

## BoCom (3328 HK / 601328 CH)

### Low risk buffers increase earnings volatility

- BoCom's business focus in Yangtze River Delta (YRD) and Bohai Rim (BHR) may lead to higher asset quality pressure later on due to the recent geographical pandemic outbreaks
- Expect NPL ratio to be manageable with mild increase in coming quarters
- Low risk buffers may increase BoCom's earnings volatility
- Maintain **BUY** on low valuation. Our GGM-based H/A-shr TPs imply target 22E P/B of 0.52x/0.60x

**Manageable asset quality risk.** BoCom's NPL ratio was down 1bps QoQ in 1Q22 to 1.47%, but recent geographical outbreaks of pandemic may add to asset quality pressure later in 2Q-3Q22. The bank may face higher asset quality risk given its core business focus in YRD and BHR, which jointly accounted for 62.89% of profit before tax and 41.86% of total loans in FY21. Nevertheless, we believe the bank can manage its NPL ratio level through handling efforts. We project its NPL ratio to inch up by 3bps-4bps YoY each in FY22E-24E to arrive at 1.59% by end-FY24E.

**Earnings volatile on low risk buffers.** BoCom's relatively low risk buffer would raise its earnings volatility. Among the big six banks, BoCom had the lowest provisioning ratio and provision coverage ratio at 2.45% and 166.66% as of Mar 2022. Assuming a provision expenses CAGR of -2.2% for FY21-24E, we estimate the bank's provisioning ratio would increase by 3bps-4bps YoY each in FY22E-24E to 2.57% by end-FY24E. Provision coverage ratio would gradually fall to 161.64% by end-FY24E.

**Maintain BUY on low valuation.** We raise FY22E/23E net profit forecasts by 9.02% and 8.16% mainly on lower provisions. Based on our base case forecasts, net profit would expand at 6.9% CAGR in FY21-24E and NIM would narrow by 4bps-6bps YoY each in FY22E-24E to 1.42% by FY24E, which expect to be the lowest among the big six banks. Factoring in the higher sustainable ROAE, EPR, and long-term growth, we raise our GGM-based H/A TPs by 1.1%/7.9% to HK\$ 6.69/ RMB 6.66, implying 0.52x/0.60x FY22E target P/B. Despite BoCom's unexciting fundamentals, maintain BUY on low valuation.

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#### Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	246,724	269,748	279,818	295,178	313,310
Chg (% YoY)	6.0	9.3	3.7	5.5	6.1
Net profit* (RMB mn)	78,274	87,581	90,627	97,660	106,859
Chg (% YoY)	1.3	11.9	3.5	7.8	9.4
EPS (RMB)	0.99	1.10	1.11	1.20	1.32
Chg (% YoY)	(1.0)	10.9	0.1	8.6	10.3
BVPS (RMB)	9.87	10.64	11.19	11.79	12.43
Chg (% YoY)	5.8	7.7	5.2	5.3	5.5
P/E (x) – H-shr	4.49	4.05	4.04	3.72	3.37
P/B (x) – H-shr	0.45	0.42	0.40	0.38	0.36
P/E (x) – A-shr	4.94	4.45	4.44	4.09	3.71
P/B (x) – A-shr	0.50	0.46	0.44	0.42	0.39
ROAA (%)	0.77	0.80	0.82	0.82	0.83
ROAE (%)	10.35	10.76	10.56	10.73	11.18
DPS(RMB)	0.317	0.354	0.354	0.384	0.424
Yield (%) H-shr	7.10	7.93	7.92	8.60	9.49
Yield (%) A-shr	6.46	7.21	7.20	7.82	8.63

Note: Company; HKD/CNY=1.16

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

Source(s): Bloomberg, ABCI Securities estimates

## Company Report May 11, 2022

Rating (H): BUY  
 Rating (A): BUY  
 TP (H): HK\$ 6.69  
 TP (A): RMB 6.66

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Price (H/A shr)	HK\$ 5.18/ RMB 4.91
Est. s price return (H/A shr)	29.15%/ 35.64%
Est. dividend yield (H/A shr)	7.92%/7.20%
Est. total return (H/A shr)	37.07%/ 42.84%
Last Rating & TP (H/A shr)	BUY, HK\$6.62/ BUY, RMB6.17
Previous Report Date	2 Dec, 2021

