



HKEX
香港交易所

2020 Q1 Results Analyst Presentation

Charles Li Chief Executive, HKEX Group
Romnesh Lamba Co-President, HKEX Group
Vanessa Lau Group Chief Financial Officer, HKEX Group

7 May 2020

Disclaimer

The information contained in this document is for general informational purposes only and does not constitute an offer, solicitation, invitation or recommendation to subscribe for or purchase any securities, or other products or to provide any investment advice or service of any kind. This document is solely intended for distribution to and use by professional investors. This document is not directed at, and is not intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hong Kong Exchanges and Clearing Limited (“HKEX”) to any registration requirement within such jurisdiction or country.

This document contains forward-looking statements which are based on the current expectations, estimates, projections, beliefs and assumptions of HKEX about the businesses and the markets in which it and its subsidiaries operate. These forward-looking statements are not guarantees of future performance and are subject to market risk, uncertainties and factors beyond the control of HKEX. Therefore, actual outcomes and returns may differ materially from the assumptions made and the statements contained in this document.

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.

Although the information contained in this document is obtained or compiled from sources believed to be reliable, HKEX does not guarantee the accuracy, validity, timeliness or completeness of the information or data for any particular purpose, and shall not accept any responsibility for, or be liable for, errors, omissions or other inaccuracies in the information or for the consequences thereof. The information set out in this document is provided on an “as is” and “as available” basis and may be amended or changed. It is not a substitute for professional advice which takes account of your specific circumstances and nothing in this document constitutes legal advice. HKEX shall not be responsible or liable for any loss or damage, directly or indirectly, arising from the use of or reliance upon any information provided in this document.

Agenda

01 | Q1 2020 Key Highlights

02 | HKEX Group Financial Review

03 | Business and Strategic Update

04 | Appendix



Q1 2020 Key Highlights

1 | Financial Performance

- Core business revenue up by 19% YoY; total revenue down by 7% YoY; prudent cost management
- Record quarterly Stock Connect revenue of HK\$404m (+74% YoY)
- Net investment loss of HK\$47m (Q1 2019: income HK\$882m)

2 | Business and Strategy

- Strong IPO market #1 globally in number of new company listings (39) and #4 in IPO funds raised (HK\$14.4bn)
- Strong performance in Connect Schemes
- Ongoing market microstructure enhancements
- Enhanced technology capabilities, leveraging AI tools and robotic process automation

3 | Business Continuity and Operational Resilience

- HKEX, as an operator of regulated exchanges and CCPs, is committed to maintaining resilient, fully functioning and orderly financial markets
- Comprehensive Business Continuity Planning and operational framework are in place
- Business has demonstrated resiliency, robust operations and strong risk management; LME successfully temporarily transitioned Ring trading to electronic pricing platform





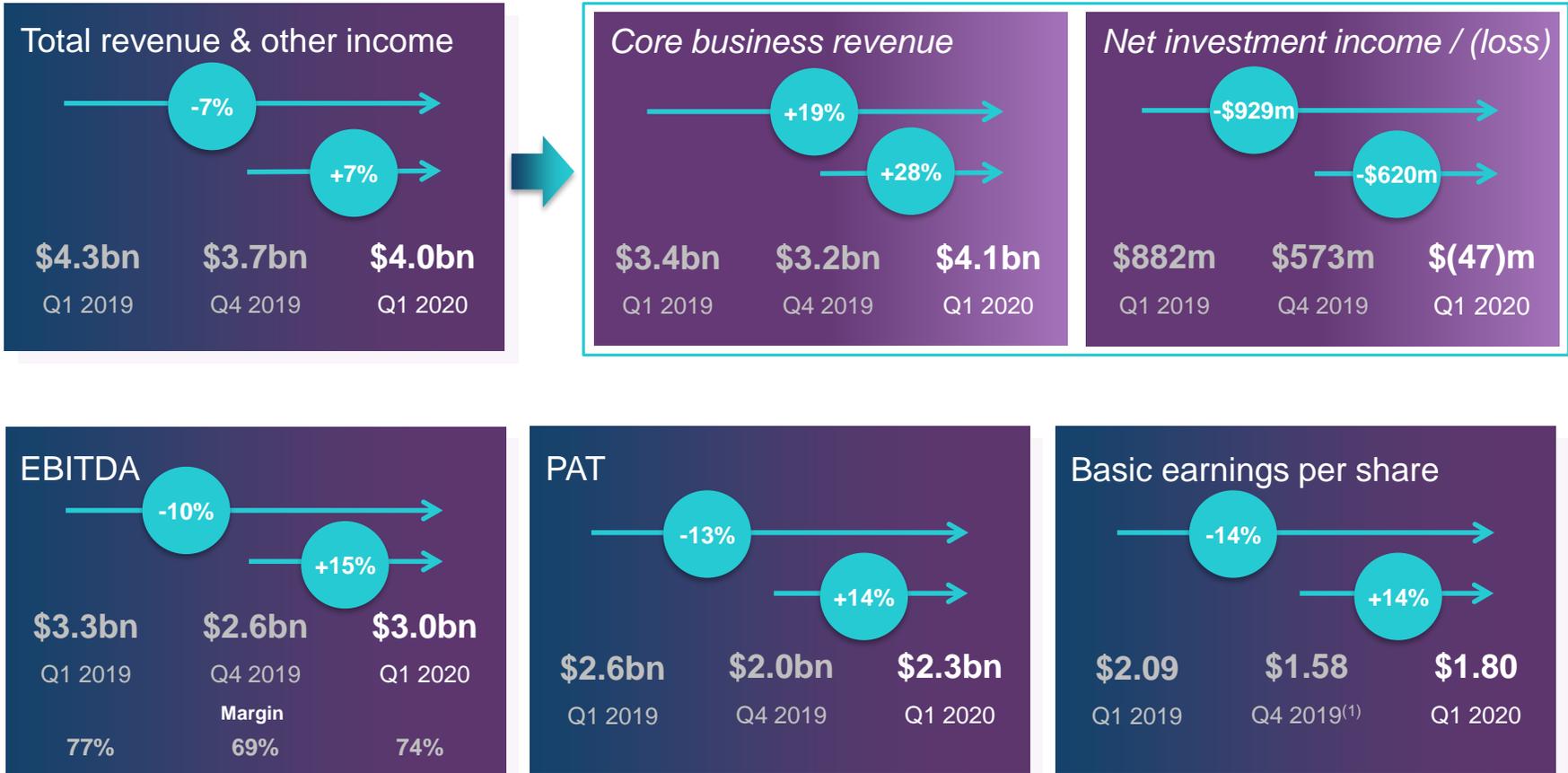
HKEX Group Financial Review



Key Financial Highlights

Very strong core business performance – higher revenue and profit than Q4 2019
 Investment income impacted by macroeconomic conditions

(HK\$)

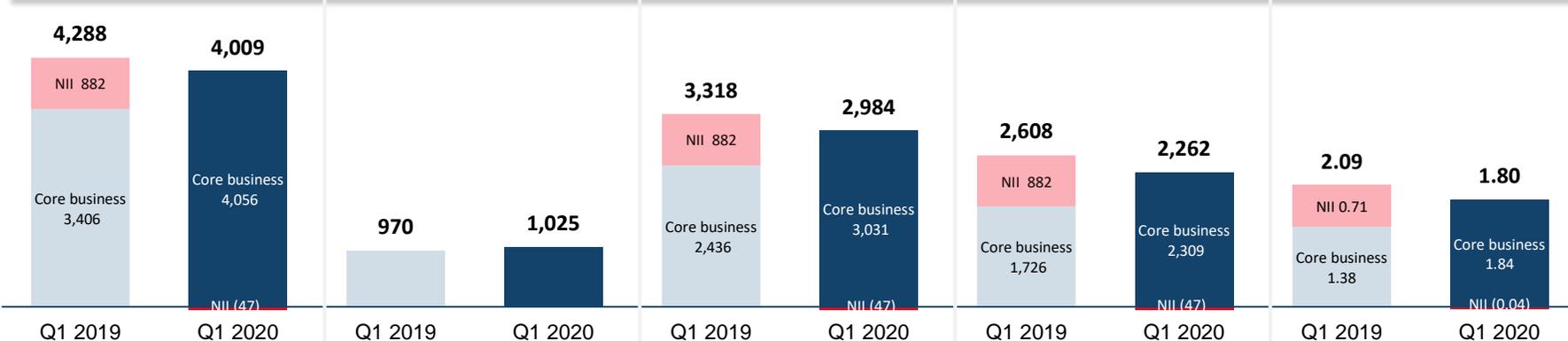


1. Basic earnings per share for Q4 2019 is estimated by dividing Q4 2019 PAT by weighted average number of shares in issue less shares held for Share Award Scheme for the year ended 31 December 2019.
 2. % is computed based on amounts reported in financial statements.



