

Hong Kong

June 15, 2022 - 7:38 PM

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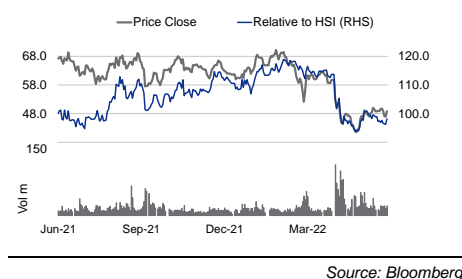
Consensus ratings*: Buy 23 Hold 3 Sell 3

Current price:	HK\$48.80
Target price:	HK\$84.10
Previous target:	HK\$84.10
Up/downside:	72.3%
CGS-CIMB / Consensus:	22.8%
Reuters:	3968.HK
Bloomberg:	3968 HK
Market cap:	US\$152,814m
	HK\$1,199,588m
Average daily turnover:	US\$168.0m
	HK\$1,314m
Current shares o/s	25,220m
Free float:	67.0%

*Source: Bloomberg

Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (Rmbm)	135,951	161,312	192,206
Core EPS (Rmb)	5.39	6.40	7.62
Core EPS Growth	16.9%	18.7%	19.2%
FD Core P/E (x)	7.76	6.54	5.49
Recurring ROE	17.4%	18.2%	18.9%
P/BV (x)	1.27	1.12	0.97
DPS (Rmb)	1.78	2.11	2.52
Dividend Yield	4.25%	5.04%	6.01%



Price performance	1M	3M	12M
Absolute (%)	14.6	-6.4	-27.4
Relative (%)	7.5	-22.1	-1.8

Major shareholders	% held
China Merchants Group	33.0

Analyst(s)

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China Merchants Bank

CBIRC's CEO approval: key positive signal

- We see CBIRC's approval of CMB's new president, Mr. Wang Liang, as a key positive, as we think it signals CMB as not being targeted by CCDINSC.
- This is relevant as we think offshore shareholders have been particularly concerned following the corruption investigations on CMB's ex-president.
- Another positive signal is the short 28-day gap between its board of directors' and CBIRC's approvals for its new president.
- This compares to a 58-day average for other joint stock banks during their top management changes (Fig 1). Remains top bank pick. Add, TP: HK\$84.1.

Key positive signal that helps assuage investor concerns

- We see China Banking and Insurance Regulatory Commission's (CBIRC) approval of China Merchants Bank's (CMB) new CEO/ president, Mr. Wang Liang, as a key positive, as we think it signals CMB is not being targeted by the Central Commission for Discipline Inspection and the National Supervisory Commission (CCDINSC).
- As pointed out in [New president officially appointed \(almost\)](#), dated 20 May 2022, offshore investors were concerned that CMB could also be the target of corruption investigations, following the sudden resignation of its ex-president (Mr. Tian Huiyu) due to a corruption investigation (see [Unexpected change of president](#), dated 19 Apr 2022), which could negatively affect CMB's future earnings stream.

Quick regulatory approval also sends a positive signal

- The time between CMB's board of directors' approval of Mr. Wang Liang as its new president and CBIRC's approval is 28 days. This is much faster than the 58-day average since 2015 for other joint banks following top management changes and even faster than the state-owned enterprise (SOE) banks' average of 29 days (Fig 1).
- We believe this also sends a positive signal that CMB is not likely to be targeted for corruption investigations.

Different from other past bank corruption investigations

- As noted in [When reaction become overreaction](#), dated 21 Apr 2022, CMB's situation looks quite different from Minsheng Bank's in 2015, which we think was the last major listed China bank that experienced a CEO change due to corruption investigations.
- Back then, there was a 346-day gap between CBIRC's approval of Minsheng Bank's new president, an externally appointed Mr. Zheng Wangchun and the resignation date of its ex-president, Mr. Mao Xiaofeng — much longer than CMB's 58-day gap from the resignation date of its ex-president to the internal promotion of Mr. Wang Liang (Fig 1).
- The internal promotion also gives comfort that there is less likely to be major changes to strategy at CMB, in our view.

Remains our high conviction top pick; Add; TP of HK\$84.1

- We value CMB using a stress-test adjusted GGM, with an unchanged TP of HK\$84.1, and 72% potential upside. Potential re-rating catalysts: improving asset quality and a better economy. Key downside risks: worse-than-expected NIM and policy risks.

