

# China International Capital Corp

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DBS Group Research . Equity

6 Feb 2024

## BUY

Last Traded Price (5 Feb 2024): HK\$8.92 (HSI : 15,510)  
Price Target 12-mth: HK\$12.00 (35% upside) (Prev HK\$18.50)

### Analysts

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### What's New

- CICC underperformed peers in 2023, since its business mix is more sensitive to industry-wide IPO tightening and the decline in equity trading income, with 9M23 earnings -23% y-o-y
- Revised down FY23F-25F earnings by 21-48%, as we believe IPO normalisation would only take place towards late 2024 and pace of recovery will be gradual as regulator prioritises stability
- Strategy adjustment from new CEO will be key update to watch
- Maintain BUY with lower TP of HK\$12; strong sponsorship brand still valuable, and we think 0.4x FY24F PB (-2SD) has adequately reflected the temporarily lower ROE

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Total Revenue	37,398	34,268	33,965	37,289
Total Expense	(28,339)	(28,429)	(28,818)	(30,474)
Pre-tax Profit	9,056	5,869	5,197	6,866
Net Profit	7,045	4,253	3,691	5,085
EPS (RMB)	1.46	0.88	0.76	1.05
EPS (HK\$)	1.59	0.96	0.83	1.15
EPS Gth (%)	(32.4)	(39.6)	(13.2)	37.7
DPS (HK\$)	0.20	0.12	0.11	0.15
BV Per Share (HK\$)	18.65	19.63	20.49	21.64
PE (X)	5.6	9.3	10.7	7.8
Net Div Yield (%)	2.2	1.4	1.2	1.7
P/Book Value (X)	0.5	0.5	0.4	0.4
ROAE(%)	8.9	5.0	4.1	5.4
Earnings Rev (%):		(21)	(48)	(40)
Consensus EPS (RMB)		1.41	1.70	2.04
Other Broker Recs:		B:18	S:1	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Overhang persists

### Investment Thesis

**Strong sponsorship to stand out in long run.** CICC has been one of the top sponsors of a majority of the largest Chinese companies' IPOs, which is also synergistic to its institutional and private wealth business. While the weak sentiment and IPO slowdown have weighed on its earnings, we think CICC will outperform in the long term by winning market share, as the regulator vowed to further tighten supervision on sponsors to protect investors, which would benefit leading sponsors like CICC.

**Profitability under pressure in near term.** We see more pressure on CICC's earnings, as it's more sensitive to a slowdown in the IPO pipeline (investment banking represents 20% of FY22 revenue, vs. major peers' 10%-12%) as well as weak demand for equity derivatives. Its outperformance in wealth assets was the bright spot but not sufficient to offset the headwinds. We revised down FY23F/24F/25F earnings by 21%/48%/40% respectively. ROE is set to plunge from the peak of 15% in FY21 to merely 4%-5% during FY23F-25F.

**Potential normalisation in 2H24.** We think IPO normalisation will happen shortly after an evident recovery of market sentiment, which could occur in 2H24 considering the possible stabilisation of the China economy and potential US rate cuts. While we believe IPO fundraising will resume in a slow and gradual manner, CICC could see a sharp rebound once the recovery trend is clear, considering its attractive valuation and quality.

**Maintain BUY with lower TP of HK\$12.** Our TP is based on 0.55x FY24F PB (prev 0.8x), pegged to -1.5SD of its five-year historical average, reflecting the substantially lower ROE forecasts. With its share price having corrected by c.40% since end-Aug 2023 and its currently undemanding valuation of 0.4x FY24F PB, we think the ROE decline is priced in. The expected recovery of IPO issuances by late 2024 shall be the key re-rating catalyst ahead.

### Key Risks

A substantial slowdown in China's economy, meaningful contraction in market liquidity, noticeable share price drop in A/H-share market, and implementation of restrictive market policies.

### At A Glance

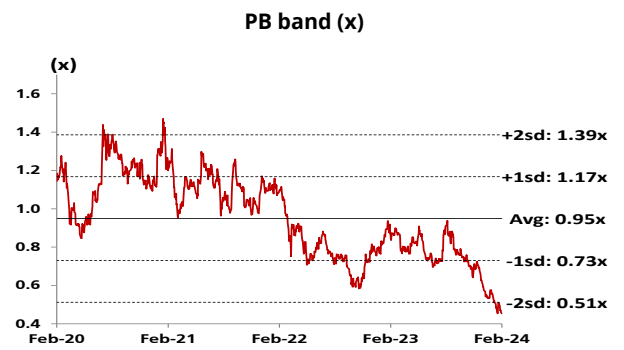
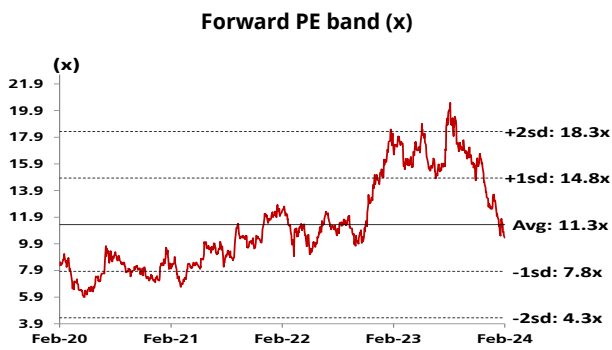
Issued Capital (m shrs)	4,827
Mkt Cap (HKm/US\$m)	43,057 / 5,505
Major Shareholders (%)	
Tencent Holdings Ltd	11.4
Alibaba Group Holding Ltd.	10.7
Free Float (%)	78.0
3m Avg. Daily Val. (US\$m)	15.70
GICS Industry: Financials / Diversified Financials	

