Hong Kong Exchanges and Clearing (388 HK)

2Q26: Strong Beat On Core Revenue Amid Turnover Surges

Analyst(s)

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Highlights

- HKEX's earnings rose 21% yoy to HK$5.4b, 16% above our estimates, thanks to upbeat core revenue growth amid strong ADT and one-off gain from an unlisted equity investment.
- Maintain BUY with a lower target price of HK$480.00.

2Q26 Results

Year to 31 Dec (HK$m)	2Q26	1Q26	2Q25	qoq%	yoy%	UOBKH	Diff (%)
Total Revenue	8,499	8,203	7,219	3.6	17.7	7,630	+11.4
Core Revenue	7,137	6,843	5,538	4.3	28.9	6,618	+7.8
NII and other income	1,362	1,360	1,682	0.1	-19.0	1,012	+34.6
EBITDA	6,819	6,592	5,685	3.4	19.9	6,006	+13.5
Net Profit	5,380	5,188	4,442	3.7	21.1	4,666	+15.3
Headline ADT (HK$b)	289.5	276.7	237.7	4.6	21.8		
Derivatives ADV ('000 contracts)	1,790	1,829	1,528	-2.1	17.1		
LME ADV ('000 lots)	810	877	734	-7.6	10.4		
Northbound Trading ADT (Rmbb)	366	324	152	12.9	141.1		
Southbound Trading ADT ($bn)	124	123	112	1.0	10.5		

Source: Hong Kong Exchanges and Clearing, UOB Kay Hian

Analysis

- **Strong beat across the board.** Hong Kong Exchanges and Clearing's (HKEX) delivered strong 2Q26 results as its revenue (+18% yoy) and earnings (+22%) were 11%/16% ahead of our expectations. The beat was broad-based, driven by: a) strong core revenue growth of 29% yoy on the back of elevated trading turnover and listing activities, and b) HK$290m in one-off valuation gains from an unlisted equity investment.
- **Turnover rose to another record high even as the market fell.** The Hang Seng Index (HSI) fell around 8% qoq and Hong Kong's market capitalisation also declined about 6% qoq in 2Q26. Even so, elevated volatility (+7ppt) lifted market velocity, driving headline average daily turnover (ADT) up 5% qoq/ 22% yoy to a record high of HK$289.5b. We also believe the incremental ADT was mainly from: a) new IPO listings, and b) AI-related equities and ETFs.

Key Financials

Year to 31 Dec (HK$m)	2024	2025	2026F	2027F	2028F
Total revenue	22,374	29,161	33,219	33,827	36,207
EBITDA	16,281	22,796	26,452	26,696	28,660
Operating profit	14,879	21,228	24,792	24,904	26,724
Net profit (rep./act.)	13,050	17,754	20,723	20,805	22,346
EPS (HK$ cent)	1,032.1	1,404.1	1,638.8	1,645.3	1,767.3
PE (x)	39.2	28.8	24.7	24.6	22.9
P/B (x)	9.5	8.8	8.5	8.2	7.9
Dividend yield (%)	2.3	3.1	3.6	3.6	3.9
Net margin (%)	59.2	61.5	62.9	62.0	62.1
Net debt/(cash) to equity (%)	(22.5)	(31.0)	(36.3)	(39.1)	(40.3)
ROE (%)	24.8	31.7	36.3	35.8	37.7
Consensus net profit	-	-	19,439	20,405	21,883
UOBKH/Consensus (x)	-	-	1.07	1.02	1.02

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

BUY (Maintained)

Share Price	HK$405.00
Target Price	HK$480.00
Upside	18.5%
Previous TP	HK$556.00

Stock Data

Sector	Financials
Bloomberg ticker	388 HK
Shares issued (m)	1,267.8
Market cap ({{Curr}}m)	523,363.1
Market cap (US$m)	66,724.4
3-mth avg daily t'over (US$m)	226.3

Price Performance (%)

52-week high/low				HK$466.00/HK$360.00
1mth	3mth	6mth	1yr	YTD
5.6	0.7	1.0	(6.1)	1.3

