

Hong Kong

ADD (no change)

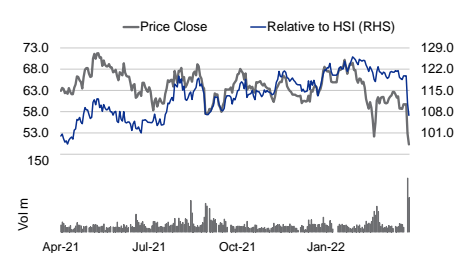
Consensus ratings*: Buy 23 Hold 3 Sell 3

Current price:	HK\$50.30
Target price:	HK\$84.10
Previous target:	HK\$84.10
Up/downside:	67.2%
CIMB / Consensus:	10.5%
Reuters:	3968.HK
Bloomberg:	3968 HK
Market cap:	US\$161,594m HK\$1,267,443m
Average daily turnover:	US\$131.9m HK\$1,031m
Current shares o/s:	25,220m
Free float:	67.0%

*Source: Bloomberg

Key changes in this note

► No changes to FY22F- FY25F EPS..



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-18.1	-25.6	-19.7
Relative (%)	-15.9	-9.5	8.4

Major shareholders	% held
China Merchants Group	33.0

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China Merchants Bank

When reaction becomes overreaction

- We believe CMB's H-share price fall of 16% over two days is an overreaction based on our share price analysis of similar past events at other institutions.
- This Friday's 1Q22 results and next Monday's analyst briefing are great opportunities to clear up lingering uncertainty surrounding the stock.
- We see CMB as a bank with many strengths, and believe it is capable of continuing to outperform despite the departure of its previous president.
- Reiterate CMB as our top China bank pick. We continue to expect ROE to rise over FY21–FY24F. Unchanged Add rating and TP of HK\$84.1.

Analysing past unexpected changes in senior management

We conclude that CMB's share price weakness is an overreaction (H-share price is -16% in the two days after it announced its surprise change in president, [Unexpected change in president](#), 19 Apr 2022), based on our event study analysis of past unexpected changes in senior management of listed mid-large China financial institutions over the last seven years. In each of the cases of China Minsheng Bank, PICC Group and China Life, the cumulative share price decline peaked at 5%, 2% and 1%, respectively (Fig 2), within three days of the event. An analysis of relative underperformance versus industry peers also suggests that relative underperformance should take place within the first two weeks in the worst case (Fig 3).

Upcoming 1Q22 results: A great opportunity to clear up uncertainty

CMB reports its 1Q22 results after market close on Friday 22 Apr 2022, with the analyst briefing on Monday morning 25 Apr 2022. We see this as a great opportunity for CMB to clear up any lingering uncertainty relating to the unexpected senior management change, which we believe should be positive for CMB's share price.

CMB is more than one person, and has many advantages

We have faith that CMB can continue its impressive share price track record, with the bank possessing many advantages. This includes its strength in retail banking, its leading market position in credit cards and wealth management, its highest-of-peer demand deposit mix which has helped its net interest margins and its leading edge in fintech adoption. Its position as the only joint stock permitted to adopt internal rating based (IRB) models to compute capital ratios gives it an edge in ROEs and capital ratios (Fig 18). We have confidence that its ROE differentials to peer group can continue to widen (Fig 13), thereby driving its P/BV premium to peers even higher (Fig 9).

Reiterate Add; 67% potential upside to unchanged TP of HK\$84.1

We value CMB using a stress-test-adjusted GGM. We reiterate CMB as our top China bank pick and like its highest-of-peer FY21 provisioning coverage ratio of 484%, and political pressure may result in sizeable provisioning buffers being unwound. Potential re-rating catalysts: improving asset quality and a better economy. Key downside risks: worse-than-expected net interest margins (NIM) and policy risks.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net Interest Income (Rmbm)	185,031	203,919	218,547	237,925	260,074
Total Non-Interest Income (Rmbm)	102,367	123,458	141,045	160,168	181,989
Operating Revenue (Rmbm)	287,398	327,377	359,593	398,094	442,063
Total Provision Charges (Rmbm)	(65,025)	(66,355)	(63,122)	(56,891)	(47,367)
Net Profit (Rmbm)	95,691	116,309	135,951	161,312	192,206
Core EPS (Rmb)	3.79	4.61	5.39	6.40	7.62
Core EPS Growth	4.9%	21.5%	16.9%	18.7%	19.2%
FD Core P/E (x)	10.84	8.92	7.63	6.43	5.40
DPS (Rmb)	1.25	1.52	1.78	2.11	2.52
Dividend Yield	3.05%	3.70%	4.32%	5.13%	6.11%
BVPS (Rmb)	25.36	29.01	32.88	37.50	43.01
P/BV (x)	1.62	1.42	1.25	1.10	0.96
ROE	15.7%	17.0%	17.4%	18.2%	18.9%
CGS-CIMB/Consensus EPS (x)			1.02	1.05	1.08

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

When reaction becomes overreaction

Our analysis indicates share prices have overreacted

The 1Q22 results and the subsequent analyst briefing is also a great opportunity to clear up lingering uncertainty

We have had numerous conversations with investors about China Merchants Bank (CMB) following the unexpected announcement on 18 Apr 2022 of the resignation of its president and chief executive officer (CEO) (see [Unexpected change of president](#) dated 19 Apr 2022).

The tone of the investor conversations changed from “what has happened”, “what should investors do” and “how much did other financial institutions fall when they had a sudden change in top management” on 18 Apr, to “is now a good time to buy in” and “how much of a valuation premium should CMB trade at versus peers” on 19 Apr, especially after CMB’s 11% decline in H-share price on 19 Apr was followed by another 5% fall on 20 Apr.

Over the course of the last seven years, we recall three other cases of major unexpected changes of the president, CEO or chairperson at mid-large listed China financial institutions – China Minsheng Bank (MSB) in Jan 2015, PICC Group in Jan 2017 and China Life in Jan 2022 (Fig 1).

Figure 1: News reports about changes in president/CEO/chairperson of large listed financial institutions

Financial Institution	Date	Former job title	Details
China Minsheng Bank	31-Jan-2015	President/CEO	China Daily and Caixin reported that Mr Mao Xiaofeng was suspected to have been involved in a major corruption scandal surrounding Ling Jihua.
PICC Group	11-Jan-2017	Vice chairman/president	China Daily later reported in May 2018 that Mr Wang Yincheng was sentenced to 11 years in prison for accepting bribes of over Rmb8.7m, and taking advantage of his position to seek illegal benefits by helping others obtain contracts, secure promotions, or seek jobs.
China Life	8-Jan-2022	Chairman	Xinhua reported that the chairman of China Life, Mr Wang Bin, was put under disciplinary and supervisory investigation by the country’s top anti-graft body (Communist Party of China Central Commission for Discipline Inspection and the National Supervisory Commission) for suspected severe violations of disciplines and laws.
China Merchants Bank	18-Apr-2022	President/CEO	According to the South China Morning Post, the financial news portal Hexun.com had reported sources saying at the start of the day of 18 Apr 2022 that a senior executive of the bank was helping China’s authorities with an unspecified investigation. In the evening of 18 Apr 2022, Sina.com later reported that a person familiar with the matter said that Mr Tian may be hired as the executive deputy director of China Merchants Financial Business Group & Platform Executive Committee, plus vice chairman of China Merchants Financial Group, with his seniority at China Merchants Group kept the same at Assistant Group General Manager. China Investment Network (投资时报) then reported on 19 Apr 2022 that Mr Tian’s resignation was not long after the investigations of other people with links to CCB (Shenzhen branch). For example, the website of the Central Commission for Discipline Inspection reported on 12 Apr 2022 that Mr Wang Ye, the former Secretary of the Party Committee and President of the Shenzhen Branch of CCB, was suspected of serious violations of laws and regulations. The website of the Central Commission for Discipline Inspection also announced on 15 Apr 2022 that Mr Zhang Xueqing, deputy secretary of the Party Committee and vice president of the Shenzhen Branch of CCB, was suspected of serious violations of discipline and law, and was currently undergoing disciplinary inspection by the Disciplinary Inspection and Supervision Team of the Central Commission for Discipline Inspection and the National Supervisory Commission.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, HEXUN.COM, SINA.COM, CHINA INVESTMENT NETWORK, SOUTH CHINA MORNING POST, XINHUA, CHINA DAILY, CAIXIN

We then conducted an event study analysis, which involved studying the share price movements of these listed companies, both before and after the event of the sudden change in senior management. A few patterns emerge.

Firstly, it appears that virtually all share price underperformance (on an absolute and relative basis) relating to unexpected senior management changes takes place within the first two weeks after the event (Fig 2 and 3).

