

China CITIC Bank (601998 CH)

Earnings regaining momentum

On 27 Aug, CITICB reported 1H19 net profit of RMB 28.3bn, up 10.1% YoY and accounting for 60.5%/61.8% of CMBIS/consensus full-year estimates. For 2Q19, PPOp maintained a double-digit growth of 10.1% YoY (vs 23.4% YoY in 1Q19), on the back of strong net interest income (+13.7% YoY) and net fee income (+12.8% YoY), despite lower trading and investment return (-17.8% YoY). With modest growth in provision charge (+9.9% YoY), bottom-line earnings picked up faster at 11.3% YoY (vs 8.6% YoY in 1Q19). 1H19 annualized ROE slid 0.1ppt YoY to 13.8%. **We initiate coverage on CITICB's A-share with BUY rating.**

■ **Results positives: 1) Loan growth accelerated to 6.3% in 1H19** (vs 5.7% in 1H18), primarily boosted by retail segment (+11.0% HoH), esp. mortgage and credit card. That said, asset quality of retail loans was well controlled, as retail NPL ratio edged down 10bp HoH to 0.9%. We believe higher retail exposure (+1.8ppt HoH to 43%) would underpin a better-than-peers margin trend amid LPR implementation process. **2) Deposit growth was robust at 10.5% HoH**, despite lower proportion of demand deposits. As a result, LDR declined 3.8ppt to 95.1%. **3) 1H19 CIR fell 1.3ppt YoY to 26.5%**, suggesting improving operating efficiency.

■ **Results negatives: 1) Provision coverage dropped 4.7ppt QoQ to 165.2%**, lower than JSBs' average of 193%. NPL balance rose 3% QoQ on faster formation, yet NPL ratio was unchanged at 1.72%. There might be limited room to further lower credit cost until the Bank builds a more comfortable provision buffer. **2) 2Q19 NIM stayed flat at 1.96%**, as lower interbank funding cost was offset by higher deposit cost amid deposit competition. Loan yield retreated 6bp HoH, due to lower yield for retail loans and discounted bills. **3) CET-1 and total CAR fell 19bp/36bp QoQ to 8.58%/12.27%**. The Bank has issued RMB 40bn CB in Mar 2019, but conversion may take time given its below-book valuation.

■ **Initiate CITICB-A with BUY rating and RMB 6.7 TP.** CITICB-A currently trades at 0.62x FY19E P/B, 21% below its past 5-year mean of 0.78x. Our TP of RMB 6.7 is based on GGM-derived target P/B of 0.75x and FY19E BPS of RMB 8.9.

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	46,824	49,760	53,189
EPS (RMB)	0.84	0.88	0.93	0.99	1.06
EPS CHG (%)	(0.9)	4.7	5.4	6.5	7.1
P/E (x)	6.6	6.3	6.0	5.6	5.2
P/B (x)	0.74	0.68	0.62	0.58	0.53
Dividend yield (%)	4.7	4.1	4.5	4.8	5.1
ROE (%)	11.6	11.3	10.9	10.7	10.5
NPL ratio (%)	1.68	1.77	1.82	1.83	1.84
Provision coverage (%)	169	158	161	168	173

Source: Company data, CMBIS estimates

BUY (Initiation)

Target Price	RMB 6.70
Up/Downside	+20.7%
Current Price	RMB 5.55

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	243,244
Avg 3 mths t/o (RMB mn)	119.94
52w High/Low (RMB)	7.24/5.28
Total Issued Shares (mn)	34,053 (A)
	14,882 (H)

Source: Bloomberg

Shareholding Structure

CITIC Corporation	65.37%
China Tobacco	4.39%
CSFC	2.28%

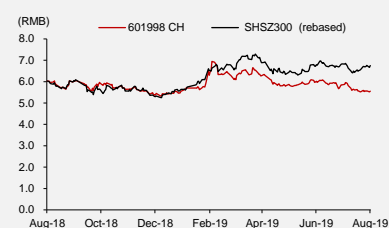
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-5.6%	-3.3%
3-mth	-5.2%	-9.5%
6-mth	-12.4%	-14.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

