

COMPANY UPDATE

Hong Kong Exchanges and Clearing (388 HK)

October Headline ADT Slumped To Lowest Level In Four Years

October headline ADT plunged 12.7% mom to HK\$78.8b mainly due to weak investor sentiment as concerns over the economic recovery momentum persisted. Although November ADT rebounded 14.4% after the levy cut announcement, it still remains below the HK\$100b level. Nonetheless, we still expect the potential year-end rally and earlier rate cut bets to contribute to improved ADT and stock price performance. Maintain BUY. Target price: HK\$370.00.

OCT 23 MARKET STATISTICS

	Oct 23	Sep 23	Oct 22	mom%	yoy%
Headline ADT (HK\$b)	78.8	90.3	104.6	(12.7)	(24.7)
Northbound Trading ADT (Rmbb)	110.5	100.4	101.6	10.1	8.8
Southbound Trading ADT (HK\$b)	25.2	29.1	26.9	(13.4)	(6.3)
Derivatives contracts ADV ('000 contracts)	1,300.8	1,239.5	1,490.7	4.9	(12.7)
LME ADV ('000 lots)	560.9	578.4	491.8	(3.0)	14.1

Source: Hong Kong Exchanges and Clearing, UOB Kay Hian

WHAT'S NEW

- Lowest turnover since Dec 19.** Last week, Hong Kong Exchanges and Clearing (HKEX) released its monthly market highlights for Oct 23. The Hang Seng Index (HSI) and total market capitalisation dropped 3.9% and 4.3% respectively in October, mainly due to the disappointing macro data and lacklustre stimulus measures in China. As the result, the headline average daily turnover (ADT) plummeted 12.7% mom to HK\$78.8b in Oct 23, marking the lowest single-month volume since Dec 19.
- Other market performance.** For stock connect trading, the northbound ADT increased by 10.1% mom to Rmb110.5b but southbound volume dropped 13.4% to HK\$25.2b. Additionally, the ADT for ETF products and average daily volume (ADV) of derivatives contracts rose 6.6% and 4.9% mom to HK\$11.8b and 1.3m contracts respectively.
- Five IPOs in Oct 23, longer wait for recovery.** Five companies joined the exchange in Oct 23, including J&T Express, the largest logistics giant in ASEAN, which raised HK\$3.5b to fund in its IPO. This brings the ytd number of IPOs and funds raised to 52 and HK\$31.7b, down 16.1% and 62.8% yoy. The Hong Kong IPO market was only ranked eighth among global bourses, far behind its Shanghai and Shenzhen peers. Although management mentioned that the IPO pipeline remains strong with 120 companies in the queue, the companies' appetite for public listings remain weak due to valuation concerns, as reflected in Alibaba's decision to delay the spin-off of its logistics arm, Cainiao.

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2021	2022	2023F	2024F	2025F
Net turnover	20,800	18,280	20,628	22,193	23,983
EBITDA	16,271	13,185	15,309	16,624	18,067
Operating profit	14,916	11,726	13,822	15,062	16,427
Net profit (rep./act.)	12,497	10,078	12,220	13,274	14,406
Net profit (adj.)	12,497	10,078	12,220	13,274	14,406
EPS (HK\$ cent)	988.7	799.1	963.9	1,050.1	1,134.3
PE (x)	29.5	36.5	30.3	27.8	25.7
P/B (x)	7.4	7.4	7.3	7.1	6.9
EV/EBITDA (x)	22.0	27.2	23.4	21.6	19.8
Dividend yield (%)	3.0	2.4	3.0	3.2	3.5
Net margin (%)	60.1	55.1	59.2	59.8	60.1
Net debt/(cash) to equity (%)	(18.6)	(21.5)	(23.2)	(24.9)	(26.7)
ROE (%)	25.4	20.3	24.3	25.8	27.3
Consensus net profit	-	-	11,981	12,983	13,888
UOBKH/Consensus (x)	-	-	1.02	1.02	1.04

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

BUY

(Maintained)

