



August 19, 2013  
Equity Focus  
Rating: BUY  
TP: HK\$ 17.80

H-Share price (HK\$) 14.42  
Est. share price return 23.44%  
Est. dividend yield 5.69%  
Est. total return 29.13%

Previous Rating & TP BUY; HK\$ 17.80  
Previous Report Date Aug 2, 2013

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**Key Data**

52Wk H/L(HK\$)	19.02/11.96
Issued shares (mn)	21,577
H-Shares (mn)	3,910
A-Shares (mn)	17,667
Market cap	
H-shares (HK\$ mn)	56,389
A-Shares (HK\$ mn)	248,799
3-mth avg daily turnover (HK\$ mn)	256.17
Major shareholder(s) (%):	
China Merchants Group	18.01
Source(s): Company, Bloomberg, ABCI Securities	

**1H13 PBT breakdown (%)**

Wholesale banking	68.86
Retail banking	34.73
Financial market business	(3.12)
Others	(0.47)
Source(s): Company, ABCI Securities	

**Share performance (%)**

	Absolute	Relative*
1-mth	10.9	5.2
3-mth	(13.7)	(10.0)
6-mth	(20.1)	(16.8)

\*Relative to HSI  
Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg

**CMB (3968 HK)**

Strong fee income to counteract NIM pressure; maintain BUY

- CMB's 2Q13 net profit was RMB 13,353mn, beating consensus by 7.8% and our estimate by 15.8% on strong fee income growth
- 2Q13 NIM narrowed 8bps QoQ to 2.85%; deposit cost was better than expected, partially offsetting the 9bps reduction in loan yields
- CMB's NPL ratio rose 5bps to 0.71%. Risk management will be one of the top priorities in 2H13
- CMB is trading at 1.04x FY13E P/B, and we believe market has factored in the rights issue that will increase CMB's CAR by ~2% and ease capital concerns. Maintain BUY

**1H13 results beat estimates on strong fee income growth.** CMB reported its 2Q13 net profit of RMB 13,353mn, beating consensus by 7.8% and our forecast by 15.8%. This implies 2.6% QoQ and 15.8% YoY growth in net profit, which in turn were driven mainly by strong 1H13 fee income that surged by 45.54% YoY. The fee income growth was propelled by the increased fee incomes from bank cards, trust and fiduciary activities, and agency services that rose 42.3%, 48.1%, and 33.7%, respectively. Fee income related to wealth management products (WMPs) grew only 28.37% YoY. Thus, non-interest income to total revenue rose from 20% in 4Q12 to 27% in 2Q13, reflecting CMB's strategic measures against the growing NIM pressure.

**NIM to stabilize in 2H13.** 2Q13 NIM narrowed by 8 bps QoQ to 2.85%. We are impressed by CMB's ability to reduce deposit cost by 2bps QoQ, which in turn partially offset the 9bps QoQ reduction in loan yields resulted from re-pricing. Although yields of both interbank assets and liabilities increased by 37bps QoQ in 2Q13, we notice that banks have started to reduce their balance sheet mixes in interbank market after the June liquidity crisis. We expect CMB's NIM to remain stable at current level in 2H13.

**Increases NPL management effort in 2H13.** CMB's NPL increased by RMB 1,875mn in 2Q13, with NPL ratio increasing by 5bps QoQ to 0.71%. Due to proactive NPL management, CMB collected RMB 1.2bn and wrote off RMB 400mn of NPL in 1H13. We believe the bank would enhance such efforts in 2H13 given the high priority of risk management. Loan provision in 2Q13 was 9% higher than our estimate, with provision coverage ratio remaining at 304.72%. In addition, loans to local government financing platforms reduced 4.8% QoQ, accounting for only 4.4% of total loans and had an NPL ratio of 0.04%.

**Solid results justify our recent upgrade.** This strong set of results supports our recent upgrade of the counter to **BUY**. We believe CMB's current valuation of 1.04x 13E P/B has factored in the upcoming rights issue, which we estimate would increase CMB's CAR by ~2%. We maintain our TP at HK\$ 17.8, which implies a 23% upside.

