

23 July 2014

# CITIC Securities (6030.HK)

## The industry leader with better-than-expected profit performance in 1H2014

HONG KONG | FINANCIAL | PRELIMINARY RESULTS

Rating:

**Buy**

Upgrade to Buy

- According to the preliminary result of CITIC Securities ("CS" or "the Group") announced yesterday (21<sup>st</sup> Jul), in 1H2014, profit for the year of CS increased significantly by 114.35% y-y to RMB5,824 million with net profit of RMB4,076 million, up 93% y-y approximately;
- Total assets increased strongly by 25.2% to RMB33.9747 billion compared with the end of 2013, and the BVPS was RMB8.14, up 2.3% during the same period;
- The large profit growth of CS is mainly due to the increase in the number of companies that was consolidated to CS's financial statements, and non-recurring operating gains grew significantly because of the transfer of the entire equity interests in its wholly-owned subsidiaries of Tianjin Jingzheng Property Services Limited and Tianjin Shenzheng Property Services Limited to CITIC Qihang Securities Investment Private Fund;
- Due to the strong market demand, CS's businesses recovered obviously in the recent two years, and the profit growth is stronger than our expectation according to the performance in 2013 and 1H2014, however, considering the increase of the market volatility and the Group's operating expenses in future, we maintain CS's 12-month target price on HK\$22.30, 22.7% higher than the current price, equivalent to 20.3xP/E and 2.0xP/B in 2015E respectively. Upgrade to Buy rating.

<b>Target Price (HK)</b>	<b>22.30</b>
<b>Forecast Dividend (HK)</b>	0.33
<b>Closing Price (HK)</b>	18.18
<b>Potential Upside</b>	24.5%

### Company Description

CITIC Securities ("CS" or "the Group") was found in Beijing in 1995. CS's parent company, CITIC Group is one of the largest integrated financial groups in China. It was listed on A+H Shares on Jul 2008 and Oct 2011 respectively. By the end of 2013, based on total assets and net capital, CS was the largest securities company in China, and kept the leading position in several business fronts, including brokerage, funds, and bond underwriting and asset management.

### Company Data

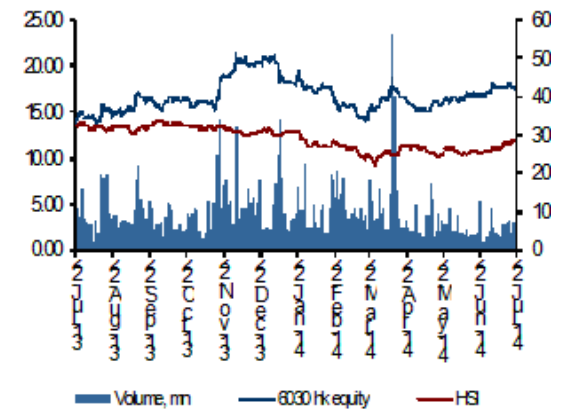
Market Cap (HKDmn)	168,792.98
Enterprise Value (HKDmn)	N/A
52week range (HK)	13.44-21.65
Closing Price in 52 week range	

### How we view this

CS is the largest securities company in China with the leading position in the industry, especially the Group's innovative business experienced strong development. The commission fees and investment incomes increased strongly in the recent two years because of the recovery of domestic capital market. The commission fee grew largely 50.9% and 110.4% y-y respectively in 2013 and 1Q2014, and we expect such income would increase by 100% y-y approximately in 1H2014, but the Group's profit should be lower than that of 2009.

### Investment Action

Currently the market environment trends to be positive, we believe there are large development of the market environment if the cross-border trading between Shanghai and Hong Kong could be implemented successfully in this Oct, investments will become more active, and we hold the optimistic view on CS's future development based on the leading position in the industry, its incomes will maintain strong growth, and therefore we maintain CS's 12-month target price on HK\$22.30, 22.7% higher than the current price, equivalent to 20.3xP/E and 2.0xP/B in 2015E respectively. Upgrade to Buy rating.



