

China Everbright Bank (601818 CH)

Subdued profit; Highlights on fees and asset quality

CEB's net profit declined 29.7%/10.2% YoY in 2Q/1H20, primarily due to heavy provisions (+54.9% YoY) amid kitchen-sinking in 2Q20. We expect manageable asset quality risk ahead, given lower overdue/SML ratio and sequential pick-up in provision coverage. Net interest income growth was decent at 10.3% YoY, on solid credit expansion and largely stable margin. As the first Chinese joint-stock bank to set up wealth management subsidiary in Sep 2019, CEB saw achieved a strong recovery in wealth management service fee (+450% YoY), leading to 17.3% YoY total fee income growth in 1H20.

- Results positives:**
 - 1) Deposit growth was solid at 4.0% QoQ.** LDR retreated 2.4ppt QoQ to 79.6%, the lowest among joint-stock banks under our coverage.
 - 2) Asset quality improved.** NPL ratio remained flat at 1.55%, and provision coverage climbed 4.6ppt QoQ to 186.8%. As the leading indicators for asset quality trend, both overdue loan and SML ratio declined moderately, suggesting easing NPL pressure ahead.
 - 3) Net fee income rose 17.3% YoY in 2Q20,** mainly driven by wealth management and settlement & clearing businesses.
 - 4) Cost-income ratio fell 0.7ppt YoY** to 27.8% in 2Q20.
- Results negatives:**
 - 1) Loan growth slowed to 0.9% in 2Q20,** from 6.7% in 1Q20. Corporate loans and personal mortgage increased 11.4%/6.4% in 1H20, but growth in credit card and other retail loans stay muted due to COVID-19's impact.
 - 2) 2Q20 NIM narrowed 2bp QoQ to 2.29%** based on our estimate. Corporate loan and investment yields slid 8bp/6bp in 1H20, but that of retail loans was largely stable. On liability side, interbank funding cost fell 31bp HoH during monetary loosening, more than offsetting deposit cost hike of 8bp HoH.
 - 3) Capital position weakened,** as CET1/total CAR dropped 36bp/35bp QoQ to 8.68%/12.74% on soft earnings and cash dividend payout. The outstanding RMB30bn CB could boost capital ratio by 80bp after full conversion.
- Maintain BUY with lower TP of RMB5.0.** We cut FY20/21 earnings forecasts by 13-14%, to reflect lower NIM/fee income and higher credit cost assumptions. Our revised TP of HK\$4.0 is based on 0.78x (from 0.84x) target P/B and FY20 BVPS of RMB6.45.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	110,386	132,939	148,926	161,316	176,676
Net profit (RMB mn)	33,659	37,354	34,803	37,960	43,743
EPS (RMB)	0.61	0.68	0.64	0.70	0.81
EPS CHG (%)	1.1	11.5	(7.1)	9.5	15.8
Consensus EPS (RMB)	NA	0.68	0.70	0.75	0.84
P/E (x)	6.3	5.7	6.1	5.6	4.8
P/B (x)	0.71	0.65	0.60	0.56	0.51
Dividend yield (%)	4.1	5.5	5.1	5.6	6.5
ROE (%)	11.6	11.9	10.2	10.4	11.1
NPL ratio (%)	1.59	1.56	1.58	1.53	1.44
Provision coverage (%)	176	182	196	222	249

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB 5.00
(Previous TP	RMB 5.50)
Up/Downside	+28.9%
Current Price	RMB 3.88

China Banking Sector

Terry Sun, CFA
 (852) 3900 0836
 terrysun@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	186,923
Avg 3 mths t/o (RMB mn)	781
52w High/Low (RMB)	4.8/3.48
Total Issued Shares (mn)	39,811 (A) 12,679 (H)

Source: Bloomberg

Shareholding Structure

China Everbright Group	48.5%
Overseas Chinese Town	8.0%
Ocean Fortune Investment	3.1%

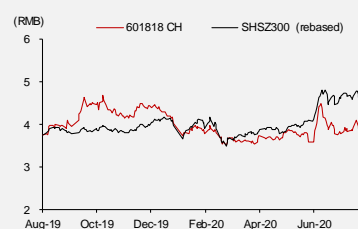
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.9%	-2.9%
3-mth	1.8%	-18.9%
6-mth	2.6%	-16.5%
12-mth	5.1%	-17.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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Figure 1: 2Q20 results summary

