



**HKEX**  
香港交易所

# 2020 1H Results Analyst Presentation

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# Agenda

**01 | 1H 2020 Key Highlights**

**02 | HKEX Group Financial Review**

**03 | Business and Strategic Update**

**04 | Appendix**



# 1H 2020 Key Highlights

## 1 | Financial Performance

- Record half-yearly revenue and profit despite challenging macroeconomic backdrop with core business revenue up by 13%YoY; total revenue up by 2%YoY and PAT up by 1%YoY
- Record half-yearly Stock Connect revenue of HK\$743mn (+46%YoY)
- Net investment income fell HK\$681mn, primarily due to the fair value losses of collective investment schemes previously announced at Q1

## 2 | Business and Strategy

- Strong IPO Market – #2 globally in number of new company listings (64) and #3 in IPO funds raised (HK\$92.8bn)
- Strong performance in Connect Schemes – all achieved half-yearly record high ADT
- Major licensing agreement for MSCI Asia & EM indexes to offer suite of 37 new contracts, further expanding HKEX product ecosystem
- Ongoing market microstructure enhancements and technology capabilities enhancement

## 3 | In focus - A new Era of Liquidity in Hong Kong

- Premier, global fundraising venue for new economy and jumbo IPOs, contributing to increasing trading activities
- Holistic product ecosystem encompassing HK, international and onshore underlying



An aerial photograph of a long, multi-lane cable-stayed bridge stretching across a vast expanse of blue water. The bridge features several tall, white, A-frame pylons supporting the roadway with cables. The water is a deep, clear blue, and the sky is a pale, hazy blue. In the distance, a city skyline is visible on the horizon. A dark blue semi-transparent rectangular overlay covers the middle-left portion of the image, containing the title text and a vertical red line.

# HKEX Group Financial Review

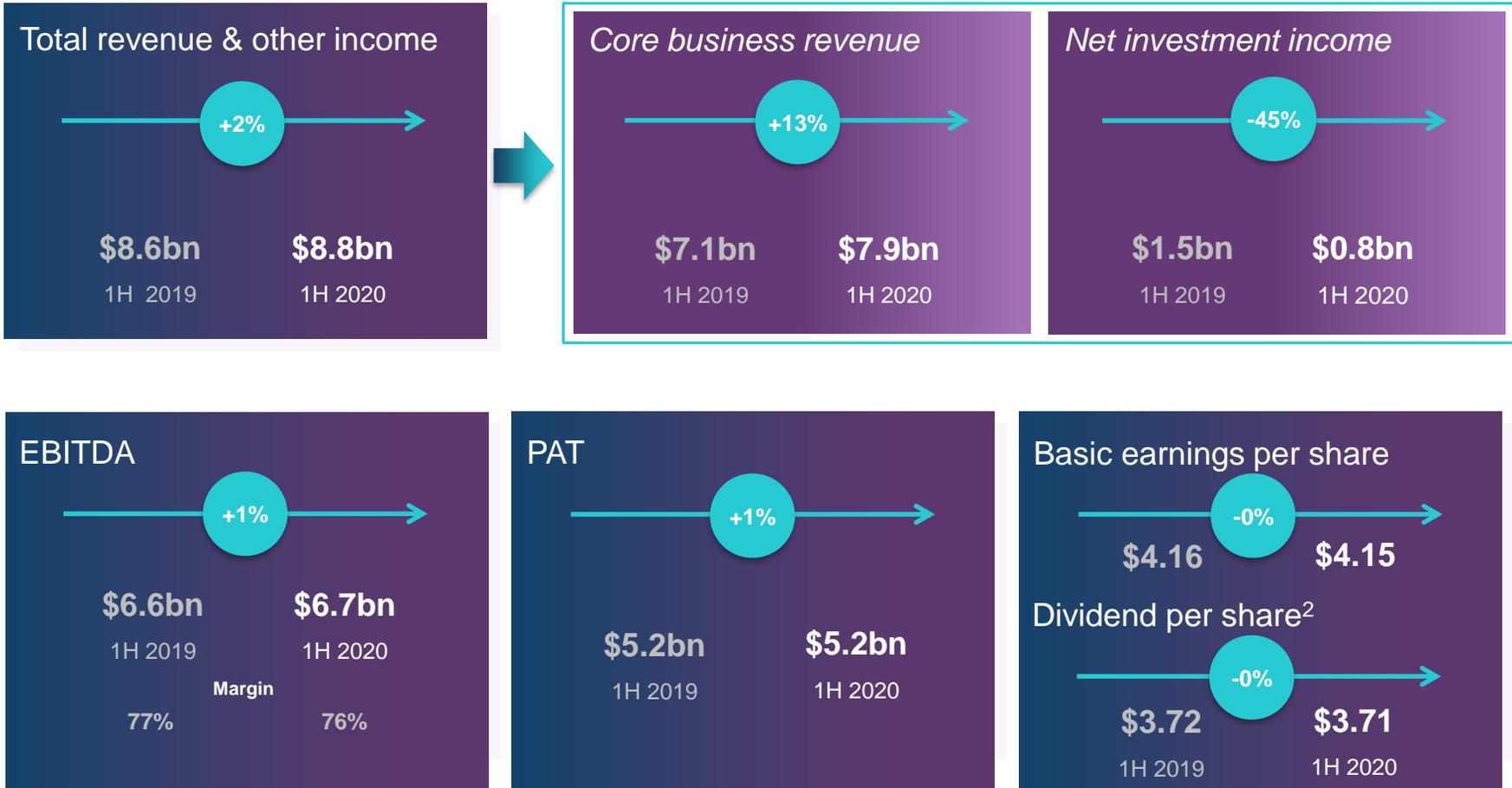


# Key Financial Highlights

Record half-yearly revenue and profit

Strong core business performance; market conditions impacted investment income

(HK\$)

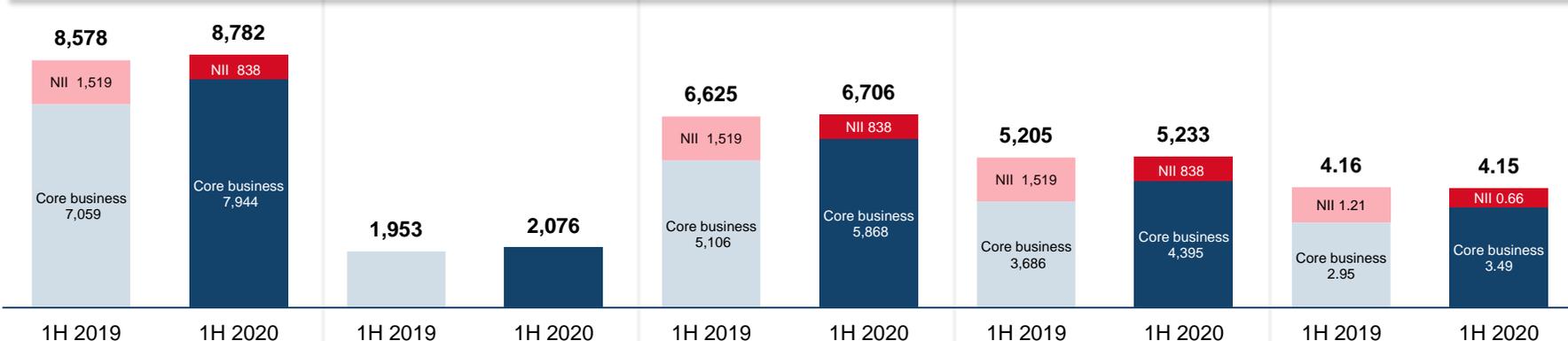


1. % is computed based on amounts reported in financial statements.
2. The 2020 first interim dividend will be payable in cash, without a scrip alternative.
3. Does not add up due to roundings.



