

CITIC Securities (6030 HK)

Soft 4Q19 behind

CITICS reported FY19 net profit of RMB 12.3bn, up 30% YoY, in-line with prelim results. FY19 operating income grew 24% YoY to RMB 37.4bn, boosted by strong investment banking fees and prop-trading gains. 4Q19 net profit softened 48% QoQ, dragged by subsidiary's goodwill impairment loss. FY19 ROE rebounded 1.2ppt YoY to 7.8%. CITICS increased its payout ratio to 50%, up 5ppt YoY. Going forward, we believe the Company will continue to enjoy policy tailwind and enhance its market leadership and profitability. **Maintain BUY.**

- Results positives: 1) Investment banking fees +26% QoQ in 4Q19**, mainly driven by 48% increase in IPO underwriting amount supported by strong STAR Market pipelines. CITICS maintained 1st place in both equity and debt underwriting in domestic market in FY19. **2) AM fees +12% QoQ** and continue to rebound sequentially, thanks to higher proportion of actively managed AUM (52% YE FY19, up 9ppt HoH) and expanded total AUM (+8% HoH in 2H19). We expect leaders in AM to see faster recovery of AUM and fees trend than the industry as favorable policies skewed towards them (e.g. pilot program of transforming large CAM products to mutual funds). **3) Prop-trading gains -5% QoQ** on high base, and invt. yield still decent at 4.6%.
- Results negatives: 1) Brokerage commission -10% QoQ** vs. market total turnover -8% QoQ, likely pressured by further declining commission rate, while we see a rebound in domestic market share in 2H19. **2) Net interest income -37% QoQ**, as interest expense outpaced interest income. CITICS continued to leverage up, with YE adj. leverage at 4.1x, up 0.4x QoQ/0.5x YoY. Total debt increased 5% QoQ, while 5% growth in margin balance was offset by a 11% decline in reverse repos ended 4Q19. **3) Impairment losses surged 5.7x QoQ**, mainly from an RMB 528mn goodwill impairment losses for CLSA.
- Maintain BUY.** CITICS has completed the acquisition of Guangzhou Securities (renamed CITICS South China), and the subsidiary already contributed a RMB 13mn net profit to CITICS's Feb parent company earnings. We expect the post-acquisition integration, together with CITICS's all-round market leadership esp. in investment banking will enhance its competitiveness as a key beneficiary of market reform and lift its profitability. CITICS's valuation is attractive at 0.82x 1-yr fwd P/B, well below its historical avg. minus 1SD (0.95x). We made no change to our forecasts. **Maintain BUY** and as our sector top pick.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	30,239	37,440	38,846	43,899	48,790
Net profit (RMB mn)	9,390	12,229	14,263	16,712	19,232
EPS (RMB)	0.77	1.01	1.12	1.29	1.47
EPS CHG (%)	(18)	30	11	16	13
Consensus EPS (RMB)	N/A	N/A	1.22	1.36	N/A
P/E (x)	15.0	11.6	10.4	9.0	7.8
P/B (x)	0.92	0.87	0.82	0.77	0.72
Yield (%)	3.0	4.6	3.8	4.4	5.1
ROE (%)	6.2	7.8	8.2	8.8	9.5
Adj. financial leverage (x)	3.6	4.1	4.0	4.2	4.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 18.90
(Previous TP)	HK\$ 18.90)
Up/Downside	+45.4%
Current Price	HK\$ 13.00

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	289,508
Avg 3 mths t/o (HK\$ mn)	431.10
52w High/Low (HK\$)	19.72/12.60
Total Issued Shares (mn)	2,278 (H) 10,648 (A)

Source: Bloomberg

Shareholding Structure

CITIC Corporation Limited	15.47%
Guangzhou Yue Xiu Holdings	6.27%
CSF	2.80%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	-20.5%	-1.8%
3-mth	-18.8%	1.5%
6-mth	-11.7%	6.0%

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
- "All-round excellent 3Q19" – 31 Oct 2019
- "Higher earnings visibility given favorable policy environment" – 6 Sep 2019

