

## CEB Bank (6818 HK / 601818 CH)

### Trough valuation but lacks near-term fundamental catalyst

- Lower our topline and earnings forecasts on weak growth momentum
- Decisive balance management needed to strengthen fundamentals
- Expect stable NPL ratio, but higher provisioning ratio needed to reduce earnings volatility
- Limited downside at current valuation. Our GGM-based H/A shr TPs imply target 23E P/B of 0.38x/0.50x. Maintain **BUY**

**Slow topline growth.** We lower CEB's FY23E/24E topline forecasts by 13.05%/15.39%, resulting in a 3.0% CAGR over FY22-25E. This is based on CEBs' relatively weak topline performance in 1Q23, with NII and net fee income down by 1.83% and 4.99% YoY. Our base case assumes CEB's NIM to narrow by 7bps-15bps YoY each in FY23E-25E to 1.69% by 2025E, which would result in a NII CAGR of 2.9% over the same period. Meanwhile, we project FY22-25E net fee income to grow at 1.2% CAGRs with reference to its higher quarterly fluctuation in fundamentals than peers. Together with a -1.2% CAGR in provision expenses over FY22-25E, we lower CEB's FY23E/24E earnings forecasts by 7.70%/8.06% and project a CAGR at 5.0% over FY22-25E.

**Soft growth in high-yield assets.** We notice CEB's soft growth in high-yield asset classes compared to its total assets growth in 1Q23. In particular, its net loan and investments grew only 3.95% and 4.53% QoQ as of Mar 2023 while total assets growth was 6.26% QoQ. We believe the change in balance sheet mix has been unfavorable, especially for the bank's NIM during the down cycle in market interest rates. Adjustments its balance sheet is needed for the bank to strengthen fundamentals, in our view.

**More provisions needed.** CEB's 1Q23 net profit growth at 5.34% YoY was mainly driven by its 8.39% YoY reduction in provision expenses. However, its relatively low provisioning ratio at 2.35% indicates a potential increase in provision expenses in the future; if not, earnings could be negatively affected should asset quality risk escalate. Having said that, as of Mar 2023, CEB has maintained a stable NPL ratio at 1.25% and a provision coverage ratio at 188.16%. Our base case projects its NPL ratio to stay in the range of 1.27%-1.29% in FY23E-25E, with provisioning ratio inching up 2bp-3bps each in FY23E-25E to reach 2.42% by end-25E. Provision coverage ratio for the bank would stay above 180% in 2023E-25E.

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#### Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	153,366	151,865	154,106	159,384	165,978
Chg (% YoY)	7.4	(1.0)	1.5	3.4	4.1
Net profit* (RMB mn)	43,407	44,807	45,246	48,256	51,879
Chg (% YoY)	14.7	3.2	1.0	6.7	7.5
Basic EPS (RMB)	0.71	0.74	0.71	0.74	0.80
Chg (% YoY)	5.8	3.6	(3.4)	2.9	8.3
BVPS (RMB)	6.99	8.20	7.96	8.44	8.97
Chg (% YoY)	8.4	17.3	(3.0)	6.1	6.3
Basic P/E (x) – H-shr	3.10	2.99	3.09	3.01	2.78
P/B (x) – H-shr	0.32	0.27	0.28	0.26	0.25
Basic P/E (x) – A-shr	4.48	4.32	4.48	4.35	4.02
P/B (x) – A-shr	0.46	0.39	0.40	0.38	0.36
ROAA (%)	0.77	0.74	0.77	0.76	0.76
ROAE (%)	10.64	10.27	10.03	10.09	10.26
DPS(RMB)	0.201	0.207	0.192	0.206	0.223
Yield (%) H-shr	9.08	9.36	8.66	9.31	10.08
Yield (%) A-shr	6.28	6.47	5.99	6.43	6.97

Note: HKD/CNY=1.13

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

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

## Company Report

### May 4, 2023

Rating (H): BUY  
Rating (A): BUY  
TP (H): HK\$ 3.37  
TP (A): RMB 3.95

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Price (H/A shr)	HK\$ 2.50/ RMB 3.20
Est. s price return (H/A shr)	34.80%/ 23.44%
Est. dividend yield (H/A shr)	8.66%/5.99%
Est. total return (H/A shr)	43.46%/ 29.43%
Last Rating & TP (H/A shr)	BUY, HK\$3.90/ BUY, RMB4.03
Previous Report Date	12 May, 2022

