

# CITIC Securities (6030 HK)

## Provision dented robust top-line growth

CITICS reported 1Q20 net profit of RMB 4.0bn, down 4% YoY, accounting for 29% of our FY20E estimates. 1Q20 operating income increased 16% YoY to RMB 11.6bn, fueled by higher prop-trading gains and brokerage commissions, while a RMB 1.6bn provision charge was the main drag to bottom-line. We think the set of results is still solid given its robust top-line growth, and the Company has always been maintaining a prudent provision policy. We still like CITICS for its all-round leadership, esp. in investment banking and institutionalization, and we see it as a key beneficiary in on-going capital market reform. **Maintain BUY.**

■ **Results positives: 1) Brokerage commission +37% YoY in 1Q20** (vs. industry +33% YoY), which could partly attributable to consolidation of CITICS South China (former GZS) that brought about retail trading activity to the Company and growth in oversea trading. **2) Prop-trading gains +16% YoY** from higher fair value gains of financial investments. CITICS increased its investment balance 48% YoY/17% QoQ, and achieved a decent investment yield calculated at 5.6%. **3) AM fees +25% YoY** (vs. industry +16% YoY), possibly from both its enhanced active mgmt. capability of asset mgmt. as well as strong growth of fund mgmt. fees from China AMC (1Q20 monthly avg. balance +46% YoY/+4% QoQ and net profit +25% YoY).

■ **Results negatives: 1) Investment banking fees -10% YoY**, which surprised us as CITICS's IPO/follow-on offering/debt financing underwriting amount actually grew 78%/15%/51% YoY in 1Q20. The lower fees may suggest some fee rate pressure or mismatch in revenue recognition, while we do not see any substantial unfavorable change to its investment banking competitiveness. **2) Net interest income -40% YoY**, where interest expense growth continued to outpace interest income, as total debt balance expanded 33% YoY/4% QoQ. 1Q20 adj. leverage went up 0.8x YoY/0.1x QoQ to 4.2x, despite its equity issuance to Yue Xiu Holding. **3) Impairment losses stayed high at RMB 1.6bn**, mostly due to higher charges from SPLs and margin financing on parent company level, and it also recorded RMB 0.3bn impairment losses for subsidiary's commodity trading business.

■ **Maintain BUY.** CITICS's current valuation is undemanding at 0.94x 1-yr fwd P/B, close to its historical avg. minus 1SD (0.95x). We maintain TP unchanged at HK\$ 18.90, implying 1.19x FY20E P/B, equivalent to its historical average. **Maintain BUY and as one of our sector top picks.**

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	30,239	37,440	38,846	43,899	49,099
Net profit (RMB mn)	9,390	12,229	14,263	16,712	19,232
EPS (RMB)	0.77	1.01	1.12	1.29	1.47
EPS CHG (%)	(18)	30	11	16	14
Consensus EPS (RMB)	N/A	N/A	1.16	1.35	1.43
P/E (x)	17.3	13.3	12.0	10.4	9.0
P/B (x)	1.06	1.01	0.94	0.89	0.83
Yield (%)	2.6	4.0	3.3	3.9	4.4
ROE (%)	6.2	7.8	8.2	8.8	9.5
Adj. financial leverage (x)	3.6	4.1	4.0	4.2	4.2

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$ 18.90
(Previous TP	HK\$ 18.90)
Up/Downside	+26.3%
Current Price	HK\$ 14.96

### China Brokerage Sector

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### Stock Data

Mkt Cap (HK\$ mn)	305,739
Avg 3 mths t/o (HK\$ mn)	390.09
52w High/Low (HK\$)	18.72/12.60
Total Issued Shares (mn)	2,278 (H)
	10,648 (A)

