

China CITIC Bank (998 HK)

Potential catalyst from launch of Baixin Bank; maintain BUY

- We expect momentum in non-interest income, especially that of the bank card business, to stay strong despite a flat earnings growth in 2016
- Large provision policy should persist in coming quarters given its provision coverage ratio that barely meets the minimum requirement; NPL concentration in manufacturing and wholesale & retail sectors has been reducing gradually
- CT1 fell to 8.64%, raising the chance of capital activities in the future
- The counter is currently trading at 0.56x 17E P/B. Reiterate **BUY** on trough valuation and potential catalyst from the launch of Baixin Bank in 2H17

Flat earnings growth as expected. China CITIC Bank (CITICB)'s 2016 net profit was RMB 41,629mn, up 1.1% YoY, in line with both the Bloomberg consensus and our forecasts. Due to the residual impact from previous rate cuts and VAT reform, CITICB's NIM was down by 31bps YoY to 2.00% while NII inched up 1.6% YoY. Net fee income YoY grew 18.52%, driven mainly by a 44% YoY growth in bank card fees, whose growth will persist in coming years in our view. Net fee income contributed to 27.43% of topline revenue, up 2.92ppt YoY.

Large provision will persist. CITICB's NPL ratio rose 26bps YoY to 1.69% while impairment losses grew 30.6% YoY. Provision ratio rose 23bps YoY to 2.62%. Due to increasing effort in NPL handling and write-offs, NPL concentration in manufacturing and wholesale & retail sectors fell from 80.21% in 2015 to 71.01% in 2016. Yet, given the provision coverage at 155.5% by Dec 2016, CITICB's large provision policy is likely to persist in coming quarters.

Possible capital activities to raise CAR. CT1 dropped 48bps YoY in 2016. Currently, CITICB's CAR position is still able to meet regulatory requirements. Nonetheless, we believe capital activities may take place to strengthen the bank's capital position in the future.

The launch of Baixin Bank as a potential positive catalyst. The counter is trading at a trough valuation of 0.56x 17E P/B. CITICB's Baixin Bank, which is scheduled to start operating in 2H17, may provide a potential positive catalyst for CITICB. Reiterate BUY.

Risk factors: 1) Delayed commencement of Baixin Bank; 2) Increasing competition from non-bank financial institutions under financial reforms; 3) Sharp asset quality deterioration in specific regions; 4) Potential earnings dilution from capital activities.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016A	2017E	2018E
Revenue (RMB mn)	124,839	145,545	154,159	181,362	201,369
Chg (% YoY)	19.1	16.6	5.9	17.6	11.0
Net profit (RMB mn)	40,692	41,158	41,629	43,899	47,926
Chg (% YoY)	3.9	1.1	1.1	5.5	9.2
EPS (RMB)	0.87	0.88	0.85	0.90	0.98
Chg (% YoY)	3.87	1.18	(3.41)	5.54	9.17
BVPS (RMB)	5.55	6.49	7.75	8.23	9.24
Chg (% YoY)	15.10	16.99	19.36	6.21	12.25
P/E (x)	5.34	5.28	5.47	5.18	4.74
P/B (x)	0.84	0.72	0.60	0.56	0.50
ROAE (%)	16.77	14.26	11.95	11.53	11.21
ROAA (%)	1.05	0.89	0.76	0.70	0.67
DPS (RMB)	-	0.21	0.22	0.22	0.23
Yield (%)	-	4.56	4.63	4.73	4.85

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 24, 2017

Rating: BUY

TP:HK\$6.13

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Share price (HK\$)	5.25
Est. share price return	16.76%
Est. dividend yield	4.73%
Est. total return	21.49%
Previous Rating & TP	BUY;HK\$6.13
Previous Report Date	Oct 24,2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	5.50/4.36
Issued shares (mn)	48,935
H-share(mn)	14,882
A-shares (mn)	34,053
Market cap (HK\$ mn)	333,638
H-share(mn)	77,833
A-shares (mn)	255,805
3-mth avg daily turnover(HK\$ mn)	346.71
Major shareholder(s) (%):	
CITIC Group	65.37

