

China Construction Bank (939.HK)

Operating performance in line with expectation



Phillip Securities (Hong Kong) Ltd

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939.HK | 939.HK | 939.HK

Industry: Financial

2014-04-15

Stable profit growth in 2013

Rating: Buy, CP: HK\$5.52, TP:HK\$6.70

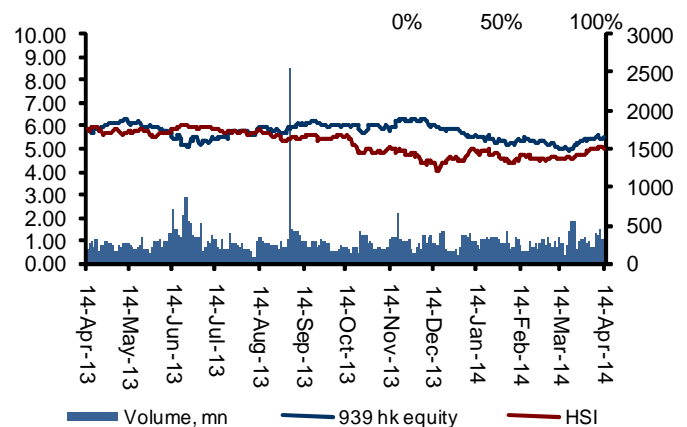
Company introduction

China Construction Bank's predecessor was founded in 1954, and was restructured as commercial bank in 2004, which now is one of the leading large-sized commercial banks in China. By the end of 2013, according to total assets, CCB was the second largest bank in China, and was listed in H and A Shares in 2005 and 2007 respectively.

Summary

- According to China Construction Bank's (CCB or the Group) 2013 results, its accumulated net interest incomes amounted to RMB389.544 billion, up 10.3% y-y approximately and the growth rate slowed down compared with that of 2012. Intermediate business increased largely due to the development of the market of which accumulated net fees and commission incomes increased by 11.5% y-y to RMB104.283 billion, especially new products recorded better performance such as credit card and newly financial consultant business, but the growth rate of intermediate business was lower than the peers;
- The Group's operating incomes recorded RMB511.14 billion, up 10.5%, and net profits increased by 11.12% y-y to RMB214.657 billion, the profit growth met our previous expectation;
- The Group's total assets increased by 9.95% to RMB15.36 trillion compared with the end of 2012. Net assets rose 13.20% to RMB1.07 trillion, equivalent to the BVPS of RMB4.30. Although there was the decrease of investment revaluation reserve, surplus reserve and retained profits increased obviously compared with the same period of 2012, therefore CCB's net assets still achieved quite strong growth;
- The ability of CCB's risk control was quite good and the loan quality kept stable in 2013. NPL ratio recorded 0.99% as same as 2012, but the coverage ratio decreased by 3.07ppts to 268.22% mainly caused by the large increase of the NPLs, especially for doubtful and loss loans. Considering the trend of the changes of the NPLs, we expect CCB's NPL ratio will go up continually with the risk of the deterioration of the loan quality in the next few quarters;
- The CAR of CCB decreased due to the implementation of new calculation method of capital in 2013, and the Group's CAR and Core Tier-1 CAR recorded to 13.34% and 10.75% respectively by the end of 2013, down 0.29ppts and 0.17ppts respectively compared with that of 1Q, however the CAR was still on the top of the peers, representing smaller capital pressure for the bank relatively;

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (HKD)	6.70	
- Previous Target Price (HKD)	7.50	
Closing Price (HKD)	5.52	
Expected Capital Gains (%)	21.4%	
Expected Dividend Yield (%)	6.1%	
Expected Total Return (%)	27.4%	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD bn)	1,375,590	
Enterprise Value (HKD mn)	N/A	
52 week range (HKD)	4.89 - 6.65	
Closing Price in 52 week range		



Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Operating Profit (RMB mn)	251,411	279,746	308,238	336,178
Net Profit, adj. (RMB mn)	193,179	214,657	236,678	258,206
EPS, adj. (RMB)	0.77	0.86	0.95	1.03
P/E (X)	5.7	5.2	4.7	4.3
BVPS (RMB)	3.77	4.26	4.80	5.40
P/B (X)	1.2	1.0	0.9	0.8
DPS (RMB)	0.27	0.30	0.33	0.36
Div. Yield	6.1%	6.8%	7.5%	8.2%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

