

## CCB (939 HK / 601939 CH)

### Robust risk buffer to defend earnings growth

- Asset quality will continue to be a market focus; CCB's robust risk buffers could reduce earnings volatility
- Enhanced balance sheet mix to offset NIM pressure partially
- Competitive edge in technology development; relevant investment would drive up CIR
- Reiterate **BUY**. Our GGM-based H/A-shr TPs imply 0.77x/0.91x target 22E P/Bs

**Earnings growth defended by risk buffer.** Given the fact that provision expenses have a substantial impact on earnings, we believe asset quality will continue to be a market focus for the Chinese bank sector. Signs of asset quality deterioration were apparent in specific sectors - NPL ratios of the bank's real estate and mining sectors rose 54bps and 6.79ppt YoY to 1.85% and 10.14% as of Dec 2021. Nevertheless, we project NPL ratio to be stable at 1.45%-1.49% over 2022E-23E, supported by the bank's prudent risk attitude and NPL handling effort. CCB's provisioning ratio at 3.4% and provision coverage ratio at 239.96% as of Dec 2021 were the second-highest among the big 4 banks. In our view, this could effectively reduce earnings volatility in near future. Assuming provision expenses to grow at 3.2% CAGR over 2021-23E, we estimate provisioning ratio to be 3.55% and provision coverage ratio to be 238.26% by end-23E.

**Enhancing balance sheet mix.** Improving balance sheet mix has been seen, with the proportion of net loans in total assets increasing from 57.7% in 2020 to 60.1% in 2021; customer deposits in total liabilities increased from 80.1% in 2020 to 81.0% in 2021. As such, its NIM at 2.13% was the highest among the big 4 banks in 2021. We project the proportions of loans/deposits in total assets/liabilities to trend up to 63.1% and 81.6% by end-23E, which would serve as a defensive factor against NIM pressure. Factoring in the declining asset yield and rising deposit cost, we estimate NIM would narrow only by 3bps-7bps YoY each in 2022E and 23E to reach 2.02% by 2023E, and NII would grow at 6.6% CAGR in 2021-23E.

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#### Results and Valuation

FY ended Dec 31	2019A	2020A	2021A	2022E	2023E
Revenue (RMB mn)	678,001	714,224	764,706	814,526	871,012
Chg (% YoY)	7.0	5.3	7.1	6.5	6.9
Net profit* (RMB mn)	266,733	271,050	302,513	315,775	336,929
Chg (% YoY)	4.7	1.6	11.6	4.4	6.7
EPS (RMB)	1.05	1.06	1.19	1.24	1.33
Chg (% YoY)	4.8	1.0	12.3	4.5	6.8
BVPS (RMB)	8.39	9.06	9.95	10.86	11.83
Chg (% YoY)	9.6	8.0	9.9	9.1	8.9
P/E (x) – H-shr	4.56	4.51	4.02	3.85	3.60
P/B (x) – H-shr	0.57	0.53	0.48	0.44	0.40
P/E (x) – A-shr	5.98	5.92	5.28	5.05	4.73
P/B (x) – A-shr	0.75	0.69	0.63	0.58	0.53
ROAA (%)	1.11	1.02	1.04	1.00	0.99
ROAE (%)	13.18	12.12	12.55	12.59	12.38
DPS(RMB)	0.320	0.326	0.364	0.380	0.405
Yield (%) H-shr	6.68	6.81	7.60	7.93	8.47
Yield (%) A-shr	5.09	5.18	5.79	6.04	6.45

Note: Company; HKD/CNY=1.23

\*Net profit =Net profit attributable to equity holders of the Company

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Apr 1, 2022

Rating (H): BUY  
Rating (A): BUY  
TP (H): HK\$ 9.98  
TP (A): RMB 9.84

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Price (H/A shr)	HK\$ 5.89/ RMB 6.29
Est. s price return (H/A shr)	69.44%/ 55.80%
Est. dividend yield (H/A shr)	7.93%/6.04%
Est. total return (H/A shr)	77.37%/ 61.84%
Last Rating & TP (H/A shr)	BUY, HK\$9.90/ BUY, RMB10.04
Previous Report Date	2 Dec, 2021

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	6.67/5.03
52Wk H/L (RMB) (A shr)	7.39/5.64
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)	1,490,544.3
H-shr market cap (HK\$ mn)	1,416,058.0
A-shr market cap (HK\$ mn)	74,486.3
3-mth avg daily turnover (HK\$ mn) (H shr)	1,679.82
3-mth avg daily turnover (RMB mn) (A shr)	632.55
Major shareholder(s) (%): Central Huijin	57.03

Source(s): Bloomberg, ABCI Securities

**Competitive edge in technology development.** Going forward, digitalization would be major battlefield for the Chinese banks. Aside from business generation through more convenient and integrated services, growing sophistication in big data will enhance the risk management system and result in better credit cost control. Big banks, including CCB, possess a competitive edge in technology development and data collection over the smaller counterparts due to the former's resourcefulness. We project the bank's technology investment to be equivalent to ~3% of topline revenue in coming years, which would drive CIR up to 31.05% by 2023E.