Figure 2: Absolute share price performance around the announcement dates of chairman or president resignation/removal

	MSB	PICC Group	China Life	CMB	CMB-A
t = -2 mth	12%	2%	0%	-15%	-11%
t = -1 mth	-7%	-3%	0%	-3%	1%
t = -1 wk	-8%	1%	4%	2%	2%
t = -1 day	-1%	0%	2%	0%	2%
t = 0	0%	0%	0%	0%	0%
t = +1 day	-3%	-1%	-2%	-11%	-7%
t = +2 days	-2%	-2%	-1%	-16%	-10%
t = +3 days	-5%	-2%	-1%	n.a.	-12%
t = +1 wk	-4%	-1%	0%	n.a.	n.a.
t = +2 wk	-5%	-2%	5%	n.a.	n.a.
t = +3 wk	-4%	-2%	0%	n.a.	n.a.
t = +1 mth	-1%	4%	4%	n.a.	n.a.
t = +1.5 mth	-2%	4%	1%	n.a.	n.a.
t = +2 mth	3%	3%	-10%	n.a.	n.a.
t = +3 mth	20%	3%	-9%	n.a.	n.a.
t = +4 mth	13%	4%	n.a.	n.a.	n.a.
t = +5 mth	7%	6%	n.a.	n.a.	n.a.
t = +6 mth	-6%	18%	n.a.	n.a.	n.a.
t = +1 yr	-27%	33%	n.a.	n.a.	n.a.
t = +2 yr	-3%	4%	n.a.	n.a.	n.a.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 3: Relative share price performance around the announcement dates of chairman or president resignation/removal

	MSB	PICC Group	China Life	CMB	CMB-A
t = -2 mth	6%	-1%	-6%	-9%	-6%
t = -1 mth	-4%	-1%	-2%	-6%	-2%
t = -1 wk	-3%	-2%	-3%	1%	2%
t = -1 day	0%	-1%	-2%	0%	2%
t = 0	0%	0%	0%	0%	0%
t = +1 day	-2%	-1%	-2%	-9%	-7%
t = +2 days	-2%	-1%	-1%	-13%	-8%
t = +3 days	-4%	-1%	-1%	n.a.	-9%
t = +1 wk	-4%	-1%	-1%	n.a.	n.a.
t = +2 wk	-6%	-1%	-2%	n.a.	n.a.
t = +3 wk	-6%	-1%	1%	n.a.	n.a.
t = +1 mth	-4%	-2%	0%	n.a.	n.a.
t = +1.5 mth	-3%	-3%	-4%	n.a.	n.a.
t = +2 mth	-3%	-3%	-2%	n.a.	n.a.
t = +3 mth	-2%	-1%	-5%	n.a.	n.a.
t = +4 mth	-9%	-8%	n.a.	n.a.	n.a.
t = +5 mth	-7%	-12%	n.a.	n.a.	n.a.
t = +6 mth	-5%	-6%	n.a.	n.a.	n.a.
t = +1 yr	-1%	-24%	n.a.	n.a.	n.a.
t = +2 yr	8%	-16%	n.a.	n.a.	n.a.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

In the case of MSB (1988 HK, Hold, TP: HK\$2.60, CP: HK\$3.01, its share price fell by 5% within the first three days in absolute terms, with that being the maximum it fell within the first five months (Fig 2). In market-relative terms (relative to the Morgan Stanley Capital Indices [MSCI] China banks index), the relative underperformance seems to have peaked within the first two weeks at a 6%-pts underperformance (Fig 3).

In the case of PICC Group (1339 HK, Not Rated, CP: HK\$2.54), its share price barely moved after the announcement. Its share price fell by a maximum of 2% within two days after the announcement (Fig 2). The analysis of market-relative performance (relative to the MSCI China insurance index) is a bit more complicated, as the relative underperformance seems to have continuously expanded until it hit 24%-pts of underperformance in the first year after the event (Fig 3). In our view, this market-relative underperformance may have been more to do with the poor operating fundamentals of PICC Group, rather than the senior management change.

In the case of China Life (2628 HK, Add, TP: HK\$15, CP: HK\$11.94) its share price also barely moved after the announcement. Its share price fell by a maximum of 2% within the first day after the announcement (Fig 2) and actually ended up 5% two weeks after the senior management change. Like PICC Group which also has central state-owned enterprise (SOE) status, the analysis of market-relative performance (relative to the MSCI China insurance index) is a bit more complicated.

China Life's relative underperformance seems to have continuously expanded until it hit 5%-pts of underperformance in the first three months after the event (Fig 3). Again, it is our view that this market-relative underperformance may have been more to do with the poor operating fundamentals of China Life, rather than the senior management change.

In the case of CMB, its H-share price fell by 11% the day after the announcement and fell by another 5% on the second day after the

announcement (i.e. 20 Apr 2022), for a total fall of 16%. Its A-share price fell by 7% on the first day, 3% on the second day and another 2% on the third day, for a total fall of 12% (note that the announcement was made on a public holiday in Hong Kong, on 18 Apr 2022) (Fig 2). These share price falls far exceeded the share price falls of MSB, PICC Group and China Life of 2%, 2% and 1% in the first two days after their announcement of a senior management change.

In market-relative terms (relative to the MSCI China banks index), CMB's H-share price underperformed the MSCI China banks index by 9%-pts on the first day and a further 4%-pts on the second day (i.e. total of 13%-pts of underperformance). Its A-share price underperformed by 7%-pts on the first day and a further 1%-pt each on the second and third day (total of 9%-pts across the three days).

It thus seems clear that CMB's share price weakness is an overreaction, especially its H-shares.

It is also worth noting that there are clear differences between CMB and the other three examples (Fig 1). In each of the cases of MSB, PICC Group and China Life, the investigation was reported by the highly reputable Xinhua, China Daily and Caixin news outlets.

In the case of CMB, it is not clear that there was an investigation of Mr Tian Huiyu, CMB's ex-president. Looking at the timeline of events, the South China Morning Post reported that the financial news portal Hexun.com had reported sources saying at the start of the day on 18 Apr 2022 that a senior executive of the bank was helping China's authorities with an unspecified investigation.

On the evening of 18 Apr 2022, after CMB announced that its board of directors had voted to remove Mr Tian as president (see [Unexpected change of president](#) dated 19 Apr 2022), Sina.com then reported that a person familiar with the matter said that Mr Tian may be hired as the executive deputy director of China Merchants Financial Business Group & Platform Executive Committee, plus vice chairman of China Merchants Financial Group, with his seniority at China Merchants Group kept at Assistant Group General Manager.

China Investment Network (投资时报) then reported on 19 Apr 2022 that Mr Tian's resignation was not long after the investigations of other people with links to China Construction Bank (CCB) (939 HK, Add, TP: HK\$8, CP: HK\$5.72) (Shenzhen branch). For example, the website of the Central Commission for Discipline Inspection reported on 12 Apr 2022 that Mr Wang Ye, the former Secretary of the Party Committee and president of the Shenzhen branch of CCB, was suspected of serious violations of laws and regulations. The website of the Central Commission for Discipline Inspection also announced on 15 Apr 2022 that Mr Zhang Xueqing, deputy secretary of the Party Committee and vice president of the Shenzhen branch of CCB, was suspected of serious violations of discipline and law, and was currently undergoing disciplinary inspection by the Disciplinary Inspection and Supervision Team of the Central Commission for Discipline Inspection and the National Supervisory Commission.

According to CMB's 2021 annual report, Mr Tian had served consecutively as the deputy general manager of the Shanghai branch, the head of the Shenzhen branch, and the general manager of the Shenzhen branch of CCB from Dec 2006 to Mar 2011. He was the business executive of retail banking at the head office and the Head and General Manager of the Beijing branch of CCB from Mar 2011 to May 2013. According to CCB's website, Mr Tian was the president of the Shenzhen branch of CCB from Sep 2007 to Mar 2011, and was the principal of the Shenzhen branch of CCB from Jul 2007 to Sep 2007.

Is CMB's sizeable valuation premium to peers justified?

Another key focus of investors was whether the sudden change in senior management could be a trigger point for a substantial valuation de-rating and hence an erosion of its valuation premium to peers.

Even after the recent sharp fall in CMB's share price, CMB still trades at 1.3x FY22F P/BV, which is a significant premium to the sector average of 0.6x FY22F P/BV, and the big four H-share bank average of 0.4x FY22F P/BV (Fig 4).

Figure 4: China banks valuation table (H-share and A-share banks)

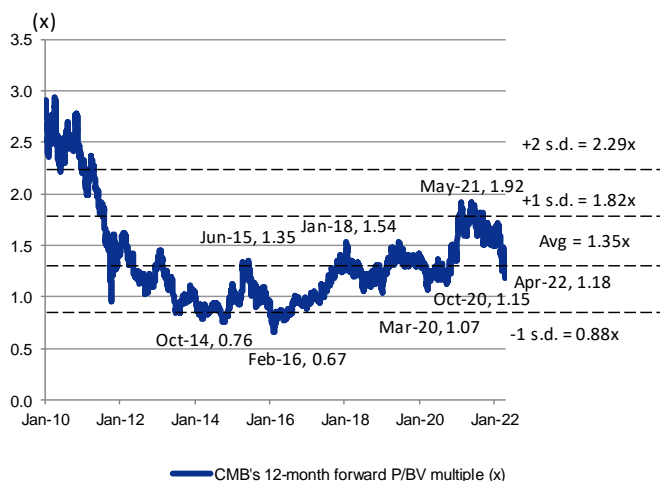
Company	Ticker	Rating	Mkt cap (US\$ bn)	Price (Lcy)	Target price (Lcy)	Upside/ Downside	P/BV (x)		P/E (x)		P/PPOP (x)		Dividend yield		ROE(%)			
							FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F		
ICBC	1398 HK	Add	253.4	4.71	5.90	25%	0.45	0.41	3.9	3.5	2.2	2.0	8.0	8.7	12.0	12.1		
CCB	0939 HK	Add	185.5	5.72	8.00	40%	0.44	0.41	3.7	3.4	2.1	1.9	8.1	8.9	12.3	12.3		
BOC	3988 HK	Add	143.3	3.14	4.20	34%	0.38	0.35	3.5	3.2	1.9	1.8	9.0	9.9	11.2	11.3		
ABC	1288 HK	Add	166.3	2.99	4.40	47%	0.40	0.36	3.6	3.3	1.8	1.6	8.9	9.7	11.5	11.6		
BOCOM	3328 HK	Hold	56.6	5.59	5.30	-5%	0.41	0.38	3.9	3.6	2.0	1.9	8.2	9.0	10.9	11.1		
CMB	3968 HK	Add	154.9	50.30	84.10	67%	1.29	1.13	7.9	6.6	4.6	4.2	4.2	5.0	17.4	18.2		
CITIC	0998 HK	Add	34.4	3.99	4.90	23%	0.30	0.27	2.8	2.5	1.1	1.0	9.9	11.2	10.9	11.4		
MSB	1988 HK	Hold	24.6	3.01	2.60	-14%	0.22	0.21	3.3	2.8	1.0	1.0	9.1	10.5	6.8	7.5		
CQRCB	3618 HK	Add	6.5	3.10	4.10	32%	0.27	0.25	2.7	2.3	1.3	1.2	11.3	12.8	10.6	11.1		
H-share weighted average									0.57	0.51	4.4	3.9	2.4	2.2	7.7	8.5	12.6	12.9
ICBC - A	601398 CH	Add	253.4	4.74	5.10	8%	0.53	0.49	4.6	4.2	2.6	2.4	6.7	7.3	12.0	12.1		
CCB - A	601939 CH	Add	185.5	6.09	7.10	17%	0.56	0.51	4.7	4.3	2.6	2.4	6.4	7.0	12.3	12.3		
BOC - A	601988 CH	Add	143.3	3.27	3.80	16%	0.47	0.43	4.3	3.9	2.4	2.2	7.3	8.0	11.2	11.3		
ABC - A	601288 CH	Add	166.3	3.06	3.90	27%	0.48	0.44	4.3	4.0	2.2	2.0	7.3	8.0	11.5	11.6		
BOCOM - A	601328 CH	Hold	56.6	5.10	4.80	-6%	0.44	0.41	4.2	3.9	2.2	2.0	7.6	8.3	10.9	11.1		
CMB - A	600036 CH	Add	154.9	41.10	71.50	74%	1.25	1.10	7.6	6.4	4.5	4.0	4.3	5.1	17.4	18.2		
CITIC - A	601998 CH	Add	34.4	5.01	5.00	0%	0.44	0.41	4.2	3.7	1.6	1.5	6.6	7.5	10.9	11.4		
MSB - A	600016 CH	Reduce	24.6	3.74	2.50	-33%	0.32	0.30	4.9	4.2	1.5	1.5	6.2	7.2	6.8	7.5		
PAB - A	000001 CH	Add	48.1	15.85	22.70	43%	0.83	0.74	6.3	5.6	2.3	2.1	2.1	2.3	14.0	13.9		
CQRCB - A	601077 CH	Add	6.5	3.93	4.50	15%	0.41	0.38	4.0	3.5	2.0	1.8	7.5	8.5	10.6	11.1		
A-share weighted average									0.64	0.58	5.1	4.6	2.7	2.5	6.2	6.9	12.7	12.8
Combined sector weighted average									0.61	0.55	4.8	4.3	2.6	2.4	7.0	7.7	12.7	12.8

