



August 27, 2013
Equity Focus
Rating: BUY
TP: HK\$ 8.19

H-Share price (HK\$) 5.83
Est. share price return 40.48%
Est. dividend yield 6.37%
Est. total return 46.85%

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

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Key Data

52Wk H/L(HK\$)	6.75/4.93
Issued shares (mn)	250,011
H-Shares (mn)	240,417
A-Shares (mn)	9,594
Market cap	
H-shares (HK\$ mn)	1,401,633
A-Shares (HK\$ mn)	52,268
3-mth avg daily turnover (HK\$ mn)	1,616.47
Major shareholder(s) (%): Huijin	57.03

Source(s): Company, Bloomberg, ABCI Securities

1H13 PBT breakdown (%)

Corporate banking	48.20
Personal banking	25.53
Treasury business	24.89
Others	1.38

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	0.2	0.7
3-mth	(8.4)	(4.9)
6-mth	(7.9)	(4.1)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

CCB (939 HK)

Continuous changes bring success; maintain BUY

- CCB reported a net profit growth of 9.8% YoY in 2Q13, beating our forecast by 5.4% and consensus by 3.6%
- Lower-than-expected provisions were driven by stable NPL and a deliberate effort to lower provision coverage ratio
- We believe that CCB's NIM would maintain stable in 2H13 on improving business mix and strong liquidity position
- Trading at 1.08x FY13E P/B, CCB is our top pick based on its defensive leader position and trough valuation (similar to 2008 level), Maintain BUY with TP at HK\$ 8.19 that implies a 40.5% upside

1H13 results in line with expectation. CCB reported a solid set of 1H13 results. 2Q13 net profit was RMB 60,134m, up 9.8% YoY and flat QoQ, beating our forecast by 5.4% and consensus by 3.6%. Major variance to our forecast could be attributed to the fewer loan provisions in 2Q13, which was down 12.1% QoQ.

Two reasons to justify lower provisions. The lower-than-expected loan provisions could be justified by two reasons: First, 2Q13 NPL ratio remained unchanged QoQ at 0.99%. CCB has resolved RMB 20bn in NPL for 1H13, of which RMB 5bn was written off. Management aims to maintain a stable asset quality in 2H13. Secondly, both CCB and regulator believed that the provision coverage ratio had been too high; hence the bank lowered the ratio from 271.29% in Dec 2012 to 265.2% in June 2013.

NIM to remain stable and liquidity to stay tight. CCB's 2Q13 NIM was encouraging at 2.71%, similar to 1Q13. Despite loan yield was reduced by 53bps YoY to 5.84% after the two rate cuts in 2012, its narrowing impact on NIM was offset by lower deposit cost which was down 12bps YoY, demonstrating the bank's outstanding deposit franchise. The bank ascertained that the liquidity crisis in June had minimal impact on the bank given its strong liquidity position, and was confident that it will remain unaffected in 3Q13, Nonetheless, management believed that 3Q13 liquidity will remain tight.

Better 2H13 outlook on improving business mix. We note that CCB has been taking initiatives to adjust its business strategy. Aside from controlling 2Q13 fee income growth to avoid policy pressure, CCB's new loan growth in 1H13 was driven by personal loans (proportion in 1H13 was 37.2% vs. 24.9% in 1H12) and overseas exposure (proportion in 1H13 was 31.2% vs. 17% in 1H12) for better loan pricing and diversification of asset quality risk. Trading at 1.08x 13E P/B, CCB remains our top pick for its defensive leading position and trough valuation (similar to 2008 level). Our TP of HK\$ 8.19 implies a 40.5% 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)	-	6.04	5.50	4.97	4.68
P/B (x)	-	1.24	1.08	0.95	0.84
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 (%)	-	5.75	6.37	7.05	7.48

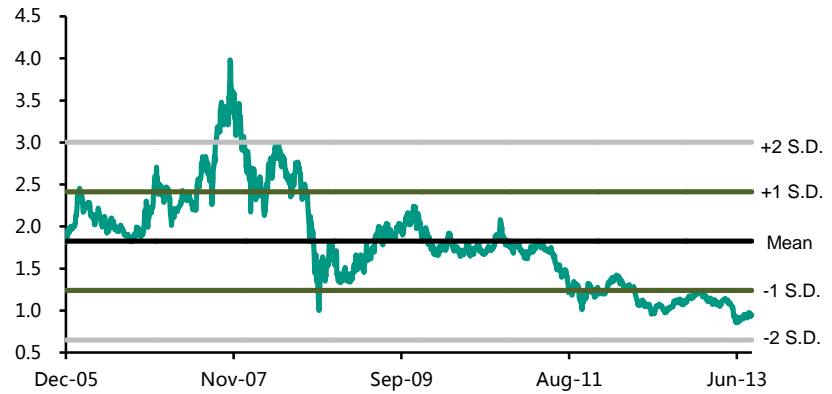
Source(s): Bloomberg, ABCI estimates

Exhibit 1: CCB's quarterly P&L trend

(RMB mn)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	2Q13A	A vs E	YoY (%)	QoQ (%)
Net interest margin	2.65	2.77	2.80	2.78	2.71	2.69	2.71	0.02	(0.06)	0.00
Net interest income	82,101	87,591	91,332	92,178	92,311	97,104	95,349	(1.81)	8.86	3.29
Non-interest income	27,739	30,381	23,294	27,917	33,614	34,082	31,033	(8.95)	2.15	(7.68)
Topline	109,840	117,972	114,626	120,095	125,925	131,186	126,382	(3.66)	7.13	0.36
Operating expenses	(36,356)	(38,214)	(39,258)	(57,253)	(40,028)	(47,348)	(41,039)	(13.33)	7.39	2.53
Pre-provision profit	73,484	79,758	75,368	62,842	85,897	83,837	85,343	1.80	7.00	(0.64)
Loan loss provision	(6,686)	(8,052)	(8,382)	(16,921)	(8,543)	(10,694)	(7,511)	(29.77)	(6.72)	(12.08)
Profit before tax	66,809	71,703	66,994	45,933	77,360	73,153	77,832	6.40	8.55	0.61
Tax expenses	(15,200)	(16,818)	(14,969)	(10,850)	(17,647)	(15,996)	(17,578)	9.89	4.52	(0.39)
Minority interests	(97)	(114)	(117)	(95)	(133)	(102)	(120)	17.19	5.26	(9.77)
Net profit	51,512	54,771	51,908	34,988	59,580	57,054	60,134	5.40	9.79	0.93

Source(s): Company, ABCI Securities estimates

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



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 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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