

China International Capital Corp. (3908 HK)

Outstanding FY20 results across the board

CICC reported FY20 net profit of RMB 7.2bn, up 70% YoY, arriving at the midpoint of profit alert range. Operating revenue increased 53% YoY, fueled by stellar growth of both fee incomes and capital-based businesses, though impairment losses surged. We think CICC's outstanding franchise in IB and AM will enhance its competitiveness in the evolving capital market. We lift FY21E-22E earnings by 6%-11% and fine-tune TP to HK\$ 23.00. **Reiterate BUY.**

■ **Results positives:** 1) **Prop-trading gains** surged 89% YoY in FY20, mainly on gains from mandatory investment into STAR Market sponsored IPOs, expanding OTC derivatives and FICC related business. Financial investment balance robustly grew 44% YoY, and calculated investment yield was up 1.3ppt YoY to 5.9%. 2) **Brokerage** income +55% YoY, likely attributable to share gain in domestic brokerage and a 126% YoY growth of agency sales of financial products. 3) **Asset mgmt. & fund mgmt.** income +51% YoY, of which AM fees far outpaced industry growth (+51% vs. +9%), as CICC recorded a 61% YoY growth of AUM, and % of monthly avg. actively managed AUM exceeded 91% in 4Q20, according to AMAC. Meanwhile, mutual fund/PE AUM expanded 98%/28% YoY, contributing to a 28% YoY growth of fund mgmt. fees. In 4Q20, CICC Capital remained the largest PE sub of brokers with a monthly avg. AUM of RMB 132bn, more than doubling that of the runner-up. 4) **Investment banking** income +40% YoY despite high base, highlighted by 55%/15% domestic/oversea IPO underwriting. 5) **Net interest loss** -2% YoY, thanks to strong interest income from margin financing (+39% YoY and margin acct. balance +46% YoY) and lower funding cost (est. -0.4ppt YoY). The Company's leverage went down from 7.4x ended 3Q20 to 6.3x ended FY20 after A-share IPO completed in Nov 2020.

■ **Results negatives:** 1) **Forex loss** was recorded at RMB 2.2bn, reducing top-line by 8%, caused by derivative losses on volatility in forex market. 2) **Impairment losses** was RMB 973mn, up 510% YoY, and mostly was booked in 2H20 (RMB 806mn). The charge was mainly for receivables, SPLs and margin financing.

■ **Fine-tune TP to HK\$ 23.00. Reiterate BUY.** We revised up FY21E-22E earnings forecast for CICC by 6%-11%, mainly to reflect higher investment yield assumption and better growth in AM. CICC now trades at 1.04x 1-year forward P/B (vs. historical avg. of 1.12x). We slightly lower our TP to HK\$ 23.00 to reflect higher COE assumption (10.6% vs. prev. 9.5%). Maintain BUY and as one of our sector top picks.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Adj. op. revenue (RMB mn)	15,484	23,624	26,455	28,313	31,052
Net profit (RMB mn)	4,239	7,207	7,681	8,596	9,524
EPS (RMB)	0.99	1.62	1.58	1.77	1.96
EPS CHG (%)	19	64	(3)	12	11
Consensus EPS (RMB)	N/A	N/A	1.72	1.97	N/A
P/E (x)	15.7	9.6	9.9	8.8	7.9
P/B (x)	1.44	1.13	1.02	0.87	0.79
Yield (%)	0.0	1.6	1.5	1.7	1.9
ROE (%)	9.5	12.6	10.9	11.0	11.1
Financial leverage (x)	6.0	6.3	6.2	6.0	5.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 23.00
(Previous TP	HK\$ 23.60)
Up/Downside	+22.5%
Current Price	HK\$ 18.78

China Brokerage Sector

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Stock Data

Mkt Cap (HK\$ mn)	212,374
Avg 3 mths t/o (HK\$ mn)	484.89
52w High/Low (HK\$)	25.75/10.80
Total Issued Shares (mn)	4,369

