



Company Report: HKEx (00388 HK)

公司报告: 港交所 (00388 HK)

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Tide Players of MMA in 2015, Reiterate 'Accumulate' 2015年市场互通互联的弄潮儿，重申“收集”

- **FY14 net profit was up 13.5% yoy, in-line with expectation.** Total revenue was up 12.9% yoy. Operating profit rose by 14.8% yoy. EPS increased by 12.3% yoy to HKD4.438 per share.
- **CSRC approved to let mutual funds buy Hong Kong stocks via SH-HK Stock Connect.** In 2015, market focuses on two key factors, **mutual market access (MMA)** and **higher profit from LME**. The LME story has been widely expected and the market may have fully taken into account the increasing contribution from LME. Stock connect with Shenzhen Stock Exchange is likely to be launched in 2H15. The 2.0 version of SH-HK Stock Connect may be launched with new products like equity derivatives, commodities, fixed income, currencies and international equities, etc.
- **Key assumptions and earnings adjustment:** Revise up ADT in 2015 by 0.9%. **Raise 2015-2016 EPS by 4.7% and 3.8%** to HKD6.013 and HKD7.085, respectively. **Introduce 2017 EPS of HKD8.749.**
- **Maintain 'Accumulate' and revise up TP to HKD200.00.** Our TP represents 33.3x, 28.2x and 22.9x 2015-2017 PE. Potential share catalysts include: 1) further news flow on MMA; 2) monetary easing measures in the Mainland, leading to a likely rise in stock turnover; 3) stronger than expected LME contributions. Risks include slowdown of China's economy and more regulatory action or lawsuits on LME.
- **2014 年净利润同比升 13.5%，符合预期。**总收入同比上升 12.9%。经营利润同比上升 14.8%。每股盈利同比上升 12.3%至每股 4.438 港元。
- **中国证监会批准公募基金通过沪港通参与港股。**2015 年市场关注两个关键因素：**互通互联和 LME 更高的利润贡献。**我们认为 LME 的故事市场已广泛预期，并且估值或已充分反映其利润贡献的提高。深港通可能 2015 年下半年推出。而沪港通 2.0 版本或也将推出，伴随着新的产品如股票衍生品、大宗商品、固定收益产品、外汇及国际股票等。
- **关键假设和盈利调整：**上调 2015 年 ADT 假设 0.9%。分别上调 **2015-2016 年每股盈利 4.7%和 3.8%**至 6.013 港元和 7.085 港元。**预计 2017 年每股盈利为 8.749 港元。**
- **维持“收集”，上调目标价至 200.00 港元。**我们的目标价相当于 33.3 倍、28.2 倍和 22.9 倍 2015-2017 年市盈率。潜在股价催化剂包括：1) 进一步关于市场互通互联的消息；2) 内地宽松的货币政策可能导致的市场交易量提升；3) 好于预期的 LME 贡献。风险包括中国经济放缓及 LME 引发的更多监管行动或诉讼。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$200.00

Revised from 原目标价:

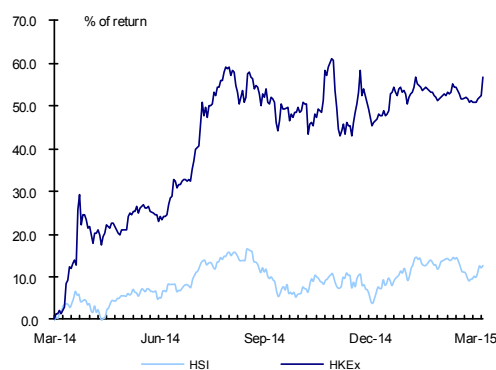
HK\$195.00

Share price 股价:

HK\$178.800

Stock performance

股价表现



| Change in Share Price 股价变动 | 1 M 1 个月 | 3 M 3 个月 | 1 Y 1 年 |
|-------------------------------------|-------------|-------------|------------|
| Abs. % 绝对变动 % | 1.7 | 5.5 | 55.8 |
| Rel. % to HS index 相对恒指变动 % | 2.7 | 0.4 | 42.9 |
| Avg. share price(HK\$) 平均股价 (港元) | 177.3 | 177.3 | 164.9 |

Source: Bloomberg, Guotai Junan International.

| Year End 年结 12/31 | Turnover 收入 (HKD m) | Net Profit 股东净利 (HKD m) | EPS 每股净利 (HKD) | EPS 每股净利变动 (%) | PER 市盈率 (x) | BPS 每股净资产 (HKD) | PBR 市净率 (x) | DPS 每股股息 (HKD) | Yield 股息率 (%) | ROE 净资产收益率 (%) |
|-------------------------|---------------------------|-------------------------------|----------------------|----------------------|-------------------|-----------------------|-------------------|----------------------|---------------------|----------------------|
| 2013A | 8,723 | 4,552 | 3.951 | 5.3 | 45.3 | 17.712 | 10.1 | 3.552 | 2.0 | 23.8 |
| 2014A | 9,849 | 5,165 | 4.438 | 12.3 | 40.3 | 18.280 | 9.8 | 3.990 | 2.2 | 24.7 |
| 2015F | 12,890 | 7,011 | 6.013 | 35.5 | 29.7 | 20.274 | 8.8 | 5.405 | 3.0 | 31.1 |
| 2016F | 14,655 | 8,278 | 7.085 | 17.8 | 25.2 | 21.925 | 8.2 | 6.369 | 3.6 | 33.5 |
| 2017F | 17,261 | 10,242 | 8.749 | 23.5 | 20.4 | 24.273 | 7.4 | 7.864 | 4.4 | 37.9 |