Very Strong Q1 Core Business Performance YoY; but Net Investment Income Impacted by Macro Environment

Revenue and other income	Operating expenses ⁽¹⁾	EBITDA	Profit attributable to HKEX shareholders ⁽²⁾	Basic earnings per share
(HK\$ million) Core business+NII - 7% Core business + 19% ADT HK\$101.1bn +20% HK\$120.9bn	+ 6%	Core business+NII - 10% Core business + 24% 77% Margin 74%	Core business+NII - 13% Core business + 34%	(HK\$) Core business+NII - 14% Core business + 33%



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

Listing fees ↑ from ↑ newly listed CBBCs

Net investment income (NII) ↓ due to HK\$521m losses from external portfolio in Q1 2020 (vs HK\$390m record gains in Q1 2019)

↑ Staff costs and professional fees

EBITDA margin ↓ 3%

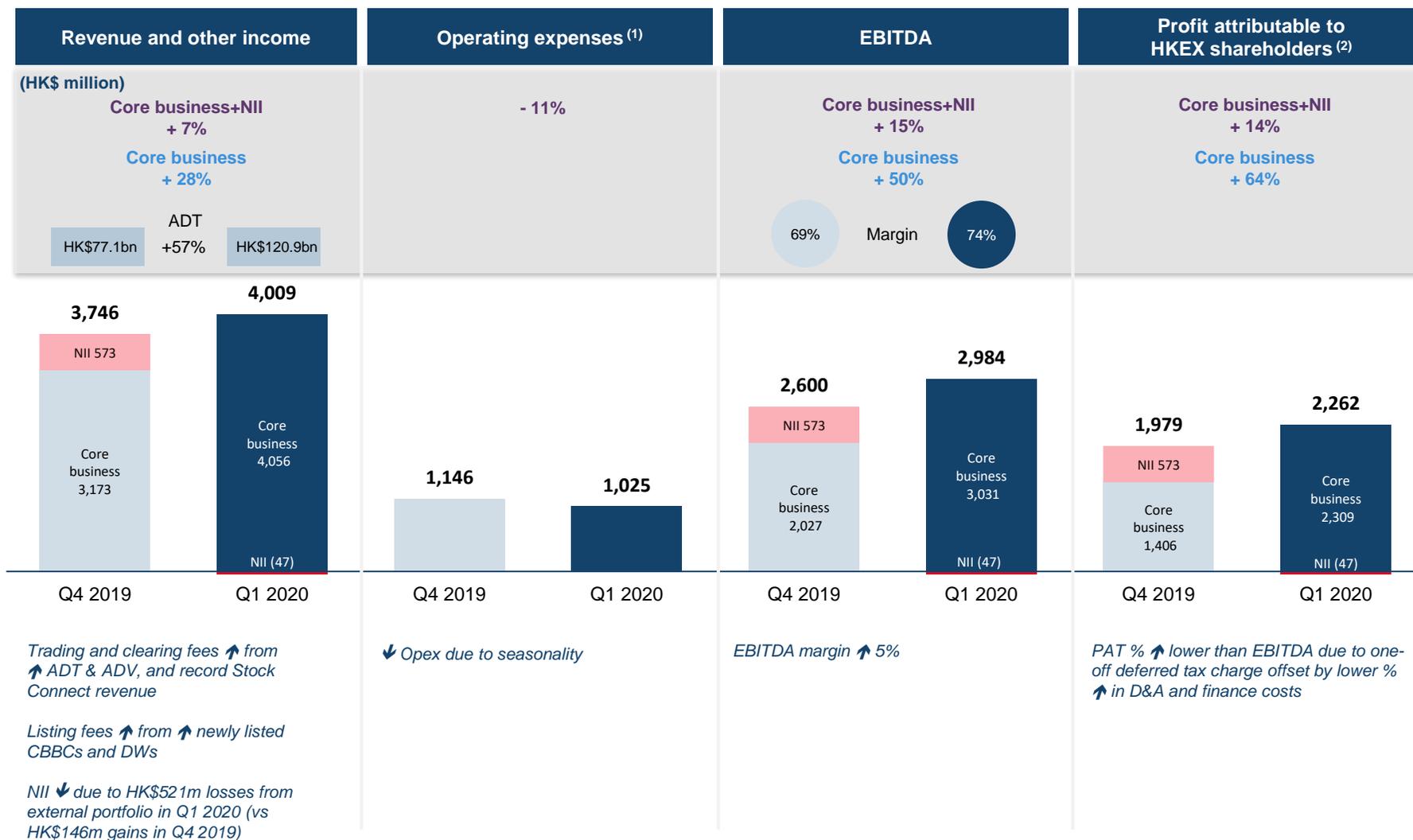
PAT % ↓ more than EBITDA due to one-off deferred tax charge arising from increase of statutory UK tax rate from 17% to 19%

% ↓ more than PAT 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.

