

## CEB Bank (6818 HK / 601818 CH)

### Takes time for fundamentals turnaround

- Reduce topline forecasts on interest rate down cycle and slow macro recovery
- Benign asset quality to be sustained by proactive NPL handlings
- Lower provision expense to support earnings growth
- Buy on trough valuation. Our GGM-based H/A shr TPs imply target 23E P/B of 0.34x/0.49x. Maintain **BUY**

**Takes time for topline to recover.** In line with sector trend, continuous interest rate cut and slower-than-expected revival of capital market and retail consumptions prompt us to believe more time will be needed for better topline growth in CEB. As such, we adjust down CEB's FY23E/24E NIM by 8bps and 16bp to 1.77% and 1.60%. This would lower FY23E/24E NII by 2.98% and 5.44%, implying a CAGR at 0.4% over 2022-25E. Together with the 4.04% and 7.35% reduction in FY23E/24E net fee income, FY22-25E topline CAGR is slashed from 3.0% in our previous forecast to 1.0%. In our opinion, balance sheet growth and optimized component management are necessary to support topline growth in 2H23. In particular, we notice CEB's gross loan and deposit growth (HoH) were only 4.80% and 6.12% as of Jun 2023, slower than its 7.26% and 7.37% HoH growth in total assets and liabilities.

**More proactive NPL handling in 2H23.** CEB's NPL ratio inched up 5bps QoQ to 1.30% as of Jun 2023, of which new NPLs mainly came from manufacturing, real estate, wholesale & retail, mining and construction sectors, among others. CEB may have reduced scale of NPL handling in 2Q23. Despite the challenging macro outlook in China, our base case assumes a stabilizing trend to ensue in 2H23, with gradual improvements in macro, retail consumption, and properties market statistics. Meanwhile, we project CEB's NPL ratio to remain manageable in 1.33%-1.40% for FY23E-25E, assuming more proactive management of NPL profile will take place in 3Q23 and beyond.

**Provision size under control.** CEB's earnings grew 3.32% YoY in 1H23, mainly supported by its lower provision expenses (-8.37% YoY). Given its benign asset quality outlook, CEB might be able to lower its impairment expense to a CAGR of -3.0% over FY22-25E without compromising risk buffer. Our base case forecasts the bank's provisioning ratio would approach to 2.61% by FY25E, while provision coverage ratio would stay above 185% over FY23E-25E. This would support a 2.7 % earnings CAGR for CEB, slightly higher than the 1.0% topline CAGR over FY22-25E.

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#### Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	153,366	151,865	150,357	152,226	156,463
Chg (% YoY)	7.4	(1.0)	(1.0)	1.2	2.8
Net profit* (RMB mn)	43,407	44,807	45,260	46,383	48,538
Chg (% YoY)	14.7	3.2	1.0	2.5	4.6
Basic EPS (RMB)	0.71	0.74	0.72	0.70	0.74
Chg (% YoY)	5.8	3.6	(3.4)	(1.6)	5.2
BVPS (RMB)	6.99	7.38	7.72	8.36	9.02
Chg (% YoY)	8.4	5.6	4.6	8.3	7.8
Basic P/E (x) – H-shr	2.90	2.80	2.90	2.95	2.80
P/B (x) – H-shr	0.30	0.28	0.27	0.25	0.23
Basic P/E (x) – A-shr	4.60	4.44	4.60	4.68	4.45
P/B (x) – A-shr	0.47	0.45	0.43	0.39	0.36
ROAA (%)	0.77	0.74	0.76	0.71	0.68
ROAE (%)	10.64	10.27	9.82	9.30	9.15
DPS(RMB)	0.201	0.190	0.192	0.197	0.207
Yield (%) H-shr	9.69	9.16	9.24	9.50	9.99
Yield (%) A-shr	6.11	5.78	5.83	5.99	6.30

