

China Construction Bank (939 HK)

Narrower profit decline set pace for Big-4 peers

CCB's earnings contraction improved notably to -4.1% YoY in 3Q20 from -26.5% YoY in 2Q20, thanks to decent PPop growth (+7.1% YoY) and lower credit cost (-33bp QoQ). 9M20 net profit declined 8.7% YoY to RMB 205.8bn, accounting for 86.8% of our full-year estimate. Bottom line growth is likely to pick up further in 4Q20, as policy guidance effects wane along with macro recovery. We await more details from results briefing at 4pm today.

- Results positives:**
 - NIM expanded 2bp QoQ**, (vs 10bp contraction in 2Q20). As LPR has remained stable since Apr and retail credit growth accelerates, NIM may keep rebounding in 4Q20.
 - Net fee income growth accelerated to 3.8% YoY in 3Q20** (vs 2.9% YoY in 2Q20), mainly on strong credit cards, e-banking, and agency service fees.
 - Deposit growth was solid at 2.6% QoQ**. CCB has little reliance on structured deposits, which is shrinking amid regulatory tightening.
 - 3Q20 cost-to-income ratio fell 3.2ppt YoY to 28.0%**, as the Bank managed to cut operating expenses by 8.2% YoY.
 - Lower effective tax rate**, thanks to rising investments to tax-free govt bonds.
- Results negatives:**
 - Loan growth moderated to 1.4% in 3Q20** (vs 3.1% in 2Q20). Corporate loan growth was muted, and retail loans rose 3.3% QoQ. Meanwhile, financial investments was up 4.7% QoQ, likely due to higher asset allocation to local govt bonds, reflecting CCB's conservative risk appetite.
 - NPL continued to expose, yet pressure marginally eased**. NPL ratio climbed 4bp QoQ to 1.53%, and provision coverage slid 6ppt QoQ to 217.5%. However, the magnitude of asset quality deterioration turned softer in 3Q20 vs 2Q20 (NPL ratio +8bp QoQ).
 - Trading and investment gain declined 1.8% YoY in 3Q20** on bond yield hike.
 - CET1/ tier1 CAR slid 1bp/ 2bp QoQ to 13.15%/ 13.86%**, but total CAR rose 26bp QoQ, thanks to RMB 65bn tier2 capital bond issuance in Sep.
- Maintain BUY and HK\$7.60 TP**. We keep earnings forecast unchanged. Our TP of HK\$7.60 is derived from 0.74x target P/B and FY20E BVPS of RMB9.0.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	658,891	705,629	766,298	808,276	868,174
Net profit (RMB mn)	254,655	266,733	237,226	248,668	276,922
EPS (RMB)	1.00	1.05	0.93	0.98	1.09
EPS CHG (%)	3.9	4.8	(11.1)	4.9	11.5
Consensus EPS (RMB)	NA	NA	0.97	1.03	1.11
P/E (x)	4.9	4.7	5.3	5.0	4.5
P/B (x)	0.65	0.59	0.55	0.51	0.47
Dividend yield (%)	6.2	6.5	5.8	6.1	6.7
ROE (%)	13.9	13.2	10.7	10.5	10.8
NPL ratio (%)	1.46	1.42	1.52	1.54	1.51
Provision coverage (%)	208	228	239	257	281

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$ 7.60**
 (Previous TP **HK\$ 7.60**)
Up/Downside **+38.4%**
Current Price **HK\$ 5.49**

China Banking Sector

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

Stock Data

Mkt Cap (HK\$ mn)	1,389,637
Avg 3 mths t/o (HK\$ mn)	1,502
52w High/Low (HK\$)	6.85/4.93
Total Issued Shares (mn)	240,417 (H)
	9,594 (A)

Source: Bloomberg

Shareholding Structure

Central Huijin	57.31%
CSFC	0.88%
Baowu Steel Group	0.80%

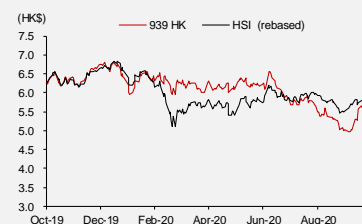
Source: Company data

Share Performance

	Absolute	Relative
1-mth	9.1%	3.6%
3-mth	-6.0%	-5.7%
6-mth	-11.5%	-12.0%
12-mth	-12.4%	-4.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Solid credit expansion underpins earnings sustainability – 29 Apr 2020
- Strong defensiveness against macro downturn – 30 Mar 2020
- Quality growth despite some margin pressure – 29 Aug 2019
- Softer earnings but stronger risk resistance – 28 Mar 2019
- Steady improvement in all aspects – 24 Oct 2018

