China / Hong Kong Industry Focus

China Brokerage Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity 11 Jan 2022

2022 Outlook – Policy relaxation to drive main board listing

- **Expect registration-based system to be implemented for new main board listings in 2H22F. Policy relaxation to drive sector growth continues**
- **ADT/outstanding margin trades to grow by 15%/10% y-o-y in FY22F, backed by accommodative monetary policy**
- **Promising outlook in wealth management with fund-raising market to grow 25% y-o-y driven by growth in IPO and SPO market**
- **Sector trading at an attractive 0.7x FY22F P/BV; Our top picks are CICC and GF**

The next major policy deregulation. The sector has benefitted from policy deregulation cycle since FY19 and we expect more to come in FY22F. We expect the long-awaited registration-based system to be implemented on the main board in 2H22F. This will serve as a multi-year catalyst to drive brokers' investment banking business, given the shortened IPO processing time and ongoing system deleveraging. With another round of RRR cut likely in 1Q22F, this will serve as a short-term catalyst to the sector.

Further upside expected. China A-share ADT has risen 36% y-o-y in FY21 at a 3-year CAGR of 47%. Backed by the accommodative monetary policy, we expect to see another 15% y-o-y growth in FY22F and 10% y-o-y increase in margin trades outstanding. Despite approaching the level in FY15, we believe the growth remains healthy given that ADT and margin trades outstanding-to-total mkt cap remains relatively low. Growth in brokers' wealth management business will continue to serve as a major earnings driver.

Fund raising to support IPOs. The launch of registration-based system and policy direction will encourage growth in the direct financing channel, and this should help drive 25% y-o-y growth in total fund-raising market. Backed by increasing number of overseas companies relisting in the off-shore H-share market, brokers with strong investment banking franchise will continue to stand out. The expiry of the 2-year lock-up period for IPOs will serve as additional earnings driver to brokers.

Positive sector view remains. With multiple catalysts ahead, we continue favour brokers with a strong investment banking and wealth management franchise. Top top picks are CICC (3908 HK) and GF (1776 HK).

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Recommendation & valuation

Stock	Ticker	Old TP (HKD)	New TP (HKD)	DBS ratings	% upside/ downside
CITIC - H	6030 HK	27.00	27.00	BUY	35%
CICC - H	3908 HK	29.00	29.00	BUY	36%
GF - H	1776 HK	20.00	20.00	BUY	37%
China Galaxy - H	6881 HK	5.60	5.60	BUY	25%
CSC - H	6066 HK	11.50	10.00	BUY	16%
Haitong - H	6837 HK	8.80	8.00	BUY	15%
Huatai - H	6886 HK	14.80	15.15	BUY	17%
Guotai Junan - H	2611 HK	14.00	14.00	BUY	21%

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")

Policy deregulation cycle to continue

Adoption of main board registration-based system the next big thing. The China brokerage sector has entered a policy deregulation cycle since FY19, with an aim to encourage direct financing and facilitate the deleveraging of the financial system through introduction of various capital market reforms. This includes the debut of STAR Board, the gradual adoption of registration-based listing system, and the easier market entry for foreign investors to participate in China's capital market (Fig 1). Industry specific proactive policies relaxations also include allowing mutual funds to engage in margin trading business and to loosen the margin trade and refinancing business thresholds for brokers and others. All-in, this would help to drive China brokers' business and we expect the policy deregulation cycle to continue in FY22F.

Most importantly, the debut of the registration-based listing system and its gradual adoption on the STAR Board (July 2019), ChiNext Board (August 2020) and Beijing Stock Exchange (September 2021) has proven to be a success. The past policy deregulation pattern during FY19-21 has seen implementation of a major market reform each year. Hence, we believe the long-awaited registration-based listing system for the main board will likely materialize in FY22F.

3.8x larger market size. The recent Central Economic Work Conference held on 10 Dec is encouraging proactive policy deregulation and specifically emphasizes the adoption of a comprehensive registration-based listing system. We expect this to be the key policy stimulus in FY22F given that the main board is the last piece of the puzzle of the reform and has much higher market volume compared to ChiNext, STAR, Beijing Stock Exchange. This would benefit the brokers. In FY22F, we believe the policy tone will continue to be favourable on the sector, as many policies would be entering the implementation phase (consultative phase in FY21). Of this, main board registration-based listing system adoption is one of the most important to keep an eye on. Given that the current market capitalization of China A-share main board is 3.8x larger than the aggregate of STAR/ChiNext Board and Beijing Stock Exchange, we believe that once implemented, this will serve as a multi-year catalyst to the China brokerage sector (for further discussion, please refer to page 10).

