

# China Construction Bank (939 HK)

## Solid credit expansion underpins earnings sustainability

CCB's 1Q20 net profit picked up 5.1% YoY to RMB80.9bn, accounting for 28.8%/29.7% of CMBIS/consensus full-year estimates. Earnings growth was the fastest among Big-5 SOE banks reported so far, thanks to robust asset expansion as management attempted to seize quality projects and lock in profit earlier. CCB should face less-than-peers earnings downside, given front-loading of new loans and benign NPL formation.

- **Results positives:** **1) Strong balance sheet expansion.** Loan growth accelerated to 6.4% QoQ, with 3.6%/8.0% QoQ growth in retail/corporate loans. Deposit growth also sped up to 7.3% QoQ (vs 5.5% QoQ in 1Q19). Management attributed the robust loan extension in 1Q20 to both the Bank's own plan to lock in profit earlier and anti-epidemic related credit support. **2) Asset quality stayed healthy.** NPL ratio was flat at 1.41%, as NPL formation moderated to 0.63%. Impairment charges was prudent (+12.8% YoY), boosting provision coverage by 2.6ppt QoQ to 230.3%. However, management was cautious towards future asset quality trend, and expected continued risk exposure in 2Q20. **3) Effective tax rate fell 1.0ppt YoY,** given increased investments to tax-free govt bonds. **4) CIR was down 1.2ppt YoY to 20.9%.**
- **Results negatives:** **1) 1Q20 NIM declined 10bp YoY (5bp QoQ by our estimate) to 2.19%,** mainly on deposit rate hike (+7bp YoY) and lower investment yield (-5bp YoY). We believe lower NIM was also due to higher allocation to interbank assets, as the Bank tried to monetize on excess short-term funding amid abundant liquidity by quarter-end. Management anticipated 10bp YoY full-year NIM contraction but the magnitude of QoQ decline will narrow. **2) Net fee income growth slowed to 5.5% YoY** from 11.6% YoY in FY19, likely due to sluggish offline payment and consumption related fees during COVID-19's outbreak. **3) Capital ratio weakened,** as CET1 and total CAR slid 13bp and 31bp QoQ to 13.75% and 17.22%, respectively.
- **Maintain BUY and lower TP of HK\$8.70.** To factor in NIM pressure amid monetary easing, we lower FY20-21E NIM forecasts by 4-5bp and reduce mid-term ROE assumption to 12.4% (from 12.8%). Our new HK\$8.70 TP is based on GGM-derived target P/B of 0.85x and FY20E BPS of RMB9.2.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	658,891	705,629	762,155	808,831	869,610
Net profit (RMB mn)	254,655	266,733	280,489	297,645	320,912
EPS (RMB)	1.00	1.05	1.11	1.18	1.27
EPS CHG (%)	3.9	4.8	5.3	6.2	7.9
Consensus EPS (RMB)	NA	NA	1.10	1.14	1.21
P/E (x)	5.7	5.4	5.1	4.8	4.5
P/B (x)	0.75	0.68	0.62	0.57	0.52
Dividend yield (%)	5.4	5.6	5.9	6.3	6.8
ROE (%)	13.9	13.2	12.6	12.3	12.1
NPL ratio (%)	1.46	1.42	1.45	1.42	1.38
Provision coverage (%)	208	228	242	268	297

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$ 8.70
(Previous TP)	HK\$ 9.10)
Up/Downside	+37.7%
Current Price	HK\$ 6.32

### China Banking Sector

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### Stock Data

Mkt Cap (RMB mn)	1,568,914
Avg 3 mths t/o (RMB mn)	2,767
52w High/Low (RMB)	7.00/5.55
Total Issued Shares (mn)	<b>240,417 (H)</b>
	9,594 (A)

Source: Bloomberg

### Shareholding Structure

Central Huijin	57.31%
CSFC	0.88%

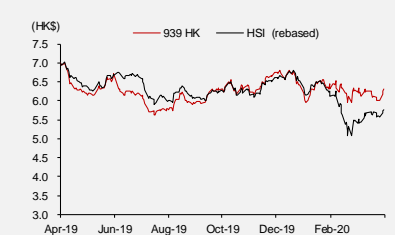
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-0.6%	-5.0%
3-mth	-2.8%	10.5%
6-mth	-1.0%	8.4%
12-mth	-9.6%	9.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

