



August 31, 2015
Equity Focus
Rating: BUY
TP: HK\$ 5.78

H-Share price (HK\$) 3.50
Est. share price return 65.14%
Est. 15E dividend yield 6.64%
Est. total return 71.78%

Previous Rating & TP BUY; HK\$ 5.78
Previous Report Date July 16 2015

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Key Data

52Wk H/L(HK\$)	5.65/3.32
Issued shares (mn)	46,679.1
H-Shares (mn)	6,868.7
Domestic shares (mn)	39,810.4
Market cap	
H-shares (HK\$ mn)	24,041
Domestic shares (HK\$ mn)	185,377
3-mth avg daily turnover (HK\$ mn)	87.41
Major shareholder(s) (%):	
Huijin	41.24

Source(s): Company, Bloomberg, ABCI Securities

1H15 Revenue breakdown (%)

Corporate banking	57.78
Retail banking	36.81
Treasury operations	5.29
Others	0.12

Source(s): Company, ABCI Securities

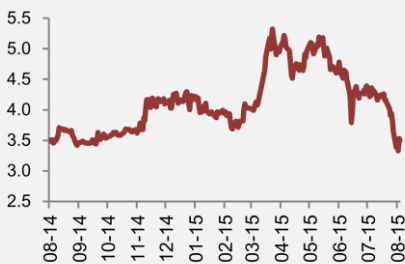
Share performance (%)

	Absolute	Relative*
1-mth	(19.7)	(9.5)
3-mth	(28.9)	(10.7)
6-mth	(10.4)	1.8

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

CEB (6818 HK)

Improving business structure; maintain BUY

- CEB's 1H15 net profit grew 2.5% yoy while its topline revenue rose 21.37% yoy; profit growth was dragged by large loan provision
Strong balance sheet management ability shown by NIM expansion of 2bps yoy to 2.27%
- Net fee income growth of 57.07% yoy was mainly driven by wealth management services and bank card fees; contribution of net fee income to total revenue increased to 29.74% in 1H15
- The counter is currently trading at 0.67x FY16E P/B. Maintain BUY on CEB's all-rounded operation

Profit growth dragged by provision. CEB announced its 1H15 net profit at RMB 16,241mn, up 2.5% yoy and accounted for 55.3% of our full-year forecast. Loan provision surged by 168.13% yoy, which was the major drag to CEB's net profit growth. Despite NPL ratio rose 23bps hoh to 1.42%, a large provision boosted CEB's provisioning ratio by 4bps hoh to 2.2%. New NPLs mainly came from central and western China by region and mining by sector.

NIM expanded amid rate cut cycle. NIM expanded by 2bps yoy to 2.27%. Although loan yield dropped by 35bps yoy, improving investment yield (+22bps yoy), lower interbank liabilities cost (-123bps yoy) and manageable deposit cost (-11bps yoy) offset the impact. Also boosted by the loan growth of 9.14% hoh, CEB's NII increased by 15.33% yoy amid loan re-pricing in the rate cut cycle.

Eye-catching fee growth. 1H15 net fee income yoy rose by 57.07% and its contribution to operating income increased from 22.98% in 1H14 to 29.74% in 1H15. Wealth management service fee, which grew 274.8% yoy, was the core driver, accounting for 26.9% of total net fee income. Bank card fees also saw a robust growth of 47.3% yoy and accounted for 45.3% of total net fee income.

Reiterate BUY on all-rounded operation. Based on CEB's well-diversified business platform which includes asset management, e-banking, and investment banking business units, we remain optimistic on the bank's revenue outlook. The counter is trading at 0.67x FY16E P/B. Reiterate BUY.

Risk factors: 1) Decline in asset quality in specific segments that may drive up credit cost; 2) Failure to expand CEB's retail business and optimize business structure; 3) Failure to monetize group synergies.

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	65,527	78,771	85,296	94,051	105,698
Chg (% YoY)	9.1	20.2	8.3	10.3	12.4
Net profit (RMB mn)	26,715	28,883	29,371	30,782	35,565
Chg (% YoY)	13.2	8.1	1.7	4.8	15.5
EPS (RMB)	0.62	0.62	0.63	0.66	0.76
Chg (% YoY)	5.6	0.9	1.3	4.8	15.5
BVPS (RMB)	3.30	3.83	4.42	5.05	5.39
Chg (% YoY)	17.0	16.1	15.2	14.4	6.7
P/E (x)	4.80	4.24	4.52	3.85	3.63
P/B (x)	0.99	0.85	0.73	0.67	0.60
ROAE (%)	20.01	17.41	15.25	13.92	14.59
ROAA (%)	1.14	1.12	1.01	0.93	0.95
DPS(RMB)	0.17	0.19	0.19	0.20	0.23
Yield (%)	2.07	6.14	6.64	7.23	7.67