PE, DDM

Research Analyst

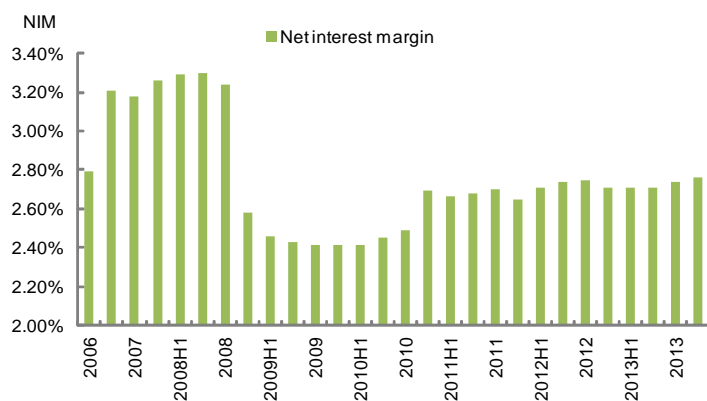
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- In all, considering stable profit growth of CCB, in line with our expectation, we still hold optimistic view on the bank's future performance, but estimate the profit growth would go down continually and net profits should increase by 10% y-y approximately in the next two years. Moreover, considering the slow-down of profits in future and the risks of the deterioration of assets, we cut CCB's 12-month target price to HK\$6.70, around 22% higher than the current price, equivalent to P/E5.2x and P/B1.0x in 2015 respectively, the valuation is quite attractive. Maintain Buy rating.

Figure 1. NIM of CCB



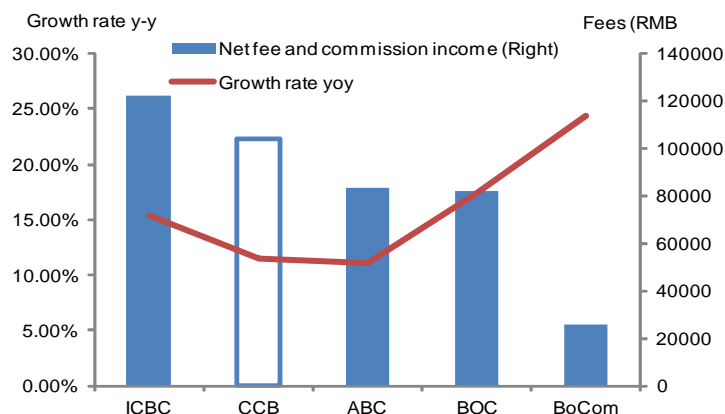
Source: PSR, Company report

Table 1. Net fee and commission income of CCB

RMB Million	2012	2013	Portion (2012)	Portion (2013)	Growth rate y-y
Consultancy and advisory fees	19,722	21,130	20.5%	19.7%	7.14%
Bank card fees	20,137	25,783	20.9%	24.0%	28.04%
Agency service fees	12,772	12,395	13.3%	11.5%	-2.95%
Settlement and clearing fees	11,423	12,422	11.9%	11.6%	8.75%
Wealth management fees	9,381	10,680	9.7%	9.9%	13.85%
Commission on trust and fiduciary activities	8,380	9,135	8.7%	8.5%	9.01%
Electronic banking fees	4,760	5,740	4.9%	5.3%	20.59%
Guarantee handling fees	1,931	1,886	2.0%	1.8%	-2.33%
Credit commitment fees	2,636	2,741	2.7%	2.6%	3.98%
Others	5,076	5,520	5.3%	5.1%	8.75%
Total fee and commission income	96,218	107,432	100.0%	100.0%	11.65%
Fee and commission expenses	(2,711)	(3,149)			16.16%
Net fee and commission income	93,507	104,283			11.52%