Note: HKD/CNY=1.08

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

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

## Company Report

Aug 28, 2023

Rating (H): BUY

Rating (A): BUY

TP (H): HK\$ 2.83

TP (A): RMB 3.76

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Price (H/A shr)	HK\$ 2.24/ RMB 3.29
Est. s price return (H/A shr)	26.33%/ 14.29%
Est. dividend yield (H/A shr)	9.24%/5.83%
Est. total return (H/A shr)	35.57%/ 20.12%
Last Rating & TP (H/A shr)	BUY, HK\$3.37/ BUY, RMB3.95
Previous Report Date	4 May, 2023

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	2.78/2.03
52Wk H/L (RMB) (A shr)	3.72/2.72
Total issued shares (mn)	59,085.5
Issued H shr (mn)	12,678.7
Issued A shr (mn)	46,406.8
Market cap (HK\$ mn)	181,183.9
H-shr market cap (HK\$ mn)	28,400.4
A-shr market cap (HK\$ mn)	152,783.5
3-mth avg daily turnover (HK\$ mn) (H shr)	25.5
3-mth avg daily turnover (RMB mn) (A shr)	369.3
Major shareholder(s) (%):	
China Everbright Group	44.02

Source(s): Bloomberg, ABCI Securities

**BUY on trough valuation.** To increase investor confidence, CEB's key operating indicators would need to show steady QoQ improvement in coming quarters. We lower the sustainable ROAE and long-term growth and adjust the COE assumptions in the GGM. Our H/A-shr TPs for CEB are adjusted down by 16.0% and 4.8% to HK\$ 2.83 and RMB 3.76, implying 0.34x and 0.49x target FY23E P/B. Maintain **BUY**.

**Risk Factors:** 1) Rising CIR on slow topline growth outlook; 2) Failure to accelerate balance sheet growth and optimize balance sheet mix; 3) Higher earnings volatility than peers; 4) Failure to enhance capital position; 5) Declining ROAE in FY23E-25E; 6) EPS dilution by conversion of convertible bonds.

**Exhibit 1: Major changes in forecasts**

(RMB mn)	2023E (old)	2023E (new)	change (%)	(RMB mn)	2024E (old)	2024E (new)	change (%)
Net interest income	115,333	111,897	(2.98)	Net interest income	119,204	112,720	(5.44)
Net fee and commission	26,477	25,407	(4.04)	Net fee and commission	26,874	24,899	(7.35)
Operating income	154,106	150,357	(2.43)	Operating income	159,384	152,226	(4.49)
Operating expenses	(47,036)	(46,132)	(1.92)	Operating expenses	(49,388)	(47,515)	(3.79)
Impairment losses	(50,140)	(48,777)	(2.72)	Impairment losses	(49,284)	(47,194)	(4.24)
Profit before tax	56,851	55,482	(2.41)	Profit before tax	60,617	57,556	(5.05)
Net profit attributable to equity holders	45,246	45,260	0.03	Net profit attributable to equity holders	48,256	46,383	(3.88)
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	1.85	1.77	(0.08)	Net interest margin	1.76	1.60	(0.16)
CIR	30.52	30.68	0.16	CIR	30.99	31.21	0.22
ROAA	0.77	0.76	(0.01)	ROAA	0.76	0.71	(0.05)
ROAE	10.03	9.82	(0.21)	ROAE	10.09	9.30	(0.79)
Dividend payout	28.00	28.00	-	Dividend payout	28.00	28.00	-
CT1 CAR	8.72	9.08	0.36	CT1 CAR	8.61	8.93	0.32
Total CAR	13.23	13.52	0.29	Total CAR	13.11	13.29	0.18
NPL ratio	1.27	1.33	0.06	NPL ratio	1.28	1.37	0.09
Provision to total loans	2.37	2.50	0.13	Provision to total loans	2.39	2.56	0.17
Provision coverage ratio	186.61	187.97	1.36	Provision coverage	186.72	186.86	0.14

Source(s): Company, ABCI Securities estimates

**Exhibit 2: Changes in GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	3.37	2.83	3.95	3.76	Roll over to mid-24E BVPS
Sustainable ROE (%)	9.41	8.88	9.41	8.88	Factor in lower ROAE
COE (%)	15.08	15.88	12.85	12.74	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	6.00	5.50	6.00	5.50	Adjust on slower earnings growth
Target 23E P/B (x)	0.38	0.34	0.50	0.49	