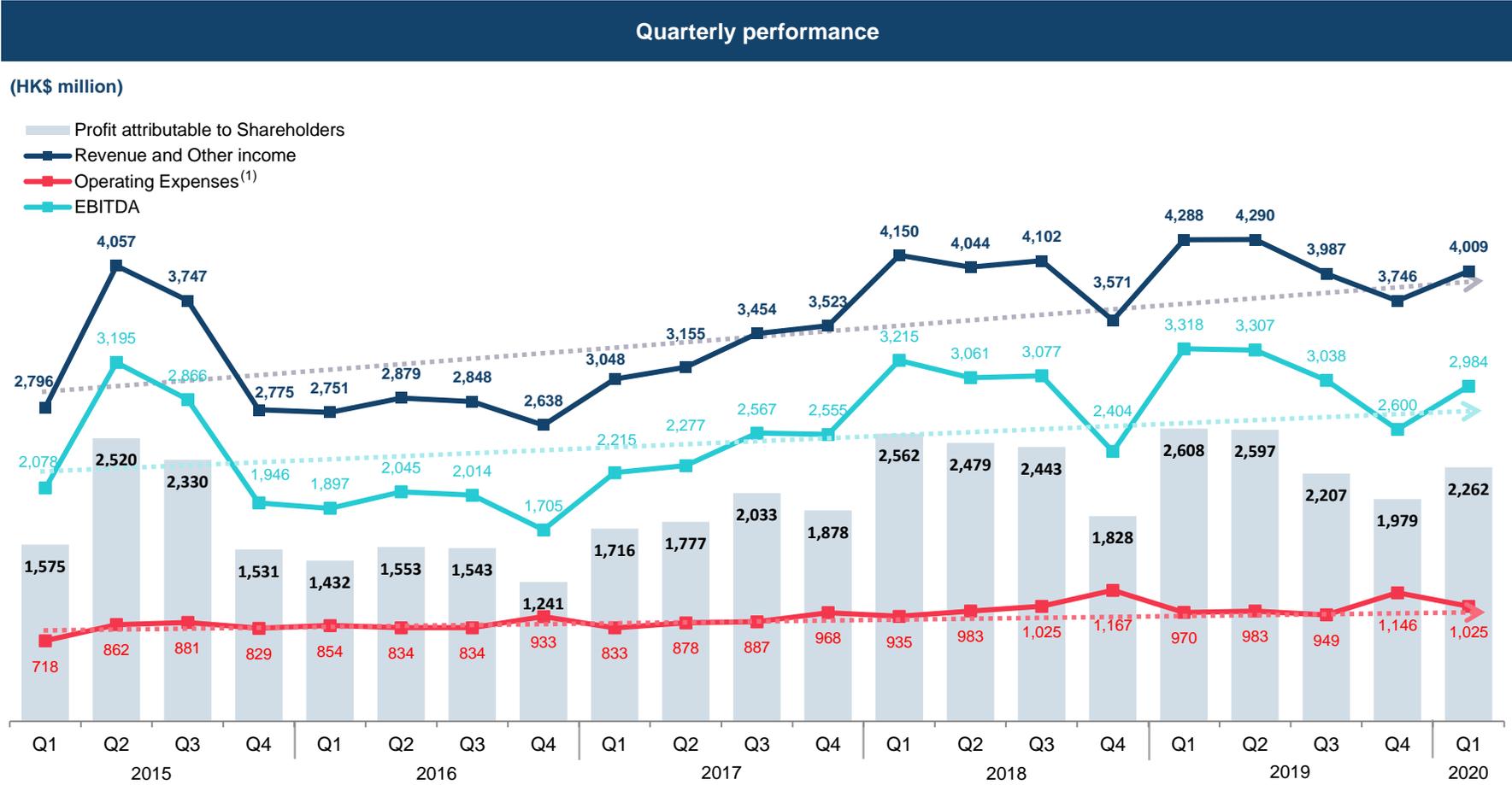


Rolling Q1 2020 Results Stronger than Q4 2019 Despite Fall in Net Investment Income



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 plc (LSEG)
2. The tax impact of NII is not considered when calculating the PAT attributable to NII.

Q1 2020 Performance above Historical Trendline



Q1 2020 performance reflects strength and resiliency of the core business despite COVID-19 outbreak and macroeconomic uncertainty

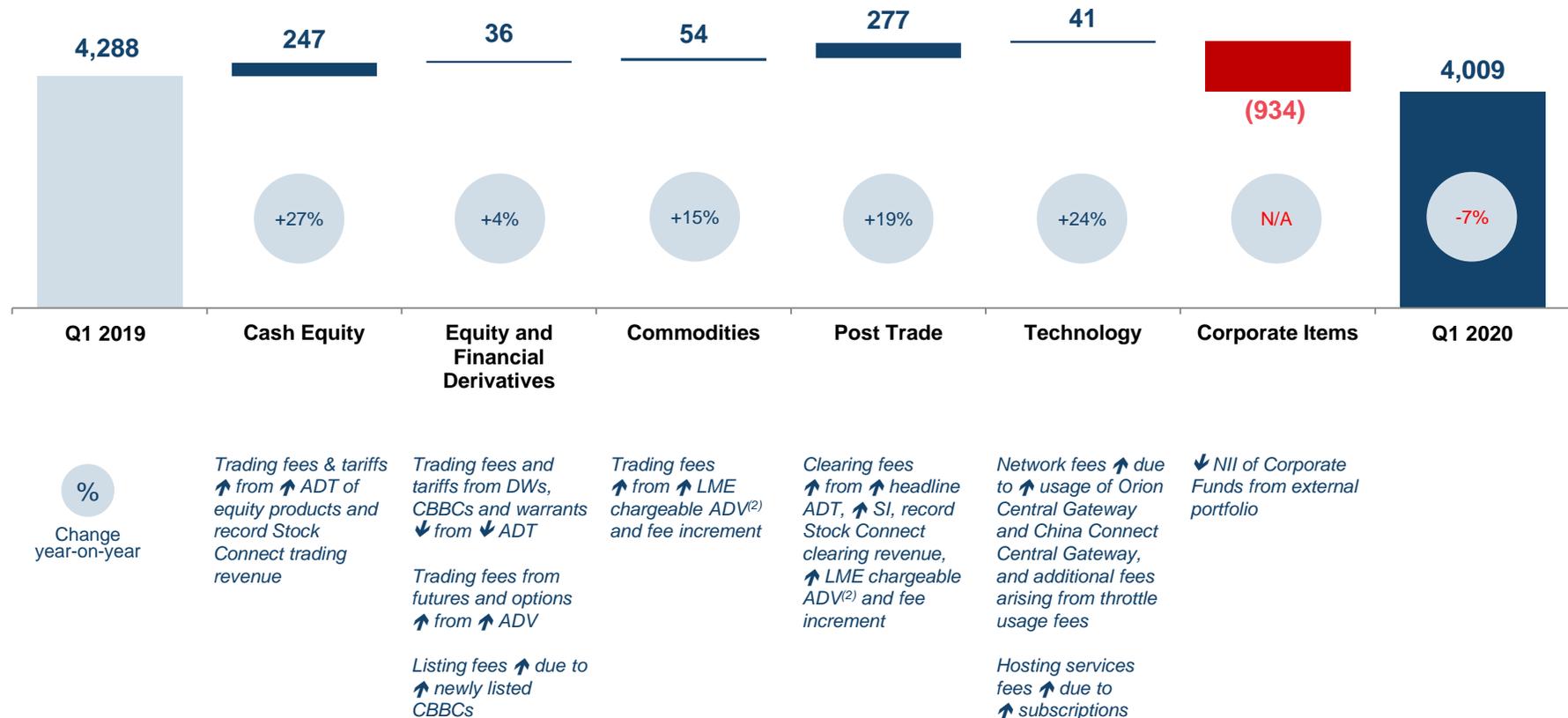
1. Excludes depreciation and amortisation, finance costs, share of profits/(losses) of joint ventures, and non-recurring costs arising from the proposed combination with LSEG
 2. Dotted trend lines are illustrative and do not constitute a forward forecast.



All Business Segments Achieved Higher Revenue YoY; External Portfolio Saw a Loss of HK\$521m (versus a Record Gain of HK\$390m in Q1 2019)

Segmental revenue

(HK\$ million)



1. Headline ADT up 20% (Q1 2020: HK\$120.9bn; Q1 2019: HK\$101.1bn); ADT of Cash Equity up 39% (Q1 2020: HK\$103.4bn; Q1 2019: HK\$74.3bn); ADT of DWs, CBBCs and warrants included under Equity and Financial Derivatives down 35% (Q1 2020: HK\$17.5bn; Q1 2019: HK\$26.8bn)
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.



