

BANK OF CHINA (3988.HK)

Other non-interest income increased strongly, and the scale of assets and liabilities grew steadily

China | Banking |

09 Jan 2025

Overview

Bank of China (3988.HK) has institutions in mainland China and 64 overseas countries and regions. BOC HK and BOC Macau serve as the local note-issuing banks. Bank of China has a relatively comprehensive global service network. It has formed a comprehensive financial service system which takes the commercial banking businesses such as corporate finance, personal finance and financial markets as the main body and covers multiple fields such as investment banking, direct investment, securities, insurance, funds, aircraft leasing, asset management, financial technology and financial leasing. Bank of China provides customers with financial solutions of "one-point access, global response, and comprehensive services."

Q3 Performance review

In the first three quarters of 2024, the company achieved operating income of 479.1 billion yuan (RMB, the same below) with a year-on-year increase of 1.74%; after-tax profit was 187.5 billion yuan with a year-on-year increase of 0.53%; net profit attributable to the parent company was 175.8 billion yuan with a year-on-year increase of 0.52%; basic earnings per share was 0.55 yuan.

Other non-interest income increased strongly.

The company's net interest income in the first three quarters of 2024 was 336 billion yuan with a year-on-year decrease of 4.81%, mainly due to the net interest margin decrease slightly to 1.41% compared with the first half of the year, as the U.S. dollar faced with interest rate cut cycle, which reduced the contribution of foreign currencies to the net interest margin. In the future, factors such as existing mortgage interest rates and LPR cuts will continue to put pressure on domestic asset yields, but the slowdown in interest rate cuts by the Federal Reserve may relieve the pressure on overseas asset yields. The company's non-interest income was 143.1 billion yuan with a year-on-year increase of 21.32% which showed strong growth in non-interest businesses. Among them, net fees and commissions were 60.7 billion yuan with a year-on-year decrease of 3.93%, the decrease narrowed compared with 2024H1, mainly due to the impact of capital market fluctuations; other non-interest income (mainly including net transaction income, net income from financial asset transfers and other operating income) were 82.4 billion yuan with a year-on-year increase of 50.43%, mainly due to a year-on-year increase of 114.2% in investment income. The company's operating expenses were 172.7 billion yuan with a year-on-year increase of 10.13%. The company's impairment losses on assets amounted to 85.8 billion yuan with a year-on-year decrease of 5.78%, of which credit impairment losses amounted to 85.7 billion yuan with a year-on-year decrease of 5.86%.

The scale of assets and liabilities grew steadily, and the provision coverage ratio was at a good level.

As of the end of September 2024, the company's total assets amounted to 34,069 billion yuan, an increase of 5.05% from the end of 2023. The total liabilities amounted to 31,195 billion yuan, an increase of 5.12% from the end of 2023. Total customer deposits amounted to 23,710.6 billion yuan, an increase of 3.51% from the end of 2023, among which, corporate deposits amounted to 11,512.6 billion yuan, personal deposits amounted to 11,476.8 billion yuan, and certificates of deposit and other deposits amounted to 386.1 billion yuan. The asset and liability structure was relatively stable, with the ratio of deposits to liabilities being 76.01%, a decrease of 1.18 percentage points compared with the end of 2023. The company's loans and advances to customers amounted to 21,435.9 billion yuan, an increase of 7.38% from the end of 2023, among which, corporate loans amounted to 14,596.5 billion yuan and personal loans amounted to 6,783.3 billion yuan. The company's

Accumulate

CMP HKD 3.93

(Closing price as of 03 Jan)

Target HKD 4.43 (+12.7%)

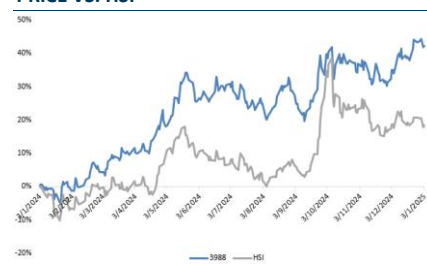
COMPANY DATA

O/S SHARES (MN) :	294,388
MARKET CAP (HKD bn) :	1160
52 - WK HI/LO (HKD):	4.00/2.79

SHARE HOLDING PATTERN, %

Central Huijin Investment Ltd.	64.13%
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

	FY22	FY23	FY24E	FY25E
EPS (RMB)	0.72	0.74	0.75	0.77
PPOPPS (RMB)	1.32	1.37	1.51	1.58
BVPS (RMB)	6.98	7.58	8.26	8.91
DPS (RMB) x	0.23	0.24	0.34	0.35
P/E	5.09	4.95	4.87	4.77
P/PPOP	3.66	3.53	2.43	2.32
P/B	0.52	0.48	0.44	0.41

Source: Company reports, Phillip Securities Est.

