Morgan Stanley | RESEARCH

UPDATE

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China International Capital Corp. Ltd. | Asia Pacific

Event Driven Arbitrage Likely Dominated Recent Stock Movement

MORGAN STANLEY ASIA LIMITED+

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Key Takeaways

- On 8 Sept, CICC-H share price was down 7%, CICC-A -2.6%, Dongxing (DX) -4.7%, Cinda -3.8%, clearly underperforming the market: HSI -0.2% and CSI300 -0.3%.
- CSRC approved the merger between CICC, DX and Cinda on 7 Sept. CICC-A, DX, and Cinda will suspend trading on 15 Sept.
- We think the sharp underperformance of CICC-H today is likely caused by increasing hedging demand post regulatory approval and heading into suspension...
- ...while DX and Cinda share price falls could be due to the unwinding of arbitrage positions built earlier.
- We think the CICC-H correction therefore looks more technical and could potentially revert, while earnings likely continue to trend strongly in 3Q.

CICC announced the potential merger in Nov 2025 but the first material progress was made in June 2026 when it was approved at a shareholder meeting and submitted for SSE approval.

Arbitragers could have started the trade in June 2026, buying DX and Cinda, when the swap-ratio implied a spread of 13-14% against CICC-A. We think the long position could have been little hedged initially because: 1) the merger was still pending multiple regulatory approvals; 2) by voting against the merger since the 1st shareholder meeting, investors could get a cash redemption price as a put option; 3) CICC-H isn't a perfect hedge.

By Sept 7, when the deal was approved by the CSRC, the spread had narrowed to 2-4%, prompting some investors to sell DX and Cinda to close the arbitrage. For the remaining arbitragers, the need for hedge rises given removal of regulatory uncertainty. Because CICC-A will be suspended in 15 Sept, and it is generally more difficult to borrow A shares, the bulk of hedging demand goes to CICC-H, for which liquidity is not particularly deep: HKD340mn ADV in the past 30 days, ~1/2 of CICC-A.

Additionally, the cash redemption right for CICC-A is in the money as of 8 Sept, while deeply out of the money for CICC-H, likely making the CICC-A share price more resilient.

China International Capital Corp. Ltd. (3908.HK, 3908 HK)

China Financials | China

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	HK$31.60
Up/downside to price target (%)	59
Shr price, close (Sep 8, 2026)	HK$19.86
52-Week Range	HK$23.72-16.91
Sh out, dil, curr (mn)	4,827
Mkt cap, curr (mn)	HK$95,869
EV, curr (mn)	HK$326,522
Avg daily trading value (mn)	HK$401

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (Rmb)**	2.03	2.88	3.32	3.79
EPS (Rmb)§	1.79	2.90	3.06	3.36
EBITDA (HK$ mn)	12,752	18,959	21,847	24,903
ModelWare net inc (HK $ mn)	10,895	16,265	18,737	21,352
P/E	8.7	5.9	5.1	4.5
P/BV	0.7	0.6	0.6	0.5
RNOA (%)	3.5	4.3	4.6	4.8
ROE (%)	8.5	11.4	11.9	12.4
EV/EBITDA	24.6	18.0	16.6	15.5
Div yld (%)	1.8	2.9	3.3	3.8
FCF yld ratio (%)**	-	-	-	-
Leverage (EOP) (%)	45.7	41.5	39.7	37.8

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Refinitiv Estimates
** = Based on consensus methodology
e = Morgan Stanley Research estimates

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Valuation Methodology and Risks

China International Capital Corp. Ltd. (3908.HK)

P/B ROE regression analysis, weighted 60% base, 20% bull and 20% bear. The weightings are more balanced as we apply a notably higher ROE assumption in our base case, implying part of the upside in our bull case has already been factored in our base case.

Key assumptions:

- ROE: base 12.5%, bull 13.9%, bear 5.9%
- P/B: base 1.09x, bull 1.6x, bear 0.31x - benchmarked to global peers

Risks to Upside

- Faster macro recovery and reduced geopolitical risks
- Stronger-than-expected growth in IPO and follow-on financing
- Normalizing onshore regulatory tightening

Risks to Downside

- Slower-than-expected macro recovery weighing on equity market performance and equity investor risk appetite
- Stagnant cross-border business from offshore market volatility

STOCK RATINGS

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(as of August 31, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1555	42%	450	48%	29%	767	44%
Equal-weight/Hold	1577	43%	395	42%	25%	770	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	559	15%	93	10%	17%	216	12%
Total	3,694		939			1754	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)





Stock Rating History: 9/1/21 : O/A; 5/20/22 : E/A; 1/6/23 : O/A; 8/22/24 : E/A; 2/28/25 : O/A