Source: PSR, Company report

Figure 2. Net fee and commission income of Big-5 in 2013



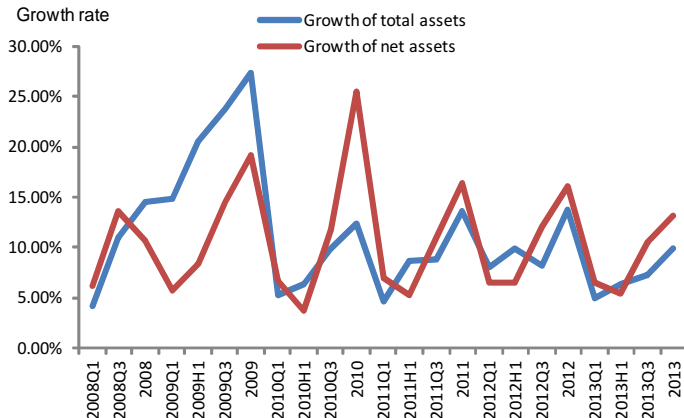
Source: PSR, Company report

Table 2. Real value and estimated value of CCB's profits

Balance Sheet (RMB Million)	2013E	2013A	R/VEV
Cash and deposits with central bank	2,556,392	2,475,001	-3.18%
Net loans and advances to customers	8,113,966	8,361,361	3.05%
Total Assets	15,254,329	15,363,210	0.71%
Deposits from banks and other financial Institutions	684,241	692,095	1.15%
Deposits from customers	12,477,387	12,223,037	-2.04%
Total Liabilities	14,151,975	14,288,881	0.97%
Total equity attributable to equity shareholders of the Bank	1,093,419	1,065,951	-2.51%
Minority interests	8,935	8,378	-6.24%
Total shareholders' equity	1,102,354	1,074,329	-2.54%
Total shareholders' equity and liabilities	15,254,329	15,363,210	0.71%
Income statement (RMB Million)			
Net interest income	376,895	389,544	3.36%
Net fee and commission income	107,669	104,283	-3.14%
Operating income	499,468	511,140	2.34%
Operating expenses	(177,924)	(188,185)	5.77%
Operating profit before impairment losses	321,543	322,955	0.44%
Impairment losses	(42,043)	(43,209)	2.77%
Operating profit	279,500	279,746	0.09%
Profit for the year	215,890	215,122	-0.36%
Net profit attributable to equity holders of the Bank	215,462	214,657	-0.37%
Items per share			
Basic EPS(RMB)	0.86	0.86	0.00%
Book value per share(RMB)	4.37	4.26	-2.51%
Dividend per Share(RMB)	0.30	0.30	0.00%
Financial ratio			Change (ppts)
Core capital adequacy ratio	10.50%	10.75%	0.25
Capital adequacy ratio	13.18%	13.34%	0.16
Net interest spread	2.56%	2.56%	0.00
Net interest margin	2.73%	2.74%	0.01
Loan to deposit	68.41%	70.28%	1.87
Cost to income ratio	36.82%	29.65%	(7.17)
ROAA	1.46%	1.47%	0.01
ROAE	21.38%	21.23%	(0.15)
NPL ratio	0.97%	0.99%	0.03
Coverage ratio	279.05%	268.22%	(10.83)

