



April 1, 2015
Equity Focus
Rating: BUY
TP: HK\$ 5.02

H-Share price (HK\$) 4.27
Est. share price return 17.56%
Est. dividend yield 5.44%
Est. total return 23.00%

Previous Rating & TP BUY; HK\$ 5.02
Previous Report Date Mar 5 2015

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Key Data

52Wk H/L(HK\$)	4.52/2.95
Issued shares (mn)	46,679.1
H-Shares (mn)	6,868.7
Domestic shares (mn)	39,810.4
Market cap	
H-shares (HK\$ mn)	29,329.5
Domestic shares (HK\$ mn)	235,550.4
3-mth avg daily turnover (HK\$ mn)	103.4
Major shareholder(s) (%):	
Huijin	41.24

Source(s): Company, Bloomberg, ABCI Securities

2014 Revenue breakdown (%)

Corporate banking	59.92
Retail banking	33.19
Treasury operations	6.64
Others	0.25

Source(s): Company, ABCI Securities

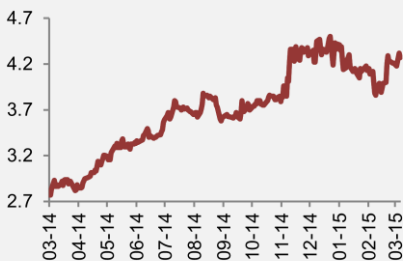
Share performance (%)

	Absolute	Relative*
1-mth	4.4	4.1
3-mth	1.2	(4.1)
6-mth	17.6	8.3

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

CEB (6818 HK)

Improving business structure; Maintain **BUY** on all-round operation

- CEB's 2014 net profit grew 8.14% yoy, gradual improvement in business structure improvement is reflected by rising contributions of fee income and retail revenue to total operating income
- NPL ratio was maintained at 1.19% on increasing risk management effort; new NPL also came from western China besides YRD and PRD
- WM business operated by a wholly-owned subsidiary should help segregate risk and improve product innovation
- The counter is currently trading at 0.82x FY15E P/B. Maintain **BUY** with TP at HK\$ 5.02, implying a 17.56% upside

Gradual improvement in business structure. CEB's 2014 net profit was reported at RMB 28,883mn, up 8.14% yoy and is in line with consensus. Benefits of CEB's optimized business structure are reflected by its net fee income-to-total operating income ratio that increased 1.49ppt yoy to 24.39% in 2014. Meanwhile, contribution of retail banking revenue to total operating income increased by 56bps yoy to 33.29%. Better business structure boosted CEB's total asset yield by 20bps yoy, or 10bps higher than the rise in total funding cost. Net fee income surged 28.1% yoy; in particular, retail-related charges such as bank card and wealth management fees rose 38.2% and 46.6% yoy.

Increased effort in risk management. In 2014, CEB continued to limit its risk exposure in property-related loans, LGFV, and over-capacitated industries; NPL ratios in the respective areas were 0.38%, 0%, and 1.09%. Overall NPL ratio rose 33bps to 1.19%; new NPL mainly arose from manufacturing, and wholesale & retail sectors in YRD and PRD regions. Besides, NPL balance surged by 169.5% yoy in western China, although the increase can be partially attributed to its low base.

Wealth management (WM) business to operate separately. On Mar 27, 2015, CEB announced its plan to operate its WM business separately through a wholly-owned subsidiary, triggering market speculation of a potential spinoff. Management indicated that such arrangement has been made for the purposes of risk segregation and improving product innovations. Although CEB has no plan for potential spinoff, management said the Group will seek for co-operation partners for its WM segment.

Reiterate BUY on all-round operation. With its well-developed asset management, e-banking, and investment banking business units, we maintain **BUY** for CEB based on its diversified business platform. Trading at 0.82x FY15E P/B, our TP of HK\$ 5.02 implies a 17.56% upside.

Risk factors: 1) Decline in asset quality among specific segments that could drive up credit cost; 2) Failure to expand CEB's retail business and optimize business structure; 3) Failure to monetize group synergies.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Revenue (RMB mn)	60,070	65,527	78,771	87,190	99,436
Chg (% YoY)	29.2	9.1	20.2	10.7	14.0
Net profit (RMB mn)	23,591	26,715	28,883	31,494	33,432
Chg (% YoY)	27.6	13.2	8.1	9.0	6.2
EPS (RMB)	0.58	0.66	0.62	0.73	0.77
Chg (% YoY)	27.6	13.1	-6.1	17.2	6.2
BVPS (RMB)	2.82	3.30	3.83	4.19	4.70
Chg (% YoY)	18.9	17.0	16.0	9.4	12.1
P/E (x)	5.86	5.18	5.51	4.70	4.43
P/B (x)	1.21	1.03	0.89	0.82	0.73
ROE (%)	23.60	21.48	17.36	17.08	16.12
ROA (%)	1.18	1.14	1.12	1.03	0.95
DPS(RMB)	0.06	0.17	0.19	0.20	0.21
Yield (%)	1.70	5.04	5.44	5.93	6.29

