

China Bohai Bank Co., Ltd. (9668 HK)

Low profitability limits valuation level; downgrade to HOLD

- Revised down our topline and earnings forecasts mainly on weak NIM outlook
- Provision scale becomes key to sustain net profit growth
- Besides the mild increase in NPL ratio, low risk buffers may cause earnings fluctuations
- Low profitability limits valuation level, downgrade to **HOLD** at trough valuation; our GGM-based TP implies 0.2x 22E P/B

Revised earnings forecast on NIM squeeze. We revise down BHB's FY22E/23E NII by 24.2%/30.4% and NP by 21.73/29.34% on disappointing NIM outlook. While we expect a fast balance sheet growth with total assets and total liabilities expanding at 11.9% and 12.3% CAGRs in FY21-24E, NIM would narrow by 15bps-18bps YoY each in FY22E-24E to 1.23% by FY24E. This will translate into a 2% NII CAGR in FY21-24E. We expect NIM pressure will mainly be driven by asymmetric movement between assets yields and funding costs. Particularly, the bank's loan and investment yields dropped 60bps and 64bps YoY in FY21, compared to the 16bps YoY drop in deposit cost.

Reducing provisions to support earnings. With FY22E/23E topline revised down by 19.64%/25.18%, topline CAGR would be 2.4% over FY21-24E. Combined with operating expenses CAGR at 8.8% over the same period, the bank would need to reduce the scale of provision expenses to sustain earnings growth. Our base case assumes a provision expenses CAGR of -5.5%; as such, net profit CAGR would stay low at 2% in FY21-24E.

Risk buffers to firm up gradually. We estimate BHB's NPL to trend up by 3bps-5bps YoY each in 2022E-24E to reach 1.89% by FY24E, given that NPL ratio from real estate, wholesale & retail and construction sectors went up to 3.71%, 4.93%, and 3.73% by Dec-21. NPL ratio was 1.76% in Dec 2021, slightly higher than system average of 1.73%. Meanwhile, BHB will need to strengthen its risk buffer, hence we expect provisioning ratio and provision coverage ratio to increase from 2.39% and 135.63% in 2021 to 2.65% and 140.21% in 2024E. Still, its relatively low provision coverage ratio may imply possible fluctuations in earnings.

Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	32,492	29,194	30,416	30,982	31,385
Chg (% YoY)	14.5	(10.1)	4.2	1.9	1.3
Net profit* (RMB mn)	8,445	8,630	8,729	8,931	9,148
Chg (% YoY)	3.1	2.2	1.2	2.3	2.4
EPS (RMB)	0.47	0.43	0.44	0.45	0.46
Chg (% YoY)	(17.5)	(8.5)	1.9	2.6	2.7
BVPS (RMB)	4.69	4.88	5.32	5.78	6.15
Chg (% YoY)	0.085	0.087	0.088	0.101	0.103
P/E (x)	2.57	2.81	2.76	2.69	2.61
P/B (x)	0.26	0.25	0.23	0.21	0.20
ROAA (%)	0.67	0.58	0.52	0.47	0.43
ROAE (%)	10.68	8.88	7.90	7.53	7.26
DPS(RMB)	0.085	0.087	0.088	0.101	0.103
Yield (%)	7.04	7.21	7.26	8.33	8.53

Note: Company; HKD/CNY=1.16

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

Source(s): Bloomberg, ABCI Securities estimates

Company Report

May 12, 2022

Rating: HOLD

TP:HK\$ 1.22

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Price	HK\$ 1.40
Est. shr price return	-12.86%
Est. dividend yield	7.26%
Est. total return	-5.60%
Last Rating & TP	BUY, HK\$3.74
Previous Report Date	2 Dec, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$)	3.74/0.93
Total issued shares (mn)	17,762.0
H shr (mn)	6,200.6
Domestic shr (mn)	11,561.4
Market cap (HK\$ mn)	24,866.8
H shr (mn)	8,680.8
Domestic shr (mn)	16,186.0
3-mths avg daily turnover (HK\$ mn)	24.59
Major shareholder(s) (%):	
TEDA Investment	20.34
Standard Chartered Bank	16.26

Source(s): Company, Bloomberg, ABCI Securities

Low profitability limits valuation level. We do not see any near-term fundamental catalysts for the counter. To rebuild investor confidence, BHB would need to show consistent fundamental improvement. We revise down our sustainable ROAE and long-term growth assumptions and raise the equity risk premium applied for the valuation. We slash our TP by 66.3% to HK\$ 1.22, which implies 0.2x 22E P/B. Downgrade BHB from BUY to **HOLD**.

