



HKEX
香港交易所

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2019 Annual Results Analyst Presentation

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Where this document refers to Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect (together, the “Stock Connect” programs), please note that currently, access to northbound trading is only available to intermediaries licensed or regulated in Hong Kong; southbound trading is only available to intermediaries licensed or regulated in Mainland China. Direct access to the Stock Connect is not available outside Hong Kong and Mainland China.

Where this document refers to Bond Connect, please note that currently, access to northbound trading is only available to foreign investors that are able to trade onshore bonds on the China Foreign Exchange Trade System & National Interbank Funding Centre.

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Agenda

01 | 2019 Key Highlights

02 | HKEX Group Financial Review

03 | Key Performance and Strategic Drivers

04 | Appendix



2019 Key Highlights



Revenue and PAT Growth Despite Macro and Geopolitical Challenges

Revenue of HK\$16.3bn (+3% YoY) | PAT of HK\$9.4bn (+1% YoY)



Macro-driven Softness in Cash & Derivatives Markets

Cash Market ADT -19% YoY | Futures & Options ADV -11% YoY | LME chargeable ADV -2% YoY



Continued Strong IPO Market

#1 globally in # of IPOs (183) and IPO funds raised (HK\$314bn) | Alibaba (HK\$101bn) & Budweiser APAC (HK\$45bn) listings



Record Stock Connect Revenue for the Third Consecutive Year

Revenue of HK\$1bn (+49% YoY) | A shares in global benchmarks | WVR companies in Southbound Connect



Record Year for Bond Connect

ADT of RMB10.7bn (+197% YoY) | 1,601 investors onboarded (+218% YoY) | Chinese bonds in global indices



Solid Contribution from Commodities

EBITDA +5% YoY | New products launched on the LME, HKFE, QME

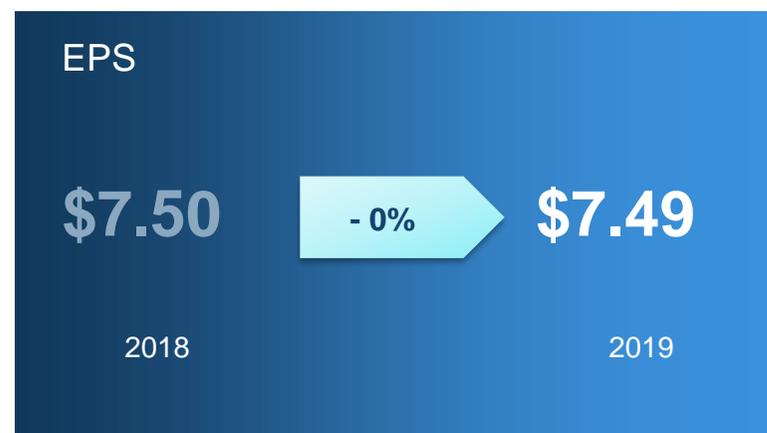
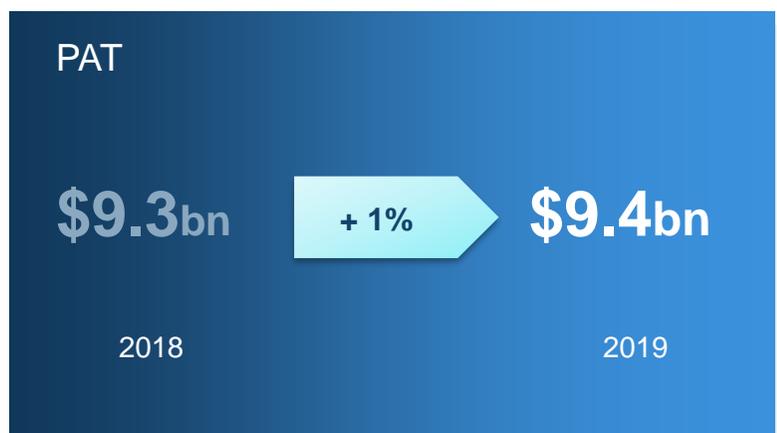
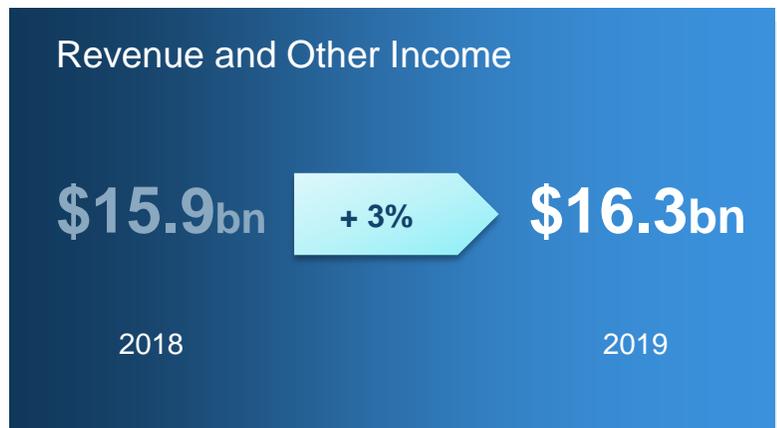


Leverage New Technology

Investments in partnerships (BayConnect, Huakong TsingJiao) | Exploring innovation and new technologies

Key Financial Highlights – Record Revenue and Profits Despite Lower Trading Volume

(HK\$)

