

Haitong Securities (6837.HK)

The refuction of IPO stabilizes the performance

CHINA | SECURITIES | COMPANY NOTE

11 November 2015

Summary

- Incomes of Haitong Securities (HTS) increase sharply, by the end of Sep, its net profit increased by 123.6% y-y to RNB 11.065 billion, with the EPS of RMB 1.06. Meanwhile, HTS announced the latest incomes of Oct last week, the net profit still maintained at the high level, increased by 33% to RMB1.12 billion compared with the end of Sep. We expect HTS's net profit would achieve to RMB14 billion approximately in 2015;
- Recently the markets pay close attention to the refuction of IPO announced suddenly by CSRC last weekend. According to the new rules, China will further improve the system of issuing shares, and the IPO will not have advance payments, which needs not freeze the capital in advance. Additionally, after the reopening of IPO, the capital will receive the placement of shares based on the market value;
- In our view, the market environment starts to be stabilized after the sharp decrease in 3Q, the incomes of brokerage firms are increasing obviously, therefore the operating performance would be improved in 4Q, and we expect HTS's profit growth would maintain at the high level continually. Meanwhile, the reopening of IPO will enhance the market's confidence, which would be helpful for the recovery of the market environment, and positive for the firms' businesses in the medium and long run. Therefore, we still have the confidence in HTS's performance in future, and maintain its target price at HK\$23.90, around 59% higher than the latest closing price, equivalent to 9.8xP/E and 1.5xP/B in 2016 respectively, and recommend Buy rating.

The reopening of IPO positive for brokerage firms' performance in the medium and long term

HTS's incomes maintained the large growth although there was a large volatility in the market in 3Q. HTS announced the latest incomes of Oct last week, the net profit still maintained at the high level, increased by 33% to RMB1.12 billion compared with the end of Sep. We expect HTS's net profit would achieve to RMB14 billion approximately in 2015. Meanwhile, CSRC suddenly announced the reopening of IPO last weekend. According to the new rules, China will further improve the system of issuing shares, and the IPO will not have advance payments, which needs not freeze the capital in advance. Additionally, after the reopening of IPO, the capital will receive the placement of shares based on the market value. In our view, the market environment starts to be stabilized after the sharp decrease, the incomes of brokerage firms are increasing obviously in 4Q, and we expect HTS's profit growth would maintain at the high level continually. Meanwhile, the reopening of IPO will enhance the market's confidence, which would be helpful for the recovery of the market environment in the middle and long run. According to the new rules, the changes of IPO will release the market liquidity obviously, and encourage the investors to hold the shares in the long term due to the placement based on the market value, which will reduce the speculation to some extent, and be helpful for build more rational investment environment. It is also positive for the brokerage firms' businesses. Of course, there are still 28 companies waiting for the list, and we expect it will freeze the amount of RMB2 trillion approximately based on the old rules, which would have the negative impact for the market in the short run. Therefore, we believe the firms including HTS would face the risk of the large volatility in prices recently. In all, we still have the confidence in HTS's performance in future, and maintain its target price at HK\$23.90, around 59% higher than the latest closing price, equivalent to 9.8xP/E and 1.5xP/B in 2016 respectively, and recommend Buy rating. (Closing price as at 9 Nov 2015)

Risk

The stronger competition causes the market share to decline;
 Profits decrease obviously due to the decrease of investment gains;
 Share price declines sharply because of the deterioration of the market environment.

Buy (Maintain)

CMP: HK\$ 15.02

(Closing price as at 9 Nov 2015)

TARGET: HK\$ 23.90 (+59%)

COMPANY DATA

O/S SHARES (MN) :	3,410
MARKET CAP (HK\$ MN) :	51,212
52 - WK HI/LO (HK\$) :	27.90/ 10.00

SHARE HOLDING PATTERN, %

HKSCC Nominees :	29.64
Bright Food (Group)	3.50
Shanghai Haiyan Investment Management Company	3.48

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
HTS	12.93	5.48	7.90
HSI	-0.02	-7.32	-4.29

KEY FINANCIALS

Key Financial Summary

FYE	12/14	12/15F	12/16F	12/17F
Total income (RMB mn)	22,925	37,125	53,350	72,556
Net Profit, adj. (RMB mn)	7,711	14,142	22,925	32,636
EPS, adj. (RMB)	0.80	1.26	1.99	2.84
P/E (X)	15.3	9.8	6.2	4.3
BV/PS (RMB)	7.13	10.64	13.36	16.44
PIB (X)	1.7	1.2	0.9	0.7
DPS (RMB)	0.25	0.38	0.60	0.85
Div. Yield	2.0%	3.1%	4.8%	6.9%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

