

China Brokerage Sector

3Q20 results wrap: growth on robust fee incomes

China brokers within our coverage posted an avg. of 4% QoQ/-11% QoQ revenue/net profit growth in 3Q20. Fee incomes grew robustly on surged ADT, sped-up IPO flows and active mutual fund issuance, while volatility in invt. gains and provision charges were key negative factors. Looking into 4Q20E, we expect brokerage and IB will continue to lead brokers' top-line YoY growth. On policy side, potential implementation of registration-based system to the whole market as well as relaxation on QFII/RQFII and stock options favor leaders in IB and institutionalization more, where the strength of our top picks **CITICS (6030 HK)**, **CICC (3908 HK)** and **CSC (6066 HK)** lie in. **Maintain OUTPERFORM.**

■ **3Q20 results recap:** **1) Brokerage:** retail-focused brokers won again amid soared ADT; CGS and GFS saw higher QoQ growth (80-90%) vs. CITICS and CICC (50-60%). Only CGS registered higher than market t/o income growth, so we believe the commission rate is still trending down. **2) Investment banking:** all covered brokers recorded positive QoQ fee growth as reforms accelerated domestic IPO pace (+247% QoQ). CSC, HTS, CITICS and CICC are top players, while GFS lost shares due to regulatory ban on IB business. We see strong IPO flows in 4QTD and mega deals coming out could intensify market concentration. **3) Asset mgmt.:** QoQ change is exposed to seasonality, while those (CITICS and GFS) with strong fund sub still posted positive growth thanks to heating mutual fund issuance. We expect this trend to continue in coming quarters. **4) NII:** the growth mainly came from on margin balance expansion (+25% on avg.) and est. hike in yields, offsetting increased debt balances and pick-up in funding costs as monetary policy normalized. **5) Prop-trading:** overall invt. yields declined QoQ, on weak bond market and volatile stock market in Aug and Sep. As stock market rallied towards year-end in FY19, brokers may pose YoY decrease in 4Q20E on high base. **6) Provision:** CITICS's and HTSC's earnings were dragged by surged impairment losses (eroding 38%/23% of PPop). We believe the charges were mostly written on SPLs and bond invt.

■ **Maintain OUTPERFORM.** The sector now trades at 0.8x FY21E P/B (vs. historical avg. of 1.0x). The govt. has been calling to implement the registration-based system to the whole stock market registration recently, signaling the step-up of capital market reforms not far wavy. We believe brokers will continue to play an important role in serving the 14th Five-Year Plan, and current valuation provides an attractive entry point for longer term investment.

Valuation Table

Name	Ticker	Price (HK\$)	TP (HK\$)	Rating	P/B (x) FY21E	P/E (x) FY21E	Yield FY21E	ROE FY21E
CITICS	6030 HK	18.62	24.60	BUY	0.99	11.0	3.6%	9.3%
CICC	3908 HK	18.04	22.40	BUY	1.22	12.1	1.0%	10.6%
CSC	6066 HK	9.36	15.30	BUY	0.95	7.7	3.7%	14.4%
HTSC	6886 HK	13.60	18.80	BUY	0.74	8.5	4.7%	8.9%
HTS	6837 HK	7.04	10.20	BUY	0.48	6.7	4.5%	7.4%
GFS	1776 HK	9.17	11.60	HOLD	0.67	8.2	3.7%	8.4%
CGS	6881 HK	4.67	6.30	HOLD	0.48	5.5	5.5%	9.0%
Average					0.79	8.5	3.8%	9.7%

Source: Bloomberg, CMBIS estimates

OUTPERFORM
(Maintain)

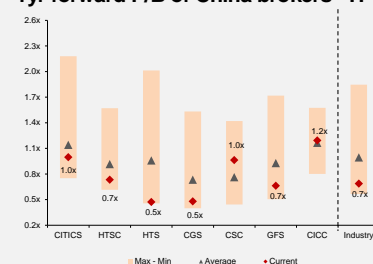
China Brokerage Sector

Karen Sui

(852) 3761 8775

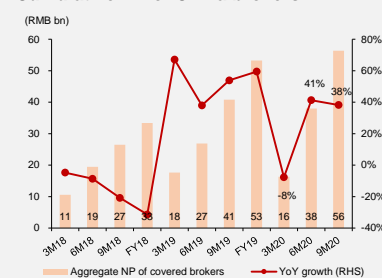
suixiaomeng@cmbi.com.hk

1yr forward P/B of China brokers - H



Source: Bloomberg, CMBIS estimates

Cumulative NP of China brokers



Source: Company data, CMBIS

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Figure 1: China brokers' 3Q20 results comparison

