

CCB (939 HK / 601939 CH)

High defensiveness on prudent practices

- Stable earnings momentum in 2019; 20E NIM to narrow by 10bps YoY
- Solid net fee income growth momentum driven by bank card and e-banking fees
- Improving overdue loan ratio in Mar-20; limited asset quality concerns ahead
- Maintain **BUY** on vigilant risk attitude. Our GGM-based H/A shr TPs imply target 20E P/B of 0.89x/1.00x

Adjust earnings on NIM pressure. CCB topline revenue and net profit grew 6.98% and 4.74% YoY in 2019. NIM narrowed by 5bps YoY to 2.26%, which implied 4Q19 NIM was down ~15bps QoQ to 2.15%. Still, CCB's average loan yield in 2019 was up 15bps YoY to 4.49%, partly driven by CCB's increased loan allocation in inclusive finance. Going forward, we believe NIM pressure would be alleviated by 1) enhanced loan pricing, 2) loan structural adjustment, and 3) solid growth in retail and structured deposit; nonetheless, NIM would narrow by 10bps/9bps YoY in 20E/21E. We project NII and net profit to grow at 7.7% and 4.8% CAGRs over 2019A-21E.

Solid net fee income drivers. Similar to other big banks, CCB's net fee income grew faster by 11.6% YoY in 2019, mainly supported by robust growth in bank card fees and e-banking fees at 13.9% and 38.1% YoY. We forecast these income sources would remain as core net fee components, contributing to 34.6% and 20.4% of gross fee income by 21E. Net fee income would expand at 8.3% CAGR in 2019A-21E.

Limited asset quality concerns. With continuous effort in NPL handling, CCB's NPL ratio dropped 4bps YoY in 2019 or 1bps lower QoQ in 4Q19 to 1.42%. Provisioning ratio and provision coverage were marked at 3.23% and 226.93% by Dec-19A, the second highest among the Big 5 banks after ABC (1288 HK/601288 CH). CCB indicated that the increase of overdue loans as a result of COVID-19 has largely eased in Mar-20 and the bank does not expect radical increase in NPL ratio for 20E. We estimate CCB's NPL ratio to go up by 6bps/7bps YoY in 20E/21E to 1.55% by end-21E. Given CCB's vigilant risk attitude, we estimate 20E/21E provisioning ratio to increase by 8bps/7bps YoY in 20E/21E; the bank's provisioning ratio and provision coverage ratio would be at 3.38% and 218.06% by end-21E.

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Results and Valuation

FY ended Dec 31	2017A	2018A	2019A	2020E	2021E
Revenue (RMB mn)	594,031	633,772	678,001	738,192	780,701
Chg (% YoY)	6.1	6.7	7.0	8.9	5.8
Net profit* (RMB mn)	242,264	254,655	266,733	281,744	292,779
Chg (% YoY)	4.7	5.1	4.7	5.6	3.9
EPS (RMB)	0.96	1.00	1.05	1.11	1.16
Chg (% YoY)	4.7	3.9	4.8	5.7	4.0
BVPS (RMB)	6.86	7.65	8.39	9.17	9.99
Chg (% YoY)	9.2	11.5	9.6	9.4	8.9
P/E (x) – H-shr	5.92	5.69	5.43	5.14	4.94
P/B (x) – H-shr	0.83	0.75	0.68	0.62	0.57
P/E (x) – A-shr	6.63	6.38	6.09	5.76	5.54
P/B (x) – A-shr	0.93	0.84	0.76	0.70	0.64
ROAE (%)	14.44	13.56	12.72	12.17	11.64
ROAA (%)	1.12	1.12	1.10	1.06	1.02
DPS(RMB)	0.30	0.32	0.34	0.34	0.35
Yield (%) H-shr	5.17	5.64	5.88	5.92	6.16
Yield (%) A-shr	4.61	5.03	5.25	5.28	5.49

