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## China Financials | Asia Pacific

# Multiple pressure points to persist for brokers; further downgrades to earnings and ratings

We see higher capital intensity for broker businesses such as in derivatives and co-investments in IPOs. Lingering market volatility could mean pressure to ROE in the near to mid term.

## Sharply lower trading turnover in 3Q22 as the liquidity-fueled rally in 2Q proved short-lived.

We see headwinds discussed in [Equity market under pressure for longer, reducing broker earnings and ratings \(19 May 2022\)](#) continuing to materialize and drive higher equity market volatility. As regulators reconsider side effects of various window guidance and short term policies which were extensively used in 2Q to support credit and GDP growth, the spillover liquidity-fueled rally in 2Q lost steam quickly in recent months, leaving brokerage business against a very challenging base in 2H22. Notably, ADT in 3Q22 (up to 23 Sept) already dropped 30% yoy with September saw 46% yoy decline so far. This is in sharp contrast with still 7% yoy rise in ADT in 2Q22. **Additionally, competition continued to weigh on commission rates, down 0.15bps yoy to 2.44bps on average in 1H22.** We expect yoy lower brokerage income in 3Q and 4Q as a result, while the recent State Council mention of lower securities fee rates will likely put more pressure on already weakening market sentiment.

## Remaining uncertainty in proprietary investment results amid a volatile market, while development of non-directional exposure through derivatives will probably take time and effort.

STAR Board 50 and ChiNext indices retreated 12% and 16.5% QTD respectively, which could pressure brokers' increasing exposure via mandatory co-investment in IPOs. Despite some sequential improvement in 2Q, we remain conservative on brokers' prop. trading performance given current market conditions. On the other hand, while most brokers indicated plans to grow non-directional exposure (i.e. derivatives), we note market demand remains key to watch with likely increasing competition in product design and risk management, as well as licensing and capital.

## Updating forecasts and factoring in slightly more pressure on ROE as broker businesses become more capital heavy.

We note a trend of higher capital raising by brokers since 2020, including rights issues executed (or announced) by leading brokers such as CITICS and CICC in 2022. While this has supported their balance sheet expansion and revenue in past two years, it could lead to more pressure during a downturn on ROE and valuation. On average, our ROE assumptions are lowered by 0.1ppts, 0.2ppts, 0.5ppts for 22e, 23e, 24e respectively.

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Exhibit 1: Summary of changes to price targets and ratings

	Rating			Target Price			Closing price	Upside /Downside	Target PB 22e
	New	Old	Change	New	Old	Change			
H share				(HKD)	(HKD)		(HKD)		
CITICS	EW	EW		15.33	15.27	0.43%	13.94	10%	0.74
HTSC	EW	EW		9.11	8.84	3.04%	9.22	-1%	0.48
CICC	EW	EW		13.29	14.75	-9.88%	12.04	10%	0.55
HTS	UW	UW		3.67	3.78	-2.96%	4.47	-18%	0.32
GFS	UW	UW		7.47	7.39	1.08%	9.08	-18%	0.52
CMS	EW	EW		6.45	6.65	-2.93%	7.19	-10%	0.50
Galaxy	EW	EW		4.12	4.40	-6.39%	3.87	6%	0.34
A share				(Rmb)	(Rmb)		(Rmb)		
CITICS	EW	EW		19.52	19.44	0.40%	18.07	8%	1.06
HTSC	EW	EW		12.42	12.05	3.08%	12.35	1%	0.71
HTS	UW	UW		6.34	6.53	-2.98%	8.98	-29%	0.70
GFS	UW	UW		12.22	12.09	1.11%	14.87	-18%	0.94
CMS	UW	EW	Downgrade	9.98	10.27	-2.87%	12.61	-21%	0.95
Galaxy	UW	EW	Downgrade	7.11	7.21	-1.33%	9.24	-23%	0.90

Source: Morgan Stanley Research. Closing prices as of September 27, 2022

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## Likely some ROE pressure from a more capital heavy growth trajectory and market downturn

We mark-to-market higher ADT in 1H22 but see a challenging base in 2H22 with declining fee rates

Rising market volatility as we noted in [Equity market under pressure for longer, reducing broker earnings and ratings \(19 May 2022\)](#) has led to lower A share trading turnover in 3Q22. Notably, ADT in 3Q22 (up to 23 Sept) has already dropped 30% yoy with September seeing 46% yoy declines so far. This is in sharp contrast with 7% yoy rise in ADT in 2Q22. We adjust up our assumption of full year ADT by 9% to Rmb817bn to mark-to-market higher than expected ADT in 1H22. However, we think the base in 3Q21 and 4Q21 is very high with ADT reaching Rmb1.2tn and Rmb1tn, respectively, and hence we think will lead to pressure on brokerage businesses in 2H22 on a year-on-year basis.

Additionally, we see competition continuing to weigh on commission rates, which were down 0.15bps yoy to 2.44bps on average in 1H22. A notable cooling down in mutual fund sales also led to yoy lower agency sales fees at most brokers during 1H22 and we expect this pressure to remain in 2H22. The State Council recently mentioned lower securities fee rates – while we see limited room for brokerage fee rates to drop, the news flow did bring more pressure on already weakening market sentiment.

### Exhibit 2: We mark-to-market higher ADT in 2022 but lower our equity financing assumptions for 2022

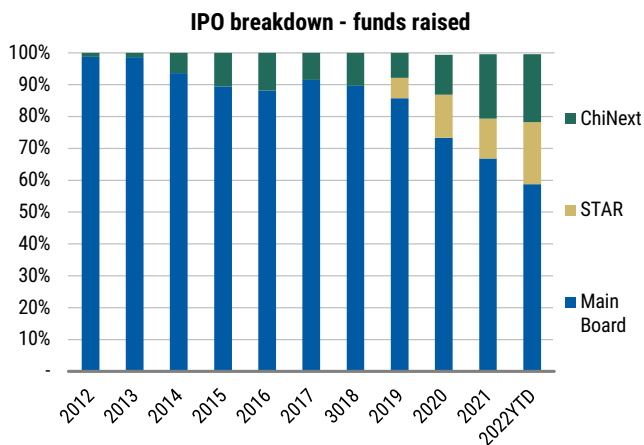
Rmb bn unless indicated otherwise	New			Old			Change			Growth (New)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
<b>Brokerage</b>												
Average A share daily trading turnover	817	700	900	750	700	900	9%	0%	0%	-19%	-14%	29%
<b>Investment banking</b>												
Equity financing	1,562	1,679	1,904	1,751	1,636	1,881	-11%	3%	1%	-14%	8%	13%
IPO	632	590	650	640	590	650	-1%	0%	0%	16%	-7%	10%
Refinancing	930	1,089	1,254	1,111	1,046	1,231	-16%	4%	2%	-27%	17%	15%
Debt financing	24,160	26,861	29,896	27,183	29,429	31,862	-11%	-9%	-6%	-4%	11%	11%
<b>Margin finance</b>	1,397	1,371	1,655	1,392	1,335	1,658	0%	3%	0%	-24%	-2%	21%

Source: Morgan Stanley Research (E) estimates

### Industrial focused IPOs led to higher volatility in stock performance

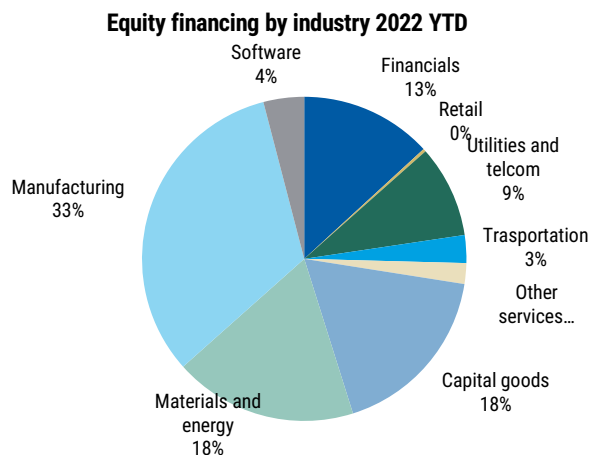
While 3Q22 IPO volume is likely to be higher yoy, we think volatile market conditions impacted on IPO performance in 3Q22 especially with rising share of IPOs from STAR board and ChiNext since 2020 supporting manufacturing and high tech companies raising equity capital. This resulted in an almost 70% mix of industrial companies in equity financing in 2022 YTD. However, both the number and percentage of stocks falling below their IPO price on the first trading day has increased in the third quarter-to-date, at 29 stocks or 24% of IPOs, compared to 19 stocks or 22% IPOs in 1Q22. We think this could lead to weaker market reception of equity financing in 4Q22, hence, we lower our assumptions for 2022 equity financing by 11% to Rmb1.56tn, which could mean lower investment banking revenues for the brokers.

**Exhibit 3:** Over 40% of IPO fund raising has come from STAR board and ChiNext IPOs in 2022 YTD



Source: WIND, Morgan Stanley Research

**Exhibit 4:** Industrial sectors have made up 68% of IPO financing in 2022 YTD



Source: WIND, Morgan Stanley Research  
 Note: manufacturing includes semi, tech hardware, pharma, health care equipment, auto and parts, food and beverage and consumer goods manufacturing

### Demand for derivatives business remains key to watch in a market downturn

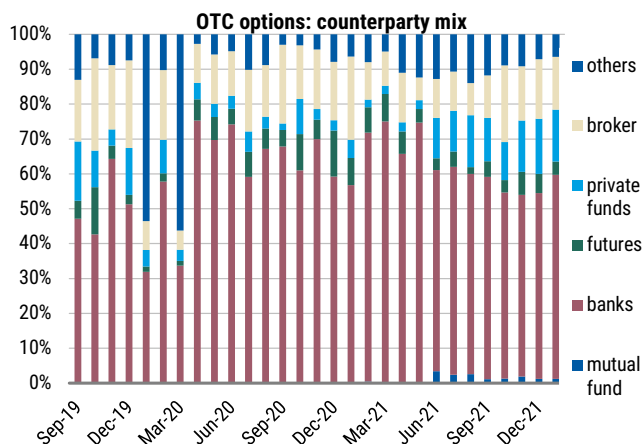
Given weak equity market performance since July, we expect broker on-balance sheet investment returns to come under pressure again following a temporary market rally in 2Q22. Notably, STAR Board 50 and ChiNext indices have retreated 12% and 16.5% QTD, respectively, which could pressure brokers' increasing exposure via mandatory co-investment in IPOs. On the other hand, while most brokers indicated plans to grow non-directional exposure (i.e. derivatives), we note likely increasing competition in product design and risk management, as well as licensing and capital.

Notably, we think market demand for derivatives is also a key factor to watch. OTC derivatives have seen rapid growth in the past two years with notional value reaching Rmb2tn in January 2022, roughly evenly split between options and SWAPs. The most common underlying assets for options are domestic stocks and A-share indices, making up around 70% of notional value. SWAPs are also mostly related to equities but with more overseas focus, helping domestic institutions to participate in overseas equity markets in the past two years.

For OTC options, banks (including wealth management subsidiaries in our view) seem to be the largest participants. However banks usually don't have large equity investment exposure, therefore we think it's less likely they will use options to gain large directional exposure or for hedging purposes. It is likely, in our view, some banks or WMPs (wealth management products) are utilizing options to participate in the upside of the equity market while having the downside risk protected, which could help strengthen their returns following NAV transformation in the past two years. In addition, the popular Snowball product, essentially an exotic options strategy, could also provide potentially very attractive yield enhancement as long as market volatility remains in a certain range. However, both strategies seem to work less well in the current downward trending market environment with rising volatility. Therefore we think demand for options could be impacted to some extent. Additionally, as overseas equity markets continue to be weighed down by rate hikes, we think there might also be some uncertainty to the demand for cross border equity SWAPs, especially with slower private secondary funds

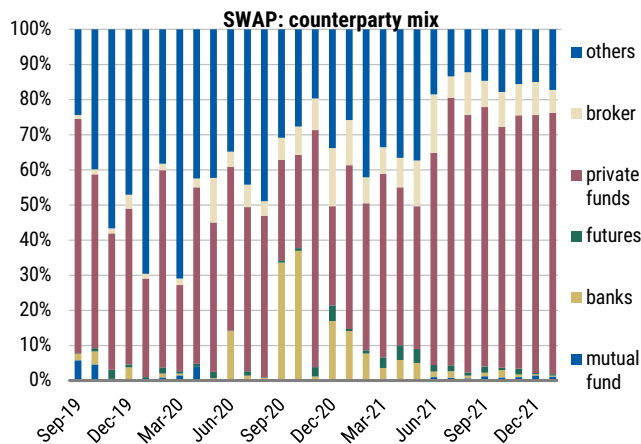
growth this year. Therefore we remain conservative on our expectations for broker proprietary trading gains in coming quarters.

**Exhibit 5:** For OTC options, banks (including wealth management subsidiaries in our view) seem to be the largest participant



Source: WIND, Morgan Stanley Research

**Exhibit 6:** Private funds are the largest participant for SWAP



Source: WIND, Morgan Stanley Research

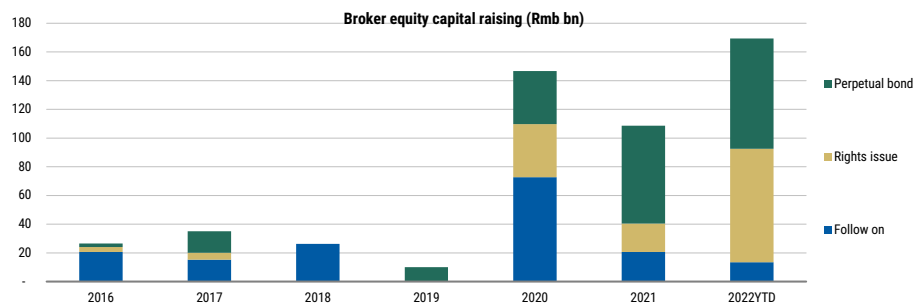
Higher capital intensity of the targeted growth areas of broker businesses will likely put more pressure on ROE in the near to mid term

On the other hand, although we believe leading players could have more of an edge in the derivative business with regard to product structuring capabilities and technology infrastructure, etc, they will nevertheless face higher capital needs due to the capital intensive nature of such a business. In fact, the focused growth areas for brokers, such as derivatives, margin financing, trading and even STAR board and ChiNext IPOs all consume capital to different extent.

We have already been witnessing more capital raising activity by brokers since 2020, including follow on offerings, rights issues and perpetual bond issuances. Capital raising in 2022 YTD reached a new high of over Rmb160bn, including some high profile deals executed or announced by leading brokers such as CITICS and CICC. At the same time, broker balance sheets have become more stretched with leverage (asset/equity) rising to ~4.2x on average in June 2022, from 3.3x five years ago. As a result, investment-related income and net interest income, both generated by balance sheet deployment, have increased to around 48% of total broker revenue in 2020 and 2021, up from ~35% in 2014 and 2015.

