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Research Update:

CITIC Securities Co. Ltd. And CITIC Securities International Outlooks Revised To Stable; 'BBB/A-2' Ratings Affirmed

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Overview

- CITICS' good risk governance and conservative risk appetite should help the China-based securities company sustain its solid credit loss experience and offset high industry risk.
- We expect CITICS to maintain its leading market position, strong capitalization, and solid credit loss experience despite elevated volatility in China's equity and debt capital markets.
- We are revising the outlook on CITICS and its Hong Kong-based core subsidiary CSI to stable from negative while affirming our 'BBB' long-term and 'A-2' short-term issuer credit ratings on both the companies.
- In line with the outlook revision, we are raising our long-term Greater China regional scale ratings on CITICS and CSI and their outstanding notes to 'cnA' from 'cnA-'. We are affirming the 'cnA-2' short-term Greater China regional scale ratings on both companies.

Rating Action

On Dec. 1, 2016, S&P Global Ratings revised the outlook on the long-term ratings on CITIC Securities Co. Ltd. (CITICS) and its Hong Kong subsidiary CITIC Securities International Co. Ltd. (CSI) to stable from negative. We affirmed our 'BBB' long-term and 'A-2' short-term issuer credit ratings on both companies.

At the same time, we raised our long-term Greater China regional scale ratings on CITICS and CSI and the outstanding notes these companies issued or guaranteed to 'cnA' from 'cnA-'. We affirmed the 'cnA-2' short-term Greater China regional scale ratings on both companies.

Rationale

The outlook revision reflects CITICS' improving risk governance, which is likely to offset potential adverse regulatory developments that could hurt the credit profiles of Chinese securities firms over the next 12-24 months.

The perceived closure of regulatory and compliance issues at CITICS resulted in a number of senior management staff leaving the company earlier this year. We expect the new leadership team to uphold risk governance as top priority, demonstrate an ongoing commitment to the regulators, and put the company in a good position to meet new rules under the current shifting regulatory landscape. CITICS has so far had minimum fines and regulatory sanctions following compliance-related issues last year that affected some senior executives. Moreover, the regulatory probe has had a limited impact on the company's business development and the new leadership team's increased focus on risk governance.

We believe the lowering of the regulatory ranking of a number of leading Chinese securities firms earlier this year has an inconsequential impact on CITICS. That is because of the company's ample regulatory capital buffer over the rising thresholds of certain regulatory metrics.

We believe CITICS' risk management framework is among the strongest of its peers. The company operates with clear risk limits, has a broad coverage of risk under its market risk models, manages a palatable equity prop-trading book, and largely holds high-grade bonds. CITICS' service-oriented business model (rather than a balance sheet heavy one) also supports our view.

CITICS' credit provisioning recorded a sudden rise in the last quarter of 2015. While the amount is small relative to the overall capital, an emerging risk for brokers is rising defaults in the local bond market. Any abrupt rise in credit costs for CITICS could indicate a more aggressive risk appetite or poor controls, and exert downward pressure on the rating.

CITICS operation and business development were largely stable during the transition period for the new management team. CITICS ranked first in terms of lead equity underwriting and domestic merger and acquisition businesses, and second in debt underwriting and stock and fund brokering businesses in the first half of 2016. The company continued to deliver strong financial results with annualized return on average assets (ROAA) of 2% and return on equity (ROE) of 8.1% for the third quarter of 2016.

We expect CITICS to maintain a healthy buffer in its risk-adjusted capital (RAC) ratio above the relevant threshold of 10% for a strong capital assessment. This expectation takes into account market risk emanating from the company's substantial contribution to the government's stock market stabilization fund, which we do not expect to be reverted in the near term.

We expect CITICS' gross stable funding ratio and its liquidity coverage metric to remain above 100% over the next 12-24 months. That's because the company is unlikely to grow its investment portfolio aggressively during the period. The ratios were above 100% at the end of September 2016. They were largely stable during the recent three quarters.

We maintain our view that there is a moderate likelihood for CITICS to receive timely and adequate extraordinary government support when there is a need, despite a closer link between CITICS and the wider CITIC Group. At this stage, we are not factoring any additional support from CITIC Group in our rating on CITICS.

The rating on CSI reflects our view that the company is a core subsidiary of CITICS. As such, the ratings on the two entities move in tandem.

Outlook

The stable outlook on CITICS reflects our view that the company's improving risk governance can help offset high industry risks over the next 12-24 months. We expect the company to maintain a healthy buffer over the RAC ratio threshold of 10%.

The stable outlook on CSI reflects the outlook on CITICS.

Downside scenario

We could lower the rating on CITICS if we lower our assessment of the company's stand-alone credit profile (SACP) by one notch. This could occur if: (1) CITICS increases its exposure to higher-risk sectors in China; (2) regulatory risks heighten without any offsetting factors; (3) we expect the company's RAC ratio to fall below 10%; or (4) the company's credit costs rise significantly.

Upside scenario

We may upgrade CITICS if: (1) the company demonstrates superior risk management capabilities and the industry risk subsides for Chinese securities firms; or (2) we expect the company's RAC ratio to stay above 15%.

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 01, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 09, 2014
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 09, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 09, 2011

- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

Ratings Affirmed

CITIC Securities Co. Ltd.		
CITIC Securities International Co. Ltd.		
Counterparty Credit Rating	BBB/Stable/A-2	BBB/Negative/A-2
CITIC Securities Finance 2013 Co. Ltd.		
Senior Unsecured	A	
Senior Unsecured	cnAA+	
CITIC Securities Finance MTN Co. Ltd.		
Senior Unsecured	BBB	

Upgraded

	To	From
CITIC Securities Co. Ltd.		
CITIC Securities International Co. Ltd.		
Counterparty Credit Rating		
Greater China Regional Scale	cnA/cnA-2	cnA-/cnA-2
CITIC Securities Finance MTN Co. Ltd.		
Senior Unsecured	cnA	cnA-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.