China Brokers Sector

APAC Focus: The rise of the research-empowered investment-IB flywheel

Equities

China

Financial Services

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We believe a research-empowered investment-IB flywheel is set to structurally lift and sustain leading brokers' through-cycle ROE. We estimate brokers' publicly identifiable holdings in major 2026 tech IPOs with market caps of over Rmb15bn at listing have exceeded Rmb70bn. Among UBS-covered leading brokers, a Rmb10.4bn earnings reservoir (9% of FY26E NPAT) has been built from locked-up IPO co-investments as of end-September. Yet current valuations still imply long-term ROEs of only 6-8%, broadly in line with pre-recovery levels. We believe the market underestimates both the durability and valuation implications of flywheel-related earnings. Leading brokers with sourcing, capital and risk-management capabilities required to scale and sustain the flywheel should be main beneficiaries.

The flywheel can broaden earnings pools and improve ROE persistence

We believe leading brokers can structurally lift and sustain through-cycle ROEs, as the IPO market recovers with the tech cycle. The opportunity extends beyond underwriting. By integrating research, principal investment, private equity and IB, brokers can monetise client relationships across investment, IPOs, refinancing, asset management, wealth management and M&A. This transforms a single transaction into a multi-stage earnings stream, supporting broader earnings pools and more durable ROEs.

Reported earnings from investments less volatile than underlying asset returns

Tech investment gains are often viewed as volatile, episodic and difficult to forecast. We agree the underlying assets tend to be volatile. However, lock ups and liquidity discounts defer part of the P&L on restricted holdings, while scaled portfolios diversify projects and vintage exposure. Together, these mechanisms smooth reported earnings and support more durable through-cycle ROE, while building an earnings reservoir that enhances future earnings visibility. Brokers' publicly identifiable holdings in major 2026 tech IPOs (mkt cap>Rmb15bn) exceed Rmb70bn, 2%-3% of sector net assets (UBS-e). UBS-covered leading brokers reported Rmb3.2bn of unrealised gains from locked-up IPO co-investments in H126 (5% of NPAT), while the earnings reservoir remained sizable at Rmb10.4bn as of 30 September (9% of FY26E earnings). Actual exposure is likely higher given disclosure limitations and complex ownership structures.

Most of the benefits should accrue to the leading platforms

Consistent execution requires differentiated sourcing, capital capacity, staying power and risk control. Yet valuations still imply long-term ROEs of only 6-8%, broadly in line with pre-recovery levels. We favour **CITICS (A/H)** as we think it has a highly robust flywheel model, **Guotai Haitong (A)** for its exposure to the tech recovery, **CICC (H)** for its premium franchise and capital-expansion optionality, and **CSC Financial (H)** for its underappreciated tech franchise; all rated Buy.

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UBS Research THESIS MAP	MOST FAVORED	LEAST FAVORED
	CITIC Securities (A/H), CICC (H), Guotai Haitong (A), CSC Financial (H)	N.A.

PIVOTAL QUESTIONS

Q: Can brokers structurally lift ROE through the research-empowered investment-IB flywheel as IPO activity and the tech cycle recover simultaneously?

Yes. We expect the research-empowered investment-IB flywheel to structurally lift and sustain broker ROEs through the cycle. Rather than relying on one-off underwriting fees, brokers can monetise client relationships across investment, underwriting, refinancing, M&A and wealth management activities, transforming a single transaction into a multi-stage earnings stream. Meanwhile, lock-up and liquidity-discount mechanisms progressively release investment gains, creating an earnings reservoir that improves ROE persistence while reducing earnings volatility relative to mark-to-market fluctuations. Beijing's technology agenda and capital-market reforms continue to strengthen both project pipelines and exit channels, supporting both the scalability and durability of the flywheel.

Q: Can every broker successfully execute the flywheel?

No. While the IPO recovery and tech cycle provide cyclical tailwinds, we expect the benefits to accrue disproportionately to leading franchises. Sustainable execution requires differentiated deal sourcing, capital capacity, staying power through weak exit markets and robust risk control. These advantages are difficult to replicate and become increasingly important as investment scale expands. As a result, brokers with more proven flywheels, stronger earnings visibility and greater through-cycle resilience should be best positioned to translate the opportunity into a durable ROE advantage.

WHAT'S PRICED IN?

Investors continue to view brokers as leveraged plays on capital-market activity rather than structural compounders. The prevailing market view is that investment gains are episodic, difficult to forecast and ultimately a function of capital-market sentiment. As a result, current valuations of UBS-covered leading brokers imply long-term ROEs of only 6%-8%, broadly in line with pre-recovery levels despite the recovery in market activities (eg, IPOs). Investors appear willing to price in today's earnings, but remain unconvinced that the recent improvement can be sustained through the cycle.

UBSVIEW

We believe the market underestimates the ability of the research-empowered investment-IB flywheel to improve ROE persistence. While recent earnings have benefited from the cyclical recovery across capital markets, the flywheel converts tech exposure into a broader earnings stream spanning investment income, underwriting fees, management fees and post-listing services. Combined with improving exit channels and the progressive release of gains through lock-up and liquidity-discount mechanisms, this should make earnings more durable than investors currently assume. The key debate is therefore not whether ROEs improve, but how much of the recent improvement proves durable through the cycle.

EVIDENCE

As at end-September, brokers' publicly identifiable holdings in major 2026 tech IPOs with over Rmb15bn market caps at listing have exceeded Rmb70bn, 2%-3% of sector net assets. Among UBS-covered leading brokers, locked-up IPO co-investments generated Rmb3.2bn of unrealised gains in H126 (5% of sector NPAT), while the accumulative earnings reservoir remained sizable at Rmb10.4bn as of 30 September (9% of FY26E earnings). These figures suggest flywheel-related earnings are already becoming economically meaningful, with actual exposure likely higher given disclosure limitations.

Figure 1: Scorecard for UBS-covered leading brokers

	Deal Sourcing	Capital Capacity	Staying Power	Risk Control	Overall
CITICS	9.0	9.0	8.0	9.5	9.0
GTHT	9.0	9.5	8.0	8.5	8.7
CICC	8.5	8.0	8.0	9.0	8.5
CSC Financial	8.5	8.0	8.0	7.5	8.0
HTSC	7.5	8.0	8.0	7.0	7.5
Weighting	**25%**	**20%**	**20%**	**35%**	**100%**
Proxy metrics	IPO proceeds	Net capital	Capital injection during downturn	Earnings stability	NA
	IPO fee pool	Capital leverage ratio headroom	Sub net-asset evolution	Down-cycle profitability	
	IPO pipeline	PE, alt-inv sub capital & net assets	Deployment persistence	Sub earnings contribution volatility	

Source: UBS estimates. Note: Scores are assigned on a relative basis across UBS-covered leading brokers using a combination of quantitative metrics and qualitative assessment. We assign weights of 25%, 20%, 20% and 35% to the four key barriers to sustainable flywheel execution: deal sourcing, capital capacity, staying power and risk control, respectively. Each factor is assessed using three proxy metrics. Please refer to 4. Barriers to entry: what does it take to sustainably execute the flywheel?

PIVOTAL QUESTIONS

Q: Can brokers structurally lift ROE through the research-empowered investment-IB flywheel as IPO activity and the tech cycle recover simultaneously?

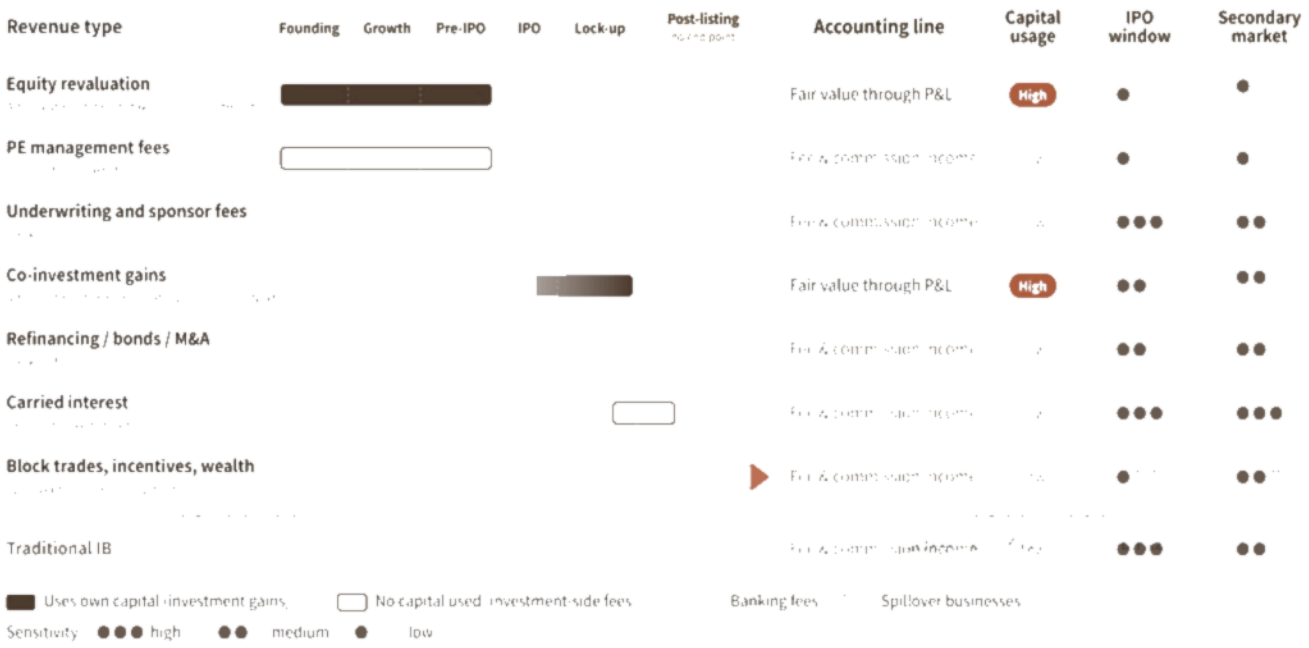
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1. How does the flywheel lift brokers' ROE?