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	2.86/2.03
52Wk H/L (RMB) (A shr)	3.33/2.20
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)	199,503.8
H-shr market cap (HK\$ mn)	31,696.8
A-shr market cap (HK\$ mn)	167,807.0
3-mth avg daily turnover (HK\$ mn) (H shr)	41.16
3-mth avg daily turnover (RMB mn) (A shr)	347.60
Major shareholder(s) (%):	
China Everbright Group	46.53

Source(s): Bloomberg, ABCI Securities



**BUY with limited downside.** In our view, Chinese bank investors have always prioritized stable growth and fundamentals, which is not CEB's strongest suit. To raise investor confidence, the bank would need steady QoQ improvements in fundamentals. In our valuation, we lower our sustainable ROAE and long-term growth and increase our COE assumptions. Our GGM H/A-shr TPs for CEB were down by 13.6% and 2.0% to HK\$ 3.37 and RMB 3.95, implying 0.38x and 0.50x target FY23E P/B. We see limited share price downside at current trough valuation. Maintain **BUY**.

**Risk Factors:** 1) Rising CIR on slow topline growth outlook; 2) Failure to optimize balance sheet mix; 3) Higher earnings volatility than peers; 4) Failure to enhance capital position; 5) Expect net profit to decline in the rest of 2023.

**Exhibit 1: Major changes in forecasts**

(RMB mn)	2023E (old)	2023E (new)	change (%)		(RMB mn)	2024E (old)	2024E (new)	change (%)
Net interest income	125,116	115,333	(7.82)		Net interest income	130,412	119,204	(8.59)
Net fee and commission	33,957	26,477	(22.03)		Net fee and commission	37,352	26,874	(28.05)
Operating income	177,231	154,106	(13.05)		Operating income	188,374	159,384	(15.39)
Operating expenses	(57,206)	(47,036)	(17.78)		Operating expenses	(63,407)	(49,388)	(22.11)
Impairment losses	(59,826)	(50,140)	(16.19)		Impairment losses	(60,544)	(49,284)	(18.60)
Profit before tax	60,080	56,851	(5.37)		Profit before tax	64,286	60,617	(5.71)
Net profit attributable to equity holders	49,023	45,246	(7.70)		Net profit attributable to equity holders	52,484	48,256	(8.06)
<b>Key indicators (%)</b>			<b>change (ppt)</b>		<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	1.94	1.85	(0.09)		Net interest margin	1.84	1.76	(0.08)
CIR	32.28	30.52	(1.76)		CIR	33.66	30.99	(2.67)
ROAA	0.73	0.77	0.04		ROAA	0.72	0.76	0.04
ROAE	10.74	10.03	(0.71)		ROAE	10.98	10.09	(0.89)
Dividend payout	28.00	28.00	-		Dividend payout	28.00	28.00	-
CT1 CAR	8.51	8.72	0.21		CT1 CAR	8.30	8.61	0.31
Total CAR	13.07	13.23	0.16		Total CAR	12.98	13.11	0.13
NPL ratio	1.30	1.27	(0.03)		NPL ratio	1.34	1.28	(0.06)
Provision to total loans	2.46	2.37	(0.09)		Provision to total loans	2.50	2.39	(0.11)
Provision coverage ratio	189.23	186.61	(2.62)		Provision coverage	186.57	186.72	0.15

Source(s): Company, ABCI Securities estimates

**Exhibit 2: Changes in GGM assumptions**

	H-shr		A-shr		
	old	new	old	new	Reason
TP (HKD/RMB)	3.90	3.37	4.03	3.95	
Sustainable ROE (%)	10.04	9.41	10.04	9.41	Factor in lower ROAE
COE (%)	14.13	15.08	12.91	12.85	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	6.70	6.00	6.70	6.00	Adjust on lower earnings growth
Target 23E P/B (x)	0.45	0.38	0.54	0.50	