Share Price	HK\$285.40
Target Price	HK\$370.00
Upside	+29.6%

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):	361,840.6
Market cap (US\$m):	46,404.1
3-mth avg daily t'over (US\$m):	169.8

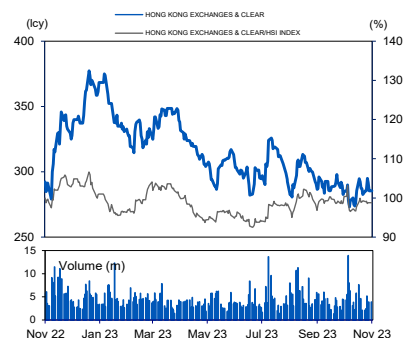
Price Performance (%)

52-week high/low	HK\$377.40/HK\$209.00				
1mth	3mth	6mth	1yr	YTD	
(2.3)	(4.0)	(6.7)	(5.9)	(15.4)	

Major Shareholders

The Government of Hong Kong SAR	5.8
FY23 NAV/Share (HK\$)	40.11
FY23 Net Cash/Share (HK\$)	9.30

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Mtd Nov ADT rebounded by 14.4% after levy cut announcement, but it still remains below the HK\$100b level.** We saw the headline ADT picking up to HK\$90.1b in November after Chief Executive John Lee proposed to cut the stamp duty rate to 0.1% in his recent policy address. However, this figure is still significantly lower than the average ADT level in 2023, reflecting the persistent lack of investor confidence in China's macroeconomic outlook. With the new stamp duty rate taking effect on 17 Nov 23 following the completion of the legislative process, we expect a further recovery in Hong Kong trading activities, fueled by easing Sino-US tensions and a decline in the US 10-year Treasury yield.
- Few reforms in progress to enhance trading rules and rebuild investor confidence.** Among these developments, the HKEX has initiated a public consultation on the arrangements for operating the stock market during typhoons. To recall, the city exchange has been shut down four times in 2023 due to severe weather conditions. Additionally, the HKEX also proposed a new treasury share regime and suggested to abolish the requirement to cancel repurchased shares. We believe that the new stock repurchase mechanism provides listed companies with greater flexibility and will encourage more share buyback activities in the future. Therefore, we expect these efforts could enhance the competitiveness of the Hong Kong stock market and its attractiveness to listed companies and investors.

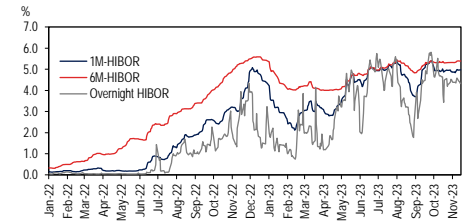
EARNINGS REVISION/RISK

- We slightly trimmed our headline ADT assumptions to HK\$103.7b** after factoring in Oct 23 and mtd trading volume.
- Downside risks:** a) Sluggish headline ADT and IPO market, and b) one-off legal provision from LME nickel lawsuit.

VALUATION/RECOMMENDATION

- Maintain BUY with target price of HK\$370.00.** Our target price is derived from the Gordon Growth Model with the assumption of 6.6% cost of equity and 4.0% terminal growth, implying to 2024F PE of 36.6x, on par with its historical mean. Despite the cautious market sentiment due to rising headwind in China economic outlook, we expect positive price action of HKEX in near term, underpinned by the expectations on potential year-end rally and earlier rate cut in US to enhance the market sentiments.

HIBOR TREND



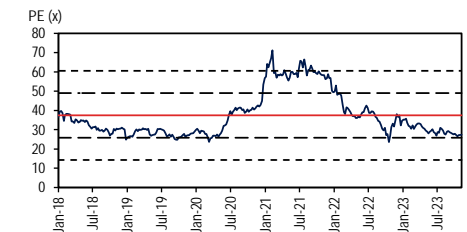
Source: Bloomberg, UOB Kay Hian

HKEX TRADING REVENUE KEY ASSUMPTIONS

(%)	2023F	2024F	2025F
Cash ADT (HK\$b)	103.7	112.0	131.1
Futures ADV ('000)	744.4	778.6	834.4
Stock Option ADV ('000)	627.2	659.3	704.8
LME ADV ('000)	550.7	575.2	599.6