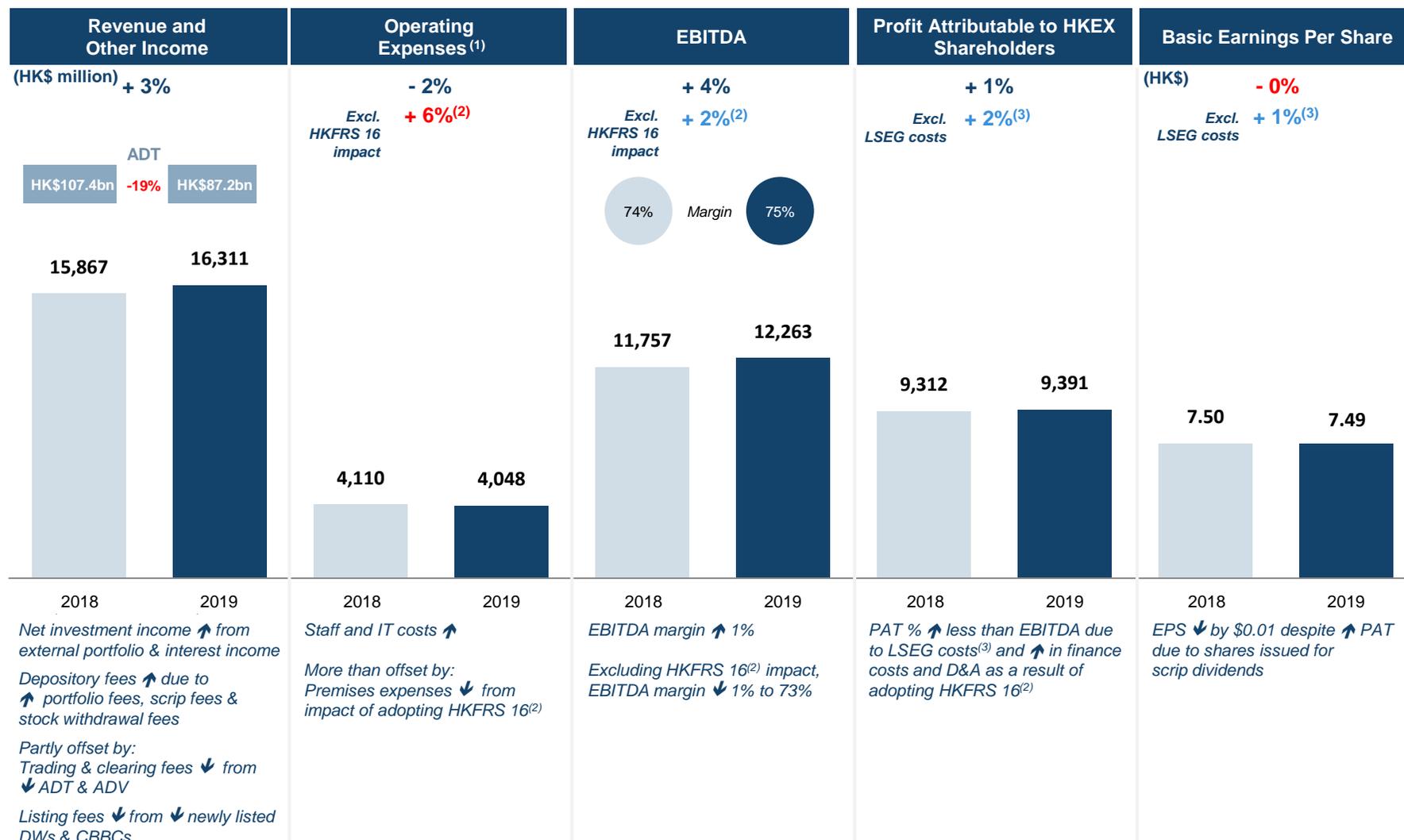




HKEX Group Financial Review



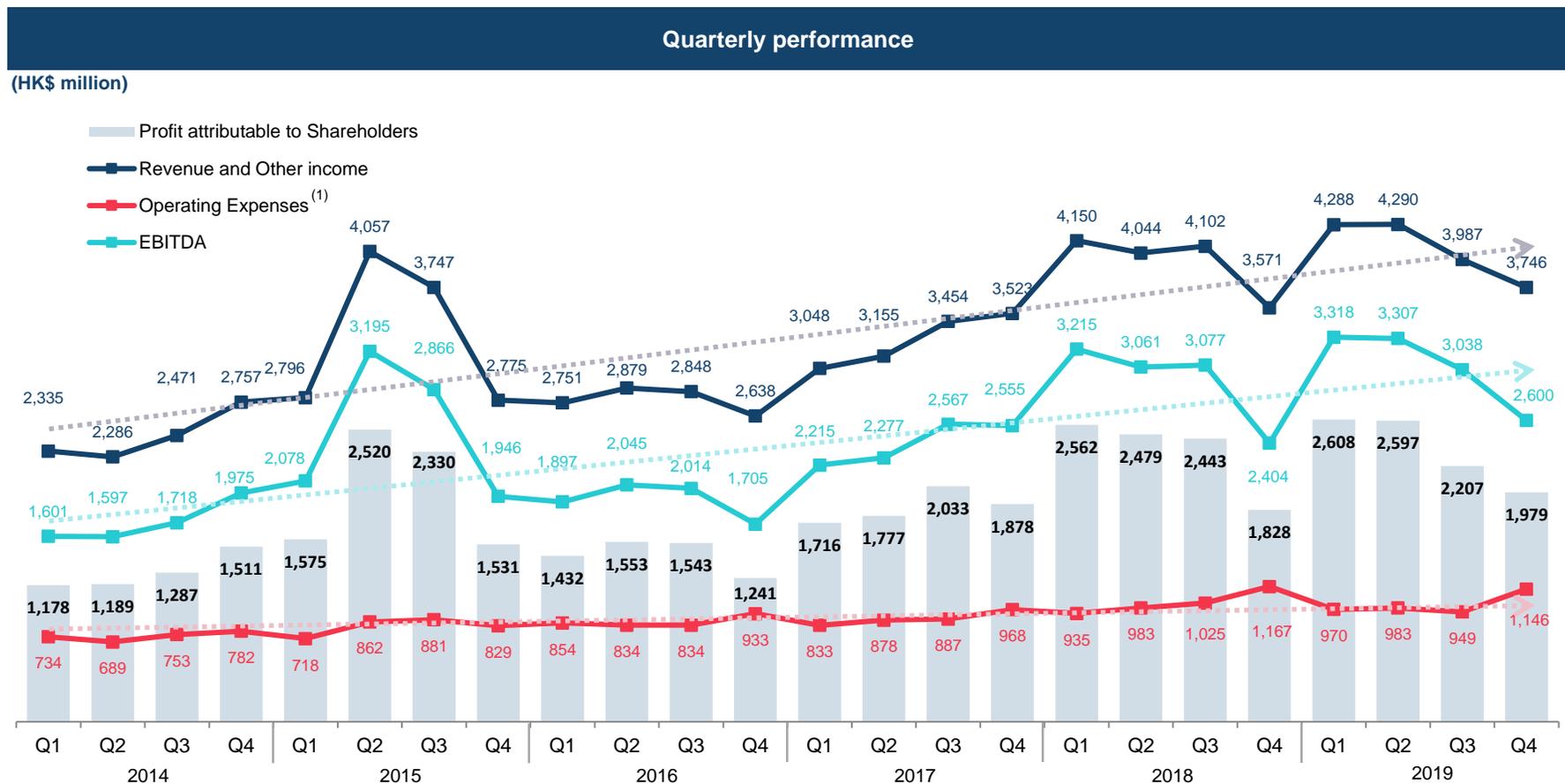
Solid and Resilient Performance against Challenging Macro Backdrop



- Excludes depreciation and amortisation, finance costs, share of results of joint ventures, and non-recurring costs arising from the proposed combination with London Stock Exchange Group plc (LSEG).
- As a result of adopting HKFRS 16: Leases, operating lease rentals are no longer recognised under opex. Instead, they are recognised as right-of-use (RoU) assets and lease liabilities in the consolidated statement of financial position, and they are subsequently charged to P&L under finance costs and depreciation & amortisation.
- Costs relating to proposed combination with LSEG mainly comprised fees payable to professional advisors of HK\$120m and other costs of HK\$3m.



2019 Performance Bolstered by Record 1H Performance



2019 quarterly performance reflects resiliency of business and macro environment
Record Stock Connect income and net investment income, alongside good cost controls drove earnings

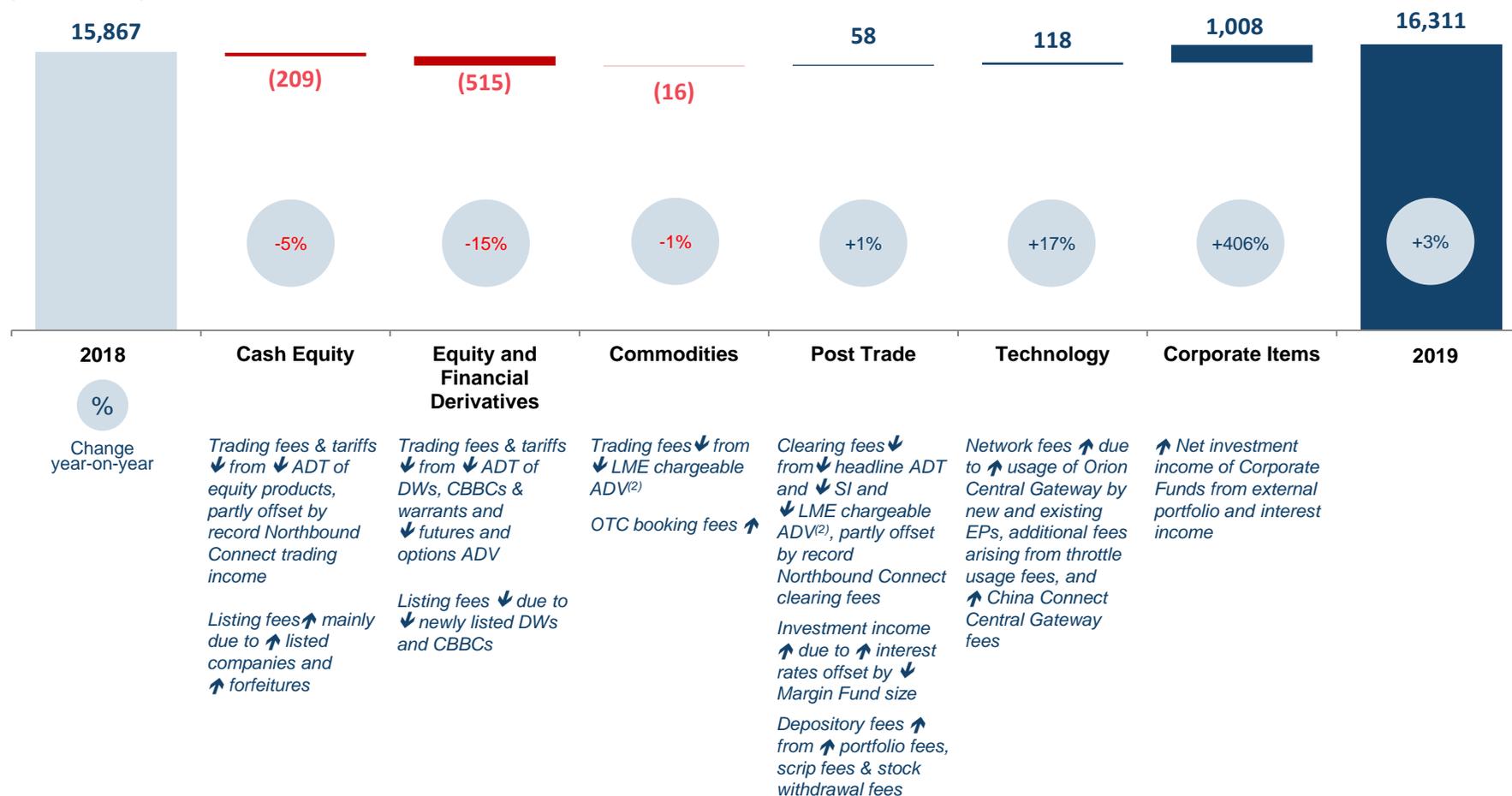
1. Excludes depreciation and amortisation, finance costs, and share of results of joint ventures, and non-recurring costs arising from the proposed combination with LSEG
 2. Dotted trend lines are illustrative and do not constitute a forward forecast.



