

# Chongqing Rural Commercial Bank (3618.HK)

## Profit performance met our expectation



Phillip Securities (Hong Kong) Ltd

Bloomberg | Reuters | POEMS

Phillip Securities Research

3618.HK | 3618.HK | 3618.HK

Industry: Financial

### Strong profit growth with the good asset quality

Rating: Buy, CP: HK\$3.80, TP:HK\$4.85

#### Company Introduction

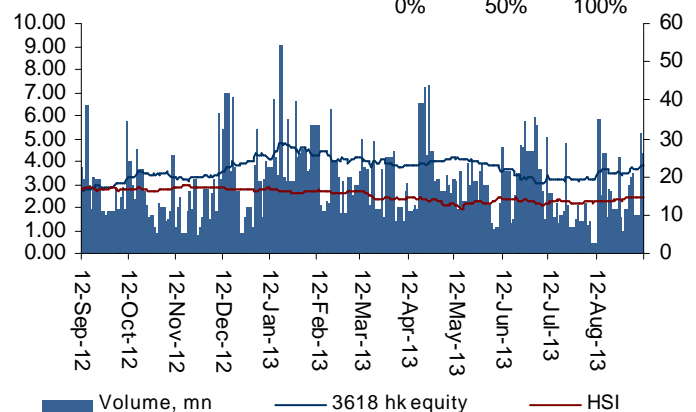
CRCB has nearly 60 years of operational history that is one of the leading rural commercial banks in China. The bank experienced a series of financial restructuring since 2004. In June 2008, CRCB obtained the approval from CBRC, and has registered capital of RMB6 billion. In December 2010, CRCB was listed in H Shares.

#### Summary

- According to 2013 interim report of CRCB(or the Group), as at the end of 2Q2013, net profits increased by 14.75% y-y to RMB3.217 billion with the slow-down of the growth rate, equivalent to the EPS of RMB0.35, in line with our expectation in Bloomberg;
- The main reason of the stable growth of CRCB's profits is the strong increase of the incomes from all businesses, especially for the intermediate business. By the end of 1H2013, the Group's net fee and commission income increased sharply by 69.18% y-y to RMB303 million. The largest part of total incomes, net interest income, also increased by 21.78% y-y to RMB7.593 billion;
- The Group's total assets maintained stable growth, raised 12.48% to RMB488 billion compared with the end of 2012, equivalent to the BVPS of RMB3.61, up 5.1%, the same as that of 1Q;
- Asset quality is still better than our expectation with the dual-decrease of the amount and ratio of NPLs, down RMB288 million and 0.25ppts to RMB1.407 billion and 0.73% respectively compared with the end of 2012, and the coverage ratio achieved to 456.93%, up significantly 112.80ppts during the same period. However, compared with 1Q, the decrease rate of the NPLs has narrowed, and we expect the amount will go up in future;
- Domestic banks started to use new rules to calculate the CAR in 2013, which caused the banks' CAR to decrease obviously. By the end of 2Q2013, the Group's Core Tier 1 ratio and CAR cut to 10.92% and 12.71% respectively, down 0.17ppts and 0.18ppts q-q. Even based on the previous calculation, the Core CAR and CAR increased by 0.07ppts and down 0.01ppts respectively, no big changes. Therefore the decrease of CAR led to the large increase of the bank's capital pressure, which would affect the adjustment of capital expenditure projects, such as the amount of loans. In 1H2013, the Group's net loans increased by 11% approximately, but obviously lower than the deposit growth as 15% during the same period;

2013-9-12

<b>Rating</b>	<b>1.00</b>	<b>Buy</b>
- Previous Rating	1.00	Buy
<b>Target Price (HKD)</b>	<b>4.85</b>	
- Previous Target Price (HKD)	5.50	
Closing Price (HKD)	3.80	
Expected Capital Gains (%)	27.6%	
Expected Dividend Yield (%)	6.2%	
<b>Expected Total Return (%)</b>	<b>33.8%</b>	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD bn)	30,132	
Enterprise Value (HKD mn)	N/A	
52 week range (HKD)	2.15 - 4.7	
Closing Price in 52 week range		



