

# CITIC Securities (6030 HK)

## 2Q20 results strong across the board

CITICS reported 1H20 net profit of RMB 8.9bn, up 38% YoY, in-line with preliminary announcement. 2Q20 operating income was above our estimates, up 19% QoQ, with strength across business lines led by prop-trading, although building provision again slowed bottom-line growth. We continue to like CITICS's leadership amid industry consolidation, and expect favorable market and reform environment to support its earnings growth in 2H20E. **Maintain BUY.**

■ **Results positives: 1) Prop-trading gains +6% QoQ in 2Q20 despite high base**, achieving 64% YoY growth in 1H20 to RMB 11.8bn. CITICS continued to expand its financial investment balance (+17% QoQ in 2Q20/+26% HoH) in 1H20 while maintaining decent yield at 5.4%. We believe this was attributable to CITICS leading position in equity derivatives as well as better performance of CITICS investment and Goldstone. **2) Investment banking fees +49% QoQ**, where strong domestic follow-on offering and oversea underwriting offset slower domestic IPO underwriting (2 IPOs in 2Q20 vs. 5 in 1Q20). Given the Company's rich IPO pipeline (ranked 1st by no. of sponsorship on STAR Market and ChiNext), we expect IB business will continue to improve in 2H20E. **3) Brokerage commission performed better than industry (-13% vs. -22% QoQ)**, where we estimated a YoY market share gain (+0.7ppt) in 1H20, more than offsetting declining commission rate. **4) AM fees +3% QoQ in 2Q20/+23% YoY in 1H20** (vs. industry +9% YoY in 1H20), thanks to both enhanced actively managed AUM (+23% HoH, accounting for 61% of total AUM) and stellar growth of China AMC (AUM +21% HoH) amid robust mutual fund issuance. **5) Net interest income +59% QoQ**, as borrowings and bonds balance reduced 7% QoQ while margin balance extended 10% QoQ. We saw financing cost experiencing sequential decline due to easier monetary policy.

■ **Results negatives: Impairment losses of another RMB 704mn was booked in 2Q20**, totaling RMB 2.3bn in 1H20, up 205% YoY. The increase was mostly for reverse repos (on-B/S SPLs) and margin financing, which increased CITICS's buffer to total balance to 9.1% and 1.5%, respectively, among highest within major brokers.

■ **Maintain BUY.** CITICS now trades at 1.14x 1-year forward P/B, slightly below its historical average of 1.19x. Our unchanged TP of HK\$ 24.60 implies 1.5x FY20E P/B, to reflect its leading position in enjoying capital market reform and expected ROE recovery. **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)	21.8	16.7	14.3	12.4	10.8
P/B (x)	1.34	1.27	1.19	1.12	1.05
Yield (%)	2.1	3.2	2.8	3.2	3.7
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	+30.7%
Current Price	HK\$ 18.82

### 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%

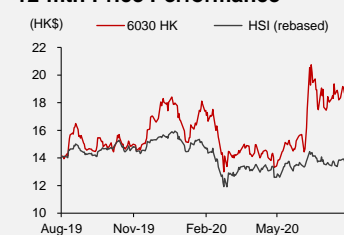
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-1.4%	-0.8%
3-mth	40.4%	28.2%
6-mth	4.4%	13.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PwC**

### Related Reports

1. "Optimism & reform suggest more earnings upsides" – 9 Jul 2020
2. "Reform acceleration could drive further divergence" – 12 May 2020
3. "Provision dented robust top-line growth" – 29 Apr 2020
4. "Resilient Mar set for better-than-expected 1Q20E results" – 14 Apr 2020
5. "Soft 4Q19 behind" – 20 Mar 2020

