

China Merchants Bank (3968 HK / 600036 CH) 2021 results review: Strong fundamentals to defend profitability

- Strong earnings growth in 2021 prompts us to revise with 2021-23E net profit CAGR to 11.4%
- Expect mild NIM pressure on policy priority to support real economy despite a stable NIM in 4Q21
- Robust risk buffer as key to sustaining high profitability; 4Q21 provision expenses fell YoY
- Maintain **BUY** on strong fundamentals. Revise up H/A-shr TPs to HK\$ 75.2/RMB 66.0, implying 1.89x/2.04x FY22E P/B

Strong earnings growth and sustainable fundamentals. CMB's 2021 net profit was RMB 119,922mn, up 23.2% YoY, or 4.82% higher than our forecast, thanks to reduced provision in 4Q21. Topline revenue was RMB 327,377mn, up 13.9% YoY, 0.32% higher than our forecast. In particular, NII and net fee income were 3.62% lower and 1.56% higher than our projections. Wealth management fee income grew by 29% YoY in 2021. As the bank fulfilled the regulatory WMPs requirement in 2021, we forecast net fee income to grow at 12% CAGR in 2021-23E with WMPs-related fee revving up in 2022. CMB's 2021 results prompt us to adjust our 2022E and 23E net profit forecast by +2.03% and -1.98%, which implies a net profit CAGR of 11.4% over 2021-23E.

Policy direction to cause mild pressure on NIM. NIM was reported at 2.48% for 2021, down 1bps YoY and was 1bps below our forecast. NIM has been stable, with 4Q21 NIM inching up only by 1bps QoQ to 2.48%. In particular, average loan yield was unchanged QoQ at 4.64% while average deposit cost rose 1bps QoQ to 1.44%. However, with the policy priority to support the real economy, the recent revival of LPR cut and increase of deposit competition, we expect mild NIM pressure to persist sector-wide. Our base case scenario assumes CMB's total assets and total liabilities to expand at 9.9% and 9.8% CAGRs in 2021-23E, hence we expect NIM to narrow by 5bps each in 2022E and 23E to reach 2.38% by 2023E.

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Results and Valuation

FY ended Dec 31	2019A	2020A	2021A	2022E	2023E
Revenue (RMB mn)	268,065	287,398	327,377	368,784	405,774
Chg (% YoY)	8.5	7.2	13.9	12.6	10.0
Net profit* (RMB mn)	92,867	97,342	119,922	134,883	148,776
Chg (% YoY)	15.3	4.8	23.2	12.5	10.3
EPS (RMB)	3.62	3.79	4.61	5.20	5.76
Chg (% YoY)	15.7	4.7	21.6	12.9	10.6
BVPS (RMB)	22.89	25.36	29.01	32.89	37.13
Chg (% YoY)	14.1	10.8	14.4	13.4	12.9
P/E (x) – H-shr	13.79	13.17	10.83	9.59	8.67
P/B (x) – H-shr	2.18	1.97	1.72	1.52	1.34
P/E (x) – A-shr	12.75	12.18	10.02	8.87	8.02
P/B (x) – A-shr	2.02	1.82	1.59	1.40	1.24
ROAA (%)	1.31	1.23	1.36	1.39	1.39
ROAE (%)	16.84	15.73	16.96	15.66	15.53
DPS(RMB)	1.200	1.253	1.522	1.718	1.899
Yield (%) H-shr	2.40	2.51	3.05	3.44	3.81
Yield (%) A-shr	2.60	2.71	3.30	3.72	4.11

Note: HKD/CNY=1.23

*Net profit = Net profit attributable to equity holders of the Company

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Rating (H): BUY

Rating (A): BUY

TP (H): HK\$ 75.2

TP (A): RMB 66.0

Analyst : Johannes Au

Tel: (852) 2147 8802

johannesau@abci.com.hk

Price (H/A shr)	HK\$ 61.40/ RMB 46.17
Est. s price return (H/A shr)	22.48%/42.95%
Est. dividend yield (H/A shr)	3.44%/3.72%
Est. total return (H/A shr)	25.92%/ 46.67%
Last Rating & TP (H/A shr)	BUY, HK\$67.66/ BUY, RMB62.81
Previous Report Date	Dec 2, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	72.45/50.75
52Wk H/L (RMB) (A shr)	58.92/39.18
Total issued shares (mn)	25,219.8
Issued H shr (mn)	4,590.9
Issued A shr (mn)	20,628.9
Market cap (HK\$ mn)	1,453,264.4
H-shr market cap (HK\$ mn)	281,881.3
A-shr market cap (HK\$ mn)	1,171,383.1
3-mth avg daily turnover (HK\$ mn) (H shr)	1,019.60
3-mth avg daily turnover (RMB mn) (A shr)	3,149.51