One client, multiple monetisation points

The key distinction from a traditional investment-banking model lies in the flywheel's ability to monetise a single-client relationship across the corporate lifecycle. Engagement can begin well before an IPO and extend long after listing through refinancing, M&A, wealth management, institutional brokerage and capital-markets activities. As a result, brokers participate in both enterprise-value creation and transaction activity, capturing value at multiple stages of a company's development. This shifts earnings away from one-off, transaction-driven fees toward recurring monetisation of enterprise value creation.

Figure 2: One client relationship: revenue released stage by stage



Source: UBS. Note: Revenue arrives in stages across a company's life. During the holding period, brokers earn equity appreciation and recurring management fees through private-equity (PE) platforms. IPOs generate underwriting and sponsorship fees, while investment gains via direct investment and IPO co-investment are recognised progressively through lock-up periods. After listing, the relationship could extend into follow-on offerings, bond underwriting and M&A advisory. Project exits crystallise performance fees (ie, carry) via PE arms. Over the long run, the relationship continues to generate ancillary revenues from share placements, equity incentive plans, strategic advisory and wealth management.

Two channels of ROE uplift

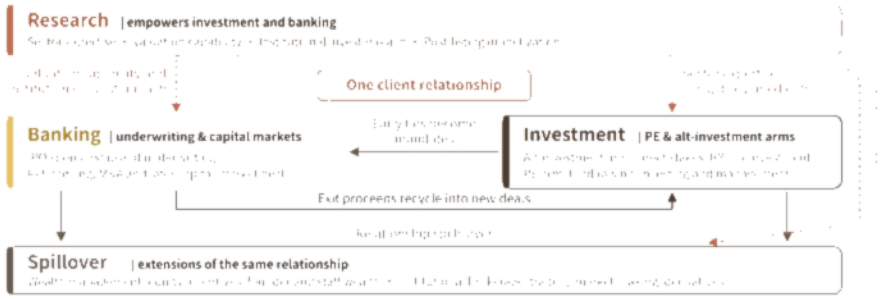
The flywheel can lift ROE through two channels. The first is revenue intensity. A broker earns more from each successfully sourced client because the relationship generates multiple revenue streams across the corporate lifecycle, including investment income, underwriting, refinancing, M&A advisory, asset management and wealth management. The second is capital productivity. Scaled platforms can recycle exit proceeds into new investments, diversify holdings across projects and vintages, and use the same client relationship to support fee businesses that require relatively little incremental capital.

Importantly, these revenue streams differ in both capital intensity and timing of recognition. Fee income, including management fees, underwriting, refinancing and M&A advisory and wealth management, requires relatively little capital and is generally booked as services delivered across the corporate lifecycle. Capital-intensive income follows a different pattern. Unlisted equity is typically revalued when a new funding round resets the price, producing relatively lumpy gains and losses. By contrast, direct-investment and IPO co-investment gains and losses are recognised progressively as lock-up restrictions expire and liquidity discounts unwind, resulting in a smoother earnings release (see '**2. Why can reported earnings be more durable?**' for a deeper discussion). Carry generally requires no incremental balance-sheet capital but typically crystallises at exit.

The combination of low-capital fee income and capital-intensive investment returns broadens the earnings pool while improving capital efficiency. Exit proceeds can be recycled into new investments, while the same corporate relationship continues to generate fee income across multiple businesses. As a result, the flywheel increases both the lifetime revenue captured from each client and the return generated on deployed capital.

The research-empowered investment-IB flywheel is built on deep integration across research, investment and investment banking. Private equity (PE) and alternative-investment arms take equity stakes and participate in IPO follow-ons. Investment banking executes underwriting and supports subsequent capital-market transactions. Research is not necessarily the primary sourcing engine. Rather, it enhances investment selection, valuation discipline and post-listing institutional engagement, thereby improving the effectiveness of the investment-IB flywheel.

Figure 3: Research-empowered investment-IB flywheel



Source: UBS

The framework itself is sector agnostic and could apply across healthcare, consumer, manufacturing and tech sectors. However, in the current China market environment, we believe tech offers the richest opportunity set due to stronger policy support, deeper innovation pipelines and more active IPO issuance. As a result, tech currently provides the clearest observable example of the flywheel in action.

The flywheel has created meaningful exposure

Brokers have accumulated meaningful exposure to China's tech sector through private-equity and alternative-investment platforms. Based on public disclosures and our estimates, brokers' look-through stakes in A-share tech IPOs launched since 2026, each with an implied market cap of over Rmb15bn at listing, exeed Rmb70 bn, 2%-3% of sector net assets. We view this as a conservative estimate, given it captures only a limited sample of listed holdings and excludes the broader pre-IPO technology opportunity set.

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Figure 4: Brokerage look-through ownership in A-share tech IPOs (>Rmb15bn market cap at listing), 2026 YTD

Stock Code	Company Name	IPO Sponsor	Board	IPO Market Cap (RMB bn)	Latest Market Cap (RMB bn)	Brokerage Shareholders	Post-IPO look-through ownership
688818.SH	CETC Lantian Tech	CSC Financial	STAR Market	16.4	68.5	CSC Financial	2.19%
688781.SH	SeeYA Tech	GTHT	STAR Market	22.7	40.2	CICC	0.13%
						GTHT	0.06%
						Tianfeng Securities	0.00%
						Changjiang Securities	0.00%
301666.SZ	DapuStor	GTHT	ChiNext	20.1	148.3	China Merchants Securities	2.13%
						GTHT	0.86%
688820.SH	SJ Semiconductor	CICC	STAR Market	36.7	215.7	CITIC Securities	1.45%
						CICC	0.19%
						Huatai Securities	0.00%
688825.SH	CXMT	CICC, CSC Financial	STAR Market	579.2	3719.4	China Merchants Securities	0.75%
						Huaan Securities	0.40%
						CSC Financial	0.13%
						GF Securities	0.09%
						GTHT	0.08%
						Founder Securities	0.07%
						Guoyuan Securities	0.03%
						CICC	0.01%
001232.SZ	Shenzhen JLC Technology	GTHT	Main Board	46.9	102.6	GTHT	0.00%
688836.SH	Unitree Robotics	CITIC Securities	STAR Market	61.0	182.2	CITIC Securities	0.80%
						China Merchants Securities	0.30%
						China Dragon Securities	0.09%
						Soochow Securities	0.03%
						GTHT	0.03%
						Huaan Securities	0.02%
						Hongta Securities	0.02%
						CSC Financial	0.01%
						Caitong Securities	0.01%
						CICC	0.00%
						China Post Securities	0.00%
688801.SH	Enflame Technology	CITIC Securities	STAR Market	61.2	180.9	GF Securities	0.67%
						GTHT	0.38%
						Huaan Securities	0.03%
						CICC	0.02%
						Huatai Securities	0.00%
						CITIC Securities	<0.01%

Source: Company data, TianYanCha.com, UBS estimates. Note: (1) Broker ownership is calculated on a look-through basis using post-offering shareholdings disclosed in prospectuses and Tianyancha corporate registry data. (2) For CXMT, ownership is based on post-IPO share capital assuming full exercise of the over-allotment option. (3) Data are compiled from prospectuses and publicly available Tianyancha information. Given limitations in public disclosures, data updates and multi-layer ownership tracing, certain investments or ownership stakes may be omitted or inaccurately reflected. (4) Data as of 30 September 2026. (5) The analysis includes only A-share tech IPOs with implied market cap >Rmb15bn at listing; therefore, certain notable tech names, such as Semight Instruments (688808.SH), are excluded. (6) HKC Corporation (001399.SZ) excluded as brokerage ownership could not be identified from public sources.

Exposure extends well beyond listed names. Broker-affiliated vehicles also appear among shareholders of leading pre-IPO tech companies, creating a sizeable reservoir for future exits and valuation uplifts.

