

# China / Hong Kong Company Update

## China Construction Bank

Bloomberg: 939 HK EQUITY | 601939 CH Equity | Reuters: 0939.HK | 601939.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Apr 2022

**H: BUY** (Reinstating coverage)

Last Traded Price (H) (21 Apr 2022): HK\$5.72 (HSI : 20,682)

Price Target 12-mth (H): HK\$8.00 (39.9% upside)

**A: BUY** (Reinstating coverage)

Last Traded Price (A) (21 Apr 2022): RMB6.11 (CSI300 Index : 3,996)

Price Target 12-mth (A): RMB7.00 (14.6% upside)

### Analyst

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### What's New

- Expect 11% loans growth CAGR in FY21-24F riding on its strength in infrastructure financing
- Enhanced retail presence led by more product and services
- Prudent risk profile with fintech development; NPL ratio down by 14bps in FY21 despite expanding customer base
- Reinstate coverage with BUY and TP at HK\$ 8.00

## Traditional strength and new focus are double growth engine

### Investment Thesis

**Traditional strength in infrastructure loans.** CCB has a strong market share in infrastructure loans. As China ramps up infrastructure spending, we expect it to support CCB's loans growth of 11% CAGR in FY21-24F.

**More usage scenario to an expanding retail client base.** CCB is collaborating with different parties to provide various products and services such as e-government services and housing rentals. This should enhance its retail customer base and attract more low-cost deposits in the future.

**Fintech enables better risk management.** As part of CCB's "New Finance" strategy, Fintech would significantly broaden its customer base while keeping NPLs under control. NPL ratio declined by 14bps to 1.42% in FY21.

### Valuation:

We reinstate coverage with BUY and TP at HK\$8.00, based on DDM which assumes 13.5% cost of equity, 9% ROE and 3.5% terminal growth. Our target price implies 0.6x FY22F P/BV.

### Where we differ:

We expect CCB to deliver higher-than-consensus c.7% earnings CAGR in FY21-24F, given its strong position in infrastructure loans, better NIM helped by higher retail banking exposure, and greater risk resilience on prudent risk management policy and fintech development.

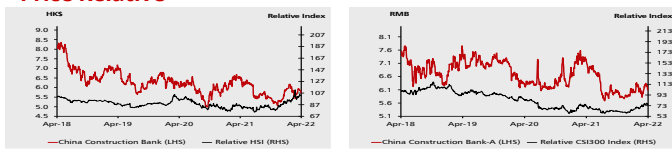
### Key Risks to Our View:

Substantial slowdown in China's economy, significant drop in China's property prices, and deterioration in asset quality.

### At A Glance

Issued Capital - H shares (m shs)	240,417
- Non H shrs (m shs)	9,594
H shs as a % of Total	96
Total Mkt Cap (HK\$m/US\$m)	1,446,852 / 184,494
Major Shareholders (%)	
Central Huijin Asset Mgt Co., Ltd.	5.2
Major H Shareholders (As % of H shares)	
Central Huijin Investment Ltd.	59.3
H Shares-Free Float (%)	40.7
3m Avg. Daily Val. (US\$m)	206.28
GICS Industry: Financials / Banks	

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMB m)	2021A	2022F	2023F	2024F
Pre-prov. Profit	545,524	584,355	643,666	705,530
Pre-prov. Profit Gth (%)	4	7	10	10
Pretax Profit	378,412	393,826	427,758	462,546
Net Profit	297,975	309,612	336,263	364,073
EPS (RMB)	1.19	1.24	1.34	1.46
EPS (HK\$)	1.37	1.49	1.61	1.75
EPS Gth (%)	12	4	9	8
PE (X)	4.2	3.8	3.5	3.3
DPS (HK\$)	0.42	0.45	0.49	0.53
Div Yield (%)	7.3	7.9	8.6	9.3
BV Per Share (HK\$)	11.48	12.89	14.06	15.31
P/Book Value (x)	0.5	0.4	0.4	0.4
ROAE (%)	12.5	12.5	12.5	12.4
ROAE (ex-exceptional) (%)	12.5	12.5	12.5	12.4
ROA (%)	1.02	0.98	0.99	0.99
Earnings Rev (%)		New	New	New
Consensus EPS (RMB)		1.26	1.37	1.48
Other Broker Recs:		B:28	S:0	H:3

