

# Hong Kong Exchanges (0388.HK)

Five positives to offset a volatile macro; maintain Buy

Buy

**0388.HK**    12m Price Target: **HK\$378.00**    Price: **HK\$301.60**    Upside: **25.3%**

## Three risks in a volatile macro environment

HKEX's share price and earnings are market dependent, as nearly half of the top-line comes from volumes on its equities market. Equity markets have become more volatile this month, bringing this risk to the fore. Second, we see the earnings growth rate may be peaking for the exchange, with still double-digit growth in upcoming subsequent quarters — but on a declining growth rate. Third, investment income, which was ~20% of its top-line in FY24, is likely to be a growth headwind going forward as USD interest rates are declining, leading to lower HIBOR.

## Five positive themes that keep us Buy rated

However, we maintain our Buy rating on the stock, highlighting five positive themes that could offset the risks highlighted above. **First**, the potent mix of more ADR trading and Southbound (SB) buying should continue to drive ADT higher over the medium term. This has been the medium term trend, and we lay out a hypothetical scenario, indicating upside of ~35% on ADT were all the Chinese ADRs companies to shift their market cap to HK. **Second**, although declining rates lower investment income, a real interest rate decline could raise ADT growth as fixed income becomes less attractive. **Third**, the group is working towards lowering bid-ask spreads to reduce implicit trading costs. Further, policymakers have asked the group to lower minimum trade sizes to further raise liquidity and improve trading efficiency. We find HKEX minimum trade sizes are relatively high on international comparisons. **Fourth**, policy support — from approval of China bond futures trading to reducing dividend tax for SB investors, that are in discussion but not finalised yet — could be positives. **Fifth**, we believe risk-reward on our Bull/Bear case scenario analysis is attractive.

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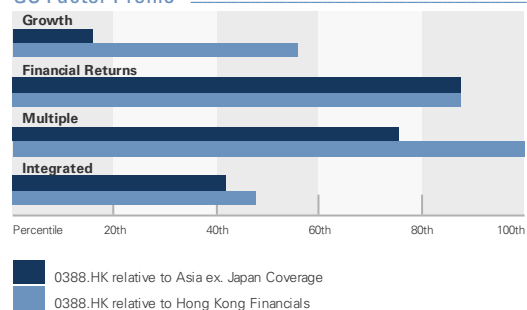
## Key Data

Market cap: HK\$382.4bn / \$49.3bn  
3m ADTV: HK\$3.4bn / \$438.9mn  
Hong Kong  
Hong Kong Financials  
M&A Rank: 3

## GS Forecast

	12/24	12/25E	12/26E	12/27E
<b>Revenue (HK\$ mn) New</b>	<b>22,374.0</b>	<b>24,926.9</b>	<b>24,504.1</b>	<b>25,603.2</b>
Revenue (HK\$ mn) Old	22,374.0	24,669.7	25,154.8	27,054.1
<b>EPS (HK\$) New</b>	<b>10.32</b>	<b>11.18</b>	<b>10.59</b>	<b>11.00</b>
EPS (HK\$) Old	10.32	11.14	11.15	12.09
P/E (X)	25.4	27.0	28.5	27.4
P/B (X)	6.2	6.9	6.7	5.4
ROE (%)	24.8	26.0	24.0	21.9
DPS (HK\$)	9.26	10.06	9.53	9.90
Dividend yield (%)	3.5	3.3	3.2	3.3
	<b>12/24</b>	<b>3/25E</b>	<b>6/25E</b>	<b>9/25E</b>
EPS (HK\$)	2.99	3.16	2.95	2.72

## GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.  
See disclosures for details.

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Buy

## Hong Kong Exchanges (0388.HK)

Rating since Aug 23, 2021

## Ratios &amp; Valuation

	12/24	12/25E	12/26E	12/27E
P/E (X)	25.4	27.0	28.5	27.4
P/B (X)	6.9	6.9	6.7	5.4
Dividend yield (%)	3.5	3.3	3.2	3.3
ROE (%)	24.8	26.0	24.0	21.9
Clearing house funds (HK\$ mn)	–	–	–	–
Margin funds (HK\$ mn)	187,448.0	199,454.2	207,886.8	219,181.4
Total client assets (HK\$ mn)	214,572.0	226,578.2	235,010.8	246,305.4

## Growth &amp; Margins (%)

	12/24	12/25E	12/26E	12/27E
Total revenue growth	9.1	11.4	(1.7)	4.5
EPS growth	10.1	8.3	(5.2)	3.9
EBITDA margin	72.8	73.8	71.8	71.5
Op. profit margin	66.5	67.8	65.4	65.0
Pre-tax margin	66.4	67.7	65.3	64.9
Net margin	58.3	56.7	54.6	54.3

## Price Performance



	3m	6m	12m
Absolute	7.0%	(6.3)%	30.4%
Rel. to the Hang Seng Index	1.5%	(4.6)%	8.3%

Source: FactSet. Price as of 9 Apr 2025 close.

## Income Statement (HK\$ mn)

	12/24	12/25E	12/26E	12/27E
Equity trading & clearing fees	7,362.9	10,015.8	9,766.7	10,447.5
Derivatives trading fees	4,543.1	5,002.0	5,216.8	5,502.7
Depository services	1,146.0	1,203.0	1,262.3	1,337.5
Market data	1,086.0	1,121.5	1,166.3	1,213.0
Listing fees	1,484.0	1,576.6	1,522.5	1,582.8
Investment income (operating)	5,028.0	4,090.9	3,551.6	3,400.8
Other revenue	6,752.0	6,008.1	5,569.6	5,519.7
Total revenue	22,374.0	24,926.9	24,504.1	25,603.2
Compensation & benefits exp.	(3,886.0)	(4,090.4)	(4,294.9)	(4,509.6)
Technology & comm. exp.	(882.0)	(968.2)	(1,065.0)	(1,155.2)
Depreciation & amortization	(1,402.0)	(1,486.1)	(1,575.3)	(1,669.8)
Occupancy expense	(138.0)	(146.7)	(152.1)	(158.3)
Other costs	–	–	–	–
Total operating expense	(6,093.0)	(6,538.6)	(6,909.1)	(7,287.0)
Inv. inc. & other (non-op.)	–	–	–	–
Income/(loss) from associates	–	–	–	–
Profit/(loss) on disposals	–	–	–	–
Total other net	(26.0)	(29.7)	(25.2)	(36.1)
<b>Pre-tax profit</b>	<b>14,853.0</b>	<b>16,872.6</b>	<b>15,994.6</b>	<b>16,610.3</b>
Provision for taxes	(1,698.0)	(2,665.9)	(2,527.1)	(2,624.4)
Tax rate (%)	11.4	15.8	15.8	15.8
Minorities, pref div & others	–	–	–	–
<b>Net inc. (post-exceptionals)</b>	<b>13,050.0</b>	<b>14,122.7</b>	<b>13,383.4</b>	<b>13,901.9</b>
<b>GS net income</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>GS EPS (HK\$)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
DPS (HK\$)	9.26	10.06	9.53	9.90
Div. payout ratio (%)	89.7	90.0	90.0	90.0
Wtd avg shares out. (basic) (mn)	1,264.3	1,263.5	1,263.5	1,263.5

## Balance Sheet (HK\$ mn)

	12/24	12/25E	12/26E	12/27E
Cash & cash equivalents	134,365.0	138,409.3	146,968.8	164,631.2
Restricted cash	–	–	–	–
Investments	–	–	–	–
Accounts receivable	54,478.0	54,478.0	54,478.0	54,478.0
Other current assets	164,733.0	166,045.6	168,823.7	174,556.3
<b>Total current assets</b>	<b>353,576.0</b>	<b>358,932.9</b>	<b>370,270.5</b>	<b>393,665.6</b>
Net PP&E	1,504.0	1,504.0	1,504.0	1,504.0
Intangible assets	2.0	3.0	3.0	3.0
Goodwill, net book value	19,605.0	19,605.0	19,605.0	19,605.0
Other long-term assets	6,942.0	6,941.0	6,941.0	6,941.0
<b>Total assets</b>	<b>381,629.0</b>	<b>386,985.9</b>	<b>398,323.5</b>	<b>421,718.6</b>
Accounts payable	37,584.0	37,584.0	37,584.0	37,584.0
Income tax payable	1,321.0	1,321.0	1,321.0	1,321.0
Short-term debt	–	–	–	–
Other current liabilities	285,620.0	289,988.2	299,708.8	309,201.9
<b>Total current liabilities</b>	<b>324,525.0</b>	<b>328,893.2</b>	<b>338,613.8</b>	<b>348,106.9</b>
Deferred revenue	–	–	–	–
Long-term debt	–	–	–	–
Other long-term liabilities	2,697.0	2,697.0	2,697.0	2,697.0
<b>Total liabilities</b>	<b>327,222.0</b>	<b>331,590.2</b>	<b>341,310.8</b>	<b>350,803.9</b>
Preferred shares	–	–	–	–
<b>Total common equity</b>	<b>53,852.0</b>	<b>54,840.7</b>	<b>56,457.8</b>	<b>70,359.7</b>
<b>Minority interest</b>	<b>555.0</b>	<b>555.0</b>	<b>555.0</b>	<b>555.0</b>
<b>Total shareholders' equity</b>	<b>54,407.0</b>	<b>55,395.7</b>	<b>57,012.8</b>	<b>70,914.7</b>
<b>Total liabilities &amp; equity</b>	<b>381,629.0</b>	<b>386,985.9</b>	<b>398,323.5</b>	<b>421,718.6</b>

Source: Company data, Goldman Sachs Research estimates.

