

CEB Bank (6818 HK / 601818 CH)

Downgrade on uncertain asset quality outlook

- Given CEB's asset quality uncertainties, large provisions may persist
- Higher risk buffer needed to sustain positive earnings growth
- Topline growth takes time to turn positive
- Downgrade to **HOLD** pending material fundamental improvement. Our GGM-based H/A shr TPs imply target 24E P/B of 0.27x/0.39x

Earnings forecast cut on asset quality uncertainty. We slash CEB's FY24E/25E net profit forecast by 13.59%/14.74% after the bank's FY23 net profit surprised on the downside. Our calculation showed CEB's 4Q23 topline and net profits dropped 6.3% and 77.2% QoQ, which we believe was a result of the large provision in 4Q23 to lower its NPL ratio to 1.25% in Dec-FY23 from 1.35% in Sep-FY23. Overall, FY23 provision expenses were up 2.96% YoY, despite most banks showing a YoY reduction. The bank stated no significant risk factor needed to be disclosed, but we will remain cautious about the asset quality trend in the next quarters. For FY23, new NPLs mainly came from the real estate sector and personal loans, which was in line with market trend. In particular NPL ratio of real estate sector and personal loans increased from 3.89% and 1.09% in FY22 to 5.33% and 1.36% in FY23. If CEB can manage its risk profile in real estate sector in coming quarters, over NPL ratio may improve. In our base case scenario, we project the bank's NPL ratio at 1.24% by end-FY25E, with provision expenses at ~RMB 52bn each for FY24E/25E. Hence, profit growth will turn positive in FY25E at the earliest.

The need for a higher risk buffer. Risk buffer is critical as a safety net for CEB's future earnings. However, unless the bank willing to take further cuts in earnings, we see limited room for CEB to increase provision expenses in coming years. In our base case, we project mild reductions in provisioning ratio and provision coverage ratio to 2.20% and 177.42% by end-FY25E, which is low compared to its listed peers.

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Results and Valuation

FY ended Dec 31	2021A	2022A	2023A	2024E	2025E
Revenue (RMB mn)	153,366	151,865	145,735	144,791	147,300
Chg (% YoY)	7.4	(1.0)	(4.0)	(0.6)	1.7
Net profit* (RMB mn)	43,407	44,807	40,792	40,080	41,382
Chg (% YoY)	14.7	3.2	(9.0)	(1.7)	3.2
Basic EPS (RMB)	0.71	0.74	0.62	0.60	0.62
Chg (% YoY)	5.8	3.6	(16.2)	(3.7)	3.7
BVPS (RMB)	6.99	7.46	7.57	8.29	9.01
Chg (% YoY)	8.4	5.6	2.6	9.4	8.8
Basic P/E (x) – H-shr	2.95	2.85	3.41	3.54	3.41
P/B (x) – H-shr	0.30	0.28	0.28	0.25	0.23
Basic P/E (x) – A-shr	4.30	4.15	4.95	5.14	4.96
P/B (x) – A-shr	0.44	0.41	0.41	0.37	0.34
ROAA (%)	0.77	0.74	0.63	0.57	0.55
ROAE (%)	10.64	10.27	8.38	7.69	7.42
DPS(RMB)	0.201	0.190	0.173	0.170	0.176
Yield (%) H-shr	9.52	9.00	8.19	8.06	8.36
Yield (%) A-shr	6.55	6.19	5.64	5.54	5.75

Note: HKD/CNY=1.08

*Net profit refers to Net profit attributable to equity holders of the Company unless otherwise stated

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

Company Report

Apr 10, 2024

Rating (H): HOLD

Rating (A): HOLD

TP (H): HK\$ 2.45

TP (A): RMB 3.25

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Price (H/A shr)	HK\$ 2.28/ RMB 3.07
Est. s price return (H/A shr)	7.46%/ 5.86%
Est. dividend yield (H/A shr)	8.06%/5.54%
Est. total return (H/A shr)	15.52%/ 11.40%
Last Rating & TP (H/A shr)	BUY, HK\$2.83/ BUY, RMB3.76
Previous Report Date	28 Aug, 2023

