

Futu Holdings

4Q23 could be weak, but outlook matters more

Maintain Rating: BUY | PO: 62.80 USD | Price: 57.24 USD

4Q23 could be weak, but market has low expectation

Futu will report 4Q23 results on Thursday, Mar 14th, before the US market open and we will host Futu post-result call on 11am HKT, Wed, Mar 20th (RSVP). We believe its new paying clients/revenue/profit could probably decline QoQ in 4Q23 due to weak HK/China markets and declining client idle cash (thus less related interest income), though partly offset by the US market strength and higher market rates. However, market might have digested the adverse factors, as Visible Alpha consensus forecast indicates Futu's new paying clients to decline from 65k in 3Q to 50k in 4Q, revenue to decrease 8% QoQ to HKD2.4bn and net profit to drop 11% QoQ to HKD976mn. Maintain Buy on Futu on encouraging developments in overseas markets and new products.

Key to watch new paying clients/Japan/existing markets

Several key things to watch in the 4Q briefing: **1) new paying client target:** Futu guided 150-200k new paying clients (ex new markets) for FY23 and had acquired 164k new paying clients in 9M23. We think Futu could probably guide 200-250k new paying clients for FY24, with more new markets (Japan/Canada/Malaysia); **2) Japan:** Futu launched in Japan in Sep-2023, but due to frictions in account opening and incomplete product offerings (only US stock trading initially), the acquisition of paying clients is relatively slow in the early stages. Futu continues to improve its account opening experience by gradually replacing the outsourced processes with in-house ones, has offered NISA account by now and aims to provide Japan stock trading by 1Q24. Management view on Japan market post enhanced products/services is an important thing to watch; **3) existing markets:** Guidance on further penetrating existing markets (HK/SG/US/AU) & improving their client quality will be also under the spotlight.

Also watch 1Q24 operations, crypto and buyback

1) 1Q24 operations: HSI/HSTECH/KWEB dropped 4-10% YTD while S&P500/NASDAQ rose 7% YTD. In 1Q-3Q23, 65-75% of Futu's trading volume was from US (including around 10-15% from China ADRs recently, albeit with dynamically changing ratios) and 25-30% from HK. Derivatives contributed 30-40% of trading income. HK rates retreated in 1Q24 from 4Q23's seasonally high while US rates held up at elevated levels. Some operational questions to ask: "How did the divergent performance between HK/China and US markets impact the operations in 1Q24?", "Did the dramatic volatilities of HK/China markets lead to more active trading?", "Did the idle cash migration continue?". **2) Crypto:** Futu has supported the trading of 11 bitcoin ETFs and is applying crypto trading licenses in HK/Singapore/US. "How will the crypto ETFs help trading income?" and "What are the progresses of crypto trading license application?" **3) Buyback:** Futu's last buyback expired in end-2023. It could potentially announce a new one with the 4Q23 results. While Futu doesn't need to implement any buyback currently, we think it's good to have such flexibility and showcase confidence in its fundamentals.

11 March 2024

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Stock Data

Price	57.24 USD
Price Objective	62.80 USD
Date Established	28-Aug-2023
Investment Opinion	C-1-9
52-Week Range	35.91 USD-67.49 USD
Mkt Val / Shares Out (mn)	8,862 USD / 154.8
Average Daily Value (mn)	66.43 USD
Free Float	43.2%
BofA Ticker / Exchange	FUTU / NAS
Bloomberg / Reuters	FUTU US / FUTU.OQ
ROE (2023E)	19.9%

AU: Australia

KWEB: KraneShares CSI China Internet ETF

NISA: Nippon Individual Savings Account

SG: Singapore

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Timestamp: 11 March 2024 02:11AM EDT

