

# China Citic Bank

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DBS Group Research . Equity

22 Apr 2022

**H: BUY** (Reinstating coverage)

Last Traded Price (H) ( 21 Apr 2022):HK\$4.00(HSI : 20,682)

Price Target 12-mth (H):HK\$4.60 (15.0% upside)

**A: HOLD** (Reinstating coverage)

Last Traded Price (A) ( 21 Apr 2022):RMB4.99(CSI300 Index : 3,996)

Price Target 12-mth (A):RMB5.00 (0.2% upside)

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**What's New**

- Focus on wealth management business to boost its New Retail strategy
- Capital light strategy drives up growth and returns
- Steady improvement in asset quality with NPL falling by 25bps y-o-y to 1.39% in FY21
- Reinstate coverage with BUY and TP at HK\$ 4.60

**New Retail transformation underway**

**Investment Thesis**

New Retail strategy with Wealth Management (WM) as the core.

CITIC has established its WM department at the end of 2021. WM forms part of its New Retail strategy with synergies in asset management and comprehensive financing.

**Accelerating its transformation to a capital light business.** Non-interest net revenue increased by 28.2% y-o-y to Rmb 56.7bn in FY21 and made up 27.7% of total revenue, up by 5ppts y-o-y. We expect fee income to keep up its growth momentum in FY22-24F.

**Asset quality is a key area to watch.** CITIC's NPL ratio dropped 25bps y-o-y to 1.39% in FY21. We expect its asset quality to steadily improve in FY22-24F with careful supervision on property sector risk.

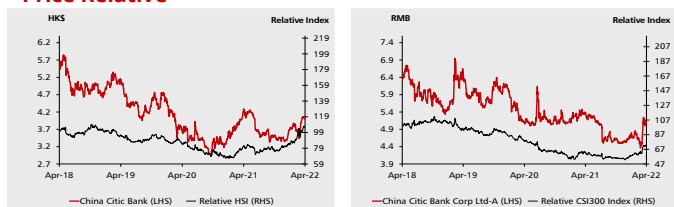
**Valuation:**

We reinstate coverage with unchanged TP at HK\$4.6 based on DDM, assuming 15.8% cost of equity, 8% ROE and 5% terminal growth. Our TP implies 0.4x FY22F P/BV, on par to its 5-year average. We have BUY on its H-shares and HOLD on its A-shares.

**Where we differ:**

We have a more positive view on its fee income and expect 12-15% y-o-y growth in FY22-24F. This is supported by CITIC's strategy to focus on WM and its New Retail Strategy. The cross-selling of products among retail banking customers further broadens its client acquisition channel for its WM business.

**Price Relative**



**Forecasts and Valuation (H Shares)**

	2021A	2022F	2023F	2024F
<b>FY Dec (RMB m)</b>				
Pre-prov. Profit	142,330	151,294	165,882	184,627
Pre-prov. Profit Gth (%)	1	6	10	11
Pretax Profit	65,517	69,766	76,359	86,371
Net Profit	52,631	54,507	60,106	68,612
EPS (RMB)	1.08	1.11	1.23	1.40
EPS (HK\$)	1.29	1.34	1.47	1.68
EPS Gth (%)	14	4	10	14
PE (X)	3.1	3.0	2.7	2.4
DPS (HK\$)	0.36	0.39	0.42	0.48
Div Yield (%)	9.1	9.7	10.6	11.9
BV Per Share (HK\$)	15.36	15.67	16.78	18.06
P/Book Value (x)	0.3	0.3	0.2	0.2
ROAE (%)	10.7	11.0	11.4	11.9
ROAE (ex-exceptional) (%)	10.8	10.6	11.1	11.6
ROA (%)	0.68	0.65	0.67	0.69
Earnings Rev (%)		New	New	New
Consensus EPS (RMB)		1.14	1.24	1.40
Other Broker Recs:		B:16	S:1	H:6

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

**Key Risks to Our View:**

Higher-than-expected NIM deterioration, deteriorating asset quality and insufficient capital adequacy.

**At A Glance**

Issued Capital - H shares (m shs)	14,882
- Non H shrs (m shs)	34,053
H shs as a % of Total	30
Total Mkt Cap (HK\$m/US\$m)	268,643 / 34,256
Major Shareholders (%)	
CITIC Corporation Limited	85.0
China National Tobacco Corp	6.3
Major H Shareholders (As % of H shares)	
CITIC Corporation Limited	22.5
Summit Idea Ltd.	16.4
H Shares-Free Float (%)	61.1
3m Avg. Daily Val. (US\$m)	13.76
GICS Industry: Financials / Banks	



