

CSC Financial Co., Ltd (6066 HK)

Out of the woods

- After a sluggish 1H17, 2H17 should improve on rebound in investment banking business
- We believe the Group now enjoys a scarcity value for its investment banking exposure after CICC's acquisition of CISC
- Undemanding valuation; maintain **BUY** with TP of HK\$8.3

1H17 results highlights. In 1H17, revenue and other income also dropped 16% YoY to RMB 7.3bn. Net income dropped 33% to RMB 1.9bn, in line with the profit alert announced earlier. The decline is attributable to the reduced bond issuance amid tightened regulations impacting its investment banking business, as well as lower ADT in 1H17 compared with that of 1H16.

Out of the woods. Management stated that bond issuance recovered significantly in July and Aug. Overall, net financing of corporate bonds in China rebounded to RMB 284bn in July, versus the -RMB 63bn monthly average recorded in 1H17, according to PBOC. CSC maintained its leading market position in investment banking, ranking first in corporate bond lead underwritten amount and third in equity lead underwritten amount in 1H17. The Group is well-positioned to ride on a potential rebound in the capital market in 2H17.

Investment banking exposure brings scarcity value. In 1H17, investment banking business accounted for 20% of total revenue, the highest among the major H-listed China brokers. After CICC's acquisition of China Investment Securities (CISC), which significantly diluted CICC's investment banking exposure, CSC now 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\$8.3. We maintain **BUY** on CSC given its leading position in investment banking and a potential industry rebound in 2H17. The counter is currently trading at 1.0x 2018E adjusted P/B (excluding RMB 5bn of perpetual bonds). Our new 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

Results and Valuation

FY ended Dec 31	2014A	2015A	2016A	2017E	2018E
Revenue (RMB mn)	11,452	24,513	17,585	15,435	17,124
Chg (% YoY)	56.4	114.0	(28.3)	(12.2)	10.9
Profit attributable to ordinary shareholders (RMB mn)	3,407	8,345	4,965	3,853	4,379
Chg (% YoY)	90.7	144.9	(40.5)	(22.4)	13.7
Underlying EPS (RMB)	0.56	1.37	0.69	0.53	0.60
Chg (% YoY)	NA	144.6	(49.5)	(23.2)	13.7
BVPS (RMB)*	2.73	4.12	5.03	5.39	5.86
Chg (% YoY)	NA	50.6	22.1	7.2	8.8
PE (x)	10.8	4.4	8.8	11.4	10.0
P/B (x)*	2.2	1.5	1.2	1.1	1.0
ROAE (%)*	22.9	40.0	18.1	10.3	10.7
ROAA (%)	3.6	5.4	2.7	2.0	2.1
DPS (RMB)	0.03	-	0.18	0.13	0.15
Dividend Yield (%)	0.5	-	3.0	2.2	2.5

*Equity attributable to ordinary shareholders is used in the calculation

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Sept 4, 2017
 Rating: **BUY**
 TP: **HK\$ 8.3**

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Share price (HK\$)	7.14
Est. share price return	16.2%
Est. dividend yield	2.5%
Est. total return	18.6%
Previous Rating & TP	BUY/HK\$8.4
Previous Report Date	Mar 22

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)	9,004
Avg daily turnover (HK\$ mn)	3
Major shareholder(s)	
BSCOMC	37.46%
Huijin	33.29%
Citic Sec	5.95%

Source(s): Company, ABCI Securities

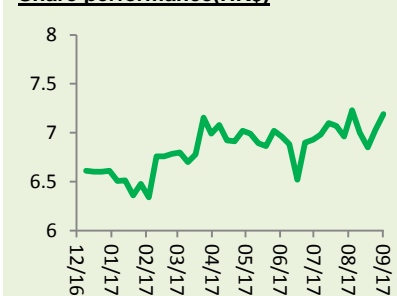
Share Performance (%)

