

Hong Kong Exchanges & Clearing (00388.HK)

2021 earnings up 9% slightly miss expectations
Hong Kong | Other Financials |

Amid continuing market volatility and a slowdown in the Q4

HKEX reported 4Q2021 revenue of HK\$4.73bn, -7.2% YoY and -10.9% QoQ. Shareholders' net profit was HK\$2.67bn, down 8.6% YoY, 17.8% QoQ, slightly below the consensus estimates. Although 2021 started exceptionally well, 1Q2021 with record quarterly Headline ADT of \$224.4bn, 2Q2021 & 3Q2021 ADT both higher than the same period in 2020. However, amid continuing market volatility in 2021 and a slowdown in 4Q2021. The ADT 4Q has dropped to 126.4bn, down 24% YoY. In addition, Derivatives ADV decreased by 17% and ADT of Northbound Trading of Stock Connect decreased by 20%, resulting in trading and clearing fees decline in 4Q. Operating expenses decreased by 7.8% YoY, due to lower staff expenses. This led to EBITDA margins broadly flat as 74%. The IPO pipeline remained very robust, with the demand of US-listed Chinese companies homecoming listings in Hong Kong, as well as the introduction of a listing regime for SPACs and the enhanced listing regime for overseas issuers. However, numerous challenges posed by uncertainty surrounding the continued inflationary pressure, the tightening of the Fed's monetary policy, the entry of interest rate hike cycle, ongoing geopolitical risks and the pandemic recovery.

2021 Annual Results

FY2021, revenue and other income of HK\$20.95bn, up 9% against the previous record set in 2020. Profit attributable to shareholders up 9%, to a record high of HK\$12.5bn. Core business revenue of HK\$20.1bn, up 10% compared with 2020, benefit from the headline ADT set new record in 2021, reaching HK\$166.7bn, up 29% YoY. Record Stock Connect revenue and other income of HK\$2.724bn, up 41% YoY. Stock Connect Northbound and Southbound reached record annual turnover of RMB27.6 trillion and \$9.3 trillion, up 31% and 70% YoY, respectively, and record ADT of RMB120.1bn and \$41.7bn, up 32 per cent and 71% YoY, respectively. Operating expenses increased by 2% compared with 2020, mainly due to higher IT and computer maintenance expenses and higher product marketing expenses and cash incentives for new products. EBITDA margin was 78%, 1 per cent higher than 2020.

2021 review, with a total of 98 company listings raising HK\$331.4bn, down from the strong 2020 (154 company listings raising HK\$400.2bn) and 5% higher than 2019 (HK\$314.2bn). During the year, 59 new economy companies, including 31 Weighted Voting Rights (WVR), healthcare and biotech firms (including Chapter 18A listings only) and/or secondary-listed companies, accounting for 88% of IPO funds raised in Hong Kong during the period. Total market turnover in 2021 reached HK\$41.2 trillion, up 28% compared with 2020. Total turnover of securitized derivatives (DWs, CBBCs and Inline Warrants) reached HK\$4,956.8bn, up 8% compared with 2020. As world metal trading remained under pressure, the chargeable average daily volume of metals contracts traded on the LME decreased by 4% from 2020.

21 April 2022

Buy

CMP HKD341.80
(Closing price as of 14 April)
Target HKD 464.70(+36%)

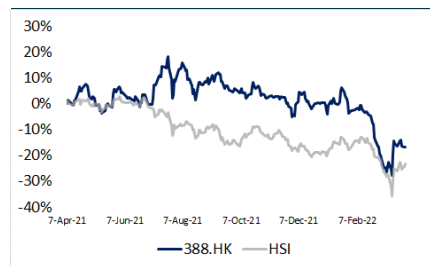
COMPANY DATA

O/S SHARES (MN) :	1267.8369
MARKET CAP (HKD bn) :	433.3467
52 - WK HI/LO (HKD):	535.13/314.00

SHARE HOLDING PATTERN, %

HKSAR EXCHANGE FUND	5.90%
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY20	FY21	FY22E	FY23E
Rev. & other inc.	19,190	20,950	21,410	25,326
Net profit	11,505	12,535	12,976	15,699
Reported EPS	9.09	9.89	10.19	12.33
P/E ratio, x	37.6	34.6	33.5	27.7
Dividend Yield, %	2.4%	2.6%	2.7%	3.3%

Source: Company reports, Phillip Securities Est.