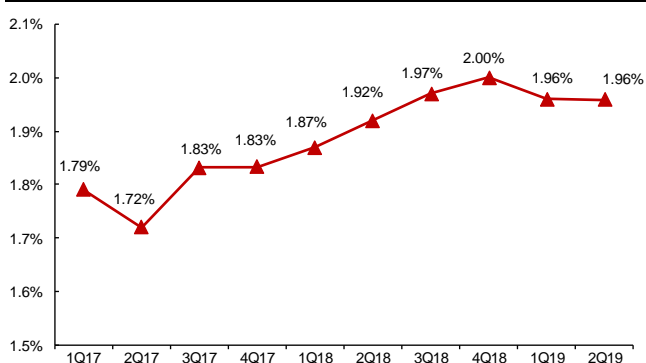
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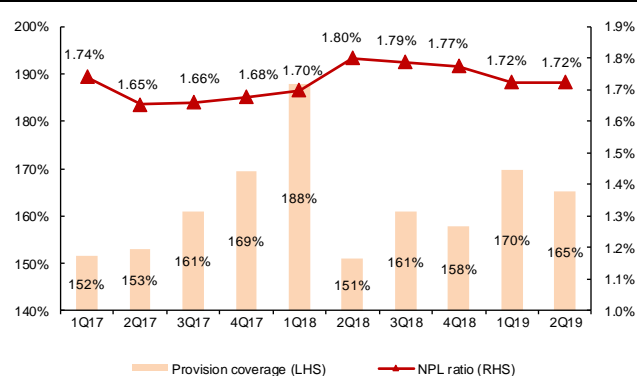
Figure 1: 1H19 results summary

(RMB mn)						
P&L	1H18	1H19	YoY	2Q18	2Q19	YoY
Net interest income	49,808	57,162	14.8%	25,597	29,092	13.7%
Net fee and commission income	21,862	28,292	29.4%	11,389	12,844	12.8%
Operating income	81,380	93,192	14.5%	41,588	45,775	10.1%
Operating expense	(22,563)	(24,673)	9.4%	(11,082)	(12,181)	9.9%
PPoP	58,817	68,519	16.5%	30,506	33,594	10.1%
Impairment losses	(26,161)	(34,190)	30.7%	(13,704)	(15,065)	9.9%
Pre-tax profit	32,656	34,329	5.1%	16,802	18,529	10.3%
Income tax	(6,267)	(5,605)	-10.6%	(2,950)	(3,133)	6.2%
Net profit	25,721	28,307	10.1%	13,555	15,091	11.3%
B/S	4Q18	2Q19	HoH	1Q19	2Q19	QoQ
Gross loans	3,608,412	3,835,876	6.3%	3,725,963	3,835,876	2.9%
Customers' deposits	3,649,611	4,034,436	10.5%	3,821,218	4,034,436	5.6%
Total assets	6,066,714	6,398,803	5.5%	6,241,411	6,398,803	2.5%
NPLs	64,028	66,161	3.3%	64,225	66,161	3.0%
Key ratios	1H18	1H19	YoY	1Q19	2Q19	QoQ
NIM	1.89%	1.96%	7bp	1.96%	1.96%	0bp
ROE	13.9%	13.8%	-0.1ppt	12.9%	14.4%	1.5ppt
NPL ratio	1.80%	1.72%	-8bp	1.72%	1.72%	0bp
Provision coverage	151.2%	165.2%	14.0ppt	169.9%	165.2%	-4.7ppt
LDR	94.2%	95.1%	0.9ppt	97.5%	95.1%	-2.4ppt
CET-1 CAR	8.5%	8.6%	6bp	8.8%	8.6%	-19bp