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

(*ICBC: INDUSTRIAL AND COMMERCIAL BANK OF CHINA; CCB: CHINA CONSTRUCTION BANK; BOC: BANK OF CHINA; ABC: AGRICULTURAL BANK OF CHINA; BOCOM: BANK OF COMMUNICATIONS; CMB: CHINA MERCHANTS BANK; CITIC: CHINA CITIC BANK; MSB: CHINA MINSHENG BANK; CQRCB: CHONGQING RURAL COMMERCIAL BANK)
DATA AS OF 20 APR 2022

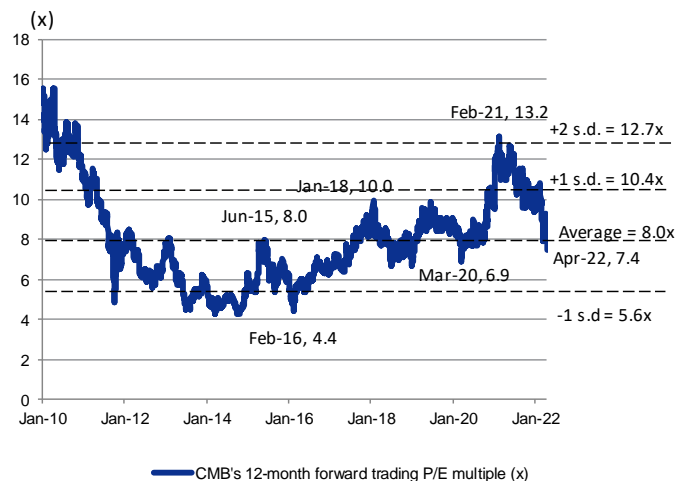
Relative to its trading history, as of 20 Apr 2022, it trades at 1.18x P/BV (Fig 5) and 7.4x P/E (Fig 6), based on a 12-month rolling forward basis. This is 0.4 and 0.2 standard deviations (s.d.), respectively, below the post-2010 mean for 12-month rolling forward P/BV and P/E.

Figure 5: 12-month rolling forward P/BV multiple of CMB (x)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

Figure 6: 12-month rolling forward P/E multiple of CMB (x)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

We argue that CMB's P/BV valuation premium is well justified by (i) its much higher ROE (for example, its FY21 ROE was 17% versus 11.8% for both the average of the big four banks and the average of banks under our coverage) and (ii) the fact that CMB's ROE had already been rising prior to the onset of Covid-19, unlike peers, where ROEs had been falling since FY12 (Fig 7).

Figure 7: ROEs of the China banks under our coverage (FY11-FY24F)

(%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F
ICBC	23.4	23.0	21.9	20.0	17.1	15.2	14.4	13.8	13.1	12.0	12.2	12.0	12.1	12.3
CCB	22.5	22.0	21.2	19.7	17.3	15.4	14.8	14.0	13.2	12.1	12.5	12.3	12.3	12.5
BOC	18.3	18.1	18.0	17.3	14.5	12.6	12.2	12.1	11.5	10.6	11.2	11.2	11.3	11.6
ABC	20.5	20.7	20.9	19.6	16.8	15.1	14.6	13.7	12.4	11.4	11.5	11.5	11.6	11.8
BOCOM	20.5	17.9	15.6	14.8	13.4	12.2	11.4	11.4	11.2	10.4	10.8	10.9	11.1	11.4
CMB	24.2	24.8	22.2	19.3	17.1	16.3	16.5	16.6	16.8	15.7	17.0	17.4	18.2	18.9
CITIC	21.1	16.7	18.5	16.8	14.3	12.0	11.7	11.4	11.1	10.1	10.8	10.9	11.4	11.9
MSB	24.0	25.2	23.4	20.4	17.0	15.1	14.0	12.9	12.4	6.8	6.6	6.8	7.5	8.4
PAB	19.3	17.0	15.5	16.3	14.9	13.2	11.6	11.5	11.3	9.6	10.8	11.5	12.3	13.2
CQRCB	16.9	17.8	17.3	17.1	16.4	16.0	15.6	13.5	12.8	9.2	9.8	10.6	11.1	11.9
Big four banks	21.4	21.2	20.7	19.2	16.5	14.7	14.1	13.4	12.6	11.6	11.9	11.8	11.8	12.1
Mid-size banks	21.9	20.4	19.0	17.4	15.2	13.7	13.1	12.8	12.6	10.7	11.4	11.7	12.2	12.8
Sector	20.9	20.5	19.8	18.4	15.8	14.1	13.8	13.3	12.6	11.3	11.8	11.8	11.9	12.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

As we have pointed out previously (see [Decade of dominance](#), dated 15 Feb 2022), the fact that CMB's ROE finally started rising in FY17, after falling consistently from end-FY12, gave investors confidence over what the right level of CMB's sustainable ROEs could be, and hence what could be a sustainable P/BV level.

This, in our view, was a key reason for CMB's strongest-of-peer share price performance in 2017, up 77% on an absolute basis, and outperforming the MSCI China index by 25%-pts, which was its second best year of outperformance post 2011, after 2021's 49%-pts outperformance (Fig 8).

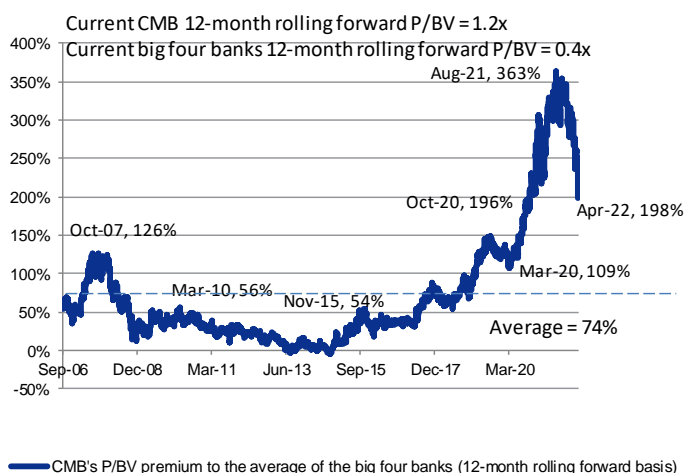
Figure 8: Share price performance of the China banks under our coverage

	ICBC	CCB	ABC	BOC	BOCOM	CMB	CITIC	MSB	PAB-A	CQRCB
Absolute share price perf.										
Dec-11	-18%	-19%	-13%	-27%	-23%	-19%	-9%	3%	-1%	-23%
Dec-12	26%	21%	21%	29%	10%	13%	10%	44%	4%	11%
Dec-13	1%	0%	6%	10%	-1%	4%	-4%	1%	23%	-7%
Dec-14	15%	16%	10%	31%	41%	24%	58%	46%	57%	37%
Dec-15	-13%	-12%	-14%	-17%	-21%	-3%	-19%	-24%	-8%	1%
Dec-16	6%	20%	7%	6%	10%	4%	4%	14%	-8%	3%
Dec-17	43%	27%	21%	17%	9%	77%	4%	-1%	48%	27%
Dec-18	-7%	-6%	-1%	-7%	12%	-4%	3%	-16%	-28%	-21%
Dec-19	13%	10%	6%	5%	-4%	43%	4%	17%	77%	0%
Dec-20	-11%	-7%	-12%	-15%	-21%	27%	-24%	-19%	20%	-14%
Dec-21	-7%	-2%	2%	15%	24%	27%	11%	-28%	-14%	-5%
Apr-22	7%	6%	17%	6%	19%	-17%	18%	1%	-4%	12%
1-wk	-1%	-2%	5%	-4%	-1%	-14%	-1%	0%	-3%	0%
1-mth	3%	2%	10%	1%	6%	-16%	10%	3%	0%	10%
3-mth	1%	-2%	8%	0%	9%	-22%	8%	-5%	9%	5%
6-mth	8%	5%	16%	9%	19%	-22%	14%	-3%	-4%	10%
1-yr	-9%	-7%	8%	3%	18%	-18%	1%	-29%	-18%	-1%
Relative share price perf. (vs. MSCI China)										
31-Dec-11	3%	1%	7%	-7%	-3%	2%	12%	23%	19%	-3%
31-Dec-12	7%	3%	2%	10%	-9%	-6%	-9%	25%	-15%	-8%
31-Dec-13	1%	-1%	5%	9%	-1%	4%	-5%	0%	23%	-7%
31-Dec-14	11%	12%	5%	26%	36%	19%	53%	41%	53%	33%
31-Dec-15	-3%	-2%	-4%	-7%	-11%	7%	-9%	-14%	2%	11%
31-Dec-16	7%	21%	9%	8%	11%	5%	5%	15%	-6%	5%
31-Dec-17	-10%	-25%	-32%	-35%	-43%	25%	-48%	-54%	-4%	-26%
31-Dec-18	14%	15%	19%	13%	32%	16%	23%	4%	-8%	0%
31-Dec-19	-8%	-10%	-14%	-16%	-25%	23%	-16%	-3%	57%	-21%
31-Dec-20	-38%	-34%	-38%	-41%	-47%	0%	-51%	-45%	-7%	-41%
31-Dec-21	16%	20%	24%	37%	46%	49%	34%	-6%	8%	17%
20-Apr-22	26%	25%	36%	25%	37%	2%	37%	20%	15%	31%
1-wk	3%	1%	8%	-1%	3%	-11%	2%	3%	0%	3%
1-mth	6%	5%	13%	4%	9%	-13%	13%	7%	4%	13%
3-mth	19%	16%	26%	18%	27%	-4%	26%	13%	12%	24%
6-mth	37%	34%	45%	38%	48%	7%	43%	26%	15%	39%
1-yr	29%	31%	46%	41%	56%	20%	38%	9%	11%	37%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

