

# CSC Financial Co., Ltd (6066 HK)

## Over the hump- expect a better 2018

- 2017 results largely in line with expectations; performance in 2H17 indicates a gradual improvement in business environment ( 2H17 revenue and operating profit: + 26% and 14% HoH)
- We believe the Company is well positioned for a potential rebound in investment banking business in 2018
- Undemanding valuation; maintain **BUY** with TP of HK\$8.8

**2017 results in line with expectations; HoH improvement in 2H17.** In 2017, revenue and other income dropped 7% YoY to RMB 16.4bn while net income attributable to ordinary shareholders dropped 25% to RMB 3.7bn, largely in line with our expectation. In addition, 2H17 revenue and operating profit rising 26% and 14% HoH, confirming our ongoing view of a gradually improving operating environment. The Company omitted dividend in 2017 due to regulatory requirement related to its A-share listing – a practice which is not uncommon for companies to be listed. E.g. No final dividend was distributed in Harbin Bank (6138 HK) for FY16 due to the same reason. The Company said it will consider interim dividend for 2018. In our view, proloner delay in CSC's A-share listing will add to its dividend risk.

**Investment banking remains resilient.** Despite an industry-wide slowdown in investment banking, CSC maintained its solid market position, ranking first in corporate bond lead underwritten amount and fourth in equity lead underwritten amount in 2017. With the recovering of corporate bond issuance since 2H17, we believe the Company is well-positioned to ride on a potential rebound in the capital market in 2018.

**Investment banking exposure to benefit from rise in direct financing.** In 2017, investment banking business accounted for 23% of total revenue and 36% of PBT. In our view, CSC possesses a scarcity value for investors looking for Chinese financial plays with investment banking exposure amid the structural uptrend in direct financing.

**Maintain BUY with TP of HK\$8.8.** We maintain **BUY** on CSC given its leading position in investment banking and a potential industry rebound in 2018. The counter is currently trading at 0.9x 2018E adjusted P/B (excluding RMB 5bn of perpetual bonds). Our TP is based on 1.2x 2018E adjusted P/B.

**Risk factors:** 1) Decline in brokerage commission rates; 2) Decline in A-share market turnover; 3) Decline in capital market fundraising; 4) Penalties related to violation of regulatory requirements; 5) Low daily turnover; 6) Delay in A-share listing.

### Results and Valuation

FY ended Dec 31	2015A	2016A	2017A	2018E	2019E
Revenue (RMB mn)	24,513	17,585	16,421	18,006	19,778
Chg (% YoY)	114.0	(28.3)	(6.6)	9.6	9.8
Profit attributable to ordinary shareholders (RMB mn)	8,345	4,965	3,722	4,127	4,907
Chg (% YoY)	144.9	(40.5)	(25.0)	10.9	18.9
Underlying EPS (RMB)	1.37	0.69	0.51	0.57	0.68
Chg (% YoY)	144.6	(49.5)	(25.8)	10.9	18.9
BVPS (RMB)*	4.12	5.03	5.35	5.92	6.51
Chg (% YoY)	50.6	22.1	6.4	10.6	10.0
PE (x)	4.0	7.8	10.6	9.5	8.0
P/B (x)*	1.3	1.1	1.0	0.9	0.8
ROAE (%)*	40.0	18.1	9.9	10.1	10.9
ROAA (%)	5.4	2.7	1.9	1.9	2.2
DPS(RMB)	-	0.18	-	0.09	0.10
Dividend Yield (%)	-	3.3	-	1.6	1.9

\*Equity attributable to ordinary shareholders is used in the calculation

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Mar 1, 2018

Rating: **BUY**

TP: **HK\$ 8.8**

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Share price (HK\$)	6.73
Est. share price return	30.8%
Est. dividend yield	1.50%
Est. total return	33.3%
Previous Rating & TP	BUY/HK\$8.3
Previous Report Date	Sept 4

