

BoCom (3328 HK / 601328 CH)

Higher risk buffer needed

- Strategic focus to grow retail segment would help defend NIM
- Geographic focus on Yangtze River Delta YRD and Bohai Rim poses higher asset quality risk
- Expect larger provisions to elevate risk buffers; earnings growth would be limited
- Maintain **BUY** on low valuation. Our GGM-based H/A shr TPs imply target 21E P/B of 0.50x/0.56x

Higher retail contribution defends NIM. Despite the sector-wide pressure on lending rate, BoCom reported its 1Q21 NIM at 1.54%, down only by 1bps YoY. Repricing impact from LPR has mostly been reflected in 1Q21, hence we expect average lending rate to stabilize in coming quarters. As a result of the strategic effort to grow the retail business, operating income mix from the segment increased from 44.5% in FY19 to 46.1% in FY20. Faster loan growth in the segment could defend BoCom's NIM from rising funding cost. Our base case projects its NIM to narrow by 4bps-6bps each in FY21E-23E to support a 5.0% NII CAGR over FY20-23E.

Provision size to increase. Although BoCom's NPL ratio was down 3bps QoQ in 1Q21 to 1.64%, we perceive a relatively high asset quality risk from the bank's core business base in Yangtze River Delta and Bohai Rim. We project its NPL to inch up by 1bps-4bps each in FY21E-23E to arrive at 1.75% by end-23E. Provisioning ratio and provision coverage ratio were marked at 2.35% and 143.32% in 1Q21, and we believe risk buffer would be built up further. Assuming its provisioning ratio would reach 2.53% by FY23E, provision expenses would grow at 5.4% CAGR over FY20-23E, BoCom's earnings growth would expand at only 2.6% CAGR.

Maintain BUY on low valuation. Based on mid-22 BVPS and 9.2%/5.65% higher FY21E/22E net profit forecast, we raise our GGM based H/A TPs by 5.1%/4.6% to HK\$ 6.00/ RMB 5.97, implying 0.5x/0.56x 21E target P/B. Its H/A shr are currently trading at 0.39x/0.45x 21E P/B. Maintain BUY on low valuation.

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Results and Valuation

FY ended Dec 31	2019A	2020A	2021E	2022E	2023E
Revenue (RMB mn)	232,857	246,724	260,311	275,516	289,960
Chg (% YoY)	9.3	6.0	5.5	5.8	5.2
Net profit* (RMB mn)	77,281	78,274	79,484	81,406	84,633
Chg (% YoY)	5.0	1.3	1.5	2.4	4.0
EPS (RMB)	1.00	0.99	1.01	1.04	1.08
Chg (% YoY)	5.2	(1.0)	1.6	2.6	4.2
BVPS (RMB)	9.34	9.87	10.60	11.07	11.55
Chg (% YoY)	8.6	5.8	7.3	4.4	4.4
P/E (x) – H-shr	4.11	4.15	4.09	3.99	3.83
P/B (x) – H-shr	0.44	0.42	0.39	0.37	0.36
P/E (x) – A-shr	4.79	4.83	4.76	4.64	4.45
P/B (x) – A-shr	0.52	0.49	0.45	0.43	0.42
ROAA (%)	0.80	0.77	0.77	0.75	0.73
ROAE (%)	11.20	10.35	10.40	10.18	10.20
DPS(RMB)	0.32	0.32	0.34	0.35	0.36
Yield (%) H-shr	7.62	7.67	8.29	8.49	8.82
Yield (%) A-shr	6.55	6.59	7.12	7.29	7.58

Note: Company; HKD/CNY=1.1927

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

Source(s): Bloomberg, ABCI Securities estimates

Company Report May 4, 2021

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 6.00
TP (A): RMB 5.97

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Price (H/A shr)	HK\$ 4.93/ RMB 4.81
Est. s price return (H/A shr)	21.70%/ 24.12%
Est. dividend yield (H/A shr)	8.29%/7.12%
Est. total return (H/A shr)	29.99%/ 31.24%
Last Rating & TP (H/A shr)	BUY, HK\$5.71/ BUY, RMB5.71
Previous Report Date	15 Oct, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	5.10/3.66
52Wk H/L (RMB) (A shr)	5.78/4.43
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)	399,103.8
H-shr market cap (HK\$ mn)	172,608.5
A-shr market cap (HK\$ mn)	226,495.3
3-mth avg daily turnover (HK\$ mn) (H shr)	144.46
3-mth avg daily turnover (RMB mn) (A shr)	608.06
Major shareholder(s) (%):	
HSBC	18.70
MoF	17.75

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 pandemic; 7) Earnings growth limited by large provisions.

