

## China CITIC Bank (998 HK / 601998 CH)

### Remain cautious on low risk buffer

- Remain cautious on property-related asset quality risk given its low risk buffer
- Digitalization and light-capital business model would gradually increase net fee income's contribution in topline revenue
- Technology investments would inch up CIR
- Maintain **BUY** on CITICB-H and upgrade CITICB -A to **BUY**; our TPs imply 0.40x/0.49x FY22E P/B

**Cautious observation of NPL trend.** CITICB's NPL ratio and NPL balance dropped by 25bps and 5.67% YoY in 2021, which signaled a turning point in asset quality. As such, we revise down our 2022E/23E NPL ratios to 1.42% and 1.45%. Nonetheless, the sustainability of asset quality improvement could be affected by the rising property-related sector NPLs. As of Dec 2021, CITICB's NPL ratio for real estate and construction sectors were 3.63% and 6.49%, much higher than the bank's overall NPL ratio at 1.39%. Meanwhile, the Group's relatively low provisioning ratio and provision coverage ratio at 2.5% and 180.07% could hit earnings if asset quality deteriorates. Assuming slightly larger provision expenses in 2022E/23E, we estimate its provisioning ratio and provision coverage ratio to reach 2.68% and 184.83% by end-2023E.

**Increasing contribution of net fee income to topline.** In our base case scenario, we forecast CITICB's 2022E/23E NIM to narrow by 13bps and 10bps YoY to 1.82% by 2023E because of the declining loan yield and increasing deposit competition sector-wide. Meanwhile, the bank's dedication in digitalization and light-capital business is yielding positive results. Net fee income jumped 24.4% YoY in 2021 and its contribution to topline revenue rose from 14.8% in 2020 to 17.5% in 2021, partially offsetting the 1.7% YoY drop in NII. Assuming NII and net fee income would grow by 4% and 17.5% CAGRs in 2021-23E, we expect net fee income's contribution to topline would rise to 21.1% by 2023E. Aside from the organic growth in traditional fee income sources such as bank card, most fee income categories would benefit from the maturing online channels over time.

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## Company Report

Mar 28, 2022

Rating (H): BUY  
Rating (A): BUY  
TP (H): HK\$ 5.52  
TP (A): RMB 5.44

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Price (H/A shr)	HK\$ 3.84/ RMB 4.56
Est. price return (H/A shr)	43.75%/19.30%
Est. dividend yield (H/A shr)	10.05%/6.88%
Est. total return (H/A shr)	53.80%/ 26.18%
Last Rating & TP (H/A shr)	BUY, HK\$5.59/ HOLD, RMB5.62
Previous Report Date	29 Mar, 2021

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	3.28/4.29
52Wk H/L (RMB) (A shr)	4.31/5.49
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)	248,141.8
H-shr market cap (HK\$ mn)	57,147.6
A-shr market cap (HK\$ mn)	190,994.2
3-mth avg daily turnover (HK\$ mn) (H shr)	88.26
3-mth avg daily turnover (RMB mn) (A shr)	106.23

#### Major shareholder(s) (%):

CITIC Group	65.37
China National Tobacco	4.39

Source(s): Bloomberg, ABCI Securities

### Results and Valuation

FY ended Dec 31	2019A	2020A	2021A	2022E	2023E
Revenue (RMB mn)	187,881	195,399	204,554	221,868	235,108
Chg (% YoY)	13.3	4.0	4.7	8.5	6.0
Net profit* (RMB mn)	48,015	48,980	55,641	57,617	63,016
Chg (% YoY)	7.9	2.0	13.6	3.6	9.4
EPS (RMB)	0.95	0.94	1.08	1.08	1.19
Chg (% YoY)	8.1	(1.5)	14.5	0.6	10.2
BVPS (RMB)	9.04	9.60	10.45	11.20	12.01
Chg (% YoY)	10.1	6.2	8.9	7.2	7.2
P/E (x) - H-shr	3.27	3.32	2.90	2.89	2.62
P/B (x) - H-shr	0.35	0.33	0.30	0.28	0.26
P/E (x) - A-shr	4.78	4.85	4.24	4.22	3.83
P/B (x) - A-shr	0.50	0.48	0.44	0.41	0.38
ROAA (%)	0.76	0.69	0.72	0.69	0.70
ROAE (%)	11.06	10.08	10.73	10.88	11.10
DPS(RMB)	0.239	0.254	0.302	0.314	0.358
Yield (%) H-shr	7.66	8.14	9.67	10.05	11.45
Yield (%) A-shr	5.24	5.57	6.62	6.88	7.84

