

Central China Securities (1375.HK)

Stable profit growth with the great potential of the diversified business structure

7 December 2015

CHINA | FINANCIAL | COMPANY VISIT

Summary

- According to Central China Securities's (CCS or the Group) latest record, its monthly net profit increased significantly in Oct compared with Sep, up 129% to RMB790 million approximately. CCS's incomes increased strongly due to the bull market in 1H, however the business incomes increased slowly in 3Q because of the large market volatility recently, but regarding its full-year outlook, we still believe the profits of the Group should be maintained at the high level;
- Meanwhile, the management tries to find more profit drivers from the business restructure. According to the latest announcement, it was approved to set up a life insurance company as a leader in Henan Province, and recently it also issued a short-term notes with the amount of RMB1 billion, which will bring more clients and business supports for the Group's long-term development, representing CCS's strong competitive advantages in Henan Province;
- We think CCS owns strong government background, a broad customer base in Henan Province and expands several business platforms actively, it has a great potential of business development in the long term. Although there was the large market volatility in 3Q, the Group's performance would become better in 4Q according to the data in Oct, and we are still confident about its full-year results. While we maintain our target price at HKD6.50, which is 48% higher than its latest closing price, equivalent to 2016 6.5xP/E and 1.6xP/B respectively, and maintain the BUY rating. (Closing price as at 3 Dec 2015)

Buy (Maintain)

CMP: HK\$ 4.40
(Closing price as at 3 Dec 2015)
TARGET: HK\$ 6.50 (+48%)

COMPANY DATA

O/S SHARES (MN) :	1,250
MARKET CAP (HK\$ MN) :	5,500
52 - WK HI/LO (HK\$) :	9.92/ 3.06

SHARE HOLDING PATTERN, %

Henan Investment Group :	33.10
Bohai Industrial Investment Fund Management	23.10
Anyang Iron & Steel Group	7.14

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
CCS	10.83	9.73	-21.43
HSI	0.21	7.08	-5.23

KEY FINANCIALS

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Revenue (RMB Mn)	1,399	2,306	4,105	5,816
Net Profit, adj. (RMB Mn)	253	562	1,467	2,183
EPS, adj. (RMB)	0.12	0.24	0.56	0.83
PE (X)	31.0	15.1	6.5	4.4
BVPS (RMB)	2.01	2.20	2.72	3.26
PB (X)	1.8	1.7	1.3	1.1
DPS (RMB)	0.00	0.12	0.20	0.33
Div. Yield	0.0%	3.3%	5.5%	9.1%

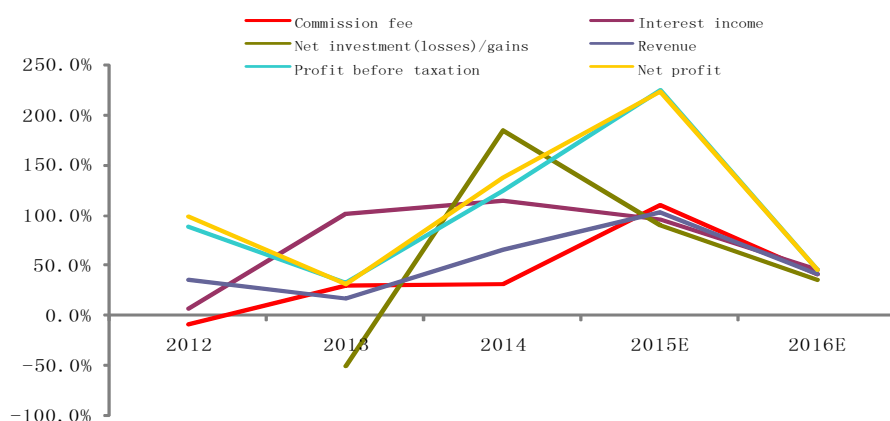
Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

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CCS's profit estimation



Source: Company, Phillip Securities (HK) Research

Risk

- The large volatility of profits of stock brokerage business and investment banking business;
- The large demand of capital and talent;
- Share price dropped sharply due to the deterioration of stock markets in the short term.

FINANCIALS

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X)	40.3	31.0	15.1	6.5	4.4
P/B (X)	1.9	1.8	1.7	1.3	1.1
Dividend Payout ratio	0.00%	0.00%	56.16%	36.00%	40.00%
Dividend Yield	0.0%	0.0%	3.3%	5.5%	9.1%
Per share data (RMB)					
EPS, adj.	0.09	0.12	0.24	0.56	0.83
DPS	0.00	0.00	0.12	0.20	0.33
BVPS	1.88	2.01	2.20	2.72	3.26
Growth					
Total revenue	26.1%	17.7%	63.5%	76.0%	41.7%
Profit before taxation	87.7%	31.5%	123.2%	167.6%	49.1%
Net profit	97.4%	38.1%	122.3%	160.9%	48.8%
Key Ratios					
Net profit margin	15.25%	17.05%	24.38%	35.74%	37.54%
ROE	4.92%	6.39%	11.38%	22.38%	28.44%
Income Statement (RMB mn)					
	FY12	FY13	FY14	FY15F	FY16F
Revenue	1,201	1,399	2,306	4,105	5,816
Other net income	17	36	40	26	36
Total revenue	1,219	1,435	2,346	4,130	5,852
Total expenses	(961)	(1,096)	(1,591)	(2,110)	(2,839)
Profit before taxation	257	338	755	2,020	3,012
Income tax	(74)	(100)	(205)	(553)	(829)
Tax rate	28.77%	29.51%	27.13%	27.37%	27.53%
Profit for the year	183	238	550	1,467	2,183
Minority interests	0	15	(12)	0	0
Net profit	183	253	562	1,467	2,183
Dividend	0	0	316	528	873
Balance Sheet (RMB mn)					
	FY12	FY13	FY14	FY15F	FY16F
Fixed assets	242	226	217	219	226
Other non-trading securities	89	40	650	423	570
Advances to customers	273	413	727	837	1,004
Non-current assets	783	873	1,959	2,123	2,555
0	0	101	278	208	229
Finance lease receivable	211	2,260	7,332	13,197	14,516
Amount due from associates	498	793	2,890	4,046	5,462
Debtors, deposits and prepayments	3,400	3,439	4,099	6,969	8,014
Cash and cash equivalents	4,370	3,963	7,226	18,065	28,000
0	998	570	1,457	3,423	4,107
Current assets	10,420	12,777	26,311	51,317	68,021
Total assets	11,204	13,650	28,269	53,440	70,576
Credit, deposits received and accrued charges	255	388	803	1,003	1,204
Financial liability designated at fair value through profit or loss	0	707	791	672	975
Financial liability designated at fair value through profit or loss	1,759	2,096	5,587	10,057	15,588
0	5,209	4,994	9,660	18,837	30,139
Current liabilities	7,362	9,474	20,895	37,199	52,775
Total assets less current liabilities	3,841	4,175	7,375	16,241	17,801
Non-current liabilities	3	0	1,518	8,112	8,645
Total liabilities	7,365	9,474	22,412	45,311	61,420
Share capital	2,034	2,034	2,632	2,632	2,632
Reserves	843	936	1,678	1,812	2,084
0	949	1,122	1,477	2,881	3,313
Total equity attributable to shareholders of the Comp:	3,826	4,091	5,787	7,324	8,028
Minority interests	13	84	70	805	1,128
Total equity	3,839	4,175	5,857	8,130	9,156

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 3 December 2015)

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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