



September 1, 2016
Company Report
Rating: HOLD
TP: HK\$ 11.40

Share price (HK\$)	11.46
Est. share price return	(0.5%)
Est. dividend yield	0.0%
Est. total return	(0.5%)

Analyst : Steve Chow
Tel: (852) 2147 8809
Email: stevechow@abci.com.hk

Key Data

52Wk H/L(HK\$)	13.6/9.5
Issued shares (mn)	2,307
H-shares (mn)	1,520
Unlisted shares (mn)	787
H-share market cap (HK\$ mn)	17,330
3-mth avg daily turnover (HK\$ mn)	18
Major shareholder(s) (%):	
Huijin	28.45%
GIC	11.84%
TPG	7.45%
KKR	7.23%

Source(s): Company, Bloomberg, ABCI Securities

1H16 Sales breakdown (%)

Equity	28.9
Investment banking	22.7
FICC	18.5
Wealth Management	16.2
Investment Management	10.3
Others	3.4

Source(s): Company, ABCI Securities

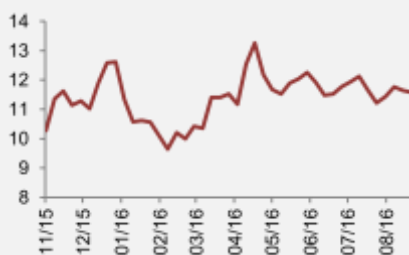
Share performance (%)

	Absolute	Relative*
1-mth	1.6	4.7
3-mth	(5.3)	11.3
6-mth	17.2	19.9

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

CICC (3908 HK)

Intensified competition in investment banking

- 1H16 profit dropped by 49% YoY to RMB 575mn on the back 34% revenue decline.
- The 27% drop in investment banking revenue illustrates intensified competition despite general positive segment outlook
- Watch out for potential impact from the downgrade by CSRC from "AA" to "A"
- HOLD** with TP of HK\$ 11.40 based on 1.2x 2017E P/B

1H16 highlights. The Company posted a 49% net profit decline to RMB 575mn in 1H16 on the back of high base in 1H15 and industry slowdown. Revenue and other income fell 34% to RMB 3.2bn, dragged by 32% and 54% decline in fee and commission income and investment income. Net margin dropped to 17.8% from 23.3% in 1H15 while ROE declined to 3.5% from 13.2% during the same period.

Intensified competition in investment banking. In 1H16, investment banking revenue, which accounted for 23% of total revenue, dropped by 27% to RMB 730mn. This is inconsistent with the upswing of activities observed in China's capital market (e.g. net financing of corporate bonds and stock market equity financing by non-financial enterprises increased by 83% and 53% YoY in 1H16). We believe this implies the Company's declining market share in the IPO market amid intensified competition. On a positive note, it's A-share follow-on offerings lead underwriting amount increased by 196% in 1H16, mitigating the challenges in the IPO market.

Non-investment-banking business: low base ahead. Non-investment-banking business, including equity, FICC (fixed income instruments, currencies, and commodities), wealth management, and investment management, which collectively accounted for 77% of total revenue, reported a 36% revenue drop to RMB 2.5bn mainly due to general slowdown in secondary market turnover and falling investment return. On a positive note, low base in 2H15 would mean more favorable YoY comparison for 2H16.

Potential impact from CSRC's rating downgrade. Most H-listed brokers including CITIC (6030 HK), Galaxy (6881 HK), GF (1776 HK), Haitong (6837 HK), Hautai (6886 HK), and CICC (3908 HK) have recently been downgraded from an "AA" rating by CSRC's. In our view, a lower regulatory rating could adversely affect business development, funding channels, financing cost, and capital requirement. Nonetheless, the downgrade was one-notch ("AA" to "A") for CICC; as compared to the two-notch demotion ("AA" to "BBB") for some of its peers abovementioned.

HOLD with TP of HK\$ 11.40. We expect net profit to drop by 45% to RMB 1.1bn in 2016 before restoring to the 19% and 20% growth in 2017E and 2018E. We set our TP to HK\$ 11.40, equivalent to 1.2x 2017E P/B.

