

Shenwan Hongyuan Group (6806 HK/ 000166 CH)

Steady growth ahead

- SWHY enjoys a balanced business portfolio with strong corporate governance practices
- 1H19 revenue and other income rose 41.8% YoY; net profit increased by 54.9% YoY thanks to improving market condition
- Maintain **BUY** on SWHY-H, which enjoys a better relative value compared to SWHY-A in our view

Diversified business portfolio reduces earnings volatility. In our view, SWHY enjoys a diversified business portfolio, which helps reduce the earnings volatility throughout the cycles in the securities industry. In 1H19, personal finance was the largest revenue contributor accounting for 49% of revenue, followed by institutional services and trading (33%), enterprise finance (10%), and investment management (8%).

“AA” rating from CSRC reflects strong corporate governance practices. SWHY was awarded the “AA” rating from CSRC for nine consecutive years from 2011-19 – a recognition for its high standard of corporate governance, in our view.

1H19 results highlight. In 1H19, revenue and other income rose by 41.8% YoY to RMB 15.0bn while net profit increased by 54.9% YoY to RMB 3.2bn. Return on average equity (ROAE) improved to 4.3% in 1H19 vs. 3.1% in 1H18. Across-the-board growth was seen in various business segments including brokerage, margin finance, trading, and investment banking on the back of better business environment in 1H19.

Recommendation. We maintain **BUY** on SWHY-H with a TP of HK\$ 3.0. For SWHY-A, we introduce a TP of RMB 5.2, which warrants a **HOLD** rating due to limited upside. SWHY-H currently provides a better relative value compared with SWHY-A, in our view.

Risk factors: 1) Further decline in brokerage commission rates; 2) Sharp decline in A-share market turnover; 3) Severe downturn in China’s economy; 4) Penalties related to violation of regulatory requirements.

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E
Revenue (RMB mn)	20,925	24,110	29,640	34,273
Chg (% YoY)	(3.7)	15.2	22.9	15.6
Net profit (RMB mn)	4,600	4,160	6,560	7,942
Chg (% YoY)	(15.0)	(9.6)	57.7	21.1
EPS (RMB)	0.23	0.19	0.26	0.32
Chg (% YoY)	-14.9	-18.5	40.2	21.1
BVPS (RMB)	2.8	3.1	3.3	3.6
Chg (% YoY)	5.5	13.3	5.9	7.6
P/E (x) –H shr	8.6	10.6	7.6	6.2
P/B (x) –Hshr	0.8	0.7	0.6	0.6
P/E (x) –A shr	21.2	26.0	18.6	15.3
P/B (x) –A shr	1.8	1.6	1.5	1.4
ROAE (%)	8.6	6.2	8.1	9.3
ROAA (%)	1.6	1.3	1.8	2.0
DPS (HK\$)	0.05	0.05	0.07	0.08
Yield (%) - H shr	2.5	2.6	3.3	4.0
Yield (%) - A shr	1.0	1.0	1.3	1.6

Source: Company, ABCI Securities

Company Report

Rating (H): BUY
TP (H): HK\$ 3.0
Rating (A): HOLD
TP (A): RMB 5.2

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Price (H/A shr)	HK\$ 2.20/ RMB 4.86
Est. shr price return (H/A shr)	36.4%/7.0%
Est. 19E dividend yield (H/A shr)	4.0%/1.6%
Est. total return (H/A shr)	40.4%/8.6%
Last Rating & TP (H/A shr)	BUY, HK\$3.65/ NA
Previous Report Date	July 12, 2019

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L (HK\$) (H shr)	3.64/2.09
52Wk H/L (RMB) (A shr)	6.40/3.82
Issued shares (mn) (H shr)	2,504
Issued shares (mn) (A shr)	22,535
Market cap (HK\$ mn) (H shr)	5,509
Market cap (RMB mn) (A shr)	109,520
3-mth avg daily turnover (HK\$ mn) (H shr)	2.5
3-mth avg daily turnover (RMB mn) (A shr)	213.7
Major shareholder(s) (%):	
JIC	26.3%
Central Huijin	20.1%

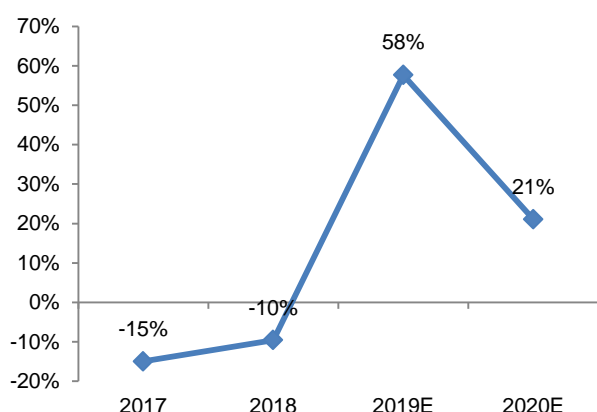
Source(s): Bloomberg, ABCI Securities

Financial outlook

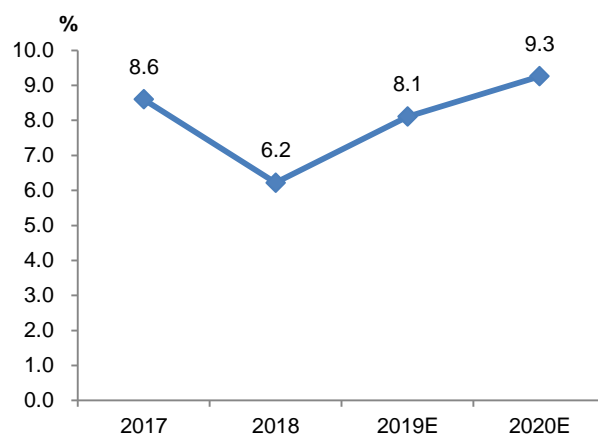
We overall maintain our current financial forecast. For 2019E-20E, we expect total revenue and other income to grow by 23% YoY and 16% on improving operating environment.

