



April 1, 2014
Equity Focus
Rating: BUY
TP: HK\$ 8.19

H-Share price (HK\$) 5.43
Est. share price return 50.8%
Est. FY14 div.yield 7.6%
Est. total return 58.4%

Previous Rating & TP BUY; HK\$ 8.19
Previous Report Date Aug 2, 2013

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Key Data

52Wk H/L(HK\$)	6.65/4.89
Issued shares (mn)	250,011
H-Shares (mn)	240,417
A-Shares (mn)	9,594
Market cap	
H-shares (HK\$ mn)	1,305,466
A-Shares (HK\$ mn)	47,886
3-mth avg daily turnover (HK\$ mn)	1,437.19
Major shareholder(s) (%): Huijin	57.26

Source(s): Company, Bloomberg, ABCI Securities

2013 PBT breakdown (%)

Corporate banking	52.2
Personal banking	23.1
Treasury business	24.7
Others	0.0

Source(s): Company, ABCI Securities

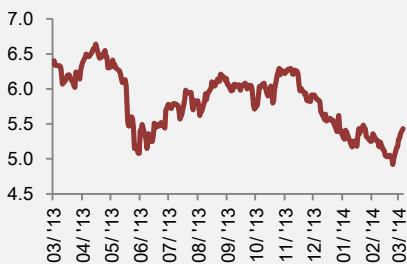
Share performance (%)

	Absolute	Relative*
1-mth	1.9	5.0
3-mth	(7.2)	(2.3)
6-mth	(9.1)	(6.1)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

CCB (939 HK)

Still our favorite pick – **BUY** on stable NIM and asset quality outlook

- CCB's 2013 net profit grew 11.1% YoY, in line with consensus and our forecast
- NIM rebounded in 4Q13 on better bond investment yield and personal loan yield; NIM target was set at 2.7% for 2014
- CCB maintained a strong asset quality in 2013 by implementing proactive measures such as NPL disposal; disposal in 2014 could be higher than that in 2013 depending on the macro environment
- Trading at 0.88x 14E P/B, CCB remains our sector's top pick based on its stable NIM and asset quality outlook. Our TP at HK\$ 8.19 implies a 50.8% upside

2013 results in line with expectation. CCB reported a solid set of results, with its net profit rising by 11.1% YoY to RMB 214,657mn, in line with our forecast (RMB 212,065mn) and consensus (RMB 213,357). NII and non-interest income grew by 10.3% and 11.2% YoY in 2013.

NIM bottomed out in 3Q13. CCB's 2013 NIM was reported at 2.74%, 1bp lower than our forecast. Based on its full-year NIM, we estimate 4Q13 NIM to be 2.83%, higher than the range of 2.7% - 2.71% in the first three quarters. The higher NIM in 4Q13 was driven by the higher bond investment yield and personal loan yield. Despite management expects CCB's loan pricing to stay firm in 2014, overall NIM target was set at 2.7% so as to take into account of the continuous development in interest rate liberalization.

NPL disposal may increase to manage asset quality. Known for its prudent strategy, CCB was able to maintain its NPL ratio flat at 0.99% in 2013 while overdue loans dropped by 2bps YoY to 1.01%. Actions were taken to preserve a high asset quality. E.g. A disposal of NPL amounting to RMB 6bn was made at a 70% discount to the original principal. The provision was written back upon the disposal, as the amount of provision recognized was greater than the sales proceeds. Management expects upside pressure on NPL for 2014. Depending on the overall macro environment, disposal size in 2014 could be twice as large as the one in 2013. Nonetheless, CCB will target to keep the NPL trend stable.

Slower-than-expected deposits growth. Loans and deposits grew by 14.3% and 7.8% YoY in 2013. While loan growth was in line with our forecast, deposits growth was below our expectation of 12.7%. Nevertheless, a change in deposit mix, with time deposit accounting for 44.04% (2012: 47.12%) of total deposits in 2013, should help support NIM.

BUY on low valuation and stable outlook. The counter is currently trading at almost 2 s.d. below its historical P/B average at 0.88x FY14E P/B. CCB remains our sector's top pick based on its stable outlook under prudent management and well diversified businesses. Our TP of HK\$ 8.19 implies a 50.8% upside.