Source(s): Bloomberg, ABCI estimates



Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Net interest income	50,862	58,259	60,514	64,557	70,939
Non-interest income	14,665	20,512	24,782	29,493	34,760
Of which: Fees and commissions	14,952	19,157	23,267	27,809	32,899
Operating income	65,527	78,771	85,296	94,051	105,698
Operating expenses	(26,473)	(30,008)	(34,121)	(38,538)	(43,230)
Pre-provision operating profit	39,054	48,763	51,175	55,513	62,469
Impairment loans losses	(4,633)	(10,209)	(11,948)	(14,398)	(14,968)
Profit before tax	34,421	38,554	39,227	41,115	47,501
Tax	(7,667)	(9,626)	(9,807)	(10,279)	(11,875)
Minority interests	(39)	(45)	(50)	(54)	(60)
Net profit	26,715	28,883	29,371	30,782	35,565
Growth (%)					
Net interest income	1.2	14.5	3.9	6.7	9.9
Non-interest income	49.5	39.9	20.8	19.0	17.9
Of which: Fees and commissions	57.7	28.1	21.5	19.5	18.3
Operating income	9.1	20.2	8.3	10.3	12.4
Operating expenses	16.7	13.4	13.7	12.9	12.2
PPOP	4.5	24.9	4.9	8.5	12.5
Impairment loans losses	(20.1)	120.4	17.0	20.5	4.0
Profit before tax	9.0	12.0	1.7	4.8	15.5
Tax	(3.8)	25.6	1.9	4.8	15.5
Minority interests	34.5	15.4	10.0	10.0	10.0
Net profit	13.2	8.1	1.7	4.8	15.5
Per share (RMB)					
EPS	0.62	0.62	0.63	0.66	0.76
BVPS	3.30	3.83	4.42	5.05	5.39
DPS	0.17	0.19	0.19	0.20	0.23
Key ratio (%)					
Net interest margin	2.16	2.30	2.24	2.11	2.06
Net interest spread	1.95	2.05	2.26	2.11	2.04
Cost to income ratio	40.40	38.10	40.00	40.98	40.90
Return on average assets	1.14	1.12	1.01	0.93	0.95
Return on average equity	20.01	17.41	15.25	13.92	14.59
Effective tax rate	22.27	24.97	25.00	25.00	25.00
Dividend payout	30.05	30.06	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2017E)

As of Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Cash & bank	312,643	354,185	390,073	426,403	466,275
Due from banks & FIs	360,626	459,731	533,302	616,932	712,764
Investment securities	494,927	589,626	687,906	795,025	908,537
Net loans and advances	1,142,138	1,271,430	1,426,102	1,601,735	1,801,428
Total interest earning assets	2,310,334	2,674,972	3,037,383	3,440,096	3,889,004
Property and equipment	12,629	13,043	13,695	14,380	15,099
Other non-interest earning assets	92,123	48,995	54,046	59,625	65,788
Total assets	2,415,086	2,737,010	3,105,124	3,514,101	3,969,892
Customer deposits	1,605,278	1,785,337	1,990,372	2,212,827	2,445,963
Due to other banks & FIs	438,604	507,187	583,265	670,755	771,368
Subordinated term debts	42,247	89,676	107,611	129,133	154,960
Total interest bearing liabilities	2,086,129	2,382,200	2,681,248	3,012,716	3,372,291
Current taxes	2,605	3,829	4,595	5,422	6,344
Other liabilities	173,300	171,498	212,267	258,998	338,004
Total liabilities	2,262,034	2,557,527	2,898,110	3,277,136	3,716,639
Share capital	46,277	46,679	46,679	46,679	46,679
Reserves	106,562	132,296	159,573	189,181	205,027
Minorities	213	508	762	1,105	1,547
Shareholder's equity	153,052	179,483	207,014	236,965	253,253
Growth (%)					
Cash & bank	9.5	13.3	10.1	9.3	9.4
Due from banks & FIs	(12.8)	27.5	16.0	15.7	15.5
Investment securities	3.1	19.1	16.7	15.6	14.3
Net loans and advances	14.5	11.3	12.2	12.3	12.5
Total interest earning assets	6.1	15.8	13.5	13.3	13.0
Total assets	6.0	13.3	13.4	13.2	13.0
Customer deposits	12.5	11.2	11.5	11.2	10.5
Due to other banks & FIs	(16.9)	15.6	15.0	15.0	15.0
Subordinated term debts	(19.8)	112.3	20.0	20.0	20.0
Total interest bearing liabilities	3.9	14.2	12.6	12.4	11.9
Total liabilities	4.5	13.1	13.3	13.1	13.4
Shareholder's equity	33.9	17.3	15.3	14.5	6.9
Key ratio (%)					
Loan to deposit ratio	72.65	72.78	73.34	74.24	75.58
CT1 CAR	9.11	9.34	9.54	9.64	9.10
Total CAR	10.57	11.21	11.68	11.70	11.09
NPL ratio	0.86	1.19	1.21	1.23	1.25
NPL growth	31.74	54.80	14.04	13.80	14.24
Net bad debt charge ratio	0.61	0.86	0.87	0.93	0.86
Provision to total loans	2.07	2.16	2.30	2.50	2.55
Provision coverage ratio	241.02	180.52	189.63	203.85	204.80

Source(s): Company, ABCI Securities estimates



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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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