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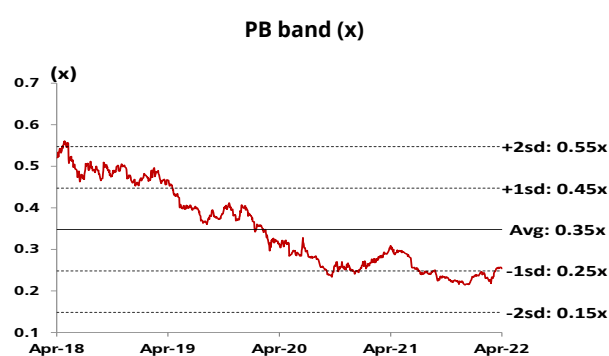
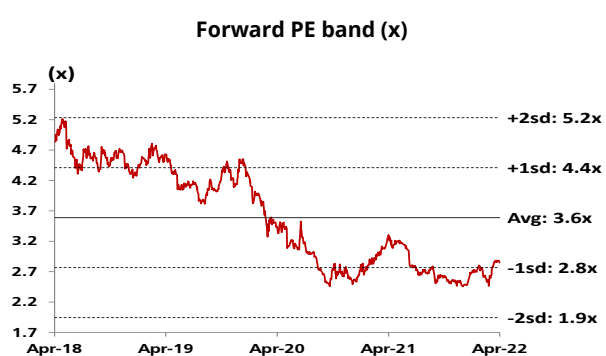


## China Citic Bank

### Company Background

Founded in 1987, CITIC Bank (CITIC) was the earliest commercial bank established during China's reform. The bank simultaneously listed its A- and H-shares in April 2007 and acquired CITIC International Financial Holdings Corporation Limited (CIFH) in 2009. In 2015, the bank developed its "Going Global" strategy by opening offices overseas. As of 2021 CITIC had 1,415 outlets in China and total assets of more than Rmb8tr.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## China Citic Bank

### Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
NIM (%)	2.26	2.05	1.96	1.98	2.01
Loan growth (%)	12	9	10	10	10
Fee growth (%)	(38)	24	16	9	11
Cost-to-income (%)	27.8	30.4	30.9	30.9	30.7
Credit cost (%)	1.95	1.65	1.60	1.60	1.60
Customer Deposits Growth (%)	12	5	8	10	10
Yld. On Earnings Assets (%)	4.46	4.23	4.13	4.12	4.15
Avg Cost Of Funds (%)	2.29	2.25	2.25	2.23	2.21

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Interest Income	150,515	147,896	152,497	167,405	185,889
Non-Interest Income	44,884	56,658	66,453	72,809	80,445
<b>Operating Income</b>	<b>195,399</b>	<b>204,554</b>	<b>218,950</b>	<b>240,214</b>	<b>266,334</b>
Operating Expenses	(54,255)	(62,224)	(67,656)	(74,332)	(81,707)
<b>Pre-provision Profit</b>	<b>141,144</b>	<b>142,330</b>	<b>151,294</b>	<b>165,882</b>	<b>184,627</b>
Provisions	(82,989)	(77,048)	(81,734)	(89,749)	(98,529)
Associates	(229)	212	226	247	280
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>57,857</b>	<b>65,517</b>	<b>69,766</b>	<b>76,359</b>	<b>86,371</b>
Taxation	(8,325)	(9,140)	(9,736)	(10,656)	(12,050)
Minority Interests	(552)	(736)	(784)	(858)	(970)
Preference Dividend	(3,010)	(3,010)	(4,739)	(4,739)	(4,739)
<b>Net Profit</b>	<b>45,970</b>	<b>52,631</b>	<b>54,507</b>	<b>60,106</b>	<b>68,612</b>
Net Profit bef Except	45,970	52,631	54,507	60,106	68,612

### Growth (%)

Net Interest Income Gth	18.26	(1.74)	3.11	9.78	11.04
Net Profit Gth	(1.53)	14.49	3.56	10.27	14.15

### Margins, Costs & Efficiency (%)

Spread	2.17	1.97	1.88	1.90	1.94
Net Interest Margin	2.25	2.04	1.96	1.97	2.01
Cost-to-Income Ratio	27.8	30.4	30.9	30.9	30.7

### Business Mix (%)

Net Int. Inc / Opg Inc.	77.0	72.3	69.6	69.7	69.8
Non-Int. Inc / Opg inc.	23.0	27.7	30.4	30.3	30.2
Fee Inc / Opg Income	14.8	17.5	19.0	18.9	18.9
Oth Non-Int Inc/Opg Inc	8.2	10.2	11.4	11.4	11.3

### Profitability (%)

ROAE Pre Ex.	10.2	10.8	10.6	11.1	11.6
ROAE	10.1	10.7	11.0	11.4	11.9
ROA Pre Ex.	0.7	0.7	0.7	0.7	0.7
ROA	0.6	0.7	0.7	0.7	0.7