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

Valuation

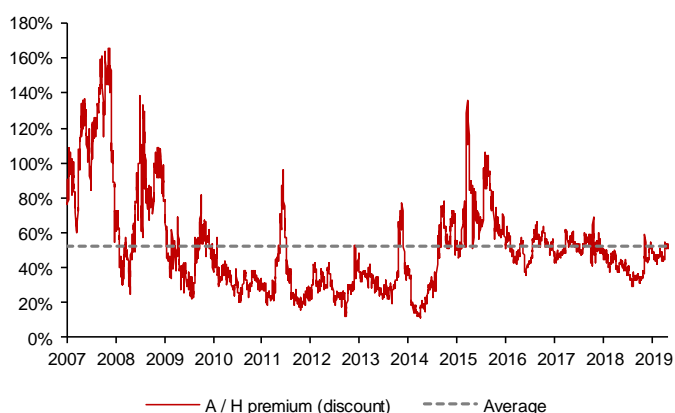
We use Gordon Growth Model to derive the TP for CITICB-A. Our key assumptions include: 1) Market risk premium of 8.7%; 2) Risk free rate of 3.0%, 3) Sustainable ROE of 10.5%; 4) Long-term growth rate of 3.0%. Our TP of RMB 6.7 is based on a target P/B of 0.75x and FY19E BVPS of RMB 8.9.

Figure 4: Peers valuation for A-share China banks

Company	Ticker	Mkt. Cap (US\$ mn)	Avg 3M (US\$ mn)	Price (RMB)	P/B (x)		P/E (x)		Dvd yield (%)		ROE (%)	
					FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Nationwide SOE & joint-stock banks												
ICBC	601398 CH	257.8	123.3	5.42	0.78	0.71	6.2	5.9	4.9	5.1	12.9	12.4
CCB	601939 CH	186.4	71.8	6.95	0.83	0.75	6.5	6.2	4.6	4.8	13.2	12.7
ABC	601288 CH	163.5	109.2	3.41	0.68	0.62	5.6	5.3	5.4	5.7	12.4	12.0
BOC	601988 CH	136.4	43.5	3.57	0.64	0.59	5.8	5.5	5.3	5.5	11.4	11.0
BoCom	601328 CH	53.0	56.2	5.46	0.57	0.53	5.4	5.1	5.6	5.9	11.0	10.6
CMB	600036 CH	120.9	213.7	34.75	1.52	1.34	9.8	8.7	3.1	3.5	16.3	16.3
MSB	600016 CH	34.2	50.1	5.82	0.57	0.52	4.9	4.6	5.2	5.6	12.0	11.6
CEB	601818 CH	25.5	37.5	3.67	0.61	0.56	5.5	5.1	4.9	5.3	11.3	11.3
PAB	000001 CH	34.3	171.5	14.31	0.99	0.89	9.0	7.9	1.1	1.3	11.6	11.8
SPDB	600000 CH	46.3	51.5	11.30	0.67	0.60	5.7	5.3	3.3	3.5	12.4	12.0
IND	601166 CH	53.0	172.8	18.27	0.77	0.69	5.8	5.4	4.1	4.6	13.6	13.4
HXB	600015 CH	15.6	14.1	7.25	0.51	0.46	5.2	4.9	3.1	3.4	10.0	9.3
Average					0.75	0.68	6.3	5.8	4.2	4.5	12.2	11.9
Regional city & rural commercial banks												
Bank of Beijing	601169 CH	15.4	30.6	5.22	0.58	0.53	5.3	4.8	5.2	5.9	11.2	11.2
Bank of Shanghai	601229 CH	17.7	32.6	8.95	0.80	0.72	6.4	5.2	4.6	5.3	12.4	12.8
Bank of Nanjing	601009 CH	9.2	46.9	7.77	0.85	0.74	5.3	4.6	5.1	5.9	16.3	16.4
Bank of Ningbo	002142 CH	18.0	56.3	23.11	1.57	1.34	9.2	7.8	2.0	2.4	17.1	17.6
Bank of Jiangsu	600919 CH	10.7	20.3	6.67	0.65	0.59	5.4	4.8	5.1	4.9	15.0	15.1
Bank of Guiyang	601997 CH	3.7	14.1	8.34	0.75	0.66	3.6	3.3	3.2	3.4	17.6	16.7
Bank of Hangzhou	600926 CH	5.8	16.0	8.05	0.79	0.71	7.0	5.9	3.6	4.2	10.9	11.4
Bank of Chengdu	601838 CH	4.1	15.1	8.18	0.83	0.73	5.3	4.5	5.0	5.8	16.5	17.1
JYRCB	002807 CH	1.3	3.9	4.42	0.83	0.78	10.0	9.2	2.1	2.3	7.9	8.0
WXRCB	600908 CH	1.4	4.2	5.28	0.85	0.78	8.1	7.2	2.5	2.7	11.2	11.4
CSRCB	601128 CH	3.0	18.4	7.88	1.29	1.14	10.7	9.1	2.9	3.5	13.2	13.6
WJRCB	603323 CH	1.3	9.0	5.15	0.77	0.72	9.0	8.2	2.9	3.3	8.9	8.9
ZJRCB	002839 CH	1.4	8.6	5.46	0.96	0.89	10.7	9.4	-	-	9.3	-
Average					0.89	0.80	7.4	6.5	3.7	4.1	12.9	13.4