# 1H 2020: Record Half-Yearly Revenue and Profit

Revenue and other income	Operating expenses <sup>(1)</sup>	EBITDA	Profit attributable to HKEX shareholders <sup>(2)</sup>	Basic earnings per share
(HK\$ mn) <b>Core business+NII</b> + 2% <b>Core business</b> + 13% ADT HK\$97.9bn +20% HK\$117.5bn	+ 6%	<b>Core business+NII</b> + 1% <b>Core business</b> + 15% 77% Margin 76%	<b>Core business+NII</b> + 1% <b>Core business</b> + 19%	(HK\$) <b>Core business+NII</b> - 0% <b>Core business</b> + 18%



Trading & clearing fees ↑ from ↑ ADT and record Stock Connect revenue

Listing fees ↑ from record newly listed CBBCs

Net Investment income (NII) ↓ due to HK\$138mn losses from external portfolio in 1H 2020 (vs HK\$535mn record gains in 1H 2019)

Staff costs ↑ from ↑ HC mainly from BayConnect acquisition & payroll adj

IT costs ↑ from new IT systems and network upgrade

Professional fees ↑ from strategic projects and business initiatives

EBITDA margin ↓ 1%

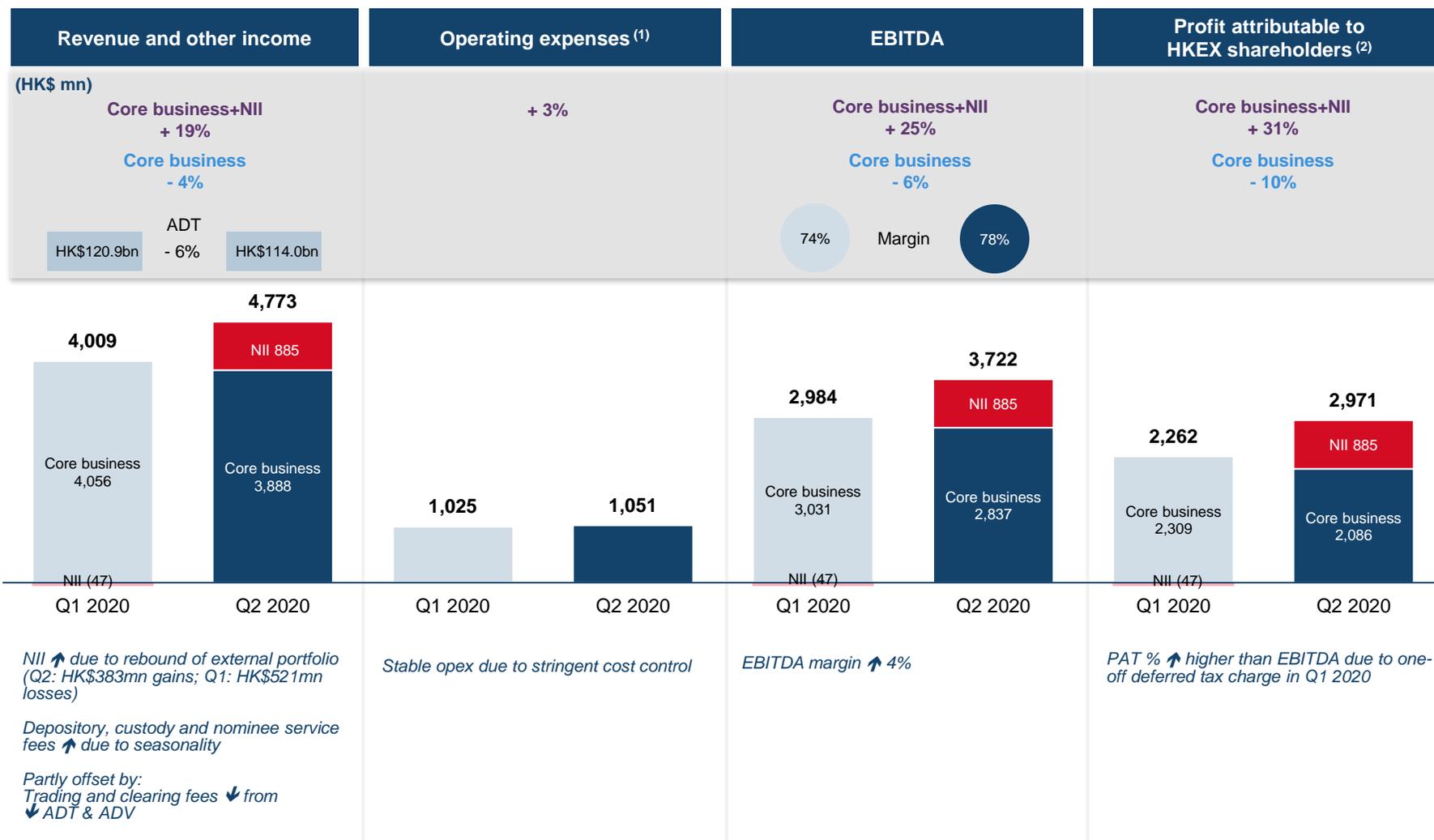
PAT % ↑ similar to EBITDA

EPS ↓ due to shares issued for scrip dividends

1. Excludes depreciation and amortisation, finance costs, and share of profits/(losses) of joint ventures
2. For the purpose of this presentation, tax impact of NII is not considered when calculating the PAT attributable to NII.



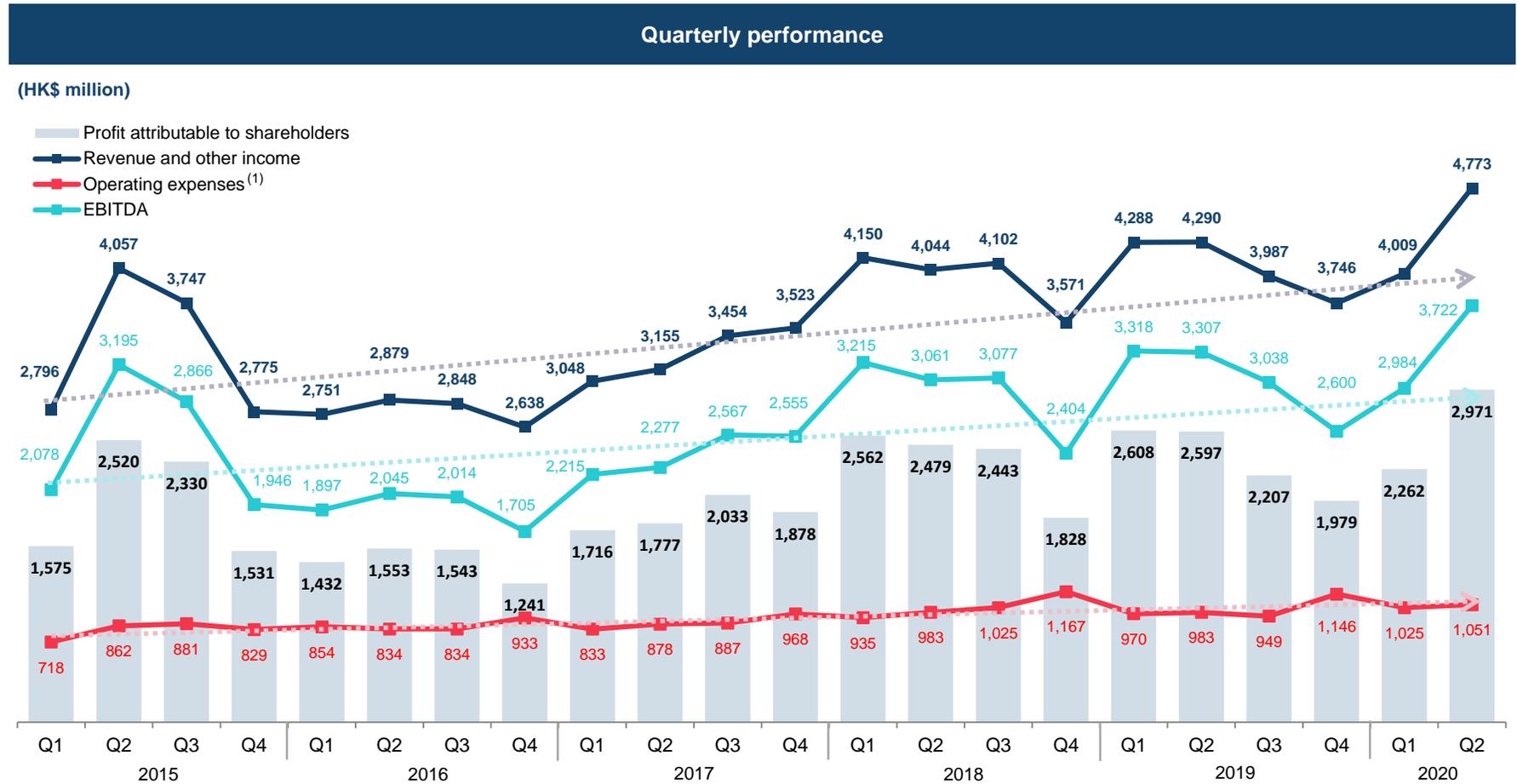
# Q2 2020: Quarterly Record High Due to Rebound of External Portfolio and Seasonality



1. Excludes depreciation and amortisation, finance costs, and share of profits/(losses) of joint ventures
2. The tax impact of NII is not considered when calculating the PAT attributable to NII.



