

CITIC Securities (6030 HK)

IB and AM shone despite heavy impairment charges

CITICS reported FY20 net profit of RMB 14.9bn, up 22% YoY, in-line with prelim results. Top-line (+28% YoY) was highlighted by stellar fee growth, while prop-trading gains was weak, and heavy impairment charges (RMB 7.1bn) further dragged down bottom-line growth. We think the results was quite impressive regarding strength in WM, AM and IB, which we believe are core competitiveness of brokers in the longer run. Mgmt. mentioned the set-up of AM subsidiary could help it apply for mutual fund license, and we think the Company could therefore better capture the trend of retail investors' increasing allocation to risk assets. We fine-tune our FY21E-22E earnings estimates by -2% to +6% and lower TP to HK\$ 22.40 to reflect heightened market volatility. **Maintain BUY.**

■ **Results positives:** **1) Brokerage** income +52% YoY (vs. industry +54% YoY) on domestic brokerage share gain (6.5% in FY20 vs. 5.8% in FY19) and soared revenue from agency sales of products (+145% YoY), showing initial success from WM business transformation. **2) IB** income +54% YoY, where domestic/oversea revenue was robustly up 52%/62% YoY. CITICS maintained 1st place in domestic equity and debt underwriting, and achieved high growth overseas. **3) AM** income +40% YoY, of which asset mgmt. fees/fund mgmt. fees grew 52%/36% YoY, as CITICS enhanced its active management capability (75% actively managed AUM at YE FY20 vs. 52% at YE FY19) and enjoyed the mutual fund boom through China AMC (AUM +42% YoY to RMB 1.5tn). **4) Net interest income** +27% YoY, thanks to 65% YoY growth of margin account and lower funding costs amid easing monetary policy, though this was partly offset by expanded debt balance (+19% YoY).

■ **Results negatives:** **1) Prop-trading gains** was up modestly 13% YoY, including RMB 6.4bn FV losses. Calculated investment yield was 4.3% in FY20 (5.4%/2.8% in 1H20/2H20), down 0.6ppt YoY, despite 23% YoY growth in financial assets. **2) Impairment losses** surged 173% YoY to RMB 7.1bn, of which RMB 4.9bn/RMB 0.7bn was for SPL/margin financing, further lifting CITICS's provision coverage to 17%/1.3%, both at highest level among large peers. **3) Payout ratio** was 34% in FY20 (vs. 53% in FY20). We think the Company needs to keep cash on hand before the completion of proposed A+H rights issue to replenish capital and support its mid-term expansion.

■ **Fine-tune TP to HK\$ 22.40, maintain BUY.** We fine tune CITICS earnings in FY21E-22E by 2% on average, and apply higher COE assumption (10.6% vs. prev. 9.5%) to reflect heightened market volatility. The Company's valuation is undemanding at 0.9x 1-year forward P/B (vs. historical avg. 1.1x). We continue to like CITICS's solid leadership amid market consolidation.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Adj. op. revenue (RMB mn)	37,440	48,089	50,913	58,112	64,741
Net profit (RMB mn)	12,229	14,902	17,304	21,347	24,838
EPS (RMB)	1.01	1.17	1.34	1.65	1.92
EPS CHG (%)	30	16	15	23	16
Consensus EPS (RMB)	N/A	N/A	1.49	1.71	N/A
P/E (x)	12.9	11.1	9.7	7.9	6.8
P/B (x)	0.97	0.92	0.87	0.81	0.75
Yield (%)	4.1	3.1	4.1	5.1	5.9
ROE (%)	7.8	8.7	9.2	10.6	11.5
Adj. financial leverage (x)	4.1	4.7	4.9	4.9	4.9

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 22.40
(Previous TP	HK\$ 24.60)
Up/Downside	+43.0%
Current Price	HK\$ 15.66

China Brokerage Sector

Karen Sui
 (852) 3761 8775
 suixiaomeng@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	335,870
Avg 3 mths t/o (HK\$ mn)	300.04
52w High/Low (HK\$)	20.75/12.55
Total Issued Shares (mn)	2,278 (H)
	10,648 (A)

Source: Wind

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	-12.4%	-8.9%
3-mth	-8.5%	-17.6%
6-mth	-9.5%	-24.7%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: PwC

