

### COMPANY RESULTS

## Hong Kong Exchanges and Clearing (388 HK)

1H23: Historically High NII And Derivative ADV Boost Earnings

**HKEX reported its second-best interim results with an 18.1% and 33.9% yoy growth in revenue and net profit respectively due to the strong performance from net investment income and derivative trading, partly offset by sluggish headline ADT in 1H23. The IPO market looks set to recover and the expansion of Stock Connect is on track. Looking ahead, the NII is expected to decline in the coming quarters as we approach the end of the US rate hike cycle. Maintain BUY with an unchanged target price of HK\$380.00.**

### 1H23 RESULTS

Year to 31 Dec (HK\$m)	1H23	1H22	yoy%	2Q23	qoq%	yoy%
Total Revenue	10,575	8,937	18.3	5,017	-9.7	18.1
Core Revenue	7,858	8,811	-10.8	3,843	-4.3	-8.7
NII and other income	2,717	126	2,056.3	1,174	-23.9	3,073
EBITDA	7,859	6,394	22.9	3,650	-13.3	25.0
Net Profit	6,312	4,836	30.5	2,904	-14.8	33.9
EPS	5.0	3.8	30.6	2.3	-14.3	34.7
DPS (HK\$)	4.5	3.5	30.4			
EBITDA Margin (%)	74.3	71.5	2.8ppt	72.8	-3.0ppt	4.0ppt
Net Profit Margin (%)	59.7	54.1	5.6ppt	57.9	-3.4ppt	6.8ppt
Dividend Payout Ratio (%)	90.2	90.3	-0.1ppt			

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

### RESULTS

- Second-best interim results.** Hong Kong Exchanges and Clearing (HKEX) posted 2Q23 revenue and net profit of HK\$5,017m (+18.1% yoy) and HK\$2,904m (+33.9% yoy) respectively, bringing its 1H23 top-line and bottom line to HK\$10,575m (+18.3% yoy) and HK\$6,312m (+30.5% yoy), representing 49.6% and 50.1% of our full-year estimates. The significant growth in earnings is attributed to: a) the whopping net investment income (NII) from Participants Funds (Margin Funds and Clearing House Funds) as a result of high interest rate environment; and b) record-high half-yearly derivatives contracts' average daily volume (ADV) at 1.4m contracts in 1H23, indicating a 5% yoy increase.
- 2Q23 performance missed expectations.** HKEX's 2Q23 revenue and net profit came in 3% below our and street estimates. Net profit dropped by 14.8% qoq due to the 20.8% yoy slippage in headline average daily turnover (ADT) and higher-than-expected interest rebates paid to exchange participants following the surge of 1M HIBOR, partly offset by increasing LME's ADV and high depository fees due to seasonality.

### KEY FINANCIALS

Year to 31 Dec (HK\$m)	2021	2022	2023F	2024F	2025F
Net turnover	20,800	18,280	20,875	22,229	23,659
EBITDA	16,271	13,185	15,526	16,623	17,707
Operating profit	14,916	11,726	14,028	15,050	16,055
Net profit (rep./act.)	12,497	10,078	12,336	13,153	13,957
Net profit (adj.)	12,497	10,078	12,336	13,153	13,957
EPS (HK\$ cent)	988.7	804.9	973.1	1,040.6	1,099.0
PE (x)	30.3	37.2	30.8	28.8	27.3
P/B (x)	7.6	7.6	7.5	7.2	7.1
EV/EBITDA (x)	22.6	27.9	23.7	22.2	20.8
Dividend yield (%)	3.0	2.4	2.9	3.1	3.3
Net margin (%)	60.1	55.1	59.1	59.2	59.0
Net debt/(cash) to equity (%)	(18.6)	(21.5)	(23.2)	(24.9)	(26.7)
ROE (%)	25.4	20.3	24.5	25.5	26.5
Consensus net profit	-	-	13,003	13,954	14,976
UOBKH/Consensus (x)	-	-	0.95	0.94	0.93

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

### BUY

(Maintained)

Share Price	HK\$299.60
Target Price	HK\$380.00
Upside	+26.8%

### 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):	386,183.1
Market cap (US\$m):	49,390.3
3-mth avg daily t'over (US\$m):	149.0

### Price Performance (%)

52-week high/low	HK\$377.40/HK\$209.00
1mth	(0.6)
3mth	(3.9)
6mth	(10.5)
1yr	(13.6)
YTD	(11.2)