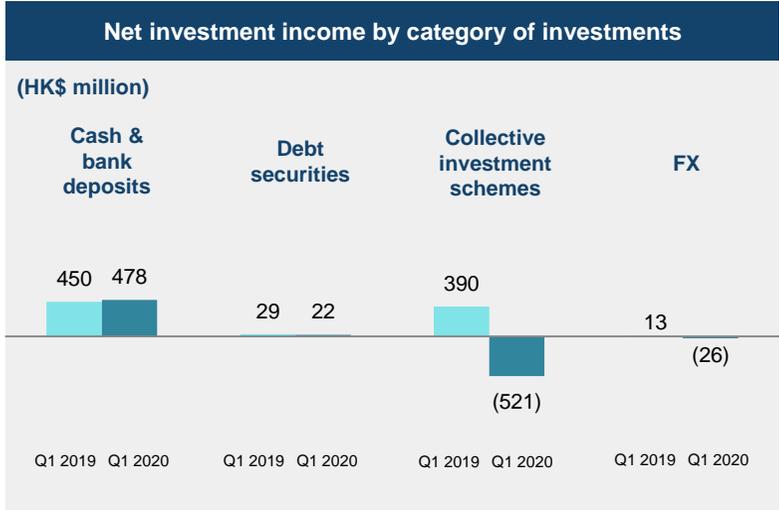
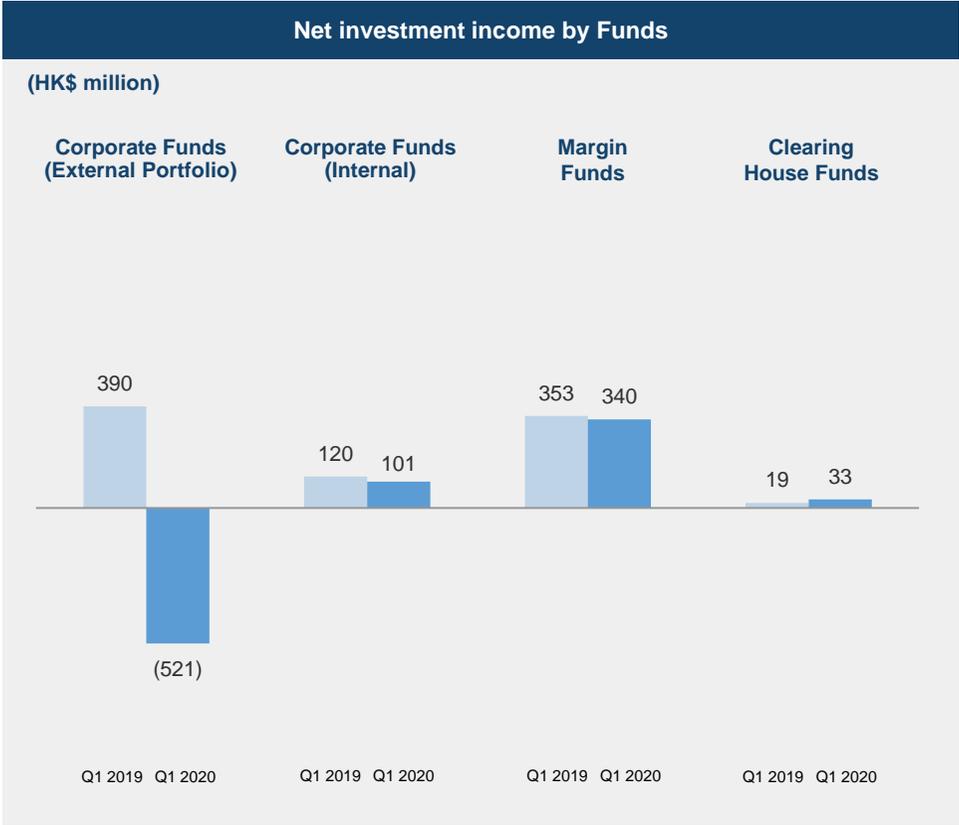
In Focus: HKEX Net Investment Income

- **Net Investment Income Comprises:**
 1. **INTERNAL** - Internally managed corporate, margin and clearing house funds
 2. **EXTERNAL** - Non-core actively managed External Portfolio
- **Internally managed funds** saw a bigger fund size in Q1 2020, offset by higher rebates to Clearing Participants from September 2019
- **External Portfolio characteristics:**
 - **Low betas to equity and fixed income markets**, with US Treasuries providing downside protection against equities market sell-off
 - **Highly diversified across asset classes**, with over 20 different fund managers, helping to mitigate portfolio volatility and asset class concentration risk
 - **Limited exposure to Hong Kong market**, providing strong hedge
 - **Investment return has been counter-cyclical to headline ADT** since inception in December 2016
- With the significant fall in global portfolio valuations during Q1 2020, performance of the External Portfolio was within expectations and was well within our risk parameters
- **External Portfolio has had a 3.7% annualised return since inception (cumulative gain of HK\$800m)**, despite market volatility
- **Recent further de-risking will provide more downside protection**, reducing impact on HKEX's earnings



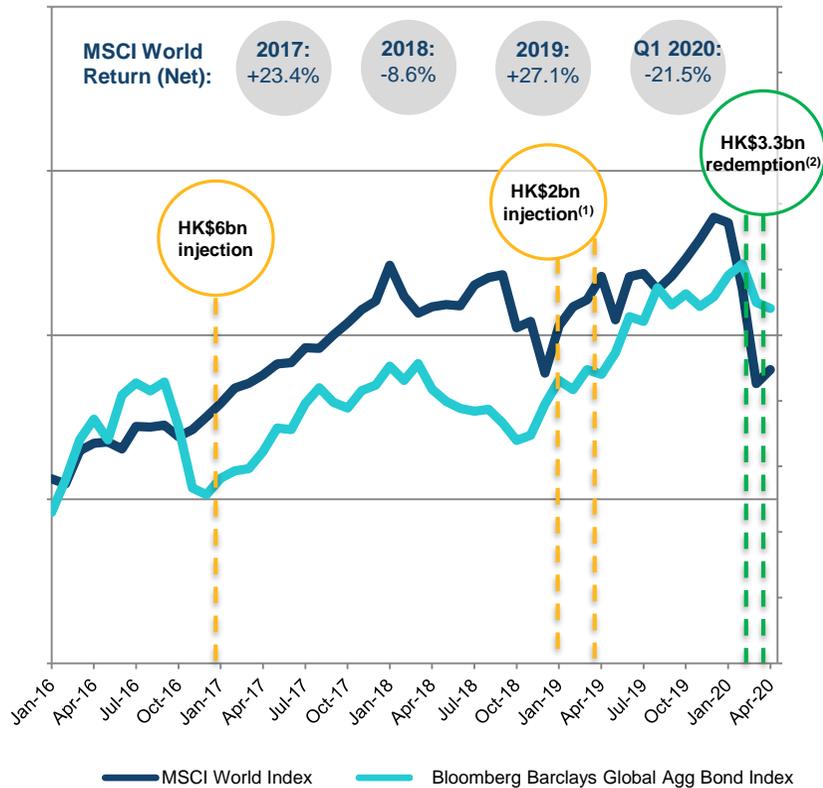
In Focus: Investment Income – External Portfolio Affected by Broader Market; Income from Internal Funds Held Up Well

- Q1 2020: loss of HK\$47m (Q1 2019: income of HK\$882m)
- Income from Internal Funds broadly in line YoY despite increase in margin rebates to participants
- Average Margin Fund and Clearing House Fund sizes increased due to heightened volatility

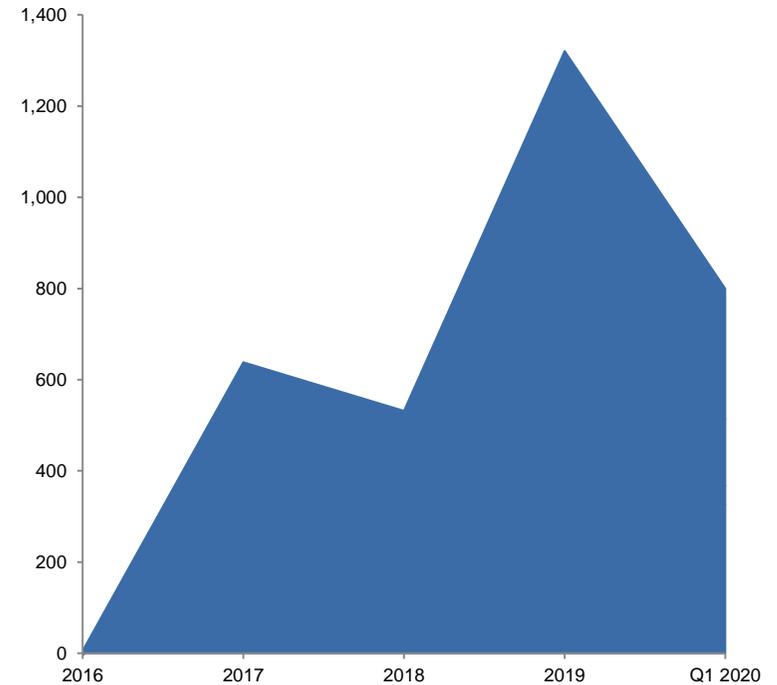


In Focus: External Portfolio – Solid Long-term Performance since Inception

Point of Injection / Redemption



Cumulative gain since inception (HK\$ million)