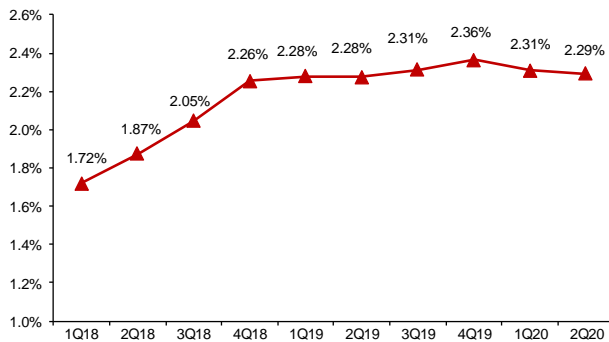
(RMB mn)							
P&L	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
Net interest income	24,950	26,100	26,635	27,146	27,520	1.4%	10.3%
Non-interest income	7,398	7,982	5,998	10,178	7,270	-28.6%	-0.6%
Operating income	32,348	34,082	32,633	37,324	34,790	-6.8%	7.8%
Operating expense	(9,220)	(10,999)	(9,067)	(9,694)	(9,672)	-0.2%	5.3%
PPoP	23,128	23,083	23,566	27,630	25,118	-9.1%	8.8%
Impairment losses	(10,421)	(10,216)	(15,752)	(14,533)	(16,140)	11.1%	54.9%
Pre-tax profit	12,707	12,867	7,814	13,097	8,978	-31.4%	-29.1%
Income tax	(1,974)	(1,871)	(1,853)	(2,224)	(1,393)	-37.4%	-29.4%
Net profit	10,711	10,955	5,955	10,831	7,532	-30.5%	-29.7%

B/S	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
Gross loans	2,592,970	2,657,253	2,720,364	2,895,027	2,921,562	0.9%	12.7%
Total deposits	2,958,862	2,962,741	3,017,888	3,530,589	3,672,102	4.0%	24.1%
Total assets	4,647,020	4,723,247	4,733,431	5,232,011	5,388,434	3.0%	16.0%
NPLs	40,718	41,041	42,212	45,004	45,413	0.9%	11.5%

Key ratio	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
NIM	2.28%	2.31%	2.36%	2.28%	2.29%	-2bp	2bp
ROE	14.4%	14.4%	7.6%	13.5%	9.3%	-4.2ppt	-5.1ppt
NPL ratio	1.57%	1.54%	1.56%	1.55%	1.55%	0bp	-2bp
Provision coverage	178.0%	179.1%	181.6%	182.2%	186.8%	4.5ppt	8.7ppt
LDR	87.6%	89.7%	90.1%	82.0%	79.6%	-2.4ppt	-8.1ppt
CET-1 CAR	9.0%	9.2%	9.2%	9.0%	8.7%	-36bp	-33bp

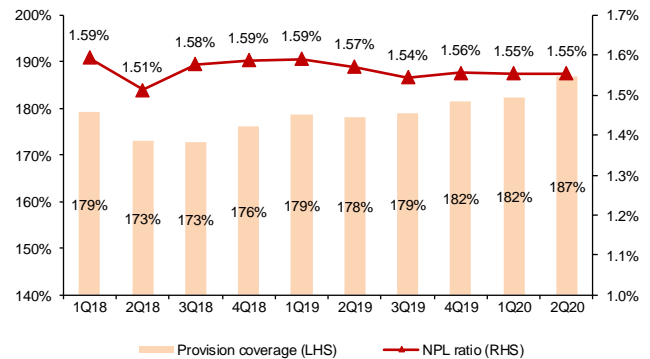
Source: Company data, CMBIS

Figure 2: Quarter NIM of CEB



Source: Company data

Figure 3: NPL ratio and provision coverage of CEB



Source: Company data

Figure 4: Adjustments of earnings forecasts

	NIM			Fee income growth			Credit cost			Net profit (RMB mn)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
FY20E	2.27%	2.25%	-2bp	12.0%	8.0%	-4ppt	1.95%	2.15%	+18bp	40,335	34,803	-13.7%
FY21E	2.24%	2.22%	-2bp	12.0%	10.0%	-2ppt	1.90%	2.05%	+15bp	44,226	37,960	-14.2%