Record Stock Connect Revenue and Higher Investment Income Offset Impact of Lower Trading Volumes and Derivative Listing Fees

Segmental revenue

(HK\$ million)



1. Headline ADT down 19% (2019: HK\$87.2bn; 2018: HK\$107.4bn); ADT of Cash Equity down 18% (2019: HK\$69.2bn; 2018: HK\$84.2bn); ADT of DWs, CBBCs and warrants included under Equity and Financial Derivatives down 22% (2019: HK\$18.0bn; 2018: HK\$23.2bn).

2. Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a very low trading fee rate of US\$0.04 per contract and clearing fee rate of US\$0.02 per contract) and other non-chargeable trades.



Net Investment Income – Record Investment Income Driven by Strong Performance of Global Equities and Fixed Income and Higher Interest Rates

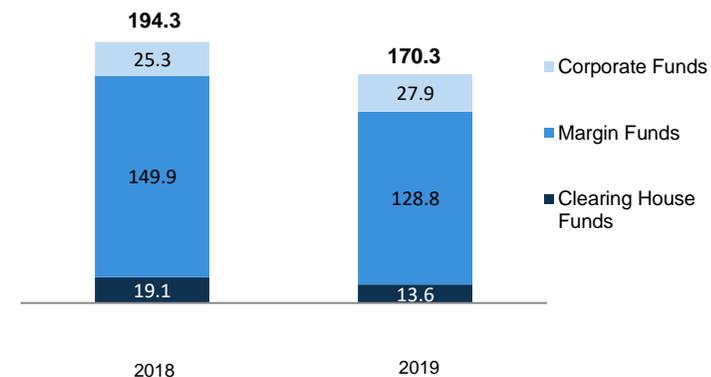
2019: HK\$2,729m (2018: HK\$1,584m, +72% YoY)

Net investment income by Funds

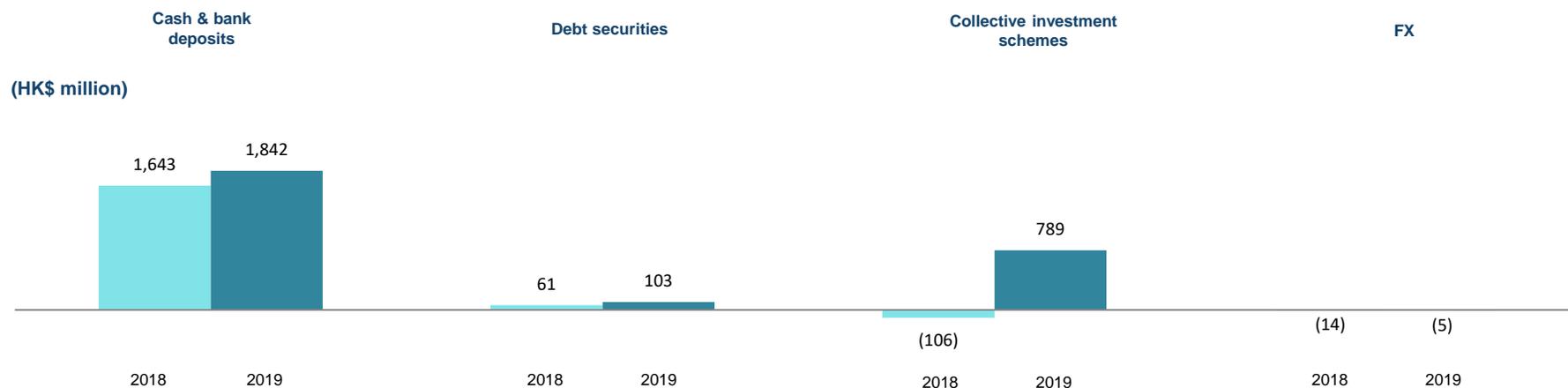


Average fund size

(HK\$ billion)

