June 9, 2015
Equity Focus
Rating: BUY
TP: Under review

H-Share price (HK$)	7.89
Est. share price return	na
Est. FY15 div.yield	5.54%
Est. total return	na

Previous Rating &TP	BUY; HK$ 7.74
Previous Report Date	Mar 5, 2015

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Key Data

52Wk H/L(HK$)	7.98/5.34
Issued shares (mn)	250,011
H-Shares (mn)	240,417
A-Shares (mn)	9,594
Market cap	
H-shares (HK$ mn)	1,872,851
A-Shares (HK$ mn)	87,492
3-mth avg daily turnover (HK$ mn)	2,911.37
Major shareholder(s) (%):	
Huijin	57.26

Source(s): Company, Bloomberg, ABCI Securities

2014 PBT breakdown (%)

Corporate banking	50.8
Personal banking	26.9
Treasury business	21.6
Others	0.7

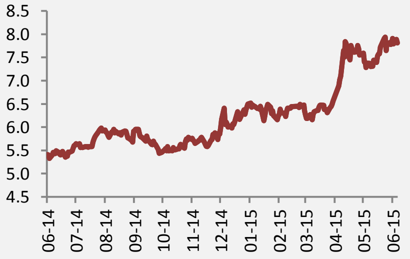
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	5.8	8.1
3-mth	26.8	11.3
6-mth	28.9	12.1

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK$)



Source(s): Bloomberg, ABCI Securities

CCB (939 HK)

An emerging financial conglomerate under the "new normal"

- CCB's high degree of business diversification will enable the Group to excel
- We believe CCB's new pension subsidiary reveals the bank's intention to restructure business units into separate subsidiaries for higher flexibility
- Focus of overseas expansion will be redirected to Asia to leverage on emerging opportunities from the "One Road One Belt" scheme
- We expect large provisions to persist in coming quarters and are confident about CCB's risk management capability
- We remain positive on CCB for its diversified businesses and low valuation; the counter is currently trading at 1.15x 15E P/B

Business diversification as a competitive edge. Under the "new normal" of slower economic growth, Chinese banks will encounter more challenges and competition going forward. Strategic restructuring becomes crucial for CCB to maintain its leading position in the market. The Group, which has a wide range of financial licenses (included but not limited to asset management, finance lease, trust, insurance, and futures), will continue to be an outstanding player in the sector.

New pension subsidiary to commence in June. Domestically, management expects CCB's new pension subsidiary (jointly owned by SSF) to commence operation in June 2015 through merging with CCB's existing pension business unit. We believe CCB's strategic direction involves restructuring its business units into separate subsidiaries for a more flexible legal status.

Overseas expansion as positive catalyst. We believe for CCB to capture the opportunities arising from the "One Road One Belt" scheme, the bank will redirect its expansion effort back to Asia and Middle-Asia after the completion of its acquisition of BIC Bank in Brazil. The Group has been proactively established its offshore funding pool to support its overseas expansion. We believe news of its overseas expansion will serve as positive catalysts for the counter in the near term.

Slow profit growth resulted from larger provisions. Although CCB's 1Q15 net profit only edged up by 1.83% yoy, the slow growth was resulted from a higher insurance cost (increased by RMB 13.87bn yoy) and a larger provision (increased by RMB 8.45bn yoy) in 1Q15. In line with sectorial trend, CCB's NPL ratio rose by 11bps QoQ to 1.3% by Mar 2015. We expect increasing efforts in NPL handling and large provision in coming quarters. Nonetheless, we assert that CCB has one of the best risk management systems among peers.

TP under review; reiterate BUY. Trading at 1.15x 15E P/B, or 1 s.d. below historical P/B average, the counter has already exceeded our previous TP after the recent rally. We remain positive and CCB is one of our sector's top picks given its well-diversified businesses and low valuation. Target price is currently under review.

Risk factors: 1) Sharp deterioration in asset quality; 2) Deposit competition triggered by interest rate liberalization; 3) Increased competition from non-bank financial institutions.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Revenue (RMB mn)	462,533	511,140	556,740	610,358	665,551
Chg (%,YoY)	15.8	10.5	8.9	9.6	9.0
Net profit (RMB mn)	193,179	214,657	229,934	248,691	271,025
Chg (%,YoY)	14.1	11.1	7.1	8.2	9.0
EPS (RMB)	0.77	0.86	0.92	0.99	1.08
Chg (%,YoY)	14.1	11.7	7.0	7.6	9.1
BVPS (RMB)	3.77	4.26	4.97	5.50	6.20
Chg (%,YoY)	16.1	13.0	16.7	10.7	12.7
P/E (x)	8.20	7.34	6.86	6.38	5.84
P/B (x)	1.67	1.48	1.27	1.15	1.02
ROE (%)	22.0	21.4	19.9	19.2	18.5
ROA (%)	1.47	1.46	1.43	1.42	1.43
DPS(RMB)	0.27	0.30	0.29	0.35	0.38
Yield (%)	4.28	4.75	4.59	5.54	6.02

Source(s): Bloomberg, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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