

CSC Financial (6066 HK)

FY20 excellent earnings on prop-trading gains

CSC reported FY20 net profit of RMB 9.5bn, up 73% YoY, in-line with prelim results. Operating revenue jumped 62% YoY, on strong prop-trading, brokerage and investment banking. Mgmt. mentioned during results briefing that CSC was ranked 6th by FY20 net profit in the industry, while ranked out of top 10 by net assets. As most large peers either completed or rolled out capital replenish plans, we think it is very possible that CSC will do another round equity financing in recent years. We revise up CSC's FY21E-22E earnings forecast by 13%, but trim TP to HK\$ 13.70 on heightened market volatility. We still like the Company's leadership in domestic IB and its rapid progress in capital-based businesses. Maintain BUY.

- **Results positives:** **1) Prop-trading gains** skyrocketed 97% YoY, gained from equity investment and bond trading thanks to expanded financial investment (+45% YoY) and the Company's strong investment capability. We calculated the investment yield jumped 1.1ppt YoY to 6.4% in FY20. **2) Brokerage** income +70% YoY, where share gain (+0.4ppt YoY to 3.3% according to the Company) offset declining commission rate (-13% YoY vs. -9% of industry), and agency sales of financial products and futures trading also surged 276% and 72% YoY, respectively. **3) Investment banking** fees +59% YoY, mainly due to its strength in IPO underwriting (amount +407% YoY) and leading position in corporate bond underwriting (amount +15% YoY). **4) AM** fees +21% YoY, as its active management capability enhanced (69% actively managed AUM ended FY20, up 27ppt YoY) and mutual fund sub. achieved 26% revenue growth YoY.
- **Results negatives:** **1) Net interest income** -15% YoY, although interest income from margin financing +47% YoY on back of 67% margin acct. growth, contracted reverse repo balance (-24% YoY) reduced related interest income by 34% YoY. Moreover, CSC greatly increased short-term financing and repos (+142%/+52% YoY), leading to higher interest expenses. **2) Impairment losses** recorded RMB 1.4bn, vs. a write-back of RMB 52mn in FY19. The write-off was mainly for SPLs (RMB 1.0bn) and bond investment (RMB 290mn).
- **Trim TP to HK\$ 13.70. Maintain BUY.** We revise up CSC's FY21E-22E earnings forecast by 13% mainly to reflect higher investment yield assumption and lower cost-to-income ratio. We trim our TP to HK\$ 13.70 to incorporate higher COE (10.9% vs. prev. 9.8%). CSC now trades at 0.88x 1-year forward P/B (vs. 1.05x of CICC and 1.03x of CITICS). Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Adj. op. revenue (RMB mn)	13,652	22,106	21,847	24,017	26,078
Net profit (RMB mn)	5,502	9,509	9,332	10,500	11,769
EPS (RMB)	0.72	1.24	1.20	1.35	1.52
EPS CHG (%)	74	73	(3)	13	12
Consensus EPS (RMB)	N/A	N/A	1.33	1.56	N/A
P/E (x)	11.8	6.8	7.0	6.3	5.6
P/B (x)	1.14	0.96	0.89	0.81	0.73
Yield (%)	2.8	4.5	4.1	4.6	5.2
ROE (%)	10.6	15.3	13.2	13.5	13.8
Adj. financial leverage (x)	3.8	4.4	4.4	4.2	4.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 13.70
(Previous TP	HK\$ 15.30)
Up/Downside	+29.0%
Current Price	HK\$ 10.58

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	266,160
Avg 3 mths t/o (HK\$ mn)	200.72
52w High/Low (HK\$)	13.74/5.88
Total Issued Shares (mn)	1,261 (H)
	6,496 (A)

Source: Bloomberg

Shareholding Structure

BSCOMC	34.61%
Central Huijin	30.76%
CITIC Securities	4.94%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	5.6%	6.2%
3-mth	-8.6%	-12.6%
6-mth	-3.6%	-20.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. "3Q20 results wrap: growth on robust fee incomes" – 2 Nov 2020
2. "Optimism & reform suggest more earnings upsides" – 9 Jul 2020
3. "Reform acceleration could drive further divergence" – 12 May 2020
4. "Superior prop-trading gains withstood market volatility" – 27 Apr 2020
5. "Resilient Mar set for better-than-expected 1Q20E results" – 14 Apr 2020