- Strong defensiveness against macro downturn – 30 Mar 2020
- Quality growth despite some margin pressure – 29 Aug 2019
- Softer earnings but stronger risk resistance – 28 Mar 2019
- Steady improvement in all aspects – 24 Oct 2018
- Decent earnings growth with resilient asset quality – 29 Aug 2018

Figure 1: 1Q20 results summary

(RMB mn)						
P&L	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
Net interest income	131,158	133,499	1.8%	125,075	133,499	6.7%
Net fee and commission income	28,316	45,376	60.2%	43,029	45,376	5.5%
Operating income	194,509	186,405	-4.2%	178,825	186,405	4.2%
Operating expense	(92,041)	(38,887)	-57.8%	(39,392)	(38,887)	-1.3%
PPoP	102,468	147,518	44.0%	139,433	147,518	5.8%
Impairment losses	(53,473)	(49,167)	-8.1%	(43,595)	(49,167)	12.8%
Pre-tax profit	48,995	98,351	100.7%	95,838	98,351	2.6%
Income tax	(6,633)	(17,389)	162.2%	(17,916)	(17,389)	-2.9%
Net profit	41,389	80,855	95.4%	76,916	80,855	5.1%

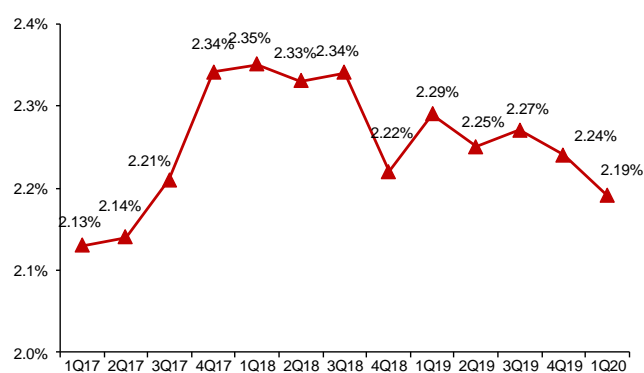
B/S	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
Gross loans	15,022,825	15,983,311	6.4%	14,227,115	15,983,311	12.3%
Customers' deposits	18,366,293	19,706,793	7.3%	18,053,818	19,706,793	9.2%
Total assets	25,436,261	27,110,165	6.6%	24,190,914	27,110,165	12.1%
NPLs	212,473	226,010	6.4%	207,463	226,010	8.9%

Key ratios	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
NIM	2.24%	2.19%	-5bp	2.29%	2.19%	-10bp
ROE	8.0%	15.1%	7.1ppt	15.9%	15.1%	-0.8ppt
NPL ratio	1.42%	1.42%	0bp	1.46%	1.42%	-4bp
Provision coverage	227.7%	230.3%	2.6ppt	214.2%	230.3%	16.0ppt
LDR	81.8%	81.1%	-0.7ppt	78.8%	81.1%	2.3ppt
CET-1 CAR	13.9%	13.8%	-13bp	13.8%	13.8%	-8bp