Figure 5: Look-through brokerage ownership in leading pre-IPO tech companies

Pre-IPO Company	IPO Sponsor	Proposed Listing Board	Brokerage Shareholders	Pre-IPO look-through ownership
YMTC	CITIC Securities, CSC Financial	STAR Market	Huaan Securities	0.08%
			Guosen Securities	0.03%
			GTHT	0.03%
			China Merchants Securities	ND
			GF Securities	0.00%
			Topsperity Securities	0.00%
X-Fusion Digital Tech	CITIC Securities	ChiNext	Caitong Securities	0.75%
			Shenwan Hongyuan	0.54%
			CITIC Securities	0.19%
			GTHT	0.14%
			CICC	0.65%
LandSpace Tech	CICC	STAR Market	GF Securities	0.53%
			China Merchants Securities	0.47%
			GTHT	0.15%
			Kaiyuan Securities	0.09%
			Guosen Securities	0.04%
			Shenwan Hongyuan	0.02%
			CSC Financial	0.02%
			CICC	0.01%
			CITIC Securities	0.00%
CanSemi Tech	GF Securities	ChiNext	GF Securities	0.57%
			GTHT	<0.1%
Shanghai Advanced Silicon Tech	Changjiang Securities	STAR Market	CICC	0.01%
			GTHT	0.16%
			Changjiang Securities	<0.0001%
Shanghai Zhaoxin Semiconductor	GTHT, Orient Securities	STAR Market	GTHT	3.67%
CAS Space	GTHT	STAR Market	GTHT	0.20%
			CSC Financial	0.07%
			Bohai Securities	0.07%
			Western Securities	0.06%
			China Merchants Securities	0.02%
			Kaiyuan Securities	0.01%
			CICC	0.01%
			CITIC Securities	0.00%
			China Post Securities	0.00%
Viiyong Electronic Tech	Huatai Securities	ChiNext	CITIC Securities	0.28%
			GTHT	0.11%
			Huatai Securities	<0.05%
			Guosen Securities	0.04%
			GF Securities	0.02%
			China Merchants Securities	0.20%
TianKeBlue Semiconductor	CICC	STAR Market	CICC	0.02%
			China Development Bank Securities	1.19%
			Topsperity Securities	0.00%
			China Post Securities	0.00%
ACCESS Semiconductor	CITIC Securities	ChiNext	CITIC Securities	0.01%
			China Merchants Securities	0.54%
DeepSeek	CITIC Securities	STAR Market	ND	ND

Source. Company data, Wind, TianYanCha.com, public news, UBS estimates. Note: (1) Brokerage ownership is calculated on a look-through basis using prospectus disclosures and Tianyancha shareholder records, covering both direct and indirect holdings. Proposed listing boards and sponsors are compiled from company announcements and public news sources. (2) Due to limitations in public disclosure, data timeliness, and multilayer ownership look-through analysis, certain investments, shareholders, or ownership percentages may be omitted or subject to inaccuracies. Proposed listing boards and sponsors reflect publicly available information as of the analysis date and may change. (3) CanSemi Tech completed its IPO subscription process on 24 Sep 2026 but has not yet begun trading and is therefore included in the above table (4) Data as of 5 October. (5) 'ND' means 'not disclosed'.

2. Why can reported earnings be more durable?

Early evidence of earnings relevance

While it remains difficult to isolate the flywheel's contribution to group-level ROE given the broad-based recovery across brokerage, wealth management and trading businesses since 2025, available evidence suggests that flywheel-related earnings are becoming increasingly material. Publicly identifiable brokers' holdings in major (>Rmb15bn market-cap at listing) tech IPOs since 2026 exceed Rmb70bn, 2%-3% of sector net assets (UBS-e). Among UBS-covered leading brokers, locked-up IPO co-investments generated Rmb3.2bn of unrealised gains in H126 (5% of NPAT). Separately, the earnings reservoir remained sizable at Rmb10.4bn as of 30 September (9% of FY26E earnings). Together, these figures suggest that flywheel-related earnings are already becoming economically meaningful, with actual exposure likely higher given disclosure limitations.

IPO co-investment: a visible earnings reservoir

By end-September, cumulative broker co-investments in STAR Market and ChiNext IPOs that remained under lock-up were estimated at Rmb4.9bn, with the top-five brokers accounting for 90% of the total. Among UBS-covered leading brokers, in-lock-up IPO co-investments generated Rmb3.2bn of unrealised gains in H126 (5% of NPAT, UBS-e). Separately, the earnings reservoir remained sizable at Rmb10.4bn as of 30 September (9% of FY26E earnings), assuming full realisation upon lock-up expiry. The stock of gains matters because recognition is spread across reporting periods rather than occurring entirely at listing. Incremental unrealised gains were Rmb0.3bn in Q126 and Rmb2.9bn in Q226, equivalent to 1% and 7% of NPAT, respectively. Newly accrued gains reached Rmb1.5bn in Q326, by our estimate, supported by the listing of CXMT but partly offset by the Q3 market correction (STAR50/ChiNext down 31%/28%).

Here we assume (1) gains and losses for co-investment positions reaching lock-up expiry are calculated based on the closing price on the expiry date, (2) all investment gains are recognised through FVTPL, (3) liquidity discounts are initially applied at 60% and released evenly over an assumed 24-month lock-up period. For investments with actual 12-month lock-ups, the discount is calibrated as if 12 months of the assumed lock-up period had already elapsed, and (4) gains are taxed at a 25% effective tax rate. Incremental unrealised gains and losses in each quarter comprise: (1) mark-to-market changes in outstanding positions during the quarter, including changes in liquidity discounts as lock-up periods shorten; (2) unrealised gains and losses generated by newly listed projects; and (3) unrealised gains and losses realised upon lock-up expiry during the quarter. Importantly, earnings recognition is smoothed by lock-up and liquidity-discount mechanics. Co-investment gains are released progressively as restrictions expire, helping cushion reported earnings from short-term market volatility.

Figure 6: IPO co-investment is a visible earnings reservoir

Rmb mn	Allocated Capital	Current Hld Value	Changes in unrealized gain/(loss) after liquidity discount						Earnings Reservoir
Brokers			Q126	% of revenue	% of NPAT	Q226	% of revenue	% of NPAT	Q326	
CITIC Securities	1,056	4,182	81	0.4%	0.8%	1,369	5.2%	10.4%	(719)	1,684
CSC Financial	1,392	7,900	104	1.4%	2.8%	457	5.4%	11.5%	1,275	3,929
CICC	1,266	7,423	29	0.3%	0.8%	312	3.0%	6.7%	1,379	3,759
Huatai Securities	322	1,158	67	0.6%	1.4%	264	2.0%	3.8%	(175)	314
GTHT	536	1,889	15	0.1%	0.2%	546	1.8%	3.9%	(225)	693
Zhongtai Securities	73	392	5	0.2%	1.2%	96	2.2%	7.5%	(153)	48
Tianfeng Securities	47	275	25	5.8%	NA	219	19.0%	NA	(141)	37
China Merchants Securities	127	175	(14)	-0.2%	-0.4%	30	0.2%	0.4%	0	0
GF Securities	39	81	6	0.0%	0.1%	8	0.1%	0.1%	(4)	27
Shenwan Hongyuan	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
China Galaxy Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Guosen Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Industrial Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Orient Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Everbright Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Guolian Minsheng	24	21	0	0.0%	0.0%	0	0.0%	0.0%	(1)	0
Sinolink Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Changjiang Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Zheshang Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Caitong Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Soochow Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Dongxing Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Founder Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Great Wall Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Kaiyuan Securities	24	21	(0)	0.0%	0.0%	0	0.0%	0.0%	0	0
Wanlian Securities	0	6	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Debon Securities	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0
Total	**4,905**	**23,523**	**318**	**0.2%**	**0.6%**	**3,300**	**1.7%**	**3.9%**	**1,238**	**10,491**

Source. Wind, UBS estimates. Notes. (1) Data as of 30 September 2026. (2) Sample includes all IPO co-investment projects associated with STAR Market and ChiNext companies listed since 1 January 2024.

Liquidity discount smooths recognition through time

A liquidity discount during the lock-up period defers part of the unrealised P&L on IPO co-investment and direct-investment holdings. With lock-ups of 24 months for mandatory IPO co-investments and 12 months for most direct-investment positions, the steady unwinding of liquidity discounts provides a built-in mechanism for earnings

smoothing. As restrictions expire, deferred value is recognised progressively rather than upfront.

As a result, only part of the underlying mark-to-market gains or losses flows into earnings at any point in time, reducing the immediate sensitivity of reported profits to market movements. More importantly, the portion not yet reflected in earnings accumulates in an earnings reservoir, whose size evolves with underlying valuations, liquidity discounts and portfolio realisations. Our analysis of in-lock-up IPO co-investments during the first three quarters of 2026 shows that the liquidity-discount methodology moderated investment-income fluctuations through both market rallies and corrections relative to full mark-to-market, illustrating its cushioning effect on reported earnings. Importantly, the smoothing effect reflects recognition timing rather than lower underlying asset risk.

