

CCB (939 HK / 601939 CH)

Earnings capacity shielded by risk buffers

- CCB's robust risk buffers enhance earnings growth outlook
- Asset quality risk is easing on policy support in property sector. Expect NIM pressure to lessen starting from 2Q23; balance sheet growth remains critical
- Turnaround in net fee growth likely in FY23E
- Maintain **BUY** on promising fundamentals. Our GGM-based H/A-shr TPs imply 0.51x/0.62x target 23E P/Bs

Enhanced earnings growth with sufficient risk buffer. Given the recovery in China's economy and policy priority in property-related sector, we expect overall asset quality outlook for the bank sector to turn more stable in FY23E. Specifically, CCB's prudent risk attitude and robust risk buffers would enhance FY23E-25E earnings. We raise FY23E/24E net profit by 4.53%/4.49%; in this way, our base case assumes net profit to grow at 8.0% CAGR over FY22-25E. The increase in net profit estimates is supported by the 10.93%/12.07% deduction in our FY23E/24E provision expense forecasts. Provisioning ratio and provision coverage ratio would remain solid at 3.21% and 241.35% by end-25E. While asset quality uncertainties linger in the property-related sectors; we believe CCB can still lower its NPL ratio slightly to 1.33% by end-25E through proactive NPL handlings.

Topline growth to gradually resume. NIM pressure will persist for the sector in FY23E; for CCB, however, after the major repricing of mortgage in early FY23E, we estimate NIM narrowing to reduce from 2Q23. This will be partially supported by the bank's robust interest-earning assets expanding at 11.9% CAGR over FY22-25E and control in deposit costs, which we estimate would be up only by 2bps-4bps YoY each in FY23E-25E. Overall we project NIM to narrow by 8bps-12bps YoY each in FY23E-25E, resulting in a 7.3% NII CAGR over FY22-25E. Meanwhile, we expect net fee to resume growth in FY23E at a 2.0% CAGR over FY22-25E, supported by a reviving wealth management market as well as monetization from increased digitalization.

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Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	764,706	758,155	811,692	863,431	912,973
Chg (% YoY)	7.1	(0.9)	7.1	6.4	5.7
Net profit* (RMB mn)	302,513	323,861	355,116	381,485	407,439
Chg (% YoY)	11.6	7.1	9.7	7.4	6.8
EPS (RMB)	1.19	1.28	1.40	1.51	1.61
Chg (% YoY)	3.9	7.2	9.6	7.5	6.9
BVPS (RMB)	9.95	10.87	11.89	12.83	13.84
Chg (% YoY)	11.5	9.2	9.4	7.9	7.9
P/E (x) – H-shr	3.71	3.47	3.16	2.94	2.75
P/B (x) – H-shr	0.44	0.41	0.37	0.34	0.32
P/E (x) – A-shr	4.99	4.66	4.25	3.95	3.70
P/B (x) – A-shr	0.60	0.55	0.50	0.46	0.43
ROAA (%)	1.04	1.00	0.97	0.93	0.89
ROAE (%)	12.55	12.27	12.31	12.18	12.07
DPS(RMB)	0.364	0.389	0.420	0.452	0.483
Yield (%) H-shr	8.22	8.79	9.49	10.20	10.91
Yield (%) A-shr	6.12	6.54	7.06	7.59	8.11

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

Apr 4, 2023

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 6.99
TP (A): RMB 7.36

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Price (H/A shr)	HK\$ 5.09/ RMB 5.95
Est. s price return (H/A shr)	37.33%/ 23.70%
Est. dividend yield (H/A shr)	9.49%/7.06%
Est. total return (H/A shr)	46.82%/ 30.76%
Last Rating &TP (H/A shr)	BUY, HK\$7.23/ BUY, RMB7.54
Previous Report Date	6 Dec, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	5.98/4.10
52Wk H/L (RMB) (A shr)	6.36/5.18
Total issued shares (mn)	250,011.0
Issued H shr (mn)	240,417.3
Issued A shr (mn)	9,593.7
Market cap (HK\$ mn)	1,289,369.1
H-shr market cap (HK\$ mn)	1,223,724.2
A-shr market cap (HK\$ mn)	65,644.9
3-mth avg daily turnover (HK\$ mn) (H shr)	1,407.90
3-mth avg daily turnover (RMB mn) (A shr)	386.40
Major shareholder(s) (%): Central Huijin	57.11

Source(s): Bloomberg, ABCI Securities

Strong capital position. As of Dec 2022, CCB's CT1 and CAR were marked at 13.69% and 18.42% (as compared to 13.59% and 17.85% in Dec 2021). CT1 was mainly boosted by organic growth from internal source; meanwhile, dividend payout ratio remained stable at 30%. In our view, strong capital position and ability to grow from internal sources are critical for banks to persevere under NIM pressure and drive business growth in FY23E-25E.

