

Haitong Securities (6837 HK)

FY20 outstanding fee growth offset by weak prop-trading and impairment charges

HTS reported FY20 net profit of RMB 10.9bn, up 14% YoY, in-line with prelim results. Operating revenue increased 16% YoY to RMB 32.5bn, mainly boosted by brokerage, IB and AM, while prop-trading was a drag. Heavy impairment charges (RMB 4.6bn) further eroded its profitability. CSRC imposed restrictions on HTS's investment advisory and AM business for 6-12mths; we calculate that related income accounted for ~5% of HTS's FY20 op. revenue, therefore financial impact should be limited. The Company's near-trough valuation provides limited downside potential. Recovery of oversea business and less impairment charges could be upside earnings catalysts. **Maintain BUY.**

■ **Results positives:** **1) Investment banking** income +43% YoY, largely driven by surged domestic IPO underwriting amount (+1700% YoY) as several sponsored mega IPOs was launched on STAR Market. Oversea IB income remained stable YoY and we expect better growth in FY21 on market recovery. **2) AM** income +41% YoY, on rapidly enhanced active management capability (70% actively managed AUM ended FY20, up 16ppt YoY). Fund sub. HFT Fund also contributed greatly to the 40% YoY growth of fund mgmt. income, as its AUM expanded 49% YoY during the mutual fund boom. **3) Brokerage** income +46% YoY, where domestic brokerage saw slight share loss (-0.1ppt YoY) and oversea commission income grew 37% YoY. **4) Net interest income** +18% YoY, thanks to higher interest income from margin financing and leasing business (+17%/+13% YoY) due to 38%/12% balance expansion, as well as significant funding cost decline (est. 0.5ppt YoY) and deleveraging (leverage -0.5x YoY to 3.8x) that lowered interest expenses (-7% YoY).

■ **Results negatives:** **1) Prop-trading gains** -3% YoY, the lowest among brokers we cover, despite a 10% YoY growth in financial investment balance, suggesting weaker investment capability than peers. **2) Impairment losses** +65% YoY, eroding PPop by 23%, though charges in 2H20 was 42% lower HoH. The write-off was mainly for margin financing, SPLs (largely for Haitong Int'l [665 HK, NR]'s lending to Luckin), receivables (largely for leasing business) and bond investments. We expect lower credit losses in FY21E as the impact of one-off event fades and macro economy gradually recovers.

■ **Cut TP to HK\$ 8.40. Maintain BUY.** We lift HTS's FY21E-22E earnings forecast by 14-16% to reflect higher IB, AM and NII, while cut TP to HK\$ 8.40 on higher COE assumption (11.6% vs. prev. 9.8%). HTS currently trades at 0.49x 1-year forward P/B, almost at historical low. We think the negative impact from CSRC's ban should be largely reflected in current depressed valuation. **Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Adj. op. revenue (RMB mn)	27,968	32,483	32,834	35,091	37,101
Net profit (RMB mn)	9,523	10,875	11,708	13,092	14,319
EPS (RMB)	0.83	0.90	0.90	1.00	1.10
EPS CHG (%)	83	9	(1)	12	9
Consensus EPS (RMB)	N/A	N/A	1.02	1.15	N/A
P/E (x)	7.2	6.6	6.7	6.0	5.5
P/B (x)	0.55	0.51	0.48	0.45	0.43
Yield (%)	5.3	4.2	4.5	5.0	5.5
ROAE (%)	7.8	7.8	7.4	7.8	8.1
Adj. financial leverage (x)	4.4	3.8	3.8	3.8	3.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 8.40
(Previous TP)	HK\$ 10.20)
Up/Downside	+16.7%
Current Price	HK\$ 7.20

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	151,600
Avg 3 mths t/o (HK\$ mn)	118.50
52w High/Low (HK\$)	8.4/5.58
Total Issued Shares (mn)	3,410 (H)
	9,655 (A)

Source: Bloomberg

Shareholding Structure

Guosheng Group	10.38%
Shanghai Haiyan	4.86%
Bright Foods	3.68%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	0.1%	0.7%
3-mth	2.1%	-2.8%
6-mth	16.2%	-2.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

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. "On an upward policy trajectory" – 19 Mar 2020
4. "COVID-19 unlikely to derail industry upswing" – 12 Feb 2020

