

China International Capital Corp. (3908 HK)

A-share homecoming: a positive move

CICC unveiled its A-share IPO proposal last Friday, which will enlarge its total share base by 9.5%. We believe this is a positive move to alleviate short-term capital pressure for CICC's fast expanding balance sheet business as well as to establish a more effective channel for future fund raising. Near-term EPS and ROE dilution would be inevitable, but its strong capability in capital utilization could help reduce the actual negative impact. **Maintain BUY.**

- **A-share IPO proposal details:** On 28 Feb, CICC proposed to issue max. 458.6mn new A-shares through A-share IPO on Shanghai Stock Exchange. The offering size is equivalent to 9.5% of enlarged share capital. The offering price is not yet determined. CICC will use the proceeds to replenish its capital and enhance its capability of utilizing the balance sheet to offer complex products. After A-share IPO, Huijin will remain the largest shareholder of CICC, holding 40.2% of total issued shares, based on our estimates.
- **An essential move to quench short-term capital thirst and to support longer-term business expansion.** CICC had boosted its capital through two H-share private placements in Mar 2018 and Oct 2019 after its acquisition of CISC, increasing 9.6% of its share base. But due to its high capital utilization, we still estimate its active leverage to reach at ~6x by YE FY19E, close to regulatory cap. The A-share IPO would relieve the Company's short-term capital pressure. In addition, A+H listed brokers are apt to replenish capital through A-share placement as they trade at higher valuations (1.62x 1-yr fwd P/B vs. 0.69x of H-share); The A-share listing would provide CICC with a more effective way to raise fund to fuel its business growth in the longer run.
- **~9% dilution on FY21E EPS/ROE, but actual impact may be milder.** Assume that the offering price will be equal to CICC's latest H-share closing price and the IPO will be completed by YE FY20E, we estimate the FY21E EPS and ROE dilution would be 9.5% and 8.7%, respectively (Fig.1). Given the Company's strong balance sheet utilization through businesses such as OTC derivatives, and good track record of leverage and ROE change after H-share private placement in 1Q18 (Fig. 4-5), we believe the dilution impact would be manageable.
- **Maintain BUY.** CICC's share price performance was depressed after latest H-share private placement and now trades at 1.11x 1-year forward P/B, 7% below its historical average (1.19x). We maintain BUY on CICC with TP at HK\$ 17.2 and as one of our top picks, for its leading position in investment banking business and institutionalization.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. op. revenue (RMB mn)	11,213	12,876	13,961	15,739	17,830
Net profit (RMB mn)	2,766	3,492	3,805	4,391	5,033
EPS (RMB)	0.76	0.83	0.89	1.03	1.19
EPS CHG (%)	(1)	9	8	16	15
P/E (x)	17.0	15.5	14.4	12.5	10.9
P/B (x)	1.44	1.31	1.22	1.13	1.03
Yield (%)	1.3	1.2	1.3	1.3	1.3
ROAE (%)	10.0	8.9	8.7	9.3	9.8
Financial leverage (x)	5.3	5.6	6.2	6.2	6.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 17.2
(Previous TP	HK\$ 17.2)
Up/Downside	+19.6%
Current Price	HK\$ 14.38

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	62,821
Avg 3 mths t/o (HK\$ mn)	157
52w High/Low (HK\$)	19.98/13.02
Total Issued Shares (mn)	1,903.7

Source: Bloomberg

Shareholding Structure

Huijin	44.4%
Haier Group Corporation	9.1%
Tencent Holdings Limited	4.8%

Source: HKEX

Share Performance

	Absolute	Relative
1-mth	5.6%	6.3%
3-mth	6.7%	7.6%
6-mth	6.0%	4.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

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Figure 1: CICC potential A-share IPO offering size and dilution impact