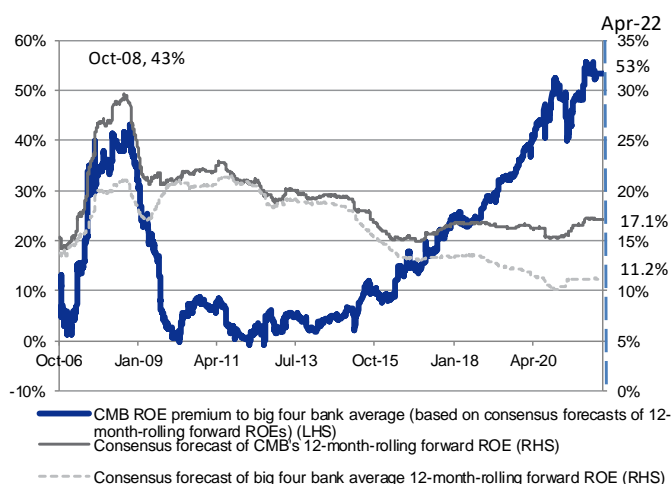
It is worth noting that CMB's sizeable P/BV valuation premium over China's big four banks has fallen from the peak of 363% in Aug 2021 to 198% as of 20 Apr 2022 (Fig 8). Its ROE premium on a 12-month rolling forward basis over the big four banks has risen to 53% as of Apr 2022 (Fig 10).

Figure 9: CMB's P/BV premium over the big four China bank average (12-month rolling forward basis)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 10: CMB's ROE premium to the average of the big four China banks (12-month rolling forward basis)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

While CMB's 53% ROE premium over the big four banks is dwarfed by its 198% P/BV premium (both metrics on a 12-month forward rolling basis), we argue that such a comparison ignores the fact that CMB's ROE premium could continue expanding, and thereby lead to a larger P/BV premium.

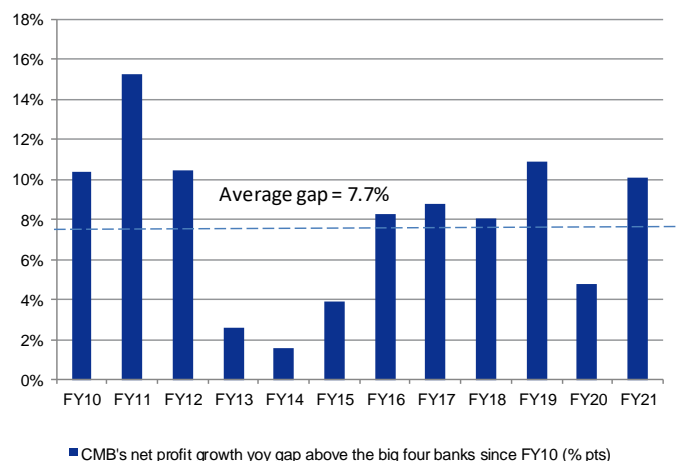
It is clear from Fig 11 that CMB has historically reported much stronger net profit growth than China's big four banks, with the net profit growth gap in FY21 at 10%-pts. Since the end of FY10, the net profit growth gap has averaged 7.7%-pts, with the gap noticeably widening since FY14 (Fig 12).

Figure 11: Growth yoy of net profits for the banks under our coverage

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	5 year CAGR	7 year CAGR
ICBC	-0.4%	-0.4%	2.9%	4.1%	5.0%	-0.2%	10.3%	4%	3%
CCB	0.1%	1.0%	4.7%	3.9%	4.8%	1.0%	12.3%	5%	4%
BOC	-2.2%	-4.8%	4.9%	4.6%	4.2%	0.1%	13.9%	5%	3%
ABC	-0.7%	0.7%	5.0%	5.2%	4.7%	-0.5%	10.2%	5%	3%
BOCOM	1.0%	-0.3%	1.8%	5.2%	5.1%	-1.0%	10.9%	4%	3%
CMB	3.2%	7.6%	13.0%	12.5%	15.6%	4.9%	21.5%	13%	11%
CITIC	1.1%	1.1%	-0.9%	4.7%	8.1%	-1.5%	14.5%	5%	4%
MSB	3.5%	3.8%	3.0%	1.0%	7.0%	-41.8%	0.3%	-8%	-5%
PAB	10.4%	3.4%	0.0%	6.0%	14.1%	-0.3%	23.0%	8%	8%
CQRCB	5.8%	10.0%	12.5%	1.4%	7.7%	-13.9%	13.8%	4%	5%
Big four banks	-0.7%	-0.7%	4.2%	4.4%	4.7%	0.1%	11.5%	5%	3%
Mid size banks	2.9%	3.1%	4.3%	6.4%	9.8%	-6.6%	15.2%	6%	5%
All banks	0.1%	0.2%	4.3%	4.8%	5.9%	-1.5%	12.3%	5%	4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 12: CMB's net profit growth yoy gap above the big four banks since FY10 (% pts)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

What does this mean for the ROE gap between CMB and China's big four banks going forward?

This requires projecting net profit growth of both CMB and China's big four banks. We assume that dividend payout ratios remain at the current levels of 33% for CMB and 30% for the big four banks.

We take Bloomberg consensus forecasts for FY22F and FY23F, which are more conservative than our forecasts. For example, Bloomberg forecast net profit growth for CMB is 14.9% in FY22F and 16% in FY23F, versus our forecast of 16.9% in FY22F and 18.7% in FY23F.

We then assume that net profit growth of China's big four banks beyond FY23F is 7% (Bloomberg consensus net profit growth is 5.9% for FY22F and 6.5% for FY23F, and follows FY21's 11.5%), and assume that CMB's net profit growth gap remains at 7.7%-pts, which results in a post-FY23F net profit growth for CMB of 14.7%.

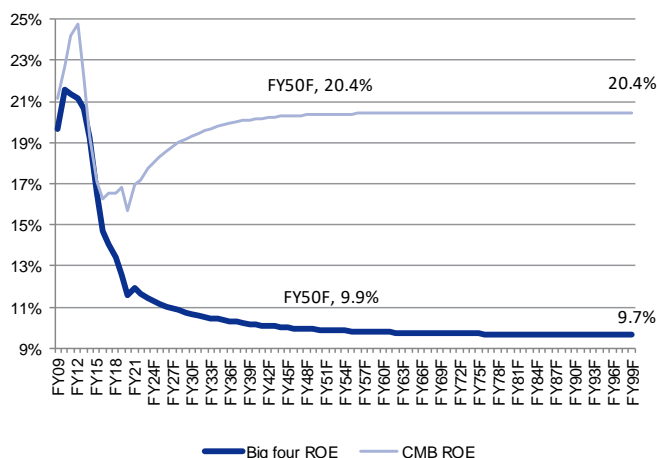
Under this scenario, CMB's ROE continues to rise from FY21's 17%, albeit at a gradually slowing pace, until FY50F, where it peaks at 20.4% (Fig 13). In the near-to-medium term, under these assumptions, CMB's ROE would rise to 17.2% in FY22F, 17.8% in FY23F, 18.2% in FY24F and 18.3% in FY25F.

On the other hand, under these assumptions, the big four banks ROE would resume falling from FY21 onwards, from FY21's 11.9%, to FY22F's 11.6%, FY23F's 11.4%, FY24F's 11.3% and FY25F's 11.2%. Thereafter, it would be projected to continue its gradual fall to FY50F's 9.9% and even still continue falling in FY99F at 9.7%, based on our estimates.

Assuming a 30% dividend payout ratio, the big four banks would require net profit growth of above 8.4% in order to maintain a rising ROE profile. Assuming a 33% dividend payout ratio, CMB would require net profit growth of above 12.7% in order to maintain a rising ROE profile.

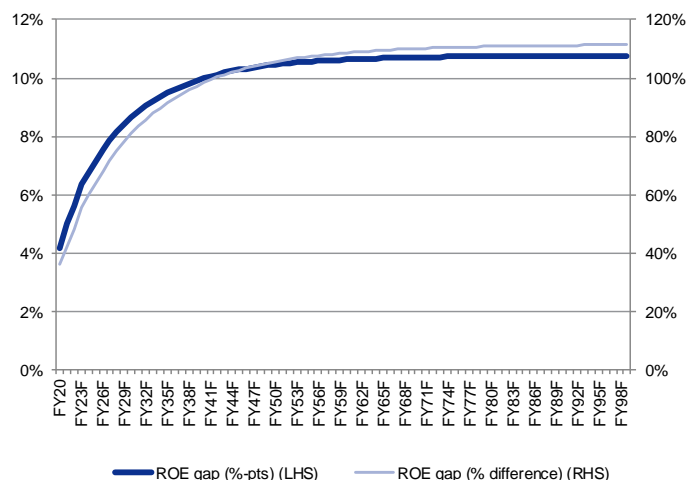
Under the projections of ROE in Fig 13, CMB's ROE premium over the big four banks should continue expanding until it reaches 10.7%-pts. This equates to a 94% premium in percentage terms over the big four banks (Fig 14).

