

China CITIC Bank (998 HK)

NIM rebounds, but NPL pressure lingers

CITICB reported -8.6% YoY net profit growth in 3Q20, vs -26.5% YoY in 2Q20. 9M20 earnings amounted to RMB36.9bn, down 9.4% YoY and accounting for 85.6% of our full-year estimate. Healthy credit growth and NIM expansion were overshadowed by asset quality deterioration, as NPL ratio surged 15bp QoQ and provision coverage weakened. However, we believe the Bank's lackluster fundamentals have been mostly priced in, and current near-trough valuation offers attractive risk-reward.

- Results positives: 1) Loan growth accelerated to 3.5% in 3Q20** (vs 1.4% in 2Q20), with stronger retail loan growth of 8.6% QoQ. Credit card and consumption loan were likely key drivers. **2) NIM widened 4bp QoQ** on rising proportion of higher-yield retail loans. Funding cost should be contained given the unwinding of structured deposits. **3) 3Q20 cost-to-income ratio declined 0.9ppt YoY**, as operating expenses retreated 7.3% YoY.
- Results negatives: 1) Asset quality worsened.** NPL ratio rose 15bp QoQ to 1.98%, and provision coverage slid 5.6ppt QoQ to 170.1%. NPL formation stayed elevated at 1.81%, by our estimate. **2) Deposit growth was soft at 1.1% in 3Q20** (vs 3.9% in 2Q20), thus lifting LDR to 96.2%. **3) Non-interest income declined 21.5% YoY.** Net fee income dropped 8.6% YoY, and trading and investment gain shrank 57.6% YoY amid rising bond yields in 3Q20. **4) CET1/ tier1 CAR fell 17bp/ 21bp QoQ to 8.63%/ 10.09%**, yet total CAR climbed 53bp QoQ helped by tier2 capital bond issuance in Aug. Existing RMB40bn CB could boost CET1 CAR by 75bp, but conversion may take time with current distressed valuation.
- Maintain BUY and HK\$4.60 TP.** We keep earnings forecast unchanged. Our TP of HK\$4.60 is derived from 0.43x target P/B and FY20E BVPS of RMB9.6.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	165,766	187,881	203,860	220,746	242,363
Net profit (RMB mn)	44,513	48,015	43,122	46,865	54,255
EPS (RMB)	0.88	0.95	0.85	0.93	1.08
EPS CHG (%)	4.7	8.1	(10.5)	9.0	16.2
Consensus EPS (RMB)	NA	NA	0.86	0.91	1.01
P/E (x)	3.3	3.0	3.4	3.1	2.7
P/B (x)	0.35	0.32	0.30	0.28	0.26
Dividend yield (%)	7.9	8.2	7.6	8.3	9.6
ROE (%)	11.3	11.1	9.2	9.4	10.1
NPL ratio (%)	1.77	1.65	1.88	1.84	1.76
Provision coverage (%)	158	175	174	187	200

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 4.60
(Previous TP	HK\$ 4.60)
Up/Downside	+42.0%
Current Price	HK\$ 3.24

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	248,554
Avg 3 mths t/o (HK\$ mn)	137
52w High/Low (HK\$)	4.79/2.93
Total Issued Shares (mn)	14,882 (H)
	34,053 (A)

Source: Bloomberg

Shareholding Structure

CITIC Corporation	65.4%
China Tobacco	4.4%
CSFC	2.3%

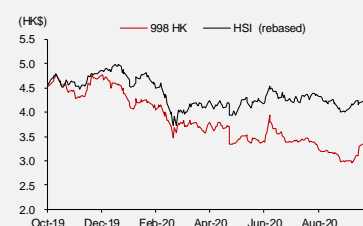
Source: Company data

Share Performance

	Absolute	Relative
1-mth	7.3%	2.0%
3-mth	-4.4%	-4.2%
6-mth	-14.1%	-14.6%
12-mth	-30.2%	-24.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