	Absolute	Relative*
1-mth	1.7	-0.2
3-mth	0.4	-8.3
6-mth	3.3	-14.7

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

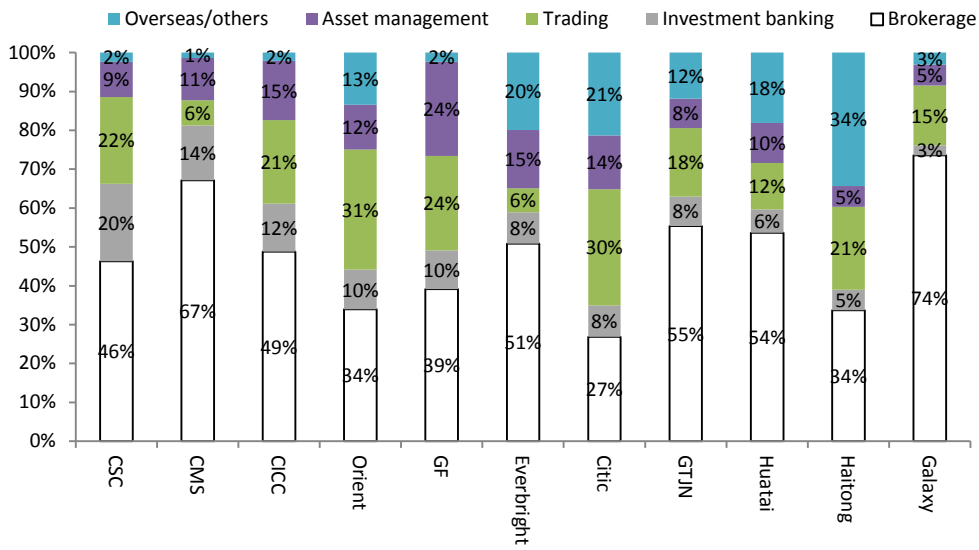


Exhibit 1: 1H17 results highlight

RMB mn	1H16	1H17	YoY	Comment
Fee and commission income	5,127	3,701	(28%)	Dragged by investment banking
Interest income	2,265	2,421	7%	
Investment income	1,165	1,143	(2%)	
Other income	74	(11)	(115%)	
Total revenue and other income	8,631	7,253	(16%)	
Total expenses	4,888	4,752	(3%)	Cost control
Operating Profits	3,744	2,502	(33%)	
Share of profit of associates	0	-3	NA	
Profit before tax	3,744	2,499	(33%)	
Tax	939	613	(35%)	
Net profit of the group	2,805	1,886	(33%)	
Attribute to:				
Minority interests	28	31	10%	
Ordinary shareholder	2,777	1,855	(33%)	
Revenue mix				
Wealth management	3,728	3,358	(10%)	Falling ADT
Investment banking	2,023	1,449	(28%)	Impacted by DCM business
Investment management	810	658	(19%)	
Trading and institutional client	1,812	1,618	(11%)	
Others	258	169	(34%)	
	8,631	7,253	(16%)	
% of total revenue				
Wealth management	43%	46%		
Investment banking	23%	20%		
Investment management	9%	9%		
Trading and institutional client	21%	22%		
Others	3%	2%		
Ratios				
Operating margin	43.4%	34.5%		
Net margin	32.2%	25.6%		
Annualized ROAE*	21.1%	10.0%		

*Equity attributable to ordinary shareholders is used in the calculation

Source(s): Company, ABCI Securities

Exhibit 2: Revenue mix comparison in 1H17


Source(s): Companies, ABCI Securities



Consolidated income statement (2014A-2018E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E
Fee and commission income	6,541	14,901	10,584	8,308	9,618
Interest income	2,930	5,573	4,441	4,827	5,206
Investment income	1,903	3,980	2,412	2,300	2,300
Total revenue	11,374	24,454	17,437	15,435	17,124
Other income	78	59	148	0	0
Total revenue and other income	11,452	24,513	17,585	15,435	17,124
Total expenses	6,908	13,051	10,524	9,845	10,824
Operating Profits	4,544	11,462	7,061	5,590	6,300
Share of profit of investments in associates	0	0	(3)	(4)	(5)
Profit before tax	4,544	11,462	7,057	5,586	6,295
Tax	1,145	2,810	1,744	1,396	1,574
Profit after tax	3,398	8,652	5,313	4,189	4,721
Minority interests	(9)	13	54	43	48
Profits attributable to perpetual bondholders	0	294	294	294	294
Profits attributable to ordinary shareholders	3,407	8,345	4,965	3,853	4,379
Growth					
Total revenue and other income (%)	56.4	114.0	(28.3)	(12.2)	10.9
Total expenses	40.9	88.9	(19.4)	(6.5)	9.9
Operating Profits (%)	87.7	152.3	(38.4)	(20.8)	12.7
Profits attributable to ordinary shareholders (%)	90.7	144.9	(40.5)	(22.4)	13.7
Operating performance					
Operating margin (%)	39.7	46.8	40.2	36.2	36.8
Net margin (%)	25.0	34.1	28.5	25.0	25.6
ROAE (%)*	22.9	40.0	18.1	10.3	10.7
ROAA (%)	3.6	5.0	2.7	2.0	2.1

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

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2018E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E
Property and equipment	486	580	579	608	639
Goodwill	100	122	144	152	159
Other intangible assets	-	374	278	291	306
Investment in associates and JV	20	50	172	181	190
AFS	835	1,457	6,112	5,195	5,455
Financial assets held under resale agreements	-	-	625	4,300	4,515
Other non-current assets	1,914	3,055	4,464	4,687	4,921
Total non-current assets	3,356	5,638	12,374	15,414	16,185
Cash & equivalents	11,448	16,154	17,526	18,769	19,064
Clearing settlement funds	42,762	70,664	55,083	57,837	60,729
AFS	11,453	15,891	28,483	32,755	34,393
Financial assets at FVTPL	526	1,504	325	341	359
Derivatives	151	142	49	51	54
Other current assets	1,028	1,715	1,785	1,874	1,968
Account receivables	164	153	378	397	417
Other receivables and prepayments	18,318	28,500	27,605	28,985	30,434
Advances to customers	31,941	35,931	31,007	37,208	40,929
Financial assets held under resale agreements	2,260	6,896	7,080	10,619	11,150
Total current assets	120,051	177,551	169,320	188,837	199,497
Total assets	123,406	183,188	181,694	204,252	215,682
Accounts payable	43,487	72,045	56,736	59,573	62,551
Borrowings	500	1,123	1,782	1,871	1,964
Placements from banks and other financial institutions	3,584	2,284	9,360	9,828	10,319
Other current liabilities	49,850	60,447	58,334	72,300	75,915
Total current liabilities	97,421	135,899	126,212	143,571	150,750
Loans and bonds payables	7,989	15,072	13,653	16,384	17,203
Other non-current liabilities	1,269	2,034	567	170	178
Total non-current liabilities	9,257	17,107	14,220	16,554	17,381
Total liabilities	106,678	153,005	140,432	160,125	168,131
Net current assets	22,630	41,652	43,108	45,266	48,747
Equity attributable to ordinary shareholders	16,669	25,106	36,063	39,029	42,445
Other equity instruments (perpetual subordinated bonds)	-	5,000	5,000	5,000	5,000
Non-controlling interests	59	77	200	98	106
Total equity	16,728	30,183	41,263	44,126	47,551

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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