

CICC (3908 HK)

Stellar investment banking and investment growth in 2Q19

CICC reported 1H19 net profit of RMB 1.9bn, up 15% YoY, accounting for 47%/41% of CMBIS/consensus FY19E estimates. The results was in-line with our expectation but may lightly miss consensus. CICC was one of the few brokers that delivered a positive sequential growth in 2Q19, with operating income/ net profit up 16%/7% QoQ. The growth was mainly powered by stellar performance of investment banking income and prop-trading gains. We noticed the Company's number of oversea equity financing projects declined in 3Q19, but this could be offset by its strong pipeline in STAR Market (ranked first by fund raising size and second by number of IPOs). In addition, its relatively stable investment yield could also protect its earnings in weakening market condition. **Maintain BUY.**

- **Results positives:** 1) **Investment banking net income jumped 2x QoQ in 2Q19**, which we believe was primarily boosted by oversea equity financing underwriting. According to Bloomberg, the Company ranked first place among Chinese players by underwriting amount in Hong Kong IPO and follow-on offerings in 1H19 with significant share gains. 2) **Prop-trading gains also increased 27% QoQ**, with good performance from both equity (likely from OTC derivatives) and bond. CICC achieved an investment yield of 5.1% in 1H19, up 0.3ppt YoY. 3) **AM and fund management net income increased 8% YoY in 1H19**, which was largely driven by its strong PE fund management business. Total AUM of AM and PE management recorded a 12% and 6% HoH in 1H19 against a downward industry trend.
- **Results negatives:** 1) **Brokerage net income was flat QoQ and up only 2% YoY in 1H19** (vs. A-share ADT +2% QoQ and 32% YoY). This may be resulted from a lower income from institutional customers (gross income -19% YoY) in 1H19, but was partly offset by strong growth from retail brokerage (gross income +18% YoY). 2) **Net interest loss rose 3.3x QoQ**, as the Company further leveraged up. Placements from banks increased another 45% in 2Q19. Active leverage therefore rose from 5.9x in 1Q19 to 6.2x in 2Q19. 3) **Impairment losses was RMB 47mn in 2Q19**, reversing from a RMB 58mn write-back in 1Q19, likely on deteriorated asset quality amid weakening A-share market.
- **Valuation.** CICC currently trades at 1.23 FY19E P/B, 3% above its historical average (1.19x). We maintain our earnings forecast unchanged, and maintain BUY rating on CICC with TP at HK\$ 18.6.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. op. revenue (RMB mn)	11,213	12,919	14,747	17,386	19,824
Net profit (RMB mn)	2,766	3,492	3,989	4,831	5,579
EPS (RMB)	0.76	0.83	0.94	1.14	1.32
EPS CHG (%)	(1)	9	13	21	16
P/E (x)	17.1	15.7	13.9	11.4	9.9
P/B (x)	1.45	1.32	1.23	1.12	1.0
Yield (%)	1.3	1.2	1.5	1.8	2.0
ROAE (%)	10.0	8.9	9.1	10.2	10.8
Financial leverage (x)	5.3	5.6	5.7	5.7	5.6

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 18.6
(Previous TP	HK\$ 18.6)
Up/Downside	+26.5%
Current Price	HK\$ 14.70

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	61,632
Avg 3 mths t/o (HK\$ mn)	102
52w High/Low (HK\$)	20.00/11.36
Total Issued Shares (mn)	1,728

Source: Bloomberg

Shareholding Structure

Huijin	46.18%
Haier Group Corporation	9.50%
Tencent Holdings Limited	4.95%

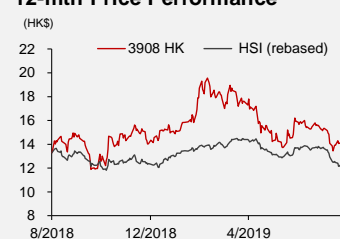
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.7%	4.7%
3-mth	3.4%	7.7%
6-mth	-21.5%	-13.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Figure 1: CICC's 2Q19 results summary

