

# China CITIC Bank (998 HK / 601998 CH)

## Resuming earnings growth momentum

- CITICB's 2019 net profit was broadly in line with our forecast with resuming earnings growth momentum
- Mild NIM pressure to persist in 2020E-21E
- Proactive NPL handling effort was seen in 2019, we forecast larger provision in coming years to beef up risk buffer ability
- Solid balance sheet growth, however, would increase capital need
- With earnings estimates revised upward, we recommend **BUY** for both H/A shares

**Accelerating earnings growth.** CITICB reported its 2019 net profit at RMB 48,015mn, broadly in line with our forecast with a YoY growth at 7.87%. Topline revenue grew by 13.3% YoY, driven by the 25.3% YoY rise in net fee income, of which bank card fees and agency fees were the key drivers. NIM expanded by 3bps YoY to 2.12% on balance sheet growth and structure optimization. Still, we expect mild pressure on NIM to persist in coming years, with the Group's NIM narrowing by 12bps/13bps YoY in 2020E/21E. This would support an accelerating net profit CAGR at 8.9% over 2019A-21E, compare to 2.6% CAGR over 2015A-18A.

**Potential need for large provisions.** CITICB's robust topline growth was partly offset by its 32.7% YoY increase in provision expenses in 2019, with its provisioning ratio and provision coverage ratio rising by 10bps and 17.27ppt YoY to 2.9% and 175.25%; NPL ratio was down by 12bps YoY to 1.65% in 2019. Assuming a mild asset quality pressure to persist over 2020E/21E, we adjust our model by factoring in a higher risk buffer and provision expenses for CITICB. We forecast NPL ratio to reach 1.8% by 2021E, with the provisioning ratio and provision coverage ratio at 3.12% and 173.33%. Proactive handling effort of NPL was seen in 2019, of which NPL ratios of major contributors (such as manufacturing and wholesale & retail sectors) improved from 7.34% and 8.5% in 2018 to 6.09% and 8.08% in 2019.

**Rapid growth elevates capital need.** As of Dec 2019, CITICB's CT1/CAR were reported at 8.69%/12.4%, down 3bps/12bps YoY. Our base case forecasts of 10%-11.2% YoY growth in CITICB's total assets/total liabilities each in 2020E/2021E would lower CITICB's CT1/CAR to 8.3%/11.68% by end-2021E, hence elevating the need of capital activities. (Continue next page)

### Results and Valuation

FY ended Dec 31	2017A	2018A	2019A	2020E	2021E
Revenue (RMB mn)	157,231	165,766	187,881	203,870	215,957
Chg (% YoY)	2.0	5.4	13.3	8.5	5.9
Net profit* (RMB mn)	42,566	44,513	48,015	52,372	56,979
Chg (% YoY)	2.3	4.6	7.9	9.1	8.8
EPS (RMB)	0.84	0.88	0.95	1.04	1.14
Chg (% YoY)	(0.94)	4.72	8.11	9.33	9.03
BVPS (RMB)	7.45	8.21	8.98	9.82	10.72
Chg (% YoY)	5.93	10.15	9.34	9.36	9.18
P/E (x) – H-shr	4.13	3.94	3.65	3.33	3.06
P/B (x) – H-shr	0.47	0.42	0.39	0.35	0.32
P/E (x) – A-shr	6.28	5.99	5.54	5.07	4.65
P/B (x) – A-shr	0.71	0.64	0.59	0.54	0.49
ROAE (%)	10.93	10.65	10.07	9.74	9.82
ROAA (%)	0.73	0.76	0.75	0.74	0.72
DPS(RMB)	0.26	0.23	0.24	0.27	0.29
Yield (%) H-shr	7.50	6.61	6.87	7.69	8.37
Yield (%) A-shr	4.93	4.35	4.52	5.06	5.50

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\$ 5.56  
TP (A): RMB 5.97

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Price (H/A shr)	HK\$ 3.79/ RMB 5.29
Est. s price return (H/A shr)	46.7%/12.9%
Est. dividend yield (H/A shr)	7.69%/5.06%
Est. total return (H/A shr)	54.39%/17.96%
Last Rating & TP (H/A shr)	BUY, HK\$5.96/ Under review, RMB 6.05
Previous Report Date	12 Mar, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L (HK\$) (H shr)	5.2/3.37
52Wk H/L (RMB) (A shr)	6.77/5.07
Total issued shares (mn)	48,934.8
Issued H shr (mn)	14,882.2
Issued A shr (mn)	34,052.6
Market cap (HK\$ mn)	253,309.5
H-shr market cap (HK\$ mn)	56,403.4
A-shr market cap (HK\$ mn)	196,906.1
3-mth avg daily turnover (HK\$ mn) (H shr)	142.13
3-mth avg daily turnover (RMB mn) (A shr)	122.80
Major shareholder(s) (%):	
CITIC Group	65.37
China National Tobacco	4.39