Figure 13: ROEs of CMB and China's big four banks until FY99F, under certain assumptions



SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Figure 14: CMB's ROE gap over China's big four banks



SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Can one person make that much of a difference?

Finally, some investors have also expressed concerns that CMB's share price performance could suffer under new management. Mr Tian had an impressive track record since joining CMB from CCB in 2013, with CMB outperforming the MSCI China index every year since the end of 2012 (Fig 15).

In our view, CMB has many advantages and strengths that should ensure that it remains well placed to outperform peers and continue its impressive share price track record.

These include its key strength in retail banking, including its leading market positions in credit cards and wealth management, its highest-of-peer demand deposit mix which has helped its net interest margins and its leading edge in fintech adoption.

Its FY21 provisioning coverage ratio of 484% is also the highest of the banks under our coverage and much higher than both the average of the banks under our coverage of 227% and the big four bank average of 231%. With the State Council encouraging large China banks that have relatively high provisioning ratios to orderly reduce these ratios (鼓励拨备水平较高的大型银行有序降低拨备率), we believe that CMB may face greater pressure to reduce its high provisioning coverage ratio going forward. It is also the only joint stock bank in China that has been permitted (these regulatory approvals were granted in 1H14) to adopt internal rating based (IRB) models to compute its risk weighted assets (RWA).

A consequence is lower-than-peer ratios of RWA to total assets (Fig 16), with CMB's FY21 ratio of 60.2% the lowest of peers. This translates to improved capital ratios, with CMB's core Tier 1 ratio of 12.7% in FY21 the highest of the mid-size banks. With the RWA weighting of mortgages only at 13.1% for CMB in FY21 (versus 50% prior to IRB adoption), it is no surprise that this has spurred CMB to focus more on mortgages due to its superior return on risk adjusted capital (RORAC). At the end of FY21, CMB's mix of mortgages within its loan book was 24.7%, the highest of the mid-size banks (Fig 19). This, in our view, has helped its ROE performance. Given the consistently low non-performing-loan (NPL) ratios of mortgages across time (Fig 21), we believe that its relatively high exposure to mortgages has also helped investors have more confidence in its ability to manage asset quality problems compared to peers.

It should also be pointed out that the new president, Mr Wang Liang (previously CFO), is familiar with CMB, having worked at the bank for 27 years, and we believe that its strategy of focusing heavily on wealth management will continue

under his tenure, especially since the chairman (Mr Miao Jianmin) fully supports this strategy.

Figure 15: Share price performance of the China banks under our coverage

	ICBC	CCB	ABC	BOC	BOCOM	CMB	CITIC	MSB	PAB-A	CQRCB
Absolute share price perf.										
Dec-11	-18%	-19%	-13%	-27%	-23%	-19%	-9%	3%	-1%	-23%
Dec-12	26%	21%	21%	29%	10%	13%	10%	44%	4%	11%
Dec-13	1%	0%	6%	10%	-1%	4%	-4%	1%	23%	-7%
Dec-14	15%	16%	10%	31%	41%	24%	58%	46%	57%	37%
Dec-15	-13%	-12%	-14%	-17%	-21%	-3%	-19%	-24%	-8%	1%
Dec-16	6%	20%	7%	6%	10%	4%	4%	14%	-8%	3%
Dec-17	43%	27%	21%	17%	9%	77%	4%	-1%	48%	27%
Dec-18	-7%	-6%	-1%	-7%	12%	-4%	3%	-16%	-28%	-21%
Dec-19	13%	10%	6%	5%	-4%	43%	4%	17%	77%	0%
Dec-20	-11%	-7%	-12%	-15%	-21%	27%	-24%	-19%	20%	-14%
Dec-21	-7%	-2%	2%	15%	24%	27%	11%	-28%	-14%	-5%
Apr-22	7%	6%	17%	6%	19%	-17%	18%	1%	-4%	12%
1-wk	-1%	-2%	5%	-4%	-1%	-14%	-1%	0%	-3%	0%
1-mth	3%	2%	10%	1%	6%	-16%	10%	3%	0%	10%
3-mth	1%	-2%	8%	0%	9%	-22%	8%	-5%	9%	5%
6-mth	8%	5%	16%	9%	19%	-22%	14%	-3%	-4%	10%
1-yr	-9%	-7%	8%	3%	18%	-18%	1%	-29%	-18%	-1%
Relative share price perf. (vs. MSCI China)										
31-Dec-11	3%	1%	7%	-7%	-3%	2%	12%	23%	19%	-3%
31-Dec-12	7%	3%	2%	10%	-9%	-6%	-9%	25%	-15%	-8%
31-Dec-13	1%	-1%	5%	9%	-1%	4%	-5%	0%	23%	-7%
31-Dec-14	11%	12%	5%	26%	36%	19%	53%	41%	53%	33%
31-Dec-15	-3%	-2%	-4%	-7%	-11%	7%	-9%	-14%	2%	11%
31-Dec-16	7%	21%	9%	8%	11%	5%	5%	15%	-6%	5%
31-Dec-17	-10%	-25%	-32%	-35%	-43%	25%	-48%	-54%	-4%	-26%
31-Dec-18	14%	15%	19%	13%	32%	16%	23%	4%	-8%	0%
31-Dec-19	-8%	-10%	-14%	-16%	-25%	23%	-16%	-3%	57%	-21%
31-Dec-20	-38%	-34%	-38%	-41%	-47%	0%	-51%	-45%	-7%	-41%
31-Dec-21	16%	20%	24%	37%	46%	49%	34%	-6%	8%	17%
20-Apr-22	26%	25%	36%	25%	37%	2%	37%	20%	15%	31%
1-wk	3%	1%	8%	-1%	3%	-11%	2%	3%	0%	3%
1-mth	6%	5%	13%	4%	9%	-13%	13%	7%	4%	13%
3-mth	19%	16%	26%	18%	27%	-4%	26%	13%	12%	24%
6-mth	37%	34%	45%	38%	48%	7%	43%	26%	15%	39%
1-yr	29%	31%	46%	41%	56%	20%	38%	9%	11%	37%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 16: RWA to total assets of each bank under our coverage **Figure 17: Average risk weights of the major China banks by product type**

(%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
ICBC	54.2	63.3	60.5	59.5	60.3	61.2	62.1	61.8	60.4	61.7
CCB	54.7	64.3	60.9	58.4	56.9	56.6	58.8	59.2	59.0	60.2
BOC	57.2	67.9	65.1	63.4	62.1	62.5	60.4	62.0	61.9	61.1
ABC	54.5	62.3	67.9	61.8	60.6	59.0	60.7	62.2	62.5	61.4
BOCOM	61.5	71.7	66.4	65.0	61.4	63.9	59.7	62.0	62.6	63.3
CMB	61.0	68.3	66.5	58.6	64.8	55.0	60.7	62.1	59.4	60.2
CITIC	65.8	71.4	71.1	67.7	66.8	71.0	77.1	75.8	71.8	72.2
MSB	62.9	72.1	71.3	74.0	64.2	71.1	77.7	76.6	78.1	77.4
PAB	55.7	61.9	63.1	66.3	68.9	68.5	68.5	70.7	70.5	72.5
CQRCB	57.9	60.9	66.8	66.5	66.7	67.4	68.1	69.2	69.0	64.0
Big four banks	55.0	64.3	63.4	60.6	59.9	59.8	60.6	61.3	60.9	61.1
Mid-size banks	61.9	70.0	67.9	65.9	64.5	65.4	67.6	68.5	67.5	67.8
Sector average	56.6	65.6	64.5	62.0	61.2	61.2	62.4	63.2	62.6	62.8

(%)	Mortgages			All other retail loans			Corporate loans		
	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
ICBC	20.1	20.2	20.4	35.7	36.1	44.6	81.3	80.5	78.9
CCB	24.7	25.3	24.5	13.1	13.8	13.7	82.2	71.1	72.4
ABC	22.5	22.6	22.4	35.9	41.5	42.9	69.3	68.4	66.6
BOC	11.5	11.5	10.8	21.7	22.7	23.5	75.6	73.9	71.0
BOCOM	20.8	22.0	20.3	31.2	34.0	34.0	65.6	69.9	69.7
CMB	13.6	12.9	13.1	30.7	29.7	38.8	37.8	38.7	39.4
Average	18.9	19.1	18.6	27.5	29.6	31.8	68.6	67.1	66.3

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 18: Core Tier-1 ratios of each bank under our coverage

(%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
ICBC	10.1	10.6	10.6	11.9	12.9	12.9	12.8	13.0	13.2	13.2	13.2
CCB	11.0	11.3	10.8	12.1	13.1	13.0	13.1	13.8	13.9	13.6	13.6
BOC	10.1	10.5	9.7	10.6	11.1	11.4	11.2	11.4	11.3	11.3	11.3
ABC	9.5	9.7	9.1	9.1	10.2	10.4	10.6	11.6	11.2	11.0	11.4
BOCOM	9.3	11.2	9.8	11.3	11.1	11.0	10.8	11.2	11.2	10.9	10.6
CMB	8.2	8.3	9.3	9.6	10.8	11.5	12.1	11.8	11.9	12.3	12.7
CITIC	9.9	9.3	8.8	8.9	9.1	8.6	8.5	8.6	8.7	8.7	8.9
MSB	7.9	8.1	8.7	8.6	9.2	8.9	8.6	8.9	8.9	8.5	9.0
PAB	8.5	8.6	8.6	8.6	9.0	8.4	8.3	8.5	9.1	8.7	8.6
CQRCB	13.7	11.3	11.9	10.1	9.9	9.9	10.4	11.0	12.4	12.0	12.5
Big four banks	10.2	10.5	10.1	11.0	11.9	12.0	12.0	12.5	12.5	12.4	12.5
Mid-size banks	8.6	9.0	8.9	9.2	9.6	9.2	9.1	9.4	9.7	9.4	10.4
Sector weighted average	9.7	10.1	9.7	10.5	11.3	11.3	11.3	11.7	11.9	11.8	11.9

