

## CEB (6818 HK / 601818 CH)

### Limited downside at trough valuation

- Raise our earnings forecasts, but expect quarterly volatility in fundamentals
- Low provisioning ratio limits earnings growth outlook
- Sufficient provision coverage ratio at low NPL ratio
- Limited downside at current valuation, maintain **BUY** on CEB-H and upgrade CEB-A from **HOLD** to **BUY**. Our GGM-based H/A shr TPs imply target 22E P/B of 0.45x/0.54x

**High fundamental volatility.** We raise CEB's 22E/23E earnings forecasts by 8.40%/7.01% and project an earnings CAGR at 6.5% over FY21-24E. In view of the bank's high fundamental volatility, we raise 22E/23E topline forecasts only by 2.33%/3.49%, resulting in a 7.1% CAGR over FY21-24E. Taken into account, CEB's NII only increased by 0.13% YoY, while net fee income dropped YoY by 2.04% in 1Q22. Assume NIM to narrow by 9bps-13bps YoY each in FY22E-24E, the figure would be 1.84% by 2024E. Our base case forecasts NII and net fee income to show more quarterly fluctuations than peers and grow at 5.2% and 11% CAGRs over FY21-24E.

**Earnings growth limited by low provisions.** Lower provision expenses assumed in our model results in higher FY22E/23E net profits, but we believe a low provisioning ratio will continue to contribute to higher earnings volatility. As of Mar 2022, CEB's provisioning ratio was only 2.33%, down 1bps QoQ, hinting at the possible need of material rise in provisions if asset quality risk escalates. In our base case, we project provision expenses to expand at 3.4% CAGR over FY21-24E. On the brighter side, NPL ratio was low at 1.24%, down 1 bps QoQ as of Mar 2022, keeping a sufficient provision coverage ratio for the bank at 187.52%. We project NPL ratio to increase by 2bps-4bps YoY each in 2022E-24E to 1.34% and provisioning ratio would rise to 2.5% by end-24E; provision coverage ratio would stay above 180% over 2022E-24E.

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#### Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	142,798	153,366	164,398	177,231	188,374
Chg (% YoY)	7.4	7.4	7.2	7.8	6.3
Net profit* (RMB mn)	37,835	43,407	45,829	49,023	52,484
Chg (% YoY)	1.3	14.7	5.6	7.0	7.1
Basic EPS (RMB)	0.68	0.71	0.76	0.82	0.88
Chg (% YoY)	(1.3)	5.8	6.3	7.8	7.8
BVPS (RMB)	6.45	6.99	7.49	8.12	8.33
Chg (% YoY)	5.7	8.4	7.2	8.3	2.7
Basic P/E (x) – H-shr	3.47	3.28	3.09	2.86	2.66
P/B (x) – H-shr	0.36	0.34	0.31	0.29	0.28
Basic P/E (x) – A-shr	4.56	4.62	4.37	4.11	3.81
P/B (x) – A-shr	0.51	0.48	0.45	0.42	0.38
ROAA (%)	0.75	0.77	0.74	0.73	0.72
ROAE (%)	10.71	10.64	10.70	10.74	10.98
DPS(RMB)	0.210	0.201	0.213	0.229	0.247
Yield (%) H-shr	8.96	8.57	9.07	9.77	10.54
Yield (%) A-shr	6.86	6.73	6.44	6.81	7.35

Note: Company; HKD/CNY=1.16

Restated 2019 and 2020 financial data were used

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

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

### May 12, 2022

Rating (H): BUY  
Rating (A): BUY  
TP (H): HK\$ 3.90  
TP (A): RMB 4.03

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Price (H/A shr)	HK\$ 2.72/ RMB 3.12
Est. s price return (H/A shr)	43.38%/ 29.17%
Est. dividend yield (H/A shr)	9.07%/6.44%
Est. total return (H/A shr)	52.45%/ 35.61%
Last Rating & TP (H/A shr)	BUY, HK\$4.02/ HOLD, RMB4.09
Previous Report Date	30 Apr, 2021