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	5.74/4.35
52Wk H/L (RMB) (A shr)	5.22/4.25
Total issued shares (mn)	74,262.8
Issued H shr (mn)	35,011.9
Issued A shr (mn)	39,250.9
Market cap (HK\$ mn)	404,919.1
H-shr market cap (HK\$ mn)	181,361.6
A-shr market cap (HK\$ mn)	223,557.4
3-mth avg daily turnover (HK\$ mn) (H shr)	122.17
3-mth avg daily turnover (RMB mn) (A shr)	631.25
<b>Major shareholder(s) (%):</b>	
HSBC	18.70
MoF	23.88

Source(s): Bloomberg, ABCI Securities

**Risk Factors:** 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Possible delay asset quality risk from YRD and BHR; 3) Resurgence or prolonged COVID-19 pandemic. 4) Earnings growth limited by large provisions.

**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	179,442	163,972	(8.62)	Net interest income	194,851	170,674	(12.41)
Net fee and commission	46,907	49,952	6.49	Net fee and commission	48,315	52,949	9.59
Operating income	280,898	279,818	(0.38)	Operating income	301,778	295,178	(2.19)
Operating expenses	(108,399)	(116,600)	7.57	Operating expenses	(116,392)	(125,806)	8.09
Impairment losses	(75,730)	(65,807)	(13.10)	Impairment losses	(80,479)	(64,519)	(19.83)
Profit before tax	96,769	97,410	0.66	Profit before tax	104,908	104,853	(0.05)
Net profit attributable to equity holders	83,132	90,627	9.02	Net profit attributable to equity holders	90,294	97,660	8.16
<b>Key indicators (%)</b>			change (ppt)	<b>Key indicators (%)</b>			change (ppt)
Net interest margin	1.54	1.52	(0.02)	Net interest margin	1.52	1.46	(0.06)
Net interest spread	1.34	1.40	0.06	Net interest spread	1.27	1.30	0.03
CIR	26.59	29.67	3.08	Cost to income ratio	26.57	30.62	4.05
ROAA	0.75	0.82	0.07	Return on average assets	0.75	0.82	0.07
ROAE	10.36	10.56	0.20	Return on average equity	10.76	10.73	(0.03)
Dividend payout	32.00	32.00	-	Dividend payout	32.00	32.00	-
CT1 CAR	10.21	11.21	1.00	CT1 CAR	9.80	11.06	1.26
Total CAR	14.03	16.08	2.05	Total CAR	13.52	16.00	2.48
NPL ratio	1.60	1.51	(0.09)	NPL ratio	1.63	1.55	(0.08)
Provision to total loans	2.45	2.50	0.05	Provision to total loans	2.49	2.53	0.04
Provision coverage ratio	153.13	165.56	12.43	Provision coverage	152.76	163.23	10.47

Source(s): Company, ABCI Securities estimates

**Exhibit 2: Changes in GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	6.62	6.69	6.17	6.66	
Sustainable ROE (%)	9.21	10.01	9.21	10.01	Factor in better earnings outlook
COE (%)	13.52	13.59	12.56	12.60	
Target 22E P/B (x)	0.49	0.52	0.56	0.60	
Rfr (%)	2.88	2.81	2.88	2.81	With reference to China 10Y government bond
Beta*	0.98	0.98	0.90	0.89	Fine-tuned lower from Bloomberg all-time adjusted beta with reference to short-term beta
ERP (%)	9.50	11.00	10.75	11.00	Adjusted higher than Bloomberg China country risk on geographical business mix
LT gr (%)	5.00	6.20	5.00	6.20	Raised on steady macro improvement