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	7.60/6.47
Issued shares (mn)	7,246
Issued H shares (mn)	1,261
H-share market cap (HK\$ mn)	8,487
Avg daily turnover (HK\$ mn)	21
Major shareholder(s)	
BSCOMC	37.46%
Huijin	33.29%
Citic Sec	5.95%

Source(s): Company, ABCI Securities

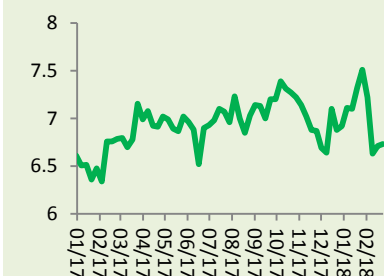
### Share Performance (%)

	Absolute	Relative*
1-mth	-7.7	-2.7
3-mth	-0.7	-9.8
6-mth	-6.0	-21.9

\*Relative to MXCN

Source(s): Bloomberg, ABCI Securities

### Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: 2017 results highlight

RMB mn	2016	2017	YoY	Comment
Fee and commission income	10,584	8,781	-17%	Dragged by investment banking business
Interest income	4,441	5,257	18%	
Investment income	2,412	2,414	0%	
Other income	148	-31	-121%	
<b>Total revenue and other income</b>	<b>17,585</b>	<b>16,421</b>	<b>-7%</b>	
Total expenses	10,524	11,072	5%	
<b>Operating Profits</b>	<b>7,061</b>	<b>5,349</b>	<b>-24%</b>	
Share of profit of associates	-3	6	NA	
Profit before tax	7,057	5,355	-24%	
Tax	1,744	1,294	-26%	
<b>Net profit of the group</b>	<b>5,313</b>	<b>4,062</b>	<b>-24%</b>	
Attribute to:				
Minority interests	54	46	-14%	
<b>Ordinary shareholder</b>	<b>4,965</b>	<b>3,722</b>	<b>-25%</b>	
<b>Revenue mix</b>				
Wealth management	7,234	7,220	0%	Impacted by lackluster performance in DCM business
Investment banking	4,682	3,741	-20%	
Investment management	1,565	1,708	9%	
Trading and institutional client	3,575	3,444	-4%	
Others	529	309	-42%	
<b>% of total revenue</b>				
Wealth management	41%	44%		
Investment banking	27%	23%		
Investment management	9%	10%		
Trading and institutional client	20%	21%		
Others	3%	2%		
<b>Ratios</b>				
Operating margin	40.2%	32.6%		
Net margin	28.2%	22.7%		
ROAE	18.1%	9.9%		

\*Equity attributable to ordinary shareholders is used in the calculation

Source(s): Company, ABCI Securities



**Consolidated income statement (2015A-2019E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>
Fee and commission income	14,901	10,584	8,781	9,727	10,969
Interest income	5,573	4,441	5,257	5,879	6,409
Investment income	3,980	2,412	2,414	2,400	2,400
<b>Total revenue</b>	<b>24,454</b>	<b>17,437</b>	<b>16,452</b>	<b>18,006</b>	<b>19,778</b>
Other income	59	148	-31	0	0
<b>Total revenue and other income</b>	<b>24,513</b>	<b>17,585</b>	<b>16,421</b>	<b>18,006</b>	<b>19,778</b>
<b>Total expenses</b>	<b>13,051</b>	<b>10,524</b>	<b>11,072</b>	<b>12,129</b>	<b>12,865</b>
<b>Operating Profits</b>	<b>11,462</b>	<b>7,061</b>	<b>5,349</b>	<b>5,877</b>	<b>6,913</b>
Share of profit of investments in associates	0	-3	6	7	9
Profit before tax	<b>11,462</b>	<b>7,057</b>	<b>5,355</b>	<b>5,884</b>	<b>6,922</b>
Tax	2,810	1,744	1,294	1,412	1,661
<b>Profit after tax</b>	<b>8,652</b>	<b>5,313</b>	<b>4,062</b>	<b>4,472</b>	<b>5,260</b>
Minority interests	13	54	46	51	60
Profits attributable to perpetual bondholders	294	294	294	294	294
<b>Profits attributable to ordinary shareholders</b>	<b>8,345</b>	<b>4,965</b>	<b>3,722</b>	<b>4,127</b>	<b>4,907</b>
<b>Growth</b>					
Total revenue and other income (%)	114.0	(28.3)	(6.6)	9.6	9.8
Total expenses	88.9	(19.4)	5.2	9.5	6.1
Operating Profits (%)	152.3	(38.4)	-24.2	9.9	17.6
Profits attributable to ordinary shareholders (%)	144.9	(40.5)	-25.0	10.9	18.9
<b>Operating performance</b>					
Operating margin (%)	46.8	40.2	32.6	32.6	35.0
Net margin (%)	34.1	28.5	22.6	22.9	24.8
ROAE (%)*	40.0	18.1	9.9	10.1	10.9
ROAA (%)	5.0	2.7	1.9	1.9	2.2

