

HTSC (6886 HK)

Fee income growth played the lead

HTSC reported 1Q20 net profit of RMB 2.9bn, up 4% YoY, accounting for 31% of our FY20E estimates. Operating revenue increased 11% YoY to RMB 6.7bn, where fee income growth outshone that of investment gains and NII. HTSC also recorded smallest provision among covered brokers, helping support a positive bottom-line growth. Going forwards, we expect the Company to deliver strong performance in asset mgmt. business and see sequential rebound in investment banking fees as IPO approval pace resumed to normal. **Maintain BUY.**

- Results positives:**
 - 1) Brokerage commission +35% YoY** (vs. industry trend +33% YoY). Already-lower-than-peers' commission rate and its leadership in WM transformation should help HTSC to guard its market share.
 - 2) Investment banking fees +54% YoY on low base**, largely from strong growth of debt underwriting (amount +57% YoY vs. industry +43%), while equity underwriting was subdued (amount -50% YoY with nil IPO). With now second largest STAR Market pipeline, we believe HTSC could catch up in IPO sponsorship in coming quarters.
 - 3) AM fees +19% YoY** (and +24% QoQ despite high base), which could be attributable to its outstanding active mgmt. capability.
 - 4) Impairment losses was RMB 17mn** (vs. RMB 3mn/122mn in 1Q19/4Q19), the lowest among covered brokers and was mainly from investments. After slashing its on-B/S SPL balance by 80% in FY19, HTSC should face less pressure from related credit risks than peers going forward.
- Results negatives:**
 - 1) Investment yield was calculated at 3.4% for 1Q20**, much lower than 5.3% for FY19. Though prop-trading gains was up +13% YoY, we believe this was primarily on expanded investment balance (+69% YoY). Furthermore, **investment gains from JVs/associates dropped 31% YoY**, possibly dragged by gains from PE funds.
 - 2) Net interest income -11% YoY**, where higher interest income was offset by higher interest expenses. Margin account balance grew 22% YoY (vs. industry +15% YoY), while growth of total debts outpaced it (+33% YoY).
- Maintain BUY.** HTSC's share price has outperformed peers' in Apr (+12% vs. peers' avg. +2%) which was partly spurred by its A-share repurchase plan for ESOP. HTSC now trades at 0.82x 1-year forward P/B, 14% lower than its historical average of 0.95x. By considering ~3% FY20E dividend yield, total return in next 12mths could reach ~16%, thus we maintain BUY on the name.

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	1.17	1.29
P/E (x)	17.5	11.2	11.2	9.8	8.9
P/B (x)	0.92	0.86	0.82	0.78	0.74
Yield (%)	2.8	2.6	2.7	3.1	3.4
ROE (%)	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	+13.0%
Current Price	HK\$ 12.92

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	168,689
Avg 3 mths t/o (HK\$ mn)	103.09
52w High/Low (HK\$)	14.72/ 10.32
Total Issued Shares (mn)	1,719 (H) 7,358 (A)

Source: Bloomberg

Shareholding Structure

Jiangsu Guoxin	14.79%
Jiangsu Communications Holding Company Limited	5.39%

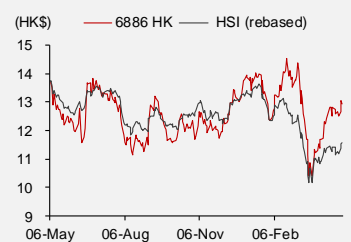
Source: Company data

Share Performance

	Absolute	Relative
1-mth	10.6%	4.3%
3-mth	3.5%	10.7%
6-mth	9.3%	20.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

- "Resilient Mar set for better-than-expected 1Q20E results" – 14 Apr 2020
- "Investment gains boosted 4Q19 results" – 31 Mar 2020
- "On an upward policy trajectory" – 19 Mar 2020
- "COVID-19 unlikely to derail industry upswing" – 12 Feb 2020

Figure 1: HTSC's 1Q20 results summary

(RMB mn)							
I/S	2Q19	3Q19	4Q19	1Q20	QoQ	1Q19	YoY
Net fee and commissions	2,322	2,404	2,421	2,792	15%	2,141	30%
Brokerage	1,118	975	891	1,515	70%	1,124	35%
Investment banking	356	596	747	382	-49%	248	54%
Asset Management	769	789	682	847	24%	712	19%
Net interest income	765	387	466	446	-4%	503	-11%
Prop trading gains	1,227	2,521	3,227	2,500	-23%	2,204	13%
Adj. op. revenue	4,508	6,404	6,856	6,705	-2%	6,054	11%
Adj. op. expenses	(2,600)	(2,924)	(3,596)	(2,915)	-19%	(2,399)	21%
PPoP	1,908	3,480	3,260	3,790	16%	3,655	4%
Provision	(141)	(450)	(122)	(17)	-86%	(3)	388%
Pre-tax profit	1,766	3,030	3,138	3,773	20%	3,652	3%
Income tax expense	(471)	(642)	(569)	(863)	52%	(847)	2%
Net profit	1,277	2,384	2,561	2,888	13%	2,780	4%
B/S	2Q19	3Q19	4Q19	1Q20	QoQ	1Q19	YoY
Margin accounts	56,931	60,649	69,006	70,658	2%	57,934	22%
Financial investment	233,295	250,266	284,893	301,508	6%	178,000	69%
Reverse repos	26,712	17,685	18,466	21,325	15%	43,535	-51%
Customer deposits	83,209	82,932	89,818	105,993	18%	90,210	17%
Total shareholder's equity	116,824	119,946	122,538	125,152	2%	106,626	17%
Ratios	2Q19	3Q19	4Q19	1Q20	QoQ	1Q19	YoY
ROE	4.6%	8.1%	8.4%	9.3%	0.9ppt	10.6%	-1.3ppt
ROA	1.1%	1.9%	1.9%	2.0%	0.1ppt	2.7%	-0.7ppt
Leverage	3.5x	3.6x	3.9x	3.9x	0.0x	3.3x	0.6x
Investment yield	2.4%	4.2%	4.8%	3.4%	-1.4ppt	5.4%	-2.0ppt
Cost-to-income ratio	57%	45%	52%	43%	-9ppt	39%	4ppt

Source: Company data, CMBIS

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
Adj. op. revenue	15,624	23,822	24,149	26,761	29,137
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)
Net profit	5,033	9,002	9,379	10,746	11,785

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
Total assets	368,666	562,181	565,983	605,074	644,848
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
Total liabilities	263,916	436,526	434,058	465,753	497,832
Shareholders' fund	103,394	122,538	128,345	135,383	142,960
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
Operating revenue mix					
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%
Growth, YoY					
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%
Adj. op. revenue	-28%	52%	1%	11%	9%
PPoP	-38%	68%	2%	10%	10%
Net profit	-46%	79%	4%	15%	10%
Total assets	-3%	52%	1%	7%	7%
Efficiency					
Cost-to-income ratio	52%	48%	47%	47%	47%
Leverage					
Adj. financial leverage (x)	3.0	3.9	3.7	3.7	3.7
Investment/ equity	144%	232%	219%	225%	223%
Profitability					
ROE	5.3%	8.0%	7.5%	8.1%	8.5%
ROA	1.3%	1.9%	1.7%	1.8%	1.9%
Per share					
EPS (RMB)	0.66	1.04	1.03	1.18	1.30
DPS (RMB)	0.30	0.30	0.31	0.36	0.39
BVPS (RMB)	12.53	13.50	14.14	14.92	15.75

Source: Company data, CMBIS estimates

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