



Jan 13, 2016
Company Report
Rating: Unrated

Share price (HK\$) 3.86

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Key Data

52Wk H/L(HK\$)	8.00/3.65
Outstanding shares (mn)	1,902.40
H-shares (mn)	442.64
Un-listed shares (mn)	1459.76
H-share market cap (HK\$ mn)	1,709
3-mth avg daily turnover (HK\$ mn)	7.07
Major shareholder (%):	
Wuxi Guolian Development (Group) Co Ltd	68.484

Source(s): Bloomberg, Company

Revenue breakdown (%)

	2014	1H15
Securities Brokerage	40.2	54.1
Credit transaction	9.6	13.3
Investment Banking	17.1	8.3
Proprietary trading	21.7	20.1
Asset mgt and investment	10.4	3.6
Others	1.0	0.6

Source(s): Company, ABCI Securities

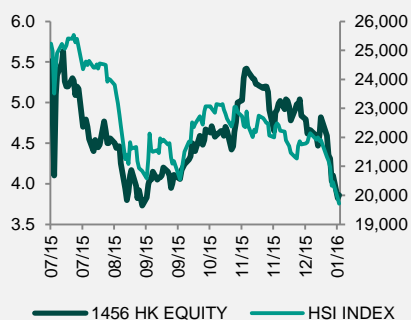
Share price performance (%)

	Absolute	Relative*
1-mth	(19.25)	(11.08)
3-mth	(15.90)	(2.87)
6-mth	(27.72)	(7.86)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Guolian Securities (1456 HK)

FY15 earnings preview

- The Group expect FY15E net profit to grow by ~100%YoY
- ROAE in FY15 to surge to 23.9% from 19.6% in FY14
- Obtained shareholders' approval to enlarge scale of proprietary trading
- Seek shareholders' consent to start business in Hong Kong and increase financial leverage
- Insiders bought shares at HK\$ 4.83/share in Dec 2015

Guolian Securities expect net profit to increase by ~100% YoY in FY15.

This implied the net profit for FY15 would be ~RMB 1,430 mn (or RMB 0.752/share on a fully-diluted basis), or 18% higher than the market consensus of RMB 1,211mn. We estimate the annualized ROAE would surge to 23.9%. The increased profit would be mainly driven by commission income in brokerage business, interest income on credit business, investment gain from proprietary business, and shared income from Hua Ying Securities.

Business performance in 2H15 turned sour.

Guolian registered a net profit of RMB 956.7 mn for 1H15. Hence, the implied net profit for 2H15 would be RMB 473.3 mn, down 50.5% HoH. Half-year ROAE would decline to 7.4% in 2H15 from 21.3% in 1H15. Average daily outstanding margin loan balance in the system fell by 25.0% HoH in 2H15. Total turnover of A-share stock markets was down 17% HoH in 2H15 while the benchmark CSI300 Index was down 16.6% HoH by end-2015. Hence, the Group's brokerage commission, interest income and investment income should show declines in 2H15.

Guolian plans to invest HK\$ 300 mn to set up securities, futures, asset management and investment banking operations in Hong Kong.

This strategic move will allow to the company to diversify its business coverage and introduce international financial products to its customers in the mainland. So far, SFC in Hong Kong has not yet granted the relevant licenses to Guolian. As the initial investment amount is less than 1% of Guolian's total assets or 6% of its total equity, we believe the new business risk in Hong Kong is limited.

Investment risk and return will increase in 2016.

In Oct 2015, Guolian obtained shareholders' approval to increase the scale of its proprietary trading operation to no more than 80% of net capital in equity securities & derivatives investment and to no more than 300% of net capital in fixed income investment. We believe the investment scale of its proprietary trading business will increase in 2016. After Guolian had raised RMB 2.5bn from HK IPO in July, we estimate its net capital have increased to ~RMB 7.4bn. Guolian plans to raise a total of RMB14bn in debts over the next two years to finance its operation. Plans to raise debts and commencing its Hong Kong operation will be subject to shareholders' approval in the meeting on Jan 26, 2016.

