

CITIC Securities (6030 HK)

RMB 28bn A+H rights issue to beef up capital base

On 26 Feb, CITICS announced a A+H rights issue plan to raise max. RMB 28bn, aiming to enhance its capital base and expand principal-based business. Though the rights issue may increase CITICS's share base by 13% and cause short-term EPS and ROE dilution if successfully completed, we believe the capital replenishment will support CITICS's mid-term business expansion to meet more complex and diversified client demand, improve its profitability and solidify market leadership. **Maintain BUY.**

■ **Details of rights issue plan:** CITICS proposed to raise max. RMB 28bn through A+H rights issue, on a basis of 1.5 A/H rights shares for every 10 existing A/H shares. Total no. of rights shares will be up to 1.9bn (incl. 1.6bn A shares and 0.3bn H shares), accounting for 13% of enlarged equity base post rights issue. The subscription price of rights shares should be consistent for A and H shares after forex adjustment. The proposal is subject to shareholders' and regulators' approvals; A-share rights issue will be successful only if at least 70% of A rights share are subscribed.

■ **An essential move to support the expansion of B/S-intensive business.** CITICS planned to invest 68% of the proceeds to expand its principal-based business and 18% to inject into subsidiaries. We believe the rights issue plan is essential to enhance the Company's capital position and support its mid-term growth. CITICS's total assets increased rapidly during FY19-FY20E, driven by financial investment and margin balance as client demand grew. CITICS is also a market leader in innovative businesses, such as in securities lending and OTC derivatives thanks to its strength in institutionalization, while derivatives-related business requires more capital to meet regulatory requirement. As a result, CITICS's risk mgmt. indicators were declining close to regulatory warning line by 3Q20, and it is in need of replenishing capital. Assuming an adj. leverage of 4.75x (by 3Q20), RMB 28bn proceeds could support RMB 133bn assets expansion ahead.

■ **Est. FY22E EPS dilution at ~10%; short-term share price may under pressure.** The announced plan implied a subscription price of RMB 14.44 per share, higher than FY20E BVPS (RMB 14.06 according to prelim results), and implied 47% discount/4% premium to A/H-share last price. We estimate that FY22E EPS dilution could be narrowed from 13% to 10% if 1/3 of the raised fund can be utilized and generate a ROE of 8% (Fig. 7) in FY22E. The rights issue plan and potential dilution impact may hit the sentiment on CITICS in short-term, while the H-share already trades at an undemanding valuation (0.9x 1-year forward P/B). **Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	30,239	37,440	42,973	47,424	52,261
Net profit (RMB mn)	9,390	12,229	15,016	17,587	20,178
EPS (RMB)	0.77	1.01	1.18	1.36	1.56
EPS CHG (%)	(18)	30	17	16	15
Consensus EPS (RMB)	N/A	N/A	1.28	1.53	1.75
P/E (x)	19.4	14.9	12.7	11.0	9.6
P/B (x)	1.19	1.12	1.06	0.99	0.93
Yield (%)	2.3	3.6	3.1	3.6	4.2
ROE (%)	6.2	7.8	8.7	9.3	10.0
Adj. financial leverage (x)	3.6	4.1	4.1	4.2	4.2

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 24.60
(Previous TP)	HK\$ 24.60)
Up/Downside	+47.1%
Current Price	HK\$ 16.72

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	385,815
Avg 3 mths t/o (HK\$ mn)	302.06
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%

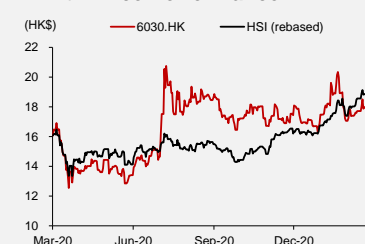
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-2.9%	1.5%
3-mth	-4.7%	7.8%
6-mth	-9.4%	14.0%

Source: Wind

12-mth Price Performance



Source: Wind

Auditor: PwC

Related Reports

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Figure 1: CITICS's proposed rights issue plan

