

CITIC Securities (6030 HK)

All-round excellent 3Q19

CITICS reported 9M19 net profit of RMB 10.5bn, up 44% YoY, accounting for 92%/82% of CMBIS/consensus FY19 estimates. The results was strong in almost every business line. 3Q19 operating revenue grew 25% QoQ, with investment banking fees and prop trading gains as the main drivers, though slightly dragged by net interest income. Lower cost-to-income ratio (-8ppt QoQ) and decreased impairment losses (-69% QoQ) sent net profit growth higher to 86% QoQ at RMB 4.1bn. The outstanding 3Q19 results was a proof of CITICS's strength in investment banking and institutionalization, which we believe will continue to keep its competitive edge as a key beneficiary of China capital market reform. CITICS's current valuation is undemanding at 0.98x FY19E P/B. **Reiterate BUY.**

■ **Results positives:** 1) **Investment banking fees surged 44% QoQ** with market leading position maintained. IPO underwriting amount grew 20% QoQ, with five STAR Market IPO listings as a major contributor (~82%). CITICS ranked 4th place by no. of STAR Market active applications, enabling high visibility of IB fees in coming quarters. 2) **Prop-trading gains jumped 98% QoQ to RMB 4.5bn**, half of which was gained by subsidiaries by our estimates, including PE investment and the mandatory investment of STAR Market sponsorship. The Company also maintained its leading position in OTC derivative market in 8M19 (ranked 1st by outstanding notional value). 3) **AM fees increased 5% QoQ** (vs. industry trend of -10% QoQ), partly attributable to better fund management fee performance. 4) **Brokerage commission rebounded 3% QoQ**, bucking peers' trend (-15% - -11% QoQ for brokers we cover), possibly from improved trading activity of institutional clients driven by STAR Market launch and weighting increase of A-shares into global indices as well as sequential growth of oversea brokerage business.

■ **Results negatives:** **Net interest income retreated 52% QoQ**, as interest expense growth outpaced interest income, likely due to increased bond financing. Reverse repo balance slightly shrank 4% QoQ, while margin accounts balance grew 4%, in-line with market trend.

■ **Acquisition of GZS approved by regulator. Reiterate BUY and maintain as our sector top pick.** CSRC M&A committee approved CITICS's acquisition of Guangzhou Securities yesterday. We think the deal will benefit CITICS strategically though the new share issuance may dilute FY20E EPS insignificantly by 6% and consolidation may take time. CITICS currently trades at 0.98 FY19E P/B, still close to its historical average minus 1SD (0.96x). Maintain BUY rating and as our sector top pick.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. op. revenue (RMB mn)	35,143	30,239	33,458	38,149	42,552
Net profit (RMB mn)	11,433	9,390	11,465	13,663	15,639
EPS (RMB)	0.94	0.77	0.95	1.13	1.29
EPS CHG (%)	10	(18)	22	19	14
P/E (x)	13.8	16.9	13.8	11.6	10.1
P/B (x)	1.06	1.03	0.98	0.93	0.88
Yield (%)	3.1	2.7	2.9	3.5	4.0
ROAE (%)	7.8	6.2	7.3	8.3	8.9
Financial leverage (x)	3.6	3.6	4.0	4.1	4.1

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 18.70
(Previous TP	HK\$ 18.70)
Up/Downside	+28.4%
Current Price	HK\$14.56

China Brokerage Sector

Karen Sui

(852) 3761 8775

suixiaomeng@cmbi.com.hk

Terry Sun, CFA

(852) 3900 0836

terrysun@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	272,271
Avg 3 mths t/o (HK\$ mn)	270.55
52w High/Low (HK\$)	21.20/12.84
Total Issued Shares (mn)	2,278 (H)
	9,839 (A)

Source: Bloomberg

Shareholding Structure

CITIC Corporation Limited	16.50%
CSF	2.99%
Huijin	1.64%

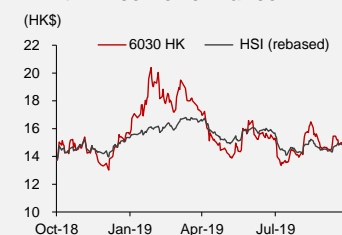
Source: Company data

Share Performance

	Absolute	Relative
1-mth	1.8%	-1.4%
3-mth	-2.5%	2.3%
6-mth	-13.7%	-3.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. "Higher earnings visibility given favorable policy environment" – 6 Sep 2019
2. "Cooling-down 3Q19 results yet overall resilient" – 23 Aug 2019
3. "Financial tour takeaway" – 4 Jul 2019

Figure 1: CITICS's 3Q19 results summary

(RMB mn)

