

CCB (939 HK / 601939 CH)

Patiently tackle challenges

- NIM outlook remains tough for FY24; liability cost management and structure optimization would be crucial in tackling pressure
- New loans to focus on the corporate segment, with the explicit intention to facilitate five financial chapters highlighted by the government
- Robust risk buffer and stable asset quality outlook to limit earnings downside
- Our GGM-based H/A-shr TPs imply 0.46x/0.59x target 24E P/Bs

Topline recovery takes time. In our view, to support macroeconomic recovery and reduce social financing cost, NIM outlook will continue to be challenging in FY24E. Since the bank is one of the sector's leading players in terms of operation size and market share, it will be affected by the NIM crunch. We estimate CCB's 4Q23 NIM at ~1.55%, which we perceive as the ceiling for quarterly NIM in FY24E. In our base case, we lower FY24E/25E NIM forecasts to 1.51% and 1.37%, implying a 19bps/14bps YoY reduction in FY24E/25E. Specifically, we factor in 23bps/16bps YoY reduction in the average lending rate for FY24E/25E, assuming LPR cuts and loan re-pricing will continue. We expect CCB to counter NIM pressure through liability cost management, which as a result we anticipate its average deposit cost to inch up only by 4bps/3bps YoY for FY24E/25E. Meanwhile, continuous balance sheet structure optimization, which involves allocating more resources into high-yield asset classes, would also help to alleviate the situation. Having said that, CCB's NIM reported at 1.70% in FY23 was the highest among the big four banks, and we are confident that it can sustain its competitive edges. Overall, we project its NII to turn positive in FY25E at the earliest. Our base case suggests a topline CAGR of 0.6% with a 2% net fee income CAGR in FY23-25E.

Credit resources on corporate segment. CCB has placed more emphasis on corporate lending - its corporate loans grew 20.0% YoY in FY23, much higher than the 5.3% YoY increase in personal loans. The corporate loan mix rose from 52.11% in FY22 to 55.54% in FY23. These new loans mainly focus on leasing & commercial services, transportation, utilities, and wholesale & retail sectors. To support the five financial chapters underlined by the government, including technology finance, green finance, inclusive finance, pension finance, and digital finance, we expect a relatively fast corporate loan CAGR of 17.5% in FY23-25E, which would result in a steady increase in corporate loan mix to 61.3% by end-FY25E.

Results and Valuation

FY ended Dec 31	2021A	2022A	2023A	2024E	2025E
Revenue (RMB mn)	764,706	757,510	745,615	745,580	755,301
Chg (% YoY)	7.1	(0.9)	(1.6)	(0.0)	1.3
Net profit* (RMB mn)	302,513	324,727	332,653	341,334	355,794
Chg (% YoY)	11.6	7.3	2.4	2.6	4.2
EPS (RMB)	1.19	1.28	1.31	1.34	1.39
Chg (% YoY)	12.3	7.5	2.3	2.0	4.3
BVPS (RMB)	9.95	10.86	11.80	12.65	13.54
Chg (% YoY)	9.9	9.1	8.6	7.2	7.0
P/E (x) – H-shr	3.74	3.48	3.41	3.34	3.20
P/B (x) – H-shr	0.45	0.41	0.38	0.35	0.33
P/E (x) – A-shr	5.83	5.43	5.30	5.20	4.98
P/B (x) – A-shr	0.70	0.64	0.59	0.55	0.51
ROAA (%)	1.04	1.00	0.91	0.85	0.80
ROAE (%)	12.55	12.30	11.56	10.93	10.65
DPS(RMB)	0.364	0.389	0.400	0.401	0.418
Yield (%) H-shr	8.16	8.72	8.96	8.99	9.38
Yield (%) A-shr	5.24	5.60	5.76	5.77	6.02

Note: HKD/CNY=1.08

*Net profit refers to Net profit attributable to equity shareholders of the bank in financial statements unless otherwise specified