Item	Amount	Note
Offering size		
Max. offering size (mn)	458.6	
Assumption of offering price (RMB)	12.90	Equal to latest H-share closing price
Cal. max. fund raised (RMB mn)	5,916	
No. of total issued shares (mn)		
Before	4,369	As of 1 Mar, 2020
After	4,827	
% of enlarged total issued shares	9.5%	
Dilution		
FY21E EPS (RMB) - before	1.15	
FY21E EPS (RMB) - after	1.04	
Diff	-9.5%	
FY21E BVPS (RMB) - before	12.73	
FY21E BVPS (RMB) - after	12.74	All based on CMBIS estimates
Diff	0.1%	
FY21E ROE - before	9.4%	
FY21E ROE - after	8.6%	
Diff	-0.8ppt	

Source: Company data, CMBIS estimates

Figure 2: CICC's shareholding structure after potential A-share IPO

Type of shareholders	% of enlarged total issued shares
A-share/Domestic*	60.6%
Huijin	40.2%
Haier	8.3%
New A-share holders	9.5%
Other shareholders	51.1%
H-share	39.4%
Tencent	4.5%
Alibaba	4.2%
Other shareholders	30.8%
Total	100.0%

Source: Company data, HKEx, CMBIS estimates

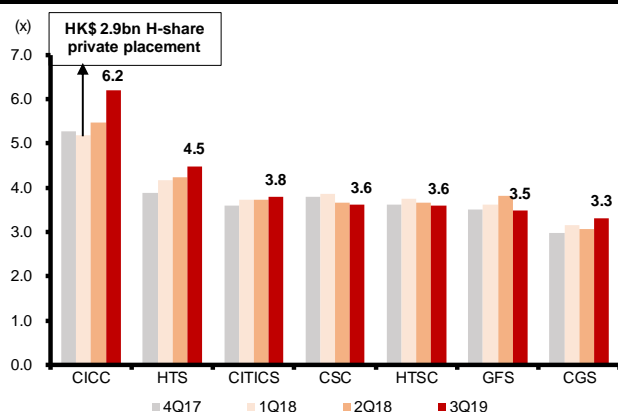
*: According to the announcement, all domestic shares will be converted into A-shares after the A-share IPO completes.

Figure 3: Recent equity financing of covered brokers

Company	Equity financing plan	Status
CITICS	RMB 13.5bn A-share issuance to fully acquire Guangzhou Securities	In progress
CICC	HK\$ 2.5bn H-share private placement	Completed in Oct 2019
	Up to 459mn A-shares IPO	Board approved in Feb 2020
HTS	RMB 20bn A-share private placement	Approved by CSRC in Dec 2019
HTSC	RMB 14.1bn A-share private placement	Completed in Aug 2018
	US\$ 1.7bn GDR issuance	Completed in Jun 2019
CSC	RMB 13bn A-share private placement	Approved by CSRC in Jan 2020
GFS	RMB 15bn A-share private placement	Lapsed

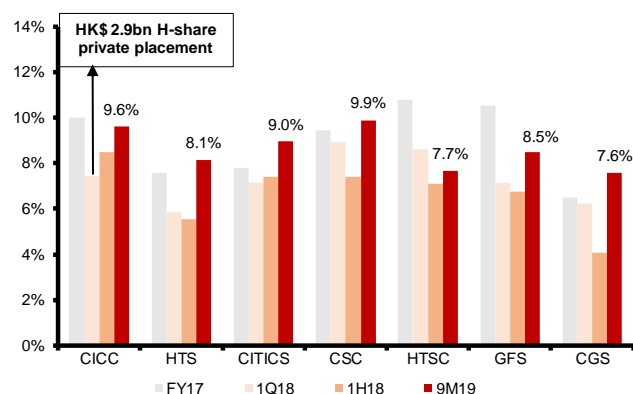
Source: Company data, CMBIS

Figure 4: CICC keeps growing and maintains highest active leverage among covered brokers...