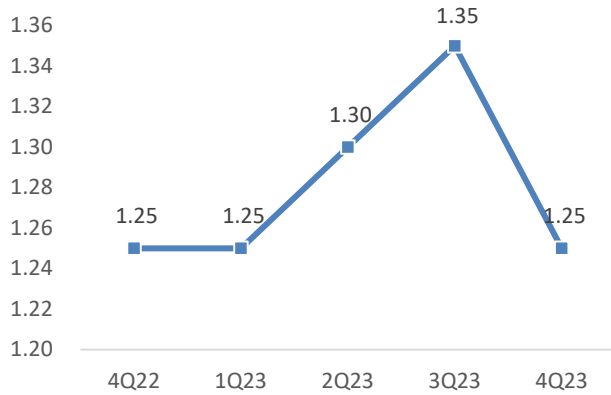
Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	2.78/2.13
52Wk H/L (RMB) (A shr)	3.72/2.72
Total issued shares (mn)	59,085.5
Issued H shr (mn)	12,678.7
Issued A shr (mn)	46,406.8
Market cap (HK\$ mn)	182,773.8
H-shr market cap (HK\$ mn)	28,907.4
A-shr market cap (HK\$ mn)	153,866.4
3-mth avg daily turnover (HK\$ mn) (H shr)	34.3
3-mth avg daily turnover (RMB mn) (A shr)	564.4
Major shareholder(s) (%):	
China Everbright Group (CEG)	47.3
Source(s): Bloomberg, ABCI Securities	

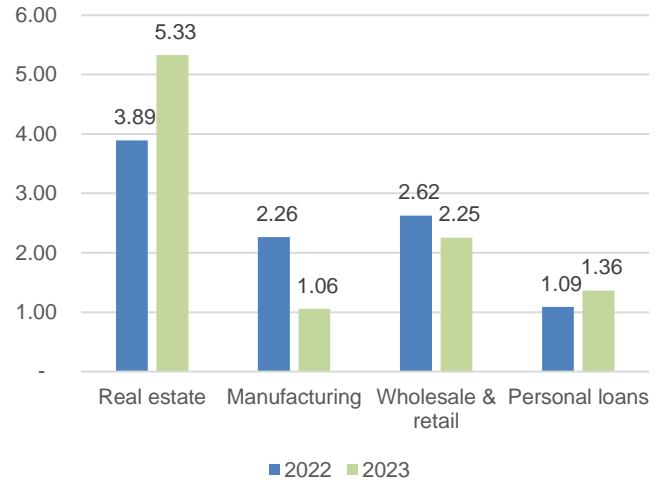


Exhibit 1: CEB's quarterly NPL ratio trend (%)



Source(s): Company, ABCI Securities

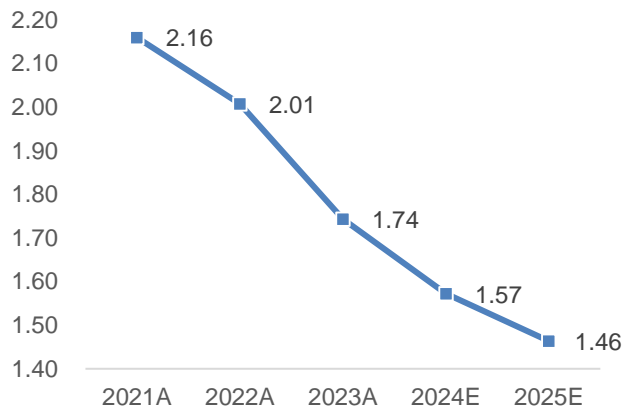
Exhibit 2: CEB's NPL ratio in selected sectors (%)