\* Adjusted figure from all-time beta against HSI for H-share and against Shanghai A share index for A-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	153,336	161,693	163,972	170,674	179,422
Non-interest income	93,388	108,055	115,846	124,504	133,889
Of which: Fees and commissions	45,086	47,573	49,952	52,949	56,655
<b>Operating income</b>	<b>246,724</b>	<b>269,748</b>	<b>279,818</b>	<b>295,178</b>	<b>313,310</b>
Operating expenses	(97,756)	(107,098)	(116,600)	(125,806)	(134,510)
<b>Pre-provision operating profit</b>	<b>148,968</b>	<b>162,650</b>	<b>163,218</b>	<b>169,373</b>	<b>178,801</b>
Impairment losses on loans	(62,543)	(68,691)	(65,807)	(64,519)	(64,214)
<b>Profit before tax</b>	<b>86,425</b>	<b>93,959</b>	<b>97,410</b>	<b>104,853</b>	<b>114,587</b>
Tax	(6,855)	(5,020)	(5,358)	(5,767)	(6,302)
Minorities interests	1,296	1,358	1,426	1,426	1,426
<b>Net profit attributable to equity holders</b>	<b>78,274</b>	<b>87,581</b>	<b>90,627</b>	<b>97,660</b>	<b>106,859</b>
Dividend to other capital instrument holders	(4,394)	(5,613)	(8,557)	(8,557)	(8,557)
<b>Net profit attributable to ordinary shareholders</b>	<b>73,880</b>	<b>81,968</b>	<b>82,070</b>	<b>89,103</b>	<b>98,302</b>
<b>Growth (%)</b>					
Net interest income	6.4	5.5	1.4	4.1	5.1
Non-interest income	5.2	15.7	7.2	7.5	7.5
Of which: Fees and commissions	3.3	5.5	5.0	6.0	7.0
<b>Operating income</b>	<b>6.0</b>	<b>9.3</b>	<b>3.7</b>	<b>5.5</b>	<b>6.1</b>
Operating expenses	5.8	9.6	8.9	7.9	6.9
<b>Pre-provision operating profit</b>	<b>6.1</b>	<b>9.2</b>	<b>0.3</b>	<b>3.8</b>	<b>5.6</b>
Impairment losses on loans	19.8	9.8	(4.2)	(2.0)	(0.5)
<b>Profit before tax</b>	<b>(2.0)</b>	<b>8.7</b>	<b>3.7</b>	<b>7.6</b>	<b>9.3</b>
Tax	(32.4)	(26.8)	6.7	7.6	9.3
Minorities & other dilutions	65.9	4.8	5.0	0.0	0.0
<b>Net profit attributable to equity holders</b>	<b>1.3</b>	<b>11.9</b>	<b>3.5</b>	<b>7.8</b>	<b>9.4</b>
Dividend to other capital instrument holders	64.5	27.7	52.4	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	<b>(1.0)</b>	<b>10.9</b>	<b>0.1</b>	<b>8.6</b>	<b>10.3</b>
<b>Per share (RMB)</b>					
EPS	0.99	1.10	1.11	1.20	1.32
BVPS	9.87	10.64	11.19	11.79	12.43
DPS	0.317	0.354	0.354	0.384	0.424
<b>Key ratio (%)</b>					
Net interest margin	1.57	1.56	1.52	1.46	1.42
Net interest spread	1.48	1.47	1.40	1.30	1.21
Cost to income ratio	28.29	29.00	29.67	30.62	30.93
Return on average assets	0.77	0.80	0.82	0.82	0.83
Return on average equity	10.35	10.76	10.56	10.73	11.18
Effective tax rate	7.93	5.34	5.50	5.50	5.50
Dividend payout	31.86	32.07	32.00	32.00	32.00

