

China CITIC Bank (998 HK / 601998 CH)

Solid growth supported by lower provisions

- Expect NIM pressure to persist, expansion in retail segment could support topline growth
- Net fee income to grow stronger upon recovery of macro environment
- Benign asset quality creates room to support profitability through lower provisions
- Maintain **BUY**; our H/A TPs imply 0.43x/0.61x FY23E P/B

NIM pressure to persist. In view of the recent LPR cut in Aug 2023 and CITICB's 1H23 NIM, we lower the bank's FY23E/24E NIM forecasts by 11bps and 17bps to 1.79% and 1.71%. The bank's 1H23 NIM was down by 14bps to 1.85% as a result of the average lending rate, which dropped 22bps YoY, and the average deposit cost that went up 10bps YoY. 1H23 NIM in the banking sector was weaker than our expectation. In our opinion, NIM pressure will continue be a major challenge. However, CITICB's topline growth might outperform peers leveraging the expansion of its retail business. In 1H23, CITICB's retail segment contributed to 41.6% of topline (vs. 38.8% in 1H22) and 26.5% of profit before tax (vs. 20.1% in 1H22).

Turnaround in net fee income. Meanwhile, we adjust down our net fee income CAGR for CITICB from 5.8% to 3.0% over FY22-25E, taken into account its 1H23 net fee income growth at 1.21% YoY. Nevertheless, we are optimistic based on its turnaround in net fee income in 1H23, which swung back into the positive territory with YoY growth of 14.6% in 2Q23 from -11.52% in 1Q23; QoQ growth in 2Q23 was 23.1%. Specifically, net fee income was supported by bank card fees, agency fees & commissions, and settlement & clearing fees, which grew 1.99%, 15.11%, and 4.21% YoY in 1H23. In view of recovering macro environment in China, we expect net fee income growth momentum to dial up, which will help offset persisting NIM pressure.

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Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	204,554	211,109	209,220	216,606	227,813
Chg (% YoY)	4.7	3.2	(0.9)	3.5	5.2
Net profit* (RMB mn)	55,641	62,103	68,162	73,045	78,773
Chg (% YoY)	13.6	11.6	9.8	7.2	7.8
EPS (RMB)	1.08	1.17	1.13	1.07	1.16
Chg (% YoY)	14.5	8.9	(3.9)	(4.7)	8.4
BVPS (RMB)	10.45	11.25	10.14	10.88	11.66
Chg (% YoY)	8.9	7.6	(9.8)	7.2	7.2
P/E (x) – H-shr	3.00	2.75	2.86	3.00	2.77
P/B (x) – H-shr	0.31	0.29	0.32	0.30	0.28
P/E (x) – A-shr	5.21	4.78	4.97	5.22	4.82
P/B (x) – A-shr	0.54	0.50	0.55	0.51	0.48
ROAA (%)	0.72	0.76	0.78	0.79	0.79
ROAE (%)	10.73	10.80	10.60	10.21	10.32
DPS(RMB)	0.302	0.329	0.321	0.306	0.331
Yield (%) H-shr	9.37	10.21	9.96	9.49	10.29
Yield (%) A-shr	5.39	5.88	5.73	5.46	5.92

Note: HKD/CNY=1.08

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

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

Company Report

Aug 29, 2023

Rating (H): BUY

Rating (A): BUY

TP (H): HK\$ 4.74

TP (A): RMB 6.20

Analyst : Johannes Au

Tel: (852) 2147 8802

johannesau@abci.com.hk

Price (H/A shr)	HK\$ 3.48/ RMB 5.60
Est. price return (H/A shr)	36.21%/10.71%
Est. dividend yield (H/A shr)	9.96%/5.73%
Est. total return (H/A shr)	46.17%/ 16.44%
Last Rating & TP (H/A shr)	BUY, HK\$5.62/ BUY, RMB5.89
Previous Report Date	28 Mar, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	4.74/2.92
52Wk H/L (RMB) (A shr)	8.27/4.31
Total issued shares (mn)	48,934.8
Issued H shr (mn)	14,882.2
Issued A shr (mn)	34,052.6
Market cap (HK\$ mn)	257,547.8
H-shr market cap (HK\$ mn)	52,236.4
A-shr market cap (HK\$ mn)	205,311.4
3-mth avg daily turnover (HK\$ mn) (H shr)	94.4
3-mth avg daily turnover (RMB mn) (A shr)	285.6
Major shareholder(s) (%):	
CITIC Group	64.14
China National Tobacco	4.39

Source(s): Bloomberg, ABCI Securities

Lower provisions to sustain profitability. CITICB's NPL ratio fell gradually from 1.77% in end-FY18 to 1.21% in Jun 2023. We believe a stable asset quality outlook is essential to sustainable profitability amid the challenging operation environment at present. In 2H23, with credit impairment losses down 18.7% YoY, CITICB's earnings growth was 10.9% YoY, vs. the 2.2% YoY drop in topline growth. CITICB's provisioning ratio and provision coverage ratio were at 2.51% and 208.28% as of Jun 2023; assuming the bank will sustain its provisioning ratio at ~2.5% and provision coverage ratio at above 200% over FY23E-25E, we project a provision expenses CAGR to be -9.6% over FY22-25E, supporting a net profit CAGR at 8.2% over the same period. Our base case suggests CITICB's NPL ratio to be stable at 1.20%-1.24% over FY23E-25E.