Risk Factors: 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Sharp deterioration in asset quality in specific regions; 3) Weak NIM outlook affects topline growth; 4) Relatively low risk buffers and high NPL ratio implies higher asset quality risk; 5) Prolonged COVID-19 pandemic.

Exhibit 1: Major changes in 2022E and 2023E forecasts

(RMB mn)	2022E (old)	2022E (new)	change (%)	(RMB mn)	2023E (old)	2023E (new)	change (%)
Net interest income	34,697	26,299	(24.20)	Net interest income	38,280	26,641	(30.40)
Net fee and commission	2,270	2,305	1.54	Net fee and commission	2,315	2,420	4.54
Operating income	37,848	30,416	(19.64)	Operating income	41,406	30,982	(25.18)
Operating expenses	(10,494)	(11,183)	6.57	Operating expenses	(11,176)	(12,189)	9.06
Impairment losses	(13,998)	(8,841)	(36.84)	Impairment losses	(15,093)	(8,161)	(45.93)
Profit before tax	13,356	10,392	(22.19)	Profit before tax	15,137	10,632	(29.76)
Income tax expenses	(2,204)	(1,663)	(24.55)	Income tax expenses	(2,498)	(1,701)	(31.91)
Net profit attributable to equity holders	11,152	8,729	(21.73)	Net profit attributable to equity holders	12,639	8,931	(29.34)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.81	1.53	(0.28)	Net interest margin	1.71	1.38	(0.33)
Net interest spread	1.45	1.23	(0.22)	Net interest spread	1.35	1.04	(0.31)
CIR	27.73	36.77	9.04	CIR	26.99	39.34	12.35
ROAA	0.60	0.52	(0.08)	ROAA	0.58	0.47	(0.11)
ROAE	10.19	7.90	(2.29)	ROAE	10.03	7.53	(2.50)
Dividend payout	18.00	20.00	2.00	Dividend payout	18.00	20.00	2.00
CT1 CAR	8.15	8.74	0.59	CT1 CAR	8.09	8.67	0.58
Total CAR	10.61	12.19	1.58	Total CAR	10.31	11.92	1.61
NPL ratio	1.78	1.81	0.03	NPL ratio	1.81	1.86	0.05
Provision to total loans	2.87	2.48	(0.39)	Provision to total loans	2.90	2.57	(0.33)
Provision coverage ratio	161.24	137.02	(24.22)	Provision coverage ratio	160.22	138.17	(22.05)

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in GGM assumptions

	H-shr		Reason
	old	new	
TP (HKD)	3.74	1.22	
Sustainable ROE (%)	9.19	7.08	Expect slow fundamental recovery
COE (%)	12.25	14.31	
Target 22E P/B (x)	0.47	0.20	
Rfr (%)	2.88	2.81	With reference to China 10Y government bond
Beta*	0.86	0.92	Fine-tuned slightly higher than Bloomberg all-time beta for short listing history
ERP (%)	10.90	12.50	Adjusted higher than Bloomberg China country risk on low risk buffers and relatively small operation size among joint stock banks
LT gr (%)	7.00	5.30	Lower earnings growth forecast

* Adjusted figure from all-time beta against HSI for H-share
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	28,477	25,179	26,299	26,641	26,739
Net fee and commission	2,902	2,238	2,305	2,420	2,590
Other operating income	1,113	1,777	1,813	1,922	2,056
Operating income	32,492	29,194	30,416	30,982	31,385
Operating expenses	(9,183)	(10,213)	(11,183)	(12,189)	(13,164)
Impairment losses	(13,224)	(8,678)	(8,841)	(8,161)	(7,330)
Profit before tax	10,085	10,304	10,392	10,632	10,890
Income tax expenses	(1,641)	(1,674)	(1,663)	(1,701)	(1,742)
Net profit attributable to equity holders	8,445	8,630	8,729	8,931	9,148
Capital bond interest	(950)	(950)	(950)	(950)	(950)
Net profit attributable to ordinary shareholders	7,495	7,680	7,779	7,981	8,198
Growth (%)					
Net interest income	23.7	(11.6)	4.4	1.3	0.4
Net fee and commission	(29.5)	(22.9)	3.0	5.0	7.0
Other operating income	(15.0)	(15.0)	2.0	6.0	7.0
Operating income	14.5	(10.1)	4.2	1.9	1.3
Operating expenses	3.7	11.2	9.5	9.0	8.0
Impairment losses	38.2	(34.4)	1.9	(7.7)	(10.2)
Profit before tax	1.9	2.2	0.9	2.3	2.4
Income tax expenses	(4.0)	2.0	(0.7)	2.3	2.4
Net profit attributable to equity holders	3.1	2.2	1.2	2.3	2.4
Capital bond interest	2,059.1	0.0	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	(8.0)	2.5	1.3	2.6	2.7
Per share (RMB)					
EPS	0.47	0.43	0.44	0.45	0.46
BVPS	4.69	4.88	5.32	5.78	6.15
DPS	0.085	0.087	0.088	0.101	0.103
Key ratio (%)					
Net interest margin	2.35	1.72	1.53	1.38	1.23
Net interest spread	2.18	1.61	1.23	1.04	0.88
Cost to income ratio	26.52	32.88	36.77	39.34	41.95
ROAA	0.67	0.58	0.52	0.47	0.43
ROAE	10.68	8.88	7.90	7.53	7.26
Effective tax rate	16.3	16.2	16.0	16.0	16.0
Dividend payout	20.14	20.12	20.00	20.00	20.00

