

China CITIC Bank (998 HK / 601998 CH)

Net profit growth to sustain on lower provisions

- Upon completion of strategic development plan over FY21-23, CITICB is entering a more stable stage with lower provision needs, which should help sustain net profit growth
- NIM will still be under pressure in FY24E with mild relief in FY25E
- We are impressed by CITICB's organic growth in CT1; capital position to further strengthen on light-capital business development
- Maintain **BUY**; our H/A TPs imply 0.37x/0.50x FY24E P/B

NIM pressure to reduce gradually. We estimate CITICB's 4Q23 NIM was ~1.66% (9M23 NIM: 1.82%) based on its reported FY23 NIM of 1.78%. The adjustment of interest rate in residential mortgage has pushed down NIM more than we expected for CITICB. Also, the ongoing rate cut cycle in China as well as banks' responsibility to support the real economy will continue to suppress NIM in FY24E, in our view. Our base case suggests CITICB's NIM to drop 18bps YoY in FY24E to 1.6%, followed by a lesser decline of 8bps YoY in FY25E to 1.52%. This will support a NII CAGR at 1.4%, given a relatively slow total assets CAGR of 5.8% and total liabilities CAGR of 5.7% over FY23-25E – a result of CITICB's dedication to develop light-capital businesses. Overall, we project a 3.5% topline CAGR in FY23-25E, assuming net fee income will bounce back to the positive territory by FY25E the earliest.

Earnings growth supported by lower impairment needs. We expect topline growth to remain soft over FY24E-25E. Having resolved its legacy issues in FY21-23, we believe CITICB is entering a more stable period requiring lower impairment expenses. As of Dec-23, CITICB's NPL ratio fell further to 1.18% from 1.27% in end-2022. On the back of a steady recovery in China's macro growth and CITICB's competence in NPL handling, we estimate its NPL ratio to edge down to 1.08% by end-2025E, while provisioning ratio and provision coverage ratio would be 2.36% and 218.52%. As such, impairment expenses may contract with a -5.8% CAGR over FY23-25E, which would support CITICB's earnings growth outlook. We forecast a 8.2% net profit CAGR in FY23-25E.

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Results and Valuation

FY ended Dec 31	2021A	2022A	2023A	2024E	2025E
Revenue (RMB mn)	204,554	211,109	205,570	211,426	220,101
Chg (% YoY)	4.7	3.2	(2.6)	2.8	4.1
Net profit* (RMB mn)	55,641	62,103	67,016	72,187	78,462
Chg (% YoY)	13.6	11.6	7.9	7.7	8.7
EPS (RMB)	1.08	1.17	1.27	1.38	1.50
Chg (% YoY)	14.5	8.9	8.5	8.3	9.3
BVPS (RMB)	10.45	11.25	12.30	13.25	14.27
Chg (% YoY)	8.9	7.6	9.3	7.7	7.7
P/E (x) – H-shr	3.61	3.31	3.05	2.82	2.58
P/B (x) – H-shr	0.37	0.34	0.32	0.29	0.27
P/E (x) – A-shr	5.70	5.23	4.82	4.45	4.07
P/B (x) – A-shr	0.59	0.54	0.50	0.46	0.43
ROAA (%)	0.72	0.76	0.77	0.77	0.80
ROAE (%)	10.73	10.80	10.80	10.78	10.94
DPS(RMB)	0.302	0.329	0.356	0.392	0.436
Yield (%) H-shr	7.78	8.49	9.18	10.11	11.25
Yield (%) A-shr	4.93	5.37	5.81	6.40	7.12

Note: HKD/CNY=1.08

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

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

Company Report

Mar 25, 2024

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 5.30
TP (A): RMB 6.69

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Price (H/A shr)	HK\$ 4.19/ RMB 6.13
Est. price return (H/A shr)	26.49%/9.14%
Est. dividend yield (H/A shr)	10.11%/6.40%
Est. total return (H/A shr)	36.60%/15.54%
Last Rating & TP (H/A shr)	BUY, HK\$4.74/ BUY, RMB6.20
Previous Report Date	29 Aug, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	4.74/3.39
52Wk H/L (RMB) (A shr)	8.27/5.17
Total issued shares (mn)	48,966.9
Issued H shr (mn)	14,882.2
Issued A shr (mn)	34,084.7
Market cap (HK\$ mn)	288,010.7
H-shr market cap (HK\$ mn)	62,356.4
A-shr market cap (HK\$ mn)	225,654.3
3-mth avg daily turnover (HK\$ mn) (H shr)	110.36
3-mth avg daily turnover (RMB mn) (A shr)	323.21

