

CCB (939 HK / 601939 CH)

Outperforming on prudent attitude

- Faster balance sheet growth will help sustain profitability
- Expect mild reduction in NIM, but structural change in balance sheet items would partly offset NIM pressure
- Prudent risk attitude as strength to outperform its big bank peers
- Reiterate **BUY**. Our GGM-based H/A-shr TPs imply 0.61x/0.74x target 23E P/Bs

Robust balance sheet defends profitability. In view of declining lending yield and rising deposit cost, the ability to grow balance sheet will be critical for Chinese banks to counter NIM pressure in coming quarters. CCB's total assets and total liabilities grew 11.35% and 12.18% HoH in 1H22, of which net loans and total deposits expanded 8.38% and 8.07% HoH. As we believe macro outlook and loan demand will gradually recover in coming quarters, we factor in a higher FY21A-24E total assets and total liabilities CAGRs at 13.7% and 14.2%, of which net loans and total deposits would grow at 11.7% and 11.4% CAGRs. As such, we expect the bank will have higher FY22E ROAE at 12.3% than other big three banks at the range of 11.03%-11.64%. Our base case forecasts net profit to grow at 7.3% CAGR over FY21A-24E with an ROAE of 11.96%-12.30% over FY22E-24E.

Better-than-expected 1H22 NIM. CCB's 1H22 NIM, was stronger than our previous expectation, narrowing by a mere 4bps HoH to 2.09%. In particular, we are impressed by its higher average interest-earning assets yield of 3.72% (+1bps YoY), of which average loan yield was down only by 4bps YoY to 4.23% while average investment yield stayed flat YoY at 3.39%. Meanwhile, average interest bearing liabilities cost rose 6bps YoY to 1.82%, with average deposit cost up 5bps YoY to 1.72%. We adjust up our FY22E NIM forecast by 2bps to 2.07%. Taking into account of robust balance sheet growth and proactive components management, we project NIM to narrow by 4bps-10bps each in FY22E-24E to stand at 1.93% by FY24E. As a result, NII and topline revenue would increase at 10.4% and 7.9% CAGRs over FY21A-24E.

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Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	714,224	764,706	824,875	893,449	961,246
Chg (% YoY)	5.3	7.1	7.9	8.3	7.6
Net profit* (RMB mn)	271,050	302,513	324,891	346,624	373,547
Chg (% YoY)	1.6	11.6	7.4	6.7	7.8
EPS (RMB)	1.06	1.19	1.28	1.37	1.48
Chg (% YoY)	1.0	12.3	7.5	6.8	7.9
BVPS (RMB)	9.06	9.95	10.89	11.88	12.81
Chg (% YoY)	0.326	0.364	0.391	0.417	0.450
P/E (x) – H-shr	3.99	3.55	3.30	3.09	2.87
P/B (x) – H-shr	0.47	0.43	0.39	0.36	0.33
P/E (x) – A-shr	5.20	4.63	4.31	4.03	3.74
P/B (x) – A-shr	0.61	0.55	0.51	0.46	0.43
ROAA (%)	1.02	1.04	0.98	0.91	0.88
ROAE (%)	12.12	12.55	12.30	12.02	11.96
DPS(RMB)	0.326	0.364	0.391	0.417	0.450
Yield (%) H-shr	7.70	8.60	9.23	9.85	10.63
Yield (%) A-shr	5.91	6.59	7.08	7.56	8.16

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

Sep 1, 2022

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 8.39
TP (A): RMB 8.83

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Price (H/A shr)	HK\$ 4.87/ RMB 5.52
Est. s price return (H/A shr)	72.28%/ 59.96%
Est. dividend yield (H/A shr)	9.23%/7.08%
Est. total return (H/A shr)	81.51%/ 67.04%
Last Rating & TP (H/A shr)	BUY, HK\$9.98/ BUY, RMB9.84
Previous Report Date	1 Apr, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	6.23/4.80
52Wk H/L (RMB) (A shr)	6.44/5.42
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)	1,226,341.3
H-shr market cap (HK\$ mn)	1,166,024.0
A-shr market cap (HK\$ mn)	60,317.3
3-mth avg daily turnover (HK\$ mn) (H shr)	1,220.55
3-mth avg daily turnover (RMB mn) (A shr)	403.23
Major shareholder(s) (%): Central Huijin	57.03

Source(s): Bloomberg, ABCI Securities

Prudent attitude as winning factor. CCB's prudent risk attitude has allowed it to outperform its big bank peers in 1H22. Macro uncertainties drove up asset quality risk sector-wide, but CCB's 1H22 provision expenses dropped 4.73% YoY, supporting a 4.3% YoY growth in profit before tax – fastest among the big four banks. Meanwhile, NPL ratio dropped more than its big four peers, down 2bps HoH to 1.40%. We expect its NPL ratio to stay at 1.42%-1.46% over FY22E-24E, while its provision expense would increase only by 2.3% CAGR in FY21A-24E.

