

CCB (939 HK / 601939 CH)

Topline recovery will take time

- Expect slower topline growth recovery despite improving macro outlook
- NIM pressure to rise in 4Q23 on adjustments in residential mortgage interest rates, and to reduce afterward
- Robust risk buffer and stable asset quality outlook to limit earnings downside
- Maintain **BUY** on stable fundamentals. Our GGM-based H/A-shr TPs imply 0.49x/0.60x target 23E P/Bs

Lower earnings forecast on weak topline momentum. We lower CCB's FY23E/24E topline and net profit forecasts by 7.78%/11.28% and 6.85%/10.41% on weaker-than-expected topline growth momentum. Despite China's economy has been gradually recovering, NII and net fee income growth remained soft in 3Q23. In view of the adjustments in mortgage interest rate at end-Sep, we expect pressure on NIM to increase in 4Q23. As we expect better macro outlook would gradually strengthen demand side factor, we project CCB's FY23E NIM to fall to 1.70%, or down 32bps YoY, to be followed by 10bps-11bps YoY reduction each in FY24E/25E. Nevertheless, we believe its NIM to stay at a relatively higher level compared to other big banks, supporting a 1.7% NII CAGR over FY22-25E. Meanwhile, as recovery in retail consumption and wealth management related fees came in slower than our previous expectation, we expect a net fee income CAGR of 1.0% over FY22-25E. Our revised base case suggests CCB's topline growth will turn positive in FY24E, with revenue/net profits CAGRs of 1.8%/3.8% over FY22-25E. The growth will be partly supported by -3.5% CAGR in provision expenses over the same period.

Stable asset quality to limit earnings downside. We project CCB's asset quality outlook to improve mildly on better macro growth, with its NPL ratio falling to 1.33% by end-25E. Provisioning ratio and provision coverage ratio would stay solid at 3.27%-3.31% and 241.61%-245.86% over FY23E-25E. Although asset quality related to the property-related sectors remains a concern, CCB's solid risk buffer and prudent approach to risk will limit earnings downside. As of Sep-23, CCB's NPL ratio, provisioning ratio and provision coverage ratio marked at 1.37%, 3.33% and 243.31% respectively. (Continue next page)

Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	764,706	758,155	748,526	766,009	800,346
Chg (% YoY)	7.1	(0.9)	(1.3)	2.3	4.5
Net profit* (RMB mn)	302,513	323,861	330,786	341,760	362,534
Chg (% YoY)	11.6	7.1	2.1	3.3	6.1
EPS (RMB)	1.19	1.28	1.30	1.35	1.43
Chg (% YoY)	12.3	7.2	2.0	3.4	6.2
BVPS (RMB)	9.95	10.87	11.82	12.67	13.58
Chg (% YoY)	9.9	9.2	8.8	7.2	7.1
P/E (x) – H-shr	3.59	3.35	3.29	3.18	2.99
P/B (x) – H-shr	0.43	0.39	0.36	0.34	0.32
P/E (x) – A-shr	5.41	5.05	4.95	4.79	4.51
P/B (x) – A-shr	0.65	0.59	0.55	0.51	0.48
ROAA (%)	1.04	1.00	0.91	0.84	0.79
ROAE (%)	12.55	12.27	11.48	11.00	10.89
DPS(RMB)	0.364	0.389	0.391	0.404	0.429
Yield (%) H-shr	8.50	9.09	9.13	9.44	10.02
Yield (%) A-shr	5.64	6.03	6.06	6.26	6.65

Note: HKD/CNY=1.07

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

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

Company Report

Oct 30, 2023

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 6.21
TP (A): RMB 7.10

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

Price (H/A shr)	HK\$ 4.56/ RMB 6.45
Est. s price return (H/A shr)	36.18%/ 10.08%
Est. dividend yield (H/A shr)	9.13%/6.06%
Est. total return (H/A shr)	45.31%/ 16.14%
Last Rating & TP (H/A shr)	BUY, HK\$6.99/ BUY, RMB7.36
Previous Report Date	4 Apr, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	5.70/4.01
52Wk H/L (RMB) (A shr)	7.28/5.18
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)	1,167,238.1
H-shr market cap (HK\$ mn)	1,101,111.3
A-shr market cap (HK\$ mn)	66,126.8
3-mth avg daily turnover (HK\$ mn) (H shr)	1,300.00
3-mth avg daily turnover (RMB mn) (A shr)	509.70
Major shareholder(s) (%): Central Huijin	57.12

Source(s): Bloomberg, ABCI Securities

Maintain BUY on stable fundamental. By factoring in lower topline and earnings forecasts in FY23E-25E, we project CCB's ROAE to be 10.89%-11.48% over FY23E-25E in our base case scenario. We lower our sustainable ROAE assumption in the GGM and apply a higher COE. Our H/A-shr TPs are down 11.2%/3.5% to HK\$6.21/RMB 7.10, which imply 0.49x and 0.60x FY23E target P/Bs. Maintain **BUY**.

