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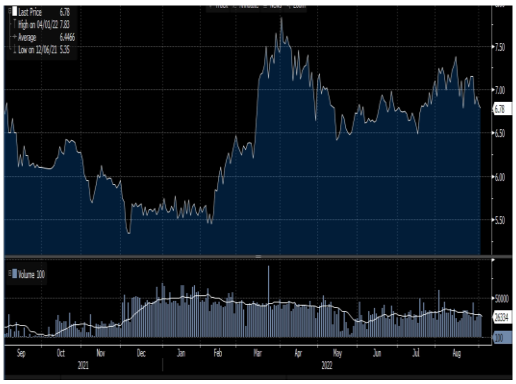
September 02, 2022

Target Price	US$ 12.00
Current Price	US$ 6.78
Upside Potential	77%
Rating	BUY

Market Cap.	US$ 190 mn
Shares Outstanding	28 mn
Free Float (FF / %)	3.08 mn / 11%
52 Week Range (US$)	5.15 / 7.90
Nasdaq Composite Index	11,785
Insider Holding %	89%



Risk: Above Average

Forecasting and Valuations

(RMB mn except ratio)	FY06/2022A	FY06/2023E
Revenue	1,942	2,002
Net Income	240	250
EPS (RMB)	8.42	8.91
EPS (US$)	1.26	1.24
EPS Growth	5%	6%
PE	5.5	5.6
EV/EBITDA	3.3	3.0
FCF Yield	22.4%	28.7%

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Hywin Holdings Ltd. **(NASDAQ: HYW)**

Earnings Update Report China Independent Wealth Management

Exceptional +27% EPS and +10.8% Client Growth

Hywin reported a solid set of results for the fiscal 2nd Half [ended June], in terms of both income statement growth as well as key client metrics. Given weak global financial markets and slowing GDP growth, the results have easily surpassed competitors and outperformed our expectations. Full-year revenue and EPS were both a couple percent above our published estimates. Amazingly, the YoY growth for the 2nd Half were better than that of the 1st Half, despite the global economic environment being increasingly much more uncertain as time progresses.

We are reiterating our Buy-rating on Hywin, and our unchanged US$12.00 ADS target suggesting over 70% upside. The stock continues to trade at compelling "deep value" levels with a P/E of 5.5x on trailing/actual FY 6/2022 reported earnings, as well as 5.6x and 4.8x on our 6/2023 and 6/2024 forecasts. Hywin had US$78 million in unrestricted net cash [not including restricted cash & customer deposits, with zero debt] as of June-end, or US$2.79 per share which is equal to 41% of the current stock price. This helps to significantly mitigate downside risk, in our opinion, and produce very favourable risk-reward for investors. We recently had a positive meeting with a Senior Director of Hywin, and this reinforced many of the key tenets of our thesis – further details in this report.

In terms of financial performance, here are the key results for the six months ended June:

- Revenue growth of +9.9% YoY for 2H, led by Wealth Management +10.5% and Asset Management +26.5%
- Operating Income +39.6%, on disciplined fixed cost leverage as expenses rose only 3.5% YoY, particularly with YoY declines in stock-based compensation and SG&A
- Operating Margins rose to 16.8% for the full-year, up from 15.4% for the prior year. 2H operating margins surged to 22.5% [versus 17.7%]
- Net Income rose +37.2% YoY
- Diluted EPS per ADS rose +27.2% YoY to US$5.71. Full-year ended 6/2022 EPS rose 4.9% to $8.14, on +5.9% revenue growth
- Net Cash [zero debt, and not including restricted cash/client deposits] increased +20% YoY to RMB525 million [$78 million], or $2.79 per ADR equalling 41% of the stock price

Investors must keep in mind that Hywin is up against very tough comps and particularly stellar results for the June period last year [+81% diluted EPS growth YoY on 43% revenue growth for June-end 2021].

Client metrics also showed solid growth, especially given the overall market backdrop. As we discuss later in this report, we believe Hywin will gain market share due to many issues impacting the shadow banking sector and real estate markets.

Performance on key client metrics for the 2nd Half were:

- +10.8% YoY increase in total number of clients to 141,058. Client count also increased +4.8% sequentially versus 1st half ended December 2021
- Active clients increased 13.5% YoY to 38,744.
- Aggregate transaction value of wealth management products distributed decreased fractionally by -0.6%, and this metric per Relationship Manager declined -5.5%, reflecting difficult market conditions.
- Repeat investment rate from existing clients is an industry-leading 80.8%, the third year in a row it has been above 70%
- For full-year total clients +10.8% and active clients +15.1%
- Full-year transaction values for venture capital funds +112%, private equity & hedge funds +98%

We are encouraged by the annual strong growth in the number of clients and active clients, and believe this will serve Hywin well going forward, once the current market pressures eventually ease. In this context, we firmly believe that Hywin remains on a growth trajectory in a secularly evolving industry with a large TAM [Total Addressable Market]. While the current economic and market scenario is quite uncertain, we would view this as a stock buying opportunity for investors with an intermediate-term horizon.

There have been concerns regarding regulatory news in several sectors [unrelated to Hywin and the broader wealth management sector] in China which has impacted stock prices and the overall market; we do address these concerns in some detail in this report. In fact, recent policy news remains very favorable for the growth of asset management firms within China and also Shanghai as a global financial hub. We also discuss in detail all these issues further in this report.

<u>Health Care Acquisition Shows Promise</u>

Hywin announced recently a significant expansion of its presence in the rapidly growing healthcare space in China via the acquisition of Beijing iLife3 Technology, also known as Life Infinity, and Grand Doctor Medical. We think these are positive developments for Hywin due to multiple reasons. Life Infinity, founded in 2012, is one of the leading integrated health management service providers in China. It has a track record of over 10 years of delivering health care solutions to clients through multiple channels. The acquisition is for a cash consideration of RMB141 million, and was completed in August, and would result in a majority 63.4% stake for Hywin in Life Infinity. Good Doctor was acquired in January 2022.

