

Hong Kong
BUY

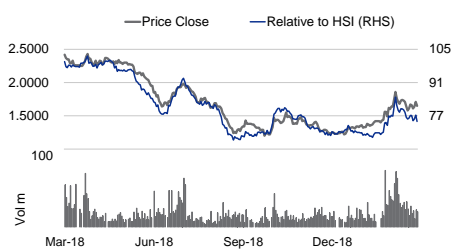
Consensus ratings*: Buy 7 Hold 0 Sell 0

Current price:	HK\$1.65
Target price:	HK\$2.20
Previous target:	HK\$2.65
Up/downside:	33.3%
CGS-CIMB / Consensus:	na
Reuters:	
Bloomberg:	1788 HK
Market cap:	US\$1,622m HK\$12,731m
Average daily turnover:	US\$4.34m HK\$34.1m
Current shares o/s:	7,716m
Free float:	40.0%

*Source: Bloomberg

Key changes in this note

- FY19F Revenue increased by 15%.
- FY19F EPS increased by 23.7%.
- FY19F ROE lowered by 2.7ppt.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.1	34.1	-31.8
Relative (%)	-1.3	20.2	-25.3

Major shareholders	% held
Guotai Junan Holdings	58.7

GTJA International

2018 results hit by MTM losses; expect to see a strong recovery in 2019

- Excluding the revenue contribution from the parent's IPO in 2017, the Company's net profit dropped ~20% YoY in 2018.
- The bottom line was hit by mark-to-market (MTM) losses of about HK\$570m.
- Impairment for the margin financing balance was much smaller in 2H18, which suggests that the quality of the margin financing balance has stabilized.
- We expect 2019E EPS to rebound by 52% YoY thanks to recovery in its major business segments and much better investment gains. Reiterate BUY with a new target price of HK\$2.20 (1.48x 2019E PBR), implying 33% upside.

Weaker 2018 results should not be too surprising

GTJA International (GTJAI) reported net profit of HK\$797m, down 35% YoY. The decline was smaller (~20%) if the revenue contribution from the parent's IPO in 2017 is excluded. The weak results were hit by two major items: (i) an MTM loss of about HK\$420m, mainly related to its HK\$8bn bond portfolio for market making; and (ii) an MTM loss of about HK\$150m, mainly related to its seed money investment. Given the volatile market conditions in 2H2018, the MTM losses should not be too surprising, in our view.

Some positives in the 2018 results

(i) Impairment for the margin financing balance was about HK\$250m for the full year, but mostly in 1H18 (HK\$190m), which suggests that the quality of the margin financing balance has stabilized. (ii) Revenue from selling financial products jumped 111% to HK\$641m. With its investment grade credit rating (BBB+), GTJAI's financing cost was lowered, which enabled the Company to expand its business quickly. (iii) ECM revenue dropped 68% YoY to HK\$78m, as a large amount of revenue was booked in 2017 due to its parent's IPO. However, DCM revenue still grew 38% YoY to HK\$483m.

Some MTM losses recouped in 2M2019

According to management, thanks to much better market conditions, about half of the HK\$420m MTM loss for its bond portfolio was recouped in 2M2019. As for the MTM loss of HK\$150m related to its seed money investment, about one-third was recouped in the corresponding period.

Major business segments expected to recover this year

Its ECM business completed only three projects in 2018, as the Company switched to IPOs of larger scale. Management believes the transformation has been largely completed, and the target is to complete about 12 projects this year. Regarding the DCM business, momentum is expected to remain strong, and the target is to complete 180–200 underwritings this year, up from 148 in 2018. The margin financing balance dropped from HK\$12.9bn at end-2017 to HK\$9.4bn at end-2018, largely due to strengthened risk control. We expect the balance to rebound to HK\$11.5bn at end-2019 on the back of improving market sentiment.

Reiterate BUY with a target price of HK\$2.20

We lower our 2019E EPS by 23.7% after using more conservative assumptions for its investments and market making business. Our Gordon Growth Model-based target price is lowered from HK\$2.65 to HK\$2.20 (cost of equity 9.4%; mid-term ROE 11.5% (previous: 13%)) accordingly. Trading at 1.1x 2019E PBR, it is well below the three-year average of 1.77x, which largely reflects the weak 2018 results but not the ROE recovery in 2019E.