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 19: The percentage of loans comprising mortgages for the China banks

(%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
ICBC	15.2	17.3	18.8	21.1	24.8	27.7	29.8	30.8	30.8	30.8
CCB	20.6	22.1	24.0	26.7	30.8	33.0	35.1	35.6	34.7	34.0
BOC	19.6	19.8	20.0	22.4	26.4	28.1	29.7	30.6	31.2	30.8
ABC	16.3	17.9	19.1	21.6	26.3	29.2	30.7	31.2	30.7	31.9
BOCOM	12.2	14.0	15.4	16.2	18.8	19.6	20.8	21.4	22.1	22.7
CMB	17.6	12.2	13.1	17.7	22.3	23.4	23.6	24.7	25.3	24.7
CITIC	11.7	11.4	10.6	10.6	15.1	15.8	17.8	19.4	20.5	20.0
MSB	5.2	3.9	3.8	5.6	12.0	12.5	11.0	12.0	13.4	14.7
PAB	18.2	7.7	5.4	3.8	5.8	9.0	9.1	8.6	9.0	9.1
CQRCB	20.3	22.5	19.0	16.4	14.5	14.8	15.8	16.7	18.0	17.3
Big four banks	17.8	19.2	20.5	22.9	27.1	29.5	31.4	32.1	31.9	31.9
Mid-size banks	12.7	10.9	11.1	12.4	16.3	17.3	17.8	18.6	19.4	19.5
Sector average	16.7	17.4	18.3	20.5	24.4	26.4	27.9	28.6	28.7	28.7

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 20: Mortgage growth rate of the China banks under our coverage (%)

(%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
ICBC	13	28	20	22	29	22	17	13	11	11
CCB	16	23	20	23	30	17	14	11	10	10
BOC	11	12	12	21	29	16	14	14	11	9
ABC	18	23	20	24	33	22	17	14	12	12
BOCOM	14	26	15	4	27	16	12	13	14	15
CMB	4	-20	23	52	46	14	11	19	15	8
CITIC	9	13	5	16	61	17	27	21	18	6
MSB	-14	-13	12	64	159	19	-4	25	23	16
PAB	-7	-8	-15	-17	85	79	19	6	24	17
CQRCB	14	32	-1	-4	-1	15	20	21	25	11
Big-4 banks	14	21	18	22	30	19	15	13	11	11
Mid-size banks	6	4	13	21	51	18	13	17	17	11
Sector weighted average	13	19	17	22	33	19	15	13	12	11

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 21: Mortgage NPL ratios of the China banks

(%)	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21
ICBC	n.a.	n.a.	n.a.	n.a.	n.a.	0.23	0.29	0.28	0.24	0.24
CCB	0.28	0.24	0.25	0.24	0.27	0.24	0.25	0.19	0.20	0.20
BOC	0.36	0.35	0.33	0.32	0.31	0.29	0.34	0.32	0.31	0.27
ABC	0.36	0.36	0.29	0.31	0.26	0.30	0.32	0.38	0.32	0.36
BOCOM	n.a.	n.a.	n.a.	0.00	n.a.	0.36	0.40	0.37	0.34	0.34
CMB	0.34	0.33	0.27	0.28	0.25	0.25	0.25	0.29	0.25	0.28
CITIC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MSB	n.a.	n.a.	n.a.	n.a.	n.a.	0.21	n.a.	0.22	0.22	0.26
PAB	0.09	0.08	0.09	0.09	0.15	0.30	0.42	0.31	0.31	0.34
CQRCB	0.73	0.61	0.51	0.43	0.40	0.33	0.32	0.31	0.28	0.46
Big four banks	0.33	0.31	0.29	0.28	0.28	0.26	0.30	0.29	0.26	0.26
Mid-size banks	0.31	0.29	0.24	0.31	0.23	0.31	0.28	0.33	0.30	0.31
Sector weighted average	0.33	0.31	0.28	0.29	0.28	0.27	0.30	0.29	0.27	0.27

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Valuation and risks

We value CMB using a stress-test-adjusted Gordon Growth Model (GGM), with an unchanged TP of HK\$84.10.

Our key valuation assumptions are a COE of 9.4%, a sustainable growth (g) assumption of 3%, an initial sustainable ROE assumption of 18.9% based on FY24F ROE, and an asset quality and investor compensation valuation discount of 14%.

We thus derive a stress-test-adjusted target FY22F P/BV multiple of 2.15x, implying a sustainable ROE assumption of 16.8%. This is then applied to our FY22F BVPS of Rmb32.88.

We arrive at a target price of HK\$84.1 and reiterate our Add rating on CMB (Fig 22).

Figure 22: Valuation using a stress-test-adjusted GGM

	Assumptions and forecasts
Equity risk premium	8.0%
Risk free rate	3.0%
Beta	0.80
COE	9.4%
g	3.0%
Sustainable ROE (based on FY24F ROE)	18.9%
Initial target P/BV	2.49x
Asset quality valuation discount	-14%
Final target P/BV	2.15x
FY22F BVPS (Rmb)	32.88
Target price (Rmb)	70.80
Target price (HK\$)	84.10
Rmb/HK\$	1.19
TP-implied sustainable ROE	0.17
Current share price (HK\$)	50.30
Upside	67%

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Other reasons to like CMB include its wealth management business (see [Different from the rest](#), dated 23 Aug 2019), its large provisioning buffers ([Tapping a potential profit pool](#), dated 4 Feb 2020), and its track record of significantly better-than-peer profit growth and its position as a beneficiary of a stricter fintech regulatory environment (see [Best positioned for the sector recovery](#), dated 23 Nov 2020).

Potential re-rating catalysts: we see results seasons as a potential catalyst as we project continued improvements in net profit and asset quality. Key downside risks: worsening economy, which could lead to greater political pressure to support the economy and hurt profitability, and greater competition, which could cause net interest margins to compress.

Figure 23: China banks valuation table (H-share and A-share banks)

Company	Ticker	Rating	Mkt cap (US\$ bn)	Price (Lcy)	Target price (Lcy)	Upside/ Downside	P/BV (x)		P/E (x)		P/PPOP (x)		Dividend yield		ROE(%)		
							FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	
ICBC	1398 HK	Add	253.4	4.71	5.90	25%	0.45	0.41	3.9	3.5	2.2	2.0	8.0	8.7	12.0	12.1	
CCB	0939 HK	Add	185.5	5.72	8.00	40%	0.44	0.41	3.7	3.4	2.1	1.9	8.1	8.9	12.3	12.3	
BOC	3988 HK	Add	143.3	3.14	4.20	34%	0.38	0.35	3.5	3.2	1.9	1.8	9.0	9.9	11.2	11.3	
ABC	1288 HK	Add	166.3	2.99	4.40	47%	0.40	0.36	3.6	3.3	1.8	1.6	8.9	9.7	11.5	11.6	
BOCOM	3328 HK	Hold	56.6	5.59	5.30	-5%	0.41	0.38	3.9	3.6	2.0	1.9	8.2	9.0	10.9	11.1	
CMB	3968 HK	Add	154.9	50.30	84.10	67%	1.29	1.13	7.9	6.6	4.6	4.2	4.2	5.0	17.4	18.2	
CITIC	0998 HK	Add	34.4	3.99	4.90	23%	0.30	0.27	2.8	2.5	1.1	1.0	9.9	11.2	10.9	11.4	
MSB	1988 HK	Hold	24.6	3.01	2.60	-14%	0.22	0.21	3.3	2.8	1.0	1.0	9.1	10.5	6.8	7.5	
CQRCB	3618 HK	Add	6.5	3.10	4.10	32%	0.27	0.25	2.7	2.3	1.3	1.2	11.3	12.8	10.6	11.1	
H-share weighted average								0.57	0.51	4.4	3.9	2.4	2.2	7.7	8.5	12.6	12.9
ICBC - A	601398 CH	Add	253.4	4.74	5.10	8%	0.53	0.49	4.6	4.2	2.6	2.4	6.7	7.3	12.0	12.1	
CCB - A	601939 CH	Add	185.5	6.09	7.10	17%	0.56	0.51	4.7	4.3	2.6	2.4	6.4	7.0	12.3	12.3	
BOC - A	601988 CH	Add	143.3	3.27	3.80	16%	0.47	0.43	4.3	3.9	2.4	2.2	7.3	8.0	11.2	11.3	
ABC - A	601288 CH	Add	166.3	3.06	3.90	27%	0.48	0.44	4.3	4.0	2.2	2.0	7.3	8.0	11.5	11.6	
BOCOM - A	601328 CH	Hold	56.6	5.10	4.80	-6%	0.44	0.41	4.2	3.9	2.2	2.0	7.6	8.3	10.9	11.1	
CMB - A	600036 CH	Add	154.9	41.10	71.50	74%	1.25	1.10	7.6	6.4	4.5	4.0	4.3	5.1	17.4	18.2	
CITIC - A	601998 CH	Add	34.4	5.01	5.00	0%	0.44	0.41	4.2	3.7	1.6	1.5	6.6	7.5	10.9	11.4	
MSB - A	600016 CH	Reduce	24.6	3.74	2.50	-33%	0.32	0.30	4.9	4.2	1.5	1.5	6.2	7.2	6.8	7.5	
PAB - A	000001 CH	Add	48.1	15.85	22.70	43%	0.83	0.74	6.3	5.6	2.3	2.1	2.1	2.3	14.0	13.9	
CQRCB - A	601077 CH	Add	6.5	3.93	4.50	15%	0.41	0.38	4.0	3.5	2.0	1.8	7.5	8.5	10.6	11.1	
A-share weighted average								0.64	0.58	5.1	4.6	2.7	2.5	6.2	6.9	12.7	12.8
Combined sector weighted average								0.61	0.55	4.8	4.3	2.6	2.4	7.0	7.7	12.7	12.8

