

Bank of Chongqing (1963.HK)

A leading local bank with the stable performance

HONG KONG | BANKING | COMPANY NOTE

13 May 2015

Summary

- In 1Q2015, BOCQ's net profit achieved to RMB897 million, up 13.54% y-y, maintained the stable growth;
- Assets increased slightly. As at the end of 1Q2015, the Group's total assets increased by 2.23% to RMB280.6 billion compared with the end of 2014, with the BVPS of RMB6.23, increased by 6% approximately;
- Dual-increase of the amount and ratio of the NPLs obviously, the amount increased largely by RMB229 million to RMB961 million, and the ratio grew 0.17ppts to 0.86%. The coverage ratio decreased largely by 44.14ppts to 274.73%;
- Although BOCQ's asset quality went down, considering the better-than-expected profit performance, the assets and profits increase stably, with the obvious local competitive advantages in Chongqing, we increase BOCQ's 12-month target price to HK\$9.20, around 17% higher than the latest closing price, equivalent to 5.3xP/E and 0.9xP/B in 2016E respectively. Maintain "Accumulate" rating. (Closing price as at 11 May 2015)

Stable profit growth and employee stock ownership scheme enhances competitiveness

As at the end of 1Q2015, BOCQ's net profit achieved to RMB897 million, increased by 13.54% y-y, equivalent to the EPS of RMB0.33, up 13.54% y-y.

The main reason of BOCQ's strong profit growth is the large increase of incomes, especially for interest incomes, better than the peers. During the same period, the Group's net interest income increased largely by 13.15% y-y to RMB1.669 billion. Additionally, benefited from the market development, the bank's net fee and commission income also increased significantly by 169.59% y-y to RMB399 million.

However, we note that the Group's impairment losses increased sharply due to the deterioration of the asset quality with the dual-decrease of the amount and ratio of the NPLs. NPLs increased by RMB229 million to RMB961 million, and the ratio grew 0.17ppts to 0.86%. Meanwhile, the coverage ratio decreased largely by 44.14ppts to 274.73%. Therefore, in 1Q, the Group's impairment losses grew sharply 312.8% y-y to RMB355 million. We believe it will continue to increase, which would affect the profit growth in future.

Due to the large growth of loans in 2014, net loans increased by 17.5% y-y, with the large capital consumption, BOCQ's CAR decreased obviously, but it increased slightly in 1Q2015. The Group's Core Tier-1 CAR and CAR were 9.87% and 11.19% respectively, up 0.24ppts and 0.19ppts compared with that of 2014. Overall, CAR was still at the low level, representing the large capital pressure, which may affect some businesses with the large capital consumption, such as loans. Therefore, net loans increased only by 4.3% to RMB108.63 in 1Q2015. We expect the loan growth of BOCQ would go down this year.

In all, the bank's operating performance meets our expectation, and we believe its profits would continue to increase largely, and net profit may increase by over 15% this year. Considering the current bull market, the profits of BOCQ would continue to increase stably, although the bank's profit growth would go down in the next two years, and may also face the deterioration of the asset quality due to the large growth of both the amount and ratio of NPLs, we hold the positive view on the bank's future performance, and increase the 12-M TP to HK\$9.20, 17% higher than the latest closing price approximately, equivalent to 5.3xP/E and 0.9xP/B in 2016E respectively, and considering the current price level, maintain Accumulate rating.

Accumulate (Maintain)

CMP: HK 7.85

(Closing price as at 11 May 2015)

TARGET: HK\$ 9.20 (+17%)

COMPANY DATA

O/S SHARES (MN) :	1,157
MARKET CAP (HK\$ MN) :	9,084
52 - WK HI/LO (HK\$) :	8.49/ 4.87

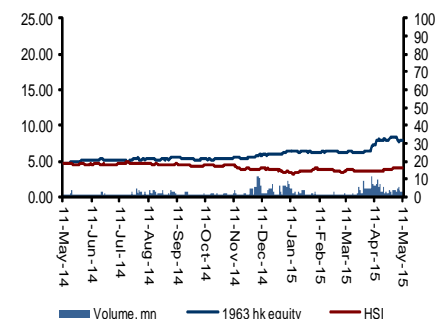
SHARE HOLDING PATTERN, %

Chongqing Yufu Assets Management Group	17.07
Dah Sing Bank	16.95
Lifan Industry	9.93