Financial Summary

FY ended Dec 31	2012A	2013A	2014A	1H15	2015E
Revenue (RMB mn)	772	1,079	2,132	2,193	-
Growth (%YoY)	-	39.7	97.5	200.7	-
Profits attributable to shareholders (RMB mn)	94	270	715	957	1,430
Growth (%YoY)	-	187.2	165.0	398.7	100.0
FD EPS (RMB)	0.063	0.180	0.477	0.638	0.752
FD PER (x)	-	-	-	-	4.35
NBV (RMB)	1.972	2.140	2.721	3.281	4.149
P/B (x)	-	-	-	-	0.79
ROAE (%)	-	8.8	19.6	21.3	23.9

Forex: RMB0.8497/HK\$1.0

Source(s): Company, ABCI Securities estimates



Business synergy with controlling shareholder. Hua Ying Securities (an investment banking firm that is 66.7%-owned by Guolian Securities) generated a commission income of Rmb 16mn by underwriting RMB 2bn of bonds for its controlling shareholder, Guolian Group. We believe such connected transactions will continue to bring synergies to Guolian Sec.

Ten investment banking deals in the pipeline. According to the CSRC, Hua Ying Securities has submitted two IPO listing applications and eight equity/bond fundraising applications in Jan 2016. Approval of these deals by CSRC will deliver a significant boost to Guolian's investment banking business in 2016.

Employees purchased 7.7mn of H shares at an average price of HK\$ 4.83/share in Dec 2015. We estimate NBV at end-2015 to be RMB 4.14/share. Based on its H-share listing in July at an IPO price of HK\$ 8.0, the Group's share price was down 40% by end-2015, closing the year at HK\$ 4.82. As its current H-share price of HK\$ 3.86 (representing 0.79x FY15E P/B) is 20% below the average purchase price in Dec, employee morale could be adversely affected.

Guolian has the lowest P/E of 4.35x and P/B of 0.79x among its H-share peers. The average FY15E P/E and P/B of China's securities sector (comprises nine H-share stocks) are 7.0x and 1.10x, respectively. Average FY15E P/Es and P/Bs of the three regional brokers (Guolian Sec, Central China Sec and Hengtou Sec) are 5.0x and 1.04x, respectively. We believe the Group's cheaper valuation is partly caused by the declined profitability expected for 2H15 as well as the low daily turnover of its H shares.

Risk factors: 1) Poor financial results in 2H15; 2) Credit risk in lending business; 3) Volatile brokerage income, 4) Investment risk in proprietary trading; 5) Underwriting risk in investment banking business; 6) Higher financial leverage; 7) New business risk in HK; 8) Low share turnover; 9) A high beta of ~ 1.79 (vs. HSI).

China securities sector

Ticker	H-share Securities Companies	Share Price (HK\$)	1-mth Price Chg (%)	30 days Price Volatility	FY2015e PER (x)	FY2015e P/B (x)	FY2015e ROAE (%)
	Large-sized firms:						
6837	HAITONG SEC	10.98	(12.58)	42.48	7.10	1.01	14.45
6030	CITIC SEC	15.14	(10.84)	41.25	8.06	1.12	14.16
6886	HUATAI SEC	14.40	(17.24)	47.45	8.04	1.08	13.73
1776	GF SEC	16.98	(10.82)	40.82	8.33	1.39	17.41
6881	GALAXY SEC	6.02	(11.08)	35.53	5.55	0.87	16.16
3908	CICC	10.66	(3.27)	36.38	8.38	1.15	16.32
				Average	7.58	1.10	15.37
	Regional firms:						
1375	CC SEC	3.27	(18.66)	49.28	5.39	1.12	21.97
1456	GUOLIAN SEC	3.86	(19.25)	50.54	4.35	0.79	23.88
1476	HENGTOU SEC	4.06	9.73	133.23	5.30	1.21	24.71
				Average	5.02	1.04	23.52
				Overall average	6.72	1.08	18.09

Source(s): Bloomberg

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2010-2014

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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