

China Everbright Bank Co Ltd

Bloomberg: 6818 HK Equity | 601818 CH Equity | Reuters: 6818.HK | 601818.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\$2.88 (HSI : 20,682)

Price Target 12-mth (H): HK\$3.25 (12.8% upside)

A: HOLD (Reinstating coverage)

Last Traded Price (A) (21 Apr 2022): RMB3.26 (CSI300 Index : 3,996)

Price Target 12-mth (A): RMB3.10 (4.9% downside)

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What's New

- Expect retail loans' proportion to rise in FY22-24F backed by its WM strategy
- Credit card strategy to pivot more towards customer and asset quality
- FPA focused corporate growth strategy saw c.27% growth in number of clients to 0.41m in 2021
- Reinstate coverage with BUY and TP at HK\$ 3.25

Opportunities from WM and FPA strategy

Investment Thesis

WM backed growth. With an increasing focus on wealth management ("WM") strategy, CEB's retail banking loan balance as of end-FY21 accounted for 43.3% of total loans, a 0.6ppt hike from FY20. We expect another 0.7ppt growth in FY22F, which is positive for its NIM.

Transformation of credit card strategy. The growth in credit card numbers moderated to 8.5% in FY21 from double-digit growth in previous years, as the bank looks to optimize its client structure and asset quality.

Targeting FPA to corporate finance. CEB provides comprehensive solutions to corporate clients. Its key indicator is FPA (Finance Product Aggregate), which increased by Rmb 150bn in FY21 to more than Rmb 4.2tr.

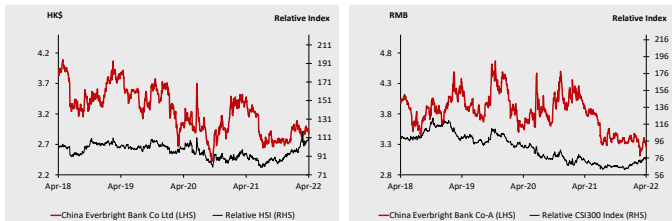
Valuation:

We reinstate coverage with BUY and TP at HK\$3.25 based on DDM, assuming 15.8% COE, 8% ROE and 5% terminal growth. Our TP implies 0.3x FY22F P/BV, or -1SD below the 5-year average. We believe the current valuation is undemanding with its attractive 9.5% FY22F dividend yield.

Where we differ:

We have a more positive view on CEB's fee income growth and expect high-teens growth y-o-y in FY22-24F, supported by its WM focused strategy. Fee income accounted for c.17.8% of total operating income, which is higher than peers average but still has large growth potential.

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMB m)	2021A	2022F	2023F	2024F
Pre-prov. Profit	107,826	113,779	125,415	137,557
Pre-prov. Profit Gth (%)	5	6	10	10
Pretax Profit	52,941	56,589	61,192	67,862
Net Profit	38,607	41,598	45,372	50,841
EPS (RMB)	0.71	0.77	0.84	0.94
EPS (HK\$)	0.82	0.92	1.01	1.13
EPS Gth (%)	6	8	9	12
PE (x)	3.5	3.1	2.9	2.6
DPS (HK\$)	0.23	0.26	0.28	0.31
Div Yield (%)	8.1	9.0	9.7	10.7
BV Per Share (HK\$)	7.97	8.91	9.66	10.51
P/Book Value (x)	0.4	0.3	0.3	0.3
ROAE (%)	10.8	10.7	10.9	11.2
ROAE (ex-exceptional) (%)	10.8	10.7	10.9	11.2
ROA (%)	0.69	0.68	0.70	0.75
Earnings Rev (%)		New	New	New
Consensus EPS (RMB)		0.79	0.86	0.93
Other Broker Recs:		B:14	S:0	H:3

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, asset quality deterioration brought by uncertainties in the China economy.

At A Glance

Issued Capital - H shares (m shs)	12,679
- Non H shrs (m shs)	41,353
H shs as a % of Total	23
Total Mkt Cap (HK\$m/US\$m)	203,142 / 25,904
Major Shareholders (%)	
China Everbright Group Co., Ltd.	56.5
Overseas Chinese Town Group Co., Ltd.	10.2
Major H Shareholders (As % of H shares)	
Overseas Chinese Town Holdings Co.	33.1
Central Huijin Investment Ltd.	29.8
China Shipping (Group) Co., Ltd.	12.7
H Shares-Free Float (%)	24.5
3m Avg. Daily Val. (US\$m)	5.10
GICS Industry: Financials / Banks	



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China Everbright Bank Co Ltd

Company Background

Founded in 1992, CEB is the first national joint-stock commercial bank in China. The bank listed its A-shares in August 2010 and H shares in December 2013. As of 2021, CEB had 1,304 outlets in China covering 150 large and medium-sized cities and had total assets of c.Rmb5.9tr. China Everbright Group is the largest shareholder with a c.56% stake.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Everbright Bank Co Ltd

Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
NIM (%)	2.29	2.16	2.08	2.11	2.15
Loan growth (%)	11	10	9	9	8
Fee growth (%)	5	12	15	17	18
Cost-to-income (%)	28.2	29.7	30.2	30.1	30.0
Credit cost (%)	1.15	1.61	1.65	1.70	1.70
Customer Deposits Growth (%)	15	6	8	6	5
Yld. On Earnings Assets (%)	4.77	4.47	4.38	4.38	4.40
Avg Cost Of Funds (%)	2.39	2.35	2.31	2.32	2.34

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Interest Income	110,697	112,155	116,863	127,130	137,331
Non-Interest Income	32,101	41,211	46,119	52,171	59,242
Operating Income	142,798	153,366	162,982	179,301	196,573
Operating Expenses	(40,335)	(45,540)	(49,203)	(53,886)	(59,016)
Pre-provision Profit	102,463	107,826	113,779	125,415	137,557
Provisions	(56,932)	(54,795)	(57,093)	(64,119)	(69,580)
Associates	(5)	(90)	(96)	(104)	(115)
Exceptionals	0	0	0	0	0
Pre-tax Profit	45,526	52,941	56,589	61,192	67,862
Taxation	(7,598)	(9,302)	(9,943)	(10,752)	(11,924)
Minority Interests	(93)	(232)	(248)	(268)	(297)
Preference Dividend	(2,219)	(4,800)	(4,800)	(4,800)	(4,800)
Net Profit	35,616	38,607	41,598	45,372	50,841
Net Profit bef Except	35,616	38,607	41,598	45,372	50,841

Growth (%)

Net Interest Income Gth	8.61	1.32	4.20	8.79	8.02
Net Profit Gth	(0.80)	8.40	7.75	9.07	12.05

Margins, Costs & Efficiency (%)

Spread	2.37	2.12	2.07	2.06	2.07
Net Interest Margin	2.38	2.19	2.10	2.12	2.16
Cost-to-Income Ratio	28.2	29.7	30.2	30.1	30.0

Business Mix (%)

Net Int. Inc / Opg Inc.	77.5	73.1	71.7	70.9	69.9
Non-Int. Inc / Opg inc.	22.5	26.9	28.3	29.1	30.1
Fee Inc / Opg Income	17.1	17.8	19.3	20.6	22.1
Oth Non-Int Inc/Opg Inc	5.4	9.1	9.0	8.5	8.0

Profitability (%)

ROAE Pre Ex.	10.8	10.8	10.7	10.9	11.2
ROAE	10.8	10.8	10.7	10.9	11.2
ROA Pre Ex.	0.8	0.8	0.8	0.8	0.8
ROA	0.7	0.7	0.7	0.7	0.7

Source: Company, DBS HK

China Everbright Bank Co Ltd

Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Cash/Bank Balance	360,287	378,263	408,524	435,467	459,418
Government Securities	0	0	0	0	0
Inter Bank Assets	158,941	220,702	242,772	250,055	257,557
Total Net Loans & Adv.	2,942,435	3,239,396	3,531,653	3,839,099	4,151,942
Investment	1,365,507	1,452,350	1,524,968	1,570,717	1,555,009
Associates	0	0	0	0	0
Fixed Assets	22,304	25,155	27,867	29,261	30,724
Goodwill	1,281	1,281	1,281	1,281	1,281
Other Assets	517,408	584,922	575,997	530,494	528,916
Total Assets	5,368,163	5,902,069	6,313,061	6,656,375	6,984,848
Customer Deposits	3,480,642	3,675,743	3,969,802	4,227,840	4,460,371
Inter Bank Deposits	886,516	887,665	888,815	889,967	891,121
Debts/Borrowings	409,108	728,223	808,409	848,494	890,584
Others	136,857	126,072	130,702	140,729	154,865
Minorities	1,570	1,877	2,106	2,354	2,629
Shareholders' Funds	453,470	482,489	513,227	546,991	585,279
Total Liab& S/H's Funds	5,368,163	5,902,069	6,313,061	6,656,375	6,984,848

Source: Company, DBS HK

Financial Stability Measures (%)

FY Dec	2020A	2021A	2022F	2023F	2024F
Balance Sheet Structure					
Loan-to-Deposit Ratio	86.5	90.0	91.0	93.0	95.4
Net Loans / Total Assets	54.8	54.9	55.9	57.7	59.4
Investment / Total Assets	25.4	24.6	24.2	23.6	22.3
Cust. Dep./Int. Bear. Liab.	73.1	69.9	69.1	69.8	70.3
Interbank Dep / Int. Bear.	18.6	18.1	16.4	15.4	14.8
Asset Quality					
NPL / Total Gross Loans	1.4	1.3	1.2	1.2	1.2
NPL / Total Assets	0.8	0.7	0.7	0.7	0.8
Loan Loss Reserve Coverage	160.9	164.2	181.2	188.1	197.7
Provision Charge-Off Rate	1.9	1.7	1.6	1.6	1.6
Capital Strength					
Total CAR	13.9	13.4	13.3	13.7	14.2
Tier-1 CAR	9.0	8.9	9.2	9.5	10.0

Source: Company, DBS HK

China Everbright Bank Co Ltd

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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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