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
BOCQ	-0.13	25.60	59.23
HSI	-1.06	13.50	24.51

PRICE & HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Operating Profit (RMB mn)	3,056	3,788	4,369	5,060
Net Profit, adj. (RMB mn)	2,329	2,827	3,273	3,778
EPS, adj. (RMB)	1.10	1.05	1.21	1.40
PE (X)	5.7	6.0	5.2	4.5
BVPS (RMB)	4.98	5.88	6.86	7.97
PB (X)	1.3	1.1	0.9	0.8
DPS (RMB)	0.22	0.27	0.31	0.35
Div. Yield	3.56%	4.29%	4.93%	5.57%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

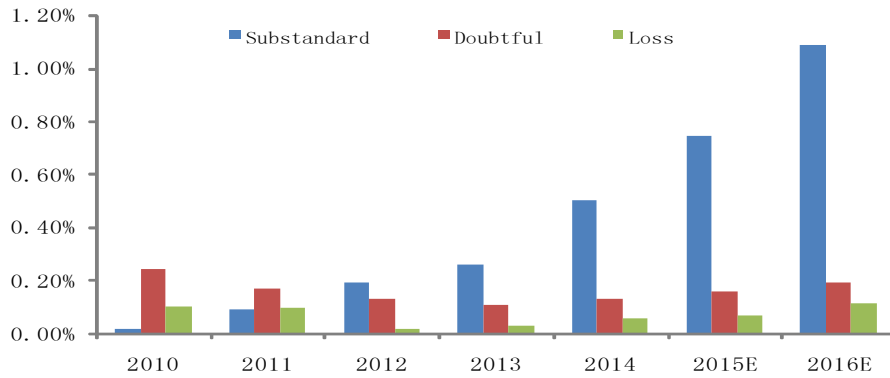
Research Analyst

Xingyu CHEN

(+ 86 21 51699400-105)

chenxingyu@phillip.com.cn

The growth of BOCQ's NPL ratios



Source: Company, Phillip Securities (HK) Research

Risk

The deterioration of the asset quality due to the large growth of the NPLs;
 The growth of interest incomes and intermediate business incomes goes down continually;
 Share price decreases sharply in the short run.