On the conference call, management indicated that there is tremendous scope to offer services at the high-end and premium segment of the vast healthcare market. Hywin intends to become a “one stop high-end” provider for integrated wealth and health management services.

Life Infinity is comprised of three brands, which all serve to meet different needs in the rapidly growing healthcare market. Life Infinity are high-end medical centres located in major cities focused on anti-aging and cancer prevention. Joy by Life Infinity are more accessible precision health care management centres located throughout China. Lastly, Beautology Ltd is an internet-based marketing platform which is focused on selling anti-aging and health care products from globally selected brands.

Here are the reasons why this acquisition makes imminent sense:
First, it’s an accretive use of excess net cash balances. Interest rates remain low in China, and unlike most of the rest of the world, rates are being reduced further by the central bank. Hywin stands to generate far better returns via this acquisition than low-yielding after-tax returns on cash balances. Hywin, as of its most recent balance sheet dated June 2022, has RMB 525 million [US$78 million] in unrestricted net cash [cash minus customer deposits, with zero debt]. Along with strong FCF, Hywin clearly has the ability to finance this all-cash transaction.
Two, healthcare is a rapidly growing business in China as consumers’ incomes and standards of living continuously improve. Over the past decade, health care as a sector has been growing at a double-digit rate, much more rapidly than the overall economy, and is now a multi-trillion dollar industry. Healthcare is an increasing focus of people globally, especially in a post-pandemic world. Also, China’s population is aging, and this too supports a secular growth argument for healthcare expenditure.

Finally, there appears to be a great deal of synergy potential in cross-selling wealth management and healthcare services. Healthcare expenses can be a major burden for individuals, and Hywin has developed considerable expertise in incorporating such expenses within customers’ overall financial plans. In fact, Hywin has undergone a multi-year research effort on understanding healthcare costs, and effectively managing them as part of clients financial resources. The recent launch of the FactSet Hywin Global Health Care Index underscores the firm’s focus on this area.

According to Hywin CEO Wang Dian, “This acquisition represents another milestone in our strategic plans to unlock value from our enormous franchise. This also marks the first independent wealth manager in China to integrate wealth and health into one holistic proposition, with cross-selling opportunities and cost synergies that naturally occur along with the wealth-health continuum.”

Conclusion: Undervalued @ 4.8x P/E, 41% Net Cash, and strong FCF

Hywin, China's third largest, and most rapidly growing, independent wealth management provider and investment advisor, represents a unique combination of clear deep value and rapid growth in a secular growth sector. Hywin's stock is trading at deep value levels on several different metrics. On reported earnings, Hywin is trading at 5.5x P/E on actual FY 6/2022 results, and 4.8x P/E on our forecast for forward FY 6/2024. The overall Hong Kong Hang Seng Index and the Shanghai Composite are at 9.6x and 10.7x 2022 consensus estimates, respectively. Hywin is thus effectively trading at about a 40% discount to relevant benchmarks.

We maintain our Buy rating and our unchanged $12.00 price target. This $12.00 target is based on a 9.5x P/E multiple on trailing/actual FY 06/2022 results [8.3x P/E on our forward 06/2024 estimates], which are both at a discount to China, Hong Kong, as well as various other Emerging Market indices. Our $12.00 price target is only 20% higher than last year's [March 2021] IPO price of $10.00 for Hywin.
Adjusted for Hywin's large net cash position, the target P/E levels implied by our $12.00 price target would be effectively 7.4x – a much larger discount to the overall market. The upside opportunity looks very compelling to us, with the stock currently trading at around a 30% discount to its initial listing price. The stock is still very much undiscovered following its NASDAQ listing, and Evaluate Research remains the only firm who is now actively covering the company.

Among the market leaders in an underpenetrated market, Hywin continues to expand its client base and relationship managers network which, along with rising productivity as measured by transaction volume, should ensure solid growth going forward. Numerous interactions with management give us confidence in the following key tenets of our thesis:

- A Market Leader: Hywin is the 3rd largest independent wealth management provider in China, with a growing 7.5% market share
- Stellar Growth: +23% revenue, +97% net income, and +95% diluted ADS 2-year CAGR [FYs 6/2020 – 6/2022]
- Robust Client Growth: 11% client growth, 25% active client 2-year CAGR [FYs 6/2020 – 6/2022]
- Clear Deep Value: 5.5x P/E on FY 06/2022, 4.8x P/E on our forward FY06/2024 estimates
- Robust ROE: 28% actual ROE for FY 06/2022, despite high cash balances
- Strong FCF: Estimated $4.47 per share in FCF for FY 6/2022 resulting in a very high FCF yield
- Net Cash: US$78 million in unrestricted net cash at 6/2022, prior to the iLife3 acquisition, equals 41% of the market cap
- Secular Growth Sector: Third party wealth management penetration rate only 6.2% in China in 2019, versus 32% in Hong Kong & 62% in USA

Positive Growth Despite Global Headwinds
Based on Hywin's strong financial results in the just reported June-end half, we continue to expect growth for the current new FY 6/2023. Given numerous global macro and geopolitical uncertainties, we are conservatively and prudently now forecasting 3.1% revenue growth for FY 6/2023, and 5.6% diluted EPS growth, with flat diluted EPS in US$ terms, due in part to recent CNY deprecation [and China-USA interest rate differentials] and FX trends. However, once financial market conditions are more normalized, we expect a sharp snap-back in overall growth rates for Hywin for FY 6/2024, with double-digit revenue and strong EPS growth. Our forecast model is at the end of this report.

Large Net Cash Balance + 20% YoY
Hywin has US$78 million, or US$2.79 per share/ADS, in unrestricted net cash [not including restricted cash/minus customer deposits, and with zero debt] as of June-end. It should be noted this cash position is prior to the funding of the all-cash acquisition of iLife3. Nevertheless, the net cash position should continue to grow going forward on solid FCF generation and minimal CAPX and cash outflows. With our extensive experience in investing in deep value stocks, positive events invariably happen for shareholders with companies with high net cash and strong FCF. Favourable returns and outcomes for investors include high dividend and special dividend payouts, large buybacks, accretive acquisitions, being taken over, etc.

