

CSC Financial (6066 HK)

Superior prop-trading gains withstood market volatility

CSC reported 1Q20 net profit of RMB 2.0bn, up 31% YoY (vs. industry -11% YoY), accounting for 32% of our FY20E estimates. Operating revenue grew markedly 39% YoY to RMB 3.1bn, mainly underpinned by strong brokerage incomes and prop-trading gains. Net charge-offs of credit business partly offset better operating efficiency (cost-to-income ratio -10ppt YoY), yet CSC continued to achieve decent ROE of 13.5%. The superior 1Q20 results laid solid foundation for CSC's FY20E earnings. Though sequentially strong invt. gains may not be sustainable given heightened market uncertainty, we remain positive on its investment banking fee growth as capital market reforms would speed up. **Maintain BUY and as one of our sector top picks.**

- Results positives:**
 - Prop-trading gains growth greatly outpacing industry trend** (+67% YoY vs. -48% YoY in 1Q20) amid coronavirus-battered stock market, with an impressive invt. yield of 5.7% based on our estimates. The Company possibly chose to realize some of its equity investment gains before Mar.
 - Brokerage commissions +49% YoY** (vs. industry +33% YoY). We saw industry commission rate trend stabilizing (+1bps to 2.8bps QoQ) when market ADT soared and CSC may have continued to gain shares (the Company was one of the few covered brokers that recorded brokerage market share gains in 2H19), which also attributed to its better-than-industry growth.
 - Investment banking fees +13% YoY**, supported by 103%/56% YoY growth of equity/debt underwriting amount, highlighted by mega IPO and robust corporate bond underwriting (both ranked 1st by market share in 1Q20). With 2nd most active IPOs in approval process, we expect CSC's investment banking fees to drive revenue its growth after approval pace resumed normal.
- Results negatives:**
 - Net interest income -13% YoY**, likely due to flat margin balance growth (vs. industry +15% YoY) as well as lower yields caused by intense competition, which outweighed benefits from sequentially declining financing cost.
 - AM fees -1% YoY** (vs. industry +16% YoY), probably still suffering from AUM contraction.
 - Impairment losses recorded net charge-off of RMB 108mn**, vs. reversals in 1Q19/4Q19, as recent market volatility weighed on asset quality of margin financing and SPLs.
- Maintain BUY.** CSC currently trades at 0.76x 1-year forward P/B (vs. historical avg. of 0.75x). Despite recent outperformance over peers due to the merger rumor with CITICS (6030 HK, BUY), we still see the Company as a principal beneficiary of direct financing demand growth that could support its industry leading ROE. **Maintain BUY and as one of our sector top picks.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	10,911	13,652	15,933	17,341	18,813
Net profit (RMB mn)	3,087	5,502	6,011	6,617	7,253
EPS (RMB)	0.41	0.72	0.79	0.87	0.95
EPS CHG (%)	(25)	74	9	10	10
Consensus EPS (RMB)	N/A	N/A	0.74	0.83	0.93
P/E (x)	14.6	8.4	7.7	7.0	6.4
P/B (x)	0.97	0.82	0.76	0.71	0.65
Yield (%)	3.0	3.9	3.7	4.1	4.5
ROE (%)	6.8	10.6	10.3	10.5	10.7
Adj. financial leverage (x)	3.4	3.8	4.3	4.3	4.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 7.90
(Previous TP)	HK\$ 7.90)
Up/Downside	+17.4%
Current Price	HK\$ 6.73

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	238,121
Avg 3 mths t/o (HK\$ mn)	122.98
52w High/Low (HK\$)	7.99/4.96
Total Issued Shares (mn)	1,261 (H)
	6,385 (A)

Source: Bloomberg

Shareholding Structure

BSCOMC	35.11%
Central Huijin	31.21%
CITIC Securities	5.01%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	10.0%	8.4%
3-mth	-1.5%	15.6%
6-mth	20.2%	34.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "Resilient Mar set for better-than-expected 1Q20E results" – 14 Apr 2020
- "Prop-trading and investment banking shone in FY19" – 27 Mar 2020
- "On an upward policy trajectory" – 19 Mar 2020
- "COVID-19 unlikely to derail industry upswing" – 12 Feb 2020

