

CITIC Securities (6030 HK)

FV losses and impairment drags strong fee growth

CITICS reported 9M20 net profit of RMB 12.7bn, up 20% YoY, accounting for 84% of our FY20E estimates. 3Q20 operating income was overall strong (fee +44% QoQ and NII +105% QoQ) except for a RMB 3bn invt. FV losses dragging down prop-trading gains (-33% QoQ). Impairment losses surged to RMB 3.1bn, eroding 38% of PPop, and resulted in 23% QoQ decline of net profit from post-2015 high last quarter. We see factors dragging earnings are basically one-off and growth trend is still on track. We maintain constructive on CITICS growth prospectus, for its balanced revenue mix and leadership in investment banking and institutionalization enabling it to ride on policy benefits. **Maintain BUY.**

■ **Results positives: 1) Investment banking fees +71% QoQ in 3Q20**, mainly due to strong growth of domestic equity underwriting amount (IPO +7.6x QoQ/follow-on offerings +41% QoQ) as ChiNext Reform implemented and issuance pace sped up. Bond underwriting amount decreased 13% QoQ. CITICS now owns the largest IPO pipeline by no. of sponsorship on both ChiNext and STAR Market, and we expect robust IB to continue. **2) Brokerage commissions +51% QoQ**, thanks to A-share velocity surge in Jul, while the growth was lower than market turnover growth (+78% QoQ), likely due to commission contraction, lower activity from institutional clients and slower oversea trading turnover growth. **3) AM fees +26% QoQ**, and has increased consistently for seven straight quarters. We believe this is largely attributable to the heated mutual fund market. CITICS's subsidiary China AMC registered RMB 410mn net profit in 3Q20, up 2% QoQ. **4) Net interest income +105% QoQ**, as margin balance expanded 10% QoQ and possible expansion in securities lending business (market daily avg. balance +154% QoQ) that helped widen interest spread.

■ **Results negatives: 1) Prop-trading gains -33% QoQ on big FV losses**, possibly caused by sluggish bond market (ChinaBond Aggregate Index -2% in 3Q20) and volatile stock market towards quarter-end that affect the Company's hedging position for stock options, while investment booked an impressive RMB 7.1bn realized gains. **2) A RMB 3.1bn impairment losses was recorded**, which may be from SPL and debt investments.

■ **Maintain BUY.** CITICS now trades at 1.1x 1-year forward P/B, below its historical average of 1.2x. We maintain our earnings forecast and TP unchanged. Our TP of HK\$ 24.60 reflects 1.4x FY21E P/B. **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	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	1.26	1.43	1.60
P/E (x)	20.0	15.3	13.1	11.4	9.9
P/B (x)	1.22	1.16	1.09	1.02	0.96
Yield (%)	2.3	3.4	3.0	3.5	4.0
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	+42.7%
Current Price	HK\$ 17.24

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	403,551
Avg 3 mths t/o (HK\$ mn)	350.23
52w High/Low (HK\$)	21.45/12.60
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%

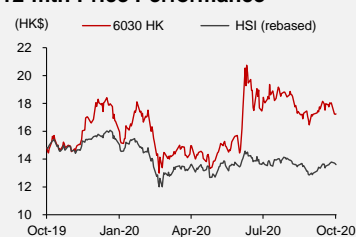
Source: Company data

Share Performance

	Absolute	Relative
1-mth	0.1%	-4.9%
3-mth	-2.6%	-2.3%
6-mth	15.1%	14.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. "2Q20 results strong across the board" – 25 Aug 2020
2. "Optimism & reform suggest more earnings upsides" – 9 Jul 2020
3. "Reform acceleration could drive further divergence" – 12 May 2020
4. "Provision dented robust top-line growth" – 29 Apr 2020
5. "Resilient Mar set for better-than-expected 1Q20E results" – 14 Apr 2020

Figure 1: CITICS's 3Q20 results summary

(RMB mn)										
	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY
I/S										
Net fee and commission income	4,593	4,875	5,257	5,570	8,015	44%	75%	13,147	18,841	43%
Brokerage	1,904	1,711	2,680	2,328	3,526	51%	85%	5,703	8,535	50%
Investment banking	1,177	1,484	891	1,330	2,272	71%	93%	2,981	4,493	51%
Asset Management	1,434	1,606	1,617	1,673	2,104	26%	47%	4,101	5,394	32%
Net interest income	408	259	313	497	1,021	105%	150%	1,786	1,831	3%
Prop trading gains	4,465	4,252	5,724	6,071	4,081	-33%	-9%	11,639	15,876	36%
Adj. op. revenue	9,882	9,668	11,575	12,564	13,460	7%	36%	27,773	37,598	35%
Adj. op. expenses	(4,124)	(5,526)	(4,444)	(5,519)	(5,268)	-5%	28%	(12,329)	(15,231)	24%
PPoP	5,757	4,141	7,130	7,045	8,192	16%	42%	15,444	22,367	45%
Provision	(238)	(1,598)	(1,597)	(704)	(3,085)	338%	1194%	(993)	(5,387)	443%
Pre-tax profit	5,519	2,544	5,533	6,341	5,107	-19%	-7%	14,451	16,981	18%
Income tax expense	(1,330)	(748)	(1,310)	(1,344)	(1,215)	-10%	-9%	(3,598)	(3,868)	8%
Net profit	4,077	1,706	4,076	4,850	3,735	-23%	-8%	10,522	12,661	20%
B/S	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY	FY19	3Q20	YTD
Margin accounts	67,341	70,674	77,241	85,181	104,566	10%	55%	70,674	104,566	48%
Financial investment	338,484	395,312	424,495	498,469	516,113	17%	52%	395,312	516,113	31%
Reverse repos	65,848	58,830	52,483	50,687	44,290	-3%	-33%	58,830	44,290	-25%
Borrowings and bonds	177,976	187,073	195,050	181,875	193,925	-7%	9%	187,073	193,925	4%
Total shareholders' equity	160,082	161,625	177,354	176,044	179,746	-1%	12%	161,625	179,746	11%
Ratios	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY
ROE	10.3%	4.2%	9.6%	11.0%	8.4%	-2.6ppt	-1.9ppt	9.0%	9.9%	0.9ppt
ROA	2.2%	0.9%	1.9%	2.0%	1.5%	-0.6ppt	-0.8ppt	2.1%	1.8%	-0.3ppt
Leverage	3.8x	4.1x	4.2x	4.5x	4.8x	0.3x	1.0x	3.8x	4.8x	1.0x
Investment yield	5.4%	4.6%	5.6%	5.3%	3.2%	-2.0ppt	-2.2ppt	4.9%	4.6%	-0.2ppt
Cost-to-income ratio	41%	56%	38%	43%	38%	-5ppt	-3ppt	44%	40%	-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	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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