Major shareholder(s) (%):

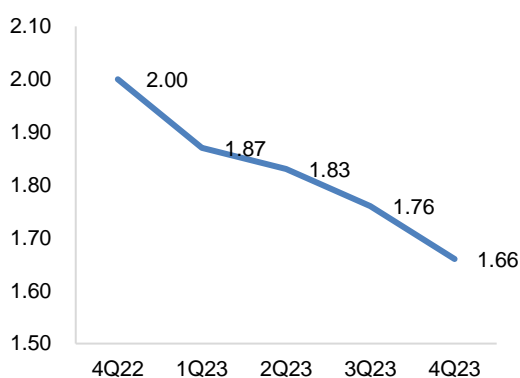
CITIC Group	65.37
China National Tobacco	4.39

Source(s): Bloomberg, ABCI Securities

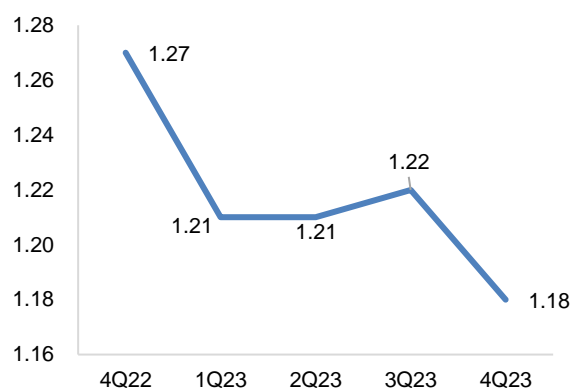
Impressive organic growth in CT1. We are glad to observe the gradual rise in CT1 from 8.74% in end-2022 to 8.81% in Sep 2023 and 8.99% in Dec 2023 through organic growth without the completion of CITICB's right issue plan as announced in Feb-23. We believe this is a result of CITICB's NPL handlings in previous years, which had led to higher capital consumption prior to FY23. We project CT1 and CAR to gradually pick up to 9.34% and 13.11% by end-2025E on the bank's strategic development in light-capital business.

Maintain BUY on recovering topline growth. We raise our H/A TPs by 11.8%/7.9% to HK\$ 5.30/RMB 6.69 on recovering topline growth and sustainable high single-digit earnings growth; also, we roll-over the BVPS estimates to FY24E in our Gordon Growth Model. Our H/A TPs imply 0.37x/0.50x FY24E P/B. **Maintain BUY.**

Risk Factors: 1) Significant potential dilution from outstanding convertible bonds to be matured in Mar-25 if the company failed in early redemption, and additional capital may need to boost capital adequacy; 2) Asset quality deterioration in specific sector and geographical areas; 3) Failure to optimize business transformation by increasing contribution from retail segment and light capital business; 4) China's macro outlook recovers more slowly than expected.

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


Source(s): Company, ABCI Securities estimates

Exhibit 2: CITICB's quarterly NPL ratio trend (%)


Source(s): Company, ABCI Securities

Exhibit 3: Changes in forecasts

(RMB mn)	2024E (old)	2024E (new)	change (%)	(RMB mn)	2025E (old)	2025E (new)	change (%)
Net interest income	155,532	145,220	(6.63)	Net interest income	162,202	147,716	(8.93)
Net fee and commission	38,587	30,764	(20.27)	Net fee and commission	40,516	31,379	(22.55)
Operating income	216,606	211,426	(2.39)	Operating income	227,813	220,101	(3.39)
Operating expenses	(77,239)	(72,777)	(5.78)	Operating expenses	(82,646)	(76,977)	(6.86)
Impairment losses	(53,694)	(57,871)	7.78	Impairment losses	(52,678)	(55,232)	4.85
Profit before tax	86,331	81,579	(5.50)	Profit before tax	93,200	88,757	(4.77)
Income tax expenses	(12,086)	(8,158)	(32.50)	Income tax expenses	(13,048)	(8,876)	(31.97)
Net profit attributable to equity holders	73,045	72,187	(1.17)	Net profit attributable to equity holders	78,773	78,462	(0.39)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.71	1.60	(0.11)	Net interest margin	1.66	1.52	(0.14)
CIR	34.66	33.42	(1.24)	CIR	35.28	33.97	(1.31)
ROAA	0.79	0.77	(0.02)	ROAA	0.79	0.80	0.01
ROAE	10.21	10.78	0.57	ROAE	10.32	10.94	0.62
Dividend payout	28.50	28.50	-	Dividend payout	28.50	29.00	0.50
CT1 CAR	9.19	9.17	(0.02)	CT1 CAR	9.18	9.34	0.16
Total CAR	13.19	13.02	(0.17)	Total CAR	13.05	13.11	0.06
NPL ratio	1.22	1.12	(0.10)	NPL ratio	1.24	1.08	(0.16)
Provision to total loans	2.52	2.40	(0.12)	Provision to total loans	2.55	2.36	(0.19)
Provision coverage ratio	206.56	214.29	7.73	Provision coverage ratio	205.65	218.52	12.87