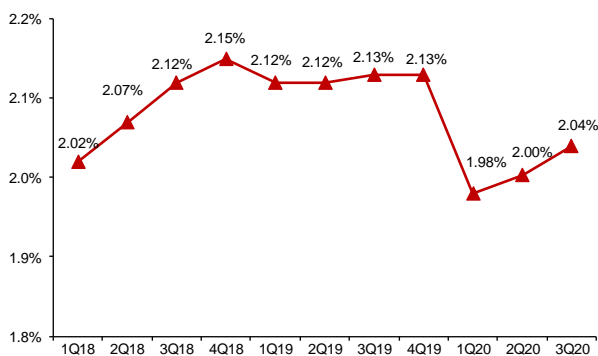
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Figure 1: 3Q20 results summary

(RMB mn)							
P&L	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
Net interest income	32,622	33,137	31,912	33,023	34,123	3.3%	4.6%
Non-interest income	16,615	12,357	19,658	17,420	13,038	-25.2%	-21.5%
Operating income	49,237	45,494	51,570	50,443	47,161	-6.5%	-4.2%
Operating expense	(13,260)	(16,375)	(11,892)	(11,645)	(12,297)	5.6%	-7.3%
PPoP	35,977	29,119	39,678	38,798	34,864	-10.1%	-3.1%
Impairment losses	(21,122)	(21,943)	(22,636)	(25,089)	(21,491)	-14.3%	1.7%
Pre-tax profit	14,855	7,176	17,042	13,709	13,373	-2.5%	-10.0%
Income tax	(2,138)	192	(2,495)	(2,287)	(2,008)	-12.2%	-6.1%
Net profit	12,445	7,263	14,453	11,088	11,377	2.6%	-8.6%
B/S	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
Total loans	3,956,104	3,997,987	4,154,393	4,214,523	4,362,042	3.5%	10.3%
Total deposits	4,050,290	4,073,258	4,315,990	4,484,465	4,533,045	1.1%	11.9%
Total assets	6,461,910	6,750,433	7,032,434	7,080,616	7,323,359	3.4%	13.3%
NPLs	68,190	66,117	74,802	77,287	86,454	11.9%	26.8%
Loan loss reserves	119,210	115,870	132,676	135,808	147,041	8.3%	23.3%
Key ratio	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
NIM	2.13%	2.13%	1.98%	2.00%	2.04%	4bp	-9bp
CIR	26.9%	36.0%	23.1%	23.1%	26.1%	3.0ppt	-0.9ppt
ROA	0.96%	0.77%	0.44%	0.85%	0.63%	-0.2ppt	-0.3ppt
ROE	11.7%	6.7%	12.9%	9.7%	10.0%	0.3ppt	-1.7ppt
NPL ratio	1.72%	1.65%	1.80%	1.83%	1.98%	15bp	26bp
Provision coverage	174.8%	175.2%	177.4%	175.7%	170.1%	-5.6ppt	-4.7ppt
Allowance ratio	3.01%	2.90%	3.19%	3.44%	3.37%	-6bp	36bp
LDR	97.7%	98.2%	96.3%	94.0%	96.2%	2.2ppt	-1.4ppt
CET1 CAR	8.8%	8.7%	8.9%	8.8%	8.6%	-17bp	-14bp
Tier1 CAR	9.5%	10.2%	10.4%	10.3%	10.1%	-21bp	57bp
Total CAR	11.8%	12.4%	12.7%	12.6%	13.1%	53bp	128bp