Shares in issue (m) 总股数 (m) 1,168.3
Market cap. (HK\$ m) 市值 (HK\$ m) 206,230.1
3 month average vol. 3 个月平均成交股数 ('000) 3,870.5
52 Weeks high/low (HK\$) 52 周高/低 189.000 / 115.400

Major shareholder 大股东 HONG KONG SAR 5.9%
Free float (%) 自由流通比率 (%) 94.1
FY15 Net gearing (%) FY15 净负债/股东资金 (%) Net cash
FY15 Est. NAV (HK\$) FY15 每股估值 (港元) 205.2

Source: the Company, Guotai Junan International.

FY14 results were in line with expectation. Trading fees and trading tariff was up 7% yoy to HKD3,760 million due to the increase of ADT and ADV of commodities and stock options contracts, partially offset by the decrease of average daily number of derivatives contracted traded on HKFE. 2014 cash market ADT was up 11% yoy to HKD69.5 billion, derivatives market ADV was up 8% yoy to 577,000 contracts, and commodities ADV rose by 4% yoy to 700,000 lots. Stock exchange listing fees rose by 8% yoy to HKD1,102 million, supported by the increase of newly listed DWs, CBBCs and IPOs. Annual listing fees increased due to more listed companies. Clearing and settlement fees surged to HKD1,998 million (2013: HKD1,631 million), mainly due to increase of ADT and contribution from LME Clear since September 2014.

Business prospects in 2015. Cash market: we think with the rally of market turnover in A-share market, turnover in HK market may catch up. We estimate turnover velocity to increase to 79.5% in 2017 from 68.4% in 2014. Derivatives: management expects to add equity derivatives and commodities to a trading scheme linking the two markets in Shanghai and Hong Kong within the year. Also, we think derivatives link-up with overseas markets (for example NASDAQ) might be the next. LME: continue to be an important profit growth contributor in 2015 on the ground of the trading fee hike and full year contribution of LME Clear. MMA: the successful launch of SH-HK Stock Connect and the introduction of covered short selling of SSE securities will continue to help drive ADT. Also, recent policy initiatives like "One Belt One Road" and the establishment of Asian Infrastructure Investment Bank (AIIB) will likely provide more Renminbi offshore liquidity. If Hong Kong is able to take part in the development, market liquidity and channel usage may continue to increase. We think market will likely focus on two key factors in 2015, mutual market access (MMA) and higher profit from LME. We think the LME story has been widely expected and the market may have fully taken into account the forecasted increasing contribution from LME. On the other hand, we expect a stock connect with Shenzhen Stock Exchange (SZSE) is likely to be launched in 2H15. Meanwhile, the 2.0 version of SH-HK Stock Connect may also be launched with new products like equity derivatives, commodities, fixed income, currencies and international equities, etc.

Addressing the needs in the Mainland markets. With the SH-HK Stock Connect already established, incremental improvements to the mechanisms in other cash market connect should be expected. We think cash market is far away from satisfying the capital flow needs in and out of the Mainland (or between the markets). Derivatives, like equity index futures, are vital for investors to hedge their risks. Difficulties that the commodities encounter are bigger, as the reality is that Renminbi capital account is still closed. However, China is trying to add Renminbi to SDR in IMF this year, which will accelerate the internationalization of Renminbi and opening up of capital account in the Mainland. The market connect with the Mainland commodities exchanges will then be easier. Moreover, China is accelerating the reform on interest rate and foreign exchange markets. We think the offshore Renminbi market, especially Hong Kong, is quite important for China to test the Renminbi related interest rate and currency derivatives. HKEx (00388 HK) is able to capture these opportunities to further raise the fees and tariff income, clearing and settlement revenue.

Key assumptions and earnings estimation revision. Revise up 2015 ADT estimate by 0.9% due to the likely increase in market turnover from MMA. Trim down 2015 derivative market ADV by 0.6%. Turnover velocity estimate in 2015 is revised up by 2.0 ppts to 77.0%. LME trading volumes are expected to be 187.8 million lots in 2015. Revise up 2015-2016 total revenue by 4.2% and 4.1% to HKD12,890 million and HKD14,655 million. Introduce 2017 total revenue of HKD17,261 million. Revise up 2015-2016 EPS by 4.7% and 3.8% to HKD6.013 and HKD7.085, respectively. 2017 EPS is expected to be HKD8.749. ROE is expected to rise over 30% in 2015. 2015-2017 ROE are expected to be 31.1%, 33.5% and 37.9%, respectively.

Maintain 'Accumulate' and revise up TP to HKD200.00. Currently HKEx (00388 HK) is trading at 40.7x 2014 PE and 30.0x 2015 forward PE. Comparing with ten-year historical PE of 31.0x and six-year historical PE of 32.2x (after the financial crisis), current valuation is above the average. Current price implying 3.0% yield is fair but a dividend hike is likely if earnings beat. Expected ROE is higher than those of peer companies, thus justifying its higher valuation. Our TP represents 33.3x, 28.2x and 22.9x 2015-2017 PE. Potential share catalysts include: 1) further news flow on MMA; 2) monetary easing measures in the Mainland, leading to a likely rise in stock turnover; 3) stronger than expected LME contributions. Risks include slowdown of China's economy and more regulatory action or lawsuits on LME.