3Q20	CITICS 6030 HK	HTSC 6886 HK	HTS 6837 HK	GFS 1776 HK	CSC 6066 HK	CGS 6881 HK	CICC 3908 HK
(RMB mn)							
I/S							
Brokerage commission	3,526	2,056	1,588	2,161	1,534	2,561	1,455
Investment banking fees	2,272	1,484	2,168	173	1,963	373	1,369
Asset mgmt. fees	2,104	954	746	1,848	257	133	659
Net interest income	1,021	782	1,334	1,246	414	1,206	(295)
Prop-trading gains	4,081	2,729	2,157	1,315	1,635	964	4,224
Other income and gains	706	2,869	1,803	980	6	(52)	447
Adj. op. revenue	13,460	8,372	8,670	7,155	5,959	5,039	6,303
Adj. op. expenses	(5,268)	(4,314)	(3,684)	(3,758)	(2,242)	(2,338)	(3,963)
PPoP	8,192	4,057	4,985	3,397	3,717	2,701	2,341
Provision	(3,085)	(930)	(559)	(168)	(26)	(73)	(7)
Net profit	3,735	2,434	2,995	2,389	2,913	2,098	1,839
B/S							
Margin accounts	104,566	99,804	69,944	79,260	44,792	86,423	30,866
Reverse repos	44,290	16,111	61,490	15,363	16,337	26,567	20,020
Financial investment	516,113	349,976	272,241	186,750	177,482	172,204	257,259
Borrowings and bonds	179,746	127,092	154,448	96,153	61,731	74,400	211,540
Key ratios							
ROE	8.4%	7.7%	8.4%	10.1%	21.0%	11.4%	13.8%
ROA	1.5%	1.5%	1.7%	2.2%	3.5%	2.1%	1.6%
Financial leverage	4.8x	4.5x	4.0x	3.5x	4.6x	4.4x	7.4x
Investment yield	3.2%	3.4%	3.2%	2.7%	3.9%	2.4%	6.3%
Cost-to-income ratio	38%	51%	42%	52%	37%	46%	62%
QoQ growth							
I/S							
Brokerage commission	51%	61%	64%	73%	67%	87%	59%
Investment banking fees	71%	69%	123%	15%	58%	164%	22%
Asset mgmt. fees*	26%	12%	-24%	15%	-42%	-15%	2%
Net interest income [^]	105%	36%	27%	36%	28%	23%	8%
Prop-trading gains	-33%	-6%	-53%	-65%	-36%	-25%	17%
Other income and gains	70%	163%	424%	421%	-187%	-271%	-47%
Adj. operating revenue	7%	0%	-8%	-18%	10%	29%	6%
Adj. operating expenses	-5%	18%	44%	11%	16%	37%	11%
PPoP	16%	-14%	-27%	-37%	7%	22%	-1%
Provision	338%	373%	-74%	-38%	-74%	N/A	-71%
Net profit	-23%	-31%	-6%	-35%	11%	17%	-8%
B/S							
Margin accounts	10%	27%	21%	28%	31%	39%	21%
Reverse repos	-3%	-7%	4%	-6%	-11%	-6%	23%
Financial investment	17%	21%	2%	-6%	13%	11%	1%
Borrowings and bonds	20%	41%	7%	10%	24%	24%	9%
Key ratios							
ROE	-2.6ppt	-3.5ppt	-1.5ppt	-5.7ppt	0.8ppt	1.5ppt	-2.2ppt
ROA	-0.6ppt	-0.8ppt	-0.2ppt	-1.2ppt	0.0ppt	0.2ppt	-0.3ppt
Financial leverage	0.3x	0.7x	-0.4x	0.1x	0.5x	0.5x	0.0x
Investment yield	-2.0ppt	-0.5ppt	-3.7ppt	-4.6ppt	-3.1ppt	-1.1ppt	0.4ppt
Cost-to-income ratio	-5ppt	8ppt	15ppt	13ppt	2ppt	3ppt	3ppt

Source: Company data, CMBIS

*: Includes AM fees, fund mgmt. fees and other fee income for CICC.

