

Securities	Last Close	Target Price	Upside	21 January 2021
	US\$ 69.38	US\$ 90.00	+29.7%	

## Futu Holdings Ltd (FUTU US)

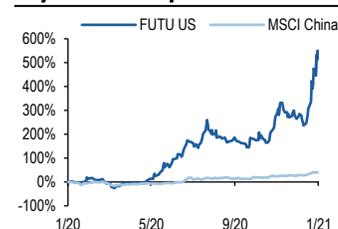
### Tech-driven, burgeoning e-broker, initiate with Buy

- ⊕ **Leading online securities broker with edges in technologies, service capabilities and comprehensive licenses.** Committing a high proportion of its revenue to R&D, Futu enjoys peer-leading strength in technology. While its fee rates slightly exceed peers, its products boast powerful functions, with better services. Moreover, it is licensed comprehensively, thus making business cost savings possible. As the company plans to accelerate expansions in Singapore and Hong Kong markets, we expect abundant business growth potential.
- ⊕ **Burgeoning customer base by leveraging ecosystem for acquisition.** Centering around its core Futu Niuniu app, Futu has built a closed-loop ecosystem gathering enterprise and retail customers, buy-side and sell-side analysts, investors and KOLs. Its ESOP (employee stock ownership program) enterprise services help divert traffic toward retail business. In addition, clients are growing faster, driven by large IPOs. Since 2017, customer base/asset size have soared, and customer conversion rate improved. Its customer acquisition cost has a high negative correlation with market performance, and we expect marketing expense ratio to trend down.
- ⊕ **Steady transformation to wealth management (WM) business; upside ample.** US e-broker Charles Schwab (SCHW US/NR) is a paragon of e-brokers' business shift from brokerage to WM. Since 2019, Futu has made layout in WM, by launching its WM brand, enriching product categories and functions, attracting customers via 0 subscription fee, and applying for a variety of financial licenses.
- ⊕ **Tech backing from Tencent.** Strategic shareholder Tencent's cloud services support Futu's core system. As Futu's first ESOP business user, Tencent not only acts as a huge customer, but also helps enhance its business capabilities. With the tech giant influencing its culture and operation, Futu has absorbed Tencent's gamification style to strengthen appeal to customers.
- ⊕ **Initiate with Buy & US\$90.0 TP.** Future growth drivers: surge in paying clients led by persistent HK IPO growth, geographical business expansion, and WM transformation. We expect FY20 revenue/net profit growth of 191%/739% YoY, and FY21-23 CAGRs of 25%/30%. Our US\$90.0 TP is based on 1.1x 21E PEG.
- ⊕ **Main risks:** Less-than-expected new customers on competition; miss in US/HK market trading; simple B/S structure and results uncertainty; regulatory change.

### Stock Rating

**BUY**

### 1-year stock performance



Source: FactSet

### Stock data

52w high (US\$)	73.01
52w low (US\$)	8.34
Market cap (US\$ m)	9,389.20
Avg daily vol (m)	5.89
YTD change (%)	51.65
200d MA (US\$)	36.49

Source: FactSet

### Jingyi Zhang, CFA

jingyi.zhang@bocomgroup.com  
(86) 10 8800 9788-8053

### Li Wan, CFA, FRM

wanli@bocomgroup.com  
(86) 10 8800 9788-8051

### Financial highlights

Y/E 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (HK\$ m)	811	1,062	3,087	4,396	5,716
YoY growth (%)	160.3	30.8	190.8	42.4	30.0
Net profit (HK\$ m)	139	166	1,202	1,862	2,565
EPS (HK\$)	0.73	1.38	9.05	13.76	18.95
YoY growth (%)	-166.2	87.9	558.3	52.0	37.7
P/E (x)	735.0	391.2	59.4	39.1	28.4
BVPS (HK\$)	21.80	24.48	46.03	58.92	77.87
P/B (x)	24.68	21.97	11.69	9.13	6.91

Source: Company data, BOCOM Int'l estimates

This is a translation of the report “[富途控股 \(FUTU US\) - 科技实力领先的高成长性互联网券商，首予买入评级](#)” dated 18 January 2021

Analyst certifications, disclosures and disclaimer at the back forms part of this report and must be read.

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## Pure Online Securities Broker Powered by Technology

Futu is an online securities brokerage company which has rapidly emerged to meet the investment needs of mainland investors for Hong Kong and US stocks. Now, its retail securities brokerage business in the local market of Hong Kong has achieved rapid development, and it has been approved to start business in Singapore. We expect the company to grow rapidly in both Hong Kong and Singapore markets in future. At present, its income is mainly derived from brokerage business. Meanwhile, it is actively making layouts in wealth management (WM) business and transforming into a WM platform.

In 2007, Shenzhen Futu Network Technology Co Ltd. was established, mainly providing internet technology and software development services. In 2012, Futu International Hong Kong was established and carried out the company's major businesses. Since then, Futu has successively obtained No.1/2/3/4/5/7/9 licenses from the Hong Kong SFC and US broker-dealer license. Futu Niuniu, its digital financial platform, provides investors with trading, margin trading and short selling services for Hong Kong stocks, US stocks, A shares (through Shanghai and Shenzhen Stock Connects). In March 2019, its parent company, Futu Holdings, went public on Nasdaq.

## Emergence to cater to overseas investment needs of mainland investors

**Mainland investors have strong demand for overseas asset allocation.** With the growing wealth of mainland residents, the demand for cross-regional diversification of investment has been rising, and the demand for overseas asset allocation is strong. According to Oliver Wyman, the overseas investment assets of mainland Chinese investors are expected to grow from US\$1.1trn in 2017 to US\$3.5trn in 2022, with a CAGR of 25.8%.

**Internet brokers have developed rapidly in response to mainland investors' demand for overseas securities investment.** Compared with traditional securities firms, e-brokers' cost of acquiring and monetizing customers is lower, and commission rate is more attractive. In the HK market, e-brokers engaging in HK/US stocks that cater to Chinese customers mainly include Futu, Tiger, Snowball X and Valuable Capital. Futu and Tiger are the largest and both are listed in the US. Tiger Securities was founded in 2014 and invested by Xiaomi and Interactive Brokers. It provides retail clients with online trading services for US and HK stocks and derivatives, as well as enterprise clients with IPO underwriting/distribution and ESOP solutions.

## Core competitiveness in technology, services and comprehensive licenses

Hong Kong's retail securities brokerage services are provided by three types of companies: traditional big banks, integrated securities brokers and e-brokers. Big banks can provide comprehensive financial services to customers, but they charge the highest commission rates, usually more than 0.1%. For integrated brokers, retail brokerage is often not their strategic development focus in Hong Kong, and they make limited

investments in R&D and staff team. E-brokers charge low commissions, while they provide convenient and fast services, which fuel their fast growth.

Compared with e-broker peers in the HK market, Futu has prominent competitive advantages: technology, services and licenses.

**(1) Strong independent R&D capabilities, high R&D input, leading technological strength**

**Commitment to independent R&D; superior trading systems.** Futu chose to develop its own trading system when it was founded 8 years ago. At present, it has built a complete technology closed-loop for front, middle and back offices, successfully creating an industry-leading trading system for US and HK stocks with ultra-low latency and ultra-high concurrency. Other internet brokers do not have their own trading systems due to cost and license limitations. For example, Tiger and Snowball are agents of Interactive Brokers, and need to incur high intermediate costs.

The company's proprietary technology infrastructure covers the complete process from the client end to the backend, including account opening, trading, risk control, settlement, market quotation, information and so on. Futu has drawn lessons from Tencent's 100m-strong user service and R&D experience. Proprietary infrastructure has sharp edges in high scalability, low operating costs, high reliability and information security, while those non-proprietary trading systems are prone to congestion.

**Futu attaches great importance to R&D team nurturing; R&D investment accounts for ~20% of revenue.** Chen Weihua, former chief technology officer (CTO) of the company, came from Tencent, and has rich experience in security and big data of QQ and WeChat. As of October 2020, the R&D personnel of Futu accounted for more than 70% of its employees, much higher than peers. In addition, its R&D investment is also high. From 2017 to 2019, the CAGR of Futu's R&D expenses came to 66%, compared to revenue CAGR of 85%, and accounted for ~20% of revenue.

For the past eight years, Futu has been continuously investing in R&D, and its R&D experience and infrastructure advantages are difficult to emulate in the short term.

**(2) Commission rate higher than e-broker peers; products and services have sharp edges**

**Futu's commission rate is far lower than traditional brokers, but higher than e-broker peers.** Futu's commission rate on HK stocks is generally the same as Tiger and Snowball, but that on US stocks is slightly higher; its HK/US margin financing rate is a higher than the latter.

**Unrivalled products and services.** This is exemplified by: (1) the Chinese language customer service hours are the longest, (2) eDDA and bank-broker transfer are simple and fast ways to deposit funds, which improve the efficiency of transfer and trading motivation, (3) powerful proprietary trading system, offering high speed, security and stability, and (4) profuse consulting services and market data for retail customers at low costs, and (5) a fair US IPO allocation mechanism.

