

CEB (6818 HK / 601818 CH)

Earnings growth resumes on lower provisions

- Manageable provisions and solid top line growth would boost earnings
- Expect mild rebound in NPL ratio in 21E-23E
- Robust balance sheet growth could offset NIM pressure but may increase capital need
- Maintain **BUY** for CEB-H on low valuation and **HOLD** for CEB-A. Our GGM-based H/A shr TPs imply target 21E P/B of 0.49x/0.59x

Earnings growth resumes. CEB announced its 1Q21 net profit at RMB 11,515mn, up 6.32%YoY. This indicated a quick rebound from weak earnings in previous quarter (-26.9% QoQ in 4Q20) suppressed by provisions. We believe the size of provisions would continue to be a decisive factor in CEB's earnings. 1Q21 top line grew 3.87% YoY, of which NII was up only by 2.69% YoY, suggesting an increase in NIM pressure. We estimate CEB's NIM to narrow by 9bps-11bps each in FY21E-23E to 1.99% by FY23E; as such, FY20-23E NII CAGR would be 5.8%. We lower our FY21E/22E top line forecasts by 5.23%/6.54%, resulting in a FY20-23E topline CAGR of 6.3%.

Mild rebound in NPL ratio; raise FY21E/22E earnings on lower provision estimates. Although NPL ratio dropped 1bps QoQ to 1.37% in 1Q21, the reduction is small compared to the 15bps QoQ decrease in 4Q20. It could be a result of reduced NPL handlings in 1Q21 or new NPLs rebounded at a faster pace. In view of recovering macro environment, however, NPL ratio would be manageable. Our base case scenario projects CEB's NPL ratio to edge up by 4bps-6bps each in FY21E-23E, reaching 1.53% by FY23E. We expect provision expenses to expand at 5.4% CAGR in FY20-23E; hence, provisioning ratio and provision coverage ratio would be at 2.72% and 177.78% by FY23E. As a result of the lower provision expense estimates, FY21E/22E earnings forecasts are up by 8.51%/2.91%, resulting in a FY20-23E net profit CAGR of 6.6%.

Robust balance sheet growth. Our base case scenario suggests CEB's total assets and total liabilities to grow at 12.1% and 12.6% CAGRs over FY20-23E. NIM pressure could be partially counteracted by solid balance sheet growth, but capital needs may increase. CT1 and CAR were 9.0% and 13.74% as of Mar 2021 - we believe CEB may need to expand its capital sources in coming years.

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Results and Valuation

FY ended Dec 31	2019A	2020A	2021E	2022E	2023E
Revenue (RMB mn)	132,939	142,705	151,550	160,647	171,247
Chg (% YoY)	20.4	7.3	6.2	6.0	6.6
Net profit* (RMB mn)	37,354	37,824	39,810	42,276	45,810
Chg (% YoY)	11.0	1.3	5.3	6.2	8.4
EPS (RMB)	0.68	0.68	0.70	0.74	0.81
Chg (% YoY)	11.5	(1.3)	3.1	6.6	8.8
BVPS (RMB)	6.10	6.45	6.90	7.47	8.08
Chg (% YoY)	9.9	5.7	7.0	8.2	8.2
P/E (x) – H-shr	4.03	4.09	3.96	3.72	3.42
P/B (x) – H-shr	0.45	0.43	0.40	0.37	0.34
P/E (x) – A-shr	5.61	5.69	5.52	5.18	4.76
P/B (x) – A-shr	0.63	0.60	0.56	0.51	0.48
ROAA (%)	0.82	0.75	0.70	0.66	0.64
ROAE (%)	11.77	10.71	10.01	10.00	10.16
DPS(RMB)	0.21	0.21	0.26	0.28	0.30
Yield (%) H-shr	7.76	7.61	9.50	10.00	10.71
Yield (%) A-shr	5.57	5.47	6.83	7.18	7.69

