

China International Capital Corp. (3908 HK)

3Q20 results boosted by strong fee growth

CICC reported 9M20 net profit of RMB 5.1bn, up 63% YoY, accounting for 83% of consensus estimates. 3Q20 operating revenue registered a 6% QoQ growth on high base, with strength across all business lines. The Company will complete its A-share IPO and be listed on SSE on 2 Nov, raising RMB 13.2bn. We believe the replenished capital base can well support CICC's assets expansion ahead, and the Company remains its edge in investment banking to enjoy capital market reforms. **Maintain BUY.**

■ **Results positives: 1) Brokerage commissions +59% QoQ in 3Q20**, on back of surged domestic stock turnover (+78% QoQ), while the lower growth is likely due to lower activity of institutional clients. **2) Investment banking fees +22% QoQ**, continuing strong performance on high-base. This was mainly attributable to robust domestic IPO financing underwriting amount (+6.2x QoQ, ranked second) and solid progress in corporate bond underwriting (+30% QoQ, ranked third). Given its rich IPO pipeline esp. in several mega deals and in oversea market, we expect investment banking business will continue to support its earnings in 4Q20E. **3) Prop-trading gains +17% QoQ** amid volatility of both bond and stock market, as FV losses mostly reversed and realized gains also advanced. Yet the Company booked a RMB 1.1bn losses from forex, which was likely caused by forex derivatives, dragging down its op. revenue growth to 6% QoQ.

■ **Results negatives: Net interest losses +8% QoQ**, as the Company continued to leverage up with debt and borrowings expanded 10% QoQ, offsetting growth in margin financing (+21% QoQ) and reverse repos (+23% QoQ). CICC's leverage stayed at 7.4x by the end of 3Q20, thanks to the issuance of RMB 5bn perpetual bonds; and its A-share IPO RMB 13.2bn in Nov will further relieve its capital pressure.

■ **Maintain BUY.** CICC now trades at 1.19x 1-year forward P/B, slightly higher than its historical average (1.16x). Our unchanged TP of HK\$ 22.40 implies 1.5x FY21E P/B. Maintain BUY and as one of our sector top picks.

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------|--------|--------|--------|--------|--------|
| Adj. op. revenue (RMB mn) | 12,876 | 15,484 | 19,881 | 20,944 | 23,765 |
| Net profit (RMB mn) | 3,492 | 4,239 | 5,461 | 5,895 | 6,830 |
| EPS (RMB) | 0.83 | 0.99 | 1.24 | 1.34 | 1.55 |
| EPS CHG (%) | 9 | 19 | 25 | 8 | 16 |
| Consensus EPS (RMB) | N/A | N/A | 1.21 | 1.40 | 1.62 |
| P/E (x) | 21.1 | 19.3 | 16.2 | 13.0 | 12.0 |
| P/B (x) | 1.79 | 1.63 | 1.48 | 1.33 | 1.21 |
| Yield (%) | 1.0 | 1.0 | 0.0 | 1.2 | 1.2 |
| ROE (%) | 8.9 | 9.5 | 10.8 | 10.6 | 11.1 |
| Financial leverage (x) | 5.5 | 6.0 | 6.2 | 6.2 | 6.0 |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

| | |
|---------------|-------------|
| Target Price | HK\$ 22.40 |
| (Previous TP) | HK\$ 22.40) |
| Up/Downside | +24.7% |
| Current Price | HK\$ 17.96 |

China Brokerage Sector

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Stock Data

| | |
|--------------------------|-------------------------------|
| Mkt Cap (HK\$ mn) | 78,461 |
| Avg 3 mths t/o (HK\$ mn) | 209.66 |
| 52w High/Low (HK\$) | 20.40/10.72 |
| Total Issued Shares (mn) | 1,904 (H) 2,465 (A) |

Source: Bloomberg

Shareholding Structure

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

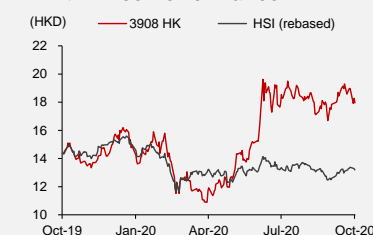
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 3.7% | -1.4% |
| 3-mth | 2.2% | 2.5% |
| 6-mth | 56.5% | 55.7% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. "2Q20 results strong on investment gains" – 18 Aug 2020
2. "Raises A-share IPO size; mega deals to help with ROE recovery" – 21 Jul 2020
3. "Optimism & reform suggest more earnings upsides" – 9 Jul 2020
4. "Reform acceleration could drive further divergence" – 12 May 2020
5. "A-share homecoming: a positive move" – 2 Mar 2020