Table-1: Key operating assumptions revision

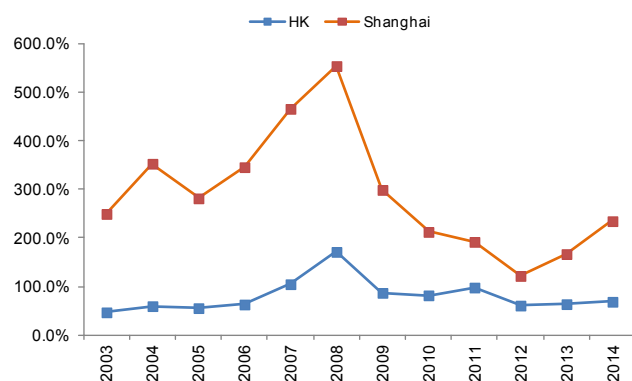
| | New estimates | | | Old estimates | | | Change | | |
|--|---------------|----------|----------|---------------|----------|-------|---------|---------|-------|
| | 2015F | 2016F | 2017F | 2015F | 2016F | 2017F | 2015F | 2016F | 2017F |
| ADT, cash market (bn HKD) | 83.0 | 87.3 | 96.6 | 82.2 | 88.7 | n.a. | 0.9% | -1.6% | n.a. |
| ADV, derivative market ('000) | 687.1 | 819.1 | 1,001.4 | 691.5 | 792.8 | n.a. | -0.6% | 3.3% | n.a. |
| market cap of HK stock market (bn HKD) | 26,400.6 | 27,060.6 | 29,766.7 | 26,836.1 | 27,507.0 | n.a. | -1.6% | -1.6% | n.a. |
| Turnover velocity | 77.0% | 79.0% | 79.5% | 75.0% | 79.0% | n.a. | 2.0 ppt | 0.0 ppt | n.a. |
| IPO fund raising (bn HKD) | 297.4 | 371.6 | 464.4 | 280.5 | 350.4 | n.a. | 6.0% | 6.1% | n.a. |
| Number of newly listed securities | 20,378 | 23,286 | 30,181 | 23,468 | 26,911 | n.a. | -13.2% | -13.5% | n.a. |
| LME trading volumes (million lots) | 187.8 | 200.9 | 213.0 | 208.9 | 231.9 | n.a. | -10.1% | -13.4% | n.a. |

Source: Guotai Junan International.

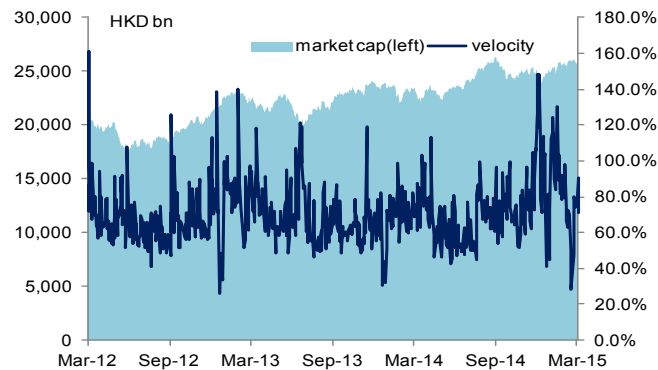
Table-2: Financial Highlights

| | 2014 | 2013 | YoY | Note |
|-------------------------------------|-------|-------|--------|---|
| Earnings summary | | | | |
| Trading Fees and Trading Tariff | 3,760 | 3,509 | 7.2% | increase of ADT and ADV of commodities and stock options contracts |
| Clearing and Settlement Fees | 1,998 | 1,631 | 22.5% | contribution from LME Clear since September 2014 |
| Depository, Custody and Nominee | 725 | 629 | 15.3% | |
| Stock Exchange Listing Fee | 1,102 | 1,016 | 8.5% | newly listed DWs, CBBCs and IPOs |
| Market Data Fees | 769 | 737 | 4.3% | greater demand for non-display data services |
| Other Revenue | 788 | 620 | 27.1% | throttle sales due to Stock Connect |
| Net Investment Income | 707 | 581 | 21.7% | fair value gains partially offset by reduced gains on LCH |
| Total Revenue | 9,849 | 8,723 | 12.9% | increase of trading volumes & related revenue and contribution from LME |
| Operating profit | 6,244 | 5,439 | 14.8% | |
| Profit after tax | 5,138 | 4,546 | 13.0% | |
| Non-controlling interests | (27) | (6) | 350.0% | |
| Profit attributable to shareholders | 5,165 | 4,552 | 13.5% | |
| Basic EPS | 4.438 | 3.951 | 12.3% | |
| DPS | 3.990 | 3.552 | 12.3% | |
| Financial ratios | | | | |
| Operating margin (%) | 63.3 | 62.2 | 1.1 | |
| EBITDA margin (%) | 70.0 | 68.2 | 1.8 | |
| Net profit margin (%) | 52.4 | 52.2 | 0.3 | |
| Debt / Equity | 32.9 | 33.7 | (0.8) | |
| Payout ratio | 89.9 | 89.9 | 0.0 | |
| Cost to income ratio | 36.6 | 37.6 | (1.0) | |