[^]: Refers to net interest loss for CICC.

Figure 2: China brokers' 9M20 results comparison

9M20	CITICS 6030 HK	HTSC 6886 HK	HTS 6837 HK	GFS 1776 HK	CSC 6066 HK	CGS 6881 HK	CICC 3908 HK
(RMB mn)							
I/S							
Brokerage commission	8,535	4,848	3,822	5,014	3,530	5,616	3,457
Investment banking fees	4,493	2,746	3,869	594	3,945	646	3,370
Asset mgmt. fees	5,394	2,651	2,385	4,705	856	442	1,894
Net interest income	1,831	1,804	3,543	3,053	1,071	3,150	(794)
Prop-trading gains	15,876	8,124	8,004	6,274	6,085	3,892	9,735
Other income and gains	706	2,869	1,803	980	6	(52)	447
Adj. op. revenue	37,598	23,458	24,250	21,178	15,690	13,539	16,999
Adj. op. expenses	(15,231)	(10,881)	(8,535)	(9,567)	(5,895)	(6,197)	(10,458)
PPoP	22,367	12,577	15,715	11,611	9,795	7,342	6,540
Provision	(5,387)	(1,143)	(3,470)	(527)	(235)	(132)	(174)
Net profit	12,661	8,839	8,478	8,140	7,491	5,651	5,115
B/S							
Margin accounts	104,566	99,804	69,944	79,260	26,593	86,423	30,866
Reverse repos	44,290	16,111	61,490	15,363	22,501	26,567	20,020
Financial investment	516,113	349,976	272,241	186,750	116,320	172,204	257,259
Borrowings and bonds	179,746	127,092	154,448	96,153	55,317	74,400	211,540
Key ratios							
ROE	9.9%	9.4%	8.1%	11.6%	16.9%	10.4%	13.0%
ROA	1.8%	1.9%	1.7%	2.6%	3.1%	2.0%	1.6%
Financial leverage	4.8x	4.5x	4.0x	3.5x	4.6x	4.4x	7.4x
Investment yield	4.6%	3.4%	4.1%	4.4%	5.3%	3.5%	5.7%
Cost-to-income ratio	40%	46%	35%	45%	37%	45%	61%
QoQ growth							
I/S							
Brokerage commission	50%	51%	42%	52%	61%	56%	53%
Investment banking fees	51%	129%	51%	-33%	56%	61%	68%
Asset mgmt. fees*	32%	17%	47%	65%	29%	-10%	23%
Net interest income [^]	3%	9%	5%	33%	-9%	24%	31%
Prop-trading gains	36%	36%	-2%	20%	104%	16%	90%
Other income and gains	-41%	15%	12%	106%	-80%	-171%	-46%
Adj. operating revenue	35%	38%	20%	39%	62%	29%	52%
Adj. operating expenses	24%	37%	9%	37%	27%	16%	46%
PPoP	45%	39%	27%	41%	94%	42%	63%
Provision	443%	92%	98%	11%	N/A	142%	427%
Net profit	20%	37%	15%	45%	96%	46%	63%
B/S							
Margin accounts	55%	65%	35%	56%	68%	61%	45%
Reverse repos	-33%	-9%	3%	-17%	-27%	-24%	82%
Financial investment	52%	40%	7%	-2%	53%	59%	44%
Borrowings and bonds	53%	38%	10%	15%	58%	65%	46%
Key ratios							
ROE	0.9ppt	1.8ppt	-0.1ppt	3.1ppt	7.0ppt	2.8ppt	3.4ppt
ROA	-0.3ppt	-0.1ppt	0.0ppt	0.7ppt	0.7ppt	0.2ppt	0.2ppt
Financial leverage	1.0x	0.9x	-0.4x	0.1x	1.0x	1.2x	1.4x
Investment yield	-0.2ppt	-0.6ppt	-0.6ppt	0.7ppt	1.4ppt	-0.9ppt	1.6ppt
Cost-to-income ratio	-4ppt	0ppt	-4ppt	-1ppt	-10ppt	-5ppt	-2ppt