Exhibit 1: 1Q21 results summary

(RMB mn)	1Q21	1Q20	YoY (%)
Net interest income	38,553	36,736	4.95
Net fee and commission	12,534	12,596	(0.49)
Operating income	68,410	65,067	5.14
Operating expenses	(28,359)	(28,829)	(1.63)
Impairment losses	(15,085)	(11,892)	26.85
Profit before tax	24,966	24,346	2.55
Income tax expenses	(2,654)	(2,804)	(5.35)
Net profit	21,946	21,451	2.31
Key indicators (%)			AvE (ppt)
Net interest margin	1.54	1.55	(0.01)
Cost to income ratio	27.23	28.49	(1.26)
Return on average assets	0.82	0.85	(0.03)
Return on average equity	11.79	11.84	(0.05)
	Mar-21	Dec-20	QoQ (ppt)
CT1 CAR	10.87	10.87	-
Total CAR	15.04	15.25	(0.21)
NPL ratio	1.64	1.67	(0.03)
Provision to total loans	2.35	2.40	(0.05)
Provision coverage	143.42	143.87	(0.45)

Source(s): Company, ABCI Securities

Exhibit 2: Changes in 2021E and 2022E forecasts

(RMB mn)	2021E (old)	2021E (new)	change (%)	(RMB mn)	2022E (old)	2022E (new)	change (%)
Net interest income	163,401	160,956	(1.50)	Net interest income	169,384	169,984	0.35
Net fee and commission	48,555	46,213	(4.82)	Net fee and commission	51,468	47,600	(7.52)
Operating income	264,435	260,311	(1.56)	Operating income	275,791	275,516	(0.10)
Operating expenses	(102,092)	(104,193)	2.06	Operating expenses	(108,565)	(111,099)	2.33
Impairment losses	(78,243)	(63,954)	(18.26)	Impairment losses	(77,935)	(69,610)	(10.68)
Profit before tax	84,099	92,164	9.59	Profit before tax	89,290	94,808	6.18
Income tax expenses	(10,092)	(11,060)	9.59	Income tax expenses	(10,715)	(11,377)	6.18
Net profit attributable to equity holders	72,787	79,484	9.20	Net profit attributable to equity holders	77,050	81,406	5.65
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.44	1.53	0.09	Net interest margin	1.32	1.47	0.15
Net interest spread	1.25	1.29	0.04	Net interest spread	1.02	1.19	0.17
CIR	38.61	28.03	(10.58)	Cost to income ratio	39.37	28.32	(11.05)
ROAA	0.61	0.77	0.16	Return on average assets	0.58	0.75	0.17
ROAE	9.43	10.40	0.97	Return on average equity	9.51	10.18	0.67
Dividend payout	31.00	32.00	1.00	Dividend payout	31.00	32.00	1.00
CT1 CAR	10.58	10.94	0.36	CT1 CAR	9.89	10.59	0.70
Total CAR	13.53	14.97	1.44	Total CAR	12.61	14.56	1.95
NPL ratio	1.93	1.68	(0.25)	NPL ratio	2.07	1.71	(0.36)
Provision to total loans	2.64	2.42	(0.22)	Provision to total loans	2.72	2.47	(0.25)
Provision coverage ratio	156.79	144.05	(12.74)	Provision coverage	151.40	144.44	(6.96)

Source(s): Company, ABCI Securities estimates

**Exhibit 3: Changes in GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	5.71	6.00	5.71	5.97	Roll over to mid-2022 BVPS
Sustainable ROE (%)	8.62	9.08	8.62	9.08	Mild topline improvement
COE (%)	12.61	13.32	11.56	12.40	
Target 21E P/B (x)	0.48	0.50	0.55	0.56	
Rfr (%)	3.16	3.23	3.16	3.23	With reference to China 10Y government bond
Beta	0.90	0.98	0.80	0.89	With reference to Bloomberg data
ERP (%)	10.50	10.30	10.50	10.30	Lower risk premium on recovering macro environment in China
LT gr (%)	5.00	5.00	5.00	5.00	

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Net interest income	144,083	153,336	160,956	169,984	177,597
Non-interest income	88,774	93,388	99,354	105,532	112,363
Of which: Fees and commissions	43,625	45,086	46,213	47,600	49,504
Operating income	232,857	246,724	260,311	275,516	289,960
Operating expenses	(92,433)	(97,756)	(104,193)	(111,099)	(118,183)
Pre-provision operating profit	140,424	148,968	156,118	164,417	171,777
Impairment losses on loans	(52,224)	(62,543)	(63,954)	(69,610)	(73,301)
Profit before tax	88,200	86,425	92,164	94,808	98,476
Tax	(10,138)	(6,855)	(11,060)	(11,377)	(11,817)
Minorities interests	781	1,296	1,620	2,025	2,025
Net profit attributable to equity holders	77,281	78,274	79,484	81,406	84,633
Preference share dividend	2,671	4,394	4,394	4,394	4,394
Net profit attributable to ordinary shareholders	74,610	73,880	75,090	77,012	80,239
Growth (%)					
Net interest income	10.1	6.4	5.0	5.6	4.5
Non-interest income	8.1	5.2	6.4	6.2	6.5
Of which: Fees and commissions	5.8	3.3	2.5	3.0	4.0
Operating income	9.3	6.0	5.5	5.8	5.2
Operating expenses	10.7	5.8	6.6	6.6	6.4
Pre-provision operating profit	8.4	6.1	4.8	5.3	4.5
Impairment losses on loans	20.0	19.8	2.3	8.8	5.3
Profit before tax	2.5	(2.0)	6.6	2.9	3.9
Tax	(14.8)	(32.4)	61.3	2.9	3.9
Minorities & other dilutions	46.0	65.9	25.0	25.0	0.0
Net profit attributable to equity holders	5.0	1.3	1.5	2.4	4.0
Preference share dividend	(0.4)	64.5	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	5.2	(1.0)	1.6	2.6	4.2
Per share (RMB)					
EPS	1.00	0.99	1.01	1.04	1.08
BVPS	9.34	9.87	10.60	11.07	11.55
DPS	0.32	0.32	0.34	0.35	0.36
Key ratio (%)					
Net interest margin	1.58	1.57	1.53	1.47	1.43
Net interest spread	1.47	1.48	1.29	1.19	1.14
Cost to income ratio	30.11	28.29	28.03	28.32	28.76
Return on average assets	0.80	0.77	0.77	0.75	0.73
Return on average equity	11.20	10.35	10.40	10.18	10.20
Effective tax rate	11.49	7.93	12.00	12.00	12.00
Dividend payout	31.35	31.86	32.00	32.00	32.00