Figure 7: Liquidity discounts defer and smooth P&L recognition of IPO co-investments

Rmb mn	Allocated Capital	Current Hld Value	Chg. in unrealized gain/(loss) with liquidity discount			Chg. in unrealized gain/(loss) without liquidity discount		
Brokers			Q126	Q226	Q326	Q126	Q226	Q326
CITIC Securities	1,056	4,182	81	1,369	(719)	36	2,710	(1,444)
CSC Financial	1,392	7,900	104	457	1,275	283	682	3,587
CICC	1,266	7,423	29	312	1,379	68	692	3,711
Huatai Securities	322	1,158	67	264	(175)	35	308	(235)
GTHT	536	1,889	15	546	(225)	13	1,089	(418)
Zhongtai Securities	73	392	5	96	(153)	(33)	85	(215)
Tianfeng Securities	47	275	25	219	(141)	24	262	(193)
China Merchants Securities	127	175	(14)	30	0	(25)	30	0
GF Securities	39	81	6	8	(4)	2	5	(13)
Shenwan Hongyuan	0	0	0	0	0	0	0	0
China Galaxy Securities	0	0	0	0	0	0	0	0
Guosen Securities	0	0	0	0	0	0	0	0
Industrial Securities	0	0	0	0	0	0	0	0
Orient Securities	0	0	0	0	0	0	0	0
Everbright Securities	0	0	0	0	0	0	0	0
Guolian Minsheng	24	21	0	0	(1)	0	0	0
Sinolink Securities	0	0	0	0	0	0	0	0
Changjiang Securities	0	0	0	0	0	0	0	0
Zheshang Securities	0	0	0	0	0	0	0	0
Caitong Securities	0	0	0	0	0	0	0	0
Soochow Securities	0	0	0	0	0	0	0	0
Dongxing Securities	0	0	0	0	0	0	0	0
Founder Securities	0	0	0	0	0	0	0	0
Great Wall Securities	0	0	0	0	0	0	0	0
Kaiyuan Securities	24	21	(0)	0	0	(0)	0	0
Wanlian Securities	0	6	0	0	0	0	0	0
Debon Securities	0	0	0	0	0	0	0	0
Total	**4,905**	**23,523**	**318**	**3,300**	**1,238**	**404**	**5,863**	**4,781**

Source. Wind, UBS estimates. Note: (1) We assume (i) gains/(losses) for co-investment positions reaching lock-up expiry are calculated based on the closing price on the expiry date, (ii) all investment gains are recognized through FVTPL, (iii) liquidity discounts are initially applied at 60% and released evenly over an assumed 24-month lock-up period. For investments with actual 12-month lock-ups, the discount is calibrated as if 12 months of the assumed lock-up period had already elapsed, and (iv) gains are taxed at a 25% effective tax rate. (2) Incremental unrealised gains/(losses) comprise: (i) mark-to-market changes in outstanding positions during the quarter, including changes in liquidity discounts as lock-up periods shorten; (ii) unrealised gains/(losses) generated by newly listed projects; and (iii) unrealised gains/(losses) realised upon lock-up expiry during the quarter. (3) Sample includes all IPO co-investment projects associated with STAR Market and ChiNext companies listed since 1 January 2024.

Portfolio scale diversifies projects and vintages

Liquidity discounts are only part of the equation. Portfolio diversification provides a second buffer against earnings volatility. Because IPO co-investments and direct investments are initiated, listed and unlocked across different vintages, holdings sit at different lock-up stages and carry different discount rates. As a result, the same market shock does not affect every position in the same degree.

The benefit, however, depends on scale. Larger capital bases support broader portfolios, dilute project-specific volatility and reduce dependence on individual investments. Liquidity discounts smooth earnings through time, while diversification smooths earnings across investments, helping convert volatile investment returns into a more stable profit stream and supporting through-cycle ROE.

CITICS Investment's net profit remained within a relatively narrow Rmb1.1-1.2bn range in 2022-24 despite broader market volatility. Public disclosures do not establish causality, but the pattern is consistent with portfolio breadth helping cushion earnings swings.

3. Why now: a larger pipeline + better exit channels

The case for the research-empowered investment-IB flywheel ultimately rests on two factors: (1) a growing pipeline of innovation assets, and (2) efficient capital markets that can fund and exit those assets. Both have strengthened over the past decade. The elevation of technological innovation as a national priority, coupled with successive global tech cycles, has expanded the opportunity set, while capital-market reforms have improved funding and exit pathways for innovative companies. Together, they have enlarged the addressable opportunity for brokers participating in the flywheel. We focus on the tech sector not because the framework is exclusive to tech, but because the observable evidence is currently most visible there.

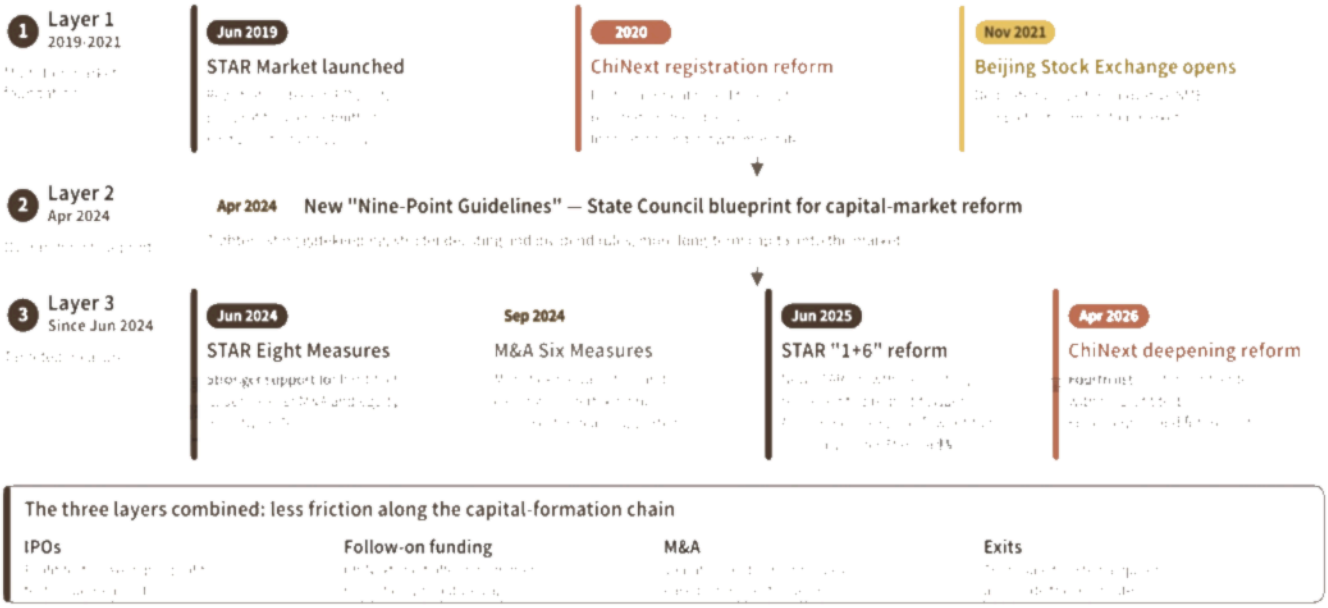
China's innovation agenda: building a stronger pipeline

A series of policy milestones has placed technological innovation at the centre of China's development strategy. Innovation was designated the primary engine of economic growth by the government in 2016, while technological self-reliance became a strategic priority in 2020, and "new quality productive forces" were introduced in 2023 and incorporated into the Third Plenum reform agenda in 2024. Alongside advances in artificial intelligence (AI) and broader tech cycles, this has accelerated the emergence of leading innovators and expanded the investable universe across semiconductors, AI and robotics.

Capital market reform: enhancing exit channels

China's capital-market overhaul has progressed from market infrastructure to an overarching reform blueprint and then to targeted implementation. The STAR Market, ChiNext registration-based IPO reform and Beijing Stock Exchange broadened financing channels, while the 2024 "Nine-Point Guidelines" established the reform framework. Subsequent measures have supported hard-tech issuers, restructuring, pre-profit listings and other strategic sectors, improving capital formation and exit mechanisms across the corporate life-cycle.