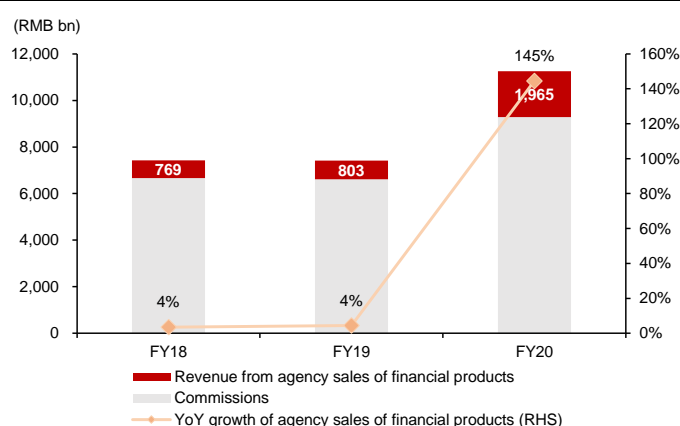
Related Reports

1. "RMB 28bn A+H rights issue to beef up capital base" – 1 Mar 2021
2. "FV losses and impairment drags strong fee growth" – 30 Oct 2020
3. "2Q20 results strong across the board" – 25 Aug 2020
4. "Optimism & reform suggest more earnings upsides" – 9 Jul 2020
5. "Reform acceleration could drive further divergence" – 12 May 2020

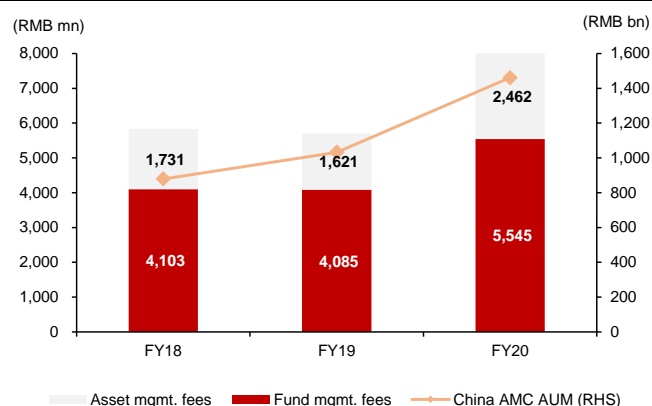
Figure 1: CITICS's quarterly results summary

(RMB mn)										
I/S	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Net fees and commissions	4,875	5,257	5,570	8,015	7,923	-1%	63%	18,022	26,764	49%
Brokerage	1,711	2,680	2,328	3,526	2,717	-23%	59%	7,414	11,252	52%
Investment banking	1,484	891	1,330	2,272	2,389	5%	61%	4,465	6,882	54%
Asset Management	1,606	1,617	1,673	2,104	2,612	24%	63%	5,707	8,006	40%
Net interest income	259	313	497	1,021	755	-26%	192%	2,045	2,587	27%
Prop trading gains	4,252	5,724	6,071	4,081	2,030	-50%	-52%	15,891	17,907	13%
Adj. op. revenue	9,668	11,575	12,564	13,460	10,491	-22%	9%	37,440	48,089	28%
Adj. op. expenses	(5,526)	(4,444)	(5,519)	(5,268)	(5,312)	1%	-4%	(17,855)	(20,543)	15%
PPoP	4,141	7,130	7,045	8,192	5,179	-37%	25%	19,585	27,546	41%
Provision	(1,598)	(1,597)	(704)	(3,085)	(1,689)	-45%	6%	(2,590)	(7,076)	173%
Pre-tax profit	2,544	5,533	6,341	5,107	3,490	-32%	37%	16,995	20,470	20%
Income tax expense	(748)	(1,310)	(1,344)	(1,215)	(1,086)	-11%	45%	(4,346)	(4,954)	14%
Net profit	1,706	4,076	4,850	3,735	2,242	-40%	31%	12,229	14,902	22%
B/S										
Margin accounts	70,674	77,241	85,181	104,566	116,741	12%	65%	70,674	116,741	65%
Reverse repos	58,830	52,483	50,687	44,290	39,227	-11%	-33%	58,830	39,227	-33%
Financial investment	395,312	424,495	498,469	516,113	486,017	-6%	23%	395,312	486,017	23%
Borrowings and bonds	321,021	302,468	361,521	371,726	382,150	3%	19%	321,021	382,150	19%
Total shareholders' equity	161,625	177,354	176,044	179,746	181,712	1%	12%	161,625	181,712	12%
Ratios										
ROE	4.2%	9.6%	11.0%	8.4%	5.0%	-3.4ppt	0.8ppt	7.8%	8.7%	0.9ppt
ROA	0.9%	1.9%	2.0%	1.5%	0.9%	-0.6ppt	0.0ppt	1.7%	1.6%	-0.1ppt
Leverage	4.1x	4.2x	4.5x	4.8x	4.7x	-0.1x	0.6x	4.1x	4.7x	0.6x
Investment yield	4.6%	5.6%	5.3%	3.2%	1.6%	-1.6ppt	-3.0ppt	4.9%	4.3%	-0.6ppt
Cost-to-income ratio	56%	38%	43%	38%	50%	12ppt	-6ppt	47%	42%	-5ppt

