

China CITIC Bank (601998 CH)

Revenue solid; Earnings dip in line with industry downtrend

CITICB reported decent revenue/PPoP growth of 10.3%/15.2% YoY in 2Q20. However, solid topline was slashed by heavy provision charges, leading to YoY earnings contraction of 26.5%/9.8% in 2Q/1H20. We see little surprise from the negative profit growth, given CBIRC's earlier announcement of 9.4%/24% banking sector earnings decline for the same period. Policy guidance on profit concession and overhang from the pandemic should continue to weigh on China banks' bottom line growth in 2H20. Having said that, we see limited share price downside at current depressed valuation. Thorough NPL exposure and front-loading of provisions bode well for long-term rerating.

- **Results positives:** 1) **Healthy deposit growth of 3.9% QoQ** outpaced loan growth of 1.4% QoQ. LDR fell 2.3ppt to 94%. 2) **2Q20 NIM widened 4bp QoQ to 2.01%**, mainly on rising yield of retail loans. Yet, 1H20 NIM still narrowed 12bp YoY amid decline in overall asset yields and rigid deposit cost. Management expected further margin contraction in 2H20, but likely in smaller magnitude. 3) **Trading income rose 20% YoY**, mainly on higher return of bond investments amid falling market rates. 4) **2Q20 cost-income ratio dropped 3.2ppt YoY to 23.1%**, suggesting better operating efficiency.
- **Results negatives:** 1) **NPL ratio picked up 3bp QoQ/18bp HoH to 1.83%**, higher than joint-stock banks' average of 1.63%. This was mainly due to worsening asset quality of retail loans, esp. credit cards, of which NPL ratio surged 76bp HoH to 2.50%. However, management saw credit card NPLs abating from the peak in Mar 2020. 2) **Provision charges soared 66.5% YoY in 2Q20**, yet provision coverage slid 1.6ppt QoQ to 176%, below peer average of 204%. 3) **Capital position weakened** on softer earnings and cash dividend payout in 2Q20. CET1/total CAR fell 12bp/10bp QoQ to 8.80%/12.57%.
- **Maintain BUY with lower TP of RMB6.80.** We cut FY20/21 earnings forecasts by 14.1%/15.5%, to reflect lower NIM/fee income and higher credit cost assumptions. Our revised TP of RMB6.80 is based on 0.71x (from 0.75x) target P/B and FY20 BVPS of RMB9.62.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	165,766	187,881	205,538	222,570	244,007
Net profit (RMB mn)	44,513	48,015	44,678	48,543	53,609
EPS (RMB)	0.88	0.95	0.89	0.96	1.07
EPS CHG (%)	4.7	8.1	(7.1)	8.9	10.7
Consensus EPS (RMB)	NA	NA	0.97	1.02	1.09
P/E (x)	3.4	3.1	3.4	3.1	2.8
P/B (x)	0.37	0.33	0.31	0.29	0.27
Dividend yield (%)	7.7	8.0	7.6	8.3	9.1
ROE (%)	11.3	11.1	9.5	9.7	9.9
NPL ratio (%)	1.77	1.65	1.88	1.84	1.76
Provision coverage (%)	158	175	174	187	204

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB 6.80
(Previous TP)	RMB 7.30)
Up/Downside	+30.8%
Current Price	RMB 5.20

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	221,333
Avg 3 mths t/o (RMB mn)	214
52w High/Low (RMB)	6.49/4.97
Total Issued Shares (mn)	34,053 (A)
	14,882 (H)

Source: Bloomberg

Shareholding Structure

CITIC Corporation	65.37%
China Tobacco	4.39%
CSFC	2.28%

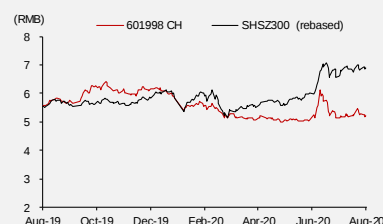
Source: Company data

Share Performance

	Absolute	Relative
1-mth	1.4%	-3.0%
3-mth	3.6%	-14.8%
6-mth	-6.7%	-19.2%
12-mth	-6.0%	-24.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Earnings beat, yet NIM and NPL disappoint – 24 Apr 2020
2. Slower earnings pace on prudent provisioning – 27 Mar 2020
3. Solid 3Q19 earnings on robust margin and fee trends – 18 Oct 2019
4. Earnings regaining momentum – 28 Aug 2019
5. Strong topline growth assured prudent provisions – 26 Apr 2019

