

# Guotai Junan Intl (1788 HK)

**Buy: HSBC 2019 China Conference highlights**

**Equities**  
Diversified Financial Svcs

Hong Kong

- ◆ The ramping-up wealth management business could help to diversify income source and generate growth
- ◆ Recent strong recovery in the offshore bond should further support profitability turnaround
- ◆ Maintain Buy with unchanged target price of HKD2.3

*Guotai Junan Int'l (GTJAI) attended HSBC's 2019 China Conference in Shenzhen on 15-17 May.*

**New focus on wealth management.** As a leading broker in Hong Kong, GTJAI has been diversifying its business lines away from traditional brokerage and investment banking businesses. In October 2018, it started its new wealth management centre in Hong Kong for serving high net-worth clients. We expect the new channel to bring positives to multiple businesses this year such as margin financing and structured products; the latter was previously for institutional clients only.

**Recovering with the tide.** We still see a bumpy ride in the equity market in Hong Kong, while the bond market has been performing well this year (with Asia Dollar Bond Total Return Index up 5% y-o-y in 2019 y-t-d from a negative in 2018). We believe the company should see recovery in trading and market making return as over 90% of its trading assets are debt securities, based on the annual report. Moreover, its equity underwriting business continues to improve this year. According to the Bloomberg league table, GTJAI's total underwriting reached HKD3.3bn y-t-d, ranking No.8 (from No.16 in 2018).

**Valuation and risks: Buy, TP HKD2.30.** We use PB-based valuation approach to value GTJAI, with key assumptions of a mid-term ROE of 14%, growth rate of 5%, and COE of 11% (derived from 3% risk-free rate, 4% market premium, and 2x beta). Our target price of HKD2.3 is derived by applying our unchanged 1.5x target PB multiple to end-2019e BVPS. Our target price implies upside of 65.5%, and we retain our Buy rating for the stock.

**Key downside risks:** 1) A sharp deterioration in the stock market; 2) intensified industry competition in DCM; 3) increased credit and counterparty risks for its structured products business; and 4) unfavourable changes to the capital market openness of China and cross-border activities.



**MAINTAIN BUY**

TARGET PRICE (HKD)

**2.30**

PREVIOUS TARGET (HKD)

**2.30**

SHARE PRICE (HKD)

**1.39**

(as of 17 May 2019)

UPSIDE/DOWNSIDE

**+65.5%**

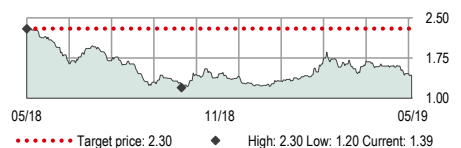
#### MARKET DATA

Market cap (HKDm)	10,725	Free float	35%
Market cap (USDm)	1,366	BBG	1788 HK
3m ADTV (USDm)	5	RIC	1788.HK

#### FINANCIALS AND RATIOS (HKD)

Year to	12/2018a	12/2019e	12/2020e	12/2021e
HSBC EPS	0.10	0.21	0.24	0.25
HSBC EPS (prev)	-	-	-	-
HSBC BVPS	1.42	1.54	1.66	1.79
Adj. cost-to-income	44.4	41.4	40.2	41.6
ROE (%)	8.2	14.1	15.0	14.2
PE (x)	13.3	6.7	5.8	5.6
PB (x)	1.0	0.9	0.8	0.8
Dividend yield	3.8%	7.5%	8.6%	8.9%

#### 52-WEEK PRICE (HKD)



Source: Refinitiv IBES, HSBC estimates

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## Financials & valuation: Guotai Junan Int'l (1788 HK)