Note: Company; HKD/CNY=1.1927

*Net profit = Net profit attributable to shareholders of the Company

Source(s): Bloomberg, ABCI Securities estimates

Company Report Apr 30, 2021

Rating (H): BUY
Rating (A): HOLD
TP (H): HK\$ 4.02
TP (A): RMB 4.09

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Price (H/A shr)	HK\$ 3.29/ RMB 3.84
Est. s price return (H/A shr)	22.19%/6.51%
Est. dividend yield (H/A shr)	9.50%/6.83%
Est. total return (H/A shr)	31.69%/13.34%
Last Rating & TP (H/A shr)	BUY, HK\$3.35/ BUY, RMB3.49

Previous Report Date 15 Oct, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	3.97/2.40
52Wk H/L (RMB) (A shr)	4.80/3.54
Total issued shares (mn)	54,031.9
Issued H shr (mn)	12,678.7
Issued A shr (mn)	41,353.2
Market cap (HK\$ mn)	232,294.6
H-shr market cap (HK\$ mn)	41,713.0
A-shr market cap (HK\$ mn)	190,581.6
3-mth avg daily turnover (HK\$ mn) (H shr)	65.99
3-mth avg daily turnover (RMB mn) (A shr)	719.20
Major shareholder(s) (%): China Everbright Group	43.23

Source(s): Bloomberg, ABCI Securities

BUY CEB-H, HOLD CEB-A. We roll our GGM TP calculation to mid-22 BVPS and increase our sustainable ROAE assumption amid the improved earnings outlook. Our H/A shr TP increased by 20% and 17.2% to HK\$ 4.02 and RMB 4.09, implying 0.49x and 0.59x target 21E P/B. CEB's H/A shr are currently trading at 0.40x/0.56x 21E P/B. Maintain **BUY** for **CEB-H** on low valuation, and **HOLD** for **CEB-A**.

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; 4) Sharp decline in loan demand; 5) Policy risk in new and fast-growing businesses; 6) Prolonged or resurgence of COVID-19 pandemic.

Exhibit 1: 1Q21 results summary

(RMB mn)	1Q21	1Q20	YoY (%)
Net interest income	27,876	27,146	2.69
Net fee and commission	7,824	7,336	6.65
Operating income	38,767	37,324	3.87
Operating expenses	(10,252)	(9,694)	5.76
Impairment losses	(13,926)	(14,533)	(4.18)
Profit before tax	14,561	13,097	11.18
Income tax expenses	(3,001)	(2,224)	34.94
Net profit	11,515	10,831	6.32
Key indicators (%)			AvE (ppt)
Return on average equity	11.11	12.33	(1.22)
	Mar-21	Dec-20	QoQ (ppt)
CT1 CAR	9.00	9.02	(0.02)
Total CAR	13.74	13.90	(0.16)
NPL ratio	1.37	1.38	(0.01)
Provision to total loans	2.52	2.53	(0.01)
Provision coverage	183.87	182.71	1.16

