

China International Capital Corp. (3908 HK)

FY19 results in-line; aims to scale-up going forward

CICC reported FY19 net profit of RMB 4.2bn, up 21% YoY, in-line with CMBIS/consensus estimates. FY19 operating revenue increased 22% YoY to RMB 15.8bn, where strong prop-trading gains and investment banking fees were partly offset by a surge in net interest loss as CICC continued to leverage up. CICC proposed no dividend to secure more capital for future development, and aims to grow its scale in coming years. **Maintain BUY.**

- FY19/4Q19 results review:**
 - Investment banking fees the brightest spot** (+169% QoQ in 4Q19/+34% YoY in FY19), attributable to its leadership in STAR Market IPOs and mega deals in 4Q19.
 - Prop-trading gains grew 43% YoY** with relatively stable quarterly performance and expanded investment asset (+31% YoY). Inv. yield was modestly up 0.3ppt YoY to 4.7%, as CICC has less exposure to directional equity invt., making it less vulnerable to heightened market volatility.
 - Net interest losses surged 95% QoQ** in 4Q19/2.9x YoY in FY19, due to 47% YoY increase in debt balance.
 - Adj. financial leverage reached 6.1x** by 4Q19 (-0.1x QoQ/+0.7x YoY) post H-share private placement in Oct 2019. CICC is still facing tight capital position which may put pressure on its B/S expansion in FY20E, while being included into the consolidated capital supervision pilot program could partly alleviate this before it replenishes capital through A-share IPO.
- Results briefing key takeaways:**
 - Aiming to grow bigger and will prioritize revenue growth and market share gains over ROE in next 2-3 years.** CICC will continue to enhance its investment in capital, talents and IT to achieve this goal.
 - Leveraging strong franchise in investment banking amid capital market reform and synergizing with other business lines to boost growth.** Mgmt. feel confident to maintain its leadership in IB business through its strength in long-term relationship with new economy issuers and expanding penetration into broader customer base.
 - CICC expects its tech JV with Tencent to commence operation in Jun 2020, and sees growing investment advisor team and tech enabling important to its WM transformation.
- Maintain BUY and as one of our sector top picks.** CICC now trades at 0.95x 1-year forward P/B, 10% below its historical avg. minus 1SD (1.06x), providing a good entry point for long-term investment. We maintain earnings forecast unchanged and BUY rating on CICC with TP at HK\$ 16.40, and remain positive on its unique position in investment banking business and institutionalization.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	12,876	15,761	17,502	19,508	21,268
Net profit (RMB mn)	3,492	4,239	4,883	5,511	6,100
EPS (RMB)	0.83	0.99	1.10	1.25	1.38
EPS CHG (%)	9	19	12	13	11
Consensus EPS (RMB)	N/A	N/A	1.22	1.40	N/A
P/E (x)	13.6	11.4	10.2	9.0	8.1
P/B (x)	1.15	1.04	0.95	0.87	0.78
Yield (%)	1.4	0.0	2.0	2.2	2.5
ROE (%)	8.9	9.4	9.7	10.0	10.2
Financial leverage (x)	5.6	6.1	6.1	6.0	6.0

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 16.40
(Previous TP)	HK\$ 16.40)
Up/Downside	+30.8%
Current Price	HK\$ 12.54

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	54,783
Avg 3 mths t/o (HK\$ mn)	160.97
52w High/Low (HK\$)	19.36/10.72
Total Issued Shares (mn)	4,369

Source: Wind

Shareholding Structure

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

Source: Company data

Share Performance

	Absolute	Relative
1-mth	-12.8%	-3.5%
3-mth	-16.5%	-0.3%
6-mth	-17.5%	-8.8%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: Deloitte

Related Reports

- "On an upward policy trajectory" – 19 Mar 2020
- "A-share homecoming: a positive move" – 2 Mar 2020
- "COVID-19 disruption unlikely to derail industry upswing" – 14 Feb 2020
- "Policy implementation to light up the way ahead" – 18 Dec 2019
- "Higher earnings visibility given favorable policy environment" – 6 Sep 2019