# 1H 2020 Performance above Historical Trendline



**1H 2020 performance reflects resiliency of core business  
despite macroeconomic and COVID-19 induced uncertainty.**

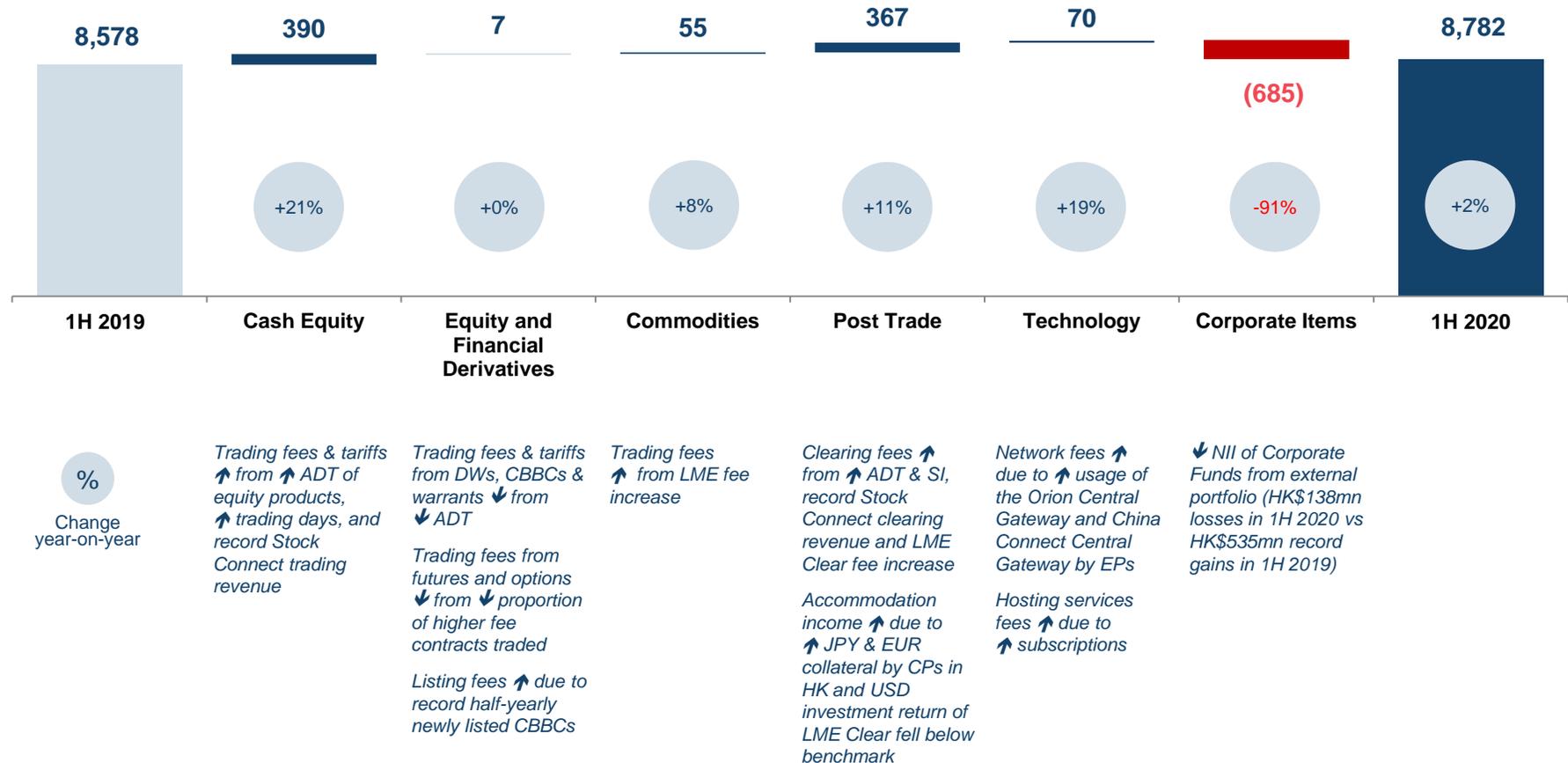
1. Excludes depreciation and amortisation, finance costs, share of profits/(losses) of joint ventures, and non-recurring costs arising from the proposed combination with London Stock Exchange Group (LSEG)
2. Dotted trend lines are illustrative and do not constitute a forward forecast.



# Higher Revenue across All Business Segments, Offsetting External Portfolio Loss of HK\$138mn (versus a Record Gain of HK\$535mn in 1H 2019)

Segmental revenue

(HK\$ mn)

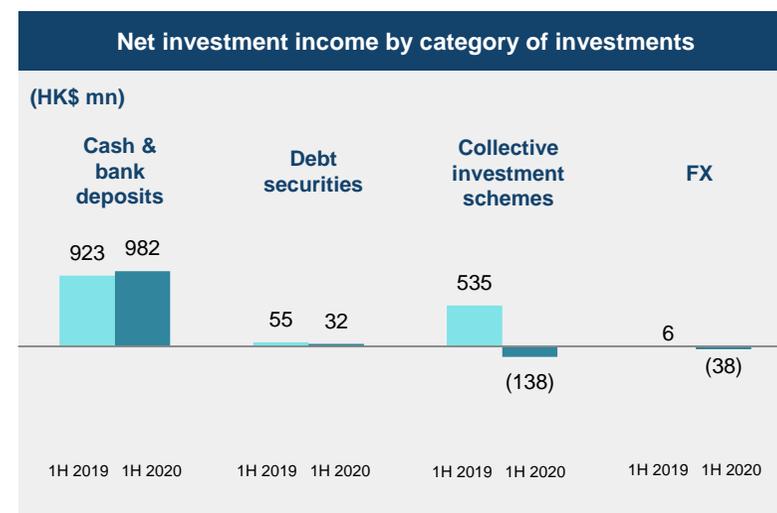
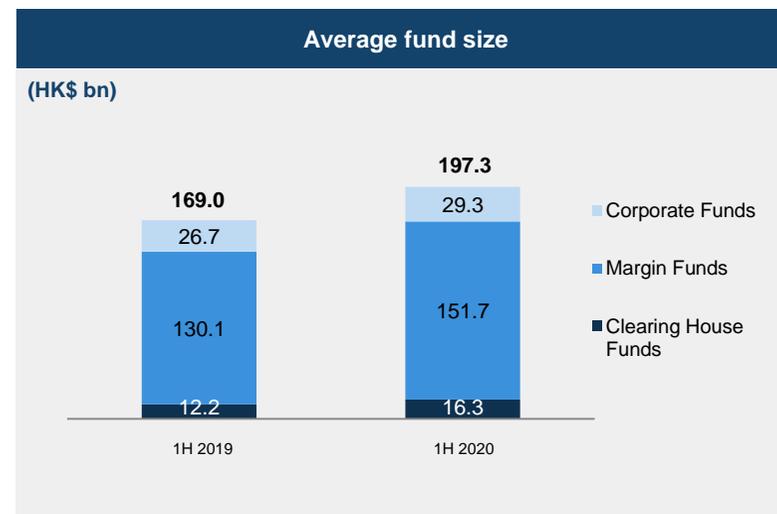
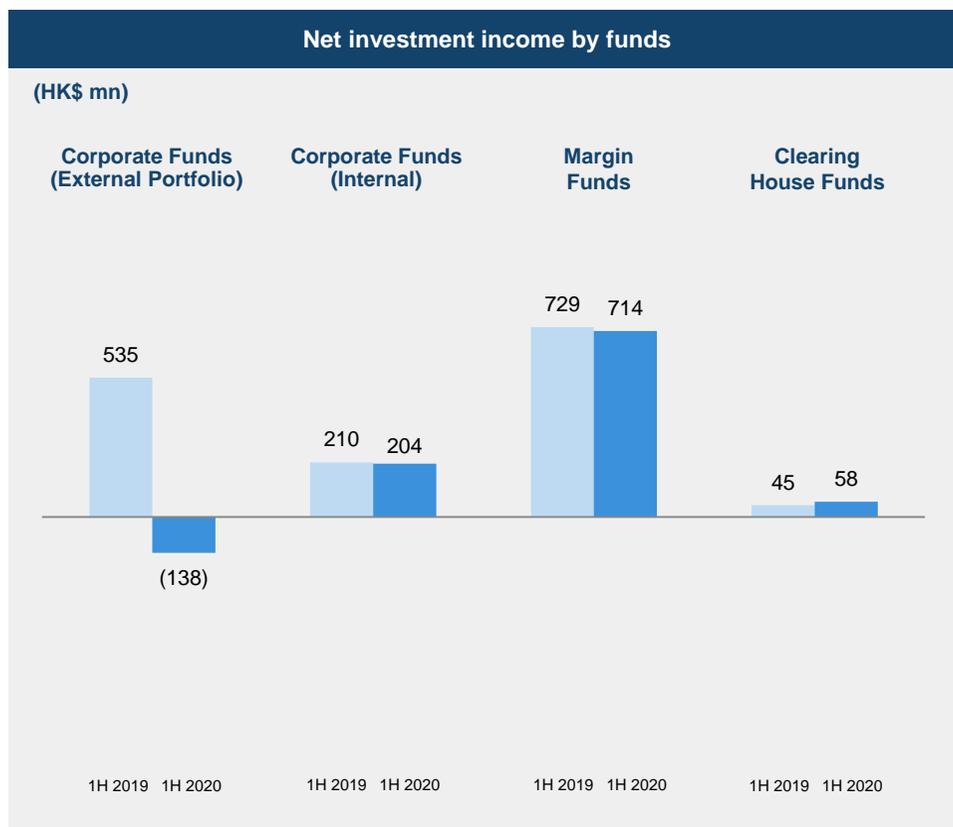


1. Headline ADT up 20% (1H 2020: HK\$117.5bn; 1H 2019: HK\$97.9bn); ADT of cash equity up 33% (1H 2020: HK\$100.0bn; 1H 2019: HK\$75.1bn); ADT of DWs, CBBCs and warrants included under equity and financial derivatives down 23% (1H 2020: HK\$17.5bn; 1H 2019: HK\$22.8bn)



