

China Construction Bank (939.HK)

Profit growth slowed down with the decrease of the asset quality

3 July 2015

HONG KONG | BANKING | COMPANY NOTE

Summary

- According to 1Q Results of China Construction Bank (CCB or the Group), by the end of March, the Group's net profit was RMB67.005 billion, up 1.86% y-y slightly, lower than our previous expectation, equivalent to the EPS of RMB0.27, mainly due to the large growth of cost, especially for impairment losses, increased sharply by 73.1% y-y. We believe CCB's profit growth would maintain at the stable level in 2015;
- On the other hand, the quality of CCB's loans went down continually. In 1Q2015, the Group's net loans increased by 3.5% to RMB9.55 trillion. Due to the downstream of economy, the bank's NPLs continued to increase, NPL ratio increased largely from 1.19% in 2014 to 1.30%. Meanwhile, the converge ratio decreased from 222.33% to 207.23%. However, this trend met our expectation, and we believe the asset quality will continue to go down in future, both the amount and ratio of NPLs would increase, and the NPL ratio would be around 1.54% in 2015;
- However, we note that CCB's CAR increased obviously, located at the leading position among the peers, Core Tier-1 ratio and CAR increased by 0.39ppts and 0.1ppts respectively compared with the end of 2014, representing the easing of the bank's capital pressure, in line with expectation;
- Overall, CCB's business performance maintains stable, the profit growth slows down and the loan quality continues to go down, but the capital pressure declines, which would be helpful for the future development. Considering the sharp decrease of the share price, we estimate CCB's 12-m TP to HK\$8.00, around 13% higher than the latest closing price, equivalent to 6.0xP/E and P/B0.9x in 2016E respectively, the valuation is attractive. Maintain Accumulate rating. (Closing price as at 30 June 2015)

Accumulate (Maintain)

CMP: HK\$ 7.08
 (Closing price as at 30 June 2015)
 TARGET: HK\$ 8.00 (+13%)

COMPANY DATA

O/S SHARES (MN) :	250,011
MARKET CAP (HK\$ MN) :	1,702,155
52 - WK HI/LO (HK\$) :	7.98/ 5.34

SHARE HOLDING PATTERN, %

Central Huijin Investment :	57.06
HKSCC Nominees :	30.49
Temasek Holdings :	5.77

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
CCB	-9.00	7.93	26.43
HSI	-4.43	3.86	11.47

KEY FINANCIALS

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Operating Profit (RMB mn)	279,746	298,841	324,116	348,239
Net Profit, adj. (RMB mn)	214,657	227,830	247,454	266,308
EPS, adj. (RMB)	0.86	0.91	0.99	1.07
P/E (X)	6.6	6.2	5.7	5.3
BVPS (RMB)	4.26	4.97	6.00	7.23
P/B (X)	1.3	1.1	0.9	0.8
DPS (RMB)	0.30	0.30	0.35	0.37
Div. Yield	6.8%	5.3%	6.1%	6.6%

Source: Bloomberg, PSR est.

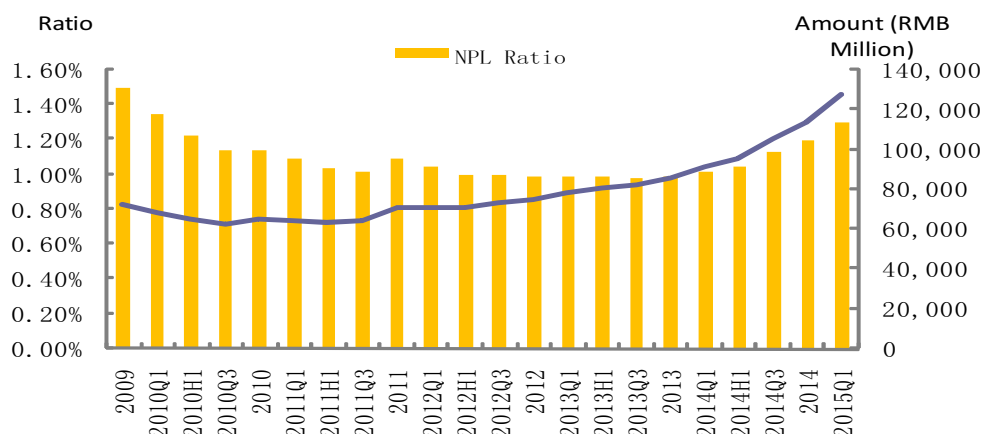
*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