\*Net profit attributable to ordinary shareholders/Average equity attributable to ordinary shareholders

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2015A-2019E)

As of Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E
Property and equipment	580	579	565	593	623
Goodwill	122	144	170	178	187
Other intangible assets	374	278	574	602	632
Investment in associates and JV	50	172	206	217	227
AFS	1,457	6,112	5,327	5,593	5,872
Financial assets held under resale agreements	-	625	5,109	5,365	5,633
Other non-current assets	3,055	4,464	3,229	3,390	3,560
<b>Total non-current assets</b>	<b>5,638</b>	<b>12,374</b>	<b>15,179</b>	<b>15,938</b>	<b>16,735</b>
Cash & equivalents	16,154	17,526	11,228	12,480	12,625
Clearing settlement funds	70,664	55,083	39,741	37,754	35,866
AFS	15,891	28,483	34,255	35,968	37,766
Financial assets at FVTPL	1,504	325	307	322	339
Derivatives	142	49	120	126	133
Other current assets	1,715	1,785	2,559	2,687	2,821
Account receivables	153	378	1,370	1,438	1,510
Other receivables and prepayments	28,500	27,605	32,347	33,964	35,662
Advances to customers	35,931	31,007	47,821	57,385	65,993
Financial assets held under resale agreements	6,896	7,080	20,956	22,003	23,104
<b>Total current assets</b>	<b>177,551</b>	<b>169,320</b>	<b>190,704</b>	<b>204,128</b>	<b>215,819</b>
<b>Total assets</b>	<b>183,188</b>	<b>181,694</b>	<b>205,882</b>	<b>220,066</b>	<b>232,554</b>
Accounts payable	72,045	56,736	41,417	43,487	45,662
Borrowings	1,123	1,782	2,051	2,153	2,261
Placements from banks and other financial institutions	2,284	9,360	14,000	16,800	17,640
Other current liabilities	60,447	58,334	80,466	84,489	88,713
<b>Total current liabilities</b>	<b>135,899</b>	<b>126,212</b>	<b>137,933</b>	<b>146,930</b>	<b>154,276</b>
Loans and bonds payables	15,072	13,653	23,873	25,066	26,320
Other non-current liabilities	2,034	567	79	82	85
<b>Total non-current liabilities</b>	<b>17,107</b>	<b>14,220</b>	<b>23,951</b>	<b>25,148</b>	<b>26,405</b>
<b>Total liabilities</b>	<b>153,005</b>	<b>140,432</b>	<b>161,884</b>	<b>172,078</b>	<b>180,681</b>
<b>Net current assets</b>	<b>41,652</b>	<b>43,108</b>	<b>52,771</b>	<b>57,198</b>	<b>61,543</b>
<b>Equity attributable to ordinary shareholders</b>	25,106	36,063	38,754	42,881	46,756
Other equity instruments (perpetual subordinated bonds)	5,000	5,000	5,000	5,000	5,000
Non-controlling interests	77	200	245	107	117
<b>Total equity</b>	<b>30,183</b>	<b>41,263</b>	<b>43,999</b>	<b>47,988</b>	<b>51,873</b>

Source(s): Company, ABCI Securities estimates

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### 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

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.

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