**Figure 1: Futu vs. Tiger Securities/Snowball X**

	Futu	Tiger Securities	Snowball X
License	HK SFC-licensed corporation, Type 1/2/3/4/5/7/9 licenses US brokerage and clearing licenses	New Zealand and Singapore registered financial service providers Agent for Interactive Brokers in HK, no HK license Various licenses in the US	New Zealand registered financial service providers Agent for Interactive Brokers in HK and the US
Chinese customer service	Trading day: all day Non-trading day: 09:30-21:30	Trading day: 09:30-05:00+1	Trading day: 09:00-05:00+1(US Daylight Time)/09:00-06:00+1(US Standard Time)
Gifts for account opening	0 commission for HK stocks in 180 days, various stock vouchers (for Tencent, Alibaba, Meituan, Tesla etc.) for free if first time funding $\geq$ HK\$20,000	1 share of Alibaba (H) or 10 shares of Xiaomi (H) for free if first time funding $\geq$ US\$3,000	HK\$100-566 rebate and commission allowances $\geq$ HK\$160 if funding $\geq$ HKD20,000
Deposit threshold	No threshold (except for HK online account opening, min deposit $\geq$ HK\$10,000)	No threshold	No threshold Will charge service fees if deposit <US\$1,000; will prohibit margin trade if <US\$2,000
Guidelines for fund deposit	Support bank accounts from HK, US, Taiwan, etc.; For HK card, recommended methods: 1) eDDA: give instructions via Futu app or website – Futu withhold funds from bank account (~5 minutes, free of charge, 5*24hours available, support 11 HK banks); 2) Bank-broker transfer: give instructions via online banking – Futu receives funds (~5 minutes, free of charge, during limited hours, support CMB HK and Minsheng Bank HK)	Support global bank accounts Fund remittance to US or HK – Notification check – Received ( $\geq$ 1 working day after informing Tiger between 9-18:00 during working hours)	Support HK bank account Fund remittance to HK – Notification check – Received ( $\geq$ 2 hours after informing Snowball between 9-15:00 during working hours)
Currency exchange	Real time currency exchange for HKD, USD, and CNH	USD exchangeable for all currencies Free of charge; during trading hours	Currency exchange fee: 0.002% ( $\leq$ US\$2 per deal)
Commission rate	HK stock	0.03% of trading value (min HK\$3 per deal) + platform fee HK\$15 per deal	0.03% of trading value (min HK\$3 per deal)+ platform fee HK\$15 per deal
	US stock	US\$0.0049 per share (min US\$0.99)+ platform fee US\$0.005 per share (min US\$1)	US\$0.0039 per share (min US\$0.99)+ platform fee US\$0.004 per share (min US\$1)
Margin financing rate	HK stock	6.8%; up to 2x leverage	Declining fee rate structure, 3.648-4.648%; up to 4x leverage T+0 day, 2x leverage T+1 day
	US stock	4.8%; up to 2x leverage	Declining fee rate structure, 2.75-3.59%; up to 4x leverage T+0 day, 2x leverage T+1 day
Securities lending rate	HK stock	Depending on individual stocks	Service not available
	US stock	Depending on individual stocks	Depending on individual stocks
IPO subscription fee rate	HK stock	Service charge: cash subscription HK\$50, margin subscription HK\$100 (up to 10x leverage, interest rate according to the market, $\geq$ 1.6%) Trading commission: 1.0077% of trading value	Service charge: (default) margin subscription HK\$100 (interest rate according to the market, ~4%) Trading commission: 1.0077% of trading value
	US stock	0	0
Agency sale of fund products	0 subscription/redemption fee for all fund products (during promotion period)	Currency fund 0.18% (0 during promotion), bond fund 1% (0.8% during promotion), equity fund 1.5% (1.2% during promotion); 0 redemption fee	Service not available

Source: Various companies (11 January 2021 data), BOCOM Int'l

### **(3) Full range of business licenses**

**Holding of complete range of business licenses reduces business costs.** Futu has obtained No.1/2/3/4/5/7/9 licenses in the HK market, while Tiger and Snowball have no HK license and are merely acting as agents of Interactive Brokers. Customer assets belong to the broker service supplier, i.e. Interactive Brokers, but not brokerage agents who are not qualified to hold user funds. Therefore, it is difficult to define the responsible entity in funds security issues, thus engendering certain risks for agents. Moreover, agents need to pay intermediate fees to broker service suppliers, which increases their operating costs.

In the US stock market, Futu has a brokerage license, clearing license, registered investment license, etc. Among them, the clearing license was obtained in mid-2019. Consequently, the company is planning to move the US stock clearing onto its self-developed clearing system from 2021. The migration is expected to generate additional profit of at least US\$50m. As for the Singapore market, Futu obtained the capital market service license in October 2020, paving the way for future layouts in the city-state.

In August 2019, the company obtained the No. 7 license issued by HKSF, and then launched the self-developed grey-market trading system. Grey-market trading is a price-matching trade mechanism that occurs after the market closes the day before an IPO in Hong Kong. The trades do not go through the Hong Kong Stock Exchange, but through the internal systems of the broker that provides the service. Grey-market trading offers investors that have already been allotted shares of an IPO stock a chance to sell early and lock in gains, and investors that have not been allotted shares a chance to buy before trading debut. Most grey-market trades rise and fall in line with the first-day movements of an IPO stock, reflecting how popular a new stock is.

In August 2019, the company launched agency sale services for US/HK stock funds and bond funds; in September, it cut the subscription fee for all funds to zero. After launching a series of new businesses such as grey market trading and fund distribution sales, the net increase in the number of paying clients accelerated.

At the end of 2020, the company obtained the No.3 license from the HKSF, to conduct leveraged forex trading activities. As of 3Q20, only 37 organizations in Hong Kong were granted this license. We expect the company's business scope to further expand in the future.

### **Overseas market expansion accelerating, business upside still ample**

Futu's business started from meeting the overseas investment needs of mainland investors, but its development is not limited to this. Its expansion in overseas markets is accelerating, and HK and Singapore are expected to be the key markets for future customer growth.

Futu had 418,000 paying clients at end-3Q20 (est. to grow to 480,000 by end-2020). The company plans to have 1m paying clients by the end of 2022E.

21 January 2021

## **Futu Holdings Ltd (FUTU US)**

For a geographical breakdown of customers, the proportion of Hong Kong customers is on the rise. The proportion of Hong Kong customers had gone up from ~30% at the beginning of 2020 to >40% at end-3Q20. Since 2020 start, the mainland and Hong Kong customers accounted for ~50% of incremental customers, respectively.

Considering the domestic capital controls, the company's mainland client expansion focuses on individuals who already own overseas assets. In mainland China, Futu mainly taps customers with overseas assets through specific channels, such as brand marketing to new energy car owners.

Out of about 2m retail brokerage customers in the Hong Kong market, Futu currently has <200,000 customers in the city. It sets a long-term goal of 30% market share, or >600,000 customers.

Futu plans to start business in the Singapore market in 1H21. The competitive landscape in the Singapore market is similar to that in Hong Kong, and pure online operation is relatively new in Singapore. The company plans to enter the Singapore market through (1) commission discount, (2) online-only operation, and (3) online + offline brand launch campaign, and other ways to enhance its international influence.

## Surging Client Gains from Ecosystem; Marketing Expense Ratio to Ease Ahead

Focusing on its main product Futu Niuniu app, Futu has built an ecosystem gathering core groups including enterprise/retail customers, buy-side/sell-side analysts, investors, KOLs (key opinion leaders) and so on, forming a closed loop for business. The company focuses on online channels to gain customers, earns retail customers diverted from its enterprise business, and takes advantage of mammoth IPOs to accelerate customer growth.

Customer management of the company has been effective. Since 2017, the number of customers and the size of assets have soared, and the customer conversion rate has improved. The company has a high ARPU (average revenue per paying user), which increased in 9M20 compared to FY18/FY19. We expect marketing expenses to decline as a percentage of revenue.

### Customer gains via ecosystem, expedited by big IPOs

The company's main product is the one-stop investment platform Futu Niuniu app, launched in 2013. The app has achieved full coverage of Hong Kong/US/A-share (through Shanghai and Shenzhen Stock Connects), and its users can carry out most securities trading operations on Futu Niuniu, including information acquisition, account opening, money in-and-out, trading, settlement and so on. For individual users, the company has launched social network services NiuNiu Community, to provide a platform for exchange between users, users and enterprises, as well as users and Futu. For corporate users, the company has launched Futu IE, which offers IPO distribution, employee stock ownership plan (ESOP) and investor relations solutions.

**A comprehensive channel layout for customer acquisition.** In 2020, the natural traffic brought by word-of-mouth marketing accounted for more than half of the company's new paying clients, mainly due to the increasing proportion of new customers in Hong Kong. Users who successfully refer new customers are given stock vouchers and other related rewards as incentives. In terms of advertising, Futu emphasizes online and offline integration in order to reach a wider range of customer groups. In terms of channels, Futu carries out targeted marketing on popular local internet platforms. It cooperates with KOLs on Facebook and other platforms in Hong Kong, and with Zhihu and HK/US stock WeChat public accounts on the mainland.

