

China CITIC Bank (998 HK / 601998 CH)

Resuming earnings growth on manageable provisions

- Mild NIM pressure would limit topline growth in FY21E-23E
- Proactive NPL handling improved 4Q20 NPL ratio significantly
- Recovering macro environment and manageable provisions to support earnings growth
- Property-related exposure, however, warrants attention
- Maintain **BUY** on CITICB-H and **HOLD** on CITICB-A; our TPs imply 0.45x/0.54x FY21E P/B

Persisting NIM pressure limits topline growth. We factor in CITICB's FY20 results and extend our forecast to FY23E in our model; consequently, our FY21E/22E net profit estimates increase by 13.18% and 13.54% on lower provision expenses. CITICB's FY20A NIM was better than expected at 2.26%, indicating a significant rebound in 4Q20 NIM to ~3% (9M20 NIM: 2%). Higher 2H20 NIM was driven by elevated average loan rate (FY20: 5.31% vs. 1H20: 5.02%), thanks to resumption of growth momentum in credit card, personal consumption, and small business loan in 2H20. On the liability side, average deposit cost fell (FY20: 2.1% vs. 1H20: 2.17%). Still we expect mild NIM pressure to persist in years to come and expect the bank's NIM to narrow by 8bps-13bps each in FY21E-23E. This will support a 6.5% NII CAGR and a 6% top line CAGR in FY20A-23E.

Better earnings outlook on stable provisions. Dramatic improvement in asset quality was seen in 4Q20, of which NPL ratio dropped QoQ from 1.98% in Sep 2020 to 1.64% in Dec 2020, or down 1bps YoY. Increased NPL handling was targeted at the manufacturing, and wholesale & retail sectors, with the NPL ratio declining from 5.45% and 10.47% in June 2020 to 3.38% and 7.16% in Dec 2020. We expect continuous decline in CITICB's NPL ratio at 2bps-3bps each in FY21E-23E with the NPL handling effort and improved macro environment. We lower our 21E/22E provision expenses forecasts by 15.52%/20.16% and net profit estimates therefore increase. We forecast a net profit CAGR of 9.1% over FY20A-23E.

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Company Report

Rating (H): BUY
Rating (A): HOLD

TP (H): HK\$ 5.59
TP (A): RMB 5.62

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Price (H/A shr)	HK\$ 3.90/ RMB 5.39
Est. s price return (H/A shr)	43.33%/4.27%
Est. dividend yield (H/A shr)	8.78%/5.33%
Est. total return (H/A shr)	52.11%/ 9.60%
Last Rating & TP (H/A shr)	BUY, HK\$4.81/ HOLD, RMB5.17
Previous Report Date	Oct 15, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	4.05/2.93
52Wk H/L (RMB) (A shr)	6.30/4.97
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)	276,027.0
H-shr market cap (HK\$ mn)	58,040.4
A-shr market cap (HK\$ mn)	217,986.6
3-mth avg daily turnover (HK\$ mn) (H shr)	167.02
3-mth avg daily turnover (RMB mn) (A shr)	203.83

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	2021E	2022E	2023E
Revenue (RMB mn)	187,881	195,399	208,430	219,711	232,877
Chg (% YoY)	13.3	4.0	6.7	5.4	6.0
Net profit* (RMB mn)	48,015	48,980	52,049	57,208	63,653
Chg (% YoY)	7.9	2.0	6.3	9.9	11.3
EPS (RMB)	0.95	0.94	1.00	1.11	1.24
Chg (% YoY)	8.1	(1.5)	6.7	10.5	11.9
BVPS (RMB)	9.04	9.60	10.38	11.12	11.35
Chg (% YoY)	10.1	6.2	8.2	7.2	2.1
P/E (x) – H-shr	3.43	3.48	3.26	2.95	2.64
P/B (x) – H-shr	0.36	0.34	0.32	0.29	0.29
P/E (x) – A-shr	5.65	5.74	5.38	4.87	4.35
P/B (x) – A-shr	0.60	0.56	0.52	0.48	0.47
ROAA (%)	0.76	0.69	0.66	0.66	0.67
ROAE (%)	11.06	10.08	10.05	10.27	10.97
DPS (RMB)	0.24	0.25	0.29	0.32	0.35
Yield (%) H-shr	7.31	7.77	8.78	9.65	10.74
Yield (%) A-shr	4.43	4.71	5.33	5.86	6.52