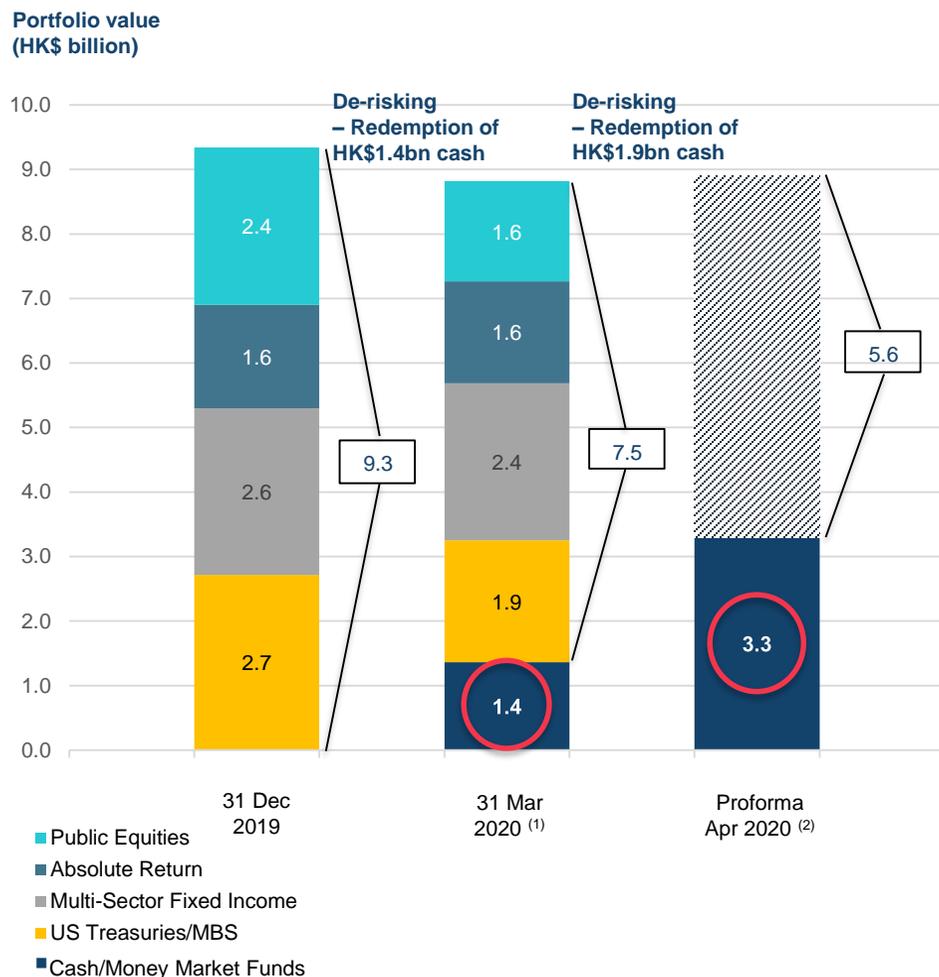


Despite the market sell-off in Q1 2020, the External Portfolio has generated a cumulative gain of HK\$800m since inception in December 2016

1. HKEX added HK\$2bn to the Portfolio during the period from Q4 2018 to Q2 2019.
2. HK\$1.4bn was redeemed in Q1 2020 and HK\$1.9bn was redeemed in April 2020.



In Focus: External Portfolio – Prudent Management and Ongoing De-risking Enhances Downside Protection



- During Q1 2020, External Portfolio was further de-risked to enhance downside protection
- Proactive HK\$1.4bn redemption from collective investment schemes
- In April 2020, a further HK\$1.9bn was redeemed
- Prudent placement of redemption proceeds in money market funds and internally managed cash deposits

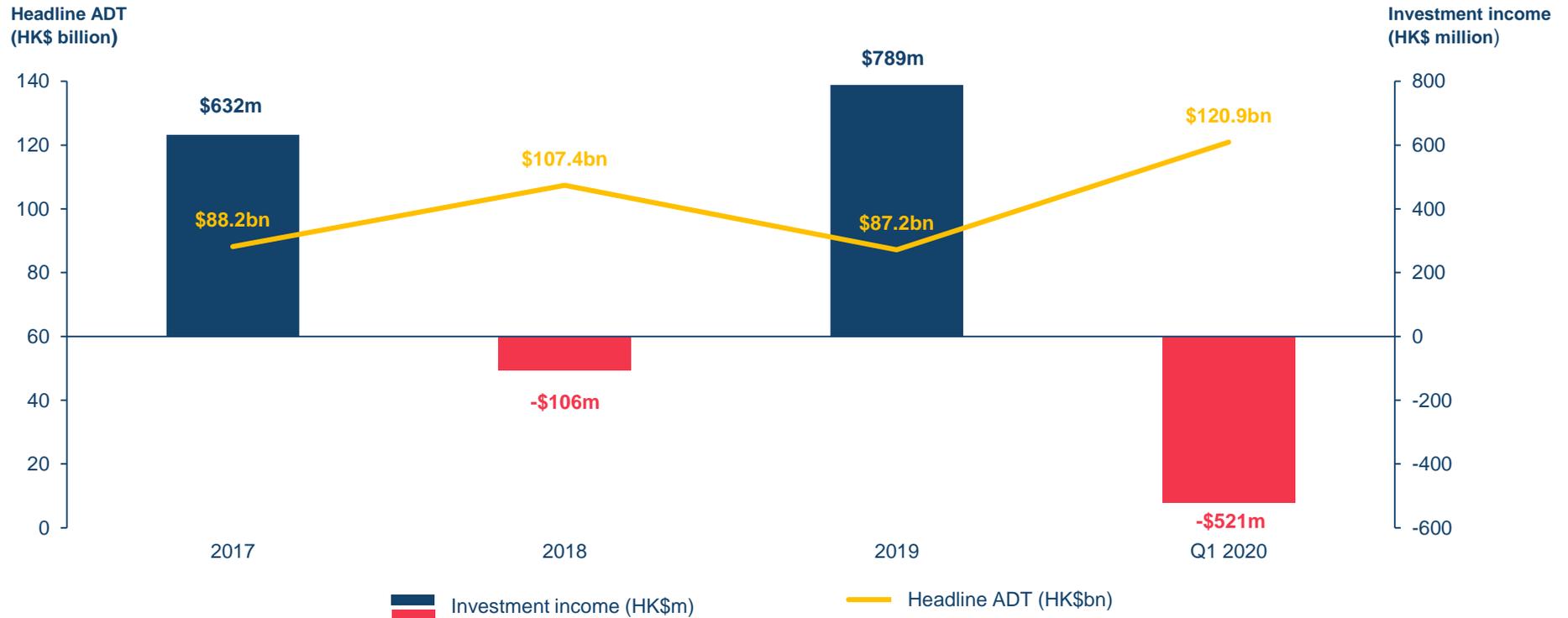
1. The allocation of March 2020 is after the redemption of HK\$1.4bn and before the redemption of HK\$1.9bn executed in April 2020.

2. The allocation of Proforma April 2020 is computed based on 31 March 2020 market value without taking into account the performance of the External Portfolio of April 2020 before actual redemption.



