

CITIC Securities [6030.HK]

Solid 5M2018 Performance; Upgrade to BUY

We upgrade CITIC Securities-H (CITICS-H) from **HOLD** to **BUY** after raising our target price from HK\$20.60 to HK\$22 (1.4x 2018E PBR (previous: 1.32x 2018E PBR), based on the Gordon Growth Model; beta at 1.3, cost of equity at 9.4%, medium-term ROE at 10.4% (previous: 10.2%)). At the holding company level, CITICS reported net profit growth of 30% YoY in 5M2018, thanks to a recovery in net investment income and the increasing market share of its brokerage business. Meanwhile, being one of the sponsors of the Xiaomi IPO in Hong Kong and mainland China will help the Company build a solid track record and benefit its investment banking business for “unicorn” listings going forward. Overall, we raise our FY18E/FY19E EPS by 6.2%/6.9% and lift our target price accordingly. We also raise our target price for CITICS-A (600030.CH) from RMB19.95 to RMB21.30, based on a 20% premium for CITICS-H (3-year average).

Investment Highlights

- 5M2018 net profit grew 30% YoY at the holding company level, outperforming the industry average.** CITICS reported a net profit of RMB3.36bn at the holding company level in 5M2018. The 30% YoY growth is much better than the average of its listed peers (including A- and H-share companies), which reported a moderate decline YoY in 5M2018. We believe the earnings growth was driven by a gradual recovery in net investment income from a low base, an increase in market share in its brokerage business, and stable growth in its asset management business.
- Market share gain in its brokerage business.** CITICS' brokerage business market share (stock and fund trading) fell from 5.8% in 2016 to 5.6% 2017, according to data from WIND. It is encouraging to see that its market share rebounded to about 5.9% in 5M2018. Although there is no breakdown available, we believe a higher portion of trading from institutional investors helped CITICS gain market share in the brokerage business. Therefore, we revised up our 2018E market share assumption from 5.6% to 5.9%.
- Major beneficiary of more “unicorn” IPOs.** Although CITICS' investment banking revenue dropped 19% YoY in Q1 2018, we believe this is only a temporary issue. CLSA is one of the joint sponsors of Xiaomi's Hong Kong IPO, while CITICS is the sponsor of Xiaomi's CDR listing in mainland China. If the Xiaomi listing goes smoothly, it will build a solid track record for CITICS' investment banking business in “unicorn” listings and help the Company secure more deals in this area in the future.
- Likely to maintain better-than-peers share price performance.** The share price of CITICS-H has risen by 14.6% YTD, much better than most of the peers'. We expect this impressive performance to continue in the near term, given its solid 5M2018 results, increasing market share in the brokerage business, and more investment banking deals, thanks to an increasing number of “unicorn” listings.

Y/E Dec 31	2015	2016	2017	2018E	2019E
Turnover (RMB m)	69,384	45,273	48,185	52,969	59,428
Recurring net profit (RMB m)	19,798	10,363	11,433	13,728	15,425
Adjusted Net margin (%)	39	33	35	38	39
Recurring EPS (RMB)	1.63	0.86	0.94	1.13	1.27
% Change	86	(48)	10	20	12
PER (x)	9.7	19.6	17.3	14.2	12.6
PBR (x)	1.39	1.42	1.32	1.23	1.15
ROAA (%)	3.7	1.8	2.0	2.2	2.1
ROAE (%)	16.6	7.4	7.8	8.9	9.4

Sources: Company, CGIS Research

China Securities Sector

BUY

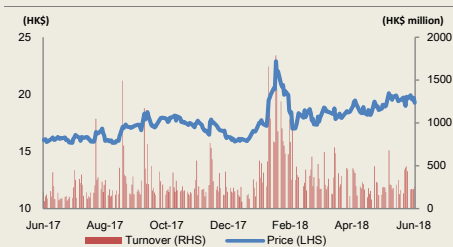
(upgrade from HOLD)