Maintain BUY on solid growth. We adjust our H/A TPs by -15.7%/+5.3% to HK\$ 4.74/RMB 6.20, by altering the sustainable ROAE and COE assumptions in our Gordon Growth Model; also, we roll over the BVPS estimates to mid-24E in our model. Our TPs imply 0.43x/0.61x FY23E P/B. Maintain **BUY**.

Risk Factors: 1) Potential dilution from capital activities to boost capital adequacy; 2) Final pricing of share placement may result in higher share price volatility; 3) Potential asset quality deterioration in specific sectors and geographical areas; 4) Failure to increase contribution from retail segment and optimize business mix; 5) Expect reduction of DPS in FY23E-24E.

Exhibit 1: Changes in forecasts

(RMB mn)	2023E (old)	2023E (new)	change (%)	(RMB mn)	2024E (old)	2024E (new)	change (%)
Net interest income	164,339	151,772	(7.65)	Net interest income	177,254	155,532	(12.25)
Net fee and commission	38,947	37,463	(3.81)	Net fee and commission	41,089	38,587	(6.09)
Operating income	223,710	209,220	(6.48)	Operating income	236,990	216,606	(8.60)
Operating expenses	(73,433)	(72,051)	(1.88)	Operating expenses	(80,227)	(77,239)	(3.72)
Impairment losses	(69,581)	(57,333)	(17.60)	Impairment losses	(67,884)	(53,694)	(20.90)
Profit before tax	81,295	80,440	(1.05)	Profit before tax	89,531	86,331	(3.57)
Income tax expenses	(11,788)	(11,262)	(4.46)	Income tax expenses	(12,982)	(12,086)	(6.90)
Net profit attributable to equity holders	68,533	68,162	(0.54)	Net profit attributable to equity holders	75,429	73,045	(3.16)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.90	1.79	(0.11)	Net interest margin	1.88	1.71	(0.17)
CIR	31.83	33.44	1.61	CIR	32.85	34.66	1.81
ROAA	0.77	0.78	0.01	ROAA	0.79	0.79	-
ROAE	10.73	10.60	(0.13)	ROAE	10.67	10.21	(0.46)
Dividend payout	28.50	28.50	-	Dividend payout	28.50	28.50	-
CT1 CAR	9.53	9.06	(0.47)	CT1 CAR	9.44	9.19	(0.25)
Total CAR	13.84	13.17	(0.67)	Total CAR	13.53	13.19	(0.34)
NPL ratio	1.20	1.20	-	NPL ratio	1.17	1.22	0.05
Provision to total loans	2.58	2.49	(0.09)	Provision to total loans	2.62	2.52	(0.10)
Provision coverage ratio	215.00	207.50	(7.50)	Provision coverage ratio	223.93	206.56	(17.37)

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes of GGM assumptions

	H-shr		A-shr		Reason
	old	New	old	new	
TP (HKD/RMB)	5.62	4.74	5.89	6.20	Roll over to mid-24E BVPS
Sustainable ROE (%)	9.67	9.53	9.67	9.53	Lower topline growth
COE (%)	12.69	13.34	11.68	11.43	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	6.80	6.80	6.80	6.80	
Target 23E P/B (x)	0.49	0.43	0.59	0.61	

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	147,896	150,647	151,772	155,532	162,202
Non-interest income	56,658	60,462	57,448	61,074	65,612
Of which: Fees and commissions	35,870	37,092	37,463	38,587	40,516
Operating income	204,554	211,109	209,220	216,606	227,813
Operating expenses	(62,224)	(66,838)	(72,051)	(77,239)	(82,646)
Pre-provision operating profit	142,330	144,271	137,169	139,367	145,167
Impairment losses on loans	(77,048)	(71,404)	(57,333)	(53,694)	(52,678)
Operating profit	65,282	72,867	79,836	85,673	92,489
Non-operating income	235	549	604	658	711
Profit before tax	65,517	73,416	80,440	86,331	93,200
Tax	(9,140)	(10,466)	(11,262)	(12,086)	(13,048)
Minorities interests	(736)	(847)	(1,016)	(1,199)	(1,379)
Net profit attributable to equity holders	55,641	62,103	68,162	73,045	78,773
Preference share dividend	(3,010)	(4,788)	(4,788)	(4,788)	(4,788)
Net profit attributable to ordinary shareholders	52,631	57,315	63,374	68,257	73,985
Growth (%)					
Net interest income	(1.7)	1.9	0.7	2.5	4.3
Non-interest income	26.2	6.7	(5.0)	6.3	7.4
Of which: Fees and commissions	24.4	3.4	1.0	3.0	5.0
Operating income	4.7	3.2	(0.9)	3.5	5.2
Operating expenses	14.7	7.4	7.8	7.2	7.0
Pre-provision operating profit	0.8	1.4	(4.9)	1.6	4.2
Impairment losses on loans	(7.2)	(7.3)	(19.7)	(6.3)	(1.9)
Operating profit	12.3	11.6	9.6	7.3	8.0
Non-operating income	(178.9)	133.6	10.0	9.0	8.0
Profit before tax	13.2	12.1	9.6	7.3	8.0
Tax	9.8	14.5	7.6	7.3	8.0
Minorities interests	33.3	15.1	20.0	18.0	15.0
Net profit attributable to equity holders	13.6	11.6	9.8	7.2	7.8
Preference share dividend	0.0	59.1	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	14.5	8.9	10.6	7.7	8.4
Per share (RMB)					
EPS	1.08	1.17	1.13	1.07	1.16
BVPS*	10.45	11.25	10.14	10.88	11.66
DPS	0.302	0.329	0.321	0.306	0.331
Key ratio (%)					
Net interest margin	2.05	1.97	1.79	1.71	1.66
Cost to income ratio	29.34	30.66	33.44	34.66	35.28
Return on average assets	0.72	0.76	0.78	0.79	0.79
Return on average equity	10.73	10.80	10.60	10.21	10.32
Effective tax rate	13.95	14.26	14.00	14.00	14.00
Dividend payout	28.08	28.09	28.50	28.50	28.50