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG


(*ICBC: INDUSTRIAL AND COMMERCIAL BANK OF CHINA; CCB: CHINA CONSTRUCTION BANK; BOC: BANK OF CHINA; ABC: AGRICULTURAL BANK OF CHINA; BOCOM: BANK OF COMMUNICATIONS; CMB: CHINA MERCHANTS BANK; CITIC: CHINA CITIC BANK; MSB: CHINA MINSHENG BANK; CQRCB: CHONGQING RURAL COMMERCIAL BANK)

DATA AS OF 20 APR 2022

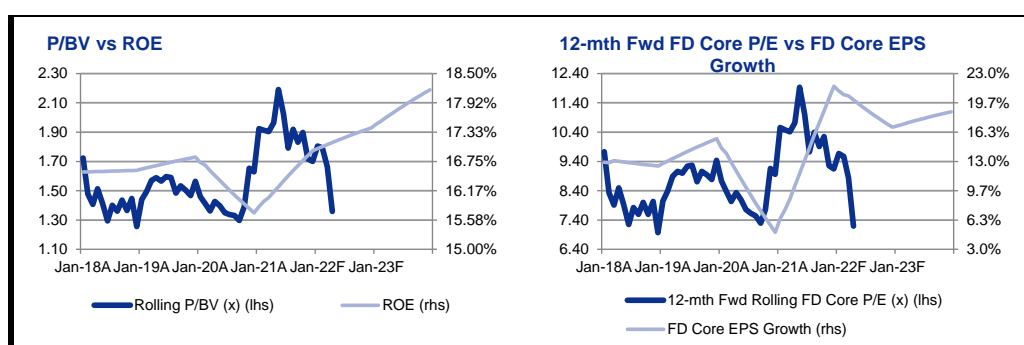
Figure 24: Key financial data

Profit & loss									
(Rmb m)	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F
Net interest income	144,852	160,384	173,090	185,031	203,919	218,547	237,925	260,074	285,056
yoy	7.6%	10.7%	7.9%	6.9%	10.2%	7.2%	8.9%	9.3%	9.6%
Non interest income	74,955	86,507	94,730	102,367	123,458	141,045	160,168	181,989	206,897
yoy	-0.2%	15.4%	9.5%	8.1%	20.6%	14.2%	13.6%	13.6%	13.7%
Total revenue	219,807	246,891	267,820	287,398	327,377	359,593	398,094	442,063	491,952
yoy	4.8%	12.3%	8.5%	7.3%	13.9%	9.8%	10.7%	11.0%	11.3%
Operating expense	-70,199	-80,866	-91,252	-102,814	-116,879	-128,381	-142,126	-157,824	-175,635
Pre-prov profit	149,608	166,025	176,568	184,584	210,498	231,212	255,968	284,239	316,317
yoy	3.3%	11.0%	6.4%	4.5%	14.0%	9.8%	10.7%	11.0%	11.3%
Provision	-59,926	-60,837	-61,159	-65,025	-66,355	-63,122	-56,891	-47,367	-30,269
Net Profit to common shareholders	70,150	78,901	91,197	95,691	116,309	135,951	161,312	192,206	232,334
yoy	13.0%	12.5%	15.6%	4.9%	21.5%	16.9%	18.7%	19.2%	20.9%
Key balance sheet items									
(Rmb m)	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F
Loans	3,565,044	3,933,034	4,490,650	5,029,128	5,570,034	6,182,738	6,896,844	7,709,361	8,635,766
Interbank assets	484,096	612,957	522,507	616,516	799,372	839,434	885,336	937,931	998,195
Investments	1,578,356	1,641,399	1,804,437	2,068,695	2,176,997	2,372,927	2,586,490	2,819,274	3,073,009
Deposits	4,064,345	4,400,674	4,844,422	5,628,336	6,347,078	7,045,257	7,858,984	8,784,851	9,840,493
Interbank liabilities	837,472	752,917	784,735	1,009,846	1,081,328	1,113,768	1,225,145	1,261,899	1,312,375
Bonds	296,477	424,926	578,191	346,141	446,645	460,044	506,049	521,230	542,079
Common shareholders' equity	446,145	506,053	577,236	639,696	731,702	829,268	945,713	1,084,681	1,253,583
Total shareholders' equity	483,392	543,605	617,707	730,354	865,681	964,308	1,082,007	1,222,465	1,393,161
RWA	3,530,745	4,092,890	4,606,786	4,964,542	5,563,724	6,078,637	6,761,149	7,442,924	8,236,013
Total assets	6,297,638	6,745,729	7,417,240	8,361,448	9,249,021	10,105,002	11,239,596	12,372,965	13,691,379
yoy									
Loans	9.3%	10.3%	14.2%	12.0%	10.8%	11.0%	11.6%	11.8%	12.0%
Interbank assets	-16.8%	26.6%	-14.8%	18.0%	29.7%	5.0%	5.5%	5.9%	6.4%
Investments	8.8%	4.0%	9.9%	14.6%	5.2%	9.0%	9.0%	9.0%	9.0%
Deposits	6.9%	8.3%	10.1%	16.2%	12.8%	11.0%	11.6%	11.8%	12.0%
Interbank liabilities	-13.4%	-10.1%	4.2%	28.7%	7.1%	3.0%	10.0%	3.0%	4.0%
Bonds	7.8%	43.3%	36.1%	-40.1%	29.0%	3.0%	10.0%	3.0%	4.0%
Common shareholders' equity	10.9%	13.4%	14.1%	10.8%	14.4%	13.3%	14.0%	14.7%	15.6%
Total shareholders' equity	19.8%	12.5%	13.6%	18.2%	18.5%	11.4%	12.2%	13.0%	14.0%
RWA	4.8%	15.9%	12.6%	7.8%	12.1%	9.3%	11.2%	10.1%	10.7%
Total assets	6.0%	7.1%	10.0%	12.7%	10.6%	9.3%	11.2%	10.1%	10.7%
Key ratios & drivers									
	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F
EPS (Rmb)	2.78	3.13	3.62	3.79	4.61	5.39	6.40	7.62	9.21
EPS Growth	13.0%	12.5%	15.6%	4.9%	21.5%	16.9%	18.7%	19.2%	20.9%
BVPS (Rmb)	17.69	20.07	22.89	25.36	29.01	32.88	37.50	43.01	49.71
BVPS Growth	10.9%	13.4%	14.1%	10.8%	14.4%	13.3%	14.0%	14.7%	15.6%
ROAE	16.5%	16.6%	16.8%	15.7%	17.0%	17.4%	18.2%	18.9%	19.9%
ROAA	1.15%	1.21%	1.29%	1.21%	1.32%	1.40%	1.51%	1.63%	1.78%
ROARWA	2.03%	2.07%	2.10%	2.00%	2.21%	2.34%	2.51%	2.71%	2.96%
PPOARWA	4.34%	4.36%	4.06%	3.86%	4.00%	3.97%	3.99%	4.00%	4.03%
DPS (Rmb)	0.84	0.94	1.20	1.25	1.52	1.78	2.11	2.52	3.04
Payout ratio	30%	30%	33%	33%	33%	33%	33%	33%	33%
Core tier 1 ratio	12.1%	11.8%	11.9%	12.3%	12.7%	13.2%	13.5%	14.1%	14.7%
Tier 1 ratio	13.0%	12.6%	12.7%	14.0%	14.9%	15.3%	15.4%	15.8%	16.3%
Total CAR	15.5%	15.7%	15.5%	16.5%	17.5%	18.2%	18.2%	18.5%	18.9%
Equity/Assets	12.1%	11.8%	11.9%	12.3%	12.7%	13.2%	13.5%	14.1%	14.7%
Loan-deposit ratio	88%	89%	93%	89%	88%	88%	88%	88%	88%
NPL ratio	1.61%	1.36%	1.16%	1.07%	0.91%	0.86%	0.82%	0.80%	0.78%
NPL write-off rate	40%	46%	60%	84%	65%	65%	65%	65%	65%
Net NPL formation rate	0.63%	0.63%	0.78%	1.00%	0.64%	0.64%	0.62%	0.61%	0.60%
NPL coverage	262%	358%	427%	438%	484%	482%	457%	415%	357%
LLR to loan	4.22%	4.88%	4.97%	4.67%	4.42%	4.14%	3.77%	3.33%	2.79%
Cost-income ratio	31.9%	32.8%	34.1%	35.8%	35.7%	35.7%	35.7%	35.7%	35.7%
Net interest margin	2.43%	2.57%	2.59%	2.49%	2.48%	2.42%	2.39%	2.37%	2.34%
Non interest income/ total income	34%	35%	35%	36%	38%	39%	40%	41%	42%
Credit cost	1.74%	1.58%	1.29%	0.98%	0.70%	0.60%	0.49%	0.36%	0.21%

SOURCES: CGS-CIMB RESEARCH ESTIMATES

		Refinitiv ESG Scores					
ESG in a nutshell		B- ESG Score	A+ ESG Controversies Score	B- ESG Combined Score	B- ESG Environment Pillar Score	B+ ESG Social Pillar Score	C- ESG Government Pillar Score
<p>CMB received a B- rating for its combined ESG score from Refinitiv in 2020. CMB has committed to help alleviate poverty and has continued to dispatch poverty alleviation cadres to Wuding and Yongren Counties in Yunnan Province, where it has invested a total of Rmb213m in financial assistance. The funds have helped contribute to lifting these counties out of poverty in the recent two years. To promote green development and ecological construction, CMB has established a climate change risk management framework and improved its green credit policy system. CMB has underwritten five green bonds, with a total issuance amount of Rmb8.3bn. Going forward, CMB will further innovate and promote green financial products and services as well as improve its linkage between inclusive finance and green finance.</p>							
<p>Keep your eye on</p> <p>CMB faced an issue back in 2019, whereby its customers who invested in a wealth management product called Qianduan saw significant losses; CMB was subsequently found by the regulator to have violated regulations. Subsequently, the former general manager of CMB's transaction banking department and the person in charge of the Qianduan project at the bank were arrested on charges of embezzlement.</p>	<p>Implications</p> <p>This issue happened quite some time ago and we believe CMB's internal risk control standards have improved since then.</p>						
<p>ESG highlights</p> <p>CMB's B- ESG score is at the upper end of the Refinitiv combined ESG scores of bank peers in China (with the highest rating B for CCB), driven by its commitment to poverty alleviation. Its Refinitiv ESG Controversies Score remained A+ over the 2018-2020 period.</p>	<p>Implications</p> <p>CMB has made great efforts to support sustainable development and green finance. While not priced in at the current stage, we believe CMB's ESG progress and prominence will support re-rating cycles.</p>						
<p>Trends</p> <p>CMB's Refinitiv combined ESG score in 2020 was flat yoy at B-, after falling from its B score in 2017 and 2018. While its Refinitiv Social Pillar score improved to B+ in 2020 from B in 2019, its Refinitiv Governance Pillar Score fell to C- in 2020 from 2019's C+. According to CMB's 2020 sustainability report, it received the award for "Best ESG" from Institutional Investor as well as from Zhitongcaijing.com. It also obtained from Global Finance the award for the "Best Bank for Corporate Social Responsibility".</p>	<p>Implications</p> <p>An improvement in its Refinitiv Governance Pillar Score should help drive CMB's Refinitiv Combined ESG score higher and also be positive for its valuations.</p>						
		<small>SOURCES: CGS-CIMB RESEARCH, REFINITIV</small>					