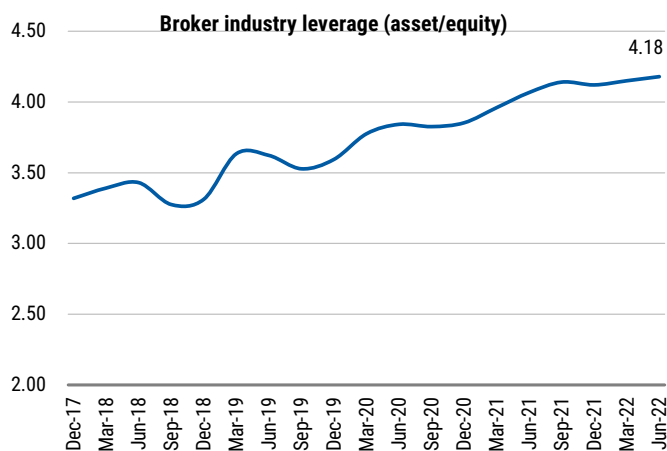
Therefore, given more equity raised but likely diminishing market returns in the near to mid terms, we do see some more ROE pressure at brokers which could also weigh on their valuation.

**Exhibit 7: Equity capital raising activity picked up notably since 2020**



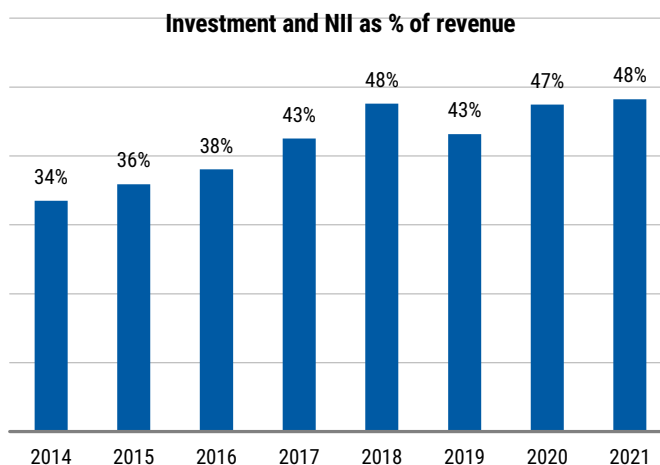
Source: WIND, Morgan Stanley Research  
 Note: 2022 data includes CICC's announced Rmb27bn rights issue

**Exhibit 8: Broker leverage increased in recent years**



Source: CEIC, SAC, Morgan Stanley Research

**Exhibit 9: Balance sheet contributed more revenue generation in recent years**



Source: CEIC, SAC, Morgan Stanley Research

## Order Of Preference

Exhibit 10: Order of preference: H-share brokers

	CITICS 6030.HK	CICC 3908.HK	HTSC 6886.HK	CMS 6099.HK	Galaxy 6881.HK	GFS 1776.HK	HTS 6837.HK
<b>Rating</b>	EW	EW	EW	EW	EW	UW	UW
<b>Price Target (HKD)</b>	15.33	13.29	9.11	6.45	4.12	7.47	3.67
Current Price	13.94	12.04	9.22	7.19	3.87	9.08	4.47
<b>Upside/(Downside) (%)</b>	10%	10%	-1%	-10%	6%	-18%	-18%
<b>Market Cap (in USD mm)</b>	35,588.3	7,404.5	14,769.6	14,300.2	10,177.7	14,319.2	14,107.2
Avg Daily Traded Vol (in USD mm)	19.5	19.9	4.9	1.6	5.9	9.7	6.1
<b>Valuation Multiples at Last Close</b>							
<b>FY22e P/E</b>	8.7x	6.6x	6.8x	8.2x	5.1x	8.2x	6.1x
<b>FY23e P/E</b>	8.4x	6.3x	6.6x	7.9x	5.1x	8.1x	6.0x
<b>Stock Price Performance</b>							
1 Month	-14.3%	-17.1%	-12.9%	-0.6%	-6.7%	-11.8%	-15.7%
3 Month	-22.1%	-26.9%	-22.3%	-14.5%	-13.0%	-12.9%	-21.0%
1 Year	-27.9%	-42.0%	-23.4%	-41.0%	-13.6%	-35.8%	-37.0%
YTD	-30.0%	-44.0%	-29.0%	-39.8%	-13.6%	-38.9%	-35.3%

Source: Refinitiv, Morgan Stanley Research (E) estimates; closing prices as of September 27, 2022

Exhibit 11: Order of preference: A-share brokers

	CITICS 600030.SS	HTSC 601688.SS	CMS 600999.SS	GFS 000776.SZ	Galaxy 601881.SS	HTS 600837.SS
<b>Rating</b>	EW	EW	UW	UW	UW	UW
<b>Price Target (Rmb)</b>	19.52	12.42	9.98	12.22	7.11	6.34
Current Price	18.07	12.35	12.61	14.87	9.24	8.98
<b>Upside/(Downside) (%)</b>	8%	1%	-21%	-18%	-23%	-29%
<b>Market Cap (in USD mm)</b>	35,588.3	14,769.6	14,300.2	14,319.2	10,177.7	14,107.2
Avg Daily Traded Vol (in USD mm)	267.9	132.3	40.2	206.4	35.0	61.9
<b>Valuation Multiples at Last Close</b>						
<b>FY22e P/E</b>	12.4x	10.1x	15.9x	14.9x	13.5x	13.5x
<b>FY23e P/E</b>	12.0x	9.7x	15.3x	14.6x	13.4x	13.3x
<b>Stock Price Performance</b>						
1 Month	-6.9%	-5.9%	-3.8%	-8.2%	2.9%	-5.6%
3 Month	-17.1%	-14.7%	-13.4%	-22.2%	-4.3%	-8.0%
1 Year	-25.4%	-28.1%	-32.5%	-31.3%	-12.4%	-25.7%
YTD	-27.5%	-30.5%	-28.6%	-39.5%	-17.4%	-26.8%

Source: Refinitiv, Morgan Stanley Research (E) estimates; closing prices as of September 27, 2022

## Updating forecasts, price targets and ratings

We adjust financial forecasts modestly for brokers to reflect 1H22 results and our expectation of continued challenging market conditions. As discussed earlier, while we adjust up our assumption of full year ADT by 9% to Rmb817bn to mark-to-market higher than expected ADT in 1H22, we expect lower commission rates due to competition and still weak mutual fund sales to pressure brokerage income for most brokers. We also bake-in lower market equity financing volumes for FY22 to factor in further market volatility impact on investment banking businesses.

Overall, we adjust down our net profit forecasts by 2.5% on average for traditional brokers for 2022, while they are largely unchanged for 2023 and 2024. Our ROE assumption for brokers is lowered slightly by 0.1 percentage points on average for 2022, while lowered by 0.2ppts and 0.5ppts on average for 2023e and 2024e, respectively, to factor in higher capital intensity of their businesses while market conditions might remain challenging for some time. We see more ROE impact at CICC as it's more affected by overseas market weakness in trading volumes and investment banking activities, while we also factor in potential dilution in 2023 and 2024 from its proposed rights issue of Rmb27bn.

We continue to use a P/B ROE based valuation framework for traditional brokers. Our target prices are a weighted average of bull/base/bear scenarios with weighting at 10%/50%/40%, unchanged from previously.

Our target prices are changed modestly as a result of updates on forecast ROE (please see details in below exhibit). CICC-H's target price is cut more, by 10%, due to expectation of higher ROE impact. Due to updated target prices and related downside, we downgrade both CMS-A and Galaxy-A from Equal-weight to Underweight.

While our covered traditional brokers are already trading at the lower end of their historical valuation range, of 0.3x - 0.7x forward P/B for H shares and 0.7x - 1.0x forward P/B for A shares, we remain conservative on the near term outlook as uncertainties remain high for market conditions while the base is also high for 3Q and 4Q in terms of ADT, margin financing and investment banking businesses. In addition, we think rising capital intensity of broker businesses in recent years could also lead to unfavorable valuations during a downturn. While we maintain Attractive View on overall China Financials, we do see more defensive play at China banks than brokers, which would be more pressured by current cyclical challenges and structural shift of financial systems to support manufacturing sectors. In this environment, we would be watching for short term trading opportunities in relation to periodic cyclical rebounds.

**Exhibit 12: Summary of net profit changes (Rmb mn)**

NPAT	Current value				YoY			Change		
	2021	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
CITICS	23,100	20,583	22,719	27,138	-10.9%	10.4%	19.4%	-2.6%	-1.5%	-3.1%
HTSC	13,346	11,092	11,549	15,408	-16.9%	4.1%	33.4%	-1.4%	-0.2%	-1.4%
HTS	12,827	8,697	8,820	11,099	-32.2%	1.4%	25.8%	-0.9%	-1.7%	-0.1%
CICC	10,778	8,033	9,574	13,471	-25.5%	19.2%	40.7%	-7.3%	3.4%	7.5%
GFS	10,854	7,622	7,756	10,900	-29.8%	1.8%	40.5%	2.2%	0.5%	0.2%
CMS	11,645	7,702	7,948	10,400	-33.9%	3.2%	30.9%	-3.4%	-1.9%	-1.7%
Galaxy	10,430	6,918	6,999	9,342	-33.7%	1.2%	33.5%	-3.9%	0.2%	-4.0%

E = estimates. Source: Company data, Morgan Stanley Research

**Exhibit 13: Summary of EPS changes (Rmb)**

EPS	Current value				YoY			Change		
	2021	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
CITICS	1.77	1.45	1.50	1.80	-18.2%	3.3%	19.9%	-4.0%	-2.9%	-4.2%
HTSC	1.47	1.22	1.27	1.70	-16.9%	4.1%	33.4%	-1.4%	-0.2%	-1.4%
HTS	0.98	0.67	0.68	0.85	-32.2%	1.4%	25.8%	-0.9%	-1.7%	-0.1%
CICC	2.23	1.66	1.72	2.15	-25.5%	3.6%	24.5%	-7.3%	-10.1%	-17.3%
GFS	1.42	1.00	1.02	1.43	-29.8%	1.8%	40.5%	2.2%	0.5%	0.2%
CMS	1.25	0.79	0.82	1.10	-36.4%	3.6%	34.3%	-3.8%	-2.1%	-1.9%
Galaxy	1.03	0.68	0.69	0.92	-33.7%	1.2%	33.5%	-3.9%	0.2%	-4.0%

E = Estimates. Source: Company data, Morgan Stanley Research

**Exhibit 14: Summary of ROE changes (%)**

ROE	Current value				YoY			Change		
	2021	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
CITICS	12.1	9.2	9.0	10.1	-2.8	-0.2	1.1	0.2	0.5	0.7
HTSC	9.9	7.5	7.4	9.3	-2.4	-0.1	1.9	-0.2	-0.5	-0.8
HTS	8.1	5.3	5.2	6.3	-2.8	-0.1	1.1	-0.1	-0.1	-0.2
CICC	14.6	9.5	8.9	10.3	-5.1	-0.6	1.4	-0.4	-0.8	-1.8
GFS	10.6	6.9	6.6	8.8	-3.7	-0.3	2.2	0.0	-0.3	-0.3
CMS	11.5	7.0	7.0	8.9	-4.5	0.0	1.9	0.0	0.2	0.4
Galaxy	11.8	7.3	7.0	9.0	-4.5	-0.3	2.0	-0.4	-0.7	-1.2

E = Estimates. Source: Company data, Morgan Stanley Research

**Exhibit 15: Summary of valuations**

H share ticker	6030.HK	6886.HK	3908.HK	6837.HK	1776.HK	6099.HK	6881.HK
A share ticker	600030.SS	601688.SS	CICC	600837.SS	000776.SZ	600999.SS	601881.SS
	CITICS	HTSC	CICC	HTS	GFS	CMS	Galaxy
<b>ROE</b>							
Base	9.2%	7.5%	9.5%	5.3%	6.9%	7.0%	7.3%
Bull	12.0%	8.6%	10.7%	7.3%	8.6%	8.7%	7.8%
Bear	8.4%	5.4%	4.8%	4.8%	5.4%	5.5%	4.0%
<b>Weighting</b>							
Base	50%	50%	50%	50%	50%	50%	50%
Bull	10%	10%	10%	10%	10%	10%	10%
Bear	40%	40%	40%	40%	40%	40%	40%
<b>Target PB (H)</b>	<b>0.82x</b>	<b>0.47x</b>	<b>0.61x</b>	<b>0.26x</b>	<b>0.43x</b>	<b>0.44x</b>	<b>0.37x</b>
Base	0.83x	0.58x	0.87x	0.26x	0.49x	0.51x	0.54x
Bull	1.23x	0.73x	1.04x	0.55x	0.73x	0.74x	0.62x
Bear	0.71x	0.28x	0.19x	0.19x	0.28x	0.29x	0.08x
<b>Target PB (A)</b>	<b>1.15x</b>	<b>0.71x</b>	<b>0.50x</b>	<b>0.77x</b>	<b>0.76x</b>	<b>0.76x</b>	<b>0.70x</b>
Base	1.16x	0.87x	0.49x	0.89x	0.89x	0.86x	1.03x
Bull	1.72x	1.10x	1.04x	1.32x	1.32x	1.26x	1.18x
Bear	0.99x	0.42x	0.36x	0.50x	0.50x	0.50x	0.15x
<b>Target price (H share, HKD)</b>	<b>15.33</b>	<b>9.11</b>	<b>13.29</b>	<b>3.67</b>	<b>7.47</b>	<b>6.45</b>	<b>4.12</b>
Base value	15.46	11.13	18.73	3.65	8.56	7.36	6.12
Bull value	22.99	14.04	22.52	7.68	12.70	10.80	6.99
Bear value	13.27	5.35	4.19	2.68	4.80	4.24	0.90
<b>Target price (A share, Rmb)</b>	<b>19.52</b>	<b>12.42</b>	<b>6.34</b>	<b>12.22</b>	<b>9.98</b>	<b>7.11</b>	<b>7.11</b>
Base value	19.68	15.17	6.31	14.00	11.37	10.58	10.58
Bull value	29.26	19.15	13.26	20.78	16.69	12.07	12.07
Bear value	16.89	7.30	4.63	7.86	6.55	1.55	1.55
<b>H share price as of 9/27/2022 (HKD)</b>	13.94	9.22	12.04	4.47	9.08	7.19	3.87
<b>A share price as of 9/27/2022 (HKD)</b>	18.07	12.35		8.98	14.87	12.61	9.24
<b>H share upside/ downside</b>	<b>10%</b>	<b>-1%</b>	<b>10%</b>	<b>-18%</b>	<b>-18%</b>	<b>-10%</b>	<b>6%</b>
Base	11%	21%	56%	-18%	-6%	2%	58%
Bull	65%	52%	87%	72%	40%	50%	81%
Bear	-5%	-42%	-65%	-40%	-47%	-41%	-77%
<b>A share upside/ downside</b>	<b>8%</b>	<b>1%</b>		<b>-29%</b>	<b>-18%</b>	<b>-21%</b>	<b>-23%</b>
Base	9%	23%		-30%	-6%	-10%	14%
Bull	62%	55%		48%	40%	32%	31%
Bear	-7%	-41%		-48%	-47%	-48%	-83%