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

* Factored in right issue plan announced in Feb-23

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Cash & deposits with central bank	435,383	477,381	420,095	399,091	411,063
Due from FIs and repo	343,211	310,728	340,271	338,786	348,292
Investment securities	2,322,641	2,502,869	2,452,812	2,526,396	2,652,716
Net loans and advances	4,748,076	5,038,967	5,493,003	5,992,029	6,516,187
Total interest earning assets	7,849,311	8,329,945	8,706,180	9,256,302	9,928,258
Property and equipment	34,184	34,430	34,774	35,296	35,825
Trading assets	22,721	44,383	82,109	94,425	103,867
Other assets	136,668	138,785	162,479	180,497	194,342
Total assets	8,042,884	8,547,543	8,985,542	9,566,519	10,262,292
Customer deposits	4,789,969	5,157,864	5,760,675	6,412,570	7,142,704
Due to FIs and repo	1,540,631	1,590,133	1,272,106	1,119,454	1,063,481
Subordinated debt	958,203	975,206	965,454	955,799	946,241
Total interest bearing liabilities	7,288,803	7,723,203	7,998,236	8,487,823	9,152,426
Trading liabilities	24,071	45,811	87,041	98,356	108,192
Current taxes	10,753	8,487	5,092	4,328	4,112
Other liabilities	76,631	84,212	114,148	147,999	119,016
Total liabilities	7,400,258	7,861,713	8,204,517	8,738,506	9,383,747
Common share capital	48,935	48,935	63,616	63,616	63,616
Other capital instruments	118,076	118,076	118,076	118,076	118,076
Reserve	459,292	498,407	578,514	625,085	675,193
Minorities	16,323	20,412	20,820	21,237	21,661
Shareholder's equity	642,626	685,830	781,026	828,013	878,546
Growth (%)					
Cash & deposits with central bank	0.0	9.6	(12.0)	(5.0)	3.0
Due from FIs and repo	(16.9)	(9.5)	9.5	(0.4)	2.8
Investment securities	11.0	7.8	(2.0)	3.0	5.0
Net loans and advances	8.9	6.1	9.0	9.1	8.7
Total interest earning assets	7.5	6.1	4.5	6.3	7.3
Property and equipment	0.9	0.7	1.0	1.5	1.5
Trading assets	(43.3)	95.3	85.0	15.0	10.0
Other assets	0.3	1.5	17.1	11.1	7.7
Total assets	7.1	6.3	5.1	6.5	7.3
Customer deposits	4.8	7.7	11.7	11.3	11.4
Due to FIs and repo	1.3	3.2	(20.0)	(12.0)	(5.0)
Subordinated debt	30.7	1.8	(1.0)	(1.0)	(1.0)
Total interest bearing liabilities	6.8	6.0	3.6	6.1	7.8
Trading liabilities	(50.3)	90.3	90.0	13.0	10.0
Current taxes	27.8	(21.1)	(40.0)	(15.0)	(5.0)
Other liabilities	12.8	9.9	35.5	29.7	(19.6)
Total liabilities	6.5	6.2	4.4	6.5	7.4
Common share capital	0.0	0.0	30.0	0.0	0.0
Other capital instruments	51.2	0.0	0.0	0.0	0.0
Reserve	10.0	8.5	16.1	8.1	8.0
Minorities	5.5	25.1	2.0	2.0	2.0
Shareholder's equity	14.7	6.7	13.9	6.0	6.1
Key ratio (%)					
CT1 CAR	8.85	8.74	9.06	9.19	9.18
Total CAR	13.53	13.18	13.17	13.19	13.05
NPL ratio	1.39	1.27	1.20	1.22	1.24
Provision to total loans	2.50	2.55	2.49	2.52	2.55
Provision coverage ratio	180.07	201.19	207.50	206.56	205.65

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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183