Source(s): Company, ABCI Securities

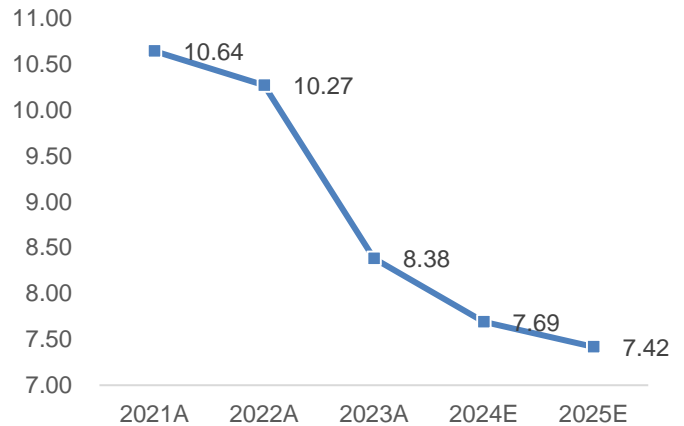
Topline growth to slowly recover. NIM pressure and sluggish net fee income growth will continue to weigh on the bank sector in FY24E, and most likely in FY25E. We estimate CEB's topline to resume positive growth only in FY25E. We project NII and net fee income CAGR to be -0.5% and -3.0% over FY23-25E. In particular, we expect NII growth to turn positive in FY25E when NIM pressure lessens from 26bps YoY in FY23 to 11bps YoY in FY25E. Our topline and net profit CAGRs are projected to be 0.5% and 0.7% for FY23-25E, resulting in a high-single-digit ROAE for FY24E-25E.

Exhibit 3: CEB's NIM outlook (%)



Source(s): Company, ABCI Securities estimates

Exhibit 4: CEB's ROAE outlook (%)



Source(s): Company, ABCI Securities estimates

Exhibit 5: Major changes in forecasts

(RMB mn)	2024E (old)	2024E (new)	change (%)	(RMB mn)	2025E (old)	2025E (new)	change (%)
Net interest income	112,720	105,565	(6.35)	Net interest income	115,134	106,291	(7.68)
Net fee and commission	24,899	22,513	(9.58)	Net fee and commission	25,148	22,288	(11.37)
Operating income	152,226	144,791	(4.88)	Operating income	156,463	147,300	(5.86)
Operating expenses	(47,515)	(43,470)	(8.51)	Operating expenses	(49,416)	(43,905)	(11.15)
Impairment losses	(47,194)	(52,083)	10.36	Impairment losses	(46,119)	(51,883)	12.50
Profit before tax	57,556	49,276	(14.39)	Profit before tax	60,973	51,552	(15.45)
Net profit attributable to equity holders	46,383	40,080	(13.59)	Net profit attributable to equity holders	48,538	41,382	(14.74)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.60	1.57	(0.03)	Net interest margin	1.48	1.46	(0.02)
CIR	31.21	30.02	(1.19)	CIR	31.58	29.81	(1.77)
ROAA	0.71	0.57	(0.14)	ROAA	0.68	0.55	(0.13)
ROAE	9.30	7.69	(1.61)	ROAE	9.15	7.42	(1.73)
Dividend payout	28.00	28.50	0.50	Dividend payout	28.00	28.50	0.50
CT1 CAR	8.93	9.24	0.31	CT1 CAR	8.74	9.35	0.61
Total CAR	13.29	13.85	0.56	Total CAR	13.05	13.98	0.93
NPL ratio	1.37	1.24	(0.13)	NPL ratio	1.40	1.24	(0.16)
Provision to total loans	2.56	2.24	(0.32)	Provision to total loans	2.61	2.20	(0.41)
Provision coverage ratio	186.86	180.65	(6.21)	Provision coverage ratio	186.43	177.42	(9.01)

Source(s): Company, ABCI Securities estimates

Major shareholder's intention to increase stake. On Mar 29, 2024, CEG, CEB's largest shareholder, announced plans to boost its controlling position in the A-share market by RMB 400mn to RMB 800mn, of which ~RMB 200mn was used on Mar 29, 2024 to acquire 0.11% stake in CEB. Upon completion of the entire plan, CEG's direct stake in CEB would increase by ~0.2% to 0.5%, based on the latest share price. The proposal, in our opinion, demonstrates that CEG believes the current valuation of CEB is undervalued. However, we believe that this step alone will have little impact on rebuilding investor interest in the counter, and that solid improvements in fundamentals will be required in the coming quarters to reclaim market attention.