Figure 1: CSC's quarterly results summary

(RMB mn)										
I/S	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Net fee and commission	2,126	2,103	2,514	3,885	3,522	-9%	66%	7,625	12,024	58%
Brokerage	656	1,077	919	1,534	1,306	-15%	99%	2,847	4,836	70%
Investment banking	1,152	738	1,244	1,963	1,911	-3%	66%	3,685	5,857	59%
Asset Management	405	156	443	257	436	69%	8%	1,070	1,292	21%
Net interest income	380	333	325	414	260	-37%	-32%	1,559	1,331	-15%
Prop trading gains	1,424	1,882	2,569	1,635	2,588	58%	82%	4,407	8,673	97%
Adj. op. revenue	3,963	4,324	5,407	5,959	6,416	8%	62%	13,652	22,106	62%
Adj. op. expenses	(1,915)	(1,722)	(1,930)	(2,242)	(2,689)	20%	40%	(6,558)	(8,584)	31%
PPoP	2,048	2,602	3,476	3,717	3,727	0%	82%	7,094	13,522	91%
Provision	52	(108)	(102)	(26)	(1,161)	4372%	N/A	59	(1,396)	N/A
Pre-tax profit	2,100	2,494	3,375	3,691	2,566	-30%	22%	7,154	12,126	70%
Income tax expense	(418)	(536)	(745)	(768)	(540)	-30%	29%	(1,624)	(2,589)	59%
Net profit	1,682	1,951	2,628	2,913	2,018	-31%	20%	5,502	9,509	73%
B/S	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Margin accounts	27,806	29,297	34,067	44,792	46,515	4%	67%	27,806	46,515	67%
Financial investment	21,119	20,724	18,319	16,337	16,117	-1%	-24%	21,119	16,117	-24%
Reverse repos	127,400	135,576	156,517	177,482	186,753	5%	47%	127,400	186,753	47%
Borrowings and bonds	140,066	145,498	158,381	195,715	201,790	3%	44%	140,066	201,790	44%
Total shareholders' equity	56,582	58,617	59,086	61,731	67,735	10%	20%	56,582	67,735	20%
Ratios	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
ROE	14.6%	16.4%	20.2%	23.1%	13.5%	-9.6ppt	-1.1ppt	11.5%	17.5%	6.0ppt
ROA	2.5%	2.7%	3.5%	3.5%	2.2%	-1.3ppt	-0.3ppt	2.3%	2.9%	0.6ppt
Leverage	4.1x	3.8x	4.1x	4.6x	4.4x	-0.2x	0.3x	3.8x	4.4x	0.6x
Investment yield	4.7%	5.7%	7.0%	3.9%	5.7%	1.8ppt	1.0ppt	5.3%	6.4%	1.1ppt
Cost-to-income ratio	48%	39%	35%	37%	41%	4ppt	-7ppt	47%	38%	-9ppt

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

(RMB)	New		Old		New vs. Old	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Adj. operating income (mn)	21,847	24,017	21,203	23,711	3%	1%
Net profit (mn)	9,332	10,500	8,291	9,305	13%	13%
EPS	1.20	1.35	1.08	1.22	11%	11%
BVPS	9.52	10.48	8.88	9.74	7%	8%
ROE	13.2%	13.5%	14.4%	13.5%	-1.2ppt	0.0ppt

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Brokerage commission	2,847	4,836	4,963	5,502	5,970
Investment banking fee	3,685	5,857	6,484	7,170	7,498
Asset management fee	1,070	1,292	1,144	1,197	1,384
Net interest income	1,559	1,331	958	894	1,032
Prop-trading gains	4,407	8,673	8,261	9,216	10,156
Others	85	117	37	37	37
Adj. op. revenue	13,652	22,106	21,847	24,017	26,078
Adj. op. expenses	(6,558)	(8,584)	(8,886)	(9,768)	(10,346)
PPoP	7,094	13,522	12,961	14,248	15,732
Provision	59	(1,396)	(995)	(785)	(643)
Pre-tax profit	7,154	12,126	11,966	13,463	15,089
Income tax expense	(1,624)	(2,589)	(2,611)	(2,938)	(3,293)
Minority interests	(28)	(27)	(23)	(25)	(28)
Net profit	5,502	9,509	9,332	10,500	11,769

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Deposit held on behalf of clients	47,315	59,604	76,126	85,901	93,450
Clearing reserves	9,662	15,984	19,826	22,372	24,338
Margin accounts	27,806	46,515	51,167	54,748	57,486
Reverse repos	21,119	16,117	16,440	17,097	17,781
Financial investments	127,400	186,753	201,693	217,828	230,898
Other assets	52,367	46,256	47,553	48,018	51,625
Total assets	285,669	371,228	412,804	445,965	475,577
Customer brokerage deposits	54,626	74,710	90,228	101,813	110,761
Short-term debts	83,181	136,469	148,557	157,471	164,275
Long-term debts	56,885	65,320	70,546	74,073	77,777
Other liabilities	34,083	26,657	29,313	30,956	32,700
Total liabilities	228,775	303,157	338,644	364,314	385,513
Total shareholders' equity	56,582	67,735	73,807	81,287	89,690
Incl. Perpetual bonds	9,981	9,962	9,962	9,962	9,962
Minority interest	313	336	353	364	375

Key Ratios

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating revenue mix					
Brokerage commission	21%	22%	23%	23%	23%
Investment banking fee	27%	26%	30%	30%	29%
Asset management fee	8%	6%	5%	5%	5%
Net interest income	11%	6%	4%	4%	4%
Prop-trading gains	32%	39%	38%	38%	39%
Others	1%	1%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	24%	70%	3%	11%	9%
Investment banking fee	18%	59%	11%	11%	5%
Asset management fee	11%	21%	-11%	5%	16%
Net interest income	-22%	-15%	-28%	-7%	15%
Prop-trading gains	82%	97%	-5%	12%	10%
Adj. op. revenue	25%	62%	-1%	10%	9%
PPoP	36%	91%	-4%	10%	10%
Attributable net profit	97%	73%	-2%	13%	12%
Total assets	46%	30%	11%	8%	7%
Efficiency					
Cost-to-income ratio	47%	38%	40%	40%	39%
Leverage					
Adj. financial leverage (x)	3.8	4.4	4.4	4.2	4.1
Investment/ equity	225%	276%	273%	268%	257%
Profitability					
ROE	10.6%	15.3%	13.2%	13.5%	13.8%
ROA	2.3%	2.9%	2.4%	2.4%	2.6%
Per share					
EPS (RMB)	0.72	1.24	1.20	1.35	1.52
DPS (RMB)	0.24	0.38	0.35	0.39	0.44
BVPS (RMB)	7.40	8.86	9.52	10.48	11.56

Source: Company data, CMBIS estimates

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