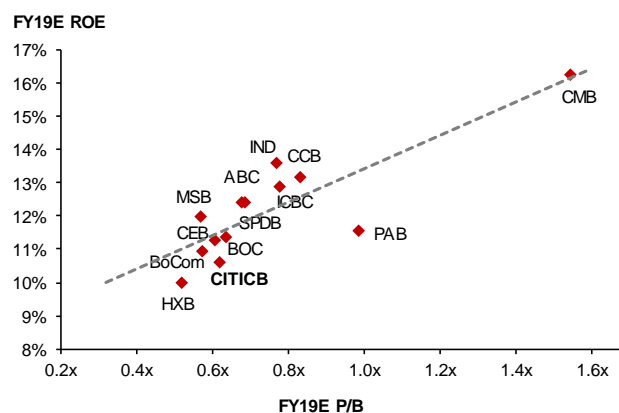
Source: Bloomberg, CMBIS estimates

Figure 5: CITICB's A/H valuation premium (discount)



Source: Bloomberg, CMBIS

Figure 6: P/B vs ROE for A-share China banks



Source: Bloomberg, CMBIS

Financial Summary

Income Statement

YE Dec 31 (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)	(67,694)	(71,711)	(76,622)
Operating profit	52,531	54,933	57,700	61,215	65,320
Non-operating income	(255)	(607)	(607)	(607)	(607)
Pre-tax profit	52,276	54,326	57,093	60,608	64,713
Income tax expenses	(9,398)	(8,950)	(9,406)	(9,985)	(10,661)
Minority interests	(312)	(863)	(863)	(863)	(863)
Net profit	42,566	44,513	46,824	49,760	53,189

Key Ratio

YE Dec 31 (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%	5.2%	6.3%	6.9%
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 Dec 31 (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	115,314	130,489	145,436
Other assets	213,804	140,670	203,944	216,537	224,733
Total assets	5,677,691	6,066,714	6,595,810	7,126,227	7,702,089
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	510,900	547,126	586,016
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	527,325	563,551	602,441

Asset quality

NPL ratio	1.68%	1.77%	1.82%	1.83%	1.84%
Provision coverage	169%	158%	161%	168%	173%
Provision/ total loans	2.84%	2.80%	2.93%	3.07%	3.17%
Credit costs	1.65%	1.40%	1.56%	1.52%	1.50%

Capital adequacy

CET-1 CAR	8.5%	8.6%	10.1%	10.1%	10.1%
Tier-1 CAR	9.3%	9.4%	11.0%	11.0%	10.9%
Total CAR	11.6%	12.5%	13.3%	13.0%	12.8%

Profitability

NIM	1.79%	1.94%	2.03%	2.01%	2.01%
ROE	11.6%	11.3%	10.9%	10.7%	10.5%
ROA	0.71%	0.74%	0.72%	0.71%	0.70%
RoRWA	1.00%	0.96%	1.00%	1.05%	1.04%

Per share

EPS (RMB)	0.84	0.88	0.93	0.99	1.06
DPS (RMB)	0.26	0.23	0.25	0.27	0.28
BVPS (RMB)	7.45	8.21	8.91	9.65	10.44

Source: Company data, CMBIS estimates

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