Finally, in today's abnormally low global interest rate environment, companies like Hywin are earning negligible interest income on their large net cash positions. Interest income actually declined nominally for Hywin for both the 2nd half, as well as the full-year – and this is despite having a larger net cash balance. Thus, the huge net cash position on the balance sheet is clearly not adequately reflected on the income statement, due to today's very low market interest rates. Using a P/E valuation approach based on net income and EPS, does not capture the true value of net cash. Investors should add back the net cash per share to their P/E driven price targets to get a more appropriate valuation – we use this approach to properly value several large net cash equities we are actively covering today. This would further increase our price target for Hywin by nearly $3.00 per share.

Consistent with this aforementioned analytical thought process, our DCF [discounted cash flow] model, which appropriately values Hywin's large net cash position, suggests a US$15.00 price target. Our DCF model, along with scenario analysis with respect to both discount rates as well as terminal growth rates, is at the end of this report along with detailed 5-year IS/BS/CF forecasts and financial ratio analysis.

Concerns Regarding Recent Regulatory Issues

As we have mentioned in our earlier Update Notes, there have been concerns about regulatory developments by the Chinese government, particularly in certain sectors such as technology, private education services, online gaming, etc. Recently, during the past one month, China has ordered an audit of the US$3 trillion trust industry. This move of the central government has come as a surprise. According to Bloomberg and other sources, China's National Audit Office has been inspecting the books of at least 20 trust firms during the past one month, including some industry leaders. The focus of the inspection is risky loans to developers as well as the plans to dispose of such assets.

This has created uncertainty for investors, and impacted the profitability of several companies, as well as their stock prices. While we don't profess to have a crystal ball on actions of government officials, we do nonetheless believe there are several mitigating factors that should significantly reduce such risks for Hywin and the broader investment advisory sector. First, the government is very keen for Shanghai to become a global wealth and financial services hub. The wealth management sector is a priority growth sector for the Chinese government. This would imply favorable long-term regulatory tailwinds for Hywin and the sector, in our view.

Second, the services Hywin offers its clientele are targeted towards affluent and HNI [High Net-worth Individuals] customers. It's not a mass market product which is visible to the average consumer, but rather offered to a narrow segment of the public. Clients tend to be highly sophisticated and affluent. Third, the entire sector, from originators of investment products, companies which take client money, and financial advisors – all intermediaries are already highly regulated. Firms need licenses to conduct business; there are regular audits, copious annual filings requirements, and strict norms and guidelines including disclosure rules.

Finally, there is lots of competition from many players, including China's largest banks, and product pricing is measured in basis points. The industry is price and fee competitive, ensuring a fair price for the end consumer. While anyone can make or lose money in the very short-term in financial markets, Hywin's clients are increasing their wealth considerably over time.

China Goals: Wealth Management Industry, Shanghai Global Hub

Shanghai has risen by two slots to become the 6th largest global hub for assets management in 2022, according to a ranking by a research institute linked to the China-Europe International Business School. The ranking is as follows: New York in the top spot, followed by London, Boston, Singapore, Hong Kong, and then Shanghai and Chicago are both tied for the 6th spot.

The increase in rankings shows that Shanghai has built a solid base to turn into an international financial hub and the city has many competitive advantages, according to the Lujiazui Institute of Finance in their 2022 Global Asset Management Center Index report recently published.

As mentioned previously, one of the mitigating factors regarding regulatory risk for firms such as Hywin is the fact that the Chinese government is very keen on developing Shanghai as a global wealth center. This, along with the overall development of China’s wealth management industry, is a strategic imperative that is mentioned in the country’s ambitious Five-Year plans. The Chinese government authorities have allowed Hong Kong to continue to flourish for decades as a global financial hub with minimal capital flow restrictions. Thus China has been empirically successful in allowing financial centers to thrive without impeding its progress with undue restrictions.

According to the China Daily newspaper, “The growth of the wealth management sector in China was backed by government policies such as the 14th Five-Year Plan (2021-25), its continuous, stable and sustainable macroeconomic measures, and the development of regional wealth management centers as a new growth driver in the sector.” Furthermore, the newspaper mentioned, “It is estimated that investable assets in the country will increase by 100 to 300 trillion Yuan by 2030, up from the current level of 200 trillion Yuan, as the population of high-net-worth individuals may more than double during this period, said Lian Ping, chief economist at Zhixin Investment and head of the Zhixin Investment Research Institute.”

Last year, in May 2021, various guidelines were issued by the Shanghai municipal government. According to the guidelines, “Shanghai should become a leading global asset management center by that time, which stresses the key role innovation is expected to play in the city's asset management industry over the next few years. In addition, asset management services will be further expanded, under which banks, fund companies and securities firms will be able to apply for investment consultant qualifications. In order to achieve these goals, more asset management institutions should be introduced to Shanghai, and qualified foreign companies will be allowed to establish wholly owned or jointly held asset management companies in the city.”

We think this bodes well for Hywin that there appears to be clear central government policy support for the overall wealth management industry. These tailwinds should enhance overall growth for the sector, as well as reduce unexpected risks, in our opinion.

Real Estate Sector Exposure and Concerns

There is daily negative newsflow on the real estate sector in China, and almost all of the equities and bonds of listed large property market leaders are down more than -50% YTD. We won’t go into detail on the issues impacting the sector here, as these are widely known and discussed. Chinese real estate is arguably the largest single asset class in the world, with a value around US$50 trillion, which is greater than the entire market cap of USA listed equities. While end-market property prices have declined only slightly over the past one year, the concerns around excess unfinished inventory, declining new sales, stability/liquidity of property developers, repayment of all types of property-related debt, etc. have been greatly amplified. The overall exposure, both directly as well as indirectly, to real estate is significant for the Chinese economy, at an estimated one-third. Importantly, all financial institutions, such as banks, insurance companies, trust companies, asset management firms, etc, have varying levels of exposure to real estate assets.On the results conference call, management indicated that clients’ investment in long-term asset backed products [some of which derives value from real estate] decreased by -30% during the fiscal 2nd half [ended June], while there was a +58% increase in investments in short-term asset backed products. Short-term products carry lower risk and offer greater liquidity, which is appropriate for the current environment. Hywin management believes their proactive asset allocation and risk management strategy specifically with regards to real estate products has overall worked well.

