

China Galaxy Securities (6881.HK)

A little effect in the delay of the A Share Offering

CHINA | FINANCIAL | COMPANY REPORT

26 January 2015

Summary

- According to the latest data of China Galaxy Securities (CGS or the Company), the profits grew rapidly. As at the end of Dec 2014, monthly operating incomes amounted to RMB2.2 billion, with net profit of RMB0.63 billion, up 104.5% and 61.5% m-m respectively;
- The Company's incomes increased sharply mainly due to the obvious development of the market environment, and the trading volume grew significantly, especially for the margin trading business. Therefore, on Jan 20th, CGS announced to issue new H Shares and reschedule the A Share Offering for 12 months, and 60% of the funds will be used for margin trading business and dealer-quoted securities repurchase business;
- In our view, one of main reasons of the delay of the Company's A Share Offering is the changes of shareholders' structure. One of main shareholders of CGS transferred 110 million shares with total amount of 935 million, equivalent to 8.5/share this month. Meanwhile, according to the market environment and the Company's operating performance, its profits grew strongly, therefore we still have the confidence in CGS's performance in future, and increase its target price to HK\$12.50, around 43% higher than the current price, and maintain Buy rating.

A little effect in the delay of the A Shares Offering

According to the data of CGS, the profits grew rapidly. As at the end of Dec 2014, monthly operating incomes amounted to RMB2.2 billion, with net profit of RMB0.63 billion, up 104.5% and 61.5% m-m respectively. Total operating incomes achieved to RMB10.543 billion, and net profit was 3.28 billion up 25% and 54% respectively.

The Company's incomes increased largely mainly due to the strong development of the margin trading business. By the end of 2013, the market shares of net incomes of CGS's margin trading business was 5.81%, ranked No.5 in the industry, after CITIC Securities, Guotai Junan, Huatai Securities and GF Securities. In 1H2014, the balance of the Company's margin trading business was RMB21.271 billion, increased largely by 81.31% y-y, with a market share of 5.23%; turnover of such business amounted to RMB179.147 billion, up 12.96% y-y; there were 0.149 million credit fund accounts in total, grew strongly 251.33% y-y, and outstanding balance of margin and securities refinancing business was RMB640,500.

Considering the strong market demand, the Company plans to issue new H Shares to increase the capital in order to support the development of relative businesses. Due to the changes of shareholders, one of main shareholders of CGS transferred 110 million shares with total amount of 935 million, equivalent to 8.5/share this month. Therefore, the A Share Offering is delayed, and however, it will issue no more than 2 billion new H Shares, representing not more than 26.53% of the total share capital before the issue, and 20.97% of total share capital of the Company after the issue. The funds raised from the New H Share Issue will be used in: 60% for the margin trading business and dealer-quoted securities repurchase business, 15% for other capital-based intermediary business, 15% for investment and innovative business, and 10% for replenishing the working capital.

Due to the development of the market environment, we expect CGS's incomes would increase obviously, and the profit growth would maintain at the high level, therefore we have the confidence in CGS's performance in future, and increase its target price to HK\$12.50, around 43% higher than the current price, equivalent to 20.5xP/E and 2.6xP/B in 2015 respectively, and maintain Buy rating.

Buy (Maintain)

CMP HK\$8.74

TARGET HK\$12.50 (+43%)

COMPANY DATA

O/S SHARES (MN) :	7,537
MARKET CAP (HK\$ MN) :	14,779
52 - WK HI/LO (HK\$) :	11.50/ 4.22

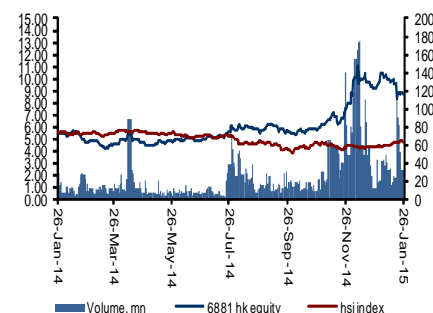
SHARE HOLDING PATTERN, %

Central Huijin :	69.23
Galaxy Financial Holdings	69.23
National Council for Social Security Fund	1.14