Note: Company; HKD/CNY=1.0898

*Net profit = Net profit attributable to shareholders of the Company

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 8.94
TP (A): RMB 9.21

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Price (H/A shr)	HK\$ 6.22/ RMB 6.40
Est. s price return (H/A shr)	43.7%/43.9%
Est. dividend yield (H/A shr)	5.92%/5.28%
Est. total return (H/A shr)	49.62%/ 49.18%
Last Rating & TP (H/A shr)	BUY, HK\$9.60/ BUY, RMB9.21
Previous Report Date	12 Mar, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	7.21/5.55
52Wk H/L (RMB) (A shr)	7.85/6.13
Total issued shares (mn)	250,011.0
Issued H shr (mn)	240,417.3
Issued A shr (mn)	9,593.7
Market cap (HK\$ mn)	1,550,782.8
H-shr market cap (HK\$ mn)	1,483,374.9
A-shr market cap (HK\$ mn)	67,407.9
3-mth avg daily turnover (HK\$ mn) (H shr)	2,812.37
3-mth avg daily turnover (RMB mn) (A shr)	638.30
Major shareholder(s) (%):	
Central Huijin	59.31

Source(s): Bloomberg, ABCI Securities

Maintain BUY on prudent risk attitude. Prudent risk attitude would help increase defensiveness amid an economic downturn. Maintain **BUY** on CCB's H/A shares, which are currently trading at 0.62x/0.70x 20E P/B. Our GGM-based H/A shr TPs implies target 20E P/B of 0.89x/1.00x.

Risk Factors: 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Increasing competition from non-bank financial institutions; 3) Sharp deterioration in asset quality in specific regions; 4) Sharp decline in loan demand; 5) Policy risk in new and fast-growing businesses; 6) Prolonged COVID-19 epidemic.

Exhibit 1: 2019 actual results vs. ABCI estimates

(RMB mn)	2019E	2019A	AvE (%)
Net interest income	538,446	510,680	(5.16)
Net fee and commission	128,209	137,284	7.08
Operating income	693,726	678,001	(2.27)
Operating expenses	(184,830)	(185,509)	0.37
Impairment losses	(173,431)	(163,521)	(5.71)
Profit before tax	333,091	326,597	(1.95)
Income tax expenses	(59,956)	(57,375)	(4.30)
Net profit	272,018	266,733	(1.94)
Key indicators (%)			AvE (ppt)
Net interest margin	2.30	2.24	(0.06)
Net interest spread	2.14	2.11	(0.03)
Cost to income ratio	27.01	27.75	0.74
Return on average assets	1.14	1.10	(0.04)
Return on average equity	13.13	12.72	(0.41)
Dividend payout	30.00	30.45	0.45
CT1 CAR	13.91	13.88	(0.03)
Total CAR	17.31	17.52	0.21
NPL ratio	1.50	1.42	(0.08)
Provision to total loans	3.20	3.23	0.03
Provision coverage	213.33	226.93	13.60

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in 2020E and 2021E forecasts

(RMB mn)	2020E (old)	2020E (new)	change (%)	(RMB mn)	2021E (old)	2021E (new)	change (%)
Net interest income	574,500	560,369	(2.46)	Net interest income	614,250	592,812	(3.49)
Net fee and commission	133,873	149,637	11.78	Net fee and commission	138,446	161,006	16.30
Operating income	737,950	738,192	0.03	Operating income	784,587	780,701	(0.50)
Operating expenses	(196,876)	(205,230)	4.24	Operating expenses	(209,313)	(225,852)	7.90
Impairment losses	(183,843)	(183,030)	(0.44)	Impairment losses	(193,173)	(190,328)	(1.47)
Profit before tax	354,773	347,385	(2.08)	Profit before tax	379,564	361,790	(4.68)
Income tax expenses	(63,859)	(62,529)	(2.08)	Income tax expenses	(68,322)	(65,122)	(4.68)
Net profit attributable to equity holders	289,630	281,744	(2.72)	Net profit attributable to equity holders	309,766	292,779	(5.48)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	2.33	2.14	(0.19)	Net interest margin	2.35	2.05	(0.30)
Net interest spread	2.16	1.90	(0.26)	Net interest spread	2.19	1.78	(0.41)
CIR	27.04	28.19	1.15	CIR	27.04	29.32	2.28
ROAA	1.14	1.06	(0.08)	ROAA	1.15	1.02	(0.13)
ROAE	12.76	12.17	(0.59)	ROAE	12.48	11.64	(0.84)
Dividend payout	30.00	30.00	-	Dividend payout	30.00	30.00	-
CT1 CAR	14.20	13.75	(0.45)	CT1 CAR	14.48	13.84	(0.64)
Total CAR	17.71	17.41	(0.30)	Total CAR	18.13	17.52	(0.61)
NPL ratio	1.54	1.48	(0.06)	NPL ratio	1.60	1.55	(0.05)
Provision to total loans	3.29	3.31	0.02	Provision to total loans	3.35	3.38	0.03
Provision coverage ratio	213.64	223.65	10.01	Provision coverage ratio	209.38	218.06	8.68