Note: Company; HKD/CNY=1.23

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

Source(s): Bloomberg, ABCI Securities estimates

**Technology expenses still at investment phase.** Digitalization means the inevitable increase in technology investment, which rose 8.82% YoY in 2021, equivalent to 3.68% of topline. We believe the bank's technology development is still at the investment phase; therefore, we factor in 13% operating expenses CAGR in 2021-23E, which elevates CIR to 33.82% in 2023E (vs. 29.34% in 2021). Our base case scenario assumes technology investment to amount to 3%-5% of topline over 2022E-23E.

**Upgrade CITICB-A to BUY on low valuation.** We lower our H/A TPs by 1.3%/3.2% to HK\$ 5.52/RMB 5.44 mainly on higher equity risk premium and raised long-term growth assumptions. CITICB's H/A shares are trading at 0.28x/0.41x 2022E P/B while our TPs imply 0.40x/0.49x 2022E P/B. Reiterate **BUY** for CITICB-H and upgrade CITICB-A from HOLD to **BUY** on low valuation.

**Risk Factors:** 1) Radical change in business environment induced by supervision and policies; 2) Potential asset quality deterioration in specific sector and geographical areas; 3) Earnings volatility as a result of low risk buffers; 4) High technology investments may result increase in CIR.

### Exhibit 1: Changes in forecasts

(RMB mn)	2022E (old)	2022E (new)	change (%)	(RMB mn)	2023E (old)	2023E (new)	change (%)
Net interest income	170,848	157,244	(7.96)	Net interest income	181,914	160,052	(12.02)
Net fee and commission	32,706	42,327	29.42	Net fee and commission	34,341	49,522	44.21
Operating income	219,711	221,868	0.98	Operating income	232,877	235,108	0.96
Operating expenses	(64,533)	(70,935)	9.92	Operating expenses	(69,883)	(79,507)	13.77
Impairment losses	(86,281)	(81,956)	(5.01)	Impairment losses	(86,350)	(80,098)	(7.24)
Profit before tax	68,514	69,231	1.05	Profit before tax	76,222	75,778	(0.58)
Income tax expenses	(10,620)	(10,731)	1.05	Income tax expenses	(11,814)	(11,746)	(0.58)
Net profit attributable to equity holders	57,208	57,617	0.71	Net profit attributable to equity holders	63,653	63,016	(1.00)
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	2.02	1.92	(0.10)	Net interest margin	1.94	1.82	(0.12)
Net interest spread	1.82	1.74	(0.08)	Net interest spread	1.73	1.62	(0.11)
CIR	29.37	31.97	2.60	CIR	30.01	33.82	3.81
ROAA	0.66	0.69	0.03	ROAA	0.67	0.70	0.03
ROAE	10.27	10.88	0.61	ROAE	10.97	11.10	0.13
Dividend payout	28.50	29.00	0.50	Dividend payout	28.34	30.00	1.66
CT1 CAR	8.66	9.25	0.59	CT1 CAR	8.22	9.38	1.16
Total CAR	12.58	13.96	1.38	Total CAR	12.00	13.98	1.98
NPL ratio	1.60	1.42	(0.18)	NPL ratio	1.57	1.45	(0.12)
Provision to total loans	2.90	2.60	(0.30)	Provision to total loans	2.95	2.68	(0.27)
Provision coverage ratio	181.25	183.10	1.85	Provision coverage ratio	187.90	184.83	(3.07)

Source(s): Company, ABCI Securities estimates

### Exhibit 2: Changes of GGM assumptions

	H-shr		A-shr		Reason
	old	New	old	new	
TP (HKD/RMB)	5.59	5.52	5.62	5.44	
Sustainable ROE (%)	9.18	9.25	9.18	9.25	
COE (%)	13.93	13.37	12.53	12.16	
Target 22E P/B (x)	0.45	0.40	0.54	0.49	
Rfr (%)	3.23	2.81	3.23	2.81	With reference to China 10Y government bond
Beta	1.07	0.96	0.93	0.85	With reference to Bloomberg
ERP (%)	10.00	11.00	10.00	11.00	Raise on low risk buffer
LT gr (%)	5.50	6.50	5.50	6.50	Fee income growth improves