**Marking-to-market estimates**

We revise our FY25/26/27E EPS by nil/-5%/-9% as we mark-to-market, and incorporate the higher effective tax rate and the lowered HK\$ interest rate outlook. As a result, our 3 stage DDM 12m TP reduces to HK\$378 from HK\$431, on 34X target P/E vs 39X before. The reduction in target multiple is a reflection of the continued low market P/E which reduces re-rating potential for HKEX, with the stock already trading at ~200% P/E premium over the market. However, we continue to see strong earnings growth being generated during the first 9M25, and with stock at ~20% below its mid-cycle P/E, we affirm Buy rating on the stock.

## Earnings changes, earnings growth and valuations

We change FY25/26/27E EPS by nil/-5%/-9% as we incorporate the recent listed market cap and volume trends, as well as factor in: **(i)** a lower terminal US\$ interest rate which drives investment income, and **(ii)** a higher effective tax on back of global minimum tax rate coming into effect from beginning FY25.

April month to date was stronger than we expected and that along with our projections for the remainder of the year raises FY25 volume projections. However, we keep FY27E volume projections relatively unchanged, and they imply modest c.2% CAGR over FY25E, as we expect FY25E to show a relatively large c.52% yoy jump in cash ADT.

Overall, we continue to expect strong c.9% FY24-27E profit CAGR excluding investment income and c.2% with investment income counted in. Investment income was ~22% of top-line in FY24 and we expect this to decline alongside a fall in US\$/HK\$ interest rates. However, cash equity ADT - the biggest earnings driver - is showing encouraging growth, with 5y CAGR at >10% since China's policymakers have begun to announce stimulus plans (i.e. from 4Q24 onwards). Coupled with rally in technology company shares listed in HK and recent global market volatility, 1Q25 cash equity turnover velocity at, ~150%, is close to historical highs. Coming to stock valuations, we think the strong EPS growth generated by the group has not been fully reflected in P/E valuations, with this metric ~20% below historical mid-cycle despite 4Q24/1Q25E EPS growth (yoy) of 46%/35%.

### Exhibit 1: HKEX estimate changes

(HK\$m)	2025E		2026E		2027E		% change		
	Prior	Revised	Prior	Revised	Prior	Revised	2025E	2026E	2027E
Trading fees and trading tariff	8,772	8,985	9,017	9,007	9,873	9,579	2	(0)	(3)
Stock Exchange listing fees	1,384	1,577	1,395	1,523	1,456	1,583	14	9	9
Clearing and settlement fees	5,696	6,033	5,798	5,976	6,464	6,371	6	3	(1)
Depository, custody and nominee services fees	1,218	1,203	1,298	1,262	1,394	1,338	(1)	(3)	(4)
Market data fees	1,121	1,121	1,166	1,166	1,213	1,213	0	0	0
Other revenue	1,917	1,917	2,018	2,018	2,119	2,119	0	0	0
Investment income and other income	4,561	4,091	4,463	3,552	4,536	3,401	(10)	(20)	(25)
<b>Total income</b>	<b>24,670</b>	<b>24,927</b>	<b>25,155</b>	<b>24,504</b>	<b>27,054</b>	<b>25,603</b>	<b>1</b>	<b>(3)</b>	<b>(5)</b>
<b>Operating expenses (ex. D&amp;A)</b>	<b>6,539</b>	<b>6,539</b>	<b>6,909</b>	<b>6,909</b>	<b>7,287</b>	<b>7,287</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Operating expenses (in. D&amp;A)</b>	<b>8,025</b>	<b>8,025</b>	<b>8,484</b>	<b>8,484</b>	<b>8,957</b>	<b>8,957</b>	<b>0</b>	<b>0</b>	<b>0</b>
EBITDA	18,131	18,388	18,246	17,595	19,767	18,316	1	(4)	(7)
Depreciation & amortisation	1,486	1,486	1,575	1,575	1,670	1,670	0	0	0
Pretax profit	16,615	16,873	16,645	15,995	18,061	16,610	2	(4)	(8)
<b>Attributable profit</b>	<b>14,069</b>	<b>14,123</b>	<b>14,084</b>	<b>13,383</b>	<b>15,282</b>	<b>13,902</b>	<b>0</b>	<b>(5)</b>	<b>(9)</b>
<i>Profits ex investment income</i>	<i>9,509</i>	<i>10,032</i>	<i>9,621</i>	<i>9,832</i>	<i>10,745</i>	<i>10,501</i>	<i>5</i>	<i>2</i>	<i>(2)</i>
<b>EPS (HK\$)</b>	<b>11.14</b>	<b>11.18</b>	<b>11.15</b>	<b>10.59</b>	<b>12.09</b>	<b>11.00</b>	<b>0</b>	<b>(5)</b>	<b>(9)</b>
<b>DPS (HK\$)</b>	<b>10.02</b>	<b>10.06</b>	<b>10.03</b>	<b>9.53</b>	<b>10.89</b>	<b>9.90</b>	<b>0</b>	<b>(5)</b>	<b>(9)</b>
Local market ADT ex Southbound (HK\$ bn)	149	150	146	136	162	139	1	(7)	(14)
<b>Local market ADT incl SB (HK\$ bn)</b>	<b>188</b>	<b>201</b>	<b>188</b>	<b>195</b>	<b>212</b>	<b>209</b>	<b>7</b>	<b>4</b>	<b>(1)</b>
Northbound ADT (RMBbn, both sides)	185.4	175.3	202.3	188.2	226.4	210.6	(5)	(7)	(7)
Southbound ADT (HK\$bn, both sides)	77.4	101.1	82.6	116.8	99.2	140.3	31	41	41
HKEx DDAV ('000 contracts)	1,646	1,646	1,666	1,669	1,761	1,765	0	0	0
LME DDAV ('000 contracts)	695	728	751	786	787	824	5	5	5