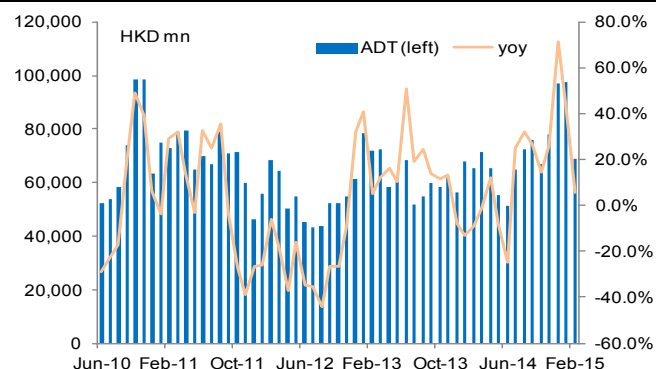
Source: the Company, Guotai Junan International.

Figure-1: Velocity in HK and Shanghai stock market


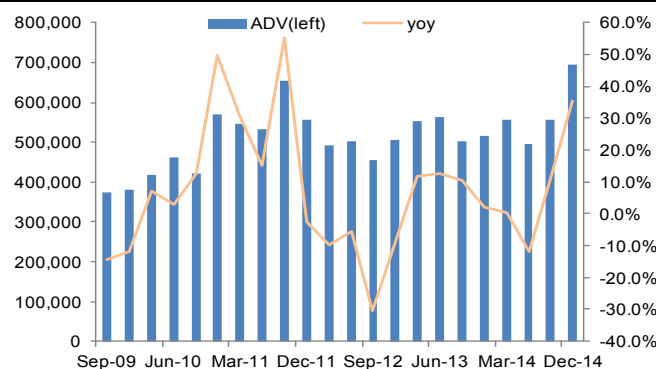
Source: the Company, SSE, Guotai Junan International.
 Note: velocity = turnover / free-floating market cap.

Figure-2: Daily velocity in HK market


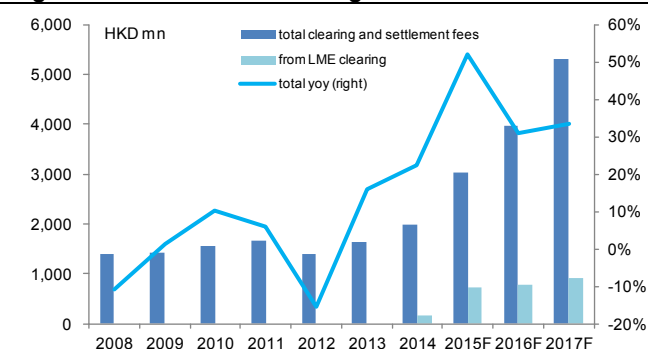
Source: the Company, Guotai Junan International.

Figure-3: ADT in HK cash market, monthly


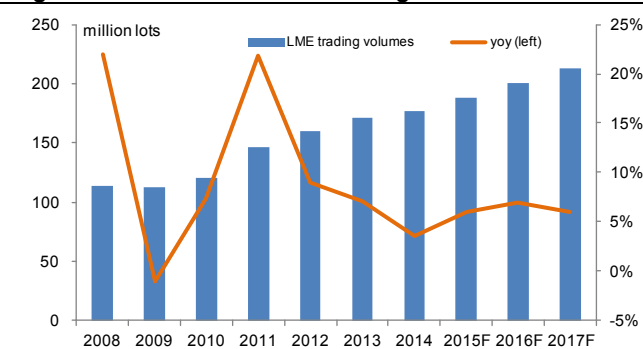
Source: the Company, Guotai Junan International.

Figure-4: ADV in HK derivative market, quarterly


Source: the Company, Guotai Junan International.

Figure-5: 2015F-2017F clearing and settlement fees


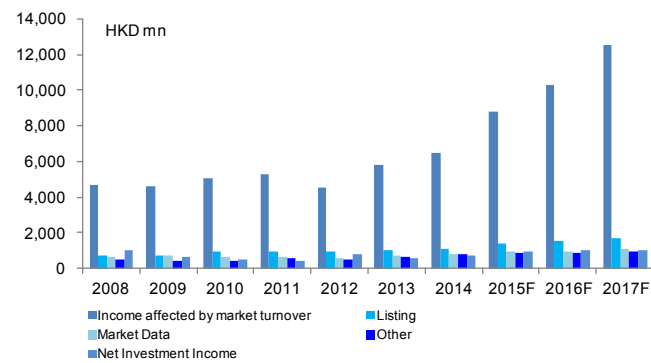
Source: the Company, Guotai Junan International.

Figure-6: 2015F-2017F LME trading volumes


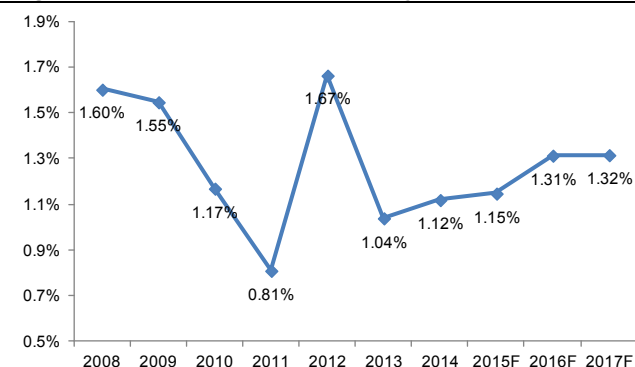
Source: the Company, Guotai Junan International.

