

CCB (939 HK / 601939 CH)

Outperform on defensiveness

- Manageable loan asset quality outlook for CCB, despite more risks will emerge in coming quarters sector-wide
- Risk buffers still the critical factor to sustain earnings growth
- Proactive measures needed to counter inevitable NIM pressure
- Take time for net fee income to recover
- Maintain **BUY** on proven defensiveness. Our GGM-based H/A-shr TPs imply 0.57x/0.64x target 23E P/Bs

Sustainable earnings growth and asset quality. Macro uncertainties drove up asset quality risk sector-wide, and we expect more risks emerging in coming quarters. Nevertheless, we believe CCB's NPL ratio to remain benign given its prudent risk attitude. Our base case estimates the bank's NPL ratio to stay at 1.42%-1.46% over FY22E-24E. Encouraged by the central government, CCB would reduce its provisioning ratio and provision coverage ratio slightly to 3.33% and 228.08% by end-24E. While CCB was the only bank that increased its provision expenses by 9.95% YoY in 3Q22, its earnings growth at 8.61% was the highest among the big four banks with the reduction in effective tax rate. In our opinion, robust risk buffers would be core driver for banks to sustain earnings growth.

NIM pressure to persist. With re-pricing impact from interest rate cuts and the social responsibility to support real economy, NIM pressure in banks will persist in coming quarters. We believe CCB can counter unfavorable business environment by ramping up interest-earning assets growth, increasing asset allocation to high-yield asset class, and controlling liabilities cost. We expect retail consumption and investment demand to resume when the economy recovers, and banks' deposit cost should ease on deposit migration from time to saving. Still, our base case assumes CCB's NIM to narrow by 6bps-9bps each in FY22E-24E while NII would grow at 8.4% CAGR over FY21-24E.

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Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	714,224	764,706	790,321	848,094	903,241
Chg (% YoY)	5.3	7.1	3.3	7.3	6.5
Net profit* (RMB mn)	271,050	302,513	317,489	339,732	365,103
Chg (% YoY)	1.6	11.6	5.0	7.0	7.5
EPS (RMB)	1.06	1.19	1.25	1.34	1.44
Chg (% YoY)	1.0	12.3	5.0	7.1	7.6
BVPS (RMB)	9.06	9.95	10.87	11.85	12.76
Chg (% YoY)	8.0	9.9	9.2	9.0	7.6
P/E (x) – H-shr	3.74	3.33	3.17	2.96	2.75
P/B (x) – H-shr	0.44	0.40	0.37	0.34	0.31
P/E (x) – A-shr	4.95	4.41	4.20	3.92	3.65
P/B (x) – A-shr	0.58	0.53	0.48	0.44	0.41
ROAA (%)	1.02	1.04	0.97	0.91	0.89
ROAE (%)	12.12	12.55	12.02	11.80	11.72
DPS(RMB)	0.326	0.364	0.382	0.409	0.440
Yield (%) H-shr	8.21	9.16	9.61	10.30	11.07
Yield (%) A-shr	6.20	6.92	7.26	7.77	8.36

Note: HKD/CNY=1.07

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

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

Company Report

Nov 3, 2022

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 7.23
TP (A): RMB 7.54

Analyst : Johannes Au
Tel: (852) 2147 8802
johannesau@abci.com.hk

Price (H/A shr)	HK\$ 4.25/ RMB 5.26
Est. s price return (H/A shr)	70.12%/43.35%
Est. dividend yield (H/A shr)	10.30%/7.77%
Est. total return (H/A shr)	80.42%/51.12%
Last Rating & TP (H/A shr)	BUY, HK\$8.39/ BUY, RMB8.83
Previous Report Date	1 Sep, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	6.23/4.10
52Wk H/L (RMB) (A shr)	6.44/5.22
Total issued shares (mn)	250,011.0
Issued H shr (mn)	240,417.3
Issued A shr (mn)	9,593.7
Market cap (HK\$ mn)	1,075,768.8
H-shr market cap (HK\$ mn)	1,021,773.5
A-shr market cap (HK\$ mn)	53,995.3
3-mth avg daily turnover (HK\$ mn) (H shr)	907.52
3-mth avg daily turnover (RMB mn) (A shr)	254.50
Major shareholder(s) (%): Central Huijin	57.03

Source(s): Bloomberg, ABCI Securities

Slow net fee income recovery. In addition to the volatility in capital & forex market and district lockdowns in China, CCB, as a market leader, bears a strong social responsibility to support the real economy. As a result, the bank's net fee income was down 4.13% YoY in 3Q22. We expect China's economic growth would gradually improve in coming quarters, and positive growth in net fee income would resume in FY23E and FY24E at 1.5%-3.0% after a 2.0% YoY decline in FY22E. Topline would expand at 5.7% CAGR over FY21-24E while and net profit would increase at 6.5% CAGR over the same period.