Source: Company data, Goldman Sachs Global Investment Research

## Exhibit 2: We expect 9% FY24-27E EPS ex investment income CAGR

Summary sheet													Growth (yoy)										CAGR	CAGR
HK\$mn, unless otherwise mentioned	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E		2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	13-24	24-27E	
Key earnings drivers																								
Cash equity ADT (incl. DW/CBBC, HK\$bn)																								
Total (excl SB)	84	102	82	118	148	110	90	109	150	136	139		-19%	44%	25%	-26%	-18%	21%	38%	-9%	2%	5%	8%	
Total (incl SB)	88	107	87	129	167	125	105	132	201	195	209		-19%	49%	29%	-25%	-16%	26%	52%	-3%	7%	7%	17%	
SB (gross buy+sell)	9.2	11.5	10.1	22.2	38.0	29.4	29.6	45.6	101.1	116.8	140.3		-12%	120%	71%	-23%	1%	54%	121%	16%	20%	nm	45%	
NB (gross buy+sell)	10.6	20.9	43.6	96.1	134.8	113.6	124.1	170.6	210.3	225.8	252.7		109%	120%	40%	-16%	9%	38%	23%	7%	12%	nm	14%	
Derivatives DDAV ( 000 contracts)																								
HKEx F&O	873	1,204	1,069	1,138	1,185	1,303	1,364	1,560	1,646	1,669	1,765		-11%	6%	4%	10%	5%	14%	6%	1%	6%	10%	4%	
LME	624	613	618	573	559	507	562	665	728	786	824		1%	-7%	-2%	-9%	11%	18%	9%	8%	5%	0%	7%	
Summary P&L (HK\$mn)																								
Total revenue	13,180	15,867	16,311	19,190	20,950	18,456	20,516	22,374	24,927	24,504	25,603		3%	18%	9%	-12%	11%	9%	11%	-2%	4%	9%	5%	
Trading fees and trading tariff	4,856	6,339	5,592	6,959	7,931	6,837	6,081	7,189	8,985	9,007	9,579		-12%	24%	14%	-14%	-11%	18%	25%	0%	6%	7%	10%	
Cash	1,768	2,140	1,878	3,278	4,369	3,246	2,622	3,278	4,684	4,547	4,869		-12%	75%	33%	-26%	-19%	25%	43%	-3%	7%	8%	14%	
Cash equity Connect	116	186	283	611	910	760	747	890	1,408	1,570	1,823		52%	116%	49%	-16%	-2%	19%	58%	11%	16%	nm	27%	
Equity and Financial Derivatives	1,972	3,130	2,678	2,592	2,490	2,614	2,393	2,499	2,730	2,762	2,930		-14%	-3%	-4%	5%	-8%	4%	9%	1%	6%	7%	5%	
Commodities	1,116	1,069	1,036	1,089	1,072	977	1,066	1,412	1,572	1,698	1,780		-3%	5%	-2%	-9%	9%	32%	11%	8%	5%	5%	8%	
Stock Exchange listing fees	1,333	1,721	1,633	1,899	2,185	1,915	1,523	1,484	1,577	1,523	1,583		-5%	16%	15%	-12%	-20%	-3%	6%	-3%	4%	4%	2%	
Clearing and settlement fees	2,691	3,281	3,160	4,355	5,214	4,335	3,885	4,717	6,033	5,976	6,371		-4%	38%	20%	-17%	-10%	21%	28%	-1%	7%	10%	11%	
Cash	2,144	2,762	2,652	3,848	4,726	3,891	3,398	4,085	5,332	5,220	5,578		-4%	45%	23%	-18%	-13%	20%	31%	-2%	7%	9%	11%	
Cash equity Connect	133	232	392	838	1,219	741	677	957	1,436	1,611	1,873		69%	114%	46%	-39%	-9%	41%	50%	12%	16%	nm	25%	
Commodities	547	519	508	507	488	444	487	632	700	756	793		-2%	0%	-4%	-9%	10%	30%	11%	8%	5%	nm	8%	
Depository, custody and nominee	892	979	1,052	1,264	1,543	1,260	1,276	1,146	1,203	1,262	1,338		7%	20%	22%	-18%	1%	-10%	5%	5%	6%	6%	5%	
Market data fees	857	899	919	953	1,034	1,081	1,098	1,086	1,121	1,166	1,213		2%	4%	8%	5%	2%	-1%	3%	4%	4%	4%	4%	
Other revenue	945	1,033	1,209	1,405	1,564	1,506	1,582	1,724	1,917	2,018	2,119		17%	16%	11%	-4%	5%	9%	11%	5%	5%	10%	7%	
Investment income and other income	1,606	1,615	2,746	2,355	1,479	1,522	5,071	5,028	4,091	3,552	3,401		70%	-14%	-37%	3%	233%	-1%	-19%	-13%	-4%	21%	-12%	
Operating expenses	3,566	4,110	4,048	4,549	4,681	5,271	5,688	6,093	6,539	6,909	7,287		-2%	12%	3%	13%	8%	7%	7%	6%	5%	7%	6%	
EBITDA	9,614	11,757	12,263	14,641	16,269	13,185	14,828	16,281	18,388	17,595	18,316		4%	19%	11%	-19%	12%	10%	13%	-4%	4%	10%	4%	
Pretax profit	8,610	10,883	10,951	13,332	14,841	11,659	13,332	14,853	16,873	15,995	16,610		1%	22%	11%	-21%	14%	11%	14%	-5%	4%	10%	4%	
Attributable profit	7,404	9,312	9,391	11,505	12,535	10,078	11,862	13,050	14,123	13,383	13,902		1%	23%	9%	-20%	18%	10%	8%	-5%	4%	10%	2%	
Profit ex invmt income	5,798	7,697	6,645	9,150	11,056	8,556	6,791	8,022	10,032	9,832	10,501		-14%	38%	21%	-23%	-21%	18%	25%	-2%	7%	7%	9%	
Basic EPS (HK\$)	6.03	7.50	7.49	9.10	9.91	7.96	9.37	10.32	11.18	10.59	11.00		0%	21%	9%	-20%	18%	10%	8%	-5%	4%	9%	2%	
DPS (HK\$)	5.40	6.71	6.71	8.15	8.87	7.14	8.41	9.26	10.06	9.53	9.90		0%	22%	9%	-20%	18%	10%	9%	-5%	4%	9%	2%	
Key metrics																								
Cost income (incl. depreciation)	34%	31%	31%	30%	29%	36%	35%	33%	32%	35%	35%													
EBITDA margin	73%	74%	75%	76%	78%	71%	72%	73%	74%	72%	72%													
Operating margin	66%	69%	69%	70%	71%	64%	65%	67%	68%	65%	65%													
NPAT margin	56%	59%	58%	60%	60%	55%	58%	58%	57%	55%	54%													
ROE	21%	24%	22%	25%	25%	20%	23%	25%	26%	24%	20%													
Valuation																								
P/E	50X	40X	40X	33X	30X	38X	32X	29X	27X	28X	27X													
P/B	10.0X	9.2X	8.6X	7.8X	7.6X	7.6X	7.4X	7.2X	6.8X	6.8X	6.0X													
Dividend yield, %	1.8	2.2	2.2	2.7	3.0	2.4	2.8	3.1	3.4	3.2	3.3													

Source: Company data, Goldman Sachs Global Investment Research, Datastream

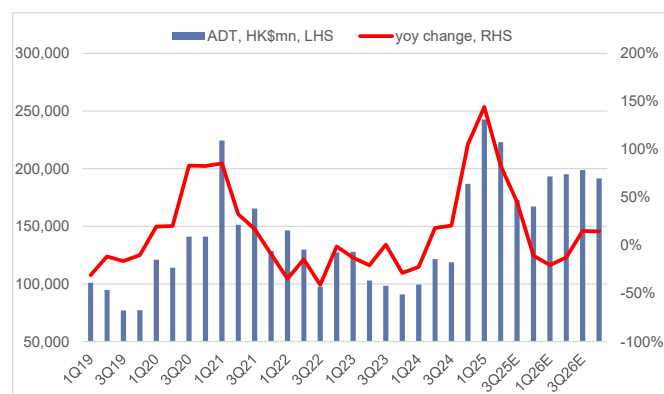
## Exhibit 3: Relative to ~HK\$200bn cash equity ADT we forecast for this year, every 1% change in ADT has 1:1 impact on EPS

Equity business ex China Connect ADT (HK\$bn)	China Connect (average for the two legs, US\$bn)	Equity business + SB ADT (HK\$bn)	2025E EPS (HK\$)	2025E P/E at current price	HKEx sensitivity value (HK\$) under various P/E										
					20X	25X	30X	35X	34X	45X	50X	55X	60X	65X	
119	16.0	170	9.21	33X	184	230	276	322	312	415	461	507	553	599	
124	16.5	175	9.53	31X	191	238	286	334	322	429	477	524	572	620	
129	17.0	180	9.85	30X	197	246	296	345	333	443	493	542	591	640	
134	17.5	185	10.17	29X	203	254	305	356	344	458	509	560	610	661	
139	18.0	190	10.49	29X	210	262	315	367	355	472	525	577	630	682	
144	18.5	195	10.81	28X	216	270	324	379	366	487	541	595	649	703	
Base=150	Base=19.0	Base=201	11.18	27X	224	279	335	391	378	503	559	615	671	727	
154	19.5	205	11.46	26X	229	286	344	401	387	515	573	630	687	745	
159	20.0	210	11.78	25X	236	294	353	412	398	530	589	648	707	765	
164	20.5	215	12.10	25X	242	302	363	423	409	544	605	665	726	786	
169	21.0	220	12.42	24X	248	310	373	435	420	559	621	683	745	807	
174	21.5	225	12.74	24X	255	318	382	446	431	573	637	701	764	828	
179	22.0	230	13.06	23X	261	326	392	457	442	588	653	718	783	849	

As of Apr 9, 2024

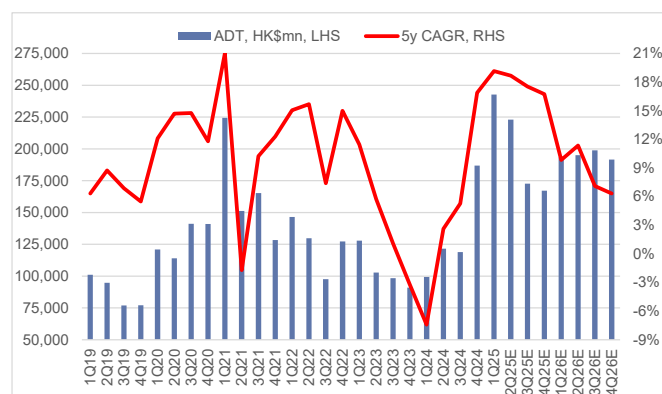
Source: Company data, Goldman Sachs Global Investment Research, Datastream