Figure-7: 2015F-2017F revenue affected by turnover

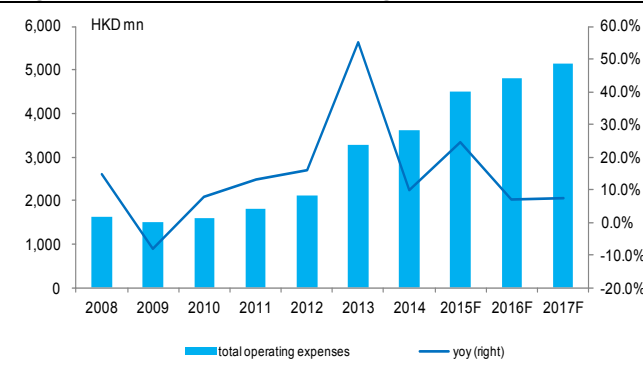

Source: the Company, Guotai Junan International.

Figure-8: 2015F-2017F total revenue estimates


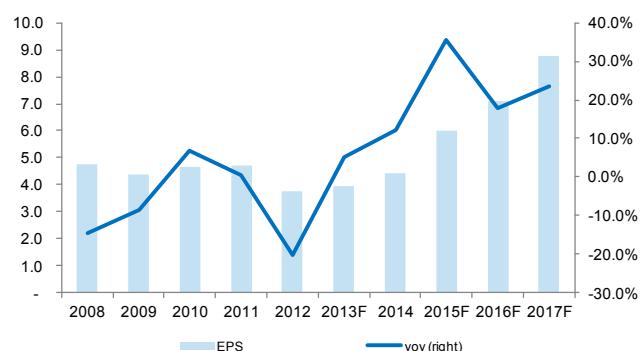
Source: the Company, Guotai Junan International.

Figure-9: 2015F-2017F investment yield


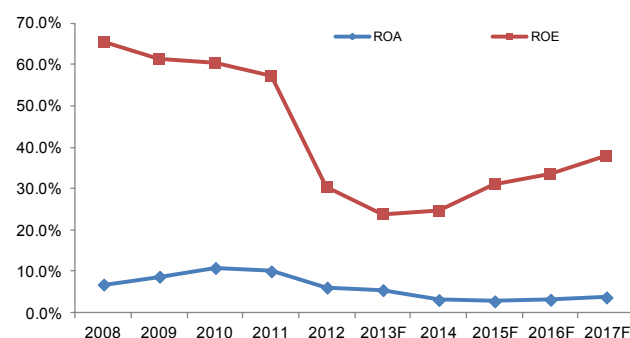
Source: the Company, Guotai Junan International.

Figure-10: 2015F-2017F operating expenses


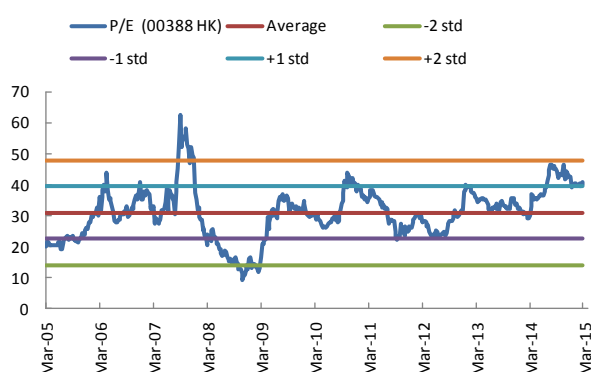
Source: the Company, Guotai Junan International.

Figure-11: 2015F-2017F EPS


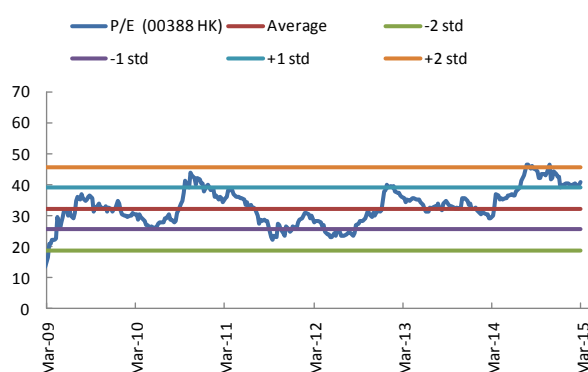
Source: the Company, Guotai Junan International.

Figure-12: 2015F-2017F ROA and ROE


Source: the Company, Guotai Junan International.

Figure-13: 10-year historical PE


Source: Bloomberg, Guotai Junan International.

Figure-14: 6-year historical PE


Source: Bloomberg, Guotai Junan International.