Source(s): Company, ABCI Securities estimates

Exhibit 4: Changes of GGM assumptions

	H-shr		A-shr		Reason
	old	New	old	new	
TP (HKD/RMB)	4.74	5.30	6.20	6.69	Roll-over to 24 BVPS
Sustainable ROE (%)*	9.53	9.81	9.53	9.81	Reverse impact from planned rights issue plan due to unknown timing
COE (%)	13.34	15.25	11.43	12.95	Adjust assumptions with reference to Bloomberg
LT gr (%)	6.80	6.60	6.80	6.60	Adjust on slower B/S growth
Target 24E P/B (x)	0.40	0.37	0.57	0.50	

* CITICB may early redeem its convertible bonds to be matured in Mar-25 with funding from new issuance of debts or capital instruments, no dilution effect has been factored in.

Source(s): Company, ABCI Securities estimates



Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023A	2024E	2025E
Net interest income	147,896	150,647	143,539	145,220	147,716
Non-interest income	56,658	60,462	62,031	66,206	72,384
Of which: Fees and commissions	35,870	37,092	32,383	30,764	31,379
Operating income	204,554	211,109	205,570	211,426	220,101
Operating expenses	(62,224)	(66,838)	(69,214)	(72,777)	(76,977)
Pre-provision operating profit	142,330	144,271	136,356	138,649	143,124
Impairment losses on loans	(77,048)	(71,404)	(62,204)	(57,871)	(55,232)
Operating profit	65,282	72,867	74,152	80,778	87,892
Non-operating income	235	549	735	801	865
Profit before tax	65,517	73,416	74,887	81,579	88,757
Tax	(9,140)	(10,466)	(6,825)	(8,158)	(8,876)
Minorities interests	(736)	(847)	(1,046)	(1,234)	(1,419)
Net profit attributable to equity holders	55,641	62,103	67,016	72,187	78,462
Preference share dividend	(3,010)	(4,788)	(4,788)	(4,788)	(4,788)
Net profit attributable to ordinary shareholders	52,631	57,315	62,228	67,399	73,674
Growth (%)					
Net interest income	(1.7)	1.9	(4.7)	1.2	1.7
Non-interest income	26.2	6.7	2.6	6.7	9.3
Of which: Fees and commissions	24.4	3.4	(12.7)	(5.0)	2.0
Operating income	4.7	3.2	(2.6)	2.8	4.1
Operating expenses	14.7	7.4	3.6	5.1	5.8
Pre-provision operating profit	0.8	1.4	(5.5)	1.7	3.2
Impairment losses on loans	(7.2)	(7.3)	(12.9)	(7.0)	(4.6)
Operating profit	12.3	11.6	1.8	8.9	8.8
Non-operating income	(178.9)	133.6	33.9	9.0	8.0
Profit before tax	13.2	12.1	2.0	8.9	8.8
Tax	9.8	14.5	(34.8)	19.5	8.8
Minorities interests	33.3	15.1	23.5	18.0	15.0
Net profit attributable to equity holders	13.6	11.6	7.9	7.7	8.7
Preference share dividend	0.0	59.1	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	14.5	8.9	8.6	8.3	9.3
Per share (RMB)					
EPS	1.08	1.17	1.27	1.38	1.50
BVPS	10.45	11.25	12.30	13.25	14.27
DPS	0.302	0.329	0.356	0.392	0.436
Key ratio (%)					
Net interest margin	2.05	1.97	1.78	1.60	1.52
Cost to income ratio	29.34	30.66	32.61	33.42	33.97
Return on average assets	0.72	0.76	0.77	0.77	0.80
Return on average equity	10.73	10.80	10.80	10.78	10.94
Effective tax rate	13.95	14.26	9.11	10.00	10.00
Dividend payout	28.08	28.11	28.01	28.50	29.00

