

## China Merchants Bank (3968 HK / 600036 CH)

### Leading the way with strong competitive edges and retail segment

- High profitability and risk buffers justify a higher trading valuation over peers
- Topline outlook remains challenging on interest rate down cycle and fee rates reduction
- Core differentiation in retail segment to affect timing of earnings growth recovery
- Reiterate **BUY**. Our GGM-based H/A-shr TPs imply 0.95x/0.99x FY24E P/Bs

**Key competitive edges remain intact.** In our opinion, CMB's high profitability and robust risk buffers have always been its core factors supporting its higher trading valuation over peers. These competitive edges have remained solid in FY23, with ROAE reported at 16.22% in FY23, while provisioning ratio and provision coverage ratio were at 4.14% and 437.70% as of Dec-FY23. Although earnings growth declined from 23.2% YoY in FY21 to 6.2% YoY in FY23, we expect the slowdown is coming to an end, with earnings growth to bottom at 5.8% in FY24E before rebounding in FY25E. This will be driven by a 3.3% topline CAGR and a -7.9% impairment expenses CARG over FY23-25E. We adjust our FY24E/25E net profit forecasts by -4.10%/-5.09% as the overall operating environment for the bank sector, including interest rate outlook and macro growth, remain challenging. Our base case suggests ROAE to stay above 15.0% in FY24E-25E thanks to its robust risk buffer- we project its provisioning ratio and provision coverage ratio to remain at 3.95% and 424.73% by end-FY25E, with a benign NPL ratio at 0.93%-0.94% in FY24E-25E.

**Less-than-sanguine NIM outlook in FY24E.** More specifically, we project a 1.8% NII CAGR over FY23-25E and net fee growth to return into positive territory in FY25E. Considered loan re-pricing from previous LPR cuts and adjustment in residential mortgage interest rates, we estimate CMB's NIM in FY24E will be under pressure with a 24bps contraction YoY to 1.91%. Nevertheless, assuming 1Y and 5Y LPR will reach 3.25% and 3.70% by end-2024E, we estimate FY25E NIM will only narrow by 13bps YoY to 1.78%, which will still be the highest among peers. On a quarterly basis, we believe NIM pressure to be greatest in 1Q24, after which some gradual release will likely take place.

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#### Results and Valuation

FY ended Dec 31	2021A	2022A	2023A	2024E	2025E
Revenue (RMB mn)	327,377	342,215	336,602	343,255	359,282
Chg (% YoY)	13.9	4.5	(1.6)	2.0	4.7
Net profit* (RMB mn)	119,922	138,012	146,602	155,092	168,037
Chg (% YoY)	23.2	15.1	6.2	5.8	8.3
EPS (RMB)	4.61	5.26	5.63	5.93	6.44
Chg (% YoY)	21.6	14.2	7.0	5.3	8.7
BVPS (RMB)	29.01	32.71	36.71	41.01	45.72
Chg (% YoY)	14.4	12.8	12.2	11.7	11.5
P/E (x) – H-shr	6.22	5.44	5.09	4.83	4.45
P/B (x) – H-shr	0.99	0.88	0.78	0.70	0.63
P/E (x) – A-shr	7.01	6.14	5.73	5.45	5.01
P/B (x) – A-shr	1.11	0.99	0.88	0.79	0.71
ROAA (%)	1.36	1.42	1.39	1.35	1.35
ROAE (%)	16.96	17.06	16.22	15.41	15.02
DPS(RMB)	1.522	1.738	1.972	2.075	2.255
Yield (%) H-shr	5.31	6.06	6.88	7.24	7.87
Yield (%) A-shr	4.71	5.38	6.11	6.42	6.98

Note: HKD/CNY=1.08

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

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

## Company Report

### Mar 28, 2024

Rating (H): BUY

Rating (A): BUY

TP (H): HK\$ 42.21

TP (A): RMB 40.64

Analyst : Johannes Au

Tel: (852) 2147 8802

johannesau@abci.com.hk

Price (H/A shr)	HK\$ 30.95/ RMB 32.30
Est. s price return (H/A shr)	36.38%/25.82%
Est. dividend yield (H/A shr)	7.24%/6.42%
Est. total return (H/A shr)	43.62%/32.24%
Last Rating & TP (H/A shr)	BUY, HK\$49.39/ BUY, RMB45.23
Previous Report Date	Aug 29, 2023

