b>	<b>2,780</b>	<b>1,277</b>	<b>2,384</b>	<b>2,561</b>	<b>7%</b>	<b>553</b>	<b>363%</b>	<b>5,033</b>	<b>9,002</b>	<b>79%</b>	<b>5%</b>
<b>B/S</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>QoQ</b>	<b>4Q18</b>	<b>YoY</b>	<b>FY18</b>	<b>FY19</b>	<b>YoY</b>	
Margin accounts	57,934	56,931	60,649	69,006	14%	46,189	49%	46,189	69,006	49%	
Financial investment	178,000	233,295	250,266	284,893	14%	148,975	91%	148,975	284,893	91%	
Reverse repos	43,535	26,712	17,685	18,466	4%	43,557	-58%	43,557	18,466	-58%	
Customer deposits	90,210	83,209	82,932	89,818	8%	59,492	51%	59,492	89,818	51%	
Total shareholder's equity	106,626	116,824	119,946	122,538	2%	103,394	19%	103,394	122,538	19%	
<b>Ratios</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>QoQ</b>	<b>4Q18</b>	<b>YoY</b>	<b>FY18</b>	<b>FY19</b>	<b>YoY</b>	
ROE	10.6%	4.6%	8.1%	8.4%	0.4ppt	2.1%	6.3ppt	5.3%	8.0%	2.7ppt	
ROA	2.7%	1.1%	1.9%	1.9%	0.0ppt	0.6%	1.3ppt	1.3%	1.9%	0.6ppt	
Leverage	3.4x	3.6x	3.6x	3.9x	0.3x	3.0x	0.9x	3.0x	3.9x	0.9x	
Investment yield*	5.4%	2.4%	4.2%	4.8%	0.7ppt	0.9%	3.9ppt	2.7%	5.3%	2.7ppt	
Cost-to-income ratio	39%	57%	45%	52%	7ppt	62%	-10ppt	52%	48%	-5ppt	

Source: Company data, CMBIS

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

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Brokerage commission	3,386	4,108	5,147	5,672	6,313
Investment banking fee	1,949	1,947	2,047	2,186	2,391
Asset management fee	2,624	2,952	3,392	3,652	4,011
Net interest income	3,015	2,122	2,290	2,496	2,429
Prop-trading gains	3,250	9,180	9,607	11,006	11,851
Others	1,400	3,513	1,666	1,749	2,142
<b>Adj. op. revenue</b>	<b>15,624</b>	<b>23,822</b>	<b>24,149</b>	<b>26,761</b>	<b>29,137</b>
Adj. op. expenses	(8,307)	(11,519)	(11,586)	(12,920)	(13,892)
PPoP	7,317	12,303	12,563	13,841	15,244
Provision	(868)	(717)	(596)	(528)	(333)
Pre-tax profit	6,449	11,586	11,968	13,313	14,911
Income tax expense	(1,288)	(2,529)	(2,479)	(2,763)	(2,982)
Minority interests	(128)	(56)	(110)	(129)	(144)
<b>Net profit</b>	<b>5,033</b>	<b>9,002</b>	<b>9,379</b>	<b>10,746</b>	<b>11,785</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Deposit held on behalf of clients	42,902	67,245	69,936	78,853	87,316
Clearing reserves	19,068	22,471	33,673	37,966	42,041
Margin accounts	46,189	69,006	72,424	78,218	81,347
Reverse repos	43,557	18,466	14,025	13,745	14,294
Financial investments	148,975	284,893	281,563	304,088	319,293
Other assets	67,975	100,099	94,361	92,203	100,558
<b>Total assets</b>	<b>368,666</b>	<b>562,181</b>	<b>565,983</b>	<b>605,074</b>	<b>644,848</b>
Customer brokerage deposits	59,492	89,818	94,414	106,452	118,750
Short-term debts	70,048	173,231	158,506	168,966	176,070
Long-term debts	64,589	65,467	88,029	93,259	99,727
Other liabilities	69,786	108,010	93,109	97,076	103,286
<b>Total liabilities</b>	<b>263,916</b>	<b>436,526</b>	<b>434,058</b>	<b>465,753</b>	<b>497,832</b>
<b>Shareholders' fund</b>	<b>103,394</b>	<b>122,538</b>	<b>128,345</b>	<b>135,383</b>	<b>142,960</b>
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	1,356	3,117	3,580	3,938	4,056

### Key Ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Operating revenue mix</b>					
Brokerage commission	22%	17%	21%	21%	22%
Investment banking fee	12%	8%	8%	8%	8%
Asset management fee	17%	12%	14%	14%	14%
Net interest income	19%	9%	9%	9%	8%
Prop-trading gains	21%	39%	40%	41%	41%
Others	9%	15%	7%	7%	7%
Total	100%	100%	100%	100%	100%
<b>Growth, YoY</b>					
Brokerage commission	-20%	21%	25%	10%	11%
Investment banking fee	-4%	0%	5%	7%	9%
Asset management fee	14%	12%	15%	8%	10%
Net interest income	-16%	-30%	8%	9%	-3%
Prop-trading gains	-60%	182%	5%	15%	8%
<b>Adj. op. revenue</b>	<b>-28%</b>	<b>52%</b>	<b>1%</b>	<b>11%</b>	<b>9%</b>
PPoP	-38%	68%	2%	10%	10%
<b>Net profit</b>	<b>-46%</b>	<b>79%</b>	<b>4%</b>	<b>15%</b>	<b>10%</b>
Total assets	-3%	52%	1%	7%	7%
<b>Efficiency</b>					
Cost-to-income ratio	52%	48%	47%	47%	47%
<b>Leverage</b>					
Adj. financial leverage (x)	3.0	3.9	3.7	3.7	3.7
Investment/ equity	144%	232%	219%	225%	223%
<b>Profitability</b>					
ROE	5.3%	8.0%	7.5%	8.1%	8.5%
ROA	1.3%	1.9%	1.7%	1.8%	1.9%
<b>Per share</b>					
EPS (RMB)	0.66	1.04	1.03	1.18	1.30
DPS (RMB)	0.30	0.30	0.41	0.47	0.52
BVPS (RMB)	12.53	13.50	14.14	14.92	15.75

Source: Company data, CMBIS estimates

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