

Bank of China (3988 HK)

Rising uncertainties from overseas exposure

BOC's FY19 net profit rose 4.1% YoY to RMB187.4bn, in line with our forecast but 2.7% higher than consensus estimate. 4Q19 earnings growth was subdued at 3.8% YoY, due to weaker fee income and rising opex. As such, full-year ROE declined 0.5ppt YoY to 11.4%. Dividend payout was stable at 30%.

- Double whammy from COVID-19's global outbreak.** The pandemic has restrained economic activities worldwide and triggered interest rate cut in major countries. BOC has above-peers loan exposure to manufacturing sector, thus is more susceptible to potential asset quality risks on weakening export demand. The Bank might see greater NIM pressure, given its higher proportion (25.3% as of 4Q19) of foreign currency denominated assets.
- Results positive: 1) Asset quality remained solid in 4Q19.** NPL was unchanged QoQ but down 5bp YoY to 1.37%, likely the lowest among Big-4. Provision coverage also stayed flat QoQ at 183%. NPL formation rose 47bp QoQ to 105bp in 4Q19, primarily due to stricter NPL recognition. NPLs covered 179% of >90day overdue loans (up from 136% in 2Q19). **2) Trading gains increased 325% YoY in FY19,** mainly from higher returns on FX related products. **3) Optimized interest-earning asset mix.** Loans grew 1.4% QoQ, while investments were largely stable and lower-yield interbank assets fell 5.4% QoQ. **4) Capital position was strengthened.** CET1/total CAR rose 6bp/8bp QoQ to 11.3%/15.6% in 4Q19.
- Results negative: 1) 4Q19 NIM narrowed 1bp QoQ** and FY19 NIM contracted 6bp YoY to 1.84%. Specifically, asset yield edged up 3bp YoY, but liability cost climbed 8bp YoY, mainly driven by 14bp YoY surge in deposit cost. **2) Net fee income declined 3.7% YoY in 4Q19,** leading to a subdued full-year growth of 2.8%. That said, bank card, settlement & clearing, consultancy & advisory, and custodian businesses still saw healthy revenue growth. **3) Deposit growth was lackluster at 0.3% QoQ,** and proportion of demand deposit slip 0.8ppt to 47.9%. Structured deposits was up 10.8% HoH.
- Maintain BUY and TP of HK\$4.60.** We kept our earnings forecast unchanged. BOC trades at 0.43x FY20E P/B, 22% below its past 5-year mean. Despite rising uncertainties from unfavorable global economic condition, the Bank's near-trough valuation looks attractive for long-term investment horizon.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	503,806	550,010	602,023	642,700	695,268
Net profit (RMB mn)	180,086	187,405	195,493	205,534	219,428
EPS (RMB)	0.59	0.61	0.64	0.67	0.72
EPS CHG (%)	4.6	4.2	4.5	5.3	7.0
Consensus EPS (RMB)	NA	0.62	0.64	0.67	0.71
P/E (x)	4.5	4.3	4.1	3.9	3.6
P/B (x)	0.51	0.47	0.43	0.40	0.37
Dividend yield (%)	7.0	7.3	7.6	8.0	8.5
ROE (%)	11.9	11.4	11.0	10.7	10.5
NPL ratio (%)	1.42	1.37	1.42	1.40	1.36
Provision coverage (%)	182	183	178	186	197

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$ 4.60**
 (Previous TP **HK\$ 4.60**)
 Up/Downside **+57.0%**
 Current Price **HK\$ 2.93**

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,061,727
Avg 3 mths t/o (HK\$ mn)	603.23
52w High/Low (HK\$)	3.6/2.73
Total Issued Shares (mn)	83,622 (H) 210,766 (A)

Source: Bloomberg

Shareholding Structure

Huijin	64.63%
CSFC	2.92%

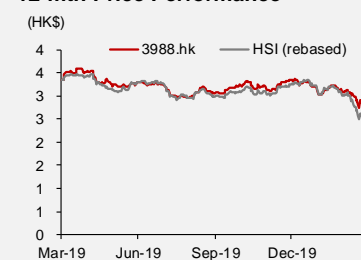
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-7.3%	-12.3%
3-mth	-12.5%	-16.8%
6-mth	-3.9%	-9.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