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



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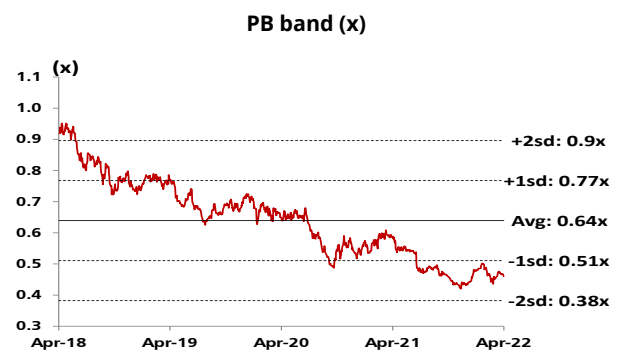
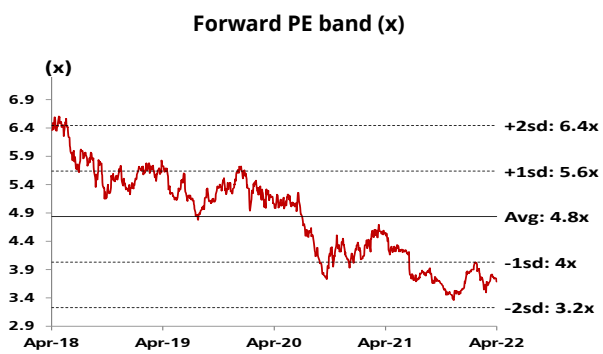
Live more, Bank less

## China Construction Bank

### Company Background

Established in 1954 and headquartered in Beijing, China Construction Bank (CCB) is China's safest bank with a high-quality capital allocation, sufficient provisioning, and a conservative off-balance sheet position. The bank was listed on HKEX in October 2005 and listed on the SSE in September 2007. As of FY21, CCB's total assets amounted to Rmb30.2tr, while its total deposits and gross loans had reached Rmb22.4tr and Rmb18.8tr respectively.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## China Construction Bank

### Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
NIM (%)	2.19	2.13	2.11	2.14	2.19
Loan growth (%)	12	12	11	11	10
Fee growth (%)	(17)	6	8	8	8
Cost-to-income (%)	26.4	28.7	28.9	28.6	28.3
Credit cost (%)	1.19	0.95	0.97	0.99	1.01
Customer Deposits Growth (%)	12	9	8	7	6
Yld. On Earnings Assets (%)	3.80	3.72	3.72	3.76	3.80
Avg Cost Of Funds (%)	1.73	1.77	1.80	1.81	1.83

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Interest Income	575,909	605,420	646,968	712,938	783,100
Non-Interest Income	138,315	159,286	175,214	188,067	201,162
<b>Operating Income</b>	<b>714,224</b>	<b>764,706</b>	<b>822,182</b>	<b>901,005</b>	<b>984,261</b>
Operating Expenses	(188,574)	(219,182)	(237,827)	(257,339)	(278,731)
<b>Pre-provision Profit</b>	<b>525,650</b>	<b>545,524</b>	<b>584,355</b>	<b>643,666</b>	<b>705,530</b>
Provisions	(189,929)	(168,715)	(192,197)	(217,720)	(244,944)
Associates	895	1,603	1,668	1,812	1,959
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>336,616</b>	<b>378,412</b>	<b>393,826</b>	<b>427,758</b>	<b>462,546</b>
Taxation	(63,037)	(74,484)	(77,518)	(84,197)	(91,044)
Minority Interests	(2,529)	(1,415)	(1,473)	(1,600)	(1,730)
Preference Dividend	(5,624)	(4,538)	(5,223)	(5,698)	(5,698)
<b>Net Profit</b>	<b>265,426</b>	<b>297,975</b>	<b>309,612</b>	<b>336,263</b>	<b>364,073</b>
Net Profit bef Except	265,426	297,975	309,612	336,263	364,073