Major shareholder(s) (%):

China Merchants Group	13.04
China Ocean Shipping	6.24

Source(s): Bloomberg, ABCI Securities

Robust risk buffer to defend profitability. CMB's high profitability was defended by its stronger-than-peer risk buffer. Its credit losses provision was down 21.7% YoY in 4Q21. Meanwhile, provisioning ratio and provision coverage ratio were up 29bps QoQ and 40.73ppt QoQ to 4.42% and 483.87% as of Dec 2021 - a result of continuous NPL handling in manufacturing, wholesale & retail, and leasing & commercial services sectors. NPL ratio was down 2bps QoQ to 0.91% in 4Q21, but we expect a mild risk increase in property-related sectors would keep the ratio in the range of 0.93%-0.96% over FY22E-23E. Our base case estimates 2022E/23E ROAEs to be at 15.66%/15.53%.

Maintain BUY on robust fundamentals. We lower our sustainable ROAE and equity risk premium assumptions in the GGM model based on the bank's robust risk buffer and improving macro outlook. In addition, we raise the long-term growth assumption by factoring in the balance sheet growth. We raise CMB's H/A-share TPs by 11.1%/5.1% to HK\$ 75.2/RMB 66.0, which imply 1.89x/2.04x FY22E P/B. The H/A-shr counters are currently trading at 1.52x/1.40x FY22E P/B. Reiterate **BUY** on CMB's sector-leading fundamentals.

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; 5) Policy risk in new and fast-growing businesses; 6) Resurgence of COVID-19.

Exhibit 1: CMB's 2021 actual results vs. ABCI estimates

(RMB mn)	2021E	2021A	AvE (%)
Net interest income	211,587	203,919	(3.62)
Net fee and commission	92,999	94,447	1.56
Operating income	326,322	327,377	0.32
Operating expenses	(117,083)	(116,879)	(0.17)
Impairment losses	(69,123)	(66,355)	(4.00)
Profit before tax	143,862	148,173	3.00
Income tax expenses	(28,772)	(27,339)	(4.98)
Net profit	114,404	119,922	4.82
Key indicators (%)			AvE (ppt)
Net interest margin	2.49	2.48	(0.01)
Net interest spread	2.40	2.39	(0.01)
Cost to income ratio	35.88	33.11	(2.77)
Return on average assets	1.29	1.36	0.07
Return on average equity	15.74	16.96	1.22
Dividend payout	33.00	33.02	0.02
CT1 CAR	12.59	12.66	0.07
Total CAR	16.32	17.48	1.16
NPL ratio	1.00	0.91	(0.09)
Provision to total loans	4.50	4.42	(0.08)
Provision coverage	450.00	483.87	33.87

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in 2022E and 2023E forecasts

(RMB mn)	2022E (old)	2022E (new)	change (%)	(RMB mn)	2023E (old)	2023E (new)	change (%)
Net interest income	234,612	231,092	(1.50)	Net interest income	258,043	252,197	(2.27)
Net fee and commission	106,948	105,781	(1.09)	Net fee and commission	120,852	118,474	(1.97)
Operating income	362,211	368,784	1.81	Operating income	398,513	405,774	1.82
Operating expenses	(132,214)	(134,411)	1.66	Operating expenses	(147,638)	(153,228)	3.79
Impairment losses	(68,558)	(69,530)	1.42	Impairment losses	(66,000)	(71,456)	8.27
Profit before tax	166,196	164,843	(0.81)	Profit before tax	190,773	181,090	(5.08)
Income tax expenses	(33,239)	(33,976)	2.22	Income tax expenses	(38,155)	(37,477)	(1.78)
Net profit attributable to equity holders	132,196	134,883	2.03	Net profit attributable to equity holders	151,782	148,776	(1.98)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	2.44	2.43	(0.01)	Net interest margin	2.38	2.38	-
Net interest spread	2.32	2.23	(0.09)	Net interest spread	2.23	2.16	(0.07)
CIR	36.50	36.45	(0.05)	CIR	37.05	37.76	0.71
ROAA	1.32	1.39	0.07	ROAA	1.36	1.39	0.03
ROAE	16.25	15.66	(0.59)	ROAE	16.63	15.53	(1.10)
Dividend payout	33.00	33.00	-	Dividend payout	33.00	33.00	-
CT1 CAR	12.74	12.90	0.16	CT1 CAR	13.26	13.16	(0.10)
Total CAR	16.22	16.90	0.68	Total CAR	16.57	16.94	0.37
NPL ratio	1.02	0.93	(0.09)	NPL ratio	1.05	0.96	(0.09)
Provision to total loans	4.45	4.40	(0.05)	Provision to total loans	4.40	4.45	0.05
Provision coverage ratio	436.27	473.12	36.85	Provision coverage ratio	419.05	463.54	44.49

