

# Huatai Securities (6886 HK)

## Outstanding AM offset by weak NII and invt. gains

HTSC reported 1H19 net profit of RMB 4.1bn, up 28% YoY, accounting for 50%/50% of CMBIS/consensus FY19E estimates. 2Q19 operating revenue decreased 26% QoQ to RMB 4.5bn, dragged by weak net interest income and prop trading gains. Higher opex. (+8 QoQ) and credit costs further dragged bottom line to RMB 1.3bn, down 54% QoQ. 1H19 annualized ROE was up 0.3ppt to 7.4% as the Company's GDR issuance expanded its equity base.

- Results positives:** 1) **2Q19 brokerage commission remained largely stable** (-1% QoQ vs. A-share ADT +2% QoQ). We estimated a slight market share uptick of HTSC's brokerage business in 1H19, thanks to its leading position in wealth management business transformation and successful penetration of its mobile APP "ZhangLe Fortune Path". 2) **AM fees was a big bright spot** (+8% QoQ in 2Q19 and 26% YoY in 1H19), as its AUM bucked the trend of a declining industry (+18% HoH of HTSC vs. -14% HoH of industry). 3) **Investment banking fees saw sequential improvement** (+44 QoQ), though 1H19 IB income was down 25% as IPO fund raised plunged (-95% YoY for HTSC vs. -34% YoY for industry). But HTSC maintained a stable market share in debt financing underwriting, where the market size grew 69% YoY. HTSC now ranks third/fourth by underwriting amount and no. of sponsored IPOs on STAR Market (with 3.5 IPO already listed), and we expect this to well support its investment banking income in 2H19E.
- Results negatives:** 1) **Prop trading gains declined** ~40% QoQ by our estimates, milder than industry trend, but 1H19 investment yield was only 4.0%, lagging behind most large brokers we cover. 2) **Net interest income dropped 33% YoY in 1H19**, likely weighed by lower interest rate of margin financing and a sharp contraction on SPL balance (-61% YoY). 3) **Impairment losses climbed up 40x QoQ**, as SPLs recorded higher write-off due to heightened market volatility.
- Valuation.** HTSC now trades at 0.74 FY19E P/B, 12% below its historical average minus 1SD (0.84x). Our earnings forecast remains unchanged, and we maintain BUY rating on HTSC with TP at HK\$ 18.2.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. op. revenue (RMB mn)	21,746	15,534	19,438	22,501	25,335
Net profit (RMB mn)	9,277	5,936	8,098	9,430	10,776
EPS (RMB)	1.30	0.78	0.98	1.14	1.31
EPS CHG (%)	48	(40)	26	16	14
P/E (x)	7.7	12.8	10.2	8.7	7.7
P/B (x)	0.82	0.79	0.74	0.70	0.65
Yield (%)	0.0	5.2	2.9	3.4	3.9
ROAE (%)	10.8	6.2	7.5	8.2	8.8
Financial leverage (x)	3.6	3.1	3.0	3.1	3.1

Source: Company data, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$18.2
(Previous TP	HK\$18.2)
Up/Downside	+61.3%
Current Price	HK\$11.28

### China Brokerage Sector

**Karen Sui**  
 (852) 3761 8775  
 suixiaomeng@cmbi.com.hk

**Terry Sun, CFA**  
 (852) 3900 0836  
 terrysun@cmbi.com.hk

Stock Data	
Mkt Cap (HK\$ mn)	172,747
Avg 3 mths t/o (HK\$ mn)	131.3
52w High/Low (HK\$)	18.54/ 10.04
Total Issued Shares (mn)	1,719 (H) 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

	Absolute	Relative
1-mth	-11.7%	-2.1%
3-mth	-7.7%	-1.3%
6-mth	-27.7%	-19.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PwC**

### Related Reports

- "Valuation close to trough - attractive risk/reward" – 19 Jun 2019
- "1Q19 results wrap: strong rebound on market recovery" – 30 Apr 2019