Source: Bloomberg

Shareholding Structure

Huijin	40.1%
Haier Group Corporation	8.3%
Tencent Holdings Limited	4.5%

Source: HKEX

Share Performance

	Absolute	Relative
1-mth	4.8%	7.2%
3-mth	1.0%	-5.3%
6-mth	7.2%	-12.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. "3Q20 results boosted by strong fee growth" – 30 Oct 2020
2. "2Q20 results strong on investment gains" – 8 Aug 2020
3. "Raises A-share IPO size; mega deals to help with ROE recovery" – 21 Jul 2020
4. "Optimism & reform suggest more earnings upsides" – 9 Jul 2020
5. "Reform acceleration could drive further divergence" – 12 May 2020

Figure 1: CICC's quarterly results summary

(RMB mn)										
I/S	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Net fee and commission income	3,744	2,552	2,685	3,484	4,905	41%	31%	9,547	13,626	43%
Brokerage	720	1,087	914	1,455	1,154	-21%	60%	2,979	4,610	55%
Investment banking	2,240	874	1,126	1,369	2,586	89%	15%	4,248	5,956	40%
Asset management and others	784	591	645	659	1,165	77%	49%	2,321	3,059	32%
Net interest income/ (loss)	(488)	(225)	(274)	(295)	(275)	-7%	-44%	(1,095)	(1,069)	-2%
Prop trading gains	1,826	1,909	3,601	4,224	3,424	-19%	88%	6,959	13,159	89%
Adj. op. revenue	4,323	4,757	5,938	6,303	6,626	5%	53%	15,484	23,624	53%
Adj. op. expenses	(2,876)	(2,919)	(3,577)	(3,963)	(3,480)	-12%	21%	(10,023)	(13,939)	39%
PPoP	1,447	1,838	2,361	2,341	3,145	34%	117%	5,461	9,685	77%
Provision	(127)	(145)	(22)	(7)	(799)	12125%	531%	(160)	(973)	510%
Pre-tax profit	1,321	1,693	2,339	2,334	2,346	1%	78%	5,302	8,713	64%
Income tax expense	(239)	(404)	(326)	(487)	(233)	-52%	-2%	(1,054)	(1,451)	38%
Net profit	1,099	1,277	1,998	1,839	2,093	14%	90%	4,182	7,150	71%
B/S	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Margin accounts	23,190	23,617	25,567	30,866	33,885	10%	46%	23,190	33,885	46%
Reverse repo	14,299	14,190	16,270	20,020	18,431	-8%	29%	14,299	18,431	29%
Financial investments	197,178	203,718	254,030	257,259	284,818	11%	44%	197,178	284,818	44%
Debt and borrowings	149,422	167,542	194,047	211,540	214,111	1%	43%	149,422	214,111	43%
Total shareholder's equity	48,294	49,725	50,329	56,637	71,635	26%	48%	48,294	71,635	48%
Ratios	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
ROE	9.4%	10.4%	16.0%	13.8%	13.1%	-0.7ppt	3.7ppt	9.5%	12.6%	3.1ppt
ROA	1.3%	1.4%	1.9%	1.6%	1.7%	0.1ppt	0.4ppt	1.4%	1.7%	0.3ppt
Adj. leverage	6.0x	6.6x	7.4x	7.4x	6.3x	-1.1x	0.3x	6.0x	6.3x	0.3x
Investment yield*	3.9%	3.4%	5.9%	6.3%	4.7%	-1.6ppt	0.8ppt	4.7%	5.9%	1.2ppt
Cost-to-income ratio	66%	61%	60%	62%	52%	-10ppt	-14ppt	64%	59%	-5ppt