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Company valuation

Overall, HKEx has continued to make a good progress in enhancing competitiveness and attractiveness of HK markets, with new product offerings across asset class, as well as a range of new market enhancements. Among the notable achievements were the successful launch of the MSCI China A 50 Connect Index Futures as Hong Kong's first A-share derivatives product and a cash settled Mini USD/CNH Futures contract. In January 2022, the enhancement and streamlining of the listing regime for overseas issuers and the introduction of the Hong Kong listing regime for special purpose acquisition companies (SPACs) which enhanced the channels available for fundraising on HK markets; the plan to roll out the FINI (Fast Interface for New Issuance) platform in the fourth quarter of 2022 to streamline Hong Kong's IPO settlement process.

However, the ongoing pandemic and the macroeconomic environment is full of challenges. In particular, the United States named China's largest chip manufacturer SMIC (0981) last year to consider imposing tougher sanctions on China's largest chip manufacturer. SenseTime Group (0020) was also banned by the United States. U.S. Department of Commerce also plans to add more mainland biotech and medical companies to a so-called entity list, which bans the companies from key U.S. exports because they pose national security risks. In addition, the United States has passed legislation that if a foreign company U.S.- listed for failing to adhere Holding Foreign Companies Accountable Act that the act would allow the SEC to delist Chinese companies from U.S. exchanges if American regulators cannot review audit for three consecutive years; and the Securities and Exchange Commission (SEC) has earlier confirmed that 11 companies were included in the provisional list. Although this may lead to more US-listed Chinese companies homecoming listings in Hong Kong, but due to high transaction costs, and restrictions to investing on Chinese mainland companies, overseas funds and investors may not able to invest in HK-listed Chinese securities. Continued geopolitical tensions and macroeconomic risks, global investors may further reduce their investment in Chinese and Hong Kong companies, and even lead to massive capital outflows. We expect 2022 estimated EPS to be HKD10.19 and our TP at HKD464.70 (based on a past 2yr average dynamic P/E of 45.6x). Since the stock price has fallen from a high level earlier, we believed that many potential unfavorable factors have already been reflected. Thus, our investment rating maintains "Buy".

Risk factors

1) The market performance was weaker than expected and less active; 2) The IPO pipeline turning weak; and 3) Tightening regulations and Geopolitical uncertainty.

* The analyst has a financial interest in the listed corporation covered in this report.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, HKD mn	FY19	FY20	FY21	FY22E	FY23E
Revenue and other income	16,311	19,190	20,950	21,410	25,326
Transaction-related exp.	-	(110)	(152)	(131)	(142)
Revenue and other income less transaction-related exp.	16,311	19,080	20,798	21,279	25,185
Operating expenses	(4,048)	(4,439)	(4,529)	(4,676)	(5,440)
EBITDA	12,263	14,641	16,269	16,604	19,745
Depreciation and amortization	(1,044)	(1,197)	(1,354)	(1,257)	(1,189)
Operating profit	11,219	13,444	14,915	15,347	18,555
Finance costs	(177)	(181)	(154)	(171)	(162)
others	(91)	69	80	-	-
Profit before taxation	10,951	13,332	14,841	15,176	18,393
Income tax	(1,561)	(1,845)	(2,343)	(2,220)	(2,713)
Shareholders Net profit	9,391	11,505	12,535	12,976	15,699
Reported EPS, Diluted	7.47	9.09	9.89	10.19	12.33
DPS	6.70	8.17	8.87	9.19	11.11
Payout ratio	90%	90%	90%	90%	90%
Shares outstanding	1,257	1,266	1,268	1,273	1,273