Maintain BUY on defensiveness. Robust risk buffers and cautious risk attitude will defend the bank against macro uncertainties and policy risk. CCB remains our sector top pick. Factoring in the current macro outlook, we lower our sustainable ROAE and apply a higher risk premium in our GGM. Rolling over our TP calculation to FY23E BVPS, our H/A-shr TPs were down 15.9/10.3% to HK\$ 8.39 and RMB 8.83, which imply 0.61x and 0.74x FY23E target P/Bs. Reiterate **BUY**.

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 areas; 3) The need of additional capital or funding sources to support balance sheet growth; 4) Resurgence or prolonged COVID-19 pandemic; 5) Expect rising NPL ratio over FY22E-24E.

Exhibit 1: Changes in 2022E and 2023E forecasts

(RMB mn)	2022E (old)	2022E (new)	change (%)	(RMB mn)	2023E (old)	2023E (new)	change (%)
Net interest income	642,579	684,714	6.56	Net interest income	687,613	751,856	9.34
Net fee and commission	128,782	122,099	(5.19)	Net fee and commission	135,221	123,931	(8.35)
Operating income	814,526	824,875	1.27	Operating income	871,012	893,449	2.58
Operating expenses	(244,711)	(252,467)	3.17	Operating expenses	(270,479)	(289,465)	7.02
Impairment losses	(175,074)	(181,102)	3.44	Impairment losses	(179,540)	(181,669)	1.19
Profit before tax	396,664	393,310	(0.85)	Profit before tax	423,301	424,800	0.35
Income tax expenses	(79,333)	(66,863)	(15.72)	Income tax expenses	(84,660)	(76,464)	(9.68)
Net profit attributable to equity holders	315,775	324,891	2.89	Net profit attributable to equity holders	336,929	346,624	2.88
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	2.05	2.07	0.02	Net interest margin	2.02	1.97	(0.05)
Net interest spread	1.83	1.82	(0.01)	Net interest spread	1.78	1.75	(0.03)
CIR	30.04	30.61	0.57	CIR	31.05	32.40	1.35
ROAA	1.00	0.98	(0.02)	ROAA	0.99	0.91	(0.08)
ROAE	12.59	12.30	(0.29)	ROAE	12.38	12.02	(0.36)
Dividend payout	30.50	30.50	-	Dividend payout	30.50	30.50	-
CT1 CAR	13.45	13.48	0.03	CT1 CAR	13.32	13.15	(0.17)
Total CAR	17.88	17.85	(0.03)	Total CAR	17.61	17.52	(0.09)
NPL ratio	1.45	1.42	(0.03)	NPL ratio	1.49	1.44	(0.05)
Provision to total loans	3.49	3.45	(0.04)	Provision to total loans	3.55	3.40	(0.15)
Provision coverage ratio	240.69	242.96	2.27	Provision coverage ratio	238.26	236.11	(2.15)

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	9.98	8.39	9.84	8.83	
Sustainable ROE (%)	11.13	10.50	11.13	10.50	Factor in Macro uncertainties
COE (%)	12.51	12.38	11.61	11.53	Reduced risk-free rate and higher risk premium
LT gr (%)	6.50	7.50	6.50	7.50	Faster-than-expected balance sheet growth
Target 23E P/B (x)	0.71	0.61	0.83	0.74	

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	575,909	605,420	684,714	751,856	813,738
Non-interest income	138,315	159,286	140,162	141,593	147,507
Of which: Fees and commissions	114,582	121,492	122,099	123,931	128,888
Operating income	714,224	764,706	824,875	893,449	961,246
Operating expenses	(188,574)	(219,182)	(252,467)	(289,465)	(325,597)
Pre-provision operation profit	525,650	545,524	572,408	603,984	635,649
Impairment losses on loans	(189,929)	(168,715)	(181,102)	(181,669)	(180,863)
Operating profit	335,721	376,809	391,306	422,315	454,786
Non-operating income	895	1,603	2,004	2,485	3,056
Profit before tax	336,616	378,412	393,310	424,800	457,842
Tax	(63,037)	(74,484)	(66,863)	(76,464)	(82,412)
Minority interests	(2,529)	(1,415)	(1,557)	(1,712)	(1,883)
Net profit attributable to equity holders	271,050	302,513	324,891	346,624	373,547
Preference share dividend	(5,624)	(4,538)	(4,538)	(4,538)	(4,538)
Net profit attributable to ordinary shareholders	265,426	297,975	320,353	342,086	369,009
Growth (%)					
Net interest income	7.2	5.1	13.1	9.8	8.2
Non-interest income	(1.9)	15.2	(12.0)	1.0	4.2
Of which: Fees and commissions	3.3	6.0	0.5	1.5	4.0
Operating income	5.3	7.1	7.9	8.3	7.6
Operating expenses	0.2	16.2	15.2	14.7	12.5
Pre-provision operation profit	7.3	3.8	4.9	5.5	5.2
Impairment losses on loans	16.1	(11.2)	7.3	0.3	(0.4)
Operating profit	2.9	12.2	3.8	7.9	7.7
Non-operating income	259.4	79.1	25.0	24.0	23.0
Profit before tax	3.1	12.4	3.9	8.0	7.8
Tax	9.9	18.2	(10.2)	14.4	7.8
Minority interests	1.6	(44.0)	10.0	10.0	10.0
Net profit attributable to equity holders	1.6	11.6	7.4	6.7	7.8
Preference share dividend	41.9	(19.3)	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	1.0	12.3	7.5	6.8	7.9
Per share (RMB)					
EPS	1.06	1.19	1.28	1.37	1.48
BVPS	9.06	9.95	10.89	11.88	12.81
DPS	0.326	0.364	0.391	0.417	0.450
Key ratio (%)					
Net interest margin	2.19	2.13	2.07	1.97	1.93
Net interest spread	2.04	1.94	1.82	1.75	1.74
Cost to income ratio	25.38	27.64	30.61	32.40	33.87
ROAA	1.02	1.04	0.98	0.91	0.88
ROAE	12.12	12.55	12.30	12.02	11.96
Effective tax rate	18.73	19.68	17.00	18.00	18.00
Dividend payout	30.71	30.54	30.50	30.50	30.50