#### Key Financial Summary

FYE	12/12	12/13F	12/14F	12/15F
Operating Profit (RMB mn)	7,068	8,358	9,503	10,444
Net Profit, adj. (RMB mn)	5,362	6,378	7,214	7,929
EPS, adj. (RMB)	0.58	0.69	0.78	0.85
P/E (X)	5.2	4.4	3.9	3.5
BVPS (RMB)	3.43	3.77	4.16	4.58
P/B (X)	0.9	0.8	0.7	0.7
DPS (RMB)	0.17	0.19	0.21	0.22
Div. Yield	5.6%	6.2%	6.8%	7.2%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

PE, PB, DDM

#### Research Analyst

Xingyu Chen

[chenxingyu@phillip.com.cn](mailto:chenxingyu@phillip.com.cn)

+86 21 5169 9400 - 105

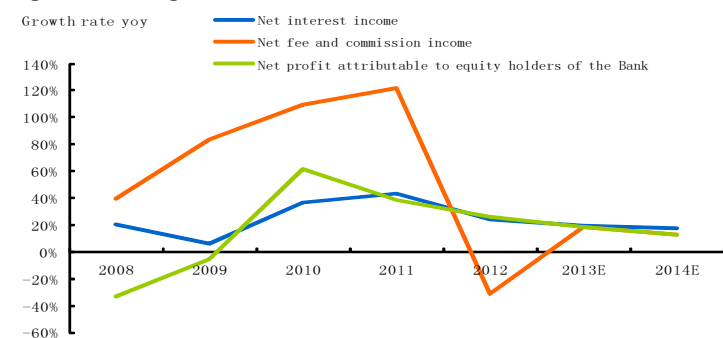
- Overall the bank's performance met our expectation, we still believe its profit growth would maintain on quite high level in 2013, but the profit growth would go down. We maintain the previous profit estimation that net profits would increase by 19% y-y approximately to RMB6.378 billion with the EPS of RMB0.69;
- Considering unstable factors in the markets currently, we cut the 12-M TP to HK\$4.85, 28% higher than the latest closing price approximately, equivalent to 6.3xP/E and 1.2xP/B in 2014 respectively. Maintain Buy rating.

Table 1. Profit performance of CRCB in 1H2013

RMB Million	2013H1E	2013H1	RV/EV	2012H1	Growth rate y-y
Net interest income	7,840	7,593	-3.16%	6,235	21.78%
Net fee and commission income	258	303	17.53%	179	69.27%
<b>Operating income</b>	<b>8,220</b>	<b>7,964</b>	<b>-3.11%</b>	<b>6,503</b>	<b>22.47%</b>
Operating expenses	(3,620)	(3,261)	-9.92%	(2,586)	26.10%
Operating profit before impairment losses	4,600	4,703	2.25%	3,917	20.07%
Impairment losses	(379)	(464)	22.51%	(238)	94.96%
<b>Profit before tax</b>	<b>4,221</b>	<b>4,239</b>	<b>0.43%</b>	<b>3,679</b>	<b>15.22%</b>
Income tax	(990)	(1,019)	2.93%	(869)	17.26%
Profit for the year	3,231	3,220	-0.34%	2,810	14.59%
<b>Net profit attributable to equity holders of the Bank</b>	<b>3,221</b>	<b>3,218</b>	<b>-0.08%</b>	<b>2,804</b>	<b>14.76%</b>
<b>Items per share</b>					
Basic EPS(RMB)	0.35	0.35	0.00%	0.30	15.34%
Book value per share(RMB)	3.70	3.61	-2.35%	3.16	14.34%
Dividend per Share(RMB)	0.00	0.00	0.00%	0.00	0.00%