Source(s): Company, ABCI Securities estimates



Exhibit 3: Changes of GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	9.60	8.94	10.46	9.21	Roll over to mid-2021 BVPS
Sustainable ROE (%)	12.84	11.71	12.84	11.71	Factor in NIM pressure and stronger fee income growth momentum
COE (%)	13.41	12.89	11.83	12.00	
Target 20E P/B (x)	0.93	0.89	1.16	1.00	
Rfr (%)	3.30	2.65	3.30	2.65	Referencing China 10Y government bond
Beta	1.28	1.15	1.08	1.05	Referencing Bloomberg data
ERP (%)	7.90	8.90	7.90	8.90	Factor in higher risks resulted from COVID-19 and decelerating economic growth in China
LT gr (%)	5.40	4.70	5.40	4.70	

Source(s): Company, ABCI Securities estimates



Financial statements

CCB (939HK/601939CH)

Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E
Net interest income	452,456	486,278	510,680	560,369	592,812
Non-interest income	141,575	147,494	167,321	177,823	187,889
Of which: Fees and commissions	117,798	123,035	137,284	149,637	161,006
Operating income	594,031	633,772	678,001	738,192	780,701
Operating expenses	(164,737)	(172,337)	(185,509)	(205,230)	(225,852)
Amortization	(2,306)	(2,427)	(2,623)	(2,833)	(3,059)
Pre-provision operation profit	426,988	459,008	489,869	530,129	551,789
Impairment losses on loans	(127,362)	(150,988)	(163,521)	(183,030)	(190,328)
Operating profit	299,626	308,020	326,348	347,098	361,461
Non-operating income	161	140	249	286	329
Profit before tax	299,787	308,160	326,597	347,385	361,790
Tax	(56,172)	(52,534)	(57,375)	(62,529)	(65,122)
Minority interests	(1,351)	(971)	(2,489)	(3,111)	(3,889)
Net profit attributable to equity holders	242,264	254,655	266,733	281,744	292,779
Preference share dividend	1,045	3,936	3,962	3,962	3,962
Net profit attributable to ordinary shareholders	241,219	250,719	262,771	277,782	288,817
Growth (%)					
Net interest income	8.3	7.5	5.0	9.7	5.8
Non-interest income	(0.3)	4.2	13.4	6.3	5.7
Of which: Fees and commissions	(0.6)	4.4	11.6	9.0	7.6
Operating income	6.1	6.7	7.0	8.9	5.8
Operating expenses	(2.7)	4.6	7.6	10.6	10.0
Amortization	4.2	5.2	8.1	8.0	8.0
Pre-provision operation profit	10.0	7.5	6.7	8.2	4.1
Impairment losses on loans	36.6	18.6	8.3	11.9	4.0
Operating profit	1.5	2.8	6.0	6.4	4.1
Non-operating income	133.3	(13.0)	77.9	15.0	15.0
Profit before tax	1.6	2.8	6.0	6.4	4.1
Tax	(10.6)	(6.5)	9.2	9.0	4.1
Minority interests	45.4	(28.1)	156.3	25.0	25.0
Net profit attributable to equity holders	4.7	5.1	4.7	5.6	3.9
Preference share dividend	(2.1)	276.7	0.7	0.0	0.0
Net profit attributable to ordinary shareholders	4.7	3.9	4.8	5.7	4.0
Per share (RMB)					
EPS	0.96	1.00	1.05	1.11	1.16
BVPS	6.86	7.65	8.39	9.17	9.99
DPS	0.30	0.32	0.34	0.34	0.35
Key ratio (%)					
Net interest margin	2.21	2.31	2.24	2.14	2.05
Net interest spread	2.09	2.18	2.11	1.90	1.78
Cost to income ratio	28.12	27.58	27.75	28.19	29.32
Return on average assets	1.12	1.12	1.10	1.06	1.02
Return on average equity	14.44	13.56	12.72	12.17	11.64
Effective tax rate	18.74	17.05	18.00	18.00	18.00
Dividend payout	30.46	31.59	30.45	30.00	30.00