Close: HK\$19.26 (Jun 8, 2018)

Target Price (H): HK\$22 (+14.1%)

Target Price (A): RMB21.30 (+14.6%)

Price Performance



Source: Bloomberg

Market Cap	US\$34,143m
Shares Outstanding	12,117m
Auditor	Ernst & Young
Free Float	82.4%
52W range	HK\$15.70-22.95
3M average daily T/O	US\$39m
Major Shareholding	CITIC Limited (16.5%)

Sources: Company, Bloomberg

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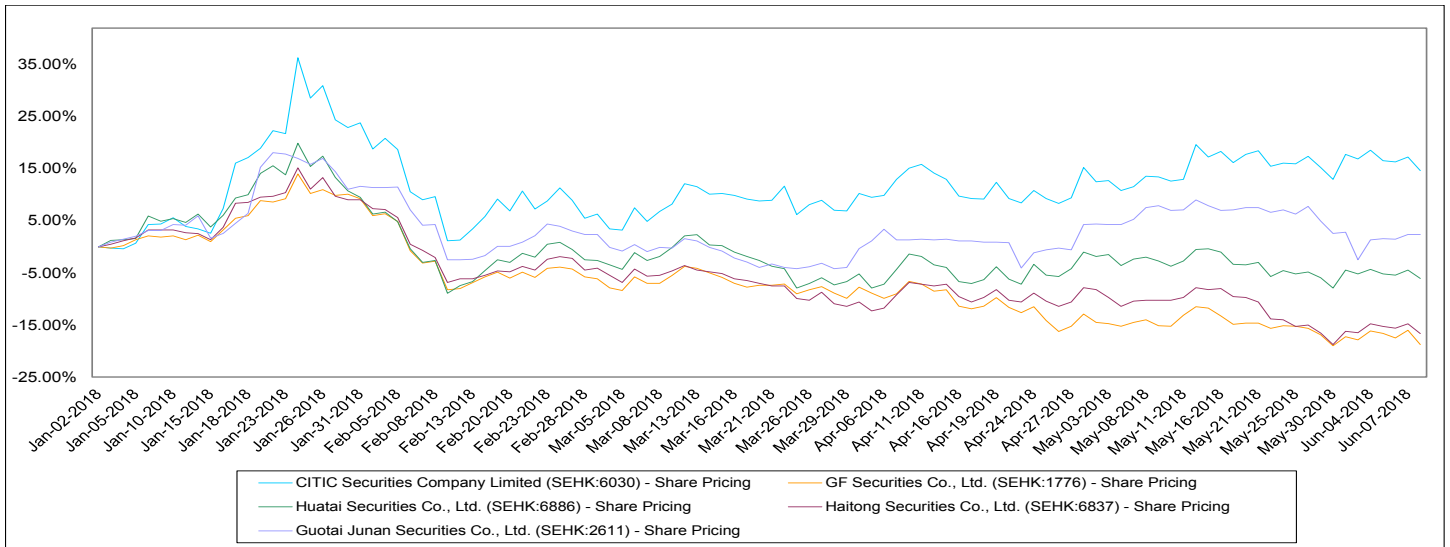
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Relative share price performance



Sources: Capital IQ, CGIS Research

Key financials

CITIC Securities (6030.HK; 600030.CH)
Income Statement
 (RMB'000, except for per share amount)

