

China CITIC Bank (998 HK)

Earnings beat, yet NIM and NPL disappoint

CITICB reported solid 1Q20 PPop/net profit growth of 13.6%/9.4% YoY (vs. 4.0% YoY consensus full-year earnings growth). This was mainly driven by strong investment gains and lower opex. On the other hand, notable NIM contraction and surge in NPL ratio were major shortcomings, and likely weigh on near-term share price performance. Having said that, 0.3x P/B with 11% ROE and 8% dividend yield represent attractive risk/reward, in our view.

- Results positives:**
 - 1) Healthy loan expansion of 3.9% in 1Q20** (vs 3.3% in 1Q19), likely driven by lending to corporate segment.
 - 2) Deposit growth was also decent at 6.0% QoQ**, the strongest quarterly growth in past three years. As such, LDR fell 1.9ppt to 96.3%.
 - 3) Non-interest income picked up 13.6% YoY**, on robust investment gains (+159.5% YoY), which more than offset weakening fee income.
 - 4) 1Q20 cost-income ratio declined 3.3ppt YoY to 23.1%**, indicating better operating efficiency.
 - 5) Capital position improved**, as CET1 and total CAR climbed 23bp/24bp QoQ to 8.92%/12.67%.
- Results negatives:**
 - 1) 1Q20 NIM slid 16bp QoQ to 1.97%**, likely on rising proportion of corporate loans and bond investments in interest-earning asset mix, while the extension of higher-yield retail loans, i.e. credit card and consumption loans, were stagnant amid COVID-19's outbreak. As a result, growth in net interest income slowed to 6.0% YoY, from 12.7% YoY in FY19.
 - 2) NPL ratio rose 15bp QoQ to 1.80%**, faster than 6bp QoQ uptick for overall banking sector in 1Q20 (according to CBIRC's press release). However, on the back of 18.4% YoY increase of impairment charges, provision coverage edged up 2ppt to 177.4%.
 - 3) Net fee income fell 6.7% YoY**, likely due to sluggish growth in bank card fee.
- Maintain BUY and HK\$5.60 TP.** We keep our FY20-22E earnings forecasts and TP unchanged. CITICB is trading at undemanding 0.33x FY20E P/B, 31% below its past 5-year mean and the lowest among banks under our coverage.

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	NA	0.99	1.06	1.10
P/E (x)	3.6	3.4	3.1	2.8	2.5
P/B (x)	0.39	0.36	0.33	0.30	0.28
Dividend yield (%)	7.2	7.4	8.3	9.2	10.2
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\$ 5.60**)
Up/Downside **+56.4%**
Current Price **HK\$ 3.58**

China Banking Sector

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

Stock Data

Mkt Cap (HK\$ mn)	241,524
Avg 3 mths t/o (HK\$ mn)	137.8
52w High/Low (HK\$)	5.11/3.37
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%

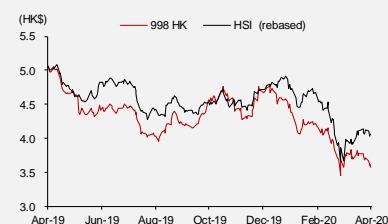
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-1.9%	-6.4%
3-mth	-19.6%	-4.6%
6-mth	-20.6%	-11.0%
12-mth	-29.6%	-11.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Slower earnings pace on prudent provisioning – 27 Mar 2020
- 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: 1Q20 results summary

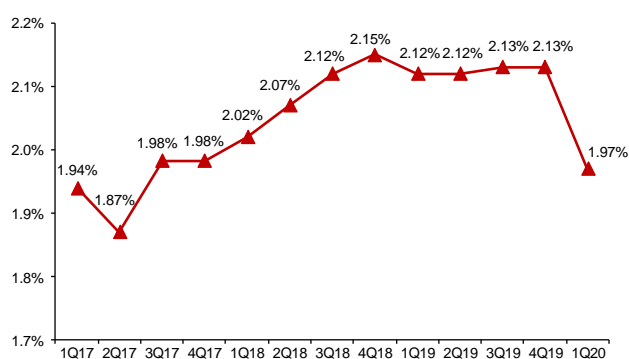
(RMB mn)						
P&L	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
Net interest income	40,017	31,912	-20.3%	30,116	31,912	6.0%
Net fee and commission income	3,322	12,501	276.3%	13,402	12,501	-6.7%
Operating income	45,608	51,570	13.1%	47,417	51,570	8.8%
Operating expense	(16,127)	(11,892)	-26.3%	(12,492)	(11,892)	-4.8%
PPoP	29,481	39,678	34.6%	34,925	39,678	13.6%
Impairment losses	(21,943)	(22,636)	3.2%	(19,125)	(22,636)	18.4%
Pre-tax profit	7,538	17,042	126.1%	15,800	17,042	7.9%
Income tax	192	(2,495)	-1399.5%	(2,472)	(2,495)	0.9%
Net profit	7,263	14,453	99.0%	13,216	14,453	9.4%

B/S	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
Gross loans	3,997,987	4,154,393	3.9%	3,725,963	4,154,393	11.5%
Customers' deposits	4,073,258	4,315,990	6.0%	3,821,218	4,315,990	12.9%
Total assets	6,750,433	7,032,434	4.2%	6,241,411	7,032,434	12.7%
NPLs	66,117	74,802	13.1%	64,225	74,802	16.5%

Key ratio	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
NIM	2.13%	1.97%	-16bp	2.12%	1.97%	-15bp
ROE	6.7%	12.9%	6.2ppt	13.1%	12.9%	-0.2ppt
NPL ratio	1.65%	1.80%	15bp	1.72%	1.80%	8bp
Provision coverage	175.2%	177.4%	2.1ppt	169.9%	177.4%	7.5ppt
LDR	98.2%	96.3%	-1.9ppt	97.5%	96.3%	-1.3ppt
CET-1 CAR	8.7%	8.9%	23bp	8.8%	8.9%	14bp

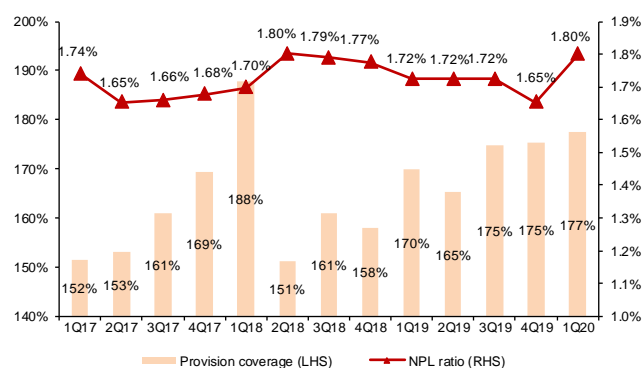
Source: Company data, CMBIS

Figure 2: Quarterly NIM of CITICB



Source: Company data, CMBIS; Quarterly NIM is based on our estimates.

Figure 3: NPL ratio and provision coverage of CITICB



Source: Company data, CMBIS

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	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%

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

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

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.