

BoCom (3328 HK / 601328 CH)

Stable NIM outlook amid turmoil

- NIM expanded in 2019 on higher asset yield and lower liability cost
- Increased participation in inclusive finance would help sustain NIM in 20E
- BoCom's asset quality would be similar to peers; scale of provision expenses would be stable in 20E-21E
- Maintain **BUY** on stability. Our GGM-based H/A shr TPs imply target 20E P/B of 0.60x/0.68x

A mildly positive NIM outlook. 2019 net profit was RMB 77,281mn, up 5% YoY. Unlike other big banks, BoCom's NIM expanded by 7bps YoY to 1.58%, driven by the 3bps YoY increase in the average interest-earning asset yield to 4.04% and the 6bps YoY decline in average interest-bearing liability cost to 2.56%. On the asset side, average loan yield increased by 2bps YoY, supported by the 6bps YoY increase in retail lending yield. On the liability front, interbank liability cost and issued debt costs reduced by 39bps and 44bps YoY. The bank expects greater challenges in sustaining NIM in 2020 in view of the uncertain macro environment; specifically, assuming LPR to drop by 20bps in 20E, BoCom's NIM would shrink by 3bps YoY. With the bank's continuous involvement in inclusive finance, we factor in a 20bps-22bps YoY contraction in loan-deposit spread and stable interbank asset-liability spread in 20E/21E; hence, BoCom's 20E/21E NIM is estimated at 1.59%/1.56%.

Asset quality on par with peers. As of Dec-19A, BoCom's impaired loan ratio was reported at 1.47%, 2bps lower YoY or flat QoQ in 4Q19. Despite the pandemic situation, BoCom is confident that asset quality would be on par with the industry average. Our base case scenario assumes BoCom's impaired loan ratio to increase by 7bp/6bps in 20E/21E to reach 1.6% by end-21E. If provisioning ratio increases to 2.7% by end-21E, BoCom's provision expenses scale in 20E and 21E would be similar to that in 19A.

Maintain BUY on stability. We estimate BoCom's 2019A-21E net profit CAGR to be 3.2% while NIM and provision scale would remain stable. Its H/A shr are currently trading at trough valuations of 0.43x/0.51x 20E P/B. Our GGM-based H/A shr TPs imply target 20E P/B of 0.60x/0.68x. Maintain **BUY**.

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Results and Valuation

FY ended Dec 31	2017A	2018A	2019A	2020E	2021E
Revenue (RMB mn)	196,520	213,055	232,857	242,907	249,951
Chg (% YoY)	1.3	8.4	9.3	4.3	2.9
Net profit* (RMB mn)	70,223	73,630	77,281	79,612	82,364
Chg (% YoY)	4.5	4.9	5.0	3.0	3.5
EPS (RMB)	0.91	0.96	1.00	1.04	1.07
Chg (% YoY)	4.9	4.8	5.1	3.1	3.6
BVPS (RMB)	8.23	8.60	9.34	10.09	10.87
Chg (% YoY)	7.3	4.5	8.6	8.0	7.7
P/E (x) – H-shr	4.78	4.56	4.34	4.21	4.06
P/B (x) – H-shr	0.53	0.51	0.47	0.43	0.40
P/E (x) – A-shr	5.70	5.43	5.17	5.01	4.84
P/B (x) – A-shr	0.63	0.60	0.56	0.51	0.48
ROAE (%)	11.44	11.36	11.20	10.70	10.38
ROAA (%)	0.81	0.80	0.80	0.79	0.78
DPS(RMB)	0.29	0.30	0.32	0.33	0.34
Yield (%) H-shr	6.55	6.88	7.23	7.62	7.89
Yield (%) A-shr	5.50	5.78	6.07	6.40	6.62