Figure 1: CITICS's 4Q19 results summary

(RMB mn)											vs.
I/S	1Q19	2Q19	3Q19	4Q19	QoQ	4Q18	YoY	FY18	FY19	YoY	CMBI est.
Net fees and commissions	4,343	4,211	4,593	4,875	6%	4,521	8%	17,427	18,022	3%	6%
Brokerage	1,950	1,849	1,904	1,711	-10%	1,581	8%	7,429	7,414	0%	0%
Investment banking	989	815	1,177	1,484	26%	1,209	23%	3,639	4,465	23%	12%
Asset Management	1,297	1,370	1,434	1,606	12%	1,692	-5%	5,834	5,707	-2%	5%
Net interest income	520	857	408	259	-37%	336	-23%	2,422	2,045	-16%	-2%
Prop trading gains	4,923	2,252	4,465	4,252	-5%	2,086	104%	8,046	15,891	98%	10%
Adj. op. revenue	9,966	7,925	9,882	9,668	-2%	7,879	23%	30,239	37,440	24%	6%
Adj. op. expenses	(4,241)	(3,963)	(4,124)	(5,526)	34%	(4,072)	36%	(15,563)	(17,855)	15%	6%
PPoP	5,725	3,962	5,757	4,141	-28%	3,807	9%	14,676	19,585	33%	6%
Provision	13	(767)	(238)	(1,598)	570%	(978)	63%	(2,211)	(2,590)	17%	91%
Pre-tax profit	5,737	3,195	5,519	2,544	-54%	2,828	-10%	12,466	16,995	36%	-1%
Income tax expense	(1,380)	(888)	(1,330)	(748)	-44%	(635)	18%	(2,589)	(4,346)	68%	-1%
Net profit	4,258	2,188	4,077	1,706	-58%	2,075	-18%	9,390	12,229	30%	-1%
B/S	1Q19	2Q19	3Q19	4Q19	QoQ	3Q18	YoY	FY18	FY19	YoY	
Margin accounts	64,031	64,488	67,341	70,674	5%	57,198	24%	57,198	70,674	24%	
Financial investment	287,437	319,798	338,484	395,312	17%	299,297	32%	299,297	395,312	32%	
Reverse repos	57,006	68,605	65,848	58,830	-11%	67,370	-13%	67,370	58,830	-13%	
Customer deposits	143,734	122,211	124,928	123,352	-1%	97,774	26%	97,774	123,352	26%	
Total shareholder's equity	157,918	156,001	160,082	161,625	1%	153,141	6%	153,141	161,625	6%	
Ratios	1Q19	2Q19	3Q19	4Q19	QoQ	3Q18	YoY	FY18	FY19	YoY	
ROE	10.9%	5.6%	10.3%	4.2%	-6.1ppt	5.4%	-1.2ppt	6.2%	7.8%	1.6ppt	
ROA	2.6%	1.3%	2.2%	0.9%	-1.3ppt	1.3%	-0.4ppt	1.5%	1.7%	0.2ppt	
Leverage	3.5x	3.9x	3.8x	4.1x	0.4x	3.6x	0.5x	3.6x	4.1x	0.5x	
Investment yield	6.7%	3.0%	5.4%	4.6%	-0.8ppt	2.1%	2.5ppt	3.3%	4.9%	1.6ppt	
Cost-to-income ratio	42%	49%	41%	56%	15ppt	51%	5ppt	51%	47%	-4ppt	

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Brokerage commission	7,429	7,414	8,573	9,159	9,802
Investment banking fee	3,639	4,465	4,378	4,902	5,578
Asset management fee	5,834	5,707	5,863	6,258	6,852
Net interest income	2,422	2,045	2,136	2,586	3,024
Prop-trading gains	8,046	15,891	15,913	18,953	21,732
Others	2,869	1,918	1,982	2,040	2,110
Adj. op. revenue	30,239	37,440	38,846	43,899	49,099
Adj. op. expenses	(15,563)	(17,855)	(18,577)	(20,523)	(22,463)
PPoP	14,676	19,585	20,268	23,376	26,636
Provision	(2,211)	(2,590)	(1,116)	(972)	(885)
Pre-tax profit	12,466	16,995	19,152	22,404	25,752
Income tax expense	(2,589)	(4,346)	(4,418)	(5,174)	(5,948)
Minority interests	(487)	(420)	(470)	(518)	(571)
Net profit	9,390	12,229	14,263	16,712	19,232

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Deposit held on behalf of clients	74,291	95,417	119,382	131,635	144,718
Clearing reserves	24,922	32,692	41,166	45,391	49,903
Margin accounts	57,198	70,674	87,741	96,516	101,341
Reverse repos	67,370	58,830	74,276	78,732	83,456
Financial investments	299,297	395,312	447,449	492,194	541,414
Other assets	130,054	138,798	121,986	127,164	129,533
Total assets	653,133	791,722	892,001	971,633	1,050,366
Customer brokerage deposits	97,774	123,352	155,197	169,809	186,686
Short-term debts	164,700	235,126	199,082	218,990	242,435
Long-term debts	118,082	126,394	180,055	203,412	217,624
Other liabilities	115,746	141,400	168,925	179,436	190,834
Total liabilities	496,301	626,273	703,260	771,647	837,580
Total shareholders' equity	153,141	161,625	184,826	195,953	208,632
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	3,691	3,825	3,915	4,033	4,154

Key Ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue mix					
Brokerage commission	25%	20%	22%	21%	20%
Investment banking fee	12%	12%	11%	11%	11%
Asset management fee	19%	15%	15%	14%	14%
Net interest income	8%	5%	5%	6%	6%
Prop-trading gains	27%	42%	41%	43%	44%
Others	9%	5%	5%	5%	4%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-8%	0%	16%	7%	7%
Investment banking fee	-17%	23%	-2%	12%	14%
Asset management fee	2%	-2%	3%	7%	10%
Net interest income	1%	-16%	4%	21%	17%
Prop-trading gains	-37%	98%	0%	19%	15%
Adj. op. revenue	-14%	24%	4%	13%	12%
PPoP	-18%	33%	3%	15%	14%
Net profit	-18%	30%	17%	17%	15%
Total assets	4%	21%	13%	9%	8%
Efficiency					
Cost-to-income ratio	51%	47%	47%	46%	45%
Leverage					
Adj. financial leverage (x)	3.6	4.1	4.0	4.1	4.2
Investment/ equity	195%	245%	242%	251%	260%
Profitability					
ROE	6.2%	7.8%	8.2%	8.8%	9.5%
ROA	1.5%	1.7%	1.7%	1.8%	1.9%
Per share					
EPS (RMB)	0.77	1.01	1.12	1.29	1.49
DPS (RMB)	0.35	0.53	0.44	0.52	0.60
BVPS (RMB)	12.64	13.34	14.30	15.16	16.14

Source: Company data, CMBIS estimates

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