

CQRCB (3618 HK)

FY21 & 1Q22 review: results in line, asset quality improved

CQRCB reported weak but in-line 2021&1Q22 results. In FY21, operating income increased 9.4% YoY to RMB 30.8 bn (NII 8.19% YoY, Fee&commission income -6.16% YoY). Net profit increased 13.8% YoY to RMB 9.55 bn primarily driven by less credit cost. NPL ratio improved 6 bps YoY to 1.25% and NIM compressed 8 bps YoY to 2.17%. Maintain HOLD on CQRCB (3618 HK) and lift target price from HK\$2.80 to HK\$3.40 as we roll over valuation basis to 2022.

- Results positives on FY21 results.** 1) Asset quality improved. NPL ratio dropped 6 bps YoY to 1.25%, and SML ratio dropped from 2.36% to 1.92% with 7% YoY decline on SML balance. 2) Loan provision increased 18.7% YoY to RMB 24.8 bn, allowance to total loan ratio and allowance to NPL ratio increased 15 bps YoY and 25.3 ppt YoY to 4.27% and 340.25% respectively. 3) LDR increased from 70.05% in 2020 to 76.67% in 2021. The optimized LDR reduced part of pressure on NIM compression and lifted the banks' operating efficiency.
- Results negatives on FY21 results.** 1) NIM compressed 8 bps YoY primarily due to declining loan rate and lower return on interbank market. In FY22, as regulators guided, banks should translate benefits to their clients to support the economy; we expect loan rate will continue to drop in 2H22. 2) Net fee&commission income dropped 6.2% YoY, due to high expense and 15.4% YoY drop on wealth management fees.
- Stock catalyst:** Downside is limit because of low valuation and higher than 10% dividend yield, but re-rating needs the support from visible economy recovery in Chongqing area.
- Maintain OVERWEIGHT on banking sector but HOLD on CQRCB (3618 HK).** We cut FY22E and FY23E earnings to reflect the weak economy in Chongqing area. Roll over to FY22 and lift target price from HK\$2.80 to HK\$3.40. Our TP implies 0.30x 2022E and 0.28x 2023E P/B. The stock is trading at 0.27x/0.25x FY22/23E P/B, almost equivalent to -1SD of 3-yr historical mean (0.30x). Negatives are priced in and downside is limit. However, we think weak Chongqing economy cannot support a re-rating. Expect turning point of Chongqing GDP recovery in early 2023.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	28,186	30,841	33,689	37,003	40,744
Net profit (RMB mn)	8,401	9,559	10,190	11,022	12,835
EPS (RMB)	0.74	0.84	0.88	0.96	1.12
Consensus EPS (RMB)	0.74	0.84	0.9	0.97	1.19
P/B (x)	0.29	0.26	0.27	0.25	0.23
Dividend yield	12.1%	11.3%	10.7%	11.6%	13.5%
ROE	9.1%	9.6%	9.3%	9.4%	10.2%
NPL ratio	1.31%	1.25%	1.30%	1.32%	1.30%
Provision coverage	315%	340%	315%	303%	292%

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$3.40
(Previous TP)	HK\$2.80)
Up/Downside	+11%
Current Price	HK\$3.06

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	48,329
Avg 3 mths t/o (HK\$ mn)	24.78
52w High/Low (HK\$)	3.62/2.59
Total Issued Shares (mn)	2,513 (H)
	8,884 (A)

Source: Bloomberg

Shareholding Structure

Yufu Capital	8.7%
CQ Chengjian	7.2%
CQ Development	5.2%

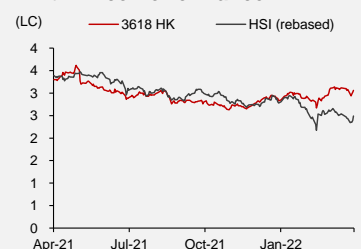
Source: Company report

Share Performance

	Absolute	Relative
1-mth	3.7%	7.9%
3-mth	8.1%	20.7%
6-mth	9.3%	31.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Recent Reports

- China Banking – Looking for the safe harbour ([link](#))
- China Banking – 4Q21 Quarterly Review ([link](#))
- China Banking Sector – High provision banks will outperform ([link](#))

Figure 1: CQRCB's 2021 results summary

GROWTH (RMB mn)	2020	2021	YoY
Revenue	28,186	30,841	9.4%
Interest income	24,248	26,232	8.2%
Fee income	2,902	2,723	-6.2%
Operating profits	10,068	11,194	11.2%
Net profits	8,401	9,559	13.8%
Gross Loan	507,885	582,163	14.6%
Deposit	724,999	759,358	4.7%
ASSET QUALITY	2020	2021	YoY
NPL ratio	1.31%	1.25%	-6 bps
Allowance to total loan	4.12%	4.27%	15 bps
Provision coverage	314.85%	340.15%	25.3 ppt
CAPITAL ADEQUACY	2020	2021	YoY
CET-1 CAR	11.96%	12.47%	52 bps
Tier-1 CAR	11.97%	12.98%	101 bps
Overall CAR	14.28%	14.77%	49 bps
Payout ratio	30%	30%	-
PROFITABILITY	2020	2021	YoY
NIM	2.25%	2.17%	-8 bps
CIR	27.09%	27.62%	0.51 ppt
ROE	9.11%	9.56%	45 bps
ROA	0.79%	0.81%	2 bps