**Exhibit 4: Cash ADT has risen over the last few quarters to reach a new peak during 10Q25**



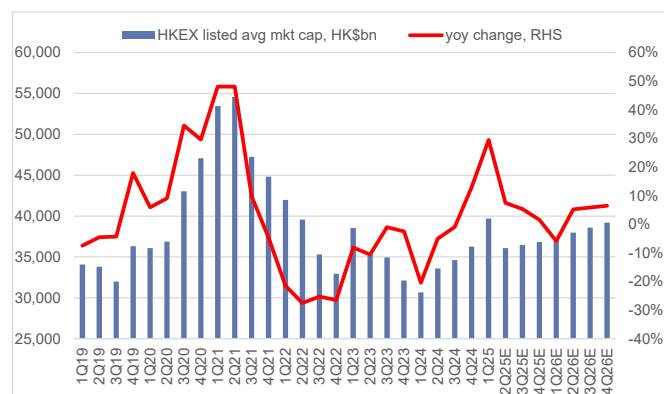
Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 5: ... with strong double-digit 5y CAGR**



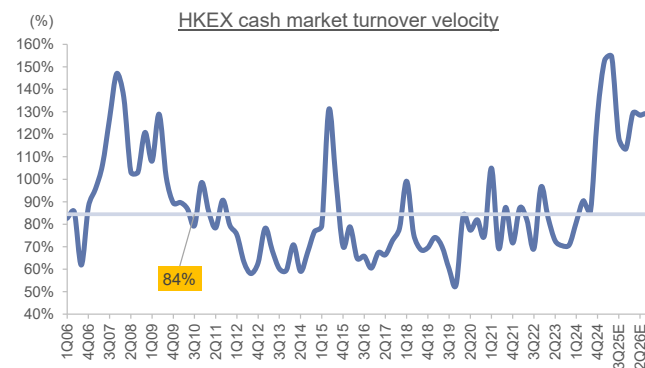
Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 6: Average listed market cap peaked during 10Q25 and we don't expect similar levels to repeat before 2027**



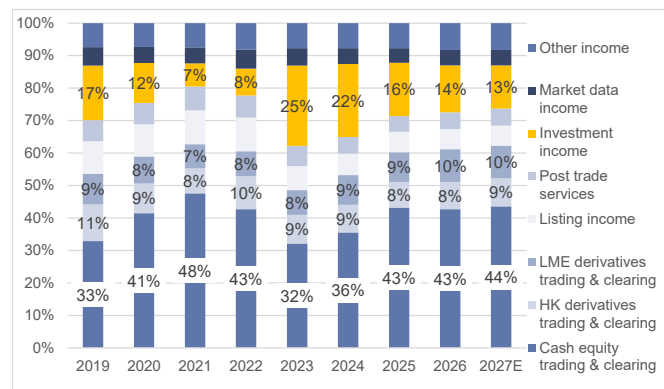
Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 7: 10Q25 Cash equity turnover velocity at ~150% is close to historical peak levels**



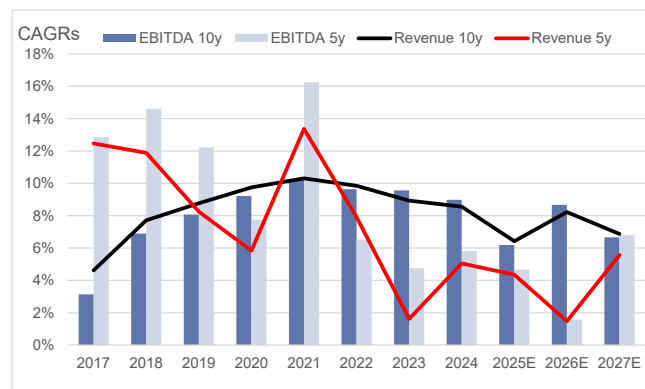
Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 8: Cash equity related trading and clearing income is the biggest driver of the top-line**

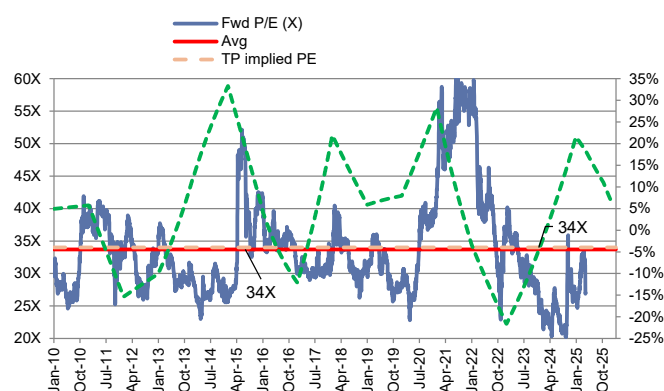


Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 9: Slower China macro and corporate earnings growth has lowered the earnings growth at HKEX from DD to high SD**

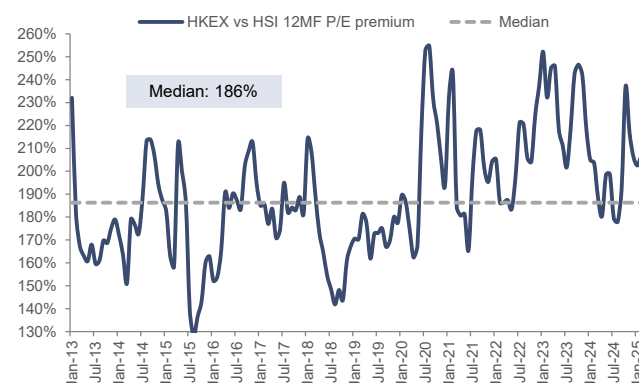


Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 10: HKEX is trading at ~20% discount to mid-cycle P/E**

As of Apr 8, 2025. Green line denotes EPS ex. investment income 2yr CAGR.

Source: Company data, Goldman Sachs Global Investment Research, Datastream

**Exhibit 11: ... with around about mid-cycle P/E premium to the wider market**

Source: Datastream, Bloomberg

**Exhibit 12: We expect HKEX to print c.35% rise in EPS yoy during 1Q25**

1Q25 results date is Apr 30th

HKEX 1Q25 results review (HK\$ mn)						Growth	
	1Q24	2Q24	3Q24	4Q24	GSe 1Q25E	%Qoq	%Yoy
<b>Total income</b>	<b>5,201</b>	<b>5,420</b>	<b>5,372</b>	<b>6,381</b>	<b>6,754</b>	<b>6</b>	<b>30</b>
<b>Total income (excl. invt. income)</b>	<b>3,847</b>	<b>4,215</b>	<b>4,140</b>	<b>5,144</b>	<b>5,662</b>	<b>10</b>	<b>47</b>
Trading fees and trading tariff	1,579	1,711	1,689	2,210	2,509	14	59
Stock Exchange listing fees	365	360	358	401	410	2	12
Clearing and settlement fees	1,021	1,104	1,058	1,534	1,721	12	69
Depository, custody and nominee services fees	184	358	346	258	253	-2	37
Market data fees	265	267	274	280	270	-3	2
Other revenue	433	415	415	461	498	8	15
Investment income and other income	1,354	1,205	1,232	1,237	1,092	-12	-19
<b>Operating expenses (ex. D&amp;A)</b>	<b>1,496</b>	<b>1,464</b>	<b>1,446</b>	<b>1,687</b>	<b>1,620</b>	<b>-4</b>	<b>8</b>
Staff and related expenses	1,008	929	923	1,026	1,068	4	6
Non-staff related expenses	488	535	523	661	551	-17	13
EBITDA	3,705	3,956	3,926	4,694	5,134	9	39
Depreciation & amortisation	345	353	346	358	366	2	6
<b>PBT</b>	<b>3,356</b>	<b>3,596</b>	<b>3,577</b>	<b>4,324</b>	<b>4,763</b>	<b>10</b>	<b>42</b>
Taxes	355	411	409	523	753	44	112
Effective tax rate (%)	11%	11%	11%	12%	16%	31	49
<b>Attributable profits</b>	<b>2,970</b>	<b>3,155</b>	<b>3,145</b>	<b>3,780</b>	<b>3,990</b>	<b>6</b>	<b>34</b>
<b>Profits ex invt income</b>	<b>1,616</b>	<b>1,950</b>	<b>1,913</b>	<b>2,543</b>	<b>2,897</b>	<b>14</b>	<b>79</b>
<b>EPS (HK\$)</b>	<b>2.35</b>	<b>2.49</b>	<b>2.49</b>	<b>2.99</b>	<b>3.16</b>	<b>6</b>	<b>35</b>
Cash equity ADT ex DW/CBBCs (HK\$ bn)	89	112	107	171	225	31	153
DW/CBBCs ADT (HK\$ bn)	10	10	12	15	17	13	68
<b>Total cash ADT (HK\$bn)</b>	<b>99</b>	<b>122</b>	<b>119</b>	<b>187</b>	<b>243</b>	<b>30</b>	<b>144</b>
HKEx derivatives ADV ('000 contracts)	1,503	1,574	1,498	1,663	1,873	13	25
LME ADV ('000 contracts)	659	730	643	630	698	11	6

DW is derivative warrants; CBBC is Callable Bull / Bear Contracts.

