



Rating  
**Buy**

Asia  
Hong Kong

Banking / Finance  
Exchanges

Company  
**Hong Kong  
Exchange Alert**

Reuters 0388.HK	Bloomberg 388 HK	Exchange HSI	Ticker 0388
ADR Ticker HKXCY	ISIN US43858F1093		

Date  
5 March 2015

**Results**

Price at 5 Mar 2015 (HKD)	175.80
Price target - 12mth	199.00
52-week range (HKD)	187.10 - 113.20
HANG SENG INDEX	24,465

Tracy Yu	Sukrit Khatri
Research Analyst	Research Associate
(+852) 2203 6191	(+852) 2203 5927
tracy.yu@db.com	sukrit.khatri@db.com

## FY14 review: In-line results, with benefits from SHSC yet to show

### Benefits from LME Clear and SHSC to be realized in FY15; Buy maintained

HKEx Group reported FY14 NPAT of HK\$5.14bn, up 13% yoy and in-line with consensus forecasts as cash market strength was bolstered by new revenue streams emerging from LME Clear (HK\$172m in 4Q14) and SHSC (HK\$68m; HK\$20m recurring). Cash market revenue grew 12%yoy to HK\$2.76bn, as ADT reached a 3 year high of HK\$69.5bn (DBe: HK\$65bn), while revenue from clearing business excl. LME was up 16% to HK\$3.3bn. Commodities revenue also grew 21%yoy due to another record trading volume, while HKEx derivative revenue was flat yoy. Despite higher LME-related headcount and legal, and SHSC-promotional expenses, Group OpEx growth was controlled at 10%, leading to an improvement in Group EBITDA margin to 70% (FY13: 68%).

### Key highlights of Hong Kong business in FY14

- Trading revenue grew 7%yoy as HK cash market ADT grew 13%yoy to HK\$56.2bn, cushioning from a 1% decline in derivative trading revenue.
- Listing revenue grew 8.5%yoy to HK\$1.1bn, on the back of a record year for primary market fund raisings, which were up 149%yoy to HK\$943bn
- Net investment income was up 22%yoy due to higher bank deposit rates, while depository, custody & nominee fees rose 14%yoy due to higher scrip, stock withdrawal, corporate action and IPO service fees.
- HK business OpEx growth was controlled at 9%, with primarily high expenses due to SHSC-related promotions (+83%yoy), leading to an EBITDA margin of 72% for the business in FY14 (FY13: 70%)

### Key highlights of LME business in FY14

Commodity revenue grew 21%yoy to HK\$1,461m or 15% of Group revenue, as trading contributed HK\$928m (+8%yoy) and LME Clear added HK\$187m post its launch on 22 Sep. Excluding LME Clear, revenue grew 5%yoy to HK\$1.3bn, with higher legal expenses (HK\$43m in FY14) and more headcount due to LME's Asia expansion contributing to a 11%yoy rise in expenses. With LME fee increases in 2015 and better news around US/UK litigation, we expect EBITDA margin to improve to 60% in FY15 from 55% recorded this year.

### Maintain Buy with a TP of HK\$199

As FY14 results were in-line with consensus estimates, we maintain our Buy rating on the stock, with a TP of HK\$199. Our model assumes normalized NPAT of HK\$7.6bn in 2016, putting HKEx on a target 2016 P/E of 29.7x to reflect our positive view on HK listed Chinese equities and long-term profit potential from SHSC and LME. Downside risks are derived from an unlikely rollback of SHSC, risks of China slowdown and greater legal/regulatory risks from class action lawsuits on LME in US and UK.

### Stock data

Market cap (HKDm)	203,949
Market cap (USDm)	26,299
Shares outstanding (m)	1,161.4
Major shareholders	Hong Kong gov't (5.88%)
Free float (%)	100
Avg daily value traded (USDm)	110.4

Source: Deutsche Bank

### FY14 Results summary

HK\$m	FY14	FY13	Change
Market Revenue	6,483	5,769	+12.4%
Other Revenue	3,366	2,954	+13.9%
Total Revenue	9,849	8,723	+12.9%
of which HKEx	8,388	7,513	+11.6%
of which LME	1,461	1,210	+20.7%
Total expenses	(3,605)	(3,284)	+9.8%
EBITDA	6,891	5,946	+15.9%
PBT	6,038	5,246	+15.1%
NPAT	5,138	4,546	+13.0%

Source: Deutsche Bank, company data

Deutsche Bank AG/Hong Kong

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