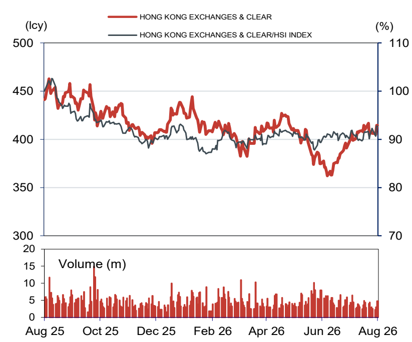
Major Shareholders (%)

The Government of Hong Kong SAR	5.9

Balance Sheet Metrics

FY26 BVPS (HK$)	47.5

Price Chart



Source: Bloomberg

Company Description

HKEX owns and operates the stock exchange, futures exchange and their related clearing houses in Hong Kong with monopoly status.

- **Southbound and Northbound momentum stays strong.** Southbound ADT rose 10% yoy to HK$123.7b and Northbound ADT climbed 1.4x yoy to Rmb366.1b in 2Q26, bringing stock connect revenue to HK$1.5b, up 77% yoy. Regarding the Connect scheme expansion, Hong Kong Financial Secretary Paul Chan revealed that they are in talks with China authorities to launch IPO Connect, while the inclusion of renminbi counters and REITs into Stock Connect remains pending final mainland approval.
- **Derivatives resilient, LME just off its peak.** Derivatives average daily volume (ADV) surged 17% yoy to 1.8m contracts, and derivatives trading fee growth of 20% yoy was ahead of volume trend. HKEX has added 35 new weekly stock options yoy, expanding its total product suite to 53. Separately, HKEX officially launched five-year China Government Bond futures in August, marking a significant milestone in growing its fixed income and currency (FIC) segment. Meanwhile, commodities ADV and trading revenue growth moderated to 10%/20% yoy, respectively, as the volatility in global metals markets normalised in 2Q26.
- **NII beat on equity investment gains.** Excluding the one-off gains, the net investment income (NII) would decline 36% yoy to HK$1,072m, largely in line with our estimates. Despite qoq expansion in margin fund size, the NII was still dragged by: a) lower six-month rolling average of six-month HIBOR, b) higher rebates amid rebound in overnight HIBOR, and c) lower forex gains.
- **Opex growth was in line.** Opex growth accelerated to 11% yoy in 2Q26 (1Q26: +2% yoy), largely within our forecast, due to higher staff and IT cost as HKEX is ramping up few initiatives to build its multi-asset ecosystem. EBITA margin remained at a superior level of 80.2% (-0.2ppt qoq). HKEX declared an interim DPS of HK$7.43, implying a stable payout ratio of 89%.
- **Solid IPO momentum.** New IPO listings picked up to 47 in 2Q26 (1Q26: 40), raising HK$102b, while HKEX highlighted that its IPO pipeline remains strong with close to 500 applicants as of Jul 26 and the issuers are mostly from diverse new and established economy sectors.

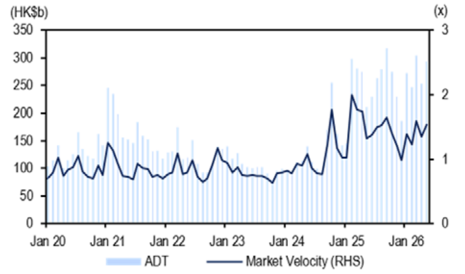
Valuation/Recommendation

- **Maintain BUY with a lower target price of HK$480.00,** though we upgrade our earnings forecasts as we also increase cost of equity (COE) assumption to 9.5% (previously: 9.0%) to reflect high for longer interest rate environment. Our target price implies about 29x 2027F PE, -0.3SD below historical mean of 33x.
- Despite the sell-side upgrading HKEX's earnings by 4% ytd, the stock's valuation remains anchored around 25x forward PE, well below its historical average as investors stay cautious on the earnings outlook and question the sustainability of current ADT and IPO momentum amid macro uncertainties. However, we see few structural changes, such as rising Southbound participation, turnover contribution from IPOs and increasing trading turnover of ETF products could continue to support the ADT growth. The ytd headline ADT remains solid at HK$287b, vs consensus estimate of HK$276b, leaving room for further EPS upgrades as well as valuation rerating.