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

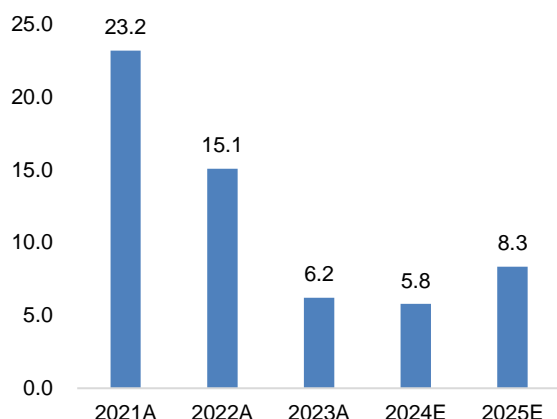
52Wk H/L (HK\$) (H shr)	43.05/24.20
52Wk H/L (RMB) (A shr)	36.35/26.90
Total issued shares (mn)	25,219.8
Issued H shr (mn)	4,590.9
Issued A shr (mn)	20,628.9
Market cap (HK\$ mn)	861,706.9
H-shr market cap (HK\$ mn)	142,088.4
A-shr market cap (HK\$ mn)	719,618.5
3-mth avg daily turnover (HK\$ mn) (H shr)	729.8
3-mth avg daily turnover (RMB mn) (A shr)	2,300.0

#### Major shareholder(s) (%):

China Merchants Group	13.04
China Ocean Shipping	6.24

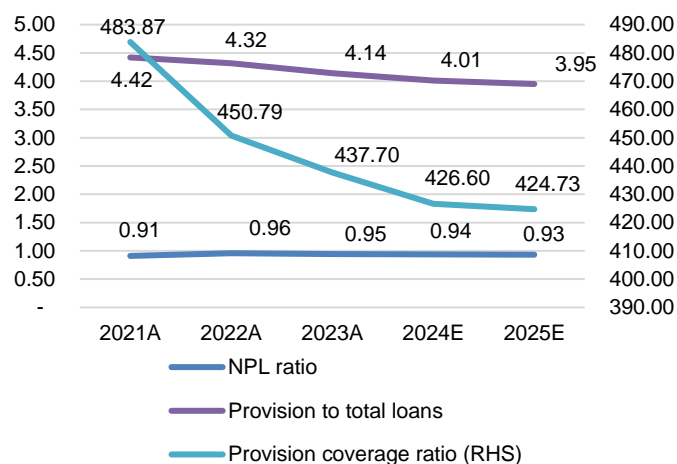
Source(s): Bloomberg, ABCI Securities

**Exhibit 1: CMB's net profits growth trend (%)**



Source(s): Company, ABCI Securities estimates

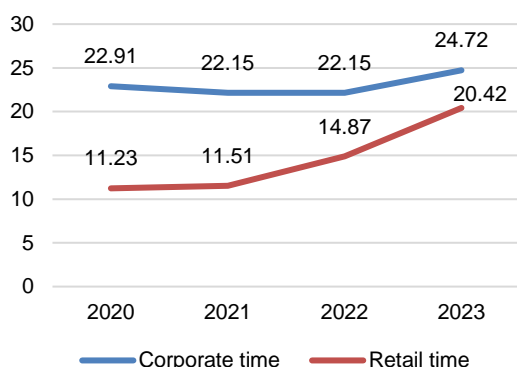
**Exhibit 2: CMB's asset quality indicators (%)**



Source(s): Company, ABCI Securities estimates

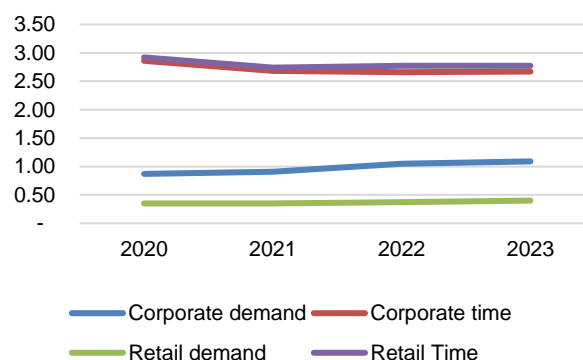
**Retail contribution to increase further.** CMB's dedication in retail business allows it to differentiate from peers in the sector. Contribution from its retail segment continues to increase from 54.0% of topline and 52.4% of profit before tax in FY21 to 57.3% of topline and 56.6% of profit before tax in FY23. High reliance on retail segment could affect performance in different economic cycle. For instance, the faster retail deposit migration to time deposit heightened NIM pressure for the bank in FY23, with its average deposit cost growing by 10bps YoY to 1.62% in the same year. We adjust our net fee income forecasts by -12.53%/-14.23% in FY24E/25E on reduction in fee rates and slower-than-expected revival in retail consumption and retail investment demand. As retail fee income sources play an important role in CMB's net fee income mix, recovery of retail consumption and investment demand will be crucial for a turnaround in its net fee income growth.

