

COMPANY RESULTS

Hong Kong Exchanges and Clearing (388 HK)

3Q24: Risk-And-Reward Is More Balanced; Upgrade To BUY

HKEX reported a 6.5% yoy earnings growth in 3Q24 after a sharp increase in headline ADT following the rollout of stimulus packages by China in late-September. Although market velocity has normalised, ADT remains elevated, and NII could be more resilient going forward, suggesting more upside for earnings. The risk-to-reward ratio is more balanced now after the recent correction as HKEX is trading close to historical average of 30.5x forward PE. Upgrade to BUY. Target price: HK\$364.00.

3Q24 RESULTS

Year to 31 Dec (HK\$m)	3Q24	qoq%	yoy%	9M24	yoy%
Total Revenue	5,372	-0.9	5.7	15,993	2.1
Core Revenue	4,140	-1.8	7.7	12,202	4.2
NII and other income	1,232	2.2	-0.6	3,791	-4.2
EBITDA	3,926	-0.8	5.9	11,587	0.2
Net Profit	3,145	-0.3	6.5	9,270	0.1
EPS	2.49	-0.3	6.5	7.32	0.0
EBITDA Margin (%)	73.1	0.1ppt	0.2ppt	72.5	-1.8ppt
Net Profit Margin (%)	58.5	0.3ppt	0.4ppt	58.0	-1.7ppt

Source: Hong Kong Exchanges and Clearing, UOB Kay Hian

RESULTS

- In-line results.** Hong Kong Exchanges and Clearing (HKEX) reported a net profit of HK\$3,145m in 3Q24 (-0.3% qoq, +6.5% yoy), largely in line with our and street estimates. The market turnover was relatively lukewarm during the quarter with headline average daily turnover (ADT) below HK\$100b in July and August. However, the pivotal stimulus measures announced by China in late-September led to a record-high ADT of HK\$350.3b in the last five trading days of 3Q24, which boosted the quarter's ADT growth to 20.7% yoy, reaching HK\$118.8b. Northbound and Southbound ADT also jumped 4.0% and 36.6% yoy respectively, benefitting from the increased market vibrancy.
- Revenue rose 5.7% yoy, supported by reviving turnover and resilient NII.** Core revenue increased 7.7% yoy in 3Q24, slightly below our estimates of 9.3% as clearing fees came in 5% lower than our estimate. However, the core revenue miss was offset by better-than-expected net investment income (NII) of HK\$1.2b (flatish yoy), bringing yoy revenue growth to 5.7%. The robust NII was underpinned by stronger external portfolio performance (HK\$156m in 3Q24 vs HK\$5m loss in 3Q23), overcoming the lower NII on margin funds. The interest income from Hong Kong margin funds declined 23.7% yoy, mainly due to: a) a 15% yoy drop in margin fund size, b) increased interest rebates to market participants, and c) falling HIBOR after the Fed's rate cuts.

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2022	2023	2024F	2025F	2026F
Net turnover	18,280	20,269	22,212	23,341	24,352
EBITDA	13,185	14,828	16,477	17,194	17,769
Operating profit	11,726	13,385	15,086	15,733	16,235
Net profit (rep./act.)	10,078	11,862	13,160	13,473	13,862
Net profit (adj.)	10,078	11,862	13,160	13,473	13,862
EPS (HK\$ cent)	799.1	935.6	1,038.0	1,062.7	1,093.4
PE (x)	39.4	33.6	30.3	29.6	28.8
P/B (x)	8.0	7.8	7.6	7.4	7.2
EV/EBITDA (x)	48.2	43.0	38.6	37.0	35.7
Dividend yield (%)	2.3	2.7	3.0	3.0	3.1
Net margin (%)	55.1	58.5	59.2	57.7	56.9
Net debt/(cash) to equity (%)	(21.5)	(15.9)	(17.5)	(19.2)	(20.9)
ROE (%)	20.3	23.5	25.3	25.3	25.7
Consensus net profit	-	-	12,443	13,227	14,043
UOBKH/Consensus (x)	-	-	1.06	1.02	0.99

Source: Hong Kong Exchanges and Clearing Ltd., Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	HK\$314.80
Target Price	HK\$364.00
Upside	+15.6%
(Previous TP)	HK\$355.00

COMPANY DESCRIPTION

Hong Kong Exchanges and Clearing Limited (HKEX) owns and operates the stock exchange, futures exchange and their related clearing houses in Hong Kong.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	388 HK
Shares issued (m):	1,267.8
Market cap (HK\$m):	399,115.0
Market cap (US\$m):	51,366.8
3-mth avg daily t'over (US\$m):	438.1