Source: Refinitiv, Morgan Stanley Research (E) estimates



**Exhibit 16: Summary of price targets and ratings changes**

Ticker	H share	Rating		Price target			Closing price	Upside /Downst	EPS growth			Net income Growth				
		New	Old	New	Old	Change			2022E	2023E	2024E	2021E	2022E	2023E	2024E	
6030.HK	CITICS	EW	EW	(HKD) 15.33	(HKD) 15.27	0%	(HKD) 13.94	10%	-18%	3%	20%	55%	-11%	10%	19%	
6886.HK	HTSC	EW	EW	9.11	8.84	3%	9.22	-1%	-17%	4%	33%	23%	-17%	4%	33%	
3908.HK	CICC	EW	EW	13.29	14.75	-10%	12.04	10%	-23%	4%	24%	50%	-25%	19%	41%	
6837.HK	HTS	UW	UW	3.67	3.78	-3%	4.47	-18%	-32%	1%	26%	18%	-32%	1%	26%	
1776.HK	GFS	UW	UW	7.47	7.39	1%	9.08	-18%	-30%	2%	41%	8%	-30%	2%	41%	
6099.HK	CMS	EW	EW	6.45	6.65	-3%	7.19	-10%	-36%	4%	34%	23%	-34%	3%	31%	
6881.HK	Galaxy	EW	EW	4.12	4.40	-6%	3.87	6%	-34%	1%	33%	44%	-34%	1%	33%	
600030.SS	A share			(Rmb) 19.52	(Rmb) 19.44	0%	(Rmb) 18.07	8%	-18%	3%	20%	55%	-11%	10%	19%	
601688.SS	CITICS	EW	EW	12.42	12.05	3%	12.35	1%	-17%	4%	33%	23%	-17%	4%	33%	
600837.SS	HTS	UW	UW	6.34	6.53	-3%	8.98	-29%	-32%	1%	26%	18%	-32%	1%	26%	
000776.SZ	GFS	UW	UW	12.22	12.09	1%	14.87	-18%	-30%	2%	41%	8%	-30%	2%	41%	
600999.SS	CMS	UW	EW	Downgrade	9.98	10.27	-3%	12.61	-21%	-36%	4%	34%	23%	-34%	3%	31%
601881.SS	Galaxy	UW	EW	Downgrade	7.11	7.21	-1%	9.24	-23%	-34%	1%	33%	44%	-34%	1%	33%

Source: Refinitiv, Morgan Stanley Research (E) estimates; closing prices as of 27 September, 2022

**Exhibit 17: Change in scenario values**

	6030.HK	6886.HK	3908.HK	6837.HK	1776.HK	6099.HK	6881.HK
	CITICS	HTSC	CICC	HTS	GFS	CMS	Galaxy
Current							
Bull	22.99	14.04	22.52	7.68	12.70	10.80	6.99
Base	15.46	11.13	18.73	3.65	8.56	7.36	6.12
Bear	13.27	5.35	4.19	2.68	4.80	4.24	0.90
Previous							
Bull	23.20	13.55	23.89	7.55	13.33	11.21	6.81
Base	15.34	10.60	19.07	3.75	7.80	7.41	5.81
Bear	13.20	5.46	7.05	2.88	5.39	4.55	2.05
	600030.SS	601688.SS		600837.SS	000776.SZ	600999.SS	601881.SS
	CITICS	HTSC		HTS	GFS	CMS	Galaxy
Current							
Bull	29.26	19.15		13.26	20.78	16.69	12.07
Base	19.68	15.17		6.31	14.00	11.37	10.58
Bear	16.89	7.30		4.63	7.86	6.55	1.55
Previous							
Bull	29.53	18.48		13.04	21.81	17.33	11.14
Base	19.53	14.45		6.48	12.76	11.45	9.51
Bear	16.81	7.45		4.97	8.81	7.03	3.35

Source: Morgan Stanley Research

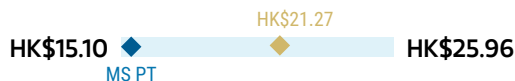
## Risk Reward – CITIC Securities Co. (6030.HK)

Leading broker with well-rounded performance

### PRICE TARGET HK\$15.33

P/B ROE regression analysis, weighted 50% base, 10% bull and 40% bear. Skew reflects potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 3.1%. Our target P/B of 0.82x is a weighted average of all three scenarios.

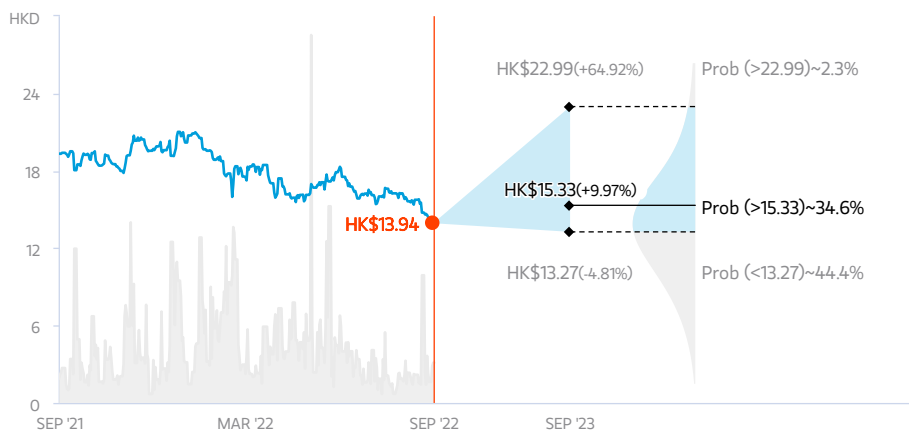
#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

### RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 27 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology [here](#)

#### BULL CASE

HK\$22.99

Implies 1.23x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 3.6% due to better performance of the equity market.

#### BASE CASE

HK\$15.46

Implies 0.83x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 3.1%.

#### BEAR CASE

HK\$13.27

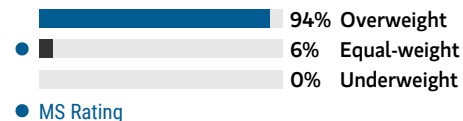
Implies 0.71x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return lower at 3.0%.

### EQUAL-WEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could help keep equity market activity subdued for longer.
- We think CITICS is likely to be more resilient than peers in the market, with its balanced and top-ranked business setup.
- Its institutional client base is strong.
- The investment banking pipeline is solid.
- The Guangzhou Securities acquisition should help expand its reach in southern China.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Market Share: *Positive*

View descriptions of Risk Rewards Themes [here](#)

## Risk Reward – CITIC Securities Co. (6030.HK)

### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	76,524	69,752	77,076	88,714
Cost-income ratio (%)	53.0	57.9	56.7	55.1
Customer funds for securities purchase (Rmb, mn)	251,164	316,680	342,521	370,471
ROE (%)	11.8	8.9	8.7	9.8

### INVESTMENT DRIVERS

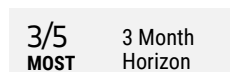
- A-share turnover.
- Investment banking pipeline.
- Equity and bond underwriting pipeline.
- Investment yields.

### GLOBAL REVENUE EXPOSURE



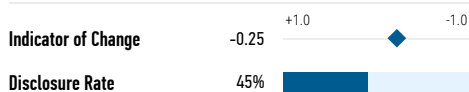
Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Any news on group consolidation or M&A among top securities firms.
- Demonstrated synergy with Guangzhou Securities.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Black swan events and policy missteps with untimely reactions.
- Execution risk in consolidation with Guangzhou Securities.

### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

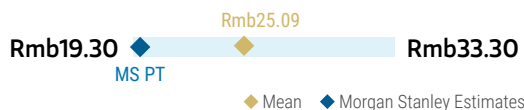
## Risk Reward – CITIC Securities Co. (600030.SS)

Leading broker with well-rounded performance

### PRICE TARGET Rmb19.52

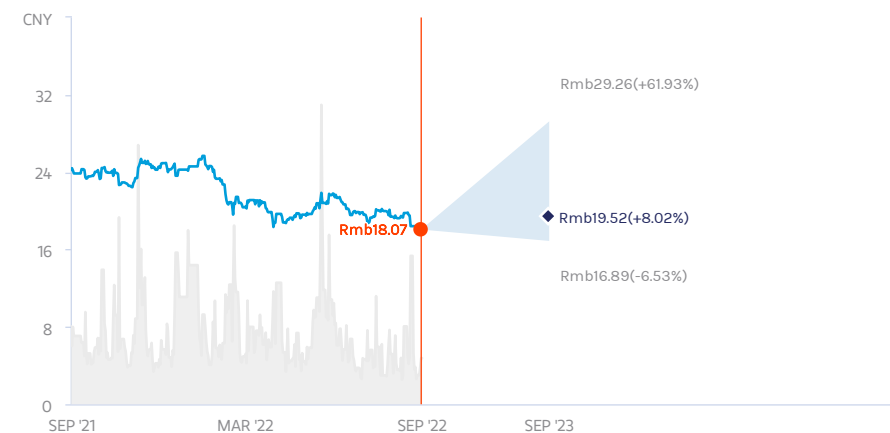
P/B ROE regression analysis, weighted 50% base, 10% bull and 40% bear. Skew reflects potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 3.1%. Our target P/B of 1.15x is a weighted average that reflects a target A-H premium of 40% across scenarios, in line with the recent trend.

#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

### RISK REWARD CHART



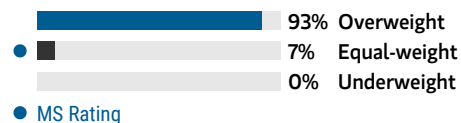
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### EQUAL-WEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could keep equity market activity subdued for longer.
- We think CITICS is likely to be resilient in the capital market with its balanced and top-ranked business setup.
- Its institutional client base is strong.
- The investment banking pipeline is solid.
- The Guangzhou Securities acquisition should help expand its reach in southern China.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Market Share: *Positive*

View descriptions of Risk Rewards Themes [here](#)

### BULL CASE

Rmb29.26

Implies 1.72x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 3.6% due to better performance of the equity market.

### BASE CASE

Rmb19.68

Implies 1.16x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs Prop trading return of 3.1%.

### BEAR CASE

Rmb16.89

Implies 0.99x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return of 3.0%.

## Risk Reward – CITIC Securities Co. (600030.SS)

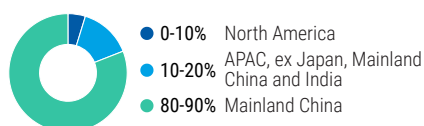
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	76,524	69,752	77,076	88,714
Cost-income ratio (%)	53.0	57.9	56.7	55.1
Customer funds for securities purchase (Rmb, mn)	251,164	316,680	342,521	370,471
ROE (%)	11.8	8.9	8.7	9.8

### INVESTMENT DRIVERS

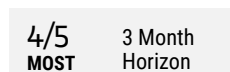
- A-share turnover
- Investment banking pipeline
- Equity and bond underwriting pipeline
- Investment yields

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Any news on group consolidation and/or M&A among top securities firms.
- Demonstrated synergy with Guangzhou Securities.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Black swan events and policy missteps with untimely reactions.
- Execution risk in consolidation with Guangzhou Securities.

### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



Source: Refinitiv, Morgan Stanley Research

**Exhibit 18: CITICS Financial Summary**

	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
<b>Income statement (Rmb mn)</b>						<b>EPS (Rmb)</b>					
Operating revenue	54,383	76,524	69,752	77,076	88,714	BVPS (Rmb)	14.06	16.18	17.01	18.05	19.54
Brokerage commissions	11,257	13,963	10,926	10,225	13,754	Dividend payout ratio	34%	36%	36%	36%	36%
Investment banking income	6,882	8,156	8,055	10,510	11,838	Cost income ratio	49.0%	53.0%	57.9%	56.7%	55.1%
Asset management fees	8,006	11,702	11,767	13,517	15,168	<b>Key growth rate</b>					
Net interest income	2,587	5,337	4,677	3,971	5,597	Operating revenue	26.1%	40.7%	-8.8%	10.5%	15.1%
Prop trading income	17,577	22,544	19,285	21,577	23,209	Operating profit	41.4%	29.6%	-18.4%	13.9%	19.2%
Other income	8,074	14,821	15,062	17,276	19,047	Net profit	21.9%	55.0%	-10.9%	10.4%	19.4%
<b>Operating expense</b>	<b>(26,669)</b>	<b>(40,595)</b>	<b>(40,418)</b>	<b>(43,668)</b>	<b>(48,883)</b>	Total assets	33.0%	21.4%	14.2%	1.1%	12.1%
Staff costs	(14,738)	(20,762)	(21,070)	(22,570)	(26,096)	<b>Operating revenue breakdown</b>					
<b>Operating profit</b>	<b>27,714</b>	<b>35,929</b>	<b>29,333</b>	<b>33,408</b>	<b>39,831</b>	Brokerage commissions	21%	18%	16%	13%	16%
Provisions	(7,076)	(3,504)	(1,084)	(1,933)	(2,308)	Investment banking income	13%	11%	12%	14%	13%
Pre-tax profit	20,470	31,894	28,379	31,414	37,463	Asset management fees	15%	15%	17%	18%	17%
Income taxes	(4,954)	(7,889)	(7,034)	(7,853)	(9,366)	Net interest income	5%	7%	7%	5%	6%
Minority interests	(614)	(605)	(732)	(841)	(959)	Investment gains (losses)	32%	29%	28%	28%	26%
<b>Net profit</b>	<b>14,902</b>	<b>23,100</b>	<b>20,583</b>	<b>22,719</b>	<b>27,136</b>	Other income	15%	19%	22%	22%	21%
						Total	100%	100%	100%	100%	100%
<b>Balance sheet (Rmb mn)</b>						<b>Dupont analysis</b>					
Customer margin deposits	158,251	194,560	215,336	184,912	234,649	Net fees & commissions	2.9%	3.0%	2.3%	2.4%	2.7%
Investments	486,017	614,591	640,908	688,456	751,743	Brokerage	1.2%	1.2%	0.8%	0.7%	0.9%
Repo assets	39,227	43,393	33,849	40,958	45,156	Investment banking	0.7%	0.7%	0.6%	0.7%	0.8%
Stock pledged loans	31,724	22,034				Asset management	0.9%	1.0%	0.9%	0.9%	1.0%
Margin loans	116,741	129,119	97,060	100,053	120,815	Other fees	0.1%	0.1%	0.1%	0.1%	0.1%
Other assets	252,726	294,002	472,448	460,975	501,497	Net interest income	0.3%	0.5%	0.3%	0.3%	0.4%
<b>Total assets</b>	<b>1,052,962</b>	<b>1,278,665</b>	<b>1,459,601</b>	<b>1,475,354</b>	<b>1,653,859</b>	Prop trading income	1.9%	1.9%	1.4%	1.5%	1.5%
Customer funds for securities purchase	203,111	251,164	316,680	342,521	370,471	Operating revenue	5.9%	6.8%	5.1%	5.3%	5.7%
Total debt	398,637	489,723	482,075	423,184	491,877	Operating expense	-2.9%	-3.5%	-3.0%	-3.0%	-3.1%
Other liabilities	265,332	323,969	403,777	436,652	498,897	Operating profit	3.0%	3.1%	2.1%	2.3%	2.5%
<b>Total liabilities</b>	<b>867,080</b>	<b>1,064,857</b>	<b>1,202,532</b>	<b>1,202,398</b>	<b>1,361,245</b>	ROA	1.6%	2.0%	1.5%	1.5%	1.7%
<b>Total shareholders' equity</b>	<b>185,883</b>	<b>213,808</b>	<b>257,069</b>	<b>272,995</b>	<b>292,614</b>	x leverage	5.1	6.1	6.1	5.8	5.8
Minority interests	4,171	4,636	4,908	5,411	5,965	ROE	8.2%	12.1%	9.2%	9.0%	10.1%

