



CHINA
DEVELOPMENT
FINANCIAL

NOTE

Security & Commodity Exchanges - Hong Kong

Hong Kong Exchanges & Clearing Ltd (388 HK/0388.HK)

Not Rated

Price as of 10 Jan 2018	271.80
12M target price (HKD)	-
Previous target price (HKD)	-
Upside (%)	-

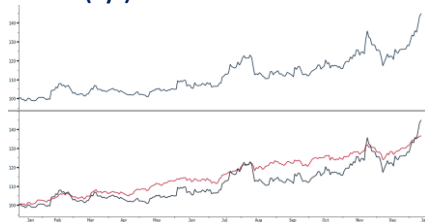
Trading data

Market Cap (HKDm)	336,980.2
Issued Shares (m)	1,239.8
Ave Daily Traded (3-Month) Vol / Val	8.8m / \$2,060.5m
52 week lo / hi (HKD)	\$183.60 / \$275.00
Free Float	94.5%

Major Shareholders

Hong Kong SAR	5.4%
JP Morgan Chase & Co	4.3%

388 HK (1yr) VS HSI Index



Source: Bloomberg

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See the last page for important disclosures.

Exciting times ahead with gradual liberalisation of the Chinese markets

Event

388.HK's stellar performance in 2017 was underpinned by the MSCI A-share inclusion and the launch of Bond Connect. The liberalisation of China's capital account would be a game changer for 388.HK as it is the conduit between foreign investors and the Chinese economy. As China advances its efforts to liberalise its capital account, the prospects for growth look promising.

Impact

Making headway with liberalisation efforts with Stock Connect, Qianhai Mercantile Exchange (QME), Bond Connect and next, ETF Connect. In FY17, trading volumes in Stock Connect rose significantly with Northbound turnover increasing 193.9% YoY to reach RMB2,266b and Southbound turnover increasing 170.2% YoY to reach RMB2,259b. With ETF Connect and Shanghai-London Stock Connect to be launched later this year, the increase in trading volumes are likely to spur growth going forward as institutional funds flow into the Chinese stock and bond market. Now that China has been included in the MSCI equity indices, ETFs that track the various MSCI indices, with weightings to China A-shares, are likely to drive trading volumes on 388.HK.

New trading rules aimed at spurring trading volumes. The key changes include the potential reduction/removal of a 10 basis point stamp duty, simplified rules for using collateral across multiple positions and rebates to market makers. The effect of these changes, which are subject to the approval from the securities regulator or government, should give revenue growth and additional boost.

Listing of Alibaba and Saudi Aramco will be a major upside catalyst. Saudi Aramco is expected to raise US\$100b (largest in history) for 5% of its equity. It is currently still in negotiations with various stock exchanges, including 388.HK. On a separate note, Alibaba also expressed that it would consider listing in Hong Kong in light of 388.HK's preparation to allow dual-class share listings. These two massive IPOs would provide the companies access to investors closer to China and would boost 388.HK's revenues through (1) listing fees and (2) trading commissions, post IPO.

Risks

Mainly regulatory risks in China.

Financials & Key Operating Statistics

YE Dec (HKD m)	2015A	2016A	2017A	2018F	2019F
Revenue	12,233.0	10,398.0	12,893.0	14,492.8	15,946.5
Operating Income	9,364.0	6,897.0	8,617.0	9,771.0	11,034.0
Net Income	7,956.0	5,769.0	7,263.9	8,448.0	9,565.1
EPS (Cents)	6.7	5.0	5.9	6.9	7.7
EPS growth (%)	51.3	(25.3)	24.7	15.4	12.9
P/E (x)	29.8	38.8	45.8	39.7	35.1
DPS (Cents)	6.0	4.5	5.4	6.2	7.0
Div Yield (%)	2.6	2.8	2.0	2.3	2.6
Gross Margin (%)	91.3	99.5	85.9	86.6	90.5
Net Margin (%)	65.0	55.5	56.3	58.3	60.0
ROE (%)	34.0	20.2	21.8	23.9	25.9

Source: Company Data, Bloomberg Estimates

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Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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