**Figure 1: HTSC's 2Q19 results summary**

(RMB mn)										
<b>I/S</b>	3Q18	4Q18	1Q19	2Q19	<b>QoQ</b>	2Q18	<b>YoY</b>	1H18	1H19	<b>YoY</b>
Net fee and commission income	1,905	2,260	2,141	2,322	8%	1,912	21%	3,897	4,463	15%
Brokerage	780	746	1,124	1,118	-1%	874	28%	1,860	2,243	21%
Investment banking	448	693	248	356	44%	400	-11%	808	604	-25%
Asset Management	663	783	712	769	8%	613	25%	1,179	1,481	26%
Net interest income*	687	571	503	379	-25%	612	-38%	1,310	881	-33%
Prop trading gains*	1,354	782	2,204	1,614	-27%	675	139%	1,562	3,818	144%
<b>Adj. op. revenue</b>	<b>4,225</b>	<b>3,440</b>	<b>6,054</b>	<b>4,508</b>	<b>-26%</b>	<b>3,698</b>	<b>22%</b>	<b>7,959</b>	<b>10,562</b>	<b>33%</b>
Adj. op. expenses	(2,275)	(2,156)	(2,399)	(2,600)	8%	(1,966)	32%	(3,876)	(4,999)	29%
<b>PPoP</b>	<b>1,950</b>	<b>1,283</b>	<b>3,655</b>	<b>1,908</b>	<b>-48%</b>	<b>1,731</b>	<b>10%</b>	<b>4,083</b>	<b>5,563</b>	<b>36%</b>
Provision	(167)	(372)	(3)	(141)	3964%	(115)	23%	(63)	(145)	131%
<b>Pre-tax profit</b>	<b>1,784</b>	<b>645</b>	<b>3,652</b>	<b>1,766</b>	<b>-52%</b>	<b>1,617</b>	<b>9%</b>	<b>4,020</b>	<b>5,418</b>	<b>35%</b>
Income tax expense	(397)	631	(847)	(471)	-44%	(331)	42%	(814)	(1,318)	62%
<b>Net profit</b>	<b>1,321</b>	<b>553</b>	<b>2,780</b>	<b>1,277</b>	<b>-54%</b>	<b>1,256</b>	<b>2%</b>	<b>3,159</b>	<b>4,057</b>	<b>28%</b>
<b>B/S</b>	3Q18	4Q18	1Q19	2Q19	<b>QoQ</b>	2Q18	<b>YoY</b>	FY18	1H19	<b>HoH</b>
Margin accounts	46,865	46,189	57,934	56,931	-2%	52,138	9%	46,189	56,931	23%
Financial investment	146,293	148,975	178,000	233,295	31%	148,122	58%	148,975	233,295	57%
Reverse repos	48,458	43,557	43,535	26,712	-39%	56,528	-53%	43,557	26,712	-39%
Customer brokerage deposits	60,417	59,492	90,210	83,209	-8%	67,940	22%	59,492	83,209	40%
Total shareholder's equity	106,244	103,394	106,626	116,824	10%	90,172	30%	103,394	116,824	13%
<b>Ratios</b>	3Q18	4Q18	1Q19	2Q19	<b>QoQ</b>	2Q18	<b>YoY</b>	1H18	1H19	<b>YoY</b>
ROAE	5.4%	2.1%	10.6%	4.6%	-6.0ppt	5.6%	-1.0ppt	7.1%	7.4%	0.3ppt
ROAA	1.4%	0.6%	2.7%	1.1%	-1.6ppt	1.3%	-0.2ppt	1.6%	1.9%	0.3ppt
Leverage	3.3x	3.0x	3.2x	3.5x	0.3x	3.7x	-0.2x	3.6x	3.3x	-0.3x
Investment yield	3.7%	2.1%	5.4%	3.1%	-2.3ppt	1.8%	1.3ppt	2.3%	4.0%	1.7ppt
Cost-to-income ratio	53%	62%	39%	57%	18ppt	52%	5ppt	48%	48%	0ppt

Source: Company data, CMBIS

\*: Due to change in accounting policy, 2Q19 net interest income and prop-trading gains are not comparable with that of 2Q18 and 1Q19.

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	4,210	3,392	4,791	5,575	6,401
Investment banking fee	2,039	1,420	2,218	2,503	2,817
Asset management fee	2,306	2,374	2,542	2,829	3,187
Net interest income	3,600	2,368	2,222	2,601	2,677
Prop-trading gains	8,028	3,564	4,908	5,670	6,454
Others	1,564	2,416	2,757	3,324	3,799
<b>Adj. op. revenue</b>	<b>21,746</b>	<b>15,534</b>	<b>19,438</b>	<b>22,501</b>	<b>25,335</b>
Adj. op. expenses	(9,902)	(7,440)	(9,008)	(10,433)	(11,620)
PPoP	11,844	8,095	10,430	12,068	13,716
Provision	(259)	(619)	(292)	(254)	(218)
Pre-tax profit	11,585	7,475	10,138	11,815	13,498
Income tax expense	(2,177)	(1,440)	(1,920)	(2,239)	(2,557)
Minority interests	(131)	(100)	(121)	(146)	(165)
<b>Net profit</b>	<b>9,277</b>	<b>5,936</b>	<b>8,098</b>	<b>9,430</b>	<b>10,776</b>

### Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Operating revenue mix</b>					
Brokerage commission	19%	22%	25%	25%	25%
Investment banking fee	9%	9%	11%	11%	11%
Asset management fee	11%	15%	13%	13%	13%
Net interest income	17%	15%	11%	12%	11%
Prop-trading gains	37%	23%	25%	25%	25%
Others	7%	16%	14%	15%	15%
Total	100%	100%	100%	100%	100%
<b>Growth, YoY</b>					
Brokerage commission	-22%	-19%	41%	16%	15%
Investment banking fee	-3%	-30%	56%	13%	13%
Asset management fee	122%	3%	7%	11%	13%
Net interest income	3%	-34%	-6%	17%	3%
Prop-trading gains	102%	-56%	38%	16%	14%
<b>Adj. op. revenue</b>	<b>28%</b>	<b>-29%</b>	<b>25%</b>	<b>16%</b>	<b>13%</b>
PPoP	38%	-32%	29%	16%	14%
<b>Net profit</b>	<b>48%</b>	<b>-36%</b>	<b>36%</b>	<b>16%</b>	<b>14%</b>
Total assets	-5%	0%	6%	8%	7%
<b>Efficiency</b>					
Cost-to-income ratio	45%	47%	45%	45%	45%
<b>Leverage</b>					
Adj. financial leverage (x)	3.6	3.1	3.0	3.1	3.1
Investment/ equity	148%	142%	151%	158%	162%
<b>Profitability</b>					
ROE	10.8%	6.2%	7.5%	8.2%	8.8%
ROA	2.4%	1.6%	2.1%	2.2%	2.4%
<b>Per share</b>					
EPS (RMB)	1.30	0.78	0.98	1.14	1.31
DPS (RMB)	0.00	0.52	0.29	0.34	0.39
BVPS (RMB)	12.19	12.67	13.45	14.32	15.30

Source: Company data, CMBIS estimates

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Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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