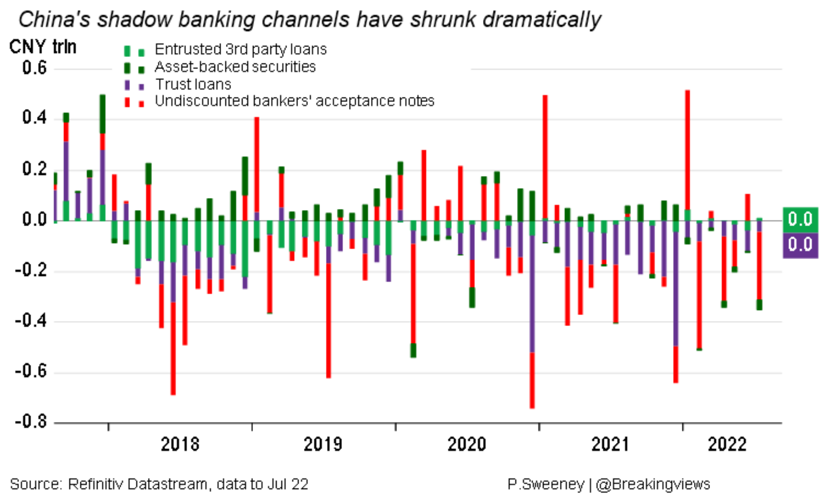
Our prior conversations with management suggest they are not overly concerned about Hywin's overall real estate exposure. Hywin does not have principal or own balance sheet exposure to real estate, and their due diligence suggests investment products marketed by them have reasonable collateral protections. In our view, while this is an area of concern, we suspect that much of the client churn or risk reduction in this area has already taken place, and reflected in the recent results. As stated, both for Chinese financial institutions as well as Hywin, there is an effort to reduce real estate exposure over time.

Hywin, in its most recent annual 20-F filing from October 2021, has disclosed that 58.2% of the total transaction value of wealth management products it distributed for the fiscal year ended 06/2021 involved real estate-related assets as their underlying collateral. Hywin expects "such wealth management products will continue to account for a significant, though continuously decreasing, portion of the products we distribute."

Shadow Banking Sector Stress

In our view, the issues facing unorganized players in the shadow banking and trust management industries will benefit Hywin over time, as it stands will gain market share while weaker players flounder. The problems impacting the real estate sector is subjecting the shadow banking industry to unprecedented stress as well. The shadow banking sector, being part non-bank lender, part money manager, had invested heavily in property, both directly and indirectly.

Individual and institutional investors have also turned more cautious. Outstanding off-balance sheet wealth management providers had declined to 25% of nominal GDP last year from 36% in 2017, according to Fitch Ratings, although the total balance has grown to US$4.2 trillion. While official data shows the property market formally accounts for only 11% of trust assets, down from 14% in 2020, there may still be more exposure in other asset classes.



China's shadow banking channels have shrunk dramatically

Turmoil in various debt and equity asset classes will undoubtedly lead to the migration of investors from unofficial and unorganized players and investment vehicles to more established players like Hywin who are marketing products sponsored by recognized firms. This is not to say that investors may not suffer declines in any product marketed by Hywin, but at least those products are subjected to rigorous due diligence and scrutiny by experienced risk and investment professionals.

Dividend Prospects are High

It remains our opinion that Hywin will likely pay a dividend sooner rather than later. Hywin generates significant FCF, which is higher than reported EPS. Furthermore, as previously mentioned, Hywin has a large and growing net cash position. Even after the recent iLife3 acquisition, funded entirely by cash, Hywin still maintains a large surplus net cash position, with zero debt. With much of the high CAPX branch infrastructure and headquarters purchase already in place, this really leaves further acquisitions and dividends as the two major cash usages, in our view. Hywin could easily pay out a substantial part of its annual FCF, which would lead to a very high dividend yield, especially in a USA context and for American investors.

Although the global finance industry continues to consolidate, there are not many wealth management businesses that Hywin could acquire, given the uniqueness of its business model. Even iLife3 is more in the healthcare services space, as opposed to being a pure-play financial or investment firm. Also, Hywin can and does regularly hire relationship managers and their accompanying client books of business, so it may not need to, or desire to, acquire entire firms in order to "acquire" clients or business. In effect, Hywin continues to acquire clients when it hires experienced relationship managers. We believe this fact reduces the imperative to make large acquisitions, and increases the likelihood of dividend payments.

Strong Relationship Manager Productivity & Retention Metrics

Relationship managers are the key client interface for Hywin, so they play a critical role in the overall operations and strategy execution for the company. Given the present volatility, the number of relationship managers has been about flat but, importantly, turnover among the elite high performing RMs has been only 5%, which is among the best in the industry. Productivity continues to improve, with transaction value of wealth management products per relationship manager continuing to rise for the full fiscal year, albeit modestly. Mobile App usage among clients continues to rise, and RMs are increasingly using both mobile and desktop technology tools to interact with clients.

Largest Relationship Manager Team in Industry, 3rd Largest by Volume

Hywin is the 3rd largest wealth management provider in China, with a growing 7.5% market share in terms of 2019 transaction value, according to CIC [China Insights Consultancy Ltd]. Despite the slowdown in the global and Chinese economy over the past few years, Hywin has nonetheless the fastest growth rate among the industry's largest players. Industry leader Noah Holdings [NYSE: NOAH; US$17.31, US$ 1 billion market cap] recently reported an -18% decline in Q2 revenues, and a slight decline in operating income, and +14% net income growth. Noah's estimated revenue base of RMB 3.8 billion for 2022 and net after-tax margins of ~30%, both are much higher than Hywin's reported revenues of RMB 1.9 billion and net margins of ~12%. In our opinion, these metrics suggest to us that there is plenty of room for Hywin to continue to grow in terms of size as well as profits. Also, investors will note Noah's market cap is more than 5x that of Hywin, again clearly indicating that the market will give stocks within this sector much higher valuations. Noah provides a roadmap for future growth for Hywin, as well as indicating there is a long runway of opportunities for the entire sector.

