

# CITIC Bank (998.HK)

## Profit growth met expectation

CHINA | FINANCIAL | COMPANY REPORT

11 February 2015

### Summary

- According to the latest estimated data of CITIC Bank (CITIC or the Group), the Group's profits increased stably, in line with our expectation. As at the end of Dec 2014, operating income achieved to RMB124.717 billion, and net profit was 40.692 billion, increased by 19.28% and 3.87% y-y respectively;
- CITIC's assets increased rapidly. In 2014, its total assets grew 13.67% to RMB4.14 trillion compared with the end of 2013. The BVPS was RMB5.55, 15.1% higher than that of 2013. However, the Group's asset quality trends to go down continually, and NPL ratio increased largely by 0.27ppts to 1.30% during the period. We believe both the ratio and amount of NPL loans will continue to increase in future;
- According to the results of last quarters, CITIC's profits grew stably, and we believe it would have no significant impact on the whole performance although there was a deterioration of the asset quality, and in addition, considering the positive view of the market from invertors, the banks' valuation is still reasonable, therefore we increase CITIC's 12-m target price to HK\$6.80, around 20% higher than its latest closing price, equivalent to 6.0xP/E and 0.9xP/B in 2015 respectively. Maintain Buy rating.

### Profits increased stably and the asset quality continued to go down

In 2014, CITIC's profits increased stably, in line with our expectation. According to the latest estimation, as at the end of Dec 2014, the Group's operating income achieved to RMB124.717 billion, and net profit was 40.692 billion, up 19.28% and 3.87% y-y respectively. The EPS was RMB0.87. We noted that the growth rate of CITIC's net profit was much lower than its operating income, mainly due to the sharp increase of provisions for large loan losses, although there is no detailed information, according to the results of 3Q2014, the Group's provisions for loan loss and others increased significantly by 124.45% y-y to RMB17.774 billion, therefore we estimate its provisions would increase to RMB20 billion approximately in 2014.

CITIC's total assets grew 13.67% to RMB4.14 trillion in 2014 compared with the end of 2013. The BVPS was RMB5.55, 15.1% higher than that of 2013. On the other hand, the Group's asset quality trends to go down continually, and NPL ratio increased obviously by 0.27ppts to 1.30%. We believe both the ratio and amount of NPL loans will continue to go up in future.

### Buy (Maintain)

CMP HK\$5.67

TARGET HK\$6.80 (+20%)

#### COMPANY DATA

O/S SHARES (MN) :	14,882
MARKET CAP (HK\$ MN) :	84,530
52 - WK HI/LO (HK\$) :	6.34/ 3.71

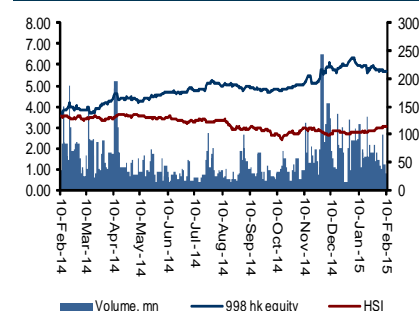
#### SHARE HOLDING PATTERN, %

CITIC Limited :	66.95
HKSCC Nominee	15.76
BBVA	9.9

#### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
CGS	-4.71	11.39	64.35
HSI	2.09	3.02	11.68

#### PRICE & HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

##### Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Operating Income (RMB mn)	89,711	104,813	119,732	134,449
Net Profit, adj. (RMB mn)	31,032	39,175	40,700	42,257
EPS, adj. (RMB)	0.66	0.84	0.87	0.90
P/E (X)	6.9	5.5	5.2	5.1
BVPS (RMB)	4.24	4.82	5.56	6.35
PIB (X)	1.1	0.9	0.8	0.7
DPS (RMB)	0.15	0.25	0.26	0.27
Div. Yield	3.3%	5.5%	5.7%	5.9%

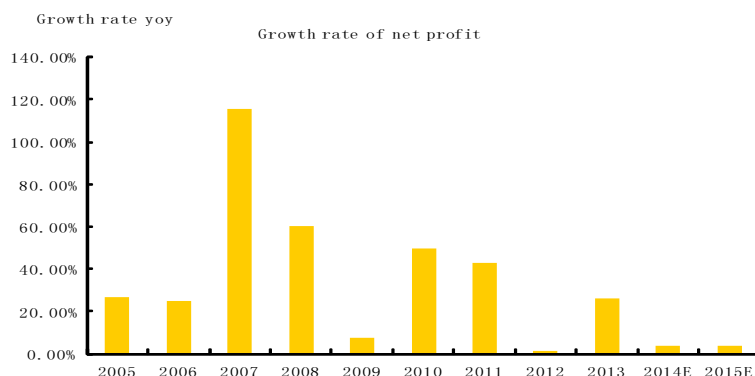
Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