Research Analyst

Xingyu CHEN

(+ 86 21 51699400-105)

chenxingyu@phillip.com.cn

FINANCIALS

Income Statement (RMB Million)	2013A	2014A	2015E	2016E	2017E
Commission and fee income	6,751	9,516	16,653	24,147	33,806
Interest income	3,671	7,700	9,625	13,475	17,518
Net investment gains	2,150	5,709	10,847	15,728	21,233
Total revenue	12,572	22,925	37,125	53,350	72,556
Other income and gains	231	742	1,000	2,300	3,000
Total revenue and other income	12,803	23,667	38,125	55,650	75,556
Total expenses	(7,465)	(13,414)	(19,366)	(25,543)	(32,879)
Total income	5,338	10,253	18,759	30,107	42,678
Share of results of associates	117	167	250	300	450
Profit before income tax	5,455	10,420	19,009	30,407	43,128
Income tax	(1,174)	(2,301)	(4,188)	(6,742)	(9,642)
Income tax rate	21.52%	22.08%	22.03%	22.17%	22.36%
Profit for the period	4,281	8,119	14,822	23,665	33,486
Minority interest	246	408	680	740	850
Net profit	4,035	7,711	14,142	22,925	32,636
Dividend	1,150	2,875	4,243	6,877	9,791
Dividend payout ratio	28.50%	37.28%	30.00%	30.00%	30.00%
Balance sheet (RMB Million)	2013A	2014A	2015E	2016E	2017E
Advances to customers	26,531	64,883	149,231	238,769	322,339
Available-for-sale investments	4,952	3,991	6,984	9,080	11,803
Financial assets at fair value through profits or loss	47,590	56,273	106,919	155,032	209,293
Clearing settlement funds	5,751	14,819	22,969	29,860	35,832
Bank balances and cash	52,587	85,704	192,834	318,176	429,538
Total current assets	156,046	303,626	591,029	902,164	1,188,168
Total non-current assets	13,078	48,996	56,528	66,584	77,699
Total assets	169,124	352,622	647,558	968,748	1,265,867
Borrowings	5,796	19,808	32,683	52,293	75,825
Deposits taken from other financial institution	1,120	14,270	9,500	10,500	12,075
Accounts payable to brokerage clients	40,430	80,767	145,381	254,416	356,182
Other payables and accruals	3,295	7,697	13,470	21,552	33,405
Financial liabilities at fair value through profits or loss	6,507	15,028	27,802	38,923	50,599
Financial assets sold under repurchase agreements	26,112	59,808	107,654	156,099	187,319
Total current liabilities	86,658	221,124	375,220	585,844	780,333
Net current assets	69,388	82,502	215,809	316,321	407,835
Total non-current liabilities	18,361	59,234	140,977	218,514	284,068
Total liabilities	105,019	280,358	516,197	804,358	1,064,402
Equity attributable to owners of the company	61,507	68,364	122,391	153,626	189,087
Minority interest	2,598	3,900	8,970	10,764	12,379
Total equity	64,105	72,264	131,361	164,390	201,465
Total equity and non-current liabilities	169,124	352,622	647,558	968,748	1,265,867
Items per share	2013A	2014A	2015E	2016E	2017E
Basic EPS (RMB)	0.42	0.80	1.26	1.99	2.84
DPS (RMB)	0.12	0.25	0.38	0.60	0.85
BVPS (RMB)	6.42	7.13	10.64	13.36	16.44
Financial ratio	2013A	2014A	2015E	2016E	2017E
Operating margin	40.62%	41.49%	47.84%	52.12%	54.69%
Adjusted operating margin	49.88%	55.01%	62.89%	68.02%	71.39%
Net margin	32.10%	33.64%	38.09%	42.97%	44.98%
Adjusted net margin	39.41%	44.60%	50.08%	56.07%	58.72%
ROE	6.56%	11.28%	11.87%	14.92%	17.26%
Leverage ratio	274.97%	515.80%	529.09%	630.59%	669.46%
P/E (x)	29.3	15.3	9.8	6.2	4.3
P/B (x)	1.9	1.7	1.2	0.9	0.7
DY	0.97%	2.03%	3.07%	4.85%	6.90%

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 9 November 2015)

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