Maintain BUY on defensiveness. The Chinese bank sector is closely linked to macro factors such as economic growth, risk related to property sector, and RMB exchange rate. Uncertainties in these areas would be critical to the next sector re-rating. CCB remains our sector top pick given its proven defensiveness against macro and policy risks. We lower our sustainable ROAE, raise our COE, and adjust our exchange rate assumption in our GGM. Our H/A-shr TP's are down 13.8%/14.6% to HK\$ 7.23 and RMB 7.54, which imply 0.57x and 0.64x FY23E target P/Bs. Reiterate **BUY**.

Risk Factors: 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Potential asset quality deterioration in specific sector and geographical areas; 3) Slower-than-expected recovery in net fee income; 4) Resurgence or prolonged COVID-19 pandemic; 5) Rising NPL ratio over FY22E-24E; 6) Downward earnings revision and target prices.

Exhibit 1: Changes in 2022E and 2023E forecasts

(RMB mn)	2022E (old)	2022E (new)	change (%)	(RMB mn)	2023E (old)	2023E (new)	change (%)
Net interest income	684,714	666,892	(2.60)	Net interest income	751,856	722,193	(3.95)
Net fee and commission	122,099	119,062	(2.49)	Net fee and commission	123,931	120,848	(2.49)
Operating income	824,875	790,321	(4.19)	Operating income	893,449	848,094	(5.08)
Operating expenses	(252,467)	(242,259)	(4.04)	Operating expenses	(289,465)	(266,238)	(8.02)
Impairment losses	(181,102)	(170,250)	(5.99)	Impairment losses	(181,669)	(172,962)	(4.79)
Profit before tax	393,310	379,816	(3.43)	Profit before tax	424,800	411,378	(3.16)
Income tax expenses	(66,863)	(60,771)	(9.11)	Income tax expenses	(76,464)	(69,934)	(8.54)
Net profit attributable to equity holders	324,891	317,489	(2.28)	Net profit attributable to equity holders	346,624	339,732	(1.99)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	2.07	2.04	(0.03)	Net interest margin	1.97	1.94	(0.03)
Net interest spread	1.82	1.84	0.02	Net interest spread	1.75	1.72	(0.03)
CIR	30.61	30.65	0.04	CIR	32.40	31.39	(1.01)
ROAA	0.98	0.97	(0.01)	ROAA	0.91	0.91	-
ROAE	12.30	12.02	(0.28)	ROAE	12.02	11.80	(0.22)
Dividend payout	30.50	30.50	-	Dividend payout	30.50	30.50	-
CT1 CAR	13.48	13.78	0.30	CT1 CAR	13.15	13.54	0.39
Total CAR	17.85	18.25	0.40	Total CAR	17.52	18.05	0.53
NPL ratio	1.42	1.42	-	NPL ratio	1.44	1.44	-
Provision to total loans	3.45	3.40	(0.05)	Provision to total loans	3.40	3.36	(0.04)
Provision coverage ratio	242.96	239.44	(3.52)	Provision coverage ratio	236.11	233.33	(2.78)

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in GGM assumptions

	H-shr		A-shr		
	old	new	old	new	Reason
TP (HKD/RMB)	8.39	7.23	8.83	7.54	
Sustainable ROE (%)	10.50	10.46	10.50	10.46	Adjust on weaker topline outlook
COE (%)	12.38	12.70	11.53	12.16	Factor in higher macro uncertainties
LT gr (%)	7.50	7.50	7.50	7.50	
Target 23E P/B (x)	0.61	0.57	0.74	0.64	

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Net interest income	575,909	605,420	666,892	722,193	772,055
Non-interest income	138,315	159,286	123,429	125,901	131,186
Of which: Fees and commissions	114,582	121,492	119,062	120,848	124,474
Operating income	714,224	764,706	790,321	848,094	903,241
Operating expenses	(188,574)	(219,182)	(242,259)	(266,238)	(290,946)
Pre-provision operation profit	525,650	545,524	548,063	581,856	612,295
Impairment losses on loans	(189,929)	(168,715)	(170,250)	(172,962)	(173,199)
Operating profit	335,721	376,809	377,812	408,893	439,096
Non-operating income	895	1,603	2,004	2,485	3,056
Profit before tax	336,616	378,412	379,816	411,378	442,152
Tax	(63,037)	(74,484)	(60,771)	(69,934)	(75,166)
Minority interests	(2,529)	(1,415)	(1,557)	(1,712)	(1,883)
Net profit attributable to equity holders	271,050	302,513	317,489	339,732	365,103
Preference share dividend	(5,624)	(4,538)	(4,538)	(4,538)	(4,538)
Net profit attributable to ordinary shareholders	265,426	297,975	312,951	335,194	360,565
Growth (%)					
Net interest income	7.2	5.1	10.2	8.3	6.9
Non-interest income	(1.9)	15.2	(22.5)	2.0	4.2
Of which: Fees and commissions	3.3	6.0	(2.0)	1.5	3.0
Operating income	5.3	7.1	3.3	7.3	6.5
Operating expenses	0.2	16.2	10.5	9.9	9.3
Pre-provision operation profit	7.3	3.8	0.5	6.2	5.2
Impairment losses on loans	16.1	(11.2)	0.9	1.6	0.1
Operating profit	2.9	12.2	0.3	8.2	7.4
Non-operating income	259.4	79.1	25.0	24.0	23.0
Profit before tax	3.1	12.4	0.4	8.3	7.5
Tax	9.9	18.2	(18.4)	15.1	7.5
Minority interests	1.6	(44.0)	10.0	10.0	10.0
Net profit attributable to equity holders	1.6	11.6	5.0	7.0	7.5
Preference share dividend	41.9	(19.3)	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	1.0	12.3	5.0	7.1	7.6
Per share (RMB)					
EPS	1.06	1.19	1.25	1.34	1.44
BVPS	9.06	9.95	10.87	11.85	12.76
DPS	0.326	0.364	0.382	0.409	0.440
Key ratio (%)					
Net interest margin	2.19	2.13	2.04	1.94	1.89
Net interest spread	2.04	1.94	1.84	1.72	1.68
Cost to income ratio	25.38	27.64	30.65	31.39	32.21
ROAA	1.02	1.04	0.97	0.91	0.89
ROAE	12.12	12.55	12.02	11.80	11.72
Effective tax rate	18.73	19.68	16.00	17.00	17.00
Dividend payout	30.71	30.54	30.50	30.50	30.50