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

Excluded impact from rights issue plan announced in Feb-23 due to low timing visibility

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2021A	2022A	2023A	2024E	2025E
Cash & deposits with central bank	435,383	477,381	416,442	403,949	416,067
Due from FIs and repo	343,211	310,728	423,590	477,284	533,525
Investment securities	2,322,641	2,502,869	2,592,906	2,683,658	2,769,535
Net loans and advances	4,748,076	5,038,967	5,383,750	5,758,933	6,120,921
Total interest earning assets	7,849,311	8,329,945	8,816,688	9,323,824	9,840,048
Property and equipment	34,184	34,430	38,309	42,523	47,201
Trading assets	22,721	44,383	44,675	46,015	48,316
Other assets	136,668	138,785	152,812	171,443	192,387
Total assets	8,042,884	8,547,543	9,052,484	9,583,805	10,127,952
Customer deposits	4,789,969	5,157,864	5,467,657	5,813,846	6,202,100
Due to FIs and repo	1,540,631	1,590,133	1,750,458	1,899,247	2,041,690
Subordinated debt*	958,203	975,206	965,981	946,661	918,262
Total interest bearing liabilities	7,288,803	7,723,203	8,184,096	8,659,754	9,162,052
Trading liabilities	24,071	45,811	43,438	44,307	45,636
Current taxes	10,753	8,487	3,843	3,267	2,940
Other liabilities	76,631	84,212	86,432	93,688	82,665
Total liabilities	7,400,258	7,861,713	8,317,809	8,801,016	9,293,293
Common share capital	48,935	48,935	48,967	48,967	48,967
Other capital instruments	118,076	118,076	118,060	118,060	118,060
Reserve	459,292	498,407	550,195	596,564	646,514
Minorities	16,323	20,412	17,453	19,198	21,118
Shareholder's equity	642,626	685,830	734,675	782,789	834,659
Growth (%)					
Cash & deposits with central bank	0.0	9.6	(12.8)	(3.0)	3.0
Due from FIs and repo	(16.9)	(9.5)	36.3	12.7	11.8
Investment securities	11.0	7.8	3.6	3.5	3.2
Net loans and advances	8.9	6.1	6.8	7.0	6.3
Total interest earning assets	7.5	6.1	5.8	5.8	5.5
Property and equipment	0.9	0.7	11.3	11.0	11.0
Trading assets	(43.3)	95.3	0.7	3.0	5.0
Other assets	0.3	1.5	10.1	12.2	12.2
Total assets	7.1	6.3	5.9	5.9	5.7
Customer deposits	4.8	7.7	6.0	6.3	6.7
Due to FIs and repo	1.3	3.2	10.1	8.5	7.5
Subordinated debt	30.7	1.8	(0.9)	(2.0)	(3.0)
Total interest bearing liabilities	6.8	6.0	6.0	5.8	5.8
Trading liabilities	(50.3)	90.3	(5.2)	2.0	3.0
Current taxes	27.8	(21.1)	(54.7)	(15.0)	(10.0)
Other liabilities	12.8	9.9	2.6	8.4	(11.8)
Total liabilities	6.5	6.2	5.8	5.8	5.6
Common share capital	0.0	0.0	0.1	0.0	0.0
Other capital instruments	51.2	0.0	(0.0)	0.0	0.0
Reserve	10.0	8.5	10.4	8.4	8.4
Minorities	5.5	25.1	(14.5)	10.0	10.0
Shareholder's equity	14.7	6.7	7.1	6.5	6.6
Key ratio (%)					
CT1 CAR	8.85	8.74	8.99	9.17	9.34
Total CAR	13.53	13.18	12.93	13.02	13.11
NPL ratio	1.39	1.27	1.18	1.12	1.08
Provision to total loans	2.50	2.55	2.45	2.40	2.36
Provision coverage ratio	180.07	201.19	207.59	214.29	218.52

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

Excluded impact from right issue plan announced in Feb-23 due to low timing visibility

* CITICB may early redeem its convertible bonds to be matured in Mar-25 with funding from new issuance of debts or capital instruments, no dilution effect has been factored in.

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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