Note: Company; HKD/CNY=1.1927

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

Source(s): Bloomberg, ABCI Securities estimates

Rising concern on property-related exposures. As required by PBOC and CBIRC, personal mortgage loans and property-related loans, as a proportion of the total gross loans, should not exceed 20% and 27.5% for medium-sized banks. As of Dec 2020, CITICB's related exposures were 22.5% and 32.1%, slightly higher than June 2020 figures at 21.7% and 31.8%. Meanwhile, NPL ratio of real estate and construction sectors rose in 2H20 from 1.23% and 2.9% in June 2020 to 3.35% and 5.84%.

Adjust TP on resuming earnings growth. We raise our H/A TP by 16.2%/8.7% to HK\$ 5.59/RMB 5.62 by adjust various assumptions in our GGM model: 1) higher sustainable ROAEs on resuming earning growth momentum, 2) lower equity risk premium on recovering macro environment, and 3) roll over our TP calculation to mid-22E BVPS. CITICB's H/A shares are trading at 0.32x/0.52x FY21E P/B, while our TPs imply 0.45x/0.54x P/B. We reiterate CITICB-H's **BUY** recommendation and CITICB-A's **HOLD** rating.

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 pandemic.

Exhibit 1: CITICB's 2020 actual results vs. ABCI estimates

(RMB mn)	2020E	2020A	AvE (%)
Net interest income	135,450	150,515	11.12
Net fee and commission	49,631	28,836	(41.90)
Operating income	202,018	195,399	(3.28)
Operating expenses	(55,892)	(54,255)	(2.93)
Impairment losses	(94,057)	(82,989)	(11.77)
Profit before tax	52,025	57,857	11.21
Income tax expenses	(7,804)	(8,325)	6.68
Net profit	43,389	48,980	12.89
Key indicators (%)			AvE (ppt)
Net interest margin	2.00	2.26	0.26
Net interest spread	1.88	2.18	0.30
Cost to income ratio	27.67	26.73	(0.94)
Return on average assets	0.61	0.69	0.08
Return on average equity	8.14	1.08	(7.06)
Dividend payout	25.00	27.04	2.04
CT1 CAR	8.67	8.74	0.07
Total CAR	12.41	13.01	0.60
NPL ratio	1.90	1.64	(0.26)
Provision to total loans	3.35	2.82	(0.53)
Provision coverage	176.32	171.68	(4.64)

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in 2021E and 2022E forecasts

(RMB mn)	2021E (old)	2021E (new)	change (%)	(RMB mn)	2022E (old)	2022E (new)	change (%)
Net interest income	143,264	161,655	12.84	Net interest income	151,252	170,848	12.96
Net fee and commission	52,609	30,855	(41.35)	Net fee and commission	55,765	32,706	(41.35)
Operating income	215,813	208,430	(3.42)	Operating income	229,578	219,711	(4.30)
Operating expenses	(58,318)	(59,177)	1.47	Operating expenses	(61,391)	(64,533)	5.12
Impairment losses	(102,489)	(86,582)	(15.52)	Impairment losses	(108,063)	(86,281)	(20.16)
Profit before tax	54,984	62,329	13.36	Profit before tax	60,113	68,514	13.98
Income tax expenses	(8,248)	(9,661)	17.13	Income tax expenses	(9,017)	(10,620)	17.78
Net profit attributable to equity holders	45,988	52,049	13.18	Net profit attributable to equity holders	50,384	57,208	13.54
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.88	2.13	0.25	Net interest margin	1.76	2.02	0.26
Net interest spread	1.69	1.97	0.28	Net interest spread	1.52	1.82	0.30
CIR	27.02	28.39	1.37	CIR	26.74	29.37	2.63
ROAA	0.58	0.66	0.08	ROAA	0.57	0.66	0.09
ROAE	8.12	1.05	(7.07)	ROAE	8.40	10.27	1.87
Dividend payout	25.00	27.00	2.00	Dividend payout	25.00	27.00	2.00
CT1 CAR	8.19	8.77	0.58	CT1 CAR	7.86	8.66	0.80
Total CAR	11.68	12.88	1.20	Total CAR	11.13	12.58	1.45
NPL ratio	1.98	1.62	(0.36)	NPL ratio	2.06	1.60	(0.46)
Provision to total loans	3.50	2.86	(0.64)	Provision to total loans	3.64	2.90	(0.74)
Provision coverage ratio	176.77	176.54	(0.23)	Provision coverage ratio	176.70	181.25	4.55