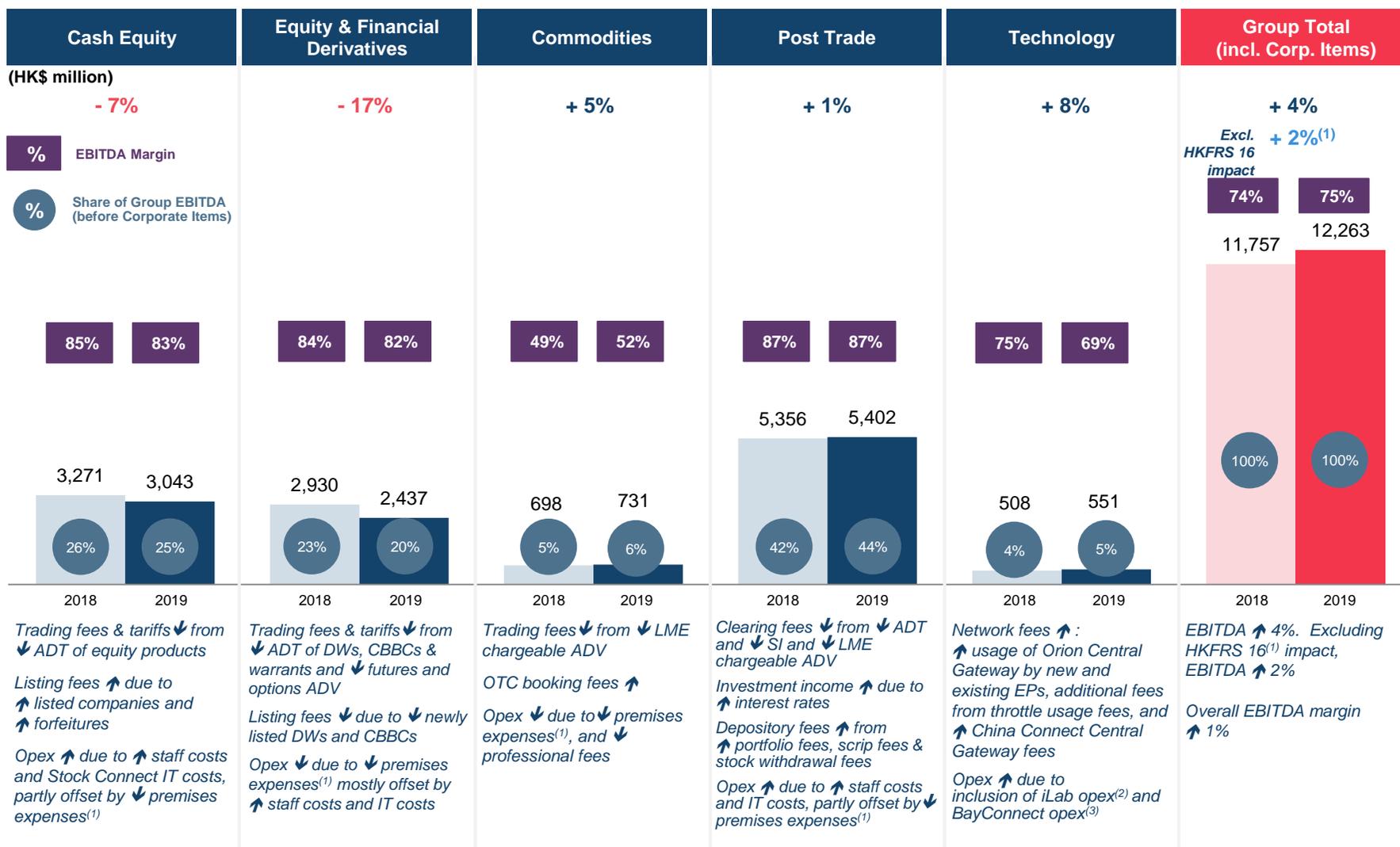


Net investment income by category of investments



EBITDA Up 4% Despite Lower Volumes in Cash and Derivatives Markets

EBITDA

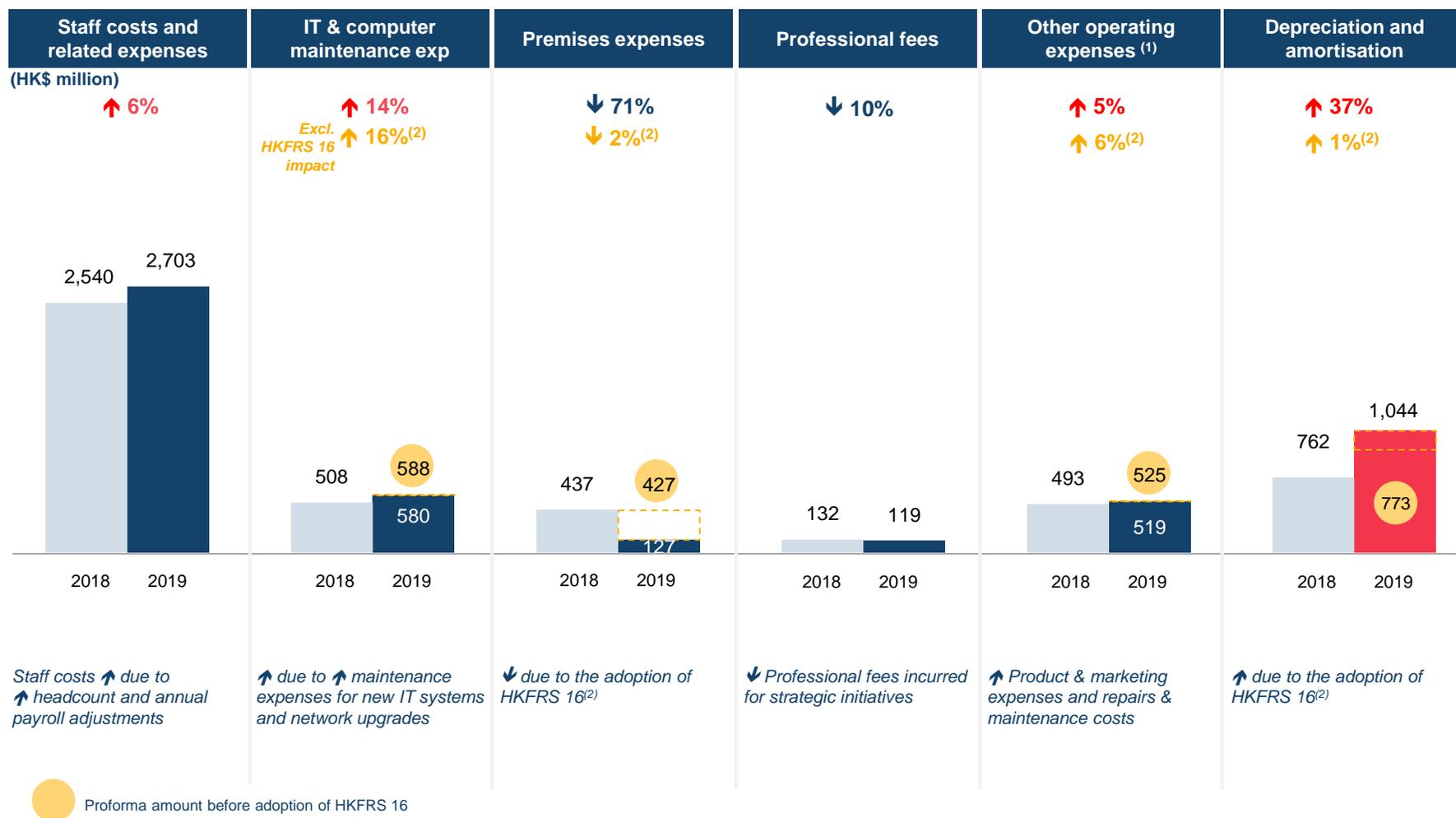


- As a result of adopting HKFRS 16: Leases, operating lease rentals are no longer recognised under opex. Instead, they are recognised as right-of-use (RoU) assets and lease liabilities in the consolidated statement of financial position, and they are subsequently charged to P&L under finance costs and depreciation & amortisation.
- iLab opex was previously included under Corporate Items in 2018, and it is now included under Technology segment as a result of the Group's reorganisation in 2019.
- The acquisition of BayConnect was completed in June 2019 and its opex is included under Technology segment.



Operating Expenses – Investments in Talent and IT Systems

Total opex excluding depreciation and amortisation – 2019: HK\$4,048m (2018: HK\$4,110m)



1. Includes product marketing and promotion expenses.

2. As a result of adopting HKFRS 16: Leases, operating lease rentals are no longer recognised under opex. Instead, they are recognised as right-of-use (RoU) assets and lease liabilities in the consolidated statement of financial position, and they are subsequently charged to P&L under finance costs and depreciation & amortisation.





Key Performance and Strategic Drivers



HKEX – Strong Core Business with Unparalleled Growth Opportunities

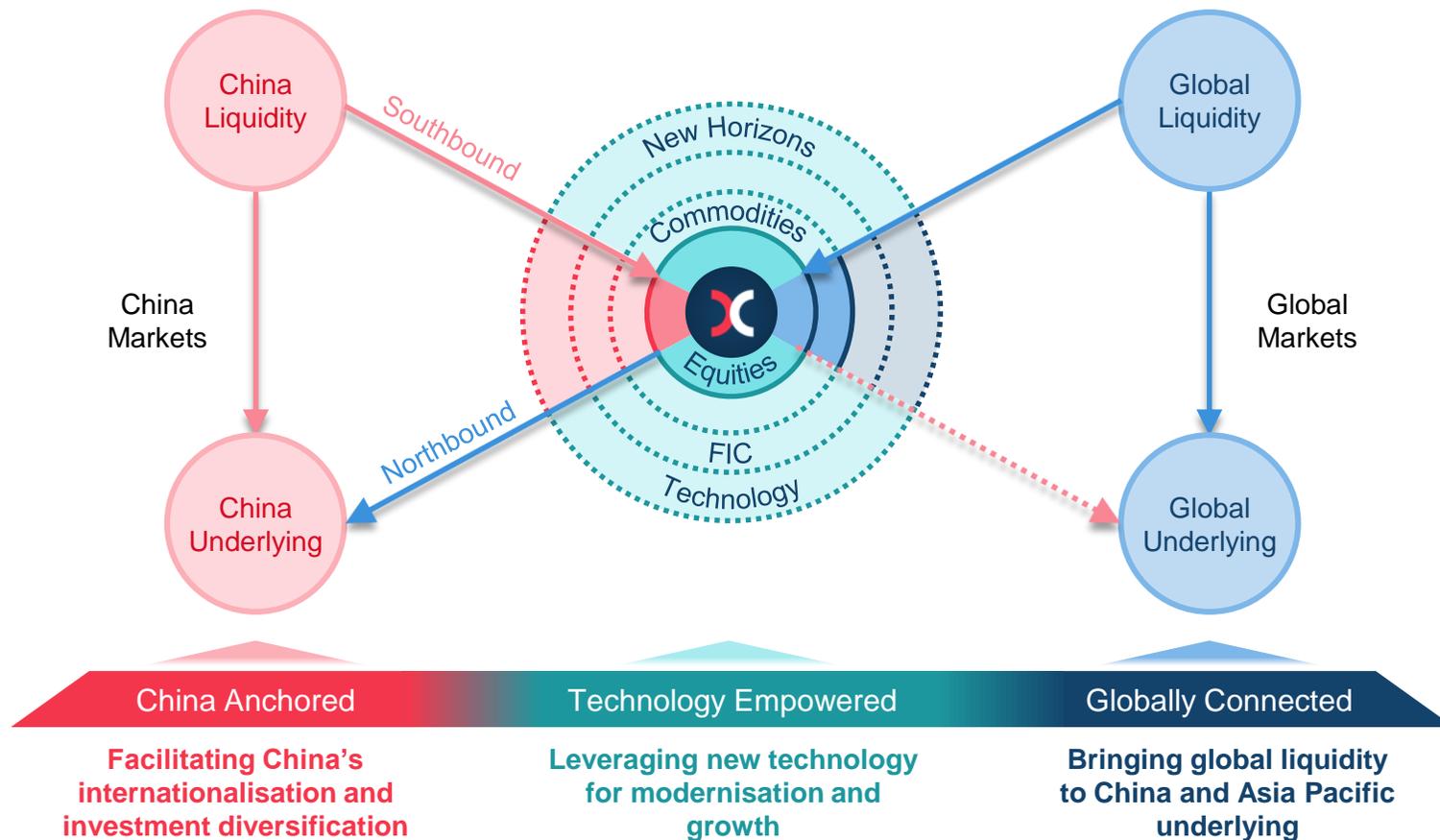
- 1 | **Sole exchange group in Asia’s leading financial centre with robust and resilient business model underpinned by**
 - **Internationally trusted financial markets**
 - **Diverse investor mix and comprehensive offerings across the value chain**

- 2 | **Strong structural growth in equities sustained by**
 - **Our role as the primary offshore capital formation centre for China**
 - **Our entrenched connectivity between global and Chinese capital flows, enhancing operating leverage and delivering profitability**

- 3 | **Future growth opportunities in FICC and technology**
 - **Replicating China-driven success in equities**
 - **Leveraging technology and China’s highly digitalised economy to secure our competitiveness**

Our 2019-2021 Strategic Vision

The Global Markets Leader in the Asian Time Zone –
Connecting China, Connecting the World



1 | Sole Exchange Group in Asia's Leading Financial Centre with Robust and Resilient Business Model

