

Bank of Changsha (601577 CH)

FY21&1Q22 review: strong growth with good cost control

Bank of Changsha reported in-line 2021&1Q22 results. In FY21, revenue grew 15.8% YoY to RMB 20.8bn (NII +7.7% YoY, fee & commission income +33.4% YoY). Net profit grew 18.1% YoY to RMB 6.3bn primarily due to good cost control. NPL ratio improved 1 bps YoY to 1.20% and NIM compressed 18 bps YoY to 2.40%. Maintain HOLD on Bank of Changsha and adjust target price from RMB8.32 to RMB8.30.

- Positives on FY21 results.** 1) Asset quality improved. NPL ratio dropped 1 bps YoY to 1.20%. In addition, SML ratio dropped from 2.71% to 1.98% with 14.24% YoY decline on SML balance. 2) CIR improved 1.25 ppt to 28.44% due to strong revenue growth and good cost control. Business expense dropped 10.7% YoY and staff cost growth is slower than revenue growth. 3) Term deposit cost dropped because of deposit strategy change. The bank intentionally reduced high cost deposit balance to optimize its liability structure.
- Negatives on FY21 results.** 1) NIM compressed 18 bps YoY primarily due to lower loan rate. The declining loan rate is caused by lower LPR and regulators' advice on cutting lending rate to support real economy. 2) Less current to term deposit ratio. At the end of 2021, 47.46% of its total deposit is current deposit, dropped 2.58 ppt than 2020. Retail current deposit and corporate current deposit dropped 0.27 ppt and 2.31 ppt respectively.
- Stock catalyst:** We are confident on the Bank's growth but the market concern on economy recovery will put a cap on valuation. The stock re-rating needs the support from economy recovery.
- Maintain OVERWEIGHT on banking sector but HOLD on Bank of Changsha (601577 CH).** To reflect weak economy and regulators' advice on support the real economy, we lift FY22E loan growth and FY22 NPL ratio forecast. Roll over valuation basis to FY22 and trim target price from RMB8.32 to RMB8.30, implementing lower valuation multiple due to market concern on economy. Our TP implies 0.62x 2022E and 0.55x 2023E P/B, equivalent to -1SD of 3-yr historical mean. The stock is trading at 0.55x FY22E P/B, almost equivalent to -2SD of 3-yr historical mean.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	18,022	20,864	23,851	26,941	30,171
Net profit (RMB mn)	5,338	6,304	7,197	8,290	9,313
EPS (RMB)	1.47	1.55	1.71	1.98	2.24
Consensus EPS (RMB)	1.47	1.55	1.77	2.02	2.30
P/B (x)	0.82	0.64	0.55	0.50	0.45
Dividend yield	3.48%	4.49%	5.76%	6.67%	7.53%
ROE	13.74%	13.26%	13.33%	13.94%	14.16%
NPL ratio	1.21%	1.20%	1.25%	1.23%	1.20%
Provision coverage	293%	298%	276%	274%	277%

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **RMB8.30**
 (Previous TP **RMB8.32**)
 Up/Downside **+12%**
 Current Price **RMB7.43**

China Banking Sector

Eric Wang
 (852) 3900 0892
 ericwang@cmbi.com.hk

Gigi Chen, CFA
 (852) 3916 3739
 gigichen@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	29,880
Avg 3 mths t/o (HK\$ mn)	119.85
52w High/Low (HK\$)	9.75/7.02
Total Issued Shares (mn)	4,022

Source: Bloomberg

Shareholding Structure

Changsha local govt	16.8%
---------------------	-------

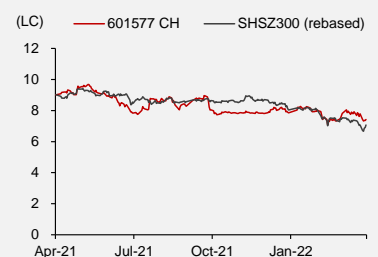
Source: Company report

Share Performance

	Absolute	Relative
1-mth	0%	2.9%
3-mth	-5.4%	7.6%
6-mth	-7.7%	12.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: WUYIGE Certified Public Accountants

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](#))

Figure 1: Bank of Changsha's 2021 results summary

GROWTH (RMB mn)	2020	2021	YoY
Revenue	18,022	20,864	15.8%
Interest income	14,962	16,111	7.7%
Fee income	796	1,062	33.4%
Operating profits	6,795	8,043	18.4%
Net profits	5,338	6,304	18.1%
Gross Loan	316,075	370,830	17.3%
Deposit	463,645	516,186	11.3%
ASSET QUALITY	2020	2021	YoY
NPL ratio	1.21%	1.20%	-1 bps
Allowance to total loan	3.54%	3.56%	2 bps
Provision coverage	292.63%	297.58%	4.95 ppt
CAPITAL ADEQUACY	2020	2021	YoY
CET-1 CAR	8.61%	9.69%	108 bps
Tier-1 CAR	9.97%	10.90%	93 bps
Overall CAR	13.60%	13.66%	6 bps
Payout ratio	25.64%	23.52%	-212 bps
PROFITABILITY	2020	2021	YoY
NIM	2.58%	2.40%	-18 bps
CIR	29.69%	28.44%	-125 bps
ROE	13.74%	13.26%	-48 bps
ROA	0.85%	0.88%	3 bps

