

China / Hong Kong Company Update

GF Securities

Bloomberg: 1776 HK Equity | 000776 CH Equity | Reuters: 1776.HK | 000776.SZ

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Feb 2024

H: BUY

Last Traded Price (H) (5 Feb 2024): HK\$7.30 (HSI : 15,510)
Price Target 12-mth (H): HK\$10.00 (37.0% upside) (Prev HK\$14.50)

A: BUY (Upgrade from FULLY VALUED)

Last Traded Price (A) (5 Feb 2024): RMB13.13 (CSI300 Index : 3,200)
Price Target 12-mth (A): RMB16.00 (21.9% upside) (Prev RMB12.50)

Analyst

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What's New

- GF's fee income slightly outperformed peers in 2023 thanks to its limited investment banking exposure (9M23 fees -10% y-o-y)
- It is however most impacted by public fund fee cut implemented in 2H23, dragging its FY24F earnings outlook; our analysis suggests -1.1% impact on FY23F ROE
- Cut FY23E/24F earnings by 25%/49% on weaker-than-expected market sentiment and margin compression from fee cuts
- Maintain BUY on GF-H with lower HK\$10 TP to reflect the earnings drag; upgrade GF-A to BUY with Rmb16 TP on adjusted valuation basis

Drag from fee cut in short term

Investment Thesis

Key beneficiary of the expansion in China's wealth sector. Among tier-1 brokers, GF has the largest exposure to asset management businesses (30-40% of PBT), via its equity stakes in leading public fund companies including E Fund and GF Fund. This is a sizeable source of recurring income for GF with promising growth potential, driven by wealth reallocation from retail deposits to public funds.

Fee cut to public funds is a near-term drag. Our analysis suggests that this will have a 1.1% impact on FY23F ROE, substantially higher than peers' average of 0.4%. That said, we think in the longer-term, the fee cuts should support stronger equity AUM growth at the next upcycle, and leading players like GF should benefit from market consolidation with greater economies of scale. We have revised down FY23F/24F earnings by 25%/49% to reflect lower margins from fee cuts and weaker-than-expected market sentiment recovery.

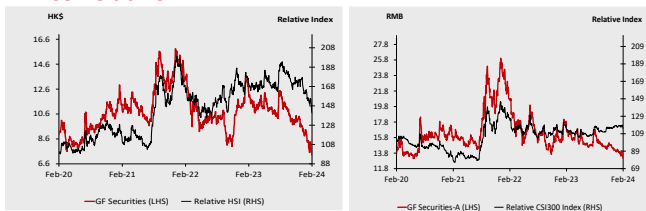
Potential normalisation in 2H24. We think the A-share market may bottom out towards the end of the year as China's economy stabilises and the Fed starts to cut rates, which could drive fund flows back to China. Thus, investors may gradually shift deposits and money-market funds back to equities, thereby supporting GF's management fees from its affiliated public funds and brokerage fees. Potential benefits from policies such as fee cuts and relaxation in leverage requirement could also materialise by then and further support the recovery.

Maintain BUY on GF-H, Upgrade GF-A to BUY. Our HK\$10 TP for GF-H is based on 0.55x FY24F PB (prev: 0.8x), pegged to -1.5 SD of its five-year average, to reflect lower ROE expectations. For GF-A, we lifted our rating to BUY and TP to Rmb16 following a revision of our valuation methodology on A-shares of China brokers we cover, i.e. applying a target A-H premium to our H-share valuation. For GF-A's TP, we applied an 85% A-H premium, slightly narrower from the current level as H-shares usually outperforms when share price rebounds.

Key Risks

A substantial slowdown in China's economy, meaningful contraction in market liquidity, noticeable drop in A/H shares, and implementation of restrictive market policies.

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Total Revenue	33,256	35,173	34,963	36,722
Total Expense	(23,808)	(25,937)	(26,539)	(27,835)
Pre-tax Profit	10,388	10,045	9,238	9,959
Net Profit	7,731	6,884	6,288	6,780
EPS (RMB)	1.01	0.90	0.83	0.89
EPS (HK\$)	1.10	0.98	0.90	0.97
EPS Gth (%)	(28.7)	(11.0)	(8.7)	7.8
DPS (HK\$)	0.38	0.33	0.33	0.38
BV Per Share (HK\$)	15.57	16.23	16.80	17.39
PE (X)	6.6	7.4	8.1	7.5
Net Div Yield (%)	5.2	4.5	4.5	5.2
P/Book Value (X)	0.5	0.4	0.4	0.4
ROAE (%)	7.2	6.2	5.4	5.7
Earnings Rev (%)		(25)	(49)	New
Consensus EPS (RMB)		1.08	1.19	1.36
Other Broker Recs:		B:8	S:0	H:3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

