

CSC Financial (6066 HK)

Prop-trading and investment banking shone in FY19

CSC reported FY19 net profit of RMB 5.5bn, up 78% YoY, in-line with prelim results. FY19 operating revenue increased 25% YoY to RMB 13.7bn, on better prop-trading gains, brokerage and investment banking income, as well as an RMB 59mn reversal of impairment losses (vs. charging RMB 1.2bn in FY18). Through its effective leverage-up and robust fee growth, the Company continued to deliver one of the highest ROE in the industry at 10.6%, up 3.8ppt YoY. We expect CSC to be a key beneficiary of capital market reform given its strong investment banking franchise and higher IB revenue exposure. **Maintain BUY.**

- Results positives: 1) Investment banking fees +26% QoQ in 4Q19**, thanks to 1.54x QoQ increase in equity financing underwriting amount. CSC topped the industry by no. of listed STAR Market IPO sponsorship in FY19, and maintained its leadership in corporate bond underwriting amount. We believe the Company will continue to gain shares from policy tailwinds, esp. through the potential ChiNext reform and registration-based corporate bond issuance.
 2) Prop-trading gains -4% QoQ on high base. CSC used to deliver relatively stable invt. yields due to its higher proportion of fixed income invt., while the Company increased its exposure in equity invt. in FY19 and enjoyed a higher yield (5.3% vs. 4.5% in FY18), which was partly attributable to sponsors' mandatory investment in STAR Market IPOs.
 3) AM fees jumped 87% QoQ, likely due to higher performance fees. Full-year AM fees increased 11% YoY, where AUM contracted 16% due to cutting down on channel business and average fee rate picked up 2bps YoY, based on our estimates.
 4) Brokerage commission -5% QoQ, better than market turnover trend of -8% QoQ, as share gains offset commission rate contraction in 2H19.
- Results negatives: Net interest income decreased 22% YoY in FY19**, mainly due to 33% YoY growth in total debt balance, though average financing costs lowered. We also noticed a decline in margin financing interest yield in 2H19, which was possibly caused by intense competition.
- Maintain BUY.** CSC currently trades at 0.69x 1-year forward P/B, close to its historical average minus 1SD (0.62x). The valuation is not demanding, esp. when considering its industry-leading double-digit ROE. CSC has the highest proportion of investment banking business in revenue mix (27% in FY19) and is more sensitive to underwriting volume changes. We maintain our earnings estimates and BUY rating unchanged.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	10,911	13,652	15,933	17,341	17,825
Net profit (RMB mn)	3,087	5,502	6,011	6,617	7,253
EPS (RMB)	0.41	0.72	0.79	0.87	0.90
EPS CHG (%)	(25)	74	9	10	4
Consensus EPS (RMB)	N/A	N/A	0.71	0.81	N/A
P/E (x)	13.2	7.6	6.9	6.3	5.7
P/B (x)	0.88	0.74	0.69	0.64	0.59
Yield (%)	3.3	4.3	4.1	4.5	5.0
ROE (%)	6.8	10.6	10.3	10.5	10.7
Adj. financial leverage (x)	3.4	4.1	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	+29.9%
Current Price	HK\$ 6.08

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	222,893
Avg 3 mths t/o (HK\$ mn)	117.31
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	31.20%
CITIC Securities	5.01%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	-17.1%	-5.3%
3-mth	-6.3%	11.0%
6-mth	5.0%	15.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "On an upward policy trajectory" – 19 Mar 2020
- "COVID-19 unlikely to derail industry upswing" – 12 Feb 2020
- "Policy implementation to light up the road ahead" – 18 Dec 2019
- "Higher earnings visibility given favorable policy environment" – 6 Sep 2019

Figure 1: CSC's 4Q19 results summary

(RMB mn)											vs.
I/S	1Q19	2Q19	3Q19	4Q19	QoQ	4Q18	YoY	FY18	FY19	YoY	CMBIS est.
Net fee and commissions	1,587	1,974	1,938	2,126	10%	1,842	15%	6,429	7,625	19%	-6%
Brokerage	723	776	692	656	-5%	454	44%	2,291	2,847	24%	1%
Investment banking	656	965	911	1,152	26%	1,119	3%	3,135	3,685	18%	-15%
Asset Management	158	291	216	405	87%	349	16%	961	1,070	11%	9%
Net interest income	381	432	366	380	4%	337	13%	1,993	1,559	-22%	1%
Prop trading gains	1,124	377	1,481	1,424	-4%	876	63%	2,417	4,407	82%	-6%
Adj. op. revenue	3,118	2,792	3,778	3,963	5%	3,094	28%	10,911	13,652	25%	-5%
Adj. op. expenses	(1,545)	(1,400)	(1,697)	(1,915)	13%	(1,576)	22%	(5,706)	(6,558)	15%	-10%
PPoP	1,573	1,392	2,081	2,048	-2%	1,518	35%	5,205	7,094	36%	-1%
Provision	424	(324)	(92)	52	N/A	(395)	N/A	(1,154)	59	N/A	299%
Pre-tax profit	1,997	1,068	1,989	2,100	6%	1,124	87%	4,051	7,154	77%	0%
Income tax expense	(496)	(227)	(483)	(418)	-13%	(219)	91%	(948)	(1,624)	71%	0%
Net profit	1,491	839	1,490	1,682	13%	902	86%	3,087	5,502	78%	0%
B/S	1Q19	2Q19	3Q19	4Q19	QoQ	4Q18	YoY	FY18	FY19	YoY	
Margin accounts	29,168	26,910	26,593	27,806	5%	25,148	11%	25,148	27,806	11%	
Financial investment	102,574	107,190	116,320	127,400	10%	88,482	44%	88,482	127,400	44%	
Reverse repos	19,009	28,779	22,501	21,119	-6%	23,797	-11%	23,797	21,119	-11%	
Customer deposits	54,067	52,877	48,616	54,626	12%	35,039	56%	35,039	54,626	56%	
Total shareholder's equity	49,280	48,763	55,317	56,582	2%	47,577	19%	47,577	56,582	19%	
Ratios	1Q19	2Q19	3Q19	4Q19	QoQ	4Q18	YoY	FY18	FY19	YoY	
ROE	12.3%	6.8%	11.5%	12.0%	0.5ppt	7.5%	4.5ppt	6.8%	10.6%	3.8ppt	
ROA	2.8%	1.4%	2.4%	2.5%	0.1ppt	1.8%	0.7ppt	1.5%	2.3%	0.8ppt	
Leverage	3.6x	4.0x	3.6x	4.1x	0.5x	3.4x	0.7x	3.4x	4.1x	0.7x	
Investment yield	4.7%	1.4%	5.3%	4.7%	-0.6ppt	4.0%	0.7ppt	4.5%	5.3%	0.8ppt	
Cost-to-income ratio	49%	49%	44%	48%	4ppt	50%	-2ppt	52%	47%	-5ppt	

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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