Source(s): Company, ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Everbright Bank Company Limited (6818 HK / 601818 CH)

Diversified Financials Sector

May 4, 2023

## Financial statements

### Consolidated income statement

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Net interest income	112,155	113,655	115,333	119,204	123,779
Non-interest income	41,211	38,210	38,773	40,180	42,199
Of which: Fees and commissions	27,314	26,744	26,477	26,874	27,680
<b>Operating income</b>	<b>153,366</b>	<b>151,865</b>	<b>154,106</b>	<b>159,384</b>	<b>165,978</b>
Operating expenses	(45,540)	(45,227)	(47,036)	(49,388)	(51,857)
<b>Pre-provision operating profit</b>	<b>107,826</b>	<b>106,638</b>	<b>107,070</b>	<b>109,996</b>	<b>114,120</b>
Impairment loans losses	(54,795)	(50,609)	(50,140)	(49,284)	(48,860)
<b>Operating profit</b>	<b>53,031</b>	<b>56,029</b>	<b>56,930</b>	<b>60,712</b>	<b>65,261</b>
Non-operating profit	(90)	(63)	(79)	(95)	(111)
<b>Profit before tax</b>	<b>52,941</b>	<b>55,966</b>	<b>56,851</b>	<b>60,617</b>	<b>65,149</b>
Tax	(9,302)	(10,926)	(11,370)	(12,123)	(13,030)
Minority interests	(232)	(233)	(235)	(238)	(240)
<b>Net profit attributable to equity holders</b>	<b>43,407</b>	<b>44,807</b>	<b>45,246</b>	<b>48,256</b>	<b>51,879</b>
Dividend to other capital instrument holders	(4,800)	(4,811)	(4,811)	(4,811)	(4,811)
<b>Net profit attributable to ordinary shareholders</b>	<b>38,607</b>	<b>39,996</b>	<b>40,435</b>	<b>43,445</b>	<b>47,068</b>
<b>Growth (%)</b>					
Net interest income	1.3	1.3	1.5	3.4	3.8
Non-interest income	28.4	(7.3)	1.5	3.6	5.0
Of which: Fees and commissions	11.9	(2.1)	(1.0)	1.5	3.0
<b>Operating income</b>	<b>7.4</b>	<b>(1.0)</b>	<b>1.5</b>	<b>3.4</b>	<b>4.1</b>
Operating expenses	12.9	(0.7)	4.0	5.0	5.0
<b>Pre-provision operating profit</b>	<b>5.2</b>	<b>(1.1)</b>	<b>0.4</b>	<b>2.7</b>	<b>3.7</b>
Impairment loans losses	(3.8)	(7.6)	(0.9)	(1.7)	(0.9)
<b>Operating profit</b>	<b>16.5</b>	<b>5.7</b>	<b>1.6</b>	<b>6.6</b>	<b>7.5</b>
Non-operating profit	1,700.0	(30.0)	25.0	21.0	17.0
<b>Profit before tax</b>	<b>16.3</b>	<b>5.7</b>	<b>1.6</b>	<b>6.6</b>	<b>7.5</b>
Tax	22.4	17.5	4.1	6.6	7.5
Minority interests	149.5	0.4	1.0	1.0	1.0
<b>Net profit attributable to equity holders</b>	<b>14.7</b>	<b>3.2</b>	<b>1.0</b>	<b>6.7</b>	<b>7.5</b>
Dividend to other capital instrument holders	116.3	0.2	0.0	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	<b>8.4</b>	<b>3.6</b>	<b>1.1</b>	<b>7.4</b>	<b>8.3</b>
<b>Per share (RMB)</b>					
Basic EPS	0.71	0.74	0.71	0.74	0.80
BVPS	6.99	8.20	7.96	8.44	8.97
DPS	0.201	0.207	0.192	0.206	0.223
<b>Key ratio (%)</b>					
Net interest margin	2.16	2.01	1.85	1.76	1.69
Cost to income ratio	28.64	28.62	30.52	30.99	31.24
ROAA	0.77	0.74	0.77	0.76	0.76
ROAE	10.64	10.27	10.03	10.09	10.26
Effective tax rate	17.57	19.52	20.00	20.00	20.00
Dividend payout	28.13	27.97	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	345,733	335,361	325,300