Note: Company; HKD/CNY=1.0898

*Net profit =Net profit attributable to shareholders of the Company

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 6.57
TP (A): RMB 6.87

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Price (H/A shr)	HK\$ 4.75/ RMB 5.19
Est. s price return (H/A shr)	38.3%/32.4%
Est. dividend yield (H/A shr)	7.62%/6.40%
Est. total return (H/A shr)	45.92%/ 38.80%
Last Rating &TP (H/A shr)	BUY, HK\$7.48/ BUY, RMB7.42
Previous Report Date	12 Mar, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	6.73/4.20
52Wk H/L (RMB) (A shr)	6.53/5.00
Total issued shares (mn)	74,262.8
Issued H shr (mn)	35,011.9
Issued A shr (mn)	39,250.9
Market cap (HK\$ mn)	395,147.7
H-shr market cap (HK\$ mn)	170,507.8
A-shr market cap (HK\$ mn)	224,639.9
3-mth avg daily turnover (HK\$ mn) (H shr)	137.18
3-mth avg daily turnover (RMB mn) (A shr)	427.65
Major shareholder(s) (%):	
HSBC	19.03
SSF	12.20

Source(s): Bloomberg, ABCI Securities

Risk Factors: 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Increasing competition from non-bank financial institutions; 3) Sharp deterioration in asset quality in specific regions; 4) Sharp decline in loan demand; 5) Policy risk in new and fast-growing businesses; 6) Prolonged COVID-19 epidemic.

Exhibit 1: 2019 actual results vs. ABCI estimates

(RMB mn)	2019E	2019A	AvE (%)
Net interest income	143,033	144,083	0.73
Net fee and commission	43,356	43,625	0.62
Operating income	230,158	232,857	1.17
Operating expenses	(92,017)	(92,433)	0.45
Impairment losses	(48,486)	(52,224)	7.71
Profit before tax	89,655	88,200	(1.62)
Income tax expenses	(12,552)	(10,138)	(19.23)
Net profit	76,568	77,281	0.93
Key indicators (%)			AvE (ppt)
Net interest margin	1.52	1.58	0.06
Net interest spread	1.35	1.47	0.12
Cost to income ratio	39.98	39.70	(0.28)
Return on average assets	0.78	0.80	0.02
Return on average equity	10.56	11.20	0.64
Dividend payout	30.00	31.36	1.36
CT1 CAR	11.67	11.22	(0.45)
Total CAR	15.07	14.83	(0.24)
NPL ratio	1.53	1.47	(0.06)
Provision to total loans	2.42	2.27	(0.15)
Provision coverage	178.17	171.77	(6.40)

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in 2020E and 2021E forecasts

(RMB mn)	2020E (old)	2020E (new)	change (%)	(RMB mn)	2021E (old)	2021E (new)	change (%)
Net interest income	156,623	152,432	(2.68)	Net interest income	170,353	156,999	(7.84)
Net fee and commission	46,408	45,662	(1.61)	Net fee and commission	50,268	47,409	(5.69)
Operating income	249,986	242,907	(2.83)	Operating income	273,453	249,951	(8.59)
Operating expenses	(100,985)	(98,210)	(2.75)	Operating expenses	(109,959)	(103,352)	(6.01)
Impairment losses	(55,552)	(53,119)	(4.38)	Impairment losses	(61,895)	(51,617)	(16.61)
Profit before tax	93,448	91,577	(2.00)	Profit before tax	101,599	94,982	(6.51)
Income tax expenses	(13,083)	(10,989)	(16.01)	Income tax expenses	(14,224)	(11,398)	(19.87)
Net profit attributable to equity holders	79,831	79,612	(0.27)	Net profit attributable to equity holders	86,840	82,364	(5.15)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.54	1.59	0.05	Net interest margin	1.58	1.56	(0.02)
Net interest spread	1.38	1.41	0.03	Net interest spread	1.38	1.30	(0.08)
CIR	40.40	40.43	0.03	CIR	40.21	41.35	1.14
ROAA	0.76	0.79	0.03	ROAA	0.77	0.78	0.01
ROAE	10.23	10.70	0.47	ROAE	10.35	10.38	0.03
Dividend payout	30.00	31.00	1.00	Dividend payout	30.00	31.00	1.00
CT1 CAR	11.78	12.49	0.71	CT1 CAR	11.90	12.58	0.68
Total CAR	15.13	16.02	0.89	Total CAR	15.22	16.06	0.84
NPL ratio	1.58	1.54	(0.04)	NPL ratio	1.63	1.60	(0.03)
Provision to total loans	2.58	2.60	0.02	Provision to total loans	2.65	2.70	0.05
Provision coverage ratio	183.29	188.83	5.54	Provision coverage ratio	182.58	188.75	6.17