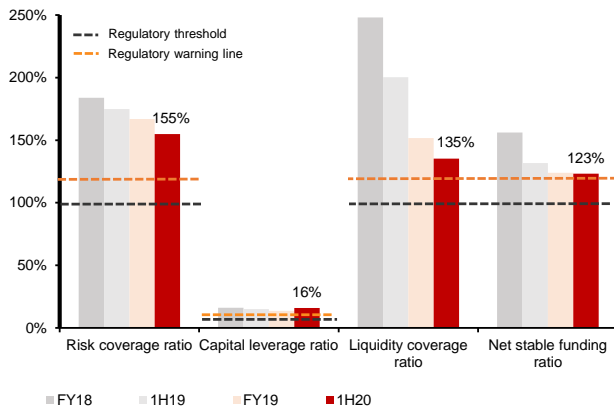
Item	H-share	A-share	Total
Outstanding shares pre-issue (mn)	2,278	10,648	12,927
Rights issue basis ratio	10:1.5	10:1.5	N/A
Max. new shares to be issued (mn)	342	1,597	1,939
Outstanding shares post-issue (mn)	2,620	12,246	14,866
Max. new shares as % of enlarged share base	13%	13%	13%

Source: Company data, CMBIS

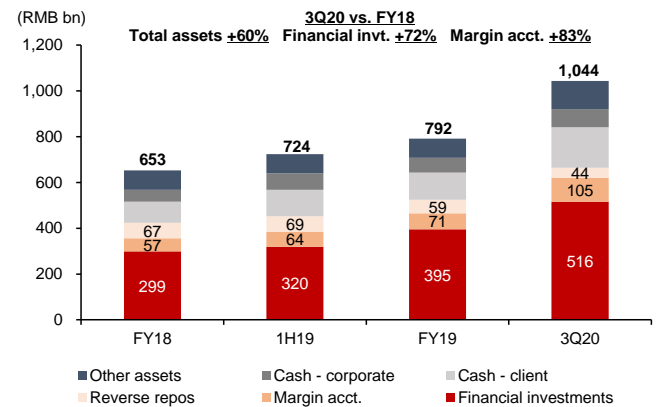
Figure 2: Use of proceeds of CITICS's proposed rights issue plan

No.	Use of proceeds	Max. amount (RMB bn)	% of total proceeds
1	To develop principal-based business	19	68%
2	To increase investment into subsidiaries	5	18%
3	To enhance IT system	3	11%
4	To replenish working capital	1	4%
Total		28	100%

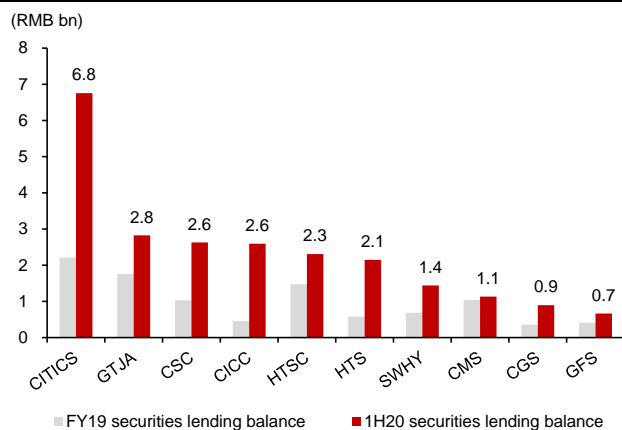
Source: Company data, CMBIS

Figure 3: CITICS's risk management indicators were declining in recent years...

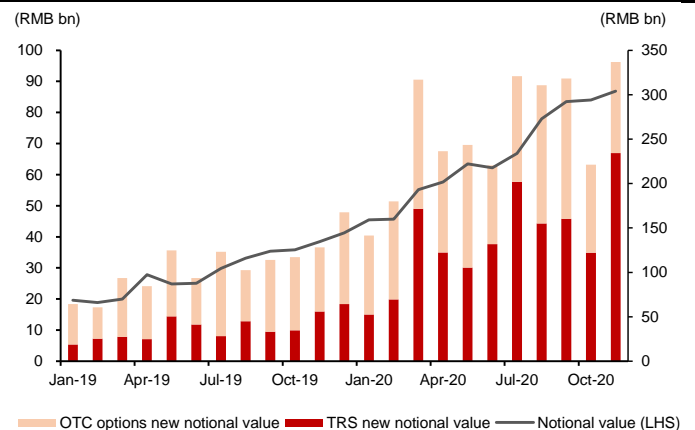
Source: Company data, CSRC, CMBIS

Figure 4: ...on back of strong total assets growth driven by financial investment and margin account

