



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
30 March 2015

Breaking News

Price at 27 Mar 2015 (HKD)	178.80
Price target - 12mth	199.00
52-week range (HKD)	187.10 - 117.60
HANG SENG INDEX	24,486

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Stronger Chinese funds participation to benefit Southbound ADT

CSRC allows Chinese mutual funds access to SH-HK Stock Connect

Last Friday, the CSRC announced guidelines allowing Chinese mutual funds to invest in Hong Kong equities through the SH-HK Stock Connect, effectively removing the need for them to use QDII quota to trade HK-listed stocks. This is a positive development to Hong Kong's ADT, which is up 22% year-to-date to HK\$84.4bn, despite an underwhelming ADT contribution of HK\$0.45bn and HK\$1.84bn from the Southbound and Northbound trading links since the launch in Nov 2014. For FY15, DB forecasts SHSC-derived ADT of HK\$3.8bn (both sides). Nonetheless, we believe in the long term potential of SHSC and maintain our FY15/16 cash market ADT estimates of HK\$86.6bn/HK\$92.3bn, which imply a TP of HK\$199, and reiterate our Buy rating on the stock.

Expecting the new policy to drive the Southbound ADT higher

Since the SHSC launch on 17 Nov, Northbound has been the more active link, with Rmb123.6bn worth of Northbound quota utilized as of 27 March, implying a quota usage of 41.2% and an ADT of HK\$1.84bn (or Rmb1.5bn). During the same period, only Rmb30.6bn worth of Southbound quota has been utilized (12.2% of the total) or an ADT of HK\$0.45bn (Rmb0.36bn). We expect CSRC's go ahead to mutual funds to become the catalyst that will drive an improvement in Southbound's ADT, thereby, helping the Stock Connect reach our FY15 ADT forecasts of HK\$3.8bn for both sides of the link.

Chinese financial stocks to be key beneficiaries given huge A/H premium

The 233% ytd growth in A-share ADT to Rmb704bn has made the cheaper H-shares good prospective investment opportunities for mainland institutional investors, who are more fundamental driven and valuation focused. Stocks with high A/H share premiums include listed Chinese financials, with H-share banks, insurers and brokers trading on average discounts of 20%, 26% and 52% respectively. The highest discounts in the H-shares are offered by NCI, CNCB, Haitong Securities, CITIC Securities and China Life.

Maintain FY15/16 forecasts with a Buy and target price of HK\$199, Risks

We expect HKEx will continue to be the principal beneficiary of further opening up of China's capital account, explaining the FY15 NPAT of HK\$6.9bn (+35% yoy) and our Buy rating, with a target price of HK\$199. We value HKEx on a 10-year DCF, with COE of 8.23%, a terminal growth rate of 4.8% and a beta of 1.21. The key downside risk for HKEx is derived from unforeseen technical difficulties linked to SHSC, and a delay in the launch of SZ-HK Stock Connect. Negative risks are also linked to macro-economic events affecting fund flows into HK and Asia, including China growth slowdown risks and an immediate end to QE in US.

Stock data	
Market cap (HKDm)	207,429
Market cap (USDm)	26,751
Shares outstanding (m)	1,161.4
Major shareholders	Hong Kong gov't (5.88%)
Free float (%)	100
Avg daily value traded (USDm)	89.0

Source: Deutsche Bank

	Northbound	Southbound
Total aggregate quota (RMB bn)	300	250
Available quota (RMB bn)	176.4	219.4
Used quota (RMB bn)	123.6	30.6
Used quota (in %)	41.2%	12.2%
Total trading days	84	85
ADT of Trading link (RMB bn)	1.47	0.36
ADT of Trading link (HK\$ bn)	1.84	0.45

Source: Deutsche Bank, Bloomberg Finance LP (Data as of 27 March 2015)

Deutsche Bank AG/Hong Kong

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