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)	2020A	2021A	2022E	2023E	2024E
Cash & balance with central bank	2,816,164	2,763,892	2,985,003	3,193,954	3,417,530
Due from FIs and repo	1,423,876	892,347	1,877,496	1,846,732	1,795,762
Investment securities	6,950,653	7,641,919	8,635,368	9,671,613	10,735,490
Net loans and advances	16,231,369	18,170,492	20,728,889	23,370,505	26,061,711
Total interest earning assets	27,422,062	29,468,650	34,226,757	38,082,804	42,010,494
Property and equipment	172,505	168,326	181,792	194,518	206,189
Other non-interest earning assets	537,687	617,003	729,910	853,995	989,338
Total assets	28,132,254	30,253,979	35,138,459	39,131,316	43,206,020
Customer deposits	20,614,976	22,378,814	25,353,360	28,235,095	30,940,360
Due to FIs	2,293,272	2,232,201	3,125,081	3,750,098	4,312,612
Subordinated debt	940,197	1,323,377	1,786,559	2,054,543	2,321,633
Other interest bearing liabilities	1,091,974	947,955	1,137,546	1,319,553	1,477,900
Total interest bearing liabilities	24,940,419	26,882,347	31,402,546	35,359,288	39,052,505
Current taxes liabilities	84,161	86,342	82,025	77,924	74,027
Deferred tax liabilities	1,551	1,395	628	691	760
Other liabilities	716,770	669,773	771,589	568,048	728,488
Total liabilities	25,742,901	27,639,857	32,256,788	36,005,951	39,855,780
Share capital	250,011	250,011	250,011	250,011	250,011
Other equity instruments	99,968	99,968	139,959	139,959	139,959
Reserves	2,014,829	2,238,252	2,468,399	2,713,259	2,939,240
Minorities	24,545	25,891	23,302	22,137	21,030
Shareholder's equity	2,389,353	2,614,122	2,881,671	3,125,365	3,350,240
Growth (%)					
Cash & balance with central bank	7.4	(1.9)	8.0	7.0	7.0
Due from FIs and repo	(5.6)	(37.3)	110.4	(1.6)	(2.8)
Investment securities	11.9	9.9	13.0	12.0	11.0
Net loans and advances	11.6	11.9	14.1	12.7	11.5
Total interest earning assets	10.2	7.5	16.1	11.3	10.3
Property and equipment	1.0	(2.4)	8.0	7.0	6.0
Other non-interest earning assets	41.3	14.8	18.3	17.0	15.8
Total assets	10.6	7.5	16.1	11.4	10.4
Customer deposits	12.2	8.6	13.3	11.4	9.6
Due to FIs	4.5	(2.7)	40.0	20.0	15.0
Subordinated debt	(12.7)	40.8	35.0	15.0	13.0
Other interest bearing liabilities	15.5	(13.2)	20.0	16.0	12.0
Total interest bearing liabilities	10.4	7.8	16.8	12.6	10.4
Current taxes liabilities	(2.9)	2.6	(5.0)	(5.0)	(5.0)
Deferred tax liabilities	239.4	(10.1)	(55.0)	10.0	10.0
Other liabilities	34.9	(6.6)	15.2	(26.4)	28.2
Total liabilities	11.0	7.4	16.7	11.6	10.7
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	(16.4)	0.0	40.0	0.0	0.0
Reserves	9.1	11.1	10.3	9.9	8.3
Minorities	30.1	5.5	(10.0)	(5.0)	(5.0)
Shareholder's equity	6.9	9.4	10.2	8.5	7.2
Key ratio (%)					
CT1 CAR	13.62	13.59	13.78	13.54	13.18
Total CAR	17.06	17.85	18.25	18.05	17.88
NPL ratio	1.56	1.42	1.42	1.44	1.46
Provision to total loans	3.33	3.40	3.40	3.36	3.33
Provision coverage ratio	213.59	239.96	239.44	233.33	228.08

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 2009 (For reference: HSI total return index 2009-21 simple average 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