

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

Share Performance

| | 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

1. "Valuation close to trough - attractive risk/reward" – 19 Jun 2019
2. "1Q19 results wrap: strong rebound on market recovery" – 30 Apr 2019

Figure 1: HTSC's 2Q19 results summary

| (RMB mn) | | | | | | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|-------------|--------------|------------|--------------|---------------|------------|
| I/S | 3Q18 | 4Q18 | 1Q19 | 2Q19 | QoQ | 2Q18 | YoY | 1H18 | 1H19 | YoY |
| 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% |
| Adj. op. revenue | 4,225 | 3,440 | 6,054 | 4,508 | -26% | 3,698 | 22% | 7,959 | 10,562 | 33% |
| Adj. op. expenses | (2,275) | (2,156) | (2,399) | (2,600) | 8% | (1,966) | 32% | (3,876) | (4,999) | 29% |
| PPoP | 1,950 | 1,283 | 3,655 | 1,908 | -48% | 1,731 | 10% | 4,083 | 5,563 | 36% |
| Provision | (167) | (372) | (3) | (141) | 3964% | (115) | 23% | (63) | (145) | 131% |
| Pre-tax profit | 1,784 | 645 | 3,652 | 1,766 | -52% | 1,617 | 9% | 4,020 | 5,418 | 35% |
| Income tax expense | (397) | 631 | (847) | (471) | -44% | (331) | 42% | (814) | (1,318) | 62% |
| Net profit | 1,321 | 553 | 2,780 | 1,277 | -54% | 1,256 | 2% | 3,159 | 4,057 | 28% |
| B/S | 3Q18 | 4Q18 | 1Q19 | 2Q19 | QoQ | 2Q18 | YoY | FY18 | 1H19 | HoH |
| 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% |
| Ratios | 3Q18 | 4Q18 | 1Q19 | 2Q19 | QoQ | 2Q18 | YoY | 1H18 | 1H19 | YoY |
| 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 |
| Adj. op. revenue | 21,746 | 15,534 | 19,438 | 22,501 | 25,335 |
| 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) |
| Net profit | 9,277 | 5,936 | 8,098 | 9,430 | 10,776 |

Balance sheet

| YE 31 Dec (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Deposit held on behalf of clients | 49,872 | 42,956 | 47,302 | 53,341 | 59,211 |
| Clearing reserves | 16,579 | 17,451 | 20,813 | 22,225 | 25,744 |
| Margin accounts | 59,991 | 46,793 | 52,876 | 56,049 | 59,412 |
| Reverse repos | 61,805 | 47,590 | 51,397 | 54,738 | 58,296 |
| Financial investments | 129,134 | 148,504 | 167,809 | 186,268 | 204,895 |
| Other assets | 64,101 | 76,815 | 62,680 | 63,206 | 60,290 |
| Total assets | 381,483 | 380,109 | 402,878 | 435,828 | 467,848 |
| Customer brokerage deposits | 67,336 | 57,131 | 61,493 | 69,343 | 76,975 |
| Short-term debts | 58,608 | 72,524 | 82,116 | 92,981 | 101,753 |
| Long-term debts | 77,198 | 61,759 | 62,994 | 66,773 | 70,780 |
| Other liabilities | 89,751 | 82,769 | 83,787 | 86,973 | 90,340 |
| Total liabilities | 292,893 | 274,183 | 290,390 | 316,071 | 339,847 |
| Total shareholders' equity | 87,336 | 104,585 | 111,013 | 118,135 | 126,216 |
| Incl. Perpetual bonds | 0 | 0 | 0 | 0 | 0 |
| Minority interest | 1,254 | 1,341 | 1,475 | 1,623 | 1,785 |

Key Ratios

| YE 31 Dec (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|------------------------------|------------|-------------|------------|------------|------------|
| Operating revenue mix | | | | | |
| 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% |
| Growth, YoY | | | | | |
| 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% |
| Adj. op. revenue | 28% | -29% | 25% | 16% | 13% |
| PPoP | 38% | -32% | 29% | 16% | 14% |
| Net profit | 48% | -36% | 36% | 16% | 14% |
| Total assets | -5% | 0% | 6% | 8% | 7% |
| Efficiency | | | | | |
| Cost-to-income ratio | 45% | 47% | 45% | 45% | 45% |
| Leverage | | | | | |
| Adj. financial leverage (x) | 3.6 | 3.1 | 3.0 | 3.1 | 3.1 |
| Investment/ equity | 148% | 142% | 151% | 158% | 162% |
| Profitability | | | | | |
| ROE | 10.8% | 6.2% | 7.5% | 8.2% | 8.8% |
| ROA | 2.4% | 1.6% | 2.1% | 2.2% | 2.4% |
| Per share | | | | | |
| 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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CMB International Securities Limited

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

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