Earnings Revision/Risk

- **We upgrade our 2026-28 earnings forecasts by +12.1%/+4.2%/+5.2%** respectively, as we raise our 2026-28 ADT assumptions to HK$287b/HK$295b/HK$322b from HK$258b/HK$288b/HK$316b due to the improving market sentiment toward the Hong Kong stock market.

Headline ADT vs Market Velocity



Source: HKEX, UOB Kay Hian

Forward PE Band

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK$m)	2025	2065F	2076F	2028F
Total revenue	29,161	33,219	33,827	36,207
EBITDA	22,796	26,452	26,696	28,660
Deprec. & amort.	1,568	1,660	1,793	1,936
EBIT	21,228	24,792	24,904	26,724
Associate contributions	-70	-58	-63	-62
Pre-tax profit	21,158	24,735	24,840	26,663
Tax	-3,321	-3,934	-3,943	-4,233
Minorities	-83	-78	-93	-85
Net profit	17,754	20,723	20,805	22,346
Net profit (adj.)	17,754	20,723	20,805	22,346

Balance Sheet

Year to 31 Dec (HK$m)	2025	2065F	2076F	2028F
Fixed assets	1,708	1,708	1,708	1,708
Other LT assets	26,805	25,438	27,025	28,746
Cash/ST investment	19,353	23,232	25,742	27,445
Other current assets	527,868	567,436	599,904	644,010
Total assets	575,848	617,928	654,493	702,024
ST debt	621	627	634	642
Other current liabilities	518,254	553,044	587,297	632,376
LT debt	692	692	692	692
Other LT liabilities	2,479	2,557	2,643	2,738
Shareholders' equity	58,147	60,368	62,522	64,836
Minority interest	582	640	704	739
Total liabilities & equity	580,775	617,928	654,493	702,024

Cash Flow

Year to 31 Dec (HK$m)	2025	2065F	2076F	2028F
Operating	25,627	21,759	21,845	23,462
Pre-tax profit	19,855	21,759	21,845	23,462
Other operating cashflows	5,772	0	0	0
Investing	-5,565	-1,152	130	-2,081
Proceeds from sale of assets	-2,698	0	0	0
Others	-2,867	-1,152	130	-2,081
Financing	-14,635	-16,728	-19,465	-19,677
Dividend payments	-13,722	-15,873	-18,556	-18,710
Proceeds from borrowings	0	0	0	0
Others/interest paid	-913	-855	-909	-968
Net cash inflow (outflow)	5,427	3,879	2,510	1,703
Beginning cash & cash equivalent	13,910	19,353	23,232	25,742
Changes due to forex impact	16	0	0	0
Ending cash & cash equivalent	19,353	23,232	25,742	27,445

Key Metric

Year to 31 Dec (%)	2025	2065F	2076F	2028F
Profitability				
EBITDA margin	79.0	80.3	79.5	79.7
Pre-tax margin	73.3	75.1	74.0	74.1
Net margin	61.5	62.9	62.0	62.1
ROA	3.7	4.1	4.0	4.1
ROE	31.7	36.3	35.8	37.7
Growth (% yoy)				
Turnover	30.9	14.1	16.3	24.6
EBITDA	40.0	16.0	17.1	25.7
Pre-tax profit	42.4	16.9	17.4	26.0
Net profit	36.0	16.7	17.2	25.9
Net profit (adj.)	36.0	16.7	17.2	25.9
EPS	36.0	16.7	17.2	25.9
Leverage				
Debt to total capital	2.2	2.2	2.1	2.0
Debt to equity	2.3	2.2	2.1	2.1
Net debt/(cash) to equity	-31.0	-36.3	-39.1	-40.3