Source: UOB Kay Hian

HKEX FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

HKEX, HANG SENG INDEX AND US10Y TREND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Net turnover	18,280.0	20,628.3	22,193.4	23,983.5
EBITDA	13,185.0	15,309.0	16,623.6	18,066.5
Deprec. & amort.	1,459.0	1,487.4	1,561.7	1,639.8
EBIT	11,726.0	13,821.7	15,061.9	16,426.7
Associate contributions	(67.0)	(59.0)	(80.0)	(80.0)
Pre-tax profit	11,659.0	13,762.7	14,981.9	16,346.7
Tax	(1,564.0)	(1,450.0)	(1,662.1)	(1,873.8)
Minorities	(17.0)	(92.4)	(46.2)	(67.0)
Net profit	10,078.0	12,220.2	13,273.6	14,405.9
Net profit (adj.)	10,078.0	12,220.2	13,273.6	14,405.9

CASH FLOW

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Operating	17,092.2	18,390.7	19,790.4	21,299.3
Pre-tax profit	13,688.4	14,646.6	15,671.9	16,768.9
Other operating cashflows	3,403.7	3,744.1	4,118.5	4,530.4
Investing	(5,950.1)	(5,611.8)	(5,502.7)	(5,607.6)
Proceeds from sale of assets	67.8	74.5	82.0	90.2
Others	(6,017.9)	(5,686.3)	(5,584.7)	(5,697.8)
Financing	(9,022.6)	(10,748.0)	(674.8)	(1,607.6)
Dividend payments	(8,449.4)	(9,294.4)	0.0	0.0
Proceeds from borrowings	(44.6)	(53.6)	(64.3)	(77.1)
Others/interest paid	(528.6)	(1,400.1)	(610.6)	(1,530.4)
Net cash inflow (outflow)	2,119.4	2,030.9	13,612.9	14,084.1
Beginning cash & cash equivalent	11,689.8	12,274.3	12,888.0	13,532.4
Changes due to forex impact	26.0	26.0	26.0	27.0
Ending cash & cash equivalent	13,011.1	14,312.2	15,743.5	17,317.8

BALANCE SHEET

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Fixed assets	1,640.0	1,804.0	1,984.4	2,182.8
Other LT assets	21,933.0	24,126.3	26,538.9	29,192.8
Cash/ST investment	13,011.1	14,312.2	15,743.5	17,317.8
Other current assets	369,466.9	402,564.9	438,982.4	479,022.3
Total assets	406,051.0	442,807.4	483,249.2	527,715.7
ST debt	809.0	866.7	953.4	1,048.7
Other current liabilities	352,139.0	387,376.1	426,113.7	468,725.1
LT debt	1,509.0	1,659.9	1,825.9	2,008.5
Other LT liabilities	1,495.0	1,644.5	1,809.0	1,989.8
Shareholders' equity	49,728.0	50,852.1	52,098.4	53,449.8
Minority interest	371.0	408.1	448.9	493.8
Total liabilities & equity	406,051.0	442,807.4	483,249.2	527,715.7

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	72.1	74.2	74.9	75.3
Pre-tax margin	63.8	66.7	67.5	68.2
Net margin	55.1	59.2	59.8	60.1
ROA	2.5	2.9	2.9	2.8
ROE	20.3	24.3	25.8	27.3
Growth				
Turnover	(12.1)	12.8	7.6	8.1
EBITDA	(19.0)	16.1	8.6	8.7
Pre-tax profit	(21.2)	18.0	8.9	9.1
Net profit	(19.4)	21.3	8.6	8.5
Net profit (adj.)	(19.4)	21.3	8.6	8.5
EPS	(19.2)	20.6	8.9	8.0
Leverage				
Debt to total capital	4.4	4.7	5.0	5.4
Debt to equity	4.7	5.0	5.3	5.7
Net debt/(cash) to equity	(21.5)	(23.2)	(24.9)	(26.7)

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