Further RRR cut in 1Q22F a near-term catalyst. The RRR (Reserve Required Ratio) cut is usually considered as positive to the brokerage sector, as this signals further liquidity injection into the financial system and bodes well for the equity market, while the short-term suppression effect on bond yield movement will also direct investment money into the equity market for higher returns. The PBOC recently lowered RRR by 50bps in Dec 2021 to support the China economy. DBS economic team expects the RRR to be cut by another 50bps in 1Q22 due to the ongoing concern over China's macro-outlook. (For more details: China: Another RRR cut to follow in 1Q22). Therefore, the expected RRR cut in 1Q22 may also serve as a short-term catalyst to the China brokerage sector.

Fig 1. Key policies since FY19

Date	Details	Remark
Jun-19	Allow Mutual funds to participate in margin trading business	《公开募集证券投资基金参与转融通证券出借业务指引》
Jun-19	The first registration based market STAR Board go live	
Aug-19	1) Canceled 130% minimum guarantee ratio threshold 2) Enabled securities companies to justify collateral 3) Expanded underlying stocks from 950 to 1,600	《融资融券交易实施细则》
Feb-20	CSRC included 7 brokers to fund investment advisory pilot program	
Feb-20	Refinancing deregulation: 1) Number of Non-public issuing target expanded from 10 to 35 2) Issuing price no lower that 80% fo base day average price (90% previously) 3) Locking period shortened	《关于修改<上市公司证券发行管理办法>的决定》 《关于修改<创业板上市公司证券发行管理暂行办法>的决定》 《关于修改<上市公司非公开发行股票实施细则>的决定》
Mar-20	Corporate bond and enterprise bond issuance officially adopted registration based system	
Apr-20	Cancelled foreign IB stakeholding threshold	
May-20	Cancelled QFII and RQFII quota limitations	《境外机构投资者境内证券期货投资资金管理规定》
May-20	Allowed Securities company to issue subordinate bond	《证券公司次级债管理规定》
Jun-20	ChiNext board adopted registration based listing system	
Sep-20	Allowed foreign investors to invest CDRs, options, and margin trade	《合格境外机构投资者和人民币合格境外机构投资者境内证券期货投资管理办法》
Feb-21	Adjustments to pre-existing regulation on bond issuance : 1. Adopted registration listing system, defined issuance requirements and application procedure 2. Enhanced supervision on underwrting and servicing institutions 3. Cancelled fixed credit rating on AAA, but introduced new requirements including net assets size and issuance size	《公司债券发行与交易管理办法》
Apr-21	Clearly defined the objective, the content, the method, and the time limits of IPO tutoring	《首次公开发行股票并上市辅导监管规定》公开征求意见
Jun-21	Adjustments to pre-exisiting regulation on securities market prohibition: 1. Added Trading-kind prohibition which stated prohibition in stock exchange 2. Defined detailed prohibitions of trading-kind ban, including direct or indirect transaction of all securities in all stock exchange 3. Added severe disclosure failure to cause permanant prohibition	《证券市场禁入规定》
Nov-21	Adjustments to pre-exisiting regulation on sponsors due-diligence: 1. Add new due-diligence items including special voting rights, listing status on other markets, and investor protections under company loss gaining. 2. Specially required inspections on complicated and new rare business models	《保荐人尽职调查工作准则》公开征求意见
Nov-21	Beijing Stock Exchange go live adopts registration listing system	
Dec-21	Shanghai & Shenzhen Stock Connect no longer include mainland investors	《内地与香港股票市场交易互联互通机制若干规定》公开征求意见

Source: CSRC, DBS HK

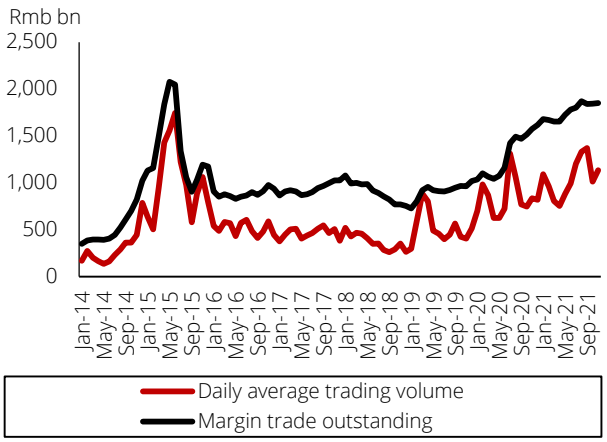
Growth in market activities remains buoyant

