

China Construction Bank (939 HK)

Strong defensiveness against macro downturn

CCB's FY19 net profit was up 4.7% YoY to RMB266.7bn, in line with CMBIS forecast and 1.1% above consensus estimate. 4Q19 earnings growth softened to 2.1% YoY from 5.2% YoY in 9M19, mainly on higher tax expense. FY19 ROE declined 0.8ppt YoY to 13.2%, but still topped SOE peers. Dividend payout ratio remained stable at 30%.

- Better positioned to withstand economic slowdown.** We expect CCB to face less earnings downside risk vs sector peers, given: 1) decent provision buffer, 2) stringent NPL recognition, 3) limited credit exposure to risky industries, and 4) superior capital adequacy.
- Results positive: 1) Solid 4Q19 revenue growth of 8.0% YoY**, faster than ICBC's (1398 HK, BUY) 3.3% and BOC's (3988 HK, BUY) 7.8%. Growth in net interest and fee income was 8.8% YoY and 6.8% YoY, respectively. **2) Asset quality continued to improve.** NPL ratio fell 1bp QoQ to 1.42%, and provision coverage climbed 9ppt to 228%. CCB further strengthened NPL recognition, as NPLs covered 1.7x >90day overdue loans. The Bank should face less asset quality pressure during macro downturn, thanks to limited loan exposure to cyclical industries (manufacturing, wholesale & retail). **3) Better deposit mix** with proportion of demand deposit inched up 2.1ppt HoH to 55.2%, despite a mild contraction in total deposit balance. **4) Capital position remained strongest in the sector.** CET1 and total CAR stood at 13.9% and 17.5% as of 4Q19.
- Results negative: 1) 4Q19 NIM contracted 3bp QoQ to 2.24%** by our estimate, and FY19 NIM narrowed 5bp YoY to 2.26%. Rising liability cost (+12bp YoY), in particular higher deposit cost (+18bp YoY), more than offset the modest gain in asset yield (+6bp YoY). **2) More conservative asset mix.** Lower-yield interbank assets expanded 60.6% QoQ, likely due to the Bank's falling risk appetite. **3) 4Q19 CIR picked up 0.5ppt YoY to 47.3%.**
- Maintain BUY and TP of HK\$9.10.** CCB trades at 0.63x FY20E P/B, 8.7% below its past 5-year mean. We kept earnings forecast unchanged, and our HK\$9.10 TP is derived from 0.89x target P/B and FY20E BPS of RMB9.2.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	658,891	705,629	771,506	822,765	885,314
Net profit (RMB mn)	254,655	266,733	280,593	297,992	322,017
EPS (RMB)	1.00	1.05	1.11	1.18	1.27
EPS CHG (%)	3.9	4.8	5.4	6.3	8.2
Consensus EPS (RMB)	NA	1.06	1.11	1.17	1.25
P/E (x)	5.6	5.4	5.1	4.8	4.4
P/B (x)	0.74	0.67	0.63	0.56	0.52
Dividend yield (%)	5.4	5.7	6.0	6.3	6.8
ROE (%)	13.9	13.2	12.6	12.3	12.2
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\$ 9.10**
 (Previous TP **HK\$ 9.10**)
Up/Downside **+44.7%**
Current Price **HK\$ 6.29**

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	1,580,556
Avg 3 mths t/o (RMB mn)	1,596.43
52w High/Low (RMB)	6.81/5.64
Total Issued Shares (mn)	240,417 (H)
	9,594 (A)

Source: Bloomberg

Shareholding Structure

Central Huijin	57.31%
CSFC	0.88%

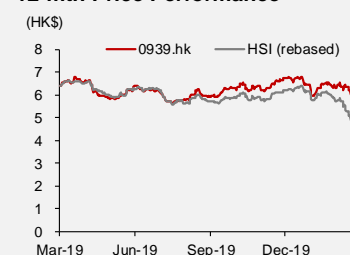
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-2.3%	-12.3%
3-mth	-7.0%	-16.8%
6-mth	6.3%	-9.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

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Figure 1: 4Q19 results summary

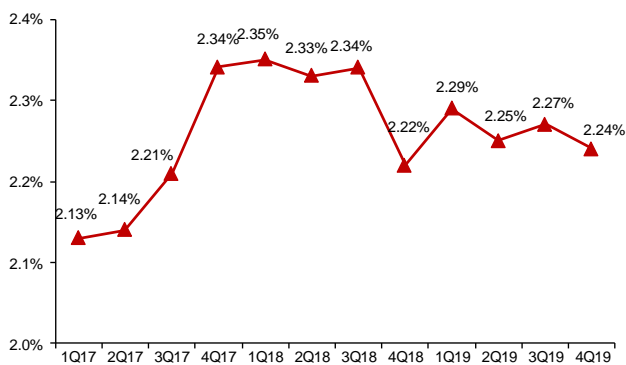
(RMB mn)						
P&L	FY18	FY19	YoY	4Q18	4Q19	YoY
Net interest income	486,278	510,680	5.0%	120,553	131,158	8.8%
Net fee and commission income	123,035	137,284	11.6%	26,507	28,316	6.8%
Operating income	658,891	705,629	7.1%	180,133	194,509	8.0%
Operating expense	(199,389)	(215,154)	7.9%	(84,381)	(92,041)	9.1%
PPoP	459,502	490,475	6.7%	95,752	102,468	7.0%
Impairment losses	(150,988)	(163,521)	8.3%	(50,968)	(53,473)	4.9%
Pre-tax profit	308,514	326,954	6.0%	44,784	48,995	9.4%
Income tax	(52,534)	(57,375)	9.2%	(3,556)	(6,633)	86.5%
Net profit	254,655	266,733	4.7%	40,547	41,389	2.1%