Risk factors: 1) Sharp deterioration in asset quality; 2) Deposit competition triggered by interest rate liberalization; 3) Increased competition from non-bank financial institutions.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	399,403	462,533	523,896	588,385	651,059
Chg (% YoY)	22.6	15.8	13.3	12.3	10.7
Net profit (RMB mn)	169,258	193,179	212,065	234,761	249,119
Chg (% YoY)	25.5	14.1	9.8	10.7	6.1
EPS (RMB)	0.68	0.77	0.85	0.94	1.00
Chg (% YoY)	25.5	14.1	9.8	10.7	6.1
BVPS (RMB)	3.24	3.77	4.32	4.93	5.58
Chg (% YoY)	16.4	16.1	14.7	14.1	13.2
P/E (x)	-	5.62	5.12	4.63	4.36
P/B (x)	-	1.15	1.01	0.88	0.78
ROE (%)	22.4	22.0	21.0	20.3	19.0
ROA (%)	1.47	1.47	1.43	1.42	1.37
DPS(RMB)	0.24	0.27	0.30	0.33	0.35
Yield (%)	-	6.17	6.83	7.57	8.03

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: CCB's quarterly P&L trend

(RMB mn)	1Q13	2Q13	3Q13	4Q13	4Q13E	QoQ (%)	A vs E	2012	2013	2013E	YoY (%)	A vs E
Net interest margin	2.71	2.71	2.71	2.83	2.86	0.00	(0.03)	2.75	2.74	2.75	(0.01)	(0.01)
Net interest income	92,311	95,349	98,850	103,034	116,500	3.7	(11.6)	353,202	389,544	403,010	10.3	(3.3)
Non-interest income	33,614	31,033	27,724	29,225	28,515	(10.7)	2.5	109,331	121,596	120,886	11.2	0.6
Topline	125,925	126,382	126,574	132,259	145,015	0.2	(8.8)	462,533	511,140	523,896	10.5	(2.4)
Operating expenses	(40,028)	(41,039)	(43,607)	(63,511)	(78,527)	6.3	(19.1)	(171,081)	(188,185)	(203,201)	10.0	(7.4)
POPP	85,897	85,343	82,967	68,748	66,488	(2.8)	3.4	291,452	322,955	320,695	10.8	0.7
Loan loss provision	(8,543)	(7,511)	(9,579)	(17,576)	(19,105)	27.5	(8.0)	(40,041)	(43,209)	(44,738)	7.9	(3.4)
Profit before tax	77,360	77,832	73,410	51,204	47,384	(5.7)	8.1	251,439	279,806	275,986	11.3	1.4
Tax expenses	(17,647)	(17,578)	(16,507)	(12,952)	(11,745)	(6.1)	10.3	(57,837)	(64,684)	(63,477)	11.8	1.9
Minority interest	(133)	(120)	(132)	(80)	(59)	10.0	35.2	(423)	(465)	(444)	9.9	4.7
Net profit	59,580	60,134	56,771	38,172	35,580	(5.6)	7.3	193,179	214,657	212,065	11.1	1.2

Source(s): Company, ABCI Securities estimates

Exhibit 2: CCB's P/B band chart (Dec 2006- Mar 2014)


Source(s): Company, Bloomberg, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Net interest income	304,572	353,202	403,010	452,812	500,253
Non-interest income	94,831	109,331	120,886	135,573	150,806
Of which: fees and commissions	86,994	93,507	104,330	118,250	132,679
Operating income	399,403	462,533	523,896	588,385	651,059
Operating expenses	(142,437)	(168,877)	(200,864)	(238,363)	(282,558)
Amortization	(2,100)	(2,204)	(2,336)	(2,476)	(2,625)
Pre-prov. operating profits	254,866	291,452	320,695	347,545	365,876
Impairment losses	(35,783)	(40,041)	(44,738)	(42,086)	(41,741)
Operating profit	219,083	251,411	275,957	305,459	324,135
Non-operating income	24	28	29	31	32
Profit before tax	219,107	251,439	275,986	305,490	324,167
Tax	(49,668)	(57,837)	(63,477)	(70,263)	(74,558)
Minority interests	(181)	(423)	(444)	(466)	(490)
Net profit	169,258	193,179	212,065	234,761	249,119
Growth (%)					
Net interest income	21.1	16.0	14.1	12.4	10.5
Non-interest income	27.7	15.3	10.6	12.1	11.2
Of which: fees and commissions	31.5	7.5	11.6	13.3	12.2
Operating income	22.6	15.8	13.3	12.3	10.7
Operating expenses	19.3	18.6	18.9	18.7	18.5
Amortization	6.5	5.0	6.0	6.0	6.0
Pre-prov. operating profits	24.7	14.4	10.0	8.4	5.3
Impairment losses	22.2	11.9	11.7	(5.9)	(0.8)
Operating profit	25.1	14.8	9.8	10.7	6.1
Non-operating income	(29.4)	16.7	5.0	5.0	5.0
Profit before tax	25.1	14.8	9.8	10.7	6.1
Tax	23.8	16.4	9.8	10.7	6.1
Minority interests	(3.2)	133.7	5.0	5.0	5.0
Net profit	25.5	14.1	9.8	10.7	6.1
Per share data (RMB)					
EPS	0.68	0.77	0.85	0.94	1.00
BVPS	3.24	3.77	4.32	4.93	5.58
DPS	0.24	0.27	0.30	0.33	0.35
Key ratio (%)					
Net interest margin	2.70	2.75	2.75	2.77	2.78
Net interest spread	2.57	2.58	2.57	2.59	2.60
Cost to income ratio	36.2	37.0	38.8	40.9	43.8
Return on average assets	1.47	1.47	1.43	1.42	1.37
Return on average equity	22.4	22.0	21.0	20.3	19.0
Effective tax rate	22.7	23.0	23.0	23.0	23.0
Dividend payout	34.9	35.0	35.0	35.0	35.0