**Maintain BUY on robust risk buffers.** Protected by CCB's robust risk buffers, we expect earnings to grow at 5.5% CAGR in FY21-23E. With a stable macro outlook, we lower our equity risk premium (ERP) and raise our long-term growth assumptions in our GGM. We finetune our H/A-shr TPs by 0.8%/-2.0% to HK\$ 9.98 and RMB 9.84, which imply 0.77x and 0.91x FY22E target P/Bs. The counter's H/A shr are trading at 0.44x/0.58x 22E P/Bs. Reiterate **BUY**.

**Risk Factors:** 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Potential asset quality deterioration in specific sector and geographical areas; 3) Rising CIR as a result of technology development; 4) Resurgence or prolonged COVID-19 pandemic.

#### Exhibit 1: Changes in 2022E and 2023E forecasts

(RMB mn)	2022E (old)	2022E (new)	change (%)	(RMB mn)	2023E (old)	2023E (new)	change (%)
Net interest income	685,101	642,579	(6.21)	Net interest income	746,661	687,613	(7.91)
Net fee and commission	126,928	128,782	1.46	Net fee and commission	133,275	135,221	1.46
Operating income	831,662	814,526	(2.06)	Operating income	898,388	871,012	(3.05)
Operating expenses	(226,891)	(244,711)	7.85	Operating expenses	(246,123)	(270,479)	9.90
Impairment losses	(213,885)	(175,074)	(18.15)	Impairment losses	(224,665)	(179,540)	(20.09)
Profit before tax	391,969	396,664	1.20	Profit before tax	428,791	423,301	(1.28)
Income tax expenses	(78,394)	(79,333)	1.20	Income tax expenses	(85,758)	(84,660)	(1.28)
Net profit attributable to equity holders	310,787	315,775	1.60	Net profit attributable to equity holders	340,105	336,929	(0.93)
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	2.07	2.05	(0.02)	Net interest margin	2.03	2.02	(0.01)
Net interest spread	1.84	1.83	(0.01)	Net interest spread	1.80	1.78	(0.02)
CIR	27.28	30.04	2.76	CIR	27.40	31.05	3.65
ROAA	0.94	1.00	0.06	ROAA	0.93	0.99	0.06
ROAE	12.51	12.59	0.08	ROAE	12.61	12.38	(0.23)
Dividend payout	31.50	30.50	(1.00)	Dividend payout	31.50	30.50	(1.00)
CT1 CAR	12.73	13.45	0.72	CT1 CAR	13.10	13.32	0.22
Total CAR	16.16	17.88	1.72	Total CAR	16.55	17.61	1.06
NPL ratio	1.51	1.45	(0.06)	NPL ratio	1.54	1.49	(0.05)
Provision to total loans	3.49	3.49	-	Provision to total loans	3.57	3.55	(0.02)
Provision coverage ratio	231.13	240.69	9.56	Provision coverage ratio	231.82	238.26	6.44

Source(s): Company, ABCI Securities estimates

#### Exhibit 2: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	9.90	9.98	10.04	9.84	
Sustainable ROE (%)	11.10	11.13	11.10	11.13	
COE (%)	12.75	12.51	11.49	11.61	
Target 22E P/B (x)	0.77	0.77	0.94	0.91	
Rfr (%)	2.88	2.81	2.88	2.81	With reference to China 10Y government bond
Beta	0.94	0.97	0.82	0.88	With reference to Bloomberg
ERP (%)	10.50	10.00	10.50	10.00	Lower risk premium on solid risk buffer
LT gr (%)	5.50	6.50	5.50	6.50	Raise on better macro outlook