Source: Company data, Goldman Sachs Global Investment Research

### Theme #1: Potent mix of rising ADR contribution and SB buying

We believe five positive themes drive the Buy case for HKEX. First, the potent mix of more Chinese companies' ADR trading and listing in HK, along with rising Southbound (SB) investor participation. The two forces have been driving activity levels in the HK cash market over the last five years and the trends have been accelerating.



The process started with BABA's secondary's listing in HK in late 2019, with now 27 ADRs listed in HK, which contribute ~15% to HKEX cash ADT. Moreover, HK has been winning trading market share, with dual listed ADRs HK share rising to ~40% during Mar'25. We refresh our scenario analysis for upside from more ADR market cap moving to HK, to highlight ~35% ADT upside if both of our main upside cases play out. First, the entire free float of dual-listed ADRs moves to HK, and second Chinese ADRs not yet listed in HK do choose to list and their market cap too moves entirely to HK. The first scenario could add ~20% to HKEX group cash ADT, while the second poses ~15% upside risk. We think it is possible for scenarios to materialise over the medium term if geopolitical tensions continue to rise between the US and China.

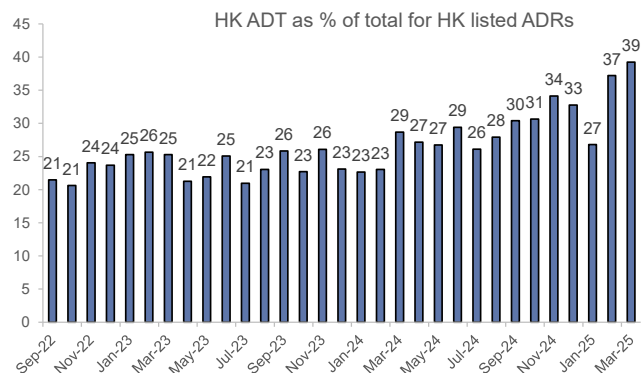
The second force of more SB buying of HK stocks, has helped valuations and activity in HK market. Further, as ADRs have been added to the SB universe (as/when they become primarily listed in HK), the rise in stock ADT for that ADR company lifts overall market ADT. This has been a driving force behind ADR contribution rise to HKEX ADT as well as why HK has won trading share from US. SB ADT is now ~25% of overall HK ADT, and overall Connect contribution to HKEX's group trading and clearing income is ~20%.

**Exhibit 13: Upside scenarios for Chinese ADR companies move to HKEX**

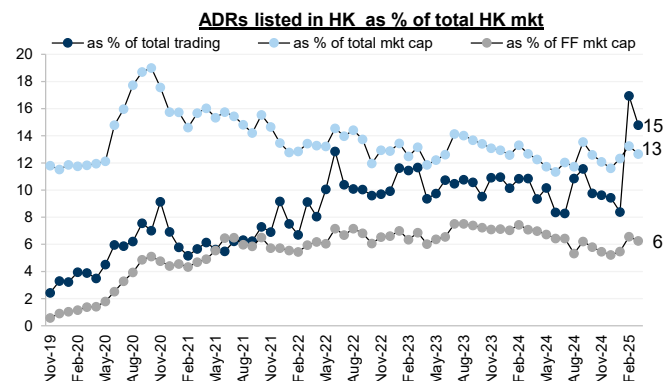
27 ADRs currently listed in Hong Kong							
Total market cap (6M avg, US\$bn)	Free-float market cap (6M avg, US\$bn)	Market cap with key custodian bank in HK (6M avg, US\$bn)	Total market cap in HK (6M avg, US\$bn)	Free float market cap in US (6M avg, US\$bn)	Free float market cap in HK and US (6M avg, US\$bn)		
610	143	245	388	222	365		
as % of total	23%	40%	64%	36%	60%		
ADT in HK (6M avg, US\$mn)	ADT in US (6M avg, US\$mn)	HK ADT as % of total	FF turnover velocity in HK (6M avg)				
3,024	5,787	34%	529%				
#1 Assuming the entire free float of currently HK listed ADRs moves to Hong Kong							
Total market cap (Current, US\$bn)	HK listed ADRs FF ratio (from CCASS)	Implied free-float market cap listed in HK under the scenario (US\$bn)	Assuming last 6M avg FF turnover velocity for HK ADRs under the scenario	Implied ADT for HK listed ADRs under the scenario (US\$mn)	Current ADT of HK listed ADRs (6M avg)	Scenario implied ADT uplift (US\$mn)	Scenario implied ADT uplift (HK\$bn)
671	60%	401	529%	8,496	3,024	5,471	43
#2 Assuming all the remaining US listed China ADRs get listed in HK							
Current market cap (US\$bn)	FF ratio (estimated from MXOCN index)	Implied free-float market cap (US\$bn)	Assuming FF turnover velocity to be same under the scenario as for currently listed HK listed ADRs	Implied ADT under the scenario for these ADRs in HK (US\$mn)	Implied ADT under the scenario for these ADRs in HK (HK\$bn)		
260	65%	168	529%	3,553	28		
vs GSE HKEX cash ADT forecast (HK\$bn)							
	FY25E	Uplift to FY25E ADT	FY26E	Uplift to FY26E ADT			
GSE	201		195				
Uplift from #1	43	21%	43	22%			
Uplift from #2	28	14%	28	14%			
Total uplift	70	35%	70	36%			

Source: Company data, Goldman Sachs Global Investment Research, Datastream

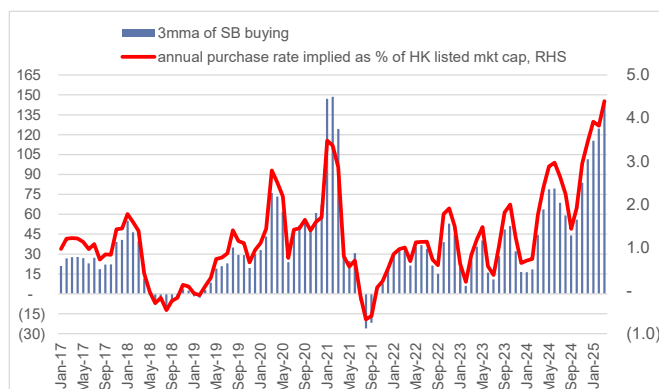


**Exhibit 14: HK has been gaining ADR trading market share**

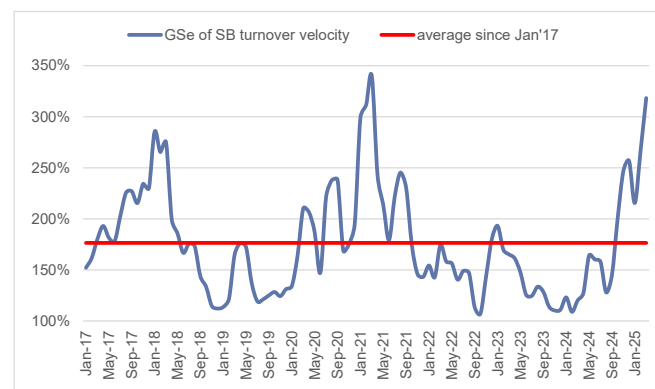
Source: Datastream

**Exhibit 15: ... with collective contribution to ADT ~15%**

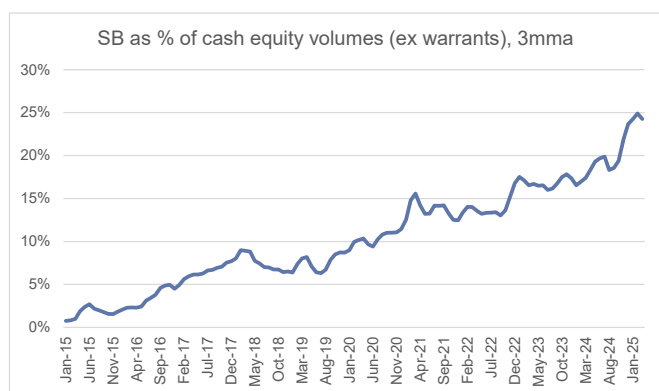
Source: Data compiled by Goldman Sachs Global Investment Research, Datastream