	2014	2015	2016	2017	2018E	2019E
Year ended 31 Dec						
Investment banking	3,516,440	4,563,090	5,470,917	4,320,427	4,799,030	5,672,222
Brokerage	10,365,206	22,713,891	12,574,497	11,523,441	12,279,853	13,159,196
Trading	230,864	287,057	407,164	150,314	165,345	181,880
Asset management	4,503,850	6,449,325	6,860,180	6,327,008	6,561,376	6,609,066
Others	298,998	239,160	462,014	343,460	400,000	450,000
Commission and fee income	18,915,358	34,252,523	25,774,772	22,664,650	24,205,605	26,072,363
Interest income	7,850,808	15,621,547	11,232,779	12,806,665	15,809,686	19,019,799
Net investment gains	10,204,336	19,510,014	8,265,068	12,713,196	12,954,146	14,336,291
Total revenue	36,970,502	69,384,084	45,272,619	48,184,511	52,969,437	59,428,453
Other income and gains	375,356	3,537,585	4,792,153	8,774,471	9,000,000	9,000,000
Total revenue and other income	37,345,858	72,921,669	50,064,772	56,958,982	61,969,437	68,428,453
Staff cost	(9,463,242)	(14,797,624)	(11,507,497)	(12,141,247)	(12,611,745)	(13,508,060)
Commission and fee expenses	(1,798,997)	(4,621,076)	(3,331,110)	(3,707,615)	(3,883,659)	(4,173,854)
Interest expenses	(6,900,792)	(12,830,544)	(8,884,626)	(10,402,063)	(11,218,933)	(13,648,248)
Others	(6,569,743)	(14,033,038)	(12,430,139)	(15,139,062)	(15,888,085)	(16,462,260)
Operating expenses	(24,732,774)	(46,282,282)	(36,153,372)	(41,389,987)	(43,602,421)	(47,792,422)
Operating profit	12,613,084	26,639,387	13,911,400	15,568,995	18,367,016	20,636,031
Share of profits of associates	638,022	664,352	349,849	602,957	800,000	900,000
Share of profits of JCEs	(8,616)	(18,821)	(438)	1,092	-	-
Exceptional items	2,179,457	2,226	1,748	737	-	-
Income before tax	15,421,947	27,287,144	14,262,559	16,173,781	19,167,016	21,536,031
Income tax expense	(3,560,448)	(6,926,800)	(3,281,419)	(4,196,311)	(4,791,754)	(5,384,008)
Minority interests	(524,305)	(560,551)	(615,971)	(544,205)	(646,887)	(726,841)
Net income	11,337,194	19,799,793	10,365,169	11,433,265	13,728,375	15,425,182
Recurring net income	9,702,601	19,797,567	10,363,421	11,432,528	13,728,375	15,425,182
EPS (RMB)	1.029	1.634	0.855	0.944	1.133	1.273
Recurring EPS (RMB)	0.881	1.634	0.855	0.944	1.133	1.273
DPS (RMB)	0.310	0.500	0.350	0.400	0.453	0.509
A-share average daily turnover	303,014,286	1,045,302,582	519,090,730	460,911,721	500,000,000	530,000,000
Brokerage market share CITICS	6.5%	6.3%	5.8%	5.6%	5.9%	6.0%
Margin financing balance	72,101,290	74,010,000	62,639,640	70,935,900	80,137,384	88,151,122
Staff cost-to-income	33.0%	26.7%	30.4%	28.3%	26.9%	26.7%
Cost-to-income	56.0%	52.0%	63.2%	63.7%	60.8%	59.2%
Cost-to-income (ex-impairment)	53.9%	47.5%	58.1%	59.6%	57.2%	55.9%
Growth Rates:						
Commission and fee income	76.8%	81.1%	-24.8%	-12.1%	6.8%	7.7%
Interest income	92.0%	99.0%	-28.1%	14.0%	23.4%	20.3%
Net investment gains	94.0%	91.2%	-57.6%	53.8%	1.9%	10.7%
Total revenue and other income	84.2%	95.3%	-31.3%	13.8%	8.8%	10.4%
Recurring EPS	85.0%	85.5%	-47.7%	10.3%	20.1%	12.4%
Margins and Ratios:						
Adjusted operating margin	43.3%	44.5%	27.6%	19.9%	24.7%	28.0%
Adjusted net margin	36.2%	39.2%	33.2%	35.1%	38.0%	38.8%
Effective tax rate	23%	25%	23%	26%	25%	25%

