

BOC (3988 HK / 601988 CH)

Resilient outlook on global diversification

- BOC's NIM will benefit more from offshore interest rate hike than peers
- High overseas business mix dilutes asset quality risk; expect mild uptick in NPL ratio
- We resume coverage with **BUY** rating on the banks' stable earnings outlook. Our GGM-based H/A shr TPs imply 23E P/B of 0.50x/0.62x

NIM pressure countered by internationalization. NIM pressure from onshore market has increased since 2Q22 for the China banks sector. BOC, however, showed an upbeat NIM in 2Q22, as reflected by a higher 1H22 NIM at 1.76% (flat YoY), compared to its 1Q22 NIM at 1.74%. Aside from proactive yield management on loans and deposits, and solid growth in total assets and total liabilities at 4.98% and 5.07% HoH in 1H22, its high degree of internationalization has supported NIM on interest rate hike cycle in offshore markets. In 1H22, 21.3% and 15.5% of BOC's topline revenue and profit before tax came from offshore operations. Factoring in total assets and total liabilities CAGRs at 6.95% and 6.97% for FY21-24E, we project NIM to be stable at 1.76%-1.78% for FY22E-24E, supporting a NII CAGR at 8.14%.

Diversified asset quality risk. BOC's global footprint differentiates the bank from its Chinese peers in terms of asset quality portfolio. As of June 2022, its NPL ratio was 1.34%, the lowest among the big four banks. Onshore NPL ratio was 1.46% while offshore NPL ratio was substantially lower at 0.8%. Offshore assets accounted for 23.5% of total assets as of June 2022. As a result, the bank was able to keep a lower-than-peer provisioning ratio at 2.77% and provision coverage ratio at 183.26% as of Jun 2022. Our base case projects BOC's NPL ratio to inch up 2bps-3bps YoY each in FY22E-24E, with provisioning ratio and provision coverage ratio trending down to 2.7% and 167.86% by end-24E.

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Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	567,647	605,717	647,719	687,905	732,719
Chg (% YoY)	3.2	6.7	6.9	6.2	6.5
Net profit* (RMB mn)	192,870	216,559	233,626	246,488	262,536
Chg (% YoY)	2.9	12.3	7.9	5.5	6.5
EPS (RMB)	0.61	0.70	0.75	0.79	0.85
Chg (% YoY)	0.1	13.9	7.3	5.8	6.9
BVPS (RMB)	5.98	6.47	7.04	7.64	8.19
Chg (% YoY)	6.6	8.2	8.8	8.5	7.2
P/E (x) – H-shr	3.91	3.43	3.20	3.02	2.83
P/B (x) – H-shr	0.40	0.37	0.34	0.31	0.29
P/E (x) – A-shr	4.95	4.35	4.05	3.83	3.58
P/B (x) – A-shr	0.51	0.47	0.43	0.40	0.37
ROAA (%)	0.87	0.89	0.89	0.88	0.88
ROAE (%)	10.61	11.28	11.40	11.12	11.02
DPS(RMB)	0.197	0.221	0.225	0.238	0.255
Yield (%) H-shr	8.21	9.21	9.38	9.93	10.61
Yield (%) A-shr	6.48	7.27	7.41	7.84	8.37

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

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 4.38
TP (A): RMB 4.69

Analyst : Johannes Au
Tel: (852) 2147 8802
johannesau@abci.com.hk

Price (H/A shr)	HK\$ 2.76/ RMB 3.04
Est. share price return (H/A shr)	58.70%/54.28%
Est. dividend yield (H/A shr)	9.38%/7.41%
Est. total return (H/A shr)	68.08%/61.69%
Last Rating & TP (H/A shr)	BUY, HK\$3.98/ BUY, RMB4.12
Previous Report Date*	9 Apr, 2021

*Coverage suspended due to compliance restriction
Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	3.20/2.67
52Wk H/L (RMB) (A shr)	3.35/3.00
Total issued shares (mn)	294,387.8
Issued H shr (mn)	83,622.3
Issued A shr (mn)	210,765.5
Market cap (HK\$ mn)	959,910.1
H-shr market cap (HK\$ mn)	229,961.3
A-shr market cap (HK\$ mn)	729,948.8
3-mth avg daily turnover (HK\$ mn) (H shr)	608.19
3-mth avg daily turnover (RMB mn) (A shr)	374.87
Major shareholder(s) (%):	
Central Huijin	64.02

Source(s): Bloomberg, ABCI Securities

Resume coverage with BUY rating. Since BOC's global footprint enables a more balanced business mix, we believe its near-term prospects will be more stable than big four peers given the current macro outlook and differences in interest rate cycle between onshore and offshore markets. Our base case forecasts a stable net profit growth at 5.5%-7.9% YoY each for FY22E-24E. Based on FY23E BVPS, our GGM model suggests H/A shr TPs at HK\$ 4.38 and RMB 4.69, implying 0.50x/0.62x FY23E P/B; resume coverage with **BUY** rating.