**Exhibit 16: SB has been actively buying the HK market**

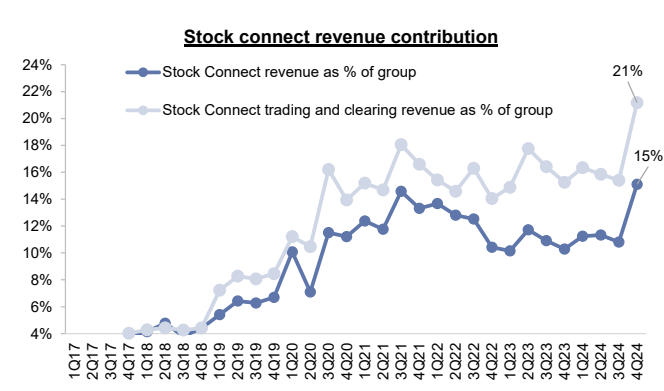
Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 17: ... and trade with 2X the normal market turnover velocity**

Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 18: ... thereby raising their ADT contribution to ~25%**

Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 19: ... as well as Connect's overall income contribution to ~15%**

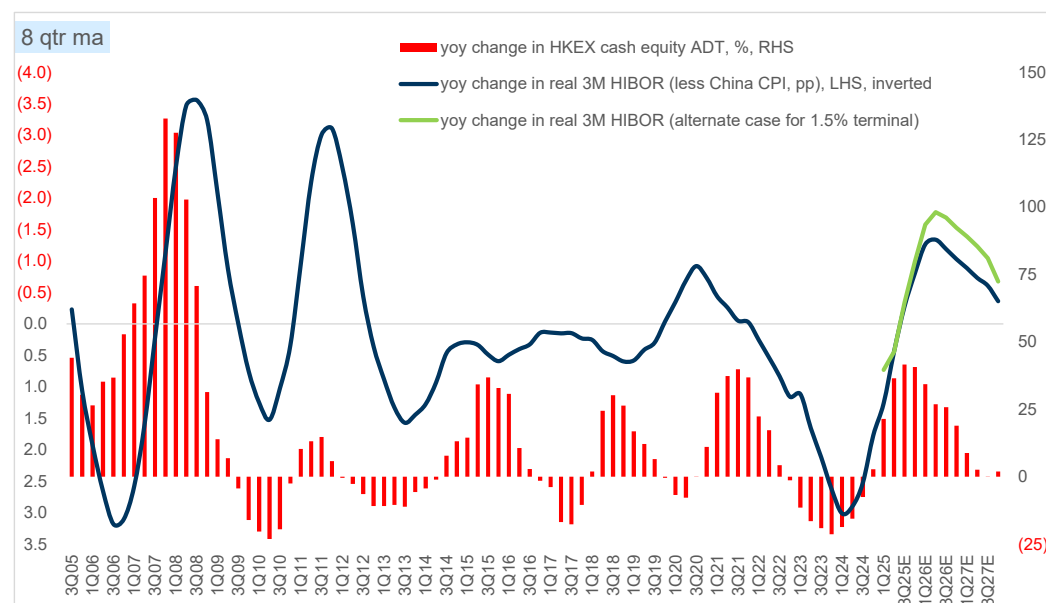
Source: Company data

**Theme #2: Falling real interest rates**

The second positive theme is a continued fall in real rates — we expect the real rate for HK listed stocks (i.e., 3M HIBOR - China CPI) will continue to fall. Since most of the HK stocks (by ADT or market cap) are offshore Chinese equities, we estimate the real interest rate as the nominal HKD interest rate less China CPI. With the Fed starting the

cutting cycle last year and continuing on its cutting trajectory, we estimate that the fall in real rates will mirror or be greater than the Covid/2020-21 episode. This dynamic would trigger a rise in ADT as market participants lower the hurdle rate and/or don't favor fixed income investments (vs equity investments). We find ~30% negative correlation between the traded ADT and real rates over the last 20y. Base case, we follow our US economists to expect ~2.5% 3M HIBOR and better case (for trading) of ~1.5%.

**Exhibit 20: Falling real rates should help turnover**



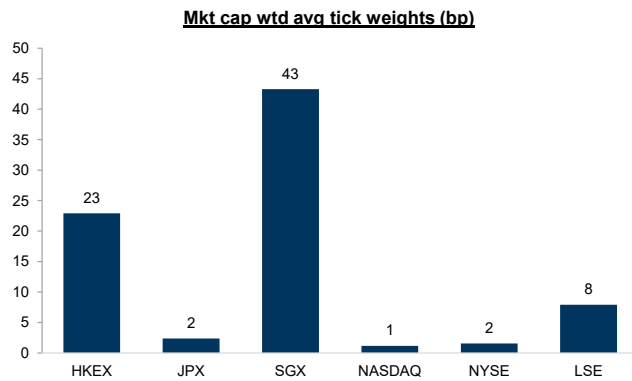
Source: Datastream, CEIC, Company data, Goldman Sachs Global Investment Research

### Theme #3: Improvements in trading service

The third positive investment theme is improvement in trading service within the HKEX cash market, which could potentially reduce the bid-ask spread and lower the minimum trading size. First, on bid-ask spreads, the exchange has embarked on a reduction in spread to be implemented in two phases - first phase during middle of 2025 and second phase next year. The aim is to reduce the bid-ask spread by ~50% for small and mid cap stocks, so that these stocks come to the level of the large cap stocks. We have highlighted that HKEX weighted average bid-ask spread is much higher than international comps as tick weight is relatively high. The exchange did lower tick weights and hence narrowed the bid-ask spreads by ~50% during 2020 within the ETF market. That resulted in a doubling of trading volumes within that segment of the market.

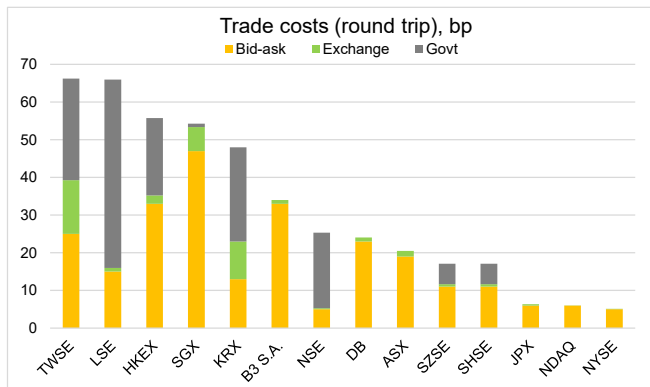
Second, the HKSAR government has asked HKEX to study the potential for lower minimum trade sizes. We believe the aim is to attract more retail and HFT/algo/program traders, which raise the trading volumes in the market. Our study below shows that min trade sizes at HKEX, adjusted for GDP/capita, are materially higher than international comps, not just in the cash market but also in the F&O market. As other Asian markets - such as Singapore - are embarking on reforms / push to raise the appeal of their equity markets, HKEX mgmt could consider reducing trade sizes to make the HK market more attractive for all types of investors.

**Exhibit 21: Tick weight is relatively wider in HK as of 4Q23**



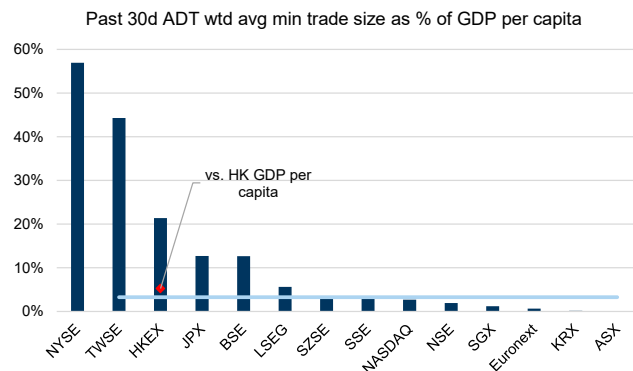
Source: Bloomberg, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 23: Tick sizes then determine a relatively fat bid-ask spread in HK**



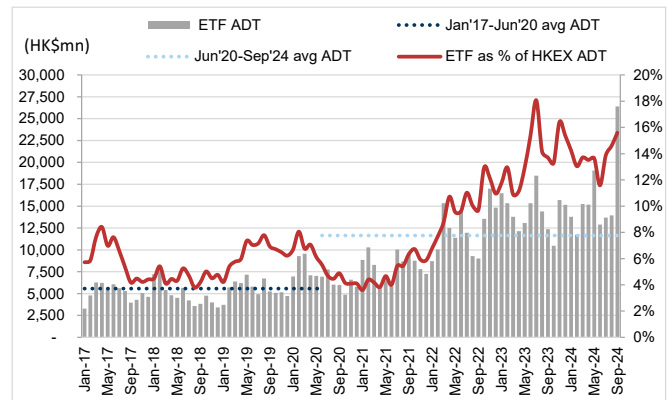
Source: Various exchanges, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 25: Trade sizes are also relatively higher in HK's cash market**