High trading participation. Market participation in the China A-share market has been growing since FY19, as evidenced by the gradually higher daily average trading turnover (ADT). The ADT as of end-Nov reached Rmb1.1tr, up 36% y-o-y and recorded a three-year CAGR of 47% since Nov-FY18 (Fig 2). The ADT is on a long-term growth trajectory, primarily driven by 1) the clear message from authorities to encourage direct financing, 2) policy reform entering a deregulation-cycle since FY19 ,3) continuous market opening to encourage more foreign and institutional investor participation, 4) growth in China's wealth and asset management market, and 5) favourable market liquidity.

Reaching FY15 high? Substantial upside for turnover. The current ADT is now at the mid-point level of the bullish A-share market in FY15. We maintain our positive view on ADT growth given that the current ADT/total A-share Mkt Cap remains at a relatively low ~1% level, compared to 2%-3% in FY15 (Fig 3). Therefore, even if ADT stabilises at the Rmb1tr level, underlying risk remains relatively low and manageable, and we see ample room for ADT to expand going forward.

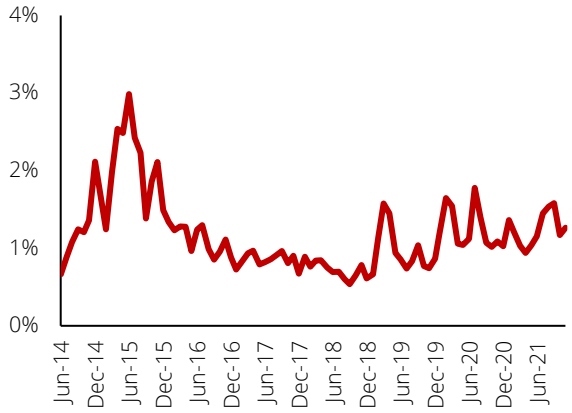
Expect ADT to grow 15% y-o-y in FY22F. In FY22F, we expect market participation to expand, led by expectations of a more proactive and easing monetary and fiscal policy in FY22F, stimulating real economy to recover. Despite the high base of FY21, we forecast ADT to grow by another 15% y-o-y in FY22F.

Fig 2. Trading volume on a growth trajectory



Source: Wind, DBS HK

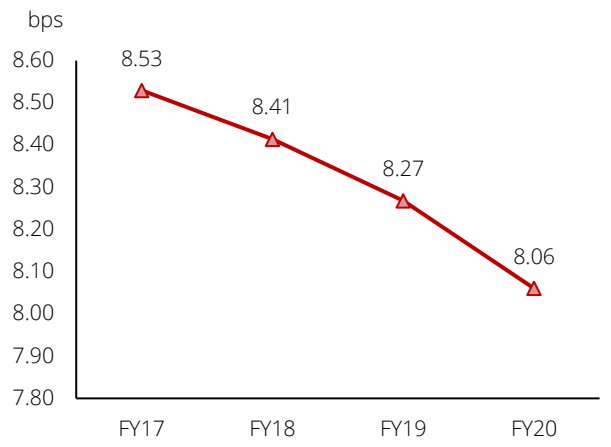
Fig 3. ADT/Total Mkt Cap remains low



Source: Wind, DBS HK

Commission fee rate on a downtrend. While rising ADT provides substantial trading commission fee income to brokers, however the declining commission fee rate, in particular for the retail business, undermines brokers who adopt a pure trading brokerage business model with limited value-added services provided. On our estimates, the average commission fee rate across all brokers declined from 8.53bps in FY17 to 8.06bps in FY20 (Fig 4), and is likely to fall further given the on-going fierce competitive landscape. Therefore, the traditional securities brokerage business model may not be sustainable and transition from traditional brokerage business to offering higher value-added services, i.e., wealth management business, seems to be an inevitable trend.