Figure 1: 3Q20 results summary

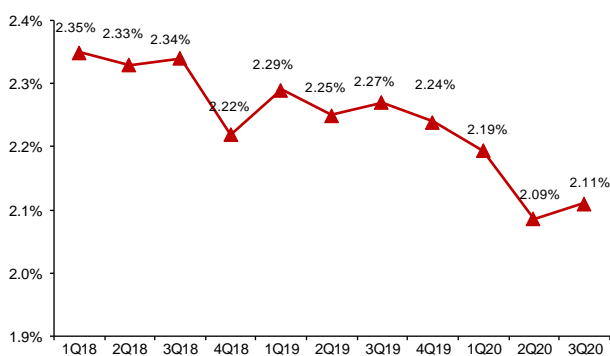
(RMB mn)							
P&L	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
Net interest income	129,086	131,158	133,499	132,994	138,294	4.0%	7.1%
Non-interest income	49,078	34,836	75,896	46,720	44,032	-5.8%	-10.3%
Operating income	178,164	165,994	209,395	179,714	182,326	1.5%	2.3%
Operating expense	(55,673)	(63,848)	(61,885)	(46,838)	(51,082)	9.1%	-8.2%
PPoP	122,491	102,146	147,510	132,876	131,244	-1.2%	7.1%
Impairment losses	(35,410)	(53,325)	(49,167)	(62,399)	(50,197)	-19.6%	41.8%
Pre-tax profit	87,081	48,821	98,343	70,477	81,047	15.0%	-6.9%
Income tax	(15,270)	(6,633)	(17,389)	(12,445)	(12,450)	0.0%	-18.5%
Net profit	71,154	41,389	80,855	56,771	68,206	20.1%	-4.1%

B/S	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
Total loans	14,872,485	15,022,825	15,983,311	16,474,146	16,711,368	1.4%	12.4%
Total deposits	18,463,826	18,366,293	19,706,793	20,402,162	20,941,183	2.6%	13.4%
Total assets	24,517,730	25,436,261	27,110,165	27,655,247	28,298,121	2.3%	15.4%
NPLs	211,399	212,473	226,010	245,516	255,528	4.1%	20.9%
Loan loss reserves	461,442	482,158	520,433	546,361	555,799	1.7%	20.4%

Key ratio	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
NIM	2.27%	2.24%	2.19%	2.09%	2.11%	2bp	-16bp
CIR	31.2%	38.5%	29.6%	26.1%	28.0%	2.0ppt	-3.2ppt
ROA	1.27%	1.16%	0.66%	1.23%	0.83%	-0.4ppt	-0.4ppt
ROE	14.1%	8.0%	15.1%	10.4%	12.5%	2.1ppt	-1.6ppt
NPL ratio	1.43%	1.42%	1.42%	1.49%	1.53%	4bp	10bp
Provision coverage	218.3%	227.7%	230.3%	223.5%	217.5%	-6.0ppt	-0.8ppt
Allowance ratio	3.10%	3.21%	3.26%	3.32%	3.33%	1bp	22bp
LDR	80.5%	81.8%	81.1%	80.7%	79.8%	-0.9ppt	-0.7ppt
CET1 CAR	14.0%	13.9%	13.8%	13.2%	13.1%	-1bp	-81bp
Tier1 CAR	14.5%	14.7%	14.5%	13.9%	13.9%	-2bp	-64bp
Total CAR	17.3%	17.5%	17.2%	16.6%	16.9%	26bp	-42bp