Source: Bloomberg

### Shareholding Structure

CITIC Corporation Limited	15.47%
Guangzhou Yue Xiu Holdings	6.27%
CSF	2.80%

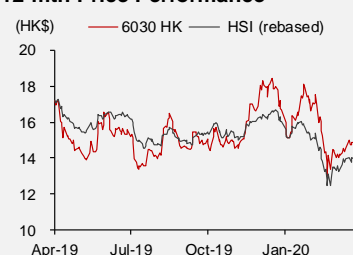
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	0.1%	-3.1%
3-mth	-14.1%	-1.1%
6-mth	-2.8%	6.7%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. "Resilient Mar set for better-than-expected 1Q20E results" – 14 Apr 2020
2. "Soft 4Q19 behind" – 20 Mar 2020
3. "On an upward policy trajectory" – 19 Mar 2020
4. "COVID-19 unlikely to derail industry upswing" – 12 Feb 2020

**Figure 1: CITICS's 1Q20 results summary**

(RMB mn)							
I/S	2Q19	3Q19	4Q19	1Q20	QoQ	1Q19	YoY
Net fees and commissions	4,211	4,593	4,875	5,257	8%	4,343	21%
Brokerage	1,849	1,904	1,711	2,680	57%	1,950	37%
Investment banking	815	1,177	1,484	891	-40%	989	-10%
Asset Management	1,370	1,434	1,606	1,617	1%	1,297	25%
Net interest income	857	408	259	313	21%	520	-40%
Prop trading gains	2,252	4,465	4,252	5,724	35%	4,923	16%
<b>Adj. op. revenue</b>	<b>7,925</b>	<b>9,882</b>	<b>9,668</b>	<b>11,575</b>	<b>20%</b>	<b>9,966</b>	<b>16%</b>
Adj. op. expenses	(3,963)	(4,124)	(5,526)	(4,444)	-20%	(4,241)	5%
<b>PPoP</b>	<b>3,962</b>	<b>5,757</b>	<b>4,141</b>	<b>7,130</b>	<b>72%</b>	<b>5,725</b>	<b>25%</b>
Provision	(767)	(238)	(1,598)	(1,597)	0%	13	-12792%
<b>Pre-tax profit</b>	<b>3,195</b>	<b>5,519</b>	<b>2,544</b>	<b>5,533</b>	<b>118%</b>	<b>5,737</b>	<b>-4%</b>
Income tax expense	(888)	(1,330)	(748)	(1,310)	75%	(1,380)	-5%
<b>Net profit</b>	<b>2,188</b>	<b>4,077</b>	<b>1,706</b>	<b>4,076</b>	<b>139%</b>	<b>4,258</b>	<b>-4%</b>
<b>B/S</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>QoQ</b>	<b>1Q19</b>	<b>YoY</b>
Margin accounts	64,488	67,341	70,674	77,241	5%	64,031	21%
Financial investment	319,798	338,484	395,312	424,495	17%	287,437	48%
Reverse repos	68,605	65,848	58,830	52,483	-11%	57,006	-8%
Customer deposits	122,211	124,928	123,352	183,344	-1%	143,734	28%
Total shareholder's equity	156,001	160,082	161,625	177,354	1%	157,918	12%
<b>Ratios</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>QoQ</b>	<b>1Q19</b>	<b>YoY</b>
ROE	5.6%	10.3%	4.2%	9.6%	5.4ppt	10.9%	-1.3ppt
ROA	1.3%	2.2%	0.9%	1.9%	1.0ppt	2.6%	-0.7ppt
Leverage	3.9x	3.8x	4.1x	4.2x	0.1x	3.4x	0.8x
Investment yield	3.0%	5.4%	4.6%	5.6%	0.9ppt	6.7%	-1.1ppt
Cost-to-income ratio	49%	41%	56%	38%	-19ppt	42%	-4ppt