BY THE NUMBERS



Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net Interest Income	185,031	203,919	218,547	237,925	260,074
Total Non-Interest Income	102,367	123,458	141,045	160,168	181,989
Operating Revenue	287,398	327,377	359,593	398,094	442,063
Total Non-Interest Expenses	(102,814)	(116,879)	(128,381)	(142,126)	(157,824)
Pre-provision Operating Profit	184,584	210,498	231,212	255,968	284,239
Total Provision Charges	(65,025)	(66,355)	(63,122)	(56,891)	(47,367)
Operating Profit After Provisions	119,559	144,143	168,090	199,077	236,873
Pretax Income/(Loss) from Assoc.	2,881	4,030	4,352	4,701	5,077
Operating EBIT (incl Associates)	122,440	148,173	172,442	203,778	241,949
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	122,440	148,173	172,442	203,778	241,949
Exceptional Items	0	0	0	0	0
Pre-tax Profit	122,440	148,173	172,442	203,778	241,949
Taxation	(24,481)	(27,339)	(31,817)	(37,598)	(44,641)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	97,959	120,834	140,625	166,179	197,308
Minority Interests	(617)	(912)	(1,061)	(1,254)	(1,489)
Pref. & Special Div	(1,651)	(3,613)	(3,613)	(3,613)	(3,613)
FX And Other Adj.	0	0	0	0	0
Net Profit	95,691	116,309	135,951	161,312	192,206
Recurring Net Profit	95,691	116,309	135,951	161,312	192,206

Balance Sheet Employment

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Loans/Cust Deposits	89.4%	87.8%	87.8%	87.8%	87.8%
Avg Loans/Avg Deposits	90.9%	88.5%	87.8%	87.8%	87.8%
Avg Liquid Assets/Avg Assets	38.8%	38.4%	38.0%	37.0%	36.0%
Avg Liquid Assets/Avg IEAs	39.1%	39.0%	38.5%	37.7%	36.8%
Net Cust Loans/Assets	57.5%	57.7%	58.7%	59.0%	60.2%
Net Cust Loans/Broad Deposits	68.9%	70.3%	71.2%	71.6%	72.8%
Equity & Provns/Gross Cust Loans	19.1%	19.8%	19.6%	19.3%	19.0%
Asset Risk Weighting	59.4%	60.2%	60.2%	60.2%	60.2%
Provision Charge/Avg Cust Loans	0%	0%	0%	0%	0%
Provision Charge/Avg Assets	0%	0%	0%	0%	0%
Total Write Offs/Average Assets	0.68%	0.64%	0.44%	0.49%	0.43%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Gross Loans	6,184,090	6,936,614	7,617,740	8,407,527	9,303,907
Liquid Assets & Invest. (Current)	2,068,695	2,176,997	2,372,927	2,586,490	2,819,274
Other Int. Earning Assets					
Total Gross Int. Earning Assets	8,252,785	9,113,611	9,990,666	10,994,017	12,123,181
Total Provisions/Loan Loss Reserve	(224,767)	(234,643)	(255,664)	(259,933)	(256,668)
Total Net Interest Earning Assets	8,028,018	8,878,968	9,735,003	10,734,084	11,866,513
Intangible Assets	14,717	14,020	14,020	14,020	14,020
Other Non-Interest Earning Assets	318,713	356,033	355,979	491,491	492,432
Total Non-Interest Earning Assets	333,430	370,053	369,999	505,511	506,452
Cash And Marketable Securities	0	0	0	0	0
Long-term Investments	0	0	0	0	0
Total Assets	8,361,448	9,249,021	10,105,002	11,239,596	12,372,965
Customer Interest-Bearing Liabilities	5,628,336	6,347,078	7,045,257	7,858,984	8,784,851
Bank Deposits	1,341,468	1,241,315	1,278,554	1,406,410	1,448,602
Interest Bearing Liabilities: Others	406,492	510,406	523,805	569,810	584,991
Total Interest-Bearing Liabilities	7,376,296	8,098,799	8,847,616	9,835,203	10,818,444
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	254,798	284,541	293,077	322,385	332,057
Total Liabilities	7,631,094	8,383,340	9,140,694	10,157,588	11,150,501
Shareholders' Equity	723,750	858,745	956,311	1,072,756	1,211,724
Minority Interests	6,604	6,936	7,997	9,252	10,741
Total Equity	730,354	865,681	964,308	1,082,007	1,222,465

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Income Growth	7.3%	13.9%	9.8%	10.7%	11.0%
Operating Profit Growth	4.5%	14.0%	9.8%	10.7%	11.0%
Pretax Profit Growth	4.5%	21.0%	16.4%	18.2%	18.7%
Net Interest To Total Income	64.4%	62.3%	60.8%	59.8%	58.8%
Cost Of Funds	1.75%	1.59%	1.60%	1.60%	1.59%
Return On Interest Earning Assets	3.93%	3.77%	3.71%	3.69%	3.67%
Net Interest Spread	2.18%	2.18%	2.11%	2.09%	2.08%
Net Interest Margin (Avg Deposits)	3.53%	3.41%	3.26%	3.19%	3.13%
Net Interest Margin (Avg RWA)	3.87%	3.87%	3.75%	3.71%	3.66%
Provisions to Pre Prov. Operating Profit	35.2%	31.5%	27.3%	22.2%	16.7%
Interest Return On Average Assets	2.35%	2.32%	2.26%	2.23%	2.20%
Effective Tax Rate	20.0%	18.5%	18.5%	18.5%	18.5%
Net Dividend Payout Ratio	33.0%	33.0%	33.0%	33.0%	33.0%
Return On Average Assets	1.21%	1.32%	1.40%	1.51%	1.63%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Loan Growth (%)	12.0%	10.8%	11.0%	11.6%	11.8%
Net Interest Margin (%)	2.5%	2.5%	2.4%	2.4%	2.4%
Non Interest Income Growth (%)	8.1%	20.6%	14.2%	13.6%	13.6%
Cost-income Ratio (%)	35.8%	35.7%	35.7%	35.7%	35.7%
Provision charge as % avg loans	1.0%	0.7%	0.6%	0.5%	0.4%
Effective tax rate (%)	20.0%	18.5%	18.5%	18.5%	18.5%
Net NPL Ratio (%)	1.1%	0.9%	0.9%	0.8%	0.8%
Provisioning coverage ratio (%)	437.7%	483.9%	482.1%	456.8%	415.1%
Loan Loss Reserve (%)	4.7%	4.4%	4.1%	3.8%	3.3%
Deposit Growth (%)	16.2%	12.8%	11.0%	11.6%	11.8%
Loan-deposit Ratio (%)	89.4%	87.8%	87.8%	87.8%	87.8%
Core Tier 1 ratio (%)	12.3%	12.7%	13.2%	13.5%	14.1%
Risk weighted assets to total assets ratio (%)	59.4%	60.2%	60.2%	60.2%	60.2%
Dividend payout ratio (%)	33.0%	33.0%	33.0%	33.0%	33.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Corporate Governance Report:

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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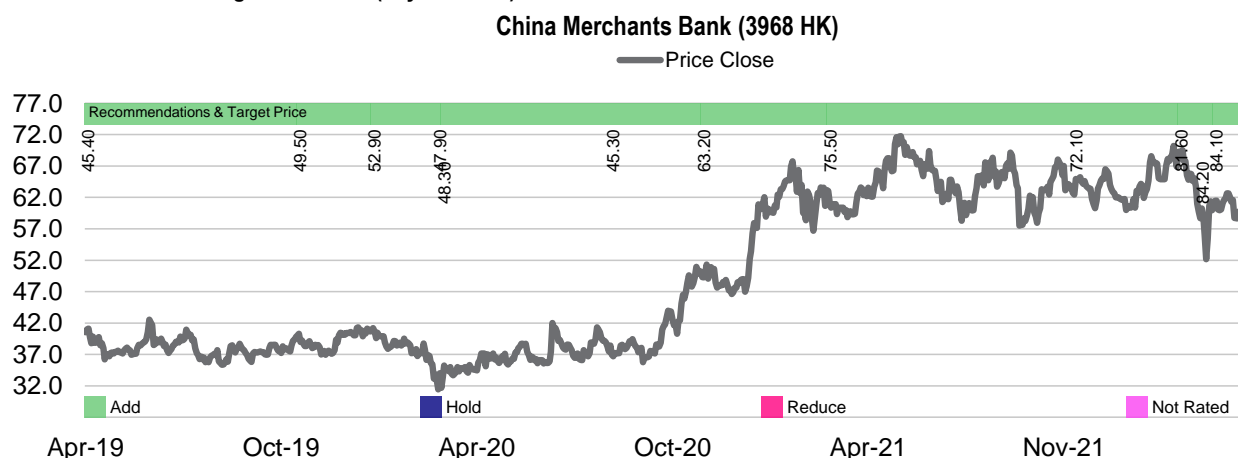
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021		
619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.