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

**Results and Valuation**

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	96,603	113,754	125,541	145,039	165,774
Chg (% YoY)	34.7	17.8	10.4	15.5	14.3
Net profit (RMB mn)	36,129	45,273	47,203	53,520	59,852
Chg (% YoY)	40.2	25.3	4.3	13.4	11.8
EPS (RMB)	1.67	2.10	2.19	2.48	2.77
Chg (% YoY)	32.2	25.3	4.3	13.4	11.8
BVPS (RMB)	7.65	9.29	11.07	12.92	14.98
Chg (% YoY)	23.1	21.5	19.1	16.8	15.9
P/E (x)	-	5.50	5.27	4.65	4.16
P/B (x)	-	1.24	1.04	0.89	0.77
ROE (%)	24.2	24.8	21.5	20.7	19.9
ROA (%)	1.39	1.46	1.30	1.31	1.32
DPS(RMB)	0.42	0.63	0.66	0.74	0.83
Yield (%)	-	5.46	5.69	6.45	7.21

Source(s): Bloomberg, ABCI estimates

**Exhibit 1: CMB's quarterly P&L trend**

(RMBmn)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	2Q13A	A vs E	YoY (%)	QoQ (%)
Net interest margin	3.21	3.01	2.92	2.96	2.93	2.90	2.85	(0.05)	(0.08)	(0.16)
Net interest income	21,548	21,913	22,149	22,764	23,044	23,365	24,397	4.42	5.87	11.34
Non-interest income	6,837	6,936	5,913	5,694	7,805	7,610	8,940	17.48	14.54	28.89
Topline	28,385	28,849	28,062	28,458	30,849	30,974	33,337	7.63	8.07	15.56
Operating expenses	(10,993)	(11,299)	(11,697)	(14,682)	(11,711)	(12,558)	(12,694)	1.09	8.39	12.35
Pre-provision profit	17,392	17,550	16,365	13,776	19,138	18,417	20,643	12.09	7.86	17.62
Loan loss provision	(1,982)	(2,162)	(1,334)	(105)	(2,062)	(2,657)	(2,897)	9.04	40.49	34.00
Profit before tax	15,487	15,338	15,121	13,554	17,205	15,668	17,746	13.26	3.14	15.70
Tax expenses	(3,845)	(3,604)	(3,708)	(3,130)	(4,187)	(4,132)	(4,395)	6.35	4.97	21.95
Minority interests	1	0	0	(5)	3	(5)	2	(139.06)	(33.33)	na
Net profit	11,643	11,734	11,413	10,419	13,021	11,531	13,353	15.81	2.55	13.80

Source(s): Company, ABCI Securities estimates

**Exhibit 2: CMB P/B band chart (Dec 2006- Aug 2013)**


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



**Consolidated income statement (2011A-2015E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Net interest income	76,307	88,374	94,711	108,368	122,844
Non-interest income	20,296	25,380	30,830	36,671	42,929
Of which: fees and commissions	15,628	19,739	24,488	29,535	34,890
<b>Operating income</b>	<b>96,603</b>	<b>113,754</b>	<b>125,541</b>	<b>145,039</b>	<b>165,774</b>
Operating expenses	(41,194)	(48,671)	(56,439)	(66,663)	(78,461)
Pre-prov. operating profits	55,409	65,083	69,102	78,376	87,312
Impairment losses	(8,350)	(5,583)	(7,865)	(8,942)	(9,663)
<b>Operating profit</b>	<b>47,059</b>	<b>59,500</b>	<b>61,237</b>	<b>69,434</b>	<b>77,649</b>
Non-operating income	63	64	70	77	85
<b>Profit before tax</b>	<b>47,122</b>	<b>59,564</b>	<b>61,308</b>	<b>69,512</b>	<b>77,734</b>
Tax	(10,995)	(14,287)	(14,101)	(15,988)	(17,879)
Minority interests	2	(4)	(4)	(4)	(4)
<b>Net profit</b>	<b>36,129</b>	<b>45,273</b>	<b>47,203</b>	<b>53,520</b>	<b>59,852</b>
<b>EPS</b>	<b>1.67</b>	<b>2.10</b>	<b>2.19</b>	<b>2.48</b>	<b>2.77</b>
<b>BVPS</b>	<b>7.65</b>	<b>9.29</b>	<b>11.07</b>	<b>12.92</b>	<b>14.98</b>
<b>DPS</b>	<b>0.42</b>	<b>0.63</b>	<b>0.66</b>	<b>0.74</b>	<b>0.83</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2011A-2015E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Cash & cash equivalent	471,350	752,285	826,203	904,252	985,962
Dues from banks	205,356	210,385	234,876	261,170	288,690
Investment securities	459,061	516,985	573,472	629,856	687,875
Net loans and advances	1,604,371	1,863,325	2,129,046	2,420,924	2,730,401
<b>Total interest earning assets</b>	<b>2,740,138</b>	<b>3,342,980</b>	<b>3,763,597</b>	<b>4,216,202</b>	<b>4,692,929</b>
Property and equipment	19,210	22,030	24,233	26,656	29,322
Other non-interest earning assets	35,623	43,209	51,601	60,718	70,367
<b>Total assets</b>	<b>2,794,971</b>	<b>3,408,219</b>	<b>3,839,432</b>	<b>4,303,576</b>	<b>4,792,617</b>
Customer deposits	2,235,040	2,545,457	2,877,229	3,222,955	3,592,154
Due to banks	315,247	526,460	579,106	637,017	700,718
Subordinated debt	31,187	64,098	73,713	81,084	89,192
<b>Total interest bearing liabilities</b>	<b>2,587,667</b>	<b>3,145,614</b>	<b>3,542,526</b>	<b>3,956,653</b>	<b>4,400,783</b>
Current taxes	7,112	6,679	7,013	7,364	7,732
Deferred tax liabilities	864	827	827	827	827
Other liabilities	34,318	54,592	50,219	59,883	59,983
<b>Total liabilities</b>	<b>2,629,961</b>	<b>3,207,712</b>	<b>3,600,585</b>	<b>4,024,727</b>	<b>4,469,325</b>
Share capital	21,577	21,577	21,577	21,577	21,577
Reserves	143,420	178,857	217,197	257,199	301,642
Minorities	13	73	73	73	73
<b>Shareholders' equity</b>	<b>165,010</b>	<b>200,507</b>	<b>238,847</b>	<b>278,849</b>	<b>323,292</b>