Exhibit 1: Markets served by Futu

Futu continued to expand into new markets

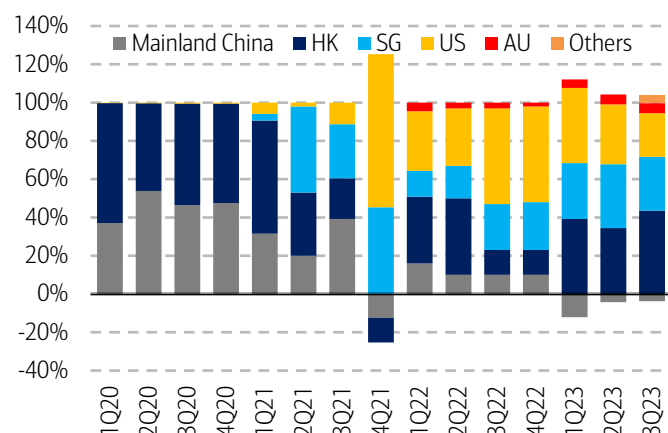
3Q23	Start time	Number of paying clients (k)	As % of total	Client assets (HKD bn)	As % of total	Average client assets (HKD k)	Retail stock investors (mn)	Futu's market share
Total		1,650.8	100.0%	468.1	100%	284		
China	2012	488.4	29.6%	192.4	41.1%	394	No new clients, but exiting ones to stay	
Hong Kong	2012	615.5	37.3%	244.4	52.2%	397	2.5	24.6%
Singapore	1Q21	281.9	17.1%	24.3	5.2%	86	1.7	16.6%
US	1Q21	246.0	14.9%	6.1	1.3%	25	140.0	0.2%
Australia	1Q22	16.4	1.0%	0.7	0.1%	41	7.7	0.2%
Japan	3Q23	2.0	0.1%	0.1	0.0%	50	20.0	0.0%
Canada	3Q23	0.7	0.0%	0.0	0.0%	20	15.0	0.0%
Malaysia	1Q24						2.1	

Source: Company reports; BofA Global Research estimates

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Exhibit 2: Futu: contribution of new paying clients by market

China's contribution was declining and likely turned negative in 2023

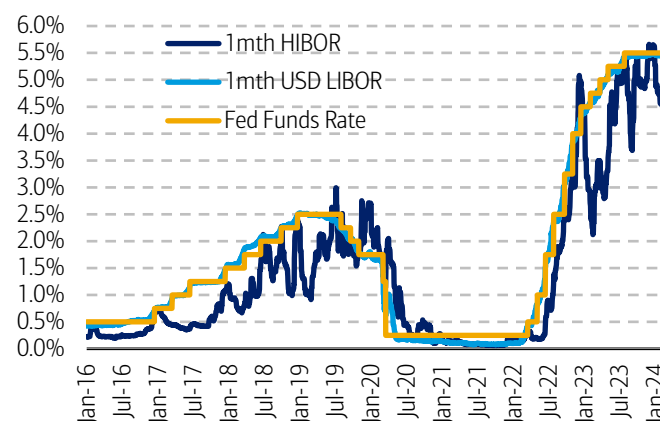


Source: Company reports; BofA Global Research estimates

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Exhibit 3: HK/US market rates

HK rates retreated in 1Q24 while US rates held up



Source: Company reports; BofA Global Research estimates

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Exhibit 4: Correlation between Futu's key operating metrics and capital market conditions

