

CEB (6818 HK / 601818 CH)

Earnings supported by balance sheet growth

- Earnings growth at ~11% supported by robust balance sheet growth and solid NIM
- Fast growth would increase capital need; CEB may explore long-term capital sources
- Slight rebound in NPL ratio in 4Q19; mild pressure expected in 20E
- Maintain **BUY** on CEB-H and **HOLD** on CEB-A. Our GGM-based H/A shr TPs imply target 20E P/B of 0.52x/0.57x

Earnings growth accelerates on balance sheet expansion. CEB recorded a net profit growth of 10.98% YoY in 2019, mainly driven by decent balance sheet growth, with total assets grew at 8.63% YoY and total liabilities grew at 7.75% YoY. Average loan yield rose 19bps YoY to 5.64%; consequently, CEB's asset yield increased by 7bps YoY to 4.76%. With the lower liability cost (-20bps YoY) at 2.58%, NIM was reported at 2.31%, up 34bps YoY in 2019; 4Q19 NIM was up ~6bps QoQ in 4Q19 based on our estimates. Actual NIM and net fee income are different from our forecasts mainly due to the reclassification of credit card installments as interest income. Factoring in a robust balance sheet growth with total asset and total liabilities expanding at 9.3% and 9.5% CAGRs over 2019A-21E, CEB's NIM would remain stable at 2.31%/2.25% over 20E/21E. We project 2019A-21E net profit CAGR to be 5.9%.

Growth increases capital pressure. CEB's robust balance sheet growth would inevitably result in higher capital need. As of Dec-19, CEB's CT1 and CAR were reported at 9.2% and 13.47%. Based on our balance sheet growth assumption, we forecast CT1 and CAR to trend lower to 9.07% and 12.63%. Although CEB's capital position is still above regulatory requirement, we believe the bank would seek for capital sources to support long-term growth.

Asset quality improved slightly. Although NPL ratio was down by 3bps YoY to 1.56% as of Dec-19A, the figure went up by 2bps QoQ in 4Q19. Given the current macro uncertainties, we estimate CEB's NPL ratio to rise by 5bps/7bps YoY in 20E/21E, reaching 1.68% by end-21E. Without substantial increase in provision scale, CEB's provisioning ratio and provision coverage ratio would be 3.0% and 178.57% by end-21E.

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Results and Valuation

FY ended Dec 31	2017A	2018A	2019A	2020E	2021E
Revenue (RMB mn)	92,018	110,386	132,939	142,087	153,022
Chg (% YoY)	(2.5)	20.0	20.4	6.9	7.7
Net profit* (RMB mn)	31,545	33,659	37,354	39,012	41,890
Chg (% YoY)	4.0	6.7	11.0	4.4	7.4
EPS (RMB)	0.61	0.61	0.68	0.72	0.77
Chg (% YoY)	-3.2	1.1	11.5	4.6	7.7
BVPS (RMB)	5.14	5.55	6.00	6.52	7.09
Chg (% YoY)	8.8	8.0	8.1	8.7	8.6
P/E (x) – H-shr	4.63	4.58	4.10	3.92	3.64
P/B (x) – H-shr	0.55	0.51	0.47	0.43	0.40
P/E (x) – A-shr	5.98	5.92	5.31	5.07	4.71
P/B (x) – A-shr	0.71	0.65	0.61	0.56	0.51
ROAE (%)	11.36	10.75	10.57	9.78	9.80
ROAA (%)	0.78	0.80	0.82	0.79	0.77
DPS(RMB)	0.21	0.19	0.24	0.25	0.27
Yield (%) H-shr	7.43	6.72	8.61	8.92	9.51
Yield (%) A-shr	5.75	5.20	6.66	6.90	7.36

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): HOLD
TP (H): HK\$ 3.71
TP (A): RMB 3.70

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Price (H/A shr)	HK\$ 3.06/ RMB 3.63
Est. s price return (H/A shr)	21.2%/1.9%
Est. dividend yield (H/A shr)	8.92%/6.90%
Est. total return (H/A shr)	30.12%/ 8.80%
Last Rating & TP (H/A shr)	BUY, HK\$4.26/ Under review, RMB4.13
Previous Report Date	12 Mar, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	3.93/2.65
52Wk H/L (RMB) (A shr)	4.74/3.48
Total issued shares (mn)	52,489.3
Issued H shr (mn)	12,678.7
Issued A shr (mn)	39,810.6
Market cap (HK\$ mn)	195,541.4
H-shr market cap (HK\$ mn)	38,543.4
A-shr market cap (HK\$ mn)	156,998.0
3-mth avg daily turnover (HK\$ mn) (H shr)	24.27
3-mth avg daily turnover (RMB mn) (A shr)	428.11
Major shareholder(s) (%):	
China Everbright Group	25.43
Huijin	19.53

Source(s): Bloomberg, ABCI Securities

BUY CEB-H, HOLD CEB-A. Its H/A shr are currently trading at 0.43x/0.56x 20E P/B. Our GGM-based H/A shr TPs imply target 20E P/B of 0.52x/0.57x. Maintain **BUY** on **CEB-H**, while with **HOLD** on **CEB-A**.

