

27 February 2019

Financial Services | Exchanges

HK Exchanges (388 HK)

Buy (Maintained)

Strong SADV In Late Feb a Big Positive; We Raise TP

Target Price (Return)	HKD313.00 (+17%)
Price:	HKD268.00
Market Cap:	USD42,668m
Avg Daily Turnover (HKD/USD)	2,150m/274m

- **Keep BUY with a higher HKD313 TP, from HKD285, 17% upside and 2.7% yield.** HKEx's 4Q18 results met expectations. 4Q18 net profit fell 3% YoY. Whilst 4Q18 securities market SADV was down 20% YoY to HKD85.7bn, ADC for derivatives rose 56% YoY. SADV strength in the recent week is promising, recording HKD168.7bn on 25 Feb 19 vs c.HKD93bn for the month of Feb 2019. We believe the SADV strength could persist and assumed a 2019 SADV of HKD115bn, up from 2018's HKD107.4bn. Our 2020 SADV assumption is HKD130bn. Our higher TP is pegged to 38x 2019 EPS (+1SD of the 31.3x historical mean) vs 35x as we used previously.
- **HKEx reported 2018 net profit of HKD9.31bn (+26% YoY)**, which met our expectation. This was mainly driven by 2018 SADV of HKD107.4bn, which was 22% higher YoY. 2018 trading fees and trading tariffs rose 22% YoY to HKD2.39bn. 2018 EBITDA margin of 74% was 1ppt higher YoY.
- **Surge in Northbound trading.** 2018 ADT of Northbound trading for Shanghai-HK Connect jumped 107% to CNY11.6bn, whilst the Shenzhen-HK Connect ADT surged 120% to CNY8.8bn. This can be partly attributed to the A shares inclusion in the MSCI Emerging Markets Index and All Country Index (MSCI Indices). We believe the strength can persist.
- **2018 listing fees growth led by initial and subsequent issue listing fees.** There was a higher number of newly listed companies, which contributed to the 13% expansion for initial and subsequent issue listing fees.

4Q18 results announced on 27 Feb were in line

FYE Dec (HKDm)	4Q17	3Q18	4Q18	YoY%	Comments
Revenue	3,523	4,102	3,571	1.4	Mild 4Q18 revenue YoY growth was mainly driven by trading fees and trading tariff.
EBIT	2,244	2,879	2,218	(1.2)	
Net Profit	1,878	2,443	1,828	(2.7)	2018 net profit of HKD9.31bn was close to our HKD9.54bn expectations.
Net profit margin (%)	52.6%	59.4%	51.2%		
Securities ADV (HKD bn)	106.8	91.9	85.7	(19.8)	4Q18 cash market SADV declined 7% QoQ.
Derivatives ADC on Futures Exch	484,346	672,721	755,389	56.0	4Q18 derivatives ADC surged YoY.

Source: Company data

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (HKDm)	13,180	15,867	17,123	18,267	19,595
Recurring net profit (HKDm)	7,404	9,312	10,186	10,990	11,862
Recurring NP growth (%)	28.3	25.8	9.4	7.9	7.9
Recurring P/E (x)	45.3	36.0	32.9	30.5	28.3
P/B (x)	9.0	8.2	8.0	7.8	7.6
P/CF (x)	45.2	40.7	35.0	36.7	34.0
Dividend Yield (%)	2.0	2.5	2.7	3.0	3.2
EV/EBITDA (x)	18.8	19.7	17.6	16.4	15.3
Return on avg equity (%)	21.3	23.9	24.7	26.0	27.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	65.3	96.4	96.5	93.6	99.5

Source: Company data, RHB

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