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main risk indicators performed steadily, and its risk compensation capabilities continued to improve. The company's reported non-performing loans amounted to 270 billion yuan, and the ratio of non-performing loans to total loans was 1.26%, a decrease of 0.01 percentage point compared with the end of 2023. The ratio of allowance for loan impairment losses to non-performing loans was 198.86%, an increase of 7.20 percentage points compared with the end of 2023, the ratio was at a good level closing to 200.00%, which effectively proved that the company tried its best to deal with non-performing assets.

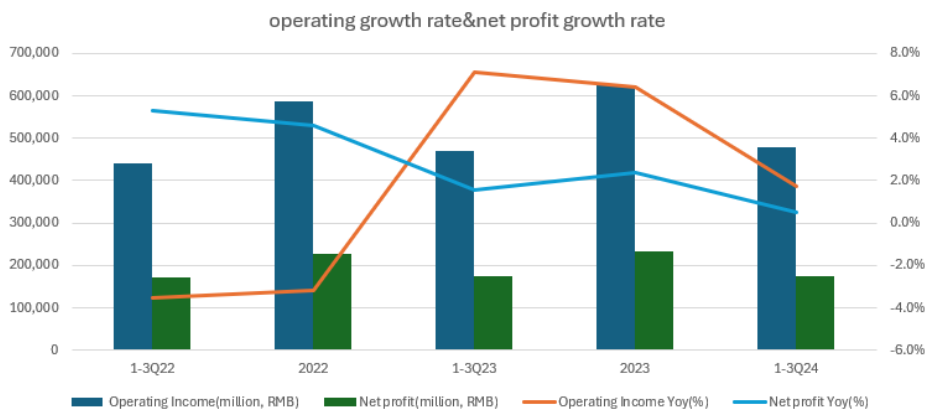
Company valuation

Over the past 12 months, the company's dividend yield was 6.84%, indicating a high dividend feature. The company maintains a leading global advantage, with overall stable fundamentals. Considering that non-interest income growth is slightly better than previously expected, we are optimistic about the company's medium to long-term growth. However, considering the risk of RMB depreciation affecting Hong Kong stocks significantly, and the fact that the company's main customers are physical economy enterprises, the performance may be affected by US tariffs. Therefore, we expect the company's net profit attributable to the parent company for 2024-2026 to be 236.8/240.8/249.4 billion yuan, with predicted EPS of 0.75/0.77/0.80 yuan respectively. The current stock price corresponds to PB ratios of 0.44/0.41/0.38x. Overall, we assign the company a 0.5x PB for 2024, corresponding to a target price of HKD 4.43 per share, with an "Accumulate" rating.

* The analyst has a financial interest in the listed corporation covered in this report.

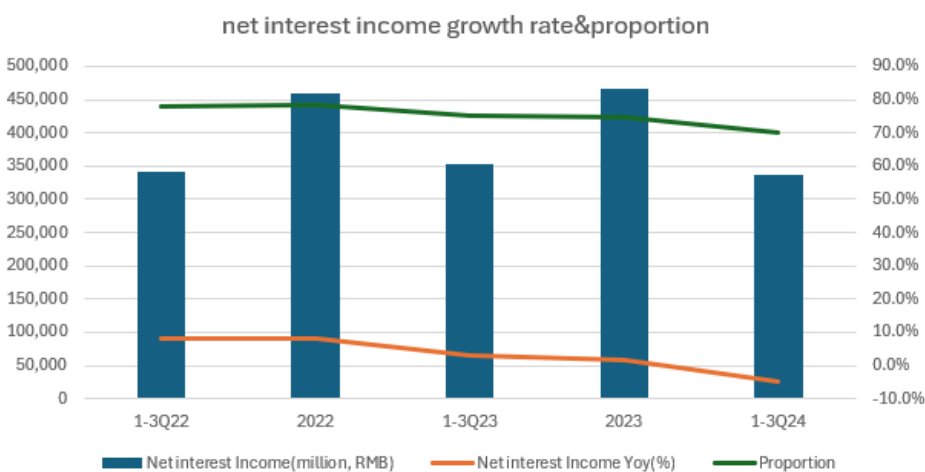
Charts:

Chart 1: Operating growth rate& net profit growth rate



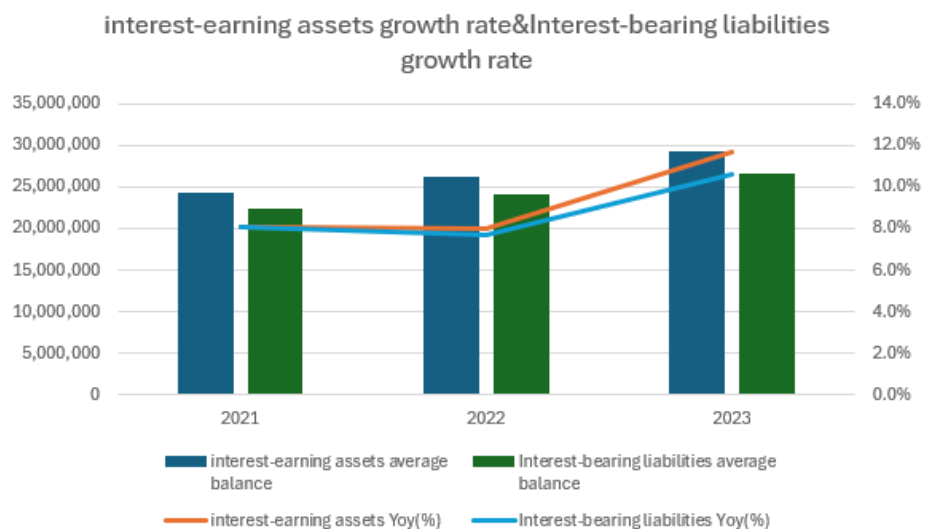
Resources : Annual Report · PSHK

Chart 2: net interest income growth rate& proportion



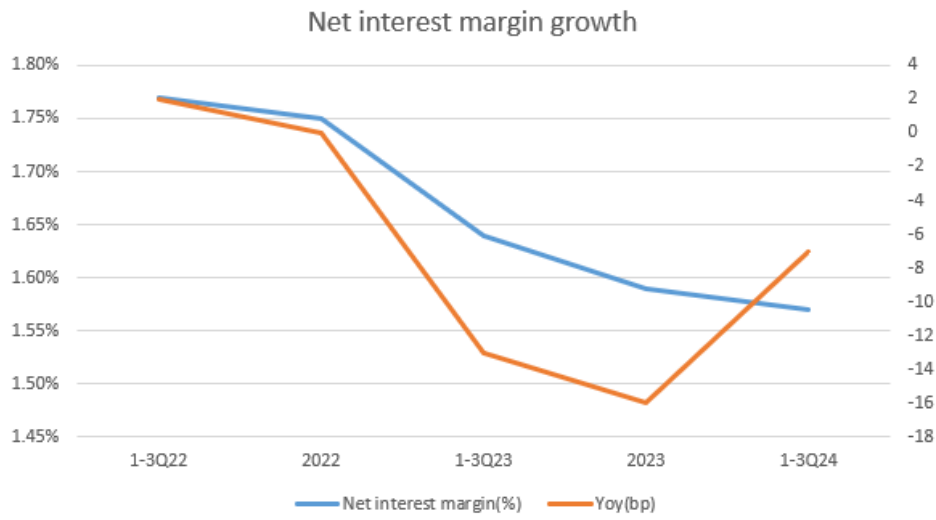
Resources : Annual Report · PSHK

Chart 3: interest-earning assets growth rate& interest-bearing liabilities growth rate