Source(s): Company, ABCI Securities estimates

## Financial statements

### Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021A	2022E	2023E
Net interest income	537,066	575,909	605,420	642,579	687,613
Non-interest income	140,935	138,315	159,286	171,948	183,399
Of which: Fees and commissions	110,898	114,582	121,492	128,782	135,221
<b>Operating income</b>	<b>678,001</b>	<b>714,224</b>	<b>764,706</b>	<b>814,526</b>	<b>871,012</b>
Operating expenses	(188,132)	(188,574)	(219,182)	(244,711)	(270,479)
<b>Pre-provision operation profit</b>	<b>489,869</b>	<b>525,650</b>	<b>545,524</b>	<b>569,815</b>	<b>600,533</b>
Impairment losses on loans	(163,521)	(189,929)	(168,715)	(175,074)	(179,540)
<b>Operating profit</b>	<b>326,348</b>	<b>335,721</b>	<b>376,809</b>	<b>394,741</b>	<b>420,993</b>
Non-operating income	249	895	1,603	1,924	2,308
<b>Profit before tax</b>	<b>326,597</b>	<b>336,616</b>	<b>378,412</b>	<b>396,664</b>	<b>423,301</b>
Tax	(57,375)	(63,037)	(74,484)	(79,333)	(84,660)
Minority interests	(2,489)	(2,529)	(1,415)	(1,557)	(1,712)
<b>Net profit attributable to equity holders</b>	<b>266,733</b>	<b>271,050</b>	<b>302,513</b>	<b>315,775</b>	<b>336,929</b>
Preference share dividend	(3,962)	(5,624)	(4,538)	(4,538)	(4,538)
<b>Net profit attributable to ordinary shareholders</b>	<b>262,771</b>	<b>265,426</b>	<b>297,975</b>	<b>311,237</b>	<b>332,391</b>
<b>Growth (%)</b>					
Net interest income	10.4	7.2	5.1	6.1	7.0
Non-interest income	(4.4)	(1.9)	15.2	7.9	6.7
Of which: Fees and commissions	(9.9)	3.3	6.0	6.0	5.0
<b>Operating income</b>	<b>7.0</b>	<b>5.3</b>	<b>7.1</b>	<b>6.5</b>	<b>6.9</b>
Operating expenses	7.6	0.2	16.2	11.6	10.5
<b>Pre-provision operation profit</b>	<b>6.7</b>	<b>7.3</b>	<b>3.8</b>	<b>4.5</b>	<b>5.4</b>
Impairment losses on loans	8.3	16.1	(11.2)	3.8	2.6
<b>Operating profit</b>	<b>6.0</b>	<b>2.9</b>	<b>12.2</b>	<b>4.8</b>	<b>6.7</b>
Non-operating income	77.9	259.4	79.1	20.0	20.0
<b>Profit before tax</b>	<b>6.0</b>	<b>3.1</b>	<b>12.4</b>	<b>4.8</b>	<b>6.7</b>
Tax	9.2	9.9	18.2	6.5	6.7
Minority interests	156.3	1.6	(44.0)	10.0	10.0
<b>Net profit attributable to equity holders</b>	<b>4.7</b>	<b>1.6</b>	<b>11.6</b>	<b>4.4</b>	<b>6.7</b>
Preference share dividend	0.7	41.9	(19.3)	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	<b>1.6</b>	<b>1.0</b>	<b>12.3</b>	<b>4.5</b>	<b>6.8</b>
<b>Per share (RMB)</b>					
EPS	1.05	1.06	1.19	1.24	1.33
BVPS	8.39	9.06	9.95	10.86	11.83
DPS	0.320	0.326	0.364	0.380	0.405
<b>Key ratio (%)</b>					
Net interest margin	2.32	2.19	2.13	2.05	2.02
Net interest spread	2.16	2.04	1.94	1.83	1.78
Cost to income ratio	26.75	25.38	27.64	30.04	31.05
ROAA	1.11	1.02	1.04	1.00	0.99
ROAE	13.18	12.12	12.55	12.59	12.38
Effective tax rate	17.57	18.73	19.68	20.00	20.00
Dividend payout	30.45	30.71	30.54	30.50	30.50