Figure 8: China's three-layered capital market overhaul: foundations, blueprint and targeted measures

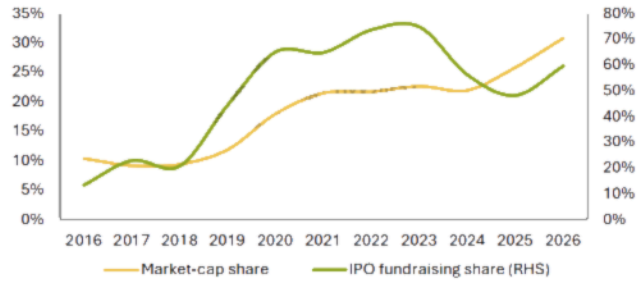


Source: State Council, CSRC, SSE, SZSE, BSE, UBS

Policy dividends: showing up in numbers

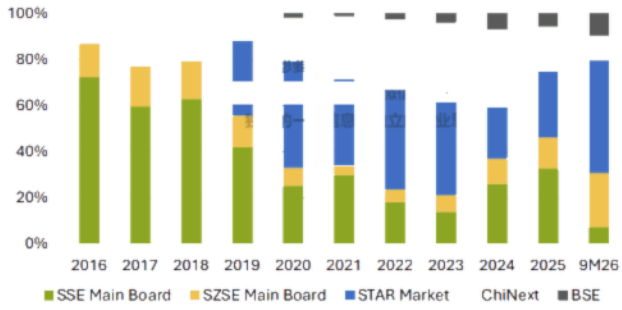
The stronger deal pipeline and improving exit framework are increasingly translating into measurable market outcomes. As of end-September, we estimate the STAR Market and ChiNext accounted for 31% of the A-share market's total capitalisation, up from 12% in 2019. The two boards have also remained the primary venues for tech financing, representing 53%/56%, 45%/48% and 32%/59% of A-share IPO deal count/proceeds in 2024, 2025 and 9M26, respectively, by our estimate. Their sustained dominance in IPO fundraising suggests that policy support is increasingly being converted into capital formation and exit opportunities for innovative companies.

Figure 9: A structural shift toward STAR Market and ChiNext since 2019



Source: Wind, UBS. Note: 2026 data as of 30 September 2026.

Figure 10: STAR Market and ChiNext dominate IPO proceeds

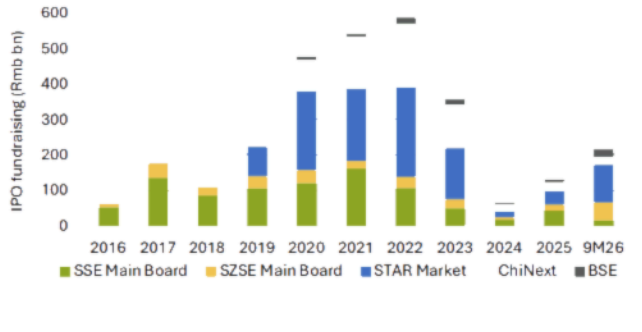


Source: Wind, UBS

IPO recovery: a near-term catalyst

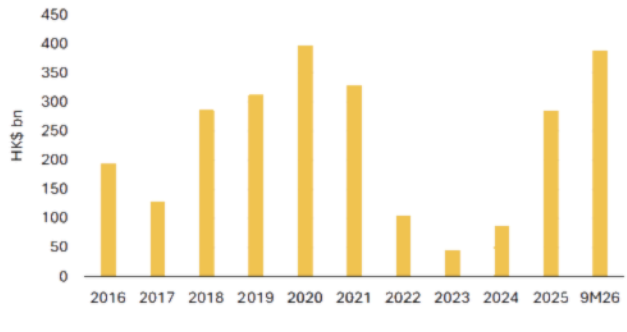
A-share IPO activity is recovering, but remains well below prior-cycle peaks. While tech-focused IPOs on the STAR Market and ChiNext have rebounded, investment banking overall remains only halfway back. In 2025, the A-share market hosted 116 IPOs raising Rmb131.8bn, up 96% YoY. Momentum extended into 2026, with 123 IPOs raising Rmb216bn in 9M26, nearly three times the prior-year level. Even so, the recovery remains shallow in absolute terms. We forecast A-share IPO fundraising will come to Rmb270bn in 2026, still less than half the Rmb587bn peak reached in 2022. Hong Kong provides a second financing and exit channel and has recovered even faster, hosting 119 IPOs in 2025 and 118 in 9M26, raising HK$286bn and HK$388bn, up 2.3x/1.1x YoY, respectively.

Figure 11: IPO recovery gains traction but remains shallow; STAR Market continues to anchor A-share fundraising



Source: Wind, UBS. Note: The STAR Market and Beijing Stock Exchange (BSE) were launched in July 2019 and November 2021, respectively. BSE's 2020 fundraising data refers to financing raised by companies listed on the NEEQ Select Tier, the predecessor of BSE.

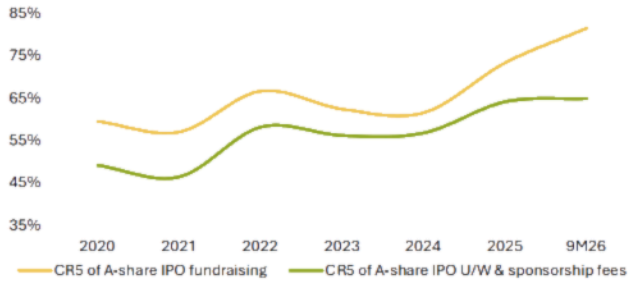
Figure 12: Hong Kong's IPO revival has gathered pace, recovering faster than A-share IPOs



Source: HKEx, UBS

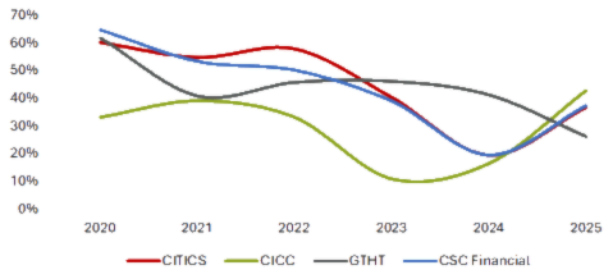
However, the recovery is unlikely to benefit all brokers equally. IPO market share has continued to consolidate among leading franchises, allowing larger platforms to capture a disproportionate share of the rebound. The operating leverage is also meaningful: brokers expanded headcount and execution capacity during the 2020-22 investment-banking boom, leaving a largely fixed cost base. As IPO and refinancing activity recovers, investment-banking margins should improve alongside revenue.

Figure 13: IPO market share continues to consolidate among leading franchises



Source: Wind, UBS estimates. Note: For CR5 calculations prior to 2025, GTJA and Haitong Securities are treated as a single broker to adjust for industry consolidation and ensure comparability.

Figure 14: IPO recovery to drive further IB margin expansion



Source: Company data, UBS estimates. Note: Due to differences in disclosure practices, for CITICS we used the operating margin of its securities underwriting business. HTSC reports investment banking and trading operations under a combined institutional services segment; as standalone investment banking data are not disclosed, HTSC is excluded from this comparison

PIVOTAL QUESTIONS

Q: Can every broker successfully execute the flywheel?

No. While the IPO recovery and tech cycle provide cyclical tailwinds, we expect the benefits to accrue disproportionately to leading franchises. Sustainable execution requires four capabilities: (1) differentiated deal sourcing, (2) capital capacity, (3) staying power through weak exit markets and (4) robust risk control. These advantages are difficult to replicate and become increasingly important as investment scale expands. The flywheel is ultimately a scale and execution business, favouring brokers that can consistently convert access, capital and risk management into investment returns, mandates and recurring client economics. As a result, brokers with more proven flywheels, stronger earnings visibility and greater through-cycle resilience should be best positioned to translate the opportunity into a durable ROE advantage.

4. Barriers to entry: what does it take to sustainably execute the flywheel?

Not every broker can make the research-empowered investment-IB flywheel work. In our view, success depends on four factors: deal sourcing, capital capacity, cycle resilience and risk control. Sourcing brings a steady flow of quality projects. Capital capacity determines how much capital can be deployed at a point in time, supporting larger and more diversified investment portfolios. Staying power reflects a firm's willingness and ability to continue investing when exit markets weaken, allowing it to build the next vintage of opportunities while competitors retrench. Risk control ensures that greater exposure translates into durable returns rather than costly write-downs. Together, these factors form a self-reinforcing loop. More projects lead to larger portfolios. Larger portfolios dilute single-project risk. Firms that keep investing through downturns emerge with fuller pipelines and stronger client relationships when markets recover. Risk control keeps the flywheel turning.

We evaluate these four factors using a range of proxy indicators, although public disclosures impose several limitations. Three caveats apply. First, public data (eg, IPO fee pool, IPO proceeds, deal pipeline) capture downstream outcomes, not early-stage project sourcing. Second, subsidiary net assets are only a proxy for investment capacity, as the ultimate constraint lies in the parent brokers' regulatory capital. Third, cycle endurance and risk management are assessed through capital allocation decisions and earnings stability during downturns, although the latter may be influenced by valuation and accounting effects.