Risk factor: Market risk of financial assets; credit risk to bond investments and lending business; market turnover volatility.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	6,156	9,507	6,438	7,478	8,670
Chg (% YoY)	51.4	54.4	(32.3)	16.2	15.9
Net profit (RMB mn)	1,119	1,953	1,081	1,282	1,536
Chg (% YoY)	201.5	74.6	(44.6)	18.6	19.8
Underlying EPS (RMB)	0.7	1.1	0.5	0.6	0.7
Chg (% YoY)	NA	67.2	(58.1)	18.6	19.8
BVPS (RMB)	4.8	7.1	7.6	8.2	8.8
Chg (% YoY)	NA	48.7	6.6	7.3	8.2
Underlying P/E (x)	14.5	8.7	20.8	17.5	14.6
P/B (x)	2.0	1.4	1.3	1.2	1.1
ROE (%)	15.1	16.0	6.4	7.1	7.8
ROA (%)	2.6	2.7	1.2	1.3	1.5
DPS(HK\$)	0	0	0	0	0
Yield (%)	na	na	na	na	na

Source(s): Company, ABCI Securities estimates



1H16 performance by business segment

Investment banking. Investment banking revenue dropped 27% to RMB 730mn in 1H16, which was inconsistent with the upswing in activities observed in China's capital market where net financing of corporate bonds and stock market equity financing by non-financial enterprises increased by 83% and 53% YoY for the period. In our view, this reflected the Company's declining market amid intensified competition.

For CICC, its overseas IPO underwriting amount dropped significantly to US\$ 956mn in 1H16 from US\$ 4.1bn in 1H15. The Company completed only 1 IPO each in Hong Kong and Singapore and none in the A-share market during the period. Having said that, the Company still completed 11 A-share equity follow-on offerings as lead underwriters in 1H16, with an aggregate offer size of RMB17.3bn, representing a YoY increase of 196%.

Equity. In 1H16, equity revenue dropped 37% to RMB 931mn, dragged by overall decrease in market turnover and falling investment returns. Its net average brokerage commission rate at 5.7bps was above industry average, indicating its premium market position. In addition, the Company maintained a leading position in QFII/RQFII market, accounting for 42.2% of the QFII/RQFII market by number of consumer. Its number of QFII/RQFII customers increasing by 9 to 186 in 1H16.

FICC. In 1H16, the segment's revenue reported a 40% decrease to RMB 595mn due to volatile market environment. E.g., the outbreak of credit defaults in Apr 2016 led to significant redemptions in bond funds and selling pressure, which in turn drove up yields and credit spreads.

Wealth management. The segment's revenue fell to RMB 523mn in 1H16, representing a 42% YoY drop on general decline in market turnover and commission rate. Overall, the company had 28K customers as at June 2016 and asset per account was RMB15mn.

Asset management. The segment's revenue fell by 26% YoY to RMB 333mn in 1H16 on less favorable investment environment compared to 1H15. Overall, total AUM reached RMB 130mn in June 2016, compared with RMB 107mn at end-2015. The Company had 235 investment products, most of which were under active management.

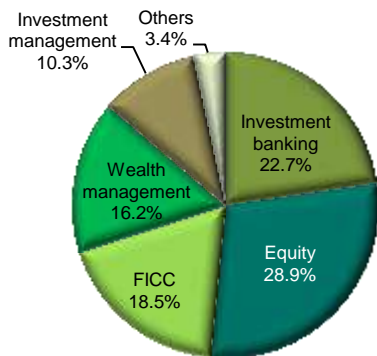


Exhibit 1: CICC's 1H16 results highlights

	1H15	1H16	YoY	Comments
Fee and commission income	3,119	2,107	-32%	
Interest income	419	455	9%	
Investment income	1,314	606	-54%	Less favorable market environment
Other income	29	52	77%	
Total revenue and other income	4,881	3,221	-34%	
Total expenses	3,405	2,507	-26%	Cost control
Operating Profits	1,476	714	-52%	
Share of profit of associates	36	26	-29%	
Profit before tax	1,513	739	-51%	
Tax	376	165	-56%	
Profit after tax	1,136	575	-49%	
Minority interests	0	0	N/A	
Net Profits	1,136	575	-49%	
Revenue by segment				
Investment banking	998	730	-27%	Intensified competition
Equity	1,485	931	-37%	Falling market turnover
FICC	995	595	-40%	Outbreak of credit defaults in Apr 2016
Wealth management	900	523	-42%	Falling market turnover
Investment management	449	333	-26%	
Others	54	109	101%	
Total revenue	4,881	3,221	-34%	
Ratios				
Operating margin	30.2%	22.2%		
Net margin	23.3%	17.8%		
ROAE	13.2%	3.5%		

