

China CITIC Bank (998 HK)

Solid 3Q19 earnings on robust margin and fee trends

On 17 Oct, CITICB reported 9M19 net profit of RMB 40.8bn, up 10.7% YoY and accounting for 86.5%/87.4% of CMBIS/consensus full-year estimates. In 3Q19, revenue saw an impressive gain of 21.3% YoY (vs 14.5% YoY in 1H19), mainly driven by strong net interest income (+11.2% YoY), net fee income (+37.5% YoY), and trading and investment gain (+55.6% YoY). Despite a 38.9% YoY surge in provision charges, bottom-line earnings still picked up by 12.3% YoY (vs 10.1% YoY in 1H19). 3Q19 annualized ROE expanded 0.11ppt YoY to 11.7%.

- **Results positives:** 1) CITICB's loan growth remained healthy at 3.1% QoQ, faster than system loan growth of 2.6% QoQ and total asset growth of 1.0% QoQ. We believe it was primarily driven by retail loans, as the Bank targets to lift its retail loan proportion to near 60% by 2021 (43% as of 2Q19); 2) **Asset quality was well managed.** NPL formation declined 38bps QoQ to 1.34%, and NPL ratio stayed flat at 1.72%. Provision coverage climbed 9.7ppts QoQ to 174.8%; 3) **NIM widened 2bps QoQ to 1.98%**, given a better mix of interest-earning assets and strict control in funding cost; 4) **Net fee income rose 37.5% YoY**, likely on strong bank card and agency service fees; 5) **Capital position improved**, as CET1 CAR was up 18bps QoQ to 8.76%. The outstanding RMB 40bn A-share CB has entered into conversion period since 11 Sep, and it could potentially boost CAR by 80bps with 10.2% EPS dilution.
- **Results negatives:** 1) **Deposit growth slowed to 0.4% QoQ**, pushing up LDR by 2.6ppts to 97.7%. This was likely due to less deposit absorption effort under CBIRC's clampdown on irregular structured deposits; 2) **3Q19 opex went up 14.9% YoY**, possibly on rising expenses in technology development.
- **Maintain BUY and HK\$ 5.4 TP.** CITICB-H currently trades at 0.44x FY19E P/B, 14% below its past 5-year mean of 0.51x and the lowest among JSB peers. We anticipate a positive share price reaction to the overall solid 3Q19 results. Furthermore, we see rising incentives for management to accomplish a decent earnings track record in order to facilitate CB conversion.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income (RMB mn)	157,231	165,766	184,013	196,252	210,587
Net profit (RMB mn)	42,566	44,513	47,139	50,444	54,296
EPS (RMB)	0.84	0.88	0.94	1.00	1.08
EPS CHG (%)	(0.9)	4.7	6.1	7.2	7.8
P/E (x)	4.7	4.4	4.2	3.9	3.6
P/B (x)	0.53	0.48	0.44	0.41	0.37
Dividend yield (%)	6.7	5.9	6.4	6.9	7.4
ROE (%)	11.6	11.3	10.9	10.8	10.7
NPL ratio (%)	1.68	1.77	1.72	1.74	1.71
Provision coverage (%)	169	158	170	175	182

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 5.40
(Previous TP	HK\$ 5.40)
Up/Downside	+23.6%
Current Price	HK\$ 4.37

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	292,335
Avg 3 mths t/o (RMB mn)	99.98
52w High/Low (RMB)	5.41/ 3.92
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%

