

China Merchants Bank (3968 HK / 600036 CH)

Robust loan growth to absorb excessive property loan exposure

- PBOC and CBIRC set new property-related loan exposure limits on commercial banks
- CMB's loan exposure exceeded the new limits by the most among peers, we believe its robust loan growth would absorb the exceeding proportion over the grace period
- With the highest risk buffer among peers, CMB will be able to sustain its profitability with lower provisions
- Maintain **BUY** with revised H/A shr TP at HK\$ 57.20/RMB 57.06, implying 1.51x/1.86x 21E P/B

Excess in property loan exposure will be absorbed by total loan growth. Recent policy jointly issued by PBOC and CBIRC limits property loan exposure in commercial banks. Personal mortgage loans/ property-related loans (real estate, construction and personal mortgage) to total gross loans of big/ medium banks are now limited to 32.5%/40.0% and 20.0%/ 27.5%. The exceeding proportions at 2ppt below or above the limit would be granted a transition period of 2 years or 4 years separately for personal mortgage and property-related loans. CMB's exposure surpassed the new limits by 6.4% for personal mortgage and 10.4% for property-related loans as of June 2020, the highest among the listed big banks and JSBs. Nevertheless, assuming a double-digit YoY loan growth in 2020E-24E, the excess is likely to be absorbed over the grace period with the property-related loans CAGR at below 3% in 2020E-24E.

Leading risk buffer to sustain profitability. Despite COVID-19, CMB achieved a solid balance sheet growth (total assets grew 9.97% in 9M20) and sustained a leading ROAE attributable to ordinary shareholders at 17% in 9M20; meanwhile, its provisioning ratio and provision coverage ratio at 4.79% and 424.76% were the highest among the listed big banks and JSBs. We believe provision size is the determining factor in profitability; hence, CMB profitability will be well defended with its higher provisioning ratio. Our base case forecasts CMB's ROAE at 14.43%-14.91% over 2020E-22E, much higher than the system average of 10.05% in 3Q20, according to CBIRC.

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Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	247,135	268,065	293,067	321,986	348,173
Chg (% YoY)	12.3	8.5	9.3	9.9	8.1
Net profit* (RMB mn)	80,560	92,867	92,941	105,194	118,287
Chg (% YoY)	14.8	15.3	0.1	13.2	12.4
EPS (RMB)	3.13	3.62	3.62	4.10	4.62
Chg (% YoY)	12.5	15.7	0.0	13.4	12.6
BVPS (RMB)	20.07	22.89	26.84	29.94	32.97
Chg (% YoY)	5.4	14.1	17.2	11.6	10.1
P/E (x) – H-shr	13.10	11.33	11.33	9.99	8.87
P/B (x) – H-shr	2.04	1.79	1.53	1.37	1.24
P/E (x) – A-shr	14.11	12.20	12.20	10.76	9.55
P/B (x) – A-shr	2.20	1.93	1.65	1.47	1.34
ROAE (%)	15.79	16.13	14.43	14.69	14.91
ROAA (%)	1.24	1.31	1.16	1.14	1.12
DPS(RMB)	0.94	1.20	1.28	1.44	1.61
Yield (%) H-shr	2.29	2.93	3.13	3.52	3.94
Yield (%) A-shr	2.13	2.72	2.90	3.27	3.66

Note: HKD/CNY=1.2

*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\$ 57.20
TP (A): RMB 57.06

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Price (H/A shr)	HK\$ 49.20/ RMB 44.15
Est. s price return (H/A shr)	16.3%/29.3%
Est. dividend yield (H/A shr)	3.52%/3.27%
Est. total return (H/A shr)	19.82%/ 32.57%
Last Rating &TP (H/A shr)	BUY, HK\$44.5/ BUY, RMB46.70
Previous Report Date	15 Oct, 2020