Source(s): Bloomberg, ABCI estimates



Consolidated Income Statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Net interest income	50,263	50,862	58,259	65,013	73,599
Non-interest income	9,807	14,665	20,512	22,177	25,837
Operating income	60,070	65,527	78,771	87,190	99,436
Operating expenses	(22,685)	(26,473)	(30,008)	(36,031)	(42,434)
Pre-provision operating profit	37,385	39,054	48,763	51,159	57,002
Impairment loans losses	(5,795)	(4,633)	(10,209)	(9,105)	(12,357)
Profit before tax	31,590	34,421	38,554	42,055	44,645
Tax	(7,970)	(7,667)	(9,626)	(10,514)	(11,161)
Minority interests	(29)	(39)	(45)	(47)	(52)
Net profit	23,591	26,715	28,883	31,494	33,432
Growth (%)					
Net interest income	27.4	1.2	14.5	11.6	13.2
Non-interest income	38.9	49.5	39.9	8.1	16.5
Operating income	29.2	9.1	20.2	10.7	14.0
Operating expenses	24.5	16.7	13.4	20.1	17.8
Pre-provision operating profit	32.2	4.5	24.9	4.9	11.4
Impairment loans losses	56.7	(20.1)	120.4	(10.8)	35.7
Profit before tax	28.2	9.0	12.0	9.1	6.2
Tax	30.1	(3.8)	25.6	9.2	6.2
Minority interests	70.6	34.5	15.4	4.9	10.0
Net profit	27.6	13.2	8.1	9.0	6.2
Per share					
EPS	0.58	0.66	0.62	0.73	0.77
BVPS	2.82	3.30	3.83	4.19	4.70
DPS	0.06	0.17	0.19	0.20	0.21
Key ratio (%)					
Net interest margin	2.56	2.16	2.30	2.24	2.19
Net interest spread	2.35	1.95	2.06	1.84	1.71
Cost to income ratio	37.76	31.84	30.02	41.32	42.67
Return on average assets	1.18	1.14	1.12	1.03	0.95
Return on average equity	23.60	21.48	17.36	17.08	16.12
Effective tax rate	25.23	25.00	24.97	25.00	25.00
Dividend payout	9.94	26.06	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates



Consolidated Balance Sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Cash & bank	285,478	312,643	354,185	434,136	513,018
Due from banks & FIs	413,724	360,626	459,731	533,166	620,481
Investment securities	480,061	494,927	589,626	705,631	838,788
Net loans and advances	997,331	1,142,138	1,271,430	1,460,860	1,649,047
Total interest earning assets	2,176,594	2,310,334	2,674,972	3,133,793	3,621,335
Property and equipment	11,869	12,629	13,043	14,730	15,909
Other non-interest earning assets	90,832	92,123	48,995	123,047	141,831
Total assets	2,279,295	2,415,086	2,737,010	3,271,571	3,779,074
Customer deposits	1,426,941	1,605,278	1,785,337	2,084,519	2,350,431
Due to banks & FIs	527,561	438,604	507,187	575,010	649,761
Subordinated term debt	52,700	42,247	89,676	68,018	78,220
Total interest bearing liabilities	2,007,202	2,086,129	2,382,200	2,727,547	3,078,412
Current taxes	3,174	2,605	3,829	3,596	4,172
Other liabilities	154,597	173,300	171,498	344,540	476,824
Total liabilities	2,164,973	2,262,034	2,557,527	3,075,683	3,559,408
Share capital	40,435	46,277	46,679	46,679	46,679
Reserves	73,743	106,562	132,296	148,876	172,571
Minorities	144	213	508	333	416
Shareholder's equity	114,322	153,052	179,483	195,888	219,666
Growth (%)					
Cash & bank	24.8	9.5	13.3	22.6	18.2
Due from banks & FIs	5.0	(12.8)	27.5	16.0	16.4
Investment securities	193.7	3.1	19.1	19.7	18.9
Net loans and advances	14.8	14.5	11.3	14.9	12.9
Total interest earning assets	31.5	6.1	15.8	17.2	15.6
Total assets	31.5	6.0	13.3	19.5	15.5
Customer deposits	16.5	12.5	11.2	16.8	12.8
Due to banks & FIs	77.0	(16.9)	15.6	13.4	13.0
Subordinated term debt	229.4	(19.8)	112.3	(24.2)	15.0
Total interest bearing liabilities	30.4	3.9	14.2	14.5	12.9
Total liabilities	32.2	4.5	13.1	20.3	15.7
Shareholder's equity	18.9	33.9	17.3	9.1	12.1
Key ratio (%)					
Loan to deposits	71.70	72.06	70.86	71.69	71.96
CT1 CAR	8.00	9.11	9.34	8.57	8.32
Total CAR	10.99	10.57	11.21	10.04	9.72
NPL ratio	0.74	0.86	1.19	1.13	1.15
NPL growth	32.93	31.74	54.80	14.75	15.62
Net bad debt charge ratio	0.66	0.61	0.85	0.65	0.78
Provision to total loans	2.53	2.07	2.16	2.25	2.50
Provision coverage	339.63	241.02	180.52	199.08	216.52

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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