Figure 15: Success of research-empowered investment-IB flywheel depends on four factors

Factor	Why It Matters	Scarcity	Proxy Metrics
Deal Sourcing	Entry point to the flywheel: ability to access and consistently win high-quality deals early	Top-tier hard-tech opportunities are scarce; sourcing franchise is built over years of reputation and relationships	IPO fee pool, IPO proceeds, deal pipeline
Capital Capacity	Determines how much pre-IPO and lock-up positions can be carried simultaneously	Core capital grows through earnings retention, equity issuance, and less frequently, capital-accretive M&A. Regulatory constraints on refinancing and the need for portfolio diversification create a scale barrier for smaller brokers	Parent net capital, risk coverage ratio, captial leverage ratio, subsidiary capital & net assets
Staying Power	Ability to invest through downturns instead of retrenching	When exits freeze, only firms with sufficient earnings and capital buffers can keep deploying. Retrenchment sacrifices the next vintage of opportunities	Capital injections/withdrawals during downturns, changes in subsidiary net assets
Risk Control	Determines whether scale translates into sustainable returns or large impairments	Volatility in investment gains drives ROE stability	Profitability during downturns, stability of subsidiary earnings contribution

Source: UBS

We view capital as the most binding constraint. While sourcing, investing and risk-management capabilities all take years to develop, balance-sheet capacity is often the hardest to replicate and the slowest to replenish. That makes industry concentration a structural trend, not a cyclical one. The evidence is already emerging: A-share IPO underwriting revenue CR5 rose from 46% in 2021 to 64% in 2025 and remained

elevated at 65% in 9M26, by our estimate. We estimate the top-five firms also accounted for roughly 90% of capital deployed in in-lock-up IPO co-investments. Scale compounds. Locked-up investments tie up regulatory capital, making it difficult for smaller brokers to build portfolios large enough to achieve meaningful diversification. Larger balance sheets support broader portfolios, smoother earnings and more durable ROEs, helping explain why flywheel economics are likely to remain concentrated among leading franchises.

Deal sourcing is increasingly concentrated

Market concentration continues to rise, with the five UBS-covered leading brokers capturing 64%/73% of IPO fee income and IPO proceeds, respectively, in 2025, and 65%/81% in 9M26, by our estimate. This highlights an increasingly pronounced competitive advantage over smaller brokers. In A-share IPO fundraising, GTHT, CITICS and CICC remain the clear market leaders, followed by CSC Financial. CITICS and GTHT also stand out in terms of IPO pipeline strength, topping the league tables by both overall project inventory and STAR Market/ChiNext (ie, dual-board) mandates. In contrast, HTSC trails the leading group in both IPO issuance activity and pipeline visibility.

Figure 16: CITICS, GTHT and CICC remain the leading IPO franchises, while HTSC lags peers

	2025						9M26						IPO Pipeline			
	# of IPO deals	Rank	IPO fee income (Rmb mn)	Rank	IPO proceeds (Rmb bn)	Rank	# of IPO deals	Rank	IPO fee income (Rmb mn)	Rank	IPO proceeds (Rmb bn)	Rank	Total # of deals	Rank	Dual-board # of deals	Rank
CITICS	18	2	1,232	1	24.0	1	13	3	1,183	3	36.5	3	51	1	31	1
CICC	7	6	470	5	16.2	5	18	2	1,362	1	70.8	1	23	4	15	3
GTHT	19	1	1,005	2	19.5	3	24	1	1,227	2	23.2	4	47	2	26	2
HTSC	10	4	716	4	17.0	4	7	5	479	5	8.2	5	21	6	13	4
CSF	13	3	872	3	19.9	2	11	4	559	4	37.6	2	29	3	13	4
Total	**116**		**6,699**		**131.8**		**123**		**7,413**		**216.3**		**413**		**158**	

Source: Wind, UBS. Note: (1) IPO proceeds and fees are allocated based on disclosed deal allocations, or equally among joint lead underwriters when allocations are unavailable. Reported figures may therefore differ from company disclosures. (2) Dual-board refers to STAR Market and ChiNext.

Capital capacity is the binding constraint

Alternative-investment subsidiaries are primarily capitalised by their parent brokers and have limited access to external leverage. Accordingly, net assets provide a reasonable proxy for balance-sheet capacity and potential investment scale, although ultimate capacity remains subject to regulatory capital constraints at the parent level. Future deployment capacity is largely driven by exit proceeds and parent-level capital injections. By H126, GTHT Zhengyu dominates the sector with Rmb32.6bn of net assets, ahead of CITICS Investment's Rmb22.1bn. By contrast, proprietary capital at private equity subsidiaries is primarily used to anchor self-managed funds, making investment capacity more dependent on fundraising than balance-sheet resources. Industry-wide AUM disclosure has remained limited in recent years, however, making peer comparisons difficult.

Figure 17: A glance at alternative investment subsidiaries and PE subsidiaries of UBS-covered leading brokers

Rmb bn	Alt-invest Sub	Reg. Cap.	Net Assets	PE Sub	Reg. Cap.	Net Assets
CITICS	CITICS Investment	13.0	22.1	CITICS Goldstone	2.1	9.4
CICC	CICC Pucheng	6.0	4.3	CICC Capital	2.0	3.7
GTHT	GTHT Zhengyu	11.5	32.6	GTHT Kaiyuan	5.5	17.2
HTSC	Huatai Innovation	3.5	4.6	Huatai Zijin	6.0	10.9
CSF	CSC Investment	6.1	6.9	CSC Capital	3.5	2.8

Source: Company data, UBS. Note: Data as of H126.

As long-term equity investments in subsidiaries are deducted from parent brokers' core net capital for regulatory purposes, capital injections consume regulatory capital and reduce both risk-coverage and leverage headroom. GTHT, aided by its merger integration, now leads peers in both net capital and regulatory capital headroom. Excluding GTHT, CITICS retains the largest capital deployment capacity, while keeping key risk ratios above warning thresholds, underscoring the benefits of scale and

disciplined balance-sheet management. Meanwhile, CICC's absorption of Dongxing Securities and Cinda Securities has effectively doubled its net capital base and materially strengthened its regulatory capital position.

Figure 18: A glance at parent brokers' net capital positions

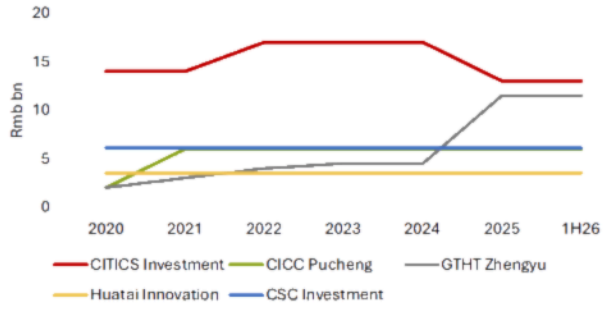
Rmb bn	Net Capital	Rank	Risk coverage ratio	Headroom - net cap	Capital leverage raio	Headroom - net core cap
CITICS	181.0	2	225.3%	84.6	12.7%	34.7
CICC (after-merger)	102.6	5	208.8%	43.6	15.3%	27.9
CICC (pre-merger)	48.4	12	168.5%	13.9	10.4%	2.5
GTHT	226.0	1	269.9%	125.5	18.0%	82.5
HTSC	99.8	6	262.6%	54.2	11.3%	9.9
CSC Financial	83.3	10	206.5%	34.9	14.2%	21.1

Source: Company data, UBS estimates. Note: (1) Data as of H126. (2) Figures for CICC are estimated based on H126 disclosures from CICC, Dongxing Securities and Cinda Securities. (3) CITICS, GTHT, CSF, Dongxing Securities and Cinda Securities do not disclose core net capital in H126 reports. We estimate core net capital using the average core net capital-to-net capital ratio disclosed by comparable brokers. (4) Net capital and core net capital headroom are calculated based on the warning thresholds for the risk coverage ratio (120%) and capital leverage ratio (9.6%), respectively

Staying power is a durable competitive edge

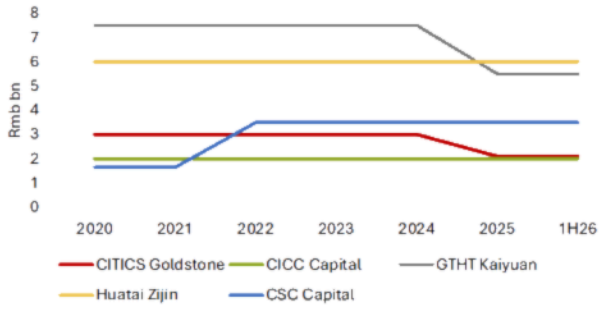
As of H126, CITICS Investment and GTHT Zhengyu were the industry's two best-capitalised alternative-investment subsidiaries, with registered capital of Rmb13.0bn and Rmb11.5bn, respectively. This broadly matches their parent groups' leading positions in net capital and IPO sponsorship. But size tells only part of the story. With little public disclosure on investment pipelines, exit returns or IRRs, capital-allocation decisions a clearer signal of management's view on deployment opportunities and capital needs. GTHT maintained Zhengyu's capital at Rmb11.5bn following the consolidation of Haitong Innovation and GTJA Zhengyu, underscoring platform integration and resource synergies. CITICS, meanwhile, reduced its subsidiary's capital from Rmb17.0bn to Rmb13.0bn in 2025, while preserving room to raise it again (subject to a cap of Rmb20bn), pointing to a more flexible, efficiency-led approach. For leading brokers, the emphasis appears to be moving from capital scale to capital productivity, making the direction and timing of capital changes an increasingly useful test of resilience through the cycle. CICC's alternative-investment and private-equity platforms remain relatively undercapitalised versus peers. Following the merger, we see scope for further capital injection as the firm seeks to better align platform capacity with its franchise strength.