Source: Company data, Morgan Stanley Research (E) estimates

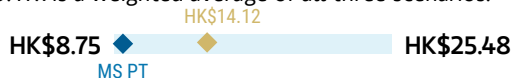
## Risk Reward – HTSC (6886.HK)

A potential beta play when cycle turns

### PRICE TARGET HK\$9.11

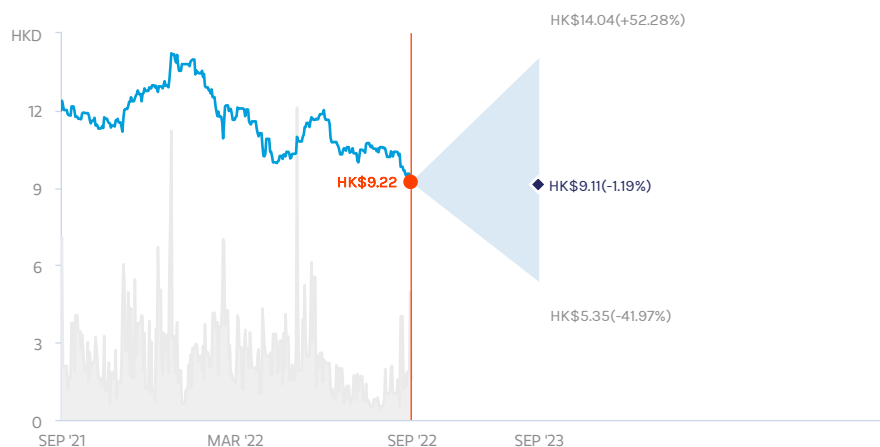
Scenario-weighted P/B ROE regression analysis. We assign 50%, 10% and 40% probability weightings to our base, bull and bear cases, respectively, to reflect potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 2.3%. Our target P/B of 0.47x is a weighted average of all three scenarios.

#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

### RISK REWARD CHART



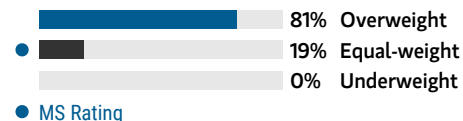
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### EQUAL-WEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could help keep equity market activity subdued for longer.
- More headwinds in H-share may put pressure on HTSC's performance, such as current sentiment and liquidity impact from the global Covid situation.
- Good retail wealth management strategy – currently focused on AUM and client stickiness – combined with more advanced technology.
- Strong technology platform.
- Good client base among new economy companies.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### BULL CASE

**HK\$14.04**

Implies 0.73x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 2.5% due to better performance of the equity market.

#### BASE CASE

**HK\$11.13**

Implies 0.58x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 2.3%.

#### BEAR CASE

**HK\$5.35**

Implies 0.28x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return lower at 1.9%.

## Risk Reward – HTSC (6886.HK)

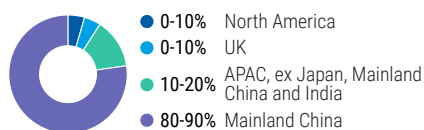
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	37,905	32,845	33,970	40,735
Cost-income ratio (%)	55.4	60.4	57.5	53.3
Customer funds for securities purchase (Rmb, mn)	147,502	163,541	170,132	176,988
ROE (%)	9.6	7.2	7.1	8.9

### INVESTMENT DRIVERS

- A-share turnover.
- Brokerage commission rate.
- Strong technology platform.
- Equity market activity.
- Investment yields.

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS

**3/5**  
MOST

3 Month  
Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Further demonstrated development of its retail wealth management transformation.
- Demonstration of consistently strong M&A pipeline.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Impact from management changes.
- Lower onshore M&A activity.

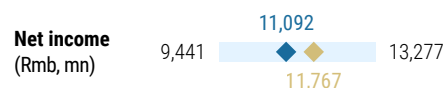
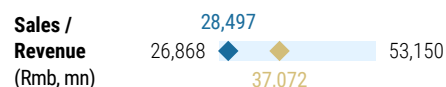
### OWNERSHIP POSITIONING

Inst. Owners, % Active **43%**

Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates  
Source: Refinitiv, Morgan Stanley Research



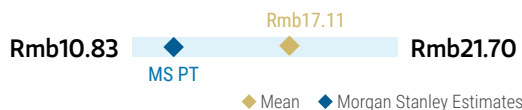
## Risk Reward – HTSC (601688.SS)

A potential beta play when cycle turns

### PRICE TARGET Rmb12.42

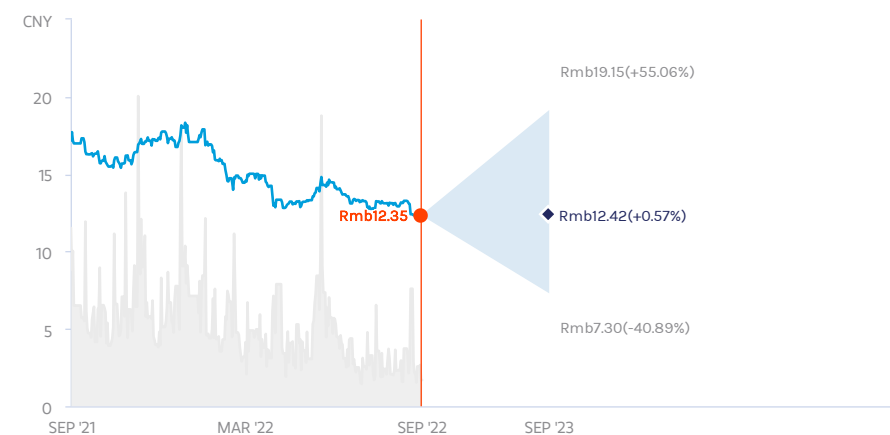
Scenario-weighted P/B ROE regression analysis: 50% base, 10% bull and 40% bear. The skew reflects potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 2.3%. Our target P/B of 0.71x is a weighted average with 50% A-H premium across all three scenarios, in line with the recent trend.

#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

### RISK REWARD CHART



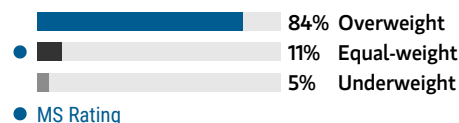
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### EQUAL-WEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could keep equity market activity subdued for longer.
- Retail wealth management strategy may support the business but it will likely take time – current focus is on AUM and client stickiness – combined with more advanced technology.
- Good client base among new economy companies.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Market Share: *Positive*

View descriptions of Risk Rewards Themes [here](#)

### BULL CASE

Rmb19.15

Implies 1.1x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 2.5% due to better performance of the equity market.

### BASE CASE

Rmb15.17

Implies 0.87x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 2.3%.

### BEAR CASE

Rmb7.30

Implies 0.42x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return lower at 1.9%.

## Risk Reward – HTSC (601688.SS)

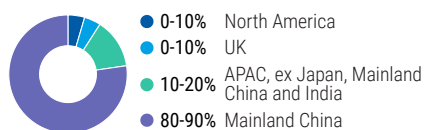
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	37,905	32,845	33,970	40,735
Cost-income ratio (%)	55.4	60.4	57.5	53.3
Customer funds for securities purchase (Rmb, mn)	147,502	163,541	170,132	176,988
ROE (%)	9.6	7.2	7.1	8.9

### INVESTMENT DRIVERS

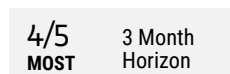
- A-share turnover.
- Brokerage commission rate.
- Strong technology platform.
- Equity market activity.
- Investment yields.

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Further demonstrated development of its retail wealth management transformation.
- Demonstration of consistently strong M&A pipeline.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Impact from management changes.
- Lower onshore M&A activity.

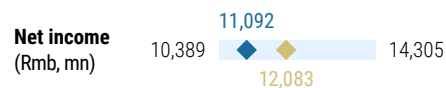
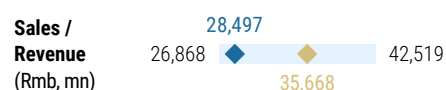
### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Exhibit 19: HTSC Financial Summary

	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
<b>Income statement (Rmb mn)</b>						<b>EPS (Rmb)</b>					
Operating revenue	31,445	37,905	32,845	33,970	40,735	EPS (Rmb)	1.19	1.47	1.22	1.27	1.70
Brokerage commissions	6,460	7,879	6,802	6,059	7,741	BVPS (Rmb)	14.22	16.35	17.44	18.36	19.70
Investment banking income	3,644	4,344	4,017	4,649	5,442	Dividend payout ratio	33%	30%	30%	30%	30%
Asset management fees	3,155	4,110	4,552	5,372	6,249	Cost income ratio	52.9%	55.4%	60.4%	57.5%	53.3%
Net interest income	2,605	3,751	2,967	2,669	3,432	<b>Key growth rate</b>					
Prop trading income	3,338	10,969	10,031	10,288	12,067	Operating revenue	26.5%	20.5%	-13.3%	3.4%	19.9%
Other income	6,242	6,833	4,677	4,933	5,804	Operating profit	20.1%	14.0%	-23.0%	11.0%	31.9%
						Net profit	20.2%	23.3%	-16.9%	4.1%	33.4%
<b>Operating expense</b>	<b>(16,638)</b>	<b>(21,018)</b>	<b>(19,847)</b>	<b>(19,545)</b>	<b>(21,711)</b>	Total assets	27.5%	12.5%	6.0%	5.4%	14.7%
Staff costs	(10,389)	(11,348)	(9,609)	(11,001)	(13,257)	<b>Operating revenue breakdown</b>					
<b>Operating profit</b>	<b>14,807</b>	<b>16,887</b>	<b>12,998</b>	<b>14,425</b>	<b>19,024</b>	Brokerage commissions	21%	21%	20%	18%	19%
Provisions	(1,306)	(548)	283	(454)	(515)	Investment banking income	12%	11%	12%	14%	13%
Pre-tax profit	13,504	16,273	13,206	13,926	18,464	Asset management fees	10%	11%	14%	16%	15%
Income taxes	(2,634)	(2,672)	(1,760)	(2,023)	(2,702)	Net interest income	8%	10%	9%	8%	8%
Minority interests	(48)	(255)	(354)	(354)	(354)	Investment gains (losses)	30%	29%	31%	30%	30%
<b>Net profit</b>	<b>10,822</b>	<b>13,346</b>	<b>11,092</b>	<b>11,549</b>	<b>15,408</b>	Other income	20%	18%	14%	15%	14%
						Total	100%	100%	100%	100%	100%
<b>Balance sheet (Rmb mn)</b>						<b>Dupont analysis</b>					
Customer margin deposits	103,511	110,631	104,837	96,631	115,213	Net fees & commissions	2.1%	2.2%	1.9%	1.9%	2.0%
Investments	339,053	397,982	467,334	506,452	558,309	Brokerage	1.0%	1.0%	0.8%	0.7%	0.8%
Repo assets	19,536	11,752	14,114	14,685	15,278	Investment banking	0.6%	0.6%	0.5%	0.5%	0.6%
Stock pledged loans	6,693	6,381	-	-	-	Asset management	0.5%	0.5%	0.5%	0.6%	0.6%
Margin loans	102,574	116,942	92,190	90,459	112,540	Other fees	0.1%	0.0%	0.0%	0.0%	0.0%
Other assets	152,077	189,344	176,214	192,901	231,837	Net interest income	0.4%	0.5%	0.4%	0.3%	0.4%
<b>Total assets</b>	<b>716,751</b>	<b>806,651</b>	<b>854,690</b>	<b>901,128</b>	<b>1,033,177</b>	Prop trading income	1.5%	1.4%	1.2%	1.2%	1.2%
Customer funds for securities purchase	136,388	147,502	163,541	170,132	176,988	Operating revenue	4.9%	5.0%	4.0%	3.9%	4.2%
Total debt	297,495	340,881	326,694	309,527	362,560	Operating expense	-2.6%	-2.8%	-2.4%	-2.2%	-2.2%
Other liabilities	150,557	166,232	202,272	250,897	310,941	Operating profit	2.3%	2.2%	1.8%	1.8%	2.0%
<b>Total liabilities</b>	<b>448,052</b>	<b>507,113</b>	<b>528,966</b>	<b>569,424</b>	<b>673,501</b>	ROA	1.7%	1.8%	1.3%	1.3%	1.6%
Total shareholders' equity	132,312	152,036	162,185	170,573	182,689	x leverage	5.0	5.7	5.6	5.6	5.9
Minority interests	3,241	3,613	3,923	3,923	3,923	ROE	8.4%	9.9%	7.5%	7.4%	9.3%

Source: Company data, Morgan Stanley Research (E) estimates

## Risk Reward – China International Capital Corp. Ltd. (3908.HK)

Leading institutional franchise but more pressure from offshore market slowdown

### PRICE TARGET HK\$13.29

Scenario-weighted P/B ROE regression analysis. We assign 50%, 10% and 40% probability weightings to our base, bull and bear cases, respectively, to reflect potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 2.7%. Our target P/B of 0.61x is a weighted average of the three scenarios.

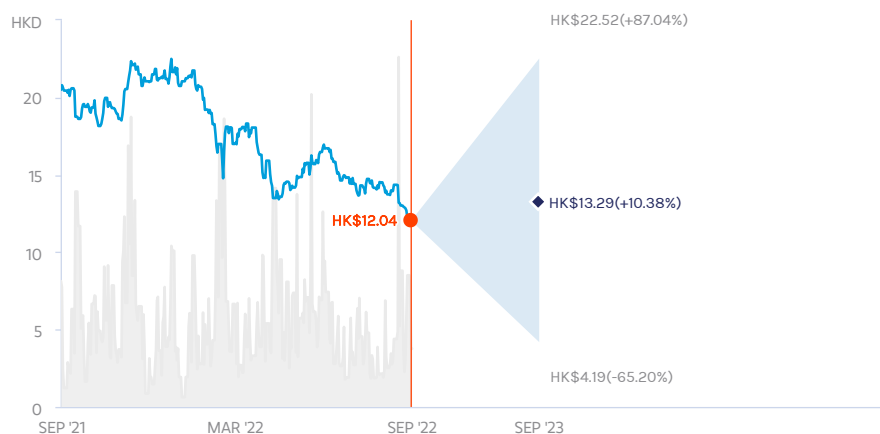
#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

### RISK REWARD CHART



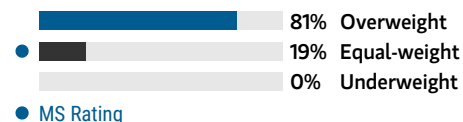
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### EQUAL-WEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could keep equity market activity subdued for longer.
- A strong investment banking project pipeline, especially in new economy companies, and a solid client base in offshore listed companies should prepare it well for opportunities in investment banking.
- Its strong franchise in cross-border and derivatives business is experiencing fast growth.
- It could be affected by secondary market drop in the near term for co-investment stakes in STAR board IPOs, given its leading market share.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Special Situation: *Positive*

View descriptions of Risk Rewards Themes [here](#)

### BULL CASE

HK\$22.52

Implies 1.04x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 2.9% due to better performance of the equity market.