**Social network platform Niuniu Community to bring customers better experience; forum users act as major source of trading customers.** Niuniu Community has more than 500,000 daily active users (DAU) and more than 100,000 units of daily user-generated content. Futu executives also actively interact with users through Niuniu Community. In 2019, Futu initiates enterprise accounts, and now more than 300 US and Hong Kong listed companies, such as Tencent, Tesla and Meituan, are hosting their accounts. Enterprises can carry out online live broadcasts, interactive Q&A, results meeting and other activities through public accounts to alleviate the information asymmetry between enterprises and individual investors.

**ESOP enterprise services bring in clients for retail business.** The company provides ESOP management services for US/HK listed or to-be-listed enterprises. Through its corporate service brand Futu IE, the company provides one-stop management services from equity award to right-exercise transactions. In 2020, the company's ESOP SaaS platform was the first one in China to obtain ISO 27701 certification, the world's highest level of privacy information system certification. Up to 3Q20, Futu IE's customers included Tencent, Tongcheng Elong, Zhihu, Mogu and 126 others. The company acquires corporate customers through Futu IE, and ESOP shareholding employees, after exercising their rights, directly become Futu's paying clients, thus diverting customer traffic toward its retail business. At present, 15% of Futu's new clients come from enterprise services.

**Big IPOs drive client growth.** In August 2019, the company obtained the No. 7 license issued by the HKSCF, and then launched the self-developed grey-market trading system. Due to the stable, high-speed performance and large customer scale of the system, it can bring higher returns to customers before the listing of new shares, and the IPO subscription business of Futu has strong competitiveness. Generally, in 1-2 weeks before a large IPO, Futu will see a significant increase in client base. In the IPO subscription of Nongfu Spring (9633 HK), Futu received 116,000 subscriptions, accounting for ~1/3 of the number of paying clients at the end of 3Q20. In the two weeks prior to Ant Group's planned IPO, the number of paying clients surged. So far, Futu has conducted subscription business for more than 20 US and Hong Kong IPOs whose subscription scale exceeds HK\$10bn, thus attracting a large number of IPO subscription customers.

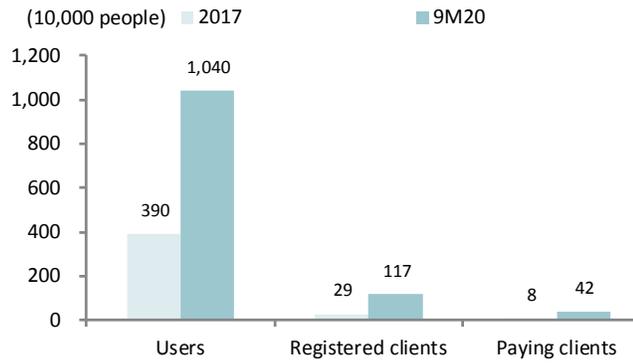
### Rapid customer growth, ARPU on the rise

**Customer base and asset scale spiked, and conversion rate improved.** In 3Q20, the number of users, registered clients and paying clients reached 10.4m/1.17m/0.42m, increasing 1.7x/3.1x/4.2x respectively from end-2017. While the scales of various types of users have leapt, customer conversion has also improved. At end-3Q20, the registered client ratio (registered clients/total users) increased 4ppts from 2017 to 11%, and the paying client ratio (paying clients/registered clients) increased 8ppts from 2017 to 36%. The improvement in the conversion rate was mainly due to the increase in the proportion of the company's Hong Kong customers. Hong Kong customers need to deposit at least HK\$10,000 to activate their A-share account online, so the rate of paying clients is 100%. The conversion rate on mainland customers is lower at about 30%.

Customer retention has been maintained at 98% every quarter since 2019.

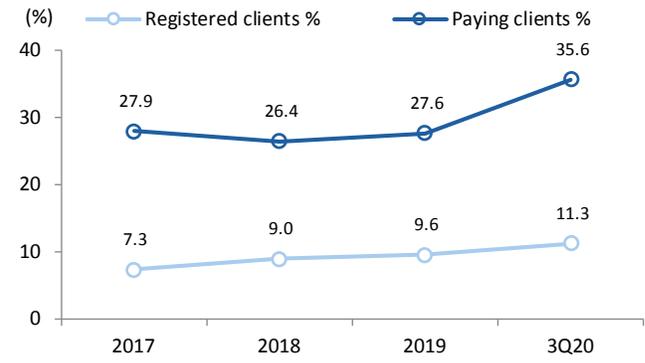
Client asset size increased by 3.5x from end-2017, and the average client assets (total client assets/number of paying clients) reached HK\$480,000 at end-3Q20.

**Figure 2: Change in user and customer growth**



Source: Company data, BOCOM Int'l

**Figure 3: Trends in registered client ratio and paying client ratio**

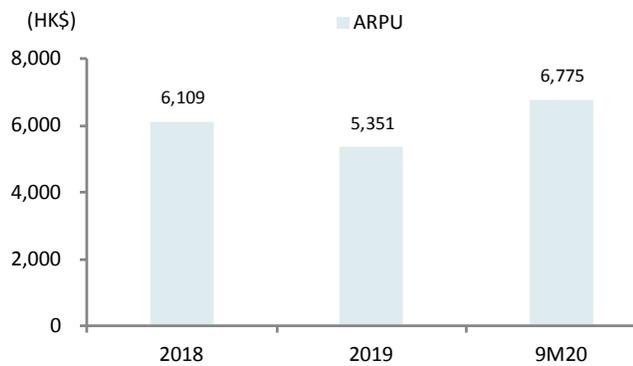


Source: Company data, BOCOM Int'l

**ARPU level high, up in 9M20 vs. FY18/FY19.** Average revenue per paying user (ARPU) increased from HK\$6,109 in 2018 to HK\$6,775 (annualized) in 9M20.

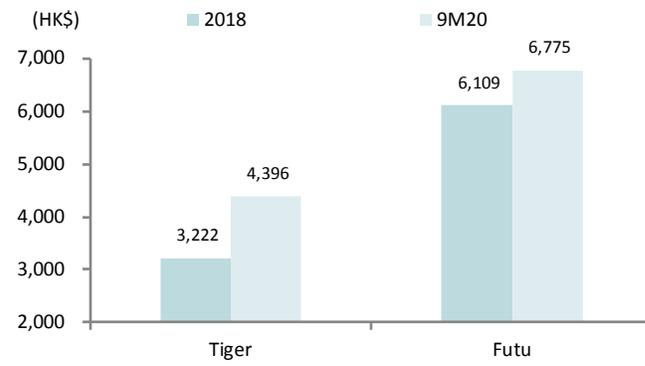
Compared with Tiger Securities, Futu's ARPU has been consistently higher, mainly due to higher commission rates and financing rates, as well as high usage frequency. The company has poured resources into developing products, making short videos and bringing in KOLs to expand revenue streams.

**Figure 4: ARPU trend**



Source: Company data, BOCOM Int'l

**Figure 5: ARPU comparison: Futu vs. Tiger**



Source: Company data, BOCOM Int'l

### Marketing expenses as % of revenue expected to decline

Futu's customer acquisition cost has a high negative correlation with market performance. In 2020, both secondary market trading and IPO market were very active. Large IPO projects have brought in massive natural traffic, and Futu's customer acquisition cost fell sharply. Compared to the average acquisition cost for new paying clients at HK\$2,000 in 2019, the cost is expected to fall to about HK\$1,000 in 2020. Considering that the overall market in 2021 may not be able to sustain the strong performance of 2020, the average customer acquisition cost is expected to rise YoY to HK\$1,500.

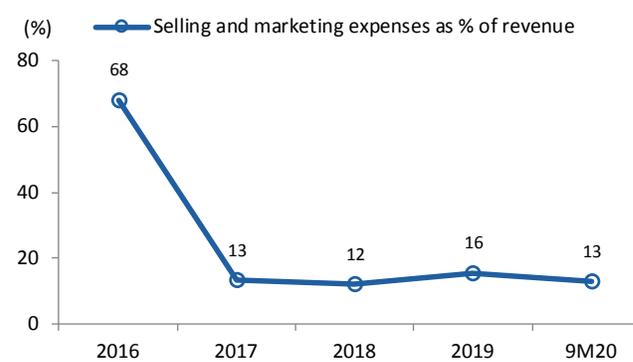
In our opinion, the overall characteristics of the Singapore and Hong Kong stock markets are relatively similar. With rising corporate brand awareness, the proportion of marketing expenses in revenue should trend downward.

**Figure 6: Selling and marketing expenses/number of new paying clients**



Source: Company data, BOCOM Int'l

**Figure 7: Selling and marketing expenses as percentage of revenue**



Source: Company data, BOCOM Int'l

## Wealth Management Makeover to Lead to One-stop WM Platform

Charles Schwab in the US has successfully transformed itself from a discount broker into an integrated wealth management (WM) platform, providing a model for the transformation of internet securities firms. Futu is also taking the initiative in WM business to propel the transition from brokerage to WM.