At A Glance

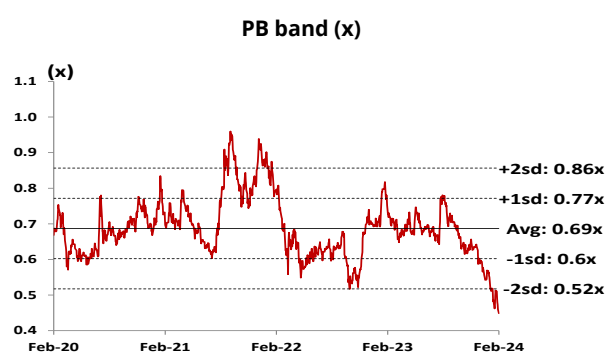
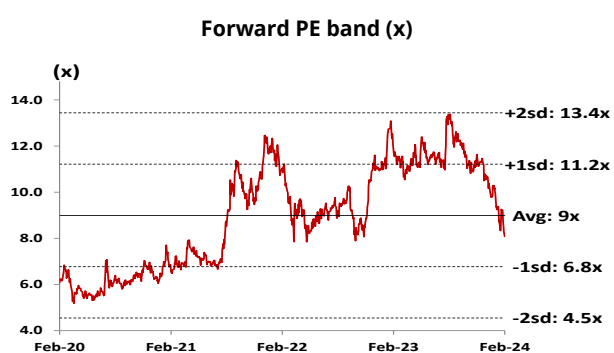
Issued Capital - H shares (m shs)	1,702
- Non H shrs (m shs)	5,919
H shs as a % of Total	22
Total Mkt Cap (HK\$m/US\$m)	96,870 / 12,385
Major Shareholders (%)	
Jilin Aodong Pharmaceutical Group Co Ltd	21.2
Liaoning Cheng Da Co Ltd	21.1
Zhongshan Public Utilities Group Co Ltd	11.6
Major H Shareholders (As % of H shares)	
Labor Union Committee of GF Securities	16.0
Jilin Aodong Pharmaceutical Group Co Ltd	16.0
Liaoning Cheng Da Co Ltd	6.9
Zhongshan Public Utilities Group Co Ltd	5.9
H Shares-Free Float (%)	55.2
3m Avg. Daily Val. (US\$m)	2.7
GICS Industry: Financials / Diversified Financials	

GF Securities

Company Background

GF Securities (GF) was established in May 1991 and was first listed on the SSE and HKEx in February 2010 and June 2015, respectively. GF is a leading integrated securities group with a substantial customer base, leading e-platform, and collaborative full-service business model. As of 1H22, its total assets and equity reached RMB581bn and RMB114bn, respectively.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

GF Securities

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Annual trading volume (Rmb bn)	21,310.1	19,902.9	19,699.7	19,399.9	20,468.8
Brokerage commission rate (bps)	3.9	3.3	3.1	2.9	2.8
Annual underwriting amount (Rmb bn)	59.7	76.1	79.5	82.2	88.6
Annual asset management AUM (Rmb bn)	1,622.9	1,520.9	1,532.9	1,627.8	1,808.2
Margin trade outstanding (Rmb bn)	94.0	83.0	88.8	84.4	88.6
Cost to income ratio (%)	2.4	2.7	3.2	3.6	3.5
No. of staff	13,174.0	14,802.0	14,802.0	15,098.0	15,400.0
Cost per staff (RMB)	854,042.9	628,929.7	621,427.6	624,581.2	653,684.4

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fee and commission	19,141	16,670	15,353	14,012	14,694
Interest income	13,659	12,855	13,144	13,138	13,205
Investment income	6,060	603	3,520	4,656	5,666
Other income	3,054	3,127	3,156	3,156	3,156
Total Revenue	41,915	33,256	35,173	34,963	36,722
Total Expense	(28,379)	(23,808)	(25,937)	(26,539)	(27,835)
Expected credit losses	(981)	372	(100)	(300)	(300)
Operating Profit	13,536	9,448	9,236	8,425	8,886
Associates & JV Inc	1,428	940	809	813	1,073
Pre-tax Profit	14,964	10,388	10,045	9,238	9,959
Tax	(2,909)	(1,490)	(2,009)	(1,848)	(1,992)
Minority Interest	(1,201)	(969)	(802)	(632)	(718)
Net Profit	10,841	7,731	6,884	6,288	6,780

Growth

Revenue Gth (%)	16.5	(20.7)	5.8	(0.6)	5.0
Opg Profit Gth (%)	6.3	(30.2)	(2.2)	(8.8)	5.5
Net Profit Gth (%)	8.0	(28.7)	(11.0)	(8.7)	7.8

Du Pont analysis (%)

Net Profit/Total Revenue	25.9	23.2	19.6	18.0	18.5
Total Revenue/Total Asset	8.4	5.8	5.6	5.3	5.3
Total Asset/Total equity	483.6	494.6	458.1	460.9	474.8
ROAE (%)	10.6	7.2	6.2	5.4	5.7

Per share analysis

EPS (RMB)	1.42	1.01	0.90	0.83	0.89
BPS (RMB)	13.86	14.32	14.93	15.45	15.99
DPS (RMB)	0.50	0.35	0.30	0.30	0.35

Source: Company, DBS HK

GF Securities

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Cash and Cash Equivalent	21,816	21,570	21,200	20,646	19,815
Cash Held on Behalf of Customers	97,497	107,607	107,607	112,987	124,286
Reverse Repurchase	19,992	18,940	18,940	18,940	18,940
Financial Assets	236,481	305,449	330,016	354,926	382,279
Margin Account	97,231	82,823	88,837	84,395	88,615
Other Assets	62,838	80,867	81,368	81,775	83,841
Total Assets	535,855	617,256	647,968	673,670	717,776
Customer Brokerage Deposit	97,497	107,607	107,607	112,987	124,286
Repo and Short-term	275	65	68	71	75
Long-term Debt and Loan	64	0	0	0	0
Other Liabilities	424,715	492,399	506,439	527,431	566,527
Total Liabilities	425,054	492,463	506,507	527,502	566,602
Shareholder's Equity	106,625	120,146	136,231	140,233	144,345
Minority Interests	4,177	4,647	5,230	5,934	6,828
Total Cap. & Liab.	535,855	617,256	647,968	673,670	717,776

Source: Company, DBS HK

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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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