### BASE CASE

HK\$18.73

Implies 0.87x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 2.7%.

### BEAR CASE

HK\$4.19

Implies 0.19x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return lower at 1.7%.

## Risk Reward – China International Capital Corp. Ltd. (3908.HK)

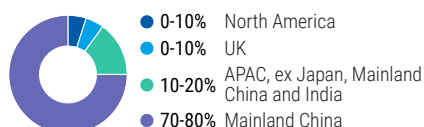
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	30,131	24,391	27,750	35,402
Cost-income ratio (%)	58.3	61.2	59.6	55.5
Customer funds for securities purchase (Rmb, mn)	93,445	109,154	115,802	125,251
ROE (%)	13.8	9.0	8.5	9.8

### INVESTMENT DRIVERS

- Strong project pipeline and client base in investment banking business.
- FICC growth.
- Good execution of new strategy and quality new hires.
- Capital leverage requirement relaxation.

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS

**5/5**  
MOST

**3 Month**  
Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Stronger-than-expected growth in follow-on financing.
- Faster-than-expected wealth management transition and CISC integration.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Stagnant cross-border business from offshore market volatility.

### OWNERSHIP POSITIONING

Inst. Owners, % Active **66.6%**

Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Exhibit 20: CICC Financial Summary

	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
<b>Income statement (Rmb mn)</b>						EPS (Rmb)	1.57	2.23	1.66	1.72	2.15
Operating revenue	23,660	30,131	24,391	27,750	35,402	BVPS (Rmb)	14.84	17.49	19.67	20.85	22.87
Brokerage commissions	4,610	6,031	4,819	4,747	5,867	Dividend payout ratio	11%	8%	8%	8%	8%
Investment banking income	5,956	7,036	6,626	8,515	10,234	Cost income ratio	58.9%	58.3%	61.2%	59.6%	55.5%
Asset management fees	1,136	1,533	1,515	1,809	2,188	<b>Key growth rate</b>					
Net interest income	(1,069)	(990)	(1,069)	(1,250)	(1,296)	Operating revenue	50.2%	27.4%	-19.0%	13.6%	27.6%
Prop trading income	10,976	13,963	9,861	10,764	14,611	Operating profit	69.7%	23.3%	24.7%	18.6%	40.2%
Other income	2,049	2,558	2,639	3,185	3,798	Net profit	70.0%	49.5%	25.5%	19.2%	40.7%
Operating expense	(13,939)	(17,562)	(14,924)	(16,526)	(19,665)	Total assets	51.2%	24.6%	8.3%	8.4%	8.0%
Staff costs	(10,776)	(13,327)	(10,725)	(12,132)	(15,068)	<b>Operating revenue breakdown</b>					
Operating profit	9,720	12,569	9,467	11,224	15,737	Brokerage commissions	19%	20%	20%	17%	17%
Provisions	(973)	408	(158)	(167)	(172)	Investment banking income	25%	23%	27%	31%	29%
Pre-tax profit	8,713	12,978	9,290	11,057	15,565	Asset management fees	5%	5%	6%	7%	6%
Income taxes	(1,451)	(2,168)	(1,241)	(1,467)	(2,079)	Net interest income	-5%	-3%	-4%	-5%	-4%
Minority interests	(55)	(32)	(16)	(16)	(16)	Investment gains (losses)	46%	46%	40%	39%	41%
Net profit	7,207	10,778	8,033	9,574	13,471	Other income	9%	8%	11%	11%	11%
<b>Balance sheet (Rmb mn)</b>						Total	100%	100%	100%	100%	100%
Customer margin deposits	51,866	75,342	63,165	55,227	64,242	<b>Dupont analysis</b>					
Investments	284,818	344,184	375,750	447,262	482,707	Net fees & commissions	3.1%	2.9%	2.3%	2.4%	2.7%
Repo assets	18,431	25,858	39,665	42,081	37,978	Brokerage	1.1%	1.0%	0.7%	0.6%	0.7%
Stock pledged loans	9,584					Investment banking	1.4%	1.2%	1.0%	1.2%	1.3%
Margin loans	33,885	39,479	32,127	37,006	44,685	Asset management	0.3%	0.3%	0.2%	0.2%	0.3%
Other assets	132,821	164,932	192,915	181,223	193,972	Other fees	0.4%	0.4%	0.4%	0.4%	0.4%
Total assets	521,621	649,795	703,622	762,829	823,582	Net interest income	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Customer funds for securities purchase	70,655	93,445	109,154	115,802	125,251	Prop trading income	2.5%	2.4%	1.5%	1.5%	1.6%
Total debt	214,111	251,352	281,549	286,226	303,717	Operating revenue	5.5%	5.1%	3.6%	3.9%	4.5%
Other liabilities	165,039	220,268	217,638	229,615	250,756	Operating expense	-3.2%	-3.0%	-2.2%	-2.3%	-2.5%
Total liabilities	449,805	565,065	608,341	631,644	679,724	Operating profit	2.2%	2.1%	1.4%	1.5%	2.0%
Total shareholders' equity	71,815	84,731	95,281	131,185	143,858	ROA	1.7%	1.8%	1.2%	1.3%	1.7%
Minority interests	180	309	317	317	317	x leverage	7.5	7.9	8.0	6.8	6.1
						ROE	12.5%	14.6%	9.5%	8.9%	10.3%

Source: Company data, Morgan Stanley Research (E) estimates

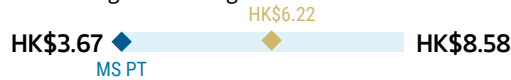
## Risk Reward – Haitong Securities (6837.HK)

Broker with one of the highest exposures to credit in our coverage

### PRICE TARGET HK\$3.67

Scenario-weighted P/B ROE regression analysis. We assign 50%, 10% and 40% probability weightings to our base, bull and bear cases, respectively, to reflect potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 1.6%. Our target P/B of 0.26x is weighted average of all three scenarios.

#### Consensus Price Target Distribution



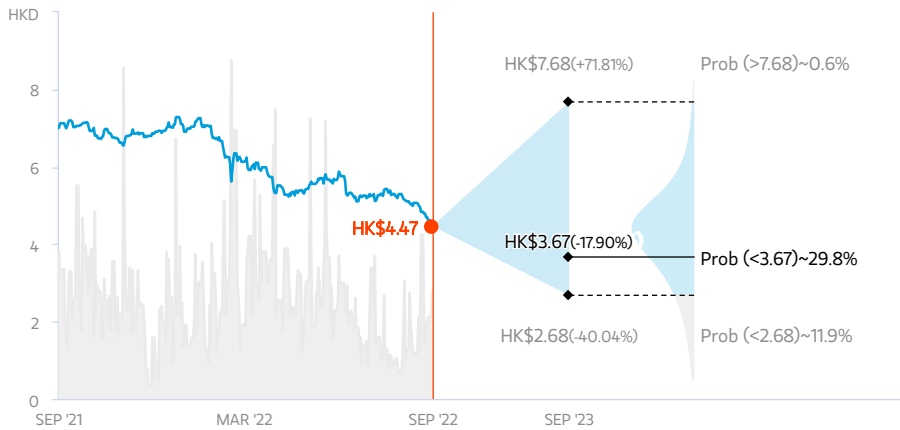
Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

### UNDERWEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could keep equity market activity subdued for longer.
- More exposure to credit business could lead to higher-than-peer provisions.
- Uncertainties related to Yongcheng bond underwriting could weigh on sentiment.

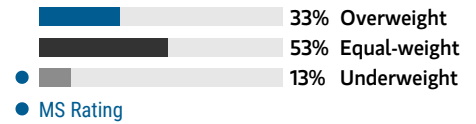
### RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 27 Sep, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology [here](#)

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### BULL CASE

HK\$7.68

Implies 0.55x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 2.1% due to better performance of the equity market.

#### BASE CASE

HK\$3.65

Implies 0.26x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 1.6%.

#### BEAR CASE

HK\$2.68

Implies 0.19x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return lower at 1.4%.

## Risk Reward – Haitong Securities (6837.HK)

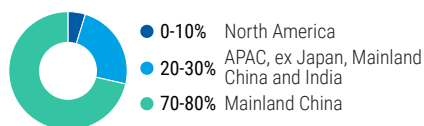
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	43,205	26,019	31,130	35,859
Cost-income ratio (%)	48.4	53.6	56.2	53.1
Customer funds for securities purchase (Rmb, mn)	123,202	132,181	137,521	151,617
ROE (%)	8.1	5.3	5.2	6.3

### INVESTMENT DRIVERS

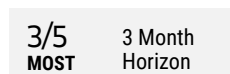
- A-share turnover.
- Brokerage commission rate.
- Equity market activity.
- Investment yields.

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Overseas business development.
- Stronger-than-expected pickup in investment banking business.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Uncertainties in HK to impact Haitong International.
- Higher stock-pledged loan risks.
- Macro uncertainties may lead to loss in corporate bond investment.

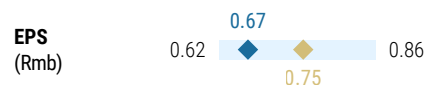
### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research



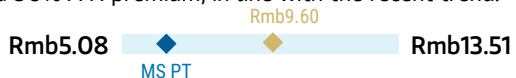
## Risk Reward – Haitong Securities (600837.SS)

Broker with one of the highest exposures to credit in our coverage

### PRICE TARGET Rmb6.34

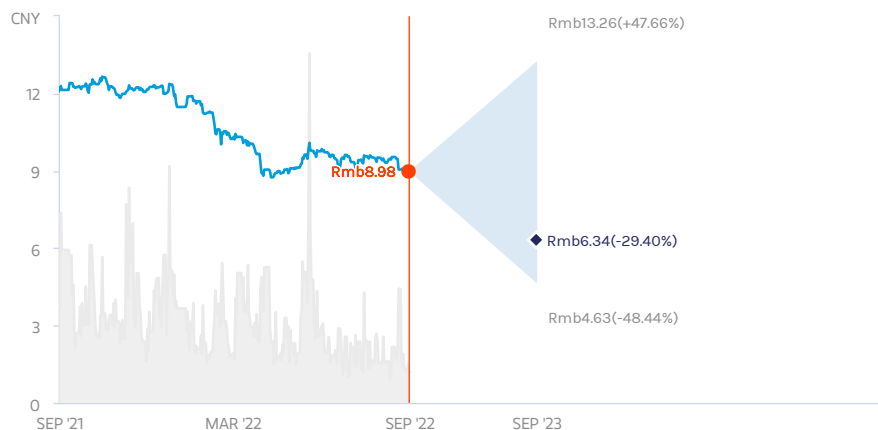
Scenario-weighted P/B ROE regression analysis: 50% base, 10% bull and 40% bear. The skew reflects potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 1.6%. Our target P/B of 0.50x is a weighted avg. of the three scenarios with a 90% A-H premium, in-line with the recent trend.

#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

### RISK REWARD CHART



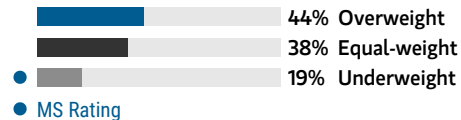
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### UNDERWEIGHT THESIS

- Capital markets facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could keep equity market activity subdued for longer.
- More exposure to credit business could lead to higher-than-peers provisions.
- Uncertainties related to Yongcheng bond underwriting could weigh on sentiment.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### Risk Reward Themes

Market Share: *Positive*

View descriptions of Risk Rewards Themes [here](#)

### BULL CASE

Rmb13.26

Implies 1.04x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 2.1% due to better performance of the equity market.

### BASE CASE

Rmb6.31

Implies 0.49x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 1.6%.

### BEAR CASE

Rmb4.63

Implies 0.36x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return lower at 1.4%.

## Risk Reward – Haitong Securities (600837.SS)

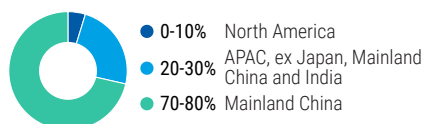
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	43,205	26,019	31,130	35,859
Cost-income ratio (%)	48.4	53.6	56.2	53.1
Customer funds for securities purchase (Rmb, mn)	123,202	132,181	137,521	151,617
ROE (%)	8.1	5.3	5.2	6.3

### INVESTMENT DRIVERS

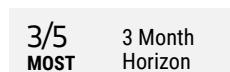
- A-share turnover.
- Brokerage commission rate.
- Equity market activity.
- Investment yields.