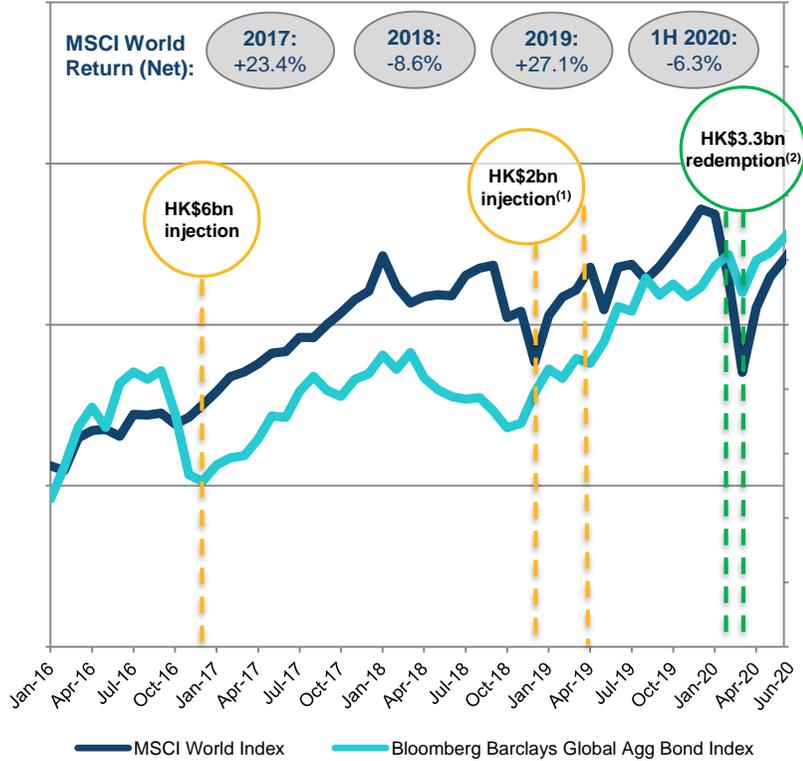
# Investment Income – External Portfolio Impacted by Broader Market; Income from Internal Funds Held Up Well

- 1H 2020: HK\$838mn (1H 2019: HK\$1,519mn)
- Income from Internal Funds in line YoY despite increase in margin rebates to participants
- Average Margin Fund and Clearing House Fund sizes increased due to heightened volatility in 1H 2020 (in particular March)

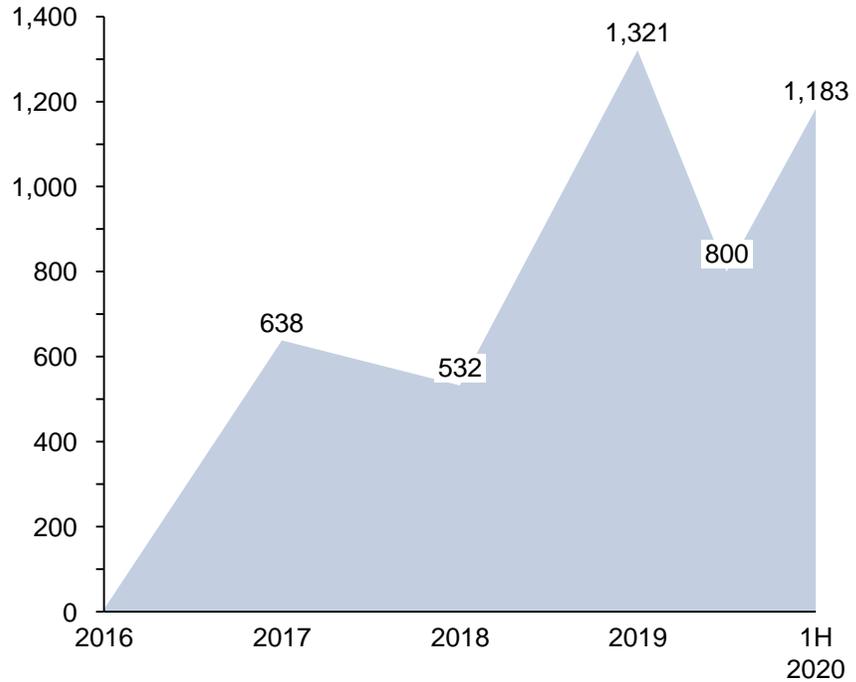


# External Portfolio – Annualised Return of 5.1% since Inception

## Point of Injection / Redemption



## Cumulative gain since inception (HK\$ mn)

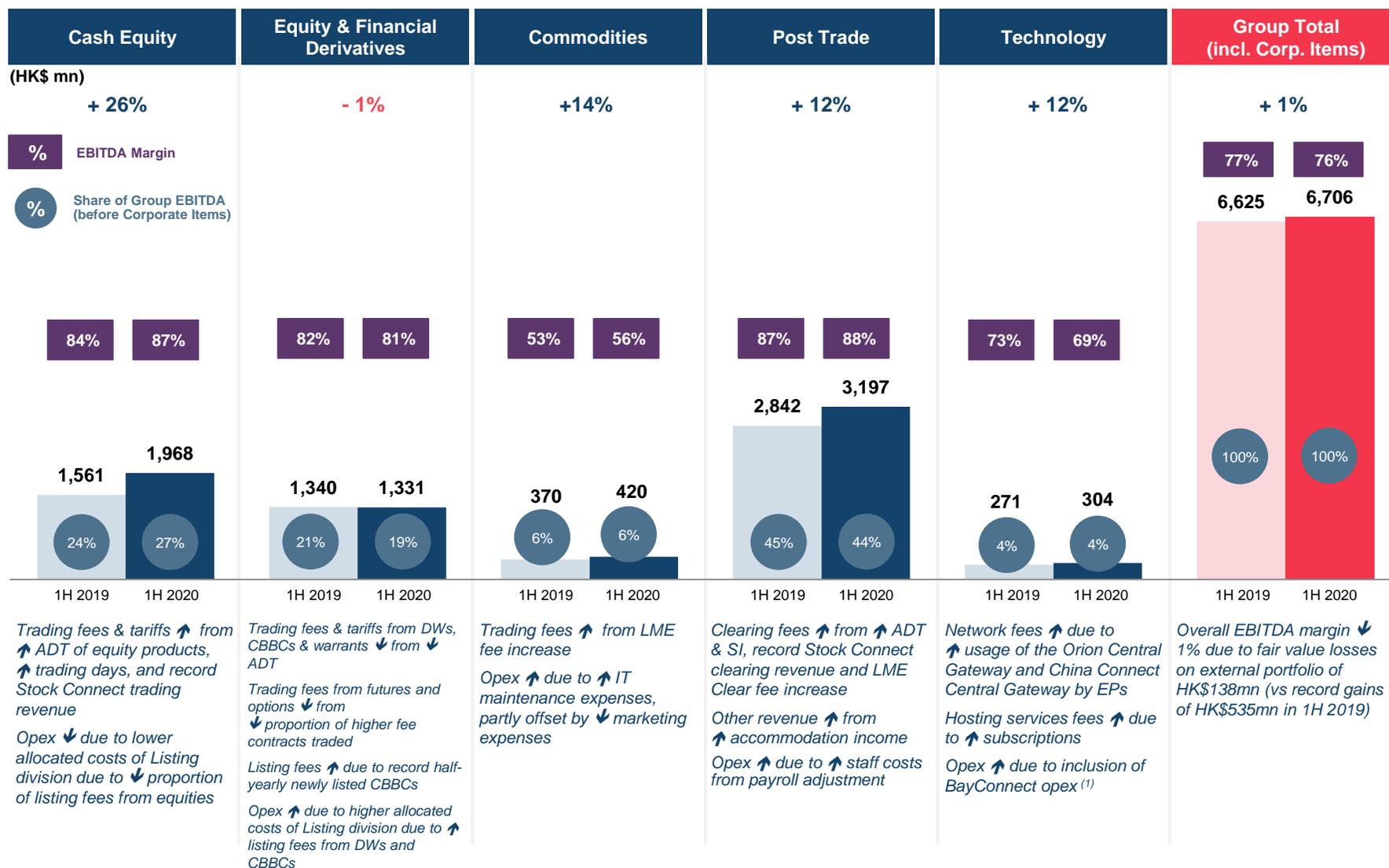


**As the market rebounded in Q2 2020, the external portfolio partially recovered from the Q1 2020 loss, resulting in a cumulative gain of \$1.2bn or an annualised return of 5.1% since inception.**

1. HKEX added HK\$2bn to the portfolio during the period from Q4 2018 to Q2 2019.  
 2. HK\$3.3bn was redeemed in 1H 2020.