Source(s): Company, ABCI Securities estimates

Exhibit 3: Changes in GGM assumptions

	H-shr		A-shr		Reason
	Old	new	old	new	
TP (HKD/RMB)	67.66	75.20	62.81	66.00	
Sustainable ROE (%)	16.17	15.44	16.17	15.44	Lower on maintaining high risk buffer
COE (%)	12.19	12.17	12.19	11.90	
Target 22E P/B (x)	1.77	1.89	1.98	2.04	
Rfr (%)	2.88	2.81	2.88	2.81	With reference to China 10Y government bond
Beta	0.98	1.04	0.92	1.01	With reference to Bloomberg
ERP (%)	9.50	9.00	9.50	9.00	Lower risk premium on improving macro outlook
LT gr (%)	7.00	8.50	7.00	8.50	Raise on robust balance sheet growth

Source(s): Company, ABCI Securities estimates



Financial statements

CMB (3968HK/600036CH)

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021A	2022E	2023E
Net interest income	173,090	185,031	203,919	231,092	252,197
Non-interest income	94,975	102,367	123,458	137,693	153,578
Of which: Fees and commissions	71,493	79,486	94,447	105,781	118,474
Operating income	268,065	287,398	327,377	368,784	405,774
Operating expenses	(91,497)	(102,814)	(116,879)	(134,411)	(153,228)
Pre-provision operating profit	176,568	184,584	210,498	234,373	252,546
Impairment losses on loans	(61,159)	(65,025)	(66,355)	(69,530)	(71,456)
Operating profit	115,409	119,559	144,143	164,843	181,090
Non-operating income	1,723	2,881	4,030	5,038	6,297
Profit before tax	117,132	122,440	148,173	169,881	187,387
Tax	(23,709)	(24,481)	(27,339)	(33,976)	(37,477)
Minority interests	(556)	(617)	(912)	(1,021)	(1,134)
Net profit attributable to equity holders	92,867	97,342	119,922	134,883	148,776
Preference share dividend	1,670	1,651	3,613	3,613	3,613
Net profit attributable to ordinary shareholders	91,197	95,691	116,309	131,270	145,163
Growth (%)					
Net interest income	7.9	6.9	10.2	13.3	9.1
Of which: Fees and commissions	7.5	11.2	18.8	12.0	12.0
Operating income	8.5	7.2	13.9	12.6	10.0
Operating expenses	12.8	12.4	13.7	15.0	14.0
Pre-provision operating profit	6.4	4.5	14.0	11.3	7.8
Impairment losses on loans	0.5	6.3	2.0	4.8	2.8
Operating profit	9.7	3.6	20.6	14.4	9.9
Non-operating income	31.6	67.2	39.9	25.0	25.0
Profit before tax	10.0	4.5	21.0	14.7	10.3
Tax	(7.7)	3.3	11.7	24.3	10.3
Minority interests	114.7	11.0	47.8	12.0	11.0
Net profit attributable to equity holders	15.3	4.8	23.2	12.5	10.3
Preference share dividend	1.2	(1.1)	118.8	0.0	0.0
Net profit attributable to ordinary shareholders	15.6	4.9	21.5	12.9	10.6
Per share (RMB)					
EPS	3.62	3.79	4.61	5.20	5.76
BVPS	22.89	25.36	29.01	32.89	37.13
DPS	1.200	1.253	1.522	1.718	1.899
Key ratio (%)					
Net interest margin	2.59	2.49	2.48	2.43	2.38
Net interest spread	2.48	2.40	2.39	2.23	2.16
Cost to income ratio	34.13	35.77	35.70	36.45	37.76
Return on average assets	1.31	1.23	1.36	1.39	1.39
Return on average equity	16.84	15.73	16.96	15.66	15.53
Effective tax rate	20.24	19.99	18.45	20.00	20.00
Dividend payout	33.19	33.02	33.00	33.00	33.00