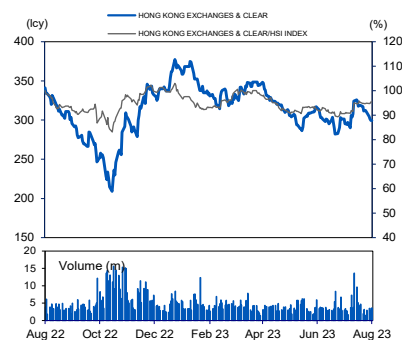
### Major Shareholders

The Government of Hong Kong SAR	5.8%
---------------------------------	------

FY23 NAV/Share (HK\$) 40.12

FY23 Net Cash/Share (HK\$) 9.30

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

**Greater China Research Team**  
+852 2236 6799  
reseachhk@uobkayhian.com.hk

- Diversification in other markets alleviated sliding trading volumes in cash market.** As per our previous note, strong ADV performance from the derivatives and commodity market in 1H23 with 5% and 6% yoy respective growths have mitigated the impact of lower cash market volumes. Additionally, the ADT of ETPs (ETF and L&I products) increased 18% yoy to HK\$13.9b in 1H23, partly attributable to the inclusion of ETFs in Southbound Stock Connect.
- Stock Connect programme expands steadily after rollout of few initiatives.** The ADT of Southbound and Northbound trading rose 1.7% and 5.2% yoy respectively in 1H23 after a few enhancements such as: a) expansion of eligible stock under Stock Connect, b) launch of Swap Connect, and c) addition of ETFs in Stock Connect, and d) optimisation of Stock Connect trading calendar. Despite Stock Connect revenue falling 3% yoy due to the lower clearing fees from Northbound trading, we maintain our optimism regarding its ADT in future as it will benefit from upcoming initiatives such as: a) introduction of block trading under Stock Connect, and b) inclusion of Stock Connect into the HKD-RMB Dual Counter Model.

### STOCK IMPACT

- NII could reduce as rates will peak soon.** The exceptional jump in net interest income to HK\$2.7b fuelled HKEX's earnings in 1H23 amid lacklustre growth in core trading revenue. However, management guided that interest income from Participants Funds and internal Corporate Funds will reduce in the coming quarter given that the US rate hike cycle is nearing an end. The reduction of Margin Funds as a result of low cash market turnover might also negatively impact HKEX's NII.
- The IPO market remained resilient in 1H23** as a total of 33 issuers completed IPOs (vs 27 in 1H22) and raised a total of HK\$17.9b (vs HK\$24.7b in 1H22). The IPO pipeline remains strong with 104 active applicants (vs 92 in Mar 23) as at end of Jun 23. Management pointed out that IPO funds raised may improve in the coming quarters as there are a number of larger IPOs in the queue.
- Stamp duty cut to revive market turnover is unlikely to take place in near future.** The reduction of stamp duty was proposed by market participants in the recent meeting between HKEX and major banks in hopes of stimulating the sluggish trading volume. Indeed, the 30% hike in stamp duty by the government in 2021 contributed to the reduction of ADT starting from Aug 21. However, it is believed that the government is reluctant to scale back the increment as the economy remains weak, and stamp duty via stock trading is considered one of the major fund sources for the Hong Kong government, accounting for 17.4% of total revenue collected in 2021-22.

### EARNINGS REVISION/RISK

- We cut our earnings forecasts for 2023/24/25 by 2%** to factor in the decline of NII.
- Downside risks:** a) Rising macro headwinds leading to lower turnover and sluggish IPO activities, and b) one-off legal provision from LME nickel lawsuit.

### VALUATION/RECOMMENDATION

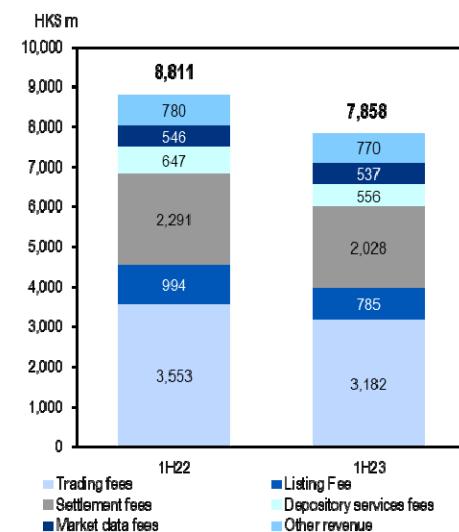
- Maintain BUY with unchanged target price of HK\$380.00.** Our target price is derived from the Gordon Growth model with the assumption of 6.4% cost of equity, 4.0% sustainable growth and 90% dividend payout ratio, pegging to 2024F PE of 37.6X. We think that HKEX's current valuation of -0.5SD is not particularly pricey as the market has priced in stagnant capital market activities and China's disappointing macro recovery.