Source: Company data, CMBIS

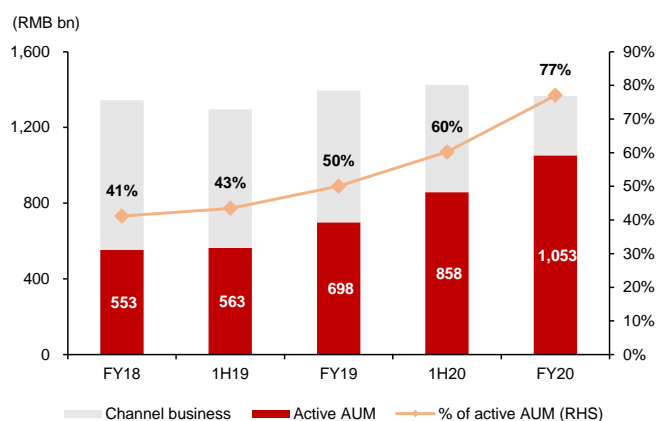
Figure 2: CITICS's agency sales of financial products soared 145% YoY to RMB 2.0bn in FY20

Source: Company data, CSRC, CMBIS

Figure 3: CITICS's AM fee growth was greatly fueled by China AMC's robust fund mgmt. business

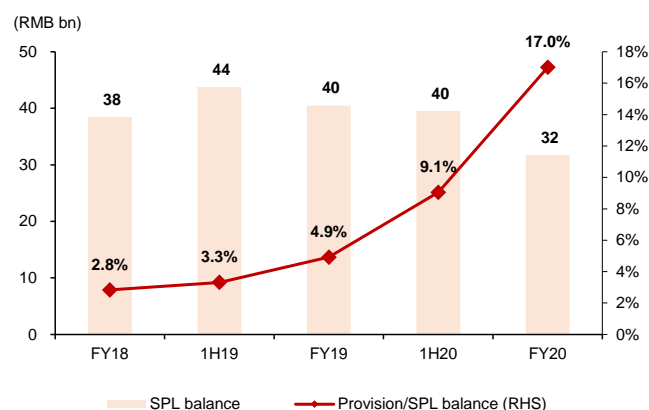
Source: Company data, CMBIS

Figure 4: CITICS has been enhancing the active management capability of its AM business



Source: Company data, CMBIS

Figure 5: CITICS pared down SPL balances while kept building industry-high provisions



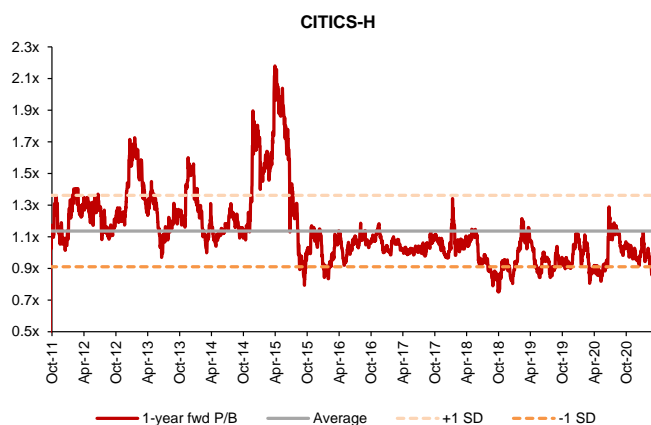
Source: Company data, CMBIS

Figure 6: Earnings revision

(HK\$)	New		Old		New vs. Old	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Adj. operating income (mn)	50,913	58,112	47,424	52,261	7%	11%
Net profit (mn)	17,304	21,347	17,587	20,178	-2%	6%
EPS	1.34	1.65	1.36	1.56	-2%	6%
BVPS	15.00	16.11	15.12	16.14	-1%	0%
ROE	9.2%	10.6%	9.3%	10.0%	-0.1ppt	0.6ppt