Source(s): Bloomberg, ABCI Securities estimates

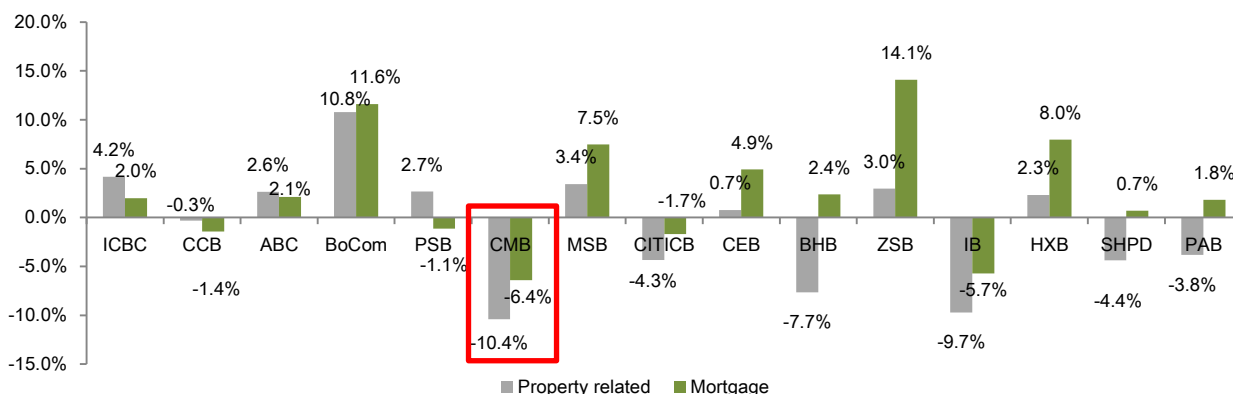
Key Data

52Wk H/L (HK\$) (H shr)	53.25/29.80
52Wk H/L (RMB) (A shr)	47.77/28.71
Total issued shares (mn)	25,219.8
Issued H shr (mn)	4,590.9
Issued A shr (mn)	20,628.9
Market cap (HK\$ mn)	1,319,157.6
H-shr market cap (HK\$ mn)	225,872.3
A-shr market cap (HK\$ mn)	1,093,285.3
3-mth avg daily turnover (HK\$ mn) (H shr)	757.29
3-mth avg daily turnover (RMB mn) (A shr)	2,768.08
Major shareholder(s) (%):	
China Merchants Group	13.04
China Ocean Shipping	6.24
Source(s): Bloomberg, ABCI Securities	

Maintain BUY on outstanding profitability and risk buffer. Without adjusting our earnings forecasts, we raise CMB's H/A-share TP by 28.5%/22.2% on lower equity risk premium given better-than-expected macro recovery outlook and RMB appreciation against HKD. Its H/A shares are currently trading at 1.37x/1.47 21E P/B. Our GGM-based H/A shr TP implies 1.51x/1.86x 21E P/B. Reiterate **BUY** on CMB's leading profitability and robust risk buffers.

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; 5) Policy risk in new and fast-growing businesses; 6) Unexpected rebound of COVID-19 epidemic.

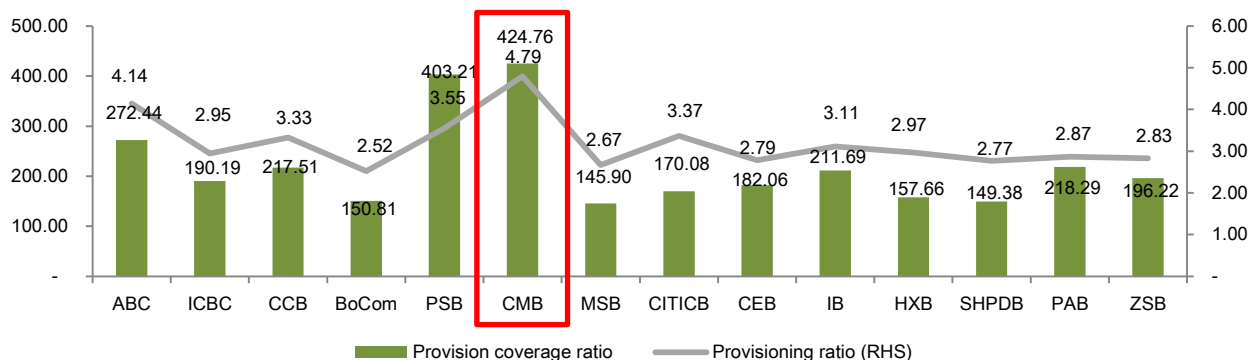
Exhibit 1: Regulatory requirement in property loan exposure minus actual property loan exposure in banks as of June 2020