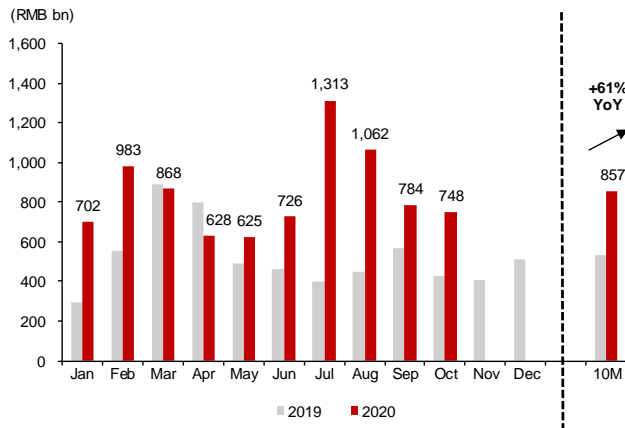
Source: Company data, CMBIS

*: Includes AM fees, fund mgmt. fees and other fee income for CICC.

^: Refers to net interest loss for CICC.

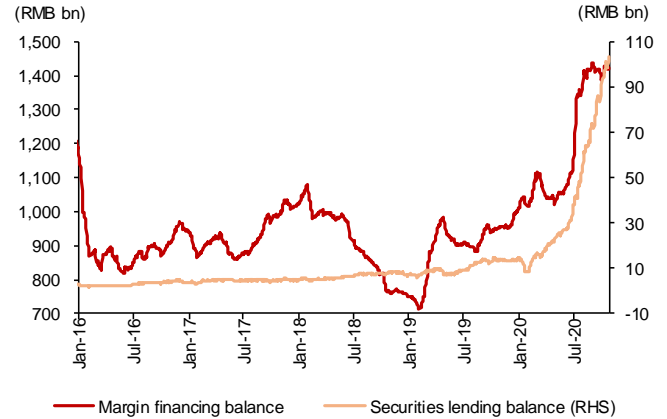
FY20 YTD market indicators in charts

Figure 3: A-share ADT posted 61% YoY growth in 10M20



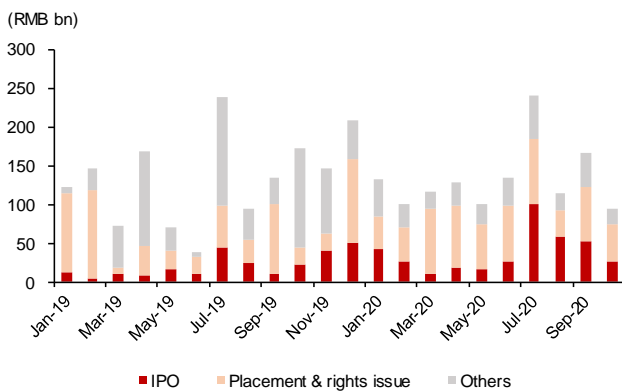
Source: Company data, CMBIS
*: Data as of 30 Oct, 2020.

Figure 4: Margin financing stayed at RMB 1.4tn level while securities lending balance kept surging



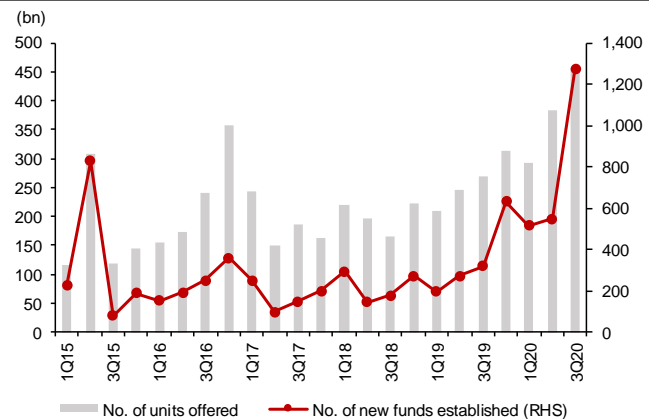
Source: Wind, CMBIS
*: Data as of 29 Oct, 2020.