Source: PSR, Company's report

Figure 1. Profit growth of CRCB



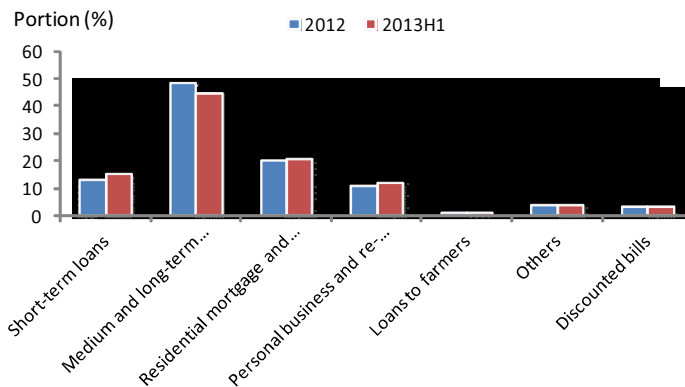
Source: PSR, Company's report

Table 2. Growth of CRCB's intermediate business incomes in 1H2013

RMB Million	2012H1	2013H1	Preportion (2013H1)	Growth rate y-y
Settlement and clearance fees	16.8	26.4	8.07%	57.14%
Agency commissions	56.9	74.6	22.81%	31.11%
Bank card fees	50.8	80	24.46%	57.48%
Custodian and other fiduciary service fees	1.9	4.1	1.25%	115.79%
Consulting and advisory fee	70.2	138.9	42.48%	97.86%
Others	2.2	3	0.92%	36.36%
<b>Fee and commission income</b>	<b>198.8</b>	<b>327</b>	<b>100.00%</b>	<b>64.49%</b>
Total expense	-19.7	-24		21.83%
<b>Net fee and commission income</b>	<b>179.1</b>	<b>303.0</b>		<b>69.18%</b>