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### The trend of CITIC's net profit growth



Source: Company, Phillip Securities (HK) Research

In valuation, CITIC recorded the stable dividend payout ratio, which was around 30% in 2013 with the amount of RMB11.79 billion, and we expect it would maintain at 30% in future. We assume the ROR would be 12.5%, the cost of equity is 12% and the long-term dividend payout ratio is 30%, and CITIC's intrinsic value would be HK\$7.98 based on 3-stage DDM, and we estimate the target price is HK\$6.80, around 15% lower than its intrinsic value to reflect the risks from the deterioration of asset quality and the market volatility, and around 20% higher than its closing price, equivalent to 6.0xP/E and 0.9xP/B in 2015 respectively. Maintain Buy rating.

#### Risk

Dual-increase of the amount and ratio of NPL loans;

The increase of capital pressure;

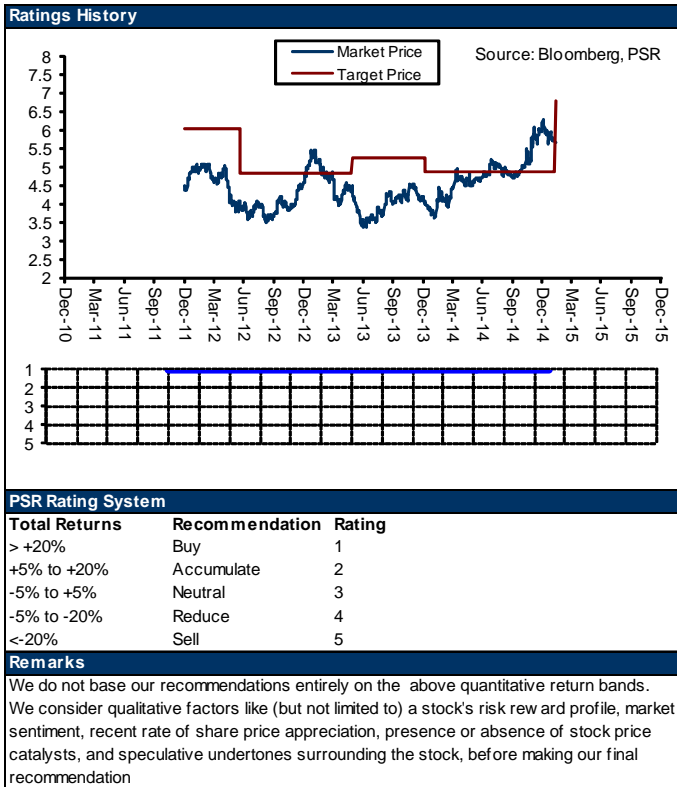
Share price decreases largely affected by the market environment in the short run.