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Cash & cash equivalent	2,579,854	2,774,754	2,978,421	3,195,310	3,427,880
Dues from banks	385,792	715,551	908,146	1,124,396	1,321,333
Investment securities	2,718,654	2,839,076	3,058,476	3,302,856	3,566,803
Net loans and advances	6,325,194	7,309,879	8,281,827	9,273,822	10,218,882
Total interest earning assets	12,009,494	13,639,260	15,226,869	16,896,384	18,534,898
Property and equipment	94,222	113,946	125,341	137,875	151,662
Other non-interest earning assets	178,118	219,622	260,841	310,034	368,768
Total assets	12,281,834	13,972,828	15,613,051	17,344,292	19,055,328
Customer deposits	9,987,450	11,343,079	12,785,728	14,293,814	15,747,668
Due to banks	1,044,954	1,097,743	1,163,608	1,233,424	1,307,429
Subordinated debt	119,861	159,834	183,809	207,704	230,552
Total interest bearing liabilities	11,211,177	12,706,173	14,265,041	15,895,856	17,478,745
Current taxes liabilities	47,189	53,271	59,664	65,630	72,193
Deferred tax liabilities	358	332	448	583	757
Other liabilities	206,449	263,443	199,114	139,328	98,642
Total liabilities	11,465,173	13,023,219	14,524,267	16,101,396	17,650,338
Share capital	250,011	250,011	250,011	250,011	250,011
Reserves	561,130	691,721	829,715	982,468	1,144,562
Minorities	5,520	7,877	9,059	10,417	10,417
Shareholder's equity	816,661	949,609	1,088,784	1,242,896	1,404,990
Growth (%)					
Cash & cash equivalent	27.1	7.6	7.3	7.3	7.3
Dues from banks	171.1	85.5	26.9	23.8	17.5
Investment securities	(5.9)	4.4	7.7	8.0	8.0
Net loans and advances	14.5	15.6	13.3	12.0	10.2
Total interest earning assets	13.5	13.6	11.6	11.0	9.7
Total assets	13.6	13.8	11.7	11.1	9.9
Customer deposits	10.1	13.6	12.7	11.8	10.2
Due to other banks & FIs	39.4	5.1	6.0	6.0	6.0
Subordinated term debt	50.0	33.3	15.0	13.0	11.0
Total interest bearing liabilities	13.0	13.3	12.3	11.4	10.0
Total liabilities	13.4	13.6	11.5	10.9	9.6
Shareholder's equity	16.5	16.3	14.7	14.2	13.0
Key ratio (%)					
Loan to deposits	65.0	66.2	66.6	66.8	66.8
Core CAR	11.0	11.3	11.2	11.5	11.8
Total CAR	13.7	14.3	14.2	14.5	14.8
NPL ratio	1.09	0.99	1.18	1.27	1.32
NPL growth	9.6	5.2	34.9	20.7	14.7
Net bad debt charge ratio	0.5	0.5	0.5	0.4	0.4
Provision to total loans	2.6	2.7	2.8	2.9	2.9
Provision coverage	241.4	271.3	237.1	224.0	219.1

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 from 2009-2013

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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