Source(s): Company, ABCI Securities

Exhibit 2: Changes in 2021E and 2022E forecasts

(RMB mn)	2021E (old)	2021E (new)	change (%)	(RMB mn)	2022E (old)	2022E (new)	change (%)
Net interest income	125,434	116,836	(6.85)	Net interest income	134,958	123,355	(8.60)
Net fee and commission	28,804	25,782	(10.49)	Net fee and commission	31,684	27,071	(14.56)
Operating income	159,910	151,550	(5.23)	Operating income	171,888	160,647	(6.54)
Operating expenses	(43,344)	(42,293)	(2.42)	Operating expenses	(45,885)	(44,536)	(2.94)
Impairment losses	(72,149)	(59,397)	(17.67)	Impairment losses	(76,232)	(63,174)	(17.13)
Profit before tax	44,417	49,859	12.25	Profit before tax	49,772	52,936	6.36
Income tax expenses	(7,551)	(9,972)	32.06	Income tax expenses	(8,461)	(10,587)	25.13
Net profit attributable to equity holders	36,689	39,810	8.51	Net profit attributable to equity holders	41,081	42,276	2.91
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	2.12	2.19	0.07	Net interest margin	1.93	2.08	0.15
Net interest spread	1.85	1.99	0.14	Net interest spread	1.67	1.89	0.22
CIR	27.11	27.91	0.80	CIR	26.69	27.72	1.03
ROAA	0.58	0.70	0.12	ROAA	0.55	0.66	0.11
ROAE	8.73	10.01	1.28	ROAE	9.18	10.00	0.82
Dividend payout	30.00	30.00	-	Dividend payout	30.00	30.00	-
CT1 CAR	7.63	9.01	1.38	CT1 CAR	7.17	8.81	1.64
Total CAR	10.73	14.18	3.45	Total CAR	10.01	13.90	3.89
NPL ratio	1.65	1.42	(0.23)	NPL ratio	1.71	1.48	(0.23)
Provision to total loans	3.10	2.60	(0.50)	Provision to total loans	3.22	2.67	(0.55)
Provision coverage ratio	187.88	183.10	(4.78)	Provision coverage ratio	188.30	180.41	(7.89)

Source(s): Company, ABCI Securities estimates

Exhibit 3: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	3.35	4.02	3.49	4.09	Roll over to mid-2022 BVPS
Sustainable ROE (%)	8.85	9.39	8.85	9.39	Better NIM outlook and lower provisions
COE (%)	12.66	13.23	11.66	11.95	
Target 21E P/B (x)	0.43	0.49	0.50	0.59	
Rfr (%)	3.16	3.23	3.16	3.23	With reference to China 10Y government bond
Beta	0.95	1.02	0.85	0.89	With reference to Bloomberg data
ERP (%)	10.00	9.80	10.00	9.80	Lower risk premium on recovering macro environment in China
LT gr (%)	6.00	6.00	6.00	6.00	

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Net interest income	101,918	110,697	116,836	123,355	131,135
Non-interest income	31,021	32,008	34,713	37,292	40,112
Of which: Fees and commissions	23,169	24,323	25,782	27,071	28,425
Operating income	132,939	142,705	151,550	160,647	171,247
Operating expenses	(38,429)	(40,276)	(42,293)	(44,536)	(47,192)
Pre-provision operating profit	94,510	102,429	109,256	116,110	124,055
Impairment loans losses	(49,347)	(56,932)	(59,397)	(63,174)	(66,706)
Profit before tax	45,163	45,497	49,859	52,936	57,350
Tax	(7,722)	(7,592)	(9,972)	(10,587)	(11,470)
Minority interests	(87)	(81)	(77)	(73)	(69)
Net profit attributable to equity holders	37,354	37,824	39,810	42,276	45,810
Preference share dividend	1,450	2,219	2,219	2,219	2,219
Net profit attributable to ordinary shareholders	35,904	35,605	37,591	40,057	43,591
Growth (%)					
Net interest income	30.4	8.6	5.5	5.6	6.3
Non-interest income	(3.7)	3.2	8.5	7.4	7.6
Of which: Fees and commissions	17.2	5.0	6.0	5.0	5.0
Operating income	20.4	7.3	6.2	6.0	6.6
Operating expenses	14.0	4.8	5.0	5.3	6.0
Pre-provision operating profit	23.3	8.4	6.7	6.3	6.8
Impairment loans losses	37.7	15.4	4.3	6.4	5.6
Profit before tax	10.6	0.7	9.6	6.2	8.3
Tax	8.3	(1.7)	31.3	6.2	8.3
Minority interests	40.3	(6.9)	(5.0)	(5.0)	(5.0)
Net profit attributable to equity holders	11.0	1.3	5.3	6.2	8.4
Preference share dividend	0.0	53.0	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	11.5	(0.8)	5.6	6.6	8.8
Per share (RMB)					
EPS	0.68	0.68	0.70	0.74	0.81
BVPS	6.10	6.45	6.90	7.47	8.08
DPS	0.21	0.21	0.26	0.28	0.30
Key ratio (%)					
Net interest margin	2.31	2.29	2.19	2.08	1.99
Net interest spread	2.18	2.20	1.99	1.89	1.82
Cost to income ratio	27.85	27.18	27.91	27.72	27.56
ROAA	0.82	0.75	0.70	0.66	0.64
ROAE	11.77	10.71	10.01	10.00	10.16
Effective tax rate	17.10	16.69	20.00	20.00	20.00
Dividend payout	30.07	30.00	30.00	30.00	30.00

