

## China Merchants Bank (3968 HK / 600036 CH)

### Robust risk buffers defend profitability

- Despite hard times, CMB's sector-leading risk buffer shields profitability
- Sluggish loan demand and LPR cuts continue to pose challenges to NIM
- Net fee growth to turn positive in FY24E the earliest
- Reiterate **BUY** on leading profitability. Our GGM-based H/A-shr TPs imply 1.24x/1.22x FY23E P/Bs

**Earnings shielded by robust risk buffer.** CMB's robust risk buffers have always been a core defensive factor enabling its sector-leading profitability and valuation. As of Jun 2023, CMB's provisioning ratio and provision coverage ratio were 4.27% and 447.63%, which provide ample room to support CMB's higher ROAE than peers. Taken into account the downward adjustment of FY23E/24E earnings by 4.23%/7.78%, our base case suggests a 8.7% earnings CAGR over FY22-25E, supported by a topline CAGR at 5.0% and provision expenses CAGR of -12.1% over the same period. CMB's ROAE would be 15.64%-16.57% in FY23E-25E, much higher than sector average of 9.67% in 2Q23, according to the NAFR statistics. Overall, we expect its asset quality to remain benign, with NPL ratio stay below 1.00% in FY23E-25E.

**Topline growth to slowly recover.** In view of interest rate down cycle and slow macro recovery in China, substantial improvement in topline growth is unlikely for FY23E. With CMB's NII and net fee income grew by 1.21% and down by -11.82% YoY in 1H23, its topline declined -0.4% YoY. As we believe sluggish loan demand and LPR cut would continue to overshadow NIM outlook in 2H23, we project CMB's FY23E NIM to narrow by 23bps YoY to 2.17%, to be followed by 7bps-10bps contraction each in FY24E-25E. This would result in a NII CAGR at 5.5% over FY22-25E. Recovery in retail consumption would be critical for a turnaround in CMB's net fee income growth based on the bank's competitive edge in retail banking segment. We expect a positive net fee income growth to occur in FY24E the earliest. We project a net fee income CAGR of 2.5% over FY23E-25E. Overall, our base case suggests topline CAGR to be 5.0% over FY22-25E.

(Continue next page)

#### Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	327,377	342,215	350,981	369,831	395,683
Chg (% YoY)	13.9	4.5	2.6	5.4	7.0
Net profit* (RMB mn)	119,922	138,012	149,368	161,722	177,047
Chg (% YoY)	23.2	15.1	8.2	8.3	9.5
EPS (RMB)	4.61	5.26	5.73	6.22	6.83
Chg (% YoY)	21.6	14.2	8.8	8.6	9.8
BVPS (RMB)	29.01	32.71	36.98	41.58	46.60
Chg (% YoY)	14.4	12.8	13.0	12.4	12.1
P/E (x) – H-shr	6.33	5.54	5.09	4.69	4.27
P/B (x) – H-shr	1.01	0.89	0.79	0.70	0.63
P/E (x) – A-shr	7.48	6.55	6.02	5.54	5.05
P/B (x) – A-shr	1.19	1.05	0.93	0.83	0.74
ROAA (%)	1.36	1.42	1.40	1.39	1.39
ROAE (%)	16.96	17.06	16.57	15.98	15.64
DPS(RMB)	1.522	1.738	1.891	2.052	2.253
Yield (%) H-shr	5.22	5.96	6.48	7.04	7.72
Yield (%) A-shr	5.04	5.48	5.95	6.53	4.41

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 30, 2023

Rating (H): BUY

Rating (A): BUY

TP (H): HK\$ 49.39

TP (A): RMB 45.23

Analyst : Johannes Au

Tel: (852) 2147 8802

johannesau@abci.com.hk

Price (H/A shr)	HK\$ 31.50/ RMB 34.48
Est. s price return (H/A shr)	56.79%/31.18%
Est. dividend yield (H/A shr)	6.48%/5.95%
Est. total return (H/A shr)	63.27%/37.13%
Last Rating & TP (H/A shr)	BUY, HK\$57.37/ BUY, RMB49.15
Previous Report Date	Mar 29, 2023

