

China Construction Bank (939 HK)

FY21 review: results in line, expecting stable asset quality in 2022

CCB reported in-line 2021 results. Operating income increased 7.07% YoY to RMB 764,7bn (Nil +5.12% YoY, Fee&commission income +6.03% YoY). Net profit grew 12.26% YoY to RMB 2,979.75bn primarily due to less provision taken than 2020. With good cost control, CIR down 2.26 pct YoY to 27.64% in 2021. NPL ratio improved 14bps YoY to 1.42% and NIM compressed 6 bps YoY to 2.13%. Maintain BUY on CCB and lift target price from HK\$7.10 to HK\$8.10 as we roll over valuation basis to 2022.

- Results positives.** 1) Less asset quality concern on non-property related assets. Although risk on property exposure increased, 26 bps YoY improvement on SML ratio (2.69% in 2021) indicates a stable NPL ratio in 2022. 2) Payout should be attractive and sustainable. In 2021, CCB's CET-1 ratio is 13.59%, -3 bps YoY. With good capital management and government's demand on dividend, CCB can maintain a payout ratio at 30% in next few years. 3) Well prepared for headwind. The increasing provision balance lift allowance to total loan ratio from 3.33% in 2020 to 3.4% in 2021. Accordingly, provision coverage increased 26.37 pcts YoY to 239.96 %.
- Results negatives.** 1) NIM compression continues. In 2021, because of LPR drop and regulators' requirements on supporting SMEs, CCB's loan rate drop 14 bps YoY. Meanwhile, because of fierce competition on deposit market, deposit cost increased 8 bps YoY. The increasing deposit cost and declining loan rate lead to 6 bps compression on NIM. 2) Defaults from property developers affected CCB's asset quality, but the risk is still manageable. As CCB comments, loan balance on property development market is RMB 730bn, as 3.89% of its total assets. The NPL ratio of exposure on property development industry is 1.85%, 54 bps increase YoY.
- Stock catalyst:** defensive play drives stock price. Downside is quite limited due to its low valuation and attractive dividend payout. With the strong volatility in stock market, CCB should be a good defensive play.
- Valuation.** We roll over valuation basis to YE22 and lift target price to HK\$8.10 accordingly. The stock is trading at 0.48x/0.44x FY22/23E P/B, lower than 3-yrs historical mean of 0.55x P/B, with attractive yield at above 7.5%. Reiterate BUY. Our TP implies 0.61x 22E P/B and 0.56x 23E P/B.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	755,858	824,246	899,386	1,010,210	1,135,327
Net profit	271,050	302,513	324,974	361,194	397,386
EPS (RMB)	1.06	1.19	1.30	1.44	1.59
EPS CHG	1.0%	12.3%	7.4%	11.1%	10.0%
P/B (x)	0.61	0.45	0.45	0.40	0.37
Dividend yield	5.80%	6.70%	8.20%	9.10%	10.00%
ROE	12.12%	12.55%	12.09%	12.40%	12.52%
NPL ratio	1.56%	1.42%	1.45%	1.43%	1.41%
NIM	2.19%	2.12%	2.05%	2.07%	2.09%
Provision coverage	214%	240%	234%	239%	242%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$8.10
(Previous TP)	HK\$7.10)
Up/Downside	+39.2%
Current Price	HK\$5.82

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,451,052
Avg 3 mths t/o (HK\$ mn)	1,644.38
52w High/Low (HK\$)	6.73/5.03
Total Issued Shares (mn)	240,417(H) 9,594(A)

Source: Bloomberg

Shareholding Structure

Central Huijing	57.11%
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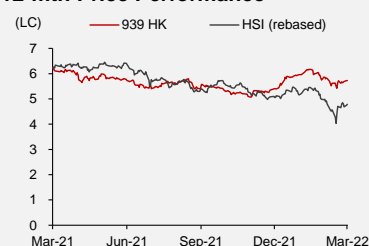
Source: Company report

Share Performance

	Absolute	Relative
1-mth	-2.2%	2.4%
3-mth	6.1%	13.9%
6-mth	5.9%	19.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Recent Reports

- China Banking – Looking for the safe harbour ([link](#))
- China Banking – 4Q21 Quarterly Review ([link](#))
- China Financials Weekly – Manageable impacts from Russia-Ukraine Crisis ([link](#))

Figure 1: CCB's 2021 results summary

GROWTH (RMB mn)	2020	2021	YoY
Revenue	755,858	824,246	9.1%
Interest income	575,909	605,420	5.1%
Fee&commission income	114,582	121,492	6.0%
Operating profits	337,246	378,776	12.3%
Net profits	265,426	297,975	12.3%
Gross Loan balance	16,787,432	18,807,830	12.0%
Deposit balance	20,614,976	22,378,814	8.6%

ASSET QUALITY	2020	2021	YoY
NPL ratio	1.56%	1.42%	-14 bps
Allowance to total loan	3.33%	3.40%	7 bps
Provision coverage	214%	240%	26 ppt

CAPITAL ADEQUACY	2020	2019	YoY
CET-1 CAR	13.6%	13.6%	-3 bps
Tier-1 CAR	14.2%	14.1%	-8 bps
Overall CAR	17.1%	17.9%	79 bps
Payout ratio	30.0%	30.0%	unchanged

PROFITABILITY	2020	2019	YoY
NIM	2.19%	2.13%	-6 bps
CIR	25.12%	27.43%	2.31 ppt
ROE	12.12%	12.55%	43 bps
ROA	1.02%	1.04%	2 bps