Source(s): Company, ABCI Securities estimates

Exhibit 3: Changes of GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	4.81	5.59	5.17	5.62	Roll over to mid-2022 BVPS
Sustainable ROE (%)	8.43	9.18	8.43	9.18	Better profitability on manageable provisions
COE (%)	12.61	13.93	11.35	12.53	
Target 21E P/B (x)	0.41	0.45	0.50	0.54	
Rfr (%)	3.16	3.23	3.16	3.23	With reference to China 10Y government bond
Beta	0.90	1.07	0.78	0.93	With reference to Bloomberg
ERP (%)	10.50	10.00	10.50	10.00	Lower on recovering economy in China
LT gr (%)	5.50	5.50	5.50	5.50	

Source(s): Company, ABCI Securities estimates



Financial statements

CITICB (998HK/601998CH) Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Net interest income	146,925	150,515	161,655	170,848	181,914
Non-interest income	40,956	44,884	46,775	48,863	50,963
Of which: Fees and commissions	26,730	28,836	30,855	32,706	34,341
Operating income	187,881	195,399	208,430	219,711	232,877
Operating expenses	(54,168)	(54,255)	(59,177)	(64,533)	(69,883)
Pre-provision operating profit	133,713	141,144	149,253	155,178	162,994
Impairment losses on loans	(77,255)	(82,989)	(86,582)	(86,281)	(86,350)
Operating profit	56,458	58,155	62,671	68,897	76,644
Non-operating income	87	(298)	(343)	(384)	(422)
Profit before tax	56,545	57,857	62,329	68,514	76,222
Tax	(7,551)	(8,325)	(9,661)	(10,620)	(11,814)
Minorities interests	979	552	618	686	755
Net profit attributable to equity holders	48,015	48,980	52,049	57,208	63,653
Preference share dividend	1,330	3,010	3,010	3,010	3,010
Net profit attributable to ordinary shareholders	46,685	45,970	49,039	54,198	60,643
Growth (%)					
Net interest income	30.1	2.4	7.4	5.7	6.5
Non-interest income	(22.5)	9.6	4.2	4.5	4.3
Of which: Fees and commissions	(27.8)	7.9	7.0	6.0	5.0
Operating income	13.3	4.0	6.7	5.4	6.0
Operating expenses	3.0	0.2	9.1	9.1	8.3
Pre-provision operating profit	18.2	5.6	5.7	4.0	5.0
Impairment losses on loans	32.7	7.4	4.3	(0.3)	0.1
Operating profit	2.8	3.0	7.8	9.9	11.2
Non-operating income	(114.3)	(442.5)	15.0	12.0	10.0
Profit before tax	4.1	2.3	7.7	9.9	11.3
Tax	(15.6)	10.3	16.0	9.9	11.3
Minorities interests	13.4	(43.6)	12.0	11.0	10.0
Net profit attributable to equity holders	7.9	2.0	6.3	9.9	11.3
Preference share dividend	0.0	126.3	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	8.1	(1.5)	6.7	10.5	11.9
Per share (RMB)					
EPS	0.95	0.94	1.00	1.11	1.24
BVPS	9.04	9.60	10.38	11.12	11.35
DPS	0.24	0.25	0.29	0.32	0.35
Key ratio (%)					
Net interest margin	2.45	2.26	2.13	2.02	1.94
Net interest spread	2.36	2.18	1.97	1.82	1.73
Cost to income ratio	27.84	26.73	28.39	29.37	30.01
Return on average assets	0.76	0.69	0.66	0.66	0.67
Return on average equity	11.06	10.08	10.05	10.27	10.97
Effective tax rate	13.35	14.39	15.50	15.50	15.50
Dividend payout	25.05	27.04	28.66	28.50	28.34