Figure 1: 2Q20 results summary

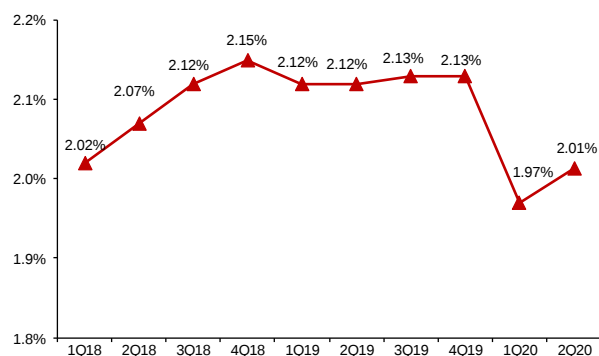
(RMB mn)							
P&L	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
Net interest income	27,046	30,092	40,017	31,912	33,023	3.5%	5.2%
Non-interest income	18,729	18,989	5,591	19,658	17,420	-11.4%	21.5%
Operating income	45,775	49,081	45,608	51,570	50,443	-2.2%	10.3%
Operating expense	(12,181)	(13,368)	(16,127)	(11,892)	(11,645)	-2.1%	-3.3%
PPoP	33,594	35,713	29,481	39,678	38,798	-2.2%	15.2%
Impairment losses	(15,065)	(21,122)	(21,943)	(22,636)	(25,089)	10.8%	66.5%
Pre-tax profit	18,529	14,591	7,538	17,042	13,709	-19.6%	-26.4%
Income tax	(3,133)	(2,138)	192	(2,495)	(2,287)	-8.3%	-27.0%
Net profit	15,091	12,445	7,263	14,453	11,088	-23.3%	-26.5%

B/S	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
Gross loans	3,835,876	3,956,104	3,997,987	4,154,393	4,214,523	1.4%	9.9%
Total deposits	4,034,436	4,050,290	4,073,258	4,315,990	4,484,465	3.9%	11.2%
Total assets	6,398,803	6,461,910	6,750,433	7,032,434	7,080,616	0.7%	10.7%
NPLs	66,161	68,190	66,117	74,802	77,287	3.3%	16.8%

Key ratio	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
NIM	2.12%	2.13%	2.13%	1.97%	2.01%	4bp	-11bp
ROE	14.4%	11.7%	6.7%	12.9%	9.7%	-3.1ppt	-4.7ppt
NPL ratio	1.72%	1.72%	1.65%	1.80%	1.83%	3bp	11bp
Provision coverage	165.2%	174.8%	175.2%	177.4%	175.7%	-1.7ppt	10.6ppt
LDR	95.1%	97.7%	98.2%	96.3%	94.0%	-2.3ppt	-1.1ppt
CET-1 CAR	8.6%	8.8%	8.7%	8.9%	8.8%	-12bp	22bp

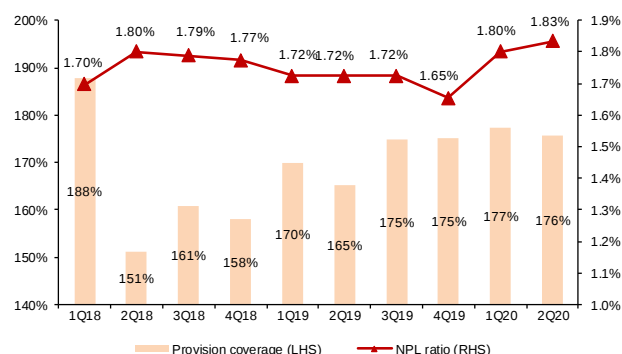
Source: Company data, CMBIS

Figure 2: Quarterly NIM of CITICB



Source: Company data, CMBIS; Quarterly NIM is based on our estimates.