In Focus: External Portfolio – Performance has been Counter-cyclical to Headline ADT

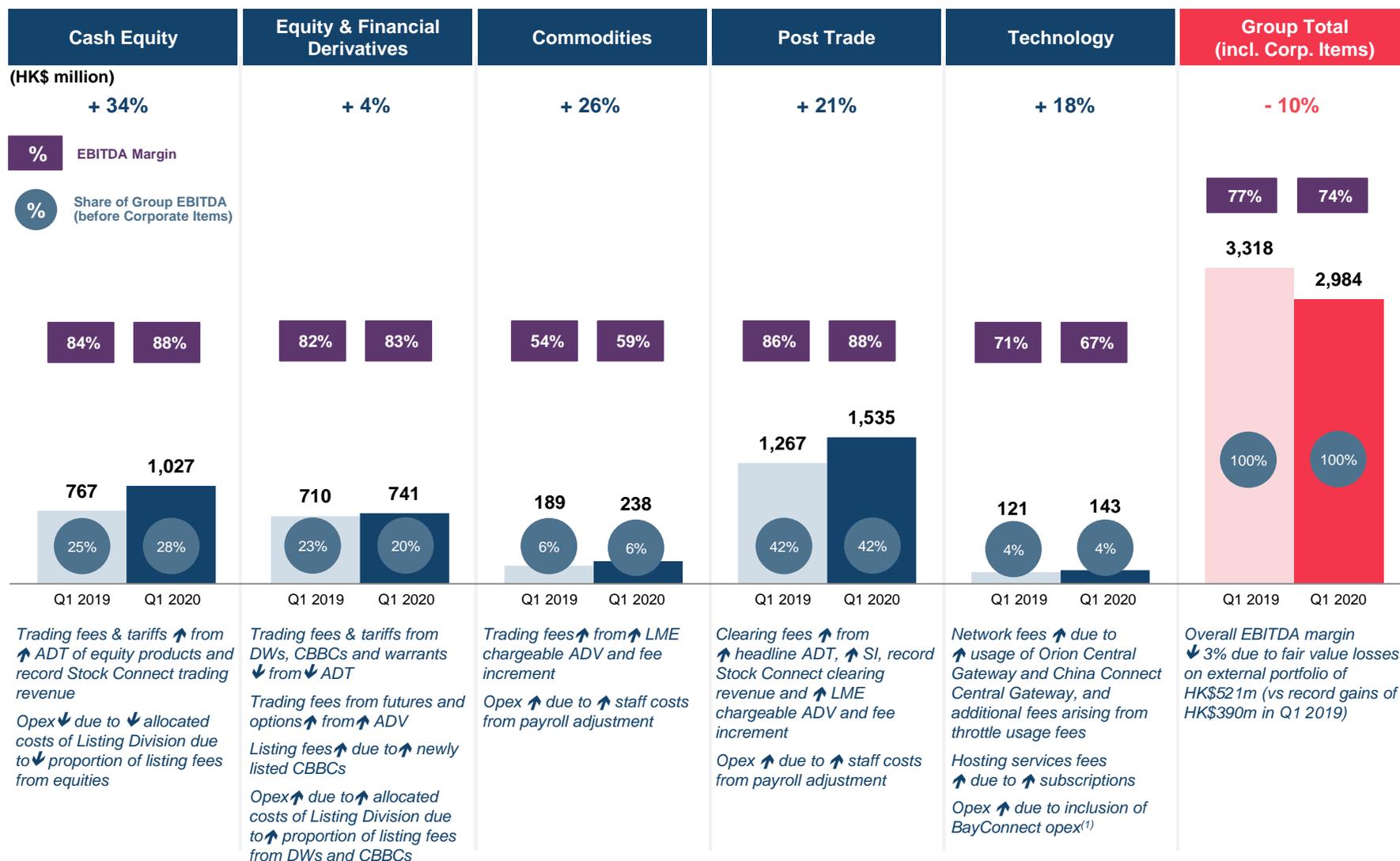
Relationship between investment income and headline ADT



Since the inception of the External Portfolio in December 2016, investment income from External Portfolio has been inversely correlated with HK market ADT



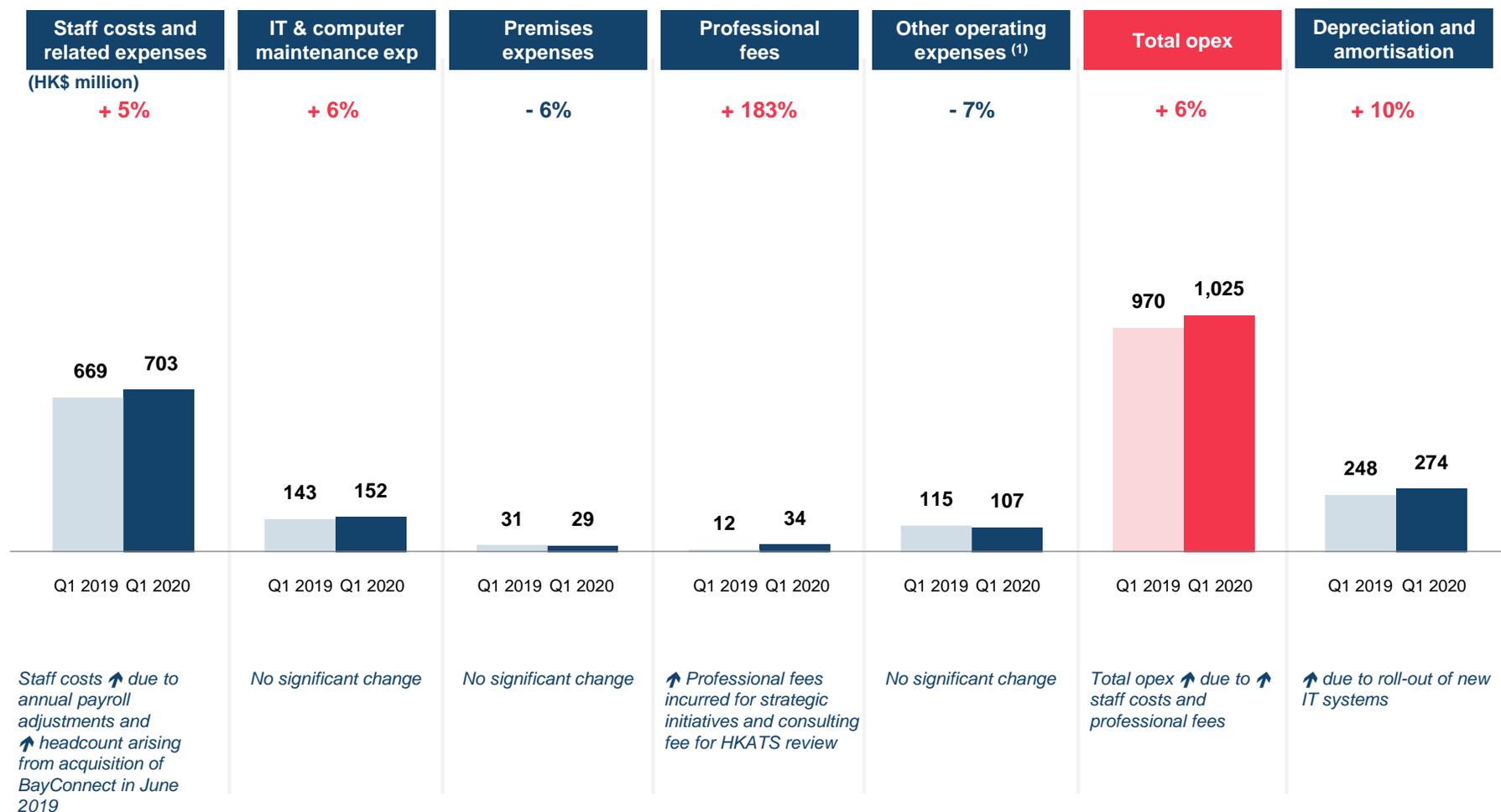
EBITDA Up for All Business Segments – Group EBITDA Impacted by External Portfolio Performance



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



Operating Expenses – Investments in Talent 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 from all business segments – equities, derivatives, fixed income and commodities
- Cash Market ADT +20% YoY
- Futures & Options ADV +9% YoY
- LME chargeable ADV +12% YoY

➤ IPO Market Performed Well

- #1 globally in number of new company listings (39), including one biotech company listed under Chapter 18A; #4 in IPO funds raised (HK\$14.4bn)
- Innovative response to COVID-19 travel restrictions, through enhanced digital engagement, new virtual roadshows and ceremonies – flexibility has been key

➤ Strong Performance of Connect Schemes

- Stock Connect: Record quarterly revenue of HK\$404m (+74% YoY); Record volumes with Northbound ADT of RMB78.0bn (+103% YoY) and Southbound ADT of HK\$21.6bn (+83% YoY)
- Bond Connect: Record ADT of RMB19.3bn (+227% YoY)