Source(s): Bloomberg, ABCI Securities

**BUY on upward net profit revisions.** We revise our 2020E/21E net profit estimates by 4.26% and 6.35% on improved growth momentum. With H/A shares trading at 0.35x/0.54x 20E P/B, we reiterate CITICB-H's **BUY** recommendation and upgrade CITICB-A's rating from Hold to **BUY** on resuming earnings growth. Our GGM H/A TP implies a target 20E P/B of 0.52x/0.61x.

**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; 7) Decline of dividend payout ratio in 2017A-19A.

**Exhibit 1: CITICB's 2019 actual results vs. ABCI estimates**

(RMB mn)	2019E	2019A	AvE (%)
Net interest income	119,120	127,271	6.84
Net fee and commission	45,709	46,384	1.48
Operating income	181,929	187,881	3.27
Operating expenses	(56,540)	(54,168)	(4.20)
Impairment losses	(65,005)	(77,255)	18.84
Profit before tax	59,685	56,545	(5.26)
Income tax expenses	(11,937)	(7,551)	(36.74)
Net profit	46,756	48,015	2.69
<b>Key indicators (%)</b>			AvE (ppt)
Net interest margin	1.98	2.12	0.14
Net interest spread	1.79	2.04	0.25
Cost to income ratio	31.08	27.84	(3.24)
Return on average assets	0.74	0.76	0.02
Return on average equity	10.31	11.06	0.75
Dividend payout	30.00	25.10	(4.90)
CT1 CAR	8.69	8.69	-
Total CAR	12.57	12.44	(0.13)
NPL ratio	1.78	1.65	(0.13)
Provision to total loans	2.90	2.90	-
Provision coverage	162.92	175.25	12.33

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	132,765	135,544	2.09	Net interest income	147,796	139,771	(5.43)
Net fee and commission	46,396	55,242	19.07	Net fee and commission	46,908	63,890	36.20
Operating income	197,473	203,870	3.24	Operating income	214,225	215,957	0.81
Operating expenses	(60,803)	(58,207)	(4.27)	Operating expenses	(64,926)	(62,210)	(4.18)
Impairment losses	(71,652)	(82,891)	15.69	Impairment losses	(79,764)	(85,450)	7.13
Profit before tax	64,214	62,881	(2.08)	Profit before tax	68,613	68,428	(0.27)
Income tax expenses	(12,843)	(9,432)	(26.56)	Income tax expenses	(13,723)	(10,264)	(25.21)
Net profit attributable to equity holders	50,230	52,372	4.26	Net profit attributable to equity holders	53,578	56,979	6.35
<b>Key indicators (%)</b>			change (ppt)	<b>Key indicators (%)</b>			change (ppt)
Net interest margin	2.01	2.00	(0.01)	Net interest margin	2.04	1.87	(0.17)
Net interest spread	1.81	1.86	0.05	Net interest spread	1.84	1.72	(0.12)
CIR	30.79	28.55	(2.24)	CIR	30.31	28.81	(1.50)
ROAA	0.76	0.74	(0.02)	ROAA	0.71	0.72	0.01
ROAE	10.30	9.74	(0.56)	ROAE	10.21	9.82	(0.39)
Dividend payout	30.00	25.00	(5.00)	Dividend payout	30.00	25.00	(5.00)
CT1 CAR	8.63	8.38	(0.25)	CT1 CAR	8.60	8.30	(0.30)
Total CAR	12.33	12.00	(0.33)	Total CAR	12.15	11.68	(0.47)
NPL ratio	1.85	1.72	(0.13)	NPL ratio	1.90	1.80	(0.10)
Provision to total loans	2.95	3.01	0.06	Provision to total loans	3.00	3.12	0.12
Provision coverage ratio	159.46	175.00	15.54	Provision coverage ratio	157.89	173.33	15.44

Source(s): Company, ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China CITIC Bank (998 HK / 601998 CH)

Diversified Financials Sector

Mar 30, 2020

**Exhibit 3: Changes of GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	5.96	5.56	6.05	5.97	Roll over to mid-2021 BVPS
Sustainable ROE (%)	9.31	10.74	9.31	10.74	Accelerating earnings growth
COE (%)	13.42	15.63	12.19	14.21	
Target 20E P/B (x)	0.54	0.52	0.63	0.61	
Rfr (%)	3.30	2.65	3.30	2.65	Referencing China 10Y government bond
Beta	1.15	1.10	1.01	0.98	Referencing Bloomberg data
ERP (%)	8.80	11.80	8.80	11.80	Factor in higher risk as a result of COVID-19 and decelerating economic growth in China
LT gr (%)	4.50	5.90	4.50	5.90	