Source(s): Company, ABCI Securities estimates

## Financial statements

### CITICB (998HK/601998CH) Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021A	2022E	2023E
Net interest income	146,925	150,515	147,896	157,244	160,052
Non-interest income	40,956	44,884	56,658	64,625	75,056
Of which: Fees and commissions	26,730	28,836	35,870	42,327	49,522
<b>Operating income</b>	187,881	195,399	204,554	221,868	235,108
Operating expenses	(54,168)	(54,255)	(62,224)	(70,935)	(79,507)
<b>Pre-provision operating profit</b>	133,713	141,144	142,330	150,934	155,601
Impairment losses on loans	(77,255)	(82,989)	(77,048)	(81,956)	(80,098)
<b>Operating profit</b>	56,458	58,155	65,282	68,977	75,503
Non-operating income	87	(298)	235	254	274
<b>Profit before tax</b>	56,545	57,857	65,517	69,231	75,778
Tax	(7,551)	(8,325)	(9,140)	(10,731)	(11,746)
Minorities interests	(979)	(552)	(736)	(883)	(1,016)
<b>Net profit attributable to equity holders</b>	48,015	48,980	55,641	57,617	63,016
Preference share dividend	(1,330)	(3,010)	(3,010)	(4,690)	(4,690)
<b>Net profit attributable to ordinary shareholders</b>	46,685	45,970	52,631	52,927	58,326
<b>Growth (%)</b>					
Net interest income	30.1	2.4	(1.7)	6.3	1.8
Non-interest income	(22.5)	9.6	26.2	14.1	16.1
Of which: Fees and commissions	(27.8)	7.9	24.4	18.0	17.0
<b>Operating income</b>	13.3	4.0	4.7	8.5	6.0
Operating expenses	3.0	0.2	14.7	14.0	12.1
<b>Pre-provision operating profit</b>	18.2	5.6	0.8	6.0	3.1
Impairment losses on loans	32.7	7.4	(7.2)	6.4	(2.3)
<b>Operating profit</b>	2.8	3.0	12.3	5.7	9.5
Non-operating income	(114.3)	(442.5)	(178.9)	8.0	8.0
<b>Profit before tax</b>	4.1	2.3	13.2	5.7	9.5
Tax	(15.6)	10.3	9.8	17.4	9.5
Minorities interests	13.4	(43.6)	33.3	20.0	15.0
<b>Net profit attributable to equity holders</b>	7.9	2.0	13.6	3.6	9.4
Preference share dividend	0.0	126.3	0.0	55.8	0.0
<b>Net profit attributable to ordinary shareholders</b>	8.1	(1.5)	14.5	0.6	10.2
<b>Per share (RMB)</b>					
EPS	0.95	0.94	1.08	1.08	1.19
BVPS	9.04	9.60	10.45	11.20	12.01
DPS	0.239	0.254	0.302	0.314	0.358
<b>Key ratio (%)</b>					
Net interest margin	2.45	2.26	2.05	1.92	1.82
Net interest spread	2.36	2.18	1.99	1.74	1.62
Cost to income ratio	27.84	26.73	29.34	31.97	33.82
Return on average assets	0.76	0.69	0.72	0.69	0.70
Return on average equity	11.06	10.08	10.73	10.88	11.10
Effective tax rate	13.35	14.39	13.95	15.50	15.50
Dividend payout	25.05	27.04	28.08	29.00	30.00

