

Bank of Chongqing (1963 HK)

Decent growth with strong risk buffer; maintain BUY

- Supported by decent balance sheet growth and non-interest income growth, 2016 net profit in line with consensus and our forecasts
- BCQ enhanced its risk buffer further by raising its provisioning ratio and provision coverage ratio to 2.8% and 293.35%,
- Tighter cost control, decent topline growth, and impact from previous VAT reform further lower CIR to 23.72%, offsetting negative impact from increased loan impairments
- The counter is currently trading at 0.61x 17E P/B. Reiterate **BUY** on strong risk buffer and undemanding valuation

Earnings are in line with expectation. Bank of Chongqing Bank (BCQ) reported its 2016 net profit at RMB 3,502mn, up 10.5% YoY. The results are in line with both the Bloomberg consensus and our forecasts. Although NIM narrowed by 4bps YoY to 2.38%, NII rose by 9.6% YoY on solid balance sheet growth. Net fee income increased by 27.4% YoY. Meanwhile, net fee income-to-operating income stayed high and rose 2.46ppt YoY to 20.06% in 2016. We expect NIM to stabilize in 2017 while wealth management related fee income will continue to be the core net fee income driver.

A strong risk buffer. BCQ's NPL ratio fell slightly by 1bps YoY to 0.96%. The Group continues to build up its risk buffer. With a 112.4% YoY increase in loan impairments, BCQ raised its provisioning ratio and provision coverage further by 43bps and 49.37ppt YoY to 2.8% and 293.35% as of Dec 2016. This should help buffer against operation risk arisen from economic uncertainties in the region. By sector, new NPLs can be attributed to the manufacturing and construction sectors; their respective NPL ratios were 2.43% and 1.86% as of Dec 2016.

CIR improved significantly. BCQ's CIR dropped 12.87ppt YoY to 23.72%, attributable to the carryover impact from previous VAT reform, decent topline revenue growth, and cautious cost control. In particular, overall staff cost reduced by 28.5% YoY despite a 6.4% YoY increase in the number of staff.

Maintain BUY on undemanding valuation. The counter is trading at an undemanding valuation of 0.61x 17E P/B. Based on BCQ's solid growth and its well-buffered balance sheet, we maintain our **BUY** rating

Risk factors: 1) Worsening asset quality in Chongqing; 2) Pricing competition from big banks entering local regions; 3) Failure to optimize business mix in retail banking; 4) Low average daily turnover of shares; 5) Potential earnings dilution from preference shares issuance and A-share listing.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016A	2017E	2018E
Revenue (RMB mn)	7,483	8,593	9,603	10,985	12,532
Chg (% YoY)	27.4	14.8	11.8	14.4	14.1
Net profit (RMB mn)	2,827	3,170	3,502	3,959	4,494
Chg (% YoY)	21.4	12.1	10.5	13.1	13.5
EPS (RMB)	1.05	1.17	1.12	1.27	1.44
Chg (% YoY)	(5.0)	11.7	(4.1)	13.1	13.5
BVPS (RMB)	5.88	6.81	7.61	9.93	11.78
Chg (% YoY)	18.0	15.8	11.8	30.5	18.6
P/E (x)	5.77	5.16	5.38	4.76	4.19
P/B (x)	1.03	0.89	0.79	0.61	0.51
ROAE (%)	19.24	17.00	15.50	13.89	13.24
ROAA (%)	1.17	1.07	1.01	1.02	1.02
DPS(RMB)	0.27	0.26	0.29	0.32	0.36
Yield (%)	4.51	4.38	4.83	5.36	5.96

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 23, 2017

Rating: BUY

TP:HK\$8.20

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Share price (HK\$)	6.81
Est. share price return	20.41%
Est. dividend yield	5.36%
Est. total return	25.77%
Previous Rating & TP	BUY;HK\$8.20
Previous Report Date	Oct 24,2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	7.02/5.36
Issued shares (mn)	3,127
H-share(mn)	1,579
Domestic shares (mn)	1,548
Market cap (HK\$ mn)	21,295
H-share(mn)	10,753
Domestic shares (mn)	10,542
3-mth avg daily turnover(HK\$ mn)	5.40
Major shareholder(s) (%):	
DSB	14.7

Source(s): Company, ABCI Securities

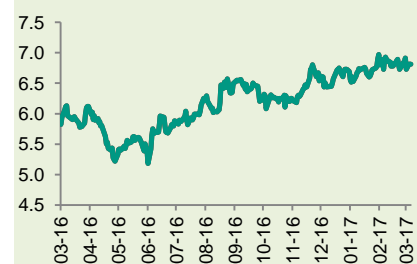
Share Performance (%)

	Absolute	Relative*
1-mth	(1.16)	(1.87)
3-mth	5.26	(6.36)
6-mth	3.97	1.19

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



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

(Rmb mn)	2016A	2016E	AvE (%)
Net interest income	7,677	7,872	(2.5)
Net fee and commission	1,926	1,890	1.9
Operating income	9,603	9,853	(2.5)
Operating expenses	(2,537)	(3,605)	(29.6)
Impairment losses	(2,411)	(1,549)	55.6
Profit before tax	4,659	4,702	(0.9)
Income tax expenses	(1,156)	(1,128)	2.5
Net profit	3,502	3,573	(2.0)
Key indicators (%)			AvE (ppt)
Net interest margin	2.38	2.38	0.00
Net interest spread	2.23	2.15	0.08
Cost to income ratio	23.72	36.59	(12.87)
Return on average assets	1.01	1.04	(0.03)
Return on average equity	15.50	15.13	0.37
Dividend payout	25.98	26.00	(0.02)
Loan to deposits	65.78	61.52	4.26
CT1 CAR	9.82	11.00	(1.18)
Total CAR	11.79	15.21	(3.42)
NPL ratio	0.96	1.17	(0.21)
Provision to total loans	2.80	2.55	0.25
Provision coverage	293.35	217.95	75.40

