

China CITIC Bank (998 HK / 601998 CH)

Better fundamental outlook

- CITICB's NPL ratio is normalizing from its legacy portfolio; risk buffers are strengthening gradually
- Segmental optimization in progress to unleash fundamental upside
- Proposed share placement would boost capital position but lead to share dilution
- Maintain **BUY**; our H/A TPs imply 0.49x/0.59x FY23E P/B

Legacy NPL portfolio cleared. After four years of effort in legacy NPL handling, CITICB's NPL ratio fell gradually from 1.77% in end-FY18 to 1.27% in end-FY22. Large provision made over the period had affected CITICB's profitability, with ROAE fluctuated at the range of 10.08%-11.36% over FY18-22. We believe the hard time is coming to an end, however. CITICB's provisioning ratio and provision coverage ratio rose to 2.55% and 201.19% by end-FY22; also, provision expenses in FY22 was down 7.3% YoY. We project a better earnings outlook on recovering growth in China and the normalized credit cost. As such, we revise up our 2023E/24E net profit by 8.75% and 7.42%, which implies a 9.9% CAGR over FY22-25E. In our base case scenario, we estimate CITICB's NPL ratio to be stable at 1.16%-1.20% over FY23E-25E while provisioning ratio and provisioning coverage ratio would increase mildly to 2.65% and 228.45% by end-25E.

Better topline outlook on segmental optimization. NIM was reported at 1.97% in FY22 with mild improvement seen in 4Q22 (9M22 NIM: 1.96%). NIM will remain a challenge for banks in FY23E, but we believe CITICB's NIM could be better if the bank able to allocate more resources to retail business. In FY22, retail segment contributed to 40.1% of topline and 23.7% of profit before tax; we assume a mild increase from those levels, which results new business drivers in loans, deposits, and fee income in the segment. Our base case suggests NII and net fee income to grow at 7.9% and 5.8% CAGRs over FY22-25E while NIM would be normalizing in 1.85%-1.90% over FY23E-25E.

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Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	204,554	211,109	223,710	236,990	250,356
Chg (% YoY)	4.7	3.2	6.0	5.9	5.6
Net profit* (RMB mn)	55,641	62,103	68,533	75,429	82,471
Chg (% YoY)	13.6	11.6	10.4	10.1	9.3
EPS (RMB)	1.08	1.17	1.13	1.11	1.22
Chg (% YoY)	14.5	8.9	(3.3)	(2.0)	10.0
BVPS (RMB)	10.45	11.25	10.03	10.78	11.59
Chg (% YoY)	8.9	7.6	(10.8)	7.5	7.6
P/E (x) – H-shr	3.12	2.87	2.96	3.02	2.75
P/B (x) – H-shr	0.32	0.30	0.33	0.31	0.29
P/E (x) – A-shr	5.03	4.62	4.78	4.87	4.43
P/B (x) – A-shr	0.52	0.48	0.54	0.50	0.47
ROAA (%)	0.72	0.76	0.77	0.79	0.81
ROAE (%)	10.73	10.80	10.73	10.67	10.92
DPS(RMB)	0.302	0.329	0.323	0.316	0.348
Yield (%) H-shr	9.00	9.80	9.62	9.43	10.37
Yield (%) A-shr	5.58	6.08	5.97	5.85	6.43

Note: HKD/CNY=1.15

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

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

Company Report

Mar 28, 2023

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 5.62
TP (A): RMB 5.89

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Price (H/A shr)	HK\$ 3.86/ RMB 5.41
Est. price return (H/A shr)	45.60%/8.87%
Est. dividend yield (H/A shr)	9.62%/5.97%
Est. total return (H/A shr)	55.22%/14.84%
Last Rating &TP (H/A shr)	BUY, HK\$5.52/ BUY,RMB5.44
Previous Report Date	6 Dec, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	4.08/2.92
52Wk H/L (RMB) (A shr)	5.73/4.25
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)	267,255.2
H-shr market cap (HK\$ mn)	57,147.5
A-shr market cap (HK\$ mn)	210,107.7
3-mth avg daily turnover (HK\$ mn) (H shr)	81.58
3-mth avg daily turnover (RMB mn) (A shr)	149.36
Major shareholder(s) (%):	
CITIC Group	65.37
China National Tobacco	4.39

Source(s): Bloomberg, ABCI Securities

Share placement on the way. In Feb 2023, CITICB announced its plan to place 3 shares for every 10 shares to all A-shr and H-shr holders. On Mar 5, 2023, the bank announced the proposed share placement was approved by the Shanghai Stock Exchange and a final nod from the CSRC is pending. Despite placement prices are still pending to announce, we expect CT1 to enhance by ~0.7ppt from the share placement, and will reach 9.53% by end-FY23E. With the share dilution in place, we anticipate FY23E/24E EPS to decline 3.3%/2.0% YoY and FY23E BVPS to drop 10.8% YoY.