➤ **Market Enhancement Programme Continues**

- Southbound Trading Investor Identification Regime launched; LME introduced LMEprecious market 'speed bump' and launched new rules to optimise warehousing network
- Consultation conclusions published on uncertificated securities market; market consultation launched on Corporate WVR Beneficiaries
- Enhancements to Volatility Control Mechanism (VCM) and Pre-opening Session (POS) in the Cash Market to be implemented in May and Q4 respectively

➤ **New Product Launches**

- Five new stock options launched on 23 March 2020
- First Iron Ore Futures ETF listing on Hong Kong market on 27 March 2020
- USD and CNH Silver Futures to be launched in June

➤ **Technology Evolution**

- Launched '*Aiden*', HKEX's first virtual assistant, providing an AI-supported interactive enquiry service

3 | Delivery of Resilient, Fully Functioning and Orderly Financial Markets

➤ **Proactive Support for Listed Companies during Constraints of COVID-19**

- HKEX and SFC issued guidance on the publication of annual reports, as well as the hosting of AGMs and EGMs
- Nearly all HKEX issuers with a financial year ending 31 December have published their preliminary results, or provided management accounts/material financial information

➤ **Market and Operational Responsiveness and Innovation**

- Launched Virtual Listing Ceremonies as the digital alternative for newly listed companies
- LME successfully temporarily transitioned Ring trading to electronic pricing platform
- Launched '*IPO Express*' newsletter to communicate; hosted market webinars; participated in WEF COVID-19 dialogues

➤ **Market Structure and Safety Mechanisms Supported Orderly Markets**

- Trading halt arrangements for after-hours options market functioned well
- Active management and monitoring of margining requirements

3 | Delivery of Resilient, Fully Functioning and Orderly Financial Markets

Our Operational Resilience

Business Continuity Management

- Full rollout of established BCP processes and procedures to ensure service resiliency, availability and stability across the Group
- Launched proactive and comprehensive employee communication programme

Operation of Services

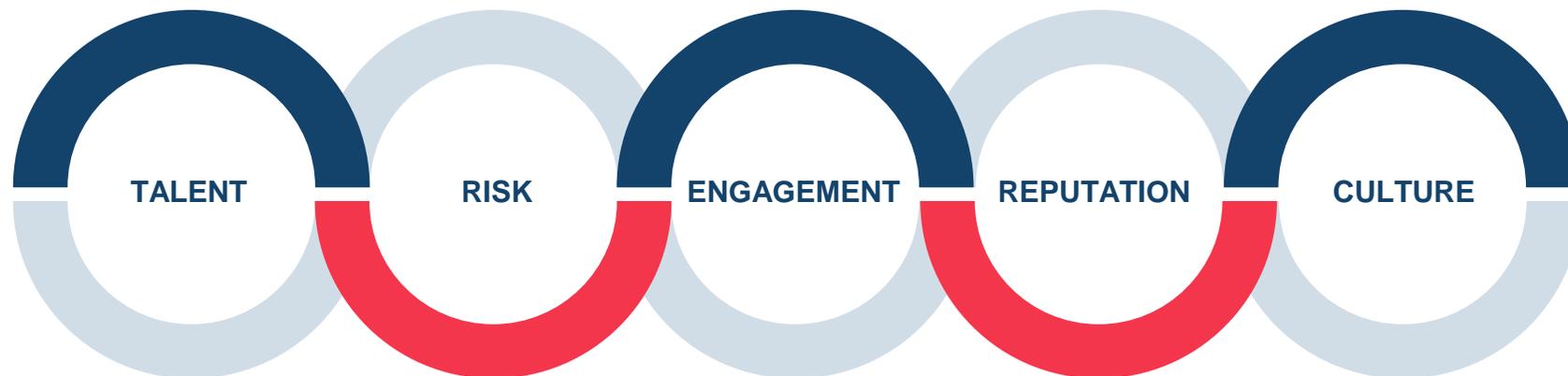
- All critical services have remained operational throughout the pandemic period with no material impact to service levels
- Continued investments in technology, data management and business processes have enabled us to maintain high productivity and security

Human Capital

- Proactively responded to the threat from the COVID-19 pandemic to minimise contagion risk to staff and ensure the smooth continuation of our operations
- Looking forward, will facilitate a gradual increase in onsite staff under continued office hygiene measures at the appropriate point

Focus on Organisational Excellence and Sustainability

HKEX continues to focus on the pursuit of organisational excellence



INVESTMENT IN TALENT AND CULTURE

- Newly-articulated Purpose, Vision and Values
- CE Awards
- Leadership Team and VP development programmes
- HK Founder partner in new 2020 FT Women in Business Programme

GLOBAL STAKEHOLDER ENGAGEMENT

- World Economic Forum 2020 Strategic Partner
- COVID-19 HK\$10m relief fund through HKEX Foundation
- Strong, active regulatory, industry and customer engagement

RESILIENCY AND SUSTAINABILITY

- New 'Green Finance' MD appointment to lead commercial sustainability proposition
- Newly launched 'paper reduction' programme as part of HKEX Green Month
- HKEX Future Workplace Programme
- Awarded Sustainability Leader status in S&P Global's Sustainability Yearbook 2020

Q1 2020 Financial Performance (vs. Q1 2019)

- Core Business Revenue up 19%; Total Revenue and other income down 7% to HK\$4.0bn
- Record quarter for Connect Schemes; HKEX #1 for number of IPOs
- EBITDA down 10% to HK\$3.0bn
- PAT down 13% to HK\$2.3bn
- Solid and resilient performance

... Welcome questions

Q&A Session begins now





Appendix



Financial Highlights – Income Statement

(HK\$ million, unless stated otherwise)	Q1 2020	% of Revenue & Other Income	Q1 2019	% of Revenue & Other Income	YoY Change
Results					
Revenue and other income	4,009	100%	4,288	100%	(7%)
Operating expenses	(1,025)	(26%)	(970)	(23%)	6%
EBITDA	2,984	74%	3,318	77%	(10%)
Depreciation and amortisation	(274)	(7%)	(248)	(6%)	10%
Operating profit	2,710	68%	3,070	72%	(12%)
Finance costs and share of profits less losses of joint ventures	(30)	(1%)	(41)	(1%)	(27%)
Profit before taxation	2,680	67%	3,029	71%	(12%)
Taxation	(422)	(11%)	(422)	(10%)	0%
Loss attributable to non-controlling interests	4	0%	1	0%	300%
Profit attributable to HKEX shareholders	2,262	56%	2,608	61%	(13%)
Capex	216		145		49%
Basic earnings per share	HK\$1.80		HK\$2.09		(14%)
Headline ADT on the Stock Exchange	HK\$120.9 bn		HK\$101.1 bn		20%

1. % does not add up due to roundings.



