

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

### Promising profitability with sector-leading risk buffers

- NIM will be under pressure throughout 2023 but narrowing pace will slow starting from 2Q23
- Growth in light capital business to boost momentum in net fee income
- CMB is well protected by strong risk buffers and a stabilizing NPL trend
- Reiterate **BUY** on robust fundamentals. Our GGM-based H/A-shr TPs imply 1.34x/1.32x FY23E P/Bs

**An easing NIM outlook.** The bank's NIM expanded 1bps QoQ to 2.37% in 4Q22. While NIM outlook for 2023 will stay challenging. On the asset side, loan repricing resulted from previous rate cuts will continue, but the negative impacts should lessen after mortgage loans are mostly repriced in 1Q23. On the liability side, we project deposit competition and migration would drive up average deposit cost by 2bps-9bps each in FY23E-25E. Combined these assets and liabilities side factors, CMB's NIM would narrow by 5bps-9bps each in FY23E-25E, and NII would grow at 10.3% CAGR over FY22-25E, to be supported by decent balance sheet growth and component management. Our base case projects total assets and liabilities both to increase at 11.5% CAGRs over FY22-25E.

**Growth in light capital business to support a turnaround in net fee income.** Based on the gradual macro recovery, we expect growth momentum in net fee income would resume in 2023 for the bank sector. CMB's net fee dropped 0.18% YoY in FY22, but we believe strategic focus to enhance light capital business will support a turnaround. Specifically, we estimate net fee income to grow at 5.0% CAGR in FY22-25E on retail consumption-related fees and fees and commission associated with wealth management. According to our projections, net fee income would account for 24.8%-26.4% of topline revenue in FY23E-25E.

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#### Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	327,377	342,215	374,848	405,410	439,534
Chg (% YoY)	13.9	4.5	9.5	8.2	8.4
Net profit* (RMB mn)	119,922	138,012	155,972	175,368	197,868
Chg (% YoY)	23.2	15.1	13.0	12.4	12.8
EPS (RMB)	4.61	5.26	5.99	6.76	7.65
Chg (% YoY)	21.6	14.2	13.8	12.8	13.2
BVPS (RMB)	29.01	32.71	37.12	42.05	47.63
Chg (% YoY)	14.4	12.8	13.5	13.3	13.3
P/E (x) – H-shr	7.55	6.61	5.81	5.15	4.55
P/B (x) – H-shr	1.20	1.06	0.94	0.83	0.73
P/E (x) – A-shr	7.46	6.53	5.74	5.09	4.50
P/B (x) – A-shr	1.19	1.05	0.93	0.82	0.72
ROAA (%)	1.36	1.42	1.45	1.46	1.48
ROAE (%)	16.96	17.06	17.27	17.17	17.14
DPS(RMB)	1.522	1.738	1.977	2.231	2.525
Yield (%) H-shr	4.38	5.00	5.68	6.41	7.26
Yield (%) A-shr	4.42	5.05	5.75	6.48	7.34

Note: HKD/CNY=1.15

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

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

## Company Report

### Mar 29, 2023

Rating (H): BUY  
Rating (A): BUY  
TP (H): HK\$ 57.37  
TP (A): RMB 49.15

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Price (H/A shr)	HK\$ 40.00/ RMB 34.40
Est. s price return (H/A shr)	43.43%/42.88%
Est. dividend yield (H/A shr)	5.68%/5.75%
Est. total return (H/A shr)	49.11%/ 48.63%
Last Rating & TP (H/A shr)	BUY, HK\$53.05/ BUY, RMB46.73
Previous Report Date	Nov 3, 2022

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	62.80/25.40
52Wk H/L (RMB) (A shr)	47.73/26.30
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)	992,629.7
H-shr market cap (HK\$ mn)	183,636.0
A-shr market cap (HK\$ mn)	808,993.7
3-mth avg daily turnover (HK\$ mn) (H shr)	913.55
3-mth avg daily turnover (RMB mn) (A shr)	2,140.00