Maintain BUY on better fundamental outlook. We raise our H/A TPs by 1.8%/8.3% to HK\$ 5.62/RMB 5.89 on better macro outlook in China and fundamental outlook for CITICB; also, we incorporate the dilution effect from the upcoming placement and roll over the BVPS estimates to FY23E in our Gordon Growth Model. Our TPs imply 0.49x/0.59x FY23E P/B. Maintain **BUY**.

Risk Factors: 1) Potential dilution from capital activities to boost capital adequacy; 2) Final pricing of share placement may induces share price volatility; 3) Potential asset quality deterioration in specific sector and geographical areas; 4) Fail to optimize business mix by increasing contribution from retail segment; 5) China's macro outlook recovers more slowly than expected.

Exhibit 1: Changes in forecasts

(RMB mn)	2023E (old)	2023E (new)	change (%)	(RMB mn)	2024E (old)	2024E (new)	change (%)
Net interest income	160,052	164,339	2.68	Net interest income	167,331	177,254	5.93
Net fee and commission	49,522	38,947	(21.35)	Net fee and commission	57,446	41,089	(28.47)
Operating income	235,108	223,710	(4.85)	Operating income	253,404	236,990	(6.48)
Operating expenses	(79,507)	(73,433)	(7.64)	Operating expenses	(89,088)	(80,227)	(9.95)
Impairment losses	(80,098)	(69,581)	(13.13)	Impairment losses	(80,156)	(67,884)	(15.31)
Profit before tax	75,778	81,295	7.28	Profit before tax	84,456	89,531	6.01
Income tax expenses	(11,746)	(11,788)	0.36	Income tax expenses	(13,091)	(12,982)	(0.83)
Net profit attributable to equity holders	63,016	68,533	8.75	Net profit attributable to equity holders	70,218	75,429	7.42
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.82	1.90	0.08	Net interest margin	1.76	1.88	0.12
CIR	33.82	31.83	(1.99)	CIR	35.16	32.85	(2.31)
ROAA	0.70	0.77	0.07	ROAA	0.73	0.79	0.06
ROAE	11.10	10.73	(0.37)	ROAE	11.90	10.67	(1.23)
Dividend payout	30.00	28.50	(1.50)	Dividend payout	30.00	28.50	(1.50)
CT1 CAR	9.11	9.53	0.42	CT1 CAR	8.72	9.44	0.72
Total CAR	13.58	13.84	0.26	Total CAR	13.10	13.53	0.43
NPL ratio	1.45	1.20	(0.25)	NPL ratio	1.48	1.17	(0.31)
Provision to total loans	2.68	2.58	(0.10)	Provision to total loans	2.70	2.62	(0.08)
Provision coverage ratio	184.83	215.00	30.17	Provision coverage ratio	182.43	223.93	41.50

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes of GGM assumptions

	H-shr		A-shr		
	old	New	old	new	Reason
TP (HKD/RMB)	5.52	5.62	5.44	5.89	
Sustainable ROE (%)	9.25	9.67	9.25	9.67	Better earnings outlook
COE (%)	13.37	12.69	12.16	11.68	Adjusted beta with reference to Bloomberg
LT gr (%)	6.50	6.80	6.50	6.80	Better macro outlook in China
Target 23E P/B (x)	0.37	0.49	0.45	0.59	