## FINANCIALS

FYE	FY11	FY12	FY13F	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X)	6.4	6.9	5.5	5.2	5.1
P/B (X)	1.2	1.1	0.9	0.8	0.7
Dividend Payout ratio	28.17%	22.62%	29.86%	29.89%	29.89%
Dividend Yield	4.38%	3.29%	5.48%	5.70%	5.91%
<b>Per share data (RMB)</b>					
EPS, reported	0.71	0.66	0.84	0.87	0.90
EPS, adj.	0.71	0.66	0.84	0.87	0.90
DPS	0.20	0.15	0.25	0.26	0.27
BVPS	3.73	4.24	4.82	5.56	6.35
<b>Growth</b>					
Net interest income	35.3%	15.9%	13.5%	9.4%	10.2%
Net fee and commission income(exp.)	55.1%	26.9%	50.0%	30.0%	25.0%
Operating income	36.8%	16.4%	16.8%	14.2%	12.3%
Net Income, adj.	43.3%	0.7%	26.2%	3.9%	3.8%
<b>Key Ratios</b>					
ROAA	1.27%	1.08%	1.19%	1.05%	0.96%
ROAE	20.92%	16.65%	18.48%	16.76%	15.16%
Net interest margin	3.00%	2.81%	2.60%	2.54%	2.61%
Loan to deposit	71.68%	72.17%	71.65%	70.37%	69.00%
Cost to income ratio	29.88%	31.58%	31.43%	30.74%	29.85%
NPL ratio	0.60%	0.74%	1.03%	1.30%	1.55%
Coverage ratio	272.31%	288.25%	206.62%	176.00%	163.50%
CAR	12.27%	13.44%	12.12%	12.60%	12.96%
Core CAR	9.91%	9.89%	9.05%	10.05%	10.40%
<b>Income Statement (RMB mn)</b>					
	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY15F</b>
Net interest income	65,106	75,486	85,688	93,722	103,237
Net fee and commission income(exp.)	8,837	11,210	16,811	21,854	27,318
Other non-interst income(exp.)	11,986	14,225	19,125	26,010	31,212
<b>Operating income</b>	<b>77,092</b>	<b>89,711</b>	<b>104,813</b>	<b>119,732</b>	<b>134,449</b>
General expenses	(28,381)	(34,979)	(40,435)	(45,045)	(49,549)
Provisions for loan loss and others	(7,207)	(13,104)	(11,940)	(20,298)	(28,417)
others	86	(19)	111	205	246
<b>Pre-tax profit</b>	<b>41,590</b>	<b>41,609</b>	<b>52,549</b>	<b>54,594</b>	<b>56,730</b>
Tax	(10,746)	(10,224)	(12,832)	(13,320)	(13,852)
Tax rate	25.84%	24.57%	24.42%	24.40%	24.42%
Profit for the year	30,844	31,385	39,717	41,275	42,877
Minority interest	25	353	542	575	620
<b>Net profit</b>	<b>30,819</b>	<b>31,032</b>	<b>39,175</b>	<b>40,700</b>	<b>42,257</b>
Declared and paid Dividends	9,357	7,018	11,790	12,210	12,677
<b>Balance Sheet (RMB mn)</b>					
	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY15F</b>
Balances with central bank	366,391	428,167	496,476	551,088	617,219
Cash and balances with banks and other financial institutions	386,535	236,591	131,711	118,540	106,686
Placements with banks and non-bank financial institutions	151,004	151,803	122,314	79,504	80,299
Trading financial assets	8,190	12,285	11,018	12,671	14,571
Positive fair value of derivatives	4,683	4,160	7,749	9,299	11,159
Financial assets held under resale agreements	162,211	69,082	286,767	326,914	441,334
Loans and advances to customers	1,410,779	1,627,576	1,899,921	2,089,913	2,319,804
Available-for-sale financial assets	134,518	196,849	177,960	190,417	228,501
Held-to-maturity investments	108,468	135,014	154,849	190,464	234,271
Investment in associates and subsidiaries	2,212	2,134	2,176	2,307	2,353
Fixed assets	10,116	11,520	13,734	14,146	14,853
Deferred tax assets	2,971	6,091	8,434	10,964	9,868
Other assets	6,408	7,703	10,949	35,037	42,044
<b>Total Assets</b>	<b>2,765,881</b>	<b>2,959,939</b>	<b>3,641,193</b>	<b>4,138,935</b>	<b>4,683,872</b>
Deposits and placements from banks and other financial instit	535,546	370,108	559,667	615,634	646,415
Financial assets sold under resale agreements	9,806	11,732	7,949	29,411	46,176
Deposits from customers	1,968,051	2,255,141	2,651,678	2,969,879	3,361,903
Accrued staff costs	8,861	10,578	10,500	10,920	12,340
Current taxation	4,015	4,558	4,355	6,620	8,936
Interest payable	13,599	21,499	28,143	39,400	43,340
Debts securities issued	33,730	56,402	76,869	136,827	184,716
Other liabilities	5,016	5,436	22,431	26,917	34,992
<b>Total Liabilities</b>	<b>2,587,100</b>	<b>2,756,853</b>	<b>3,410,468</b>	<b>3,871,169</b>	<b>4,378,345</b>
Share capital	46,787	46,787	46,787	46,787	46,787
Investment revaluation reserve	79,221	96,338	104,569	108,421	108,321
Retained profits	50,622	57,351	76,690	107,366	144,944
<b>Total shareholders' equity</b>	<b>174,496</b>	<b>198,356</b>	<b>225,601</b>	<b>260,105</b>	<b>297,212</b>
Minority Interest	4,285	4,730	5,124	7,662	8,316
Total equity	178,781	203,086	230,725	267,767	305,528
<b>Total shareholders' equity and liabilities</b>	<b>2,765,881</b>	<b>2,959,939</b>	<b>3,641,193</b>	<b>4,138,935</b>	<b>4,683,872</b>

Source: PSR

Source: Company, Phillip Securities (HK) Research Estimates



**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

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

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