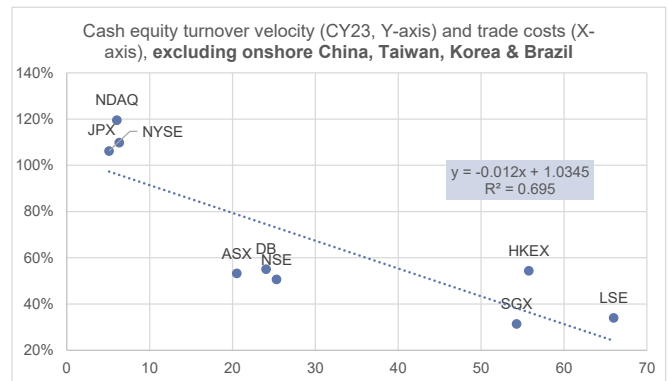
Source: Various exchanges, CEIC, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 22: Summer of 2020 tick size reduction in HK listed ETFs led to doubling in trading volumes**



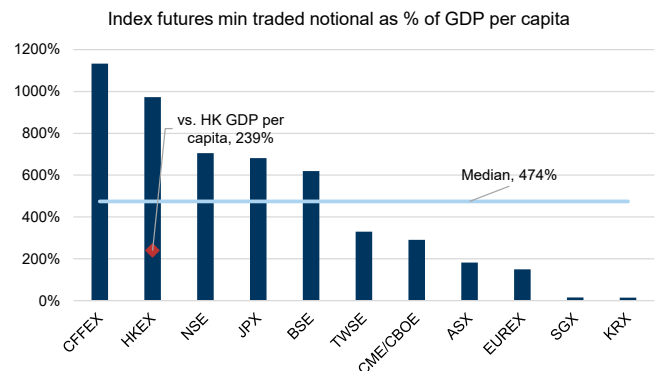
Source: Bloomberg, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 24: ... which in turn is the main reason for the lower turnover velocity**

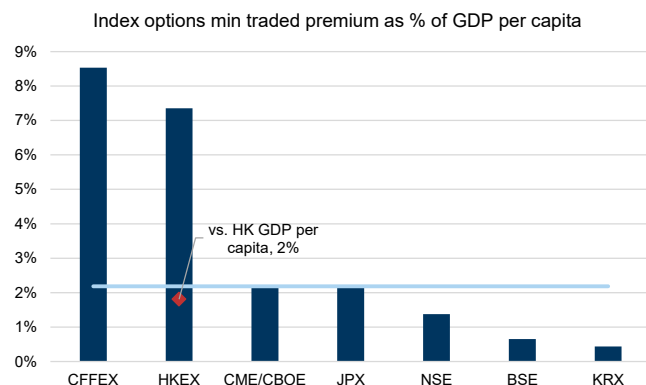


Source: Various exchanges, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 26: ... as well as in index futures**



Source: Various exchanges, CEIC, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 27: ... and index options market**

Source: Various exchanges, CEIC, Data compiled by Goldman Sachs Global Investment Research

**Theme #4: Policy support**

Policy support for the development of HK capital markets has been another pillar of the HKEX investment thesis. The market lacks visibility here, but we have seen support historically in the form of: **(i)** HK-China Stock Connect, **(ii)** MSCI A50 equity futures trading in HK, and **(iii)** Bond Connect, Swap Connect and ETF Connect that followed Stock Connect. HKEX/HKSAR government are aiming for China government bond futures to be listed in HK, and/or lower dividend tax for SB investors (in-line with other investors). Any such policy measure has the potential to either raise flows to open up a new revenue channel for HKEX. We don't think HKEX shares are pricing in any optionality for such events at the current juncture.

**Theme #5: Attractive risk-reward**

We refresh our Bull/Bear Case scenario analysis to highlight attractive risk-reward as upside is ~2X the potential downside. Reflecting lower EPS estimates, we lower 12m 3 stage DDM derived TP to HK\$378 from HK\$431. The target P/E has reduced from 39X on CY25 earnings to 34X, reflecting a lower P/E backdrop for the HK market. HKEX is trading at ~200% P/E premium to the index P/E, although this is close to historical mid-cycle, the continued lower-for-longer index P/E reduces the potential for HKEX P/E re-rating.

## Exhibit 28: Bull and Bear Case Scenarios for HKEX

		BEAR			BASE			BULL			BEAR vs BASE			BULL vs BASE		
	2024	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Mkt cap, HK\$tn, avg	33.8	35.5	35.5	35.5	37.3	38.3	40.8	38.8	42.7	44.9	-5	-7	-13	4	12	10
yoy chng, %	-6	5	0	0	10	3	7	15	10	5						
Turnover velocity, %	98	125	110	100	132	125	126	135	130	130						
Cash equity ADT, HK\$bn	132	180	159	144	201	195	209	213	226	237	-10	-19	-31	6	16	13
yoy chng, %	26	37	-12	-9	52	-3	7	62	6	5						
Equity trading & clearing income ex NB, HK\$bn	8.7	10.1	8.9	8.0	11.3	10.9	11.6	12.0	12.7	13.1	-10	-19	-31	6	16	13
as bp of cash equity value traded	2.67	2.28	2.28	2.25	2.28	2.28	2.25	2.28	2.28	2.25						
Total revenues, HK\$bn	22.4	23.8	22.5	22.0	24.9	24.5	25.6	25.6	26.2	27.1	-5	-8	-14	3	7	6
Equity trading & clearing inc (ex NB) as % of total	39	43	40	36	45	45	45	47	48	48						
Attributable profits, HK\$bn	13.1	13.2	11.7	10.9	14.1	13.4	13.9	14.7	14.9	15.2	-7	-13	-22	4	11	9
EPS, HK\$	10.32	10.41	9.24	8.60	11.18	10.59	11.00	11.65	11.75	12.03	-7	-13	-22	4	11	9
yoy chng, %		1	-11	-7	8	-5	4	13	1	2						
Target/Scenario P/E implied on 2025E, X		23X			34X			40X								
Implied value, HK\$		242			378			460								
Variance vs current price, %		-19			26			53								

Bull/Bear cases are constructed by looking at 12mma of China listed mkt cap/GDP, Chinese corporates earnings and HKEX cash equity turnover velocity highs/lows. Bull/Bear cases are based on high/low point for P/E valuation, applied to FY25 EPS and discounted back one year at its COE (as per the base case).

Source: Company data, Goldman Sachs Global Investment Research, Datastream

## Exhibit 29: 3 stage DDM is our target P/E derivation methodology

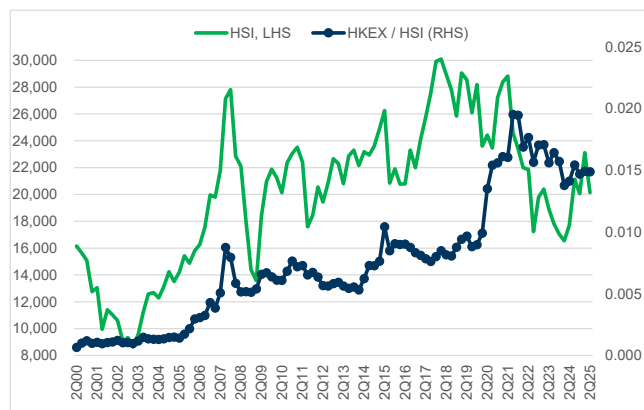
HKEX	Capital Asset Pricing Model					3-Stage Dividend Discount Model Assumptions									Implied target/ scenario P/E
	Risk-free rates	Mkt. Risk Prem.	Beta	Risk Prem.	Total Disc. Rate	Stage 1		Stage 2			Terminal Stage 3				
						Div. CAGR	No. of Yrs	(a) ROE	(b) Div Payout	Growth =a*(1-b)	No. of Yrs	ROE	Div. Payout	Growth =a*(1-b)	
BULL	3.5%	5.5%	1.0X	5.4%	8.9%	5%	3	40%	65%	14.2%	15	24%	82%	4.3%	40
BASE	3.5%	5.5%	1.0X	5.4%	8.9%	2%	3	37%	65%	13.0%	15	24%	82%	4.3%	34
BEAR	3.5%	5.5%	1.0X	5.4%	8.9%	-6%	3	29%	65%	10.1%	15	24%	82%	4.3%	23

Source: Goldman Sachs Global Investment Research

## Risk #1: Price and earnings linked to the market

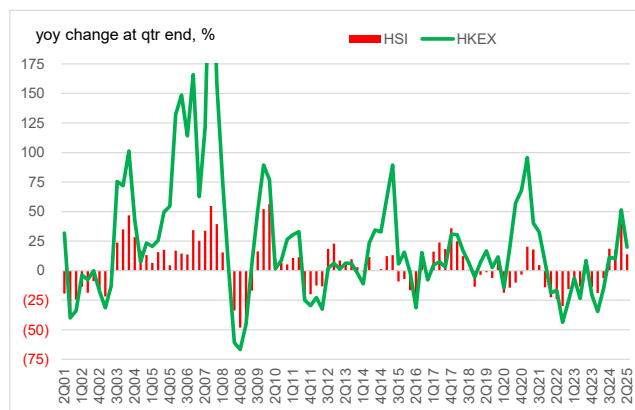
Given HKEX's reliance on HK equity market volumes for nearly half of its top-line, the stock is largely driven in the near term by the swings of the market. That said, owing to earnings out performance the stock has outperformed during the longer term.

