

COMPANY RESULTS

China Merchants Bank (3968 HK)

1Q22: Results In Line; Expect Substantial Volatility Before New President Is Appointed

CMB's net profit climbed 12.5% yoy, with NIM continuing to be affected by the macro environment. Although the NPL ratio climbed 3bp, the impact from the property sector was lessened as CMB's property sector exposure decreased by 3bp qoq of total assets. There will not be any changes for now as the interim president will not make any changes. Maintain BUY on CMB with a target price of HK\$82.90.

RESULTS

- **Results in line, net interest income maintained double-digit growth.** China Merchants Bank's (CMB) revenue, net interest income, and non-interest income increased 8.5% yoy, 10.5% yoy, and 6.5% yoy respectively in 1Q22. Total wealth management revenue was Rmb15.3b, a slight 1% yoy drop and accounting for 53% of the intermediary income. Asset management, wealth management and custody business contributed Rmb3.2b, Rmb10.4b and Rmb1.6b respectively, with yoy changes of 48%, -11% and 11% respectively.
- **Net interest margin affected by macro environment.** 1Q22 net interest margin was 2.51%, down 1bp yoy mainly due to the decreasing trend in market interest rates, which resulted in lower yields on interest-earning assets. CMB raised the proportion of customer deposits to interest-bearing liabilities, which has offset the impact of lower interest rates on interest-earning assets.
- **Asset quality remained stable, within 1% threshold.** CMB's non-performing loans (NPL) ratio increased by 3bp qoq to 0.94% in 1Q22, remaining within the 1% threshold. Provision coverage ratio decreased by 21bp qoq to 463%, still significantly higher than the industry average. The provision coverage ratio decreased from a high level, as expected, due to the government encouraging high-quality listed banks to reduce provision coverage. CMB's non-performing corporate loans increased by 2bp qoq to 1.33% due to the real estate industry's NPL ratio climbing 1.18ppt qoq to 2.57%, while the NPL ratios in the majority of other industries remained low or decreased. NPL ratios in leasing and commercial services, wholesale both decreased by 37bp while that of retail had also reduced by 52bp.
- **Exposure to the property sector.** CMB's on balance sheet businesses related to the real estate sector with credit risk (such as actual and contingent credit, proprietary bond investments, and proprietary investment of non-standardised assets) totalled Rmb 517.5b and the proportion of real estate sector to total assets had declined by 3bp qoq to 5.50%. CMB's corporate real estate loan portfolio was Rmb365.3b, declining 4bp qoq and accounting for 6.74% of total loans. Without taking into consideration credit risk, off-balance sheet real estate exposure totalled Rmb378.4b, down 8.2% yoy. CMB maintains a strict real estate whitelist, with 83% of its customers possessing good credit ratings.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net interest income	185,031	203,919	229,994	269,837	317,604
Non-interest income	102,367	123,458	133,008	143,620	156,528
Net profit (rep./act.)	97,342	119,922	134,335	152,437	179,015
Net profit (adj.)	97,342	119,922	134,335	152,437	179,015
EPS (Fen)	380.7	470.3	527.4	599.2	704.6
PE (x)	10.3	8.3	7.4	6.5	5.5
P/B (x)	1.4	1.2	1.1	1.0	0.9
Dividend yield (%)	2.9	3.6	4.0	4.6	5.4
Net int margin (%)	2.5	2.5	2.5	2.5	2.6
Cost/income (%)	35.8	35.7	36.1	36.4	36.5
Loan loss cover (%)	0.0	0.0	0.0	0.0	0.0
Consensus net profit	-	-	133,636	152,826	176,982
UOBKH/Consensus (x)	-	-	1.01	1.00	1.01

Source: CMB, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$46.70
Target Price	HK\$82.90
Upside	+77.5%

COMPANY DESCRIPTION

China Merchants Bank is a leading bank in China. It provides comprehensive commercial banking services covering retail, corporate and treasury banking.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	3968 HK
Shares issued (m):	4,590.9
Market cap (HK\$m):	1,171,694.3
Market cap (US\$m):	149,317.5
3-mth avg daily t'over (US\$m):	148.7

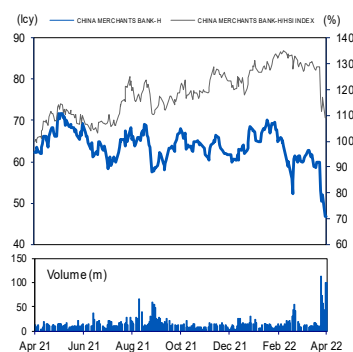
Price Performance (%)