### (1) In an environment of declining commission rates, Charles Schwab provides a model for the transformation of e-brokers

**We consider commission rate downtrend inevitable, but the move toward “0” commission to be slow in Hong Kong.** After the commission deregulation in the US in the 1970s, the commission rate of the industry has continued to decline. In 2019, the US stock market entered the era of zero commission, driven by the competition among internet brokers. While in Hong Kong, stock commission rate has dropped somewhat after cancelling the commission floor of 0.25% in 2003; at present, the commission rate of traditional bank-owned brokers is still 0.1-0.15%, mainly because Hong Kong’s trading cost is higher, as stamp duty alone accounts for 0.1%. Zero-commission brokers in the US have other sources of revenue, such as order flow revenue for Robinhood, whereby they get rebates from re-selling client orders to high-frequency traders, a profit model that does not yet exist in Hong Kong. As a result, we expect the removal of commissions from Hong Kong trading to be a slow process. Compared with traditional bank-owned brokers, the commission rate of Hong Kong e-brokers is highly competitive at about 0.03% only.

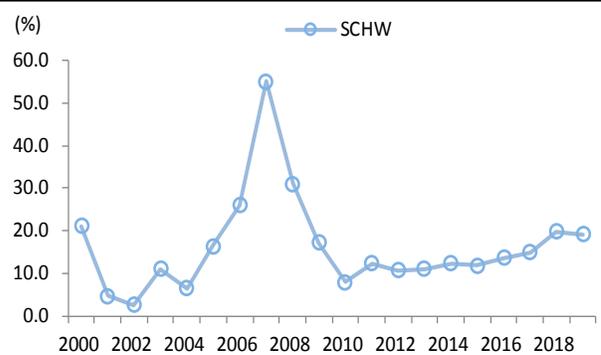
**Charles Schwab is the exemplar of e-broker transformation toward WM.** Charles Schwab has successfully transformed itself from a discount broker into an integrated WM platform. Its revenue source has shifted from trading commissions to net interest income, and its profit model has shifted from transaction-driven to asset-driven. The company’s trading commissions as a percentage of revenue fell from 66% in 1995 to 6% in 2019. For the company’s revenue structure in 2019, net interest income accounted for the greatest share at 61%. Schwab acquires clients through brokerage business, and provides them with comprehensive WM services through complete licenses and business layout, thus transforming the growth of client scale into the growth of client assets and driving the growth of the income and profit.

**Figure 8: Charles Schwab’s net income mix**



Source: Company data, BOCOM Int'l

**Figure 9: Charles Schwab’s ROE**



Source: Bloomberg, BOCOM Int'l

**(2) Futu is actively engaging in WM business layout**

**Futu’s WM brand Money Plus was launched to enrich product categories and functions, and gradually fills in the missing pieces of its WM business layout.** In August 2019, Futu launched its WM brand Money Plus, gradually expanding its presence in the WM field. By 3Q20, Money Plus had cooperated with more than 30 fund companies and launched more than 70 fund products. In 3Q20, Money Plus launched its self-operated fund portfolio and bond trading business. Futu plans to continue to introduce WM products covering different asset classes, investment regions and investment themes, and expand the trading categories to meet the needs of different investors.

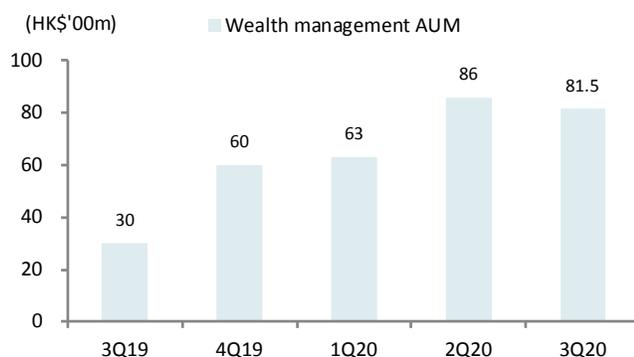
**Attract customers through zero subscription fee.** Compared with the subscription fee of 2-3% in the traditional financial management channel, Money Plus has insisted on the zero subscription and redemption fee rate since its establishment, holding great appeal to both Futu’s existing users as well as potential customers in the broader financial product market. At present, Futu’s WM mainly sells financial products managed by other companies. Considering that big companies and big brands hold greater appeal to users, Futu currently cherry-picks the best products for each asset class. In the future, the company will provide strategic services on a regular basis to help customers better manage their assets, so as to draw more customer assets toward the Futu platform.

**Actively applying for a variety of financial licenses to prepare for further transformation.** Taking reference of Charles Schwab, the establishment of Schwab Bank in 2003 laid the foundation for the transformation of Schwab’s revenue structure. It has optimized Charles Schwab’s WM system, providing clients with integrated services of stocks, funds and banking, and nurturing net interest income into a main source of income. For Futu, it was among the first applicants to apply for a Hong Kong digital banking license in 2018. The Hong Kong Monetary Authority has already issued licenses to eight institutions in the first batch, and Futu remains on the applicant list. In 3Q20, Futu was granted the MPF intermediary license in Hong Kong and was allowed to engage in the sales activities of Mandatory Provident Fund (MPF) in Hong Kong, thus further expanding its WM business scope.

### (3) We are bullish on the growth of WM business

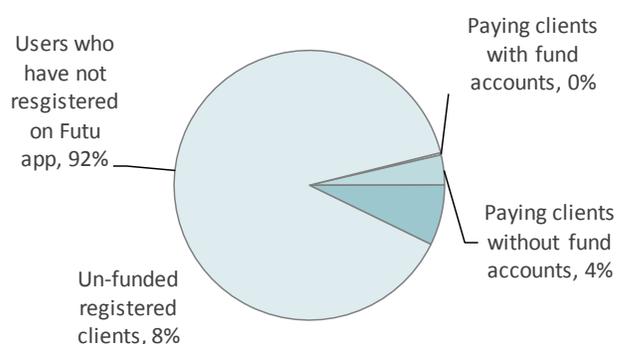
Fund distribution income in 1H20 spiked 1.2x vs. FY19. As of 3Q20, more than 29,000, or 7%, of Futu's nearly 420,000 paying clients (with funds deposited) had opened fund accounts. With its assets under management (AUM) reaching HK\$3bn as at end-3Q19, Futu saw daily average AUM surging to HK\$8.15bn in 3Q20. In terms of WM client percentage, we expect growth potential to abound for its WM business. By convincing brokerage clients to engage in WM services, Futu's income sources will also become more diversified and stable.

**Figure 10: Money Plus AUM**



Source: Company data, BOCOM Int'l (3Q20 data refers to the average daily scale in the quarter; the rest are period-end scale)

**Figure 11: Futu's user mix, 3Q20**



Source: Company data, BOCOM Int'l

## Tencent Backs Technology as Strategic Shareholder

**Tencent is a strategic shareholder of Futu.** The company has a close relationship with Tencent. Li Hua, the founder of Futu, joined Tencent at its nascent stage. Tencent led the investment in Futu's three financing rounds (A-C) before the company went public. At present, Li holds a 37.3% interest and 70.7% voting rights; Tencent holds a 28.1% interest and 26.1% voting rights, the highest among external shareholders.

In December 2018, the company signed a strategic cooperation framework with Tencent, whereby Tencent provides Futu with traffic, content and cloud services, and the two will cooperate in the areas of enterprise management, ESOP services, talent recruitment and training.

**Tencent cloud powers Futu's stable and versatile core system.** Futu, Tencent Cloud and HK Telecom (HKT) have joined forces to develop Futu Securities' financial proprietary cloud, which was launched in December 2018 as the first financial proprietary cloud in Hong Kong. With the US and HK markets highly bullish in 2020, the peak number of Futu's system queries in a single day hit 5bn, and that of system requests per minute topped 10m in a single day. Tencent cloud distributed database "TDSQL", which supports the core system of Futu, has powerful functions and high stability; it helps Futu significantly save operation and maintenance costs, and also makes Futu's business expansion more flexible.

**Cooperation with Tencent, the first user of Futu's ESOP service, enhances the latter's ESOP service capability.** In 2016, Tencent awarded 300 shares to each of its employees as an incentive, the largest in the history of a Chinese listco, and Futu spent two years on designing and perfecting Tencent's ESOP plan. By serving Tencent, Futu has experienced large-scale data processing and option-exercise verification, and the success of this ESOP scheme also provides endorsement to Futu's business capability. At the end of 2020, the company and Tencent Consulting jointly launched "ESOP Scheme Design Guide", which provides guidance for the practical operation of equity incentive schemes with rich implementation experience and a large number of case studies.

Traditional ESOP service providers often fail to cope with the massive data processing and consultation needs from new-economy companies, and it is difficult for employees to exercise their rights, on top of high cost and low efficiency. However, Futu can provide enterprises with one-stop ESOP management services before and after the listing, thus showing strong competitiveness. Futu's ESOP system is highly stable and can meet the needs of large enterprises; it can automatically generate ESOP solutions for employees from diverse countries and taxation regimes.