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	3.36/2.63
52Wk H/L (RMB) (A shr)	3.90/3.05
Total issued shares (mn)	54,031.9
Issued H shr (mn)	12,678.7
Issued A shr (mn)	41,353.2
Market cap (HK\$ mn)	184,151.6
H-shr market cap (HK\$ mn)	34,486.1
A-shr market cap (HK\$ mn)	149,665.5
3-mth avg daily turnover (HK\$ mn) (H shr)	40.89
3-mth avg daily turnover (RMB mn) (A shr)	404.23
Major shareholder(s) (%):	
China Everbright Group	46.53

Source(s): Bloomberg, ABCI Securities

**BUY on trough valuation.** In our opinion, investors of the Chinese bank sector prefer counters with a stable fundamental outlook, which is not CEB's strongest suit as implied by its relatively low valuation. A steady QoQ improvement in fundamentals would help boost investor confidence. We raise our sustainable ROAE, equity risk premium (ERP), and long-term growth assumptions and lower CEB H/A-shr TPs by 3.0% and 1.5% to HK\$ 3.90 and RMB 4.03, implying 0.45x and 0.54x target 2022E P/B. We see limited share price downside at current trough valuation. Maintain **BUY** for **CEB-H**, and upgrade **CEB-A** from **HOLD** to **BUY** for **CEB-A**.

**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) Expect higher earnings volatility than peers; 4) Rising CIR on FinTech investments; 5) Prolonged or resurgence of 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	123,355	117,875	(4.44)	Net interest income	131,135	125,116	(4.59)
Net fee and commission	27,071	30,592	13.01	Net fee and commission	28,425	33,957	19.46
Operating income	160,647	164,398	2.33	Operating income	171,247	177,231	3.49
Operating expenses	(44,536)	(51,178)	14.91	Operating expenses	(47,192)	(57,206)	21.22
Impairment losses	(63,174)	(56,917)	(9.90)	Impairment losses	(66,706)	(59,826)	(10.31)
Profit before tax	52,936	56,200	6.17	Profit before tax	57,350	60,080	4.76
Income tax expenses	(10,587)	(10,116)	(4.45)	Income tax expenses	(11,470)	(10,814)	(5.72)
Net profit attributable to equity holders	42,276	45,829	8.40	Net profit attributable to equity holders	45,810	49,023	7.01
<b>Key indicators (%)</b>			change (ppt)	<b>Key indicators (%)</b>			change (ppt)
Net interest margin	2.08	2.03	(0.05)	Net interest margin	1.99	1.94	(0.05)
Net interest spread	1.89	1.87	(0.02)	Net interest spread	1.82	1.72	(0.10)
CIR	27.72	31.13	3.41	CIR	27.56	32.28	4.72
ROAA	0.66	0.74	0.08	ROAA	0.64	0.73	0.09
ROAE	10.00	10.70	0.70	ROAE	10.16	10.74	0.58
Dividend payout	30.00	28.00	(2.00)	Dividend payout	30.00	28.00	(2.00)
CT1 CAR	8.81	8.67	(0.14)	CT1 CAR	8.82	8.51	(0.31)
Total CAR	13.90	13.30	(0.60)	Total CAR	13.92	13.07	(0.85)
NPL ratio	1.48	1.27	(0.21)	NPL ratio	1.53	1.30	(0.23)
Provision to total loans	2.67	2.40	(0.27)	Provision to total loans	2.72	2.46	(0.26)
Provision coverage ratio	180.41	188.98	8.57	Provision coverage	177.78	189.23	11.45

Source(s): Company, ABCI Securities estimates

**Exhibit 2: Changes in GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	4.02	3.90	4.09	4.03	
Sustainable ROE (%)	9.39	10.04	9.39	10.04	Adjust on revised earnings forecasts
COE (%)	13.23	14.13	11.95	12.91	
Target 22E P/B (x)	0.49	0.45	0.59	0.54	
Rfr (%)	3.23	2.81	3.23	2.81	With reference to China 10Y government bond
Beta*	1.02	1.02	0.89	0.91	With reference to Bloomberg all-time beta
ERP (%)	9.80	11.10	9.80	11.10	Adjusted higher than Bloomberg China country risk on high fundamental volatility
LT gr (%)	6.00	6.70	6.00	6.70	

