



Mar 24, 2015
Company Report
Rating: BUY
TP: HK\$ 9.10

Share price (HK\$) 7.67
Est. share price return 18.6%
Est. dividend yield 2.5%
Est. total return 21.1%

Previous Rating & TP(HK\$) BUY; HK\$ 9.1
Previous Report Date Jan 27, 2015

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Key Data

52Wk H/L(HK\$)	9.33/2.13
Issued shares (mn)	2,631.6
Market cap (HK\$ mn)	19,448
3-mth avg daily turnover (HK\$ mn)	40.40.2
Major shareholder(s) (%):	
Henan Investment Group	33.1
Source(s): Company, Bloomberg, ABCI Securities	

FY14 Revenue breakdown (%)

Brokerage	43
Trading	16
MFSL	19
Investment Banking	5
Others	17
Source(s): Company, ABCI Securities	

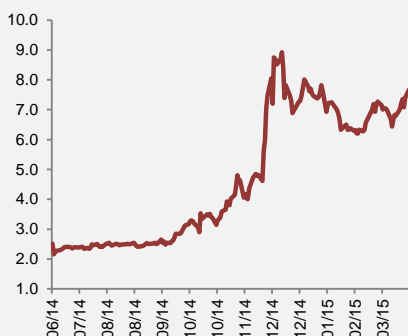
Share performance (%)

	Absolute	Relative*
1-mth	12.65	14.89
3-mth	7.26	2.85
6-mth	184.23	178.26

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Central China Securities (1375 HK)
Outstanding FY14 results; maintain BUY

- CCS's FY14 net profit surged 122.3% yoy to RMB 562mn, in-line with preliminary numbers released in Jan 2015. ROAE increased by 5.01 ppt to 11.41%.
- Capital intermediary business grew rapidly. Interest income from MFSL increased 170.4% yoy to RMB 313mn, driving up total interest income by 113.9% YoY to RMB 613mn.
- Adjusted leverage ratio (excluding clients' deposits) improved from 2.1x in 2013 to 3.1x in 2014; expansion in financing channels will increase the scale of financing business.
- With its unique regional advantage, we maintain our **BUY** rating. CCS is currently trading at 2.5x 2015E P/B. and our TP of HK\$ 9.1 implies a 18.6% upside.

Earnings are better than expected. CCS's revenue grew 63.5% yoy to RMB 2,346mn and net profit surged 122.3% yoy to RMB 562mn, in-line with preliminary numbers released in Jan 2015. ROAE increased by 5.01 ppt to 11.41%. The strong results were driven by the significant increase in revenue from brokerage and proprietary trading business, and rising contribution from capital intermediary business. Net investment gain surged 83.5% yoy to RMB 449.7mn due to strong return on both equity and bond investments. Total expense went up 45.1% yoy, while cost-to-income ratio improved from 76.4% to 67.8%.

Boosted by strong A-share market trading volume. Trading volume was strong in the A-share market - annual trading volume increased 59% yoy in 2014, driven by improving liquidity and positive market sentiment incited by monetary easing in China. CCS's brokerage fee income rose 38.2% yoy to RMB 989mn; total commission and fee income climbed 30.4% yoy to RMB 1,244mn. The Group benefited immensely from recovery in the A-share market since brokerage business accounted for 43% of its total revenue in 2014 (2013: 52%) -CCS's largest contributor by business segment. Market share, in terms of trading volume of stock and funds in the A-share market, edged up from 0.61% in 2013 to 0.65% in 2014.

Exciting growth in margin financing & securities lending (MFSL) business. Balance of MFSL increased 227% yoy to RMB 7.4bn while interest income from MFSL increased 170.4% yoy to RMB 313mn, boosting total interest income by 113.9% YoY to RMB 613mn. The segment's contribution to total revenue rose from 10.9% in 2013 to 18.6% in 2014. Given the improved capital-raising ability, capital-based intermediary business is expected to be one of the future earnings drivers.