### Major Shareholders

1. CITIC Limited	20.30%
2. HSBC Nominees	10.69%
3. China Life Insurance Company	3.28%

### Valuation Method

P/E, P/B

### Analyst

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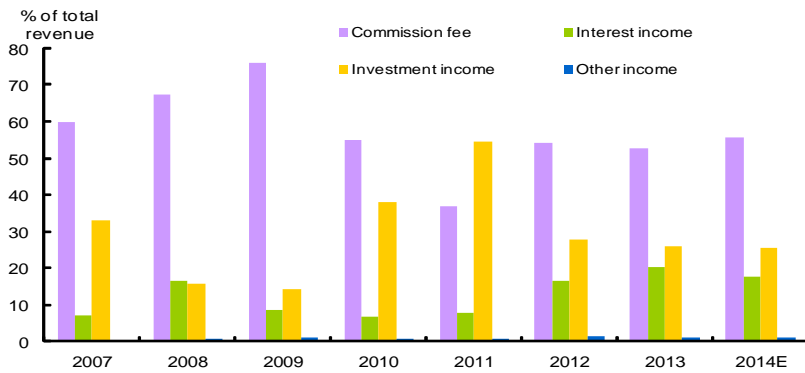
### Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Total income (RMB mn)	13,071	20,279	25,875	31,544
Net Profit, adj. (RMB mn)	4,238	5,244	8,185	9,762
EPS, adj. (RMB)	0.38	0.48	0.74	0.89
P/E (X)	37.9	30.6	19.6	16.4
BVPS (RMB)	7.85	7.96	8.36	8.86
P/B (X)	1.9	1.8	1.7	1.6
DPS (RMB)	0.13	0.14	0.22	0.27
Div. Yield	0.9%	1.0%	1.5%	1.8%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

Fig 1. Proportion of main business incomes of total revenue



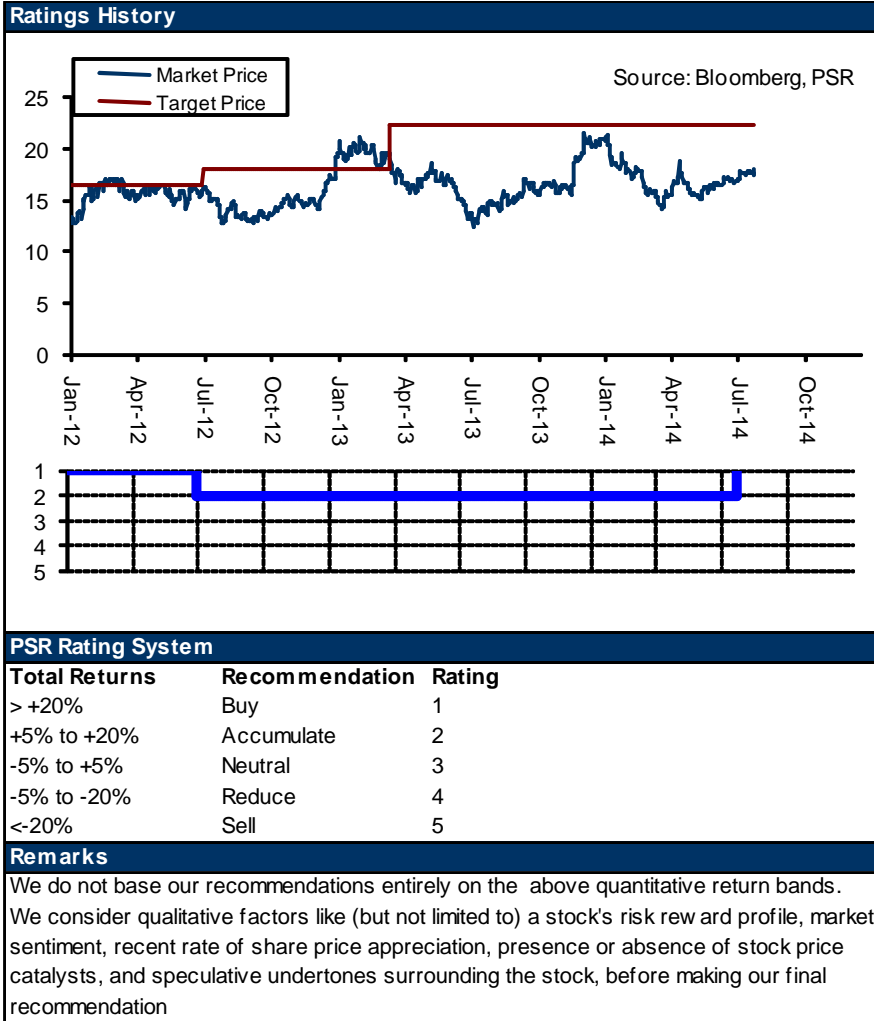
Source: PSR, the company's reports

### Risk

Larger-than-expected decrease of commission fees;  
Investment gains declined strongly;  
Share decrease of share price affected by the market environment.