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Figure 1: 4Q19 results summary

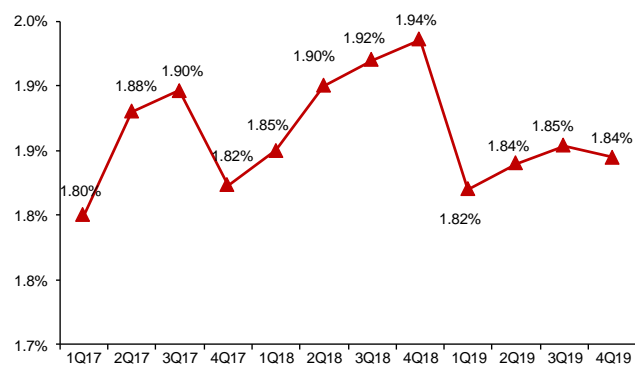
(RMB mn)						
P&L	FY18	FY19	YoY	4Q18	4Q19	YoY
Net interest income	359,706	374,250	4.0%	95,399	96,430	1.1%
Net fee and commission income	87,208	89,612	2.8%	18,690	17,996	-3.7%
Operating income	503,806	550,010	9.2%	135,911	146,529	7.8%
Operating expense	(176,979)	(198,269)	12.0%	(58,421)	(69,244)	18.5%
PPoP	326,827	351,741	7.6%	77,490	77,285	-0.3%
Impairment losses	(99,294)	(102,153)	2.9%	(44,025)	(41,306)	-6.2%
Pre-tax profit	227,533	249,588	9.7%	33,465	35,979	7.5%
Income tax	(37,208)	(48,754)	31.0%	(4,342)	(5,569)	28.3%
Net profit	180,086	187,405	4.1%	26,812	27,826	3.8%

B/S	FY18	FY19	YoY	3Q19	4Q19	QoQ
Gross loans	11,819,272	13,068,785	10.6%	12,888,490	13,068,785	1.4%
Customers' deposits	14,883,596	15,817,548	6.3%	15,520,847	15,817,548	1.9%
Total assets	21,267,275	22,769,744	7.1%	22,608,164	22,769,744	0.7%
NPLs	166,941	178,235	6.8%	176,514	178,235	1.0%

Key ratio	FY18	FY19	YoY	3Q19	4Q19	QoQ
NIM	1.90%	1.84%	-6bp	1.85%	1.84%	-1bp
ROE	11.9%	11.4%	-0.5ppt	11.4%	6.8%	-4.6ppt
NPL ratio	1.42%	1.37%	-5bp	1.37%	1.37%	0bp
Provision coverage	182.0%	182.9%	0.9ppt	182.2%	182.9%	0.6ppt
LDR	79.4%	82.6%	3.2ppt	83.0%	82.6%	-0.4ppt
CET-1 CAR	11.4%	11.3%	-11bp	11.2%	11.3%	6bp