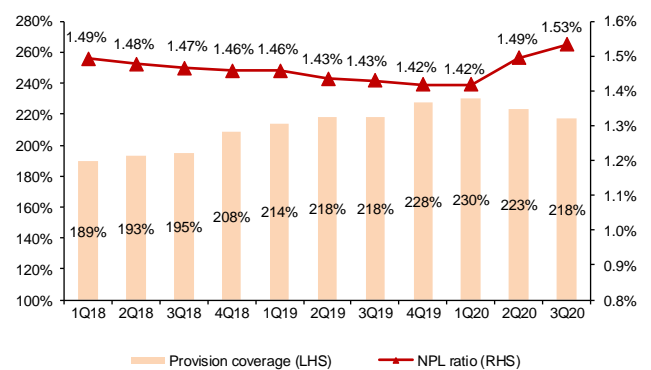
Source: Company data, CMBIS

Figure 2: Quarterly NIM of CCB



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of CCB



Source: Company data, CMBIS

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	811,026	883,499	972,774	1,039,333	1,125,137
Interest expenses	(324,748)	(372,819)	(404,171)	(438,564)	(474,845)
Net interest income	486,278	510,680	568,604	600,769	650,292
Net fee income	123,035	137,284	140,030	147,031	154,383
Others	49,578	57,665	57,665	60,476	63,499
Operating income	658,891	705,629	766,298	808,276	868,174
Operating expenses	(199,389)	(215,154)	(238,755)	(257,027)	(273,125)
PPoP	459,502	490,475	527,544	551,249	595,049
Provision	(150,988)	(163,521)	(236,385)	(246,210)	(255,734)
Operating profit	308,514	326,954	291,158	305,039	339,315
Non-operating income	(354)	(357)	(357)	(357)	(357)
Pre-tax profit	308,160	326,597	290,801	304,682	338,958
Income tax expenses	(52,534)	(57,375)	(51,087)	(53,525)	(59,546)
Minority interests	(971)	(2,489)	(2,489)	(2,489)	(2,489)
Net profit	254,655	266,733	237,226	248,668	276,922

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix					
Net interest income	74%	72%	74%	74%	75%
Net fee income	19%	19%	18%	18%	18%
Others	8%	8%	8%	7%	7%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	7.5%	5.0%	11.3%	5.7%	8.2%
Net fee income	4.4%	11.6%	2.0%	5.0%	5.0%
Operating income	10.9%	7.1%	8.6%	5.5%	7.4%
PPoP	7.6%	6.7%	7.6%	4.5%	7.9%
Net profit	5.1%	4.7%	-11.1%	4.8%	11.4%
Gross loans	6.8%	9.0%	8.5%	8.5%	8.5%
Customer deposits	4.6%	7.4%	8.0%	8.0%	8.0%
Efficiency					
Cost-to-income ratio	29.3%	29.5%	30.2%	30.8%	30.5%

Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	2,567,648	2,560,219	2,759,697	2,975,133	3,207,805
Interbank assets	1,038,521	1,508,616	1,599,133	1,695,081	1,796,786
Investments	6,446,126	6,888,602	7,382,644	7,914,853	8,488,350
Gross loans	13,783,053	15,022,825	16,299,765	17,685,245	19,188,491
Less: provision	417,623	482,158	590,562	700,504	811,084
Other assets	(195,032)	(61,843)	22,919	49,268	79,876
Total assets	23,222,693	25,436,261	27,473,595	29,619,076	31,950,223
Due to central banks	554,392	549,433	604,376	664,814	731,295
Interbank liabilities	2,250,045	3,018,292	3,269,881	3,470,205	3,684,802
Customer deposits	17,108,678	18,366,293	19,835,596	21,422,444	23,136,240
Debt securities issued	404,202	367,192	398,570	439,176	485,872
Other liabilities	913,782	899,924	976,543	1,060,029	1,151,003
Total liabilities	21,231,099	23,201,134	25,084,967	27,056,668	29,189,213
Shareholders' equity	1,976,463	2,216,257	2,369,759	2,543,539	2,742,140
Incl. Perpetual bonds	-	39,991	39,991	39,991	39,991
Incl. Preferred stocks	79,636	79,636	79,636	79,636	79,636
Minority interest	15,131	18,870	18,870	18,870	18,870
Total equity	1,991,594	2,235,127	2,388,629	2,562,409	2,761,010

Asset quality					
NPL ratio	1.46%	1.42%	1.52%	1.54%	1.51%
Provision coverage	208%	228%	239%	257%	281%
Provision/ total loans	3.04%	3.22%	3.62%	3.96%	4.23%
Credit costs	1.07%	1.04%	1.34%	1.28%	1.22%
Capital adequacy					
CET-1 CAR	13.8%	13.9%	14.1%	14.0%	14.1%
Tier-1 CAR	14.4%	14.7%	14.6%	14.5%	14.5%
Total CAR	17.2%	17.5%	16.1%	16.0%	15.9%
Profitability					
NIM	2.31%	2.26%	2.16%	2.11%	2.12%
ROE	13.9%	13.2%	10.7%	10.5%	10.8%
ROA	1.11%	1.08%	0.88%	0.86%	0.89%
RoRWA	1.89%	1.83%	1.50%	1.47%	1.52%
Per share					
EPS (RMB)	1.00	1.05	0.93	0.98	1.09
DPS (RMB)	0.31	0.32	0.28	0.30	0.33
BVPS (RMB)	7.59	8.39	9.00	9.70	10.49

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

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

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.