

China / Hong Kong Company Update

Huatai Securities

Bloomberg: 6886 HK Equity | 601688 CH Equity | Reuters: 6886.HK | 601688.SS

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\$8.83 (HSI : 15,510)
Price Target 12-mth (H): HK\$12.00 (35.9% upside) (Prev HK\$11.00)

A: BUY (Upgrade from Fully Valued)

Last Traded Price (A) (5 Feb 2024): RMB13.22 (CSI300 Index : 3,200)
Price Target 12-mth (A): RMB16.00 (21.0% upside) (Prev RMB9.49)

Analyst

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What's New

- Expect earnings outperformance to continue thanks to its (1) higher % rev contribution from brokerage activity and (2) stable fee income from Asset Mark
- One-stop shop capability another plus, which will help expand its clients' wallet share and partially offset the headwinds
- Revised down FY23F/24F earnings by 2%/27% to reflect weaker-than-expected market recovery, earnings impact from IPO tightening and public fund fee cuts
- Maintain BUY on Huatai-H, TP revised up to HK\$12 on a slightly higher multiple to reflect its earnings resilience; Huatai-A upgraded to BUY on revised valuation basis

Strong wealth franchise to lead outperformance

Investment Thesis

Leading tech-driven broker. Huatai ranks first in terms of both agency trading volume and trading app active users, proving the worthiness of its higher-than-peers IT investment. Its proprietary systems for trading clients also make it a top three player within the equity derivatives space. The superior client experience it offers should support client acquisition and stickiness.

Outperformance thanks to strong diversification. We expect Huatai's earnings would remain resilient compared to its major peers, as its well-diversified model makes it less adversely impacted by the industry-wide IPO tightening and public fund fee reduction. Its one-stop shop capability also enables the company to expand its clients' wallet share, thereby better offsetting the impact from fee cuts. Its US subsidiary AssetMark, which is the second largest turnkey asset management platform in US in terms of platform assets, also contributes a stable income stream that helps offset the headwinds in the China market (contributing 4%-5% of 9M23 profit).

Potential normalisation in 2H24. We think the A-share market could bottom out towards the end of the year as the China economy stabilises and the US cuts rates, which could drive fund flow back to China. Regulators could normalise IPO issuance as market confidence picks up. The potential benefits from policies such as fee cuts and the relaxation of the leverage requirement could also materialise by then, supporting the recovery in brokerage and public fund fees.

Maintain BUY on Huatai-H, Upgrade to BUY on Huatai-A. We lift Huatai-H's TP to HK\$12 on a slightly higher multiple of 0.6x (prev: 0.55x), to reflect its earnings resilience; for Huatai-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 target A-H premium to our H-share valuation. For Huatai-A's TP, we applied a 55% A-H premium, slightly narrower from the current level, as the H-shares usually outperforms when the share price rebounds.

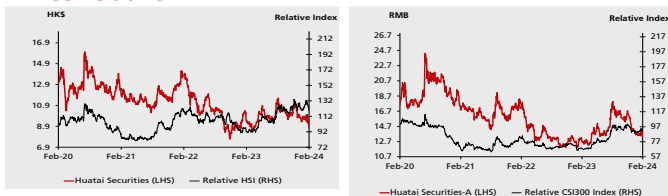
Key Risks

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

At A Glance

Issued Capital - H shares (m shs)	1,719
- Non H shrs (m shs)	7,356
H shs as a % of Total	19
Total Mkt Cap (HK\$m/US\$m)	120,837 / 15,449
Major Shareholders (%)	
Jiangsu Guoxin Investment Group Limited	17.4
Jiangsu Communications Holding Co., Ltd.	6.2
Major H Shareholders (As % of H shares)	
Jiangsu SOHO International Group Corporation	17.0
Jiangsu Guoxin Investment Group Limited	6.0
H Shares-Free Float (%)	77.0
3m Avg. Daily Val. (US\$m)	4.37
GICS Industry: Financials / Diversified Financials	

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Total Revenue	46,824	49,559	49,387	52,042
Total Expense	(35,815)	(37,866)	(38,614)	(39,871)
Pre-tax Profit	12,228	14,393	13,473	15,276
Net Profit	10,619	11,518	10,486	11,811
EPS (RMB)	1.17	1.27	1.16	1.30
EPS (HK\$)	1.27	1.38	1.26	1.41
EPS Gth (%)	(19.8)	8.5	(9.0)	12.6
DPS (HK\$)	0.49	0.49	0.48	0.52
BV Per Share (HK\$)	17.48	18.47	19.35	20.34
PE (X)	6.9	6.4	7.0	6.2
Net Div Yield (%)	5.5	5.5	5.4	5.9
P/Book Value (X)	0.5	0.5	0.5	0.4
ROAE (%)	7.5	7.7	6.6	7.1

Earnings Rev (%)	(2)	(26)	New
Consensus EPS (RMB)	1.42	1.57	1.73
Other Broker Recs:	B:14	S:0	H:2