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

China Merchants Group	13.04
China Ocean Shipping	6.24

Source(s): Bloomberg, ABCI Securities

**Stabilizing trend in asset quality.** As of Dec 2022, the bank's NPL ratio was 0.96% (up 1bps QoQ), much lower than the sector average of 1.63% based on CBIRC's statistics. Meanwhile, its provisioning ratio and provision coverage ratio at 4.32% and 450.79% by Dec 2022 was at leading position among peers. In our opinion, property-related asset quality remains the major uncertainty for 2023, while growth in new NPLs should decelerate on policy priority in the property market. In our view, the bank's asset quality pressure would reduce on macro recovery. We estimate NPL ratio to inch up 2bps-4bps each in FY23E-25E, reaching 1.05% by end-FY25E. Risk buffers would remain high despite provisioning ratio and provision coverage ratio would be down slightly to 4.21% and 400.95% by end-FY25E.

**Maintain BUY on leading fundamentals.** As CMB's focus gradually shifts from risk management to sustainable revenue growth, we expect better earnings in our base case scenario and raise FY23E/24E earnings by 4.6% and 7.0%, given the bank's established strength in retail segment and sector-leading risk buffers. Altogether, we project a FY22-25E earnings CAGR of 12.8%. We revise up our sustainable ROAE and long-term growth assumptions in our GGM model and raise our H/A-share TPs by 8.1%/5.2% to HK\$ 57.37/RMB 49.15, which imply 1.34x/1.32x FY23E P/Bs. Reiterate **BUY**.

**Risk Factors:** 1) Net fee income fail to grow under intensified competition; 2) Prolonged deposit competition keeps funding cost at high levels; 3) Sharp deterioration in asset quality in specific region or industry sector; 4) Rising NPL ratio and declining NIM 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	243,459	242,886	(0.24)		Net interest income	260,304	266,851	2.52
Net fee and commission	100,161	98,989	(1.17)		Net fee and commission	107,172	102,948	(3.94)
Operating income	380,987	374,848	(1.61)		Operating income	410,821	405,410	(1.32)
Operating expenses	(143,995)	(129,385)	(10.15)		Operating expenses	(156,954)	(136,501)	(13.03)
Impairment losses	(60,702)	(60,147)	(0.91)		Impairment losses	(59,712)	(59,901)	0.32
Profit before tax	178,859	187,589	4.88		Profit before tax	196,596	211,099	7.38
Income tax expenses	(28,617)	(30,014)	4.88		Income tax expenses	(31,455)	(33,776)	7.38
Net profit attributable to equity holders	149,108	155,972	4.60		Net profit attributable to equity holders	163,893	175,368	7.00
<b>Key indicators (%)</b>			<b>change (ppt)</b>		<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	2.35	2.31	(0.04)		Net interest margin	2.31	2.26	(0.05)
CIR	37.80	31.52	(6.28)		CIR	38.21	30.67	(7.54)
ROAA	1.43	1.45	0.02		ROAA	1.44	1.46	0.02
ROAE	16.39	17.27	0.88		ROAE	16.06	17.17	1.11
Dividend payout	33.00	33.00	-		Dividend payout	33.00	33.00	-
CT1 CAR	13.26	13.91	0.65		CT1 CAR	13.67	13.85	0.18
Total CAR	17.05	17.67	0.62		Total CAR	17.22	17.30	0.08
NPL ratio	1.02	1.00	(0.02)		NPL ratio	1.05	1.03	(0.02)
Provision to total loans	4.22	4.26	0.04		Provision to total loans	4.12	4.23	0.11
Provision coverage ratio	413.73	426.00	12.27		Provision coverage ratio	392.38	410.68	18.30

Source(s): Company, ABCI Securities estimates

#### Exhibit 2: Changes in GGM assumptions

	H-shr		A-shr		
	Old	new	old	new	Rationale
TP (HKD/RMB)	53.05	57.37	46.73	49.15	
Sustainable ROE (%)	15.19	16.82	15.19	16.82	Adjusted up on better earnings outlook
COE (%)	13.58	15.20	13.87	15.27	Higher beta and risk premium with reference to Bloomberg
L-T growth (%)	8.90	10.50	8.90	10.50	Rise on robust balance sheet growth
Target 23E P/B (x)	1.34	1.34	1.27	1.32	