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Overseas business development.
- Stronger-than-expected pickup in investment banking business.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- More exposure to credit business may lead to higher-than-peers provisions.
- Uncertainties related to Yongcheng bond underwriting may weigh on sentiment

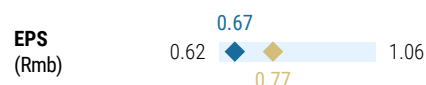
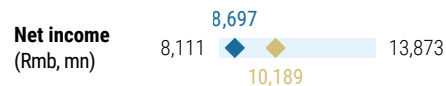
### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Exhibit 21: HTS Financial Summary

	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
<b>Income statement (Rmb mn)</b>						EPS (Rmb)	0.89	0.98	0.67	0.68	0.85
Operating revenue	38,220	43,205	26,019	31,130	35,859	BVPS (Rmb)	11.75	12.49	12.79	13.27	13.91
Brokerage commissions	5,208	6,024	4,578	4,304	5,478	Dividend payout ratio	28%	31%	31%	31%	31%
Investment banking income	4,939	4,925	5,538	5,994	6,646	Cost income ratio	46.5%	48.4%	53.6%	56.2%	53.1%
Asset management fees	3,372	3,664	2,426	3,006	3,706	<b>Key growth rate</b>					
Net interest income	4,891	6,621	5,590	4,952	5,466	Operating revenue	9.6%	13.0%	-39.8%	19.6%	15.2%
Prop trading income	11,288	10,959	4,407	6,395	7,422	Operating profit	22.8%	3.0%	-45.9%	12.3%	23.4%
Other income	8,522	11,013	3,479	6,480	7,141	Net profit	14.2%	17.9%	-32.2%	1.4%	25.8%
Operating expense	(17,761)	(20,901)	(13,949)	(17,498)	(19,042)	Total assets	9.0%	7.3%	-0.9%	3.9%	10.7%
Staff costs	(7,657)	(9,025)	(8,198)	(8,477)	(9,123)	<b>Operating revenue breakdown</b>					
Operating profit	20,459	22,305	12,070	13,632	16,817	Brokerage commissions	14%	14%	18%	14%	15%
Provisions	(4,597)	(3,851)	(1,404)	(2,221)	(2,368)	Investment banking income	13%	11%	21%	19%	19%
Pre-tax profit	15,757	18,544	10,748	11,493	14,532	Asset management fees	9%	8%	9%	10%	10%
Income taxes	(3,720)	(4,796)	(2,636)	(2,873)	(3,633)	Net interest income	13%	15%	21%	16%	15%
Minority interests	(1,162)	(921)	585	200	200	Investment gains (losses)	3%	25%	17%	21%	21%
Net profit	10,875	12,827	8,697	8,820	11,099	Other income	22%	25%	13%	21%	20%
<b>Balance sheet (Rmb mn)</b>						Total	100%	100%	100%	100%	100%
Customer margin deposits	91,892	106,920	91,359	98,064	124,440	<b>Dupont analysis</b>					
Investments	253,507	272,435	277,617	299,017	317,083	Net fees & commissions	2.1%	2.1%	1.7%	1.8%	2.0%
Repo assets	57,965	39,761	42,941	44,676	46,481	Brokerage	0.8%	0.8%	0.6%	0.6%	0.7%
Stock pledged loans	33,916	31,734	-	-	-	Investment banking	0.7%	0.7%	0.7%	0.8%	0.8%
Margin loans	73,068	75,223	60,695	59,555	71,913	Asset management	0.5%	0.5%	0.3%	0.4%	0.5%
Other assets	217,841	250,586	265,428	265,547	288,987	Other fees	0.1%	0.1%	0.0%	0.0%	0.0%
Total assets	694,073	744,925	738,041	766,859	848,904	Net interest income	0.7%	0.9%	0.8%	0.7%	0.7%
Customer funds for securities purchase	108,168	123,202	132,181	137,521	151,617	Prop trading income	1.7%	1.5%	0.8%	0.8%	0.9%
Total debt	341,920	375,303	353,805	365,106	417,637	Operating revenue	5.7%	6.0%	3.5%	4.1%	4.4%
Other liabilities	75,859	68,665	69,788	74,258	79,569	Operating expense	-2.7%	-2.9%	-1.9%	-2.3%	-2.4%
Total liabilities	525,947	567,170	555,774	576,885	648,823	Operating profit	3.1%	3.1%	1.6%	1.8%	2.1%
Total shareholders' equity	168,126	177,755	182,267	189,974	200,082	ROA	1.6%	1.8%	1.2%	1.2%	1.4%
Minority interests	14,678	14,617	15,122	16,672	18,381	x leverage	4.8	4.5	4.5	4.4	4.6
						ROE	7.8%	8.1%	5.3%	5.2%	6.3%

Source: Company data, Morgan Stanley Research (E) estimates

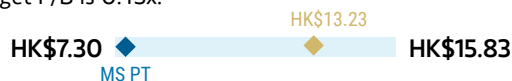
## Risk Reward – GF Securities (1776.HK)

Delayed turnaround due to cyclical pressure

### PRICE TARGET HK\$7.47

Scenario-weighted P/B ROE regression analysis. We assign 50%, 10% and 40% probability weightings to our base, bull and bear cases, respectively, to reflect potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of average of 0.9%. Our target P/B is 0.43x.

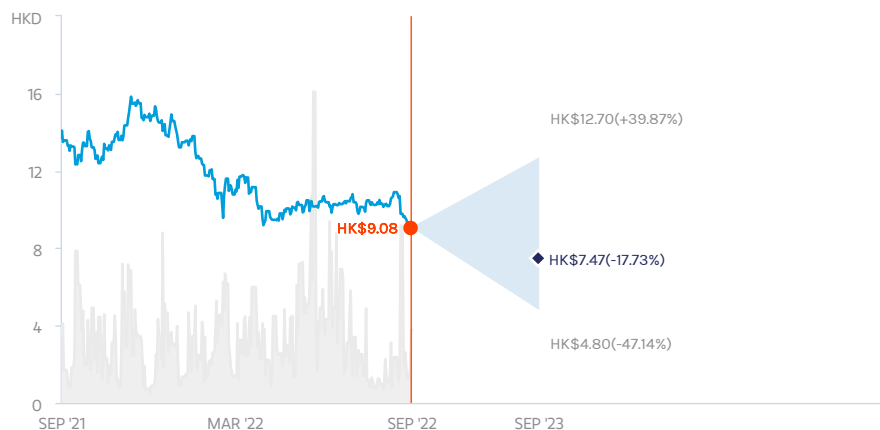
#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

### RISK REWARD CHART



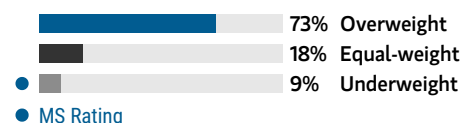
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### UNDERWEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could help keep equity market activity subdued for longer.
- We expect gradual recovery of investment banking franchise post Kangmei event.
- Effects of penalties on investment banking appear likely priced in.
- Mutual fund exposure could also face headwind from NAV pressure, due to market decline.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### BULL CASE

HK\$12.70

Implies 0.73x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022; investment yield also higher at 1.4% due to better performance of the equity market.

#### BASE CASE

HK\$8.56

Implies 0.49x 2022 e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 0.9%.

#### BEAR CASE

HK\$4.80

Implies 0.28x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return at 0.9%.

## Risk Reward – GF Securities (1776.HK)

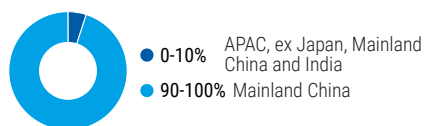
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	34,250	26,038	27,760	33,690
Cost-income ratio (%)	53.3	58.5	58.8	54.2
Customer funds for securities purchase (Rmb, mn)	126,731	142,071	147,811	153,782
ROE (%)	10.6	6.7	6.3	8.4

### INVESTMENT DRIVERS

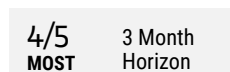
- A-share turnover.
- Brokerage commission rate.
- Equity market activity.
- Investment yields.

### GLOBAL REVENUE EXPOSURE



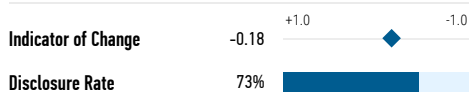
Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Large shareholders raising stakes.
- Sooner-than-expected growth in asset management fee income.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Slower-than-expected investment banking recovery post the ban.
- Further reimbursement to investors related to Kangmei event.
- ADT cooling down further.

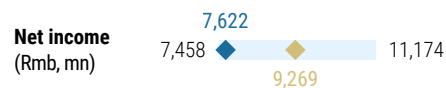
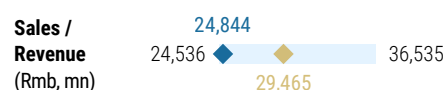
### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

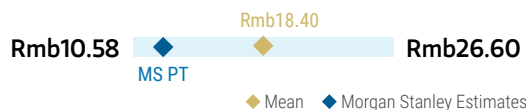
## Risk Reward – GF Securities (000776.SZ)

Delayed turnaround due to cyclical pressure

### PRICE TARGET Rmb12.22

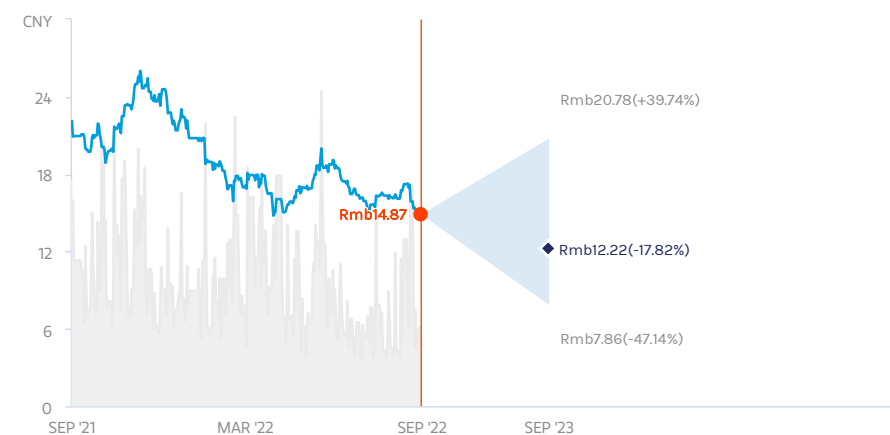
Scenario-weighted P/B ROE regression analysis: 50% base, 10% bull and 40% bear. Skew reflects potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 0.9%. Our target P/B of 0.77x is a weighted average reflecting an A-H premium of 80% across scenarios, in line with the recent trend.

#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

### RISK REWARD CHART



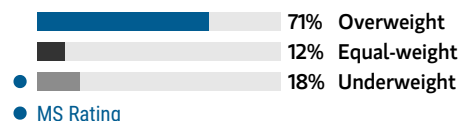
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### UNDERWEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could help keep equity market activity subdued for longer.
- We expect gradual recovery of investment banking franchise post Kangmei event.
- Effects of penalties on investment banking appear likely priced in.
- Mutual fund exposure could also face headwind from NAV pressure, due to market decline.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

### BULL CASE

Rmb20.78

Implies 1.32x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022; investment yield also higher at 1.4% due to better performance of the equity market.

### BASE CASE

Rmb14.00

Implies 0.89x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 0.9%.

### BEAR CASE

Rmb7.86

Implies 0.50x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return at 0.9%.

## Risk Reward – GF Securities (000776.SZ)

### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	34,250	26,038	27,760	33,690
Cost-income ratio (%)	53.3	58.5	58.8	54.2
Customer funds for securities purchase (Rmb, mn)	126,731	142,071	147,811	153,782
ROE (%)	10.6	6.7	6.3	8.4

### INVESTMENT DRIVERS

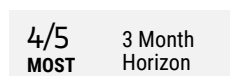
- A-share turnover
- Brokerage commission rate
- Equity market activity
- Investment yields

### GLOBAL REVENUE EXPOSURE



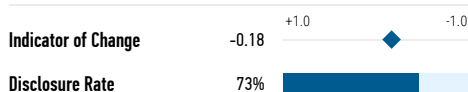
Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Large shareholders raising stakes.
- Sooner-than-expected growth in asset management fee income.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Slower-than-expected investment banking recovery post the ban.
- Further reimbursement to investors related to Kangmei event.
- ADT cooling down further.

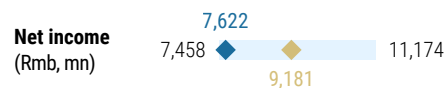
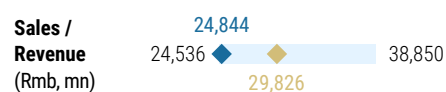
### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



Source: Refinitiv, Morgan Stanley Research

Exhibit 22: GFS Financial Summary

	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
<b>Income statement (Rmb mn)</b>						EPS (Rmb)	1.32	1.42	1.00	1.02	1.43
Operating revenue	29,153	34,250	26,038	27,760	33,690	BVPS (Rmb)	12.88	13.99	15.79	16.53	17.71
Brokerage commissions	6,572	7,970	5,944	5,493	7,060	Dividend payout ratio	34%	35%	35%	35%	35%
Investment banking income	649	433	548	637	752	Cost income ratio	50.3%	53.3%	58.5%	58.8%	54.2%
Asset management fees	6,598	9,946	9,258	10,872	12,875	<b>Key growth rate</b>					
Net interest income	4,254	4,931	3,747	3,395	4,196	Operating revenue	27.8%	17.5%	-24.0%	6.6%	21.4%
Prop trading income	6,843	5,765	2,549	3,329	4,359	Operating profit	27.3%	10.5%	-32.5%	5.9%	34.8%
Other income	4,239	5,206	3,992	4,034	4,448	Net profit	33.2%	8.1%	-29.8%	1.8%	40.5%
Operating expense	(14,670)	(18,241)	(15,232)	(16,316)	(18,766)	Total assets	16.0%	17.1%	7.4%	2.4%	11.4%
Staff costs	(9,030)	(10,931)	(8,743)	(9,104)	(9,941)	<b>Operating revenue breakdown</b>					
Operating profit	14,484	16,009	10,806	11,444	15,424	Brokerage commissions	23%	23%	23%	20%	21%
Provisions	(856)	(984)	(230)	(584)	(633)	Investment banking income	2%	1%	2%	2%	2%
Pre-tax profit	13,599	14,964	10,548	10,832	14,763	Asset management fees	23%	29%	36%	39%	38%
Income taxes	(2,828)	(2,909)	(2,016)	(2,166)	(2,953)	Net interest income	15%	14%	14%	12%	12%
Minority interests	(735)	(1,201)	(910)	(910)	(910)	Investment gains (losses)	23%	17%	10%	12%	13%
Net profit	10,038	10,854	7,622	7,756	10,900	Other income	35%	15%	15%	15%	13%
<b>Balance sheet (Rmb mn)</b>						Total	100%	100%	100%	100%	100%
Customer margin deposits	80,470	97,497	92,073	100,021	126,924	<b>DuPont analysis</b>					
Investments	200,012	235,925	302,077	316,588	331,627	Net fees & commissions	3.3%	3.8%	2.9%	3.0%	3.4%
Repo assets	16,794	19,992	17,485	17,836	18,195	Brokerage	1.5%	1.6%	1.1%	0.9%	1.1%
Stock pledged loans	12,517	12,935	-	-	-	Investment banking	0.2%	0.1%	0.1%	0.1%	0.1%
Margin loans	86,153	97,231	74,032	72,642	87,715	Asset management	1.5%	2.0%	1.7%	1.9%	2.1%
Other assets	74,035	85,210	89,698	82,215	92,070	Other fees	0.1%	0.1%	0.1%	0.1%	0.1%
Total assets	457,464	535,855	575,365	589,302	656,730	Net interest income	1.0%	1.0%	0.7%	0.6%	0.7%
Customer funds for securities purchase	102,941	126,731	142,071	147,811	153,782	Prop trading income	1.6%	1.2%	0.9%	0.6%	0.7%
Total debt	230,227	260,663	256,811	249,964	289,837	Operating revenue	6.8%	6.9%	4.7%	4.8%	5.4%
Other liabilities	22,022	37,660	52,004	61,419	74,031	Operating expense	-3.4%	-3.7%	-2.7%	-2.8%	-2.9%
Total liabilities	355,190	425,054	450,886	459,194	517,650	Operating profit	3.4%	3.2%	1.9%	2.0%	2.5%
Total shareholders' equity	102,274	110,801	124,478	130,108	139,081	ROA	2.4%	2.2%	1.4%	1.3%	1.7%
Minority interests	4,111	4,177	4,126	4,126	4,126	x leverage	4.5	4.9	5.0	4.9	5.0
						ROE	10.6%	10.6%	6.9%	6.6%	8.8%

Source: Company data, Morgan Stanley Research (E) estimates



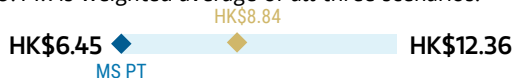
## Risk Reward – China Merchants Securities Co Ltd (6099.HK)

CMS features a prudent culture and focus on risk control

### PRICE TARGET HK\$6.45

Scenario-weighted P/B ROE regression analysis. We assign 50%, 10% and 40% probability weightings to our base, bull and bear cases, respectively, to reflect potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 2.0%. Our target P/B of 0.44x is weighted average of all three scenarios.