Internal Metrics Growing

As evident in the following table, internal metrics for Hywin have shown solid growth with respect to client growth, as well as the quality and sustainability of client activity. Please note some of the 2021 and 2022 figures represent our internal estimates, and are in the process of being updated.

Key Business Metrics	FY 06/2018	FY 06/2019A	FY 06/2020A	FY 06/2021E	FY 06/2022E	FY 06/2023E	FY 06/2024E	FY 06/2025E
Branch Network			167	177	178	183	189	195
Total Clients	88,826	100,817	113,146	127,317	141,058	146,700	158,436	171,111
Active Clients	35,315	31,757	36,397	38,033	43,764	45,515	49,611	54,076
Repeat Clients	80%	73%	78%	78%	81%	78%	78%	78%
Repeat Client Revenue As a % of Total		72%	75%	75%	75%	75%	75%	75%
Transaction Value of Repeat Customers	28,100	35,500	39,800	43,382	47,286	51,542	56,181	61,237
Relationship Managers number			1,696	1,798	1,906	2,020	2,141	2,270
Total Employee number	2,395	2,238	2,436	2,582	2,737	2,901	3,075	3,260
Total Transaction Value Wealth Manangement RMB 1,000s	51,450	55,600	68,200	78,800	79,800	82,194	84,660	87,200
Client Transaction Value per RM in RMB 1,000s	37,900	38,700	48,200	52,538	57,266	62,420	68,038	74,162
Number of Products	284	589	1,064	1,277	1,532	1,839	2,206	2,648

Income Statement (RMB thousands)	FY 06/2018	FY 06/2019A	FY 06/2020A	FY 06/2021A	FY 06/2022A	FY 06/2023E	FY 06/2024E	FY 06/2025E	6yr CAGR FY 19 - 24
Wealth Management	**1,081,757**	**1,062,420**	**1,183,468**	**1,795,552**	**1,899,573**	**1,956,560**	**2,191,347**	**2,432,396**	
YoY		-1.8%	11.4%	51.7%	5.8%	3.0%	12.0%	11.0%	
% of Total Revenues	94.0%	92.7%	92.1%	97.9%	97.8%	97.7%	97.5%	97.3%	
Other	**36,718**	**71,969**	**90,966**	**23,928**	**23,064**	**23,756**	**27,319**	**30,871**	
YoY		96.0%	26.4%	-73.7%	30.0%	3.0%	15.0%	13.0%	
% of Total Revenues	3.2%	6.3%	7.1%	1.3%	1.2%	1.2%	1.2%	1.2%	
Asset Management	**32,925**	**12,223**	**4,619**	**14,942**	**19,476**	**21,813**	**27,921**	**35,739**	
YoY		-62.9%	-62.2%	223.5%	35.0%	12.0%	28.0%	28.0%	
% of Total Revenues	2.9%	1.1%	0.4%	0.8%	1.0%	1.1%	1.2%	1.4%	
Other	-	-	5,810	-	-	-	-	-	
Total Revenue	**1,151,400**	**1,146,612**	**1,284,863**	**1,834,422**	**1,942,113**	**2,002,129**	**2,246,588**	**2,499,005**	14.4%
YoY		*-0.4%*	*12.1%*	*42.8%*	*5.9%*	*3.1%*	*12.2%*	*11.2%*	
Compensation Expense	561,923	624,531	708,654	1,003,061	1,054,364	1,085,154	1,213,157	1,349,463	
as a % of revenues	*48.8%*	*54.5%*	*55.2%*	*54.7%*	*54.3%*	*54.2%*	*54.0%*	*54.0%*	
Selling & Marketing Expense	293,339	261,155	246,108	326,879	311,773	320,341	361,701	402,340	
as a % of revenues	*25.5%*	*22.8%*	*19.2%*	*17.8%*	*16.1%*	*16.0%*	*16.1%*	*16.1%*	
Gereral & Administrative Expense	202,050	145,854	171,423	200,929	241,946	240,256	267,344	294,883	
as a % of revenues	*17.5%*	*12.7%*	*13.3%*	*11.0%*	*12.5%*	*12.0%*	*11.9%*	*11.8%*	
Other Expenses	2,059	5,558	(369)	21,947	7,340	-	-	-	
Total Operating Expenses	1,059,371	1,037,098	1,125,816	1,552,816	1,615,423	1,645,750	1,842,202	2,046,685	
Operating Income	**92,029**	**109,514**	**159,047**	**281,606**	**326,690**	**356,379**	**404,386**	**452,320**	29.9%
YoY		*19.0%*	*45.2%*	*77.1%*	*16.0%*	*9.1%*	*13.5%*	*11.9%*	
Operating margin (%)	*8.0%*	*9.6%*	*12.4%*	*15.4%*	*16.8%*	*17.8%*	*18.0%*	*18.1%*	
Interest Expense/Income	2,575	769	325	1,537	1,498	2,626	10,629	13,378	
Interest income	(8,202)	(10,810)	(2,457)	0	0	0	0	0	
Other non recurring (expenses) income	-	-	-	12,608	-3,741				
Pretax Income (reported)	**86,402**	**99,473**	**156,915**	**295,751**	**324,447**	**359,005**	**415,014**	**465,698**	33.1%
YoY		*15.1%*	*57.7%*	*88.5%*	*9.7%*	*10.7%*	*15.6%*	*12.2%*	
Pretax Income (adjusted)	***86,402***	***99,473***	***156,915***	***295,751***	***324,447***	***359,005***	***415,014***	***465,698***	33.1%
YoY		*15.1%*	*57.7%*	*88.5%*	*9.7%*	*10.7%*	*15.6%*	*12.2%*	
- Income Tax Expense	(44,314)	(38,013)	(50,763)	-88,094	-88,578	-109,496	-126,579	-142,038	
effective tax rate (%)	*51.3%*	*38.2%*	*32.4%*	*29.8%*	*27.3%*	*30.5%*	*30.5%*	*30.5%*	
- Minority Interests	0	0	0	0	0	0	0	0	
Income Before XO Items	**42,088**	**61,460**	**106,152**	**207,657**	**235,869**	**249,508**	**288,435**	**323,660**	36.2%
YoY		*46.0%*	*72.7%*	*95.6%*	*13.6%*	*5.8%*	*15.6%*	*12.2%*	
- Foreign Curreny Translation Loss	-169	-2,714	-3,641	10,542	4,177	0	0	0	
Net Income (reported)	**41,919**	**58,746**	**102,511**	**218,199**	**240,046**	**249,508**	**288,435**	**323,660**	37.5%
YoY		*40.1%*	*74.5%*	*112.9%*	*10.0%*	*3.9%*	*15.6%*	*12.2%*	
Exceptional (L)G	0.00	0.00	0.00						
Net Income (adjusted)	**41,919**	**61,460**	**106,152**	**207,657**	**240,046**	**249,508**	**288,435**	**323,660**	36.2%
YoY		*46.6%*	*72.7%*	*95.6%*	*15.6%*	*3.9%*	*15.6%*	*12.2%*	
Basic EPS (reported)	1.68	2.35	4.10	8.05	8.42	8.91	10.30	11.56	
Basic EPS (adjusted)	1.68	2.46	4.25	7.76	8.14	8.91	10.30	11.56	
Basic Shares per ADS [= 2 Ord Shares]	25,000	25,000	25,000	28,000	28,000	28,000	28,000	28,000	
Diluted EPS (reported)	**1.68**	**2.35**	**4.10**	**8.05**	**8.42**	**8.91**	**10.30**	**11.56**	34.4%
YoY		*40.1%*	*74.5%*	*96.3%*	*4.6%*	*5.8%*	*15.6%*	*12.2%*	
Diluted EPS (adjusted)	**1.68**	**2.46**	**4.25**	**7.76**	**8.14**	**8.60**	**9.94**	**11.15**	32.2%
YoY		*46.6%*	*72.7%*	*82.8%*	*4.9%*	*5.6%*	*15.6%*	*12.2%*	
Diluted EPS in US$	**$ 0.24**	**$ 0.36**	**$ 0.61**	**$ 1.17**	**$ 1.26**	**$ 1.24**	**$ 1.44**	**$ 1.61**	
Diluted Shares per ADS [= 2 Ord Shares]	25,000	25,000	25,000	28,000	28,000	28,000	28,000	28,000	