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	53.45/25.40
52Wk H/L (RMB) (A shr)	42.63/26.30
Total issued shares (mn)	25,219.8
Issued H shr (mn)	4,590.9
Issued A shr (mn)	20,628.9
Market cap (HK\$ mn)	855,888.4
H-shr market cap (HK\$ mn)	144,613.4
A-shr market cap (HK\$ mn)	711,275.0
3-mth avg daily turnover (HK\$ mn) (H shr)	677.9
3-mth avg daily turnover (RMB mn) (A shr)	1,600.0

#### Major shareholder(s) (%):

China Merchants Group	13.04
China Ocean Shipping	6.24

Source(s): Bloomberg, ABCI Securities

**Maintain BUY on leading profitability.** Still, we believe CMB's fundamentals will continue to stand out among peers in terms of relatively fast earnings growth, benign asset quality, and robust risk buffers, which in turn will support its sector-leading valuation. We lower our sustainable ROE, COE and long-term growth assumptions in our GGM and roll over to mid-FY24E BVPS to derive our TPs. Compared to our previous estimates, our H/A-share TPs are slashed 13.9%/8.0% to HK\$ 49.39/RMB 45.23, which imply 1.24x/1.22x FY23E P/Bs. Reiterate **BUY**.

**Risk Factors:** 1) Net fee income growth fail to turn positive on intensified competition; 2) Prolonged deposit competition keeps funding cost high; 3) Sharp deterioration in asset quality in specific regions or industry sectors; 4) Declining NIM and ROAE in FY23E-25E.

**Exhibit 1: Changes in ABCI forecasts**

(RMB mn)	2023E (old)	2023E (new)	change (%)	(RMB mn)	2024E (old)	2024E (new)	change (%)
Net interest income	242,886	225,077	(7.33)	Net interest income	266,851	237,273	(11.08)
Net fee and commission	98,989	91,447	(7.62)	Net fee and commission	102,948	93,276	(9.40)
Operating income	374,848	350,981	(6.37)	Operating income	405,410	369,831	(8.78)
Operating expenses	(129,385)	(130,605)	0.94	Operating expenses	(136,501)	(138,442)	1.42
Impairment losses	(60,147)	(43,504)	(27.67)	Impairment losses	(59,901)	(39,780)	(33.59)
Profit before tax	187,589	179,574	(4.27)	Profit before tax	211,099	194,527	(7.85)
Income tax expenses	(30,014)	(28,732)	(4.27)	Income tax expenses	(33,776)	(31,124)	(7.85)
Net profit attributable to equity holders	155,972	149,368	(4.23)	Net profit attributable to equity holders	175,368	161,722	(7.78)
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	2.31	2.17	(0.14)	Net interest margin	2.26	2.07	(0.19)
CIR	31.52	34.21	2.69	CIR	30.67	34.43	3.76
ROAA	1.45	1.40	(0.05)	ROAA	1.46	1.39	(0.07)
ROAE	17.27	16.57	(0.70)	ROAE	17.17	15.98	(1.19)
Dividend payout	33.00	33.00	-	Dividend payout	33.00	33.00	-
CT1 CAR	13.91	13.19	(0.72)	CT1 CAR	13.85	13.09	(0.76)
Total CAR	17.67	16.77	(0.90)	Total CAR	17.30	16.38	(0.92)
NPL ratio	1.00	0.96	(0.04)	NPL ratio	1.03	0.98	(0.05)
Provision to total loans	4.26	4.25	(0.01)	Provision to total loans	4.23	4.20	(0.03)
Provision coverage ratio	426.00	442.71	16.71	Provision coverage ratio	410.68	428.57	17.89

Source(s): Company, ABCI Securities estimates

**Exhibit 2: Changes in GGM assumptions**

	H-shr		A-shr		Rationale
	Old	new	old	new	
TP (HKD/RMB)	57.37	49.39	49.15	45.23	
Sustainable ROE (%)	16.82	15.64	16.82	15.64	Adjusted down on weak topline growth momentum
COE (%)	15.20	14.89	15.27	14.94	Adjust beta and risk premium with reference to Bloomberg
L-T growth (%)	10.50	10.30	10.50	10.30	Factor in slower balance sheet growth
Target 23E P/B (x)	1.34	1.24	1.32	1.22	