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
CGS	-4.48	50.17	57.62
HSI	6.68	0.20	3.80

PRICE & HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

Key Financial Summary

FYE	12/13	12/14F	12/15F	12/16F
Total revenue	8,426	11,017	14,147	17,625
Net Profit, adj. (RMB mn)	2,135	3,369	4,673	6,006
EPS, adj. (RMB)	0.31	0.45	0.49	0.63
P/E (X)	22.8	15.7	14.3	11.1
BVPS (RMB)	3.34	3.88	3.86	4.42
P/B (X)	2.1	1.8	1.8	1.6
DPS (RMB)	0.06	0.09	0.10	0.13
Div. Yield	0.9%	1.2%	1.5%	1.9%

Source: Bloomberg, PSR est.

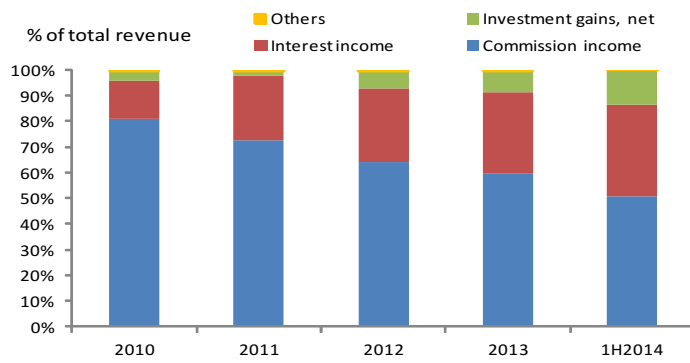
*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

Xingyu CHEN (+ 86 21 51699400-105)