Risk Factors: 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Potential asset quality deterioration in specific sector and geographical regions; 3) High offshore business contribution affected by global risk factors; 4) Resurgence or prolonged COVID-19 pandemic.

Exhibit 1: 1H22 results summary

(RMB mn)	1H21	1H22	YoY (%)
Net interest income	208,773	223,993	7.29
Net fee and commission	46,813	43,145	(7.84)
Operating income	302,855	313,611	3.55
Operating expenses	(102,357)	(108,912)	6.40
Impairment losses	(52,945)	(52,810)	(0.25)
Profit before tax	148,320	152,069	2.53
Income tax expenses	(29,755)	(27,766)	(6.68)
Net profit	112,813	119,924	6.30
Key indicators (%)			YoY (ppt)
Net interest margin	1.76	1.76	-
Cost to income ratio	24.06	25.08	1.02
Return on average assets	0.93	0.91	(0.02)
Return on average equity	11.97	11.62	(0.35)
			HoH (ppt)
CT1 CAR	Dec-21 11.30	Jun-22 11.33	0.03
Total CAR	16.53	16.99	0.46
NPL ratio	1.33	1.34	0.01
Provision to total loans	2.83	2.77	(0.06)
Provision coverage	187.05	183.26	(3.79)

Source(s): Company, ABCI Securities

Exhibit 2: GGM assumptions

	H share	A share
TP (HKD/RMB)	4.38	4.69
Sustainable ROE (%)	9.98	9.98
COE (%)	12.88	11.79
LT gr (%)	7.10	7.10
Target 23E P/B (x)	0.50	0.62