Source(s): Company, ABCI Securities

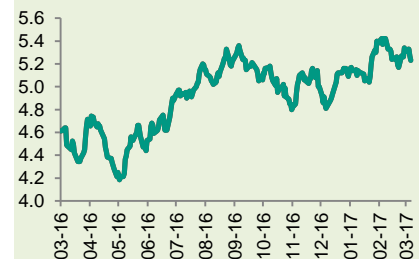
Share Performance (%)

	Absolute	Relative*
1-mth	(2.61)	(4.06)
3-mth	8.73	(3.57)
6-mth	(2.43)	(4.70)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: CITICB's 2016 actual results versus ABCI estimates

(Rmb mn)	2016A	2016E	AvE (%)
Net interest income	106,138	113,389	(6.39)
Non-interest income	48,021	49,694	(3.37)
Of which: Fees and commissions	42,280	43,636	(3.11)
Operating income	154,159	163,083	(5.47)
Operating expenses	(47,272)	(56,135)	(15.79)
Pre-provision operating profit	106,887	106,948	(0.06)
Impairment losses on loans	(52,288)	(50,335)	3.88
Operating profit	54,599	56,613	(3.56)
Non-operating Income	9	92	(90.22)
Profit before tax	54,608	56,705	(3.70)
Tax	(12,822)	(13,609)	(5.78)
Minorities & other dilutions	157	669	(76.54)
Net profit	41,629	42,426	(1.88)
Key indicators (%)			AVE (ppt)
Net interest margin	2.00	2.17	(0.17)
Net interest spread	1.89	1.89	(0.00)
Cost to income ratio	27.75	34.42	(6.67)
Return on average assets	0.76	0.77	(0.01)
Return on average equity	11.95	12.54	(0.59)
CT1 CAR	9.64	8.95	0.69
Total CAR	11.98	11.54	0.44
NPL ratio	1.69	1.62	0.07
Provision to total loans	2.62	2.45	0.17
Provision coverage	155.50	151.23	4.27

