

China International Capital Corp. (3908 HK)

Strong 1Q20 on invt. banking; A-share IPO accelerating

CICC reported 1Q20 net profit of RMB 1.3bn, up 41% YoY, accounting for 26% of CMBIS estimates. Recurring net profit growth was 18% YoY, after excl. mostly gains from disposal of CISC (HK). 1Q20 operating revenue grew 47% YoY to RMB 4.8bn, which was primarily boosted by stellar growth of investment banking fees. CSRC disclosed CICC's A-share IPO on 15 May. We believe the fast-advancing capital-replenishing process could spur a possible upward re-rating its H-share after A-share IPO, and we are still positive on its earnings outlook driven by investment banking in FY20E. **Maintain BUY.**

- **Results positives:** 1) **Investment banking fees experienced dramatic growth** (+200% YoY) in 1Q20, mainly driven by its leadership in STAR Market IPOs (6 out of 24 STAR Market IPOs listed in 1Q20) and substantial improvement in corp. bonds underwriting amounts (+117% YoY). 2) **Brokerage commission +40% YoY** (vs. +31% of industry/ +40% of covered brokers on avg.) on both domestic and oversea trading activity recovery. 3) **Prop-trading gains +16% YoY**, which included gains from disposal of CISC (HK) (consideration of ~RMB 430mn according to public information and our est.), and was also attributable to FV gains from mandatory invt. into STAR Market's sponsored IPOs. Meanwhile the Company recorded an RMB 298mn forex gain. 4) **Asset mgmt./ fund mgmt. and other income +24%/+11% YoY** (vs. +16% of industry AM fees), possibly on CICC's enhanced actively managed AUM.
- **Results negatives:** 1) **Net interest losses +24% YoY** though -54% QoQ, as interest expense growth was still outpacing interest income. Total debts grew 10%/49% QoQ/YoY, also outpacing margin acct. and invt. balance growth (2%/10% QoQ/YoY and 3%/18% QoQ/YoY). 2) **Impairment losses was RMB 145mn** (vs. net reversal of RMB 58mn in 1Q19) and +14% QoQ, likely from credit business which was affected by market turbulence in 1Q20.
- **A-share IPO process likely accelerating.** CICC's financial leverage further climbed up to 6.6x ended 1Q20 (+0.5x QoQ). The Company has submitted A-share IPO prospectus to CSRC just two months after it revealed the plan, and the process is being advanced in a fast pace to relieve its capital pressure asap, in our view. CICC now trades at 0.91x 1-yr fwd P/B, 13% below its historical avg. minus 1SD (1.04x). We believe the Company's strength in investment banking and high utilization of capital will continue to support its earnings growth. **Maintain BUY.**

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------|--------|--------|--------|--------|--------|
| Adj. op. revenue (RMB mn) | 12,876 | 15,484 | 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 | 1.18 | 1.36 | 1.55 |
| P/E (x) | 12.9 | 10.8 | 9.7 | 8.6 | 7.7 |
| P/B (x) | 1.09 | 0.99 | 0.91 | 0.83 | 0.75 |
| Yield (%) | 1.5 | 0.0 | 2.1 | 2.3 | 2.6 |
| ROE (%) | 8.9 | 9.5 | 9.7 | 10.0 | 10.2 |
| Financial leverage (x) | 5.5 | 6.0 | 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 | +37.6% |
| Current Price | HK\$ 11.92 |

China Brokerage Sector

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Stock Data

| | |
|--------------------------|-------------|
| Mkt Cap (HK\$ mn) | 52,075 |
| Avg 3 mths t/o (HK\$ mn) | 183.82 |
| 52w High/Low (HK\$) | 16.60/10.72 |
| Total Issued Shares (mn) | 4,369 |
| Source: Bloomberg | |

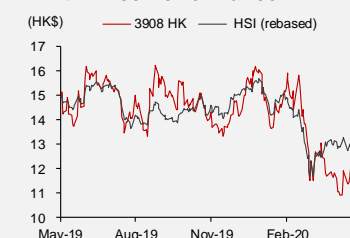
Shareholding Structure

| | |
|--------------------------|-------|
| Huijin | 44.4% |
| Haier Group Corporation | 9.1% |
| Tencent Holdings Limited | 4.8% |
| Source: HKEx | |

