

# China International Capital Corp. (3908 HK)

## 2Q20 results strong on investment gains

CICC reported 1H20 net profit of RMB 3.0bn, up 62% YoY, accounting for 56% of CMBIS estimates. 2Q20 operating revenue grew robustly at 20% QoQ, mainly driven by strong investment gains and investment banking fees. We believe 1H20 growth was stronger than market expectation, and expect invt. gains and investment banking business will continue to lead to CICC's outperformance ahead. **Maintain BUY.**

- **Results positives: 1) Prop-trading gains surged 76% QoQ in 2Q20**, which was largely attributable to CICC's OTC derivative business as well as gains from investment into STAR Market sponsored IPOs in a buoyant A-share market. Investment balance expanded 29% HoH in 1H20 (leverage up to 7.4x) with invt. yield high at 5.2%. **2) Investment banking fees +29% QoQ in 2Q20/+27% YoY in 1H20**, where robust domestic equity/debt underwriting amount (+13x YoY/+34% YoY) outshone oversea market. **3) Asset mgmt. & fund mgmt. fees +30% YoY in 1H20**, of which income from AM and mutual funds surged 62% YoY, due to its increased AUM (+49% YoY vs. industry -28% YoY) and further enhanced active mgmt. capability (% of monthly avg. actively managed AUM at 83% in 2Q20, according to AMAC). PE fund mgmt. fees also increased 21% YoY in 1H20. **4) Brokerage commission -16% QoQ**, (vs. industry -22% QoQ), likely thanks to resilient commission rate.
- **Results negatives: Net interest losses continued to expand 22% QoQ in 2Q20/+39% YoY in 1H20**, as debt and borrowings (+36% YoY) were growing faster than margin acct. and reverse repo. balance (+14% YoY) in 1H20. The good thing was that finance costs declined (cal. 2.6% in 1H20, down 0.3ppt YoY) amid monetary easing while interest earning assets' yield softened at a slower pace. In addition, the replenished capital base through potential A-share IPO should help improve the profitability of credit business ahead.
- **Maintain BUY.** We noticed that CICC cancelled its Board Resolution of raising A-share IPO size to ~25% of total enlarged equity base. We think the sentiment swings here would be limited as long as A-share IPO could be completed. CICC now trades at 1.34x 1-year forward P/B, slightly higher than its historical avg. plus 1SD (1.29x). We would expect its strength in investment and in sponsoring ADRs homecoming deals to support growth in coming quarters. We made no change to our earnings forecast. Our TP of HK\$ 22.40 implies 1.67x FY20E 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)	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	1.40	1.62
P/E (x)	20.8	17.4	13.9	12.9	11.1
P/B (x)	1.75	1.59	1.43	1.30	1.16
Yield (%)	0.9	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	+16.7%
Current Price	HK\$ 19.20

### China Brokerage Sector

#### Karen Sui

(852) 3761 8775

suixiaomeng@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	83,878
Avg 3 mths t/o (HK\$ mn)	300.66
52w High/Low (HK\$)	20.40/10.72
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	3.3%	2.4%
3-mth	53.4%	44.9%
6-mth	24.7%	37.7%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Deloitte

#### Related Reports

1. "Raises A-share IPO size; mega deals to help with ROE recovery" – 21 Jul 2020
2. "Optimism & reform suggest more earnings upsides" – 9 Jul 2020
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**Figure 1: CICC's 2Q20 results summary**