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	242,886	266,851	292,662
Non-interest income	123,458	123,980	131,961	138,559	146,872
Of which: Fees and commissions	94,447	94,275	98,989	102,948	109,125
<b>Operating income</b>	<b>327,377</b>	<b>342,215</b>	<b>374,848</b>	<b>405,410</b>	<b>439,534</b>
Operating expenses	(116,879)	(122,061)	(129,385)	(136,501)	(144,008)
<b>Pre-provision operating profit</b>	<b>210,498</b>	<b>220,154</b>	<b>245,463</b>	<b>268,909</b>	<b>295,525</b>
Impairment losses on loans	(66,355)	(57,566)	(60,147)	(59,901)	(59,120)
<b>Operating profit</b>	<b>144,143</b>	<b>162,588</b>	<b>185,316</b>	<b>209,008</b>	<b>236,406</b>
Non-operating income	4,030	2,525	2,273	2,091	1,944
<b>Profit before tax</b>	<b>148,173</b>	<b>165,113</b>	<b>187,589</b>	<b>211,099</b>	<b>238,350</b>
Tax	(27,339)	(25,819)	(30,014)	(33,776)	(38,136)
Minority interests	(912)	(1,282)	(1,603)	(1,955)	(2,346)
<b>Net profit attributable to equity holders</b>	<b>119,922</b>	<b>138,012</b>	<b>155,972</b>	<b>175,368</b>	<b>197,868</b>
Preference share dividend	(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>151,089</b>	<b>170,485</b>	<b>192,985</b>
<b>Growth (%)</b>					
Net interest income	10.2	7.0	11.3	9.9	9.7
Non-interest income	20.6	0.4	6.4	5.0	6.0
Of which: Fees and commissions	18.8	(0.2)	5.0	4.0	6.0
<b>Operating income</b>	<b>13.9</b>	<b>4.5</b>	<b>9.5</b>	<b>8.2</b>	<b>8.4</b>
Operating expenses	13.7	4.4	6.0	5.5	5.5
<b>Pre-provision operating profit</b>	<b>14.0</b>	<b>4.6</b>	<b>11.5</b>	<b>9.6</b>	<b>9.9</b>
Impairment losses on loans	2.0	(13.2)	4.5	(0.4)	(1.3)
<b>Operating profit</b>	<b>20.6</b>	<b>12.8</b>	<b>14.0</b>	<b>12.8</b>	<b>13.1</b>
Non-operating income	39.9	(37.3)	(10.0)	(8.0)	(7.0)
<b>Profit before tax</b>	<b>21.0</b>	<b>11.4</b>	<b>13.6</b>	<b>12.5</b>	<b>12.9</b>
Tax	11.7	(5.6)	16.2	12.5	12.9
Minority interests	47.8	40.6	25.0	22.0	20.0
<b>Net profit attributable to equity holders</b>	<b>23.2</b>	<b>15.1</b>	<b>13.0</b>	<b>12.4</b>	<b>12.8</b>
Preference share dividend	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>13.8</b>	<b>12.8</b>	<b>13.2</b>
<b>Per share (RMB)</b>					
EPS	4.61	5.26	5.99	6.76	7.65
BVPS	29.01	32.71	37.12	42.05	47.63
DPS	1.522	1.738	1.977	2.231	2.525
<b>Key ratio (%)</b>					
Net interest margin	2.48	2.40	2.31	2.26	2.19
Cost to income ratio	33.11	32.89	31.52	30.67	29.76
Return on average assets	1.36	1.42	1.45	1.46	1.48
Return on average equity	16.96	17.06	17.27	17.17	17.14
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	640,121	676,265	711,023
Due from FIs	799,372	631,598	572,351	553,848	546,076
Investment securities	2,200,387	2,791,360	3,433,373	4,154,381	4,943,713
Net loans and advances	5,335,391	5,807,154	6,344,595	6,887,443	7,438,547