Source: Company, DBS HK

## China Citic Bank

### Quarterly Income Statement (RMB m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Net Interest Income	51,457	37,408	36,674	36,605	37,209
Non-Interest Income	(5,565)	14,523	17,051	13,015	12,069
<b>Operating Income</b>	<b>45,892</b>	<b>51,931</b>	<b>53,725</b>	<b>49,620</b>	<b>49,278</b>
Operating Expenses	(18,199)	(12,822)	(12,591)	(13,807)	(23,004)
<b>Pre-Provision Profit</b>	<b>27,693</b>	<b>39,109</b>	<b>41,134</b>	<b>35,813</b>	<b>26,274</b>
Provisions	(14,269)	(20,543)	(24,827)	(21,042)	(10,636)
Associates	(181)	47	(19)	64	120
Exceptionals	0	0	0	0	0
<b>Pretax Profit</b>	<b>13,208</b>	<b>18,613</b>	<b>16,310</b>	<b>14,835</b>	<b>15,759</b>
Taxation	(1,535)	(2,781)	(2,662)	(1,955)	(1,742)
Minority Interests	(49)	(191)	(229)	(155)	(161)
<b>Net Profit</b>	<b>8,614</b>	<b>15,641</b>	<b>13,419</b>	<b>12,725</b>	<b>10,846</b>

### Growth (%)

Net Interest Income Gth	28.6	17.2	11.1	7.3	(27.7)
Net Profit Gth	48.5	8.2	21.7	11.8	25.9

Source: Company, DBS HK

### Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Net Interest Income	70,109	64,935	85,580	74,082	73,814
Non-Interest Income	24,580	37,265	7,619	31,574	25,084
<b>Operating Income</b>	<b>94,689</b>	<b>102,200</b>	<b>93,199</b>	<b>105,656</b>	<b>98,898</b>
Operating Expenses	(29,495)	(23,675)	(30,580)	(25,413)	(36,811)
<b>Pre-Provision Profit</b>	<b>65,194</b>	<b>78,525</b>	<b>62,619</b>	<b>80,243</b>	<b>62,087</b>
Provisions	(43,299)	(47,725)	(35,760)	(45,370)	(31,678)
Associates	(5)	(20)	(209)	28	184
Exceptionals	0	0	0	0	0
<b>Pretax Profit</b>	<b>21,869</b>	<b>30,746</b>	<b>26,615</b>	<b>34,923</b>	<b>30,594</b>
Taxation	(1,946)	(4,782)	(3,543)	(5,443)	(3,697)
Minority Interests	(349)	(481)	(71)	(420)	(316)
<b>Net Profit</b>	<b>18,244</b>	<b>25,483</b>	<b>19,991</b>	<b>29,060</b>	<b>23,571</b>

### Growth (%)

Net Interest Income Gth	27.6	13.6	22.1	14.1	(13.7)
Net Profit Gth	5.0	(9.7)	9.6	14.0	17.9

Source: Company, DBS HK

## China Citic Bank

### Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Cash/Bank Balance	435,169	435,383	439,719	483,691	532,060
Government Securities	0	0	0	0	0
Inter Bank Assets	412,882	343,211	360,372	378,390	397,310
Total Net Loans & Adv.	4,360,196	4,748,076	5,199,826	5,707,605	6,252,034
Investment	1,683,540	1,822,086	1,967,853	2,125,281	2,295,304
Associates	5,674	5,753	5,753	5,753	5,753
Fixed Assets	34,254	34,731	34,731	34,731	34,731
Goodwill	14,960	14,396	14,396	14,396	14,396
Other Assets	564,486	639,248	604,871	695,300	854,118
<b>Total Assets</b>	<b>7,511,161</b>	<b>8,042,884</b>	<b>8,627,521</b>	<b>9,445,147</b>	<b>10,385,705</b>
Customer Deposits	4,572,286	4,789,969	5,173,167	5,690,483	6,259,531
Inter Bank Deposits	1,521,059	1,540,631	1,633,069	1,731,053	1,834,916
Debts/Borrowings	732,958	958,203	1,040,410	1,181,468	1,343,385
Others	124,820	111,455	124,691	139,738	192,330
Minorities	15,465	16,323	17,100	17,950	18,912
Shareholders' Funds	544,573	626,303	639,084	684,454	736,630
<b>Total Liab&amp; S/H's Funds</b>	<b>7,511,161</b>	<b>8,042,884</b>	<b>8,627,521</b>	<b>9,445,147</b>	<b>10,385,705</b>

Source: Company, DBS HK

### Financial Stability Measures (%)

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	98.1	101.7	103.3	103.2	102.9
Net Loans / Total Assets	58.0	59.0	60.3	60.4	60.2
Investment / Total Assets	22.4	22.7	22.8	22.5	22.1
Cust. Dep./Int. Bear. Liab.	67.2	65.9	65.5	65.7	65.9
Interbank Dep / Int. Bear.	21.9	21.8	21.0	20.5	19.8
<b>Asset Quality</b>					
NPL / Total Gross Loans	1.6	1.4	1.4	1.4	1.3
NPL / Total Assets	1.0	0.8	0.9	0.8	0.8
Loan Loss Reserve Coverage	171.7	180.1	193.3	205.0	216.2
Provision Charge-Off Rate	1.8	1.6	1.5	1.5	1.5
<b>Capital Strength</b>					
Total CAR	13.0	13.5	13.0	12.9	12.6
Tier-1 CAR	8.7	8.8	8.3	8.4	8.3

Source: Company, DBS HK

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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