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

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	817,561	734,728	661,255	595,130	535,617
Due from FIs	571,130	632,708	702,306	772,536	842,065
Investment securities	3,237,337	3,523,249	3,805,109	4,071,467	4,356,469
Net loans and advances	5,720,568	6,412,201	7,020,242	7,659,891	8,322,855
<b>Total interest earning assets</b>	<b>10,346,596</b>	<b>11,302,886</b>	<b>12,188,912</b>	<b>13,099,024</b>	<b>14,057,005</b>
Property and equipment	169,471	171,194	172,906	174,635	176,381
Other non-interest earning assets	181,549	191,677	204,146	217,278	231,446
<b>Total assets</b>	<b>10,697,616</b>	<b>11,665,757</b>	<b>12,565,964</b>	<b>13,490,937</b>	<b>14,464,832</b>
Customer deposits	6,607,330	7,039,777	7,540,858	8,061,935	8,590,234
Due to FIs	1,787,491	1,947,768	2,142,545	2,378,225	2,663,612
Subordinated debt and others	1,217,273	1,481,667	1,584,818	1,719,874	1,840,982
<b>Total interest bearing liabilities</b>	<b>9,612,094</b>	<b>10,469,212</b>	<b>11,268,220</b>	<b>12,160,034</b>	<b>13,094,828</b>
Current taxes	3,786	4,725	5,765	6,917	8,163
Deferred tax liabilities	1,286	1,889	2,418	3,022	3,687
Other liabilities	201,822	212,695	240,444	226,974	215,383
<b>Total liabilities</b>	<b>9,818,988</b>	<b>10,688,521</b>	<b>11,516,847</b>	<b>12,396,948</b>	<b>13,322,061</b>
Share capital	74,263	74,263	74,263	74,263	74,263
Other capital instruments	133,292	174,790	204,790	204,790	204,790
Reserves	659,052	715,594	756,846	801,057	849,145
Minorities	12,021	12,589	13,218	13,879	14,573
<b>Shareholder's equity</b>	<b>878,628</b>	<b>977,236</b>	<b>1,049,117</b>	<b>1,093,989</b>	<b>1,142,772</b>
<b>Growth (%)</b>					
Cash & balance with central banks	7.5	(10.1)	(10.0)	(10.0)	(10.0)
Due from FIs	(11.9)	10.8	11.0	10.0	9.0
Investment securities	7.7	8.8	8.0	7.0	7.0
Net loans and advances	10.4	12.1	9.5	9.1	8.7
<b>Total interest earning assets</b>	<b>7.8</b>	<b>9.2</b>	<b>7.8</b>	<b>7.5</b>	<b>7.3</b>
Property and equipment	(1.0)	1.0	1.0	1.0	1.0
Other non-interest earning assets	33.2	5.6	6.5	6.4	6.5
<b>Total assets</b>	<b>8.0</b>	<b>9.1</b>	<b>7.7</b>	<b>7.4</b>	<b>7.2</b>
Customer deposits	8.8	6.5	7.1	6.9	6.6
Due to FIs	(6.1)	9.0	10.0	11.0	12.0
Subordinated debt and others	27.3	21.7	7.0	8.5	7.0
<b>Total interest bearing liabilities</b>	<b>7.6</b>	<b>8.9</b>	<b>7.6</b>	<b>7.9</b>	<b>7.7</b>
Current taxes	(46.6)	24.8	22.0	20.0	18.0
Deferred tax liabilities	40.1	46.9	28.0	25.0	22.0
Other liabilities	23.5	5.4	13.0	(5.6)	(5.1)
<b>Total liabilities</b>	<b>7.8</b>	<b>8.9</b>	<b>7.7</b>	<b>7.6</b>	<b>7.5</b>
Share capital	0.0	0.0	0.0	0.0	0.0
Other capital instruments	33.5	31.1	17.2	0.0	0.0
Reserves	6.5	8.6	5.8	5.8	6.0
Minorities	56.8	4.7	5.0	5.0	5.0
<b>Shareholder's equity</b>	<b>9.7</b>	<b>11.2</b>	<b>7.4</b>	<b>4.3</b>	<b>4.5</b>
<b>Key ratio (%)</b>					
CT1 CAR	10.87	10.62	11.21	11.06	10.94
Total CAR	15.25	15.45	16.08	16.00	15.96
NPL ratio	1.67	1.48	1.51	1.55	1.59
Provision to total loans	2.40	2.46	2.50	2.53	2.57
Provision coverage ratio	143.87	166.50	165.56	163.23	161.64

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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### Definition of equity rating

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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