Source: Company data, CMBIS

Figure 5: CITICS owned dominant market share (~20%) in rapidly expanding securities lending market by 1H20

Source: Company data, CMBIS

Figure 6: CITICS was ranked 1st by notional value in OTC derivatives market ended Nov 2020

Source: SAC, CMBIS

Figure 7: Estimated EPS/ROE dilution impact from CITICS's proposed rights issue

Item	Amount	Item	Amount
Offering size		No. of total issued shares (mn)	
Max. no. of new shares offered (mn)	1,939	Before	12,927
Max. amount raised (RMB mn)	28,000	After - at max. offering size	14,866
Implied offering price (RMB)	14.44	% of enlarged equity base	13.0%

Impact on FY21E financial data

Key assumptions: 1) Rights issue to be completed by 3Q21E; 2) all rights shares are subscribed at RMB 14.44 per share

EPS (RMB) - before	1.36
EPS (RMB) - after	1.31
<i>Diff</i>	<i>-4%</i>
ROE - before	9.3%
ROE - after	8.6%
<i>Diff</i>	<i>-0.7ppt</i>

Impact on FY22E financial data

Key assumptions: 1) Rights issue to be completed by 3Q21E; 2) all rights shares are subscribed at RMB 14.44 per share; **3) 1/3 of the raised fund will be utilized and will generate an 8.0% ROE in FY22E**

EPS (RMB) - before	1.56
EPS (RMB) - after	1.41
<i>Diff</i>	<i>-10%</i>
ROE - before	10.0%
ROE - after	9.1%
<i>Diff</i>	<i>-0.9ppt</i>

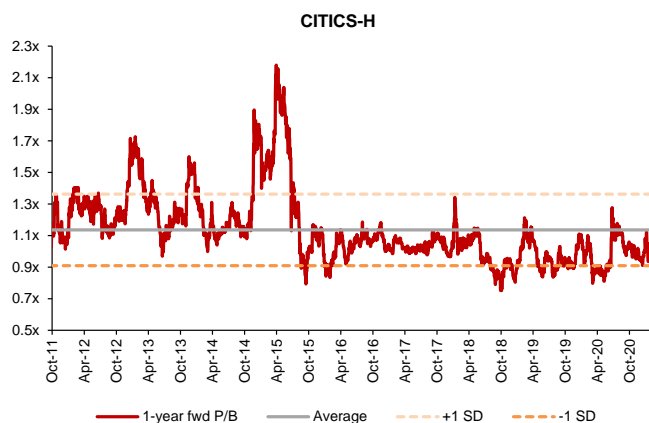
Source: CMBIS estimates

Figure 8: Large China brokers' equity financing in recent years

Company	Type of equity financing	Fund raising size	Status
CITICS	A+H share rights issue	To raise max. RMB 28bn	Announced in Feb 2021
	A-share private placement	RMB 13.5bn to fully acquire Guangzhou Securities	Completed in Mar 2020
CSC	A-share private placement	RMB 3.9bn	Completed in Dec 2020
CICC	A-share IPO	RMB 13.2bn	Completed in Nov 2020
	H-share private placement	HK\$ 2.5bn	Completed in Oct 2019
CMS	A+H share rights issue	RMB 14.9bn	Completed in Aug 2020
Guosen	A-share private placement	RMB 15bn	Completed in Aug 2020
HTS	A-share private placement	RMB 20bn	Completed in Aug 2020
HTSC	GDR issuance	US\$ 1.7bn	Completed in Jun 2019
	A-share private placement	RMB 14.1bn	Completed in Aug 2018