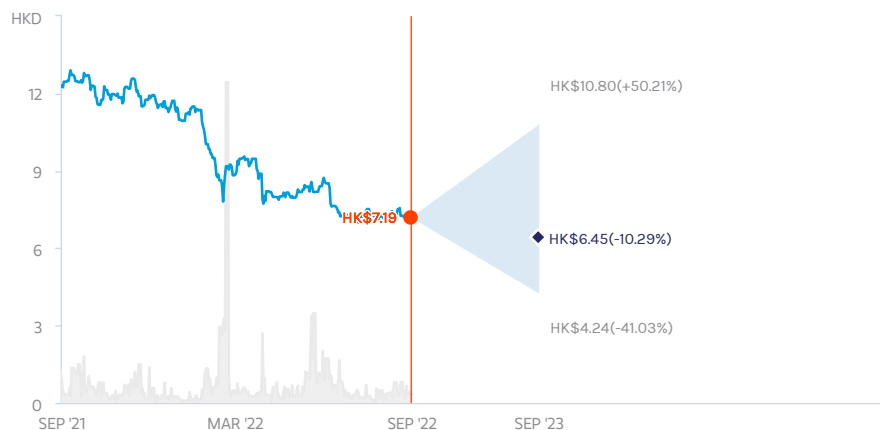
#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

### RISK REWARD CHART



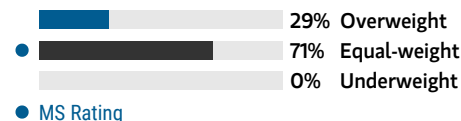
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### EQUAL-WEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could keep equity market activity subdued for longer.
- Strong institutional and high net worth client base.
- High CSRC rating, which reflects more prudent risk control.
- Its lower liquidity disadvantages stock purchase/sale.
- We think CMS has less specialty in investment banking strength and thus lacks catalysts.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### BULL CASE

**HK\$10.80**

Implies 0.74x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 2.4% due to better performance of the equity market.

#### BASE CASE

**HK\$7.36**

Implies 0.51x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 2.0%.

#### BEAR CASE

**HK\$4.24**

Implies 0.29x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return lower at 1.5%.

## Risk Reward – China Merchants Securities Co Ltd (6099.HK)

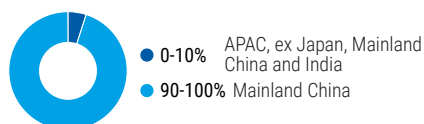
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	29,429	20,895	21,528	25,921
Cost-income ratio (%)	51.8	55.2	54.9	51.3
Customer funds for securities purchase (Rmb, mn)	99,605	113,906	118,508	125,725
ROE (%)	10.7	6.8	6.8	8.5

### INVESTMENT DRIVERS

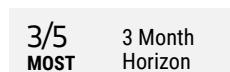
- A-share turnover.
- Brokerage commission rate.
- Equity market activity.
- Investment yields.

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Sentiment boost on potentially more synergies between CMS and CMB.
- Faster development in wealth management transformation.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Global financial market liquidity risks.
- Lower H-share liquidity may put a cap on upside.

### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

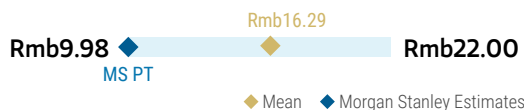
## Risk Reward – China Merchants Securities Co Ltd (600999.SS)

CMS features a prudent culture and focus on risk control

### PRICE TARGET Rmb9.98

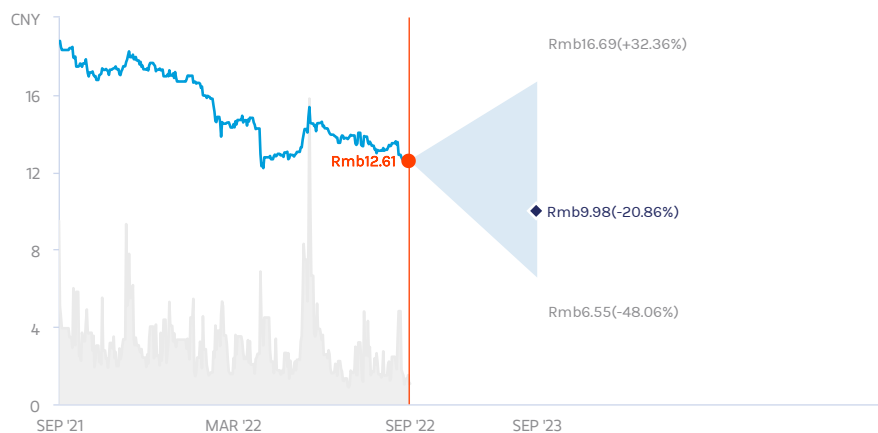
Scenario-weighted P/B ROE regression analysis: 50% base, 10% bull and 40% bear. The skew reflects potential downside from capital markets in the near to medium term. Bln our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 2.0%. Our target P/B of 0.76x is a weighted average of the three scenarios with 70% A-H premium, in line with the recent trend.

#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

### RISK REWARD CHART



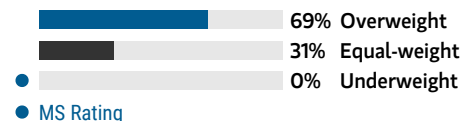
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### UNDERWEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could keep equity market activity subdued for longer.
- Strong institutional and high net worth client base.
- High CSRC rating, which reflects good risk management and internal controls.
- Potential more synergy with CMB under new regulatory rule.
- We think CMS has less specialty in investment banking strength and thus lacks catalysts.

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### BULL CASE

Rmb16.69

Implies 1.26x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 2.4% due to better performance of the equity market.

#### BASE CASE

Rmb11.37

Implies 0.86x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 2.0%.

#### BEAR CASE

Rmb6.55

Implies 0.50x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return lower at 1.5%.

## Risk Reward – China Merchants Securities Co Ltd (600999.SS)

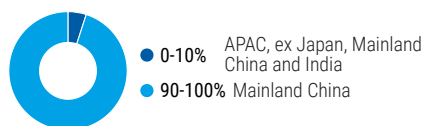
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	29,429	20,895	21,528	25,921
Cost-income ratio (%)	51.8	55.2	54.9	51.3
Customer funds for securities purchase (Rmb, mn)	99,605	113,906	118,508	125,725
ROE (%)	10.7	6.8	6.8	8.5

### INVESTMENT DRIVERS

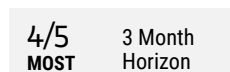
- A-share turnover.
- Brokerage commission rate.
- Equity market activity.
- Investment yields.

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Improvement in synergy with the Group and other subsidiary companies.
- Faster development in wealth management transformation.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Global financial market liquidity risks.
- Less strength in investment banking may put a cap on share performance.

### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Exhibit 23: CMS Financial Summary

	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
<b>Income statement (Rmb mn)</b>						EPS (Rmb)	1.00	1.25	0.83	0.84	1.12
Operating revenue	24,278	29,429	20,895	21,528	25,921	MW EPS (Rmb)	1.00	1.25	0.79	0.82	1.10
Brokerage commissions	6,710	7,916	5,976	5,478	6,896	BVPS (Rmb)	12.16	12.94	13.20	13.73	14.53
Investment banking income	2,146	2,542	2,149	2,516	2,863	Dividend payout ratio	41%	43%	43%	43%	43%
Asset management fees	1,143	1,039	1,098	1,487	1,698	Cost income ratio	52.8%	51.8%	55.2%	54.9%	51.3%
Net interest income	2,599	1,693	1,264	1,083	1,445	<b>Key growth rate</b>					
Prop trading income	6,801	9,467	6,362	6,552	8,170	Operating revenue	29.8%	21.2%	-29.0%	3.0%	20.4%
Other income	4,879	5,773	4,044	4,411	4,848	Operating profit	28.9%	23.9%	-34.0%	3.7%	30.0%
Operating expense	(12,819)	(15,237)	(11,525)	(11,811)	(13,288)	Net profit	30.3%	22.7%	-33.9%	3.2%	30.9%
Staff costs	(6,696)	(7,218)	(5,162)	(5,516)	(6,053)	Total assets	30.9%	19.5%	0.9%	3.0%	9.9%
Operating profit	11,459	14,192	9,371	9,717	12,633	<b>Operating revenue breakdown</b>					
Provisions	(156)	(376)	(376)	(334)	(365)	Brokerage commissions	28%	27%	29%	25%	27%
Pre-tax profit	11,309	13,704	8,978	9,386	12,251	Investment banking income	9%	9%	10%	12%	11%
Income taxes	(1,805)	(2,046)	(1,263)	(1,405)	(1,838)	Asset management fees	5%	4%	5%	7%	7%
Minority interests	(12)	(13)	(14)	(14)	(14)	Net interest income	11%	6%	6%	5%	6%
Net profit	9,492	11,645	7,702	7,948	10,400	Investment gains (losses)	28%	32%	30%	30%	32%
<b>Balance sheet (Rmb mn)</b>						Other income	20%	23%	19%	20%	19%
Customer margin deposits	70,271	78,161	96,254	84,603	88,613	Total	100%	100%	100%	100%	100%
Investments	227,370	308,453	326,833	351,174	372,580	<b>Dupont analysis</b>					
Repo assets	52,260	39,199	32,228	34,191	36,273	Net fees & commissions	2.4%	2.3%	1.7%	1.7%	2.0%
Stock pledged loans	20,115	14,424	-	-	-	Brokerage	1.5%	1.4%	1.0%	0.9%	1.1%
Margin loans	81,754	98,687	74,168	72,775	87,876	Investment banking	0.5%	0.5%	0.4%	0.4%	0.4%
Other assets	68,072	72,722	84,343	78,216	97,369	Asset management	0.3%	0.2%	0.2%	0.2%	0.3%
Total assets	499,727	597,221	602,827	620,960	682,711	Other fees	0.2%	0.2%	0.2%	0.2%	0.2%
Customer funds for securities purchase	85,441	99,605	113,906	118,508	125,725	Net interest income	0.6%	0.3%	0.2%	0.2%	0.2%
Total debt	263,420	313,639	288,565	287,010	319,256	Prop trading income	1.5%	1.7%	1.1%	1.1%	1.3%
Other liabilities	45,041	71,386	85,462	95,920	111,236	Operating revenue	5.5%	5.4%	3.5%	3.5%	4.0%
Total liabilities	393,902	484,631	487,933	501,439	556,217	Operating expense	-2.9%	-2.8%	-1.9%	-1.9%	-2.0%
Total shareholders' equity	105,825	112,591	114,894	119,521	126,494	Operating profit	2.6%	2.6%	1.6%	1.6%	1.9%
Minority interests	88	88	94	94	94	ROA	2.2%	2.1%	1.3%	1.3%	1.6%
						x leverage	5.0	5.4	5.4	5.4	5.6
						ROE	10.8%	11.5%	7.0%	7.0%	8.9%

Source: Company data, Morgan Stanley Research (E) estimates

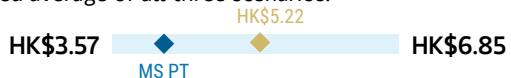
## Risk Reward – Galaxy Securities (6881.HK)

Business model calls for diversification and innovation

### PRICE TARGET HK\$4.12

Scenario-weighted P/B ROE regression analysis. We assign 50%/10%/40% probability weightings to our base/bull/bear cases to reflect potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 1.8%. Our target P/B of 0.37x is the weighted average of all three scenarios.

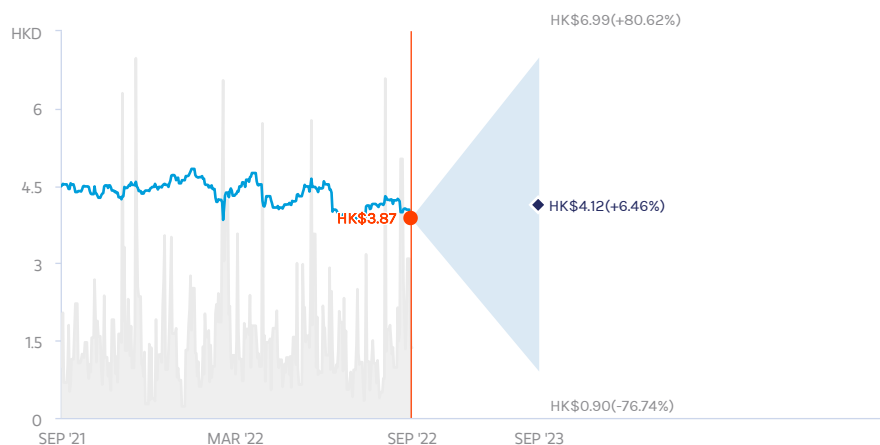
#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

### RISK REWARD CHART



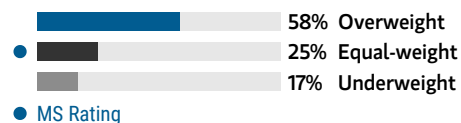
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### EQUAL-WEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could keep equity market activity subdued for longer.
- Higher revenue exposure to brokerage business with client base more skewed to retail.
- Lower operating efficiency.
- Higher revenue exposure to equity-related business gives Galaxy greater leverage to change in A-share or average daily turnover (ADT).

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### BULL CASE

HK\$6.99

Implies 0.62x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 2.0% due to better performance of the equity market.

#### BASE CASE

HK\$6.12

Implies 0.54x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 1.8%.

#### BEAR CASE

HK\$0.90

Implies 0.08x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return lower at 0.8%.

## Risk Reward – Galaxy Securities (6881.HK)

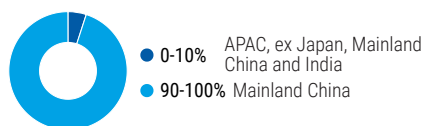
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	35,984	33,790	32,450	37,375
Cost-income ratio (%)	64.2	75.8	73.9	69.4
Customer funds for securities purchase (Rmb, mn)	128,401	138,701	144,304	150,134
ROE (%)	11.6	6.8	6.6	8.3

### INVESTMENT DRIVERS

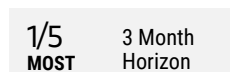
- A-share turnover.
- Brokerage commission rate.
- Equity market activity.
- Investment yields.

### GLOBAL REVENUE EXPOSURE



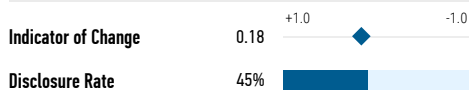
Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Greater leverage to potential A share rise.
- Faster-than-expected business transformation.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Drop in A-share ADT.
- Investment banking business lagging further behind.
- Higher macro uncertainties leading to investment loss.

