

# CITIC Securities (6030 HK)

 Target price: **HKD21.00** (from HKD19.00)

 Share price (30 Nov): **HKD17.78** | Up/downside: **+18.1%**

 5 4 3 **2** 1  
**Outperform**  
 (unchanged)

## What will CITIC Securities end up with?

- We analyse 4 possible end scenarios for CITIC Securities
- Recent announcement of new chairman should be positive for sentiment
- Keep Outperform (2); new TP of HKD21 derived using multiple methods

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What's new: Recent management turmoil and regulatory penalties make it possible that CITICS could be restructured in our view. We put forward a few scenarios as to how CITICS could end up after the crisis.

**What's the impact: Ongoing operation.** If no further regulatory/ legal issues happen to CITICS, it could gradually emerge from short-term interruptions.

**Citic Group increasing its control over/stake in CITICS.** On 17 Nov, CITICS announced the appointment of Mr. Chang Zhenming as Party Secretary and Mr Zhang Youjun as upcoming Chairman. Mr Chang is Party Secretary of Citic Group and Mr Zhang has long held key managerial positions in Citic Group. With key managers in the group returning to lead CITICS, we believe Citic Group may be trying to increase its control over CITICS, and hence might increase its holding as well, after years of reducing it from 29.9% at end-2005 to 15.6% at end-3Q15.

**Consolidation with China Securities.** We understand that Citic Group also manages the operations of China Securities. Due to the requirement that the same entity can only have a majority stake in one securities firm in China, Citic Group has the incentive to combine Citic Securities and China Securities if it wants to maintain control over both companies.

**Taken over by another securities firm.** In the worst case, if the situation deteriorates further and materially affects CITICS' operations, we think regulators would intervene and engineer a regulator-driven takeover.

**What we recommend:** We argue that whichever case CITICS ends up with, its shareholders are unlikely to face major downside. We keep our Outperform (2) rating. Our earnings revisions reflect recent A-share movements. We now use the average of 5 methods to derive our new TP of HKD21, which implies a 2016E PBR of 1.5x. Main downside risk: regulatory penalties.

### Five valuation methods under different scenarios for Citic Securities

No.	Scenario	Target price	Method
1	Ongoing operation	HKD 21.0	Use Gordon Growth Model and reach a 1.5x 2016E target PBR
2	Ongoing operation – separately value "support fund" contribution	HKD 21.3	Value "support fund" contribution by its estimated current market value with a 20% liquidity discount; Use Gordon Growth Model. Combine these 2 parts and apply a 10% conglomerate discount.
3	Citic Group to raise its stake in CITICS (through Citic Corp)	HKD 23.4	Citic Corporation sold 3.16% of total outstanding shares of CITICS over 13-16 Jan 2015, at average price of CNY32.51. Assuming it will buy back at a 40% discount to the price the shares were sold at
4	Consolidate CITICS with China Securities	HKD 25.9	Comparable transactions: BoCom's purchase of 33% stake in Huaying Securities worth a trailing PBR of 3.0x; Dalian Wanda's bid for 20% stake in Northeast Securities priced at 2.6x trailing PBR. Ongoing bidding for 66.67% stake of Haiji Securities implies no less than 1.6x 2014 PBR. We use a 2.4x 2014 PBR here
5	Taken over by another securities firm	HKD 13.3	We assume a regulator-led restructuring to be priced at book value. We use our 2015 BVPS forecast for CITICS here

Source: HKEx, Shanghai Stock Exchange, Shanghai Securities News, Caijing, Daiwa

**How we differ:** While we understand the negative sentiment towards this stock, our scenario analysis suggests little share-price downside for investors.

### Forecast revisions (%)

Year to 31 Dec	15E	16E	17E
Revenue change	3.5	(3.6)	(4.3)
Net profit change	9.9	(5.0)	(4.6)
Core EPS (FD) change	9.9	(5.0)	(4.6)

Source: Daiwa forecasts

### Share price performance



12-month range	13.16-37.00
Market cap (USDbn)	29.26
3m avg daily turnover (USDm)	44.85
Shares outstanding (m)	12,757
Major shareholder	CITIC Corporation (15.6%)

### Financial summary (CNY)

Year to 31 Dec	15E	16E	17E
Revenue (m)	55,336	57,976	64,592
Operating profit (m)	20,200	18,987	24,502
Net profit (m)	15,640	14,650	18,954
Core EPS (fully-diluted)	1.352	1.148	1.486
EPS change (%)	31.4	(15.1)	29.4
Daiwa vs Cons. EPS (%)	(11.2)	(26.1)	(12.9)
PER (x)	10.8	12.8	9.9
Dividend yield (%)	2.8	2.3	3.0
DPS	0.406	0.345	0.446
PBR (x)	1.3	1.2	1.1
ROE (%)	13.0	10.0	12.0