Resources : Annual Report · PSHK

Chart 4: Net interest margin growth



Resources : Annual report · PSHK

Risk factors

Overseas macroeconomic affects the company's asset quality, interest rate risk, and credit risk.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	2022	2023	2024E	2025E	2026E
REVENUE					
Net interest income	459266	466545	487187	492429	534540
Non interest income	51211	77479	79391	87054	88428
Net fee and commission income	74890	78865	74752	72842	74976
Net other non interest income	34640	43081	44479	50834	50834
Operating expenses	301589	328816	343240	349125	384009
Operating profit	283778	294073	298090	303201	313935
Credit and other impairment loss	103959	106562	112361	114287	125770
Profit before income tax and share of results of equity investees	283641	295608	298090	303201	313935
Income tax expenses	46916	49237	46204	46996	48660
Profit for the year	236725	246371	251886	256205	265275
Net profit					
– Equity holders of the Company	226522	231904	236773	240832	249359
– Non-controlling interests	10203	14467	15113	15372	15917

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	2022	2023	2024E	2025E	2026E
Cash and due from banks and other financial institutions	815063	568855	574544	603271	651532
Balances with central banks	2313859	2941140	2927455	3206335	3515973
Placements with and loans to banks and other financial institutions	1174097	1233888	1246227	1308538	1413221
Precious metals	130215	96968	77574	62060	49648
Loans and advances to customers, net	17116005	19476871	21136495	23461509	26042275
Financial investments	6435244	7158717	7929636	8339621	8360744
Others	909065	955727	958694	999306	1038804
Total Assets	28893548	32432166	34850624	37980639	41072197
Due to banks and other financial institutions	2240323	2245362	2491187	2565479	2575297
Due to central banks	915858	1235320	1067651	1099491	858432
Placements from banks and other financial institutions	466335	474977	484477	494166	504049
Due to customers	20201825	22907050	24739614	27213575	29934933
Others	2505906	2812642	3080590	3350773	3616616
Total liabilities	26330247	29675351	31863519	34723484	37489327
Equity attributable to equity holders of the Company	2423973	2629510	2866166	3124121	3436533
Non-controlling interests	139328	127305	120940	133034	146337
Total equity	2563301	2756815	2987106	3257155	3582870
Total liabilities and equity	28893548	32432166	34850624	37980639	41072197

Profitability

Dec Y/E, %	2022	2023	2024E	2025E	2026E
Interest-earning asset yield	3.33%	3.57%	3.33%	3.25%	3.17%
Loan yield	3.93%	4.01%	3.84%	3.73%	3.63%
Cost of interest-bearing liabilities	1.74%	2.18%	2.09%	2.05%	2.00%
Cost of deposits	1.65%	2.12%	2.03%	2.03%	2.03%
Net interest margin	1.74%	1.59%	1.51%	1.44%	1.37%
Net interest spread	1.59%	1.39%	1.23%	1.20%	1.17%
RORWA	1.43%	1.39%	0.72%	0.68%	0.64%
ROAA	0.85%	0.80%	0.72%	0.70%	0.67%

Asset quality

Dec Y/E, %	2022	2023	2024E	2025E	2026E
Non-performing loan ratio	1.32%	1.27%	1.20%	1.13%	1.07%
Provision coverage ratio	188.73%	191.66%	200.07%	208.85%	218.01%
Loan loss provision ratio	2.50%	2.44%	2.42%	2.37%	2.34%

Capital

Dec Y/E, RMB mn	2022	2023	2024E	2025E	2026E
Capital adequacy ratio	17.52%	17.74%	17.70%	17.39%	16.82%
Tier I capital adequacy ratio	14.11%	13.83%	13.49%	13.08%	12.63%
Core Tier I capital adequacy ratio	11.84%	11.63%	11.37%	11.05%	10.69%

Growth rate					
Dec Y/E, %	2022	2023	2024E	2025E	2026E
Total asset	8.10%	12.20%	7.40%	9.24%	8.24%
Interest-earning asset	8.70%	13.20%	9.92%	9.53%	9.66%
Interest-bearing liability	7.50%	13.00%	9.47%	8.44%	8.51%
Loan balance	11.70%	13.70%	11.69%	11.00%	11.00%
Deposit balance	11.30%	13.40%	11.47%	10.00%	10.00%
Net interest income	8.00%	1.60%	4.42%	4.05%	4.17%
Net fee and commission income	-8.00%	5.30%	-5.22%	-2.55%	2.93%

Current Price as of: 03 Jan

Exchange rate: RMB/HKD = 0.9324

Source : PSHK Est.

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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