Table-3: Peers comparison

| Company | Stock Code | Currency | Last price | Market Cap HKD mn | PE | | | | | PB | | | | ROE (%) | D/Y (%) | Operating Margin (%) | Net Margin (%) |
|------------------------------|------------|----------|------------|----------------------|------|------|------|------|-----|-----|-----|------|------|---------|---------|----------------------|----------------|
| | | | | | 14A | 15F | 16F | 17F | 14A | 15F | 16F | 17F | 15F | 15F | | 15F | 15F |
| Hong Kong Exchanges & Clear | 388 HK | HKD | 180.80 | 211,230.4 | 40.7 | 31.0 | 27.2 | 24.1 | 9.9 | 9.5 | 9.0 | 8.4 | 31.5 | 2.9 | | 68.8 | 56.6 |
| Cme Group Inc | CME US | USD | 97.34 | 254,641.4 | 28.9 | 24.8 | 22.4 | 20.5 | 1.6 | 1.5 | 1.5 | 1.5 | 6.1 | 3.9 | | 61.4 | 39.0 |
| Deutsche Boerse Ag | DB1 GR | EUR | 75.88 | 124,155.5 | 18.3 | 18.8 | 17.2 | 15.7 | 4.1 | 3.8 | 3.4 | 3.0 | 20.5 | 2.9 | | 48.6 | 34.1 |
| Intercontinental Exchange In | ICE US | USD | 234.31 | 202,979.8 | 27.2 | 19.4 | 16.5 | 14.5 | 2.1 | 2.0 | 1.8 | 1.6 | 9.8 | 1.1 | | 58.6 | 40.1 |
| Bm&Fbovespa Sa | BVMF3 BZ | BRL | 10.94 | 49,040.7 | 20.6 | 14.0 | 12.5 | 10.2 | 1.0 | 1.0 | 1.0 | 1.0 | 7.1 | 4.6 | | 60.2 | 71.9 |
| London Stock Exchange Group | LSE LN | GBp | 2,575.00 | 103,028.5 | 45.6 | 21.1 | 18.4 | 15.9 | 3.5 | 3.6 | 3.2 | 2.8 | 18.1 | 1.2 | | 33.9 | 21.5 |
| Asx Ltd | ASX AU | AUD | 42.81 | 50,657.7 | 21.6 | 20.8 | 19.9 | 18.8 | 2.3 | 2.2 | 2.2 | 2.1 | 10.8 | 4.3 | | 71.9 | 57.5 |
| Singapore Exchange Ltd | SGX SP | SGD | 8.07 | 49,058.3 | 26.9 | 25.4 | 22.5 | 19.7 | 9.4 | 9.0 | 8.5 | 8.2 | 36.1 | 3.6 | | 52.8 | 45.1 |
| Japan Exchange Group Inc | 8697 JP | JPY | 3,580.00 | 63,704.3 | 32.9 | 30.2 | 26.5 | 24.6 | 5.0 | 4.4 | 4.1 | 3.8 | 15.4 | 1.5 | | 47.8 | 31.2 |
| Nasdaq Omx Group/The | NDAQ US | USD | 50.17 | 65,683.1 | 20.5 | 14.9 | 13.5 | 12.6 | 1.5 | 1.4 | 1.3 | 1.3 | 9.1 | 1.2 | | 44.8 | 26.7 |
| Dubai Financial Market | DFM UH | AED | 1.61 | 27,193.2 | 16.9 | 23.7 | 17.9 | 13.8 | 1.5 | 1.5 | 1.5 | 1.5 | 5.7 | 4.4 | | 75.4 | 82.7 |
| Moscow Exchange Micex-Rts | MOEX RM | RUB | 69.00 | 21,129.8 | 9.6 | 8.2 | 8.8 | 8.4 | 1.7 | 1.6 | 1.5 | 1.4 | 18.9 | 6.7 | | 71.6 | 56.1 |
| Tmx Group Ltd | X CN | CAD | 54.34 | 18,262.1 | 29.4 | 13.8 | 12.3 | n.a. | 1.0 | 1.0 | 0.9 | n.a. | 6.9 | 2.9 | | 39.1 | 27.9 |
| Bolsa Mexicana De Valores Sa | BOLSAA MM | MXN | 26.45 | 8,141.3 | 31.4 | 19.6 | 17.5 | 15.8 | 2.9 | 2.8 | 2.7 | 2.9 | 14.0 | 4.4 | | 43.7 | 31.0 |
| Bursa Malaysia Bhd | BURSA MK | MYR | 8.59 | 9,711.5 | 23.1 | 22.5 | 21.0 | 19.2 | 6.1 | 5.9 | 5.9 | 6.0 | 26.4 | 4.5 | | 53.9 | 40.1 |
| Simple Average | | | | | 26.2 | 20.6 | 18.3 | 16.7 | 3.6 | 3.4 | 3.2 | 3.3 | 15.8 | 3.3 | | 55.5 | 44.1 |
| Weighted Average | | | | | 29.2 | 22.8 | 20.2 | 17.9 | 3.9 | 3.8 | 3.6 | 3.3 | 15.8 | 2.8 | | 57.1 | 42.5 |

Source: Bloomberg, Guotai Junan International.