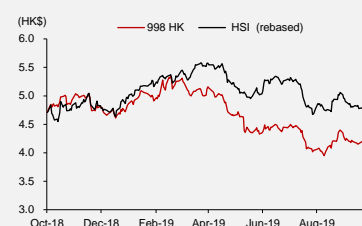
Source: Company data

Share Performance

	Absolute	Relative
1-mth	0.0%	1.7%
3-mth	-2.0%	5.2%
6-mth	-15.0%	-4.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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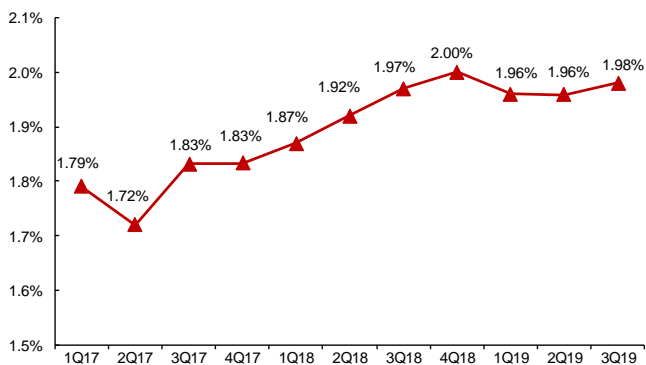
Figure 1: 3Q19 results summary

(RMB mn)						
P&L	9M18	9M19	YoY	3Q18	3Q19	YoY
Net interest income	76,860	87,254	13.5%	27,052	30,092	11.2%
Net fee and commission income	32,604	43,062	32.1%	10,742	14,770	37.5%
Operating income	121,854	142,273	16.8%	40,474	49,081	21.3%
Operating expense	(34,199)	(38,041)	11.2%	(11,636)	(13,368)	14.9%
PPoP	87,655	104,232	18.9%	28,838	35,713	23.8%
Impairment losses	(41,363)	(55,312)	33.7%	(15,202)	(21,122)	38.9%
Pre-tax profit	46,292	48,920	5.7%	13,636	14,591	7.0%
Income tax	(8,543)	(7,743)	-9.4%	(2,276)	(2,138)	-6.1%
Net profit	36,799	40,752	10.7%	11,078	12,445	12.3%

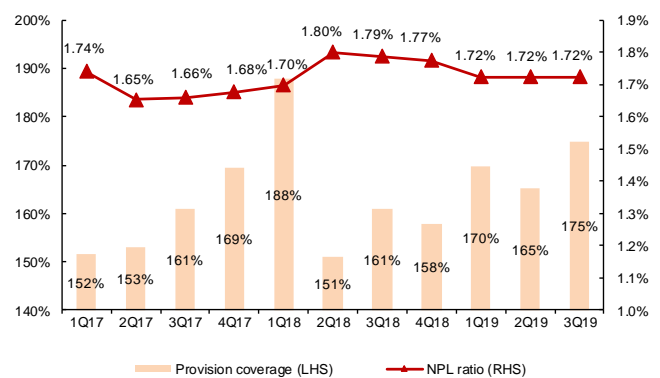
B/S	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
Gross loans	3,511,095	3,956,104	12.7%	3,835,876	3,956,104	3.1%
Customers' deposits	3,578,398	4,050,290	13.2%	4,034,436	4,050,290	0.4%
Total assets	5,864,796	6,461,910	10.2%	6,398,803	6,461,910	1.0%
NPLs	62,794	68,190	8.6%	66,161	68,190	3.1%

Key ratios	9M18	9M19	YoY	2Q19	3Q19	QoQ
NIM	1.92%	1.97%	5bp	1.96%	1.98%	2bp
ROE	13.0%	13.0%	-	14.4%	11.7%	-2.7ppt
NPL ratio	1.79%	1.72%	-6bp	1.72%	1.72%	0bp
Provision coverage	160.9%	174.8%	13.9ppt	165.2%	174.8%	9.7ppt
LDR	98.1%	97.7%	-0.4ppt	95.1%	97.7%	2.6ppt
CET-1 CAR	8.7%	8.8%	11bp	8.6%	8.8%	18bp