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	2021E	2022E	2023E
Cash & equivalent	463,158	435,169	413,411	401,008	392,988
Interbank assets	335,798	412,882	439,853	473,383	509,852
Investment securities	1,873,596	2,092,732	2,322,933	2,555,226	2,785,196
Net loans and advances	3,892,602	4,360,196	4,897,252	5,449,852	5,997,875
Total interest earning assets	6,565,154	7,300,979	8,073,447	8,879,469	9,685,912
Property and equipment	22,372	33,868	37,932	41,725	45,063
Trading assets	17,117	40,064	56,090	75,721	98,437
Other non-interest earning assets	145,790	136,250	139,390	148,767	158,356
Total assets	6,750,433	7,511,161	8,306,859	9,145,682	9,987,768
Customer deposits	4,073,258	4,572,286	5,096,021	5,642,290	6,209,810
Interbank liabilities	1,155,499	1,296,668	1,452,268	1,612,018	1,773,219
Subordinated debt	650,274	732,958	806,254	886,879	975,567
Total interest bearing liabilities	5,879,031	6,601,912	7,354,543	8,141,186	8,958,597
Trading liabilities	16,836	39,809	53,742	70,940	92,222
Current taxes	8,865	8,411	8,832	9,273	9,737
Other liabilities	313,177	300,991	291,090	288,963	280,269
Total liabilities	6,217,909	6,951,123	7,708,207	8,510,363	9,340,824
Common share capital	48,935	48,935	48,935	48,935	48,935
Other capital instruments	78,083	78,083	78,083	78,083	78,083
Reserve	390,293	417,555	455,860	492,212	503,514
Minorities	15,213	15,465	15,774	16,090	16,412
Shareholder's equity	532,524	560,038	598,653	635,320	646,943
Growth (%)					
Cash & equivalent	(14.0)	(6.0)	(5.0)	(3.0)	(2.0)
Interbank assets	17.4	23.0	6.5	7.6	7.7
Investment securities	17.1	11.7	11.0	10.0	9.0
Net loans and advances	11.0	12.0	12.3	11.3	10.1
Total interest earning assets	10.7	11.2	10.6	10.0	9.1
Property and equipment	4.6	51.4	12.0	10.0	8.0
Trading assets	(46.5)	134.1	40.0	35.0	30.0
Other non-interest earning assets	79.9	(6.5)	2.3	6.7	6.4
Total assets	11.3	11.3	10.6	10.1	9.2
Customer deposits	12.6	12.3	11.5	10.7	10.1
Interbank liabilities	13.5	12.2	12.0	11.0	10.0
Subordinated debt	17.7	12.7	10.0	10.0	10.0
Total interest bearing liabilities	13.3	12.3	11.4	10.7	10.0
Trading liabilities	(46.8)	136.5	35.0	32.0	30.0
Current taxes	80.2	(5.1)	5.0	5.0	5.0
Other liabilities	(19.7)	(3.9)	(3.3)	(0.7)	(3.0)
Total liabilities	10.8	11.8	10.9	10.4	9.8
Common share capital	0.0	0.0	0.0	0.0	0.0
Other capital instruments	123.4	0.0	0.0	0.0	0.0
Reserve	10.6	7.0	9.2	8.0	2.3
Minorities	(7.4)	1.7	2.0	2.0	2.0
Shareholder's equity	17.5	5.2	6.9	6.1	1.8
Key ratio (%)					
CT1 CAR	8.69	8.74	8.77	8.66	8.22
Total CAR	12.44	13.01	12.88	12.58	12.00
NPL ratio	1.65	1.64	1.62	1.60	1.57
Provision to total loans	2.90	2.82	2.86	2.90	2.95
Provision coverage ratio	175.25	171.68	176.54	181.25	187.90

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 2008 (For reference: HSI total return index 2008-20 CAGR 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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