CICC

16 September 2026 | 7:23 AM China Standard Time

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FICC & Equities

Did you know CICC historically only breached the 15% ROE mark during wild bull markets like 2014 or 2021? But this time, the narrative is shifting from market beta to structural alpha. With A-shares suspended amid a major restructuring, CICC's H-shares have taken an unwarranted 12% dip this month. For the astute investor, this spells opportunity.

While the street debates the feasibility of management's ambitious 15% post-merger ROE target, GIR Shuo offers a more grounded, yet highly bullish, perspective. GIR notes that while a 15% ROE would require shifting over 40% of capital to the high-yielding Hong Kong business, a sustainable 12% ROE is highly achievable near-term under the current 30% HK allocation framework. **Here is where we differ from consensus:** you don't need peak market euphoria to win here; you just need efficient, post-merger capital deployment.

The immediate catalyst? Supercharged shareholder returns. Management confirmed an interim dividend remains on the table post-merger. CICC currently operates with a conservative 15.8% payout ratio, significantly lagging peers like CITICS (34.5%). GIR estimates that even at a 12% ROE, CICC has ample room to double its payout ratio while still compounding book value at a healthy 8-10%.
Trading at a distressed 0.5x forward P/B despite limited credit and market risk, CICC-H (3908.HK) offers a compelling asymmetric setup. We reiterate our **Buy** rating with a HK$38.20 target price, implying a massive 92% upside. Keep a close eye on the upcoming management meeting on September 17, which should provide further clarity on the M&A timeline and capital strategies

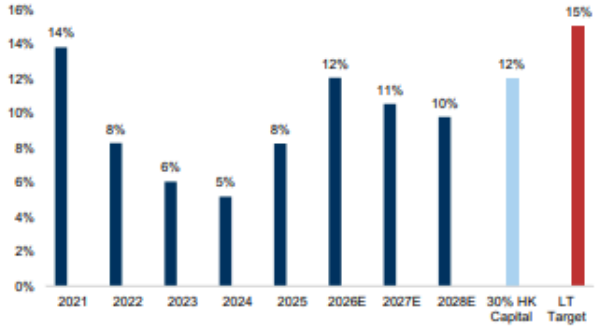


Exhibit 1: Historically, CICC's group leverage has been around 7x



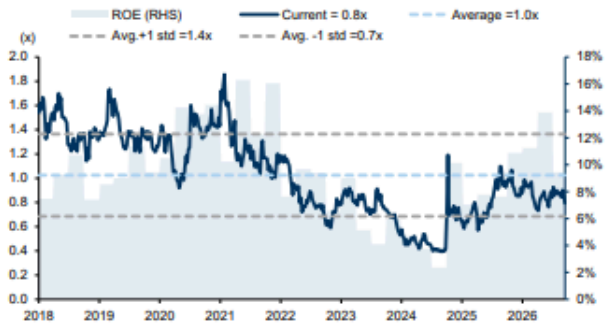
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: Based on 30% capital allocation to Hong Kong, 10x leverage in Hong Kong, 20% Hong Kong ROE, and 7%-9% onshore ROE, we estimate post-merger group ROE of approximately 12%



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: We believe a sustainable ROE profile of around 12% would support the attractiveness of CICC-H trading below 1.0x P/B.
CICC-H P/B (MRQ)



Source: Company data, Goldman Sachs Global Investment Research, Wind

Exhibit 4: Under management's assumptions of approximately 10x leverage in Hong Kong versus 4x onshore, a group ROE of 15% would require Hong Kong capital allocation in excess of 40%, compared with management's current indication of around 30%.
For illustrative purposes

Group ROE	Onshore ROE					
HK capital share	7%	8%	9%	10%	11%	12%
20%	10.40%	10.80%	11.20%	12.00%	12.80%	13.60%
30%	10.90%	11.60%	12.30%	13.00%	13.70%	14.40%
40%	12.20%	12.80%	13.40%	14.00%	14.60%	15.20%
50%	13.50%	14.00%	14.50%	15.00%	15.50%	16.00%
60%	14.80%	15.20%	15.60%	16.00%	16.40%	16.80%

Source: Goldman Sachs Global Investment Research