(RMB mn)										
<b>I/S</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>QoQ</b>	<b>YoY</b>	<b>1H19</b>	<b>1H20</b>	<b>YoY</b>
Net fee and commission income	2,166	2,049	3,744	2,552	2,685	5%	24%	3,754	5,237	39%
Brokerage	777	703	720	1,087	914	-16%	18%	1,556	2,001	29%
Investment banking	884	832	2,240	874	1,126	29%	27%	1,175	2,001	70%
Asset management and others	506	513	784	591	645	9%	28%	1,024	1,235	21%
Net interest income/ (loss)	(176)	(250)	(488)	(225)	(274)	22%	55%	(358)	(499)	39%
Prop trading gains	1,721	1,578	1,826	1,909	3,363	76%	95%	3,555	5,273	48%
<b>Adj. op. revenue</b>	<b>3,713</b>	<b>4,212</b>	<b>4,323</b>	<b>4,757</b>	<b>5,725</b>	<b>20%</b>	<b>54%</b>	<b>6,949</b>	<b>10,482</b>	<b>51%</b>
Adj. op. expenses	(2,396)	(2,609)	(2,876)	(2,919)	(3,601)	23%	50%	(4,539)	(6,521)	44%
<b>PPoP</b>	<b>1,316</b>	<b>1,604</b>	<b>1,447</b>	<b>1,838</b>	<b>2,124</b>	<b>16%</b>	<b>61%</b>	<b>2,410</b>	<b>3,962</b>	<b>64%</b>
Provision	(47)	(44)	(127)	(145)	(22)	-85%	-53%	11	(167)	N/A
<b>Pre-tax profit</b>	<b>1,269</b>	<b>1,560</b>	<b>1,321</b>	<b>1,693</b>	<b>2,102</b>	<b>24%</b>	<b>66%</b>	<b>2,421</b>	<b>3,795</b>	<b>57%</b>
Income tax expense	(289)	(294)	(239)	(404)	(326)	-19%	13%	(521)	(730)	40%
<b>Net profit</b>	<b>972</b>	<b>1,259</b>	<b>1,099</b>	<b>1,277</b>	<b>1,761</b>	<b>38%</b>	<b>81%</b>	<b>1,880</b>	<b>3,038</b>	<b>62%</b>
<b>B/S</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>QoQ</b>	<b>YoY</b>	<b>FY19</b>	<b>1H20</b>	<b>HoH</b>
Margin accounts	21,228	21,253	23,190	23,617	25,567	8%	20%	23,190	25,567	10%
Financial investments	176,004	179,133	197,178	203,718	254,030	25%	44%	197,178	254,030	29%
Reverse repo	15,362	10,996	14,299	14,190	16,270	15%	6%	14,299	16,270	14%
Debt and borrowings	110,659	117,674	124,714	137,166	149,985	9%	36%	124,714	149,985	20%
Total shareholders' equity	43,452	44,933	48,294	49,725	50,329	1%	16%	48,294	50,329	4%
<b>Ratios</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>QoQ</b>	<b>YoY</b>	<b>1H19</b>	<b>1H20</b>	<b>YoY</b>
ROE	9.0%	11.4%	9.4%	10.4%	14.1%	3.7ppt	5.1ppt	8.7%	12.2%	3.5ppt
ROA	1.2%	1.6%	1.3%	1.4%	1.7%	0.3ppt	0.5ppt	1.3%	1.6%	0.3ppt
Adj. leverage	6.2x	6.0x	6.0x	6.6x	7.4x	0.8x	1.2x	6.2x	7.4x	1.3x
Investment yield*	3.9%	3.6%	3.9%	3.4%	5.5%	2.1ppt	1.6ppt	5.1%	5.2%	0.1ppt
Cost-to-income ratio	64%	61%	66%	61%	62%	1ppt	-2ppt	65%	62%	-3ppt

Source: Company data, CMBIS

\*: including interest income from debt/other debt investments when calculating semi-annual investment yield.

## 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
<b>Adj. op. revenue</b>	<b>12,876</b>	<b>15,484</b>	<b>19,881</b>	<b>20,944</b>	<b>23,765</b>
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
<b>Attributable net profit</b>	<b>3,492</b>	<b>4,239</b>	<b>5,461</b>	<b>5,895</b>	<b>6,830</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Deposit held on behalf of clients	31,267	40,960	61,790	65,419	72,558
Clearing reserves	8,885	10,964	23,480	25,895	28,721
Margin accounts	17,716	23,190	25,509	27,805	30,307
Reverse repos	19,553	14,299	15,443	16,524	17,681
Financial investments	150,485	197,178	230,698	253,768	276,607
Other assets	47,514	58,380	69,368	70,419	72,636
<b>Total assets</b>	<b>275,421</b>	<b>344,971</b>	<b>426,288</b>	<b>459,829</b>	<b>498,509</b>
Customer brokerage deposits	41,318	48,338	92,685	98,128	108,836
Short-term debts	71,246	70,031	82,185	89,936	96,879
Long-term debts	61,993	79,391	91,300	97,691	104,529
Other liabilities	58,487	98,680	106,236	115,025	123,104
<b>Total liabilities</b>	<b>233,044</b>	<b>296,440</b>	<b>372,406</b>	<b>400,781</b>	<b>433,349</b>
<b>Total shareholders' equity</b>	<b>42,184</b>	<b>48,294</b>	<b>53,620</b>	<b>58,774</b>	<b>64,876</b>
Incl. Perpetual bonds	1,000	1,000	1,000	1,000	1,000
Minority interest	193	238	262	275	283

### Key Ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Operating revenue mix</b>					
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%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Growth, YoY</b>					
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%
<b>Adj. op. revenue</b>	<b>15%</b>	<b>20%</b>	<b>28%</b>	<b>5%</b>	<b>13%</b>
PPoP	26%	22%	31%	7%	15%
<b>Attributable net profit</b>	<b>26%</b>	<b>21%</b>	<b>29%</b>	<b>8%</b>	<b>16%</b>
<b>Total assets</b>	<b>16%</b>	<b>25%</b>	<b>24%</b>	<b>8%</b>	<b>8%</b>
<b>Efficiency</b>					
Cost-to-income ratio	65%	64%	63%	63%	62%
<b>Leverage</b>					
Adj. financial leverage (x)	5.5	6.0	6.2	6.2	6.0
Investment/ equity	357%	408%	430%	432%	426%
<b>Profitability</b>					
ROE	8.9%	9.5%	10.8%	10.6%	11.1%
ROA	1.4%	1.4%	1.4%	1.3%	1.4%
<b>Per share</b>					
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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**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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