Source(s): Company, ABCI Securities

Exhibit 2: 1H16 sales breakdown



Source(s): Company, ABCI Securities

Exhibit 3 CSRC rating among major H-share brokers

Company	2015 rating	2016 rating
Orient (3958 HK)	AA	AA
CICC (3908 HK)	AA	A
Galaxy (6881 HK)	AA	A
Guolian (1456 HK)	A	A
CITIC (6030 HK)	AA	BBB
GF (1776 HK)	AA	BBB
Haitong (6837 HK)	AA	BBB
Huatai (6886 HK)	AA	BBB

Source(s): CSRC, ABCI Securities

Some H-share brokers are not included



Financial Summary

Consolidated income statement (2014A-2018E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Fee and commission income	4,152	6,588	4,093	4,883	5,775
Interest income	450	1,021	1,100	1,250	1,450
Investment income	1,527	1,853	1,200	1,300	1,400
Total revenue	6,128	9,462	6,393	7,433	8,625
Other income	27	45	45	45	45
Total revenue and other income	6,156	9,507	6,438	7,478	8,670
Total expenses	4,717	6,989	5,079	5,864	6,736
Operating Profits	1,438	2,518	1,359	1,614	1,933
Share of profit of investments in associates	68	104	83	95	114
Profit before tax	1,506	2,621	1,442	1,710	2,048
Tax	387	668	360	427	512
Profit after tax	2,137	1,953	1,081	1,282	1,536
Minority interests	0	0	0	0	0
Profits attributable to shareholders	2,137	1,953	1,081	1,282	1,536
Growth					
Total revenue and other income (%)	51.4	54.4	(32.3)	16.2	15.9
Total expenses	30.6	48.2	(27.3)	15.4	14.9
Operating Profits (%)	217.5	75.0	(46.0)	18.8	19.8
Net profit (%)	201.5	74.6	(44.6)	18.6	19.8
Operating performance					
Operating margin (%)	23.4	26.5	21.1	21.6	22.3
Net margin (%)	34.9	20.6	16.9	17.3	17.8
ROAE (%)	15.1	16.0	6.4	7.1	7.8
ROAA (%)	2.6	2.7	1.2	1.3	1.5

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2018E)

As of Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Property and equipment	135	166	175	183	193
Other intangible assets	3	1	1	2	2
Investment in associates and JV	565	453	476	499	524
AFS	388	581	610	641	673
Other non-current assets	868	1,258	1,229	1,290	1,355
Total non-current assets	1,959	2,460	2,491	2,615	2,746
Cash & equivalents	3,418	8,434	9,112	9,889	10,894
Clearing settlement funds	11,085	24,301	19,441	20,413	21,433
AFS	46	618	649	681	715
Financial assets at FVTPL	21,654	45,459	50,005	52,505	55,130
Derivatives	732	736	773	811	852
Other current assets	49	95	100	105	110
Other receivables and prepayments	8,678	7,153	5,842	6,134	6,441
Advances to customers	3,458	3,296	2,637	2,769	2,907
Financial assets held under resale agreements	1,622	1,557	1,635	1,717	1,802
Total current assets	50,742	91,649	90,193	95,024	100,285
Total assets	52,701	94,109	92,684	97,639	103,032
Accounts payable	15,054	25,218	20,174	21,183	22,242
Loans and debt	2,430	3,337	3,419	3,505	3,595
Financial liabilities at FV through P/L	7,526	5,584	5,863	6,156	6,464
Other current liabilities	15,377	35,117	36,873	38,716	40,652
Total current liabilities	40,387	69,256	66,329	69,561	72,954
Loans and bonds payables	4,010	6,071	6,375	6,693	7,028
Financing instrument payables	-	1,623	1,704	1,789	1,879
Other non-current liabilities	311	717	752	790	830
Total non-current liabilities	4,321	8,411	8,831	9,273	9,736
Total liabilities	44,708	77,667	75,160	78,833	82,690
Net current assets	10,355	22,393	23,864	25,463	27,332
Equity attributable to owners of the parent	7,992	16,442	17,523	18,806	20,341
Minority interest	-	-	-	-	-
Total equity	7,992	16,442	17,523	18,806	20,341

Source(s): Company, ABCI Securities estimates



Disclosures

Analyst Certification

I, Chow Sau Shing, Steve being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABC Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2010-2014

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is



determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2016 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183**