Source: Company data, CMBIGM

Figure 2: Forecast revisions

RMB mn	New			Old		Diff	
	FY22E	FY23E	FY24E	FY22E	FY23E	FY22E	FY23E
Revenue	23,851	26,941	30,171	24,246	26,964	-1.63%	-0.09%
Net profit	7,197	8,290	9,313	6,872	7,724	4.73%	7.33%
Gross loan balance	444,996	531,770	632,807	419,655	482,604	6.04%	10.19%
Dividend payout	1,720	1,993	2,249	1,720	1,993	-	-
NPL ratio	1.25%	1.23%	1.20%	1.18%	1.18%	7 bps	5 bps
Provision coverage	276%	274%	277%	331%	340%	-55 ppt	-66 ppt
NIM	2.35%	2.31%	2.25%	2.45%	2.45%	-10 bps	-14 bps

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net interest income	14,962	16,111	18,341	20,852	23,391
Net fee&commission income	796	1,062	1,259	1,536	1,888
Others	2,264	3,691	4,252	4,552	4,892
Operating income	18,022	20,864	23,851	26,941	30,171
Operating expense	-11,227	-12,821	-14,679	-16,379	-18,312
PPOP	12,455	14,664	16,971	19,302	21,688
Provision taken	-5,690	-6,655	-7,829	-8,770	-9,857
Operating profit	6,795	8,043	9,173	10,561	11,860
Non-operating income	-30	-34	-30	-30	-29
Pre-tax profit	6,765	8,009	9,143	10,531	11,831
Income tax expense	-1,204	-1,439	-1,646	-1,896	-2,130
Minority interests	223	266	300	345	388
Net profit	5,338	6,304	7,197	8,290	9,313

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income mix					
Net interest income	83%	77%	77%	77%	78%
Net fee income	4%	5%	5%	6%	6%
Others	13%	18%	18%	17%	16%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Growth YOY					
Net interest income	13.4%	7.7%	13.8%	13.7%	12.2%
Net fee&commission	-6.4%	33.4%	18.5%	22.1%	22.9%
Operating income	5.9%	15.8%	14.3%	13.0%	12.0%
PPOP	7.2%	17.7%	15.7%	13.7%	12.4%
Net profit	5.1%	18.1%	14.2%	15.2%	12.3%
Gross loans	21.0%	17.3%	20.0%	19.5%	19.0%
Customer deposits	18.3%	11.3%	18.1%	16.3%	14.4%

Efficiency

CIR	FY20A	FY21A	FY22E	FY23E	FY24E
CIR	29.69%	28.44%	27.61%	27.14%	26.92%

Balance Sheet

YE 31 Dec (RMB bn)	FY20A	FY21A	FY22E	FY23E	FY24E
Due from central banks	54	53	58	66	75
Interbank assets	8	11	11	11	12
Investments	329	364	431	491	553
Gross loan	316	371	445	532	633
Provision balance	11	13	15	18	21
Net loan	305	358	429	513	610
Other assets	8	10	10	13	16
Total assets	704	796	940	1,095	1,266
Due to central banks	21	23	27	32	36
Interbank liabilities	35	47	70	96	131
Customer deposits	464	516	610	709	811
Debt securities issued	131	145	162	182	204
Other liabilities	8	8	9	9	8
Total liabilities	659	740	878	1,027	1,191
Shareholders' equity	44	55	60	66	73
Minority interest	1	2	2	2	2
Total equity	46	57	62	68	75

Asset quality

	FY20A	FY21A	FY22E	FY23E	FY24E
NPL ratio	1.21%	1.20%	1.25%	1.23%	1.20%
Provision coverage	293%	298%	276%	274%	277%
Allowance to total loan	3.54%	3.56%	3.45%	3.37%	3.33%

Capital adequacy

	FY20A	FY21A	FY22E	FY23E	FY24E
CET-1 CAR	8.61%	9.69%	9.01%	8.45%	8.01%
Tier-1 CAR	9.97%	10.90%	10.06%	9.34%	8.76%
Total CAR	13.60%	13.66%	12.85%	12.17%	11.66%

Profitability

	FY20A	FY21A	FY22E	FY23E	FY24E
NIM	2.58%	2.40%	2.35%	2.31%	2.25%
ROE	13.74%	13.26%	13.33%	13.94%	14.16%
ROA	0.85%	0.88%	0.83%	0.81%	0.79%
RORWA	1.19%	1.32%	1.30%	1.26%	1.20%

Per share

	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (RMB)	1.47	1.55	1.71	1.98	2.24
DPS (RMB)	0.32	0.35	0.43	0.50	0.56
BVPS (RMB)	11.21	12.19	13.48	14.96	16.64

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.