Source(s): Company, ABCI Securities estimates

## Financial statements

### Consolidated income statement

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Net interest income	112,155	113,655	111,897	112,720	115,134
Non-interest income	41,211	38,210	38,459	39,506	41,330
Of which: Fees and commissions	27,314	26,744	25,407	24,899	25,148
<b>Operating income</b>	153,366	151,865	150,357	152,226	156,463
Operating expenses	(45,540)	(45,227)	(46,132)	(47,515)	(49,416)
<b>Pre-provision operating profit</b>	107,826	106,638	104,225	104,710	107,047
Impairment loans losses	(54,795)	(50,609)	(48,777)	(47,194)	(46,119)
<b>Operating profit</b>	53,031	56,029	55,448	57,516	60,928
Non-operating profit	(90)	(63)	35	40	45
<b>Profit before tax</b>	52,941	55,966	55,482	57,556	60,973
Tax	(9,302)	(10,926)	(9,987)	(10,936)	(12,195)
Minority interests	(232)	(233)	(235)	(238)	(240)
<b>Net profit attributable to equity holders</b>	43,407	44,807	45,260	46,383	48,538
Dividend to other capital instrument holders	(4,800)	(4,811)	(4,811)	(4,811)	(4,811)
<b>Net profit attributable to ordinary shareholders</b>	38,607	39,996	40,449	41,572	43,727
<b>Growth (%)</b>					
Net interest income	1.3	1.3	(1.5)	0.7	2.1
Non-interest income	28.4	(7.3)	0.7	2.7	4.6
Of which: Fees and commissions	11.9	(2.1)	(5.0)	(2.0)	1.0
<b>Operating income</b>	7.4	(1.0)	(1.0)	1.2	2.8
Operating expenses	12.9	(0.7)	2.0	3.0	4.0
<b>Pre-provision operating profit</b>	5.2	(1.1)	(2.3)	0.5	2.2
Impairment loans losses	(3.8)	(7.6)	(3.6)	(3.2)	(2.3)
<b>Operating profit</b>	16.5	5.7	(1.0)	3.7	5.9
Non-operating profit	1,700.0	(30.0)	(155.0)	15.0	13.0
<b>Profit before tax</b>	16.3	5.7	(0.9)	3.7	5.9
Tax	22.4	17.5	(8.6)	9.5	11.5
Minority interests	149.5	0.4	1.0	1.0	1.0
<b>Net profit attributable to equity holders</b>	14.7	3.2	1.0	2.5	4.6
Dividend to other capital instrument holders	116.3	0.2	0.0	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	8.4	3.6	1.1	2.8	5.2
<b>Per share (RMB)</b>					
Basic EPS	0.71	0.74	0.72	0.70	0.74
BVPS	6.99	7.38	7.72	8.36	9.02
DPS	0.201	0.190	0.192	0.197	0.207
<b>Key ratio (%)</b>					
Net interest margin	2.16	2.01	1.77	1.60	1.48
Cost to income ratio	28.64	28.62	30.68	31.21	31.58
ROAA	0.77	0.74	0.76	0.71	0.68
ROAE	10.64	10.27	9.82	9.30	9.15
Effective tax rate	17.57	19.52	18.00	19.00	20.00
Dividend payout	28.13	25.67	28.00	28.00	28.00