Risk Factors: 1) Prolonged NIM pressure; 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) Gradual decrease in ROAE.

Exhibit 1: Changes in forecasts

(RMB mn)	2023E (old)	2023E (new)	change (%)	(RMB mn)	2024E (old)	2024E (new)	change (%)
Net interest income	697,003	623,553	(10.54)	Net interest income	747,661	641,366	(14.22)
Net fee and commission	117,246	116,665	(0.50)	Net fee and commission	119,591	117,832	(1.47)
Operating income	811,692	748,526	(7.78)	Operating income	863,431	766,009	(11.28)
Operating expenses	(236,764)	(224,537)	(5.16)	Operating expenses	(253,338)	(229,028)	(9.60)
Impairment losses	(154,054)	(135,919)	(11.77)	Impairment losses	(152,289)	(136,039)	(10.67)
Profit before tax	421,889	389,324	(7.72)	Profit before tax	458,697	402,258	(12.30)
Income tax expenses	(67,502)	(58,399)	(13.49)	Income tax expenses	(77,979)	(60,339)	(22.62)
Net profit attributable to equity holders	355,116	330,786	(6.85)	Net profit attributable to equity holders	381,485	341,760	(10.41)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.89	1.70	(0.19)	Net interest margin	1.81	1.59	(0.22)
CIR	29.17	30.00	0.83	CIR	29.34	29.90	0.56
ROAA	0.97	0.91	(0.06)	ROAA	0.93	0.84	(0.09)
ROAE	12.31	11.48	(0.83)	ROAE	12.18	11.00	(1.18)
Dividend payout	30.00	30.00	-	Dividend payout	30.00	30.00	-
CT1 CAR	13.72	12.85	(0.87)	CT1 CAR	13.47	12.45	(1.02)
Total CAR	18.63	17.47	(1.16)	Total CAR	18.61	17.27	(1.34)
NPL ratio	1.38	1.37	(0.01)	NPL ratio	1.36	1.35	(0.01)
Provision to total loans	3.30	3.31	0.01	Provision to total loans	3.26	3.29	0.03
Provision coverage ratio	239.13	241.61	2.48	Provision coverage ratio	239.71	243.70	3.99

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	6.99	6.21	7.36	7.10	
Sustainable ROE (%)	10.56	10.34	10.56	10.34	Factor in lower earnings forecast
COE (%)	13.50	14.26	12.45	12.90	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	7.50	6.80	7.50	6.80	
Target 23E P/B (x)	0.51	0.49	0.62	0.60	

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	623,553	641,366	675,451
Non-interest income	159,286	115,091	124,973	124,643	124,895
Of which: Fees and commissions	121,492	116,085	116,665	117,832	119,600
Operating income	764,706	758,155	748,526	766,009	800,346
Operating expenses	(219,182)	(222,314)	(224,537)	(229,028)	(235,899)
Pre-provision operation profit	545,524	535,841	523,989	536,981	564,447
Impairment losses on loans	(168,715)	(155,018)	(135,919)	(136,039)	(139,089)
Operating profit	376,809	380,823	388,070	400,942	425,358
Non-operating income	1,603	1,194	1,254	1,316	1,369
Profit before tax	378,412	382,017	389,324	402,258	426,727
Tax	(74,484)	(58,851)	(58,399)	(60,339)	(64,009)
Minority interests	(1,415)	695	(139)	(160)	(184)
Net profit attributable to equity holders	302,513	323,861	330,786	341,760	362,534
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	325,676	336,650	357,424
Growth (%)					
Net interest income	5.1	6.2	(3.0)	2.9	5.3
Non-interest income	15.2	(27.7)	8.6	(0.3)	0.2
Of which: Fees and commissions	6.0	(4.5)	0.5	1.0	1.5
Operating income	7.1	(0.9)	(1.3)	2.3	4.5
Operating expenses	16.2	1.4	1.0	2.0	3.0
Pre-provision operation profit	3.8	(1.8)	(2.2)	2.5	5.1
Impairment losses on loans	(11.2)	(8.1)	(12.3)	0.1	2.2
Operating profit	12.2	1.1	1.9	3.3	6.1
Non-operating income	79.1	(25.5)	5.0	5.0	4.0
Profit before tax	12.4	1.0	1.9	3.3	6.1
Tax	18.2	(21.0)	(0.8)	3.3	6.1
Minority interests	(44.0)	(149.1)	(120.0)	15.0	15.0
Net profit attributable to equity holders	11.6	7.1	2.1	3.3	6.1
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	2.0	3.4	6.2
Per share (RMB)					
EPS	1.19	1.28	1.30	1.35	1.43
BVPS	9.95	10.87	11.82	12.67	13.58
DPS	0.364	0.389	0.391	0.404	0.429
Key ratio (%)					
Net interest margin	2.13	2.02	1.70	1.59	1.49
Cost to income ratio	27.64	28.25	30.00	29.90	29.47
ROAA	1.04	1.00	0.91	0.84	0.79
ROAE	12.55	12.27	11.48	11.00	10.89
Effective tax rate	19.68	15.41	15.00	15.00	15.00
Dividend payout	30.00	30.00	30.00	30.00	30.00