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2018E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E
Net interest income	94,741	104,433	106,138	121,876	130,872
Non-interest income	30,098	41,112	48,021	59,486	70,497
Of which: Fees and commissions	25,313	35,674	42,280	52,716	62,910
Operating income	124,839	145,545	154,159	181,362	201,369
Operating expenses	(45,984)	(50,602)	(47,272)	(62,186)	(68,456)
Amortization	(812)	0	0	0	0
Pre-provision operating profit	78,043	94,943	106,887	119,176	132,913
Impairment losses on loans	(23,673)	(40,037)	(52,288)	(60,507)	(68,810)
Operating profit	54,370	54,906	54,599	58,669	64,103
Non-operating Income	204	80	9	106	122
Profit before tax	54,574	54,986	54,608	58,775	64,225
Tax	(13,120)	(13,246)	(12,822)	(14,106)	(15,414)
Minorities & other dilutions	762	582	157	770	885
Net profit	40,692	41,158	41,629	43,899	47,926
Growth (%)					
Net interest income	10.6	10.2	1.6	14.8	7.4
Non-interest income	57.4	36.6	16.8	23.9	18.5
Of which: Fees and commissions	50.6	40.9	18.5	24.7	19.3
Operating income	19.1	16.6	5.9	17.6	11.0
Operating expenses	15.5	10.0	(6.6)	31.5	10.1
Amortization	27.1	(100.0)	na	na	na
Pre-provision operating profit	21.2	21.7	12.6	11.5	11.5
Impairment losses on loans	98.3	69.1	30.6	15.7	13.7
Operating profit	3.7	1.0	(0.6)	7.5	9.3
Non-operating Income	83.8	(60.8)	(88.8)	1,075.6	15.0
Profit before tax	3.9	0.8	(0.7)	7.6	9.3
Tax	2.2	1.0	(3.2)	10.0	9.3
Minorities & other dilutions	40.6	(23.6)	(73.0)	390.3	15.0
Net profit	3.9	1.1	1.1	5.5	9.2
Per share (RMB)					
EPS	0.87	0.88	0.85	0.90	0.98
BVPS	5.55	6.49	7.75	8.23	9.24
DPS	-	0.21	0.22	0.22	0.23
Key ratio (%)					
Net interest margin	2.40	2.31	2.00	2.05	1.93
Net interest spread	2.19	2.13	1.89	1.79	1.70
Net fee income to operating income	20.28	24.51	27.43	29.07	31.24
Cost to income ratio	37.49	34.77	27.75	34.29	34.00
Return on average assets	1.05	0.89	0.76	0.70	0.67
Return on average equity	16.77	14.26	11.95	11.53	11.21
Effective tax rate	24.04	24.09	23.48	24.00	24.00
Dividend payout	-	25.21	25.29	24.50	23.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2018E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E
Cash & equivalent	538,486	511,189	553,328	547,586	574,965
Dues from banks	297,365	338,140	375,849	380,635	413,208
Investment securities	1,068,126	1,692,127	2,023,474	2,400,874	2,827,202
Net loans and advances	2,136,332	2,468,283	2,802,384	3,189,723	3,578,948
Total interest earning assets	4,040,309	5,009,739	5,755,035	6,518,817	7,394,322
Property and equipment	14,738	15,983	17,834	18,643	20,134
Trading assets	8,226	13,788	47,366	19,689	23,233
Other non-interest earning assets	75,542	82,782	110,815	109,796	127,961
Total assets	4,138,815	5,122,292	5,931,050	6,666,945	7,565,650
Customer deposits	2,849,574	3,182,775	3,639,290	3,950,398	4,395,011
Due to other banks & FIs	750,122	1,188,960	1,249,219	1,813,164	2,175,797
Subordinated term debt	133,488	289,135	386,946	382,381	439,738
Total interest bearing liabilities	3,733,184	4,660,870	5,275,455	6,145,943	7,010,546
Trading liabilities	7,347	11,418	45,059	16,168	18,593
Current taxes	5,985	4,693	6,364	5,627	6,077
Other liabilities	124,953	125,625	219,676	93,778	75,160
Total liabilities	3,871,469	4,802,606	5,546,554	6,261,516	7,110,376
Share capital	46,787	48,935	48,935	48,935	48,935
Reserve	212,890	268,805	330,289	353,876	403,223
Minorities	7,669	1,946	5,272	2,618	3,116
Shareholder's equity	267,346	319,686	384,496	405,429	455,274
Growth (%)					
Cash & equivalent	8.5	(5.1)	8.2	(1.0)	5.0
Dues from banks	(45.0)	13.7	11.2	1.3	8.6
Investment securities	65.9	58.4	19.6	18.7	17.8
Net loans and advances	12.4	15.5	13.5	13.8	12.2
Total interest earning assets	12.8	24.0	14.9	13.3	13.4
Total assets	13.7	23.8	15.8	12.4	13.5
Customer deposits	7.5	11.7	14.3	8.5	11.3
Due to other banks & FIs	23.1	58.5	5.1	45.1	20.0
Subordinated term debt	67.1	116.6	33.8	(1.2)	15.0
Total interest bearing liabilities	11.7	24.8	13.2	16.5	14.1
Total liabilities	13.5	24.1	15.5	12.9	13.6
Shareholder's equity	15.9	19.6	20.3	5.4	12.3
Key ratio					
CT1 CAR	8.93	9.12	9.64	8.82	8.72
Total CAR	12.33	11.87	11.98	11.22	10.94
NPL ratio	1.30	1.43	1.69	1.78	1.93
NPL growth	42.51	26.70	34.76	24.56	21.96
Net bad debt charge ratio	1.07	1.49	1.96	1.78	1.80
Provision to total loans	2.36	2.39	2.62	2.68	2.92
Provision coverage	181.26	167.81	155.50	150.56	151.30

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

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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