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

Company Report

Apr 5, 2024

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 6.33
TP (A): RMB 7.45

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Price (H/A shr)	HK\$ 4.82/ RMB 6.95
Est. s price return (H/A shr)	31.33%/ 7.19%
Est. dividend yield (H/A shr)	8.99%/5.77%
Est. total return (H/A shr)	40.32%/ 12.96%
Last Rating & TP (H/A shr)	BUY, HK\$6.21/ BUY, RMB7.10
Previous Report Date	30 Oct, 2023

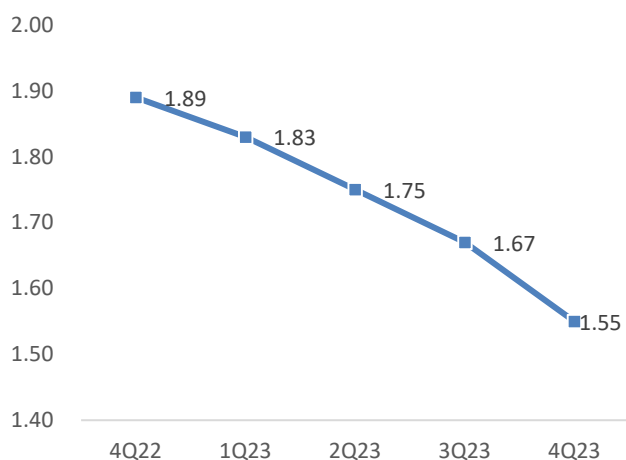
Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	5.70/4.01
52Wk H/L (RMB) (A shr)	7.29/5.84
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)	1,230,949.9
H-shr market cap (HK\$ mn)	1,158,811.5
A-shr market cap (HK\$ mn)	72,138.4
3-mth avg daily turnover (HK\$ mn) (H shr)	1,504.7
3-mth avg daily turnover (RMB mn) (A shr)	657.8
Major shareholder(s) (%):	
Central Huijin	57.14

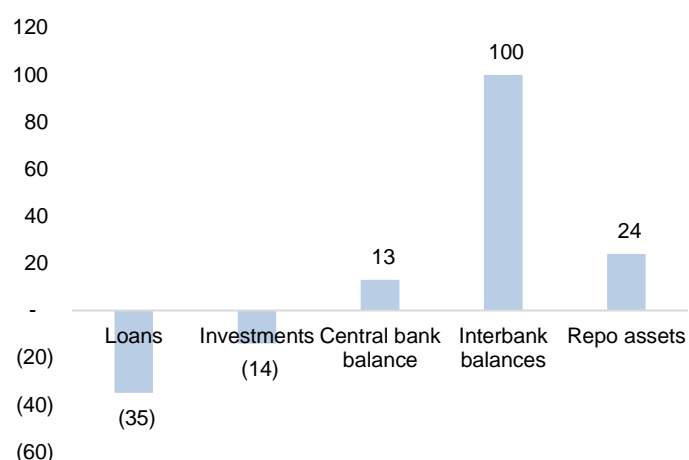
Source(s): Bloomberg, ABCI Securities

Exhibit 1: CCB's quarterly NIM trend (%)



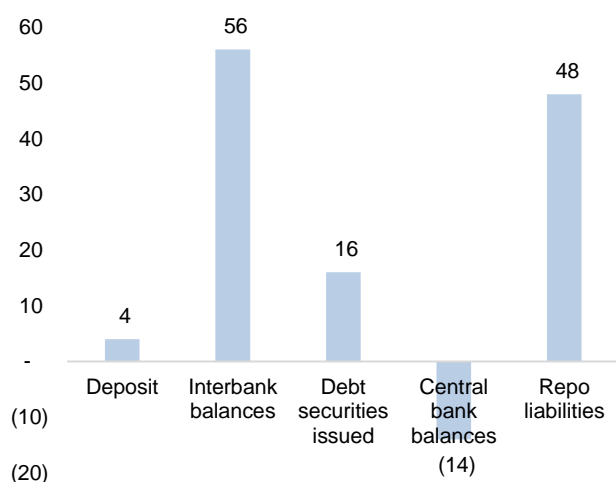
Source(s): Company, ABCI Securities estimates

Exhibit 2: CCB's assets yields YoY (FY23, bps)