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	65,253	101,918	56.19
Net fee and commission	44,082	23,169	(47.44)
Operating income	122,698	132,939	8.35
Operating expenses	(37,113)	(38,429)	3.55
Impairment losses	(43,021)	(49,347)	14.70
Profit before tax	42,564	45,163	6.11
Income tax expenses	(7,023)	(7,722)	9.95
Net profit	35,471	37,354	5.31
Key indicators (%)			AvE (ppt)
Net interest margin	1.56	2.31	0.75
Net interest spread	1.52	2.18	0.66
Cost to income ratio	30.25	28.91	(1.34)
Return on average assets	0.77	0.82	0.05
Return on average equity	10.59	10.57	(0.02)
Dividend payout	25.00	30.07	5.07
CT1 CAR	9.15	9.20	0.05
Total CAR	12.59	13.47	0.88
NPL ratio	1.62	1.56	(0.06)
Provision to total loans	2.90	2.83	(0.07)
Provision coverage	179.01	181.62	2.61

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	70,952	108,137	52.41	Net interest income	79,055	115,446	46.03
Net fee and commission	51,209	26,861	(47.55)	Net fee and commission	58,355	30,803	(47.21)
Operating income	136,411	142,087	4.16	Operating income	152,618	153,022	0.26
Operating expenses	(40,546)	(43,605)	7.54	Operating expenses	(43,804)	(48,829)	11.47
Impairment losses	(50,185)	(51,359)	2.34	Impairment losses	(59,377)	(53,585)	(9.75)
Profit before tax	45,680	47,123	3.16	Profit before tax	49,437	50,608	2.37
Income tax expenses	(7,537)	(8,011)	6.29	Income tax expenses	(8,057)	(8,603)	6.78
Net profit attributable to equity holders	38,066	39,012	2.49	Net profit attributable to equity holders	41,195	41,890	1.69
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.57	2.31	0.74	Net interest margin	1.59	2.25	0.66
Net interest spread	1.54	2.14	0.60	Net interest spread	1.59	2.03	0.44
CIR	29.72	30.69	0.97	CIR	28.70	31.91	3.21
ROAA	0.74	0.79	0.05	ROAA	0.73	0.77	0.04
ROAE	10.50	9.78	(0.72)	ROAE	10.49	9.80	(0.69)
Dividend payout	25.00	30.00	5.00	Dividend payout	25.00	30.00	5.00
CT1 CAR	9.03	9.12	0.09	CT1 CAR	9.34	9.07	(0.27)
Total CAR	12.27	12.85	0.58	Total CAR	12.53	12.63	0.10
NPL ratio	1.69	1.61	(0.08)	NPL ratio	1.74	1.68	(0.06)
Provision to total loans	2.98	2.90	(0.08)	Provision to total loans	3.05	3.00	(0.05)
Provision coverage ratio	176.33	180.12	3.79	Provision coverage ratio	175.29	178.57	3.28

Source(s): Company, ABCI Securities estimates

Exhibit 3: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	4.26	3.71	4.13	3.70	Roll over to mid-2021 BVPS
Sustainable ROE (%)	9.51	9.45	9.51	9.45	
COE (%)	12.50	13.00	11.86	12.43	
Target 20E P/B (x)	0.57	0.52	0.63	0.57	
Rfr (%)	3.30	2.65	3.30	2.65	With reference to China 10Y government bond
Beta	1.15	0.90	1.07	0.85	With reference to Bloomberg data
ERP (%)	8.00	11.50	8.00	11.50	Factor in higher risks related to COVID-19 and decelerating economic growth in China
LT gr (%)	5.50	5.90	5.50	5.90	