Financial statements and ratios

| Income statement | | | | | |
|---------------------------------|-------|-------|--------|--------|--------|
| year-end Dec, HKD mn | 2013A | 2014A | 2015F | 2016F | 2017F |
| Revenue by segment | | | | | |
| Trading | 3,509 | 3,760 | 4,977 | 5,416 | 6,258 |
| Clearing and Settlement | 1,631 | 1,998 | 3,036 | 3,971 | 5,303 |
| Depository, Custody and Nominee | 629 | 725 | 795 | 871 | 975 |
| Listing | 1,016 | 1,102 | 1,388 | 1,534 | 1,694 |
| Market Data | 737 | 769 | 910 | 960 | 1,076 |
| Others | 620 | 788 | 868 | 892 | 921 |
| Revenue | 8,142 | 9,142 | 11,973 | 13,644 | 16,228 |
| Net Investment Income | 581 | 707 | 918 | 1,012 | 1,033 |

Total Revenue 8,723 9,849 12,890 14,655 17,261

| | | | | | |
|--------------------------|---------|---------|---------|---------|---------|
| Staff Costs | (1,495) | (1,716) | (2,052) | (2,233) | (2,427) |
| IT Maintenance Expenses | (549) | (510) | (545) | (565) | (588) |
| Premises Expenses | (302) | (294) | (323) | (341) | (360) |
| D&A | (507) | (647) | (1,022) | (1,057) | (1,112) |
| Other Operating Expenses | (431) | (438) | (548) | (602) | (660) |

Operating profit 5,439 6,244 8,400 9,856 12,114

| | | | | | |
|------------------------|-------|-------|-------|-------|-------|
| Finance costs | (183) | (196) | (201) | (203) | (204) |
| JV profit / (loss) | (10) | (10) | (15) | (13) | (13) |
| Non-recurring expenses | 0 | 0 | 0 | 0 | 0 |

| | | | | | |
|-------------------------------------|-------|-------|---------|---------|---------|
| Profit before tax | 5,246 | 6,038 | 8,184 | 9,641 | 11,896 |
| Taxation | (700) | (900) | (1,195) | (1,379) | (1,666) |
| Profit after tax | 4,546 | 5,138 | 6,989 | 8,261 | 10,230 |
| Non-controlling interests | (6) | (27) | (22) | (17) | (12) |
| Profit attributable to shareholders | 4,552 | 5,165 | 7,011 | 8,278 | 10,242 |

| | | | | | |
|-----------------|-------|-------|-------|-------|-------|
| Basic EPS (HKD) | 3.951 | 4.438 | 6.013 | 7.085 | 8.749 |
| DPS (HKD) | 3.552 | 3.990 | 5.405 | 6.369 | 7.864 |

| Cash flow statement | | | | | |
|---------------------------------|-------|-------|---------|---------|---------|
| year-end Dec, HKD mn | 2013A | 2014A | 2015F | 2016F | 2017F |
| Profit before tax | 5,246 | 6,038 | 8,184 | 9,641 | 11,896 |
| adjustments | | | | | |
| Interest expenses/(income), net | (399) | (588) | (1,548) | (1,911) | (2,043) |
| Net fair value (gains) loss | (185) | (109) | (852) | (437) | (456) |
| D&A | 507 | 647 | 1,022 | 1,057 | 1,112 |
| financing cost | 183 | 196 | 200 | 202 | 203 |
| Others | 112 | 48 | (25) | (57) | (73) |

change in WC (244) (1,310) (3,586) (1,749) (2,552)

| | | | | | |
|---------------------|-------|-------|---------|---------|---------|
| HK profit tax paid | (701) | (903) | (1,195) | (1,379) | (1,666) |
| Others | 469 | 654 | 2,158 | 2,097 | 2,245 |
| Operating cash flow | 4,988 | 4,673 | 4,359 | 7,464 | 8,665 |

| | | | | | |
|----------------------------|-------|-------|-------|-------|-------|
| Capital investment | (797) | (665) | (351) | (300) | (300) |
| Acquisitions | 0 | 0 | 0 | 0 | 0 |
| Other investing activities | 274 | 1,447 | 5 | (95) | (293) |
| Investing cash flow | (523) | 782 | (346) | (395) | (593) |

| | | | | | |
|-----------------------------|---------|---------|---------|---------|---------|
| Issuance of shares | 1 | 12 | 2 | 2 | 2 |
| Issuance of bonds and notes | 769 | 737 | 0 | 0 | 0 |
| Change of bank borrowings | (775) | (737) | 0 | 0 | 0 |
| Dividends Paid | (2,320) | (3,234) | (4,643) | (6,302) | (7,442) |
| Others | 161 | (496) | 96 | (140) | (22) |
| Financing cash flow | (2,164) | (3,718) | (4,545) | (6,441) | (7,462) |

Net Change in Cash 2,301 1,737 (533) 628 610

| | | | | | |
|-------------------------------|-------|-------|-------|-------|-------|
| Cash balance—house, beginning | 4,035 | 6,375 | 8,067 | 7,531 | 8,135 |
| FX adjustments | 39 | (45) | (3) | (24) | (14) |
| Cash balance—house, ending | 6,375 | 8,067 | 7,531 | 8,135 | 8,731 |

Source: the Company, Guotai Junan International.