**Exhibit 3: CMB's time deposit mix (%)**



Source(s): Company, ABCI Securities

**Exhibit 4: CMB's average deposit costs (%)**



Source(s): Company, ABCI Securities

**Sustainable dividend payout.** Following CMB's move to raise its payout ratio from 33.01% in FY22 to 35.01% in FY23, we raise our dividend payout assumption to 35% for FY24E/25E. We estimate a stable payout ratio for FY24E/25E, but we do not rule out the possibility that the bank may raise the figure further if a balance between operating results and stakeholders' interest can be obtained. We believe CMB aims to become a value bank in the long run and is intending to take up responsibility for its customers, employees, and the society as a whole.

**Maintain BUY on high profitability and risk buffer.** We are of the view that CMB could justify its higher than peers trading valuation through its high profitability and risk buffer. By lowering our sustainable ROE and long-term growth assumptions in our GGM and rolling over to FY24E BVPS, we slash H/A-share TPs by 14.5%/10.1% to HK\$ 42.21/RMB 40.64, which imply 0.95x/0.99x FY24E P/Bs. Reiterate **BUY**.

**Risk Factors:** 1) Persisting NIM pressure and slow recovery in net fee income growth; 2) Deposit migration may continue to raise funding cost; 3) Sharp deterioration in asset quality in specific regions or industry sectors; 4) Declining ROAE in FY24E-25E; 5) EPS dilution by issuing perpetual bonds or other capital raising activities.

**Exhibit 5: Changes in ABCI forecasts**

(RMB mn)	2024E (old)	2024E (new)	change (%)	(RMB mn)	2025E (old)	2025E (new)	change (%)
Net interest income	237,273	214,389	(9.64)	Net interest income	256,399	222,508	(13.22)
Net fee and commission	93,276	81,585	(12.53)	Net fee and commission	96,074	82,401	(14.23)
Operating income	369,831	343,255	(7.19)	Operating income	395,683	359,282	(9.20)
Operating expenses	(138,442)	(122,201)	(11.73)	Operating expenses	(146,748)	(124,645)	(15.06)
Impairment losses	(39,780)	(37,117)	(6.69)	Impairment losses	(39,084)	(35,194)	(9.95)
Profit before tax	194,527	186,439	(4.16)	Profit before tax	213,031	201,994	(5.18)
Income tax expenses	(31,124)	(29,830)	(4.16)	Income tax expenses	(34,085)	(32,319)	(5.18)
Net profit attributable to equity holders	161,722	155,092	(4.10)	Net profit attributable to equity holders	177,047	168,037	(5.09)
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	2.07	1.91	(0.16)	Net interest margin	2.00	1.78	(0.22)
CIR	34.43	32.60	(1.83)	CIR	34.09	31.69	(2.40)
ROAA	1.39	1.35	(0.04)	ROAA	1.39	1.35	(0.04)
ROAE	15.98	15.41	(0.57)	ROAE	15.64	15.02	(0.62)
Dividend payout	33.00	35.00	2.00	Dividend payout	33.00	35.00	2.00
CT1 CAR	13.09	13.98	0.89	CT1 CAR	13.06	14.16	1.10
Total CAR	16.38	17.80	1.42	Total CAR	16.09	17.72	1.63
NPL ratio	0.98	0.94	(0.04)	NPL ratio	0.99	0.93	(0.06)
Provision to total loans	4.20	4.01	(0.19)	Provision to total loans	4.16	3.95	(0.21)
Provision coverage ratio	428.57	426.60	(1.97)	Provision coverage ratio	420.20	424.73	4.53

Source(s): Company, ABCI Securities estimates

**Exhibit 6: Changes in GGM assumptions**

	H-shr		A-shr		Rationale
	Old	new	old	new	
TP (HKD/RMB)	49.39	42.21	45.23	40.64	
Sustainable ROE (%)	15.64	14.98	15.64	14.98	Adjust down on slower recovery in topline growth
COE (%)	14.89	15.33	14.94	15.05	Adjust beta and risk premium with reference to Bloomberg
L-T growth (%)	10.30	8.00	10.30	8.00	Factor in slower balance sheet growth
Target 24E P/B (x)	1.10	0.95	1.09	0.99	