Futu is cyclically impacted by capital market conditions

	Futu			HK/US market				QoQ change of index period-average level						QoQ change of index period-end level					
	Average assets per paying client (HKD mn)*	Average trading velocity (x)*	Average revenue per paying client (HKD k)*	HK ADTV (HKD bn)	US ADT^ (bn)	VIX*	VHSI*	HSI	HSTECH	MSCI China	KWEB	S&P500	NASDAQ	HSI	HSTECH	MSCI China	KWEB	S&P500	NASDAQ
1Q22	0.31	13.4	1.28	146.4	12.8	25.4	25.9	-6.1%	-16.5%	-11.7%	-27.2%	-3.0%	-9.0%	-6.0%	-19.6%	-13.8%	-21.9%	-4.9%	-9.1%
2Q22	0.30	13.1	1.29	129.5	12.5	27.4	30.3	-8.8%	-14.9%	-11.9%	-14.3%	-8.0%	-12.9%	-0.6%	6.9%	2.5%	14.9%	-16.4%	-22.4%
3Q22	0.28	10.8	1.37	97.5	10.8	24.8	26.7	-5.8%	-3.3%	-4.6%	-0.2%	-3.1%	-2.5%	-21.2%	-29.2%	-23.1%	-24.8%	-5.3%	-4.1%
4Q22	0.27	11.1	1.56	127.1	11.1	25.0	33.8	-10.8%	-15.0%	-12.6%	-11.0%	-3.2%	-8.6%	14.9%	19.7%	12.7%	22.6%	7.1%	-1.0%
1Q23	0.29	11.1	1.66	127.7	11.7	20.7	26.0	17.5%	19.1%	18.7%	25.4%	3.8%	5.6%	3.1%	4.2%	5.3%	3.3%	7.0%	16.8%
2Q23	0.30	8.2	1.60	102.7	10.7	16.4	22.8	-5.3%	-7.8%	-7.7%	-13.0%	5.2%	10.4%	-7.3%	-9.1%	-10.8%	-13.7%	8.3%	12.8%
3Q23	0.29	9.3	1.64	98.3	10.4	15.0	24.7	-5.2%	4.5%	-3.9%	2.3%	6.0%	8.7%	-5.9%	0.2%	-3.1%	1.6%	-3.6%	-4.1%
4Q23				90.9	11.1	15.3	24.3	-7.6%	-7.0%	-7.3%	-4.5%	0.2%	0.9%	-4.3%	-4.0%	-4.7%	0.3%	11.2%	13.6%
QTD				94.9	11.7	13.7	25.1	-6.3%	-13.6%	-6.7%	-7.0%	10.5%	11.6%	-4.1%	-10.1%	-4.2%	-7.5%	7.4%	7.2%

Source: Company reports, Bloomberg. *period average ^ daily average number of shares traded, QTD=quarter to date, as of Mar 8th, 2024

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Price objective basis & risk

Futu Holdings (FUTU)

Our PO for Futu is USD62.8 per ADR, based on 14x 2024E P/E multiple, lower than global mature online brokers' given the regulation risk, but higher than traditional China brokers'.

Upside risks to our PO are better-than-expected capital market condition, lower-than-expected competition and faster-than-expected client growth. Downside risks to our PO are stricter-than-expected regulations, large US/HK market correction and intensified competition.

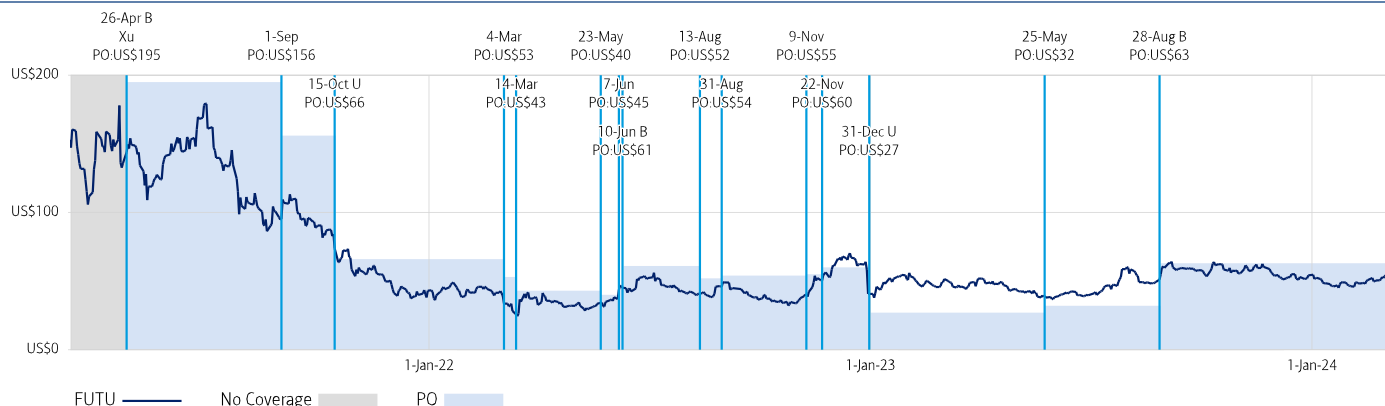
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Futu (FUTU) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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