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Financial Summary

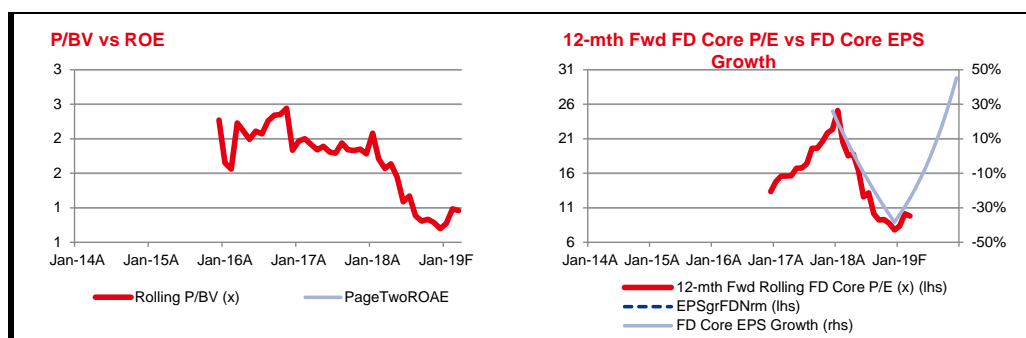
	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Year ended 31 December					
Revenue (HK\$m)	25,192	31,324	30,122	36,083	41,698
Net income (HK\$m)	969	1,228	797	1,223	1,448
Adjusted Net Margin	47%	48%	37%	46%	47%
Adjusted EPS (HK cents per share):	14.1	17.7	10.3	15.7	18.6
YoY Change	-5%	26%	-42%	52%	18%
PER(x)	11.7	9.3	16.0	10.5	8.9
PBR(x)	1.4	1.3	1.2	1.1	1.0
ROAE	12.3%	14.6%	8.2%	10.9%	12.1%
ROAA	2.4%	2.1%	1.0%	1.3%	1.4%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: 2018 results highlights			
(HKD'000)	Dec-17A	Dec-18A	YoY Change
Year ended 31 December			
Brokerage	517,118	454,962	-12.0%
Loans and Financing	1,288,777	1,307,294	1.4%
Corporate Finance	683,526	594,970	-13.0%
Asset Management	29,792	16,716	-43.9%
Investment Holding & Market Making	613,180	638,266	4.1%
Revenue	3,132,393	3,012,208	-3.8%
Other income	2,399	3,932	63.9%
Operating Expenses			
Staff costs	676,031	642,853	-4.9%
Commission to accounts executives	61,947	68,894	11.2%
Depreciation	38,736	36,541	-5.7%
Other operating expenses	405,196	584,508	44.3%
Finance costs	498,932	765,570	53.4%
Operating Profit	1,453,950	917,774	-36.9%
Income tax expense	(223,073)	(134,098)	-39.9%
Non-controlling interests	(2,703)	13,159	n.a.
Net income	1,228,174	796,835	-35.1%
Revenue Breakdown(%)			
Brokerage	17%	15%	
Loans and Financing	41%	43%	
Corporate Finance	22%	20%	
Asset Management	1%	1%	
Investment Holding & Market Making	20%	21%	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(HKD'000)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Year ended 31 December					
Brokerage	393,000	517,118	454,962	494,340	545,284
Loans and Financing	1,297,278	1,288,777	1,307,294	1,308,825	1,481,088
Corporate Finance	456,649	683,526	594,970	715,943	833,588
Asset Management	28,487	29,792	16,716	21,976	24,173
Investment Holding & Market Making	343,773	613,180	638,266	1,067,169	1,285,706
Revenue	2,519,187	3,132,393	3,012,208	3,608,252	4,169,839
Other income	2,608	2,399	3,932	5,000	6,000
Operating Expenses					
Staff costs	526,657	676,031	642,853	729,600	821,100
Commission to accounts executives	55,117	61,947	68,894	69,208	76,340
Depreciation	34,695	38,736	36,541	37,000	38,000
Other operating expenses	379,923	405,196	584,508	460,780	528,762
Finance costs	393,536	498,932	765,570	892,213	1,024,816
Operating Profit	1,131,867	1,453,950	917,774	1,424,452	1,686,822
Income tax expense	(162,520)	(223,073)	(134,098)	(213,668)	(253,023)
Non-controlling interests	(208)	(2,703)	13,159	12,108	14,338
Net income	969,139	1,228,174	796,835	1,222,892	1,448,137
EPS (HK cents):					
Basic	14.1	17.7	10.3	15.7	18.6
Diluted	13.9	17.6	10.3	15.7	18.6
DPS (HK cents):					
Dividend payout ratio	53.3%	50.7%	51.3%	50.0%	50.0%
Dividend Yield	4.5%	5.5%	3.2%	4.8%	5.6%

