

China CITIC Bank (998 HK)

Slower earnings pace on prudent provisioning

CITICB reported FY19 net profit of RMB48.0bn, up 7.9% YoY and in line with preliminary announcement on 8 Jan. 4Q19 earnings contracted 5.8% YoY on still heavy impairment charges (+30.1% YoY), as the Bank tried to strengthen provision buffer against potential asset quality shock. As such, FY19 ROE declined 0.2ppt YoY to 11.1%. Management suggests dividend payout of 25%, 1ppt lower than that of FY18.

- Results positives:**
 - Asset quality improved.** NPL ratio fell 7bp QoQ to 1.65% while provision coverage remained stable at 175%. NPL recognition became more stringent as NPLs covered 132% of >90day overdue loans;
 - 4Q19 NIM was up 1bp QoQ** by our estimate, and full-year NIM widened 3bp YoY to 2.12% (FY18/19 figure was restated due to reclassification of credit card income). Asset yield stayed flat YoY at 4.48%, but interbank and debt financing cost retreated 55bp and 72bp, more than offsetting the 20bp YoY hike in deposit cost;
 - FY19 net fee income rose 25.3% YoY**, mainly driven by bank card and agency service businesses.
 - CIR declined 2.9ppt YoY**, pointing to better operating efficiency.
- Results negatives:**
 - Loan growth slowed to 1.1% QoQ in 4Q19**, and 4.5% QoQ asset expansion was largely from rising investments in securities and interbank assets. We believe it was mainly due to CITICB's falling risk appetite amid rising credit risks. In particular, growth in credit card loans decelerated to 2.9% in 2H19 from 13.0% in 1H19.
 - Deposit growth was slower than peers at 0.6% QoQ**, likely due to pull-back in structured deposits (9.35% of total deposits as of 4Q19) after regulatory tightening. As a result, LDR stayed elevated at 98.2%.
 - CET1 CAR dropped 7bp QoQ to 8.69%**. Conversion of its RMB40bn CB could boost CAR by 78bp.
- Maintain BUY and lower TP to HK\$5.60.** We trim our FY20-21E earnings estimates by 4.2-5.6%, as we lower NIM forecast by 7-8bp and raise credit cost assumption by 15bp to reflect COVID-19's impact. That said, CITICB's current valuation of 0.34x FY20E P/B and 7.9% dividend yield look attractive, and we still see incentive for management to deliver solid earnings growth in order to facilitate CB conversion.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	165,766	187,881	212,628	232,942	258,408
Net profit (RMB mn)	44,513	48,015	51,992	57,428	64,190
EPS (RMB)	0.88	0.95	1.04	1.15	1.28
EPS CHG (%)	4.7	8.1	8.5	10.7	12.1
Consensus EPS (RMB)	NA	0.96	1.02	1.11	1.26
P/E (x)	3.8	3.5	3.2	2.9	2.6
P/B (x)	0.41	0.37	0.34	0.31	0.29
Dividend yield (%)	6.9	7.1	7.9	8.8	9.8
ROE (%)	11.3	11.1	11.0	11.2	11.5
NPL ratio (%)	1.77	1.65	1.69	1.63	1.57
Provision coverage (%)	158	175	182	197	211

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$ 5.60**
 (Previous TP **HK\$ 5.90**)
Up/Downside **+49.7%**
Current Price **HK\$ 3.74**

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	252,878
Avg 3 mths t/o (HK\$ mn)	137.41
52w High/Low (HK\$)	4.91/3.37
Total Issued Shares (mn)	14,882 (H) 34,053 (A)

Source: Bloomberg

Shareholding Structure

CITIC Corporation	65.37%
China Tobacco	4.39%
CSFC	2.28%

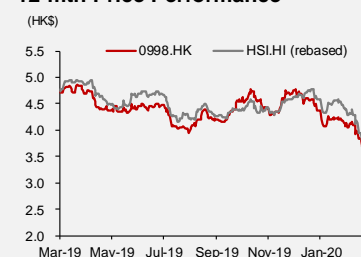
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-8.3%	4.8%
3-mth	-20.3%	-4.8%
6-mth	-11.4%	-1.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Solid 3Q19 earnings on robust margin and fee trends – 18 Oct 2019
- Earnings regaining momentum – 28 Aug 2019
- Strong topline growth assured prudent provisions – 26 Apr 2019
- Lower dividend payout to preserve capital – 27 Mar 2019