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	6,232	7,002	7,677	8,557	9,622
Net fee and commission	909	1,512	1,926	2,325	2,790
Other operating income	343	78	(0)	104	119
Operating income	7,483	8,593	9,603	10,985	12,532
Operating expenses	(2,805)	(3,190)	(2,537)	(4,037)	(4,482)
Impairment losses	(890)	(1,135)	(2,411)	(1,742)	(2,141)
Investment in associates	2	3	4	4	5
Profit before tax	3,790	4,270	4,659	5,210	5,914
Income tax expenses	(963)	(1,100)	(1,156)	(1,250)	(1,419)
Net profit	2,827	3,170	3,502	3,959	4,494
Growth (%)					
Net interest income	20.3	12.4	9.6	11.5	12.5
Net fee and commission	41.0	66.4	27.4	20.7	20.0
Other operating income	567.8	(77.1)	(100.5)	(27,332.7)	15.0
Operating income	27.4	14.8	11.8	14.4	14.1
Operating expenses	22.9	13.7	(20.5)	59.1	11.0
Impairment losses	66.1	27.6	112.4	(27.7)	22.9
Investment in associates	na	38.0	39.2	3.5	20.0
Profit before tax	24.0	12.7	9.1	11.8	13.5
Income tax expenses	32.3	14.2	5.1	8.1	13.5
Net profit	21.4	12.1	10.5	13.1	13.5
Per share (RMB)					
EPS	1.05	1.17	1.12	1.27	1.44
BVPS	5.88	6.81	7.61	9.93	11.78
DPS	0.27	0.26	0.29	0.32	0.36
Key ratio (%)					
Net interest margin	2.81	2.52	2.38	2.30	2.29
Net interest spread	2.56	2.29	2.23	2.20	2.20
Cost to income ratio	31.02	30.69	23.72	36.75	35.76
Return on average assets	1.17	1.07	1.01	1.02	1.02
Return on average equity	19.24	17.00	15.50	13.89	13.24
Effective tax rate	24.00	24.00	24.6	24.0	24.0
Dividend payout	26.03	26.04	26.0	25.5	25.0

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2018E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E
Cash and bank	35,699	38,201	42,813	43,328	45,928
Due from bank and FIs	54,409	45,857	55,706	41,386	39,316
Net loans	104,115	121,816	146,789	161,924	184,992
Investment securities	75,778	108,108	120,313	156,815	184,387
Total IEA	270,001	313,983	365,622	403,453	454,623
Other assets	4,530	5,825	7,482	9,029	11,106
Total assets	274,531	319,808	373,104	412,482	465,728
Customer deposits	167,932	199,299	229,594	275,152	319,176
Due to bank and FIs	81,636	73,236	60,351	67,487	65,462
Subordinated debt	3,785	18,491	54,598	22,374	24,611
Total IBL	253,353	291,025	344,543	365,012	409,249
Other liabilities	5,275	7,490	4,749	16,415	19,643
Total liabilities	258,628	298,515	349,292	381,428	428,892
Share capital	2,705	3,127	3,127	3,127	3,127
Retained earnings	6,955	8,148	9,859	13,742	17,113
Reserves	6,243	10,018	10,826	14,185	16,597
Total equity	15,903	21,293	23,812	31,054	36,837
Growth (%)					
Cash and bank	8.8	7.0	12.1	1.2	6.0
Due from bank and FIs	69.3	(15.7)	21.5	(25.7)	(5.0)
Net loans	17.5	17.0	20.5	10.3	14.2
Investment securities	53.8	42.7	11.3	30.3	17.6
Total IEA	33.1	16.3	16.4	10.3	12.7
Total assets	32.8	16.5	16.7	10.6	12.9
Customer deposits	12.9	18.7	15.2	19.8	16.0
Due to bank and FIs	141.9	(10.3)	(17.6)	11.8	(3.0)
Subordinated debt	(20.8)	388.5	195.3	(59.0)	10.0
Total IBL	35.2	14.9	18.4	5.9	12.1
Total liabilities	33.8	15.4	17.0	9.2	12.4
Total equity	18.0	33.9	11.8	30.4	18.6
Key ratio (%)					
Loan to deposits	63.39	62.60	65.78	60.49	59.66
CT1 CAR	9.63	10.49	9.82	11.45	11.85
Total CAR	11.00	11.63	11.79	15.55	15.85
NPL ratio	0.69	0.97	0.96	1.35	1.51
NPL growth	108.09	64.77	19.18	32.75	27.96
Net bad debt charge ratio	0.90	0.98	1.75	1.12	1.20
Provision to total loans	2.19	2.37	2.80	2.72	2.85
Provision coverage	318.87	243.98	293.35	201.48	188.74

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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