Note: Positive figures = regulatory requirement > actual exposure, negative figures = regulatory requirement < actual exposure

Source(s): Companies, ABCI Securities

Exhibit 2: Provision coverage ratio and provisioning ratio as of Sep 2020 (%)



Source(s): Companies, ABCI Securities

Exhibit 3: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	44.50	57.20	46.70	57.06	
Sustainable ROE (%)	14.79	14.79	14.79	14.79	Sustain on CMB's robust B/S growth and high risk buffer
COE (%)	12.93	11.90	12.00	11.09	
Target 21E P/B (x)	1.32	1.51	1.56	1.86	
Rfr (%)	3.16	3.15	3.16	3.15	With reference to China 10Y government bond
Beta	1.05	1.08	0.95	0.98	With reference to Bloomberg data
ERP (%)	9.30	8.10	9.30	8.10	Better-than-expected macro recovery outlook
LT gr (%)	7.00	7.00	7.00	7.00	

Source(s): Company, ABCI Securities estimates

Financial statements

CMB (3968HK/600036CH) Consolidated income statement

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Net interest income	160,384	173,090	190,270	211,706	230,108
Non-interest income	86,751	94,975	102,797	110,280	118,065
Of which: Fees and commissions	66,480	71,493	76,498	81,087	85,953
Operating income	247,135	268,065	293,067	321,986	348,173
Operating expenses	(81,110)	(91,497)	(102,326)	(113,420)	(125,561)
Pre-provision operating profit	166,025	176,568	190,741	208,566	222,612
Impairment losses on loans	(60,837)	(61,159)	(75,971)	(78,979)	(77,311)
Operating profit	105,188	115,409	114,770	129,587	145,301
Non-operating income	1,309	1,723	2,240	2,889	3,699
Profit before tax	106,497	117,132	117,010	132,476	149,000
Tax	(25,678)	(23,709)	(23,402)	(26,495)	(29,800)
Minority interests	(259)	(556)	(667)	(787)	(913)
Net profit attributable to equity holders	80,560	92,867	92,941	105,194	118,287
Preference share dividend	1,650	1,670	1,670	1,670	1,670
Net profit attributable to ordinary shareholders	78,910	91,197	91,271	103,524	116,617
Growth (%)					
Net interest income	10.7	7.9	9.9	11.3	8.7
Of which: Fees and commissions	3.8	7.5	7.0	6.0	6.0
Operating income	12.3	8.5	9.3	9.9	8.1
Operating expenses	15.2	12.8	11.8	10.8	10.7
Pre-provision operating profit	11.0	6.4	8.0	9.3	6.7
Impairment losses on loans	1.5	0.5	24.2	4.0	(2.1)
Operating profit	17.3	9.7	(0.6)	12.9	12.1
Non-operating income	31.2	31.6	30.0	29.0	28.0
Profit before tax	17.4	10.0	(0.1)	13.2	12.5
Tax	28.1	(7.7)	(1.3)	13.2	12.5
Minority interests	(46.9)	114.7	20.0	18.0	16.0
Net profit attributable to equity holders	14.8	15.3	0.1	13.2	12.4
Preference share dividend	na	1.2	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	12.5	15.6	0.1	13.4	12.6
Per share (RMB)					
EPS	3.13	3.62	3.62	4.10	4.62
BVPS	20.07	22.89	26.84	29.94	32.97
DPS	0.94	1.20	1.28	1.44	1.61
Key ratio (%)					
Net interest margin	2.57	2.59	2.45	2.35	2.24
Net interest spread	2.49	2.48	2.35	2.24	2.10
Cost to income ratio	32.82	34.13	34.92	35.23	36.06
Return on average assets	1.24	1.31	1.16	1.14	1.12
Return on average equity	15.79	16.13	14.43	14.69	14.91
Effective tax rate	24.11	20.24	20.00	20.00	20.00
Dividend payout	30.04	33.19	33.00	33.00	33.00