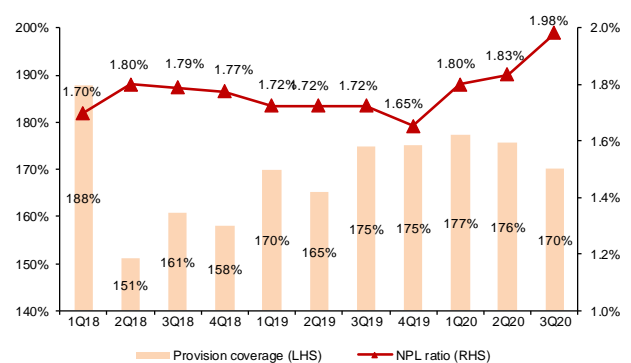
Source: Company data, CMBIS

Figure 2: Quarterly NIM of CITICB



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of CITICB



Source: Company data, CMBIS

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	241,933	268,498	294,903	320,208	351,065
Interest expenses	(129,021)	(141,227)	(155,166)	(169,997)	(186,291)
Net interest income	112,912	127,271	139,737	150,211	164,774
Net fee income	37,008	46,384	49,167	54,084	59,492
Others	15,846	14,226	14,956	16,451	18,097
Operating income	165,766	187,881	203,860	220,746	242,363
Operating expenses	(52,600)	(54,168)	(59,726)	(65,136)	(71,040)
PPoP	113,166	133,713	144,134	155,611	171,323
Provision	(58,233)	(77,255)	(92,251)	(99,323)	(106,341)
Operating profit	54,933	56,458	51,883	56,287	64,981
Non-operating income	(607)	87	-	-	-
Pre-tax profit	54,326	56,545	51,883	56,287	64,981
Income tax expenses	(8,950)	(7,551)	(7,782)	(8,443)	(9,747)
Minority interests	(863)	(979)	(979)	(979)	(979)
Net profit	44,513	48,015	43,122	46,865	54,255

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix					
Net interest income	68%	68%	69%	68%	68%
Net fee income	22%	25%	24%	25%	25%
Others	10%	8%	7%	7%	7%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	13.3%	12.7%	9.8%	7.5%	9.7%
Net fee income	-21.0%	25.3%	6.0%	10.0%	10.0%
Operating income	5.4%	13.3%	8.5%	8.3%	9.8%
PPoP	4.5%	18.2%	7.8%	8.0%	10.1%
Net profit	4.6%	7.9%	-10.2%	8.7%	15.8%
Gross loans	12.9%	10.8%	10.5%	10.5%	10.5%
Customer deposits	7.1%	11.6%	10.0%	10.0%	10.0%
Efficiency					
Cost-to-income ratio	30.7%	27.8%	28.0%	28.2%	28.0%

Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	532,520	456,813	501,981	551,665	606,318
Interbank assets	286,103	335,798	352,588	370,217	388,728
Investments	1,909,035	2,191,142	2,366,433	2,545,766	2,738,747
Gross loans	3,608,412	3,997,987	4,417,776	4,881,642	5,394,214
Less: provision	101,154	115,870	144,023	167,720	190,384
Other assets	(168,202)	(115,437)	(115,820)	(110,180)	(102,099)
Total assets	6,066,714	6,750,433	7,378,934	8,071,391	8,835,524
Due to central banks	286,430	240,298	264,328	290,761	319,837
Interbank liabilities	1,361,999	1,597,114	1,745,642	1,909,022	2,088,740
Customer deposits	3,649,611	4,073,258	4,480,584	4,928,642	5,421,506
Debt securities issued	208,421	208,659	219,092	230,047	241,549
Other liabilities	107,167	98,580	106,669	115,566	125,354
Total liabilities	5,613,628	6,217,909	6,816,314	7,474,038	8,196,986
Shareholders' equity	436,661	517,311	547,408	582,140	623,325
Incl. Perpetual bonds	-	39,993	39,993	39,993	39,993
Incl. Preferred stocks	34,955	34,955	34,955	34,955	34,955
Minority interest	16,425	15,213	15,213	15,213	15,213
Total equity	453,086	532,524	562,621	597,353	638,538

Asset quality					
NPL ratio	1.77%	1.65%	1.88%	1.84%	1.76%
Provision coverage	158%	175%	174%	187%	200%
Provision/ total loans	2.80%	2.90%	3.26%	3.44%	3.53%
Credit costs	1.40%	1.81%	1.94%	1.89%	1.83%
Capital adequacy					
CET-1 CAR	8.6%	8.7%	9.7%	9.5%	9.4%
Tier-1 CAR	9.4%	10.2%	10.5%	10.3%	10.1%
Total CAR	12.5%	12.4%	12.5%	12.1%	11.7%
Profitability					
NIM	2.09%	2.12%	2.00%	1.96%	1.97%
ROE	11.3%	11.1%	9.2%	9.4%	10.1%
ROA	0.74%	0.73%	0.59%	0.59%	0.63%
RoRWA	0.96%	0.95%	0.83%	0.88%	0.93%
Per share					
EPS (RMB)	0.88	0.95	0.85	0.93	1.08
DPS (RMB)	0.23	0.24	0.22	0.24	0.28
BVPS (RMB)	8.21	8.98	9.59	10.30	11.14

Source: Company data, CMBIS estimates

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