Source: Company data, CMBIS

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Brokerage commission	7,429	7,414	8,573	9,159	9,802
Investment banking fee	3,639	4,465	4,378	4,902	5,578
Asset management fee	5,834	5,707	5,863	6,258	6,852
Net interest income	2,422	2,045	2,136	2,586	3,024
Prop-trading gains	8,046	15,891	15,913	18,953	21,732
Others	2,869	1,918	1,982	2,040	2,110
<b>Adj. op. revenue</b>	<b>30,239</b>	<b>37,440</b>	<b>38,846</b>	<b>43,899</b>	<b>49,099</b>
Adj. op. expenses	(15,563)	(17,855)	(18,577)	(20,523)	(22,463)
PPoP	14,676	19,585	20,268	23,376	26,636
Provision	(2,211)	(2,590)	(1,116)	(972)	(885)
Pre-tax profit	12,466	16,995	19,152	22,404	25,752
Income tax expense	(2,589)	(4,346)	(4,418)	(5,174)	(5,948)
Minority interests	(487)	(420)	(470)	(518)	(571)
<b>Net profit</b>	<b>9,390</b>	<b>12,229</b>	<b>14,263</b>	<b>16,712</b>	<b>19,232</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Deposit held on behalf of clients	74,291	95,417	119,382	131,635	144,718
Clearing reserves	24,922	32,692	41,166	45,391	49,903
Margin accounts	57,198	70,674	87,741	96,516	101,341
Reverse repos	67,370	58,830	74,276	78,732	83,456
Financial investments	299,297	395,312	447,449	492,194	541,414
Other assets	130,054	138,798	121,986	127,164	129,533
<b>Total assets</b>	<b>653,133</b>	<b>791,722</b>	<b>892,001</b>	<b>971,633</b>	<b>1,050,366</b>
Customer brokerage deposits	97,774	123,352	155,197	169,809	186,686
Short-term debts	164,700	235,126	199,082	218,990	242,435
Long-term debts	118,082	126,394	180,055	203,412	217,624
Other liabilities	115,746	141,400	168,925	179,436	190,834
<b>Total liabilities</b>	<b>496,301</b>	<b>626,273</b>	<b>703,260</b>	<b>771,647</b>	<b>837,580</b>
<b>Total shareholders' equity</b>	<b>153,141</b>	<b>161,625</b>	<b>184,826</b>	<b>195,953</b>	<b>208,632</b>
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	3,691	3,825	3,915	4,033	4,154

### Key Ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Operating revenue mix</b>					
Brokerage commission	25%	20%	22%	21%	20%
Investment banking fee	12%	12%	11%	11%	11%
Asset management fee	19%	15%	15%	14%	14%
Net interest income	8%	5%	5%	6%	6%
Prop-trading gains	27%	42%	41%	43%	44%
Others	9%	5%	5%	5%	4%
Total	100%	100%	100%	100%	100%
<b>Growth, YoY</b>					
Brokerage commission	-8%	0%	16%	7%	7%
Investment banking fee	-17%	23%	-2%	12%	14%
Asset management fee	2%	-2%	3%	7%	10%
Net interest income	1%	-16%	4%	21%	17%
Prop-trading gains	-37%	98%	0%	19%	15%
<b>Adj. op. revenue</b>	<b>-14%</b>	<b>24%</b>	<b>4%</b>	<b>13%</b>	<b>12%</b>
PPoP	-18%	33%	3%	15%	14%
<b>Net profit</b>	<b>-18%</b>	<b>30%</b>	<b>17%</b>	<b>17%</b>	<b>15%</b>
Total assets	4%	21%	13%	9%	8%
<b>Efficiency</b>					
Cost-to-income ratio	51%	47%	47%	46%	45%
<b>Leverage</b>					
Adj. financial leverage (x)	3.6	4.1	4.0	4.1	4.2
Investment/ equity	195%	245%	242%	251%	260%
<b>Profitability</b>					
ROE	6.2%	7.8%	8.2%	8.8%	9.5%
ROA	1.5%	1.7%	1.7%	1.8%	1.9%
<b>Per share</b>					
EPS (RMB)	0.77	1.01	1.12	1.29	1.49
DPS (RMB)	0.35	0.53	0.44	0.52	0.60
BVPS (RMB)	12.64	13.34	14.30	15.16	16.14

Source: Company data, CMBIS estimates

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