### 1H23 MARKET STATISTICS

	1H23	1H22	yoy %	2Q23	2Q22	qoq %	yoy %
Headline ADT (HK\$b)	115.5	138.3	-16.5	102.8	129.7	-19.6	-20.8
Northbound Trading ADT (Rmb\$b)	109.3	103.9	5.2	122.5	101.8	26.2	20.4
Southbound Trading ADT (\$bn)	33.8	33.2	1.7	30.1	30.9	-19.8	-2.3
Derivatives contracts ADV ('000 contracts)	735.0	701.0	4.9	717.0	704.0	-4.8	1.8
Stock options contracts ADV ('000 contracts)	633.0	604.0	4.8	599.0	570.0	-9.9	5.1
LME ADV ('000 lots)	569.1	539.0	5.6	606.0	515.0	14.1	17.7

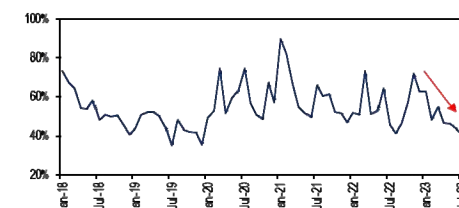
Source: Hong Kong Exchanges and Clearing Ltd., UOB Kay Hian

### HKEX CORE REVENUE BREAKDOWN



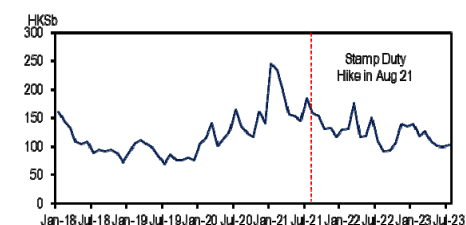
Source: HKEX, UOB Kay Hian

### HKEX EQUITY VELOCITY TURNOVER (%)



Source: HKEX, UOB Kay Hian

### HKEX CASH ADT TREND AFTER STAMP DUTY HIKE



Source: HKEX, UOB Kay Hian

### HKEX TRADING REVENUE KEY ASSUMPTIONS

(%)	2023F	2024F	2025F
Cash ADT (HK\$b)	108.9	122.3	136.5
Futures ADV ('000)	753.3	810.8	861.9
Stock Option ADV ('000)	629.5	669.6	709.9
LME ADV ('000)	585.4	608.4	634.1

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Net turnover	18,280.0	20,874.7	22,228.5	23,658.7
EBITDA	13,185.0	15,526.4	16,623.5	17,707.1
Deprec. & amort.	1,459.0	1,498.1	1,573.0	1,651.7
EBIT	11,726.0	14,028.3	15,050.4	16,055.4
Associate contributions	(67.0)	(71.0)	(80.0)	(80.0)
<b>Pre-tax profit</b>	<b>11,659.0</b>	<b>13,957.3</b>	<b>14,970.4</b>	<b>15,975.4</b>
Tax	(1,564.0)	(1,559.1)	(1,785.6)	(1,972.3)
Minorities	(17.0)	(61.7)	(32.0)	(46.2)
<b>Net profit</b>	<b>10,078.0</b>	<b>12,336.5</b>	<b>13,152.9</b>	<b>13,956.9</b>
Net profit (adj.)	10,078.0	12,336.5	13,152.9	13,956.9

### 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	402,576.5	438,982.0	478,976.9
<b>Total assets</b>	<b>406,051.0</b>	<b>442,819.0</b>	<b>483,248.8</b>	<b>527,670.4</b>
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	50,863.7	52,098.0	53,404.5
Minority interest	371.0	408.1	448.9	493.8
<b>Total liabilities &amp; equity</b>	<b>406,051.0</b>	<b>442,819.0</b>	<b>483,248.8</b>	<b>527,670.4</b>

### CASH FLOW

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>17,092.2</b>	<b>18,390.7</b>	<b>19,790.4</b>	<b>21,299.3</b>
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
<b>Investing</b>	<b>(5,950.1)</b>	<b>(5,611.8)</b>	<b>(5,502.7)</b>	<b>(5,607.6)</b>
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)
<b>Financing</b>	<b>(9,022.6)</b>	<b>(10,748.0)</b>	<b>(674.8)</b>	<b>(1,607.6)</b>
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)
<b>Net cash inflow (outflow)</b>	<b>2,119.4</b>	<b>2,030.9</b>	<b>13,612.9</b>	<b>14,084.1</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>11,689.8</b>	<b>12,274.3</b>	<b>12,888.0</b>	<b>13,532.4</b>
Changes due to forex impact	26.0	26.0	26.0	27.0
<b>Ending cash &amp; cash equivalent</b>	<b>13,011.1</b>	<b>14,312.2</b>	<b>15,743.5</b>	<b>17,317.8</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	72.1	74.4	74.8	74.8
Pre-tax margin	63.8	66.9	67.3	67.5
Net margin	55.1	59.1	59.2	59.0
ROA	2.5	2.9	2.8	2.8
ROE	20.3	24.5	25.5	26.5
<b>Growth</b>				
Turnover	(12.1)	14.2	6.5	6.4
EBITDA	(19.0)	17.8	7.1	6.5
Pre-tax profit	(21.2)	19.7	7.3	6.7
Net profit	(19.4)	22.4	6.6	6.1
Net profit (adj.)	(19.4)	22.4	6.6	6.1
EPS	(18.6)	20.9	6.9	5.6
<b>Leverage</b>				
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)

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W