Note 1: Individual items may not sum to total due to rounding difference

Note 2: Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Note 3: As FY22A income statement figures have not been restated, we did not use restated balance sheet figures for consistency

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	2,843,366	2,644,331	2,512,114
Due from FIs and repo	892,347	1,652,903	1,458,753	1,584,082	1,723,124
Investment securities	7,641,919	8,540,149	9,821,171	11,196,135	12,651,633
Net loans and advances	18,170,492	20,459,117	23,398,588	26,736,223	30,457,667
Total interest earning assets	29,468,650	33,811,465	37,521,879	42,160,772	47,344,538
Property and equipment	168,326	166,985	165,315	163,662	165,299
Other non-interest earning assets	617,003	623,467	793,477	909,887	1,017,599
Total assets	30,253,979	34,601,917	38,480,671	43,234,321	48,527,435
Customer deposits	22,378,814	25,020,807	28,742,192	32,962,404	37,646,316
Due to FIs	2,232,201	2,935,999	2,789,199	2,928,659	3,162,952
Subordinated debt	1,323,377	1,646,870	1,663,339	1,713,239	1,781,768
Other interest bearing liabilities	947,955	1,320,587	1,346,999	1,427,819	1,556,322
Total interest bearing liabilities	26,882,347	30,924,263	34,541,728	39,032,121	44,147,359
Current taxes liabilities	86,342	84,369	59,058	67,917	78,105
Deferred tax liabilities	1,395	881	1,630	2,200	2,750
Other liabilities	669,773	713,644	760,773	801,325	741,538
Total liabilities	27,639,857	31,723,157	35,363,189	39,903,563	44,969,752
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	2,705,036	2,917,862	3,144,329
Minorities	25,891	22,027	22,468	22,917	23,375
Shareholder's equity	2,614,122	2,878,760	3,117,482	3,330,758	3,557,683
Growth (%)					
Cash & balance with central bank	(1.9)	14.3	(10.0)	(7.0)	(5.0)
Due from FIs and repo	(37.3)	85.2	(11.7)	8.6	8.8
Investment securities	9.9	11.8	15.0	14.0	13.0
Net loans and advances	11.9	12.6	14.4	14.3	13.9
Total interest earning assets	7.5	14.7	11.0	12.4	12.3
Property and equipment	(2.4)	(0.8)	(1.0)	(1.0)	1.0
Other non-interest earning assets	14.8	1.0	27.3	14.7	11.8
Total assets	7.5	14.4	11.2	12.4	12.2
Customer deposits	8.6	11.8	14.9	14.7	14.2
Due to FIs	(2.7)	31.5	(5.0)	5.0	8.0
Subordinated debt	40.8	24.4	1.0	3.0	4.0
Other interest bearing liabilities	(13.2)	39.3	2.0	6.0	9.0
Total interest bearing liabilities	7.8	15.0	11.7	13.0	13.1
Current taxes liabilities	2.6	(2.3)	(30.0)	15.0	15.0
Deferred tax liabilities	(10.1)	(36.8)	85.0	35.0	25.0
Other liabilities	(6.6)	6.6	6.6	5.3	(7.5)
Total liabilities	7.4	14.8	11.5	12.8	12.7
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	9.7	7.9	7.8
Minorities	5.5	(14.9)	2.0	2.0	2.0
Shareholder's equity	9.4	10.1	8.3	6.8	6.8
Key ratio (%)					
CT1 CAR	13.59	13.69	12.85	12.45	12.28
Total CAR	17.85	18.42	17.47	17.27	17.39
NPL ratio	1.42	1.38	1.37	1.35	1.33
Provision to total loans	3.40	3.34	3.31	3.29	3.27
Provision coverage ratio	239.96	241.53	241.61	243.70	245.86

Note 1: Individual items may not sum to total due to rounding difference

Note 2: Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Note 3: As FY22A income statement figures have not been restated, we did not use restated balance sheet figures for consistency

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

The analyst, AU Yu Hang, Johannes, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with CCB.

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 $<$ - 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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2023 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183