

China
HOLD

Consensus ratings*: Buy 19 Hold 3 Sell 6

Current price:	Rmb14.09
Target price:	Rmb13.60
Previous target:	Rmb15.00
Up/downside:	-3.5%
CGI / Consensus:	-6.7%

Reuters:	600837.SS
Bloomberg:	600837 CH
Market cap:	US\$19,249m
	Rmb138,043m
Average daily turnover:	US\$135.3m
	Rmb938.6m
Current shares o/s:	11,502m
Free float:	83.7%

*Source: Bloomberg

Key changes in this note

- FY19F Revenue decreased by 6.6%.
- FY19F EPS decreased by 12.4%.
- FY19F ROE decreased by 0.8ppt.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6	16.4	64.4
Relative (%)	4	15.5	57.1

Major shareholders	% held
China Securities Finance Corp.	4.9

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Haitong Securities-A

Stock-pledged lending risk under control

- 1H19 net profit surged 82.4% YoY from a low base.
- The scale of stock-pledged lending dropped from RMB53.4bn at end-2018 to RMB48.8bn at end-1H19.
- Management will continue to optimize the stock-pledged lending portfolio.
- We lower our 2019F/2020F EPS by 12.4%/15.2% to reflect more conservative revenue projections because of the uncertainty caused by the trade dispute.
- Maintain HOLD with a new target price of RMB13.60.

Strong recovery in 1H19 results

Haitong Securities recorded a net profit of RMB5.5bn in 1H2019, a jump of 82.4% YoY. Total revenue grew 31% YoY to RMB21bn. Driven by the strong performance of the A-share market in Q1, its net investment gains surged 213% YoY to RMB5.8bn. The recovery in ADT from RMB441bn in 1H2018 to RMB590bn in 1H2019 also helped. Commission and fee income (mainly from brokerage, investment banking and asset management) grew 16% YoY to RMB6.2bn.

Smaller risk exposure to stock-pledged lending

In the past, Haitong Securities was one of the most active players in the stock-pledged lending market, which is one of the key reasons for its low valuation, as investors have concerns about the balance sheet because of the poor performance of the A-share market last year. The Company has been optimizing its portfolio to manage the risk. The balance of stock-pledged lending dropped from RMB53.4bn at end-2018 to RMB48.8bn at end-1H19. Thanks to much stronger A-share market performance in 1H19 and support from the "relief fund", we believe the risk should be manageable unless we see a sharp fall in the A-share market.

Gradual recovery of the margin balancing business

On the other hand, the balance of margin finance and securities lending (MFSL) rose from RMB34.7bn at end-2018 to RMB39.6bn at end-1H19. Therefore the overall scale of the financing business stayed flat at end-1H19 compared with end-2018. The risk of the margin balancing business should be relatively lower, as the customer base is usually more diversified.

Solid growth in finance lease income

Finance lease income grew 39.7% YoY to RMB2.36bn in 1H19. The successful listing of Haitong UT (1905.HK) in June will enable the leasing business to grow without adding too much financing pressure on Haitong Securities.

Maintain HOLD

Our 2019F/2020F EPS is lowered by 12.4%/15.2% as we cut our 2019F/2020F revenue by 6.6%/5.9% to reflect the uncertainty caused by the Sino-US trade dispute. Therefore, we also lower our Gordon Growth Model-based fair value estimate for Haitong Securities-H from HK\$14.20 (~1.13x 2019F PBR) to HK\$11.70 (beta at 1.2; cost of equity at 8.4%; medium-term ROE at 8.4% vs. previous 9%), equivalent to 0.98x 2019F PBR. We apply a 10% discount to derive the target price of HK\$10.60, reflecting the potential dilution from the proposed A-share issue. Our A-share target price is lowered from RMB15.00 to RMB13.60 accordingly (a 41% premium on the H-share price based on the 3-year average).