Fig 4. Commission fee rate has declined



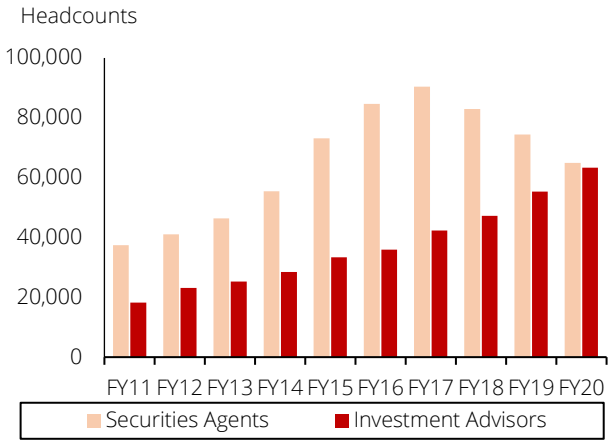
Source: Wind, DBS HK

WM-led growth the strategy to develop retail business. There is strong incentive to transition a traditional brokerage business to a wealth management (WM) led-business model as a strategy to develop its retail business. Brokers are proactively expanding their investment advisor teams and putting more emphasis on distributing financial products. Total investment advisor headcount had tripled in the last 10 years from 18k to over 63k as of end-2020, representing 13% CAGR. The pool of securities agents, on the other hand, has shrunk from FY17's peak of 90k to 65k in FY20 (Fig 5). The size of investment advisors is now catching up with that of securities agents and it is only a matter of time that investment advisors' headcount will surpass securities agents' headcount.

While a WM team has to be in place to provide a comprehensive asset management plan to meet clients' objectives, financial product distribution is the first stage.

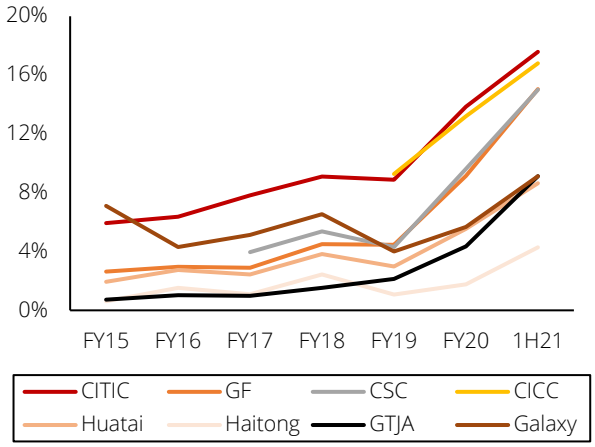
Fee income from distributing financial products is a relatively lucrative and sustainable income source for brokers. Therefore, brokers have put a large emphasis on product distribution. Brokers under our coverage have recorded substantial increase in fee income contribution from distributing financial products (Fig 6), from 1%-9% contribution in FY19 to 4%-18% contribution in 1H21.

Fig 5. Investment Advisors headcount has tripled



Source: Wind, DBS HK

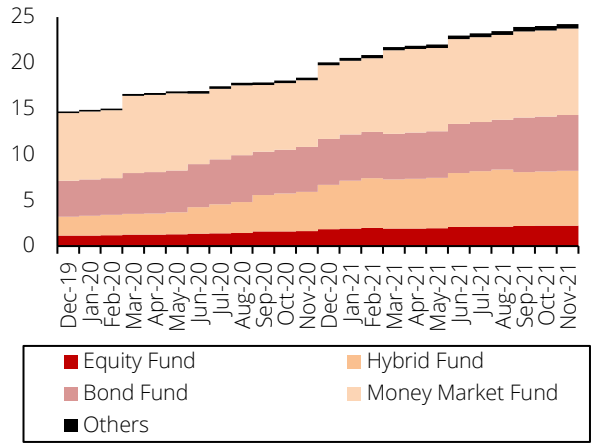
Fig 6. Fee Income from financial products has soared



Source: Company data, DBS HK

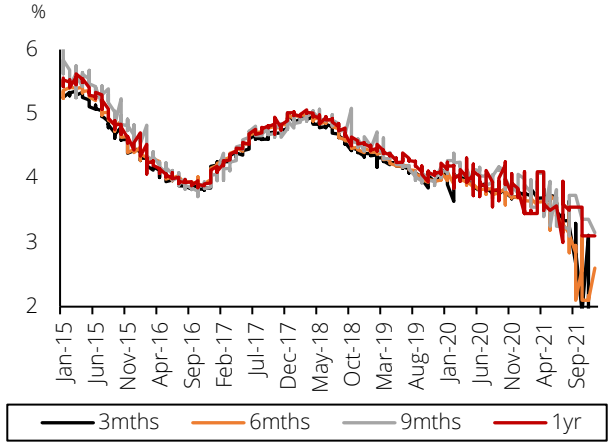
Besides brokers pushing sales of financial products, sales also soared led by the expanding wealth and asset management market. The AUM of China's mutual fund market reached Rmb24tr in Nov-FY21, up 18% YTD-2021 and 32% y-o-y (Fig 7), representing another strong year despite the high base in FY20. The strong rise of AUM is primarily due to ample liquidity and high market participation to support the new issuance of equity funds, along with declining yields on banks' wealth management products (WMP) (Fig 8), that makes mutual fund products more attractive to investors. Issuance of equity+hybrid funds was up 34% y-o-y.