Figure 1: CICC'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	1,588	2,166	2,049	3,744	83%	2,125	76%	7,952	9,547	20%	5%
Brokerage	779	777	703	720	3%	521	38%	2,617	2,979	14%	4%
Investment banking	291	884	832	2,240	169%	999	124%	3,171	4,248	34%	5%
Asset mgmt. and others	518	297	722	575	-20%	606	-5%	2,163	2,321	7%	6%
Net interest income	(182)	(176)	(250)	(488)	95%	(121)	304%	(284)	(1,095)	286%	39%
Prop trading gains	1,834	1,721	1,578	1,826	16%	1,392	31%	4,871	6,959	43%	0%
Adj. op. revenue	3,236	3,713	4,212	4,600	9%	3,074	50%	12,876	15,761	22%	2%
Adj. op. expenses	(2,142)	(2,396)	(2,609)	(3,153)	21%	(2,101)	50%	(8,415)	(10,300)	22%	3%
PPoP	1,094	1,316	1,604	1,447	-10%	973	49%	4,462	5,461	22%	-1%
Provision	58	(47)	(44)	(127)	191%	(49)	159%	(74)	(160)	115%	262%
Pre-tax profit	1,152	1,269	1,560	1,321	-15%	924	43%	4,387	5,302	21%	-3%
Income tax expense	(233)	(289)	(294)	(239)	-19%	(141)	69%	(853)	(1,054)	24%	-7%
Net profit	909	972	1,259	1,099	-13%	771	43%	3,492	4,239	21%	-1%
B/S	1Q19	2Q19	3Q19	4Q19	QoQ	4Q18	YoY	FY18	FY19	YoY	
Margin accounts	21,394	21,228	21,253	23,190	9%	17,716	31%	17,716	23,190	31%	
Financial investment	172,986	176,004	179,133	197,178	10%	150,485	31%	150,485	197,178	31%	
Reverse repos	12,236	15,362	10,996	14,299	30%	19,553	-27%	19,553	14,299	-27%	
Customer deposits	58,215	53,071	53,529	48,338	-10%	41,318	17%	41,318	48,338	17%	
Total shareholder's equity	43,023	43,452	44,933	48,294	7%	42,184	14%	42,184	48,294	14%	
Ratios	1Q19	2Q19	3Q19	4Q19	QoQ	4Q18	YoY	FY18	FY19	YoY	
ROE	8.5%	9.0%	11.4%	9.4%	-2.0ppt	7.4%	2.0ppt	8.9%	9.4%	0.5ppt	
ROA	1.2%	1.2%	1.6%	1.3%	-0.2ppt	1.2%	0.2ppt	1.4%	1.4%	0.0ppt	
Leverage	6.2x	6.2x	6.2x	6.1x	-0.1x	5.6x	0.5x	5.6x	6.1x	0.5x	
Investment yield*	4.5%	3.9%	3.6%	3.9%	0.3ppt	3.9%	0.0ppt	4.3%	4.7%	0.3ppt	
Cost-to-income ratio	66%	64%	61%	68%	6ppt	68%	0ppt	65%	65%	0ppt	

Source: Company data, CMBIS

*: include interest income from debt/other debt investments when calculating full-year yield.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Brokerage commission	2,617	2,979	3,580	4,000	4,536
Investment banking fee	3,171	4,248	4,258	4,570	5,021
Asset management fee	618	596	671	745	821
Net interest income	(284)	(1,095)	(1,031)	(1,069)	(1,090)
Prop-trading gains	4,871	6,959	7,946	8,906	9,822
Others	1,883	1,920	2,078	2,356	2,158
Adj. op. revenue	12,876	15,761	17,502	19,508	21,268
Adj. op. expenses	(8,415)	(10,300)	(11,216)	(12,399)	(13,416)
PPoP	4,462	5,461	6,286	7,109	7,852
Provision	(74)	(160)	(39)	(35)	(21)
Pre-tax profit	4,387	5,302	6,247	7,074	7,831
Income tax expense	(853)	(1,054)	(1,312)	(1,502)	(1,665)
Minority interests	(42)	(9)	(52)	(61)	(67)
Net profit	3,492	4,239	4,883	5,511	6,100

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Deposit held on behalf of clients & clearing reserves	40,153	48,459	79,334	86,951	97,817
Margin accounts	17,716	23,190	23,970	25,888	27,700
Reverse repos	19,553	14,299	12,729	13,620	14,574
Financial investments	150,485	197,178	212,860	232,018	248,259
Other assets	47,514	61,846	67,206	66,594	69,409
Total assets	275,421	344,971	396,099	425,070	457,759
Customer brokerage deposits	41,318	48,338	86,232	93,439	105,117
Short-term debts	71,246	70,031	82,473	89,092	94,478
Long-term debts	61,993	79,391	84,124	90,013	96,314
Other liabilities	58,487	98,680	90,433	94,889	98,818
Total liabilities	233,044	296,440	343,262	367,433	394,727
Total shareholders' equity	42,184	48,294	52,508	57,291	62,675
Incl. Perpetual bonds	1,000	1,000	1,000	1,000	1,000
Minority interest	193	238	329	346	356

Key Ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue mix					
Brokerage commission	20%	19%	20%	21%	21%
Investment banking fee	25%	27%	24%	23%	24%
Asset management fee	5%	5%	4%	4%	4%
Net interest income	-2%	-7%	-6%	-5%	-5%
Prop-trading gains	38%	44%	45%	46%	46%
Others	15%	12%	12%	12%	10%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-6%	14%	20%	12%	13%
Investment banking fee	14%	34%	0%	7%	10%
Asset management fee	1%	22%	13%	11%	10%
Net interest income	-1%	286%	-6%	4%	2%
Prop-trading gains	22%	43%	14%	12%	10%
Adj. op. revenue	15%	22%	11%	11%	9%
PPoP	26%	22%	15%	13%	10%
Net profit	26%	21%	15%	13%	11%
Total assets	16%	25%	15%	7%	8%
Efficiency					
Cost-to-income ratio	65%	65%	63%	63%	62%
Leverage					
Adj. financial leverage (x)	5.6	6.1	6.1	6.0	6.0
Investment/ equity	357%	408%	405%	405%	396%
Profitability					
ROE	8.9%	9.4%	9.7%	10.0%	10.2%
ROA	1.4%	1.4%	1.3%	1.3%	1.4%
Per share					
EPS (RMB)	0.83	0.99	1.10	1.25	1.38
DPS (RMB)	0.16	0.00	0.16	0.16	0.16
BVPS (RMB)	9.82	10.83	11.79	12.89	14.35

Source: Company data, CMBIS estimates

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