Balance Sheet (RMB thousands)	FY 06/2018	FY 06/2019A	FY 06/2020A	FY 06/2021A	FY 06/2022A	FY 06/2023E	FY 06/2024E	FY 06/2025E
Assets								
+ Cash & Near Cash Items	11,027	17,196	188,386	439,287	525,136	1,180,957	1,486,440	1,853,174
+ Restricted Cash	44,059	91,547	-	266,023	135,242	135,242	135,242	135,242
+ Accounts & Notes Receivable	171,461	290,352	403,693	594,061	564,374	438,823	437,007	410,795
+ Other Receivables & Prepayments	51,339	52,690	43,451	51,540	66,103	74,326	83,093	92,429
+ Due from Related Prties	414,942	309,300	321,772	126,103	51,204	51,204	51,204	51,204
Total Current Assets	**692,828**	**761,085**	**957,302**	**1,477,014**	**1,342,059**	**1,880,552**	**2,192,987**	**2,542,844**
+ Deferred Tax Assets	1,062	1,852	2,583	649	725	725	725	725
+ Gross Fixed Assets	155,183	171,506	181,309	193,979	523,224	535,237	548,716	563,710
- Accumulated Depreciation	(103,500)	(128,709)	(147,193)	(172,875)	(198,122)	(222,148)	(249,107)	(279,095)
+ Net Fixed Assets	51,683	42,797	34,116	21,104	325,102	313,089	299,609	284,615
+ Other	3,830	7,077	1,808	7,427	40,332	40,332	40,332	40,332
+ Goodwill & other Intangible Assets	15,137	22,059	29,423	24,225	75,194	75,194	75,194	75,194
Total Long-Term Assets	**71,712**	**73,785**	**67,930**	**53,405**	**441,353**	**429,340**	**415,860**	**400,866**
Total Assets	**764,540**	**834,870**	**1,025,232**	**1,530,419**	**1,783,412**	**2,038,906**	**2,337,862**	**2,672,725**
Liabilities & Shareholders' Equity								
+ Commission Payable	89,032	79,509	84,858	127,194	83,205	89,191	99,712	110,915
+ Investor Deposit	40,624	88,353	74,262	248,277	132,154	132,154	132,154	132,154
+ Accrued Payroll	14,932	29,700	38,821	0	0	0	0	0
+ Income Tax Payable	35,943	65,982	115,432	116,897	120,151	120,151	120,151	120,151
+ Due to Related Parties	20,863	56,714	59,254	24,799	36,172	36,172	36,172	36,172
+ Other Payables	26,918	67,272	129,966	278,697	408,128	408,128	408,128	408,128
Total Current Liabilities	**228,312**	**387,530**	**502,593**	**795,864**	**779,810**	**785,796**	**796,317**	**807,520**
Commission Payable non-current	44,407	46,998	18,321	10,080	1,289	1,289	1,289	1,289
Others	4,178	9,155	3,961	3,548	34,000	34,000	34,000	34,000
Total Liabiliaites	**276,897**	**443,683**	**524,875**	**809,492**	**815,099**	**821,085**	**831,606**	**842,809**
+ Ordinary Shares	499,260	494,055	500,616	503,086	510,426	510,426	510,426	510,426
+ Reserves	30,135	37,399	52,959	52,959	100,925	100,925	100,925	100,925
+ Retained Earnings & Other Equity	(41,749)	(140,268)	(53,217)	164,882	356,962	606,470	894,905	1,218,565
Total Shareholders' Equity	**487,646**	**391,186**	**500,358**	**720,927**	**968,313**	**1,217,821**	**1,506,256**	**1,829,916**
+ Minority Interest	-	-	-	**0**	**0**	**0**	**0**	**0**
Total Liabilities & Equity	**764,543**	**834,869**	**1,025,233**	**1,530,419**	**1,783,412**	**2,038,906**	**2,337,862**	**2,672,725**
Reference Items								
Receivable days		**74**	**99**	**99**	**109**	80	71	60
Inventory days		**-30**	**-25**	**-17**	**-20**	-25	-25	-25
Payable days		**-49**	**-42**	**-39**	**-36**	-30	-30	-30
Shares Outstanding	25,000	25,000	25,000	28,000	28,000	28,000	28,000	28,000
Book Value per Share	18.90	14.77	18.84	24.88	31.90	40.81	51.11	62.67
Net Debt (Cash)	29,945	26,608	(188,386)	(705,310)	(660,378)	(1,316,199)	(1,621,682)	(1,988,416)
Net Debt (cash) to Equity	6.1%	6.8%	-37.7%	-97.8%	-68.2%	-108.1%	-107.7%	-108.7%