<b>Total interest earning assets</b>	<b>8,902,358</b>	<b>9,833,139</b>	<b>10,990,440</b>	<b>12,271,937</b>	<b>13,639,359</b>
Property and equipment	81,787	101,187	123,448	148,138	177,765
Other non-interest earning assets	264,876	204,586	219,358	234,323	251,650
<b>Total assets</b>	<b>9,249,021</b>	<b>10,138,912</b>	<b>11,333,246</b>	<b>12,654,398</b>	<b>14,068,775</b>
Customer deposits	6,385,154	7,590,579	8,775,487	10,039,172	11,360,918
Financial liabilities	91,043	81,950	73,755	67,117	61,748
Due to central bank and FIs	1,083,655	968,276	881,732	814,496	770,860
Subordinated debt	446,645	223,821	235,012	246,763	259,101
<b>Total interest bearing liabilities</b>	<b>8,006,497</b>	<b>8,864,626</b>	<b>9,965,986</b>	<b>11,167,548</b>	<b>12,452,627</b>
Current taxes	22,491	19,458	17,512	16,637	15,805
Deferred tax liabilities	1,353	1,510	1,691	1,877	2,065
Other liabilities	352,999	299,080	280,608	273,667	259,516
<b>Total liabilities</b>	<b>8,383,340</b>	<b>9,184,674</b>	<b>10,265,797</b>	<b>11,459,729</b>	<b>12,730,013</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	910,864	1,035,355	1,176,036
Minorities	6,936	8,735	10,919	13,648	17,061
<b>Shareholder's equity</b>	<b>865,681</b>	<b>954,238</b>	<b>1,067,449</b>	<b>1,194,669</b>	<b>1,338,762</b>
<b>Growth (%)</b>					
Cash & central bank balance	5.3	6.3	6.2	5.6	5.1
Due from FIs	29.7	(21.0)	(9.4)	(3.2)	(1.4)
Investment securities	4.3	26.9	23.0	21.0	19.0
Net loans and advances	11.1	8.8	9.3	8.6	8.0
<b>Total interest earning assets</b>	<b>10.3</b>	<b>10.5</b>	<b>11.8</b>	<b>11.7</b>	<b>11.1</b>
Property and equipment	15.0	23.7	22.0	20.0	20.0
Other non-interest earning assets	19.2	(22.8)	7.2	6.8	7.4
<b>Total assets</b>	<b>10.6</b>	<b>9.6</b>	<b>11.8</b>	<b>11.7</b>	<b>11.2</b>
Customer deposits	12.7	18.9	15.6	14.4	13.2
Financial liabilities	(17.5)	(10.0)	(10.0)	(9.0)	(8.0)
Due to central bank and FIs	(9.6)	(10.6)	(8.9)	(7.6)	(5.4)
Subordinated debt	29.0	(49.9)	5.0	5.0	5.0
<b>Total interest bearing liabilities</b>	<b>9.4</b>	<b>10.7</b>	<b>12.4</b>	<b>12.1</b>	<b>11.5</b>
Current taxes	20.6	(13.5)	(10.0)	(5.0)	(5.0)
Deferred tax liabilities	26.1	11.6	12.0	11.0	10.0
Other liabilities	20.8	(15.3)	(6.2)	(2.5)	(5.2)
<b>Total liabilities</b>	<b>9.9</b>	<b>9.6</b>	<b>11.8</b>	<b>11.6</b>	<b>11.1</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	13.9	13.7	13.6
Minorities	5.0	25.9	25.0	25.0	25.0
<b>Shareholder's equity</b>	<b>18.5</b>	<b>10.2</b>	<b>11.9</b>	<b>11.9</b>	<b>12.1</b>
<b>Key ratio (%)</b>					
CT1 CAR	12.66	13.68	13.91	13.85	14.63
Total CAR	17.48	17.77	17.67	17.30	17.95
NPL ratio	0.91	0.96	1.00	1.03	1.05
Provision to total loans	4.42	4.32	4.26	4.23	4.21
Provision coverage ratio	483.87	450.79	426.00	410.68	400.95

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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