Notes: Individual items may not sum to total due to rounding difference and may not equal to financial statements due to reclassification

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 banks	96,548	115,143	135,869	158,967	184,402
Deposit with FIs	27,805	27,731	29,117	30,573	32,102
Placement with FIs	6,064	9,262	12,041	15,051	18,061
Net loans	867,120	937,907	1,000,728	1,065,564	1,130,936
Investment securities	375,927	467,631	570,510	684,612	807,842
Total IEA	1,373,464	1,557,674	1,748,265	1,954,767	2,173,342
Other assets	20,059	25,034	31,292	38,176	45,812
Total assets	1,393,523	1,582,708	1,779,558	1,992,943	2,219,154
Customer deposits	758,236	835,921	919,513	1,006,866	1,097,484
Deposit with FIs	130,273	171,542	214,428	261,602	313,922
Debt issued	225,154	242,598	262,006	282,966	305,604
Repos	52,406	68,199	85,249	104,004	124,804
Borrowing from central bank	71,592	78,847	86,732	94,537	102,100
Placement from FIs	31,921	60,199	77,054	97,089	120,390
Total IBL	1,269,582	1,457,306	1,644,981	1,847,064	2,064,305
Other liabilities	20,695	18,838	20,082	23,207	25,619
Total liabilities	1,290,277	1,476,144	1,665,063	1,870,271	2,089,924
Share capital	17,762	17,762	17,762	17,762	17,762
Other capital instruments	19,962	19,962	19,962	19,962	19,962
Retained earnings	31,219	34,694	40,917	47,302	53,860
Reserves	34,304	34,147	35,854	37,647	37,647
Total equity	103,246	106,564	114,495	122,672	129,230
Growth (%)					
Cash and balance with central banks	3.8	19.3	18.0	17.0	16.0
Deposit with FIs	97.9	(0.3)	5.0	5.0	5.0
Placement with FIs	37.5	52.8	30.0	25.0	20.0
Net loans	26.2	8.2	6.7	6.5	6.1
Investment securities	25.2	24.4	22.0	20.0	18.0
Total IEA	24.8	13.4	12.2	11.8	11.2
Other assets	25.2	24.8	25.0	22.0	20.0
Total assets	24.8	13.6	12.4	12.0	11.4
Customer deposits	17.1	10.2	10.0	9.5	9.0
Deposit with FIs	65.9	31.7	25.0	22.0	20.0
Debt issued	14.5	7.7	8.0	8.0	8.0
Repos	127.2	30.1	25.0	22.0	20.0
Borrowing from central bank	52.6	10.1	10.0	9.0	8.0
Placement from FIs	48.5	88.6	28.0	26.0	24.0
Total IBL	25.2	14.8	12.9	12.3	11.8
Other liabilities	4.0	(9.0)	6.6	15.6	10.4
Total liabilities	24.7	14.4	12.8	12.3	11.7
Share capital	22.9	0.0	0.0	0.0	0.0
Other capital instruments	na	0.0	0.0	0.0	0.0
Retained earnings	10.8	11.1	17.9	15.6	13.9
Reserves	(14.3)	(0.5)	5.0	5.0	5.0
Total equity	24.9	3.2	7.4	7.1	5.3
Key ratio (%)					
CT1 CAR	8.88	8.69	8.74	8.67	8.61
Total CAR	12.08	12.35	12.19	11.92	11.70
NPL ratio	1.77	1.76	1.81	1.86	1.89
Provision to total loans	2.81	2.39	2.48	2.57	2.65
Provision coverage	158.80	135.63	137.02	138.17	140.21

Notes: Individual items may not sum to total due to rounding difference and may not equal to financial statements due to reclassification

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 ($\sim -10\%$)

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 (HSI total return index 2009-21 averaged 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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