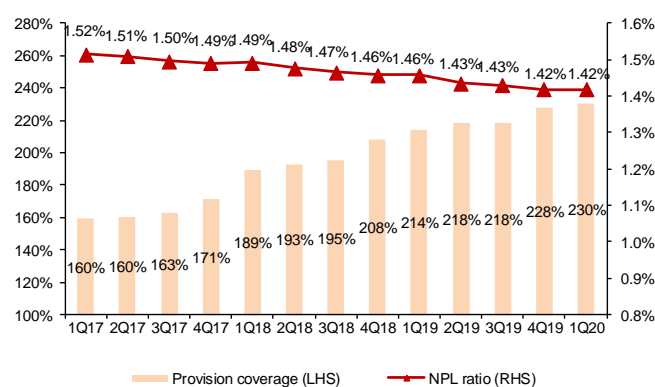
Source: Company data, CMBIS

Figure 2: Quarterly NIM of CCB



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of CCB



Source: Company data, CMBIS

## Financial Summary

### Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	811,026	883,499	969,571	1,037,063	1,123,551
Interest expenses	(324,748)	(372,819)	(413,347)	(448,235)	(485,043)
Net interest income	486,278	510,680	556,224	588,829	638,508
Net fee income	123,035	137,284	148,267	160,128	169,736
Others	49,578	57,665	57,665	59,875	61,366
Operating income	658,891	705,629	762,155	808,831	869,610
Operating expenses	(199,389)	(215,154)	(230,596)	(240,472)	(255,895)
PPoP	459,502	490,475	531,559	568,359	613,715
Provision	(150,988)	(163,521)	(187,918)	(203,906)	(221,036)
Operating profit	308,514	326,954	343,641	364,453	392,679
Non-operating income	(354)	(357)	(357)	(357)	(357)
Pre-tax profit	308,160	326,597	343,284	364,096	392,322
Income tax expenses	(52,534)	(57,375)	(60,307)	(63,963)	(68,921)
Minority interests	(971)	(2,489)	(2,489)	(2,489)	(2,489)
Net profit	254,655	266,733	280,489	297,645	320,912

### Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Op. income mix</b>					
Net interest income	74%	72%	73%	73%	73%
Net fee income	19%	19%	19%	20%	20%
Others	8%	8%	8%	7%	7%
Total	100%	100%	100%	100%	100%
<b>Growth, YoY</b>					
Net interest income	7.5%	5.0%	8.9%	5.9%	8.4%
Net fee income	4.4%	11.6%	8.0%	8.0%	6.0%
Operating income	10.9%	7.1%	8.0%	6.1%	7.5%
PPoP	7.6%	6.7%	8.4%	6.9%	8.0%
Net profit	<b>5.1%</b>	<b>4.7%</b>	<b>5.2%</b>	<b>6.1%</b>	<b>7.8%</b>
Gross loans	6.8%	9.0%	8.5%	8.5%	8.5%
Customer deposits	4.6%	7.4%	8.0%	8.0%	8.0%

### Efficiency

Cost-to-income ratio	29.3%	29.5%	29.3%	28.8%	28.4%
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### Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	2,567,648	2,560,219	2,759,697	2,975,133	3,207,805
Interbank assets	1,038,521	1,508,616	1,599,133	1,695,081	1,796,786
Investments	5,714,909	6,213,241	6,673,515	7,170,268	7,706,535
Gross loans	13,783,053	15,022,825	16,299,765	17,685,245	19,188,491
Less: provision	417,623	482,158	572,674	673,382	785,004
Other assets	536,185	613,518	757,423	845,992	944,169
Total assets	23,222,693	25,436,261	27,516,859	29,698,338	32,058,781
Due to central banks	554,392	549,433	604,376	664,814	731,295
Interbank liabilities	2,250,045	3,018,292	3,269,881	3,470,205	3,684,802
Customer deposits	17,108,678	18,366,293	19,835,596	21,422,444	23,136,240
Debt securities issued	404,202	367,192	398,570	439,176	485,872
Other liabilities	913,782	899,924	976,543	1,060,029	1,151,003
Total liabilities	21,231,099	23,201,134	25,084,967	27,056,668	29,189,213
Shareholders' equity	1,976,463	2,216,257	2,413,022	2,622,800	2,850,698
Incl. Perpetual bonds	-	39,991	39,991	39,991	39,991
Incl. Preferred stocks	79,636	79,636	79,636	79,636	79,636
Minority interest	15,131	18,870	18,870	18,870	18,870
Total equity	1,991,594	2,235,127	2,431,892	2,641,670	2,869,568

### Asset quality

NPL ratio	1.46%	1.42%	1.45%	1.42%	1.38%
Provision coverage	208%	228%	242%	268%	297%
Provision/ total loans	3.04%	3.22%	3.51%	3.81%	4.09%
Credit costs	1.07%	1.04%	1.10%	1.10%	1.10%

### Capital adequacy

CET-1 CAR	13.8%	13.9%	14.3%	14.5%	14.6%
Tier-1 CAR	14.4%	14.7%	14.8%	14.9%	15.0%
Total CAR	17.2%	17.5%	16.4%	16.4%	16.4%

### Profitability

NIM	2.31%	2.26%	2.17%	2.13%	2.13%
ROE	13.9%	13.2%	12.6%	12.3%	12.1%
ROA	1.11%	1.08%	1.05%	1.03%	1.03%
RoRWA	1.89%	1.83%	1.78%	1.76%	1.76%

### Per share

EPS (RMB)	1.00	1.05	1.11	1.18	1.27
DPS (RMB)	0.31	0.32	0.34	0.36	0.39
BVPS (RMB)	7.59	8.39	9.17	10.01	10.92

Source: Company data, CMBIS estimates

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