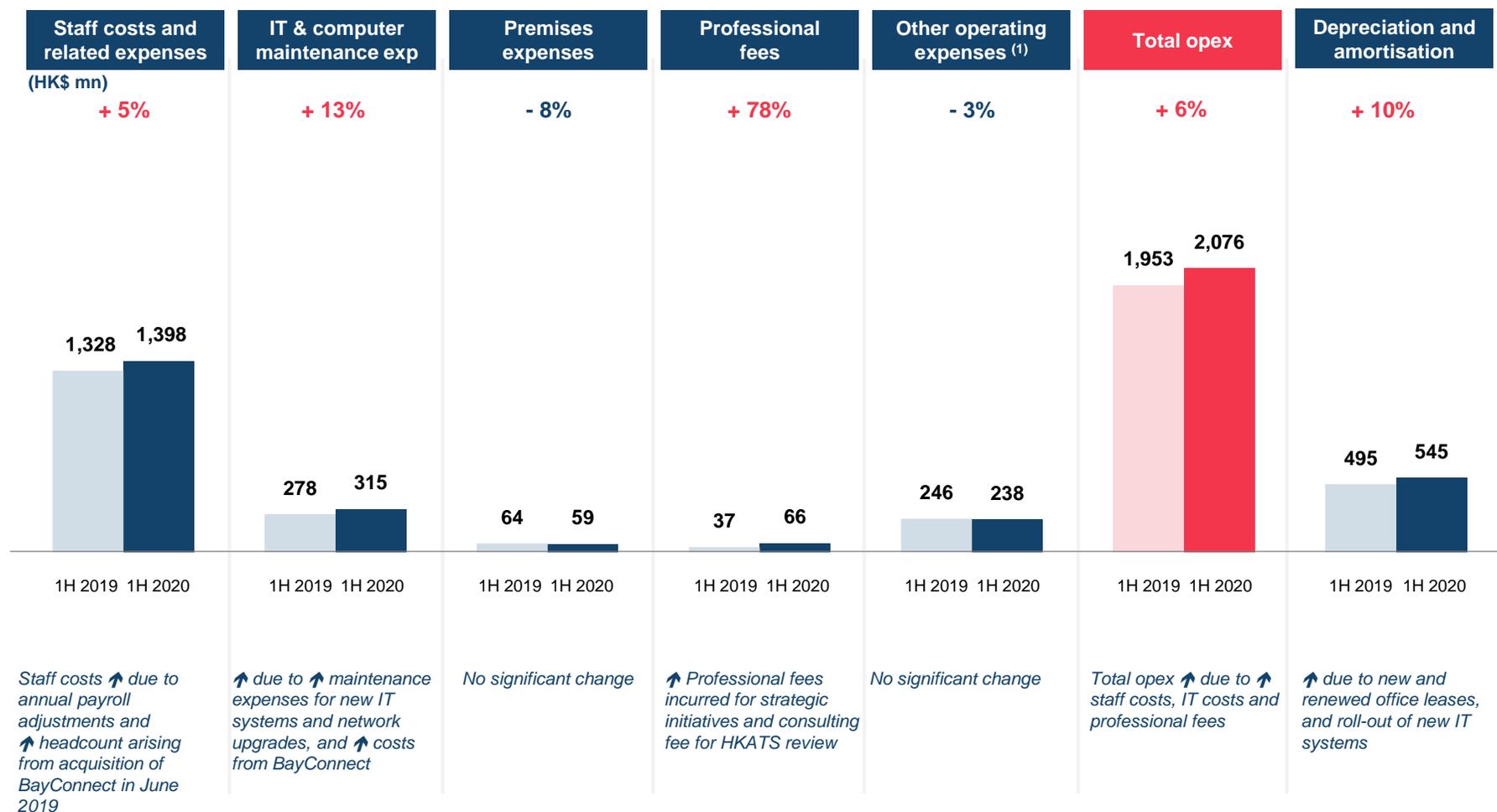
# Resiliency and Performance reflected in EBITDA



1. The acquisition of BayConnect was completed in June 2019 and its opex is included under Technology segment.



# Operating Expenses and Depreciation – Investment in Talent, Infrastructure and Strategic Initiatives



1. Includes product marketing and promotion expenses





# Business and Strategic Update



## 1 | Strong Market Performance

### ➤ **Good Core Business Performance, against Challenging Macro Backdrop**

- Strong performance in Cash Market and solid performance in derivatives and FICC
- Cash Market ADT +20%YoY at HK\$117.5bn
- Futures & Options ADV -0%YoY
- LME chargeable ADV +1%YoY

### ➤ **IPO Market, Strong Performance**

- #2 globally in number of new company listings (64), including 15 New Economy and Biotech companies
- #3 in IPO funds raised (HK\$92.8bn), 29%YoY growth and 18% contributed by Biotech and Healthcare Sector
- Continued innovation and commitment to listed issuers, e.g. launched 20 new virtual listing ceremonies and first animated virtual listing in Asia with JD.com

### ➤ **Strong Performance of Connect Schemes**

- *Stock Connect*: Record half-yearly revenue of HK\$743mn (+46%YoY); Record volumes with Northbound ADT of RMB74.3bn (+69%YoY) and Southbound ADT of HK\$20.7bn (+86%YoY)
- *Bond Connect*: Record ADT of RMB19.9bn (+202%YoY)



## 2 | Strategic Plan on Track – 1H 2020 Highlights

### ➤ **Market Enhancement Programme Continues**

- Northbound Master SPSA and Southbound Trading Investor Identification Regime launched
- Consultation conclusions published on Uncertificated Securities Market (USM); market consultation launched on Corporate WVR Beneficiaries
- Waiver on stamp duty for ETP market makers when creating and redeeming ETP units and new spread table since June for ETPs
- Shortened the listing cycle of structured products
- LME launched new rules to optimise warehousing network

### ➤ **New Products Launches**

- Major agreement signed to licence a suite of MSCI indexes in Asia and Emerging Markets for the introduction of 37 futures and options contracts (33 already launched)
- USD and CNH Silver Futures; first Iron Ore Futures ETF; first active equity ETF; first commodity based L&I Product and 7 new stock option classes

### ➤ **Technology Evolution**

- Continue to leverage new technology (e.g. AI, blockchain, data) for modernisation and growth
- HKEX acquired a minority stake in Huakong TsingJiao Information Science (Beijing) Limited (TsingJiao)

### 3 | In Focus: New Era of Liquidity in Hong Kong

#### LISTINGS

*Premier, global fundraising venue for new economy and jumbo IPOs*

#### PRODUCTS

*Holistic product ecosystem encompassing HK, international and onshore underlying*

#### CLIENTS

*Convergence of established international and Mainland market players*

# 3 | In Focus: Strongly Performing IPO Market boosted by New Economy Issuers and Secondary Listings

## 2020 Jan - July Fundraising Summary

**HK\$132.1bn**

IPO Funds Raised  
(#3 globally)

+56%YoY

**22** New Economy  
& Biotech Companies Listed...

...raising

**HK\$94.8bn**

+212%YoY

## IPO Funds Raised by Segments

No. of IPO

– Total

– New Economy<sup>1</sup>

– Biotech<sup>2</sup>

174

14

0

218

27

5

183

38

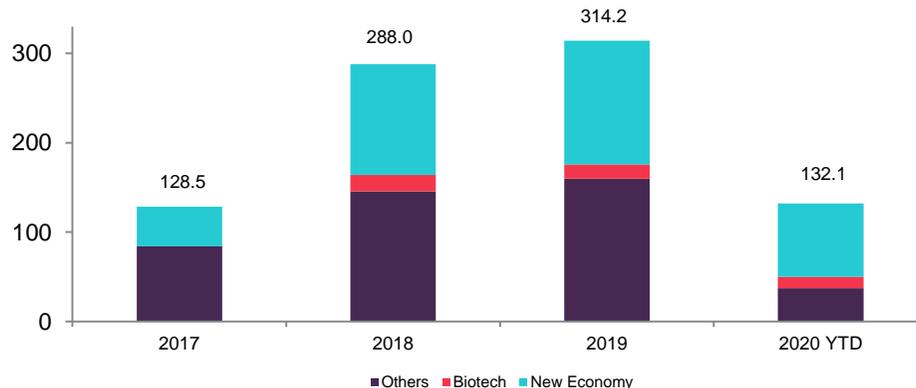
9

88

16

6

IPO Funds Raised  
(HK\$bn)



- **World's second-largest fund raising hub** for biotech companies
- **Dialogue with the Biotech Community 2020** webinar series with PhiRDA - attracted 292,000+ views
- **HKEX Biotech Week 2019** – attended by 1,000+ scientists, biotech entrepreneurs, investors, technology experts and policymakers
- **Ongoing listing reforms**
  - Shortening of IPO settlement cycle
  - Enhancing listing regime for overseas issuers
  - Enhancing the bookbuilding and price discovery aspects of IPOs (cornerstone investors, pricing flexibility, clawback mechanism)