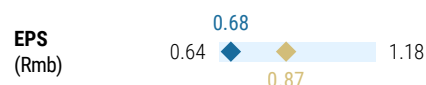
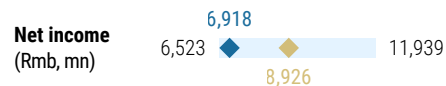
### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

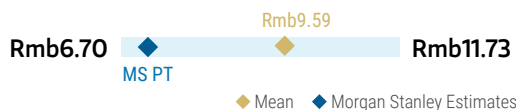
## Risk Reward – Galaxy Securities (601881.SS)

Business model calls for diversification and innovation

### PRICE TARGET Rmb7.11

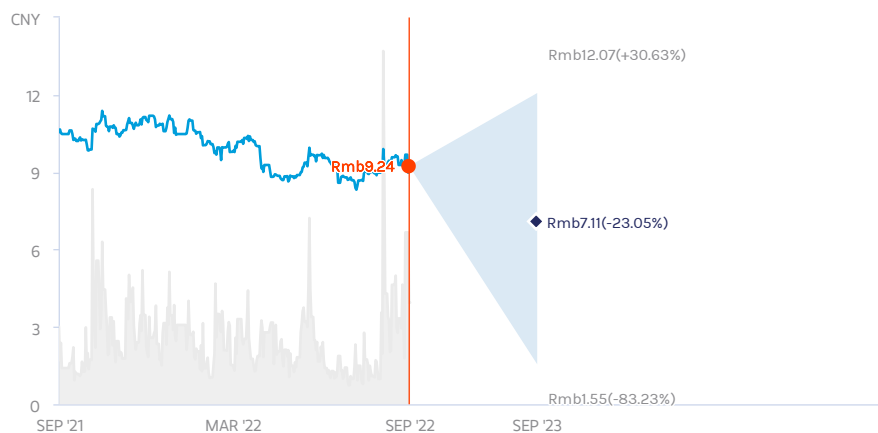
Scenario-weighted P/B ROE regression analysis: 50% base, 10% bull and 40% bear. The skew reflects potential downside from capital markets in the near to medium term. In our base case, we assume A-share 2022 ADT of Rmb817bn, total 2022 market equity financing of Rmb1.56tn, Rmb630bn of IPOs and prop trading return of 1.8%. Our target P/B of 0.70x is a weighted average with 90% A-H premium for all three scenarios, in line with the recent trend.

#### Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

### RISK REWARD CHART



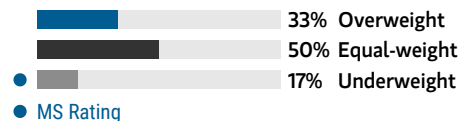
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

### UNDERWEIGHT THESIS

- Capital markets are facing near-term pressure from Covid, macro slowdown, and geopolitical risks. The structural shift in the financial system to more manufacturing focused developments could keep equity market activity subdued for longer.
- Higher than peers' revenue exposure to brokerage business with client base more skewed to retail.
- Lower than peers' operating efficiency.
- Higher than peers' revenue exposure to equity-related business gives Galaxy greater leverage to change in average daily turnover (ADT).

#### Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

#### BULL CASE

Rmb12.07

Implies 1.18x 2022e BVPS

Our bull case assumes higher likelihood of Beijing's exit from Covid zero in 1H23 and earlier than expected peak of global inflation and rate hike cycle. This could support earlier rebound in A share market and we assume ADT of Rmb900bn of 2022, investment yield also higher at 2.0% due to better performance of the equity market.

#### BASE CASE

Rmb10.58

Implies 1.03x 2022e BVPS

Our base case assumes lingering market volatility amid uncertainties both domestic and overseas. We expect market trading volume to gradually moderate in 2H22 and 1H23 as a result. In this case we assume A-share total ADT of Rmb817bn for 2022. Total market equity financing is Rmb1.56tn in 2022 with Rmb630bn of IPOs. Prop trading return of 1.8%.

#### BEAR CASE

Rmb1.55

Implies 0.15x 2022e BVPS

Our bear case assumes non-linear impact from protracted Covid-zero and geopolitical tension escalation, which would keep economic growth at low single digit pace for more quarters to come. In this case we assume market ADT of Rmb700bn for 2022. Prop trading return lower at 0.8%.



## Risk Reward – Galaxy Securities (601881.SS)

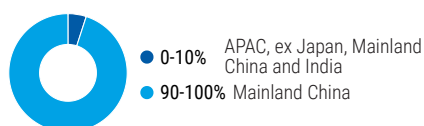
### KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Operating revenue (Rmb, mn)	35,984	33,790	32,450	37,375
Cost-income ratio (%)	64.2	75.8	73.9	69.4
Customer funds for securities purchase (Rmb, mn)	128,401	138,701	144,304	150,134
ROE (%)	11.6	6.8	6.6	8.3

### INVESTMENT DRIVERS

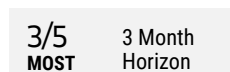
- A-share turnover.
- Brokerage commission rate.
- Equity market activity.
- Investment yields.

### GLOBAL REVENUE EXPOSURE



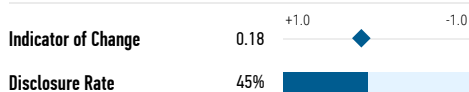
Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies [here](#)

### MS ALPHA MODELS



Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

### SUSTAINABILITY & ESG



### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster stabilization of Covid situation in China and reduced geopolitical risks.
- Greater leverage to potential A share rise.
- Faster-than-expected business transformation.

#### RISKS TO DOWNSIDE

- Prolonged Covid outbreak and city lockdowns leading to higher macro risk.
- Investment banking business lagging further behind.
- Higher macro uncertainties lead to investment loss from corporate bond investment.

### OWNERSHIP POSITIONING



Source: Refinitiv, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

**Exhibit 24: Galaxy Securities Financial Summary**

	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
<b>Income statement (Rmb mn)</b>						EPS (Rmb)	0.71	1.03	0.88	0.69	0.92
Operating revenue	23,749	35,984	33,790	32,450	37,375	BVPS (Rmb)	8.02	9.76	10.22	10.72	11.44
Brokerage commissions	6,921	8,231	6,182	5,886	7,472	Dividend payout ratio	31%	32%	32%	32%	32%
Investment banking income	950	619	649	665	740	Cost income ratio	59.3%	64.2%	75.8%	73.9%	69.4%
Asset management fees	532	517	490	571	629	<b>Key growth rate</b>					
Net interest income	4,178	5,456	4,858	4,681	5,795	Operating revenue	39.4%	51.5%	-6.1%	-4.0%	15.2%
Prop trading income	4,820	7,158	5,327	4,620	5,317	Operating profit	33.3%	33.1%	-36.5%	3.5%	35.2%
Other income	6,288	14,003	16,284	16,028	17,422	Net profit	38.5%	44.0%	-33.7%	1.2%	33.5%
<b>Operating expense</b>						Total assets	41.2%	25.7%	10.2%	2.8%	15.3%
Staff costs	(5,448)	(7,044)	(6,731)	(5,998)	(6,390)	<b>Operating revenue breakdown</b>					
<b>Operating profit</b>						Brokerage commissions	29%	23%	18%	18%	20%
Provisions	(496)	43	(193)	(351)	(458)	Investment banking income	4%	2%	2%	2%	2%
Pre-tax profit	9,157	12,791	7,993	8,140	10,992	Asset management fees	2%	1%	1%	2%	2%
Income taxes	(1,845)	(2,274)	(1,074)	(1,140)	(1,649)	Net interest income	18%	15%	14%	14%	16%
Minority interests	(68)	(87)	(1)	(1)	(1)	Investment gains (losses)	20%	20%	16%	14%	14%
<b>Net profit</b>	<b>7,244</b>	<b>10,430</b>	<b>6,918</b>	<b>6,999</b>	<b>9,342</b>	Other income	26%	39%	48%	49%	47%
<b>Balance sheet (Rmb mn)</b>						Total	100%	100%	100%	100%	100%
Customer margin deposits	76,852	100,488	91,877	81,361	102,203	<b>Dupont analysis</b>					
Investments	184,435	256,830	321,751	374,107	426,948	Net fees & commissions	2.2%	1.9%	1.2%	1.1%	1.3%
Repo assets	31,863	21,975	20,811	22,945	25,296	Brokerage	1.8%	1.6%	1.0%	0.9%	1.1%
Stock pledged loans	28,162	18,986	-	-	-	Investment banking	0.2%	0.1%	0.1%	0.1%	0.1%
Margin loans	82,018	98,194	76,693	73,334	85,241	Asset management	0.2%	0.1%	0.1%	0.1%	0.1%
Other assets	70,562	82,648	106,194	82,756	91,627	Other fees	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total assets</b>	<b>445,730</b>	<b>560,135</b>	<b>617,325</b>	<b>634,503</b>	<b>731,315</b>	Net interest income	1.1%	1.1%	0.8%	0.7%	0.8%
Customer funds for securities purchase	97,871	128,401	138,701	144,304	150,134	Prop trading income	1.3%	1.4%	0.9%	0.7%	0.8%
Total debt	225,680	274,040	293,180	280,915	321,397	Operating revenue	6.2%	7.2%	5.7%	5.2%	5.5%
Other liabilities	40,371	58,716	81,788	100,567	143,800	Operating expense	-3.7%	-4.6%	-4.3%	-3.8%	-3.8%
<b>Total liabilities</b>	<b>363,722</b>	<b>461,157</b>	<b>513,668</b>	<b>525,786</b>	<b>615,332</b>	Operating profit	2.5%	2.6%	1.4%	1.4%	1.7%
<b>Total shareholders' equity</b>	<b>82,008</b>	<b>98,978</b>	<b>103,657</b>	<b>108,716</b>	<b>115,983</b>	ROA	1.9%	2.1%	1.2%	1.1%	1.4%
Minority interests	754	22	24	27	29	x leverage	5.0	5.7	6.2	6.3	6.6
						ROE	9.5%	11.8%	7.3%	7.0%	9.0%

Source: Company data, Morgan Stanley Research (E) estimates

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
<b>Overweight/Buy</b>	<b>1356</b>	<b>38%</b>	<b>304</b>	<b>41%</b>	<b>22%</b>	<b>596</b>	<b>39%</b>
<b>Equal-weight/Hold</b>	<b>1589</b>	<b>45%</b>	<b>349</b>	<b>47%</b>	<b>22%</b>	<b>716</b>	<b>47%</b>
<b>Not-Rated/Hold</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>610</b>	<b>17%</b>	<b>90</b>	<b>12%</b>	<b>15%</b>	<b>225</b>	<b>15%</b>
<b>TOTAL</b>	<b>3,555</b>		<b>743</b>			<b>1537</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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## INDUSTRY COVERAGE: China Financials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/28/2022)
<b>Chiyao Huang</b>		
East Money Information Co Ltd (300059.SZ)	E (08/16/2022)	Rmb17.87
Futu Holdings Ltd (FUTU.O)	E (10/29/2021)	US\$38.58
Noah Holdings Ltd (NOAH.N)	O (07/27/2022)	US\$14.00
<b>Richard Xu, CFA</b>		
360 DigiTech Inc (QFIN.O)	O (08/25/2020)	US\$13.20
Agricultural Bank of China Limited (601288.SS)	E (05/07/2019)	Rmb2.85
Agricultural Bank of China Limited (1288.HK)	O (10/19/2020)	HK\$2.34
Bairong Inc. (6608.HK)	O (05/04/2021)	HK\$7.90
Bank of Beijing Co Ltd (601169.SS)	E (08/17/2022)	Rmb4.13
Bank of Chengdu Co Ltd (601838.SS)	O (08/17/2022)	Rmb16.18
Bank of China Limited (601988.SS)	E (05/07/2019)	Rmb3.07
Bank of China Limited (3988.HK)	O (01/10/2020)	HK\$2.55
Bank of Communications (3328.HK)	U (05/20/2022)	HK\$4.08
Bank of Communications (601328.SS)	U (09/05/2014)	Rmb4.62
Bank of Hangzhou Co Ltd (600926.SS)	E (08/17/2022)	Rmb14.23
Bank of Ningbo Co. Ltd (002142.SZ)	O (08/17/2022)	Rmb31.59
BC Technology Group Ltd (0863.HK)	E (09/28/2021)	HK\$3.85
China Cinda Asset Management (1359.HK)	E (07/07/2016)	HK\$0.88
China CITIC Bank Corporation Limited (601998.SS)	U (09/05/2014)	Rmb4.61
China CITIC Bank Corporation Limited (0998.HK)	U (05/20/2022)	HK\$3.15
China Construction Bank Corp. (0939.HK)	O (10/11/2012)	HK\$4.45
China Construction Bank Corp. (601939.SS)	E (05/07/2019)	Rmb5.57
China Everbright Bank Co Ltd (6818.HK)	E (05/20/2022)	HK\$2.16
China Everbright Bank Co Ltd (601818.SS)	U (05/20/2022)	Rmb2.83
China International Capital Corp. Ltd. (3908.HK)	E (05/20/2022)	HK\$11.86
China Merchants Bank (600036.SS)	O (01/07/2019)	Rmb33.67
China Merchants Bank (3968.HK)	O (09/20/2018)	HK\$36.05
China Merchants Securities Co Ltd (600999.SS)	U (09/29/2022)	Rmb12.48
China Merchants Securities Co Ltd (6099.HK)	E (12/07/2021)	HK\$7.11
China Minsheng Banking Corp. (600016.SS)	U (01/07/2019)	Rmb3.42
China Minsheng Banking Corp. (1988.HK)	E (01/07/2019)	HK\$2.25
China Renaissance Holdings Ltd (1911.HK)	E (12/07/2021)	HK\$6.92
Chongqing Rural Commercial Bank (3618.HK)	E (05/07/2019)	HK\$2.51
CITIC Ltd (0267.HK)	E (03/16/2018)	HK\$7.37
CITIC Securities Co. (6030.HK)	E (05/20/2022)	HK\$13.56
CITIC Securities Co. (600030.SS)	E (05/20/2022)	Rmb17.72
Galaxy Securities (6881.HK)	E (02/27/2020)	HK\$3.79
Galaxy Securities (601881.SS)	U (09/29/2022)	Rmb9.06
GF Securities (000776.SZ)	U (05/20/2022)	Rmb14.47
GF Securities (1776.HK)	U (05/20/2022)	HK\$8.81
Haitong Securities (6837.HK)	U (06/03/2020)	HK\$4.30
Haitong Securities (600837.SS)	U (06/03/2020)	Rmb8.82
HTSC (601688.SS)	E (05/20/2022)	Rmb12.26
HTSC (6886.HK)	E (02/27/2020)	HK\$8.89
Hua Xia Bank (600015.SS)	U (06/30/2015)	Rmb5.08
Industrial and Commercial Bank of China (1398.HK)	O (08/09/2013)	HK\$3.63
Industrial and Commercial Bank of China (601398.SS)	E (09/19/2022)	Rmb4.35
Industrial Bank Co. Ltd. (601166.SS)	O (02/25/2019)	Rmb16.84
Lufax (LU.N)	O (08/11/2021)	US\$2.89
Ping An Bank (000001.SZ)	O (05/07/2019)	Rmb12.11
Postal Savings Bank of China Co Ltd (1658.HK)	O (11/01/2016)	HK\$4.68
Shanghai Pudong Development Bank (600000.SS)	U (12/07/2021)	Rmb7.08

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\* Historical prices are not split adjusted.