B/S	FY18	FY19	YoY	3Q19	4Q19	QoQ
Gross loans	13,783,053	15,022,825	9.0%	14,872,485	15,022,825	1.0%
Customers' deposits	17,108,678	18,366,293	7.4%	18,463,826	18,366,293	-0.5%
Total assets	23,222,693	25,436,261	9.5%	24,517,730	25,436,261	3.7%
NPLs	200,881	212,473	5.8%	211,399	212,473	0.5%

Key ratios	FY18	FY19	YoY	3Q19	4Q19	QoQ
NIM	2.31%	2.26%	-5bp	2.27%	2.24%	-3bp
ROE	13.9%	13.2%	-0.8ppt	14.1%	8.0%	-6.1ppt
NPL ratio	1.46%	1.42%	-4bp	1.43%	1.42%	-1bp
Provision coverage	208.4%	227.7%	19.3ppt	218.3%	227.7%	9.4ppt
LDR	80.6%	81.8%	1.2ppt	80.5%	81.8%	1.2ppt
CET-1 CAR	13.8%	13.9%	5bp	14.0%	13.9%	-7bp

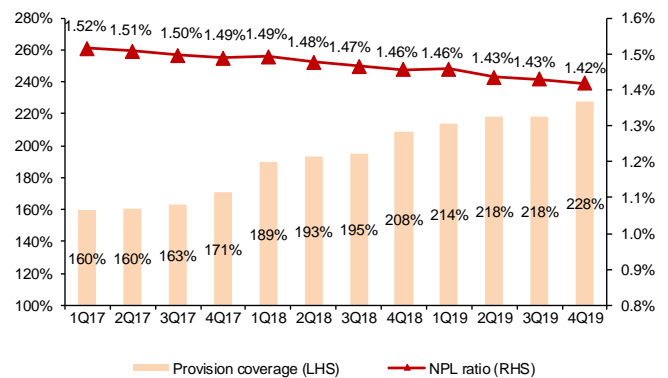
Source: Company data, CMBIS

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	978,922	1,050,997	1,139,255
Interest expenses	(324,748)	(372,819)	(413,347)	(448,235)	(485,043)
Net interest income	486,278	510,680	565,574	602,762	654,212
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	771,506	822,765	885,314
Operating expenses	(199,389)	(215,154)	(239,820)	(253,985)	(270,259)
PPoP	459,502	490,475	531,686	568,780	615,055
Provision	(150,988)	(163,521)	(187,918)	(203,906)	(221,036)
Operating profit	308,514	326,954	343,768	364,874	394,019
Non-operating income	(354)	(357)	(357)	(357)	(357)
Pre-tax profit	308,160	326,597	343,411	364,517	393,662
Income tax expenses	(52,534)	(57,375)	(60,329)	(64,037)	(69,157)
Minority interests	(971)	(2,489)	(2,489)	(2,489)	(2,489)
Net profit	254,655	266,733	280,593	297,992	322,017

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Op. income mix					
Net interest income	74%	72%	73%	73%	74%
Net fee income	19%	19%	19%	19%	19%
Others	8%	8%	7%	7%	7%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	7.5%	5.0%	10.7%	6.6%	8.5%
Net fee income	4.4%	11.6%	8.0%	8.0%	6.0%
Operating income	10.9%	7.1%	9.3%	6.6%	7.6%
PPoP	7.6%	6.7%	8.4%	7.0%	8.1%
Net profit	5.1%	4.7%	5.2%	6.2%	8.1%
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%	30.1%	29.9%	29.5%
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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	757,527	846,413	945,589
Total assets	23,222,693	25,436,261	27,516,963	29,698,758	32,060,202
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	2,413,126	2,623,220	2,852,119
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	2,431,996	2,642,090	2,870,989

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%	15.1%
Total CAR	17.2%	17.5%	16.4%	16.4%	16.4%

Profitability

NIM	2.31%	2.26%	2.21%	2.18%	2.18%
ROE	13.9%	13.2%	12.6%	12.3%	12.2%
ROA	1.11%	1.08%	1.05%	1.03%	1.03%
RoRWA	1.89%	1.83%	1.78%	1.76%	1.77%

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	10.93

Source: Company data, CMBIS estimates

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