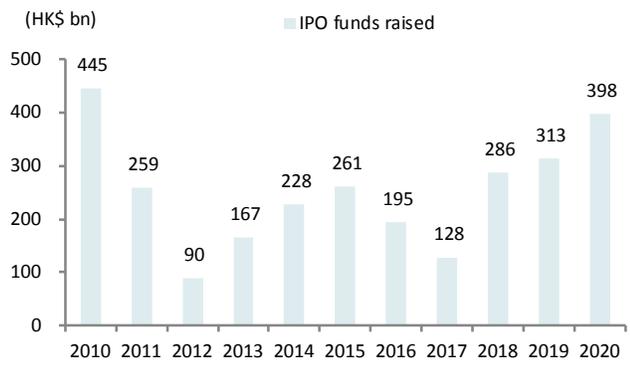
**Massive potential ESOP customer base.** Tencent is the shareholder of a number of Futu's clients, including Maoyan Entertainment, Douyu, Tongcheng Elong, Mogu, etc, and has brought in rich customer resources for Futu. The thousand-strong new-economy companies in which Tencent has invested could also become Futu's potential customers. In addition, Futu's other strategic investors, such as Sequoia and Matrix Partners, may also introduce significant ESOP customer resources to Futu.

**Futu Holdings Ltd (FUTU US)**

**ESOP business to benefit from new-economy IPO growth in Hong Kong market.** Since HKEX started the reform on IPO system in April 2018, the amount of IPO financing and the proportion of new-economy IPO have seen an upsurge. From 2017 to 2020, the CAGR of IPO financing proceeds reached 46%. The proportion of financing amount of companies in new-economy industries such as TMT and healthcare ascended from 49% in 2018 to 59% in 2020. ESOP is a long-term incentive measure commonly used by new-economy companies. With its strong business capability and abundant potential customer resources, Futu will benefit from the growth of new-economy-sector IPO financing in the Hong Kong market.

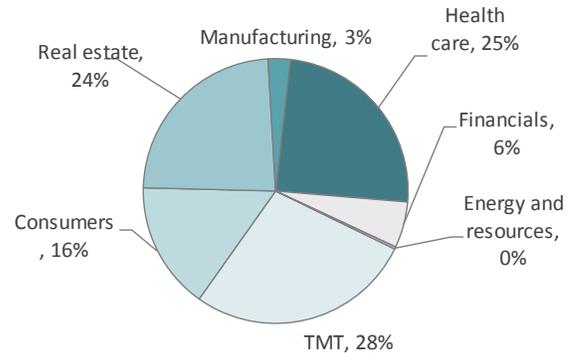
**Corporate culture and operation influenced by Tencent; Tencent's gamification style enhances appeal to customers.** In terms of product operation, the company's gamified operation style is deep-rooted. For example, for large IPO, it allows customers to subscribe with 0 principal, and transfer funds only after successful allotment of IPO shares. Its platform also features mini-games, where clients can win commission-free offers from lucky draws. The company uses games to increase the appeal of products to customers.

**Figure 12: Hong Kong IPO proceeds raised**



Sources: Wind, BOCOM Int'l

**Figure 13: Sector breakdown of IPO proceeds, 2020**



Sources: Deloitte, BOCOM Int'l

## Initiate Coverage with Buy and US\$90.0 TP

Futu has three major sources of income: brokerage, interest and other operating income (including IPO subscription service fee, corporate PR service fee, underwriting fee, etc). In 9M20, the three categories accounted for 60%/30%/11% respectively.

The company continues to promote the transformation toward WM, so we expect its brokerage revenue to decline but interest income to increase. We expect blended commission rate to edge up in 2021, as trading volume growth slows. Interest rates on interest-earning assets are expected to remain stable, and interest income from IPO financing to grow or slow in 2022.

We expect revenue/net profit to soar 191%/739% in 2020, and to continue to swell at CAGRs of 25%/30% in 2021-23.

Based on 1.1x 2021E PEG, we derive a TP of US\$90.0. Initiate with **Buy** rating.

### I. Income mainly from brokerage commission; interest income on IPO financing subscription is surging

#### (1) Income mainly from brokerage commissions

**Brokerage accounts for 60% of revenue.** Futu earns commission and dividend handling fee income from US/HK stock and derivative trading on behalf of clients. Brokerage revenue has accounted for the largest proportion of total revenue since 2016. The proportion of brokerage revenue went on a downtrend during 2016-19, mainly due to the stronger growth of the other two businesses, but it recovered in 9M20 with a 12ppt gain vs. 2019 to 60%.

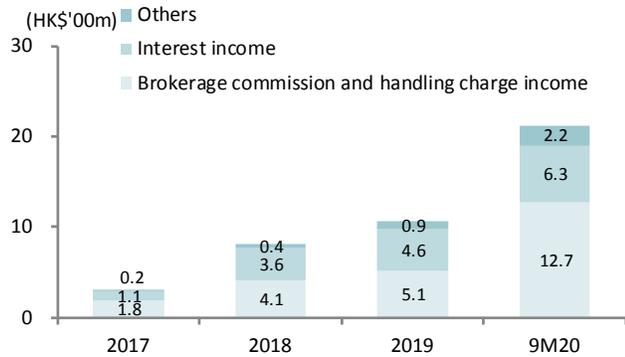
**Futu brokerage commission income outpaced Tiger.** Tiger Securities relied more heavily on commissions years ago, which accounted for 89% of revenue in 2017. In terms of trading mix, Tiger slants towards US stocks. Before rebounding to 58% in 9M20, Tiger's brokerage revenue fell sharply to 46% in 2019, due to a shift of focus to institutional business and the impact of the US online brokerage price war. Tiger's commission income in 9M20 was 2.5x higher than FY17, shy of Futu's 5.9x spike in the same period.

**Average commission rate of Futu generally stable.** The company introduced a new fee policy in late 2017; since then, the commission rates have remained stable, with two packages for ordinary investors and high-frequency trading (HFT) users for Hong Kong and the US markets. Its blended commission rate reached 0.055% in 3Q20, which was 1bp higher than that of FY18, mainly due to the fervent IPO subscriptions (clients' one-time IPO subscription fee also included in commission calculation), the increase in derivative transactions, and the rising proportion of US stock transactions. The sequential decline in the blended commission rate in 3Q20 was mainly due to the increase in the number of customers choosing to use HFT rate packages.

**Number of daily average revenue trades (DARTs) surged in 9M20.** Futu's DARTs inched up 9% YoY in 2019, while the total transaction value declined. Since the onset of the

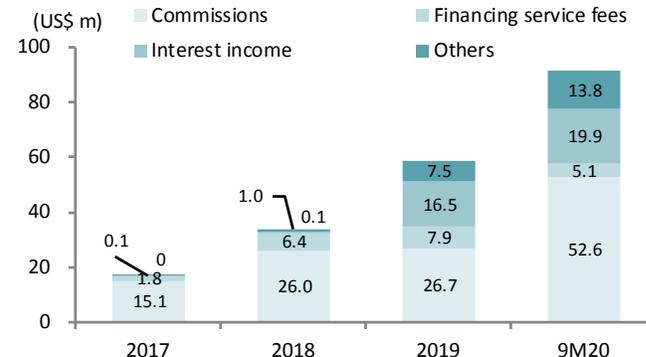
pandemic, the US and Hong Kong stock markets have flourished. The DARTs of Futu doubled in 1Q20, and the growth accelerated in 2Q-3Q20. This resulted in 9M20 net profit sky-rocketing 699% YoY.

**Figure 14: Futu revenue mix**



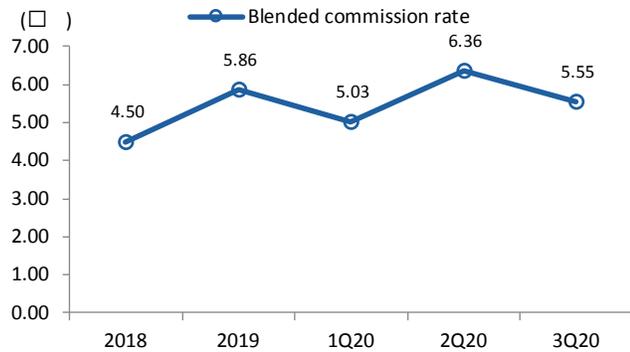
Source: Company data, BOCOM Int'l

**Figure 15: Tiger revenue mix1**



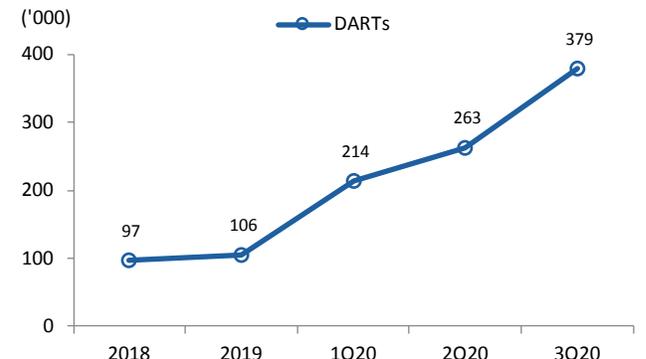
Source: Company data, BOCOM Int'l

**Figure 16: Futu commission rate trend**



Source: Company data, BOCOM Int'l

**Figure 17: Futu's DARTs**



Source: Company data, BOCOM Int'l

**(2) Interest income growth mainly from margin financing/short selling and IPO financing; follow-on offering boosts growth**