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

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2019A	2020A	2021A	2022E	2023E
Cash & balance with central bank	2,621,010	2,816,164	2,763,892	2,625,697	2,494,413
Due from FIs and repo	1,508,616	1,423,876	892,347	770,438	687,578
Investment securities	6,213,241	6,950,653	7,641,919	8,291,482	8,913,343
Net loans and advances	14,542,001	16,231,369	18,170,492	20,142,993	22,155,029
<b>Total interest earning assets</b>	<b>24,884,868</b>	<b>27,422,062</b>	<b>29,468,650</b>	<b>31,830,610</b>	<b>34,250,363</b>
Property and equipment	170,740	172,505	168,326	163,276	158,378
Other non-interest earning assets	380,653	537,687	617,003	664,852	706,636
<b>Total assets</b>	<b>25,436,261</b>	<b>28,132,254</b>	<b>30,253,979</b>	<b>32,658,738</b>	<b>35,115,376</b>
Customer deposits	18,366,293	20,614,976	22,378,814	24,251,307	26,133,472
Due to FIs	2,194,251	2,293,272	2,232,201	2,165,235	2,100,278
Subordinated debt	1,076,575	940,197	1,323,377	1,588,052	1,873,902
Other interest bearing liabilities	945,688	1,091,974	947,955	805,762	725,186
<b>Total interest bearing liabilities</b>	<b>22,582,807</b>	<b>24,940,419</b>	<b>26,882,347</b>	<b>28,810,356</b>	<b>30,832,838</b>
Current taxes liabilities	86,635	84,161	86,342	94,976	104,474
Deferred tax liabilities	457	1,551	1,395	1,604	1,845
Other liabilities	531,235	716,770	669,773	910,203	1,091,044
<b>Total liabilities</b>	<b>23,201,134</b>	<b>25,742,901</b>	<b>27,639,857</b>	<b>29,817,140</b>	<b>32,030,200</b>
Share capital	250,011	250,011	250,011	250,011	250,011
Other equity instruments	119,627	99,968	99,968	99,968	99,968
Reserves	1,846,619	2,014,829	2,238,252	2,464,434	2,706,652
Minorities	18,870	24,545	25,891	27,186	28,545
<b>Shareholder's equity</b>	<b>2,235,127</b>	<b>2,389,353</b>	<b>2,614,122</b>	<b>2,841,599</b>	<b>3,085,176</b>
<b>Growth (%)</b>					
Cash & balance with central bank	(0.5)	7.4	(1.9)	(5.0)	(5.0)
Due from FIs and repo	45.3	(5.6)	(37.3)	(13.7)	(10.8)
Investment securities	8.7	11.9	9.9	8.5	7.5
Net loans and advances	8.8	11.6	11.9	10.9	10.0
<b>Total interest earning assets</b>	<b>9.4</b>	<b>10.2</b>	<b>7.5</b>	<b>8.0</b>	<b>7.6</b>
Property and equipment	0.7	1.0	(2.4)	(3.0)	(3.0)
Other non-interest earning assets	26.3	41.3	14.8	7.8	6.3
<b>Total assets</b>	<b>9.5</b>	<b>10.6</b>	<b>7.5</b>	<b>7.9</b>	<b>7.5</b>
Customer deposits	7.4	12.2	8.6	8.4	7.8
Due to FIs	18.8	4.5	(2.7)	(3.0)	(3.0)
Subordinated debt	38.8	(12.7)	40.8	20.0	18.0
Other interest bearing liabilities	(9.7)	15.5	(13.2)	(15.0)	(10.0)
<b>Total interest bearing liabilities</b>	<b>8.7</b>	<b>10.4</b>	<b>7.8</b>	<b>7.2</b>	<b>7.0</b>
Current taxes liabilities	11.2	(2.9)	2.6	10.0	10.0
Deferred tax liabilities	(5.8)	239.4	(10.1)	15.0	15.0
Other liabilities	42.3	34.9	(6.6)	35.9	19.9
<b>Total liabilities</b>	<b>9.3</b>	<b>11.0</b>	<b>7.4</b>	<b>7.9</b>	<b>7.4</b>
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	50.2	(16.4)	0.0	0.0	0.0
Reserves	12.1	9.1	11.1	10.1	9.8
Minorities	24.7	30.1	5.5	5.0	5.0
<b>Shareholder's equity</b>	<b>12.2</b>	<b>6.9</b>	<b>9.4</b>	<b>8.7</b>	<b>8.6</b>
<b>Key ratio (%)</b>					
CT1 CAR	13.88	13.62	13.59	13.45	13.32
Total CAR	17.52	17.06	17.85	17.88	17.61
NPL ratio	1.42	1.56	1.42	1.45	1.49
Provision to total loans	3.23	3.33	3.40	3.49	3.55
Provision coverage ratio	227.69	213.59	239.96	240.69	238.26

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

Key ratios and figures may not match with financial reports due to adjustment and reclassification 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 rate $\geq$ Market return rate ( $\sim 10\%$ )
Hold	- Market return rate ( $\sim 10\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim +10\%$ )
Sell	Stock return $<$ - Market return ( $\sim 10\%$ )

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 2009 (For reference: HSI total return index 2009-21 simple average at 9.2%)

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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