Source: Company data, CMBIS

Figure 5: ...as well as one of the highest ROE performance



Source: Company data, CMBIS

Figure 6: CICC in market leading position by OTC derivatives outstanding balance in 10M19

Rank	TRS			OTC options			Total		
	Company	New notional value (RMB bn)	Market share	Company	New notional value (RMB bn)	Market share	Company	New notional value (RMB bn)	Market share
1	CITICS	565	43%	HTSC	703	17%	CITICS	1,254	24%
2	CICC	371	28%	CSC	703	17%	HTSC	903	17%
3	HTSC	199	15%	CITICS	688	17%	CSC	752	14%
4	CSC	49	4%	SWHY	661	16%	SWHY	663	12%
5	GTJA	47	4%	GTJA	429	11%	CICC	568	11%
Top 5		1,232	94.1%	Top 5	3,184	79.3%	Top 5	4,139	77.7%

Source: SAC, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	2,779	2,617	2,761	3,225	3,701
Investment banking fee	2,791	3,171	2,984	3,392	3,911
Asset management fee	609	618	619	832	921
Net interest income	(288)	(1,199)	(2,035)	(2,178)	(2,230)
Prop-trading gains	4,008	5,786	7,792	8,395	9,185
Others	1,313	1,883	1,839	2,073	2,342
Adj. op. revenue	11,213	12,876	13,961	15,739	17,830
Adj. op. expenses	(7,671)	(8,415)	(9,070)	(10,084)	(11,334)
PPoP	3,542	4,462	4,891	5,654	6,495
Provision	59	(74)	(33)	(30)	(28)
Pre-tax profit	3,601	4,387	4,858	5,624	6,467
Income tax expense	(790)	(853)	(1,011)	(1,181)	(1,373)
Minority interests	(45)	(42)	(41)	(52)	(61)
Net profit	2,766	3,492	3,805	4,391	5,033

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	34,096	31,267	38,222	44,536	51,615
Clearing reserves	12,139	8,885	11,891	13,856	16,058
Margin accounts	21,883	17,716	21,791	23,970	25,888
Reverse repos	14,438	19,553	17,989	18,888	20,211
Financial investments	115,909	150,485	177,572	195,329	212,909
Other assets	39,346	47,514	59,601	59,964	61,375
Total assets	237,812	275,421	327,066	356,543	388,055
Customer brokerage deposits	47,347	41,318	50,071	57,896	67,100
Short-term debts	51,561	71,246	80,198	88,570	97,003
Long-term debts	49,934	61,993	73,151	79,003	84,534
Other liabilities	52,077	58,487	78,056	81,805	85,841
Total liabilities	200,919	233,044	281,476	307,275	334,477
Total shareholders' equity	36,707	42,184	45,377	49,034	53,332
Incl. Perpetual bonds	1,000	1,000	1,000	1,000	1,000
Minority interest	186	193	213	234	245

Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue mix					
Brokerage commission	25%	20%	20%	20%	21%
Investment banking fee	25%	25%	21%	22%	22%
Asset management fee	5%	5%	4%	5%	5%
Net interest income	-3%	-9%	-15%	-14%	-13%
Prop-trading gains	36%	45%	56%	53%	52%
Others	12%	15%	13%	13%	13%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	83%	-6%	6%	17%	15%
Investment banking fee	-14%	14%	-6%	14%	15%
Asset management fee	40%	1%	0%	35%	11%
Net interest income	-6%	317%	70%	7%	2%
Prop-trading gains	135%	44%	35%	8%	9%
Adj. op. revenue	52%	15%	8%	13%	13%
PPoP	49%	26%	10%	16%	15%
Net profit	52%	26%	9%	15%	15%
Total assets	133%	16%	19%	9%	9%
Efficiency					
Cost-to-income ratio	68%	65%	64%	63%	63%
Leverage					
Adj. financial leverage (x)	5.3	5.6	6.2	6.2	6.1
Investment/ equity	316%	357%	391%	398%	399%
Profitability					
ROE	10.0%	8.9%	8.7%	9.3%	9.8%
ROA	1.6%	1.4%	1.3%	1.3%	1.4%
Per share					
EPS (RMB)	0.76	0.83	0.89	1.03	1.19
DPS (RMB)	0.17	0.16	0.16	0.16	0.16
BVPS (RMB)	8.96	9.82	10.58	11.46	12.48

Source: Company data, CMBIS estimates

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