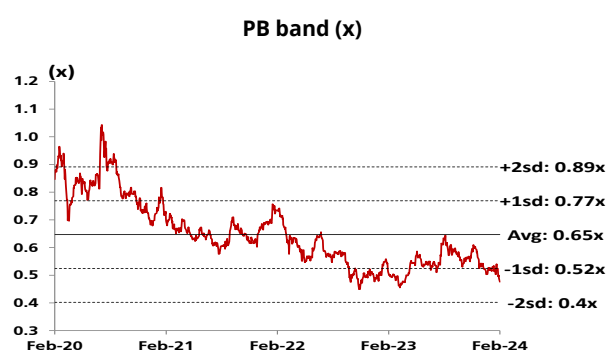
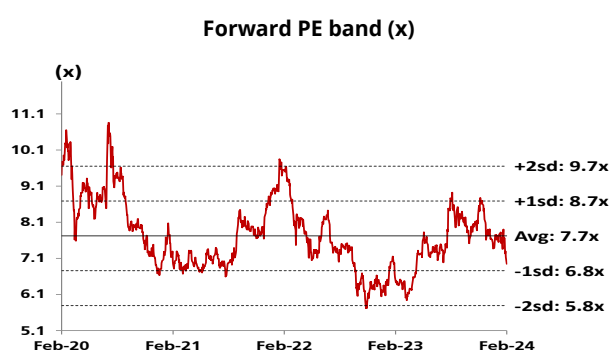
Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Huatai Securities

Company Background

Huatai Securities (Huatai) was established in May 1991 and was first listed on the SSE and HKEx in February 2010 and June 2015, respectively. Huatai 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 RMB849bn and RMB156bn, respectively.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Huatai Securities

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Annual trading volume (Rmb bn)	42,291.6	38,758.8	37,596.0	37,079.5	39,180.7
Brokerage commission rate (bps)	2.5	2.4	2.2	2.1	2.0
Annual underwriting amount (Rmb bn)	696.2	576.5	562.9	597.7	657.5
Annual asset management AUM (Rmb bn)	518.6	479.6	369.7	384.3	402.2
Margin trade outstanding (Rmb bn)	137.7	112.3	120.2	114.2	119.9
Cost to income ratio (%)	2.8	3.2	3.1	3.4	3.1
No. of staff	14,372.0	16,799.0	16,463.0	16,463.0	16,792.3
Cost per staff (RMB)	891,262.6	633,775.2	621,343.4	628,879.6	646,205.0

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fee and commission	22,325	20,981	19,153	19,111	20,091
Interest income	14,741	13,744	14,457	14,547	14,745
Investment income	11,271	6,027	10,811	12,891	14,368
Other income	3,589	6,072	5,137	2,837	2,837
Total Revenue	51,926	46,824	49,559	49,387	52,042
Total Expense	(38,284)	(35,815)	(37,866)	(38,614)	(39,871)
Expected credit losses	(548)	485	509	(99)	(259)
Operating Profit	13,643	11,009	11,693	10,773	12,171
Associates & JV Inc	2,630	1,219	2,700	2,700	3,105
Pre-tax Profit	16,273	12,228	14,393	13,473	15,276
Tax	(2,672)	(863)	(2,015)	(2,156)	(2,597)
Minority Interest	(255)	(313)	(341)	(311)	(349)
Net Profit	13,250	10,619	11,518	10,486	11,811

Growth

Revenue Gth (%)	28.0	(9.8)	5.8	(0.3)	5.4
Opg Profit Gth (%)	46.4	(19.3)	6.2	(7.9)	13.0
Net Profit Gth (%)	22.2	(19.9)	8.5	(9.0)	12.6

Du Pont analysis (%)

Net Profit/Total Revenue	25.5	22.7	23.2	21.2	22.7
Total Revenue/Total Asset	6.8	5.7	5.7	5.5	5.4
Total Asset/Total equity	530.6	504.4	497.4	501.5	519.6
ROAE (%)	9.9	7.5	7.7	6.6	7.1

Per share analysis

EPS (RMB)	1.46	1.17	1.27	1.16	1.30
BPS (RMB)	15.25	16.07	16.99	17.80	18.71
DPS (RMB)	0.45	0.45	0.45	0.44	0.48

Source: Company, DBS HK

Huatai Securities

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Cash and Cash Equivalent	37,238	45,181	53,124	61,067	69,010
Cash Held on Behalf of Customers	143,640	140,460	126,414	130,207	136,717
Reverse Repurchase	11,752	34,824	12,188	12,188	12,188
Financial Assets	412,406	425,891	474,710	509,332	562,804
Margin Account	116,942	100,648	107,694	102,309	107,425
Other Assets	2,404	2,458	2,270	2,266	113,606
Total Assets	806,651	846,567	877,775	923,441	1,001,750
Customer Brokerage Deposit	143,640	140,460	126,414	130,207	136,717
Repo and Short-term	8,492	7,997	14,395	15,115	15,871
Long-term Debt and Loan	723	805	1,449	1,521	1,597
Other Liabilities	501,760	529,456	559,038	592,475	654,783
Total Liabilities	654,615	678,718	701,296	739,318	808,968
Shareholder's Equity	148,423	165,087	173,377	180,710	189,019
Minority Interests	3,613	2,762	3,102	3,413	3,762
Total Cap. & Liab.	806,651	846,567	877,775	923,441	1,001,750

Source: Company, DBS HK

DBS Group Research 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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