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	203,919	218,235	214,669	214,389	222,508
Non-interest income	123,458	123,980	121,933	128,866	136,774
Of which: Fees and commissions	94,447	94,275	84,108	81,585	82,401
<b>Operating income</b>	<b>327,377</b>	<b>342,215</b>	<b>336,602</b>	<b>343,255</b>	<b>359,282</b>
Operating expenses	(116,879)	(122,061)	(120,991)	(122,201)	(124,645)
<b>Pre-provision operating profit</b>	<b>210,498</b>	<b>220,154</b>	<b>215,611</b>	<b>221,054</b>	<b>234,637</b>
Impairment losses on loans	(66,355)	(57,566)	(41,469)	(37,117)	(35,194)
<b>Operating profit</b>	<b>144,143</b>	<b>162,588</b>	<b>174,142</b>	<b>183,938</b>	<b>199,443</b>
Non-operating income	4,030	2,525	2,476	2,501	2,551
<b>Profit before tax</b>	<b>148,173</b>	<b>165,113</b>	<b>176,618</b>	<b>186,439</b>	<b>201,994</b>
Tax	(27,339)	(25,819)	(28,612)	(29,830)	(32,319)
Minority interests	(912)	(1,282)	(1,404)	(1,516)	(1,638)
<b>Net profit attributable to equity holders</b>	<b>119,922</b>	<b>138,012</b>	<b>146,602</b>	<b>155,092</b>	<b>168,037</b>
Other equity instruments costs	(3,613)	(5,237)	(4,558)	(5,578)	(5,578)
<b>Net profit attributable to ordinary shareholders</b>	<b>116,309</b>	<b>132,775</b>	<b>142,044</b>	<b>149,514</b>	<b>162,459</b>
<b>Growth (%)</b>					
Net interest income	10.2	7.0	(1.6)	(0.1)	3.8
Non-interest income	20.6	0.4	(1.7)	5.7	6.1
Of which: Fees and commissions	18.8	(0.2)	(10.8)	(3.0)	1.0
<b>Operating income</b>	<b>13.9</b>	<b>4.5</b>	<b>(1.6)</b>	<b>2.0</b>	<b>4.7</b>
Operating expenses	13.7	4.4	(0.9)	1.0	2.0
<b>Pre-provision operating profit</b>	<b>14.0</b>	<b>4.6</b>	<b>(2.1)</b>	<b>2.5</b>	<b>6.1</b>
Impairment losses on loans	2.0	(13.2)	(28.0)	(10.5)	(5.2)
<b>Operating profit</b>	<b>20.6</b>	<b>12.8</b>	<b>7.1</b>	<b>5.6</b>	<b>8.4</b>
Non-operating income	39.9	(37.3)	(1.9)	1.0	2.0
<b>Profit before tax</b>	<b>21.0</b>	<b>11.4</b>	<b>7.0</b>	<b>5.6</b>	<b>8.3</b>
Tax	11.7	(5.6)	10.8	4.3	8.3
Minority interests	47.8	40.6	9.5	8.0	8.0
<b>Net profit attributable to equity holders</b>	<b>23.2</b>	<b>15.1</b>	<b>6.2</b>	<b>5.8</b>	<b>8.3</b>
Other equity instruments costs	118.8	44.9	(13.0)	22.4	0.0
<b>Net profit attributable to ordinary shareholders</b>	<b>21.5</b>	<b>14.2</b>	<b>7.0</b>	<b>5.3</b>	<b>8.7</b>
<b>Per share (RMB)</b>					
EPS	4.61	5.26	5.63	5.93	6.44
BVPS	29.01	32.71	36.71	41.01	45.72
DPS	1.522	1.738	1.972	2.075	2.255
<b>Key ratio (%)</b>					
Net interest margin	2.48	2.40	2.15	1.91	1.78
Cost to income ratio	33.11	32.89	32.97	32.60	31.69
Return on average assets	1.36	1.42	1.39	1.35	1.35
Return on average equity	16.96	17.06	16.22	15.41	15.02
Effective tax rate	18.45	15.64	16.20	16.00	16.00
Dividend payout	33.00	33.01	35.01	35.00	35.00