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Net interest income	415,918	425,142	473,388	504,953	537,608
Non-interest income	151,729	180,575	174,331	182,952	195,111
Of which: Fees and commissions	75,522	81,426	78,576	81,719	86,622
Operating income	567,647	605,717	647,719	687,905	732,719
Operating expenses	(202,411)	(226,355)	(249,221)	(270,952)	(293,437)
Pre-provision operating profit	365,236	379,362	398,499	416,954	439,282
Impairment losses on loans	(119,016)	(104,220)	(98,537)	(106,175)	(110,021)
Operating profit	246,220	275,142	299,962	310,778	329,260
Non-operating income	158	1,478	443	466	489
Profit before tax	246,378	276,620	300,405	311,244	329,749
Tax	(41,282)	(49,281)	(57,077)	(56,024)	(59,355)
Minority interests	(12,226)	(10,780)	(9,702)	(8,732)	(7,859)
Net profit attributable to equity holders	192,870	216,559	233,626	246,488	262,536
Dividend to other capital instrument holders	(12,029)	(10,651)	(12,705)	(12,705)	(12,705)
Net profit attributable to ordinary shareholders	180,841	205,908	220,921	233,783	249,831
Growth (%)					
Net interest income	6.6	2.2	11.3	6.7	6.5
Non-interest income	(5.1)	19.0	(3.5)	4.9	6.6
Of which: Fees and commissions	2.3	7.8	(3.5)	4.0	6.0
Operating income	3.2	6.7	6.9	6.2	6.5
Operating expenses	2.1	11.8	10.1	8.7	8.3
Pre-provision operating profit	3.8	3.9	5.0	4.6	5.4
Impairment losses on loans	16.5	(12.4)	(5.5)	7.8	3.6
Operating profit	(1.3)	11.7	9.0	3.6	5.9
Non-operating income	(85.1)	835.4	(70.0)	5.0	5.0
Profit before tax	(1.7)	12.3	8.6	3.6	5.9
Tax	(15.3)	19.4	15.8	(1.8)	5.9
Minority interests	(15.6)	(11.8)	(10.0)	(10.0)	(10.0)
Net profit attributable to equity holders	2.9	12.3	7.9	5.5	6.5
Dividend to other capital instrument holders	76.2	(11.5)	19.3	0.0	0.0
Net profit attributable to ordinary shareholders	0.1	13.9	7.3	5.8	6.9
Per share (RMB)					
EPS	0.61	0.70	0.75	0.79	0.85
BVPS	5.98	6.47	7.04	7.64	8.19
DPS	0.197	0.221	0.225	0.238	0.255
Key ratio (%)					
Net interest margin	1.85	1.75	1.76	1.77	1.78
Net interest spread	1.72	1.63	1.60	1.61	1.64
Cost to income ratio	26.73	28.17	29.48	30.39	31.05
Return on average assets	0.87	0.89	0.89	0.88	0.88
Return on average equity	10.61	11.28	11.40	11.12	11.02
Effective tax rate	16.76	17.82	19.00	18.00	18.00
Dividend payout	30.07	30.04	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)	2020A	2021A	2022E	2023E	2024E
Cash & balance with central banks	803,145	644,816	728,642	808,793	881,584
Due from FIs	2,076,840	2,228,726	1,961,279	1,804,377	1,696,114
Investment securities	5,591,117	6,164,671	6,503,728	6,796,396	7,068,251
Net loans and advances	13,848,304	15,322,484	16,972,044	18,572,511	20,104,422
Total interest earning assets	22,319,406	24,360,697	26,165,693	27,982,076	29,750,371
Property and equipment	248,589	246,091	248,552	253,523	261,129
Derivative assets	171,738	95,799	81,429	85,501	89,776
Other non-interest earning assets	1,662,926	2,019,821	2,172,196	2,359,403	2,588,638
Total assets	24,402,659	26,722,408	28,667,870	30,680,503	32,689,914
Customer deposits	16,879,171	18,142,887	20,312,370	22,499,268	24,549,972
Due to FIs	3,216,763	4,046,063	3,358,232	2,921,662	2,746,362
Subordinated debt	1,270,437	1,415,032	1,542,385	1,681,200	1,832,507
Total interest bearing liabilities	21,366,371	23,603,982	25,212,987	27,102,130	29,128,842
Trading liabilities	212,052	89,151	96,283	103,023	108,174
Current taxes	55,665	45,006	47,256	49,619	52,100
Deferred tax liabilities	6,499	7,003	7,563	8,168	8,822
Other liabilities	599,235	626,713	784,411	720,329	531,849
Total liabilities	22,239,822	24,371,855	26,148,501	27,983,269	29,829,787
Share capital	294,388	294,388	294,388	294,388	294,388
Other equity instruments	277,490	319,505	319,505	319,505	319,505
Reserves	1,466,541	1,611,260	1,778,822	1,955,420	2,117,034
Minority interest	124,418	125,400	126,654	127,921	129,200
Total shareholders' equity	2,162,837	2,350,553	2,519,369	2,697,233	2,860,127
Growth (%)					
Cash & balance with central banks	42.0	(19.7)	13.0	11.0	9.0
Due from FIs	(0.1)	7.3	(12.0)	(8.0)	(6.0)
Investment securities	1.4	10.3	5.5	4.5	4.0
Net loans and advances	8.7	10.6	10.8	9.4	8.2
Total interest earning assets	6.8	9.1	7.4	6.9	6.3
Property and equipment	1.7	(1.0)	1.0	2.0	3.0
Derivative assets	84.0	(44.2)	(15.0)	5.0	5.0
Other non-interest earning assets	8.7	21.5	7.5	8.6	9.7
Total assets	7.2	9.5	7.3	7.0	6.5
Customer deposits	6.7	7.5	12.0	10.8	9.1
Due to FIs	2.0	25.8	(17.0)	(13.0)	(6.0)
Subordinated debt	13.0	11.4	9.0	9.0	9.0
Total interest bearing liabilities	6.3	10.5	6.8	7.5	7.5
Trading liabilities	135.5	(58.0)	8.0	7.0	5.0
Current taxes	(5.8)	(19.1)	5.0	5.0	5.0
Deferred tax liabilities	19.2	7.8	8.0	8.0	8.0
Other liabilities	10.4	4.6	25.2	(8.2)	(26.2)
Total liabilities	7.0	9.6	7.3	7.0	6.6
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	38.8	15.1	0.0	0.0	0.0
Reserves	8.0	9.9	10.4	9.9	8.3
Minority interest	(0.5)	0.8	1.0	1.0	1.0
Shareholders' equity	9.4	8.7	7.2	7.1	6.0
Key ratio (%)					
CT1 CAR	11.28	11.30	11.64	11.97	12.15
Total CAR	16.22	16.53	17.13	17.39	17.52
NPL ratio	1.46	1.33	1.36	1.38	1.40
Provision to total loans	2.96	2.83	2.76	2.73	2.70
Provision coverage ratio	177.84	187.05	177.21	172.46	167.86

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 ($\sim 10\%$)
Hold	- Market return rate ($\sim -10\%$) \leq Stock return rate $<$ Market return rate ($\sim +10\%$)
Sell	Stock return $<$ - Market return ($\sim -10\%$)

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 2009 (HSI total return index 2009-21 averaged at 9.2%)

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