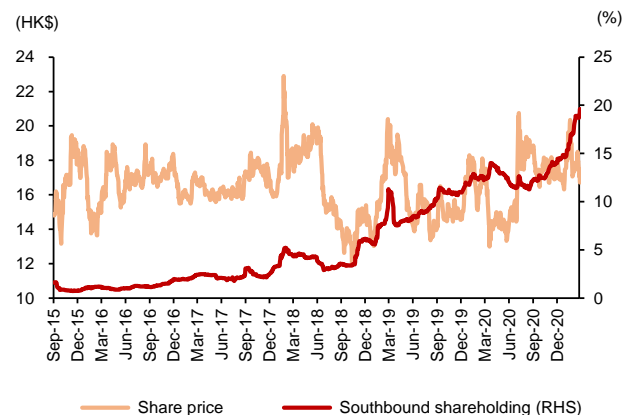
Source: Company data, CMBIS

Figure 9: CITICS-H's current valuation is close to historical low-end



Source: Bloomberg, CMBIS estimates

Figure 10: Southbound has been proactively accumulating CITICS's H-share since 2H20



Source: Wind, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Brokerage commission	7,429	7,414	9,352	10,275	11,155
Investment banking fee	3,639	4,465	5,202	6,285	7,423
Asset management fee	5,834	5,707	6,348	6,886	7,504
Net interest income	2,422	2,045	1,600	2,146	2,350
Prop-trading gains	8,046	15,891	18,953	20,216	22,096
Others	2,869	1,918	1,519	1,615	1,732
Adj. op. revenue	30,239	37,440	42,973	47,424	52,261
Adj. op. expenses	(15,563)	(17,855)	(20,525)	(22,171)	(23,909)
PPoP	14,676	19,585	22,449	25,253	28,351
Provision	(2,211)	(2,590)	(2,374)	(1,787)	(1,434)
Pre-tax profit	12,466	16,995	20,075	23,467	26,917
Income tax expense	(2,589)	(4,346)	(4,626)	(5,402)	(6,212)
Minority interests	(487)	(420)	(434)	(478)	(527)
Attributable net profit	9,390	12,229	15,016	17,587	20,178

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Deposit held on behalf of clients	74,291	95,417	132,168	148,159	162,389
Clearing reserves	24,922	32,692	45,575	51,089	55,996
Margin accounts	57,198	70,674	83,395	91,735	96,321
Reverse repos	67,370	58,830	62,360	66,101	71,390
Financial investments	299,297	395,312	454,608	500,069	550,076
Other assets	130,054	138,798	138,975	145,377	150,575
Total assets	653,133	791,722	917,082	1,002,531	1,086,748
Customer brokerage deposits	97,774	123,352	171,818	191,125	209,482
Short-term debts	164,700	235,126	258,639	284,503	315,064
Long-term debts	118,082	126,394	145,296	164,135	175,597
Other liabilities	115,746	141,400	153,657	163,293	173,748
Total liabilities	496,301	626,273	729,410	803,055	873,891
Total shareholders' equity	153,141	161,625	183,733	195,418	208,677
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	3,691	3,825	3,939	4,058	4,179

Key Ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue mix					
Brokerage commission	25%	20%	22%	22%	21%
Investment banking fee	12%	12%	12%	13%	14%
Asset management fee	19%	15%	15%	15%	14%
Net interest income	8%	5%	4%	5%	4%
Prop-trading gains	27%	42%	44%	43%	42%
Others	9%	5%	4%	3%	3%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-8%	0%	26%	10%	9%
Investment banking fee	-17%	23%	16%	21%	18%
Asset management fee	2%	-2%	11%	8%	9%
Net interest income	1%	-16%	-22%	34%	10%
Prop-trading gains	-37%	98%	19%	7%	9%
Adj. op. revenue	-14%	24%	15%	10%	10%
PPoP	-18%	33%	3%	12%	12%
Net profit	-18%	30%	23%	17%	15%
Total assets	4%	21%	16%	9%	8%
Efficiency					
Cost-to-income ratio	51%	47%	47%	46%	45%
Leverage					
Adj. financial leverage (x)	3.6	4.1	4.1	4.2	4.2
Investment/ equity	195%	245%	247%	256%	264%
Profitability					
ROE	6.2%	7.8%	8.7%	9.3%	10.0%
ROA	1.5%	1.7%	1.8%	1.8%	1.9%
Per share					
EPS (RMB)	0.77	1.01	1.18	1.36	1.56
DPS (RMB)	0.35	0.53	0.46	0.54	0.62
BVPS (RMB)	12.64	13.34	14.21	15.12	16.14

Source: Company data, CMBIS estimates

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