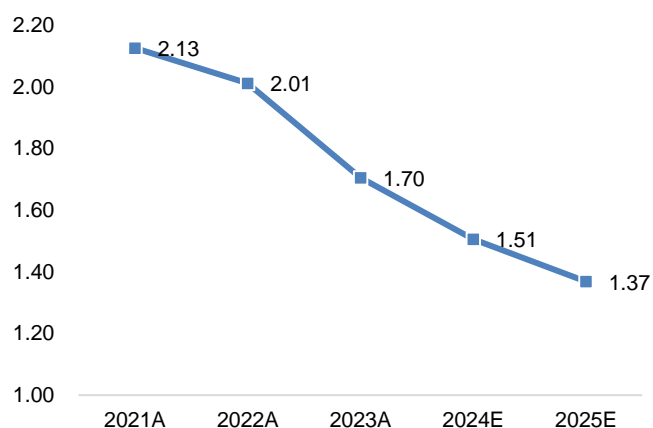
Source(s): Company, ABCI Securities

Exhibit 3: CCB's liabilities cost YoY (FY23, bps)



Source(s): Company, ABCI Securities

Exhibit 4: CCB's NIM outlook (%)



Source(s): Company, ABCI Securities estimates

Sufficient risk buffer to face challenges. Given CCB's sound asset quality and prudent risk management attitude, we project NPL ratio to fall to 1.35% by end-FY25E. Provisioning and provision coverage ratios would stay solid at 3.22%-3.26% and 238.52%-239.71% in FY24E-25E. Although policy measures aimed at bolstering the real estate sector may require time to yield tangible results, early repayment in residential mortgages has reduced QoQ in 1Q24, which was a sign we view as positive. We are confident that the bank's robust risk buffer could limit its earnings downside.

Exhibit 5: Changes in forecasts

(RMB mn)	2024E (old)	2024E (new)	change (%)	(RMB mn)	2025E (old)	2025E (new)	change (%)
Net interest income	641,366	613,443	(4.35)	Net interest income	675,451	616,524	(8.72)
Net fee and commission	117,832	116,903	(0.79)	Net fee and commission	119,600	120,411	0.68
Operating income	766,009	745,580	(2.67)	Operating income	800,346	755,301	(5.63)
Operating expenses	(229,028)	(221,253)	(3.39)	Operating expenses	(235,899)	(224,572)	(4.80)
Impairment losses	(136,039)	(124,135)	(8.75)	Impairment losses	(139,089)	(113,608)	(18.32)
Profit before tax	402,258	401,320	(0.23)	Profit before tax	426,727	418,306	(1.97)
Income tax expenses	(60,339)	(60,198)	(0.23)	Income tax expenses	(64,009)	(62,746)	(1.97)
Net profit attributable to equity shareholders of the Bank	341,760	341,334	(0.12)	Net profit attributable to equity shareholders of the Bank	362,534	355,794	(1.86)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.59	1.51	(0.08)	Net interest margin	1.49	1.37	(0.12)
CIR	29.90	29.68	(0.22)	Cost to income ratio	29.47	29.73	0.26
ROAA	0.84	0.85	0.01	Return on average assets	0.79	0.80	0.01
ROAE	11.00	10.93	(0.07)	Return on average equity	10.89	10.65	(0.24)
Dividend payout	30.00	30.00	-	Dividend payout	30.00	30.00	-
CT1 CAR	12.45	12.72	0.27	CT1 CAR	12.28	12.49	0.21
Total CAR	17.27	17.76	0.49	Total CAR	17.39	17.82	0.43
NPL ratio	1.35	1.36	0.01	NPL ratio	1.33	1.35	0.02
Provision to total loans	3.29	3.26	(0.03)	Provision to total loans	3.27	3.22	(0.05)
Provision coverage ratio	243.70	239.71	(3.99)	Provision coverage	245.86	238.52	(7.34)

Source(s): Company, ABCI Securities estimates

Maintain BUY on limited earnings downside. By factoring in a 0.6% topline CAGR and 3.4% net profit CAGR driven by -9.0% provision expenses CAGR for FY23-25E in our base case scenario, we project ROAE to trend down to 10.65% by FY25E. Applying lower sustainable ROAE and COE assumptions, we roll over our GGM based on FY24E BVPS. Our H/A-shr TPs rose 1.9%/4.9% to HK\$ 6.33/RMB 7.45, which imply 0.46x and 0.59x FY24E target P/Bs. **Maintain BUY.**