Sources: Company data, CGIS Research estimates

Key financials

CITIC Securities (6030.HK; 600030.CH)
 Balance Sheet
 (RMB'000, except for per share amount)

	2014	2015	2016	2017	2018E	2019E
As at 31 Dec						
Financial assets	214,302,052	264,784,357	268,476,963	321,175,151	376,624,272	431,151,456
Advances to customers	74,135,256	75,523,403	65,021,193	73,982,611	83,137,384	91,151,122
Others	22,007,589	17,930,312	28,051,520	27,651,731	28,550,000	29,650,000
Cash held on behalf of customers	96,840,688	143,553,897	129,876,778	92,386,338	108,510,948	116,987,786
Bank balances and cash	37,967,189	68,906,892	36,713,034	34,303,141	33,843,553	46,603,836
Total current assets	445,252,774	570,698,861	528,139,488	549,498,972	630,666,156	715,544,201
PPE, net	1,222,324	3,856,121	3,923,261	8,264,559	7,759,368	7,254,178
Financial assets	10,863,766	12,508,463	38,975,935	36,698,109	39,211,765	42,172,549
Others	22,287,586	29,044,797	26,400,155	31,113,004	31,940,594	32,940,594
Total non-current assets	34,373,676	45,409,381	69,299,351	76,075,672	78,911,726	82,367,321
Total assets	479,626,450	616,108,242	597,438,839	625,574,644	709,577,883	797,911,522
Accounts payable	101,845,838	150,456,676	134,397,672	99,854,891	113,510,948	121,987,786
Financial assets sold under repo	124,914,446	127,788,537	121,414,243	111,619,927	150,000,000	180,000,000
Due to banks and other financial institutions	11,751,000	18,033,000	19,550,000	9,835,000	10,000,000	10,500,000
Others	89,053,707	103,934,854	96,581,535	168,384,614	183,395,877	211,692,004
Total current liabilities	327,564,991	400,213,067	371,943,450	389,694,432	456,906,825	524,179,790
Bonds payable	43,167,363	67,835,803	69,752,175	77,641,633	85,000,000	95,000,000
Others	7,762,611	6,322,274	9,954,544	5,096,020	5,000,000	5,400,000
Total non-current liabilities	50,929,974	74,158,077	79,706,719	82,737,653	90,000,000	100,400,000
Total liabilities	378,494,965	474,371,144	451,650,169	472,432,085	546,906,825	624,579,790
Shareholders' equity	99,098,670	139,137,787	142,695,946	149,799,046	158,680,658	168,614,491
Minority interests	2,032,815	2,599,311	3,092,724	3,343,513	3,990,400	4,717,241
Book value per share (HK\$)	11.42	13.89	13.54	14.59	15.71	16.70

Finance Ratios

	2014	2015	2016	2017	2018E	2019E
PER(x)	17.2	9.7	19.6	17.3	14.2	12.6
EPS growth (%)	85	86	-	48	10	20
Yield (%)	2.0	3.1	2.1	2.5	2.8	3.2
Payout ratio (%)	30.1	30.6	40.9	42.4	40.0	40.0
PBR(x)	1.69	1.39	1.42	1.32	1.23	1.15
Total asset/equity (x)	4.84	4.43	4.19	4.18	4.47	4.73
Non-client asset/net asset (x)	3.74	3.29	3.18	3.43	3.66	3.90
ROAA (%)	2.72	3.72	1.81	1.96	2.15	2.14
ROAE (%)	10.4	16.6	7.4	7.8	8.9	9.4
Revenue breakdown (%)						
Investment banking	9.5	6.6	12.1	9.0	9.1	9.5
Brokerage	28.0	32.7	27.8	23.9	23.2	22.1
Trading	0.6	0.4	0.9	0.3	0.3	0.3
Asset management	12.2	9.3	15.2	13.1	12.4	11.1
Others	0.8	0.3	1.0	0.7	0.8	0.8
Commission and fee income	51.2	49.4	56.9	47.0	45.7	43.9
Interest income	21.2	22.5	24.8	26.6	29.8	32.0
Net investment gains	27.6	28.1	18.3	26.4	24.5	24.1