Fig 7. Mutual fund AUM reached Rmb24tr



Source: Wind, DBS HK

Fig 8. Decline in banks' WMP yields



Source: Wind, DBS HK

Moving forward, we see that China's wealth management market has great growth potential, given 1) China household wealth is expected to maintain its growth trajectory, and 2) Financial assets penetration remains low among major economies, offering bright market prospects. Our previous wealth management market report suggests that total wealth management market size could reach Rmb293tr (19% CAGR) by FY25F, mutual fund AUM to reach Rmb63tr by FY25F, representing 26% CAGR. (For more details, please refer our WM market report: Who will benefit from the growing WM market?)

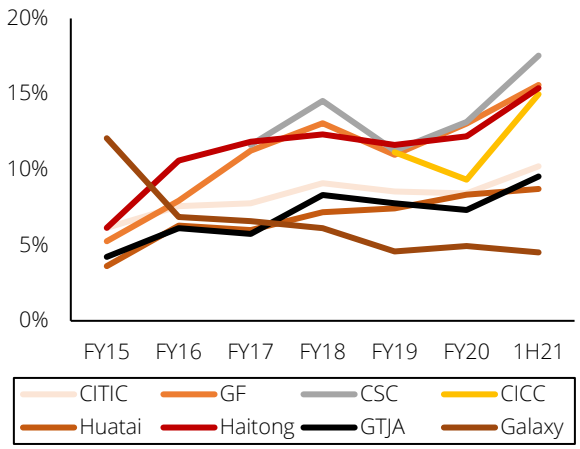
Fig 9. Broker's revenue breakdown by business

Rmb mn	CITIC		CSC		CICC		GF		GTJA		Huatai		Haitong		China Galaxy	
	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
Brokerage commission	10,143	16,504	3,557	5,999	3,878	6,111	4,420	6,879	7,322	11,061	6,967	10,467	6,172	8,549	4,862	7,775
Investment banking	4,625	6,056	3,869	6,179	4,396	6,209	1,547	831	2,743	3,887	2,013	3,794	3,940	5,286	514	1,053
Asset management	6,073	8,436	1,082	1,299	2,002	2,796	3,911	6,598	1,665	1,546	3,904	4,092	2,395	3,403	634	594
Margin trade	7,718	9,307	1,955	2,869	1,461	2,038	3,575	4,852	6,831	7,956	4,986	6,397	3,757	4,405	6,780	5,061
Investment income	16,913	19,046	5,666	9,983	8,844	15,009	11,631	12,397	10,431	11,433	10,164	11,284	12,111	11,581	6,077	6,669
Commodity trading	5,516	6,081	n.a	n.a	n.a	n.a	1,898	1,758	4,744	5,396	936	1,207	6,755	5,082	n.a	n.a
Others	6,089	6,439	3,278	4,391	2,202	238	3,095	2,668	5,312	5,166	3,466	3,303	16,422	15,971	7,628	10,115
Total	57,080	71,869	19,407	30,720	22,783	32,402	30,077	35,983	39,050	46,445	32,437	40,544	51,552	54,277	23,493	31,267
	CITIC		CSC		CICC		GF		GTJA		Huatai		Haitong		China Galaxy	
	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
Brokerage commission	18%	23%	18%	20%	17%	19%	15%	19%	19%	24%	21%	26%	12%	16%	21%	25%
Investment banking	8%	8%	20%	20%	19%	19%	5%	2%	7%	8%	6%	9%	8%	10%	2%	3%
Asset management	11%	12%	6%	4%	9%	9%	13%	18%	4%	3%	12%	10%	5%	6%	3%	2%
Margin trade	14%	13%	10%	9%	6%	6%	12%	13%	17%	17%	15%	16%	7%	8%	29%	16%
Investment income	30%	27%	29%	32%	39%	46%	39%	34%	27%	25%	31%	28%	23%	21%	26%	21%
Commodity trading	10%	8%	n.a	n.a	n.a	n.a	6%	5%	12%	12%	3%	3%	13%	9%	n.a	n.a
Others	11%	9%	17%	14%	10%	1%	10%	7%	14%	11%	11%	8%	32%	29%	32%	32%

Source: Company data, DBS HK

Institutional participation is increasing. The expanding asset management market is also positive for the brokerage business given 1) brokers charge higher commission rates to institutions than to retail, and 2) brokers earn trading seats rental fee from institutions. Our covered leading brokers, except for China Galaxy (6881 HK, BUY), have all achieved higher fee income contribution from trading seats rental business in 1H21, ranging from 5%-13% in FY20 to 5%-18% in 1H21 (Fig 10). Compared to traditional brokerage fee that might be impacted by market volatility, trading seats rental fee is more stable and sustainable. We expect China's asset management market to maintain strong growth and fee income contribution from institutions will continue rising in FY22F even though retail commission fee rate is under pressure.