Source(s): Company, ABCI Securities estimates

**Exhibit 3: Changes in GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	7.48	6.57	7.42	6.87	Roll over to mid-2021 BVPS
Sustainable ROE (%)	8.91	10.48	8.91	10.48	Adjust earnings on NIM pressure and lower provision expenses
COE (%)	10.75	14.38	10.13	13.26	
Target 20E P/B (x)	0.65	0.60	0.74	0.68	
Rfr (%)	3.30	2.65	3.30	2.65	Referencing China 10Y government bond
Beta	1.30	1.15	1.25	1.04	Referencing Bloomberg data
ERP (%)	8.40	10.20	8.40	10.20	Factor in higher risks as a result of COVID-19 and decelerating economic growth in China
LT gr (%)	10.50	5.20	10.50	5.20	Lower growth rate with reference to other big banks

Source(s): Company, ABCI Securities estimates

Financial statements

BoCom (3328HK/601328CH) Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E
Net interest income	124,873	130,908	144,083	152,432	156,999
Non-interest income	71,647	82,147	88,774	90,475	92,952
Of which: Fees and commissions	40,551	41,237	43,625	45,662	47,409
Operating income	196,520	213,055	232,857	242,907	249,951
Operating expenses	(81,786)	(83,474)	(92,433)	(98,210)	(103,352)
Pre-provision operating profit	114,734	129,581	140,424	144,697	146,599
Impairment losses on loans	(31,469)	(43,514)	(52,224)	(53,119)	(51,617)
Profit before tax	83,265	86,067	88,200	91,577	94,982
Tax	(12,574)	(11,902)	(10,138)	(10,989)	(11,398)
Minorities interests	468	535	781	976	1,220
Net profit attributable to equity holders	70,223	73,630	77,281	79,612	82,364
Preference share dividend	2,551	2,681	2,681	2,681	2,681
Net profit attributable to ordinary shareholders	67,672	70,949	74,600	76,931	79,683
Growth (%)					
Net interest income	(7.4)	4.8	10.1	5.8	3.0
Non-interest income	21.0	14.7	8.1	1.9	2.7
Of which: Fees and commissions	10.2	1.7	5.8	4.7	3.8
Operating income	1.3	8.4	9.3	4.3	2.9
Operating expenses	2.9	2.1	10.7	6.3	5.2
Pre-provision operating profit	0.1	12.9	8.4	3.0	1.3
Impairment losses on loans	10.5	38.3	20.0	1.7	(2.8)
Profit before tax	(3.3)	3.4	2.5	3.8	3.7
Tax	(31.9)	(5.3)	(14.8)	8.4	3.7
Minorities & other dilutions	6.1	14.3	46.0	25.0	25.0
Net profit attributable to equity holders	4.5	4.9	5.0	3.0	3.5
Preference share dividend	(5.3)	5.1	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	4.9	4.8	5.1	3.1	3.6
Per share (RMB)					
EPS	0.91	0.96	1.00	1.04	1.07
BVPS	8.23	8.60	9.34	10.09	10.87
DPS	0.29	0.30	0.32	0.33	0.34
Key ratio (%)					
Net interest margin	1.51	1.51	1.58	1.59	1.56
Net interest spread	1.40	1.39	1.47	1.41	1.30
Cost to income ratio	41.62	39.18	39.70	40.43	41.35
Return on average assets	0.81	0.80	0.80	0.79	0.78
Return on average equity	11.44	11.36	11.20	10.70	10.38
Effective tax rate	15.10	13.83	11.49	12.00	12.00
Dividend payout	30.20	30.26	31.36	31.00	31.00