Source: FactSet, Daiwa forecasts

## Financial summary

### Key assumptions

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
A-share ADT (CNY mn)	227,557	173,922	131,573	200,000	304,000	800,000	750,000	750,000
Brokerage mkt share of company (%)	5.3	5.5	5.8	6.2	6.5	6.0	6.0	6.0
Commission rate for company (%)	0.098	0.097	0.089	0.087	0.092	0.076	0.062	0.054
Mkt annual equity financing (YoY, %)	162.9	(43.9)	(37.6)	(6.5)	74.8	50.0	50.0	50.0
Mkt annual debt financing (YoY, %)	54.7	28.6	(2.6)	38.0	0.0	50.0	20.0	20.0
Stock market annual return (%)	(14.3)	(21.7)	3.2	(6.7)	52.9	10.0	0.0	0.0
Bond market annual return (%)	2.1	5.3	3.6	(0.5)	10.3	5.0	5.0	5.0
Margin finance bal (mkt) (CNY mn)	12,772	38,201	89,516	346,530	1,025,650	1,254,118	1,377,267	1,571,257
Cost-to-income - exclude finance cost (%)	43.9	42.1	54.1	51.2	45.1	44.1	49.0	48.1

### Profit and loss (CNYm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Gross fee and commission income	16,598	9,713	7,090	10,699	18,915	34,615	32,680	33,497
Gross interest income	1,988	2,056	2,172	4,090	7,851	11,612	13,794	15,852
Investment income	11,501	14,393	3,648	5,259	10,204	8,203	10,415	14,048
Other income	194	209	161	231	2,555	906	1,087	1,196
<b>Total Revenue</b>	<b>30,281</b>	<b>26,371</b>	<b>13,071</b>	<b>20,279</b>	<b>39,525</b>	<b>55,336</b>	<b>57,976</b>	<b>64,592</b>
Fee and commission expense (-)	(1,740)	(1,067)	(801)	(1,061)	(1,799)	(3,462)	(3,259)	(3,328)
Finance costs(-)	(685)	(655)	(948)	(3,260)	(6,901)	(10,715)	(10,592)	(9,052)
Business tax(-)	(962)	(488)	(401)	(773)	(1,257)	(1,886)	(2,263)	(2,489)
Other Operating Expenses	(10,599)	(9,545)	(5,867)	(8,550)	(14,776)	(19,073)	(22,875)	(25,221)
<b>Operating profit</b>	<b>16,296</b>	<b>14,615</b>	<b>5,055</b>	<b>6,635</b>	<b>14,792</b>	<b>20,200</b>	<b>18,987</b>	<b>24,502</b>
Profit from Assoc/JV	24	416	432	211	629	782	894	1,027
Other Inc/Exp/Extord. (+/-)	0	0	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>16,320</b>	<b>15,031</b>	<b>5,487</b>	<b>6,846</b>	<b>15,422</b>	<b>20,982</b>	<b>19,881</b>	<b>25,530</b>
Tax	(4,184)	(2,427)	(1,180)	(1,538)	(3,560)	(4,826)	(4,573)	(5,872)
Min. int./pref. div./others	(825)	(28)	(69)	(64)	(524)	(516)	(658)	(704)
<b>Net profit (reported)</b>	<b>11,311</b>	<b>12,576</b>	<b>4,237</b>	<b>5,244</b>	<b>11,337</b>	<b>15,640</b>	<b>14,650</b>	<b>18,954</b>
<b>Net profit (adjusted)</b>	<b>11,311</b>	<b>12,576</b>	<b>4,237</b>	<b>5,244</b>	<b>11,337</b>	<b>15,640</b>	<b>14,650</b>	<b>18,954</b>
<b>EPS (reported)(CNY)</b>	<b>1.137</b>	<b>1.234</b>	<b>0.385</b>	<b>0.476</b>	<b>1.029</b>	<b>1.352</b>	<b>1.148</b>	<b>1.486</b>
<b>EPS (adjusted)(CNY)</b>	<b>1.137</b>	<b>1.234</b>	<b>0.385</b>	<b>0.476</b>	<b>1.029</b>	<b>1.352</b>	<b>1.148</b>	<b>1.486</b>
<b>EPS (adjusted fully-diluted)(CNY)</b>	<b>1.137</b>	<b>1.234</b>	<b>0.385</b>	<b>0.476</b>	<b>1.029</b>	<b>1.352</b>	<b>1.148</b>	<b>1.486</b>
<b>DPS (CNY)</b>	<b>0.500</b>	<b>0.465</b>	<b>0.300</b>	<b>0.150</b>	<b>0.310</b>	<b>0.406</b>	<b>0.345</b>	<b>0.446</b>

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### Balance sheet (CNYm)