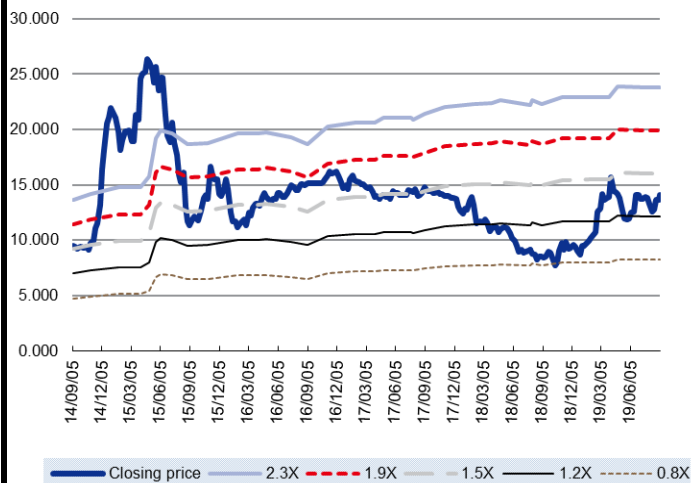
Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	
Net Interest Income (Rmbm)	3,666	4,820	5,050	6,417	
Total Non-Interest Income (Rmbm)	24,531	19,385	27,608	29,473	
Operating Revenue (Rmbm)	28,197	24,205	32,658	35,890	
Total Provision Charges (Rmbm)	-	-	-	-	
Net Profit (Rmbm)	8,618	5,211	8,517	9,979	
Core EPS (Rmb)	0.75	0.45	0.74	0.87	
Core EPS Growth	7.1%	(39.5%)	63.4%	17.2%	
FD Core P/E (x)	18.80	31.10	19.03	16.24	
DPS (Rmb)	0.23	0.15	0.22	0.26	
Dividend Yield	1.63%	1.06%	1.58%	1.85%	
BVPS (Rmb)	10.24	10.25	10.84	11.48	
P/BV (x)	1.38	1.38	1.30	1.23	
Recurring ROE	7.56%	4.42%	7.02%	7.77%	
% Change In Core EPS Estimates					
CGI/consensus EPS (x)			1.00	1.06	0.00