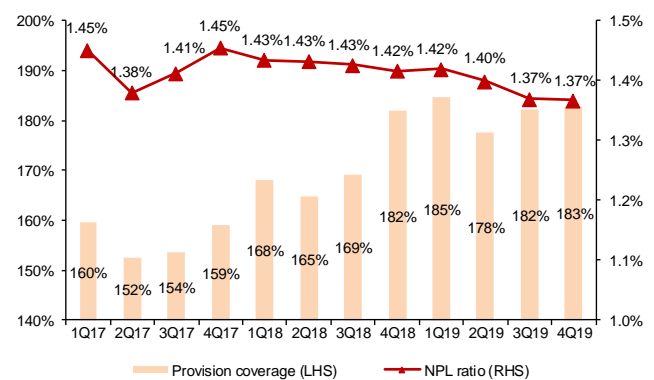
Source: Company data, CMBIS

Figure 2: Quarterly NIM of BOC



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of BOC



Source: Company data, CMBIS

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	687,900	742,207	816,796	877,217	950,856
Interest expenses	(328,194)	(367,957)	(403,697)	(435,844)	(470,154)
Net interest income	359,706	374,250	413,099	441,374	480,702
Net fee income	87,208	89,612	95,885	102,597	109,779
Others	56,892	86,148	93,040	98,730	104,788
Operating income	503,806	550,010	602,023	642,700	695,268
Operating expenses	(176,979)	(198,269)	(216,877)	(233,018)	(251,930)
PPoP	326,827	351,741	385,146	409,683	443,339
Provision	(99,294)	(102,153)	(123,718)	(133,811)	(148,042)
Operating profit	227,533	249,588	261,428	275,872	295,297
Non-operating income	2,110	1,057	1,057	1,057	1,057
Pre-tax profit	229,643	250,645	262,485	276,929	296,354
Income tax expenses	(37,208)	(48,754)	(51,057)	(53,867)	(57,645)
Minority interests	(12,349)	(14,486)	(15,935)	(17,528)	(19,281)
Net profit	180,086	187,405	195,493	205,534	219,428

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Op. income mix					
Net interest income	71%	68%	69%	69%	69%
Net fee income	17%	16%	16%	16%	16%
Others	11%	16%	15%	15%	15%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	6.3%	4.0%	10.4%	6.8%	8.9%
Net fee income	-1.7%	2.8%	7.0%	7.0%	7.0%
Operating income	9.2%	9.2%	9.5%	6.8%	8.2%
PPoP	5.5%	7.6%	9.5%	6.4%	8.2%
Net profit	4.5%	4.1%	4.3%	5.1%	6.8%
Gross loans	8.5%	10.6%	10.5%	9.5%	9.5%
Customer deposits	12.1%	6.3%	8.5%	8.0%	8.0%
Efficiency					
Cost-to-income ratio	34.2%	35.1%	34.9%	35.1%	35.1%

Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	2,331,053	2,078,809	2,254,588	2,434,955	2,629,751
Interbank assets	1,405,534	1,399,519	1,441,505	1,484,750	1,529,292
Investments	5,054,551	5,514,062	5,822,724	6,148,798	6,493,271
Gross loans	11,819,272	13,068,785	14,441,007	15,812,903	17,315,129
Less: provision	303,781	325,360	360,779	413,381	472,637
Other assets	960,646	1,033,929	1,068,918	1,103,765	1,138,748
Total assets	21,267,275	22,769,744	24,667,963	26,571,788	28,633,553
Due to central banks	907,521	846,277	846,277	846,277	846,277
Interbank liabilities	2,493,749	2,731,379	2,944,170	3,198,132	3,477,305
Customer deposits	14,883,596	15,817,548	17,162,040	18,535,003	20,017,803
Debt securities issued	631,854	672,429	739,672	813,639	895,003
Other liabilities	625,158	725,415	779,843	835,890	896,551
Total liabilities	19,541,878	20,793,048	22,472,001	24,228,941	26,132,938
Shareholders' equity	1,612,980	1,851,701	2,070,966	2,217,852	2,375,620
Incl. Perpetual bonds	-	-	80,000	80,000	80,000
Incl. Preferred stocks	99,714	199,893	199,893	199,893	199,893
Minority interest	112,417	124,995	124,995	124,995	124,995
Total equity	1,725,397	1,976,696	2,195,961	2,342,847	2,500,615

Asset quality					
NPL ratio	1.42%	1.37%	1.42%	1.40%	1.36%
Provision coverage	182%	183%	178%	186%	197%
Provision/ total loans	2.58%	2.50%	2.50%	2.61%	2.73%
Credit costs	0.95%	0.80%	0.88%	0.86%	0.87%
Capital adequacy					
CET-1 CAR	11.4%	11.3%	12.5%	12.6%	12.6%
Tier-1 CAR	12.3%	12.8%	13.9%	13.8%	13.7%
Total CAR	15.0%	15.6%	15.3%	15.1%	15.0%
Profitability					
NIM	1.90%	1.84%	1.78%	1.76%	1.77%
ROE	11.9%	11.4%	11.0%	10.7%	10.5%
ROA	0.85%	0.82%	0.80%	0.78%	0.77%
RoRWA	1.39%	1.34%	1.30%	1.28%	1.28%
Per share					
EPS (RMB)	0.59	0.61	0.64	0.67	0.72
DPS (RMB)	0.18	0.19	0.20	0.21	0.22
BVPS (RMB)	5.14	5.61	6.08	6.58	7.12

Source: Company data, CMBIS estimates

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