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)	2021A	2022A	2023E	2024E	2025E
Cash & balance with central banks	378,263	356,426	338,605	325,061	315,309
Due from FIs and repo	329,755	270,092	408,444	452,207	503,233
Investment securities & financial assets	1,849,721	2,062,342	2,371,693	2,703,730	3,055,215
Net loans and advances	3,239,396	3,489,096	3,789,133	4,131,719	4,510,174
<b>Total interest earning assets</b>	<b>5,797,135</b>	<b>6,177,956</b>	<b>6,907,875</b>	<b>7,612,717</b>	<b>8,383,931</b>
Property and equipment	25,155	26,174	27,221	28,582	30,011
Other non-interest earn assets	79,779	96,380	107,567	119,536	132,191
<b>Total assets</b>	<b>5,902,069</b>	<b>6,300,510</b>	<b>7,042,663</b>	<b>7,760,835</b>	<b>8,546,133</b>
Customer deposits	3,675,743	3,917,168	4,314,437	4,724,549	5,161,798
Due to FIs and repo	887,665	885,635	1,107,044	1,306,312	1,528,385
Subordinated debt and others	776,936	890,259	979,285	1,077,213	1,184,935
<b>Total interest bearing liabilities</b>	<b>5,340,344</b>	<b>5,693,062</b>	<b>6,400,765</b>	<b>7,108,074</b>	<b>7,875,117</b>
Current taxes	6,535	11,141	13,926	16,990	20,388
Other liabilities	70,824	86,294	64,593	34,129	10,117
<b>Total liabilities</b>	<b>5,417,703</b>	<b>5,790,497</b>	<b>6,479,285</b>	<b>7,159,193</b>	<b>7,905,623</b>
Share capital	54,032	54,032	59,086	59,086	59,086
Other capital instruments	64,906	64,906	64,906	64,906	64,906
Reserves	319,395	344,789	397,050	435,080	473,690
Minorities	1,877	2,130	2,343	2,577	2,835
<b>Shareholder's equity</b>	<b>484,366</b>	<b>510,013</b>	<b>563,378</b>	<b>601,642</b>	<b>640,510</b>
<b>Growth (%)</b>					
Cash & balance with central banks	5.0	(5.8)	(5.0)	(4.0)	(3.0)
Due from FIs and repo	107.5	(18.1)	51.2	10.7	11.3
Investment securities & financial assets	9.1	11.5	15.0	14.0	13.0
Net loans and advances	10.1	7.7	8.6	9.0	9.2
<b>Total interest earning assets</b>	<b>12.4</b>	<b>6.6</b>	<b>11.8</b>	<b>10.2</b>	<b>10.1</b>
Property and equipment	7.9	4.1	4.0	5.0	5.0
Other non-interest earn assets	(57.5)	20.8	11.6	11.1	10.6
<b>Total assets</b>	<b>9.9</b>	<b>6.8</b>	<b>11.8</b>	<b>10.2</b>	<b>10.1</b>
Customer deposits	5.6	6.6	10.1	9.5	9.3
Due to FIs and repo	0.1	(0.2)	25.0	18.0	17.0
Subordinated debt and others	70.7	14.6	10.0	10.0	10.0
<b>Total interest bearing liabilities</b>	<b>10.7</b>	<b>6.6</b>	<b>12.4</b>	<b>11.1</b>	<b>10.8</b>
Current taxes	(25.5)	70.5	25.0	22.0	20.0
Other liabilities	(13.8)	21.8	(25.1)	(47.2)	(70.4)
<b>Total liabilities</b>	<b>10.3</b>	<b>6.9</b>	<b>11.9</b>	<b>10.5</b>	<b>10.4</b>
Share capital	0.0	0.0	9.4	0.0	0.0
Other capital instruments	(40.5)	0.0	0.0	0.0	0.0
Reserves	10.0	8.0	15.2	9.6	8.9
Minorities	19.6	13.5	10.0	10.0	10.0
<b>Shareholder's equity</b>	<b>6.4</b>	<b>5.3</b>	<b>10.5</b>	<b>6.8</b>	<b>6.5</b>
<b>Key ratio (%)</b>					
CT1 CAR	8.91	8.72	9.08	8.93	8.74
Total CAR	13.37	12.95	13.52	13.29	13.05
NPL ratio	1.25	1.25	1.33	1.37	1.40
Provision to total loans	2.34	2.35	2.50	2.56	2.61
Provision coverage ratio	187.02	187.93	187.97	186.86	186.43

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 ( $\sim 9\%$ )
Hold	- Market return rate ( $\sim 9\%$ ) $\leq$ Stock return rate < Market return rate ( $\sim 9\%$ )
Sell	Stock return < - Market return ( $\sim 9\%$ )

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 2006 (For reference: HSI total return index 2006-22 averaged at 8.4%)

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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