Fig 10. Trading seats rental income contribution rises

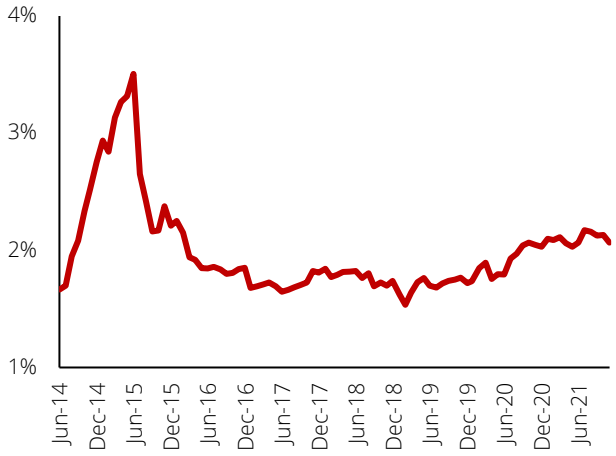


Source: Company data, DBS HK

Margin trade business on an uptrend. Margin trade outstanding has continued to make new yearly records since FY19 and reached Rmb1.85tr in Nov-21, up 18% y-o-y, primarily due to higher market participation and more diversified financial products that generate more demand for the margin trade business. While current margin trade outstanding is close to FY15's historic high level, outstanding/ total mkt cap remains low at ~2%, whereas the ratio was 3.5% in FY15 (Fig 11). Therefore, the risk of the current level of margin trade business is manageable and there is ample room to grow. Considering a more open financial market and stable liquidity, we continue to believe that margin trade outstanding can grow by 10% y-o-y growth in FY22F even after a strong FY21.

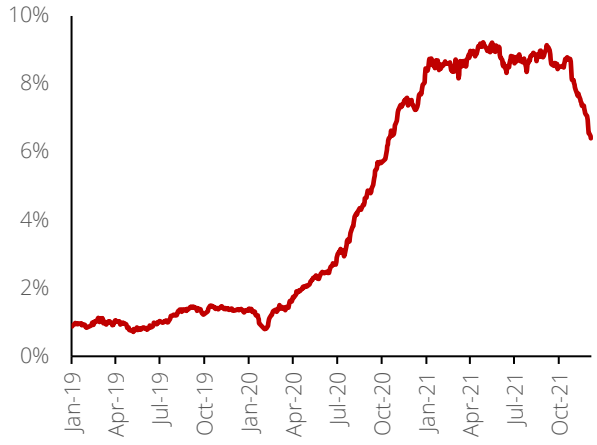
While it can be difficult to assess whether the margin trade is from institutions or retail investors, margin short business primarily services institutional clients and can be seen as a proxy for institutionalization participation. Margin short outstanding has been below 1% of total margin trade outstanding but has since started to rise from FY20 and reached an all-time-high of 9% in May 2021 (Fig 12). We do not see the rise of margin short to be bearish, instead we believe the rise was primarily due to the expansion of the asset management market that generates larger demand in margin short for portfolio construction and hedging purposes.