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)	2020A	2021A	2022E	2023E	2024E
Cash & balance with central bank	2,816,164	2,763,892	2,985,003	3,223,804	3,449,470
Due from FIs and repo	1,423,876	892,347	2,241,532	2,348,879	2,279,967
Investment securities	6,950,653	7,641,919	9,170,303	10,820,957	12,227,682
Net loans and advances	16,231,369	18,170,492	20,665,615	22,988,211	25,301,301
Total interest earning assets	27,422,062	29,468,650	35,062,453	39,381,851	43,258,419
Property and equipment	172,505	168,326	171,693	176,843	182,149
Other non-interest earning assets	537,687	617,003	746,321	875,676	1,031,300
Total assets	28,132,254	30,253,979	35,980,467	40,434,370	44,471,868
Customer deposits	20,614,976	22,378,814	25,353,360	28,235,095	30,940,360
Due to FIs	2,293,272	2,232,201	4,017,962	4,821,554	5,544,787
Subordinated debt	940,197	1,323,377	1,918,897	2,264,298	2,581,300
Other interest bearing liabilities	1,091,974	947,955	1,184,944	1,386,384	1,552,750
Total interest bearing liabilities	24,940,419	26,882,347	32,475,162	36,707,331	40,619,197
Current taxes liabilities	84,161	86,342	90,659	95,192	99,952
Deferred tax liabilities	1,551	1,395	1,604	1,845	2,122
Other liabilities	716,770	669,773	564,040	530,420	419,008
Total liabilities	25,742,901	27,639,857	33,131,466	37,334,788	41,140,279
Share capital	250,011	250,011	250,011	250,011	250,011
Other equity instruments	99,968	99,968	99,968	99,968	99,968
Reserves	2,014,829	2,238,252	2,471,836	2,721,059	2,951,638
Minorities	24,545	25,891	27,186	28,545	29,972
Shareholder's equity	2,389,353	2,614,122	2,849,001	3,099,583	3,331,589
Growth (%)					
Cash & balance with central bank	7.4	(1.9)	8.0	8.0	7.0
Due from FIs and repo	(5.6)	(37.3)	151.2	4.8	(2.9)
Investment securities	11.9	9.9	20.0	18.0	13.0
Net loans and advances	11.6	11.9	13.7	11.2	10.1
Total interest earning assets	10.2	7.5	19.0	12.3	9.8
Property and equipment	1.0	(2.4)	2.0	3.0	3.0
Other non-interest earning assets	41.3	14.8	21.0	17.3	17.8
Total assets	10.6	7.5	18.9	12.4	10.0
Customer deposits	12.2	8.6	13.3	11.4	9.6
Due to FIs	4.5	(2.7)	80.0	20.0	15.0
Subordinated debt	(12.7)	40.8	45.0	18.0	14.0
Other interest bearing liabilities	15.5	(13.2)	25.0	17.0	12.0
Total interest bearing liabilities	10.4	7.8	20.8	13.0	10.7
Current taxes liabilities	(2.9)	2.6	5.0	5.0	5.0
Deferred tax liabilities	239.4	(10.1)	15.0	15.0	15.0
Other liabilities	34.9	(6.6)	(15.8)	(6.0)	(21.0)
Total liabilities	11.0	7.4	19.9	12.7	10.2
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	(16.4)	0.0	0.0	0.0	0.0
Reserves	9.1	11.1	10.4	10.1	8.5
Minorities	30.1	5.5	5.0	5.0	5.0
Shareholder's equity	6.9	9.4	9.0	8.8	7.5
Key ratio (%)					
CT1 CAR	13.62	13.59	13.48	13.15	12.87
Total CAR	17.06	17.85	17.85	17.52	17.43
NPL ratio	1.56	1.42	1.42	1.44	1.46
Provision to total loans	3.33	3.40	3.45	3.40	3.35
Provision coverage ratio	213.59	239.96	242.96	236.11	229.45

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

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 2009 (For reference: HSI total return index 2009-21 simple average 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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