Figure 1: CICC's 3Q20 results summary

| (RMB mn) | | | | | | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|------------|------------|---------------|---------------|------------|
| I/S | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | QoQ | YoY | 9M19 | 9M20 | YoY |
| Net fee and commission income | 2,049 | 3,744 | 2,552 | 2,685 | 3,484 | 30% | 70% | 5,803 | 8,721 | 50% |
| Brokerage | 703 | 720 | 1,087 | 914 | 1,455 | 59% | 107% | 2,258 | 3,457 | 53% |
| Investment banking | 832 | 2,240 | 874 | 1,126 | 1,369 | 22% | 64% | 2,007 | 3,370 | 68% |
| Asset management and others | 513 | 784 | 591 | 645 | 659 | 2% | 28% | 1,537 | 1,894 | 23% |
| Net interest income/ (loss) | (250) | (488) | (225) | (274) | (295) | 8% | 18% | (608) | (794) | 31% |
| Prop trading gains | 1,674 | 1,826 | 1,909 | 3,601 | 4,224 | 17% | 152% | 5,133 | 9,735 | 90% |
| Adj. op. revenue | 4,308 | 4,323 | 4,757 | 5,938 | 6,303 | 6% | 46% | 11,161 | 16,999 | 52% |
| Adj. op. expenses | (2,609) | (2,876) | (2,919) | (3,577) | (3,963) | 11% | 52% | (7,147) | (10,458) | 46% |
| PPoP | 1,700 | 1,447 | 1,838 | 2,361 | 2,341 | -1% | 38% | 4,014 | 6,540 | 63% |
| Provision | (44) | (127) | (145) | (22) | (7) | -71% | -85% | (33) | (174) | 427% |
| Pre-tax profit | 1,656 | 1,321 | 1,693 | 2,339 | 2,334 | 0% | 41% | 3,981 | 6,366 | 60% |
| Income tax expense | (294) | (239) | (404) | (326) | (487) | 50% | 66% | (815) | (1,217) | 49% |
| Net profit | 1,355 | 1,099 | 1,277 | 1,998 | 1,839 | -8% | 36% | 3,139 | 5,115 | 63% |
| B/S | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | QoQ | YoY | FY19 | 3Q20 | YTD |
| Margin accounts | 21,253 | 23,190 | 23,617 | 25,567 | 30,866 | 21% | 45% | 23,190 | 30,866 | 33% |
| Financial investments | 179,133 | 197,178 | 203,718 | 254,030 | 257,259 | 1% | 44% | 197,178 | 257,259 | 30% |
| Reverse repo | 10,996 | 14,299 | 14,190 | 16,270 | 20,020 | 23% | 82% | 14,299 | 20,020 | 40% |
| Debt and borrowings | 117,674 | 124,714 | 137,166 | 149,985 | 164,397 | 10% | 40% | 124,714 | 164,397 | 32% |
| Total shareholders' equity | 44,933 | 48,294 | 49,725 | 50,329 | 56,637 | 13% | 26% | 48,294 | 56,637 | 17% |
| Ratios | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | QoQ | YoY | 9M19 | 9M20 | YoY |
| ROE | 12.3% | 9.4% | 10.4% | 16.0% | 13.8% | -2.2ppt | 1.5ppt | 9.6% | 13.0% | 3.4ppt |
| ROA | 1.7% | 1.3% | 1.4% | 1.9% | 1.6% | -0.3ppt | -0.1ppt | 1.4% | 1.6% | 0.2ppt |
| Adj. leverage | 6.0x | 6.0x | 6.6x | 7.4x | 7.4x | 0.0x | 1.4x | 6.0x | 7.4x | 1.4x |
| Investment yield | 3.8% | 3.9% | 3.4% | 5.9% | 6.3% | 0.4ppt | 2.5ppt | 4.2% | 5.7% | 1.6ppt |
| Cost-to-income ratio | 60% | 66% | 61% | 60% | 62% | 3ppt | 2ppt | 64% | 61% | -2ppt |