- **Sole operator** of Cash and Derivatives markets and Post Trade infrastructure in HK
- International financial centre backed by **rule of law and respected legal system**, supported by skilled and professional financial community
- Diverse base of international, regional and local investors attracted to **broad product ecosystem**
- Competitive, **transparent fee structure**, alongside a transaction-based government fiscal regime
- **Proven management track record** of delivering strategic initiatives and financial performance

2 | Strong Structural Growth Sustained by Role as China's Offshore Capital Formation Centre and Entrenched China Capital Connectivity

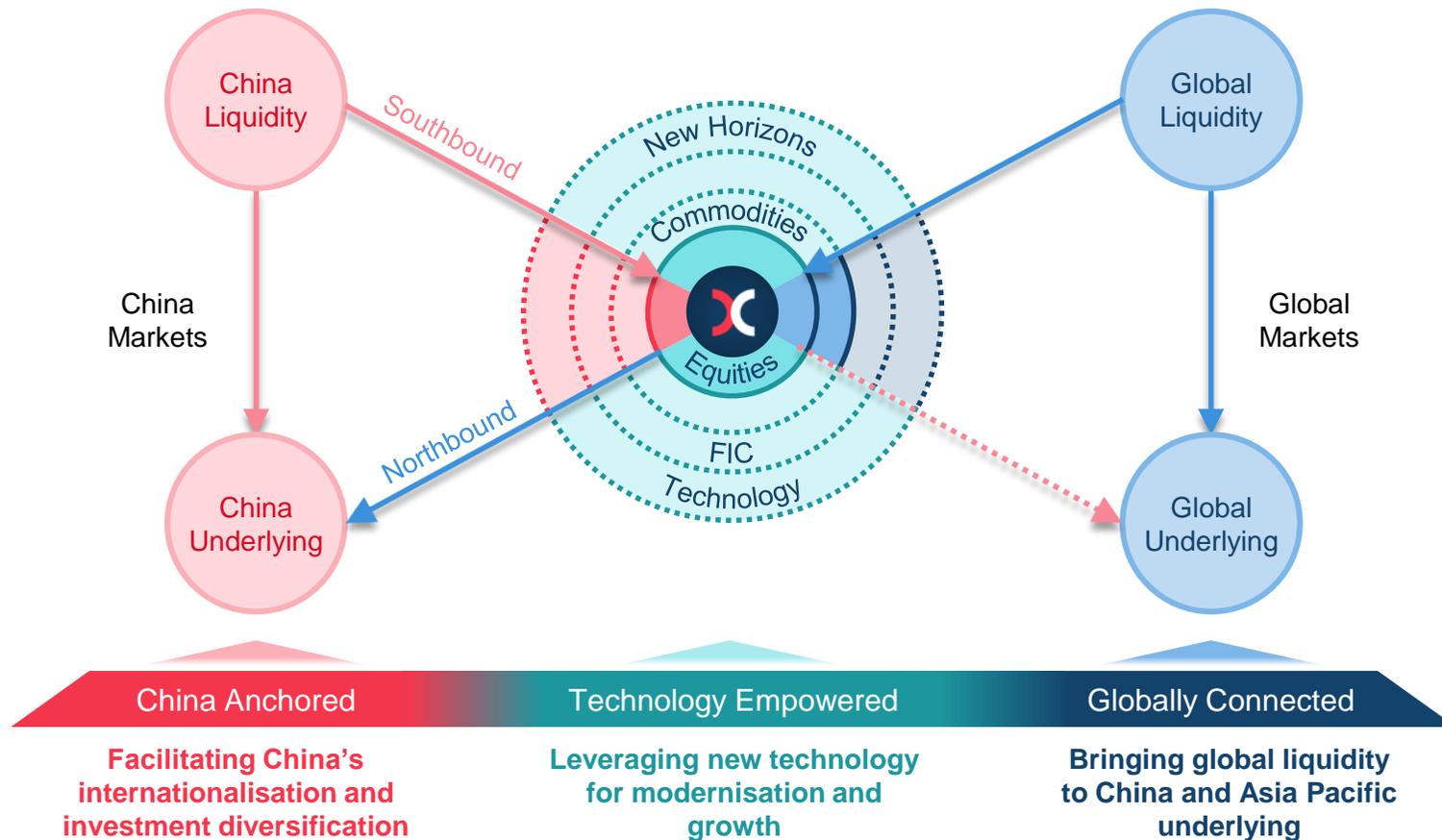
- **Globally leading IPO venue** attracting both Mainland and international issuers
- Destination market for **new economy issuers**
- **Major IPOs** fuelling increased trading activity
- Northbound Connect ensures Hong Kong continues to benefit from the **long-term growth in the onshore capital markets**
- Southbound Connect secures Hong Kong's role as the primary destination market for **Mainland investors' global diversification drive**
- Sustained Mainland capital flow will cement Hong Kong's role as a **destination market for international underlying**

3 | Future Growth Opportunities in Replicating Our China Connectivity in Equities and Leveraging Technology to Transform FICC

- Early stage in HKEX's **FICC journey**
- **Initial success in commodities** – “buy one (LME), build one (QME)”
- RMB internationalisation will help create a major FIC market in the Asian time zone and we plan to replicate our track record in equities, with **Bond Connect demonstrating notable success** in its initial phase
- **Grow our FICC capability and international footprint** when the right opportunities present themselves
- **Leverage technology and partnerships** (AI, blockchain, data) to develop new ways to compete in the emerging FICC space and China's digitalised economy

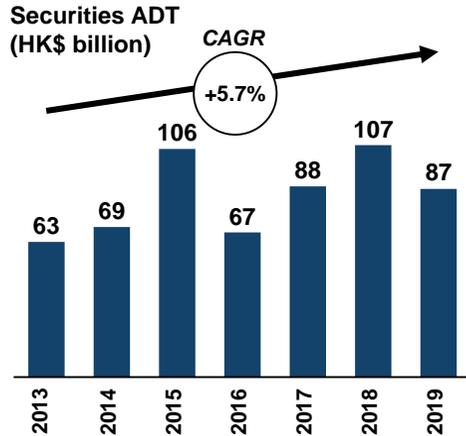
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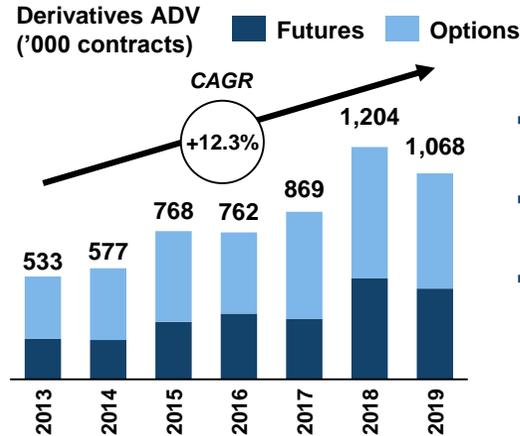


Core Business Well-Positioned for Organic and Structural Growth

A | Broad Product Ecosystem Attracting Diverse Mainland and International Investor Base

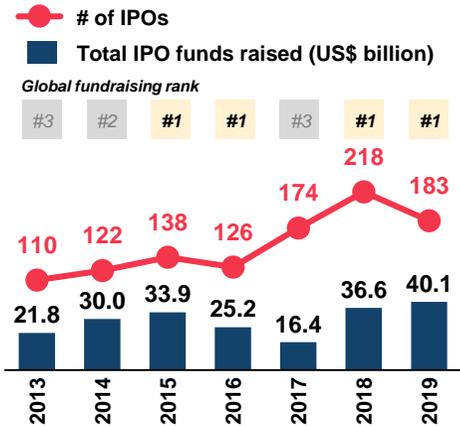


- Southbound Connect
- Jumbo IPOs
- Global Investors



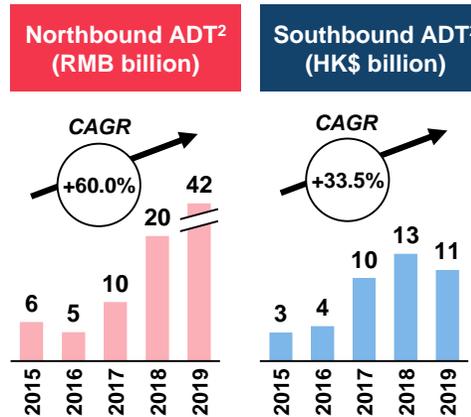
- Risk Management
- Algo / Quant Investors
- After-hours Trading

B | IPOs Driving ADT Growth



- New Economy Listing Reforms
 - Biotech
 - WVR
 - Secondary Listings
- Strong Pipeline of Mainland and International Listings

C | Transformational Growth from China's Opening¹



- Continuing Portfolio Diversification
- A-share Inclusion in Global Benchmarks
- SB Connect Limited by Investor Eligibility Cap