I/S	4Q18	1Q19	2Q19	3Q19	QoQ	3Q18	YoY	9M18	9M19	YoY
Net fee and commission income	4,521	4,343	4,211	4,593	9%	3,809	21%	12,905	13,147	2%
Brokerage	1,581	1,950	1,849	1,904	3%	1,735	10%	5,848	5,703	-2%
Investment banking	1,209	989	815	1,177	44%	680	73%	2,430	2,981	23%
Asset Management	1,692	1,297	1,370	1,434	5%	1,231	17%	4,142	4,101	-1%
Net interest income*	336	520	857	408	-52%	812	-50%	2,087	1,786	-14%
Prop trading gains*	2,086	4,923	2,252	4,465	98%	1,354	230%	5,960	11,639	95%
Adj. op. revenue	7,879	9,966	7,925	9,882	25%	6,532	51%	22,360	27,773	24%
Adj. op. expenses	(4,072)	(4,241)	(3,963)	(4,124)	4%	(3,758)	10%	(11,490)	(12,329)	7%
PPoP	3,807	5,725	3,962	5,757	45%	2,773	108%	10,869	15,444	42%
Provision	(978)	13	(767)	(238)	-69%	(530)	-55%	(1,232)	(993)	-19%
Pre-tax profit	2,828	5,737	3,195	5,519	73%	2,243	146%	9,637	14,451	50%
Income tax expense	(635)	(1,380)	(888)	(1,330)	50%	(383)	247%	(1,955)	(3,598)	84%
Net profit	2,075	4,258	2,188	4,077	86%	1,749	133%	7,315	10,522	44%
B/S	4Q18	1Q19	2Q19	3Q19	QoQ	3Q18	YoY	FY18	3Q19	YTD
Margin accounts	57,198	64,031	64,488	67,341	4%	61,103	10%	57,198	67,341	18%
Financial investment	299,297	287,437	319,798	338,484	6%	256,978	32%	299,297	338,484	13%
Reverse repos	67,370	57,006	68,605	65,848	-4%	57,953	14%	67,370	65,848	-2%
Customer brokerage deposits	97,774	143,734	122,211	124,928	2%	107,313	16%	97,774	124,928	28%
Total shareholder's equity	153,141	157,918	156,001	160,082	3%	152,792	5%	153,141	160,082	5%
Ratios	4Q18	1Q19	2Q19	3Q19	QoQ	3Q18	YoY	9M18	9M19	YoY
ROAE	5.4%	10.9%	5.6%	10.3%	4.7ppt	4.6%	5.7ppt	6.4%	9.0%	2.5ppt
ROAA	1.3%	2.6%	1.3%	2.2%	1.0ppt	1.1%	1.1ppt	1.6%	2.1%	0.6ppt
Leverage	3.6x	3.5x	3.9x	3.8x	-0.1x	3.4x	0.4x	3.4x	3.8x	0.4x
Investment yield	3.0%	6.7%	3.0%	5.4%	2.5ppt	2.1%	3.3ppt	3.2%	4.9%	1.7ppt
Cost-to-income ratio	51%	42%	49%	41%	-8ppt	57%	-16ppt	51%	44%	-7ppt

Source: Company data, CMBIS

*: Adjusted for reclassification of interest income from other debt investments.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Brokerage commission	8,045	7,429	6,720	7,527	8,524
Investment banking fee	4,406	3,639	3,867	5,328	5,849
Asset management fee	5,715	5,834	5,370	5,830	6,508
Net interest income	2,405	1,568	1,602	1,408	1,741
Prop-trading gains	12,713	8,901	13,819	15,949	17,765
Others	1,860	2,869	2,080	2,107	2,165
Adj. op. revenue	35,143	30,239	33,458	38,149	42,552
Adj. op. expenses	(17,249)	(15,563)	(15,885)	(18,403)	(20,319)
PPoP	17,895	14,676	17,573	19,747	22,233
Provision	(1,721)	(2,211)	(1,571)	(1,311)	(1,150)
Pre-tax profit	16,174	12,466	16,003	18,436	21,083
Income tax expense	(4,196)	(2,589)	(4,079)	(4,255)	(4,874)
Minority interests	(544)	(487)	(459)	(517)	(570)
Net profit	11,433	9,390	11,465	13,663	15,639

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Deposit held on behalf of clients	69,478	74,291	89,533	91,659	99,821
Clearing reserves	27,873	24,922	28,882	32,735	37,668
Margin accounts	73,983	57,198	68,637	76,874	86,099
Reverse repos	114,592	67,370	70,739	74,276	78,732
Financial investments	237,380	299,297	365,143	394,354	421,959
Other assets	102,269	130,054	141,674	139,112	140,350
Total assets	625,575	653,133	764,607	809,010	864,630
Customer brokerage deposits	99,855	97,774	118,183	120,990	132,762
Short-term debts	160,984	164,700	232,494	251,094	270,538
Long-term debts	107,342	118,082	127,383	136,279	145,798
Other liabilities	104,251	115,746	121,762	126,518	130,946
Total liabilities	472,432	496,301	599,822	634,881	680,043
Total shareholders' equity	149,799	153,141	160,910	170,060	180,314
Incl. Perpetual bonds	0	0	0	0	0
Minority interest	3,344	3,691	3,875	4,069	4,272

Key Ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue mix					
Brokerage commission	23%	25%	20%	20%	20%
Investment banking fee	13%	12%	12%	14%	14%
Asset management fee	16%	19%	16%	15%	15%
Net interest income	7%	5%	5%	4%	4%
Prop-trading gains	36%	29%	41%	42%	42%
Others	5%	9%	6%	6%	5%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	-15%	-8%	-10%	12%	13%
Investment banking fee	-18%	-17%	6%	38%	10%
Asset management fee	-10%	2%	-8%	9%	12%
Net interest income	2%	-35%	2%	-12%	24%
Prop-trading gains	54%	-30%	55%	15%	11%
Adj. op. revenue	3%	-14%	11%	14%	12%
PPoP	10%	-18%	20%	12%	13%
Net profit	10%	-18%	22%	19%	14%
Total assets	5%	4%	17%	6%	7%
Efficiency					
Cost-to-income ratio	48%	51%	47%	47%	47%
Leverage					
Adj. financial leverage (x)	3.6	3.6	4.0	4.1	4.1
Investment/ equity	158%	195%	227%	232%	234%
Profitability					
ROE	7.8%	6.2%	7.3%	8.3%	8.9%
ROA	1.9%	1.5%	1.6%	1.7%	1.9%
Per share					
EPS (RMB)	0.94	0.77	0.95	1.13	1.29
DPS (RMB)	0.40	0.35	0.38	0.45	0.52
BVPS (RMB)	12.36	12.64	13.28	14.03	14.88

Source: Company data, CMBIS estimates

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NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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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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