Exhibit 6: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	6.21	6.33	7.10	7.45	Roll over to FY24E BVPS
Sustainable ROE (%)	10.34	10.00	10.34	10.00	Factor in lower earnings forecast
COE (%)	14.26	13.83	12.90	12.30	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	6.80	6.70	6.80	6.70	
Target 24E P/B (x)	0.46	0.46	0.56	0.59	

Source(s): Company, ABCI Securities estimates

Risk Factors: 1) Prolonged NIM pressure; 2) Asset quality deterioration in specific sectors and regions; 3) Slower-than-expected recovery in net fee income and topline; 4) Failure to sustain balance sheet component optimization; 5) Gradual decrease in ROAE; 6) Capital instruments may be required to fulfill regulatory requirements in 2028; 7) Dilution effect on convertible preference shares.



Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023A	2024E	2025E
Net interest income	605,420	643,669	617,233	613,443	616,524
Non-interest income	159,286	113,841	128,382	132,137	138,777
Of which: Fees and commissions	121,492	116,085	115,746	116,903	120,411
Operating income	764,706	757,510	745,615	745,580	755,301
Operating expenses	(219,182)	(219,991)	(220,152)	(221,253)	(224,572)
Pre-provision operation profit	545,524	537,519	525,463	524,327	530,730
Impairment losses on loans	(168,715)	(155,014)	(137,237)	(124,135)	(113,608)
Operating profit	376,809	382,505	388,226	400,192	417,122
Non-operating income	1,603	1,194	1,151	1,128	1,184
Profit before tax	378,412	383,699	389,377	401,320	418,306
Tax	(74,484)	(58,836)	(56,917)	(60,198)	(62,746)
Minority interests	(1,415)	(136)	193	212	234
Net profit attributable to equity holders	302,513	324,727	332,653	341,334	355,794
Dividend and interest to other equity instruments	(4,538)	(4,538)	(5,110)	(7,108)	(7,108)
Net profit attributable to ordinary shareholders	297,975	320,189	327,543	334,226	348,686
Growth (%)					
Net interest income	5.1	6.3	(4.1)	(0.6)	0.5
Non-interest income	15.2	(28.5)	12.8	2.9	5.0
Of which: Fees and commissions	6.0	(4.5)	(0.3)	1.0	3.0
Operating income	7.1	(0.9)	(1.6)	(0.0)	1.3
Operating expenses	16.2	0.4	0.1	0.5	1.5
Pre-provision operation profit	3.8	(1.5)	(2.2)	(0.2)	1.2
Impairment losses on loans	(11.2)	(8.1)	(11.5)	(9.5)	(8.5)
Operating profit	12.2	1.5	1.5	3.1	4.2
Non-operating income	79.1	(25.5)	(3.6)	(2.0)	5.0
Profit before tax	12.4	1.4	1.5	3.1	4.2
Tax	18.2	(21.0)	(3.3)	5.8	4.2
Minority interests	(44.0)	(90.4)	(241.9)	10.0	10.0
Net profit attributable to equity holders	11.6	7.3	2.4	2.6	4.2
Dividend and interest to other equity instruments	(19.3)	0.0	12.6	39.1	0.0
Net profit attributable to ordinary shareholders	12.3	7.5	2.3	2.0	4.3
Per share (RMB)					
EPS	1.19	1.28	1.31	1.34	1.39
BVPS	9.95	10.86	11.80	12.65	13.54
DPS	0.364	0.389	0.400	0.401	0.418
Key ratio (%)					
Net interest margin	2.13	2.01	1.70	1.51	1.37
Cost to income ratio	27.64	27.96	28.39	29.68	29.73
ROAA	1.04	1.00	0.91	0.85	0.80
ROAE	12.55	12.30	11.56	10.93	10.65
Effective tax rate	19.68	15.33	14.62	15.00	15.00
Dividend payout	30.00	30.00	30.10	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: FY22 figures are restated