Figure 3: NPL ratio and provision coverage of CITICB



Source: Company data, CMBIS

Figure 4: Adjustments in earnings forecast

	NIM			Fee income growth			Credit cost			Net profit (RMB mn)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
FY20E	2.07%	2.01%	-6bp	10%	6%	-4ppt	1.90%	1.95%	+5bp	52,992	44,678	-14.1%
FY21E	2.04%	1.97%	-7bp	15%	10%	-5ppt	1.87%	1.90%	+3bp	57,428	48,543	-15.5%

Source: CMBIS estimates

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	233,793	268,498	295,888	321,269	352,206
Interest expenses	(129,021)	(141,227)	(155,166)	(169,997)	(186,291)
Net interest income	104,772	127,271	140,722	151,273	165,915
Net fee income	45,148	46,384	49,167	54,084	59,492
Others	15,846	14,226	15,649	17,213	18,599
Operating income	165,766	187,881	205,538	222,570	244,007
Operating expenses	(52,600)	(54,168)	(59,991)	(65,423)	(71,848)
PPoP	113,166	133,713	145,547	157,146	172,159
Provision	(58,233)	(77,255)	(91,833)	(98,885)	(107,938)
Operating profit	54,933	56,458	53,714	58,262	64,221
Non-operating income	(607)	87	-	-	-
Pre-tax profit	54,326	56,545	53,714	58,262	64,221
Income tax expenses	(8,950)	(7,551)	(8,057)	(8,739)	(9,633)
Minority interests	(863)	(979)	(979)	(979)	(979)
Net profit	44,513	48,015	44,678	48,543	53,609

Key Ratio

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix					
Net interest income	68%	68%	68%	68%	68%
Net fee income	22%	25%	24%	24%	24%
Others	10%	8%	8%	8%	8%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	13.3%	12.7%	10.6%	7.5%	9.7%
Net fee income	NA	25.3%	6.0%	10.0%	10.0%
Operating income	5.4%	13.3%	9.4%	8.3%	9.6%
PPoP	4.5%	18.2%	8.9%	8.0%	9.6%
Net profit	4.6%	7.9%	-7.0%	8.7%	10.4%
Gross loans	12.9%	10.8%	10.5%	10.5%	10.5%
Customer deposits	7.1%	11.6%	10.0%	10.0%	10.0%
Efficiency					
Cost-to-income ratio	30.7%	27.8%	27.9%	28.1%	28.1%

Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	532,520	456,813	501,981	551,665	606,318
Interbank assets	286,103	335,798	352,588	370,217	388,728
Investments	1,600,163	1,873,596	2,023,484	2,175,381	2,338,731
Gross loans	3,608,412	3,997,987	4,417,776	4,881,642	5,394,214
Less: provision	101,154	115,870	144,444	168,605	193,839
Other assets	140,670	202,109	229,106	263,936	303,150
Total assets	6,066,714	6,750,433	7,380,490	8,074,235	8,837,302
Due to central banks	286,430	240,298	264,328	290,761	319,837
Interbank liabilities	1,361,999	1,597,114	1,745,642	1,909,022	2,088,740
Customer deposits	3,649,611	4,073,258	4,480,584	4,928,642	5,421,506
Debt securities issued	208,421	208,659	219,092	230,047	241,549
Other liabilities	107,167	98,580	106,669	115,566	125,354
Total liabilities	5,613,628	6,217,909	6,816,314	7,474,038	8,196,986
Shareholders' equity	436,661	517,311	548,964	584,985	625,103
Incl. Perpetual bonds	-	39,993	39,993	39,993	39,993
Incl. Preferred stocks	34,955	34,955	34,955	34,955	34,955
Minority interest	16,425	15,213	15,213	15,213	15,213
Total equity	453,086	532,524	564,177	600,198	640,316

Asset quality					
NPL ratio	1.77%	1.65%	1.88%	1.84%	1.76%
Provision coverage	158%	175%	174%	187%	204%
Provision/ total loans	2.80%	2.90%	3.27%	3.45%	3.59%
Credit costs	1.40%	1.81%	1.95%	1.90%	1.88%
Capital adequacy					
CET-1 CAR	8.6%	8.7%	9.7%	9.6%	9.4%
Tier-1 CAR	9.4%	10.2%	10.5%	10.3%	10.1%
Total CAR	12.5%	12.4%	12.5%	12.1%	11.8%
Profitability					
NIM	2.09%	2.12%	2.01%	1.97%	1.98%
ROE	11.3%	11.1%	9.5%	9.7%	9.9%
ROA	0.74%	0.73%	0.61%	0.61%	0.62%
RoRWA	0.96%	0.95%	0.86%	0.91%	0.92%
Per share					
EPS (RMB)	0.88	0.95	0.89	0.96	1.07
DPS (RMB)	0.23	0.24	0.23	0.25	0.27
BVPS (RMB)	8.21	8.98	9.62	10.36	11.18

Source: Company data, CMBIS estimates

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