chenxingyu@phillip.com.cn

Portion of interest and commission incomes of CGS by the end of 1H2014

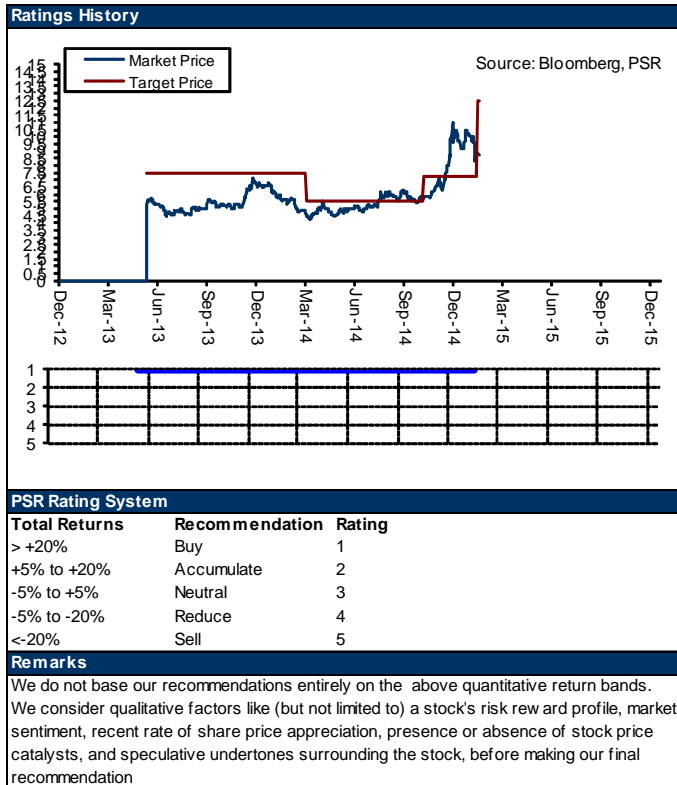


Source: Company, Phillip Securities (HK) Research

FINANCIALS

FYE	FY12	FY13	FY14F	FY15F	FY16F
Valuation Ratios					
P/E (X)	29.7	22.8	15.7	14.3	11.1
P/B (X)	2.4	2.1	1.8	1.8	1.6
Dividend Payout ratio	0.00%	20.16%	19.41%	21.24%	20.64%
Dividend Yield	0.0%	0.9%	1.2%	1.5%	1.9%
Per share data (RMB)					
EPS, reported	0.24	0.31	0.45	0.49	0.63
EPS, adj.	0.24	0.31	0.45	0.49	0.63
DPS	0.00	0.06	0.09	0.10	0.13
BVPS	2.91	3.34	3.88	3.86	4.42
Growth					
Total revenue	-7.3%	41.3%	30.8%	28.4%	24.6%
Profit before income tax	-16.6%	53.4%	56.5%	37.9%	28.8%
Profit for the year	-9.6%	50.4%	57.0%	38.8%	28.4%
Net Income, adj.	-10.0%	50.4%	57.8%	38.7%	28.5%
Key Ratios					
Operating margin	31.64%	34.33%	41.10%	44.13%	45.61%
Net margin	23.97%	25.41%	30.66%	33.11%	34.15%
D/E Ratio	28.48%	39.23%	46.22%	46.49%	49.79%
ROAA	2.30%	2.99%	3.59%	3.80%	3.94%
ROAE	8.49%	10.02%	12.37%	14.13%	15.21%
Current ratio (x)	1.3	1.4	1.3	1.4	1.3
Adjusted current ratio (x)	3.2	2.4	2.1	2.1	2.0
Income Statement (RMB mn)					
Revenue	5,924	8,403	10,990	14,113	17,585
Other income and gains	38	23	28	33	40
Total revenue	5,962	8,426	11,017	14,147	17,625
Total expenses	(4,075)	(5,533)	(6,490)	(7,904)	(9,586)
Profit before income tax	1,886	2,893	4,528	6,242	8,038
Income tax	(454)	(738)	(1,144)	(1,544)	(2,008)
Income tax rate	24.06%	25.51%	25.26%	24.74%	24.97%
Profit for the year	1,433	2,155	3,384	4,698	6,031
Minority interest	13	20	15	25	25
Net profit	1,420	2,135	3,369	4,673	6,006
Dividend	0	467	677	948	1,232
Balance sheet (RMB Million)					
Advances to customers	5,439	18,392	33,106	51,645	74,885
Available-for-sale financial asset:	5,908	9,295	10,689	11,437	12,238
Financial assets held under resale	810	1,284	770	963	1,252
Financial assets held for trading	4,622	5,027	4,273	4,401	4,621
Financial assets designated as at	831	943	1,650	1,980	2,218
Deposits with exchanges and a n	2,614	2,841	4,119	4,737	5,353
Clearing settlement funds	4,541	4,374	6,124	7,655	9,568
Bank balances	36,607	33,084	44,663	49,130	53,060
Total current assets	62,277	76,495	107,444	134,477	166,356
Property, plant and equipment	516	394	374	401	429
Goodwill	223	223	223	223	223
Other intangible assets	363	349	359	377	396
Available-for-sale financial asset:	743	495	470	484	513
Deferred tax assets	174	308	200	210	231
Total non-current assets	2,019	1,789	1,899	2,018	2,117
Total assets	64,296	78,284	109,343	136,496	168,473
Due to banks and a non-bank fina	319	593	1,957	2,544	3,434
Accounts payable to brokerage c	39,746	36,451	54,312	66,804	83,505
Accrued staff costs	1,105	1,288	1,610	1,932	2,241
Financial assets sold under repur	5,183	8,898	14,682	19,820	26,163
Total current liabilities	46,737	52,863	79,744	99,201	125,812
Share capital	6,000	7,537	7,537	9,537	9,537
Reserves	6,268	11,542	13,513	16,615	19,223
Retained profits	5,162	6,095	8,228	10,697	13,371
Equity attributable to owners	17,430	25,175	29,278	36,848	42,130
Minority interest	129	247	320	445	530
Total equity	17,559	25,422	29,598	37,293	42,660
Total liabilities and equity	64,296	78,284	109,343	136,496	168,473

Source: Company, Phillip Securities (HK) Research Estimates



PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005