Price Target History: 5/7/21 : 26.5; 9/30/21 : 26.55; 12/7/21 : 27.93; 5/20/22 : 14.75; 9/29/22 : 13.29; 1/6/23 : 17.47; 3/2/23 : 19.71; 5/15/23 : 20.8; 10/12/23 : 17.01; 1/17/24 : 14.85; 8/22/24 : 9.3; 10/29/24 : 12.8; 2/28/25 : 21; 4/16/25 : 18.8; 8/7/25 : 28.1; 9/19/25 : 28.9; 5/22/26 : 30.2; 7/10/26 : 31.6

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: China Financials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/08/2026)
Chiyao Huang		
China International Capital Corp. Ltd. (3908.HK)	O (02/28/2025)	HK$19.86
China Merchants Securities Co Ltd (600999.SS)	U (09/29/2022)	Rmb17.97
China Merchants Securities Co Ltd (6099.HK)	U (10/29/2024)	HK$14.95
CITIC Securities Co. (6030.HK)	O (07/10/2026)	HK$25.70
CITIC Securities Co. (600030.SS)	O (08/07/2025)	Rmb27.34
East Money Information Co Ltd (300059.SZ)	E (09/19/2025)	Rmb18.84
Futu Holdings Ltd (FUTU.O)	O (11/18/2024)	US$121.75
Galaxy Securities (6881.HK)	E (02/27/2020)	HK$7.65
Galaxy Securities (601881.SS)	U (09/29/2022)	Rmb12.25
GF Securities (000776.SZ)	E (08/07/2025)	Rmb21.63
GF Securities (1776.HK)	E (01/06/2023)	HK$17.91
HTSC (601688.SS)	E (09/23/2024)	Rmb19.27
HTSC (6886.HK)	E (09/23/2024)	HK$17.48
Richard Xu, CFA		
Agricultural Bank of China Limited (601288.SS)	E (05/07/2019)	Rmb6.76
Agricultural Bank of China Limited (1288.HK)	O (10/19/2020)	HK$6.30
Bairong Inc. (6608.HK)	E (09/09/2025)	HK$5.09
Bank of Beijing Co Ltd (601169.SS)	E (08/17/2022)	Rmb5.54
Bank of Chengdu Co Ltd (601838.SS)	O (08/17/2022)	Rmb19.81
Bank of China Limited (601988.SS)	E (05/07/2019)	Rmb6.39
Bank of China Limited (3988.HK)	O (01/10/2020)	HK$5.88
Bank of Communications (3328.HK)	U (05/20/2022)	HK$7.86
Bank of Communications (601328.SS)	U (09/05/2014)	Rmb7.28
Bank of Hangzhou Co Ltd (600926.SS)	E (08/17/2022)	Rmb17.20
Bank of Ningbo Co. Ltd (002142.SZ)	O (08/17/2022)	Rmb34.66

China CITIC Bank Corporation Limited (601998.SS)	E (04/16/2025)	Rmb8.91
China CITIC Bank Corporation Limited (0998.HK)	O (04/16/2025)	HK$8.38
China Construction Bank Corp. (0939.HK)	O (10/11/2012)	HK$9.56
China Construction Bank Corp. (601939.SS)	E (05/07/2019)	Rmb10.68
China Everbright Bank Co Ltd (6818.HK)	U (05/12/2023)	HK$2.85
China Everbright Bank Co Ltd (601818.SS)	U (05/20/2022)	Rmb3.04
China Merchants Bank (600036.SS)	O (01/07/2019)	Rmb40.90
China Merchants Bank (3968.HK)	O (09/20/2018)	HK$51.90
China Minsheng Banking Corp. (600016.SS)	O (08/28/2025)	Rmb3.63
China Minsheng Banking Corp. (1988.HK)	O (05/12/2023)	HK$3.57
Chongqing Rural Commercial Bank (3618.HK)	U (05/12/2023)	HK$6.40
Hua Xia Bank (600015.SS)	U (06/30/2015)	Rmb6.31
Industrial and Commercial Bank of China (1398.HK)	++	HK$7.51
Industrial and Commercial Bank of China (601398.SS)	++	Rmb7.94
Industrial Bank Co. Ltd. (601166.SS)	O (02/25/2019)	Rmb18.17
Lufax (LU.N)		US$1.25
Ping An Bank (000001.SZ)	O (05/07/2019)	Rmb11.78
Postal Savings Bank of China Co Ltd (1658.HK)	O (11/01/2016)	HK$5.37
Qfin Holdings, Inc. (QFIN.O)	E (08/26/2026)	US$9.06
Shanghai Pudong Development Bank (600000.SS)	E (08/05/2025)	Rmb9.28

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

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