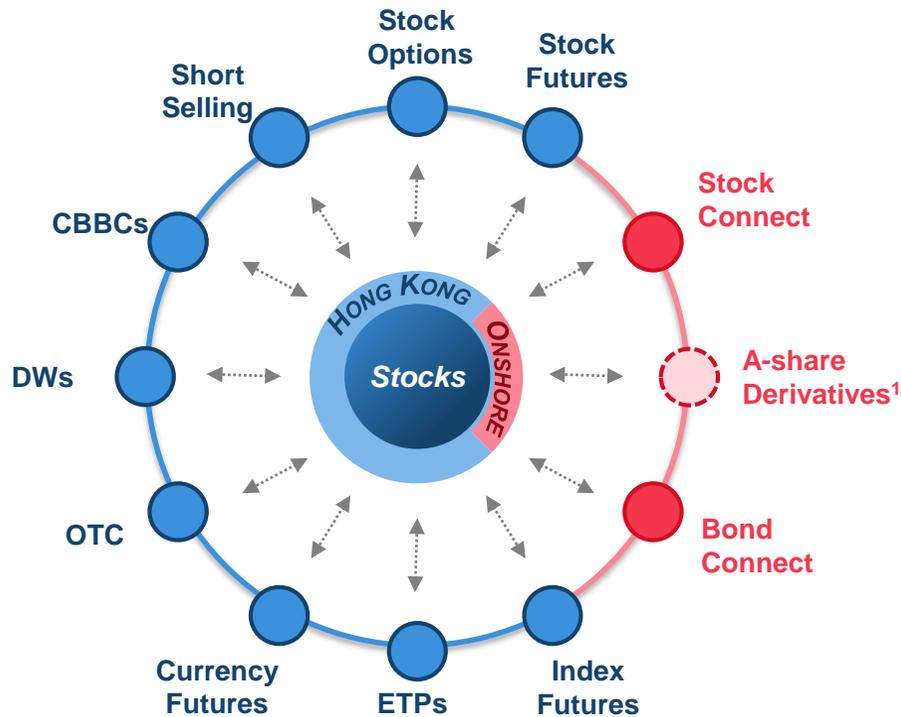
D | Focus on Revenue Growth and Cost Discipline

Source: HKEX, Dealogic.

1. Shanghai-HK and Shenzhen-HK Stock Connect was launched in Nov 2014 and Dec 2016 respectively.
2. Buy + Sell ADT.



A | Diverse International Investor Base Attracted to Broad Product Ecosystem



Algo / Quant Participation in Cash Market

Relatively low
(circa. 10-20% of ADT)

- Due to...
- Presence of stamp duty
 - Minimal high frequency trading
 - Single market structure

Algo / Quant Participation in Derivatives Market

Relatively high
(circa. 30-40% of ADV)

- Driven by...
- No stamp duty
 - Market maker participation
 - Capital efficiency

Recent initiatives and future focus

- Market microstructure enhancements: leading to better price discovery and trade efficiency
- Targeted marketing and client support: onboarding 10+ clients each year
- Incentives: driving increased volumes
- Product cross-selling: creating arbitrage opportunities



1. HKEX signed a license agreement with MSCI to introduce futures contracts on the MSCI China A Index, subject to regulatory approval and market conditions.

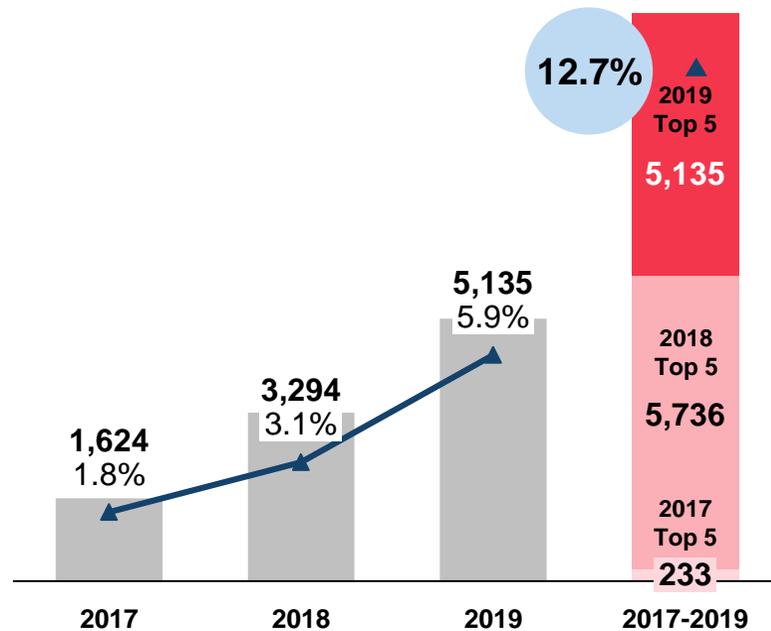
B | Major IPOs Contributing to Increased Trading Activity

Rising Cash Market ADT Contribution from Major IPOs

ADT (HK\$ million)

▲ % of Cash Market ADT

■ 5 largest IPOs and related Structured Products ADT



Factors Driving Growth

Major IPOs

- Global #1 IPO venue, drawing leading Chinese and international issuers to HK
- Attracted the world's 2nd and 4th largest offerings in 2019 (Alibaba and Budweiser APAC)

Increasing share of new economy issuers in HK

- Facilitated by the Listing Reforms in 2018
- Extension of Connect to cover WVR companies (Xiaomi, Meituan)

Wide range of products and risk management tools

- Liquidity further boosted by broad product ecosystem (ETPs, DWs, CBBCs, futures and options) for the underlying issuer

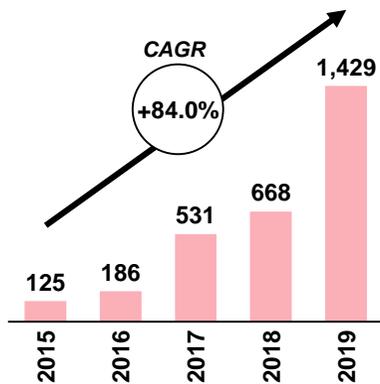
13% of 2019 ADT was contributed by the 5 largest IPOs in the last three years

C | Transformational Growth from China's Opening

Stock Connect¹

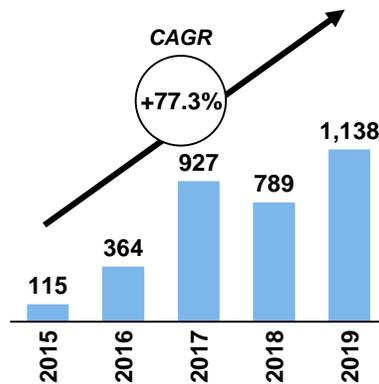
Northbound
(RMB billion)

Portfolio Value



Southbound
(HK\$ billion)

Portfolio Value

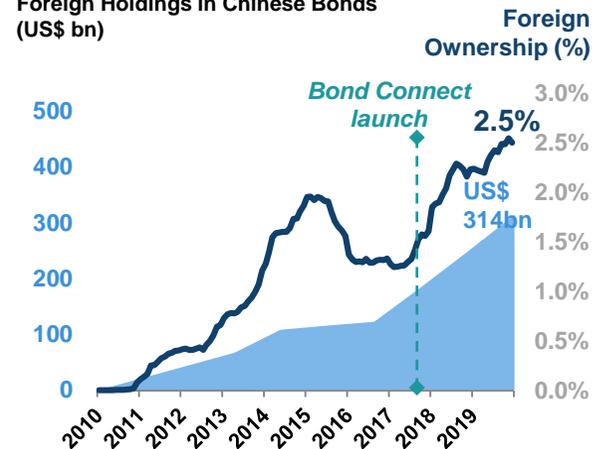


- Continuing portfolio diversification by Mainland and international investors
- Inclusion of A shares into major global benchmarks
- Increasing selection of new economy companies in Southbound Stock Connect

Bond Connect

Total Foreign Participation in CIBM²
(RMB billion)

Foreign Holdings in Chinese Bonds
(US\$ bn)



Investors Onboarded
>1,600

ADT³
RMB11.4bn

- Inclusion of Mainland bonds into global fixed income indices
- Easier access to the Mainland bond market via more trading platforms
- Increasing use of RMB globally and need to reinvest into RMB assets

Benefiting from the increased capital flow into and out of Mainland China, in particular inbound flows driven by international index inclusions