**Figure 1: CITICS's 2Q20 results summary**

(RMB mn)										
I/S	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY	1H19	1H20	YoY
Net fee and commission income	4,211	4,593	4,875	5,257	5,570	6%	32%	8,554	10,827	27%
Brokerage	1,849	1,904	1,711	2,680	2,328	-13%	26%	3,799	5,008	32%
Investment banking	815	1,177	1,484	891	1,330	49%	63%	1,804	2,221	23%
Asset Management	1,370	1,434	1,606	1,617	1,673	3%	22%	2,666	3,290	23%
Net interest income	857	408	259	313	497	59%	-42%	1,378	810	-41%
Prop trading gains	2,252	4,465	4,252	5,724	6,071	6%	170%	7,174	11,795	64%
<b>Adj. op. revenue</b>	<b>7,925</b>	<b>9,882</b>	<b>9,668</b>	<b>11,575</b>	<b>12,564</b>	<b>9%</b>	<b>59%</b>	<b>17,891</b>	<b>24,138</b>	<b>35%</b>
Adj. op. expenses	(3,963)	(4,124)	(5,526)	(4,444)	(5,519)	24%	39%	(8,204)	(9,963)	21%
<b>PPoP</b>	<b>3,962</b>	<b>5,757</b>	<b>4,141</b>	<b>7,130</b>	<b>7,045</b>	<b>-1%</b>	<b>78%</b>	<b>9,687</b>	<b>14,175</b>	<b>46%</b>
Provision	(767)	(238)	(1,598)	(1,597)	(704)	-56%	-8%	(754)	(2,301)	205%
<b>Pre-tax profit</b>	<b>3,195</b>	<b>5,519</b>	<b>2,544</b>	<b>5,533</b>	<b>6,341</b>	<b>15%</b>	<b>98%</b>	<b>8,932</b>	<b>11,874</b>	<b>33%</b>
Income tax expense	(888)	(1,330)	(748)	(1,310)	(1,344)	3%	51%	(2,268)	(2,653)	17%
<b>Net profit</b>	<b>2,188</b>	<b>4,077</b>	<b>1,706</b>	<b>4,076</b>	<b>4,850</b>	<b>19%</b>	<b>122%</b>	<b>6,446</b>	<b>8,926</b>	<b>38%</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	64,488	67,341	70,674	77,241	85,181	10%	32%	70,674	85,181	21%
Financial investment	319,798	338,484	395,312	424,495	498,469	17%	56%	395,312	498,469	26%
Reverse repos	68,605	65,848	58,830	52,483	50,687	-3%	-26%	58,830	50,687	-14%
Borrowings and bonds	184,060	177,976	187,073	195,050	181,875	-7%	-1%	187,073	181,875	-3%
Total shareholders' equity	156,001	160,082	161,625	177,354	176,044	-1%	13%	161,625	176,044	9%
<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	5.6%	10.3%	4.2%	9.6%	11.0%	1.4ppt	5.4ppt	8.3%	10.6%	2.2ppt
ROA	1.3%	2.2%	0.9%	1.9%	2.0%	0.1ppt	0.8ppt	1.9%	2.0%	0.1ppt
Leverage	3.9x	3.8x	4.1x	4.2x	4.5x	0.3x	0.6x	3.9x	4.5x	0.6x
Investment yield*	3.0%	5.4%	4.6%	5.6%	5.3%	-0.3ppt	2.3ppt	5.0%	5.4%	0.4ppt
Cost-to-income ratio	49%	41%	56%	38%	43%	6ppt	-6ppt	45%	41%	-5ppt

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	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
<b>Adj. op. revenue</b>	<b>30,239</b>	<b>37,440</b>	<b>42,973</b>	<b>47,424</b>	<b>52,261</b>
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)
<b>Attributable net profit</b>	<b>9,390</b>	<b>12,229</b>	<b>15,016</b>	<b>17,587</b>	<b>20,178</b>

### 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
<b>Total assets</b>	<b>653,133</b>	<b>791,722</b>	<b>917,082</b>	<b>1,002,531</b>	<b>1,086,748</b>
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
<b>Total liabilities</b>	<b>496,301</b>	<b>626,273</b>	<b>729,410</b>	<b>803,055</b>	<b>873,891</b>
<b>Total shareholders' equity</b>	<b>153,141</b>	<b>161,625</b>	<b>183,733</b>	<b>195,418</b>	<b>208,677</b>
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
<b>Operating revenue mix</b>					
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%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### 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%
<b>Adj. op. revenue</b>	<b>-14%</b>	<b>24%</b>	<b>15%</b>	<b>10%</b>	<b>10%</b>
PPoP	-18%	33%	3%	12%	12%
<b>Net profit</b>	<b>-18%</b>	<b>30%</b>	<b>23%</b>	<b>17%</b>	<b>15%</b>
Total assets	4%	21%	16%	9%	8%

### Efficiency

Cost-to-income ratio	51%	47%	47%	46%	45%
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### 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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