Source: Company data, CMBIGM

Figure 2: Forecast revisions

RMB mn	New			Old		Diff	
	FY22E	FY23E	FY24E	FY22E	FY23E	FY22E	FY23E
Revenue	33,689	37,003	40,744	34,127	37,940	-8.96%	-9.18%
Net profit	10,190	11,022	12,835	10,489	10,917	-7.55%	-14.13%
Gross loan balance	678,220	786,735	912,613	702,214	824,567	-13.79%	-13.79%
Dividend payout	3,180	3,294	3,861	3,057	3,307	-3.45%	-14.71%
NPL ratio	1.30%	1.32%	1.30%	1.25%	1.25%	5 bps	7 bps
Provision coverage	315%	303%	292%	308%	303%	7 ppt	-
NIM	2.09%	2.03%	1.96%	2.14%	2.09%	-5 bps	-6 bps

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net interest income	24,248	26,232	28,770	31,856	35,359
Net fee&commission income	2,902	2,723	2,905	3,032	3,164
Others	1,036	1,886	2,014	2,115	2,222
Operating income	28,186	30,841	33,689	37,003	40,744
Operating expense	-18,118	-19,647	-21,463	-23,779	-25,344
PPOP	20,276	22,046	24,312	27,244	30,760
Provision taken	-10,208	-10,852	-12,086	-14,020	-15,359
Operating profit	10,068	11,194	12,226	13,225	15,400
Non-operating income	-4	6	7	7	8
Pre-tax profit	10,064	11,200	12,233	13,232	15,408
Income tax expense	-1,498	-1,482	-1,835	-1,985	-2,311
Minority interests	119	159	208	225	262
Net profit	8,401	9,559	10,190	11,022	12,835

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income mix					
Net interest income	86%	85%	85%	86%	87%
Net fee income	10%	9%	9%	8%	8%
Others	4%	6%	6%	6%	5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Growth YOY					
Net interest income	3.7%	8.2%	9.7%	10.7%	11.0%
Net fee&commission	29.6%	-6.2%	6.7%	4.4%	4.4%
Operating income	5.8%	9.4%	9.2%	9.8%	10.1%
PPOP	7.9%	8.7%	10.3%	12.1%	12.9%
Net profit	-13.9%	13.8%	6.6%	8.2%	16.4%
Gross loans	16.2%	14.6%	16.5%	16.0%	16.0%
Customer deposits	7.7%	4.7%	14.1%	15.2%	15.2%

Balance Sheet

YE 31 Dec (RMB bn)	FY20A	FY21A	FY22E	FY23E	FY24E
Due from central banks	62	58	67	77	88
Interbank assets	137	108	116	124	130
Investments	431	523	590	677	783
Gross loan	508	582	678	787	913
Provision balance	21	25	28	31	35
Net loan	487	557	650	754	874
Other assets	18	19	21	22	23
Total assets	1,136	1,266	1,443	1,653	1,898
Due to central banks	62	81	86	88	90
Interbank liabilities	62	63	68	70	73
Customer deposits	725	759	866	998	1,150
Debt securities issued	173	225	271	330	402
Other liabilities	19	31	38	45	53
Total liabilities	1,041	1,160	1,330	1,532	1,768
Shareholders' equity	93	105	111	119	129
Minority interest	1	2	2	2	2
Total equity	95	106	113	121	131

Efficiency

CIR	FY20A	FY21A	FY22E	FY23E	FY24E
CIR	27.09%	27.62%	26.81%	25.35%	23.48%

Asset quality

	FY20A	FY21A	FY22E	FY23E	FY24E
NPL ratio	1.31%	1.25%	1.30%	1.32%	1.30%
Provision coverage	315%	340%	315%	303%	292%
Allowance to total loan	4.12%	4.27%	4.10%	4.00%	3.80%

Capital adequacy

	FY20A	FY21A	FY22E	FY23E	FY24E
CET-1 CAR	11.96%	12.47%	11.38%	10.91%	10.12%
Tier-1 CAR	11.97%	12.98%	11.79%	11.27%	10.43%
Total CAR	14.28%	14.77%	13.32%	12.67%	11.71%

Profitability

	FY20A	FY21A	FY22E	FY23E	FY24E
NIM	2.25%	2.17%	2.09%	2.03%	1.96%
ROE	9.11%	9.56%	9.29%	9.41%	10.22%
ROA	0.79%	0.81%	0.75%	0.71%	0.72%
RORWA	1.09%	1.22%	1.15%	1.05%	1.07%

Per share

	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (RMB)	0.74	0.84	0.88	0.96	1.12
DPS (RMB)	0.22	0.25	0.27	0.29	0.34
BVPS (RMB)	8.21	8.85	9.46	10.15	10.98

Source: Company data, CMBIGM estimates

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