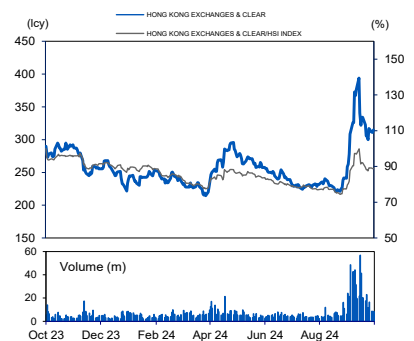
Price Performance (%)

52-week high/low	HK\$397.80/HK\$208.3			
1mth	3mth	6mth	1yr	YTD
30.3	36.0	45.8	14.2	21.6

Major Shareholders

The Government of Hong Kong SAR	5.8
-	-
FY24 NAV/Share (HK\$)	41.40
FY24 Net Cash/Share (HK\$)	7.26

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Strong momentum of derivative and LME ADV sustained in 3Q24.** The average daily volume (ADV) of derivative contracts surged 11% yoy to 1.48m contracts in 3Q24, driven by a 19.3% yoy hike in the stock options contracts ADV, but partly dragged by the weakness of flagship futures products, ie HSI futures (-4% yoy), HSCEI futures (-2% yoy) and HSTECH futures (-9% yoy). Additionally, the derivatives trading revenue dropped 0.8% yoy amidst lower average fee per contract. On the flipside, the trading revenue of London Metal Exchange (LME) jumped 31.7% yoy in 3Q24, in the light of higher ADV (+17% yoy).
- Better cost management.** Opex growth excluding D&A slowed down further to 4.7% yoy in 3Q24, driven by a 6% yoy increment in staff and IT costs while all cost items excluding professional fees also declined qoq. As a result, 3Q24 EBITDA margin inched up 0.1ppt yoy to 73.1%. Professional fees rose slightly in 3Q24 due to an appeal case by the claimant in relation to the nickel events. However, we expect the expenses to moderate further due to the positive outcome from the UK Court of Appeal which could end the prolonged litigation.
- IPO wave is returning to Hong Kong.** Despite the IPO pipeline being reduced to 96 from 107 in June, we saw a huge jump in IPO funds raised to HK\$42.2b in 3Q24 following the listing of Midea. The IPO momentum continues as the bourse operator will witness two sizeable IPOs - CR Beverage and Horizon Robotics - in this week, which are expected to raise more than HK\$10b between them. In order to encourage more large IPOs from Chinese companies, HKEX collaborates with the Securities and Futures Commission to accelerate the application timeframe for eligible A-share listed companies to list in Hong Kong.

STOCK IMPACT

- What's next after the stock market frenzy?** We have seen some normalisation in market turnover since our last update. The five-day moving average (DMA) of headline ADT and market velocity stood at HK\$198.7b and 137.9% respectively, coming down from their peaks of HK\$400b and 400% in early-October. However, the turnover still remains significantly higher than HK\$126.1b ytd and our latest 2024 estimates of HK135.4b, implying potential upside earnings revision if the trends last longer than our expectations. However, we still think that the market will turn more risk-off in near term due to: a) the upcoming US elections, and b) the NPC approval that is needed for China's government to roll out further fiscal stimulus, which can only take place in November.
- NII could be more resilient than expected.** Management guided that the average margin fund size might rebound qoq as reflected by the 24% qoq jump in margin deposit balance from participants as of 30 September due to the increased market sentiment and recovery of index performance. Furthermore, the resurging US 10-year treasury yield amid economic optimism and election concerns could limit the downside of HIBOR, which points to a more resilient NII. In addition, HKEX also liquidated the HK\$1b equity positions in its external portfolio to reduce the impact of market volatility on the earnings.

EARNINGS REVISION/RISK

- We life our 2024 earnings forecasts by 2.8%** to factor in mtd headline ADT data and changes in our derivative ADV assumptions.

VALUATION/RECOMMENDATION

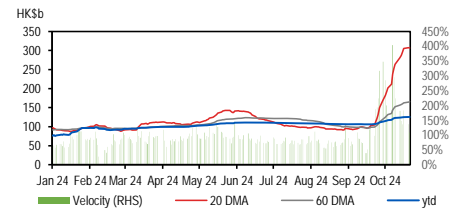
- Upgrade to BUY with a higher target price of HK\$364.00** to reflect the latest earnings revisions. Our target price is derived from the dividend discount model, assuming cost of equity of 8.9%, and payout ratio of 90.0%. This implies 34.3x 2024F PE, 1.0SD above its historical mean. We opine HKEX's risk-to-reward ratio is more balanced now after its share price has fallen 20% from the peak; it is trading close to the historical average of 30.5x forward PE, and we could see positive earnings revisions if the current elevated ADT trend persists.