Downgrade to HOLD. In our opinion, the bank's fundamentals may continue to underperform peers in the near term. We lower the sustainable ROAE, long-term growth, and COE assumptions in the GGM, and derive our TPs based on FY24E BVPS. Our H/A-shr TPs for CEB are adjusted down by -13.4% and -13.6% to HK\$ 2.45 and RMB 3.25, implying 0.27x and 0.39x target FY24E P/B. Although our TPs indicate a total return of above 7%, we downgrade both H/A-shares to **HOLD**. As we are cautious to the downside potential in our base case scenario, that CEB's asset quality trend may come in worse-than-expected.

Exhibit 6: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	2.83	2.45	3.76	3.25	Roll over to FY24E BVPS
Sustainable ROE (%)	8.88	7.39	8.88	7.39	Factor in lower ROAE on higher operation uncertainty
COE (%)	15.88	14.24	12.74	11.40	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	5.50	4.80	5.50	4.80	Adjust on slower earnings growth
Target 24E P/B (x)	0.31	0.27	0.45	0.39	

Source(s): Company, ABCI Securities estimates

Risk Factors: 1) Persisting NIM pressure and declining ROAE trend in FY24E-25E; 2) Higher earnings volatility than peers; 3) Failure to enhance capital position; 4) Potential dilution effect from capital instrument issued to strengthen CT1 and CAR; 5) Potential dilution from conversion of outstanding convertible preference shares.



Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023A	2024E	2025E
Net interest income	112,155	113,655	107,480	105,565	106,291
Non-interest income	41,211	38,210	38,255	39,226	41,009
Of which: Fees and commissions	27,314	26,744	23,698	22,513	22,288
Operating income	153,366	151,865	145,735	144,791	147,300
Operating expenses	(45,540)	(45,227)	(43,909)	(43,470)	(43,905)
Pre-provision operating profit	107,826	106,638	101,826	101,321	103,395
Impairment loans losses	(54,795)	(50,609)	(52,105)	(52,083)	(51,883)
Operating profit	53,031	56,029	49,721	49,238	51,512
Non-operating profit	(90)	(63)	36	38	40
Profit before tax	52,941	55,966	49,757	49,276	51,552
Tax	(9,302)	(10,926)	(8,681)	(8,870)	(9,795)
Minority interests	(232)	(233)	(284)	(327)	(376)
Net profit attributable to equity holders	43,407	44,807	40,792	40,080	41,382
Dividend and interest to other capital instrument holders	(4,800)	(4,811)	(4,811)	(4,811)	(4,811)
Net profit attributable to ordinary shareholders	38,607	39,996	35,981	35,269	36,571
Growth (%)					
Net interest income	1.3	1.3	(5.4)	(1.8)	0.7
Non-interest income	28.4	(7.3)	0.1	2.5	4.5
Of which: Fees and commissions	11.9	(2.1)	(11.4)	(5.0)	(1.0)
Operating income	7.4	(1.0)	(4.0)	(0.6)	1.7
Operating expenses	12.9	(0.7)	(2.9)	(1.0)	1.0
Pre-provision operating profit	5.2	(1.1)	(4.5)	(0.5)	2.0
Impairment loans losses	(3.8)	(7.6)	3.0	(0.0)	(0.4)
Operating profit	16.5	5.7	(11.3)	(1.0)	4.6
Non-operating profit	1,700.0	(30.0)	(157.1)	5.0	5.0
Profit before tax	16.3	5.7	(11.1)	(1.0)	4.6
Tax	22.4	17.5	(20.5)	2.2	10.4
Minority interests	149.5	0.4	21.9	15.0	15.0
Net profit attributable to equity holders	14.7	3.2	(9.0)	(1.7)	3.2
Dividend and interest to other capital instrument holders	116.3	0.2	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	8.4	3.6	(10.0)	(2.0)	3.7
Per share (RMB)					
Basic EPS	0.71	0.74	0.62	0.60	0.62
BVPS	6.99	7.46	7.57	8.29	9.01
DPS	0.201	0.190	0.173	0.170	0.176
Key ratio (%)					
Net interest margin	2.16	2.01	1.74	1.57	1.46
Cost to income ratio	28.64	28.62	28.95	30.02	29.81
ROAA	0.77	0.74	0.63	0.57	0.55
ROAE	10.64	10.27	8.38	7.69	7.42
Effective tax rate	17.57	19.52	17.45	18.00	19.00
Dividend payout	28.13	28.07	28.41	28.50	28.50