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	203,919	218,235	225,077	237,273	256,399
Non-interest income	123,458	123,980	125,905	132,558	139,284
Of which: Fees and commissions	94,447	94,275	91,447	93,276	96,074
<b>Operating income</b>	<b>327,377</b>	<b>342,215</b>	<b>350,981</b>	<b>369,831</b>	<b>395,683</b>
Operating expenses	(116,879)	(122,061)	(130,605)	(138,442)	(146,748)
<b>Pre-provision operating profit</b>	<b>210,498</b>	<b>220,154</b>	<b>220,376</b>	<b>231,389</b>	<b>248,935</b>
Impairment losses on loans	(66,355)	(57,566)	(43,504)	(39,780)	(39,084)
<b>Operating profit</b>	<b>144,143</b>	<b>162,588</b>	<b>176,872</b>	<b>191,609</b>	<b>209,851</b>
Non-operating income	4,030	2,525	2,702	2,918	3,181
<b>Profit before tax</b>	<b>148,173</b>	<b>165,113</b>	<b>179,574</b>	<b>194,527</b>	<b>213,031</b>
Tax	(27,339)	(25,819)	(28,732)	(31,124)	(34,085)
Minority interests	(912)	(1,282)	(1,474)	(1,681)	(1,899)
<b>Net profit attributable to equity holders</b>	<b>119,922</b>	<b>138,012</b>	<b>149,368</b>	<b>161,722</b>	<b>177,047</b>
Attributable to investors of preference shares & perpetual bonds	(3,613)	(5,237)	(4,883)	(4,883)	(4,883)
<b>Net profit attributable to ordinary shareholders</b>	<b>116,309</b>	<b>132,775</b>	<b>144,484</b>	<b>156,839</b>	<b>172,164</b>
<b>Growth (%)</b>					
Net interest income	10.2	7.0	3.1	5.4	8.1
Non-interest income	20.6	0.4	1.6	5.3	5.1
Of which: Fees and commissions	18.8	(0.2)	(3.0)	2.0	3.0
<b>Operating income</b>	<b>13.9</b>	<b>4.5</b>	<b>2.6</b>	<b>5.4</b>	<b>7.0</b>
Operating expenses	13.7	4.4	7.0	6.0	6.0
<b>Pre-provision operating profit</b>	<b>14.0</b>	<b>4.6</b>	<b>0.1</b>	<b>5.0</b>	<b>7.6</b>
Impairment losses on loans	2.0	(13.2)	(24.4)	(8.6)	(1.7)
<b>Operating profit</b>	<b>20.6</b>	<b>12.8</b>	<b>8.8</b>	<b>8.3</b>	<b>9.5</b>
Non-operating income	39.9	(37.3)	7.0	8.0	9.0
<b>Profit before tax</b>	<b>21.0</b>	<b>11.4</b>	<b>8.8</b>	<b>8.3</b>	<b>9.5</b>
Tax	11.7	(5.6)	11.3	8.3	9.5
Minority interests	47.8	40.6	15.0	14.0	13.0
<b>Net profit attributable to equity holders</b>	<b>23.2</b>	<b>15.1</b>	<b>8.2</b>	<b>8.3</b>	<b>9.5</b>
Attributable to investors of preference shares & perpetual bonds	118.8	44.9	(6.8)	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	<b>21.5</b>	<b>14.2</b>	<b>8.8</b>	<b>8.6</b>	<b>9.8</b>
<b>Per share (RMB)</b>					
EPS	4.61	5.26	5.73	6.22	6.83
BVPS	29.01	32.71	36.98	41.58	46.60
DPS	1.522	1.738	1.891	2.052	2.253
<b>Key ratio (%)</b>					
Net interest margin	2.48	2.40	2.17	2.07	2.00
Cost to income ratio	33.11	32.89	34.21	34.43	34.09
Return on average assets	1.36	1.42	1.40	1.39	1.39
Return on average equity	16.96	17.06	16.57	15.98	15.64
Effective tax rate	18.45	15.64	16.00	16.00	16.00
Dividend payout	33.00	33.01	33.00	33.00	33.00