## Exhibit 30: HKEX has tended to outperform HSI over the long-term



Source: Datastream

## Exhibit 31: ... but given reliance on market related income, short-term moves follow the market index



Source: Datastream

## Risk #2: Declining investment income

Investment income is driven by participants' margin balance as well as HKEX's own cash, along with the impact of market movements and interest rates. The biggest driver

here is HKD interest rates which are declining, and our economists expect them to fall further by YE26. We now model a terminal 2.5% HIBOR interest rate to lower investment income. We expect this ~20% contributor to the top-line last year to decline by ~12% CAGR over the next three years and bring down reported EPS relative to performance excluding this trend.

### Exhibit 32: Declining investment income is a headwind for reported EPS growth

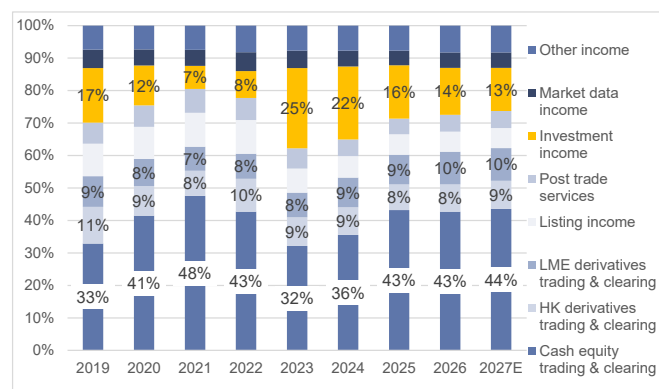
In HK\$m												Change yoy										CAGR	CAGR
In HK\$ for per share	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	13-24	24-27E	
Total revenue	13,180	15,867	16,311	19,190	20,950	18,456	20,516	22,374	24,927	24,504	25,603	3%	18%	9%	-12%	11%	9%	11%	-2%	4%	9%	5%	
Investment income	1,606	1,615	2,746	2,355	1,479	1,522	5,071	5,028	4,091	3,552	3,401	70%	-14%	-37%	3%	233%	-1%	-19%	-13%	-4%	21%	-12%	
Revenue ex invmt income	11,574	14,252	13,565	16,835	19,471	16,934	15,445	17,346	20,836	20,953	22,202	-5%	24%	16%	-13%	-9%	12%	20%	1%	6%	7%	9%	
Invmt income as % of revenue	12%	10%	17%	12%	7%	8%	25%	22%	16%	14%	13%												
Grp EBITDA	9,614	11,757	12,263	14,641	16,269	13,185	14,828	16,281	18,388	17,595	18,316	4%	19%	11%	-19%	12%	10%	13%	-4%	4%	10%	4%	
Investment income	1,606	1,615	2,746	2,355	1,479	1,522	5,071	5,028	4,091	3,552	3,401	70%	-14%	-37%	3%	233%	-1%	-19%	-13%	-4%	21%	-12%	
EBITDA ex invmt income	8,008	10,142	9,517	12,286	14,790	11,663	9,757	11,253	14,297	14,043	14,915	-6%	29%	20%	-21%	-16%	15%	27%	-2%	6%	7%	10%	
Invmt income as % of EBITDA	17%	14%	22%	16%	9%	12%	34%	31%	22%	20%	19%												
Grp EPS	6.03	7.50	7.49	9.10	9.91	7.96	9.37	10.32	11.18	10.59	11.00	0%	21%	9%	-20%	18%	10%	8%	-5%	4%	9%	2%	
Investment income/share	1.31	1.30	2.19	1.86	1.17	1.20	4.01	3.98	3.24	2.81	2.69	68%	-15%	-37%	3%	233%	-1%	-19%	-13%	-4%	20%	-12%	
EPS ex invmt income	4.72	6.20	5.30	7.23	8.74	6.76	5.37	6.35	7.94	7.78	8.31	-14%	37%	21%	-23%	-21%	18%	25%	-2%	7%	6%	9%	
Invmt income as % of NPAT	22%	17%	29%	20%	12%	15%	43%	39%	29%	27%	24%												

Source: Company data, Goldman Sachs Global Investment Research

### Risk #3: Close to peak earnings growth

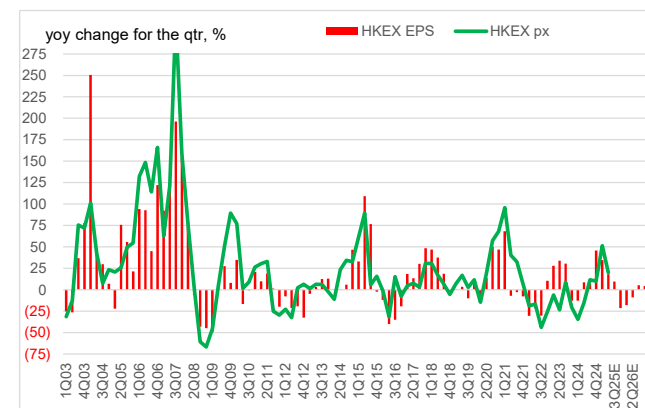
On favorable base effect and accelerated rise in ADT, we expect 4Q24-1Q25 on average to generated ~40% EPS growth on a yoy basis. That said, on peaking ADT in 1Q25 and higher base effect, we expect the growth rate to reduce to ~10-20% growth during 2Q-3Q25E, and further into negative territory by 4Q25E. The stock movements on a yoy basis, have largely matched this EPS trajectory. However, projecting volume trends come with their own risk and stock has not fully priced in the strong growth to be printed during the first three quarters of 2025, in our view.

### Exhibit 33: HKEX top-line mix



Source: Company data, Goldman Sachs Global Investment Research

### Exhibit 34: We expect peak EPS growth on yoy basis occurred during 4Q24



Source: Company data, Goldman Sachs Global Investment Research

HKEX is Hong Kong's only securities and derivatives exchange and sole operator of its clearing houses, connecting the mainland China capital market with the world. We are Buy rated on HKEX as: 1) the potent mix of more ADR trading and Southbound (SB) buying should continue to drive ADT higher over the medium term. A hypothetical scenario, indicating upside of ~35% on ADT, were all the Chinese ADRs companies to shift their market cap to HK. 2) Although declining rates lower investment income, a real interest rate decline could raise ADT growth as fixed income becomes less attractive. 3) the group is working towards lowering bid-ask spreads to reduce implicit trading costs.

Further, policymakers have asked the group to lower minimum trade sizes to further raise liquidity and improve trading efficiency. 4) Policy support — from approval of China bond futures trading to reducing dividend tax for SB investors, that are in discussion but not finalised yet — could be positives. 5) We believe risk-reward on our Bull/Bear case scenario analysis is attractive. The stock is trading at ~20% below its mid-cycle P/E.

**Price Target, Risks and Methodology - Hong Kong Exchanges**

Our 12-m target price of HK\$378 is based on a 3-stage DDM method, implying a 34X 2025E P/E. Downside risks include: 1) Higher competition with onshore capital markets for business; 2) Lower velocity in the cash market; 3) Fee pressure from reduced fees onshore in China; and 4) a sustained deflationary environment in China.



# Disclosure Appendix

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**Growth** is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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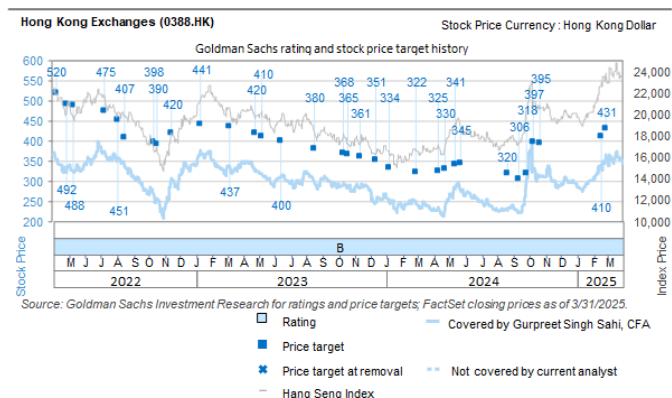
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