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

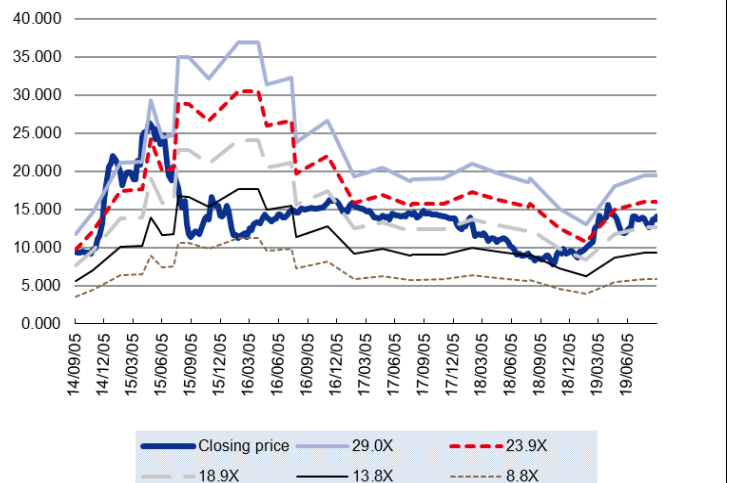
Figure 1: Quarterly results highlights

(RMB'000)	Q1 2018	Q1 2019	YoY change	Q2 2018	Q2 2019	YoY change
Brokerage	899,001	959,504	6.7%	758,037	936,037	23.5%
IBD	576,017	584,702	1.5%	948,925	1,062,113	11.9%
Asset Management	447,382	406,191	-9.2%	420,859	737,626	75.3%
Others	26,369	81,872	210.5%	106,265	94,542	-11.0%
Commission and fee income	1,948,769	2,032,269	4.3%	2,234,086	2,830,318	26.7%
Net interest income	1,219,109	914,905	-25.0%	1,200,652	1,338,151	11.5%
Net investment gains	1,281,326	2,460,570	92.0%	1,099,209	2,084,294	89.6%
Fair value adjustment	(18,260)	2,396,714	n.a.	(493,601)	(1,095,064)	121.9%
FX change	(65,342)	(175,240)	168.2%	64,416	151,804	135.7%
Others	1,279,788	2,283,485	78.4%	1,228,417	2,336,524	90.2%
Total revenue	5,645,390	9,912,703	75.6%	5,333,179	7,646,027	43.4%
Other income and gains	297,866	312,162	4.8%	138,577	41,732	-69.9%
Total revenue and other income	5,943,256	10,224,865	72.0%	5,471,756	7,687,759	40.5%
Operating expenses	(3,400,745)	(4,948,078)	45.5%	(3,476,574)	(5,136,838)	47.8%
Business tax	(43,187)	(41,244)	-4.5%	(42,605)	(51,991)	22.0%
Business and admin expenses	(2,135,816)	(2,673,361)	25.2%	(1,934,802)	(2,410,015)	24.6%
Asset impairment	(180,771)	(265,275)	46.7%	(517,057)	(785,127)	51.8%
Other operating expenses	(1,040,970)	(1,968,198)	89.1%	(982,111)	(1,889,705)	92.4%
Operating profit	2,542,512	5,276,787	107.5%	1,995,181	2,550,921	27.9%
Share of profits of associates	59,291	41,024	n.a.	(95,597)	110,402	n.a.
Profit before tax	2,601,802	5,317,811	104.4%	1,899,585	2,661,323	40.1%
Taxation	(609,908)	(1,219,291)	99.9%	(432,108)	(716,317)	65.8%
Minority interest	(259,790)	(329,147)	26.7%	(168,652)	(212,497)	26.0%
Net Profit	1,732,105	3,769,373	117.6%	1,298,824	1,732,509	33.4%

SOURCES: CGIS RESEARCH, COMPANY DATA

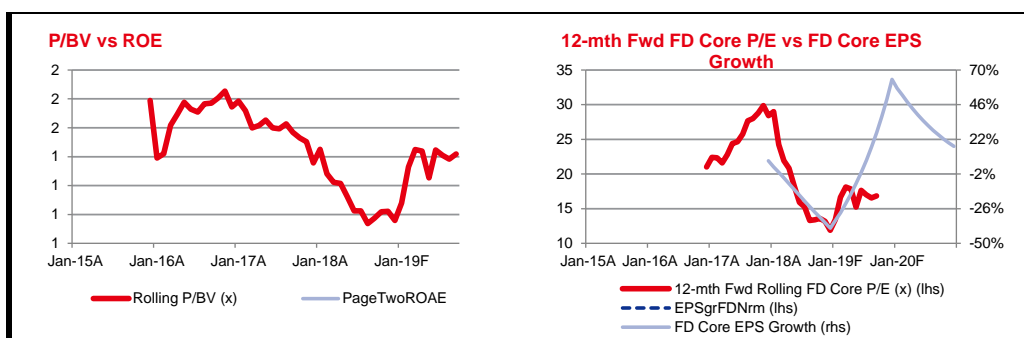
Figure 2: PBR range of Haitong Securities


SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

Figure 3: PER range of Haitong Securities


SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

BY THE NUMBERS



Profit & Loss

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Net Interest Income	3,666	4,820	5,050	6,417
Total Non-Interest Income	24,531	19,385	27,608	29,473
Operating Revenue	28,197	24,205	32,658	35,890
Total Non-Interest Expenses	(16,016)	(16,667)	(20,626)	(21,773)
Pre-provision Operating Profit	12,181	7,538	12,032	14,117
Total Provision Charges	0	0	0	0
Operating Profit After Provisions	12,181	7,538	12,032	14,117
Associates' Profit	708	33	202	217
Exceptional Items				
Other Financing Costs				
Other Income				
Exchange Gains				
Fully Taxable Equivalent (FTE) Adjustment				
Pre-tax Profit	12,889	7,570	12,234	14,335
Taxation	(3,014)	(1,800)	(2,875)	(3,369)
Profit After Tax	9,876	5,771	9,359	10,966
Minority Interests	(1,257)	(560)	(842)	(987)
Preferred Dividends				
Net Profit	8,618	5,211	8,517	9,979
Recurring Net Profit	8,618	5,211	8,517	9,979