FYE	FY09	FY10	FY11	FY12	FY13	FY14F	FY15F
<b>Valuation Ratios</b>							
P/E (X)	16.2	12.8	11.8	37.9	30.6	19.6	16.4
P/B (X)	2.4	2.1	1.9	1.9	1.8	1.7	1.6
Dividend Payout ratio	55.56%	43.97%	34.85%	35.00%	30.00%	30.00%	30.00%
Dividend Yield	3.4%	3.4%	3.0%	2.1%	1.0%	1.5%	1.8%
<b>Per share data (RMB)</b>							
EPS, reported	0.90	1.14	1.23	0.38	0.48	0.74	0.89
EPS, adj.	0.90	1.14	1.23	0.38	0.48	0.74	0.89
DPS	0.50	0.50	0.43	0.30	0.15	0.22	0.27
BVPS	6.19	7.08	7.86	7.85	7.96	8.36	8.86
<b>Growth</b>							
Revenue		26.9%	-12.9%	-50.4%	55.1%	27.6%	21.9%
Operating profit		23.5%	-10.3%	-65.4%	31.3%	23.2%	22.9%
Profit before tax		22.7%	-7.9%	-63.5%	24.8%	55.5%	19.4%
Net Income, adj.		25.9%	11.2%	-66.3%	23.7%	56.1%	19.3%
<b>Key Ratios</b>							
ROE	14.54%	16.06%	15.70%	4.90%	5.98%	8.89%	10.00%
<b>Income Statement (RMB mn)</b>							
Fee and commission income	18,151	16,598	9,713	7,090	10,699	14,444	18,055
Interest income	2,019	1,988	2,056	2,172	4,090	4,581	5,268
Investment income	3,428	11,501	14,393	3,648	5,259	6,574	7,889
Others	270	194	209	161	231	277	333
<b>Revenue</b>	<b>23,868</b>	<b>30,281</b>	<b>26,371</b>	<b>13,071</b>	<b>20,279</b>	<b>25,875</b>	<b>31,544</b>
Business and management expenses	7,247	9,646	6,912	5,814	1,061	1,326	1,592
Business tax and surcharges	1,034	962	488	401	772	1,004	1,154
Other operating expenses	2,703	3,360	2,843	1,771	2,790	2,846	2,903
Impairment losses	(315)	18	1,513	30	353	400	500
<b>Total operating expenses</b>	<b>10,669</b>	<b>13,986</b>	<b>11,756</b>	<b>8,016</b>	<b>13,644</b>	<b>17,702</b>	<b>21,496</b>
<b>Operating profit</b>	<b>13,199</b>	<b>16,295</b>	<b>14,615</b>	<b>5,055</b>	<b>6,635</b>	<b>8,174</b>	<b>10,048</b>
<b>Profit before tax</b>	<b>13,302</b>	<b>16,319</b>	<b>15,031</b>	<b>5,487</b>	<b>6,846</b>	<b>10,649</b>	<b>12,713</b>
Income tax	(3,214)	(4,184)	(2,427)	(1,180)	(1,538)	(2,384)	(2,861)
Income tax rate	24.16%	25.64%	16.15%	21.51%	22.47%	22.39%	22.50%
<b>Profit for the year</b>	<b>10,088</b>	<b>12,135</b>	<b>12,604</b>	<b>4,307</b>	<b>5,308</b>	<b>8,265</b>	<b>9,852</b>
Minority interest	1,104	825	28	69	64	80	90
Net profit	8,984	11,310	12,576	4,238	5,244	8,185	9,762

Source: PSR



### PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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