Dupont analysis (as % of average total assets)

Investment banking	0.9%	0.8%	0.9%	0.7%	0.7%	0.8%
Brokerage	2.8%	4.1%	2.1%	1.9%	1.8%	1.7%
Trading	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
Asset management	1.2%	1.2%	1.1%	1.0%	1.0%	0.9%
Others	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
Commission and fee income	5.0%	6.3%	4.2%	3.7%	3.6%	3.5%
Interest income	2.1%	2.9%	1.9%	2.1%	2.4%	2.5%
Net investment gains	2.7%	3.6%	1.4%	2.1%	1.9%	1.9%
Other income and gains	0.1%	0.6%	0.8%	1.4%	1.3%	1.2%
Total revenue and other income	9.9%	13.3%	8.3%	9.3%	9.3%	9.1%
Operating expenses	-6.0%	-8.4%	-6.0%	-6.8%	-6.5%	-6.3%
Operating profit	3.4%	4.9%	2.3%	2.5%	2.3%	2.4%
Income tax expense	-0.9%	-1.3%	-0.5%	-0.7%	-0.6%	-0.6%
Recurring net profit (ROAA)	2.7%	3.7%	1.8%	2.0%	2.2%	2.1%
Leverage (x)	4.0	4.6	4.3	4.2	4.3	4.6
Non-client asset/net asset (x)	3.7	3.3	3.2	3.4	3.7	3.9
ROAE	10.4%	16.6%	7.4%	7.8%	8.9%	9.4%

Sources: Company data, CGIS Research estimates

Figure 1: Rolling Forward PBR Range

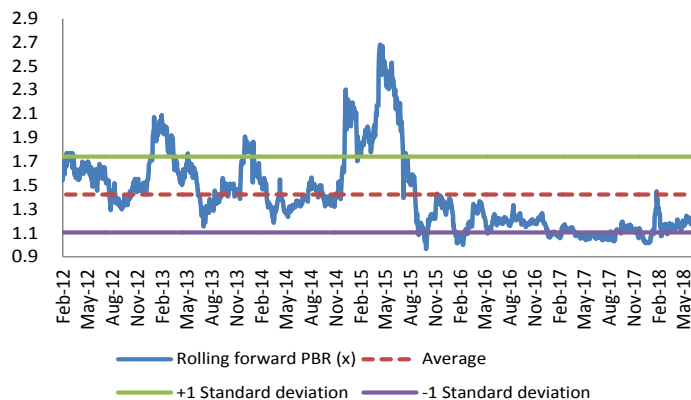
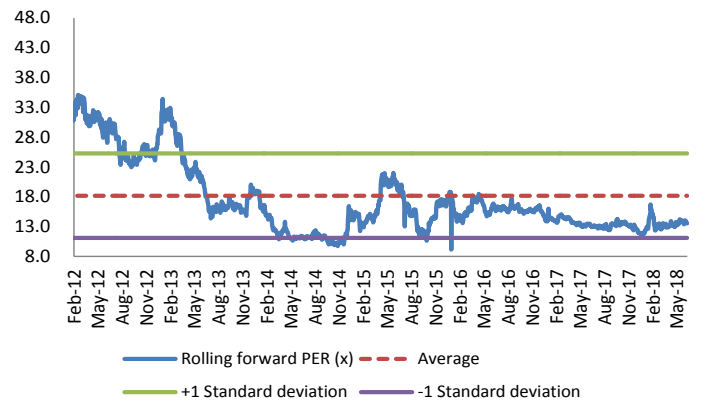


Figure 2: Rolling Forward PER Range



Sources: Bloomberg, CGIS Research

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- BUY : share price will increase by >20% within 12 months in absolute terms
- SELL : share price will decrease by >20% within 12 months in absolute terms
- HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

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