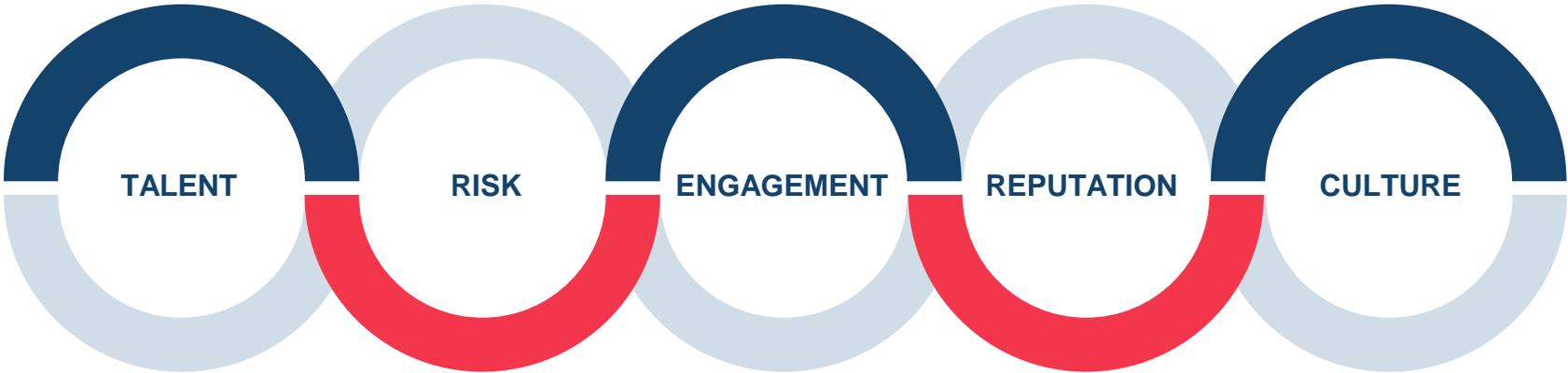
Source: HKEX, Bond Connect, ChinaBond, SCH; data as of Dec 2019 (unless otherwise specified).

1. Shanghai-HK and Shenzhen-HK Stock Connect was launched in Nov 2014 and Dec 2016 respectively.
2. Foreign participation in CIBM was first allowed in 2010 when the PBOC rolled out a Pilot Scheme to allow foreign financial institutions to invest in CIBM.
3. From Jan 2019 to Jan 2020.



Focus on Organisational Excellence and CSR

HKEX is focused on the pursuit of organisational excellence



INVESTMENT IN TALENT AND CULTURE

- Newly-articulated Purpose, Vision and Values
- CE Awards
- Leadership Team development programme
- Group-wide People Survey

GLOBAL STAKEHOLDER ENGAGEMENT

- World Economic Forum 2020 Strategic Partner
- Raised HK\$1 billion for the Community Chest of HK since 1999
- Strong regulatory, industry and customer engagement

RESILIENCY AND SUSTAINABILITY

- HKEX Future Workplace Programme
- Sustainability Leader in S&P Global's Sustainability Yearbook 2020
- Redefined CSR strategy
- New HKEX Foundation

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2019 Financial Year

- Revenue and other income, up 3% to HK\$16.3bn
- EBITDA, up 4% to HK\$12.3bn
- PAT, up 1% to HK\$9.4bn
- Solid and resilient performance

... Welcome questions

Q&A Session begins now





Appendix



Financial Highlights – Income Statement

(HK\$ million, unless stated otherwise)	2019	% of Revenue & Other Income	2018	% of Revenue & Other Income	Y-o-Y Change
Results					
Revenue and other income	16,311	100%	15,867	100%	3%
Operating expenses	(4,048)	(25%)	(4,110)	(26%)	(2%)
EBITDA	12,263	75%	11,757	74%	4%
Depreciation and amortisation	(1,044)	(6%)	(762)	(5%)	37%
Operating profit	11,219	69%	10,995	69%	2%
Costs relating to proposed combination with LSEG	(123)	(1%)	-	0%	N/A
Finance costs and share of profits less losses of joint ventures	(145)	(1%)	(112)	(1%)	29%
Profit before taxation	10,951	67%	10,883	69%	1%
Taxation	(1,561)	(10%)	(1,592)	(10%)	(2%)
Loss attributable to non-controlling interests	1	0%	21	0%	(95%)
Profit attributable to HKEX shareholders	9,391	58%	9,312	59%	1%
Basic earnings per share	\$7.49		\$7.50		(0%)
Headline ADT on the Stock Exchange	\$87.2 bn		\$107.4 bn		(19%)
Capex	\$1,068 m		\$988 m		8%

1. % does not add up due to roundings.



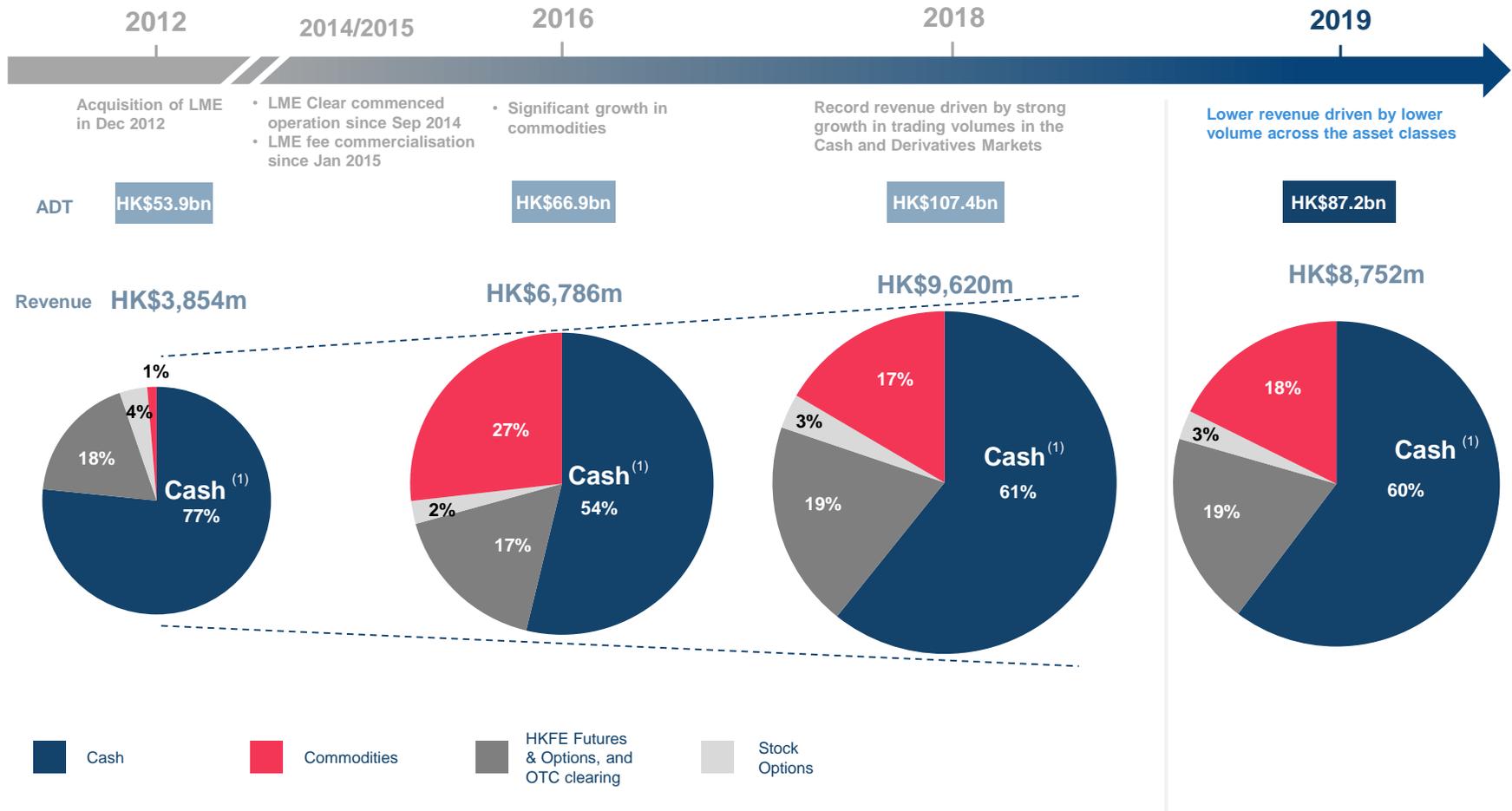
Performance by Operating Segment

HK\$ million	Cash Equity	Equity & Financial Derivatives	Commodities	Post Trade	Technology	Corporate Items	Group 2019	Group 2018
Revenue and other income	3,646	2,988	1,399	6,226	796	1,256	16,311	15,867
<i>% of Group Total</i>	<i>22%</i>	<i>18%</i>	<i>9%</i>	<i>38%</i>	<i>5%</i>	<i>8%</i>	<i>100%</i>	<i>100%</i>
Operating expenses	(603)	(551)	(668)	(824)	(245)	(1,157)	(4,048)	(4,110)
EBITDA	3,043	2,437	731	5,402	551	99	12,263	11,757
<i>% of Group Total ⁽¹⁾</i>	<i>25%</i>	<i>20%</i>	<i>6%</i>	<i>44%</i>	<i>4%</i>	<i>1%</i>	<i>100%</i>	<i>100%</i>
<i>EBITDA margin</i>	<i>83%</i>	<i>82%</i>	<i>52%</i>	<i>87%</i>	<i>69%</i>	<i>8%</i>	<i>75%</i>	<i>74%</i>
Depreciation and amortisation	(128)	(94)	(327)	(237)	(39)	(219)	(1,044)	(762)
Costs relating to proposed combination with LSEG	-	-	-	-	-	(123)	(123)	-
Finance costs	(15)	(12)	(8)	(82)	(1)	(59)	(177)	(114)
Share of profits less losses of joint ventures	38	(6)	-	-	-	-	32	2
Profit before taxation	2,938	2,325	396	5,083	511	(302)	10,951	10,883