\* 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	110,697	112,155	117,875	125,116	130,412
Non-interest income	32,101	41,211	46,523	52,115	57,962
Of which: Fees and commissions	24,409	27,314	30,592	33,957	37,352
<b>Operating income</b>	142,798	153,366	164,398	177,231	188,374
Operating expenses	(40,335)	(45,540)	(51,178)	(57,206)	(63,407)
<b>Pre-provision operating profit</b>	102,463	107,826	113,221	120,026	124,967
Impairment loans losses	(56,932)	(54,795)	(56,917)	(59,826)	(60,544)
<b>Operating profit</b>	45,531	53,031	56,303	60,199	64,423
Non-operating profit	(5)	(90)	(104)	(119)	(137)
<b>Profit before tax</b>	45,526	52,941	56,200	60,080	64,286
Tax	(7,598)	(9,302)	(10,116)	(10,814)	(11,571)
Minority interests	(93)	(232)	(255)	(242)	(230)
<b>Net profit attributable to equity holders</b>	37,835	43,407	45,829	49,023	52,484
Dividend to other capital instrument holders	(2,219)	(4,800)	(4,800)	(4,800)	(4,800)
<b>Net profit attributable to ordinary shareholders</b>	35,616	38,607	41,029	44,223	47,684
<b>Growth (%)</b>					
Net interest income	8.6	1.3	5.1	6.1	4.2
Non-interest income	3.5	28.4	12.9	12.0	11.2
Of which: Fees and commissions	5.4	11.9	12.0	11.0	10.0
<b>Operating income</b>	7.4	7.4	7.2	7.8	6.3
Operating expenses	4.9	12.9	12.4	11.8	10.8
<b>Pre-provision operating profit</b>	8.4	5.2	5.0	6.0	4.1
Impairment loans losses	15.4	(3.8)	3.9	5.1	1.2
<b>Operating profit</b>	0.8	16.5	6.2	6.9	7.0
Non-operating profit	na	1,700.0	15.0	15.0	15.0
<b>Profit before tax</b>	0.8	16.3	6.2	6.9	7.0
Tax	(1.7)	22.4	8.8	6.9	7.0
Minority interests	2.2	149.5	10.0	(5.0)	(5.0)
<b>Net profit attributable to equity holders</b>	1.3	14.7	5.6	7.0	7.1
Dividend to other capital instrument holders	53.0	116.3	0.0	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	(0.8)	8.4	6.3	7.8	7.8
<b>Per share (RMB)</b>					
Basic EPS	0.68	0.71	0.76	0.82	0.88
BVPS	6.45	6.99	7.49	8.12	8.33
DPS	0.210	0.201	0.213	0.229	0.247
<b>Key ratio (%)</b>					
Net interest margin	2.29	2.16	2.03	1.94	1.84
Net interest spread	2.20	2.07	1.87	1.72	1.61
Cost to income ratio	27.21	28.64	31.13	32.28	33.66
ROAA	0.75	0.77	0.74	0.73	0.72
ROAE	10.71	10.64	10.70	10.74	10.98
Effective tax rate	16.69	17.57	18.00	18.00	18.00
Dividend payout	31.86	28.13	28.00	28.00	28.00