### Financial statements

Year to	12/2018a	12/2019e	12/2020e	12/2021e
<b>Profit &amp; loss summary (HKDm)</b>				
Brokerage	455	503	626	680
Corporate finance	595	810	910	1,024
Investment management	17	39	42	46
Loan and financing activities	1,307	1,242	1,319	1,443
Trading and market making	638	1,459	1,826	1,844
Revenue	3,012	4,053	4,722	5,036
Other income	4	4	4	5
Total revenue	3,016	4,057	4,727	5,041
Staff costs	(643)	(926)	(1,055)	(1,125)
Commission expenses	(126)	(111)	(133)	(146)
Provisions write-back/(charges)	(240)	30	(54)	(50)
Other operating expenses	(324)	(369)	(419)	(477)
Operating expenses	(1,333)	(1,377)	(1,662)	(1,797)
Finance costs	(714)	(815)	(927)	(1,049)
Profit before taxation	970	1,865	2,137	2,195
Income tax	(134)	(252)	(289)	(296)
Net profit	835	1,613	1,849	1,899
Minority & perpetual bond interests	(39)	(16)	(16)	(16)
Net profit to shareholders	797	1,598	1,833	1,883

### Balance sheet summary (HKDm)

Financing assets	12,275	13,438	14,588	15,838
Trading assets	47,861	63,540	72,608	86,136
Clients' deposits	14,320	11,499	14,207	15,391
Other assets	13,577	13,045	16,214	16,083
Total assets	88,034	101,522	117,617	133,447
Accounts payable	18,884	19,340	23,894	25,884
Borrowings	16,513	19,073	20,946	23,005
Other liabilities	41,476	51,000	59,709	70,537
Total liabilities	76,873	89,414	104,548	119,427
Paid-in capital and reserves	6,966	7,114	7,159	7,168
Retained earnings	3,866	4,665	5,581	6,523
Total shareholder's equity	10,832	11,779	12,740	13,691

### ROAA deconstruction

Revenue	3.72	4.28	4.31	4.01
Other income	0.00	0.00	0.00	0.00
Staff costs	(0.79)	(0.98)	(0.96)	(0.90)
Commission expenses	(0.16)	(0.12)	(0.12)	(0.12)
Provisions write-back/(charges)	(0.30)	0.03	(0.05)	(0.04)
Other operating expenses	(0.40)	(0.39)	(0.38)	(0.38)
Finance costs	(0.88)	(0.86)	(0.85)	(0.84)
PBT	1.20	1.97	1.95	1.75
Income tax	(0.17)	(0.27)	(0.26)	(0.24)
Recurring PAT	1.03	1.70	1.69	1.51
Minority interest	(0.05)	(0.02)	(0.01)	(0.01)
Recurring profit to equity holders	0.98	1.69	1.67	1.50

### ESG metrics

Environmental Indicators		Governance Indicators	
GHG Intensity (kg/USD)	NA	No. of board members	9
Energy Intensity (kWh/USD)	NA	Average board experience (years)	NA
CO2 reduction policy	Y	Female board members (%)	11
<b>Social Indicators</b>		Board members Independence (%)	33
Employee costs as % of sales	26	*Supervisory board	
Employee turnover (%)	15		
Diversity policy	Y		

Source: Company data, HSBC

### Growth rate (y-o-y %)

Year to	12/2018a	12/2019e	12/2020e	12/2021e
Revenue	(3.8)	34.5	16.5	6.6
Staff costs	(4.9)	44.1	13.9	6.6
Other operating expenses	15.8	14.1	13.6	13.6
Pre-tax earnings	(37.8)	92.4	14.6	2.7
Net profit	(37.5)	93.1	14.6	2.7
Recurring net profit	(35.1)	100.5	14.7	2.7
EPS (Recurring)	(41.1)	100.5	14.7	2.7
DPS	(41.2)	97.4	14.7	2.7
BVPS	14.2	8.7	8.2	7.5
Total assets	19.0	15.3	15.9	13.5
Accounts payable	11.4	2.4	23.5	8.3
Net assets value	25.8	8.7	8.2	7.5

### Key ratios (%)

HK cash ADT (HKDbn)	107.4	100.4	115.5	125.3
Estimated brokerage market share	0.57	0.80	0.90	0.90
Estimated commission rate (bp)	9.0	10.0	9.5	9.5
Cost-to-income	59.9	54.8	53.6	55.5
Adjusted cost-to-income	44.4	41.4	40.2	41.6
Debt-to-equity	152.4	161.9	164.4	168.0
Dividend payout ratio	50.8	50.0	50.0	50.0
ROAA	1.0	1.7	1.7	1.5
Financial leverage (x)	8.3	8.4	8.9	9.5
ROAE	8.2	14.1	15.0	14.2
Adjusted leverage (x)	6.4	7.0	7.4	7.9