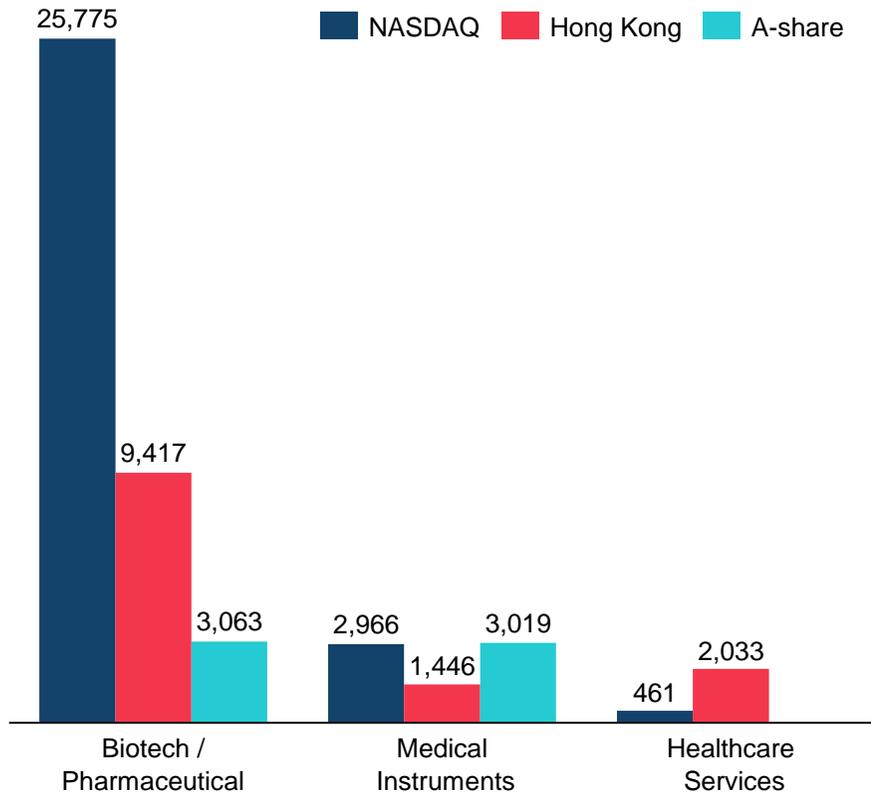
Source: Dealogic, as of July 2020.

1. Include Non-18A Biotech companies
2. Only include Chapter 18A Biotech companies

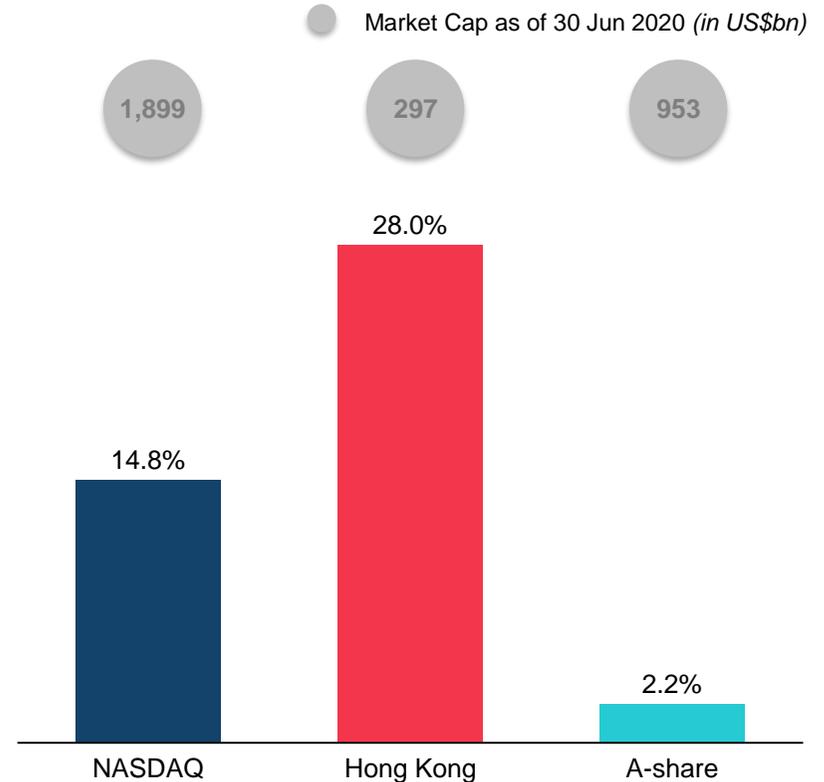


### 3 | In Focus: HK - Asia's Largest and World's 2nd Largest Biotech Fundraising Hub

IPO Funds Raised (US\$ mn)  
From 30 Apr 2018 to 31 Jul 2020



2017-2019 Market Cap CAGR (%) in  
Healthcare Sector



**Hong Kong healthcare and biotech sector grew faster than both the US and the Mainland, and has huge potential to become even more sizable in coming years**

Source: Dealogic, HKEX, Bloomberg, Refinitiv, and World Exchange Federation from 30 Apr 2018 to 31 Jul 2020.

1. A-share include main board of SSE and SZSE, as well as STAR Market and ChiNext. Also includes non-biotech stocks  
Sector classification is based on GICS (Global Industry Classification Standard)

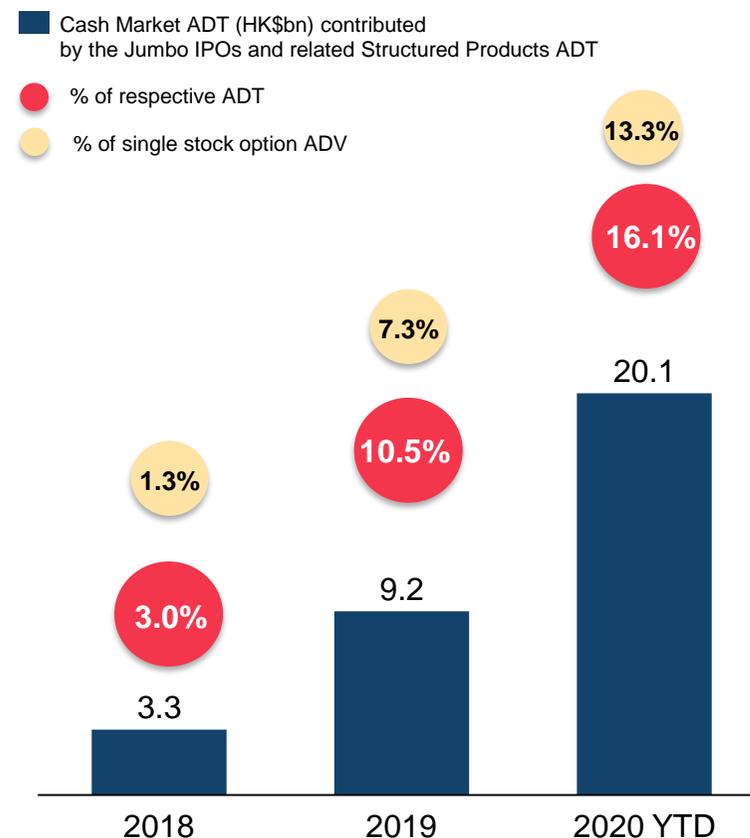


### 3 | In Focus: Jumbo IPOs Contributing to Increased Trading Activity

#### 14 Jumbo IPOs > US\$1bn (HK\$7.8bn) since Jan 2018

Rank	Company name	IPO date	IPO size (HK\$bn)
1	Alibaba Group - SW	26/11/2019	101.20
2	China Tower - H	08/08/2018	58.80
3	Budweiser Brewing APAC	30/09/2019	45.08
4	Xiaomi Corporation - W	09/07/2018	42.61
5	Meituan Dianping - W	20/09/2018	33.14
6	JD.COM - SW	18/06/2020	34.56
7	Netease - S	11/06/2020	24.26
8	ESR Cayman Ltd.	01/11/2019	14.06
9	Shenwan Hongyuan - H	26/04/2019	9.09
10	Hansoh Pharmaceutical Group	14/06/2019	9.04
11	Topsports International Holdings	10/10/2019	9.01
12	Ping An Healthcare and Technology	04/05/2018	8.77
13	Jiangxi Bank - H	26/06/2018	8.60
14	WuXi AppTec - H	13/12/2018	8.28

#### Rising contribution to volumes from Jumbo IPOs

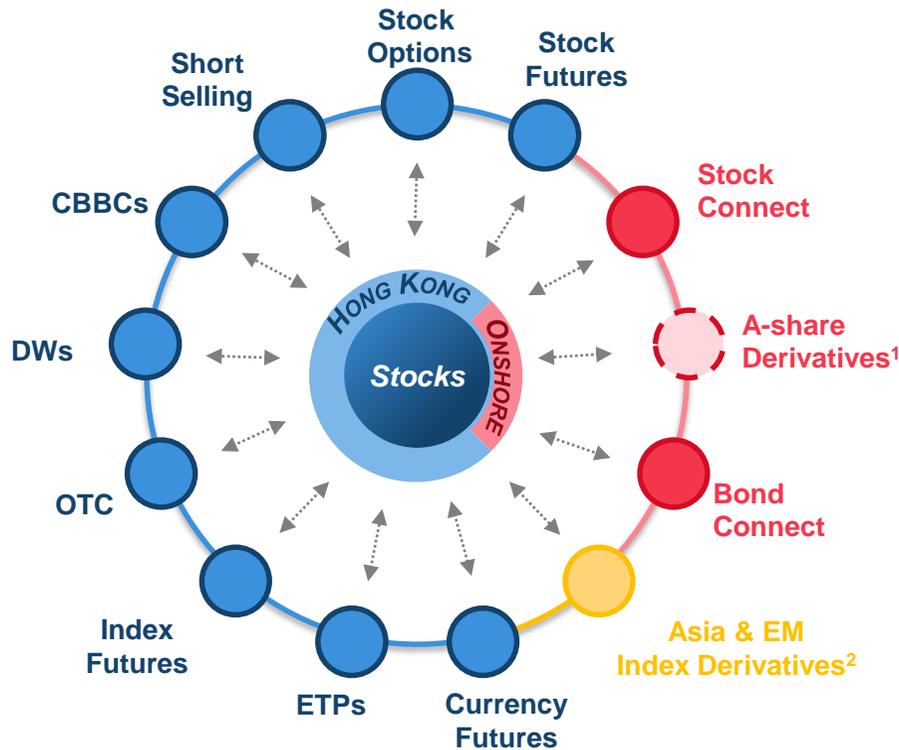


In 2020, 16% of cash ADT and 13% of stock option ADV is contributed by the top 14 IPOs over the last 2.5 years



Source: HKEX, as of Jul 2020.  
Ranked by IPO size.