Cash Flows (RMB thousands)	FY 06/2018	FY 06/2019A	FY 06/2020A	FY 06/2021A	FY 06/2022E	FY 06/2023E	FY 06/2024E	FY 06/2025E
+ Net Income	41,919	61,460	106,152	207,657	240,046	249,508	288,435	323,660
+ Depreciation & Amortization	32,893	28,435	26,206	25,594	25,247	24,026	26,959	29,988
+ Other Non-Cash Adjustments	0	0	0	0	0	0	0	0
+ Changes in Non-Cash Capital	136,052	47,855	852	100,782	46,034	123,314	3,569	28,079
Cash From Operating Activities	**210,864**	**137,750**	**133,210**	**334,033**	**311,327**	**396,848**	**318,963**	**381,727**
+ Disposal of Fixed Assets	24	15	90					
+ Capital Expenditures	-27,725	-21,219	-10,441	-11,945	-11,653	-12,013	-13,480	-14,994
+ Increase in Investments	0	0	0	-2,686	-32,981	0	0	0
+ Decrease in Investments	0	0	0					
+ Other Investing Activities	-65,551	-73,924	-33,088	0	-50,969	0	0	0
Cash From Investing Activities	**-93,252**	**-95,128**	**-43,439**	**-14,631**	**-95,603**	**-12,013**	**-13,480**	**-14,994**
+ Dividends Paid	0	0	0	0	0	0	0	0
+ Change in Short-Term Borrowings	0	0	0	0	-116,123	0	0	0
+ Increase in Long-Term Borrowing	-101,409	14,180	-5,709	0	-8,791	0	0	0
+ Decrease in Long-term Borrowing	0	0	0	0	0	0	0	0
+ Increase in Capital Stocks	0	0	0	180,677	0	0	0	0
+ Decrease in Capital Stocks	0	0	0	4,929	0	0	0	0
+ Exchange Rate Changes	-169	-3,145	-4,420	11,917	0	0	0	0
Cash from Financing Activities	**-101,578**	**11,035**	**-10,129**	**197,523**	**-124,914**	**0**	**0**	**0**
Net Changes in Cash	**16,034**	**53,657**	**79,642**	**516,925**	**90,811**	**384,835**	**305,483**	**366,733**
Opening cash				188,386	705,311	796,122	1,180,957	1,486,440
Closing cash				705,311	796,122	1,180,957	1,486,440	1,853,174
Capex as a % of sales	2.4%	1.9%	0.8%	0.6%	0.6%	0.6%	0.6%	0.6%
Reference Items								
FCF - CNY	183,139	116,531	122,769	322,088	299,675	384,835	305,483	366,733
FCF margin (%)	15.9%	10.2%	9.6%	17.6%	15.4%	19.2%	13.6%	14.7%
FCF/reported Net Income	436.9%	189.6%	115.7%	155.1%	124.8%	154.2%	105.9%	113.3%
FCF per share - CNY	7.33	4.66	4.91	11.50	10.70	13.74	10.91	13.10
FCF per share - USD	$ 1.06	$ 0.67	$ 0.71	$ 1.66	$ 1.55	$ 1.99	$ 1.58	$ 1.90
Price/FCF per share	6.5	10.3	9.8	4.2	4.5	3.5	4.4	3.7
FCF Yield	15.3%	9.7%	10.3%	24.0%	22.4%	28.7%	22.8%	27.4%

Ratio Analysis	FY 06/2018	FY 06/2019A	FY 06/2020A	FY 06/2021A	FY 06/2022A	FY 06/2023E	FY 06/2024E	FY 06/2025E
Per Share Data ($)								
Basic EPS (adjusted) CNY	1.68	2.46	4.25	7.76	8.14	8.91	10.30	11.56
Diluted EPS (adjusted) CNY	1.68	2.46	4.25	7.76	8.14	8.60	9.94	11.15
Diluted EPS (adjusted) US$	0.24	0.36	0.61	1.17	1.26	1.24	1.44	1.61
Dividend per share (DPS)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Book Value per share (BVPS)	18.9	14.8	18.8	24.9	31.9	40.8	51.1	62.7
Margins (%)								
Operating Margin	8.0%	9.6%	12.4%	15.4%	16.8%	17.8%	18.0%	18.1%
EBITDA Margin	10.8%	12.0%	14.4%	16.8%	18.1%	19.0%	19.2%	19.3%
Pre-Tax Margin (adjusted)	7.5%	8.7%	12.2%	16.1%	16.7%	17.9%	18.5%	18.6%
Net Income Margin (adjusted)	3.6%	5.4%	8.3%	11.3%	12.4%	12.5%	12.8%	13.0%