(RMB mn)										
I/S	3Q18	4Q18	1Q19	2Q19	QoQ	2Q18	YoY	1H18	1H19	YoY
Net fee and commission income	2,326	2,125	1,588	2,166	36%	1,933	12%	3,500	3,754	7%
Brokerage	564	521	779	777	0%	713	9%	1,532	1,556	2%
Investment banking	1,210	999	291	884	203%	668	32%	963	1,175	22%
Asset Management	156	202	134	137	2%	162	-15%	520	541	4%
Fund management and others	397	404	384	369	-4%	390	-5%	744	753	1%
Net interest income*	(288)	(339)	(182)	(790)	334%	(486)	62%	(573)	(972)	70%
Prop trading gains*	1,721	1,126	1,834	2,334	27%	1,609	45%	2,888	4,168	44%
Adj. op. revenue	3,880	3,074	3,236	3,748	16%	3,239	16%	5,922	6,984	18%
Adj. op. expenses	(2,484)	(2,101)	(2,142)	(2,432)	13%	(2,043)	19%	(3,830)	(4,574)	19%
PPoP	1,397	973	1,094	1,316	20%	1,196	10%	2,092	2,410	15%
Provision	(60)	(49)	58	(47)	N/A	(26)	80%	35	11	-70%
Pre-tax profit	1,336	924	1,152	1,269	10%	1,169	9%	2,127	2,421	14%
Income tax expense	(238)	(141)	(233)	(289)	24%	(238)	21%	(473)	(521)	10%
Net profit	1,090	771	909	972	7%	919	6%	1,631	1,880	15%
B/S	3Q18	4Q18	1Q19	2Q19	QoQ	2Q18	YoY	FY18	1H19	HoH
Margin accounts	18,781	17,716	21,394	21,228	-1%	20,669	3%	17,716	21,228	20%
Financial investment	132,784	150,485	172,986	176,004	2%	126,444	39%	150,485	176,004	17%
Reverse repos	16,815	19,553	12,236	15,362	26%	15,368	0%	19,553	15,362	-21%
Customer brokerage deposits	43,050	41,318	58,215	53,071	-9%	49,319	8%	41,318	53,071	28%
Total shareholder's equity	41,360	42,184	43,023	43,452	1%	39,962	9%	42,184	43,452	3%
Ratios	3Q18	4Q18	1Q19	2Q19	QoQ	2Q18	YoY	1H18	1H19	YoY
ROAE	10.7%	7.4%	8.5%	9.0%	0.5ppt	9.3%	-0.3ppt	8.5%	8.8%	0.3ppt
ROAA	1.7%	1.2%	1.2%	1.2%	0.0ppt	1.4%	-0.2ppt	1.3%	1.3%	0.0ppt
Leverage	5.4x	5.5x	5.9x	6.2x	0.3x	5.3x	0.9x	5.5x	6.2x	0.8x
Investment yield	5.3%	3.2%	4.5%	5.4%	0.8ppt	5.2%	0.1ppt	4.8%	5.1%	0.3ppt
Cost-to-income ratio	63%	68%	66%	64%	-2ppt	63%	2ppt	64%	65%	1ppt

Source: Company data, CMBIS

*: Due to change in accounting policy, 2Q19 net interest income and prop-trading gains are not comparable with that of 2Q18.

Note: the financial data was adjusted according to China-GAAP.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	2,779	2,617	3,092	3,508	4,030
Investment banking fee	2,791	3,171	3,513	4,028	4,494
Asset management fee	609	639	678	727	789
Net interest income	(288)	(1,199)	(1,591)	(1,531)	(1,387)
Prop-trading gains	4,008	5,786	6,745	8,106	9,063
Others	1,313	1,904	2,310	2,547	2,835
Adj. op. revenue	11,213	12,919	14,747	17,386	19,824
Adj. op. expenses	(7,671)	(8,457)	(9,563)	(11,142)	(12,604)
PPoP	3,542	4,462	5,184	6,244	7,221
Provision	59	(74)	(55)	(47)	(42)
Pre-tax profit	3,601	4,387	5,130	6,196	7,179
Income tax expense	(790)	(853)	(1,090)	(1,301)	(1,525)
Minority interests	(45)	(42)	(51)	(64)	(75)
Net profit	2,766	3,492	3,989	4,831	5,579

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	34,096	30,322	40,022	46,748	54,175
Clearing reserves	12,139	9,885	13,341	15,583	18,058
Margin accounts	21,883	17,716	19,134	20,664	22,317
Reverse repos	14,438	19,553	21,117	22,807	25,087
Financial investments	115,909	150,485	167,038	185,412	200,245
Other assets	39,346	47,460	48,627	49,813	51,861
Total assets	237,812	275,421	309,278	341,027	371,744
Customer brokerage deposits	47,347	41,318	52,028	60,772	70,428
Short-term debts	51,561	71,246	77,261	82,873	86,685
Long-term debts	49,934	61,993	68,192	73,647	78,803
Other liabilities	52,077	58,487	66,059	73,999	81,526
Total liabilities	200,919	233,044	263,540	291,292	317,442
Total shareholders' equity	36,707	42,184	45,525	49,501	54,057
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%	21%	20%	20%
Investment banking fee	25%	25%	24%	23%	23%
Asset management fee	5%	5%	5%	4%	4%
Net interest income	-3%	-9%	-11%	-9%	-7%
Prop-trading gains	36%	45%	46%	47%	46%
Others	12%	15%	16%	15%	14%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	83%	-6%	18%	13%	15%
Investment banking fee	-14%	14%	11%	15%	12%
Asset management fee	40%	5%	6%	7%	9%
Net interest income	-6%	317%	33%	-4%	-9%
Prop-trading gains	135%	44%	17%	20%	12%
Adj. op. revenue	52%	15%	14%	18%	14%
PPoP	49%	26%	16%	20%	16%
Net profit	52%	26%	14%	21%	15%
Total assets	133%	16%	12%	10%	9%
Efficiency					
Cost-to-income ratio	68%	65%	64%	63%	63%
Leverage					
Adj. financial leverage (x)	5.3	5.6	5.7	5.7	5.6
Investment/ equity	316%	357%	367%	375%	370%
Profitability					
ROE	10.0%	8.9%	9.1%	10.2%	10.8%
ROA	1.6%	1.4%	1.4%	1.5%	1.6%
Per share					
EPS (RMB)	0.76	0.83	0.94	1.14	1.32
DPS (RMB)	0.17	0.16	0.19	0.23	0.27
BVPS (RMB)	8.96	9.82	10.62	11.57	12.65

Source: Company data, CMBIS estimates

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NOT RATED	: Stock is not rated by CMBIS

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