Source(s): Company, ABCI Securities estimates

Financial statements

CEB (6818HK/601818CH) Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E
Net interest income	60,950	78,164	101,918	108,137	115,446
Non-interest income	31,068	32,222	31,021	33,950	37,576
Of which: Fees and commissions	30,774	19,773	23,169	26,861	30,803
Operating income	92,018	110,386	132,939	142,087	153,022
Operating expenses	(30,802)	(33,706)	(38,429)	(43,605)	(48,829)
Pre-provision operating profit	61,216	76,680	94,510	98,482	104,193
Impairment loans losses	(20,570)	(35,828)	(49,347)	(51,359)	(53,585)
Profit before tax	40,646	40,852	45,163	47,123	50,608
Tax	(9,035)	(7,131)	(7,722)	(8,011)	(8,603)
Minority interests	(66)	(62)	(87)	(100)	(115)
Net profit attributable to equity holders	31,545	33,659	37,354	39,012	41,890
Preference share dividend	1,450	1,450	1,450	1,450	1,450
Net profit attributable to ordinary shareholders	30,095	32,209	35,904	37,562	40,440
Growth (%)					
Net interest income	(6.6)	28.2	30.4	6.1	6.8
Non-interest income	6.8	3.7	(3.7)	9.4	10.7
Of which: Fees and commissions	9.5	(35.7)	17.2	15.9	14.7
Operating income	(2.5)	20.0	20.4	6.9	7.7
Operating expenses	1.8	9.4	14.0	13.5	12.0
Pre-provision operating profit	(4.5)	25.3	23.3	4.2	5.8
Impairment loans losses	(14.0)	74.2	37.7	4.1	4.3
Profit before tax	1.2	0.5	10.6	4.3	7.4
Tax	(7.7)	(21.1)	8.3	3.7	7.4
Minority interests	11.9	(6.1)	40.3	15.0	15.0
Net profit attributable to equity holders	4.0	6.7	11.0	4.4	7.4
Preference share dividend	36.8	0.0	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	2.8	7.0	11.5	4.6	7.7
Per share (RMB)					
EPS	0.61	0.61	0.68	0.72	0.77
BVPS	5.14	5.55	6.00	6.52	7.09
DPS	0.21	0.19	0.24	0.25	0.27
Key ratio (%)					
Net interest margin	1.52	1.97	2.31	2.31	2.25
Net interest spread	1.32	1.91	2.18	2.14	2.03
Cost to income ratio	33.47	30.53	28.91	30.69	31.91
Return on average assets	0.78	0.80	0.82	0.79	0.77
Return on average equity	11.36	10.75	10.57	9.78	9.80
Effective tax rate	22.23	17.46	17.10	17.00	17.00
Dividend payout	30.12	25.11	30.07	30.00	30.00

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

CEB (6818HK/601818CH)
Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Cash & equivalent	353,703	366,575	364,340	398,372	438,801
Interbank assets	285,011	175,463	98,463	77,735	67,435
Investment securities	1,302,449	1,316,292	1,447,351	1,577,613	1,703,822
Net loans and advances	1,980,818	2,354,120	2,635,976	2,899,179	3,174,229
Total interest earning assets	3,921,981	4,212,450	4,546,130	4,952,898	5,384,286
Property and equipment	14,929	18,241	19,342	20,503	21,733
Other non-interest earn assets	151,333	126,641	167,959	205,399	248,737
Total assets	4,088,243	4,357,332	4,733,431	5,178,800	5,654,755
Customer deposits	2,272,665	2,571,961	3,017,558	3,468,760	3,941,892
Interbank liabilities	684,245	642,128	610,545	549,491	494,541
Subordinated debt	445,396	440,449	371,904	409,094	450,004
Total interest bearing liabilities	3,402,306	3,654,538	4,000,007	4,427,344	4,886,438
Current taxes	4,932	5,666	9,322	10,720	12,221
Other liabilities	375,569	374,655	338,048	327,028	312,659
Total liabilities	3,782,807	4,034,859	4,347,377	4,765,092	5,211,318
Share capital	87,597	87,597	122,556	122,556	122,556
Reserves	217,163	233,891	262,426	289,972	319,584
Minorities	676	985	1,072	1,179	1,297
Shareholder's equity	305,436	322,473	386,054	413,707	443,437
Growth (%)					
Cash & equivalent	(7.3)	3.6	(0.6)	9.3	10.1
Interbank assets	(33.1)	(38.4)	(43.9)	(21.1)	(13.3)
Investment securities	(1.6)	1.1	10.0	9.0	8.0
Net loans and advances	13.1	18.8	12.0	10.0	9.5
Total interest earning assets	1.0	7.4	7.9	8.9	8.7
Property and equipment	4.9	22.2	6.0	6.0	6.0
Other non-interest earn assets	22.5	(16.3)	32.6	22.3	21.1
Total assets	1.7	6.6	8.6	9.4	9.2
Customer deposits	7.2	13.2	17.3	15.0	13.6
Interbank liabilities	(29.2)	(6.2)	(4.9)	(10.0)	(10.0)
Subordinated debt	8.0	(1.1)	(15.6)	10.0	10.0
Total interest bearing liabilities	(2.8)	7.4	9.5	10.7	10.4
Current taxes	9.6	14.9	64.5	15.0	14.0
Other liabilities	42.2	(0.2)	(9.8)	(3.3)	(4.4)
Total liabilities	0.4	6.7	7.7	9.6	9.4
Share capital	14.3	0.0	39.9	0.0	0.0
Reserves	24.9	7.7	12.2	10.5	10.2
Minorities	10.3	45.7	8.8	10.0	10.0
Shareholder's equity	21.7	5.6	19.7	7.2	7.2
Key ratio (%)					
CT1 CAR	9.56	9.15	9.20	9.12	9.07
Total CAR	13.49	13.01	13.47	12.85	12.63
NPL ratio	1.59	1.59	1.56	1.61	1.68
Provision to total loans	2.52	2.80	2.83	2.90	3.00
Provision coverage ratio	158.18	176.16	181.62	180.12	178.57

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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