Growth (%)	FY 06/2018	FY 06/2019A	FY 06/2020A	FY 06/2021E	FY 06/2022A	FY 06/2023E	FY 06/2024E	FY 06/2025E
Sales growth		-0.4%	12.1%	42.8%	5.9%	3.1%	12.2%	11.2%
EBIT growth		19.0%	45.2%	77.1%	16.0%	9.1%	13.5%	11.9%
Net Income (adjusted) growth		46.6%	72.7%	95.6%	15.6%	3.9%	15.6%	12.2%
EPS (adjusted) growth		46.6%	72.7%	82.8%	4.9%	5.6%	15.6%	12.2%
Dupont ROE (%)	**8.6%**	**15.7%**	**21.2%**	**28.8%**	**24.8%**	**20.5%**	**19.1%**	**17.7%**
Margin (%)	3.6%	5.4%	8.3%	11.3%	12.4%	12.5%	12.8%	13.0%
Turnover (x)	1.5	1.4	1.3	1.2	1.1	1.0	1.0	0.9
Leverage (x)	1.6	2.1	2.0	2.1	1.8	1.7	1.6	1.5
ROA	5.5%	7.4%	10.4%	13.6%	13.5%	12.2%	12.3%	12.1%
Net cash / equity	11.3%	27.8%	37.7%	97.8%	68.2%	108.1%	107.7%	108.7%
FCF Calculation								
Op. cash	210,864	137,750	133,210	334,033	311,327	396,848	318,963	381,727
CAPX	-27,725	-21,219	-10,441	-11,945	-11,653	-12,013	-13,480	-14,994
FCF - CNY	183,139	116,531	122,769	322,088	299,675	384,835	305,483	366,733
FCF margin (%)	15.9%	10.2%	9.6%	17.6%	15.4%	19.2%	13.6%	14.7%
FCF per share - CNY	7.33	4.66	4.91	11.50	10.70	13.74	10.91	13.10
FCF per share - USD	$ 1.06	$ 0.67	$ 0.71	$ 1.66	$ 1.55	$ 1.99	$ 1.58	$ 1.90
Price/FCF per share	6.54	10.27	9.75	4.16	4.47	3.48	4.39	3.66
FCF Yield	15.3%	9.7%	10.3%	24.0%	22.4%	28.7%	22.8%	27.4%
Net Cash calculation								
Cash + short term investments	55,086	108,743	188,386	705,310	660,378	1,316,199	1,621,682	1,988,416
Less: long term debt + Short Term Debt	0	0	0	0	0	0	0	0
Net Cash	**55,086**	**108,743**	**188,386**	**705,310**	**660,378**	**1,316,199**	**1,621,682**	**1,988,416**
Net Cash per Share CNY	2.20	4.35	7.54	25.19	23.58	47.01	57.92	71.01
Net Cash per Share US$	$ 0.32	$ 0.63	$ 1.09	$ 3.65	$ 3.41	$ 6.80	$ 8.38	$ 10.28

Valuation ratio's	FY 06/2018	FY 06/2019A	FY 06/2020A	FY 06/2021A	FY 06/2022A	FY 06/2023E	FY 06/2024E	FY 06/2025E
P/B	2.5	3.2	2.5	1.9	1.5	1.2	0.9	0.8
P/E	28.6	19.5	11.3	5.9	5.5	5.6	4.8	4.3
P/S	1.0	1.0	1.0	0.7	0.7	0.7	0.6	0.5
EV/sales	1.0	0.9	0.9	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (on today's B/S)	9.1	7.9	6.2	3.8	3.3	3.0	2.7	2.4
EV/EBITDA (on forward estimates)	9.1	7.9	6.2	2.1	1.9	0.1	-0.7	-1.3
EV/EBIT	12.4	9.9	7.2	4.1	3.5	3.2	2.8	2.5
EV/FCF	6.2	9.3	9.4	3.6	3.8	3.0	3.8	3.1
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Div payout on FCF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Receivable days		74	99	99	109	80	71	60
Inventory days		-30	-25	-17	-20	-25	-25	-25
payables days		-49	-42	-39	-36	-30	-30	-30
Current ratio	3.0	2.0	1.9	1.9	1.7	2.4	2.8	3.1

Enterprise Value Calculation	FY 06/2018	FY 06/2019A	FY 06/2020A	FY 06/2021A
Market Cap.	1,197,158	1,197,158	1,340,816	1,340,816
+ Minority Interest	-	-	-	-
+Total Debt (ST & LT Debt)	-	-	-	-
- Cash & Equivalents	55,086	108,743	188,386	188,386
Enterprise Value	**1,142,072**	**1,088,415**	**1,152,430**	**1,152,430**

	FY 06/2021A	FY 06/2022A	FY 06/2023E	FY 06/2024E	FY 06/2025E
Market Cap.	1,340,816	1,340,816	1,340,816	1,340,816	1,340,816
+ Minority Interest	(0)	(0)	(0)	(0)	(0)
+Total Debt (ST & LT Debt)	-	-	-	-	-
- Cash & Equivalents	705,310	660,378	1,316,199	1,621,682	1,988,416
Enterprise Value	**635,506**	**680,438**	**24,617**	**(280,866)**	**(647,600)**

Key Business Metrics	FY 06/2018	FY 06/2019A	FY 06/2020A	FY 06/2021E	FY 06/2022E	FY 06/2023E	FY 06/2024E	FY 06/2025E
Branch Network			167	177	178	183	189	195
Total Clients	88,826	100,817	113,146	127,317	141,058	146,700	158,436	171,111
Active Clients	35,315	31,757	36,397	38,033	43,764	45,515	49,611	54,076
Repeat Clients	80%	73%	78%	78%	81%	78%	78%	78%
Repeat Client Revenue As a % of Total		72%	75%	75%	75%	75%	75%	75%
Transaction Value of Repeat Customers	28,100	35,500	39,800	43,382	47,286	51,542	56,181	61,237
Relationship Managers number			1,696	1,798	1,906	2,020	2,141	2,270
Total Employee number	2,395	2,238	2,436	2,582	2,737	2,901	3,075	3,260
Total Transaction Value Wealth Manangement RMB 1,000s	51,450	55,600	68,200	78,800	79,800	82,194	84,660	87,200
Client Transaction Value per RM in RMB 1,000s	37,900	38,700	48,200	52,538	57,266	62,420	68,038	74,162
Number of Products	284	589	1,064	1,277	1,532	1,839	2,206	2,648

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