Note1: Individual items may not sum to total due to rounding difference

Note2: 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)	2021A	2022A	2023A	2024E	2025E
Cash & central bank balance	567,208	603,027	682,802	763,096	845,528
Due from FIs	799,372	632,231	560,709	548,725	558,715
Investment securities	2,200,387	2,791,360	3,212,653	3,598,171	3,993,970
Net loans and advances	5,335,391	5,807,154	6,252,755	6,690,253	7,158,282
<b>Total interest earning assets</b>	<b>8,902,358</b>	<b>9,833,772</b>	<b>10,708,919</b>	<b>11,600,245</b>	<b>12,556,495</b>
Property and equipment	81,787	101,187	116,508	132,819	150,086
Other non-interest earning assets	264,876	203,953	203,056	210,712	217,589
<b>Total assets</b>	<b>9,249,021</b>	<b>10,138,912</b>	<b>11,028,483</b>	<b>11,943,776</b>	<b>12,924,170</b>
Customer deposits	6,385,154	7,590,579	8,240,498	8,957,788	9,738,258
Financial liabilities	91,043	67,780	61,401	64,471	67,695
Due to central bank and FIs	1,083,655	1,089,539	1,269,376	1,356,240	1,497,776
Subordinated debt	446,645	223,821	176,578	150,091	127,578
<b>Total interest bearing liabilities</b>	<b>8,006,497</b>	<b>8,971,719</b>	<b>9,747,853</b>	<b>10,528,590</b>	<b>11,431,306</b>
Current taxes	22,491	19,458	13,597	11,557	10,980
Deferred tax liabilities	1,353	1,510	1,607	1,719	1,857
Other liabilities	352,999	191,987	179,697	207,210	166,079
<b>Total liabilities</b>	<b>8,383,340</b>	<b>9,184,674</b>	<b>9,942,754</b>	<b>10,749,078</b>	<b>11,610,222</b>
Share capital	25,220	25,220	25,220	25,220	25,220
Other equity instruments	127,043	120,446	150,446	150,446	150,446
Reserves	706,482	799,837	900,704	1,009,112	1,127,766
Minorities	6,936	8,735	9,359	9,921	10,516
<b>Shareholder's equity</b>	<b>865,681</b>	<b>954,238</b>	<b>1,085,729</b>	<b>1,194,698</b>	<b>1,313,948</b>
<b>Growth (%)</b>					
Cash & central bank balance	5.3	6.3	13.2	11.8	10.8
Due from FIs	29.7	(20.9)	(11.3)	(2.1)	1.8
Investment securities	4.3	26.9	15.1	12.0	11.0
Net loans and advances	11.1	8.8	7.7	7.0	7.0
<b>Total interest earning assets</b>	<b>10.3</b>	<b>10.5</b>	<b>8.9</b>	<b>8.3</b>	<b>8.2</b>
Property and equipment	15.0	23.7	15.1	14.0	13.0
Other non-interest earning assets	19.2	(23.0)	(0.4)	3.8	3.3
<b>Total assets</b>	<b>10.6</b>	<b>9.6</b>	<b>8.8</b>	<b>8.3</b>	<b>8.2</b>
Customer deposits	12.7	18.9	8.6	8.7	8.7
Financial liabilities	(17.5)	(25.6)	(9.4)	5.0	5.0
Due to central bank and FIs	(9.6)	0.5	16.5	6.8	10.4
Subordinated debt	29.0	(49.9)	(21.1)	(15.0)	(15.0)
<b>Total interest bearing liabilities</b>	<b>9.4</b>	<b>12.1</b>	<b>8.7</b>	<b>8.0</b>	<b>8.6</b>
Current taxes	20.6	(13.5)	(30.1)	(15.0)	(5.0)
Deferred tax liabilities	26.1	11.6	6.4	7.0	8.0
Other liabilities	20.8	(45.6)	(6.4)	15.3	(19.9)
<b>Total liabilities</b>	<b>9.9</b>	<b>9.6</b>	<b>8.3</b>	<b>8.1</b>	<b>8.0</b>
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	51.1	(5.2)	24.9	0.0	0.0
Reserves	15.0	13.2	12.6	12.0	11.8
Minorities	5.0	25.9	7.1	6.0	6.0
<b>Shareholder's equity</b>	<b>18.5</b>	<b>10.2</b>	<b>13.8</b>	<b>10.0</b>	<b>10.0</b>
<b>Key ratio (%)</b>					
CT1 CAR	12.66	13.68	13.73	13.99	14.18
Total CAR	17.48	17.77	17.88	17.81	17.73
NPL ratio	0.91	0.96	0.95	0.94	0.93
Provision to total loans	4.42	4.32	4.14	4.01	3.95
Provision coverage ratio	483.87	450.79	437.70	426.60	424.73

Note1: Individual items may not sum to total due to rounding difference

Note2: 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 ( $\sim 7\%$ )
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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**