Maintain BUY on promising fundamental growth. Although we lower our FY23E/34E topline forecasts by 4.29% and 4.41%, solid risk buffer would sustain earnings growth in FY23E-25E. Therefore, we raise our sustainable ROAE assumption in the GGM and apply a higher COE. Our H/A-shr TPs are down 3.3%/2.4% to HK\$6.99 and RMB 7.36, which imply 0.51x and 0.62x FY23E target P/Bs. Reiterate **BUY**, with CCB as our top pick for big banks.

Risk Factors: 1) Prolonged deposit competition and migration drive up funding cost ; 2) sharp asset quality deterioration in specific sector and regions; 3) Slower-than-expected recovery in net fee income; 4) Failure to sustain balance sheet growth and optimize component mix; 5) Persistent NIM pressure and increasing CIR in FY23E-25E.

Exhibit 1: Changes in forecasts

(RMB mn)	2023E (old)	2023E (new)	change (%)	(RMB mn)	2024E (old)	2024E (new)	change (%)
Net interest income	722,193	697,003	(3.49)	Net interest income	772,055	747,661	(3.16)
Net fee and commission	120,848	117,246	(2.98)	Net fee and commission	124,474	119,591	(3.92)
Operating income	848,094	811,692	(4.29)	Operating income	903,241	863,431	(4.41)
Operating expenses	(266,238)	(236,764)	(11.07)	Operating expenses	(290,946)	(253,338)	(12.93)
Impairment losses	(172,962)	(154,054)	(10.93)	Impairment losses	(173,199)	(152,289)	(12.07)
Profit before tax	411,378	421,889	2.56	Profit before tax	442,152	458,697	3.74
Income tax expenses	(69,934)	(67,502)	(3.48)	Income tax expenses	(75,166)	(77,979)	3.74
Net profit attributable to equity holders	339,732	355,116	4.53	Net profit attributable to equity holders	365,103	381,485	4.49
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.94	1.89	(0.05)	Net interest margin	1.89	1.81	(0.08)
CIR	31.39	29.17	(2.22)	CIR	32.21	29.34	(2.87)
ROAA	0.91	0.97	0.06	ROAA	0.89	0.93	0.04
ROAE	11.80	12.31	0.51	ROAE	11.72	12.18	0.46
Dividend payout	30.50	30.00	(0.50)	Dividend payout	30.50	30.00	(0.50)
CT1 CAR	13.54	13.72	0.18	CT1 CAR	13.18	13.47	0.29
Total CAR	18.05	18.63	0.58	Total CAR	17.88	18.61	0.73
NPL ratio	1.44	1.38	(0.06)	NPL ratio	1.46	1.36	(0.10)
Provision to total loans	3.36	3.30	(0.06)	Provision to total loans	3.33	3.26	(0.07)
Provision coverage ratio	233.33	239.13	5.80	Provision coverage ratio	228.08	239.71	11.63

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	7.23	6.99	7.54	7.36	
Sustainable ROE (%)	10.46	10.56	10.46	10.56	Factor in higher earnings forecast
COE (%)	12.70	13.50	12.16	12.45	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	7.50	7.50	7.50	7.50	
Target 23E P/B (x)	0.57	0.51	0.64	0.62	

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	605,420	643,064	697,003	747,661	794,554
Non-interest income	159,286	115,091	114,690	115,770	118,419
Of which: Fees and commissions	121,492	116,085	117,246	119,591	123,178
Operating income	764,706	758,155	811,692	863,431	912,973
Operating expenses	(219,182)	(222,314)	(236,764)	(253,338)	(272,338)
Pre-provision operation profit	545,524	535,841	574,928	610,093	640,635
Impairment losses on loans	(168,715)	(155,018)	(154,054)	(152,289)	(151,518)
Operating profit	376,809	380,823	420,874	457,804	489,117
Non-operating income	1,603	1,194	1,015	893	804
Profit before tax	378,412	382,017	421,889	458,697	489,921
Tax	(74,484)	(58,851)	(67,502)	(77,979)	(83,287)
Minority interests	(1,415)	695	730	766	805
Net profit attributable to equity holders	302,513	323,861	355,116	381,485	407,439
Dividend and interest to other equity instruments	(4,538)	(4,538)	(5,110)	(5,110)	(5,110)
Net profit attributable to ordinary shareholders	297,975	319,323	350,006	376,375	402,329
Growth (%)					
Net interest income	5.1	6.2	8.4	7.3	6.3
Non-interest income	15.2	(27.7)	(0.3)	0.9	2.3
Of which: Fees and commissions	6.0	(4.5)	1.0	2.0	3.0
Operating income	7.1	(0.9)	7.1	6.4	5.7
Operating expenses	16.2	1.4	6.5	7.0	7.5
Pre-provision operation profit	3.8	(1.8)	7.3	6.1	5.0
Impairment losses on loans	(11.2)	(8.1)	(0.6)	(1.1)	(0.5)
Operating profit	12.2	1.1	10.5	8.8	6.8
Non-operating income	79.1	(25.5)	(15.0)	(12.0)	(10.0)
Profit before tax	12.4	1.0	10.4	8.7	6.8
Tax	18.2	(21.0)	14.7	15.5	6.8
Minority interests	(44.0)	(149.1)	5.0	5.0	5.0
Net profit attributable to equity holders	11.6	7.1	9.7	7.4	6.8
Dividend and interest to other equity instruments	(19.3)	0.0	12.6	0.0	0.0
Net profit attributable to ordinary shareholders	12.3	7.2	9.6	7.5	6.9
Per share (RMB)					
EPS	1.19	1.28	1.40	1.51	1.61
BVPS	9.95	10.87	11.89	12.83	13.84
DPS	0.364	0.389	0.420	0.452	0.483
Key ratio (%)					
Net interest margin	2.13	2.02	1.89	1.81	1.73
Cost to income ratio	27.64	28.25	29.17	29.34	29.83
ROAA	1.04	1.00	0.97	0.93	0.89
ROAE	12.55	12.27	12.31	12.18	12.07
Effective tax rate	19.68	15.41	16.00	17.00	17.00
Dividend payout	30.00	30.00	30.00	30.00	30.00

