

September 3, 2012

CITIC Securities 6030 HK**Initial Coverage****BUY**

Target price: HK\$ 15.70

Haitong International Research

A visionary leader

The flagship of China's Securities industry with balanced business structure. CITIC Securities is the biggest securities firm in China in terms of revenue, assets and equity scales. Brokerage, investment banking, asset management, investment income (non-recurring gain on disposal of subsidiaries income excluded) and interest income contribute 30%, 12%, 2%, 21% and 12% to total FY11 revenue respectively. We perceive it the most balanced and optimized revenue structure among peers.

Acquisition demonstrates ambition of internationalization. The acquisition of CLSA signals CITIC's ambition to expand overseas and become a world-class investment bank which focuses in China with globalized vision. Although the market questions the price CITIC paid in the acquisition we believe the valuation is fair given the complementary effects between CITIC and CLSA: CLSA can take advantage of CITIC's investment banking client access, political connections in Beijing and strong capital base, while CITIC can tap into CLSA's international distribution network to develop its global presence.

Synergy forged from buy-side and sell-side business. CITIC has constructed a new business model – the sell-side business accumulates investor resources, capital, and brand recognition, and the buy-side business utilize these resource provided by the sell-side to realize profits so as to leverage up capital utilization and increase ROE. In future, CITIC's buy-side business will skew towards flow-based business.

Early-mover advantages from innovation. CITIC has been the pioneer of many innovative businesses and has achieved considerable market share. In FY11, CITIC's innovation expanded to asset management, futures, PE, industry fund, margin financing, and stocks index futures trading businesses together recorded revenue of RMB 4.7bn, accounting for 35% of total revenue, higher than industry average of 11%.

Valuation. We evaluate the values of each CITIC business lines, sum them up to reach the value of the firm. We assign a FY12 P/E of 17x to the brokerage business, 18x to the investment banking business, 1.2x to investment business, P/AUM of 7% to the asset management business and 1x to the cash-on-hand to derive the target price of HK\$ 15.7, implying a FY12 PB of 1.5x.

Earning Summary

	2010	2011	2012F	2013F	2014F		
Revenue (RMB mn)	27,795	25,033	11,426	13,600	15,582	Date of price	31/08/2012
Net profit (RMB mn)	11,311	12,576	4,923	5,999	7,004	Share O/S (mn)	1,178
EPS (RMB)	1.14	1.14	0.45	0.54	0.64	Market cap (HK\$ mn)	15,342
EPS growth (%)	25.9	0.4	(60.9)	21.8	16.8	Price (HK\$)	13.02
BVPS (RMB)	7.08	7.86	8.09	8.64	8.96	Free float (%)	57.54
DPS (RMB)	0.50	0.46	0.16	0.19	0.20	3-month trading value (HK\$ mn)	108
ROE (%)	16.1	14.5	5.5	6.3	7.1		
P/E (x)	1.5	1.4	1.3	1.3	1.2		
Yield (%)	4.6	4.2	1.5	1.7	1.8		

Source: Company data, HTI

Fanny Chen Yuanfei

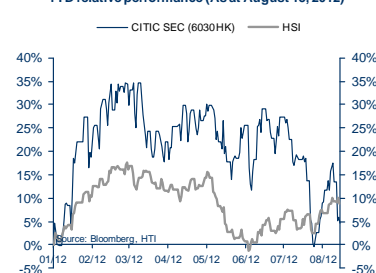
852-3926 8914

fanny.yf.chen@htisec.com**Ivan Wo**

852- 3723 2919

ivan.jt.wo@htisec.com

YTD relative performance (As at August 15, 2012)



Disclaimer

Issued by Haitong International Research Limited ("HTIRL") licensed corporation to carry on Type 4 (advising on securities) regulated activity for the purpose of the Securities and Futures Ordinance (Cap. 571), approved for distribution by: Haitong International Securities Company Limited ("HTISCL") and/or Haitong International Investment Services Limited ("HTIIS") (both are licensed corporations to carry on Type 1 (dealing in securities) regulated activity) in Hong Kong.

The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable and in good faith but no representation or warranty, express or implied, is made by HTIRL, HTISCL, HTIIS or any other members within Haitong International Securities Group of Companies ("HTISG") from which this document may be received, as to their accuracy, completeness or correctness. All opinions expressed herein are subject to change without notice. This document is for information purpose only. Descriptions of any companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed expressly or impliedly as, an offer to buy or sell securities. The securities referred to in this document may not be eligible for buy or sale in some jurisdictions.

Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other instruments. There is no representation that any transaction can or could have effected at those prices and any prices do not necessarily reflect HTISG's internal books and records or theoretical model-based valuations and may be based in certain assumptions. Different assumptions, by HTIRL or any other source, may yield substantially different results.

The price of securities may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. If an investment product is denominated in a currency other than an investor's home currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Certain transactions, including those involving derivatives, give rise to substantial risk and are not suitable for all investors.

You should also bear in mind that recommendations in this document are not tailor-made for you. The analyst has not taken into account your unique financial circumstances, such as your financial situation and risk appetite. You must, therefore, analyse and should, where applicable, consult your own legal, tax, accounting, financial and other professional advisers to evaluate whether the recommendations suits you before investment.

HTISG and our affiliates, officers, directors, and employees, excluding the analysts responsible for the content of this document, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this document.

Sales, traders, and other professionals of HTISG may provide oral or written market commentary or trading strategies to the relevant clients and the companies within HTISG that reflect opinions that are contrary to the opinions expressed in this document. HTISG may make investment decisions that are inconsistent with the recommendations or views expressed in this document. HTIRL is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this document.

Neither HTISG nor any of its directors, employees or agent accepts any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this document. This document is for the use of intended recipients only and may not be reproduced, distributed or published for any purpose without prior written consent of HTIRL.

Analyst Certification

Each analyst who is primarily responsible for the content of this research is licensed under the Securities and Futures Ordinance and certifies that with respect to each security or issuer that the analyst covered in this document:

(1) all of the views expressed accurately reflect his or her personal views about the securities and/or issuers and were prepared in an independent manner, including with respect to HTISG; and

(2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst in this document.

Investment rating system

	Rating	Remark
Stock (12 months)	Strong Buy	Target price +30% or more above the current price
	Buy	Target price within +10% to +30% of the current price
	Hold	Target price within -10% to +10% of the current price
	Sell	Target price within -10% to -30% below the current price
	Strong Sell	Target price -30% or more below the current price
Sector	Overweight	Relative performance over current price $\geq 10\%$
	Neutral	Relative performance within current price -10% to +10%
	Underweight	Relative performance below current price $\leq -10\%$

Address: 22/F, Li Po Chun Chambers,
189 Des Voeux Road Central, Hong Kong

Telephone: (852) 3723 2918

Fax: (852) 2869 7737

Email: research@htisec.com

地址: 李宝椿大厦 22 楼
香港中环德辅道中 189 号

电话: (852) 3723 2918

传真: (852) 2869 7737

电邮: research@htisec.com