1. % Share of Group EBITDA (including Corporate Items)



Trading and Clearing Revenue by Market



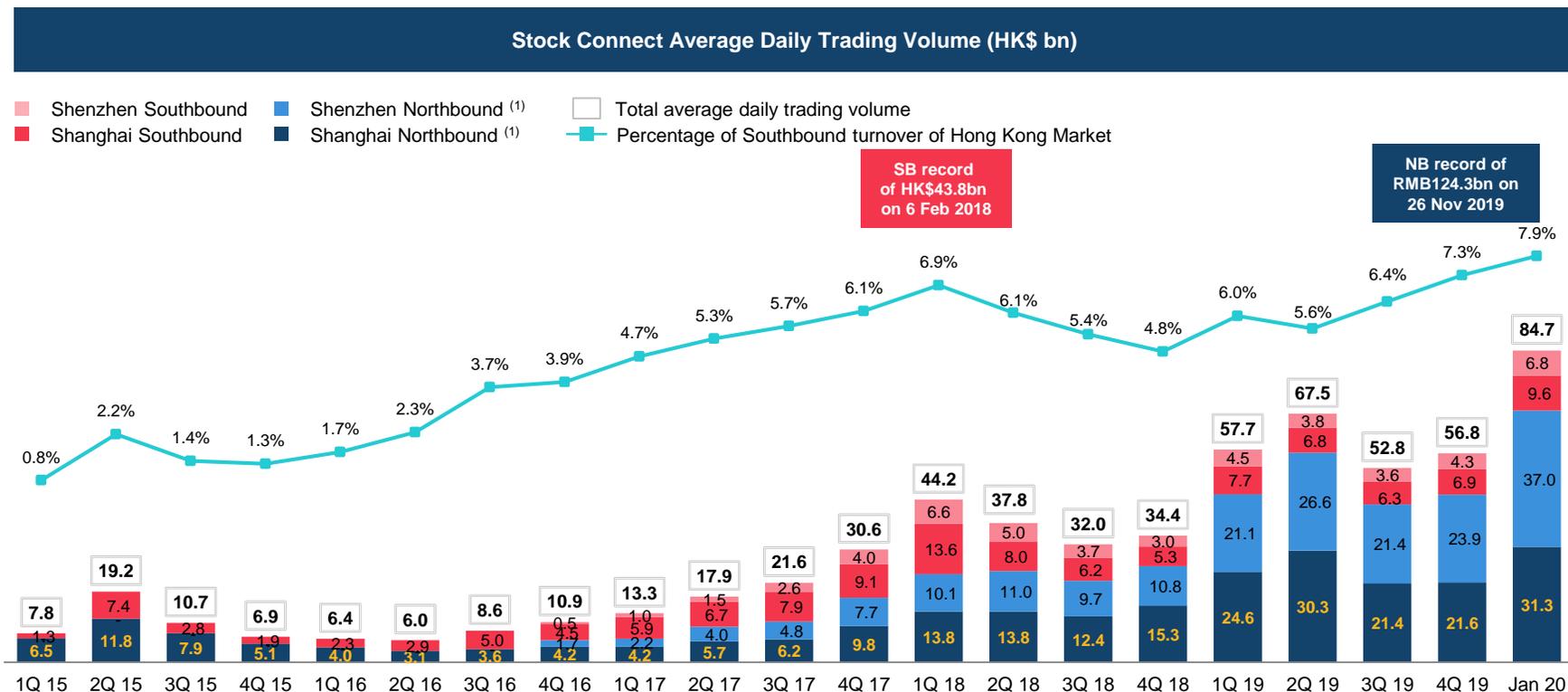
Revenue diversification following acquisition of LME and growing Derivatives Market

1. Includes all products traded on Cash Market platform (i.e. equity products, DWs, CBBCs and warrants)



Stock Connect – Trading Trends

Stock Connect generated record income of HK\$1bn in 2019, 49% higher than 2018



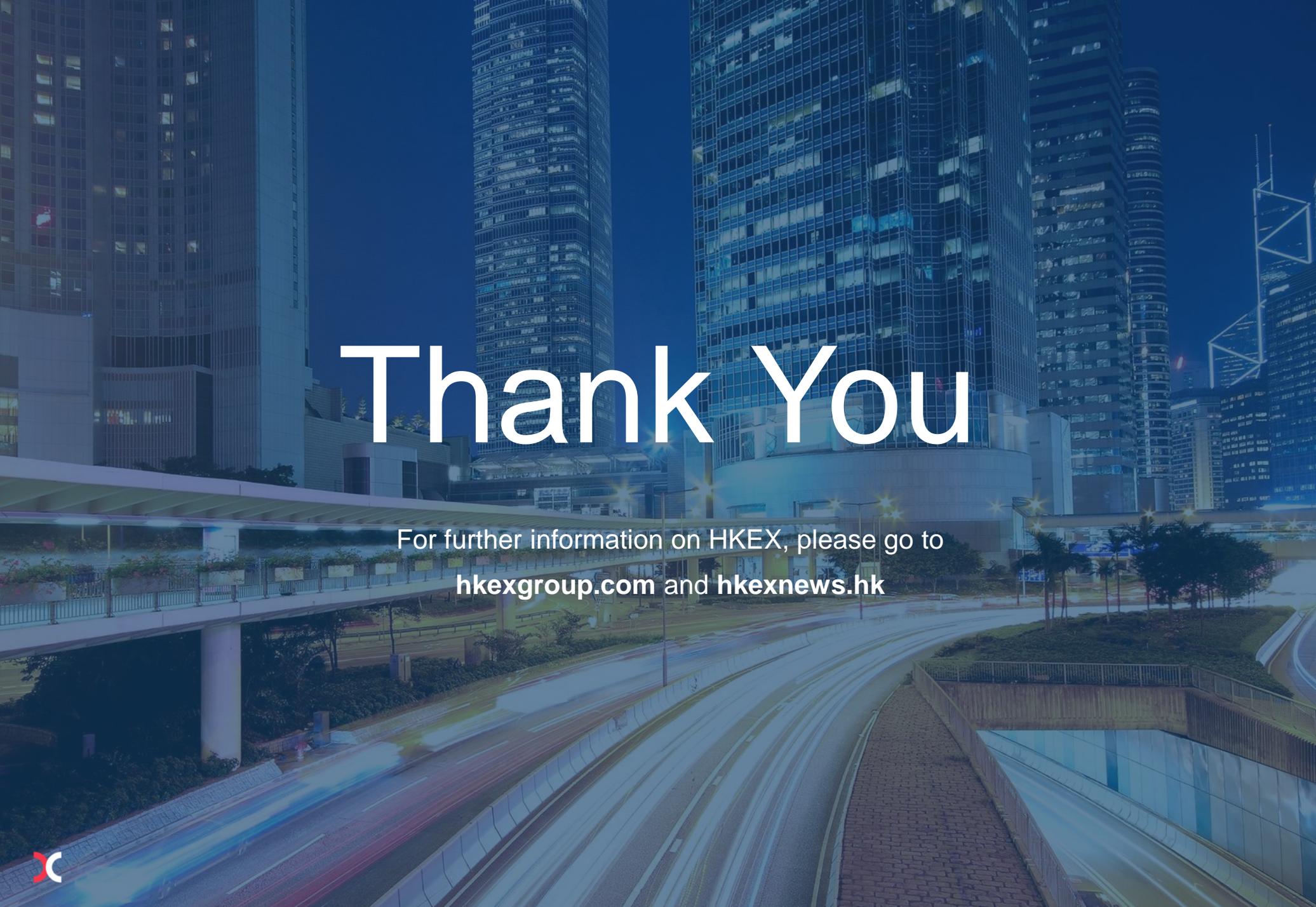
- Northbound turnover was significantly higher in 2019, continuing on the strong performance in 2018 especially after the A-shares inclusion in global indexes
- Southbound trading has picked up versus 2H 2018 due to better market conditions

Index inclusions in 2019 have boosted Northbound turnover

Source: HKEX; data as of Jan 2020

1. Northbound (NB) trading is conducted in RMB; The NB figures in the chart are converted to HKD based on the month-end exchange rate.
 2. Does not add up due to roundings.





Thank You

For further information on HKEX, please go to
hkexgroup.com and hkexnews.hk

