

China International Capital Corp. (3908 HK)

Raises A-share IPO size; mega deals to help with ROE recovery

CICC announced yesterday to revise up its A-share IPO issuing size by 2.1x, equivalent to 24.77% of its enlarged total issued shares. This will lead to a significant EPS/ROE dilution in FY20E/21E, while we believe the increased fund raising plan could support CICC's B/S expansion in a longer period and the Company's unique competitiveness in underwriting mega deals and new economy companies could help mitigate this short-term impact. **Maintain BUY.**

- **Increases A-share IPO size by 2.1x to support faster expansion.** On 20 Jul, CICC announced to increase the max. no. of new shares issued in A-share IPO from 459mn to 1,438mn (or from 9.5% to 24.77% of total issued shares after potential greenshoe). CICC's adj. financial leverage already surged to 6.6x by 1Q20, based on our estimates, showing its high utilization of capital and it was indeed in need of a larger amount of capital replenishment to sustain B/S expansion.
- **Est. 7%/24% of EPS dilution in FY20E/21E.** As CICC's A-share IPO process is being advanced faster-than-expected, we estimate the issuance to be completed as early as in 4Q20E. Assuming the offering price to be equivalent to CICC's latest H-share closing price, the max. fund raising size could achieve RMB 24bn. We expect the A-share IPO will dilute CICC's FY20E/21E EPS by 7%/24%, and FY20E/21E ROE by 2ppt/3ppt, while will enhance its FY20E/21E BVPS by 10%/7% as its H-share now trades above 1x P/B.
- **Strong competitiveness in underwriting new economy deals to help with ROE recovery.** Media reported yesterday that CICC would be one of the underwriters of Ant Group's US\$ 10bn Hong Kong IPO. With its strategic relationship with shareholders Tencent and Alibaba, we've already seen and are expecting more synergies in investment banking businesses. In addition, CICC was dominant in underwriting large deals (>RMB 10bn), Red Chips and pre-profit companies on STAR Market, and this competitive edge, together with potential business opportunities from SOE reforms, could underpin its ROE recovery post A-share issuance.
- **Maintain BUY and as one of our sector top picks.** CICC now trades at 1.33x 1-year forward P/B, slightly higher than its historical avg. plus 1SD (1.29x), but we think this is justified with its unique strength in enjoying investment banking business opportunities in both domestic and oversea market. We expect the A-share IPO will support the Company's capital demands for B/S expansion in a longer period and could drive further upside potential for H-share.

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	1.42	1.63
P/E (x)	20.2	16.9	13.5	12.5	10.8
P/B (x)	1.70	1.55	1.39	1.27	1.13
Yield (%)	1.0	0.0	1.1	1.2	1.4
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	+20.0%
Current Price	HK\$ 18.66

China Brokerage Sector

Karen Sui

(852) 3761 8775

suixiaomeng@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	75,578
Avg 3 mths t/o (HK\$ mn)	286.45
52w High/Low (HK\$)	20.00/10.72
Total Issued Shares (mn)	4,369
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	28.0%	25.9%
3-mth	60.9%	56.2%
6-mth	17.7%	35.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. "Optimism & reform suggest more earnings upsides" – 9 Jul 2020
2. "Strong 1Q20 on invt. banking; A-share IPO accelerating" - 18 May 2020
3. "FY19 results in-line; aims to scale up going forward" – 31 Mar 2020
4. "A-share homecoming: a positive move" – 2 Mar 2020

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Figure 1: CICC's revised A-share IPO offering size and dilution impact

Item	Amount	Note
Offering size		
Max. offering size (mn)	1,438	
Assumption of offering price (RMB)	16.70	Equal to latest H-share closing price
Cal. max. fund raised (RMB mn)	24,023	
No. of total issued shares (mn)		
Before	4,369	As of 1 Mar, 2020
After	5,807	
% of enlarged total issued shares	24.77%	
Impact on FY20E financial data		
EPS (RMB) - before	1.24	
EPS (RMB) - after	1.16	
Diff	-6.6%	
BVPS (RMB) - before	12.04	
BVPS (RMB) - after	13.20	All based on CMBIS estimates
Diff	9.6%	
ROE - before	10.8%	
ROE - after	8.8%	
Diff	-2.0ppt	
Impact on FY21E financial data		
EPS (RMB) - before	1.34	
EPS (RMB) - after	1.02	
Diff	-24.0%	
BVPS (RMB) - before	13.22	
BVPS (RMB) - after	14.09	All based on CMBIS estimates
Diff	6.5%	
ROE - before	10.6%	
ROE - after	7.4%	
Diff	-3.1ppt	

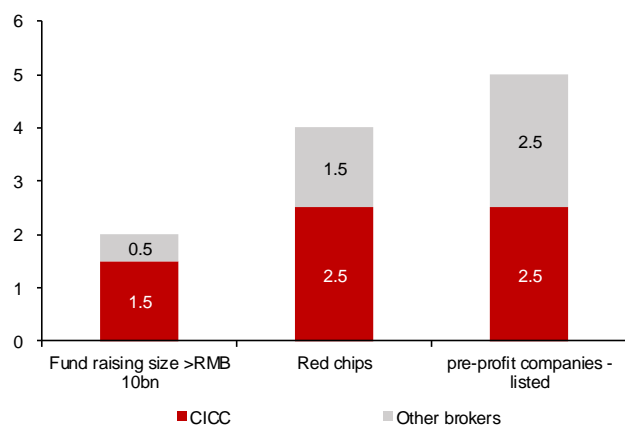
Source: Company data, CMBIS estimates

Figure 2: CICC's shareholding structure after A-share IPO

Type of shareholders	% of enlarged total issued shares
A-share/Domestic*	67.22%
Huijin	33.34%
Haier	6.86%
New A-share holders	24.77%
Other shareholders	2.24%
H-share	32.78%
Tencent	3.72%
Alibaba	3.49%
Other shareholders	25.57%
Total	100.0%

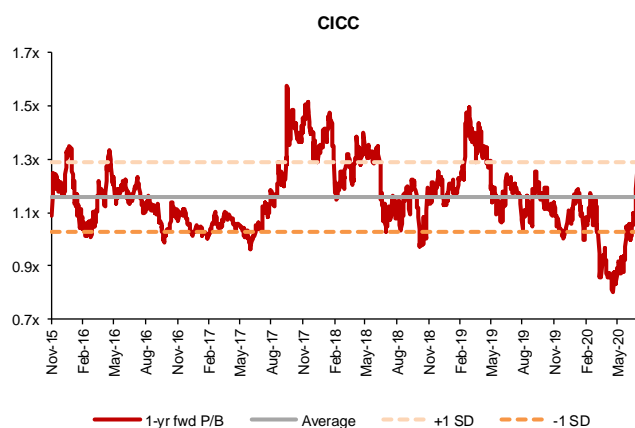
Source: Company data, HKEx, CMBIS estimates

*: According to the announcement, all domestic shares will be converted into A-shares after the A-share IPO completes.

Figure 3: CICC's no. of sponsorship of mega deals, Red Chips and pre-profit issuers on STAR Market


Source: SSE, CMBIS

Note: data as of 17 Jul 2020; 0.5 refers to joint sponsorship with other broke.

Figure 4: CICC 1-year forward P/B


Source: Bloomberg, CMBIS estimates

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

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%
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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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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