Figure 5: Equity financing deal flows accelerated in 2H20E



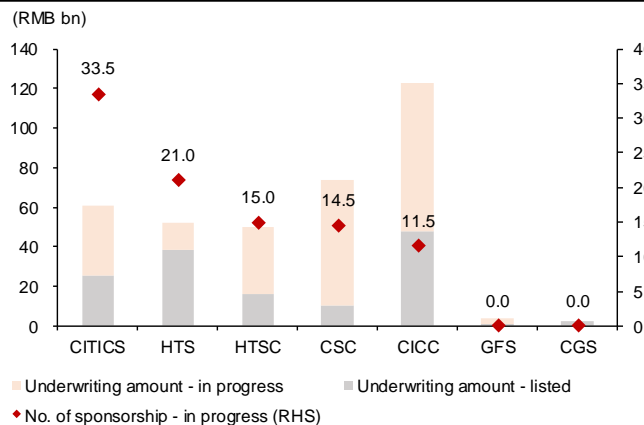
Source: Wind, CMBIS

Figure 6: Domestic mutual fund product issuance boom continued



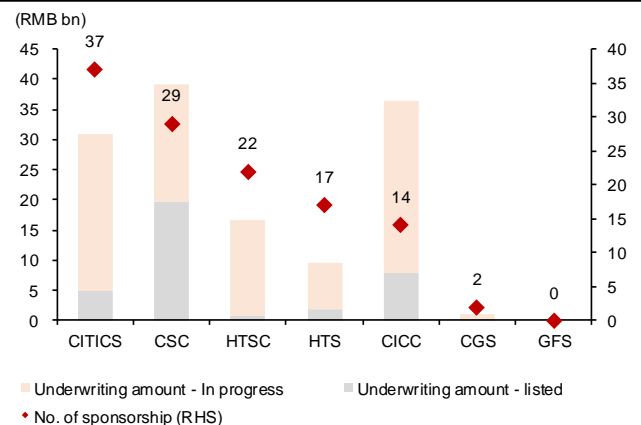
Source: Wind, CMBIS

Figure 7: STAR Market IPO pipeline of covered brokers in 2020



Source: Wind, CMBIS
Note: Data as of 30 Oct, 2020.

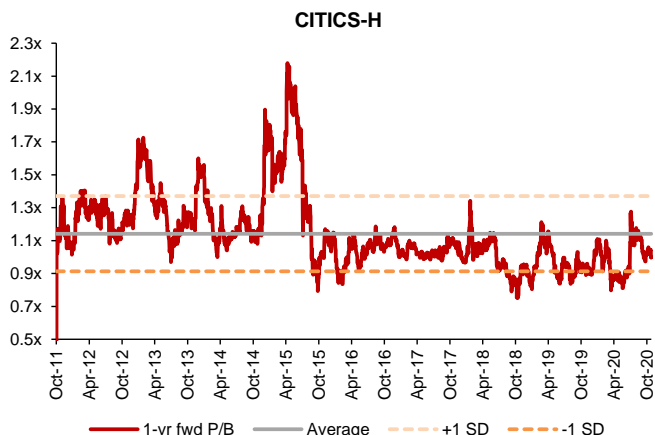
Figure 8: ChiNext IPO pipeline of covered brokers in 2020



Source: Wind, CMBIS
Note: Data as of 30 Oct, 2020.