3Q24 MARKET STATISTICS

	3Q24	yoy %	qoq %	9M24	yoy %
Headline ADT (HK\$b)	118.8	20.8	-2.3	113.3	3.3
Northbound Trading ADT (Rmbb)	110.3	4.0	-13.3	123.3	14.0
Southbound Trading ADT (\$bn)	39.6	36.6	-10.2	38.3	19.3
Derivatives contracts ADV ('000 contracts)	778	4.4	-4.9	817	10.6
Stock options contracts ADV ('000 contracts)	705	19.3	-5.6	699	13.1
LME ADV ('000 lots)	642	17.2	-12.1	676	25.0

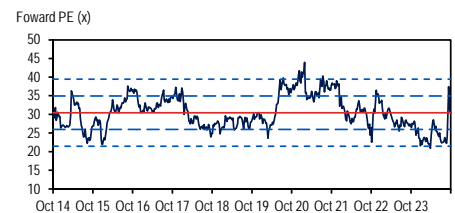
Source: Hong Kong Exchanges and Clearing, UOB Kay Hian

HEADLINE ADT AND MARKET VELOCITY



Source: UOB Kay Hian

FORWARD PE BAND



Source: UOB Kay Hian

TRADING REVENUE KEY ASSUMPTIONS

(%)	2024F	2025F	2026F
Cash ADT (HK\$b)	135.4	152.1	163.7
Futures ADV ('000)	815	863	937
Stock Option ADV ('000)	715	762	845
LME ADV ('000)	684	700	734

Source: UOB Kay Hian

3Q24 NII BREAKDOWN

Managed Funds	Average Fund Size (HK\$ b)	NII (HK\$ m)	yoy %
HK Margin and Clearing Funds	112.8	652	-18.6
LME Margin and Clearing Funds	79.7	48	-4.0
Internal Corporate Funds	27.5	351	-3.8
External Portfolio	6.9	156	32x

Source: Hong Kong Exchanges and Clearing Ltd., UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Net turnover	20,269	22,212	23,341	24,352
EBITDA	14,828	16,477	17,194	17,769
Deprec. & amort.	1,443	1,392	1,461	1,534
EBIT	13,385	15,086	15,733	16,235
Associate contributions	-53	-25	-35	-32
Pre-tax profit	13,332	15,061	15,698	16,203
Tax	-1,351	-1,795	-2,118	-2,234
Minorities	-119	-107	-107	-109
Net profit	11,862	13,160	13,473	13,862
Net profit (adj.)	11,862	13,160	13,473	13,862

CASH FLOW

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Operating	11,500	12,650	13,915	15,307
Pre-tax profit	11,294	12,423	13,666	15,032
Other operating cashflows	206	227	249	274
Investing	-6,290	-1,921	-2,700	-1,930
Proceeds from sale of assets	-1,460	0	0	0
Others	-4,830	-1,921	-2,700	-1,930
Financing	-11,250	-11,089	-13,253	-12,620
Dividend payments	-10,316	-10,662	-11,859	-12,126
Proceeds from borrowings	0	0	-934	0
Others/interest paid	-934	-426.7	-459.47	-494.617
Net cash inflow (outflow)	-6,040	-360	-2,038	756
Beginning cash & cash equivalent	15,258	9,212	8,852	6,814
Changes due to forex impact	-6	0	0	0
Ending cash & cash equivalent	9,212	8,852	6,814	7,570

BALANCE SHEET

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Fixed assets	1,553	1,708	1,879	2,067
Other LT assets	23,424	22,226	23,402	24,645
Cash/ST investment	10,286	11,315	12,446	13,691
Other current assets	305,916	380,672	394,888	402,278
Total assets	341,179	415,921	432,615	442,681
ST debt	719	714	720	727
Other current liabilities	285,792	359,215	374,528	383,173
LT debt	1,399	1,399	1,399	1,399
Other LT liabilities	1,473	1,484	1,497	1,510
Shareholders' equity	51,344	52,612	53,924	55,270
Minority interest	452	497	547	602
Total liabilities & equity	341,179	415,921	432,615	442,681

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	73.2	74.2	73.7	73.0
Pre-tax margin	65.8	67.8	67.3	66.5
Net margin	58.5	59.2	57.7	56.9
ROA	3.2	3.5	3.2	3.2
ROE	23.5	25.3	25.3	25.7
Growth				
Turnover	10.9	9.6	5.1	4.3
EBITDA	12.5	11.1	4.4	3.3
Pre-tax profit	14.3	13.0	4.2	3.2
Net profit	17.7	10.9	2.4	2.9
Net profit (adj.)	17.7	10.9	2.4	2.9
EPS	17.1	10.9	2.4	2.9
Leverage				
Debt to total capital	4.1	4.0	3.9	3.8
Debt to equity	4.1	4.0	3.9	3.8
Net debt/(cash) to equity	-15.9	-17.5	-19.2	-21.0

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