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

Restated 2019 and 2020 financial data were used

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	360,287	378,263	395,119	412,360	430,471
Due from FIs and repo	158,941	220,702	256,245	297,324	346,651
Investment securities & financial assets	1,695,679	1,849,721	2,016,196	2,197,654	2,384,454
Net loans and advances	2,942,435	3,239,396	3,550,464	3,867,218	4,183,812
<b>Total interest earning assets</b>	<b>5,157,342</b>	<b>5,688,082</b>	<b>6,218,024</b>	<b>6,774,556</b>	<b>7,345,388</b>
Property and equipment	23,304	25,155	27,167	29,069	31,104
Other non-interest earn assets	187,517	188,832	192,609	196,664	200,806
<b>Total assets</b>	<b>5,368,163</b>	<b>5,902,069</b>	<b>6,437,800</b>	<b>7,000,289</b>	<b>7,577,298</b>
Customer deposits	3,480,642	3,675,743	3,918,213	4,167,343	4,419,035
Due to FIs and repo	886,516	887,665	968,736	1,051,358	1,128,198
Subordinated debt and others	466,652	776,936	968,222	1,159,521	1,389,009
<b>Total interest bearing liabilities</b>	<b>4,833,810</b>	<b>5,340,344</b>	<b>5,855,171</b>	<b>6,378,222</b>	<b>6,936,241</b>
Current taxes	8,772	6,535	6,208	5,898	5,603
Other liabilities	70,541	70,824	60,291	65,868	72,919
<b>Total liabilities</b>	<b>4,913,123</b>	<b>5,417,703</b>	<b>5,921,671</b>	<b>6,449,988</b>	<b>7,014,764</b>
Share capital	54,032	54,032	54,032	54,032	54,032
Other capital instruments	109,062	109,062	109,062	109,062	109,062
Reserves	290,376	319,395	350,783	384,527	396,277
Minorities	1,570	1,877	2,252	2,680	3,163
<b>Shareholder's equity</b>	<b>455,040</b>	<b>484,366</b>	<b>516,130</b>	<b>550,301</b>	<b>562,534</b>
<b>Growth (%)</b>					
Cash & balance with central banks	(1.1)	5.0	4.5	4.4	4.4
Due from FIs and repo	61.4	38.9	16.1	16.0	16.6
Investment securities & financial assets	17.2	9.1	9.0	9.0	8.5
Net loans and advances	11.6	10.1	9.6	8.9	8.2
<b>Total interest earning assets</b>	<b>13.4</b>	<b>10.3</b>	<b>9.3</b>	<b>9.0</b>	<b>8.4</b>
Property and equipment	20.5	7.9	8.0	7.0	7.0
Other non-interest earn assets	11.6	0.7	2.0	2.1	2.1
<b>Total assets</b>	<b>13.4</b>	<b>9.9</b>	<b>9.1</b>	<b>8.7</b>	<b>8.2</b>
Customer deposits	15.3	5.6	6.6	6.4	6.0
Due to FIs and repo	3.0	0.1	9.1	8.5	7.3
Subordinated debt and others	20.9	66.5	24.6	19.8	19.8
<b>Total interest bearing liabilities</b>	<b>13.3</b>	<b>10.5</b>	<b>9.6</b>	<b>8.9</b>	<b>8.7</b>
Current taxes	(5.9)	(25.5)	(5.0)	(5.0)	(5.0)
Other liabilities	(3.8)	0.4	(14.9)	9.2	10.7
<b>Total liabilities</b>	<b>13.0</b>	<b>10.3</b>	<b>9.3</b>	<b>8.9</b>	<b>8.8</b>
Share capital	2.9	0.0	0.0	0.0	0.0
Other capital instruments	55.7	0.0	0.0	0.0	0.0
Reserves	10.7	10.0	9.8	9.6	3.1
Minorities	43.9	19.6	20.0	19.0	18.0
<b>Shareholder's equity</b>	<b>17.9</b>	<b>6.4</b>	<b>6.6</b>	<b>6.6</b>	<b>2.2</b>
<b>Key ratio (%)</b>					
CT1 CAR	9.02	8.91	8.67	8.51	8.30
Total CAR	13.90	13.37	13.30	13.07	12.98
NPL ratio	1.38	1.25	1.27	1.30	1.34
Provision to total loans	2.53	2.34	2.40	2.46	2.50
Provision coverage ratio	182.71	187.02	188.98	189.23	186.57

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

Restated 2019 and 2020 financial data were used

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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