## China International Capital Corp

### Company Background

CICC was established in 1995 and was first listed on the HKEx in 2015. CICC is the first joint venture investment bank in China and has established a full-service business model offering investment banking, equities, FICC, wealth management, and investment management. As of 1H23, its total assets and equity reached RMB650bn and RMB103bn, respectively.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## China International Capital Corp

### Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Annual trading volume (Rmb bn)	18,166.7	15,638.6	16,873.1	16,271.8	17,339.8
Brokerage commission rate (bps)	4.5	4.3	4.1	4.0	3.9
Annual underwriting amount (Rmb bn)	1,973.9	1,959.5	1,508.2	1,642.3	1,893.1
Annual asset management AUM (Rmb bn)	1,541.4	1,176.8	1,247.2	1,394.3	1,561.8
Margin trade outstanding (Rmb bn)	37,804.6	30,284.8	36,260.8	35,230.7	37,814.3
Cost to income ratio (%)	68.7	75.8	83.0	84.8	81.7
No. of staff	13,557.0	15,168.0	15,319.7	15,319.7	15,626.1
Cost per staff (RMB)	1,159,563.5	829,066.9	746,160.2	752,037.6	788,963.4

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fee and commission	19,481	18,063	13,959	14,313	15,703
Interest income	7,277	8,153	8,597	8,588	8,940
Investment income	14,703	10,608	9,530	10,881	12,463
Other income	(497)	574	2,182	183	183
<b>Total Revenue</b>	<b>40,964</b>	<b>37,398</b>	<b>34,268</b>	<b>33,965</b>	<b>37,289</b>
Total Expense	(28,134)	(28,339)	(28,429)	(28,818)	(30,474)
Expected credit losses	408	21	(36)	(38)	(39)
<b>Operating Profit</b>	<b>12,830</b>	<b>9,059</b>	<b>5,839</b>	<b>5,147</b>	<b>6,815</b>
Associates & JV Inc	148	(3)	30	51	51
<b>Pre-tax Profit</b>	<b>12,978</b>	<b>9,056</b>	<b>5,869</b>	<b>5,197</b>	<b>6,866</b>
Tax	(2,168)	(1,461)	(968)	(858)	(1,133)
Minority Interest	(32)	3	2	2	2
<b>Net Profit</b>	<b>10,423</b>	<b>7,045</b>	<b>4,253</b>	<b>3,691</b>	<b>5,085</b>

### Growth

Revenue Gth (%)	26.4	(8.7)	(8.4)	(0.9)	9.8
Opg Profit Gth (%)	46.7	(29.4)	(35.5)	(11.9)	32.4
Net Profit Gth (%)	46.7	(32.4)	(39.6)	(13.2)	37.7

### Du Pont analysis (%)

Net Profit/Total Revenue	25.4	18.8	12.4	10.9	13.6
Total Revenue/Total Asset	7.0	5.8	5.3	5.1	5.3
Total Asset/Total equity	766.9	652.2	626.6	629.3	651.4
ROAE (%)	14.6	8.9	5.0	4.1	5.4

### Per share analysis

EPS (RMB)	2.16	1.46	0.88	0.76	1.05
BPS (RMB)	15.73	17.15	18.05	18.85	19.90
DPS (RMB)	0.30	0.18	0.11	0.10	0.14

Source: Company, DBS HK

## China International Capital Corp

### Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Cash and Cash Equivalent	66,143	85,789	72,921	76,567	84,224
Cash Held on Behalf of Customers	91,037	83,017	70,564	74,093	81,502
Reverse Repurchase	25,858	27,136	24,422	24,422	25,643
Financial Assets	358,748	353,878	380,863	402,134	436,123
Margin Account	39,479	31,626	37,867	36,791	39,489
Other Assets	68,529	67,318	63,822	63,483	67,196
<b>Total Assets</b>	<b>649,795</b>	<b>648,764</b>	<b>650,459</b>	<b>677,490</b>	<b>734,177</b>
Customer Brokerage Deposit	91,037	83,017	70,564	74,093	81,502
Repo and Short-term	74,119	126,420	134,898	144,017	153,829
Long-term Debt and Loan	125,755	87,273	91,637	96,219	101,030
Other Liabilities	274,153	252,580	249,551	255,506	285,106
<b>Total Liabilities</b>	<b>565,065</b>	<b>549,289</b>	<b>546,650</b>	<b>569,834</b>	<b>621,466</b>
Shareholder's Equity	84,422	99,188	103,536	107,396	112,468
Minority Interests	309	287	272	260	243
<b>Total Cap. &amp; Liab.</b>	<b>649,795</b>	<b>648,764</b>	<b>650,459</b>	<b>677,490</b>	<b>734,177</b>

Source: Company, DBS HK

**China International Capital Corp**

**Target Price & Ratings 12-mth History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	17-Apr-23	HK\$16.90	HK\$21.50	Buy
2:	1-Nov-23	HK\$12.46	HK\$18.50	Buy

Source: DBS HK

Analyst: Ken Shih

Edmond Fok

DBS Group Research recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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**China International Capital Corp**

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