Figure 1: CSC's 1Q20 results summary

(RMB mn)							
I/S	2Q19	3Q19	4Q19	1Q20	QoQ	1Q19	YoY
Net fee and commissions	1,974	1,938	2,126	2,103	-1%	1,587	33%
Brokerage	776	692	656	1,077	64%	723	49%
Investment banking	965	911	1,152	738	-36%	656	13%
Asset Management	291	216	405	156	-61%	158	-1%
Net interest income	432	366	380	333	-13%	381	-13%
Prop trading gains	377	1,481	1,424	1,882	32%	1,124	67%
Adj. op. revenue	2,792	3,778	3,963	4,324	9%	3,118	39%
Adj. op. expenses	(1,400)	(1,697)	(1,915)	(1,722)	-10%	(1,545)	11%
PPoP	1,392	2,081	2,048	2,602	27%	1,573	65%
Provision	(324)	(92)	52	(108)	-307%	424	-125%
Pre-tax profit	1,068	1,989	2,100	2,494	19%	1,997	25%
Income tax expense	(227)	(483)	(418)	(536)	28%	(496)	8%
Net profit	839	1,490	1,682	1,951	16%	1,491	31%
B/S	2Q19	3Q19	4Q19	1Q20	QoQ	1Q19	YoY
Margin accounts	26,910	26,593	27,806	29,297	5%	29,168	0%
Financial investment	107,190	116,320	127,400	135,576	6%	102,574	32%
Reverse repos	28,779	22,501	21,119	20,724	-2%	19,009	9%
Customer deposits	52,877	48,616	54,626	62,293	14%	54,067	15%
Total shareholder's equity	48,763	55,317	56,582	58,617	4%	49,280	19%
Ratios	2Q19	3Q19	4Q19	1Q20	QoQ	1Q19	YoY
ROE	6.8%	11.5%	12.0%	13.5%	1.5ppt	12.3%	1.2ppt
ROA	1.4%	2.4%	2.5%	2.7%	0.2ppt	2.8%	-0.1ppt
Leverage	4.0x	3.6x	4.1x	3.8x	-0.3x	3.6x	0.2x
Investment yield	1.4%	5.3%	4.7%	5.7%	1.0ppt	4.7%	1.0ppt
Cost-to-income ratio	49%	44%	48%	39%	-9ppt	49%	-10ppt

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Brokerage commission	2,291	2,847	3,518	3,819	4,095
Investment banking fee	3,135	3,685	4,838	5,213	5,502
Asset management fee	961	1,070	1,044	1,128	1,243
Net interest income	1,993	1,559	1,146	984	921
Prop-trading gains	2,417	4,407	5,306	6,116	6,971
Others	114	85	80	80	80
Adj. op. revenue	10,911	13,652	15,933	17,341	18,813
Adj. op. expenses	(5,706)	(6,558)	(8,078)	(8,704)	(9,350)
PPoP	5,205	7,094	7,855	8,637	9,463
Provision	(1,154)	59	(38)	(32)	(30)
Pre-tax profit	4,051	7,154	7,817	8,605	9,433
Income tax expense	(948)	(1,624)	(1,774)	(1,952)	(2,141)
Minority interests	(16)	(28)	(32)	(36)	(39)
Net profit	3,087	5,502	6,011	6,617	7,253

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Deposit held on behalf of clients	29,288	47,315	51,567	56,666	58,952
Clearing reserves	7,628	9,662	12,892	13,661	15,284
Margin accounts	25,148	27,806	33,950	36,666	39,233
Reverse repos	23,797	21,119	26,962	28,310	30,009
Financial investments	88,482	127,400	161,325	174,231	186,427
Other assets	20,739	52,367	32,451	35,225	35,112
Total assets	195,082	285,669	319,147	344,759	365,017
Customer brokerage deposits	35,039	54,626	61,880	68,566	71,332
Short-term debts	51,453	83,181	86,695	93,133	98,721
Long-term debts	44,853	56,885	87,194	94,169	98,878
Other liabilities	15,875	34,083	22,497	23,303	25,156
Total liabilities	147,219	228,775	258,265	279,171	294,087
Total shareholders' equity	47,577	56,582	60,504	65,191	70,522
Incl. Perpetual bonds	5,000	9,981	10,000	10,000	10,000
Minority interest	286	313	378	397	409

Key Ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue mix					
Brokerage commission	21%	21%	22%	22%	22%
Investment banking fee	29%	27%	30%	30%	29%
Asset management fee	9%	8%	7%	7%	7%
Net interest income	18%	11%	7%	6%	5%
Prop-trading gains	22%	32%	33%	35%	37%
Others	1%	1%	1%	0%	0%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-25%	24%	24%	9%	7%
Investment banking fee	-6%	18%	31%	8%	6%
Asset management fee	-19%	11%	-2%	8%	10%
Net interest income	50%	-22%	-26%	-14%	-6%
Prop-trading gains	0%	82%	20%	15%	14%
Adj. op. revenue	-3%	25%	17%	9%	8%
PPoP	-4%	36%	11%	10%	10%
Net profit	-23%	78%	9%	10%	10%
Total assets	-5%	46%	12%	8%	6%
Efficiency					
Cost-to-income ratio	52%	47%	50%	49%	49%
Leverage					
Adj. financial leverage (x)	3.4	4.1	4.3	4.3	4.3
Investment/ equity	186%	225%	267%	267%	264%
Profitability					
ROE	6.8%	10.6%	10.3%	10.5%	10.7%
ROA	1.5%	2.3%	2.0%	2.0%	2.0%
Per share					
EPS (RMB)	0.41	0.72	0.79	0.87	0.95
DPS (RMB)	0.18	0.18	0.22	0.25	0.27
BVPS (RMB)	6.22	7.40	7.91	8.53	9.22

Source: Company data, CMBIS estimates

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