Research Analyst

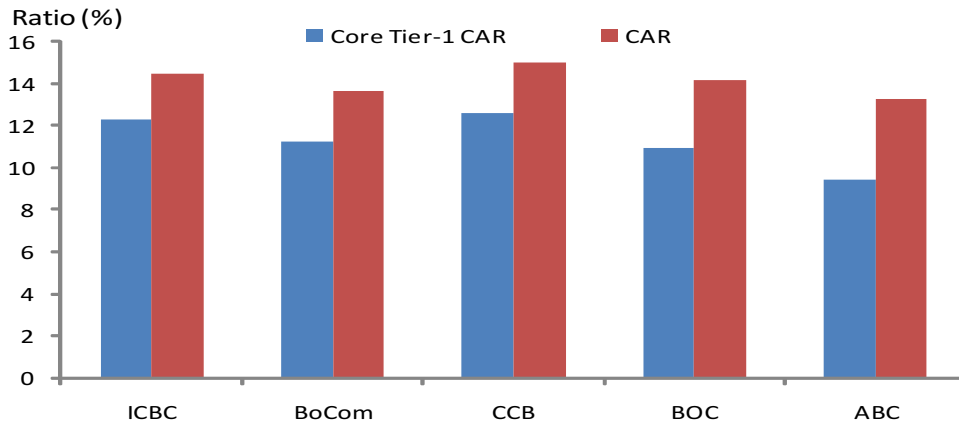
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Amount and ratio of CCB's NPLs



Source: Company, Phillip Securities (HK) Research

CARs of Big-5 in 1Q2015



Source: Company, Phillip Securities (HK) Research

FINANCIALS

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X)	7.3	6.6	6.2	5.7	5.3
P/B (X)	1.5	1.3	1.1	0.9	0.8
Dividend Payout ratio	34.68%	34.95%	33.03%	35.00%	35.00%
Dividend Yield	4.7%	6.8%	5.3%	6.1%	6.6%
Per share data (RMB)					
EPS, reported	0.77	0.86	0.91	0.99	1.07
EPS, adj.	0.77	0.86	0.91	0.99	1.07
DPS	0.27	0.30	0.30	0.35	0.37
BVPS	3.77	4.26	4.97	6.00	7.23
Growth					
Net interest income	16.0%	10.3%	12.3%	12.0%	9.3%
Net fee and commission income(exp.)	7.5%	11.5%	4.1%	7.8%	9.8%
Operating income	15.8%	10.5%	8.9%	11.5%	9.8%
Net Income, adj.	14.1%	11.1%	6.1%	8.6%	7.6%
Key Ratios					
Net interest spread	2.58%	2.56%	2.61%	2.62%	2.65%
Net interest margin	2.75%	2.74%	2.80%	2.80%	2.81%
Loan to deposit	64.44%	70.28%	71.50%	71.83%	72.47%
Cost to income ratio	29.60%	29.65%	28.92%	27.04%	27.09%
ROAA	1.47%	1.47%	1.42%	1.39%	1.32%
ROAE	22.04%	21.23%	19.74%	18.05%	16.11%
NPL ratio	0.99%	0.99%	1.19%	1.54%	1.59%
Coverage ratio	271.29%	268.22%	222.33%	175.72%	169.93%
Core CAR	11.32%	10.75%	12.12%	12.05%	12.36%
CAR	14.32%	13.34%	14.87%	14.98%	15.12%
Income Statement (RMB mn)					
Interest income	603,241	646,253	739,126	827,821	910,603
Interest expense	(250,039)	(256,709)	(301,728)	(337,935)	(375,108)
Net interest income	353,202	389,544	437,398	489,886	535,495
Fee and commission income	96,218	107,432	112,238	121,217	133,339
Fee and commission expense	(2,711)	(3,149)	(3,721)	(4,279)	(4,921)
Net fee and commission income	93,507	104,283	108,517	116,938	128,418
Operating income	462,533	511,140	556,740	620,499	681,194
Operating expenses	(171,081)	(188,185)	(195,988)	(209,707)	(230,678)
Operating profit before impairment losses	291,452	322,955	360,752	410,791	450,516
Impairment losses	(40,041)	(43,209)	(61,911)	(86,675)	(102,277)
Operating profit	251,411	279,746	298,841	324,116	348,239
Profit before tax	251,439	279,806	299,086	324,386	348,616
Income tax	(57,837)	(64,684)	(70,839)	(76,506)	(81,862)
Effective income tax rate	23.00%	23.12%	23.69%	23.58%	23.48%
Profit for the year	193,602	215,122	228,247	247,879	266,755
Minority interests	423	465	417	425	447
Net profit attributable to equity holders o	193,179	214,657	227,830	247,454	266,308
Dividend	67,003	75,030	75,253	86,609	93,208

Source: PSR

 Source: Company, Phillip Securities (HK) Research Estimates
 (Financial figures as at 30 Jun 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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