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



**CITICB (998HK/601998CH)**  
**Consolidated balance sheet**

As of Dec 31 (RMB mn)	2019A	2020A	2021A	2022E	2023E
Cash & deposits with central bank	463,158	435,169	435,383	439,737	444,134
Due from FIs and repo	335,798	412,882	343,211	302,747	280,558
Investment securities	1,873,596	2,092,732	2,322,641	2,566,518	2,823,170
Net loans and advances	3,892,602	4,360,196	4,748,076	5,117,742	5,491,001
<b>Total interest earning assets</b>	<b>6,565,154</b>	<b>7,300,979</b>	<b>7,849,311</b>	<b>8,426,744</b>	<b>9,038,863</b>
Property and equipment	22,372	33,868	34,184	34,868	35,565
Trading assets	17,117	40,064	22,721	25,448	29,265
Other assets	145,790	136,250	136,668	145,847	156,751
<b>Total assets</b>	<b>6,750,433</b>	<b>7,511,161</b>	<b>8,042,884</b>	<b>8,632,906</b>	<b>9,260,444</b>
Customer deposits	4,073,258	4,572,286	4,789,969	5,067,600	5,371,093
Due to FIs and repo	1,155,499	1,521,059	1,540,631	1,571,444	1,602,872
Subordinated debt	650,274	732,958	958,203	1,197,754	1,437,305
<b>Total interest bearing liabilities</b>	<b>5,879,031</b>	<b>6,826,303</b>	<b>7,288,803</b>	<b>7,836,798</b>	<b>8,411,270</b>
Trading liabilities	17,683	48,463	24,071	26,960	31,003
Current taxes	8,865	8,411	10,753	12,366	13,850
Other liabilities	312,330	67,946	76,631	76,637	83,898
<b>Total liabilities</b>	<b>6,217,909</b>	<b>6,951,123</b>	<b>7,400,258</b>	<b>7,952,760</b>	<b>8,540,021</b>
Common share capital	48,935	48,935	48,935	48,935	48,935
Other capital instruments	78,083	78,083	118,076	118,076	118,076
Reserve	390,293	417,555	459,292	495,996	535,415
Minorities	15,213	15,465	16,323	17,139	17,996
<b>Shareholder's equity</b>	<b>532,524</b>	<b>560,038</b>	<b>642,626</b>	<b>680,146</b>	<b>720,423</b>
<b>Growth (%)</b>					
Cash & deposits with central bank	(14.0)	(6.0)	0.0	1.0	1.0
Due from FIs and repo	17.4	23.0	(16.9)	(11.8)	(7.3)
Investment securities	17.1	11.7	11.0	10.5	10.0
Net loans and advances	11.0	12.0	8.9	7.8	7.3
<b>Total interest earning assets</b>	<b>10.7</b>	<b>11.2</b>	<b>7.5</b>	<b>7.4</b>	<b>7.3</b>
Property and equipment	4.6	51.4	0.9	2.0	2.0
Trading assets	(46.5)	134.1	(43.3)	12.0	15.0
Other assets	79.9	(6.5)	0.3	6.7	7.5
<b>Total assets</b>	<b>11.3</b>	<b>11.3</b>	<b>7.1</b>	<b>7.3</b>	<b>7.3</b>
Customer deposits	12.6	12.3	4.8	5.8	6.0
Due to FIs and repo	13.5	31.6	1.3	2.0	2.0
Subordinated debt	17.7	12.7	30.7	25.0	20.0
<b>Total interest bearing liabilities</b>	<b>13.3</b>	<b>16.1</b>	<b>6.8</b>	<b>7.5</b>	<b>7.3</b>
Trading liabilities	(44.1)	174.1	(50.3)	12.0	15.0
Current taxes	80.2	(5.1)	27.8	15.0	12.0
Other liabilities	(20.0)	(78.2)	12.8	0.0	9.5
<b>Total liabilities</b>	<b>10.8</b>	<b>11.8</b>	<b>6.5</b>	<b>7.5</b>	<b>7.4</b>
Common share capital	0.0	0.0	0.0	0.0	0.0
Other capital instruments	123.4	0.0	51.2	0.0	0.0
Reserve	10.6	7.0	10.0	8.0	7.9
Minorities	(7.4)	1.7	5.5	5.0	5.0
<b>Shareholder's equity</b>	<b>17.5</b>	<b>5.2</b>	<b>14.7</b>	<b>5.8</b>	<b>5.9</b>
<b>Key ratio (%)</b>					
CT1 CAR	8.69	8.74	8.85	8.99	9.11
Total CAR	12.44	13.01	13.53	13.56	13.58
NPL ratio	1.65	1.64	1.39	1.42	1.45
Provision to total loans	2.90	2.82	2.50	2.60	2.68
Provision coverage ratio	175.25	171.68	180.07	183.10	184.83

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 averaged 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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