Source: Company data, CMBIS

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

Figure 2: Earnings revision

(HK\$)	New		Old		New vs. Old	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Adj. operating income (mn)	26,455	28,313	23,232	26,543	14%	7%
Net profit (mn)	7,681	8,596	6,931	8,074	11%	6%
EPS	1.58	1.77	1.42	1.66	11%	7%
BVPS	15.24	17.86	15.04	17.60	1%	1%
ROE	10.9%	11.0%	9.9%	10.5%	1.0ppt	0.5ppt

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Brokerage commission	2,979	4,610	4,911	5,546	6,017
Investment banking fee	4,248	5,956	6,625	7,378	7,811
Asset management fee	754	1,136	1,437	1,689	2,002
Net interest income	(1,095)	(1,069)	(1,403)	(1,749)	(1,846)
Prop-trading gains	6,959	13,159	14,023	14,857	16,476
Others	1,641	(168)	862	592	592
Adj. op. revenue	15,484	23,624	26,455	28,313	31,052
Adj. op. expenses	(10,023)	(13,939)	(16,268)	(17,127)	(18,784)
PPoP	5,461	9,685	10,187	11,186	12,268
Provision	(160)	(973)	(745)	(620)	(562)
Pre-tax profit	5,302	8,713	9,442	10,566	11,706
Income tax expense	(1,054)	(1,451)	(1,700)	(1,902)	(2,107)
Minority interests	(9)	(55)	(62)	(68)	(75)
Attributable net profit	4,239	7,207	7,681	8,596	9,524

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Deposit held on behalf of clients	40,960	51,666	57,720	65,718	71,542
Clearing reserves	10,964	12,295	14,737	16,779	18,266
Margin accounts	23,190	33,885	37,951	41,367	44,676
Reverse repos	14,299	18,431	19,721	20,707	21,742
Financial investments	197,178	284,818	316,148	344,601	368,723
Other assets	58,380	120,526	114,308	114,942	117,399
Total assets	344,971	521,620	560,584	604,113	642,348
Customer brokerage deposits	48,338	70,655	75,035	85,433	93,004
Short-term debts	70,031	86,110	93,968	101,731	108,426
Long-term debts	79,391	128,001	138,241	147,918	155,314
Other liabilities	98,680	165,039	174,582	182,639	190,653
Total liabilities	296,440	449,805	481,826	517,721	547,398
Total shareholders' equity	48,294	71,635	78,568	86,197	94,749
Incl. Perpetual bonds	1,000	5,000	5,000	5,000	5,000
Minority interest	238	180	189	195	201

Key Ratios

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating revenue mix					
Brokerage commission	19%	20%	19%	20%	19%
Investment banking fee	27%	25%	25%	26%	25%
Asset management fee	5%	5%	5%	6%	6%
Net interest income	-7%	-5%	-5%	-6%	-6%
Prop-trading gains	45%	56%	53%	52%	53%
Others	11%	-1%	3%	2%	2%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Brokerage commission	14%	55%	7%	13%	8%
Investment banking fee	34%	40%	11%	11%	6%
Asset management fee	22%	51%	26%	18%	19%
Net interest income	286%	-2%	31%	25%	6%
Prop-trading gains	43%	89%	7%	6%	11%
Adj. op. revenue	20%	53%	12%	7%	10%
PPoP	22%	77%	5%	10%	10%
Attributable net profit	21%	70%	7%	12%	11%
Total assets	25%	51%	7%	8%	6%
Efficiency					
Cost-to-income ratio	64%	59%	61%	60%	60%
Leverage					
Adj. financial leverage (x)	6.0	6.3	6.2	6.0	5.8
Investment/ equity	408%	398%	402%	400%	389%
Profitability					
ROE	9.5%	12.6%	10.9%	11.0%	11.1%
ROA	1.4%	1.7%	1.4%	1.5%	1.5%
Per share					
EPS (RMB)	0.99	1.62	1.58	1.77	1.96
DPS (RMB)	0.00	0.24	0.24	0.27	0.29
BVPS (RMB)	10.83	13.80	15.24	17.86	19.63

Source: Company data, CMBIS estimates

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