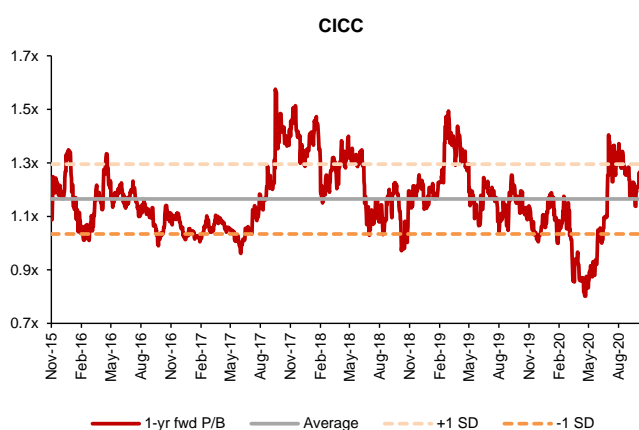
Valuation of H-share China brokers

Figure 9: CITICS's 1-year forward P/B



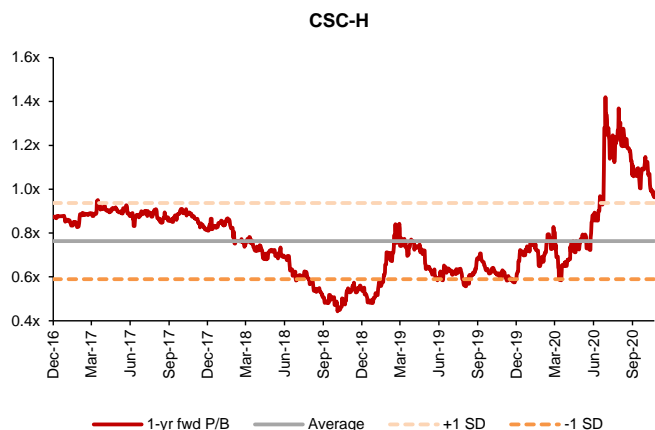
Source: Bloomberg, CMBIS estimates

Figure 10: CICC's 1-year forward P/B



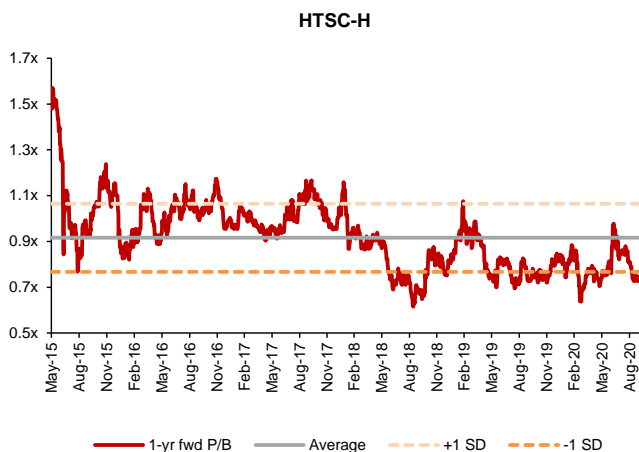
Source: Bloomberg, CMBIS estimates

Figure 11: CSC's 1-year forward P/B



Source: Bloomberg, CMBIS estimates

Figure 12: HTSC's 1-year forward P/B



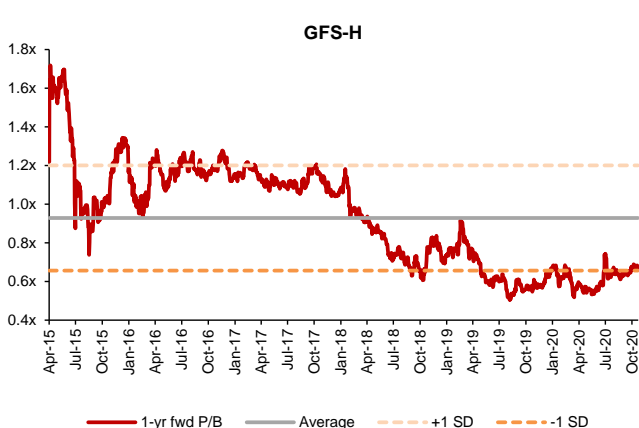
Source: Bloomberg, CMBIS estimates

Figure 13: HTS's 1-year forward P/B



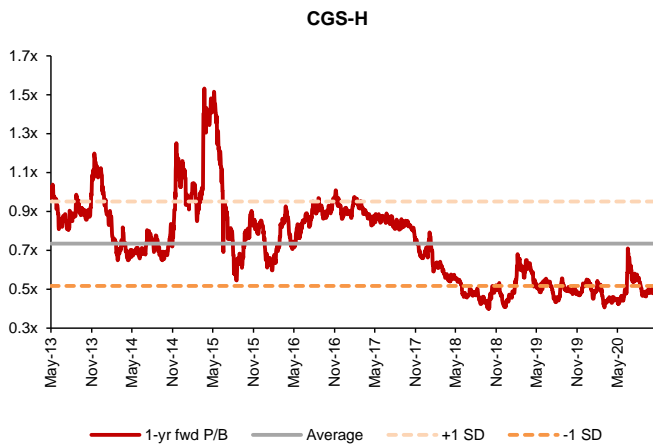
Source: Bloomberg, CMBIS estimates

Figure 14: GFS's 1-year forward P/B



Source: Bloomberg, CMBIS estimates

Figure 15: CGS's 1-year forward P/B



Source: Bloomberg, CMBIS estimates

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CMB International Securities Limited

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

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