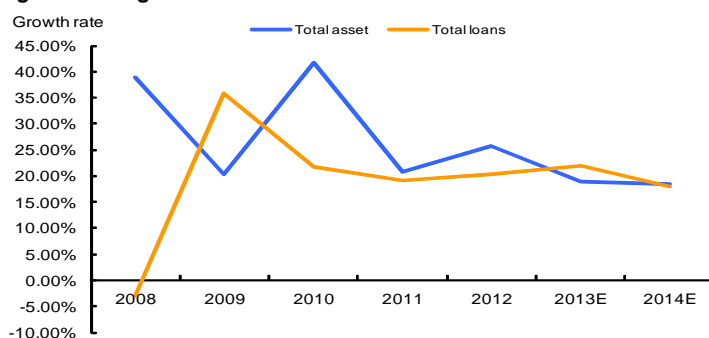
Source: PSR, Company's report

Figure 2. The portion of different type of loans to total loans in 1H2013



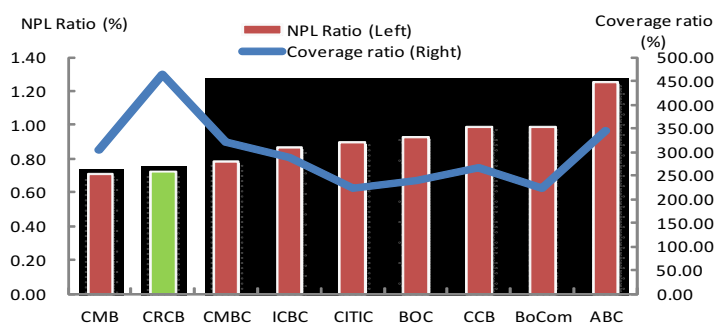
Source: PSR, Company's report

Figure 3. The growths of total assets and loans of CRCB



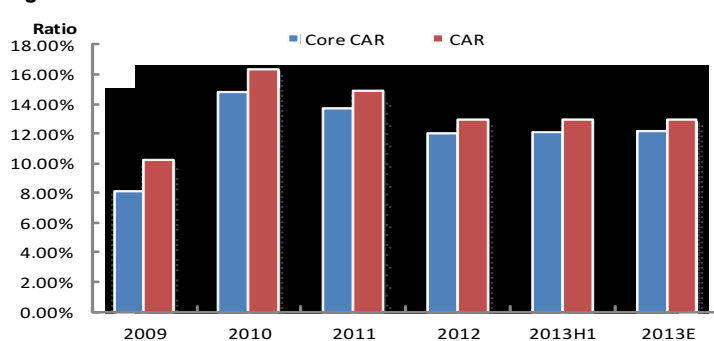
Source: PSR, Company's report

Figure 4. NPL and Coverage ratios of domestic listed banks in 1H2013



Source: PSR, Company's report

Figure 5. Core CAR and CAR of CRCB



Source: PSR, Company's report

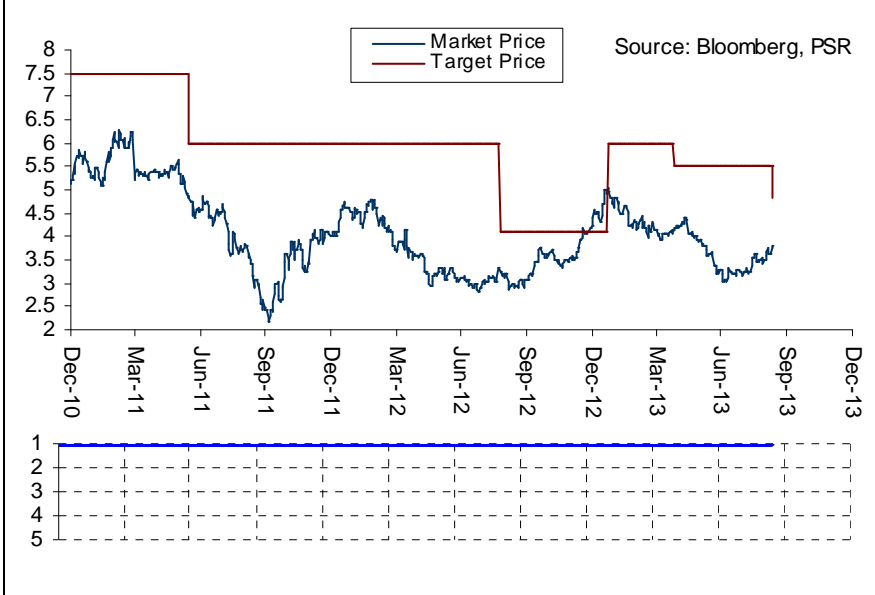
## Financial Status

FYE	FY11	FY12	FY13F	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X)	6.6	5.2	4.4	3.9	3.5
P/B (X)	1.0	0.9	0.8	0.7	0.7
Dividend Payout ratio	30.66%	29.40%	27.19%	26.44%	25.50%
Dividend Yield	4.67%	5.65%	6.22%	6.84%	7.25%
<b>Per share data (RMB)</b>					
EPS, reported	0.46	0.58	0.69	0.78	0.85
EPS, adj.	0.46	0.58	0.69	0.78	0.85
DPS	0.14	0.17	0.19	0.21	0.22
BVPS	3.00	3.43	3.77	4.16	4.58
<b>Growth</b>					
Net interest income	40.0%	24.6%	19.8%	17.4%	14.0%
Net fee and commission income(exp.)	122.2%	-31.5%	18.5%	13.2%	17.3%
Operating income	43.6%	22.8%	19.2%	17.6%	14.0%
Net Income, adj.	38.7%	26.3%	18.9%	13.1%	9.9%
<b>Key Ratios</b>					
Net interest spread	3.13%	3.26%	3.30%	3.34%	3.34%
Net interest margin	3.36%	3.50%	3.47%	3.55%	3.55%
Loan to deposit	58.54%	58.89%	61.41%	62.31%	62.31%
Cost to income ratio	36.64%	37.70%	38.08%	38.46%	38.84%
ROAA	1.35%	1.38%	1.34%	1.28%	1.20%
ROAE	16.92%	17.94%	19.05%	19.57%	19.52%
NPL ratio	1.44%	0.98%	0.68%	0.68%	0.71%
Coverage ratio	265.24%	350.60%	503.53%	520.97%	522.60%
Core CAR	13.71%	12.01%	12.15%	12.34%	12.78%
CAR	14.90%	12.92%	12.97%	13.20%	13.90%
<b>Income Statement (RMB mn)</b>					
	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY15F</b>
<b>Net interest income</b>	<b>10,505</b>	<b>13,093</b>	<b>15,681</b>	<b>18,410</b>	<b>20,986</b>
Net fee and commission income(exp.)	635	435	516	583	684
Other non-interest income(exp.)	(45)	112	60	90	90
<b>Operating income</b>	<b>11,118</b>	<b>13,653</b>	<b>16,277</b>	<b>19,134</b>	<b>21,810</b>
General expenses	(4,774)	(6,075)	(7,169)	(8,531)	(10,066)
Impairment losses	(848)	(511)	(750)	(1,100)	(1,300)
<b>Operating profit</b>	<b>5,497</b>	<b>7,068</b>	<b>8,358</b>	<b>9,503</b>	<b>10,444</b>
<b>Profit Before Tax</b>	<b>5,497</b>	<b>7,068</b>	<b>8,358</b>	<b>9,503</b>	<b>10,444</b>
Taxation	(1,249)	(1,690)	(1,960)	(2,254)	(2,480)
Tax rate	22.72%	23.91%	23.46%	23.72%	23.74%
<b>Profit After Tax</b>	<b>4,248</b>	<b>5,378</b>	<b>6,398</b>	<b>7,249</b>	<b>7,964</b>
Non-controlling Interest	2	16	20	35	35
<b>Net Income, adj.</b>	<b>4,246</b>	<b>5,362</b>	<b>6,378</b>	<b>7,214</b>	<b>7,929</b>