Figure 1: Summary of the average no. of days between board of directors' approval for new CEO/President/Chairman and subsequent CBIRC's approval since 2015

Number of days between board of director approval and CBIRC approval	
CMB's Mr Wang Liang	28
SOE banks	29
Joint stock banks	58
Insurers	77

Note also that the gap between the resignation of the previous president (Mr Tian Huiyu) and the CBIRC approval of the new president (Mr Wang Liang) for CMB is only 58 days, and Mr Wang Liang is an internal promotion. This is in huge contrast with Minsheng Bank in 2015, where the gap between the resignation of the previous president (Mr Mao Xiaofeng) following a corruption investigation and the CBIRC approval of the new president (Mr Zheng Wanchun) is 346 days, and the new president was an external appointment.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, CBIRC

Figure 2: 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/POPOP (x)		Dividend yield		ROE(%)			
							FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F		
ICBC	1398 HK	Add	249.0	4.51	5.90	31%	0.43	0.39	3.7	3.4	2.1	1.9	8.3	9.1	12.0	12.1		
CCB	0939 HK	Add	177.3	5.57	8.00	44%	0.43	0.39	3.6	3.3	2.0	1.8	8.4	9.1	12.3	12.3		
BOC	3988 HK	Add	138.1	3.07	4.20	37%	0.37	0.34	3.4	3.1	1.9	1.7	9.2	10.2	11.2	11.3		
ABC	1288 HK	Add	161.0	2.92	4.40	51%	0.39	0.36	3.5	3.2	1.7	1.6	9.1	9.9	11.5	11.6		
BOCOM	3328 HK	Hold	54.1	5.22	5.30	2%	0.38	0.35	3.7	3.3	1.9	1.7	8.8	9.6	10.9	11.1		
CMB	3968 HK	Add	147.1	48.80	84.10	72%	1.25	1.10	7.6	6.4	4.5	4.0	4.3	5.1	17.4	18.2		
CITIC	0998 HK	Add	33.0	3.82	4.80	26%	0.29	0.26	2.7	2.4	1.0	1.0	10.3	11.7	10.9	11.4		
MSB	1988 HK	Hold	22.7	2.77	2.60	-6%	0.20	0.19	3.0	2.6	1.0	0.9	9.9	11.5	6.8	7.5		
CQRCB	3618 HK	Add	6.0	2.83	4.10	45%	0.25	0.23	2.4	2.1	1.1	1.0	12.3	14.1	10.6	11.1		
H-share weighted average									0.55	0.50	4.3	3.8	2.3	2.1	8.0	8.8	12.6	12.9
ICBC - A	601398 CH	Add	249.0	4.73	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	177.3	6.05	7.10	17%	0.56	0.51	4.7	4.3	2.6	2.4	6.5	7.1	12.3	12.3		
BOC - A	601988 CH	Add	138.1	3.23	3.80	18%	0.46	0.42	4.3	3.9	2.4	2.2	7.4	8.1	11.2	11.3		
ABC - A	601288 CH	Add	161.0	3.03	3.90	29%	0.48	0.44	4.3	3.9	2.1	2.0	7.4	8.1	11.5	11.6		
BOCOM - A	601328 CH	Hold	54.1	5.00	4.80	-4%	0.44	0.40	4.2	3.8	2.1	2.0	7.7	8.5	10.9	11.1		
CMB - A	600036 CH	Add	147.1	40.48	71.50	77%	1.23	1.08	7.5	6.3	4.4	4.0	4.4	5.2	17.4	18.2		
CITIC - A	601998 CH	Add	33.0	4.82	4.90	2%	0.43	0.39	4.1	3.6	1.5	1.4	6.9	7.8	10.9	11.4		
MSB - A	600016 CH	Reduce	22.7	3.90	2.50	-36%	0.34	0.32	5.1	4.4	1.6	1.5	5.9	6.9	6.8	7.5		
PAB - A	000001 CH	Add	43.6	14.74	22.70	54%	0.79	0.71	7.3	6.1	2.2	2.0	1.8	2.2	11.5	12.3		
CQRCB - A	601077 CH	Add	6.0	4.00	4.50	13%	0.42	0.38	4.1	3.6	1.9	1.7	7.4	8.4	10.6	11.1		
A-share weighted average									0.63	0.57	5.1	4.6	2.7	2.5	6.2	6.9	12.5	12.8
Combined sector weighted average									0.59	0.53	4.7	4.2	2.5	2.3	7.1	7.9	12.6	12.8