Key Financial Data

Dec Y/E	FY19	FY20	FY21	FY22E	FY23E
Valuation Ratio					
P/S ratio, x	26.3	22.5	20.7	20.3	17.2
P/E ratio, x	45.7	37.6	34.6	33.5	27.7
Dividend Yield, %	2.0%	2.4%	2.6%	2.7%	3.3%

Per share data (RMB)

Diluted EPS	7.47	9.09	9.89	10.19	12.33
BVPS	35.1	38.6	39.2	40.0	41.2
DPS (HKD)	6.7	8.2	8.9	9.2	11.1

Growth & Margin

Growth					
Revenue Growth	2.8%	17.7%	9.2%	2.2%	18.3%
EBITDA Growth	4.3%	19.4%	11.1%	2.1%	18.9%
Net Profit Growth	0.8%	22.5%	9.0%	3.5%	21.0%
EPS Growth	-0.1%	21.6%	8.7%	3.0%	21.0%
Margin					
EBITDA margin	75.2%	76.3%	77.7%	77.5%	78.0%
EBIT margin	68.8%	70.1%	71.2%	71.7%	73.3%
Net Profit Margin	57.6%	60.0%	59.8%	60.6%	62.0%

Key Ratios

ROE	22.1%	24.7%	25.4%	25.8%	30.4%
ROA	3.5%	3.4%	3.1%	3.2%	3.9%

Consolidated Statement of Financial Position

Dec Y/E, HKD mn	FY19	FY20	FY21	FY22E	FY23E
Non Current Asset					
PPE	1,589	1,657	1,605	1,519	1,438
Others	22,267	21,756	22,630	22,630	22,630
Total Non Current Assets	23,856	23,413	24,235	24,149	24,068
Current Asset					
Other current assets	101,252	170,638	160,991	160,991	160,991
Accounts receivable	25,791	47,059	32,717	35,189	38,322
Cash and cash equivalents	128,152	157,996	181,361	183,170	184,605
Total Current Assets	255,195	375,693	375,069	379,350	383,917
Total Assets	279,051	399,106	399,304	403,499	407,985
Non Current Liabilities					
Long-term debt	80	83	86	86	86
Other Non-current Liabilities	3,533	3,453	3,344	3,344	3,344
Total Non-current Liabilities	3,613	3,536	3,430	3,430	3,430
Current Liabilities					
Trade payables	22,447	42,974	28,335	31,252	34,187
Others	208,490	303,360	317,629	317,629	317,629
Total Current Liabilities	230,937	346,334	345,964	348,881	351,816
Equity					
Shareholders' equity	44,173	48,918	49,626	50,924	52,493
Non-controlling interests	328	318	284	265	246
Total equity	44,501	49,236	49,910	51,188	52,739
Total Liabilities and Equity	279,051	399,106	399,304	403,499	407,985

Consolidated Statement of Cash Flow

Dec Y/E, HKD mn	FY19	FY20	FY21	FY22E	FY23E
CFO					
Profit before income tax	10,951	13,332	14,841	15,176	18,393
D&A add-back	1,044	1,197	1,354	1,257	1,189
Others	(1,933)	240	(3,855)	(1,775)	(2,911)
Net cash flow from operating activities	10,062	14,769	12,340	14,658	16,672
CFI					
Purchase of PP&E	(1,091)	(1,351)	(1,070)	(1,171)	(1,109)
Others	(2,394)	(6,131)	3,346	-	-
Net cash flow from investing activities	(3,485)	(7,482)	2,276	(1,171)	(1,109)
CFB					
Dividends paid	(5,785)	(6,983)	(11,527)	(11,678)	(14,129)
Others	(1,369)	(491)	(1,142)	-	-
Net cash flows from financing activities	(7,154)	(7,474)	(12,669)	(11,678)	(14,129)
Net Change in Cash	(577)	(187)	1,947	1,809	1,434
Cash and CE at Y/E	10,603	10,442	12,398	14,207	15,642

Current Price as of: 14 April

Source : PSHK Est.

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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