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)	2021A	2022A	2023A	2024E	2025E
Cash & balance with central banks	378,263	356,426	349,184	345,692	349,149
Due from FIs and repo	329,755	293,009	379,082	422,421	470,708
Investment securities & financial assets	1,836,016	2,046,612	2,241,462	2,454,401	2,699,841
Net loans and advances	3,239,396	3,499,351	3,712,925	3,947,656	4,193,691
Total interest-earning assets	5,783,430	6,195,398	6,682,653	7,170,170	7,713,389
Property and equipment	25,155	26,174	25,838	26,096	26,618
Other assets	93,484	78,938	64,305	69,037	74,180
Total assets	5,902,069	6,300,510	6,772,796	7,265,303	7,814,187
Customer deposits	3,675,743	3,917,168	4,094,528	4,322,688	4,594,705
Due to FIs and repo	901,069	899,923	933,225	979,886	1,038,679
Subordinated debt and others	763,532	875,971	1,099,326	1,264,225	1,453,859
Total interest-bearing liabilities	5,340,344	5,693,062	6,127,079	6,566,799	7,087,243
Current taxes	6,535	11,141	7,304	6,208	5,277
Other liabilities	70,824	86,294	83,628	95,152	81,262
Total liabilities	5,417,703	5,790,497	6,218,011	6,668,160	7,173,783
Share capital	54,032	54,032	59,086	59,086	59,086
Other capital instruments	109,062	109,062	104,899	104,899	104,899
Reserves	319,395	344,789	388,406	430,501	473,496
Minorities	1,877	2,130	2,394	2,657	2,923
Shareholder's equity	484,366	510,013	554,785	597,144	640,404
Growth (%)					
Cash & balance with central banks	5.0	(5.8)	(2.0)	(1.0)	1.0
Due from FIs and repo	107.5	(11.1)	29.4	11.4	11.4
Investment securities & financial assets	8.3	11.5	9.5	9.5	10.0
Net loans and advances	10.1	8.0	6.1	6.3	6.2
Total interest-earning assets	12.1	7.1	7.9	7.3	7.6
Property and equipment	7.9	4.1	(1.3)	1.0	2.0
Other assets	(50.1)	(15.6)	(18.5)	7.4	7.4
Total assets	9.9	6.8	7.5	7.3	7.6
Customer deposits	5.6	6.6	4.5	5.6	6.3
Due to FIs and repo	1.6	(0.1)	3.7	5.0	6.0
Subordinated debt and others	67.8	14.7	25.5	15.0	15.0
Total interest-bearing liabilities	10.7	6.6	7.6	7.2	7.9
Current taxes	(25.5)	70.5	(34.4)	(15.0)	(15.0)
Other liabilities	(13.8)	21.8	(3.1)	13.8	(14.6)
Total liabilities	10.3	6.9	7.4	7.2	7.6
Share capital	0.0	0.0	9.4	0.0	0.0
Other capital instruments	0.0	0.0	(3.8)	0.0	0.0
Reserves	10.0	8.0	12.7	10.8	10.0
Minorities	19.6	13.5	12.4	11.0	10.0
Shareholder's equity	6.4	5.3	8.8	7.6	7.2
Key ratio (%)					
CT1 CAR	8.91	8.72	9.18	9.24	9.35
Total CAR	13.37	12.95	13.50	13.85	13.98
NPL ratio	1.25	1.25	1.25	1.24	1.24
Provision to total loans	2.34	2.35	2.27	2.24	2.20
Provision coverage ratio	187.02	187.93	181.27	180.65	177.42

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

Disclosures

Analyst Certification

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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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