**Interest income accounts for 30%.** Interest income mainly comes from margin financing, bank deposits, IPO financing subscription and other businesses. Interest income as a percentage of total revenue rose rapidly from 7% in 2016 to 44% in 2018-19, and then fell to 30% in 9M20. From 2017 to 2018, the rapid growth of interest income was mainly due to the surge in the number of margin financing and short selling customers. The average daily balance of margin financing and short selling swelled 2.3x YoY in 2018, and the proportion of such income shot up 26ppts from 2016 to 28% in 2018. Since 2019, the interest income mix has changed, the proportion of margin financing and short selling

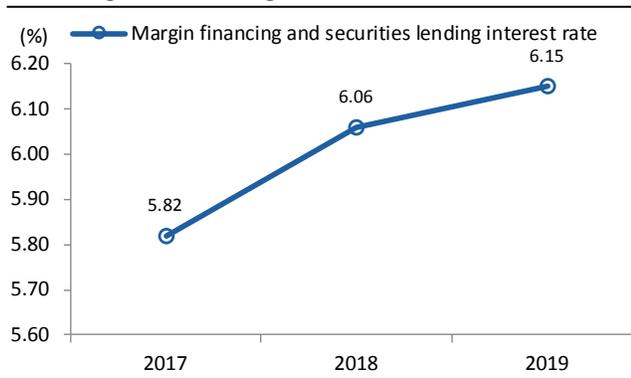
income has decreased, while that of income from bank deposits and IPO subscription financing has risen.

**Interest income proportion higher than Tiger.** Tiger Securities is the agent of Interactive Brokers, and client funds are pooled into respective single retail accounts by Interactive Brokers. When carrying out margin financing and short selling business, Interactive Brokers obtains interest income from the customer’s fully-disclosed account with the company, while Tiger shares part of this income, which will be accounted for as financing service fee income. In November 2018, Tiger was upgraded to be a non-disclosed securities broker of Interactive. Client funds would be collected into an all-in-one institutional virtual account of Interactive Brokers. As a result, Tiger can offer its own Tiger standard account through its self-developed underlying system and charge margin interest as interest income. In 9M20, Tiger’s interest income accounted for 22% and jumped 21% from FY19, slower than Futu’s 35% rise in the same period.

**Surging income from bank deposits and IPO financing interests.** In 1H20, the interest income of Futu IPO financing spiked 64x YoY, mainly due to the star listing projects such as JD (raising HK\$29.8bn) and NetEase (raising HK\$20.9bn) on the Hong Kong Stock Exchange, with subscription amount exceeding HK\$15bn for each. In 2020, the cumulative amount of IPO subscriptions through Futu exceeded HK\$300bn. At the same time, the growth of customer assets led to the growth of bank deposit interest income.

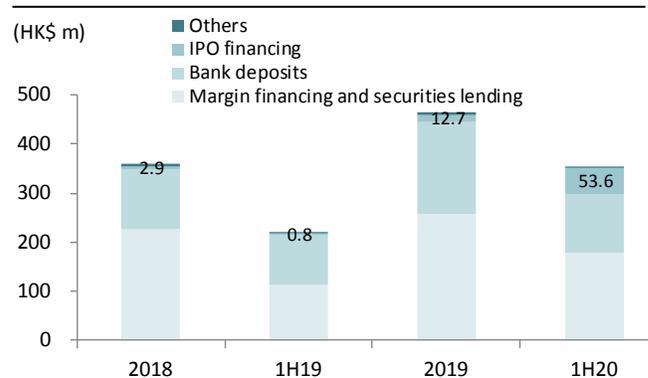
**Margin financing fee rates rising since 2017.** In 2016, the company carried out Hong Kong stock financing business with an interest rate of 6.8%; in 2017, it carried out US stock financing business with an interest rate of 4.8%. The fee standard of US stock short selling is the fee rate of the stock supplier plus the 3% service fee charged by Futu. According to our calculation, the average interest rate of Futu’s margin financing and short selling has maintained a steady rising trend since 2017, coming in at 5.82%/6.06%/6.15% for 2017/18/19, respectively.

**Figure 18: Average interest rate on margin financing/short selling**



Source: Company data, BOCOM Int'l

**Figure 19: Futu’s interest income breakdown**



Source: Company data, BOCOM Int'l

## Futu Holdings Ltd (FUTU US)

**Futu's own follow-on equity offering of US\$314m to propel margin financing/short-selling business growth.** In 3Q20, Futu completed a US\$314m additional equity issue, which strengthens the company's capital base and helps promote the growth of the margin financing/short-selling business. After that, according to media reports, Nongfu Spring's Hong Kong listing in early September 2020 received subscription orders of HK\$35.1bn from its customers and set an IPO financing record for Futu at the time.

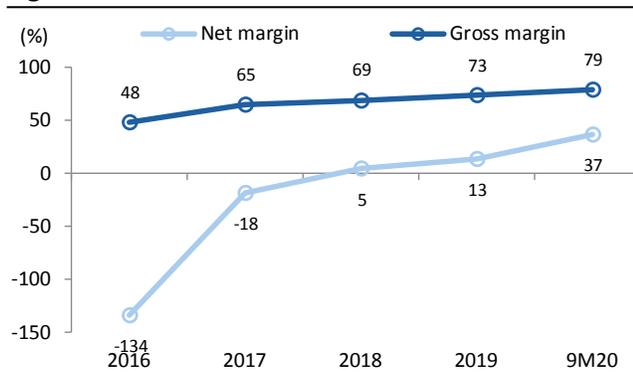
### (3) Gross margin (GPM) and net margin (NPM) both up, economies of scale significant

The company's NPM increased rapidly from the negative territory in 2016 to 37% in 3Q20, mainly benefiting from the growth of GPM and the reduction of expense ratio due to economies of scale.

**GPM has been increasing year by year; various business lines have been developing steadily.** In 9M20, the company's overall GPM increased to 79% from 2016's 48%. Among its business lines, brokerage commands the highest GPM, which remains stable at 80%. For the capital intermediary business, the GPM of margin financing and short selling has increased steadily, reaching 75% in 1H20. Although the GPM of IPO financing is lower than other businesses, it has also improved since 2018, reaching 47% in 1H20.

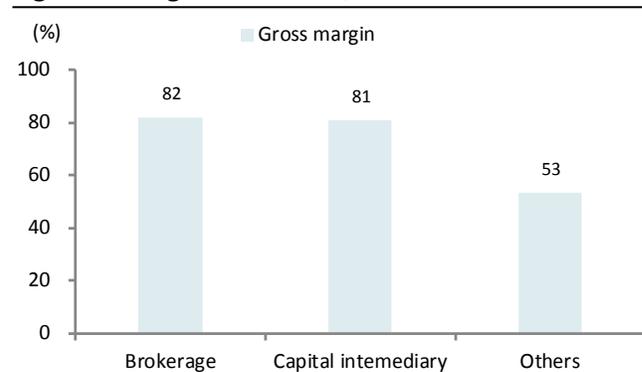
**Economies of scale also a factor for GPM hike.** The cost of data processing services accounted for 23% of operating costs in 9M20, down 28ppts from FY16. Data processing cost mainly includes costs of data usage, cloud services, data transmission, etc, which enjoy significant savings from greater scale. The 3-year CAGR of operating revenue in 2016-19 at 130% considerably outpaced the 59% CAGR of data processing service costs.

**Figure 20: Futu GPM and NPM**



Source: Company data, BOCOM Int'l

**Figure 21: Segmental GPMs, 9M20**



Source: Company data, BOCOM Int'l

**R&D expenses accounted for the highest proportion of revenue; surging revenue eased all expense ratios.** The company's operating expenses, including R&D expenses, selling expenses and administrative expenses, accounted for 17%/13%/8% of the revenue respectively in 9M20, down 8/3/8ppts from FY19, mainly due to the faster growth in revenue than expenses under economies of scale.

**Futu Holdings Ltd (FUTU US)**

**Strong emphasis on R&D, expenses at ~20% of revenue since 2017, a high level in industry.** The CAGR of its R&D expenses reached 66% during 2017-19. The high growth rate of R&D investment in 2020 is mainly due to the fact that Futu started the new WM business, set up US stock clearing system and established the US subsidiary at the end of 2019. In terms of the 2021E R&D budget, the company plans to continue to invest in the clearing system and the US branch, while starting to lay out its Singapore operations.

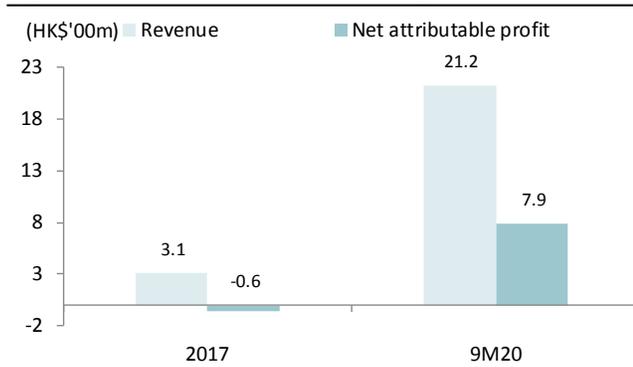
Selling expense ratio stands at ~13%. With the rapid growth of revenue, this ratio is set to go down in the future.