Source: CMBIS estimates

Figure 7: CITICS-H now trades below historical average -1SD



Source: Bloomberg, CMBIS estimates

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Brokerage commission	7,414	11,252	12,375	14,068	15,322
Investment banking fee	4,465	6,882	6,548	7,213	7,992
Asset management fee	5,707	8,006	8,817	9,658	10,678
Net interest income	2,045	2,587	2,972	3,247	3,446
Prop-trading gains	15,891	17,907	18,311	21,927	25,186
Others	1,918	1,456	1,890	1,999	2,119
Adj. op. revenue	37,440	48,089	50,913	58,112	64,741
Adj. op. expenses	(17,855)	(20,543)	(22,344)	(25,503)	(28,413)
PPoP	15,585	27,546	28,569	32,609	36,329
Provision	(2,590)	(7,076)	(4,688)	(3,265)	(2,254)
Pre-tax profit	16,995	20,470	23,881	29,344	34,075
Income tax expense	(4,346)	(4,954)	(5,888)	(7,238)	(8,400)
Minority interests	(420)	(614)	(688)	(759)	(837)
Attributable net profit	12,229	14,902	17,304	21,347	24,838

Balance Sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Deposit held on behalf of clients	95,417	158,251	174,911	196,632	208,938
Clearing reserves	32,692	56,934	59,854	67,287	71,498
Margin accounts	70,674	116,741	134,253	144,993	152,243
Reverse repos	58,830	39,227	41,580	44,907	48,499
Financial investments	395,312	486,017	549,200	604,119	664,531
Other assets	138,798	195,792	206,817	209,403	215,535
Total assets	791,722	1,052,962	1,166,611	1,267,341	1,361,244
Customer brokerage deposits	123,352	203,111	225,635	253,655	269,530
Short-term debts	235,126	225,756	248,331	273,164	300,481
Long-term debts	126,394	172,881	202,119	216,205	231,277
Other liabilities	141,400	265,332	292,387	311,620	330,828
Total liabilities	626,273	867,080	968,473	1,054,644	1,132,116
Total shareholders' equity	161,625	181,712	193,845	208,271	224,571
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	3,825	4,171	4,296	4,425	4,557

Key Ratios

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating revenue mix					
Brokerage commission	20%	23%	24%	24%	24%
Investment banking fee	12%	14%	13%	12%	12%
Asset management fee	15%	17%	17%	17%	16%
Net interest income	5%	5%	6%	6%	5%
Prop-trading gains	42%	37%	36%	38%	39%
Others	5%	3%	4%	3%	3%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	0%	52%	10%	14%	9%
Investment banking fee	23%	54%	-5%	10%	11%
Asset management fee	-2%	40%	10%	10%	11%
Net interest income	-16%	27%	15%	9%	6%
Prop-trading gains	98%	13%	2%	20%	15%
Adj. op. revenue	24%	28%	6%	14%	11%
PPoP	33%	41%	4%	14%	11%
Net profit	30%	22%	16%	23%	16%
Total assets	21%	33%	11%	9%	7%
Efficiency					
Cost-to-income ratio	47%	42%	43%	43%	43%
Leverage					
Adj. financial leverage (x)	4.1	4.7	4.9	4.9	4.9
Investment/ equity	245%	267%	283%	290%	296%
Profitability					
ROE	7.8%	8.7%	9.2%	10.6%	11.5%
ROA	1.7%	1.6%	1.6%	1.8%	1.9%
Per share					
EPS (RMB)	1.01	1.17	1.34	1.65	1.92
DPS (RMB)	0.53	0.40	0.54	0.66	0.77
BVPS (RMB)	13.34	14.06	15.00	16.11	17.37

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Disclaimer

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIS Ratings

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
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.