As at 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Cash & short-term investment	80,356	69,205	59,687	67,810	134,808	147,243	156,884	167,234
Fee and commission receivables	392	36	48	440	663	795	954	1,145
Advances to customers	1,975	2,967	9,423	34,302	74,135	77,658	85,529	97,747
Reverse repo & bank placement	1,866	1,366	794	22,092	42,863	60,753	90,189	94,177
Financial assets	58,028	56,955	77,109	112,094	182,446	210,410	249,803	296,856
Long-term equity investments	1,762	9,479	9,796	4,298	3,962	4,754	5,705	6,846
Other assets	8,798	8,273	11,651	30,319	40,750	51,097	65,466	85,455
<b>Total assets</b>	<b>153,178</b>	<b>148,280</b>	<b>168,508</b>	<b>271,354</b>	<b>479,626</b>	<b>552,711</b>	<b>654,530</b>	<b>749,461</b>
Accounts payable	62,081	36,477	34,807	45,196	101,846	106,767	112,105	117,710
Repo and bank placements	6,902	14,333	24,944	60,414	136,665	97,777	85,907	25,200
Financial liabilities	435	1,134	1,446	23,701	40,722	44,632	49,039	54,016
Bonds payable	1,500	1,500	1,500	26,177	43,167	63,167	83,167	83,167
Other liabilities	11,413	7,846	19,127	26,463	56,094	97,425	171,113	302,901
<b>Total liabilities</b>	<b>82,330</b>	<b>61,290</b>	<b>81,823</b>	<b>181,952</b>	<b>378,495</b>	<b>409,768</b>	<b>501,332</b>	<b>582,995</b>
Share capital	9,946	11,017	11,017	11,017	11,017	12,757	12,757	12,757
Reserves/R.E./others	60,489	75,570	75,448	76,672	88,082	128,154	138,409	151,677
<b>Shareholders' equity</b>	<b>70,435</b>	<b>86,587</b>	<b>86,465</b>	<b>87,688</b>	<b>99,099</b>	<b>140,911</b>	<b>151,166</b>	<b>164,434</b>
Minority interests	413	403	219	1,714	2,032	2,032	2,032	2,032
<b>Total equity &amp; liabilities</b>	<b>153,178</b>	<b>148,280</b>	<b>168,508</b>	<b>271,354</b>	<b>479,626</b>	<b>552,711</b>	<b>654,530</b>	<b>749,461</b>
<b>BVPS (CNY)</b>	<b>7.082</b>	<b>8.495</b>	<b>7.848</b>	<b>7.959</b>	<b>8.995</b>	<b>11.046</b>	<b>11.850</b>	<b>12.890</b>

### Key ratios (%)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Gross fee and commission (YoY)	(8.6)	(41.5)	(27.0)	50.9	76.8	83.0	(5.6)	2.5
Operating profit (YoY)	23.5	(10.3)	(65.4)	31.3	122.9	36.6	(6.0)	29.0
Net profit (YoY)	25.9	11.2	(66.3)	23.8	116.2	38.0	(6.3)	29.4
EPS (YoY) (FD)	(16.1)	8.5	(68.8)	23.8	116.2	31.4	(15.1)	29.4
ROAE	17.1	16.0	4.9	6.0	12.1	13.0	10.0	12.0
ROAA	6.3	8.3	2.7	2.4	3.0	3.0	2.4	2.7
Net dividend payout	44.0	37.7	78.0	31.5	30.1	30.0	30.0	30.0
Brokerage commission/Op inc	31.9	18.7	29.8	39.0	32.4	53.2	42.3	34.0
Inv banking commission/Op inc	11.1	8.2	22.8	13.3	11.0	14.9	16.4	16.4
Assest mgmt inc / Op inc	12.6	12.8	2.6	8.9	14.1	9.6	10.0	9.5
Interest inc / Op inc	6.7	8.5	10.1	5.0	3.0	2.1	6.9	12.5
Inv inc / Op inc	38.8	53.2	29.9	29.4	30.0	16.7	20.3	23.8
Leverage	216.2	170.5	194.4	303.5	474.3	386.7	427.2	450.2
Cost-to-income	46.2	44.6	61.3	67.3	62.6	63.5	67.2	62.1
Net capital ratio	66.7	68.6	55.8	48.5	56.3	65.4	57.4	52.8

Source: FactSet, Daiwa forecasts

## Company profile

CITIC Securities (CITICS) is a leading full-service investment bank in China, with a market share of 6.2% in terms of brokerage trading volume in 2013. Its core business scope covers brokerage, underwriting and sponsorship, proprietary trading and asset management.

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- "1": the security could outperform the local index by more than 15% over the next 12 months.
- "2": the security is expected to outperform the local index by 5-15% over the next 12 months.
- "3": the security is expected to perform within 5% of the local index (better or worse) over the next 12 months.
- "4": the security is expected to underperform the local index by 5-15% over the next 12 months.
- "5": the security could underperform the local index by more than 15% over the next 12 months.

#### Disclosure of investment ratings

Rating	Percentage of total
Buy*	63.8%
Hold**	22.2%
Sell***	14.0%

Source: Daiwa

Notes: data is for single-branded Daiwa research in Asia (ex Japan) and correct as of 30 September 2015.

\* comprised of Daiwa's Buy and Outperform ratings.

\*\* comprised of Daiwa's Hold ratings.

\*\*\* comprised of Daiwa's Underperform and Sell ratings.

#### Additional information may be available upon request.

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