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2021A	2022A	2023A	2024E	2025E
Cash & balance with central bank	2,763,892	3,159,296	3,066,058	2,912,755	2,767,117
Due from FIs and repo	1,045,390	1,824,483	1,906,255	1,990,750	2,127,450
Investment securities	7,641,919	8,542,312	9,638,276	10,891,252	12,361,571
Net loans and advances	18,170,492	20,493,042	23,083,377	25,827,744	28,822,588
Total interest-earning assets	29,621,693	34,019,133	37,693,966	41,622,501	46,078,726
Property and equipment	168,326	166,985	167,371	169,045	170,735
Other non-interest-earning assets	463,960	414,593	463,489	513,046	564,293
Total assets	30,253,979	34,600,711	38,324,826	42,304,592	46,813,754
Customer deposits	22,378,814	25,020,807	27,654,011	30,621,924	33,985,829
Due to FIs	2,232,201	2,950,031	3,199,788	3,423,773	3,646,318
Subordinated debt	1,323,377	1,646,870	1,895,735	2,123,223	2,335,546
Other interest-bearing liabilities	947,955	1,353,302	1,684,259	2,054,796	2,465,755
Total interest-bearing liabilities	26,882,347	30,971,010	34,433,793	38,223,716	42,433,448
Current taxes liabilities	86,342	84,169	73,580	67,694	71,078
Deferred tax liabilities	1,395	881	1,724	2,327	2,909
Other liabilities	669,773	668,407	643,655	624,517	696,270
Total liabilities	27,639,857	31,724,467	35,152,752	38,918,254	43,203,706
Share capital	250,011	250,011	250,011	250,011	250,011
Other equity instruments	99,968	139,968	199,968	199,968	199,968
Reserves	2,238,252	2,465,471	2,700,166	2,913,334	3,135,892
Minorities	25,891	20,794	21,929	23,025	24,177
Shareholder's equity	2,614,122	2,876,244	3,172,074	3,386,338	3,610,048
Growth (%)					
Cash & balance with central bank	(1.9)	14.3	(3.0)	(5.0)	(5.0)
Due from FIs and repo	(26.6)	74.5	4.5	4.4	6.9
Investment securities	9.9	11.8	12.8	13.0	13.5
Net loans and advances	11.9	12.8	12.6	11.9	11.6
Total interest-earning assets	8.0	14.8	10.8	10.4	10.7
Property and equipment	(2.4)	(0.8)	0.2	1.0	1.0
Other non-interest-earning assets	(13.7)	(10.6)	11.8	10.7	10.0
Total assets	7.5	14.4	10.8	10.4	10.7
Customer deposits	8.6	11.8	10.5	10.7	11.0
Due to FIs	(2.7)	32.2	8.5	7.0	6.5
Subordinated debt	40.8	24.4	15.1	12.0	10.0
Other interest-bearing liabilities	(13.2)	42.8	24.5	22.0	20.0
Total interest-bearing liabilities	7.8	15.2	11.2	11.0	11.0
Current taxes liabilities	2.6	(2.5)	(12.6)	(8.0)	5.0
Deferred tax liabilities	(10.1)	(36.8)	95.7	35.0	25.0
Other liabilities	(6.6)	(0.2)	(3.7)	(3.0)	11.5
Total liabilities	7.4	14.8	10.8	10.7	11.0
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	0.0	40.0	42.9	0.0	0.0
Reserves	11.1	10.2	9.5	7.9	7.6
Minorities	5.5	(19.7)	5.5	5.0	5.0
Shareholder's equity	9.4	10.0	10.3	6.8	6.6
Key ratio (%)					
CT1 CAR	13.59	13.69	13.15	12.72	12.49
Total CAR	17.85	18.42	17.95	17.76	17.82
NPL ratio	1.42	1.38	1.37	1.36	1.35
Provision to total loans	3.40	3.34	3.28	3.26	3.22
Provision coverage ratio	239.96	241.53	239.85	239.71	238.52

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: FY22 figures are restated

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim 7\%$)
Sell	Stock return $<$ - Market return ($\sim 7\%$)

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 2005 (For reference: HSI total return index 2005-23 averaged at 7.4%)

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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