Figure 1: HTS's quarterly results summary

(RMB mn)										
	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
I/S										
Net fee and commission	2,826	2,742	2,979	4,770	3,361	-30%	19%	9,929	13,852	40%
Brokerage	885	1,269	966	1,588	1,386	-13%	57%	3,571	5,208	46%
Investment banking	890	730	971	2,168	1,069	-51%	20%	3,457	4,939	43%
Asset Management	775	661	979	746	986	32%	27%	2,395	3,372	41%
Net interest income	784	1,160	1,049	1,334	1,348	1%	72%	4,148	4,891	18%
Prop trading gains	3,261	1,254	4,594	2,157	3,073	42%	-6%	11,450	11,077	-3%
Adj. op. revenue	7,699	6,169	9,411	8,670	8,233	-5%	7%	27,968	32,483	16%
Adj. op. expenses	(3,394)	(2,284)	(2,566)	(3,684)	(3,594)	-2%	6%	(11,257)	(12,129)	8%
PPoP	4,305	3,885	6,845	4,985	4,640	-7%	8%	16,711	20,354	22%
Provision	(1,089)	(732)	(2,179)	(559)	(1,127)	101%	4%	(2,839)	(4,597)	62%
Pre-tax profit	3,216	3,153	4,666	4,426	3,513	-21%	9%	13,872	15,757	14%
Income tax expense	(751)	(870)	(1,048)	(1,098)	(704)	-36%	-6%	(3,331)	(3,720)	12%
Net profit	2,138	2,283	3,200	2,995	2,398	-20%	12%	9,523	10,875	14%
B/S										
Margin accounts	52,798	55,044	57,732	69,944	73,068	4%	38%	52,798	73,068	38%
Financial investment	57,485	54,504	58,944	61,490	57,965	-6%	1%	57,485	57,965	1%
Reverse repos	249,155	263,676	266,739	272,241	253,507	-7%	2%	249,155	253,507	2%
Borrowings and bonds	342,575	381,347	359,861	383,315	341,920	-11%	0%	342,575	341,920	0%
Total shareholders' equity	126,091	127,826	131,133	154,448	153,448	-1%	22%	126,091	153,448	22%
Ratios										
ROE	6.8%	7.2%	9.9%	8.4%	6.2%	-2.2ppt	-0.6ppt	7.8%	7.8%	0.0ppt
ROA	1.3%	1.4%	1.9%	1.7%	1.3%	-0.4ppt	0.0ppt	1.6%	1.6%	0.1ppt
Leverage	4.4x	4.6x	4.4x	4.0x	3.8x	-0.2x	-0.5x	4.4x	3.8x	-0.5x
Investment yield*	5.2%	2.0%	6.9%	3.2%	4.7%	1.5ppt	-0.5ppt	5.3%	4.6%	-0.7ppt
Cost-to-income ratio	44%	36%	27%	42%	43%	1ppt	0ppt	40%	37%	-3ppt

Source: Company data, CMBIS estimates

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

Figure 2: Earnings revision

(RMB)	New		Old		New vs. Old	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Adj. operating income (mn)	32,834	35,091	29,828	32,361	10%	8%
Net profit (mn)	11,708	13,092	10,080	11,466	16%	14%
EPS	0.90	1.00	0.88	1.00	2%	0%
BVPS	12.41	13.15	12.23	12.97	1%	1%
ROE	7.4%	7.8%	7.4%	7.9%	0.0ppt	-0.1ppt

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Brokerage commission	3,571	5,208	5,191	5,333	5,484
Investment banking fee	3,457	4,939	5,283	5,738	6,252
Asset management fee	2,395	3,372	3,408	3,604	3,844
Net interest income	4,148	4,891	5,525	5,845	5,793
Prop-trading gains	11,450	11,077	10,525	11,668	12,827
Others	2,947	2,997	2,902	2,902	2,902
Adj. op. revenue	27,968	32,483	32,834	35,091	37,101
Adj. op. expenses	(11,257)	(12,129)	(12,989)	(13,882)	(14,306)
PPoP	16,711	20,354	19,845	21,209	22,795
Provision	(2,839)	(4,597)	(2,758)	(2,133)	(1,920)
Pre-tax profit	13,872	15,757	17,087	19,076	20,875
Income tax expense	(3,331)	(3,720)	(4,101)	(4,578)	(5,010)
Minority interests	(1,017)	(1,162)	(1,278)	(1,406)	(1,546)
Net profit	9,523	10,875	11,708	13,092	14,319

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Deposit held on behalf of clients	76,179	91,692	102,426	103,126	104,528
Clearing reserves	8,611	11,852	11,464	11,542	11,699
Margin accounts	52,798	73,068	80,374	86,001	92,021
Reverse repos	57,485	57,965	58,545	59,716	60,910
Financial investments	249,155	253,507	278,858	301,167	319,237
Other assets	192,566	205,989	209,621	216,111	226,831
Total assets	636,794	694,073	741,288	777,663	815,226
Customer brokerage deposits	87,464	108,168	117,600	118,404	120,013
Short-term debts	163,499	144,719	155,004	163,491	171,034
Long-term debts	179,075	197,201	207,552	216,913	226,711
Other liabilities	65,636	75,859	83,569	90,864	98,214
Total liabilities	495,675	525,947	563,726	589,673	615,973
Total shareholders' equity	126,091	153,448	162,150	171,808	182,262
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	15,028	14,678	15,412	16,182	16,991

Key Ratios

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating revenue mix					
Brokerage commission	13%	16%	16%	15%	15%
Investment banking fee	12%	15%	16%	16%	17%
Asset management fee	9%	10%	10%	10%	10%
Net interest income	15%	15%	17%	17%	16%
Prop-trading gains	41%	34%	32%	33%	35%
Others	11%	9%	9%	8%	8%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	19%	46%	0%	3%	3%
Investment banking fee	7%	43%	7%	9%	9%
Asset management fee	24%	41%	1%	6%	7%
Net interest income	-14%	18%	13%	6%	-1%
Prop-trading gains	229%	-3%	-5%	11%	10%
Adj. op. revenue	49%	16%	1%	7%	6%
PPoP	81%	22%	-3%	7%	7%
Net profit	83%	14%	8%	12%	9%
Total assets	11%	9%	7%	5%	5%
Efficiency					
Cost-to-income ratio	40%	37%	39%	39%	38%
Leverage					
Adj. financial leverage (x)	4.4	3.8	3.8	3.8	3.8
Investment/ equity	198%	165%	172%	175%	175%
Profitability					
ROE	7.8%	7.8%	7.4%	7.8%	8.1%
ROA	1.6%	1.6%	1.6%	1.7%	1.8%
Per share					
EPS (RMB)	0.83	0.90	0.90	1.00	1.10
DPS (RMB)	0.32	0.25	0.27	0.30	0.33
BVPS (RMB)	10.96	11.75	12.41	13.15	13.95

Source: Company data, CMBIS estimates

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