Figure 1: 4Q19 results summary

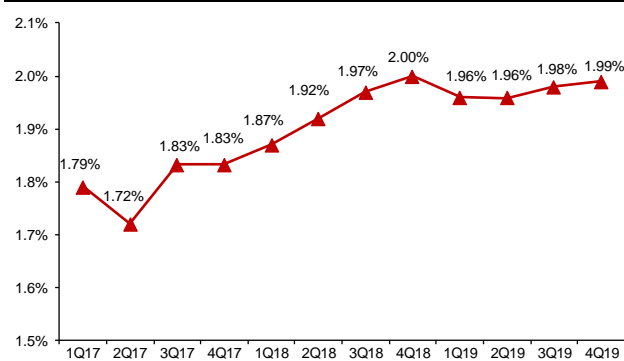
(RMB mn)						
P&L	FY18	FY19	YoY	4Q18	4Q19	YoY
Net interest income	112,912	127,271	12.7%	36,052	40,017	11.0%
Net fee and commission income	37,008	46,384	25.3%	4,404	3,322	-24.6%
Operating income	165,766	187,881	13.3%	43,912	45,608	3.9%
Operating expense	(52,600)	(54,168)	3.0%	(18,401)	(16,127)	-12.4%
PPoP	113,166	133,713	18.2%	25,511	29,481	15.6%
Impairment losses	(58,233)	(77,255)	32.7%	(16,870)	(21,943)	30.1%
Pre-tax profit	54,933	56,458	2.8%	8,641	7,538	-12.8%
Income tax	(8,950)	(7,551)	-15.6%	(407)	192	-147.2%
Net profit	44,513	48,015	7.9%	7,714	7,263	-5.8%

B/S	FY18	FY19	YoY	3Q19	4Q19	QoQ
Gross loans	3,608,412	3,997,987	10.8%	3,956,104	3,997,987	1.1%
Customers' deposits	3,649,611	4,073,258	11.6%	4,050,290	4,073,258	0.6%
Total assets	6,066,714	6,750,433	11.3%	6,461,910	6,750,433	4.5%
NPLs	64,028	66,117	3.3%	68,190	66,117	-3.0%

Key ratio	FY18	FY19	YoY	3Q19	4Q19	QoQ
NIM	2.09%	2.12%	3bp	1.98%	1.99%	1bp
ROE	11.3%	11.1%	-0.2ppt	11.7%	6.7%	-5.0ppt
NPL ratio	1.77%	1.65%	-12bp	1.72%	1.65%	-7bp
Provision coverage	158.0%	175.2%	17.3ppt	174.8%	175.2%	0.4ppt
LDR	98.9%	98.2%	-0.7ppt	97.7%	98.2%	0.5ppt
CET-1 CAR	8.6%	8.7%	6bp	8.8%	8.7%	-7bp

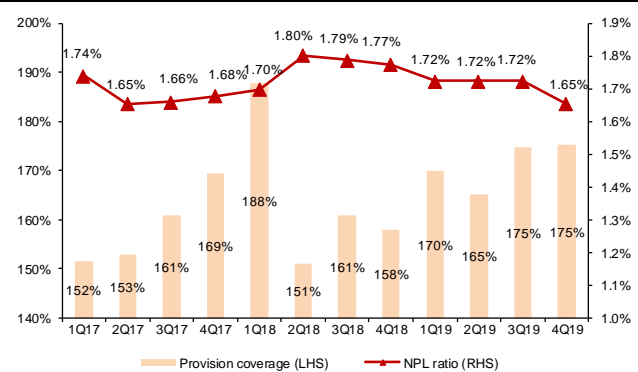
Source: Company data, CMBIS; Note: FY18/19 NIM is restated due to reclassification of credit card income.