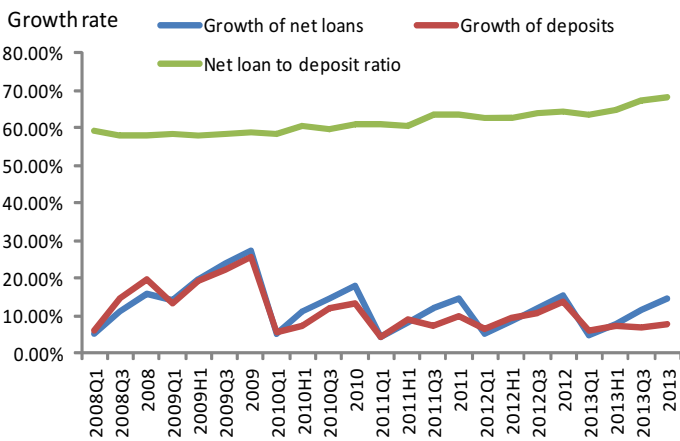
Source: PSR, Company report

Figure 3. Changes of CCB's asset scale



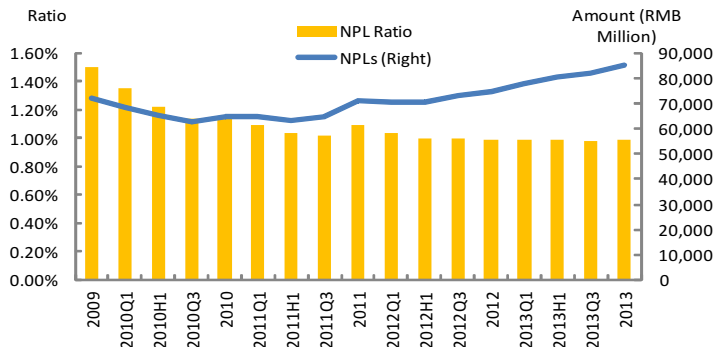
Source: PSR, Company report

Figure 4. Changes of net loans and deposits of CCB



Source: PSR, Company report

Figure 5. CCB's NPLs



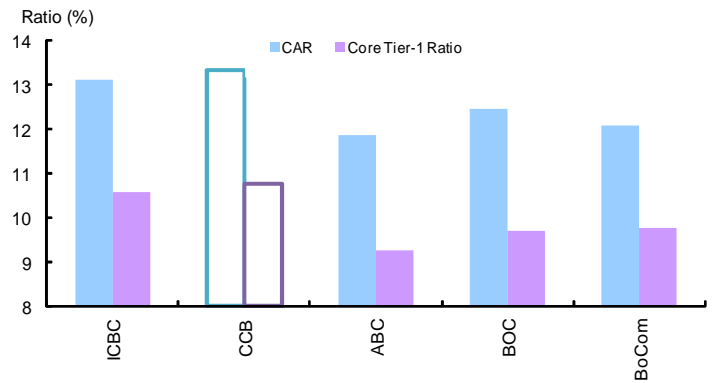
Source: PSR, Company report

Table 3. The structure of CCB's NPLs

Loan quality analysis (RMB Million)	2012	2013	Changes
Normal	7,233,287	8,300,113	14.7%
Special Mention	204,407	204,680	0.1%
Substandard	32,745	32,100	-2.0%
Doubtful	33,713	42,231	25.3%
Loss	8,160	10,933	34.0%
Total non-performing loans	74,618	85,264	14.3%
Total loans and advances to customers	7,512,312	8,590,057	14.3%
Asset quality ratios		Changes (PPT)	
Non-performing loan ratio	0.99%	0.99%	0.00
Allowances for impairment losses to non-performing loans	271.29%	268.22%	-3.07

Source: PSR, Company report

Figure 6. CARs of Big-5 in 1Q and 2Q (Based on new method)