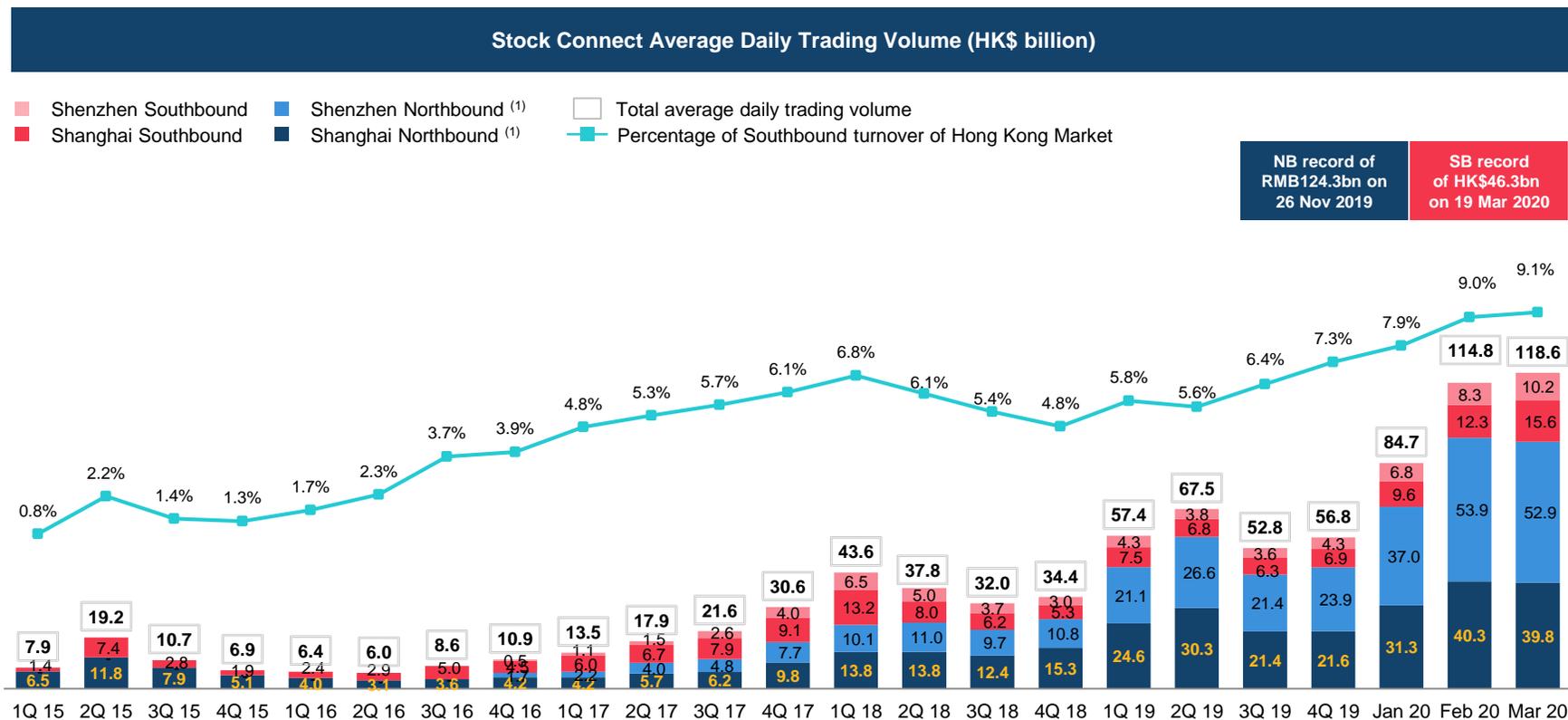
Performance by Operating Segment

HK\$ million	Cash Equity	Equity & Financial Derivatives	Commodities	Post Trade	Technology	Corporate Items	Group Q1 2020	Group Q1 2019
Revenue and other income	1,162	898	403	1,752	212	(418)	4,009	4,288
<i>% of Group Total</i>	<i>29%</i>	<i>22%</i>	<i>10%</i>	<i>44%</i>	<i>5%</i>	<i>(10%)</i>	100%	100%
Operating expenses	(135)	(157)	(165)	(217)	(69)	(282)	(1,025)	(970)
EBITDA	1,027	741	238	1,535	143	(700)	2,984	3,318
<i>% of Group Total ⁽¹⁾</i>	<i>34%</i>	<i>25%</i>	<i>8%</i>	<i>51%</i>	<i>5%</i>	<i>(23%)</i>	100%	100%
<i>EBITDA margin</i>	<i>88%</i>	<i>83%</i>	<i>59%</i>	<i>88%</i>	<i>67%</i>	<i>N/A</i>	74%	77%
Depreciation and amortisation							(274)	(248)
Finance costs							(49)	(44)
Share of profits less losses of joint ventures							19	3
Profit before taxation							2,680	3,029

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

Stock Connect – Trading Trends

Stock Connect generated record income of HK\$404m in Q1 2020, 74% higher than Q1 2019



Stock Connect Northbound and Southbound Trading ADT reached record quarterly highs of RMB78.0bn and HK\$21.6bn in Q1 2020

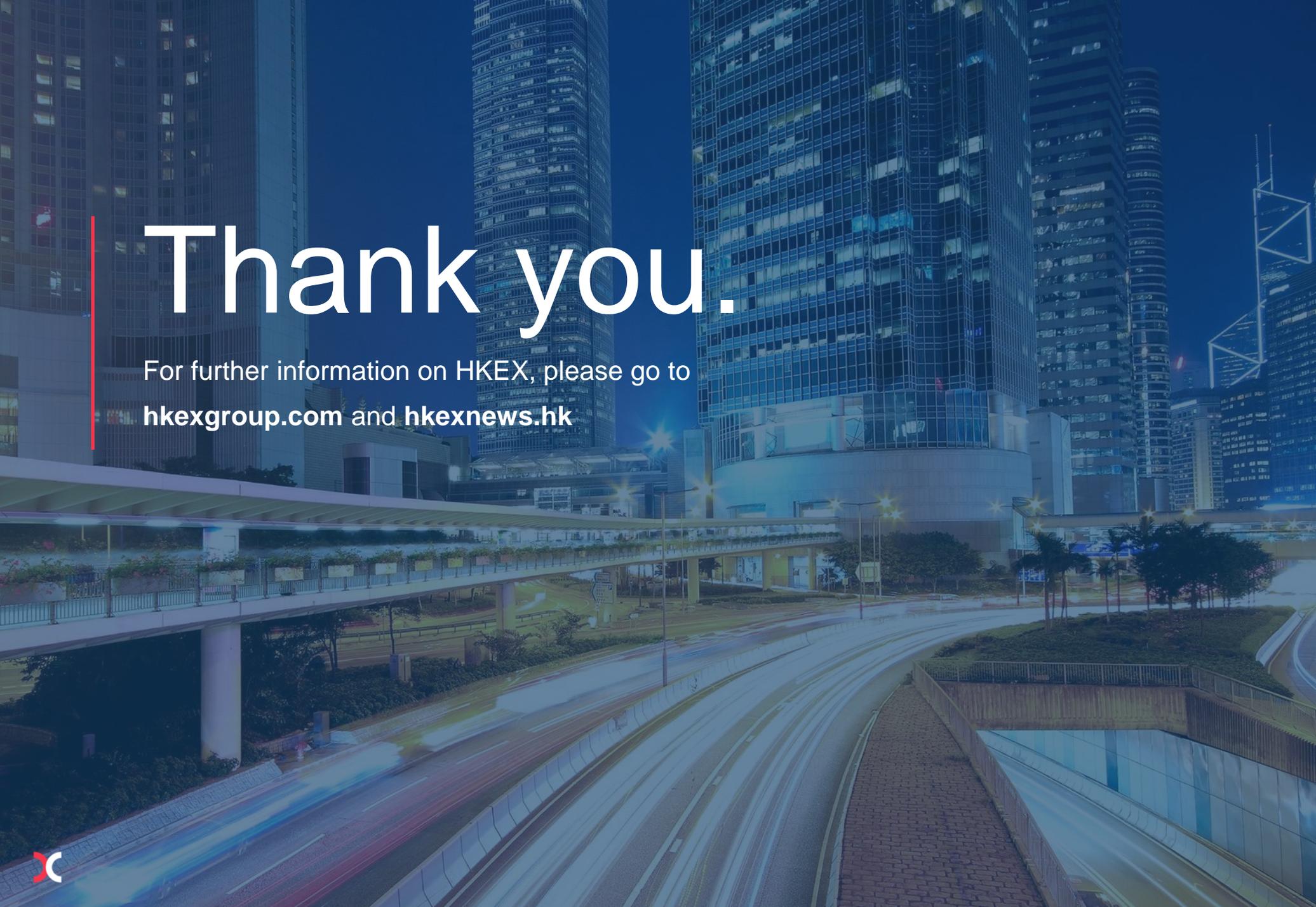
Stock Connect revenue continued to set record highs, reaching 10% of the Group's total revenue and other income in Q1 2020

Source: HKEX, SSE and SZSE as of Mar 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