### 3 | In Focus: Holistic Product Ecosystem



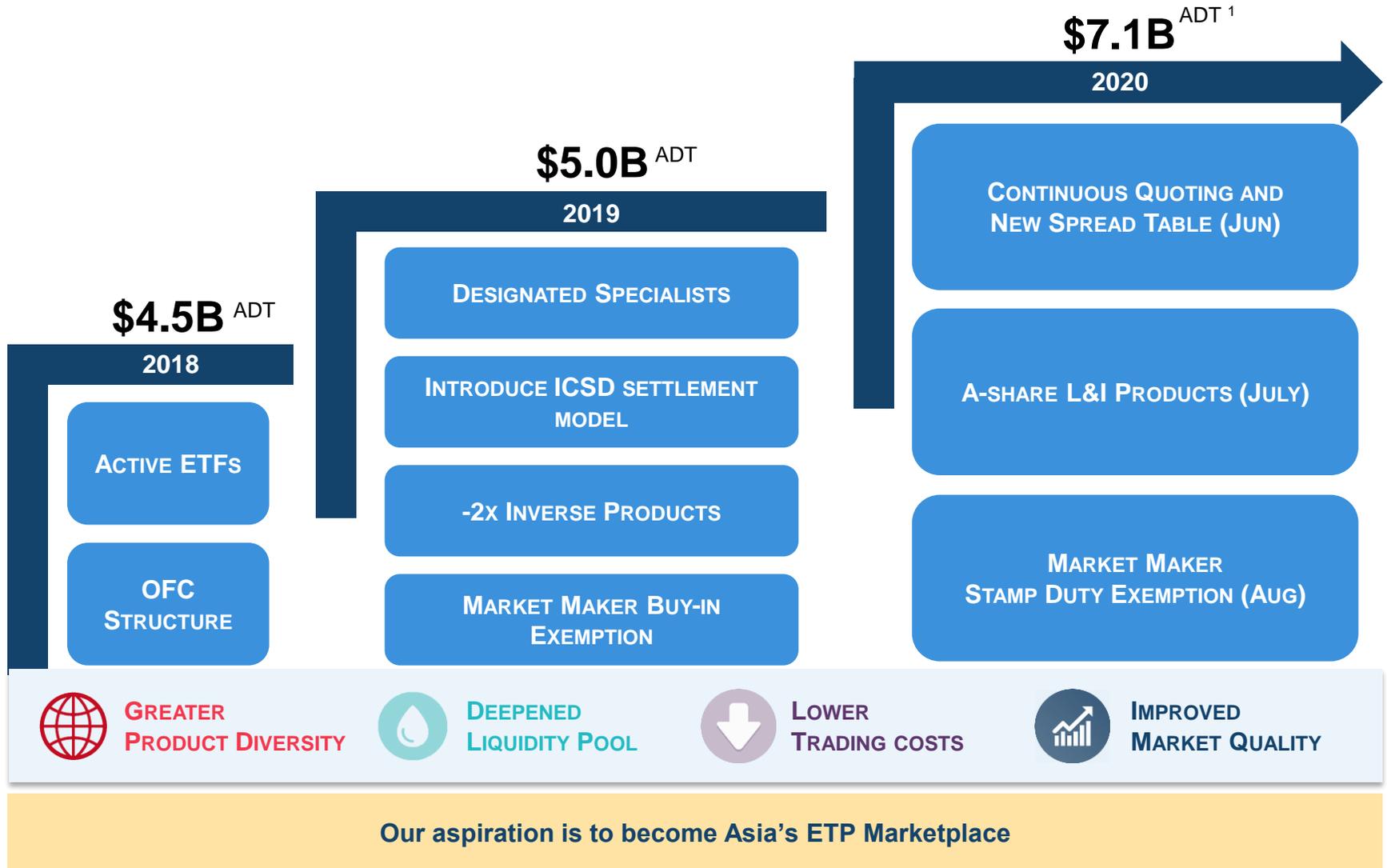
- ✓ BETTER PRICE DISCOVERY
- ✓ RISK MANAGEMENT / HEDGING
- ✓ ARBITRAGE OPPORTUNITIES
- ✓ CAPITAL EFFICIENCY

The launch of A-share<sup>1</sup>, Asia and EM derivatives will further integrate our ecosystem of HK, international and onshore underlying

1. HKEX signed a licence agreement with MSCI to introduce futures contracts on the MSCI China A Index, subject to regulatory approval and market conditions.  
 2. HKEX signed a licence agreement with MSCI to introduce 37 futures and options contracts in Hong Kong based on a suite of indexes in Asia and Emerging Markets, subject to regulatory approval and market conditions.



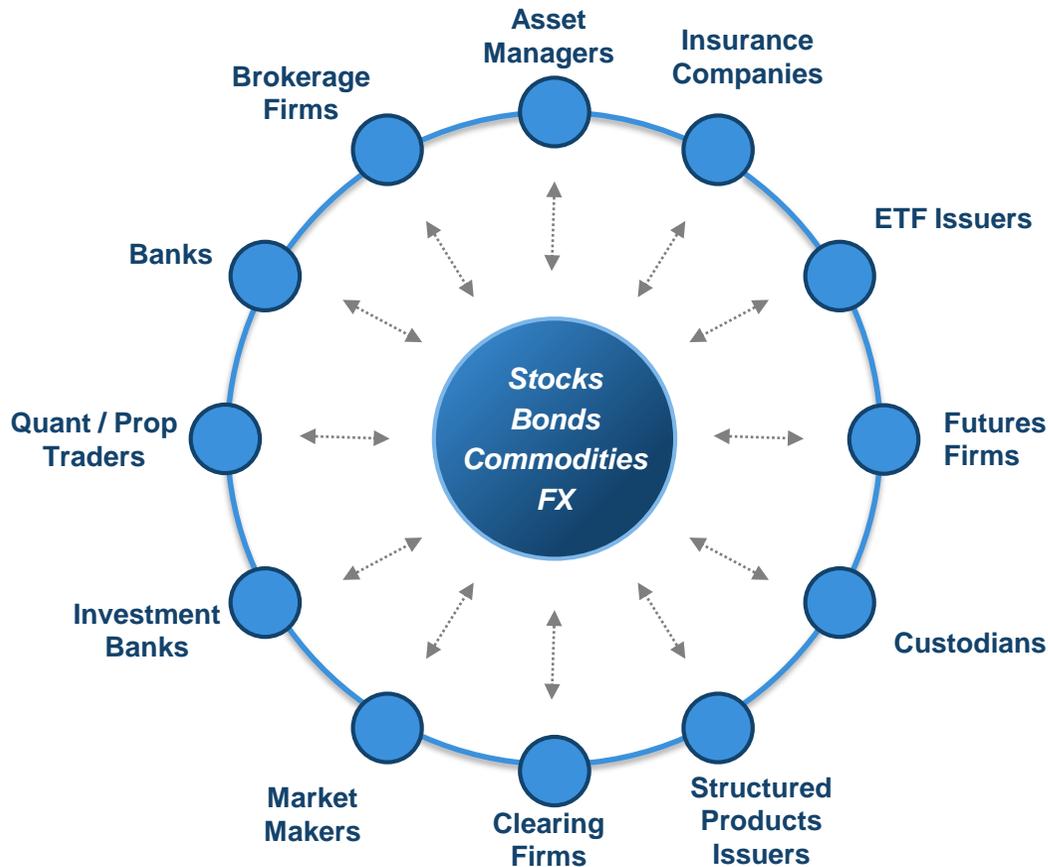
### 3 | In Focus: The ETP Growth Story



1. YTD Data from 1 Jan 2020 to 30 Jun 2020



### 3 | In Focus: Convergence of Established International and Mainland Market Players



- ✓ **BROADER LIQUIDITY POOL**
- ✓ **DIVERSE SKILLSET**
- ✓ **ABILITY TO BRIDGE DIFFERENCES IN MARKET STRUCTURES**

Diverse mix of clients and market players have continued to establish their presence in Hong Kong