In terms of key assumptions, we expect the Group's ADT to increase by 50% YoY and 25% YoY in 2019E and 2020E. MFSL balance would increase by 20% YoY and 18% YoY in 2019E and 2020E.

Net profits to ordinary shareholders would rise by 58% and 21% in 2019E and 2020E, translating into ROAE of 8.1% and 9.3%.

Exhibit 1: Net profit growth outlook


Source(s): Company, ABCI Securities estimates

Exhibit 2: ROAE outlook


Source(s): Company, ABCI Securities estimates

Recommendation

SWHY-H is currently trading at 0.6x 2020E P/B, while SWHY-A is trading at 1.4x 2020E P/B.

Historically, A-listed brokers have been trading at a premium to H-listed brokers. In our view, such A/H premium could be due to various factors, such as differences in market condition, investor structure, and supply-demand dynamics between the two markets.

SWHY-H (6806 HK): We value the counter at HK\$ 2.4-3.5, which translates into 0.6-0.9x 2020E P/B. We set our TP to HK\$ 3.0, which nears the mid-point of the valuation range. We maintain our **BUY** rating.

Exhibit 3: Changes in TP for SWHY-H

Old	New	Comment
HK\$ 3.65	HK\$ 3.0	Lower long-term ROAE assumptions (9% v. 12.3% previously) used to derive the valuation range (Gordon Growth Model)

Source(s): ABCI Securities

SWHY-A (000166 CH): We introduce a TP of RMB 5.2. Our TP implies 1.5x 2020E P/B which is largely in line with the historical average P/B of the counter in the A-share market. This warrants a **HOLD** rating.



Consolidated income statement (FY16A-FY20E)

FY Ended Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E
Fee and commission income	8,748	6,419	7,992	9,146
Interest income	8,139	9,451	10,469	13,089
Investment income	3,750	5,645	8,066	8,457
Total revenue	20,637	21,515	26,527	30,692
Other income	287	2,595	3,114	3,581
Total revenue and other income	20,925	24,110	29,640	34,273
Total expenses	15,220	19,134	21,726	24,563
Operating Profits	5,704	4,976	7,914	9,709
Share of profit of associates and JVs	223	212	254	305
Profit before tax	5,928	5,187	8,168	10,014
Tax	1,202	940	1,470	1,903
Profit after tax	4,726	4,248	6,698	8,111
Minority interests	126	88	138	169
Profits attributable to shareholders	4,600	4,160	6,560	7,942
Growth				
Total revenue and other income	-4%	15%	23%	16%
Total expenses	-2%	26%	14%	13%
Operating Profits	-8%	-13%	59%	23%
Net profit	-15%	-10%	58%	21%
Operating performance				
Operating margin (%)	27.3	20.6	26.7	28.3
Net margin (%)	22.6	19.3	24.7	25.9
ROAE (%)	8.6	6.2	8.1	9.3
ROAA (%)	1.6	1.3	1.8	2.0

Notes: Individual items may not sum to total due to rounding differences

Individual items may vary from reported figures due to rounding differences/ definition differences

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (FY16A-FY20E)

As of Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E
Fixed assets	1,481	1,441	1,513	1,543
Other intangible assets	142	149	156	159
Investment in associates	1,871	2,399	2,519	2,569
Financial assets	17,865	18,246	20,071	22,078
Financial assets held under resale agreements	10,483	20,993	24,142	26,556
Other non-current assets	7,853	7,808	8,199	8,363
Total non-current assets	39,695	51,036	56,599	61,268
Cash & equivalents	22,375	25,286	21,533	18,299
Clearing settlement funds	2,590	3,091	3,246	3,408
Cash on behalf of brokerage clients	62,007	57,522	60,398	63,418
Financial assets	78,485	116,336	123,475	131,103
Derivatives	7	454	477	500
Account receivables	1,525	1,238	1,299	1,325
Other receivables and prepayments	3,950	4,569	4,797	4,893
Margin accounts receivables	55,739	43,107	51,728	61,039
Financial assets held under resale agreements	33,571	45,087	51,850	57,035
Total current assets	260,248	296,689	318,803	341,021
Total assets	299,943	347,725	375,402	402,289
Accounts payable	63,629	60,271	63,284	66,448
Loans and bonds	33,874	36,269	38,082	41,853
Placements from banks and other financial institutions	7,900	11,619	12,200	13,420
Other current liabilities	76,497	96,058	100,857	105,895
Total current liabilities	181,900	204,216	214,423	227,616
Loans and bonds	49,796	66,219	69,530	76,483
Other non-current liabilities	11,241	6,095	6,333	6,583
Total non-current liabilities	61,037	72,314	75,863	83,066
Total liabilities	242,937	276,531	290,286	310,682
Net current assets	78,348	92,472	104,380	113,405
Equity attributable to shareholders	55,197	69,399	82,637	88,939
Non-controlling interests	1,809	1,797	2,479	2,668
Total equity	57,006	71,196	85,116	91,607

Notes: Individual items may not sum to total due to rounding differences

Individual items may vary from reported figures due to rounding differences/definition differences

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return < Market return rate (10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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