Source: Company data, CMBIS

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Brokerage commission | 2,617 | 2,979 | 4,007 | 4,361 | 4,852 |
| Investment banking fee | 3,171 | 4,248 | 5,716 | 5,101 | 6,210 |
| Asset management fee | 618 | 754 | 910 | 1,011 | 1,114 |
| Net interest income | (284) | (1,095) | (1,277) | (1,246) | (1,104) |
| Prop-trading gains | 4,871 | 6,959 | 8,753 | 9,673 | 10,884 |
| Others | 1,883 | 1,641 | 1,771 | 2,044 | 1,810 |
| Adj. op. revenue | 12,876 | 15,484 | 19,881 | 20,944 | 23,765 |
| Adj. op. expenses | (8,415) | (10,023) | (12,740) | (13,312) | (14,990) |
| PPoP | 4,462 | 5,461 | 7,141 | 7,632 | 8,775 |
| Provision | (74) | (160) | (256) | (181) | (138) |
| Pre-tax profit | 4,387 | 5,302 | 6,885 | 7,451 | 8,637 |
| Income tax expense | (853) | (1,054) | (1,446) | (1,582) | (1,836) |
| Minority interests | (42) | (9) | 22 | 26 | 29 |
| Attributable net profit | 3,492 | 4,239 | 5,461 | 5,895 | 6,830 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Deposit held on behalf of clients | 31,267 | 40,960 | 61,790 | 65,419 | 72,558 |
| Clearing reserves | 8,885 | 10,964 | 23,480 | 25,895 | 28,721 |
| Margin accounts | 17,716 | 23,190 | 25,509 | 27,805 | 30,307 |
| Reverse repos | 19,553 | 14,299 | 15,443 | 16,524 | 17,681 |
| Financial investments | 150,485 | 197,178 | 230,698 | 253,768 | 276,607 |
| Other assets | 47,514 | 58,380 | 69,368 | 70,419 | 72,636 |
| Total assets | 275,421 | 344,971 | 426,288 | 459,829 | 498,509 |
| Customer brokerage deposits | 41,318 | 48,338 | 92,685 | 98,128 | 108,836 |
| Short-term debts | 71,246 | 70,031 | 82,185 | 89,936 | 96,879 |
| Long-term debts | 61,993 | 79,391 | 91,300 | 97,691 | 104,529 |
| Other liabilities | 58,487 | 98,680 | 106,236 | 115,025 | 123,104 |
| Total liabilities | 233,044 | 296,440 | 372,406 | 400,781 | 433,349 |
| Total shareholders' equity | 42,184 | 48,294 | 53,620 | 58,774 | 64,876 |
| Incl. Perpetual bonds | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Minority interest | 193 | 238 | 262 | 275 | 283 |

Key Ratios

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Operating revenue mix | | | | | |
| Brokerage commission | 20% | 19% | 20% | 21% | 20% |
| Investment banking fee | 25% | 27% | 29% | 24% | 26% |
| Asset management fee | 5% | 5% | 5% | 5% | 5% |
| Net interest income | -2% | -7% | -6% | -6% | -5% |
| Prop-trading gains | 38% | 45% | 44% | 46% | 46% |
| Others | 15% | 11% | 9% | 10% | 8% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Growth, YoY | | | | | |
| Brokerage commission | -6% | 14% | 35% | 9% | 11% |
| Investment banking fee | 14% | 34% | 35% | -11% | 22% |
| Asset management fee | 1% | 22% | 21% | 11% | 10% |
| Net interest income | -1% | 286% | 17% | -2% | -11% |
| Prop-trading gains | 22% | 43% | 26% | 11% | 13% |
| Adj. op. revenue | 15% | 20% | 28% | 5% | 13% |
| PPoP | 26% | 22% | 31% | 7% | 15% |
| Attributable net profit | 26% | 21% | 29% | 8% | 16% |
| Total assets | 16% | 25% | 24% | 8% | 8% |
| Efficiency | | | | | |
| Cost-to-income ratio | 65% | 64% | 63% | 63% | 62% |
| Leverage | | | | | |
| Adj. financial leverage (x) | 5.5 | 6.0 | 6.2 | 6.2 | 6.0 |
| Investment/ equity | 357% | 408% | 430% | 432% | 426% |
| Profitability | | | | | |
| ROE | 8.9% | 9.5% | 10.8% | 10.6% | 11.1% |
| ROA | 1.4% | 1.4% | 1.4% | 1.3% | 1.4% |
| Per share | | | | | |
| EPS (RMB) | 0.83 | 0.99 | 1.24 | 1.34 | 1.55 |
| DPS (RMB) | 0.16 | 0.00 | 0.19 | 0.20 | 0.23 |
| BVPS (RMB) | 9.82 | 10.83 | 12.04 | 13.22 | 14.85 |

Source: Company data, CMBIS estimates

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| | |
|------------------|---|
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| NOT RATED | : Stock is not rated by CMBIS |

| | |
|-----------------------|---|
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