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

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

Consolidated balance sheet

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Cash & equivalent	364,340	360,287	364,147	368,268	372,669
Interbank assets	98,463	158,941	198,533	239,676	281,894
Investment securities	1,447,351	1,695,679	2,000,901	2,341,054	2,715,623
Net loans and advances	2,644,136	2,942,435	3,237,816	3,550,695	3,870,091
Total interest earning assets	4,554,290	5,157,342	5,801,396	6,499,694	7,240,277
Property and equipment	19,342	23,301	27,495	31,619	35,414
Other non-interest earn assets	159,799	187,467	216,566	248,061	281,707
Total assets	4,733,431	5,368,110	6,045,458	6,779,374	7,557,398
Customer deposits	3,017,888	3,480,667	4,001,533	4,560,453	5,176,022
Interbank liabilities	610,545	631,224	662,785	702,552	751,731
Subordinated debt	371,904	440,870	507,001	583,051	670,508
Total interest bearing liabilities	4,000,337	4,552,761	5,171,318	5,846,056	6,598,261
Current taxes	9,322	8,772	8,333	8,167	8,330
Other liabilities	337,718	351,579	381,782	410,186	402,222
Total liabilities	4,347,377	4,913,112	5,561,433	6,264,409	7,008,813
Share capital	122,556	163,094	163,094	163,094	163,094
Reserves	262,426	290,355	318,994	349,510	382,656
Minorities	1,072	1,549	1,936	2,362	2,835
Shareholder's equity	386,054	454,998	484,025	514,966	548,585
Growth (%)					
Cash & equivalent	(0.6)	(1.1)	1.1	1.1	1.2
Interbank assets	(43.9)	61.4	24.9	20.7	17.6
Investment securities	10.0	17.2	18.0	17.0	16.0
Net loans and advances	12.3	11.3	10.0	9.7	9.0
Total interest earning assets	8.1	13.2	12.5	12.0	11.4
Property and equipment	6.0	20.5	18.0	15.0	12.0
Other non-interest earn assets	26.2	17.3	15.5	14.5	13.6
Total assets	8.6	13.4	12.6	12.1	11.5
Customer deposits	17.3	15.3	15.0	14.0	13.5
Interbank liabilities	(4.9)	3.4	5.0	6.0	7.0
Subordinated debt	(15.6)	18.5	15.0	15.0	15.0
Total interest bearing liabilities	9.5	13.8	13.6	13.0	12.9
Current taxes	64.5	(5.9)	(5.0)	(2.0)	2.0
Other liabilities	(9.9)	4.1	8.6	7.4	(1.9)
Total liabilities	7.7	13.0	13.2	12.6	11.9
Share capital	39.9	33.1	0.0	0.0	0.0
Reserves	12.2	10.6	9.9	9.6	9.5
Minorities	8.8	44.5	25.0	22.0	20.0
Shareholder's equity	19.7	17.9	6.4	6.4	6.5
Key ratio (%)					
CT1 CAR	9.20	9.02	9.01	8.81	8.82
Total CAR	13.47	13.90	14.18	13.90	13.92
NPL ratio	1.55	1.38	1.42	1.48	1.53
Provision to total loans	2.83	2.53	2.60	2.67	2.72
Provision coverage ratio	181.62	182.71	183.10	180.41	177.78

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

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 2008 (For reference: HSI total return index 2008-20 CAGR 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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