Strengthening financing ability. CCS has successfully expanded its financing channels and raised capitals through the issuance of corporate bonds, short-term notes, and interbank borrowings. Hence, adjusted leverage ratio (excluding clients' deposits) improved from 2.1x in 2013 to 3.1x in 2014, indicating an enhanced capital position supportive to the development of its capital-intensive business. (Continue next page)

NEEQ brings new development opportunities. Underwriting and sponsorship income generated from investment banking business fell by 55.9% yoy to RMB 67.5mn. We believe CCS would seize new opportunities arising from the development of National Equities Exchange and Quotations (NEEQ). During the reporting period, CCS completed the listing of 26 companies in NEEQ and was ranked 14th by the number of companies being listed. CCS may strengthen its market position on NEEQ and seek more

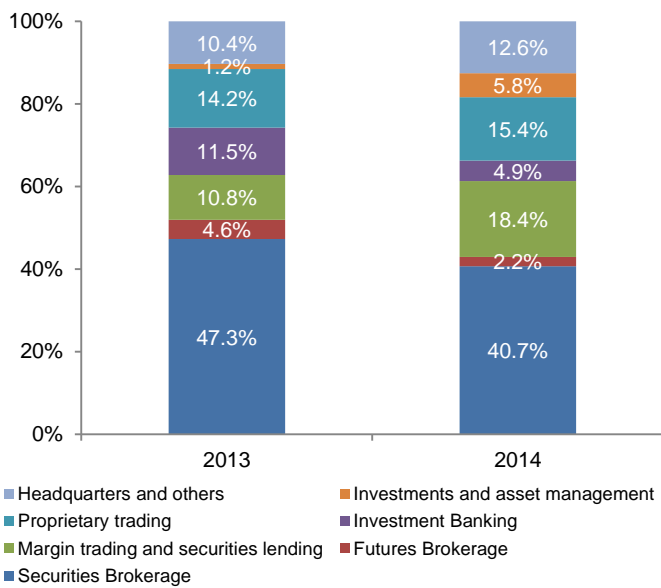
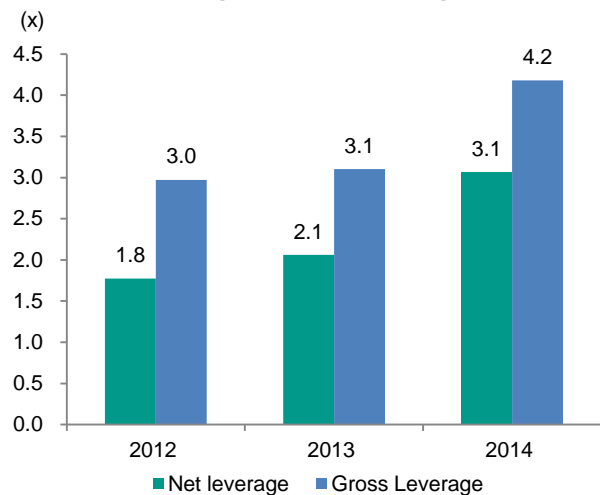
Financial Summary

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Revenue (RMB mn)	1,218	1,435	2,346	3,499	4,449
Chg (% YoY)	26.1	17.7	63.5	49.1	27.1
Net profit (RMB mn)	183	253	562	822	1,038
Chg (% YoY)	97.1	38.4	122.3	46.0	26.4
EPS (RMB)	0.09	0.12	0.24	0.31	0.39
Chg (% YoY)	97.1	38.4	94.0	29.4	26.4
BVPS (RMB)	1.88	2.01	2.20	2.43	2.71
Chg (% YoY)	5.7	6.9	9.3	10.6	11.6
P/E (x)	68.3	49.3	25.4	19.7	15.6
P/B (x)	3.3	3.0	2.8	2.5	2.3
ROAE (%)	4.9	6.4	11.4	13.5	15.3
ROAA (%)	1.6	2.0	2.7	2.7	2.9
DPS(RMB)	-	-	0.12	0.16	0.20
Yield (%)	-	-	1.9	2.5	3.2

Source(s): Bloomberg, ABCI Securities estimates

Maintain BUY with TP at HK\$ 9.1. CCS, the only securities firm registered and headquartered in Henan, would benefit from Henan's accelerating economic transformation and growth in the region. Apart from its primary businesses in brokerage, CCS's capital-based intermediary business is expected to become a key revenue driver in the future. The Group's unique regional advantage and outstanding FY14 results prompt us to maintain our **BUY** recommendation. CCS is currently trading at 2.5x 2015E P/B; our TP of HK\$ 9.1 implies an 18.6% upside.