Fig 11. Margin trade business ample potential to grow



Source: Wind, DBS HK

Fig 12. Margin short outstanding grew since FY20

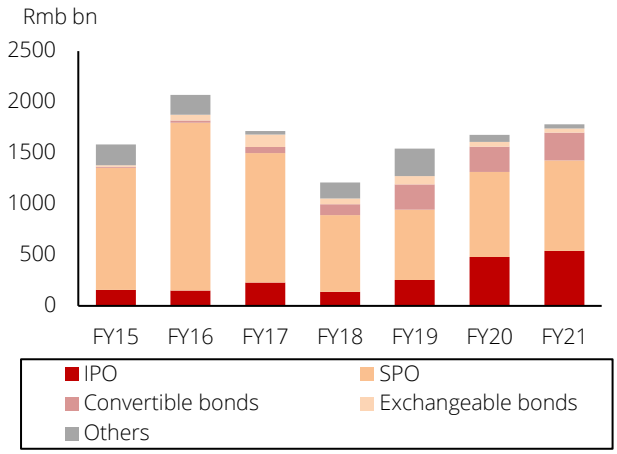


Source: Wind, DBS HK

Total fund-raising market is expanding

Bright outlook for investment banking business. Total fund-raising volume reached Rmb1.8tr in FY21, up 6% y-o-y. IPO is the key driving force of the expansion, representing 12% y-o-y growth to Rmb540bn (Fig 13). Our previous expectation of total fund-raising volume was Rmb2tr for FY21 which fell short, as our previous forecast was based on IPO application timeframe of around 6 months. However, the actual average processing time in FY21 has slowed down to around 12 months (Fig 14), especially in 2H21, due to more refined policies (Fig 1) implemented to guide the fund-raising market to healthier growth. As a result, the average listing processing time has lengthened and caused the shrinkage of total fund-raising volume.

Fig 13. IPO the key driving force of fund-raising



Source: Wind, DBS HK

Fig 14. IPO processing time extended

	Fund raising volume (Rmb bn)	Processing time (Days)
ChiNext	146	371
STAR	190	331
Mainboard	177	535

Source: Wind, DBS HK

Moving forward to FY22F, we expect the policy direction to encourage direct financing, and signal faster growth in the more refined fund-raising market. In addition, the full adoption of registration-based listing system is the key objective to accomplish in FY22F. Currently, the processing time to IPO on the mainboard is over 500 days, and the on-going registration listing-system for ChiNext and STAR boards are 1.5x faster than the mainboard. Assuming full adoption takes place in 2H22F, and listings on all boards grow at 20%, we expect total IPO fund raising to reach Rmb671bn in FY22F, representing 24% y-o-y growth.

In terms of Secondary public offering (SPO), given that the processing time is similar across boards regardless of listing system, we see minimal change in SPO processing speed when full registration system is adopted. However, with ample liquidity and expected strong fund-raising demand from listed companies in FY22F, we assume 25% y-o-y growth in SPO value to Rmb1.1 tr in FY22F from Rmb890bn in FY21.

Assuming the rest of fund-raising channels (convertible bonds and exchangeable bonds) grow by 25% y-o-y in FY22F, we expect total fund-raising value to reach Rmb2.2tr in FY22F, representing 25% y-o-y growth.

Unlocking IPO allotments an additional earnings driver. Current regulations on STAR board require sponsors to have co-investments in each of the IPO project (2-5% of total share offerings with a holding period of 24 months) while ChiNext board require co-investments only for companies with higher risks (i.e., non-profit making, red chip enterprises, those with special voting rights, or issued at high valuation). While co-investments require larger capital outlay, high potential return can also be expected. As the STAR board went live in FY19, taking 24 months for lock-up period, FY21 was the first year that co-investments are unlocked. As of end-FY21, the unlockable stocks achieved average return of 236% since IPO, with maximum return of over 12x (Fig 15). On our estimates, the current returns of the stocks that will unlock in FY22F on the STAR board and ChiNext board are 164% and 131%, representing great investment performance to the sponsors.

Fig 15. Current returns of FY21 unlockable stocks

	Current			Expected		
	Average	Max	Min	Average	Max	Min
STAR	236%	1243%	-29%	164%	1069%	-35%
ChiNext	-	-	-	131%	724%	-36%

Source: Wind, DBS HK

Our covered brokers are expected to achieve high returns if they start to unlock its co-investments in FY22F, as most of which have seen returns of over 100% on the STAR board and over 50% on the ChiNext board (Fig 16). We have not yet factor-in the potential gains in our model forecast, and any gains from the unlocking of the co-investments can be considered as additional earnins upside. While co-investments require capital to be invested, they generate positive returns to investors and

sponsors given that sponsors will only initiate projects with high quality and higher safety margin, ensuring the overall quality of IPOs. Therefore, leading brokers with a more professional investment banking team and strong capital capacity will continue to outperform from IPO co-investments and will have greater additional earning contributions.