52-week high/low	HK\$71.75/HK\$46.70			
1mth	3mth	6mth	1yr	YTD
(22.3)	(30.8)	(30.2)	(26.3)	(22.9)

Major Shareholders

	%
China Merchants Group	13.0
COSCO	6.2
FY20 NAV/Share (Rmb)	35.38
FY20 CAR Tier-1 (%)	15.30

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- CMB's business strategy remains unchanged despite change of president.** According to management, the bank has an effective corporate governance mechanism in place and has structured a president responsibility system, with its president under the leadership of the board of directors in order to make prudent judgments and choices to maintain the bank's stability and continuity. The current state of operations and management are normal. In 2021, a new five-year development plan was developed. The business model for wealth management, digital operation model, and an open and integrated management model are the core of the CMB 3.0 model. In conclusion, CMB will stick to its plan and implement it as scheduled.
- 2022 business plan.** Given China's sluggish economy, management shared CMB's development strategy to maintain the company's solid growth in 2022. This includes: a) accelerating the development of low-cost core deposits while maintaining the advantage of liabilities; b) adverse impact from the housing loan business on the retail segment in 1Q22 – as of today, defaults in the real estate sector appear stable, and apart from the first-hand housing industry, CMB will expand its footprint in the secondary housing market; c) aggressive promotion of consumer and auto finance loans given the gradual increase in consumption of credit card loans; d) insurance and fixed income products as the breakthrough points in the wealth management business; e) new growth opportunities in asset management and custody, public REITs, and third-pillar pension insurance.

EARNINGS REVISION/RISK

- We maintain our earnings forecasts for 2022 and 2023.** The key risks are: a) macro systemic risks surrounding the domestic economy, and b) a change in business strategy following the appointment of CMB's new president.

VALUATION/RECOMMENDATION

- Maintain BUY with target price of HK\$82.90.** CMB's share price dipped last week due to the unexpected change in its president. According to CMB's announcement, Mr Wang Liang, CMB's CFO, will be appointed as the new interim president. He has worked in CMB for over 27 years. The rest of the senior management remains unchanged. We do not anticipate any immediate impact on CMB's business. Hence, we maintain BUY. Based on the Gordon Growth Model, we derive our target price of HK\$82.90, which implies 1.90x 2022F P/B. During the last three years, CMB has been trading at 1.46x 1-year forward P/B, and is currently trading at 1.31x 1-year forward P/B, slightly above -1SD of historical mean
- However, we expect substantial volatility in CMB in the near term as the market seeks more clarity on the unprecedented rearrangement. We view this as a good chance to purchase CMB given its attractive valuation. If the successor is someone familiar with CMB's business and culture, CMB is highly likely to continue riding on its industry-leading client base.

1Q22 RESULTS

(Rmbm)	1Q21	1Q22	yoy % chg	4Q21	qoq % chg
Revenue	84,751	91,990	8.5	82,680	11.3
Interest Income	49,524	54,464	10.0	53,281	2.2
Non-Interest Income	35,227	37,526	6.5	29,399	27.6
Fee and Commission Income	27,202	28,695	5.5	18,713	53.3
Pre-Provision Profits (PPOP)	60,545	65,881	8.8	41,512	58.7
Profit Attribute To Shareholders	32,015	36,022	12.5	26,307	36.9
Total Assets	8,664,641	9,415,379	8.7	9,249,021	1.8
Customer Loans	5,085,996	5,519,265	8.5	5,335,391	3.4
Deposits	5,864,976	6,721,946	14.6	6,385,154	5.3
Equity Attributable To Shareholders	755,107	893,464	18.3	858,745	4.0
NPL Balance	54,057	54,138	0.1	50,862	6.4
Provisions	237,245	250,486	5.6	246,104	1.8
EPS (Rmb)	1.27	1.43	12.6	0.99	44.2
BVPS (Rmb)	26.61	30.39	14.2	29.01	4.8
Financial Ratios (%)	1Q21	1Q22	yoy ppt chg	4Q21	qoq ppt chg
NPL Ratio	1.06	0.98	-0.08	0.95	0.03
Loan Loss Reserve/Total Loans	4.47	4.35	-0.12	4.61	-0.26
Provision Coverage	438.88	462.68	23.80	483.87	-21.19
NIM	2.52	2.51	-0.01	2.48	0.03
Annualised ROE	19.54	19.24	-0.30	-	-
Cost-Income Ratio (CIR)	26.51	26.10	-0.41	-	-
CAR	16.24	17.29	1.05	17.48	-0.19
Tier-1 CAR	13.79	14.89	1.10	14.94	-0.05
Core CAR	12.19	12.71	0.52	12.66	0.05

