

CSC Financials (6066 HK)

2Q19 investment banking a bright spot

CSC reported 1H19 net profit of RMB 2.3bn, up 38% YoY, in-line with prelim announcement and accounting for 56%/51% of CMBIS/consensus FY19E estimates. 2Q19 operating revenue declined 10% QoQ to RMB 2.8bn, where robust growth from investment banking was offset by lower net interest income and investment gains. Bottom line was eroded by surged impairment losses, reaching RMB 841mn, down 44% QoQ. CSC now ranks first place by number of STAR Market sponsored IPOs (both listed and in reviewing process). As the Company generated 27% of its operating revenue from investment banking fees in 1H19, we believe investment banking will continue to support its 2H19E earnings. **Maintain BUY.**

- **Results positives:** 1) **Investment banking fees recorded strong growth** (+47% QoQ in 2Q19 and +14% in 1H19). CSC maintained its leading position in equity and debt underwriting, being the second in industry by underwriting amount. 2) **Brokerage commissions increased 7% QoQ** (vs. A-share ADT +2% QoQ) as it maintained stable market share (2.81% in 1H19 vs. 2.83% in FY18) amid recovering market. Estimated commission rate slid 6% to 3.6bps in 1H19 but was still above industry average of 3.0bps. 3) **Prop-trading gains saw moderate QoQ decline than industry trend**, as CSC increased its exposure on bonds in investment portfolio. 4) **AM fees grew 4% YoY in 1H19** (2Q19 strong growth likely due to seasonality) and AUM was back on expanding track for the second half year (+1% HoH).
- **Results negatives:** 1) **Net interest income plunged 47% YoY in 1H19**, as margin balance contracted 27% YoY and 8% QoQ in 2Q19. 2) **CSC reported impairment losses of RMB 324mn in 2Q19**, reversing a net write-back of RMB 424mn in 1Q19, likely on deteriorating asset quality from SPLs and margin financing as A-share market weakened.
- **Valuation.** CSC currently trades at 0.74 FY19E P/B, 8% below its historical average (0.80x) and close to sector's average (0.73x). The valuation is attractive as CSC delivered a 1H19 annualized ROE of 9.7%, the highest among brokers we cover. We made no changes to our earnings forecast, and maintain BUY rating on CSC with TP at HK\$ 8.0.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. op. revenue (RMB mn)	11,292	10,911	12,537	13,965	15,605
Net profit (RMB mn)	4,015	3,087	4,179	4,909	5,690
EPS (RMB)	0.55	0.41	0.55	0.64	0.74
EPS CHG (%)	(35)	(25)	32	17	16
P/E (x)	8.7	11.7	8.8	7.5	6.5
P/B (x)	0.80	0.78	0.74	0.69	0.64
Yield (%)	3.9	3.7	3.4	4.0	4.6
ROAE (%)	9.5	6.8	8.6	9.5	10.3
Financial leverage (x)	3.8	3.4	3.5	3.5	3.6

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 8.0
(Previous TP	HK\$ 8.0)
Up/Downside	+46.5%
Current Price	HK\$ 5.46

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	138,431
Avg 3 mths t/o (HK\$ mn)	41
52w High/Low (HK\$)	8.50/3.98
Total Issued Shares (mn)	1,261 (H)
	6,385 (A)

Source: Bloomberg

Shareholding Structure

BSCOMC	35.11%
Huijin	31.21%
CITIC Securities	5.58%

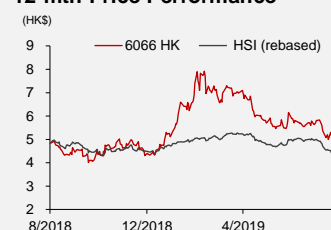
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-3.5%	4.9%
3-mth	-4.2%	-0.2%
6-mth	-26.1%	-18.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: CSC's 2Q19 results summary

(RMB mn)