Figure 19: Alternative capital remains concentrated among IPO leaders, while capital allocation strategies are diverging



Source: Company data, UBS. Note: (1) For GTHT, we use the registered capital of GTJA Zhengyu before 2025 and that of Haitong Innovation thereafter. In June 2026, Haitong Innovation absorbed and merged GTJA Zhengyu and was renamed GTHT Zhengyu. Registered capital remained unchanged at Rmb11.5bn, corresponding to the former Haitong Innovation capital base. (2) In September 2026, CITICS re-authorised management to adjust the registered capital of CITICS Investment flexibly, subject to a cap of Rmb20 bn

Figure 20: PE capital bases have remained largely stable among leading brokers



Source: Company data, UBS. Note: For GTHT, we use the registered capital of GTJA Innovation before 2025 and that of Haitong Kaiyuan thereafter. In June 2026, Haitong Kaiyuan absorbed and merged GTJA Innovation and was renamed GTHT Kaiyuan. Registered capital remained unchanged at Rmb5.5bn, corresponding to the former Haitong Kaiyuan capital base.

Risk control converts scale into durable earnings

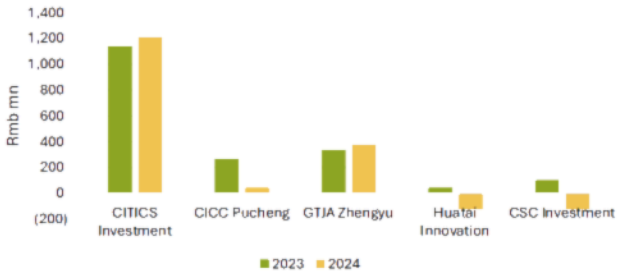
Among alternative-investment platforms, CITICS Investment stands out for earnings stability and consistency, supported by a strong investment track record. We believe

GTHT Zhengyu could provide strong earnings sensitivity to a recovery in risk appetite and tech financing, reflecting its larger capital base and likely higher exposure to the cycle. We believe CSC Investment also provides meaningful exposure to an improving tech cycle, though to a somewhat lesser extent than GTHT Zhengyu.

Within the PE segment, earnings are generally more sensitive to IPO and exit conditions. Based on 2023-24 profitability, CICC Capital provided the strongest combination of earnings relevance and through-cycle stability, followed by CITICS Goldstone, while peer earnings appeared more dependent on favourable IPO windows and exit activity.

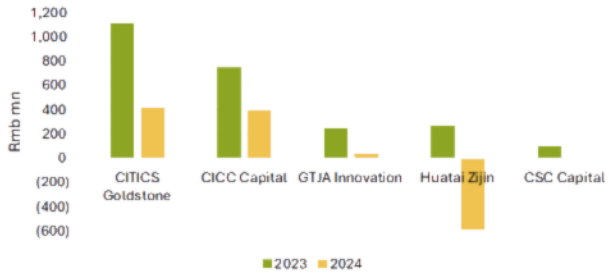
Overall, we believe scale alone is not sufficient. The ability to translate investment exposure into consistent profitability remains a key differentiator among leading flywheel franchises.

Figure 21: CITICS Investment stood out in terms of both earnings power and consistency



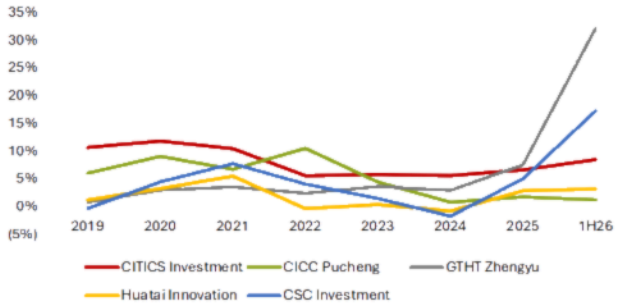
Source: Company data, UBS estimates. Note: CICC's IPO co-investments are undertaken through CICC Wealth Management Securities.

Figure 22: CICC Capital and CITICS Goldstone deliver more resilient earnings across IPO cycles



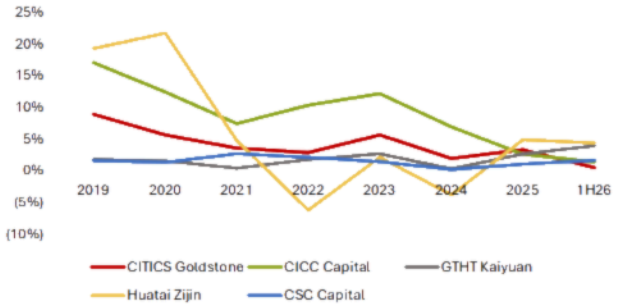
Source: Company data, UBS estimates

Figure 23: For earnings contribution, CITICS Investment is the steadiest while GTHT Zhengyu provided the most upside



Source: Company data, UBS estimates. Note: (1) For GTHT, we use the net profits of GTJA Zhengyu and GTJA for periods prior to 2025. (2) CICC's IPO co-investments are undertaken through CICC Wealth Management Securities.

Figure 24: CICC Capital provided strong combination of earnings relevance and stability



Source: Company data, UBS estimates. Note: For GTHT, we use the net profits of GTJA Innovation and GTJA for periods prior to 2025.

Scorecard for UBS-covered leading brokers

The scorecard highlights meaningful differentiation even within the industry's leading brokers. CITICS, GTHT and CICC rank highest on our framework, reflecting their combination of franchise strength, capital capacity and through-cycle resilience. CSC Financial and HTSC also remain firmly within the industry's leading cohort. CSC Financial's involvement in both CXMT and YMTC provides additional evidence of its tech sourcing capability. Both firms retain competitive franchises and solid capital positions despite scoring somewhat lower on capital flexibility and earnings stability versus the top-ranked brokers.

Figure 25: Scorecard for UBS-covered leading brokers

	Deal Sourcing	Capital Capacity	Staying Power	Risk Control	Overall
CITICS	9.0	9.0	8.0	9.5	9.0
GTHT	9.0	9.5	8.0	8.5	8.7
CICC	8.5	8.0	8.0	9.0	8.5
CSC Financial	8.5	8.0	8.0	7.5	8.0
HTSC	7.5	8.0	8.0	7.0	7.5
Weighting	**25%**	**20%**	**20%**	**35%**	**100%**
Proxy metrics	IPO proceeds	Net capital	Capital injection during downturn	Earnings stability	NA
	IPO fee pool	Capital leverage ratio headroom	Sub net-asset evolution	Down-cycle profitability	
	IPO pipeline	PE, alt-inv sub capital & net assets	Deployment persistence	Sub earnings contribution volatility	
9-10	Ranking in top 2 across most key metrics, incl. league tables and deal pipeline	Top-tier net capital base, with >30% implied capacity for net core capital growth. PE and alt-investment subs also rank among the largest by registered capital and net assets.	Proactively raised capital or expanded subsidiary net assets during the IPO downturn (2022-24).	Resilient earnings through the market downturn, with stable contribution to the group.	Leading franchise, strong capital base and proven counter-cyclical resilience.
7-8	Ranking 3rd or 4th across most key metrics, incl. league tables and deal pipeline	Mid-tier net capital base, with 15-30% implied headroom for net core capital growth. PE and alt-investment subs rank around midpoint by both registered capital and net assets.	Maintained a stable capital base during the 2022-24 IPO downturn, with subsidiary net assets largely unchanged.	Earnings declined during the downturn but remained profitable.	Solid franchise with adequate capital and relatively resilient profitability.
5-6	Ranking 5th across most key metrics, incl. league tables and deal pipeline	Smaller net capital base, with <15% implied headroom for net core capital growth. PE and alt-investment subs rank toward the lower end by both registered capital and net assets.	Reduced capital or saw a notable contraction in net assets during the 2022-24 IPO downturn.	Recorded significant losses in the downcycle.	Weaker franchise, constrained capital and limited cyclical resilience.

Source: UBS estimates. Note: Scores are assigned on a relative basis across UBS-covered leading brokers using a combination of quantitative metrics and qualitative assessment. We assign weights of 25%, 20%, 20% and 35% to the four key barriers to sustainable flywheel execution: deal sourcing, capital capacity, staying power and risk control, respectively. Each factor is assessed using three proxy metrics.

5. Stock recommendations

While the ongoing recovery in IPO activity and the tech cycle provides a cyclical tailwind, we expect the benefits of the research-empowered investment-IB flywheel to accrue disproportionately to leading brokers. Sustainable value creation requires more than market recovery. It depends on differentiated sourcing, capital capacity, staying power and risk control, all of which are difficult to replicate and become increasingly important as investment scale expands. In our view, these advantages are largely structural rather than cyclical, allowing leading franchises to build broader earnings reservoirs, sustain stronger through-cycle ROEs and ultimately warrant a valuation premium.