Source: CMB, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Interest income	327,056	367,521	422,925	490,593
Interest expense	(123,137)	(137,528)	(153,088)	(172,989)
Net interest income	203,919	229,994	269,837	317,604
Fees & commissions	94,447	100,114	106,121	113,549
Other income	29,011	32,894	37,500	42,979
Non-interest income	123,458	133,008	143,620	156,528
Total income	327,377	363,002	413,457	474,132
Staff costs	n.a.	n.a.	n.a.	n.a.
Other operating expense	(116,879)	(130,904)	(150,540)	(173,121)
Pre-provision profit	210,498	232,097	262,917	301,011
Loan loss provision	(65,962)	(73,877)	(84,220)	(96,011)
Other provisions	(393)	(440)	(497)	(567)
Associated companies	4,030	4,433	4,924	5,402
Pre-tax profit	148,173	162,213	183,124	209,835
Tax	(27,339)	(27,339)	(30,073)	(30,073)
Minorities	(912)	(539)	(614)	(747)
Net profit	119,922	134,335	152,437	179,015
Net profit (adj.)	119,922	134,335	152,437	179,015

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Cash with central bank	567,208	623,929	695,681	772,205
Govt treasury bills & securities	1,185,841	1,304,425	1,454,434	1,614,422
Interbank loans	799,372	879,309	980,430	1,088,277
Customer loans	5,335,391	5,868,930	6,543,857	7,263,681
Investment securities	0	0	0	0
Derivative receivables	28,029	30,832	34,378	38,159
Associates & JVs	23,654	26,019	29,012	32,203
Fixed assets (incl. prop.)	80,415	88,457	98,629	109,478
Other assets	1,229,111	1,524,289	1,674,829	1,907,529
Total assets	9,249,021	10,346,190	11,511,249	12,825,955
Interbank deposits	923,668	1,029,890	1,132,879	1,263,160
Customer deposits	6,385,154	7,184,932	8,040,324	8,964,961
Derivative payables	27,282	30,419	33,461	37,309
Debt equivalents	446,645	498,009	547,810	610,808
Other liabilities	406,923	453,719	499,091	556,487
Total liabilities	8,383,340	9,412,909	10,491,099	11,697,576
Shareholders' funds	858,745	926,345	1,013,214	1,121,443
Minority interest - accumulated	6,936	6,936	6,936	6,936
Total equity & liabilities	9,249,021	10,346,190	11,511,249	12,825,955

OPERATING RATIOS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Capital Adequacy				
Tier-1 CAR	14.9	15.3	15.7	16.3
Total CAR	17.5	15.7	16.1	16.7
Total assets/equity (x)	10.8	11.2	11.4	11.4
Tangible assets/tangible common equity (x)	10.9	11.3	11.5	11.6
Asset Quality				
NPL ratio	1.1	1.1	1.1	1.1
Loan loss coverage	0.0	0.0	0.0	0.0
Loan loss reserve/gross loans	0.0	0.0	0.0	0.0
Increase in NPLs	0.1	0.1	0.2	0.1
Credit cost (bp)	123.0	124.1	123.0	120.9
Liquidity				
Loan/deposit ratio	83.6	81.7	81.4	81.0
Liquid assets/short-term liabilities	33.9	33.2	33.1	33.0
Liquid assets/total assets	27.6	27.1	27.2	27.1

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Net interest income, yoy chg	10.2	12.8	17.3	17.7
Fees & commissions, yoy chg	18.8	6.0	6.0	7.0
Pre-provision profit, yoy chg	14.0	10.3	13.3	14.5
Net profit, yoy chg	23.2	12.0	13.5	17.4
Net profit (adj.), yoy chg	23.2	12.0	13.5	17.4
Customer loans, yoy chg	11.1	10.0	11.5	11.0
Customer deposits, yoy chg	12.7	12.5	11.9	11.5
Profitability				
Net interest margin	2.5	2.5	2.5	2.6
Cost/income ratio	35.7	36.1	36.4	36.5
Adjusted ROA	1.4	1.4	1.4	1.5
Reported ROE	15.2	15.1	15.7	16.8
Adjusted ROE	15.2	15.1	15.7	16.8
Valuation				
P/BV (x)	1.2	1.1	1.0	0.9
P/NTA (x)	1.2	1.1	1.0	0.9
Adjusted P/E (x)	8.3	7.4	6.5	5.5
Dividend Yield	3.6	4.0	4.6	5.4
Payout ratio	30.0	30.0	30.0	30.0

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