Fig 16. Brokers can expect higher returns from FY22F unlockable stocks

	STAR			ChiNext		
	Average	Max	Min	Average	Max	Min
CITIC	178%	814%	-9%	340%	724%	115%
CICC	114%	461%	-16%	45%	72%	15%
CSC	155%	476%	-16%	81%	261%	-33%
Haitong	268%	689%	-28%	44%	95%	6%
Huatai	128%	784%	-32%	303%	705%	32%
GTJA	220%	365%	61%	57%	104%	16%
Galaxy	36%	43%	29%	220%	334%	107%
GF	12%	25%	-2%	n.a	n.a	n.a

Source: Wind, DBS HK

US-delisting to HK-relisting the inevitable trend. With China-US tensions gradually escalating, US investors are increasingly concerned on China stocks' financial integrity, governance structure, and potential China policy headwinds, thus impacting overall confidence on China stocks. Recent concern on China stocks is around the VIE structure - the SEC in the US has announced it will not allow China VIE structured companies to list while China's CSRC has announced that VIE structured companies must obtain approval to list offshore. We think the bilateral announcements should discourage Chinese companies to list in the US and encourage companies to instead list in HK as filing and approval may be relatively easier to obtain. US listed China stocks with VIE structures may also delist from the US market and relist in HK to avoid any potential political impact. Currently, there are over 170 China stocks having a VIE structure, with total market cap of US$1.1tn. Assuming 10% of companies delist from the US and relist in the HK market, that would bring a potential US$100bn back to China, representing 2% of total mkt cap of HK market and 1% of A-share market. We believe this trend favours China brokers with additional relisting business and trading activities in the long run.

Valuation attractive. BUY CICC & GF

Our covered China brokers share price on average have 5.3% increase, compared to Hang Seng Index, which was down 12.6% in FY21. We believe the industry-wide outperformance was due mainly to 1) the clear message from authorities to encourage direct financing, 2) policy deregulation-cycle remains ,3) continuous market opening to encourage more foreign and institutional investor participation, 4) growth in China's wealth and asset management market, and 5) favourable market liquidity.

Moving into FY22F, we continue to believe that China brokerage sector will bear fruits from deepening developing wealth management business given low financial product penetration and relatively inferior banks WMP yield & investment property return. We also see that the adoption of mainboards registration-based system is the next key catalyst that could once again spark fund raising market. The China brokerage sector is currently trading at 0.73x P/BV, which is around 1SD below its five-year mean level. Thus the current level of market valuation is considered undemanding and attractive, which implies good upside potential with regards to the bright FY22F outlook.

Based on the FY22F expectations mentioned above, we continue to believe that the players with solid foundation in sponsorship and strong growth potential in wealth management business expansion will excel in the competition. Our top picks are CICC (3908 HK, BUY), GF (1776HK, BUY), due mainly to :1) CICC is one of the top sponsors with years of proven experience in servicing sizable clients, 2) CICC has strong focus in expanding wealth management business, given number of high-net-worth clients up 32% y-o-y in FY20, 3) GF's leading market position and holdings of E-Fund and GF Fund will in addition benefit from the rise of China WAM market. As such, our forecasts on CICC and GF earnings Cagr of 20%/15% in FY21-23F expect to outperform its peers on average of 7%/2% respectively.

Forecast revisions

We fine-tuned GF Securities (1776 HK, BUY), Huatai (6886 HK, BUY), Haitong (6837 HK, BUY), and CSC Financials (6066 HK, BUY) FY21-22F earnings by 0.1% to 19% by adjusting mainly on the growth of brokerage fee income, interest income from margin finance, and investment banking fee income.

We revised up Huatai FY21-22F earnings by 19% on better-than-expected investment banking fee income and margin finance interest income, and we lift the TP to HK$15.2 from HK$14.8.

We lower CSC Financial FY21F earnings by 3% due mainly to the lower-than-expected investment banking fee income. With earnings Cagr of 10% in FY21-23 versus 76% during FY18-21, we lower CSC Financials TP to HK$10.0 from HK$11.5 on lower target multiple. However, as one of the top sponsors in China brokerage sector, we see CSC Financial to be one of the key beneficiaries of the registration-based reform, which expects to spark in FY22F onwards.

We also lower Haitong FY21-FY22F earnings by 8% primarily due to lower-than-expected brokerage fee income, with TP lower to HK$8.0 from HK$8.8.

GF FY21-22F earnings adjusted down by 5%-8% due to lower-than-expected margin finance interest income growth. However, we lift our forecast-on brokerage fee income and asset management fee income to better reflect the leading position in China wealth management market. With its clear leading position in the wealth management space, earnings Cagr of 16% in FY21-23 and trading at 0.8x FY22F PB versus industry leading peers at 1.1x, we see potential for share price to further re-rate. As such, we maintain our TP of HK$20.0 unchanged.

Lastly, we keep CICC, CITIC, China Galaxy, and Guotai Junan forecasts and TPs are unchanged.

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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