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 bank	2,763,892	3,159,296	3,727,969	4,361,724	5,059,600
Due from FIs and repo	892,347	1,652,903	2,087,265	2,583,720	3,114,350
Investment securities	7,641,919	8,540,149	9,479,565	10,474,920	11,522,412
Net loans and advances	18,170,492	20,459,117	22,743,309	25,162,223	27,738,901
Total interest earning assets	29,468,650	33,811,465	38,038,109	42,582,588	47,435,263
Property and equipment	168,326	166,985	170,325	174,583	179,820
Other non-interest earning assets	617,003	623,467	677,347	736,759	799,781
Total assets	30,253,979	34,601,917	38,885,780	43,493,930	48,414,864
Customer deposits	22,378,814	25,020,807	27,839,154	30,791,934	33,922,427
Due to FIs	2,232,201	2,935,999	3,669,999	4,477,398	5,328,104
Subordinated debt	1,323,377	1,646,870	1,976,244	2,331,968	2,705,083
Other interest bearing liabilities	947,955	1,320,587	1,558,293	1,823,202	2,096,683
Total interest bearing liabilities	26,882,347	30,924,263	35,043,689	39,424,503	44,052,297
Current taxes liabilities	86,342	84,369	82,682	81,028	79,407
Deferred tax liabilities	1,395	881	837	795	755
Other liabilities	669,773	713,644	625,601	620,057	663,617
Total liabilities	27,639,857	31,723,157	35,752,809	40,126,382	44,796,077
Share capital	250,011	250,011	250,011	250,011	250,011
Other equity instruments	99,968	139,968	139,968	139,968	139,968
Reserves	2,238,252	2,466,754	2,722,067	2,957,689	3,209,923
Minorities	25,891	22,027	20,926	19,879	18,885
Shareholder's equity	2,614,122	2,878,760	3,132,971	3,367,547	3,618,788
Growth (%)					
Cash & balance with central bank	(1.9)	14.3	18.0	17.0	16.0
Due from FIs and repo	(37.3)	85.2	26.3	23.8	20.5
Investment securities	9.9	11.8	11.0	10.5	10.0
Net loans and advances	11.9	12.6	11.2	10.6	10.2
Total interest earning assets	7.5	14.7	12.5	11.9	11.4
Property and equipment	(2.4)	(0.8)	2.0	2.5	3.0
Other non-interest earning assets	14.8	1.0	8.6	8.8	8.6
Total assets	7.5	14.4	12.4	11.9	11.3
Customer deposits	8.6	11.8	11.3	10.6	10.2
Due to FIs	(2.7)	31.5	25.0	22.0	19.0
Subordinated debt	40.8	24.4	20.0	18.0	16.0
Other interest bearing liabilities	(13.2)	39.3	18.0	17.0	15.0
Total interest bearing liabilities	7.8	15.0	13.3	12.5	11.7
Current taxes liabilities	2.6	(2.3)	(2.0)	(2.0)	(2.0)
Deferred tax liabilities	(10.1)	(36.8)	(5.0)	(5.0)	(5.0)
Other liabilities	(6.6)	6.6	(12.3)	(0.9)	7.0
Total liabilities	7.4	14.8	12.7	12.2	11.6
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	0.0	40.0	0.0	0.0	0.0
Reserves	11.1	10.2	10.4	8.7	8.5
Minorities	5.5	(14.9)	(5.0)	(5.0)	(5.0)
Shareholder's equity	9.4	10.1	8.8	7.5	7.5
Key ratio (%)					
CT1 CAR	13.59	13.69	13.72	13.47	13.27
Total CAR	17.85	18.42	18.63	18.61	18.68
NPL ratio	1.42	1.38	1.38	1.36	1.33
Provision to total loans	3.40	3.34	3.30	3.26	3.21
Provision coverage ratio	239.96	241.53	239.13	239.71	241.35

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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