## Looking Ahead

- **Macro geopolitical and economic outlook remains uncertain:** resiliency, adaptability and sustainability will continue to be key
- **A prolonged COVID-19 outbreak, escalating China-US tensions, and the imminent US election** will be drivers of sentiment and shape headlines
- We expect **Hong Kong to continue to play a significant role as an IFC**
- We anticipate **economic fragility and a low interest rate environment** to persist, which may impact HKEX investment income
- **HKEX core businesses**, across markets and asset class, **remain well-placed and robust**
- **Recent ‘Jumbo’ listings; confirmation of a strong IPO pipeline;** range of new product launches; market structure enhancements; and the recently announced MSCI/HKEX futures contracts deal **have all helped boost liquidity and market sentiment**
- **Continuing to build our markets’ diversity and attractiveness, strong cost discipline, active risk management and further executing against our Strategic Plan** will be cornerstones of the second half of 2020



## 1H 2020 Financial Performance (vs. 1H 2019)

- Record half-yearly Revenue and PAT
- Core Business Revenue up 13%; Total Revenue and other income up 2% to HK\$8.8bn
- Record half-yearly Revenue for Connect Schemes; HKEX #2 for number of IPOs
- EBITDA up 1% to HK\$6.7bn
- PAT up 1% to HK\$5.2bn

... Welcome questions

Q&A Session begins now





# Appendix



# Financial Highlights – Income Statement

(HK\$ mn, unless stated otherwise)	1H 2020	% of Revenue & Other Income	1H 2019	% of Revenue & Other Income	YoY Change
<b>Results</b>					
Revenue and other income	8,782	100%	8,578	100%	2%
Operating expenses	(2,076)	(24%)	(1,953)	(23%)	6%
<b>EBITDA</b>	<b>6,706</b>	<b>76%</b>	<b>6,625</b>	<b>77%</b>	<b>1%</b>
Depreciation and amortisation	(545)	(6%)	(495)	(6%)	10%
<b>Operating profit</b>	<b>6,161</b>	<b>70%</b>	<b>6,130</b>	<b>71%</b>	<b>1%</b>
Finance costs and share of profits less losses of joint ventures	(57)	(1%)	(80)	(1%)	(29%)
<b>Profit before taxation</b>	<b>6,104</b>	<b>70%</b>	<b>6,050</b>	<b>71%</b>	<b>1%</b>
Taxation	(870)	(10%)	(847)	(10%)	3%
(Profit)/loss attributable to non-controlling interests	(1)	(0%)	2	0%	N/A
<b>Profit attributable to HKEX shareholders</b>	<b>5,233</b>	<b>60%</b>	<b>5,205</b>	<b>61%</b>	<b>1%</b>
<b>Capex</b>	<b>519</b>		<b>368</b>		<b>41%</b>
Basic earnings per share	<b>HK\$4.15</b>		<b>HK\$4.16</b>		<b>(0%)</b>
<b>Headline ADT on the Stock Exchange</b>	<b>HK\$117.5 bn</b>		<b>HK\$97.9 bn</b>		<b>20%</b>

1. % does not add up due to roundings.



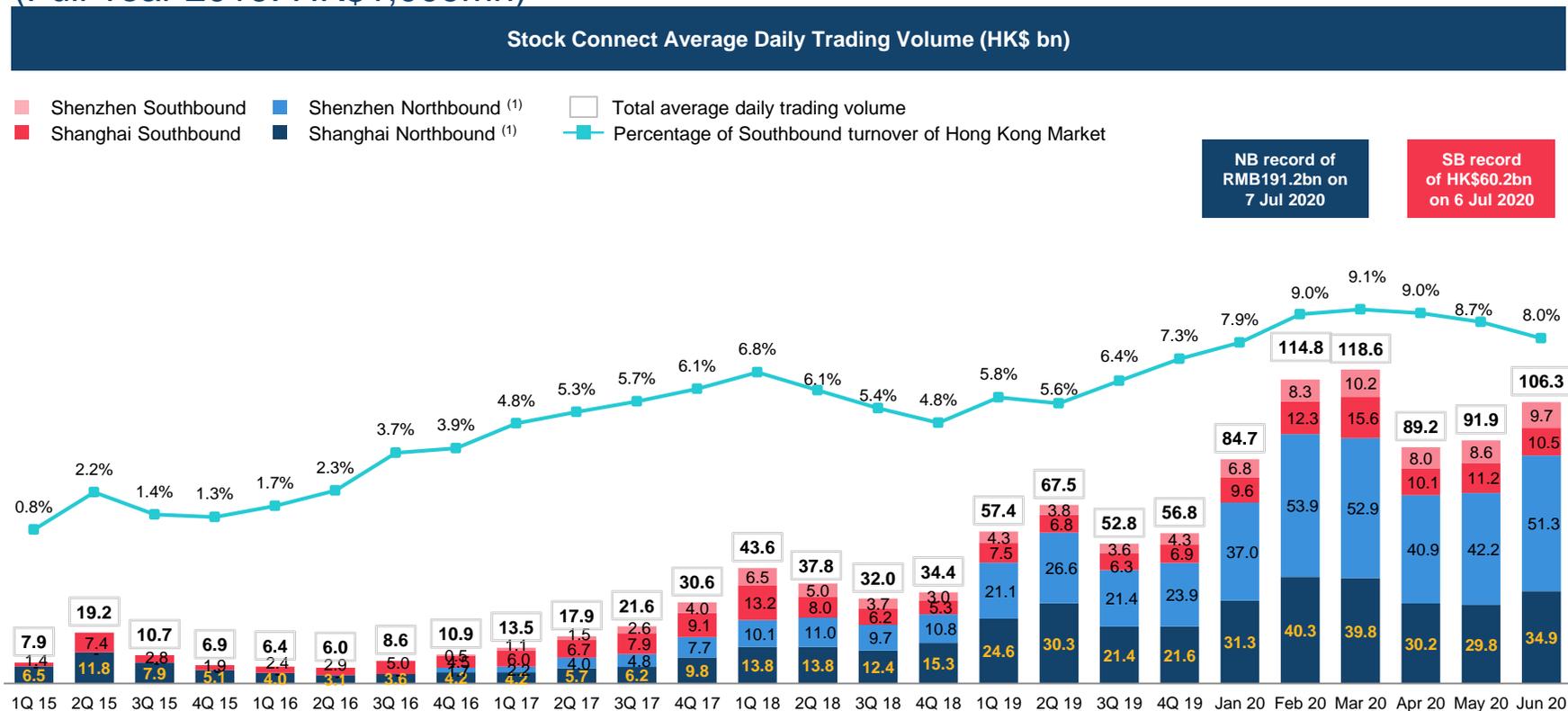
## Performance by Operating Segment

HK\$ mn	Cash Equity	Equity & Financial Derivatives	Commodities	Post Trade	Technology	Corporate Items	Group 1H 2020	Group 1H 2019
Revenue and other income	2,253	1,638	749	3,629	443	70	8,782	8,578
<i>% of Group Total</i>	<i>26%</i>	<i>19%</i>	<i>8%</i>	<i>41%</i>	<i>5%</i>	<i>1%</i>	<i>100%</i>	<i>100%</i>
Operating expenses	(285)	(307)	(329)	(432)	(139)	(584)	(2,076)	(1,953)
EBITDA	1,968	1,331	420	3,197	304	(514)	6,706	6,625
<i>% of Group Total <sup>(1)</sup></i>	<i>29%</i>	<i>20%</i>	<i>6%</i>	<i>48%</i>	<i>5%</i>	<i>(8%)</i>	<i>100%</i>	<i>100%</i>
<i>EBITDA margin</i>	<i>87%</i>	<i>81%</i>	<i>56%</i>	<i>88%</i>	<i>69%</i>	<i>N/A</i>	<i>76%</i>	<i>77%</i>
Depreciation and amortisation	(60)	(51)	(169)	(106)	(22)	(137)	(545)	(495)
Finance costs	(7)	(6)	(4)	(46)	(1)	(32)	(96)	(86)
Share of profits less losses of joint ventures	39	-	-	-	-	-	39	6
<b>Profit before taxation</b>	<b>1,940</b>	<b>1,274</b>	<b>247</b>	<b>3,045</b>	<b>281</b>	<b>(683)</b>	<b>6,104</b>	<b>6,050</b>

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

# Stock Connect – Trading Trends

Stock Connect generated record revenue of HK\$743mn in 1H 2020, 46% higher than 1H 2019 (Full Year 2019: HK\$1,009mn)



**Stock Connect Northbound and Southbound Trading ADT reached RMB74.3bn and HK\$20.7bn in 1H 2020**

**Stock Connect revenue continued to set record highs, reaching 8 per cent of the Group's total revenue and other income in 1H 2020 (1H 2019: 6 per cent)**



Source: HKEX, SSE and SZSE as of Jul 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.

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