### Per share data (HKD)

EPS (Recurring)	0.10	0.21	0.24	0.25
DPS	0.05	0.10	0.12	0.12
NAV	1.42	1.54	1.66	1.79

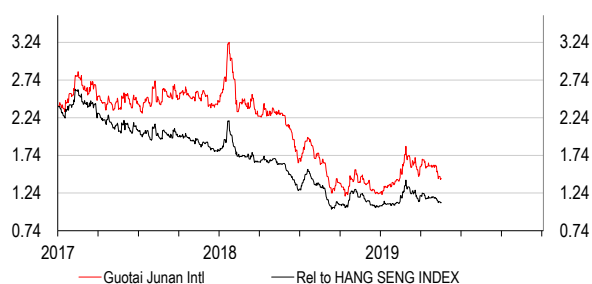
### Valuation data

PE (x)	13.3	6.7	5.8	5.6
PB (x)	1.0	0.9	0.8	0.8
Dividend yield	3.8%	7.5%	8.6%	8.9%

### Issuer information

Share price (HKD)	1.39	Free float	35%
Target price (HKD)	2.30	Sector	Diversified Financial Services
Reuters (Equity)	1788.HK	Country	Hong Kong
Bloomberg (Equity)	1788.HK	Analyst	Livy Lyu
Market cap (HKDm)	10,725	Contact	+852 2822 2981

### Price relative



Source: HSBC

Note: Priced at close of 17 May 2019

# Disclosure appendix

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Upside/Downside is the percentage difference between the target price and the share price.

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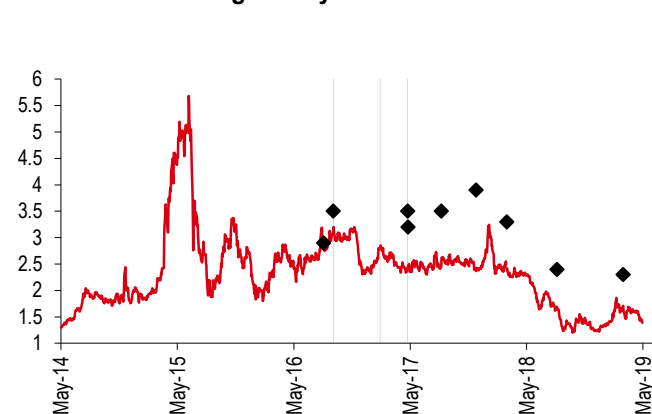
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<b>Hold</b>	38%	( 27% of these provided with Investment Banking Services )
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**Share price and rating changes for long-term investment opportunities**
**Guotai Junan Intl (1788.HK) share price performance  
HKD Vs HSBC rating history**


Source: HSBC

**Rating & target price history**

From	To	Date	Analyst
Hold	Buy	20 Sep 2016	Alice Li
Buy	Restricted	13 Feb 2017	
Restricted	Buy	11 May 2017	Alice Li
Target price	Value	Date	Analyst
Price 1	2.90	21 Aug 2016	Alice Li
Price 2	3.50	20 Sep 2016	Alice Li
Price 3	Restricted	13 Feb 2017	
Price 4	3.50	11 May 2017	Alice Li
Price 5	3.20	12 May 2017	Alice Li
Price 6	3.50	24 Aug 2017	York Pun
Price 7	3.90	12 Dec 2017	York Pun
Price 8	3.30	18 Mar 2018	York Pun
Price 9	2.40	22 Aug 2018	Livy Lyu
Price 10	2.30	18 Mar 2019	Livy Lyu

Source: HSBC

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Company	Ticker	Recent price	Price date	Disclosure
GUOTAI JUNAN INTL	1788.HK	1.39	17 May 2019	1, 5, 6

Source: HSBC

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