Key Drivers

	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Growth Ratio YOY:					
Total Revenue	11%	24%	-4%	20%	16%
Brokerage	-45%	32%	-12%	9%	10%
Loans and Financing	21%	-1%	1%	0%	13%
Corporate Finance	62%	50%	-13%	20%	16%
Asset Management	-46%	5%	-44%	31%	10%
Investment Holding & Market Making	135%	78%	4%	67%	20%
Operating profit	8%	28%	-14%	38%	17%
Net profit	-4%	26%	-35%	53%	18%
EPS growth	-5%	26%	-42%	52%	18%
Margins and Ratios:					
Adjusted Operating Margin*	55%	57%	42%	54%	55%
Adjusted Net Margin**	47%	48%	37%	46%	47%
Effective tax rate	14%	15%	15%	15%	15%
Cost-to-income ratio	50%	49%	60%	57%	56%
Staff cost-to-income ratio	21%	22%	21%	20%	20%
Average daily turnover of HKEx (HK\$ m)	66,280	88,200	107,400	115,000	125,000

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet (HKD'000)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Year ended 31 December					
Non-current assets	812,891	576,666	2,949,007	2,982,025	3,005,025
Property, plant and equipment	493,559	480,006	471,644	480,000	480,000
Others	319,332	96,660	2,477,363	2,502,025	2,525,025
Current assets	44,187,854	73,383,718	85,085,284	96,928,889	108,524,300
Loans and advances to customers	14,286,666	15,553,655	9,936,545	12,048,849	13,775,510
Accounts receivable	1,495,924	4,347,402	5,347,223	5,412,378	6,254,759
Financial assets at fair value through profit or	13,261,624	37,170,762	47,861,469	54,455,428	61,520,249
Cash held on behalf of customers	12,400,917	12,348,012	14,319,985	15,324,538	16,903,808
Cash and cash equivalents	1,964,398	2,212,502	4,105,672	5,179,696	4,441,974
Others	778,325	1,751,385	3,514,390	4,508,000	5,628,000
Total assets	45,000,745	73,960,384	88,034,291	99,910,914	111,529,325
Non-current liabilities	2,133,262	21,648	-	-	-
Bank borrowings	2,100,000	-	-	-	-
Others	33,262	21,648	-	-	-
Current liabilities	32,333,649	62,947,310	76,522,272	87,661,798	98,435,492
Accounts payable	14,871,038	16,952,250	18,883,841	21,117,213	23,293,448
Bank borrowings	6,811,433	13,781,721	9,441,083	8,000,000	7,000,000
Debt securities in issue	3,485,520	9,008,776	8,413,380	11,500,000	13,000,000
Others	7,165,658	23,204,563	39,783,968	47,044,586	55,142,044
Total liabilities	34,466,911	62,968,958	76,522,272	87,661,798	98,435,492
Capital and reserves					
Share capital and share premium	6,054,025	6,118,060	8,125,856	8,175,856	8,225,856
Retained profits	3,171,842	3,531,268	3,866,010	4,477,456	5,201,524
Proposed final dividend	310,613	312,475	153,045	305,723	362,034
Other reserves	(1,361,282)	(1,353,717)	(1,312,980)	(1,402,115)	(1,402,115)
Total equity	8,175,198	8,608,086	10,831,931	11,556,920	12,387,299
Perpetual debt	2,346,685	2,346,794	350,784	350,784	350,784
Minority	11,951	36,546	329,304	341,412	355,750

Key Ratios	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Finance Ratios:					
PER(x)	11.72	9.30	15.98	10.52	8.89
PBR(x)	1.40	1.34	1.18	1.11	1.04
Book value per share(HKD)	1.2	1.2	1.4	1.5	1.6
ROAE	12.3%	14.6%	8.2%	10.9%	12.1%
ROAA	2.4%	2.1%	1.0%	1.3%	1.4%
Dupont Analysis:					
Brokerage	1.0%	0.9%	0.6%	0.5%	0.5%
Loans and Financing	3.2%	2.2%	1.6%	1.4%	1.4%
Corporate Finance	1.1%	1.1%	0.7%	0.8%	0.8%
Asset Management	0.1%	0.1%	0.0%	0.0%	0.0%
Investment Holding & Market Making	0.8%	1.0%	0.8%	1.1%	1.2%
Revenue	6.1%	5.3%	3.7%	3.8%	3.9%
Operating Expenses	3.4%	2.8%	2.6%	2.3%	2.4%
Operating Profit	2.7%	2.4%	1.1%	1.5%	1.6%
Income tax expense	0.4%	0.4%	0.2%	0.2%	0.2%
Net income	2.4%	2.1%	1.0%	1.3%	1.4%
Leverage [Total assets/equity]	5.50	8.59	8.13	8.65	9.00
Net leverage [(Total assets-Accounts payable to clients)/Total equity]	3.08	5.55	6.55	7.03	7.35
ROAE	12.3%	14.6%	8.2%	10.9%	12.1%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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- BUY : share price will increase by >20% within 12 months in absolute terms
- SELL : share price will decrease by >20% within 12 months in absolute terms
- HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

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