### Growth (%)

Net Interest Income Gth	12.77	5.12	6.86	10.20	9.84
Net Profit Gth	1.01	12.26	3.91	8.61	8.27

### Margins, Costs & Efficiency (%)

Spread	2.07	1.94	1.92	1.95	1.98
Net Interest Margin	2.21	2.13	2.10	2.13	2.18
Cost-to-Income Ratio	26.4	28.7	28.9	28.6	28.3

### Business Mix (%)

Net Int. Inc / Opg Inc.	80.6	79.2	78.7	79.1	79.6
Non-Int. Inc / Opg inc.	19.4	20.8	21.3	20.9	20.4
Fee Inc / Opg Income	16.0	15.9	15.9	15.7	15.5
Oth Non-Int Inc/Opg Inc	3.3	4.9	5.4	5.2	4.9

### Profitability (%)

ROAE Pre Ex.	12.2	12.5	12.5	12.5	12.4
ROAE	12.2	12.5	12.5	12.5	12.4
ROA Pre Ex.	1.0	1.0	1.0	1.0	1.0
ROA	1.0	1.0	1.0	1.0	1.0

Source: Company, DBS HK

## China Construction Bank

### Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Cash/Bank Balance	2,816,164	2,763,892	2,852,386	2,911,152	2,842,648
Government Securities	0	0	0	0	0
Inter Bank Assets	1,423,876	892,347	559,236	350,475	175,237
Total Net Loans & Adv.	16,231,369	18,170,492	20,310,449	22,574,942	24,911,705
Investment	6,372,701	7,096,646	7,760,899	8,332,109	8,778,718
Associates	13,702	18,875	18,875	18,875	18,875
Fixed Assets	186,623	181,956	185,595	189,307	193,093
Goodwill	7,489	7,999	7,999	7,999	7,999
Other Assets	1,080,330	1,121,772	1,089,638	948,639	939,543
<b>Total Assets</b>	<b>28,132,254</b>	<b>30,253,979</b>	<b>32,785,077</b>	<b>35,333,497</b>	<b>37,867,818</b>
Customer Deposits	20,614,976	22,378,814	24,069,780	25,647,818	27,072,837
Inter Bank Deposits	3,131,167	2,951,134	3,246,247	3,570,872	3,927,959
Debts/Borrowings	403,147	531,265	634,485	783,052	989,035
Others	1,593,611	1,778,644	2,001,558	2,255,476	2,538,703
Minorities	24,545	25,891	26,843	27,901	29,043
Shareholders' Funds	2,364,808	2,588,231	2,806,163	3,048,377	3,310,241
<b>Total Liab&amp; S/H's Funds</b>	<b>28,132,254</b>	<b>30,253,979</b>	<b>32,785,077</b>	<b>35,333,497</b>	<b>37,867,818</b>

Source: Company, DBS HK

### Financial Stability Measures (%)

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	81.4	83.8	86.8	90.2	93.9
Net Loans / Total Assets	57.7	60.1	62.0	63.9	65.8
Investment / Total Assets	22.7	23.5	23.7	23.6	23.2
Cust. Dep./Int. Bear. Liab.	82.6	83.9	84.0	83.3	82.6
Interbank Dep / Int. Bear.	13.1	11.9	11.1	11.4	11.7
<b>Asset Quality</b>					
NPL / Total Gross Loans	1.6	1.4	1.4	1.4	1.4
NPL / Total Assets	0.9	0.9	0.9	0.9	0.9
Loan Loss Reserve Coverage	213.3	223.1	201.3	169.1	145.3
Provision Charge-Off Rate	1.1	0.9	0.9	0.9	1.0
<b>Capital Strength</b>					
Total CAR	17.1	17.9	18.4	18.8	19.3
Tier-1 CAR	13.6	13.6	13.8	14.0	14.2

Source: Company, DBS HK

## China Construction Bank

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\*Share price appreciation + dividends

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**China Construction Bank**

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