Source: PSR, Company report

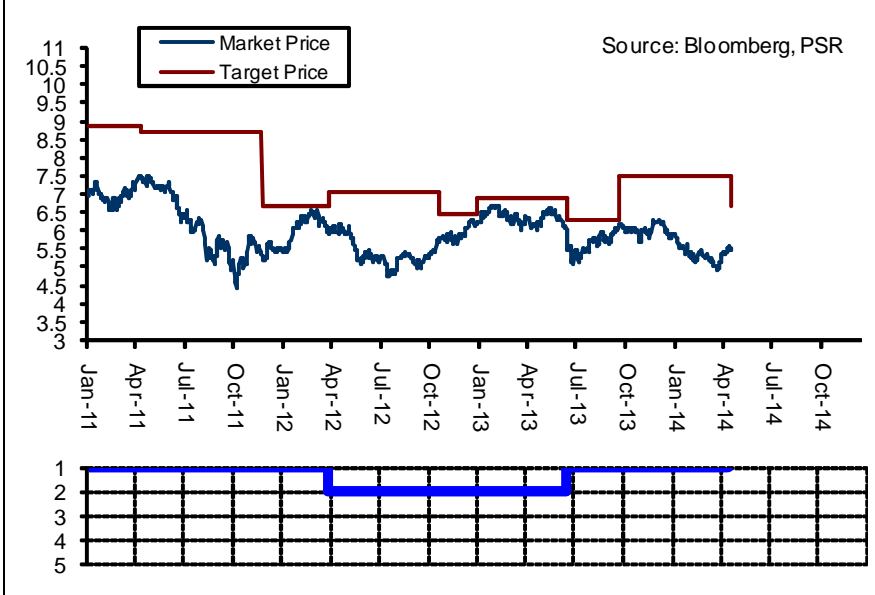
Financial Status

FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X)	6.5	5.7	5.2	4.7	4.3
P/B (X)	1.4	1.2	1.0	0.9	0.8
Dividend Payout ratio	34.93%	34.68%	35.00%	35.00%	35.00%
Dividend Yield	5.3%	6.1%	6.8%	7.5%	8.2%
Per share data (RMB)					
EPS, reported	0.68	0.77	0.86	0.95	1.03
EPS, adj.	0.68	0.77	0.86	0.95	1.03
DPS	0.24	0.27	0.30	0.33	0.36
BVPS	3.24	3.77	4.26	4.80	5.40
Growth					
Net interest income	21.1%	16.0%	10.3%	6.7%	7.6%
Net fee and commission income(exp.)	31.5%	7.5%	11.5%	17.1%	17.9%
Operating income	22.6%	15.8%	10.5%	9.2%	10.3%
Net Income, adj.	25.5%	14.1%	11.1%	10.3%	9.1%
Key Ratios					
Net interest spread	2.57%	2.58%	2.56%	2.59%	2.62%
Net interest margin	2.70%	2.75%	2.74%	2.76%	2.78%
Loan to deposit	65.05%	64.44%	70.28%	70.94%	72.12%
Cost to income ratio	36.19%	29.60%	29.65%	32.48%	32.69%
ROAA	1.47%	1.47%	1.47%	1.46%	1.45%
ROAE	22.51%	22.04%	21.23%	20.88%	20.24%
NPL ratio	1.09%	0.99%	0.99%	1.02%	1.11%
Coverage ratio	241.44%	271.29%	268.22%	264.13%	242.54%
Core CAR	10.97%	11.32%	10.75%	10.85%	11.04%
CAR	13.68%	14.32%	13.34%	13.64%	13.98%
Income Statement (RMB mn)					
Interest income	482,247	603,241	646,253	697,953	760,769
Interest expense	(177,675)	(250,039)	(256,709)	(282,380)	(313,442)
Net interest income	304,572	353,202	389,544	415,573	447,327
Fee and commission income	89,494	96,218	107,432	125,695	148,321
Fee and commission expense	(2,500)	(2,711)	(3,149)	(3,558)	(4,270)
Net fee and commission income	86,994	93,507	104,283	122,137	144,051
Operating income	399,403	462,533	511,140	557,990	615,339
Operating expenses	(144,537)	(171,081)	(188,185)	(201,358)	(223,507)
Operating profit before impairment losses	254,866	291,452	322,955	356,632	391,831
Impairment losses	(35,783)	(40,041)	(43,209)	(48,394)	(55,653)
Operating profit	219,083	251,411	279,746	308,238	336,178
Profit before tax	219,107	251,439	279,806	308,310	336,265
Income tax	(49,668)	(57,837)	(64,684)	(71,152)	(77,556)
Effective income tax rate	22.67%	23.00%	23.12%	23.08%	23.06%
Profit for the year	169,439	193,602	215,122	237,157	258,708
Minority interests	181	423	465	479	503
Net profit attributable to equity holders o	169,258	193,179	214,657	236,678	258,206
Dividend	59,128	67,003	75,130	82,837	90,372
Balance Sheet (RMB mn)					
Cash and balances w ith banks and other finan	276,752	585,898	321,286	330,925	350,780
Balances w ith central bank	2,379,809	2,458,069	2,475,001	2,524,501	2,625,481
Trading financial assets	23,096	27,572	364,050	527,873	686,234
Net loans and advances to customers	6,325,194	7,309,879	8,361,361	9,364,724	10,301,197
Available-for-sale financial assets	675,058	701,041	760,292	897,145	1,031,716
Held-to-maturity investments	1,743,569	1,918,322	2,100,538	2,247,576	2,359,954
Debt securities claasified as receivables	300,027	219,713	189,737	197,326	205,220
Interests in associates and jointly controlled en	2,069	2,366	2,624	3,044	3,531
Fixed assets	94,222	113,946	135,678	160,100	184,115
Deferred tax assets	21,410	27,051	38,448	47,291	56,749
Goodw ill	1,662	1,651	1,610	1,658	1,708
Other assets	18,143	23,335	26,011	29,913	35,895
Total Assets	12,281,834	13,972,828	15,363,210	16,966,346	18,559,477
Deposits from banks and other financial Institut	966,229	977,487	692,095	699,016	712,996
Borrow ings from central banks	2,220	6,281	79,157	118,736	142,483
Placements from banks and non-bank financial	78,725	120,256	155,917	194,896	226,080
Deposits from customers	9,987,450	11,343,079	12,223,037	13,200,880	14,283,352
Financial liabilities at fair value through profit o	33,656	37,251	380,380	574,374	689,249
Accrued staff costs	35,931	32,772	34,080	36,125	39,737
Current taxation	47,189	53,271	60,209	66,230	72,853
Interest payable	80,554	123,215	153,627	184,352	212,005
Debt securities issued	168,312	262,991	357,540	464,802	557,762
Deffered tax liabilities	358	332	138	139	144
Other liabilities	35,598	47,389	65,942	82,428	98,913
Total Liabilities	11,465,173	13,023,283	14,288,881	15,756,686	17,199,842
Share capital	250,011	250,011	250,011	250,011	250,011
Reserves	561,130	691,657	815,940	950,827	1,100,491
Shareholder's equity	811,141	941,668	1,065,951	1,200,838	1,350,502
Minority interests	5,520	7,877	8,378	8,822	9,133
Total shareholders' equity	816,661	949,545	1,074,329	1,209,659	1,359,635
Total shareholders' equity and liabilities	12,281,834	13,972,828	15,363,210	16,966,346	18,559,477

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

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