Source(s): Company, ABCI Securities estimates

## Financial statements

### CITICB (998HK/601998CH) Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E
Net interest income	99,645	112,912	127,271	135,544	139,771
Non-interest income	57,586	52,854	60,610	68,326	76,185
Of which: Fees and commissions	46,858	37,008	46,384	55,242	63,890
<b>Operating income</b>	<b>157,231</b>	<b>165,766</b>	<b>187,881</b>	<b>203,870</b>	<b>215,957</b>
Operating expenses	(48,913)	(52,600)	(54,168)	(58,207)	(62,210)
<b>Pre-provision operating profit</b>	<b>108,318</b>	<b>113,166</b>	<b>133,713</b>	<b>145,663</b>	<b>153,747</b>
Impairment losses on loans	(55,787)	(58,233)	(77,255)	(82,891)	(85,450)
<b>Operating profit</b>	<b>52,531</b>	<b>54,933</b>	<b>56,458</b>	<b>62,772</b>	<b>68,297</b>
Non-operating income	(255)	(607)	87	109	131
<b>Profit before tax</b>	<b>52,276</b>	<b>54,326</b>	<b>56,545</b>	<b>62,881</b>	<b>68,428</b>
Tax	(9,398)	(8,950)	(7,551)	(9,432)	(10,264)
Minorities interests	312	863	979	1,077	1,185
<b>Net profit attributable to equity holders</b>	<b>42,566</b>	<b>44,513</b>	<b>48,015</b>	<b>52,372</b>	<b>56,979</b>
Preference share dividend	1,330	1,330	1,330	1,330	1,330
<b>Net profit attributable to ordinary shareholders</b>	<b>41,236</b>	<b>43,183</b>	<b>46,685</b>	<b>51,042</b>	<b>55,649</b>
<b>Growth (%)</b>					
Net interest income	(6.1)	13.3	12.7	6.5	3.1
Non-interest income	19.9	(8.2)	14.7	12.7	11.5
Of which: Fees and commissions	10.8	(21.0)	25.3	19.1	15.7
<b>Operating income</b>	<b>2.0</b>	<b>5.4</b>	<b>13.3</b>	<b>8.5</b>	<b>5.9</b>
Operating expenses	3.5	7.5	3.0	7.5	6.9
<b>Pre-provision operating profit</b>	<b>1.3</b>	<b>4.5</b>	<b>18.2</b>	<b>8.9</b>	<b>5.5</b>
Impairment losses on loans	6.7	4.4	32.7	7.3	3.1
<b>Operating profit</b>	<b>(3.8)</b>	<b>4.6</b>	<b>2.8</b>	<b>11.2</b>	<b>8.8</b>
Non-operating income	(2,933.3)	138.0	(114.3)	25.0	20.0
<b>Profit before tax</b>	<b>(4.3)</b>	<b>3.9</b>	<b>4.1</b>	<b>11.2</b>	<b>8.8</b>
Tax	(26.7)	(4.8)	(15.6)	24.9	8.8
Minorities interests	98.7	176.6	13.4	10.0	10.0
<b>Net profit attributable to equity holders</b>	<b>2.3</b>	<b>4.6</b>	<b>7.9</b>	<b>9.1</b>	<b>8.8</b>
Preference share dividend	na	0.0	0.0	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	<b>(0.9)</b>	<b>4.7</b>	<b>8.1</b>	<b>9.3</b>	<b>9.0</b>
<b>Per share (RMB)</b>					
EPS	0.84	0.88	0.95	1.04	1.14
BVPS	7.45	8.21	8.98	9.82	10.72
DPS	0.26	0.23	0.24	0.27	0.29
<b>Key ratio (%)</b>					
Net interest margin	1.79	2.09	2.12	2.00	1.87
Net interest spread	1.64	2.00	2.04	1.86	1.72
Cost to income ratio	31.11	31.73	28.83	28.55	28.81
Return on average assets	0.73	0.76	0.75	0.74	0.72
Return on average equity	10.93	10.65	10.07	9.74	9.82
Effective tax rate	17.98	16.47	13.35	15.00	15.00
Dividend payout	30.97	26.06	25.05	25.00	25.00

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



CITICB (998HK/601998CH)

Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E
Cash & equivalent	568,300	538,708	463,158	416,842	383,495
Interbank assets	351,045	286,103	335,798	392,287	451,422
Investment securities	1,445,298	1,600,163	1,873,596	2,173,371	2,455,910
Net loans and advances	3,105,984	3,507,312	3,882,498	4,281,733	4,698,973
<b>Total interest earning assets</b>	<b>5,470,627</b>	<b>5,932,286</b>	<b>6,555,050</b>	<b>7,264,234</b>	<b>7,989,799</b>
Property and equipment	21,330	21,385	22,372	23,267	23,965
Trading assets	65,451	31,991	17,117	14,549	12,367
Other non-interest earning assets	120,283	81,052	155,894	185,468	212,550
<b>Total assets</b>	<b>5,677,691</b>	<b>6,066,714</b>	<b>6,750,433</b>	<b>7,487,518</b>	<b>8,238,681</b>
Customer deposits	3,407,636	3,616,423	4,038,820	4,488,133	4,952,671
Interbank liabilities	1,010,102	1,017,937	1,155,499	1,305,714	1,462,400
Subordinated debt	441,244	552,483	650,274	747,815	859,987
<b>Total interest bearing liabilities</b>	<b>4,858,982</b>	<b>5,186,843</b>	<b>5,844,593</b>	<b>6,541,662</b>	<b>7,275,057</b>
Trading liabilities	64,937	31,646	16,836	13,806	11,597
Current taxes	8,858	4,920	8,865	9,752	11,214
Other liabilities	332,481	390,219	347,615	349,416	324,539
<b>Total liabilities</b>	<b>5,265,258</b>	<b>5,613,628</b>	<b>6,217,909</b>	<b>6,914,636</b>	<b>7,622,407</b>
Share capital	83,890	83,890	127,018	127,018	127,018
Reserve	315,748	352,771	390,293	431,412	475,526
Minorities	12,795	16,425	15,213	14,452	13,730
<b>Shareholder's equity</b>	<b>412,433</b>	<b>453,086</b>	<b>532,524</b>	<b>572,882</b>	<b>616,274</b>
<b>Growth (%)</b>					
Cash & equivalent	2.7	(5.2)	(14.0)	(10.0)	(8.0)
Interbank assets	(35.8)	(18.5)	17.4	16.8	15.1
Investment securities	(22.0)	10.7	17.1	16.0	13.0
Net loans and advances	10.8	12.9	10.7	10.3	9.7
<b>Total interest earning assets</b>	<b>(4.9)</b>	<b>8.4</b>	<b>10.5</b>	<b>10.8</b>	<b>10.0</b>
Property and equipment	19.6	0.3	4.6	4.0	3.0
Trading assets	38.2	(51.1)	(46.5)	(15.0)	(15.0)
Other non-interest earning assets	8.5	(32.6)	92.3	19.0	14.6
<b>Total assets</b>	<b>(4.3)</b>	<b>6.9</b>	<b>11.3</b>	<b>10.9</b>	<b>10.0</b>
Customer deposits	(6.4)	6.1	11.7	11.1	10.4
Interbank liabilities	(14.8)	0.8	13.5	13.0	12.0
Subordinated debt	14.0	25.2	17.7	15.0	15.0
<b>Total interest bearing liabilities</b>	<b>(6.8)</b>	<b>6.7</b>	<b>12.7</b>	<b>11.9</b>	<b>11.2</b>
Trading liabilities	44.1	(51.3)	(46.8)	(18.0)	(16.0)
Current taxes	39.2	(44.5)	80.2	10.0	15.0
Other liabilities	17.3	17.4	(10.9)	0.5	(7.1)
<b>Total liabilities</b>	<b>(5.1)</b>	<b>6.6</b>	<b>10.8</b>	<b>11.2</b>	<b>10.2</b>
Share capital	0.0	0.0	51.4	0.0	0.0
Reserve	6.9	11.7	10.6	10.5	10.2
Minorities	142.7	28.4	(7.4)	(5.0)	(5.0)
<b>Shareholder's equity</b>	<b>7.3</b>	<b>9.9</b>	<b>17.5</b>	<b>7.6</b>	<b>7.6</b>
<b>Key ratio (%)</b>					
CT1 CAR	8.49	8.62	8.69	8.38	8.30
Total CAR	11.65	12.47	12.44	12.00	11.68
NPL ratio	1.68	1.77	1.65	1.72	1.80
Provision to total loans	2.84	2.80	2.90	3.01	3.12
Provision coverage ratio	169.44	157.98	175.25	175.00	173.33

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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### Definition of equity rating

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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