Source: CMBIS estimates

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	185,688	210,044	234,060	258,868	284,517
Interest expenses	(107,524)	(108,126)	(118,009)	(131,555)	(144,706)
Net interest income	78,164	101,918	116,052	127,312	139,810
Net fee income	19,773	23,169	25,023	27,525	30,277
Others	12,449	7,852	7,852	6,479	6,589
Operating income	110,386	132,939	148,926	161,316	176,676
Operating expenses	(33,706)	(38,429)	(43,323)	(47,728)	(52,864)
PPoP	76,680	94,510	105,603	113,588	123,812
Provision	(35,828)	(49,347)	(63,518)	(67,694)	(70,943)
Operating profit	40,852	45,163	42,085	45,893	52,869
Non-operating income	-	-	-	-	-
Pre-tax profit	40,852	45,163	42,085	45,893	52,869
Income tax expenses	(7,131)	(7,722)	(7,196)	(7,847)	(9,040)
Minority interests	(62)	(87)	(87)	(87)	(87)
Net profit	33,659	37,354	34,803	37,960	43,743

Key Ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix					
Net interest income	71%	77%	78%	79%	79%
Net fee income	18%	17%	17%	17%	17%
Others	11%	6%	5%	4%	4%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	28.2%	30.4%	13.9%	9.7%	9.8%
Net fee income	-35.7%	17.2%	8.0%	10.0%	10.0%
Operating income	20.0%	20.4%	12.0%	8.3%	9.5%
PPoP	25.3%	23.3%	11.7%	7.6%	9.0%
Net profit	6.7%	11.0%	-6.8%	9.1%	15.2%
Gross loans	19.5%	11.7%	12.0%	10.0%	10.0%
Customer deposits	13.2%	17.3%	15.0%	10.0%	10.0%
Efficiency					
Cost-to-income ratio	29.5%	27.9%	27.9%	28.3%	28.7%

Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	361,854	359,985	413,246	454,080	498,996
Interbank assets	175,463	98,463	196,926	206,772	217,111
Investments	1,301,080	1,433,546	1,580,513	1,737,960	1,911,264
Gross loans	2,428,487	2,712,204	3,037,668	3,341,435	3,675,579
Less: provision	67,209	76,228	93,932	113,663	131,942
Other assets	157,657	205,461	208,875	235,479	264,834
Total assets	4,357,332	4,733,431	5,343,297	5,862,063	6,435,842
Due to central banks	267,193	224,838	236,080	247,884	260,278
Interbank liabilities	958,144	854,454	949,550	1,055,621	1,173,940
Customer deposits	2,571,961	3,017,888	3,470,571	3,817,628	4,199,391
Debt securities issued	164,844	153,598	168,958	185,854	204,439
Other liabilities	72,717	96,599	108,514	117,958	128,348
Total liabilities	4,034,859	4,347,377	4,933,673	5,424,945	5,966,396
Shareholders' equity	321,488	384,982	408,552	436,046	468,374
Incl. Perpetual bonds	-	-	-	-	-
Incl. Preferred stocks	35,108	70,067	70,067	70,067	70,067
Minority interest	985	1,072	1,072	1,072	1,072
Total equity	322,473	386,054	409,624	437,118	469,446

Asset quality					
NPL ratio	1.59%	1.56%	1.58%	1.53%	1.44%
Provision coverage	176%	182%	196%	222%	249%
Provision/ total loans	2.78%	2.81%	3.09%	3.40%	3.59%
Credit costs	1.54%	1.86%	2.15%	2.05%	1.95%
Capital adequacy					
CET-1 CAR	9.1%	9.2%	8.7%	8.5%	8.5%
Tier-1 CAR	10.1%	11.1%	10.5%	10.2%	9.9%
Total CAR	13.0%	13.5%	11.8%	11.4%	11.1%
Profitability					
NIM	1.97%	2.31%	2.25%	2.22%	2.22%
ROE	11.6%	11.9%	10.2%	10.4%	11.1%
ROA	0.76%	0.79%	0.66%	0.65%	0.69%
RoRWA	1.07%	1.08%	0.91%	0.89%	0.94%
Per share					
EPS (RMB)	0.61	0.68	0.64	0.70	0.81
DPS (RMB)	0.16	0.21	0.20	0.22	0.25
BVPS (RMB)	5.46	6.00	6.45	6.97	7.59

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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