



Rating
Buy

Asia
China

Banking / Finance
Banks

Company
**China Merchants
Bank Alert**

Reuters 3968.HK	Bloomberg 3968 HK	Exchange HKG	Ticker 3968
ADR Ticker CIHKY	ISIN US16950T1025		

Date
18 March 2015

Results

Price at 18 Mar 2015 (HKD)	18.50
Price target - 12mth (HKD)	20.52
52-week range (HKD)	19.90 - 12.22
HANG SENG INDEX	23,901

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Stock data

Market cap (HKDm)	466,576
Market cap (USDm)	60,094
Shares outstanding (m)	25,220.3
Free float (%)	100
Avg daily value traded (USDm)	62.8

Source: Deutsche Bank

2014 Results: In line; strong core profits offset by weaker asset quality

FY14 results review – In line with the pre-announced results

CMB reported FY14 net profit of Rmb55.9bn, up 8.1% yoy, which was driven by robust PPOP growth of 33.6% yoy and high credit costs of 134bps (2013: 50bps) as asset quality worsened on a slowing economy. While NPL balance rose modestly by 3.7% qoq to 1.11% of loans, the NPL formation rate had accelerated to 103bps after adjusting for the write-off of Rmb14.9bn in 2014. Overall, CMB reported a ROAA of 1.28% and ROAE of 19.3% and declared a DPS of Rmb0.67, with payout ratio unchanged at 30%. We maintain the Buy rating on CMB, with PT of HK\$20.52.

4Q14 positives: NIM, fee & CIR

CMB's NIM rose by 19bps qoq to 2.58%, leading to 4.7% qoq net interest income growth (up 12.9% yoy) as asset yields rose by 3bps qoq, whereas liability costs dropped by 15bps qoq. Essentially, CMB had adjusted its asset mix by scaling back both the average balance of its inter-bank assets (down 25% qoq) and the expensive inter-bank borrowings (down 19% qoq). Meanwhile, it grew customer loans by 2.8% qoq (14.4% yoy) to account for 55% of its AIEA (3Q14: 51.8%). Net fee income grew by 39.7% yoy, partly helped by the exceptionally strong growth in custodian and trustee businesses. With revenue growing at 16.3% yoy and OpEx growth of 6.2% yoy, CIR improved to 44.6% (4Q13: 48.8%) on tight cost control.

Continued weakening in asset quality, driven by higher corporate NPLs

In 2014, CMB's NPL balance grew by 52.3% yoy or an increase of Rmb9.6bn, of which 29%, 25% and 21% were generated from other corporate loans, corporate working capital loans and micro enterprise loans. Other corporate loans, which reported NPL ratio of 3.63%, up from 1.74% in 2013, comprise of financing leasing, merger and acquisition loans, and corporate mortgage loans. The NPL ratio of corporate working capital and micro enterprise loans were reported at 1.65% (2013: 1.32%) and 1.07% (2013: 0.57%). Geographically, the highest NPL ratio of 2.06% was recorded at the Yangtze River Delta, while asset quality deterioration also became more notable in regions such as the Northeast and Central China.

Capital position remains strong; with improving coverage ratio

With credit costs of 156bps in 4Q14, both CMB's NPL coverage ratio and provision to loan ratio rose to 233.4% and 2.59% respectively as against 228% and 2.51% as of September 2014. Under the Advanced Approach, the group's core tier 1, tier 1 and CAR ratios were reported at 10.44%, 10.44% and 12.38%, up 9-10bps qoq. We will seek more details from the results briefing to be held at 9-10:15am on 19 March 2015, Ballroom A, 5/F, Island Shangri-la Hong Kong, Pacific Place, Central, Hong Kong.

Deutsche Bank AG/Hong Kong

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