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)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest income	220,762	233,793	269,165	290,133	314,087
Interest expenses	(121,117)	(129,021)	(141,367)	(152,923)	(165,511)
Net interest income	99,645	104,772	127,798	137,210	148,576
Net fee income	46,858	45,148	47,405	49,776	52,264
Others	10,728	15,846	8,810	9,266	9,747
Operating income	157,231	165,766	184,013	196,252	210,587
Operating expenses	(48,913)	(52,600)	(58,619)	(63,326)	(68,646)
PPoP	108,318	113,166	125,394	132,926	141,941
Provision	(55,787)	(58,233)	(67,317)	(70,893)	(75,296)
Operating profit	52,531	54,933	58,077	62,033	66,645
Non-operating income	(255)	(607)	(607)	(607)	(607)
Pre-tax profit	52,276	54,326	57,470	61,426	66,038
Income tax expenses	(9,398)	(8,950)	(9,468)	(10,120)	(10,880)
Minority interests	(312)	(863)	(863)	(863)	(863)
Net profit	42,566	44,513	47,139	50,444	54,296

Key Ratio

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Op. income mix					
Net interest income	63%	63%	69%	70%	71%
Net fee income	30%	27%	26%	25%	25%
Others	7%	10%	5%	5%	5%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	-6.1%	5.1%	22.0%	7.4%	8.3%
Net fee income	10.8%	-3.6%	5.0%	5.0%	5.0%
Operating income	2.0%	5.4%	11.0%	6.7%	7.3%
PPoP	1.3%	4.5%	10.8%	6.0%	6.8%
Net profit	2.3%	4.6%	5.9%	7.0%	7.6%
Gross loans	11.1%	12.9%	9.0%	8.0%	8.0%
Customer deposits	-6.4%	7.1%	8.0%	8.0%	8.0%

Efficiency

Cost-to-income ratio	30.1%	30.7%	30.6%	31.0%	31.3%
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Balance Sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Due from central banks	561,560	532,520	574,778	620,416	669,705
Interbank assets	351,045	286,103	303,618	316,068	329,140
Investments	1,445,298	1,600,163	1,695,615	1,855,874	2,036,300
Gross loans	3,196,887	3,608,412	3,933,169	4,247,823	4,587,648
Less: provision	90,903	101,154	114,936	129,294	142,916
Other assets	213,804	140,670	203,882	216,258	224,057
Total assets	5,677,691	6,066,714	6,596,125	7,127,144	7,703,934
Due to central banks	237,600	286,430	315,073	346,580	381,238
Interbank liabilities	1,283,047	1,361,999	1,486,167	1,622,753	1,772,996
Customer deposits	3,407,636	3,649,611	3,941,580	4,256,906	4,597,459
Debt securities issued	168,299	208,421	212,436	216,651	221,078
Other liabilities	168,676	107,167	113,229	119,785	126,877
Total liabilities	5,265,258	5,613,628	6,068,485	6,562,676	7,099,649
Shareholders' equity	399,638	436,661	511,215	548,043	587,861
Incl. Perpetual bonds	-	-	40,000	40,000	40,000
Incl. Preferred stocks	34,955	34,955	34,955	34,955	34,955
Minority interest	12,795	16,425	16,425	16,425	16,425
Total equity	412,433	453,086	527,640	564,468	604,286

Asset quality

NPL ratio	1.68%	1.77%	1.72%	1.74%	1.71%
Provision coverage	169%	158%	170%	175%	182%
Provision/ total loans	2.84%	2.80%	2.92%	3.04%	3.12%
Credit costs	1.65%	1.40%	1.55%	1.50%	1.47%

Capital adequacy

CET-1 CAR	8.5%	8.6%	10.1%	10.2%	10.2%
Tier-1 CAR	9.3%	9.4%	11.0%	11.0%	10.9%
Total CAR	11.6%	12.5%	13.3%	13.1%	12.8%

Profitability

NIM	1.79%	1.94%	2.03%	2.01%	2.01%
ROE	11.6%	11.3%	10.9%	10.8%	10.7%
ROA	0.71%	0.74%	0.72%	0.72%	0.71%
RoRWA	1.00%	0.96%	1.01%	1.07%	1.07%

Per share

EPS (RMB)	0.84	0.88	0.94	1.00	1.08
DPS (RMB)	0.26	0.23	0.25	0.27	0.29
BVPS (RMB)	7.45	8.21	8.92	9.67	10.48

Source: Company data, CMBIS estimates

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