Share Performance

| | Absolute | Relative |
|-------------------|----------|----------|
| 1-mth | 0.8% | 3.3% |
| 3-mth | -21.6% | -7.9% |
| 6-mth | -14.5% | -5.4% |
| Source: Bloomberg | | |

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. "Reform acceleration could drive further divergence" – 12 May 2020
2. "Resilient Mar set for better-than-expected 1Q20E results" – 14 Apr 2020
3. "FY19 results in-line; aims to scale up going forward" – 31 Mar 2020
4. "On an upward policy trajectory" – 19 Mar 2020
5. "A-share homecoming: a positive move" – 2 Mar 2020
6. "COVID-19 disruption unlikely to derail industry upswing" – 14 Feb 2020

Figure 1: CICC's 1Q20 results summary

| (RMB mn) | | | | | | | |
|----------------------------|--------------|--------------|--------------|--------------|--------------|------------|------------|
| I/S | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | QoQ | YoY |
| Net fee and commissions | 1,588 | 2,166 | 2,049 | 3,744 | 2,552 | -32% | 61% |
| Brokerage | 779 | 777 | 703 | 720 | 1,087 | 51% | 40% |
| Investment banking | 291 | 884 | 832 | 2,240 | 874 | -61% | 200% |
| Asset mgmt. and others | 518 | 297 | 722 | 359 | 591 | 65% | 14% |
| Net interest income | (182) | (176) | (250) | (488) | (225) | -54% | 24% |
| Prop trading gains | 1,834 | 1,721 | 1,578 | 1,826 | 2,123 | 16% | 16% |
| Adj. op. revenue | 3,236 | 3,713 | 4,212 | 4,323 | 4,757 | 10% | 47% |
| Adj. op. expenses | (2,142) | (2,396) | (2,609) | (2,876) | (2,919) | 2% | 36% |
| PPoP | 1,094 | 1,316 | 1,604 | 1,447 | 1,838 | 27% | 68% |
| Provision | 58 | (47) | (44) | (127) | (145) | 14% | -350% |
| Pre-tax profit | 1,152 | 1,269 | 1,560 | 1,321 | 1,693 | 28% | 47% |
| Income tax expense | (233) | (289) | (294) | (239) | (404) | 69% | 74% |
| Net profit | 909 | 972 | 1,259 | 1,099 | 1,277 | 16% | 41% |
| | | | | | | | |
| B/S | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | QoQ | YoY |
| Margin accounts | 21,394 | 21,228 | 21,253 | 23,190 | 23,617 | 2% | 10% |
| Financial investment | 172,986 | 176,004 | 179,133 | 197,178 | 203,718 | 3% | 18% |
| Reverse repos | 12,236 | 15,362 | 10,996 | 14,299 | 14,190 | -1% | 16% |
| Customer deposits | 58,215 | 53,071 | 53,529 | 48,338 | 65,065 | 35% | 12% |
| Total shareholder's equity | 43,023 | 43,452 | 44,933 | 48,294 | 49,725 | 3% | 16% |
| | | | | | | | |
| Ratios | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | QoQ | YoY |
| ROE | 8.5% | 9.0% | 11.4% | 9.4% | 10.4% | 1.0ppt | 1.9ppt |
| ROA | 1.2% | 1.2% | 1.6% | 1.3% | 1.4% | 0.1ppt | 0.2ppt |
| Leverage | 6.1x | 6.2x | 6.0x | 6.0x | 6.6x | 0.5x | 0.5x |
| Investment yield | 4.5% | 3.9% | 3.6% | 3.9% | 4.2% | 0.3ppt | -0.3ppt |
| Cost-to-income ratio | 66% | 64% | 61% | 66% | 61% | -5ppt | -5ppt |

Source: Company data, CMBIS

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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| | |
|------------------|---|
| BUY | : Stock with potential return of over 15% over next 12 months |
| HOLD | : Stock with potential return of +15% to -10% over next 12 months |
| SELL | : Stock with potential loss of over 10% over next 12 months |
| NOT RATED | : Stock is not rated by CMBIS |

| | |
|-----------------------|---|
| OUTPERFORM | : Industry expected to outperform the relevant broad market benchmark over next 12 months |
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