

Markets at a Glance

Indices	Closing	DoD%
Hang Seng Index	26515.5	(0.0)
HSCEI	10384.1	0.9
Shanghai COMP	2985.9	1.0
Shenzhen COMP	1651.6	0.9
Gold	1519.0	(2.2)
BDIY	2518.0	0.7
Crude Oil, WTI (US\$/BBL)	56.3	0.1
Crude Oil, BRENT (US\$/BBL)	61.0	0.4
HIBOR, 3-M	2.3	(1.8)
SHIBOR, 3-M	2.7	0.1
RMB/USD	7.1	0.0

Source: Bloomberg

Upcoming Key Data Releases

Date	Key Data
7 th September	Foreign Exchange Reserves AUG
8 th September	Balance of Trade AUG
8 th September	Exports YoY AUG
8 th September	Imports YoY AUG

Source: Bloomberg

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CGIS Yum Cha Daily

RESEARCH NOTES

CHINA SECURITIES SECTOR – Major Chinese brokers reported strong operating figures for August 2019 on a yoy basis, from a very low base in August 2018. A-share trading volume reached Rmb798bn yesterday, the highest level since mid-April. The 20-day moving average annualized trading velocity is still below the 3-year average, which suggests there is potential for trading velocity to rebound further, driven by expectations of a monetary stimulus. As the share prices of Chinese brokers are highly correlated to trading velocity, this should bode well for their share price performance in the near term. Maintain ADD for Haitong Securities (6837.HK) and GF Securities (1776.HK). (Analyst: Wong Chi-man)

SNIPPETS

HKEX [0388.HK; REDUCE; TP: HK\$224.80] – HKEx encountered “software issues” that led to the suspension of trading in derivatives on Thursday afternoon. Futures and options trading had to be halted because of technical problems at 2pm, and remained frozen all afternoon. The trading is expected to resume today. We believe any potential compensation expenses seems unlikely to happen based on the experience in 2005. In Nov 2005, the morning trading session of futures and options products on HKATS (Hong Kong Futures Automated Trading System), was delayed due to technical issues with the HKATS gateway service supporting Participant access to HKATS. (Analyst: Wong Chi-man)

China
Overweight (no change)

Highlighted companies
CITIC Securities
HOLD, TP HK\$14.90, HK\$15.42 close

1H19 net profit rose 16% yoy. We like the Company's leadership in various business segments, but the valuation premium over its peers largely reflects this factor.

GF Securities
ADD, TP HK\$12.40, HK\$8.89 close

GF Securities' 1H19 net profit grew 45% yoy. The current valuation of 0.67x 2019F P/Bv reflects very low market expectations.

Haitong Securities
ADD, TP HK\$10.60, HK\$8.47 close

1H19 net profit surged 82.4% yoy from a low base. We see re-rating potential if the Company continues to show that its stock-placed lending risk is under control in the coming quarters.

Stockbroking & Exchanges

Rebound in trading velocity a near-term catalyst

- Major Chinese brokers reported strong operating figures for August 2019 on a yoy basis, from a very low base in August 2018.
- A-share trading volume reached Rmb798bn yesterday, the highest level since mid-April.
- The 20-day moving average annualized trading velocity is still below the 3-year average, which suggests there is potential for trading velocity to rebound further, driven by expectations of a monetary stimulus.
- As the share prices of Chinese brokers are highly correlated to trading velocity, this should bode well for their share price performance in the near term.
- Maintain ADD for Haitong Securities (6837.HK) and GF Securities (1776.HK).

Sharp earnings growth in August 2019 from a low base

Major Chinese brokers reported key operating figures at the parent company level (which usually do not include overseas operations and some investment business) for August 2019. As the performance in August 2018 was very weak because of poor market conditions, CITIC Securities, Haitong Securities and GF Securities reported strong net profit in August 2019 of Rmb1.12bn (+179% yoy), Rmb492m (+214% yoy) and Rmb472m (+114% yoy), respectively.

Expectations of a monetary stimulus boost trading volume

The average daily turnover (ADT) of the A-share market has picked up in the past two weeks. The daily turnover was Rmb798bn yesterday, the highest level since mid-April. Since the recent reform of the LPR, there have been growing expectations of a monetary stimulus (e.g. a RRR cut) following a statement from the State Council early this week about the need to ensure stable economic growth.

Potential for trading velocity to go higher

The 20-day moving average annualized trading velocity of the A-share market rebounded to 2.15x yesterday, still slightly below the 3-year average of 2.2x (Figure 2). We believe the expectations of a monetary stimulus before the National Holiday will support a further rebound in trading velocity in the near term.

Trading opportunities for Chinese brokers

Figure 1 shows that the P/Bv trend of major Chinese brokers is highly correlated to A-share market trading velocity. This should bode well for their share prices in the near term if the trading velocity is expected to go higher. From the valuation perspective, many Chinese brokers are still trading well below book value and their historical average P/Bv (Figure 3). Maintain ADD for Haitong Securities and GF Securities.

70th anniversary rally?

 During the 55th, 60th and 65th anniversary of the establishment of the People's Republic of China, the Shanghai Composite Index was up 4.02% in Sep 2004, 4.16% in Sep 2009 and 6.63% in Sep 2014. Since it is a market strongly driven by retail investors, it should not be a surprise to see the upcoming celebration of the 70th anniversary of the establishment of the PRC drive trading volume to jump in Sep 2019, which will be a short-term positive catalyst for Chinese brokers.