Source: Company data, CMBIGM

Figure 2: Forecast revisions

RMB mn	New			Old		Diff	
	FY21E	FY22E	FY23E	FY21E	FY22E	FY21E	FY22E
Revenue	899,386	1,010,210	1,135,327	844,750	909,159	6.47%	11.11%
Net profit	324,974	361,194	397,386	307,135	316,166	5.81%	14.24%
Gross loan balance	21,293,653	23,850,425	26,708,049	20,119,000	21,839,000	5.84%	9.21%
Dividend payout	97,492	108,358	119,216	92,141	94,850	5.81%	14.24%
NPL ratio	1.45%	1.43%	1.41%	1.50%	1.50%	-5 bps	-7 bps%
Provision coverage	234%	239%	242%	225%	228%	+9 ppt	+11 ppt
NIM	2.05%	2.07%	2.09%	2.21%	2.21%	-16 bps	-14 bps

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Net interest income	575,909	605,420	655,814	740,208	834,875
Net fee&commission income	114,582	121,492	129,028	135,108	141,481
Others	65,367	97,334	114,544	134,894	158,970
Operating income	755,858	824,246	899,386	1,010,21	1,135,32
Operating expense	-418,612	-445,470	-490,841	-556,177	-635,819
PPOP	526,545	547,127	590,352	657,628	727,503
Provision taken	-193,491	-167,949	-181,385	-203,151	-227,529
Operating profit	337,246	378,776	408,545	454,034	499,508
Non-operating income	-630	-364	-382	-401	-421
Pre-tax profit	336,616	378,412	408,163	453,632	499,087
Income tax expense	-63,037	-74,484	-81,633	-90,726	-99,817
Minority interests	2,529	1,415	1,557	1,712	1,883
Net profit	271,050	302,513	324,974	361,194	397,386

Key ratios

YE 31 Dec	FY20A	FY21E	FY22E	FY23E	FY24E
Operating income mix					
Net interest income	76%	73%	73%	73%	74%
Net fee income	15%	15%	14%	13%	12%
Others	9%	12%	13%	13%	14%
Total	100.0%	100.0%	100.0%	100.0%	100%
Growth YOY					
Net interest income	7.2%	5.1%	8.3%	12.9%	12.8%
Net fee & commission	3.3%	6.0%	6.2%	4.7%	4.7%
Operating income	5.3%	9.0%	9.1%	12.3%	12.4%
PPOP	8.3%	3.9%	7.9%	11.4%	10.6%
Net profit	1.6%	11.6%	7.4%	11.1%	10.0%
Gross loans	11.7%	12.0%	13.2%	12.0%	12.0%
Customer deposits	12.2%	8.6%	11.9%	11.0%	10.1%

Efficiency

CIR	FY20A	FY21E	FY22E	FY23E	FY24E
CIR	25.12%	27.43%	24.83%	24.03%	23.50%

Balance Sheet

YE 31 Dec (RMB bn)	FY20A	FY21E	FY22E	FY23E	FY24E
Due from central banks	2,767	2,715	2,967	3,265	3,593
Interbank assets	822	343	378	415	456
Investments	7,622	8,223	9,255	10,420	11,733
Gross loan	16,787	18,808	21,294	23,850	26,708
Provision balance	556	637	724	815	912
Net loan	16,231	18,170	20,570	23,035	25,796
Other assets	586	679	769	873	995
Total assets	28,132	30,254	33,941	38,009	42,575
Due to central banks	781	685	719	755	793
Interbank liabilities	2,293	2,232	2,420	2,627	2,855
Customer deposits	20,615	22,379	25,042	27,788	30,587
Debt securities issued	940	1,323	1,787	2,412	3,256
Other liabilities	805	746	867	1,057	1,423
Total liabilities	25,743	27,640	31,124	34,942	39,233
Shareholders' equity	2,365	2,588	2,788	3,036	3,310
Minority interest	25	26	29	30	31
Total equity	2,389	2,614	2,817	3,066	3,341

Asset quality

	FY20A	FY21E	FY22E	FY23E	FY24E
NPL ratio	1.56%	1.42%	1.45%	1.43%	1.41%
Provision coverage	214%	240%	234%	239%	242%
Allowance to total loan	3.33%	3.40%	3.40%	3.42%	3.42%

Capital adequacy

	FY20A	FY21E	FY22E	FY23E	FY24E
CET-1 CAR	13.6%	13.6%	13.39%	13.29%	13.21%
Tier-1 CAR	14.2%	14.1%	13.89%	13.75%	13.62%
Total CAR	17.1%	17.9%	17.97%	17.83%	17.71%

Profitability

	FY20A	FY21E	FY22E	FY23E	FY24E
NIM	2.19%	2.12%	2.05%	2.07%	2.09%
ROE	12.1%	12.55%	12.08%	12.38%	12.50%
ROA	1.02%	1.04%	1.01%	1.00%	0.99%
RORWA	1.63%	1.74%	1.70%	1.72%	1.72%

Per share

	FY20A	FY21E	FY22E	FY23E	FY24E
EPS (RMB)	1.06	1.19	1.30	1.44	1.59
DPS (RMB)	0.32	0.36	0.39	0.43	0.48
BVPS (RMB)	9.06	9.95	10.78	11.77	12.86

Source: Company data, CMBIGM estimates

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