Key Drivers

	Dec-17A	Dec-18A	Dec-19E	Dec-20E
Commission and fee income	-12%	-12%	14%	10%
Interest income	-7%	19%	2%	8%
Net investment gains	53%	-63%	159%	10%
Total revenue and other income	-3%	-6%	23%	7%
Operating profit	11%	-38%	60%	17%
Recurring net income	7%	-40%	63%	17%
Recurring EPS	7%	-40%	63%	17%
A-share average daily turnover (RMB'000)	460,911,721	371,587,654	525,000,000	600,000,000
Margin financing balance (RMB'000)	48,009,027	34,716,000	42,067,434	47,172,126
Staff cost-to-income (%)	22.7	24.5	21.4	21.9
Cost-to-income (%)	56.8	68.9	63.2	60.7

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Loans & Accrued Interest (Net)	62,312	49,480	56,310	62,304
Loans To Banks				
Liquid Assets & Invst. (Current)	220,752	274,411	304,078	343,811
Others	172,789	145,794	162,371	167,051
Total Gross Int. Earning Assets	283,064	323,891	360,388	406,115
Intangible Assets	4,358	4,564	4,588	4,612
Fixed Assets	2,862	6,044	9,095	11,998
Others	71,634	94,329	95,629	106,664
Non Interest Earning Assets	251,642	250,732	271,683	290,325
Broad Deposits	0	0	0	0
Liabilities Payable On Demand	328,882	342,437	387,918	431,611
Subordinate Debts				
Total Interest-Bearing Liabilities	328,882	342,437	387,918	431,611
Bank's Liabilities Under Acceptances	468	471	471	471
Other Liabilities	74,794	101,323	105,462	117,628
Deferred Tax Liability	867	207	400	500
Total Liabilities	405,012	444,438	494,251	550,210
Shareholders' Equity	117,755	117,859	124,650	132,074
Minority Interests	11,939	12,327	13,170	14,157
Preferred Shareholders Funds				
Total Equity	129,694	130,186	137,820	146,231

Dupont Analysis (as % of average total assets)

	Dec-17A	Dec-18A	Dec-19E	Dec-20E
Equities	0.9%	0.7%	0.8%	0.8%
Investment banking	0.5%	0.4%	0.4%	0.4%
Asset management	0.4%	0.3%	0.4%	0.4%
Futures/derivatives	0.1%	0.1%	0.1%	0.1%
Others	0.2%	0.2%	0.2%	0.2%
Commission and fee income	2.0%	1.8%	1.9%	1.9%
Interest income	2.8%	3.2%	3.0%	3.0%
Net investment gains	1.7%	0.6%	1.5%	1.5%
Other income and gains	1.0%	1.3%	1.5%	1.4%
Total revenue and other income	7.5%	7.0%	7.9%	7.7%
Operating expenses	-5.3%	-5.6%	-5.9%	-5.6%
Operating profit	2.2%	1.4%	2.0%	2.1%
Income tax expense	-0.6%	-0.3%	-0.5%	-0.5%
Recurring net income (ROAA)	1.8%	1.0%	1.6%	1.7%
Leverage (x)	4.8	4.7	5.0	5.2
Non-client asset/net asset (x)	3.5	3.9	4.0	4.1
ROAE	7.6%	4.4%	7.0%	7.8%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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We are transferring the rating mechanism from "BUY, SELL, HOLD" to "ADD, REDUCE, HOLD". Please refer to the definitions below.

Explanation on Equity Ratings (Existing mechanism (will be replaced by new mechanism by 01/09/19))

- 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

Explanation on Equity Ratings (New mechanism)

- ADD : The stock's total return is expected to exceed 10% over the next 12 months.
- REDUCE : The stock's total return is expected to fall below 0% or more over the next 12 months.
- HOLD : The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

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