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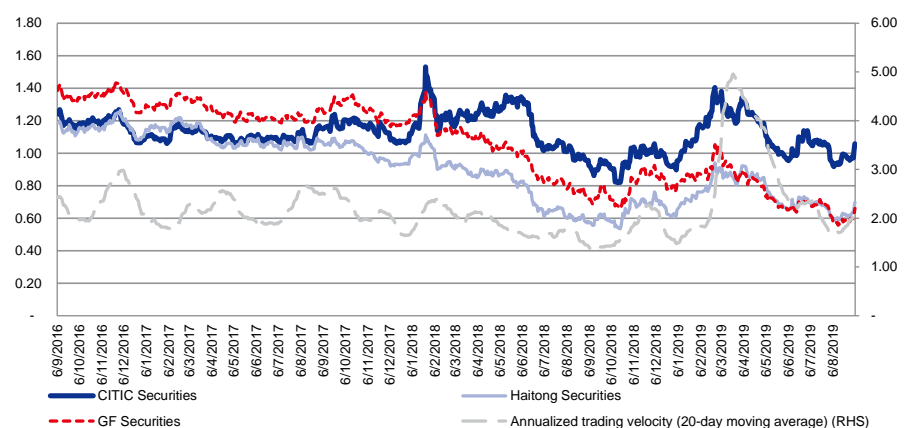
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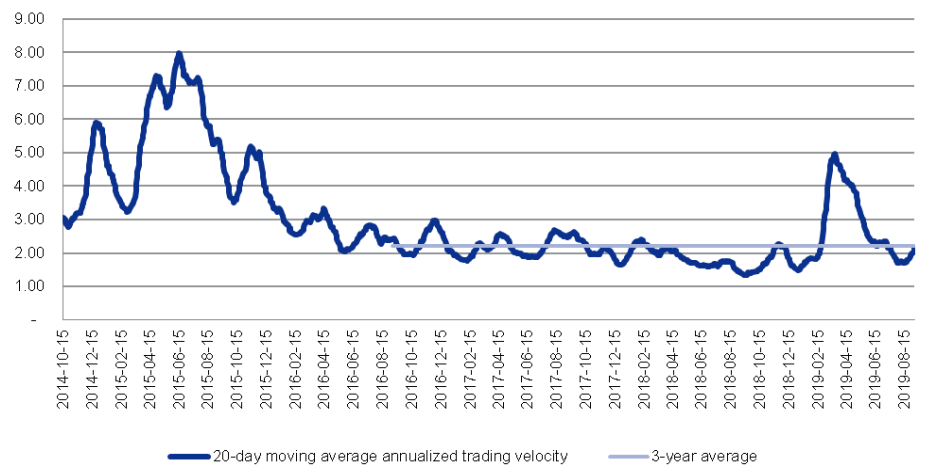
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Figure 1: P/Bv of major Chinese brokers and A-share market trading velocity


SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

Figure 2: Trading velocity of the A-share market


SOURCES: CGIS RESEARCH, WIND

Figure 3: Peer comparison

Company	Ticker	Rating	Price (Local currency)	Market cap (US\$m)	P/E (x)			P/Bv (x)			ROE (%)			ROA (%)		
					2018	2019F	2020F	2018	2019F	2020F	2018	2019F	2020F	2018	2019F	2020F
CITIC	6030 HK Equity	HOLD	15.42	37,462	16.8	15.8	15.2	1.03	1.06	1.06	6.2	6.9	7.1	1.5	1.6	1.6
HTSC	6886 HK Equity	NR	12.50	23,627	18.9	12.1	10.6	0.85	0.86	0.81	5.3	7.2	7.7	1.3	2.1	2.1
Guotai Junan	2611 HK Equity	NR	12.50	21,767	17.9	10.4	9.4	0.86	0.82	0.77	6.2	8.0	8.2	1.6	2.1	2.0
Haitong	6837 HK Equity	ADD	8.47	20,766	15.8	10.4	9.2	0.70	0.71	0.69	4.4	7.0	7.8	0.9	1.4	1.5
China Merchants	6099 HK Equity	NR	9.19	14,830	17.0	10.0	9.0	0.66	0.78	0.73	5.5	7.8	8.1	1.5	1.8	1.9
Guangfa	1776 HK Equity	ADD	8.89	13,880	13.3	9.0	8.2	0.67	0.67	0.66	5.1	7.7	8.2	1.2	1.7	1.9
China Galaxy	6881 HK Equity	NR	4.13	12,520	11.7	9.0	8.3	0.54	0.55	0.52	5.8	6.2	6.5	1.5	1.6	1.5
CICC	3908 HK Equity	NR	14.56	7,826	17.5	12.8	10.8	1.31	1.23	1.13	9.2	9.9	10.9	1.3	1.5	2.1
Everbright	6178 HK Equity	NR	6.30	6,956	281.3	10.0	8.6	0.55	0.53	0.50	1.5	4.5	5.2	0.4	1.5	1.5
Simple average					49.0	11.1	10.0	0.79	0.80	0.76	5.4	7.2	7.7	1.2	1.7	1.8

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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We are transferring the rating mechanism from "BUY, SELL, HOLD" to "ADD, REDUCE, HOLD". Please refer to the definitions below.

Explanation on Equity Ratings (Existing mechanism (will be replaced by new mechanism by 01/09/19))

- BUY : share price will increase by >20% within 12 months in absolute terms
SELL : share price will decrease by >20% within 12 months in absolute terms
HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

Explanation on Equity Ratings (New mechanism)

- ADD : The stock's total return is expected to exceed 10% over the next 12 months.
REDUCE : The stock's total return is expected to fall below 0% or more over the next 12 months.
HOLD : The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

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