CICC eyes return to greatness

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China International Capital Corp has unveiled its much-anticipated acquisition of unlisted **China Investment Securities**, in a move that may see the PRC's oldest investment bank regain the top spot in the country's securities industry.

CICC said on November 4 it planned to acquire 100% of Shenzhen-based CIS for Rmb16.7bn (US$2.47bn) through the issuance of 1.68bn domestic shares to current owner Central Huijin Investment at Rmb9.95 each. The issuance price represents a discount of 0.6% to CICC's closing prior to the announcement of the proposed acquisition.

The move marks a significant shift in strategy for CICC, which has long flirted with the idea of setting up a retail brokerage unit as its share of business has dwindled, but has so far remained wedded to its institutional clients.

"If you look at CICC's business model, it has a very strong institutional focus, but we all know China's capital markets are primarily driven by retail investors," said Benjamin Quinlan, chief executive officer and managing partner at Quinlan & Associates. "CIS has a strong retail franchise, so it seems to complement CICC's existing business quite well."

CICC made its reputation bringing some of China's biggest state-owned enterprises and red chips to the equity and debt markets. This included the

US$21.9bn IPO of Industrial and Commercial Bank of China in 2006 and the US$22bn IPO of Agricultural Bank of China four years later.

After being ranked the number one brokerage firm in China in 2010, it fell to number 23 last year, according to Securities Association of China data, as the flow of giant SOE listings dried up and other Chinese securities firms expanded rapidly, using their stronger capital bases and wider branch networks to build intermediary businesses, especially around margin trading.

Bi Mingjian, appointed CEO of CICC last December, has made expanding the bank's brokerage and asset management units a key part of his overall strategy and has sought to reduce reliance on institutional and wealthy clients.

CICC has only 20 branches in the PRC versus the 200 of CIS, according to its website. CICC's small retail footprint has affected its earning capacity from retail investors, who account for most of the trading in the onshore capital markets.

"CICC was originally founded to be China's one ready-for-Wall Street, global investment bank, but that strategy is no longer perfectly aligned with the profits and priorities of China's banking industry," said Peter Fuhrman, chairman and CEO at China First Capital.

"Instead of trying to compete with Goldman Sachs and Morgan Stanley, CICC will now be matched against a group of domestic competitors. This is ideal as investment banking fees within China, both for IPOs and the secondary market, are high and not that troublesome to earn."

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Most analysts consider the acquisition, at around 1.1 times forward book value, as good value and a good strategic fit that should help propel CICC up the league tables.

"If you aggregate the market share of both firms across the equity and debt capital markets and M&A advisory, the combined entity could come out as number one in all three rankings," said Quinlan.

"This might not be the case, but we expect CICC to be at least a top-five player in ECM and DCM, following the acquisition, and most probably top three for M&A advisory."

The proposed acquisition will boost CICC's balance sheet. CICC ranked 24 in terms of total assets in 2015 with Rmb63bn, while CIS was 18th with Rmb92bn. Their ranking would advance to 13 after the integration, still far short of the industry leader Citic Securities with total assets of Rmb484bn.

CICC ranked 23 among China's 125 securities firms in 2015 in revenue terms, while CIS ranked 17, according to the Securities Association of China.

Some questions have been raised about the potential cultural mismatch between the two firms and there have also been suggestions that the Chinese government may be directing the acquisition as it seeks to improve the sector's reputation for probity.

China's securities sector has expanded at a considerable pace in the last few years with the combined asset base of the 125 securities companies operating there increasing fourfold between 2011 and 2015 to Rmb6.4trn and there are few signs that the pace of growth is likely to abate.

"It could be a win-win situation for the two firms, because their business models are very complementary," said an analyst.

"However, it is also a big challenge for CICC on whether it can generate the synergies it expects, by applying its strengths in high-end services to the huge customer base and network of CIS," said the analyst.

Following the acquisition, CIS will become a wholly owned subsidiary of CICC, while Huijin's stake in CICC will increase to 58.7% from 28.6%.

CICC and *ABC International* are financial advisers for the transaction. The deal requires approval from shareholders and regulators.