We believe current valuations remain undemanding despite the ongoing recovery in market activities (eg, IPOs). As of 12 October, CITICS (A/H) were trading at only 1.1x/0.9x 12M forward P/B, with GTHT (A), CICC (H) and CSC Financial (H) trading at multiples of only 0.8x, 0.7x and 0.7x, respectively, broadly near the low end of their trading ranges since September 2024. These valuations imply long-term ROEs of only 6%-8%, broadly in line with pre-recovery levels, which we believe underappreciates the durability of earnings generated by the research-empowered investment-IB flywheel.

CITICS: a highly robust flywheel flywheel

Among our coverage, **CITICS** appears best positioned to execute the flywheel on a sustained basis. The firm combines a leading IPO franchise with substantial capital resources, while also demonstrating a strong track record of earnings consistency across investment cycles. Unlike peers whose earnings are more sensitive to changes in market sentiment and exit conditions, CITICS has historically translated scale into more stable investment returns, supporting superior earnings visibility and downside resilience. In our view, CITICS represents the a highly robust expression of the flywheel theme.

Guotai Haitong: strong leverage to a stronger tech cycle

Guotai Haitong (GTHT) provide strong leverage to a continued recovery in tech capital markets. The firm combines strong deal-sourcing capabilities with one of the largest capital platforms in the industry, providing significant capacity to participate in future investment and underwriting opportunities. Relative to peers, we believe GTHT's earnings profile is more geared to improving capital-market sentiment and exit activity,

making it a compelling way to express a constructive view on China's tech-financing cycle.

CICC: premium franchise with capital-expansion optionality

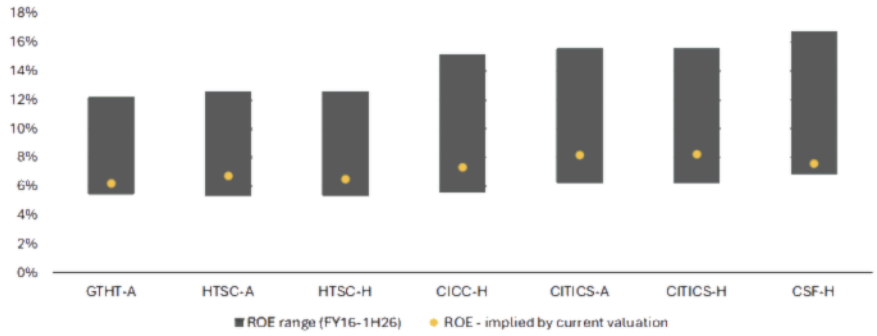
CICC remains a high-quality beneficiary of the flywheel despite operating a smaller investment platform than the largest peers, as measured by net assets and registered capital. We believe the firm's premium client franchise, strong tech credentials and disciplined investment approach continue to support attractive access to high-quality innovation assets. Following the absorption merger of Dongxing Securities and Cinda Securities, we see meaningful scope for incremental capital deployment over time, providing a pathway to narrow one of the key structural gaps versus larger competitors.

CSC Financial: an underappreciated tech franchise

CSC Financial (CSF) stands out for its deep penetration into China's innovation ecosystem. The firm is the only broker serving as sponsor on both CXMT and YMTC, highlighting its strong sourcing capabilities in strategically important tech sectors. Beyond investment banking, CSC has also built meaningful direct-investment exposure to innovation leaders, including reported stakes in CXMT, Unitree Robotics and LandSpace. While operating a smaller capital platform than other leading peers, its tech franchise looks underappreciated and positions the firm well to benefit from a sustained innovation and tech-financing cycle, in our view.

WHAT'S PRICED IN?

Valuations imply ROEs of leading brokers will revert to pre-recovery levels



Source: Company data, UBS estimates. Note: (1) Implied long-term ROEs are derived by reverse-engineering current P/B multiples using a Gordon Growth framework. Key assumptions include risk-free rates of 1.83%/3.03% for A/H shares, a 5% equity risk premium, stock-specific betas based on 10 years of daily returns versus the CSI 300 and Hang Seng Index, respectively, and a long-term growth rate of 3.5%. Historical ROEs are based on reported FY16-FY25 results and annualised 1H26 ROEs. (2) For GTHT, historical ROEs prior to the merger are represented by those of GTJA Securities. (3) As of 12 October. (4) GTHT - Guotai Haitong; HTSC - Huatai Securities; CITICS - CITIC Securities; CSF - CSC Financial.

Investors continue to view brokers as leveraged plays on capital-market activity rather than structural compounders. The prevailing view is that investment gains are cyclical, difficult to forecast and largely driven by market sentiment, rendering the recent ROE recovery more cyclical than structural. To test this assumption, we reverse-engineered the long-term ROEs implied by current valuations for CITICS (A/H), CICC (H), Guotai Haitong (A), CSC Financial (H) and Huatai Securities (A/H) using a Gordon growth framework. Assuming risk-free rates of 1.83% for A shares and 3.03% for H shares, a 5% equity risk premium, broker-specific betas based on 10 years of daily returns, and a 3.5% long-term growth rate, current valuations (as of 12 October) imply long-term ROEs broadly in line with pre-recovery levels despite a sharp rebound in market activity. In other words, we think investors are willing to price in current earnings, but remain unconvinced that the recent improvement is sustainable through the cycle.

We agree that part of the recovery reflects cyclical tailwinds. However, we believe the market underestimates the ability of the research-empowered investment-IB flywheel to improve earnings persistence. The key debate is not whether earnings improve, but how much of the recent uplift proves durable. Innovation monetization extends well beyond IPO execution, generating investment gains, underwriting, refinancing, M&A and wealth-management revenues over multiple years. Meanwhile, lock-up and liquidity-discount mechanics convert volatile asset appreciation into a progressively released earnings stream. As a result, innovation-related earnings may prove more resilient than current valuations imply.

Figure 27: Global brokerage PB-ROE-leverage comparison table

	Ticker	Currency	Share price	PB		ROE/ROTE		Leverage (asset/equity)	
				12M forward	FY26E	FY25	FY26E	FY25	FY26E
CN brokers									
CITICS - A	600030.SH	RMB	26.1	1.1x	1.2x	10.6%	13.2%	6.5x	7.1x
CITICS - H	6030.HK	HKD	23.8	0.9x	1.0x	10.6%	13.2%	6.5x	7.1x
HTSC - A	601688.SH	RMB	18.1	0.8x	0.9x	9.2%	10.6%	5.2x	5.8x
HTSC - H	6886.HK	HKD	16.5	0.6x	0.7x	9.2%	10.6%	5.2x	5.8x
CSC Financial - A	601066.SH	RMB	23.1	1.7x	1.9x	10.5%	12.6%	5.7x	6.2x
CSC Financial - H	6066.HK	HKD	11.2	0.7x	0.8x	10.5%	12.6%	5.7x	6.2x
GTHT - A	601211.SH	RMB	17.2	0.8x	0.9x	9.8%	9.6%	6.4x	6.9x
CICC - A	601995.SH	RMB	31.0	1.2x	1.3x	9.4%	12.2%	6.8x	7.2x
CICC - H	3908.HK	HKD	19.8	0.7x	0.7x	9.4%	12.2%	6.8x	7.2x
US brokers									
Goldman Sachs	GS.N	USD	894.0	2.2x	2.4x	16.0%	19.3%	14.5x	17.4x
Morgan Stanley	MS.N	USD	190.0	2.5x	2.7x	21.6%	23.2%	12.7x	14.5x

Source: Company data, UBS estimates. Note: (1) Share prices are as of 12 October. (2) ROE is used for A/H-share CN brokerages, while ROTE is used for GS and MS. ROTE is calculated as net income attributable to common shareholders divided by average tangible common equity. We use ROTE for GS and MS as it is generally considered a more meaningful measure of profitability, as it excludes goodwill and other intangible assets from the equity base.

APAC Focus represents a curated selection of the best insights from Global Research APAC and showcases differentiated views and actionable ideas, based around unique evidence and key industry themes. It leverages the combined efforts of 130+ APAC analysts, and colleagues in other regions, to develop a broad and collaborative perspective. This research often leverages UBS proprietary assets, including UBS Evidence lab and Quant Answers, whilst utilizing new analytical approaches and identifying critical ESG themes.

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Valuation Method and Risk Statement

We believe the main risks to China's securities sector include: 1) a market downturn and greater access to licenses, leading to increased industry competition; 2) risk of sustained commission decreases; 3) the scale of margin financing, share pledges and other capital intermediary services is lower than expected and thus contributes less to earnings than expected; 4) regulatory penalties; 5) innovation-related failures that could lead to reputational loss, the loss of customers, lawsuits or other risks; and 6) lower-than-expected earnings or other risks due to fluctuations in investment income.