

# China Construction Bank (939 HK)

## 1Q22 review: results in line, propose to issue TLAC instruments in late FY22

CCB reported in-line 1Q22 results. Operating income increased 2.5% YoY to RMB 200.2bn (NII +8.39% YoY, Fee&commission income equivalent to 1Q21). Net profit grew 6.8% YoY to RMB 88.7bn. Due to increasing operating expense, CIR up 28 bps YoY to 21.3%. NPL ratio improved 2 bps QoQ to 1.40% and NIM expanded 2 bps YoY to 2.15%. Maintain BUY on CCB with unchanged target price of HK\$8.10.

- Income growth in line.** Net interest income increased 8.39% YoY, driven by NIM expansion. In 1Q22, NIS and NIM were 1.96% and 2.15% respectively. NIS remained unchanged YoY but NIM expanded 2 bps YoY. Fee and commission income was slightly below 1Q21 because the bank charged less on clients to support real economy. CIR increased 28 bps YoY to 21.3% because of RMB 1.6bn increase on operating expense.
- Assets expansion in line.** Asset and equity grew 5.81% QoQ and 3.29% QoQ respectively. Loan growth is 4.99% QoQ, driven by SME business, green loans and rental housing business. Deposit grew 6.7% QoQ to RMB 23,880bn.
- Asset quality remains stable.** NPL balance increased RMB 10.48bn to RMB 276.5bn. At the end of 1Q22, NPL ratio was 1.40%, dropped 2 bps QoQ. Allowance to NPL ratio was 246.36%, increased 6.4 ppt QoQ.
- Stable outlook in 2H22.** Fee&commission income may achieve a slow growth and profit and asset quality remains will remain stable in 2H22. Loan demand from infrastructure and mortgage will recover after pandemic. In addition, management guided that they may issue TLAC instruments in late 2022, the cost on TLAC instruments will be lower than tier-2 capital bond but higher than ordinary financial bond.
- 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.** Reiterate BUY on CCB. The stock is trading at 0.43x/0.40x FY22/23E P/B, equivalent to -1SD of 3-yrs historical mean, with attractive yield at above 8%. 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\$8.10**)  
 Up/Downside **+44.9%**  
 Current Price **HK\$5.59**

### China Banking Sector

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### Stock Data

Mkt Cap (HK\$ mn)	1,413,078
Avg 3 mths t/o (HK\$ mn)	1,683.21
52w High/Low (HK\$)	6.43/5.03
Total Issued Shares (mn)	<b>240,417(H)</b> 9,594(A)

Source: Bloomberg

### Shareholding Structure

Central Huijing	57.11%
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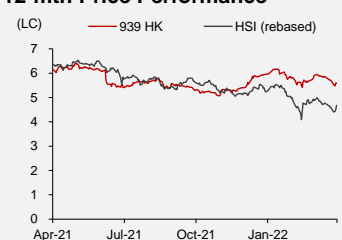
Source: Company report

### Share Performance

	Absolute	Relative
1-mth	-2.8%	1.1%
3-mth	-6.2%	4.7%
6-mth	5.7%	27.2%

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 Banking Sector – High provision banks will outperform ([link](#))

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	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	FY21A	FY22E	FY23E	FY24E
<b>Operating income mix</b>					
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%
<b>Growth YOY</b>					
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%
<b>Efficiency</b>					
CIR	25.12%	27.43%	24.83%	24.03%	23.50%

### Balance Sheet

YE 31 Dec (RMB bn)	FY20A	FY21A	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

<b>Asset quality</b>					
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%
<b>Capital adequacy</b>					
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%
<b>Profitability</b>					
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%
<b>Per share</b>					
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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