Note1: Individual items may not sum to total due to rounding difference

Note2: 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

CMB (3968HK/600036CH)
Consolidated balance sheet

As of Dec 31 (RMB mn)	2019A	2020A	2021A	2022E	2023E
Cash & central bank balance	641,803	538,446	567,208	595,169	624,520
Due from FIs	408,136	616,516	799,372	955,505	1,143,239
Investment securities	1,828,656	2,108,828	2,193,392	2,303,062	2,441,245
Net loans and advances	4,277,300	4,804,361	5,335,391	5,897,311	6,471,214
Total interest earning assets	7,155,895	8,068,151	8,895,363	9,751,047	10,680,218
Property and equipment	68,333	71,093	81,787	94,055	108,163
Other non-interest earning assets	193,012	222,204	271,871	328,409	389,785
Total assets	7,417,240	8,361,448	9,249,021	10,173,511	11,178,167
Customer deposits	4,874,981	5,664,135	6,385,154	7,128,968	7,884,548
Financial liabilities	66,634	110,412	91,043	81,939	77,842
Due to central bank and FIs	1,138,714	1,198,541	1,083,655	1,110,277	1,139,553
Subordinated debt	578,191	346,141	446,645	544,907	653,888
Total interest bearing liabilities	6,658,520	7,319,229	8,006,497	8,866,091	9,755,832
Current taxes	19,069	18,648	22,491	26,314	30,262
Deferred tax liabilities	956	1,073	1,353	1,624	1,900
Other liabilities	120,988	292,144	352,999	315,620	318,995
Total liabilities	6,799,533	7,631,094	8,383,340	9,209,649	10,106,988
Share capital	25,220	25,220	25,220	25,220	25,220
Other equity instruments	34,065	84,054	127,043	127,043	127,043
Reserves	552,016	614,476	706,482	804,316	911,269
Minorities	6,406	6,604	6,936	7,283	7,647
Shareholder's equity	617,707	730,354	865,681	963,862	1,071,179
Growth (%)					
Cash & central bank balance	6.9	(16.1)	5.3	4.9	4.9
Due from FIs	(19.0)	51.1	29.7	19.5	19.6
Investment securities	7.2	15.3	4.0	5.0	6.0
Net loans and advances	14.3	12.3	11.1	10.5	9.7
Total interest earning assets	9.2	12.7	10.3	9.6	9.5
Property and equipment	17.3	4.0	15.0	15.0	15.0
Other non-interest earning assets	41.2	15.1	22.4	20.8	18.7
Total assets	10.0	12.7	10.6	10.0	9.9
Customer deposits	5.8	29.5	13.6	12.5	11.6
Financial liabilities	(1.0)	5.3	(9.6)	2.5	2.6
Due to central bank and FIs	36.1	(40.1)	29.0	22.0	20.0
Subordinated debt	9.9	9.9	9.4	10.7	10.0
Total interest bearing liabilities	9.9	9.9	9.4	10.7	10.0
Current taxes	(6.6)	(2.2)	20.6	17.0	15.0
Deferred tax liabilities	(21.1)	12.2	26.1	20.0	17.0
Other liabilities	(2.5)	141.5	20.8	(10.6)	1.1
Total liabilities	9.6	12.2	9.9	9.9	9.7
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	0.0	146.7	51.1	0.0	0.0
Reserves	14.8	11.3	15.0	13.8	13.3
Minorities	83.7	3.1	5.0	5.0	5.0
Shareholder's equity	13.6	18.2	18.5	11.3	11.1
Key ratio (%)					
CT1 CAR	11.95	12.29	12.66	12.90	13.16
Total CAR	15.54	16.54	17.48	16.91	16.94
NPL ratio	1.16	1.07	0.91	0.93	0.96
Provision to total loans	4.97	4.67	4.42	4.40	4.45
Provision coverage ratio	426.78	437.68	483.87	473.12	463.54

Note1: Individual items may not sum to total due to rounding difference

Note2: 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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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 2009 (For reference: HSI total return index 2009-21 averaged 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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183