Note1: Individual items may not sum to total due to rounding difference

Note2: Key ratios may not match with financial reports due to adjustment for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates



CCB (939HK/601939CH)

Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E
Cash & equivalent	2,988,256	2,632,863	2,621,010	2,752,061	2,889,664
Interbank assets	708,598	1,038,521	1,508,616	1,787,762	2,116,324
Investment securities	5,181,648	5,714,909	6,213,241	6,710,300	7,247,124
Net loans and advances	12,559,639	13,365,430	14,540,667	15,750,492	16,937,555
Total interest earning assets	21,438,141	22,751,723	24,883,534	27,000,615	29,190,666
Property and equipment	169,679	169,574	170,740	172,447	174,172
Other non-interest earning assets	516,563	301,396	381,987	482,231	604,053
Total assets	22,124,383	23,222,693	25,436,261	27,655,293	29,968,891
Customer deposits	16,363,754	17,108,678	18,366,293	19,680,991	21,074,878
Interbank liabilities	1,720,634	1,847,697	2,194,251	2,567,274	2,978,037
Subordinated debt	596,526	775,785	1,076,575	1,345,719	1,614,863
Total interest bearing liabilities	19,796,497	20,779,416	22,697,465	24,664,933	26,749,437
Current taxes liabilities	54,106	77,883	86,635	93,566	100,115
Deferred tax liabilities	389	485	457	420	383
Other liabilities	477,564	373,315	416,577	461,195	475,578
Total liabilities	20,328,556	21,231,099	23,201,134	25,220,115	27,325,513
Share capital	329,647	329,647	369,638	369,638	369,638
Reserves	1,450,113	1,646,816	1,846,619	2,043,840	2,248,785
Minorities	16,067	15,131	18,870	21,701	24,956
Shareholder's equity	1,795,827	1,991,594	2,235,127	2,435,178	2,643,379
Growth (%)					
Cash & equivalent	4.9	(11.9)	(0.5)	5.0	5.0
Interbank assets	(17.5)	46.6	45.3	18.5	18.4
Investment securities	2.2	10.3	8.7	8.0	8.0
Net loans and advances	9.3	6.4	8.8	8.3	7.5
Total interest earning assets	5.8	6.1	9.4	8.5	8.1
Property and equipment	(0.2)	(0.1)	0.7	1.0	1.0
Other non-interest earning assets	(2.3)	(41.7)	26.7	26.2	25.3
Total assets	5.5	5.0	9.5	8.7	8.4
Customer deposits	6.2	4.6	7.4	7.2	7.1
Interbank liabilities	(11.1)	7.4	18.8	17.0	16.0
Subordinated debt	32.1	30.1	38.8	25.0	20.0
Total interest bearing liabilities	4.7	5.0	9.2	8.7	8.5
Current taxes liabilities	20.5	43.9	11.2	8.0	7.0
Deferred tax liabilities	(31.8)	24.7	(5.8)	(8.0)	(9.0)
Other liabilities	13.2	(21.8)	11.6	10.7	3.1
Total liabilities	4.9	4.4	9.3	8.7	8.3
Share capital	22.2	0.0	12.1	0.0	0.0
Reserves	11.0	13.6	12.1	10.7	10.0
Minorities	22.1	(5.8)	24.7	15.0	15.0
Shareholder's equity	13.0	10.9	12.2	9.0	8.5
Key ratio (%)					
CT1 CAR	13.09	13.83	13.88	13.75	13.84
Total CAR	15.50	17.19	17.52	17.41	17.52
NPL ratio	1.49	1.46	1.42	1.48	1.55
Provision to total loans	2.55	3.04	3.23	3.31	3.38
Provision coverage ratio	178.79	208.37	226.93	223.65	218.06

Note1: Individual items may not sum to total due to rounding difference

Note2: Key ratios may not match with financial reports due to adjustment for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

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Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return < Market return rate (10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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