**(4) Futu enjoys edges over Tiger in customer acquisition, revenue and profitability**

Futu turned profitable in 2018 after narrowing losses in prior years, mainly benefiting from the fast growth of revenue. 9M20 revenue soared 5.8x from 2017, the number of paying clients rocketed 4.2x, and NPM stood at 37%.

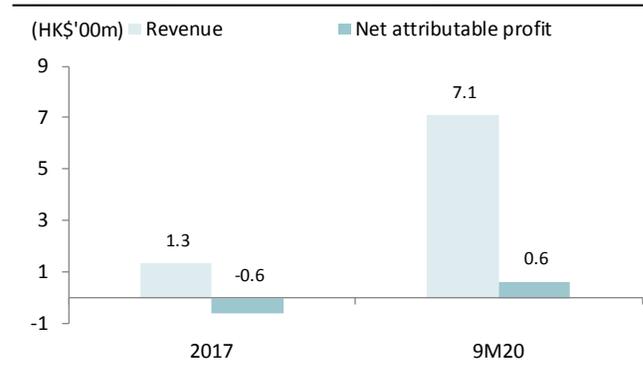
Tiger was in the red before 2020, and its revenue growth was slower than Futu’s. For 9M20, its revenue surged 4.4x from 2017, and the number of paying clients jumped 4.1x, but both its customer number and total customer assets were far lower than Futu’s. Tiger made profits for the first time in 1Q20. Staff compensation and welfare expenses accounted for a higher proportion of revenue, which was above 60%. NPM stood at 9% for 9M20.

**Figure 22: Futu’s revenue and net profit**



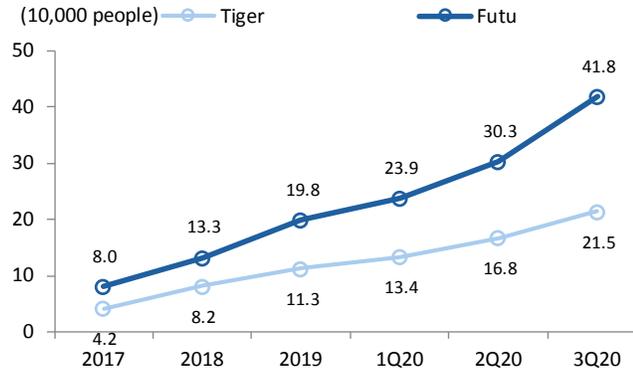
Source: Company data, BOCOM Int'l

**Figure 23: Tiger’s revenue and net profit**



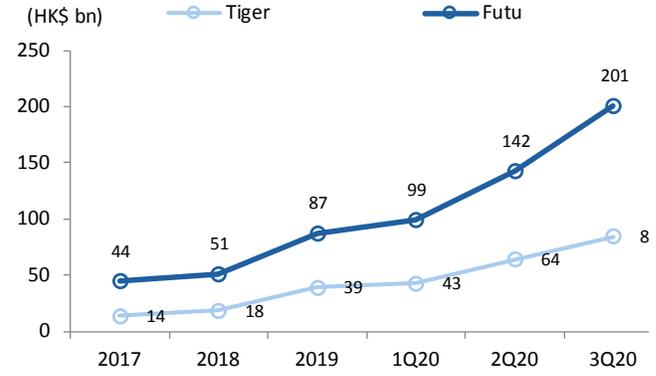
Source: Company data, BOCOM Int'l

**Figure 24: Customer numbers: Futu vs. Tiger**



Source: Various companies, BOCOM Int'l

**Figure 25: Client assets: Futu vs. Tiger**



Source: Various companies, BOCOM Int'l

## II. Key assumptions and forecasts

For 2021/22, we expect revenue to grow 42%/30% YoY and net profit to grow 55%/38% YoY, respectively.

### (1) Blended commission rate to rise steadily, trading volume growth to slow

**Blended commission rate expected to increase slightly.** Before 2020, the commission income of the company mainly came from stocks trading. In 2020, the company launched more derivatives. Since the commission rate of derivative trading is higher than that of underlying stocks, we expect its blended commission rate to edge up in the future, with the increasing penetration rate of derivatives.

**Transaction volume growth is expected to slow ahead given a high 2020 base.**

**By our estimates, the number of paying clients and the average assets of customers will maintain rapid growth.** We expect the number of paying clients to continue to grow rapidly as Futu expands presence in Singapore and gradually reaches its target of a high market share in Hong Kong (30% of retail brokerage clients). As the company transforms its WM business, launches new products and services, and engages in deeper partnerships with well-known asset management institutions, clients will be more inclined to transfer their funds from other channels to Futu. We expect total client assets to grow faster.

**We expect trading volume/client assets will decline from 2020, but the overall transactions will remain high.** In 2020, the US and Hong Kong stock markets were buoyant, with frequent user transactions, and the trading volume/client assets has formed a high base, which we expect to moderate in the future. However, we expect trading volume/client assets to remain high as the company supports an increased number of transaction categories and has broadened geographical reach to meet clients' more diversified transaction needs.

**Figure 26: Client and brokerage business assumptions**

	2018	2019	2020E	2021E	2022E	2023E
No. of paying clients (10,000 people)	13	20	48	70	90	110
Net increase (10,000 people)	5	7	28	22	20	20
Average client account balance (HK\$10k)	38	44	48	50	52	54
YoY (%)		15	9	5	4	3
Total client assets (HK\$'00 m)	509	871	2,296	3,520	4,709	5,930
Total trading volume (HK\$'00m)	9,070	8,727	32,147	40,478	51,799	62,265
Trading volume/Client assets	17.8	10.0	14.0	11.5	11.0	10.5
Commission rate (‰)	4.50	5.86	5.70	5.80	5.90	5.90
Commissions revenue (HK\$'00m)	4.1	5.1	18.3	23.5	30.6	36.7

Source: Company data, BOCOM Int'l estimates

## (2) Interest rates on interest-earning assets to remain stable, and interest income from IPO financing may slow from 2022E

**Interest rates on interest-earning assets (IEA) are expected to remain stable.** The company's fee structure is stable, and we expect margin financing, IPO financing and bridge loan interest rates to be stable in the future.

**After the completion of its equity follow-on offering, we expect its margin financing/short-selling business to accelerate growth.** The company began to launch HK stock short-selling services in 3Q20. Meanwhile, the business expansion in the Singapore market should also increase the margin financing and short-selling balance in the local market in the future. After the completion of a US\$314m offering in 3Q20, the company has expanded margin financing and short selling quota. We expect the two balances to grow 30%/100% YoY in 2021, respectively.

**The rapid growth in the balance of IPO financing should continue in 2021E, but slow from 2022E onwards, mainly due to the HKEx's plan to shorten the IPO pricing cycle.** In November 2020, HKEx solicited market opinions and planned to shorten the IPO subscription period from the original 5 working days (T+5) to 1 working day (T+1), with the earliest launch in 2Q22E. The T+1 pricing would significantly reduce by 80% the amount of time clients occupy the funds for IPO, and the company assumed a -5% impact on revenue if implemented in 9M20. We believe the new policy will reduce interest income from IPO financing, but Futu will benefit from increased overall market demand and its higher market share.

**Figure 27: Key growth rate assumptions for interest income**

	2018	2019	2020E	2021E	2022E	2023E
<b>IEA balance YoY growth (%)</b>						
Margin financing and securities lending	8	51	193	40	25	20
IPO financing loan and bridge loan	367	-77	976	30	25	20
Bank deposits (including cash held on behalf of clients)	59	24	135	24	16	9
<b>IEA interest rate (%)</b>						
Margin financing	7.4	6.3	6.2	6.2	6.2	6.2
Securities lending	8.4	8.1	7.5	7.5	7.5	7.5
IPO financing loan and bridge loan	8.6	15.2	28.0	15.0	15.0	15.0
Bank deposits (including cash held on behalf of clients)	1.3	1.4	1.0	1.0	1.0	1.0

Source: Company data, BOCOM Int'l estimates

### (3) Key business indicator forecasts

Due to the heated US/HK markets last year, we expect total operating revenue and net profit to grow 191% and 739% respectively in 2020. On a high base from 2020, we believe growth will slow thereafter, but still be far higher than traditional brokers, as we project 2021 net profit growth of 16% for five traditional Chinese brokers covered. Futu's FY21-23E revenue and net profit will post a CAGR of 25%/30%, by our estimates.