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	164,339	177,254	189,355
Non-interest income	56,658	60,462	59,371	59,737	61,001
Of which: Fees and commissions	35,870	37,092	38,947	41,089	43,965
Operating income	204,554	211,109	223,710	236,990	250,356
Operating expenses	(62,224)	(66,838)	(73,433)	(80,227)	(87,131)
Pre-provision operating profit	142,330	144,271	150,277	156,763	163,225
Impairment losses on loans	(77,048)	(71,404)	(69,581)	(67,884)	(65,992)
Operating profit	65,282	72,867	80,696	88,879	97,233
Non-operating income	235	549	598	652	704
Profit before tax	65,517	73,416	81,295	89,531	97,938
Tax	(9,140)	(10,466)	(11,788)	(12,982)	(14,201)
Minorities interests	(736)	(847)	(974)	(1,120)	(1,266)
Net profit attributable to equity holders	55,641	62,103	68,533	75,429	82,471
Preference share dividend	(3,010)	(4,788)	(4,788)	(4,788)	(4,788)
Net profit attributable to ordinary shareholders	52,631	57,315	63,745	70,641	77,683
Growth (%)					
Net interest income	(1.7)	1.9	9.1	7.9	6.8
Non-interest income	26.2	6.7	(1.8)	0.6	2.1
Of which: Fees and commissions	24.4	3.4	5.0	5.5	7.0
Operating income	4.7	3.2	6.0	5.9	5.6
Operating expenses	14.7	7.4	9.9	9.3	8.6
Pre-provision operating profit	0.8	1.4	4.2	4.3	4.1
Impairment losses on loans	(7.2)	(7.3)	(2.6)	(2.4)	(2.8)
Operating profit	12.3	11.6	10.7	10.1	9.4
Non-operating income	(178.9)	133.6	9.0	9.0	8.0
Profit before tax	13.2	12.1	10.7	10.1	9.4
Tax	9.8	14.5	12.6	10.1	9.4
Minorities interests	33.3	15.1	15.0	15.0	13.0
Net profit attributable to equity holders	13.6	11.6	10.4	10.1	9.3
Preference share dividend	0.0	59.1	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	14.5	8.9	11.2	10.8	10.0
Per share (RMB)					
EPS	1.08	1.17	1.13	1.11	1.22
BVPS	10.45	11.25	10.03	10.78	11.59
DPS	0.302	0.329	0.323	0.316	0.348
Key ratio (%)					
Net interest margin	2.05	1.97	1.90	1.88	1.85
Cost to income ratio	29.34	30.66	31.83	32.85	33.80
Return on average assets	0.72	0.76	0.77	0.79	0.81
Return on average equity	10.73	10.80	10.73	10.67	10.92
Effective tax rate	13.95	14.26	14.50	14.50	14.50
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

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	515,571	541,350	568,418
Due from FIs and repo	343,211	310,728	332,726	359,827	392,113
Investment securities	2,322,641	2,502,869	2,728,127	2,932,737	3,167,356
Net loans and advances	4,748,076	5,038,967	5,400,226	5,792,226	6,199,581
Total interest earning assets	7,849,311	8,329,945	8,976,650	9,626,139	10,327,468
Property and equipment	34,184	34,430	34,774	35,296	35,825
Trading assets	22,721	44,383	53,260	62,314	71,661
Other assets	136,668	138,785	143,398	148,991	155,484
Total assets	8,042,884	8,547,543	9,208,082	9,872,740	10,590,438
Customer deposits	4,789,969	5,157,864	5,632,102	6,146,957	6,703,083
Due to FIs and repo	1,540,631	1,590,133	1,621,936	1,654,374	1,695,734
Subordinated debt	958,203	975,206	1,023,966	1,075,165	1,128,923
Total interest bearing liabilities	7,288,803	7,723,203	8,278,004	8,876,496	9,527,739
Trading liabilities	24,071	45,811	59,554	74,443	89,331
Current taxes	10,753	8,487	8,063	7,660	7,277
Other liabilities	76,631	84,212	85,978	86,524	82,491
Total liabilities	7,400,258	7,861,713	8,431,599	9,045,122	9,706,838
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	571,318	618,931	670,864
Minorities	16,323	20,412	23,474	26,995	31,044
Shareholder's equity	642,626	685,830	776,483	827,618	883,600
Growth (%)					
Cash & deposits with central bank	0.0	9.6	8.0	5.0	5.0
Due from FIs and repo	(16.9)	(9.5)	7.1	8.1	9.0
Investment securities	11.0	7.8	9.0	7.5	8.0
Net loans and advances	8.9	6.1	7.2	7.3	7.0
Total interest earning assets	7.5	6.1	7.8	7.2	7.3
Property and equipment	0.9	0.7	1.0	1.5	1.5
Trading assets	(43.3)	95.3	20.0	17.0	15.0
Other assets	0.3	1.5	3.3	3.9	4.4
Total assets	7.1	6.3	7.7	7.2	7.3
Customer deposits	4.8	7.7	9.2	9.1	9.0
Due to FIs and repo	1.3	3.2	2.0	2.0	2.5
Subordinated debt	30.7	1.8	5.0	5.0	5.0
Total interest bearing liabilities	6.8	6.0	7.2	7.2	7.3
Trading liabilities	(50.3)	90.3	30.0	25.0	20.0
Current taxes	27.8	(21.1)	(5.0)	(5.0)	(5.0)
Other liabilities	12.8	9.9	2.1	0.6	(4.7)
Total liabilities	6.5	6.2	7.2	7.3	7.3
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	14.6	8.3	8.4
Minorities	5.5	25.1	15.0	15.0	15.0
Shareholder's equity	14.7	6.7	13.2	6.6	6.8
Key ratio (%)					
CT1 CAR	8.85	8.74	9.53	9.44	9.35
Total CAR	13.53	13.18	13.84	13.53	13.25
NPL ratio	1.39	1.27	1.20	1.17	1.16
Provision to total loans	2.50	2.55	2.58	2.62	2.65
Provision coverage ratio	180.07	201.19	215.00	223.93	228.45

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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