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

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

DATE AS OF 15 JUN 2022

BY THE NUMBERS

Profit & Loss

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

Balance Sheet

(Rmbm)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Gross Loans	#####	7,617,740	8,407,527	9,303,907
Liquid Assets & Invst. (Current)	#####	2,372,927	2,586,490	2,819,274
Other Int. Earning Assets				
Total Gross Int. Earning Assets	#####	9,990,666	#####	#####
Total Provisions/Loan Loss Reserve	(234,643)	(255,664)	(259,933)	(256,668)
Total Net Interest Earning Assets	#####	9,735,003	#####	#####
Intangible Assets	14,020	14,020	14,020	14,020
Other Non-Interest Earning Assets	356,033	355,979	491,491	492,432
Total Non-Interest Earning Assets	370,053	369,999	505,511	506,452
Cash And Marketable Securities	0	0	0	0
Long-term Investments	0	0	0	0
Total Assets	#####	#####	#####	#####
Customer Interest-Bearing Liabilities	#####	7,045,257	7,858,984	8,784,851
Bank Deposits	#####	1,278,554	1,406,410	1,448,602
Interest Bearing Liabilities: Others	510,406	523,805	569,810	584,991
Total Interest-Bearing Liabilities	#####	8,847,616	9,835,203	#####
Bank's Liabilities Under Acceptances				
Total Non-Interest Bearing Liabilities	284,541	293,077	322,385	332,057
Total Liabilities	#####	9,140,694	#####	#####
Shareholders' Equity	858,745	956,311	1,072,756	1,211,724
Minority Interests	6,936	7,997	9,252	10,741
Total Equity	865,681	964,308	1,082,007	1,222,465

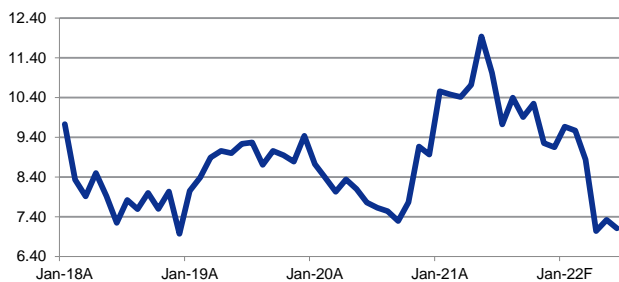
Balance Sheet Employment

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

Key Ratios

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

12-mth Fwd FD P/E (x) - China Merchants Bank



Key Drivers

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

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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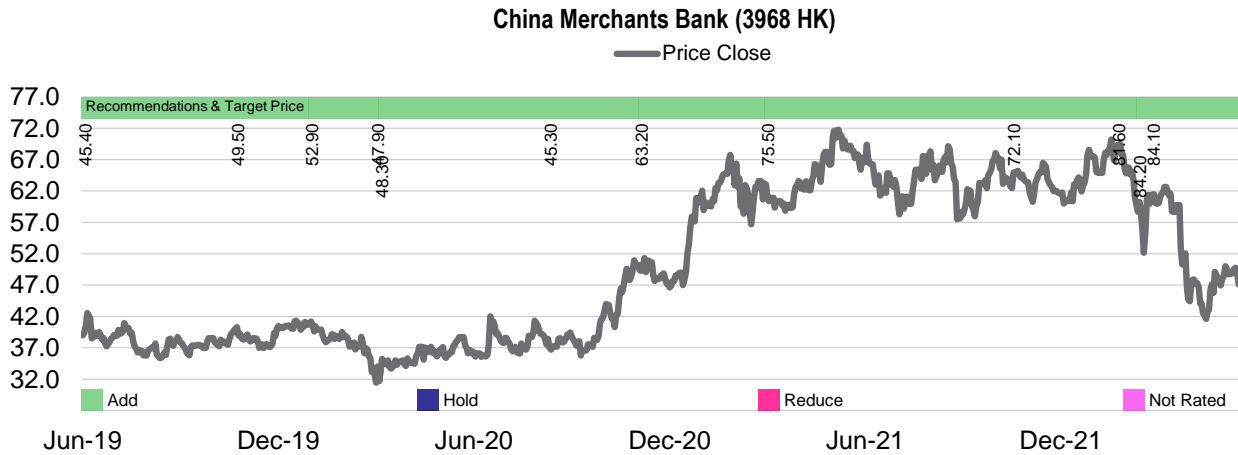
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Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

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

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- 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.

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