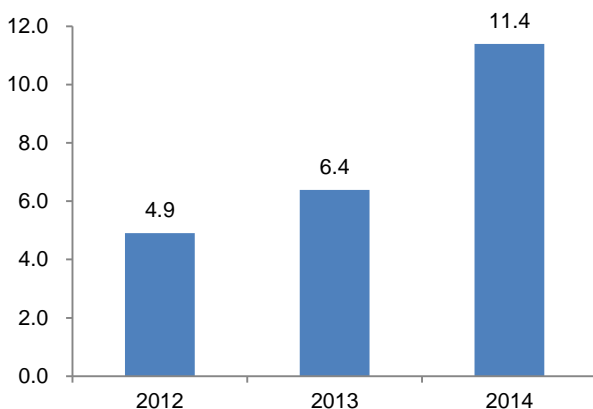
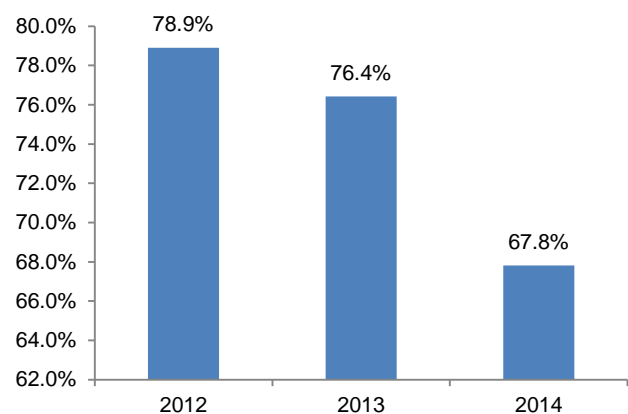
Risk factors: 1) Weaker-than-expected A-share market; 2) Slowdown in Henan's economic growth; 3) Intensifying competition in commission rate; 4) Slower growth in capital-intensive businesses.

Exhibit 1: CCS's revenue mix

Exhibit 2: CCS's leverage ratio is improving


Note: Net leverage = (Total average asset – client's deposits) / Total average equity

Source(s): Company, ABCI Securities

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Exhibit 3: CCS's ROAE (%)

Exhibit 4: CCS's cost-to-income ratio


Note: Cost to Income ratio = Total cost / Total revenue and other income

Source(s): Company, ABCI Securities

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Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Fee and commission income	737	953	1,244	2,204	2,804
Interest income	143	287	613	768	1,025
Investment income	321	159	450	480	561
Other income	17	36	40	47	59
Total Revenue	1,218	1,435	2,346	3,499	4,449
Operating costs	(961)	(1,096)	(1,591)	(2,304)	(2,944)
Operating Profits	257	338	755	1,195	1,505
Associates & JCEs	0	0	0	0	0
Profit before tax	257	338	755	1,195	1,505
Tax	(74)	(100)	(205)	(359)	(451)
Profit after tax	183	238	550	837	1,053
Minority interests	(0)	15	12	(15)	(15)
Net Profits	183	253	562	822	1,038
Growth (%)					
Revenue	26.1	17.7	63.5	49.1	27.1
Operating EBITDA	15.9	14.0	45.2	44.8	27.8
Operating EBIT	87.6	31.6	123.3	58.3	25.9
Net profit	97.1	38.4	122.3	46.0	26.4
Operating performance (%)					
Operating margin (%)	21.1	23.6	32.2	34.2	33.8
Net margin (%)	15.0	17.6	24.0	23.5	23.3
Effective tax rate	28.7	29.5	27.1	30.0	30.0
Dividend payout (%)	0.0	0.0	49.4	50.0	50.0
ROAE (%)	4.9	6.4	11.4	13.5	15.3
ROAA (%)	1.6	2.0	2.7	2.7	2.9

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Fixed assets	272	257	240	258	274
Goodwill	7	7	7	7	7
Other intangible assets	32	47	154	200	260
Investment securities	89	40	650	520	520
Other non-current assets	382	522	907	899	943
Total non-current assets	783	873	1,959	1,884	2,004
Cash & equivalents	998	570	1,457	800	457
Cash held for clients	4,370	3,963	7,226	7,948	8,743
Trading securities	3,400	3,439	4,099	4,720	5,248
Investment securities	83	391	103	108	113
Other current assets	1,570	4,413	13,426	17,570	22,264
Total current assets	10,420	12,777	26,311	31,146	36,825
Total assets	11,203	13,650	28,269	33,030	38,829
Accounts payable	5,209	4,994	9,660	9,177	8,718
Other current liabilities	2,154	4,480	11,235	15,866	21,380
Total current liabilities	7,362	9,474	20,895	25,043	30,098
Issued bonds	-	-	1,490	1,490	1,490
Other non-current liabilities	3	0	28	28	28
Total non-current liabilities	3	0	1,518	1,518	1,518
Total liabilities	7,365	9,474	22,412	26,561	31,616
Net current assets	3,058	3,303	5,416	6,103	6,728
Equity attributable to owners of the parent	3,826	4,091	5,787	6,399	7,144
Minority interest	13	84	70	70	70
Total equity	3,839	4,175	5,857	6,469	7,214

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 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.

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