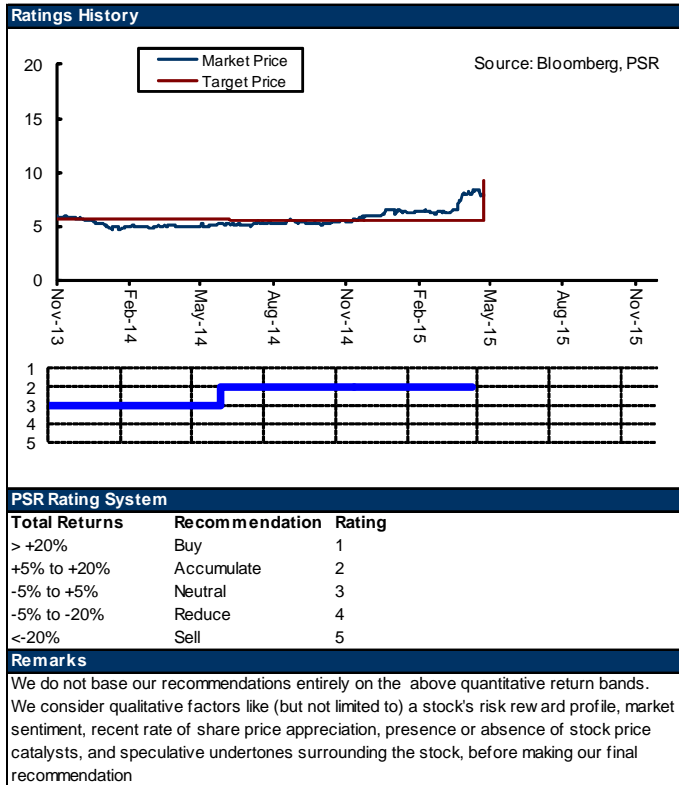
FINANCIALS

FYE	FY11	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios						
P/E (X)	8.5	6.6	5.7	6.0	5.2	4.5
P/B (X)	2.0	1.5	1.3	1.1	0.9	0.8
Dividend Payout ratio	6.79%	7.35%	20.44%	25.71%	25.62%	25.00%
Dividend Yield	0.79%	1.11%	3.56%	4.29%	4.93%	5.57%
Per share data (RMB)						
EPS, reported	0.74	0.95	1.10	1.05	1.21	1.40
EPS, adj.	0.74	0.95	1.10	1.05	1.21	1.40
DPS	0.05	0.07	0.22	0.27	0.31	0.35
BVPS	3.19	4.09	4.98	5.88	6.86	7.97
Growth						
Net interest income		25.0%	24.8%	20.3%	15.1%	13.7%
Net fee and commission income(exp.)		26.9%	75.3%	40.9%	40.4%	40.2%
Operating profit		30.0%	21.5%	24.0%	15.3%	15.8%
Net Income, adj.		29.4%	21.0%	21.4%	15.8%	15.4%
Key Ratios						
Net interest spread	2.77%	2.66%	2.61%	2.56%	2.54%	2.51%
Net interest margin	2.92%	2.85%	2.81%	2.81%	2.79%	2.76%
Loan to deposit	71.69%	67.20%	60.82%	63.39%	63.83%	62.18%
Cost to income ratio	34.30%	34.10%	32.37%	31.02%	30.48%	30.07%
ROAA	1.26%	1.36%	1.28%	1.17%	1.05%	0.97%
ROAE	25.92%	26.17%	21.43%	19.24%	19.00%	18.84%
NPL ratio	0.35%	0.33%	0.39%	0.69%	0.97%	1.39%
Coverage ratio	527.31%	537.89%	525.36%	318.42%	243.59%	169.64%
Core CAR	9.26%	9.39%	10.82%	9.63%	9.28%	10.30%
CAR	11.96%	12.63%	13.26%	11.00%	10.10%	12.67%
Total equity/total assets	5.07%	5.29%	6.52%	5.79%	5.31%	5.00%
Income Statement (RMB mn)						
Net interest income	3,321	4,150	5,179	6,232	7,175	8,155
Net fee and commission income	290	368	645	909	1,276	1,789
Operating income	3,571	4,657	5,875	7,483	8,981	10,714
Operating expenses	(1,451)	(1,901)	(2,283)	(2,805)	(3,366)	(3,972)
Operating profit before impairment losses	2,120	2,756	3,592	4,678	5,615	6,742
Impairment losses	(184)	(240)	(536)	(890)	(1,246)	(1,682)
Operating profit	1,936	2,516	3,056	3,788	4,369	5,060
Investments in associates	0	1	1	2	2	3
Profit before tax	1,936	2,517	3,057	3,790	4,371	5,063
Income tax	(448)	(592)	(728)	(963)	(1,098)	(1,284)
Effective income tax rate	23.14%	23.52%	23.81%	25.41%	25.12%	25.37%
Profit for the year	1,488	1,925	2,329	2,827	3,273	3,778
Minority interest	0	0	0	0	0	0
Net profit attributable to equity holders of the B:	1,488	1,925	2,329	2,827	3,273	3,778
Declared and paid Dividends	101	141	476	736	839	957
Balance Sheet (RMB mn)						
Cash and balances with central bank	19,340	25,243	32,823	35,699	48,194	60,242
Deposits with banks and other financial institutions	24,340	18,532	32,143	54,409	73,452	99,160
Financial assets designated at fair value through profit	1,615	2,414	2,009	4,798	7,437	8,924
Loans to customers, net	62,825	75,257	88,638	104,115	119,732	135,297
Investment securities	17,091	32,132	47,431	70,980	94,613	120,306
Total assets	127,340	156,163	206,787	274,531	349,030	431,038
Deposits and loans from banks and other financial inst	28,446	27,659	33,750	81,636	124,903	169,868
Deposits from customers	89,307	114,043	148,801	167,932	192,114	222,852
Total liabilities	120,887	147,905	193,308	258,628	330,482	409,467
Share capital	2,021	2,021	2,705	2,705	2,705	2,705
Reserves	1,310	1,683	5,099	6,243	7,003	8,370
Retained earnings(accumulated losses)	3,122	4,554	5,675	6,955	8,840	10,496
Equity attributable to equity holders	6,453	8,258	13,479	15,903	18,548	21,571
Minority interest	0	0	0	0	0	0
Total equity	6,453	8,258	13,479	15,903	18,548	21,571
Total shareholders' equity and liabilities	127,340	156,163	206,787	274,531	349,030	431,038

Source: PSR

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 11 May 2015)



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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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

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

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

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

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

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: 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

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

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

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

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