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

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Cash & equivalent	760,185	817,561	882,966	949,188	1,015,632
Interbank assets	648,488	571,130	542,574	569,702	615,278
Investment securities	3,005,843	3,237,337	3,463,951	3,706,427	3,965,877
Net loans and advances	5,183,653	5,720,568	6,181,797	6,646,221	7,124,184
Total interest earning assets	9,598,169	10,346,596	11,071,287	11,871,538	12,720,971
Property and equipment	171,179	169,471	171,166	172,877	174,606
Other non-interest earning assets	136,252	181,549	224,137	267,033	306,354
Total assets	9,905,600	10,697,616	11,466,590	12,311,449	13,201,931
Customer deposits	6,072,908	6,607,330	7,180,242	7,777,891	8,396,309
Interbank liabilities	1,904,082	1,787,491	1,876,866	1,989,477	2,128,741
Subordinated debt	403,918	497,755	597,306	716,767	860,121
Total interest bearing liabilities	8,380,908	8,892,576	9,654,413	10,484,136	11,385,171
Trading liabilities	53,404	85,221	106,526	127,832	147,006
Current taxes	7,086	3,786	3,407	3,135	2,947
Deferred tax liabilities	918	1,286	1,672	2,090	2,508
Other liabilities	662,372	836,119	766,358	723,238	654,774
Total liabilities	9,104,688	9,818,988	10,532,377	11,340,430	12,192,405
Share capital	174,133	207,555	207,555	207,555	207,555
Reserves	619,114	659,052	712,834	747,566	783,689
Minorities	7,665	12,021	13,824	15,898	18,282
Shareholder's equity	800,912	878,628	934,213	971,019	1,009,526
Growth (%)					
Cash & equivalent	(9.5)	7.5	8.0	7.5	7.0
Interbank assets	(23.5)	(11.9)	(5.0)	5.0	8.0
Investment securities	6.5	7.7	7.0	7.0	7.0
Net loans and advances	9.3	10.4	8.1	7.5	7.2
Total interest earning assets	3.7	7.8	7.0	7.2	7.2
Property and equipment	11.7	(1.0)	1.0	1.0	1.0
Other non-interest earning assets	8.7	33.2	23.5	19.1	14.7
Total assets	3.9	8.0	7.2	7.4	7.2
Customer deposits	6.1	8.8	8.7	8.3	8.0
Due to other banks & FIs	(11.9)	(6.1)	5.0	6.0	7.0
Subordinated debt	27.1	23.2	20.0	20.0	20.0
Total interest bearing liabilities	2.2	6.1	8.6	8.6	8.6
Trading liabilities	4.3	59.6	25.0	20.0	15.0
Current taxes	210.9	(46.6)	(10.0)	(8.0)	(6.0)
Deferred tax liabilities	53.5	40.1	30.0	25.0	20.0
Other liabilities	16.8	26.2	(8.3)	(5.6)	(9.5)
Total liabilities	3.2	7.8	7.3	7.7	7.5
Share capital	29.8	19.2	0.0	0.0	0.0
Reserves	9.7	6.5	8.2	4.9	4.8
Minorities	11.0	56.8	15.0	15.0	15.0
Shareholder's equity	13.6	9.7	6.3	3.9	4.0
Key ratio (%)					
CT1 CAR	11.22	10.87	10.94	10.59	10.27
Total CAR	14.83	15.25	14.97	14.56	14.19
NPL ratio	1.47	1.67	1.68	1.71	1.75
Provision to total loans	2.53	2.40	2.42	2.47	2.53
Provision coverage ratio	171.77	143.87	144.05	144.44	144.57

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

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

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

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 (For reference: HSI total return index 2008-20 CAGR at 9.2%)

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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