Note1: Individual items may not sum to total due to rounding difference

Note2: Key ratios may not match with financial reports due to adjustment for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

BoCom (3328HK/601328CH)
Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E
Cash & equivalent	938,571	840,171	760,185	722,176	686,067
Interbank assets	782,468	848,067	648,488	583,639	525,275
Investment securities	2,528,276	2,821,909	3,005,843	3,186,194	3,377,365
Net loans and advances	4,473,255	4,742,372	5,183,653	5,521,512	5,859,941
Total interest earning assets	8,722,570	9,252,519	9,598,169	10,013,521	10,448,649
Property and equipment	132,492	153,286	171,179	188,297	205,244
Other non-interest earning assets	183,192	125,366	136,252	147,393	157,973
Total assets	9,038,254	9,531,171	9,905,600	10,349,210	10,811,865
Customer deposits	5,545,366	5,724,489	6,005,070	6,315,639	6,618,171
Interbank liabilities	2,106,192	2,162,293	1,940,082	1,843,078	1,750,924
Subordinated debt	287,662	317,688	403,918	484,702	581,642
Total interest bearing liabilities	7,939,220	8,204,470	8,349,070	8,643,419	8,950,737
Trading liabilities	60,308	51,214	53,404	55,540	57,206
Current taxes	7,943	2,279	7,086	7,936	8,809
Deferred tax liabilities	520	598	918	1,056	1,203
Other liabilities	353,992	567,302	694,210	783,827	877,895
Total liabilities	8,361,983	8,825,863	9,104,688	9,491,778	9,895,851
Share capital	134,139	134,139	174,133	174,133	174,133
Reserves	537,004	564,266	619,114	674,868	732,606
Minorities	5,128	6,903	7,665	8,432	9,275
Shareholder's equity	676,271	705,308	800,912	857,433	916,014
Growth (%)					
Cash & equivalent	(5.3)	(10.5)	(9.5)	(5.0)	(5.0)
Interbank assets	9.3	8.4	(23.5)	(10.0)	(10.0)
Investment securities	12.2	11.6	6.5	6.0	6.0
Net loans and advances	11.6	6.0	9.3	6.5	6.1
Total interest earning assets	9.5	6.1	3.7	4.3	4.3
Property and equipment	15.8	15.7	11.7	10.0	9.0
Other non-interest earning assets	(42.8)	(31.6)	8.7	8.2	7.2
Total assets	7.6	5.5	3.9	4.5	4.5
Customer deposits	17.3	3.2	4.9	5.2	4.8
Due to other banks & FIs	(5.6)	2.7	(10.3)	(5.0)	(5.0)
Subordinated debt	25.3	10.4	27.1	20.0	20.0
Total interest bearing liabilities	10.4	3.3	1.8	3.5	3.6
Trading liabilities	(28.5)	(15.1)	4.3	4.0	3.0
Current taxes	53.8	(71.3)	210.9	12.0	11.0
Deferred tax liabilities	258.6	15.0	53.5	15.0	14.0
Other liabilities	(28.0)	60.3	22.4	12.9	12.0
Total liabilities	7.6	5.5	3.2	4.3	4.3
Share capital	0.0	0.0	29.8	0.0	0.0
Reserves	8.5	5.1	9.7	9.0	8.6
Minorities	57.1	34.6	11.0	10.0	10.0
Shareholder's equity	6.9	4.3	13.6	7.1	6.8
Key ratio (%)					
CT1 CAR	10.79	11.16	11.22	12.49	12.58
Total CAR	14.00	14.37	14.83	16.02	16.06
NPL ratio	1.50	1.49	1.47	1.54	1.60
Provision to total loans	2.31	2.30	2.27	2.60	2.70
Provision coverage ratio	154.73	173.13	171.77	188.83	188.75

Note1: Individual items may not sum to total due to rounding difference

Note2: Key ratios may not match with financial reports due to adjustment for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

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Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return < Market return rate (10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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