Source(s): Company, ABCI Securities estimates



**Key Ratio (2011A-2015E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Key ratio (%)</b>					
Net interest margin	3.06	3.03	2.98	3.00	3.03
Net interest spread	2.94	2.87	3.10	3.08	3.09
Cost to income ratio	42.6	42.8	45.0	46.0	38.8
Return on average assets	1.39	1.46	1.30	1.31	1.32
Return on average equity	24.2	24.8	21.5	20.7	19.9
Effective tax rate	23.3	23.0	23.0	23.0	23.0
Dividend payout	25.1	30.0	30.0	30.0	30.0
Loan to deposits	73.4	74.8	75.7	76.8	77.8
Core CAR	8.2	9.1	8.6	8.8	9.1
Total CAR	11.5	12.1	12.1	12.3	12.6
NPL ratio	0.56	0.61	0.87	0.85	0.84
NPL growth	(5.3)	27.5	61.9	10.8	11.5
Net bad debt charge ratio	0.5	0.3	0.4	0.4	0.2
Provision to total loans	2.2	2.2	2.2	2.3	2.3
Provision coverage	400.1	351.8	253.0	265.8	274.8
<b>Growth (%)</b>					
Net interest income	33.7	15.8	7.2	14.4	13.4
Of which: fees and commissions	37.9	26.3	24.1	20.6	18.1
<b>Operating income</b>	<b>34.7</b>	<b>17.8</b>	<b>10.4</b>	<b>15.5</b>	<b>14.3</b>
Operating expenses	25.2	18.2	16.0	18.1	17.7
Pre-prov. operating profits	42.9	17.5	6.2	13.4	11.4
Impairment losses on loans	51.8	(33.1)	40.9	13.7	8.1
<b>Operating profit</b>	<b>41.4</b>	<b>26.4</b>	<b>2.9</b>	<b>13.4</b>	<b>11.8</b>
Non-operating income	(1.6)	1.6	10.0	10.0	10.0
<b>Profit before tax</b>	<b>41.3</b>	<b>26.4</b>	<b>2.9</b>	<b>13.4</b>	<b>11.8</b>
Tax	45.2	29.9	(1.3)	13.4	11.8
Minority interests	na	(300.0)	0.0	0.0	0.0
<b>Net profit</b>	<b>40.2</b>	<b>25.3</b>	<b>4.3</b>	<b>13.4</b>	<b>11.8</b>
Cash & cash equivalent	45.5	59.6	9.8	9.4	9.0
Dues from banks	(12.8)	2.4	11.6	11.2	10.5
Investment securities	16.5	12.6	10.9	9.8	9.2
Net loans and advances	14.4	16.1	14.3	13.7	12.8
<b>Total interest earning assets</b>	<b>16.3</b>	<b>22.0</b>	<b>12.6</b>	<b>12.0</b>	<b>11.3</b>
<b>Total assets</b>	<b>16.3</b>	<b>21.9</b>	<b>12.7</b>	<b>12.1</b>	<b>11.4</b>
Customer deposits	17.5	13.9	13.0	12.0	11.5
Due to banks	11.8	67.0	10.0	10.0	10.0
Subordinated debt	(0.1)	105.5	15.0	10.0	10.0
<b>Total interest bearing liabilities.</b>	<b>16.6</b>	<b>21.6</b>	<b>12.6</b>	<b>11.7</b>	<b>11.2</b>
<b>Total liabilities</b>	<b>15.9</b>	<b>22.0</b>	<b>12.2</b>	<b>11.8</b>	<b>11.0</b>
<b>Shareholders' equity</b>	<b>23.1</b>	<b>21.5</b>	<b>19.1</b>	<b>16.7</b>	<b>15.9</b>

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 2007-2011

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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