I/S	3Q18	4Q18	1Q19	2Q19	QoQ	2Q18	YoY	1H18	1H19	YoY
Net fee and commission income	1,367	1,842	1,587	1,974	24%	1,626	21%	3,220	3,561	11%
Brokerage	501	454	723	776	7%	615	26%	1,336	1,499	12%
Investment banking	595	1,119	656	965	47%	771	25%	1,421	1,621	14%
Asset Management	182	349	158	291	84%	284	2%	430	449	4%
Net interest income*	229	36	381	(171)	-145%	202	-185%	486	210	-57%
Prop trading gains*	940	1,177	1,122	982	-13%	643	53%	1,542	2,104	36%
Adj. op. revenue	2,549	3,094	3,116	2,794	-10%	2,513	11%	5,268	5,911	12%
Adj. op. expenses	(1,357)	(1,576)	(1,545)	(1,400)	-9%	(1,391)	1%	(2,773)	(2,946)	6%
PPoP	1,192	1,518	1,571	1,394	-11%	1,122	24%	2,495	2,965	19%
Provision	(503)	(395)	424	(324)	N/A	(192)	69%	(256)	100	N/A
Pre-tax profit	688	1,124	1,995	1,070	-46%	930	15%	2,239	3,065	37%
Income tax expense	(197)	(219)	(496)	(227)	-54%	(219)	3%	(533)	(723)	36%
Net profit	493	902	1,489	841	-44%	703	20%	1,693	2,330	38%
B/S	3Q18	4Q18	1Q19	2Q19	QoQ	2Q18	YoY	FY18	1H19	HoH
Margin accounts	30,755	25,148	29,168	26,910	-8%	37,078	-27%	25,148	26,910	7%
Financial investment	87,073	88,482	102,574	107,190	5%	84,712	27%	88,482	107,190	21%
Reverse repos	19,770	23,797	19,009	28,779	51%	26,184	10%	23,797	28,779	21%
Customer brokerage deposits	37,364	35,039	54,067	52,877	-2%	43,308	22%	35,039	52,877	51%
Total shareholder's equity	48,481	47,577	49,280	48,763	-1%	47,685	2%	47,577	48,763	2%
Ratios	3Q18	4Q18	1Q19	2Q19	QoQ	2Q18	YoY	1H18	1H19	YoY
ROAE	4.1%	7.5%	12.3%	6.9%	-5.4ppt	6.1%	0.8ppt	7.4%	9.7%	2.3ppt
ROAA	0.9%	1.8%	2.8%	1.4%	-1.4ppt	1.3%	0.1ppt	1.6%	2.1%	0.5ppt
Leverage	3.5x	3.4x	3.5x	3.8x	0.3x	3.8x	0.0x	3.7x	3.8x	0.1x
Investment yield	4.4%	5.4%	4.7%	3.7%	-1.0ppt	3.1%	0.6ppt	3.9%	4.3%	0.4ppt
Cost-to-income ratio	53%	50%	49%	49%	0.3ppt	54%	-5.2ppt	52%	51%	-0.8ppt

Source: Company data, CMBIS

*: Due to change in accounting policy, 2Q19 net interest income and prop-trading gains are not comparable with that of 2Q18 and 1Q19.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	3,046	2,291	3,065	3,433	3,993
Investment banking fee	3,348	3,135	3,602	4,069	4,408
Asset management fee	1,179	961	1,023	1,121	1,236
Net interest income	1,325	751	903	1,058	1,286
Prop-trading gains	2,414	3,659	3,930	4,269	4,665
Others	(20)	114	14	16	17
Adj. op. revenue	11,292	10,911	12,537	13,965	15,605
Adj. op. expenses	(5,860)	(5,706)	(6,481)	(7,080)	(7,832)
PPoP	5,432	5,205	6,055	6,885	7,773
Provision	(76)	(1,154)	(562)	(432)	(295)
Pre-tax profit	5,355	4,051	5,493	6,453	7,478
Income tax expense	(1,294)	(948)	(1,285)	(1,510)	(1,750)
Minority interests	(46)	(16)	(28)	(34)	(39)
Net profit	4,015	3,087	4,179	4,909	5,690

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	33,746	29,288	35,019	39,303	45,213
Clearing reserves	9,247	7,628	9,900	11,174	12,208
Margin accounts	47,821	25,148	31,435	35,836	39,420
Reverse repos	26,065	23,797	26,653	28,785	31,088
Financial investments	72,809	88,482	98,215	105,090	111,396
Other assets	16,194	20,739	14,559	14,882	18,515
Total assets	205,883	195,082	215,781	235,070	257,839
Customer brokerage deposits	41,417	35,039	42,023	47,163	55,612
Short-term debts	72,840	51,453	56,476	60,737	64,541
Long-term debts	23,873	44,853	49,787	54,765	59,694
Other liabilities	23,756	15,875	17,083	18,586	20,224
Total liabilities	161,885	147,219	165,368	181,251	200,072
Total shareholders' equity	43,754	47,577	50,098	53,473	57,403
Incl. Perpetual bonds	5,000	5,000	5,000	5,000	5,000
Minority interest	245	286	315	346	364

Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue mix					
Brokerage commission	27%	21%	24%	25%	26%
Investment banking fee	30%	29%	29%	29%	28%
Asset management fee	10%	9%	8%	8%	8%
Net interest income	12%	7%	7%	8%	8%
Prop-trading gains	21%	34%	31%	31%	30%
Others	0%	1%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-22%	-25%	34%	12%	16%
Investment banking fee	-20%	-6%	15%	13%	8%
Asset management fee	7%	-19%	6%	10%	10%
Net interest income	-17%	-43%	20%	17%	22%
Prop-trading gains	0%	52%	7%	9%	9%
Adj. op. revenue	-15%	-3%	15%	11%	12%
PPoP	-23%	-4%	16%	14%	13%
Net profit	-24%	-23%	35%	17%	16%
Total assets	13%	-5%	11%	9%	10%
Efficiency					
Cost-to-income ratio	51%	52%	51%	50%	49%
Leverage					
Adj. financial leverage (x)	3.8	3.4	3.5	3.5	3.6
Investment/ equity	166%	186%	196%	197%	194%
Profitability					
ROE	9.5%	6.8%	8.6%	9.5%	10.3%
ROA	2.1%	1.5%	2.0%	2.2%	2.3%
Per share					
EPS (RMB)	0.55	0.41	0.55	0.64	0.74
DPS (RMB)	0.19	0.18	0.16	0.19	0.22
BVPS (RMB)	6.04	6.22	6.55	6.99	7.51

Source: Company data, CMBIS estimates

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