Due from FIs and repo	329,755	270,092	272,729	283,151	299,738
Investment securities & financial assets	1,849,721	2,062,342	2,309,823	2,563,904	2,820,294
Net loans and advances	3,239,396	3,489,096	3,753,595	4,031,150	4,308,967
<b>Total interest earning assets</b>	<b>5,797,135</b>	<b>6,177,956</b>	<b>6,681,880</b>	<b>7,213,566</b>	<b>7,754,299</b>
Property and equipment	25,155	26,174	27,221	28,582	30,011
Other non-interest earn assets	79,779	96,380	108,376	122,912	140,349
<b>Total assets</b>	<b>5,902,069</b>	<b>6,300,510</b>	<b>6,817,477</b>	<b>7,365,060</b>	<b>7,924,659</b>
Customer deposits	3,675,743	3,917,168	4,243,099	4,588,046	4,932,645
Due to FIs and repo	887,665	885,635	929,917	995,011	1,074,612
Subordinated debt and others	776,936	890,259	997,090	1,106,770	1,217,447
<b>Total interest bearing liabilities</b>	<b>5,340,344</b>	<b>5,693,062</b>	<b>6,170,106</b>	<b>6,689,827</b>	<b>7,224,703</b>
Current taxes	6,535	11,141	13,926	16,990	20,388
Other liabilities	70,824	86,294	96,044	92,020	81,768
<b>Total liabilities</b>	<b>5,417,703</b>	<b>5,790,497</b>	<b>6,280,076</b>	<b>6,798,837</b>	<b>7,326,860</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	371,010	399,542	430,821
Minorities	1,877	2,130	2,407	2,696	2,992
<b>Shareholder's equity</b>	<b>484,366</b>	<b>510,013</b>	<b>537,402</b>	<b>566,223</b>	<b>597,799</b>
<b>Growth (%)</b>					
Cash & balance with central banks	5.0	(5.8)	(3.0)	(3.0)	(3.0)
Due from FIs and repo	107.5	(18.1)	1.0	3.8	5.9
Investment securities & financial assets	9.1	11.5	12.0	11.0	10.0
Net loans and advances	10.1	7.7	7.6	7.4	6.9
<b>Total interest earning assets</b>	<b>12.4</b>	<b>6.6</b>	<b>8.2</b>	<b>8.0</b>	<b>7.5</b>
Property and equipment	7.9	4.1	4.0	5.0	5.0
Other non-interest earn assets	(57.5)	20.8	12.4	13.4	14.2
<b>Total assets</b>	<b>9.9</b>	<b>6.8</b>	<b>8.2</b>	<b>8.0</b>	<b>7.6</b>
Customer deposits	5.6	6.6	8.3	8.1	7.5
Due to FIs and repo	0.1	(0.2)	5.0	7.0	8.0
Subordinated debt and others	70.7	14.6	12.0	11.0	10.0
<b>Total interest bearing liabilities</b>	<b>10.7</b>	<b>6.6</b>	<b>8.4</b>	<b>8.4</b>	<b>8.0</b>
Current taxes	(25.5)	70.5	25.0	22.0	20.0
Other liabilities	(13.8)	21.8	11.3	(4.2)	(11.1)
<b>Total liabilities</b>	<b>10.3</b>	<b>6.9</b>	<b>8.5</b>	<b>8.3</b>	<b>7.8</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	7.6	7.7	7.8
Minorities	19.6	13.5	13.0	12.0	11.0
<b>Shareholder's equity</b>	<b>6.4</b>	<b>5.3</b>	<b>5.4</b>	<b>5.4</b>	<b>5.6</b>
<b>Key ratio (%)</b>					
CT1 CAR	8.91	8.72	8.72	8.61	8.54
Total CAR	13.37	12.95	13.23	13.11	13.07
NPL ratio	1.25	1.25	1.27	1.28	1.29
Provision to total loans	2.34	2.35	2.37	2.39	2.42
Provision coverage ratio	187.02	187.93	186.61	186.72	187.60

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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### Definition of equity rating

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 rate $<$ - 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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