Note1: Individual items may not sum to total due to rounding difference

Note2: 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 & central bank balance	567,208	603,027	583,111	570,673	559,854
Due from FIs	799,372	631,598	669,857	710,583	753,178
Investment securities	2,200,387	2,791,360	3,210,064	3,627,372	4,062,657
Net loans and advances	5,335,391	5,807,154	6,323,177	6,900,867	7,483,529
<b>Total interest earning assets</b>	<b>8,902,358</b>	<b>9,833,139</b>	<b>10,786,210</b>	<b>11,809,495</b>	<b>12,859,219</b>
Property and equipment	81,787	101,187	121,424	143,281	167,639
Other non-interest earning assets	264,876	204,586	217,541	230,380	245,253
<b>Total assets</b>	<b>9,249,021</b>	<b>10,138,912</b>	<b>11,125,175</b>	<b>12,183,156</b>	<b>13,272,110</b>
Customer deposits	6,385,154	7,590,579	8,374,264	9,195,894	10,038,377
Financial liabilities	91,043	81,950	98,340	116,041	134,608
Due to central bank and FIs	1,083,655	968,276	948,502	945,566	955,669
Subordinated debt	446,645	223,821	279,776	346,923	423,246
<b>Total interest bearing liabilities</b>	<b>8,006,497</b>	<b>8,864,626</b>	<b>9,700,882</b>	<b>10,604,424</b>	<b>11,551,899</b>
Current taxes	22,491	19,458	16,539	14,885	14,141
Deferred tax liabilities	1,353	1,510	1,555	1,602	1,650
Other liabilities	352,999	299,080	343,852	383,196	398,064
<b>Total liabilities</b>	<b>8,383,340</b>	<b>9,184,674</b>	<b>10,062,829</b>	<b>11,004,107</b>	<b>11,965,755</b>
Share capital	25,220	25,220	25,220	25,220	25,220
Other equity instruments	127,043	120,446	120,446	120,446	120,446
Reserves	706,482	799,837	907,421	1,023,476	1,150,089
Minorities	6,936	8,735	9,259	9,907	10,601
<b>Shareholder's equity</b>	<b>865,681</b>	<b>954,238</b>	<b>1,062,346</b>	<b>1,179,049</b>	<b>1,306,355</b>
<b>Growth (%)</b>					
Cash & central bank balance	5.3	6.3	(3.3)	(2.1)	(1.9)
Due from FIs	29.7	(21.0)	6.1	6.1	6.0
Investment securities	4.3	26.9	15.0	13.0	12.0
Net loans and advances	11.1	8.8	8.9	9.1	8.4
<b>Total interest earning assets</b>	<b>10.3</b>	<b>10.5</b>	<b>9.7</b>	<b>9.5</b>	<b>8.9</b>
Property and equipment	15.0	23.7	20.0	18.0	17.0
Other non-interest earning assets	19.2	(22.8)	6.3	5.9	6.5
<b>Total assets</b>	<b>10.6</b>	<b>9.6</b>	<b>9.7</b>	<b>9.5</b>	<b>8.9</b>
Customer deposits	12.7	18.9	10.3	9.8	9.2
Financial liabilities	(17.5)	(10.0)	20.0	18.0	16.0
Due to central bank and FIs	(9.6)	(10.6)	(2.0)	(0.3)	1.1
Subordinated debt	29.0	(49.9)	25.0	24.0	22.0
<b>Total interest bearing liabilities</b>	<b>9.4</b>	<b>10.7</b>	<b>9.4</b>	<b>9.3</b>	<b>8.9</b>
Current taxes	20.6	(13.5)	(15.0)	(10.0)	(5.0)
Deferred tax liabilities	26.1	11.6	3.0	3.0	3.0
Other liabilities	20.8	(15.3)	15.0	11.4	3.9
<b>Total liabilities</b>	<b>9.9</b>	<b>9.6</b>	<b>9.6</b>	<b>9.4</b>	<b>8.7</b>
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	51.1	(5.2)	0.0	0.0	0.0
Reserves	15.0	13.2	13.5	12.8	12.4
Minorities	5.0	25.9	6.0	7.0	7.0
<b>Shareholder's equity</b>	<b>18.5</b>	<b>10.2</b>	<b>11.3</b>	<b>11.0</b>	<b>10.8</b>
<b>Key ratio (%)</b>					
CT1 CAR	12.66	13.68	13.19	13.09	13.06
Total CAR	17.48	17.77	16.77	16.38	16.09
NPL ratio	0.91	0.96	0.96	0.98	0.99
Provision to total loans	4.42	4.32	4.25	4.20	4.16
Provision coverage ratio	483.87	450.79	442.71	428.57	420.20

Note1: Individual items may not sum to total due to rounding difference

Note2: 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**