Figure 2: Quarterly NIM of CITICB



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of CITICB



Source: Company data, CMBIS

Figure 4: Adjustments of earnings forecasts

	Net profit (RMB mn)			EPS (RMB)			NIM			Credit cost		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
FY20E	54,265	51,992	-4.2%	1.08	1.04	-4.3%	2.14%	2.07%	-7bp	1.75%	1.90%	+15bp
FY21E	60,829	57,428	-5.6%	1.22	1.15	-5.7%	2.12%	2.04%	-8bp	1.72%	1.87%	+15bp

Source: CMBIS estimates

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	233,793	268,498	300,960	326,743	358,111
Interest expenses	(129,021)	(141,227)	(155,937)	(170,834)	(187,200)
Net interest income	104,772	127,271	145,023	155,910	170,911
Net fee income	45,148	46,384	53,342	61,343	70,544
Others	15,846	14,226	14,263	15,689	16,953
Operating income	165,766	187,881	212,628	232,942	258,408
Operating expenses	(52,600)	(54,168)	(60,790)	(66,738)	(73,801)
PPoP	113,166	133,713	151,838	166,204	184,608
Provision	(58,233)	(77,255)	(89,519)	(97,490)	(107,938)
Operating profit	54,933	56,458	62,319	68,714	76,670
Non-operating income	(607)	87	-	-	-
Pre-tax profit	54,326	56,545	62,319	68,714	76,670
Income tax expenses	(8,950)	(7,551)	(9,348)	(10,307)	(11,500)
Minority interests	(863)	(979)	(979)	(979)	(979)
Net profit	44,513	48,015	51,992	57,428	64,190

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Op. income mix					
Net interest income	68%	68%	68%	67%	66%
Net fee income	22%	25%	25%	26%	27%
Others	10%	8%	7%	7%	7%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	13.3%	12.7%	13.9%	7.5%	9.6%
Net fee income	NA	25.3%	15.0%	15.0%	15.0%
Operating income	5.4%	13.3%	13.2%	9.6%	10.9%
PPoP	4.5%	18.2%	13.6%	9.5%	11.1%
Net profit	4.6%	7.9%	8.3%	10.5%	11.8%
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%	27.3%	27.4%	27.3%
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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	1,600,163	1,873,596	2,023,484	2,175,381	2,338,731
Gross loans	3,608,412	3,997,987	4,417,776	4,881,642	5,394,214
Less: provision	101,154	115,870	136,000	156,644	179,532
Other assets	140,670	202,109	227,978	266,341	311,566
Total assets	6,066,714	6,750,433	7,387,805	8,088,602	8,860,025
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	556,278	599,352	647,826
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	571,491	614,565	663,039

Asset quality

NPL ratio	1.77%	1.65%	1.69%	1.63%	1.57%
Provision coverage	158%	175%	182%	197%	211%
Provision/ total loans	2.80%	2.90%	3.08%	3.21%	3.33%
Credit costs	1.40%	1.81%	1.90%	1.87%	1.88%

Capital adequacy

CET-1 CAR	8.6%	8.7%	9.9%	9.8%	9.8%
Tier-1 CAR	9.4%	10.2%	10.7%	10.6%	10.5%
Total CAR	12.5%	12.4%	12.7%	12.4%	12.1%

Profitability

NIM	2.09%	2.12%	2.07%	2.04%	2.04%
ROE	11.3%	11.1%	11.0%	11.2%	11.5%
ROA	0.74%	0.73%	0.72%	0.72%	0.74%
RoRWA	0.96%	0.95%	1.01%	1.08%	1.11%

Per share

EPS (RMB)	0.88	0.95	1.04	1.15	1.28
DPS (RMB)	0.23	0.24	0.27	0.29	0.33
BVPS (RMB)	8.21	8.98	9.77	10.65	11.64

Source: Company data, CMBIS estimates

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