| Balance sheet | | | | | |
|------------------------------------|--------|---------|---------|---------|---------|
| year-end Dec, HKD mn | 2013A | 2014A | 2015F | 2016F | 2017F |
| Cash and equivalents | 41,452 | 136,778 | 132,619 | 145,512 | 151,602 |
| financial assets at fair value | 3,902 | 62,686 | 17,396 | 18,135 | 18,961 |
| financial assets at amortized cost | 9,046 | 10,256 | 68,027 | 63,665 | 67,068 |
| A/R, prepayments and deposits | 10,946 | 22,523 | 21,902 | 24,901 | 29,328 |
| Intangibles | 18,680 | 17,901 | 17,390 | 16,683 | 15,892 |
| Fixed assets | 1,753 | 1,603 | 1,763 | 1,764 | 1,744 |
| lease premium for land | 23 | 23 | 23 | 23 | 23 |
| interest in a JV | 87 | 77 | 62 | 49 | 36 |
| Others | 54 | 13 | 5 | 5 | 5 |

Total assets 85,943 251,860 259,188 270,738 284,658

| | | | | | |
|-------------------------------------|--------|---------|---------|---------|---------|
| Margin deposits and cash collateral | 39,793 | 129,484 | 135,832 | 142,808 | 150,563 |
| A/P, accruals and other liabilities | 12,834 | 22,849 | 25,270 | 26,777 | 28,916 |
| Deferred revenue | 593 | 646 | 590 | 610 | 615 |
| Taxation payable | 379 | 348 | 595 | 679 | 808 |
| Clearing House Funds | 3,884 | 9,426 | 10,647 | 12,027 | 13,493 |
| Borrowings | 6,921 | 7,026 | 7,108 | 7,190 | 7,273 |
| Other liabilities | 6 | 59,680 | 55,178 | 54,693 | 54,214 |
| | 1,015 | 1,042 | 263 | 291 | 325 |
| Total liabilities | 65,425 | 230,501 | 235,483 | 245,074 | 256,206 |
| Shareholders' equity | 20,518 | 21,359 | 23,705 | 25,664 | 28,452 |
| Non-controlling interests | 113 | 86 | 64 | 47 | 35 |

Total liabilities and shareholder equity 85,943 251,860 259,188 270,738 284,658

| Key assumptions | | | | | |
|-------------------------------------|--------|--------|----------|----------|----------|
| | 2013A | 2014A | 2015F | 2016F | 2017F |
| ADT on the cash market (bn HKD) | 62.56 | 69.50 | 82.97 | 87.26 | 96.59 |
| ADV on the derivative market ('000) | 532.91 | 576.68 | 687.05 | 819.07 | 1,001.38 |
| HK stock market cap (bn HKD) | 24,043 | 25,072 | 26,401 | 27,061 | 29,767 |
| Turnover velocity | 63.5% | 68.4% | 77.0% | 79.0% | 79.5% |
| total equity funds raised (bn HKD) | 378.90 | 942.70 | 1,044.25 | 1,142.43 | 1,260.08 |
| through IPO raising (bn HKD) | 169.00 | 232.50 | 297.42 | 371.65 | 464.40 |
| Number of newly listed securities | 16,492 | 17,845 | 20,378 | 23,286 | 30,181 |
| LME trading volumes (million lots) | 171.10 | 177.15 | 187.78 | 200.93 | 212.98 |
| HKEx's annualized investment yield | 1.04% | 1.12% | 1.15% | 1.31% | 1.32% |

| Key financial ratios | | | | | |
|-----------------------------|-------|-------|-------|-------|-------|
| | 2013A | 2014A | 2015F | 2016F | 2017F |
| Operating margin (%) | 62.2 | 63.3 | 65.1 | 67.2 | 70.1 |
| EBITDA margin (%) | 68.2 | 70.0 | 73.1 | 74.5 | 76.6 |
| Net profit margin (%) | 52.2 | 52.4 | 54.4 | 56.5 | 59.3 |
| Cost to income ratio (%) | 37.6 | 36.6 | 34.8 | 32.7 | 29.8 |
| Debt / Equity (%) | 33.7 | 32.9 | 30.0 | 28.0 | 25.6 |
| Net gearing (%) | 2.0 | (5.0) | (1.8) | (3.8) | (5.2) |
| Payout ratio (%) | 89.9 | 89.9 | 89.9 | 89.9 | 89.9 |
| Dividend yield (%) | 2.0 | 2.2 | 3.0 | 3.6 | 4.4 |
| Total revenue growth (%) | 21.0 | 12.9 | 30.9 | 13.7 | 17.8 |
| Operating profit growth (%) | 6.7 | 14.8 | 34.5 | 17.3 | 22.9 |
| Net profit growth (%) | 11.5 | 13.5 | 35.7 | 18.1 | 23.7 |
| EPS growth (%) | 5.3 | 12.3 | 35.5 | 17.8 | 23.5 |
| ROAA (%) | 5.5 | 3.1 | 2.7 | 3.1 | 3.7 |
| ROAE (%) | 23.8 | 24.7 | 31.1 | 33.5 | 37.9 |
| P/E (x) | 45.3 | 40.3 | 29.7 | 25.2 | 20.4 |
| P/B (x) | 10.1 | 9.8 | 8.8 | 8.2 | 7.4 |

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating | Definition |
|------------|---|
| Buy | Relative Performance >15%; or the fundamental outlook of the company or sector is favorable. |
| Accumulate | Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable. |
| Neutral | Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral. |
| Reduce | Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable. |
| Sell | Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable. |

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating | Definition |
|--------------|--|
| Outperform | Relative Performance >5%; or the fundamental outlook of the sector is favorable. |
| Neutral | Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral. |
| Underperform | Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable. |

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