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

CMB (3968HK/600036CH)
Consolidated balance sheet

As of Dec 31 (RMB mn)	2018A	2019E	2020E	2021E	2022E
Cash & equivalent	600,180	678,103	556,289	506,371	481,052
Interbank assets	512,797	416,394	521,695	574,613	637,991
Investment securities	1,705,619	1,828,656	2,285,820	2,811,559	3,401,986
Net loans and advances	3,741,139	4,267,751	4,907,268	5,593,693	6,280,757
Total interest earning assets	6,559,735	7,190,904	8,271,072	9,486,236	10,801,786
Property and equipment	58,267	68,333	72,433	76,779	80,618
Other non-interest earning assets	127,727	158,003	218,844	279,706	329,668
Total assets	6,745,729	7,417,240	8,562,349	9,842,721	11,212,072
Customer deposits	4,400,674	4,858,801	5,883,832	6,887,554	7,969,366
Interbank liabilities	1,150,156	1,138,714	1,343,683	1,545,235	1,746,115
Subordinated debt	424,926	578,191	375,824	300,659	255,560
Total interest bearing liabilities	6,056,470	6,642,340	7,708,620	8,876,631	10,150,020
Current taxes	20,411	19,069	17,162	15,961	15,163
Deferred tax liabilities	1,211	956	1,061	1,061	1,061
Other liabilities	124,032	137,168	152,081	187,162	207,197
Total liabilities	6,202,124	6,799,533	7,878,924	9,080,815	10,373,441
Share capital	59,285	59,285	59,285	59,285	59,285
Reserves	480,833	552,016	617,542	695,758	772,141
Minorities	3,487	6,406	6,598	6,862	7,205
Shareholder's equity	543,605	617,707	683,425	761,905	838,631
Growth (%)					
Cash & equivalent	(14.6)	13.0	(18.0)	(9.0)	(5.0)
Interbank assets	25.9	(18.8)	25.3	10.1	11.0
Investment securities	6.8	7.2	25.0	23.0	21.0
Net loans and advances	9.6	14.1	15.0	14.0	12.3
Total interest earning assets	7.2	9.6	15.0	14.7	13.9
Property and equipment	13.3	17.3	6.0	6.0	5.0
Other non-interest earning assets	2.6	23.7	38.5	27.8	17.9
Total assets	7.1	10.0	15.4	15.0	13.9
Customer deposits	5.9	5.8	29.3	22.6	20.4
Due to other banks & FIs	43.3	36.1	(35.0)	(20.0)	(15.0)
Subordinated debt	7.0	9.7	16.1	15.2	14.3
Total interest bearing liabilities	7.0	9.7	16.1	15.2	14.3
Current taxes	(23.6)	(6.6)	(10.0)	(7.0)	(5.0)
Deferred tax liabilities	13.2	(21.1)	11.0	0.0	0.0
Other liabilities	(0.7)	10.6	10.9	23.1	10.7
Total liabilities	6.7	9.6	15.9	15.3	14.2
Share capital	0.0	0.0	0.0	0.0	0.0
Reserves	14.2	14.8	11.9	12.7	11.0
Minorities	9.6	83.7	3.0	4.0	5.0
Shareholder's equity	12.5	13.6	10.6	11.5	10.1
Key ratio (%)					
CT1 CAR	11.78	11.95	10.87	10.44	10.12
Total CAR	15.68	15.54	13.48	12.88	12.43
NPL ratio	1.36	1.16	1.17	1.22	1.29
Provision to total loans	4.88	4.97	5.10	5.21	5.30
Provision coverage ratio	358.18	426.78	435.90	427.05	410.85

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 rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < 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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