**Figure 28: Key business indicator and growth forecasts**

HK\$ m	2020E	2021E	2022E	2023E
Revenue	3,087	4,396	5,716	6,858
Growth rate (%)	191	42	30	20
Net profit	1,202	1,862	2,565	3,153
Growth rate (%)	739	55	38	23
Non-GAAP net profit	1,239	1,915	2,633	3,235
Growth rate (%)	679	55	37	23
Total assets	52,427	67,994	82,647	96,742
Growth rate (%)	145	30	22	17
Cash held on behalf of clients	33,880	42,181	48,761	53,247
Growth rate (%)	133	25	16	9
Loans and advances	12,566	16,336	20,420	24,504
Growth rate (%)	200	30	25	20
Borrowings	4,403	5,724	6,868	7,692
Growth rate (%)	200	30	20	12
ROA (%)	3.3	3.1	3.4	3.5
ROE (%)	27.8	26.4	27.7	26.0
Adjusted ROA (%)	3.4	3.2	3.5	3.6
Adjusted ROE (%)	28.6	27.2	28.5	26.7

Source: BOCOM Int'l estimates (non-GAAP net profit = net profit + share-based compensation)

### III. Valuation and rating

We expect Futu's future growth to stem from: surge in paying clients driven by the continuous growth of Hong Kong IPO, expansion of business regions, and expansion of business scope brought by WM transition.

**(1) Growth of IPO proceeds in Hong Kong market to promote the growth of paying clients of Futu.** After the reform of the listing system of the Hong Kong Stock Exchange in 2018, the amount of IPO financing increased significantly, up to HK\$397.5bn in 2020, the highest level since 2011 and posting a CAGR of 46% from 2017 to 2020. According to the forecasts of Deloitte and KPMG, the amount of IPO proceeds in Hong Kong will remain at ~HK\$400bn in 2021E. Given Futu's greater advantages in Hong Kong IPO subscriptions, every large IPO project can promote the rapid growth of Futu's paying clients. We expect the growing amount of IPO financing in Hong Kong to help Futu attract more users.

**(2) Expanding overseas markets.** The company will continue to invest in the construction of the US subsidiary in 2021E, and will enter the Singapore market. By the end of 2022E, the company expects its largest customer sources will still be mainland China and Hong Kong. In the long term, we look forward to its growth of overseas customers in the US and Singapore markets.

**(3) Effect of WM transformation gradually manifest.** The long-term goal of Futu is to become a one-stop WM platform for customers. Since 2019, Futu has launched WM business, actively prepared for licenses and products and sought future business transformation. However, the development of the company's WM business is still nascent. Compared with the successful transformation of Charles Schwab, Futu's asset-driven income accounts for only ~30% (Charles Schwab: ~90%). We believe Futu's transformation is promising.

**PEG valuation to capture high growth potential:** Futu has shown high growth attributes in the past and core competitiveness in technological capabilities. There is still great room for growth in terms of geographical and business scope in the future. Given fast growth of the company, we use the PEG method for valuation.

A-share-listed Eastmoney Information (300059 CH) is trading at 2.1x 2021E PEG, and Charles Schwab (SCHW US) is at 1.2x. Considering that Futu still relies heavily on brokerage business and the WM transformation is at the initial stage, we give Futu a 1.1x PEG for 2021E, implying a target P/E of ~50x in 2021E.

Based on Bloomberg consensus, online securities related companies are trading at ~47x 2021E P/E in the A-share market. The forward P/E of Charles Schwab was also ~50x during its rapid expansion phase. Thus, we consider our target P/E fair. We thus derive a TP of US\$90.0 and initiate coverage with a **Buy** rating.

**Figure 29: Comparison of mainland Chinese/US/Hong Kong internet securities related companies**

(RMB'00m)		Market cap	Total assets	Revenue	Net profit	—P/E—			—P/B—			—ROE—			—ROA—			20-22E CAGR	PEG 21E
						19	20E	21E	19	20E	21E	19	20E	21E	19	20E	21E		
300033 CH	Hithink Flush	685	52	17	9.0	65.3	51.5	38.9	14.7	14.1	11.3	24.5	27.6	29.3	19.2	20.5	21.4	27.4	1.42
300059 CH	Eastmoney	3,104	618	42	18.3	56.8	69.7	54.9	5.0	11.2	9.6	9.9	16.3	17.1	3.6	5.0	5.6	25.7	2.13
<b>Average of A-share online securities related cos</b>						<b>61.1</b>	<b>60.6</b>	<b>46.9</b>	<b>9.8</b>	<b>12.7</b>	<b>10.4</b>								<b>1.78</b>
IBKR US	Interactive Brokers	1,921	4,991	180	11.1	22.2	29.4	29.8	2.5	3.3	3.1	11.8	NA	NA	0.2	NA	NA	8.1	3.68
SCHW US	Charles Schwab	7,145	20,473	748	255.9	17.5	24.7	22.6	3.2	1.9	1.9	19.2	10.7	9.3	1.3	0.9	0.8	19.4	1.16
<b>Average of US online brokers</b>						<b>19.8</b>	<b>27.1</b>	<b>26.2</b>	<b>2.9</b>	<b>2.6</b>	<b>2.5</b>								<b>2.42</b>
TIGR US	Tiger	127	56	4	-0.5	NM	115.9	53.5	1.9	NA	NA	NA	NA	NA	-1.4	NA	NA	NA	NA
FUTU US	Futu	608	191	10	1.5	62.8	62.1	42.3	1.8	11.7	9.3	7.8	27.3	25.3	0.9	NA	NA	44.7	0.95

Source: Bloomberg consensus (close as of 15 Jan 2021), BOCOM Int'l

**Key risk factors:** Industry competition intensifies, leading to lower customer gains than expected; trading volume of US and Hong Kong stock markets significantly lower than expected; simple structure of the balance sheet adding to uncertainties over future performance; policy changes hurting the company's business.

21 January 2021

**Futu Holdings Ltd (FUTU US)**



**Financial Statements**

Income statement (HK\$ m)					
Y/E 31 Dec	2018	2019	2020E	2021E	2022E
<b>Operating revenue</b>	<b>811</b>	<b>1,062</b>	<b>3,087</b>	<b>4,396</b>	<b>5,716</b>
Fee and commission income	408	511	1,832	2,348	3,056
Interest income	361	465	930	1,562	2,003
Other operating revenue	43	85	324	486	656
Fee and commission expense	80	101	330	418	538
Interest expense	96	89	173	305	400
Operating expense	353	592	1,105	1,420	1,697
Other cost and operating expense	74	92	138	186	242
Operating profit	209	188	1,341	2,067	2,839
Pre-tax profit	201	178	1,321	2,047	2,819
Net profit	139	166	1,202	1,862	2,565
<b>Net profit attributable to owners of parent</b>	<b>37</b>	<b>143</b>	<b>1,202</b>	<b>1,862</b>	<b>2,565</b>

Balance sheet (HK\$ m)					
As of 31 Dec	2018	2019	2020E	2021E	2022E
Cash and bank balances	11,987	14,903	34,968	43,486	50,262
Loans and advances	3,087	4,189	12,566	16,336	20,420
Other assets	989	2,308	4,893	8,172	11,965
<b>Total assets</b>	<b>16,063</b>	<b>21,400</b>	<b>52,427</b>	<b>67,994</b>	<b>82,647</b>
Borrowings	1,576	1,468	4,403	5,724	6,868
Repo	0	2	2,000	2,600	3,380
Customer brokerage deposits	12,305	15,439	35,509	46,162	55,395
Other liabilities	1,082	1,943	4,404	5,535	6,466
<b>Total liabilities</b>	<b>14,963</b>	<b>18,851</b>	<b>46,316</b>	<b>60,021</b>	<b>72,109</b>
<b>Total equity</b>	<b>1,100</b>	<b>2,549</b>	<b>6,111</b>	<b>7,973</b>	<b>10,538</b>

Source: Company data, BOCOM Int'l estimates

Main indicators					
Y/E 31 Dec	2018	2019	2020E	2021E	2022E
<b>Balance sheet growth (%)</b>					
Loans and advances	6	36	200	30	25
Total assets	47	33	145	30	22
Repo	NA	NA	125,686	30	30
Customer brokerage deposits	68	25	130	30	20
Total liabilities	50	26	146	30	20
<b>Income statement growth (%)</b>					
Operating revenue	160	31	191	42	30
Operating expense	82	68	87	29	20
Operating profit	2,420	(10)	614	54	37
Pre-tax profit	5,844	(11)	640	55	38
Net profit	NA	20	625	55	38
Net profit attributable to owners of parent	NA	288	739	55	38
<b>Profitability</b>					
ROAA (%)	1.03	0.88	3.26	3.09	3.41
ROAE (%)	13.51	9.08	27.76	26.45	27.71
A/E	14.6	8.4	8.6	8.5	7.8
<b>Per share data</b>					
Weighted avg. ADS no. (m)	50.47	104.10	132.76	135.33	135.33
EPS (HK\$)	0.73	1.38	9.05	13.76	18.95
BPS (HK\$)	21.80	24.48	46.03	58.92	77.87
P/E (x)	735.02	391.18	59.43	39.09	28.39
P/B (x)	24.68	21.97	11.69	9.13	6.91

## BOCOM International

10/F, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong

Main: (852) 3766 1899 Fax: (852) 2107 4662

### Rating System

#### Analyst Stock Rating:

**Buy:** The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

**Neutral:** The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

**Sell:** The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

**Not-Rated:** The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

#### Analyst Industry Views:

**Outperform:** The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

**Market perform:** The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

**Underperform:** The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is the **Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

21 January 2021

## Futu Holdings Ltd (FUTU US)



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