Dividend	1,302	1,576	1,734	1,908	2,022
<b>Balance Sheet (RMB mn)</b>					
	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY15F</b>
Cash and balances with central bank	50,663	58,964	79,601	99,502	119,402
Deposits with banks and other financial institutions, net	11,445	12,263	17,781	24,005	29,286
Loans to customers, gross	144,097	173,448	211,607	249,696	287,150
Allowances for impairment losses	(5,275)	(5,833)	(7,291)	(8,822)	(10,587)
Loans to customers, net	138,822	167,615	204,315	240,873	276,563
Investment securities and other financial assets, net	82,342	104,874	109,069	119,976	134,373
Placement with other financial institutions	11,460	29,749	53,548	69,613	83,535
Financial assets held under resale agreement	42,297	51,765	41,412	45,553	52,386
Goodwill	440	440	440	440	440
Other assets	7,351	8,153	9,539	11,256	13,507
<b>Total assets</b>	<b>344,820</b>	<b>433,823</b>	<b>515,706</b>	<b>611,218</b>	<b>709,493</b>
Deposits from banks and other financial institutions	25,137	42,175	56,515	74,825	92,035
Deposits from customers	246,141	294,510	344,577	400,743	460,854
Subordinate debt payable	2,300	2,300	2,300	2,300	2,300
Other liabilities	43,231	62,608	76,632	93,951	110,862
<b>Total liabilities</b>	<b>316,809</b>	<b>401,593</b>	<b>480,023</b>	<b>571,819</b>	<b>666,051</b>
Paid-in capital	9,300	9,300	9,300	9,300	9,300
Reserves	14,754	17,835	20,867	23,997	27,117
Retained earnings(accumulated losses)	3,802	4,786	4,882	5,370	6,175
<b>Equity attributable to equity holders</b>	<b>27,856</b>	<b>31,921</b>	<b>35,049</b>	<b>38,667</b>	<b>42,592</b>
Minority interest	155	309	634	732	849
<b>Total equity</b>	<b>28,011</b>	<b>32,230</b>	<b>35,683</b>	<b>39,399</b>	<b>43,441</b>
Total equity and liabilities	344,820	433,823	515,706	611,218	709,493

Source: PSR

Source: Company, PSR

**Ratings History**



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

## PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

## PHILLIP RESEARCH STOCK SELECTION SYSTEMS

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

### GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

### Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

### Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2013 Phillip Securities (Hong Kong) Limited

**Contact Information (Regional Member Companies)**

---

**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**PhillipCapital Australia**  
Level 37, 530 Collins Street,  
Melbourne, Victoria 3000, Australia  
Tel (613) 96298380  
Fax (613) 96148309  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 436 Hengfeng Road,  
Greentech Unit 604,  
Postal code 200070  
Tel (86-21) 51699400  
Fax (86-21) 63532643  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005